

JERÓNIMO MARTINS, SGPS

FOOD RETAIL

STUDENT: JOANA SOUSA

COMPANY REPORT

6 JANUARY 2012

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Ladybird flies on blue skies...

...while there is a storm back home.

- Sales are expected to grow at a CAGR of 8.9% in the 2010-2020 period, with the Polish operations experiencing a great boost in importance within the group, as sales of Biedronka are believed to move from accounting for 55% of overall sales in 2010 to 73% in 2020. EBITDA is estimated to increase at a CAGR of 9.1% and Net Profit at a CAGR of 9.8% for the same period.
- Poland – the great economic growth potential of the country, along with Biedronka's distinct market leadership and most ambitious expansion plan in the region, will make this unit remain the major source of value creation for the group, allowing it to become even more protected against the dreadful financial crisis currently felt in Portugal.
- Portugal – in spite of the negative impacts of the economic downturn in people's disposable income and consumer patterns, both Pingo Doce and Recheio have been able to adapt their strategies accordingly, and we believe this will remain the case, mainly due to both segments' leadership and focus on value, and a vaster assortment of perishables and private label products.
- Jerónimo Martins (JM) is planning on entering the Colombian food retail market by the second half of 2012, through the launch of a greenfield operation. We deem this business will have impacts on JM's value only in a considerable time frame, and we believe the Polish operations should remain the main focus of investors for the upcoming years.
- The main risks JM faces arise from the substantial exposure to the Zloty foreseen devaluation, the Portuguese economic outlook, and the new operations on Colombia (which includes the exposure to the Peso volatility against the Euro).

Recommendation:	HOLD
Price Target FY12:	€13.93
Price (as of 4-Jan-2012)	€13.00

Reuters: JMT.LS, Bloomberg: JMT:PL

52-week range (€)	10.61-14.83
Market Cap (€M)	8,180.81
Outstanding Shares (M)	629.293

Source: Bloomberg

JMT vs PSI20



Source: Google Finance

(Values in EUR million)	2010	2011E	2012E
Revenues	8,691	9,197	10,229
EBITDA	625	683	771
EBITDA Margin	7.2%	7.4%	7.5%
EBIT	434	464	521
EBIT Margin	5.0%	5.0%	5.1%
Net Profit	300	341	379
EPS	0.45	0.51	0.57

Source: Company Data and Nova Research

Company Description

Jerónimo Martins, SGPS is a Portuguese group, operating in the Food Distribution, Manufacturing and Services areas, with an international projection in Poland. Regarding the Food Distribution, in Portugal (mainland and Madeira) the group controls the brands Pingo Doce (supermarkets and hypermarkets), Recheio (cash & carry and food service platforms), while in Poland it operates under the Biedronka brand (hard discount supermarkets), which is the greatest contributor to JM's value. In the Manufacturing area the group functions through the companies Unilever Jerónimo Martins and Gallo Worldwide, Lda., whereas the Services segment is represented by the companies JMDPC, JMRS and Hüssel. The group is also planning on entering the food retail Colombian market by 2012.

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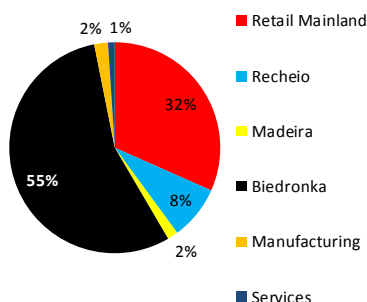
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Company Overview

Company Description

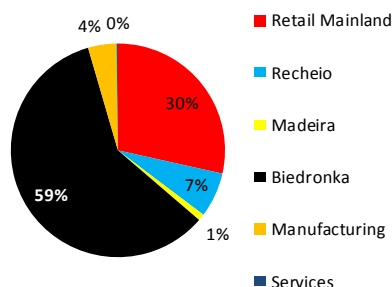
Jerónimo Martins, SGPS is a Portuguese group, operating in three areas: Food Distribution, Manufacturing and Services, with an international projection in Poland. In Portugal (mainland and Madeira), JM possesses a leading position in both the supermarket and cash & carry markets, through the banners Pingo Doce and Recheio, respectively. In Poland, the banner Biedronka is also the market leader and has become the group's main source of value, having its sales and EBITDA accounted for 55.3% and 59.2% of overall sales and EBITDA in 2010, respectively (Exhibits 1 and 2). JM is also the largest manufacturing group of Fast Moving Consumer Goods (FMCG) in Portugal, through the companies Unilever Jerónimo Martins and Gallo Worldwide, Lda., having leadership in markets like the margarines (e.g. Vaqueiro), iced tea (e.g. Lipton), ice creams (e.g. Olá), washing detergents (e.g. Skip), olive oil (Gallo) and others. Moreover, the group's portfolio also includes the Services area, which is composed by the companies JMDPC (Consumer Product Distribution), responsible for the representation and distribution of international brands in Portugal, many of which are market leaders in the food (e.g. Heinz, Kellogg's, Lindt) and cosmetic industries; JMRS (Catering and Services), intended to develop projects in the Restaurant Service sector, consisting of the Jeronymo, Olá, Chili's, Ben & Jerry's and Oliva concepts; and Hussel, a specialized retail chain of chocolates and confections. Finally, JM is planning on entering the food retail Colombian market by 2012. In 2010, JM was the second leading Retailer in Portugal, behind Sonae, SGPS, with a 6.7% share of the market value¹. Yet, when considering the top 250 global retailers in FY2009, JM was ranked 85th while Sonae occupied the 139th position (Exhibit 3), clearly demonstrating the value trait of the Polish operations.

Exhibit 1. Sales Breakdown (2010)



Source: Company Data

Exhibit 2. EBITDA Breakdown (2010)



Source: Company Data

Exhibit 3. Top 250 Global Retailers (2009)

Retail Sales Rank (FY09)	Name of Company	Country of Origin	2009 Retail Sales (US\$M)
1	Wal-Mart Stores, Inc.	US	405,046
2	Carrefour S.A.	France	119,887
3	Metro AG	Germany	90,85
4	Tesco plc	UK	90,435
5	Schwarz Unternehmens Treuhand KG	Germany	77,221
85	Jerónimo Martins, SGPS SA	Portugal	9,932
139	Sonae, SGPS SA	Portugal	6,096
250	Fuji Co. Ltd.	Japan	3,075

Source: Deloitte Touche Tohmatsu "Global Powers of Retailing 2011" (8/11)

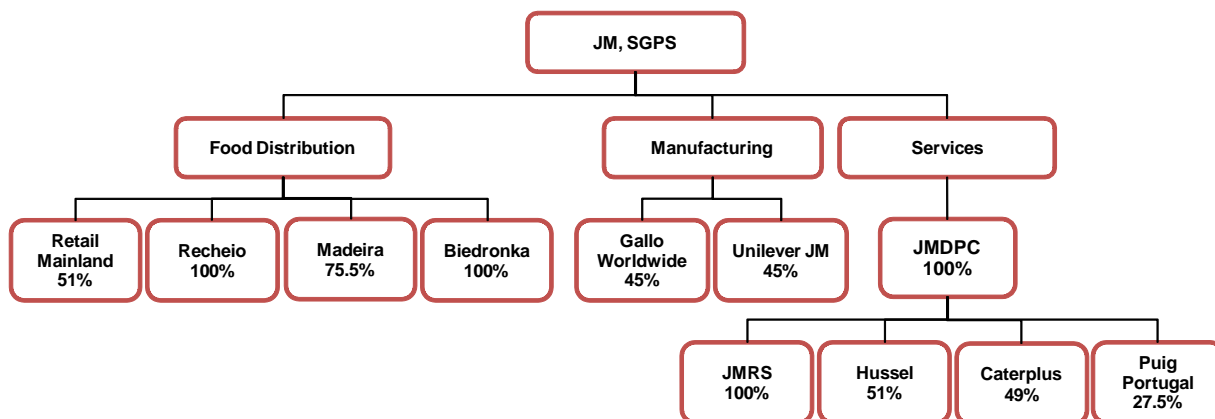
¹ Source: Euromonitor International "Company Profile – Portuguese Retailers" (3/11)

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Ownership Structure

Regarding the different business units' ownership, please consider Exhibit 4. As observed, in the Food Distribution segment JM owns 51% of the Retail Mainland (the other 49% belong to the Dutch company Ahold) – Retail Mainland now refers only to the Pingo Doce brand as in 2010 JM discontinued the Feira Nova brand and converted its 9 remaining hypermarkets into Pingo Doce ones –, 100% of Recheio, 75.5% of the Madeira operations (which include both Pingo Doce and Recheio stores), and 100% of Biedronka. In terms of the Manufacturing segment, this business unit is run through a partnership with Unilever (JM having a 45% stake and Unilever the remainder). In 2007, with the merger of FimaVG, Bestfoods, LeverElida and IgloOlá, the company Unilever Jerónimo Martins was created. Afterwards, in 2009, the joint venture spun-off the Olive Oil and Seed Oil business, creating the company Gallo Worldwide, Lda.. Finally, concerning the Services segment, JMDPC is fully owned by JM, which in turn holds 100% of JMRS, 51% of Hussel (the remaining 49% belong to the German Douglas AG), 49% of Caterplus (which comes from a joint venture with Sugaldal, owning 51%), and a 27.5% share in Puig Portugal, the retailer of perfumes and cosmetic products.

Exhibit 4. Ownership Structure (2011)



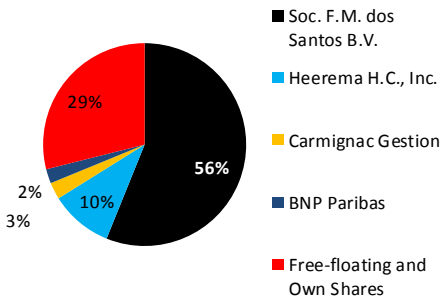
Source: Company Data

Shareholder Structure

As of January 1st 2012 JM had 629,293,220 outstanding shares. At that time there were four shareholders with qualifying stakes, as shown in Exhibit 5, being Sociedade Francisco Manuel dos Santos B.V. the majority holder (with 56.136% of the capital), having also a majority in voting rights (56.213%). However, as Sociedade Francisco Manuel dos Santos controls this Dutch subsidiary, it may

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Exhibit 5. Shareholder Structure (2012)



Source: Company Data

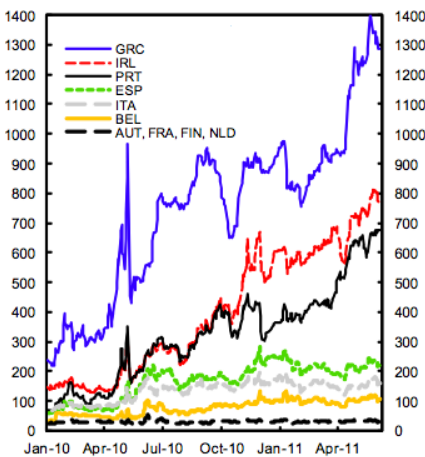
exercise those voting rights. Both Alexandre Soares dos Santos (Chairman of JM and chairman of the Board of Directors of JM) and Pedro Soares dos Santos (his son, CEO of JM) are directors of the Sociedade F.M dos Santos, SGPS, thus showing a high level of control over the strategic decisions of the group. The next major shareholder is the Heerema Holding Company, Inc., a company based in Switzerland that focuses on marine construction and civil engineering. It acquired 10% of JM’s capital, through its Asteck, S.A. investment vehicle. Carmignac Gestion, a French asset management firm, held 2.679% and BNP Paribas enjoyed a 2.289% share, attained through investment funds managed by the France-headquartered bank. The remaining 28.918% of JM’s capital were free-floating and treasury shares (859,000 shares).

Portugal

Macroeconomic Environment

Previous to the current economic crisis, ever since Portugal adhered to the Euro Zone it benefited from low interest rates and easy financing, which allowed for an amplification of both private and public consumption, as well as indebtedness. Moreover, since 2007, the Euro area aggregate budget deficit worsened and structural imperfections in Portugal led to a sharp rise in public debt (from 48% of GDP in 2000 to 93% of GDP in 2010)². The fiscal load caused harsh sovereign funding pressures in Greece, Ireland and Portugal (known as the Peripheral Sovereign Debt Crisis), with markets attributing high levels of default risk to these nations (Exhibit 6), eventually leading them to turn to the EU/IMF for financial aid – Portugal asked for a €78B bailout in May 2011. Nevertheless, solvency concerns remain, as shown by the boosting risk aversion and the downgrades of Portugal’s long-term government bond ratings – in July 2011 Moody’s made a cut of four levels to Ba2 (two notches into the non-investment grade), in November 2011 Fitch decreased the rating from BBB- to BB+ (entering the junk territory), and Standard & Poor’s maintained its rate one level above junk (BBB-)³ –, pushing spreads up. As funding problems persist, the country’s concern has been on reducing the deficit, instead of stimulating growth. The consolidation measures outlined in the 2012 budget, containing fierce tax increases and spending reductions (e.g. in the public sector’s salaries), along with a diminishing confidence level (88% of the Portuguese people have the perception of being in

Exhibit 6. 10-year Bond Spread vis-à-vis Germany



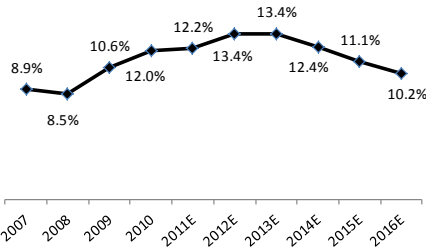
Source: IMF “Country Report – Euro Area” (7/11)

² Source: IMF “Country Report – Portugal” (9/11)

³ Source: The New York Times “Portugal Downgrade Hurts Stocks in Europe” (11/11)

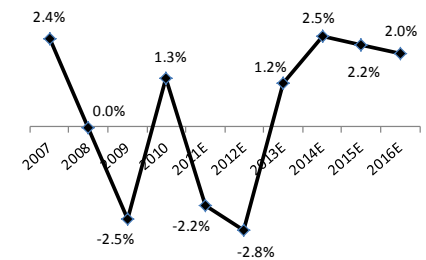
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Exhibit 7. Unemployment Rate – Portugal



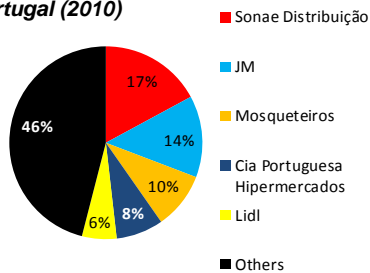
Source: IMF "World Economic Outlook" (9/11)

Exhibit 8. GDP Growth Rate – Portugal



Source: IMF "World Economic Outlook" (9/11)

Exhibit 9. Grocery Retailers Share – Portugal (2010)



Source: Euromonitor International "Grocery Retailers in Portugal" (3/11)

a recession, and 72% believe it will continue in 2012; 62% feel they have less money to spend compared to 2011, and 54% are convinced their spending power will deteriorate in 2012⁴), are expected to continue negatively impacting domestic demand. In Europe, unlike the USA and Japan, the Central Bank is reluctant to engage in quantitative easing, focusing only on reducing inflation. The private sector and state-owned enterprises may face severe constraints in financing, as banks present higher borrowing costs (in August 2011 the European Banking Authority estimated a need of an €8B increase in banks' capital⁵), besides the already shortage of external financing.

According to the IMF Staff, unemployment is forecasted to reach a high point in 2013, slowly recovering afterwards (Exhibit 7), as a result of companies restarting to hire, due to looser credit constrains and solid growth perspectives. It is expected that the interest spreads begin to decrease over the mid-run, however until 2015 there are no projections of them going below or even along pre-Euro adoption levels. Portugal is committed to stabilize its public debt and reach the following levels of deficit: 5.9% of GDP in 2011, 4.5% in 2012 and 3% in 2013 (down from 9.1% in 2010). The downside risks have recently been trimmed down, as the European Council has taken action in strengthening the Euro Area Crisis Management Framework, through lower interest rates and longer maturities as well as an assurance of assistance until the access to markets re-emerges. It is expected that this will occur by 2013, as long as Portugal maintains its strong policy implementation strategy. Even so, after the second quarterly review of Portugal's program, the recession in 2012 was thought to be more severe than forecasted, arriving at a level of close to -3% (Exhibit 8). In spite of the increased risks of contagion to the core of Europe and a more than ever concern for the Euro sustainability, the Staff reiterates its belief in a debt stabilization by 2013⁶.

Food Retail Market Environment

In 2009 the top 5 grocery retailing companies' conglomerate market share was around 64% (Exhibit 9), a concentration not too advanced, when compared to the European average level of around 70% to 80%, meaning there was still a slight room left to cover. However, the two biggest players (Sonae and JM) have their businesses very well consolidated, thus posing some difficulties for new entrants.

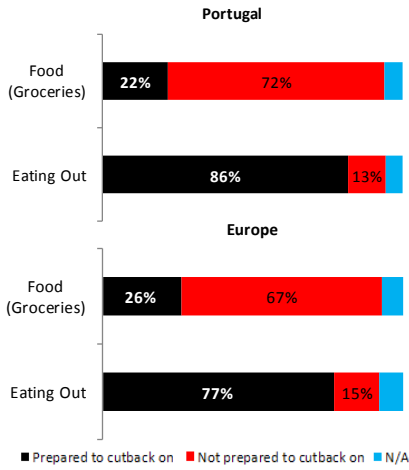
⁴ Source: Deloitte Touche Tohmatsu "Christmas 2011 – Portugal" (11/11)

⁵ Source: IFF "Economic Research – Portugal" (2011)

⁶ Source: IMF "Country Report – Portugal" (9/11)

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Exhibit 10. Next Year's Expenditures Given Less Disposable Income (2011)



Source: Deloitte Touche Tohmatsu "Christmas 2011 – Portugal" (11/11)

Also, with the VAT hikes and the economic strains, the growth prospect is in line with the GDP growth and people's available income, i.e. the growth potential is very much limited⁷. According to a survey performed by Deloitte Touche Tohmatsu in November 2011⁴ it was found that consumers in Western Europe, especially in Portugal (as well as Greece and Ireland), confirmed they would be reducing consumption. However, the Portuguese consumers are less willing than the European ones to cut it on food (Exhibit 10).

The grocery channels are now at a certain level of maturity, thus boosting competition among players, with the differentiating factor in the medium-run forecasted to be lower prices, given the current economic downturn. Because of the present financial crisis, Portuguese consumers are experiencing a decrease in their levels of disposable income, leading to a change in consumer behavior, which negatively affects the retailing business. People are now looking for value: price and quality are the key determinants for purchases. It is expected that the demand for some products will decrease in the future⁸, and not just for the duration of the current crisis, as people will experience a cultural change, becoming accustomed not to spend with abandon. As a response, retailers had to evolve their sales strategy, by focusing on lower prices (e.g. JM's Pingo Doce announced it would not apply the increases in VAT in the prices) and better location. In order for retailers to be able to maintain prices low, as to attract customers, operational margins are being diminished, along with an intense pressure on suppliers to decrease their prices.

Supermarkets remain the biggest chain in sales⁹, however this format has also felt the need to focus on lower prices and improved image (e.g. JM's Pingo Doce invested in a massive campaign to change consumers' perspective of the brand). Hypermarkets experienced the largest growth in sales values in 2010⁹, mainly due to their ability to house a larger range of products. Also, as it is usually the case, hypermarkets have more negotiating power against their suppliers, thus allowing for lower prices.

Another consequence of these difficult times is the diminishing power of the traditional retailing, losing ground for the modern retailing (the larger chains), as the former fail to modernize their business structures. The number of traditional outlets still remains the biggest in the market, but the sales value has been

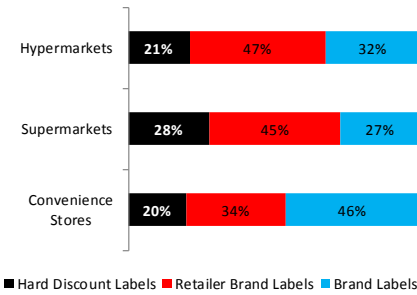
⁷ Source: Agência Financeira "A. T. Kearney Representatives' Interview" (7/10)

⁸ Source: IGD "The Rush" (4/11)

⁹ Source: Euromonitor International "Grocery Retailers in Portugal" (3/11)

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Exhibit 11. Purchases Breakdown (2011)



Source: Deloitte Touche Tohmatsu "Christmas 2011 – Portugal (11/11)"

decreasing¹⁰. The modern retailing sales accounted for 76% of overall value in 2010 and this share is forecasted to continue to rise¹⁰.

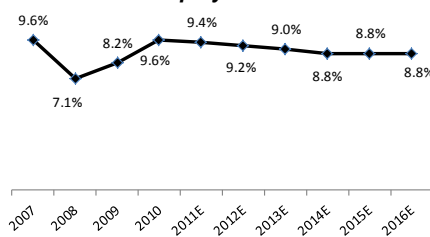
Finally, another trend that has intensified due to the diminishing living standards of the population is the trading down for private label products (on average 30% cheaper than branded goods). More than ever manufacturer brands are being judged for their value, as people now spend more cautiously (even better off individuals). Consumers are still spending money, they just changed their priorities due to the smaller availability of cheap credit and falling confidence. Although the food sector usually enjoys a certain degree of insulation during recessionary times, as people still need to eat to survive, this time purchasing patterns are definitely changing, forcing companies to review their strategies and cost reduction should become their top priority. Currently, store own brands account for 47% of purchases in hypermarkets and 45% in supermarkets (Exhibit 11), reflecting this strong trend. In fact, as of 2009, if the private label's sales were to be considered as the "manufacturing" volumes of the retailers, 5 of those would be in the top 10 of the global FMCG manufacturers¹¹. A study by the research firm GfK Group in 2009¹² stated that 90% of global customers associated private brands with high quality (equal or even better than that of manufacturer ones) and believed it to save them a great deal of money.

Poland

Macroeconomic Environment

During the global economic crisis, Poland (a country of around 38M people) was the only European country able to flee the overall recession momentum (only suffering from a decrease of GDP growth to a minimum of 1.6% in 2009) and has rapidly restored the solid growth ability, due to the country's dynamic economy, as well as the access to a \$30B Flexible Credit Line (FCL) arranged by the IMF (it was granted in May 2009, and in last January it was renewed for 2 more years). In 2010, the country's GDP growth reached 3.8%, impelled by the recovery of employment (Exhibit 12) and the wage increase, and is expected to remain above the EU average, at least in the next 5 years. It is forecasted that the increase in private consumption continues to be strong, more than compensating for the pressures coming from the VAT rate climb, contributing to

Exhibit 12. Unemployment Rate – Poland

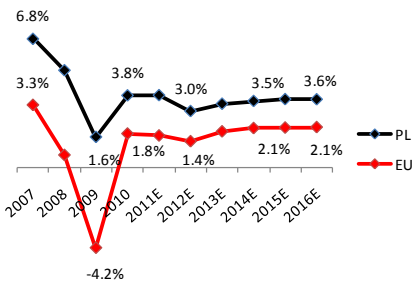


Source: IMF "World Economic Outlook" (9/11)

¹⁰ Source: Euromonitor International "Retailing in Portugal" (3/11)
¹¹ Source: A.T. Kearney "Capitalizing on Consumer Agony" (2009)
¹² Source: A.T. Kearney "The Private Brand Conundrum" (6/10)

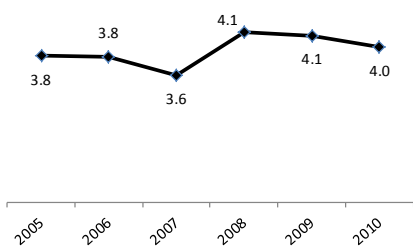
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Exhibit 13. GDP Growth Rate – Poland



Source: IMF "World Economic Outlook" (9/11)

Exhibit 14. EUR/PLN Exchange Rate



Source: Bloomberg

the maintenance of a GDP growth rate of around 3% in 2012 (Exhibit 13). Also, this increase in VAT rates and a reform in pensions should allow for a narrowing of the fiscal deficit to 3.5% in 2012, in turn leading to a public debt level below the 55% of GDP threshold (defined by the Polish authorities)¹³. In terms of judgment of the economy, the Polish people are again above the European average when it comes to optimism (45% have the perception of being in a recession, and only 32% believe it will continue in 2012; 33% feel they have less money to spend compared to 2011, and 32% are convinced their spending power will deteriorate in 2012)¹⁴. In spite of all these good performance attributes, the Zloty has been weakening since 2007, forced by the global raise in risk aversion and the association of Poland to the Euro region (Exhibit 14). However, the ongoing fiscal consolidation mentioned should be able to moderate the currency's vulnerability. Also, since 2002 Moody's has maintained the country's rating in A2, which is the 6th highest investment grade, and S&P kept its rate at A- since 2007, the 7th highest¹⁵. Although Poland is highly integrated into the Europe's banking system and fears of a potential contagion from the current financial tensions emerge, threatening the funding costs of the country, the FCL arrangement with the IMF is expected to supply some insurance against that risk¹⁶.

Food Retail Market Environment

In previous years, the retailing market in Poland has been positively impacted by the development in the economy as well as the increase in disposable incomes. Yet, the recent global economic depression has hindered growth in this sector. During the worsening of economic conditions in 2009, Poland was the only country in Central Europe to post an increase in retail sales, albeit at a lower growth rate. However, the grocery sector was able to offset that impact and post not as lower growth rates than the remaining segments¹⁷. In January 2011, the government approved a new VAT increase¹⁸, which would lead prices to rise. However, retailers are choosing to pass that increase on to their own margins, as well as on to suppliers, in order not to lose customers.

It was both due to the difficult economic environment and the great expansion of discounters that private label has become more common. Given the recent trend,

¹³ Source: IFF "Economic Research – Poland" (2011)

¹⁴ Source: Deloitte Touche Tohmatsu "Christmas 2011 – Poland" (11/11)

¹⁵ Source: Bloomberg Business Week "Poland Targets Rating Upgrade Within One Year" (12/11)

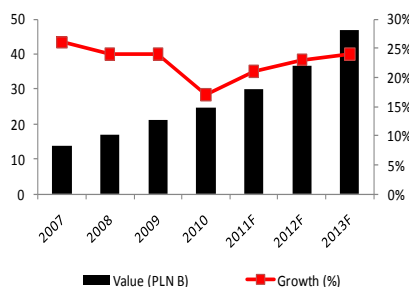
¹⁶ Source: IMF "Country Report – Poland" (7/11)

¹⁷ Source: PMR "Grocery Market in Central Europe" (2/11)

¹⁸ Source: Euromonitor International "Retailing in Poland" (4/11)

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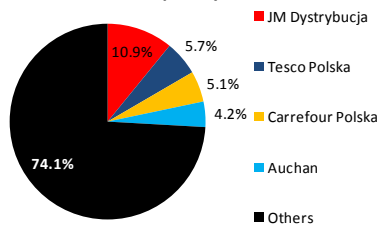
Exhibit 15. Private Label Market – Poland



Source: PMR "Private Label Market in Poland" (4/11)

both supermarkets and hypermarkets are also expanding their offer of private label products. Nonetheless, discounters still remain the core distribution channel of this assortment of goods¹⁸. The increased private label popularity has also been a consequence of a consumers' growing knowledge about it. According to Nielsen, in 2010 44% of buyers had a positive view on private label products' quality and the amount of Poles in belief that choosing private labels is a clever choice has increased 7% in 2010 (to 55%)¹⁹. Discounters, as well as supermarkets, experienced the greatest growth in 2010 (discounters posted an 8% increase)²⁰. Of the two discounter formats present in Poland (hard and soft ones), the hard discounters have been those mostly benefiting from the economic downturn, as Poles are opting for the lowest prices possible. In fact, Poland is the only country in Central and Eastern Europe where consumers declare a higher preference for discounters (30%), instead of supermarkets (11%) and hypermarkets (27%)²¹. As observed in Exhibit 15 the discounters' value is expected to continue expanding (its market share was 55% in 2010)²², due to a foreseen worsening of the global raw materials markets, food price inflation and increasing charges, which is supposed to lead consumers to look for more affordable and valuable products.

Exhibit 16. Grocery Retailers Share – Poland (2010)



Source: Euromonitor International "Grocery Retailers in Poland" (4/11)

Like in Portugal, the modern grocery retailing is gaining ground to the traditional one in terms of sales value²¹ (although traditional grocery retailing comprises a larger number of outlets), due to the greater range of products offered and lower prices. The large chains are expected to continue to grow, in detriment of smaller grocers. In 2010 the top 4 grocery retailers accounted for around 26% of the market in sales value (with JM Dystrybucja coming in first, with a share of 10.9%) (Exhibit 16). This is a rather small concentration ratio, so it is expected that new entrants appear, along with an amplification of competition.

Operational Forecasts

In order for us to estimate JM's future financial performance we focused mostly on the number of stores, the stores success (sales per sqm) and the EBITDA margin in each of the business units. We based our forecasts on the company's plans (JM's Investor's Day presentation of November 2011) and also on our previously analyzed macroeconomic and food retail markets environments.

¹⁹ Source: PMR "Today's Private Labels in the Eyes of Polish Consumers" (9/11)

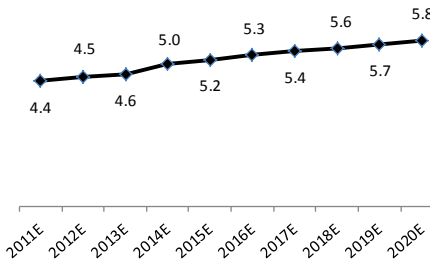
²⁰ Source: Euromonitor International "Grocery Retailers in Poland" (4/11)

²¹ Source: PMR "Popularity of Modern Retail Formats in Central and Eastern Europe" (7/11)

²² Source: PMR "Private Label Market in Poland" (10/11)

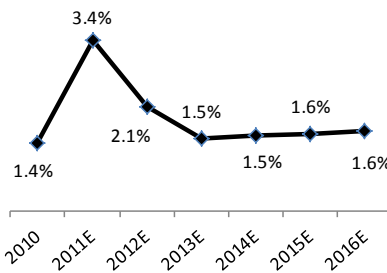
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Exhibit 17. EUR/PLN Exchange Rate



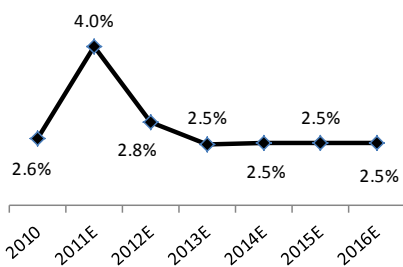
Source: Bloomberg

Exhibit 18. Inflation Rate – Portugal



Source: IMF "World Economic Outlook" (9/11)

Exhibit 19. Inflation Rate – Poland



Source: IMF "World Economic Outlook" (9/11)

Worth mentioning is our assumption of a constant sales area (sqm) per store in all of the food distribution segments (equal to that of 3Q11) as we do not regard as likely a significant change in the company’s strategy regarding store size and format. Moreover, in order to reach the sales values in those business units, as we realized a newly opened store does not function at full capacity right from the beginning, we considered a 55% capacity in the first year, 75% in the second, and a full usage of the stores in their third year. Also, all of the sales values do not include inter-segments sales and all of Biedronka’s growth figures are expressed in Zlotys. For the exchange rates between the Euro and the Zloty for the upcoming years we used the future contracts of EUR/PLN, taken from Bloomberg (Exhibit 17). Finally, all of the forecasts are expressed in nominal terms, according to the IMF’s estimates for inflation in both countries (Exhibits 18 and 19).

Retail Mainland

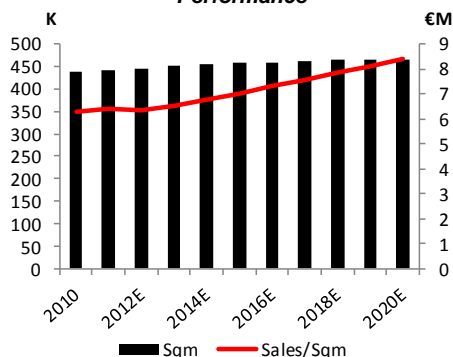
In the past 5 years, Pingo Doce has shown an impressive sales evolution (with a CAGR of 12.3%), a consequence of its great expansion plan (it revealed a sales area CAGR of 9.3%). In terms of EBITDA margin, this business unit suffered a blow in 2010 (decreasing 40bp), which we believe was the result of the massive investment the company incurred in advertising (so as to promote its *Everyday Low Prices (EDLP)* policy and the refusal of replicating the VAT increase into its products), and the expenses taken with the Feira Nova and Plus’ stores conversion into the Pingo Doce brand. The trading down trend, although leading to a decrease in average ticket, had minimal effects on profitability, as private label products have higher gross margins than branded ones. In spite of the drawback in EBITDA, Pingo Doce remained the supermarket leader, with a current share of around 19%, and research has proved this to be the most recognized brand amongst the Portuguese buyers²³.

As the market is approaching maturity, rivalry among players becomes fiercer. In fact, in this very competitive setting, the Intermarché chain (from the Mosqueteiros group) was unable to differentiate itself, losing territory to Pingo Doce; and both the two-tier supermarket operators Alisuper and Freitas filed for bankruptcy. On the other hand, the recently returned franchise chain Spar has been demonstrating a high outlet expansion and is expected to pose tough competition against Pingo Doce.

²³ Source: Euromonitor International "Company Profile – Portuguese Retailers" (3/11)

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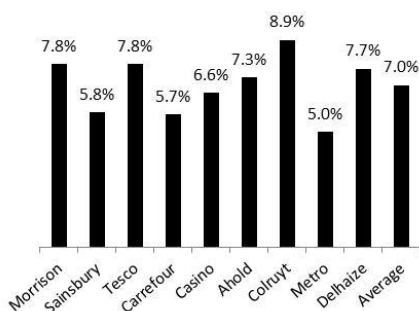
Exhibit 20. R.M. Sales Area and Performance



Source: Company Data and Nova Research

In spite of the current and foreseen future depressed macroeconomic situation, we remain positive when it comes to Pingo Doce’s resilience and we expect the maintenance of its impressive performance. As we already mentioned, even in these troubled times Pingo Doce was able to remain a strong leader, as its effort to spread its quality/price trait and renewed image has allowed for an increase in traffic (despite the trading down trend which would reduce the company’s sales value). Also, the fruitful market insight that led Pingo Doce to improve its private label and perishables’ offer (currently accounting for around 40% of sales each) and the take away concept (which is present in most of the stores), along with the persistent decision to establish stores in prime proximity locations, make us judge very likely that Pingo Doce will be capable to grow against the future headwinds, and so we estimated a sales CAGR for 2010-2020 of 3.58%.

Exhibit 21. Mature Markets Peers’ EBITDA Margin (2010)



Source: Bloomberg

However, as we deem the market as reaching saturation levels, we were a bit pessimistic in terms of store openings (when compared to the announced plans by JM in the Investor’s Day in November 2011), forecasting a sales area CAGR of only 0.6%. Regarding the EBITDA margin, we expected a flat performance until 2015, slowly recovering thereafter. This positive outlook derives from the company’s integration of the Feira Nova hypermarkets into the Pingo Doce brand, together with a reduction in the non-food assortment and sales area. The conversion to a single brand allowed for the company to focus on a strong and successful strategy, especially when Feira Nova was actually underperforming, affected by JM’s biggest competitor Sonae. Pingo Doce is also considering the extinction of a couple of Distribution Centers, as a means of optimizing their geographical distribution, given the buyers’ concentration in Lisbon and Oporto.

Exhibit 22. Retail Mainland Forecasts

(in EUR million)	2010	2011E	2012E	2013E	2014E	2015E	2020E
Sales	721	725	716	744	783	817	1,021
EBITDA	45	43	43	45	47	50	63
EBITDA Margin	6.2%	6.0%	6.0%	6.0%	6.0%	6.1%	6.2%
EBIT	29	26	25	27	28	30	43
# Stores	38	39	39	40	41	41	43

Source: Company Data and Nova Research

Recheio

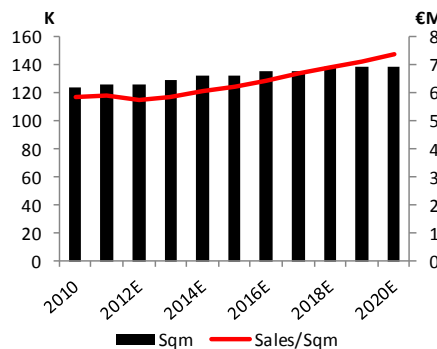
This segment works directly with the HoReCa (currently 42% of sales) and the traditional retailing (40% of sales) markets. Both these businesses have been suffering deeply since 2008, due to the deterioration of the Portuguese households’ available income. Superfluous expenses (as eating out and

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travelling) are the first ones to go in a crisis environment; also, restaurants were recently exposed to a VAT increase (from 13% to 23%); and the traditional retailing has lost competitiveness by not being able to offer prices as low as big chains. According to Nielsen, the HoReCa market fell close to 4% and the traditional retail 9.7% in 2010.

In spite of this dark scenario, Recheio was able to post positive sales growth last year (4.6%) and even increase its EBITDA margin (to 6.2%) and its leading market share (through a boost in the average ticket and the number of clients). According to JM, in 2005 the gap between Recheio and the number 2 in the market (Makro from Metro group) was of around 2% – Recheio’s share was 24.5% – and in 2010 that gap widened to 16%, with Recheio presenting a market share of 37.5% while Makro had merely 22%. This came from the investment in promotional campaigns, the focus on customers’ most important purchases (e.g. perishables – currently 15% of Recheio sales, a growth of 15% from last year) and the increased assortment of products of its private brands (Masterchef, Gourmês and Amanhecer) (17% of sales, a boost of 25%). More specifically, Amanhecer was clearly the priority in 2010 (ending the year with 129 products), with the group developing a strategy to revitalize the Portuguese traditional retail. The project consists of a franchise-like idea, being the traditional retailers obliged to purchase around 80% of its products from Recheio, and in turn the company would be responsible for all the logistics of the business. This way, the traditional retailers would gain a competitive tool, as they would be completely modernized and able to offer lower prices (through the private label Amanhecer), thus adjusting to the current change in the population’s purchasing patterns.

Exhibit 23. R. Sales Area and Performance



Source: Company Data and Nova Research

The Portuguese wholesale market is rather mature, with the two leaders together controlling close to 60% of the market, and the remaining peers being fairly small and uncompetitive, and so we do not foresee many expansion opportunities, and as such we forecasted only 5 openings in the next 10 years. However, in sales we forecasted a CAGR of 3.55%, a tad lower from previous years (the CAGR of 2005-2010 was 4.5%). Despite the negative outlook for both the HoReCa and the traditional retailing markets, we believe in Recheio’s ability to adopt its strategies in order to respond attractively to its customers’ changing needs and increase its market share, also derived by its small competitors’ inability to thrive which would lead them to lose business. In terms of the EBITDA margin, we assumed a decrease to 6% in the next 4 years given the pessimistic prospects of the global economy, slowly recovering afterwards reaching 6.2% in 2018.

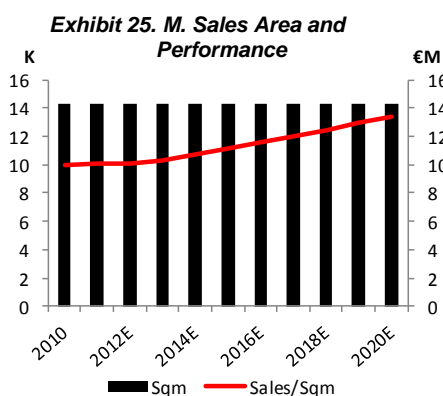
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Exhibit 24. Recheio Forecasts

(in EUR million)	2010	2011E	2012E	2013E	2014E	2015E	2020E
Sales	721	725	716	744	783	817	1,021
EBITDA	45	43	43	45	47	50	63
EBITDA Margin	6.2%	6.0%	6.0%	6.0%	6.0%	6.1%	6.2%
EBIT	29	26	25	27	28	30	43
# Stores	38	39	39	40	41	41	43

Source: Company Data and Nova Research

Madeira



Source: Company Data and Nova Research

In Madeira, ever since 2005 (at least) the business has been quite stable – the number of stores has remained unaltered (13 Pingo Doce and 2 Recheio stores). Additionally, sales were able to grow at a CAGR of 6.2% over that period. On the contrary, EBITDA margin suffered a 10bp decrease in 2010, derived from the closure of two of the biggest stores due to the major storm that hit the region in February 2010. However, a strong and fast reconstruction program allowed for the stores to restart operations a few months later. Therefore, we assumed the EBITDA margin to return to the levels of 2009 and remain constant in the future. As was discussed earlier, the food retail segment is suffering from the economic downturn, and so we expected a sales CAGR of 3.04% (we predicted no new store openings in the next 10 years, as this market is fairly mature).

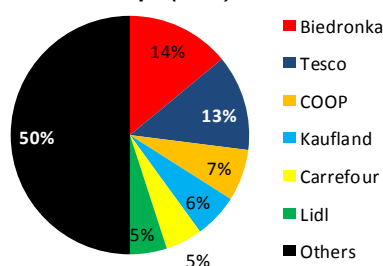
Exhibit 26. Madeira Forecasts

(in EUR million)	2010	2011E	2012E	2013E	2014E	2015E	2020E
Sales	142	144	143	147	153	159	191
EBITDA	6.7	6.9	6.9	7.1	7.4	7.6	9.2
EBITDA Margin	4.7%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
EBIT	3.6	3.5	3.4	3.5	3.6	3.8	5.3
# Stores	15	15	15	15	15	15	15

Source: Company Data and Nova Research

Biedronka

Exhibit 27. Popularity in Central and Eastern Europe (2011)



Source: PMR "Popularity of Modern Retail Formats in Central and Eastern Europe" (7/11)

²⁴ Source: JM "Annual Report 2010"(3/11)

Biedronka is the number 1 grocery retailer in Poland, with an 11% share. Also it is the company with the highest brand awareness (98%)²⁴, as well as the most popular brand in the Viszegrad region (Czech Republic, Slovakia, Poland and Hungary), although being present in only one country (Exhibit 27).

Biedronka, as the main value driver of JM, has accomplished outstanding results in the previous 5 years. In effect, sales CAGR was an astonishing 29.7%, while the EBITDA margin consistently increased, reaching 7.6% in 2010. This was a

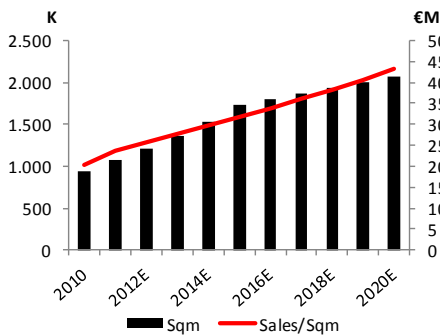
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result of this unit's ambitious expansion plan that was fully implemented (Biedronka posted a sales area CAGR of 18.9% in that period). Also, the company benefits from a cost leadership in the Polish market, allowing for it to remain the price leader there. As aforementioned, the global economic downturn moderately hit Poland (despite of its own attractive economic outlook) in the way of making Poles a bit more price-conscious, thus turning their attention towards the private label products, mostly offered by discounters, like Biedronka. Indeed, 55% of the company's current sales comes from the private label assortment. The company also attracted customers with its *EDLP* policy and its broad presence (currently in 9 of the country's 16 regions), specifically aiming at prime proximity locations.

The company has the most ambitious expansion plan within the Polish retail market, targeting at reaching a 3,000-store conglomerate by 2015, which would translate into a sales area CAGR of 12.7% in the next 5 years, attaining a full coverage of the country's 16 regions. The idea is for most of this store-opening plan to be conducted in more inner, bigger cities, where Biedronka is still underpenetrated. More so, according to the company's internal research, 60% of Poles visit its stores at least once a month, whilst 38% name it their main store for purchases, with the difference between the two amounts being the people's complaint about not having stores closer to them. However, as the offer of attractive locations is diminishing, Biedronka may have to incur in more inorganic growth, taking over some small independent players.

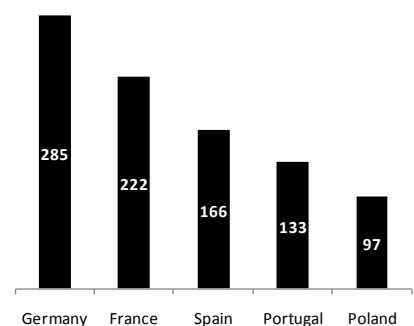
We believe this to be an achievable goal for a few reasons. First of all, the modern retailing market in the country is still far from European levels of penetration (in 2010 it accounted for 50% of the market, whereas in Europe it ranged between 70% and 90%), and is expected to continue on gaining ground against the traditional retailing (JM expects this share to grow to 55% in 2015), thus showing a rather large room for growth. Secondly, the country's store density is still quite small when compared to the Western Europe, as evidenced in Exhibit 29, again posing a substantial growth potential. Finally, JM's previous accomplishments in terms of expansion prove its ability to fulfill ambitious plans, providing us with confidence of its capacity to further enlarge the store network. However, from 2015 onwards, as we deem the opportunities for growth as diminishing, despite still fruitful, we forecasted a sales area CAGR of only 3.7%.

Exhibit 28. B. Sales Area and Performance



Source: Company Data and Nova Research

Exhibit 29. Supermarkets & Discounters Store Density – Sqm/1,000 Inhabitants (2011)

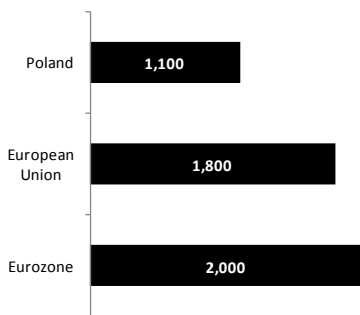


Source: JM "Investor's Day" (11/11)

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In terms of sales, Biedronka was the chain that saw the biggest boost in 2010 in Poland²⁵, helped by the aforementioned rising popularity of discounters, driven by the global economic situation. The company is now investing in revamping the stores, a small change of layout that has proven to be successful (according to JM, the first 20 stores where the new concept has been applied have seen a 10% sales improvement). This new model basically encompasses a higher share of store space dedicated to fresh products, specifically bringing fruits and vegetables to the entrance, as a way of adapting to the Poles' rising purchasing power and preferences (perishables currently account for 15% of sales and are expected to increase their share). This layout is projected to boost store traffic and inventory rotation, positively affecting the average ticket and margins. With the positive prospects for the Polish economy in the upcoming years, changes in consumer patterns are bounded to happen, and the basket growth potential will be one of the main drivers of sales. More so, that Biedronka has attributed most of its success so far to its ability to adapt the assortment of products to Poles' needs and expectations. Adding to the optimistic outlook for sales is the fact that in Poland the average food consumption is again quite below EU values (Exhibit 30), presenting an opportunity for growth in average ticket.

Exhibit 30. Expenditure on Food and Non-Alcoholic Beverages – EUR/Inhabitant (2010)



Source: JM "Investor's Day" (11/11)

Biedronka's previous massive expansion pace when compared to its peers' (twice as much as the number 2 and owning 30% of all new space added to the market²⁶), along with a lack of intensification in the competitive environment, has allowed for the company to continue gaining market share. In fact, none of its competitors have been accelerating their store openings (according to Nielsen, Lidl has been presenting a slower pace, having been losing market share to JM since 2008). Also, Biedronka maintains its focus on price leadership, having kept a stable price gap of around 3% to its direct peers and of 6-8% to supermarket/hypermarket operators. This latter figure is rather small when looking at mature markets (close to 15%²⁶), which supposedly will prevent its competitors from entering in any price wars.

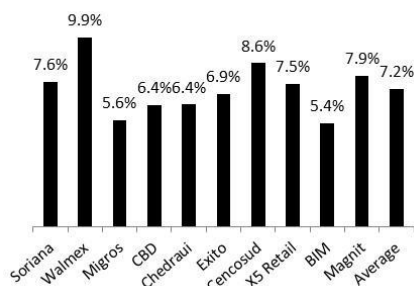
The observed EBITDA margin improvement has been a consequence of the benefits of scale and cost efficiency. In seeing that fixed costs should continue to be diluted by the rapid expansion and no considerable shifts in competition are expected, this effect is forecasted to stay put. Also, JM believes there is still room for efficiency improvements, mainly driven by logistics, which would control costs.

²⁵ Source: Euromonitor International "Grocery Retailers in Poland" (4/11)

²⁶ Source: Company Data

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Exhibit 31. Emerging Markets Peer's



Source: Bloomberg

In fact, distribution centers (DC) are created as a means of scouting the country's regions for expansion opportunities and assisting in logistic responses.

Given our belief in the Polish market direction towards EU standards and our confidence in a continuous leadership by Biedronka, we have estimated a sales CAGR of 16.41% for 2010-2020 and an EBITDA margin rise to a maximum of 8.4% in 2014, decreasing thereafter and stabilizing at 7.5% from 2020 onwards.

As previously stated, the foreseen Zloty weakness is a source of risk for JM, having an adverse impact on this unit's value (for example, sales CAGR in EUR equals just 11.99%).

Exhibit 32. Biedronka Forecasts

(in EUR million)	2010	2011E	2012E	2013E	2014E	2015E	2020E
Sales	4,807	5,255	6,299	7,535	8,441	9,864	14,922
EBITDA	365	415	504	618	709	829	1,119
EBITDA Margin	7.6%	7.9%	8.0%	8.2%	8.4%	8.4%	7.5%
EBIT	260	290	350	436	500	588	816
# Stores	1,649	1,859	2,095	2,361	2,662	3,000	3,600

Source: Company Data and Nova Research

Manufacturing

The contraction in the available income of the Portuguese people has been a strong headwind for this segment. The private labels' popularity has posed some great threat to the manufacturer brands, as these products are increasingly being considered as not having great value in terms of the price/quality ratio, and this sentiment should persist in the future. Moreover, in face of raw materials' increase in price, in order to remain competitive and not lose market share, the company is likely to sacrifice its margins. Therefore, we forecasted a decrease in EBITDA margin (reaching 13.5% in 2020) and a very cautious sales performance. Specifically we assumed this segment's sales to evolve in line with the GDP growth, with a penalization in the next 5 years, resulting in a sales CAGR of only 2.35%.

Exhibit 33. Manufacturing Forecasts

(in EUR million)	2010	2011E	2012E	2013E	2014E	2015E	2020E
Sales	182	181	176	179	185	192	230
EBITDA	26	26	25	25	26	27	31
EBITDA Margin	14.4%	14.3%	14.2%	14.1%	14.0%	13.9%	13.5%
EBIT	21	20	20	20	20	21	25

Source: Company Data and Nova Research

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Services

As this business unit is mostly centered on the distribution of international manufacturer brands and restaurant services, it is highly dependent on macroeconomic conditions. Obviously enough, in times of economic downturn and credit crunch, people tend to move away from eating out and towards eating at home. Also, as stated before, the manufacturer brands business is being heavily impacted by the emergence of the private label products. Thus, as we assume the economic conditions will eventually pick up, but instead the trading down trend should remain strong in the future, we expected this segment to maintain its EBITDA margin of 1.6% and we forecasted a sales CAGR of only 2.79% (the 2005-2010 sales CAGR was 5.4%).

Exhibit 34. Services Forecasts

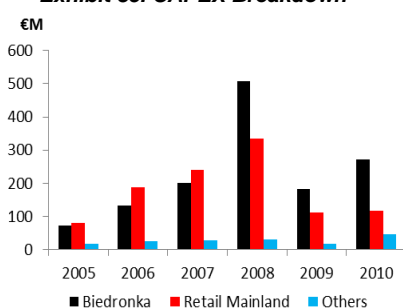
(in EUR million)	2010	2011E	2012E	2013E	2014E	2015E	2020E
Sales	90	91	90	92	96	100	119
EBITDA	1.4	1.5	1.4	1.5	1.5	1.6	1.9
EBITDA Margin	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
EBIT	0.5	0.5	0.5	0.5	0.5	0.5	0.8

Source: Company Data and Nova Research

CAPEX and NWC

When talking about capital expenditures (CAPEX) in the case of JM, one refers to investments in stores and DCs' openings, refurbishments and the ex-Plus stores' conversion to JM's banners. As can be observed in Exhibit 35, from 2005 up to 2008 the group's investment plan has evolved in an upward direction, reaching its maximum value so far (of €874.2M). Given the harsh economic setback experienced afterwards, the company clearly felt the need to become more cautious with its expenditures, reflected in a 64% YoY contraction on this figure in 2009. However, in 2010 this course was again reversed, demonstrated by an increase of 39% in total CAPEX. Another point to be drawn from the graph is the growing importance of the Polish operations in detriment of the Retail Mainland ones. In fact, in 2005 Biedronka and Pingo Doce accounted for 43% and 47% of the investment, respectively, whereas in 2010 Biedronka received 62% of the funds while Pingo Doce benefited from only 27%. Additionally, one can perceive the recurring small combined weight of the other business units.

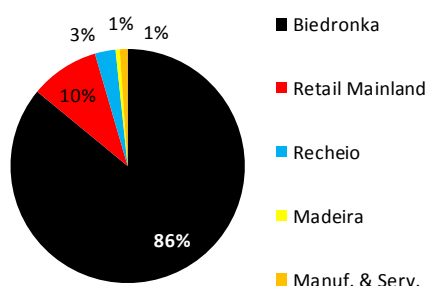
Exhibit 35. CAPEX Breakdown



Source: Company Data

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Exhibit 36. CAPEX Breakdown (2012-2014)



Source: Nova Research

Concerning our CAPEX forecasts for Portugal²⁷, we were obviously a bit cautious, and thus refrained from incorporating JM’s entire plans, as we deem them too ambitious for the dreadful times the country is currently facing and will most likely face in the recent future. However, the group intends to divest in some DCs, an assumption that we incorporated in our model, which translated into a slight cost reduction. Effectively, the company predicted expenses of €160M and €50M for the triennium of 2012-2014 in Retail Mainland and Recheio, respectively, while our estimates totaled €175.8M and €52.6M (although not diverging significantly in value, we assumed a lesser amount of store openings than predicted by the company, thus we expected higher costs per store).

Regarding the Polish unit²⁸, in face of the envisaged bright future of the country and Biedronka’s leadership, we fully incorporated the group’s aggressive expansion plan, mainly by assuming a conglomerate of 3,000 stores by 2015 and the associated spread of DCs. Each DC serves a range of 150 to 180 stores, and so according to our target of 3,600 stores by 2020, Biedronka will then own 21 DCs. In terms of CAPEX, JM expects to spend around €1.6B in the referred 3-year period, whereas our forecasts pointed to approximately €1.59B. At first glance, it seems we thought of JM as overly pessimistic in what concerns the costs per store. This was not the case, as we actually priced up this figure, but instead the result of a worse expectation of the Zloty devaluation from our part. Finally, concerning the former Plus stores, in Poland they were immediately converted into the Biedronka banner in 2008 (due to the two business models’ similarity), with no significant CAPEX boosts needed, and so this process was completed and totally assimilated in JM’s figures by then. On the other hand, a greater investment was needed in Portugal and there are actually still 9 stores left to revamp, which according to JM will be finalized by the end of 2012.

Overall, the CAPEX for the 2012-2014 interval is expected to reach approximately €1.85B with Biedronka absorbing 86% of it, which is relatively in line with JM’s expectations (€1.8B and Biedronka’s weight of 70%). Again, the small divergences arise not from our more optimistic cost assumptions, but from our prudent expansion and pessimistic EUR/PLN assumptions.

²⁷ Pingo Doce costs per store – rented: €2.5M, owned: €5M, revamped: €3.5M, ex-Plus converted: €1.2M
 Recheio costs per store – rented: €2.3M, owned: €6.1M, revamped: €7.7M
²⁸ Biedronka costs per store – rented: €0.4M, owned: €0.8M, revamped: €0.75M, new DC: €20M

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Exhibit 37. CAPEX Forecasts

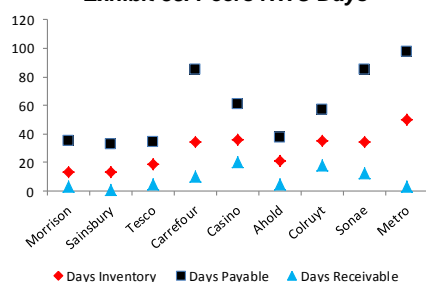
(in EUR million)	2010	2011E	2012E	2013E	2014E	2015E	2020E
Retail Mainland	115.9	73.4	63.9	55.0	56.9	54.5	98.0
Recheio	29.1	12.1	16.9	13.1	22.6	9.4	11.2
Madeira	12.6	3.3	3.5	3.6	3.7	3.8	4.6
Biedronka	270.9	429.4	469.9	539.6	577.9	661.3	474.3
Manuf. & Serv.	6.1	6.2	6.4	6.7	6.9	7.1	8.4
Total	434.2	524.5	560.7	617.9	668.0	736.1	596.6

Source: Company Data and Nova Research

With regards to net working capital (NWC), JM has been consistently improving its efficiency and short-term financial health, such that it was able to reduce this figure by close to 8 days in the past 5 years (Exhibit 39). With the increasing weight of perishables in the overall assortment of JM’s units, inventory turnover should accelerate, and the growing operational scale of the group should empower it to improve its relationships with both suppliers and clients.

Accordingly, we forecasted an improvement in NWC days of more than 4 days in the upcoming 10 years, regarding the inventory and collection periods. Notwithstanding our assumption of a significant increase in inventory rotation given the perishables popularity, and a diminishing collection period (though we did not foresee many room for improvement, as JM’s business is mostly characterized by customers making immediate payments), we predicted an aggravation of the payment period in the following 3 years, given the overall macroeconomic situation. Nonetheless, afterwards we expect JM to start paying its suppliers faster, as it should attain a more comfortable position in the market, thus increasing the NWC days.

Exhibit 38. Peers NWC Days



Source: Bloomberg

Exhibit 39. NWC Forecasts

(in Days)	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	2020E
Inventory	30.4	27.8	27.3	26.5	21.8	20.2	19.8	19.4	19.1	16.8
Accounts Receivable	12.6	12.5	10.5	9.1	9.5	7.6	7.5	7.5	7.4	6.8
Accounts Payable	111.1	113.0	114.1	107.2	107.4	103.6	104.1	104.5	105.0	95.0
NWC	-68.1	-72.8	-76.3	-71.5	-76.1	-75.8	-76.7	-77.6	-78.5	-71.4

Source: Company Data and Nova Research

Valuation

Discounted Cash Flow

In order to evaluate each of JM’s six business units we employed the Discounted Cash Flow (DCF) method. For that, we computed Free Cash Flows to the Firm (FCFF), i.e., the cash flows available to all of the company’s investors. Thus, we then needed to resort to a cost of capital that reflected both of the financing

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(equity and debt) costs – the weighted average cost of capital (WACC)²⁹ – as a means of discounting all the FCFF to the time of our Price Target (PT) (2012 year-end). Worth mentioning is the fact that we computed two different WACCs, relating to Portugal and Poland, as JM operates in these two regions, which differ in economic conditions and corporate tax rates. Madeira would have also had a different WACC associated to it until now, however in light of the recent austerity measures applied there, from January 1st 2012 the region's corporate tax rate was equaled to that of the Mainland. For all of the WACC assumptions, refer to Exhibit 40.

Cost of Equity (k_E)

Regarding this figure, we based our calculations in the Capital Asset Pricing Model (CAPM)³⁰. For the **risk-free rate** (r_F) we gathered the German 10-year government bonds for the last 5 years, as this is the country with the lowest risk of default in the EU, thus providing a reasonable proxy. We were able to apply this proxy to all of the business units' FCFF, in spite of the different currency in Poland, as although we computed this segment's FCFF in Zlotys, we then converted them to Euros right before discounting at the WACC, better reflecting the currency risk effect (contrarily to assigning a risk premium to the cost of equity). In what concerns the **systematic risk** (β), we made use of a set of comparable companies (referred to in the *Comparables* chapter), operating in the food retail sector, in both mature and emerging markets, with the goal of mirroring JM's business more accurately. We extracted those companies' betas from a 5-year data on weekly stock returns through a regression and unlevered³¹ them, as a way of attaining an industry average unlevered beta. We then applied the JM's debt to equity (D/E) long-term target of 60% and each of the regions' effective tax rate to reach the levered betas. The CAPM assumes a company's exposure to market risk is proportional to its exposure to country risk, reflected in the levered beta. With respect to the **market risk premium** ($r_M - r_F$), we followed the widely accepted method of using the US S&P500 index historical data on risk premium, as this is deemed as one of the most mature equity markets in the world. Finally, referring to the **country risk premiums** (CRP), we attained these figures (one for Portugal and another for Poland) by computing each country's latest default spread (difference between the country's 10-year CDS to that of Germany), compensating for the equity volatility premium over the debt one.

²⁹ $WACC = k_E \times E/(D+E) + k_D \times D/(D+E) \times (1-t)$

³⁰ $k_E = r_F + \beta \times (r_M - r_F + CRP)$

³¹ $\beta_U = \beta_L / [1 + (1-t) \times D/E]$

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Obviously enough, Portugal presents much higher default spreads as the nation is currently, and will most likely continue to be in the near future, under the sovereign debt crisis affecting the European peripheral countries.

Cost of Debt (k_D)

Consequently to JM not having a credit rating nor any traded bonds outstanding, we needed to achieve this figure from an alternative method. As such, we collected the monthly 10-year government bonds' yields for the past 5 years of both the Portuguese and the Polish Republics, in a way of retrieving the countries' average sovereign cost of debt, already reflecting the corresponding economic environments. However, as a firm does not offer the same level of creditworthiness as a whole country, we added a spread to that risk-free rate, which is corroborated by the historical spread JM has been paying for its debt. We found it reasonable enough to impute a higher risk premium to the Portuguese operations as they have not been demonstrating an as optimal performance and scale as the Polish ones.

Exhibit 40. WACC Assumptions

	Portugal	Poland
Risk-free Rate	5.6%	5.9%
Spread	2.5%	2%
Pre-tax Cost of Debt	8.1%	7.9%
Tax Rate	26.5%	19.0%
After-tax Cost of Debt	5.9%	6.4%
Risk-free Rate	3.4%	3.4%
Market Risk Premium	5%	5%
Country Risk Premium	11.2%	2.9%
Unlevered Beta (Comparables)	0.43	0.43
D/E	60%	60%
Tax Rate	26.5%	19.0%
Levered Beta	0.619	0.638
Cost of Equity	13.5%	8.4%
Financial Leverage	37.5%	37.5%
WACC	10.64%	7.68%

Source: Nova Research

Furthermore, in order to compute the FCFF's terminal value, past 2020, we needed a reasonable terminal growth rate that would not overly exacerbate the company's value, given than in 10 years' time JM's markets are expected to have reached a more mature stage by then, and so we resorted to both countries long term inflation rate (1.6% for Portugal and 2.5% for Poland). Again, the Polish operations will benefit from a higher growth in the future, as the country possesses more growth opportunities and its retail market is still far from the European standards.

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Sum-of-the-Parts

With the overall objective of finding JM's PT for the 2012 year-end, we employed the sum-of-the-parts (SOTP) method of summing up all of the business units' enterprise values (EV), proportionally to the stakes JM owns. The results are shown next.

Exhibit 41. SOTP Valuation

(in EUR million)	EV	Stake	Value	Weight	WACC	ROIC
Retail Mainland	1,617	51%	825	9.0%	10.64%	17.8%
Recheio	437	100%	437	4.8%	10.64%	11.4%
Madeira	44	75.5%	33	0.4%	10.64%	7.2%
Biedronka	7,666	100%	7,666	83.6%	7.68%	25.6%
Manufacturing	195	100%	195	2.1%	10.64%	14.0%
Services	13	100%	13	0.1%	10.64%	3.6%
Enterprise Value			9,169			
Net Debt (2011E)			-584			
Debt attributable to Minorities			169			
Equity Value			8,754			
No. of Shares (in million)			628			
Price target			13.93			

Source: Company Data and Nova Research

As one can observe, we reached a PT of 13.93€, which translates into a *Hold* recommendation (with a upside of 7.2%). The major risks to our valuation lay in the Portuguese economic outlook (which in the extreme could translate into the country leaving the Euro Zone, a scenario we do not deem as plausible as it would have a catastrophic impact worldwide) and the Polish currency volatility against the Euro, given that JM is highly dependent on this country's operations. Additionally, when looking at each business unit's ROIC and WACC, one derives the lack of value creation of both the Madeira and Services segments. However, we do not regard this fact as highly worrying given their insubstantial weight on JM's value. Moreover, Biedronka is clearly expected to continue to be the main value driver of the group. Consequently, a change in any of this segment's assumptions will tremendously impact the overall company value, and so we performed a sensitivity analysis on the Polish operations' WACC and terminal growth rate figures, displayed below. Despite the considerable divergences of the group's PT in this analysis, one can observe the prominence of the figures translating into a *Hold* recommendation, opposed only by the shaded area, which would imply a *Buy* proposal.

Exhibit 42. Sensitivity Analysis – Polish Operations

TGR	WACC						
	7.00%	7.23%	7.45%	7.68%	7.79%	7.90%	8.00%
2.00%	14.78	14.17	13.63	13.12	12.88	12.66	12.46
2.17%	15.14	14.49	13.92	13.38	13.13	12.90	12.69
2.33%	15.49	14.81	14.21	13.64	13.38	13.13	12.92
2.50%	15.90	15.17	14.53	13.93	13.66	13.40	13.17
2.57%	16.07	15.32	14.68	14.06	13.78	13.52	13.28
2.64%	16.25	15.49	14.82	14.19	13.90	13.63	13.40
2.70%	16.41	15.63	14.95	14.30	14.01	13.74	13.50

Source: Nova Research

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Comparables

After all of our assumptions and computations, we judged it crucial to perform a multiples' comparison among JM's comparable companies, i.e., firms that operate under a rather similar business model and also in homologous regions, as a means of verifying the reasonability of our forecasts. Therefore, we gathered information on a set of 10 food retailers operating in mature markets, and another 10 performing in emerging markets, this way mirroring JM's business structure (the combined multiples were weighted averaged by the Portuguese and the Polish units' weights in JM's value – refer to Exhibit 41). The product of that analysis can be seen next.

Exhibit 43. Multiples' Comparison

Company	FX	Last Px (l.c.)	Mkt Cap (€M)	P/E			EV/Sales			EV/EBITDA			EV/EBITDAR		
				2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Tesco	GBp	399.4	38,111	11.02	11.2	10.1	0.7	0.6	0.6	8.4	7.7	7.0	7.1	6.5	5.9
Carrefour	EUR	16.8	11,365	-	10.6	9.2	0.3	0.3	0.3	5.0	5.5	5.0	3.7	4.0	3.7
Ahold	EUR	10.2	11,027	12.4	10.5	9.7	0.4	0.4	0.4	5.8	5.4	5.1	4.3	4.0	3.9
Morrison	GBp	322.6	9,775	12.6	12.7	11.1	0.6	0.5	0.5	7.5	7.1	6.5	7.5	7.0	6.5
Metro	EUR	28.1	9,150	10.2	8.1	7.4	0.3	0.3	0.2	4.6	4.4	4.1	3.5	3.4	3.2
Casino	EUR	63.9	7,058	13.8	11.0	9.6	0.5	0.4	0.4	8.2	6.2	5.6	6.4	4.8	4.4
Sainsbury	GBp	295.8	6,621	9.3	10.9	10.1	0.4	0.3	0.3	6.8	5.9	5.5	4.7	4.0	3.8
Colruyt	EUR	29.2	4,869	14.0	13.6	12.7	0.6	0.6	0.6	7.4	7.1	6.8	6.9	6.7	6.3
Delhaize	EUR	43.2	4,374	7.5	7.7	7.2	0.3	0.3	0.3	4.5	4.4	4.2	3.8	3.7	3.5
Dia	EUR	3.4	2,277	50.9	14.2	11.8	0.3	0.3	0.3	6.4	5.4	4.9	-	-	-
Mature Markets Avg				15.7	11.0	9.9	0.4	0.4	0.4	6.4	5.9	5.5	5.3	4.9	4.6
Walmex	MXN	37.6	37,052	32.6	25.7	22.0	1.7	1.6	1.4	17.7	15.3	13.2	-	-	-
Cencosud	CLP	2,980	10,055	23.5	18.1	15.4	1.2	1.0	0.9	14.9	11.3	10.0	-	-	-
Magnit	USD	20.6	7,151	21.9	18.7	13.9	1.0	0.6	0.4	13.5	-	-	-	-	-
CBD	BRL	64.9	6,958	21.5	16.5	13.2	0.6	0.5	0.4	9.4	7.1	6.1	12.3	9.3	8.0
X5 Retail	USD	22.7	4,806	11.4	14.1	9.7	0.7	0.5	0.4	10.1	6.8	5.6	-	-	-
Exito	COP	25,500	4,564	26.5	27.8	22.0	1.2	1.0	0.8	-	11.1	10.1	-	-	-
Soriana	MXN	32.3	3,232	19.0	15.9	13.9	0.6	0.6	0.6	8.9	8.3	7.6	9.0	8.4	7.7
BIM	TRY	51.3	3,122	34.9	22.1	18.6	0.9	0.8	0.7	16.4	14.8	12.6	-	-	-
Chedraui	MXN	34.9	1,868	22.8	18.0	15.2	0.6	0.6	0.5	9.9	8.6	7.6	9.3	8.1	7.2
Migros	TRY	12.6	913	-	18.8	14.6	0.6	0.6	0.5	9.4	9.3	8.1	-	-	-
Emerging Markets Avg				23.8	19.6	15.9	0.9	0.8	0.7	12.3	10.3	9.0	10.2	8.6	7.6
Weighted Avg				22.5	18.2	14.9	0.8	0.7	0.6	11.3	9.6	8.4	9.4	8.0	7.1
JM	EUR	13.0	8,180	24.8	24.6	21.2	0.9	0.9	0.8	11.7	11.9	10.3	9.2	9.3	8.0

Source: Bloomberg and Nova Research

The price-earnings ratio (P/E) is a widely used multiple for comparisons, as it straightforwardly shows how much investors are willing to pay for a Euro of a company's earnings. However, this multiple has become known as a dubious one, given that its denominator is based on accounting measures that are very much susceptible of being manipulated, and also due to its association to the given company's financial structure, making it somewhat useless on its own when comparing companies. For the retail industry, the most commonly used multiples are the EV to sales, the EV to EBITDA and the EV to EBITDAR. The latter is an expansion of the EV/EBITDA, which excludes rental costs, giving a

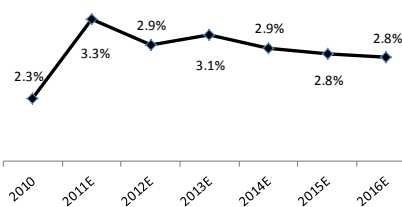
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better indication of financial performance. This way, the comparison among companies with different rental structures³² becomes easier and more accurate. As one can observe, JM is trading consistently at a premium when compared to its peers, which we associate to the Polish operations' favorable growth and scale potentials. Having said that, the expected premium is quite a small one, which corroborates our *Hold* recommendation, as there are no signs of the firm's equity being majorly overvalued. Worth noticing is the higher closeness of JM's multiples to that of the companies operating mainly in emerging markets, explained by Biedronka's growing significance within the group.

Colombia

JM has recently announced its intentions of entering the Colombian market through a greenfield operation, and declared its goal of reaching the top 3 position in the grocery market by 2016. The plan is to start opening stores by the second half of the current year and the CAPEX for the triennium 2012-2014 is forecasted to reach close to €400M. The main business opportunities the group envisions in that region are the large and young population, the sound economic prospects of the country, the high penetration of the traditional retail, and the high prices practiced by all the players. JM expects to fine-tune its value proposition, having in mind the Colombians' needs and preferences, mainly by applying its successful key drivers: *EDLP* policy, quality, proximity and cost efficiency.

Exhibit 44. Inflation Rate – Colombia



Source: IMF "World Economic Outlook" (9/11)

Macroeconomic Environment

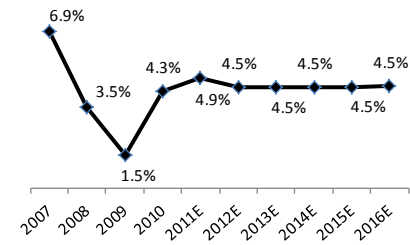
Throughout the global financial crisis of 2008-09, Colombia (with a population of over 45M) showed signs of resilience, suffering only from a brief contraction in growth, followed by an impressive recovery, starting in the second half of 2009. This was achievable through fiscal and monetary stimulus, arranged in order to maintain a positive GDP growth. The country's strong policy frames, especially when it comes to the inflation-targeting system, were what allowed for those counter-cyclical measures. In fact, inflation is estimated to remain within the official target range – 2 to 4% (Exhibit 44) – derived by the great credibility of the Central Bank as well as expectations of persistent Peso appreciation.

Plus, the nation's sovereign debt has been lifted to investment grade by the three major rating agencies, reflecting its vigorous economic outlook. Also, on May

³² JM owns 50% and 80% of its stores in Portugal and in Poland, respectively, renting the remainder, while Sonae rents all of its property, for instance.

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Exhibit 45. GDP Growth Rate – Colombia



Source: IMF "World Economic Outlook" (9/11)

2011 Colombia arranged an FCL with the IMF (their third since 2009)³³, which reflects the country's ability to continue successfully implementing policies, and this is expected to keep on improving market confidence. Additionally, the output gap is expected to close in early 2012, and the GDP growth is forecasted to stabilize around the potential one of 4.5% from then on (Exhibit 45). A new fiscal rule has been approved in June 2011, aiming at a tighter fiscal control, in order to allow for the substantial decrease in the country's debt burden (the goal is to lower the structural deficit to 2.3% of GDP in 2014 and then, from 2022 onwards, keep it below 1%)³³.

In spite of all this, Colombia still suffers from an inefficient tax structure, which is hindering its revenue collection when compared to its neighbors. Moreover, tensions from the global liquidity situation may have a negative impact on Colombia's economy. Also, despite the foreseen easier credit conditions, the impact on domestic demand is believed to continue to be offset by a few issues, such as the sluggish recovery of the USA (Colombia's main trading partner) and the persistent dreadful weather conditions.

Food Retail Market Environment

Overall, the retailing market has great opportunities to succeed in emerging markets like Colombia, where the prospects of growth and development are quite positive. According to a study by A.T. Kearney in 2011 Colombia was ranked 24th in the Global Retail Development Index (Exhibit 46), which levels 30 developing countries and the higher the ranking, the more urgency there is to enter the country. By the low positioning in the rank (despite having increased from 2010), Colombia is still considered to have low priority for the retail market.

Exhibit 46. 2011 Global Retail Development Index

2011 Rank	Country	Market Attractiveness ¹	Country Risk ²	Market Saturation ³	Time Pressure ⁴	GRDI Score	Change in Rank vs 2010
1	Brazil	100	79.4	42.9	63.9	71.5	+4
2	Uruguay	85	73.8	63.6	39.6	65.5	+6
3	Chile	84.3	100	30.3	44.3	64.7	+3
4	India	28.9	59.9	63.1	100	63	-1
5	Kuwait	80.4	80.6	57.3	27.1	61.3	-3
24	Colombia	45.7	54	35.8	36.9	43.1	+2
30	Bulgaria	45.1	56.2	4.9	50.2	39.1	-11

¹ 0=low attractiveness; 100=high attractiveness ² 0=high risk; 100=low risk
³ 0=saturated; 100=not saturated ⁴ 0=no time pressure; 100=urgency to enter

Source: A.T. Kearney "Retail Global Expansion" (2011)

As aforementioned, despite not suffering tremendously with the global economic crisis, when compared to its neighbors it was more affected. However, there

³³ Source: IMF "Country Report – Colombia" (7/11)

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were some entrants in the retail sector and, more specifically, in the grocery segment both Casino and Carrefour (hypermarkets) have been able to succeed. Regarding the Window-of-Opportunity analysis (including the Opening, Peaking, Maturing and Closing phases) performed in the same study, in 2010 Colombia was at the frontier between the opening and the peaking stages, i.e. consumers were beginning to look for organized formats and more exposure to international brands. As a means of comparison, in 1995 when JM entered Poland this market was in the beginning of the peaking phase, thus showing a reassuring timing of entrance. As the country's economy improved in 2010, driven by a plummeting unemployment and a rise in people's available income, so did the retail market. Columbia is the third most populous country in the Latin America region, which together with a growing middle class, provides a fruitful environment for retailers. In fact, the country's retail sales are expected to increase by more than 40% from 2011 to 2015³⁴. Given the saturation of urban areas, retailers are now moving towards more rural areas and smaller cities as a way of responding to consumers' needs and preferences, as Columbians attribute high importance to convenience and proximity. The traditional retail still dominates the market (with a share of close to 80%), in which the informal sector accounts for 53% of the total retail sales³⁵, mostly present in less urban locations. This format is expected to remain powerful, given the high proportion of low-income consumers in the region, while hypermarkets and supermarkets will probably increase their market shares, driven by the growing average incomes. The level of concentration of the modern retail is quite high, with the top 3 (Exitó, Carrefour and Olímpica) having a combined market share of 76% in 2010, while small retailers managed to keep their combined share of around 25%³⁶. The modern retail is still dominated by hypermarkets but they are now moving towards smaller stores formats and into smaller cities, to target low-income buyers. Given these market characteristics we believe JM will adopt a more Pingo Doce-like soft discount format instead of the hard discount approach of Biedronka. Having chosen to put a greenfield operation in place, we also expect it to take a while before JM reaches a comfortable position in that market, which will allow its future competitors to adapt their strategies accordingly (again, they are already offering more proximity propositions), and so we did not expect any considerable impact on JM's valuation on the foreseeable future.

³⁴ *Business Monitor International "Columbia Retail Report 4Q2011" (9/11)*

³⁵ *Economist Intelligence Unit "Consumer Goods and Retail Report – Colombia" (6/11)*

³⁶ *DeloitteTouche Tohmatsu and Planet Retail "Hidden Heroes" (2010)*

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Financial Ratios

Growth & Margins	2010	2011E	2012E	2013E	2014E	2015E	2020E
Sales	18.8%	5.8%	11.2%	13.5%	9.5%	12.7%	6.4%
EBITDA	18.4%	9.4%	12.8%	16.0%	11.7%	13.3%	5.7%
EBITDA Margin	7.2%	7.9%	8.4%	8.7%	8.6%	8.9%	7.8%
EBIT Margin	5.0%	5.3%	5.7%	6.0%	5.9%	6.1%	5.7%
Net Profit	34.5%	13.7%	11.1%	16.0%	11.4%	14.4%	6.4%

Activity	2010	2011E	2012E	2013E	2014E	2015E	2020E
Fixed Assets Turnover	4.34	4.04	4.00	4.05	3.99	4.05	5.22
Inventory Turnover	18.99	18.82	19.61	20.16	20.19	20.84	22.20
Receivables Turnover	46.65	49.44	51.23	52.32	52.05	53.38	55.02
CAPEX/Sales	4.4%	5.7%	5.5%	5.3%	5.3%	5.1%	2.9%
CAPEX/Depreciation	2.00	2.39	2.24	2.20	2.12	2.10	1.44

Profitability	2010	2011E	2012E	2013E	2014E	2015E	2020E
ROA	6.8%	7.3%	7.2%	7.4%	7.5%	7.7%	7.1%
ROE	24.8%	24.6%	24.0%	24.4%	24.1%	24.5%	20.3%
ROIC	17.5%	18.5%	18.9%	19.5%	19.1%	19.3%	16.0%
ROS	4.6%	4.8%	4.9%	5.1%	5.1%	5.2%	5.1%

Liquidity	2010	2011E	2012E	2013E	2014E	2015E	2020E
Current Ratio	40.6%	35.0%	40.2%	46.4%	49.8%	54.4%	104.4%
Quick Ratio	24.0%	18.6%	24.0%	30.3%	33.6%	38.2%	88.1%
Cash Ratio	13.7%	8.4%	13.5%	19.3%	22.0%	25.8%	67.8%
WC	-1,321	-1,527	-1,546	-1,556	-1,561	-1,557	195

Leverage	2010	2011E	2012E	2013E	2014E	2015E	2020E
Debt/Assets	20.5%	17.8%	18.1%	18.3%	18.7%	19.0%	21.1%
Debt/Equity	75.4%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Net Debt/EBITDA	0.88	0.85	0.70	0.51	0.46	0.36	-0.59
Interest Coverage Ratio	10.88	14.19	12.46	10.73	10.57	10.70	8.94

Valuation	2010	2011E	2012E	2013E	2014E	2015E	2020E
Dividend Payout	51.0%	53.0%	55.0%	57.0%	59.0%	60.0%	64.3%
EV/Sales			0.90	0.79	0.72	0.64	0.45
EV/EBITDA			11.89	10.26	9.18	8.10	6.12
EV/EBIT			17.59	14.95	13.41	11.73	8.46
P/E			24.60	21.20	19.04	16.64	12.24

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Financial Statements (in EUR million)

Income Statement	2010	2011E	2012E	2013E	2014E	2015E	2020E
Net Sales & Services	8,691	9,197	10,229	11,605	12,712	14,325	20,392
Operating Costs	-8,067	-8,513	-9,458	-10,711	-11,713	-13,194	-18,894
EBITDA	625	683	771	894	999	1,132	1,498
Depreciation	-191	-219	-250	-281	-315	-350	-414
EBIT	434	464	521	613	684	782	1,084
Non Recurrent Items	-15	0	0	0	0	0	0
Financial Results	-40	-33	-42	-57	-65	-73	-121
EBT	379	431	479	556	619	709	963
Income Tax	-79	-91	-101	-117	-130	-149	-202
Net Profit	300	341	379	439	489	560	761
Minority Interests	-19	-20	-23	-26	-29	-34	-46
Net Income attributable to JM	281	320	356	413	460	526	715
EPS	0.45	0.51	0.57	0.66	0.73	0.84	1.14
Balance Sheet	2010	2011E	2012E	2013E	2014E	2015E	2020E
Tangible Assets	2,193	2,498	2,809	3,146	3,499	3,886	4,324
Others	1,063	1,063	1,063	1,063	1,063	1,063	1,063
Non-current Assets	3,256	3,561	3,872	4,209	4,562	4,948	5,386
Inventories	369	384	419	467	503	556	723
Accounts Receivable	182	190	209	234	254	283	380
Cash and Cash Equivalents	304	198	348	561	683	882	2,999
Others	49	49	64	83	108	140	519
Current Assets	903	821	1,040	1,346	1,547	1,860	4,621
Total Assets	4,159	4,382	4,912	5,554	6,109	6,809	10,007
Share Capital	629	629	629	629	629	629	629
Retained Earnings	136	287	447	624	813	1,023	2,191
Minority Interests	287	307	330	356	386	419	620
Others	80	80	80	80	80	80	80
Shareholders' Equity	1,132	1,303	1,486	1,690	1,907	2,152	3,520
Borrowings	634	562	672	795	925	1,072	1,893
Others	168	168	168	168	168	168	168
Non-current Liabilities	802	731	840	963	1,094	1,240	2,061
Accounts Payable	1,895	2,019	2,256	2,571	2,776	3,084	4,087
Others	329	329	330	331	332	334	339
Current Liabilities	2,225	2,348	2,586	2,902	3,108	3,417	4,426
Total Shareholders' Equity & Liabilities	4,159	4,382	4,912	5,554	6,109	6,809	10,007
Cash Flow Statement	2010	2011E	2012E	2013E	2014E	2015E	2020E
Net Income	281	320	356	413	460	526	715
Change in NWC	243	100	169	224	127	194	22
Depreciation	191	219	250	281	315	350	414
CF from Operations	715	640	774	917	901	1,070	1,151
Change in Non-current Assets	-14	0	0	0	0	0	0
Change in Non-current Liabilities	2	0	0	0	0	0	0
CAPEX	-381	-525	-561	-618	-668	-736	-597
CF from Investing Activities	-393	-525	-561	-618	-668	-736	-597
FCF	323	115	214	300	233	334	554
Change in Equity	-215	-149	-173	-209	-242	-282	-414
Change in Debt	-27	-72	110	122	131	146	181
CF from Financing Activities	-242	-221	-63	-87	-111	-136	-234
Change in Cash	80	-106	150	213	122	199	321

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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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