



Grocery Retail Industry

1H 2022 INDUSTRY UPDATE





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Insights and Observations

Stout is pleased to present our 1H 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.

- ❖ Strong M&A activity was achieved in the grocery retail market, largely driven by renewed sector interest from private equity and select strategic players to further consolidate large and regional independent operators.
- ❖ Several tailwinds positively impacted demand for grocery sales as a category (e.g., greater SNAP benefits, continued interest in at-home dining), but operators remain cautious as rising inflation levels have begun impacting costs and tempering margins.
- ❖ Online ordering for at-home delivery or at-store pickup remained a key sales channel despite a "return to normal" as COVID-19 precautions slowly dissipated.
- ❖ Positive momentum is expected to continue in 2022 and 2023 as investors have ample pent-up capital ready to be deployed coupled with renewed sector interest driven by industry dynamics and looming recession threats.

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 look forward to staying in touch and encourage you to contact us directly if you would like to discuss 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 pique interest from investors during times of slow economic growth. Well-capitalized operators that embrace ongoing market trends are positioned to capture incremental share by acquiring more banners and expanding into new geographies, ultimately leading to outsized valuation multiples from investors.

Economic Conditions Keep Operators Focused on Driving Efficiencies



Increased Use of Private Label Offerings

- ❖ Availability issues and cost-awareness have driven consumer demand for private label offerings while providing higher margins to grocery retailers.



Focus on Labor Cost Management

- ❖ Rising labor costs have led grocery retailers to explore savings techniques, including outsourcing intensive tasks and employing technology to automate certain functions.



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 innovate their store layouts to promote positive shopping experiences associated with high-margin products such as prepared foods, supplements, and personal care products.



COVID-19 Impact on Aisle Configuration

- ❖ One-way aisles introduced at the onset of COVID-19 have led shoppers to cover more area in stores, which has driven an increase in unplanned purchases.



Emergence of In-Store Food Technology

- ❖ Use of buy-online, pick-up in store (“BOPIS”) and delivery technologies is accelerating.

U.S. Macroeconomic Backdrop

U.S. Economy Continues to Grapple With GDP Contraction, Waning Consumer Confidence, and Declining Purchase Power

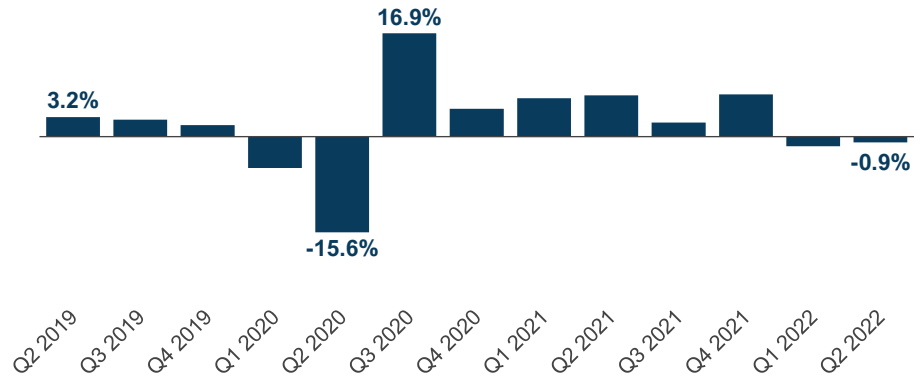
The grocery retail industry is generally less susceptible to economic cycles and tends to perform consistently in periods of volatility.

In Q1 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. Q2 2022 marked the sixth straight quarter in which annualized inflation exceeded 5%.

Consumer confidence has decreased nearly 30% from the 10-year high in Q4 2018. Surging inflation has put pressure on household spending, with a larger percentage of dollars going to consumer staples and non-discretionary spending.

Real U.S. Quarterly GDP Growth

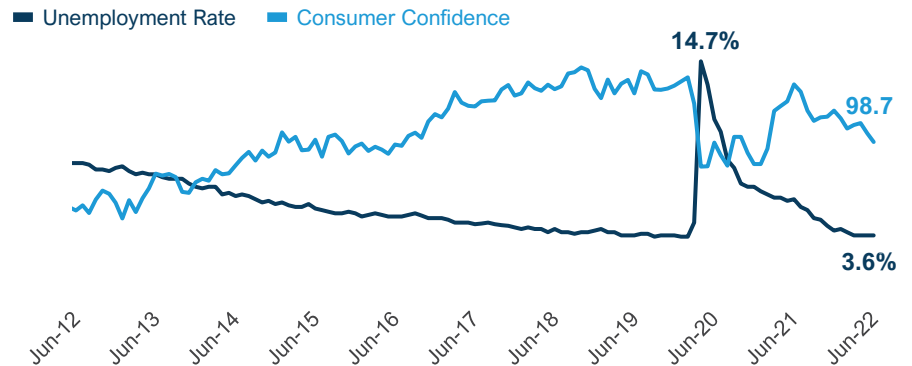
(Annualized quarterly percentage change)



Source: U.S. Bureau of Economic Analysis

U.S. Unemployment Rate and Consumer Confidence

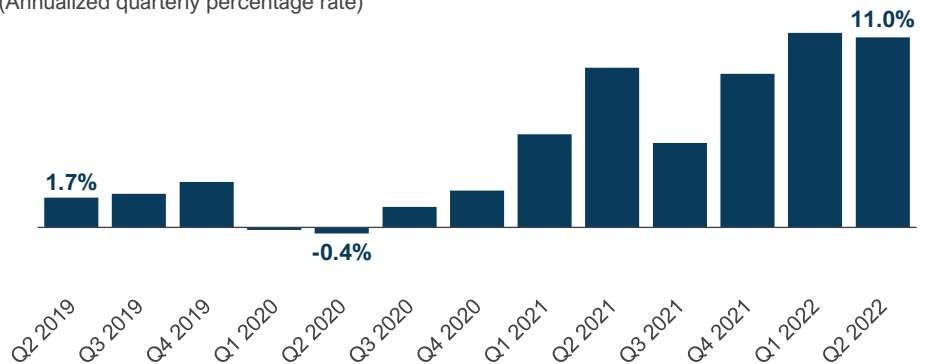
(Percentage of unemployed persons in U.S. labor force; index of consumer sentiment)



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

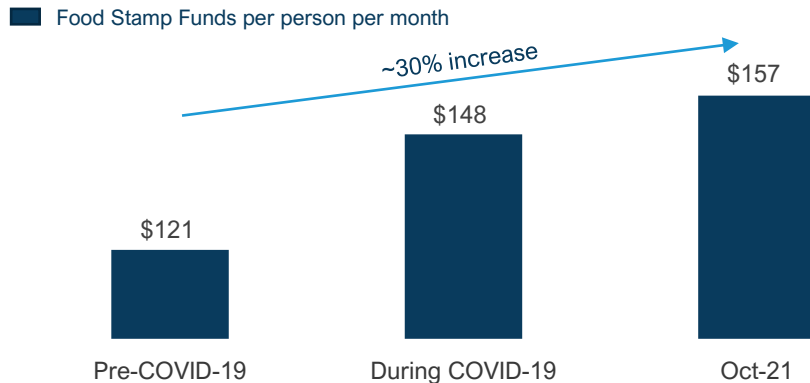
The increase in government aid from the Supplemental Nutrition Assistance Program (SNAP) represents a ~\$20-billion increase annually in the cost of the program, will strongly benefit grocery retailers, and is likely a permanent addition.

Significant increase in consumer preference for groceries and a shift toward at-home cooking and dining will continue driving demand in the grocery retail industry.

Increasing preference toward online grocery ordering places greater importance for grocery retailers to provide seamless and intuitive user experiences.

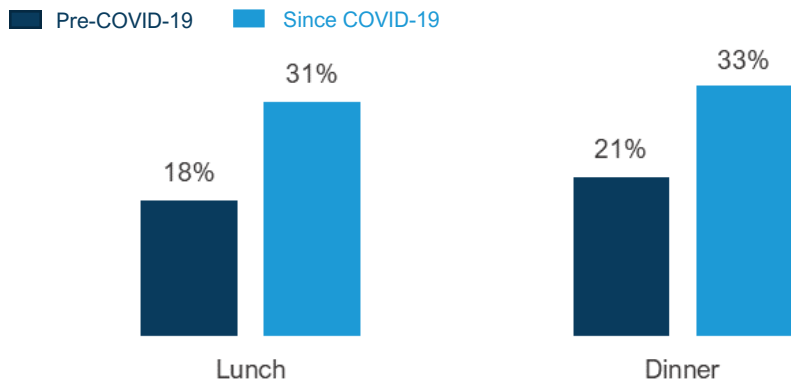
Technological capabilities will continue to be a focus area for grocery retail investment and provide a point of competitive differentiation.

Government Aid (SNAP) Poised to Drive Demand



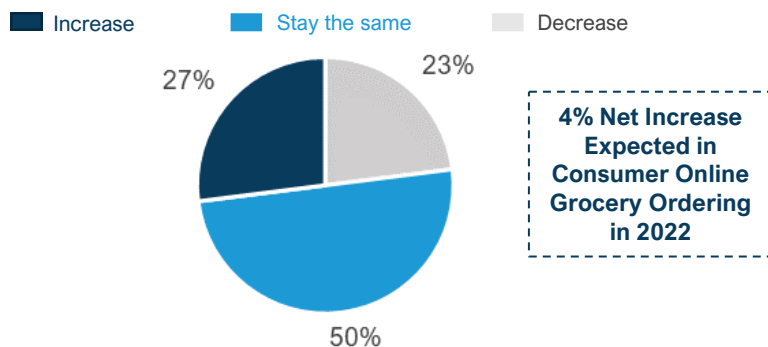
Source: USDA

Increased Percentage of Americans Eating at Home



Source: Supermarket News

Increased Percentage of Consumers Expecting to Order Online in 2022



Source: McKinsey & Company

Emergence of In-Store Food Technology

Accelerating Use of Buy-Online, Pick-Up In Store (“BOPIS”) and Delivery Technologies

COVID-19 accelerated the rollout of technology and delivery models as grocery retailers looked to address safety concerns and new buying habits. Sixty-five percent of retailers are now offering BOPIS/curbside, up from 52% in 2019.

Other technology adoption includes smart card and optic readers, location-based RFID, virtual queueing, in-store monitoring through computer vision systems like AiFi, and self-service mobile technologies. This is all with the much-needed upgrade to store WiFi and back-office networking systems as retailers look to both enhance the shopping experience and embrace omnichannel marketing and SKU-level data collection.

Expect technology companies to leverage still relatively high valuation multiples to acquire in the space, despite market corrections, to garner additional CPG (consumer packaged goods) advertiser spend, plus the use of “ghost” and dark stores to augment and speed delivery from digital click to table.

The Stout Technology team has deep experience and expertise across numerous industry subsectors, processes, and end markets.

Source: Accenture Strategy



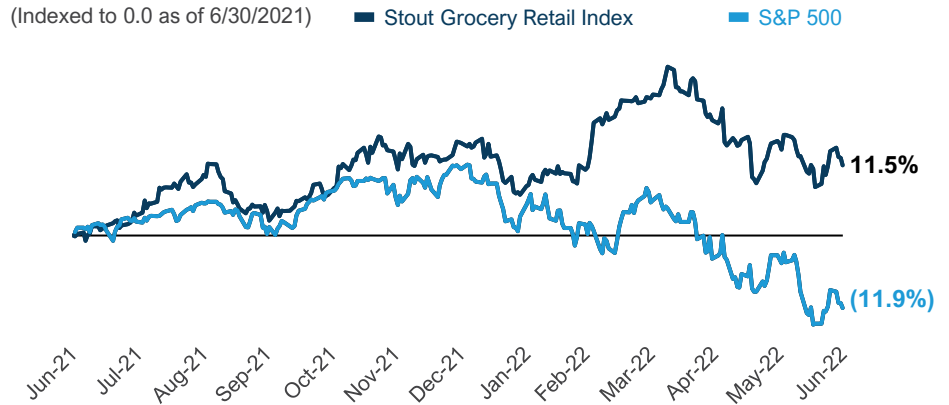
Public Markets Performance

Publicly Traded Grocery Retailers Have Fared Well Despite Broader Market Headwinds

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

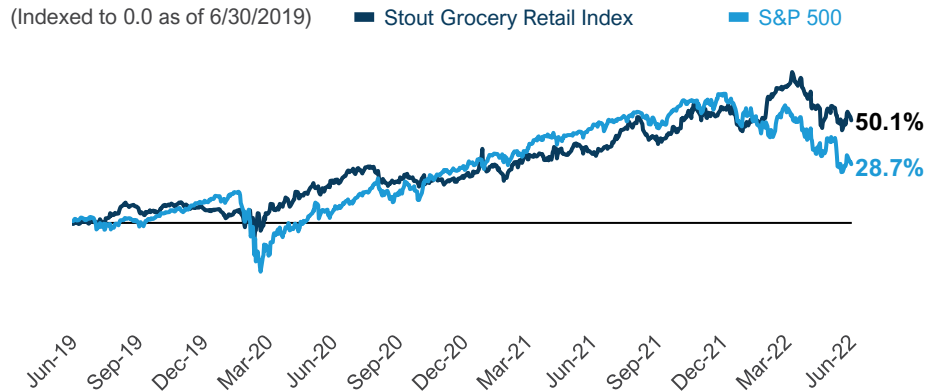
The Stout grocery retail index is a proprietary, market cap-weighted composite stock index comprised of top public companies across the vertical. Since June 2019, the Stout grocery retail index has greatly outperformed the S&P 500, up 50.1% in the three years to June 2022, compared to 28.7% for the S&P 500 Index.

Indexed Stock Price Performance — Last 12 Months



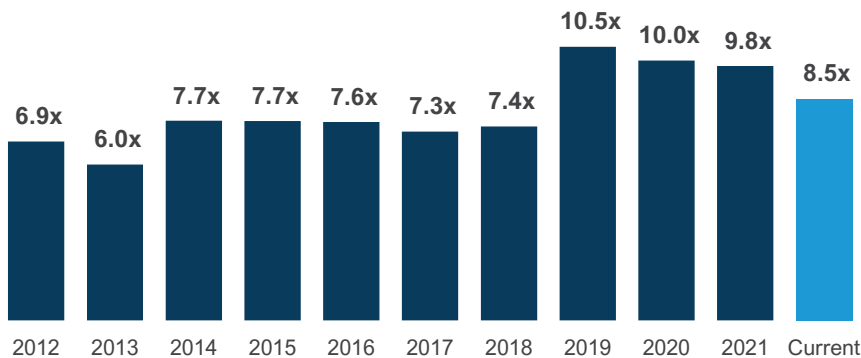
Source: S&P Capital IQ, Stout Proprietary Index

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 8.5x as of Q2 2022.

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	
		6/30/22	% 52 High				LTM	LTM	NTM	
Albertsons Companies, Inc.	NYSE:ACI	\$26.72	70.3%	\$26,602	\$71,887	5.9%	0.4x	6.2x	6.3x	
BJ's Wholesale Club Holdings, Inc.	NYSE:BJ	62.32	84.1	11,574	17,296	4.9	0.7	13.7	12.6	
Coles Group Limited	ASX:COL	12.27	94.0	22,635	28,456	5.9	0.8	13.5	9.2	
Grocery Outlet Holding Corp.	NasdaqGS:GO	42.63	97.9	5,512	3,159	5.0	1.7	34.7	24.3	
J Sainsbury plc	LSE:SBRY	2.48	59.6	14,965	39,506	5.5	0.4	6.9	5.7	
Koninklijke Ahold Delhaize N.V.	ENXTAM:AD	25.99	79.2	42,000	85,111	6.5	0.5	7.6	6.1	
Loblaw Companies Limited	TSX:L	90.13	97.1	41,164	42,852	8.3	1.0	11.6	8.9	
Metro Inc.	TSX:MRU	53.64	94.0	16,200	14,472	9.3	1.1	12.1	11.2	
Sprouts Farmers Market, Inc.	NasdaqGS:SFM	25.32	71.6	3,974	6,166	7.6	0.6	8.5	8.8	
The Kroger Co.	NYSE:KR	47.33	75.4	53,507	141,190	5.1	0.4	7.4	7.4	
Village Super Market, Inc.	NasdaqGS:VLGE.A	22.81	90.9	617	2,070	3.5	0.3	8.5	N/A	
Weis Markets, Inc.	NYSE:WMK	74.54	85.9	1,917	4,322	6.0	0.4	7.4	N/A	
Woolworths Group Limited	ASX:WOW	24.53	83.5	40,987	42,211	6.2	1.0	15.6	11.5	
Median			84.1%	\$16,200	\$28,456	5.9%	0.6x	8.5x	8.9x	
Mean			83.4%	\$21,666	\$38,361	6.1%	0.7x	11.8x	10.2x	

(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 6/30/2022

M&A Transaction Highlights

Date	Target (Seller)	Acquirer (Ownership)	Business Description
6/13/22	Cardenas Markets, Inc. (NYSE:KKR)	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. As of December 31, 2021, Apollo had ~\$498 billion assets under management (AUM).

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 in April 2022.

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

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Recent Stout Consumer Transactions

 <p>has been acquired by</p>  <p>a portfolio company of</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has acquired</p>  <p>BUY-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>SELL-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 Acquirer</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>Celebrating 100+ Years</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>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>	 <p>has sold a majority of stake to a group of investors led by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</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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