

A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance  
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**Private Equity Challenge – Sprouts Farmers Market's Leveraged Buyout**

José Pedro Bilbao Ferreira (44533)

Work project carried out under the supervision of:

Prof. Diogo Chalbert Santos

Prof. Fábio Soares Santos

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## **Abstract**

This paper consists of a proposal for the leveraged buyout of Sprouts Farmers Market, a Natural and Organic Supermarket chain that operates a network of stores in the United States of America.

A value creation strategy and business plan were outlined, after a thorough analysis of the sector, competitive landscape as well as the growth opportunities for the company. Subsequently, a valuation exercise was performed with resource to several methods to determine the appropriate entry price. Lastly, a capital structure aiming for return maximization is suggested as well as the key diligence areas.

**Key Words:** Private Equity Challenge, Leveraged Buyout, Supermarkets, Grocery Retail.

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# Agenda

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## Opportunity to invest on a growing business within a resilient sector yielding an IRR of 21.7%.

### 1 Company Overview

- Sprouts is one of the largest **specialty retailers of fresh, natural and organic food** in the US, that currently operates a network of 366 stores across 23 states.
- All stores are displayed as a “**small box**” with produce at its center.
- Providing **quality produce** at a **fair price** is its strongest competitive advantage.

Key Financials	LTM	2022F	2023F	2024F	2025F	2026F
Revenue	6 209	6 625	7 239	7 879	8 536	9 209
% growth	-	6.7%	9.3%	8.8%	8.3%	7.9%
# Stores	366	391	416	441	466	491
EBITDA	502	541	599	660	724	790
% Margin	8.1%	8.2%	8.3%	8.4%	8.5%	8.6%
Capex	(96)	(209)	(228)	(249)	(272)	(297)

### 2 Market Overview

- The **supermarket industry** is highly competitive and fragmented, reaching a total value of **\$588bn in 2020**. Looking forward, it is expected to **grow at a CAGR of 0.7% until 2025**.
- **Organics subcategory** reached a total value of **\$51bn** in 2020 and is forecasted to **grow at 4.3% a year until 2025**.
- The rising concerns with sustainability issues and living a healthy lifestyle are likely to provide strong tailwinds to the consumption of organic products.

### 3 Entry Rationale

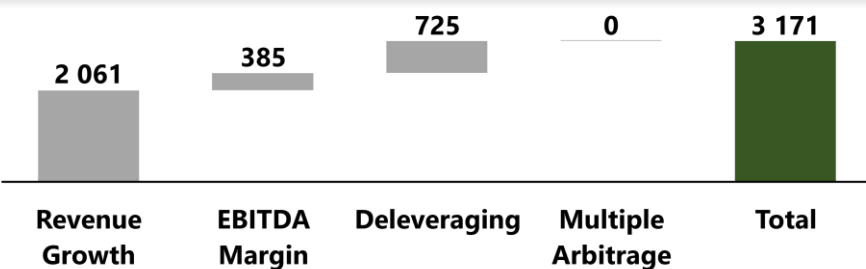
1. **Dominant player** in the organic food retailing segment.
2. **Outstanding financial position** with strong cash flow generation and margins above most peers.
3. **Growth opportunities** provided by the secular trend towards “better-for-you” options.
4. **Strong management team** with a vast experience in the food retailing sector.
5. **Sector resilience** against economic downturns.

### 4 Returns and Exit

8.5x Entry Multiple	64.5% Entry D/EV	2.7x Money Multiple	21.7% IRR
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- Investment period of 5 years.
- **Entry and Exit multiple of 8.5x EBITDA**.
- **Entry valuation of \$4.3bn EV** and exit of \$6.7bn upon exit.
- **Total debt of \$2.75bn** raised to finance the deal.
- Financing and transaction fees totaling \$128m or 3% of the entry EV.
- Management investment of \$41.2m, equal to the combined two-year salary and exit proceeds of \$401m.

### 5 Value Creation



- **Total Value creation** of \$3.2bn to be achieved during the investment period.
- **Revenue growth** is the **main driver** of value creation leveraged on the expansion of the store network, representing **c.65% of the total value** created.
- Margin expansion represents 12% and deleveraging the remainder 23%.

**With 366 stores in 23 states, Sprouts specializes in fresh, natural and organic foods.**

**1 Key Figures**

- ▶ **366** stores
- ▶ **23** US states
- ▶ **\$6.2 billion** in sales
- ▶ **36.5%** gross margin
- ▶ **\$502 million** EBITDA
- ▶ **\$276 million** of net income
- ▶ **4.5%** net income margin
- ▶ **\$96 million** in CAPEX
- ▶ **\$284 million** of Free Cash Flow

All figures as of LTM ended Sep 21

**2 Sprouts Farmers Market Snapshot**

- One of the largest **specialty retailers of fresh, natural and organic food** in the US.
- Founded in 2002 and Headquartered in Phoenix, Arizona.
- Sprouts has **366 stores** spread across **23 US states** and **employs 33 000 workers**.
- All stores have a **signature design** that conveys an identity to the company.

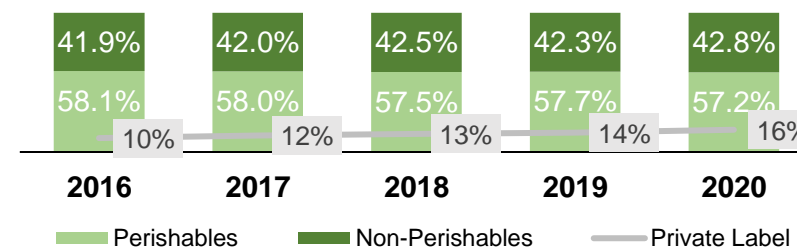
**4 Geographical Footprint (2020)**



**3 Product Offering**

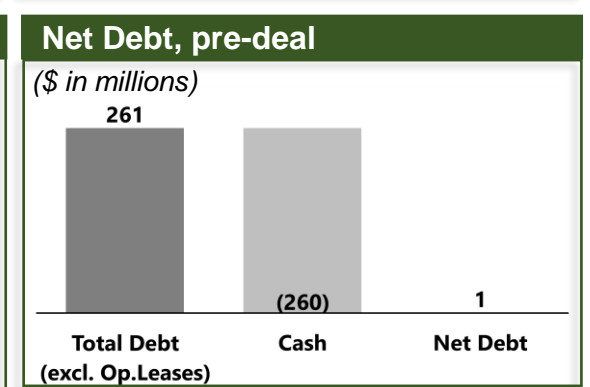
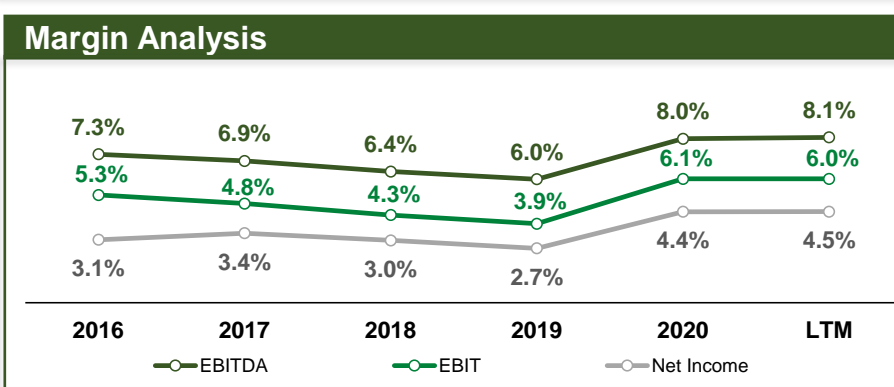
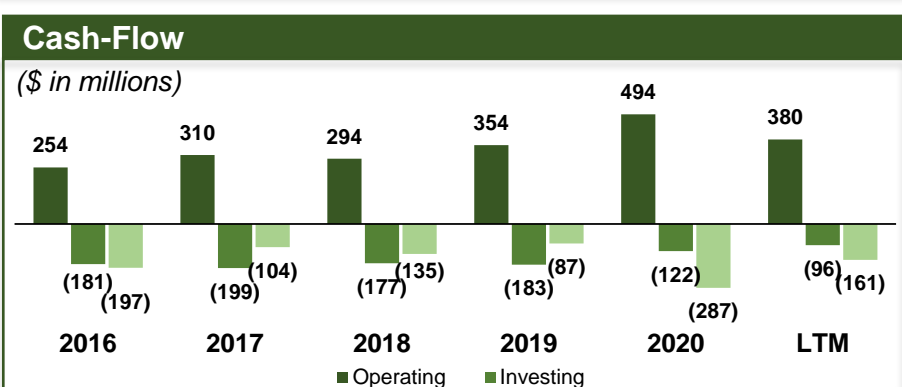
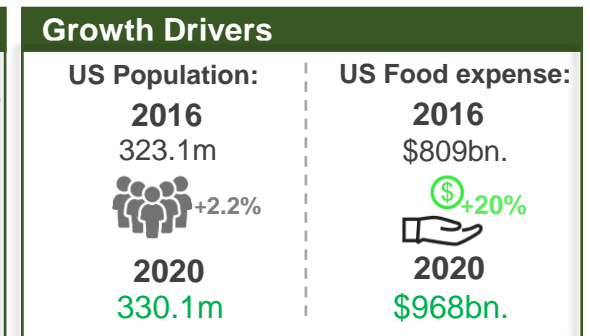
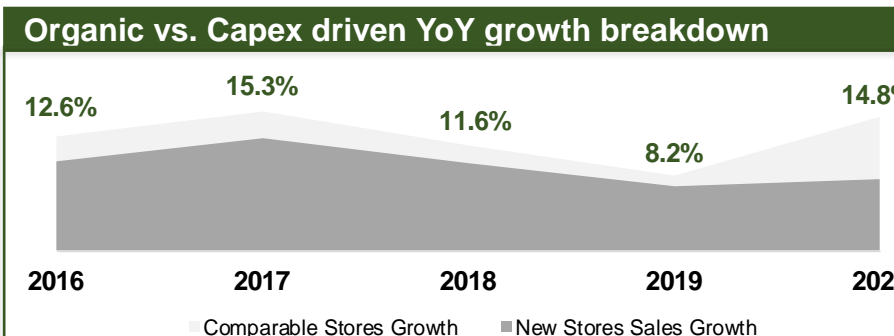
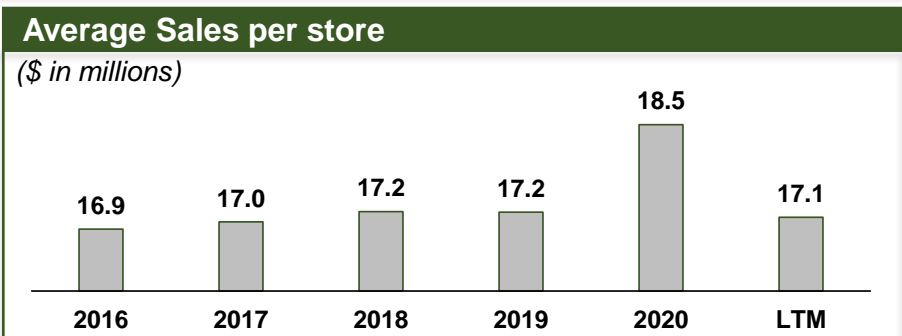
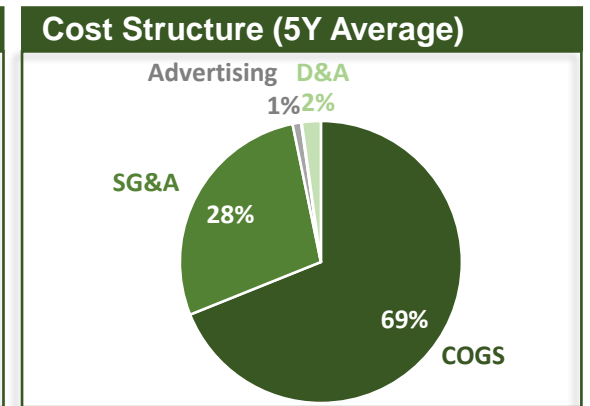
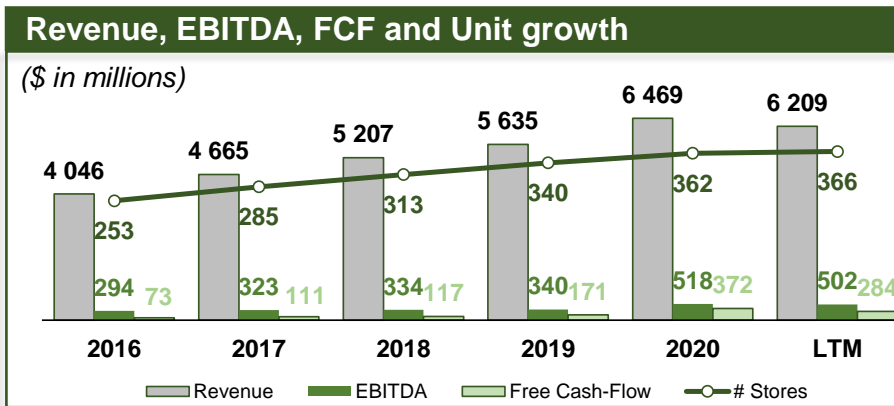
- Sprouts Farmers Market specializes in fresh, natural and organic foods.
- All products sold in their stores can be **divided between perishable and non-perishable items**.
- **Perishable items corresponded to 57.2% of sales in 2020** and include produce, meat, seafood, deli, bakery, floral, dairy and dairy alternatives.
- **Non-perishable items represented 42.8% of sales in 2020** and include grocery, vitamins and supplements, bulk items, frozen foods, beer and wine, natural health and body care.
- The company also owns a **private label** which represented **16% of revenues in 2020**. With about 3 500 products, this label allows Sprouts to sell **quality products at a lower price**, with increased margins.
- Sprouts partners with niche vendors to have **access to innovative products** and test them in their stores.

**Distribution of Revenues by Product Category**



**Outstanding track record on both organic and inorganic growth.**

Key Figures (LTM ended Sep21)			
<b>\$6 209m</b>	<b>\$502m</b>	<b>\$276m</b>	<b>\$284m</b>
Sales	EBITDA	Net Income	FCF
<b>\$3 007m</b>	<b>8.1%</b>	<b>4.5%</b>	<b>1.1%</b>
Market Cap.	EBITDA Mg.	Net Mg.	Market Share

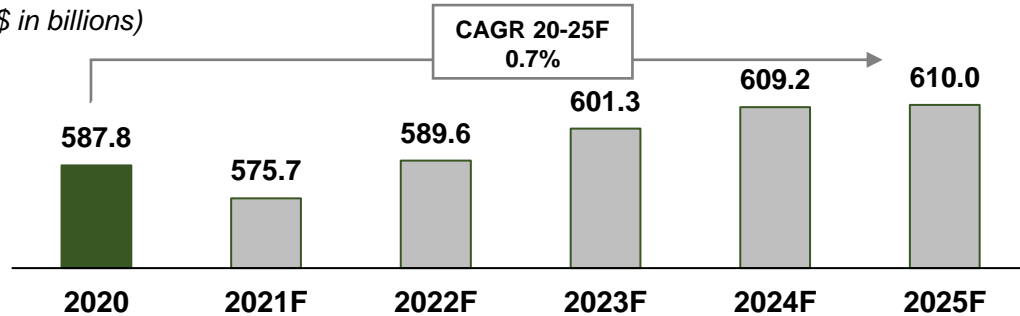


Sources: IMF WEO April 2021; Euromonitor International; Bloomberg

## US supermarket revenue forecasted to grow at a CAGR20-25F of 0.7% and organics at 4.3%.

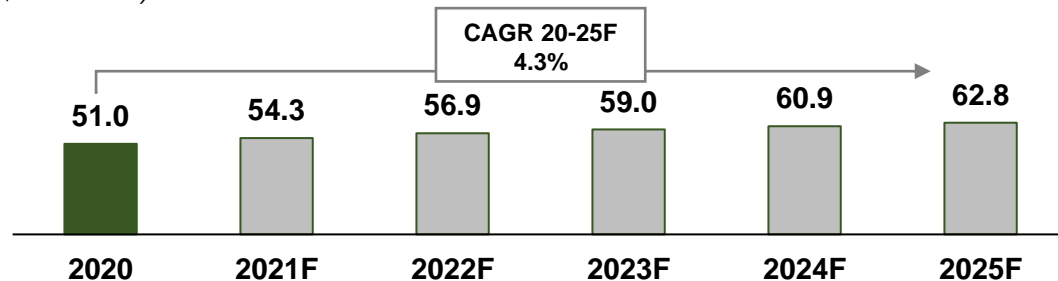
### 1 US Supermarket Revenue Forecast

(\$ in billions)

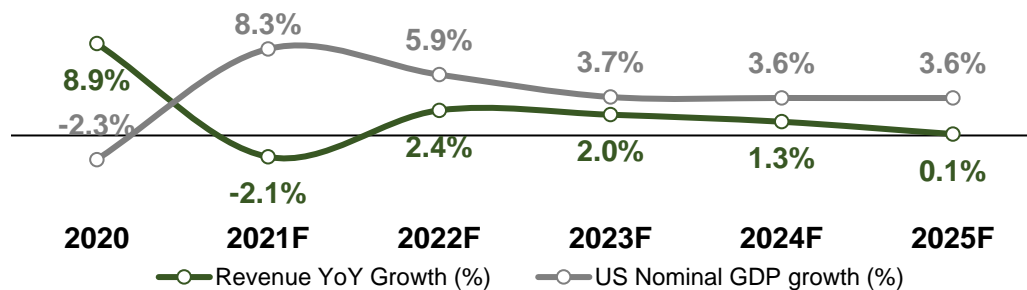


### 2 US Organic Food Market Forecasted Revenue

(\$ in billions)



### 3 Supermarket Revenue growth vs. GDP growth forecast



- The **supermarket category** is expected to grow at an **annualized rate of 0.7%** between 2020 and 2025. The low growth is mainly explained by the high turnover observed in 2020 due to the impact of the pandemic on the economy.
- A **pullback of 2.1% is expected in 2021**, explained by the reopening of restaurants and bars in combination with the gradual return to the office, which is **expected to reduce the demand for groceries**. Nonetheless, from 2022 onwards the usual low single digit growth is expected to resume.
- In the Organic sub-category, **growth is expected to accelerate in 2021 (6.5% YoY)**, provided that the pandemic has not benefited this sub-category due to the perishability of the goods, preventing customers from stockpiling. Therefore, **low to mid single-digit growth is expected every year on the forecast period**.
- The **rising awareness regarding the harms of using of pesticides** on non-organic is expected to lead to a demand increase for organic products. Thus, explaining the higher growth compared to overall supermarket revenue. The **US Organic food market is the biggest worldwide** representing 41% of the total as of 2020.
- In terms of macro drivers, the **US population** is expected to maintain an **annualized growth rate between 0.5 and 0.6%** from 2020 until 2025, whereas **consumer expenditure on food** is expected to decelerate to an **annualized growth of 3.8%** over the same period.
- **Supermarket revenue is expected to grow less than the US GDP** over the forecast period, a normal trend given the **defensive nature of the business model**.

## Opportunity to create value through a combination of network and margin expansion.

### 1 Deal Rationale

#### Deal Highlights:

- Expected tailwinds from the **secular trend towards “better-for-you”** options.
- **Sector resilience against economic downturns.**
- **Outstanding financial position** with strong cash flow generation and margins above most peers.

#### Dominant player

- Positioned in the **premium segment of the food retail market**, the organic segment.
- Currently present in 23 US states.

#### Growth opportunities

- **US organic food market is expected to grow** at a CAGR of 4.3% between 2020 and 2025.
- **US population is also expected to increase** around 0.5% per year between 2020 and 2025.

#### Management Team

- Newly assembled team with the right set of skills.
- Vast **experience in the food retail industry** as many previously held leadership roles in other food retailers.

### 2 Value Creation

#### A. Network Expansion

##### (A) New Store Openings

- Increasing the number of stores allows for **economies of scale**.
- Opportunity to expand to new states taking in consideration important analytical factors such as: **median household income by state** and **population density**.
- Combination of such factors with logistical aspects such as the existence of nearby distribution centers to **optimize logistics**.
- High **brand awareness** will also be crucial for **strategy success**.

#### B. Margin Expansion

##### (B.1) Efficiency Improvement

- New stores built should have a **smaller footprint**, while maintaining the **same level of sales** (as larger legacy stores).
- **Increase in the return on invested capital**, due to the decrease in CAPEX.
- Decrease in SG&A costs due to **higher efficiencies in store size**.

##### (B.2) Private Label Expansion

- Increase the percentage of sales attributed to private label products by **offering quality products at a fair price**.
- **Increase customer loyalty** as these products will be exclusive to Sprouts.
- Potential for **higher margins** when compared with national brand items.

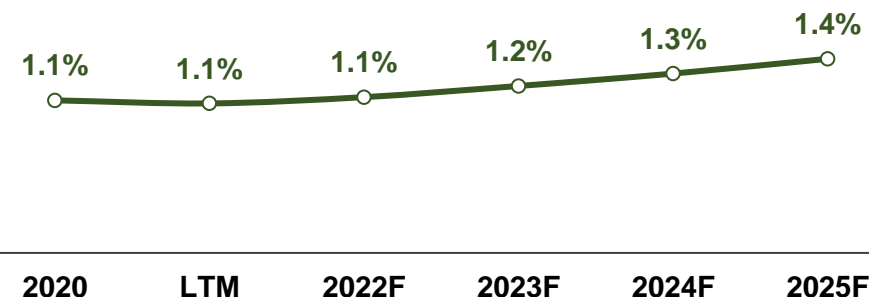
**New stores to remain the main driver, with revenues growing at a CAGR of 8% over the forecast period.**

**1 Forecasted Revenue**

(\$ in millions)	2020	LTM	2022F	2023F	2024F	2025F	2026F
<b>Revenue</b>	<b>6 469</b>	<b>6 209</b>	<b>6 625</b>	<b>7 239</b>	<b>7 879</b>	<b>8 536</b>	<b>9 209</b>
YoY growth (%)	14.8%	-4.0%	6.7%	9.3%	8.8%	8.3%	7.9%
Same Stores Sales growth (%)	6.9%	-	2.4%	2.5%	2.5%	2.4%	2.2%
<b>Sales / Avg. Stores</b>	<b>18.5</b>	<b>17.1</b>	<b>17.5</b>	<b>17.9</b>	<b>18.4</b>	<b>18.8</b>	<b>19.2</b>
Beginning Number of Stores	340	362	366	391	416	441	466
Net new openings (closings)	22	4	25	25	25	25	25
Ending Number of Stores	362	366	391	416	441	466	491
Avg. Stores during the period	350	363	379	404	429	454	479
<b>Revenue Breakdown</b>							
Same Store Sales	6 024	-	6 358	6 791	7 419	8 066	8 728
New Store Sales	445	-	267	449	460	471	481

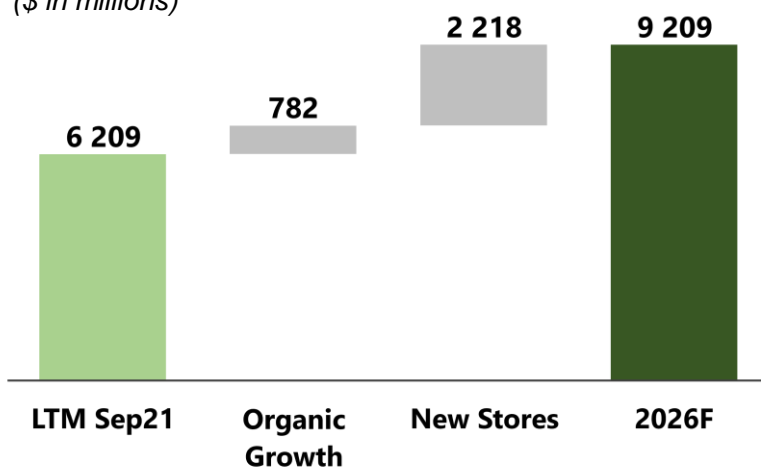
**2 Forecasted Market Share**

% of US Supermarket Industry



**3 Revenue Bridge (LTM Sep21-2026F)**

(\$ in millions)



**4 Main Assumptions**

- **Same-store sales** assumed to **grow at the projected inflation** rate.
- Targeting **net openings of 25 stores per year**, ending the investment period with 491 stores.
- Stores are assumed to **open mid-year** on average, following the historical trend.
- For modeling purposes, it is assumed that new stores have the same productivity as legacy ones right away. Since historical data is reported in the same pattern the forecasting exercise remains consistent. However, in a later stage when store by store information is available, reviewing this assumption is highly advisable.
- **Online Sales represents c.10% of the total** and its specific costs are mostly passed on to the costumers. Therefore, the online penetration rate is expected to have a marginal impact on the model.
- **New store openings** are the **main growth driver**, representing **74% of the forecasted revenue increase**.

**Investment in private label and small store size to favor operating margins.**

**1 Forecasted Operating Costs**

(\$ in millions)	2020	LTM	2022F	2023F	2024F	2025F	2026F
<b>COGS</b>	<b>4 087</b>	<b>3 942</b>	<b>4 207</b>	<b>4 592</b>	<b>4 992</b>	<b>5 403</b>	<b>5 822</b>
As a % of Revenue	63.2%	63.5%	63.5%	63.4%	63.4%	63.3%	63.2%
Gross Margin	36.8%	36.5%	36.5%	36.6%	36.6%	36.7%	36.8%
Private label weight on total sales	16.0%	-	16.7%	17.4%	18.1%	18.8%	19.5%
<b>SG&amp;A</b>	<b>1 864</b>	<b>1 763</b>	<b>1 876</b>	<b>2 047</b>	<b>2 225</b>	<b>2 408</b>	<b>2 596</b>
As a % of Revenue	28.8%	28.4%	28.3%	28.3%	28.2%	28.2%	28.2%
<b>Employee and Admin. Costs</b>	<b>1 617</b>	<b>1 509</b>	<b>1 598</b>	<b>1 746</b>	<b>1 900</b>	<b>2 059</b>	<b>2 221</b>
# Employees (000)	33.0	33.4	34.5	36.8	39.1	41.3	43.6
Avg. employee per store	91	91	91	91	91	91	91
Avg. cost per employee (000\$)	49.0	45.2	46.3	47.5	48.7	49.8	50.9
As a % of Revenue	25.0%	24.3%	24.1%	24.1%	24.1%	24.1%	24.1%
<b>Total Rent expense</b>	<b>192</b>	<b>200</b>	<b>210</b>	<b>227</b>	<b>245</b>	<b>262</b>	<b>281</b>
Avg. Stores	350	363	379	404	429	454	479
Avg. Store Size (m2)	2 697	2 691	2 655	2 624	2 597	2 572	2 550
Rent/m2 (\$)	203	204	209	215	220	225	230
Rent growth (%)	5.6%	0.4%	2.4%	2.5%	2.5%	2.4%	2.2%
As a % of Revenue	3.0%	3.2%	3.2%	3.1%	3.1%	3.1%	3.0%
<b>Advertisement</b>	<b>54</b>	<b>54</b>	<b>67</b>	<b>73</b>	<b>80</b>	<b>87</b>	<b>93</b>
As a % of Revenue	0.8%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
<b>Store Closures and other costs, net</b>	<b>(0)</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Inflation rate			2.4%	2.5%	2.5%	2.4%	2.2%
<b>Total Operating Costs</b>	<b>5 951</b>	<b>5 707</b>	<b>6 084</b>	<b>6 640</b>	<b>7 219</b>	<b>7 813</b>	<b>8 420</b>
Operating Costs as a % of Revenue	92.0%	91.9%	91.8%	91.7%	91.6%	91.5%	91.4%

**2 Costs % of Revenue Bridge (LTM Sep21-2026F)**



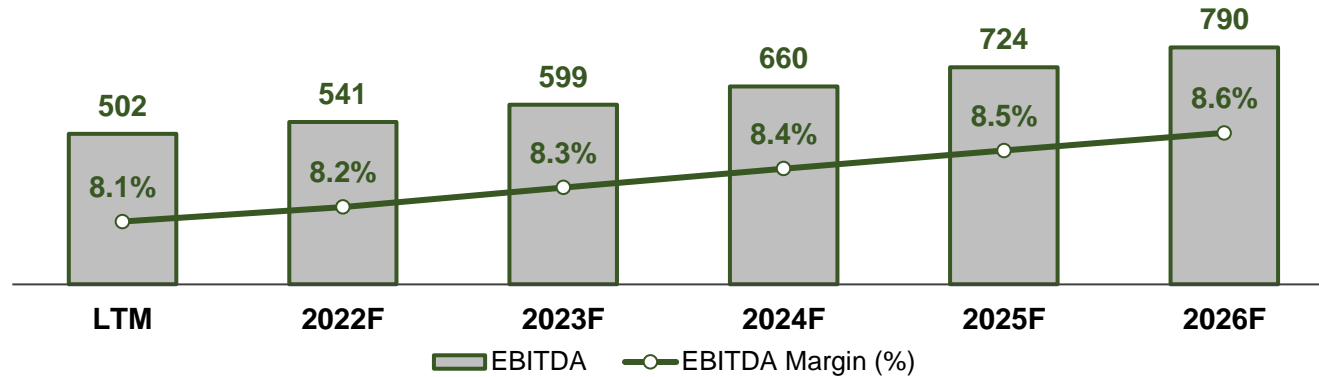
**3 Main Assumptions**

- **COGS:** a margin increase is modeled as a result of the increase in the private label weight from 16% in 2020 to 19.5% of sales in 2026.
- **Employee costs:** forecasted from the expected number of employees, which in turn depends on the number of stores in place. Employees per store to remain the same and costs per employee to grow at inflation.
- **Rent expense:** expected to drop on a per store basis due to the smaller format on the new units (~2100m2 vs. ~2700m2 on the legacy). On a per m2 basis is expected to increase at the expected inflation rate.
- **Advertisement:** estimated as a % of revenue following historical trends.
- **Store Closures:** assumed to be equal to the LTM figure growing at the expected inflation rate.

**EBITDA expected to grow at a CAGR of 9.5% with a total margin gain of 0.5%.**

**1 EBITDA and EBITDA Margin (LTM Sep21-2026F)**

(\$ in millions)

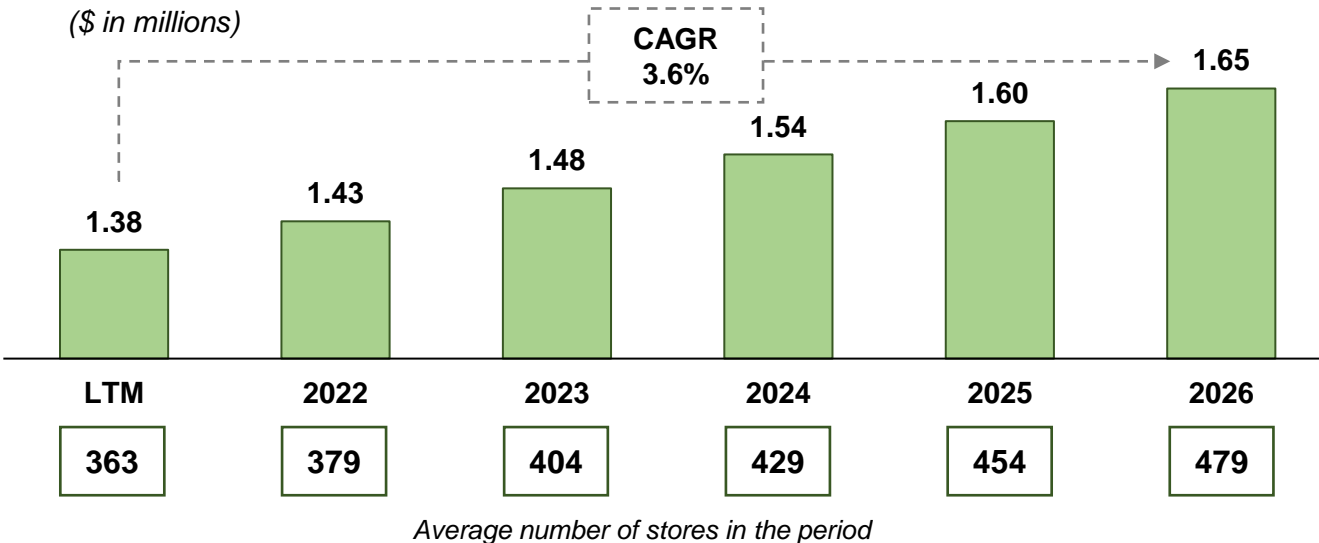


**2 Margin Breakdown (LTM Sep21-2026F)**



**3 EBITDA per Store**

(\$ in millions)



**4 Key Conclusions**

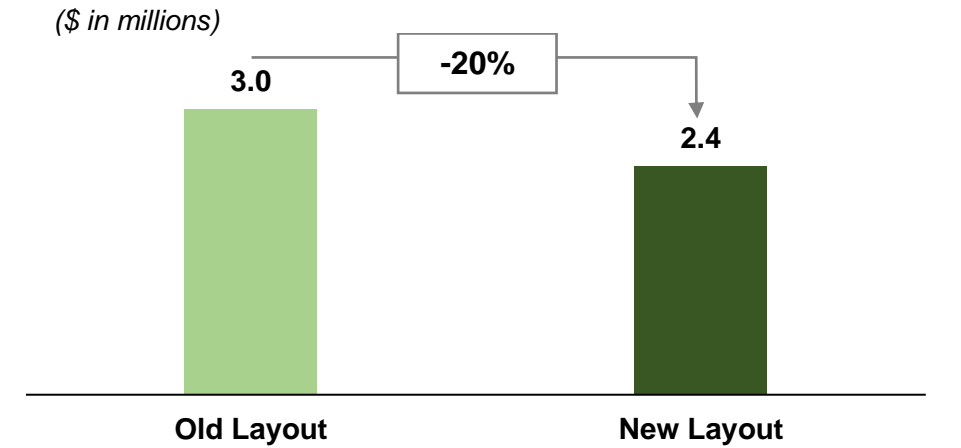
- EBITDA forecasted to grow at a **CAGR of 9.5%** and **3.6% on a per store basis**.
- EBITDA per store calculated based on the average number of stores to adjust for the timing of the openings.
- **Stores expected to open mid-year** during the forecast period.
- **Margin expansion of 0.5%** over the investment period as a result of the margin gains from the **bet on private label products** as well as the **decrease of the rent expense per store** due to the smaller footprint of the new units.

**Short cash conversion cycle and smaller assembly costs on new stores.**

**1 Working Capital Schedule (\$m)**

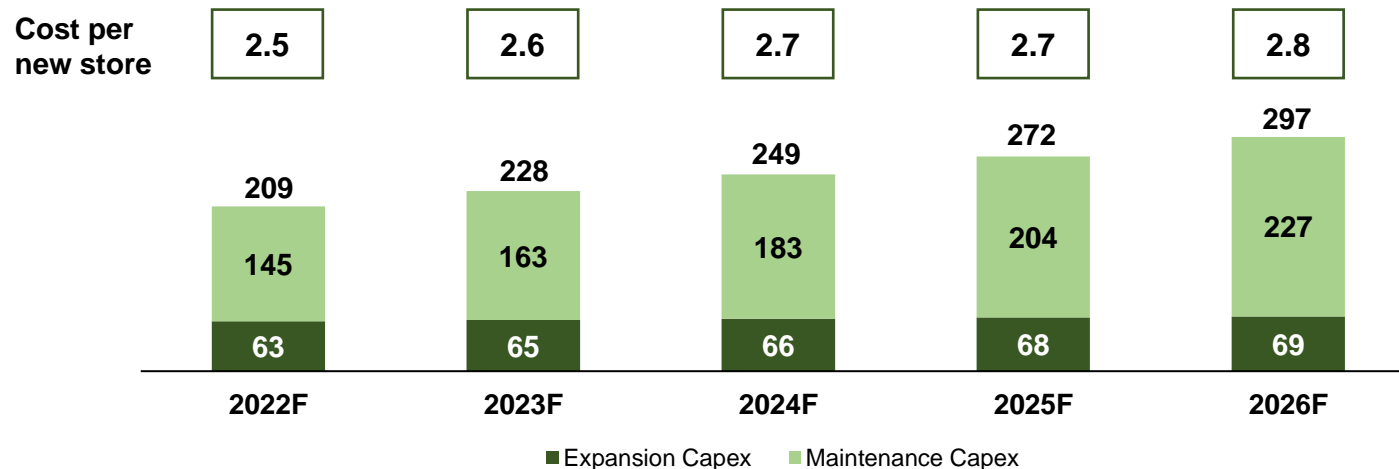
(\$ in millions)	2020	LTM	2022F	2023F	2024F	2025F	2026F
Account Receivable	15	19	18	20	22	23	25
DRO (days)	0.8	1.1	1.0	1.0	1.0	1.0	1.0
Inventories	254	271	316	345	375	406	438
DIO (days)	22.7	25.1	27.4	27.4	27.4	27.4	27.4
Account Payables and Accrued Liabilities	283	317	316	345	375	406	438
DPO (days)	25.3	29.3	27.5	27.5	27.5	27.5	27.5
Prepaid expenses and other current assets	27	36	30	33	36	39	42
SG&A (days)	5.3	7.5	5.9	5.9	5.9	5.9	5.9
<b>Net Working Capital</b>	<b>14</b>	<b>10</b>	<b>49</b>	<b>53</b>	<b>58</b>	<b>62</b>	<b>67</b>
<b>Δ Net Working Capital</b>	<b>(30)</b>	<b>(3)</b>	<b>38</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>

**2 Cost per Store – Old vs. New layout (Dec2020)**



**3 Capex Schedule**

(\$ in millions)



**4 Main Assumptions**

- Working capital expected to follow historical trends. For **DIO year 2020** was excluded from the historical average to **avoid accounting for the stockpiling effect** induced by the pandemic.
- Maintenance capex** assumed to be equal to the D&A expense.
- Estimated cost per store of \$3.0m decreased 20%** due to the lower size of the new stores.
- Cost per Store** expected to **increase at the inflation rate** during the forecast period.

## Entry Multiple of 8.5x LTM EBITDA represents a c.42% premium over the current market valuation.

Methodology	Implied Multiple Range	EV Range for Sprouts (\$ in millions)	Observations
DCF	EV/EBITDA LTM 9.5x – 15.2x	4 792 – 7 630	<ul style="list-style-type: none"> <li>Assuming a WACC of 7% and a long-term growth rate in perpetuity of 1.65%, equal to the risk-free rate. This implies an exit multiple of 8.5x EBITDA<sub>26F</sub>.</li> </ul>
Trading Comparables	EV/EBITDA LTM 4.5x – 8.4x P/E LTM 13.2x – 17.1x	2 253 – 4 203 3 651 – 4 723	<ul style="list-style-type: none"> <li>Comparable companies include supermarket chains operating in US.</li> <li>Hypermarket and Warehouse chains were analyzed, but due to the underlying differences on the business models, were excluded from the benchmarking.</li> </ul>
Precedent Transactions	EV/EBITDA 7.5x – 10.7x	3 774 – 5 359	<ul style="list-style-type: none"> <li>Based on a sample of comparable deals of supermarket chains operating in the US since 2013.</li> </ul>
Transaction Premium	EV/EBITDA LTM 6.1x – 7.5x	3 039 – 3 776	<ul style="list-style-type: none"> <li>Based on the premium over the share price 1-day prior to the announcement for the deals on publicly traded targets.</li> </ul>

### Entry Valuation

Based on the different methodologies, with special emphasis on trading and precedent transactions EV/EBITDA multiples an **entry EV of \$4.3bn** was determined, resulting from an **EV/EBITDA LTM multiple of 8.5x**. This implies a premium of c.42% over the current market cap (as of Nov24, 2021).

*Note: For comparability purposes, P/E and Transaction Premium ranges were added Sprouts' current Net Debt to derive the Enterprise Value.*

**Debt to Value of c.65% aiming for high returns while still maintaining some financial flexibility.****1 Entry Leverage Metrics**64.5%  
Entry D/EV5.5x  
Entry  
ND/EBITDA\$2.75bn  
Total Debt**3 Rationale**

- The proposed capital structure has the objective of maximizing returns and at the same time provide some flexibility in the implementation of the business model.
- The underlying business model as well as the resilience of the industry, provide strong cash flow generation that enables the use of high leverage levels. Typically, in prior Supermarket LBOs an entry leverage of 60-70% of the transaction value has been used.
- Senior Debt was the main source of funding. Tranche A, was used since the company generates enough cash to repay the debt allowing for interest savings on the following years, provided soft covenants are likely to prevent dividend payments (cash trap).
- Notwithstanding this fact, an exaggerated high value on tranche A puts pressure on the business especially on the first year. Therefore, it is not recommended to go beyond the proposed level on this facility.
- The Preferred Equity portion conveys downside protection to the Fund with an hurdle rate of 8% of compound interest.

**2 Proposed Capital Structure**

	Amount (\$ in millions)	Maturity (years)	Pricing	x EBITDA
<b>Senior Debt</b>				
Tranche A	500	6	L+400bps	1.0x
Tranche B	750	7	L+425bps	1.5x
Tranche C	750	8	L+450bps	1.5x
<b>Junior Debt</b>				
Mezzanine	750	10	550bps +500 PIK	1.5x
<b>Equity</b>				
Preferred	1 368	10	PIK 800bps	2.7x
Common	275	-	-	0.5x

**Senior Debt was the main source of funding.****1 Sources and Uses**

Sources			Uses		
(\$ in millions)	Amount	% of total	Pricing	Amount	% of total
<b>Debt</b>					
<b>Senior</b>				Enterprise Value	4 265.4 97.1%
Term Loan A	500.0	11.4%	Libor + 400 bps	Total Fees	128.0 2.9%
Term Loan B	750.0	17.1%	Libor + 425 bps	Financing Fees	59.7 1.4%
Term Loan C	750.0	17.1%	Libor + 450 bps	Transaction Fees	25.6 0.6%
<b>Subordinated Debt</b>				Other Fees	42.7 1.0%
Mezzanine	750.0	17.1%	550 bps + PIK 500 bps		
<b>Total Debt</b>	<b>2 750.0</b>	<b>62.6%</b>			
<b>Preferred Equity (FRI)</b>	<b>1 368.4</b>	<b>31.1%</b>	PIK 800 bps		
<b>Common Equity</b>	<b>274.9</b>	<b>6.3%</b>			
Institutional Equity	233.7	5.3%			
Management Equity	41.2	0.9%			
Split to Mgmt	15%				
<b>Total Sources</b>	<b>4 393.3</b>	<b>100%</b>		<b>Total Uses</b>	<b>4 393.3 100%</b>

**3 Management Package**

- Sweet equity contribution of \$41.2m is determined based on the management team combined yearly salary. A multiple of 2.0x was used to determine their contribution.
- It is expected that the internal split is proportional to each executive salary.
- The sweet equity split was set to 15%, based on the expected returns upon exit.

**2 Comments****Uses:**

- Total uses of funds amounting to \$4 393.3m, of which c. \$4 265.4m are to be paid as EV, \$59.7m as financing fees, \$25.6m as transaction fees and \$42.1m as other fees.
- The EV was determined based on a multiple of 8.5x over LTM EBITDA.
- It is assumed that the current cash (\$260m) will be used to repay the company's current debt (\$261m).

**Sources:**

- Total equity contribution of \$1 643m, of which \$1 368m are in the form of Preferred Equity.
- Debt Financing on entry represents 64.5% of the total EV and 5.5x entry EBITDA.
- It is comprised of three senior debt facilities totaling \$2.0bn and a Mezzanine issuance of \$750m.

**Additional Facilities:**

- In addition to the facilities used to finance the deal, a revolving credit facility of \$300m (Libor + 400bps) is available for any shortfall that might arise during the investment period.

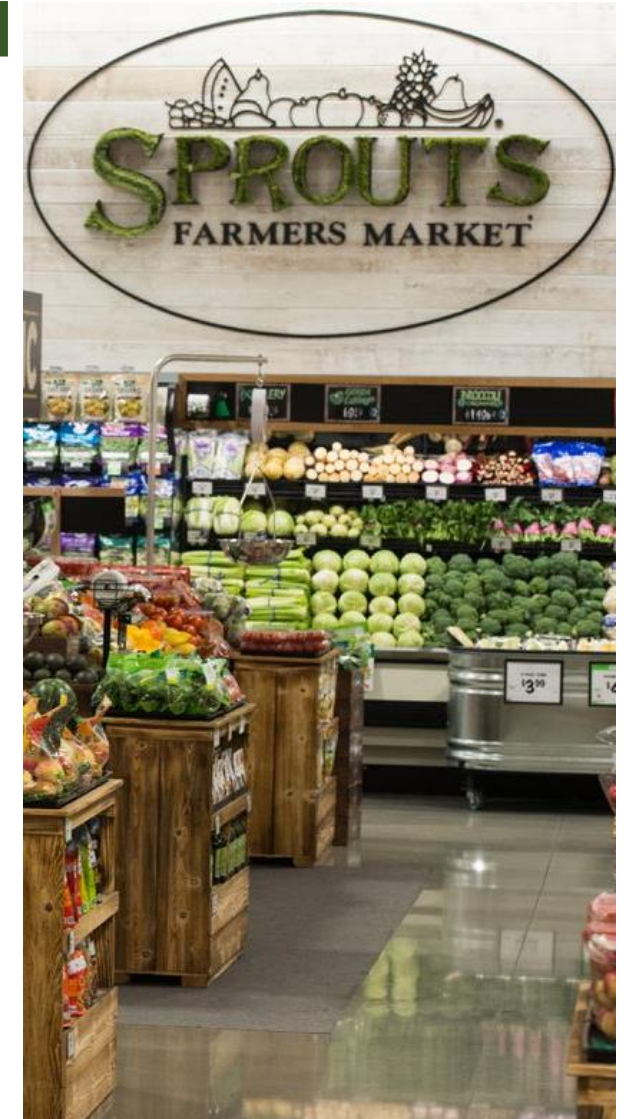
**Expected adjustments on the company's balance sheet upon transaction.**

(\$ in millions)	Sep21	Pro-Forma		Total	Adjustments
		Additions (+)	Subtractions (-)		
Cash and cash equivalents	260		260	-	▪ Cash Position used to finance the acquisition.
Accounts receivable, net	19			19	
Inventories	271			271	
Prepaid expenses and other current assets	36			36	
<b>Current Assets</b>	<b>587</b>	<b>-</b>	<b>260</b>	<b>327</b>	
PP&E, net	709	-		709	
Operating lease assets, net	1 062			1 062	
Intangible assets, net	185			185	
Goodwill	369	3 297		3 665	▪ Goodwill arising from the difference between the Equity Value implied in the transaction and the pre-deal shareholders' equity. It was assumed that no step-up of fixed assets or new intangible assets would arise from the transaction.
Other assets	15			15	
<b>Total Assets</b>	<b>2 926</b>	<b>3 297</b>	<b>260</b>	<b>5 963</b>	
Accounts Payable and Accrued Liabilities	317			317	
Accrued salaries and benefits	46			46	
Current portion of operating lease liabilities	143			143	
Current portion of finance lease liabilities	1		1	-	▪ Finance leases considered as financial debt, therefore included in the Net Debt to be refinanced.
<b>Current Liabilities</b>	<b>507</b>	<b>-</b>	<b>1</b>	<b>506</b>	
Revolver Credit Facility	-			-	
Term Loans	-	2 000		2 000	▪ New Debt to finance part of the deal comprising of tranche A \$500m, Tranches B and C \$750m each and Mezzanine loan of \$750m.
Mezzanine	-	750		750	
Long-term operating lease liabilities	1 088			1 088	▪ Financial Debt and Finance leases to be refinanced on the transaction.
Long-term debt and finance lease liabilities	260		260	-	
Other long-term liabilities	44			44	
Deferred income tax liability	60			60	
<b>Total Liabilities</b>	<b>1 958</b>	<b>2 750</b>	<b>261</b>	<b>4 447</b>	▪ Equity of the former owners, that are bought out on the transaction, as well as the financing and transaction fees (\$128m) that are charged directly on equity.
Common Stock	0	275	0	275	
Fixed Return Instrument (Preferred Equity)		1 368		1 368	▪ Equity of the new owners, \$275m of common equity, of which \$41.2m come from the management rollover and \$1 368m of the preferred equity invested by the fund.
Additional paid-in capital	700		700	-	
Accumulated other comprehensive income	(5)		(5)	-	
Retained Earnings	273		401	(128)	
<b>Total Shareholders' Equity</b>	<b>968</b>	<b>1 643</b>	<b>1 096</b>	<b>1 515</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>2 926</b>	<b>4 393</b>	<b>1 357</b>	<b>5 963</b>	

***Expected evolution of the Income Statement over the holding period.***

<b>Historical and Forecasted Income Statement</b>									
<b>(\$ in millions)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>LTM</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>Revenue</b>	<b>5 207</b>	<b>5 635</b>	<b>6 469</b>	<b>6 209</b>	<b>6 625</b>	<b>7 239</b>	<b>7 879</b>	<b>8 536</b>	<b>9 209</b>
Cost of Goods Sold	(3 457)	(3 738)	(4 087)	(3 942)	(4 207)	(4 592)	(4 992)	(5 403)	(5 822)
<b>Gross Profit</b>	<b>1 750</b>	<b>1 897</b>	<b>2 382</b>	<b>2 267</b>	<b>2 418</b>	<b>2 647</b>	<b>2 887</b>	<b>3 134</b>	<b>3 387</b>
SG&A	(1 404)	(1 550)	(1 864)	(1 763)	(1 876)	(2 047)	(2 225)	(2 408)	(2 596)
Store Closures and other costs	(12)	(7)	0	(2)	(2)	(2)	(2)	(2)	(2)
<b>EBITDA</b>	<b>334</b>	<b>340</b>	<b>518</b>	<b>502</b>	<b>541</b>	<b>599</b>	<b>660</b>	<b>724</b>	<b>790</b>
D&A	(111)	(123)	(127)	(126)	(145)	(163)	(183)	(204)	(227)
<b>EBIT</b>	<b>223</b>	<b>217</b>	<b>392</b>	<b>376</b>	<b>395</b>	<b>435</b>	<b>477</b>	<b>519</b>	<b>562</b>
Net Interest expense	(27)	(21)	(15)	(12)	(175)	(183)	(186)	(187)	(187)
Other Income	0	-	-	-	-	-	-	-	-
<b>EBT</b>	<b>196</b>	<b>196</b>	<b>377</b>	<b>364</b>	<b>220</b>	<b>253</b>	<b>291</b>	<b>332</b>	<b>376</b>
Taxes	(37)	(47)	(89)	(87)	(53)	(61)	(70)	(80)	(90)
<i>Effective tax rate (%)</i>	<i>19.0%</i>	<i>23.7%</i>	<i>23.7%</i>	<i>24.0%</i>	<i>24.0%</i>	<i>24.0%</i>	<i>24.0%</i>	<i>24.0%</i>	<i>24.0%</i>
Preferred Dividend (FRI)	-	-	-	-	(109)	(118)	(128)	(138)	(149)
<b>Net Income to common holders</b>	<b>159</b>	<b>150</b>	<b>287</b>	<b>276</b>	<b>58</b>	<b>74</b>	<b>93</b>	<b>114</b>	<b>136</b>

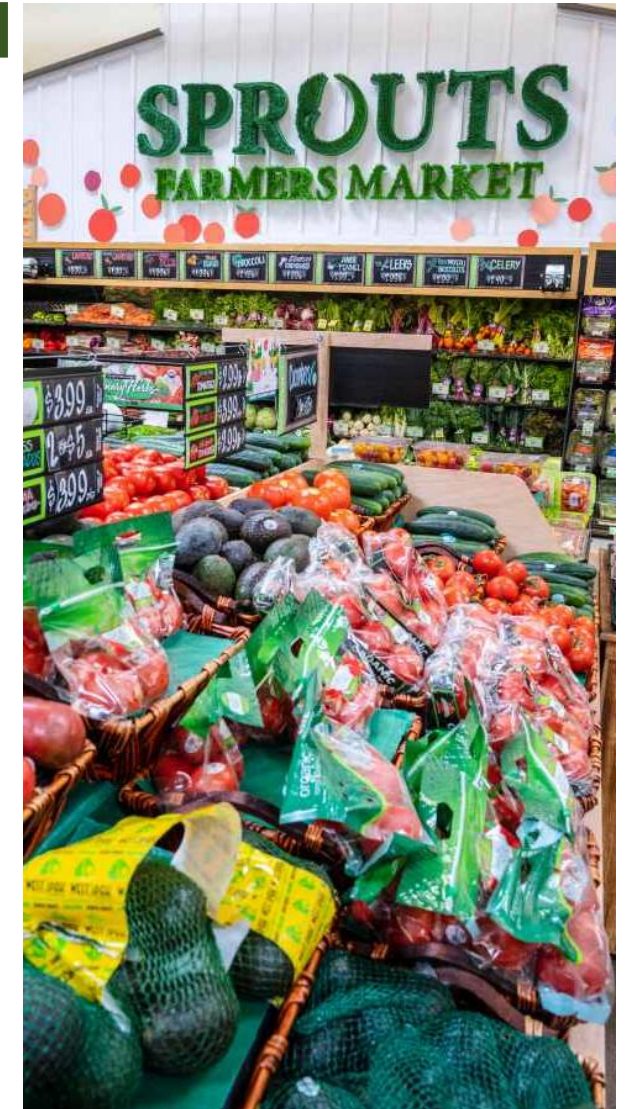
- Preferred Dividends are assumed to be non-deductible for tax purposes.
- Net Interest expense comprises the interest paid for the senior and junior debt facilities net of interest received on the accumulated cash position, equal to the Libor rate.



**Expected evolution of the Cash-Flow Statement over the holding period.**

<b>Historical and Forecasted Cash-Flow Statement</b>									
<b>(\$ in millions)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>LTM</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>EBITDA</b>	<b>334</b>	<b>340</b>	<b>518</b>	<b>502</b>	<b>541</b>	<b>599</b>	<b>660</b>	<b>724</b>	<b>790</b>
Taxes	(37)	(47)	(89)	(87)	(53)	(61)	(70)	(80)	(90)
Net Interest expense	(27)	(21)	(15)	(12)	(175)	(183)	(186)	(187)	(187)
PIK interest	-	-	-	-	38	39	41	43	46
Δ NWC	(38)	70	57	15	(38)	(4)	(5)	(5)	(5)
Accrued salaries and benefits	3	0	28	(26)	13	5	6	6	6
Deferred income taxes	23	(0)	4	6	(0)	(0)	(0)	(0)	(0)
Other Adjustments	36	12	(9)	(17)	(8)	(8)	(8)	(8)	(8)
<b>Cash-Flow from Operating activities</b>	<b>294</b>	<b>354</b>	<b>494</b>	<b>380</b>	<b>316</b>	<b>388</b>	<b>438</b>	<b>493</b>	<b>551</b>
Capital expenditures	(177)	(183)	(122)	(96)	(209)	(228)	(249)	(272)	(297)
<b>Cash-Flow from Investing activities</b>	<b>(177)</b>	<b>(183)</b>	<b>(122)</b>	<b>(96)</b>	<b>(209)</b>	<b>(228)</b>	<b>(249)</b>	<b>(272)</b>	<b>(297)</b>
Revolver borrowings (repayments)	-	-	-	-	-	-	-	-	-
Term facilities borrowings (repayments)	-	-	-	-	(83)	(83)	(83)	(83)	(83)
Mezzanine debt borrowings (repayments)	-	-	-	-	-	-	-	-	-
Preferred Equity borrowing (repayments)	-	-	-	-	-	-	-	-	-
Dividends to common holders	-	-	-	-	-	-	-	-	-
Other Inflows (outflows)	(135)	(87)	(287)	(161)	-	-	-	-	-
<b>Cash-Flow from Financing activities</b>	<b>(135)</b>	<b>(87)</b>	<b>(287)</b>	<b>(161)</b>	<b>(83)</b>	<b>(83)</b>	<b>(83)</b>	<b>(83)</b>	<b>(83)</b>
<b>Net Change in Cash</b>	<b>(18)</b>	<b>84</b>	<b>84</b>	<b>123</b>	<b>25</b>	<b>76</b>	<b>106</b>	<b>138</b>	<b>171</b>

- Preferred Dividends are compound every year until maturity, thus no adjustment is needed in the cash-flow statement.
- PIK interest on the mezzanine issuance is also non-cash, being added back in the CF statement.
- Only Term Loan A is amortizing during the investment period.
- No dividends are paid to common holders during the holding period, as soft covenants are likely to prevent any distribution.



**Expected evolution of Sprouts' Balance Sheet over the holding period.****Historical and Forecasted Balance Sheet**

(\$ in millions)	2018A	2019A	2020A Sep21 PF	2022F	2023F	2024F	2025F	2026F	
Cash and cash equivalents	2	85	170	-	25	101	206	344	515
Accounts receivable, net	41	16	15	19	18	20	22	23	25
Inventories	264	276	254	271	316	345	375	406	438
Prepaid expenses and other current assets	27	11	27	36	30	33	36	39	42
<b>Current Assets</b>	<b>334</b>	<b>388</b>	<b>466</b>	<b>327</b>	<b>389</b>	<b>499</b>	<b>639</b>	<b>813</b>	<b>1 020</b>
PP&E, net	766	742	727	709	772	837	903	971	1 041
Operating lease assets, net	-	1 028	1 045	1 062	1 208	1 304	1 404	1 507	1 612
Intangible assets, net	195	185	185	185	185	185	185	185	185
Goodwill	368	368	369	3 665	3 665	3 665	3 665	3 665	3 665
Other assets	12	12	15	15	19	24	28	33	37
<b>Total Assets</b>	<b>1 676</b>	<b>2 723</b>	<b>2 806</b>	<b>5 963</b>	<b>6 239</b>	<b>6 515</b>	<b>6 826</b>	<b>7 174</b>	<b>7 561</b>
Accounts Payable	254	259	283	317	316	345	375	406	438
Accrued salaries and benefits	49	49	77	46	59	64	70	76	82
Accrued income tax	-	2	-	-	-	-	-	-	-
Current portion of capital and financing lease obligations	7	-	-	-	-	-	-	-	-
Current portion of operating lease liabilities	-	106	136	143	146	169	180	192	204
Current portion of finance lease liabilities	-	1	1	-	-	-	-	-	-
<b>Current Liabilities</b>	<b>310</b>	<b>417</b>	<b>496</b>	<b>506</b>	<b>521</b>	<b>578</b>	<b>626</b>	<b>674</b>	<b>724</b>
Revolver Credit Facility	-	-	-	-	-	-	-	-	-
Term Loans	-	-	-	2 000	1 917	1 833	1 750	1 667	1 583
Mezzanine	-	-	-	750	788	827	868	912	957
Long-term operating lease liabilities	-	1 079	1 070	1 088	1 231	1 305	1 393	1 484	1 577
Long-term capital and financing lease obligations	120	-	-	-	-	-	-	-	-
Long-term debt and finance lease liabilities	453	549	260	-	-	-	-	-	-
Other long-term liabilities	153	42	41	44	40	37	34	31	27
Deferred income tax liability	50	54	58	60	60	60	60	59	59
<b>Total Liabilities</b>	<b>1 086</b>	<b>2 141</b>	<b>1 925</b>	<b>4 447</b>	<b>4 556</b>	<b>4 640</b>	<b>4 730</b>	<b>4 827</b>	<b>4 928</b>
Common Stock	0	0	0	275	275	275	275	275	275
Fixed Return Instrument (Preferred Equity)	-	-	-	1 368	1 478	1 596	1 724	1 862	2 011
Additional paid-in capital	657	671	687	-	-	-	-	-	-
Accumulated other comprehensive income	1	(5)	(8)	-	-	-	-	-	-
Retained Earnings	(69)	(84)	203	(128)	(70)	4	97	211	348
<b>Total Shareholders' Equity</b>	<b>589</b>	<b>582</b>	<b>881</b>	<b>1 515</b>	<b>1 683</b>	<b>1 875</b>	<b>2 095</b>	<b>2 348</b>	<b>2 633</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>1 676</b>	<b>2 723</b>	<b>2 806</b>	<b>5 963</b>	<b>6 239</b>	<b>6 515</b>	<b>6 826</b>	<b>7 174</b>	<b>7 561</b>



**Detailed Debt Schedule for the investment horizon.****Senior and Junior Debt Schedules**

	2022F	2023F	2024F	2025F	2026F
<b>Benchmark rate</b>					
Fwd. Libor Curve	0.54%	0.94%	1.19%	1.32%	1.41%
<b>Term Loan A</b>					
<b>Beginning of the Period</b>	<b>500</b>	<b>417</b>	<b>333</b>	<b>250</b>	<b>167</b>
Issuances	-	-	-	-	-
Repayments	(83)	(83)	(83)	(83)	(83)
<b>End of the Period</b>	<b>417</b>	<b>333</b>	<b>250</b>	<b>167</b>	<b>83</b>
<i>Interest rate on Term Loan A</i>	4.54%	4.94%	5.19%	5.32%	5.41%
Interest expense	(23)	(21)	(17)	(13)	(9)
<b>Term Loan B</b>					
<b>Beginning of the Period</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>
Issuances	-	-	-	-	-
Repayments	-	-	-	-	-
<b>End of the Period</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>
<i>Interest rate on Term Loan B</i>	4.79%	5.19%	5.44%	5.57%	5.66%
Interest expense	(36)	(39)	(41)	(42)	(42)
<b>Term Loan C</b>					
<b>Beginning of the Period</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>
Issuances	-	-	-	-	-
Repayments	-	-	-	-	-
<b>End of the Period</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>
<i>Interest rate on Term Loan C</i>	5.04%	5.44%	5.69%	5.82%	5.91%
Interest expense	(38)	(41)	(43)	(44)	(44)

	2022F	2023F	2024F	2025F	2026F
<b>Mezzanine Debt</b>					
<b>Beginning of the Period</b>	<b>750</b>	<b>788</b>	<b>827</b>	<b>868</b>	<b>912</b>
Issuances/compounded interest	38	39	41	43	46
Repayments	-	-	-	-	-
<b>End of the Period</b>	<b>788</b>	<b>827</b>	<b>868</b>	<b>912</b>	<b>957</b>
<i>Cash Interest rate</i>	5.50%	5.50%	5.50%	5.50%	5.50%
Cash Interest expense	(41)	(43)	(45)	(48)	(50)
<i>PIK interest rate</i>	5.00%	5.00%	5.00%	5.00%	5.00%
PIK Interest expense	(38)	(39)	(41)	(43)	(46)
Total Mezzanine Interest expense	(79)	(83)	(87)	(91)	(96)

- Senior Debt pays cash interest equal to the Libor rate plus the spread every year.
- Term Loan A is the only amortizing loan, all others are bullet.
- Mezzanine pays a fixed cash interest of 5.5% and has a PIK component of 5%.
- Revolving credit facility is not expected to be drawn at any time during the investment period, it serves as a cushion in case of unexpected events that raise short-term liquidity issues. A cash sweep soft covenant was assumed.

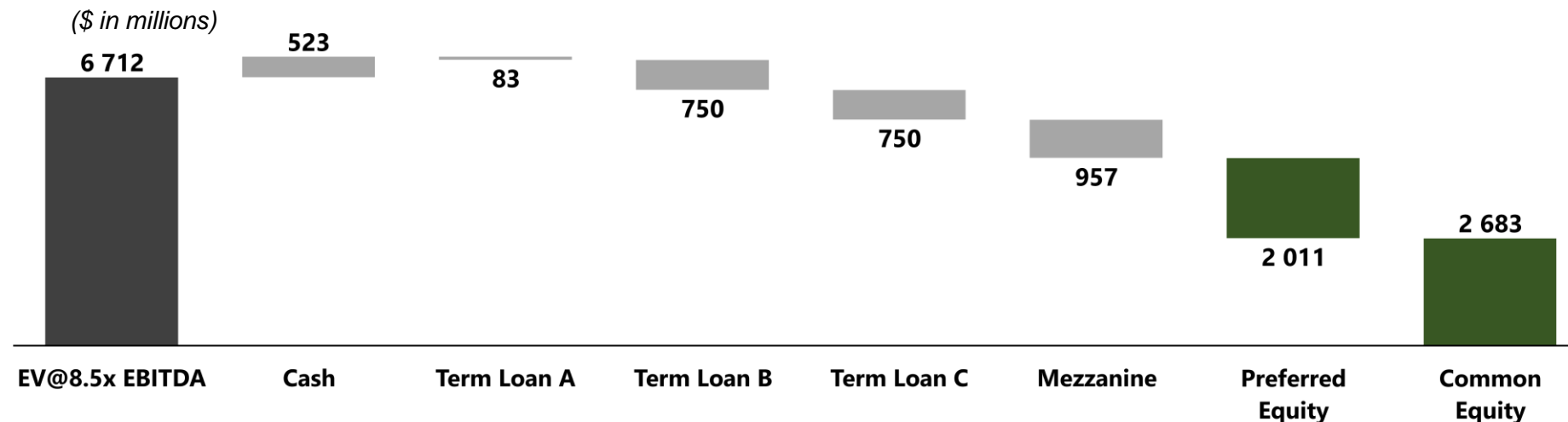
**Base case suggests an IRR of 21.7% and a Money Multiple of 2.7x exiting in 2026.**

### 1 Fund Returns

**2.7x**  
Money Multiple

**21.7%**  
IRR

### 2 Exit Waterfall – Year 2026



### 3 Fund and Management Returns per year of exit

	2022F	2023F	2024F	2025F	2026F
<b>Exit Proceeds (\$m)</b>					
Fund	1,851	2,390	2,976	3,608	4,285
Management	66	140	221	308	401
<b>IRR</b>					
Fund	15.5%	22.1%	22.9%	22.5%	21.7%
Management	59.6%	84.3%	75.0%	65.3%	57.6%
<b>Money Multiple</b>					
Fund	1.2x	1.5x	1.9x	2.3x	2.7x
Management	1.6x	3.4x	5.4x	7.5x	9.7x

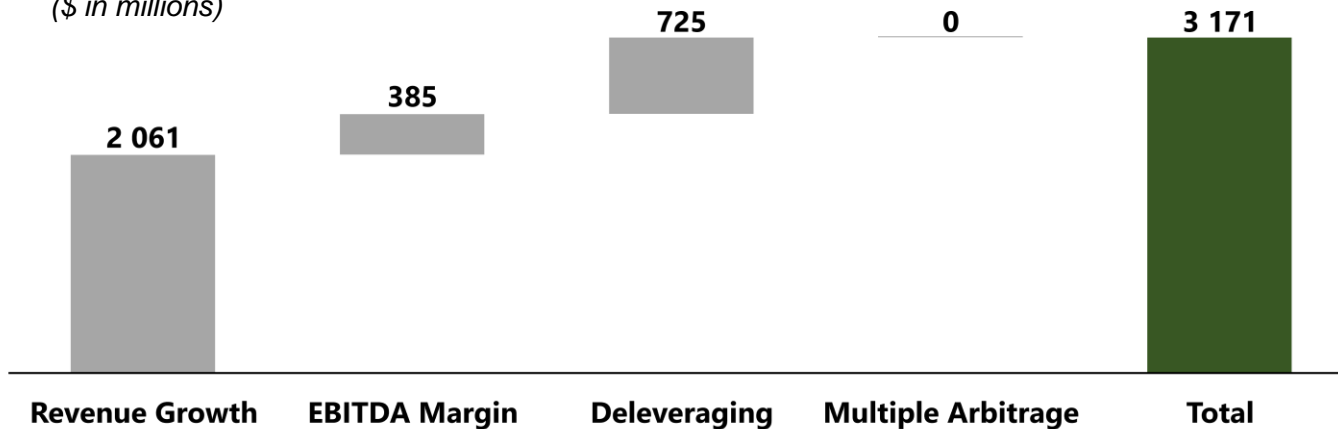
### 4 Key Conclusions

- In 2026 the EBITDA is forecasted to reach \$790m, which assuming an **exit multiple of 8.5x** implies an **Enterprise Value upon exit of \$6.7bn**.
- By the target exit year, the company is expected to have a **Net Debt position of \$2.0bn**, implying an **equity value of around \$4.7bn**.
- The **fund's exit proceeds** would total **\$4.3bn**, \$2.0bn from the preferred equity and the remainder \$2.3bn from the 85% common equity stake, achieving an **annualized return of 21.7%** per year and a **Money Multiple of 2.7x**.
- The **management proceeds** would total **\$401m** for an initial investment of \$41.2m, yielding a **Money Multiple of 9.7x** and an **IRR of 57.6%**.

**Total value creation of \$3.2bn and healthy credit statistics well above defined thresholds.**

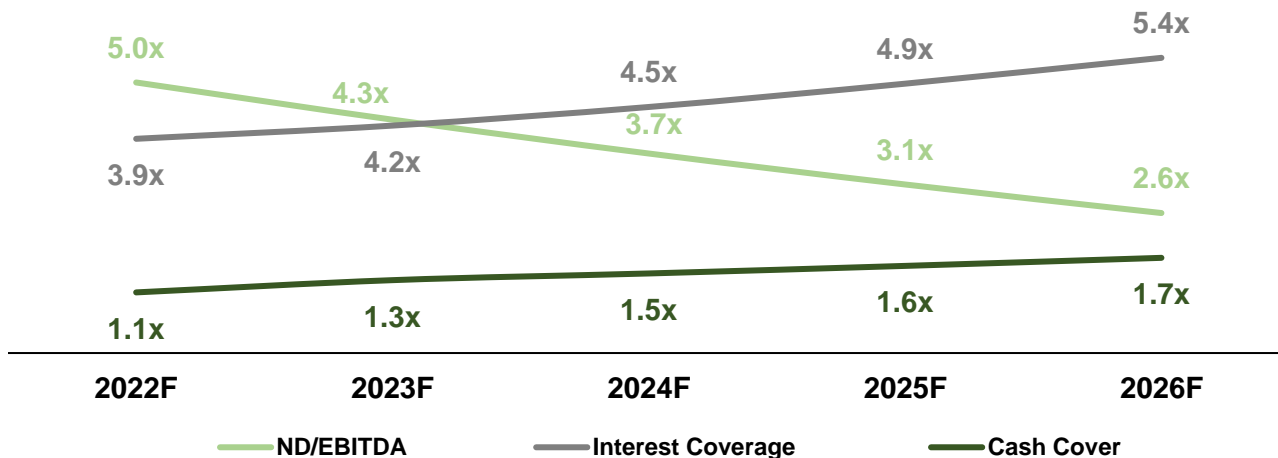
**1 Value Creation Breakdown**

(\$ in millions)



- Revenue growth is the main driver of value creation, representing c.65% of total value created, supported mainly by the opening of new stores.
- EBITDA Margin represents 12% of the total, due to the expected 0.5% increase arising mainly from higher weight of private label items as well as from the lower rental expense from the smaller store layout.
- Deleveraging is responsible for the remainder 23%, as a result of the repayment of 5/6 of the Term loan A and the \$515m of accumulated cash generation.

**2 Covenants**



- Cash cover soundly above one every year, expected to improve as the business grows supported on new unit openings.
- Interest coverage also expected to improve year after year, supported by the marginal decrease in cash interest from the amortization of the Term Loan A facility and the growth of the business.
- Net Debt to EBITDA expected to decrease every year, supported both by the increase in EBITDA as well as by the decrease in Net Debt arising from the amortization of the Term Loan A facility and by the Cash Generation.
- The company complies with all covenant thresholds defined under the bank case.

**Sensitivity Analysis is performed on the main assumptions.****1 Money Multiple**

		Entry Multiple				
		6.5x	7.5x	8.5x	9.5x	10.5x
Exit Multiple	6.5x	4.8x	2.6x	1.8x	1.4x	1.2x
	7.5x	6.0x	3.2x	2.3x	1.8x	1.5x
	8.5x	7.1x	3.8x	<b>2.7x</b>	2.1x	1.7x
	9.5x	8.3x	4.5x	3.1x	2.4x	2.0x
	10.5x	9.5x	5.1x	3.5x	2.7x	2.2x

		Store Openings per year				
		15	20	25	30	35
Organic Growth CAGR 22-26	1.4%	1.5x	1.6x	1.8x	1.9x	2.1x
	1.9%	1.9x	2.1x	2.2x	2.4x	2.5x
	2.4%	2.3x	2.5x	<b>2.7x</b>	2.8x	3.0x
	2.9%	2.7x	2.9x	3.1x	3.3x	3.5x
	3.4%	3.1x	3.4x	3.6x	3.8x	4.0x

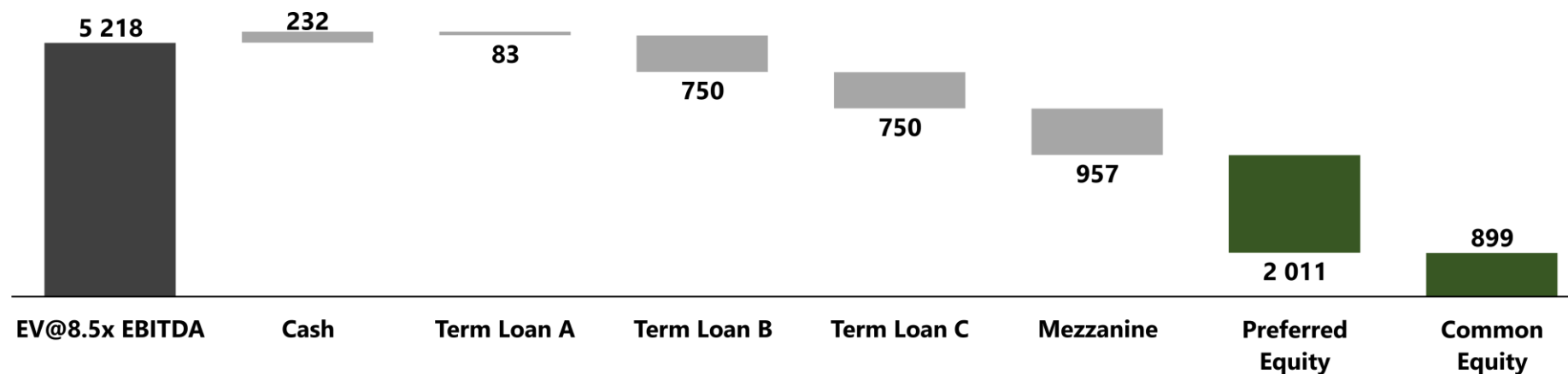
**2 IRR**

		Entry Multiple				
		6.5x	7.5x	8.5x	9.5x	10.5x
Exit Multiple	6.5x	36.7%	21.1%	12.9%	7.6%	3.8%
	7.5x	42.9%	26.4%	17.7%	12.0%	7.8%
	8.5x	48.2%	30.9%	<b>21.7%</b>	15.7%	11.4%
	9.5x	52.8%	34.9%	25.3%	19.1%	14.5%
	10.5x	56.9%	38.4%	28.6%	22.1%	17.3%

		Store Openings per year				
		15	20	25	30	35
Organic Growth CAGR 22-26	1.4%	8.5%	10.5%	12.3%	14.0%	15.6%
	1.9%	13.8%	15.6%	17.3%	19.0%	20.5%
	2.4%	18.3%	20.0%	<b>21.7%</b>	23.3%	24.8%
	2.9%	22.2%	24.0%	25.6%	27.2%	28.6%
	3.4%	25.8%	27.5%	29.1%	30.7%	32.1%

**Decent returns under a very conservative set of assumptions.****1 Fund Returns**1.7x  
Money Multiple11.6%  
IRR**2 Exit Waterfall – Year 2026**

(\$ in millions)

**3 Fund and Management Returns per year of exit**

	2022F	2023F	2024F	2025F	2026F
<b>Exit Proceeds (\$m)</b>					
Fund	1,670	1,951	2,228	2,503	2,775
Management	34	63	89	113	135
<b>IRR</b>					
Fund	4.2%	10.3%	11.6%	11.8%	11.6%
Management	-17.8%	23.2%	29.2%	28.7%	26.7%
<b>Money Multiple</b>					
Fund	1.0x	1.2x	1.4x	1.6x	1.7x
Management	0.8x	1.5x	2.2x	2.7x	3.3x

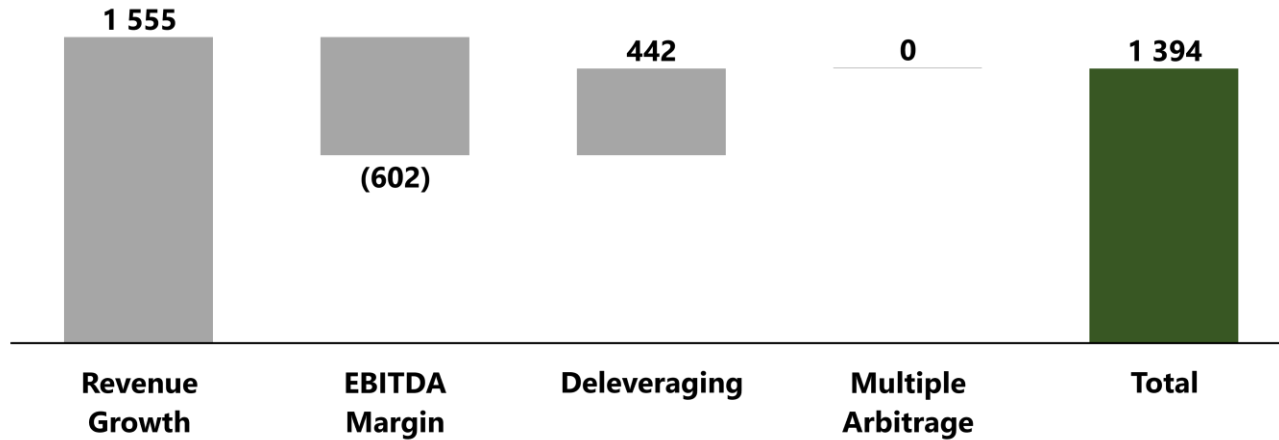
**4 Key Conclusions**

- Under bank case set of assumptions, EBITDA is forecasted to reach \$614m by 2026, which assuming an **exit multiple of 8.5x** implies an Enterprise Value upon exit of \$5.2bn.
- By the target exit year, the company is expected to have a **Net Debt position of c.\$2.3bn**, implying an **equity value of around \$2.9bn**.
- The **fund's exit proceeds** would total **\$2.8bn**, 2.0bn from the preferred equity and the remainder \$764m from the 85% common equity stake, achieving an **annualized return of 11.6%** per year and a **Money Multiple of 1.7x**.
- Under the bank case, **management proceeds** would total **\$135m** for an initial investment of \$41.2m, yielding a **Money Multiple of 3.3x** and an **IRR of 26.7%**.

**Total value creation of c.\$1.4bn under very conservative set of assumptions.**

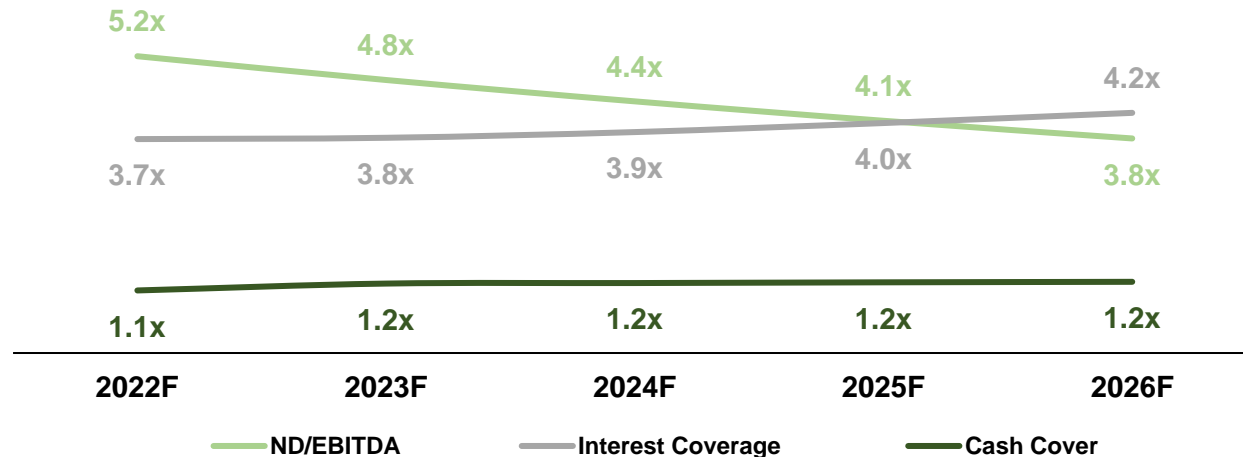
**1 Value Creation Breakdown**

(\$ in millions)



- Bank case assumes a same-store growth of 70% of the inflation rate, while SG&A grow at full inflation. Moreover, it also assumes no gross margin gain.
- In terms of network expansion, it assumes 20 openings a year.
- Under this scenario, the EBITDA margin suffers a deterioration of 0.8% over the holding period.
- Value creation arises only from the growth in revenue and deleveraging, both in smaller amounts than the ones on the base case.

**2 Covenants**



- Cash cover above one every year even under a very conservative set of assumptions.
- Interest cover improves year after year, supported by the marginal decrease in cash interest from the paydown of the Term Loan A facility and the growth of the business.
- Net Debt to EBITDA expected to decrease every year, supported both by the increase in EBITDA as well as by the decrease in Net Debt arising from the amortization of the Term Loan A facility and by the Cash Generation.

## Commercial, financial and legal & HR due diligence findings are crucial to finalize the deal.

	Topic	Focus Aspects	Potential Red Flags	Relevance
Commercial	Competition, market and trends	<ul style="list-style-type: none"> <li>Analyze Sprouts' competitive positioning in the market.</li> <li>Evaluate expected market growth trends during the next 5 years.</li> <li>Special focus on US east coast forecasts.</li> </ul>	<ul style="list-style-type: none"> <li>Significant degree of substitutability between supermarket chains.</li> <li>Overestimation of potential demand in east coast could damage the expansion plan.</li> </ul>	
	New store format	<ul style="list-style-type: none"> <li>Verify if store traffic and sales level of smaller stores are similar to legacy ones.</li> </ul>	<ul style="list-style-type: none"> <li>Store traffic decreased in 2020 (could be caused by the pandemic or by the failure of new strategy).</li> <li>New format could be less appealing for customers.</li> </ul>	
Oper. <sup>1</sup>	Capital Expenditures	<ul style="list-style-type: none"> <li>Confirm if smaller stores opened in 2021 benefited from a 20% reduction of its capex (as stated by management).</li> </ul>	<ul style="list-style-type: none"> <li>Lower level of capex savings would imply lower returns on invested capital.</li> <li>Cash flow could be significantly impacted.</li> </ul>	
Financial	Financial Statements	<ul style="list-style-type: none"> <li>Evaluate the differences in sales between legacy and new stores as well as the time needed for the latter to catch up.</li> <li>Assess profitability of smaller stores.</li> <li>Quantify the costs from Online sales and confirm if those are entirely passed through to the costumers.</li> </ul>	<ul style="list-style-type: none"> <li>Newer stores not converging towards the profitability of the mature ones. An update of the business plan is convenient once store by store data is provided.</li> <li>Inability to pass online sales costs to costumers.</li> </ul>	
Legal & HR	Supplier Contracts	<ul style="list-style-type: none"> <li>Assess current relationship with suppliers (bargaining power).</li> <li>Verify maturity of contracts in place and potentially identify additional suppliers to diversify purchases.</li> </ul>	<ul style="list-style-type: none"> <li>Two non-produce suppliers represent material risks.</li> <li>Any disruption in the supplying process could lead to product shortage damaging sales.</li> </ul>	
	Executive Team	<ul style="list-style-type: none"> <li>Assessment of the fit of the executive team.</li> <li>Determine if members perform well as a team.</li> </ul>	<ul style="list-style-type: none"> <li>5/7 members joined executive team less than 3 years ago.</li> </ul>	
Env. <sup>2</sup>	Organic Leverage	<ul style="list-style-type: none"> <li>Verify if all requirements are being met by both suppliers and Sprouts' stores to meet organic products' standards.</li> </ul>	<ul style="list-style-type: none"> <li>Sprouts operates in the organic and natural segments, being the quality of its products a key selling factor.</li> </ul>	

1. Operational DD  
2. Environmental DD

### **CD&R acquired Morrisons for an EV of £9.8bn valuing the company at 9.1x EBITDA.**



**£9.8bn**  
Enterprise  
Value

**9.1x**  
EV/EBITDA

**8.3x**  
ND/EBITDA

**61%**  
Premium

#### 1 About the Target

- WM Morrison Supermarkets Ltd. is a **grocery retailer** that operates through a chain of supermarkets with adjoined fuel stations **in England**. The company has a **network of 497 stores and 338 fuel stations**. It also offers an **online delivery service in partnership with Amazon**.

#### 2 Deal Highlights

- Clayton Dubilier & Rice **acquired 100% of WM Morrison Supermarkets Ltd for £9.8bn**. The deal was announced on Aug 20<sup>th</sup>, 2021 and was completed by Oct 28<sup>th</sup>, 2021.
- The purchase price implies an **EV/EBITDA of 9.1x** and a **P/E of 20.9x** over the adjusted figures for the 52-week period ending on Jan 31<sup>st</sup>, 2021.
- In terms of strategy, Morrison's is an attractive target **to engage in a Sale & Leaseback strategy** since it **owns c.90% of its stores as well as some manufacturing facilities**, which is well above the industry average. However, one of the key drivers for this deal to be backed by the target's board was CD&R's commitment **not to engage in any material S&L of the firm real estate portfolio**.

#### 3 Capital Structure

- The capital structure comprises of an **Equity Investment of £3.4bn**, of which **£1.3bn in the form of Preferred Shares** with a **fixed return of 11.5% a year** (compound interest).
- **Debt Financing totals £6.6bn**, split into **£2bn from term loans from banks**, **£3.6bn of bonds** and **£1bn from a revolving credit facility**.
- Debt Financing is provided by Goldman Sachs, Bank of America, Mizuho and BNP Paribas.
- This results on an **entry leverage of 57% of the Enterprise Value** and **8.3x EBITDA**.

## ***Apollo acquired The Fresh Market Inc. for an EV of \$1.3bn valuing the company at 7.5x EBITDA.***



**\$1.3bn**  
Enterprise  
Value

**7.5x**  
EV/EBITDA

**4.5x**  
ND/EBITDA

**23%**  
Premium

### 1 About the Target

- The Fresh Market Inc is a **grocery retailer** that operates a chain of supermarkets, **specialized in premium perishable food items**. At the time of the deal, the company had **184 stores** opened **across 20 states**.

### 2 Deal Highlights

- Apollo Global Management **acquired 100% of The Fresh Market Inc for \$1.3bn**. The deal was announced on Mar 14<sup>th</sup>, 2016 and was completed by Apr 28<sup>th</sup>, 2016.
- The purchase price implies an **EV/EBITDA multiple of 7.5x**.
- In terms of strategy, Apollo's acquisition is **targeting a turnaround strategy** as the retailer is struggling to keep up with Whole Foods at the premium segment while being squeezed by Walmart on the value segment.

### 3 Capital Structure

- The capital structure comprises of an **Equity Investment of \$525m**, and \$800m of Debt financing through the issuance of new Notes. Additionally, the buyer also entered a new **\$100m revolving credit facility**.
- This results on an **entry leverage of 60% of the Enterprise Value** and **4.5x entry EBITDA**.

### 4 Exit Options

- The exit route chosen was to list the company again, having already **submitted an S-1 registration statement for an IPO on July 16<sup>th</sup> 2021**. However, the number of shares offered as well as the price range are yet to be determined.