

INDEPENDENTS SURVIVED AND THRIVED IN 2012





CURRENT STATUS OF THE INDUSTRY

Current Status of the Industry

The underlying fundamentals are improving

- Overall the world economy is improving
- International Civil unrest will continue to impact capital markets
- The U.S. dependency on imported oil is declining
- The U.S. economy is slowly on the mend
- There is no fiscal cliff, just bad government
- Immigration reform in the U.S. is likely in 2013
- Tax reform is an oxymoron
- There is light at the end of the tunnel and it is not an oncoming train

Current Status of the Industry

Consumer confidence is the catalyst to change

- The U.S. retail grocery sector is stagnate
 - Retailers are facing the reality that the current environment is the “New Normal”
 - Sales are flat
 - Increased promotional spending has had little impact
 - Margins are under pressure
 - Health care costs are rising
- The question is how many consumers will start to trade up and when

Current Status of the Industry

The weeding out process continues

- The number of store closures and divestitures has accelerated during the last twelve months
- Maintaining or increasing market penetration has become secondary to making money
- Tesco's Fresh & Easy format has shown that a highly successful retailer cannot execute a new small store format with unlimited capital
- The jury is out as to whether a “cost plus” format is a viable option for many retailers
- At the distribution level:
 - Wholesalers are focused on reducing the number of deliveries to the backdoor
 - Non-viable distribution centers are closing

Current Status of the Industry

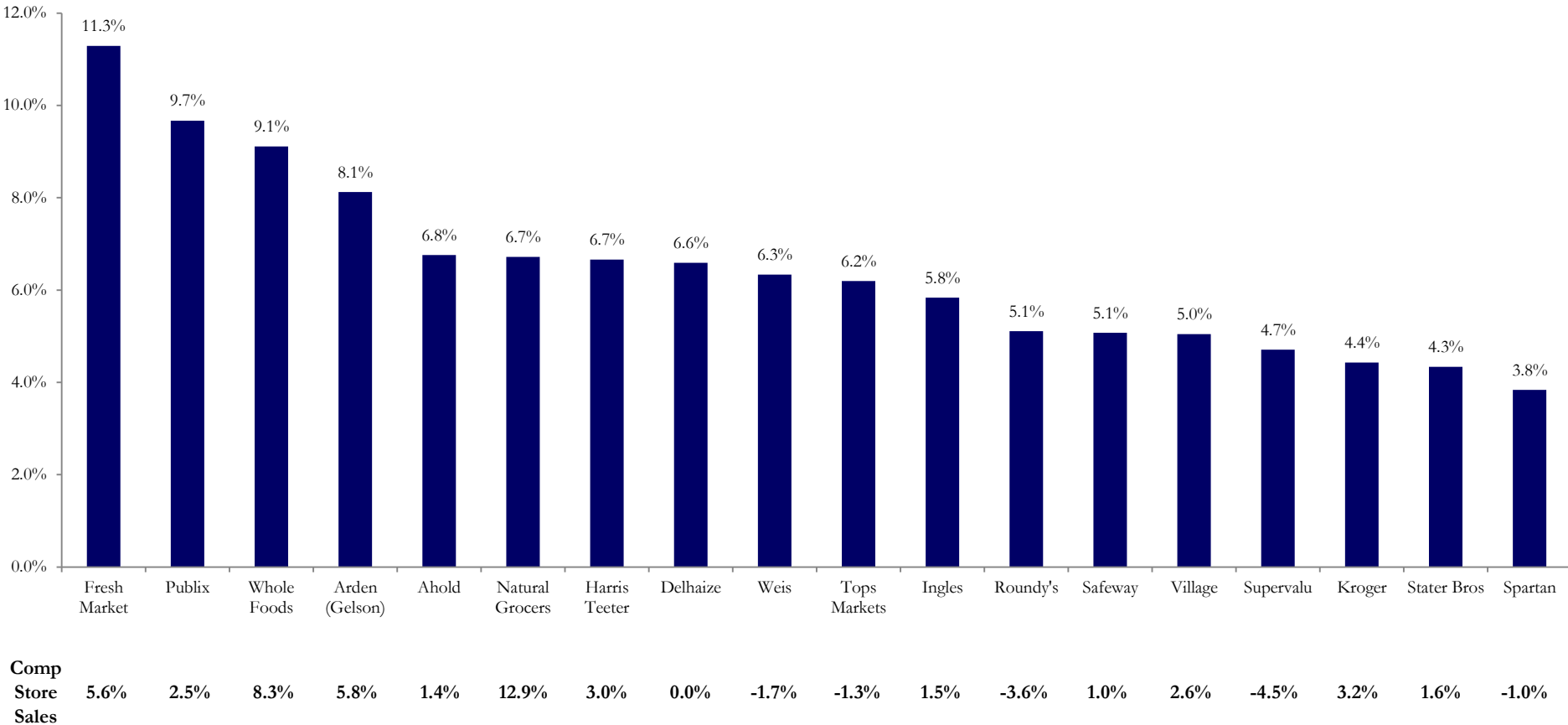
Financial performance

- Traditional supermarket formats without a differentiated market strategy are struggling (eg, A&P, Food Lion, Supervalu)
 - Focused on the bottom line for the last five years
 - Pushed price deck which destroyed pricing integrity with consumers
 - Lost sales momentum
 - The cost of regaining lost customers is high
- Kroger has become the role model for balancing the top and bottom lines
- Retailers have invested in remodels as a defensive strategy to maintain their customer base and strategically to be the last man standing
- The question is whether the remodels will pay dividends as the economy improves

Current Status of the Industry

Financial performance

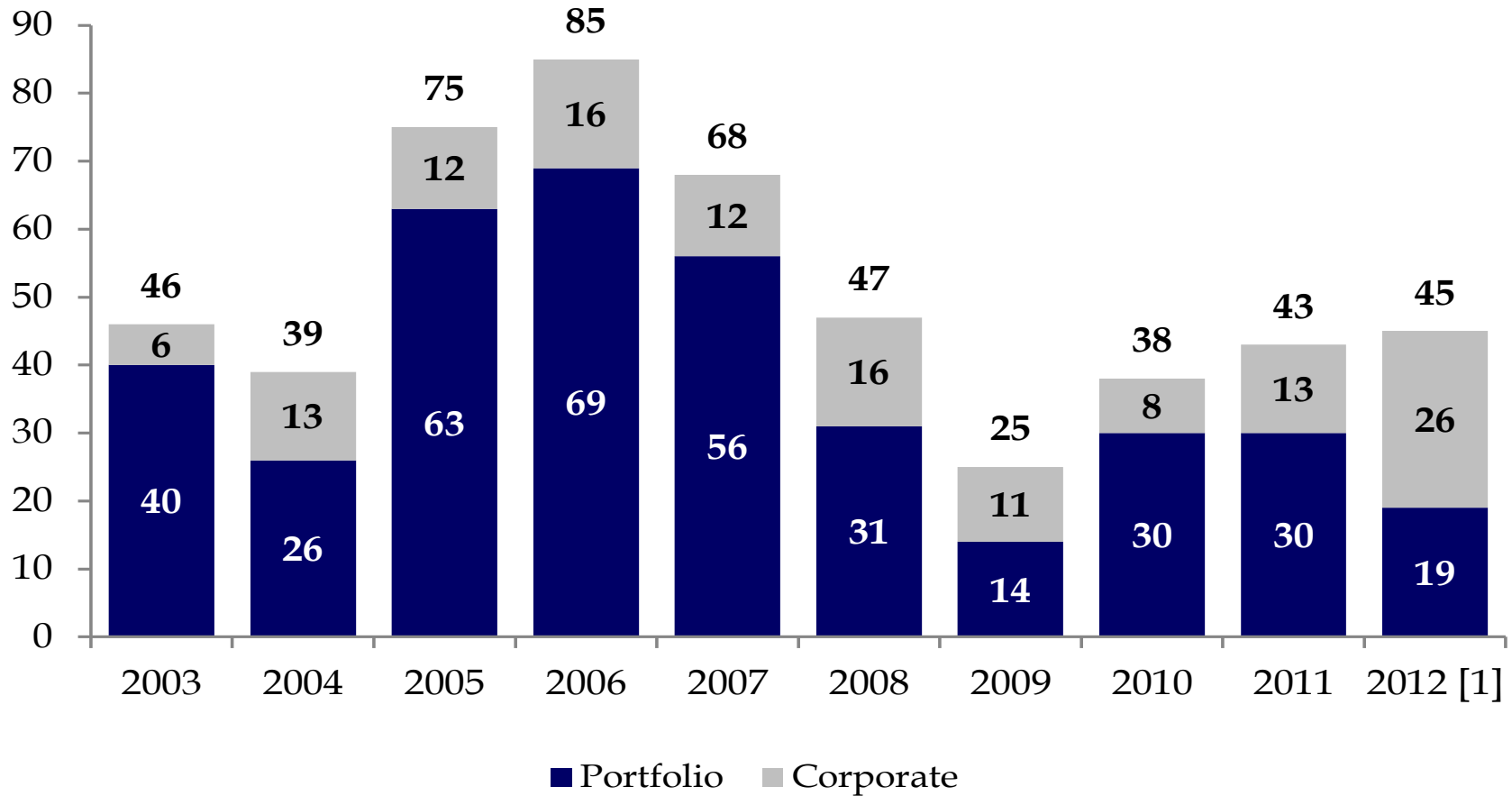
EBITDA Margins



Current Status of the Industry

Mergers and acquisitions

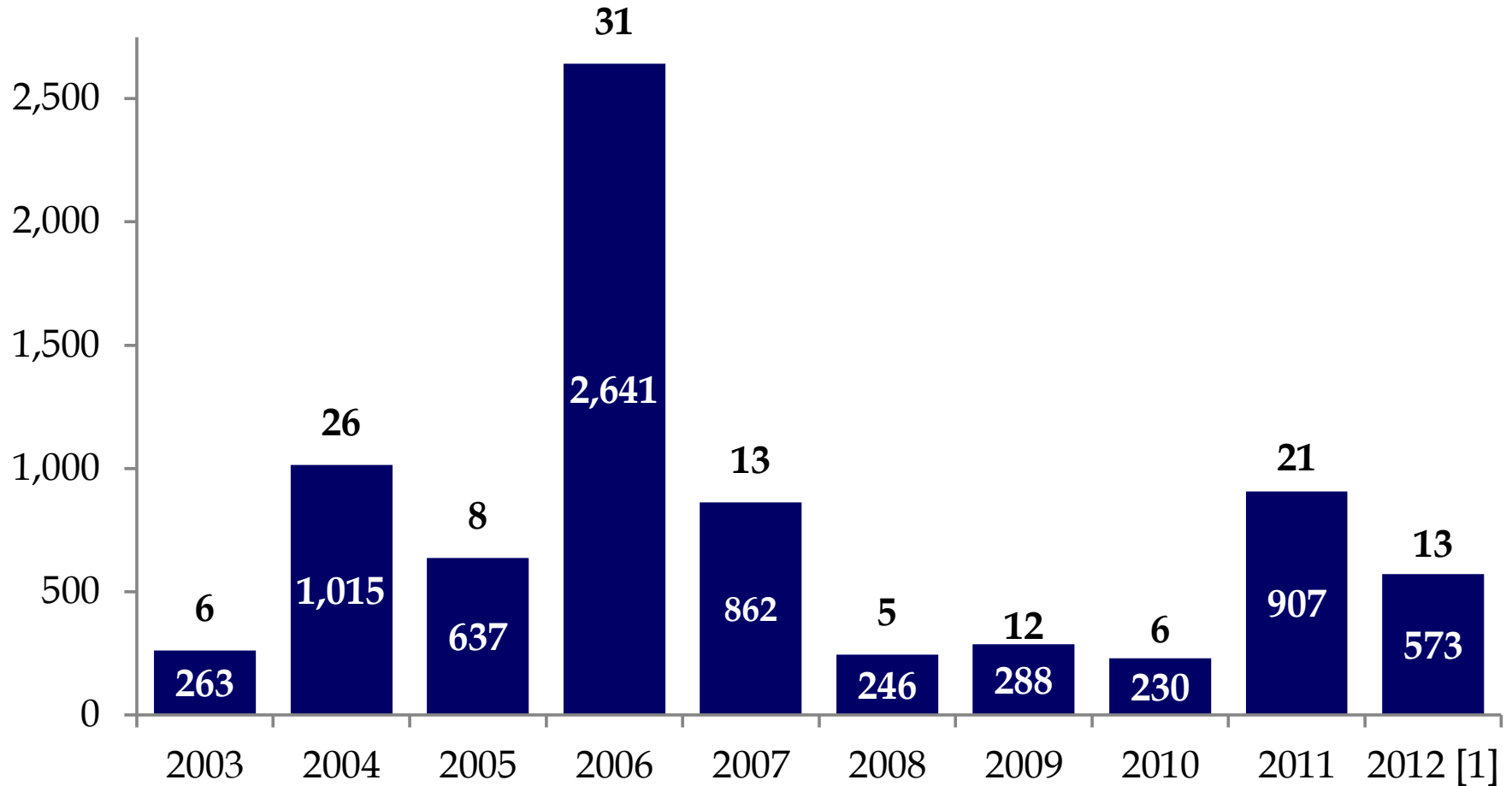
Corporate Versus Portfolio Transactions



Current Status of the Industry

Mergers and acquisitions

Average Number of Stores per Transaction / Number of Stores Sold



Current Status of the Industry

Mergers and acquisitions – looking forward

- Supervalu has divested the Albertsons bannered stores that they could not fix along with the crown Jewel
- The question is whether Supervalu should and will keep the legacy retail banners
- Cerberus will likely:
 - Close underperforming stores
 - Extract the value of the real estate
 - Focus on fixing specific banners
 - Liquidate other banners that have no brand value
 - Pray that the union pension liability declines as the equity market improves and interest rates increase

Current Status of the Industry

Mergers and acquisitions – looking forward

- The number of distressed assets has increased
 - A&P continues to struggle and is selling assets (again)
 - Food Lion announced the closure of 33 Sweetbay stores, which is their second major store closing in the last year
 - Food Lion's Bottom Dollar format hit rock bottom
 - Tesco has announced their plan to exit the U.S., the question is how
 - The number of companies with 5 to 20 stores for sale has increased compared to last year

Current Status of the Industry

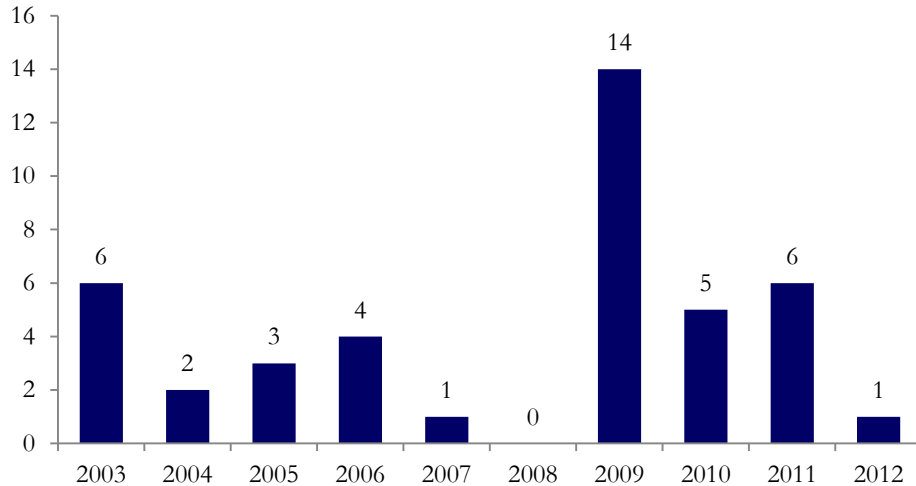
Mergers and acquisitions

- Valuations of conventional supermarket operators and wholesalers remain constant
 - Publicly traded multiples are at an average of 5.3x and 4.8x EBITDA for retailers and wholesalers, respectively, versus 5.6x and 4.8x 3 years ago
- Valuations of premium, natural and organic retailers continue to trade much higher than conventional operators – the question is whether the trading multiples are sustainable
- Retailers that want to grow have access to credit and the low cost of financing should continue for the near term
- The availability of commercial real estate for grocery stores will increase

Current Status of the Industry

Distressed operators

U.S. Supermarket Bankruptcies



Supermarket Bankruptcy Detail (Last 3 Years)

Company	Date Filed	No. of Stores	State Filed	Status
Liborio Market, Inc	4/13/2012	8	CA	Liquidated
Michael's Fresh Market	12/30/2011	7	IL	Bankruptcy
Associated Grocers of Maine, Inc	8/26/2011	n/a	ME	Dismissed
Moo & Oink, Inc	8/24/2011	4	IL	Liquidated
Andronico's Market, Inc	8/22/2011	7	CA	Emerged
A.G. Ferrari Foods	3/30/2011	13	CA	Emerged
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, Inc	11/12/2010	n/a	PR	Emerged
Grand Mart International	10/19/2010	6	MD	Bankruptcy
Supermercado del Pueblo	4/1/2010	4	NV	Unknown
Star Food International Inc	1/5/2010	3	CA	Unknown

- The majority of the recent bankruptcies have been smaller companies
- The recognition of union pension obligations on balance sheets will accelerate the number of bankruptcies
- Trade credit will become more restrictive for those that are financially distressed



GROCER SECTOR ISSUES

Grocer Sector Issues

Industry Issues

- Healthcare reform is a major issue facing retailers today:
 - Impact of incremental healthcare costs potentially reduces companies bottom lines by 1% of sales
 - Competing in bifurcated union/non union markets
 - Balancing full time/part time ratio without compromising service levels
 - Managing labor scheduling by increasing overtime rather than increasing full time head count
 - Realigning overall employee benefits package

Grocer Sector Issues

Food safety

- Food safety is a point of differentiation that should not be overlooked:
 - Consumer awareness is on the rise
 - Ensuring the safety of your customers
 - Communicating with your customers - recall news at the right time to keep them informed
 - Protecting your brand/building your brand
 - Minimizing potential litigation exposure

Grocer Sector Issues

Valuation for estate tax purposes

- The IRS valuation guidelines for estate tax gifting purposes have become more stringent
- To minimize the risk of having a valuation contested by the IRS, the inclusion of factual information on both the grocery sector and local market is required
- The number of valuations for gifting purposes materially increased last year
- Based on the recent action by Congress, the probability of another change to the estate tax structure is highly unlikely
- A review of estate tax plans requires continuous attention

Grocer Sector Issues

Valuation for estate tax purposes

- Key valuation issues that should be addressed before gifting shares:
 - Super majority voting thresholds for material transactions
 - Value of company is based on fair market value of a financial buyer not a strategic buyer
 - Buy/sell agreement provisions
 - First right of refusal
 - Formula based valuation between shareholders
 - Shareholder right to put the shares to the company
 - The form and interest rate of financing for shares repurchased
 - Collateral for and guarantee of stock repurchase loans



LOOKING FORWARD

Looking Forward

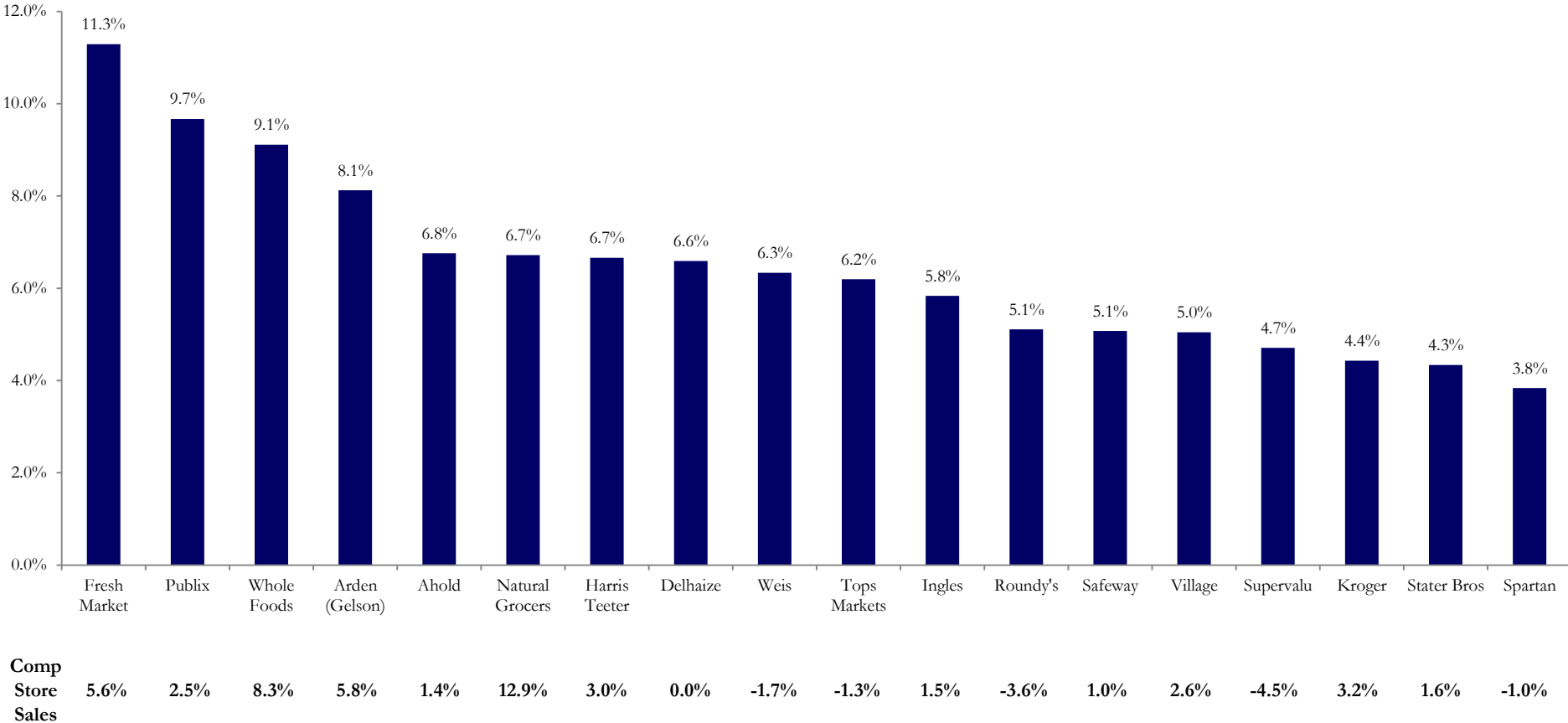
Focus and discipline

- The majority of viable supermarkets divested in the last twenty four months have been acquired by “Super Independents”
- The key ingredient of the success of these Super Independents has been their ability to adapt to individual markets
- In addition to having focused on perimeter departments, the key element of these retailer’s value proposition is “Service”
- The best definition of “Service” for a grocery store is “How you feel when you leave the store”
- Consistently providing Service is the point of differentiation to success
- Service is the key to building ties to the community

Current Status of the Industry

Financial performance

EBITDA Margins





WASHINGTON \ IDAHO \ TEXAS \ WASHINGTON, DC

David Schoeder
(202) 589-0436
dschoeder@thefoodpartners.com

Matthew Morris
(202) 589-0434
msmorris@thefoodpartners.com

www.thefoodpartners.com

James Floyd
(817) 416-7006
jfloyd@thefoodpartners.com

Carlos Garcia
(202) 589-0437
cagarcia@thefoodpartners.com

Douglas Herman
(202) 589-0438
dherman@thefoodpartners.com

Jesica Mitchell
(208) 426-9220
jmitchell@thefoodpartners.com

Jodi Kusak
(425) 453-1341
jkusak@thefoodpartners.com

Maureen Bates
(202) 243-0576
mbates@thefoodpartners.com

5335 Wisconsin Avenue, NW, Suite 410, Washington, DC 20015