A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Navigating Jerónimo Martins' growth – a deep dive into the strategic business model and geographic presence

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A Project carried out on the Master in Finance Program, under the supervision of:

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20th of December, 2023

Abstract

This report is destinated to investors interested in evaluating the possibility of investing in Jerónimo Martins' stock for their portfolios. It includes an analysis of all the relevant information and a price target achieved by using the DCF Method.

The Group operates in three countries: Portugal, Poland and Colombia, where it has been growing. The analysis will be made taking into consideration the peers and the market.

Our results say that if an investor is interested in the stock of Jerónimo Martins, he should wait for a better moment to invest, with higher expected returns (what might happen in a close future).

Keywords
Retail, Jerónimo Martins, Food Distribution, Valuation

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

This report is part of the Navigating Jerónimo Martins' growth, developed by Marta Simões and Sofia Carvalho and should be read has an integral part of it.

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Introduction

The report intends to reach a final conclusion on being or not a good decision to invest in Jerónimo Martins' stock. Therefore, the report will have a Company and Industry Overview for investors to have a context of the Group's reality. Then, an analysis of the financial statements is made as well as a forecasting until 2030. The valuation is made using DCF and Multiples, reaching a final price target that lead us to a recommendation to BUY, SELL or HOLD the stock.

In this individual report I'm covering the **Company Overview** that includes **an overview of the business in each country where the Group operates, their Business Strategy, Corporate Bodies** and **Shareholder Structure**. The last part of the report is the **Valuation** that includes **DCF Method, Relative Valuation, Sensitivity Analysis, Scenario Analysis, Risks Analysis** and **Final Recommendation.** My pair worked on Industry Overview, Financial Analysis and Forecasting.

The conclusion was a price target of 25.13€ for the DCF valuation and the final recommendation to investor is a HOLD position.

Company Overview

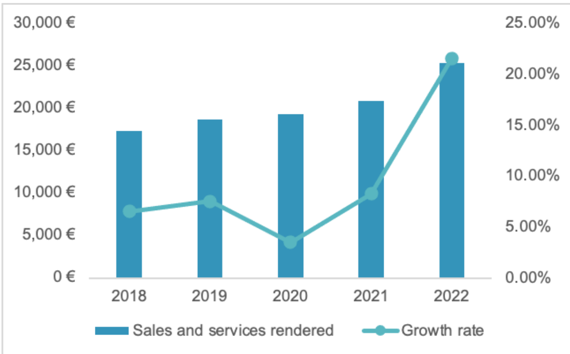
Figure 1 - Jerónimo Martins' logo

Jerónimo Martins is a Group with over 230 years of history, based in Portugal since the beginning. The main activity of the company is the food distribution, representing around 98% of the consolidated sales. But it also operates in Specialised Retail and Agribusiness.

The Group operates in 3 countries: Portugal, Poland and Colombia. Biedronka (Poland) represents the largest business of the Group. It is the leader of food retail in the country and one of the largest companies in Eastern Europe.

The business started as a family business and turned into an international group of companies with more than 5000 stores and 131,094 employees spread across the 3 countries nowadays. Revenues have been growing every year since 2018. As of the 31st of December 2022, Jerónimo Martins had sales of €25,385 million and a net profit of €590 million (Graph 1).

Graph 1 - Evolution of Total Revenues (in million €)



Source: Own estimates

Poland

In Poland, Jerónimo Martins operates in the Food Distribution sector through Biedronka and Health and Beauty sector (Specialised Retail) through Hebe.

Figure 2 - Biedronka's logo

Biedronka is the leader in terms of sales for the sector, with almost 3400 stores and a market share that increased in the last years - around 25%. The business is present in the country for 27 years now and it is the second largest polish company. Since 1995, Jerónimo Martins invested over 3 billion euros in the business that is the most valuable one for the Group. Their sales have an increasing tendency since 2018. In that year they had €11,691 million sales and last year €17,582 million, which represents an increase of around 50% in this historical period and justifies the evolution of sales in Poland (Graph 2). Biedronka represents around 69.26% of total revenues of the Group (Graph 3).

Figure 3 - Hebe's logo

Hebe is linked to cosmetics, beauty and health and it has an in-store expert advice service. Last year it was created an online channel also selling to other countries like Czech Republic and Slovakia. Having more than 300 stores, Hebe offers quality services at competitive prices and a selection of products from their private brand, other well-known brands and exclusive brand products. Hebe represents in 2022 only 1.41% of the total revenues of the Group (Graph 3) with €358 million sales and these values are very similar in the historical period in analysis.

Portugal

In Portugal, the company operates in three sectors: Food Distribution (Pingo Doce and Recheio), Specialised Retail (Hussel and Jeronymo) and Agribusiness (Jerónimo Martins Agro-Alimentar).

Figure 4 - Pingo Doce's logo

Pingo Doce is one of the leaders in the Portugal's supermarket segment, it was established more than 40 years ago and it is a very recognized brand by the Portuguese population in general. It has more than 470 stores in 300 locations spread around the country, based on the value of differentiation through quality products and competitive prices. In 2022, sales were €4,499 million, 11.2% more than in the previous year. In 2020, Pingo Doce sales decreased a bit but in general the tendency is to grow. Their weight in total revenues of the Group reduced in the historical period in analysis but not significantly – from 22.1% in 2018 to 17.7% in 2022.

Figure 5 - Recheio's logo

Recheio is a leader of the cash and carry market, having the higher geographical coverage in Portugal, with 39 stores and 4 platforms and a market share of around 50%. They are fully dedicated to the distribution service but also have a department for exportation. Recheio has 3 private brands that are aligned with the focus of providing innovative and good quality products, providing a lot of different options. Sales of last year were €1,158 million and they have been increasing since 2018 (€980 million). Recheio represents 4.56% of total revenue in 2022 (Graph 3).

Figure 6 - Hussel's logo

Hussel is the result of a joint-venture between Jerónimo Martins Group and Douglas AG (a German company). Nowadays, it has 20 chocolate and confectionery stores mainly present in the main shopping malls in Portugal. Hussel offers a variety and high-quality sweets, some of them sold permanently and others seasonally.

Figure 7 - Jeronymo's logo

Jeronymo appeared in the form of kiosks inside the stores of the Group in Portugal and later evolved for a chain of coffee shops. Today there are 22 Jeronymo coffee shops and they follow the classic concept of a coffee shop to meet people while having a quality meal.
These two businesses together represent around 0.08% of the Group, there is some oscillation of sales coming from these brands but never relevant to Jerónimo Martins.

Figure 8 - Jerónimo Martins Agro-Alimentar's logo

In 2014, the Group created the **Jerónimo Martins Agro-Alimentar** (JMA) to guarantee that their Portuguese food retail companies can supply themselves directly. From 2020 on, they started producing for more countries rather than just Portugal. This way the Group is investing in primary production in 4 business areas – agriculture, aquaculture, dairy and fruits and vegetables – with the mission of reducing the environmental impact of their businesses; invest in partnerships to develop the regions in which it operates; challenging the scientific community to create innovative projects and test Research & Development solutions in their business areas.

The evolution of sales in Portugal is somewhat stable, with a small decrease in 2020. The increase in the last two years is justified by the positive performance of Pingo Doce and Recheio (Graph 2).

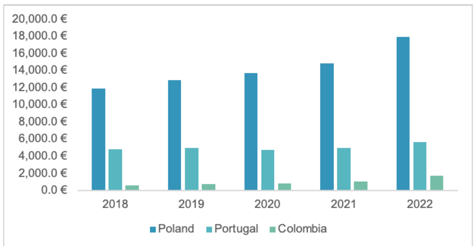
Colombia

Figure 9 - Ara's logo

In Colombia**,** the Group operates only in the Food Distribution sector. The activity of Jerónimo Martins there started less than 10 years ago with the brand **Ara**, having more than 1000 stores nowadays. The expansion to the Colombian market was more challenging for Jerónimo Martins because of some different consumption patterns: Colombian population prefer more traditional shops and a proximity between their culture and their consumption. Therefore, the stores are located into the neighbourhoods and are part of the community, offering a product range and in-store environment adapted to the necessities of the average Colombian family – around 95% of the food products are produced locally.

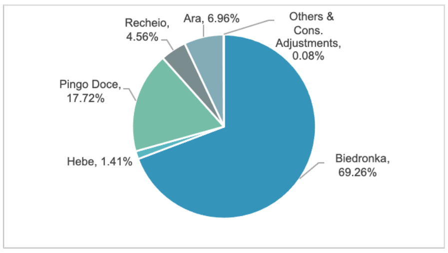
The business represented only 3.45% of total revenues in 2018 and nowadays represents 6.96%. The sales in Ara had a good evolution, starting in 2018 with €598 million and finishing 2022 with €1,768 million, justifying the grow of the business of the Group in Colombia (Graph 2).

***Graph 2** - Evolution of revenues by country (in million €)*



Source: Own estimates

***Graph 3** - % Revenues by Business Area in 2022*



Source: Own estimates

Business Strategy

Jerónimo Martins works every day on a sustainable development strategy.

The Group has four **core competences**: 1. Strong Brands - the group has established strong emotional bonds with consumers through these brands; 2. Business Models - one of the main focuses is the adaptation to the markets and to the costumer's needs. these models are shaped in line with that; 3. Focus on Efficiency – it is crucial to have productivity and an effective production to be able to exploit economies of scale and technological updates; 4. Management Capacity – reflects the importance of the existent planning capacity and the flexibility of constantly adjust and set the right priorities.

They focus in making progress and keeping up with the changing patterns of markets and world's advancements, while meeting their clients' desires. There is a lot of investment in e-commerce and they also invest a lot in the loyalty of customers and in good relationships with partners. Corporate Responsability is also a very important point for all the Group companies. Jerónimo Martins manages to be sustainable in all the production process from primary production to manufacturing, operations, customers, and the surrounding communities. The goal is to create value using the competences described and their strategic guidelines and objectives, while keeping the environmental preservation.

All these practices are aligned with their vision: achieve a sustainable growth for the Group and be recognized as market leaders.

Corporate Bodies

The corporate bodies of Jerónimo Martins are the following: Shareholders' Meeting, Board of Directors, Audit Committee, Statutory Auditor and Company Secretary.

The **Board of Directors** is composed by eleven members: the CEO and the non-executive directors. Pedro Manuel dos Santos is the Chief Executive Officer since 2010 and Chairman of the Board of Directors since 2013.

The non-executive directors are the following: Andrzej Szlezak; António Viana-Baptista; Artur Stefan Kirsten; Clara Christina Streit; Elizabeth Ann Bastoni; Francisco Seixas da Costa; José Soares dos Santos; María Ángela Holguín; Natalia Anna Olynec; Sérgio Tavares Rebelo.

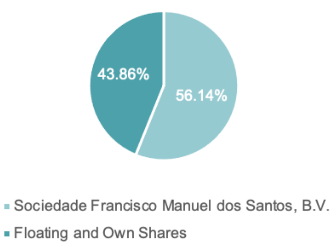
Their Anglo-Saxon governance model includes an **Audit Committee** (composed by Clara Christina Streit - Chairwoman of the Committee - and Sérgio Tavares Rebelo and Elizabeth Ann Bastoni - members of the Committee) and a **Statutory Auditor** for the current term of office (2022-2024)**.** For the same term, the **Company Secretary** is João Nuno Magalhães. The **External Auditor** of the company is Ernst & Young Audit & Associados, SROC, S.A.

The **Shareholders' Meeting** is composed by the shareholders that meet the conditions set out by law and by the company's articles of association.

The Board of Directors of Jerónimo Martins is composed by members of different professional backgrounds but with food retail expertise. It has a representation of 36% of women, representing a significant increase since 2018 (14%).

Shareholder Structure

Graph 4 *- Shareholder Structure*



Source: Own estimates

The share capital of the company is 629,293,220€, equivalent to 629,293,220 shares with a nominal value of 1€.

Jerónimo Martins holds 859,000 shares acquired in 1999 at an average price of 7.06€ per share, representing 0.14% of the share capital and corresponding to the same percentage of voting rights. All the shares of the Company are ordinary and traded in the Euronext Lisbon stock exchange. In 2022, the Company traded 198 million shares at an average price of 20.57€ - almost 25% more than in the previous year.

The main shareholder is Sociedade Francisco Manuel dos Santos, B.V. with 56.14% of total capital. The other 43.86% represent the Floating and Own Shares (Graph 4).

Environmental, Social and Governance

The ESG theme is an increasing concern for all the companies in the world and Jerónimo Martins has a good path to describe.

The company is present in around 100 international sustainability indexes and it is a company well-positioned in this sphere. For the year of 2021, the Group's Refinitiv ESG score were 83 (A-) (Graph 5), in the last 5 years the average of the company is 80 (from 0 to 100). From 120 Food and Drug Retailing companies, Jerónimo Martins is in the 5th place, according to Refinitiv also. We made a median of this score with the peers of the sector, considering only the ones with medium/high market cap and only from Europe and America, to better compare with Jerónimo Martins. The median for the peers (total ESG score) is 61.45, which means that the group is well-positioned.

Sustainalytics (1) attributes to Jerónimo Martins an ESG risk rating of 14.1 (from 0 to 40+) - correspondent to low risk - and it is in the 9th place out of 194 food retailer companies. These are just some examples of the many ESG classifications attributed to the Group. Every three years, the company sets the goals for corporate responsibility and the respective metrics.

Environmental

Environmental score were 93 (A+). The metrics are Resource use (99), Emissions (score 96) and Environmental Innovation (78), according to Refinitiv (Graph 5). The same median described before was made for all the pillars, being the Environmental one 66. Jerónimo Martins' score is very good by itself but also when compared to peers.

Some important things that the company keeps in mind regarding the environment are: fighting plastic pollution, decarbonising logistics, investment in renewable energy, fighting the climate change and many more.

In 2022, the Disclosure Insight Action (CDP), that includes more than 18,700 companies worldwide, assigned to Jerónimo Martins the highest score when it comes to performance in climate change and water security and it was the only food retailer in the world to have the leadership level (A-) regarding to the management of commodities like palm oil, soy, cattle and timber.

Furthermore, Financial Times recognized the Group's reduction of greenhouse gas emissions in the European Climate Leaders 2023 (2), with a score of 69.6 (in a total of 100), occupying the 11th position between the Retail companies. The total reduction of core emissions (including scope 1 and 2 emissions, GHGs and CO2) was 38% this year.

The company is always making progress when it comes to environment issues. For example, regarding the carbon footprint, in the period of 2017-2021, there was a reduction of 41%.

Social

The Group's Social score according to Refinitiv were 92 (A+). The metrics are Workforce (score of 98), Human Rights (92), Community (83) and Product Responsibility (94) (Graph 5). The median for Social pillar is 68, making once again Jerónimo Martins very well-positioned.

Regarding the workforce and, more specifically, gender diversity, nowadays is important to mention women participation in business and the Group is well represented in that sense. In 2021, the women workforce of Jerónimo Martins represented 76%. In 2022, 69% of management positions are occupied by women and the gender pay ratio is 97.8%. Also, every year the Group invests in their employees through training initiatives, mental health services, promotions, awards, and recognitions – in 2022, they invested €289 million (32% more than 2021) in awards and recognitions in the three countries and €35 million (38% more than 2021) in internal social responsibility programs to support vulnerable employees and their families.

When it comes to humanitarian causes, the Group always makes monetary and food donations. For example, in 2022 it amounted to €82.2 million, 32% more than in 2021 and it has been increasing every year since 2015. It includes the support to more than 1,500 institutions, the support for humanitarian aid in Colombia due to the high number of vulnerable migrants, and also support for the Ukrainian refugees.

Their responsibility with the products and with the community is reflected by their attention to healthiness of diets: hundreds of products' receipts were reviewed reducing tonnes of sugar, fat and salt; and food waste mitigation has been improved by the partnerships made with organizations such as Refood.

Governance

The Governance score (Refinitiv) were 61 (B), with the following metrics: Shareholders (63), Management (63) and CSR strategy (43) (Graph 5). This is the poorest ESG pillar of the Group. The median was 62 and Jerónimo Martins is below this value.
The Board of Directors and the governance model is already described in the section "Board of Directors" of the report. The remuneration of directors consists of a fixed amount and a variable one dependent on their performance.
Also important to refer in this field of action: the Company has a very concentrated ownership given that the largest shareholder is the family holding Sociedade Francisco Manuel dos Santos B.V. that has a controlling interest in the business. This can represent some limitation for the minority shareholders when executing their influence. In addition, Pedro Soares dos Santos is the CEO and also the chairman of the board of Directors, which may cause some haziness in the separation of management and ownership.

Graph 5 *- ESG scores and metrics*

Source 1: Refinitiv, Own estimates

Valuation

Discounted Cash-Flow Method

In order to make a valuation of Jerónimo Martins, the Discounted Cash Flow (DCF) model was used. This is recognized as the most detailed approach to value a company since it allows us to consider company and industry factors and also enables us to consider events that can happen and that affect the valuation.

The first important assumption to mention is that we assume that the capital structure of each subsidiary is similar to the capital structure of the Group in general and it is expected to be stable in our forecasted period analysis. Now we can proceed with the Weighted Average Cost of Capital (WACC) calculation that will be used to discount the Free Cash Flows. We will compute the WACC for each subsidiary and, in the end, according to the weight of each one in the Group we will obtain the Group's WACC.
At the time of the valuation, the market capitalization of Jerónimo Martins was €14,790 million and the enterprise value was €17,110 million, according to Refinitiv, what makes the value of Net Debt totalizing €2,320 million and a Debt-to-Equity of 16%, Debt-to-Value of 14% and Equity-to-Value 86%.

To find the levered beta of the Company, we started by selecting a group of peers – two peers per subsidiary - based on their market capitalization, country and business activity. Dino Polska SA and Carrefour SA are the peers chosen for Biedronka; 4Mass SA and Pharmena SA for Hebe; for Pingo Doce the choices are Sonae - SGPS SA and Tesco PLC; for Recheio: Eurocash SA and METRO AG; finally, the peers for Ara are Organizacion Soriana SAB de CV and Grupo Mateus SA. Their market capitalization, enterprise value and equity betas were collected from Refinitiv (Table 1) at the same time that we did before for Jerónimo Martins. Using the capital structure of each peer (Table 1) and the tax rate of the respective country (Table 2), we unlevered these equity betas using the following formula:

$$\beta\ unlevered = \frac{\beta\ levered}{1 + (1 - Tax\ Rate)\ \times \frac{D}{E}}$$

Table 1 *- Peers data*

Company name	Identifier	Market Cap	EV	Net Debt	D/E	D/V	β levered	β unlevered
Biedronka								
Dino Polska SA	DNP.WA	10,284 €	10,494 €	210 €	0.02	0.02	0.74	0.73
Carrefour SA	CARR.PA	12,180 €	28,970 €	16,790 €	1.38	0.58	0.55	0.27
Hebe								
4Mass SA	4MSP.WA	9 €	30 €	20 €	2.14	0.68	1.42	0.52
Pharmena SA	PHR.WA	15 €	6 €	(9 €)	-0.61	-1.58	0.30	1.11
Pingo Doce								
Sonae - SGPS SA	YSO.LS	1,840 €	4,690 €	2,850 €	1.55	0.61	1.18	0.54
Tesco PLC	TSCO.L	17,455 €	26,101 €	8,646 €	0.50	0.33	0.74	0.54
Recheio								
Eurocash SA	EUR.WA	543 €	1,185 €	642 €	1.18	0.54	0.76	0.39
METRO AG	B4B.DE	2,210 €	4,840 €	2,630 €	1.19	0.54	0.68	0.37
Ara								
Organizacion Soriana SAB de CV	SORIANAB.MX	3,062 €	4,355 €	1,292 €	0.42	0.30	0.47	0.36
Grupo Mateus SA	GMAT3.SA	2,637 €	3,136 €	499 €	0.19	0.16	1.27	1.13
Jeronimo Martins SGPS SA	JMT.LS	14,790 €	17,110 €	2,320 €	0.16	0.14	0.69	0.62

Source: Refinitiv, Own estimates

To obtain the unlevered beta for each subsidiary we made an average of the unlevered betas of the peers per subsidiary and the unlevered beta of Jerónimo Martins. Then, we re-levered the subsidiary (industry) beta with the formula below and with the following data: subsidiary's capital structure - assumed to be equal to Jerónimo Martins, as stated before -; a beta of debt equal to 0 – since it is risk-free when compared to an equity investment, the volatility of Debt is equal or approximately 0 -; and the tax rate of the respective subsidiary's country (Table 3).

$$\beta\ re - levered = \beta\ unlevered + \frac{D}{E} \times (\beta\ unlevered - \ \beta\ debt) \times (1 - Tax\ Rate)$$

The next step is the calculation of the **Cost of Equity** (Table 3) per subsidiary with the Capital Asset Pricing Model (CAPM) formula, using as the risk-free rate the 10year bond yield of each country government (World Government Bonds) (3) and the estimation of Equity Risk Premium (from Aswath Damodaran studies 2023) (4) adjusted with the Country Risk Premium that also has influence in the markets where the company operates (Table 2).

$$rE\ = Rf +\ \beta\ (re)levered \times (Equity\ Risk\ Premium + Country\ Risk\ Premium)$$

Table 2 *- Country inputs*

Country	Tax Rate	Equity Risk Premium	Country Risk Premium	Risk-free rate
Portugal	22.50%	5.00%	2.89%	2.945%
Poland	19%	5.00%	1.28%	5.314%
Colombia	35%	5.00%	2.89%	10.700%
France	25%	-	-	-
Germany	30%	-	-	-
United Kingdom	25%	-	-	-
Mexico	30%	-	-	-
Brazil	34%	-	-	-

Source: Damodaran, World Government Bonds

For the **Cost of Debt**, it is necessary to analyse the Credit Risk Premium of the Group. Given that Jerónimo Martins is not rated according to its financial ratios by rating agencies, we made an estimation of a synthetic rating starting by analysing the capacity of the EBIT of the Company to cover the Interest Expense. We obtained an interest coverage ratio of 6.49 and this corresponds, according to Aswath Damodaran studies 2023 (5), to a rating of A+ and a spread of 1.50%. Adding this Credit Risk Premium to the risk-free rates previously mentioned, we obtain the Cost of Debt (Table 3) for each subsidiary (formula below).

$$rD = Rf + Credit\ Risk\ Premium$$

Finally, we compute the WACC for each subsidiary (Table 3) according to the respective formula:

$$WACC = rE \times \frac{E}{V} + rD \times \frac{D}{V} \times (1 - Tax\ Rate)$$

The WACC obtained for Jerónimo Martins is 8,80% that is the result of the sum of each subsidiary's WACC according to their weight in the total revenues of the Group, since we believe that this is the best way to reflect the impact of each one in the business.

Table 3 *- WACC*

Company name	β unlevered of the industry	β (re)levered	Cost of Equity	Cost of Debt	WACC
Biedronka	0.54	0.61	9.12%	6.81%	8.63%
Hebe	0.75	0.84	10.61%	6.81%	9.92%
Pingo Doce	0.56	0.63	7.93%	4.45%	7.32%
Recheio	0.46	0.51	7.00%	4.45%	6.52%
Ara	0.70	0.77	16.81%	12.20%	15.60%
Jerónimo Martins					**8.80%**

Source: Own estimates

The Group's WACC will be used to discount the FCF forecasted to the present value that is assumed to be the 31st of December of 2024, so the first FCF to discount is relative to the 31st of December of 2025. We assumed that Jerónimo Martins will grow accordingly to the world's global economy growth that is forecasted to be around 2.9%, according to International Monetary Fund (World Economic Outlook Report 2023) (6) – being this the Terminal Growth used to compute the Terminal Value of Jerónimo Martins. In Table 4 can be observed all the results from the DCF approach, namely the Enterprise Value of €18,111 million and the price target of 25.13€. Based on the Table 5, the recommendation would be to HOLD, but it will be explained in the "Final Recommendation" section of this report.

Table 5 *- DCF*

€ Million	
Sum of Discounted FCF	5,253 €
Terminal Value	12,858 €
Enterprise Value	18,111 €
Net Debt	2,320 €
Equity Value	15,791 €
Number of Shares	628.434
Price Target	**25.13 €**

Source: Own estimates

Table 4 *- Total Expected Return*

Price Target DCF	**25.13 €**
Share Price 08/12/2023	**23.50 €**
Capital Gain	**6.9%**
Dividend Yield	**2.8%**
Total Expected Return	**9.74%**

Source: Own estimates

Sensitivity Analysis

We conducted a sensitivity analysis to evaluate the sensitivity of the target price relative to impacts in some variables of the model.

Firstly, we analysed the impact of fluctuations in WACC and in the Terminal Growth that are key variables in the model. With variations of WACC between 7.80% and 9.80% (representing the respective increase and decrease of 1% from the base value) and variations of Terminal Growth between 1.90% and 3.90% (increase and decrease of 1% from the base value), we observe that the maximum price obtained is 37.71€ for the highest terminal growth and the lowest WACC and 18.99€ for the highest WACC and lowest terminal growth (Table 6).

***Table 6** - Sensitivity Analysis for WACC and Terminal Growth*

		Terminal Growth				
	25.13 €	1.90%	2.40%	**2.90%**	3.40%	3.90%
	7.80%	26.09 €	28.19 €	30.71 €	33.81 €	37.71 €
WACC	8.30%	23.87 €	25.60 €	27.65 €	30.12 €	33.15 €
	8.80%	22.00 €	23.44 €	**25.13 €**	27.14 €	29.55 €
	9.30%	20.39 €	21.61 €	23.02 €	24.67 €	26.63 €
	9.80%	18.99 €	20.04 €	21.23 €	22.61 €	24.23 €

Source: Own estimates

Then we performed a sensitivity analysis for the EBIT margin - considering the 2.52% average of the forecasted period 2023-2030. Increasing and decreasing 0.5% this margin, the price is very sensitive, being the lowest price obtained 13.79€ and the highest 36.47€ (Table 7).

***Table 7** - Sensitivity Analysis for EBIT margin*

EBIT margin	25.13 €
1.52%	13.79 €
2.02%	19.46 €
2.52%	**25.13 €**
3.02%	30.80 €
3.52%	36.47 €

Source: Own estimates

We can conclude that the factor's fluctuation that affects the most the stock price is EBIT margin – as expected because of the importance for the industry –, followed by WACC.

Scenario Analysis

The data and the assumptions of the model are well-supported but unexpected events may always happen in the world and our expectations can change in the blink of an eye. We have some fresh examples as the Covid-19 pandemic that started in 2019, the Russia-Ukraine war that started in 2022 and, even more recently, the Israel-Hamas war that started this year.

Therefore, we believe that it's important to analyse what would happen to the model and to the final valuation in case of a change in this scenario. We will structure this in three different scenarios:

- Base Scenario

The base scenario is the scenario previously forecasted in the DCF valuation, in which we obtained a price target of 25.13€ with a WACC of 8.80% and a terminal growth of 2.90%. The EBIT margin starts in 3.34% in 2023 and decreases until reaching 2.09% in 2030 (averaging 2.52% for the forecasted period 2023-2030) (Table 8). The other scenarios will made some changes to this one.

- Bull Scenario

The Bull Scenario is an optimistic scenario in which the economy lives a high-prosperity moment. The growth rate of revenues will increase some percentage points per year relative to the growth rate of the Base Scenario. The additional revenue's growth rate of Biedronka, Pingo Doce and Recheio is 0.40%, of Hebe 0.60% and Ara 0.90%. Ara has the highest increase in percentage points given the huge investment of Jerónimo Martins in the last years to develop the business. Hebe will have an increase of 0.60% (more than the first three mentioned subsidiaries) because we believe that they have space in the market to grow even more, especially because of e-commerce. Biedronka, Pingo Doce and Recheio have the lowest increase because we are facing companies that are well established and we believe that they don't have opportunity in the market to grow as substantially as Ara. The result in the consolidated revenues' growth rate is an increase that starts in 0.44 percentage points in 2023 until reaching 0.49 percentage points in 2030. This results in an expected increase in EBIT margin starting in 3.40% in 2023 and ending in 2.51% in 2030 (average of 2.75% for the forecasted period, higher than the average 2.52% of the Base Scenario forecasting).

Since we are considering an increase in revenues given the favorable overall state of the economy, WACC and Terminal Growth would also change accordingly: 8.30% and 3.40%, respectively. The price obtained is 36.88€ (Table 8).

- Bear Scenario

The Bear Scenario is the pessimist scenario. It happens the opposite of the previous scenario: the growth rate of revenues will decrease 0.40% (Biedronka, Pingo Doce and Recheio), 0.60% (Hebe) and 0.90% (Ara) relative to the growth rate of revenues of the Base Scenario. In an economic slowdown scenario, we believe that the opposite tendency would happen: Biedronka, Pingo Doce and Recheio will suffer less in terms of revenues and Hebe and Ara more. The result in consolidated sales is an average (2023-2030) decrease of 0.5% (Table 8). EBIT margin decreases starting in 3.29% in 2023 and finishing in 2030 with 1.66%. Once again, the WACC and Terminal Growth would change accordingly with the economy's state and we considered 9.30% and 2.4%, respectively, reaching a price of 16.89€.

Table 8 *- Scenario Analysis*

	Bull Scenario	**Base Scenario**	**Bear Scenario**
WACC	8.30%	8.80%	9.30%
Terminal Growth	3.40%	2.90%	2.40%
Additional Revenue Growth			
Biedronka	0.40%	-	-0.40%
Hebe	0.60%	-	-0.60%
Pingo Doce	0.40%	-	-0.40%
Recheio	0.40%	-	-0.40%
Ara	0.90%	-	-0.90%
Others & Cons. Adjustments	-	-	-
Jerónimo Martins average	0.5%	-	-0.5%
EBIT Margin average	2.75%	2.52%	2.28%
Price target	**36.88 €**	**25.13 €**	**16.89 €**
Capital Gain	**47%**	-	**-33%**
Dividend Yield	**1.9%**	-	**4.2%**
Total expected return	**49%**	-	**-29%**

Source: Own estimates

- Conclusion

The company may be affected by endogenous or exogenous factors. These are two hypothetic scenarios to demonstrate that investors should be attentive because variations can change the recommendation of SELL, BUY or HOLD. It would happen with the Bull Scenario (it has a high positive expected return for the investor and the recommendation would be to BUY) and with the

Bear Scenario (the expected return is negative, recommendation would be to SELL) (Table 8).

Relative Valuation

In order to complete our valuation, we proceeded with a Relative Valuation to have an analysis according to the functioning of competitors.

Figure 10 - Peers' logo

From the peers mentioned in the section of "WACC Calculation": Dino Polska SA and Carrefour SA (peers for Biedronka); 4Mass SA and Pharmena SA (for Hebe); Sonae - SGPS SA and Tesco PLC (for Pingo Doce); Eurocash SA and METRO AG (for Recheio) and Organizacion Soriana SAB de CV and Grupo Mateus SA (peers for Ara), we decided to exclude for this relative valuation the peers of Hebe and Ara (4Mass SA and Pharmena SA; Organizacion Soriana SAB de CV and Grupo Mateus SA, respectively) since we believe that the other peers will make our analysis more representative of the business of Jeronimo Martins, given that Biedronka, Pingo Doce and Recheio are the main activity of the Group.

***Table 9** - Multiples*

	EV/EBITDA	EV/SALES	P/E	P/B
DNP.WA	20.68	1.84	32.16	8.47
CARR.PA	6.47	0.34	10.22	1.09
YSO.LS	10.08	0.58	7.35	0.64
TSCO.L	6.80	0.45	14.76	1.7
EUR.WA	4.90	0.16	27.31	3.28
B4B.DE	2.69	0.16	3.47	1
JMT.LS	8.18	0.58	20.24	5.81

Source: Refinitiv

The multiples used were EV/EBITDA, EV/Revenues, - Enterprise Value multiples - and P/E and P/B – Equity multiples (Table 9). The price targets for each multiple can be observed in Table 10. The higher price obtained is 24.74€ for EV/SALES and the lowest is 10€ for P/B, being the price from EV/SALES the most similar with the DCF price estimation (25.13€).

***Table 10** - Price target for Multiples*

EV/EBITDA	21.20 €
EV/SALES	24.74 €
P/E	19.21 €
P/B	10.00 €
Price Target - All Multiples	**21.30 €**
Price Target - Multiples and DCF	**24.36 €**
Capital Gain	3.66%
Dividend Yield	2.91%
Total Expected Return	**6.57%**

Source: Own estimates

To reach the final price of the Relative Valuation, we made an average of the four different prices obtained but with a weight of 80% for the Enterprise Value Multiples and 20% for the Price Multiples, reaching a final price target of 21.30€ (Table 10). The reasoning behind this is that the Enterprise Value multiples take into consideration not only the equity but also the debt and cash of the Company, what is important to take in consideration in this industry.
We made a combination of the DCF price target and the Multiples price target with a weight of 80% for the DCF (most complete method) and 20% for the Relative Valuation and obtained a price of 24.36€. This is projected in a total expected return of 6.57%, which corresponds to a HOLD recommendation. The combination between the methods was made because we believe that it would not be accurate to make a recommendation just based on Relative Valuation.

Risks

Operational

- Supply Chain

The efficiency of supply chain is a key for the well-functioning of the Group and it is even more important for a food supply chain given some factors like the perishability of some goods. It's important that it can adapt quickly to any disruption. For example, the Covid-19 pandemic and Russia-Ukraine war caused many constraints in many fields, namely in the supply chains and for Jerónimo Martins there was no exception. Jerónimo Martins mitigated this risk by being less-dependent in some areas: the creation of the Agri Business described previously in this report that is a very good way to guarantee the consistency of the local daily production (fruits, vegetables, aquaculture products, etc); the private brands of the Group represent around 40% of sales; the majority of food purchases are made with partnerships in the respective country; the Group invests in a state of the art transportation management systems to avoid inefficiencies and slower processes and also in efficient database controls to be protected from any potential cyberattack.

Macroeconomic

- Taxation

As the Group operates in three countries, it will always be exposed to different taxations and to changes in that sense, what would be difficult to mitigate. For example, the tax rate in Colombia changed from 31% in 2021 to 35% in 2022.

In Portugal an extra tax of 33% was imposed for companies in the food distribution sectors if profits in 2022 and 2023 are 20% higher than the profit average of the last four years (7), what includes Jerónimo Martins.

In Poland, there is a recent legislation for large retailers with revenues more than 17 million PLN that stands at 0.8% of sales if it doesn't exceed 170 million PNL or 1.4% if it exceeds 170 million PNL (8).

- Inflation

All the three countries where Jerónimo Martins operates are going through inflationary periods, as many others in the world, given the instability lived due to the exogenous events happening since the last years and that last until now. Inflation rates for 2022 for Poland, Portugal and Colombia were, respectively: 14.40%, 8.10% and 10.20%, values much higher than the previous year and values that will take time to recover. The food inflation in that year surpasses 20% in all these countries. Although, it is expected to decrease in the forecast period.

As a response to the previous mentioned high inflations, Jerónimo Martins increased prices to the final customers because there was no option given that the prices for the Company also increased, but they also reduced margins and absorbed some costs. The goal was trying to keep market shares given the high competition in the market of food retail.

The retail sector is very affected by inflation but the economies of scale and stable relationships with suppliers are an advantage for the Group.

- Competition

The food retail industry is characterized by the concentration of power in a few companies fighting for market share. The goods are very similar and the switching costs are low for customers. A new competitor entering the market can be a threat. The margins are low for the industry which increases the almost-monopolistic competition, that's why the Group should be very attentive to competitors and their strategies and should be able to adapt quickly. Jerónimo Martins invests in the relationships with partners and customers. They provide high-quality products at competitive prices and invest in loyalty programs in many ways as the creation of custom cards (sales made with the card correspond to an estimation of the fair value of the benefits, revenue is deferred until the benefit is achieved) and online apps (for example Jeronymo&Friends app where customers can interact) to retain their clients.

- Geopolitical

The Russia-Ukraine conflict had a negative impact for Jerónimo Martins, especially in Poland's operations, causing a tension on margins and an increased uncertainty for investing. One of the consequences for the company was the increase in costs of raw material, services and energy (especially because of a high dependence on Russia as an energy source). Nowadays, the Israel-Hamas war has potential to cause the same inconveniences, especially in terms of oil and energy prices.

Financial

- Foreign exchange

Most of Jerónimo Martins' revenues are received in foreign currency: in 2022, around 71% in zlotys (PLN) and 7% in colombian peso (COL), what is translated in depreciations against euro, given that the consolidated accounts are reported in euros.
The losses coming from this exchange are expected to be more accentuated given that the business in Poland and Colombia is growing and the foreign exchange risk is expected to grow a bit given the tendency of euro to appreciate relative to PLN and COL.

- Interest Rates

Interest rates have been increasing and companies operating in the food retail sector are very sensitive to changes in interest rates as they imply increased capital costs. Loan-dependent businesses are always affected by interest rate variability and invariably leading to increased expenses for retailers. On the other hand, in the opposite scenario of financial slack with low rates on loans, it is common for companies to ease up and take on debt, thus becoming heavily exposed if rates rise unexpectedly, due to factors exogenous to the economic system. And in need of new financing.
There are two things that contribute to the mitigation of the Group in this field: most of the company's financing source is equity-based and the company has financial stability (Debt to Assets). Also, they raise debt in local currency when market conditions are convenient and the same applies for the purchase of stocks, making them follow a natural hedge policy.

Legal and Regulatory

Being a so competitive market, it is constantly controlled by antitrust authorities to guarantee the healthy competition of the market, environmental protection, consumer protection, etc. When it comes to ESG regulation, Europe is investing a lot in regulation because it's an urgent issue and it's uncertain how it will affect all companies and Jerónimo Martins, but it's not a concern for now because of their good ESG performance. The Group always tries to adapt to the countries' legislation where it operates, having legal advisors but it happened in the past some sanctions like the one with Biedronka that is being accused of misleading advertisement to customers. If it's confirmed it can lead to a fine around 10% of their annual revenue but the Group justified and rebutted the accusation (9).

Final Recommendation

We will base our recommendation on the DCF developed, given that it is the most complete and accurate model. As of December 8th, 2023, the stock price of Jerónimo Martins is worth 23.50€. The price target reached for December 31st, 2024 is 25.13€, representing a capital gain of 6.9% and dividend yield of 2.8%, which represents a total expected return of 9.74%.

Jerónimo Martins is a well-positioned company in the market and the healthiness of the company makes us believe in a bright future of growth for them. The expected return for the investor makes our recommendation to be a HOLD position. It means that the firm will perform accordingly to the market and will not outperform or underperform.

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