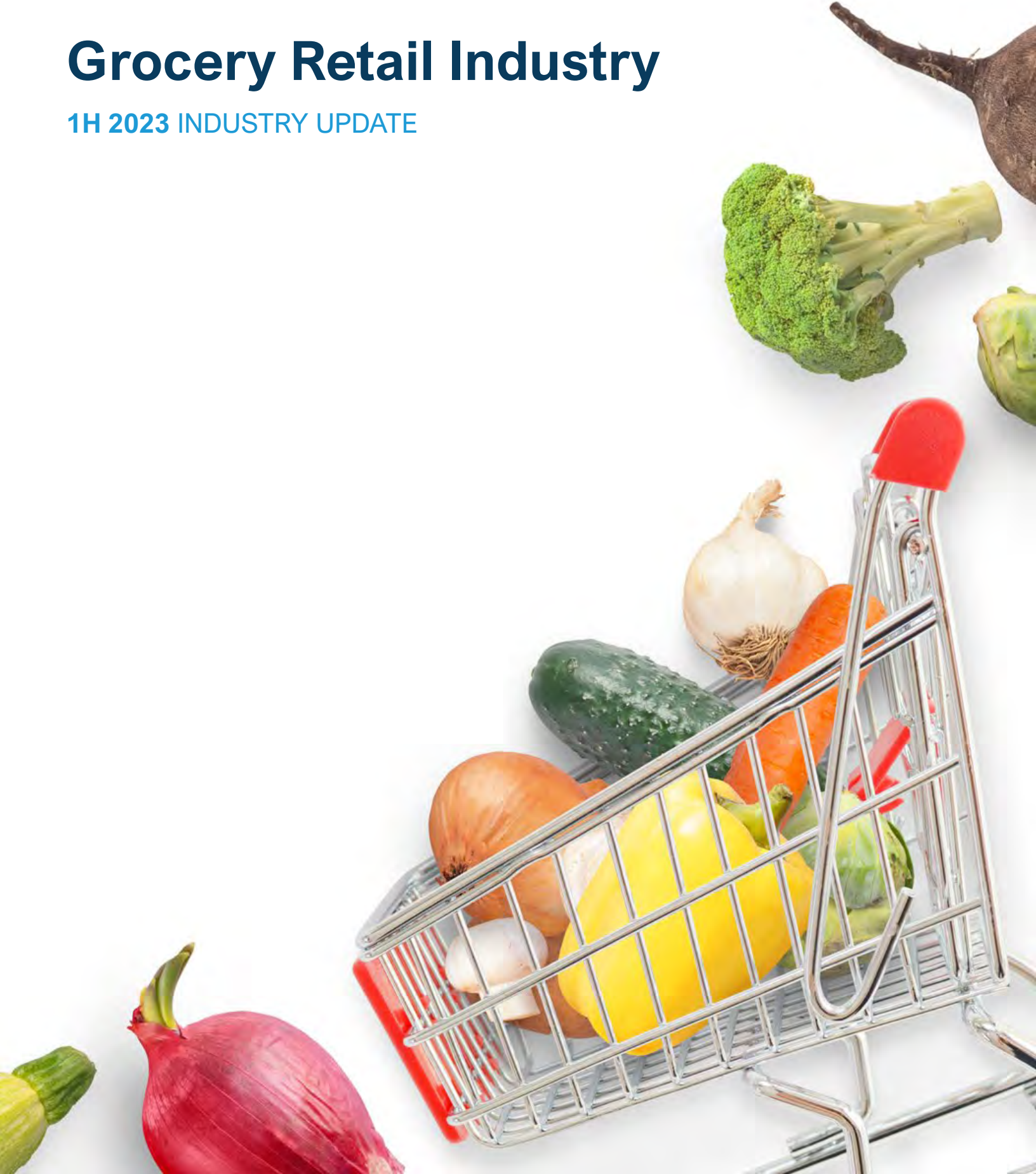




Grocery Retail Industry

1H 2023 INDUSTRY UPDATE



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Insights and Observations

Stout is pleased to present our 1H 2023 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 is seen in the grocery retail market, including the pending mega-merger of Kroger (NYSE:KR) / Albertsons (NYSE:ACI) and the recently announced acquisition of 400 Winn-Dixie and Harveys stores by German discounter Aldi. Various potential suitors continue evaluating select banners and packages of stores as the combined entity aims to secure regulatory approval.
- ❖ The elimination of pandemic-related emergency SNAP funds and elevated inflation levels increased demand for lower priced offerings, discount grocery retailers, and store- and private-label brands as consumers worked to stretch their dollar.
- ❖ Sector interest has also been driven by potential recession-related threats and challenges.
- ❖ Operators remained focused on store differentiation to drive foot traffic and are focused on labor cost saving initiatives to support margins.
- ❖ Positive momentum is expected to continue for the remainder of 2023 as large operators and financial investors have ample pent-up capital ready to be deployed.

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 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



Elimination of Pandemic-Related Emergency SNAP Funds Driving Low-Priced Options

- ❖ Growth is seen in off-price and discount grocery retailer demand as consumers seek to build their basket with lower-priced food options.
- ❖ Store- and private-label brands offer consumers more “bang for the buck,” and interest is renewed for lower-priced canned and frozen food options.



Operator Tactics Driving 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.



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.



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.



In-Store Food Technology Remains A Key Focus for Differentiation

- ❖ Use of buy-online, pick-up in store (BOPIS) and home delivery technologies and partnerships (e.g., Uber, Instacart, Walmart.com) has accelerated, as well as the use of smart/automatic shopping carts.



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.

U.S. Macroeconomic Backdrop

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

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

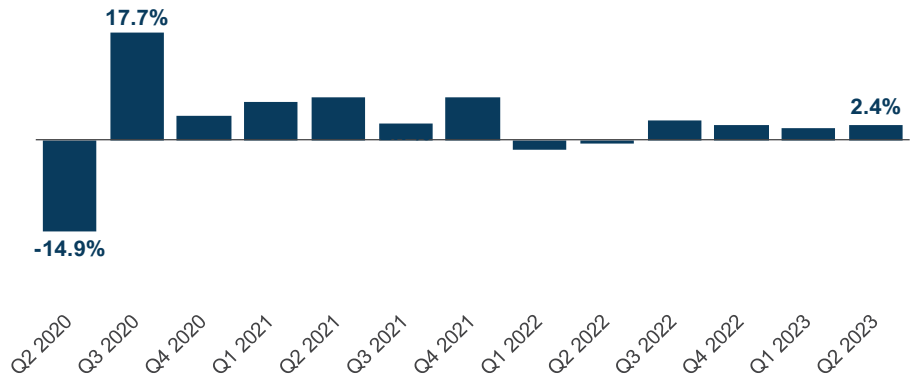
In Q2 2022, U.S. inflation registered its highest reading in nearly four decades as pandemic-related challenges increased prices dramatically. 2H 2022 marked a return to normal as annualized inflation dropped below 4% and has continued to normalize into 1H 2023, dropping to 2.7% in Q2.

Consumer confidence has decreased from peaks realized in 2018. However, slowing inflation levels boosted consumer confidence during 1H 2023.

Unemployment levels have continued to decline and remain at near-record lows.

Real U.S. Quarterly GDP Growth

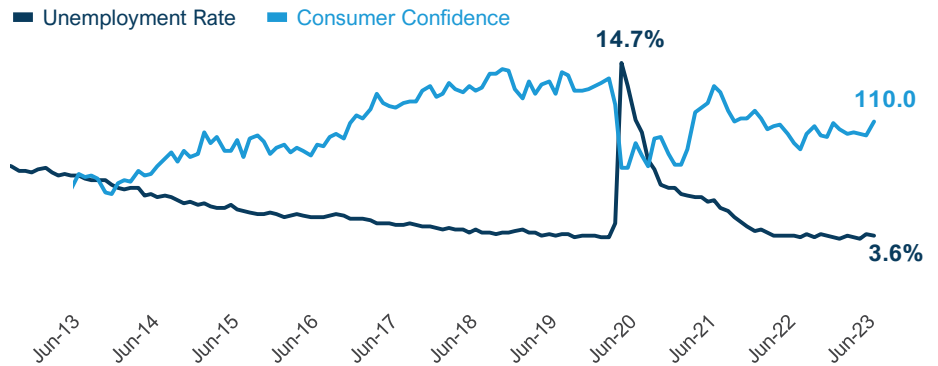
(Annualized quarterly percentage change)



Source: U.S. Bureau of Economic Analysis

U.S. Unemployment Rate and Consumer Confidence

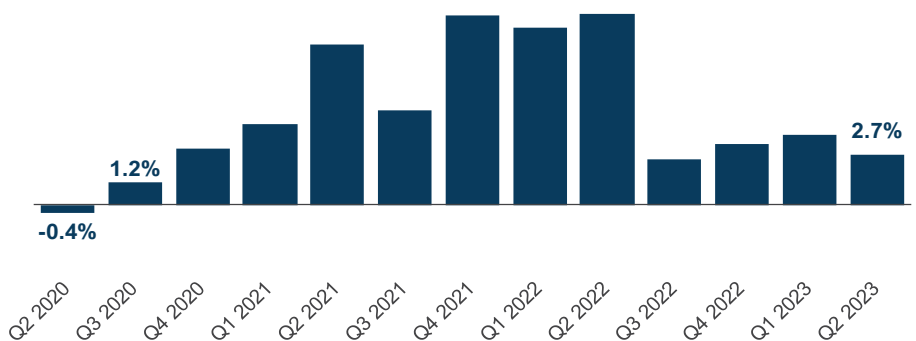
(Percentage of unemployed persons in U.S. labor force; index of consumer sentiment)



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

Shifting Consumer Behavior Renewing Interest in Cost-Conscious Offerings

The Supplemental Nutrition Assistance Program's (SNAP) emergency allotments — temporary benefit increases that Congress enacted to address rising food insecurity and provide economic stimulus during the COVID-19 pandemic — ended in Q1 2023. Every household eligible for SNAP saw a reduction in available benefits putting downward pressure on consumer budgets.

Continued high levels of inflation, coupled with a reduction in SNAP benefits, drove consumers to favor discount grocery retailers, as they provide a platform to fill an entire basket for less cost compared to traditional and fresh format grocers (e.g., Grocery Outlet, a discount grocery retailer, is trading at 18.4x NTM EBITDA, the top of its peer group). Similarly, consumers continued opting for less-expensive food options, such as canned and frozen produce rather than more expensive organic and fresh options.

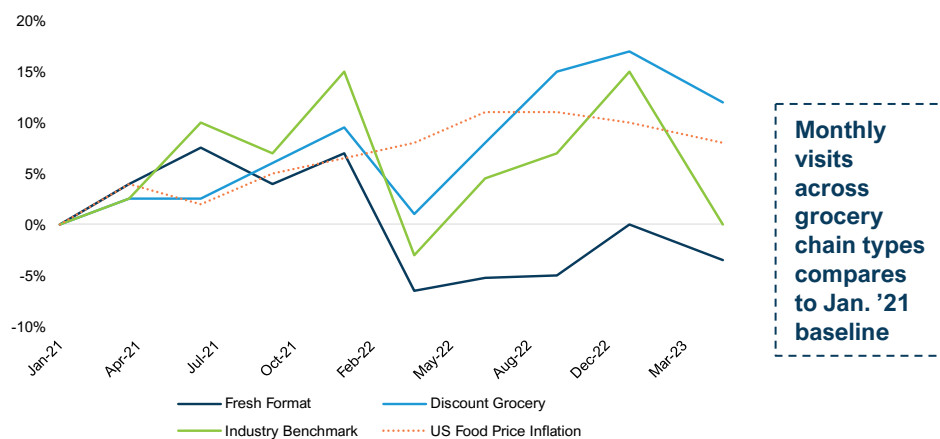
Store- and private-label brands significantly outperformed more well-known national brands in 1H 2023, as these products are often less expensive and viewed as offering consumers greater value. These trends are likely to continue for the foreseeable future, as retailers are expanding their store-brand product assortment to capture market share – Kroger (NYSE:KR) noted it added 223 new 'Our Brand' products to its assortment in Q1 2023.

Estimated Decrease in SNAP Benefits Due to End of Pandemic Emergency Allotments

	Share of Households	Share of Participants	Avg. Decrease Per Household	Avg. Decrease Per Person
Total Households	100%	100%	\$175	\$88
Household Size: 1	56%	28%	\$132	\$132
Household Size: 2	18%	18%	\$185	\$92
Household Size: 3	12%	18%	\$197	\$66
Household Size: 4	8%	16%	\$261	\$65

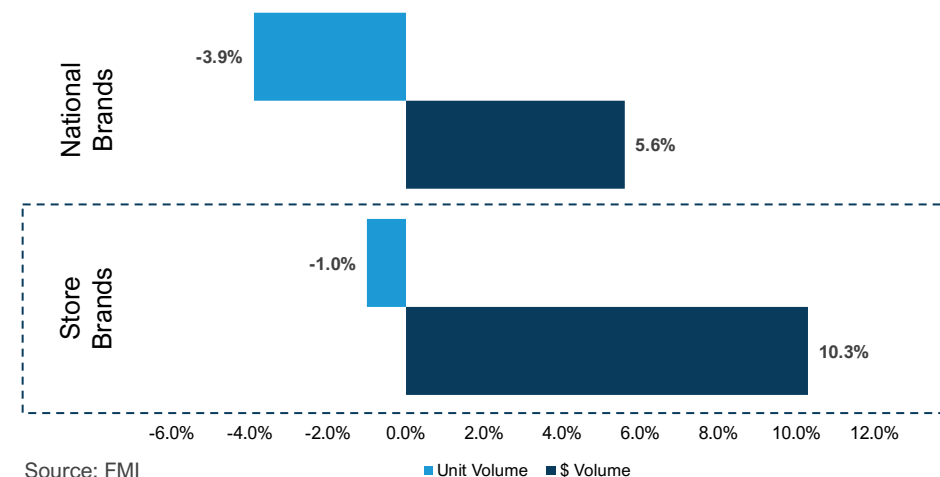
Source: Center on Budget and Policy Priorities

Inflation's Effect on Consumer Behavior



Source: Placer.ai

Store Brands Continue to Outperform National Brands in Unit and Dollar Volume



Source: FMI

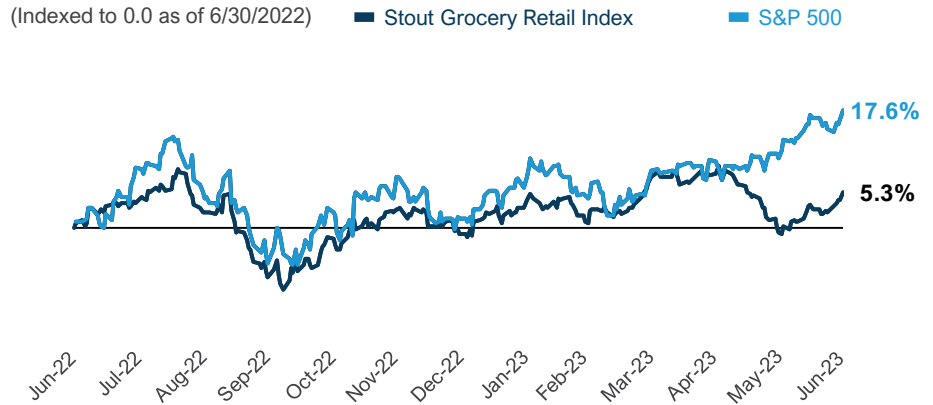
Public Markets Performance

Publicly Traded Grocery Retailers Have Fared Relatively Well Alongside Broader Market Increases

U.S. public equities have experienced a significant resurgence during the first half of 2023. Greater economic certainty among consumers and investors is significantly impacting the overall market.

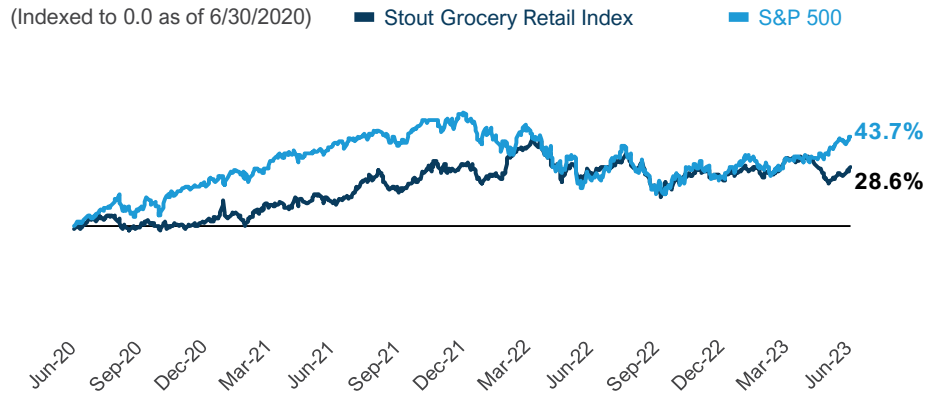
The Stout grocery retail index is a market cap-weighted composite stock index comprised of top public companies across the vertical. Since June 2020, this index has performed strongly, up 28.6% in the three years to June 2023, which remains impressive for an industry tied to basic population and GDP growth.

Indexed Stock Price Performance — Last 12 Months



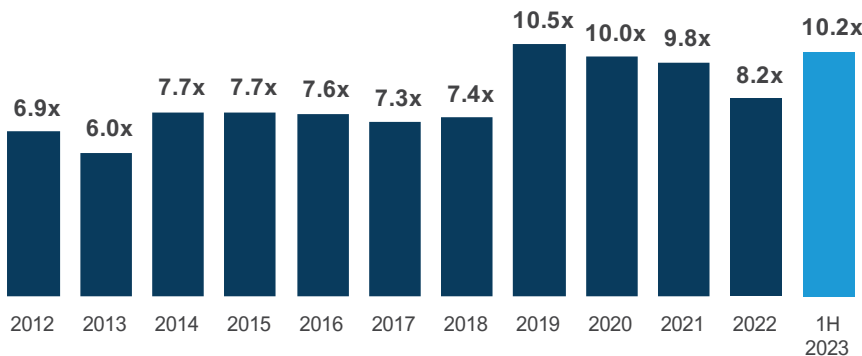
Source: S&P Capital IQ, Stout Proprietary Index

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 are near all-time highs, which counteracts some investors' fears of a post-COVID crash. The median EV/LTM EBITDA multiple for the Stout Grocery Retail index was 10.2x as of 1H 2023.

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	
		6/30/23	% 52 High				LTM	LTM	NTM	
Albertsons Companies, Inc.	NYSE:ACI	\$21.82	72.3%	\$27,090	\$77,650	5.3%	0.3x	6.6x	5.9x	
BJ's Wholesale Club Holdings, Inc.	NYSE:BJ	63.01	78.4	11,581	19,542	5.1	0.6	11.7	10.7	
Coles Group Limited	ASX:COL	12.26	93.7	21,864	27,557	5.9	0.8	13.4	9.2	
Grocery Outlet Holding Corp.	NasdaqGS:GO	30.61	66.0	4,344	3,712	5.1	1.2	23.1	18.4	
J Sainsbury plc	LSE:SBRY	3.42	92.4	15,074	37,719	5.1	0.4	7.9	5.7	
Koninklijke Ahold Delhaize N.V.	ENXTAM:AD	34.13	96.2	49,208	96,517	6.5	0.5	7.9	6.5	
Loblaw Companies Limited	TSX:L	91.59	93.8	41,154	41,622	8.4	1.0	11.7	8.7	
Metro Inc.	TSX:MRU	56.50	94.8	16,229	14,171	8.7	1.1	13.1	11.1	
Sprouts Farmers Market, Inc.	NasdaqGS:SFM	36.73	91.8	5,119	6,496	7.7	0.8	10.2	10.4	
The Kroger Co.	NYSE:KR	47.00	90.4	51,834	148,823	5.2	0.3	6.7	6.6	
Village Super Market, Inc.	NasdaqGS:VLGE.A	22.82	94.0	610	2,140	4.6	0.3	6.2	N/A	
Weis Markets, Inc.	NYSE:WMK	64.21	67.2	1,583	4,737	5.3	0.3	6.2	N/A	
Woolworths Group Limited	ASX:WOW	26.44	98.5	42,524	42,224	6.4	1.0	15.7	11.2	
Median			92.4%	\$16,229	\$27,557	5.3%	0.6x	10.2x	9.2x	
Mean			86.9%	\$22,170	\$40,224	6.1%	0.7x	10.8x	9.5x	

(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 6/30/2023

M&A Transaction Highlights

Date	Target (Seller)	Acquiror (Ownership)	Business Description
6/28/23	El Rancho Inc.	Heritage Grocers Group (Apollo Global Management)	Operates a chain of Hispanic-focused supermarkets in Texas
5/23/23	Supermarket Portfolio in Portugal	Savills Investment Management LLP	Portfolio of supermarkets strategically located throughout Portugal
5/12/23	Seiyu GK	KKR & Co. Inc. (NYSE:KKR) (Purchase of Additional Shares)	Nationwide supermarket chain based in Japan
4/28/23	MAPCO Express, Inc.	Circle K Stores Inc.	Operates convenience stores in Tennessee, Alabama, Kentucky, and Georgia
4/12/23	EZ Go Foods, Inc.	Love's Travel Stops & Country Stores, Inc.	Operates convenience stores in Oklahoma, Kansas, and Nebraska
3/28/23	Tom Thumb Food Stores Inc.	Kent Kwik Convenience Stores	Operates convenience stores in South Florida
3/1/23	Tradewinds Marketplace	Hannaford Bros. Co., LLC	Grocery store based in Blue Hill, Maine
1/23/23	Super Mirabel, K.K.	JM Holdings Co., Ltd. (TSE:3539)	Operates retail stores selling apparel, dry goods, hardware, home furnishings, and groceries in Japan
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/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

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 and possesses 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>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>a portfolio company of</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>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>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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