

Grocery Stores

INDUSTRY OVERVIEW

The grocery sector as a whole continues to perform well, though there have been some clear winners and losers. Continued consolidation was seen throughout 2015, with more expected in the coming months. Retailers are keeping a close watch on pricing and promotions to drive sales and protect margin in this highly competitive market.



TREND TRACKER

Three month NOLVs	Consistent
Sales Trends	Increasing ↑
Gross Margin	Mixed ⇅
Discounting	Consistent

NOLVs: NOLVs have remained relatively consistent for most companies.

Sales Trends: Sales have increased for most of the key industry leaders.

Gross Margin: Overall gross margin has been relatively consistent. However, non-perishable gross margin has been up, while perishable has been down, generally due to increased offerings of convenience items (fresh cut fruits, etc.), which can increase shrink.

Discounting: Discounting has been relatively stable with retailers continuing to offer targeted promotions to drive traffic.

KEY INDUSTRY DRIVERS

- **Consolidation:** Competitive pressures are weighing heavily on smaller, regional players. Rising costs require economies of scale to achieve better purchasing power and leverage distribution platforms. Recent activity includes the merger of Albertsons and Safeway, which led to Haggen acquiring 146 Safeway/Albertsons stores. Haggen's acquisition has been tumultuous, causing it to ultimately file for bankruptcy and announce plans to close/sell most of its newly-acquired stores. Delhaize Group and Royal Ahold N.V. announced a \$29 billion merger deal expected to close in 2016, while A&P filed for Chapter 11 bankruptcy and is closing/selling many of its stores. SpartanNash and Smart and Final have also expressed interest in growing through acquisitions.
- **Alternative formats:** Alternative formats continue to increase in popularity, particularly those focused on natural and organic products. Whole Foods unveiled plans to launch a new lower-priced format in 2016 targeting millennials. Low-price European chain Aldi is also expanding. Smaller formats are growing, especially in urban markets and within the discount sector, such as Wal-Mart's Neighborhood Markets stores and Target's TargetExpress stores. Hannaford also recently opened its first small-format store. Traditional supermarkets are expected to reduce their selling space by opening smaller stores and by retrofitting existing stores to have larger warehouse areas to stage home deliveries and fulfill click-and-collect orders.
- **Pricing:** Recent volatility in protein and produce prices should subside in the coming months, though egg prices will remain high. The USDA is forecasting either deflation or minimal inflation going forward.
- **Customer service:** Supermarkets continue to focus on prepared foods, expanding on-site cafes, in-store clinics, and health-related kiosks. Many are adding grocery pickup and home delivery options to compete with Peapod and Amazon Fresh. Amazon is even testing a new drive-thru grocery concept. Adding convenience options is critical to remain competitive, but comes at a price, namely higher labor costs and logistical difficulties.

SALES TRENDS

The following table illustrates comparable store sales trends for major public grocers (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Kroger	5.3%	5.7%	6.0%	5.6%
Supervalu	(0.3%)	1.1%	2.3%	0.4%
Ahold USA	1.9%	0.2%	0.3%	1.2%
Delhaize Group	2.5%	2.5%	3.6%	5.3%
Publix	4.1%	5.3%	6.4%	5.0%
Whole Foods	1.3%	3.6%	4.5%	3.1%
The Fresh Market	(1.0%)	(0.1%)	3.0%	3.3%
Weiss Markets	4.3%	4.7%	3.5%	2.2%

Note(s): All sales exclude fuel. The most recent quarter for Kroger ended August 15, 2015; Supervalu ended June 20, 2015 and reflects Retail Food operations only and excludes Save-a-Lot; Ahold USA ended July 12, 2015; Delhaize Group ended June 30, 2015; Publix and Weiss Markets ended June 27, 2015; Whole Foods ended July 5, 2015; The Fresh Market ended July 26, 2015.

OUTLOOK

The supermarket industry remains poised for continued transactions as companies attempt to grow through acquisition and achieve economies of scale.

Monitor Information

GA's Retail Monitor highlights key industry drivers within the retail sector and how they relate to GA's valuation process and current trends in recovery values. As the retail industry is impacted by consumer spending patterns and various macro and microeconomic factors, timely and accurate information is essential. GA strives to contextualize important indicators to provide a curated perspective of the market for our clients' needs. Such indicators include general industry trends, comparable store sales trends, gross margin changes, and discounting activity. Any comparable store sales illustrated in this monitor reflect figures as they have been reported by public retailers. The methodology for calculating comparable store sales may vary by company.

GA welcomes the opportunity to make our expertise available to you in every possible way. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer using the contact information shown in this and all *Retail Monitor* issues.

GA's *Retail Monitor* provides a brief overview highlighting specific sectors of the retail industry. The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

Experience

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

Target Canada	Cache	Office Depot/Max	Circuit City
Macy's	Fashion Bug	Mervyns	Tower Records
Fortunoff	Frederick's of Hollywood	Eddie Bauer	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders
Jo-Ann Fabrics	Boot Town	A&P	Movie Gallery

These experiences, in addition to numerous others, provide GA with valuable insight into the market trends and the consumer response that can be expected in a liquidation. They give us an understanding as to recovery values that can be achieved for retailers within these industries. In addition to this liquidation experience, GA has worked with and appraised numerous retailers, including industry leaders within each sector. While our clients remain confidential, GA's extensive list of appraisal experience includes:

- Major regional grocery store chains including one with a store base of upwards of 800 and net sales in excess of \$10.0 billion, as well as smaller local grocery store retailers and pharmacies.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 71 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Numerous retailers of apparel and accessories, including major department store retailers and a variety of specialty retailers that are found in malls throughout the country.
- Leading off-price retailers of apparel and accessories, including major national and regional chains.
- Retailers of consumer electronics, including smaller, more localized chains, as well as regional, national, and international retailers with close to 4,500 store locations.
- Many jewelry retailers, including one of the largest in the United States, with locations throughout the country and net sales exceeding \$1.4 billion annually.
- Major national and regional discount and dollar stores, including one of the country's largest chains, with over 10,000 stores.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- Two of the top textbook publishers within the K-12 segment, brick-and-mortar retailers of college textbooks, and online renters and retailers of college textbooks

In addition to our internal personnel, GA maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.

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