February 2012

AN INVESTMENT BANKERS' PERSPECTIVE

How will the competition in your community change in the next few years

www.thefoodpartners.com

The times they are a changin’

Industry Overview

Whole Foods – Alexandria, Virginia

Industry Overview

Multiple choice

1) Young Whole Foods merchandiser confuses PBR as a ale made by a micro brewery in Wisconsin
2) PBR is a fad and viewed as retro by the younger crowd
3) Whole Foods is targeting its core customer by offering them something they drank in college before they had money
4) Based on a average retail for PBR of $4 a six pack, you can make a lot of money selling PBR for $6
   - Note the regular price at Whole Foods is $8.99 per six pack
5) PBR is a natural beverage
6) PBR has one of the highest alcohol content of beers sold

Industry Overview

Select news headlines

- Jan 30 (Supermarket News) – Jeff Martin of Ahold USA (SN's Marketer of the Year) seeks to deliver value to customers by letting the customers define what value is to them

- Feb. 6 (Bloomberg) – For potential acquirers, there may never be a better time to go grocery shopping in the U.S. Kroger Co., the largest U.S. grocery-store chain, is trading at an 86% discount to its projected sales this fiscal year, leaving it cheaper than 99% of companies in the Standard & Poor's 500 Index, according to data compiled by Bloomberg
  - The Cincinnati-based company, which lost $4.7 billion in market capitalization during the last recession, is now valued at 10.8x estimated earnings, the lowest level for a U.S. food retailer greater than $2 billion, the data show

- "Conventional supermarkets are dinosaurs"

Industry Overview

Giant Food – Alexandria, Virginia

Industry Overview

Safeway – Alexandria, Virginia

Industry Overview

Consumer Knowledge is the Catalyst to Change

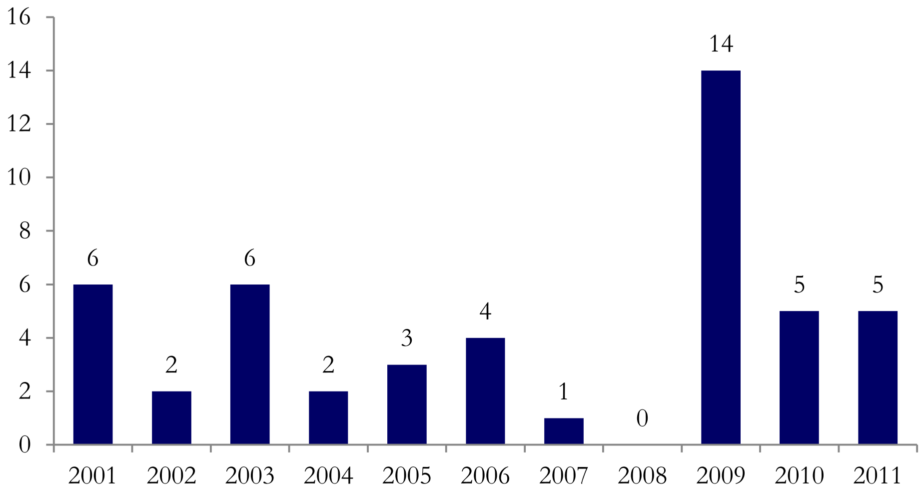
- Key items have become the barometer of whether a retailer is competitively priced
- Consumers have access to instant information to compare prices
- Comparing grocery prices has become a national sport enjoyed by a broad audience of consumers
- Armed with knowledge, consumers first impressions have become lasting impressions
- Stores with non competitive prices are deteriorating at a more rapid rate in todays competitive environment
- Retailers with momentum in todays economic environment are those that are perceived as having a "value format" by store location by the consumers they serve
- The conventional store format is alive and well because:
  - Stores can be sizes to fit a specific market
  - The format is flexible to tailor the offering by store
  - Ability to change the offering to fit the ever changing preferences of consumers

Current Status of the Industry

Grocery Industry Review

The number of bankruptcies is expected to increase during the next 24 months

U.S. Supermarket Bankruptcies



Supermarket Bankruptcy Detail (Last 2 Years)

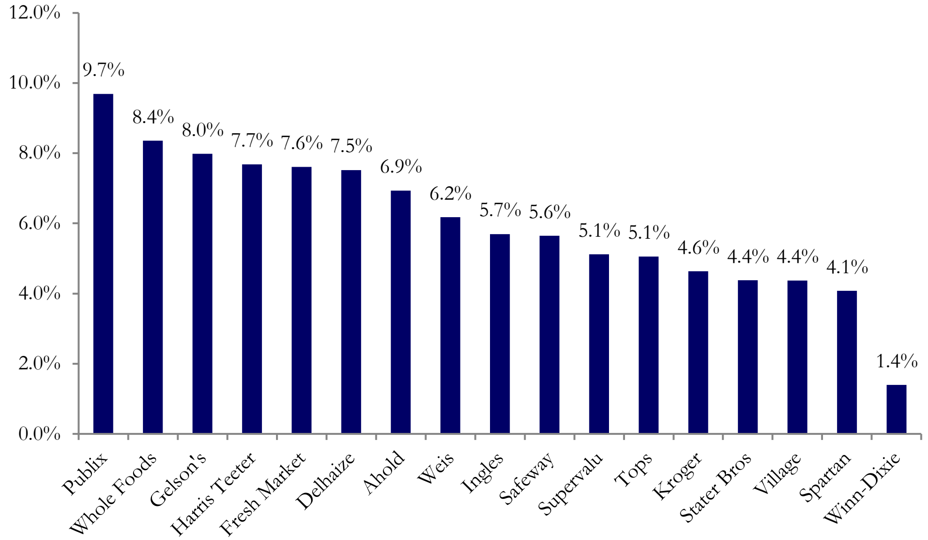
Company	Date Filed	No. of Stores	Location
Michael's Fresh Market	12/30/2011	7	IL
Moo & Oink, Inc.	8/24/2011	4	IL
Andronico's Market, Inc.	8/22/2011	7	CA
A.G. Ferrari Foods	3/30/2011	13	CA
Rizk-Co-Zann Foods Corporation	3/10/2011	1	PA
The Great Atlantic & Pacific Tea Co.	12/12/2010	336	NY
Empresas Cordero Badillo, Inc.	11/12/2010	n/a	PR
Grand Mart International	10/19/2010	6	MD
Supermercado del Pueblo	4/1/2010	4	NV
Star Food International Inc.	1/5/2010	3	CA

Source: The Food Partners, Capital IQ

Grocery Industry Review

EBITDA margins

EBITDA Margins



Source: Capital IQ

Grocery Industry Review

Select publicly traded supermarket companies

Name	LTM Revenue	LTM EBITDA	LTM EBITDA %	Closing Price [1]	52-Week High [2]	52-Week Low [2]	Market Capitalization	Net Debt	Enterprise Value	Enterprise Value / LTM Revenue	Enterprise Value / LTM EBITDA
A&P	$7,464.6	($208.5)	-2.8%	$0.09	$3.80	$0.04	$5.0	$1,284.3	$1,289.3	17.3%	-6.2x
Ahold	$29,792.0	$2,067.0	6.9%	$9.29	$10.00	$7.62	$9,956.5	$766.0	$10,722.5	36.0%	5.2x
Arden (Gelson)	$425.0	$33.4	7.9%	$91.30	$97.46	$74.08	$280.4	($58.3)	$222.1	52.3%	6.7x
Delhaize	$20,722.0	$1,558.0	7.5%	$45.73	$60.80	$40.82	$4,606.3	$2,835.0	$7,441.3	35.9%	4.8x
Fresh Market	$1,034.1	$82.0	7.9%	$40.97	$46.85	$30.86	$1,966.3	$68.5	$2,034.8	196.8%	24.8x
Ingles	$3,510.1	$200.0	5.7%	$15.25	$20.45	$13.96	$372.8	$850.2	$1,223.0	34.8%	6.1x
Kroger	$87,065.0	$3,934.0	4.5%	$22.82	$25.85	$20.53	$13,623.9	$6,695.0	$20,318.9	23.3%	5.2x
Nash Finch	$4,817.5	$129.7	2.7%	$27.55	$44.94	$24.70	$334.4	$309.1	$643.5	13.4%	5.0x
Publix [3]	$25,975.6	$2,517.5	9.7%	$22.05	n/a	n/a	$4,001.1	($473.2)	$3,527.9	13.6%	1.4x
Ruddick (Harris Teeter)	$4,285.6	$321.4	7.5%	$42.79	$46.00	$33.44	$2,102.8	$122.9	$2,225.7	51.9%	6.9x
Safeway	$42,836.4	$2,384.1	5.6%	$19.44	$25.43	$15.93	$6,608.8	$4,817.3	$11,426.1	26.7%	4.8x
Spartan	$2,576.0	$101.4	3.9%	$17.33	$21.37	$13.95	$396.1	$116.5	$512.6	19.9%	5.1x
Supervalu	$36,875.0	$1,903.0	5.2%	$8.01	$11.77	$6.26	$1,700.2	$6,553.0	$8,253.2	22.4%	4.3x
United Natural	$4,530.0	$171.8	3.8%	$35.57	$46.05	$33.59	$1,734.0	$147.8	$1,881.8	41.5%	11.0x
Village	$1,298.9	$56.9	4.4%	$29.12	$33.99	$20.88	$398.3	($47.7)	$350.6	27.0%	6.2x
Weis	$2,677.2	$165.7	6.2%	$39.23	$42.20	$36.52	$1,055.3	($149.3)	$906.0	33.8%	5.5x
Whole Foods	$10,107.8	$843.1	8.3%	$68.57	$74.45	$45.38	$12,265.3	($636.4)	$11,628.9	115.0%	13.8x
Winn Dixie	$6,929.0	$110.1	1.6%	$6.43	$10.08	$5.10	$361.7	($107.6)	$254.1	3.7%	2.3x
Mean	**$16,273.4**	**$909.5**	**5.4%**				**$3,431.6**	**$1,282.9**	**$4,714.6**	**42.5%**	**6.3x**
Median	**$5,873.3**	**$185.9**	**5.6%**				**$1,717.1**	**$135.3**	**$1,958.3**	**30.4%**	**5.2x**

Source: Capital IQ
LTM: latest twelve months
Enterprise value: Market capitalization plus net debt
[1] 20-trading day average as of 2/8/2012
[2] As of 2/8/2012
[3] Market capitalization: Fair value measurement of securities as of 9/24/2011

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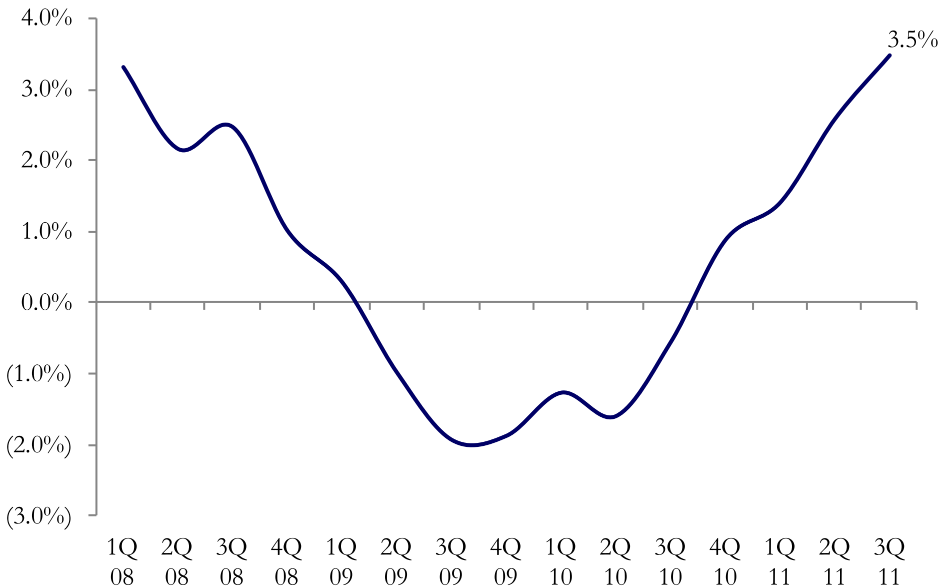
Grocery Industry Review

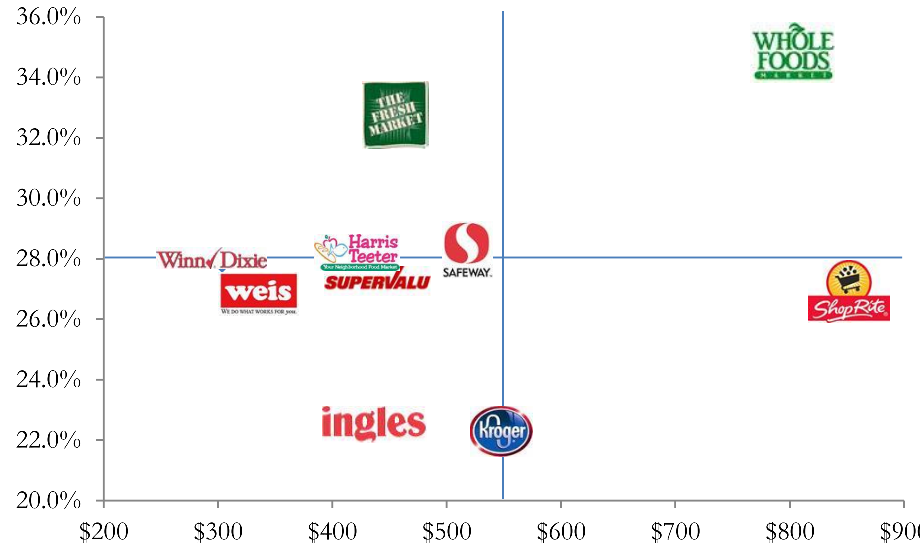
Comp sales are improving

Average Supermarket Comp Sales



Includes: A&P, Ahold USA, Delhaize America, Fresh Market, Arden (Gelson), Ruddick (Harris Teeter), Ingles, Kroger, Publix, Roundy's Safeway, Spartan, Stater Brothers, Supervalu, Top's, Village, Weis, Whole Foods, Winn Dixie

Annual Sales per Square Foot Versus Gross Margin



Source: Company reports, The Food Partners, Capital IQ

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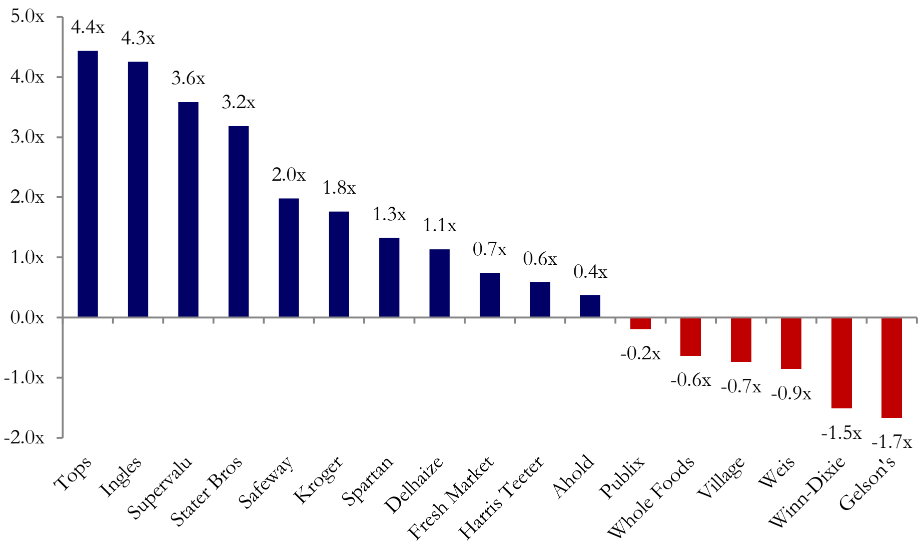
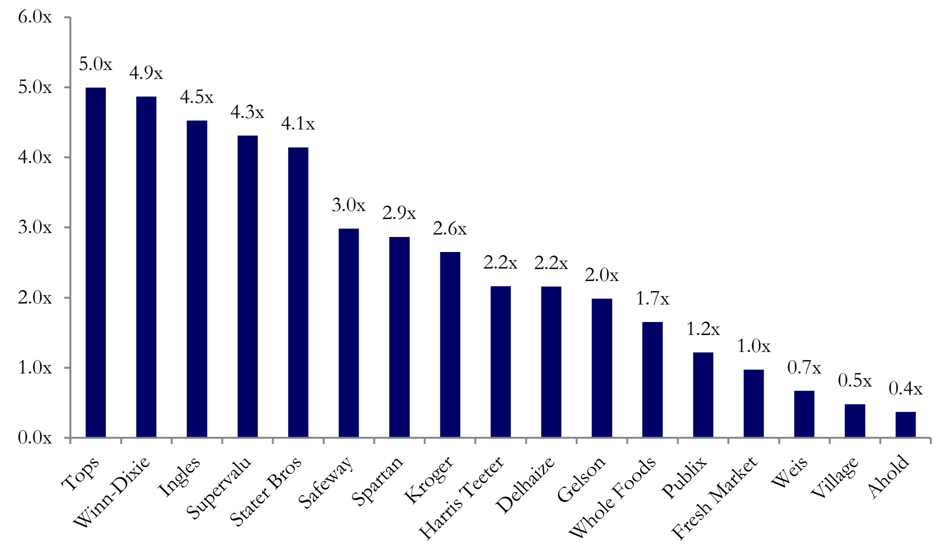
Leverage ratios of food retailers continue to hold steady but vary greatly among companies

Net Debt / EBITDA



Adjusted Net Debt / EBITDAR [1]



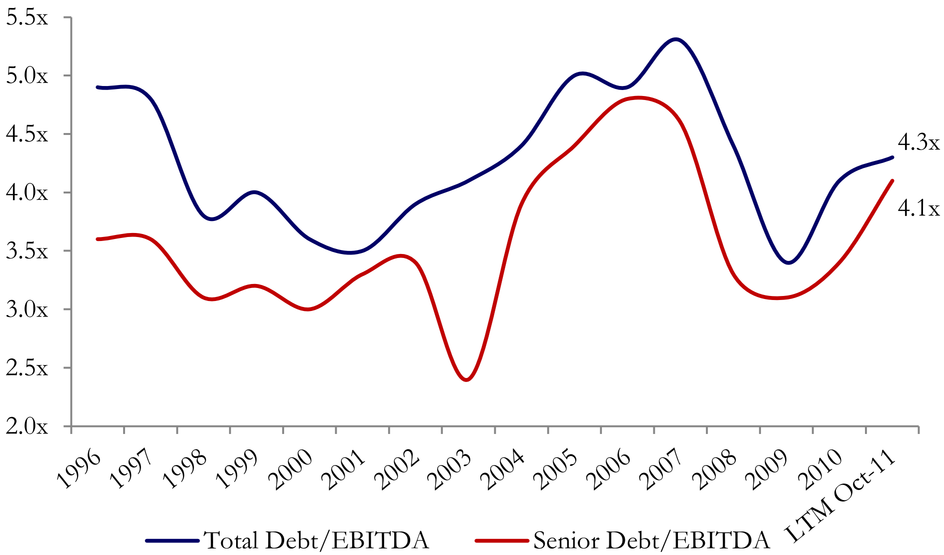
- Publicly traded retailers have kept their net debt to EBITDA ratios under approximately 4x, with most at 2x or below
- Several publicly traded retailers have a negative net debt to EBITDA ratio because they are holding a significant amount of cash or have little to no leverage on their balance sheets

Source: Capital IQ, company reports, TFP research
[1] Debt adjusted for 8x operating rent as of the most recent fiscal year end

Grocery Industry Review

The Federal Reserve has signaled that they will hold interest rates low until mid 2013

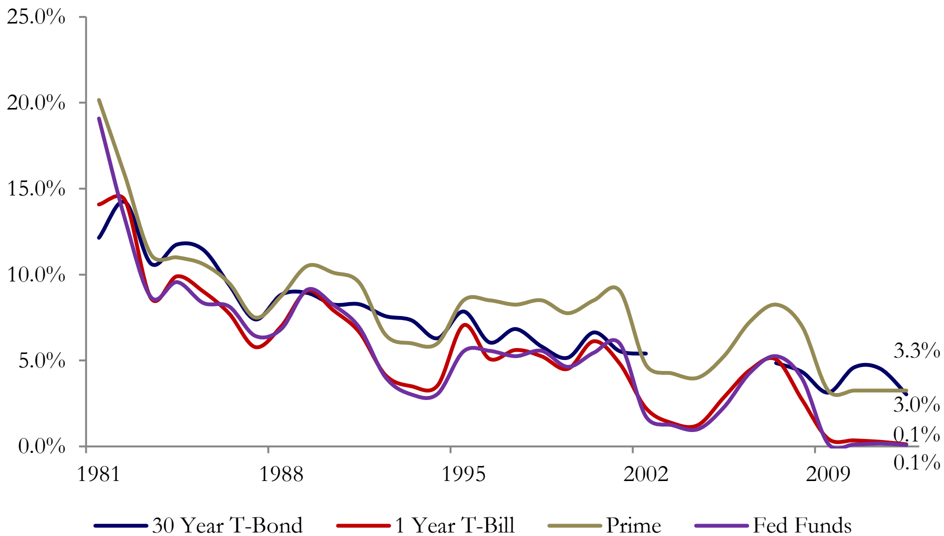
Average Credit Statistics of Middle Market LBO Loans



By year: LTM average pro-forma credit statistics of middle-market LBO loans for issuers with EBITDA of less than $50 million

Source: S&P Leveraged Lending Review

Select Historical Interest Rates



Source: Federal Reserve Board

- Absolute interest rates are at historic lows
- Retailers undertaking acquisitions have access to debt capital

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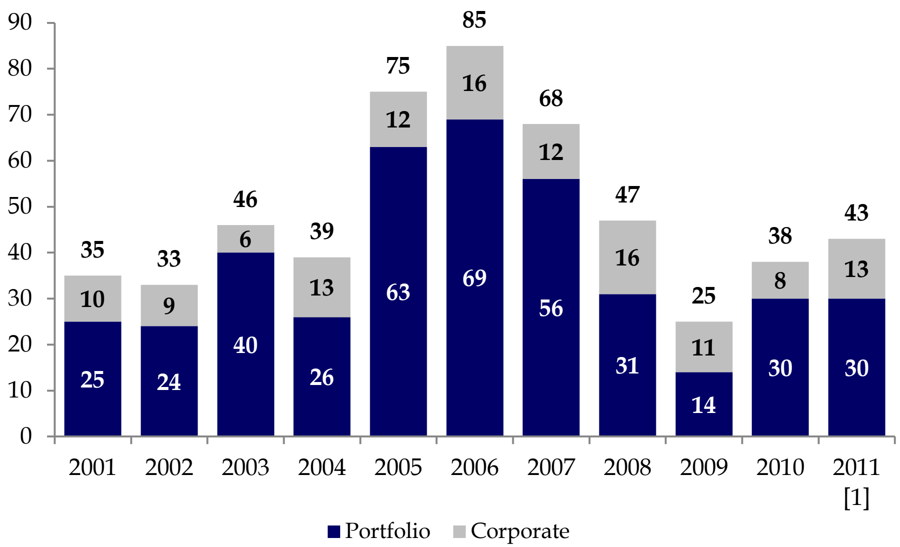
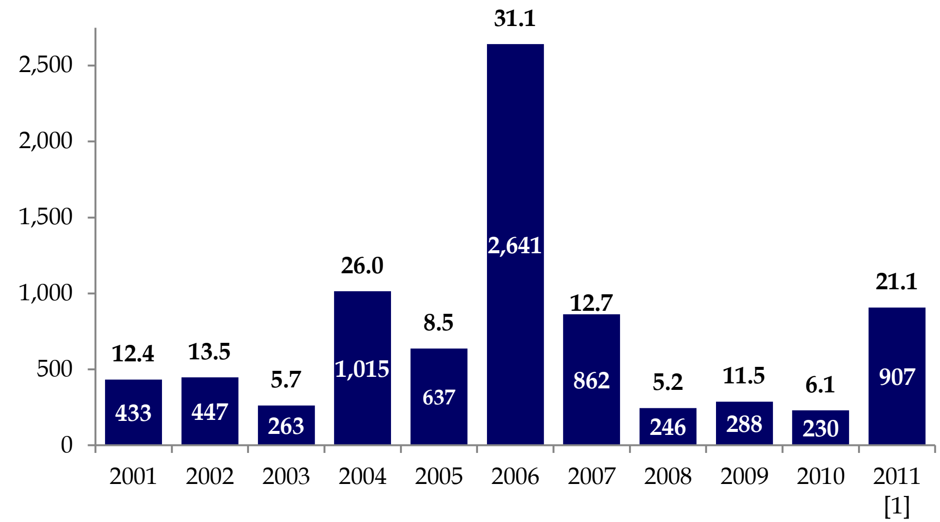
Historical supermarket transactions

Corporate Versus Portfolio Transactions



Number of Stores Sold / Average Number of Stores per Transaction



- The number of transactions in 2009 stalled due to the economic meltdown
- Number of corporate transactions are increasing as a percent to total
- Estimated level of activity in 2012 should be equal or exceed that of 2011 barring another recession
- Average number of stores sold per transaction is increasing

Source: Company reports, The Food Partners
[1] Includes 2 announced, but not yet closed transactions

Recent Transactions

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Roundy's company history

- Roundy's is a 157-store conventional supermarket operator owned by Willis Stein & Partners
  - 2002 – Willis Stein acquired the company, a wholesaler and operator of 61 corporately-owned stores for $750 million
  - 2003 – Acquired 14 Pick 'n Save stores in 3 transactions, 13 Kohl's stores from A&P in 2 transactions and the 31 store Rainbow Foods division from Fleming
  - 2004 – Built new 1 million square foot distribution center in Oconomowoc, WI
  - 2004 – Acquired 7 Pick 'n Save stores
  - 2005 – Sold 2 OH distribution centers and customer accounts to Nash Finch, transferred remaining 3rd party distribution customers to Supervalu and acquired 7 Pick 'n Save stores
  - 2005 – Credit rating downgraded due to over leverage, cut its announced dividend and stopped filing financial statements
  - 2006 – Acquired 5 Pick 'n Save stores
  - 2007 – Acquired 5 Jewel-Osco stores and sold 2 closed warehouse properties
  - 2010 – Borrowed $150 million for dividend to Willis Stein and opens first Chicagoland store
  - 2011 – Announced intent to file an IPO in December
  - 2012 – Roundy's stock began trading in February

Source: Company reports, The Food Partners

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Roundy's financial overview

- Roundy's has generated flat sales growth and slightly negative comp store sales and EBITDA margins have remained constant over the past 3 years
- Roundy's store metrics are in line with industry averages for conventional supermarket operators

	FY2009 1/2/2010	FY2010 1/1/2011	LTM Q3 FY2011 10/1/2011	Proforma FY2011 12/31/2011
Sales	$3,746	$3,767	$3,822	$3,840
Gross profit	$1,019	$1,018	$1,031	
Gross margin	*27.2%*	*27.0%*	*27.0%*	
EBITDA	$222	$223	$223	$224
EBITDA margin	*5.9%*	*5.9%*	*5.8%*	*5.8%*
Number of stores	154	155	157	
Average sales per store	$24	$24	$24	
Change in average weekly sales	-1.3%	0.6%		0.5%
Change in comp-store sales	-1.2%	-0.8%		-0.2%
Average store square footage	60,363	60,792	61,146	
Average store selling square footage	40,852	41,201	41,613	
Average rent per square foot	$9.12	$9.72		

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Source: Company reports
* LTM: Latest twelve months
* In $ millions, except average rent per square foot

Grocery Industry Review

Roundy's IPO overview

- Roundy's raised $111 million through an initial public offering of common stock based on an $8.50 per share price
- The company sold 15 million shares (other investors sold an additional 7 million shares) and has proposed to use the cash and a congruent $800 million debt refinancing to pay-off existing debt
- Moody's has assigned a provisional B1 rating to the company's proposed new $125 million revolving credit facility and $675 term loan

IPO Summary:	Offer Price per Share	Total Shares	No. of IPO Shares	Shares Sold by Roundy's	Shares Sold by Willis Stein	Other Shares Sold [1]	% Total Shares Sold
Common Stock	$8.50	45	22	15	4	3	49.2%

IPO Enterprise Value:	Actual Open	Low Scenario	Mid Scenario	High Scenario
Offer Price per Share	$8.50	$10.00	$11.00	$12.00
Common Shares Outstanding	45	45	45	45
Implied Equity Value	$381	$448	$493	$538
Long-Term Debt	$675	$675	$675	$675
Cash and Cash Equivalents	$36	$36	$36	$36
Net Debt	$639	$639	$639	$639
Implied Enterprise Value (IEV)	$1,020	$1,087	$1,132	$1,176
IEV / Sales	26.7%	28.4%	29.6%	30.8%
IEV / EBITDA	4.6x	4.9x	5.1x	5.3x

Source: Company reports

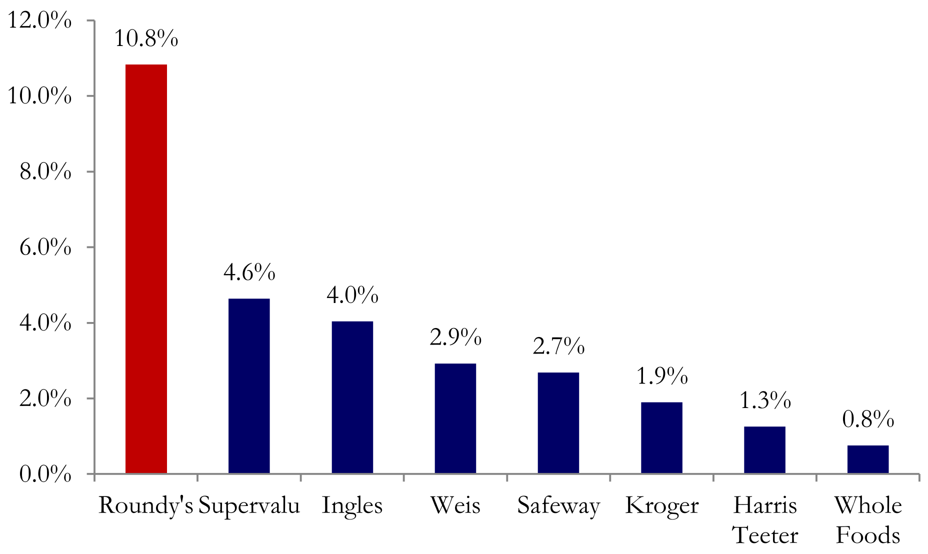
* In millions, except per share price, shares, multiples and percentages

Grocery Industry Review

Roundy's IPO overview

- Roundy's has proposed to pay $0.23 quarterly dividend per share, giving the company the highest dividend yield among its peer group

Supermarket Retailer Dividend Yield Comparison



Source: Company reports
* 20-trading day average as of 1/27/2012, except Roundy's ($8.50 per share)

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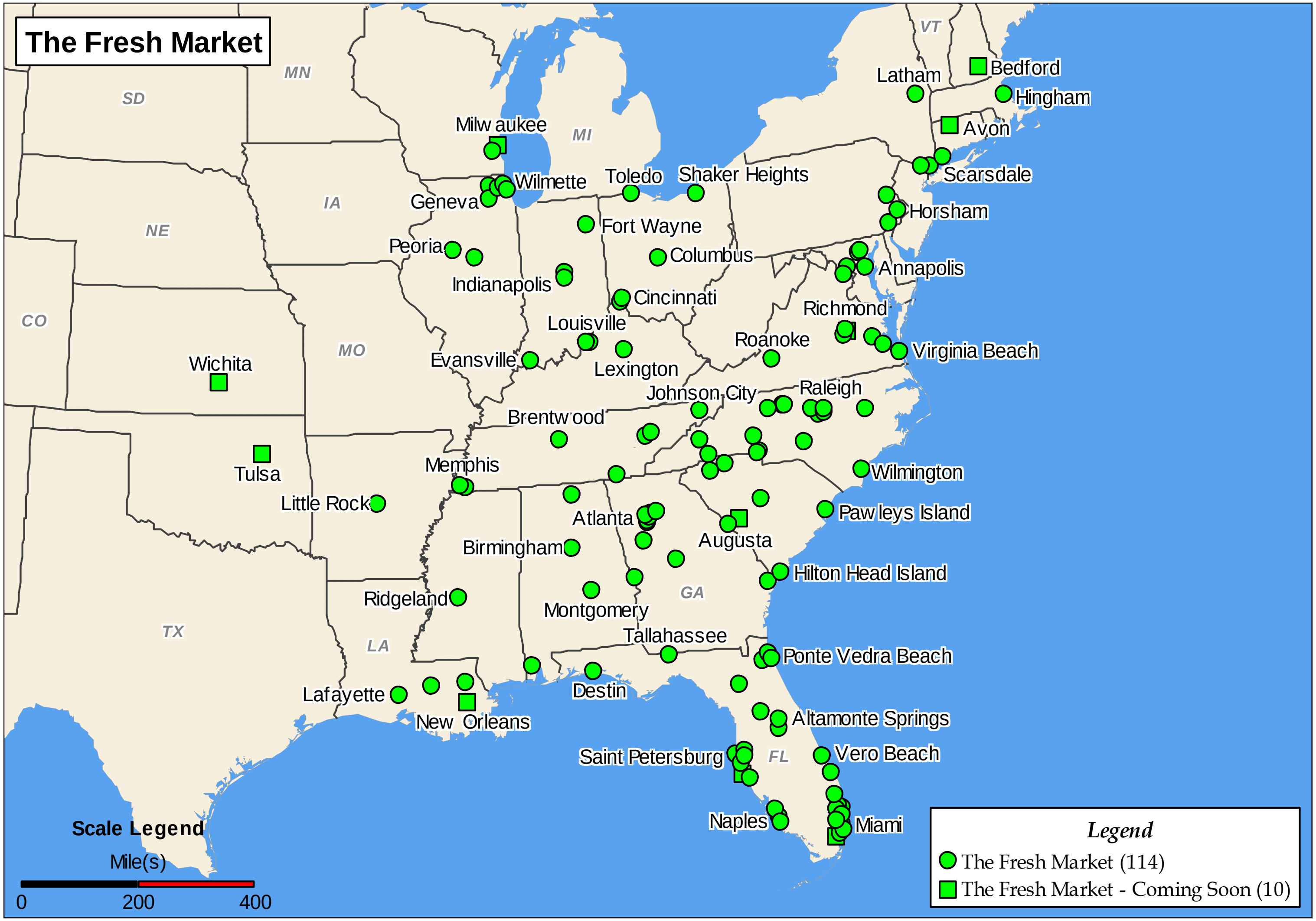
Roundy's public company comparison

- Based on a per share price of $8.50, the company began trading at 26.7% of sales and 4.6x EBITDA, lower than the industry average for conventional supermarket operators
- Assuming a 30% control premium, on a control basis the company's enterprise value / EBITDA would be approximately 6.0x

Company	Revenue	EBITDA	EBITDA Margin	Enterprise Value	Enterprise Value / Revenue	Enterprise Value / EBITDA	Quarterly Comp Sales
Ahold	$29,792	$2,067	6.9%	$12,120	40.7%	5.9x	4.5%
Delhaize	$20,701	$1,557	7.5%	$6,062	29.3%	3.9x	1.9%
Harris Teeter	$4,616	$355	7.7%	$2,237	48.5%	6.3x	5.0%
Ingles	$3,510	$200	5.7%	$1,268	36.1%	6.3x	2.2%
Kroger	$84,912	$3,934	4.6%	$21,561	25.4%	5.5x	5.3%
Publix	$25,976	$2,517	9.7%	$3,528	13.6%	1.4x	4.3%
Roundy's	**$3,822**	**$223**	**5.8%**	**$1,020**	**26.7%**	**4.6x**	**1.7%**
Safeway	$42,172	$2,380	5.6%	$12,439	29.5%	5.2x	1.5%
Spartan	$2,558	$104	4.1%	$553	21.6%	5.3x	(1.3%)
Supervalu	$37,102	$1,900	5.1%	$8,319	22.4%	4.4x	(1.8%)
Village	$1,297	$57	4.4%	$382	29.4%	6.7x	8.1%
Weis	$2,639	$163	6.2%	$985	37.3%	6.0x	6.5%
Winn Dixie	$6,881	$96	1.4%	$382	5.5%	4.0x	3.3%
Mean	**$20,460**	**$1,196**	**5.8%**	**$5,450**	**28.2%**	**5.0x**	**3.2%**
Median	**$6,881**	**$355**	**5.7%**	**$2,237**	**29.3%**	**5.3x**	**3.3%**

* In $ millions
* Revenue and EBITDA for the latest twelve month time period as of 1/27/2012
* Enterprise value based on 20-trading day average as of 1/27/2012
* Source: Company filings, Capital IQ

The Fresh Market map



Source: Company website

Grocery Industry Review

The Fresh Market overview

- The Fresh Market had its IPO and began trading on November 5, 2010
- Since its IPO, the company has reduced generated an increase in sales by 13% and a decrease in EBITDA by 13%
- The company's currently enterprise value is roughly double that of when it began trading
- The company currently operates 114 stores with 10 under construction

	IPO LTM ended 26-Sep-10	Current LTM ended 30-Oct-11	Change
Sales	$941	$1,062	$121
EBITDA	$97	$84	($13)
% margin	*10.3%*	*7.9%*	
Debt	$97	$76	($21)
Cash	($10)	($10)	$0
Net Debt	$87	$66	($21)
Shares Sold	13,175		
Berry Family	34,816		
Total Shares	47,991	44,030	(3,961)
Price	$22.00	$44.30	$22.30
Equity Value	$1,056	$1,951	$895
Plus: Net Debt	$87	$66	($21)
Implied EV	$1,143	$2,017	$874
Implied Multiple	11.8x	24.0x	12.2x

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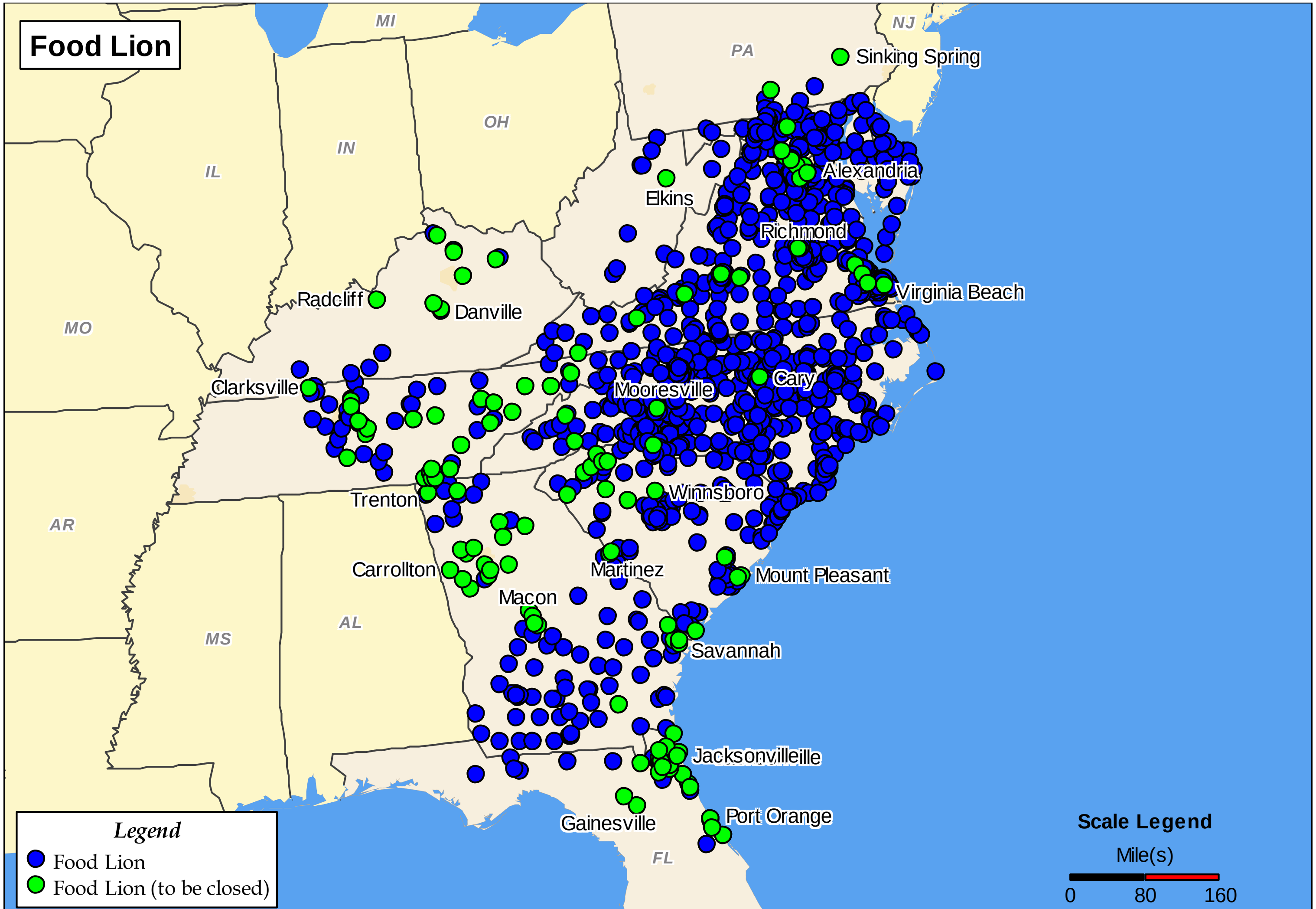
Source: Company reports
* LTM: Latest twelve months

Grocery Industry Review

Food Lion restructuring



Source: Company website

Grocery Industry Review

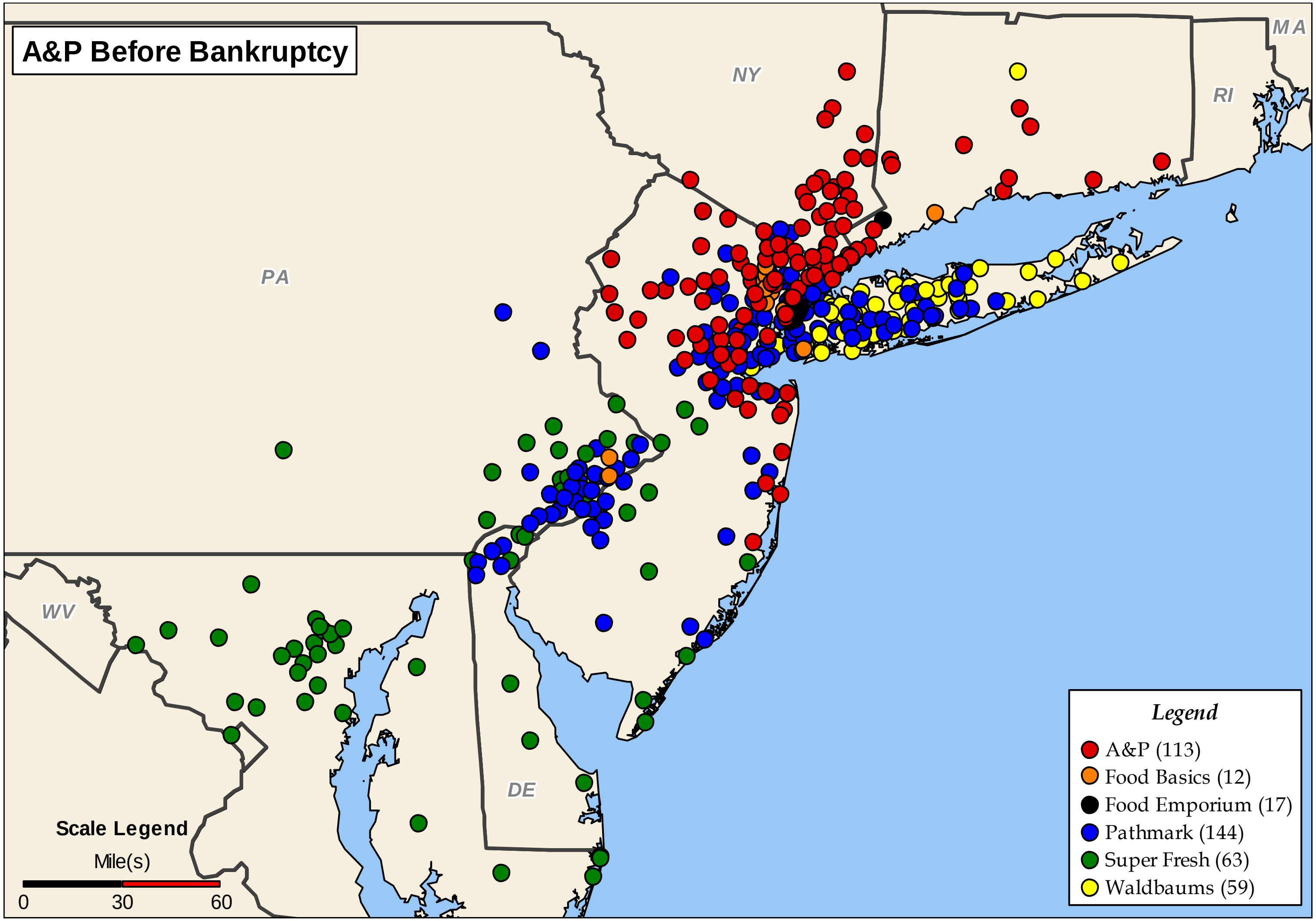
Food Lion strategic initiatives

- On January 12, 2012, Delhaize America announced actions to improve its U.S. store portfolio
- Closure of 126 stores in the Southeast and Mid-Atlantic
  - Closure of 113 Food Lion stores
  - Closure of 7 Bloom stores
  - Closure of 6 Bottom Dollar stores
- Retirement of the company's Bloom banner and store banner conversion of select stores
  - Conversion of 64 Bloom and Bottom Dollar stores to the Food Lion banner
  - Conversion of 1 Food Lion store to the Harveys banner
- Closure of the Clinton, TN distribution center
- Ramping up the roll out of the Food Lion brand strategy in another 600 to 700 stores

Source: Company reports

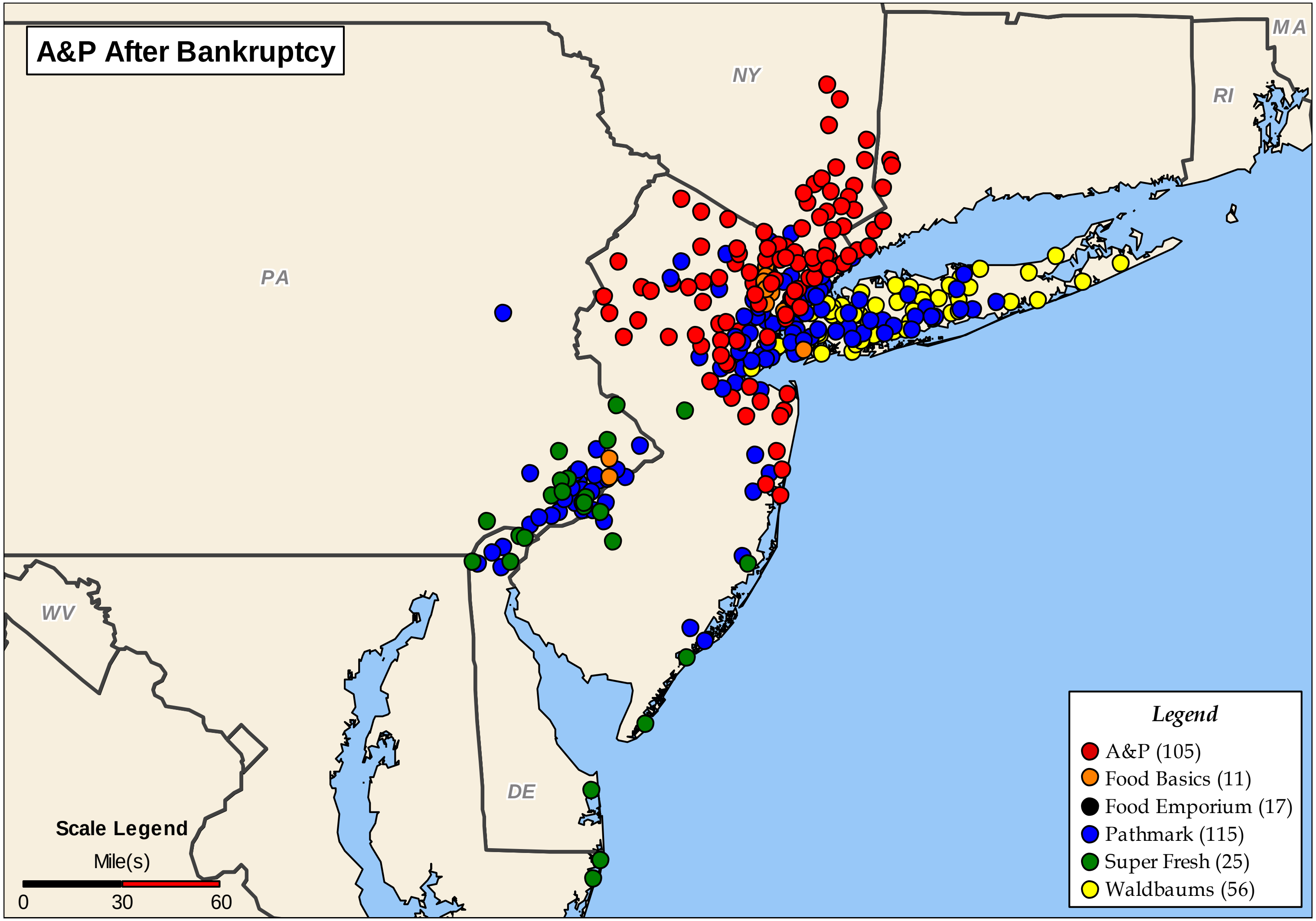
Grocery Industry Review

A&P pre-bankruptcy map



Grocery Industry Review

A&P post-bankruptcy map



Source: Company website

Grocery Industry Review

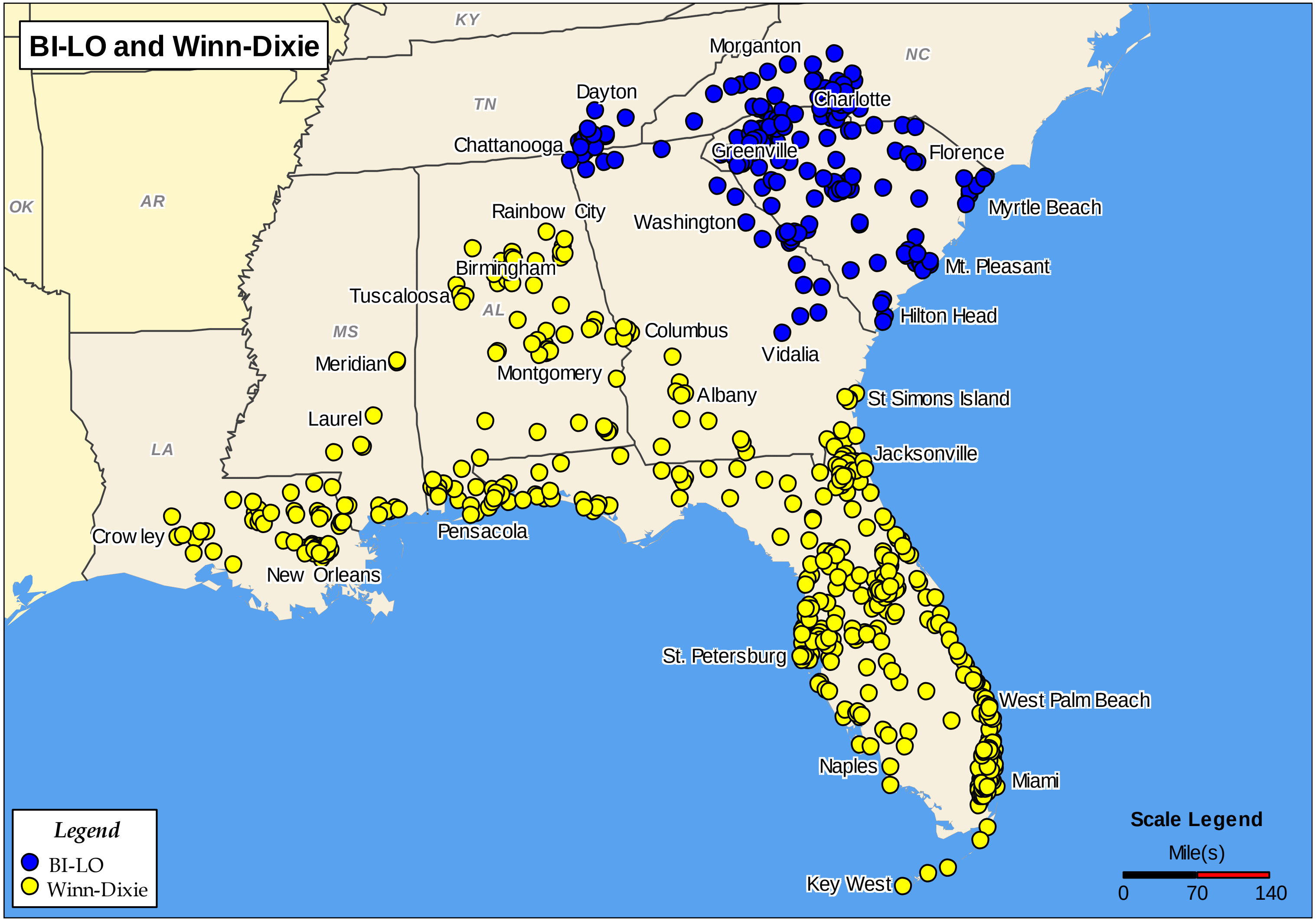
A&P bankruptcy overview

- A&P was purchased out of bankruptcy for $490 million by a consortium of buyers including Yucaipa, Mount Kellett and Goldman Sachs
- Current capital structure:
  - Equity: $190 million
  - Debt: $300 million
- Current financials (as of LTM ended December 3, 2011)
  - Sales: $7.2 billion
  - EBITDA: ($172.9) million
- During bankruptcy:
  - Renegotiated supply agreement with C&S
  - Renegotiated UFCW labor agreements
  - Closed/sold 60 stores with another 14 to be closed

Source: Company reports
* LTM: Latest twelve months

Grocery Industry Review

BI-LO and Winn-Dixie merger map



Source: Company websites

Grocery Industry Review

BI-LO/Winn-Dixie merger overview

- On December 19, 2011, BI-LO and Winn-Dixie announced an agreement to merge
- Shareholders will receive an all-cash purchase price of $9.50 per share
    - 75% premium over Winn-Dixie's closing share price on December 16, 2011
- The transaction is valued at approximately $560 million
- The combination of the two large regional operators is expect to create a top 10 U.S. supermarket retailer with approximately 690 stores in 8 states
- Winn-Dixie financials (as of LTM September 21, 2011)
    - Sales: $6.9 billion
    - EBITDA: $110 million

Source: Company reports
* LTM: Latest twelve months

SMALL STORE STRATEGY

Small Store Strategy

Top 100 grocery retailers

- The top 50 grocery retailers have 20,511stores and $452.8 billion of revenue
- Based on the current consolidation trends within ten years the top 50 will be the top 30
- The next 50 grocery retailers have 1,982 stores and $27.9 billion of revenue
- Best estimate this group of retailers will double in size through acquisition and most will survive
- The majority of the top 100 grocery retailers are going to focus on acquiring stores that become available in the 40,000 to 60,000 square foot range to increase overall market penetration
- Excluding the top 100 grocery retailers, the majority of the remainder independent retailers have less than 25 stores
- A number of retailers in this group are pursuing a growth strategy based on the acquisition of small stores

Small Store Strategy

Pro's and con's of small store strategy

Pro's

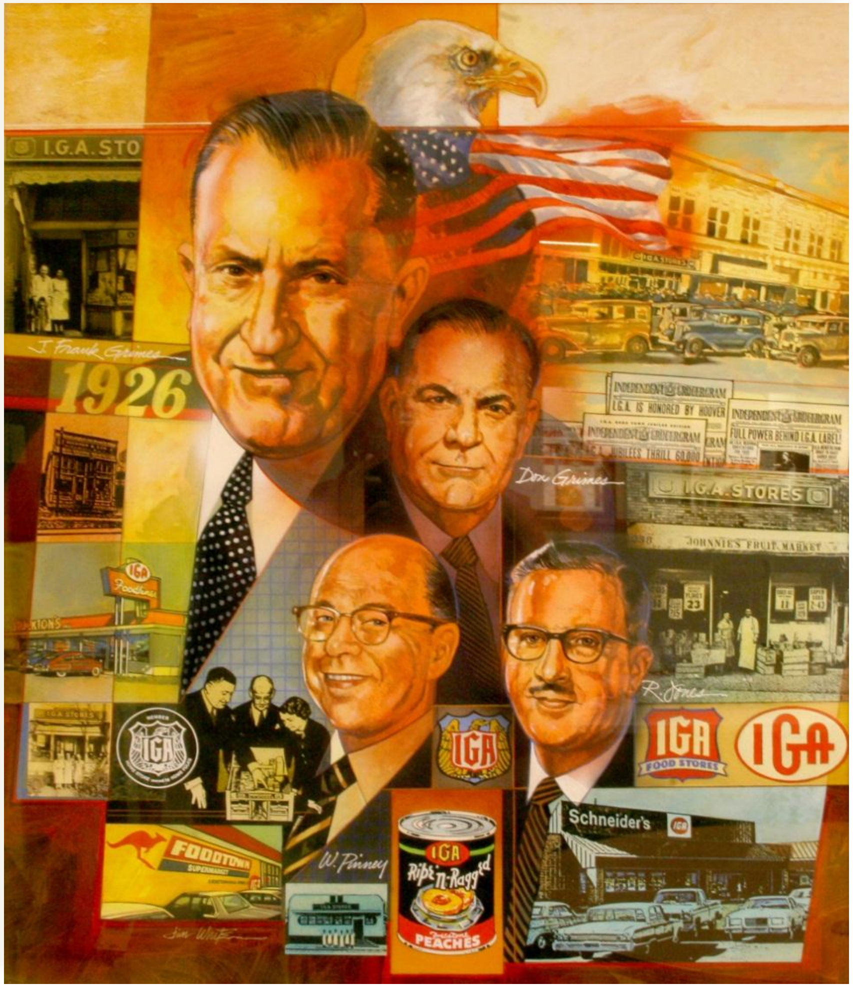
- Other in market strategy buyers are not focused on these stores
- Low initial capital investment in smaller stores
- Stores are in insulated markets and have a lower risk profile
- Capital investment in these stores have generated higher ROI's than alternative investment opportunities

Con's

- Most small stores are located in markets with declining populations
- The demographic mix in many of these markets is less than desirable
- Requires a different style of management for many retailers
- Distance from corporate headquarters can be challenging

Small Store Strategy

IGA legacy



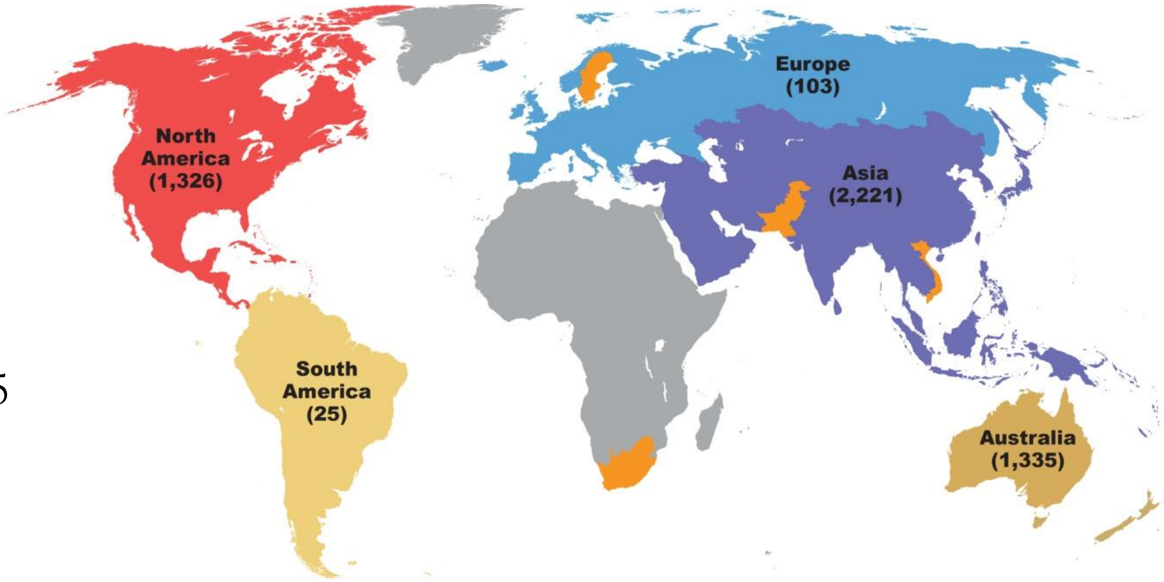
- IGA was founded in 1926 by J. Frank Grimes and independent grocers in Poughkeepsie, NY
- "To give family business an equal footing…facing the rapid growth of corporate retailing…"

Small Store Strategy

IGA is now a worldwide organization

- IGA is the world's largest supermarket network with aggregated worldwide retail sales of more than $29 billion per year

- The Alliance includes over 5,000 Hometown Proud Supermarkets worldwide, supported by 36 distribution companies and more than 55 major manufacturers, vendors and suppliers

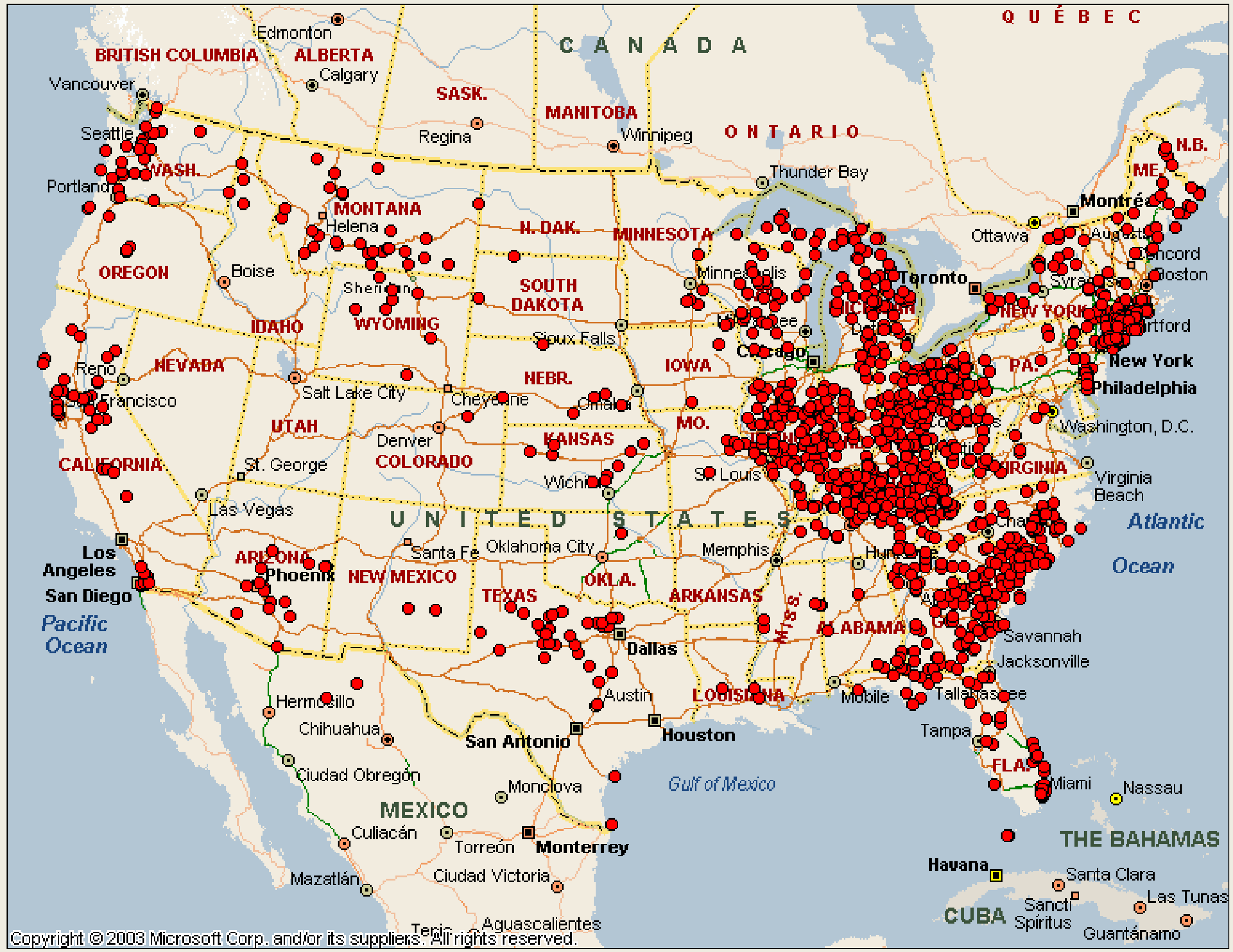


- IGA has operations in more than 36 countries, commonwealths and territories.

Small Store Strategy

U.S. IGA stores

- 1,200 stores
- 12% of U.S. independents
- 1.3% of U.S. industry sales



THE FOOD PARTNERS

Small Store Strategy

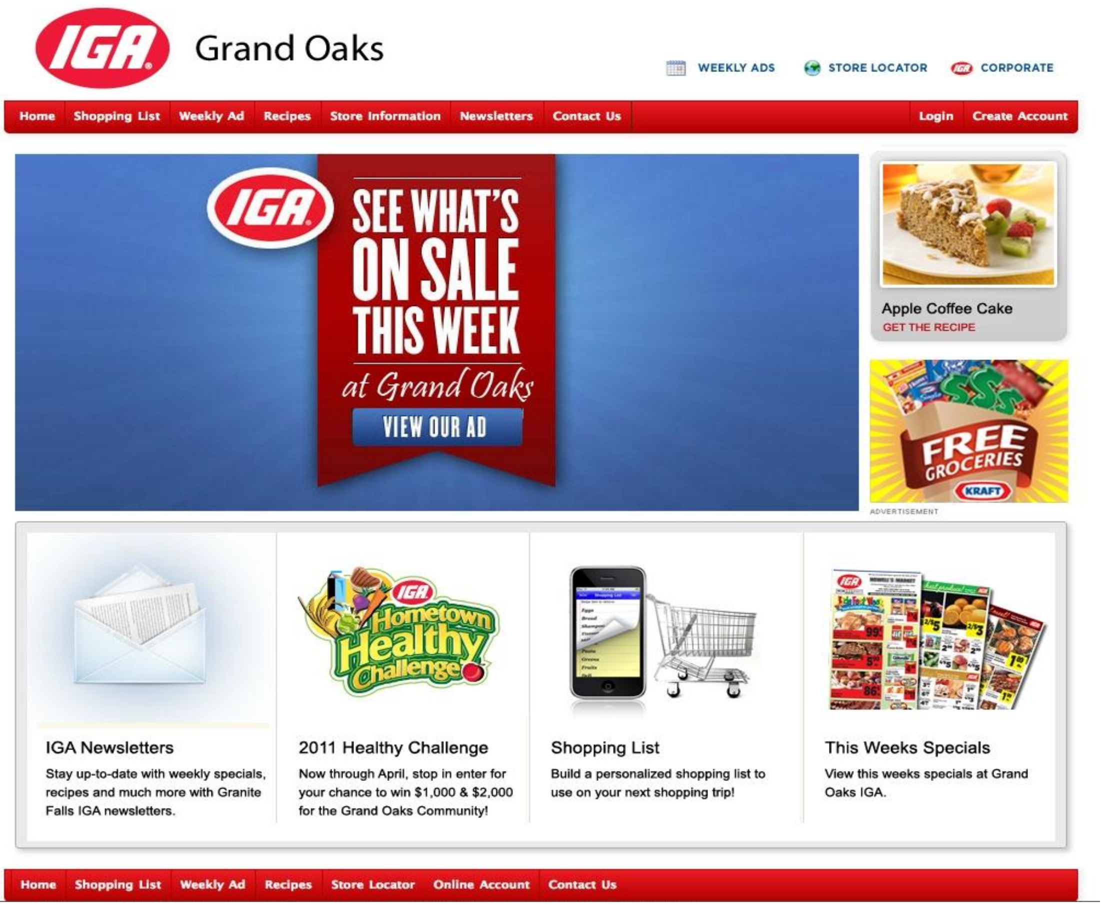
U.S. licensed distribution centers

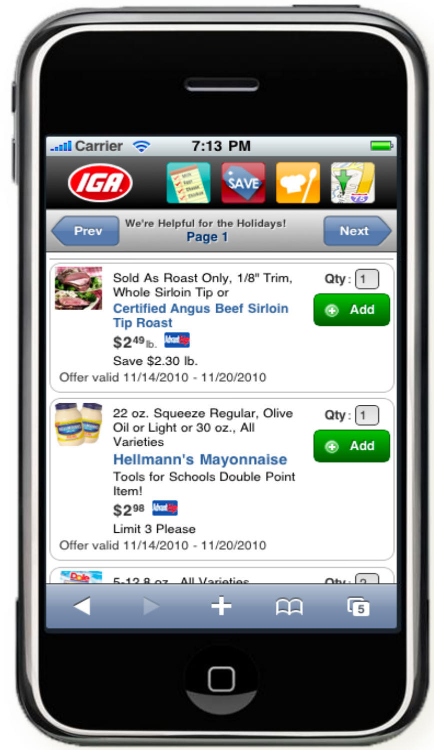
- 13 Licensed Distribution Companies working from 29 distribution centers
- Voluntary: 9
- Coop: 4

Small Store Strategy

What do you get with the IGA link program?

- A powerful, branded Web site





Small Store Strategy

The opportunity

- Wal-Mart has 4,000 stores
- Kroger has 2,445 stores under multiple banners
- IGA has 1,200 stores under a single banner
- There are over 36,000 retail grocery stores in the U.S.
- The top 100 grocery retailers have 22,493 stores
- A substantial number of the remaining 13,500 grocery stores are potential candidates to be converted to the IGA banner
- Both a small store strategy and the IGA banner are two strategies worth considering

Planning For Growth – Current Acquisition Issues

Planning For Growth – Current Acquisition Issues

Assessment of pharmacy departments

- Health care reform will put continued pressure on reducing prescription drug costs
- Reimbursement under Medicare and Medicaid will be reduced
- Managed care programs will continue to reduce pharmacy margins for retailers
- Retailers evaluating acquisition targets are rethinking whether they want to acquire stores with pharmacy departments or continue to operate existing pharmacy's
  - Pharmacists are typically the highest paid employees in a store and difficult to retain
  - Corporate support staff for pharmacy's can be costly
  - Retailers have a more profitable use for the space in their stores
  - Increased competition from traditional drug stores
  - The profits from the profitable stores with pharmacy's are more than offset by those that have a negative contribution
- A number of retailers have elected to divest of their pharmacy departments and reemploy the capital in their operations or making acquisitions
- Drug store chains are actively seeking to buy script files

Planning For Growth – Current Acquisition Issues

Changing the banner

- The current cost to convert the banner of a grocery store ranges from $100,000 to $1 million for signage, rebranding the interior of the store and adding departments to match the acquirer's store format
- Conversion costs negatively impacts projected net cash flow and the valuation of the store for setting purchase price
- Over the last 24 months, retailers that have made acquisitions have had mixed results from the standpoint of retaining existing customers after converting a store banner – customers don't like change in these troubled economic times
- A number of retailers have adopted an acquisition strategy of not converting the banner of a store or making any other material change in the store for a interim period of time
- What is the risk/reward of operating multiple formats and banners?

Planning For Growth – Current Acquisition Issues

Integration plan

- A key driver of making an acquisition is the synergies that can be derived by eliminating corporate overhead
- Retailers have elected not to make an acquisition because of the integration risk
- The key component of making a successful acquisition is executing an integration plan that minimizes disruption at the store level
- A number of factors contribute to a failed integration of stores:
  - The integration plan the retailer developed was flawed
  - The communication of the integration plan to employees was poor
  - Buyers did not conduct sufficient due diligence on information systems and lost control of both the front end systems and financial reporting
  - Buyers executed to convert the primary suppliers of the stores the day of the acquisition
  - Buyers terminated key members of the management team the day of the acquisition
  - Buyers closed the corporate office immediately
- There is a balance between deriving synergies and minimizing integration risk

Planning For Growth – Current Acquisition Issues

Unionized labor

- Independents have fought hard to maintain a non union workforce
- The cost of acquiring a store with unionized labor and converting it to a non union workforce is very costly or virtually impossible
- Many retailers have not made acquisitions that are a perfect fit for their company because they could not overcome acquiring a store with a unionized workforce
- A number of retailers have successfully adopted a double breasted strategy of operating both non union and unionized stores
- There are a number of key issues when considering such a strategy:
  - Can you insulate your existing stores and new stores you open or acquire from being organized
  - What is the cost of union health and welfare benefits and can it be converted to your plan
  - What are the current union pension benefits and underfunding of the defined benefit plans
  - Are union work rules a barrier to achieving productivity at store-level

Planning For Growth – Current Acquisition Issues

Other current acquisition issues

- Buyers projected cash flow is less than the sellers actual cash flow
  - Seller is buying deal merchandise and produce on the street
  - Seller's wage scale is lower and provides no employee benefits
  - Seller does not advertise
- Union pension obligations
  - Many union pension plans are in critical zone
  - Current pension contributions are subject to a surcharge
  - Future pension fund contributions are expected to increase dramatically
  - Benefit accrual levels have been already reduced for new hires and it is not clear when they will be made up
- The acquisition target has a radically different pricing strategy and the net impact on sales and gross margins is not clear
- The seller's store leases contain "go dark", radius restrictions for new stores and other provisions that can not be accepted by a buyer

Looking Forward

Looking Forward

Overview

- Food inflation is only offsetting the decline in case movement for many
- Independent retailers have been reinvested in their stores and paying down debt
- The majority of free cash flow generated by publicly-traded retailers has been spent on remodels or stock repurchase programs rather than organic growth or acquisitions
- The weeding out process of non viable stores is accelerating because retailers are recognizing that the world is not going to get better any time soon
- National and regional retail chains that have unionized labor will prune underperforming stores that do not fit their current format
- The number of negotiated transactions is expected to increase as retailers in a growth mode accelerate looking for acquisitions
- Anticipated changes in the Federal Tax rates will act as a catalyst for many to consider selling
- Overall, the industry is preparing for another round of consolidation based on a disciplined approach to growth

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