



Grocery Retail Industry

ANNUAL INDUSTRY UPDATE | 2022





IN THIS EDITION

- Insights and Observations
- U.S. Macroeconomic Trends
- Industry Dynamics Propelling Growth
- Public Market Update and Performance
- Global 2022 M&A Highlights
- Practice Overview

Insights and Observations

Stout is pleased to present our Annual 2022 Grocery Retail Industry Update. Through our team's ongoing dialogue with leading market participants, highly relevant and recent transaction experience, and analysis of key trends and broader market health, we have summarized a few takeaways below followed by an in-depth discussion of industry trends, drivers of value, public market performance, and recent M&A activity. Highlights include:

- ❖ Strong M&A activity was seen in the grocery retail market, supported by the announced mega-merger of Kroger (NYSE:KR) and Albertsons (NYSE:ACI); select banners will certainly need to be divested, which will drive potential expansion for large regional operators and opportunistic private equity firms that remain interested in the space
- ❖ Rising inflation increased consumers' interest in lower-priced offerings such as canned and frozen fruit compared to fresh and organic options, as well as private-label brands
- ❖ Operators remained focused on labor cost savings initiatives to support margins
- ❖ Positive momentum is expected to continue in 2023 as large national and regional operators and financial investors have ample pent-up capital ready to be deployed coupled with renewed sector interest, driven by industry dynamics and potential recession-related threats and challenges

We hope that you find this report helpful and that it serves as a valuable resource to you in staying up to date on the market. We encourage you to contact us directly if you would like to discuss, in greater detail, our perspectives on current market trends, potential M&A opportunities, or our relevant advisory experience.

Insights and Observations (cont.)

Grocery retail as a category offers numerous attractive characteristics that tend to garner interest from investors during times of choppy economic growth. Well-capitalized operators that embrace ongoing market trends can capture incremental share by acquiring more banners and expanding into new geographies.

Economic Conditions Keep Operators Focused on Driving Efficiencies



Position Offering to Meet Changing Consumer Demand

- ❖ Shifting consumer demands create the need for grocery retailers to adapt offerings
- ❖ Private label offerings typically generate higher margins for retailers and allow for a differentiated product set while simultaneously appealing to cost-conscious consumers
- ❖ Normalization of SNAP benefits will impact the most vulnerable consumer segment



Focus on Labor Cost Management

- ❖ Rising labor rates have led grocery retailers to explore a variety of potential cost-saving investment opportunities. Such investments range from self-service checkout lanes to biometrically based, fully automated cashier-less stores



Local Sourcing Strategies Supporting Corporate Sustainability Efforts

- ❖ Corporate environmental sustainability goals are prompting grocery retailers to diversify sourcing efforts with local products that are often perceived to be fresher and more premium by consumers



Implementation of Tactics to Drive Foot Traffic to Most Profitable Departments

- ❖ Grocery retailers continue to tweak store layouts and offerings to promote positive and differentiated shopping experiences; such efforts include investments in prepared foods, supplements, and personal care products



Lasting Impact of COVID-19

- ❖ Consistent and persistent supply chain disruptions due to supplier SKU rationalization and overall labor shortages
- ❖ Reduced staffing across store footprints, primarily within specialty offerings (e.g., deli)



Emergence of In-Store Food Technology

- ❖ Accelerating use of buy-online, pick-up in store (“BOPIS”) and home delivery technologies and partnerships (e.g., Uber, Instacart)

U.S. Macroeconomic Backdrop

U.S. Economy Continues to Grapple With Modest GDP Growth, Stagnant Consumer Confidence, and Reduced Purchasing Power

The grocery retail industry is generally less susceptible to economic cycles and tends to perform consistently in periods of volatility.

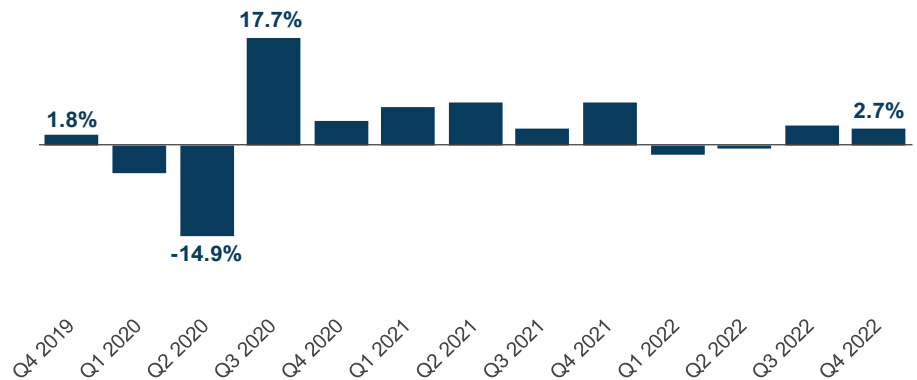
In Q2 2022, U.S. inflation registered its highest reading in nearly four decades as pandemic-related supply chain shortages, along with government stimulus checks, increased prices dramatically. Q3 and Q4 2022 marked a return to normal as annualized inflation dropped below 4%.

Consumer confidence has decreased nearly 20% from the 10-year high in Q4 2018. However, normalized but slowing inflation levels have allowed consumer confidence to increase during the second half of 2022 when compared to the first two quarters.

Unemployment levels remain, remarkably, at near-record lows.

Real U.S. Quarterly GDP Growth

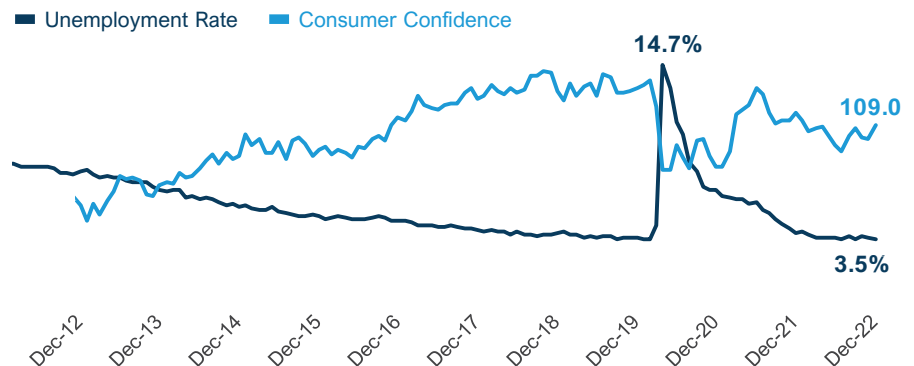
(Annualized quarterly percentage change)



Source: U.S. Bureau of Economic Analysis

U.S. Unemployment Rate and Consumer Confidence

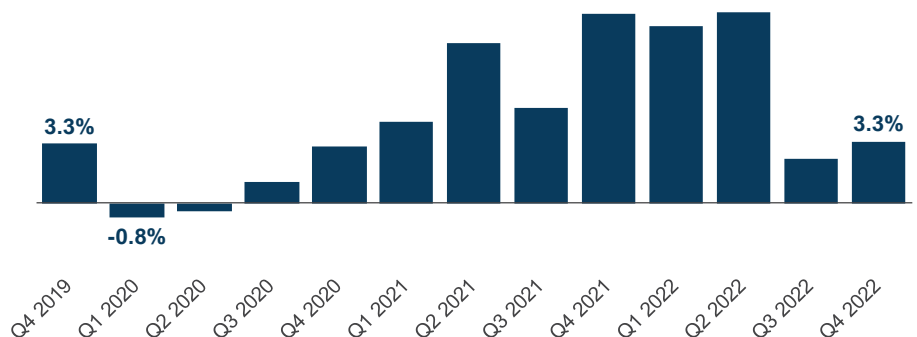
(Percentage of unemployed persons in U.S. labor force; index of consumer sentiment)



Source: University of Michigan Consumer Confidence Report, U.S. Bureau of Labor Statistics

Real U.S. Inflation Rates

(Annualized quarterly percentage rate)



Source: U.S. Bureau of Economic Analysis

Grocery Retail Industry Backdrop

Multiple Tailwinds Driving Growth and Differentiation in the Grocery Retail Industry

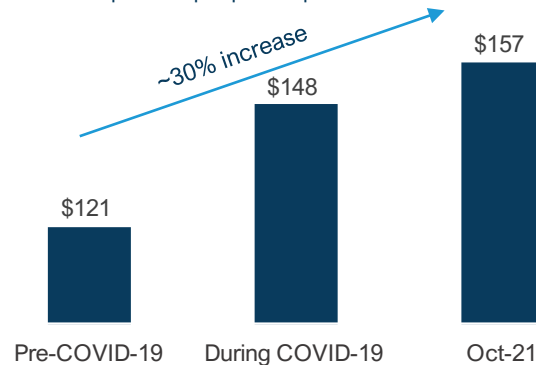
The increase in government aid from the Supplemental Nutrition Assistance Program (SNAP) represents a ~\$20 billion increase annually and has strongly benefited grocery retailers, but there is an expected return to normal benefit levels in early 2023.

Significant inflation increases have driven consumers to purchase less expensive food options such as canned and frozen produce rather than more expensive organic and fresh options. According to an FMI study, one quarter of shoppers are purchasing cheaper fresh produce options in light of inflation.

Private-label brands have seen a significant spike in consumer interest as shoppers' endeavor to stretch their grocery dollars further to save amid higher prices. This trend is likely to continue as nearly 77% of consumers who are already purchasing these products expect to purchase more in the future, according to FMI.

Government Aid (SNAP) Poised to Drive Demand

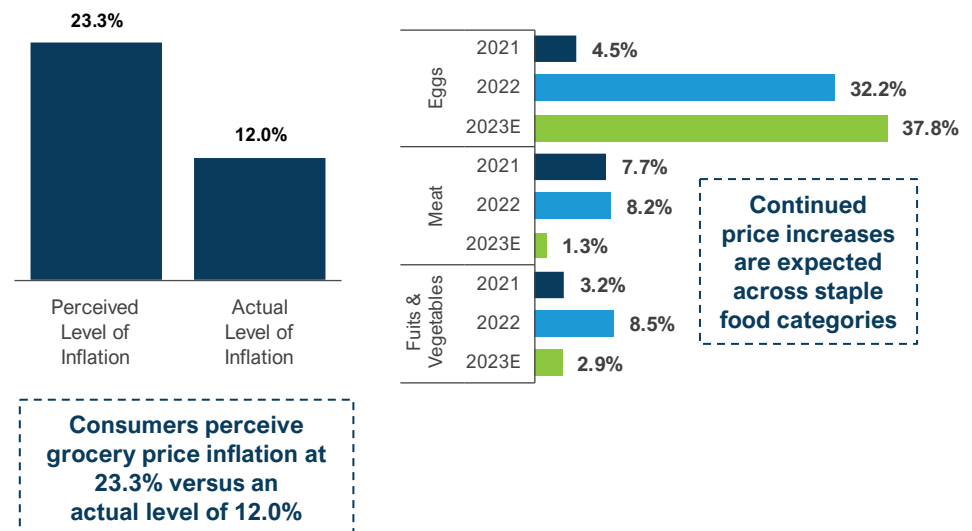
■ Food Stamp Funds per person per month



Source: USDA

Nationwide reductions to SNAP benefits are expected to be implemented in early 2023 – posing challenges for grocery retailers and consumers as inflation persists.

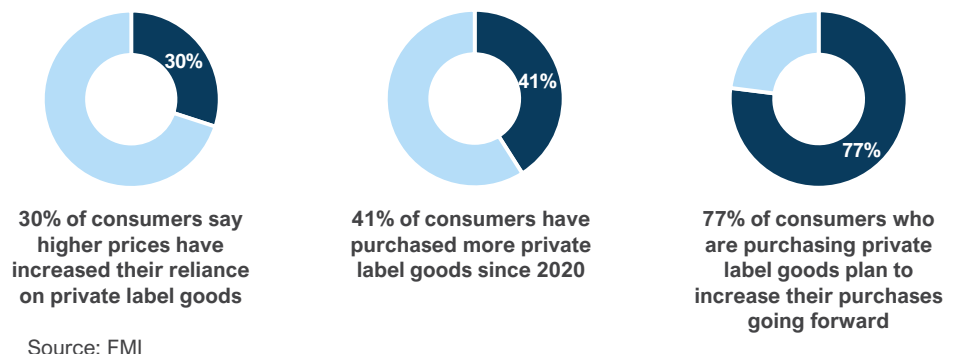
Inflation Expectations & Consumer Price History and Forecast Remain Volatile



Source: FMI

Continued price increases are expected across staple food categories

Consumer Interest and Perception in Private-Label Brands Continues Increasing



Source: FMI

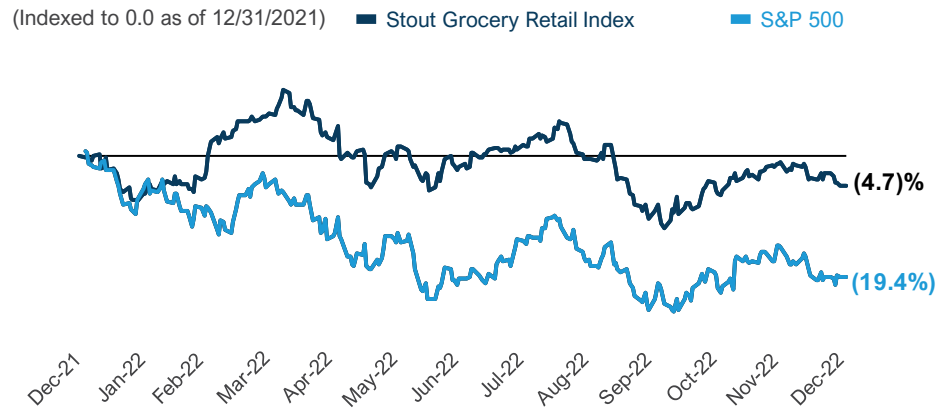
Public Markets Performance

Publicly Traded Grocery Retailers Have Fared Well Despite Broader Market Headwinds

U.S. public equities have experienced a major pullback during 2022. Interest rate hikes, rising inflation, and geopolitical tension are among the major factors impacting the overall market.

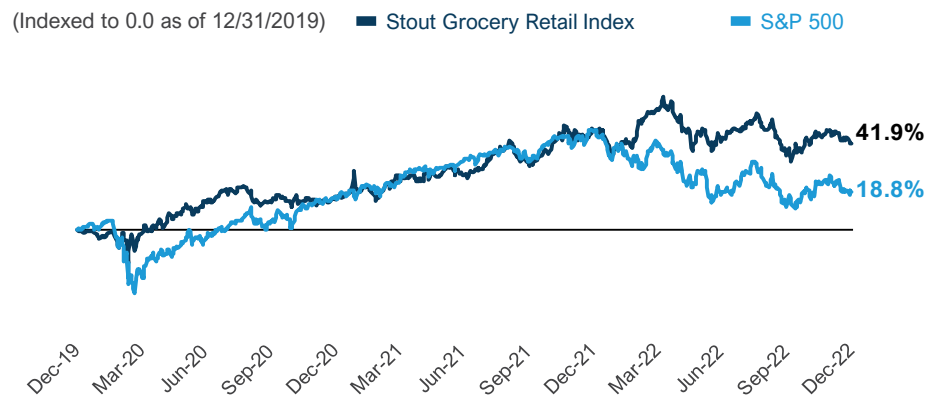
The Stout grocery retail index is a market cap-weighted composite stock index comprised of top public companies across the vertical. Since December 2019, the Stout grocery retail index has greatly outperformed the S&P 500, up 41.9% in the three years to December 2022, compared to 18.8% for the S&P 500 Index.

Indexed Stock Price Performance — Last 12 Months



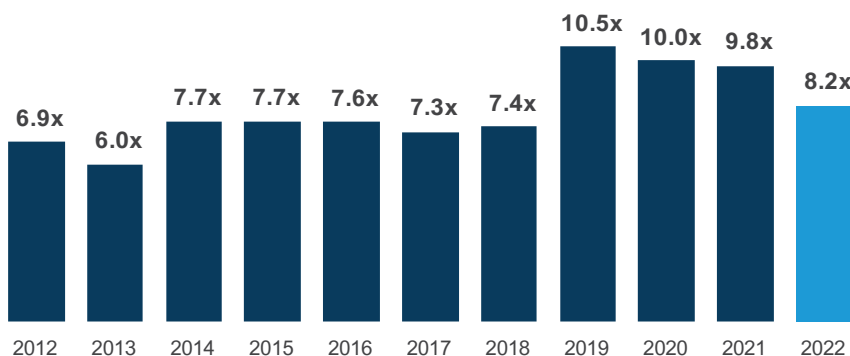
Source: S&P Capital IQ, Stout Proprietary Index

Indexed Stock Price Performance — Last Three Years



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples



Source: S&P Capital IQ, Stout Proprietary Index

Public valuation multiples in grocery retail have exhibited a trend of stabilization after significant expansion, starting in 2019. The median EV/LTM EBITDA multiple for the Stout Grocery Retail index was 8.2x as of YE2022.

Public Markets Performance (cont.)

Stout Grocery Retail Index Stock Performance Data

Company Name	Ticker	Share Price		Ent. Value	Revenue	EBITDA Margin	EV / Rev		EV / EBITDA ¹	
		12/31/22	% 52 High				LTM		LTM	NTM
Albertsons Companies, Inc.	NYSE:ACI	\$20.74	54.6%	\$22,468	\$76,768	5.7%	0.3x		5.1x	4.9x
BJ's Wholesale Club Holdings, Inc.	NYSE:BJ	66.16	82.3	12,105	18,743	4.9	0.6		13.3	11.2
Coles Group Limited	ASX:COL	11.36	85.1	20,382	25,864	5.9	0.8		13.3	8.6
Grocery Outlet Holding Corp.	NasdaqGS:GO	29.19	63.0	4,189	3,578	4.8	1.2		24.2	17.7
J Sainsbury plc	LSE:SBRY	2.62	71.7	13,398	34,927	5.3	0.4		7.2	5.1
Koninklijke Ahold Delhaize N.V.	ENXTAM:AD	28.68	85.6	44,110	82,146	6.5	0.5		8.2	5.9
Loblaw Companies Limited	TSX:L	88.46	94.8	40,622	41,749	8.5	1.0		11.5	8.6
Metro Inc.	TSX:MRU	55.39	95.0	16,179	14,053	8.7	1.2		13.3	11.0
Sprouts Farmers Market, Inc.	NasdaqGS:SFM	32.37	91.6	4,625	6,320	7.6	0.7		9.6	9.4
The Kroger Co.	NYSE:KR	44.58	71.0	51,472	146,484	5.1	0.4		6.9	6.5
Village Super Market, Inc.	NasdaqGS:VLGE.A	23.29	92.8	624	2,087	3.8	0.3		8.0	N/A
Weis Markets, Inc.	NYSE:WMK	82.29	86.1	2,055	4,696	5.6	0.4		7.9	N/A
Woolworths Group Limited	ASX:WOW	22.81	84.7	37,520	39,612	16.6	0.9		5.7	9.9
Median			85.1%	\$16,179	\$25,864	5.7%	0.6x		8.2x	8.6x
Mean			81.4%	\$20,750	\$38,233	6.8%	0.7x		10.3x	9.0x

(1) Per CapitalIQ, Multiple Includes Lease Adjustment for EBITDA

Note: \$ in millions, except share price; Enterprise Value ("EV") equals Market Value plus straight/convertible debt, preferred stock, minority interest, less cash and short-term investments

Source: S&P Capital IQ as of 12/31/2022

M&A Transaction Highlights

Date	Target (Seller)	Acquiror (Ownership)	Business Description
12/13/22	Rowe's IGA Supermarket	Massy Stores (USA) LLC	Operates as a supermarket chain in the Jacksonville, Florida, region
10/24/22	Pride Convenience Holdings, LLC	GPM Investments, LLC	Operates convenience stores in the Northeast, with many large format stores
10/14/22	Albertsons Companies, Inc. (NYSE:ACI)	The Kroger Co. (NYSE:KR)	Major grocery retail conglomerate operating under multiple banners
9/21/22	Eataly SpA	Investindustrial	Owns and operates grocery retail and dining centers in 15+ countries globally
7/14/22	Numero Uno Market, Inc.	Super Center Concepts, Inc.	Owns and operates a chain of supermarkets in the Los Angeles, California, area
6/13/22	Cardenas Markets, Inc. (KKR & Co.)	Apollo Global Management, Inc. (NYSE:APO)	Owns and operates a chain of supermarkets in the United States, Mexico, and Central and South America
6/13/22	Missoula Fresh Market (Private)	Yoke's Foods, Inc.	Offers fresh produce, bakery, coffee, meat and deli, wine and beer, floral, pharmacy, and fuel
6/10/22	Rio Ranch Markets (Diamond State Ventures)	Cardenas Markets, Inc.	Owns and operates a chain of supermarkets in Southern California
5/11/22	The Fresh Market, Inc. (Private)	Cencosud S.A. (SNSE:CENCOSUD)	Operates as a specialty grocery retailer in the United States
4/28/22	Shop-N-Save, Inc. (Private)	SpartanNash Company (NasdaqGS:SPTN)	Supermarket chain based in Northern Michigan
4/20/22	Tony's Fresh Market, Inc. (Private)	Apollo Global Management, Inc. (NYSE:APO)	Owns and operates a chain of grocery stores
3/28/22	The Save Mart Companies, Inc. (Private)	Kingswood Capital Management, L.P.	Owns and operates a chain of grocery stores in California and Nevada
3/18/22	Three Bears Alaska Inc. (Private)	Westward Partners, LLC	Operates grocery stores in Alaska and Montana
3/8/22	Casino, Guichard-Perrachon S.A. (ENXTPA:CO)	Vesa Equity Investment S.a R.L.	Operates as a food retailer in France and internationally
3/1/22	Mestdagh SA	Intermarché SAS	Owns and operates a chain of grocery stores and supermarkets in Belgium
1/26/22	A-F County Market (Private)	Medford Cooperative, Inc.	Grocery store based in Adams, Wisconsin

Source: S&P Capital IQ, Stout Proprietary Database

Recent Stout Transaction Case Study



Stout Advises Tony's Fresh Market on Sale to Apollo Global Management

CLIENT PROFILE

- ❖ Founded in 1979, Tony's Fresh Market ("Tony's") is a leading Chicago-based specialty grocery retailer focused on providing diverse and extensive, high-quality product offerings combined with unparalleled customer service at affordable prices.
- ❖ Tony's operates 18 stores across the Chicago metropolitan area, with several more store locations currently in development. Tony's plays an important role in the local economy and community, providing affordable, high-quality food to thousands of families. The business has been family-owned and operated since its founding more than 40 years ago.

BUYER PROFILE

- ❖ Apollo Global Management (NYSE: APO) ("Apollo") is a high-growth, global alternative asset manager. The firm seeks to provide its clients excess return at every point along the risk-reward spectrum, from investment grade to private equity, with a focus on three business strategies: yield, hybrid, and opportunistic.

PROCESS SUMMARY AND OUTCOME

- ❖ Stout served as exclusive sell-side financial advisor to Tony's in connection with its sale to Apollo, leading to a successful closing.

Consumer Practice Overview

The Stout Consumer group leverages deep advisory experience and expertise as well as dedicated coverage across a variety of business models and key industry subsectors. The team additionally maintains strong, tenured relationships with the most relevant strategic consolidators and private equity investors in addition to a long track record of success advising consumer businesses in the middle market.

SPECIALIZED COVERAGE OF KEY SUBSECTORS



Apparel, Footwear, & Accessories



Food & Beverage



Consumer Products



Household & Personal Care



Consumer Services



Retail, Restaurants, & E-Commerce

DEDICATED CONSUMER TEAM



Nick Jachim
Vice Chairman -
Investment Bank
njachim@stout.com
+312.752.3396



Robert Von Furth
Managing Director
rvonfurth@stout.com
+646.807.4239



Gian Ricco
Managing Director
gricco@stout.com
+312.752.3359



Kevin McGah
Senior Vice President
kmcgah@stout.com
+310.601.2571


































Conrad Hahne
Vice President
chahne@stout.com
+763.213.7741



Vinay Moorthy
Analyst
vmoothy@stout.com
+312.752.3397

Recent Stout Consumer Transactions

 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>
 <p>has acquired</p>  <p>BUY-SIDE ADVISOR</p>	 <p>Sale of assets pursuant to Section 363 sale</p>  <p>ADVISOR TO DEBTOR</p>	 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>Feel Good Inc.</p> <p>has been acquired by</p> <p>Strategic Acquiror</p> <p>SELL-SIDE ADVISOR</p>
 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>
 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>Celebrating 100+ Years</p> <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>a subsidiary of</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p> <p>- MADE IN ITALY FUND -</p> <p>SELL-SIDE ADVISOR</p>



ABOUT STOUT INVESTMENT BANKING

Stout's Investment Banking group provides mergers and acquisitions (M&A) advisory, capital market financing, and other financial advisory services to portfolio companies of private equity firms, closely held or family-owned businesses, and divisions of large corporate parents. Learn more about our **Investment Banking services**.

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