



# Mergers & Acquisitions

PRESENTED BY THE FOOD PARTNERS



February 2018





## The Times They Are A Changin'

### Shifting Consumer Tastes and Preferences

- Millennials – the tip of the iceberg
- Healthy meal solutions are finally in vogue
- Consumers are on the move and experimenting
- Consumers are coming out of the closet
- These changes are accelerating with momentum

### The Retail Landscape

- Ecommerce – the evil force that has invaded every market in the U.S.
- Expansion of Dollar store formats taking a small bite at a time
- Retailers have changed what is in the box more in the last twenty four months than in the last ten years

### Year in Review

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- August 2016 – Walmart acquires Jet.com for \$3 billion
- June 16, 2017 - the retail grocery sector was turned upside down when Amazon announced the acquisition of Whole Foods for \$13.4 billion
  - Amazon's acquisition of Whole Foods will have a minimal direct impact at retail, but will be the catalyst to cause radical change in the industry
- September 2017 – Albertsons announces the acquisition of Plated for \$200 million
- June 2017 to January 2018 – Instacart announces that it has partnerships with Aldi, Albertsons, BJ's Market, Costco, CVS, Food Lion, Loblaw, Kroger, Price Chopper, Sprouts, Stater Bros., Wakefern, Wegmans and other retailers
- November 2017 – Instacart secures \$400 million of additional capital to fund growth – the company is valued at \$3.4 billion – workers strike for several days and claim they are making \$1 an hour
- June 2017 – Shipt secures \$40 million of additional capital to fund growth – total invested capital is \$65 million
- June 2017 to January 2018 – Shipt announces that it has partnered with Costco, Dierbergs, HEB, Lidl, Meijer's, Publix, Reasor's and other retailers
- December 2017 – Target announces the acquisition of Shipt for \$550 million

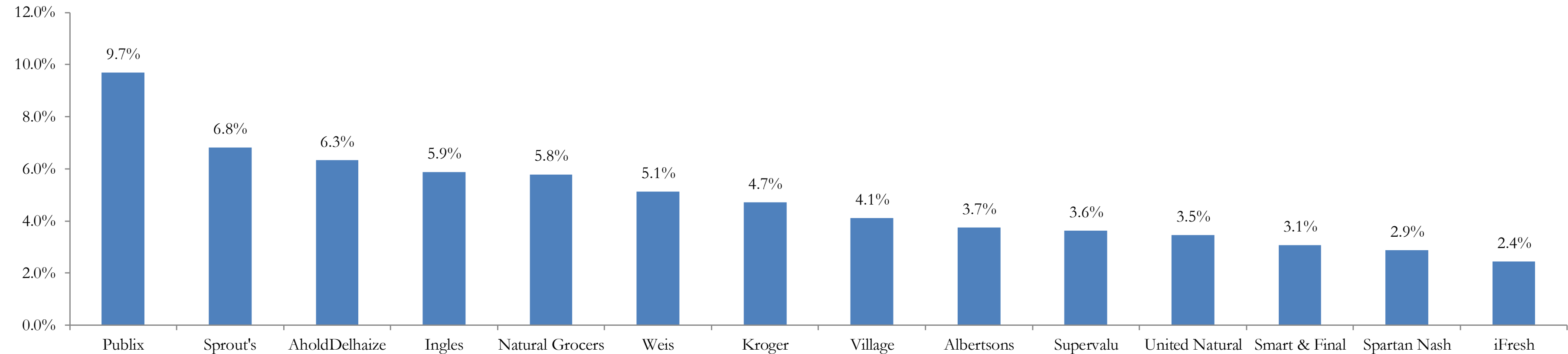
### Year in Review

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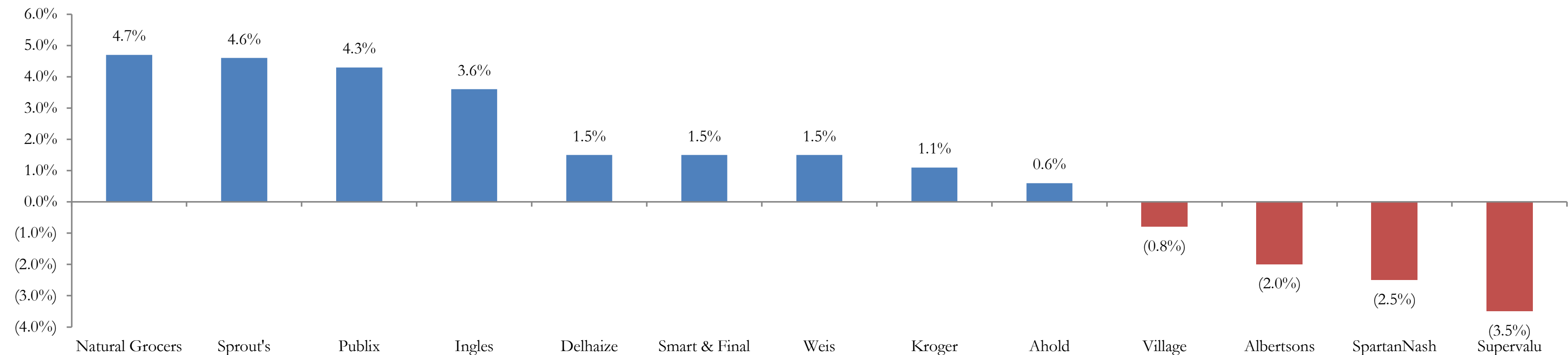
- July 2017 – Blue Apron goes public at \$10 a share and drops to \$3 a share – reduced its work force by 250 people in October 2017 – cash burn is \$130 million annually – reduces “Market Spend” to minimize cash burn which is slowing growth – rumors of a Walmart acquisition
- November 2017 – Hello Fresh, a German-based company, goes public on the European exchanges at €10.25 per share, partly to fund its entry into the U.S. – stock is trading above the initial public price – Hello Fresh expects to have breakeven cash flow by Q3 2018 – annual revenue is \$1.1 billion compared to Blue Apron’s \$840 million
- November 2017 – Ocado announces partnership with Groupe Casino; January 2018 - Ocado announces partnership with Sobeys – they are actively looking for U.S. partners – their core business in the UK is an online retail solution with \$1.63 billion in direct sales and through a partnership with Morrison that increases their penetration to \$2.3 billion – they have positive cash flow from operations
- December 2017 – It is disclosed that Kroger was evaluating acquiring Boxed – offer rejected by Boxed in January 2018
- December 2017 – the only good news for independents in the Southeast and Mid-Atlantic is the admission by Lidl’s senior management that their \$525 million investment in the U.S. is not going as well as planned



### EBITDA Margins



### Comparable Store Sales



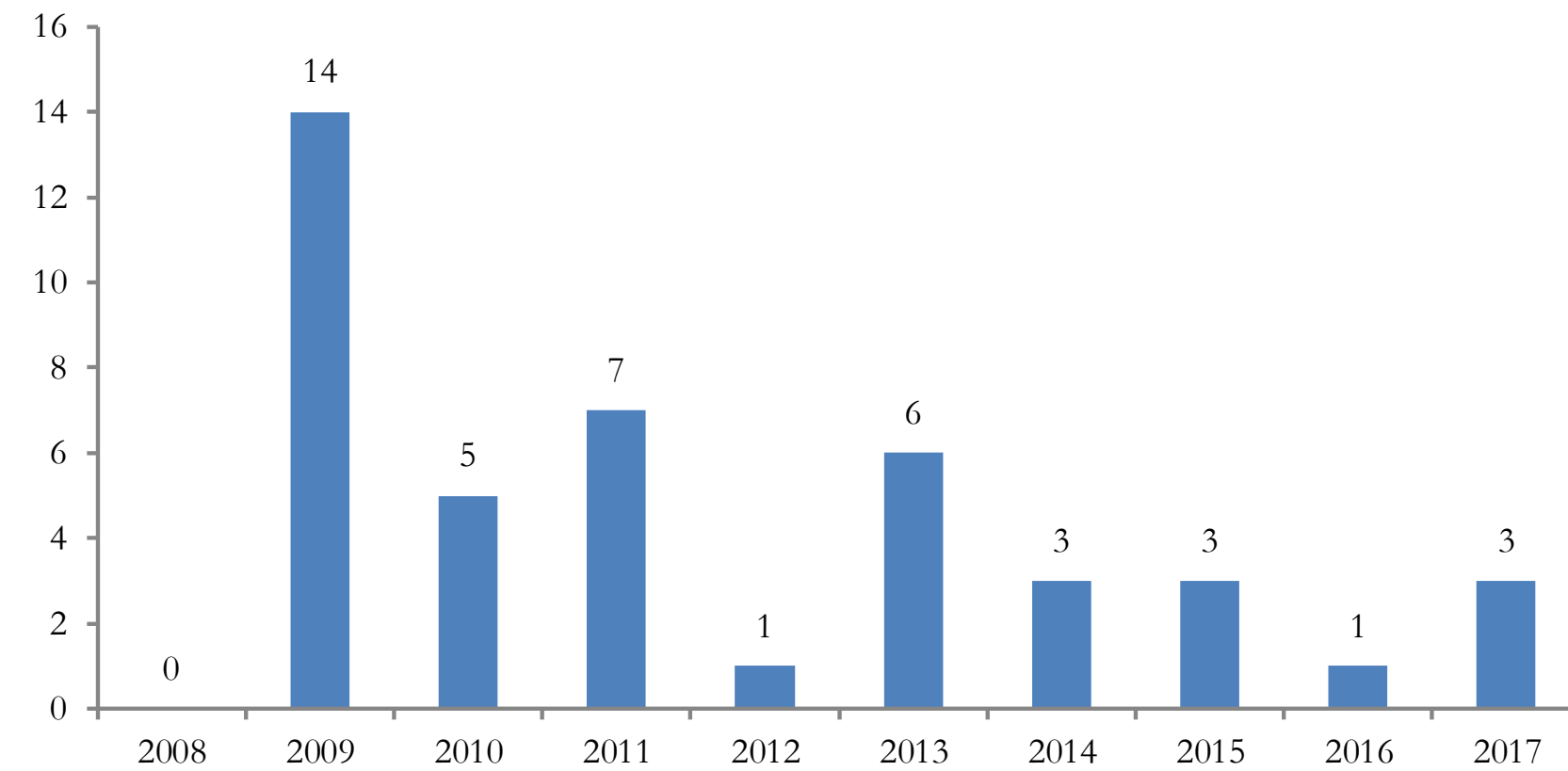
- Source: Capital IQ, company filings  
 - As of 2/1/2018  
 - Comparable store sales for latest quarter over quarter

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

	Conventional								Specialty			
	Average	Ahold Delhaize	Ingles	Kroger	Spartan Nash	Supervalu	Village	Weis	Average	Natural Grocers	Smart & Final	Sprout's
<b>2/1/2018</b>												
Closing Price <sup>[1]</sup>		\$22.46	\$34.69	\$29.11	\$24.91	\$17.13	\$23.31	\$40.48		\$8.44	\$9.18	\$26.33
<b>Enterprise Value / EBITDA</b>	<b>6.1x</b>	<b>7.0x</b>	<b>6.9x</b>	<b>7.1x</b>	<b>6.9x</b>	<b>4.1x</b>	<b>4.5x</b>	<b>6.1x</b>	<b>9.5x</b>	<b>5.6x</b>	<b>9.4x</b>	<b>13.5x</b>
<b>2/1/2017</b>												
Closing Price <sup>[1]</sup>		\$21.10	\$47.16	\$33.65	\$39.02	\$30.10	\$30.28	\$63.21		\$12.90	\$14.59	\$19.33
<b>Enterprise Value / EBITDA</b>	<b>7.5x</b>	<b>6.7x</b>	<b>8.0x</b>	<b>7.8x</b>	<b>9.2x</b>	<b>5.2x</b>	<b>6.0x</b>	<b>9.6x</b>	<b>10.2x</b>	<b>7.9x</b>	<b>12.3x</b>	<b>10.3x</b>
<b>Change</b>												
Closing Price <sup>[1]</sup>		6.4%	(26.5%)	(13.5%)	(36.2%)	(43.1%)	(23.0%)	(35.9%)		(34.6%)	(37.1%)	36.2%
<b>Enterprise Value / EBITDA</b>	<b>(17.9%)</b>	<b>5.6%</b>	<b>(13.9%)</b>	<b>(9.4%)</b>	<b>(25.1%)</b>	<b>(20.7%)</b>	<b>(25.1%)</b>	<b>(36.6%)</b>	<b>(7.3%)</b>	<b>(29.1%)</b>	<b>(23.8%)</b>	<b>31.0%</b>

## 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 19 stores

Supermarket Bankruptcy Detail

Company	Date Filed	No. of Stores	State Filed	Status
Marsh Supermarkets Holding, LLC	5/11/2017	44	DE	Sold
Central Grocers, Inc.	5/2/2017	n/a	IL	Sold
Thorne's Markets	1/20/2017	4	OH	Closed
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

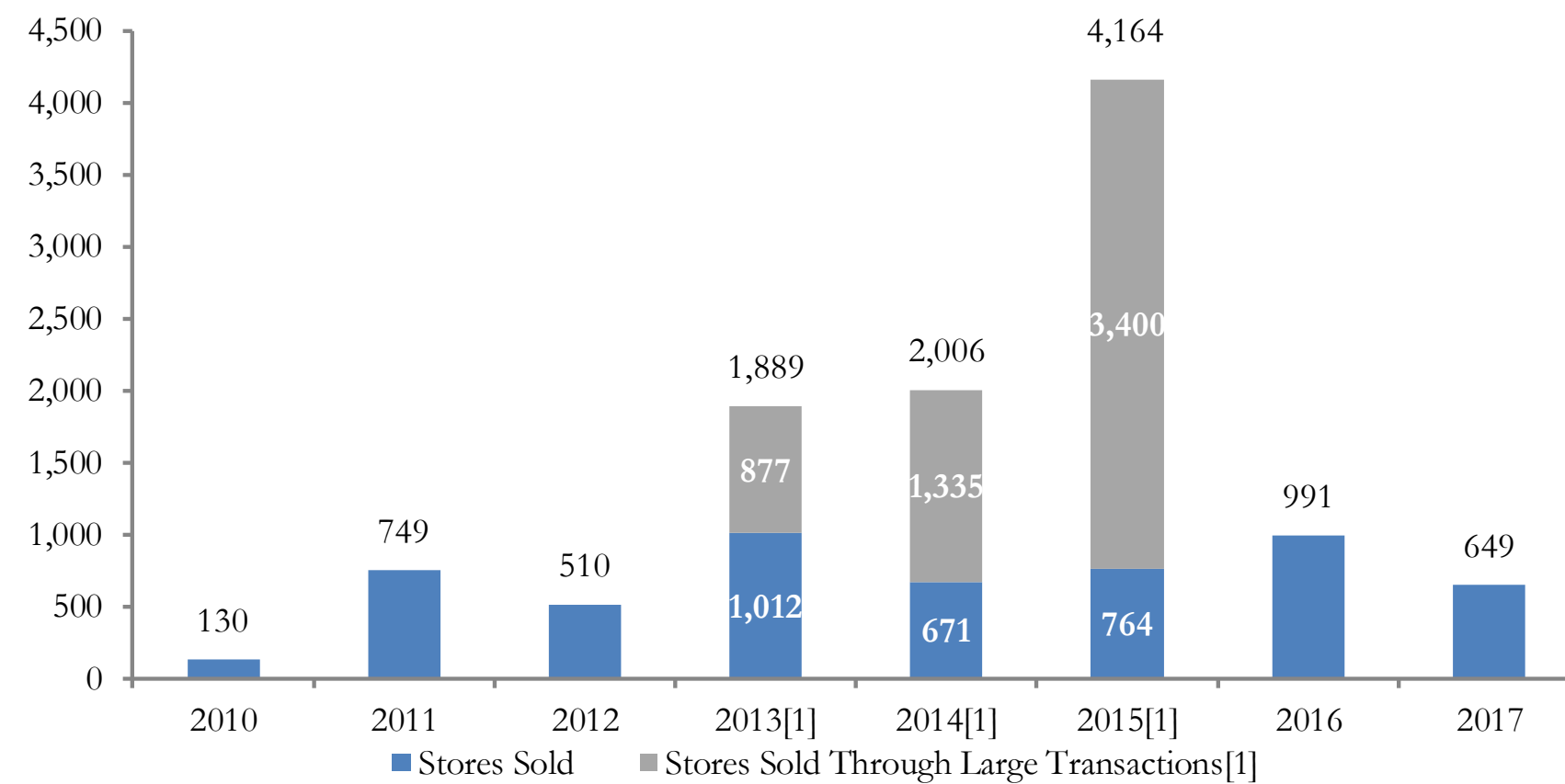


## Transactions

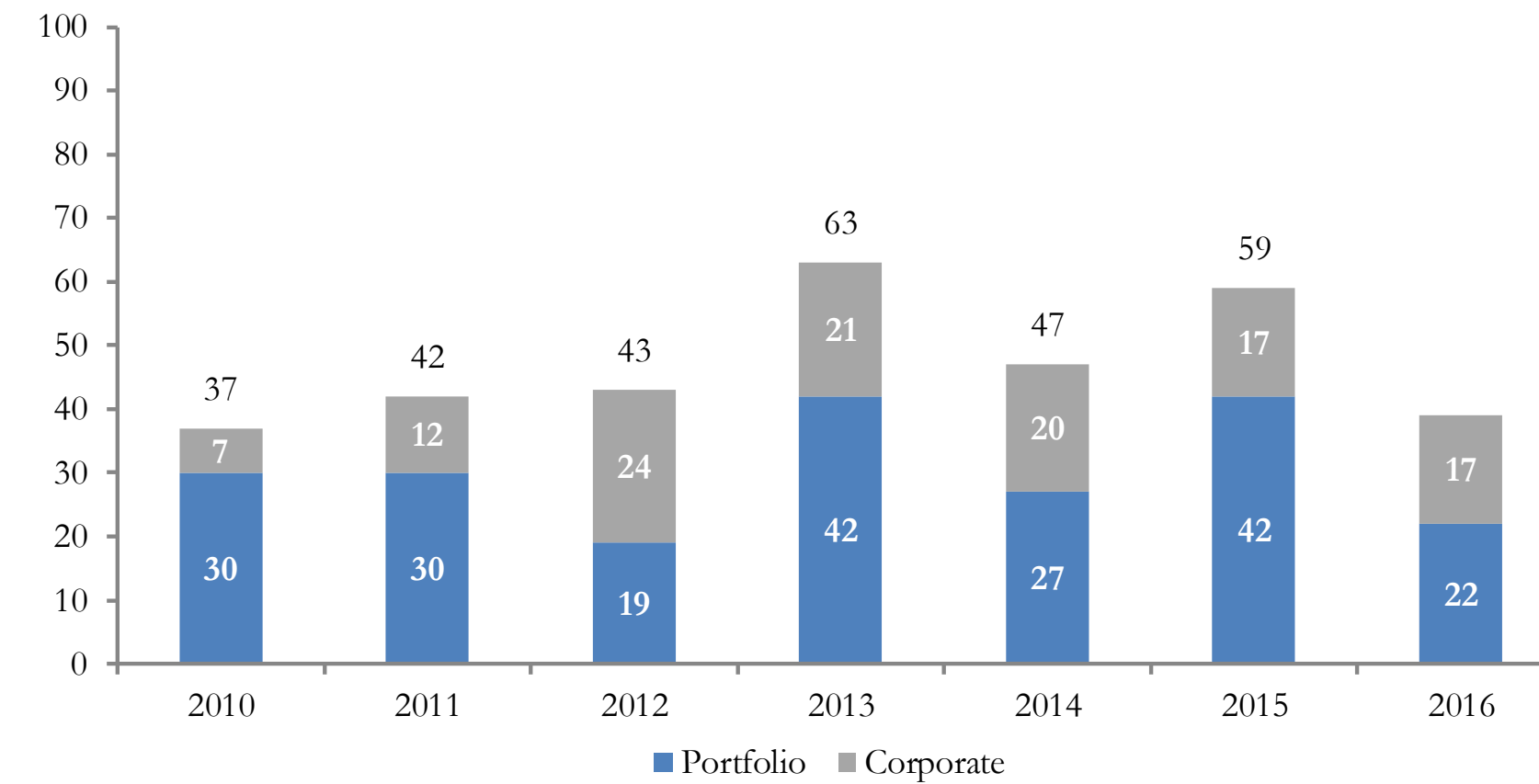
### Mergers and Acquisitions

- The number of stores sold since 2010 have fluctuated between approximately 500 and 1,000 stores annually (after excluding the Albertson's, Safeway and Delhaize acquisitions in 2013, 2014 and 2015, respectively)

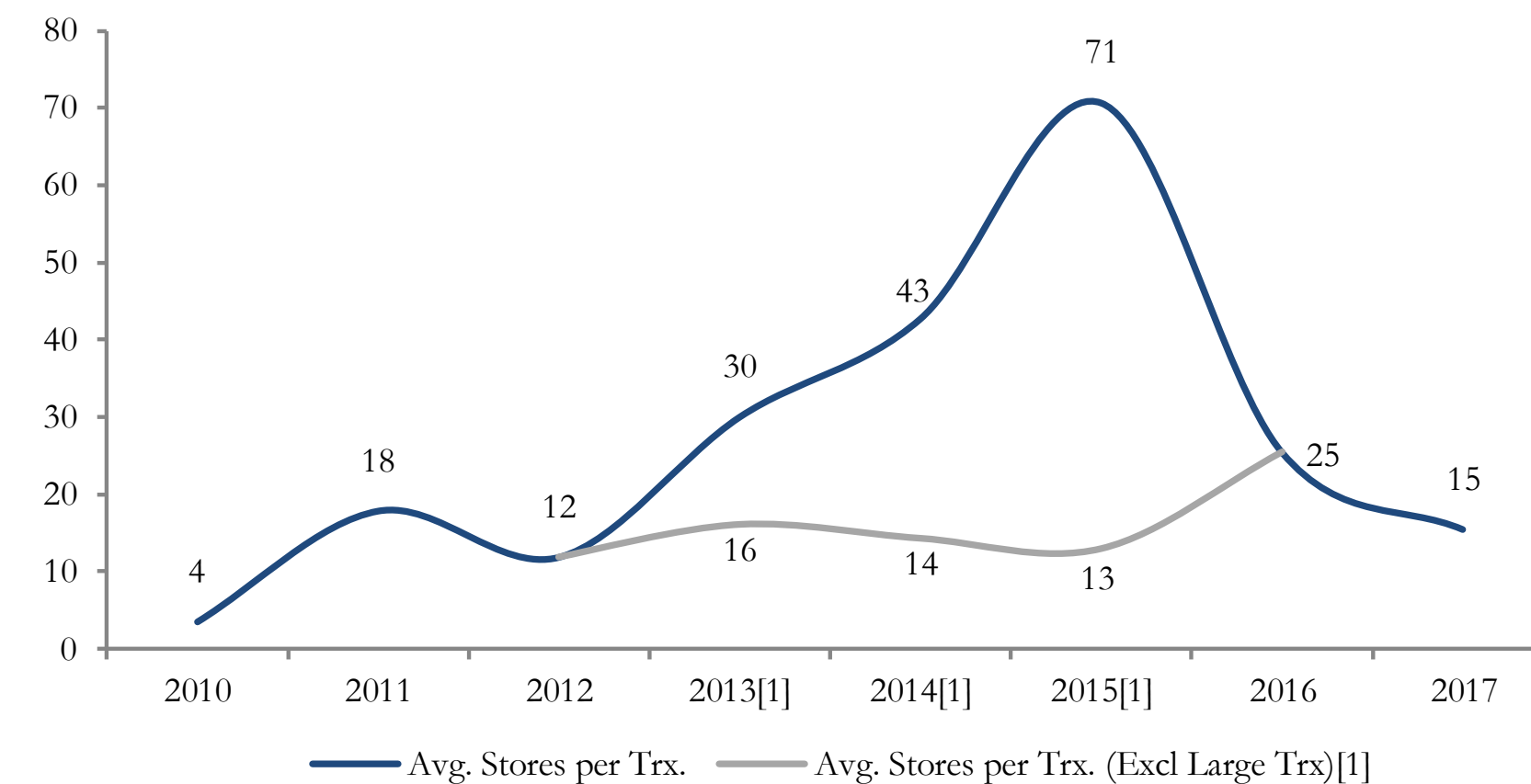
### Stores Sold



### Portfolio Versus Corporate Transactions



### 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

## Mergers and Acquisitions

### Looking Forward at Retail

- Southeast Grocers and Top's Market are under pressure to restructure their overleveraged balance sheets
- Other larger chains are looking to divest of underperforming stores in specific markets
- There is a large group of smaller store chains under financial distress that is not publicly disclosed and that will liquidate in 2018
- In 2018, anticipate 400 to 600 stores will be sold unless a large chain is sold
- Store closures will accelerate and continue into 2019
- There will be more commercial retail space available as other retail channels close stores

### Looking Forward at Distribution

- Wholesale consolidation is accelerating
  - Supervalu acquired Unified and AG of Florida
  - Central Grocers liquidated and AWG primarily benefited
  - Produce distributors quietly consolidating or closing their doors
  - Self distributing chains will be looking to realign their distribution network
- Substantial investment is required to automate distribution centers for all to take costs out of the supply chain

## Defining a strategy for independent retailers going forward

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- Investing gross margin to maintain or grow top line sales has proven to not be successful the last twenty four months – the loss of sales is not being taken by a traditional competitor based solely on price
- Investment in remodels have not proven to produce a material bump in sales for many retailers – where do we go from here?
- Interest rates remain relatively low – growing store count for many has provided the opportunity to spread fixed overhead and maintain EBITDA – the downside is that return on investment is lower
- Unless you are one of the few independents that are achieving increased sales comps, retailers are attempting to change out what they sell in the box to maintain profitability
- Other retailers are evaluating how they allocate space in the box – it should come as no surprise that Kroger is looking at Ace Hardware to fill their larger boxes
- It makes no sense to have consumers believe that they need FedEx delivered meal solutions



## Defining a strategy for independent retailers for E-Commerce

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- For most independent retailers that are offering e-commerce solutions their goal is to keep the sales in store and continue to be the primary shop for a consumer – the question is whether sales will be profitable
- The definition of crowdsourcing is “the practice of obtaining information or input into a task or project by enlisting the services of a large number of people, either paid or unpaid, typically via the internet”
- Crowdsourcing will drive e-commerce providers to be transparent about pricing as they experiment and become educated
- It is extremely difficult to have online pricing match in-store pricing if a retailer has zone pricing
- Will it make sense to pick an order in the store in the future?
- Does it make sense to deliver the last mile?
- Does it make sense to charge the actual cost of delivering the last mile?

## Quotes of the Year

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- We will turn the stores around by next quarter?
- Everyday when I go to work I question why I am making Instacart successful at my own expense?
- I have no problem with the increase in the minimum wage, I do have an issue with the fact we can't hire qualified staff today
- I would rather have a store that is too small so I will constantly challenge myself to figure out what to put on the shelves compared to having too large of a store that I fill up for no rhyme or reason
- The biggest challenge with my management team is keeping them from getting too comfortable in their offices and not spending more time out in the stores on the battlefield

**The Food Partners, LLC**

7200 Wisconsin Avenue, Suite 312  
Bethesda, MD 20814  
www.thefoodpartners.com

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**David W. Schoeder**

*Principal*

(202) 589-0436

dschoeder@thefoodpartners.com

**Matthew S. Morris**

*Principal*

(202) 589-0434

msmorris@thefoodpartners.com

**James C. Floyd**

*Principal*

(817) 416-7009

jfloyd@thefoodpartners.com

**Douglas A. Herman**

*Director*

(202) 589-0438

dherman@thefoodpartners.com

**Carlos A. Garcia**

*Director*

(202) 253-3999

cagarcia@thefoodpartners.com

**Jesica A. Mitchell**

*Director*

(208) 426-9220

jmitchell@thefoodpartners.com

**Maureen B. Bates**

*Operations*

(202) 640-4906

mbates@thefoodpartners.com