

Grocery Stores

INDUSTRY OVERVIEW

The grocery sector continues to perform well, with most major public retailers reporting low-to-mid single-digit increases in comparable store sales. Retailers are keeping a close watch on pricing and promotions to drive sales and protect margin, while looking for ways to stay ahead of non-traditional competitors like drug stores, dollar stores, and mass merchants.



TREND TRACKER

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

NOLVs: NOLVs have remained relatively consistent for most companies.

Sales Trends: Sales have increased for many retailers, partly due to rising food prices. Transaction counts have remained relatively consistent, while the dollars per transactions are up.

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

- **Pricing:** Food prices increased 2.4% in 2014, which is in line with historical norms. However, prices for meat and dairy reached record highs due to drought and disease. Most retailers have passed these increases onto consumers to preserve margin, but those that were slower to react reported margin declines. Companies remain laser focused on price to ensure they remain competitive without sacrificing margin.
- **Consolidation:** Retail consolidation continued in 2014 with the merger of supermarket giants Albertsons and Safeway. The combined entity has 2,230 stores across 34 states.
- **Alternative and small-format stores:** Farmer's market style stores driven by organic products, like Sprouts, Natural Grocers, Lucky's Market, and Fresh Thyme Farmer's Market, continue to expand, along with Whole Foods. Small-format stores also remain a focus, particularly for discounters looking to penetrate urban areas including Wal-Mart's Neighborhood Market stores. Wal-Mart plans to open 180 to 200 of these in 2015.
- **Services:** Companies continue to tout their convenience options including prepared foods, restaurants and cafes, self service kiosks and checkouts, and e-commerce services. In-store clinics, health-related kiosks, and other similar initiatives are also taking place throughout the industry.
- **Convenience stores:** Convenience stores continue to expand their fresh and prepared food offerings. However, sales on a total basis have been impacted by lower gas prices. Convenience stores are facing increased competition from drugstores that have expanded their food offerings, with some customers (especially women) considering drugstores safer and more convenient to shop.

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	6.0%	5.6%	4.8%	4.6%
Supervalu	2.3%	0.4%	0.6%	0.2%
Ahold USA	0.3%	1.2%	(1.8%)	0.1%
Delhaize Group	3.6%	5.3%	3.3%	4.6%
Publix	6.4%	5.0%	6.3%	4.0%
Whole Foods	4.5%	3.1%	3.9%	4.5%
The Fresh Market	3.0%	3.3%	2.9%	2.5%

Note(s): All sales exclude fuel. The most recent quarter for Kroger ended January 31, 2015; Supervalu ended November 29, 2014 (reflects Retail Food operations only and excludes Save-a-Lot); Ahold USA ended December 28, 2014; Delhaize ended December 31, 2014; Publix ended December 27, 2014; Whole Foods ended January 18, 2015; The Fresh Market ended January 25, 2015.

OUTLOOK

The supermarket industry remains poised for continued transactions as companies attempt to grow through acquisition and achieve economies of scale. Although e-commerce has had less of an impact on this industry compared to others, supermarkets are expected to use technology to extend the shopping experience beyond their four walls via omni-channel initiatives.

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 close to 400 and net sales of nearly \$8.0 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 74 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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