

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

Navigating Jerónimo Martins' growth - exploring strategic shifts in response to market dynamics and e-commerce evolution

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## Abstract

This Master's Final Project delves into Jerónimo Martins, encompassing its, business model, retail industry dynamics, and major competitors through an equity valuation process. The Group's operations extend across three countries: Portugal, Poland, and Colombia. The analysis incorporates a comprehensive review of relevant information, considering the distinct realities of the countries where the group operates, establishing a well-founded investment recommendation.

The report acknowledges the significant impact of e-commerce, affecting not only Jerónimo Martins but also the entire food distribution sector. The analysis explores how these shifts in dynamics have influenced consumer spending.

## Keywords:

Jerónimo Martins, Retail, Food Distribution, Valuation.

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

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# Introduction

This aims to arrive at a definitive conclusion regarding whether investing in Jerónimo Martins' stock is a prudent decision. To provide investors with a comprehensive understanding of the Group's reality, the report will begin with a Company and Industry Overview. Subsequently, it will delve into an analysis of the financial statements and conduct a forecasting until 2030. The final stage involves a valuation using both Discounted Cash Flow (DCF) and Multiples analyses to establish a conclusive price target.

In this individual report, I am focusing on the **Industry Overview**, encompassing a detailed overview of each country where the Group operates. Additionally, a financial analysis will be conducted, incorporating **Forecasting** methodologies that encompass **Sales, Cost Value Drivers**, leading to the ultimate recommendation.

My team member is analysing the **Company Overview** and **Valuation**. The allocation of topics between the two team members was done arbitrarily, with each person handling a theoretical part and an Excel analysis segment.

# Industry Overview

In Europe, the food and retail industry is one of the most dynamic and complex in the world, experiencing in recent years significant changes. With a population of more than 740 million people, Europe offers a sizable market for the wholesale distribution of groceries and food products. It comprises a mix of retailers' formats with large supermarket chains, discount retailers, and specialist stores, resulting in a highly competitive market. This industry, according to GlobalData's retail database, is expected to grow at a CAGR of higher than 4% during 2021-2026.

As a key driver of the overall economy, the influence of retail sales is particularly significant, given that consumption constitutes a substantial portion of the GDP (61.4% of Portugal's Nominal GDP in June 2023).

## Growth Trends

The past year – 2022 – was marked by Russia's invasion of Ukraine, giving rise to a sequence of economic effects. While the world is still in its post-pandemic recovery, the conflict arose and built up heavy inflationary pressure on consumer goods, particularly on energy and food markets. This massive shock to the global economy triggered by the war, resulted in a supply shortage and record-high prices. Thus, the euro area, generally established as a highly open economy, makes it especially exposed to the economic effects of this conflict and disruption in global markets, relative to other economic zones.

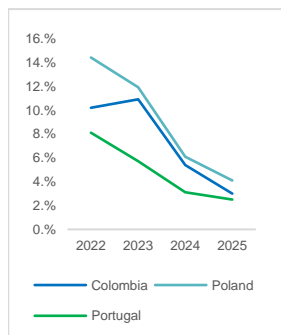
As of January 2023, food prices increased by 14.1%, compared to the prior year. Nevertheless, throughout the year, the euro area was able to adapt to these conditions and showed remarkable resilience. By addressing these matters proactively and combining them with developments in international energy and food markets, this year's inflation kept on gradually declining to normalization, and so shows optimistic prospects.

The inflation impact on the food and retailers sector forced a huge adaptation and flexibility on the seller's side since its effect was not felt lightly. Currently, as the inflation shadow is lifting, yet with still a considerable consumer price sensitivity, grocers' growth strategy may involve investing in private labels, retail media, automation, and sustainability. Key reasons to focus on these aspects are mainly due to substantial cost and margin pressure on retailers, requiring the production of more efficient economies of scale and consumers trading down.

The search for cheaper food (consumer downtrading), has set the growth for private-label brands to records in 2023. With supermarket-own labels making up more than half of an average shopper's basket and even with food prices moderating, their dollar share reached a new high of 18.8% during the first half of 2023, overtaking sales gains of national brands (5.1%), according to new Circana data, hence remaining on their inflation-fuelled trajectory.

The fact that price inflation on food items has been growing faster than market averages, at the same time as recovery is happening from the pandemic-related sales dip, discounters are the big players and the ones who are thriving in these conditions. Discounters have produced some of the largest market share gains over the past year, representing 17.7% of sector sales. Besides the hunt for lower prices, this was mainly a result of an aggressive footprint growth and a higher price sensitivity in the market.

**Graph 1** – Expected Inflation Evolution



Source: Own Estimates

The big players in discounter stores in Europe are represented by Lidl, whose sales grew by 16% over the past 12 months, followed by Aldi, with 17.1% in sales growth. Biedronka is also included in Europe's Top 10, with a special focus on new and smaller format stores, closer to a convenience store size.

Another hurdle for Jerónimo Martins (JMT) is the quest for profitable online growth. Although the market has undergone a notable shift towards online purchasing, driven by the development of e-commerce platforms and switching consumer preferences, there was a post-pandemic stagnation. The primary contributors, particularly amid the pandemic, were Amazon and Alibaba. Two companies whose business captured a large share during those times and significantly increased their market presence. The challenge for the Group is now set to refocus the attention on long-term growth and profitability trajectory going forward for e-grocery.

In the market, Jerónimo Martins holds a strong position. Aside from the food distribution sector, the Group is a key player in the remaining areas it serves, year after year. The company's consistent growth and stable position concerning competitors are noteworthy by country.

## Portugal

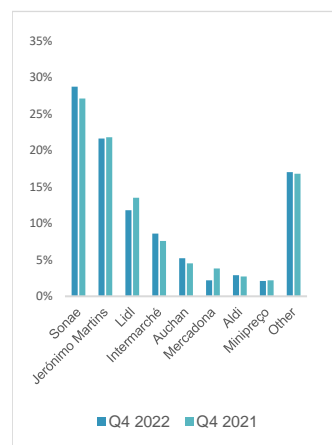
The Portuguese food and retail market is expected to grow annually by 3.06% between 2023-2028. Considering the current economic outlook of the region and drawing comparisons with Spain, a similar neighbouring country experiencing a 3.89% CAGR, the prospects appear favourable for established grocers.

Portuguese food retail is characterized to be fiercely competitive with a rapid pace of store expansion and significant promotional activity. In order to measure the market concentration and competition among the market participants, a Herfindahl-Hirschman Index (HHI) was computed. Eight main players were considered the most relevant, resulting in an index of 1,837 in the end of 2021, decreasing to 1,779 in Q4 2022. A HHI with a score around these values indicates a moderately concentrated market, with trends of diminishing market concentration. That is, with ambitious targets for expansion, Lidl and Mercadona have been exerting pressure on established grocers, diluting other's stakes, as they are rapidly capturing theirs. Moreover, a high concentration between Group JMT and MC Sonae is notable – which over the last decade were able to account for 50% of combined market share. If we include other stores, like Lidl, Intermarché and Auchan, 75% of the market is captured.

In its home market, the Group is a market leader in supermarkets and cash & carry segments, represented by banners including Pingo Doce and Recheio, respectively. These segments account for around 21% market share, with a store network comprising 464 Pingo Doce and 38 Recheio stores. Despite both MC Sonae and Jerónimo Martins pursuing a strategy focused on expanding their convenience stores, with Continent still maintaining a larger network across the country, this does not seem to be adversely impacting Pingo Doce's performance.

The current market conditions should be emphasized in contrast to the conditions at the beginning of the year. The Portuguese government, aiming to ease the inflation effects, cut VAT to zero on a variety of essential items. One could expect that such a measure would benefit retailers by increasing their profit margins. However, as mentioned by Prime Minister Antonio Costa, it appears to be yielding positive results.

**Graph 2 – Food Retailers Market Share, Portugal**



Source: Statista

## Poland

The Polish market has been suffering profound changes in recent times. Due to Poland's geographic proximity to Russia's war with Ukraine, the rebound from Covid-19 was felt very lightly. The ongoing conflict has rapidly induced a shift in shopping behaviour among Poles, with a growing number of consumers prioritizing savings, thereby impacting the sector's earnings. Consequently, retail sales have experienced a notable downturn, reaching a level not seen since November 2020. In September, the sector recorded a 0.3% year-on-year decline, following a 2.7% decrease in the previous month, marking the eighth consecutive month without positive growth. Nevertheless, the monthly trend continued to show improvement. Given the substantial deceleration, the CAGR for the period 2021-2026 hovers around 5%.

*"The core of our value set is our discount mindset. All our decisions are driven by our goal to transfer as much value as possible to our customers." Luís Araújo CEO, Biedronka*

The Polish retail market is relatively overloaded and dominated by large companies. Biedronka remains the undisputed leader in the discounter market and, despite operating in a climate of declining consumer confidence and higher pressure on operating costs, has further strengthened its market share in 2022. According to Standard Bank 2022, the combined market share of the top 20 larger grocers amounted to nearly 75%.

*"Biedronka is relatively new to e-commerce, but we are determined to turn our late arrival on the scene into a source of differentiation, especially with respect to sustainability, which is in itself an important trend." Luís Araújo CEO, Biedronka*

Simultaneously, despite Biedronka's robust consumer base, Aldi and Eurocash are gaining customers at the expense of Biedronka and Lidl (the second-largest player). However, customer loyalty remains Biedronka's biggest asset, posing a notable challenge for emerging grocers.

The key strategy for Biedronka's success is the differentiated approach through smaller convenience stores in smaller regions.

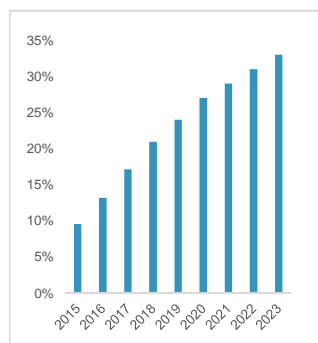
Aside from the supermarket chain, the Group also owns Hebe, a popular beauty and drugstore chain. It represents one of the most promising business-units in terms of long-term growth. In 2019 it launched an e-commerce channel which allowed it to stay strong financially during COVID-19 times. Hebe's market share growth is expected to remain solid, gaining more and higher brand awareness domestically, while investing in new markets, as developments in its omnichannel setup are the primary focus.

## Colombia

The socioeconomic environment in Colombia has grappled with specific challenges over the past, impeding productivity gains in the retail sector and limiting the implementation of healthy monetary policies. Naturally, consumer behaviour has adjusted accordingly. Nevertheless, the present economic conditions have ameliorated with the decrease in political uncertainty, positively impacting the expectations of both consumers and traders. Better government assistance, along with days without paying VAT was implemented, which benefited the retail sector with higher consumer expenditures. Considering the recent breakthroughs, an upward trend is expected to persist, with an estimated CAGR of 6.21% from 2023-2028 (Statista).

A significant strategy in Colombia involves the collaborative effort between small grocers and large discounters. Through this cooperative approach, they produce high-quality products at affordable prices while strategically operating in more convenient locations. Thus, regionality becomes a crucial factor, since competition between big players is not as fierce as compared to a more developed country, especially in the traditional retail sector. Retailers, end up dominating in their respective areas, drawing customers with their value proposition and customized

**Graph 3** – Discounters as share of supermarket sector 2015-2023, Colombia



Source: Statista

expertise by building connections with local suppliers.

The main discount players – D1 and Ara – are capturing market share from neighbourhood stores and expect to further expand their outlet numbers throughout the country. Their strong performance is driven by consumer proximity, competitive prices and an attractive private-label portfolio.

Furthermore, an upward trend impacting the retail segment is e-commerce, which has forced companies to develop the digital side of their business, due to the rapid adoption by Colombians. This adaptation also affected the payment format of clients, increasingly shifting to online payment methods, like Apple Pay, instead of offline payments.

Regarding supermarket chains, Olímpica, Carulla, and Colsubsidio stand at the forefront, leading the sector. Olímpica remains the leader through both higher-value sales and network shops. This company's specific product selection is its value offer. Originating in the northern part of Colombia and subsequently expanding nationwide, it is renowned for showcasing the distinctive products of this region. Immigrants from the area, drawn to the company due to their shared origin, particularly value this aspect. Due to the discounters' growth, the focus has shifted to renovating and improving shops already established, moderating expansion plans.

## Swot analysis

### Strengths



- Dominant market position in Portugal through its Pingo Doce brand and in Poland with the Biedronka chain.
- Diverse store formats, including hypermarkets, supermarkets, and convenience stores.
- Success in developing and promoting its private label products.

### Weaknesses



- Limited international presence, making JMT vulnerable to economic and regulatory challenges in specific regions.
- Highly sensitive to economic conditions: financial performance may be impacted during economic downturns.
- Currency risk exposure.

### Opportunities



- E-commerce growth generates opportunities, reaching a broader customer base and enhance convenience.
- Capitalizing on the increasing consumer demand for health and wellness products by expanding the company's product offerings in these categories.

### Threats



- Price wars and the need to differentiate in a competitive market could impact profit margins.
- Regulatory changes related to the food retail industry, can pose challenges.
- Supply chain disruptions, caused by events like natural disasters, geopolitical tensions, or health crises can increase operational challenges.

## Porter's five forces

**Threat of New Entrants - Low to Moderate:** Jerónimo Martins, with its established presence and market share in its operating countries, benefits from high economies of scale and an extensive distribution network. However, regional competition and the possibility of new entrants in specific areas may present challenges. Due to high levels of competition, the food industry is generally characterized for having low margins, compared to other industries, potentially making this industry not so attractive to new players.

**Bargaining Power of Buyers (Customers) - Moderate:** While individual customers may not have significant bargaining power, the collective influence of consumers can impact purchasing decisions. Due to buyers low switching costs, they end-up deciding according to the better quality-price option. As the business models are shifting into discount-based, and e-grocery emerges, this allows an easier price comparison. This way, the bargaining power of buyers is increased and so the Group must stay attuned to changing consumer preferences and maintain product quality to retain customer loyalty.

**Bargaining Power of Suppliers - Moderate to High:** The bargaining power of suppliers for certain

products, especially private label items, might be moderate. Also, as several networks of suppliers are available, it ensures stability and shields retailers from changes in pricing. On the other hand, for unique or specialized products, suppliers may exert higher bargaining power, making it more challenging to avoid supplier concentration risks.

**Threat of Substitute Products - Moderate:** Although there are no direct alternatives for essential items in the grocery business, shifting customer trends and preferences may eventually introduce substitutes. Small stores and independent brands selling DTC (direct-to-customer) through online channels can represent a threat. However, these usually lack diversity and prices are relatively higher. Thus, Jerónimo Martins must monitor shifts in consumer behaviour, more precisely on the online services or healthier alternatives, and modify its lineup of products accordingly.

**Intensity of Competitive Rivalry - High:** The retail sector is highly competitive and Jerónimo Martins not only faces domestic but international competition from key players as well. Companies seek for differentiation through private labels, discounts, store formats and a more recent focus, an improved customer experience. Sustained expenditures in marketing, supply chain effectiveness, and technology may support the business in keeping a competitive advantage.

## Sales Forecast

The valuation outcome was based on a sum-of-parts process, through a combination of each business unit's individual value. So, to have an improved forecasting accuracy we proceeded by analysing each geographic area of the business and its respective operating banners, obtaining the whole enterprise value of the group. Doing such a detailed breakdown allowed for a better and more comprehensive valuation of the business. The consolidated and individual financial statements were retrieved from the past years' annual reports. To test how several assumptions and operating conditions affect the group's future financial performance, an integrated three-statement model was employed, assuming an annual periodicity.

We first started with an analysis of the Group's source of income – their sales and services rendered.

### Poland

Poland serves as the primary driver of sales value, with Biedronka leading the discount retail sector in the country. Based on previous years' average, it stands for 70% of the consolidated sales. Due to the company's strategic focus on competitiveness and growing sales in the face of challenging markets it operates while protecting profitability, it was able to mitigate some of the market effects and obtain a strong sales performance. Amidst the global shock caused by the pandemic, there was a surge in sales attributed to the increased popularity of e-grocery. The year-on-year growth has been remarkable, with an amount of €12,621 million of revenue in 2019 (pre-pandemic) to €17,582 million in 2022, anticipating a more significant impact in the upcoming years.

The forward-looking revenue projection made up to 2030, was a combination of current expectations of future events. The estimate took into account the GDP performance of each

country, consumer behaviour, projected annual inflation rates, and population growth, generating a segment-specific Like for Like (LFL) growth. In addition to the factors previously mentioned, the effectiveness of the store network plays a crucial role in generating sales value. Therefore, an analysis of the store count was conducted, along with the sales value per store, utilizing the LFL growth rate. The same reasoning was applied to the remaining business-units.

**Table 1 - Revenues Calculation**

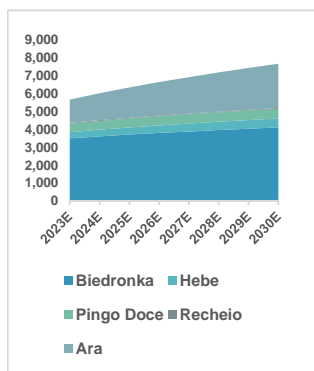
€ Million	2023E	2024E	2025E	2026E
<b>Biedronka Revenues</b>	<b>21,197</b>	<b>23,079</b>	<b>24,685</b>	<b>26,323</b>
Real GDP Growth	3.00%	2.50%	3.20%	3.20%
Elasticity of Demand to Income	0.52	0.52	0.52	0.52
Inflation Rate	11.50%	6.10%	4.10%	3.40%
Populational Growth	2.53%	-1.58%	-1.50%	-0.94%
<b>LFL growth</b>	<b>16.98%</b>	<b>5.59%</b>	<b>4.24%</b>	<b>4.13%</b>
Number of stores	3499	3608	3702	3791
New Stores (Net)	104	109	94	89
Sales per Store (€ Million)	6.06	6.40	6.67	6.94
<b>Hebe Revenues</b>	<b>458</b>	<b>534</b>	<b>609</b>	<b>693</b>
<b>Pingo Doce Revenues</b>	<b>4,910</b>	<b>5,233</b>	<b>5,550</b>	<b>5,844</b>
<b>Recheio Revenues</b>	<b>1,240</b>	<b>1,325</b>	<b>1,377</b>	<b>1,427</b>
<b>Ara Revenues</b>	<b>2,369</b>	<b>2,986</b>	<b>3,569</b>	<b>4,148</b>
<b>Others Revenues</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>15</b>
<b>Total Group Revenues</b>	<b>30,191</b>	<b>33,173</b>	<b>35,806</b>	<b>38,450</b>

Source: Own Estimates

Specifically, Biedronka stores are not expected to increase that much as it is already a well-established brand. This company's revenues are expected to grow steadily, ending 2030 with €33,206 million with 4,105 stores. To improve consumer service, the discounter is also investing in operational efficiency measures through self-checkouts and proximity stores.

Regarding Hebe, a more elastic demand was assumed in comparison to the other segments, attributed to the inherent nature of Hebe's products - cosmetic products exhibit greater elasticity of demand compared to food items. In the upcoming years solid growth rates were forecasted, provided by the slight expansion in stores, as JMT is completing investing in new markets. Thus, Hebe is expected to generate €1,047 million by 2030. The focus in the development of the e-commerce platform is vital if it wants to sustain store expansion.

**Graph 4 - Total #Stores Forecast**



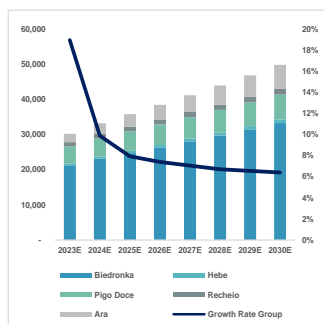
Source: Own Estimates

If we further analyze Biedronka's EBITDA margin, it becomes notable the significant weight that costs represent in this industry. With efficiency improvements implemented, in 2022 accounted for 83% of the consolidated operating profit. This signifies a positive sign for Biedronka, as it suggests that the company is managing its costs well and has a healthier bottom line. For the forecasted years, is expect a steady growth. Hebe's EBITDA margin is also supported by its strong value proposition delivery, which one could not expect due to the expansion into new markets.

## Portugal

Portugal conveys the group's second-largest retail chain, Pingo Doce (PD), along with Recheio. From 2018 onwards, the weight of PD's sales within the Group has been losing representation, moving from 22.1% to 17.7%. This decline follows the expansion of smaller business units, which previously had a lesser impact. Likewise, Recheio is following a similar trend.

**Graph 5 - Revenues Projections**



Source: Own Estimates

In terms of recovery from pandemic numbers, Pingo Doce has had a great delivery in sales, being able to increase, in 2022, 11.20% of its revenue. This reflects its volume protection while enhancing competitiveness. Another aspect contributing to the rise of sales is the arrangement between PD and Mercadão, a grocery marketplace. Enabling PD to reach even higher numbers of possible customers through a more convenient way of shopping. This way, and along with a constant increase in stores in the foreseeable future (considering historical trend) it is estimated to reach a revenue of €7,064 million by 2030. Due to the notable recovery, this year's growth is not as remarkable as the previous one, although it is anticipated to maintain a consistent year-on-year growth.

Concerning Recheio, 2022 marked the recovery year from the pandemic's impact. Their main source of income from restaurants, cafes and hotels was reestablished, registering a sales increase by 28% in the preceding year. Moreover, based on the company's expansion strategy it was forecasted a gradual opening of stores over the next few years, ending 2023 with 44 establishments and €1,629 million in revenues.

Furthermore, as shown by its EBITDA margin, PD has been the definition of stability throughout the recent years, remaining around 6%. A similar analysis can be described for Recheio presenting a notable sales performance recently, after being highly affected in 2020 by the economic conditions.

## Colombia

In Colombia, the consumer context has been one of the toughest challenges for JMT. Nevertheless, Ara has recently undergone significant investments as part of efforts to safeguard its competitive position. Its sales weight has notably grown over the past years, escalating its presence in the Group, doubling from 3.5% in 2018 to 7% in 2022. The main emphasis for the company is diversification and innovation of its assortment, which even amidst high uncertainty times demonstrated by opening 151 new stores in the first 9 months of the year. Operating in an environment where trading down is a current customer behaviour, becomes crucial to focus on high-quality and low-price options through private brands.

Acknowledging Ara as one of the most potential long-term growth drivers in the Group, and current aim for expansion, one could estimate the number of stores to increase significantly, registering a stores network of 2,478 by 2030. This way, the projected revenues of Ara contribute the most to the consolidated revenues evolution, given it is expected to keep sustained high growth rates.

It is also worth noticing a substantial increase in EBITDA, which at the end of 2022 amounted to €60 million, as opposed to more than half in the previous year, €26 million. The respective margin, even though pressured by the low maturity of the stores and strong price investment, followed the EBITDA boost, moving from 2.36% to 3.39%. Hence, this is the exhibit of a solid sales performance, combined with an improved operating leverage.

## Synthesis

Jerónimo Martins' historical consolidated revenues were market by robust sales performance, contributing to the mitigation of inflation costs. Considering the facts, there is an expectation that sales growth rate will decelerate in the coming years as the consolidated stores network becomes more established. With a notably significant growth rate recorded in 2022, the outlook is optimistic, forecasted to reach €49,778 million in revenue by the end of 2030.

As investment remains a priority for the Group, even with the EBITDA boost, one could expect significant pressure in EBITDA margins going forward. However, in a competitive pricing environment, Jerónimo Martins may choose to intentionally maintain lower margins intending to offer affordable products and attract more customers. Hence, the consolidated EBITDA margin is estimated to fluctuate around 5% for the foreseeable years. Recognizing that Biedronka, followed by Pingo Doce, serve as the main sales driver for JMT.

Graph 6 - EBITDA Historical



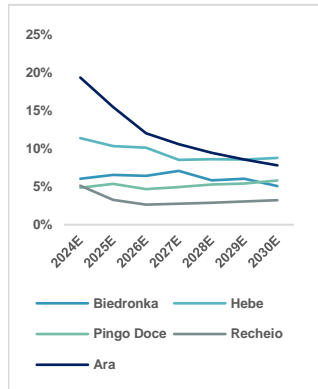
Source: Own Estimates

## Costs Forecast

### Staff Costs

Understanding staff costs is crucial for an effective financial management, especially when JMT's main activity relies heavily on them. The amount of employees has kept increasing throughout the years, finishing 2022 with a total of 125,402 employees. One should expect this rise to moderate due to the shift in the dynamics of shopping in supermarkets and the noticeably reduced level of interpersonal interactions. However, the reality is that the growth of staff costs between 2022 and 2021 of 13% was double the growth of the previous year (6%).

**Graph 7 – Staff Costs Growth Rate**



Source: Own Estimates

This way it demonstrates a relationship between sales, amount of shops and the number of employees. Such a relationship makes sense when we look at the distribution of workers throughout the globe. Poland comprises the higher store network and thus 64% of total employees, followed by Portugal with 27%, and Colombia with the remaining amount.

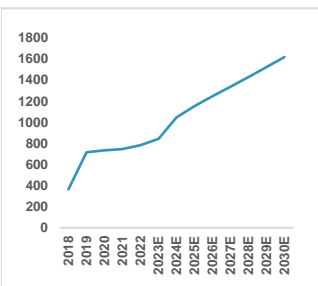
Due to the lack of information specific to the number of employees per segment (only data per country was available), the assumption was made that the changes in the number of stores would mirror the progression of staff costs. These staff costs were categorized into distribution and administrative costs, with specific forecasts made for each segment. While also considering the changing consumer preferences and technological advancements, which will result in a shift of employees to online sales, henceforward.

Administrative staff costs account for approximately 13% of total personnel expenses. Consequently, the progression of total costs largely relies on staff costs within the distribution category. It's worth mentioning that the main contributors to the forecasted rise in total staff costs are Hebe and Ara, driven by their extensive store expansion.

## Depreciation & Ammortization (D&A)

To analyze the amount of depreciation and amortization of the company, a break down into depreciation of Property Plant and Equipment (PP&E) and depreciation of Right-of-Use assets was performed. The depreciation of tangible assets was forecasted based on its weight in Gross PP&E (t-1) and based on Right-of-Use assets (t-1), respectively. An average of historical years was assumed to generate an accurate forecast. The same approach was applied to amortization of intangible assets.

**Graph 8 - D&A Evolution**



Source: Own Estimates

Observable in **Graph 7** is an upward trend of D&A in recent years (and expected to stay consistent), as in 2018 it accounted for €364 million, increasing to €783 million in 2022. An explanation for this 115% growth lies in strategic expansion provided by an investment in assets. In addition to the consistent establishment of new stores, the focus is increasingly shifting towards technological enhancements, amplifying both efficiency and reach.

## Costs of Revenue and Operating Costs

Jerónimo Martins's total costs can be decomposed into Cost of Sales, and Operating Costs. Being the first mentioned the main contributor to the Group's expenses. Apart from the costs of goods sold, Distribution Costs are strictly correlated with the main activity in store, logistics and warehouse, meaning they are quite relevant and very difficult to manage as store networks expand.

As the costs of sales are directly linked to the evolution of revenues, they represent the main

**Graph 9 – Operating Costs Forecast**



Source: Own Estimates

driver for these expenses. Thus, the effect of sales growth combined with high-priced materials sold resulted in a painful boost of Sales Costs of €5 billion between 2020 and 2022. Besides these years, the weight of costs in revenues has remained constant. For this reason, their forecast relied on a historical average, assuming a 78.4% percentage of sales from 2023 onwards. One aspect the Company has been focusing to help mitigate these costs, is strengthening its sustainable footprint. Instead of adopting single-use plastic packaging, the composition is from cardboard and multiple-use plastic, usually less expensive.

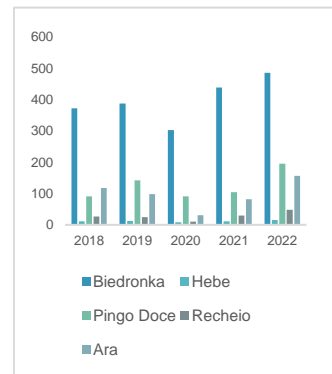
Regarding operating costs, these were split into distribution and administrative costs, excluding depreciations and amortizations. A relevant recent factor which has caused distribution costs in 2022 to increase significantly is the fuel prices, which prices have skyrocketed during the period in analysis, noticing a moderation throughout this year. Considering such fact, a segment-specific forecast was conducted, taking into account the impact of staff costs, supplies and services, transportation costs (using price of diesel fuel estimations), and rents as the key drivers of distribution expenses. For the administrative costs' projections, staff costs and advertising costs were accounted for.

In relation to their weight on consolidated revenues, the distribution costs are expected to remain steady. In contrast, administrative costs are expected to slightly increase in the future, since the company is focusing more on online services and intelligent stores, leading to a reallocation of human capital.

## Capital Expenditures (CapEx)

The allocation of resources and the strategic implications behind the Group's investments made in Capex have led to Group's growth and development. The implemented investment plan prioritized the expansion and the refurbishment of the diverse store networks, enhancing both efficiency and the quality of the consumer shopping experience. In 2022 capex amounted to €1,013 million, with an upsurge compared to the prior year of €690 million. This resulted from the combination of the expansion of store openings, with a total of 473 new stores. Specially in Colombia, investment in improving the capacity of logistics to enable the expansion and the high inflation in construction materials. Nonetheless, the impact on Cash Flow (€706 million), was felt lightly as the positive operating performance (EBITDA) and working capital, offset this investment.

**Graph 10 – CAPEX Historical**



Source: Own Estimates

To forecast this metric, the values of Capex revamping and expansion were analyzed separately, considering historical trends and future targets. For the capex revamping the percentage of stores refurbished and their cost per revamp were estimated for each segment. Significantly, Biedronka and Pingo Doce are expected to have a higher investment in this category, rather than on the expansion side. Due to PD main focus on the remodeling program and establishment of Biedronka, the forecasted weight of the capex allocated to revamping constitutes an average of 83% and 85%, respectively, in total investment. One could expect the same reasoning to be applied to Recheio, however both types of capex present minimal impact, calculating its prospects accordingly.

Regarding Capex expansion, additional factors were considered, including the percentage of store closures and the establishment of new ones (as detailed in the Revenue section). Ara is the segment that contributes the most to total Capex expansion, in which expansion accounted for over 89% of its Capex in the previous year. Since there is no signs of a decline in this company's

expansion in the foreseeable future, it was assumed that these high percentages would persist, gradually decreasing each year until 2030.

The Group's Capex results from a sum of the business-units, in which it was forecasted to register by 2030 an investment of €1,714 million.

## Net Working Capital

We proceed to analyze the net working capital, as it is a determinant of a company's short-term health and operational efficiency. Through this metric, we are able to draw conclusions about the Group's liquidity and its ability to meet immediate financial obligations.

Firstly, the Average Collection Period (ACP), between 2021 and 2022 registered 0.95 days, meaning the company takes less than a day to collect from its customers. This follows the nature of retail business, once the client buys the product the payment is completed immediately. It is expected to remain between these values, and so an average for upcoming years was assumed (excluding outliers).

Regarding the Average Holding Period (AHP), it will remain around 26 days for the next few years. Compared to 2021 it had an increase of 10.1%, which means in 2022 the inventories took longer to be disposed of, taking longer to generate a return. Thirdly, the Average Payable Period (APP) also improved slightly compared to the prior year. From 2022 onwards JMT will take on average 89 days to pay its trade payables.

Finally, these three metrics generate the Cash Conversion Cycle (CCC). Thus, a CCC of -63 days implies that, on average, the Group is able to convert its investments in inventory into cash and collect receivables more quickly than it takes to pay its suppliers, meaning such suppliers are financing the operating activity.

## Free Cash Flow (FCF)

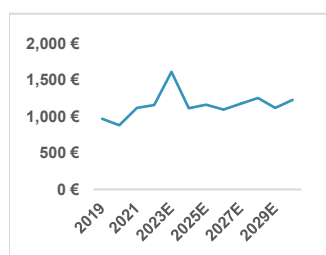
To track the financial health and the Group's sustainability an analyze of its FCF can be performed. The fact that FCF is increasing alongside rising revenues, signals positive indicators for investors. The trend in recent years has been moving upwards, as cash flows keep on enhancing consistently. In 2023, the forecast follows this trajectory, with a consolidated FCF of €1,606 million. Until the projected period, the growth prospects are expected to exhibit moderate positive expansion.

Capex has been the item responsible for the off side of an even higher operating cash flow, due to the investment in store openings. Net working capital also registered (and is expected to register) a solid growth, influencing positively cash flow results.

## Capital Structure

Understanding a company's capital structure is fundamental to assessing its financial health and strategic decision-making. The Group's capital structure has recently exhibited stability with minimal fluctuations in the Debt-to-Equity Ratio. In 2022, the Company disclosed a D/E ratio of 80%, suggesting a relatively high level of financial leverage. However, a significant portion of the

Graph 61 - FCF Evolution



Source: Own Estimates

**Graph 72 – JMT Financial Health Ratios**

Analysis	2019	2020	2021	2022
<b>Capital Structure</b>				
Debt-to-Equity Ratio	1.58	1.39	1.25	1.35
D/EBITDA	2.17	1.97	1.80	1.70
<b>ROE</b>	<b>21.32%</b>	<b>16.07%</b>	<b>21.25%</b>	<b>26.04%</b>
<b>Solvency</b>				
Solvency Ratio	26.25%	28.00%	29.07%	25.17%
Financial Autonomy Ratio	20.25%	21.30%	21.97%	19.68%
<b>Liquidity Ratios</b>				
Current Ratio	47.75%	51.34%	58.44%	60.03%
Quick Ratio	27.17%	30.80%	37.63%	37.15%
Cash Ratio	18.42%	21.97%	28.06%	27.30%

Source: Own Estimates

company's total debt is represented by long-term debt, as presenting positive indicators. Long-term debt often indicates a more stable and predictable financing structure. This way, it is able take advantage of fixed interest rates, which provide a level of interest rate stability, shielding the company from sudden increases in borrowing costs commonly associated with variable interest rate debt.

Other reason this decision, would be that Jerónimo Martins may be using debt to fund expansion projects, or other long-term investments, explained by high levels of Capex this year. Additionally, as detailed in the previous section, long-term debt instruments may provide the Group better cash flow management capabilities, without the constant pressure of imminent debt repayments.

Finally, an improved profitability and efficiency in recent years can be proven through the evolution of the ROE. This means the company is deploying capital more efficiently, which resulted in higher sales, hence generating more profit for each dollar of equity invested.

# JERÓNIMO MARTINS

“*FOOD DISTRIBUTION AND RETAIL*”

STUDENTS: MARTA SIMÕES, SOFIA CARVALHO

# COMPANY REPORT

20 DECEMBER 2023

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## Navigating Jerónimo Martins' growth

- Jerónimo Martins is a company well-established in the retail market and with great market shares in its industry.
- The company demonstrated to be capable of facing adversities and adapting quickly to global developments.
- The price target reached is 25.13€, representing a capital gain of 6.9% and dividend yield of 2.8%, which represents a total expected return of 9.74%.
- The healthiness of the company makes us believe in a bright future of growth for them. The expected return for the investor makes our recommendation to be a **HOLD** position. It means that the firm will perform accordingly to the market and will not outperform or underperform.

### Company description

Jerónimo Martins is a multinational retail group headquartered in Lisbon, Portugal. It operates popular brands like Pingo Doce, Biedronka and Ara in Portugal, Poland, and Colombia, respectively. The company focuses on food distribution, with a commitment to quality and innovation. The Group also engages in manufacturing and distribution, emphasizing sustainability and social responsibility.

**Recommendation:** **HOLD**

**Price Target FY24:** **25.13 €**

**Price (as of 20-Dec-23)** **23.50 €**

Reuters: JMT.LS, Bloomberg: JMT.LI

52-week range (€) 19.27 – 27.10

Market Cap (€m) 14,790

Outstanding Shares (m) 628.434

Source: Refinitiv



Source: Investing

(Values in € millions)	2022	2023E	2024F
Revenues	25,385	30,191	33,173
EBITDA	1,854	1,852	1,989
Net Profit	1195	1423	1569

Source: Refinitiv, Own Estimates

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY MARTA SIMÕES AND SOFIA CARVALHO, MASTER'S IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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## Company Overview

Figure 1 - Jerónimo Martins' logo

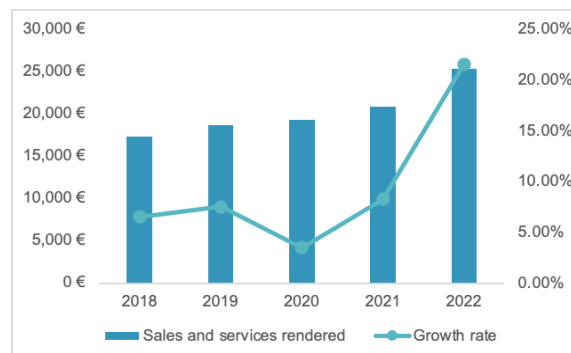


Jerónimo Martins is a Group with over 230 years of history, based in Portugal since the beginning. The main activity of the company is the food distribution, representing around 98% of the consolidated sales. But it also operates in Specialised Retail and Agribusiness.

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

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

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



Source: Own estimates

### Poland

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

Figure 2 - Biedronka's logo



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

historical period and justifies the evolution of sales in Poland (Graph 2). Biedronka represents around 69.26% of total revenues of the Group (Graph 3).

Figure 3 - Hebe's logo



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

## Portugal

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

Figure 4 - Pingo Doce's logo



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

Figure 5 - Recheio's logo



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

Figure 6 - Hussel's logo



**Hussel** is the result of a joint-venture between Jerónimo Martins Group and Douglas AG (a German company). Nowadays, it has 20 chocolate and confectionery stores mainly present in the main shopping malls in Portugal. Hussel

offers a variety and high-quality sweets, some of them sold permanently and others seasonally.

Figure 7 - Jeronymo's logo



**Jeronymo** appeared in the form of kiosks inside the stores of the Group in Portugal and later evolved for a chain of coffee shops. Today there are 22 Jeronymo coffee shops and they follow the classic concept of a coffee shop to meet people while having a quality meal.

These two businesses together represent around 0.08% of the Group, there is some oscillation of sales coming from these brands but never relevant to Jerónimo Martins.

Figure 8 - Jerónimo Martins Agro-Alimentar's logo



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

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

## Colombia

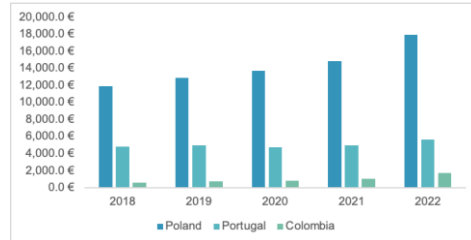
Figure 9 - Ara's logo



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

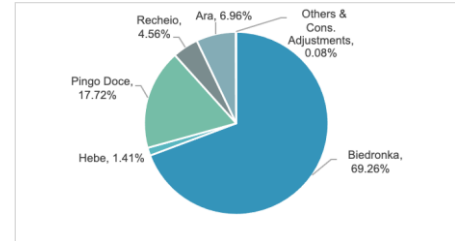
The business represented only 3.45% of total revenues in 2018 and nowadays represents 6.96%. The sales in Ara had a good evolution, starting in 2018 with €598 million and finishing 2022 with €1,768 million, justifying the grow of the Group’s business in Colombia (Graph 2).

**Graph 1 - Evolution of revenues by country (in million €)**



Source: Own estimates

**Graph 2 - % Revenues by Business Area in 2022**



Source: Own estimates

## Business Strategy

Jerónimo Martins works every day on a sustainable development strategy.

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

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

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

## Corporate Bodies

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

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

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

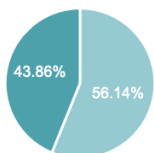
Their Anglo-Saxon governance model includes an Audit Committee (composed by Clara Christina Streit - Chairwoman of the Committee - and Sérgio Tavares Rebelo and Elizabeth Ann Bastoni - members of the Committee) and a Statutory Auditor for the current term of office (2022-2024). For the same term, the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

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

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

## Shareholder Structure

Graph 3 - Shareholder Structure



- Sociedade Francisco Manuel dos Santos, B.V.
- Floating and Own Shares

Source: Own estimates

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

Jerónimo Martins holds 859,000 shares acquired in 1999 at an average price of 7.06€ per share, representing 0.14% of the share capital and corresponding to the same percentage of voting rights.

All the shares of the Company are ordinary and traded in the Euronext Lisbon stock exchange. In 2022, the Company traded 198 million shares at an average price of 20.57€ - almost 25% more than in the previous year.

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

## Environmental, Social and Governance

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

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

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

### Environmental

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

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

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

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

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

## Social

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

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

When it comes to humanitarian causes, the Group always makes monetary and food donations. For example, in 2022 it amounted to €82.2 million, 32% more than in 2021 and it has been increasing every year since 2015. It includes the support

to more than 1,500 institutions, the support for humanitarian aid in Colombia due to the high number of vulnerable migrants, and also support for the Ukrainian refugees.

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

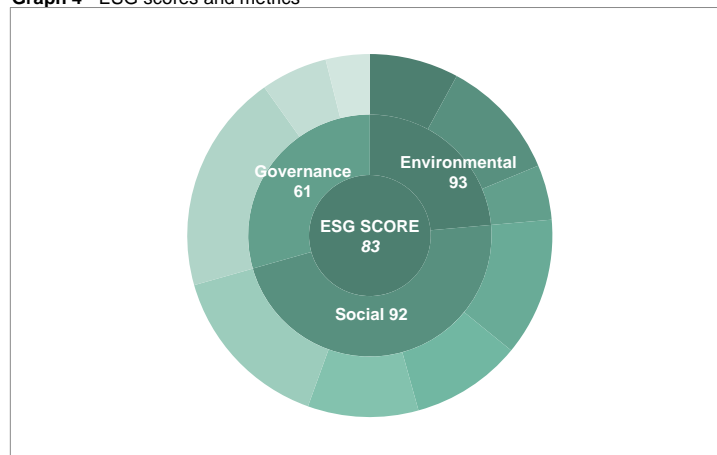
## Governance

The Governance score (Refinitiv) were 61 (B), with the following metrics: Shareholders (63), Management (63) and CSR strategy (43) (Graph 5). This is the poorest ESG pillar of the Group. The median was 62 and Jerónimo Martins is below this value.

The Board of Directors and the governance model is already described in the section "Board of Directors" of the report. The remuneration of directors consists of a fixed amount and a variable one dependent on their performance.

Also important to refer in this field of action: the Company has a very concentrated ownership given that the largest shareholder is the family holding Sociedade Francisco Manuel dos Santos B.V. that has a controlling interest in the business. This can represent some limitation for the minority shareholders when executing their influence. In addition, Pedro Soares dos Santos is the CEO and also the chairman of the board of Directors, which may cause some haziness in the separation of management and ownership.

Graph 4 - ESG scores and metrics



Source: Refinitiv, Own estimates

## Industry Overview

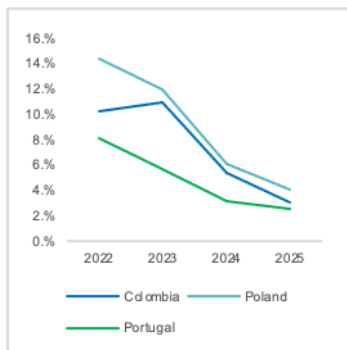
In Europe, the food and retail industry is one of the most dynamic and complex in the world, experiencing in recent years significant changes. With a population of more than 740 million people, Europe offers a sizable market for the wholesale distribution of groceries and food products. It comprises a mix of retailers' formats with large supermarket chains, discount retailers, and specialist stores, resulting in a highly competitive market. This industry, according to GlobalData's retail database, is expected to grow at a CAGR of higher than 4% during 2021-2026.

As a key driver of the overall economy, the influence of retail sales is particularly significant, given that consumption constitutes a substantial portion of the GDP (61.4% of Portugal's Nominal GDP in June 2023).

### Growth Trends

The past year – 2022 – was marked by Russia's invasion of Ukraine, giving rise to a sequence of economic effects. While the world is still in its post-pandemic recovery, the conflict arose and built up heavy inflationary pressure on consumer goods, particularly on energy and food markets. This massive shock to the global economy triggered by the war, resulted in a supply shortage and record-high prices. Thus, the euro area, generally established as a highly open economy, makes it especially exposed to the economic effects of this conflict and disruption in global markets, relative to other economic zones.

Graph 6 – Expected Inflation Evolution



Source: Own Estimates

As of January 2023, food prices increased by 14.1%, compared to the prior year. Nevertheless, throughout the year, the euro area was able to adapt to these conditions and showed remarkable resilience. By addressing these matters proactively and combining them with developments in international energy and food markets, this year's inflation kept on gradually declining to normalization, and so shows optimistic prospects.

The inflation impact on the food and retailers sector forced a huge adaptation and flexibility on the seller's side since its effect was not felt lightly. Currently, as the inflation shadow is lifting, yet with still a considerable consumer price sensitivity, grocers' growth strategy may involve investing in private labels, retail media, automation, and sustainability. Key reasons to focus on these aspects are mainly due to substantial cost and margin pressure on retailers, requiring the production of more efficient economies of scale and consumers trading down.

The search for cheaper food (consumer downtrading), has set the growth for private-label brands to record in 2023. With supermarket-own labels making up more than half of an average shopper's basket and even with food prices moderating, their dollar share reached a new high of 18.8% during the first half of 2023, overtaking sales gains of national brands (5.1%), according to new Circana data, hence remaining on their inflation-fuelled trajectory.

The fact that price inflation on food items has been growing faster than market averages, at the same time as recovery is happening from the pandemic-related sales dip, discounters are the big players and the ones who are thriving in these conditions. Discounters have produced some of the largest market share gains over the past year, representing 17.7% of sector sales. Besides the hunt for lower prices, this was mainly a result of an aggressive footprint growth and a higher price sensitivity in the market.

The big players in discounter stores in Europe are represented by Lidl, whose sales grew by 16% over the past 12 months, followed by Aldi, with 17.1% in sales growth. Biedronka is also included in Europe's Top 10, with a special focus on new and smaller format stores, closer to a convenience store size.

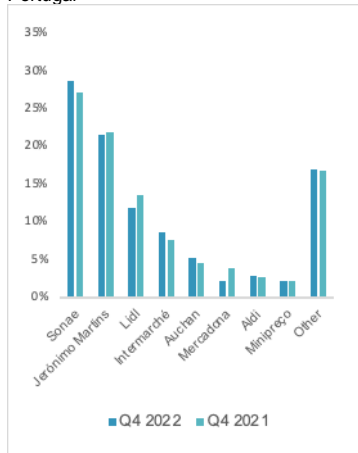
Another hurdle for Jerónimo Martins is the quest for profitable online growth. Although the market has undergone a notable shift towards online purchasing, driven by the development of e-commerce platforms and switching consumer preferences, there was a post-pandemic stagnation. The primary contributors, particularly amid the pandemic, were Amazon and Alibaba. Two companies whose business captured a large share during those times and significantly increased their market presence. The challenge for the Group is now set to refocus the attention on long-term growth and profitability trajectory going forward for e-grocery.

In the market, Jerónimo Martins holds a strong position. Aside from the food distribution sector, the Group is a key player in the remaining areas it serves, year after year. The company's consistent growth and stable position concerning competitors are noteworthy by country.

## Portugal

The Portuguese food and retail market is expected to grow annually by 3.06% between 2023-2028. Considering the current economic outlook of the region and drawing comparisons with Spain, a similar neighbouring country experiencing a 3.89% CAGR, the prospects appear favourable for established grocers.

**Graph 7 – Food Retailers Market Share, Portugal**



Source: Statista

Portuguese food retail is characterized to be fiercely competitive with a rapid pace of store expansion and significant promotional activity. In order to measure the market concentration and competition among the market participants, a Herfindahl-Hirschman Index (HHI) was computed. Eight main players were considered the most relevant, resulting in an index of 1,837 at the end of 2021, decreasing to 1,779 in Q42022. A HHI with a score around these values indicates a moderately concentrated market, with trends of diminishing market concentration. That is, with ambitious targets for expansion, Lidl and Mercadona have been exerting pressure on established grocers, diluting other’s stakes, as they are rapidly capturing theirs. Moreover, a high concentration between Group JMT and MC Sonae is notable – which over the last decade were able to account for 50% of combined market share. If we include other stores, like Lidl, Intermarché and Auchan, 75% of the market is captured.

In its home market, the Group is a market leader in supermarkets and cash & carry segments, represented by banners including Pingo Doce and Recheio, respectively. These segments account for around 21% market share, with a store network comprising 464 Pingo Doce and 38 Recheio stores. Despite both MC Sonae and Jerónimo Martins pursuing a strategy focused on expanding their convenience stores, with Continente still maintaining a larger network across the country, this does not seem to be adversely impacting Pingo Doce’s performance.

The current market conditions should be emphasized in contrast to the conditions at the beginning of the year. The Portuguese government, aiming to ease the inflation effects, cut VAT to zero on a variety of essential items. One could expect that such a measure would benefit retailers by increasing their profit margins. However, as mentioned by Prime Minister António Costa, it appears to be yielding positive results.

## Poland

The Polish market has been suffering profound changes in recent times. Due to Poland’s geographic proximity to Russia’s war with Ukraine, the rebound from Covid-19 was felt very lightly. The ongoing conflict has rapidly induced a shift in shopping behaviour among Poles, with a growing number of consumers prioritizing savings, thereby impacting the sector’s earnings. Consequently, retail sales have experienced a notable downturn, reaching a level not seen since November 2020. In September, the sector recorded a 0.3% year-on-year decline, following a 2.7% decrease in the previous month, marking the eighth consecutive month without positive growth. Nevertheless, the monthly trend continued to show

*“The core of our value set is our discount mindset. All our decisions are driven by our goal to transfer as much value as possible to our customers.” Luis Araújo CEO, Biedronka*

improvement. Given the substantial deceleration, the CAGR for the period 2021-2026 hovers around 5%.

The Polish retail market is relatively overloaded and dominated by large companies. Biedronka remains the undisputed leader in the discounter market and, despite operating in a climate of declining consumer confidence and higher pressure on operating costs, has further strengthened its market share in 2022. According to Standard Bank 2022, the combined market share of the top 20 larger grocers amounted to nearly 75%.

*“Biedronka is relatively new to e-commerce, but we are determined to turn our late arrival on the scene into a source of differentiation, especially with respect to sustainability, which is in itself an important trend.”* Luís Araújo CEO, Biedronka

Simultaneously, despite Biedronka’s robust consumer base, Aldi and Eurocash are gaining customers at the expense of Biedronka and Lidl (the second-largest player). However, customer loyalty remains Biedronka’s biggest asset, posing a notable challenge for emerging grocers.

The key strategy for Biedronka’s success is the differentiated approach through smaller convenience stores in smaller regions.

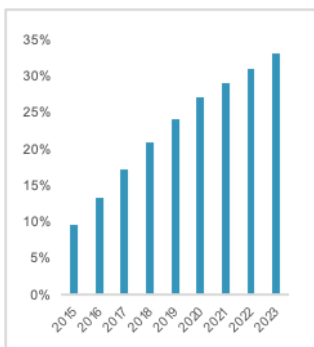
Aside from the supermarket chain, the Group also owns Hebe, a popular beauty and drugstore chain. It represents one of the most promising business-units in terms of long-term growth. In 2019 it launched an e-commerce channel which allowed it to stay strong financially during COVID-19 times. Hebe’s market share growth is expected to remain solid, gaining more and higher brand awareness domestically, while investing in new markets, as developments in its omnichannel setup are the primary focus.

## Colombia

The socioeconomic environment in Colombia has grappled with specific challenges over the past, impeding productivity gains in the retail sector and limiting the implementation of healthy monetary policies. Naturally, consumer behaviour has adjusted accordingly. Nevertheless, the present economic conditions have ameliorated with the decrease in political uncertainty, positively impacting the expectations of both consumers and traders. Better government assistance, along with days without paying VAT was implemented, which benefited the retail sector with higher consumer expenditures. Considering the recent breakthroughs, an upward trend is expected to persist, with an estimated CAGR of 6.21% from 2023-2028 (Statista).

A significant strategy in Colombia involves the collaborative effort between small grocers and large discounters. Through this cooperative approach, they produce high-quality products at affordable prices while strategically operating in more

**Graph 8** – Discounters as share of supermarket sector 2015-2023, Colombia



Source: Statista

convenient locations. Thus, regionality becomes a crucial factor, since competition between big players is not as fierce as compared to a more developed country, especially in the traditional retail sector. Retailers, end up dominating in their respective areas, drawing customers with their value proposition and customized expertise by building connections with local suppliers.

The main discount players – D1 and Ara – are capturing market share from neighbourhood stores and expect to further expand their outlet numbers throughout the country. Their strong performance is driven by consumer proximity, competitive prices and an attractive private-label portfolio.

Furthermore, an upward trend impacting the retail segment is e-commerce, which has forced companies to develop the digital side of their business, due to the rapid adoption by Colombians. This adaptation also affected the payment format of clients, increasingly shifting to online payment methods, like Apple Pay, instead of offline payments.

Regarding supermarket chains, Olímpica, Carulla, and Colsubsidio stand at the forefront, leading the sector. Olímpica remains the leader through both higher-value sales and network shops. This company’s specific product selection is its value offer. Originating in the northern part of Colombia and subsequently expanding nationwide, it is renowned for showcasing the distinctive products of this region. Immigrants from the area, drawn to the company due to their shared origin, particularly value this aspect. Due to the discounters’ growth, the focus has shifted to renovating and improving shops already established, moderating expansion plans.

### Swot analysis

**Strengths**



- Dominant market position in Portugal through its Pingo Doce brand and in Poland with the Biedronka chain.
- Diverse store formats, including hypermarkets, supermarkets, and convenience stores.
- Success in developing and promoting its private label products.

**Weaknesses**



- Limited international presence, making JMT vulnerable to economic and regulatory challenges in specific regions.
- Highly sensitive to economic conditions: financial performance may be impacted during economic downturns.
- Currency risk exposure.

**Opportunities**



- E-commerce growth generates opportunities, reaching a broader customer base and enhance convenience.
- Capitalizing on the increasing consumer demand for health and wellness products by expanding the company’s product offerings in these categories.

**Threats**



- Price wars and the need to differentiate in a competitive market could impact profit margins.
- Regulatory changes related to the food retail industry, can pose challenges.
- Supply chain disruptions, caused by events like natural disasters, geopolitical tensions, or health crises can increase operational challenges.

## Porter's five forces

Threat of New Entrants - Low to Moderate: Jerónimo Martins, with its established presence and market share in its operating countries, benefits from high economies of scale and an extensive distribution network. However, regional competition and the possibility of new entrants in specific areas may present challenges. Due to high levels of competition, the food industry is generally characterized as having low margins, compared to other industries, potentially making this industry not so attractive to new players.

Bargaining Power of Buyers (Customers) - Moderate: While individual customers may not have significant bargaining power, the collective influence of consumers can impact purchasing decisions. Due to buyers' low switching costs, they end-up deciding according to the better quality-price option. As the business models are shifting into discount-based, and e-grocery emerges, this allows an easier price comparison. This way, the bargaining power of buyers is increased and so the Group must stay attuned to changing consumer preferences and maintain product quality to retain customer loyalty.

Bargaining Power of Suppliers - Moderate to High: The bargaining power of suppliers for certain products, especially private label items, might be moderate. Also, as several networks of suppliers are available, it ensures stability and shields retailers from changes in pricing. On the other hand, for unique or specialized products, suppliers may exert higher bargaining power, making it more challenging to avoid supplier concentration risks.

Threat of Substitute Products - Moderate: Although there are no direct alternatives for essential items in the grocery business, shifting customer trends and preferences may eventually introduce substitutes. Small stores and independent brands selling DTC (direct-to-customer) through online channels can represent a threat. However, these usually lack diversity and prices are relatively higher. Thus, Jerónimo Martins must monitor shifts in consumer behaviour, more precisely on the online services or healthier alternatives, and modify its lineup of products accordingly.

Intensity of Competitive Rivalry - High: The retail sector is highly competitive and Jerónimo Martins not only faces domestic but international competition from key players as well. Companies seek differentiation through private labels, discounts, store formats and a more recent focus, an improved customer experience. Sustained expenditures in marketing, supply chain effectiveness, and technology may support the business in keeping a competitive advantage.

## Sales Forecast

The valuation outcome was based on a sum-of-parts process, through a combination of each business unit's individual value. So, to have an improved forecasting accuracy we proceeded by analysing each geographic area of the business and its respective operating banners, obtaining the whole enterprise value of the group. Doing such a detailed breakdown allowed for a better and more comprehensive valuation of the business. The consolidated and individual financial statements were retrieved from the past years' annual reports. To test how several assumptions and operating conditions affect the group's future financial performance, an integrated three-statement model was employed, assuming an annual periodicity.

We first started with an analysis of the Group's source of income – their sales and services rendered.

### Poland

Poland serves as the primary driver of sales value, with Biedronka leading the discount retail sector in the country. Based on previous years' average, it stands for 70% of the consolidated sales. Due to the company's strategic focus on competitiveness and growing sales in the face of challenging markets, it operates while protecting profitability, it was able to mitigate some of the market effects and obtain a strong sales performance. Amidst the global shock caused by the pandemic, there was a surge in sales attributed to the increased popularity of e-grocery. The year-on-year growth has been remarkable, with an amount of €12,621 million of revenue in 2019 (pre-pandemic) to €17,582 million in 2022, anticipating a more significant impact in the upcoming years.

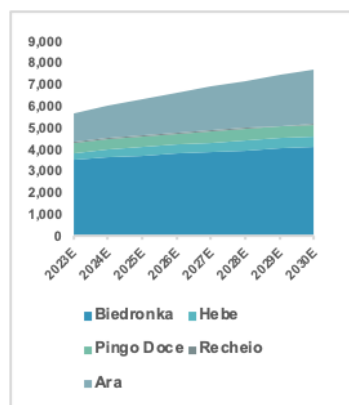
The forward-looking revenue projection made up to 2030, was a combination of current expectations of future events. The estimate took into account the GDP performance of each country, consumer behaviour, projected annual inflation rates, and population growth, generating a segment-specific Like for Like (LFL) growth. In addition to the factors previously mentioned, the effectiveness of the store network plays a crucial role in generating sales value. Therefore, an analysis of the store count was conducted, along with the sales value per store, utilizing the LFL growth rate. The same reasoning was applied to the remaining business-units.

**Table 1 - Revenues Calculation**

€ Million	2023E	2024E	2025E	2026E
<b>Biedronka Revenues</b>	<b>21,197</b>	<b>23,079</b>	<b>24,685</b>	<b>26,323</b>
Real GDP Growth	3.00%	2.90%	3.20%	3.20%
Elasticity of Demand to Income	0.52	0.52	0.52	0.52
Inflation Rate	11.90%	6.10%	4.10%	3.40%
Populational Growth	2.93%	-1.96%	-1.50%	-0.94%
<b>LFL growth</b>	<b>16.98%</b>	<b>5.59%</b>	<b>4.24%</b>	<b>4.13%</b>
Number of stores	3499	3608	3702	3791
New Stores (Net)	104	109	94	89
Sales per Store (€ Million)	6.06	6.40	6.67	6.94
<b>Hebe Revenues</b>	<b>458</b>	<b>534</b>	<b>609</b>	<b>693</b>
<b>Pigo Doce Revenues</b>	<b>4,910</b>	<b>5,233</b>	<b>5,550</b>	<b>5,844</b>
<b>Recheio Revenues</b>	<b>1,240</b>	<b>1,325</b>	<b>1,377</b>	<b>1,427</b>
<b>Ara Revenues</b>	<b>2,369</b>	<b>2,986</b>	<b>3,569</b>	<b>4,148</b>
<b>Others Revenues</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>15</b>
<b>Total Group Revenues</b>	<b>30,191</b>	<b>33,173</b>	<b>35,806</b>	<b>38,450</b>

Source: Own Estimates

Graph 9 - Total #Stores Forecast



Source: Own Estimates

Specifically, Biedronka stores are not expected to increase that much as it is already a well-established brand. This company’s revenues are expected to grow steadily, ending 2030 with €33,206 million with 4,105 stores. To improve consumer service, the discounter is also investing in operational efficiency measures through self-checkouts and proximity stores.

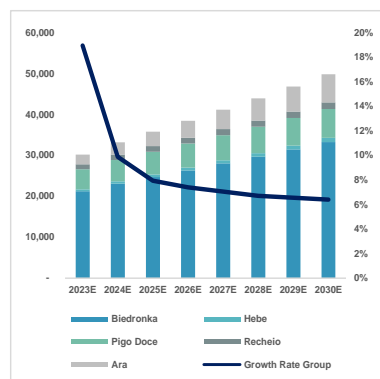
Regarding Hebe, a more elastic demand was assumed in comparison to the other segments, attributed to the inherent nature of Hebe’s products - cosmetic products exhibit greater elasticity of demand compared to food items. In the upcoming years, solid growth rates were forecasted, provided by the slight expansion in stores, as the Company is completing investing in new markets. Thus, Hebe is expected to generate €1,047 million by 2030. The focus on the development of the e-commerce platform is vital if it wants to sustain store expansion.

If we further analyze Biedronka’s EBITDA margin, it becomes notable the significant weight that costs represent in this industry. With efficiency improvements implemented, in 2022 accounted for 83% of the consolidated operating profit. This signifies a positive sign for Biedronka, as it suggests that the company is managing its costs well and has a healthier bottom line. For the forecasted years, is expect steady growth. Hebe’s EBITDA margin is also supported by its strong value proposition delivery, which one could not expect due to the expansion into new markets.

## Portugal

Portugal conveys the group’s second-largest retail chain, Pingo Doce (PD), along with Recheio. From 2018 onwards, the weight of PD’s sales within the Group has been losing representation, moving from 22.1% to 17.7%. This decline follows the expansion of smaller business units, which previously had a lesser impact. Likewise, Recheio is following a similar trend.

Graph 10 - Revenues Projections



Source: Own Estimates

In terms of recovery from pandemic numbers, Pingo Doce has had a great delivery in sales, being able to increase, in 2022, 11.20% of its revenue. This reflects its volume protection while enhancing competitiveness. Another aspect contributing to the rise of sales is the arrangement between PD and Mercadão, a grocery marketplace. Enabling PD to reach even higher numbers of possible customers through a more convenient way of shopping. This way, and along with a constant increase in stores in the foreseeable future (considering historical trends) it is estimated to reach a revenue of €7,064 million by 2030. Due to the notable recovery, this year’s growth is not as remarkable as the previous one, although it is anticipated to maintain a consistent year-on-year growth.

Concerning Recheio, 2022 marked the recovery year from the pandemic's impact. Their main source of income from restaurants, cafes and hotels was reestablished, registering a sales increase of 28% in the preceding year. Moreover, based on the company's expansion strategy it was forecasted a gradual opening of stores over the next few years, ending 2023 with 44 establishments and €1,629 million in revenues.

Furthermore, as shown by its EBITDA margin, Pingo Doce has been the definition of stability throughout recent years, remaining around 6%. A similar analysis can be described for Recheio presenting a notable sales performance recently, after being highly affected in 2020 by the economic conditions.

## Colombia

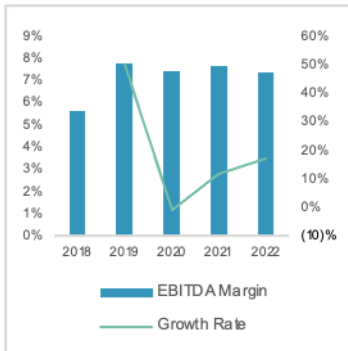
In Colombia, the consumer context has been one of the toughest challenges. Nevertheless, Ara has recently undergone significant investments as part of efforts to safeguard its competitive position. Its sales weight has notably grown over the past years, escalating its presence in the Group, doubling from 3.5% in 2018 to 7% in 2022. The main emphasis for the company is diversification and innovation of its assortment, which even amidst high uncertainty times demonstrated by opening 151 new stores in the first 9 months of the year. Operating in an environment where trading down is a current customer behaviour, becomes crucial to focus on high-quality and low-price options through private brands.

Acknowledging Ara as one of the most potential long-term growth drivers in the Group, and the current aim for expansion, one could estimate the number of stores to increase significantly, registering a store network of 2,478 by 2030. This way, the projected revenues of Ara contribute the most to the consolidated revenues evolution, given it is expected to keep sustained high growth rates.

It is also worth noticing a substantial increase in EBITDA, which at the end of 2022 amounted to €60 million, as opposed to more than half in the previous year, €26 million. The respective margin, even though pressured by the low maturity of the stores and strong price investment, followed the EBITDA boost, moving from 2.36% to 3.39%. Hence, this is the exhibit of a solid sales performance, combined with improved operating leverage.

## Synthesis

Graph 11 - EBITDA Historical



Source: Own Estimates

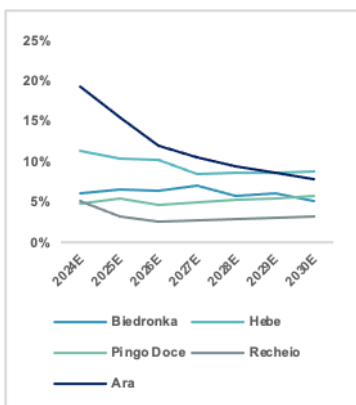
Jerónimo Martins' historical consolidated revenues were market by robust sales performance, contributing to the mitigation of inflation costs. Top of Considering the facts, there is an expectation that the sales growth rate will decelerate in the coming years as the consolidated stores network becomes more established. With a notably significant growth rate recorded in 2022, the outlook is optimistic, forecasted to reach €49,778 million in revenue by the end of 2030.

As investment remains a priority for the Group, even with the EBITDA boost, one could expect significant pressure in EBITDA margins going forward. However, in a competitive pricing environment, Jerónimo Martins may choose to intentionally maintain lower margins intending to offer affordable products and attract more customers. Hence, the consolidated EBITDA margin is estimated to fluctuate around 5% for the foreseeable years. Recognizing that Biedronka, followed by Pingo Doce, serve as the main sales driver for the Group.

## Costs Forecast

### Staff Costs

Graph 12 – Staff Costs Growth Rate



Source: Own Estimates

Understanding staff costs is crucial for effective financial management, especially when the Group's main activity relies heavily on them. The amount of employees has kept increasing throughout the years, finishing 2022 with a total of 125,402 employees. One should expect this rise to moderate due to the shift in the dynamics of shopping in supermarkets and the noticeably reduced level of interpersonal interactions. However, the reality is that the growth of staff costs between 2022 and 2021 of 13% was double the growth of the previous year (6%).

This way it demonstrates a relationship between sales, amount of shops and the number of employees. Such a relationship makes sense when we look at the distribution of workers throughout the globe. Poland comprises the higher store network and thus 64% of total employees, followed by Portugal with 27%, and Colombia with the remaining amount.

Due to the lack of information specific to the number of employees per segment (only data per country was available), the assumption was made that the changes in the number of stores would mirror the progression of staff costs. These staff costs were categorized into distribution and administrative costs, with specific forecasts made for each segment. While also considering the changing consumer

preferences and technological advancements, which will result in a shift of employees to online sales, henceforward.

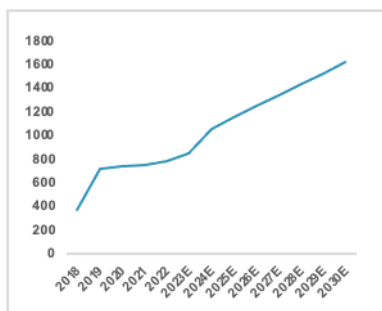
Administrative staff costs account for approximately 13% of total personnel expenses. Consequently, the progression of total costs largely relies on staff costs within the distribution category. It's worth mentioning that the main contributors to the forecasted rise in total staff costs are Hebe and Ara, driven by their extensive store expansion.

### Depreciation & Ammortization (D&A)

To analyze the amount of depreciation and amortization of the company, a break down into depreciation of Property Plant and Equipment (PP&E) and depreciation of Right-of-Use assets was performed. The depreciation of tangible assets was forecasted based on its weight in Gross PP&E (t-1) and based on Right-of-Use assets (t-1), respectively. An average of historical years was assumed to generate an accurate forecast. The same approach was applied to amortization of intangible assets.

Observable in Graph 7 is an upward trend of D&A in recent years (and expected to stay consistent), as in 2018 it accounted for €364 million, increasing to €783 million in 2022. An explanation for this 115% growth lies in strategic expansion provided by an investment in assets. In addition to the consistent establishment of new stores, the focus is increasingly shifting towards technological enhancements, amplifying both efficiency and reach.

Graph 13 - D&A Evolution



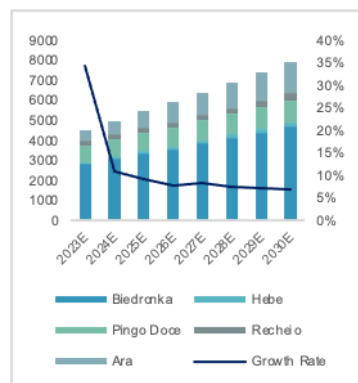
Source: Own Estimates

### Costs of Revenue and Operating Costs

Jerónimo Martins's total costs can be decomposed into Cost of Sales, and Operating Costs. Being the first mentioned the main contributor to the Group's expenses. Apart from the costs of goods sold, Distribution Costs are strictly correlated with the main activity in store, logistics and warehouse, meaning they are quite relevant and very difficult to manage as store networks expand.

As the costs of sales are directly linked to the evolution of revenues, they represent the main driver for these expenses. Thus, the effect of sales growth combined with high-priced materials sold resulted in a painful boost of Sales Costs of €5 billion between 2020 and 2022. Besides these years, the weight of costs in revenues has remained constant. For this reason, their forecast relied on a historical average, assuming a 78.4% percentage of sales from 2023 onwards. One aspect the Company has been focusing on to help mitigate these costs is strengthening its sustainable footprint. Instead of adopting single-use plastic

Graph 14 – Operating Costs Forecast



Source: Own Estimates

packaging, the composition is from cardboard and multiple-use plastic, usually less expensive.

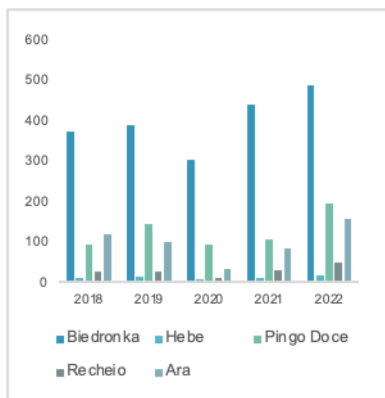
Regarding operating costs, these were split into distribution and administrative costs, excluding depreciations and amortizations. A relevant recent factor which has caused distribution costs in 2022 to increase significantly is the fuel prices, which prices have skyrocketed during the period in analysis, noticing a moderation throughout this year. Considering such a fact, a segment-specific forecast was conducted, taking into account the impact of staff costs, supplies and services, transportation costs (using price of diesel fuel estimations), and rents as the key drivers of distribution expenses. For the administrative costs' projections, staff costs and advertising costs were accounted for.

Concerning their weight on consolidated revenues, the distribution costs are expected to remain steady. In contrast, administrative costs are expected to slightly increase in the future, since the company is focusing more on online services and intelligent stores, leading to a reallocation of human capital.

### Capital Expenditures (CapEx)

The allocation of resources and the strategic implications behind JMT's investments made in Capex has led to the Group's growth and development. The implemented investment plan prioritized the expansion and the refurbishment of the diverse store networks, enhancing both efficiency and the quality of the consumer shopping experience. In 2022 capex amounted to €1,013 million, with an upsurge compared to the prior year of €690 million. This resulted from the combination of the expansion of store openings, with a total of 473 new stores. Especially in Colombia, investment in improving the capacity of logistics to enable the expansion and the high inflation in construction materials. Nonetheless, the impact on Cash Flow (€706 million), was felt lightly as the positive operating performance (EBITDA) and working capital, offset this investment.

Graph 15 – CAPEX Historical



Source: Own Estimates

To forecast this metric, the values of Capex revamping and expansion were analysed separately, considering historical trends and future targets. For the capex revamping the percentage of stores refurbished and their cost per revamp were estimated for each segment. Significantly, Biedronka and Pingo Doce are expected to have a higher investment in this category, rather than on the expansion side. Due to Pingo Doce's main focus on the remodelling program and establishment of Biedronka, the forecasted weight of the capex allocated to revamping constitutes an average of 83% and 85%, respectively, in total investment. One could expect the same reasoning to be applied to Recheio,

however, both types of capex present minimal impact, calculating its prospects accordingly.

Regarding Capex expansion, additional factors were considered, including the percentage of store closures and the establishment of new ones (as detailed in the Revenue section). Ara is the segment that contributes the most to total Capex expansion, in which expansion accounted for over 89% of its Capex in the previous year. Since there are no signs of a decline in this company's expansion in the foreseeable future, it was assumed that these high percentages would persist, gradually decreasing each year until 2030.

The Group's Capex results from a sum of the business-units, in which it was forecasted to register by 2030 an investment of €1,714 million.

## Net Working Capital

We proceed to analyze the net working capital, as it is a determinant of a company's short-term health and operational efficiency. Through this metric, we are able to draw conclusions about the Group's liquidity and its ability to meet immediate financial obligations.

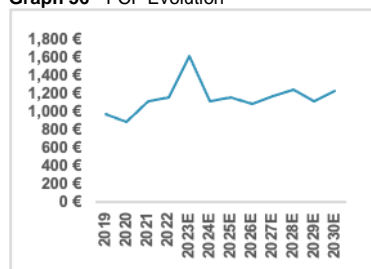
Firstly, the Average Collection Period (ACP), between 2021 and 2022 registered 0.95 days, meaning the company takes less than a day to collect from its customers. This follows the nature of retail business, once the client buys the product the payment is completed immediately. It is expected to remain between these values, so an average for upcoming years was assumed (excluding outliers).

Regarding the Average Holding Period (AHP), it will remain around 26 days for the next few years. Compared to 2021 it had an increase of 10.1%, which means in 2022 the inventories took longer to be disposed of, taking longer to generate a return. Thirdly, the Average Payable Period (APP) also improved slightly compared to the prior year. From 2022 onwards JMT will take on average 89 days to pay its trade payables.

Finally, these three metrics generate the Cash Conversion Cycle (CCC). Thus, a CCC of -63 days implies that, on average, the Group is able to convert its investments in inventory into cash and collect receivables more quickly than it takes to pay its suppliers, meaning such suppliers are financing the operating activity.

## Free Cash Flow (FCF)

Graph 56 - FCF Evolution



Source: Own Estimates

To track the financial health and the Group’s sustainability an analyze of its FCF can be performed. The fact that FCF is increasing alongside rising revenues, signals positive indicators for investors. The trend in recent years has been moving upwards, as cash flows keep on enhancing consistently. In 2023, the forecast follows this trajectory, with a consolidated FCF of €1,606 million. Until the projected period, the growth prospects are expected to exhibit moderate positive expansion.

Capex has been the item responsible for the off side of an even higher operating cash flow, due to the investment in store openings. Net working capital also registered (and is expected to register) solid growth, influencing positively cash flow results.

## Capital Structure

Understanding a company’s capital structure is fundamental to assessing its financial health and strategic decision-making. The Group’s capital structure has recently exhibited stability with minimal fluctuations in the Debt-to-Equity Ratio. In 2022, the Company disclosed a D/E ratio of 80%, suggesting a relatively high level of financial leverage. However, a significant portion of the company’s total debt is represented by long-term debt, as presenting positive indicators. Long-term debt often indicates a more stable and predictable financing structure. This way, it is able take advantage of fixed interest rates, which provide a level of interest rate stability, shielding the company from sudden increases in borrowing costs commonly associated with variable interest rate debt.

Other reason this decision, would be that Jerónimo Martins may be using debt to fund expansion projects, or other long-term investments, explained by high levels of Capex this year. Additionally, as detailed in the previous section, long-term debt instruments may provide the Group better cash flow management capabilities, without the constant pressure of imminent debt repayments.

Finally, an improved profitability and efficiency in recent years can be proven through the evolution of the ROE. This means the company is deploying capital more efficiently, which resulted in higher sales, hence generating more profit for each dollar of equity invested.

Table 2 – JMT Financial Health Ratios

Analysis	2019	2020	2021	2022
<b>Capital Structure</b>				
Debt-to-Equity Ratio	1.58	1.39	1.25	1.35
D/EBITDA	2.17	1.97	1.80	1.70
<b>ROE</b>	<b>21.32%</b>	<b>16.07%</b>	<b>21.25%</b>	<b>26.04%</b>
<b>Solvency</b>				
Solvency Ratio	26.25%	28.00%	29.07%	25.17%
Financial Autonomy Ratio	20.25%	21.30%	21.97%	19.68%
<b>Liquidity Ratios</b>				
Current Ratio	47.75%	51.34%	58.44%	60.03%
Quick Ratio	27.17%	30.80%	37.63%	37.15%
Cash Ratio	18.42%	21.97%	28.06%	27.30%

Source: Own Estimates

# Valuation

## Discounted Cash-Flow Method

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

The first important assumption to mention is that we assume that the capital structure of each subsidiary is similar to the capital structure of the Group in general and it is expected to be stable in our forecasted period analysis. Now we can proceed with the Weighted Average Cost of Capital (WACC) calculation that will be used to discount the Free Cash Flows. We will compute the WACC for each subsidiary and, in the end, according to the weight of each one in the Group we will obtain the Group's WACC.

At the time of the valuation, the market capitalization of Jerónimo Martins was €14,790 million and the enterprise value was €17,110 million, according to Refinitiv, what makes the value of Net Debt totalizing €2,320 million and a Debt-to-Equity of 16%, Debt-to-Value of 14% and Equity-to-Value 86%.

To find the levered beta of the Company, we started by selecting a group of peers – two peers per subsidiary - based on their market capitalization, country and business activity. Dino Polska SA and Carrefour SA are the peers chosen for Biedronka; 4Mass SA and Pharmena SA for Hebe; for Pingo Doce the choices are Sonae - SGPS SA and Tesco PLC; for Recheio: Eurocash SA and METRO AG; finally, the peers for Ara are Organizacion Soriana SAB de CV and Grupo Mateus SA. Their market capitalization, enterprise value and equity betas were collected from Refinitiv (Table 3) at the same time that we did before for Jerónimo Martins. Using the capital structure of each peer (Table 3) and the tax rate of the respective country (Table 4), we unlevered these equity betas using the following formula:

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

Table 3 - Peers data

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

Source: Refinitiv, Own estimates

To obtain the unlevered beta for each subsidiary we made an average of the unlevered betas of the peers per subsidiary and the unlevered beta of Jerónimo Martins. Then, we re-levered the subsidiary (industry) beta with the formula below and with the following data: subsidiary’s capital structure - assumed to be equal to Jerónimo Martins, as stated before -; a beta of debt equal to 0 – since it is risk-free when compared to an equity investment, the volatility of Debt is equal or approximately 0 -; and the tax rate of the respective subsidiary’s country (Table 5).

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

The next step is the calculation of the Cost of Equity (Table 5) per subsidiary with the Capital Asset Pricing Model (CAPM) formula, using as the risk-free rate the 10year bond yield of each country government (World Government Bonds) (3) and the estimation of Equity Risk Premium (from Aswath Damodaran studies 2023) (4) adjusted with the Country Risk Premium that also has influence in the markets where the company operates (Table 4).

$$r_E = R_f + \beta_{(re)levered} \times (Equity\ Risk\ Premium + Country\ Risk\ Premium)$$

Table 4 - Country inputs

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

Source: Damodaran, World Government Bonds

For the Cost of Debt, it is necessary to analyse the Credit Risk Premium of the Group. Given that Jerónimo Martins is not rated according to its financial ratios by

rating agencies, we made an estimation of a synthetic rating starting by analysing the capacity of the EBIT of the Company to cover the Interest Expense. We obtained an interest coverage ratio of 6.49 and this corresponds, according to Aswath Damodaran studies 2023 (5), to a rating of A+ and a spread of 1.50%. Adding this Credit Risk Premium to the risk-free rates previously mentioned, we obtain the Cost of Debt (Table 5) for each subsidiary (formula below).

$$rD = Rf + \text{Credit Risk Premium}$$

Finally, we compute the WACC for each subsidiary (Table 5) according to the respective formula:

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

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

Table 5 - WACC

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

Source: Own estimates

The Group’s WACC will be used to discount the FCF forecasted to the present value that is assumed to be the 31st of December of 2024, so the first FCF to discount is relative to the 31st of December of 2025. We assumed that Jerónimo Martins will grow accordingly to the world’s global economy growth that is forecasted to be around 2.9%, according to International Monetary Fund (World Economic Outlook Report 2023) (6) – being this the Terminal Growth used to compute the Terminal Value of Jerónimo Martins. In Table 6 can be observed all the results from the DCF approach, namely the Enterprise Value of €18,111 million and the price target of 25.13€. Based on the Table 7, the recommendation would be to HOLD, but it will be explained in the “Final Recommendation” section of this report.

**Table 6 – DCF**

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

Source: Own estimates

**Table 7 - Total Expected Return**

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

Source: Own estimates

## Sensitivity Analysis

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

Firstly, we analysed the impact of fluctuations in WACC and in the Terminal Growth that are key variables in the model. With variations of WACC between 7.80% and 9.80% (representing the respective increase and decrease of 1% from the base value) and variations of Terminal Growth between 1.90% and 3.90% (increase and decrease of 1% from the base value), we observe that the maximum price obtained is 37.71€ for the highest terminal growth and the lowest WACC and 18.99€ for the highest WACC and lowest terminal growth (Table 8).

**Table 8 - Sensitivity Analysis for WACC and Terminal Growth**

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

Source: Own estimates

Then we performed a sensitivity analysis for the EBIT margin - considering the 2.52% average of the forecasted period 2023-2030. Increasing and decreasing 0.5% this margin, the price is very sensitive, being the lowest price obtained 13.79€ and the highest 36.47€ (Table 9).

**Table 9** - Sensitivity Analysis for EBIT margin

EBIT margin	25.13 €
1.52%	13.79 €
2.02%	19.46 €
<b>2.52%</b>	<b>25.13 €</b>
3.02%	30.80 €
3.52%	36.47 €

Source: Own estimates

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

### Scenario Analysis

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

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

- **Base Scenario**

The base scenario is the scenario previously forecasted in the DCF valuation, in which we obtained a price target of 25.13€ with a WACC of 8.80% and a terminal growth of 2.90%. The EBIT margin starts in 3.34% in 2023 and decreases until reaching 2.09% in 2030 (averaging 2.52% for the forecasted period 2023-2030) (Table 10). The other scenarios will made some changes to this one.

- **Bull Scenario**

The Bull Scenario is an optimistic scenario in which the economy lives a high-prosperity moment. The growth rate of revenues will increase some percentage points per year relative to the growth rate of the Base Scenario. The additional revenue’s growth rate of Biedronka, Pingo Doce and Recheio is 0.40%, of Hebe 0.60% and Ara 0.90%. Ara has the highest increase in percentage points given the huge investment of Jerónimo Martins in the last years to develop the business. Hebe will have an increase of 0.60% (more than the first three mentioned subsidiaries) because we believe that they have space in the market to grow even more, especially because of e-commerce. Biedronka, Pingo Doce and Recheio have the lowest increase because we are facing companies that are well

established and we believe that they don't have opportunity in the market to grow as substantially as Ara. The result in the consolidated revenues' growth rate is an increase that starts in 0.44 percentage points in 2023 until reaching 0.49 percentage points in 2030. This results in an expected increase in EBIT margin starting in 3.40% in 2023 and ending in 2.51% in 2030 (average of 2.75% for the forecasted period, higher than the average 2.52% of the Base Scenario forecasting).

Since we are considering an increase in revenues given the favorable overall state of the economy, WACC and Terminal Growth would also change accordingly: 8.30% and 3.40%, respectively. The price obtained is 36.88€ (Table 10).

#### ▪ Bear Scenario

The Bear Scenario is the pessimist scenario. It happens the opposite of the previous scenario: the growth rate of revenues will decrease 0.40% (Biedronka, Pingo Doce and Recheio), 0.60% (Hebe) and 0.90% (Ara) relative to the growth rate of revenues of the Base Scenario. In an economic slowdown scenario, we believe that the opposite tendency would happen: Biedronka, Pingo Doce and Recheio will suffer less in terms of revenues and Hebe and Ara more. The result in consolidated sales is an average (2023-2030) decrease of 0.5% (Table 10). EBIT margin decreases starting in 3.29% in 2023 and finishing in 2030 with 1.66%. Once again, the WACC and Terminal Growth would change accordingly with the economy's state and we considered 9.30% and 2.4%, respectively, reaching a price of 16.89€.

Table 10 - Scenario Analysis

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

Source: Own estimates

#### ▪ Conclusion

The company may be affected by endogenous or exogenous factors. These are two hypothetical scenarios to demonstrate that investors should be attentive

because variations can change the recommendation of SELL, BUY or HOLD. It would happen with the Bull Scenario (it has a high positive expected return for the investor and the recommendation would be to BUY) and with the Bear Scenario (the expected return is negative, recommendation would be to SELL) (Table 10).

## Relative Valuation

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

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

The multiples used were EV/EBITDA, EV/SALES, - Enterprise Value multiples - and P/E and P/B – Equity multiples (Table 11). The price target for each multiple can be observed in Table 12. The higher price obtained is 24.74€ for EV/SALES and the lowest is 10€ for P/B, being the price from EV/SALES the most similar with the DCF price estimation (25.13€).

To reach the final price of the Relative Valuation, we made an average of the four different prices obtained but with a weight of 80% for the Enterprise Value Multiples and 20% for the Price Multiples, reaching a final price target of 21.30€ (Table 12). The reasoning behind this is that the Enterprise Value multiples take into consideration not only the equity but also the debt and cash of the Company, what is important to take into consideration in this industry.

We made a combination of the DCF price target and the Multiples price target with a weight of 80% for the DCF (most complete method) and 20% for the Relative Valuation and obtained a price of 24.36€. This is projected in a total expected return of 6.57%, which corresponds to a HOLD recommendation. The combination between the methods was made because we believe that it would not be accurate to make a recommendation just based on Relative Valuation.

Figure 10 - Peers' logo



Table 11 - Multiples

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

Source: Refinitiv

Table 12 - Price target for Multiples

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

Source: Own estimates

## Risks

### Operational

- Supply Chain

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

### Macroeconomic

- Taxation

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

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

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

- Inflation

All the three countries where Jerónimo Martins operates are going through inflationary periods, as many others in the world, given the instability lived due to the exogenous events happening since the last years and that last until now.

Inflation rates for 2022 for Poland, Portugal and Colombia were, respectively: 14.40%, 8.10% and 10.20%, values much higher than the previous year and values that will take time to recover. The food inflation in that year surpasses 20% in all these countries. Although, it is expected to decrease in the forecast period.

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

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

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#### ▪ Competition

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

#### ▪ Geopolitical

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

## Financial

### ▪ Foreign Exchange

Most of Jerónimo Martins' revenues are received in foreign currency: in 2022, around 71% in zlotys (PLN) and 7% in colombian peso (COL), what is translated in depreciations against euro, given that the consolidated accounts are reported in euros.

The losses coming from this exchange are expected to be more accentuated given that the business in Poland and Colombia is growing and the foreign exchange risk is expected to grow a bit given the tendency of euro to appreciate relative to PLN and COL.

### ▪ Interest Rates

Interest rates have been increasing and companies operating in the food retail sector are very sensitive to changes in interest rates as they imply increased capital costs. Loan-dependent businesses are always affected by interest rate variability and invariably leading to increased expenses for retailers. On the other hand, in the opposite scenario of financial slack with low rates on loans, it is common for companies to ease up and take on debt, thus becoming heavily exposed if rates rise unexpectedly, due to exogenous factors to the economic system. And in need of new financing.

There are two things that contribute to the mitigation of the Group in this field: most of the company's financing source is equity-based and the company has financial stability (Debt to Assets). Also, they raise debt in local currency when market conditions are convenient and the same applies for the purchase of stocks, making them follow a natural hedge policy.

## Legal and Regulatory

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

advertisement to customers. If it's confirmed it can lead to a fine around 10% of their annual revenue but the Group justified and rebutted the accusation (9).

## Final Recommendation

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

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

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# Appendix

## Consolidated Income Statement Forecast

€ Million	HISTORICAL					FORECAST							
	2018	2019	2020	2021	2022	2023E	2024F	2025F	2026F	2027F	2028F	2029F	2030F
<b>Core Business</b>													
<b>Revenues</b>	17,337 €	18,638 €	19,293 €	20,889 €	25,395 €	30,191 €	33,173 €	35,806 €	38,450 €	41,157 €	43,912 €	46,786 €	49,778 €
<i>Growth Rate</i>		7.51%	3.52%	8.27%	21.52%	18.93%	9.88%	7.94%	7.38%	7.04%	6.70%	6.54%	6.39%
<b>Cost of Revenue</b>	(13,577 €)	(14,563 €)	(15,067 €)	(16,392 €)	(20,053 €)	(23,670 €)	(26,008 €)	(28,073 €)	(30,145 €)	(32,267 €)	(34,428 €)	(36,681 €)	(39,026 €)
<b>Gross Margin</b>	3,760 €	4,076 €	4,227 €	4,497 €	5,332 €	6,521 €	7,165 €	7,734 €	8,305 €	8,889 €	9,485 €	10,105 €	10,751 €
Operating Costs	(2,800 €)	(2,638 €)	(2,804 €)	(2,912 €)	(3,478 €)	(4,669 €)	(5,176 €)	(5,646 €)	(6,087 €)	(6,587 €)	(7,075 €)	(7,579 €)	(8,094 €)
<b>EBITDA</b>	960 €	1,437 €	1,423 €	1,585 €	1,854 €	1,852 €	1,989 €	2,088 €	2,217 €	2,302 €	2,410 €	2,527 €	2,657 €
<i>EBITDA Margin</i>	5.54%	7.71%	7.38%	7.59%	7.30%	6.13%	6.00%	5.83%	5.77%	5.59%	5.49%	5.40%	5.34%
<b>Depreciation &amp; Ammortization</b>	(364 €)	(715 €)	(734 €)	(745 €)	(783 €)	(842 €)	(1,046 €)	(1,152 €)	(1,245 €)	(1,336 €)	(1,428 €)	(1,521 €)	(1,617 €)
Depreciation of Tangible Assets	(350 €)	(379 €)	(405 €)	(412 €)	(434 €)	(465 €)	(605 €)	(662 €)	(712 €)	(763 €)	(814 €)	(867 €)	(922 €)
Depreciation of Right-of-use Assets	0 €	(322 €)	(316 €)	(320 €)	(336 €)	(364 €)	(421 €)	(468 €)	(509 €)	(549 €)	(588 €)	(626 €)	(666 €)
Amortisation of Intangibles Assets	(13 €)	(14 €)	(13 €)	(13 €)	(13 €)	(13 €)	(20 €)	(22 €)	(23 €)	(25 €)	(26 €)	(27 €)	(29 €)
<b>EBIT</b>	596 €	722 €	689 €	840 €	1,071 €	1,010 €	944 €	935 €	972 €	966 €	982 €	1,006 €	1,040 €
Other Operating Profits/Losses	-9	-16	-50	-34	-95	-48	-29	-48	-29	-48	-29	-48	-29
<b>Core Result Before Taxes</b>	587 €	706 €	639 €	806 €	976 €	962 €	914 €	887 €	943 €	918 €	952 €	958 €	1,011 €
Statutory Taxes	-132	-159	-144	-181	-220	-216	-206	-200	-212	-207	-214	-216	-227
<i>Statutory Tax Rate</i>	22.51%	22.49%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%
Tax Adjustments	33	35	32	45	53	60	63	64	65	66	67	68	69
Other Comprehensive Income	0.14	0.78	-2.04	-0.17	-1.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Core Result</b>	487	583	526	669	808	805	771	752	796	778	805	811	852
<i>% of Revenues</i>	2.81%	3.13%	2.72%	3.20%	3.18%	2.67%	2.32%	2.10%	2.07%	1.89%	1.83%	1.73%	1.71%
<b>Non-Core Business</b>													
Interest income	2.11	3.60	2.21	1.00	15.00	17.77	17.77	17.77	17.77	17.77	17.77	17.77	17.77
Interests on Capitalised Operating Leases	0.00	-132.64	-126.83	-130.00	-140.00	-167.34	-187.06	-204.20	-220.58	-236.82	-253.08	-269.80	-287.14
Other financial gains and losses	-4.41	-5.24	-6.64	-6.00	-8.00	-8.95	-9.83	-10.61	-11.39	-12.20	-13.01	-13.86	-14.75
Foreign Exchange (Gain) Loss	-0.97	2.48	-29.70	-1.00	-6.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Non-Operating (Gains) Losses	0.19	1.90	0.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Non Core Result Before Taxes and OCI</b>	(3 €)	(130 €)	(161 €)	(136 €)	(139 €)	(159 €)	(179 €)	(197 €)	(214 €)	(231 €)	(248 €)	(266 €)	(284 €)
Statutory Taxes	0.69	29.23	36.16	30.60	31.28	35.67	40.30	44.33	48.20	52.03	55.87	59.83	63.93
<i>Statutory Tax Rate</i>	22.50%	22.5%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%
Tax Adjustments	-38.23	-39.56	-65.18	-66.30	-77.00	-87.00	-90.81	-93.12	-95.00	-96.60	-97.91	-99.11	-100.17
Other Comprehensive Income	-29.21	16.02	-86.16	-9.39	-17.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Non-Core Result</b>	(70)	(124)	(276)	(181)	(203)	(210)	(230)	(246)	(261)	(276)	(290)	(305)	(320)
<b>Financial</b>													
Interest expense	-21.75	-26.48	-21.47	-17.00	-25.00	-19.05	-23.64	-26.46	-28.85	-31.06	-33.13	-35.18	-37.27
Other Investment (Income) Loss - Dividends	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Derivative Instruments	-0.15	-0.41	1.93	-1.00	2.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Financing Result Before Taxes and OCI</b>	(22 €)	(27 €)	(20 €)	(18 €)	(23 €)	(19 €)	(24 €)	(26 €)	(29 €)	(31 €)	(33 €)	(35 €)	(37 €)
Statutory Taxes	4.92	6.05	4.40	4.05	5.18	4.29	5.32	5.95	6.49	6.99	7.45	7.91	8.39
<i>Statutory Tax Rate</i>	22.50%	22.5%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%
Tax Adjustments	0.04	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Comprehensive Income	3.30	-5.41	26.03	-1.86	-24.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Financing Result</b>	(14)	(26)	11	(16)	(42)	(15)	(18)	(21)	(22)	(24)	(26)	(27)	(29)
<b>Total Comprehensive income</b>	404	432	261	473	564	581	523	486	513	478	489	478	503
Attributable to:													
Non-controlling interests	29	31	11	21	17	16	16	16	16	16	16	16	16
Jerónimo Martins Shareholders	375	401	250	452	547	565	507	470	497	462	473	462	487
<b>Total Comprehensive Income</b>	404	432	261	473	564	581	523	486	513	478	489	478	503

# Consolidated Balance Sheet Forecast

€ Million	HISTORICAL					FORECAST							
	2018	2019	2020	2021	2022	2023E	2024F	2025F	2026F	2027F	2028F	2029F	2030F
<b>Core Business</b>													
Operating Cash	347	373	386	418	508	604	663	716	769	823	878	936	996
% of Revenues	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Accounts Receivable	58.417	64.188	42.827	52.000	66.000	86.609	95.740	103.779	111.837	120.047	128.378	137.027	145.998
Accrued income and other current assets	377.225	360.501	350.196	427.000	527.000	611.584	679.049	738.430	797.584	857.481	917.933	980.369	1044.852
Inventories	970.653	1038.627	973.919	1108.000	1493.000	1654.523	1817.983	1962.290	2107.153	2255.500	2406.507	2564.007	2727.943
Biological Assets	3.79	5.56	4.79	7.00	12.00	9.12	8.60	8.06	7.53	7.02	6.55	6.11	5.70
<b>Operating Current Assets</b>	<b>1,757</b>	<b>1,842</b>	<b>1,758</b>	<b>2,012</b>	<b>2,606</b>	<b>2,966</b>	<b>3,265</b>	<b>3,529</b>	<b>3,793</b>	<b>4,063</b>	<b>4,338</b>	<b>4,623</b>	<b>4,920</b>
Accounts Payable	-3273	-3655	-3534	-4048	-4998	-5791	-6364	-6869	-7377	-7896	-8425	-8977	-9551
Accrued costs and other current liabilities	-521	-527	-619	-723	-801	-1187	-1316	-1435	-1546	-1673	-1796	-1923	-2053
Income tax payable, net	-36.77	-40.68	-32.75	-24.00	-20.00	-16.70	-13.15	-10.58	-9.43	-7.61	-6.61	-5.53	-4.90
<b>Operating Current Liabilities</b>	<b>(3,831)</b>	<b>(4,223)</b>	<b>(4,187)</b>	<b>(4,795)</b>	<b>(5,819)</b>	<b>(6,995)</b>	<b>(7,694)</b>	<b>(8,315)</b>	<b>(8,933)</b>	<b>(9,577)</b>	<b>(10,228)</b>	<b>(10,905)</b>	<b>(11,609)</b>
<b>Working Capital</b>	<b>(2,074)</b>	<b>(2,381)</b>	<b>(2,429)</b>	<b>(2,783)</b>	<b>(3,213)</b>	<b>(4,029)</b>	<b>(4,429)</b>	<b>(4,786)</b>	<b>(5,140)</b>	<b>(5,514)</b>	<b>(5,890)</b>	<b>(6,282)</b>	<b>(6,689)</b>
% of Revenues	12.0%	12.8%	12.6%	13.3%	12.7%	13.3%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%
Property Plant & Equipment, Net	3687	3970	3817	3993	4340	5087	5687	6208	6706	7200	7694	8202	8729
Right-of-use assets	0	2335	2167	2248	2526	2928	3273	3573	3860	4144	4428	4721	5024
Intangible assets	155.028	153.307	137.281	139.000	142.000	222.448	242.568	259.568	275.920	292.407	309.065	326.275	344.071
Other non-current assets	67.97	69.97	72.90	61.00	61.00	63.83	62.82	59.17	53.64	46.43	37.53	26.98	14.67
<b>Core Invested Capital (excluding Goodwill)</b>	<b>1,836</b>	<b>1,417</b>	<b>3,765</b>	<b>3,658</b>	<b>3,856</b>	<b>4,272</b>	<b>4,837</b>	<b>5,314</b>	<b>5,756</b>	<b>6,169</b>	<b>6,578</b>	<b>6,994</b>	<b>7,423</b>
Goodwill	637	641	620	618	613	613	613	613	613	613	613	613	613
<b>Core Invested Capital</b>	<b>2,473</b>	<b>4,788</b>	<b>4,385</b>	<b>4,276</b>	<b>4,469</b>	<b>4,885</b>	<b>5,450</b>	<b>5,927</b>	<b>6,369</b>	<b>6,782</b>	<b>7,191</b>	<b>7,607</b>	<b>8,036</b>
<b>Non-Core Business</b>													
Investment property	12	9	9	8	9	9	9	9	9	9	9	9	9
Investments in joint ventures and associates	3	5	6	13	16	15	15	15	15	15	15	15	15
Other financial investments	1	1	1	2	17								
Derivative financial instruments	0	-3	3	0	-12	0	0	0	0	0	0	0	0
Deferred tax, net	39	67	98	109	111	124	136	147	158	169	180	192	204
Employee benefits	-65	-70	-70	-70	-69	-69	-72	-70	-71	-72	-72	-69	-69
Revenues per employee	0.16	0.16	0.16	0.17	0.19	0.22	0.23	0.25	0.25	0.26	0.27	0.29	0.30
Provisions for risks and contingencies	-27	-28	-33	-34	-82	-48	-53	-57	-61	-65	-70	-74	-79
% of Revenues	0.15%	0.15%	0.17%	0.16%	0.32%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
<b>Total Non-Core Invested Capital</b>	<b>-36</b>	<b>-18</b>	<b>13</b>	<b>28</b>	<b>-10</b>	<b>30</b>	<b>35</b>	<b>43</b>	<b>49</b>	<b>55</b>	<b>61</b>	<b>71</b>	<b>79</b>
<b>Total Funds Invested</b>	<b>2,437</b>	<b>4,770</b>	<b>4,398</b>	<b>4,304</b>	<b>4,459</b>	<b>4,915</b>	<b>5,485</b>	<b>5,970</b>	<b>6,417</b>	<b>6,836</b>	<b>7,253</b>	<b>7,678</b>	<b>8,115</b>
<b>Financial</b>													
Short-term Bank Loans	347	424	160	113	232								
Long-term Bank Loans	278	309	364	347	238								
Lease Liabilities	15	2384	2273	2387	2678								
<b>Total Debt</b>	<b>639</b>	<b>3,117</b>	<b>2,797</b>	<b>2,847</b>	<b>3,148</b>								
Debt/Equity (book value)	0.36	1.58	1.39	1.25	1.35								
Excess Cash	-199	-557	-656	-1075	-1274								
Collateral deposits associated to financial debt	-19	-19	0	0	0								
<b>Net Debt</b>	<b>421</b>	<b>2,541</b>	<b>2,141</b>	<b>1,772</b>	<b>1,874</b>	<b>2,325</b>	<b>2,603</b>	<b>2,838</b>	<b>3,055</b>	<b>3,259</b>	<b>3,460</b>	<b>3,666</b>	<b>3,878</b>
Net Debt/Equity (book value)	0.24	1.29	1.07	0.78	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Non-controlling interests	238	254	249	254	254	265	279	294	307	319	332	345	359
% of Pingo Doce's Core Capital	30.10%	19.97%	19.12%	20.95%	19.82%	19.96%	19.96%	19.96%	19.96%	19.96%	19.96%	19.96%	19.96%
<b>Net Financial Assets</b>	<b>659</b>	<b>2795</b>	<b>2390</b>	<b>2026</b>	<b>2128</b>	<b>2590</b>	<b>2882</b>	<b>3132</b>	<b>3362</b>	<b>3578</b>	<b>3792</b>	<b>4012</b>	<b>4237</b>
<b>Equity</b>	<b>1778</b>	<b>1975</b>	<b>2008</b>	<b>2278</b>	<b>2331</b>	<b>2325</b>	<b>2603</b>	<b>2838</b>	<b>3055</b>	<b>3259</b>	<b>3460</b>	<b>3666</b>	<b>3878</b>
<b>Total Funds Invested</b>	<b>2,437</b>	<b>4,770</b>	<b>4,398</b>	<b>4,304</b>	<b>4,459</b>	<b>4,915</b>	<b>5,485</b>	<b>5,970</b>	<b>6,417</b>	<b>6,836</b>	<b>7,253</b>	<b>7,678</b>	<b>8,115</b>

# Free Cash Flow Forecast

€ Million	HISTORICAL					FORECAST							
	2018	2019	2020	2021	2022	2023E	2024F	2025F	2026F	2027F	2028F	2029F	2030F
<b>Sales and services rendered</b>	<b>17,336.7 €</b>	<b>18,638.2 €</b>	<b>19,293.5 €</b>	<b>20,889.0 €</b>	<b>25,385.0 €</b>	<b>30,190.6 €</b>	<b>33,173.3 €</b>	<b>35,806.5 €</b>	<b>38,449.8 €</b>	<b>41,156.8 €</b>	<b>43,912.2 €</b>	<b>46,786.2 €</b>	<b>49,777.6 €</b>
<b>EBITDA</b>	<b>959.8 €</b>	<b>1,437.2 €</b>	<b>1,423.0 €</b>	<b>1,585.0 €</b>	<b>1,854.0 €</b>	<b>1,851.9 €</b>	<b>1,989.4 €</b>	<b>2,087.8 €</b>	<b>2,217.3 €</b>	<b>2,302.3 €</b>	<b>2,409.8 €</b>	<b>2,526.7 €</b>	<b>2,656.9 €</b>
<i>EBITDA Margin</i>	5.54%	7.71%	7.38%	7.59%	7.30%	6.13%	6.00%	5.83%	5.77%	5.59%	5.49%	5.40%	5.34%
<b>Depreciation and Amortization</b>	<b>363.7 €</b>	<b>715.4 €</b>	<b>733.8 €</b>	<b>745.0 €</b>	<b>783.0 €</b>	<b>842.2 €</b>	<b>1,045.7 €</b>	<b>1,152.3 €</b>	<b>1,245.3 €</b>	<b>1,336.3 €</b>	<b>1,428.2 €</b>	<b>1,520.8 €</b>	<b>1,616.8 €</b>
<b>EBIT</b>	<b>596.1 €</b>	<b>721.9 €</b>	<b>689.2 €</b>	<b>840.0 €</b>	<b>1,071.0 €</b>	<b>1,009.7 €</b>	<b>943.7 €</b>	<b>935.4 €</b>	<b>972.0 €</b>	<b>965.9 €</b>	<b>981.6 €</b>	<b>1,005.8 €</b>	<b>1,040.1 €</b>
<i>EBIT Margin</i>	3.44%	3.87%	3.57%	4.02%	4.22%	3.34%	2.84%	2.61%	2.53%	2.35%	2.24%	2.15%	2.09%
<b>Operational Result before taxes</b>	<b>561.8 €</b>	<b>549.2 €</b>	<b>458.7 €</b>	<b>652.0 €</b>	<b>814.0 €</b>	<b>784.1 €</b>	<b>711.7 €</b>	<b>663.9 €</b>	<b>699.7 €</b>	<b>655.6 €</b>	<b>670.9 €</b>	<b>656.8 €</b>	<b>689.5 €</b>
<b>Taxes</b>	<b>132 €</b>	<b>128 €</b>	<b>136 €</b>	<b>168 €</b>	<b>207 €</b>	<b>204 €</b>	<b>188 €</b>	<b>178 €</b>	<b>187 €</b>	<b>178 €</b>	<b>181 €</b>	<b>179 €</b>	<b>186 €</b>
<i>Tax Rate</i>	23.50%	23.38%	29.64%	25.77%	25.45%	25.96%	26.48%	26.87%	26.73%	27.09%	27.05%	27.20%	27.03%
<b>NOPAT</b>	<b>464.1 €</b>	<b>593.5 €</b>	<b>553.2 €</b>	<b>672.0 €</b>	<b>863.8 €</b>	<b>806.1 €</b>	<b>755.3 €</b>	<b>757.0 €</b>	<b>785.0 €</b>	<b>788.3 €</b>	<b>800.1 €</b>	<b>827.2 €</b>	<b>853.8 €</b>
<b>CAPEX</b>	<b>658 €</b>	<b>677 €</b>	<b>471 €</b>	<b>691 €</b>	<b>1,014 €</b>	<b>955 €</b>	<b>1,152 €</b>	<b>1,160 €</b>	<b>1,347 €</b>	<b>1,383 €</b>	<b>1,412 €</b>	<b>1,684 €</b>	<b>1,714 €</b>
<i>% Revenues</i>	3.80%	3.63%	2.44%	3.31%	3.99%	3.16%	3.47%	3.24%	3.50%	3.36%	3.22%	3.60%	3.44%
<b>NWC</b>	<b>(2,421.1 €)</b>	<b>(2,753.9 €)</b>	<b>(2,814.9 €)</b>	<b>(3,201.0 €)</b>	<b>(3,721.0 €)</b>	<b>(4,633.2 €)</b>	<b>(5,092.2 €)</b>	<b>(5,502.2 €)</b>	<b>(5,908.6 €)</b>	<b>(6,336.9 €)</b>	<b>(6,768.5 €)</b>	<b>(7,218.0 €)</b>	<b>(7,684.6 €)</b>
<i>% Revenues</i>	13.97%	14.78%	14.59%	15.32%	14.66%	15.35%	15.35%	15.37%	15.40%	15.40%	15.41%	15.43%	15.44%
<b>Δ NWC</b>		<b>(332.9 €)</b>	<b>(60.9 €)</b>	<b>(386.1 €)</b>	<b>(520.0 €)</b>	<b>(912.2 €)</b>	<b>(459.0 €)</b>	<b>(410.0 €)</b>	<b>(406.4 €)</b>	<b>(428.2 €)</b>	<b>(431.6 €)</b>	<b>(449.5 €)</b>	<b>(466.6 €)</b>
<b>Operating Free Cash Flow</b>		<b>965 €</b>	<b>877 €</b>	<b>1,112 €</b>	<b>1,153 €</b>	<b>1,606 €</b>	<b>1,108 €</b>	<b>1,159 €</b>	<b>1,090 €</b>	<b>1,170 €</b>	<b>1,248 €</b>	<b>1,114 €</b>	<b>1,223 €</b>

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

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