

05 JANUARY 2010

JERÓNIMO MARTINS

FOOD RETAIL

ANALYST: MARIA DO CARMO VENTURA

COMPANY REPORT

The European Retail Star

... With a Strong Amulet in Eastern Europe

- We maintain our confidence in Jerónimo Martins. The company strategic positions and deep understanding of the Portuguese and the Polish retail markets reinforced our beliefs that the company will continue to reach investors preferences.
- In Portugal, the company will continue to add force to its position as the market leader of important formats like the supermarkets (9.7%) and the cash & carry one (33%). Trends as the growing acceptance of the discount format and the reinforcement of the private brand products will benefit Jerónimo Martins operations.
- For the Industry and Services in Portugal, we foresee stable performances of these business units in the future, that together account for 7.54% of the total of Jerónimo Martins.
- In Poland, Biedronka unit will consolidate its presence in the retail market. The "ladybird" will be stretched by the amplified presence of the modern retail and by the potential of growth of the Polish economy. The high probability of Poland adhesion to the Euro Zone in the next years will also animate Biedronka potential.
- The strong chance of Jerónimo Martins to internationalize its operations to a different location is also a reality in the near term. The Eastern Europe geographical preference is justifiable due to the broad room for growth in the region and due to the proximity to Poland.
- Some other additional topics were studied, as the company's strong management team, its inorganic opportunities in Poland, its available scenarios in the less profitable hypermarket format and its relation with other investors that are also owners of some of Jerónimo Martins business units.
- Our Sum-Of-the-Parts valuation for Jerónimo Martins ended up with a final price target FY2010 of 7.07 €, revealing a potential return of 1.29% when compared with its current share price. **HOLD**.

Recommendation: **HOLD**Vs Previous Recommendation **HOLD****Price Target FY10:** **7.07 €**

Vs Previous Price Target 7.07 €

Price (as of 5-Jan-10) **6.98 €**

Reuters: JMT.LS, Bloomberg: JMTPL

Potential Return **1.29%**

52-week range (€) 3.00-7.08

Market Cap (€mn) 4392.47

Outstanding Shares (mn) 629.293

Free Float 31.50%

Source: Bloomberg and Nova Research Team Estimates



Source: Bloomberg

(Values in € millions)	2008	2009E	2010E
Sales	6894	7468	9343
EBITDA	369	538	656
EBITDA Margin	6.89%	7.21%	7.03%
Amortization	-127	-168	210
EBIT	315	370	446
EBIT Margin	4.58%	4.95%	4.77%
Net Financial Results	-85	-73	-82
Income Taxes	-47	-64	-78
Net Profit to JMT	163	208	259

Source: Company Data, Bloomberg and Nova Research Team

Sales at JMT 2009E

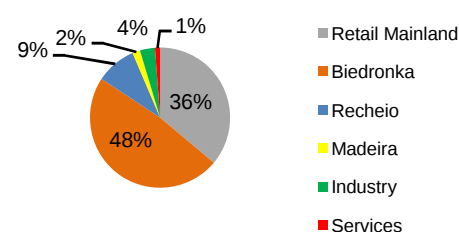


Table of Contents

Executive Summary.....	3
Valuation.....	3
• General Approach.....	3
• Forecasts.....	3
• DCF Assumptions.....	8
• Sum-of-the-Parts Valuation.....	10
Company Description.....	12
• Company Overview.....	12
• Business Units Analysis.....	12
• Shareholder Structure.....	17
The Retail Sector.....	18
• The Portuguese Retail Market.....	19
• The Polish Retail Market.....	20
• Comparables.....	22
Jerónimo Martins' Extra Keys of Analysis.....	23
• Strong Management Team.....	23
• The “Feira Nova Issue”.....	24
• The Ahold Stake in JMR.....	25
• Inorganic Growth in Poland.....	26
• Euro Adhesion of Poland.....	27
• Further Internationalization.....	28
Sensitivity Analysis.....	29
Investment Conclusion.....	30
Financial Statements.....	31
Disclosures and Disclaimer.....	33

I would sincerely like to thank to my Work Project Advisor Professor Rosário André, to the Jerónimo Martins Investors Relations Department – especially to Dr. Hugo Fernandes, and finally to my Work Project colleague Marco Henriques, for all the support they provided me in the elaboration of this Equity Research.

Executive Summary

This Equity Research aims to deeply study Jerónimo Martins Company.

At a starting point, we developed our valuation model, which main inputs and assumptions will be exposed later on in this report.

Once the analytical side of the work is completed, it was time to proceed to an analysis of some aspects considered the company's "Extra Keys of Analysis".

So, the latter together with our analytical model and the assessment of the trends in the markets where the company operates, allowed us to come up with our final investment conclusion.

The final objective of this Research is to estimate the per share price target of Jerónimo Martins FY2010 and we converged to a final value of 7.07€.

This report aims to estimate the Jerónimo Martins price per share FY2010.

Valuation

• General Approach

First of all, it is very important to clarify that in the whole valuation study we assumed a conservative approach. Thus, all the variables analyzed present coherent scenarios aligned with both the company's guidelines and the consensus ones. However, there was only one single issue that we considered it would make sense to incorporate in our model, despite some uncertainty associated with it. We believe that it is almost unavoidable the Poland adhesion to the Euro Zone in the short-to-medium term. So, we assumed that from 2014 onwards, it makes sense to consider a high probability of Poland being part of the Euro Zone (this theme will be deeply analyzed and sustained in a further section of this report).

Subsequently, the other opportunities for Jerónimo Martins are not analytically incorporated in this model, besides our confidence in their reliability. The most important ones will be studied in the chapter "Jerónimo Martins' Extra Keys of Analysis".

Conservative Approach in all major assumptions...

... Except in the Poland adhesion to the Euro Zone

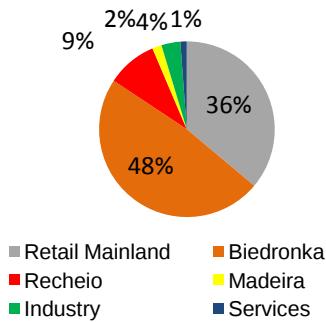
Broad range of possibilities studied in this report – Chapter: "Jerónimo Martins' Extra Keys of Analysis"

• Forecasts

Number of Stores

This variable was our starting point in the Jerónimo Martins valuation. We were very attentive to the guidelines provided by the company, given their effective track record on supplying valuable information of their expansion plans. Furthermore, as the company announced more aggressive expansion plans in its 2009 Investor's Day, we also updated our model according to it. However, we took a more conservative view than the company guidelines, since we believe that some plans are too ambitious.

Effective track record on the company's guidelines for its expansion plans

Exhibit 1:
Sales at JMT 2009E


Source: Company Data and Nova Equity Research Estimates

The major driver of expansion for the company in the next years is its Polish branch, Biedronka. The most recent expansion plans that the company publicized states that it has plans to open 550 new stores in the next 3-year period. We assumed a humbler view because the last years already proved the company ability to successfully open 150 Biedronka stores/ year, and we are reluctant if more than 150 stores/ year can pose logistic issues. Besides that, we are confident that Biedronka is, and will continue to be in the next future, the major driver of success and growth of the company. The main reasons that sustain this confidence are related with the existing potential of growth in the Polish retail market still in these days and the strong potential of the Polish economy.

Regarding all the other business units, in the Portuguese retail sector, the situation is different. As it will be further analyzed in this report, the retail in Portugal is in a much mature stage than in Poland, and so the saturated market does not allow much room for aggressive expansion plans.

Exhibit 2: Expansion Plans (Number of Stores)

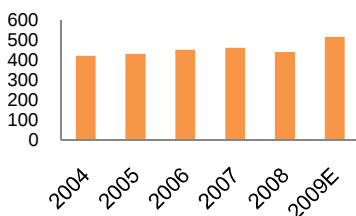
	2007	2008	2009E	2010E	2011E	2012E	2015E	2019E
Retail Mainland	256	343	342	347	352	356	362	367
Supermarkets	210	334	333	338	343	347	353	358
Hypermarkets	46	9	9	9	9	9	9	9
Biedronka	1,045	1,359	1,487	1,647	1,807	1,967	2,267	2,592
Recheio	33	35	35	36	37	37	38	39
Madeira	15	15	15	15	15	15	15	15
JMT Stores	1,349	1,752	1,879	2,045	2,211	2,375	2,682	3,013

Source: Company Data and Nova Equity Research Estimates

Sales per Square Meter

The sales per Square Meter variable measures the sales performance of the different business units that the company operates. Once we estimate the future number of stores of Jerónimo Martins, then we should evaluate how scale effects will bring benefits for this company. Furthermore, the Ex-Plus stores contribution to both the Retail Mainland and Biedronka business units were also very satisfactory. As it can be observed in the table bellow, we are confident that all business units will continue to positively operate in the market.

In Poland, we expect this variable to present significant upsides in the near future until the market starts to mature. When we observe the evolution of the customer traffic in Biedronka stores, we notice that these stores are catching the attention of more and more customers every year (except in 2008 since Ex Plus stores are not yet fully operating). Thus, we are confident that this tendency is likely to be maintained in the period of our analysis.

Exhibit 3: Customer Traffic per Biedronka store (in thousands of customers)


Source: Company Data

We can observe Biedronka's accelerating traffic after the Plus stores acquisition fully operating in 2009

Exhibit 4:**Sales Area in Portugal****(per thousands of Sqm)**

Brand	2008	2007	YoY
1. Pingo Doce	315	198	62%
2. Continente	275	174	58%
3. Lidl	215	194	11%
4. Modelo	206	200	3%
5. Minipreço	181	147	23%
6. Auchan	149	122	22%
7. Feira Nova	128	172	-26%

Source: APED

In Portugal we assumed that the more adverse environment that resulted from the current macroeconomic crisis will not have a significant effect in the Portuguese operations of the company. As the 9M 09 results of the company showed, the Portuguese people looked at value-added retail business units as an opportunity to save their money at the end of the month (consolidated sales grew by 5.8% (in Euros) in the 9M 09, when compared with the similar period of 2008). Recheio also reacted very positively to the current crisis, which reinforced our confidence on the future performance of this brand in the group (although it seemed the most fragile unit facing the crisis due to its exposure to the HoReCa channel, it presented a LfL sales growth in the 9M 09 of 2%). We believe there is still room for Recheio to reinforce its leading position in the Portuguese Cash & Carry market, and so we assumed optimistic Sales per Square Meter evolution.

All the other business units of the company (Madeira, Industry and Services), will present relatively stable Sales per Square Meter variations mostly caused by the positive evolution of the inflation levels.

Exhibit 5: Sales per Square Meter (Nominal Values, € thousands)

	2007	2008	2009E	2010E	2011E	2012E	2015E	2019E
Retail Mainland	6.40	6.41	6.32	6.56	6.84	7.12	7.98	9.05
Nominal Variation (YoY)	0.39%	0.25%	-1.47%	3.80%	4.20%	4.10%	3.80%	3.00%
Biedronka¹								
Zloty	18.79	19.97	25.51	27.25	29.22	32.04	33.44	39.82
Nominal Variation (YoY)	16.73%	6.28%	12.70%	11.20%	11.50%	10.50%	8.50%	6.20%
Euros	4.97	5.71	6.02	6.27	6.56	6.83	7.71	8.71
Nominal Variation (YoY)	19.78%	14.74%	5.44%	4.27%	4.52%	4.21%	4.21%	2.92%
Exchange Rate (€/Zloty) ²	3.78 zł	3.50 zł	4.24 zł	4.34 zł	4.46 zł	4.69 zł	4.34 zł	4.57 zł
Recheio	5.76	6.04	6.30	6.53	6.76	6.96	7.60	8.39
Nominal Variation (YoY)	1.32%	4.90%	4.30%	3.60%	3.50%	3.00%	3.00%	2.50%
Madeira	9.11	8.88	9.12	9.32	9.60	9.88	10.80	11.86
Nominal Variation (YoY)	10.94%	-2.46%	2.64%	2.20%	3.00%	3.00%	3.00%	2.25%
Industry (Nominal Variation)	1.63%	1.75%	1.80%	2.10%	2.50%	2.70%	2.90%	3.00%
Services (Nominal Variation)	1.63%	1.75%	1.80%	2.10%	2.50%	2.70%	2.75%	2.90%

Source: Company Data and Nova Equity Research Estimates

EBITDA Margins

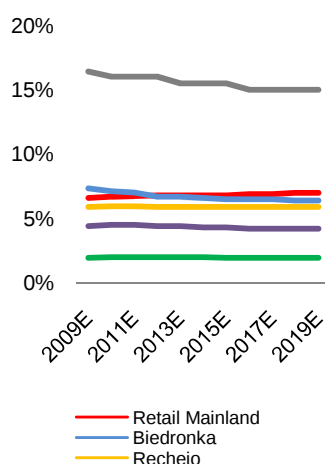
Major surprise in the last results came from the EBITDA Margins...

... Even considering the Ex-Plus stores acquisition

The year of 2009 has been an untypical year in terms of tendencies in EBITDA Margins. Due to the more severe macroeconomic scenario, it was expected the company to cut its EBITDA margins as a way to maintain its position in the markets where it operates. However, the major discrepancy of the values predicted by the consensus for this period and the ones that the company actually presented comes exactly from this variable. In 2009, consolidated margins are expected to achieve 7.21% (against a 6.86% performed in 2008) and so the company managed to be perfectly adapted to the challenges that arise in the markets in the current period. This fact is even more impressive if we take into consideration that the recent acquisition of Plus stores in Portugal and Poland and the conversion of Feira Nova

¹ In the Biedronka case, the values in Euros are the ones that should be taken into consideration in the final evaluation of the performance of this unit, since these are the values that are more fairly compared with the performance of all the other business units.

² To compute the future Exchange Rate between the Euro and the Zloty, we presumed a Forward Exchange Rate from Bloomberg and in 2014 onwards, we assumed there is a likelihood of Poland to adhere to the Euro Zone. This issue will be deeper analyzed further on.

Exhibit 6: Expected EBITDA Mgs Evolution


Source: Nova Equity Research Estimates

More ambitious EBITDA Margins in the Retail Mainland

compacts into Pingo Doce, should create a stronger pressure in margins to be lower than in the case that these operations did not occur.

For the future, we expect more modest margins in the Biedronka's case. In order to continue to compete and even to outperform the major hard discount chains in Poland, Biedronka must keep its pace to converge EBITDA Margins to the ones in the hard discount format (that are generally exercised bellow 7%). So, we expected a 6.40% EBITDA Margin for Biedronka in 2019, that makes a sizeable difference in the consumers basket when compared with the 7.33% in 2009.

In all the other business units, it is expected a similar tendency to the one in Biedronka – a decrease in EBITDA margins, although not so evident since these units already operate in the segments they intended to. The “everyday low prices” strategy that generally characterizes the different segments where the company operates (excepting the Industry and Services business units), does not allow to significantly improve its performance throughout margins increases. Therefore, relatively stable evolutions of the margins are forecasted, with general slow declines over the next 10 years of our analysis.

The exception here is the Retail Mainland business unit, in which we believe there is a slight potential for the EBITDA margins to grow in the future. In 2009, margins are expected to be reduced due to the current crisis, which resulted in a general trend in the retail sector of margins cut as a way for companies to maintain their positions in the market. However, as the economy naturally must recover, EBITDA margins are also likely to recuperate to the level that was practised before the first signs of the current crisis (in 2007, 7% EBITDA mg).

Exhibit 7: EBITDA Margins (%)

	2007	2008	2009E	2010E	2011E	2012E	2015E	2019E
Retail Mainland	7.00	6.70	6.59	6.70	6.75	6.80	6.80	7.00
Biedronka	5.90	6.90	7.33	7.10	7.00	6.70	6.50	6.40
Recheio	6.00	6.10	5.89	5.95	5.95	5.90	5.90	5.90
Madeira	4.60	3.60	4.41	4.50	4.50	4.40	4.30	4.20
Industry	14.10	14.30	16.40	16.00	16.00	16.00	15.50	15.00
Services	2.40	1.50	1.95	2.00	2.00	2.00	1.95	1.95
JMT EBITDA	7.21	7.03	7.21	7.03	6.98	6.80	6.65	6.61

Source: Company Data and Nova Equity Research Estimates

Capital Expenditures: Investing

The CapEx reflects all the investments the company incurs. To calculate the consolidated CapEx for the next 10 years, we took into account all the investments in new stores correspondent to our expansion forecasts, all the revamping costs of the different stores of the group, the costs of the distribution centres both in Portugal and in Poland and finally the costs of the total conversion of the Ex-Plus stores into Pingo Doce in Portugal, that will occur between 2008 and 2012.³

³ In 2008, the Group's CapEx incorporated the total conversion of the 37 Ex Feira Nova compacts into Pingo Doce, the total conversion of all the 160 Ex Plus stores acquired in Poland into Biedronka and finally a partial conversion of the 69 Ex Plus Stores into Pingo Doce in Portugal. Thus, the complete conversion of the Ex Plus stores in Portugal will proceed in the next 3 years until all the 69 stores are entirely adapted to the Pingo Doce format.

Exhibit 8:
CapEx Costs in 2009 (€mn)

Portugal	
New Store (PD)	3.3
Revamping (PD)	0.7
Conversion Plus to PD	0.9
New Store (Recheio)	2.2
Revamping (Recheio)	0.5
Logistics Costs Portugal	4.0
Poland	
New Store	1.8
Revamping	0.35
Costs per Distribution Centre	14.0

Source: Company Data and Nova Equity Research Estimates

A new distribution centre in Poland for each 200 new Biedronka stores

Each store is revamped in every 7 years

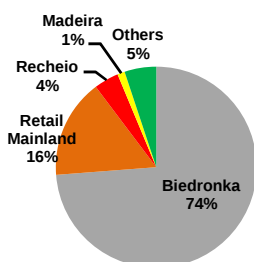
D&A annual rate of 2.40% of the level of tangible assets

The last statement of the company regarding CapEx refers that its plans of investments for the next 3-year period are of €1.3bn. However, this CapEx guidance seemed to us overly optimistic when compared with our CapEx calculations for the future, and so we ended up with a CapEx plan for the same period of €1.6bn.

As it can be observed, most of the company's investments are canalized to the Biedronka unit (73.78% of the entire investment in 2009 is estimated to be devoted to Biedronka), since this is the segment that presents the higher growth potential in Jerónimo Martins.

There are some other important points that we believed must be clarified. We assumed that for each 200 new Biedronka stores, a new distribution centre must operate, in order for the company to maintain its valuable logistics system. The validity of the system is mainly sustained by the growing potential of its transportation productivity, which has been benefiting from lower costs of transport expenses and highly advanced technological methods. Furthermore, we think that it is consistent to assume that each store must be revamped in every 7 years, since it will assure that the stores will not lack in modernization and that ones will not significantly differ from the others. Thus, we considered that these revamping costs will be the major use of the CapEx for the medium-term. In what concerns the Services business unit, CapEx is residual.

Finally, it is also important to refer that Depreciations and Amortizations in the future are assumed to be 2.40% of the level of tangible assets. We verified that in the past there was a relation between the value of sales and the amount the company amortized, and so we assumed a constant value for the future Depreciations and Amortizations due to that.

Exhibit 9: 2009E CapEx per Business Unit


Source: Company Data and Nova Equity Research Estimates

Exhibit 10: CapEx Plans (€ mn)

	2007	2008	2009E	2010E	2011E	2012E	2015E	2019E
Retail Mainland			70	70	70	67	52	53
New Stores			7	17	17	14	7	4
Revamping			34	35	36	38	41	45
Conversion Plus			24	14	12	11	0	0
Distribution Centers			5	4	4	4	4	5
Biedronka			311	483	503	506	387	367
New Stores			230	388	397	389	248	198
Revamping			71	84	95	106	131	162
Distribution Centers			9	11	12	12	8	7
Recheio			16	16	17	17	18	20
Madeira			5	5	5	5	5	6
Industry			7	7	7	7	8	8
JMT CapEx	545	676⁴	409	582	602	603	471	455

Source: Company Data and Nova Equity Research Estimates

Debt and Net Working Capital: Financing

Looking more deeply into the financing side of the company, we should consign that most of the investments that the company incurs are financed by its internal cash flows. Moreover, Jerónimo Martins is very strict on managing its level of debt, and only in exceptional situations of inorganic growth opportunities, it compromises its

⁴ It includes a €320mn amount spent in the acquisition of the Ex Plus stores acquired both in Portugal and in Poland.

**Investments mainly
financed by internal
cash flows**
Strict debt policy
**Small proportion of
short-term debt in
the overall debt**

overall debt targets. More specifically, our estimations for the future net debt are generally aligned with the company's ones, as the company announced its intention to reduce its net debt by €100mn in 2009 (we assumed a €944mn net debt in 2009, against the €1047mn ones verified in 2008). For the next 3 years period (2010-2012), we assumed higher amounts of debt due to the aggressive expansion plans, with these levels stabilizing to lower ones after this period.

We considered that only 15% of debt is short-term. Due to the overall nature of the retail business, with negative cash cycles, there is no need for the company to be financed in the near term. This can be justified if we analyze the Working Capital side of the company. We considered that for the future, the company will have a 24 days period for the Inventories, will receive from its customers in 11 days and will pay to its suppliers in 103 days. This value of payables is relatively constant when compared with the ones in the last years, and so we took a conservative view in this variable. In the inventories side, we reduced the inventories days for the future to 24 days since the company has been showing in the last years its ability to reduce the inventories mainly due to the increasing focus on food products. Food products can only be stocked for a short period of time, because validation dates are very restrictive. In what concerns the receivables, we can observe that in the recent past they achieved an average number of days higher than 12, but we considered this exceptional since it is the result of the tuff macroeconomic conditions, and so we think that in normal conditions an average of 11 days for the receivables is very cohesive. The likelihood of the WC decrease in the future demonstrates the higher capacity of the company to finance its operations without the recurrence to debt.

**Exhibit 11: Net Working
Capital**

(in Days)	2009E	2019E
Inventories	24	24
Receivables	11	11
Payables	103	103

Δ NWC		
(€mn)	(47)	(68)

Source: Company Data and Nova
Equity Research Estimates

**Working Capital level
decreasing over the
future**

• DCF Assumptions

**Future CFs discounted
through a WACC
valuation method**

In order to discount the future cash flows of each business unit of Jerónimo Martins, we used a Weighted Average Cost of Capital (WACC). To derive the r_{wacc} , many other steps were computed. First of all, this cost of capital approach demands a cost of debt, a cost of equity and a constant debt to equity structure for the future.

For the cost of equity, we must derive the risk free, the levels of the levered beta and the market premium. For the operations in Portugal, we assumed a 10-year German bond as the risk free and for Poland we assumed a 10-year Polish bond due to the difference of the stage of the Polish economy when compared with Germany, that can be used as a reference for the Portugal, since it is the Euro Zone market that typically presents higher liquidity levels. For the betas, firstly we computed a regression for the levered beta coefficient in a significant number of comparative companies of other countries⁵, then we removed the leverage effects and after that, we incorporated it again regarding Jerónimo Martins individual target for the debt to equity ratio. For the market premium, we considered a higher rate in

Exhibit 12: Portugal Poland

Cost of Equity (real value)	Portugal	Poland
Rf	4.20%	5.80%
Market Premium	5.75%	5.95%
Beta Levered	1.11	1.08

Source: Nova Equity Research
Estimates

⁵ We observe the food retail companies that are analyzed in this report, Chapter Comparables. We divided this food retail peers between the Western European group, which better describes the Portuguese operations, and the Central and Eastern European companies, that are more accurately compared with Jerónimo Martins operations in Poland, through the Biedronka business unit.

Exhibit 13:

Betas	Portugal	Poland
Beta Levered (Average Industry)	0.97	0.83
Average D/E Industry	74.79%	52.00%
Effective Tax Rate (general)	19.63%	19.63%
Beta Unlevered Average Industry	0.60	0.59
Beta Levered JMT	1.11	1.08

Source: Nova Equity Research Estimates

Poland than in Portugal, since the Polish economy continues to present a higher potential to grow than the Portuguese one.

On the other side, we assumed an after tax cost of debt of 4.12% for Portugal and of 5.63% for Poland. Since we considered the cost of debt in these markets, in Poland the cost of debt should be higher than in Portugal explained by two reasons. In what concerns the rate of reference, EURIBOR (reference to Portugal) is typically 65bps lower than WIBOR (Warsaw Interbank Offered Rate – the Polish reference), which reflects the relative devaluation between these currencies. On the other hand and in what regards the spreads applied, in Portugal this is also smaller because Portugal is already a member of the Euro Zone, and so it is part of a more developed and trustful organization than Poland, that is not yet a member of the Euro single currency.

Regarding the debt to equity ratio, we firstly examined the future debt to equity ratios that are predicted according to our financial statement estimations. While we are aware that the value of this ratio for today and for the next years is higher, due to the aggressive expansion investments the company is foreseeing to incur, we assumed that in 2019 (the last year of our analysis), the D/E will achieve a 111.82% value. This is explained because as far as the company expansion plans stabilize, the D/E ratio diminishes. Then, it is reasonable to assume that in the long term Jerónimo Martins will converge to a 108% D/E, and then this capital structure is the one that makes sense to include in our WACC computations⁶.

Exhibit 14:

	Portugal	Poland
After Tax Cost of Debt (real value)	4.12%	5.63%
Cost of Debt Effective Tax Rate	5.60%	6.95%
	26.50%	19.00%

Source: Nova Equity Research Estimates

Exhibit 15: Debt / Equity

Debt	51.09%
Equity	48.10%
Debt / Equity	108.0%

Source: Nova Equity Research Estimates

Exhibit 16: Key Figures

	2007	2008	2009E	2010E	2011E	2012E	2015E	2019E
Debt/ Equity	91.66%	112.52%	90.71%	124.70%	153.62%	199.37%	153.43%	111.82%
Debt/ Assets	0.25	0.28	0.24	0.32	0.36	0.42	0.32	0.24
Debt/ EBITDA	2.25	2.21	1.74	2.12	2.35	2.79	2.04	1.35
EBITDA/ Interests	5.91	5.54	7.41	8.04	7.25	6.11	8.34	12.59
ROE	15.12%	17.53%	20.12%	23.22%	25.37%	26.33%	27.84%	34.10%

Source: Company Data and Nova Research Team Estimates

In what refers to the Jerónimo Martins debt levels which were assumed for the future, we believe that the near term future debt structure can affect the company's rating. However, as it can be observed, the higher levels of debt the company will incur to maintain its expansion plan will be in a significant portion accompanied by capital increases in the equity side and so this issue should not impact the company as negatively as it could be expected. But the reality is that the risk of diminishment of the company's rating level can injured its reputation in the global retail market. Efforts should continue to maintain its strict policy regarding the debt structure, and we considered this issue as the major source of risk for this company in the future. We assumed that in the future dividends will be distributed at a 50% level of the net profit, meaning that half of the profit generated will be for the shareholders, and the other half will be earnings retained by the company.

Dividend Policy: 50%

⁶ It is important to clarify that we believe this capital structure is the more reasonable one, since we are rejecting all the unpredictable situations that can occur. So, for this assumption we are simply considering the company's public guidelines for the future. Any internationalization entrance or acquisition, among many other operations, will definitely affect the debt structure. However, as these operations are naturally not being incorporated in our valuation model, WACC computations should also not include them.

Exhibit 17: TGR (Real Values)

Retail Mainland	1.40%
Biedronka	1.65%
Recheio	1.25%
Madeira	1%

Source: Nova Equity Research Estimates

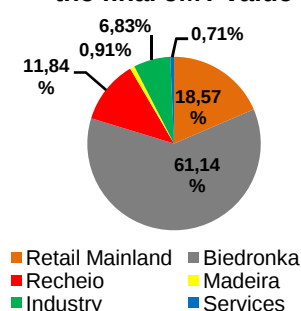
Finally, we considered different Terminal Growth Rates (inflation adjusted) for the different business units. In the Portuguese business units, we assumed lower TGR than in Poland, since the Polish retail market has a bigger room to grow in the future than the Portuguese one. Additionally, we also considered appropriate that Poland has potential to continue to grow between 2019 and 2023 in a more optimistic rate than its TGR, so we assumed that it will grow at 1.85% in these next 5 years and then at 1.65% in its TGR.

• Sum-of-the-Parts Valuation

Discounted CFs calculated for a 9-year period

After all our assumptions being clarified and the calculation of the DCFs for a 9-year period through the WACC method, we valued our company using a Sum-of-the-Parts valuation method to consolidate all the 6 business units' individual values. For that, we computed the Enterprise Value of each of these 6 segments separately.

Exhibit 18: Business Units Contribution to the final JMT value



Source: Company Data and Nova Equity Research Estimates

Exhibit 19: Sum of the Parts Valuation (€ mn)

	Enterprise Value	JMT Stake	EV Attributable to JMT	% of Total
Retail Mainland	1,941,094	51.00%	989,958	18.57%
Biedronka	3,259,053	100.00%	3,259,053	61.15%
Recheio	631,007	100.00%	631,007	11.84%
Madeira	64,327	75.50%	48,567	0.91%
Industry	363,835	100.00% ⁷	363,835	6.83%
Services	37,619	100.00%	37,619	0.71%
Other Assets (incl. BCP Shares)	66,232			
Enterprise Value to JMT	5,396,272			
Net Debt	1,341,576			
Minus 49% of JMR Debt	394,423			
Equity Value	4,449,119			
# Shares	629,292			
Price Target (€)	7.07			

Source: Company Data and Nova Equity Research Estimates

WACC

Retail Mainland	7.29%
Biedronka	8.85%
Recheio	7.28%
Madeira	7.33%

Assumption of a 70% likelihood of Poland adherence to the Euro Zone at a fix conversion rate of 4.12 in 2014...

To approach the exchange rate risk between the Euro and the Zloty, we started by assuming a forward exchange rate for these two currencies between 2009 and 2019. However, as we deepened our research, we understood that it would make sense to include a scenario analysis regarding the adhesion of Poland to the Euro Zone⁸. Further research also provided us confidence to conclude that the ECB would fix the conversion rate of 4.12 zlotys per each euro. Our investigations led us to the conviction that in 2014 there is a 70% likelihood of Poland adhering to the Euro Single Currency. Thus, in 2014, we are faced with two scenarios: either Poland joins the Euro Zone or not. Notice that this is totally independent from Jerónimo Martins managerial decisions, i.e., although it represents a sort of real option to Polish Government, for JMT it just symbolizes a possible exogenous outcome. Moreover, if Poland does not join the Euro Zone in 2014, it probably means that something went wrong in the admission process. So, in the next year,

⁷ It should be clarified that although Jerónimo Martins owns only 45% of the Industry business unit, the results of this unit presented by the company are already accounting merely these 45%. Thus, the EV that refers to the Industry unit includes 100% of the value of the unit, since it only incorporates the 45% stake of Jerónimo Martins. This is denominated the proportional consolidation method.

⁸ To sustain these assumptions that we considered, extra research can be found about this topic in the further section of this report "Jerónimo Martins' Extra Keys of Analysis", more specifically in the sub-section "Euro Adhesion of Poland".

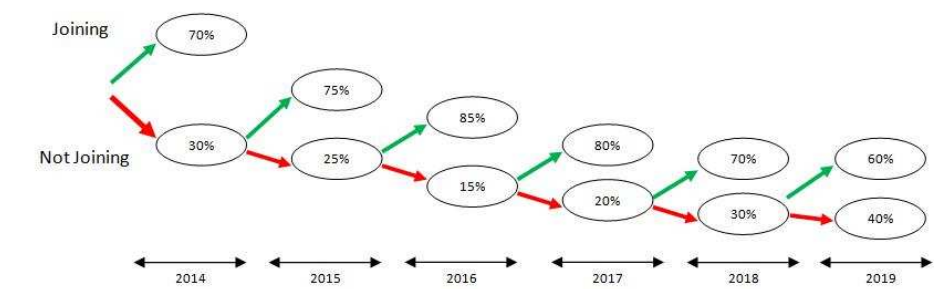
Poland will continue making efforts to join it. Therefore, in 2015 the joining probability is even greater. The same happens in 2016, since not joining in 2015 will trigger the Polish Government to do everything it can to ensure that in 2016 the entrance happens. However, in the unlikely event that Poland does not join the Euro Zone until 2016, thereafter joining probabilities start to decline reflecting not only disbelief, but also some structural factors (mainly macroeconomic and political) that prevent Poland to join Euro.

It is also important to note that such scenarios would influence our valuation. In the case Poland is out of the Euro Zone, Jerónimo Martins will always be subject to exchange rate risk since earnings would have to be converted into Euros. However, if Poland enters, this risk disappears. For example in 2014, if Poland adopts the Euro, our cash flows would be translated to Euros using the fixed ECB exchange rate, being all the exchange rate risk eliminated. But if Poland does not join, we must forecast what will be the exchange rate risk in 2014 (using the Forward Exchange Rate). However, if in 2014 it will not be possible for JMT to join to the Euro Zone, it can happen in 2015. So, if in 2015 Poland joins (75% likelihood), we use the ECB fixed exchange rate and if not we use the Forward for 2015. Again in 2016, 2017, 2018 and the same reasoning applies until 2019. Accordingly, the estimated value of Polish operations is just a conditional probability of the mentioned events, using as probabilities the ones depicted in the Exhibit 20. As the exchange rate is either the ECB fixed (in the event Poland joins the Euro Zone) or the forward interest rate (if not), we approach the following reasons to include such probabilities in our valuation model:

PV_{2014} of Polish Operations =

$$\begin{aligned}
 &= 70\% \times (PV_{2014}(\text{of Polish operations with a fixed exchange rate of 4.12})) + 30\% \\
 &\times (75\% \times (PV_{2015}(\text{of Polish operations with a fixed exchange rate of 4.12})) + 25\% \\
 &\times (85\% \times (PV_{2016}(\text{of Polish operations with a fixed exchange rate of 4.12})) + 15\% \\
 &\times (80\% \times (PV_{2017}(\text{of Polish operations with a fixed exchange rate of 4.12})) + 20\% \\
 &\times (70\% \times (PV_{2018}(\text{of Polish operations with a fixed exchange rate of 4.12})) + 30\% \\
 &\times (80\% \times (PV_{2018}(\text{of Polish operations with a fixed exchange rate of 4.12}))
 \end{aligned}$$

Exhibit 20: Scenario Analysis of the Probability of Poland to the Euro Adhesion



Source: Nova Equity Research Estimates

Finally, Biedronka calculations for r_{wacc} , also considered that since 2014 it is likely Poland to join the Euro Zone, and so it is also likely the cost of debt to decrease

(since Poland will also become associated to EURIBOR and their spreads will converge to the ones practiced among the Euro members).

Company Description

• Company Overview

**Exhibit 21:
Top 8 Food Retail in
Portugal
per Business Volume (2008)**

#	Brand	€ mn
1	Modelo Continente	3222
2	JERÓNIMO MARTINS	2665
3	Feira Nova	2140
4	Auchan	1434
5	Lidl	1236
6	Minipreço	904
7	makro	568
8	E. LECLERC	460

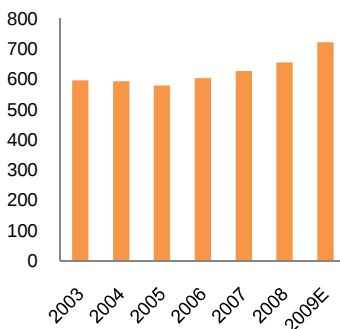
Sources: Retail-Index.com and APED

Jerónimo Martins, SGPS, S.A. (JMT) is a company that is based in Portugal – it is the second largest Portuguese Food Retail Group (following Modelo Continente from Sonae Distribuição) - and it operates in both the Portuguese and the Polish Retail Markets, which reduces its exposure to cyclical events.

The company is divided into 6 Business Units, and they are treated separately. So, as a matter of simplification we also analyzed and evaluated the company in this way. The business units are the Retail Mainland, which operates supermarkets and hypermarkets in Continental Portugal, the Biedronka unit, which refers to hard discount small stores in Poland, the Cash & Carry unit in Portugal of Recheio, the Madeira business unit, which includes Pingo Doce and Recheio stores in this archipelago, and finally the Industry and the Services units.

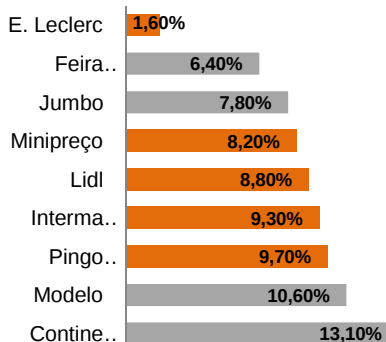
• Business Units Analysis

**Exhibit 22: Retail
Mainland Historic Sales
Evolution (in €bn)**



Source: Company Data and Nova Research Team Estimates

**Exhibit 23: Market Share of
Modern Distribution Retail
Brands in Portugal (2008)**



Source: TNS Euroteste

Retail Mainland

The Retail Mainland Business Unit is composed by 333 Pingo Doce supermarkets and by 9 Feira Nova hypermarkets in Continental Portugal.

Pingo Doce is the Portuguese leader in the supermarket sector. Contributing for this success, on one hand we can identify the successful change of its approach in the sector. Before 2002, Pingo Doce was catalogued as a premium supermarket, where consumers were able to find the finest products at high prices. But that year was the turning point in the strategy of the brand, and so it repositioned its strategy in the sector through the successful campaign “O Pingo Doce baixou os preços” (- “Pingo Doce lowered its prices”). Thus, the brand started to operate relying on low prices, good quality and constant innovation, flexibility and proximity to consumers and the reduction of the assortment of products in store (in 2003, it occurred a 22% reduction of the products in store, mainly the reduction of the non-food ones).

The repositioned strategy also included the establishment of Private brand products, which started to gain increasingly importance. Pingo Doce was one of the pioneer retailers operating in the supermarket sector in Portugal that massively introduced these products in their stores, as a new strategy to remain competitive against the major players in the market and to create barriers to new entrants.

2007 was marked as the year when the repositioned strategy brought more evidence in Pingo Doce results. Between 2002 and 2008, we can observe an evolution of the Private Brand sales in Pingo Doce stores from 10% to approximately 40% of the overall products available. In this year, Pingo Doce,

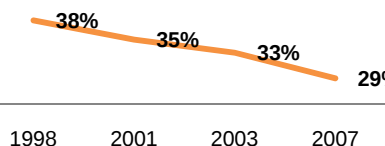
**40% of perishables
in the overall
products offered in
Pingo Doce stores**

**Exhibit 24 : Growth of Food Retail
in Portugal in 2008**

Food Products	61,0%
(...such as...)	
- Meat	66,0%
- Fish	21,8%
- Vegetables	20,8%
- Potatoes	18,6%

Source: Observatório dos Mercados
Agrícolas e das Importações Agro-
Alimentares

**Exhibit 25: Decline in the
Hypermarkets share in
Portugal per sales volume**



Source: AC Nielsen

**Feira Nova is more
and more focused on
food products**

**The company is
betting on its stronger
brand: the “new Pingo
Doce”**

together with Recheio, was the first worldwide retailing company certifying its activity of private brands development and accompaniment. Moreover, it was also during 2007 that Pingo Doce reinforced its position as one of the main drivers of Jerónimo Martins success (together with Biedronka), with an increased sales volume of 17.5%.

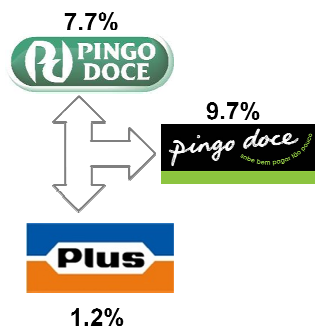
Nowadays, Pingo Doce operates based on its already established success focusing on volumes and on constructing a relation of loyalty with its customers. Another important fact is that Pingo Doce is very efficient on managing the strong presence of the perishables in their stores, which accounts for around 40% of the total products offered.

Feira Nova is ranked in the 3rd position in the hypermarket sector, which is led by Continente from Sonae Distribuição, another Portuguese-based company and followed by Jumbo hypermarkets from the Auchan Group and in 2007 it was elected by the Magazine Deco Pro-Teste the cheapest hypermarket operating in Portugal. However, in the last couple of years Feira Nova registered a performance slowdown due to the decline of the hypermarkets and the pressure of the non-food sector. But the reality is that the format generates significant cash flow amounts, and so the Group is not exactly looking for a buyer. Since this is a subject of major argument among some shareholders of the company, we thought it would be useful to approach this issue more deeply ahead in this report (Chapter: “Jerónimo Martins’ Extra Keys of Analysis”).

At the moment, Feira Nova is totally revamping 2 of its 9 hypermarkets (in Sintra and in Braga) with the intention of becoming more focused on food products. Nowadays, only 25% of in-store products in Feira Nova hypermarkets are non-food products, and even these ones are related to food, such as the case of kitchenware and meals’ furniture. So, besides Feira Nova is far from being the market leader in the hypermarket sector in Portugal, this approach can be seen as an attempt to differentiate the brand from all the other major competitors that are generally following different strategies, being increasingly focused on non-food products retail. Thus, we believe that this food focus strategy can be seen as an opportunity for the performance of the hypermarkets of the group. As we know, Jerónimo Martins is mainly catalogued as a food retail distributor, and so consumers are more aware that if they want to spend their incomes on food products, they will find more variety in Feira Nova stores than in the ones of its competitors.

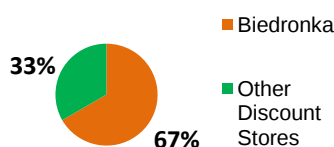
In 2008 Ex Plus stores and Ex Feira Nova Compacts were converted into Pingo Doce brand. This operation of the conversion of 37 Ex Feira Nova Compacts into Pingo Doce is very reasonable, since the company will definitely obtain advantages on betting on its stronger brand in Portugal (Pingo Doce). Consumers created an empathy with the brand, and so the company should explore this plus as much as possible, even more if Feira Nova brand is not performing so enthusiastically. The performance of the Portuguese Ex Plus stores acquired by

Exhibit 26: The market share effect of the integration of Ex Plus stores into Pingo Doce in 2008



Source: TNS Worldpanel

Exhibit 27: Share of Biedronka in the Discount Stores Format in Poland (2008)



Source: PMR Publications

The Biedronka success in Poland was not immediate...

Exhibit 29: The Biedronka Logistic Network after the repositioning investment



Source: AESE – Escola de Direcção de Negócios

the company was a positive surprise. As it can be seen in the figure on the left, the Pingo Doce performance with this acquisition did not increase only through the market share of Plus stores in Portugal, but it actually exceeded it. The main cause that justify this fact is the strong geographical complementarity between both chains in the Portuguese territory, with no presence of locations that suffered from cannibalization issues. Furthermore, we reinforce our confidence on the Pingo Doce brand. Before the operation, Plus stores detained an average ticket of 4-5€ per customer. The transformation of Plus stores into Pingo Doce in Portugal implied an almost immediate convergence of the Ex Plus stores average ticket to 10-12€, the average in Pingo Doce ones.

Biedronka

Biedronka is the Polish branch of Jerónimo Martins, and it currently refers to the most successful segment of the company. Nowadays it operates 1432 small and very close to consumers hard discount stores in Poland (with an average of 520 square meters per store). Biedronka is not only the leader of the hard discount segment in Poland (67% market share in the Polish hard discount format), but also the leader of the whole modern retail sector in that country. Carlos Saraiva, COO of Biedronka, sees “Strategic location and lack of competition in the implementation phase” as the main basis for the Biedronka’s success. This can be observed as the main retail units only entered in the Polish market at the same year or after the Biedronka entrance.

Exhibit 28: Discount chains in Poland by revenue (PLN bn)

Chain	Owner	Country of Origin	Launch Date
1. Biedronka	Jerónimo Martins	Portugal	1995
2. Lidl	Grupa Schwarz	Germany	2002
3. Netto	Dansk Supermarked	Denmark	1995
4. Leader Price	Casino Group	France	2000
5. S – S. Dyskontowe	KZRSS Spolem	Poland	1995

Source: PMR Publications

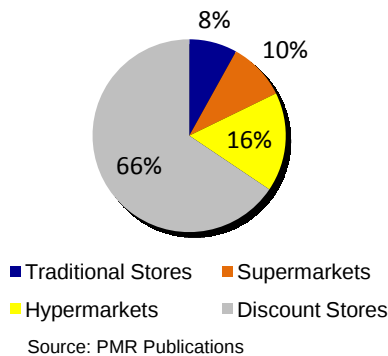
However, the Biedronka achievement did not occur right when Jerónimo Martins entered Poland. In 1995 Jerónimo Martins acquired a Cash & Carry Company in Poland and in the following years, the company detained a very unattractive image, with decentralized logistics and cost inefficiencies. The main difficulties the Group found in Poland were the language barriers, the challenges regarding the implementation of a new business model that carries a specific organizational culture, the difficulties of negotiation with the Polish labour syndicates, which in 1995 were not yet used to deal with foreign companies entering in the Polish market, and above all, the mistake of importing to Poland the managerial practises implemented in Portugal, that proved to be an ethnocentric approach instead of a polycentric one. And it was only in 1997 that Jerónimo Martins acquired Biedronka and between 1998 and 2002, the Group undertook several reforms in order to introduce the private labels in the Biedronka format, to centralize logistics and to revolutionize its image. In this period, Biedronka specifically adapted its approach

850 products in stores

95% from Polish suppliers

More than 60% from private brands

Exhibit 30: Share of specific distribution channels in private label sales in Poland (2007)

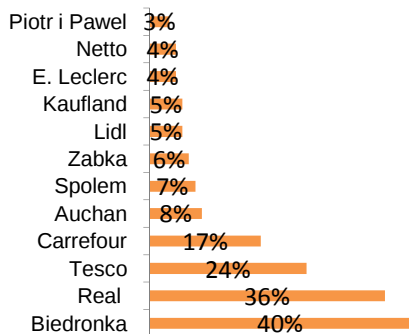


Biedronka KSFs

- **Convenience format with low prices**
- **Adaptation to Polishes**
- **Investment in advertisement**
- **High weight of food products**

... Main threat against its competitors: global scale issues

Exhibit 31: What is the shop you visited most frequently?



Source: PMR Research, based on answers provided by 321 respondents in September 2009

to meet Polish customers' needs and preferences. The company's incredible flexibility to adjust the business model was crucial to attain Biedronka the success. Nowadays, in Biedronka stores 95% of the 850 products offered are from Polish suppliers and more than 60% of the products are from Biedronka private brands. So, most of the products available in Biedronka stores retain their names in Polish, as its instructions/ legends/ information. This bet was crucial for the triumph of the brand, and despite Biedronka does not intend to hide its Portuguese origins, Polish consumers are satisfied on buying at Biedronka because they are actually contributing for the wealth of their own country. This is particularly important because Poland was for many years a "closed economy" that was very reluctant to be opened to international operations, and so Poles feel Biedronka is part of their country. This is one of the major Key Success Factors of Biedronka, and it distinguishes this brand from its main competitors, Lidl, Aldi and Tesco, which did not fully adapt its operations to the specific Polish practices.

Exploring with more detail the analysis between Biedronka and its major competitors in Poland, some aspects must be clarified. The success of Biedronka's competitors in Poland is not so evident. Firstly, these competitors simply replicated their operations in other countries to Poland, and Poles did not adapt so easily to this approach because they did not feel themselves so identified with such brand. Furthermore, Biedronka invests more in advertisement and in the store environment. In fact, contrary to what happens with its main competitors, Biedronka stores are intended to create an atmosphere in which the same products are stored in different colours packages. And finally, in Biedronka stores consumers will find a higher percentage of food products in the 850 products offered, and due to its proximity to clients, consumers are more likely to move to Biedronka to satisfy its everyday needs. On the other hand, these competitors also have some advantages against Biedronka. Regarding this issue, the most important one that we identified is the fact that these competitors produce and operate at a global level, and so they can easily achieve lower prices and a higher bargaining power with the suppliers, due to the more significant quantity discounts they can achieve. Furthermore, since they have operations in many different locations, if one product does not succeed in Poland, then it can be transported to any other country where these retail companies operate. This phenomenon is particularly important in non-food products, since the natural characteristics of food products bring them more difficulties of transportation and adaptation. So, besides the problem that scale disadvantages poses to Biedronka, this is not so evident since Biedronka is becoming more and more focused on food products.

One other Key Success Factor that sustained Biedronka achievement relates with the consumers' perception that cheap does not necessarily imply bad quality. As we know, hard discount formats are gaining importance all around, and Poland is definitely not an exception confidently adhering to these formats,

because they believe they are providing good value for their money and then they can spend it in other activities that are more attractive for them.

As a way to conclude this section, we believe that the low prices, the aggressive expansion plan and its convenience format that does not imply the need of a big city behind to justify the investment, together with the Key Success Factors that were already referred, bring us confidence to believe Biedronka has potential to continue to exceptionally maintain its leader position in the Polish market, in the future.

Recheio

Recheio operates 35 stores in Continental Portugal and it is since 2003 the Portuguese market leader in the Cash & Carry business, with a 33% market share in Portugal in this format. It was in 1972 that Recheio started to operate in the C&C business in Portugal, through a strategy in which small retailers started to sell their stores to Recheio. The acquisitions of *Arminho*, *Grupo Inovação*, *Jasil* and *Coimbralimentar* stores in Portugal, between 1990 and 1997, illustrate this phenomenon.

The Cash and Carry format is a very competitive business, since as consumers are buying products to use them for their own businesses and seek for profits from that, they are usually more aware of price changes than customers that consume products for their own satisfaction. The other main competitor of Recheio in Portugal is Makro, which belongs to the Metro Group.

Recheio stores are mainly sustained by the HoReCa channel and by traditional retailers (that together account for almost 90% of the total sales). However, in the last years Recheio operations established a strategy of being more focused on targeting the HoReCa channel, through the development of the private brand MasterChef. In the Portuguese retail market, traditional retailers are progressively declining since the whole channel that includes Hotels, Restaurants and Caterings, especially the chains that operates at a worldwide level, are notably increasing their presence in Portugal.

In the last couple of years, Recheio developed a new format of smaller Cash & Carry stores, which aimed to be located very close to the locations where the HoReCa channels operate. Despite the fact that the current world crisis does not allow to totally canalize the benefits that resulted from this new target strategy, because many HoReCa chains are facing adversities in their everyday operations, we are confident that as the World recovers, this investment will be compensated.

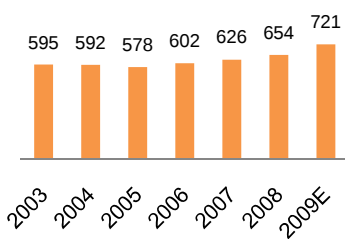
Madeira

The Madeira branch refers to 14 Pingo Doce and 1 Recheio stores that are treated separately from the Retail Mainland, mainly due to tax issues and geographical constraints. On the second topic, it is understandable that due to the fact that Madeira is an archipelago, there are more costs and challenges related to transportation and logistics, and so it would not make sense to analyze these

35 Recheio Stores

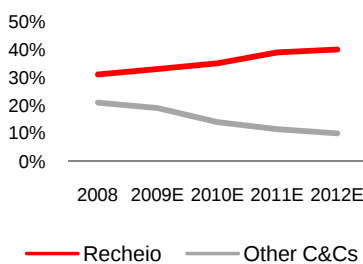
Market leader in the Cash & Carry business

Exhibit 32: Recheio Sales Historic Evolution (€bn)



Source: Company Data and Nova Research Team Estimates

Exhibit 33: Estimations for Market Shares of C&Cs in Portugal



Source: Company Data

Increasing importance of the HoReCa channel

It operates 14 Pingo Doce and 1 Recheio in Madeira archipelago

Very matured

stores as if they do not have these limitations when compared with the ones located in the retail mainland.

Madeira is a very saturated market with no significant growth opportunities for expansion in the future. In what concerns our assumption for the expansion plans in Madeira, we simply assume that there is no more room for growth in this region, so we considered the company is not interested in opening other stores in the future.

Industry**JV between Unilever and Jerónimo Martins**

The Industry unit results from a Joint Venture between Jerónimo Martins and Unilever, 45% detained by the company and the rest by Unilever. This Joint Venture manufactures and represents brands such as Vaqueiro, Knorr, Planta, Gallo, Olá and Dove in Portugal and it was always regarded as a win/ win association for both sides, as the company could benefit from the representation of brands with such a global reputation, while Unilever could benefit from the association with a valuable Portuguese partner that has a much advanced attentiveness to the Portuguese retail market.

High EBITDA margins (16%)

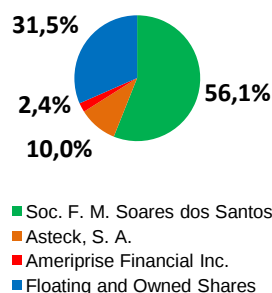
In terms of EBITDA margins, this is the most profitable business unit of the group. This partnership operates products of premium brands that have already achieved global consumers' loyalty and so, the margins charged with these products can achieve higher levels than the ones charged in the other business units of the company. We justify these margins because customers will agree to pay a premium price and to guarantee they will attain a certain quality standard that they are already familiar with (average EBITDA margins of 16%).

Services**Services: representation and distribution of international brands**

The Services business unit refers to the exclusive representation and distribution of international brands. It includes the Jerónimo Martins Distribuição de Produtos de Consumo (JMD), the Jerónimo Martins Restauração e Serviços and the Hussel representation. In general, we expect relatively stable trends for the Service's business unit in what refers to all of our major assumptions.

• Shareholder Structure

Exhibit 34:
Shareholder Structure



Jerónimo Martins is 56.1% owned by Sociedade Francisco Manuel dos Santos. So, Soares dos Santos family controls the company. Other major shareholders include the Asteck, S.A. (10%) and the Ameriprise Financial Inc. (2.4%). Furthermore, the company detains a considerable amount of owned shares floating (more than 30%). Regarding the different business units in which the company operates, a broaden structure description is also demanded.

In the JMR (Jerónimo Martins Retail, which includes the Retail Mainland unit), the company owns a majority stake of 51%. The others 49% are detained by the Dutch retail giant Ahold. Regarding this issue, Ahold has already expressed its intention to sell this participation in Portugal, although there is no agreement until the due date

Source: Company Data

Ahold owns 49% of the Retail Mainland unit

Lidosol and J. G. Camacho own 24.5% of the Madeira unit

Unilever owns 55% of the Industry unit

of this report. However, and as we consider this fact as a point of significant speculation, we thought it will be useful to provide a deeper analysis around this. Thus, this discussion can be found in this report later on.

The Madeira business unit is 75.5% owned by the company, being the correspondent 24.5% detained by Lidosol and J.G. Camacho.

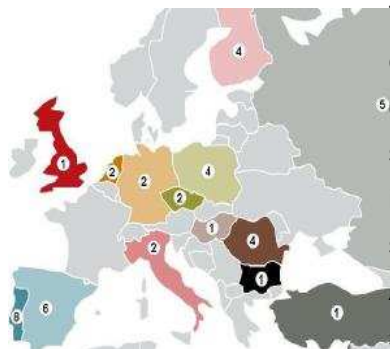
The industry business unit results from a Joint Venture between Unilever and Jerónimo Martins, with participations of 55% and 45% respectively and the Hussel branch that belongs to the Services unit is only 51% owned by the company.

The remaining branches of the Services unit, Recheio, as well as Biedronka, are 100% owned by Jerónimo Martins.

The Retail Sector

Food retail strongly impacts inflation levels

Exhibit 35: # Transactions in the European Retail Market (2007-2008)



Source: Jones Lang LaSalle

December is the month that registers higher sales volume

The general Retail Sector includes hypermarkets, supermarkets, self-services, grocery stores, specialized products stores and finally the traditional market. More specifically, the food retail tends to highly impact the inflation levels of an economy, mainly because there is a significant percentage of the CPI that is composed by food products.

Traditionally, the retail sector benefit from huge liquidity, since it receives much earlier from consumers than it pays to suppliers. Given that the sector generally retains high cash inflows, we can understand why the sector is characterized by such relevant investment opportunities of aggressive expansion processes, internationalizations, M&A operations and diversification to other areas as petrol stations.

Another important trend common on the whole retail sector is that it registers higher sales volumes in December, since it refers to the Christmas time and it is also when people receive an additional remuneration. Following December, we will find November and August. The opposite tendency registers January and February as the months with lower volumes of sales, with an emphasis to the substitution effect

of branded products to private label ones.

It is also important to clarify that in the retail sector it is generally more complex to replicate business models to different countries, contrary to what happens in the industry sector. The most pertinent example of this is the group's failure on entering Poland by replicating Pingo Doce model there. Furthermore, other examples include the not so successful operations of Lidl or Tesco in Poland, which simply replicate their models there, or in Portugal, the failure of the foreign retail giants Carrefour and Tengelmann, that sold their operations for Portuguese Retailers, the ones which are more conscious of the tendencies in the sector.

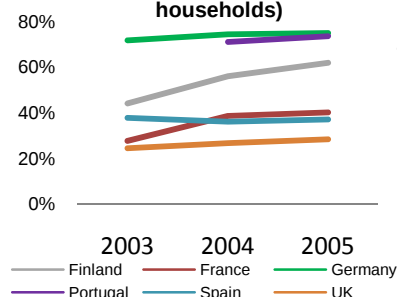
Finally, when we analyze the weight between the food and the non food retail in different countries, we can conclude that Portugal is above the average proportion of the food retail in the Western European countries. This detail is positive for Jerónimo Martins side, since it is increasingly focused exactly on food retail. We can understand this given that, in Portugal the income level per capita is low, and food

Exhibit 36: Food & Non Food Market - 2008

	Net Retail Sales (mn €)	Food Retail	Non Food Retail
PT	36,424	42%	58%
SP	203,303	42%	58%
FR	370,452	59%	41%
GE	343,12	40%	60%
GR	56,862	42%	58%
BE	54,854	40%	60%
PL	111,816	50%	50%
RU	313,522	41%	59%

Source: INE & Planet Retail

Exhibit 37: Shoppers Penetration - Lidl (In % of country's households)



Source: Company Data

• The Portuguese Retail Market

refers to the most basic needs that people must satisfy no matter what. In addition, we can also verify that the gastronomy is very important in the Portuguese culture. The country that better illustrates the importance of a gastronomic culture is France, in which food retail accounted for 59% of the total retail in 2008.

The main tendencies that are nowadays identified in the overall retail sector are the growing importance of the convenient store formats and of the discount ones, the awareness of food safety policies, the development of private brands, the local sourcing and finally the increase of the uncertainty of the macroeconomic environments.

Exhibit 38: Market Shares - Portuguese Retail

Group	2007	2008
Sonae	16,6%	19,2%
Jerónimo Martins	13,7%	15,2%
Intermarché	9,1%	9,1%
Lidl	7,4%	7,7%
Auchan	7,4%	7,4%
Carrefour	8,8%	5,8%
E. Leclerc	2,0%	2,1%
Corte Inglés	0,3%	0,3%
Aldi	0,2%	0,2%
Sub Total	65,5%	67,0%
Others	34,5%	33,0%
Total	100,0%	100,0%

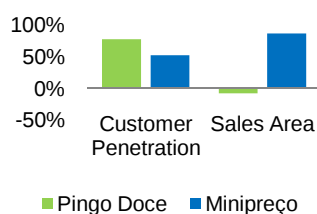
Source: Company Data

The Portuguese retail sector is a very saturated market close to maturity, in which the traditional retail only accounts for 20% of the market, with the other 80% deriving from the modern distribution retail. The Retail Sector in Portugal accounts for around 20% of the Portuguese GDP, which corresponds to 17% of the Portuguese available income⁹.

The Portuguese Retail Sector detains a respectful number of important players. Jerónimo Martins main competitor in Portugal is Sonae Distribuição, other Portuguese-based company. However, Sonae is much more focused on both the hypermarket and the non-food specialized retail stores, while Jerónimo Martins is mainly focused on the food supermarket sector. Auchan, Lidl, Minipreço and Mosqueteiros Group are the other main competitors in the Portuguese market.

An important tendency that we observe nowadays in the Portuguese Retail Sector is the increasing importance not only of the supermarkets but also and more recently, of the discount formats. The market share of the discounts formats already accounts for more than 20% of the total retail. Lidl is the main player in this format operating here in Portugal, with a market share of almost 10%, but Minipreço is also winning its place in the market. After the re-pricing strategy of Pingo Doce over this decade that was already referred, Minipreço actually became the major competitor of Pingo Doce, not only in terms of prices and stores dimension, but also in terms of the presence of private brand products in the overall products available in store. However, as we should observe in the figure on the left, the performance of Pingo Doce is also being more satisfactory than the Minipreço one, not only in terms of customer penetration but also in terms of sales area.

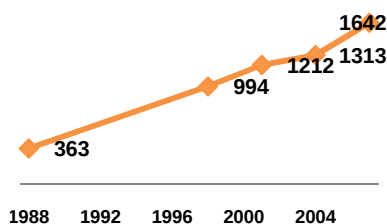
Exhibit 39: Pingo Doce VS Minipreço Performance



Source: Company Data

⁹ Data provided in the presentation of Dra. Rita Sousa Coutinho from Jerónimo Martins – “The Portuguese Food Retail Sector”, in October of 2009.

Exhibit 40: Supermarkets evolution (# stores) in Portugal



Source: AC Nielsen

Exhibit 41: Weight of Private Label per Sales Volume

	2004	2007
UK	38,80%	39,30%
Germany	31,10%	30,80%
France	23,50%	25,20%
Spain	22,70%	24,90%
Portugal	17,20%	21,80%
Poland	4,40%	11,90%

Source: Private Label Manufacturers Association

Pingo Doce: Opportunity for consumers in tough macroeconomic conditions

Polish Retail Market: high growth potential

2008 was marked by the consolidation of the sector due to the exit of two international competitors and the sale of their operations for two Portuguese-based players. On one hand, Plus stores were sold to Jerónimo Martins, and these supermarkets started operating under Pingo Doce brand and on the other hand, Carrefour hypermarkets were sold to Sonae and were converted into Continente. As we notice that the presence of supermarkets in the Portuguese retail is presenting a positive evolution in the last years, we reinforced our fundamentals that justify why Pingo Doce decided to aggressively bet on converting 69 Ex Plus Portuguese stores into Pingo Doce ones.

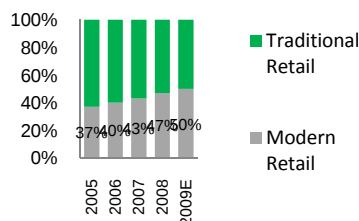
One other important trend that is easily observed in the Portuguese market is the growing presence of the private brand products. This fact approximates even more the market in Portugal to the most developed countries, where the trend is more evident. With the private brand products, retailers have a higher bargaining power to negotiate with the producers. On the consumers' side, it is also generally agreed that they will have access to the same quality products at lower prices. Moreover, it usually happens that retailers offer products to the consumers that were produced in the same factory as well known brand products, but are commercialized under the private brand label. In Portugal, recognized brands like Vaqueiro, Renova and Gallo are the ones that produce the Pingo Doce brand margarine, toilet paper and olive oil respectively. However, it is natural for the customers to choose between the brands they are used to and the private brand, the price must be a differentiation factor, and so the margins of private brand products must be lower and they will depend on the strength of the industry against its competitors. Nevertheless, there are also some limitations associated with the mass introduction of the private brand products such as the decreasing power of negotiation with the other brands, since the stores will have lower volumes of these products, and the lack of variety of different brands for the same product, which sometimes can restrain customers' choices.

The year of 2008 was also the year when the crisis was extended to all over the economic sectors, and the performance of Jerónimo Martins during 2008 and even in the first nine months of 2009 reinforced its reputation in the market as a solid company that can be perfectly adapted to the most adverse and unexpected macroeconomic conditions. The consciousness of the good value for money in the formats operated by the group was actually seen by the consumers as an opportunity to save their incomes and to continue satisfying their basic needs.

• The Polish Retail Market

The Polish Retail Sector is positioned in a previous stage on the traditional evolution of the Retail Sector when compared with Portugal, and thus it still represents a high potential of growth. In this market, the traditional retail still accounts for 50% of the total retail market, with the rest of the market shares of the modern retail being very fragmented. It is expected of the retail sector to achieve the levels of the

Exhibit 42:
Modern Retail/ Traditional
Retail Weights in Poland



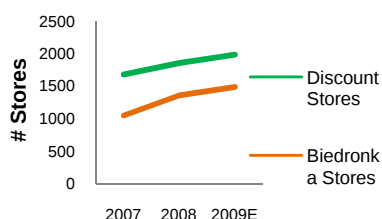
Source: PMR Research

Exhibit 43: Market
Shares of the 20
Largest Retailers in
Poland

Year	Share
2006	30%
2007	35%
2008	41%

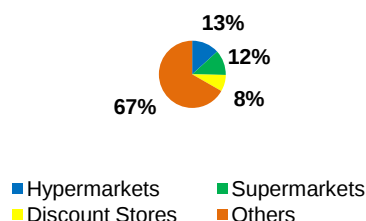
Source: PMR Research

Exhibit 44: Increasing
Importance of Discount
Formats in Poland



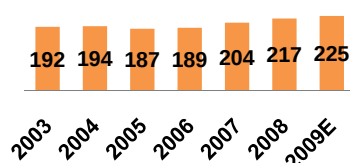
Source: Company Data

Exhibit 45: Share of
store types in grocery
retail in Poland (2008)



Source: PMR Publications

Exhibit 46: Value (in
PLN bn) of the grocery
market in Poland



Source: PMR Research

Portuguese one, between Traditional Retail/ Modern Retail weights within 5 to 10 years. The major tendencies that are assisted in the Polish retail market are the Polishes increasing acceptance of discount stores at

the expense of the hypermarket segment and the continuing exit of the traditional stores in the market. It is important to verify that both tendencies are highly beneficial for Biedronka.

Biedronka, a hard discount business, is perfectly adapted to the Polish consumers profile, due to the characteristics of the Polish people, which value good quality and low prices. Thus, by summing up the facts that the retail sector

is far from being saturated, that Biedronka retains the first mover advantage in this market and that Polishes are very receptive to hard discount businesses, we came to the conclusion that Biedronka still has a high potential of growth in Poland. Currently Biedronka is the market leader in the Polish discount segment, with more than 65% of the total 8% market share that belongs to the hard discount segment. Therefore, Biedronka assists to 2.2 million customers per day in its stores.

The group was always very accurate on understanding that the potential of the remaining growth can only be taken in a very phased mode. This occurs not due to limitations on the Biedronka or on the customer sides, but due to the restrictions' capacity of the suppliers. The partnership relations that Biedronka celebrates with its suppliers implies that they must be aware and have time to be prepared for the expansion plans Biedronka is foreseeing for the following years.

Jerónimo Martins is also exploring the idea of becoming producer of some of the products it sells at Biedronka. We agree with this strategy, since it will avoid some restrictions in the suppliers' capacity side. Due to the high number of stores it detains in Poland, it is very difficult or almost impossible to find traditional suppliers who can serve all Biedronka stores. And so, the group's negotiations with 5 or more suppliers to produce the same good for Biedronka stores poses a problem for the reputation of the brand, since customers are used to create an empathy to a certain product and then they visit another Biedronka store and this product is simply not the same. Moreover, it also injures Biedronka side since the lower scale suppliers are associated with inferior quantity discounts and higher transportation costs. Once again, this strategy can be seen as a differentiation scheme of the company against its competitors, which on understanding that Biedronka' model is very successful in Poland, are also approaching their operations to the small and hard discount format of Biedronka. Tesco is a retailer example of a company that is approaching its operations in Poland to the discount format. In response to that, Biedronka launched a marketing campaign clearly aimed at counteracting Tesco's strategy, claiming that "One thing is to be Biedronka and another is to act like Biedronka".

In the less developed retail markets it is also typical to recognize the predominance of stores which land actually belongs to the retailers. This is highly observed in Poland and more specifically in the Biedronka's case, since nowadays 90% of the stores land belongs to Biedronka. In the more developed markets, the weights

In 90% of Biedronka stores, the land is not leased

between own land and leased land generally equals 50% for each side. In the medium term, we expect that available lands to lease for Biedronka stores start to become more frequent. It is important to note that, the investment for a new store in which the land is leased or acquired is different, and so we took this issue into consideration in our CapEx plans for the future, and so we expect this phenomenon to be beneficial for the company due to CapEx reductions.

• Comparables

Impossible to find perfect peers for Jerónimo Martins

After analyzing the differences between the Portuguese and the Polish retail markets, it is the moment to compare Jerónimo Martins with its peers. However, finding the company's appropriate peers was not a possible task. The first problem that we faced was that there is no other food retail company that only operates in Portugal and in Poland. So, we decided to divide the most important European retail companies into two groups, the ones that are from the Western Europe, that are more adapted to the reality in the Portuguese retail market, and the ones that mainly actuate in the Central and Eastern Europe, that generally present a growth potential closer to the one of the Polish retail market. The next problem that we found is that most of the companies which operations could be more suitably compared with this company are not listed ones. Companies like the Germans Lidl or Aldi are not listed, and so we are not able to find most of the information in the table bellow related to them. The reason why we included so many peers in this analysis is as none of these companies can be perfectly compared to Jerónimo Martins, then it will be better to analyze many of them as a way to avoid the convergence of our comparison to some of them.

European Retail Companies divided into Western Europeans (Portugal) and Central and Eastern Europeans (Poland)

The main differences that we can find between the average of the Western and the Central and Eastern Groups of companies are the facts that the first group refers to economies staged in much developed phases than the other group and due to this high purchasing power in the Western European countries, the EBITDA margins are higher in them. Moreover, the betas are closer to 1 when we analyze the Western Group (the formats in the West are more aligned with the markets, since operations in matured markets are less volatile than in the other group that majorly refer to emerging countries), and finally the Price per Earnings, that are usually higher in the Central and Eastern companies, reflecting its higher opportunities of growth.

Jerónimo Martins is overvalued when compared with its peers

As the value of Jerónimo Martins operations are roughly 50/50% divided between Portuguese and Polish operations, we should compare the company with both European retailers groups. Thus, we concluded that Jerónimo Martins is overvalued when compared with its peers. This is justifiable since it is exposed to a saturated market (Portugal) and to the growth potential of the Polish one, and at the same time it is able to catch the main benefits on both markets. This is observable in the company's levels of beta (higher than the overall European average), and protects the company's sustainability in the long run (since it is already familiarized on how to deal with saturated and matured markets).

Exhibit 47: Food Retail Comparables in Europe

	Market Cap (€bn)	EV (€bn)	D/E	Sales (€mn)	EBITDA (€mn)	EV / Sales	EV / EBITDA	EBITDA mg	Beta	P / E
Jerónimo Martins	4.261	3.415	104%	6.894	473	0,50	7,22	6,86%	1,09	20,60
Carrefour (FR)	22.112	15.214	112%	86.967	5.161	0,17	2,95	5,93%	0,90	46,11
Casino (FR)	6.293	1.442	101%	28.704	1.952	0,05	0,74	6,80%	0,83	11,93
Ahold (NE)	10.550	4.527	105%	25.722	1.951	0,18	2,32	7,58%	1,25	11,04
Tesco (UK)	35.439	28.827	14%	54.355	4.428	0,53	6,51	8,15%	0,97	15,60
Morrison (UK)	7.814	7.140	58%	13.616	859	0,52	8,31	6,31%	1,01	13,36
Greggs (UK)	461	436	20%	659	407	0,66	1,07	61,78%	0,78	14,08
Sainsbury (UK)	6.444	4.866	45%	20.249	1.052	0,24	4,63	5,20%	1,09	15,96
Axfood (SW)	1.019	878	43%	2.913	99	0,30	8,86	3,40%	0,91	13,98
Colruyt (BL)	5.646	5.151	72%	6.310	1.547	0,82	3,33	24,52%	0,53	17,75
Western Europe AVG	10.004	7.189	67%	24.639	1.793	0,40	4,59	13,65%	0,94	18,04
BIM (TK)	2.385	20.248	8%	2.186	359	9,26	56,41	16,42%	0,62	25,24
Kesko (FIN)	2.322	1.696	34%	9.600	1.308	0,18	1,30	13,63%	0,89	46,56
Eurocash (PL)	466	477	35%	1.476	38	0,32	12,49	2,59%	0,92	20,49
Emperia (PL)	273	209	131%	1.488	27	0,14	7,69	1,83%	0,89	17,26
Eastern and Central Europe AVG	1.362	5.657	52%	3.687	433	2,48	19,47	9,00%	0,83	27,39
European Average	7.535	6.752	63%	18.653	1.404	0,99	8,84	12,00%	0,91	20,71

Source: Companies Data and Bloomberg

Jerónimo Martins' Extra Keys of Analysis

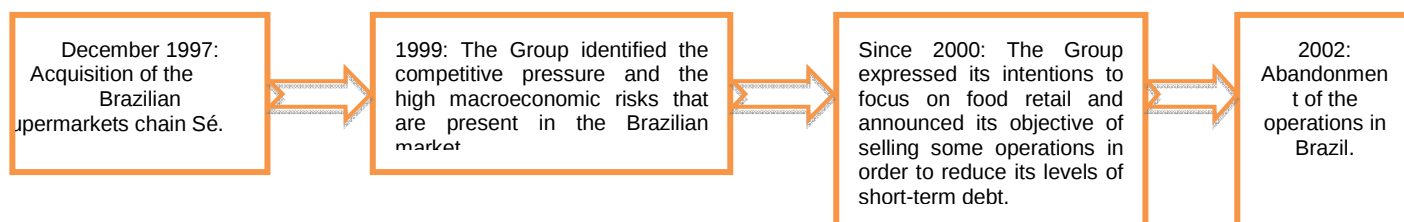
• Strong Management Team

We are very confident on Jerónimo Martins' management team that in our opinion is particularly evident since the Luís Palha da Silva election for the company's CEO in 2004.

Jerónimo Martins major successes are extensively studied on this report, and they are undoubtedly consequences from such a management team. However, we believe that the power of a team is also measurable by the way the company managed to overcome some failures. The on time abandonment of the operations in Brazil and the consciousness that the Group should focus its operations in what it does best – food retail – and in a small number of international locations at the same time, are for us enormous indicators of efficient management.

The company is very efficient in overcoming its failures

Exhibit 48: Jerónimo Martins phase-out in Brazil



The sale of the company's Brazilian operations is just one of the illustrations of the Jerónimo Martins fast response to the deviations to what they predicted for their businesses. The sale of the Lilywhites stores in England, the Jumbo hypermarkets in Poland and the Vidago, Melgaço & Pedras Salgadas operations in Portugal between 2001 and 2002 were other illustrations of the accomplishment of the company's objectives to reduce its debt levels and to focus in its most profitable business units. The final conclusion that we can address from this period of less enthusiastic operations for Jerónimo Martins is that the Group understood that its dimension does not allow it to aggressively explore more than one international

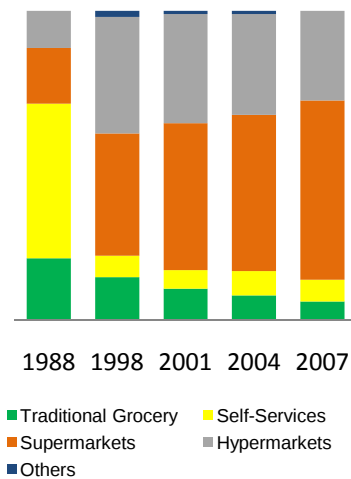
Key rule:
*international
 expansion focused
 in one single
 location at a time*

market. So, since then, we assisted to the group's sole expansion in Poland at the same time to the consolidation of the operations in its home country. Within 5 to 10 years, operations in Poland are about to stagnate, and aligned with the strategy defended by the company, it makes all the sense to start exploring the food retail sector in a new market with a strong potential of growth.

• The “Feira Nova Issue”

**Feira Nova: the
 weaker performance
 of the Group**

**Exhibit 49: Format Weight
 Evolution in Portugal
 (sales volume)**



Source: AC Nielsen (it assumes hypermarkets are all stores with more than 2500 sqm that sell mainly food products)

**Decline of the
 hypermarket sector:**

**... Market saturation
 ... High investment
 costs
 ... Pressure of the
 non-food specialized
 formats**

**The company is not
 focused on
 hypermarkets**

As we have already stated, the Feira Nova position in the Group is subjected to some controversy. The “not so satisfactory” performance of this brand, with negative LfL sales over the last year, comparing to the other brands is the cause. There are intervenients in the company who defend that Jerónimo Martins should sell Feira Nova and abandon the hypermarket sector, and there are others who support the idea of the strategic importance and the cash flow generation the brand provides for the group.

First of all, we should clarify that the decline of these brand is for a part justified by the general tendency of the decline of the hypermarket sector. This decline, by its turn, is mainly caused by three factors: the saturation of the market, the high investment costs and the pressure of the non-food specialized formats. In what concerns the first two factors, they are common to all players in the segment and besides the fact that high investment costs can also create barriers to the entrance of international hypermarket chains, the retailers that already achieved a comfortable share in the Portuguese market, are the ones with stronger potential of growth. But regarding the third factor, the other retailers did many efforts to overcome it and Feira Nova stayed apart from that. Ten years ago, the non-food specialized retail was not a reality. Thus, people moved to hypermarkets if they want to acquire not only food but also technology products, clothes, toys or furniture. Nowadays, the emergence of smaller and specialized stores of these formats spread the idea of hypermarkets as peripheral places to look for this kind of goods. Furthermore, the more strict legislation that defines that stores with more than 2000 sqm cannot be open on Sundays and holidays in the afternoon, was also overcome by the emergence of these smaller formats, which were able to be opened. Sonae Distribuição was very efficient on managing the hypermarkets decline by restructuring its hypermarket segment and by opening specialized and non-food stores in many segments. Sonae has also the advantage of having its hypermarkets established in the best locations because as it is also the owner of Sonae Sierra, it detains many shopping centres and then it has preference on having a hypermarket of its own. Thus, Jerónimo Martins was more injured by the hypermarket decline and the new legislation, because it is not focused on the hypermarket sector and it did not diversify to other specialized retail sectors than food.

Exhibit 50: Auchan # Stores in Portugal

Year	Hypers	Supers
2003	13	2
2004	14	2
2005	15	2
2006	15	2
2007	17	2
2008	19	7
2009E	22	9

Source: Auchan Group

Having these facts in mind and after analyzing the retail sector and the competition in Portugal, we still believe that it makes sense for Jerónimo Martins to maintain its Feira Nova branch. On one hand, we came to the conclusion that there is no natural buyer in the Portuguese market, neither any international player with motivations to enter such a saturated market under a brand in a fragile position. The most probable buyers would be either Continente from Sonae Group, or Jumbo from Auchan one. Sonae already acquired 12 Carrefour hypermarkets in the last year, and if it would have intentions to buy Feira Nova, it will definitely face barriers from the Portuguese Competition Authority and it would have to manage to overcome the cannibalization effect between Feira Nova and Continente that would probably arise. Auchan is not

also a feasible buyer because according to what we were informed, the group is intending to continue to expand in Portugal, but with a major focus in the smaller format of supermarkets, under the Pão de Açúcar brand, and furthermore it would also face some cannibalization issues. And on the other hand, Jerónimo Martins is not sourcing for money, and so it is not urgent for the group to sell these hypermarkets, also because it would face some difficulties after the sale. One of these problems refer to the huge cash flow generation that will lack for the Group in the case they would sell Feira Nova, cash that results from the natural dimension of the hypermarkets format – 15% of the Retail Mainland sales comes from the only 9 Feira Nova hypermarkets. The other main issue is the quantity discounts that the whole group detains due to the dimension of the hypermarkets. If this format would disappear, all the other units, mainly the supermarkets one, would be highly impacted.

So, the final conclusions from all this is that Feira Nova hypermarkets are not for sale, there are no significant advantages for the company to sell them and there are no predictable buyers to sustain the operation. However, the operations in the market sometimes are unexpected, and Jerónimo Martins is willing to analyze and study proposals to sell Feira Nova in case that they will show.

Exhibit 51: Possible Cannibalization Effects Feira Nova VS Jumbo VS Continente

FN	Jumbo	Continente
Barreiro	Setúbal Almada	Seixal Montijo
Telheiras		Telheiras Telheiras (Colombo)
Bela Vista		Pque das Nações
Odivelas	Amadora (Dolce Vita)	Loures Loureshopping
Sintra	Cascais	Amadora
Aveiro	Aveiro	Aveiro
Póvoa do Varzim	Matosinhos Maia	Matosinhos Maia
Sta Maria da Feira	V.N. Gaia	V.N. Gaia Gaia shopping
Braga		Braga

Source: Companies Data

Feira Nova should continue under Jerónimo Martins' operations

• The Ahold Stake in JMR

Ahold detains 49% of the Jerónimo Martins unit Retail Mainland. Ahold has a very passive position in Jerónimo Martins' management and it is generally not opposed to the group's strategic decisions. So, it is generally defended by Jerónimo Martins that the 49% is just a virtual number, since its real participation must correspond definitely to a smaller percentage. This is argued because the group is the one who is mainly responsible for the decisions that led to the added value of this unit over the last years.

On November 2006, Ahold presented a highly levered balance and as a way to reduce its debt levels, it expressed its intentions to sell its operations in the USA, in Poland, in Czech Republic and in Portugal. For Ahold, this participation in the Portuguese market is not making sense mainly because after exiting Spain, Portugal

The 49% Ahold detains in the Retail Mainland unit is general seen as a "virtual number"

For Ahold, Portugal is strategically isolated

became strategically isolated in terms of their focus. Currently, Ahold already abandoned all these operations except for the one in Portugal, although this participation barely valued 5% of this whole sales plan.

Since this period, many arguments are being debated regarding this topic. We consider that this operation can happen at any moment, as far as both companies agree on the actual value that corresponds to the Ahold stake. However, there are some concerns that gave us confidence in believing that at this moment there are not much intrinsic requests for this operation to occur.

For the Ahold side, its balance operations are already stabilized and debt was reduced. In this field, we can reinforce this view, if we refer the enthusiastic results that the group is presenting over the very last periods. So, Ahold intentions to sell the participation on Jerónimo Martins as a way to raise cash and reduce debt do not make much sense anymore. As far as Jerónimo Martins Retail Mainland continues to present very satisfactory results, the income that Ahold is getting with this participation, without dispensing many resources or major worries, should be worthy.

And on the other hand, as we know Jerónimo Martins is in a period of aggressive expansion in Poland, and so it is using its debt levels to finance the demanded CapEx levels it needs to meet its objectives of stores expansion. Thus, it is not a priority for the company at this moment to acquire the Ahold 49% stake in the Retail Mainland. Furthermore, as the company has the total control of the management of this unit, it will only benefit from this operation in the decrease of the minority interest that it has to distribute to Ahold.

• Inorganic Growth in Poland

In the most recent past, there were some rumours in the market that Biedronka is exploring inorganic growth opportunities to expand its activities in Poland. We considered it would be useful to clarify and fundament our opinion regarding this topic.

First of all, a possible operation that was referred is the Netto sale of its 150 stores in Poland to Biedronka. We express our disbelief on this issue, since when the group bought Plus operations in Poland, there were already some restrictions from the Polish Competitive Authority. In 193 Ex Plus acquired stores, Biedronka was forced to close 33 of them, and additionally to the investment on these 33 stores, it led to significant closure costs. So, if Biedronka would express its intention to sum to its portfolio additional 150 stores inorganically, it would definitely face significant barriers and restrictions from Polish Competitive Authorities, incurring in many legal and closure costs. Furthermore, we also consider that the operation will result in a high cannibalization effect between Biedronka and Netto stores (150 Netto stores are mainly located in places where 1432 Biedronka stores also has a strong presence). Likewise, observing the Biedronka inorganic expansion in the past, we can

**Exhibit 52:
Ahold Group (€mn) 3Q
Results**

	2006	2007	2008	2009
Net Sales	6247	6315	5689	6040
Operating Income	211	255	261	265
Net Income	210	214	195	238

Source: Ahold Group

The available CapEx should be canalized to invest in Poland and new locations

Polish Competitive Authority would raise restrictions

Significant legal and closure costs

Cannibalization issues

Exhibit 53: Major Tesco Operations in Poland

Date	Brand	Portfolio Acquired
1995	Julius Meinl	9 hypermarkets
1995	Savia	31 supermarkets
1997	Madek	Local small chain
1997	Minor	Local small chain
2002	G. Dohle	13 HIT hypermarkets
2006	Casino	220 convenience stores

Source: Tesco Group

understand that, except for some special causes, it generally prefers to acquire former family businesses that detain 3 or 4 traditional stores all across Poland. And to finalize this study, we proceeded to a market analysis of the Biedronka competitors and regarding the models that are more similar to Netto and Biedronka in Poland, Lidl, Aldi and Tesco, we concluded that Tesco would be the most probable buyer of the Netto operations. The likelihood of Lidl and Aldi did not seem to us so strong because they typically tend to prefer to grow organically and they prefer to build their infrastructures from nothing, in order to maintain cohesive a similar store organization and environment that they implement in each of their stores (a clear example of this is the Lidl characteristic of always building a car parking behind their stores).

- **Euro Adhesion in Poland**

According to the 2003 Treaty of Accession, all the European Union members should participate in the Economic and Monetary Union, which implies the adhesion to the Euro Zone. The First target of Poland adhesion to the single currency remounts to 2012, however since the Polish Constitution had to be adapted for this principle, these intentions were delayed.

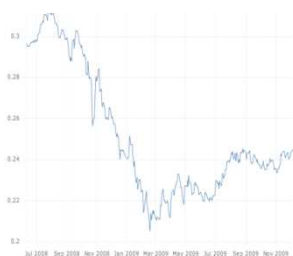
On November 2009, the Polish Finance Adjunct-Minister and European Single Currency Responsible Ludwik Kotecki announced that Poland would be able to fulfil the Maastricht criteria's and to join the Euro Zone in 2014, if the government debt would be reduced in 2012. According to the Polish Finance Minister Jacek Rostowski, it is not likely to Poland to reach even the comfortable 55% debt level in 2010. To fulfil this ambitious target, Poland is planning to embark on an €8.9bn privatization plan in the next 2 years, which includes the sale of power companies and the Warsaw Stock Exchange, among others. So, we are very confident Poland will meet its debt target.

Our investigations made us confident to believe that in 2014 there is a 70% probability of Poland to adopt the Euro. We also think that it is reasonable to consider a fixed exchange rate of 4.12 zlotys per each euro¹⁰, through a big-bang scenario. This scenario refers to the euro adoption without any transitional period. Since the Euro banknotes and coins enter use on the same day, the Euro officially becomes the country's new currency. We considered this conversion rate because at this moment it seems to be the more appropriate one. It is important to refer that the appropriate conversion rate is crucial, since it will not be beneficial for any intervenient to overvalue or undervalue this conversion rate, although in the short-run it can look like it. An undervalued conversion rate would lead to excessive inflation, while an overvalued one would bring lower competitiveness of this economy.

All the European Union members should participate in the EMU

¹⁰ We based this assumption in the reputational study "Estimating the Fundamental Equilibrium Exchange Rate of Central and Eastern European Countries, The EMU Enlargement Perspective", from Balázs Égert and Amina Lahrière-Revil, regarding Poland, Czech Republic, Hungary, Slovakia and Slovenia (Slovakia and Slovenia are already members of the Euro). Furthermore, we also broaden our knowledge of this subject supported by the book "The Eastern Enlargement of the Euro Zone", written by Marek Dabrowski and Jacek Rostowski (the actual Minister of Finance in Poland).

**Exhibit 54: UR VS PLN
(Zloty) Devaluation**



Source: European Central Bank

Based on the “Report on full membership of the Republic of Poland in the third stage of the Economic and Monetary Union” published by the National Bank of Poland at the beginning of 2009, there are many benefits that are supposed to overcome the risks of adhesion in this country. The interest rate reduction, which will become indexed to EURIBOR, historically lower than the polish WIBOR, the reduction of the exchange rate risk, of the transaction costs and of the macroeconomic instability and lack of credibility, can be seen as the more important advantages of the adoption of the Euro. The reduction of the exchange rate risk can be seen as a crucial benefit that Poland will obtain, since the zloty devaluation between the mid-2008 and the mid-2009 severely affected the country's attractiveness in international markets. Furthermore, Euro adhesion will also allow Poland to intensify its trade, to increase its investment levels, to be financially integrated in the euro area, and to allow better social conditions for Poles.

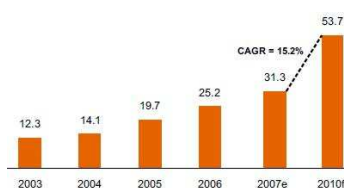
• Further Internationalization

As we already explained, the retail in Portugal is a matured market and Poland is expected to mature within the next 5 to 10 years time. Currently, Jerónimo Martins growth potential comes from Poland but this potential will only be relevant until the day the Polish retail market matures. When it happens, it is imperative for Jerónimo Martins to explore another market(s) in order to keep its expansion pace. The company is very conscious of this issue, and so it is exploring, analyzing and studying many hypotheses in the global retail market. In the period between the next 3 to 5 years, we securely expect that Jerónimo Martins is exploring another international location(s) to remain competitive in global markets. However, we understand that the past mistakes committed by the company by entering markets like the Brazilian and the English ones, created a much more prudent company that analyzes very carefully all the threats and risks on entering different markets, as internationalization failures have a big impact on such a small company when compared with its major competitors. Therefore, we think that this issue can be seen as a pro, because all the stakeholders will be very confident and trustful regarding the company's choices of internationalization.

Apart from different rumours that were spread into the market, we remain confident that the most feasible opportunity for Jerónimo Martins should be the exploitation of a discount model based on the Biedronka's main characteristics and adapted to the explicit country specificities in some other country located in the Eastern Europe. In our point of view, **Romania** is the most probable target, followed by others like Ukraine, Russia, Latvia or even Turkey. Retail models are very difficult to be replicated in different countries, and so it is a cohesive strategy to approach a country that is relatively similar to the ones where the company already operates. The geographical proximity and likeness of Poland with these countries in Central and Eastern Europe also explains these places exploitation.

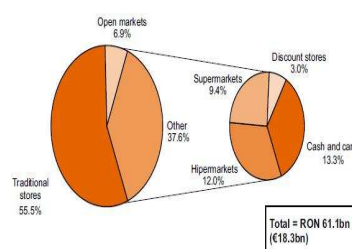
It is expected in the short-to-medium term Jerónimo Martins to explore other international market(s)

Exhibit 55: Turnover of Retail Trade in Romania (2003-2007, 2010). (€bn)



Source: PMR Publications

Exhibit 56: Grocery Retail in Romania by format - 2007



Source: PMR Publications

Exhibit 57: Top 10 cities targeted by International retailers (2007-2012)

#	City
1	Moscow
2	St. Petersburg
3	Prague
4	Bratislava
5	Ljubljana
6	Sofia
7	Bucharest
8	Budapest
9	Tallinn
10	Kiev

Source: PMR Publications

Ideally, we also foresee that Jerónimo Martins should join these markets inorganically. Despite the high multiples that characterize growth stocks and that are present in these markets, which would create more advantages for organic entrances, we believe that the Group should look for potential players that have intention to leave its target market and carefully understand their reasons for that and what the company can learn with the mistakes committed by the previous player. In our opinion, the perfect situation would be one similar to the one that occurred in Poland, in which Jerónimo Martins was able to acquire a chain with approximately 150 well located stores, that already detained a distribution centre and in which the company could be as better adapted as possible to the individual specifications of the new country.

Sensitivity Analysis

How the major assumptions impact the final price target...

Before the conclusion of this report, we understood it would be very useful to incorporate a sensitivity analysis, in where the analyst questions its assumptions and understands how these changes impact its final conclusion, the 2010 per share price target of Jerónimo Martins. As we change our target scenarios, we are able to deduce what are the main drivers that influence the final price target.

On one hand, the variables that are internal to the company's performance are the number of stores, the sales per sqm, the EBITDA mgs, the NWC and CapEx.

In the stores expansion analysis, we verify that a 50 stores difference in our initial assumptions only impacts the target price in 0.04€. The justification for this is that the company is expanding its number of stores at a very accurate speed. Regarding the sales per square meter evolution, we prove that this is definitely one of the variables that majorly affect our final price target. If we reach our maximum sales per square meter values in Biedronka and in the Retail Mainland units, we can reach a 7.77€ price target. In what refers to the EBITDA margins, the NWC days variation and the CapEx plans, we conclude that these variables do not have a huge impact in the company share price, and these figures are presented in the left-hand side of this page.

Exhibit 58:	
# Stores 2015	Price (€)
2581	6,98
2631	7,03
2681	7,07
2731	7,11
2781	7,15

Exhibit 59:		Biedronka		
JMR	2015 Sales per Sqm	7,18	7,68	8,18
	7,48	6,31	6,90	7,50
	7,98	7,18	7,07	7,41
	8,48	6,58	7,18	7,77

Exhibit 60:		Biedronka		
JMR	2015 EBITDA MG	6,0%	6,5%	7,0%
	6,5%	7,02	7,06	7,09
	7,0%	7,03	7,07	7,10
	7,5%	7,04	7,08	7,11

Exhibit 61:		-5	Target	+5
NWC (Days)				
Payables	6,9	7,07	7,24	
Receivables	7,29	7,07	6,85	
Inventories	7,28	7,07	6,86	

Exhibit 62:		Price (€)
CapEx 2015 (€mn)		
-10,00%		7,1
-5,00%		7,09
470.736		7,07
5,00%		7,05
10,00%		7,03

Source: Nova Equity Research Estimates

On the other hand, we also picked some variables that are exogenous to the company, since they do not depend of the choices taken by Jerónimo Martins (cost of debt, risk free rate, betas, TGR and Euro/Zloty currency evolution). We identified the risk free rate variations as the ones that mostly impact the company's target price. It is important to clarify that the currency variations would be also a natural source of significant price variation. However, since we defined a high likelihood of Poland to adhere to the Euro Zone in 2014, then we basically assumed a fixed exchange rate between the Euro and the Zloty, and so the currency impact on the target price will be significantly low.

Exhibit 63: Cost of Debt				Exhibit 64: Risk Free Rate				Exhibit 65: Levered Betas			
Portugal	6,80%	Poland		Portugal	5,60%	Poland		Portugal	1,03	Poland	
		6,95%	7,10%			5,80%	6,00%			1,08	1,13
	5,40%	7,16	7,11		4,00%	7,22	7,13		1,06	6,94	7,15
	5,60%	7,13	7,07		4,20%	7,16	7,07		1,11	7,20	7,07
	5,70%	7,11	7,05		4,40%	7,10	7,01		1,16	7,12	6,98

Portugal	Exhibit 66: Terminal Growth Rate			Exhibit 67: Forward Zloty/Euro Price (€)		
	1,50%	Poland		(-20% each year)		
		1,65%	1,80%	(-10% each year)		
	1,30%	6,99	7,05	Target	7,07	
	1,40%	7,02	7,07	(+10% each year)	7,04	
	1,50%	7,04	7,09	(+20% each year)	7,01	

Source: Nova Equity Research Estimates

Investment Conclusion

After our choice of focus on Jerónimo Martins analysis, we believe we are able to comfortably express our opinion regarding the company. Jerónimo Martins has potential to continue to outperform its peers in the global retail market.

Poland will continue to be the main driver of the company's growth in the short-to-medium term. The strong likelihood of Poland adhesion to the Euro single currency reinforced our confidence on the Polish operations.

In Portugal, an already consolidated market, the company will most probably continue to assure a very satisfactory performance.

Moreover, there are also strong possibilities of Jerónimo Martins expansion to further international markets in the near future. However, nothing is clear yet.

Finally, after the last year's turmoil in financial markets, in the last month the company reached its last 10-years maximums. So, at this moment there is not a strong appreciation potential for the company's share price. Our target price is €7.07, which implies a 1.29% growth potential compared with the current price negotiated in financial markets. **HOLD**.

Jerónimo Martins
Price Target FY
2010: € 7.07

Financial Statements

Exhibit 68: Income Statement (€ mn)

	2007	2008	2009E	2010E	2011E	2012E	2015E	2019E
Sales	5.350	6.894	7.183	9.343	10.342	11.321	13.883	17.139
Retail Mainland	2.026	2.416	2.612	2.868	3.020	3.170	3.600	4.121
Biedronka	2.295	3.398	3.707	5.642	6.436	7.268	9.384	12.068
Recheio	601	632	694	747	830	855	934	1.059
Madeira	118	124	127	133	137	141	154	170
Industry	236	245	247	262	268	276	300	337
Services	73	79	81	86	88	91	98	110
Consolidated Adjustments	-226	-249	-285	-395	-438	-479	-587	-725
EBITDA	368	473	538	656	722	770	903	1.140
EBITDA Margin	6,89%	6,86%	7,21%	7,03%	6,98%	6,80%	6,50%	6,65%
Amortization	127	158	168	210	233	255	312	386
EBIT	242	315	370	446	489	516	591	755
EBIT Margin	4,53%	4,57%	4,96%	4,78%	4,73%	4,55%	4,25%	4,40%
Net Financial Costs	-59	-85	-73	-82	-100	-126	-108	-91
Net Extraordinary Costs	0	-7	-1	0	0	0	0	0
EBT	183	222	297	365	390	390	482	664
Income Taxes	-42	-46	-64	-78	-83	-82	-105	-142
Net Profit After Taxes	140	176	233	286	306	307	378	523
Minority Interests	-10	-13	-25	-27	-26	-24	-43	-52
Net Profit Attributable	131	163	208	259	280	284	335	471

Source: Company Data and Nova Equity Research Estimates

Exhibit 69: Balance Sheet (€ mn)

	2007	2008	2009E	2010E	2011E	2012E	2015E	2019E
Tangible assets	1.671	1.875	2.017	2.248	2472	2.676	2860	2.837
Investment Properties	50	65	65	65	65	65	65	65
Intangible Assets	496	827	925	1.066	1212	1.356	1670	2.069
Available-for-sale financial investments	10	7	10	10	10	10	10	10
Other non-current Assets	140	131	131	132	131	132	131	132
Total non-current assets	2.367	2.905	3.148	3.520	3890	4.238	4736	5.112
Inventories	309	386	386	339	375	409	544	730
Taxes receivable	29	35	39	49	54	59	72	89
Trade debtors, accrued income and deferred costs	154	173	225	282	312	341	418	517
Cash and cash equivalents	269	227	48	48	48	48	48	48
Other current Assets	0	0	1	0	1	1	2	1
Total current assets	760	821	699	718	790	858	1084	1.385
Total Assets	3.127	3.727	3.847	4.238	4.680	5.097	5.820	6.498
Share capital	629	629	629	629	629	629	629	629
Retained earnings	-162	-54	50	129	118	91	217	395
Minority Interests	287	281	281	281	281	281	281	281
Other items	36	0	74	75	75	75	75	74
Total Shareholders' equity	864	931	1.035	1.115	1.104	1.077	1.203	1.380
Borrowings	675	739	798	1.182	1441	1.825	1569	1.312
Other non-current Liabilities	142	130	130	129	130	130	129	130
Total non-current liabilities	817	869	928	1.311	1571	1.955	1698	1.442
Trade creditors, accrued costs and deferred income	1.290	1.560	1.686	1.590	1736	1.686	2556	3.331
Borrowings	117	308	141	208	254	322	276	231
Other current Liabilities	39	59	57	15	15	57	87	114
Total current Liabilities	1.446	1.927	1.884	1.812	2005	2.065	2919	3.676
Total Shareholders' Equity and Liabilities	3.127	3.727	3.847	4.238	4.680	5.097	5.820	6.498

Source: Company Data and Nova Equity Research Estimates

Exhibit 70: Cash Flow Statement (€ mn)

	2007	2008	2009E	2010E	2011E	2012E	2015E	2019E
Operating Profit			370	446	489	516	591	755
Non Cash Costs (Amortizations)			168	210	233	255	312	386
Sub Total			538	656	722	770	903	1.141
Net Interest Expenses			-73	-82	-100	-126	-108	-91
Changes in NWC			69	-159	75	-76	144	127
Income Taxes			-64	-78	-83	-82	-105	-142
CF Operating	427	548	470	337	614	486	834	1.035
Net CapEx			-409	-582	-602	-603	-471	-455
Other Changes in Investments			-2	0	0	0	0	0
Minorities			-25	-27	-26	-24	-43	-52
Net Extraordinary Expenses			-1	0	0	0	0	0
CF Investments	-405	-821	-436	-609	-629	-627	-514	-506
Increase/ Decrease in Loans			-109	451	305	451	-29	-141
Other Changes in Financials			0	0	0	0	0	0
Cash Paid for Dividends			-104	-179	-291	-310	-292	-388
CF Financing	61	187	-213	272	14	141	-320	-529
Change in Cash	83	-86	-179	0	0	0	0	0
Initial Cash	176	269	227	48	48	48	48	48
Ending Cash	269	227	48	48	48	48	48	48

Source: Company Data and Nova Equity Research Estimates

Free Cash Flows Maps

Retail Mainland	2009E	2010E	2011E	2012E	2015E	2019E	Terminal Value
EBITDA	171.041	183.773	194.956	206.160	258.206	283.760	
Changes in NWC	-16.510	-46.791	-23.720	-22.296	-19.171	-15.735	
OCF	187.551	230.565	218.676	228.456	277.377	299.494	
CapEx	98.116	139.632	144.573	144.753	112.977	109.100	
CF after Investments	89.435	90.933	74.102	83.704	164.400	190.395	
Income Taxes	-18.241	-19.907	-19.282	-17.375	-31.392	-37.872	
FCF	71.194	71.026	54.820	66.329	133.008	152.523	154.658
DCF	71.194	66.205	47.630	53.718	87.238	75.518	1.213.387
Value	(18.57% of JMT)		1.941.094				

Biedronka	2009E	2010E	2011E	2012E	2015E	2019E	2023E	Terminal Value
EBITDA	272.410	383.125	430.875	465.734	538.526	738.683		
Changes in NWC	-23.428	-92.054	-50.551	-51.121	-49.980	-46.081		
OCF	295.838	475.179	481.425	516.855	588.506	784.763		
CapEx	286.173	407.259	421.672	422.195	329.515	318.207		
CF after Investments	9.665	67.920	59.753	94.659	258.991	466.556		
Income Taxes	-34.039	-45.967	-50.976	-52.994	-58.937	-86.756		
FCF	-24.373	21.953	8.777	41.666	200.053	379.801	408.695	5.777.600
DCF	-24.373	20.167	7.407	32.303	120.244	162.587	124.607	1.618.239
Value	(61.15% of JMT)		3.259.053					

Recheio	2009E	2010E	2011E	2012E	2015E	2019E	Terminal Value
EBITDA	40.739	42.050	47.214	48.631	53.587	60.748	
Changes in NWC	-4.387	-12.184	-6.517	-6.011	-4.973	-4.042	
OCF	45.127	54.235	53.731	54.641	58.560	64.790	
CapEx	10.220	14.545	15.060	15.078	11.768	11.365	
CF after Investments	34.906	39.690	38.671	39.563	46.791	53.426	
Income Taxes	-4.001	-4.393	-4.744	-4.173	-5.570	-7.292	
FCF	30.905	35.296	33.928	35.390	41.222	46.134	46.711
DCF	30.905	32.900	29.478	28.661	27.037	22.842	357.364
Value	(11.84% of JMT)		631.007				

Madeira	2009E	2010E	2011E	2012E	2015E	2019E	Terminal Value
EBITDA	5.578	5.734	5.906	5.948	6.352	6.815	
Changes in NWC	-800	-2.174	-1.078	-994	-823	-648	
OCF	6.378	7.908	6.984	6.942	7.175	7.463	
CapEx	2.044	2.909	3.012	3.016	2.354	2.273	
CF after Investments	4.334	4.999	3.972	3.927	4.821	5.190	
Income Taxes	-377	-422	-379	-273	-367	-464	
FCF	3.957	4.577	3.593	3.654	4.454	4.726	4.774
DCF	3.957	4.264	3.119	2.955	2.915	2.331	34.677
Value	(0.91% of JMT)		64.327				

Industry	2009E	2010E	2011E	2012E	2015E	2019E	Terminal Value
EBITDA	40.321	40.084	41.086	42.195	44.450	48.368	
Changes in NWC	-1.562	-4.274	-2.109	-1.939	-1.597	-1.287	
OCF	41.883	44.358	43.195	44.135	46.047	49.656	
CapEx	12.265	17.454	18.072	18.094	14.122	13.637	
CF after Investments	29.619	26.904	25.123	26.041	31.925	36.018	
Income Taxes	-7.506	-7.782	-7.716	-7.533	-8.283	-9.399	
FCF	22.112	19.122	17.408	18.508	23.642	26.619	26.992
DCF	22.112	17.824	15.124	14.989	15.506	13.180	211.766
Value	(6.83% of JMT)		363.835				

Services	2009E	2010E	2011E	2012E	2015E	2019E	Terminal Value
EBITDA	1.573	1.647	1.689	1.734	1.880	2.103	
Changes in NWC	-514	-1.405	-693	-638	-524	-420	
OCF	2.087	3.053	2.382	2.372	2.404	2.523	
CapEx	0	0	0	0	0	0	
CF after Investments	2.087	3.053	2.382	2.372	2.404	2.523	
Income Taxes	26	20	20	21	23	25	
FCF	2.113	3.073	2.402	2.393	2.427	2.548	2.584
DCF	2.113	2.864	2.087	1.938	1.592	1.262	20.272
Value	(0.71% of JMT)		37.619				

Source: Company Data and Nova Equity Research Estimates

Disclosures and Disclaimer

Research Recommendations

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

This report has been prepared by a Masters of Finance student following the Equity Research – Field Lab Work Project for exclusively academic purposes. Thus, the author is the sole responsible for the information and estimates contained herein and for the opinions expressed, which exclusively reflect his/her own personal judgement. All opinions and estimates are subject to change without notice. NOVA or its faculty accepts no responsibility whatsoever for the content of this report nor for any consequences of its use.

The information contained herein has been compiled by students from public sources believed to be reliable, but NOVA or the students make no representation that it is accurate or complete and accept no liability whatsoever for any direct or indirect loss resulting from the use of this report or its content.

The author hereby certifies that the views expressed in this report accurately reflect his/her personal opinion about the subject company and its securities. He/she has not received or been promised any direct or indirect compensation for expressing the opinions or recommendation included in this report.

The author of this report may have a position, or otherwise be interested, in transactions in securities which are directly or indirectly the subject of this report.

NOVA may have received compensation from the subject company during the last 12 months related to its fund raising program. Nevertheless, no compensation eventually received by NOVA is in any way related to or dependent on the opinions expressed in this report.

The School of Economics and Management at NOVA is a public university thus not dealing for, advising or otherwise offering any investment or intermediate services to market counterparties, private or intermediate customers.

This report may not be reproduced, distributed or published without the explicit previous consent of its author, unless when used by NOVA for academic purposes only. At any time, NOVA may decide to suspend this report reproduction or distribution without further notice.