



# Mergers & Acquisitions

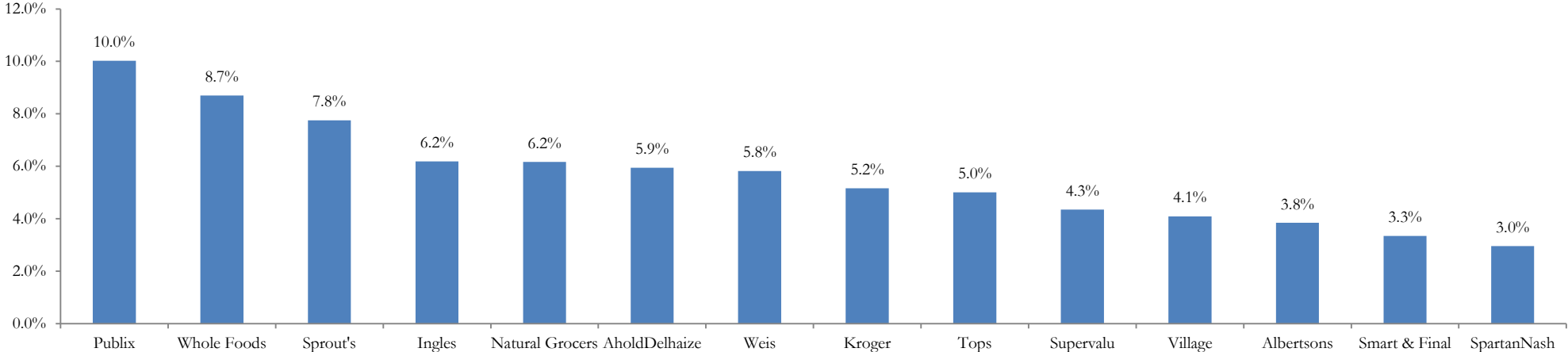
PRESENTED BY THE FOOD PARTNERS



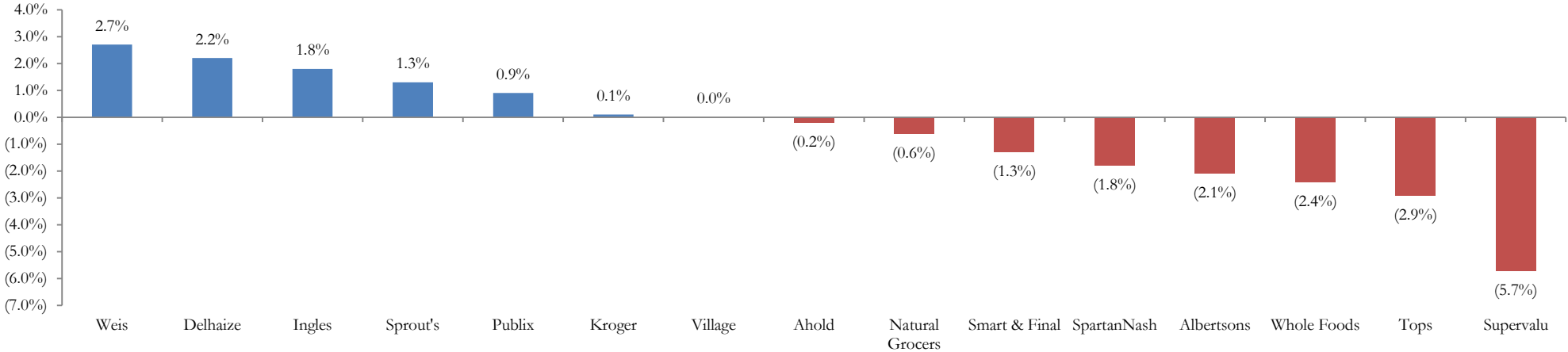
February 2017

# MERGERS & ACQUISITIONS

## EBITDA Margins



## Comparable Store Sales



## MERGERS & ACQUISITIONS

### Historical Stock Price and Enterprise Value to EBITDA of Publicly Traded Retailers

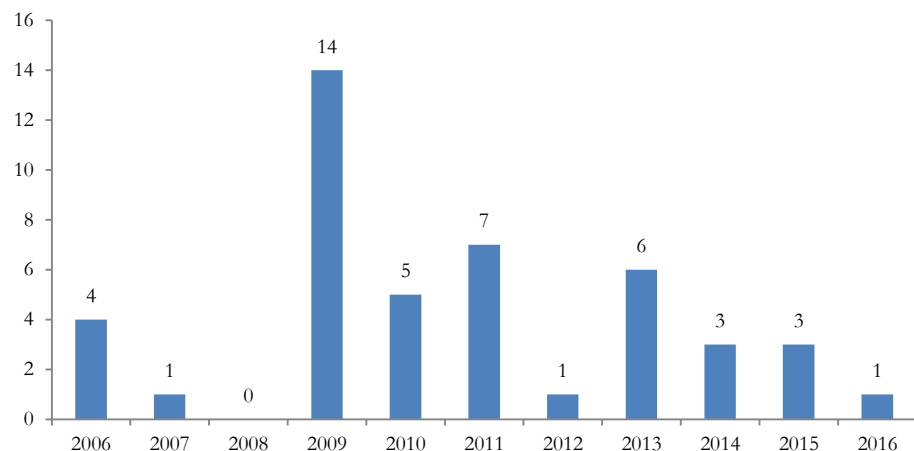
	Conventional								Specialty			
	Average	Kroger	Ingles	Smart & Final	Spartan Nash	Supervalu	Village	Weis	Average	Natural Grocers	Sprout's	Whole Foods
<u>2/7/2017</u>												
Closing Price <sup>[1]</sup>		\$33.77	\$46.70	\$14.65	\$38.70	\$4.09	\$30.34	\$61.84		\$12.91	\$19.14	\$30.35
Enterprise Value / EBITDA	8.0x	7.7x	7.7x	11.5x	8.5x	4.9x	6.1x	9.4x	8.2x	7.7x	9.7x	7.3x
<u>2/5/2016</u>												
Closing Price <sup>[1]</sup>		\$38.75	\$36.85	\$16.27	\$19.51	\$4.59	\$24.80	\$39.78		\$20.10	\$23.43	\$29.84
Enterprise Value / EBITDA	6.9x	8.6x	7.1x	10.6x	5.4x	6.2x	4.8x	6.0x	9.7x	9.3x	12.5x	7.2x
<u>Change</u>												
Closing Price <sup>[1]</sup>		(12.8%)	26.7%	(10.0%)	98.4%	(11.0%)	22.4%	55.5%		(35.7%)	(18.3%)	1.7%
Enterprise Value / EBITDA	18.3%	(10.7%)	9.2%	8.1%	57.9%	(21.6%)	27.8%	57.4%	(12.7%)	(17.5%)	(22.4%)	1.8%

- Source: Capital IQ, Yahoo Finance

[1] 20 day average

## Bankruptcies

### Number of Supermarket Bankruptcies by Year



- The number of supermarket bankruptcies has remained steady over the past several years
- Since 2010, only 3 companies with over 100 stores (A&P, Fresh & Easy and Haggen) have filed bankruptcy
- Excluding A&P, Fresh & Easy and Haggen, the average chain size is 14 stores

### Supermarket Bankruptcy Detail

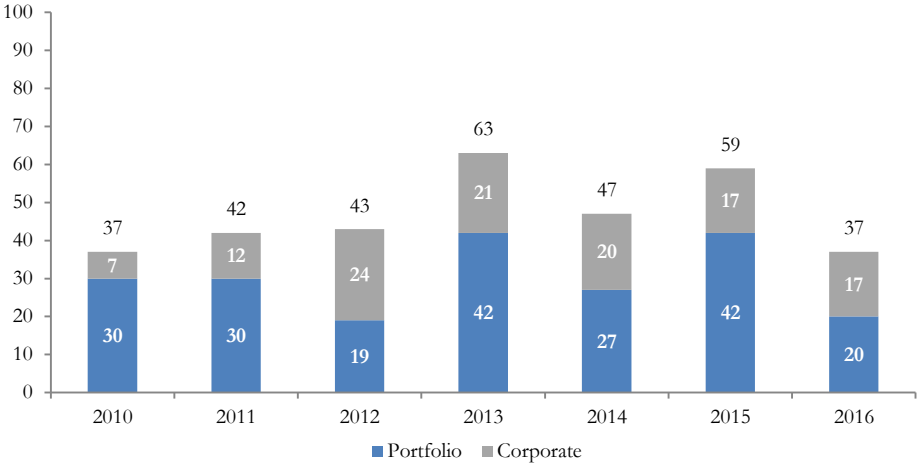
Company	Date Filed	No. of Stores	State Filed	Status
Fairway Group Holdings Corp.	5/3/2016	15	NY	Emerged
Fresh & Easy	10/30/2015	97	DE	Liquidated
Haggen	9/9/2015	164	DE	Sold
The Great Atlantic & Pacific Tea Co.	7/19/2015	297	NY	Liquidated
Dahl's Foods	11/10/2014	10	IA	Sold
Associated Wholesalers	9/9/2014	n/a	DE	Sold
Farmers Foods (Highland Springs and Webb)	6/2/2014	2	VA	Closed
C&K Market	11/19/2013	60	OR	Emerged
Fresh & Easy Neighborhood Market	9/30/2013	167	DE	Sold
Midwest Gourmet Foods (Fox & Obel)	9/19/2013	1	IL	Unknown
Mi Pueblo San Jose	7/22/2013	21	CA	Emerged
Belle Foods	7/1/2013	57	AL	Sold
Pro's Ranch Markets	5/29/2013	11	CA	Sold
Liborio Market	4/13/2012	8	CA	Liquidated
Michael's Fresh Market	12/30/2011	7	IL	Unknown
Associated Grocers of Maine	8/26/2011	n/a	ME	Dismissed
Azteca Ranch Market	8/1/2011	n/a	CO	Liquidated
Moo & Oink	8/24/2011	4	IL	Liquidated
Andronico's Market	8/22/2011	7	CA	Sold
A.G. Ferrari Foods	3/30/2011	13	CA	Sold
Rizk-Co-Zann Foods Corporation	3/10/2011	1	PA	Dismissed
The Great Atlantic & Pacific Tea Co.	12/12/2010	336	NY	Emerged
Empresas Cordero Badillo	11/12/2010	n/a	PR	Emerged
Grand Mart International	10/19/2010	6	MD	Sold
Supermercado del Pueblo	4/1/2010	4	NV	Unknown
Star Food International	1/5/2010	3	CA	Unknown

**Transactions**

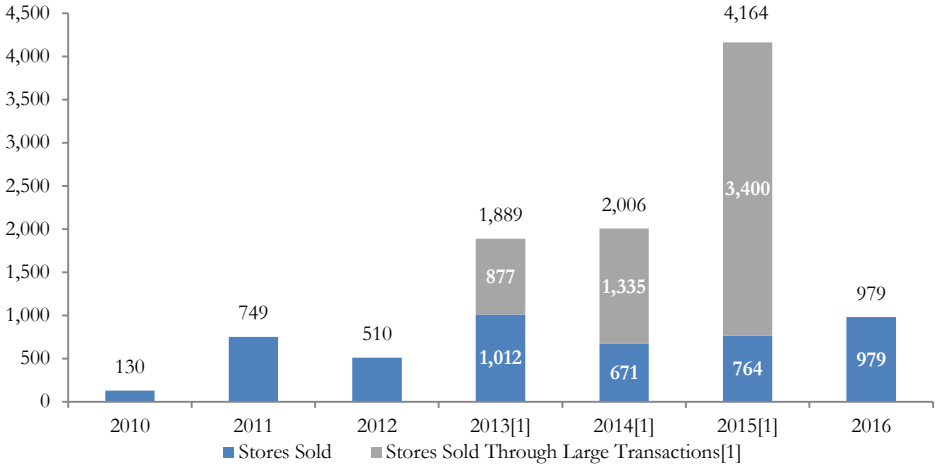
**Mergers and Acquisitions**

- The number of stores sold have increased since 2010 (even after excluding the Albertson’s, Safeway and Delhaize acquisitions in 2013, 2014 and 2015, respectively)

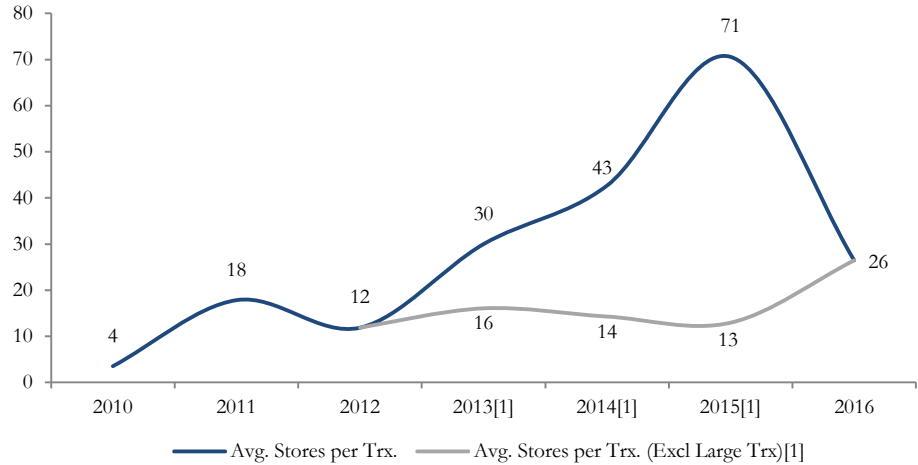
**Portfolio Versus Corporate Transactions**



**Stores Sold**



**Average Stores per Transaction**



- Source: Company reports, news articles, The Food Partners  
 - Includes announced but not yet closed transactions  
 [1] Albertson’s, Safeway and Delhaize acquisitions in 2013, 2014 and 2015, respectively

## Domestic and International Economy

### Internationally

- The overall Global Economy is improving but there is uncertainty
- Europe is a mess but more stable
- The Mideast is in self destruct mode
- The human and monetary cost of random acts of terrorism across the globe continues to take a toll
- Deflation is real, the question is how long it will last
- Interest rates worldwide will increase but the increase will be moderate

### Domestically

- Unemployment rates continue to trend lower but the economy feels stagnant
- The outcome of the presidential election provides hope domestically but questions internationally
- Raising oil prices should simulate investment in domestic production
- It is difficult to assess whether a tax stimulus package would result in any material change in economic growth



### Current Status of the Food Sector

#### Primary Drivers Effecting Value

- Consumers believe their food retailer is a trusted ally to help them achieve their health and wellness goals. According to 2016 U.S. Grocery Shopper Trends research, 45% of shoppers say their grocery store is working to help them stay healthy. In addition, 89% of shoppers believe eating at home is healthier than eating at a restaurant. For these reasons, almost three-quarters of retailers say that consumer wellness and family health is a strategy they use to build a competitive advantage and most say they will use more nutrition, health and retail dietitian programs in the future.
- Approximately 20% of Millennials prefer shopping for natural and organic products at traditional grocery stores, compared to 55% of the Silent Generation, 54% of Baby Boomers and 42% of Generation X, according to Acosta. The three biggest factors motivating customers to buy natural and organic products are avoiding chemicals, the perception of higher quality and watching out for their family's health.

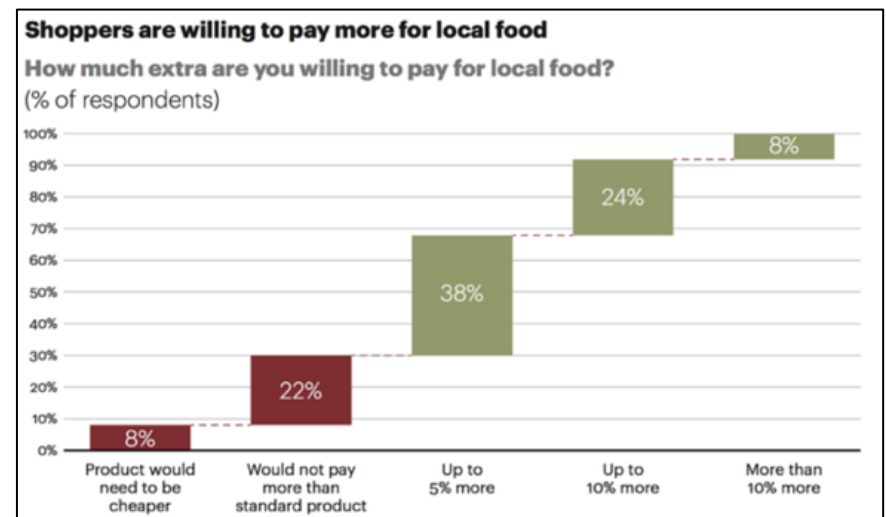
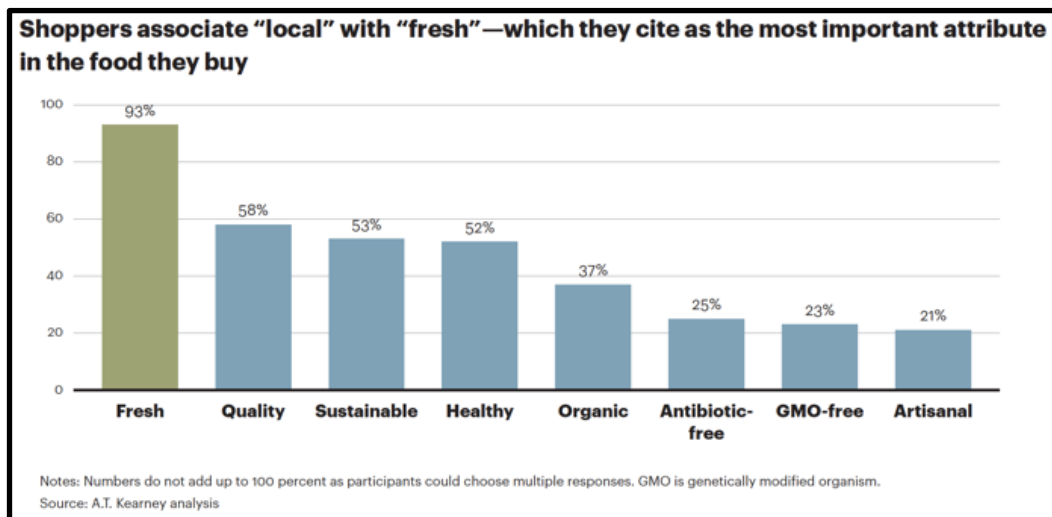
# CONSUMERS DEMAND LOCAL MORE THAN ORGANIC



“The popularity of locally-grown continues to soar, with 61 percent of shoppers wanting their [grocery store] to stock more local items”

“Innovations in the shopper experience can be significant drivers of differentiation... for example, expanding perimeter sections to highlight fresh and local products”

“A majority (58%) of shoppers also indicated that locally sourced meat, produce and dairy products are important.”





## Current Status of the Food Sector

### Primary Drivers Effecting Value

- **Over 30% of U.S. shoppers are likely to order groceries online in 2017**, up from 19% of shoppers buying groceries online in 2016, according to the *2017 Grocery eCommerce Forecast* from Urata and Brick Meets Click. Sixty-eight percent of customers who shopped online in 2016 say they are "somewhat" or "very" likely to switch grocers to one with a better online shopping experience
- **Over 50 million U.S. consumers grocery shop online**, and 20 million consumers who are current, lapsed or new to online grocery shopping plan to shop for food and beverages online more often over the next six months, according to a report from The NPD Group. Over 60% of consumers who shop for groceries online are completely satisfied by the experience, while 6% are neutral or dissatisfied
- **Over 30% of consumers overall are purchasing food to go more often than three years ago**, reaching 49% among those aged 18 to 34, according to Technomic. Consumers are more likely to order carryout or delivery through a restaurant's mobile app or website than from an online ordering platform, but 25% of 18 to 34-year-olds are currently using third-party delivery more often than they did one year ago

## Grocery E-Commerce Landscape in New York Market

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- Amazon Fresh
- Costco
- Farmigo
- FreshDirect
- Good Eggs
- Instacart
- Jet.com/Walmart
- Max Delivery
- My Grocery
- Nextdoororganic
- Pea Pod
- Quinciple
- Urban Organic
- Blue Apron and a host of other providers are offering “health meal solutions”

### The Real World – E-Commerce Strategy for the New York Market

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- In the 1980's, Nicholas D'Agostino Jr. build a home delivery service in New York named it Tel-A-Dag. The venture failed after incurring millions of dollar of operating losses. It was referred to as Tel-A-Dog
- The lesson learned was that you needed to charge a lot of money to cover the cost of delivery in NYC, employing a work force and give them a living wage when the company didn't know when orders were coming and when the van will get to its destination to deliver the product
- What has changed since the 1980's and what is your opinion today of what the E-Commerce penetration will be in the New York market in 5 and 10 years
- If Peapod and Fresh Direct have been effectively serving the New York market for at least seven to ten year is there a void that Amazon Fresh is going to fill to secure a meaningful market share in 5 to 10 years or are they a “want a be”
- Is Instacart and their retail partners in the NYC going to offer something so compelling to consumers to garish sufficient to volume to have a viable business model
- What market share are the other E-Commerce providers identified above in the New York market based on their offering going to achieve in aggregate based on their business models in five to ten years

### The Real World – What is the E-Commerce Strategy for your stores

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- The jury is still out whether in major metro markets with density whether a number of major E-Commerce platforms can develop a sustainable and profitable business model
- They will clearly change consumers acceptance and use of on line shopping
- For most retailers that are offering E-Commerce solutions their goal is to keep the sales in store – the question is the cost and will the sales be profitable
- There is a theory being advanced by a number of retailers that E-Commerce can provide a whiteboard strategy for expanding into new markets
- For most retailers, E-Commerce solutions will not steal the customer, just eat away at categories if the value proposition on line is compelling
- If you operate stores in an dense urban market they will give up material market share to E-Commerce platforms, the key will be to remain relevant and be a survivor
- If you operate in rural markets the key will be to retain sales in those departments that are profitable and give up those categories

Top 30 Grocery Retailers

<b>Rank</b>	<b>Company</b>	<b>No. of Stores</b>	<b>Sales</b>
1	Wal-Mart Stores, Inc.	4,975	\$478,614,000,000
2	The Kroger Co.	3,587	\$109,830,100,000
3	AB Acquisition LLC/Albertsons Safeway	2,353	\$58,322,940,000
4	Publix Super Markets, Inc.	1,117	\$32,362,579,000
5	Ahold Delhaize	790	\$26,350,000,000
6	H.E. Butt Grocery Company	320	\$23,000,000,000
7	Ahold Delhaize	1,241	\$17,794,000,000
8	Meijer, Inc.	420	\$16,700,000,000
9	Wakefern Food Corporation	146	\$16,000,000,000
10	Whole Foods Market Inc.	439	\$15,724,000,000
11	Trader Joe's Co., Inc.	454	\$12,800,000,000
12	Southeastern Grocers	750	\$11,898,000,000
13	Aldi USA, Inc.	1,495	\$10,900,000,000
14	Hy-Vee, Inc.	402	\$9,600,000,000
15	Giant Eagle, Inc.	433	\$9,500,000,000

Top 30 Grocery Retailers

<b>Rank</b>	<b>Company</b>	<b>No. of Stores</b>	<b>Sales</b>
16	Wegmans Food Markets, Inc.	90	\$7,900,000,000
17	WinCo Foods Inc.	105	\$6,400,000,000
18	The Save Mart Companies	212	\$4,300,000,000
19	Smart & Final Stores LLC	298	\$3,970,980,000
20	Stater Bros. Holdings, Inc.	168	\$3,905,000,000
21	Price Chopper / The Golub Corp.	136	\$3,816,000,000
22	Ingles Markets, Inc.	203	\$3,794,977,000
23	Sprouts Farmers Markets	232	\$3,593,031,000
24	Demoulas Supermarkets, Inc.	76	\$3,144,700,000
25	Raley's Supermarkets Inc.	136	\$3,044,800,000
26	Weis Markets, Inc.	205	\$2,876,748,000
27	Schnuck Markets, Inc.	99	\$2,700,000,000
28	Tops Markets, Inc.	183	\$2,471,949,000
29	Key Food Stores Co-operative, Inc.	221	\$2,300,000,000
30	Brookshire Grocery Company	179	\$2,224,300,000



### Mergers and Acquisitions

#### Looking Forward at Retail

- The Delhaize and Ahold merger is the last mega business combination on the radar screen
- The potential sale of Price Chopper in upstate New York is a prime example of one of a number of regional chains that are or potentially will be exploring a business combination – the focus is economics of scale
- The consolidation of independent retailers with less than 30 stores will continue at a steady pace – 800 to 1,000 stores a year
- Valuations for independent retailers selling stores will remain constant for stores of equivalent attributes
- Alternative formats such as Sprouts and Lucky's will continue to expand but may hit a wall

#### Looking Forward at Distribution

- Wholesale consolidation will continue
  - UNFI acquired Haddon House, C&S acquired Associated Wholesalers
  - AWG merged with Affiliated Midwest
  - Spartan acquired Caito
- Deflation will stimulate additional consolidation at the distribution level because new customers are hard to come by

### Lidl Update

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- Lidl is owned by the Schwarz Group, the fifth largest retailer in the world
- Lidl has sales of \$82.4 billion and stores in twenty-six European countries
- In Europe, Lidl operates a 7,500 to 12,000 sq. ft. discount store format like Aldi's limited assortment discount store
- Lidl is planning to open 25,000 to 36,000 sq. ft. stores in the U.S. with their first store slated to open in North Carolina in 2017
- They have announced plans to build three 850,000 sq. ft. distribution centers in Maryland, Virginia and North Carolina, each of which will serve 200 stores
- Lidl has also opened a real estate office in Texas to potentially enter that market
- Lidl is rumored to have secured 160 potential sites from Pennsylvania to South Carolina, which will be primarily greenfield locations
- Last week's press release – "In a surprising move, German discount giant Lidl has changed its US leadership within only leagues of colonizing America. The top brass of Lidl International have just announced to staff in Virginia that senior execs Kenneth McGrath (39) and Kevin Proctor (42) are leaving the US subsidiary."
- This ambitious growth strategy to enter the market appears highly risky and prone to failure. In the recent past, two other retailers pursued a similar strategy and failed

### Walgreen Update

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- In October, 2015 Walgreens announced the acquisition of Rite Aid for \$9.7 billion
- The proposed divestitures of 865 stores to satisfy the FTC mandated requirement to complete the transaction by Fred's is in limbo
- In January, 2017 Walgreens revised the price to between \$6.8 to \$7.4 billion depending on the number of stores divested
- Walgreens revised the estimate of stores to be divested of up to potentially 1,200 stores
- There are 14 states with significant overlapping stores including Michigan, Pennsylvania, and New York
- Although Kroger and Albertsons are rumored to potentially be the buyer, it is not clear who the buyer will be or if there will be multiple buyers

### Quotes of the Year

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- Deflation is killing us – both sales and customer count are down 5%
- I operate stores in small towns, I can't increase customer count – I have focused on variety and value add products to increase my top line and bottom line to offset deflation
- Specialty is not a category any more, it is the norm
- If I can't compete against Blue Apron, then I should sell my stores tomorrow
- Every Monday we don't look at total store sales, we focus on produce, meat and deli department sales and what we are going to do to improve them this week. The sales in the other departments will follow suit
- We just need to retrain consumers that they don't need to go to the grocery store for their food

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