



LONG Recommendation

Current Share Price: **£2.62**

Target Share Price: **£5.64**

Upside: 115.8%

Date: 15 June 2025

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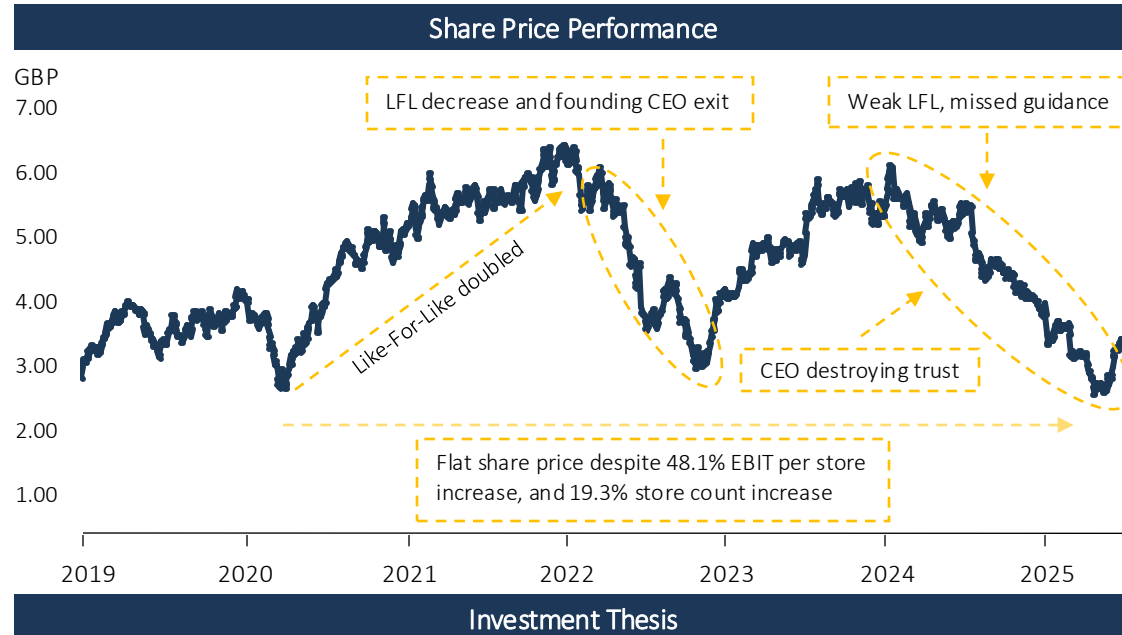
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Undervalued Discounter set for 80% Upside as Sector Exits Create Growth Runway



Key Facts

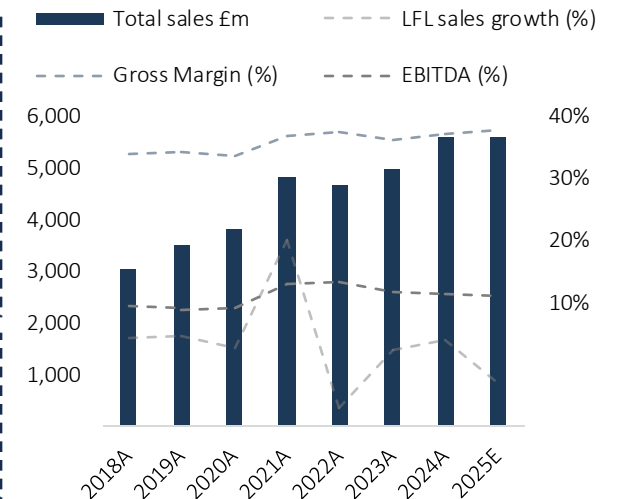
- B&M or ("the Company"), founded in 1978, has grown to become one of the leading discount retailers in the UK, operating 774 stores domestically, 133 in France and 338 convenience-focused low-price grocery stores.
- B&M's unique business model and revenue split enable the Company to maintain the lowest prices on the market whilst retaining the highest margins among industry peers.
- Aggressive expansion plan ahead backed by strong unit economics and market leading position in DIY. Forecasted to open net 135 new stores in the UK and 51 in France through 2027E.

Financials	Insider Ownership/ Main Shareholders
<ul style="list-style-type: none"> Share Price: £2.62 MCAP: £2,630 M EV (EX leasing): £3,767 M LTM EV/EBITDA: 6.1x LTM EV/EBIT: 6.9x Net Debt/EBITDA: 1.3x 	<p>Founding family Ownership</p> <ul style="list-style-type: none"> Aurora Family 7.3% <p>Main Shareholders</p> <ul style="list-style-type: none"> Capital Research & Management Co. 9.1% GIC Pte Ltd. 4.9% Orbis Investment Management Ltd. 4.9%

Why Does the Opportunity Exist?

The market overestimates the importance of like-for-like (LFL) growth, assuming a strong link between LFL performance and valuation. However, the correlation between LFL growth and overall business performance is weaker than commonly believed. B&M has increased its market share by 26% since 2017, yet the Company's multiple has compressed by approximately 65%, despite solid fundamentals.

Weak UK economy and bearish sentiment amongst retail, scares investors. Although B&M thrives in economic downturns, as bad times fuels the Company's acquisition strategy.



- The market overlooks what truly drives the Company's growth**

 - Post pandemic Like-for-like growth became the main KPI for investors, however what really drives topline apart from 2021 is store expansion.
 - Garden centers are expected to act as a buffer for gross margins, mitigating inflationary pressures on the FMCG segment.
- With capital exiting the sector, consolidation opportunities are emerging**

 - Post-pandemic, discount retailers have struggled financially, leaving room for stronger players
 - B&M can capitalize on competitors' mass closures, as seen historically, as competitors exit, financially strong players like B&M has the opportunity to consolidate
- Defensible gross margins supported by expansion in France and a reset in leadership**

 - Higher gross margins compared to UK due to lower competition.
 - Lower market penetration in the discount sector, in a market similar to the UK
 - New CEO can start rebuilding trust in the Company again after Alex Russo's departure

Sources: The Company, Analyst Estimates

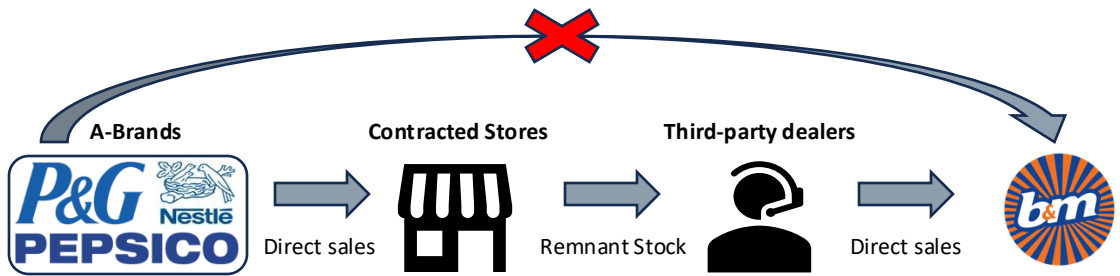
Business Overview



B&M: Lucrative Business Model, Enables Lower Prices on FMCG

Company Overview

- B&M is a UK-based discount retailer operating a unique mix of fast-moving consumer goods (FMCG) and general merchandise (GM) as well as garden centers. Founded in 1978, the company has grown rapidly and currently operates 774 stores in the UK and 133 stores in France. 10% of revenue is generated from the subsidiary Heron Foods, which operates small food-focused stores.
- The company relies on Hybrid Sourcing or opportunistic sourcing, where the Company sources a majority of the products through third-party dealers allowing B&M to secure one-off branded product deals at 20–30% discounts compared to direct supplier prices.

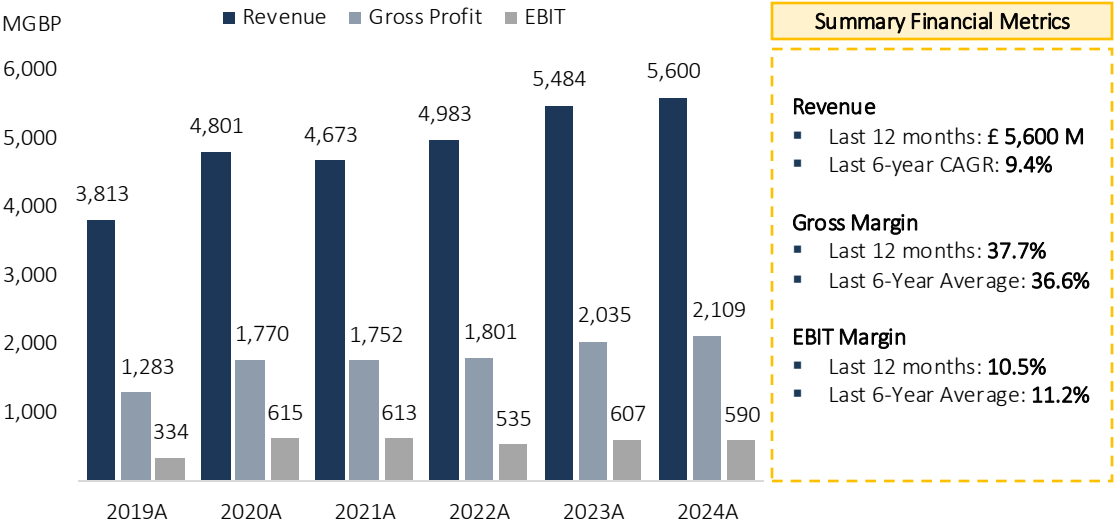


Stores Overview

Reporting Segment	Stores	Sales	EBIT
B&M UK	774	4,472 £M	521 £M
B&M France	133	558 £M	55 £M
Heron Foods	348	569 £M	22 £M

Net New Stores/year last 6 years	Revenue/Store CAGR last 6 years	EBIT/Store CAGR last 6 years
<ul style="list-style-type: none">B&M UK: 25.66B&M France: 6.2Heron Foods: 10.8	<ul style="list-style-type: none">B&M UK: 3.9%B&M France: 21.4%Heron Foods: 4.6%	<ul style="list-style-type: none">B&M UK: 5.2%B&M France: 55.6%Heron Foods: 8.7%

Income Overview



Income Breakdown

FMCG	General Merchandise
<ul style="list-style-type: none">50% of Net sales (L12M).Gross Margins approximately 26.5% (not disclosed)Strategy: Drive footfall with A-brands priced 7-15% below traditional retail, enabled by opportunistic sourcing through third-party deals. The low price point builds trust and encourages repeat visits, reinforcing B&M's value-for-money positioning.	<ul style="list-style-type: none">50% of Net sales (L12M).Gross Margins approximately 48% (not disclosed)Strategy: Once the FMCG basket is filled, B&M generates most of profits from general merchandise, driven by volume, strong margins, and a broad, rotating assortment that encourages impulse-driven purchases.



Sources: The Company, Tegus, Bloomberg



Industry Overview

- Industry Structure: The deep discount retail industry in the UK consists of 10 large players, with a total addressable market projected to grow from £44 billion in 2024A to £67 billion by 2035E, (4.3% CAGR).
- Customer Base: Historically centered in rural areas in Northern England, demand is now expanding nationwide, especially as the economic climate deteriorates, driving value-seeking behavior across the UK.
- Cyclicality & Resilience: The discount retail sector has shown strong resilience during economic downturns, often converting first-time shoppers into loyal customers, a trend that persists even during market recoveries.

Market Outlook 2025-2026

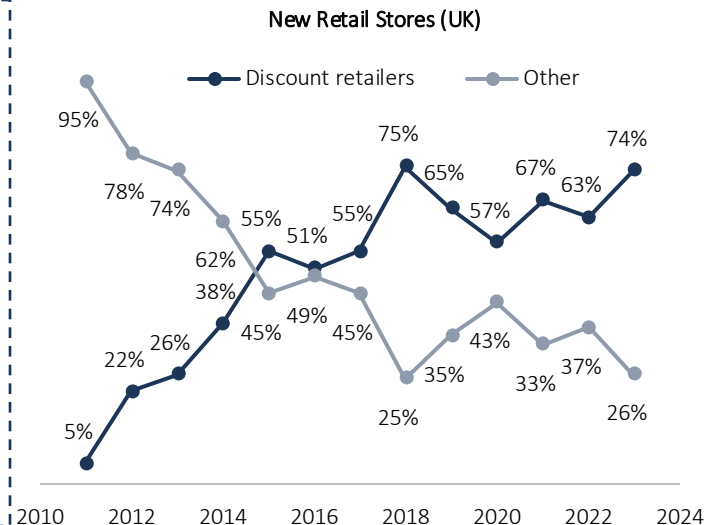


Customer Pattern Since 2008

2008: The financial crisis prompted a shift in consumer behavior, with 39% of shoppers turning to discount retailers more frequently. Notably, 36% maintained this habit long-term laying the foundation for sustained growth in the discount segment.

2020-2022: The pandemic further accelerated the behavioral shift, with over 20% of consumers permanently moving away from A-brands in favor of cheaper alternatives.

2022-Present: Economic strain in the aftermath of the pandemic has deepened the shift. Today, discount retailers have taken a 16% market share compared to just 4% before 2008.



Sources: KPMG, Statista, Bloomberg

Current Competition Within the Discount Retail Market

B&M

- Price range £2-30 (Average selling Product: £13)
- FMCG: 50% General merchandise: 50%
- Gross margin 37.7%**
- Revenue (L12): 5,600 MGBP**

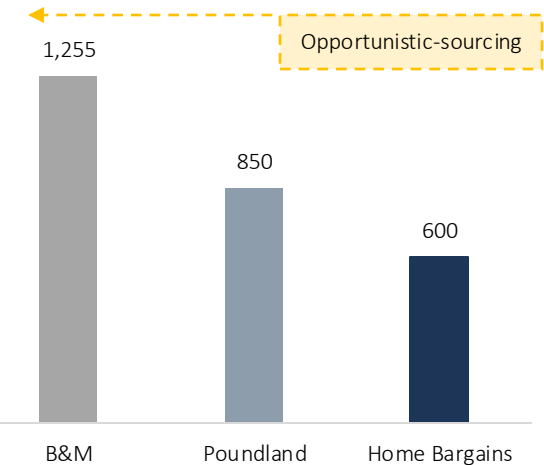
PoundLand

- Price range: £1-5, (Average selling Product: £2)
- FMCG: 65% General merchandise: 35%
- Gross margin 36.4%** (approximated)
- Revenue (L12): 1,900 (1,818 23/24) MGBP**

Home Bargains

- Price range: £5-15, (Average selling Product: £7)
- FMCG: 60% General merchandise: 40%
- Gross margin 35.0%** (approximated)
- Revenue (L12): 4,420 (4,209 23/24) MGBP**

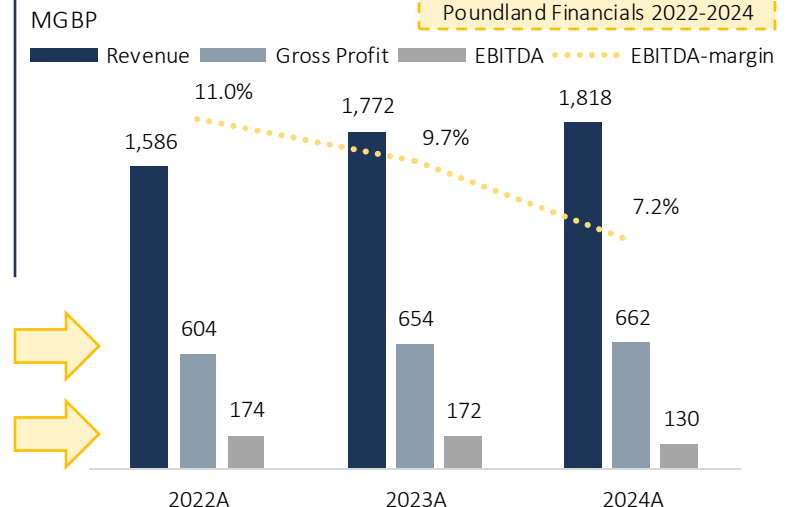
Current Store Count



Market Financials

Although discount retailers tend to benefit during economic downturns, the current market is constrained by reduced overall consumer spending. In 2024 alone, over 10,000 retail stores permanently closed and more than 120,000 jobs were lost.

Poundland currently faces significant challenges and has announced plans to exit certain markets in 2025 and 2026.



Thesis 1.1 – Growth Strategy

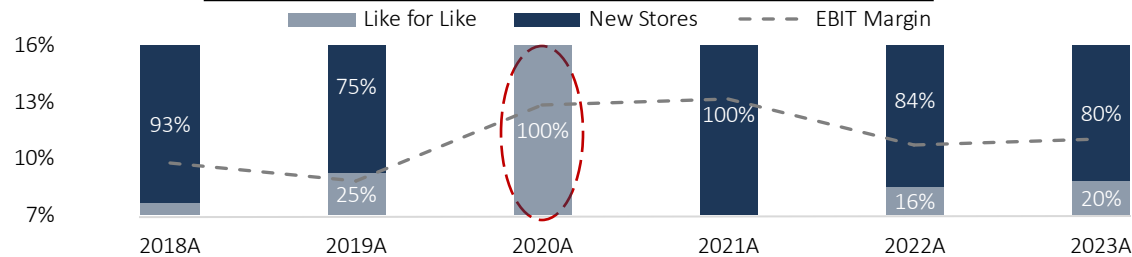
B&M's Actual Growth Strategy

Quotes from CEO prior to 2021

- “The main driver of our growth is the new store opening programme”
- “Our new stores opening programme is the main driver for growth across the Group.”

- B&M UK was one of the few retailers **permitted to remain open in 2021**, significantly boosting LFL sales. This resulted in EBIT margins reaching an all-time high.
- Since 2021**, investor focus has shifted toward like-for-like growth, though it's harder to control, while store expansion still holds strong potential.

The Real Drivers of Revenue Growth – and Their correlation with EBIT Margin



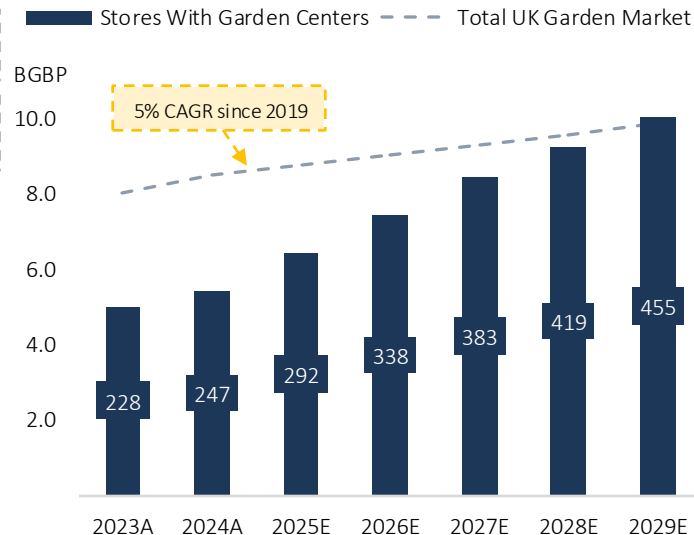
Garden Centers – Key Going Forward

UK Garden Market - Counter-cyclical, with demand rising during downturns

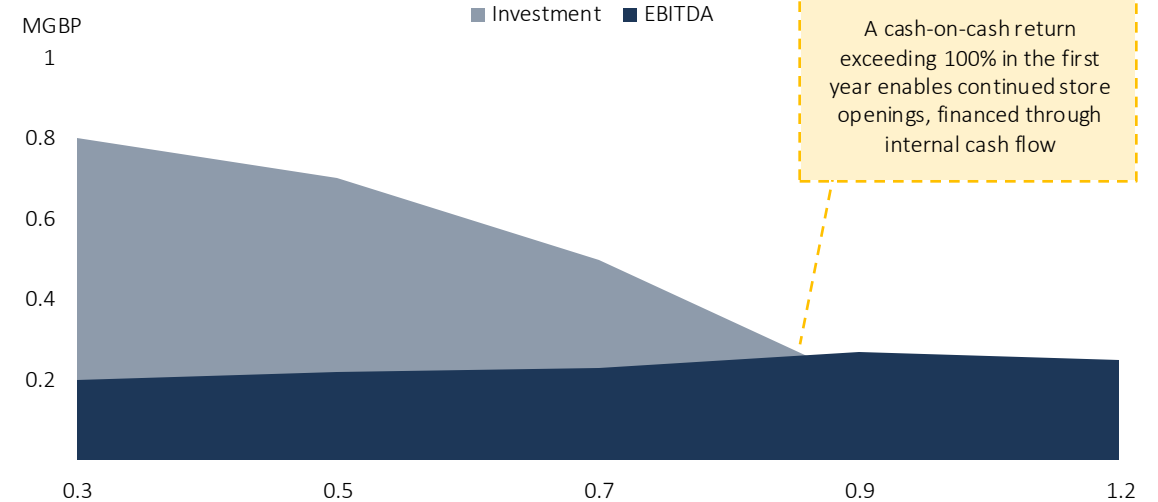
Average spending on Gardens is 34% higher than the European Average

B&M UK is well-placed to capitalize

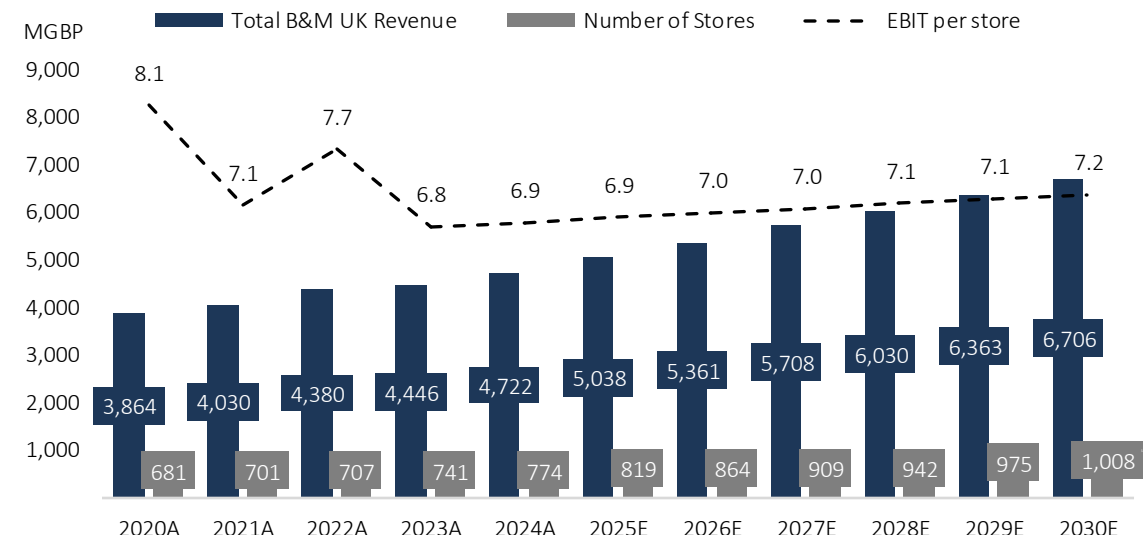
- 80% of new stores** will include a Garden Center.
- Due to this segment's **double margin vs. FMCG**, it acts as a **margin of safety** as B&M absorbs some FMCG inflation to protect market share, **minimizing gross profit dilution**.
- B&M's UK current stores are the **preferred choice for garden products**.



New Store Payback Time Less Than 13 Months



Store Count and Revenue per Store Moving Forward



Sources: Bloomberg, Statista, The Company, Pepco Group, Tegus

Thesis 1.2 – Why Continued Store Expansion is Justified

Thrives in Economic Downturns – Wilko Case Study

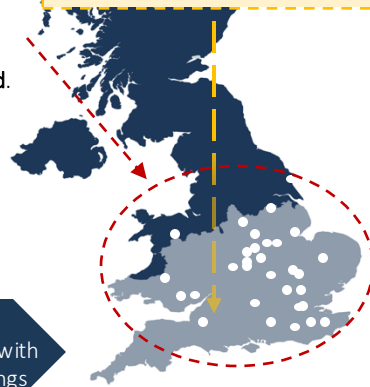
Wilko's Downfall

Wilko, a competitor specializing in **high street and shopping mall** retail, faced bankruptcy due to a combination of **pandemic-related restrictions, supply chain disruptions**, and a shift in consumer behavior toward discount

Execution

- 51 store leases at **55% discount**.
- 50% of Wilko customers **cross shop** at B&M.
- All located in **Southern England**.
- According to the CEO, high street **payback matches the average B&M store**.

The number of B&M stores per square kilometer decreases significantly toward the south.



B&M's Key Strategy in Acquiring Competitors' Closed Stores

Identify stores with **customer synergies** and lucrative locations

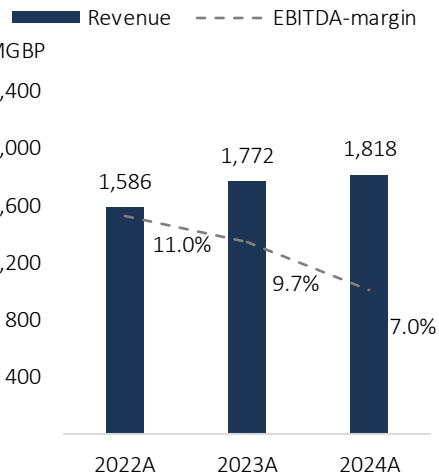
Hybrid sourcing and a unique **FMCG/GM split** boost store turnaround

Payback time **13 months**, aligned with **own store openings**

Main Competitor Poundland Provides Similar Opportunity

- Poundland**, owned by **Pepco Group**, was sold for 1 pound in May this year. As part of a restructuring by the new owner Gordon Brothers, **100 of their 844 stores are set to close**.
- Poundland** currently presents an **opportunity similar to Wilko** two years ago. This is expected to **accelerate store expansion by 38 stores in the coming three years**.

Poundland's Financials Past 3 Years



55% Cross-shop



Quote from Pepco Spokesman

"We are actively exploring separation options, including a potential sale, for the Poundland business."

Outlooks for Organic Store Growth in the UK

Quote from B&M Manager

"Post-COVID, Wilkinson's has gone bust and therefore that released a whole tranche of stores into the market. Some of the DIY players like B&Q and Homebase have released some of their portfolio into the market."

B&Q

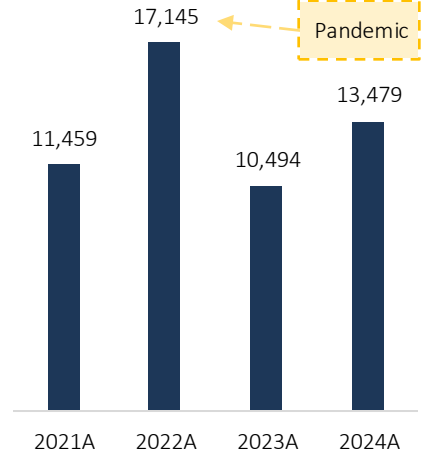
300 Stores Closed in 2025

HOMEBASE

120 Stores Closing in 2025

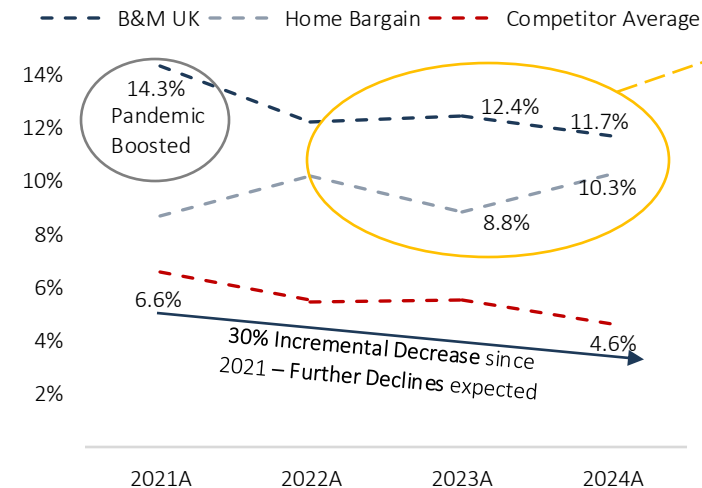
With major competitors closing most of their stores and many others having **negative net openings**, the high rate of store closures across the UK **presents a strong opportunity for successful discount retailers to expand**.

UK Retail Store Closures



Why B&M UK Can Capitalize on the Sector's Massive Store Closures

EBITDA Margins Development



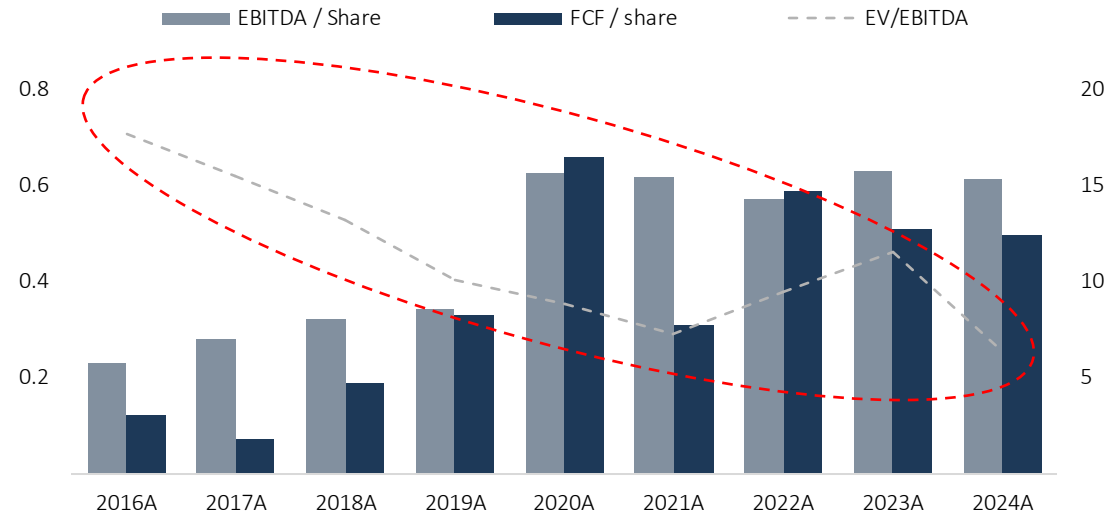
Home Bargains, the only direct competitor using **hybrid sourcing** and a similar **FMCG/GM model**, has been able to **sustain store growth and margins**.



B&M and Home Bargains remain the only **financially strong players in the discount sector**, and as competitors **reduce their store counts**, opportunities for **consolidation and expansion** emerge

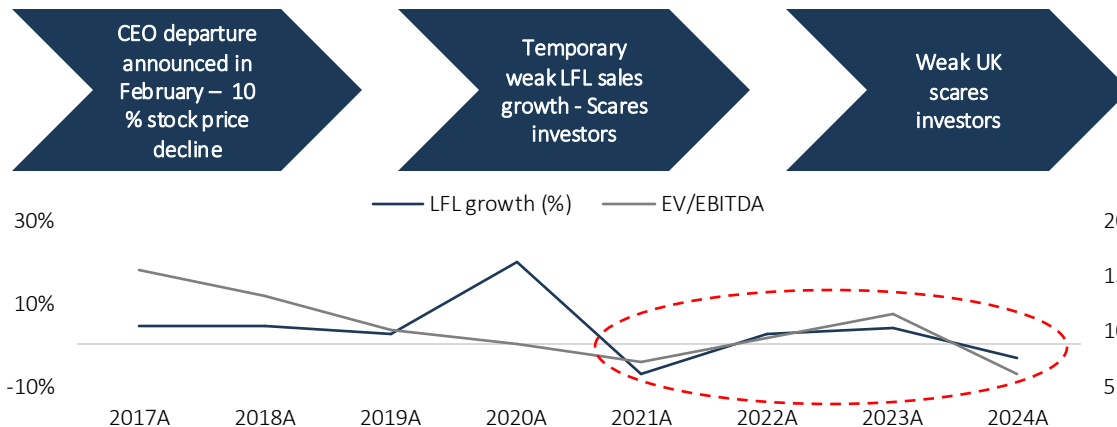
Thesis 2.1 Valuation Disconnected From Reality

Shrinking Multiple – Despite Strong Fundamentals



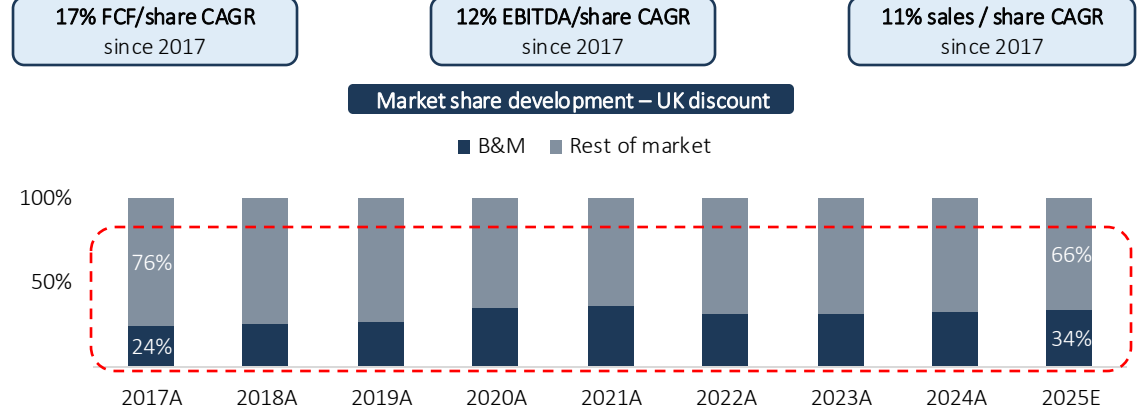
Temporary Pressures and Misplaced Worries – Caused Derating

Multiple derated - from 17.7x EBITDA 2017 to 6.1x EBITDA
Why?



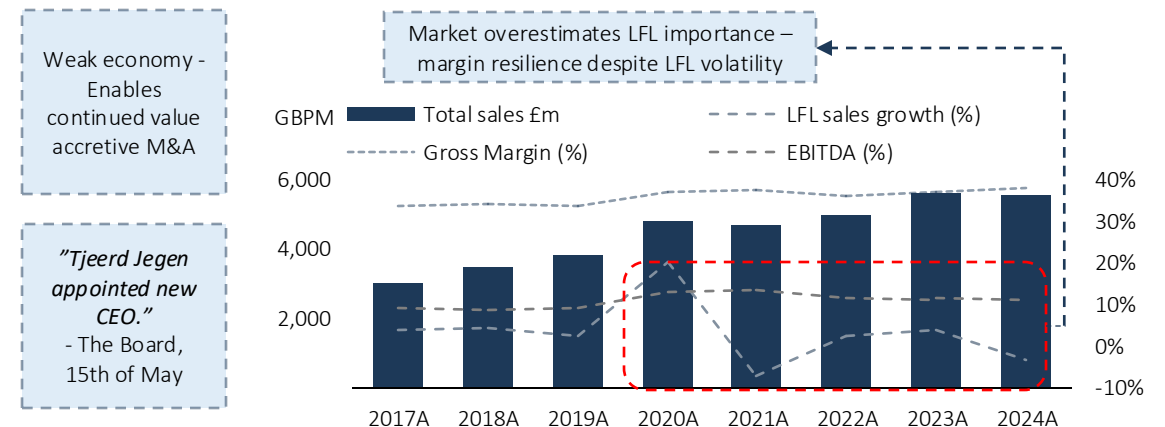
Multiple Derated – Despite Stellar Financials

Multiple derated - from 17.7x EBITDA 2017 to 6.1x EBITDA
Despite:



Clear Offsets

Market overestimates the risk of these events
Why?

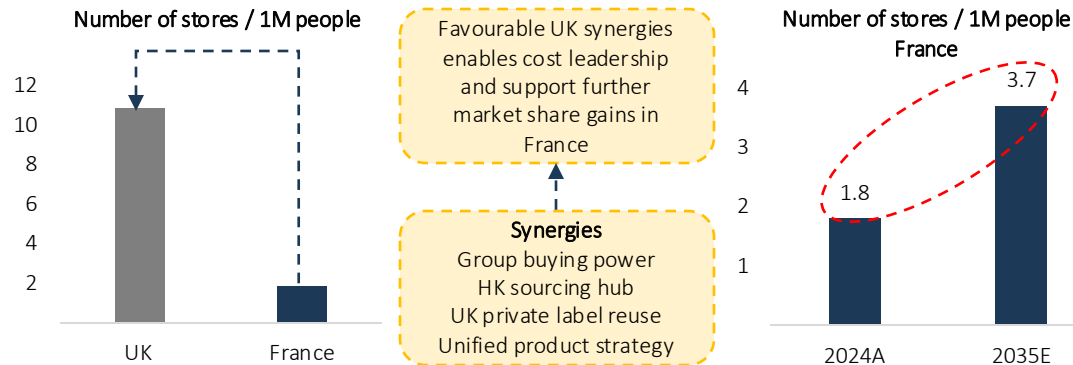


Sources: The Company, Analyst Estimates, Business Wire, Newmark, Financial Times, thebusinessdesk.com

Thesis 2.2 Catalysts for Multiple Re-Rating

France – Underrated Growth Prospects

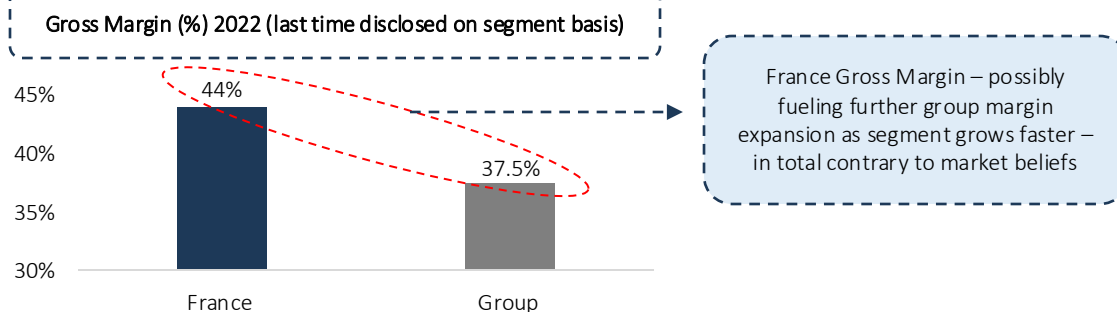
B&M acquired Babou in 2018–19 and now operates 135 stores in France vs 786 in the UK, despite France having similar population. With no scaled national GM discounter beyond Action, B&M is building early share in a fragmented €25bn+ market, leveraging its UK format into an environment with lower competition intensity.



Catalyst #1 for Re-Rating

France Growth – Underestimated by the market

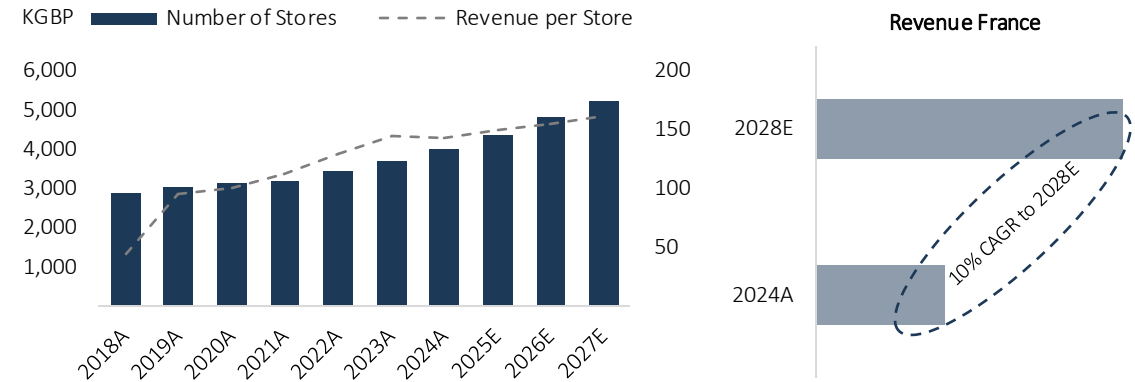
- Only 2 stores per 1M people vs 11 in the UK — France is underpenetrated, with no clear national leader
- Strong unit economics: Revenue/store CAGR of 20.6% (2019–2024); store base growing at 4.4% CAGR
- Margin optionality: FY2022 gross margin in France was 44.4%, vs 36.9% for the Group
- Further growth in France – Results group margin expansion, in contrary to sell side estimates



Store Growth & Revenue per Store Growth – Fueling France Growth

Revenue per store to grow at a 3 % CAGR to 2028E
Number of stores to grow at a 9% CAGR to 2028E

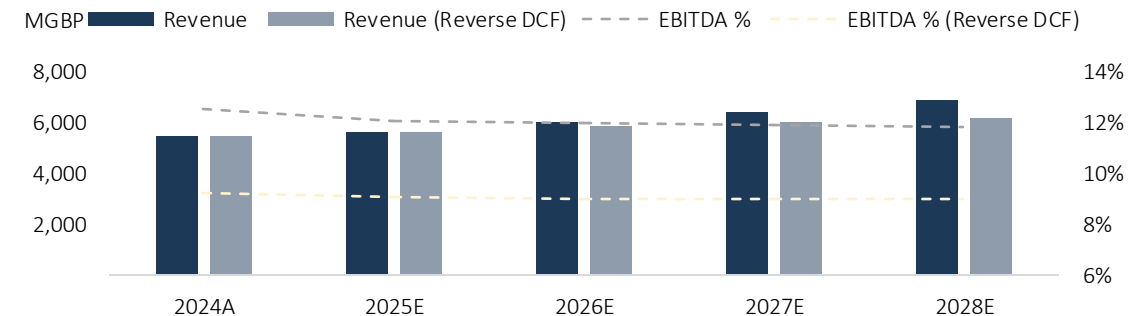
Fueling a revenue CAGR of 10% in France from 2024A to 2027E



Catalyst #2 for Re-Rating

Market Disconnect

- Reverse DCF implies 3% sales CAGR to 2028E, and margins to decline by 3 percentage points
- Analyst estimate 6% sales CAGR to 2028E and margins to remain flat
- As performance is set to exceed market expectations the valuation is set to re-rate



Sources: The Company, Analyst Estimates, Business Wire, Newmark



Valuation and Scenario Analysis

Peer Valuation

EV/EBITDA	FY25	FY26	FY27	FY28	FY24-28 EBITDA CAGR
Dollarama	28.3x	22.2x	20.3x	18.7x	14.4%
Five Below	9.4x	8.2x	8.0x	7.3x	(5.8%)
Dollar Tree	10.1x	8.9x	8.1x	7.4x	5.5%
Dollar General Corp	9.6x	8.8x	8.3x	7.6x	0.8%
Average	14.4x	11.6x	11.2x	10.3x	3.7%
Median	9.9x	8.9x	8.2x	7.5x	3.2%
B&M Value Retailer	5.6x	5.3x	4.9x	4.6x	4.4%
Discount vs Median	43%	40%	40%	39%	

B&M trades at 30-40% discount against peers – despite above average earnings outlook
As multiple is set to re-rate towards peer median – we see a clear path towards > 15 % IRR

DCF Overview

PV TV	3,475
Sum PV Forecast	3,381
EV	6,856
NIBD	1,137
Implied Equity	5,719
NOSH m	10.1
Implied share price	5.64
Upside	115.8%

- The DCF analysis is based on projected FCF over a 10-year period.
- CAPEX is estimated to be around 2% of sales for the forecast period.
- A TGR of 2% is used for the DCF and a WACC of 10,1%.
- The DCF valuation suggests an upside above 100%, indicating that the stock is currently undervalued.

WACC

5.64	8.1%	9.1%	10.1%	11.1%	12.1%
38.9%	8.0	6.7	5.8	4.9	4.3
37.9%	7.9	6.6	5.7	4.8	4.2
36.9%	7.8	6.5	5.6	4.7	4.1
35.9%	7.6	6.8	5.5	4.6	3.9
34.9%	7.5	6.7	5.4	4.4	3.8

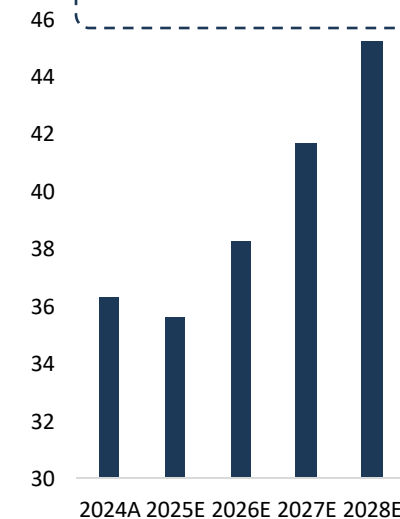
Bull & Bear Case

Bear Case	FY25	FY26	FY27	FY28
Sales	5,600	5,880	6,174	6,421
EBITDA (%)	12%	9%	9%	9%
EV/EBITDA	5.6x	7.1x	6.8x	6.5x
Discount vs median	43%	19%	17%	14%
Bull Case	FY25	FY26	FY27	FY28
Sales	5,600	6,090	6,666	7,284
EBITDA (%)	12%	13%	13%	13%
EV/EBITDA	5.6x	4.8x	4.3x	4.0x
Discount vs median	43%	46%	48%	47%

Discount towards peer group ranges from 15% to 48% in a bull and bear case – showcasing attractive R/R

EPS

Noncyclic 8+ % EPS CAGR valued at 7x 2028E EPS – historical low valuation



	FY25E	FY26E	FY27E	FY28E
P/E	7.3	6.8	6.2	5.8
Earnings yield (%)	13.8%	14.7%	16.0%	17.4%

Average valuation	3y	5y	7y	10y
P/E	13.0	12.2	14.1	16.8
Earnings yield (%)	7.7%	8.2%	7.1%	6.0%

Sources: The Company, Analyst Estimates, Bloomberg

Summary

Business

Market

Thesis

Valuation

Risks

Management

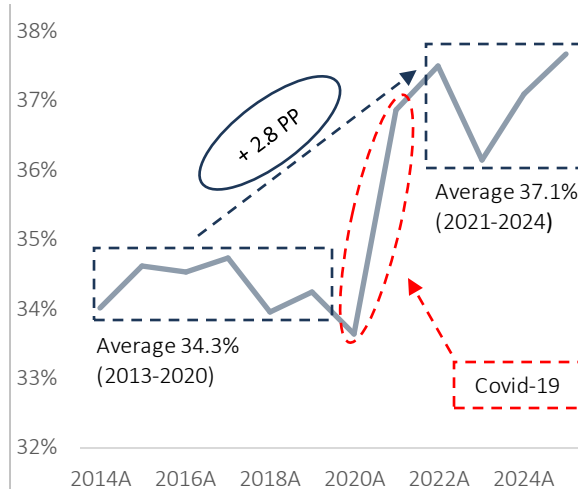


Manageable Risks with Lucrative Opportunities

1. Gross Margins Pressure to Drive LFL Sales

B&M faces the risk of being forced to lower prices to increase Like-for-Like sales as UK consumers currently are under pressure.

- **Increased focus on Garden centers:** To maintain gross margins in the 36–38% range, the Company is prioritizing new garden center openings in the UK to preserve a balanced 50/50 sales mix between general merchandise and FMCG. If B&M delivers on the target of having 80% of new stores in this format, the margin risk should be significantly reduced.
- As competition decreases in certain areas: B&M's value proposition is further reinforced by offering FMCG at lower price points than traditional retailers, reducing the need for further discounting to drive footfall.



3. Execution Risk in the Appointment of the New CEO

Another weak CEO appointment could irreparably damage trust in the board, undermining long-term returns

New CEO could help restore trust in the company, but if mishandled, risk of exacerbating the situation through prolonged poor communication and weak execution.

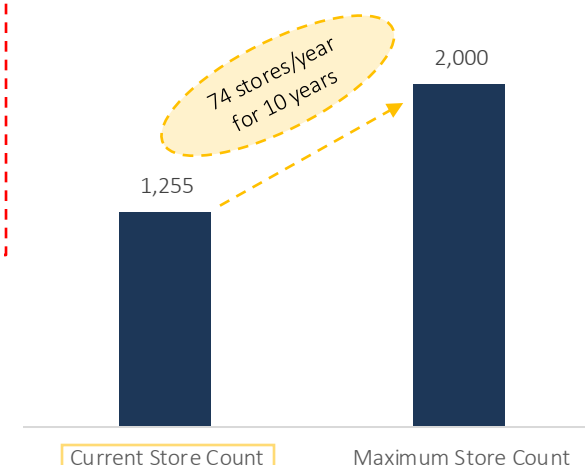
- The Arora family and founders remain the largest shareholders, having scaled B&M from a small entrepreneurial venture into a major enterprise
- After just 2.5 years, the board decided to dismiss Alex Russo, a move that should be seen as a sign of strength rather than weakness. A mistake was made, but now, hopefully, being corrected
- However, with operations spanning three segments across two countries and over 1,255 stores, the CEO remains largely removed from day-to-day operations
- After two years of miscommunication, false promises, and deteriorating trust under Russo, it's hard to imagine the situation getting worse, almost any successor is likely to be an improvement

2. Sourcing Risk

B&M's business model currently functions well, but if supply from third-party dealers declines, the Company may be forced to source directly from A-brands significantly increasing COGS.

Expert calls suggest that B&M's sourcing model has limits, long-term growth is constrained, with approximately 2,000 stores seen as the upper bound under the current setup.

- However, as competition eases, demand for remnant stock may decline, allowing B&M to continue operating its business model successfully without significant disruption
- With a current store count of 1,255, B&M has room left to support new store openings for at least the next 10 years.



Summary: Risk & Mitigation



CEO Transition

Alex Russo - *Outgoing CEO*



Years at B&M: 5

Background: CFO 2020-2022, appointed Group CEO 2022. Was ultimately dismissed in the spring of 2025 following performance and communication issues.

Tjeerd Jegen - *New CEO*



Background: 25 years in the European retail industry, served as CEO for various enterprises such as Hema, Takko Fashion and Woolworths

Incentive Plan for Management



Performance-Based Rewards: Management's incentives are directly tied to specific, measurable goals that drive the Company's profitability and total shareholder returns.

- **Objective Criteria:** Targets are grounded in tangible metrics such as EBITDA, earnings per share, total stockholder return, and economic value added, ensuring a results-focused approach.
- **Annual financial incentives:** 75% of the bonus is based on EBITDA and 25% on individual performance-based targets. CEO: maximum 250% of base salary, CFO: maximum 150% of base salary, Other executives maximum 200% of base salary. 50% of bonuses are converted into shares with a holding period of 3 years.
- **Long-term Financial Incentives:** Performance-based stock options granted at a value of up to, CEO: 250% of base salary, CFO: 175% of base salary, Other executives: maximum 200% of base salary. 50% based on Total Shareholder return relative to the FTSE 350 retail index, and 50% based on EPS. 3-year performance period followed by 2 year holding period.

Other Key Executives

Mike Schmidt - *CFO*



Years at B&M: 2.5

Background: 8 years at DFS as an auditor; appointed Group CFO in 2019. Prior to joining DFS, spent 13 years in Investment Banking at CITI and UBS.

Jon Parry - *Supply Chain Director*



Years at B&M: 3

Background: 15 years of experience at Director level across Retail Supply Chain for Walmart, Asda Stores and Somerfield Stores.

Anthony Giron - *MD B&M France*



Years at B&M: 5

Background: Previously served as senior executive in retail businesses in France, CEO of Selecta and Hema International.

Tony Dobbs - *MD Heron Foods*



Years at B&M: 34

Background: appointed as Director of Retail Operations in January 2013 and promoted to Managing Director of Heron Foods in December 2017.

