

Grocery Stores

INDUSTRY OVERVIEW

The grocery sector performed relatively well during the second half of 2013, with most major public retailers reporting low single-digit increases in comparable store sales. In many instances, sales at traditional supermarkets have been outpacing grocery sales at Wal-Mart, driven by their superior selection of natural and prepared foods and increased spending by middle-class consumers.



TREND TRACKER

Three month NOLVs	Consistent
Sales Trends	Mixed ↕
Gross Margin	Mixed ↕
Discounting	Consistent

NOLVs: NOLVs have remained relatively consistent for most companies, with others experiencing slight declines.

Sales Trends: Sales performance has been mixed. Generally speaking, the larger chains with better efficiencies, as well as certain specialty/organic chains, have posted sales increases, while traditional smaller players have exhibited declines.

Gross Margin: Gross margin has been mixed, with some companies experiencing increases, and those that have been more promotional experiencing declines.

Discounting: Discounting has remained relatively consistent. While companies have been attempting to pass along price increases to customers, competitive pricing has been seen throughout the industry.

KEY INDUSTRY DRIVERS

- **Industry transactions:** The industry saw several mergers and acquisitions at the end of 2013 and early 2014. This includes the merger of Spartan Stores and Nash Finch, Roundy's acquisition of 11 Dominick's stores from Safeway, and Kroger's merger with Harris Teeter. So far in 2014, Brookshire Brothers acquired David's Supermarkets, the FTC approved the merger of Albertsons and United Supermarkets, Bi-Lo acquired the Sweetbay, Harveys, and Reid's banners from Delhaize, which will result in the closure of approximately 25 stores, and Albertsons plans to merge with Safeway. GA expects further consolidation in 2014, particularly as increased competition squeezes out some smaller regional players.
- **Pricing:** After rising during much of 2012 and early 2013, food prices have stabilized for most categories. However, prices are expected to increase 2% for the remainder of 2014, driven by meat and dairy prices. Retailers will have to be strategic in passing on these costs to preserve margin while ensuring they remain competitive.
- **Alternative formats:** Alternative format chains have picked up their pace of growth. Farmer's market style stores driven by natural and organic products, like Sprouts, Natural Grocers, Lucky's Market, and Fresh Thyme Farmer's Market, have been growing the fastest, along with Whole Foods. The expansion of non-traditional formats could have the biggest impact on local independents.
- **Services:** Companies continue to tout their convenience options including grab and go prepared foods, made-to-order restaurants and cafes, and self service kiosks and checkouts. They are also expanding e-commerce services. While click and collect is the most widely available, home delivery options are slowly growing, particularly as Wal-Mart and Amazon.com make moves in this space.

CONVENIENCE STORES

Convenience stores continue to expand their fresh and prepared food offerings (particularly healthier options), which has resonated with consumers looking for quick meals on the go or the ability to pick up staple grocery items without the hassle of going to the supermarket. However, the industry was more promotional this year in order to lure customers away from grocery stores and fast food chains.

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	4.3%	3.5%	3.3%	3.3%
Safeway	1.6%	1.9%	1.2%	1.5%
Supervalu	(1.9%)	(0.9%)	(3.0%)	(4.1%)
Publix	4.3%	4.1%	2.1%	3.9%
Whole Foods	5.4%	5.9%	7.5%	6.9%
The Fresh Market	3.1%	3.1%	3.4%	3.0%

Note(s): All sales exclude fuel. The most recent quarter for Kroger ended February 1, 2014; Safeway ended December 28, 2013; Supervalu ended November 30, 2013 and reflects Retail Food operations only and exclude Save-a-Lot; Publix ended December 28, 2013; Whole Foods ended January 19, 2014; The Fresh Market ended January 26, 2014.

OUTLOOK

The supermarket industry is poised for continued transactions, consolidations, and bankruptcies. Competitive pressures from non-traditional food retailers, drugstores, and dollar stores continue to plague the industry, driving down profitability and diluting market share.

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:

A&P	Linens 'N Things	Circuit City	Tower Records
Fortunoff	Fashion Bug	Mervyns	Payless Shoe Source
Jo-Ann Fabrics	Borders	Whitehall Jewelers	Movie Gallery
Ritz Camera	Boot Town	Eddie Bauer	Macy's

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 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

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

Appraisal & Valuation Team

BUSINESS DEVELOPMENT



Mike Marchlik
National Sales & Marketing Director
mmarchlik@greatamerican.com
(818) 746-9306



Ryan Mulcunry
Executive Vice President - Northeast Region, Canada & Europe
rmulcunry@greatamerican.com
(617) 692-8310



David Seiden
Executive Vice President, Southeast Region
dseiden@greatamerican.com
(770) 551-8114



Bill Soncini
Senior Vice President, Midwest Region
bsoncini@greatamerican.com
(312) 777-7945



Drew Jakubek
Managing Director, Southwest Region
djakubek@greatamerican.com
(972) 996-5632



Jennie Kim
Vice President, Western Region
jkim@greatamerican.com
(818) 746-9370



Gordon Titley
Director of Valuations, GA Europe Valuations Limited
gtitley@gaeurope.co.uk
+44 (0) 20 7318-0574

OPERATIONS

John Bankert
President
jbankert@greatamerican.com
(781) 429-4054

David Triompo
Managing Director, Consumer Products
dtriompo@greatamerican.com
(781) 429-4067

Tracy Foohey
Associate Director
tfoohey@greatamerican.com
(781) 429-4059

Matthew Gins
Project Manager
mgins@greatamerican.com
(818) 746-9386

Nicole Hines
Project Manager
nhines@greatamerican.com
(781) 429-4072

Robert Vaughn
Associate Project Manager
rvaughn@greatamerican.com
(818) 746-9351

Kipp Visi
Associate Project Manager
kvisi@greatamerican.com
(312) 777-7957

Louise Shimazu
Associate Project Manager
lshimazu@greatamerican.com
(818) 746-9339

About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. GA also offers the *UK Retail Monitor* via its subsidiary, GA Europe Valuations Limited.

Headquarters

21860 Burbank Blvd. Suite 300 South
Woodland Hills, CA 91367

800-45-GREAT

www.greatamerican.com