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Summary of WP Student Team

Jerónimo Martins Equity Research

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Group Report

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

JERÓNIMO MARTINS EQUITY RESEARCH

THE POLISH SUNDAY TRADING BAN – IMPACT ON BIEDRONKA AND FOOD
RETAIL INDUSTRY

POLISH BEAUTY AND PERSONAL CARE MARKET – INDUSTRY ANALYSIS AND
HEBE'S COMPETITIVE POSITIONING

ALTERNATIVE VALUATION METHODS:
MONTE CARLO SIMULATION AND LONG SHORT-TERM MEMORY MODEL
FOR STOCK PRICING

A DEEPER LOOK INTO THE SUPPLY CHAIN

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Abstract

The following Work Project is an Equity Research report on Jerónimo Martins, SGPS, S.A., a leading food retail and distribution chain operating in Portugal, Poland and Colombia. The report initially provides, among others, an in-depth overview of the company's business model, financial performance and fundamentals, as well as industry, strategy and competitive positioning. This report also extends the analysis of Jerónimo Martins' business model, focusing on the company's cost side through a deep dive on its supply chain. Afterwards, a detailed valuation of the company by business segment through a three-statement model is undertaken, based on which the group is issuing a Buy recommendation stemming from a 29.5% calculated upside, which is further corroborated by valuating the company using alternative methods.

This research then further analyzes the impact of the Sunday trading ban on the Polish food retail sector with particular consideration to Biedronka's performance; the beauty and personal care market in Poland, uncovering the industry's main parameters and trends as well as Hebe's competitive positioning.

The objective of this research is to analyze future international expansion opportunities of Jerónimo Martins in Romania.

At first international market expansion strategies and motives for M&As are described. Subsequently, an overview of consolidation in the European food retail sector is given. Following on from this, the history of Jeronimo's acquisitions and expansions is briefly discussed. The main focus lies on the Romanian food retail market. This includes research on the market as well as an analysis of the competitive landscape. Based on these findings a valuation is conducted on a potential acquisition target through both intrinsic and relative methods.

Keywords

Finance - Equity Research - Corporate Valuation - Consumer Staples - Food Retailing - Food Distribution

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Company Description

Company Overview

Jerónimo Martins is an international group, based in Portugal that holds assets in the food business. The foundation of the Group's value proposition is high-quality food and strong price positions while operating in proximity to customers.

The Group's history dates back 230 years to when Jerónimo Martins opened his first store in 1792 in Chiado, Lisbon (Jerónimo Martins 2022). Since then, Jerónimo Martins has grown into a multinational food distribution group that operates more than 5,000 stores, with a presence in three countries on two continents (Jerónimo Martins 2022).

Although the company operates internationally, it was never the ambition to achieve global scale. Instead, long-term growth is guided by the principle of “local scale”, meaning that Jerónimo Martins wants to become the market leader wherever operations are set up. This principle of “local scale” has contributed massively to the company's success and can be well observed when looking at the individual banners and their market share in the respective countries. JM's business can be divided into food distribution, specialized retail, and agribusiness, with food distribution accounting for around 95% of topline revenue (Jerónimo Martins 2022). While all banners of the group are very different because of the different countries they operate in, they do have some characteristics in common, including the strength in private labels and fresh food as well as the focus on price competitiveness.

In Poland, Jerónimo Martins owns the food store chain Biedronka since 1997, Poland's biggest discounter chain with a market share of around 25%. In 2021 the firm accounted for 70% of total revenues and 84% of EBITDA and is therefore the main business of the group (Jerónimo Martins 2022). Another business in Poland comprises the beauty and health chain Hebe. The product assortment ranges from body care products and cosmetics to accessories.

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Portuguese banners in food distribution include Pingo Doce and Recheio. Pingo Doce is a leading supermarket operator in Portugal and is a joint venture between the Jerónimo Martins Group (51%) and Ahold Delhaize (49%). Recheio, on the other hand, owns the largest network of cash-and-carry stores in the country. Additionally, the group owns two smaller-sized specialized retail chains in Portugal. The Jeronimo banner operates around 20 Coffee shops. Hussel sells chocolates and confectionery and is a different joint venture the Group (51%) has with the German company, Douglas AG (49%). In 2013 the company expanded its operations to Colombia under the Ara banner. It is the group's youngest and also fastest-growing asset. Ara is considered to be the next growth driver and operates around 900 small-sized neighborhood grocery stores, which are primarily located in residential areas. Ultimately Jerónimo Martins started founded an agribusiness in Portugal in 2014. Jerónimo Martins Agro-Alimentar supplies the Portuguese companies of the group with strategic fresh products including dairy, livestock farming, aquaculture, and fruits and vegetables.

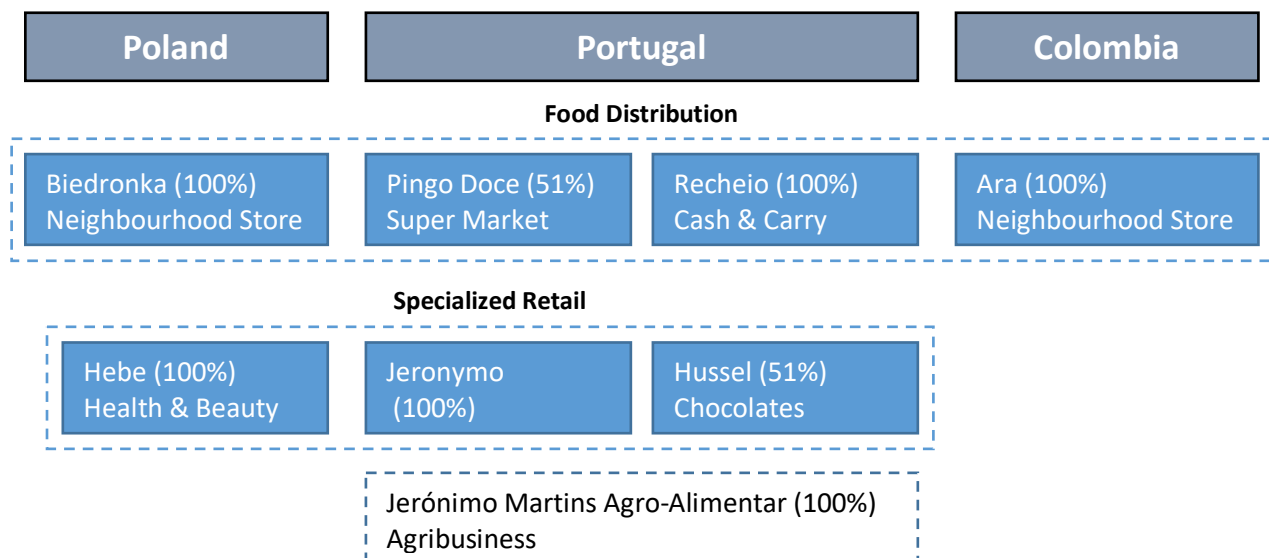


Figure 1- Business Overview

Governance Structure and Management

Jerónimo Martins changed from the previous monist model to an Anglo-Saxon governance model, which included the corporate bodies of the Shareholders' Meeting, Board of Directors, Audit Committee, and the Chartered Accountant.

The Board of Directors is composed of seven to eleven members who are elected by the General Shareholders' Meeting for three-year periods. The incorporation of non-executive and independent directors alongside the executive director is part of the Company's effort to achieve balance in the makeup of the Board of Directors. This approach is designed to further enrich and optimize the Company's management in terms of creating value by complementing the Board with a range of technical skills, contact networks, and connections in both local and international markets. Furthermore, the setup ensures adequate protection of the interests of all its shareholders by making sure that the activity of the remaining Board of Directors members is effectively monitored, overseen, and evaluated.

The current Chief Executive Officer Pedro Soares dos Santos has performed the role since 2010 when he was chosen to succeed his father Alexandre Soares dos Santos in the day-to-day management of the group. Furthermore, he is the also Chairman of the Board of Directors since 2013. With Pedro Soares dos Santos leading the group, who has not only worked in all geographical areas of the company before starting his precedency but can also draw on almost 40 years of experience working for the group.

Additionally, the Board of Directors established a Managing Committee as an ad hoc panel to advise the CEO about carrying out his responsibilities. These range from strategy implementation, new business ventures, accounts, and financial matters as well as control and implementation of management policies.

Ownership Structure

Jerónimo Martins is a public company. However, it has been family owned for over a century and the Santos family has been running operations for four generations. In 1921, Francisco Manuel dos Santos (1875–1953) acquired the majority of Jerónimo Martins. Today, 56,1% of shares are owned by the Sociedade Francisco Manuel dos Santos, a foundation which was established in memory of its name giver by the Santos family, to give back to the Portuguese society and country. Overall, it can be stated that the ownership structure of Jerónimo Martins

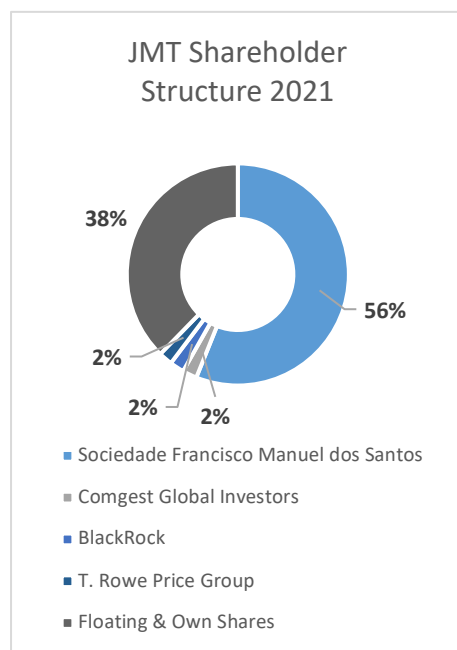


Figure 2 - Shareholder Structure 2021

is dominated by a single family. Generally speaking, family businesses tend to be more stable and the chief executive officers often stay in the position for many years, such as Pedro Soares dos Santos. Indeed, the Santos family had a significant impact on Jerónimo Martins' progress over the centuries. However, there is certainly the risk of a conflict of interest. For example, the decision of Alexandre Soares dos Santos to aggressively expand and diversify the business. These

actions did not turn out as favorable and the firm faced significant financial distress costs at the beginning of the century, a consequence that has not really been independently investigated and debated. Other major shareholders include Comgest Global Investors (2,1%), BlackRock (2,1%) as well as T. Rowe Price Group (2%). The remaining 37,7% are made up of floating and own shares of the company.

Stock Performance

Jerónimo Martins has been publicly listed on Euronext Lisbon, Portugal's largest stock exchange since 1989 (Jerónimo Martins 2022), and is also one of the few Portuguese

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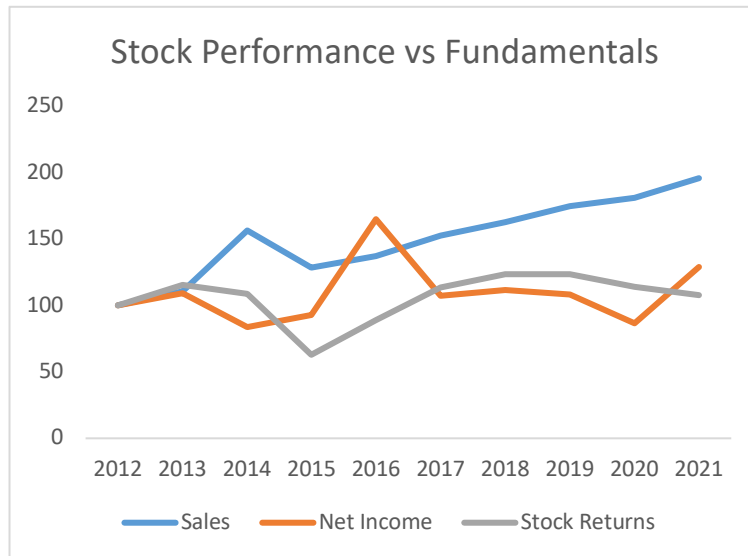


Figure 3 - Stock Performance vs Fundamentals

companies listed on the Euronext 100 index, comprising Europe's largest and most traded companies. The performance of Portuguese stocks is benchmarked against the Euronext 100, given that an investor may hold a diversified portfolio. At present,

analysts cover the stock with a

recommendation of strong buy (1), buy (3), hold (15), underperform (6), and sell (1). The average price target sits at €22,04, representing an almost 10% upside potential, representing capital gains only (Yahoo Finance).

The share price as of November 2022 is up 30% over the last five years with a compound

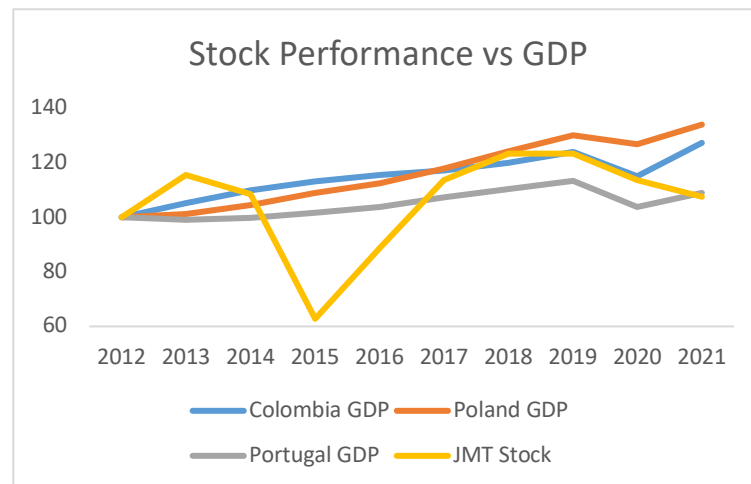


Figure 4 - Stock Performance vs GDP

annual return of over 5%.

Performance has been largely driven by strong sales, earnings growth and dividend payments, which is usually seen positively by the market (see Figure 3).

Revenues experienced a compound annual growth rate of

7,4% between 2016 and 2021 and increase from €16,4 billion to almost €21 billion respectively. Analysts expect sales for 2022 to be as high as €24,8 billion (Bloomberg). Although revenues are important for a company, the ultimate driver of stock returns is earnings (Lynch 2000), as we can see through Figure 3. Over the last 10 years, shares

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had an average annual return of around 4% and outperformed the PSI-20 index, which average annual return is around 1% over the same time period. Figure 4 shows us JMT was correlated with the economies where its banners operate in, however it lagged in the last few years the Polish and Colombian economies, especially after the pandemic started.

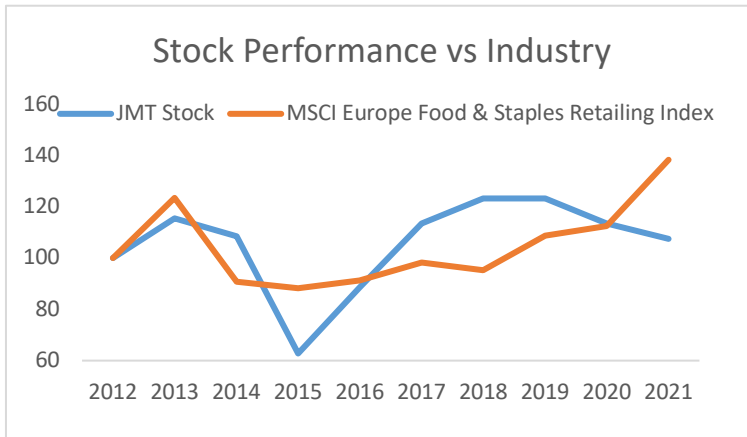


Figure 5 -6 Stock Performance vs Industry

We can observe that JMT's stock performance has been driven by systematic factors, such as its own industry (Figure 5), noting that the company has a more cyclical and volatile profile.

The performance of the stock was impacted by several key events, considered idiosyncratic. 2014 was a challenging year for Jerónimo Martins as the company was exposed to a weak macroeconomic environment and hit by food deflation in both Portugal and Poland and shares fell by more than 40%. In Portugal, the average 12-month rate of the Portuguese Consumer Price Index decreased to -0,3% in 2014 (Source: PDF Portugal statistic office). Overall, the stock in 2018 depreciated by as much as 36% following regulatory uncertainty around Jerónimo Martins' most important market. The Polish Solidarity party passed a law that forbids large supermarkets and most retail stores to open on Sundays, while small "mom and pop shops" are still allowed to open. This had a significant impact on Biedronka's operations, and the subsidiary reported a net income decrease for the year. Additionally, emerging markets such as Colombia were pressured by the threat of trade barriers under US President Donald J. Trump.

Compared to other industries, the Covid-19 pandemic did not have as big of an impact. The share price fell by only 5,8% in 2020. This can be explained by the non-cyclical nature of the industry since people will continue to consume food even during economic downturns.

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Following the pandemic and the reopening of the economy shares of Jerónimo Martins saw a more than 45% year-on-year increase in 2021.

2022 has been a turbulent year for shareholders and as of the beginning of the year, shares rose as much as 15% in August 2022 but fell back to a 5% return year to date because of geopolitical conflict, rising inflation, and high energy costs.

Jerónimo Martins has been paying quarterly dividends ever since its listing except for the years 2000 to 2004 when the company underwent a significant restructuring process. However, it must be noted that the payout has neither been constant or even continuously increased in the years after 2004. The payout varies significantly, depending on the financial performance, since the company distribution policy is 40-50% of ordinary consolidated net earnings. There are exceptions such as 2016 and 2017 when management decided to pay out 100% given cash generation abilities and the strength of the balance sheet at the time which is also reflected in the strong performance of the stock during these years.

Jerónimo Martins did not do any share buybacks and the number of outstanding shares has been consistently 628,4 million since 2009. Paying dividends may be beneficial for the average investor assuming that the company cannot generate returns above the cost of capital or required rate of return for the given investor. Especially for mature companies such as JMT, and as stated in the earnings call, management decided to pay a special dividend in 2022 given the lack of capital allocation options with reasonable returns on invested capital. Share buybacks can also be a form of compensating investors, as it decreases the float. In general, a company should not pay dividends if it has opportunities to grow at rates of return higher than the cost of capital.

Business Overview

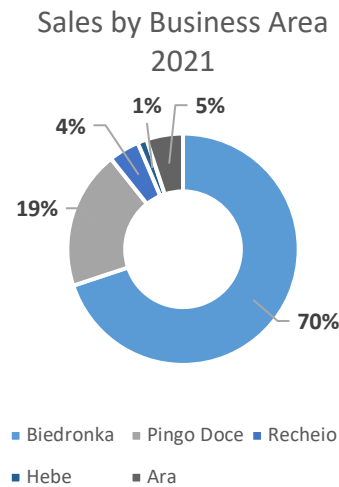


Figure 6 - Sales by Business Area 2021

Jerónimo Martins operates mainly food retail-focused banners in three countries – Poland, Portugal, and Colombia. 95% of sales come from food distribution, with the remaining revenue share generated in specialized retail.

Biedronka is the largest food retailer in Poland and operates a chain of discount food stores with a primary focus on price competitiveness and proximity store

locations. Most of the segment's sales are private label products (40%) followed by perishables (25%). Non-food sales make up 5% of revenues. The banner has 3,304 stores and records four million daily visits. Biedronka operates 17 distribution centers, each of which is responsible for serving nearly 200 Biedronka stores. The banner also performs online food sales through a partnership with Glovo.

Pingo Doce is one of the leading food retailers in Portugal and focuses on providing strongly differentiated fresh products (37% of the segment's total sales) and private label goods (36%). While Pingo Doce does not operate in the discount food retail segment, the banner prioritizes a strong pricing position through both EDLP and promotions. The company also has restaurant areas in 35 of its stores which are supplied by two central kitchens.

Recheio is a B2B arm of JM in Portugal, running a market-leading network of cash & carry stores (food distribution). Private brand sales make up 26% of sales whereas perishables and non-food make up 18% and 5% of revenues. Recheio operates different private labels depending on the clients it serves, traditional, retail and HoReCa (hotel, restaurant and catering) customers. Because of exposure to HoReCa sector, Recheio is heavily impacted by the tourism sector in Portugal and therefore, earlier Covid-related restrictions.

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Ara focuses on serving emerging middle-class segment customers in the geography, with a focus on price competitiveness. Private brand sales make up 40% of revenues while fresh products account for 16%.

Hebe operates in the health and beauty sector in Poland, selling perfumes, cosmetics and other products through both a network of 300 stores and a digital marketplace. Hebe is JM's only banner that runs its own e-commerce operations.

Jerónimo Martín's agricultural business involves the production of food products strategic to the Group's other banners. The creation of this business was a strategic move to gain more control over the supply chain of certain items and to ensure compliance with sustainability goals, as well as to reduce dependency on third-party vendors.

Business Model

Fundamentally, Jerónimo Martins assumes the role of an intermediary between food product suppliers and individual/wholesale customers. This involves establishing and maintaining relationships with geographically scattered food suppliers from whom the goods are purchased. JM operates a network of distribution centers and a transportation fleet, allowing the products to then be delivered to retail store locations. Once transported, food and other products can be purchased by end customers. Notably, JM manages relationships with end customers through several avenues, including advertising, promotions, and loyalty programs. The main costs associated with JM's business activities are thus cost of goods sold (COGS), labor, distribution, transportation, administration, store building/refurbishment, and other expenses.

JM's main revenue stream is B2C food sales, followed by B2B/B2C food/non-food sales. Revenue is derived as a markup above the cost of goods sold and other operating expenses. Other revenue sources include sales of beauty products, among others. Notably, JM also derives revenues from franchising its leading Biedronka and Pingo Doce banners to local

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companies and entrepreneurs for a franchising fee. The size and favorable competitive position of JM banners, especially the market leader food discounter, Biedronka, allows the company to finance working capital needs by leveraging its bargaining power with suppliers, leading to longer payment times. This contrasts with much lower average receivable periods (JM's customers usually pay at the time of purchase rather than on credit).

Operating as a discounter in Poland and Colombia, JMT focuses on maximizing the value proposition of its products by dint of quality and cost, meaning that they target supplying customers with essential goods at bargain prices. This implies a lower variety of products, confirmed by the higher number of SKUs in a supermarket chain vs a discounter such as Biedronka and Ara. As a result, it can offer a higher volume of the same products, which streamlines operations. More importantly, it translates into lower unit costs since the firm can leverage its bargaining power over suppliers because of constant larger purchases. Ultimately, it simplifies the supply chain and distribution process which leads to lower needs of human capital to fulfill customer support and store staffing, and therefore higher margins.

	% EBIT 2017-2020	% EBIT 2020	Average % growth 2017-2022	% Growth 2018-2020
Supermarket	2,50%	2,70%	-0,30%	3,60%
Discounter	3,50%	3,70%	1,80%	0,80%

Figure 7: Discounter vs Supermarket Margins

(Figure 7) (A-Insights 2022).

Fast inventory turnover is key to the success of discounters, as it leads to reduced working capital needs and lower storage costs. The sales mix also shows there is a small % of products that are being sold from brand labels. This allows discounters such as Biedronka to lower costs compared to supermarket chains and still maintain considerable quality to achieve a good value for money proposition (Shadbolt, How the discounters are beating the supermarkets 2015).

On the contrary, Portugal's banner PD acts a value-added intermediary between dispersed supplier companies and individual customers, acquiring, assembling a wide assortment of

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goods (higher number of SKUs per store), and selling them at low prices. The main value proposition comes from selling a big variety of readily available products under one roof, while maintaining strong pricing competition, both through EDLP and promotions. Suppliers, being aware of the big customer base at supermarkets, are willing to “pay” to have their products shelved at strategic locations, give volume discounts, and purchase sales information among others, which contribute to the revenue generation of big supermarket chains such as PD (and to some extent discounters). High requirements for retail floor space, logistics, infrastructure, and personnel costs result in high fixed costs. However, a high fixed cost base and large scale also increase bargaining power over suppliers and allow for aggressive negotiations with landlords and logistics suppliers to reduce overall expenditures. This plays a critical role in achieving economies of scale and applies especially to Pingo Doce and Recheio and, to a lower extent, Biedronka (Arndt and Olsen 1975).

The biggest variable cost is COGS which, given high supplier dependency, can be leveraged as volume order increases. Biedronka, considering its large scale and network of relationships with suppliers in Poland, is the primary beneficiary of this strategy. Moreover, a large portion of the budget is directed towards marketing in terms of promotions, to increase the number of shoppers, the share of their wallet, and the basket size.

Market Overview

Poland

Poland’s food market is one of the largest and fastest growing in Europe, with a projected 8.9% CAGR from 2022 through 2026 while reaching €79bn in annual revenues (Statista 2022). The market grew at a 3% CAGR in US dollars from 2012 through 2021 and 6% CAGR as measured in PLN (Graph 1).

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Graph 1 - Poland food & grocery retail market value: \$ million, 2016-20. Source: Statista.

The grocery retail market in Poland is relatively saturated and dominated by large companies, with the combined market share of the 20 largest grocery retailers at nearly 75% (Standard Bank 2022). Five large grocery retail chains – Biedronka, Lidl, Kaufland, Carrefour and Auchan - have increased their combined market share from 37% in 2015 to 53% as of 2021 (Graph 2). The sector has seen rather significant industry consolidation among large chains. Biedronka is the largest retailer with an estimated 25% market share of the food retail market.



Graph 2 - Poland food & grocery retail market value: \$ million, 2016-20. Source: Statista.

Poland's grocery retail market is segmented into hypermarkets, large supermarkets, proximity supermarkets, discounters, convenience stores, soft franchises, and traditional grocery retailers.

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Descriptions of these retail store formats as defined by Roland Berger (2016) are provided in Table 1.

Store Format	Type	Typical Store Area	Number of SKUs	Products
Hypermarket	Mixed stores	Over 2,500 m ²	30,000-50,000	Grocery products (at least 50%)
Discounter	General grocery stores	Around 1,000 m ²	Limited	Mostly typical food products, predominantly private label
Large supermarket	Mixed stores	500-2,500 m ²	5,000-10,000	Food products (70%)
Proximity supermarket	General grocery stores	200-500 m ²	4,000-8,000	Food products (90%)
Convenience	Self-service format	60 m ²	Limited	Basic groceries
Soft franchise	Self-service format	50-300 m ²	Limited	Basic groceries
Traditional trade	Not organized	-	-	-

Table 1- Source: Roland Berger

Discounters, supermarkets and hypermarkets have captured a combined leading market share of 51% as of 2021 (Appendix A – Graph 1). Discounters have been steadily growing their market share – from 19% of the local grocery market in 2011 to over 30% currently (Biel 2021, Roland Berger 2016). This expansion came at the expense of traditional retailers as well as hypermarkets and supermarkets. Discounters’ push into the leading segment position has been driven by Poles’ increasing focus on prices and proximity. The increasing market share of discounters has also been supported by a general shift in key customer trends and preferences, including a busy lifestyle, high-frequency shopping and a new family model (i.e., more single households) (Roland Berger 2016).

While in the short and medium-term consumption growth in the whole grocery retail market is likely to normalize once inflationary pressures ease, over the long-term household disposable incomes in Poland are expected to continue increasing at a quite rapid pace (3.1% and 3.4% real GDP growth projected in 2024 and 2025 by the IMF). In addition, grocery retailers are expected to benefit from several factors. Firstly, it is estimated that over 1 million Ukrainians since the war began have remained in Poland, thus driving up the sales of all retailers. Secondly, the Polish government has implemented social safety net initiatives, such as the “Family 500+”

program which was established in 2017 and provides a monthly allowance of 500 PLN to families with children (Ministry of Family and Social Policy 2017). Moreover, the government has been steadily increasing the minimum wage which is expected to reach 3490 PLN in January 2023 which presents a 16% year-over-year increase (Berry Appleman & Leiden 2022). Importantly, from a tax perspective, the VAT rate for certain basic food items has recently been reduced to 0% to fight inflationary pressures (KPMG 2022), albeit this is likely only a temporary measure to support the disposable income of consumers.

Thirdly, there is further room to expand online grocery sales. While online sales have expanded for both essential and non-essential products (Galang et al. 2022), revenues from e-commerce channels currently make up only 1% of all FMCG sales in Poland (Barska & Wojciechowska-Solis 2020). In contrast, online sales totaled 14% of all retail sales in Poland in 2020 and, despite a decline to 10% in 2021, are expected to reach 20% by 2026 (International Trade Administration 2022). This suggests that the digitization trend, which accelerated during the pandemic, is likely to flow into the grocery retailing sector as more industry players will be looking to expand their omnichannel sales model. Online sales in other countries, though still insignificant compared to physical food sales, have captured a higher share of food market revenues. For reference, in neighboring Germany 2.7% of total food sales in 2021 have been done through online sales channel, increasing from 1.4% in 2019 (IFH Koln 2022). Finally, there is potential for regional expansion given still quite low levels of grocery retail penetration in provinces.

Discounters are likely to continue to benefit from several tailwinds. Firstly, Polish consumers are expected to continue focusing on prices and private label products. Data shows that price is important for 93% of Poles when shopping (PWC 2020). Moreover, recent research suggests that 68% of Poles shop in stores where the prices are lower while 37% of shoppers actively search for and buy discounted products (NielsenIQ 2022). Meanwhile, 23% of Poles have

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bought more private label products in the last 6 months (NielsenIQ 2022). This trend is particularly pronounced for spirits, snacks, and care products, among others.

Secondly, discounters might benefit from labor shortages in Poland which have been exacerbated after Russia's invasion of Ukraine (Rzhevkina, 2022). The discounter business model relies heavily on having less staff than companies operating in other FMCG market segments. Given rapid increases in minimum wages, discounters are likely to hold this competitive advantage to keep costs suppressed.

Industry headwinds worth mentioning are government initiatives aimed at the retail industry. Since 2018, the Polish government has implemented a law, allowing retail stores to be open on only a limited number of Sundays per year (Guardian 2018). Moreover, in 2021 the government introduced a retail sales tax with an emphasis on larger retailer chains (EY 2021). Thirdly, Poland has one of the higher VAT rates in the EU (23%), however, as mentioned, some food items are subject to tax exemptions.

Colombia

The Colombian Food and groceries market saw a strong expansion in recent years, registering a CAGR of 9.4% between 2016 and 2020 (Figure 8) and is expected to continue its strong upward trend with an anticipated CAGR of 5.6% for the period 2020 to 2025. This will drive the market to a value of \$66.3bn.

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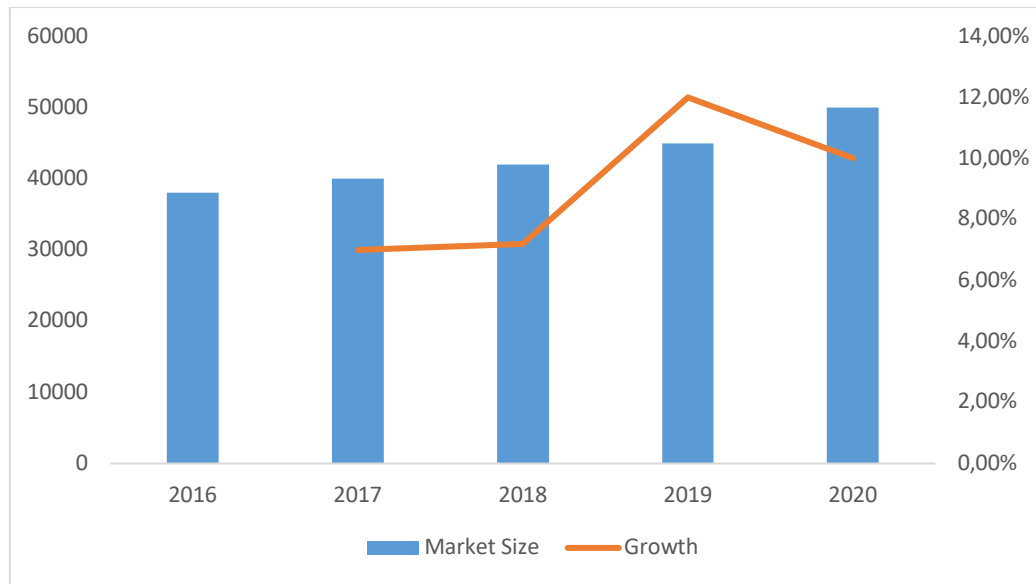


Figure 8: Colombian Food and Groceries Market

The deceleration of growth can be attributed to the opening of the economy which will lead consumers to shift consumption gains back to on-trade channels, such as the food service segment, even though it also acts as a complementary channel to the food and grocery market. In addition, lower real GDP growth in the coming years as a result of high inflationary forces and shocks to employment and disposable income is poised to damage growth in the food and grocery market (Statista 2022).

Competition in the market is intrinsically strong, despite the high concentration of players, especially in the supermarket industry (Figure 9).

This can be justified by the existence of economies of scale that promote the existence of a small number of players where profit margins are also meaningfully low. Since products are commoditized making consumers price-sensitive (having also low switching costs), companies are focused mainly on price competition. However, in Colombia competition can be considered

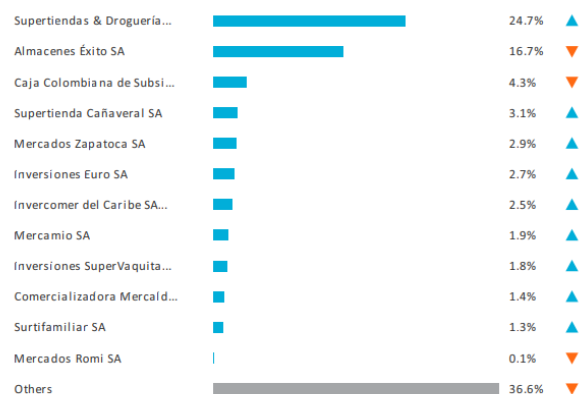


Figure 9 - % Share of Retail Value RSP excluding Sales Tax

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fairly lower compared to developed countries, particularly in the traditional retail sector, as retailers tend to be smaller neighborhood stores with a regional focus. This means that regionality continues to be an important factor to supermarkets and other retailers, as many chains dominate in their respective areas.

Furthermore, there is a growing number of discounters, such as Ara, that attract consumers both through their value offer and regional specialization by establishing relationships with local suppliers. This has led to supermarket channels losing market share to other sales channels, prominently discounters. Subsequently, big players such as supermarket chains have changed their business models by incorporating a higher private label selection, which offers a higher value proposition, and by opening stores in residential areas, close to consumers' homes. Revenues are not concentrated on a few consumers, which means individual buyer power is somewhat limited. Even though consumer preferences dictate which products retailers sell in their stores, most food categories are considered a necessity and as such not prone to significant change caused by preferences or disruption from better products. The existence of incentive schemes, a practice used mostly by bigger players, can also limit buyer power and reduce consumer mobility.

Suppliers to the food and grocery industry vary significantly since there is an ample variety of products available. Although the bargaining power is highly impacted by the size of the supplier, large retailers maintain relationships with a big range of suppliers, letting them have the upper hand in negotiations (e.g., longer period of paying back suppliers), and leads to more stability against supply chain disruptions. On the contrary, there are big suppliers such as Unilever and Coca Cola, consumer packaged goods conglomerates that are oligopolies in their market segments with specialized products, meaning retailers don't have full bargaining power. The biggest players in the market are comprised of Exito, Olímpica from Supertiendas & Droguerías Olímpica and Cencosud. Exito is a multi-format retailer which operates

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hypermarkets, supermarkets, and proximity stores under various banners, with a total of 537 stores in Colombia as of 2019. Therefore, Exito holds an advantage over competitors through its strong brand portfolio and a wide network of suppliers. Other important companies operating in the food and grocery market include Cencosud, which has a strong presence in Latin America and conducts various business units such as department stores, home improvement stores, and shopping centers.

Trends further impacting the industry come mainly from digitization, especially in the form of payment. Even though online payment penetration is still low vs developed economies, consumers are shifting from offline to online payment options such as Apple Pay or broadly speaking, using debit cards instead of cash. This trend has been accelerated substantially by the pandemic, which also led to a long-lasting effect of home delivery as opposed to onsite grocery shopping, although only a small percentage of consumers order groceries online.

Portugal

The Portuguese food & grocery retail market, on the other hand, registered a lower growth given the economic conjuncture of a developed country, with 1.8% in 2020, reaching a value of \$335B. This results in a CAGR of 2.6% between 2016 and 2020 (Figure 10). In addition, the market is expected to have a low runway until 2025, with a 1.8% CAGR. Similar countries are following the same trend as Spain and Italy, with 1.7% and 0.6% CAGR until 2025.

Portugal food & grocery market value		
Year	\$ Million	% Growth
2016	30	
2017	31	3,0%
2018	32	3,0%
2019	33	2,5%
2020	33,5	1,8%
CAGR		2,6%

Figure 10 - Portugal Food and Grocery Market

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This is in stark contrast to the less developed countries such as Poland and Colombia.

The market is dominated by a few players, the most prominent ones being JMT and Sonae, with Lidl and Intermarché being the third and fourth largest players respectively. Market share is therefore more concentrated among a small number of companies that benefit massively from economies of scale, which poses a high competition level and an entry barrier for new market entrants (Table 1 in Appendix C). They are able to employ pricing schemes that cannot be matched by smaller retailers and are present in most locations throughout the country. This is unlike Colombia where regional small discounters still have a significant share of the market. As a result, brand recognition and customer loyalty are what make this market extremely hard to disrupt.

The Portuguese retail market operates through different retail formats, such as supermarkets, hypermarkets, convenience and proximity stores, and specialized stores. Nonetheless, the market is highly concentrated in supermarkets and hypermarkets, which represent 70% of total food sales (Source: Table 2 in Appendix C).

The biggest competitor in Portugal, Sonae, through its ‘Continente’ and ‘Meu Super’ banners, has the biggest market share and the highest number of outlets, and together with JMT accounts for 50% of the food retail sales.

Lidl, being a discounter as opposed to a supermarket and hypermarket chain, has gained popularity and market share, especially during the pandemic, as consumers were striving for the best deals in terms of price, for which a discounter is known for having an edge (as Biedronka has in Poland). Even though market entry is theoretically hard, Mercadona, a Spanish retail group, has established itself in Portugal with 20 stores in 2020, with plans of expanding the store fleet to 150 – 200 over the next 5 years (MoveAveiro 2022). The French group, Monoprix, also announced its intention to enter the Portuguese market, which can lead to changes in dynamics within the food retail industry in the foreseeable future.

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Looking at product selection, sales of retailers' private label products have increased in the past years, especially during the pandemic, due to their affordability vs corresponding manufacturers' brands. This strategy has been useful to compete against discounters such as Lidl and Aldi, who are known for their low prices and variety of high-quality products.

An important mover of the industry has been the reduction of environmental impact and in broader terms, sustainability. The agendas of retailers have changed by implementing several measures in their operations and products sold, which has been mainly caused by the rising demand for environmentally friendly products. The rise in demand for healthy food meant that retailers have been evolving their product range and are offering more options due to consumers' dietary concerns and needs.

During the pandemic, and the behavior of Portuguese consumers during recessions, the retail sector has seen a rise in the demand for cheaper food products, with consumers trying to limit their spending in response to the uncertainty posed looking for ways to save up by taking advantage of price promotions. A frothy economic environment in 2023 may lead to an extension of such behavior, and to tailwinds for discounters operating in the Portuguese food retail market as a result of their good price positionings for essential products.

Another important trend in the market is e-commerce, with online food sales rising by 44% compared to pre-pandemic levels. Prior to the pandemic, only consumers with higher buyer power engaged in online grocery shopping. However, e-commerce has become more popular among all age groups, and types of consumers.

Convenience and proximity stores also played a big role in the past years and had a somewhat lasting effect from the pandemic. Consumers opted more often for them as opposed to big supermarkets, which led JMT and Sonae to focus on opening more stores from their respective banners (Amanhecer for JMT, and Meu Super for Sonae).

Strategy and Competitive Positioning

Jerónimo Martins' broad strategy revolves around several key points, including targeting mass as opposed to niche markets and focusing on dominance in local markets rather than globally. This is indicated by JM having market leading positions in the mass B2C food market in both Poland and Portugal as well as B2B food sales in Portugal, with the corresponding banners' sole focus on these geographies. For instance, JM's largest banner Biedronka is a clear leader in the Polish grocery discounters with the highest market penetration rate (92%) compared to peers like Lidl (60%), Netto (32%), and Aldi (17%), with penetration rate defined as the percentage of respondents using services of given stores (Statista). Consumer loyalty surveys display the same trend, with Biedronka (30% of respondents) being ahead of the pack, including Lidl (13%) and Dino (11%) (Statista 2022).

JM's banners compete on product price, and location (proximity of stores for target customers). Price competitiveness is achieved through containing cost inflation which the company manages through economies of scale resulting from efficiencies given banners' market-leading store and distribution center networks. For instance, each of Biedronka's 17 distributions centers acts essentially as a company serving around 200 of the banner's stores in a proximate region. For comparison, closest competitor Lidl has a network of 11 distribution centers (Newmark Polska) while Carrefour operates five central warehouses (Carrefour 2022). Another important component of price competitiveness is price investments through special offers distribution and loyalty programs. Price investments taken by the company have the objective of maintaining and increasing market share, by having lower product price increases than food inflation, which also means sacrificing on lower margins in the short term to fully gain the consumers choice for the foreseeable future. Biedronka's products have been among the cheapest in the market on average - for reference, as of October 2022, Biedronka has been ranked as the third retail chain in Poland based on the cheapness of the average consumer

basket - behind Auchan and Lidl but ahead of numerous other competitors (Poland Posts 2022).

Meanwhile, proximity advantage is displayed by Biedronka's largest network of grocery retail stores in Poland with 3,304 stores (Jeronimo Martins 2022). This compares to 800 stores for Lidl, 230 for Kaufland and 1,043 for Carrefour as of 2021 (Statista 2022).

Moreover, JM competes on product differentiation in fresh products and private label goods.

The Group generally provides a wide assortment of fresh products compared, moreover, proportion of private brand sales is high for two largest banners Biedronka (40%) and Pingo Doce (36%). Having said that, in the case of Biedronka, the proportion of own brand product sales in the company's revenues, while relatively high, has been below closest competitors Lidl - estimated at around 70% - and Aldi – estimated at 78% globally (Rennack 2018, Pricer 2022).

Four expansion vectors might potentially be likely for JM going forward. Firstly, since early 2020, JM's management has noted expansion interests in other geographies, such as Romania, however, expansion plans were eventually disrupted by the pandemic. Entering Romania would seem to be a strategic move for the banner given that the geography's sizable population (19m), favorable national legislation (e.g., one of the lowest VAT rates in the EU at 19%) and the food market being one of the fastest growing in the EU (5.6% CAGR in 2022-2027) (Statista). Romania has a retail customer base that is similar to that of Poland's, including high price sensitivity, as shown by a leading market share held by Lidl. In addition to value, consumers in Romania's food retail market tend to value proximity. Notably, the geography already has sizeable exposure to Polish food imports (14% of food imports as of 2020) (WITS 2021), with Romanian customers regarding Polish production as high quality.

Secondly, Biedronka and other banners seem to have a large online growth runway ahead given the small online sales share in the FMCG market (1%) and the aging of technologically savvy part of the population. Currently, Biedronka partners with Glovo on fast delivery of food and other goods from Biedronka's micro distribution centers. The service, however, is thus far

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limited to less than 50 cities in Poland. Recently, in Aug'22, the company launched an online shop for home products, suggesting further online sales expansion is clearly on the company's radar, with the possibility of Biedronka eventually introducing its own grocery delivery service (as opposed to Glovo). Notably, Biedronka might be able to capture a market-leading position in the online retail segment given the required investments in the online sales channel needed to maintain high service quality (i.e., customer service). Moreover, Hebe has already shown growth potential in the online segment, with more than 13% of sales coming from the online sales channel. The company has noted that Hebe – which serves a mass market in Poland - is exploring growth opportunities in other countries – this could potentially expand JM's online footprint.

Moreover, continuing expansion of Ara is likely to materially add to the company's topline in the upcoming years. Notably, Colombia seems to have highly favorable dynamics for the banner given more than 50% of the local food market is operated by non-organized retail. More specifically, Ara's target market is largely operated by expensive mom-and-pop stores. Notably, Ara has already reached breakeven on EBITDA level and is on track to turn profitable in the foreseeable future. While disruptions in the supply chain due to 2021 social protests remain, the business is expected to continue at a rapid growth pace. JM's management recently increased new store guidance for 2022 to 230-250 from the initially planned 118. This, coupled with the recent bankruptcy of a competitor Justo & Bueno, will allow Ara to improve sales density and gain scale in the country.

Macroeconomic and Geopolitical Overview

Macroeconomic Environment

The macroeconomic environment of 2022 has been a challenging one for businesses. Rising inflation, supply chain shortages, high energy prices, and geopolitical conflicts have put a toll

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on global economic growth. Especially food inflation is reaching new record highs worldwide. While grocery retailers can pass on rising prices for food to the consumer, they are not completely immune to the consequences of food inflation. Eventually, consumers will reduce their basket size and only end up buying the necessary items which will result in lower sales (trade down effect).

Jerónimo Martins operates in several markets and is exposed to country-specific macroeconomic conditions. The following section will analyze current key macroeconomic indicators for Poland, Portugal, and Colombia and point out their impact on business operations.

Poland

Poland is the most important market and contributed a lot to the growth of the group through Biedronka. The Republic of Poland is the seventh-largest nation by size on the European continent and has a population of almost 38 million citizens.

Economically, Poland is Europe's success story, and the country experienced almost unbroken GDP growth since 1992, except for 2020 when the economy decreased by 2,5% because of the Covid-19 pandemic. On average GDP grew by 3,6% annually over the last two decades (World Bank 2022). Economic growth is forecasted to slow down to 0,7% in 2023 and rebound to 2,6% in 2024 according to the latest macroeconomic forecast by the European Commission (European Commission 2022). The World Bank even estimates that the Polish economy has the potential to grow at 4% per annum between 2022 and 2030 under the condition of green and digital investments and labor reforms (World Bank Group 2022).

Prices of consumer goods and services set a fresh record at 17,9% in October compared to 9,4% in January 2022. This is the highest inflation rate since 1996. Food inflation for the same month was 22% and has been consistently above the overall inflation rate (Trading Economics

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2022). Especially the war in Ukraine, sanctions on Russia, and a summer of harsh droughts in America have driven up food prices. It is unclear at the moment when the situation will ease, and the European Union estimates inflation in Poland to remain high with a decrease to 4,9% year-on-year change in 2024. Because of rising inflation, interest rates increased significantly in Poland, much faster compared to the Eurozone. As of September 2022, the Polish National Bank increased its reference rate to 6,75%.

Employment in Poland is high, and the unemployment rate is projected to drop to 2,7% in 2022 from 3,4% in 2021. Moreover, the European Commission expects that unemployment will fluctuate around the 3% mark in the coming years, which should strengthen consumer demand for quality food.

In terms of politics, the country is currently run by a conservative coalition led by the Law & Justice (PiS) party. As for economic policies, the party stands for a social market economy, and one change in particular impacted the economy of trading. As previously mentioned, the Polish government passed a law in 2018 that prohibits trading activities on Sundays which resulted in 21 fewer trading days for the banners Biedronka and Hebe. Such changes in legislation can have a significant impact on operations and the group had to allocate resources and time to change consumer behavior and make up for the loss of Sunday sales on mainly Friday, Saturday, or Monday (Jerónimo Martins 2018).

Overall, the macroeconomic indicators and prospects for Poland are good and should benefit Biedronka and the group as a whole in future years.

Portugal

In Portugal Jerónimo Martins serves around 10 million people through its leading banners Pingo Doce and Recheio. After rapid economic growth at the beginning of the century, the country was battered by a decade of near-economic stagnation in the aftermath of the great

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depression. Especially, the Portuguese financial crisis between 2010 and 2014 took a toll on the economic prosperity and GDP has yet to reach its all-time high of 2008.

Today, the economy is still recovering from the impact of the Covid-19 pandemic after strong GDP growth in 2021 and 2022, growth will slow down to 0,7% in 2023 due to fears of a recession in Europe and rise back to 1,7% in 2024 (European Commission 2022b).

Inflation has increased from 3,3% at the beginning of the year to over 10% in October. Rising food and energy prices have been the main drivers here as well and food inflation hit 16% in October. Ultimately, these boosted sales of the Portuguese banners but the company warned of an uncertain outlook for prices.

Portugal is part of the Eurozone and as such monetary policy is managed by the European Central Bank. In comparison to other countries and in particular the United States, the ECB has been a lot slower and more conservative when it comes to raising interest rates. As of November 2022, the interest rate for the Eurozone is 2% and Christine Lagarde warned that rate hikes could continue to rise if inflation does not decrease. Similarly, to the outlook for Poland, inflation is expected to cool off in 2024 and fall back to 2,9% according to the European Commission.

Unemployment has been a major concern throughout the 2010s and saw its peak at over 16% in 2013. Since then, the unemployment rate has fallen significantly in recent years mainly due to labor reforms, investments, training programs, and improvements in education levels. In the long-term employment should improve marginally in the coming years and projections by the European Commission show a fluctuation around the 6% mark for the coming years (European Commission 2022b).

Politically, the country is ruled by the Socialist party, which won the election in January 2022. The current Prime Minister António Costa has been in office since 2015 and his win of the absolute majority should ensure political stability in the coming years. More importantly,

he launched Portugal's recovery and resilience plan which includes reforms and investment into digital and climate.

Colombia

Colombia marks the most recent international expansion of the group. It is the fourth-largest country in South America with a population of over 51 million.

In contrast to Poland and Portugal's stagnant growth rates, Colombia has experienced a rapid increase in its population over the past decades and during the last 10 years alone the population grew by more than 5 million. Generally, a growing population means more consumers and thus greater demand. This is especially the case for food retail and a key indicator for the growth prospects of Ara. Structurally, the country remains divided between prosperous urban regions and remote poverty-stricken parts, in the mountainous regions.

Despite being rattled in decades of internal conflict between various guerilla and militia groups, the country's average annual economic growth has been 3,6% over the last 20 years. 2021 followed a strong rebound after the pandemic by over 10% (The World Bank 2022). Despite the significant economic growth at the beginning of the century, GDP per capita today is around 25% lower compared to its peak in 2013. Nevertheless, the projections show that the trend will reverse, leading to more people with increased purchasing power in the future.

Unemployment has always been a challenge for governments and the rate has fallen from around 14,3% in 2020 to 10,7% as of September 2022 (Trading Economics 2022a). Officially, the Colombian government targets an unemployment rate of under 10% and it is reasonable to assume that this will be achieved in 2023.

Compared to the 1970s, 1980s, and 1990s, inflation has been comparably low in the 2000s, fluctuating in an area of around 2-6%. However, the global surge in food and energy prices did not spare the country, and the annual inflation rate accelerated to more than 12% in October

2022. Food inflation for the same month was reported at more than twice as high at 27%. To combat this trend, Colombia's central bank decided to raise interest rates to 11% (Trading Economics 2022a) in October. The year prior, the interest rate stood at below 2%. The peak might have been reached and monetary policy has been tightened rapidly. However, it is expected that it will take until 2024 for the rate to return to the bank's long-term target of 3%. So far, the group's price investment strategy has been successful considering Ara's strong sales growth and as a low-cost food retailer, the banner is well-positioned to sustain the negative impacts of inflation.

Financial Analysis

This section of the report is divided into five sub-sections. By analyzing the performance of the company, as well as its liquidity position, returns, profitability, and credit profile, it aims to assess the quality of the business from a holistic standpoint. The methodology followed in this section differs from other sections, in the sense that it undertakes an analysis at the group level, as opposed to a subsidiary-level type of analysis. This is justified by the fact that some accounts at the subsidiary level cannot be understood in an isolated manner, thus rendering such a granular approach less insightful than a group-wide perspective.

In each sub-section, a comparison with selected peers is also pursued for the purpose of gathering better insights. The list of competitors comprises Carrefour – present in over 30 countries, spread across 4 continents, operating supermarkets, convenience stores, discount stores, among other models – Ahold Delhaize – present in seven European countries and in the US, operating retail and wholesale stores – and Casino Guichard-Perrachon – present in France and Latin America, operating hypermarkets, supermarkets, discount stores, convenience stores, among others –, corresponding to globally diversified companies with similar and equally-diversified business models. Though acknowledging no companies with such diverse

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subsidiaries have equal business models (that is, some of them are more biased towards discount, while others towards premium), which slightly weakens the conclusions, these are the closest peers in terms of size, business model and geography for Jerónimo Martins.

While the period chosen to undertake Jerónimo Martins' historical analysis at every level ranges from FY 2017 to LTM September 2022, the most recent information available for all peers is only as recent as LTM June 2022, and therefore this is the time reference point used when comparing the group to its peers.

Business Performance Analysis

Jerónimo Martins is a stable and profitable business (Appendix D – Table 1), but with generally low profit margins, linked to high fragmentation and fierce competition in the food retail industry. Revenue growth has accelerated recently from 3.5% in 2020 and 8.3% in 2021 to 15.3% over the LTM Sep-22 vs FY 2021, as the company vindicates its growth strategy in Poland and Colombia (with Biedronka and Ara growing at 19% and 60% YoY in Q3 2022, respectively), while taking advantage of food prices rising globally in the context of an inflationary macroeconomic backdrop only comparable to the 1970s, driven by expansionary monetary policy over the last years. Since March 2022, this setup has been exacerbated by the war between Russia and Ukraine, both among the largest global food exporters, with Russia also playing a key role in energy security, which has sent commodity prices to multi-year highs.

Even though the current geopolitical and macroeconomic scenario has been helpful for the company's top-line, the firm's commitment towards competitive pricing, especially in Poland, has meant that its ability to pass on high prices to consumers has been limited, which has impacted its gross margin in c. 70 bps, down to 21.2% over the LTM Sep-22 from a high of 21.9% in 2019 and 2020, thus equaling 2017 levels, when the business was substantially

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smaller and scale benefits were not as significant. This has been fully offset by slower-growing distribution and administrative costs, showcasing the management team's ability to streamline operations, as it tries to curb the effects of rising input costs. Despite the group's efforts to minimize inflation's bottom-line impact, lease rents are an increasing burden, having risen by 56% in September 2022 on an LTM basis *versus* FY 2021, which explains the c. 70 bps impact on operating margin, down to 1.2% compared to 1.9% nine months ago.

From a cash flow perspective, though less exuberant than in prior years, the group's performance remains strong, with a free cash flow after interest and taxes margin of 1.9%, which compares to 2.6% in 2019 and 2020, and 3.5% in 2021. 2019 had marked a great improvement from 2017 and 2018, which had mainly to do with better working capital management. Nonetheless, it should also be mentioned that the current margin of 1.9% is closer to a sustainable level than the higher margins in the past, as the firm has been underinvesting in its capital base for years, which can be attested by capital expenditures being well below reported depreciation and amortization from 2019 until 2021. As a matter of fact, capital expenditures as a percentage of depreciation and amortization have risen meaningfully over the last nine months on an LTM basis, from 78.4% in FY 2021 to 99.6% in September 2022.

Appendix D – Table 1 also allows one to spot some seasonality in the business, as there is usually a working capital inflow in the first quarter of the year which is more than offset by strong capital outflows in subsequent quarters. This is an industry-specific feature, as food retail chains usually make large payments to suppliers at the beginning of the year, after having built up inventory at the end of the previous year in order to meet stronger demand around Christmas time.

Speaking of industry, when compared to peers (Appendix D – Table 2), Jerónimo Martins stands out, as it outperforms the mean peer growth-wise in terms of revenue, EBITDA, and adjusted operating cash flow after interest and taxes before working capital. Even though

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working capital is not accounted for in any of the metrics at focus in the peer analysis for this specific sub-section, the group also outperforms peers in this regard, as it borrows heavily from suppliers, which contrasts with peers' relatively neutral working capital profile. Even though Jerónimo Martins does not compete directly with the companies under focus, this suggests that Jerónimo Martins benefits from a relatively better competitive positioning, working capital management and bargaining power against suppliers. This is somewhat expected considering its reliance on local supply chains, which are traditionally less populated by large, more powerful producers.

Liquidity Analysis

Jerónimo Martins is not a textbook example from a liquidity perspective (Appendix D – Table 3), as it does not meet the usual benchmarks for commonly tested liquidity ratios. As a matter of fact, the company's current ratio is only 0.56 – below the classic benchmark of 1 –, while the quick and cash ratios stand at meager 0.33 and 0.22, all of them relatively stable over time. Although at a first glance such figures might suggest a poor liquidity profile, a peer comparison makes it clear that these numbers are rather a result of sector-specific characteristics (Appendix D – Table 4), once again linked to working capital management. As a matter of fact, while food retail chains are usually paid upfront by customers, they do not pay suppliers on the spot. This allows them to finance their excess current liabilities – mostly consisting of trade payables – without needing to raise additional cash in the short term. The fact that (1) cash interest expenses are low and (2) the business has little financial leverage (more details below in Credit Analysis) gives one even greater assurance about Jerónimo Martins' adequate liquidity profile.

Return Analysis

The company has been delivering increasingly better returns on its capital employed and asset base (Appendix D – Table 5), with adjusted return on invested capital rising from 4.6% in 2017 to 13.3% in 2021, while return on equity has improved from 6% to 14.1% over the same period. This suggests that investments to grow the capital base are value incremental for the firm, at a time when those investments are decreasing as well. Additionally, the fact that return on equity has been consistently above return on invested capital suggests that the company's debt usage has ultimately been optimal and incremental to shareholders' value. Over the last twelve months, however, JM's high-return profile has been partially dented by cost inflation and higher capital investments, which has been impairing cash generation capabilities.

From an industry perspective (Appendix D – Table 6), Jerónimo Martins has been producing better returns than peers, which might be related to size and the presence in generally faster-growing markets. By looking at Jerónimo Martins historical returns evolution, the turning point in terms of profitability fundamentals looks indeed to be September 2022. Nevertheless, more data would be needed in order to make a definitive assertion in this regard, which is unavailable as of this report's writing date. Additionally, even though the peers chosen are generally as well-diversified as Jerónimo Martins, some might be more biased towards a certain model (e.g.: discount or premium), implying that their potential returns are different. This applies to other sub-sections of this analysis, especially margins.

Profitability Analysis

The company's profitability (Appendix D – Table 7) has not materially improved since 2019, with stable and relatively low margins compared to the average corporate company stemming from high industry fragmentation and competition. Gross margin has been around 21% for the past 3 years, with a 30 bps fall in the LTM September 2022 (21.2%) compared to FY 2021

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(21.5%) explained by investments in pricing, especially in Poland, where the discount philosophy is more important for the group, as the firm attempts to retain market share in a highly inflationary environment by minimizing the pain for customers struggling with rising cost of living. Despite striving for increased operational discipline, the margin impact has been magnified by rising lease rental expenses, with EBITDA margin falling 100 bps over the same period. Finally, increasing capital investments have also been weighing on free cash flow, which has still remained positive, at around 1.9% margin relative to sales.

Compared to peers (Appendix D – Table 8), Jerónimo Martins has generally lower margins, but this is more than compensated by the fact that the company is generally more efficient at translating profits into actual cash, as shown by a higher free cash flow margin. It can also be argued that, by being relatively more biased towards a discount model than Carrefour, for example, would explain Jerónimo Martins' relatively lower margins, without that impacting absolute profitability.

Credit Analysis

From a credit standpoint (Appendix D – Table 9), there are no immediate concerns about Jerónimo Martins, as the company generally presents stable and low leverage over time, with all bank debt being covered by 5 years of free cash flow before working capital as of September 2022. It should be remarked that this corresponds to a stress scenario such as the one the firm is experiencing, which is linked to higher capital expenditure and margin impacts of cost inflation, hence increasing the robustness of the analysis. This allows one to take reasonable comfort from the company's ability to service its debt, especially considering that structural working capital inflows are not being accounted for in the analysis. Furthermore, the interest coverage ratio from a free cash flow perspective is high and stable at double-digits.

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What is more important, unlike its peers, Jerónimo Martins holds no bond debt, which would be hard to refinance at attractive terms in the current market conditions, showing the company's ability to grow and generate cash without drawing undue amounts of leverage. This also means that there are no short-term refinancing risks for the group, while the impact of higher interest rates, which is afflicting peers such as Casino Guichard-Perrachon, is also limited, owing to low leverage. In general, the company is expected to continue relying on relationship banks for short-term liquidity needs, by resorting to commercial paper and other types of credit lines, which were all available but undrawn as of September 2022. The authors should remark that while acknowledging the merits of IFRS-16 in forcing companies which are heavily reliant on leases to bring them onto the balance sheet, little importance is assigned to leases from a debt perspective, as they are viewed more as an operating expense rather than raw debt. Leased stores are common in the food retail industry, as leases allow for more flexibility (there are usually more properties to lease than to buy), are tax deductible and allow to spread the cost of properties over the years instead of large, upfront costs when buying a property (Menlo Group 2022). Jerónimo Martins (rents are 2% of revenue) and the analyzed peers heavily rely on them. Speaking of peers, overall, compared to peers (Appendix D – Table 10), Jerónimo Martins has arguably the best fundamentals, with the lowest reliance on debt and the strongest interest coverage.

ESG

Jerónimo Martins most distinctive ESG aspect relates to the fact that it is the only Portuguese company in the country present in the Bloomberg Gender-Equality Index, which is detailed below. Additionally, it boasts the only maximum score of 'A' in CDP's climate change and water management programs, which contributes to the best CDP score across food retailers globally, among others. While companies tend to overstate their ESG commitments, these are key positive points to note, as they are objective metrics subject to independent assessment. On

the negative side, the company is controlled by the Soares dos Santos family, potentially impairing much needed independence in decision-making, which, if addressed, could have overturned some bad decisions made in the past (more details are provided below).

Environmental

In 2019, the food industry accounted for 26% of global greenhouse gas (GHG) emissions alone (Source: Poore & Nemecek, 2019). As a company mainly positioned right at the end of the chain, Jerónimo Martins has increased responsibility to mitigate the harmful impacts of food distribution in world ecosystems, hence contributing to a better environment.

In this regard, Jerónimo Martins had initially set the objective of reducing its carbon footprint by at least 40% until 2023 compared to 2017 levels, which was accomplished in 2021, with a 48% reduction. The fact that Poland is the largest market for the company makes appropriate action within this jurisdiction key, and the reduction of GHG emitted through electricity consumption in the country was indeed the main reason why the group was able to meet its goal in 2021. On the other hand, efficient management of water and energy use is one of the cornerstones of the company's environmental policy, which required a €215mm investment in renewables, energy control and management systems, water savings systems, among others. This investment has been totally recovered in less than 5 years, owing to reduced water and energy consumption. Among plenty of other environmental initiatives, route optimization and the investment in more efficient transportation vehicles should also be mentioned, as these avoided more than 20,000 CO₂ emissions in 2021. In general, the company's increased investment in supply-chain optimization by focusing on renewable energy sources, developing products that are easier to store and transport, identifying alternative routes for products and local supply chains have helped the company to meet the defined environmental goals.

Social

Jerónimo Martins is one of the largest employers in Portugal and Poland, at the same time it is also part of the daily lives of every citizen that visits their stores regularly, which tells enough about the group's impact in the societies it is inserted in, hence why an adequate social policy both at the group and subsidiary level is important.

The group's social commitment highlights are two-fold – (1) ensuring local sourcing whenever possible to drive growth at the community level and privileging product quality, and (2) being a benchmark employer. On the first, the group sources approximately 89% of its food purchases from local suppliers – with a minimum target of 80% set by the group –, effectively supporting local communities and creating positive synergies with stakeholders. This is especially visible in Colombia through Ara, where 180 local suppliers account for more than 90% of total sales derived from private brand products. Regarding product quality, the recent nutritional reformulation of private brand and perishable products has prevented more than 1,000 tons of sugar, more than 100 tons of fats and c. 20 tons of salt from being consumed (Jerónimo Martins 2022). On the second, the gender pay ratio of 97.6% – warranting the group's inclusion in the Bloomberg Gender-Equality Index – is worth noting. More recently, Jerónimo Martins made a non-repayable contribution of PLN 1,000 to each of Biedronka's 1,800 Ukrainian employees. Additionally, each Pingo Doce employee will receive in December 2022 a €350 check to tackle inflation (Barbosa 2022). However, in September, workers went on a strike to claim better pay. All in all, while there are some positives, Jerónimo Martins can still improve on the Social front.

Governance

Even though the company has taken some steps to improve governance, by adopting, for instance, the Anglo-Saxon model of governance in 2007, there are some concerns regarding independence, which has led to some suboptimal decisions in the past (for example, the

expansion to Brazil). As a matter of fact, c. 56% of Jerónimo Martins is controlled by Sociedade Francisco Manuel dos Santos, B.V. (ultimate parent), which in turn is controlled by the Soares dos Santos family. This may impair accountability and independence to some extent, which is a downside of family-owned companies.

Risks

Operational risks

Jerónimo Martins aims to provide healthier food solutions and products by complying with food safety standards and with audits along the entire logistics chain. There are two types of food removal, which address specific risks to the health and safety of consumers, whether in store or at distribution centers: recall (removal from sale of products with potential health risks) and withdrawal (removal from sale of products that do not pose a health risk). In either case, internal investigation mechanisms are triggered and, where necessary, also conducted with suppliers to identify the causes and aiming to implement the appropriate corrective measures to prevent food incidents. Nonetheless, this is a risk that is common to all retail companies and requires constant efforts to improve the supply chain to be mitigated. As the 2015 Walmart, Target and GNC scandal demonstrated, investors quickly lose confidence in a company after showing that the supply chain controls are not as rigid as claimed. Walmart, in this case lost 20% of its stock value in the year after the outrage.

In addition, the Polish and Colombian foreign exchange rates are a significant contributor to the company's pricing risk. JM purchases merchandise in foreign currency, mostly Zloty and US dollars for the Portuguese operations, and Euros and US dollars for the Polish and Colombia operations. Exposure is managed through hedging through loans denominated in the local currency. Hedging may also be achieved through swaps, forwards, and options when a natural hedge isn't possible.

Market and economic risks

Indirectly or directly, the Group's financial liabilities are indexed to a reference interest rate, exposing it to cash flow risk. A given portion of this risk is hedged through interest rate swaps, thus JM is also exposed to fair value risk. Exposure to interest rate risk is monitored continuously. In addition, to evaluate future interest costs based on forward rates, sensitivity tests to variations in the interest rate level are performed. The Group is essentially exposed to the interest rate curves of the Euro, the Zloty, and to the Colombian Peso.

Liquidity risk is managed by maintaining an adequate level of cash or cash equivalents, as well as by negotiating credit limits that not only ensure the regular development of the Group's activities, but that also ensure some flexibility to be able to absorb shocks unrelated to business activities. Treasury needs are managed based on short-term planning, executed daily, which derives from annual plans that are reviewed regularly during the year. JM does not have any material financing agreement with the suppliers in its supply chain, so no liability relating to financing obtained from suppliers is recognized.

The Group manages centrally its exposure to credit risk on bank deposits, short-term investments and derivatives contracted with financial institutions. The Financial Departments of the business units are responsible for the management of credit risk on its customers and other debtors. The financial institutions that the Group chooses to do business with are selected based on the ratings they receive from one of the independent benchmark rating agencies.

In 2022, the Zloty recorded an average annual exchange rate of 4.72 against the euro, a depreciation of 3.3% compared to 4.57 in 2021. This depreciation was due to multiple political and economic factors, the effects of which are expected to last throughout 2023. As a result, depreciation of the zloty is likely to continue, albeit amidst extreme uncertainty. The Colombian peso recorded an average annual exchange rate of 4657 against the euro, a

depreciation of 5.1% against the 4433 of 2021, explained by low reference interest rates, weaknesses in the Colombian economy and by an increase in the deficit and sovereign debt.

The depreciation of both zloty and peso impacted the company since both in 2020 and 2021 the entirety of the loans the company has undertaken are in local currency and considering that a part of it is used in Portugal, the cash position of the company was negatively affected by an estimated 4.6%.

Political risks

In Colombia, the leftist Gustavo Petro won the runoff of the presidential elections in June 2022, and he will be Colombia's first left-wing president for a four-year term. The high public dissatisfaction with the incumbent right-wing government of Ivan Duque contributed to the runoff between the two anti-establishment candidates. More precisely, high inequality, poverty, as well as demands to improve security in cities and fight violence in rural areas, where illegal armed groups dedicated to drug trafficking operate. Petro advocates in favor of halting new oil projects due to environmental reasons (although he has promised to respect current contracts). He aims to increase fiscal revenues by 5% of GDP underpinned by dividend taxation, a more progressive system, lower evasion, and curbing benefits. He also defends the increase of taxes and royalties on extractive industries and charge large landowners for unproductive land.

In Poland, the ruling right-wing party Law and Justice (PiS) grip on power weakened after it lost control of the upper house (Senate) and failed to increase its absolute majority in the more powerful lower chamber (Sejm). The main risk for the Polish economy is linked to possible freezing of EU funds, over concerns namely for the independence of the judiciary power, and the potential impacts of the expected rise in inflation. These disagreements have already resulted in the Polish currency depreciation. Moreover, the migration crisis at the border between Poland and Belarus in late 2021 has also brought additional risks.

The current strife in neighboring Ukraine has brought challenges to the Polish market. Ukraine

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is Poland's 5th largest trading partner of consumer-oriented agricultural goods; Russia and the U.S. are 15th and 18th respectively. The war has disrupted transportation of goods into Poland, affecting not only domestic consumption but also certain processing industries, creating a potential gap between consumer demand and supply in several sectors. The imposition of sanctions by the EU and Poland on Russia and Belarus and the disruption of trade has contributed to a sharp rise in inflation to 7.4 percent overall driven by energy/fuel and food prices climbing 27 percent and 12 percent respectively as of April 2022. It is estimated that the war has contributed around 2.4 percentage points to the inflation index.

The Portuguese economy was particularly affected by the pandemic, due to its dependence on the tourism sector. In 2022, the rebound in activity has been slowed down by the economic consequences of the war in Ukraine. The sharp rise in commodity prices led to a marked acceleration in inflation, which spread to all products and remained high throughout the year. As purchasing power declines, household consumption should slow sharply, as uncertainty will not encourage households to draw on savings built up during the pandemic (10.9% of gross disposable income at the end of 2021, compared with 7% before the crisis). The conflict will also have a major impact on businesses through, on the one hand, the worsening of supply difficulties, which had already hampered industrial activity in 2021, particularly in the important automotive sector (15% of goods exports in 2019) and, on the other, the surge in production costs, which will lead to a contraction in margins and profits. Therefore, in this adverse environment for business confidence, investment is likely to remain limited.

Other Risks

The Colombian Central Bank forecasts the economy to grow 4.7 percent in 2022, a figure that could be revised downward due to lower private consumption levels, growing inflation, and general uncertainty. The COVID-19 pandemic affected households' expenditures and purchasing habits. Although expenditures have rebounded and consumers are travelling and

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going out due to the economic recovery, some market trends will remain. Indeed, higher product price sensitivity has created an opportunity for in-house/store brands to gain popularity, as they tend to be cheaper than other labels. Nonetheless, e-commerce and delivery service adoption continue to be a challenge for the retail and food service sectors to adapt to changing consumer needs. Like regional peers, the arrival of COVID-19 disrupted about a quarter of employment in Colombia, with heterogeneous effects across sectors and demographic groups. Women, the young, and the less educated experienced the largest losses in employment and labor income, due in part to their concentration in lockdown-sensitive sectors and the greater prevalence of job informality among these groups. In Colombia, inflation rose significantly, reaching 12.2% in the year, after two years with high food inflation (around 7% on average), for exogenous reasons and also due to domestic issues in the country, in particular disruptions in the domestic supply chain as a result of the strikes and social protests that took place in May and June 2021. Besides rising food prices, general inflation will also be impacted by the price increases resulting from inflation of the previous year in categories such as rents, tolls, services, and healthcare.

Model Assumptions

The Model

The valuation is based on a sum-of-the-parts process, by combining the individual values of all of a company's business divisions to obtain the complete enterprise value of the group. Analyzing every geographical segment of the company individually allowed for a better and more wholesome valuation of the company next to enhanced forecasting accuracy.

Therefore, financial statements from 2017 to 2021 was gathered for the Portuguese, Polish and Colombian branches from the respective government institution except for Ara. Individual banners include Pingo Doce, Recheio, Biedronka, Hebe, and Ara. For Biedronka and Hebe,

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financial statements were only available combined under Jerónimo Martins Polska S.A. from the Polish Ministry of Justice. Separate statements for Pingo Doce and Recheio have been retrieved from the Portuguese Institute of Registries and Notary.

An integrated three-statement model was used just to project the balance sheet, income statement, and cash flow statement of each of the banners. The periodicality was set to annually. This approach enables the testing of different assumptions as well as operating conditions and how this impact the financial performance of the company in the future.

WACC

The company operates by borrowing money directly in the local currency it requires funds, therefore each branch of JM will have its own foreign-capital WACC, where the foreign cash flows are discounted directly at this WACC and converted into domestic currency at the spot rate.

To computation of each WACC starts by taking the levered betas from the respective competitors, unlevering them and taking the median to use as the company's input for the cost of equity. To compute the market D/E value of each subsidiary, we apply the closest competitor's average D/E ratio, and assume it to be the company's target, given that the subsidiaries are not publicly traded and do not have a market value of equity. The cost of debt is derived through Damodaran's method of inferring a credit rating through the interest coverage ratio. Out of the credit rating we can assume a spread and adding it to the respective risk-free rate with bonds that are publicly traded and use it as a proxy.

Terminal growth rate

The terminal growth rates typically range between the historical inflation rate and the average GDP growth rate. (Corporate Finance Institute 2022). Given the low inflation rates in Europe, we decided to use the last 20 average years GDP growth for each country. Even though inflation

is at decade highs all over the world at the moment, it is more realistic to use past GDP growth as proxy rather than a measure that has been historically low in the past decade, as a result of expansionary monetary policy conducted by the European Central Bank and the National Bank of Poland, as seen in the benchmark interest rate and quantitative easing programs.

Poland

All the assumptions taken regarding JM's business in Poland are specific to the current economic and political situation in this country. The tax rate has been assumed to be 19%, since the "CIT" is the only tax levied on corporate income. This figure is the standard for the country, according to PwC Worldwide Tax.

Revenue growth for Biedronka and Hebe combined is projected by breaking down the top line into the number of stores and sales per store. For a more granular analysis, sales per store are then further segmented into area per store and sales per m². Area per store is estimated to grow proportionally to the year-over-year change in area per store in 2021 adjusted for the number of new stores opened versus the number of store additions in 2021. Meanwhile, to estimate sales per m² for 2022-2025 a multivariate regression is used with sales per m² data for 2014-2021 as the dependent variable and inflation rate plus one and Poland's food market size as two independent variables. This approach allows to arrive at sales per m² which is then inputted into sales per store calculation.

Analysis of revenue growth suggests that sales growth is expected to remain elevated in 2022 (24.4% growth) and 2023 (13.9%) before starting to normalize from 2024 onwards. This is expected to be driven primarily by an aggressive growth in sales per m² in 2022 (18%) and 2023 (9%) on the back of elevated inflation rates in the country (14% projected by the IMF in both 2022 and 2023). Meanwhile, the number of stores is projected to keep growing in low single digits, albeit at a gradually slowing pace - from 4.3% in 2022 to 3.0% through 2027.

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Notably, JM has noted that 2% has been the gap between Biedronka's product inflation and broader inflation in Poland, justifying the use of this assumption.

COGS has been assumed to overall remain stable, with a slight decrease in margins for 2022 and 2023 because of the guidelines reported by the company in the latest earnings call.

Materials and energy costs are expected to be a bit higher in 2022 and 2023 because of the current geopolitical situation in Ukraine and the impact it had on electricity prices especially in Europe. This, however, will not be impactful in the following years.

Previous other income was from related entities. However, between 2020 and 2021 other income from related entities dropped to zero with a remaining amount of PLN 650,822. This can be seen in the original income statements under position "G - V". For this reason, the assumption is that future other income from related entities is going to be zero.

Since Long-term Investments decreased consistently over the last five years and have not changed between 2020 and 2021 the assumption is, that there will be no change in the foreseeable future.

As previously mentioned, share capital and reserve capital have remained constant as there has been no share buyback in the past 4 years, and there is no indication of possible changes in the future.

Inventory and Accounts Payable and Receivable have been forecasted through the first-principles approach which involves forecasting individual current assets and current liabilities using various working capital ratios, such as receivable days, inventory days, and payable days. The receivable days ratio is often used to link forecast receivables to revenue. The first formula defines the accounts payable days ratio:

$$\text{Accounts Payable Days} = \frac{\text{Accounts Payable}}{\text{Revenues}} * 365$$

Once the ratio has been calculated, it can be assumed that it will remain constant in the following years and therefore extract the future value of accounts payable by reverting the

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formula. A similar approach can also be used for accounts receivable and inventory, by linking the former to sales, and the latter to COGS.

Depreciation and amortization follow the guidelines from the 2021 notes to the account for Jerónimo Martins Polska SA, hence will keep the same ratio between the two for the following years. The forecasted values have been calculated as an historic percentage of fixed and intangible assets.

Long-term liabilities have been forecasted by considering both the debt term structure of the company and the D/E ratio that the company has set as a target. Analysis of the debt term structure for Poland suggests that the company tends to rely more on long-term loans. Therefore, it has been assumed that for that there is no reason to change this trend in the upcoming years and that long-term liabilities will have a much larger weight than the short-term ones.

	Total	<1 year	1-5 years	5+ years
2021	214	8	141	65
2020	219	3	129	87
2019	303	84	220	-
2018	288	81	207	-
2017	234	8	226	-
2016	91	5	86	-

Table 2 - Debt Term Structure for JM Polska in Mn EUR

Moreover, in recent years, the company has been aiming at a target D/E ratio of around 20%, therefore this has been assumed to remain constant for the future years as well.

Capital Work in progress has been assumed to grow with fixed assets, as it has been historically so. Hence, this will continue for the upcoming years as well.

As another consequence of the reduction in margins, fixed assets will also slightly reduce from 2022 onwards, and will slowly reach pre-2020 levels later in the future.

Except for 2018 and 2019, partnerships results have been an almost negligible account, therefore there is no further indication that this could vary in the future.

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Cash has been calculated by using the reported cash account for 2016, and from 2017 onwards, by considering the variation given by cash flow statement. With this method, cash can easily be forecasted for the following years since it reflects the changes in every other account given by every assumption that has been taken so far.

Capex has been calculated by differentiating between maintenance capex, which tends towards the value of depreciation, and expansion capex, using the cost per new store/total sale square meters every year. We take an average of the last years to project the cost operating m2 for each region the company operates in. This approach was chosen rather than using new stores as an input since we expect total square meters per store to increase on average.

Portugal

Top line growth for JM's Pingo Doce banner is projected using the same methodology as for JM's business in Poland. A notable difference, however, is in the selection of variables for sales per m² estimation. While, similarly to regression for Poland's business, Portugal's food market size is employed as an independent variable, inflation rate is excluded from the estimation. Notably, inflation rate in Portugal stayed at historically low levels in 2014-2021 (above 1% only in 2017-2018 based on data from the IMF), suggesting that inclusion of inflation rate plus one would not add significant value to the regression output. Pingo Doce revenues are expected to grow at 7% in 2022 and 4% in 2023 before retracing back to a more normalized 3% growth from 2024 onwards. While in 2022 and 2023 revenue growth is expected to be driven by expanding sales per unit of area (5.2% and 1.9% growth in 2022 and 2023), number of stores growth (anticipated at 2-2.5%) is expected to be the main underlying factor behind sales expansion in 2024 and beyond.

Likewise, sales growth for Recheio is projected in the same manner. Given the segment's exposure to HoReCa market, sales per m² growth is estimated with a univariate regression

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against Portugal's accommodation and food service industry market size (as estimated by Statista). The analysis shows that Recheio's revenues are predicted to expand at 4% in 2022 and peak at 9% in 2023 before starting to decline to a low single digit range.

COGS in both Portuguese subsidiaries follow the same approach as Biedronka, as management pointed out no differences in cost level strategy, meaning the company will continue its price investments game plan for every banner.

Supplies and Outsourced Services also see a small jump (in % of revenues) derived from higher energy and transportation costs, expecting a reversion to the mean of the past 5 years in 2024.

All other accounts in the Income Statement are forecasted, taking the historical average, with revenue as the input lever, except for Debt Impairment Receivable, which uses Accounts Receivable, and interest expense, being computed as a % of Financial Debt.

As reported by PwC, "A flat CIT rate of 21% applies on the global amount of taxable income realised by companies resident for tax purposes in mainland Portugal.", therefore this standard tax rate has been applied for both Pingo Doce and Recheio. On top of this rate we added the Derrama Municipal and the Derrama Estadual tax, to account for extraordinary profits.

Colombia

Financial statements for Colombian companies are not publicly available, therefore it was not possible to retrieve the official statements presented to the local ministry and perform the same analysis as with the previous segments. The most satisfying option available was to resort to a reputable source of information as Refinitiv, which provided a simplified version of the company's financial statements. The annual group reports were also critical to the retrieval of key data for the analysis performed.

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Revenues for Ara are forecasted using the same approach as for JM's subsidiaries in Poland and Portugal (i.e., breaking down sales into the number of stores and sales per store, the latter of which is then further segmented into area per store and sales per m²). To estimate sales per m², 2017-2021 sales per m² values are regressed against Colombia's food market size in COP (as calculated by Statista). The analysis reveals that Ara's sales per unit area are expected to grow at a record 42% pace in 2022 before displaying a much more normalized growth clip of 10-13% in 2023-2025. Likewise, growth in the number of stores, while still quite aggressive at 14-18% rate in 2023 and 2025, is expected to be significantly below the projected 31% growth in 2022. Both dynamics combined – growth of the number of stores and sales per m² – suggest that the segment is due to display an explosive 87% growth in 2022 before settling down at 27-33% in 2023-2025.

COGS and Other Operating Expenses use the same criteria and guidance from management, seeing improvement after 2023 and becoming incremental to margins. The corporate income tax rate applicable to resident companies and PEs of nonresident companies is 35% for 2022 (increased from 31% for 2021).

Valuation

After having projected the financial statements for the three segments of the company until 2026, the valuation has been executed through a DCF model for each segment in order to obtain the enterprise value for every branch. The free cash flows expressed in the domestic currency of the banner were discounted at the respective foreign WACC. The present value of the sum of these cash flows was then converted at the spot exchange rate to the domestic currency of the group, resulting in an enterprise value of €17.2 billion. Subsequently, the net debt of each banner was converted to euros and subtracted from the enterprise value to derive the equity value of €16.7 billion. The minority interest in Pingo Doce is accounted for by taking the % of the company owned by Jerónimo Martins, equal to 51%, and adding it to the final enterprise

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value. Ultimately, the DCF valuation arrived at a share price of €27.42 representing a 33% upside compared to the current price of €21.24. A sensitivity analysis was used to investigate how changes in systematic outcomes, namely discount rate, and terminal growth rate would impact the valuation of both the individual banners as well as the group as a whole (Appendix E - Table 2). The rates for each banner were changed by the same percentage points to provide a consistent picture. The terminal growth was adjusted by +/- 0,015% and the WACC of each banner was changed by +/- 1%.

Next to a DCF, a relative valuation was conducted through a comparable company and a comparable transaction analysis. The comparable company analysis takes the trailing twelve months EV/Sales and EV/EBITDA multiples into account. The peer group consists of Jerónimo Martins's major competitors in Europe and South America (Appendix E - Table 1). The median was used to account for any potential outliers.

The EV/Sales and EV/EBITDA multiples used in the comparable transaction analysis are based on a Mergersmarkets' dataset and account for transactions that occurred within the last three years in the grocery sector of Europe and South America. Trading multiples of the comparable company analysis are lower compared to the precedent transaction which is to be expected since past transactions include a premium (Appendix E - Figure 1). To illustrate the different results, share price estimates for all conducted valuation methods have been graphically illustrated (Appendix E - Figure 2). It has to be noted that while the relative valuation method provides a quick proximation of a company's value, it does have significant implications due to its simplicity and it does not match the comprehensiveness of the DCF.

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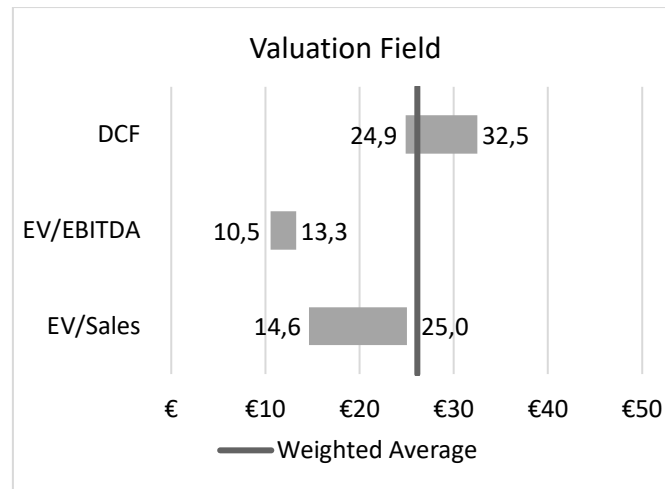


Figure 11 - Summary of valuation methods

The last step to arrive at the final share price estimate was the construction of a valuation field that included all the used methods. Based on the inputs of the sensitivity analysis the enterprise value of the DCF for JMT ranges from 20,4 billion in the best case to 15,6 billion in the worst case (Appendix E - Table 2). Enterprise values for the EV/Sales and EV/EBITDA multiples were calculated with the respective highest and lowest values of the peer group. Subsequently the share price for each method was derived and the result were plotted graphically (Figure 10). The final share price was estimated to be €26,13 based on a weighted average of the DCF (80%), EV/Sales (10%), and EV/EBITDA (10%) share prices.

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Glossary (Abbreviations)

B2B – Business-to-Business

B2C – Business-to-Consumer

CAGR – Compound annual growth rate

COGS – Cost of goods sold

EDLP – Everyday low price

HoReCa – Hotel, restaurant and catering

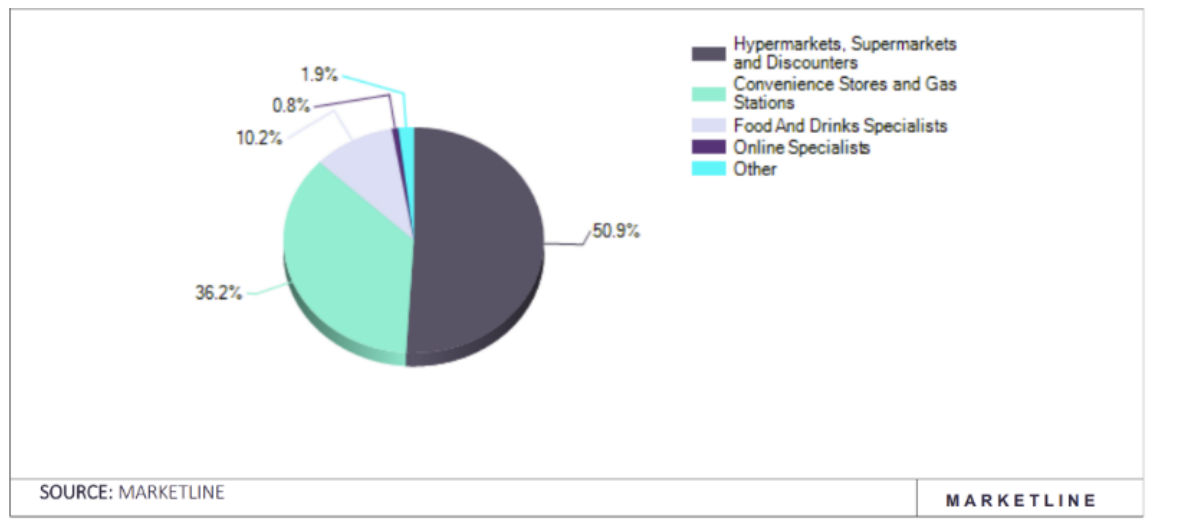
JM/JMT – Jerónimo Martins

LTM – Last Twelve Months

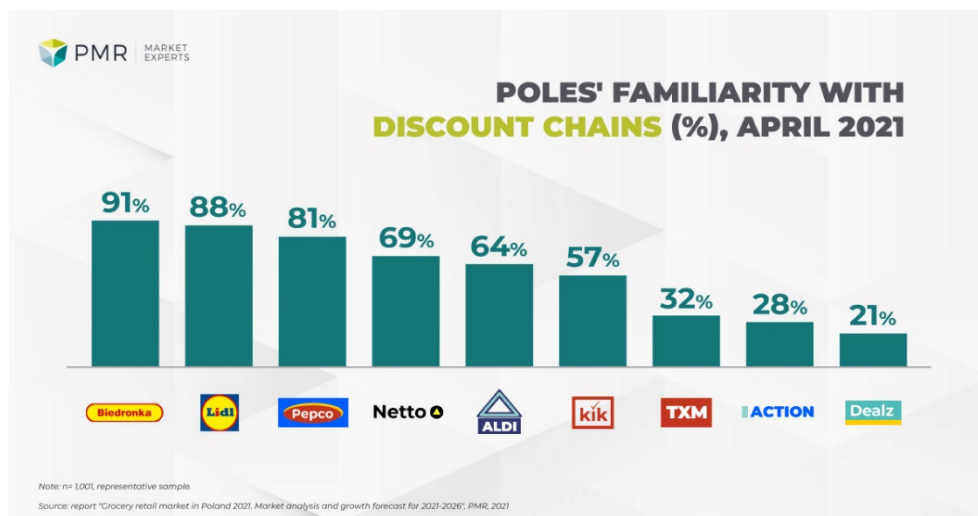
SKU – Stock keeping unit

Appendices

Appendix A

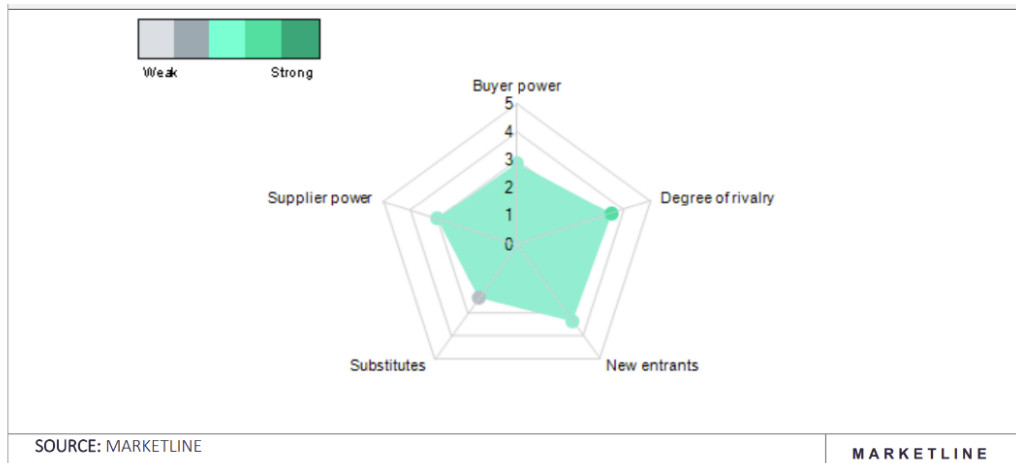


Graph 1 - Poland food & grocery retail market distribution: % share, by value, 2020

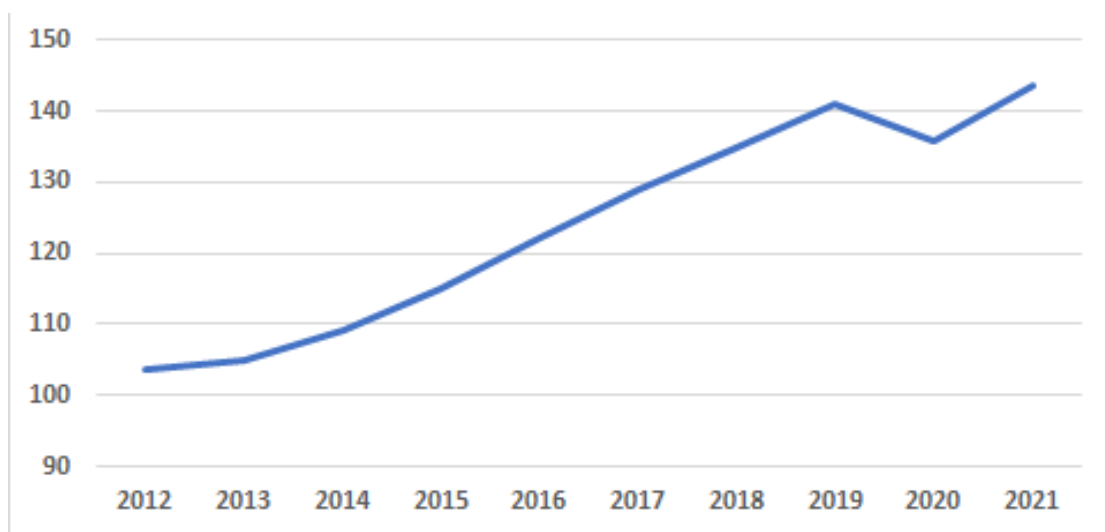


Graph 2 - Poles' familiarity with discount chains (%), April 2021

Group Report



Graph 3 – Forces driving competition in the food & grocery retail market in Poland, 2020



Graph 4 – Total retail sales of goods in Poland (2010 is the baseline at 100)

SWOT Analysis	
Strengths	Weaknesses
Central Europe's most populous country with a domestic consumer market of nearly 38 million people.	U.S. products face high transportation costs compared to many European competitors.
Opportunities	Threats
Market niches exist for food ingredients, notably dried fruit, tree nuts, and functional ingredient products.	Foreign investments in food processing result in diverse and high-quality local products which compete with U.S. imports.

Data and Information Sources: Trade Data Monitor, Euromonitor

Contact: FAS Warsaw, Poland
AgWarsaw@usda.gov

Table 1 – Poland food & grocery retail market overview

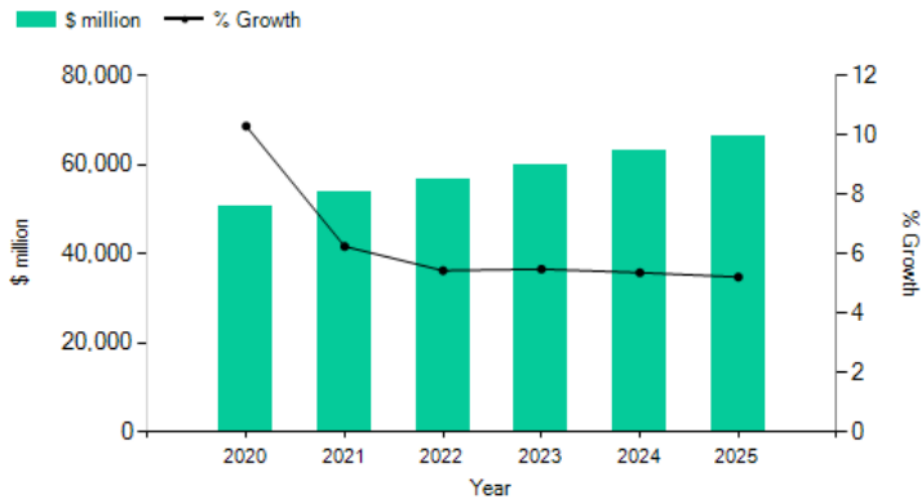
Group Report

Appendix B

No.	Operator's Name	Store Name/Main Product	Country of Origin/Ownership
1	Jeronimo Martins	Biedronka	Portugal
2	Schwarz-Gruppe	Lidl and Kaufland	Germany
3	Eurocash	ABC, IGA, Delikatesy Centrum	Poland
4	Lewiatan	Lewiatan	Poland
5	Zabka	Zabka	CVC Capital Partners
6	Dino	Dino	Poland
7	Auchan	Auchan	France
8	Rossmann	Rossmann	Germany
9	Carrefour	Carrefour	France
10	PSH Nasz Sklep	Nasz Sklep	Poland

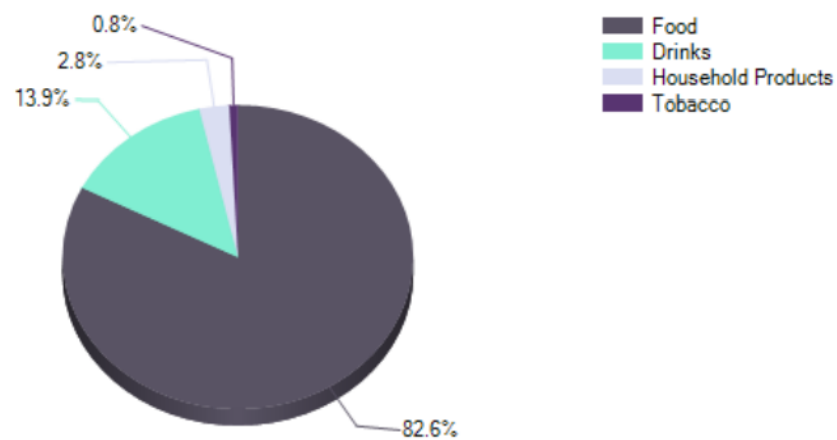
Source: Euromonitor

Table 1 – Top 10 retailers on the Polish Market in 2021



Graph 1 – Colombia food & grocery retail market value forecast: \$ million, 2020-25

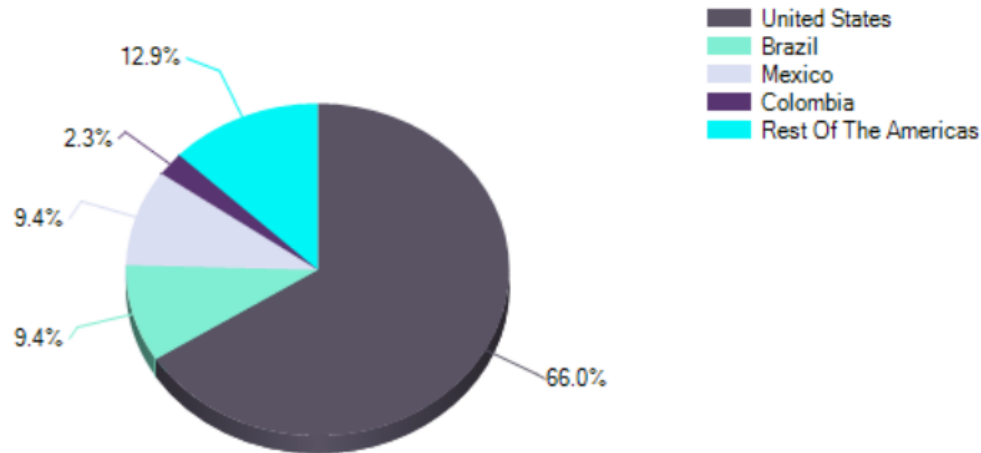
Source: MarketLine



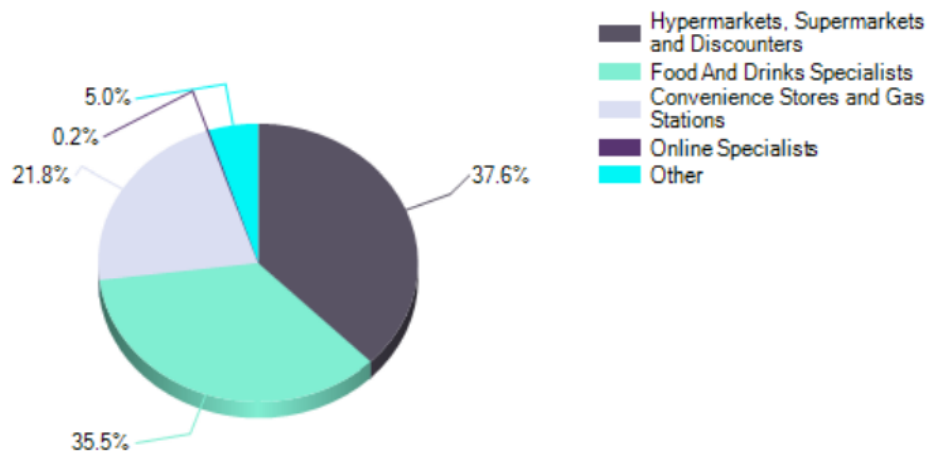
Graph 2 – Colombia food & grocery retail market category segmentation: % share, by value, 2020

Source: MarketLine

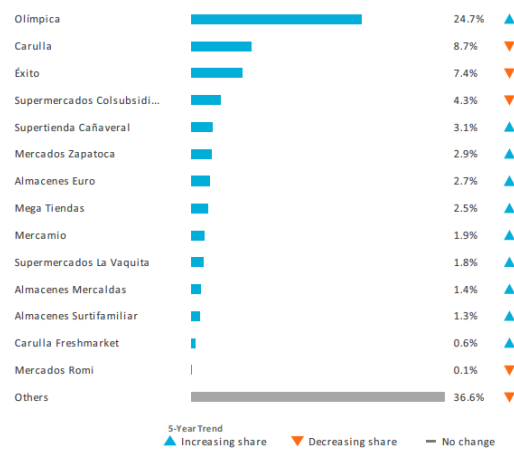
Group Report



Graph 3 – Colombia food & grocery retail market geography segmentation: % share, by value, 2020
Source: MarketLine



Graph 3 - Colombia food & grocery retail market distribution: % share, by value, 2020
Source: MarketLine



Graph 5 - Brand shares of supermarkets - Retail Value RSP - 2021

Group Report

Appendix C

Groups	Market share (value) ⁸	Number of outlets	Retail format*	Main brands
	26.8 %	± 567 ⁹	Hypermarkets Supermarkets Proximity stores E-commerce	Continente Meu super
	22.9 %	± 528 ¹⁰	Hypermarkets (not representative) Supermarkets Proximity stores E-commerce (partnership with Mercadão)	Pingo doce Recheio Amanhecer
	11.3 %	± 245 ¹¹	Supermarkets Proximity stores	Lidl
	8.8 %	± 250 ¹²	Supermarkets Proximity stores E-commerce	Intermarché

Table 1 - Large food & grocery retail companies comparison

Channel	% Share
Hypermarkets, Supermarkets and Discounters	50.9%
Convenience Stores and Gas Stations	33.2%
Food And Drinks Specialists	7.8%
Online Specialists	0.5%
Other	7.6%
Total	100%
SOURCE: MARKETLINE	MARKETLINE

Table 1 - Portugal food & grocery retail market distribution: % share, by value, 2020

Appendix D

Performance Analysis	Jerónimo Martins	Mean	Carrefour	Ahold Delhaize	Casino Guichard-Perrachon
LTM Revenue Growth vs. FY 2021	9.5%	5.6%	6.3%	5.7%	4.7%
LTM Revenue	22,870		77,550	79,911	31,972
FY 2021 Revenue	20,889		72,958	75,601	30,549
LTM EBITDA Growth vs. FY 2021	10.4%	1.4%	2.2%	3.0%	-0.8%
LTM EBITDA	1,255		3,555	4,910	1,888
FY 2021 EBITDA	1,137		3,480	4,766	1,904
LTM Adjusted Pre-WC Operating Cash Flow After Interest & Taxes Growth vs. FY 2021	12.9%	-3.3%	0.6%	4.2%	-14.9%
LTM Adjusted Pre-WC Operating Cash Flow After Interest & Taxes	1,062		2,901	3,854	824
FY 2021 Adjusted Pre-WC Operating Cash Flow After Interest & Taxes	941		2,883	3,697	968

Table 1 - Jerónimo Martins, SGPS, S.A. Peer Analysis - As of H1 2022 (EUR mm)

Group Report

Jerónimo Martins, SGPS, S.A. Business Performance Analysis (EUR mm)	FYE					QE								LTM
	2017	2018	2019	2020	2021	mar-21	giu-21	set-21	dic-21	mar-22	giu-22	set-22	set-22	
Revenue	16.276	17.337	18.638	19.294	20.889	4.786	5.116	5.304	5.683	5.513	6.370	6.509	24.075	
% Growth		6,5%	7,5%	3,5%	8,3%					15,2%	24,5%	22,7%	15,3%	
(-) Cost of Sales	12.818	13.577	14.563	15.067	16.392	3.757	4.012	4.148	4.475	4.329	5.047	5.129	18.980	
% Sales			78,1%	78,1%	78,5%	78,5%	78,4%	78,2%	78,7%	78,5%	79,2%	78,8%	78,8%	
Gross Profit	3.458	3.760	4.076	4.227	4.497	1.029	1.104	1.156	1.208	1.184	1.323	1.380	5.095	
% Margin	21,2%	21,7%	21,9%	21,9%	21,5%	21,5%	21,6%	21,8%	21,3%	21,5%	20,8%	21,2%	21,2%	
(-) Distribution Costs & D&A	2.606	2.874	3.031	3.203	3.306	803	814	825	864	902	941	981	3.688	
% Sales	16,0%	16,6%	16,3%	16,6%	15,8%	16,8%	15,9%	15,6%	15,2%	16,4%	14,8%	15,1%	15,3%	
(-) Administrative Costs	261	289	322	334	351	89	84	87	91	101	97	98	387	
% Sales	1,6%	1,7%	1,7%	1,7%	1,7%	1,9%	1,6%	1,6%	1,6%	1,8%	1,5%	1,5%	1,6%	
(-) Other Operating Expenses/(Revenue)	(14)	(9)	16	50	34	3	3	2	26	13	13	31	83	
% Sales	-0,1%	-0,1%	0,1%	0,3%	0,2%	0,1%	0,1%	0,0%	0,5%	0,2%	0,2%	0,5%	0,3%	
(-) Lease Rents	360	390	397	401	416	102	107	103	104	108	111	328	651	
% Sales	2,2%	2,3%	2,1%	2,1%	2,0%	2,1%	2,1%	1,9%	1,8%	2,0%	1,7%	5,0%	2,7%	
Operating Profit	246	215	309	238	390	32	96	139	123	60	161	(58)	286	
% Margin	1,5%	1,2%	1,7%	1,2%	1,9%	0,7%	1,9%	2,6%	2,2%	1,1%	2,5%	-0,9%	1,2%	
(-) Lease Rents	360	390	397	401	416	102	107	103	104	108	111	328	651	
% Sales	2,2%	2,3%	2,1%	2,1%	2,0%	2,1%	2,1%	1,9%	1,8%	2,0%	1,7%	5,0%	2,7%	
(+) Depreciation & Amortization	690	754	715	734	745	185	186	185	189	190	195	196	770	
% Sales	4,2%	4,3%	3,8%	3,8%	3,6%	3,9%	3,6%	3,5%	3,3%	3,4%	3,1%	3,0%	3,2%	
Group Unadjusted EBITDAR	1.296	1.359	1.421	1.373	1.551	319	389	427	416	358	467	466	1.707	
% Margin	8,0%	7,8%	7,6%	7,1%	7,4%	6,7%	7,6%	8,1%	7,3%	6,5%	7,3%	7,2%	7,1%	
(+) Adjustments	(14)	(9)	16	50	34	3	3	2	26	13	13	31	83	
% Group Unadjusted EBITDAR	-1,1%	-0,7%	1,1%	3,7%	2,2%	0,9%	0,8%	0,5%	6,3%	3,6%	2,8%	6,7%	4,9%	
Group Adjusted EBITDAR	1.282	1.350	1.437	1.423	1.585	322	392	429	442	371	480	497	1.790	
% Margin	7,9%	7,8%	7,7%	7,4%	7,6%	6,7%	7,7%	8,1%	7,8%	6,7%	7,5%	7,6%	7,4%	
(-) Undue Adjustments	(7)	(6)	11	35	32	2	2	2	26	3	10	31	70	
% Adjustments	51,0%	62,0%	69,5%	70,1%	94,1%	66,7%	66,7%	103,0%	99,8%	23,1%	76,9%	100,0%	84,3%	
Team Adjusted EBITDAR	1.289	1.356	1.426	1.388	1.553	320	390	427	416	368	470	466	1.720	
% Margin	7,9%	7,8%	7,7%	7,2%	7,4%	6,7%	7,6%	8,1%	7,3%	6,7%	7,4%	7,2%	7,1%	
(-) Lease Rents	360	390	397	401	416	102	107	103	104	108	111	328	651	
% Sales	2,2%	2,3%	2,1%	2,1%	2,0%	2,1%	2,1%	1,9%	1,8%	2,0%	1,7%	5,0%	2,7%	
Team Adjusted EBITDA	929	966	1.029	987	1.137	218	283	324	312	260	359	138	1.069	
% Margin	5,7%	5,6%	5,5%	5,1%	5,4%	4,6%	5,5%	6,1%	5,5%	4,7%	5,6%	2,1%	4,4%	
(-) Remaining Adjustments	(4)	(3)	7	10	(2)	0	(1)	0	1	8	3	0	12	
Cash EBITDA	933	969	1.023	976	1.139	218	284	324	311	252	356	138	1.057	
% Margin	5,7%	5,6%	5,5%	5,1%	5,5%	4,6%	5,6%	6,1%	5,5%	4,6%	5,6%	2,1%	4,4%	
(-) CapEx	649	720	576	514	584	113	121	176	174	188	186	219	767	
% D&A	93,9%	95,5%	80,5%	70,0%	78,4%	61,1%	65,1%	95,1%	92,1%	98,9%	95,4%	111,7%	99,6%	
(-) Working Capital Investment	(170)	(68)	(219)	(245)	(376)	86	(33)	(150)	(279)	219	(224)	(95)	(379)	
% Sales	-1,0%	-0,4%	-1,2%	-1,3%	-1,8%	1,8%	-0,6%	-2,8%	-4,9%	4,0%	-3,5%	-1,5%	-1,6%	
(-) Cash Taxes	160	148	155	174	174	36	74	39	25	39	67	51	182	
(-) Cash Interest	0	26	33	28	22	3	8	3	8	3	9	5	25	
Free Cash Flow After Interest & Taxes	294	143	479	506	735	(20)	114	256	383	(197)	318	(42)	462	
% Margin	1,8%	0,8%	2,6%	2,6%	3,5%	-0,4%	2,2%	4,8%	6,7%	-3,6%	5,0%	-0,6%	1,9%	
% Growth			233,6%	5,6%	45,3%					nm	178,9%	nm		

Table 2 - Jerónimo Martins, SGPS, S.A. Business Performance Analysis (EUR mm)

Group Report

	FYE					LTM		
	2017	2018	2019	2020	2021	Mar-22	Jun-22	Sep-22
Current Ratio	0,48	0,47	0,48	0,51	0,58	0,58	0,53	0,56
Current Assets	1.922	1.961	2.410	2.434	3.112	3.016	2.946	3.185
% Growth		2,1%	22,9%	1,0%	27,8%	-3,1%	-2,3%	8,1%
Current Liabilities	4.023	4.187	5.046	4.741	5.325	5.210	5.532	5.679
% Growth		4,1%	20,5%	-6,0%	12,3%	-2,2%	6,2%	2,7%
Quick Ratio	0,27	0,24	0,27	0,31	0,38	0,36	0,30	0,33
Current Assets	1.922	1.961	2.410	2.434	3.112	3.016	2.946	3.185
% Growth		2,1%	22,9%	1,0%	27,8%	-3,1%	-2,3%	8,1%
Inventories	842	971	1.039	974	1.108	1.145	1.281	1.339
% Growth		15,3%	7,0%	-6,2%	13,8%	3,3%	11,9%	4,5%
Current Liabilities	4.023	4.187	5.046	4.741	5.325	5.210	5.532	5.679
% Growth		4,1%	20,5%	-6,0%	12,3%	-2,2%	6,2%	2,7%
Cash Ratio	0,17	0,13	0,18	0,22	0,28	0,24	0,19	0,22
Cash and Cash Equivalents	681	546	929	1.041	1.494	1.272	1.060	1.232
% Growth		-19,9%	70,2%	12,1%	43,5%	-14,9%	-16,7%	16,2%
Current Liabilities	4.023	4.187	5.046	4.741	5.325	5.210	5.532	5.679
% Growth		4,1%	20,5%	-6,0%	12,3%	-2,2%	6,2%	2,7%

Table 2 - Jerónimo Martins, SGPS, S.A. Liquidity Analysis

Liquidity Analysis	Jerónimo Martins	Mean	Carrefour	Ahold Delhaize	Casino Guichard-Perrachon
LTM Current Ratio	0.53	0.74	0.80	0.71	0.70
Current Assets	2,946		19,586	11,114	8,540
Current Liabilities	5,532		24,417	15,592	12,208
LTM Quick Ratio	0.30	0.44	0.51	0.43	0.40
Current Assets	2,946		19,586	11,114	8,540
Inventories	1,281		7,227	4,487	3,697
Current Liabilities	5,532		24,417	15,592	12,208
LTM Cash Ratio	0.19	0.15	0.10	0.22	0.14
Cash and Cash Equivalents	1,060		2,539	3,439	1,688
Current Liabilities	5,532		24,417	15,592	12,208

Table 3- Jerónimo Martins, SGPS, S.A. Liquidity Analysis Peer Comparison

Group Report

	FYE					LTM		
	2017	2018	2019	2020	2021	Mar-22	Jun-22	Sep-22
Adjusted Return on Invested Capital	4,6%	3,5%	9,6%	11,1%	13,3%	11,3%	13,2%	4,2%
Adjusted Pre-WC Free Cash Flow After Taxes	120	98	299	299	379	343	361	120
% Growth		-18,6%	205,1%	-0,1%	26,7%	-9,5%	5,2%	-66,8%
Invested Capital	2.625	2.768	3.131	2.691	2.851	3.030	2.727	2.864
% Growth		5,5%	13,1%	-14,0%	5,9%	6,3%	-10,0%	5,0%
Adjusted Return on Equity	6,0%	3,6%	11,9%	12,0%	14,1%	12,4%	15,0%	4,0%
Adjusted Pre-WC Free Cash Flow After Interest & Taxes	120	72	266	271	357	321	338	95
% Growth		-40,5%	271,6%	1,7%	31,8%	-10,1%	5,3%	-71,9%
Book Value of Equity	2.013	2.016	2.229	2.257	2.532	2.579	2.258	2.394
% Growth		0,2%	10,5%	1,3%	12,2%	1,9%	-12,4%	6,0%
Adjusted Return on Assets	1,9%	1,1%	2,7%	2,9%	3,4%	3,1%	3,3%	0,9%
Adjusted Pre-WC Free Cash Flow After Interest & Taxes	120	72	266	271	357	321	338	95
% Growth		-40,5%	271,6%	1,7%	31,8%	-10,1%	5,3%	-71,9%
Book Value of Assets	6.442	6.660	9.752	9.428	10.368	10.307	10.324	10.576
% Growth		3,4%	46,4%	-3,3%	10,0%	-0,6%	0,2%	2,4%

Table 4 - Jerónimo Martins, SGPS, S.A. Profitability Analysis

Profitability Analysis	Jerónimo Martins	Mean	Carrefour	Ahold Delhaize	Casino Guichard-Perrachon
LTM Adjusted Return on Invested Capital	13.2%	4.9%	6.5%	6.6%	1.5%
Adjusted Pre-WC Free Cash Flow After Taxes	361		1,419	1,530	231
Invested Capital	2,727		21,846	23,194	15,622
LTM Adjusted Return on Equity	15.0%	2.9%	10.3%	9.1%	-10.8%
Adjusted Pre-WC Free Cash Flow After Interest & Taxes	338		1,244	1,386	(646)
Book Value of Equity	2,258		12,122	15,188	5,995
LTM Adjusted Return on Assets	3.3%	1.2%	2.4%	3.1%	-2.0%
Adjusted Pre-WC Free Cash Flow After Interest & Taxes	338		1,244	1,524	(646)
Book Value of Assets	10,324		52,755	49,311	32,548

Table 5 - Jerónimo Martins, SGPS, S.A. Profitability Analysis Peer Comparison

Group Report

	FYE					LTM		
	2017	2018	2019	2020	2021	Mar-22	Jun-22	Sep-22
Gross Margin	21,2%	21,7%	21,9%	21,9%	21,5%	21,5%	21,3%	21,2%
Revenue	16.276	17.337	18.638	19.294	20.889	21.616	22.870	24.075
% Growth		6,5%	7,5%	3,5%	8,3%	3,5%	5,8%	5,3%
Gross Profit	3.458	3.760	4.076	4.227	4.497	4.652	4.871	5.095
% Growth		8,7%	8,4%	3,7%	6,4%	3,4%	4,7%	4,6%
Team Adjusted EBITDA Margin	5,7%	5,6%	5,5%	5,1%	5,4%	5,5%	5,5%	4,4%
Revenue	16.276	17.337	18.638	19.294	20.889	21.616	22.870	24.075
% Growth		6,5%	7,5%	3,5%	8,3%	3,5%	5,8%	5,3%
Team Adjusted EBITDA	929	966	1.029	987	1.137	1.179	1.255	1.069
% Growth		3,9%	6,6%	-4,1%	15,2%	3,7%	6,4%	-14,8%
Free Cash Flow Margin	1,8%	0,8%	2,6%	2,6%	3,5%	2,6%	3,3%	1,9%
Revenue	16.276	17.337	18.638	19.294	20.889	21.616	22.870	24.075
% Growth		6,5%	7,5%	3,5%	8,3%	3,5%	5,8%	5,3%
Free Cash Flow After Interest & Taxes	294	143	479	506	735	556	760	462
% Growth		-51,2%	233,6%	5,6%	45,3%	-24,4%	36,7%	-39,2%

Table 6 - Jerónimo Martins, SGPS, S.A. Margin Analysis

Margin Analysis	Jerónimo Martins	Mean	Carrefour	Ahold Delhaize	Casino Guichard-Perrachon
LTM Gross Margin	21.3%	23.4%	20.6%	27.0%	22.7%
Core Revenue	22,870		77,550	79,911	31,972
Gross Profit	4,871		15,978	21,610	7,247
LTM Team Adjusted EBITDA Margin	5.5%	5.5%	4.6%	6.1%	5.9%
Core Revenue	22,870		77,550	79,911	31,972
Team Adjusted EBITDA	1,255		3,555	4,910	1,888
LTM Free Cash Flow Margin	3.3%	1.8%	4.6%	1.6%	-0.7%
Core Revenue	22,870		77,550	79,911	31,972
Free Cash Flow	760		3,555	1,248	(214)

Table 8 - Jerónimo Martins, SGPS, S.A. Margin Analysis Peer Comparison

Group Report

	FYE					LTM		
	2017	2018	2019	2020	2021	Mar-22	Jun-22	Sep-22
Bank Debt / EBITDA	0,6x	0,7x	0,7x	0,5x	0,4x	0,4x	0,4x	0,4x
Gross Bank Debt	537	639	732	524	460	451	469	470
% Growth		19,0%	14,6%	-28,5%	-12,1%	-2,0%	4,0%	0,2%
Team Adjusted EBITDA	929	966	1.029	987	1.137	1.179	1.255	1.069
% Growth		3,9%	6,6%	-4,1%	15,2%	3,7%	6,4%	-14,8%
Total Debt / EBITDAR	0,4x	0,5x	2,2x	2,0x	1,8x	1,8x	1,6x	1,7x
Gross Bank Debt	537	639	732	524	460	451	469	470
% Growth		19,0%	14,6%	-28,5%	-12,1%	-2,0%	4,0%	0,2%
Leases	0	0	2.384	2.273	2.387	2.447	2.263	2.463
% Growth				-4,7%	5,0%	2,5%	-7,5%	8,8%
Team Adjusted EBITDAR	1.289	1.356	1.426	1.388	1.553	1.601	1.681	1.720
% Growth		5,2%	5,2%	-2,7%	11,9%	3,1%	5,0%	2,3%
Bank Debt / Cash Flow	4,5x	8,9x	2,8x	1,9x	1,3x	1,4x	1,4x	4,9x
Gross Bank Debt	537	639	732	524	460	451	469	470
% Growth		19,0%	14,6%	-28,5%	-12,1%	-2,0%	4,0%	0,2%
Adjusted Pre-WC Free Cash Flow After Interest & Taxes	120	72	266	271	357	321	338	95
% Growth		-40,5%	271,6%	1,7%	31,8%	-10,1%	5,3%	-71,9%
Book Debt / Equity	26,7%	31,7%	32,9%	23,2%	18,2%	17,5%	20,8%	19,6%
Book Value of Bank Debt	537	639	732	524	460	451	469	470
% Growth		19,0%	14,6%	-28,5%	-12,1%	-2,0%	4,0%	0,2%
Book Value of Equity	2.013	2.016	2.229	2.257	2.532	2.579	2.258	2.394
% Growth		0,2%	10,5%	1,3%	12,2%	1,9%	-12,4%	6,0%
Market Debt / Equity	4,5%	8,8%	7,0%	4,9%	3,1%	2,9%	3,4%	4,0%
Market Value of Bank Debt	537	639	732	524	460	451	469	470
% Growth		19,0%	14,6%	-28,5%	-12,1%	-2,0%	4,0%	0,2%
Market Value of Equity	11.940	7.233	10.420	10.690	14.680	15.560	13.830	11.630
% Growth		-39,4%	44,1%	2,6%	37,3%	6,0%	-11,1%	-15,9%
Free Cash Flow After Interest and Taxes	294	143	479	506	735	556	760	462
% Growth		-51,2%	233,6%	5,6%	45,3%	-24,4%	36,7%	-39,2%
Interest Coverage	N/A	9,3x	13,7x	16,7x	25,1x	23,6x	23,1x	12,1x
Adjusted Pre-WC Free Cash Flow Before Interest & Taxes	281	246	454	473	553	520	531	302
% Growth		-12,4%	84,6%	4,2%	16,9%	-6,0%	2,1%	-43,1%
Cash Interest Expenses	0	26	33	28	22	22	23	25
% Growth			25,0%	-14,3%	-22,3%	0,0%	4,5%	8,7%

Table 9 - Jerónimo Martins, SGPS, S.A. Credit Analysis

Group Report

Credit Analysis	Jerónimo Martins	Mean	Carrefour	Ahold Delhaize	Casino Guichard-Perrachon
Debt / EBITDA	0.4x	3.2x	2.7x	1.6x	5.1x
Debt					
Gross Bank and Bond	469		9,724	8,006	9,627
Team Adjusted EBITDA	1,255		3,555	4,910	1,888
Total Debt / EBITDAR	1.6x	4.0x	3.1x	2.9x	5.9x
Debt					
Gross Bank and Bond	469		9,724	8,006	9,627
Leases	2,263		4,947	10,866	5,265
Team Adjusted EBITDAR	1,681		4,664	6,568	2,504
Debt / Cash Flow	1.4x	6.8x	7.8x	5.8x	nm
Debt					
Gross Bank Debt	469		9,724	8,006	9,627
Adjusted Pre-WC Free Cash Flow After Interest & Taxes	338		1,244	1,386	(646)
Book Debt / Equity	20.8%	97.8%	80.2%	52.7%	160.6%
Debt					
Book Value of Bank and Bond Debt	469		9,724	8,006	9,627
Book Value of Equity	2,258		12,122	15,188	5,995
Interest Coverage	25.1x	7.4x	11.2x	10.6x	0.3x
Debt					
Adjusted Pre-WC Free Cash Flow Before Interest & Taxes	553		1,898	1,530	231
Cash Interest Expenses	22		169	144	877

Table 10 - Jerónimo Martins, SGPS, S.A. Credit Analysis Peer Comparison

Appendix E

Company	EV/Sales TTM	EV/EBITDA TTM
Carrefour SA	0,4x	N/A
Ahold Delhaize	0,5x	6,5x
Casino Guichard	0,6x	N/A
Migros Ticaret AS	0,4x	4,6x
Jeronimo Martins	0,6x	7,3x
Sonae SGPS SA	0,6x	7,6x
Tesco PLC	0,4x	6,3x
	EV/Sales TTM	EV/EBITDA TTM
Average	0,5x	6,5x
Median	0,5x	6,5x

Table 1 - Multiple Analysis Peer Comparison

Group Report

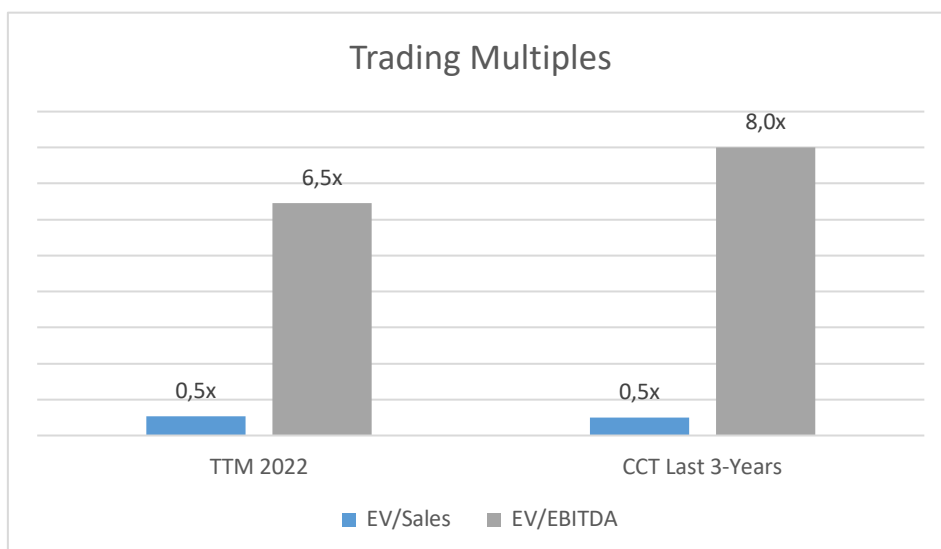


Figure 1 - Comparable Company Analysis

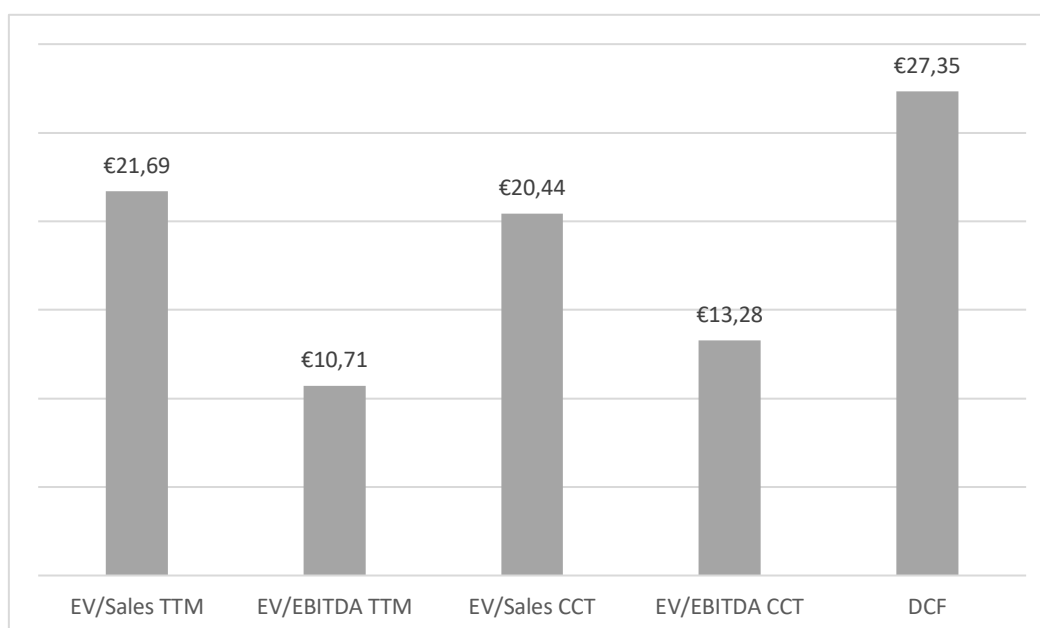


Figure 2 - Share Price Estimates

Group Report

	(€m)	Banner: Ara		WACC								
	1 033	10%	11%	12%	13%	14%	15%	17%	18%	20%	21%	23%
TGR	2,06%	1 034	1 025	1 015	1 006	998	989	976	964	952	940	929
	2,21%	1 045	1 035	1 026	1 017	1 008	1 000	987	974	962	950	938
	2,36%	1 056	1 047	1 037	1 028	1 019	1 010	997	985	972	960	949
	2,51%	1 068	1 058	1 049	1 039	1 030	1 021	1 008	995	983	971	959
	2,66%	1 079	1 070	1 060	1 051	1 042	1 033	1 019	1 006	994	982	970
	2,81%	1 092	1 082	1 072	1 063	1 053	1 044	1 031	1 018	1 005	993	980
	2,96%	1 104	1 094	1 084	1 075	1 065	1 056	1 042	1 029	1 016	1 004	992
	3,11%	1 117	1 107	1 097	1 087	1 078	1 068	1 054	1 041	1 028	1 015	1 003
	3,26%	1 130	1 120	1 110	1 100	1 090	1 081	1 067	1 053	1 040	1 027	1 015

	(€m)	Banner: Pingo Doce		WACC								
	1 655	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
TGR	0,07%	1 579	1 564	1 549	1 534	1 519	1 505	1 491	1 477	1 464	1 450	1 437
	0,22%	1 616	1 600	1 584	1 569	1 554	1 540	1 525	1 511	1 497	1 484	1 470
	0,37%	1 654	1 638	1 622	1 606	1 591	1 576	1 561	1 547	1 533	1 519	1 505
	0,52%	1 694	1 678	1 661	1 646	1 630	1 615	1 599	1 585	1 570	1 556	1 542
	0,67%	1 737	1 720	1 703	1 687	1 671	1 655	1 640	1 624	1 610	1 595	1 581
	0,82%	1 782	1 764	1 747	1 730	1 714	1 698	1 682	1 666	1 651	1 636	1 621
	0,97%	1 829	1 811	1 794	1 776	1 759	1 743	1 727	1 711	1 695	1 680	1 665
	1,12%	1 879	1 861	1 843	1 825	1 808	1 791	1 774	1 758	1 742	1 726	1 710
	1,27%	1 933	1 914	1 895	1 877	1 859	1 842	1 824	1 808	1 791	1 775	1 759

Check

TRUE

	(€m)	Banner: Recheio		WACC								
	335	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
TGR	0,07%	320	317	314	311	308	305	302	299	297	294	291
	0,22%	327	324	321	318	315	312	309	306	303	301	298
	0,37%	335	332	329	325	322	319	316	313	310	308	305
	0,52%	343	340	336	333	330	327	324	321	318	315	312
	0,67%	352	348	345	342	338	335	332	329	326	323	320
	0,82%	361	357	354	350	347	344	341	337	334	331	328
	0,97%	370	367	363	360	356	353	350	346	343	340	337
	1,12%	380	377	373	369	366	362	359	356	352	349	346

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	(€m)	Banner: Biedronka		WACC								
	15 006	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%
TGR	2,02%	14 309	14 171	14 036	13 903	13 773	13 646	13 520	13 397	13 277	13 158	13 041
	2,17%	14 637	14 496	14 358	14 223	14 090	13 959	13 831	13 705	13 582	13 460	13 341
	2,32%	14 984	14 839	14 698	14 559	14 423	14 289	14 158	14 029	13 903	13 779	13 657
	2,47%	15 349	15 201	15 057	14 914	14 775	14 638	14 504	14 372	14 242	14 115	13 990
	2,62%	15 735	15 584	15 435	15 290	15 147	15 006	14 868	14 733	14 600	14 470	14 342
	2,77%	16 144	15 989	15 836	15 687	15 540	15 396	15 255	15 116	14 980	14 846	14 714
	2,92%	16 577	16 418	16 261	16 108	15 957	15 809	15 664	15 521	15 381	15 244	15 109
	3,07%	17 037	16 873	16 712	16 554	16 400	16 248	16 099	15 952	15 808	15 667	15 528
	3,22%	17 526	17 358	17 192	17 030	16 871	16 714	16 561	16 410	16 262	16 117	15 974

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Figure 3 - Sensitivity Analysis per Banner

		-5%	-4%	-3%	-2%	-1%	-	1%	2%	3%	4%	5%
		17 242	17 076	16 914	16 754	16 598	16 445	16 290	16 138	15 989	15 842	15 699
TGR	-0,45%	17 625	17 456	17 290	17 127	16 967	16 810	16 652	16 497	16 344	16 195	16 048
	-0,30%	18 029	17 856	17 686	17 519	17 356	17 195	17 033	16 875	16 719	16 566	16 415
	-0,15%	18 454	18 277	18 103	17 933	17 765	17 601	17 435	17 273	17 113	16 957	16 803
	-	18 903	18 722	18 544	18 369	18 197	18 029	17 859	17 693	17 530	17 369	17 212
	0,15%	19 378	19 192	19 009	18 830	18 654	18 482	18 308	18 137	17 970	17 806	17 644
	0,30%	19 880	19 689	19 502	19 318	19 138	18 961	18 783	18 608	18 436	18 267	18 102
	0,45%	20 413	20 217	20 025	19 836	19 651	19 469	19 286	19 107	18 930	18 757	18 588
	0,60%	20 969	20 767	20 570	20 376	20 186	19 999	19 812	19 627	19 443	19 259	19 078

Individual Part – Tim Wellen (49561)

M&A growth opportunities for Jerónimo Martins in Romania

Introduction

Jerónimo Martins started in Portugal and since its foundation, the company has expanded through joint ventures, acquisitions, and greenfield investments to Poland and most recently Colombia. It has been almost ten years, since Jerónimo Martins established operations in Colombia and since then, there have been several indications that the organization will continue to grow internationally. Especially, speculations on contemplating a further expansion in central or Eastern Europe have been existing for years and indeed the CEO stated at the beginning of 2020 that the company has ambitious plans for the Polish Biedronka banner, and felt it is time to move operations further to eastern Europe, a region that contains dynamic economies which have experienced strong growth in recent years, particularly the new European member nations. Mergers and acquisitions are one strategy companies employ to grow internationally. Expansion ambitions eventually came to a halt and needed to be postponed due to the Covid-19 outbreak, general market unrest, and economic uncertainty. The Group's CFO brought up the discussion of prospective acquisitions once again in the middle of 2021 and emphasized that the company would be able to invest up to one billion euros. A particularly interesting market appears to be Romania. To date, there have been no concrete plans. Yet, the notion of a potential extension into Romania is intriguing and merits investigation.

This paper, will focus on the Romanian food retail market and the question of which opportunities this market offers for Jerónimo Martins. More importantly, the objective is to investigate if there is a target for a potential takeover by Jerónimo Martins and, if such a company exists, to determine a possible price based on different valuation methods. Furthermore, the mergers and Acquisition transactions in the European food retailing sector

will be examined., as well as market consolidation in the industry, which has advanced significantly in recent decades.

Literature Review

International Expansion Strategies

An essential component of a company's new international expansion strategy is the choice of entry mode. Corporations must decide whether to expand their operations to another nation through the establishment of a new entity, a so-called green field investment or to directly acquire an existing company there through an acquisition (Marinescu 2016).

Founding a new subsidiary allows investors to build and shape the new business according to their specifications. Furthermore, often firms may find themselves in a situation of not finding a suitable target in the first place. On the contrary, associated costs are often unknown when building up operations from the ground up and the process of gaining market share can take considerable time.

Alternatively, a firm may choose to acquire an existing business to conquer market share in foreign territory quickly and gain access to partnerships and market insights that would otherwise need to be built up gradually. An acquisition does, however, carry a sizable amount of risk. Integrations that occur after a merger are expensive and can use up more resources than anticipated. Investors must also take into account certain limitations on their freedom of choice.

Motives for Mergers and Acquisitions

Considering that M&A transactions can come from a variety of diverse reasons, it can be challenging to put the various incentives underlying them together. One frequently mentioned motive among CFOs is to take advantage of synergies that may arise from combining operations (Mukherjee, Kiymaz, and Baker 2004). Synergies occur when the combined value

of two firms exceeds the value of both firms operating individually. Furthermore, they can stem from increased sales or cost reductions.

In the context of food retailing, a conglomerate might profit from merging distribution networks, using supplier ties, improving procedures, and sharing information technology. Additionally, pooling resources can positively affect ones market power to gain purchasing or pricing power (Feldman and Hernandez 2022). Another justification is corporate diversity, whereas diversified firms may outperform their contemporaries in terms of profitability and value. Moreover, diversification may allow businesses to lower risk, gain a competitive edge, or improve their market position. This might have been the driving force behind Jerónimo Martins' investments in unrelated fields like financial services or sports retailing in the 1990s. According to other research, it has value-destroying effects as well because well-diversified enterprises appear to be valued less than their specialized counterparts (Stulz 1994). Another element to which CFOs have reacted is the undervaluation of a firm. Only a small portion of CFOs mentioned the use of extra money. This appears to be at odds with the general perception that corporations engage in M&A acquisitions mostly because they have spare resources.

Market Consolidation in the Food Retail Sector

Mergers in Food-Retail

The food retail industry seems to have continued its expansion plans through acquisitions notwithstanding the uncertainties and economic upheaval brought about by the Covid-19 outbreak. Studies have shown that investments made during an economic downturn can add significant value since valuation multiples tend to fall for a limited time window of time and consequently transaction prices. (Salsberg 2021). Following the initial shock of the pandemic in 2020, studies on M&A activity show a clear increase in both deal volume and deal count from 2020 to 2021 (Clarke et al. 2022). 2021 started with the Canadian chain of convenience

stores Couche-Tard and the French grocery firm Carrefour began discussing a merger. When the French government expressed concerns about food sovereignty, Couche-Tard eventually withdrew its nearly €16 billion bid (Rascouet et al. 2021). Morrisons, the UK's fourth largest supermarket chain, was purchased by US private equity company Clayton, Dubilier & Rice for approximately €7 billion in October 2021 (Reuters 2022). ICA Gruppen announced in 2021 that the company would go private through a reverse merger worth €11 billion (2021). The group is one of Sweden's leading food and health retailers and has a strong footprint in the Baltic states.

Market consolidation won't stop over the long term even though investors face some headwinds in the short term. According to Reuters, M&A activity in the European consumer products sector is slowing down since 2021, with a quarter fewer acquisitions in 2022 compared to the previous year (Naidu 2022). This pattern is further supported by the Q3 Global M&A Report from Pitchbook, which notes a reduction in global transaction activity of about 30% from its peak at the end of 2021 throughout 2022. (Clarke et al. 2022).

This drop in activity can be linked primarily to economic uncertainty, high inflation, rising interest rates, and geopolitical conflicts. Global inflation has reached new record highs and in order to offset price hikes, monetary regulators are raising interest rates, which also increases the cost of transactions backed by debt. Nevertheless, a study by Deloitte concludes, there is enough liquidity on hand among investors, businesses, and private equity to commit to cash acquisitions (Deloitte 2022). Especially, the non-durable products consumer subsector, which includes food and beverages, has experienced an increase in M&A activity (Clarke et al. 2022). An explanation is symptomatic of its more defensive nature amid an economic slump. In fact, a new mega-merger was announced in 2022 when Kroger stated its intention to acquire Albertsons for \$24.6 billion (Kroger Co. 2022). Both are among the top five supermarket chains in the US.

International Expansion of Jerónimo Martins

It can be said that Jerónimo Martins has already used both entry modes in relation to the already outlined international business expansion strategies. Since the organization began operations from scratch with only five stores in the early days of opening, the expansion to Colombia in 2013 would be a typical illustration of organic growth and internal development through a greenfield investment. In Portugal, the group expanded its domestic operations through a joint venture with the Dutch retailer Ahold Delhaize in 1992, with the acquisition of Pingo Doce. The Polish market was entered also through a joint venture with the British Booker firm when Biedronka was acquired in 1995. The group purchased Booker's remaining portion the next year. Given its current contribution to the group, the polish expansion is unquestionably a success story, but there have also been investments that have proven to be value-destroying. By the turn of the 20th century, the portfolio of Jerónimo Martins contained some assets in foreign markets that had been established or bought but had not produced any positive yields. By the year 2000, the firm was struggling with a financial structure overloaded with debt and net losses of €64 million in 2001 and €86 million in 2002. The board consequently decided to spin off all resources unrelated to food distribution (Jerónimo Martins 2001). Between 2001 and 2002, the group sold its stake in the financial services partnership with Banco Comercial Português, Banco Expresso Atlântico, as well as its water companies Vidago and Melgaço & Pedras Salgada. The British sports retailing banner Lillywhites was also devised. In addition, all activities in Brazil, a market Jerónimo Martins only entered four years earlier, were discontinued in 2002. Even if not all of the endeavors were successful, the organization has garnered significant international experience through its history in M&A deals. The fact that the bulk of sales is now earned abroad demonstrates the firm's capacity to successfully adapt to new markets. Recent deals appear to be geared towards expanding the youngest Jerónimo Martins - Agro-Alimentar (JMA) subsidiary, particularly on the aquaculture front. In February

2021, the group announced that JMA acquired 66,7% of the Moroccan company Mediterranean Aquafarm to facilitate the production of sea bass, sea bream and meager (Jerónimo Martins 2021). The following year the agribusiness subsidiary made an investment of 10.1% into the publicly listed Norwegian company Andfjord Salmon which focuses on the sustainable production of salmon (Jerónimo Martins 2022).

The European Food retail market

The European food retail market is dominated by western networks and companies from Germany, France, and the Netherlands are particularly well-represented (Appendix Figure 2). They operate in a variety of food retail business segments and have affiliates or companies in the majority of EU nations. The German multinational family-owned Schwarz Group is Europe's largest food retailer with a turnover of over €126 billion in 2020 (Appendix Figure 1). The second rank is the German Aldi group with a presence in 20 countries and over 10,000 stores. Third is Dutch Ahold Delhaize followed by the French grocer Carrefour. The fast development and internationalization of European food merchants have been facilitated in part by the Single Market and EU enlargement in the east, which has provided Western European retailers with access to new markets like Bulgaria and Romania. These emerging markets often have less competition and faster economic growth than western member countries. Western European groupings have increasingly concentrated on growing into rising member states from Central and Eastern Europe in recent decades (European Commission, Directorate-General for Competition 2016). Modern retail, accounts for a large portion of the food retail business in the majority of the EU 27 markets. In contrast, several of Eastern Europe's more recent member countries continue to rely on conventional retail. However, the growth of contemporary retail is prominent in these less-developed economies of Eastern Europe. For these reasons, this section of Europe is very appealing to multinational corporations. As previously stated,

Jerónimo Martins has emphasized numerous times the intention to expand into Eastern Europe (Reuters 2020). The Group's CFO brought up the prospect of acquisitions in eastern Europe once more in the middle of 2021. In fact, Romania looks to be one area that is particularly appealing, and Jerónimo Martins is reportedly searching for potential acquisitions in Romania. (Wynne-Jones 2020).

Expansion to Romania.

Market Analysis Romania

Since 2007, Romania has been a member of the European Union. As a result, firms profit from the European Single Market, and any foreign investment is safeguarded by EU Treaties. Therefore, the political risk associated with cross-border expansions is greatly minimized. The official currency is the Romanian leu (RON), and while the country is a candidate for euro adoption, that date is not yet foreseeable. It took a long time for Romania's economy to move from communism to a market economy. Today, a country with a population of 19 million is classified as a developed country by the UN's 2021 Human Development Index, with a World Bank high-income categorization (Hamadeh et al. 2022). Since 2012, the economy has grown at a pace of more than 3% per year, making it one of the fastest in the European Union. Only 2020 saw a 4.8% drop in GDP attributable to the COVID-19 pandemic (The World Bank 2022). According to MarketLine's analysis of the European food retail sector, growth in the following decade will be powered by the dynamic economies of eastern Europe and especially Romania (MarketLine 2022). Furthermore, it is expected that the food retail market in Romania will increase at a rate of 4.61% per year between 2022 and 2027, which is greater than the EU27 average of 2.55% during the same period (Statista 2021). High inflation worldwide also has an impact on Romania and the annual inflation rate was at 15.32% in October 2022, with food inflation being as high as 20%. The unemployment rate is low and fluctuates around 5%

which is also what the European Commission forecasts for the following years (European Commission 2022). According to previous consumer behavior studies, Romanians prefer large modern merchants to tiny local stores since they provide better prices and greater discounts (Stanciu 2015). Moreover, groceries accounted for up to 66% of all consumer expenditure in physical stores, which was greater than in other Eastern European nations (Dumitrescu 2022). Furthermore, the market is appealing to foreign investors since Romanian consumers spent a bigger proportion of their disposable income on food (Stanciu 2015b).

The USDA Foreign Agricultural Service agency estimates that the overall majority of food products in modern retail, are either imported or of mixed origin with approximately 80% of imported foods coming from the EU, in particular, Germany but also Poland (USDA Foreign Agricultural Services 2018). Therefore, it appears that Romanian consumers are accustomed to Polish agricultural products given that Poland is already a major trading partner of the country and in fact, the share of Polish food imports has increased over the past decade (WITS 2022). For Jerónimo Martins, the proximity of Biedronka's distribution network to Romania is a key advantage and creates the potential for operational synergies.

Another key factor is that urban development in Romania is substantial, with 76% of Romanians living in urban or suburban regions, according to the World Bank (The World Bank 2022b). This is higher than the rates in Portugal (66%) and Poland (60%). Food sellers gain from metropolitan regions since they can service more customers within the same geographical area. Overall, the economic prospects appear to be favorable and there seem to be clear growth opportunities for foreign investment.

Competitive Landscape Romania

Competition in the food retail industry is intense. Overall, grocery chains have little room to differentiate themselves in terms of product offering and therefore consumers face barely any

switching costs. Since the product offering is similar among peers, it forces firms to maintain aggressive pricing strategies, especially in the discounter channel. Additionally, companies need to quickly adapt to changing consumer preferences.

The Romanian food retail market sector experienced a drastic shift in the past decade from local networks of traditional retail towards modern retail that is under the ownership of international operators. International networks accounted for more than 53% of all local food retail in 2015, whereas the remaining 47% was made up of numerous small local business owners (Stanciu 2015). As of 2021, the Dutch Ministry of Agriculture, Nature and Food Quality reports that over 70% of sales are generated by only the top five food retailers (Ministerie van Landbouw 2021), all of them being controlled by international corporations. Local businesses have been pressured to compete with the leverage of multinational retailers and consequently, many of them went bankrupt over the past years. Food retail in Romania is only going to continue its path to consolidation and maturity, especially when comparing the current state to other more developed countries.

Similar to what can be observed on a European level, the Romanian food market is dominated by almost the same big players (Appendix Table 1). The Schwarz Group owns the two largest discounters, Lidl and Kaufland, which account for more than 30% of total sales, followed by the French Carrefour Group (Appendix Figure 4). Profi, with a 12% market share, comes in third and it is the only company that is not owned by a retail-focused group or organization. Mega Image with a 9% share is a part of Ahold Delhaize, a Dutch multinational retail and wholesale firm that also manages supermarkets. In Romania, German, French, and Benelux corporations are particularly active western networks dominate the market, with little to no Romanian capital. When it comes to channel types of modern retail, the most popular ones are supermarkets (45%) and discounters (40%) followed by hypermarkets (13%) (Appendix Figure 5). Cash & Carry only accounts for a small fraction. In terms of Jerónimo Martins' geographic

operations, this market appears to be more linked to Portugal in terms of channel type penetration, as opposed to Poland, where supermarkets and discounters account for just half of food retail sales.

Acquisition Target in Romania

Ana Luisa Virginia, the group's CFO, stated in July 2021 that it would be very feasible to do an acquisition above €1 billion without causing any financial constraints on the balance sheet (Almeida 2021). Instead of starting a new company from scratch, the retailer is reportedly considering buying an existing retail chain already present in Romania. In Romania, almost all modern food retail operators are under the control of large western networks with a multinational footprint across Europe. It would be far-fetched to assume dominant retail companies such as Schwarz Gruppe, Carrefour or Ahold Delhaize would sell their assets. Smaller chains like Selgors and Cora have a smaller market share but their operating model of hypermarkets is not the core business of Jerónimo Martins. The firm has Cash & Carry activities under the label Recheio which only accounts for 4% of total sales in 2021, and slow growth suggests that it is not the center of its strategy.

One company that could be particularly interesting for an acquisition is Profi and in fact the European Supermarket Magazine reported back in 2016 that Jerónimo Martins might be interested in acquiring the Romanian supermarket chain (Pekic 2016). At the time the focus of the group still remained on Ara and the investment bank BPI believed that such an expansion was "too ambitious". Eventually, in early 2017 Profi was sold by Enterprise Investors to the UK private equity firm Mid Europa Partners which still holds the firm today for allegedly €553 million (PitchBook 2016). Given that Mid European Partners acquired Profi around five years ago, they may be interested in exiting their holding in the short term. According to previous literature, private equity firms held their investments for an average of four to five years, while

new research suggests the average holding term in European private equity buyouts has climbed to over six years (Joenväärä, Mäkiäho, and Torstila 2022). Therefore, Jeronimo Martins may get the chance to take over the grocery chain in the near future.

Target Company Profile

Profi has grown significantly since the takeover, sales have more than doubled and hundreds more stores have been added under the direction of Mid Europa Partners. Profi is also Romania's fastest-growing food store and the country's largest proximity supermarket chain. The firm presently has over 1,500 shops across the country, making it the largest supermarket chain in Romania in terms of store count, with a 27% market penetration rate in the supermarket segment (Mid Europa Partners 2022). Between 2012 and 2021 sales grew at an annual compound rate of 26% and the overall market share went from 5% in 2015 to 12% in 2020. As a matter of fact, Profi was the first food retailer in Romania that developed a brand specifically for customers in rural areas in an effort to expand modern retail. This is achieved through an “Agent” model by contracting locals. The firm oversees renting the space, remodeling, and securing all required permits, while the agent is responsible for managing the “Loco” type of store. With almost 18.000 employees the firm is also Romania’s largest employer (Statista 2022), a characteristic Profi shares with Jerónimo Martins as the biggest employer in Portugal. In terms of corporate social responsibility, Profi developed the "Punem suflet" program, which supports initiatives for people in need, education, culture, media, and sports. All this emphasizes Profi's relevance to Romanian customers and its effect on society, suggesting brand loyalty and a sense of connectivity. Furthermore, all of these points are important to Jerónimo Martins and align with its principles of supporting surrounding communities. Another element of the operations is Profi's specialization in the food trade in close proximity to customers. As

a result, the business model should be relatively similar to the operations and strategy of Jerónimo Martins's other subsidiaries, the neighborhood stores Biedronka and Ara.

Financial Analysis

A financial analysis of Profi shows a mixed picture. The performance can be clearly divided into the time before and after the takeover by Mid European Partners (Appendix Table 2). Before 2017, Profi had consistent improvements in gross, EBITDA as well as net profit margin while growing revenue in the high double digits. After 2017 the gross margin decreased which can be mainly explained by higher depreciation and capital expenditures. In fact, capital expenditures increased significantly since 2017 and fixed assets went up by 5x only between 2016 to 2017. For the year 2020, the net profit margin averaged 2% for supermarket chains in Romania and the only company that had to report a loss was Profi (Appendix Table 1). Indeed, earnings are negative since the takeover by the private equity company. Furthermore, it seems that the strong growth was mainly financed with debt and as a consequence, the net profit margin of the company is pressured by high-interest payments. With regard to the free cash flow, it must be noted that the company does not consistently record positive cash flows. Free cash flow varied over the observation period and was positive during some years but also negative in recent years (Appendix Table 2).

Return on invested capital went from double digits before 2016 to low and even negative single digits since 2017. A similar picture is the case of return on equity and assets. But this is not necessarily bad if Profi invests in assets that will generate positive returns in the long run. In general, Mid European Partners seems to undergo an aggressive growth plan with Profi. While recent years paint a less rosy picture, past statements before 2017 suggest that the firm had solid finances before. Ultimately, cost optimizations and slower organic growth should increase profitability.

Valuation

In M&A public and private firms are companies commonly valued according to their intrinsic or relative value. The intrinsic value can be calculated by discounting estimated free cash flows through a DCF. The relative valuation approach aims to value a business in relation to other similar businesses and precedent transactions by analyzing the respective valuation multiples. The most common multiples are EV/Sales, EV/EBITDA. There are some key factors to consider when valuing private companies through a DCF. Neither equity nor debt is publicly traded and therefore, a different approach is needed to estimate the cost of equity and the cost of debt. Estimating the cost of equity for Profi involved calculating the levered beta of Carrefour, Ahold Delhaize, and Metro AG against the STOXX Europe 600. These firms are the only public competitors in Romania and the average levered beta resulted in 0.8 (Appendix Table 5). Additionally, the market debt-to-equity ratio to and relever the equity beta for private companies is not available. Literature suggests assuming that the D/E ratio of a private firm is similar to the market average for publicly traded firms that operate in food retail in Romania (Damodaran, n.d.). The average D/E ratio was found to be 0.5. By unlevering and relevering the beta the equity beta of Profi was calculated to be 0,8 with a D/E of 0.6 which is based on the average European food retail industry (Appendix Table 5). The cost of debt of (10%) was based on the ability to pay interest based on operating income (Appendix Table 6&7) and is a weighted average of the interest coverage ratio before (10%) and after (90%) the Mid European Partners takeover (Damodaran, n.d.). The Romanian 10-year treasury bill of 8% serves as the risk-free rate (Appendix Table 5). Although this rate appears to be high to be considered risk-free, Romania's comparably low debt-to-GDP ratio of around 49% in 2021 according to the country's Ministry of Public Finance suggests that the country is not at risk of default any time soon. The national corporate tax rate stands at 16%. Ultimately a WACC of (11%) was calculated. DCF valuations were based on three different scenarios. In general, the conservative

case has slightly lower margins compared to the base case, whereas the optimistic scenario improves upon the input of the base case. The terminal growth rate was set at 2,5% reflecting historical GDP growth. Assumptions for margins of the base case rely on historical as well as industry averages. Since the estimates are in Romanian Lei and a foreign WACC was applied to discount the free cash flows, the present value was translated to euros at the spot rate of RON/EUR 0,2031. Furthermore, a sensitivity analysis was conducted to visualize the impacts of different terminal growth rates and discount rates (Appendix Table 8). Note that the DCF represents a simplified design where only the relevant lines for the free cash flow are forecasted. Subsequently, the valuation is not as comprehensive as projecting all three statements (Appendix Table 9). The multiple valuations relied on EV/Sales and EV/EBITDA. The peer group for the comparable company analysis consists of the three publicly traded companies operating in the same industry in Romania and Europe's major food retailers (Appendix Table 4). All multiples for the comparable company analysis were based on 2021 financials since, there was no quarterly information for 2022 available for Profi and the median was used to account for any outliers. Multiples for precedent transactions in Europe stem from the last three years and are extracted from a dataset provided by the M&A intelligence firm Mergermarkets. Finally, the evaluation comes to several results which can be summarized graphically (Appendix Figure 7). For a final price estimate, weightings were assigned to the various evaluation methods (DCF 55%, EV/Sales 30% & EV/EBITDA 15%). These are based on the level of complexity as well as the associated level of detail. DCF should get a higher weight. The result of the weighted average price is €958 million.

Conclusion

It can be concluded that the food industry has seen tremendous consolidation over the decades by supermarket conglomerates expanding internationally. The maximization of shareholder value is one of a company's main goals and the need for growth and the saturation of national

markets are two factors that contribute to the internationalization of business. Romania appears to be a nation that provides these options and the market analysis showed that the country's dynamic economy appears to offer enticing development prospects for Jerónimo Martins. Ultimately, the supermarket Profi was identified as a potential acquisition target. Jerónimo Martins is intimately acquainted with the business strategy of Profi of operating supermarkets in close proximity to consumers. Furthermore, it is reasonable to assume that strong market position in Poland and the experiences made in the country will benefit the chances of success in Romania. Jerónimo Martins stated that an acquisition for €1 billion would be very feasible for the group and in fact, cash and cash equivalents were over €1,5 billion by the end of 2021. The weighted average price for Profi lies at €958 million which is somewhat below that figure. It can be argued that the financial position of Jerónimo Martins is solid, and the acquisition could be fully paid in cash. Nevertheless, it should not be forgotten that the development of new markets and the acquisition of a company entail considerable risks. The analysis and evaluation carried out are based on an external perspective and are limited in scope. Therefore, it must be said that the results may be subject to bias.

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Appendix

Figure 1: 2020 Revenue of major European food retailers (Statista 2022b)

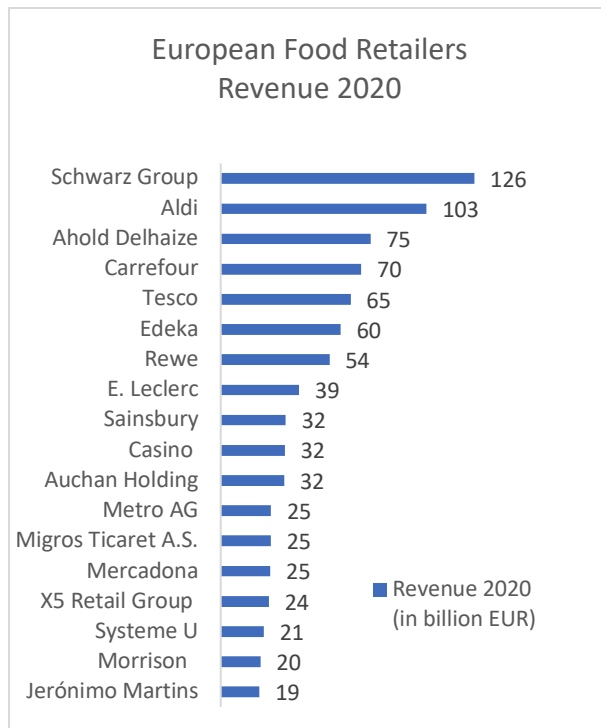


Figure 2: 2020 market share of major European food retailers (Statista 2022b)

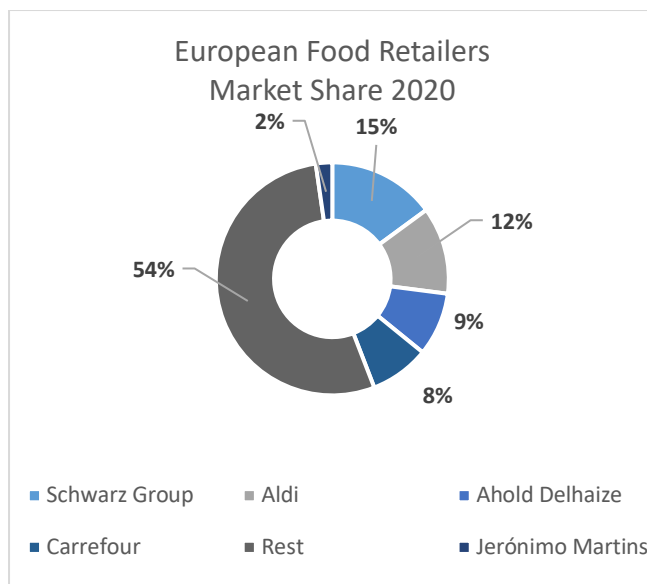


Figure 3: 2020 revenue and net income of Romanian modern food retail chains (Statista 2021b) & (Statista 2021c)

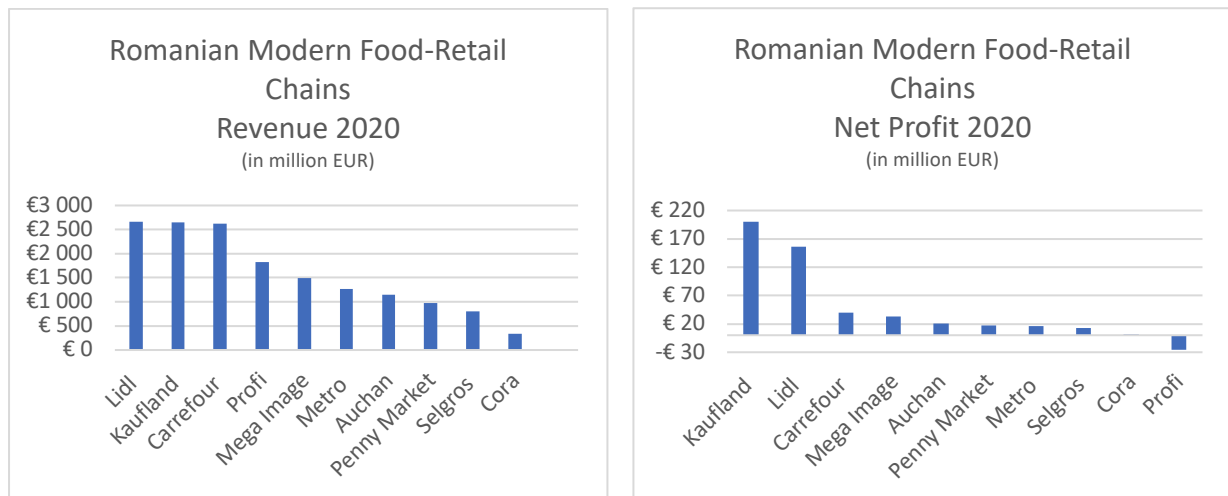


Figure 4: 2020 market share of Romanian modern food retailers

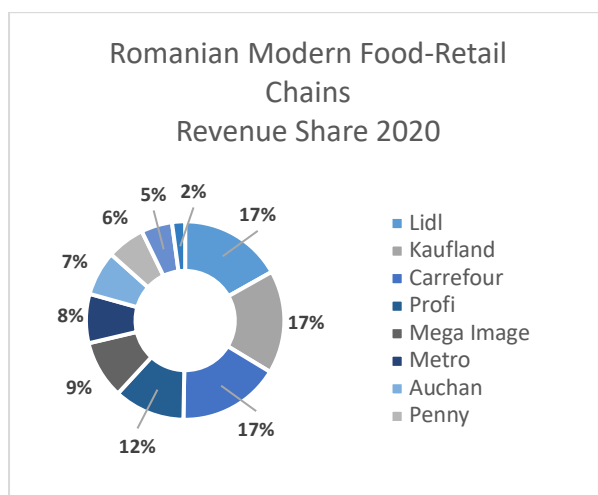
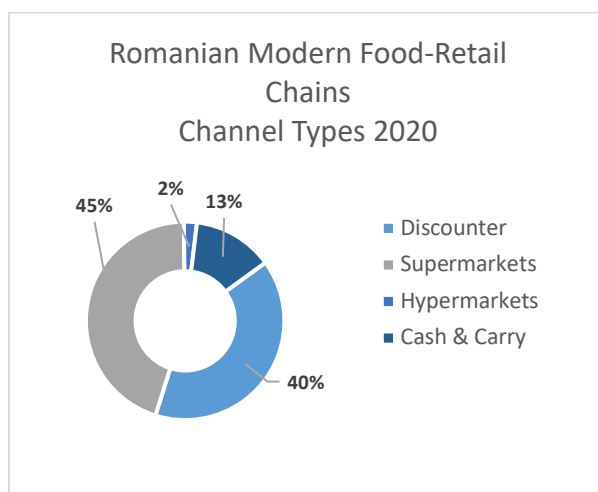


Figure 5: 2020 share of channel type of Romanian modern food retailers



Individual Report – Tim Wellen (49561)

Table 1: Overview of modern food retailers in Romania

Company	Parent	Ownership	HQ	Channel	Revenue in €m	Net Profit In €m	R/NP Margin
Lidl	Schwarz Group	Private	German	Discounter	€2 659	€156	6%
Kaufland	Schwarz Group	Private	German	Discounter	€2 653	€201	8%
Carrefour	Carrefour Group	Public	French	Supermarkets	€2 624	€40	2%
Profi	Mid Europa Partners	Private	UK	Supermarkets	€1 826	-€26	-1%
Mega Image	Ahold Delhaize	Public	Dutch	Supermarkets	€1 494	€33	2%
Metro	Metro AG	Public	German	Cash & Carry	€1 265	€16	1%
Auchan	Auchan Holding	Private	French	Supermarkets	€1 148	€21	2%
Penny Market	Rewe Group	Private	German	Discounter	€978	€18	2%
Selgros	TransGourmet	Private	Swiss	Cash & Carry	€800	€13	2%
Cora	Louis Dehaize	Private	Belgian	Hypermarkets	€336	€1	0%

Table 2: Financial analysis of Profi

Financial Analysis	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue (m RON)	1 319	1 697	2 133	2 959	3 909	4 872	6 123	7 518	9 261	10 189
Growth		29%	26%	39%	32%	25%	26%	23%	23%	10%
NOI (m RON)	21	34	35	66	153	210	24	111	3	17
Growth		64%	3%	90%	132%	37%	-89%	366%	-97%	452%
Gross Margin	2%	2%	2%	2%	4%	4%	0%	1%	0%	0%
EBITDA (m RON)	41	62	73	121	218	289	342	475	411	443
Growth		49%	18%	66%	80%	33%	18%	39%	-14%	8%
EBITDA Margin	3%	4%	3%	4%	6%	6%	6%	6%	4%	4%
EBIT (m RON)	20	33	35	65	153	207	37	118	3	15
Growth		65%	5%	87%	136%	36%	-82%	215%	-98%	415%
EBITDA Margin	2%	2%	2%	2%	4%	4%	1%	2%	0%	0%
Net Income (m RON)	13	27	27	53	127	131	(91)	(36)	(124)	(131)
Growth		105%	2%	92%	141%	3%	-169%	-61%	249%	5%
Net Profit Margin	1%	2%	1%	2%	3%	3%	-1%	0%	-1%	-1%
Invested Capital (m RON)	94	128	182	215	234	2 506	2 852	2 474	2 622	2 463
ROIC	16%	23%	16%	26%	56%	7%	-1%	3%	-1%	-1%
ROE	5%	9%	7%	12%	28%	4%	-3%	-2%	-6%	-8%
ROA	11%	17%	15%	25%	50%	17%	-10%	-4%	-14%	-14%
EBIT/Interst	14	14	16	26	35	5	1	1	0,0	0,1
D/A (m RON)	21	28	38	55	64	79	318	364	408	426
CAPEX (m RON)	-	109	110	153	180	2 447	721	(2)	403	382
Growth	-	-	1%	38%	18%	1258%	-71%	-100%	26624%	-5%

Figure 6: Multiple Valuation

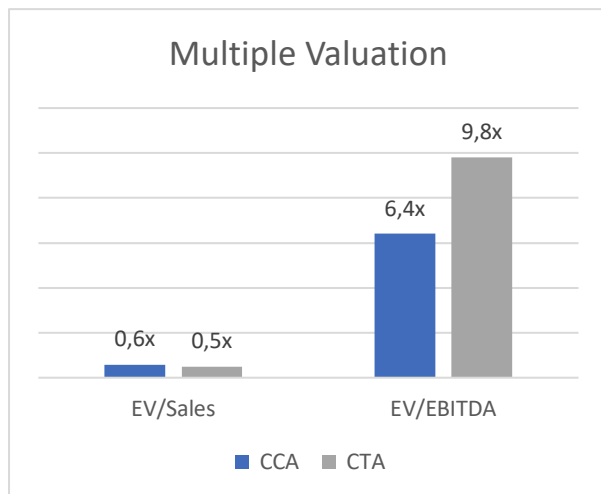


Figure 7: Valuation Summary (in €th)

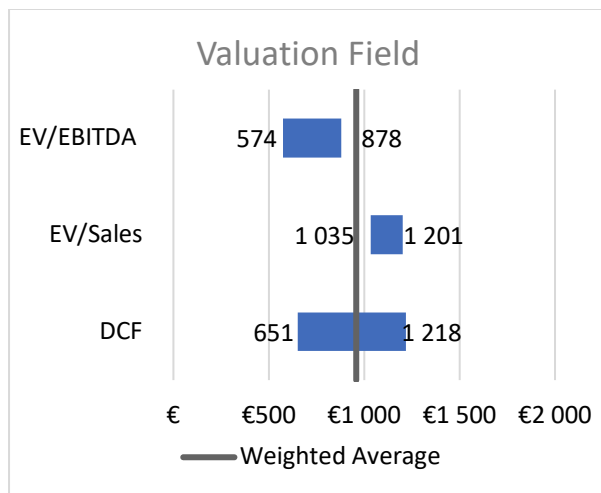


Table 3: Valuation summary

Valuation Summary				
DCF	€651	€567	€1 218	55%
EV/Sales	€1 035	€166	€1 201	30%
EV/EBITDA	€574	€304	€878	15%
Weighted Average				
	€958			
	€958			

Table 4: Comparable Company Analysis

CCA	EV/Sales	EV/EBITDA	EV/EBIT
Carrefour	0,3x	5,4x	10,7x
Ahold Delhaize	0,6x	6,7x	12,8x
Sonae SGPS	0,6x	7,7x	19,2x
Metro AG	0,3x	6,1x	17,0x
Jeronimo Martins	0,7x	8,8x	16,4x
Dino Polska	3,0x	29,0x	35,9x
Migros Ticaret	0,3x	3,2x	4,7x
Casino Guichard	0,6x	5,8x	10,2x
Median	0,6x	6,4x	14,6x
Average	0,8x	9,1x	15,9x

Table 5: WACC calculations for Profi

WACC Calculations	
Romania Specific	
Romania 10-Year Treasury	8%
Equity Risk Premium	6%
Tax Rate	16%
Comparables Romania	
Levered Beta Ahold Delhaize	0,5
Levered Beta Carrefour	0,9
Levered Beta Metro AG	0,9
Levered Beta Average	0,8
D/E Ahold Delhaize	0,3
D/E Carrefour	0,7
D/E Average	0,5
Profi Specific	
Unlevered Beta	0,5
Targeted D/E	0,6
Levered Beta	0,8
Cost of Equity	13%
Cost of Debt	10%
WACC	11%

Table 6: Interest coverage ratio calculations

Interest Coverage Ratio Calculations		
Takeover Mid Europa	Weight	
Before 2012-2016	21	10%
Afther 2017-2021	1	90%
Weighted Average CR	3	

Table 7: Interest coverage ratio

greater than	≤ to	Rating is	Spread is
-100000	0,50	D2/D	14,34%
0,50	0,80	C2/C	10,76%
0,80	1,25	Ca2/CC	8,80%
1,25	1,50	Caa/CCC	7,78%
1,50	2,00	B3/B-	4,62%
2,00	2,50	B2/B	3,78%
2,50	3,00	B1/B+	3,15%
3,00	3,50	Ba2/BB	2,15%
3,50	4,00	Ba1/BB+	1,93%
4,00	4,50	Baa2/BBB	1,59%
4,50	6,00	A3/A-	1,29%
6,00	7,50	A2/A	1,14%
7,50	9,50	A1/A+	1,03%
9,50	12,50	Aa2/AA	0,82%
12,50	100000	Aaa/AAA	0,67%

Table 8: Sensitivity Analysis Base Case - WACC & TG

Sensitivity Analysis Base Case - WACC & TGR										
TGR	In Million EUR			WACC						
		8%	9%	10%	11%	12%	13%	14%	15%	16%
	1,8%	1390	1183	1024	899	797	713	643	583	532
	2,0%	1442	1221	1053	921	815	728	655	593	540
	2,3%	1498	1262	1084	945	834	743	667	604	549
	2,5%	1559	1306	1117	970	854	759	681	615	559
	2,8%	1625	1352	1151	997	875	776	694	626	568
	3,0%	1697	1403	1188	1025	897	793	709	638	578
	3,3%	1776	1457	1228	1055	920	812	724	650	588

Table 9: Cash flow map and DCF

Free Cash Flow Map		Historic										Forecast				
		Units in Million RON														
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue	RON	1 319	1 697	2 133	2 959	3 909	4 872	6 123	7 518	9 261	10 189	13 245	15 232	18 279	21 021	24 174
	%	-	29%	26%	39%	32%	25%	26%	23%	23%	10%	30%	15%	20%	15%	15%
										Conservative		27%	12%	17%	12%	12%
EBIT	RON	20	33	35	65	153	207	37	118	3	15	292	343	421	494	580
	%	2%	2%	2%	2%	4%	4%	1%	2%	0,0%	0,1%	2,2%	2%	2%	2%	2%
										Conservative		1,5%	1,6%	1,6%	1,7%	1,7%
Margin	RON											2,2%	2,3%	2,3%	2,4%	2,4%
	%									Base		2,7%	2,8%	2,9%	2,9%	3,0%
										Optimistic						
Income taxes	RON	(6)	(4)	(5)	(10)	(21)	(33)	(53)	(56)	(28)	(43)	(449)	(275)	(153)	(82)	(98)
	%	28%	12%	15%	15%	14%	16%	143%	47%	962%	286%	154%	80%	36%	17%	17%
	%	30%	13%	16%	16%	14%	20%	-144%	276%	-30%	-50%	-40%	-30%	16%	16%	16%
NOPLAT	RON	15	29	29	55	131	174	(16)	62	(25)	(28)	(157)	69	268	412	483
	%	-	101%	1%	87%	138%	33%	-109%	-488%	-141%	11%	-220%	-144%	291%	54%	17%
D&A	RON	21	28	38	55	64	79	318	364	408	426	477	548	658	757	870
	%	1,6%	1,6%	1,8%	1,8%	1,6%	1,6%	5,2%	4,8%	4,4%	4,2%	3,6%	3,6%	3,6%	3,6%	3,6%
Gross Cash Flow	RON	35	57	67	110	195	253	302	426	382	398	320	617	926	1 169	1 353
	%	-	62%	18%	63%	78%	29%	20%	41%	-10%	4%	64%	93%	50%	26%	16%
Change in Net Working Capital	RON	-	51	3	39	(9)	18	156	37	(147)	83	102	117	140	161	186
	%		3,0%	0,2%	1,3%	-0,2%	0,4%	2,5%	0,5%	-1,6%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%
Capital Expenditures	RON	-	(109)	(110)	(153)	(180)	(2 447)	(721)	2	(403)	(382)	(530)	(609)	(731)	(841)	(967)
	%		6%	5%	5%	5%	50%	12%	0%	4%	4%	4%	4%	4%	4%	4%
Unlevered Free Cash Flow	RON	-	(1)	(40)	(4)	7	(2 176)	(263)	465	(168)	98	(109)	125	336	489	571
	%	-	-	4281%	-89%	-252%	-33176%	-88%	-277%	-136%	-158%	-1750%	-215%	169%	46%	17%
Discounted Free Cash Flows		Historic										Forecast				
		Units in Million RON														
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Unlevered Free Cash Flow	RON	-	(1)	(40)	(4)	7	(2 176)	(263)	465	(168)	98	(109)	125	336	489	571
	%											11%	11%	11%	11%	11%
WACC	RON															
	%															
Terminal Growth Rate	RON															
	%															
PV Unlevered Free Cash Flow	RON															
	%															
EUR		970	Million									4 775	5 433	5 933	6 279	6 512

Individual Report – Tim Wellen (49561)

Table 10: Profi balance sheet

Balance Sheet, Source: Orbis	31/12/2012	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
	m RON	m RON	m RON	m RON	m RON	m RON	m RON	m RON	m RON	m RON
Assets										
Fixed assets	177	259	332	430	546	2 914	3 316	2 951	2 947	2 903
Intangible fixed assets	11	21	26	25	24	2 210	1 999	1 803	1 636	1 465
Tangible fixed assets	161	231	297	396	510	683	897	1 104	1 249	1 385
Other fixed assets	6	7	8	9	11	21	420	44	61	53
Current assets	229	259	349	432	596	748	877	1 204	1 443	1 786
Stock	133	163	205	250	374	407	612	911	1 069	1 356
Debtors	42	45	77	86	21	26	51	113	203	229
Other current assets	55	51	66	95	201	315	213	180	172	201
Cash & cash equivalent	52	48	63	90	195	273	174	149	144	177
Total Assets	407	518	680	861	1 142	3 662	4 193	4 155	4 389	4 688
Liabilities & Equity										
Shareholders funds	130	157	184	219	228	1 609	1 518	1 087	960	829
Capital	87	87	87	87	44	27	1 294	899	899	899
Other shareholders funds	43	70	97	132	184	1 582	224	188	61	(70)
Non-current liabilities	16	19	61	86	202	1 170	1 508	1 536	1 806	1 811
Long term debt	-	14	50	56	167	1 122	1 448	1 442	1 674	1 643
Other non-current liabilities	16	5	11	30	35	49	59	95	132	168
Provisions	2	1	2	23	30	43	49	85	116	155
Current liabilities	261	342	435	557	712	882	1 167	1 532	1 623	2 049
Loans	-	3	10	24	57	23	43	131	28	181
Creditors	241	310	386	492	597	781	1 017	1 299	1 455	1 729
Other current liabilities	20	29	39	41	58	78	107	101	140	139
Total Liabilities & Equity	407	518	680	861	1 142	3 662	4 193	4 155	4 389	4 688
Memo lines										
Working capital	(67)	(101)	(104)	(156)	(202)	(348)	(354)	(276)	(184)	(144)
Net current assets	(31)	(83)	(86)	(125)	(116)	(134)	(290)	(328)	(181)	(263)
Enterprise value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Number of Employees	3 313	4 440	5 672	7 354	9 469	11 662	13 578	16 277	17 979	15 980

Table 11: Profi income statement

Income Statement, Source: Orbis	31/12/2012	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
	m RON	m RON	m RON	m RON	m RON	m RON	m RON	m RON	m RON	m RON
Profit & loss account										
Operating Revenue	1 319	1 697	2 133	2 959	3 909	4 872	6 123	7 518	9 261	10 189
Sales	1 156	1 456	1 845	2 548	3 550	4 730	5 921	7 265	8 837	9 523
COGS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Gross Profit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Operating Expenses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operating Net Income	21	34	35	66	153	210	24	111	3	17
Financial Income	(2)	(3)	(2)	(4)	(5)	(46)	(61)	(91)	(99)	(104)
Financial Revenue	1	1	2	2	2	1	16	12	5	3
Financial Expenses	3	4	5	5	7	48	77	102	104	107
EBITDA	41	62	73	121	218	289	342	475	411	443
Depreciation & Amortization	21	28	38	55	64	79	318	364	408	426
Interest Paid	(1)	(2)	(2)	(2)	(4)	(43)	(75)	(98)	(99)	(103)
Earnings Before Tax	19	31	33	62	148	164	(37)	20	(96)	(87)
Taxes	(6)	(4)	(5)	(10)	(21)	(33)	(53)	(56)	(28)	(43)
Net income	13	27	27	53	127	131	(91)	(36)	(124)	(131)