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

Equity Research on Jerónimo Martins

Resilience and expansion:
An outlook of Jerónimo Martins prospects

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53030

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Abstract

This report is an equity research on Jerónimo Martins SGPS, a company listed on the Lisbon Stock Exchange which mainly operates in the food retail market and agrobusiness sector. It is split into geographic segments in Portugal, Colombia, and Poland where it dominates. Altogether the company has 230 years of existence and still pursuits expansion to foreign markets. The aim of this report is to access the company's financials as well as market specificities with the ultimate goal of performing a valuation analysis.

Keywords (up to four)

- Growth
- Expansion
- Valuation
- Value Creation

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This report is part of the Equity Research on Jerónimo Martins report (annexed), developed by Rui Manuel de Araújo Gomes and Tiago Rafael de Ribeiro Pimentel and should be read has an integral part of it.

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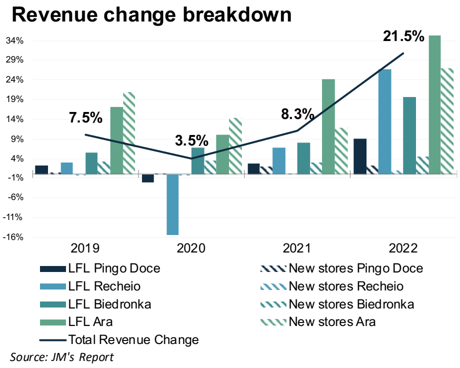
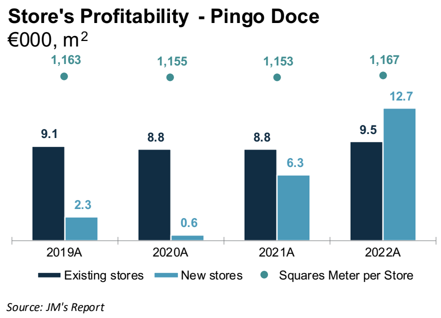


Figure 1 – Revenue change breakdown per business, existing and new stores, excluding FX losses



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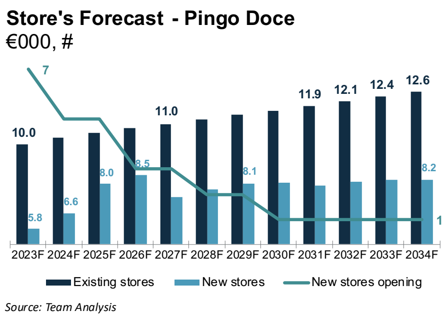

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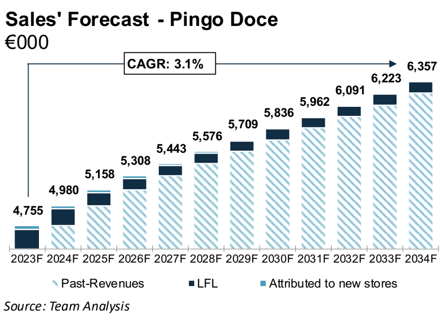


Figure 4 – Pingo Doce's Revenues Forecast Breakdown and Growth

VALUE DRIVERS AND FORECASTS

REVENUES DRIVERS AND FORECASTS

When reorganizing company's financial statements, we separated the core business into 5 main segments given JM's structure. That segregation considered the regions and the business specificities, being: Pingo Doce, Recheio, Biedronka and Ara. Due their minor importance and since it would not impact our valuation, we decided to consolidate a fifth segment into an "Other & Adjustments" category including the minor brands of JM. This last segment was forecasted based on the average growth of the main segments.

For the sales drivers for each segment, we considered the LFL[1] growth of existing stores, factoring in expected inflation, and new stores opening based on historical expansion plan, market sizes in each country, and future market conditions. For existing stores, we observed, excluding the impact of COVID in 2020, a consistent upward trend over the years. To forecast revenues from new stores, we considered market share, historical openings, inflation rates and ARPS.[2]

PINGO DOCE

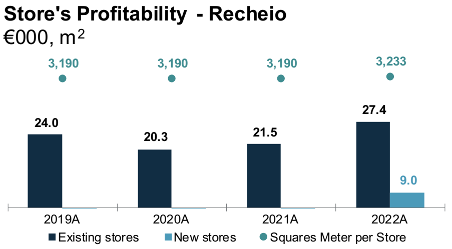
Pingo Doce, which reported an ARPS of existing stores of €9.5M in 2022, has shown a CAGR of 1.1% from 2019 to 2022. Notably, this growth is similar with the average inflation of 2.3% of the same period, expecting to reach an ARPS of €12.6M by 2034. Also, it is worth to mention that each Pingo Doce's store occupies, on average, 1,167 squares meters, which typically includes a restaurant area, kitchens, and takeaway sections. This results in larger stores with higher revenues, but less in number when compared with other segments.

As of September 2023, Pingo Doce has expanded to 479 stores, adding 7 more compared to the previous year and registered €3.5B in revenues, an increase of 8.8% from the same period of 2022 and 74% of our forecasted revenues for 2023, in line with the historical average of 73%.

In the context of the Portuguese food retail market, a very mature market, nearing saturation, with Mercadona increasing their presence and the acquisition of Minipreço by Auchan, it is unlikely that Pingo Doce will significantly increase its market share from its current 16%. As a result, we anticipate that the pace of new stores openings will gradually decrease reaching only 2 per year in 2028 and 1 per year by 2030. This represents a deceleration in revenues attributed to new stores from 2.2% in 2022 to stabilize at 0.1% in 2030.

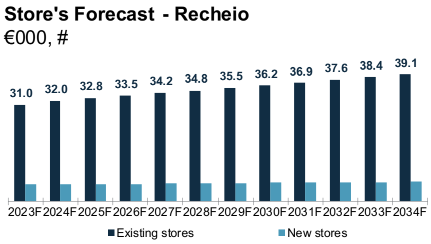
Overall, our forecast suggests a CAGR of 3.1% over the next decade, stabilizing

[1] LFL – Like-for-Like, revenues growth from existing stores
[2] ARPS – Average Revenue per-store



Source: JM's Report

Figure 5 – Average Revenue per existing and new stores and square meters per store



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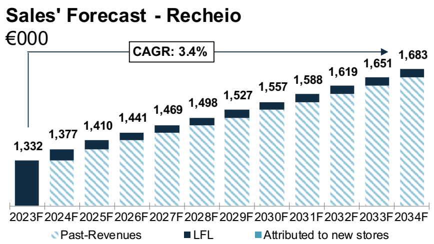

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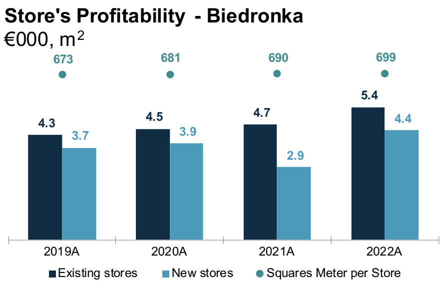

Source: JM's Report

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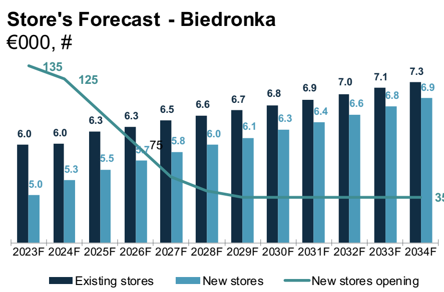


Source: Team Analysis

Figure 9 – Average Revenue per store forecast and stores opening forecast per year, excluding FX losses

at 2.2% growth per year by the end of our analysis period. This culminates in a 19% market share, an increase of 3pp.

RECHEIO

Recheio, with an ARPS of €27.4M in 2022, realized a CAGR of 3.3% from 2019 to 2022. As Pingo Doce, it is close to the average inflation for the same period, reinforcing our assumption of forecasting revenues from existing stores with inflation rates, expecting to reach €39.1M an ARPS by 2034.

This difference in revenue per store compared to Pingo Doce is attributed to Recheio being a Cash & Carry, primarily targeting businesses such as retailers and restaurants. These clients typically pursue larger and more frequent purchases, increasing the need of greater amounts of space per store, reaching, in 2022, to 3,233 squares meter per store.

Additionally, this also explains the link between the economy and sales and why Recheio will further benefit from the complete recovery from the pandemic. In contrast to Pingo Doce, Recheio experienced a significant decrease in revenue per store in 2020, amounting to €4M in ARPS, due the imposed closure of smaller businesses, these was the most affected segment among JM. This recovery allows the full functioning of HoReCa, which made us decide to incorporate an additional increase in revenue per store of 7.5% in 2023.

As of September 2023, this segment has reported a total revenue of €1B, making the first time it has reached this milestone in just 9 months. This represents an 18% increase compared to the same period in 2022, and 75% of the total revenues for our estimated value for 2023, in line with the historical average of 74%.

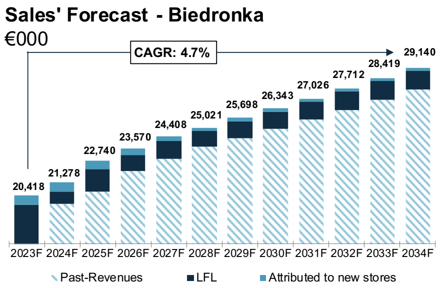
For Recheio, after opening one store in 2022, in Cascais, there is a low probability of opening additional stores during our forecast period. Consequently, we anticipate that this segment revenues will only increase from existing stores, with a CAGR of 3.4% over the next decade and a steady state of 2% per year by 2027.

BIEDRONKA

For Biedronka, it consolidated an ARPS of €5.4M and a CAGR of 5.9% from 2019 to 2022. This growth rate aligns with average inflation of 6.3% making it a reliable value driver for our forecasts, expecting to reach an ARPS of €7.3M by 2034.

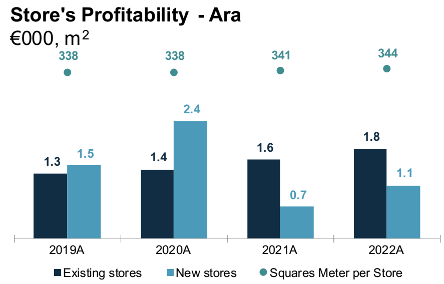
Unlike the previous segment, the focus is on proximity stores, which are smaller in size but more numerous. In 2022, each Biedronka's store occupied approximately 699 squares meter. This indicates that there will be room to open a higher number of stores. However, considering that JM already captures 29% of the market in Poland, we must acknowledge that a further increase may not be feasible.

Overall, we anticipate an initial increase of 100-135 stores per year during the early



Source: Team Analysis

Figure 10 – Biedronka's Revenues Forecast Breakdown and Growth



Source: JM's Report

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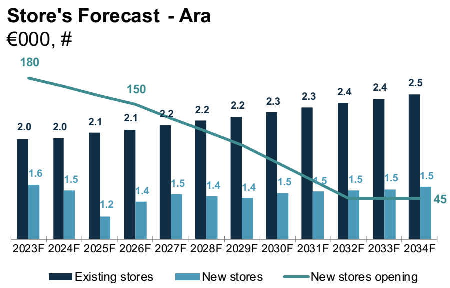
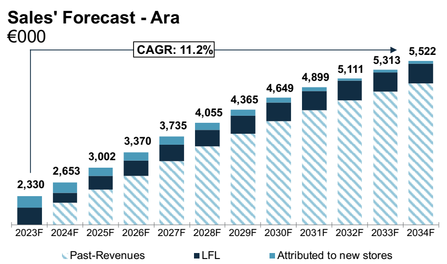


Source: Team Analysis

Figure 12 – Average Revenue per store forecast and stores opening forecast per year, excluding FX losses



Source: Team Analysis

Figure 13 – Ara's Revenues Forecast Breakdown and Growth

years of our forecast period, followed by a decreasing number of new store openings until it stabilizes at 35 stores by 2029. This is in line with the milestone of reaching a total of 3,473 stores, 78 more stores when comparing with December 2022 and aligned with our prediction to open 135 in 2023. This results in an overall decline in the growth attributed to new stores from 4.4% in 2022 to 0.9% in 2030.

As of September 2023, Biedronka has marked a substantial increase of 24.2% in their first 9 months revenues when compared to the same period in 2022. This represents 90% of the total revenues generated in 2022 and accounts for 77% of total revenues we anticipate for the full year of 2023.

In summary, we project a steady state of 2.5% in 2030 and a market share of 30% in 2028, a 2pp increase from 2022, with a CAGR of 4.7% over the next 10 years.

ARA

Ara stated an ARPS of €1.8M in 2022 and a CAGR of 8.4% from 2019 to 2022. For this growth, we must consider, not only the average inflation of 4.9%, but also the fact that, unlike the previous segments that are already dominant players in the market, Ara is still in the process of gaining market share and building closer relationships with its clients. However, starting from 2023, it becomes reasonable to rely on inflation as a main driver of growth, as it already accounts for a significant portion of the market, expecting to reach and ARPS of €2.5M by 2034.

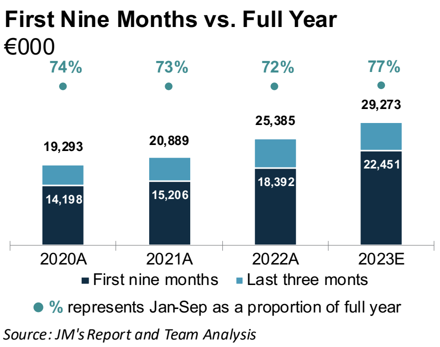
Similar to Biedronka, each Ara store occupies 344 squares meters, reflecting the nature of proximity stores with smaller footprints and smaller revenues per store. In turn, it suggests the potential to open a significant number of new stores, that we estimate to be at 135-180 stores per year, with a gradual decline over time. In September 2023, it operated within 1,241 stores, more 148 than in December 2022 aligned with our forecast to open 180 stores during the year of 2023.

As of September 2023, Ara has reported €1.8B in revenues for the first 9 months. This represents a remarkable 35.6% increase when compared to the same period in 2022 and constitutes 99% of the total revenues generated in 2022.

Overall, sustained by the growing population and the favourable economic prospects, we can securely assume a high growth for this segment. A CAGR of 11.2% over the next 10 years, and a market share of 8% in 2028, two times the 2022 values. Furthermore, Ara is expected to account for 13% of JM's total Sales within the next decade, aligned with the company's expectations. According to our projections, it is anticipated that Ara will achieve €5.1B in revenues by 2032.

TOTAL SALES

During the first 9 months of 2023, JM reported a total Net Sales and Services of €22.5B, a 22% increase compared to the same period of 2022 and accounting for 88% of total revenues of 2022. In our forecast, it represents 77% of total expected



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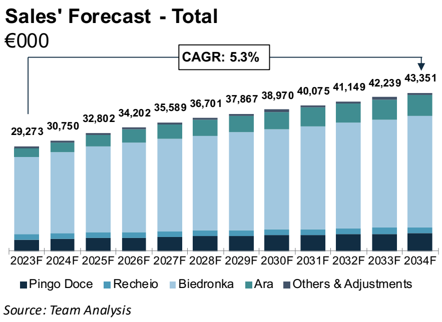

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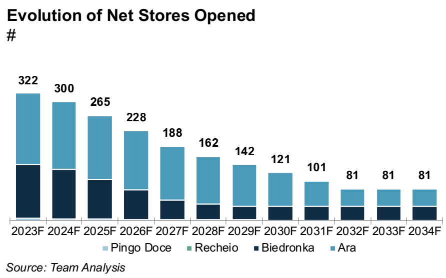

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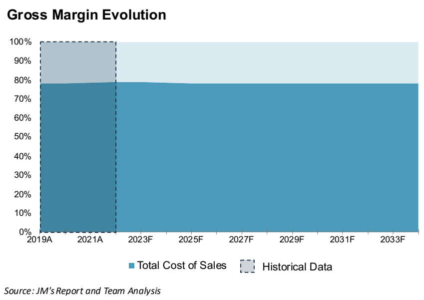

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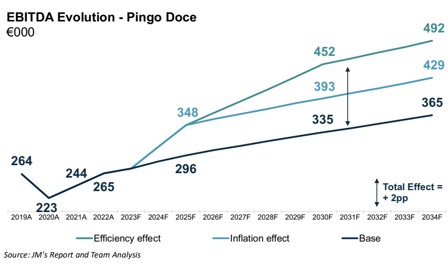


Figure 18 – Pingo Doce EBITDA Evolution and corresponding improvement effects

revenue of 2023, in line when compared with the historical average of 73%.

All in all, there is a significant and direct relationship between inflation and ARPS within the food retail industry. This arises from the need of companies to promptly adjust their prices in response to inflation to safeguard their operational margins.

Together, our projections suggest an expected CAGR of 4.9% over the next decade. This results in a total revenue exceeding €40B per year by 2031 and a steady growth of 2.6% in the later years. However, this growth is substantially lower to the 8% CAGR observed between 2019 and 2022 explained for the expected deceleration in the expansion rate of the company and the stabilization of inflation to the respective Central Banks' medium-long term target.

Furthermore, our projected number of new stores reflects the net change in store count. This encompasses not only the new store openings but also the closures within the same year. We anticipate that the different segments will slowly reorganizing their locations. This could involve converting larger stores into smaller, more conveniently located ones to align market trends, opening new stores in high-demand areas, and gradually closing those where demand is insufficient to sustain them. Consequently, this is the rationale behind our forecast, which anticipates an expansion of 300 stores in 2024, reducing to 81 in 2034.

COSTS DRIVERS AND FORECASTS

Due to limited data available, we computed the costs of sales as a proportion of revenues, resulting in a 79% cost of sales margin over revenues in 2022. However, the company had previously absorbed some of the inflation-related costs during the high-inflation years. When analysing the same driver for the years prior to 2021, we observe a historical average of 78%. Given this exceptional situation, we have maintained this 79% figure for 2023, and slightly decreased for 2024 and 2025, to address the diminishing impact of inflation on margins, stabilizing at 78% by 2026.

When reorganizing JM's income statement, we grouped distribution and administrative costs, and excluded D&A for the calculation of EBITDA. It includes employee, transportation, and marketing expenses. Due their strong connection with inflation and their revenue-relation, it is suitable to forecast them together.

Pingo Doce and Recheio, being mature and well-stablished in Portugal, displayed a stable margin of other operating costs over revenues, with the exception of 2020, when experienced a significant decrease in revenues. Consequently, we forecast these costs as the average of previous years, excluding 2020, at 15.3% and 16.2%, respectively. In contrast, Biedronka did not experience a revenue decline in 2020, and as such, its other operating costs margin remained stable. For our forecast, we maintained this cost structure with an 12.4% average for the future.

Ara, on the other hand, has been adapting to the market, showing a decreasing

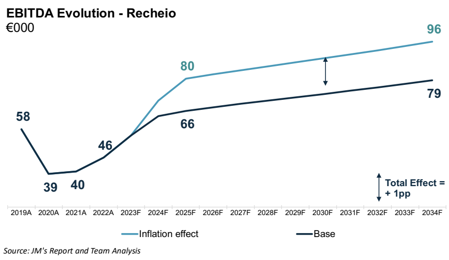


Figure 19 – Recheio EBITDA Margin's Evolution and corresponding improvement effects

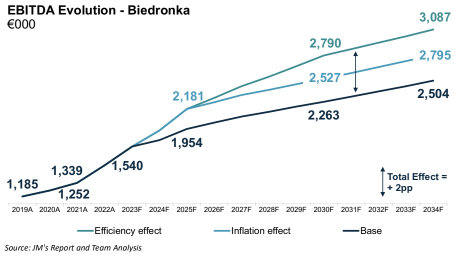


Figure 20 – Biedronka EBITDA Margin's Evolution and corresponding improvement effects

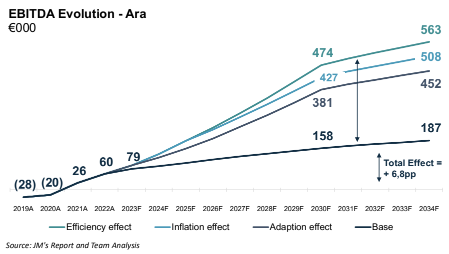


Figure 21 – Ara EBITDA Margin's Evolution and corresponding improvement effects

Depreciation & Amortization in millions of euros, except otherwise indicated	2020A	2021A	2022A
Pingo Doce & Recheio			
Depreciable Assets	1,924	1,938	2,152
Depreciation & Amortization	-172	-171	-181
D&A as percentage of Depreciable Assets	-8.9%	-8.9%	-9.3%
Biedronka			
Depreciable Assets	3,789	3,965	4,270
Depreciation & Amortization	-470	-476	-492
D&A as percentage of Depreciable Assets	-11.7%	-12.6%	-12.4%
Ara			
Depreciable Assets	407	477	586
Depreciation & Amortization	-48	-51	-61
D&A as percentage of Depreciable Assets	-9.7%	-12.5%	-12.8%

Source: JM's Report

Figure 22 – Historical Depreciation and Amortization over Depreciable Assets

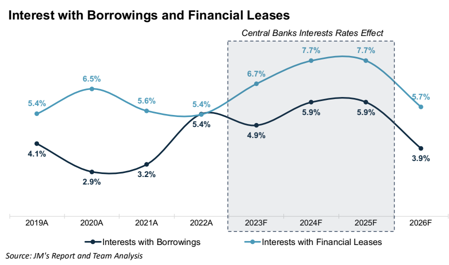


Figure 23 – Interest Rates with Borrowings and Financial Leases

trend over the past 4 years, decreasing from 25.4% in 2019 to 17.6% in 2022, suggesting that the Colombian segment is not in its maximum potential, with high likelihood of further reduce this percentage. Therefore, we forecast a gradual adaption until it reaches a similar cost structure to Biedronka, the most comparable segment, with 12.8% margin expected by 2030.

Moreover, JM is expected to increase store efficiency, by establishing smaller stores in more convenient locations or expanding its e-commerce segment. This strategy has been implemented in Poland with Biedronka Home and in Portugal through the partnership with Mercadão. While not currently in JM's plans, this approach may be replicated in Colombia or further expanded in existing locations. In our forecast we reflect it with a 0.2pp decrease, per year, in other operating costs margin from 2026 to 2030 for Pingo Doce and Biedronka, where we expect JM will enter in a stable period. Due to the nature of Recheio's business, we did not apply this correction.

Isolating these factors, we observe an 1pp increase in EBITDA margin attributed to the impact of cost of sales. Additionally, there is an 1pp upturn in EBITDA due improved efficiency in Pingo Doce and Biedronka. Furthermore, the stabilization of the cost structure results in Ara led to an additional 4.8pp margin increase.

D&A is expected to grow aligned with the projected changes in the Balance Sheet's Depreciable Assets, which include Tangible, Intangible and Rights-of-Use Assets. Since we lacked individual data for Pingo Doce and Recheio, we combined Portugal's captions and forecasted them together. The analysis revealed stable margins, so, we forecasted them based on historical average from previous year.

JM's financial activities cover interest on borrowings and financial leases, interest income, and exchange rate differences. Over the years, these elements prone to be negative. Interest on borrowings, which accounts for approximately 3.9% of the interest on the previous year's Bank Debt from 2019 to 2022. The interest paid corresponds to the balance of borrowings from the previous year.

The second is calculated as a percentage of the current year's lease liabilities, using a historical average of 5.7% from 2019 to 2022 for future predictions. In this case, interest is reported in the same fiscal year in which the leases are registered.

Considering the significant rise in interest rates in 2022 and 2023, we have adjusted the company's interest expenses. For 2023 and 2025, we have increased interest rates paid by the company by 1pp, and for 2024, an increase of 2pp.

The third caption, comprising interest income, exchange rate differences, due their minor importance in our valuation, are forecasted based on historical average.

Due the intricacies of the business, expose to multiple tax codes, and different changes in revenue distribution for each segment, we decided to segregate the

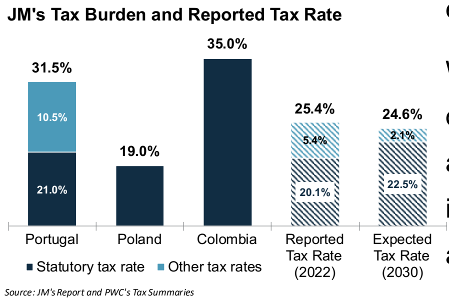


Figure 24 – Statutory Tax Rates applied for each country and JM's Effective Tax Rate in 2022 and 2030

earnings and compute the statutory taxes amount for each country individually.

We anticipate an increase in total statutory effective tax rate in the coming years, driven by the application of the 35% statutory tax rate in Colombia. This results in a higher tax burden compared to other locations. As Ara's revenues continue to increase and play a more significant role in overall JM's operations, we expect the average statutory tax rate to increase from 20.1% in 2022 to 22.5% in 2030.

Regarding the adjustments, all are Core, except the unaccounted differences in statutory taxes across the countries and those related to the revision of estimates regarding tax litigation as they are not associated to the JM's regular operations.

Tax Adjustments	Classification	Relevance
Untaxed or unrecoverable results	Core	Medium
Review of estimates related to tax litigation	Non-core	Low
Non-deductible costs and tax benefits	Core	Medium
Correction of previous years estimates	Core	Low
Equity Method	Non-core	Low
Change in the recoverable base of losses and temporary differences from previous periods	Core	Low
Results subjects to autonomous taxation and other forms of taxation (CST)	Core	Null

Source: JM' Report and Team Analysis

Figure 25 – Tax-Adjustments classification and its respective relevance for our valuation

For the Core adjustments, CST must increase in 2023 due the continued growth of JM's business in Portugal. However, it is predictable that it will not be applicable in 2024 and will not impact our valuation. As a result, we foresee a gradual decrease in adjustments tax rate from 5.4% in 2022 to 2.1% in 2030.

Finally, within the Non-Core Business captions, the expenses related to supporting Ukraine are expected to become less significant as the impact of the ongoing war ceases. For the same reasons, and while energy market stabilizes, the fair value of energy price fixing is also likely to lose relevance. The provisions for litigation, exceptionally high in 2022, are expected to decrease by 2023 and 2024 and then stabilize despite JM has been involved in different legal processes. For the Other items, with minor impact on our valuation, are maintained at past-year averages.

Liquidity Analysis	2019	2020	2021	2022
Current Ratio	0.48	0.51	0.58	0.60
Quick Ratio	0.27	0.31	0.38	0.37
Cash Ratio	0.18	0.22	0.28	0.27

Source: JM's Report

Figure 26 – JM's Liquidity Ratios

BALANCE SHEET DRIVERS AND FORECASTS

CASH CONVERSION AND LIQUIDITY

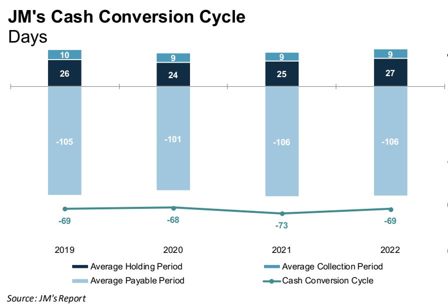


Figure 27 – JM's Cash Flow Management Ratios

The cash conversion process from its operations is a significant plus for JM, since it seems to indicate it is operating on an extremely efficient baseline. While the average collection period from customers is currently 9 days and has been oscillating close to it, the peer group averages 4 days meaning JM's takes nearly double the time to receive payments from customers despite both values being low and immaterial, since most are received in cash promptly. However, that is largely offset by both the average payable and holding period. Payable period is on average 106 days, which is nearly double the peer groups of 56 days. This means simultaneously not only that JM's holds significant bargain power against its suppliers, ultimately resulting in more short-term liquidity, but also that it performs much better than the peer group. Finally, in what regards inventory management, JM also outperforms, with roughly half the average holding period of 53 days resulting in higher cash convertibility from inventories. All added, JM's operational activities are being financed by its suppliers by a relevant margin, given how quickly JM can generate cash against how long they take to liquidate suppliers' invoices. Moreover, they present positive results relative to the

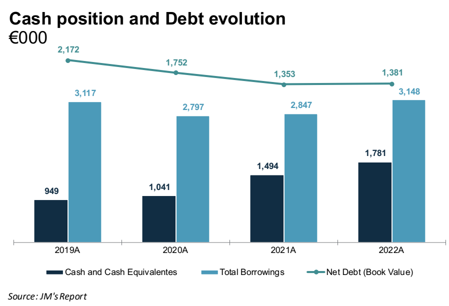


Figure 28 – JM's Liquidity and Leverage

Financial Ratios	2019	2020	2021	2022
Cash Cover	30%	37%	52%	56%
Leverage Cover	151%	123%	85%	75%
Interest Cover	22%	26%	18%	15%
Coverage ratio	-	30%	27%	23%

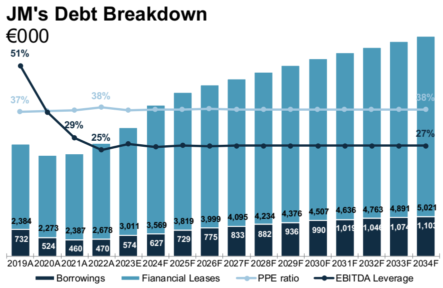
Source: JM's Report

Figure 29 – JM's Liquidity Ratios

comparables when combining all the cash conversion analysis. All in all, JM manages its cash flow generation efficiently resulting in strong flows that despite a slight drop throughout the last 3 years remain extremely solid.

It is of importance to outline that, as a specificity of the industry, the firm presents a significant degree of reliance in cash conversion from inventories as demonstrated given the difference between current ratio (0.60 as of 2022) which relates current assets over current liabilities and quick ratio (0.37 as of 2022) which performs the same analysis as the first but excluding inventories. Despite that, it is also important to underline that along with a strong market presence, JM has managed to realise inventories quickly, minimizing the burden of inventory reliance to realize cash. Its strong cash position, also observed by the cash ratio (0.27 as of 2022), which simply relates the cash and cash equivalents with the total current liabilities of the company, along with a solid cash flow generation, contribute to further offset that risk. All in all, delayed supplier payment terms allow JM to be comfortable despite showcasing current liabilities that amount to roughly double the amount of current assets.

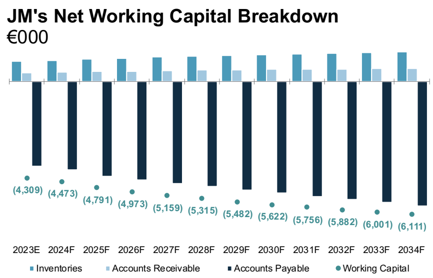
DEBT



Source: JM's Report and Team Analysis

Figure 31 – JM's Liquidity and Leverage

By cross-examining its current debt with the current market value of equity it is observable that JM presents a healthy 20% debt as of 2022 against 80% equity, which is significantly lower than the peer group average of 42%. This is a relatively low amount of debt especially given its cash position of €1,380M and operational cash-flow generation ability of around €700M over the past few years. This is particularly remarkable as they are able to maintain this control throughout an expansive period in foreign markets, transmitting additional confidence to their shareholders. Cash coverage, meaning its ability to cover debt obligations with cash, sits above the peer group average of 25% by more than double with a ratio of 56%. Moreover, Leverage ratio currently showcases that JM's debt represents as of 2022, 75% of its EBITDA and has experienced a sharp decline since 2019, when it represented 151%. Nevertheless, once again the company still outperforms the peer group average which stands far higher as of 2022 at 219%. Finally, by analyzing the Coverage ratio, which assesses how operating cash flow covers the current debt levels, JM appears to be worse off as opposed to its peers which average at 39%, managing to cover its current debt levels through operating cash flow by a lower value of 23%. This indicator has declined by 7% since 2020, when it stood at 30%. This is mostly justified by the fact that JM is expanding and therefore utilizing a lot of cash through Capex investments.



Note: for illustration purposes it was excluded Net Income Taxes and Biological Assets despite included in NWC calculations

Figure 30 – JM's Net Working Capital Forecast

Overall, Jerónimo Martins debt levels seem to be stable given its operational activities and cash flow generation, outperforming the peer group in most fields.

In what regards debt projections, it depends on the evolution of borrowings, which

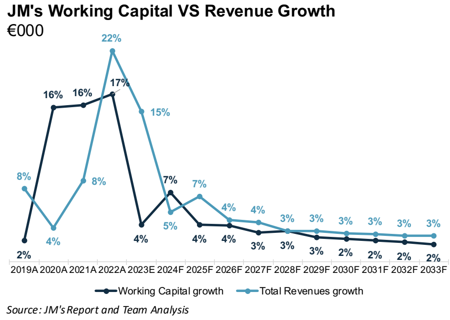


Figure 32 – Working capital vs revenue (growth)

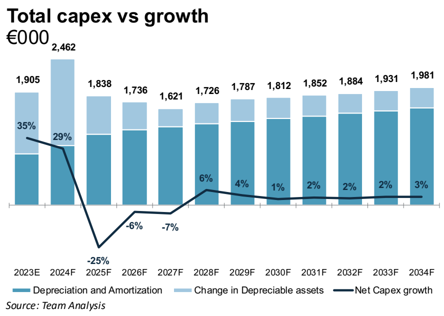


Figure 33 – Capex decomposition vs capex

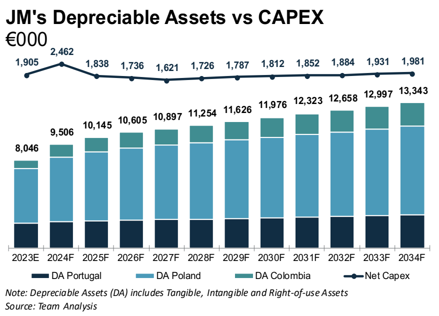


Figure 34 – Depreciable assets vs capex

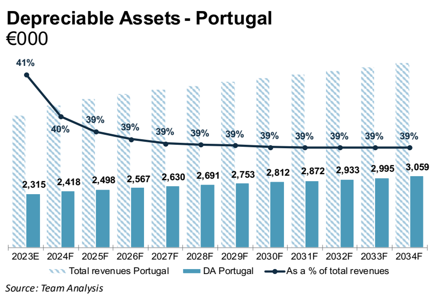


Figure 35 – Depreciable Assets allocated in Portugal evolution

we indexed to a stable EBTIDA leverage ratio of 0.27 using isolated borrowings and financial leases as a percentage of PPE which we projected by using an already stable 0.37 ratio throughout. The reason for this differentiation derives from the fact that financial borrowings mostly comprise commercial rents and warehouse agreements with periods ranging from 5 to 20 years prone to extension.

NET WORKING CAPITAL

Jerónimo Martins' current operational items that compose the working capital have been establishing a negative baseline for the past years. Our projection follows that trend, thus an increasingly negative working capital throughout the years. This occurrence derives from the fact that accounts payable largely outweighs accounts receivable, hence, as long as the overall company's projections are growing, this trend should be observed. However, the aforementioned does not represent a threat to the operational status of the company given its industry, where customer payments are received mostly in cash, and which are therefore not included in the working capital calculation. This caption includes inventories, biological assets and net income taxes, apart from the two items mentioned above. The net working capital projections start to increase at a higher pace with a 17% increase in 2023 to then decrease at a more stable and lower rate between 3% to 4% from 2026 onward, which leads to working capital variations that tend to slowly decrease along the projected years. Altogether, this stability is mainly driven by the expected even increase among accounts payable and receivable as well as inventory given that despite still expanding, there is a certain predictability considering the stable and partially mature nature of Jerónimo Martins.

CAPEX

As a company that focuses on growth through expansion to foreign markets, investment on tangible facilities and material is crucial. For that reason, Capex deployment as a core factor when assessing the companies FCF[3], is essential to mirror our growth expectations for the company. Our projections result in a spike in the first two projected years of 35% in 2023 (€1,905M) and 29% in 2024 (€2,462M) in Net Capex. After 2024 however, it is expected to drop sharply by 25% from the all-time high of 2024 and from that period onward, the variation becomes more stable between -6% and 3% despite the absolute value showcasing that capex employment remains very strong throughout (€1,981M in 2034). Our projections breakdown consists of individual projected values per segment according to what it is believed to better suit the respective phase in which the segments find themselves in. It should be noted that the calculation involves the

[3] Free cash flow

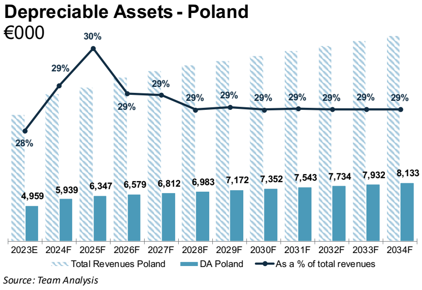


Figure 36 – Depreciable Assets allocated in Poland evolution

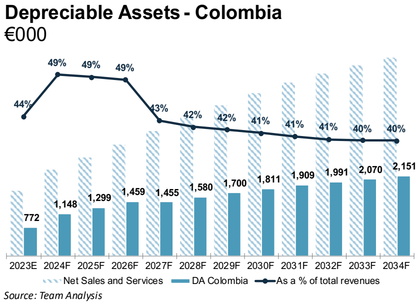


Figure 37 – Depreciable Assets allocated in Poland evolution

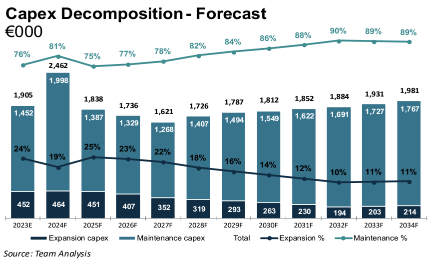


Figure 38 – Depreciable Assets allocated in Colombia evolution

variation on depreciable assets from one period to another added to the current period depreciations. For the forecast the depreciable assets value was indexed to each segment's depreciable assets as a percentage of revenues:

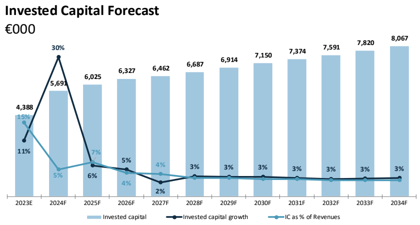
In **Portugal** depreciable assets were projected by maintaining the already stabilized ratio **Net capex/revenues** of 38% until 2034 resulting in a steady increase in depreciable items. In absolute terms, there is an increase from €2,152M in depreciable items in 2022 to €3,059M in 2034.

In **Poland** the same principle was applied, however, this time projections were changed to adapt to the sharp drop of the ratio from 32% in 2019 to 24% in 2022. It was assumed that due to high inflationary tendencies, 24% was not derived to less usage of depreciable items, but by an abnormal increase in prices, thus sales, relative to the capex employment. Therefore, in order to normalize the ratio for it to provide a more accurate projection, it was assumed the 28% registered in 2020 for all forecasted periods as it represents a period in which Biedronka already displayed a dominant and mature position in the market in operates in. In absolute terms, the amount in depreciable items relative do Poland increases from €4,270M in 2022 to €8,130M by 2034.

Lastly in **Colombia**, the ratio drops sharply from 48% in 2020 to 33% in 2022. This major drop, especially considering its expansive phase in the Latin America, is driven by inflation that spiked revenues and not due to the flattening of capex employment, as the Jerónimo Martins still has ambitious plans for this market in a ten-year window. For that reason, 43% in 2021 was assumed to be the more stable and representative value as inflation gets under controlled values and is used up to 2025, year which it drops to 39% until 2034. Despite the drop, the value still represents significant capex employment to this segment in absolute values going from €586M in depreciable items in 2022, up to €2,151M by 2034.

Capex is split between maintenance capex, which represents the necessary capex to keep existing stores and activity running and expansion capex, which represents the necessary investment to keep nourishing JM's expansion plans. Despite a registered expansion capex around 30% in the past 5 years, our projections follow a decrease in that percentage targeting the capex required per store along the years. In 2023, the expansion capex is expected to be 24%, followed by a decrease to 19% in 2024, given the aftermath related to the inflationary period. Before the capex progressively decrease, it is expected for it to spike in 2025 to 25%, given the still bullish expansion plans for Slovakia to then decrease progressively until it reaches a long-term 11% from 2033 onwards. Projections were performed assuming current information, and not considering further future expansions that might arrive.

INVESTED CAPITAL



Source: Team Analysis

Figure 39 – Evolution of Invested Capital Forecast

Invested Capital items are forecasted following our expectations for the company to continue to expand its operational activities since so far them have been yielding results that have been materialized in value creation, which will be discussed further down the report. Most relevant items in terms of value such as Inventory, tangible assets, rights-of-use as well as both accounts payable and receivable are forecasted to keep growing at a controlled pace as they are essential to fuel the company's operational activities. Tangible, intangible as well as rights-of-use assets have been forecasted to follow the store opening trend as a percentage of revenues settled in the forecast according to our expectations. The Inventory, payable period and receivables have been forecasted indexed to the average holding period, payable period, and collection period respectively, as they are healthy and relatively stable as discussed above.

Comparables' Beta	Beta	Adj Levered Beta	Tax Rate	Unlevered Beta
Jeronimo Martins SGPS SA	0.71	0.81	0.25	0.75
Dino Polska SA	0.75	0.83	0.18	0.81
Carrefour SA	0.58	0.72	0.26	0.51
Pepco Group NV	0.67	0.78	0.22	0.61
J Sainsbury PLC	0.70	0.80	0.25	0.59
Sonae SGPS SA	1.20	1.13	0.08	0.78
Tesco PLC	0.75	0.83	0.25	0.66
Average	**0.77**			**0.67**
				0.60
				0.76

Source: Refinitiv

Figure 40 – Betas from JM's comparables companies

VALUATION

COST OF CAPITAL AND GROWTH ANALYSIS

WACC

As a center piece of our cash flow valuation methods, WACC was established through the CAPM which was used to compute the cost of equity and cost of debt to then average them according to the capital structure of the company, adding the respective tax rate adjustment. The final post-tax WACC which was used, is 7.55% although it stood in the middle of an interval with 6.98% as the low point and a high point of 8.24%.

Weighted Average Cost of Capital	Low	Standard	High
Debt Beta @ Bd	0.00	0.36	0.72
Unlevered Beta @ Bu	0.60	0.67	0.76
Equity Beta JM @ Be	0.66	0.70	0.77
Cost of Debt @ Rd	**3.65%**	**6.03%**	**8.42%**
Cost of Equity @ Re	**8.04%**	**8.32%**	**8.73%**
Unlevered Cost of Equity @ Ru	**7.62%**	**8.10%**	**8.70%**
Post-Tax Cost of Capital @ WACC	**6.98%**	**7.55%**	**8.24%**

Source: Refinitiv and Team Analysis

Figure 42 – Decomposition of Weight Average Cost of Capital Calculation

Inputs related with Market Risk Premium used, were the 10Y returns of MSCI world, which is our proxy for the market portfolio combined with a risk-free rate of 3.65%, which is the current 10Y yield for the German Government Bonds. Given the Jerónimo Martins main geography, this rate seemed an appropriate option.

The Equity Beta was computed by the usage of an interval of unlevered betas from the peer group including JM, sorted by Low, Standard and High, which is correspondent to the first quartile, average and third quartile respectively. The idea for the interval served to smoothen the beta calculation according to similar companies in the market where all unlevered betas were reached by initially taking the equity betas of each company, which were then levered. Those levered betas were finally unlevered to the values that were used in the interval calculations.

Additional Information	Values
Market Risk Premium	6,62%
MSCI World Return (10Y)	10,27%
Risk-Free Rate	3,65%
Corporate Tax Rate	25,4%

Source: MSCI World Index, German Government and JM's Report

Figure 41 – Additional information for WACC calculation

As Jerónimo Martins does not use corporate bonds as a source of financing, the cost of debt was reached using once again a Debt Beta range by taking an average (standard) between an interval that goes from 0 (Low) up to 0.72 (high). This interval was sorted by taking a high value that is lower than the 0.79 (high)

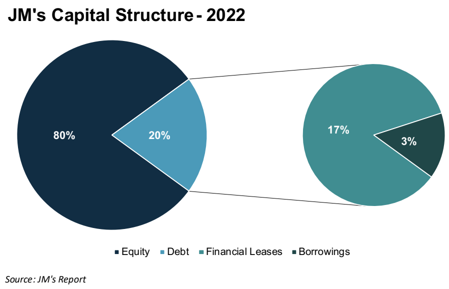


Figure 43 – JM's current Capital Structure

Additional Information	
National Tax Rate	25.43%
Growth Rate in Perpetuity	2.71%
D/V Target	20%
D/V	20%
E/V	80%
Cost of Equity @ Re	8.32%
Unlevered Cost of Equity @ Ru	8.10%
Cost of Debt @ Rd	6.03%
Post-Tax Cost of Capital @ WACC	7.55%

Source: Team Analysis

Figure 44 – Main factors for valuation purposes

correspondent to the equity beta value.

Both equity beta and debt beta once gathered were inputted in our CAPM model along with the calculated market risk premium of 6.62% in order to obtain the cost of equity and cost of debt which ultimately along with the tax adjustment allowed us to reach the above-mentioned 7.55% WACC.

Capital Structure

Jerónimo Martins' capital structure currently comprises roughly 20% debt and 80% equity and demonstrates a strong independence from debt stakeholders. Moreover, the debt weight is significantly below the 42% average of the peer group. JM also has a cash position that, as of 2022, represents roughly 60% of its total short and long-term debt position. Its debt is comprised of €238M classified as non-current liabilities borrowings as well as 232M classified as current liabilities borrowings. Apart from that, financial leases of €2,248M and €430M, non-current liabilities and current liabilities respectively, were also taken into account as debt instruments for the calculation.

Perpetuity

When building the Cash flow valuation models, the discount rate is an important determinant for the final company value, along with the cash flows themselves. The last cash flow however, will play a major role in the final valuation, as it will be discounted to perpetuity at WACC rate given a specific growth input that is reasonable for the company. In our view, 2.7% is the perpetual growth rate reached given the fact that Jerónimo Martins is a combination of 3 segments where each one has different macroeconomic performance expectations. For instance, the target inflation rate for Poland and Colombia differs from Portugal, since for both target 3% contrary to Portugal's target of 2%. Given the variety of goods that a supermarket retailer such as Pingo Doce, Biedronka and Ara sell, it seemed appropriate to use the general inflation as a strong reliable proxy. Along with this consideration, combined with the forecast we believe is realistic for perpetuity regarding sales, costs and overall business performance, these factors led to this afore growth in perpetuity.

Value creation

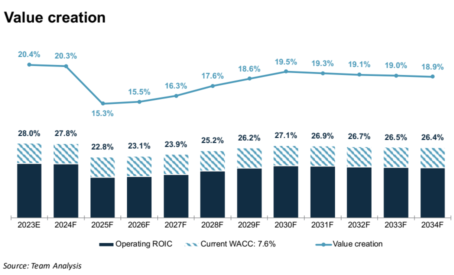


Figure 45 – Enterprise Decomposition and Equity Value per Valuation Method

Return on Invested Capital is a crucial metric as it measures in return how the capital invested within the company is being utilized. This is an important step towards value creation and a way to assess whether the company is or isn't getting a return on the projects it takes on and whether it is becoming or not a capital burning machine with no positive yield. Value creation occurs should the companies' investments yield returns higher than its cost of capital, in this case 7.55%. Through our analysis, and following our forecast assumptions, the company is as of 2023 projected to yield a ROIC of 28% that keeps growing slightly

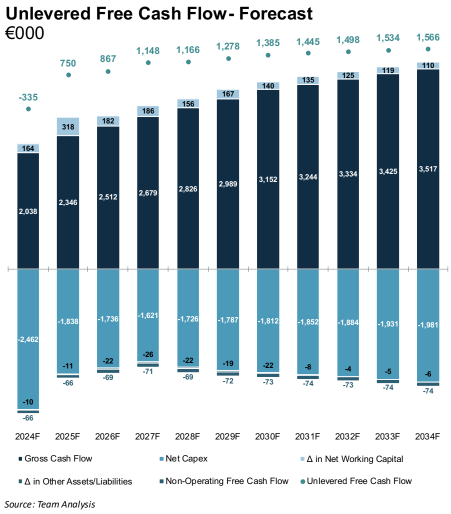


Figure 46 – Levered Free Cash Flow Forecast Decomposition

given the already observable company business efficiencies and incorporating the increasingly positive results in Colombia along the years. The ROIC keeps on growing until it reaches around 38% in 2029 and maintains itself around that value until 2033, the final projected year. What is driving this metric to rise is the fact that due to efficiencies in the operations the net operating profit is projected to grow at a faster pace than the capital needed to be employed for operations. The implicit growth rate starts high in 2023 at 17% despite being a big drop when compared to the 31% registered in 2022. It is still important to highlight that 2020-2022 interval is still highly influenced one way or another by Covid-19 and ongoing high inflation levels, as it was discussed before. This growth is projected to reach the afore-mentioned 2.7% growth rate in the final period of the forecast which is then utilized for the perpetuity.

CASH FLOW METHODS VALUATIONS

After analysing JM's cost of capital, growth rate in perpetuity and Cash Flow Map, we considered 2033 as the point at which the company will enter a steady state, stabilizing its growth. Also, ROIC is projected to stabilize at 24% by that same year.

In general, our forecasted values predict a slowdown in the cash flow growth until it stabilizes in 2% by 2033. The main drivers are the Net Change in Capex due the ambitious plans of JM to further expand and revamp its stores, followed by the Gross Cash Flow due JM's strong revenues and increasing margins. Notably, the negative Unlevered Free Cash Flow in 2023 is explained by an anormal high Net Change in Capex, that, as mentioned earlier, it is predicted to stand in high levels and register an increase for the next years, either to expand or to new acquisitions.

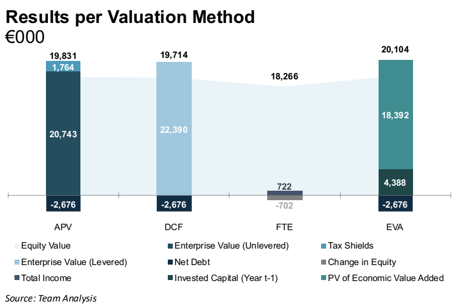


Figure 47 – Enterprise Decomposition and Equity Value per Valuation Method

Under the calculated valuation factors and an unlevered Free Cash Flow of €1,566M by 2034, we applied the perpetuity formula in both APV and DCF model. After discounting to 2024 we arrive a Levered Enterprise Value of €22,506M with APV, and €22.390 with DCF. Incorporating the value of Net Financial Debt of €2,676M, we obtain an Equity Value of €19,831M and €19,714M, respectively.

Adjusted Present Value Method - Sensitivity Analysis
in millions of euros

Cost of Debt @ Rd	Unlevered Cost of Equity @ Ru					
	19,831	7.79%	7.95%	8.10%	8.50%	8.90%
	3.65%	25,627	24,957	24,325	22,812	21,498
	4.84%	22,121	21,451	20,819	19,306	17,992
	6.03%	21,132	20,462	19,831	18,317	17,003
	7.22%	20,666	19,996	19,364	17,851	16,536
	8.42%	20,395	19,725	19,093	17,579	16,265

Figure 48 – APV Sensitivity Analysis

For comparison purposes we also employed the Flow-to-Equity method, which is based on the Cash Flow to Equity holders and the Economic Value-Added method, derived from the company's Annual Economic Profit incrementing NOPLAT and Invested Capital. These methods resulted in Equity Values of €18,266M and €20,104M, respectively.

SENSITIVITY ANALYSIS

Discounted Cash Flow Method - Sensitivity Analysis
in millions of euros

Growth Rate in Perpetuity	Post-Tax Cost of Capital @ WACC					
	19,714	7.13%	7.42%	7.72%	8.07%	8.42%
	1.7%	18,746	18,001	17,330	16,607	15,961
	2.2%	20,104	19,210	18,413	17,563	16,810
	2.7%	21,770	20,678	19,714	18,700	17,810
	3.2%	23,864	22,496	21,306	20,071	19,003
	3.7%	26,572	24,806	23,297	21,760	20,452

Figure 49 – DCF Sensitivity Analysis

Having established possible outcomes for each valuation factor, we believe that these factors may vary within their respective ranges. Additionally, our confidence is reinforced since *Refinitiv* estimates are within these ranges.

Regarding the perpetual growth rate, given the company's maturity, we expect minimal fluctuations. However, we considered a 1pp range to account for the margin targeted by Central Banks for their medium-long term inflation rates.

Under the abovementioned adjustments, our Equity Value ranges from €15,014M and €26,572M. In the DCF analysis, a 70-basis point increase in WACC results in a 10% decrease in our price target, but a 100-basis point decrease in the growth rate leads to an 12% decrease in our target price, indicating that lower bounds on growth rate drivers may be of a lower concern than those related to WACC. As for the APV analysis, a 238-basis point increase in the Cost of Debt results in a 4% downturn, while a 50-basis point increase in Cost of Equity leads to a 8% decrease in our target Equity Value. This demonstrates higher sensitivity in the second factor compared to the first one, which is attributed to the company's capital structure.

Flow to Equity Method - Sensitivity Analysis
in millions of euros

Growth Rate in Perpetuity	Cost of Equity @ Re					
	18,266	8.24%	8.28%	8.32%	8.63%	8.95%
	1.7%	16,769	16,658	16,549	15,746	15,014
	2.2%	17,584	17,460	17,337	16,440	15,628
	2.7%	18,546	18,405	18,266	17,251	16,341
	3.2%	19,700	19,537	19,377	18,212	17,178
	3.7%	21,110	20,917	20,729	19,369	18,175

Figure 50 – FTE Sensitivity Analysis

Economic Value Added Method - Sensitivity Analysis
in millions of euros

Growth Rate in Perpetuity	Post-Tax Cost of Capital @ WACC					
	20,104	7.13%	7.42%	7.72%	8.07%	8.42%
	1.7%	19,748	18,926	18,185	17,389	16,678
	2.2%	20,883	19,917	19,055	18,139	17,327
	2.7%	22,279	21,123	20,104	19,033	18,094
	3.2%	24,036	22,620	21,390	20,115	19,013
	3.7%	26,312	24,526	23,002	21,450	20,130

Figure 51 – EVA Sensitivity Analysis

MULTIPLES VALUATION

Based on December 2022 values, we conducted a Multiple Valuation analysis to assess JM's performance relative to its peers. To do so, we considered EV/Sales, and EV/EBITDA, since it mirrors specific characteristics of the company, including the usual low EBITDA margins in the sector, high revenues and limited reliance on fixed assets making D&A less relevant, explaining why we excluded EV/EBIT. Additionally, we included Price-to-Net Income to account for the company's turnaround strategy.

We used the same peer group[4] as in our industry analysis, consisting of companies with similar products, operating in similar regions and with similar operational and financial drivers. For those, the median EV/EBITDA was 6.4x, EV/EBIT was 13.4x and Price-to-Net Income was 17x. The implied Enterprise Value ranged from €12,633M to €15,819M, significantly lower than the results obtained through the previous methods. We also conducted a sensitivity analysis using the first and third quartile and considered that EV/EBITDA is the most appropriate multiple due to the operational nature of the industry.

Trading Multiples	EV/EBIT	EV/EBITDA	P/E
Jeronimo Martins SGPS SA	13.8x	7.8x	19.3x
Dino Polska SA	24.6x	18.3x	31.9x
Carrefour SA	11.3x	6.3x	10.3x
Pepco Group NV	15.5x	5.4x	14.6x
Sonae SGPS SA	16.4x	10.0x	8.0x
Tesco PLC	10.9x	6.6x	19.5x
J Sainsbury PLC	8.4x	4.4x	30.5x
1st Quartile	**11.0x**	**5.6x**	**11.3x**
JM's Equity Value	15,267	13,401	5,973
Median	**13.4x**	**6.4x**	**17.0x**
JM's Equity Value	15,819	12,633	12,999
3rd Quartile	**16.2x**	**9.2x**	**27.8x**
JM's Equity Value	19,723	19,238	21,177

Source: Refinitiv and Team Analysis

Figure 52 – Trading Multiples Calculations

TRANSACTION MULTIPLES

To assess how the market is valuing companies from the same sector at, it was taken into consideration a group of 11 transactions that took place in the past 3 years' timeframe. All the mentioned transactions account for European targets spread across France, UK[5], Switzerland, Sweden, France and Germany with EV values that range from $191M to $43M. The process was similar to the peer multiples' meaning it was taken the median value of the commonly used metrics.

Starting with the EV/EBITDA metric, it led to multiple of 6x and is currently in line with EV/EBITDA from both JM's and the peer groups of 7.8x and 7.4x respectively.

Transaction Multiples	Target Country	EV/EBIT	EV/EBITDA
Kicks Group AB	Sweden	21.9x	4.5x
J Sainsbury plc I SBRY	UK	5.4x	2.7x
Valora Holding AG I MKRMF	Switzerlanc	96.2x	10.2x
ICA Gruppen AB I ICA	Sweden	20.8x	11.3x
Tesco plc I TSCO	UK	8.1x	5.8x
WM Morrison Supermarkets Ltd I MRW	UK	32.0x	11.6x
Carrefour SA I CA	France	11.2x	5.8x
Metro AG I B4B	Germany	47.5x	9.5x
Iceland Foods Ltd	UK	n.a.	6.6x
Casino Guichard-Perrachon SA I CO	France	13.2x	6.0x
Picard Surgeles SAS	France	n.a.	1.7x
1st Quartile		**11.2x**	**5.1x**
JM's Equity Value		13,306	10,039
Median		**20.8x**	**6.0x**
JM's Equity Value		26,135	11,667
3rd Quartile		**32.0x**	**9.9x**
JM's Equity Value		42,338	21,469

Source: Refinitiv and Team Analysis

Figure 53 – Transaction Multiples Calculations

[4] Peers: Dino Polska, Carrefour, Pepco Group NV, Sonae SGPS, Tesco PLC and J Sainsbury PLC
[5] United Kingdom

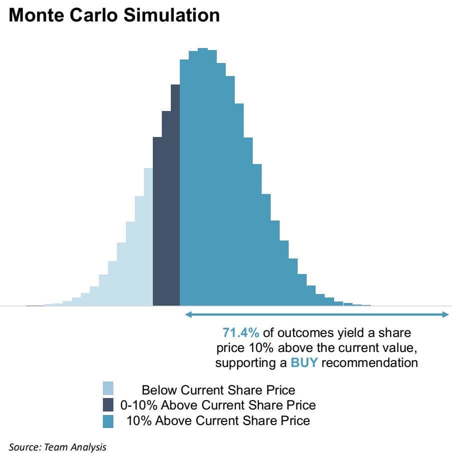


Figure 54 – Monte Carlo Simulation distribution

The European market based on this sample, appears to be undervalued when comparing to the multiples of registered metrics from observed companies.

By computing the EV/EBITDA median however, it was reached a 20.8x which is significantly higher than the one computed in the peer group of 13.8x. Contrary to the EV/EBITDA, the market seems to be valuing the targets higher based on their operating result after D&A is considered, benefiting those who manage to yield a high pre interest and tax result.

Altogether, by applying both multiples to JM's financial metrics, the implied Enterprise value ranges €12.2M to €26.7M which is a much wider threshold than both the peer group analysis as well as the cash flow methods.

MONTE CARLO SIMULATION

Monte Carlo Simulation Analysis	
Trials	100,000
Base Case	**27.64**
Below Current Share Price	13.36%
0-10% Above Current Share Price	15.26%
10% Above Current Share Price	71.38%
Standard Deviation	4.19
Maximum	49.21
Minimum	9.95
Variance	17.60
Skewness	-0.01
Kurtosis	-0.01

Source: Team Analysis

Figure 55 – Monte Carlo Simulation main indicators and results

We underwent a comprehensive analysis through a Monte Carlo Simulation with 100,000 observations. This simulation aimed to provide a nuanced understanding of the potential variability in the company's stock price allowing us to highlight both the risk and reward profile for investors.

The simulation generated a distribution of potential share prices, with a maximum of €49.21 and a minimum of €9.95. The variance, a measure of the spread of these prices, was calculated at 17.60. The skewness and kurtosis, at -0.01 for both, indicated a relatively symmetrical and normal distribution of potential outcomes, albeit with a slight tendency towards the left tail.

Examining the distribution, it was found that 13.4% of the observations fell below the current share price, reflecting potential downside scenarios, while 15.3% of observations closely aligned with the current share price, emphasizing the equilibrium between optimistic and pessimistic projections. On the other hand, 71.4% of the observations surpassed the current share price, indicating a significant proportion of optimistic scenarios.

The range of potential prices highlighted the inherent volatility in Jerónimo Martins' valuation, acknowledging the dynamic nature of the market and the numerous factors influencing stock performance.

In conclusion, the Monte Carlo Simulation for Jerónimo Martins served as a robust tool for assessing the risk and potential reward associated with its stock. Investors were provided with a comprehensive perspective on the range of potential outcomes, helping them make informed decisions in a market characterized by its inherent uncertainties and fluctuations.

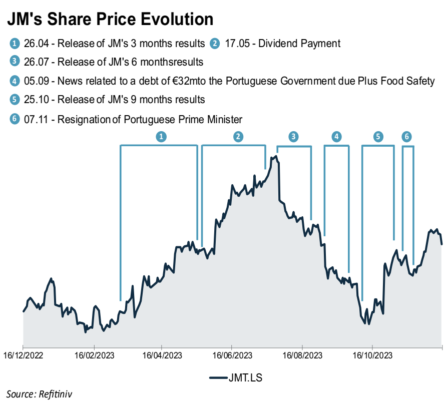


Figure 56 – Calendar and respective effects on JM's share price evolution

FINAL RECOMMENDATIONS

Over the past year JM's stock price has experienced significant volatility, characterized by a consistent upward trajectory until a peak of €27.10 in July 2023,

Recommendation	BUY
Date	19.12.2023
Current Share Price	22.98
Target Price	**27.64**
Upside Potential	20.30%
Maket Capitalization (Millions)	14,461
Share Outstanding (Millions)	628.4
Ticker	JMT.LS
Stock Exchange	Euronext Lisbon
52-Week High	27.10
52-Week Low	19.04

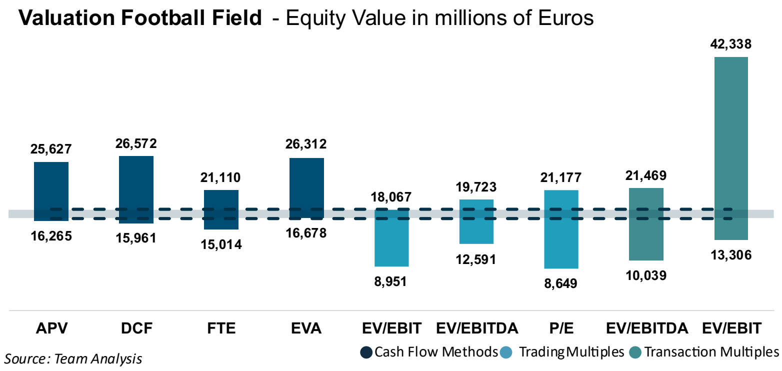
Source: Refinitiv, ECO and Team Analysis

Figure 57 - Final Recommendation Resume

followed by a continuous decline until October 2023, reaching €19.04 per share. This downward trend was reversed after the announcement of the results for the first nine months of 2023, reaching €22.74 as of 6th of November 2023, and, after the decrease in share price due the resignation of the Portuguese Prime Minister that negatively impacted PSI20, it increased again until the new peak of €23.68 as of 11th of December 2023.

Incorporating all the facets of our analysis, which leverage various methods to provide a more comprehensive and intricate assessment of Jerónimo Martins, we have arrived at a confident interval. Considering the maximum value of the lower limits of each method of €16,678M and the minimum value of the upper limits of €18,067M, we achieve an average estimated Equity Value, as of December 2024, standing at €17,372M. Assuming a constant number of outstanding shares of 628.4M, our analysis suggests a one-year target price of €27.64, which represents a potential upside of 20%. Additionally, the Monte Carlo Simulation abovementioned, further reinforce our analysis, and allow us to recommend a BUY position.

In sum, our recommendation is driven by JM's robust expansion, its solid market presence, and its resilience in recent years, as well as the potential to expand and increasing in efficiency.



Source: Team Analysis

Figure 58 – Valuation Football Field

MASTER IN FINANCE

JERÓNIMO MARTINS, SGPS, S.A.

COMPANY REPORT

FOOD DISTRIBUTION

19 DECEMBER 2023

STUDENT: RUI GOMES, TIAGO PIMENTEL

53030@novasbe.pt; 52973@novasbe.pt

Resilience and Expansion

An outlook of Jerónimo Martins prospects

- JM's past performance has shown **high resilience** and **resistance** to market dynamics and volatility. Its financial health has been **traditionally robust**, reflecting its market leadership and business strategies.
- While JM has demonstrated resilience, it must remain **adaptable to market changes**, given the shift in consumers' preferences are towards more **affordable products**, thus competitive prices. Despite its social objectives, the company has achieved a **CAGR of 8%** over the past 4-years. Looking ahead, it is anticipated a **4.9% CAGR for the next decade** accompanied by an improvement in **EBITDA margin to 9.6%** as a result of its efficiency increase.
- The company showcases a robust **operational performance** and commitment to deliver on its growth expectations with its **operational ROIC** yielding a 3-year average of **18.3%**. Combined with a **WACC** of roughly **7.6%** there is a solid outlook for value creation which might indicate it represents a compelling investment opportunity for investors seeking both stability and growth.
- Our **€27.64 target price** and a 20.30% upside potential comprise a BUY recommendation in line with its **strong market presence** and domination across the three countries it operates encapsulating further potential to expand, especially in the Colombian market where there are attractive opportunities throughout.

Company description

Jerónimo Martins is one of the largest Portuguese retail companies that operates around 3 different countries and 2 continents. It is listed on the Euronext Lisbon stock exchange, and it is recognized for its label products, financial robustness, and strong market presence.

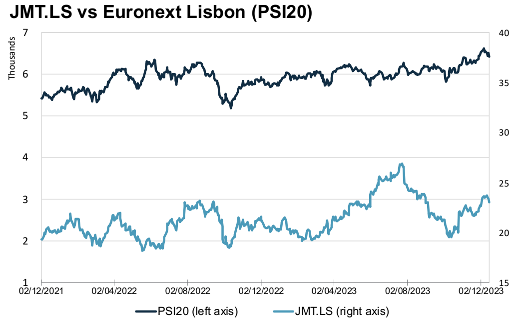
Recommendation:	**BUY**
Price Target FY24 (Dec.):	**27.64 €**
Price (as of 19-Dec-23)	**22.98 €**

Reuters: JMT.LS, Bloomberg: JMT

52-week range (€)	19.04-27.10
Market Cap (€m)	14,420
Outstanding Shares (thousands)	628.4
Stock Exchange	Euronext Lisbon

Source: ECO

JMT.LS vs Euronext Lisbon (PSI20)



Source: Refinitiv

(Values in € millions)	2022A	2023E	2024F
Revenues	25,385	29,273	30,750
Rev. Growth Pingo Doce	*11.2%*	*5.7%*	*4.7%*
Rev. Growth Recheio	*27.8%*	*15%*	*3.4%*
Rev. Growth Biedronka	*20.9%*	*16.1%*	*4.2%*
Rev. Growth Ara	*60.4%*	*31.8%*	*13.9%*
Gross Margin	*5,332*	*6,149*	*6,613*
EBITDA	1,853	2,111	2,387
EBITDA Margin	*7.3%*	*7.2%*	*7.8%*
Net Profit	564	665	722
Invested Capital	3,943	4,388	5,691
# Stores	4,576	5,003	5,325

Source: JM's Report and Team Analysis

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Milestones

- 1792 (1) Founded
- 1989 (2) IPO in Lisbon Stock Exchange
- 1995 (3) Expansion to Poland
- 2012 (4) Biedronka opens 2000th Store
- 2013 (5) Expansion to Colombia
- 2014 (6) Launch own agri-food production
- 2019 (7) Reaches Top50 world retailers
- 2021 (8) Surpasses €20bn in sales
- 2023 (9) Announcement of Slovakia expansion

Figure 1 – Jerónimo Martins' main milestones

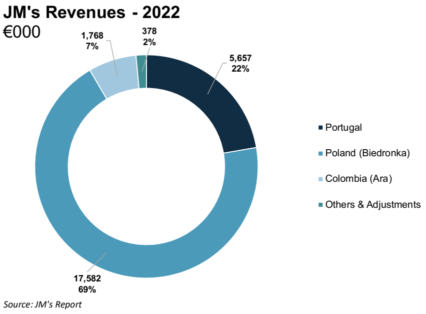


Figure 2 – Jerónimo Martins' Revenues Breakdown per Segment in 2022

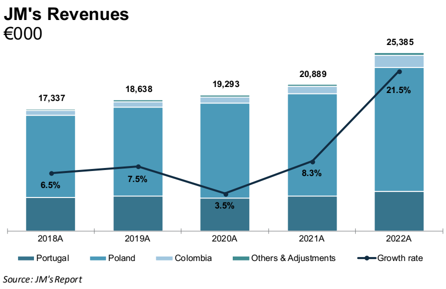


Figure 3 – Jerónimo Martins' Revenues Evolution from 2018 to 2022

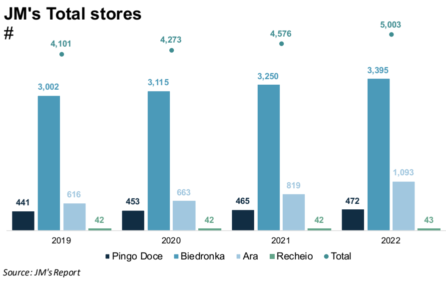


Figure 4 – Jerónimo Martins' Total Stores and per Segment from 2019 to 2022

COMPANY OVERVIEW

Jerónimo Martins is a Portuguese company founded in 1792 as a local grocery store by a Galician young man that named the company after himself. Operating in the retail business for over 230 years, the company has endured many challenges throughout the years to reach its current workforce of 120 thousand employees and worldwide expansion. It has, as of now, expanded to 3 different countries and 2 different continents becoming one of the crown jewels of PSI-20 with a market capitalization of more than €14B. The company started its activities in Poland in 1995 and grew to become current market leader and the larger segment to date. The Colombian market was the latest expansion to a foreign country and began in 2013.

BUSINESS MODEL

Jerónimo Martins currently operates in 3 different markets focusing mainly on food and supermarkets industry:

Portugal: Through the food retail segment, JM[1] operates under the name of Pingo Doce and currently owns 472 stores with a strong focus on quality and competitive prices which represent around 80% of the Portuguese segment revenue. It also owns a wholesale segment under the name of Recheio operating 43 stores which represent the remainder 20% of Portuguese revenues. Apart from these two main segments, JM operates two others: Hussel, a specialized retail chain with focus on chocolates and confectionery and Jeronymo coffee shops focusing on quality products, and combined they amount to 20 stores opened in Portugal. Altogether, this segment represents roughly 23% of Jerónimo Martins' total revenues and employs over 34 thousand collaborators.

Poland: Through the food retail segment, JM operates under the name of Biedronka and currently owns 3,395 stores with a strong focus on quality and competitive prices. It also has a health and beauty segment under the name of Hebe operating over 315 stores but representing a residual value when compared to the totality of sales of the Polish segment. Altogether, this segment represents roughly 70% of Jerónimo Martins' total revenues. The company has been present in Poland for over 25 years and has showcased significant growth and market domination currently employing over 83 thousand collaborators.

Colombia: Through the retail segment, JM operates under the name of Ara and currently owns 1,093 stores with focus on quality and competitive prices.

[1] JM – Jerónimo Martins

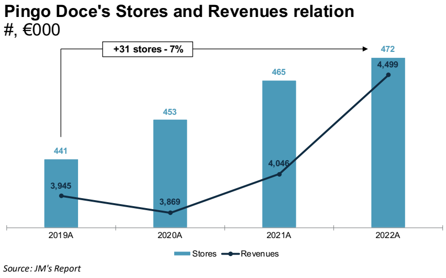


Figure 5 – Pingo Doce's Store Network and Revenues relation

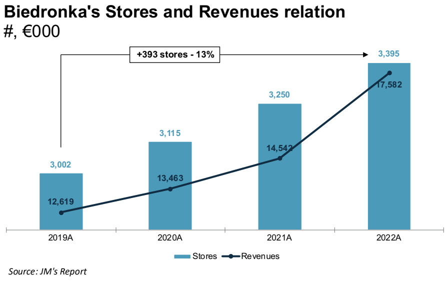


Figure 6 – Biedronka's Store Network and Revenues relation

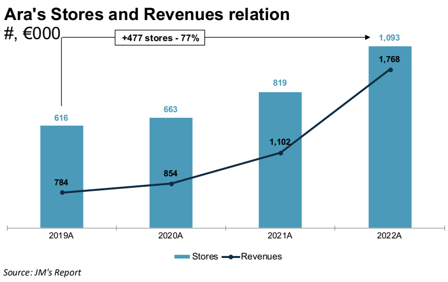


Figure 7 – Ara's Store Network and Revenues relation

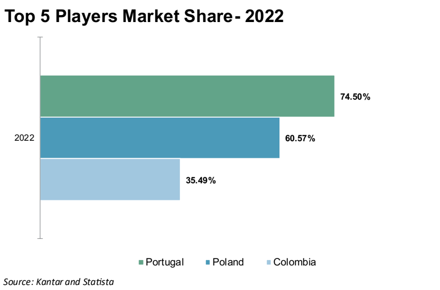


Figure 8 – Concentration of Market Share among top 5 companies in each segment

Altogether, this segment represents roughly 7% of Jerónimo Martins' total revenues. The company has been present in Colombia for 10 years and has showcased relevant growth currently employing over 12 thousand collaborators.

Although JM is diversified in the retail sector, either through the beauty products business, coffee shops or even through sweet and candy, its main operations and stream is the food and supermarket industry, which is where roughly 98.5% of the total revenues are captured. The company's business model aims to create a strong presence among its consumers and households not only through prices and quality but also by adapting its offer and products to the respective markets and their necessities. This practice has allowed them to become one of the most recognizable supermarket brands in Portugal, while dominating in Poland and displaying a major growth in Colombia with positive long-term prospects.

As JM has already reached its maturity as a company in both Portugal and Poland, expansion to other markets is key for Jerónimo Martins to keep presenting its shareholders a solid long-term opportunity. The current strong cash flow favours its expansion allowing them to keep employing the necessary Capex[2] to explore opportunities in foreign markets, which will be further discussed.

Others and adjustments: This caption mainly includes as the report states, abovementioned business units with reduced materiality such as Portuguese stores Hussel and Jeronymo coffee shops as well as Polish health and beauty Hebe shops, Holding companies and group related consolidation adjustments. The total amount as of 2022 accounts for around 1.5% of total revenues.

INDUSTRY AND MARKET POSITION

The groceries and supermarket industry plays an important role for the population as it serves many basic needs. For that reason, and even though it is a market with some degree of price sensitivity its long-term growth is more reliant on factors such as inflation rate or population growth to drive its overall size.

Jerónimo Martins has an extremely strong presence in 2 of the 3 markets it currently operates in with a clear dominance in Poland. In Portugal, despite not being leader, it displays significant market power and is a strong close second to the market leader Sonae. In both markets, JM is represented by strong brands that play important roles in the everyday life of millions of habitants across both countries providing quality products, diversity as well as competitive prices.

[2] Capex – Capital Expenditure

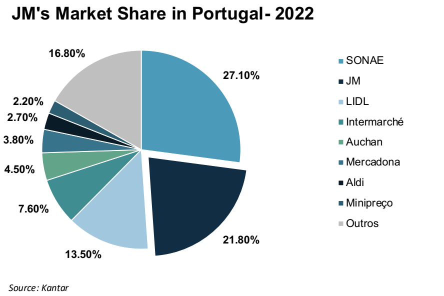


Figure 9 – Food and Distribution Market Share in Portugal in 2022

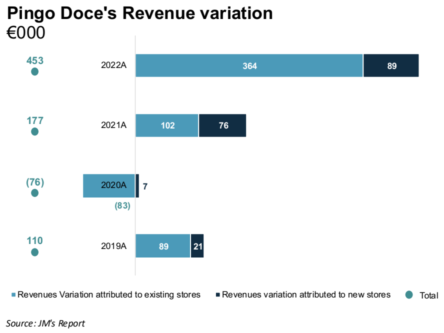


Figure 10 – Pingo Doce's revenue variation attributed to existing and new stores

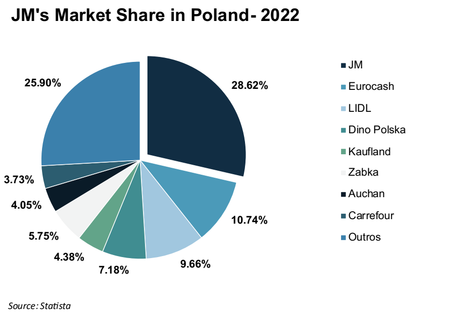


Figure 11 – Food and Distribution Market Share in Poland in 2022

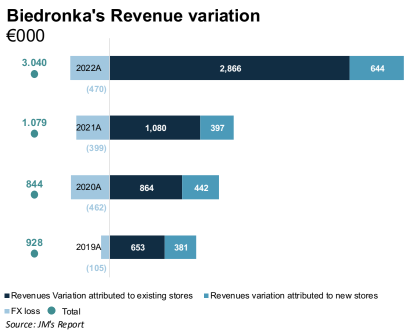


Figure 12 – Biedronka's revenue variation attributed to existing and new stores

Colombia is the latter investment from JM and therefore is the least developed segment, however, it displays the biggest growth potential.

The current market positioning by segment is as follows:

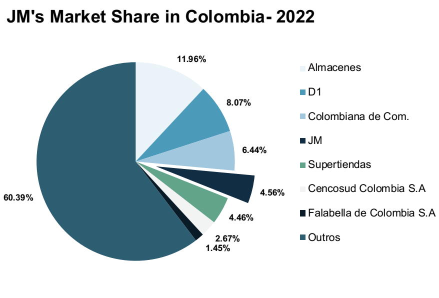
Portugal: The home market of Jerónimo Martins is currently dominated by Sonae and Jerónimo Martins, that together account for 48.9% of the total market share, 21.8% of which is JM's contribution. Lidl occupies the subsequent position farther distanced from the first two with 13.5% of market share.

In what concerns relevant Industry activity, Lidl has undergone an expansion plan started in 2021 based on modernizing its already existing infrastructure and on the acquisition of more real estate to further open new stores. However, the dispute for market share is likely to occur among the lower positioned brands such as Intermarché (7.6%), Auchan (4.5%), Mercadona (3.8%) and Aldi (2.7%). In fact, Auchan is in the process to acquire Minipreço, raising its total market share to 6.7%, putting pressure on Intermarché. On the other hand, Mercadona has entered the Portuguese market recently and is aggressively expanding, already closing in on Auchan's standalone share with just 5 years of activity since its entrance in the Portuguese market. Finally, despite its lower share, Aldi has recently invested €60M in a distribution centre and is planning on doubling its current stores by 2025.

Overall, the JM position in the Portuguese market is likely to remain strong and secured throughout the next years, even though some changes in the landscape of the supermarket business may occur on the lower positioned brands that might result in further market share claiming. Together, the top 5 food retailers in Portugal account for 75% of the market which demonstrates it is highly concentrated. In 2022 the overall market size in Portugal amounted to €21B.

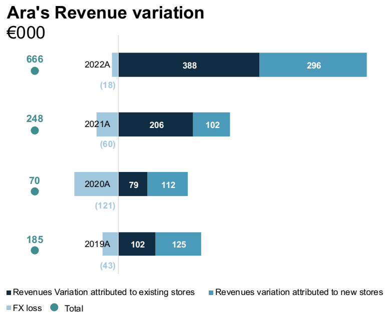
Poland: The Polish food and supermarket segment is dominated by Jerónimo Martins with a market share of 28.6% and largely distanced from the second highest player, Lidl and Kaufland, both owned by the same company with a combined share of 14%.

The market is slightly less concentrated around the players at the top compared to Portugal and quite fragmented among the remainder ones such as Eurocash, Dino Polska, Zabka, Auchan and Carrefour holding 11%, 7%, 6%, 4% and 3% of market share respectively. Eurocash has the highest standalone position apart from JM and presented a strong year-on-year H1 2023 growth of 11% while Dino Polska's, it's second closest standalone competitor, grew by a whopping 39% during the same period. In addition, Jerónimo Martins, despite its undisputed label as market leader, still amazes with a H1 2023 year-on-year growth of 24% in the Polish



Source: Statista

Figure 13 – Food and Distribution Market Share in Poland in 2022



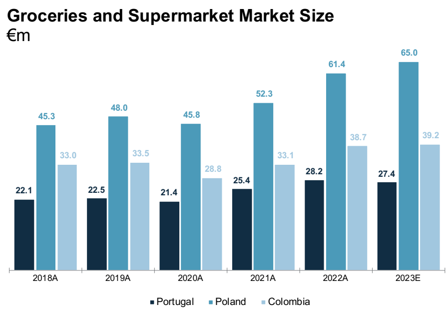
Source: JM's Report

Figure 14 – Biedronka's revenue variation attributed to existing and new stores

"JM foresees that its operations in Colombia will represent 20% of the groups sales in 10 years"

Source: SIC Notícias 2023

Figure 16 – News from SIC Notícias concerning JM's expectations for Colombia segment



Source: JM's Report

Figure 15 – Market Size where JM operates per country

segment Biedronka. While the growth is below Dino Polska's, it still blows away most of the competition.

Overall, the leadership of JM is likely to remain secure since as of now, it stands far above its competition. However, Lidl and Kaufman, as well as Eurocash and Dino Poslka, might claim in the coming years some of its current share. Together, the top 5 food retailers in Poland account for 61% of the market which demonstrates it is a highly concentrated market, despite being more dispersed than the Portuguese market among the top 5. In 2022 the market size amounted to roughly €61B.

Colombia: The Colombian market was the latter expansion from Jerónimo Martins and despite an increasingly major role in the market, there is still potential to expand further. Its current market share of 4.6%, despite much lower than the other segments, represent a substantial portion given the far more fragmented nature of the market that lacks a clear isolated leader as opposed to the other segments.

Almacenes Exito in 2022 held the biggest stake in market share in the supermarket industry of 12% while its subsequent peer D1 holds around 8%. Already at the top, it is observable a lack of concentration as opposed to Portugal and Poland. The remaining main peers, Colombiana de Comercio, Supertiendas y Droguerias Olimpicas, Cencosud Colombiana and Falabella de Colombiana, with market shares of 6%, 4%, 3% and 1% respectively support the abovementioned statement. Ara currently occupies the fourth position in terms of market share, closely above Supertiendas y Droguerias Olimpicas, its biggest contender. A more fragmented market indicates more attainable competition for the upper positions, which serves as a highlight for the opportunities to thrive in this market.

Overall, Jerónimo Martins is well positioned in the Colombia with a strong portion of the market secured and has been growing significantly since its debut 10 years ago. Despite apparent challenges, such as negative results and low margins, the company has ambition to further develop its South American activities and may benefit from market fragmentation provided it plays its strategy to capture more share. Together, the top 5 food retailers in Colombia account for 35% of the market which demonstrates it is much less concentrated than the two other segments and a good landscape to develop the Ara brand. In 2022 the market size amounted to roughly €39B.

Altogether, Jerónimo Martins doesn´t seem to be settled for as company despite its size and maturity state in 2/3 of its operations, with a recent announcement of a 33% profit growth in September accounting for activities since the beginning of 2023 and amounting to €558M. Demonstrating a strong development, along with

Comparable Companies in millions of euros, except otherwise indicated	Market Capitalization	EBIT	EBITDA
Jeronimo Martins SGPS SA	14,461	1,287	2,177
Dino Polska SA	8,812	422	525
Carrefour SA	11,867	2,446	4,893
Pepco Group NV	2,339	330	803
Sonae SGPS SA	1,930	484	860
Tesco PLC	23,558	3,460	5,526
J Sainsbury PLC	7,248	1,167	2,620

Source: Refinitiv

Figure 17 – JM's Peers Comparison

Comparable Companies in millions of euros, except otherwise indicated	EV/Sales	EV/EBIT	EV/EBITDA
Jeronimo Martins SGPS SA	0.5x	13.8x	7.8x
Dino Polska SA	1.7x	24.6x	18.3x
Carrefour SA	0.3x	11.3x	6.3x
Pepco Group NV	0.7x	15.5x	5.4x
Sonae SGPS SA	0.6x	16.4x	10.0x
Tesco PLC	0.4x	10.9x	6.6x
J Sainsbury PLC	0.4x	8.4x	4.4x

Source: Refinitiv

Figure 19 – JM's Peers Comparison

Comparable Companies in millions of euros, except otherwise indicated	Beta	Debt Weight	WACC
Jeronimo Martins SGPS SA	0.71	19.19%	7.88%
Dino Polska SA	0.75	3.42%	11.10%
Carrefour SA	0.58	59.91%	5.14%
Pepco Group NV	0.67	25.96%	7.86%
Sonae SGPS SA	1.20	62.92%	8.27%
Tesco PLC	0.75	45.76%	6.65%
J Sainsbury PLC	0.70	53.54%	6.60%

Source: Refinitiv

Figure 18 – JM's Peers Comparison

strive for stronger numbers in the Colombian market the following years, JM also announced its intent to enter the Slovak market by the end of 2024. Although this information is hard to factor in a valuation model provided operations are yet to start, it shows resilience and constant ambition for growth and expansion to further markets despite the already solid results.

PEER GROUP

The peer group was chosen out of a set of comparable companies provided by Bloomberg. It was our intent to align diversity with common ground of business activity and geography. By further filtering the list we were left with the following companies: Dino Polska, Carrefour, Pepco group NV, Sonae SGPS, Tesco and J Saibsbury. Combined they all provide the diversity needed, with headquarters spread across Poland, France, Portugal, United Kingdom and presence across most Europe combined. Most of these companies, such as Tesco, Carrefour, Dino Polska and Sonae rival Jerónimo Martins directly, either through Pingo Doce or Biedronka. Apart from Sonae and Dino Polska, all companies share the fact that they are present in multiple European countries. As for the multiples under analysis, despite the apparent size differences, they display balance throughout with Dino Polska and Sainsbury being clear outliers. Furthermore, these companies provide market caps ranging from €1,930M up to €23,558M in which Jerónimo Martins integrates above the middle of the interval with €14,461M. As for EBITDA, it ranges from €525M to €5,526M with Jerónimo Martins' being €2,177M for the same period. This variety mirrors not only different phases of the business, but also specificities of each market and how it responds to the offer of these related activities, which is what we are looking for.

The Latin market was not taken into consideration since as of now, most revenues are yield from Europe and peers from those markets could bring undesired impacts on the valuation for this stage, which doesn't imply that down the road, as this segment grows, it shouldn't be included.

SWOT ANALYSIS

STRENGTHS

Each market has its own specificities and JM manages to strive for many reasons. The company has a well-established store format in the markets it operates in and that derives from the fact that it isn't growing uncontrollably, on the contrary, they plan every expansion to the detail in order to succeed and target dominance throughout. As a result, they are now in a power position when comparing it to certain competitors with a solid operational cog that results in a good financial

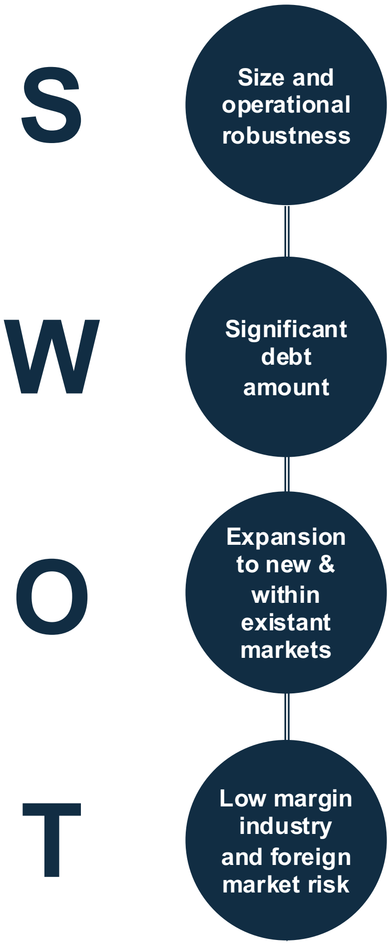


Figure 20 – JM's SWOT analysis main topics

performance. All this leads to a vast distribution network allowing JM to get better supplier deals, better management of inventory and more leverage to operate in an industry that has historically thinner profit margins. In fact, in 2019, according to Deloitte's "Global powers of Retailing", which assesses the 250 largest companies of the sector, Jerónimo Martins enters the top 50, a huge milestone for the company and showcasing its strength in the market globally.

Weaknesses

As a matter for concern for potential inventors, high debt levels should be highlighted, especially given the increase of 10.6% from 2021 to 2022. This is however partially offset by a strong cash position, meaning that when comparing the net debt increase during the same periods, the increase amounts to 2%. Nevertheless, debt increase may lead to higher interest rates which could put pressure on its profitability and margins.

Opportunities

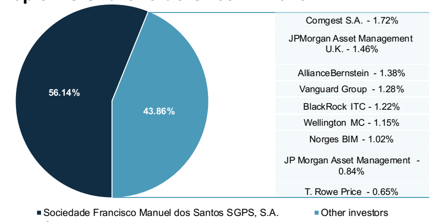
Despite its already established brand in the markets, it operates and 230 years of existence, JM still has very clear expansion plans in mind and opportunities to thrive further. For instance, apart from the slower expansion in Portugal and Poland, given their already empowered position, JM has ambitious plans to grow in the Colombian market, with a clear goal in mind to reach 20% of the total revenues by 2033[3] (7% as of 2022). Moreover, it has recently announced its intent to expand to a brand-new market, Slovakia. Finally, the online market is expanding allowing the company to embrace new models and forms of delivery which can captivate larger masses, as is the case of its partnership with Mercadão for home deliveries.

Threats

Along with a thin margin industry, Jerónimo Martins also copes with fierce competition in all its markets, some being more concentrated than others, which is the case of Portugal and Poland where the top 5 players account for 75% and 61% respectively relative to the total market. However, Portugal seems to be the country which may cause the largest concern, given the proximity market share wise with the first and third players whereas for instance in Poland, Biedronka is clearly isolated at the top by a whopping 15%. Another risk Jerónimo Martins faces is foreign market risk, either through inflationary or labour market instabilities, or simply due to foreign exchange risk.

[3] https://sicnoticias.pt/economia/2023-09-26-Jeronimo-Martins-preve-que-operacao-na-Colombia-signifique-20-das-vendas-do-grupo-em-dez-anos-483306c2

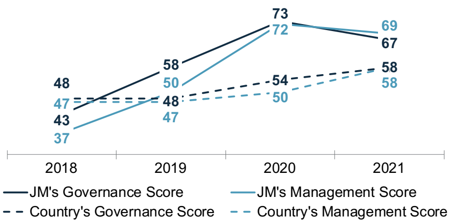
Top JM's Shareholders - 09.12.2023



Source: Refinitiv

Figure 21 - Top 10 shareholders as of December 9, 2023

Jerónimo Martins and Country Median's Governance Pillar Score



Source: Refinitiv

Figure 22 –Refinitiv's ESG: Governance Pillar Score

"JM avoided **753 tons** of sugar, **271 tons** of fats and **121 tons** of salt entering in the market"

Source: JM report

Figure 23 - 2022 Highlights of "Promote Health through Nutrition"

Board of Directors	Since
Pedro Soares dos Santos	1995
Andrzej Szlęzak	2013
António Viana-Baptista	2010
A. Stefan Kirsten	2015
Clara Christina Streit	2015
Elizabeth Ann Bastoni	2019
Francisco Seixas da Costa	2013
José Soares dos Santos	2019
María Ángela Holguín	2019
Natalia Anna Olynec	2022
Sérgio Tavares Rebelo	2016

Source: Jerónimo Martins' Report

Figure 24 – Members of Board of Directors for the term 2022-2024 and their respective joining years

"100%

of Private Label products of JM were produced **without artificial colorants"**

Source: JM report

Figure 25 - 2022 Highlights of "Promote Health through Nutrition"

ESG - Shareholder Structure and Board of Directors

JM's principal shareholder is Sociedade Francisco Manuel dos Santos, SGPS, S.A., a venture capital and private equity firm that possess a majority of 56.1% in the company. The remaining shares, around 275M, represent 43.9% of the outstanding shares owned by international funds.

Regarding the Board of Directors, its term has the duration of 3 years and the last election happened on the 21st of April 2022 where 11 professionals were elected. It could be observed only a small turnover over the last few years. The current President and CEO of JM, Pedro Soares dos Santos, has been president since 2013 and has been a member of the Board of Directors since 1995, demonstrating proven experience in the company. He also owns 274,805 shares in JM.

According to Refinitiv ESG Score, JM has received 67 points in the governance pillar in 2021, which is the lowest among the ESG pillars. The primary disapproval pertains to governance practices that does not align with the best corporate governance principles. These includes the absence of an adequate number of independent board members and the combination of the Chairman and CEO positions held by the individual. Also, the shareholders evaluation raises concerns since the major shareholder, who holds more than 50% of voting shares, possesses a golden share that grants them veto power over other shareholders.

ESG - Social Impact of Jerónimo Martins

According to the company's President, JM's teams in Poland have been actively supporting millions of refugees escaping the war. In 2022, the company provided more than €8M both in cash and non-cash items through social institutions.

To combat inflation and support families, JM has absorbed some of the increasing cost of goods, which resulted in a 0.3 percentage points reduction in the EBITDA margin. In Poland, for instance, despite a 24.1% increase in revenues, the company froze the prices of 150 products during the first half of 2022 to mitigate the significant increase in food prices which reached 15.4% in 2022.

In Portugal, Pingo Doce focused on containing the increase in prices launching intensive promotional campaigns after experiencing a trading down[4] behaviour. Those campaigns were devoted to maintaining prices stable for several months.

Overall, during 2022, the company donated approximately €60M to support the most vulnerable population. To their employees, JM distributed €289M in

[4] Trading down – when clients prefer to buy cheaper and lower quality items over premium and expensive ones

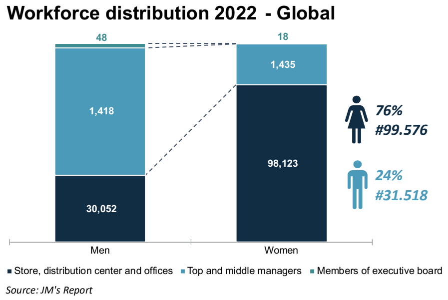


Figure 26 – Workforce distribution among gender and function

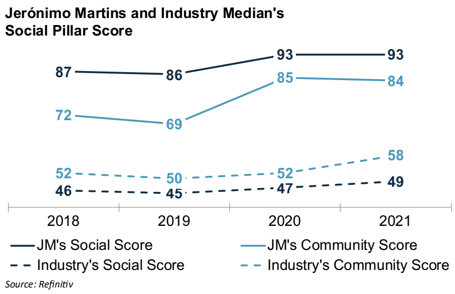


Figure 27 –Refinitiv's ESG: Social Pillar Score

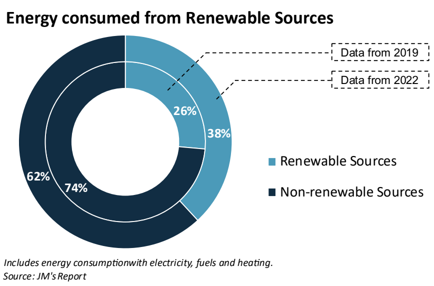


Figure 28 – Energy consumption by energy source in 2019 and 2022

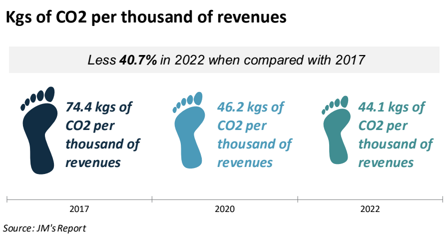


Figure 29 – Carbon footprint comparison in 2021 and 2022

recognition measures for their performance and dedication, including an extraordinary aid of €9M to offset the consequences of high inflation.

In 2022, the company employed 131,094 workers, after an increase of 6.2% compared to 2021. In terms of diversity, women comprise 77% of employees in stores, distribution centers, and offices, but only 27% among the members of the executive board. Overall, women constitute 76% of the total employees among functions in store, distribution centers, and offices representing 98% of the total.

Additionally, JM workforce exhibits high rotation, due to part time programs, with a ratio of exits during 2022 to the total number of employees at the end of the year of 30.8% and a retention rate of 80.2% at the end of 2022 compared to 2021.

According to Refinitiv ESG Score, JM attained 93 points in the social category. The main criticisms are related to business ethics and the company's commitment to being a responsible corporate citizen. Specifically, concerns areas such as policy fair competition, issues due to price fixing, and the protection offered to whistle blowers among their employees who report on breaches of illegal activities.

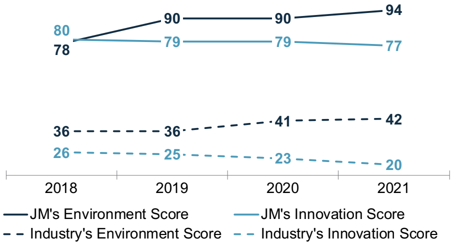
ESG - ENVIRONMENT COMMITMENT OF JERÓNIMO MARTINS

JM is actively engaged in an effort for decarbonization, attempting for a more efficient management in water and energy consumption as well as a more responsible usage of natural resources. In fact, the company achieved almost 40% of its total energy consumption sourced from renewable sources (an increase of 10 percentage points when comparing with 2019). In terms of energy efficiency, JM is focused on implementing photovoltaic panels, heat recovery and cold conservation systems and LED lighting. Additionally, 91% of the food product purchases by JM were from local suppliers.

The company stands as the only Portuguese company classified with an A rating by CDP – Disclosure Insight Action on water and climate programs. When combined with the grade received for combating deforestation, it positions JM as the global food retailer with the highest rating in terms of strategy, performance, and transparency. In terms of progress, the carbon footprint of JM was reduced by 41% in 2022 when compared to 2017, for every €1,000 in sales. Moreover, JM's commitment to sustainability can be proven as it was included in more than 120 international indexes of sustainability, such as the Bloomberg Gender-Equality Index[5], the FTSE4Good[6] and Euronext Video-Eiris[7].

[5] Bloomberg Gender-Equality – awards the performance of the companies in gender equality
[6] FTSE4Good – comprise the companies that manage better the sustainability risks.
[7] Euronext Vigeo-Eiris – awards the companies with better ESG (Environment, Social and Governance) performance

Jerónimo Martins and Industry Median's Environment Pillar Score



Source: Refinitiv

Figure 30 –Refinitiv's ESG: Environmental Pillar Score

JM's M&A Activity

1. **2022, June** – Acquisition of 10.5% of the share capital of Andfjord Salmon, a Norwegian company for sustainable salmon production
2. **2021, February** – Acquisition of 66.7% of the share capital of Mediterranean Aquafarm, a Moroccan aquaculture producer company
3. **2016, September** – Sale of Monterroio, a Dutch company operating coffee shops and ice cream bars, valued at €310.01m
4. **2016, April** – Sale of Industry & Investments, a Dutch operator of grocery stores, valued at €285.02m
5. **2015, March** – Acquisition of 100% of the share capital of Serraleite, a milk producer and distributer Portuguese company
6. **2008, April** – Acquisition of 75 stores in Portugal and 210 in Poland from a German retailer conglomerate, valued at €320.02
7. **2006, January** – Acquisition of Ola ice cream shops brand and Ben & Jerry's brand to Anglo-Dutch consumer goods, valued at €2m
8. **1998, July** – Acquisition of the remaining share capital (40%) of Recheio Distribuição, Lda., valued at €72.5m
9. **1997, December** – Acquisition of Biedronka, a Polish discount stores and supermarkets chain
10. **1997, January** – Acquisition of 97.5% of the share capital of Vidalgo Melgaço, a Portuguese sparkling water bottler company

● Acquisition ● Sale

Figure 31 – M&A Activity of Jerónimo Martins during the past years

According to Refinitiv ESG Score, JM achieved 94 points in the Environmental category. However, it appears to have more room for improvement in terms of environmental innovation. Specifically, the capacity to reduce environmental costs and burdens for its customers as well as creating new market opportunities and develop eco-designed products.

STRATEGIC POSITION

JM operates in the retail market not only selling other brands but also on their own private labels to provide competitive prices and ensure high food quality reducing exposure to external suppliers and increasing margins. To further expand their business, they are committed to continually opening new stores and maintaining their leadership in the markets they currently operate. This strategy allows them to create economies of scale, enhance logistic and operational efficiency, and navigate costs pressures and uncertainty effectively.

In Poland, the company has placed a strong emphasis on developing e-commerce and their own app allowing Biedronka to align with market trends and promote a more personalized relationship with clients while improve cost efficiency. For Pingo Doce, the company is prioritizing store revamping to enhance customer experience while maintaining their expansion plans from previous years. In Ara's business, the company is committed to continue the huge expansion plans from previous years while staying focused on price leadership and adapting to the needs of families.

JMA[8] aims to ensure JM's capacity to supply strategic products, particularly in the dairy, vegetables, fruits, and aquaculture sectors. To strengthen JMA's position in the market, the company has acquired several businesses engaged in sustainable production. This includes the acquisition of 10.5% in *Andfjord Salmon*, an innovative and sustainable salmon production in Norway, or the acquisition of *Serraleite – Cooperativa Agrícola de Portalegre*, a milk producer and distributer. In Algarve region, JMA has initiated the operation of *Seaculture*. In the production of fruits and vegetables, the company has invested and reinforced partnerships to increase biological production, expanding the farming area to 80 hectares.

JERÓNIMO MARTINS CURRENT CONTEXT

WORLD CURRENT CONTEXT AND THE EFFECTS ON JM

As the World was nearing full recovery from the COVID-19 pandemic, which caused disruptions in the supply chain that had significantly affected companies as JM due to their inherent vulnerabilities, the unexpected invasion of Ukraine by

[8] JMA – Jerónimo Martins Agro-Alimentar

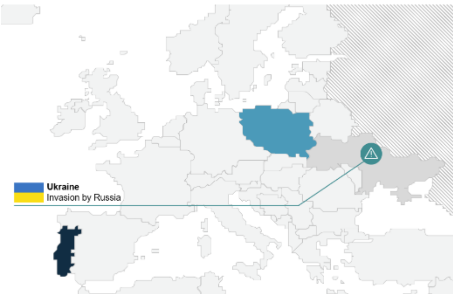


Figure 32 – Global conflict in Ukraine affecting JM's operations in Poland

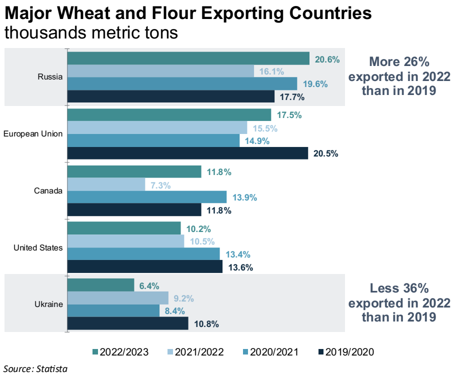


Figure 33 – Major Wheat and Flour World exporting countries

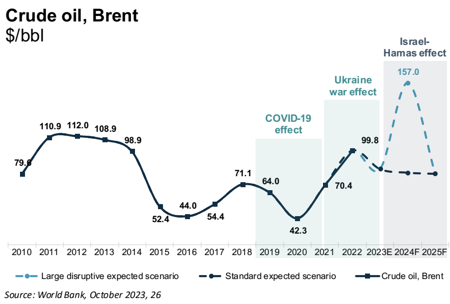


Figure 34 – World Bank's Expected scenarios of forecast Crude Oil Prices

Figure 35 – Tensions in Venezuela affecting JM's operations in Colombia

the Russian Federation restored back instability and insecurity. This unforeseen event had several impacts globally, affecting JM and its operations as well.

JM, that currently operates in Poland, one of the most affected countries due their close proximity to the conflict, found itself confronting a major challenge, namely the economic, social, and political instability affecting the daily lives of people, businesses, and governments that extended to the continent.

Furthermore, the escalating tensions between the USA[9] and China coincide with the support and protection of the Western countries to both Ukraine and Taiwan, either diplomatically or military assistance. In contrast, China has remained neutral and refuses to be against Russia.

Indeed, since Ukraine and Russia are among the world's largest suppliers of cereals and fertilizers, the ongoing conflict and sanctions imposed by the occidental countries are leading to a substantial increase in food prices, crucial for the JM's operations. After the challenges that Ukraine was facing to export cereals when Russia blocked Ukrainian ports, Poland chose to ban[10] Ukraine grain imports to protect their own farmers, igniting a dispute between the two countries. This may deepen the previous situation increasing prices even more, the normal functioning of supply chains and jeopardizing the firms that rely on those.

Moreover, this conflict revealed European dependence on Russia for its energy needs, encompassing natural gas, oil, and coal since Russia has been Europe's main supplier. In addition, it also skyrocketed energy prices, compelling Europe to diversify its energy sources and to ensure more stable access. Consequently, along with the spike in food prices, it contributed to a substantial increase in inflation, prompting Central Banks to increase interest rates.

Additionally, the intensifying tensions[11] in the Middle East are introducing an additional risk and greater volatility to the global oil market, coinciding with a surge in global demand. Following this, the World Bank[12] predicted that the price of a barrel of Brent crude oil, in the large disruptive scenario, could reach $157.

Finally, over the years, the political tensions in Venezuela[13], which emerged from the disputed presidency, have generated an economic and political crisis with the president claiming Guiana's territory. This has resulted in a significant wave of millions of refugees leaving the country. The consequences of this migration crisis

[9] USA - United States of America
[10] https://www.wsj.com/world/europe/tension-between-ukraine-and-ally-poland-over-grain-exports-vexes-eu-b350a479
[11] https://tinyurl.com/mry5cu37
[12] https://www.ft.com/content/7fe07a25-9a76-4777-9178-c6756bb04c2f
[13] https://www.bbc.com/news/world-latin-america-36319877

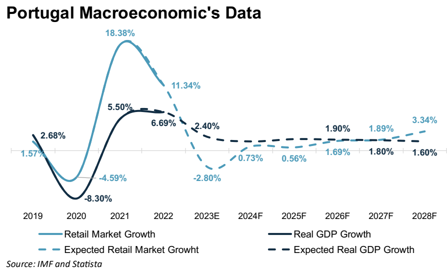


Figure 36 - Macroeconomic Data for Portugal

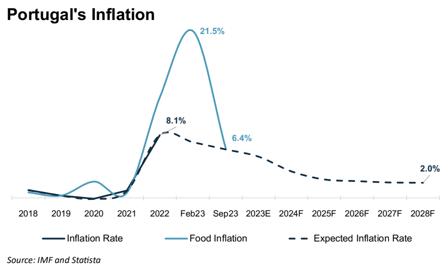


Figure 37 - Inflation for Portugal

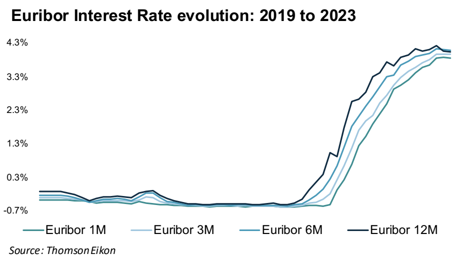


Figure 38 - Euribor Interest Rate Evolution from 2019 to 2023

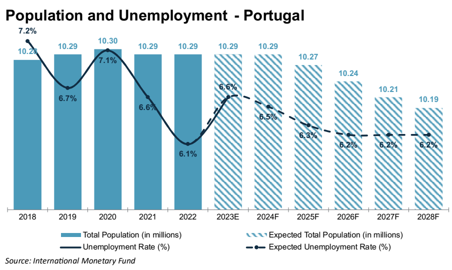


Figure 39 – Estimated demographics for Portugal

extend to neighbours' countries, with Colombia becoming one of the primary routes for this migration.

Given the described situation, JM is compelled to adjust itself to the evolving socio-economic situation. This means not only consider the challenges that families are facing but also address the increasing costs.

PORTUGAL

Portuguese economy experienced an 8.3% contraction in 2020 due the impact of COVID-19 but shown an average growth of 1.9% from 2018 to 2022. Similarly, the food retail market experienced a contraction of -4.6% in 2020 but achieved a CAGR[14] of 5% from 2018 to 2022. However, in 2021 the market skyrocketed with a peak growth of 18.4% while the economy only fully recovered from the pandemic crisis in 2022, with a 6.7% GDP growth. For both, it is expected modest growths of 2% per year for the upcoming years which could pose a potential challenge to JM.

Regarding inflation, it is estimated a deceleration during the coming years after reaching its peak value at 8.1% in 2022. According to IMF[15], it is expected that inflation will reach 2% by 2027, which aligns with the ECB[16] target inflation rate. As for the food inflation, the situation mirrors this trend, with it peaking at 21.5% as of February 2023 and subsequently showing a consistent decline to 6.4% in September 2023. It is projected to stabilize at the beginning of 2024.

Considering this context and after a decade of exceptionally low interest rates, ECB, pursued an exponential increase in interest rates, hitting 4.5% in September 2023 against 0% in August 2022. They have announced[17] their intention to maintain these rates at stringent levels to reach their target. As consequence, EURIBOR rates are rising across all time periods which is not only impacting European countries but also companies, leading to financial challenges for JM.

Demographically speaking, Portugal is dealing with a crisis, with an expected decline and aging in the total population over the next decade. This demographic shift may pose an additional challenge for Pingo Doce as, being a company specialized in essential products, a shrinking and aging population may indicate a stabilization and saturation in market growth. Despite all the instability in Portugal, the labour market has been resilient and has been showing a decreasing trend in unemployment rate to 6.1% in 2022.

[14] CAGR – Compound Annual Growth Rate
[15] IMF – International Monetary Fund
[16] ECB – European Central Bank
[17] https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.mp231026~6028cea576.en.html

“Windfall tax
ends. It generated 1.4 Million in **food distribution** [in 2022, in Portugal]

Source: Jornal de Negócios

Figure 40 – News from October 11th, 2023 published in Jornal de Negócio

Companies operating in Portugal are subject to a statutory tax rate[18] of 21%, a 1.5% municipal tax and a state surtax of 3% applicable to the taxable profit exceeding €1.5M and up to €7.5M, 5% when exceeding €7.5M and up to €35M and 9% when exceeding the taxable profit of €35M, all of the taxes are projected to remain constant during all the projection time. Moreover, in 2022 and 2023, the government imposed a windfall tax of 33% (CST[19]) on retail companies that exceeded their average results from 2018 to 2021 by 20%. This is an extraordinary tax, considered an adjustment, and it will not be applicable[20] from 2024 onwards.

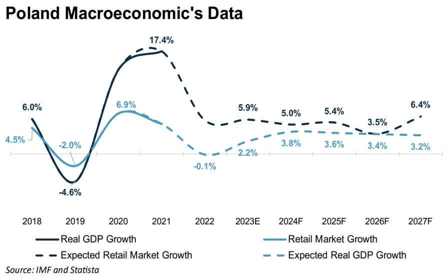


Figure 41 - Macroeconomic Data of Poland

POLAND

Poland has registered high GDP growth, with the exception the occurrence of a downturn in 2020 due to the pandemic crisis achieving an average growth rate of 4.1% per year from 2018 to 2022. However, if we do not consider the year of 2020, the average growth rate would be 5.6%. A similar behaviour is observed in the food retail market, with a CAGR of 6.3% from 2018 to 2022 and a decline of 4.6% in 2020, followed by a peak growth of 17.4% in 2022. In contrast to Portugal, Poland[21] fully recovered from the COVID downturn during the first half of 2021, establishing itself as one of the most resilient economies in Europe. For the upcoming years, IMF predicts, from 2025 onwards, an average growth of 3.2%. The retail food market is expected to exhibit an average growth of around 5.3%.

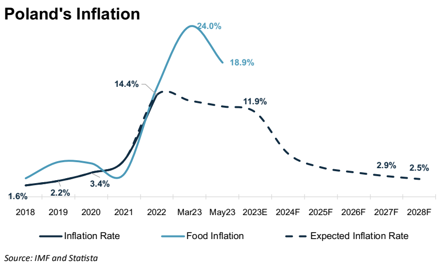


Figure 42 – Poland's Inflation

Regarding inflation, it hiked from 1.6% in 2018 to 14.4% in 2022, and it is predicted that it reached its maximum. According to IMF, Polish inflation will slightly decrease in the coming years to 12% in 2023 until it stabilizes at 2.5% in 2028. Food inflation follows a similar pattern, with continuous growth from December 2020 when registered 0.8% until peaking 24% in March 2023, starting to decrease to 18.9% as of May 2023, and further declines are anticipated in coming months.

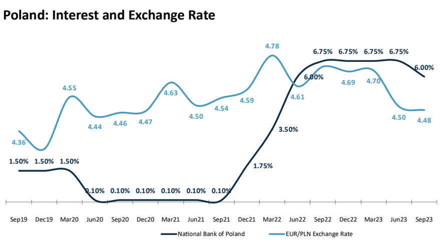


Figure 43 – National Bank of Poland interest rate and EUR-Zloty Exchange rate evolution

In response to the inflation increase and following the actions of other Central Banks worldwide, the NBP[22] rushed to raise its interest rates, reaching a maximum value of 6.75% in September 2022. Due to the anticipated response of NBP, and despite Polish inflation remaining in double digits, interest rates have already decreased to 5.75% in October[23] 2023.

Regarding population, Poland has over 37.6M inhabitants, making it one of the most populous countries in Europe. However, as projected by IMF, it follows the

[18] https://taxsummaries.pwc.com
[19] CST – Temporary Solidarity Contribution, Portuguese windfall tax applied for 2022 and 2023
[20] https://tinyurl.com/2wakhxvt
[21] https://tinyurl.com/4nrvsk93
[22] NBP - National Bank of Poland, Central Bank of Poland
[23] https://www.wsj.com/articles/polands-central-bank-cuts-interest-rates-as-expected-ahead-of-election-b7529dd

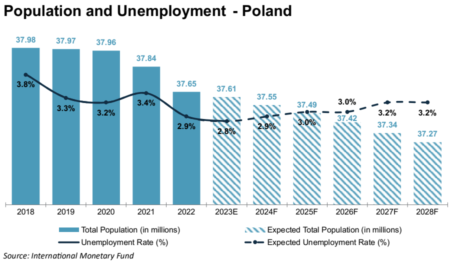


Figure 44 – Estimated demographics for Poland

same trend as Portugal registering a constant decline in the upcoming years. This trend, combined with the maturity of Biedronka and its focus on essential products, may pose challenges for future growth. The Polish labour market reveals high resilience, with an average unemployment rate of 3%.

Companies operating in Poland, are subject to a 19% statutory tax rate, expected to remain stable. However, according with the Retail Tax Act, retailers must pay an additional tax when their earnings surpass PLN170M (€38M). In such cases, it is charged a tax rate of 0.8% to the first €38M, and 1.4% to the amount exceeding that threshold. However, e-commerce sales are excluded.

On 15 October 2023, Poland held elections, and, despite the victory of the same party that was ruling with majority for the previous 8 years, it did not secure a renewed mandate. Consequently, it will be formed a new government[24] with different priorities as the reduction in consumption support in favour to more public investment, the creation of a more competitive fiscal policy involving a decrease in income tax, or the alignment with other European countries concerning regarding energy diversification reducing Russian dependence.

COLOMBIA

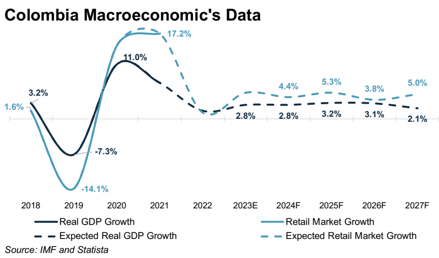


Figure 45 - Macroeconomic Data of Colombia

Colombia is the most volatile country among the regions where JM operates, with an average GDP growth of 3.4% from 2018 to 2022. This was influenced by the downturn of -7.3% in 2020, but, excluding it, the average growth rate would be 6%. The food retail market exhibited a similar behaviour, experiencing a contraction of -14.1% in 2020, followed by a strong growth of 14.8% in 2021 and 17.2% in 2022, resulting in a CAGR of 3.3% from 2018 to 2022. For the upcoming years, IMF expects a modest GDP growth until it stabilizes at 3.3% per year in 2026. The retail food market is also expected to exhibit lower growth of an average of 4.1% per year, slightly below the Polish retail food market but higher than the Portuguese's.

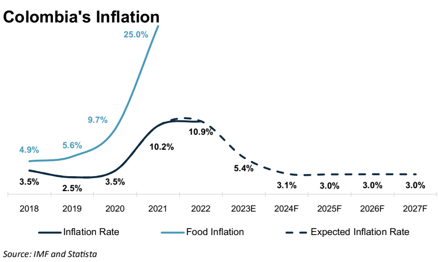


Figure 46 - Inflation for Colombia

As for the inflation, it climbed to 10.2% in 2022, after a 4-year period of relatively stable values. The IMF anticipates a further increase, reaching a peak of 10.9% in 2023 and a gradual decrease until 3% by 2026, which aligns with the target inflation of BR[25]. Food inflation also surged in recent years, reaching 25% in December 2022, progressively decreasing on the following months.

In response to this exponential increase in inflation, BR raised interest rates from 1.75% in June 2021 to 13.25% in April 2023, which was considered the peak.

[24] https://think.ing.com/articles/polands-new-majority-to-transform-election-platform-into-a-viable-economic-strategy#a5
[25] BR – Bank of the Republic, Central Bank of Colombia

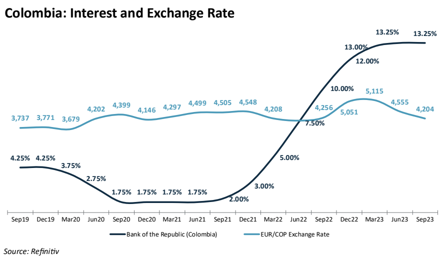


Figure 47 – Bank of the Republic interest rate and EUR-Peso Exchange rate evolution

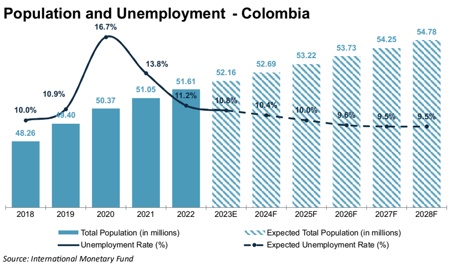


Figure 48 – Estimated demographics for Colombia

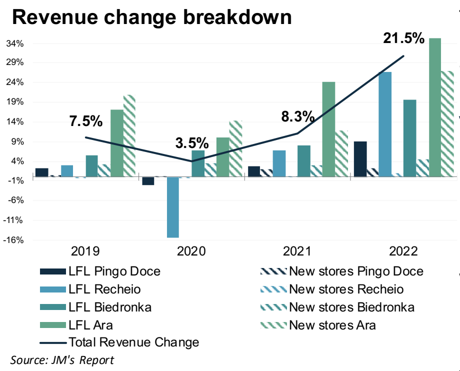


Figure 49 – Revenue change breakdown per business, existing and new stores, excluding FX losses

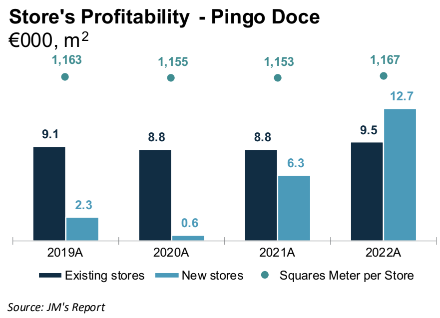


Figure 50 – Average Revenue per existing and new stores and square meters per store.

Despite government and business leaders' requests, it is not expected any interest rate cut in upcoming months due to high inflation predictions and low GDP growth.

Colombia has the largest population among the regions where JM operates, with more than 51.6M inhabitants and an expected increase to 54.8M by 2028. The Colombian labour market shows to be a weakness, with an 11.2% unemployment rate in 2022, with IMF predicting that these high levels will persist.

Until 2022, the company reported negative earnings in Colombia, being subject to a 0.5% tax rate on net equity. However, it is anticipated that Ara's business will generate positive earnings starting in 2023, resulting in a 35% corporate tax rate, which is expected to remain stable.

In 2022, it was elected the first leftist president[26] with an ambitious agenda encompassing tax systems reforms, political changes, and social initiatives. This proposal implies a shift from the traditional policies and includes measures such as increased taxes for the wealthiest residents and commodities exports.

The combination of these factors raises concerns about the future functioning of the government and the President's ability to implement their agenda effectively, as well about overall country's stability.

VALUE DRIVERS AND FORECASTS

REVENUES DRIVERS AND FORECASTS

When reorganizing company's financial statements, we separated the core business into 5 main segments given JM's structure. That segregation considered the regions and the business specificities, being: Pingo Doce, Recheio, Biedronka and Ara. Due their minor importance and since it would not impact our valuation, we decided to consolidate a fifth segment into an "Other & Adjustments" category including the minor brands of JM. This last segment was forecasted based on the average growth of the main segments.

For the sales drivers for each segment, we considered the LFL[27] growth of existing stores, factoring in expected inflation, and new stores opening based on historical expansion plan, market sizes in each country, and future market conditions. For existing stores, we observed, excluding the impact of COVID in 2020, a consistent upward trend over the years. To forecast revenues from new stores, we considered market share, historical openings, inflation rates and ARPS.[28]

[26] https://www.ft.com/content/35d3eae3-5166-42f6-b0b0-a66c6c709116
[27] LFL – Like-for-Like, revenues growth from existing stores
[28] ARPS – Average Revenue per-store

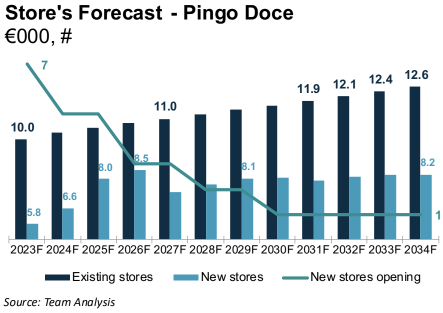


Figure 51 – Average Revenue per store forecast and stores opening forecast per year.

PINGO DOCE

Pingo Doce, which reported an ARPS of existing stores of €9.5M in 2022, has shown a CAGR of 1.1% from 2019 to 2022. Notably, this growth is similar with the average inflation of 2.3% of the same period, expecting to reach an ARPS of €12.6M by 2034. Also, it is worth to mention that each Pingo Doce's store occupies, on average, 1,167 squares meters, which typically includes a restaurant area, kitchens, and takeaway sections. This results in larger stores with higher revenues, but less in number when compared with other segments.

As of September 2023, Pingo Doce has expanded to 479 stores, adding 7 more compared to the previous year and registered €3.5B in revenues, an increase of 8.8% from the same period of 2022 and 74% of our forecasted revenues for 2023, in line with the historical average of 73%.

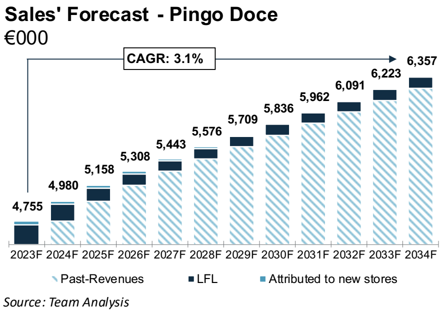


Figure 52 – Pingo Doce's Revenues Forecast Breakdown and Growth

In the context of the Portuguese food retail market, a very mature market, nearing saturation, with Mercadona increasing their presence and the acquisition of Minipreço by Auchan, it is unlikely that Pingo Doce will significantly increase its market share from its current 16%. As a result, we anticipate that the pace of new stores openings will gradually decrease reaching only 2 per year in 2028 and 1 per year by 2030. This represents a deceleration in revenues attributed to new stores from 2.2% in 2022 to stabilize at 0.1% in 2030.

Overall, our forecast suggests a CAGR of 3.1% over the next decade, stabilizing at 2.2% growth per year by the end of our analysis period. This culminates in a 19% market share, an increase of 3pp.

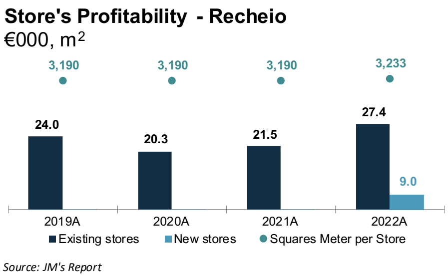


Figure 53 – Average Revenue per existing and new stores and square meters per store

RECHEIO

Recheio, with an ARPS of €27.4M in 2022, realized a CAGR of 3.3% from 2019 to 2022. As Pingo Doce, it is close to the average inflation for the same period, reinforcing our assumption of forecasting revenues from existing stores with inflation rates, expecting to reach €39.1M an ARPS by 2034.

This difference in revenue per store compared to Pingo Doce is attributed to Recheio being a Cash & Carry, primarily targeting businesses such as retailers and restaurants. These clients typically pursue larger and more frequent purchases, increasing the need of greater amounts of space per store, reaching, in 2022, to 3,233 squares meter per store.

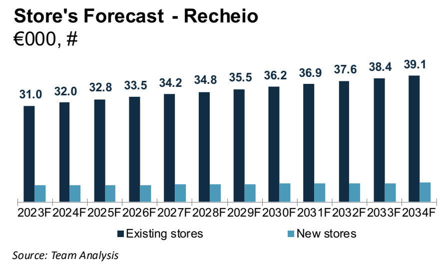
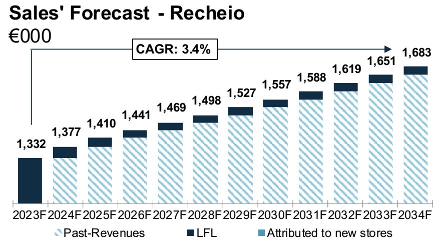


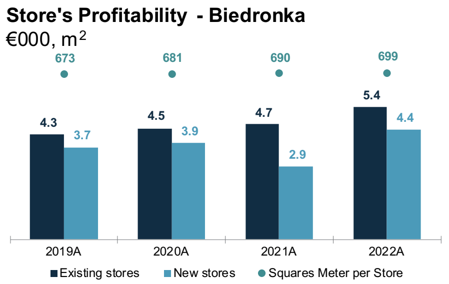
Figure 54 – Average Revenue per store forecast and stores opening forecast per year

Additionally, this also explains the link between the economy and sales and why Recheio will further benefit from the complete recovery from the pandemic. In contrast to Pingo Doce, Recheio experienced a significant decrease in revenue per store in 2020, amounting to €4M in ARPS, due the imposed closure of smaller



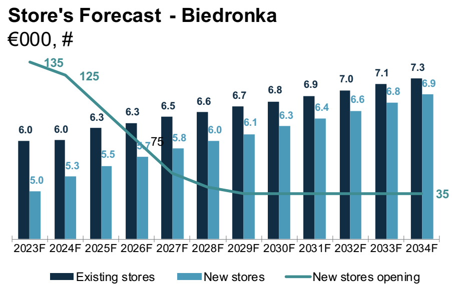
Source: Team Analysis

Figure 55 – Recheio's Revenues Forecast Breakdown and Growth



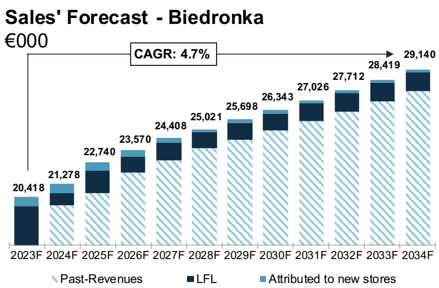
Source: JM's Report

Figure 56 - Average Revenue per existing and new stores and square meters per store.



Source: Team Analysis

Figure 57 – Average Revenue per store forecast and stores opening forecast per year, excluding FX losses



Source: Team Analysis

Figure 58 – Biedronka's Revenues Forecast Breakdown and Growth

businesses, these was the most affected segment among JM. This recovery allows the full functioning of HoReCa, which made us decide to incorporate an additional increase in revenue per store of 7.5% in 2023.

As of September 2023, this segment has reported a total revenue of €1B, making the first time it has reached this milestone in just 9 months. This represents an 18% increase compared to the same period in 2022, and 75% of the total revenues for our estimated value for 2023, in line with the historical average of 74%.

For Recheio, after opening one store in 2022, in Cascais, there is a low probability of opening additional stores during our forecast period. Consequently, we anticipate that this segment revenues will only increase from existing stores, with a CAGR of 3.4% over the next decade and a steady state of 2% per year by 2027.

BIEDRONKA

For Biedronka, it consolidated an ARPS of €5.4M and a CAGR of 5.9% from 2019 to 2022. This growth rate aligns with average inflation of 6.3% making it a reliable value driver for our forecasts, expecting to reach an ARPS of €7.3M by 2034.

Unlike the previous segment, the focus is on proximity stores, which are smaller in size but more numerous. In 2022, each Biedronka's store occupied approximately 699 squares meter. This indicates that there will be room to open a higher number of stores. However, considering that JM already captures 29% of the market in Poland, we must acknowledge that a further increase may not be feasible.

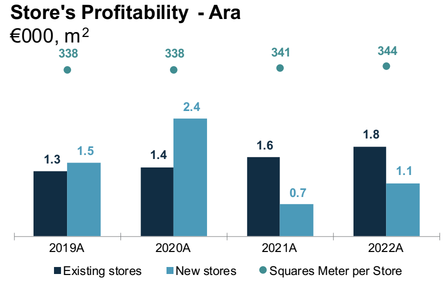
Overall, we anticipate an initial increase of 100-135 stores per year during the early years of our forecast period, followed by a decreasing number of new store openings until it stabilizes at 35 stores by 2029. This is in line with the milestone of reaching a total of 3,473 stores, 78 more stores when comparing with December 2022 and aligned with our prediction to open 135 in 2023. This results in an overall decline in the growth attributed to new stores from 4.4% in 2022 to 0.9% in 2030.

As of September 2023, Biedronka has marked a substantial increase of 24.2% in their first 9 months revenues when compared to the same period in 2022. This represents 90% of the total revenues generated in 2022 and accounts for 77% of total revenues we anticipate for the full year of 2023.

In summary, we project a steady state of 2.5% in 2030 and a market share of 30% in 2028, a 2pp increase from 2022, with a CAGR of 4.7% over the next 10 years.

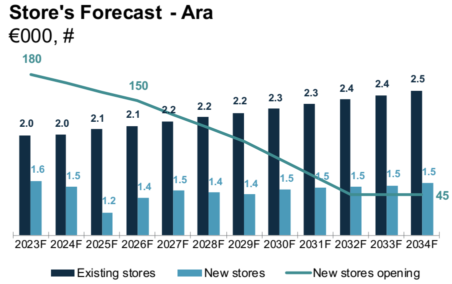
ARA

Ara stated an ARPS of €1.8M in 2022 and a CAGR of 8.4% from 2019 to 2022. For this growth, we must consider, not only the average inflation of 4.9%, but also



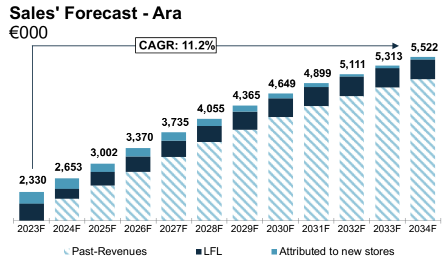
Source: JM's Report

Figure 59 – Average Revenue per existing and new stores and square meters per store



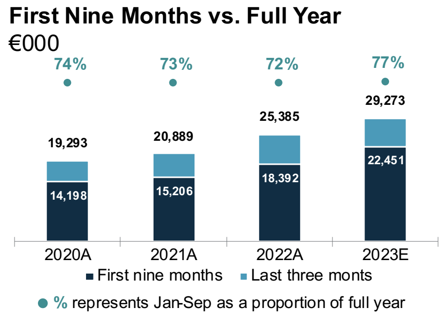
Source: Team Analysis

Figure 60 – Average Revenue per store forecast and stores opening forecast per year, excluding FX losses



Source: Team Analysis

Figure 61 – Ara's Revenues Forecast Breakdown and Growth



Source: JM's Report and Team Analysis

Figure 62 – Percentage Breakdown of Revenues for the First Nine Months vs. Full Year

the fact that, unlike the previous segments that are already dominant players in the market, Ara is still in the process of gaining market share and building closer relationships with its clients. However, starting from 2023, it becomes reasonable to rely on inflation as a main driver of growth, as it already accounts for a significant portion of the market, expecting to reach and ARPS of €2.5M by 2034.

Similar to Biedronka, each Ara store occupies 344 squares meters, reflecting the nature of proximity stores with smaller footprints and smaller revenues per store. In turn, it suggests the potential to open a significant number of new stores, that we estimate to be at 135-180 stores per year, with a gradual decline over time. In September 2023, it operated within 1,241 stores, more 148 than in December 2022 aligned with our forecast to open 180 stores during the year of 2023.

As of September 2023, Ara has reported €1.8B in revenues for the first 9 months. This represents a remarkable 35.6% increase when compared to the same period in 2022 and constitutes 99% of the total revenues generated in 2022.

Overall, sustained by the growing population and the favourable economic prospects, we can securely assume a high growth for this segment. A CAGR of 11.2% over the next 10 years, and a market share of 8% in 2028, two times the 2022 values. Furthermore, Ara is expected to account for 13% of JM's total Sales within the next decade, aligned with the company's expectations. According to our projections, it is anticipated that Ara will achieve €5.1B in revenues by 2032.

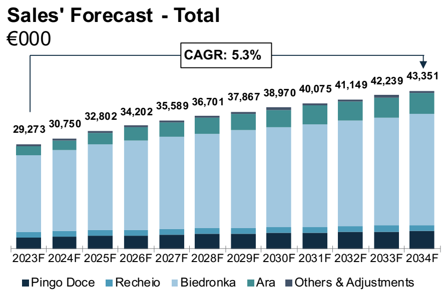
TOTAL SALES

During the first 9 months of 2023, JM reported a total Net Sales and Services of €22.5B, a 22% increase compared to the same period of 2022 and accounting for 88% of total revenues of 2022. In our forecast, it represents 77% of total expected revenue of 2023, in line when compared with the historical average of 73%.

All in all, there is a significant and direct relationship between inflation and ARPS within the food retail industry. This arises from the need of companies to promptly adjust their prices in response to inflation to safeguard their operational margins.

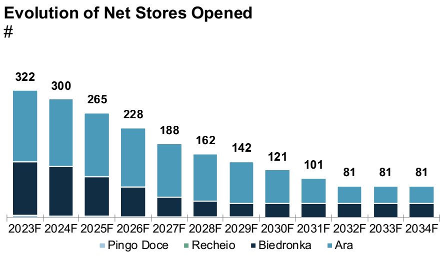
Together, our projections suggest an expected CAGR of 4.9% over the next decade. This results in a total revenue exceeding €40B per year by 2031 and a steady growth of 2.6% in the later years. However, this growth is substantially lower to the 8% CAGR observed between 2019 and 2022 explained for the expected deceleration in the expansion rate of the company and the stabilization of inflation to the respective Central Banks' medium-long term target.

Furthermore, our projected number of new stores reflects the net change in store count. This encompasses not only the new store openings but also the closures



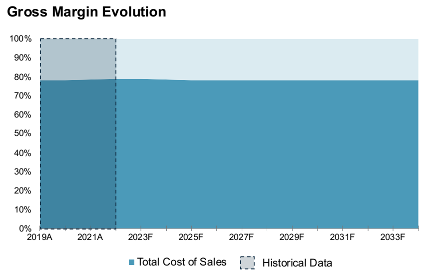
Source: Team Analysis

Figure 63 - Forecasted JM's Revenues



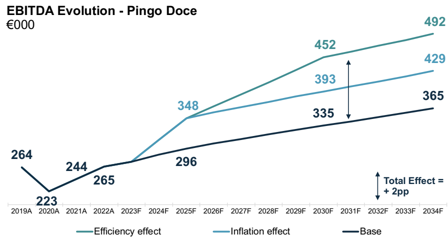
Source: Team Analysis

Figure 64 – JM's expected evolution of net stores opened



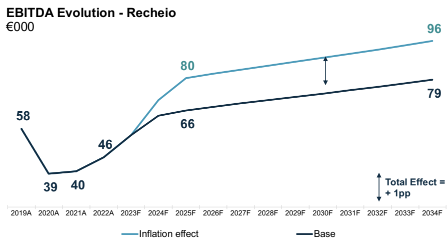
Source: JM's Report and Team Analysis

Figure 65 – JM's Gross Margin Evolution



Source: JM's Report and Team Analysis

Figure 66 – Pingo Doce EBITDA Evolution and corresponding improvement effects



Source: JM's Report and Team Analysis

Figure 67 – Recheio EBITDA Margin's Evolution and corresponding improvement effects

within the same year. We anticipate that the different segments will slowly reorganizing their locations. This could involve converting larger stores into smaller, more conveniently located ones to align market trends, opening new stores in high-demand areas, and gradually closing those where demand is insufficient to sustain them. Consequently, this is the rationale behind our forecast, which anticipates an expansion of 300 stores in 2024, reducing to 81 in 2034.

COSTS DRIVERS AND FORECASTS

Due to limited data available, we computed the costs of sales as a proportion of revenues, resulting in a 79% cost of sales margin over revenues in 2022. However, the company had previously absorbed some of the inflation-related costs during the high-inflation years. When analysing the same driver for the years prior to 2021, we observe a historical average of 78%. Given this exceptional situation, we have maintained this 79% figure for 2023, and slightly decreased for 2024 and 2025, to address the diminishing impact of inflation on margins, stabilizing at 78% by 2026.

When reorganizing JM's income statement, we grouped distribution and administrative costs, and excluded D&A for the calculation of EBITDA. It includes employee, transportation, and marketing expenses. Due their strong connection with inflation and their revenue-relation, it is suitable to forecast them together.

Pingo Doce and Recheio, being mature and well-stablished in Portugal, displayed a stable margin of other operating costs over revenues, with the exception of 2020, when experienced a significant decrease in revenues. Consequently, we forecast these costs as the average of previous years, excluding 2020, at 15.3% and 16.2%, respectively. In contrast, Biedronka did not experience a revenue decline in 2020, and as such, its other operating costs margin remained stable. For our forecast, we maintained this cost structure with an 12.4% average for the future.

Ara, on the other hand, has been adapting to the market, showing a decreasing trend over the past 4 years, decreasing from 25.4% in 2019 to 17.6% in 2022, suggesting that the Colombian segment is not in its maximum potential, with high likelihood of further reduce this percentage. Therefore, we forecast a gradual adaption until it reaches a similar cost structure to Biedronka, the most comparable segment, with 12.8% margin expected by 2030.

Moreover, JM is expected to increase store efficiency, by establishing smaller stores in more convenient locations or expanding its e-commerce segment. This strategy has been implemented in Poland with Biedronka Home and in Portugal through the partnership with Mercadão. While not currently in JM's plans, this approach may be replicated in Colombia or further expanded in existing locations. In our forecast we reflect it with a 0.2pp decrease, per year, in other operating

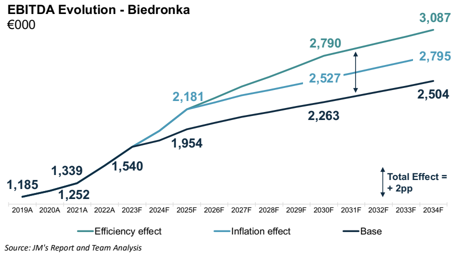


Figure 68 – Biedronka EBITDA Margin's Evolution and corresponding improvement effects

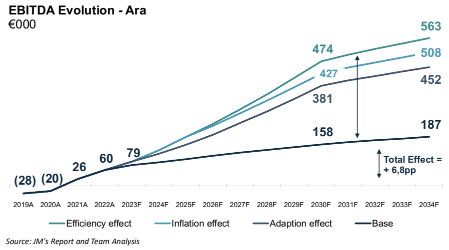


Figure 69 – Ara EBITDA Margin's Evolution and corresponding improvement effects

Depreciation & Amortization in millions of euros, except otherwise indicated	2020A	2021A	2022A
Pingo Doce & Recheio			
Depreciable Assets	1,924	1,938	2,152
Depreciation & Amortization	-172	-171	-181
D&A as percentage of Depreciable Assets	-8.9%	-8.9%	-9.3%
Biedronka			
Depreciable Assets	3,789	3,965	4,270
Depreciation & Amortization	-470	-476	-492
D&A as percentage of Depreciable Assets	-11.7%	-12.6%	-12.4%
Ara			
Depreciable Assets	407	477	586
Depreciation & Amortization	-48	-51	-61
D&A as percentage of Depreciable Assets	-9.7%	-12.5%	-12.8%

Source: JM's Report

Figure 70 – Historical Depreciation and Amortization over Depreciable Assets

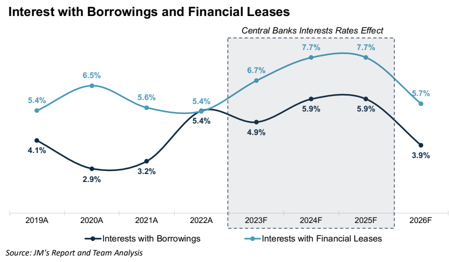


Figure 71 – Interest Rates with Borrowings and Financial Leases

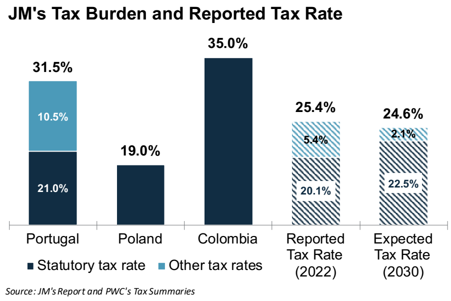


Figure 72 – Statutory Tax Rates applied for each country and JM's Effective Tax Rate in 2022 and 2030

costs margin from 2026 to 2030 for Pingo Doce and Biedronka, where we expect JM will enter in a stable period. Due to the nature of Recheio's business, we did not apply this correction.

Isolating these factors, we observe an 1pp increase in EBITDA margin attributed to the impact of cost of sales. Additionally, there is an 1pp upturn in EBITDA due improved efficiency in Pingo Doce and Biedronka. Furthermore, the stabilization of the cost structure results in Ara led to an additional 4.8pp margin increase.

D&A is expected to grow aligned with the projected changes in the Balance Sheet's Depreciable Assets, which include Tangible, Intangible and Rights-of-Use Assets. Since we lacked individual data for Pingo Doce and Recheio, we combined Portugal's captions and forecasted them together. The analysis revealed stable margins, so, we forecasted them based on historical average from previous year.

JM's financial activities cover interest on borrowings and financial leases, interest income, and exchange rate differences. Over the years, these elements prone to be negative. Interest on borrowings, which accounts for approximately 3.9% of the interest on the previous year's Bank Debt from 2019 to 2022. The interest paid corresponds to the balance of borrowings from the previous year.

The second is calculated as a percentage of the current year's lease liabilities, using a historical average of 5.7% from 2019 to 2022 for future predictions. In this case, interest is reported in the same fiscal year in which the leases are registered.

Considering the significant rise in interest rates in 2022 and 2023, we have adjusted the company's interest expenses. For 2023 and 2025, we have increased interest rates paid by the company by 1pp, and for 2024, an increase of 2pp.

The third caption, comprising interest income, exchange rate differences, due their minor importance in our valuation, are forecasted based on historical average.

Due the intricacies of the business, expose to multiple tax codes, and different changes in revenue distribution for each segment, we decided to segregate the earnings and compute the statutory taxes amount for each country individually.

We anticipate an increase in total statutory effective tax rate in the coming years, driven by the application of the 35% statutory tax rate in Colombia. This results in a higher tax burden compared to other locations. As Ara's revenues continue to increase and play a more significant role in overall JM's operations, we expect the average statutory tax rate to increase from 20.1% in 2022 to 22.5% in 2030.

Regarding the adjustments, all are Core, except the unaccounted differences in statutory taxes across the countries and those related to the revision of estimates regarding tax litigation as they are not associated to the JM's regular operations.

Tax Adjustments	Classification	Relevance
Untaxed or unrecoverable results	Core	Medium
Review of estimates related to tax litigation	Non-core	Low
Non-deductible costs and tax benefits	Core	Medium
Correction of previous years estimates	Core	Low
Equity Method	Non-core	Low
Change in the recoverable base of losses and temporary differences from previous periods	Core	Low
Results subjects to autonomous taxation and other forms of taxation (CST)	Core	Null

Source: JM' Report and Team Analysis

Figure 73 – Tax-Adjustments classification and its respective relevance for our valuation

Liquidity Analysis	2019	2020	2021	2022
Current Ratio	0.48	0.51	0.58	0.60
Quick Ratio	0.27	0.31	0.38	0.37
Cash Ratio	0.18	0.22	0.28	0.27

Source: JM's Report

Figure 74 – JM's Liquidity Ratios

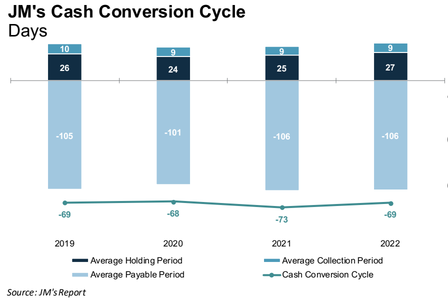


Figure 75 – JM's Cash Flow Management Ratios

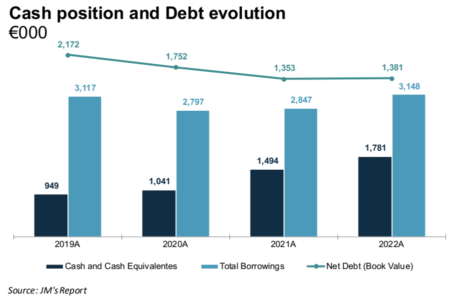


Figure 76 – JM's Liquidity and Leverage

For the Core adjustments, CST must increase in 2023 due the continued growth of JM's business in Portugal. However, it is predictable that it will not be applicable in 2024 and will not impact our valuation. As a result, we foresee a gradual decrease in adjustments tax rate from 5.4% in 2022 to 2.1% in 2030.

Finally, within the Non-Core Business captions, the expenses related to supporting Ukraine are expected to become less significant as the impact of the ongoing war ceases. For the same reasons, and while energy market stabilizes, the fair value of energy price fixing is also likely to lose relevance. The provisions for litigation, exceptionally high in 2022, are expected to decrease by 2023 and 2024 and then stabilize despite JM has been involved in different legal processes. For the Other items, with minor impact on our valuation, are maintained at past-year averages.

BALANCE SHEET DRIVERS AND FORECASTS

CASH CONVERSION AND LIQUIDITY

The cash conversion process from its operations is a significant plus for JM, since it seems to indicate it is operating on an extremely efficient baseline. While the average collection period from customers is currently 9 days and has been oscillating close to it, the peer group averages 4 days meaning JM's takes nearly double the time to receive payments from customers despite both values being low and immaterial, since most are received in cash promptly. However, that is largely offset by both the average payable and holding period. Payable period is on average 106 days, which is nearly double the peer groups of 56 days. This means simultaneously not only that JM's holds significant bargain power against its suppliers, ultimately resulting in more short-term liquidity, but also that it performs much better than the peer group. Finally, in what regards inventory management, JM also outperforms, with roughly half the average holding period of 53 days resulting in higher cash convertibility from inventories. All added, JM's operational activities are being financed by its suppliers by a relevant margin, given how quickly JM can generate cash against how long they take to liquidate suppliers' invoices. Moreover, they present positive results relative to the comparables when combining all the cash conversion analysis. All in all, JM manages its cash flow generation efficiently resulting in strong flows that despite a slight drop throughout the last 3 years remain extremely solid.

It is of importance to outline that, as a specificity of the industry, the firm presents a significant degree of reliance in cash conversion from inventories as demonstrated given the difference between current ratio (0.60 as of 2022) which relates current assets over current liabilities and quick ratio (0.37 as of 2022) which performs the same analysis as the first but excluding inventories. Despite that, it is also important to underline that along with a strong market presence, JM has managed to realise inventories quickly, minimizing the burden of inventory reliance to realize cash. Its strong cash position, also observed by the cash ratio (0.27 as of 2022), which simply relates the cash and cash equivalents with the total current liabilities of the company, along with a solid cash flow generation, contribute to further offset that risk. All in all, delayed supplier payment terms allow JM to be comfortable despite showcasing current liabilities that amount to roughly double the amount of current assets.

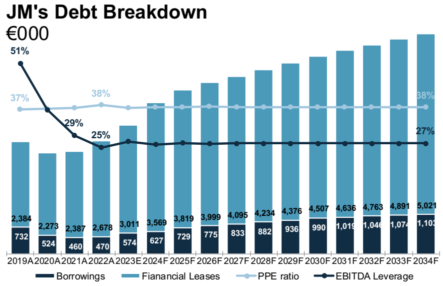
DEBT

Financial Ratios	2019	2020	2021	2022
Cash Cover	30%	37%	52%	56%
Leverage Cover	151%	123%	85%	75%
Interest Cover	22%	26%	18%	15%
Coverage ratio	-	30%	27%	23%

Source: JM's Report

Figure 77 – JM's Liquidity Ratios

By cross-examining its current debt with the current market value of equity it is observable that JM presents a healthy 20% debt as of 2022 against 80% equity, which is significantly lower than the peer group average of 42%. This is a relatively low amount of debt especially given its cash position of €1,380M and operational cash-flow generation ability of around €700M over the past few years. This is particularly remarkable as they are able to maintain this control throughout an expansive period in foreign markets, transmitting additional confidence to their shareholders. Cash coverage, meaning its ability to cover debt obligations with cash, sits above the peer group average of 25% by more than double with a ratio of 56%. Moreover, Leverage ratio currently showcases that JM's debt represents as of 2022, 75% of its EBITDA and has experienced a sharp decline since 2019, when it represented 151%. Nevertheless, once again the company still outperforms the peer group average which stands far higher as of 2022 at 219%. Finally, by analyzing the Coverage ratio, which assesses how operating cash flow covers the current debt levels, JM appears to be worse off as opposed to its peers which average at 39%, managing to cover its current debt levels through operating cash flow by a lower value of 23%. This indicator has declined by 7% since 2020, when it stood at 30%. This is mostly justified by the fact that JM is expanding and therefore utilizing a lot of cash through Capex investments.

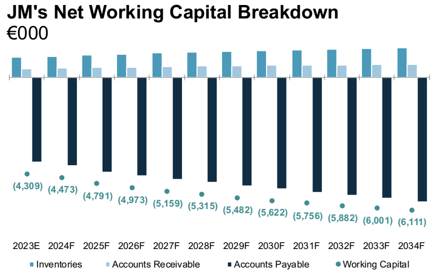


Source: JM's Report and Team Analysis

Figure 78 – JM's Liquidity and Leverage

Overall, Jerónimo Martins debt levels seem to be stable given its operational activities and cash flow generation, outperforming the peer group in most fields.

In what regards debt projections, it depends on the evolution of borrowings, which we indexed to a stable EBTIDA leverage ratio of 0.27 using isolated borrowings and financial leases as a percentage of PPE which we projected by using an already stable 0.37 ratio throughout. The reason for this differentiation derives from the fact that financial borrowings mostly comprise commercial rents and warehouse agreements with periods ranging from 5 to 20 years prone to extension.



Note: for illustration purposes it was excluded Net Income Taxes and Biological Assets despite included in NWC calculations

Figure 79 – JM's Net Working Capital Forecast

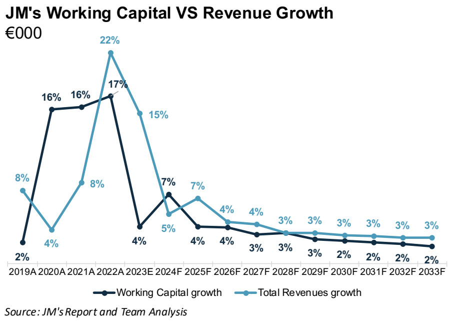


Figure 80 – Working capital vs revenue (growth)

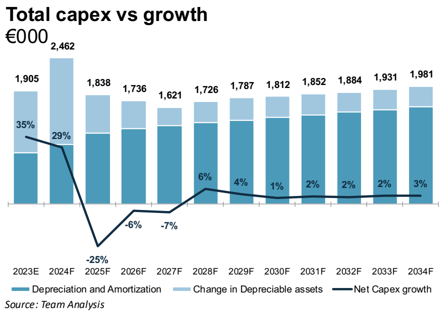


Figure 81 – Capex decomposition vs capex

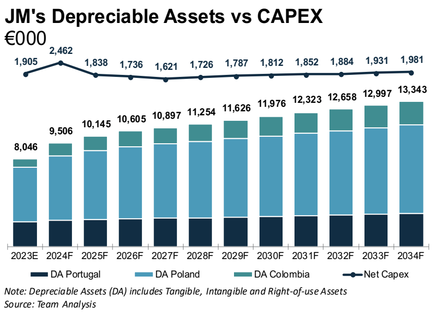


Figure 82 – Depreciable assets vs capex

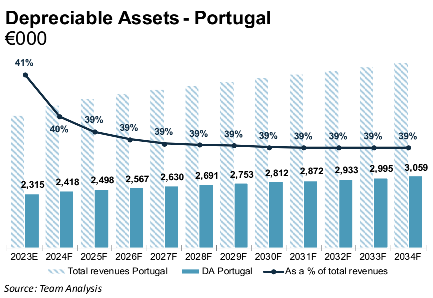


Figure 83 – Depreciable Assets allocated in Portugal evolution

NET WORKING CAPITAL

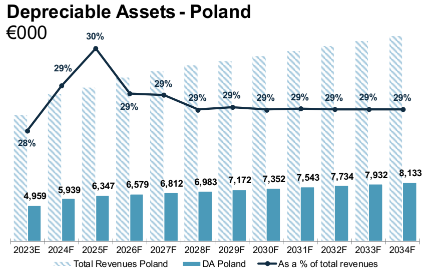
Jerónimo Martins' current operational items that compose the working capital have been establishing a negative baseline for the past years. Our projection follows that trend, thus an increasingly negative working capital throughout the years. This occurrence derives from the fact that accounts payable largely outweighs accounts receivable, hence, as long as the overall company's projections are growing, this trend should be observed. However, the aforementioned does not represent a threat to the operational status of the company given its industry, where customer payments are received mostly in cash, and which are therefore not included in the working capital calculation. This caption includes inventories, biological assets and net income taxes, apart from the two items mentioned above. The net working capital projections start to increase at a higher pace with a 17% increase in 2023 to then decrease at a more stable and lower rate between 3% to 4% from 2026 onward, which leads to working capital variations that tend to slowly decrease along the projected years. Altogether, this stability is mainly driven by the expected even increase among accounts payable and receivable as well as inventory given that despite still expanding, there is a certain predictability considering the stable and partially mature nature of Jerónimo Martins.

CAPEX

As a company that focuses on growth through expansion to foreign markets, investment on tangible facilities and material is crucial. For that reason, Capex deployment as a core factor when assessing the companies FCF[29], is essential to mirror our growth expectations for the company. Our projections result in a spike in the first two projected years of 35% in 2023 (€1,905M) and 29% in 2024 (€2,462M) in Net Capex. After 2024 however, it is expected to drop sharply by 25% from the all-time high of 2024 and from that period onward, the variation becomes more stable between -6% and 3% despite the absolute value showcasing that capex employment remains very strong throughout (€1,981M in 2034). Our projections breakdown consists of individual projected values per segment according to what it is believed to better suit the respective phase in which the segments find themselves in. It should be noted that the calculation involves the variation on depreciable assets from one period to another added to the current period depreciations. For the forecast the depreciable assets value was indexed to each segment's depreciable assets as a percentage of revenues:

In **Portugal** depreciable assets were projected by maintaining the already

[29] Free cash flow

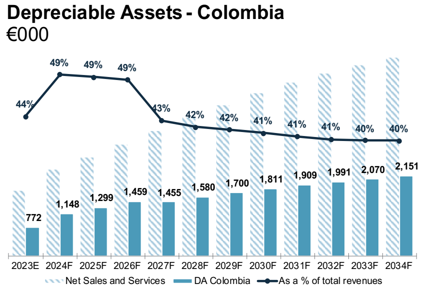


Source: Team Analysis

Figure 84 – Depreciable Assets allocated in Poland evolution

stabilized ratio **Net capex/revenues** of 38% until 2034 resulting in a steady increase in depreciable items. In absolute terms, there is an increase from €2,152M in depreciable items in 2022 to €3,059M in 2034.

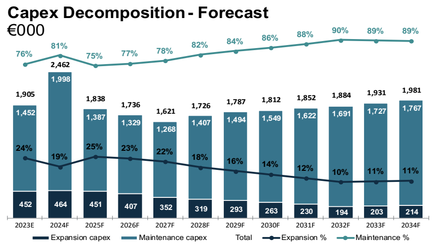
In **Poland** the same principle was applied, however, this time projections were changed to adapt to the sharp drop of the ratio from 32% in 2019 to 24% in 2022. It was assumed that due to high inflationary tendencies, 24% was not derived to less usage of depreciable items, but by an abnormal increase in prices, thus sales, relative to the capex employment. Therefore, in order to normalize the ratio for it to provide a more accurate projection, it was assumed the 28% registered in 2020 for all forecasted periods as it represents a period in which Biedronka already displayed a dominant and mature position in the market in operates in. In absolute terms, the amount in depreciable items relative do Poland increases from €4,270M in 2022 to €8,130M by 2034.



Source: Team Analysis

Figure 85 – Depreciable Assets allocated in Poland evolution

Lastly in **Colombia**, the ratio drops sharply from 48% in 2020 to 33% in 2022. This major drop, especially considering its expansive phase in the Latin America, is driven by inflation that spiked revenues and not due to the flattening of capex employment, as the Jerónimo Martins still has ambitious plans for this market in a ten-year window. For that reason, 43% in 2021 was assumed to be the more stable and representative value as inflation gets under controlled values and is used up to 2025, year which it drops to 39% until 2034. Despite the drop, the value still represents significant capex employment to this segment in absolute values going from €586M in depreciable items in 2022, up to €2,151M by 2034.



Source: Team Analysis

Figure 86 – Depreciable Assets allocated in Colombia evolution

Capex is split between maintenance capex, which represents the necessary capex to keep existing stores and activity running and expansion capex, which represents the necessary investment to keep nourishing JM's expansion plans. Despite a registered expansion capex around 30% in the past 5 years, our projections follow a decrease in that percentage targeting the capex required per store along the years. In 2023, the expansion capex is expected to be 24%, followed by a decrease to 19% in 2024, given the aftermath related to the inflationary period. Before the capex progressively decrease, it is expected for it to spike in 2025 to 25%, given the still bullish expansion plans for Slovakia to then decrease progressively until it reaches a long-term 11% from 2033 onwards. Projections were performed assuming current information, and not considering further future expansions that might arrive.

INVESTED CAPITAL

Invested Capital items are forecasted following our expectations for the company to continue to expand its operational activities since so far them have been yielding

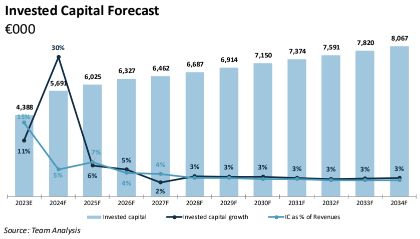


Figure 87 – Evolution of Invested Capital Forecast

results that have been materialized in value creation, which will be discussed further down the report. Most relevant items in terms of value such as Inventory, tangible assets, rights-of-use as well as both accounts payable and receivable are forecasted to keep growing at a controlled pace as they are essential to fuel the company's operational activities. Tangible, intangible as well as rights-of-use assets have been forecasted to follow the store opening trend as a percentage of revenues settled in the forecast according to our expectations. The Inventory, payable period and receivables have been forecasted indexed to the average holding period, payable period, and collection period respectively, as they are healthy and relatively stable as discussed above.

VALUATION

COST OF CAPITAL AND GROWTH ANALYSIS

Comparables' Beta	Beta	Adj Levered Beta	Tax Rate	Unlevered Beta
Jeronimo Martins SGPS SA	0.71	0.81	0.25	0.75
Dino Polska SA	0.75	0.83	0.18	0.81
Carrefour SA	0.58	0.72	0.26	0.51
Pepco Group NV	0.67	0.78	0.22	0.61
J Sainsbury PLC	0.70	0.80	0.25	0.59
Sonae SGPS SA	1.20	1.13	0.08	0.78
Tesco PLC	0.75	0.83	0.25	0.66
Average	**0.77**			**0.67**
				0.60
				0.76

Source: Refinitiv

Figure 88 – Betas from JM's comparables companies

WACC

As a center piece of our cash flow valuation methods, WACC was established through the CAPM which was used to compute the cost of equity and cost of debt to then average them according to the capital structure of the company, adding the respective tax rate adjustment. The final post-tax WACC which was used, is 7.55% although it stood in the middle of an interval with 6.98% as the low point and a high point of 8.24%.

Inputs related with Market Risk Premium used, were the 10Y returns of MSCI world, which is our proxy for the market portfolio combined with a risk-free rate of 3.65%, which is the current 10Y yield for the German Government Bonds. Given the Jerónimo Martins main geography, this rate seemed an appropriate option.

Weighted Average Cost of Capital	Low	Standard	High
Debt Beta @ Bd	0.00	0.36	0.72
Unlevered Beta @ Bu	0.60	0.67	0.76
Equity Beta JM @ Be	0.66	0.70	0.77
Cost of Debt @ Rd	**3.65%**	**6.03%**	**8.42%**
Cost of Equity @ Re	**8.04%**	**8.32%**	**8.73%**
Unlevered Cost of Equity @ Ru	**7.62%**	**8.10%**	**8.70%**
Post-Tax Cost of Capital @ WACC	**6.98%**	**7.55%**	**8.24%**

Source: Refinitiv and Team Analysis

Figure 89 – Decomposition of Weight Average Cost of Capital Calculation

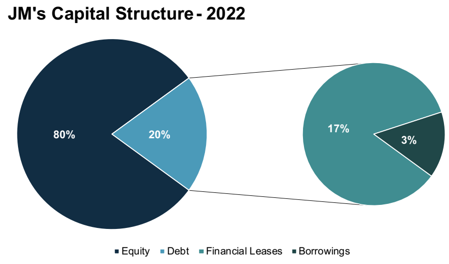
The Equity Beta was computed by the usage of an interval of unlevered betas from the peer group including JM, sorted by Low, Standard and High, which is correspondent to the first quartile, average and third quartile respectively. The idea for the interval served to smoothen the beta calculation according to similar companies in the market where all unlevered betas were reached by initially taking the equity betas of each company, which were then levered. Those levered betas were finally unlevered to the values that were used in the interval calculations.

As Jerónimo Martins does not use corporate bonds as a source of financing, the cost of debt was reached using once again a Debt Beta range by taking an average (standard) between an interval that goes from 0 (Low) up to 0.72 (high). This interval was sorted by taking a high value that is lower than the 0.79 (high) correspondent to the equity beta value.

Additional Information	Values
Market Risk Premium	6,62%
MSCI World Return (10Y)	10,27%
Risk-Free Rate	3,65%
Corporate Tax Rate	25,4%

Source: MSCI World Index, German Government and JM's Report

Figure 90 – Additional information for WACC calculation



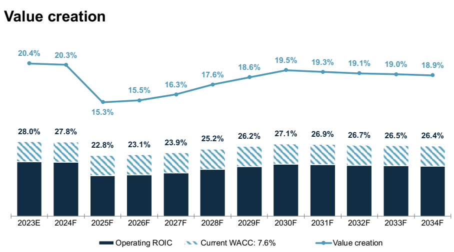
Source: JM's Report

Figure 91 – JM's current Capital Structure

Additional Information	
National Tax Rate	25.43%
Growth Rate in Perpetuity	2.71%
D/V Target	20%
D/V	20%
E/V	80%
Cost of Equity @ Re	8.32%
Unlevered Cost of Equity @ Ru	8.10%
Cost of Debt @ Rd	6.03%
Post-Tax Cost of Capital @ WACC	7.55%

Source: Team Analysis

Figure 92 – Main factors for valuation purposes



Source: Team Analysis

Figure 93 – Enterprise Decomposition and Equity Value per Valuation Method

Both equity beta and debt beta once gathered were inputted in our CAPM model along with the calculated market risk premium of 6.62% in order to obtain the cost of equity and cost of debt which ultimately along with the tax adjustment allowed us to reach the above-mentioned 7.55% WACC.

Capital Structure

Jerónimo Martins' capital structure currently comprises roughly 20% debt and 80% equity and demonstrates a strong independence from debt stakeholders. Moreover, the debt weight is significantly below the 42% average of the peer group. JM also has a cash position that, as of 2022, represents roughly 60% of its total short and long-term debt position. Its debt is comprised of €238M classified as non-current liabilities borrowings as well as 232M classified as current liabilities borrowings. Apart from that, financial leases of €2,248M and €430M, non-current liabilities and current liabilities respectively, were also taken into account as debt instruments for the calculation.

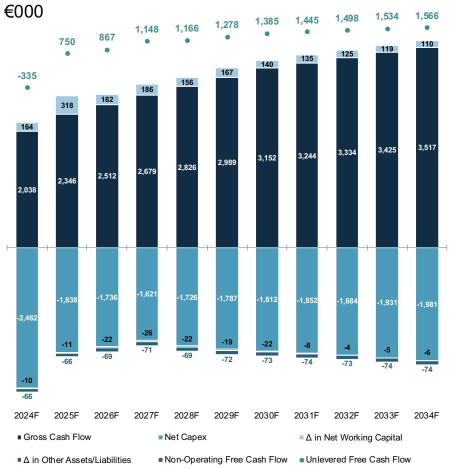
Perpetuity

When building the Cash flow valuation models, the discount rate is an important determinant for the final company value, along with the cash flows themselves. The last cash flow however, will play a major role in the final valuation, as it will be discounted to perpetuity at WACC rate given a specific growth input that is reasonable for the company. In our view, 2.7% is the perpetual growth rate reached given the fact that Jerónimo Martins is a combination of 3 segments where each one has different macroeconomic performance expectations. For instance, the target inflation rate for Poland and Colombia differs from Portugal, since for both target 3% contrary to Portugal's target of 2%. Given the variety of goods that a supermarket retailer such as Pingo Doce, Biedronka and Ara sell, it seemed appropriate to use the general inflation as a strong reliable proxy. Along with this consideration, combined with the forecast we believe is realistic for perpetuity regarding sales, costs and overall business performance, these factors led to this afore growth in perpetuity.

Value creation

Return on Invested Capital is a crucial metric as it measures in return how the capital invested within the company is being utilized. This is an important step towards value creation and a way to assess whether the company is or isn't getting a return on the projects it takes on and whether it is becoming or not a capital burning machine with no positive yield. Value creation occurs should the companies' investments yield returns higher than its cost of capital, in this case 7.55%. Through our analysis, and following our forecast assumptions, the

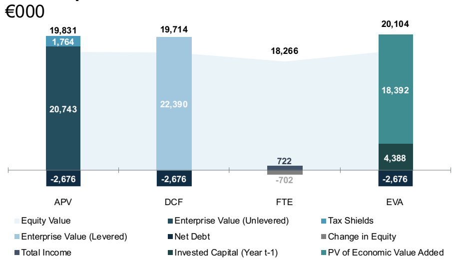
Unlevered Free Cash Flow- Forecast
€000



Source: Team Analysis

Figure 94 – Levered Free Cash Flow Forecast Decomposition

Results per Valuation Method
€000



Source: Team Analysis

Figure 95 – Enterprise Decomposition and Equity Value per Valuation Method

Adjusted Present Value Method - Sensitivity Analysis
in millions of euros

Cost of Debt @ Rd	Unlevered Cost of Equity @ Ru					
	19,831	7.79%	7.95%	8.10%	8.50%	8.90%
	3.65%	25,627	24,957	24,325	22,812	21,498
	4.84%	22,121	21,451	20,819	19,306	17,992
	6.03%	21,132	20,462	19,831	18,317	17,003
	7.22%	20,666	19,996	19,364	17,851	16,536
	8.42%	20,395	19,725	19,093	17,579	16,265

Figure 96 – APV Sensitivity Analysis

Discounted Cash Flow Method - Sensitivity Analysis
in millions of euros

Growth Rate in Perpetuity	Post-Tax Cost of Capital @ WACC					
	19,714	7.13%	7.42%	7.72%	8.07%	8.42%
	1.7%	18,746	18,001	17,330	16,607	15,961
	2.2%	20,104	19,210	18,413	17,563	16,810
	2.7%	21,770	20,678	19,714	18,700	17,810
	3.2%	23,864	22,496	21,306	20,071	19,003
	3.7%	26,572	24,806	23,297	21,760	20,452

Figure 97 – DCF Sensitivity Analysis

company is as of 2023 projected to yield a ROIC of 28% that keeps growing slightly given the already observable company business efficiencies and incorporating the increasingly positive results in Colombia along the years. The ROIC keeps on growing until it reaches around 38% in 2029 and maintains itself around that value until 2033, the final projected year. What is driving this metric to rise is the fact that due to efficiencies in the operations the net operating profit is projected to grow at a faster pace than the capital needed to be employed for operations. The implicit growth rate starts high in 2023 at 17% despite being a big drop when compared to the 31% registered in 2022. It is still important to highlight that 2020-2022 interval is still highly influenced one way or another by Covid-19 and ongoing high inflation levels, as it was discussed before. This growth is projected to reach the afore-mentioned 2.7% growth rate in the final period of the forecast which is then utilized for the perpetuity.

CASH FLOW METHODS VALUATIONS

After analysing JM's cost of capital, growth rate in perpetuity and Cash Flow Map, we considered 2033 as the point at which the company will enter a steady state, stabilizing its growth. Also, ROIC is projected to stabilize at 24% by that same year.

In general, our forecasted values predict a slowdown in the cash flow growth until it stabilizes in 2% by 2033. The main drivers are the Net Change in Capex due the ambitious plans of JM to further expand and revamp its stores, followed by the Gross Cash Flow due JM's strong revenues and increasing margins. Notably, the negative Unlevered Free Cash Flow in 2023 is explained by an anormal high Net Change in Capex, that, as mentioned earlier, it is predicted to stand in high levels and register an increase for the next years, either to expand or to new acquisitions.

Under the calculated valuation factors and an unlevered Free Cash Flow of €1,566M by 2034, we applied the perpetuity formula in both APV and DCF model. After discounting to 2024 we arrive a Levered Enterprise Value of €22,506M with APV, and €22.390 with DCF. Incorporating the value of Net Financial Debt of €2,676M, we obtain an Equity Value of €19,831M and €19,714M, respectively.

For comparison purposes we also employed the Flow-to-Equity method, which is based on the Cash Flow to Equity holders and the Economic Value-Added method, derived from the company's Annual Economic Profit incrementing NOPLAT and Invested Capital. These methods resulted in Equity Values of €18,266M and €20,104M, respectively.

SENSITIVITY ANALYSIS

Flow to Equity Method - Sensitivity Analysis
in millions of euros

Growth Rate in Perpetuity	18,266	Cost of Equity @ Re 8.24%	8.28%	8.32%	8.63%	8.95%
	1.7%	16,769	16,658	16,549	15,746	15,014
	2.2%	17,584	17,460	17,337	16,440	15,628
	2.7%	18,546	18,405	18,266	17,251	16,341
	3.2%	19,700	19,537	19,377	18,212	17,178
	3.7%	21,110	20,917	20,729	19,369	18,175

Figure 98 – FTE Sensitivity Analysis

Having established possible outcomes for each valuation factor, we believe that these factors may vary within their respective ranges. Additionally, our confidence is reinforced since *Refinitiv* estimates are within these ranges.

Regarding the perpetual growth rate, given the company's maturity, we expect minimal fluctuations. However, we considered a 1pp range to account for the margin targeted by Central Banks for their medium-long term inflation rates.

Economic Value Added Method - Sensitivity Analysis
in millions of euros

Growth Rate in Perpetuity	20,104	Post-Tax Cost of Capital @ WACC 7.13%	7.42%	7.72%	8.07%	8.42%
	1.7%	19,748	18,926	18,185	17,389	16,678
	2.2%	20,883	19,917	19,055	18,139	17,327
	2.7%	22,279	21,123	20,104	19,033	18,094
	3.2%	24,036	22,620	21,390	20,115	19,013
	3.7%	26,312	24,526	23,002	21,450	20,130

Figure 99 – EVA Sensitivity Analysis

Under the abovementioned adjustments, our Equity Value ranges from €15,014M and €26,572M. In the DCF analysis, a 70-basis point increase in WACC results in a 10% decrease in our price target, but a 100-basis point decrease in the growth rate leads to an 12% decrease in our target price, indicating that lower bounds on growth rate drivers may be of a lower concern than those related to WACC. As for the APV analysis, a 238-basis point increase in the Cost of Debt results in a 4% downturn, while a 50-basis point increase in Cost of Equity leads to a 8% decrease in our target Equity Value. This demonstrates higher sensitivity in the second factor compared to the first one, which is attributed to the company's capital structure.

MULTIPLES VALUATION

Trading Multiples	EV/EBIT	EV/EBITDA	P/E
Jeronimo Martins SGPS SA	13.8x	7.8x	19.3x
Dino Polska SA	24.6x	18.3x	31.9x
Carrefour SA	11.3x	6.3x	10.3x
Pepco Group NV	15.5x	5.4x	14.6x
Sonae SGPS SA	16.4x	10.0x	8.0x
Tesco PLC	10.9x	6.6x	19.5x
J Sainsbury PLC	8.4x	4.4x	30.5x
1st Quartile	**11.0x**	**5.6x**	**11.3x**
JM's Equity Value	15,267	13,401	5,973
Median	**13.4x**	**6.4x**	**17.0x**
JM's Equity Value	15,819	12,633	12,999
3rd Quartile	**16.2x**	**9.2x**	**27.8x**
JM's Equity Value	19,723	19,238	21,177

Source: Refinitiv and Team Analysis

Figure 100 – Trading Multiples Calculations

Based on December 2022 values, we conducted a Multiple Valuation analysis to assess JM's performance relative to its peers. To do so, we considered EV/Sales, and EV/EBITDA, since it mirrors specific characteristics of the company, including the usual low EBITDA margins in the sector, high revenues and limited reliance on fixed assets making D&A less relevant, explaining why we excluded EV/EBIT. Additionally, we included Price-to-Net Income to account for the company's turnaround strategy.

We used the same peer group[30] as in our industry analysis, consisting of companies with similar products, operating in similar regions and with similar operational and financial drivers. For those, the median EV/EBITDA was 6.4x, EV/EBIT was 13.4x and Price-to-Net Income was 17x. The implied Enterprise Value ranged from €12,633M to €15,819M, significantly lower than the results obtained through the previous methods. We also conducted a sensitivity analysis using the first and third quartile and considered that EV/EBITDA is the most appropriate multiple due to the operational nature of the industry.

TRANSACTION MULTIPLES

[30] Peers: Dino Polska, Carrefour, Pepco Group NV, Sonae SGPS, Tesco PLC and J Sainsbury PLC

Transaction Multiples	Target Country	EV/EBIT	EV/EBITDA
Kicks Group AB	Sweden	21.9x	4.5x
J Sainsbury plc I SBRY	UK	5.4x	2.7x
Valora Holding AG I MKRMF	Switzerlanc	96.2x	10.2x
ICA Gruppen AB I ICA	Sweden	20.8x	11.3x
Tesco plc I TSCO	UK	8.1x	5.8x
WM Morrison Supermarkets Ltd I MRW	UK	32.0x	11.6x
Carrefour SA I CA	France	11.2x	5.8x
Metro AG I B4B	Germany	47.5x	9.5x
Iceland Foods Ltd	UK	n.a.	6.6x
Casino Guichard-Perrachon SA I CO	France	13.2x	6.0x
Picard Surgeles SAS	France	n.a.	1.7x
1st Quartile		**11.2x**	**5.1x**
JM's Equity Value		13,306	10,039
Median		**20.8x**	**6.0x**
JM's Equity Value		26,135	11,667
3rd Quartile		**32.0x**	**9.9x**
JM's Equity Value		42,338	21,469

Source: Refinitiv and Team Analysis

Figure 101 – Transaction Multiples Calculations

Monte Carlo Simulation

Source: Team Analysis

Figure 102 – Monte Carlo Simulation distribution

Monte Carlo Simulation Analysis	
Trials	100,000
Base Case	**27.64**
Below Current Share Price	13.36%
0-10% Above Current Share Price	15.26%
10% Above Current Share Price	71.38%
Standard Deviation	4.19
Maximum	49.21
Minimum	9.95
Variance	17.60
Skewness	-0.01
Kurtosis	-0.01

Source: Team Analysis

Figure 103 – Monte Carlo Simulation main indicators and results

To assess how the market is valuing companies from the same sector at, it was taken into consideration a group of 11 transactions that took place in the past 3 years' timeframe. All the mentioned transactions account for European targets spread across France, UK[31], Switzerland, Sweden, France and Germany with EV values that range from $191M to $43M. The process was similar to the peer multiples' meaning it was taken the median value of the commonly used metrics.

Starting with the EV/EBITDA metric, it led to multiple of 6x and is currently in line with EV/EBITDA from both JM's and the peer groups of 7.8x and 7.4x respectively. The European market based on this sample, appears to be undervalued when comparing to the multiples of registered metrics from observed companies.

By computing the EV/EBITDA median however, it was reached a 20.8x which is significantly higher than the one computed in the peer group of 13.8x. Contrary to the EV/EBITDA, the market seems to be valuing the targets higher based on their operating result after D&A is considered, benefiting those who manage to yield a high pre interest and tax result.

Altogether, by applying both multiples to JM's financial metrics, the implied Enterprise value ranges €12.2M to €26.7M which is a much wider threshold than both the peer group analysis as well as the cash flow methods.

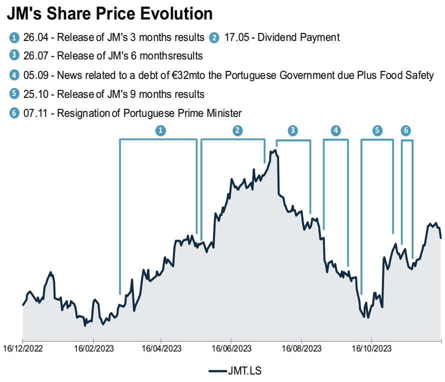
MONTE CARLO SIMULATION

We underwent a comprehensive analysis through a Monte Carlo Simulation with 100,000 observations. This simulation aimed to provide a nuanced understanding of the potential variability in the company's stock price allowing us to highlight both the risk and reward profile for investors.

The simulation generated a distribution of potential share prices, with a maximum of €49.21 and a minimum of €9.95. The variance, a measure of the spread of these prices, was calculated at 17.60. The skewness and kurtosis, at -0.01 for both, indicated a relatively symmetrical and normal distribution of potential outcomes, albeit with a slight tendency towards the left tail.

Examining the distribution, it was found that 13.4% of the observations fell below the current share price, reflecting potential downside scenarios, while 15.3% of observations closely aligned with the current share price, emphasizing the equilibrium between optimistic and pessimistic projections. On the other hand, 71.4% of the observations surpassed the current share price, indicating a significant proportion of optimistic scenarios.

[31] United Kingdom



Source: Refitiniv

Figure 104 – Calendar and respective effects on JM's share price evolution

Recommendation	BUY
Date	19.12.2023
Current Share Price	22.98
Target Price	**27.64**
Upside Potential	20.30%
Maket Capitalization (Millions)	14,461
Share Outstanding (Millions)	628.4
Ticker	JMT.LS
Stock Exchange	Euronext Lisbon
52-Week High	27.10
52-Week Low	19.04

Source: Refinitiv, ECO and Team Analysis

Figure 105 - Final Recommendation Resume

The range of potential prices highlighted the inherent volatility in Jerónimo Martins' valuation, acknowledging the dynamic nature of the market and the numerous factors influencing stock performance.

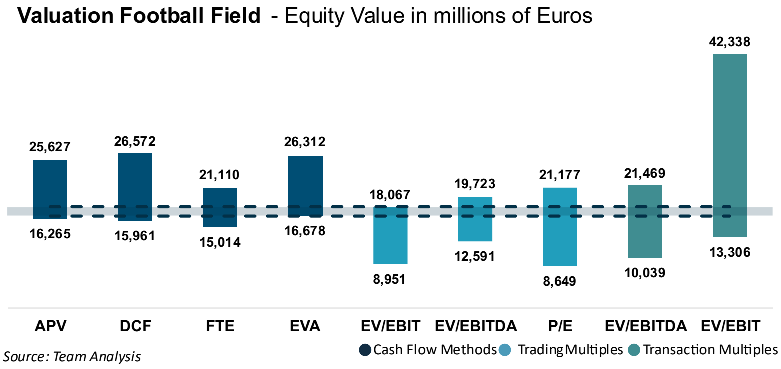
In conclusion, the Monte Carlo Simulation for Jerónimo Martins served as a robust tool for assessing the risk and potential reward associated with its stock. Investors were provided with a comprehensive perspective on the range of potential outcomes, helping them make informed decisions in a market characterized by its inherent uncertainties and fluctuations.

FINAL RECOMMENDATIONS

Over the past year JM's stock price has experienced significant volatility, characterized by a consistent upward trajectory until a peak of €27.10 in July 2023, followed by a continuous decline until October 2023, reaching €19.04 per share. This downward trend was reversed after the announcement of the results for the first nine months of 2023, reaching €22.74 as of 6th of November 2023, and, after the decrease in share price due the resignation of the Portuguese Prime Minister that negatively impacted PSI20, it increased again until the new peak of €23.68 as of 11th of December 2023.

Incorporating all the facets of our analysis, which leverage various methods to provide a more comprehensive and intricate assessment of Jerónimo Martins, we have arrived at a confident interval. Considering the maximum value of the lower limits of each method of €16,678M and the minimum value of the upper limits of €18,067M, we achieve an average estimated Equity Value, as of December 2024, standing at €17,372M. Assuming a constant number of outstanding shares of 628.4M, our analysis suggests a one-year target price of €27.64, which represents a potential upside of 20%. Additionally, the Monte Carlo Simulation abovementioned, further reinforce our analysis, and allow us to recommend a BUY position.

In sum, our recommendation is driven by JM's robust expansion, its solid market presence, and its resilience in recent years, as well as the potential to expand and increasing in efficiency.



Source: Team Analysis

Figure 106 – Valuation Football Field

APPENDIX

	As Reported				Forecast											
Projected Income Statement in millions of euros, except otherwise indicated	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Core Business																
Retail (Pingo Doce)																
Net Sales and Services	3,945	3,869	4,046	4,499	4,755	4,980	5,158	5,308	5,443	5,576	5,709	5,836	5,962	6,091	6,223	6,357
Cost of Sales	-3,082	-3,021	-3,175	-3,554	-3,756	-3,909	-4,023	-4,140	-4,245	-4,349	-4,453	-4,552	-4,650	-4,751	-4,853	-4,958
Other Operating Costs	-599	-625	-627	-680	-726	-760	-787	-800	-809	-818	-826	-832	-850	-869	-887	-907
EBITDA	**264**	**223**	**244**	**265**	**273**	**311**	**348**	**369**	**389**	**409**	**431**	**452**	**462**	**472**	**482**	**492**
Cash and Carry (Recheio)																
Net Sales and Services	1,007	847	906	1,158	1,332	1,377	1,410	1,441	1,469	1,498	1,527	1,557	1,588	1,619	1,651	1,683
Cost of Sales	-787	-661	-711	-915	-1,052	-1,081	-1,100	-1,124	-1,146	-1,168	-1,191	-1,215	-1,238	-1,263	-1,287	-1,313
Other Operating Costs	-160	-153	-152	-184	-216	-223	-228	-233	-238	-243	-247	-252	-257	-262	-267	-273
EBITDA	**60**	**33**	**43**	**59**	**64**	**73**	**82**	**84**	**85**	**87**	**89**	**90**	**92**	**94**	**96**	**98**
Portugal Depreciation & Amortization	-170	-172	-171	-181	-195	-209	-220	-228	-233	-239	-245	-250	-255	-261	-267	-272
Portugal EBIT	**154**	**84**	**116**	**143**	**142**	**175**	**210**	**224**	**241**	**258**	**275**	**292**	**298**	**305**	**311**	**318**
Statutory Taxes	-32	-18	-24	-30	-30	-37	-44	-47	-51	-54	-58	-61	-63	-64	-65	-67
Local Surtax	-2	-1	-2	-2	-2	-3	-3	-3	-4	-4	-4	-4	-4	-5	-5	-5
State Sturtax	-12	-6	-9	-11	-11	-14	-17	-19	-20	-22	-23	-25	-25	-26	-26	-27
Core Result (Portugal)	**107**	**59**	**81**	**100**	**99**	**121**	**145**	**155**	**167**	**178**	**190**	**202**	**206**	**210**	**215**	**219**
Poland (Biedronka)																
Net Sales and Services	12,619	13,463	14,542	17,582	20,418	21,278	22,740	23,570	24,408	25,021	25,698	26,343	27,026	27,712	28,419	29,140
Cost of Sales	-9,860	-10,514	-11,411	-13,889	-16,129	-16,702	-17,736	-18,384	-19,037	-19,515	-20,043	-20,547	-21,079	-21,614	-22,166	-22,728
Other Operating Costs	-1,574	-1,697	-1,792	-2,153	-2,534	-2,641	-2,823	-2,878	-2,932	-2,956	-2,984	-3,006	-3,084	-3,163	-3,243	-3,326
EBITDA	**1,185**	**1,252**	**1,339**	**1,540**	**1,754**	**1,935**	**2,181**	**2,308**	**2,439**	**2,550**	**2,671**	**2,790**	**2,863**	**2,935**	**3,010**	**3,087**
Depreciation & Amortization	-458	-470	-476	-492	-521	-606	-733	-780	-807	-837	-859	-881	-903	-927	-950	-974
EBIT	**727**	**782**	**863**	**1,048**	**1,233**	**1,329**	**1,448**	**1,528**	**1,632**	**1,714**	**1,812**	**1,909**	**1,960**	**2,009**	**2,060**	**2,112**
Statutory Taxes	-138	-149	-164	-199	-234	-253	-275	-290	-310	-326	-344	-363	-372	-382	-391	-401
Core Result (Retalho - Biedronka)	**589**	**633**	**699**	**849**	**999**	**1,077**	**1,173**	**1,237**	**1,322**	**1,388**	**1,468**	**1,546**	**1,587**	**1,627**	**1,668**	**1,711**
Colombia (Ara)																
Net Sales and Services	784	854	1,102	1,768	2,330	2,653	3,002	3,370	3,735	4,055	4,365	4,649	4,899	5,111	5,313	5,522
Cost of Sales	-613	-667	-865	-1,397	-1,841	-2,083	-2,341	-2,629	-2,913	-3,163	-3,405	-3,626	-3,821	-3,986	-4,144	-4,307
Other Operating Costs	-199	-207	-211	-311	-396	-435	-475	-506	-531	-544	-550	-549	-579	-604	-628	-652
EBITDA	**-28**	**-20**	**26**	**60**	**93**	**135**	**186**	**236**	**291**	**349**	**410**	**474**	**499**	**521**	**542**	**563**
Depreciation & Amortization	-47	-48	-51	-61	-68	-90	-140	-157	-174	-174	-190	-204	-217	-229	-239	-248
EBIT	**-75**	**-68**	**-25**	**-1**	**25**	**45**	**46**	**79**	**117**	**175**	**220**	**270**	**283**	**292**	**303**	**315**
Total Assets (Colombia)	862	760	856	1,047												
Total Liabilities (Colombia)	845	752	830	1,026												
Património Líquido	17	8	26	21												
Statutory Taxes	0	0	0	0	-9	-16	-16	-28	-41	-61	-77	-95	-99	-102	-106	-110
Core Result (Retalho - Ara)	**-75**	**-68**	**-25**	**-1**	**16**	**29**	**30**	**51**	**76**	**113**	**143**	**176**	**184**	**190**	**197**	**205**
Others & Adjustments																
Net Sales and Services	283	260	293	378	439	461	492	513	533	550	568	584	601	617	633	650
Cost of Sales	-221	-203	-230	-299	-347	-362	-383	-400	-416	-429	-443	-456	-468	-481	-494	-507
Other Operating Costs	-106	-122	-130	-150	-166	-165	-177	-184	-192	-198	-204	-210	-216	-221	-227	-233
EBITDA	**-44**	**-65**	**-67**	**-71**	**-74**	**-66**	**-68**	**-71**	**-74**	**-76**	**-79**	**-81**	**-84**	**-86**	**-88**	**-90**
Depreciation & Amortization	-40	-43	-47	-48	-82	-97	-106	-111	-115	-119	-122	-126	-130	-133	-137	-140
EBIT	**-84**	**-109**	**-114**	**-119**	**-156**	**-163**	**-174**	**-182**	**-189**	**-195**	**-201**	**-207**	**-213**	**-219**	**-225**	**-230**
Statutory Taxes	18	23	24	25	33	34	37	38	40	41	42	44	45	46	47	48
Core Result (Outros)	**-67**	**-86**	**-90**	**-94**	**-123**	**-129**	**-138**	**-144**	**-149**	**-154**	**-159**	**-164**	**-168**	**-173**	**-177**	**-182**
Tax Adjustments	-41	-65	-67	-70	-73	-63	-64	-63	-64	-64	-64	-64	-64	-64	-64	-64
Total Core Result Before OCI	**514**	**473**	**598**	**784**	**918**	**1,034**	**1,147**	**1,237**	**1,352**	**1,462**	**1,578**	**1,696**	**1,745**	**1,791**	**1,839**	**1,889**
Total Core Comprehensive Income	11	-62	-12	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41
Total Core Result	**525**	**411**	**586**	**743**	**877**	**993**	**1,106**	**1,196**	**1,311**	**1,421**	**1,537**	**1,655**	**1,704**	**1,750**	**1,798**	**1,848**
Non-Core Business																
Other operational gains (losses)	-16	-50	-34	-95	-84	-70	-68	-70	-68	-68	-69	-69	-69	-69	-69	-69
Gains (losses) in joint ventures and associates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gains (losses) in other investments	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-Core Result Before Taxes	**-14**	**-50**	**-34**	**-95**	**-84**	**-70**	**-68**	**-70**	**-68**	**-68**	**-69**	**-69**	**-69**	**-69**	**-69**	**-69**
Statutory Taxes	3	11	7	20	18	15	14	15	14	14	14	14	14	14	14	14
Tax Adjustments	43	32	35	26	33	30	30	29	27	26	25	24	23	25	24	24
Total Non-Core Result Before OCI	**32**	**-8**	**8**	**-49**	**-33**	**-25**	**-24**	**-27**	**-27**	**-27**	**-29**	**-30**	**-31**	**-29**	**-30**	**-30**
Change in fair value of capital instruments	0	0	0	-2	0	0	0	0	0	0	0	0	0	0	0	0
Total Non-Core Result	**32**	**-8**	**8**	**-51**	**-33**	**-25**	**-24**	**-27**	**-27**	**-27**	**-29**	**-30**	**-31**	**-29**	**-30**	**-30**
Financial																
Net Financial Costs	-159	-180	-154	-162	-226	-312	-332	-256	-265	-275	-285	-295	-304	-313	-321	-330
Financial Result Before Taxes	**-159**	**-180**	**-154**	**-162**	**-226**	**-312**	**-332**	**-256**	**-265**	**-275**	**-285**	**-295**	**-304**	**-313**	**-321**	**-330**
Statutory Taxes	33	38	32	34	47	65	70	54	56	58	60	62	64	66	67	69
Total Financial Result	**-125**	**-143**	**-122**	**-128**	**-179**	**-246**	**-262**	**-203**	**-210**	**-218**	**-225**	**-233**	**-241**	**-247**	**-254**	**-260**

Figure 107 – Projected Income Statement

	As Reported				Forecast											
Projected Balance Sheet in millions of euros, except otherwise indicated	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
Inventories	1,039	974	1,108	1,493	1,607	1,678	1,778	1,854	1,929	1,989	2,053	2,112	2,172	2,231	2,290	2,350
Biological Assets	9	8	12	18	23	28	35	44	55	69	86	107	134	168	210	262
Accounts Receivable	492	463	503	630	717	753	803	838	872	899	927	954	981	1,008	1,034	1,062
Accounts Payable	-4,182	-4,154	-4,772	-5,801	-6,610	-6,891	-7,366	-7,660	-7,955	-8,209	-8,480	-8,721	-8,966	-9,208	-9,453	-9,701
Net Income Taxes	-41	-33	-24	-20	-46	-41	-41	-49	-60	-63	-68	-75	-78	-79	-81	-84
Working Capital	**-2,684**	**-2,742**	**-3,173**	**-3,680**	**-4,309**	**-4,473**	**-4,791**	**-4,973**	**-5,159**	**-5,315**	**-5,482**	**-5,622**	**-5,756**	**-5,882**	**-6,001**	**-6,111**
Depreciable Assets	6,458	6,121	6,380	7,008	8,046	9,506	10,145	10,605	10,897	11,254	11,626	11,976	12,323	12,658	12,997	13,343
Net Deferred Taxes	67	98	109	111	139	151	163	187	214	238	259	282	292	298	305	313
Employee Benefits	-70	-70	-70	-69	-70	-70	-70	-69	-70	-70	-70	-70	-70	-70	-70	-70
Provisions for risks and contingencies	-28	-33	-34	-82	-84	-85	-87	-89	-91	-92	-94	-96	-98	-100	-102	-104
Non-Current Core Capital	**6,428**	**6,116**	**6,385**	**6,968**	**8,032**	**9,502**	**10,151**	**10,633**	**10,951**	**11,330**	**11,720**	**12,093**	**12,447**	**12,786**	**13,130**	**13,482**
Core Business Invested Capital	**3,745**	**3,374**	**3,212**	**3,288**	**3,723**	**5,029**	**5,360**	**5,661**	**5,792**	**6,015**	**6,238**	**6,471**	**6,691**	**6,905**	**7,129**	**7,371**
Goodwill	641	620	618	613	623	619	618	618	619	619	619	619	619	619	619	619
Investment Property	9	9	8	9	9	9	9	9	9	9	9	9	9	9	9	9
Investments in joint-ventures and associates	5	6	13	16	15	15	15	15	15	15	15	15	15	15	15	15
Other financial assets	1	1	2	17	19	21	23	25	27	30	33	36	40	44	49	53
Non-Core Business Invested Capital	**656**	**636**	**641**	**655**	**665**	**663**	**664**	**667**	**670**	**672**	**675**	**679**	**682**	**686**	**691**	**696**
Total Invested Capital	**4,400**	**4,010**	**3,853**	**3,943**	**4,388**	**5,691**	**6,025**	**6,327**	**6,462**	**6,687**	**6,914**	**7,150**	**7,374**	**7,591**	**7,820**	**8,067**
Borrowings	-732	-524	-460	-470	-574	-627	-729	-775	-833	-882	-936	-990	-1,019	-1,046	-1,074	-1,103
Fianancial Leases	-2,384	-2,273	-2,387	-2,678	-3,011	-3,569	-3,819	-3,999	-4,095	-4,234	-4,376	-4,507	-4,636	-4,763	-4,891	-5,021
Derivative Financial Instruments	-3	3	0	-14	-14	-14	-14	-14	-14	-14	-14	-14	-14	-14	-14	-14
Excess of Cash	949	1,041	1,109	1,294	1,779	1,789	1,835	1,831	1,811	1,871	1,937	1,997	2,053	2,108	2,164	2,221
Non-Controlling Interests	-254	-249	-254	-254	-254	-254	-254	-254	-254	-254	-254	-254	-254	-254	-254	-254
Net Financial Assets	**-2,425**	**-2,002**	**-1,992**	**-2,122**	**-2,074**	**-2,676**	**-2,982**	**-3,211**	**-3,386**	**-3,513**	**-3,643**	**-3,769**	**-3,870**	**-3,970**	**-4,069**	**-4,171**
Total Equity	**1,975**	**2,008**	**1,861**	**1,821**	**2,314**	**3,016**	**3,043**	**3,117**	**3,077**	**3,175**	**3,270**	**3,381**	**3,503**	**3,621**	**3,751**	**3,896**

Figure 108 – Projected Balance Sheet

	As Reported			Forecast											
Projected Cash Flow Map in millions of euros, except otherwise indicated	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
EBIT	689	840	1,071	1,244	1,385	1,530	1,649	1,801	1,951	2,105	2,264	2,327	2,387	2,449	2,514
- Statutory Taxes	-154	-174	-215	-251	-286	-319	-349	-388	-429	-468	-510	-525	-538	-553	-568
- Tax Adjustments	-65	-67	-70	-73	-63	-64	-63	-64	-64	-64	-64	-64	-64	-64	-64
= Operating NOPLAT	**470**	**599**	**786**	**920**	**1,036**	**1,147**	**1,236**	**1,350**	**1,458**	**1,573**	**1,691**	**1,739**	**1,785**	**1,833**	**1,883**
+ Depreciation and Amortization	734	745	782	866	1,002	1,199	1,276	1,329	1,368	1,416	1,461	1,505	1,549	1,592	1,635
= Gross Cash Flow	**1,204**	**1,344**	**1,568**	**1,787**	**2,038**	**2,346**	**2,512**	**2,679**	**2,826**	**2,989**	**3,152**	**3,244**	**3,334**	**3,425**	**3,517**
- Net Capex	-397	-1,004	-1,410	-1,905	-2,462	-1,838	-1,736	-1,621	-1,726	-1,787	-1,812	-1,852	-1,884	-1,931	-1,981
- Δ in Net Working Capital	58	431	507	629	164	318	182	186	156	167	140	135	125	119	110
- Δ in Other Assets/Liabilities	-25	-10	45	-26	-10	-11	-22	-26	-22	-19	-22	-8	-4	-5	-6
= Operating Free Cash Flow	**841**	**761**	**710**	**485**	**-270**	**815**	**936**	**1,219**	**1,235**	**1,350**	**1,458**	**1,519**	**1,571**	**1,608**	**1,641**
Non-Operating EBIT	-50	-34	-95	-84	-70	-68	-70	-68	-68	-69	-69	-69	-69	-69	-69
+ Other financial Loss/Income	-11	-4	8	0	-2	1	2	0	0	1	1	0	0	1	1
- Statutory Taxes	14	8	17	17	15	14	15	15	15	15	15	15	15	15	15
- Tax Adjustments	32	35	26	33	30	30	29	27	26	25	24	23	25	24	24
= Non-Operating NOPLAT	**-16**	**5**	**-43**	**-34**	**-27**	**-24**	**-26**	**-26**	**-26**	**-28**	**-28**	**-30**	**-28**	**-28**	**-29**
+ Other Comprehensive Income	-62	-12	-43	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41
- Change in Other non-operating assets/liabilities	20	-5	-14	-10	2	-1	-3	-4	-2	-3	-3	-4	-4	-4	-5
= Non-Operating Free Cash Flow	**-58**	**-13**	**-100**	**-85**	**-66**	**-66**	**-69**	**-71**	**-69**	**-72**	**-73**	**-74**	**-73**	**-74**	**-74**
= Unlevered Free Cash Flow	**783**	**748**	**610**	**400**	**-335**	**750**	**867**	**1,148**	**1,166**	**1,278**	**1,385**	**1,445**	**1,498**	**1,534**	**1,566**
Tax Shields	38	31	34	46	64	69	55	57	61	64	67	69	71	73	75
= Levered Free Cash Flow	**821**	**779**	**644**	**446**	**-271**	**819**	**922**	**1,205**	**1,226**	**1,342**	**1,452**	**1,513**	**1,569**	**1,607**	**1,641**
- Finance Costs	-170	-150	-170	-226	-310	-333	-258	-265	-276	-286	-295	-305	-313	-322	-330
- Change in Debt and Financial Leases	-320	50	301	437	611	352	225	154	187	197	185	157	155	156	158
- Change in Derivative Financial Instruments	-6	3	14	0	0	0	0	0	0	0	0	0	0	0	0
- Change in Excess of Cash	-93	-68	-185	-485	-10	-46	4	21	-60	-66	-60	-56	-55	-56	-57
- Change in Non-Controlling Interests	-5	5	0	0	0	0	0	0	0	0	0	0	0	0	0
= Cash Flow Financing Debt	**-594**	**-160**	**-40**	**-274**	**292**	**-27**	**-29**	**-90**	**-149**	**-155**	**-170**	**-203**	**-214**	**-222**	**-229**
+ Change in Equity	33	-147	-40	493	702	27	74	-40	98	96	111	122	118	130	145
- Total Income	-260	-472	-564	-665	-722	-819	-966	-1,075	-1,176	-1,283	-1,393	-1,432	-1,473	-1,514	-1,557
= Equity Cash Flow	**-227**	**-619**	**-604**	**-172**	**-21**	**-792**	**-892**	**-1,115**	**-1,078**	**-1,187**	**-1,282**	**-1,310**	**-1,355**	**-1,385**	**-1,412**
= Financing Free Cash Flow	**-821**	**-779**	**-644**	**-446**	**271**	**-819**	**-922**	**-1,205**	**-1,226**	**-1,342**	**-1,452**	**-1,513**	**-1,569**	**-1,607**	**-1,641**

Figure 109 – Projected Free Cash Flow Map

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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