



Grocery Retail Industry

2023 INDUSTRY UPDATE



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Insights and Observations

Stout is pleased to present our 2023 Grocery Retail Industry Update. Through our team's ongoing dialogue with leading market participants, highly relevant and recent transaction experience, and analysis of broader market health, we have summarized the key 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 in the grocery retail market as large regional consolidators remained active in advance of the announced mega-merger of Kroger (NYSE:KR) / Albertsons (NYSE:ACI) (the combined entity continues to seek FTC approval).
- ❖ Grocery retailers faced tremendous pressure to deliver value to consumers as shoppers focused on stretching their dollar, primarily through private label and discounted products.
- ❖ Local, organic, sustainable, and better-for-you products continued to gain shelf space as consumer demand grew despite cost pressure.
- ❖ Sector interest has also been driven by economic headwinds and potential recession-related threats and challenges.
- ❖ Positive momentum is expected to continue throughout 2024 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 for 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

Pressure to Deliver Value to Consumers



- ❖ Reducing grocery spend remains a top priority for consumers across all income groups.
- ❖ Private label and discounted products continue to be in vogue for shoppers aiming to stretch their dollar.

Younger Shoppers Seek Destinations, Not Stores



- ❖ Particularly among younger demographics, the significance of a technology-driven, engaging shopping experience is escalating, fostering more informed consumers
- ❖ Nearly 75% of Gen Z and Millennial shoppers have used a grocery store app in the past year

Continued Struggles With Labor Cost and Availability



- ❖ In early 2023, ~44% of frontline retail workers were considering leaving their jobs – while this rate fell significantly into the second half of 2023, grocery retail CEOs still cite labor shortages as the largest challenge facing the industry.
- ❖ Rising labor rates have prompted grocery retailers to investigate cost-saving investments, ranging from self-service checkout lanes to fully automated, cashier-less stores.

Expanding Product Assortment to Meet Consumer Preferences



- ❖ Food retailers are increasing the number of SKUs to meet consumer preferences.
- ❖ Higher demand exists for private label, plant-based, organic, and better-for-you products.

Grocers and CPG Companies Focused on Reducing Waste



- ❖ Food and packaging waste reduction remains a top priority for shoppers and companies as ESG initiatives stay top of mind.
- ❖ Several apps, like Too Good To Go, are becoming increasingly popular amongst consumers, restaurants, and grocery retailers to help fight food waste in a seamless, cost-effective manner.

Source: FMI , McKinsey & Co., Supermarket News, Stout Proprietary Industry Research

U.S. Macroeconomic Backdrop

U.S. Economy Continues to Grapple With Stable GDP Levels, 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.

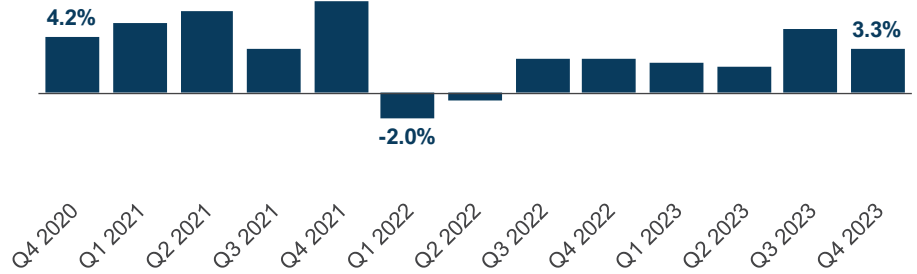
In Q2 2022, U.S. inflation registered its highest reading in nearly four decades as pandemic-related challenges increased prices dramatically. Since then, there has been a return to normal as annualized inflation dropped below 2% in Q4 2023 and has shown general stability heading into 2024.

Consumer confidence has decreased from peaks realized in 2018. However, slowing inflation levels have contributed to a boost in consumer confidence since the COVID period.

Unemployment levels remain at near-record lows.

Real U.S. Quarterly GDP Growth

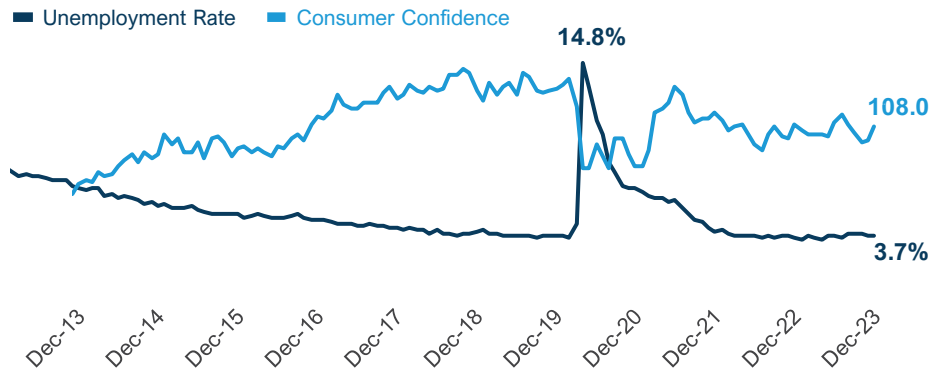
(Annualized quarterly percentage change)



Source: U.S. Bureau of Economic Analysis

U.S. Unemployment Rate and Consumer Confidence

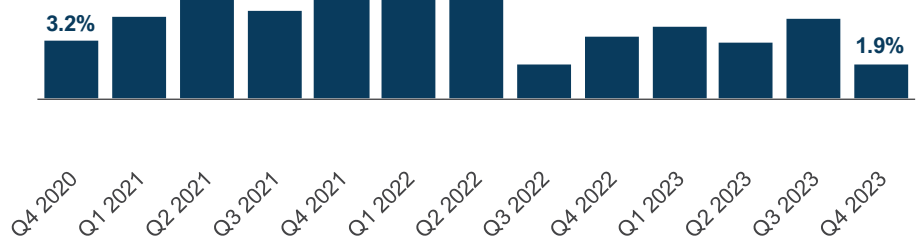
(Percentage of unemployed persons in U.S. labor force; index of consumer sentiment)



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

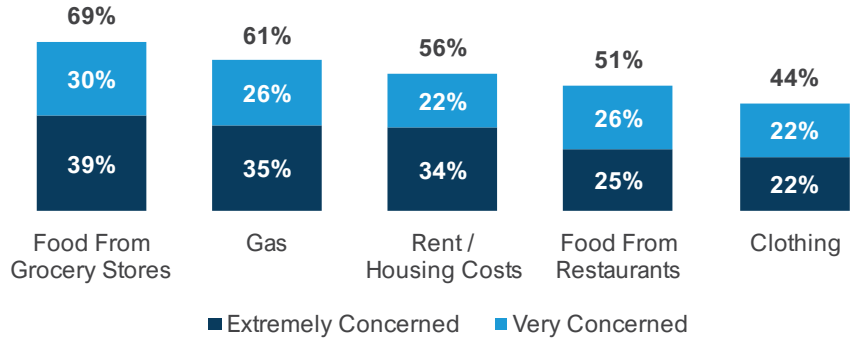
Consumers remained concerned about grocery retail food prices compared to other categories, but overall sentiment improved from levels seen in 2022. Grocery retailers will continue to double down on private label and discounted products heading into 2024 to help ease consumer pricing pressure and meet secular trends.

Private label and store brands garnered significant popularity in 2023, as consumers believe they serve as great options to stretch dollars. Nearly all consumers, regardless of income levels, believe store brands offer the same or superior value to national brands without compromising quality. Furthermore, according to Daymon Research, 43% of Millennials view private label brands as better than national brands when it comes to new and innovative products.

To attract digital natives, specifically younger shoppers such as Millennials and Gen Z, retailers are optimizing tech-integrated, omnichannel platforms. These platforms provide shoppers with the opportunity to analyze an assortment of products while seeking exclusive online deals and competitively priced private brands. The transition to online shopping underscores the significance of social media as a tool to boost customer traffic.

Source: FMI, McKinsey & Co., Supermarket News

Concerns About Rising Food Prices Stabilize Relative to Other Categories as We Head Into 2024

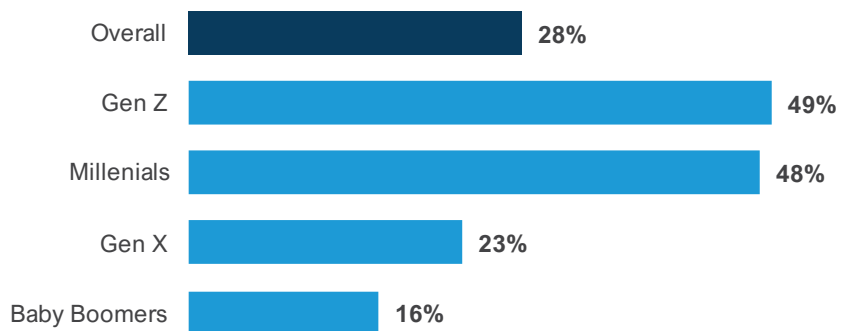


Source: FMI Grocery Shopper Snapshot, December 7-13, 2023 (n = 1,520, sampled among a national sample)

Nearly All Income Levels Believe Store Brands Provide Similar or Superior Value Compared to National Brands¹



Younger Consumers Are Willing to Pay a Premium for Sustainable Products¹



(1) McKinsey State of Grocery Consumer Survey, July 7-15, 2023 (n = 2,011, sampled and weighted to match the U.S. general population aged 18 years and older)

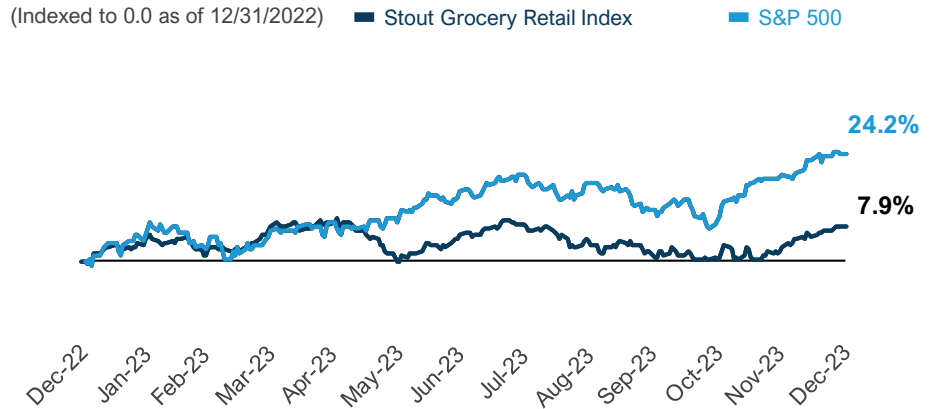
Public Markets Performance

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

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

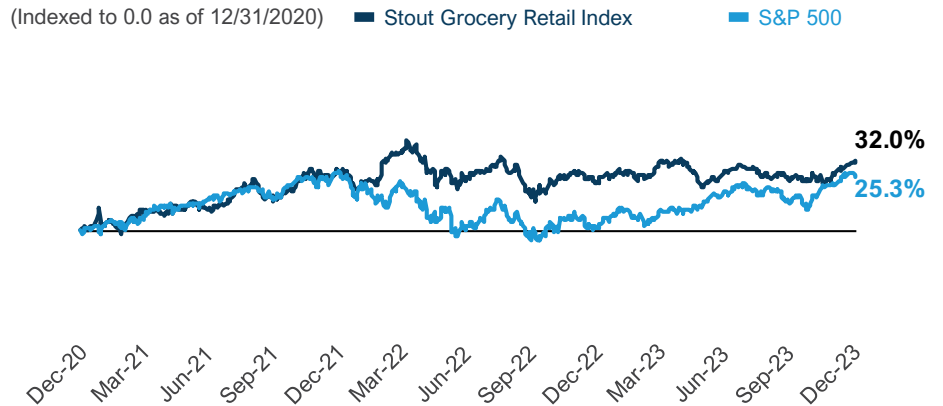
The Stout Grocery Retail Index is a market cap-weighted composite stock index comprised of top public companies across the vertical. Since December 2020, this index has performed strongly, up 32.0% in the three years to December 2023, which remains impressive for an industry tied to basic population and GDP growth.

Indexed Stock Price Performance — Last 12 Months



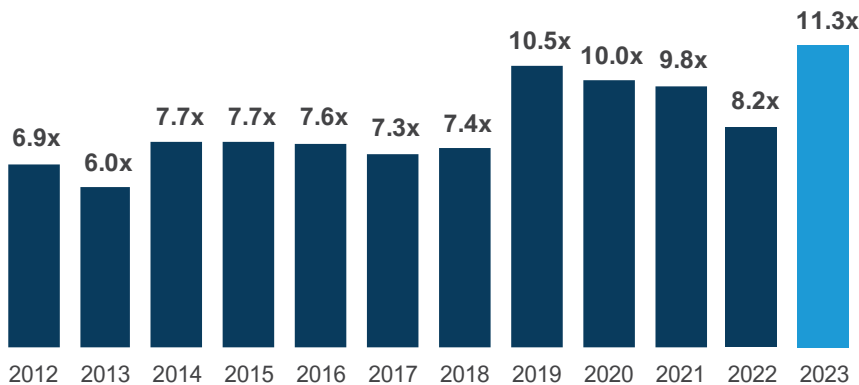
Source: S&P Capital IQ, Stout Proprietary Index

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 supports investors' general sentiment of a rebounding consumer industry. The median EV/LTM EBITDA multiple for the Stout Grocery Retail Index was 11.3x as of year end 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	
		12/31/23	% 52 High				LTM	LTM	NTM	
Albertsons Companies, Inc.	NYSE:ACI	\$23.00	96.3%	\$27,726	\$79,163	5.1%	0.4x	6.9x	6.6x	
BJ's Wholesale Club Holdings, Inc.	NYSE:BJ	66.66	84.5	12,035	19,541	5.1	0.6	12.1	10.9	
Coles Group Limited	ASX:COL	10.98	85.5	20,228	27,099	5.6	0.7	13.3	8.7	
Grocery Outlet Holding Corp.	NasdaqGS:GO	26.96	73.8	3,924	3,910	5.5	1.0	18.3	15.1	
J Sainsbury plc	LSE:SBRY	3.85	99.2	16,264	39,769	5.0	0.4	8.2	5.9	
Koninklijke Ahold Delhaize N.V.	ENXTAM:AD	28.76	80.0	43,398	97,987	7.8	0.4	5.7	5.7	
Loblaw Companies Limited	TSX:L	97.14	99.2	42,535	43,139	8.7	1.0	11.3	8.4	
Metro Inc.	TSX:MRU	51.94	87.0	15,260	15,850	8.5	1.0	11.3	10.2	
Sprouts Farmers Market, Inc.	NasdaqGS:SFM	48.11	97.5	6,293	6,715	7.6	0.9	12.3	11.9	
The Kroger Co.	NYSE:KR	45.71	90.8	51,266	147,797	5.3	0.3	6.6	6.5	
Village Super Market, Inc.	NasdaqGS:VLGE.A	26.23	98.4	640	2,183	4.5	0.3	6.5	N/A	
Weis Markets, Inc.	NYSE:WMK	63.96	71.7	1,623	4,790	5.2	0.3	6.5	N/A	
Woolworths Group Limited	ASX:WOW	25.36	92.2	40,716	42,923	6.2	0.9	15.2	10.5	
Median			90.8%	\$16,264	\$27,099	5.5%	0.6x	11.3x	8.7x	
Mean			88.9%	\$21,685	\$40,836	6.2%	0.6x	10.3x	9.1x	

(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 12/31/2023

M&A Transaction Highlights

Ann. Date	Target (Seller)	Acquiror (Ownership)	Target Business Description
2/15/24	Bargain Barn, Inc. (Gen Cap America)	Grocery Outlet Holding Corp. (NASDAQ:GO)	Discount retail grocery chain located in the Southeastern United States
2/14/24	Al Raya for Food Stuffs Company (Levant Investment Management)	Tamimi Markets	Operates a supermarket chain located in Saudi Arabia
1/26/24	Miuraya Co. (Marunouchi Capital)	Olympic Group Corporation (TSE:8289)	Operates supermarkets located in Japan
1/11/24	Stripes and Laredo Taco Co. (Sunoco, LP)	7-Eleven International	Operates a chain of convenience stores across Texas, New Mexico, and Oklahoma
11/28/23	5 ShopRite Supermarkets	Price Chopper Operating Co.	ShopRite grocery stores located in the New York Capital Region
11/27/23	Dom's Kitchen & Market	Foxtrot Market	Chicago-based, upscale grocery store chain
11/7/23	22 Lone Star Food stores (W. Douglass Distributing Co.)	Casey's General Stores, Inc. (NasdaqGS:CASY)	Operates a Texas-based grocery store chain
10/30/23	S.C. Profi Rom Food S.R.L. (Mideuropa)	Koninklijke Ahold Delhaize N.V. (ENXTAM:AD)	Operates a chain of Romanian supermarkets
10/20/23	Discount Dragon	Huddled Group Plc (AIM:HUD)	Operates as an online discount grocery store
10/9/23	ShopRite Ltd.	Tesco Plc (LSE:TSCO)	ShopRite grocery stores located in the Isle of Man
9/27/23	Bringmeister Gmbh (Rockaway Capital SE)	Großer Kern GmbH	Platform offers weekly online grocery shopping
9/20/23	47 SuperCor stores (El Corte Ingles, S.A.)	Carrefour S.A. (ENXTPA:CA)	Chain of supermarkets located in France
9/8/23	Harmon Foods, Inc.	Hy-Vee, Inc.	Operates a chain of stores providing groceries and related food products
9/8/23	413 Kroger (NYSE:KR), Albertsons (NYSE:ACI) stores	C&S Wholesale Grocers	Stores, distribution centers, offices, and private label brands
8/6/23	Bi-Lo (Southeastern Grocers)	Fresco Retail Group	Operates a network of grocery stores and in-store pharmacies

Source: S&P Capital IQ, Stout Proprietary Database

M&A Transaction Highlights (cont.)

Ann. Date	Target (Seller)	Acquiror (Ownership)	Target Business Description
8/16/23	400 Winn-Dixie stores (Southeastern Grocers)	Aldi, Inc.	American supermarket chain based in Florida
8/7/23	18 Save-A-Lot stores (Leevers)	Moran Foods	Chain of discount grocery stores located in the United States
7/29/23	5 Morrison Daily stores	Amacor Retail	Convenience stores located in the United Kingdom
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
4/17/23	Sullivan's Foods	Coborn's, Inc.	15 grocery, hardware, and c-stores in northern and central Illinois
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

Note: C&S Wholesale Grocers acquisition of certain Kroger-Albertsons stores has been delayed due to continued regulatory review
 Source: S&P Capital IQ, Stout Proprietary Database

Recent Stout Transaction Case Study



Stout Advises Gen Cap America and United Grocery Outlet on Sale to Grocery Outlet

CLIENT PROFILE

- ❖ Bargain Barn, Inc. d.b.a. United Grocery Outlet (“UGO”) was founded 50 years ago as a Tennessee-based extreme value, discount grocery retailer.
- ❖ UGO operates 40 stores located across Tennessee, North Carolina, Georgia, Alabama, Kentucky, and Virginia, offering customers tremendous savings within a treasure hunt shopping environment. UGO maintains strong relationships with national and regional brands, which enables it to provide quality food at extreme values.

BUYER PROFILE

- ❖ Based in Emeryville, California, Grocery Outlet Holding Corp. (NASDAQ:GO) (“Grocery Outlet”) is a high-growth, extreme value retailer of quality, name-brand consumables and fresh products sold through a network of independently operated stores. Grocery Outlet has more than 460 stores in California, Washington, Oregon, Pennsylvania, Idaho, Nevada, Maryland, New Jersey, and Ohio.

PROCESS SUMMARY AND OUTCOME

- ❖ Stout served as exclusive sell-side financial advisor to UGO and Gen Cap in connection with its sale to Grocery Outlet, leading to a successful closing on April 1, 2024.

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 on April 20, 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 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>UNITED GROCERY OUTLET a portfolio company of  has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>	<p>VERSA-GARD® has been acquired by  a portfolio company of </p> <hr/> <p>SELL-SIDE ADVISOR</p>
 <p>has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has acquired </p> <hr/> <p>BUY-SIDE ADVISOR</p>	 <p>Sale of assets pursuant to Section 363 sale </p> <hr/> <p>ADVISOR TO DEBTOR</p>	 <p>has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>
 <p>Feel Good Inc.™ has been acquired by Strategic Acquiror</p> <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>a portfolio company of  has been acquired by   </p> <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>
 <p>has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>Celebrating 100+ Years has been acquired by </p> <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by  a subsidiary of </p> <hr/> <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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