

JERÓNIMO MARTINS, SGPS

FOOD RETAIL

PEDRO LAMY CALISTO

COMPANY REPORT

3 JUNE 2013

A Macaw learns to walk...

...while the Ladybird keeps flying.

- **Biedronka remains strong in Poland**, harvesting scale benefits. The discount chain is leader in price, market share and consumers' preferences. For 2013 we expect 270 new stores, sales increasing by 14.90% in local currency and EBITDA margin to reach 8.5%. According to our model, sales are projected to increase at a CAGR of 7.9% until 2022.
- **In Portugal, Pingo Doce achieved in 2012 the first position in Food Retail**, despite the tough environment. The price repositioning strategy is proving to be accurate and private label remains a major sales driver. For 2013, we anticipate sales increasing by 1.2% and EBITDA margin stagnating in 4.5%.
- **Ara started operating in Colombia in the first quarter of the year**. Our outlook is positive as this market is highly fragmented, with little modern retailers' penetration and the economy offers good perspectives. We foresee this new chain as a major source of growth in 10 years.
- **We highlight JM's strong balance sheet and healthy financial position**. Group's operations generate enough cash flow to support the three-year ambitious investment plan and are expected to allow further expansion in the next 10 years.
- **JM is trading at a premium compared to its peers**. **Group's recent performance**, margins and strong cash flow generation support this positive market's assessment.

Recommendation: BUY

Vs Previous Recommendation BUY

Price Target FY13: 17.91 €

Vs Previous Price Target 17.50 €

Price (as of 31-May-13) 16.41 €

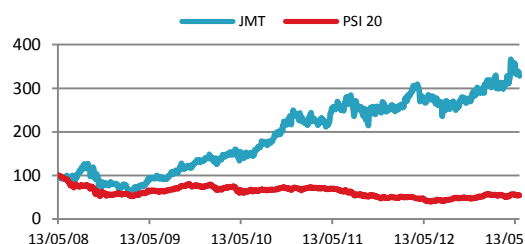
Reuters: JMT.LS, Bloomberg: JMT.PL

52-week range (€) 11.26-18.56

Market Cap (€m) 10.146B

Outstanding Shares (mn) 628.4

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2012	2013E	2014F
Revenues	10.876	11.919	13.051
EBITDA	765	865	981
EBITDA Margin (%)	7.0%	7.3%	7.5%
EBIT	540	610	690
EBIT Margin (%)	5.0%	5.1%	5.3%
Net Profit	360	444	505
Capex	525	729	723

Source: Nova Research

Company description

Jerónimo Martins, SGPS, S.A. is a Portugal-based company that operates in three countries, in three main business segments: Food Distribution, Industry and Services. Within Portugal, the Group controls the Pingo Doce and Recheio (leader in Cash & Carry operations) brands and, moreover, manufactures, cooking oils, detergents and household cleaners. JM's main source of revenue comes, however, from Poland's largest and leading Food Retail Chain: Biedronka.

THIS REPORT WAS PREPARED BY PEDRO MIGUEL DE ARAGÃO LAMY CALISTO, A MASTERS IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS, EXCLUSIVELY FOR ACADEMIC PURPOSES. THIS REPORT WAS SUPERVISED BY ROSÁRIO ANDRÉ WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

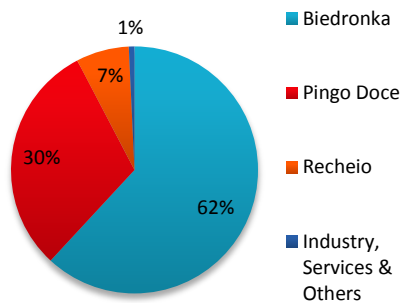
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Company overview

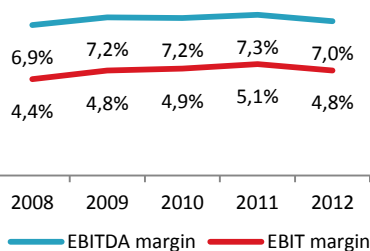
Company description

Exhibit 1: Sales breakdown (2012)



Source: Company Data

Exhibit 2: Margins evolution (%)



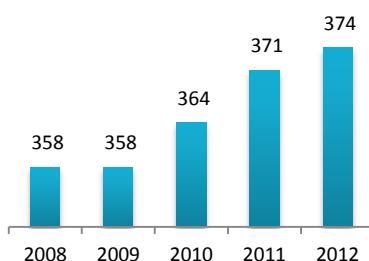
Source: Company Data

Jerónimo Martins, SGPS (JM) is a Portuguese Group of international stature in the Food business, which operates in the **Food Distribution, Industry and Services** sectors, through two main geographies: **Portugal** and **Poland**. Additionally, the Group started its operations in **Colombia** in the first quarter of 2013. According to the annual report "Global Powers of Retailing 2013", from Deloitte and STORES Magazine, which considers available data for the fiscal year of 2011, JM is positioned as the **76th largest retailer in the world**, being the largest Portuguese retailer in this ranking while Sonae MC, its main competitor in the domestic market, is placed 148th in this ranking. Furthermore, if we consider the ranking of the fastest-growing retailers in the period between 2006 and 2011, JM achieves the 22th place, presenting a CAGR of 18.6%. Moreover, in 2012 the Group, through its supermarkets chain Pingo Doce, achieved the first position in terms of retail sales. The Group holds a leading position in the **Food Distribution** sector, its main activity, through the supermarket chain Pingo Doce¹ and the Cash & Carry stores Recheio, in Portugal, and the hard-discount chain Biedronka in Poland. In the **Industry** sector the Group operates through joint-ventures established with Unilever and Gallo Worldwide while in the **Services** sector, the Group represents and distributes several international brands in Portugal as well as it owns various specialized retail stores, through its subsidiaries².

Business Units description

1. Food Distribution

Exhibit 3: PD # stores



Source: Company Data

Created in 1980, **Pingo Doce (PD)** is the largest supermarket chain in Portugal, with 374 stores in the country and a market share of 16.65% (16.09% in 2011) in the Grocery Retail Market, making this chain the main player in the market, followed by the newnetwork of hypermarkets Continente and Continente Modelo, from Sonae MC. The expansion of this network of stores has been made through several acquisitions during the last decades, as the 75 Plus stores acquired in 2007 are a good example³. After a succesfull strategic repositioning in the beginning of the last decade, PD has implemented an **Every Day Low Prices (EDLP)** strategy and focus its offer in **Fresh Products**, in its **Private Brand**

¹ This Company belongs to the Group's subsidiary JMR.

² Jerónimo Martins Distribuição de Produtos de Consumo (JMDPC) and Jerónimo Martins Restauração e Serviços (JMRS).

³ 1987: 15 stores acquired to Pão de Açúcar Group; 1993: 45 Modelo supermarkets and 53 Inô stores bought; 1994-1997: Several small chains and supermarkets acquired.

Exhibit 4: PD overview

Pingo Doce	2012
Sales (€mn)	3 311
EBITDA margin	4,4%
Market Share	16,7%
Private Label (% of Sales)	42%
# Stores	374

Source: Company Data and Nova Research

products⁴ and in **Meal Solutions**⁵, using its store network at **nearby locations** to attract consumers. Recently, as a response to the much more difficult macroeconomic environment and consumer price sensitivity and contrarily to its EDLP strategy, Pingo Doce started a strong promotional activity with different campaigns aiming to strengthen its competitive position and price strategy. After the one-day promotion in May 1st, 2012, where consumers benefited from 50% discount in ticket sales higher than 100€, the Company started campaigns in several food products and launched in March 2013 a promotional card called “Poupa Mais” (Save More), in partnership with the oil company British Petroleum, which provides discounts in fuel to consumers to be used in BP stations⁶. With this change in strategy and price repositioning, the Company wants to prevent a decrease in sales volume, which has been impacting EBITDA margins negatively (further analysis in the Operational Forecasts chapter).

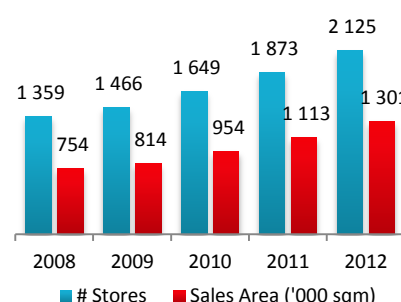
Exhibit 5: Recheio overview

Recheio	2012
Sales (€mn)	754
EBITDA margin	4,5%
Private Label (% of Sales)	20%
# Stores	39

Source: Company Data

The Cash & Carry chain **Recheio** is the operator in Portugal with **the most extensive national coverage** and is also **leader in the wholesale segment**, running 36 stores and 3 food service platforms. The Company focuses mostly on **Perishables** and on its **Private Brands** products as its main strategic priorities, which reached 15% and 20.4% of total sales, respectively. Being an important supplier of clients from the HoReCa and traditional retail channels, Recheio aims to create long, stable relationships with its clients and in February 2011, the Company launched the “**Amanhecer Stores**” project, aiming to strengthen these relations with customers as well as to contribute to the sustainability of its long-term sales⁷.

Exhibit 6: Biedronka #stores & sales area



Source: Company Data

The business unit (BU) in the Food Distribution segment which has been **the most valuable source of growth** is the Polish **hard-discount** format **Biedronka**, which presents the **biggest retail chain** in Poland with a network of 2,125 stores over 800 locations. Biedronka is leader in the hard-discount format as well as in the whole Grocery Retail Market in Poland, achieving in 2012 a **market share of 16.9%**⁸, an increase of 2 p.p. when compared to 2011. Acquired by the Group in 1997, Biedronka has gained general popularity in Poland and today it is one of the **most valuable brands** in Poland⁹, being recognised by 98% of Polish consumers, of which 63% assume to be regular buyers and 38% identify the chain as their main store. **Private Label**, accounting for around 55% of Biedronka total sales in 2012, and **Perishables** are the main

⁴ Private Label reached 42% of total sales in 2012 (38,4% in 2010).

⁵ PD has more than 200 stores offering Take-Away services and 35 which have “Refeições no Sítio do Costume” restaurants.

⁶ Consumers receive 2€ in fuel for each ticket sale higher than 40€ in PD stores.

⁷ The project is based on the conversion and adaptation of traditional retail stores to the “Amanhecer” layout and naming, with customers benefiting from special buying conditions at Recheio as well as from economies of scale. In 2012, there were 26 stores operating under this banner.

⁸ Source: PMR

⁹ It has already been awarded the prestigious Superbrands title three times and in 2011 it was recognized as the third Most Valuable Polish Brand by “Rzeczpospolita” daily.

Exhibit 7: Biedronka overview

Biedronka	2012
Sales (€mn)	6 731
EBITDA margin	8,2%
Market Share	16,9%
Private Label (% of Sales)	54%
# Stores	2 125

Source: Company Data and Nova Research

strategic pillars of the Company, which is also making an effort to increase non-food categories, as a way of attracting consumers and increasing the average ticket. Also, Fruits and Vegetables categories have been under Biedronka attention, with a **new store layout** focused on enhancing the perishable categories fully implemented in 2012.

Finally, in the Food Distribution segment, JM started operations in **Colombia** in March this year, with its new chain **Ara**. This new chain, according to the information provided by JM, should be similar to the model followed in Biedronka, operating **discount stores**, with an assortment focused mainly in **Private Label** and **Perishables**. The Group expects to open **150 stores until 2015**.

2. Industry

Exhibit 8: Industry overview

Industry	2012
Sales (€mn)	229
EBITDA margin	11,1%

Source: Company Data

With the opening of Fima factory, in 1944, the Group began its operations in the Industry sector, which was reinforced in 1949 with the establishment of the joint-venture with the international group Unilever. This partnership led to the creation in 2007 of the actual business unit of the Group dedicated to the Manufacturing segment, **Unilever Jerónimo Martins (UJM)**¹⁰, which puts JM as the largest fast moving consumer goods manufacturing group in Portugal. This BU produces and distributes goods in the food, beverages, personal-care and home-care segments, being leader in markets such as margarines, ice teas, ice creams and laundry detergents. In 2009, with the spin-off of the Olive Oil business of UJM, **Gallo Worldwide** was created, which is the 5th largest international olive oil brand and market leader in Portugal, Brazil, Angola and Venezuela.

3. Services

Exhibit 9: Services overview

Services	2012
Sales (€mn)	87
EBITDA margin	1,6%

Source: Company Data

In the Services sector, **JM distributes and has the exclusive representation of several international brands**, as well as it develops specialized projects in the restaurant industry. JMDPC is the business unit which represents, distributes and sells various international brands in Portugal as *Heinz*, *Kellogg's*, *Pringles*, among others, while JMRS is involved in the development and operation of coffee shops, restaurants and ice-cream kiosks. Finally, JM owns the specialized retail chain *Hussel*¹¹, which has 25 stores placed mainly in shopping centres.

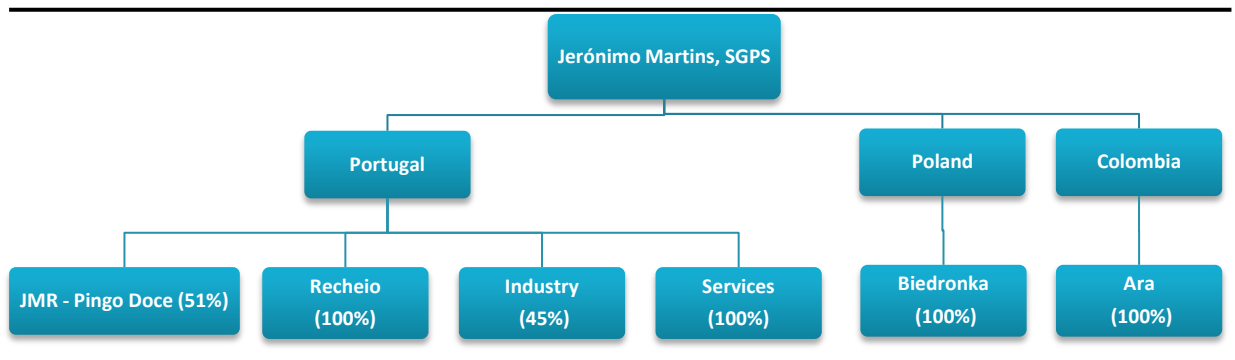
Ownership structure

Regarding the ownership structure of JM, **there are some business units which are operated through partnerships with other companies (Exhibit 10)**. Beginning with PD, JM owns a 51% stake in this BU, while the remaining 49%

¹⁰ In 2007, the companies FimaVG, Bestfoods, LeverElida and IgloOlá were merged in the actual company Unilever Jerónimo Martins.

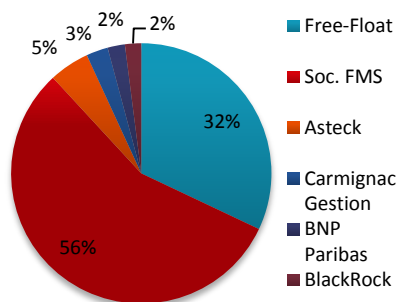
¹¹ Hussel is a retail store concept specialized in chocolates, gellys and other candies.

belong to Ahold¹² since 1992, the Dutch retailing group with operations in Europe and United States, while the other BUs in the Food Retail segment, Recheio and Biedronka, are fully owned by JM. Regarding the Manufacturing sector, the Group holds a 45% stake in both UJM and Gallo Worldwide, in which Unilever owns 55%, while the Services BU's are fully owned by the Group.

Exhibit 10: JM's Ownership structure


Source: Company Data

Shareholder structure

Exhibit 11: Shareholders structure


Source: Company Data

JM's share capital is €629,293,220, which corresponds to the same number of shares with a nominal value of €1 each. From the total outstanding shares, 32% are Free-Floating Shares, while the remaining capital is owned by five qualified shareholders. Firstly, the main shareholder of the Group, Sociedade Francisco Manuel dos Santos, holds 56.1% and it is controlled by JM's Chairman of the Board of Director, Alexandre Soares dos Santos, and his family. Secondly, with 5% of the total capital, there is Asteck, S.A., which is followed by Carmignac Gestion, which holds 2.7% of JM. BNP Paribas and BlackRock are the last qualified shareholders, holding 2.2% and 2%.

Portugal

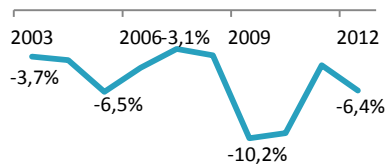
Macroeconomic Analysis

Exhibit 12: Real GDP growth

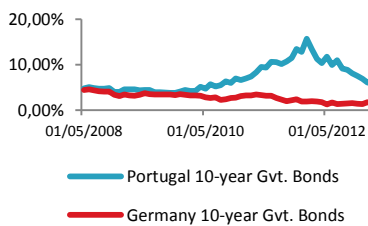

Source: IMF

The actual economic situation in Portugal is a consequence of accumulated budget deficits and very low growth rates during the last decade. In fact, the economy presented low growth rates over this period, entering in a recessionary period since 2011 (**Exhibit 12**). Moreover, the budget deficit exceeded constantly the 3% barrier imposed by the European Union, for the stability of the Eurozone (**Exhibit 13**). All these facts, coupled with the lack of competitiveness of the economy and the sovereign debt crisis that started in Europe, with peripheral countries credit ratings being cut, increased the fear among investors that the

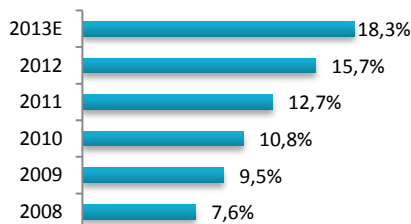
¹² Before, in 1985 Delhaize Le Lion bought a capital stake in PD, and held this strategic position until 1992.

Exhibit 13: Government budget deficit

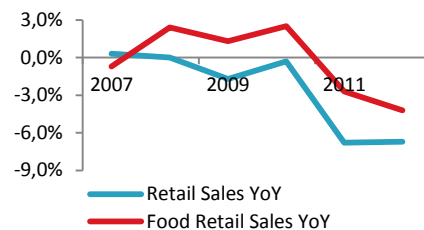
Source: IMF

Exhibit 14: Portugal & Germany Gvt Bonds

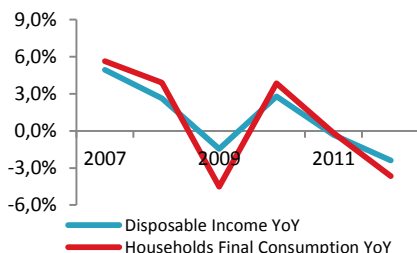
Source: Bloomberg

Exhibit 15: Unemployment rate

Source: IMF

Exhibit 16: Retail and food retail sales YoY

Source: Eurostat

Exhibit 17: Disposable Income and Final Consumption YoY

Source: Eurostat

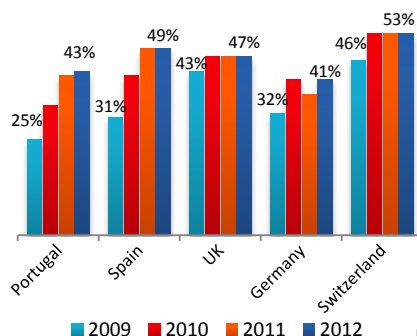
country could not be able to fulfil its obligations. With yields (**Exhibit 14**) and public debt reaching unsustainable values, the country was forced to seek external financial assistance and it signed in April, 2011 the Memorandum of Understanding (MoU) with three international institutions responsible for the financial bailout: the IMF, the European Central Bank and the European Commission. The MoU includes targets for budget deficit gradual reduction, structural reforms with the purpose of increasing economy's competitiveness and aims to reduce the medium-term indebtedness of both the state and households. This has resulted in severe austerity measures such as generalized tax increases, the partial loss of Holiday and Christmas subsidies, increased user fees in health, cuts in pensions and public sector wages, reduction in unemployment benefits and privatization of several public companies, among other measures. Although Portugal is currently fulfilling the targets¹³, the economy has fallen more than expected, being in recession since 2011. This decline was driven by a noticeable contraction of domestic demand as well as the deceleration of exports towards the end of the last year. The high unemployment rate, which reached in 1Q2013 17.7% (**Exhibit 15**), and its impact in the disposable income, is one of the main reasons behind the tough economic situation.

Macroeconomic conditions of recent years have conditioned the retail sector in the country. As shown in **Exhibit 16**, retail sales fell continuously over the last four years, and this trend accelerated in the past two years. Food retail sales, though less affected by the crisis as they tend to be more resistant to drops of the economy, also fell in the last two years. This performance derives from the increase in personal taxes, leading to a decrease in the disposable income of households, forcing them to reduce expenses, as shown in **Exhibit 17**. Furthermore, several products increased its cost in 2012 because of VAT increase, even though retailers tried to absorb this increase into their margin. This situation should remain this year, as only in 2014 some improvement in households' disposable income is expected in line with the expected positive growth of GDP and of the private consumption. Nevertheless, uncertainty still remains high in the country, largely due to expectations that unemployment rate will continue to rise until 2014, achieving values around 18.5%.

Portuguese Food Retail Market

The evolution of private label in recent years demonstrates how the country's situation had an impact on consumption habits (**Exhibit 18**). In 2009, the market

¹³ Portugal's Constitutional Court has ruled several key articles of the 2013 state budget unconstitutional. Consequently, Portugal's government will have to find other ways to save the same amount of the unconstitutional articles (€1.5bn) and so additional austerity measures are expected.

Exhibit 18: Private Label market share

Source: PLMA

share of private label products was 25%, below other European markets, but the growth in recent years reinforces such products as a major sales driver of modern retailers¹⁴. In fact, in 2012 the market share of these products has already reached 43%, for food and non-food categories. If we consider only the food category, the most resistant to the crisis, the market share rose from 41.7% in 2008 to 51.7% in 2012. As one can see in **Exhibit 19**, this increase happened in all food categories, which reinforces this consumption pattern

Exhibit 19: Private Label in Portugal - Food products market share

	2008	2009	2010	2011	2012
Private Label market share - Food products	41,7%	44,3%	47,4%	49,5%	51,7%
Non-Alcoholic Beverages	44,9%	49,7%	53,8%	55,0%	58,8%
Delicatessen	50,4%	52,5%	54,3%	59,8%	63,6%
Dairy Products	46,4%	50,4%	52,9%	54,6%	56,4%
Frozen products	65,2%	66,8%	68,2%	69,0%	68,2%
Groceries	45,2%	47,0%	49,7%	53,3%	54,5%
Refrigerated products	68,0%	75,7%	83,8%	85,5%	88,9%

Source: Fundação Francisco Manuel dos Santos

Although the crisis had a major impact in private label's development in the country, we expect Portuguese consumers to maintain the increasing consumption of private label¹⁵, even if the economic conditions improve, since the perception of quality is identical to manufacturer products¹⁶ and the difference in price is estimated to be, on average, around 20-30%.

Another important change in consumer behavior has been the frequency of shopping. Previously, consumers regularly shopped for a whole month, in larger formats and further away from the city center. Smaller, closer formats, as PD, were used to buy more sporadically, where the price was not so important and higher. However, in the last decade this trend has undergone profound changes. Due to budgetary difficulties experienced by families in recent years, shopping for a month gave place to shopping on a weekly basis and, in several cases, daily basis. Thus, the average ticket generally decreased by increasing the number of visits to the store. On the other hand, both large and small formats have had to adapt to this new reality. The former dropped its non-food categories' assortment, which were the most penalized by decrease in consumption, while proximity formats have adopted a strategy of low prices by increasing the supply of private label products. This led to a change in the competitive landscape, with various different formats competing most closely with each other.

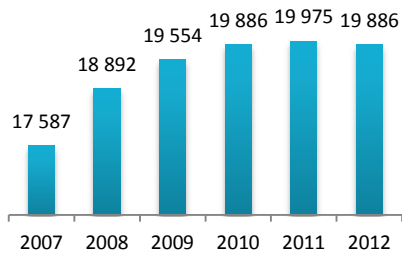
¹⁴ According to Nielsen, 99% of Portuguese households bought Private Label products, spending €470 per year in these products.

¹⁵ According to TNS Worldpanel, 95% of Portuguese polled admitted that they will continue to purchase these brands, even when the economy starts to grow again.

¹⁶ According to APED, 80% of Portuguese consumers perceive Private Label's quality as being equal or better than manufacturer brand products.

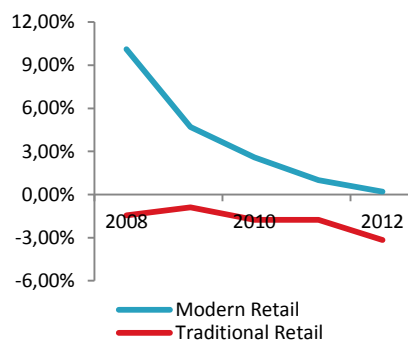
1. Market Overview

Exhibit 20: Grocery Retail sales (€mn)



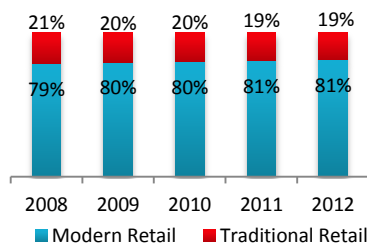
Source: Nova Research

Exhibit 21: Modern/Traditional Retail YoY



Source: Nova Research

Exhibit 22: Grocery Retail breakdown

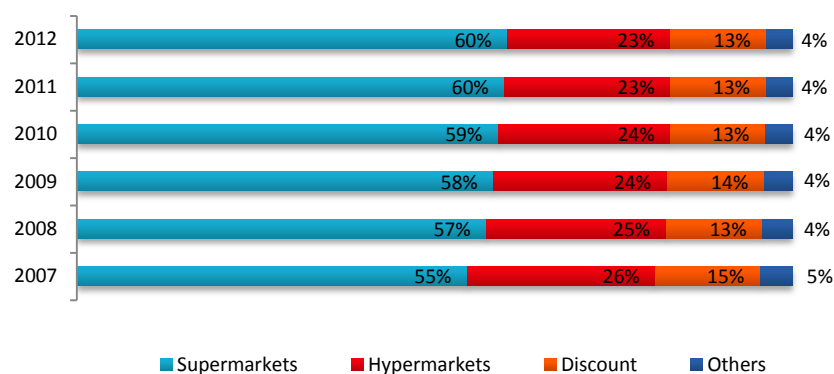


Source: Nova Research

The Portuguese Grocery Retail Market reached €19,886mn in 2012, a decrease of 0.45% when compared to the previous year (**Exhibit 20**). Nevertheless, the recent performance of this sector has been better than the overall economy. Indeed, despite of the last financial and economic crisis, the sector presented a CAGR of 1.88% during the last three years. The growth presented has been achieved through the performance of Modern Retail (MR), which as we can see in **Exhibit 21**, grown at a CAGR of 2.75%. On the other hand, Traditional Retail (TR) has been declining in the last years, with a YoY decrease of 3.17% in 2012. In reality, MR achieved 81.2% of the entire market in 2012, while TR represents the remaining 18.8% (**Exhibit 22**). In recent years, MR has been growing at the expense of traditional retailers, gaining consumers' preference through: their modern outlets; carefully chosen product selection; wide range of private label products; competitive location and pricing; and, theirs consumers' loyalty programmes. These figures show that the Food Retail market in Portugal is reaching a level of maturity¹⁷ in line with major European countries¹⁸.

As we can see in **Exhibit 23**, supermarkets are the biggest grocery retailing channel in Portugal (60.2% of Modern Retail) as well as the fastest growing segment (**Exhibit 24**).

Exhibit 23: Modern Retail channels breakdown

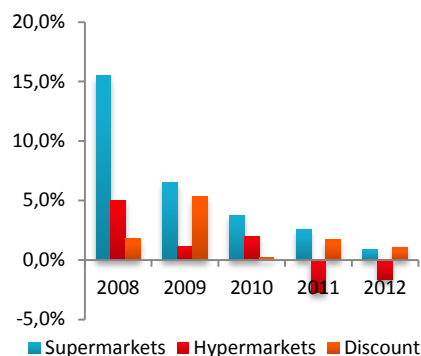


Source: Nova Research

This relative good performance was justified by the consumers' shift from hypermarkets to supermarkets, as they tended to avoid visiting shopping centers where usually hypermarkets are located. This shift occurred in order to avoid temptation by buying the strict minimum, in response to the lower disposable income. Moreover, supermarkets are more widely spread throughout the country.

¹⁷ In 2006, MR accounted for 71% of the Portuguese market.

¹⁸ In U.K. and Germany, Modern Retail accounts for 87.4% and 86.5% of the market, respectively.

Exhibit 24: Channels' sales growth YoY

Source: Nova Research

Regarding hypermarkets, the second main channel in Portugal, the performance has been considerably poorer given the aforementioned reasons, presenting almost no growth in the last six years (CAGR 0.2%) and a market share of 22.75% in 2012. Despite this result, in 2010 hypermarkets took advantage of the liberalization of opening hours, which now allows grocery stores above 2,000 sqm to remain open until midnight on Sundays and on bank holidays.

The third and last main channel is discount, which accounts for 13% of the overall market and has grown between 2006 and 2012 at a CAGR of 2.84%, the second best performance in Modern Retail. This performance was a result of the coverage of this channel's network and low price products, as these retail chains focus on offering good quality, cheap and everyday essential products with stores located near to consumers, usually with a high offer of their own private label products.

Exhibit 25: Portuguese retailers' market shares

Retailers' Market share	2011	2012
Pingo Doce	16,1%	16,6%
Sonae MC	16,7%	16,5%
Jumbo & Pão de Açúcar	8,3%	8,3%
Intermarché	7,5%	7,3%
Lidl	5,9%	5,9%
Minipreço	4,0%	4,0%

Source: Nova Research

In **Exhibit 25** we present the market shares of the main retailers in Portugal as a percentage of Grocery Retail market. As we can see, Pingo Doce achieved in 2012 the first position, which has been occupied by Sonae MC. Additionally, the hypermarket chain Intermarché and the discounters Lidl and Minipreço compose the main retailers operating in this market. Furthermore, the Top-5 retailers presented in 2012 a cumulative market share of 55% of the Grocery Retail market, revealing a high level of concentration in the sector, which is consistent with mature markets values, where the market share of the Top-5 retailers reaches values higher than 50%¹⁹. This fact, added to the low penetration of TR, suggests that the market do not offer many growth opportunities and is leading to a fiercer price competition.

2. Prospects

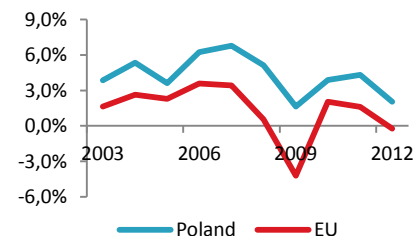
During the next few years and after the recession, the Portuguese economy will take to recover. Indeed, we believe some factors will be essential to meet consumers' needs. As consumers are increasingly sensible to price and with saturation of the market, we expect competition to be focused on this factor. Hence, it is our belief that private label products, as well as the quality associated, will play a key role to meet consumers' preferences and therefore determine retailers' performance. Additionally, store size and location are expected to be important in consumers' choice as shopping frequency should remain high and close-to-home. Therefore, supermarkets and discount should be the most suitable formats and the ones that would benefit from this on-going change in consumer habits.

¹⁹ The Top-5 retailers' market share is 62.5% in U.K. and 55.1% in Germany.

Poland

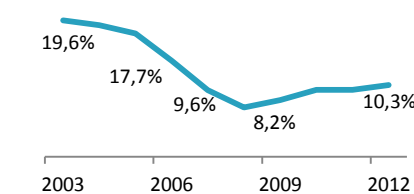
Macroeconomic Analysis

Exhibit 26: Poland and EU Real GDP growth



Source: IMF

Exhibit 27: Unemployment rate



Source: IMF

The Polish economy is the 6th largest economy of the European Union and one of the fastest growing economies in Europe. During the last decade and until the start of the financial crisis of 2008, Poland constantly presented GDP growth rates well above the average of the European Union (**Exhibit 26**), often managing to reach growth rates higher than 3.5%, being the only economy which avoided negative growth rates in the economic and financial crisis. While the rest of European countries went through a tough recession, followed by a fragile and insecure recovery, Poland enjoyed uninterrupted growth, ranging from 1.63% at the epicenter of the crisis in 2009, to around 4% in 2010 and 2011. This good performance allowed the country to reach a GDP per capita of 64% of the EU average, while in 2007 this figure accounted for about 54%, and to reduce its unemployment rate from values around 18-19% in the middle of the decade to 10.3% in 2012 (**Exhibit 27**). Behind this outstanding performance several factors are included, both internal and external, that allowed the economy to stand out during this crisis. Firstly, the fact that the country has not joined Euro and have remained in Zloty²⁰, which added to the long-term depreciation of this currency, caused an increase in demand for domestic products over imported goods. This strengthened both the employment and the internal market, also giving a positive contribution to the increase in exports²¹. Additionally, the financial system turned out to be more robust when compared to other economies of Europe and the level of indebtedness of households is relatively low, enabling the country to a certain extent stay away from the contagious effect of the crisis. Thirdly, Poland benefited from inflows of European structural funds since the adhesion in 2004, which allowed the development of the infrastructure and transportation systems of the country, providing a significant and important increment to the construction sector. Finally, there is the fact that the crisis in Europe has affected more deeply the Mediterranean countries, with which Poland has no strong economic relations. In reality, the main destination for Polish exports, Germany²², was one of the countries that have been less affected by the crisis.

Despite the recent good performance, the public deficit reached 5% of GDP in 2011 and -3.9% in 2012, values above the restrictions imposed by the European Union, while the public debt reached the 55.2% of GDP in 2012. As a result, a

²⁰ There is not a defined and official date for Poland to join the Eurozone but the Polish prime-minister is considering a referendum on the subject. According the Polish Central Bank, the country will not join before 2017.

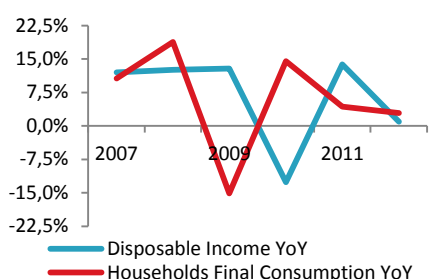
²¹ Volume of imports of goods and services grew in the period between 2000 and 2008 at a CAGR of 8.10% while exports grew at CAGR of 9.28%.

²² In 2011, Germany accounted for 26,1% of Poland's total exports

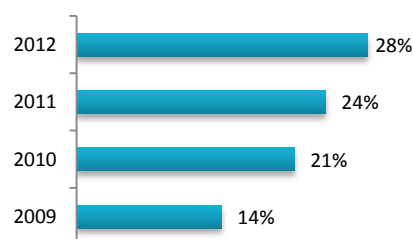
significant fiscal consolidation programme started last year, coinciding with the appearance of the first effects of an approaching Eurozone recession. The economy in 2012 showed the first signs of slowdown, registering a growth rate of 2.3%. This year, it is expected that the economy will slow down the pace as a result of the decline in external demand, the stagnation of private consumption and the reduction of public investment due to the fiscal consolidation programme. Unemployment is expected to increase slightly, reaching 10.2% in 2013 and staying flat in 2014, and it only starts dropping from 2015 onwards. For the period between 2012 and 2017 the economy is expected to grow at a CAGR of 2.97%, according to the IMF.

Exhibit 28: Retail and food retail sales YoY


Source: Eurostat

Exhibit 29: Disposable Income and Final Consumption YoY


Source: Eurostat

Exhibit 30: Private label market share


Source: PLMA

In general the Polish retail market behaved in line with the economy in recent years, with the exception of the last year, when growth was negative. In relation to food retail sales, despite the strong growth earlier in the decade, they have been decreasing since 2008 with the exception of 2009, as shown in **Exhibit 28**. This is explained by the fact that, with the increase in disposable income in recent years, Polish consumers reduced their budget allocation for food products, which reached 18.5% in 2012, while in 2006 it was 21% (**Exhibit 29**). This trend reflects an approximation of Poles' consumption patterns to more developed economies, where the budgetary allocation for food is about 13-14%. On the other hand reveals the growth of modern retail in the country and consumers' preference towards this type of retailers, where prices are generally lower.

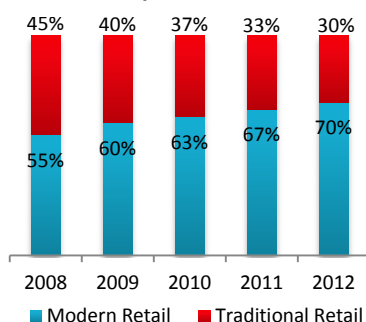
Polish Food Retail Market

As we said Polish consumers have seen their disposable income increasing, but this was not necessarily translated into an increase in the amount spent on food. In fact, this reflects a change in consumption patterns, with consumers turning to modern retail where they find lower prices, at the expense of consumption in traditional retailers. These figures show that the price is becoming increasingly important in consumer behaviour. More and more consumers give preference to private label products instead of manufacturer brand products (**Exhibit 30**), not only in food but also in non-food categories, with promotional offers being increasingly sought by consumers. In this case, Discount is proving to be an increasingly popular format among costumers, due to its wide offer of very low prices and a high share of private label products. Furthermore, it is clear that convenience has also become more important, as socioeconomic changes in Poland suggest that Poles are working longer hours and are not willing to spend time in visiting larger retail formats, choosing to shop in a frequent, daily basis. Smaller formats such as discount, supermarkets and convenience stores are the

ones that most benefit from this trend, as opposed to hypermarkets which require consumers to spend more time and usually to travel longer distances.

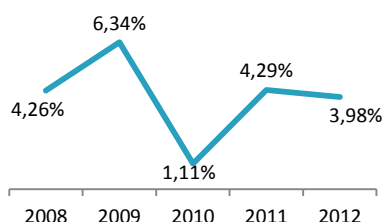
1. Market Overview

Exhibit 31: Grocery Retail breakdown



Source: Nova Research

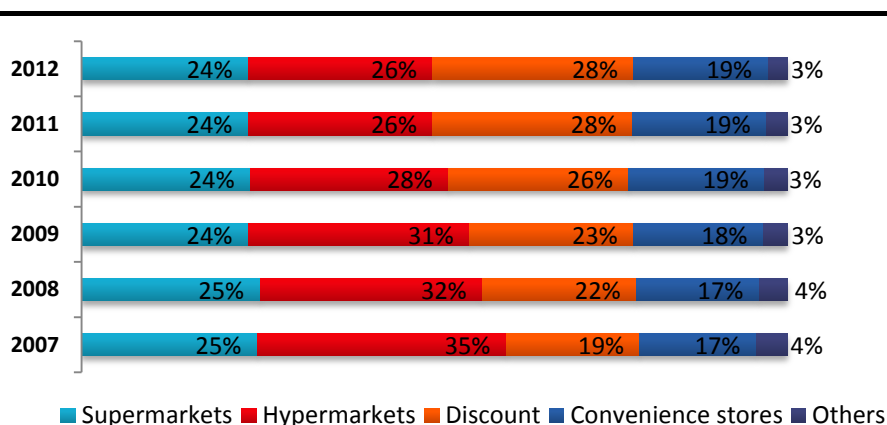
Exhibit 32: Grocery Retail sales YoY



Source: Nova Research

The Polish retail market shows substantial differences when compared to the retail market in Portugal. In the first place, contrasting to the situation in Portugal, the market is in a stage of development and has not yet reached the maturity levels of other European retail markets. On the one hand, the MR segment amounted to around 70% of total Grocery Retail market in 2012, revealing a trend of rapid growth at the expense of the traditional retail sector (**Exhibit 31**). In the last 5 years, the first attained a CAGR of 10.6%, whereas the latter decreased at a rate of 5.5%, resulting in an increase of 3.98% p.a. of the global grocery retail market (**Exhibit 32**). On the other hand, the top-5 retailers of MR presented in 2012 a market share of 34.8%, revealing a much more fragmented market than the Portuguese and other European markets, with several small retailers operating in the market.

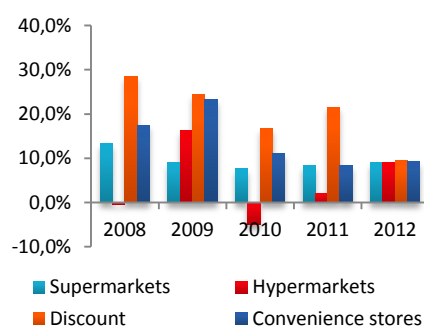
Exhibit 33: Modern Retail channels breakdown



Source: Nova Research

Secondly, the market presents also a high fragmentation with regard to the different channels of MR (**Exhibit 33**). The main distribution channel in terms of market share is the discount, closely followed by hypermarkets, supermarkets, and also the convenience stores, by this order. Despite this proximity of the formats, in recent years there was a clear movement of consumers' preference towards discounters as a replacement for hypermarkets. Although each channel has shown in the last five years positive and significant growth rates, the discount segment stands out with a CAGR of 20%, rising from third position in 2007 to first in 2012²³ (**Exhibit 33** and **Exhibit 34**). Hypermarkets, by contrast, were clearly the main channel in 2007 but have been losing ground for the discount, with a

Exhibit 34: Channels' sales growth YoY



Source: Nova Research

²³ In 2007 this format accounted for 19% Grocery Retail Market, while in 2012 it raised to 28.5%.

CAGR of 4.14% during this period and ranking second in 2012²⁴. Supermarkets and convenience stores both showed interesting growth rates, 9.4% and 13.8% respectively, and increased their market share by 2 p.p. on average²⁵.

Exhibit 35: Polish retailers' market shares

Retailers' Market share	2011	2012
Biedronka	14,9%	16,9%
Tesco	6,5%	7,2%
Lewiatan	4,6%	4,7%
Carrefour	3,3%	3,4%
Lidl	2,3%	2,6%
Netto	1,5%	1,7%

Source: Company Data and Nova Research

Regarding the players in the Polish market under the different formats, **the main operators in the format of discount are Biedronka**, which leads the grocery retail market with 16.9% market share (**Exhibit 35**); the chain Lidl, which owns 2.6% of the market and belongs to the group German Schwarz; and finally, the Danish chain Netto, with a market share of 1.7%. In the hypermarket format, there are several international groups operating in Poland through their retail chains: the British group Tesco, which occupies the second position in the overall grocery market with 7.2% of market share; the French Carrefour and Auchan; the Real chain, owned by German group Metro; and finally, the French chain E.Leclerc. Regarding supermarkets, the major chains operating are: Lewiatan; Polomarket; Intermarché; and, Carrefour Market.

2. Prospects

The situation in Poland will be characterized by some uncertainty in the near future, with the crisis in Europe playing an important role and expected to constrain somewhat the growth outlook, affecting the behaviour of the retail sector. It is not expected that the market exhibits the rapid growth of recent years²⁶, although the approach to the more mature markets should occur within the next 10 years, with MR growing and gaining market share to TR. This move should result from the continued expansion of major retail chains, which will tend to expand into smaller cities and more rural areas of the country, when most populated cities present a high level of saturation and few opportunities for further expansion.

The Polish consumer should maintain its tendency to seek the best value for money, revealing high price sensitivity, although the socio-economic conditions tend to improve in the coming years. This context should increase the popularity of private label, which still reveals a market penetration below other European countries. Thus, the segments that are expected to grow faster in the coming years will be the discount, supermarkets and convenience stores, respectively. These formats will be the ones that suit the most consumer needs, presenting a wide offer of private label products and also offer, through its network of stores, a more convenient location for the consumer, who must go to the store more often, with lower average tickets.

²⁴ Hypermarkets channel was leader in 2007 with a market share of 35.3%, while in 2012 it only achieved 26.2%.

²⁵ Supermarkets account for 23.7% of the Grocery Retail Market, whereas convenience stores represent 19%.

²⁶ The Grocery Retail Market should present a CAGR between 2013 and 2022 of 1.36% (3.98% between 2007 and 2012).

Colombia

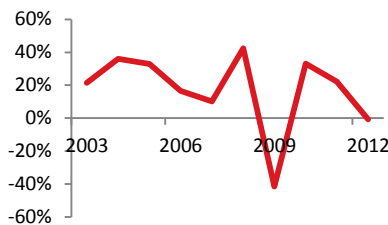
Macroeconomic Analysis

Exhibit 36: Colombia Real GDP growth



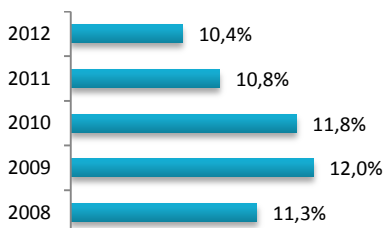
Source: IMF

Exhibit 37: Oil prices YoY



Source: Bloomberg

Exhibit 38: Unemployment rate



Source: IMF

The Colombian economy is the fourth largest in South America, after Brazil, Mexico and Argentina. With a population of approximately 47 million people, which is expected to reach 50 million in 2018, the country is rich in natural resources including oil, gas, coal, metals (namely gold, silver and copper), and it is also known as the world's leading producer of emeralds. In the last decade Colombia has shown a remarkable economic performance, reaching real GDP growth rates consistently above 4%, with emphasis on the years 2007 and 2011 (**Exhibit 36**), where the economy grew by almost 7%. This decade of strong economic performance, added to the low level of public debt²⁷, has been crucial to the upgrade of the Government's credit rating to investment grade in 2011 by all three major rating agencies. One of the main factors that led to this behavior of the economy was the large increase in the price of commodities in recent years, as Colombian GDP is based largely in agriculture (7%) and industrial production (38%). In terms of agriculture, Colombia produces mainly coffee, cut flowers, bananas, rice and tobacco, while its main industries are textiles, food processing, oil, industrial chemicals (gas) and some metals as gold, coal and emeralds. This means that the country is heavily dependent on commodities' price, mainly oil and oil derivatives (**Exhibit 37**), which accounts for 48.4% of goods exports, followed by coal (14.7%). In what regards Colombia's international trade relations, United States are its main partner, both in exports (42%) and imports (29.2%), which creates an additional source of dependence of Colombian economy, making it vulnerable to the U.S. economy. The current government of President Santos, after an economy cooling in 2009 (1.7%), followed a strategy to promote growth, foreign direct investment and free trade, through various bilateral agreements with other countries such as United States, Canada, Chile, Mexico, the European Union, among others. This strategy also concentrated on the development of five areas identified as pillars and engines for growth: innovation, agriculture, transport infrastructure, mining and housing. The Government launched several structural programmes, addressed to each sector in particular, with the determination of increase exports in the short/medium-term and to provide the country the necessary infrastructures to support economic development. One of the major problems of the country are the levels of criminality, resulting from the high unemployment rate (**Exhibit 38**), one of the largest in South America, as well as from the high levels of poverty.

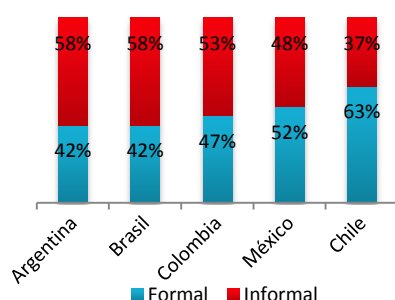
²⁷ According to the IMF, public debt accounted for 32.8% of its total GDP in 2012.

Despite the progress made in combating poverty in the last decade²⁸, in 2011 34.1% of people lived below the poverty line, while 15.3% lived with less than \$ 2 per day.

Colombian Food Retail Market

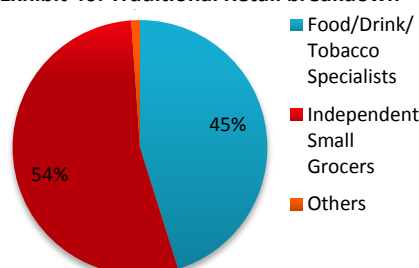
1. Market Overview

Exhibit 39: Formal and informal retail breakdown



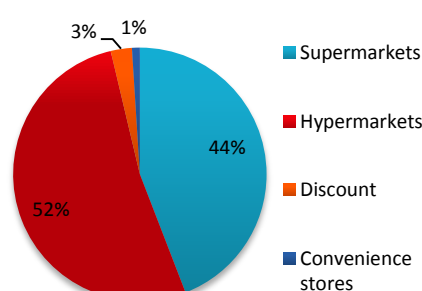
Source: Nova Research

Exhibit 40: Traditional Retail breakdown



Source: Nova Research

Exhibit 41: Modern Retail breakdown (2012)



Source: Nova Research

The Colombian retail market is still at an early stage of development, presenting a high level of fragmentation and it is characterized as dominated by informal retail²⁹ (**Exhibit 39**). With the historical levels of criminality in the country, many international players of MR decided to stay away from the Colombian market. In fact, Traditional Grocery Retail still accounts for almost 60% of the entire Grocery Retail Market, which reveals the low penetration of Modern Retailers in this country.

The leading channel is controlled by independent small grocers (**Exhibit 40**), which are estimated to run over 200,000 stores in the country, being the preferred channel of Colombians with 32% of the entire grocery retail market. The success of these stores, largely located in small neighbourhoods and less urbanized cities, is much related to the fact that a great part of retail consumers belongs to middle/middle-low income classes that shop on a daily basis due to budgetary limitations³⁰. These stores offer various products with smaller sizes not available in other retail formats, which suits everyday needs of these consumers. Additionally, treatment at these stores turns out to be much more personalized than in modern distribution since, by being part of small communities, the owners of these shops often know their customers, which sometimes allows them to buy and pay later without interest. On the other hand, for manufacturer brands, these stores are very important, since they provide access to more remote areas of the country as they are spread all over the territory, and allow them to obtain higher margins when compared to modern retailers.

Regarding Modern Retail (**Exhibit 41**), the market is mainly composed by hypermarkets (52% market share) and supermarkets (44%), while discount (3%) and convenience stores (1%) are still residual in the country. The most important format, hypermarkets, which achieved this position four years ago, recorded in 2012 a 10% increase in sales and 5% in new stores, while supermarkets presented almost no growth in the last 5 years, both in terms of sales (CAGR of 0.6%) and number of stores (CAGR of 1%). Contrarily, discount and specially convenience stores have been clearly outperforming the leading channels,

²⁸ In 2003, 48% of the population lived below the poverty line and 32.7% with less than \$2 per day.

²⁹ About 53% of total retail sales come from informal retail.

³⁰ According to DANE, the official statistics department in Colombia, about 67% of households belong to this type of classes.

explained by their early stage of development in the country. Discount, which grew at a CAGR of 16.7% in the last 5 years and is estimated to have reached in 2012 221 stores, is now starting its development in the country, mainly due to the Surtimax and D1 chains, which have now 119 and 102 stores respectively. This format, through its price positioning, its high private label assortment and its store locations, mainly in medium/high-density neighborhoods with lower income levels, is the one that most competes with small grocery retailers. In what regards convenience stores, a relatively new format in the country, it has grown at a CAGR of 62% in the last five years, translating the increase from 10 stores in 2007 to 162 last year. Located mainly in middle and high-income urban areas, absorbing mainly professional workers with limited time to shop, this type of stores offer additional services to suit their customers' needs, as paying public services' bills or car insurance services and are not a direct competitor for small independent grocers or discounters.

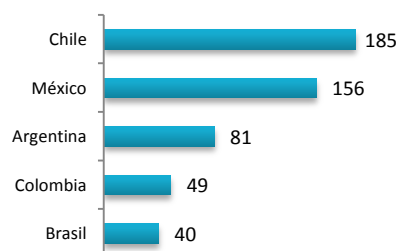
Exhibit 42: Colombian Retailers' market shares

Retailers' Market share	2011	2012
Almacenes Éxito	21,1%	23,2%
Carrefour	15,4%	13,4%
Olimpica	8,4%	8,6%
Éxito	5,5%	6,6%
AlKosto	5,7%	6,1%
Carulla	5,2%	5,1%
Cacharrería La 14	4,7%	4,9%
Sao	4,2%	4,4%
Surtimax	1,7%	2,3%

Source: Company Data and Nova Research

The largest retailer in the Colombian market is Almacenes Éxito Group, with a total market share of 37% (**Exhibit 42**) and a total of 427 stores, controlled mainly by the French Casino Group, which owns 55% of the shares. The Group has been standing out by the several formats that it operates in the country, thus being able to reach all types of consumers. In the hypermarkets and supermarkets formats, the company operates under the brand Éxito, also having a supermarket chain called Carulla, with a more premium positioning in more developed areas of the country. In formats discount and convenience stores, the group launched in recent years the chains Surtimax and Éxito Express, respectively. The second main player in the Colombian market is Jumbo (former Carrefour stores with 14% of market share) that now belongs to the Chilean Group Cencosud³¹, and it operates 75 hypermarkets and around 20 convenience stores. The third main retailer in the market is Olimpica, which operates a network of 167 supermarkets and holds a market share of 8.55%.

Exhibit 43: Retail penetration (sqm/1000 inhabitants)



Source: Nova Research

2. Prospects

The Colombian retail market is still at an early stage of development, presenting several opportunities for modern retail growth (**Exhibit 43**). Unlike other more developed markets, where modern retail grows mainly at the expense of more traditional formats, in the Colombian market this trend has not yet occurred, and in the last five years both grew at similar rates. Having this said, in the coming years we expect traditional retail to start showing signs of stagnation while we expect the modern retail to accelerate its growth. On the one hand, convenience

³¹ In 2012, Carrefour sold its Colombian business, composed by 75 hypermarkets and 20 convenience stores, to the Chilean retailer Cencosud (3rd largest retailer in Latin America) by €2 billion. According to Carrefour, this sale is in line with the strategy of "focusing on geographies and countries in which it holds or aims to develop a leading position". In fact, the Group has already quit Greece and Singapore in 2012.

stores should benefit from the increase in people living and working in large cities without availability or time to shop in larger, more distant formats. On the other hand, hypermarkets, grounded in the price variable, with constant promotional activities and a growing supply of private label products should start competing more intensely with traditional retailers. Finally, the discount segment, like the hypermarkets but with the additional factor of proximity and with a wider range of private label products, should also present significant expansion in the next years, competing directly with independent small grocers.

Valuation

SOP

In order to value JM and find the appropriate price target, we used the Sum-of-Parts (SOP) approach, which we considered as the most suitable model to value the Group considering its presence on three different geographies with three different currencies. Moreover, the Group operates not only under different formats in Food Retail (supermarkets, discount and cash-and-carry) but also other segments (Industry and Services), as well as it has different stakes in its Business Units. In the case of Biedronka and Ara, we decided to perform the valuation on their local currencies, using then the 2013 forward rates of each currency to convert to Euros their Enterprise Value.

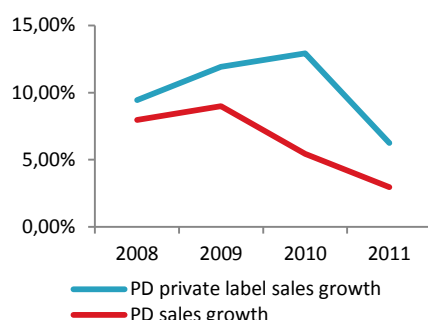
Operational Forecasts

In this part of the report we analyse the recent performance of the BU's belonging to Jerónimo Martins, and in the case of food retail, we make a comparison of the performance of recent years with major competitors in each market. Furthermore, we detail the operational forecasts for each BU, comprising mainly sales, sales density (sales/sqm), number of stores and sales area, EBITDA, EBIT and respective margins. Estimates were prepared for a period of 10 years until 2022, with the exception of Ara that, since it is starting operations and for some years operating results should be negative, we have decided to extend the forecasts until 2026. To perform the forecasts we took into account; the strategic guidelines³² of the Group for the period 2013-2015, revealed in the "investor's day" 2012 and 2011; the macroeconomic conditions in each of the countries in which the company operates; the competitive environment and growth outlook of the retail market in each country; as well as Group's performance in recent years.

³² We assumed average store size to remain constant in the future for Biedronka, Pingo Doce and Recheio while for Ara we considered the information given by JM, which says that each store will have between 300 and 600 sqm. We assumed each store to have 500 sqm, on average.

1. Pingo Doce

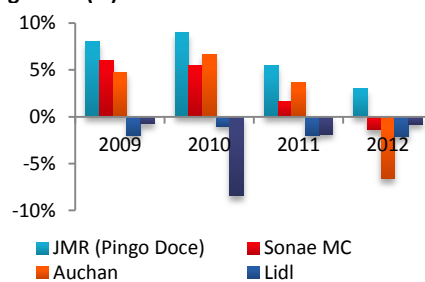
Exhibit 44: PD Total/PL sales (%) growth



Source: Company Data

In the last 5 years, Pingo Doce increased its sales at a CAGR of 6.3%, mainly due to the increase in Sales/sqm. (CAGR of 5.8%), while the Total Sales Area just increased by 0.5% p.a., with the opening of 16 new stores (see **Appendix I**). This ahead of the market performance³³ allowed the company to increase its market share to 16.66% in 2012, from 10.1% in 2008, mostly due to the good performance of private label (**Exhibit 44**) and perishables. With regard to EBITDA performance, the margin achieved its higher value in 2009 but since then it has been falling, reflecting the increase in advertising in 2010 (€31.3mn spent vs. €19mn in 2009). More recently, the price repositioning of the Company with the launch of several promotional activities lowered EBITDA of 2012 to values of 2008, reflecting a margin of 4.4% (the strategy of the Company has been focused on sales and market share rather than operational margins, which fell by 100bp. in 2012). Inversely, its main competitor, Sonae MC, saw its sales decreasing 1.4% in 2012, while it has been able to increase its EBITDA margin

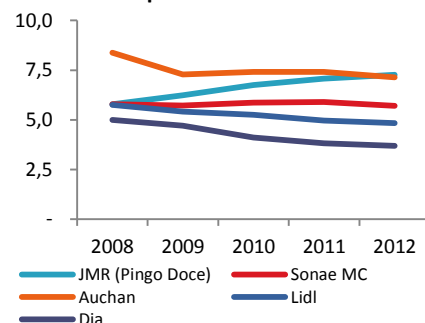
Exhibit 45: PD and main competitors' sales growth (%)



Source: Company Data and Nova Research

In **Exhibit 45** and **Exhibit 46**, we present data about the performance of Pingo Doce and its main competitors in the last five years. In the analysed period, JM's supermarket chain reached the highest growth rate of sales (6.3%), followed by supermarkets and hypermarkets chains from both Auchan Group (5%) and Sonae MC (2.9%), while Lidl and Dia (Minipreço discount stores) presented declining sales. Moreover, in terms of stores' performance (sales/sqm), Pingo Doce clearly stands out from its competitors, being the only chain presenting positive growth rates in this indicator. This comparative performance shows that Pingo Doce has been able to adequate its strategy to the difficult period the country is living and, more important, with better results than its competitors,

Exhibit 46: Sales/sqm performance of PD and main competitors



Source: Company Data and Nova Research

According to our forecasts over the next 10 years shown by **Exhibit 47**, and taking into account the high level of saturation of the Portuguese retail market and the difficult macroeconomic environment, growth opportunities are quite limited on the national scene. So, contrarily to JM's expansion plan of opening 5 PD stores per year from 2012 until 2015³⁴, we were more cautious and we forecast JM to open 3 stores this year and 2 stores per year from the next year until 2017 and only 4 stores in the period between 2017 and 2022. Still, we expect PD sales to register positive growth and a CAGR of 2.2% in the forecast period, mainly due to the behaviour of sales/sqm (1.8%), while the total sales

³³ Supermarkets grew at a CAGR of 3.4% and the MR grew at a CAGR of 2.1% in this period.

³⁴ JM Investors Day 2011 – In 2012 only 3 PD stores were opened, which reinforces our forecast of stores opening extension over the next 5 years.

area should increase to 474,000 sqm. (0.3%), reflecting the opening of the aforementioned 15 new stores over this period.

Exhibit 47: PD operational forecasts

Pingo Doce (€mn)	2013E	2014F	2015F	2016F	2017F	2022F	CAGR 13-22
Sales	3 351	3 410	3 475	3 586	3 698	4 067	2,2%
% growth	1,2%	1,8%	1,9%	3,2%	3,1%	10,0%	
Sales/sqm. ('000 €)	7,3	7,4	7,5	7,7	7,9	8,6	1,8%
% growth	0,4%	1,2%	1,4%	2,7%	2,6%	8,8%	
Total Stores	377	379	381	383	385	389	
Total Sales Area ('000 sqm.)	460	462	465	467	469	474	0,3%
EBITDA	151	171	191	208	215	264	6,4%
EBITDA margin	4,5%	5,0%	5,5%	5,8%	5,8%	6,5%	
EBIT	49	65	85	101	106	153	13,6%
EBIT margin	1,5%	1,9%	2,4%	2,8%	2,9%	3,8%	

Source: Nova Research

Our forecasts translate our belief that the Company, as it has shown in the past, is able to adjust rapidly to the competitive environment and suit changing consumer preferences. On the one hand we believe the price investment the Company did in 2012 and the continuous focus on perishables and its private label, should contribute to the above-of-the-market performance that the Company has shown in recent years, increasing PD's market share. On the other hand, we recall that the economic situation in the country will reinforce price as the main consumer's choice driver. Thus, we do not exclude the possibility of PD decide to further develop its recent promotional card into a loyalty card in order to force consumers to return to PD stores on a regular basis, to benefit from accumulated discounts as it happens with Sonae MC and its loyalty card.

Regarding EBITDA margin performance, after the severe impact in 2012, the Company announced³⁵ that its increase will be one of the main priorities for the next years. We believe that, as we mentioned before, the Company will prioritize sales volume in the next few years and margins should be lower than in the past, to face the rough price competition. Thus, we expect a slow recovery in the next three years, reflecting Company's effort to rationalize costs, reaching 5.5% only in 2015 and 6.5% in 2019.

2. Biedronka

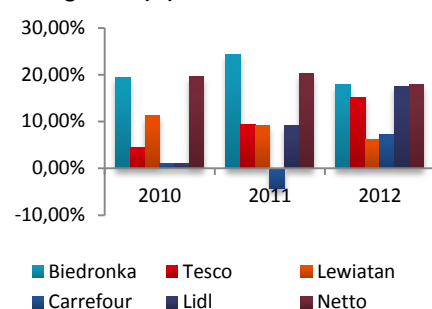
Biedronka has been the best performer Company of the Group for years, with sales reaching an impressive CAGR of 17.9% in local currency over the last five years (13.8% taking into account the devaluation of Zloty), achieving €6,731mn in 2012. The discount format has proven to be quite successful among Polish consumers³⁶, allowing the Company to be leader in Food Retail in Poland and

³⁵ Investors' Day 2012

³⁶ According to a study made in 2012 by PBS, a Polish research company, 63% of Poles consume regularly in Biedronka, with 13% saying that Biedronka is the only place for shopping.

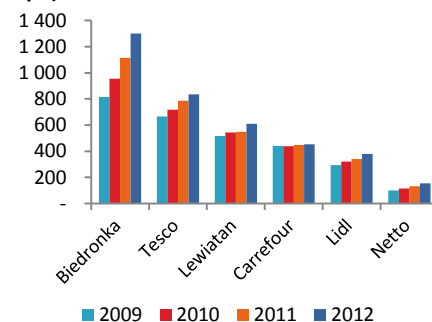
maintain this outstanding performance during the last two years, in which there has been an economic and retail slowdown (see **Appendix I**). The Total Sales Area grew at an 11.5% CAGR, with the opening of 766 stores in this period, to a total of 2125, while at the same time sales/sqm grew from 16.4 thousand Zlotys in 2008 to 21.6 in 2012. The 252 stores opened during 2012 (net³⁷) illustrate the ambitious investment plan JM announced for this chain until 2015, when the Company is expected to reach 3,000 stores, operating in all of the 16 regions in which the country is divided. At the same time, the Company managed to convert the layout of all its stores in the last two years, improving the focus on perishables and fresh products. Nevertheless, the efficiency of Biedronka operations has been constantly improving during the last five years with EBITDA reaching a CAGR of 22.1% in Zlotys, above the 17.8% registered in sales. This results from the continuously higher EBITDA margin, which evolved from 6.9% in 2008 to 8.2% in 2012, translating the benefits from operations' scale.

Exhibit 48: Biedronka & main competitors' sales growth (%)



Source: Company Data and Nova Research

Exhibit 49: Sales area evolution ('000 sqm)

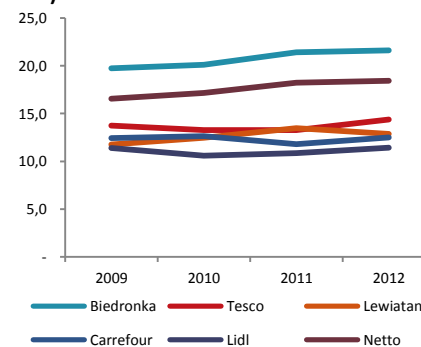


Source: Company Data and Nova Research

By analysing Biedronka's performance compared to its competitors (**Exhibit 48**, **Exhibit 49** and **Exhibit 50**), we conclude that, despite having clearly benefited from the momentum of the Polish retail market, its performance was superior to the rest. In terms of sales performance, we see that the CAGR of 20.5% over the last 3 years has been only followed by the Netto's CAGR of 19.2%, even though its sales account for 10% of Biedronka's sales. In contrast, Tesco, Lidl and Lewiatan presented CAGRs around 9%. Carrefour was the one that had the worst performance, growing about 1% p.a.. Biedronka and Netto's sales performance resulted mainly by their investment sales area's expansion, with the opening of 659 and 53 stores, respectively. We can also see that in terms of stores' performance, Biedronka achieved a growth rate of 3.1%, and together with Netto (3.7%), were the only chains able to present continuously growth in this indicator, with JM's chain achieving 21.6 thousand Zlotys p/sqm in 2012. These data reinforces the success of the format discount among consumers, and within this format, the preference for Biedronka.

Biedronka is leader of the Grocery Retail Market, fact that should be reinforced by the expansion plan the Company is executing. During the next years and after the expansion plan we do not foresee many players being able to compete with Biedronka in terms of price, cost-efficiency and market share. So, we point out that the leadership the Company holds in this market will be sustainable in the future, allowing it to achieve similar performance to the past, limited mostly by economic factors than by competition. Actually, we believe that by creating this large store network, supported by price leadership and scale efficiency,

Exhibit 50: Sales/sqm performance ('000 PLN)



Source: Company Data and Nova Research

³⁷ In 2012 263 stores were opened while 11 were closed.

Biedronka will drive away possible entrants and limit existing competitors in the near term. Additionally, the chain presents a very high EBITDA margin, which would allow it to resist and react to price “wars”.

Exhibit 51: Biedronka operational forecasts

Biedronka (€mn)	2013E	2014F	2015F	2016F	2017F	2022F	CAGR 13-22
Sales	7 729	8 732	9 749	10 466	10 952	13 405	6,3%
% growth	14,8%	13,0%	11,6%	7,4%	4,6%	22,4%	
Sales/sqm. ('000 €)	5,3	5,3	5,3	5,5	5,5	6,2	1,8%
% growth	1,9%	0,2%	0,3%	3,1%	0,8%	12,4%	
Sales (PLN)	32 308	37 198	42 700	47 514	51 365	64 238	7,9%
% growth	14,9%	15,1%	14,8%	11,3%	8,1%		
Sales/sqm. ('000 PLN)	22,0	22,5	23,2	24,8	25,8	29,6	3,3%
% growth	2,0%	2,1%	3,1%	6,8%	4,1%	14,8%	
Total Stores	2 395	2 700	3 005	3 130	3 250	3 540	
Total Sales Area ('000 sqm.)	1 466	1 653	1 840	1 916	1 990	2 167	4,4%
EBITDA	657	755	853	921	964	1 072	5,6%
EBITDA margin	8,5%	8,7%	8,8%	8,8%	8,8%	8,0%	
EBITDA (PLN)	2 746	3 218	3 736	4 181	4 520	5 139	7,2%
EBITDA margin	8,5%	8,7%	8,8%	8,8%	8,8%	8,0%	
EBIT	522	596	670	721	759	838	5,4%
EBIT margin	6,8%	6,8%	6,9%	6,9%	6,9%	6,3%	
EBIT (PLN)	2 182	2 539	2 934	3 272	3 561	4 017	7,0%
EBIT margin	6,8%	6,8%	6,9%	6,9%	6,9%	6,3%	

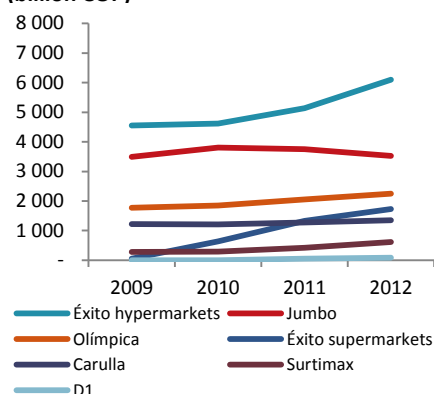
Source: Nova Research

In **Exhibit 51** we present our operational forecasts for Biedronka. Accordingly, after a year of retail slowdown, which impacted Biedronka's LFL sales growth³⁸, we expect 2013 to be a similar year, with sales achieving around 15% growth, mainly benefiting from stores expansion, as we forecast 270 stores to open this year. During the forecast period, we expect Sales to increase at a CAGR of 7.9%, total sales area at a 4.4% CAGR and sales/sqm at a CAGR of 3.3%, reaching in 2022 29.6 thousand Zlotys p/sqm. Regarding EBITDA margin performance we expect the Company to reach a record of 8.8% in the next 5 years due to the aforementioned benefits from scale, while in the long-run we forecast a stable 8% margin.

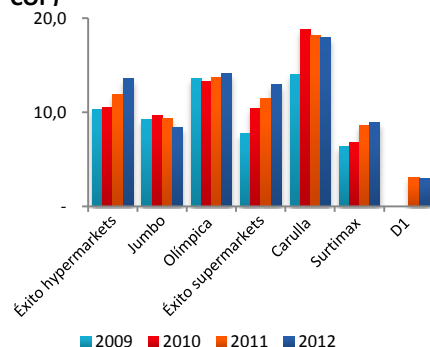
3. Ara (Colombia)

As we have said, Ara started operating in Colombia in March this year. JM announced that the first stores were opened in Pereira, the capital of Risaralda (Colombian Region with around 950 thousand people living in), and until the end of 2013, 30-40 stores are expected to be opened. Moreover, the Group informed that 150 Ara stores will be operating until the end of 2015 and that the performance over the period will determine the pace of expansion afterwards. In

³⁸ In 2012 sales grew almost 18% but Like-for-Like growth has been only 6.4%.

Exhibit 52: Colombian retailers' sales (billion COP)

Source: Company Data and Nova Research

Exhibit 53: Sales/sqm performance (million COP)

Source: Company Data and Nova Research

order to produce forecasts for Ara, we looked at the sales performance of major retailers in the Colombian market³⁹. As it can be seen in **Exhibit 52**, Almacenes Éxito's formats dominate the modern retail market, occupying three positions in the top-five. The other two retailers in the top-five are Jumbo, former Carrefour hypermarkets sold to Cencosud as we have said, and Olímpica supermarkets. The other two retailers analysed are the two discount chains operating in the country: Surtimax, owned by Éxito Group, is the largest in terms of sales (COP 616 billion = €264 million) and stores (118), while D1, despite having 100 stores, presented in 2012 sales of COP 90 million (= €38.5 million). Both chains are relatively recent⁴⁰ and have been our starting point to estimate Ara's performance in the next years. By looking at **Exhibit 53**, we see that Surtimax has been increasing sales/sqm. at a CAGR of 12% in the last four years, achieving in 2012 COP 8.9 million per sqm (€3.8 thousand per sqm.), while D1 posted stable sales of COP 3 million per sqm (€1.2 thousand per sqm.) in the last two years.

We have relied more on Surtimax data, given its better performance⁴¹ and the fact that its stores are closer to the model we believe JM will follow⁴². Therefore, we estimate Ara's sales/sqm to be COP 5.5 million⁴³ (€2.2 thousand⁴⁴) in 2013, COP 7.9 million in 2014 (€3 thousand), achieving in 2026 COP 15.6 million (€5.2 thousand). Regarding store openings, we consider that after reaching the objective of 150 stores by 2015, JM will accelerate Ara's expansion in the country. Actually, after this three-year period, Biedronka's expansion plans should reduce the pace as we have mentioned, allowing JM to focus more, in terms of financial resources, on Ara's growth. Additionally, the growth prospects of the country, translated in the raise of disposable income of middle/middle-low income people and the growing urbanisation of middle-size cities suggest many growth opportunities for retailers. With this said, we forecast Ara stores network to reach 955 stores in 2020 and 1500 in 2026⁴⁵ (**Exhibit 54**). In terms of EBITDA performance, in the first four years we expect margin to be negative, reflecting the start-up costs of the chain, while after 2016 we expect positive margins reaching 6.5% in 2020 and 7.5% in 2026.

³⁹ We have selected the top-five retail chains as well as the two discounters operating in the country, Surtimax and D1, which is the format of Ara stores.

⁴⁰ These chains started operating in 2008 (Surtimax) and 2009 (D1).

⁴¹ We assume that JM will replicate Biedronka's business model for Ara's stores and the acquired know-how will be crucial for the performance of the Colombian chain.

⁴² Surtimax stores have an average size of 583 sqm and D1 stores 300 sqm. We assumed Ara stores to have, on average, 500 sqm, as JM announced a store size between 300 and 600 sqm and Biedronka stores have 612 sqm., on average.

⁴³ In 2013, Ara will operate only three quarters as first stores were opened in March. Moreover, we assumed new stores to operate at 70% in first year and 100% in the second year until 2017 and 50%-100% afterwards. This assumption relies on the low penetration that modern retail has in the country, which should contribute to a better performance of new stores than in more mature markets.

⁴⁴ We converted cash flows to Euros only to calculate consolidated accounts as we have done Biedronka and Ara's valuations in local currency. We used forward rates available in Bloomberg.

⁴⁵ Biedronka, after thirteen years operating, had 1359 stores.

Exhibit 54: Ara operational forecasts

Ara (€mn)	2013E	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2026F	CAGR 13-22
Sales	39	139	246	473	762	1 116	1 513	1 902	3 919	42,6%
% growth		256,8%	76,7%	92,2%	61,2%	46,4%	35,6%	25,8%	106,0%	
Sales/sqm. ('000 €)	2,2	3,1	3,2	3,1	3,3	3,5	3,8	4,0	5,2	6,8%
% growth		38,7%	2,6%	-2,3%	8,1%	5,8%	6,1%	6,0%	31,2%	
Sales (million COP)	95 935	354 498	653 594	1 310 385	2 197 567	3 240 748	4 416 305	5 578 103	11 663 435	44,7%
% growth		269,5%	84,4%	100,5%	67,7%	47,5%	36,3%	26,3%	109,1%	
Sales/sqm. (million COP)	5,5	7,9	8,4	8,6	9,7	10,3	11,0	11,7	15,6	8,4%
% growth		43,7%	7,1%	1,9%	12,4%	6,5%	6,6%	6,5%	33,1%	
Total Stores	35	90	155	305	455	630	805	955	1 500	
Total Sales Area ('000 sqm.)	17,5	45,0	77,5	152,5	227,5	315,0	402,5	477,5	750	33,5%
EBITDA	(3)	(4)	(7)	(5)	27	50	83	124	294	
EBITDA margin	-7,0%	-3,0%	-3,0%	-1,0%	3,5%	4,5%	5,5%	6,5%	7,5%	
EBITDA (million COP)	(6 715)	(10 635)	(19 608)	(13 104)	76 915	145 834	242 897	362 577	874 758	
EBITDA margin	-7,0%	-3,0%	-3,0%	-1,0%	3,5%	4,5%	5,5%	6,5%	7,5%	
EBIT	(3)	(11)	(22)	(29)	(3)	15	40	72	216	
EBIT margin	-7,0%	-7,9%	-9,1%	-6,1%	-0,4%	1,4%	2,6%	3,8%	5,5%	
EBIT (million COP)	(6 715)	(27 948)	(59 173)	(79 405)	(8 126)	44 156	116 583	210 166	643 104	
EBIT margin	-7,0%	-7,9%	-9,1%	-6,1%	-0,4%	1,4%	2,6%	3,8%	5,5%	

Source: Nova Research

4. Recheio

Recheio's performance has been positive in general, with the exception of the last year, where sales remained almost unchanged, having declined 0.2% (see **Appendix I**). The Company sells largely to Traditional Retailers and to the HoReCa channel, both of which have been severely penalized by the crisis. On one hand TRs have been losing market share to Modern Retailers, as consumers seek lower prices, to which TR can hardly compete with. On the other hand, HoReCa channel have been losing clients during the last years, reflecting both private consumption decrease and the VAT increase from 13% to 23%, leading to several bankruptcies in the sector. Taking into account these facts about Recheio's main clients, and the fact that in 2012, with such a tough environment, sales virtually stagnated, we can conclude that the Company is managing to effectively minimize the impact of the crisis. In fact, according to JM, the chain has been able to attract 10,000 new HoReCa customers in 2012, despite the sales decrease of 3% in this channel, and to increase sales in the TR channel by 1.9% with 5,000 new customers, offsetting the decrease in the average purchase, when both TR and HoReCa channels registered market contractions of 5.8% and 10.5%, respectively. Private Brand and Perishables have been the pillars to sustain sales, with the first achieving 20.4% of total sales, while the "Amanhecer" project contributed to the increase of TR's sales, with the opening of 9 new stores, to a total of 26. Furthermore, EBITDA margin remained stable at 4.5%, despite the high number of promotional campaigns the Company has done during 2012 to celebrate its 40th anniversary.

Exhibit 55: Recheio operational forecasts

Recheio (€mn)	2013E	2014F	2015F	2016F	2017F	2022F	CAGR 13-22
Sales	743	734	743	761	793	928	2,5%
% growth	-1,5%	-1,2%	1,2%	2,5%	4,1%	17,1%	
Sales/sqm. ('000 €)	5,9	5,8	5,9	5,9	6,0	6,5	1,1%
% growth	-1,5%	-1,2%	1,2%	-0,1%	1,6%	9,1%	
Total Stores	39	39	39	40	41	44	
Total Sales Area ('000 sqm.)	126	126	126	129	132	142	1,3%
EBITDA	33	33	34	35	38	51	4,8%
EBITDA margin	4,5%	4,5%	4,6%	4,7%	4,8%	35,5%	
EBIT	20	19	18	19	21	30	4,4%
EBIT margin	2,7%	2,5%	2,5%	2,5%	2,6%	46,6%	

Source: Nova Research

According to our forecasts (**Exhibit 55**), the next years should be very demanding for Recheio. As consumption out-of-home should continue to decline in response to the decreasing disposable income families will face, we expect the trend of failures in the HoReCa channel to continue at least this year and the next, impacting Recheio sales. Traditional Retailers should also suffer to maintain clients' base, as we do not believe them to be able to follow price competition among major retail chains. We believe that "Amanhecer" stores will minimize this impact and serve as a growing source of sustainable revenue in the next years while Private Brand should continue the positive impact in sales. Therefore, we forecast two years of negative sales growth and a slow recovery afterwards, in line with expected inflation. This behaviour reflects essentially the performance of existing stores, with sales/sqm growing at a 1.1% CAGR until 2022, and the opening of 4 stores after 2015, with sales area increasing at a CAGR of 1.3% in the same period.

5. Industry & Services

The Industry segment, composed by UJM and Gallo Worldwide, has been the worst performer segment of the Group in the last five years, with sales decreasing at a CAGR of 2.1%, despite the gains in market share. This performance reflects mainly the sales retraction of UJM, which in the last two years fell by 4.7% and 4.8%, respectively, with both *Out-of-Home* and *In-Home* products registering this behaviour. The increasing assortment of Private Label in major retail chains, extended to almost all food and several non-food categories, and the decrease of out-of-home consumption affecting HoReCa channel were the main reasons to sales decrease. Nonetheless, UJM registered increase in market shares in both categories, performing better than the overall market. Contrarily, Gallo Worldwide registered positive sales growth in the last three years and in 2012 it achieved a growth of 17.8%. The Company has been

focusing its operations on exports⁴⁶, which represented in 2012 71% of total sales and have been the driver of sales increase.

Exhibit 56: Industry operational forecasts

Industry (€mn)	2013E	2014F	2015F	2016F	2017F	2022F	CAGR 13-22
Sales	230	233	235	241	248	277	2,1%
% growth	0,6%	1,0%	1,2%	2,5%	3,0%	1,5%	
EBITDA	25	24	26	28	29	35	4,0%
EBITDA margin	10,8%	10,5%	11,0%	11,5%	11,8%	12,8%	
EBIT	21	21	22	24	26	32	4,6%
EBIT margin	9,3%	9,0%	9,6%	10,1%	10,4%	11,5%	

Source: Nova Research

The aforementioned increase of Private Label products in Portuguese consumers' basket and the decrease in consumption, mainly in out-of-home expenses, should at least in the next two, three years impact Industry sales, impeding them to recover. We expect a CAGR of 2.1% until 2022 (**Exhibit 56**), to which the growing expansion of Gallo to emerging markets should contribute positively, while we expect EBITDA to continue decreasing in the next two years and to recover afterwards, reaching in 2022 a margin of around 13%.

Regarding Services, 2012 has been a difficult year as sales declined by 2.2% in line with the previous year. On one hand the international brands represented by JM Services followed the trend of the FMCG market for branded products, which fell by 4.3% and 4.9% for Food and Beverages categories respectively. On the other hand, the specialized stores the Company runs have been severely penalized by the decrease of consumer's spending in out-of-home consumption and by the increase of VAT from 13% to 23% in restaurants. As a consequence, 14 specialized stores were closed in 2012, and the Company proceeded to a restructuring of its business, concentrating in profitable stores with advertising campaigns and promotional activities.

Exhibit 57: Services operational forecasts

Services (€mn)	2013E	2014F	2015F	2016F	2017F	2022F	CAGR 13-22
Sales	85	86	87	89	91	94	1,1%
% growth	-2,5%	1,0%	2,0%	2,0%	2,5%	1,5%	
EBITDA	1,6	1,7	1,7	1,8	2,2	2,2	4,1%
EBITDA margin	1,9%	2,0%	2,0%	2,0%	2,4%	2,4%	
EBIT	(0,1)	0,0	0,1	0,1	0,5	0,6	-220,8%
EBIT margin	-0,1%	0,0%	0,1%	0,1%	0,6%	0,6%	

Source: Nova Research

We expect a sales decrease in the next year (**Exhibit 57**), representing the effect of the closed stores and a rebound after 2014, as we expect the Company to focus on stores with growth potential and profitable, as it develops new concepts that suit better consumers in this fragile economic situation. Until 2022 sales are

⁴⁶ The Company exports to 40 countries and it is market leader in Portugal, Brazil, Angola and Venezuela.

expected to increase to €94mn and from 2014 we expect EBIT to reach positive values.

Capex, NWC and Debt

For Capex estimations, we analysed company historical data as well as we took into account both the expansion plans delineated by the Group as well as our own estimates regarding the forecast period. In our model, we divided Capex into three main categories: Expansion, which comprises the costs related with new stores openings; Refurbishing & Maintenance that includes the expenses related to stores maintenance and layout conversions; Others, in which are included all the costs related to logistics, mainly Distribution Centres (DC) openings and maintenance. In **Exhibit 58** we present the consolidated forecasts for the Group until 2022⁴⁷. As one can see, in 2016, after being concluded the strong investment plan for Biedronka, JM's investment in Expansion will fall to nearly 60% of the values achieved in this three-year period.

Exhibit 58: Consolidated Capex forecasts

(€mn)	2012	2013F	2014F	2015F	2016F	2017F	2022F
Expansion	233	295	309	311	193	205	88
Refurbishing & Maintenance	224	267	292	317	339	350	421
Others	62	166	122	127	43	50	34
Total	520	729	723	754	574	605	543

Source: Nova Research

These values reflect our estimates of reduction in Biedronka's store openings and mainly the start of a higher investment in Ara, even though lower than the one verified in Poland. On the other hand, the Refurbishing & Maintenance rubric is estimated to increase as JM store network increases, surpassing Expansion in 2015. Finally, the Others category reflects the investment in logistics made both in Poland and Colombia, with the opening of 4 and 1 DCs respectively, in the period 2013-2015 and afterwards the expansion in Colombia, which according to the expansion plan forecast by us, will require 6 additional DCs⁴⁸.

Exhibit 59: Capex breakdown

(€mn)	2012	2013F	2014F	2015F	2016F	2017F	2022F
Biedronka	446	462	466	486	319	358	286
JMR (Pingo Doce)	34	140	114	115	116	117	118
Colombia		101	117	128	108	102	141
Recheio	19	19	19	20	20	21	22
Others	21	8	7	5	10	7	7
Total	520	729	723	754	574	605	574

Source: Nova Research

⁴⁷ For Expansion estimates, we have calculated the cost per sqm. of a new store for Biedronka, Pingo Doce and Recheio based on historical data provided by JM on its annual reports. For Colombia, we based our assumptions in the costs per sqm of new stores of Éxito Group, and we added a premium as JM is not expected to have the same bargaining power as the major Colombian retailer at least in the first years of operations, thus facing higher costs. Regarding Refurbishing & Maintenance and Others we followed the same approach as Expansion, while for Colombia we relied on the costs faced by JM in Poland, as the business model is assumed to be similar. Nevertheless, we estimate the Refurbishing & Maintenance costs to be higher until 2015 as JM will fine-tune its stores' model in this period.

⁴⁸ According to historical data, each DC serves 200 to 250 stores in Poland. Thus, we assumed Colombian operations to follow the same ratio.

In **Exhibit 59** we present Capex breakdown by business unit until 2022. As one can see, we expect Biedronka to remain the principal focus of JM's investment, which results from the growing maintenance costs of the large stores' network. Regarding Portugal, despite the low value of investment in 2012, we believe that in next years the amount invested will raise to values close to the depreciation, reflecting mostly maintenance costs, excepting this year in which JM announced the opening of a new DC. Concerning Colombia, which is anticipated to consume as well a considerable amount of investment in the future, Capex is expected to be mainly related to expansion plans, in line with the store openings we estimate for Ara. It is important to mention that, according to our forecasts, all food retail BU's but Ara, are expected to generate enough operating cash flows to withstand with the amounts of Capex allocated. In what regards Ara, we expect that 2022 will be the first year in which operating cash flow will surpass the amount of Capex.

In what concerns Net Working Capital, an important source of funds for the Group, we have divided it by BU. In **Exhibit 60**, we present the consolidated NWC, both historical as well as our forecasts.

Exhibit 60: Net Working Capital breakdown

NWC (days)	2010	2011	2012	2013F	2014F	2015F	2016F	2017F	2022F
Average Inventory Period	19,1	17,6	20,0	20,5	20,5	19,9	18,7	18,0	17,2
Average Collection Period	7,6	7,2	9,3	9,1	8,9	8,6	8,2	8,1	7,6
Average Payment Period	98,0	90,8	93,2	93,0	93,7	95,0	95,7	97,1	98,8
NWC (€mn)	(1 395)	(1 497)	(1 608)	(1 753)	(1 945)	(2 185)	(2 411)	(2 627)	(3 541)
Δ NWC		(101)	(112)	(145)	(192)	(240)	(225)	(217)	(914)

Source: Company Data and Nova Research

As it can be seen, even though there was an increase in both Inventory⁴⁹ and Collection⁵⁰ Periods in 2012, it was offset by an increase in Payment Period of 2.4 days. In the long-term, we forecast the Company to be able to improve its Payment⁵¹ and Collection ratios, resulting mainly from the growing operations scale in Poland and, later on, in Colombia, which will allow the Group to have better conditions in its relations with both clients and suppliers. Regarding Inventory Period, despite the small increase we estimate for 2013 and 2014 that results both from the effect of the high number of new stores in Poland and the start of operations in Colombia, we believe that the Group will manage to decrease this ratio in the long-run as a result from the growing assortment and weight of Perishables in Group's total sales and from operations' efficiency improvements in Poland, with the deceleration of new store openings.

⁴⁹ The effect of the high number of new stores in Poland impacted negatively this indicator, as new stores do not present the same efficiency in terms of stock management achieved in more mature ones, which is aggravated by the fact that JM is moving to new regions of the country, implying the opening of new DCs as well (2 in 2012).

⁵⁰ The increase for around 9 days in 2012 from 7 in 2011 was a result of supplementary gains contracted with suppliers, both in Portugal and Poland, not yet received by the Group.

⁵¹ Despite the increase in Group's Payment Period, we expect Portuguese BU to see a decrease in this ratio for the next years. In fact, JM announced in 2012 an agreement for the reduction in Payment Period with around 50% of Pingo Doce's fresh suppliers, as a way to ensure the stability of the stores' supply chain. According to our estimates, this measure had an impact of €74 million in Pingo Doce's working capital.

Exhibit 61: Net Debt forecasts

(€mn)	2012	2013F	2014F	2015F	2016F	2017F	2022F
Net Debt	344	404	380	266	146	82	(203)
Gearing	22,9%	23,0%	18,9%	11,6%	6,1%	3,3%	-7,8%

Source: Nova Research

According to our forecasts and as we have mentioned before, the operating cash flow the Group generates, together with changes in net working capital achieved both by increasing operations scale and improvements in activity ratios, are sufficient to face the levels of investment needed to expand and maintain operations. As it is shown in **Exhibit 61**, we forecast that the Net Debt of the Group will only increase in 2013, starting to decrease afterwards. Our estimates for the next three years took into account the announced dividend of €0,295 per share to be paid this year related to net results of 2012 as well as the dividend policy of the Group, which states a pay-out ratio between 40-50%. After this period, unless the Group decide to further expand operations into new geographies and increases its investment, we believe that the pay-out ratio will rise for values around 60-80%.

Discounted Cash-Flow Method

In order to compute the Enterprise Value of each BU we decided to use the Discounted Cash-Flow method. This model discounts the FCF (i.e. the cash flow available to all Company's investors – equity holders and debt holders) at the Weighted Average Cost of Capital (WACC)⁵², which represents the opportunity cost faced by investors to invest their funds in this Company instead of other with similar risks, accounting for the weight each type of investor occupies in the Company's capital structure. In order to reach the appropriate discount rate of each BU, we had to estimate the three main components of WACC: Cost of Equity (k_e), Cost of Debt (k_d) and the target Capital Structure (D/E) of JM. To do so, we took into account the three different geographies where JM operates – Portugal, Poland and Colombia –, having calculated three different discount rates to reflect the appropriate risk of each country. In **Appendix II** we summarize the WACC for each geography.

Exhibit 62: Cost of Equity

	Portugal	Poland	Colombia
Cost of Equity	8,41%	9,75%	9,54%
Risk-free rate	2,74%	3,21%	3,66%
Market Risk Premium	5,00%	5,00%	5,00%
Beta Country	1,21	1,36	1,28
Beta Unlevered	0,71	0,71	0,71
Beta Relevered	0,94	0,96	0,92

Source: Nova Research

1. Cost of Equity (k_e)

The Cost of Equity (**Exhibit 62**) was computed using the Capital Asset Pricing Model (CAPM)⁵³. Regarding the risk-free rate, we decided to use the 10-year German Government Bonds for Portugal and Poland, as both countries do not have a Triple AAA rating, since it is the default-free bond of the Eurozone which

⁵² $WACC = \frac{D}{(D+E)} \times k_d \times (1-t) + \frac{E}{(D+E)} \times k_e$

⁵³ $k_e = r_f + \beta \times r_m$

presents higher liquidity and the lowest default risk. In the case of Poland, we had to adjust⁵⁴ the risk-free rate so that it consistently replicates the inflation reflected in Biedronka's cash flows, computed in Zlotys. We used the same approach for Colombia but using the U.S. Government Bond instead of German Government Bonds. In terms of maturity, the 10-year bonds were chosen to match the explicit forecast period (2013-2022) we have computed for each BU and we used the last 5 year average of each risk-free rate as we believe that yields are artificially low nowadays⁵⁵. About market premium (r_m), the difference between market's expected return and risk-free securities, we used 5% as the reference for a mature market, following historical estimates, and we decided to additionally compute a beta⁵⁶ for each country JM operates, in order to account for each country's different risks and add an additional premium for investing in these markets. Lastly, for Beta computation, we selected a basket of comparable companies operating in the same sector and with operations spread in similar markets, both emergent and mature (see **Appendix II**). We then regressed each company's stock returns against MSCI World Index to find each company's levered Beta⁵⁷. After removing leverage effect using each company's capital structure⁵⁸, we have computed industry's unlevered beta by calculating the median of the range of companies' unlevered betas, to which we have applied JM's target Capital Structure, getting JM's levered Beta.

2. Cost of Debt (k_d)

Exhibit 63: Cost of Debt (after-tax)

	Portugal	Poland	Colombia
Cost of Debt (after-tax)	5,53%	6,47%	5,65%
Risk-free rate	2,74%	3,21%	3,66%
Company Default Spread	4,78%	4,78%	4,78%
Tax Rate	26,5%	19,0%	33,0%

Source: Nova Research

As long as JM does not have a credit rating and its bonds are not traded on a regular basis, we estimated its cost of debt by looking at the Credit Default Swaps (CDS) of three different groups of companies (**Exhibit 63**). The first group was composed by other Portuguese companies, the second by Polish companies, as 62% of JM's turnover comes from this country, and finally the third group was composed by international retailing companies. By doing this, we were accounting for both the type of industry in which JM operates and the risks inherent to it and for the additional premium required by debt holders for Portuguese companies, which are being penalized by the current economic situation and by the non-investment grade of the country's sovereign debt. We believe JM cost of debt will be much closer to its Portuguese peers than to its industry peers and so we have considered mainly the average of this group's

⁵⁴ $r_f(\text{zloty}) = (1 + r_f(\text{euro})) * \left(\frac{1 + \text{expected inflation}(\text{zloty})}{1 + \text{expected inflation}(\text{euro})} \right) - 1$

⁵⁵ German and US Government Bonds are trading at 1.24% and 1.83% respectively, while their 5 year average is 2.74% and 2.97% respectively.

⁵⁶ We regressed each country's main stock index over MSCI World Index.

⁵⁷ We used 2 years of weekly data of each company's stock quotes and the MSCI World Index as market reference.

⁵⁸ $\beta_u = \frac{\beta_l}{(1 + (1 - t) * (D/E))}$

CDS rather than retailing companies spreads, while for Polish companies the information available was insufficient to reach reliable conclusions.

3. Capital Structure (D/E)

The target capital structure of JM was estimated by looking at industry peers and their capital structure. We selected the same comparable companies that we used for calculating Beta (see **Appendix II**). Accordingly we assumed a target capital structure of 45.2%.

4. Terminal Value

After the explicit forecast period, we computed the Terminal Value for each BU. We have assumed for Terminal Value a nominal growth rate of 2% for Portuguese operations, in line with long-term expected inflation. Contrarily, we were more optimistic regarding Polish and Colombian operations, taking into account the more favourable economic environments as well as growth opportunities in these markets. Thus, we have assumed 2.50% and 3% nominal growth rates.

Price Target

In the **Exhibit 64** below, we present the resume of our SOP Valuation. As it can be seen, our Price Target for the FY2013 was revised from €17.50 to **€17.91**.

Thus, we maintain our previous recommendation of **Buy**, with an upside of **9.1%**.

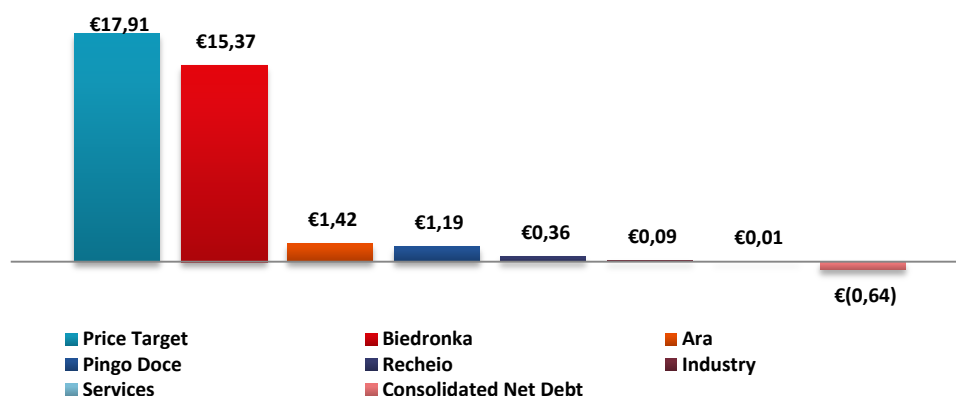
Exhibit 64: Sum-of-Parts Valuation

Sum-of-Parts (€mn)						
	EV	Stake	Attributable to JM	Method	% Total	ROIC
Pingo Doce	1 463	51%	746	DCF (WACC=7.51%; g=2.0%)	6,40%	9,0%
Biedronka	9 660	100%	9 660	DCF (WACC=8.73%; g=2.5%)	82,85%	63,9%
Ara	895	100%	895	DCF (WACC=8.46%; g=3.0%)	7,67%	12,8%
Recheio	225	100%	225	DCF (WACC=7.51%; g=2.0%)	1,93%	15,4%
Industry	128	100%	128	DCF (WACC=7.51%; g=2.0%)	1,10%	21,5%
Services	5	100%	5	DCF (WACC=7.51%; g=2.0%)	0,04%	1,8%
Total EV			11 659			
Consolidated Net Debt			404			
Total Equity Value			11 255			
# Shares (mn)			628			
Price Target (€)			€ 17,91			

Source: Nova Research

We highlight that according to our valuation, Biedronka is the most valuable asset of JM. The Polish discount chain accounts for 82.85% of JM's value, followed by Ara (7.67%) and Pingo Doce (6.4%). Moreover, it is important to mention that all business units but Services are creating value for the Group, presenting ROICs greater than the respective WACC. Below, we show a detailed composition of JM's Price Target (**Exhibit 65**).

Exhibit 65: Price Target breakdown



Source: Nova Research

We can conclude that JM is heavily dependent on Polish operations, and so is our valuation and Price Target, as the impact of other business units is limited. Accordingly, we have been cautious in making our assumptions, which we discuss next.

To evaluate the risks that most affect our valuation of Biedronka, we decided first to test two important variables that we assume in our model and to which Biedronka's value is highly dependent: The terminal growth rate and the WACC. Regarding the first variable, which we assume to be 2.5%, we followed a conservative approach which we think is appropriate considering the leverage of JM's price target in this Company, implying a real growth rate of only 0.5%. In relation to the WACC, which we assume to be 8.73%, already reflecting the risks of inflation and its impact on currency devaluation (risk-free adjusted for inflation) and the risks inherent to an emerging economy like the Polish (beta country), we have confidence it was correctly estimated.

Exhibit 66: Sensitivity Analysis – Biedronka's WACC and Terminal Growth Rate

		WACC					
		10,00%	9,50%	9,00%	8,73%	8,50%	8,00%
Terminal Growth Rate	1,00%	€ 14,84	€ 15,55	€ 16,36	€ 16,84	€ 17,27	€ 18,31
	1,50%	€ 15,02	€ 15,78	€ 16,63	€ 17,15	€ 17,61	€ 18,74
	2,00%	€ 15,22	€ 16,03	€ 16,95	€ 17,50	€ 18,00	€ 19,23
	2,25%	€ 15,33	€ 16,17	€ 17,12	€ 17,70	€ 18,22	€ 19,51
	2,50%	€ 15,45	€ 16,31	€ 17,30	€ 17,91	€ 18,45	€ 19,81
	3,00%	€ 15,71	€ 16,64	€ 17,72	€ 18,38	€ 18,99	€ 20,51
	3,25%	€ 15,85	€ 16,82	€ 17,95	€ 18,65	€ 19,29	€ 20,91
	3,50%	€ 16,01	€ 17,02	€ 18,20	€ 18,95	€ 19,62	€ 21,35

Source: Nova Research

As we can see by the **Exhibit 66**, for the same weighted average cost of capital we have assumed, only with 2% terminal growth rate our recommendation would

change to Hold (blank cells) and for all values lower than 2% we would follow that recommendation. In what regards WACC, only with 10% our recommendation would change to Sell (red cells), while between our assumed WACC and 10% the recommendation would be Hold. The analysis of the **Exhibit 66** shows that, even though Biedronka has a weight of 82.85%, the downside for our valuation is limited, with a 9.6% depreciation of the current share price with a 10% WACC and 1% terminal growth rate. At the same time, with a WACC of 8% and a terminal growth rate of 3.5%, we would expect an appreciation of the current share price of 30%. We decided also to assess the impact of the 2013 Zloty/Euro forward rate we assumed in our model. As we can see in the **Exhibit 67**, the downside risk is limited. In fact, a depreciation of 6% of the Zloty relative to Euro in relation to our assumed rate would imply a Hold recommendation, with 3.3% of upside potential for current JM's share price.

Exhibit 67: Sensitivity Analysis - Zloty/Euro forward rate 2013

Zloty/Euro forward rate 2013						
0,225	0,230	0,235	0,239	0,245	0,250	0,255
€ 16,96	€ 17,30	€ 17,63	€ 17,91	€ 18,29	€ 18,62	€ 18,96

Source: Nova Research

Multiples

To complement our SOP Valuation, we decided to perform an analysis of comparable companies' valuation based on multiples. We used the same comparable companies as for Beta calculation and we have divided them into two groups: Mature Markets, composed by companies operating in Western Europe, in markets with limited growth opportunities, which compares to the situation faced by JM in Portugal; Emergent Markets, which comprises companies operating in retail markets in development, with higher growth opportunities (Poland and Colombia). We then used the weights of both Biedronka and Ara in JM's Enterprise Value (see **Exhibit 64**) to compute the weighted average multiple.

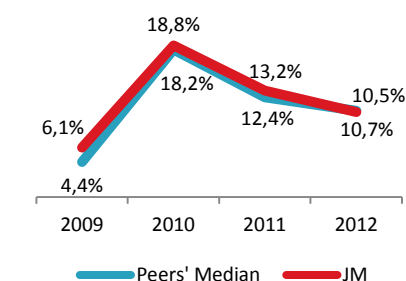
Exhibit 68: Food Retail multiples

Peers	EV/Sales				EV/EBITDA			
	2011	2012	2013E	2014E	2011	2012	2013E	2014E
Carrefour	0,3x	0,2x	0,3x	0,3x	11,0x	5,1x	5,7x	5,3x
Tesco	0,7x	0,5x	0,5x	0,5x	8,2x	6,8x	7,3x	6,8x
Casino	0,5x	0,5x	0,5x	0,4x	7,2x	7,6x	7,0x	6,3x
Delhaize	0,3x	0,2x	0,3x	0,3x	5,1x	5,0x	4,9x	4,7x
Sainsbury	0,4x	0,4x	0,4x	0,4x	6,8x	6,3x	7,0x	6,8x
Colruyt	0,8x	0,6x	0,8x	0,7x	9,1x	6,6x	9,3x	8,8x
Ahold	0,4x	0,4x	0,4x	0,4x	5,7x	5,7x	5,8x	5,6x
WM Morrison	0,5x	0,5x	0,5x	0,5x	6,4x	7,0x	6,8x	7,0x
Metro	0,2x	0,2x	0,3x	0,2x	3,6x	3,1x	9,1x	4,9x
DIA	0,3x	0,4x	0,4x	0,4x	6,0x	6,7x	7,1x	6,6x
Mature Markets Average	0,4x	0,4x	0,4x	0,4x	6,9x	6,0x	7,0x	6,3x
Magnit	0,9x	1,1x	1,3x	1,0x	11,2x	10,9x	12,8x	10,6x
X5 Group	0,7x	0,5x	0,5x	0,5x	8,9x	7,5x	7,2x	6,4x
Dixy Group	0,5x	0,5x	0,5x	0,4x	8,6x	8,8x	7,1x	5,4x
BIM	0,9x	1,3x	1,1x	0,9x	17,1x	25,7x	21,8x	18,2x
Migros	0,6x	0,8x	0,8x	0,7x	9,7x	12,9x	12,0x	10,6x
Cia. Brasileira de Distribuição	0,5x	0,5x	0,7x	0,6x	9,0x	7,5x	8,4x	7,9x
Emergent Markets Average	0,7x	0,8x	0,8x	0,7x	10,8x	12,2x	11,5x	9,9x
Weighted Average	0,7x	0,8x	0,8x	0,6x	10,4x	11,6x	11,1x	9,5x
Jerónimo Martins	0,9x	0,9x	0,9x	0,8x	11,8x	12,8x	12,7x	11,2x

Source: Nova Research

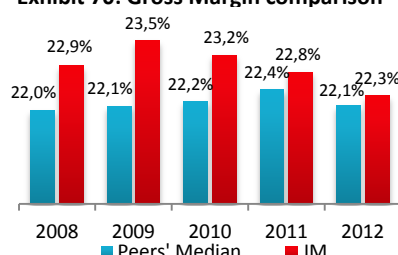
As we can see in **Exhibit 68**, we decided to use EV/Sales and EV/EBITDA multiples. The results of our analysis show that JM is trading at a premium when compared to its industry peers, even if we weight the results with market exposition. In order to understand the reason behind these results, we decided to further analyze what justifies the difference between JM and its industry peers.

JM vs. Industry

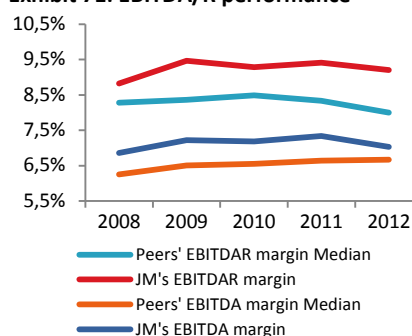
Exhibit 69: Sales performance (% growth)

Source: Bloomberg and Nova Research

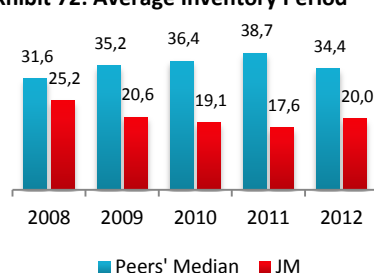
As we have seen before, JM stands out from its peers not only in the markets it operates, but also when performing a valuation by multiples. Thus, we decided to analyse its recent performance against the performance of 50 different companies operating in the same industry. Starting with Sales performance, we compared the growth of the last 4 years and as one can see in the **Exhibit 69**, even though the Group has grown above the industry, the difference was not exceptional. In fact, in 2012 it grew below the industry, reflecting the deceleration of Biedronka and Pingo Doce's growth. In what regards operating margins, we have looked at the performance of Gross, EBITDA and EBITDAR margins. As it can be seen in **Exhibit 70**, JM outperformed its industry peers in last years. In fact, even though decreasing in the last years, JM's Gross margin has been

Exhibit 70: Gross Margin comparison

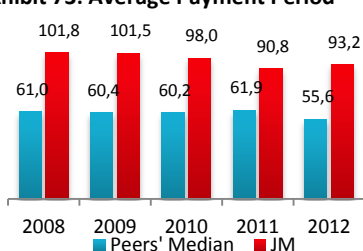
Source: Bloomberg and Nova Research

Exhibit 71: EBITDA/R performance

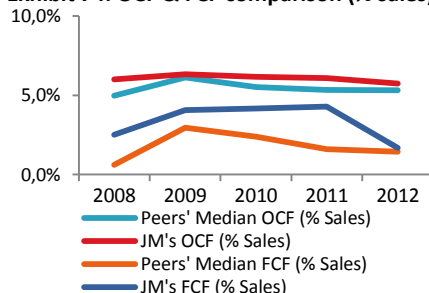
Source: Bloomberg and Nova Research

Exhibit 72: Average Inventory Period

Source: Bloomberg and Nova Research

Exhibit 73: Average Payment Period

Source: Bloomberg and Nova Research

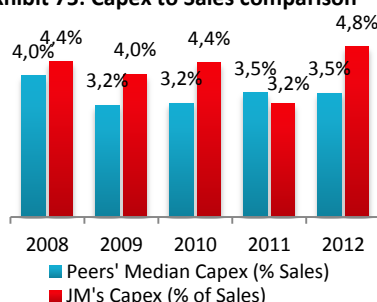
Exhibit 74: OCF & FCF comparison (% sales)

Source: Bloomberg and Nova Research

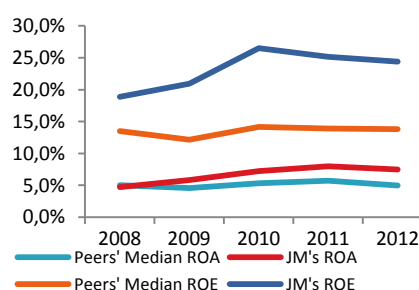
always higher when compared with industry's Gross margin. Concerning operating efficiency, JM presents once more better results than the overall industry, with an EBITDA margin 60 b.p. higher in the last 5 years, on average. If we exclude from operating efficiency expenses related to rents, which is measured by EBITDAR, JM clearly outperformed and has been able to increase the difference over the companies compared, presenting in 2012 a margin of 9.2% vs. 8% of the industry (**Exhibit 71**). Biedronka has been the main responsible for this performance, achieving in 2012 an EBITDAR margin of 10.7%, while Pingo Doce with an EBITDAR margin of only 6.2% in 2012, prevented the Group to reach a higher margin.

Additionally, we decided to analyse JM's Cash Conversion Cycle in comparison with the Industry, using Inventory Period and Payment Period as basis for the comparison. By looking at Average Inventory Period, we see that JM once again performed better than the analysed comparable companies, being able to turn its goods into cash quicker than other retailers. As shown in **Exhibit 72**, JM has been able to improve Inventory Period since 2008, with the exception of 2012 that reflects the effect of the high number of new stores in Poland. In relation to Payment Period, JM takes much longer to pay to its suppliers than the Industry, which suggests the bargaining power the Group has in its trade relations (**Exhibit 73**).

Furthermore, we calculated two ratios that illustrate how well the Company is at generating cash from its sales. Beginning with Operating Cash Flow to Sales, we see that JM performed above the Industry, presenting on average a difference of 60 b.p. to its peers, meaning that JM has been able to generate more cash for each € sold than the Industry's median (**Exhibit 74**). Regarding Free Cash Flow to Sales, which evaluates the effective amount of cash the company earns, JM performed much better than the compared companies. Moreover, if we add to this analysis the Capex to Sales ratio, as shown in **Exhibit 75**, we see that JM has been investing more than its peers as a percentage of sales. So, despite the higher amount invested in maintain and expand its operations to sales, the Group has been able to generate more cash available to its shareholders and debtholders than the Industry. It is also important to recall that in 2012 the Company started the ambitious investment plan in Biedronka, and yet was able to present a higher FCF to sales value than the Industry's median. We consider that this indicates that the Company, in addition to the larger amount of OCF generated as a percentage of sales, is efficiently managing its working capital needs and generating more funds than its peers, which is supported by the Cash Conversion Cycle analysis we did before.

Exhibit 75: Capex to Sales comparison

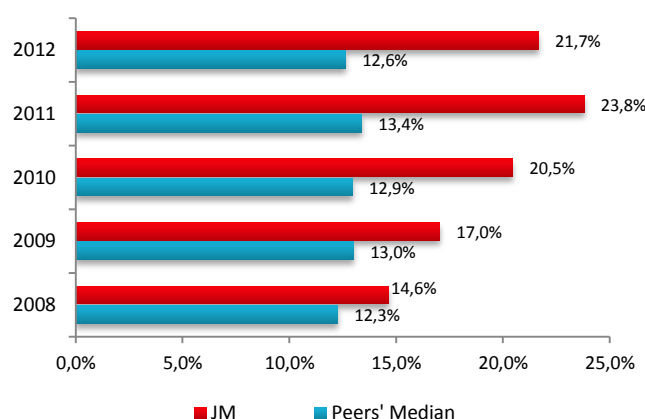
Source: Bloomberg and Nova Research

Exhibit 76: ROA & ROE comparison

Source: Bloomberg and Nova Research

Finally, we decided to conclude our analysis by measuring the return of JM against the overall industry. For this, we computed the Return on Assets (ROA), Return on Equity (ROE) and Return on Invested Capital (ROIC) ratios. By analysing **Exhibit 76**, we conclude that JM presents once again above industry values. On the first ratio, ROA, which measures the profitability of the Company without regard to its capital structure, we see that JM was able to generate more profits on its assets than its peers. By looking at the second ratio, ROE, we see that the difference between JM and the Industry greatly increases. The difference between both ratios is explained by the effect of the capital structure of the Group and the compared companies, which shows that JM's capital structure positively impacts its shareholders' return.

Finally, regarding ROIC, we present the recent performance in **Exhibit 77**. Not surprisingly and in line with the analysis done so far, JM's ROIC outperformed the Industry. In fact, while Industry's median presented values around 13%, JM has been able to achieve in the last three years values higher than 20%, despite the decrease in 2012. As a measure of how efficiently the Company turns investors' capital into profit and one of the most important ratios to evaluate companies that invest large amount of capital every year, as food retailers, this result, added to the analysis done so far, provides support to the premium investors are paying to buy JM shares, as we have seen in the Multiples chapter.

Exhibit 77: ROIC comparison

Source: Bloomberg and Nova Research

Financials

	2012	2013F	2014F	2015F	2016F	2017F	2022F
Growth & Margins							
Sales	10,5%	9,6%	9,5%	9,0%	7,4%	5,9%	4,6%
Gross Margin	22,3%	22,2%	22,0%	22,1%	22,7%	23,0%	22,8%
EBITDA	6,0%	13,1%	13,4%	12,0%	8,3%	7,1%	1,9%
EBITDA margin	7,0%	7,3%	7,5%	7,7%	7,8%	7,9%	7,7%
EBITDAR	8,1%	11,5%	11,6%	11,0%	8,5%	7,1%	2,6%
EBITDAR margin	9,2%	9,4%	9,5%	9,7%	9,8%	9,9%	9,6%
Net Profit	2,5%	25,5%	13,3%	12,5%	9,3%	10,4%	1,0%
Liquidity							
Current Ratio	0,46	0,43	0,41	0,39	0,38	0,37	0,35
Quick Ratio	0,27	0,24	0,22	0,20	0,20	0,19	0,18
Cash Ratio	14,5%	11,1%	9,4%	8,0%	8,0%	7,8%	7,0%
Net Working Capital	(1 608)	(1 753)	(1 945)	(2 185)	(2 411)	(2 627)	(3 541)
Leverage							
Debt/Assets	14,7%	13,3%	11,4%	8,4%	6,5%	5,5%	1,7%
Short-term Debt/Total Debt	20,4%	27,5%	27,5%	27,5%	27,5%	27,5%	27,5%
Long-term Debt/Total Debt	79,6%	72,5%	72,5%	72,5%	72,5%	72,5%	72,5%
Debt/Equity	225,8%	206,9%	192,8%	176,7%	176,2%	179,5%	206,2%
Net Debt/Equity	22,7%	22,8%	18,7%	11,4%	5,9%	3,2%	-8,0%
Interest Coverage Ratio	15,56	18,77	20,81	25,25	34,23	45,99	136,67
Activity							
Total Asset Turnover	2,22	2,21	2,21	2,24	2,31	2,35	2,60
Fixed Assets Turnover	4,18	3,88	3,72	3,62	3,68	3,68	4,01
Average Inventory Period	20,05	20,51	20,52	19,87	18,75	18,04	17,17
Average Payment Period	93,24	93,05	93,66	94,95	95,66	97,13	98,82
Average Collection Period	9,32	9,14	8,92	8,62	8,21	8,08	7,61
Capex/Sales	4,8%	6,1%	5,5%	5,3%	3,8%	3,7%	2,6%
Capex/Assets	10,7%	13,5%	12,3%	11,9%	8,7%	8,8%	6,8%
Profitability							
Return on Sales	4,8%	5,1%	5,3%	5,4%	5,5%	5,6%	5,6%
ROA	7,5%	8,5%	8,8%	9,2%	9,7%	10,3%	11,3%
ROE	24,4%	26,1%	25,9%	25,5%	26,8%	28,7%	34,6%
Pre-tax ROIC	21,7%	22,8%	23,2%	24,2%	26,3%	28,7%	38,0%
Valuation							
EV/EBITDA		15,24	13,48	11,89	10,62	9,80	7,26
EV/Sales		1,07	0,98	0,89	0,82	0,76	0,56
EV/EBIT		22,40	19,13	16,91	15,08	13,94	9,96
P/E		31,23	25,34	22,30	19,70	17,96	12,61
Dividend Yield		41,7%	50,0%	50,0%	60,0%	60,0%	78,7%

Financial Statements

BALANCE SHEET (€ mn)	2012	2013F	2014F	2015F	2016F	2017F	2022F
Net tangible assets	2 600	3 074	3 505	3 934	4 155	4 395	5 210
Intangible assets	888	880	874	866	855	846	840
Other non-current assets	201	214	221	232	233	234	257
Total non-current assets	3 690	4 168	4 600	5 032	5 243	5 475	6 306
Inventories	496	557	611	644	649	659	811
Trade debtors, accrued income and deferred costs	278	299	319	336	344	359	436
Cash and cash-equivalents	376	320	294	270	290	299	348
Other current assets	54	61	69	77	84	90	120
Total current assets	1 203	1 236	1 293	1 328	1 367	1 406	1 714
Total assets	4 893	5 404	5 894	6 360	6 610	6 881	8 020
Share capital	629	629	629	629	629	629	629
Retained earnings	514	773	1 025	1 311	1 405	1 474	1 683
Others	69	69	69	69	69	69	16
Minority interest	290	290	290	290	290	290	290
Total shareholders' equity	1 502	1 761	2 013	2 299	2 393	2 462	2 619
Borrowings	571	522	486	387	314	273	101
Other non-current liabilities	230	241	254	274	287	297	343
Total non-current liabilities	801	764	740	660	601	570	444
Trade creditors, accrued costs and deferred income	2 305	2 525	2 789	3 078	3 310	3 547	4 665
Borrowings	146	198	185	147	119	104	38
Other current liabilities	138	157	166	176	187	198	254
Total current liabilities	2 590	2 880	3 140	3 401	3 616	3 848	4 957
Total Liabilities	3 391	3 644	3 881	4 061	4 217	4 419	5 401
Total Shareholders' equity and liabilities	4 893	5 404	5 894	6 360	6 610	6 881	8 020
INCOME STATEMENT (€ mn)	2012	2013F	2014F	2015F	2016F	2017F	2022F
Net Sales	10 876	11 919	13 051	14 227	15 285	16 194	20 889
EBITDA	765	865	981	1 098	1 189	1 274	1 605
EBITDA margin	7,0%	7,3%	7,5%	7,7%	7,8%	7,9%	7,7%
Depreciation	(225)	(255)	(291)	(325)	(353)	(365)	(434)
EBIT	540	610	690	773	836	910	1 171
EBIT margin	5,0%	5,1%	5,3%	5,4%	5,5%	5,6%	5,6%
Financial Results	(34)	(34)	(36)	(34)	(26)	(22)	(12)
Non Recurrent Items	(20)	-	-	-	-	-	-
EBT	487	576	654	739	810	887	1 159
Income Tax	(121)	(116)	(133)	(153)	(169)	(180)	(252)
Net Income	366	460	521	586	640	707	906
Minority Interest	6	15	16	15	14	13	14
Net Income Attributable to JM	360	444	505	571	627	694	892
Dividends	(323)	185	252	286	533	624	848
CASH FLOW STATEMENT (€ mn)	2012	2013F	2014F	2015F	2016F	2017F	2022F
EBIT	520	610	690	773	836	910	1 171
Income Tax	(121)	(116)	(133)	(153)	(169)	(180)	(252)
Depreciations	225	255	291	325	353	365	434
Cash Flow from Operations	625	749	848	945	1 020	1 094	1 353
Net Capex	(525)	(729)	(723)	(754)	(574)	(605)	(543)
Δ NWC	(112)	(145)	(192)	(240)	(225)	(217)	(168)
Other Changes in Investments	(24)	8	9	13	20	3	2
Minorities	(6)	(15)	(16)	(15)	(14)	(13)	(14)
Cash Flow from Investment	(443)	(591)	(538)	(515)	(342)	(399)	(387)
Financial Expenses	(33)	(32)	(33)	(31)	(24)	(20)	(9)
Dividends paid	(280)	(185)	(252)	(286)	(533)	(624)	(900)
Changes in Net Debt	131	60	(24)	(114)	(120)	(64)	(58)
Changes in Debt	(23)	4	(50)	(137)	(101)	(56)	(48)
Changes in Cash	(154)	(56)	(26)	(24)	20	8	11
Cash Flow from Financing	(182)	(158)	(309)	(430)	(677)	(709)	(967)

Appendix I – Bus Historical Performance

Pingo Doce (€mn)	2008	2009	2010	2011	2012	CAGR 08-12
Sales	2 591	2 797	3 049	3 215	3 311	6,3%
% growth		8,0%	9,0%	5,4%	3,0%	
Sales/sqm. ('000 €)	5,8	6,2	6,8	7,1	7,3	5,8%
% growth		7,6%	8,4%	4,7%	2,7%	
Total Stores	358	358	364	371	374	
Total Sales Area ('000 sqm.)	448	449	452	455	456	0,5%
EBITDA	146	166	169	175	146	0,1%
EBITDA margin	5,6%	5,9%	5,6%	5,5%	4,4%	
EBIT	55	75	75	72	35	-10,7%
EBIT margin	2,1%	2,7%	2,4%	2,2%	1,1%	
Biedronka (€mn)	2008	2009	2010	2011	2012	CAGR 08-12
Sales	3 521	3 725	4 807	5 787	6 731	17,6%
% growth		5,8%	29,1%	20,4%	16,3%	
Sales/sqm. ('000 €)	4,7	4,6	5,0	5,2	5,2	2,6%
% growth		-2,1%	10,1%	3,2%	-0,5%	
Sales (PLN)	12 380	16 069	19 198	23 840	28 118	22,8%
% growth		29,8%	19,5%	24,2%	17,9%	
Sales/sqm. ('000 PLN)	16,4	19,7	20,1	21,4	21,6	7,1%
% growth		20,1%	2,0%	6,5%	0,9%	
Total Stores	1 359	1 466	1 649	1 873	2 125	
Total Sales Area ('000 sqm.)	754	814	954	1 113	1 301	14,6%
EBITDA	242	271	363	458	552	22,9%
EBITDA margin	6,9%	7,3%	7,6%	7,9%	8,2%	
EBITDA (PLN)	851	1 170	1 451	1 889	2 307	28,3%
EBITDA margin	6,9%	7,3%	7,6%	7,9%	8,2%	
EBIT	175	203	278	363	447	26,4%
EBIT margin	5,0%	5,4%	5,8%	6,3%	6,6%	
EBIT (PLN)	615	875	1 112	1 497	1 866	32,0%
EBIT margin	5,0%	5,4%	5,8%	6,3%	6,6%	
Recheio (€mn)	2008	2009	2010	2011	2012	CAGR 08-12
Sales	654	688	720	756	754	3,6%
% growth		5,2%	4,7%	4,9%	-0,2%	
Sales/sqm. ('000 €)	5,7	6,0	5,8	6,0	6,0	1,5%
% growth		6,4%	-3,1%	3,2%	-0,5%	
Total Stores	35	35	38	39	39	
Total Sales Area ('000 sqm.)	116	114	124	126	126	2,1%
EBITDA	18	21	30	34	34	17,3%
EBITDA margin	2,7%	3,0%	4,2%	4,5%	4,5%	
EBIT	(3)	14	23	25	22	
EBIT margin	-0,5%	2,0%	3,1%	3,3%	3,0%	
Industry (€mn)	2008	2009	2010	2011	2012	CAGR 08-12
Sales	254	238	236	228	229	-2,6%
% growth		-6,3%	-0,7%	-3,2%	0,2%	
EBITDA	36	36	34	28	25	-8,5%
EBITDA margin	14,3%	15,3%	14,4%	12,5%	11,1%	
EBIT	32	33	31	25	22	-9,6%
EBIT margin	12,7%	13,9%	13,1%	11,1%	9,4%	
Services (€mn)	2008	2009	2010	2011	2012	CAGR 08-12
Sales	82	87	90	89	87	1,5%
% growth		6,5%	3,4%	-1,2%	-2,2%	
EBITDA	1,2	1,4	1,4	1,4	1,4	3,2%
EBITDA margin	1,5%	1,6%	1,6%	1,6%	1,6%	
EBIT	(0,6)	(0,6)	(0,5)	(0,5)	(0,3)	-18,6%
EBIT margin	-0,8%	-0,7%	-0,6%	-0,5%	-0,3%	

Appendix II – WACC

Portugal		Poland		Colombia	
Cost of Equity	8,41%	Cost of Equity	9,75%	Cost of Equity	9,54%
Risk-free rate	2,74%	Risk-free rate (corrected for inflation)	3,21%	Risk-free rate (corrected for inflation)	3,66%
Market Risk Premium	5,00%	Market Risk Premium	5,00%	Market Risk Premium	5,00%
Beta Country	1,21	Beta Country	1,36	Beta Country	1,28
Beta Unlevered	0,71	Beta Unlevered	0,71	Beta Unlevered	0,71
Beta Levered	0,94	Beta Levered	0,96	Beta Levered	0,92
Cost of Debt (after-tax)	5,53%	Cost of Debt (after-tax)	6,47%	Cost of Debt (after-tax)	5,65%
Risk-free rate	2,74%	Risk-free rate	3,21%	Risk-free rate	3,66%
Company Default Spread	4,78%	Company Default Spread	4,78%	Company Default Spread	4,78%
Tax Rate	26,5%	Tax Rate	19,0%	Tax Rate	33,0%
Capital Structure		Capital Structure		Capital Structure	
D/E	45,2%	D/E	45,2%	D/E	45,2%
D/(D+E)	31,1%	D/(D+E)	31,1%	D/(D+E)	31,1%
E/(D+E)	68,9%	E/(D+E)	68,9%	E/(D+E)	68,9%
WACC (after-tax)	7,51%	WACC (after-tax)	8,73%	WACC (after-tax)	8,33%
Terminal Growth Rate	2,0%	Terminal Growth Rate	2,5%	Terminal Growth Rate	3,0%

Company Name	Country	Beta Levered	Beta Unlevered	Tax Rate	D/E
Carrefour	France	1,67	1,00	33,3%	99,6%
Tesco	UK	0,69	0,55	24,0%	35,6%
Sonae	Portugal	1,45	0,84	0,3%	73,1%
Casino	France	1,21	0,65	33,3%	128,9%
Delhaize	Belgium	1,16	0,81	34,0%	63,5%
Sainsbury	UK	0,75	0,59	24,0%	36,6%
Colruyt	Belgium	0,69	0,69	34,0%	0,6%
Ahold	Netherlands	0,88	0,72	25,0%	28,5%
WM Morrison	UK	0,42	0,33	24,0%	34,9%
Magnit	Russia	0,05	0,05	20,0%	10,0%
X5 Retail	Russia	1,13	0,68	20,0%	82,5%
Metro	Germany	0,97	0,54	29,6%	114,9%
CIA Brasileira	Brazil	1,28	1,04	34,0%	35,3%
Eurocash	Poland	1,54	1,43	29,0%	10,6%
Emperia	Poland	1,16	1,16	29,0%	0,0%
BIM	Turkey	0,85	0,85	20,0%	0,1%
Migros	Turkey	1,12	0,76	20,0%	59,5%
Exito	Colombia	0,28	0,28	33,0%	1,7%
Dia	Spain	1,24	1,04	30,0%	28,3%
DIXY	Russia	0,55	0,37	20,0%	59,3%
Median			0,71		45,2%

Disclosures and Disclaimer

Research Recommendations

Buy	Expected total return (including dividends) of more than 15% over a 12-month period.
Hold	Expected total return (including dividends) between 0% and 15% over a 12-month period.
Sell	Expected negative total return (including dividends) over a 12-month period.

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