JERÓNIMO MARTINS, SGPS

COMPANY REPORT

PORTUGAL RETAIL

30 DECEMBER 2011

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Under the Polish umbrella…

Escaping from the Portuguese problems and securing long term growth.

- **European debt crises.** European playground is very shaky. Investors are more chary and policymakers struggle to earn back their confidence. Our valuation incorporates crisis-related risks through 4 different scenarios. Thanks to leveraged position in Poland, the Portuguese reality has diminishing impact on EV.

- **Polish growth story to be continued.** Biedronka is not only the market leader with 12% share of overall market, but foremost it has the dominant position within the constantly winning market share discount retail format (currently 15% share of overall market). Accounting for 82% of JMT value, Biedronka is expected to growth in our base scenario at CAGR of 19% in the next 5 years

- **Competitiveness crucial in Portugal.** Pingo Doce and Recheio are likely to benefit from the shift in consumption towards takeaway, ready-to-eat and private label food products. However, their EBITDA margins have to decrease to remain competitive.

- **Operational excellence.** Jerónimo Martins beats its competitors (1st place in our ranking) in terms of operational efficiency, which is a managerial spotlight. The Company finances great part of its activity with negative working capital. Also impressive, the sales density of Biedronka stores are twice as high as of its main competitor within discount sector – Lidl.

- **New market – Colombia.** The choice of Colombia as a third geography has been decided. We acknowledge it as a good marketplace for modern distribution and await more details.

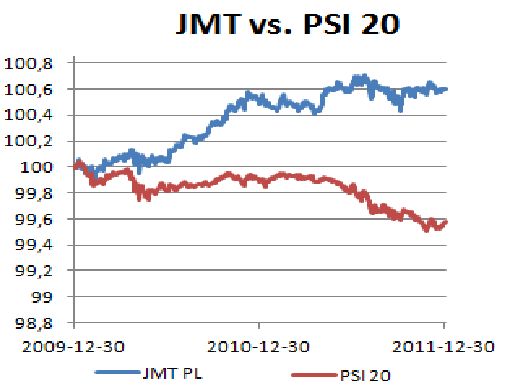
- Our Price Target FY12 for Jerónimo Martins is **14,32€** which implies expected total return of 15,03% (we expect **increase in dividend payout ratio**). Therefore, our recommendation is **BUY**

Recommendation:	**BUY**
Vs Previous Recommendation	*BUY*
Price Target FY12:	**14.32 €**
Vs Previous Price Target	**14.67 €**
Price (as of 30-Dec-11)	**12.79 €**

Reuters: JMT.LS Bloomberg: JMT PL

52-week range (€)	10.61 - 14.83
Market Cap (€m)	8048.660
Outstanding Shares (m)	629.293

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2010	2011E	2012F
Revenues	8 691	9 987	11 324
EBITDA	653	776	792
EBITDA margin	7,5%	7,8%	7,0%
EBIT	462	564	560
EBIT margin	5,3%	5,7%	4,9%
Net Profit	281	397	411
EPS	0,45	0,63	0,65
Dividend Payout	0,47	0,45	0,60
Dividend Yield	2,4%	2,3%	2,7%
PER	19,3	19,5	21,9

Source: NOVA Research estimates and company data

Company description:

Jerónimo Martins is the largest Portuguese food distribution group. Its business activity consists of retail and cash & carry operations in Portugal plus discount retail activity in Poland. The Company also manufactures various food products through its partnership with Unilever, as well as provides services to restaurant industry. Jerónimo Martins is the third largest (by market cap) company listed on PSI 20.

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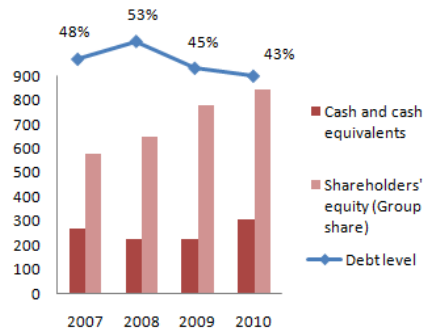
Investment case

Exhibit 1: It is high time to invest…



Source: Company Data

The rapid growth of the Company allowed Jerónimo Martins to build strong balance sheet and prepare itself for further expansion. Currently, the piling up cash and the very low levels of debt call for new investments. We received with relief the decision about entering Colombian market and we are pleased with a promise of increased dividends payout ratio in the next periods.[1]

Using Sum-of-the-parts valuation model, we concentrated our attention on four main segments Portugal Retail, Poland Retail, Portugal Cash & Carry and Portugal Manufacturing. For each of them, we prepared operational forecast incorporating different risks[2]. Discounting the future cash flows at WACC of 6,63% for Portugal and 8,08% for Poland, we reached the Price Target of 14,32€.

Main drivers in Poland and Portugal…

In Poland, ongoing consolidation is an opportunity for faster growth through acquisitions. Increasing popularity of private label products (55% of Biedronka sales) together with high discounter penetration (15% of overall market) with significant scope for growth, will benefit Jerónimo Martins. Biedronka is not only the market leader (12% of overall market) but foremost leader within the discount retail format (share close to 80%). The planned expansion in Polish market is feasible, as the main players do not accelerate with store openings and stores density is below European average. In Portugal, the worsening macroeconomic conditions can actually turnout beneficial for some segments of Jerónimo Martins (shift in consumption towards takeaway, ready-to-eat and private label food products). For Portuguese operations, the market leadership is the main objective and therefore the decrease in EBITDA margins to enhance competitiveness is expected already in our base scenario.

Exhibit 2: Operational Efficiency

Days of Working Capital 2010		
1.	JMT	-47,7
2.	Tesco	-32,1
3.	Emperia	-31,3
4.	Carrefour	-29,6
5.	Metro	-22,9
6.	BIM	-15,0
7.	X5	-14,7
8.	Sainsbury	-8,5
9.	Eurocash	-4,9
10.	Magnit	-4,2

Source: NOVA Research

Finally, Jerónimo Martins beats its competitors in terms of operational efficiency, which is a managerial spotlight. The renegotiation of contracts with suppliers, innovative solutions and optimization of assortment allowed Company to finance great part of its activity with negative working capital.

[1] *The Company is working on icreasing payout ratio. We expect the dividend payout of 45%.*
[2] *Scenerios included in our valuation and their probabilities: Very Bad 15%, Bad 20%, Base 60%, Good 5%. The*
[2] *Scenerios included in our valuation and their probabilities: Very Bad 15%, Bad 20%, Base 60%, Good 5%. The*
variables adjusted in valuation are Sales per sqm, EBITDA margins and tax rate.

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Confirming once again BUY recommendation…

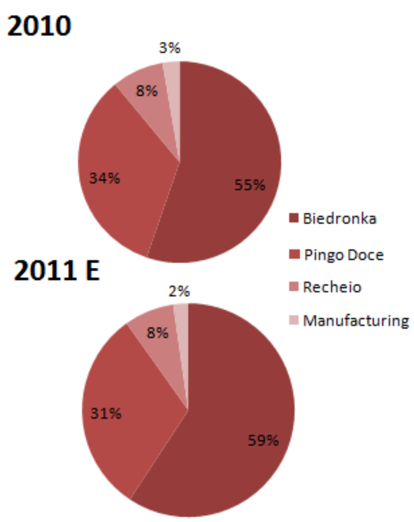
Jerónimo Martins is a growing retail company with excellent management and great ambitions. The below valuation and throughout analysis permit us to confirm once again BUY recommendation for Jerónimo Martins shares.

Company overview

Three main business models: Biedronka, Pingo Doce and Recheio…

Jerónimo Martins, SGPS S.A. is a Portuguese-based holding company, which through subsidiaries, distributes food in Portugal and Poland. The Company operates supermarkets Pingo Doce and Cash & Carry stores Recheio in Portugal, as well as discount retail stores Biedronka in Poland. In addition, Jerónimo Martins manufactures various food products and provides services to the restaurant industry.

Exhibit 3: Revenues breakdown (%)

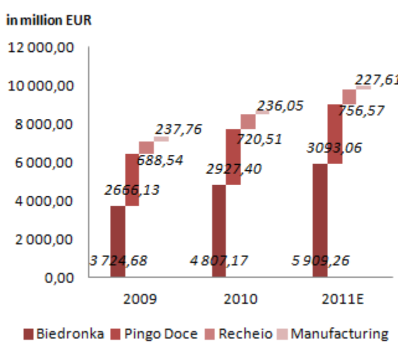


Source: Company Data, NOVA Research

In 2010, Jerónimo Martins confirmed once again its strength. The Company finished the year with 8,7 billion EUR of sales, more than 650 million EUR in EBITDA and net result of circa 280 million. Looking at the segments, more than 55% of revenues have been generated by Biedronka, which increased its weight in total sales by 29%. Last year, was also good one for Pingo Doce brand, which thanks to substantial investment in advertising achieved like-for-like (LFL)[3] growth of 8,4% according to Company data. Also Recheio, thanks to reinforcing its presence in critical locations for the HoReCa[4] market, posted LFL growth of 3,2%. The only segment of the Company trading currently down is Manufacturing, which undergoes crucial for further growth repositioning.

Shareholder structure

Exhibit 4: Revenues breakdown (in €)



Source: Company Data; NOVA Research

In the 1990s, as a result of fast expansion into new markets (Brazil and Poland), the Group faced financial difficulties and to strengthen its balance sheet raised equity in 2004. The Company's shared capital is equal to 629 293 220 EUR and divided into shares of nominal value of 1 EUR each – all admitted to trading. In 1999, Company purchased 859 000 shares at average price of 7,06 EUR, which are hold in company portfolio up till now.

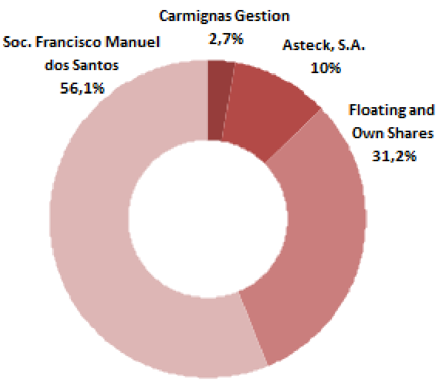
The Company's shareholder structure is presented in Exhibit 5. The list of the qualified shareholders (as per 31st of December 2010) consists of Sociedade Francisco Manuel dos Santos, SGPS, S.A.; Heerema Holding Company Inc. (through Asteck, S.A.) and Carmignac Gestion. The shareholder structure

[3] *growth in sales generated by stores that operated under the same conditions in two periods. It does not account for new stores and stores after major remodeling.*

[4] *HoReCa (Hotels, Retsurants & Catering /Cafes) is a term referring to a segment of the food service industry.*

guarantees stability and continuity of Company strategy since the majority of shares belongs to family Soares dos Santos. Nonetheless, some crucial decisions like dividends policy or mergers cannot be made without acceptance from remaining shareholders.[5]

Exhibit 5: Shareholder structure



Source: Company Data

Organisational and business structure

As approved at Annual General Meeting (9th of April, 2009) Jerónimo Martins decided to change significantly its organisational structure, which replaced the previous centralized management model. The new structure is very close to the U.S. model, with objective to speed up decision process regarding Company's internationalization and competitive position within Retail sector. From the beginning of 2010, Jerónimo Martins is functioning as a holding. The management responsibility under the new structure has been reduced while the strategic responsibility and accountability of non-executive directors have been enhanced. The diagram in Appendix presents in details the new organisational model as well as the business structure.

Looking at the Company's business in Portugal, we should notice that Jerónimo Martins owns only 51% of its Retail activity – 49% of Jerónimo Martins Retalho (JMR) belongs to the Dutch food retailer Ahold. Regarding manufacturing, Jerónimo Martins owns 45% of the business (joint-venture with Unilever). In Poland however, Jerónimo own total of Biedronka hard discount format chain. The Cash & Carry activity in Portugal is also wholly owned by the Company.

Valuation

SOTP

We identified four main segments…

So as to derive the fair value of Jerónimo Martins we chose to follow sum-of-the-parts valuation methodology. Taking under consideration the fact that Company's management monitors the performance of the business based on its geographical and business nature, we identified four main segments **Portugal Retail, Poland Retail, Portugal Cash & Carry and Portugal Manufacturing**. The remaining businesses due to their reduced materiality are not reported individually by the Company and therefore were not considered separately in our valuation model. Others, eliminations and adjustments including business units

[5] *The Portuguese law (Código das Sociedades Comerciais) says that" the company cannot merge, be sold or dissolved without the acceptance of 2/3 of the votes in general assembly"; and "the payout ratio can only be changed by acceptance of at least 75% of the social capital in general assembly.*

with reduced materiality (Madeira, Marketing Services and Representations, Restaurants and pharmacies[6] in Poland) were consolidated into our model by proportional method.

To obtain a target equity value[7] we deducted market value of debt and minorities from enterprise value. The two main components of enterprise value (Polish and Portuguese) are valued through **Discounted Cash Flows** (DCF) method with cash flows in local currency and local discount rate. So as to achieve final value, the sum of discounted cash flows in Polish Złoty was translated into Euros using the forward rate of 4,60 EUR/PLN.

Exhibit 6: Sum-of-the-parts valuation output

SOTP Valuation	EV	Stake	Value	Implied EV/EBITDA 12F	Implied EV/Sales 12F	Weight
Poland Retail	7 549,69	100%	**7 549,69**	12,52 x	1,04 x	**82%**
Portugal	2 593,79		**1 646,74**	12,93 x	0,62 x	**18%**
Retail	1 932,76	51%	985,71	13,27 x	0,61 x	11%
Cash & Carry	389,59	100%	389,59	11,25 x	0,51 x	4%
Manufacturing	271,44	100%	271,44	13,36 x	1,20 x	3%
Enterprise Value			**9 196,43**			
Net debt 11E			-364,68			
JMR's debt attributable to minorities			181,56			
Equity Value			**9 013,30**			
Outstanding shares			629,293			
Price target			**14,32**			

Source: NOVA Research

The Exhibit 6 presents the output of our SOTP valuation, which leads to the new Price Target of 14,32 EUR. The change in the price has been caused mainly by incorporating into our valuation different scenarios (e.g. default of Portugal)[8] and updated discount rate[9]. The weight of Polish business in our valuation is significant and accounts for 82% of Enterprise Value. The Company's activity in Portugal is responsible for remaining 18%. Our current recommendation is BUY.

DCF Assumptions

Following **Free Cash Flows to the Firm (FCFF)** approach we used as a discount rate Weighted Average Cost of Capital (WACC) which takes into account both

[6] *The Company is currently exiting its pharmaceutical business in Poland due to regulatory and competition issues.*
[7] *The target equity value is statistically expected value obtained in our valuation as result of incorporating different scenerios. The inputs as sales, margins and tax rate are probability weighted.*
[8] *The risks incorporated into our valuation are presnted in more details in "Risk Factors" section*
[9] *We excluded the country risk premium from cost of equity*

types of financing (debt and equity). The set of assumptions used in our valuation is presented in Exhibit 7.

Exhibit 7: DCF assumptions

DCF Assumptions	Portugal	Poland
Cost of equity	**7,43%**	**9,21%**
Risk free rate	3,45%	3,96%
Market premium	5,83%	5,83%
Levered Beta	0,68	0,90
Cost of debt before tax	**5,72%**	**5,82%**
Corporate tax rate	26,50%	19,00%
WACC	**6,63%**	**8,08%**
D/(D+E)	25,00%	25,00%
Terminal growth rate	**1,00%**	**3,50%**
Real growth rate	0,00%	1,00%
LT Inflation	1,00%	2,50%

Source: NOVA Research

As the company is reducing its debt, we assumed relatively low **D/E ratio** of 33%.[10] Our cost of capital is the weighted average of cost of equity and cost of debt[11]. For Portugal we reached WACC of 6,63% while the discount rate for Poland is 8,08%. The input values, that are determining the WACC, were computed in following way:

Historical approach has been followed while estimating market premium..

Cost of equity was calculated basing on Capital Asset Pricing Model, where we assumed that Company's exposure to market risk is measured by beta and that all investors are well diversified (care only about systematic risk).[12] In the first step we estimated the necessary inputs for both geographies - risk free rate, market premium and beta. As a proxy for **risk free rate** we used yield on 10y Government Bonds denominated in local currencies. For Portugal, we could use average yield on 10y German Government Bonds, which is assumed to be default and reinvestment risk free. For Poland which has higher risk of default than Germany, the risk free rate has been derived from yield on Złoty denominated 10y Polish Government bonds, in a way that allowed to eliminate country risk.[13] While calculating the **market premium** we decided to follow historical premium approach. Treating investors as global players we chose to use as a proxy U.S. market. The historical premium was calculated as a premium that S&P 500 stocks have historically earned over U.S. Treasury Bills. We chose to use wider time span (1961-2010) so as to avoid large standard errors. We decided not to include **country risk premium** since we do not believe that any of this countries is more volatile than market on average and if there is any country specific risk it is not systematic (can be diversified).

We divided peer companies into two groups: mature and growth…

To estimate **beta** we used peer companies' information as a benchmark. Since beta is a measure of non-diversifiable risk, calculated as the correlation of the company with the market, companies in the same sector are expected to face similar risks, and therefore should have non-significantly different betas. So as to

[10] *To calculate D/E ratio we used market values.*

[11] $WACC = \frac{D}{D+E} \times k_d (1-T) + \frac{E}{D+E} \times k_e$

[12] $k_e = r_f + \beta_L \times Market\ premium$

[13] *So as to obtain risk free rate in Złoty, we estimated the default spread for Poland as a difference between yields of Euro denominated Polish 10y Government Bonds and default free German 10y Government Bonds denominated in the same currency.*

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differentiate the Polish and Portuguese operations we decided to divide the peer companies into two segments: mature and growth.

Exhibit 8: Beta estimation

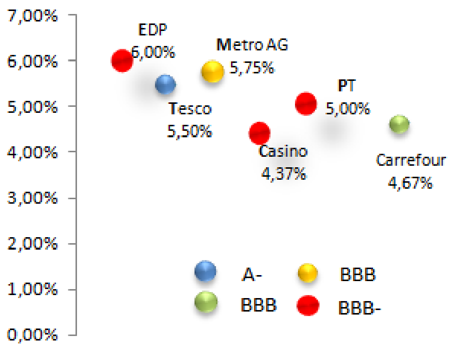
Portugal - Peers	βL	D/Mkt.Cap	Tax rate	βU
Tesco	0,55	0,34	19%	0,43
Carrefour	0,94	0,63	19%	0,62
Metro	0,96	0,47	30%	0,72
Sainsbury	0,69	0,37	19%	0,53
Casino	0,81	0,9	33%	0,51
Colruyt	0,49	0	34%	0,49
Delhaize	0,52	0,5	34%	0,39
Adj. avg Unlevered Beta:	**0,55**			
Poland - Peers	**βL**	**D/Mkt.Cap**	**Tax rate**	**βU**
X5	1,03	0,29	20%	0,84
Migros	0,98	0,46	20%	0,72
BIM	0,79	0	20%	0,79
Magnit	0,9	0,09	20%	0,84
Emperia	0,44	0,04	19%	0,43
Eurocash	0,96	0,11	19%	0,88
Adj. avg Unlevered Beta:	**0,71**			

Source: Bloomberg; NOVA Research

Since the cost of equity depends on the capital structure, using the market values of debt and equity, we calculated unlevered betas for both peer groups.[14] Assuming an average of peers' betas as a proxy we re-levered them using market values of debt and equity for Jerónimo Martins and respective tax rate for each geography. Since some of the companies are exposed to both mature and emerging markets we adjusted their betas according to revenues share.

Cost of debt was calculated in a way that would correspond to the increasing European Sovereign yields and recent downgrade of Portuguese credit rating, as well as to company's strong balance sheet. Since nor Jerónimo Martins, neither its local peer Sonae has credit rating we decided to look at the biggest Portuguese companies (EDP and PT) and some European retail companies. Looking at the yields in Exhibit 9, we see that the values for retail companies oscillate around 5%, while for the Portuguese companies between 5-6%. Taking under consideration the ratings (BBB- for Portuguese companies) and D/E ratios

Exhibit 9: 10y yields of Portuguese Companies and Jerónimo Martins peers



[14] $$\beta_u = \frac{\beta_L}{1 + \frac{D}{E}(1-T)}$$

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we estimated Jerónimo Martins cost of debt. For Portugal we obtained the pre-tax cost of debt of 5,72% and 5,82% for Poland.[15]

Operational forecast

Poland

So as to prepare forecast for Biedronka, we analyzed carefully the Polish macroeconomic environment, characteristics and trends within Polish retail sector as well as position of Biedronka among its competitors. However, the most significant impact on our forecast has expansion of the company in Poland and its feasibility. The strategy of the company in Poland is to deliver Biedronka potential through maximization of growth (LFL and expansion), reinforcement of its leadership and expansion of cash flows generation.

Exhibit 10: Poland – summary

Population: 38,4 million
Currency: Polski Złoty (PLN)

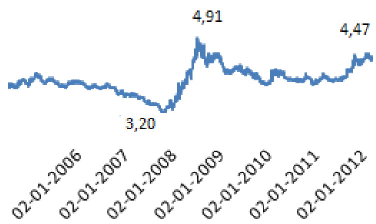
	2008	2009	2010	2011 E	2012 F
Real GDP	5,1%	1,6%	3,9%	4,0%	3,7%
Inflation rate	4,2%	4,0%	2,7%	4,0%	2,7%
Unemployment	7,1%	8,2%	9,0%	9,5%	9,2%

Source: Global Finance; NOVA Research

Macroeconomic environment

During the last few years Polish economy has been performing above the European average, even during financial crisis. After Euro 2012, Polish economy threatens however so called hard landing – the rapid economic slowdown, which in our worst case scenario turns into a recession. Next year the EU funds will run out and financed in this way investments in infrastructure will be limited. After the major revision of economic forecasts for 2012, evolution of Polish GDP is however still optimistic.

Exhibit 11: EURPLN Exchange Rate



Source: Bloomberg

Regarding currency, the recent weakness of Złoty is in our opinion driven mainly by growing concerns about the level of debt in Euro zone countries and the liquidity problems of some European banks. The scale of the strengthening of exchange rate will be limited by the lower growth in the country and abroad, which will prejudice the inflow of direct and portfolio investment and a declining interest rate disparity, resulting from the adopted by NBP assumptions of constant reference rate. In our valuation we account for exchange rate risk by using EUR/PLN YE12 forward rate of 4,60 to calculate Biedronka value in SOTP and average annual rate of 4,18 to estimate Biedronka sales in Euros.

In terms of inflation, it will continue at a high level until the end of 2011 (close to 4% in annual terms) which is a effect of adverse supply-side conditions,

[15] *Cost of debt = yield × (1- probability of default). We assume probability of default equal to 15%. According to company data cost of debt for Poland should be 10bps higher than Portuguese.*

maintaining national food and energy prices high, and changes in VAT rates introduced at the beginning of the year. According to National Bank of Poland (NBP), inflation will evolve towards its target level in the long term. Along with a strengthening of the Złoty exchange rate, the growth rate of import prices should decline, which is expected to translate into reduction in core inflation to 2,5 % by 2013. The decrease of base inflation can be however limited by increasing slightly faster labour costs (last year 0,7% up).

Together with the expected slowdown in economic growth, the observed in 2010 and 2011 improvement in the labor market is likely to slow down. In our opinion the dynamic of employment and wage growth will stabilize. Since the end of 2012, the number of workers is expected to decline, but due to the simultaneous decrease in the number of economically active persons, the unemployment rate should decline. Due to the relatively stable equilibrium rate of unemployment (NAWRU[16]), the unemployment gap will increase, thus limiting the impact of economic slowdown on wages.

Increasing consumption expenditure as a result of growth in real gross wages…

According to the projections of National Bank of Poland, real gross wages will increase in years 2011 - 2013 by 5,4%, 6,0% and 6,1% respectively. In comparison in 2010 the growth rate was equal to 4,2%. Higher disposable income is expected to result in augmenting food consumption, which is significantly lower than European average.[17] Moving forward, we expect the average ticket in Biedronka stores to continue increasing dynamically.

Retail sector

Traditional retail in Poland accounts still for 48% of overall sales within grocery market..

Polish retail market is still dominated by traditional retail format which per data from the end of 2010 accounts for 48% of overall sales within grocery market. It is 2% less than in 2009 and is expected to continue to decrease as a result of further expansion of the modern distribution formats. Less than 70% of the population shops in modern retail outlets which is the lowest proportion in central Europe. We assume however that this proportion will rise over the forecast period. Since the Poles are very price conscious, the type of modern retail format that will benefit from this shift is likely to be smaller convenience and discount outlets as Biedronka.

[16] *In situations where actual unemployment is higher than NAWRU (Non-Accelerating Wage Rate of Unemployment), workers' bargaining power is relatively weak, which reduces pressure on increase in wages. Analogically, when unemployment is lower from NAWRU the pressure on wage growth is implied.*

[17] *According to Eurostat data for 2010, consumption expenditure on food and non-alcoholic beverages per habitant in Poland is 38% lower than in European Union countries, and almost 50% lower than in Eurozone.*

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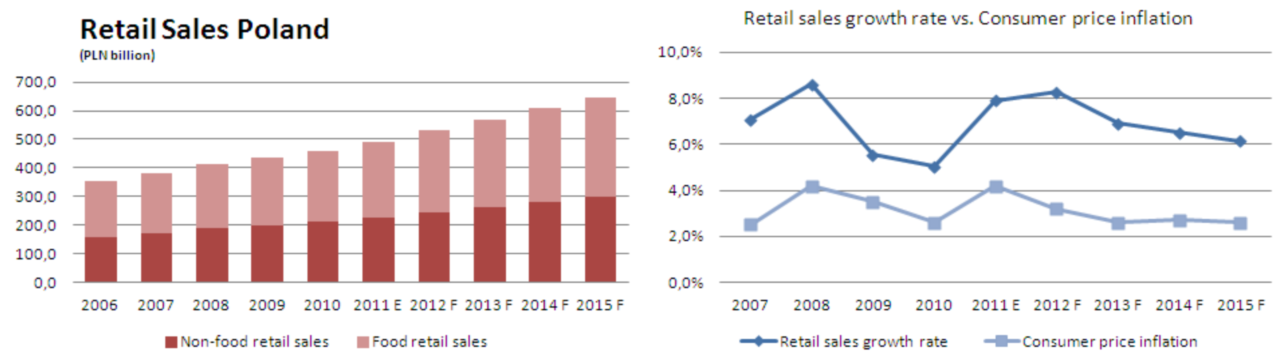
Food retail sales expected to reach 250 billion Złoty in 2011

The retail market in Poland is growing at the rate near to the one before crisis. We expect this trend to continue, but at more steady pace. In 2011, the food retails sales in Poland is likely to amount to 250 billion Złoty and surpass 340 billion Złoty in 2015. The increase is being generated largely by discount and supermarket segments and increasing prices.

Exhibit 12: Retail market in Poland 2006 – 2015F



Source: Economist Intelligence Unit; NOVA Research

Ongoing consolidation…

At the end of 2010, the approximate number of retail shops in Poland amounted to 346 thousands and was lower than in previous year by 6,9%. Sale area increased however by 0,7%, mainly as a result of an increase in the number of shops with an area of 100m^2 or more. The number of stores with area below 100 m^2 continues to decrease. The traditional small shops are gradually being replaced by increasing in number modern retail stores: hypermarkets (growth of 13,5% relative to 2009) and supermarkets (growth of 10,4% including discount type).[18] The above data confirm the consolidation process within retail sector. Many independent players is struggling to compete with strong chains and it is likely that many takeover opportunities will arise soon. For retail companies with excellent operational management as Jerónimo Martins, it can be a chance for fast growth in regions with diminishing number of attractive locations.

Low density of proximity stores…

Also low density of proximity/small format stores like supermarkets and discount outlets (approximately 97m^2 per 1000 inhabitants) shows still considerable space for growth. While comparing to other European countries[19] and looking at consumer behaviour of Poles, who do shopping often (3-4 times a week) and usually in stores within a walking distance, there is a significant potential to be explored.

[18] *Source: Central Statistical Office of Poland – “Internal Market in 2010”.*
[19] *In Germany this density is around 285 m^2 per 1000 inhabitants, in Portugal 133 m^2 while in France 222m^2.*

Private label market share increasing significantly…

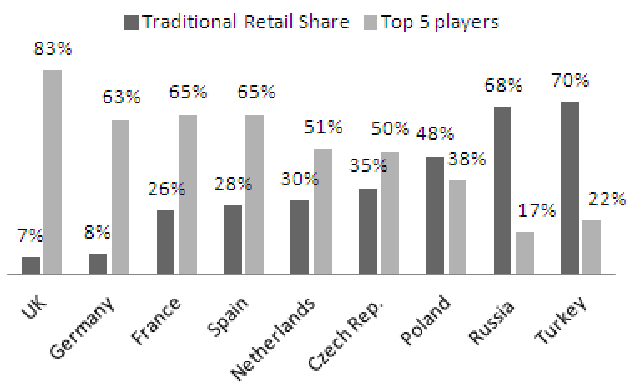
Private label is gradually becoming more popular and generating an increasingly large share of total sales in grocery retailing. The private label market in Poland was worth 24,6 billion Złoty in 2010, expanding 17% relative to 2009.[20] This trend has been stimulated by the dynamic expansion of major discount chains. Discount stores continue to account for the largest share of the private label market in Poland – in 2010 their share exceeded 55% of total private label sale and, according to our projections, it will continue to increase steadily. The Polish consumers are very rational and do not hesitate to substitute well-known brands by cheaper products, seeking value-for-money offerings. In 2010, the private label market clearly grew also thanks to the still perceptible economic slowdown, which more often made Polish consumers search for savings. Consequently, a growing number of Poles have turned to private label products, which combine good quality with attractive pricing. We anticipate that in 2011 and subsequent years, the private label market will continue to post strong growth, in excess of 20%. For Biedronka, which sales consists in 55% of private label products, this trend can certainly translate into increase in market share.

55% of Biedronka sales comes from private label products…

Competitors

The Polish grocery retail market is very fragmented. The traditional retail still accounts for about 48% of the market, and the market share of top five players for 38%.[21] While comparing this numbers to other European markets we see that the Polish retail market has not yet reached its maturity. Thus, the leading retail chains have a lot to fight for in the next few years.

Exhibit 13: European retail markets. Structure comparison



Source: Planet Retail; NOVA Research

[20] *Source: PMR Publications -"Private label in Poland 2011. Market analysis and development forecasts for 2011-13".*
[21] *Source: Planet Retail*

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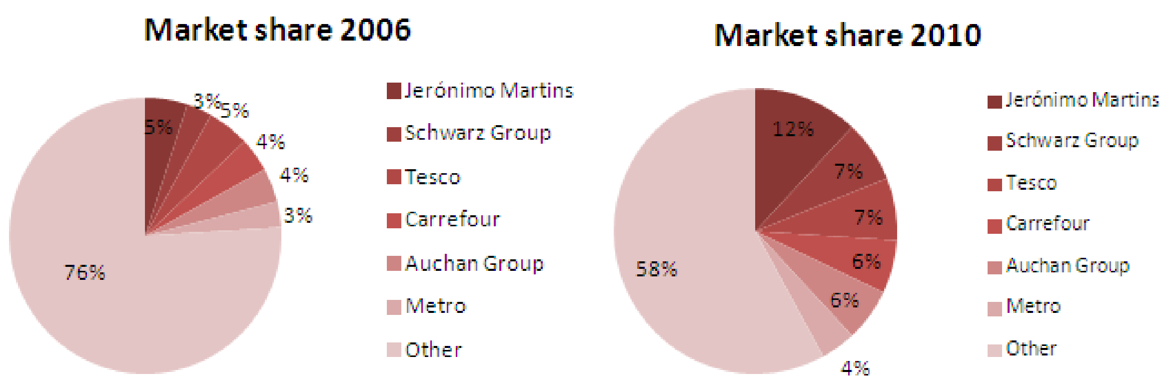
Since 2004, Biedronka has been Poland's most successful retail format. Within 6 years it has taken the market share in Poland from 4% to 12% and has been driving force of increased concentration in this fragmented market with top five players' share rising from 16% in 2004 to 38% in 2010.

Exhibit 14: Market share evolution (2006 vs. 2010)



Source: Planet Retail; NOVA Research

We should notice how dynamically is the Polish retail market moving towards consolidation. The main players have still space mostly at the expense of the traditional retail format which market share will converge to European standards (we expect it to decrease to 30% by 2015). Only this year, Żabka S.A. (small format proximity store chain) and Grupa Muszkieterów ("Les Mousquetaires" – association of Intermarche franchising owners) expressed their interest in acquisition of the supermarket stores Stokrotka belonging to the Emperia Holding. Biedronka is also looking for alternatives in increasing its number of stores. In December, the UOKiK (Office of Competition and Consumer Protection) agreed on acquisitions of 12 supermarkets in Tricity[22] urban area in belonging to Zatoka S.A. In the same month Biedronka received the permission to acquire 9 out of 60 Marcopolo stores in Warsaw, Łomianki and Białystok.

Poland is still popular destination among foreign investors. In our scenarios we account for possible increase in competition in that country. The example of a new foreign investor is Lithuanian group Maxima which is about to acquire the supermarkets chain Aldik. Also, small convenience chains based on franchising are growing at the impressive pace and can be seen as a potential risk (e.g.: Żabka, Minutka or Odido).

[22] *Tricity is an urban area consisting of three Polish cities: Gdańsk, Sopot and Gdynia, situated at the Baltic Sea coast.*

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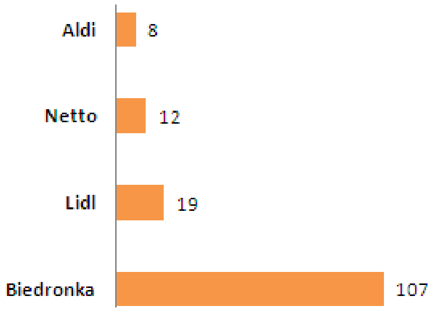
Focusing on discount format the main competitor of Biedronka (73% of total discount outlets in Poland) is Lidl (17%), followed by Netto (8%) and Aldi (2%). Discount format in Poland accounts for nearly 15% of total grocery sales and is one of the highest in Europe. Looking however at neighbouring Germany (discount format accounts there for almost 38% of total grocery market), we see long-term potential for growth for Biedronka which is the market leader in a winning format. The discount segment which is generating a double-digit sales growth since 2007, should surpass 16% share of grocery market already in 2013 – becoming a leader among new distribution channels.

Exhibit 15: Discount stores openings within 9M of 2011

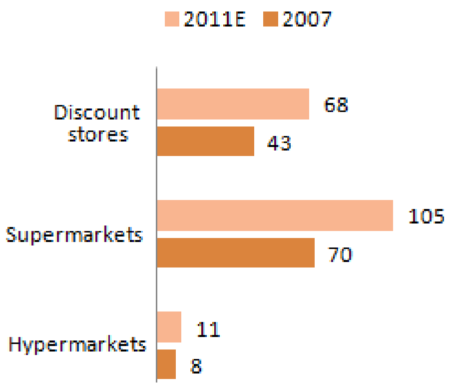


Source: NOVA Research

Regarding expansion plans, we can notice that Biedronka competitors within discount format did not accelerate this year with stores openings. During three quarters of 2011, Lidl, Netto and Aldi opened 19, 12 and 8 stores respectively. In comparison, Jerónimo Martins opened during this period 107 Biedronka store. The market share of Biedronka within the discount sector is in line with its market share in terms of store openings.

Looking at statistics, the Polish grocery market is still far from being saturated. There are approximately 95.000 Poles per hypermarket, less than 10.000 per supermarket and almost 16.000 per discount store (three years ago – 23.000). According to our estimation, the next 6 years will be crucial for the retailers to force their position in Polish market and secure their future via store openings. At the end of 2011, the will be approximately 11 hypermarkets, 105 supermarkets and 68 dicount outlets per one million of Poles.

Exhibit 16: Number of outlets per million residents of Poland (2007 vs. 2011E)



Source: PMR report "Grocery retail in Poland"

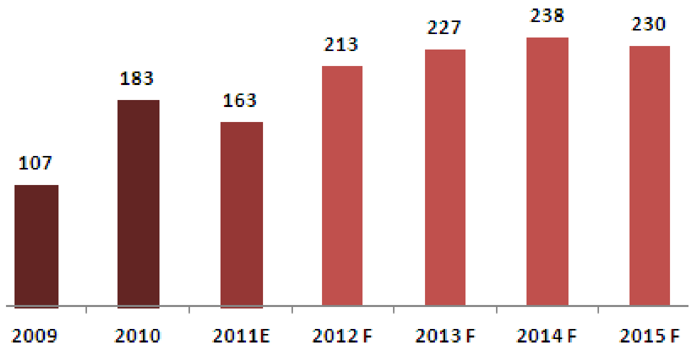
The feasibility of Biedronka expansion, depends however not only on space for growth but also on suppliers capacity to keep up with increasing demand. Since Biedronka suppliers are mainly local producers, new openings and entering new regions will demand from Jerónimo Martins to enlarge its suppliers portfolio. In 2010, Biedronka, which deals already with more than 460 local suppliers providing about 90% of its assortment, introduced the procurement sustainability policy which aim is to create long term business relations and coordinate the selection process of the suppliers.

Operational Forecast – Biedronka

The Company's expansion strategy in Poland served as a trigger for our operational forecast. Using the Company data and our own predictions we assumed that there will be on average 225 Biedronka store openings per year within the forecast period, which will lead to 2720 stores by the end of 2015 –

slightly less than Company objective of 3000. Our projection was based on the analysis of competition expansion plans, costs and availability of locations and Jerónimo Martins historical store opening numbers. We noticed that the experienced and very effective expansion teams that work in each region of Biedronka have crucial impact on Company capacity for organic and inorganic growth in Poland.

Exhibit 17: Biedronka store openings – forecast



Source: Company data; NOVA Research

LFL growth, growing sales area and increasing average ticket…

Basing on sales densities and assuming strong LFL growth (in base and good scenario), we estimated sales for the 5-year period to grow at the CAGR of 19% in our base scenario. We expect it can be achieved thanks to increasing average ticket[23], as well as strong awareness of Biedronka brand in Poland[24]. If we look at the current market share of the Company and the size of Polish food retail market we can verify that the projections are very reasonable.

Exhibit 18: Operational summary (probability weighted)

Poland - Biedronka Operational Forecast (PLN million)	2009	2010	2011E	2012F	2013F	2014F	2015F
Sales	16 068,52	19 197,95	24 109,78	29 896,13	35 277,43	40 569,05	45 843,02
growth %	29,8%	19,5%	25,6%	24,0%	18,0%	15,0%	13,0%
EBITDA	1 170,03	1 563,98	2 121,66	2 472,41	2 822,19	3 164,39	3 575,76
margin %	7,3%	8,1%	8,8%	8,3%	8,0%	7,8%	7,8%
# Stores	1466	1649	1812	2025	2252	2490	2720
Sqm ('000)	814,49	938,22	1 031,13	1 152,54	1 281,93	1 417,59	1 548,69
Sales density	19,73	20,46	23,38	25,94	27,52	28,62	29,60

Source: Company data; NOVA Research

[23] *Current average ticekt in Poland is up 6% YoY and is approximately equal to 25 PLN.*
[24] *According to PMR Reserach carried out in 2011, more than a half of Poles indicated Biedronka as the most frequently chosen for grocery shopping, while only one in four Poles do shopping regularly at Tesco, Carrefour and Lidl.*

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Innovative solutions and constantly improving operational efficiency…

Regarding EBITDA margin, in base scenario we expect improvement as a result of increasing economies of scale. The Biedronka concept is currently highly scalable and has very low cost structure. Comparing to other discount retailers, margins of Biedronka are more similar to supermarkets, while prices remain competitive.[25] It can be explained by its unique relations with suppliers, limited number of SKU's and wide network of stores. We observe that Biedronka is constantly improving its operational efficiency thanks to better logistic due to new Distribution Centres and implementation of innovative solution like modern Databar codes or new equipment for transmitting data by satellite.

Lidl generates in Poland only 2197 EUR per sqm loosing with Biedronka in terms of efficiency…

According to market research[26], Biedronka is the most efficient Polish store in terms of sales density. During the last year, Biedronka stores generated on average 4683 EUR per sqm. The leading position in the ranking prepeared by ITM Polska confirms our view on operational efficiency of the Company. The second place belongs to Intermarche stores generating 4358 EUR per sqm followed by Auchan (4153 EUR per sqm), Tesco, Real and Carrefour. The direct competitors of Biedronka (discount stores) do not impress with efficiency. Lidl generates half of Biedronka sales – only 2197 EUR per sqm.

Portugal

The operational forecast for Portuguese part of the business is influenced significantly by ongoing crisis. In our analysis, we underline the unfavourable macroeconomic conditions, evaluate performance of retail market and examine increasing competition among main players. The company strategy regarding Portugal is to enhance the market position, strengthen leadership and protect profitability, taking into account complicated macroeconomic situation.

Exhibit 19: Portugal – summary

Population: 10,7 million
Currency: Euro (EUR)

	2008	2009	2010	2011 E	2012 F
Real GDP	0,0%	-2,5%	1,4%	-2,2%	-1,8%
Inflation rate	2,7%	-0,9%	1,4%	3,5%	3,0%
Unemployment	7,7%	9,6%	11,0%	12,6%	13,6%

Source: Global Finance; NOVA Research

Macroeconomic environment

The Portuguese economy felt into a recession which is likely to last till the end of 2013. The GDP of Portugal is expected to shrink by 2,2% in 2011 and 1,8% in 2012. This slowdown reflects the dynamics of all components of domestic demand. We assume an unprecedented decline in the value of consumption and private investments. According to Portuguese Ministry of Finance the contribution of falling domestic demand in Portugal's GDP will be negative (-6,2% in 2011 and -4,1 % in 2012), whereas private consumption itself is expected to fall during

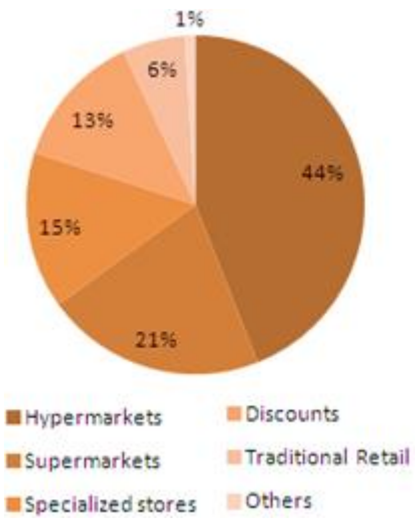
[25] *The detailed date on margins of closest competitors in Poland are not available (not listed companies). The margins of mature and growing*

[26] *Source: ITM Polska*

these years respectively by 4,5% and 3,3%. This shift is the result of changes in the structure of consumption of Portuguese households in response to the cuts made by the government of the fiscal consolidation, restrictions on funding and rising unemployment.

Apart from that, we project fall in private investment, which in 2011 is expected to be more than 10%. This decrease is a result of less optimistic outlook for entrepreneurs in terms of economic development and extremely demanding restrictions on financing that characterize the current economic situation. We should also notice the considerable decrease in public consumption, which is expected to be 6,1% this year. and 5,3% in 2012. Particularly concerning is however increasing unemployment rate which will reach 13,6% in 2012 comparing to 12,6% in 2011 and 11% at the end of 2010. According to Portuguese Ministry of Finance over the next two years in total in the Portuguese economy 133,5 thousand jobs will be reduced, of which 79,6 thousand only this year.

Exhibit 20: Portuguese retail market structure.



Source: hipersuper.pt; NOVA Research

The crucial for retail sector is change in VAT rate. From 2012, Portugal abolished the average VAT rate on goods. This tax has increased from 13% to 23%. Only basic food items remained with VAT of 6%. Also, the VAT in catering increased from 13% to 23%. In 2012, the income tax from legal persons is also changed. The scale of tax for companies with profits above 1,5 million increased from 25% to 28%.

Retail market

Portuguese retail market is one of the smallest of the Eurozone, not only due to the small population and economy, but also because of low average incomes. In terms of market structure, the formats dominating in Portugal are hypermarkets (44%) followed by supermarkets (21%), specialized shops (15%) and discounts (13%). The traditional retail accounts solely for 6% of sales. Together with 70% share belonging to top five players, we can conclude that Portuguese retail market is very mature.

Essential spending on food and beverages will perform better than that on non-food products…

The size of retail sales in Portugal is expected to remain stable over the forecast period. Since the economy undergoes a severe economic adjustment, accompanied with fiscal austerity, the growth is unlike. However, we should notice that the proportion of household expenditure on food in Portugal is much higher than in other Eurozone countries. In 2010, the spending on food, beverages and tobacco accounted for 19,3% of household expenditures. We expected this share to remain high and rather stable over the next years, at circa

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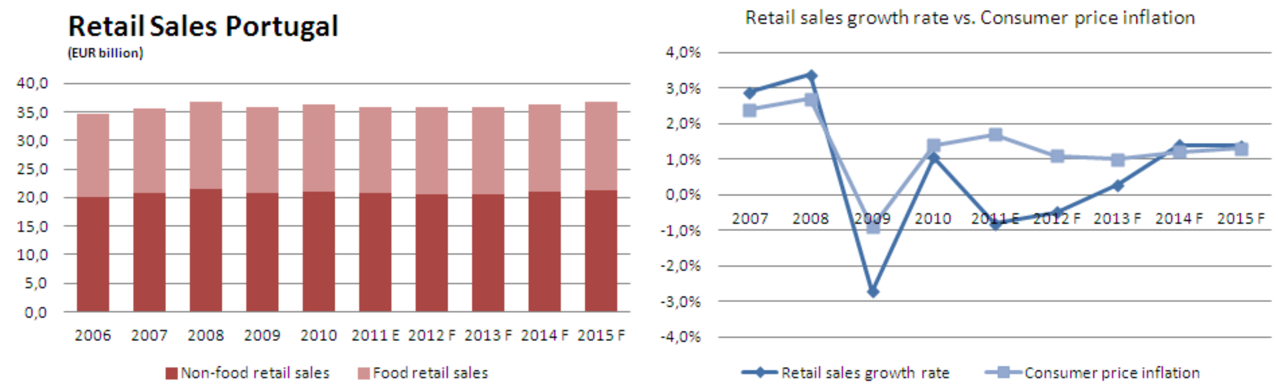
19,5%. Therefore, we assume that the essential spending on food and beverages will perform better than that on non-food products.

Exhibit 21: Retail market in Portugal 2006 – 2015 F



Source: Economist Intelligence Unit; NOVA Research

Consumers switch to cheaper, private label products…

As a result of recession, we observe a shift to low cost products and discount retailers. This is likely to reinforce, since consumers need to economize their consumption. Similarly to Poland, the share of private label sales in Portugal is augmenting, as consumers remain aware of the potential further economic turbulences. Currently it is responsible for 36% of overall grocery retail sales – in comparison sales of private label products in England accounts for 50%. According to Company data, sales of private label products in Pingo Doce and Recheio account currently for 40% and 20% respectively[27] (3% more than in 2010).

Growth in demand for takeaway and ready-to-eat food products…

Due to decrease in disposable income and increasing working hours we can observe another change in consumption. Portuguese consumers, who are used to eating out regularly, leaving work later and having less time to prepare meals, fuel growth in demand for takeaway and ready-to-eat food products. Since the ongoing crisis demands more rationalization in consumption, we believe this tendency will strengthen in the next years.

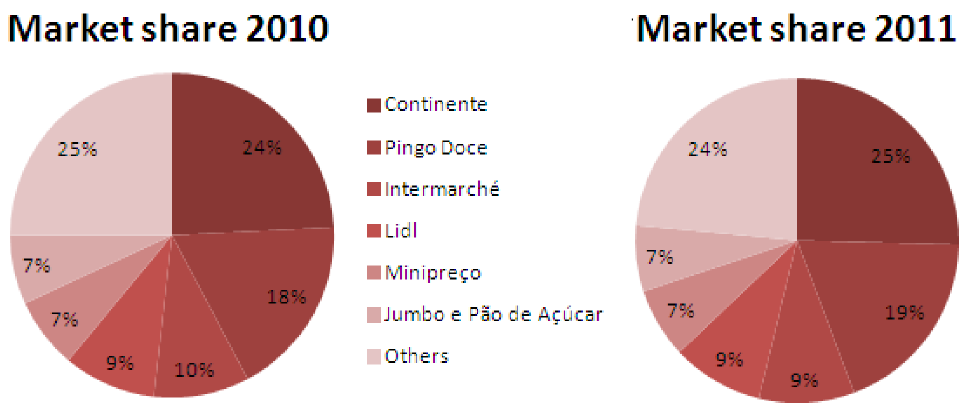
Competitors

The retail market in Portugal, despite significant foreign interest, is dominated by Portuguese distributors which account for 80% of total food retail sales. The top five players account for almost 70% of the market, which is high percentage as

[27] *The private brands are a new project for Recheio, therefore its share in sales is much lower than in case of Pingo Doce. Also, the dominating category in Recheio sales are beverages where private brands are not available.*

compared to other European countries (Exhibit 13). The leading position belongs to retail chain Modelo Continente owned by Sonae Group with market share of 25,40% (up by 1,2%), being a leader in hypermarkets format. The second place occupies Jerónimo Martins and its Pingo Doce banner, leading in supermarkets format. The foreign companies following Portuguese leaders are French Intermarché and Auchan (with banners Jumbo and Pão de Açúcar), German discount stores Lidl (belonging to Schwarz Group) and another French owned banner Minipreço (owned by Carrefour).

Exhibit 22: Market share evolution 2010 vs. 2011



Source: Diário Económico; NOVA Research

For Jerónimo Martins entering 3rd market has higher priority than E-commerce…

The Portuguese retailers revealed recently some interest in E-commerce, which is growing rapidly within Western Europe. The pilot initiative "Continente Drive" offering services Click & Collect has been recently launched by the main competitor of Jerónimo Martins - Sonae. Jerónimo Martins seems however to be a bit behind competitors. Surely, the alternative expansion of the Company, instead of moving into third geography, could have been done via E-commerce. However, in our view E-commerce would add few value to the Company. The current objective of the Management is to concentrate on gaining market share via low prices, strong execution and cost control. Portuguese are still modest online consumers, being far behind Western Europeans.

Operational Forecast – Retail – Pingo Doce

The operational forecast of Pingo Doce was created basing on the similar principals as Biedronka forecast, namely sales area and sales densities. In base scenario we do not except any decline in Pingo Doce sales, as the Company's Management seems to adjust its strategy to the macroeconomic conditions and keeps increasing Pingo Doce market share. The decrease in sales is though incorporated into our worst case scenario in which the aggravation of crisis in Portugal will result in significantly lower purchasing power of Pingo Doce clients. In our base scenario we expect however the Pingo Doce sales to increase at the CAGR of 4,81% in the next 5 years.

40% of Pingo Doce sales is generated by private label products…

The increasing popularity of private label products, is expected to have positive impact on revenues of the banner – currently 40% of Pingo Doce sales is generated by private brands.[28] So as to correspond to consumer needs, Company expanded also its offer of ready-to-eat meals (Meals Solutions), adding new traditional recipe dishes. A great price to quality ratio and modern, appealing packaging of Pingo Doce products translated last year into LFL growth of 7,2%.

Exhibit 23: Operational Summary (probability weighted)

Portugal - Pingo Doce Operational Forecast							(EUR million)
	2009	2010	2011E	2012F	2013F	2014F	2015F
Sales	2 666,13	2 927,40	3 093,06	3 179,67	3 257,57	3 374,84	3 489,59
growth %	8,2%	9,8%	5,7%	2,8%	2,5%	3,6%	3,4%
EBITDA	179,07	182,49	185,58	145,63	156,20	178,19	184,25
margin %	6,7%	6,2%	6,0%	4,6%	4,8%	5,3%	5,3%
# Stores	358	364	372	378	383	388	393
Sqm ('000)	449,04	451,57	461,17	468,37	474,37	480,37	486,37
Sales density	5,94	6,48	6,71	6,79	6,87	7,03	7,17

Source: Company data; NOVA Research

Meal Solutions and Take Away as an alternative for eating out

Pingo Doce developed also a takeaway offer for its customers. As we mentioned in business environment analysis, due to the crisis Portuguese tend to substitute eating out with cheaper alternatives. As per company data for 2010, takeaway offer is available in 214 out of 349 Pingo Doce stores. Furthermore, in a major locations 33 stores are integrated with Takeaway restaurants.

Winning consumer preference by offering healthy and fresh products…

The aim of the Company is winning consumer preference. To do so Pingo Doce concentrates on quality and healthy of its products. Providing detailed nutritional information of its products and increasing offer of Perishables (currently 40% of sales), Company contributes to more balance diet of Portuguese families.

The third quarter of 2011, confirmed that there is no decline in Pingo Doce sales. The Company promotional actions e.g. product baskets, were very successful, and allowed to post LFL growth of 1,4% during the quarter. However, due to increasing competition and price sensitivity of consumers we expect slender

[28] *Private brands share relates to food products "Pingo Doce", haircare cosmetics "Essentya", cleaning and domestic products "Ultra Pro" and pet food "Active Pet".*

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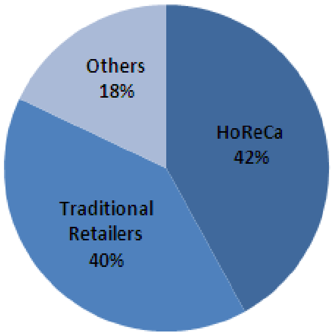
decrease in EBITDA margin already in our base scenario. The change in mix of products will have undoubtedly impact on the margins, while higher sales of frozen food and takeaways will push the margin up, the private label products will be moving the margins downward.

Operational Forecast – Cash & Carry – Recheio

The Portuguese wholesale market is dominated by Recheio (39% market share in terms of revenues) and Makro (22%). It is mature market where top 5 players represent approximately 84,3% of consumption in 2010.

Exhibit 24: Recheio sales per segment



Source: Company Data

The Cash & Carry operations of Jerónimo Martins so far have been "crisis-proof". The Recheio solid performance in adverse conditions posted a growth of 4,3% during nine months of 2011. Maintaining its leadership with the market share of 39%, we expect Recheio to continue its growth, however at the slower pace due to negative performance of HoReCa and Traditional Retailers segments (responsible for 42% and 40% of its sales respectively) and mature stage of the market. In our base scenario we expect the Recheio sales to increase at the CAGR of 2,45% in the next 5 years.

To boost Recheio sales, Management is making a great effort to gain new clients through several promotional campaigns. Also by launching new private labels (Masterchef, Gourmês and Amanhecer), Company is increasing the revenues stream coming from private brands sales (currently accounting for 17% of sales). In times of crisis, the HoReca and Traditional Retailers will switch to cheaper private brands products and leave smaller wholesalers which will not be able to offer competitive prices and products.

Exhibit 25: Operational Summary (probability weighted)

Portugal - Recheio Operational Forecast							(EUR million)
	2009	2010	2011E	2012F	2013F	2014F	2015F
Sales	688,54	720,51	756,57	765,95	773,23	783,28	793,86
growth %	5,2%	4,6%	5,0%	1,2%	1,0%	1,3%	1,4%
EBITDA	41,39	44,39	45,39	34,62	36,46	40,81	40,41
margin %	6,0%	6,2%	6,0%	4,5%	4,7%	5,2%	5,1%
# Stores	35	38	40	41	42	43	44
Sqm ('000)	114,41	123,53	130,13	133,43	136,73	140,03	143,33
Sales density	6,02	5,83	5,81	5,74	5,66	5,59	5,54

Source: Company data; NOVA Research

Cost efficiency and gaining new clients is a main focus…

In terms of EBITDA margins, we expect similar trend as for Pingo Doce. The cost efficiency is currently the main focus for the Management, but the price factor is

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becoming very important and it will be hard for Recheio to increase the margins during next few years. Not to forget that the increase of VAT prices in catering industry from 13% to 23% will bring another taught year for HoReCa sector with lower levels of consumption.

Operational Forecast – Manufacturing

Manufacturing – the only segment trading down…

Manufacturing is the only segment of Jerónimo Martins confirmed to be trading down. Due to the lower disposable income, the categories like home or personal care posted decline in sales numbers. The Company is trying to compensate the losses by increasing export of its products and generating efficiency gains. We expect, however than the growth within this segment will come not earlier than in 2013, since changes in the strategy and moving towards different product lines will take time. In our base scenario we expect the Manufacturing revenues to decrease at the constant annual rate of -0,02% in the next 5 years.

Exhibit 26: Operational Summary (probability weighted)

Portugal - Manufacturing Operational Forecast (EUR million)	2009	2010	2011E	2012F	2013F	2014F	2015F
Sales	237,76	236,05	227,61	225,75	225,92	227,29	229,93
growth %	-6,3%	-0,7%	-3,6%	-0,8%	0,1%	0,6%	1,2%
EBITDA	36,38	34,09	25,04	20,32	20,11	21,12	24,14
margin %	15,3%	14,4%	11,0%	9,0%	8,9%	9,3%	10,5%

Source: Company data; NOVA Research

The Manufacturing EBITDA margin is being pushed downward as a result of giving priority to competitiveness, when the prices of raw materials are increasing. According to the Company data, the prices of some raw materials used in their processes are still high and will remain at that level in the nearest future. Choosing the market share, we assumed in our projections relatively low EBITDA margins.

Colombia

Exhibit 27: Colombia – summary

Population: 44,7 million
Currency: Colombian pesos (COP)

	2008	2009	2010	2011 E	2012 F
Real GDP	2,7%	1,5%	4,3%	4,6%	4,9%
Inflation rate	7,0%	4,2%	2,3%	3,6%	3,5%
Unemployment	10,6%	12,0%	11,8%	11,5%	11,0%

Source: Global Finance; NOVA Research

Jerónimo Martins surprised investors by announcing at the beginning of the fourth quarter its choice of third geography. Colombia, meets all the criteria set up by Company: democracy and rule of law, significant population, stable and robust economy and what is the most important market opportunity in food retail. The only data provided by the Company are very vague and concentrate on size of the investment. Therefore, our valuation does not include any operational forecast for Colombia. The opportunity of growth in this region is included in

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assumed terminal growth rates. The below analysis was carried out solely to acknowledge the Company choice.

Macroeconomic and business environment

Monetary policy shifting towards more restrictive approach…

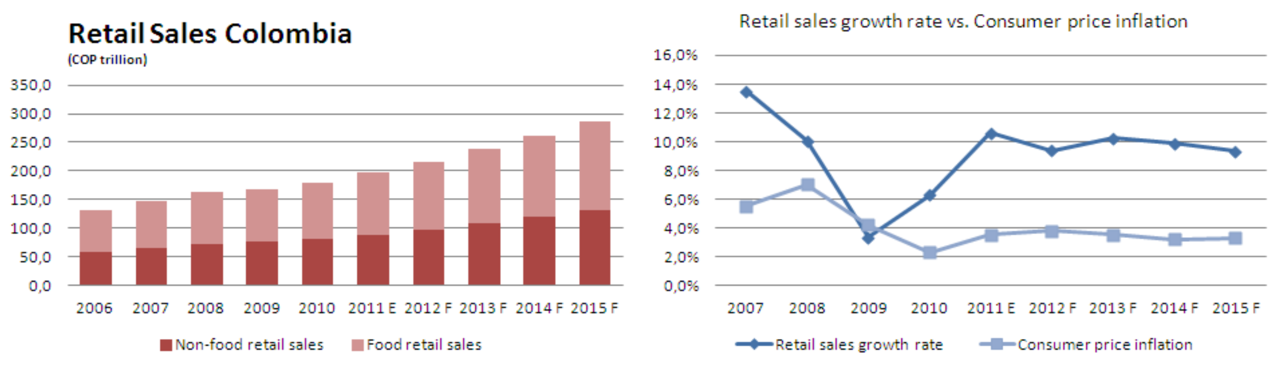
The macroeconomic situation in Colombia is relatively stable. The country has a precautionary Flexible Credit Line with the IMF, fine access to international capital markets and healthy economic, what together secures the firm sovereign position and the currency. Our projections regarding the macroeconomic environment are summarized in Exhibit 27. Following the period of expansionary monetary policy with low interest rates, it is time for more restrictive approach. This gradually changing policy, should result in strengthening of Colombian peso, which in future can have positive influence on Jerónimo Martins – generating revenues in this currency.

The forecast growth of retail sales for period 2011-2015 will be approx. 9,9%

The Colombian retail market recovered strongly in 2010, reaching a record sales of 178,9 trillion COP (approx. 70,1 billion EUR) in 2010. This represented nominal growth of 6,2%, higher than 3,4% growth in 2009 but still below growth rates before crisis. We expect that the strong real GDP growth will continue and recovery in key sectors will lead to further growth in the retail sales. Our forecasted sales growth for period 2011-2015 equals 9,9%.

The spending on food retail represents currently around one-third of Colombians total income. We expect that this share is likely to decrease as a disposable income increases, which is a generally observed trend. The Exhibit 28. presents the projections regarding Colombian retail market for the next 5 years.

Exhibit 28: Retail market in Colombia 2006 – 2015 F



Source: Economist Intelligence Unit; Departamento Administrativo Nacional de Estadistica; NOVA Research

Competitors

Fragmented retail market with top 5 players accounting for 1/3 of all banner sales…

The Colombian retail market is still very fragmented, with top five food retailers accounting for about one-third of all banner sales. The dominant position belongs to French retailer Casino, with registered sales of circa 2,4 billion EUR in 2010 and 356 outlets. Another French company, Carrefour, is in second place, with sales of 1,1 billion EUR, followed by the two largest Colombian retailers: Olímpica (0,78 billion EUR) and Alkosto (262 million EUR) and a Dutch firm, SHV Makro (253 million EUR). Wal-Mart a prominent multinational player in Latin America, which has not so far gained a foothold in Colombia, also expressed its interest in entering the market.

Foreign retailers increased competition and created difficulties for some local players at the higher end of the market. However, the domestic outlets still dominate its cheaper end. This segment includes the informal sector of street markets, which accounts for more than half of total retail sales. The informal sector is strongest in rural areas and small towns, while established retail companies are focused on the large urban zones.

Underserved small and medium size cities as a target market for Jerónimo Martins

Jerónimo Martins strategy differs from the strategy adopted by western chains. It will focus on becoming closer to the base of the pyramid - the 60% of consumers who are currently served by small independent grocers. The company plans to adapt to consumers needs by offering low prices and convenient location of stores, developing from the beginning the low cost structure. The strategy looks very similar to Polish one, where the retailer entered the market starting from underserved small and medium size cities. The potentially most dangerous competitor of Jerónimo Martins is a neighbourhood format stores owned by Almacenes Éxito and its new Éxito Express concept that was launched in 2010.

Due to very limited information on strategy and timing of entering Columbian market by Jerónimo Martins, we included in our valuation only the announced size of investment. In the short term, before any sales is generated, it will influence negatively the company cash flows.

CAPEX and Net Working Capital

So as to forecast Jerónimo Martins CAPEX we relied on the data provided by the Company and our own expectations regarding expansion strategy. Since the number of new openings was estimated while preparing operational forecast, we concentrated our research on costs. Basing on historical data and current market

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prices of retail areas we created the cost structure for both Portugal and Poland. The results of our analysis are presented in Exhibit 29. Except capital expenditure on new store and distribution centres, we tried to predict others costs (refurbishing, maintenance). To do so we, used historical ratios (percentage of others costs in total CAPEX).

Excluding investment in Columbia, Company will invest in next three years around 1,6 billion EUR. According to our estimation, 83% of it will be devoted to expansion in Poland.

Exhibit 29: CAPEX forecast 2009 – 2015F

CAPEX breakdown (EUR million)	2009	2010	2011E	2012F	2013F	2014F	2015F
Poland Retail	176,92	249,12	322,74	421,74	449,46	471,24	455,40
Portugal Retail	111,90	117,58	100,04	83,83	70,50	70,25	70,37
Portugal Cash & Carry	12,10	27,90	21,53	10,77	10,77	10,77	10,77
Portugal Manufacturing	1,51	3,99	2,34	2,63	2,80	3,17	3,28
Expansion*	177,22	184,94	233,17	272,33	282,61	294,68	285,96
Others**	125,20	213,64	213,49	246,64	250,92	260,74	253,86
Total Capex	**302,43**	**398,59**	**446,66**	**518,96**	**533,53**	**555,42**	**539,82**

* - New Stores and New Distribution Centres
** - Refurbishing, Maintenance and Others

Source: NOVA Research

Regarding Net Working Capital, according to our study Jerónimo Martins is able to generate circa 13% of negative working capital as a percentage of sales, what translates into 47 days of net working capital. We expect that the Company will continue in future its excellent operational performance.

Exhibit 30: Net Working Capital forecast 2009 – 2015F

Net Working Capital Forecast (EUR million)	2009	2010	2011E	2012F	2013F	2014F	2015F
Daily Sales	20,05	23,81	27,36	31,02	34,78	38,61	42,41
Days Sales Outstanding (DSO)	9,52	7,64	7,50	6,90	6,80	6,70	6,60
Days Sales of Inventory (DSI)	16,68	15,48	15,40	15,35	15,30	15,25	15,20
Days Payable Outstanding (DPO)	72,34	70,85	70,00	69,00	68,00	67,00	66,00
Days of Working Capital (DWC)*	**-46,14**	**-47,73**	**-47,10**	**-46,75**	**-45,90**	**-45,05**	**-44,20**
Net Working Capital	-924,94	-1136,45	-1288,67	-1450,35	-1596,60	-1739,17	-1874,64
Changes in NWC	-83,84	-211,51	-152,22	-161,68	-146,26	-142,57	-135,47

* DWC = DSO + DSI – DPO

Source: NOVA Research

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The Company is actively managing the relations with its suppliers. During this year, Jerónimo Martins managed to settle long term agreements in Poland and Portugal that allowed to eliminated several intermediaries and secure the partnership for the next years. Focusing on cost control, Company guaranteed the direct purchases from producers for fruits imported from Brasil. Also, the prices of vegetables thanks to renegotiation of the contracts have been secured for the next period. In Portugal, partnerships with fishermen were forced and allowed for elimination of middlepersons.

Increasing share of Perishables in total sales…

Also, the increasing share of Perishables in total sales of the Company which account for 40% of sales of Pingo Doce and 15% of Biedronka and Recheio, will help to reduce the number of days sales of inventory. Regarding days payable, we should notice that to achieve this impressive Working Capital cycle, Jerónimo Martins is funding extension of its payments in both geographies. To do so, Company use different methods: paying penalty interests, offering credit lines to its suppliers (reverse factoring) or paying arranged interests charges for delayed payments. We should however underline, that the payment of those interests has no material impact on Company earnings and offset the advantage of maintaining Working Capital within firm.

Exhibit 31: Operational Efficiency 2009 vs. 2010

	Tesco		Carrefour		Metro		Sainsbury		Casino		Colruyt		Delhaize	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
DSO	12,8	14,8	10,1	10,4	14,6	14,8	14,3	24,4	20,6	21,9	19,6	22,2	10,9	11,2
DSI	18,5	20,3	28,5	28,6	39,6	40,5	12,8	14,0	35,1	36,3	26,8	27,0	23,4	25,6
DPO	63,9	67,2	72,3	68,6	78,9	78,1	47,0	47,0	59,0	60,5	44,6	46,0	26,3	27,6
DWC	**-32,7**	**-32,1**	**-33,8**	**-29,6**	**-24,8**	**-22,9**	**-19,9**	**-8,5**	**-3,3**	**-2,3**	**1,8**	**3,1**	**8,0**	**9,2**

	X5		Migros		BIM		Magnit		Emperia		Eurocash		JMT	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
DSO	13,0	12,3	8,0	8,8	11,1	10,7	0,8	1,0	14,5	75,1	20,4	31,3	9,5	7,6
DSI	25,6	32,9	31,3	31,0	17,7	18,7	28,3	31,0	103,8	20,0	19,9	29,7	16,7	15,5
DPO	65,2	59,9	25,5	25,1	44,7	44,3	39,0	36,1	30,9	126,4	47,2	66,0	72,3	70,8
DWC	**-26,5**	**-14,7**	**13,8**	**14,6**	**-16,0**	**-15,0**	**-9,9**	**-4,2**	**87,3**	**-31,3**	**-6,9**	**-4,9**	**-46,1**	**-47,7**

Source: NOVA Research

According to our estimation Jerónimo Martins is the leader of operational efficiency. Our analysis was based on Company's peers. The average number of Days of Woking Capital for analyzed group is negative and equals 13,3 for year 2010 (5,5 better than in the previous year). The increasing competition put more pressure on operational efficiency. The biggest improvement in this area was achieved by Biedronka competitor – Emperia Group. The leading positions in our ranking are occupied by mature companies: Tesco, Carrefour and Metro, where scale of activities and managerial experience are definitely the reasons behind this result. The summary of our analysis is presented in Exhibit 31.

Risk Factors

We identified seven major downside risks to our BUY recommendation. We tried to address the following risks in our valuation via four different scenarios with assigned probabilities.

1) Unexpected impact of austerity measures on level of consumption in Portugal.

2) Potential increase of competition in Portugal as an effect of different strategies with possible pricing wars and heavy advertising.

3) Deviations from expected economic and consumption outlook in Poland, as a consequence of spreading debt crisis.

4) Potential increase of competition in Poland in form of new entrants or aggressive expansion due to market attractiveness and growth profile.

5) Adverse currency movements of Polish Złoty.

6) Unknown outcome of expansion into Colombian market. Entering new market is a sizeable investment with an initially unclear return.

7) Aggravation of debt crisis resulting in default or Portugal and its leave from Eurozone.

Benchmark analysis

So as to validate our target price for Jerónimo Martins we carried out benchmark analysis. To do so we used Bloomberg consensus estimates, being aware of drawbacks of EV/EBITDA and P/E multiples. As a comparable companies we chose the same two groups that we used in case of beta calculation – mature Western European companies and growth companies from Emerging Markets. Using the weights of Polish and Portuguese operations in Enterprise Value (82% and 18% respectively), we derived blended multiple, which allowed us to compare Jerónimo Martins with other retailers. Furthermore, we compared it to the consensus expectations. Jerónimo Martins trades at a premium on our forecast – 7,64%-23,45% on 2011-13E EV/EBITDA (on Consensus forecast

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9,17% - 9,54%). The higher than consensus multiple can be explained by our lower EBITDA (we compared probability weighted values that are lower than in base scenario). The Exhibit 32. presents the outcome of our analysis.

Exhibit 32: Benchmark Analysis

Company	Bloomberg Ticker	FX	Last Price	Shares outstanding	Market Cap	EV/EBITDA 2011E	EV/EBITDA 2012F	EV/EBITDA 2013F	P/E 2011E	P/E 2012F	P/E 2013F
Tesco	TSCO LN	GBP	399,00	8 018	3 199 034	7.89x	7.69x	7.00x	12.09x	11.15x	10.10x
Carrefour	CA FP	EUR	18,52	679	12 581	6.05x	5.73x	5.24x	13.31x	11.66x	9.84x
Metro	MEO GY	EUR	30,15	324	9 772	4.77x	4.51x	4.28x	9.40x	8.36x	7.64x
Sainsbury	SBRY LN	GBP	297,20	1 878	558 035	6.30x	5.92x	5.55x	11.75x	10.97x	10.11x
Casino	CO FB	EUR	64,19	111	7 096	7.08x	6.22x	5.58x	12.71x	10.98x	9.66x
Colruyt	COLR BB	EUR	28,25	168	4 754	6.86x	7.01x	6.63x	12.52x	13.16x	12.34x
Delhaize	DELB BB	EUR	43,41	102	4 421	4.67x	4.38x	4.20x	8.12x	7.72x	7.25x
Average Western Europe						**6.23x**	**5.92x**	**5.50x**	**11.41x**	**10.57x**	**9.56x**
X5	FIVE LI	USD	22,93	272	6 227	8.90x	6.84x	5.57x	23.05x	14.25x	9.87x
Migros	MGROS TI	TRY	13,85	178	2 466	11.27x	9.96x	8.60x	n/a	20.73x	16.09x
BIM	BIMAS TI	TRY	52,50	152	7 970	18.27x	15.01x	12.88x	27.34x	22.94x	19.45x
Magnit	MGNT LI	USD	20,10	445	8 942	n/a	n/a	n/a	23.62x	17.37x	13.22x
Emperia	EMP PW	PLN	112,00	15	1 693	9.53x	9.01x	8.52x	17.65x	16.03x	14.84x
Eurocash	EUR PW	PLN	25,20	137	3 451	12.35x	10.62x	9.51x	22.54x	17.54x	15.44x
Average Emerging Markets						**12.06x**	**10.29x**	**9.02x**	**22.84x**	**18.14x**	**14.82x**
Blended Multiple	(82% Emerging Markets, 18% Western Europe)					11.01x	9.50x	8.39x	20.78x	16.78x	13.87x
Jerónimo Martins	JMT PL	EUR	13,10	629	8 244	11.85x	11.61x	10.36x	20.05x	17.61x	15.51x
					Consensus:	12.02x	10.62x	9.19x	22.60x	19.19x	16.04x

Market data as per 09.12.2011

Source: NOVA Research; Bloomberg

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Financial Statements

Consolidated Balance Sheet	2010	2011E	2012F	2013F	2014F	2015F
ASSETS						
Tangible assets	2 192,82	2 416,08	2 689,04	2 954,61	3 219,34	3 447,72
Intangible assets	863,37	875,12	889,49	903,46	917,40	929,42
including Goodwill	746,81	746,81	746,81	746,81	746,81	746,81
Other non-current assets	199,41	199,41	199,41	199,41	199,41	199,41
Total non-current assets	3 255,60	3 490,61	3 777,94	4 057,48	4 336,15	4 576,55
Inventories	368,71	421,35	476,21	532,20	588,73	644,67
Accounts receivable	181,85	205,20	214,06	236,53	258,66	279,92
Cash and cash equivalents	303,93	168,42	269,64	331,28	384,02	527,06
Other current non operating assets	48,94	48,94	48,94	48,94	48,94	48,94
Total current assets	903,43	843,91	1 008,85	1 148,95	1 280,35	1 500,60
Total assets	**4 159,03**	**4 334,52**	**4 786,79**	**5 206,43**	**5 616,50**	**6 077,15**
SHAREHOLDERS' EQUITY & LIABILITIES						
Shareholders' equity (Group share)	977,20	1 374,53	1 606,94	1 828,43	2 032,09	2 231,38
Extraordinary dividends	-132,08	-178,80	-246,73	-327,76	-398,56	-418,49
Minority interests	286,71	310,75	319,44	327,80	339,10	349,02
Total Shareholders' equity	1 131,83	1 506,48	1 679,66	1 828,48	1 972,63	2 161,90
LIABILITIES						
Long-term financial debt	634,18	298,20	335,79	368,06	399,35	440,44
Other non-current liabilities	168,27	168,27	168,27	168,27	168,27	168,27
Total non-current liabilities	802,45	466,47	504,06	536,33	567,62	608,71
Accounts payable	1 687,01	1 915,22	2 140,62	2 365,34	2 586,55	2 799,23
Short-term financial debt	219,22	127,80	143,91	157,74	171,15	188,76
Other current liabilities	318,55	318,55	318,55	318,55	318,55	318,55
Total Current Liabilities	2 224,77	2 361,57	2 603,07	2 841,62	3 076,25	3 306,54
Total liabilities	3 027,22	2 828,04	3 107,13	3 377,95	3 643,87	3 915,25
Total Shareholders' equity and liabilities	**4 159,05**	**4 334,52**	**4 786,79**	**5 206,43**	**5 616,50**	**6 077,15**

Financial data in million EUR; Result of probability weighted average of analyzed scenarios

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P&L Statement	2010	2011E	2012F	2013F	2014F	2015F
Net Sales and Services	8 691,12	9 986,51	11 323,55	12 696,29	14 090,93	15 480,60
Operational Cash-Flow (EBITDA)	652,58	776,03	792,05	887,93	997,15	1 104,24
EBITDA margin	7,5%	7,8%	7,0%	7,0%	7,1%	7,1%
Depreciation	-190,78	-211,65	-231,63	-253,99	-276,75	-299,41
EBIT	461,81	564,38	560,42	633,94	720,39	804,83
Exceptional operating profits/losses	-9,97	-	-	-	-	-
Operating profit	451,84	564,38	560,42	633,94	720,39	804,83
Financial Result	-73,01	-34,08	-38,38	-42,06	-45,64	-50,34
EBT	378,83	530,30	522,05	591,88	674,75	754,49
Income Tax	-79,06	-108,94	-102,15	-115,30	-132,05	-146,73
Tax according to segments	-78,20	-108,94	-102,15	-115,30	-132,05	-146,73
Tax adjustment	-0,86	-	-	-	-	-
Implied tax rate	20,9%	20,5%	19,6%	19,5%	19,6%	19,4%
Profit before minority interests	299,77	421,37	419,90	476,58	542,71	607,77
Minority interest	18,75	24,04	8,69	8,36	11,30	9,92
Net Profit (Attributable to JM)	281,02	397,33	411,21	468,22	531,41	597,85
EPS	0,45	0,63	0,65	0,74	0,84	0,95

Financial data in million EUR; Result of probability weighted average of analyzed scenarios

Cash Flow Statement	2010	2011E	2012F	2013F	2014F	2015F
NOPLAT	354,94	446,67	448,40	507,81	576,60	645,14
Depreciation	190,78	211,65	231,63	253,99	276,75	299,41
Operating Cash Flow	**545,72**	**658,32**	**680,03**	**761,80**	**853,35**	**944,55**
Net Capex	398,59	446,66	518,96	533,53	555,42	539,82
Investment in NWC	-211,51	-152,22	-161,68	-146,26	-142,57	-135,47
Others	80,18	0,00	0,00	0,00	0,00	0,00
Cash Flows from Investment	**267,26**	**294,43**	**357,28**	**387,27**	**412,86**	**404,35**
Free Cash Flow to the Firm	278,45	363,89	322,74	374,53	440,49	540,21
Interests paid	-73,01	-34,08	-38,38	-42,06	-45,64	-50,34
Tax shield	17,84	8,78	9,88	10,83	11,75	12,96
Changes in Financial debt	-27,46	-427,40	53,70	46,10	44,70	58,70
Changes in Equity	-115,39	-178,80	-246,73	-327,76	-398,56	-418,49
Cash Flow from Financing	**-198,02**	**-631,50**	**-221,52**	**-312,89**	**-387,75**	**-397,17**
Initial Cash	223,50	303,93	36,32	137,54	199,18	251,92
Δ Cash	80,43	-267,61	101,22	61,64	52,75	143,04
Ending Cash	**303,93**	**36,32**	**137,54**	**199,18**	**251,92**	**394,96**

Financial data in million EUR; Result of probability weighted average of analyzed scenarios

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Appendix

Margins and Financial Ratios

	2010	2011E	2012F	2013F	2014F	2015F
EBITDA margin	**7,5%**	**7,9%**	**7,9%**	**8,2%**	**8,6%**	**8,7%**
PORTUGAL RETAIL	6,2%	6,0%	4,6%	4,8%	5,3%	5,3%
PORTUGAL CASH & CARRY	6,2%	6,0%	4,5%	4,7%	5,2%	5,1%
POLAND RETAIL	8,1%	8,8%	8,3%	8,0%	7,8%	7,8%
PORTUGAL MANUFACTURING	14,4%	11,0%	9,0%	8,9%	9,3%	10,5%
Depreciation to Sales	**-2,2%**	**-2,1%**	**-2,0%**	**-2,0%**	**-2,0%**	**-1,9%**
PORTUGAL RETAIL	-3,2%	-3,4%	-3,6%	-3,8%	-4,0%	-4,1%
PORTUGAL CASH & CARRY	-1,3%	-1,3%	-1,3%	-1,4%	-1,4%	-1,5%
POLAND RETAIL	-1,8%	-1,6%	-1,5%	-1,4%	-1,3%	-1,3%
PORTUGAL MANUFACTURING	-1,3%	-1,3%	-1,2%	-1,2%	-1,3%	-1,4%
EBIT margin	**5,3%**	**5,7%**	**4,9%**	**5,0%**	**5,1%**	**5,2%**
PORTUGAL RETAIL	3,0%	2,6%	1,0%	1,0%	1,3%	1,2%
PORTUGAL CASH & CARRY	4,9%	4,7%	3,2%	3,3%	3,8%	3,6%
POLAND RETAIL	6,4%	7,2%	6,8%	6,6%	6,5%	6,5%
PORTUGAL MANUFACTURING	13,1%	9,7%	7,8%	7,7%	8,0%	9,1%
CAPEX to Sales	**4,6%**	**4,5%**	**4,6%**	**4,2%**	**3,9%**	**3,5%**
PORTUGAL RETAIL	4,0%	3,2%	2,6%	2,2%	2,1%	2,0%
PORTUGAL CASH & CARRY	3,9%	2,8%	1,4%	1,4%	1,4%	1,4%
POLAND RETAIL	5,2%	5,5%	5,9%	5,3%	4,9%	4,2%
PORTUGAL MANUFACTURING	1,7%	1,0%	1,2%	1,2%	1,4%	1,4%

Result of probability weighted average of analyzed scenarios

Sales density – peers comparison

% Change in sales density	2008	2009	2010
Tesco	-0,1%	-4,9%	-1,0%
Carrefour	-2,9%	-6,3%	3,5%
Metro	4,0%	-5,6%	0,9%
JMT	5,2%	-8,1%	10,7%
X5	11,7%	-20,1%	-4,3%
Casino	2,0%	-4,1%	4,1%
Sainsbury	8,2%	0,8%	-1,2%
Colruyt	4,7%	0,3%	1,4%

Source: Bloomberg, NOVA Research

During last three years sales density of JMT was changing dynamically. Looking at Company peers we can noticed that JMT efficiency improved the most in the last year. The low density of sales can often be the result of intensive expansion (new stores are less efficient). It is probable that during entering Colombian market, JMT total sales efficiency will grow sat the slower pace.

Price sensitivity – scenario analysis

		Very bad	Bad	Base	Good
WACC	-1%	15,69 €	17,68 €	18,95 €	19,73 €
	base	12,18 €	13,87 €	14,99 €	15,65 €
	+1%	9,91 €	11,40 €	12,41 €	12,98 €
	+2%	8,33 €	9,66 €	10,60 €	11,11 €

Source: NOVA Research

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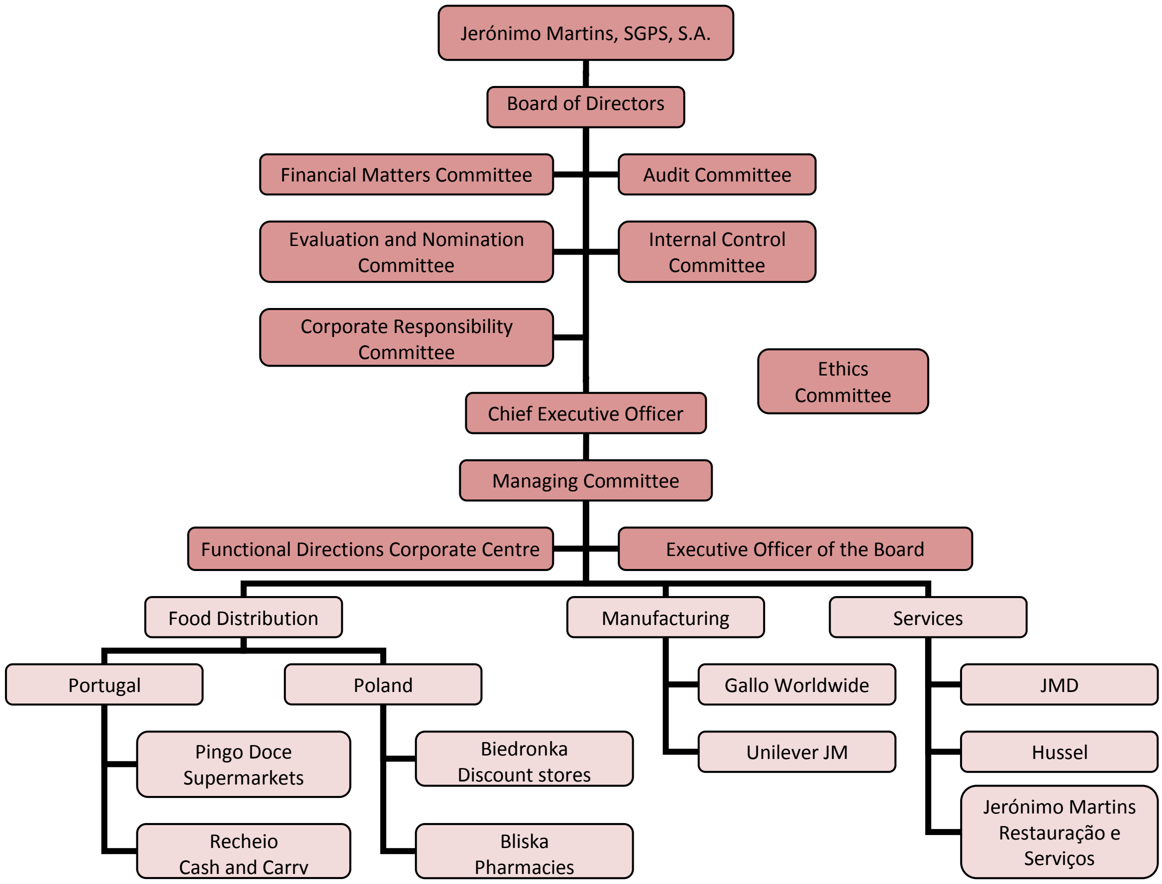
Jerónimo Martins Organisational and Business Structure



Source: Company Data

Margins comparison

Tesco		Carrefour		Metro		Sainsbury		Casino		Colruyt		Delhaize	
2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
6,10%	6,30%	3,18%	3,32%	6,10%	6,30%	5,42%	5,49%	6,91%	6,75%	8,90%	8,50%	4,72%	4,91%
X5		Migros		BIM		Magnit		Emperia		Eurocash		JMT	
2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
7,50%	8,40%	7,00%	5,60%	5,90%	5,40%	2,14%	2,26%	3,19%	3,47%	2,90%	2,96%	7,22%	7,51%
					2009	2010						2009	2010
Average Mature Companies					5,90%	5,94%	Average Growing Companies					4,09%	4,68%

Source: Companies data; NOVA Research

Update: Lisbon, 02.01.2012

"In accordance with the terms of article 16 of the Portuguese Securities Code, Sociedade Francisco Manuel dos Santos, SGPS S.A. and Sociedade Francisco Manuel dos Santos B.V. hereby inform Jerónimo Martins, SGPS S.A. that, on December 30, 2011, Sociedade Francisco Manuel dos Santos, SGPS S.A. sold to

Sociedade Francisco Manuel dos Santos B.V., which has purchased from the former, 353,260,814 Jerónimo Martins, SGPS S.A., shares, representing 56.136% of the capital and corresponding to 56.213% of the voting rights. (...) Sociedade Francisco Manuel dos Santos, SGPS, S.A. controls Sociedade Francisco Manuel dos Santos B.V., since it may exercise the corresponding voting rights under a Shareholders Agreement. (...) under the above mentioned Shareholders Agreement, the corresponding voting rights of the Jerónimo Martins, SGPS S.A. shares, object of the purchase and sale above mentioned, remain attributed to Francisco Manuel dos Santos, SGPS S.A."

The Company declines that the reason behind this move was increasing fiscal burden, however it is clear that exist also fiscal benefits from this decision. By now already 19 companies from PSI20 made similar step. From 2012, Portugal abolished the average VAT rate on goods. This tax has increased from 13% to 23%. Only basic food items remained with VAT of 6%. Also, the VAT in catering increased from 13% to 23%. In 2012, the income tax from legal persons is also changed. The scale of tax for companies with profits above 1,5 million increased from 25% to 28%. The market reacted positively on this information, the share price of Jerónimo Martins increased by 1,77% on the day.

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Research Recommendations

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

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