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Food Retail Industry Insights

Spring 2020



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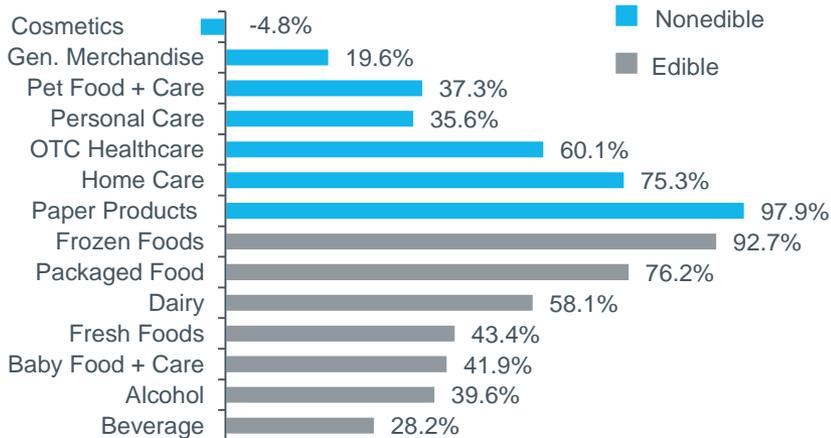


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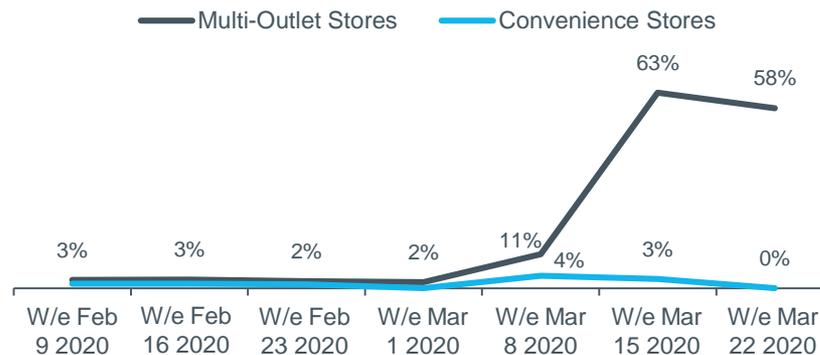
Sector Spotlight | COVID-19 Impact

- The global outbreak of COVID-19 has significantly impacted economic activity and people's everyday lives. Many businesses have been forced to close, resulting in 30% of Americans realizing a loss of income and nearly 17 million new unemployment filings in the U.S. in April 2020, according to the U.S. Labor Department.
- Widespread shelter-in-place orders have shut down normal business operations across the U.S., leading to approximately 45%-50% of Americans working from home, according to Global Workplace Analytics estimate, and school children in 31 states not going to school.
- The high-risk of catching COVID-19 and the health implications have led most Americans to only leave their homes for necessities, such as going to the grocery store. According to a recent survey by Technomic, 30% of consumers plan to leave their homes less often and order take out less frequently.

Retail Product Sales (% Change W/e 15 Mar 2020 vs. 2019)¹



Large vs. Small Format Retailers | YoY % Sales¹

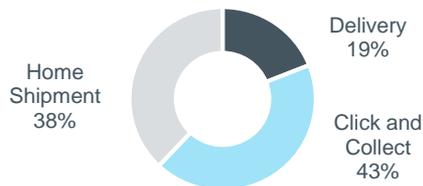


- The disruption due to COVID-19 has also changed how many Americans purchase and consume food. Credit Suisse estimates that 80% of U.S. household food spend now goes towards food at home rather than food away from home. This is meaningfully greater than the 2018 food at home share of 47.6% and post-Great Recession high of 50%, according to the USDA Economic Research Service.
- As restaurants closed and people began staying home in March, grocery stores experienced a surge in demand. In a 7-day period that ended on March 18, grocery sales were up 79% from the previous year.¹⁹ There were runs on many household staples, including pasta, flour, toilet paper and soap. Processed foods and canned goods were also in high demand.
- Food retailers have reacted swiftly to ensure out-of-stock situations are short-lived, and have received logistics support from manufacturers and foodservice distributors.
- Sales have fallen since mid-March, but they are still higher than normal for this time of year. Between March 26 and April 1, sales were up 7%. Online grocery delivery services, such as Instacart who is expected to turn a profit in April for the first time ever, and meal kit companies are among the biggest winners.¹⁹

Sector Spotlight | COVID-19 Impact

- U.S. consumers are increasingly making fewer grocery store trips while spending more per visit, as evidenced by an increase in basket sizes in March. The combination of consumers cooking at home more, reporting a weekly average of six meals at home, up from the 2019 average of 3.8, and consumer attempts to limit outside exposure have led to swelling basket sizes.² According to a survey conducted by LendingTree, consumers spent an average of USD 178 per trip over the first two weeks of March. Millennials led the way with baskets averaging over USD 195, while baby boomers had the smallest average basket at USD 150. Other high index demographics include parents with small children (USD 189) and individuals earning over \$100,000 per year (USD 219).

E-commerce Grocery Sales by Type (3/15/2020)¹



- Social distancing has caused consumers to seek easier alternatives to entering stores, such as online shopping, click-and-collect and curbside pickups. Many consumers are turning to digital grocery shopping, a category which made up only 5% of total grocery sales in 2019, according to Nielsen, for the first time. A recent survey by L.E.K. Consulting found that consumers expect online grocery spend to account for 40% of their total grocery expenditures if the pandemic worsens. Consumers choosing to order food online are either increasing their use of grocery delivery or pickup services or trying it for the first time. Adobe Digital Economy Index found that click-and-collect orders, otherwise known as pick-up orders, for the four weeks ending March 24 grew by 62% over the prior year.

- The sharp increase in consumers ordering groceries online has created logistics issues for providers of these services, resulting in delays or cancellations. In mid-March, Instacart announced that it would hire upwards of 300,000 new shoppers to accommodate its overwhelming demand. However, Instacart workers went on strike in late March because they felt they did not have adequate means to protect themselves from infection. In mid-March, Thrive Market was forced to limit order sizes to USD 100 and asked customer to delay re-ordering by two weeks to minimize delivery times.
- Meal kits are also experiencing an uptick in popularity. Companies like Blue Apron, HelloFresh and Home Chef are already seeing a flood of new customers. Many first-timers are turning to these services for their convenience and price. However, it is unclear whether the surge of demand will be sustained as some existing customers may drop off as budgets become constrained, while others could enter the market if restaurants remain closed.

U.S Consumer Expectations for Online Groceries Spending Once Outbreak is Contained¹



- Although food retailers are one of few businesses able to remain open during shelter-in-place directives, reports of various COVID-19-related grocery store employee deaths are leading to store closures and increasing anxiety among grocery store workers.³ Thousands of grocery store employees have continued to report to work as U.S. infections and death rates climb, with many reporting long shifts and extra workloads to keep up with spiking demand. Some employment experts, union leaders and small grocery store owners believe it has become too dangerous to let customers browse aisles, as this causes them to come in too close of contact with workers. Grocery stores are still flooded with customers, and experts say it's time for large chains to go "dark to the public" and convert to curbside pickup and home delivery.³

Select Business Updates in Response to COVID-19

April 1, 2020 – Ingles announced plans to hire over 5,000 additional associates, implemented a paid, two-week COVID-19 leave program and provided a one-time bonus payment of \$300 to full-time and \$150 to part-time active retail, distribution and corporate associates who were hired prior to March 1, 2020.



April 3, 2020 – SpartanNash is providing frontline bonus pay in addition to its previous associate appreciation bonus for hourly associated in company-owned retail stores and distribution centers. It also made a significant investment in personal protective equipment, sneeze guards and increased safety and sanitation measures.



April 3, 2020 – Weis announced that it is installing protective panels, or sneeze guards, on all registers, customer service desks and pharmacy counters.



April 6, 2020 – Natural Grocers updated its store hours so the good4u crews can restock and thoroughly clean stores and provided additional benefits for the good4u crew including raises, bonuses and additional paid time off availability. It also implemented two shopping hours exclusively for those 60 years and older, pregnant women and individuals with underlying medical condition.



March 25, 2020 – The Company has been experiencing unusually strong traffic and sales, particularly in its stores for same-day services. Month-to-date in March, overall comparable sales are more than 20% higher than last year, with comparable sales in essentials and food and beverage up more than 50%. During that same period, comparable sales in Apparel and Accessories are down more than 20% compared to last year.

April 1, 2020 – After experiencing strong sales in February, the COVID-19 pandemic triggered a significantly greater lift in sales across both physical retail stores and digital channels in March. Sales sharply accelerated in March with identical retail supermarket sales, excluding fuel sales, up approximately 30%. This was driven by dramatically heightened demand in the middle of the month as customers were stockpiling.



April 3, 2020 – The company announced operational changes to support the health and safety of employees, including temperature checks, closing on Easter Sunday, increasing wages for all hourly employees, limiting capacity in clubs and supporting hospitals in the local areas of stores.

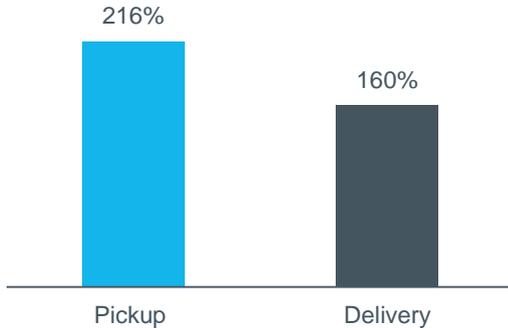


April 8, 2020 – Costco reported net sales of \$15.49 billion for the retail month of March, ending the week of April 5, 2020. Sales during this period increased by 11.7% relative to last year. For the same five week period, e-commerce sales increased by 49.8% (excluding the impacts from changes in gasoline prices and foreign exchange).

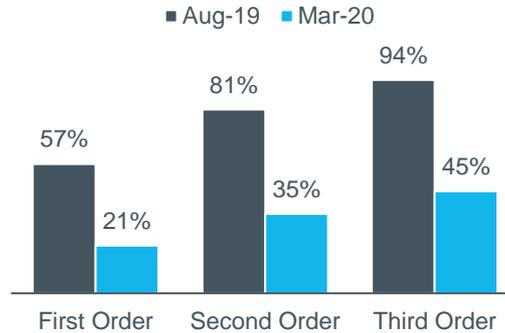


Sector Spotlight | COVID-19 Impact on E-commerce

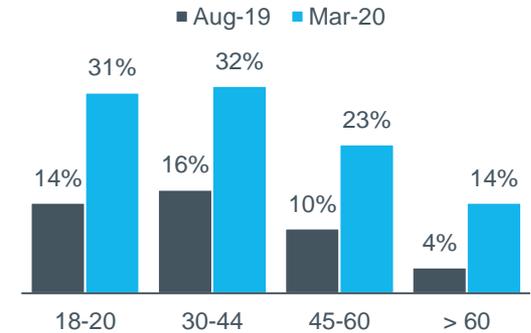
Growth in Online Orders (Mar. 2020 vs. Aug. 2019)²⁰



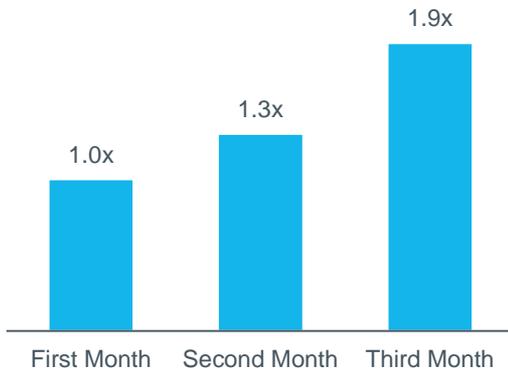
% of Consumers Likely to Use Most Recent Grocery Delivery Service Again²⁰



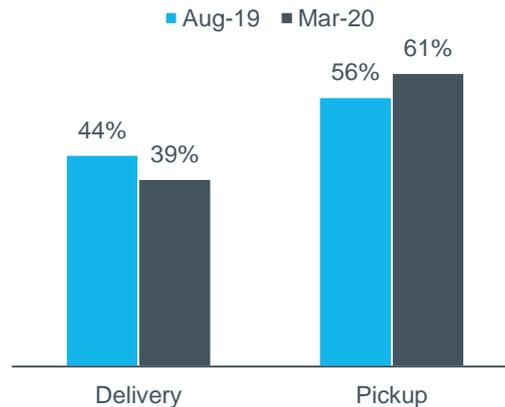
Grocery Delivery/Pickup Penetration by Age²⁰



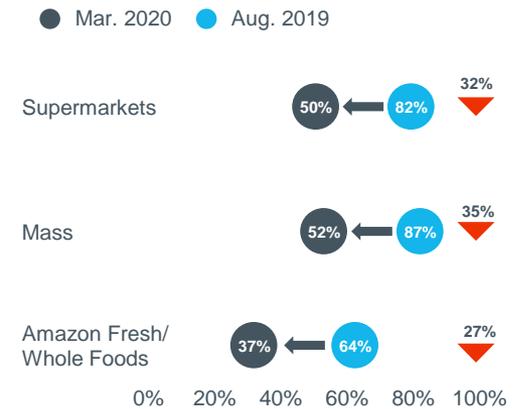
Customer's Value During First Three Months | Monthly Spending Index²⁰



Online Order Share²⁰



% of Consumers Likely to Use Most Recent Grocery Delivery Service Again²⁰



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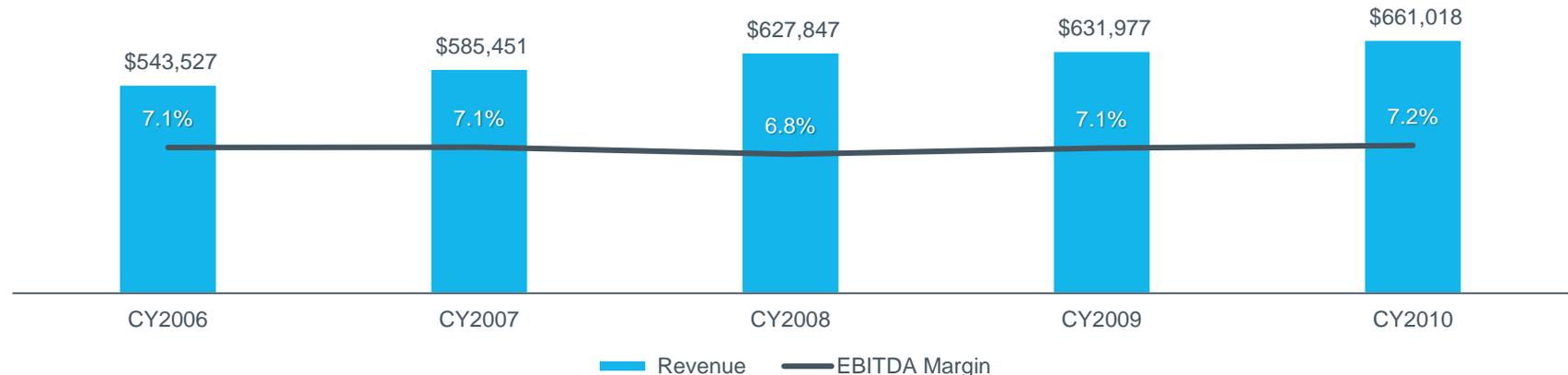
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Lessons from the Great Recession

- It is widely expected that the pandemic will result in a recession beginning in mid-2020, with an estimated 38% drop in second-quarter U.S. GDP and a 5.5% contraction in annual GDP, which would be the steepest annual drop in growth since 1946, according to Morgan Stanley forecasts. As a result, it is likely that consumer spending will change over the coming years and may be akin to the 2008 Great Recession. Between 2007 and 2010, over 8 million people in the U.S. lost their jobs, resulting in household food spend decline of 7%, from USD 641 billion in 2007 to USD 599 billion in 2010.⁴ Household food spending did not return to pre-recession levels until 2015, according to the USDA.
- Despite the overall decline in food spending, spending at grocery stores dropped minimally during the Great Recession, falling only 1.3% from 2006 through 2009, and the number of home-cooked meals increased, according to the USDA.
- During the last recession, consumers traded high-end stores for discount retailers. Costco, Kroger, Ingles Markets and Village Super Market saw sales grow by an average of 5% to 7% between 2007 and 2010, with Ingles Markets and Costco achieving double-digit sales growth in 2008 alone.⁵ Consumers also implemented cost-cutting methods. Although the average number of grocery shopping trips increased during the recession, the amount spent per transaction declined by 12%, according to the National Bureau of Economic Research.

Recession-Resistant Financial Performance of Food Retail⁵

(\$ in millions)



Notes: (1) Food Retail sales and margins represent the cumulative figures for: Ingles Markets, SpartanNash, Weis Markets, Village Super Market, Walmart, Costco, Target and Kroger
See page 2 for data sources

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Lessons from the Great Recession

- Food retailers adapted to consumers' cost-cutting measures by stocking more private-label brands and driving innovation in that category. According to the USDA, 810 new private label food and beverage products were released during the recession, seven times more than the number released in 2001.⁶ Consumers also gravitated towards comfort and indulgent food categories during the Great Recession, according to IRI. Strong performing categories during that period included ice cream, cookies, hair color, vitamins, snacks and carbonated soft drinks. Breakfast items such as eggs and breakfast meats also performed well, as consumers look to saved money by eating breakfast at home.
- The price of food relative to the price of all goods and services increased steadily from 2007 to 2009 and from 2010 to 2012, then leveled off in 2013, according to the USDA. In 2008, the Consumer Price Index for food rose 5.4%, the largest single-year increase since 1984, partly because of the effects of the financial crisis on commodity prices.⁷ We are likely to see a period of food inflation over the coming months resulting from supply chain disruptions caused by the COVID-19 pandemic. As the outbreak continues to expand, risks of disruptions to the global food supply chain are rising, from production to trade. Despite ample supplies of grains in key exporting countries, rising trade disruptions could lead to a rapid acceleration of global food price inflation in 2020, as outlined by consulting firm Fitch Solutions.
- Given the unprecedented spike in unemployment figures and economic deterioration in the first quarter of 2020, it is likely that price-conscious behavior will become prevalent for the remainder of the year and will likely persist for years to come.⁸ Private brands will likely continue to strengthen as Aldi, Lidl, Costco and Trader Joe's continue to grow and consumers seek out store brand products perceived as higher value relative to name brand products. Shoppers are also likely to be drawn toward discounters, particularly for commodity categories and items. Industry players with a greater variety of low-cost commodity offerings online, with low transaction costs, will also benefit from a rebound in price-conscious behavior in the wake of the pandemic's economic fallout.

Food Price Inflation 2005 - 2019⁷



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Wave of Bankruptcies

- Ambitious expansion plans and increased competition from consolidation and new, large market entrants have paved the way for numerous food retail bankruptcies in recent years.
- Many grocery chains that have attempted to better position themselves through expensive modernization efforts and significant capital improvements on legacy stores have faced liquidity strains which can prove fatal in the presence of excessive leverage, as was the case with PE-backed chains Earth Fare, Save-A-Lot and Fairway.
- Although Amazon’s expansion into food retail through its acquisition of Whole Foods highlights the competitive nature of the industry and lower-than-expected barriers to entry, the acquisition itself is more of a symbolic threat as Amazon’s grocery delivery business only comprises a small portion of the overall grocery market. Even so, Amazon’s expansion into the grocery space has prodded traditional stores into making costly changes.¹⁴
- European-born discounters are expanding, placing downward pressure on competitors’ prices, while domestic grocery giants such as Walmart and Kroger are able to leverage their scale and resources needed to adapt by investing in technology and expanding delivery in an effort to fend off Amazon’s growing grocery delivery business.
- The U.S. grocery landscape today favors scale, putting pressure on smaller chains that may not be able to keep up with low prices offered by big chains. These industry dynamics have pushed regional players that do not have the necessary resources to adapt to restructure or file for bankruptcy.

Supermarket Bankruptcy Detail⁵

Company	Date Filed	Status
Dean & DeLuca	Mar-20	Bankrupt
Earth Fare	Feb-20	Bankrupt
Lucky’s Market	Jan-20	Sold
Fairway Market	Jan-20	Sold
Save-A-Lot	Jan-20	Out-of-Court Restructuring
JHJ Inc.	Nov-19	Bankrupt
Season Kosher Supermarket	Sep-18	Emerged
Schuette Stores	Sep-18	Sold/Liquidated
Southeastern Grocers	Mar-18	Emerged
Tops Markets	Feb-18	Emerged
Marsh Supermarkets	May-17	Sold/Liquidated
Central Grocers	May-17	Sold/Liquidated
Fairway Market	Mar-16	Emerged
Fresh & Easy	Oct-15	Sold/Liquidated
Haggen Holdings	Sep-15	Sold/Liquidated
The Great Atlantic & Pacific Tea	Jul-15	Sold/Liquidated
Dahl’s Foods	Nov-14	Sold/Liquidated
Associated Wholesalers	Sep-14	Sold/Liquidated
Farmers Foods	Jun-14	Closed
C&K Market	Nov-13	Emerged
Fresh & Easy Neighborhood Market	Sep-13	Sold/Liquidated
Midwest Gourmet Foods (Fox & Obel)	Sep-13	Unknown
Mi Pueblo San Jose	Jul-13	Emerged

See page 2 for data sources

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Wave of Bankruptcies

Recent Bankruptcies:

- **Dean & DeLuca** filed for Chapter 11 bankruptcy on March 31, 2020, following a failed attempt to restructure roughly USD 500 million in liabilities outside of court.⁹ The company ceased operations in New York in mid-2019 after running short of cash. Despite pioneering the business model that helped create a cohort of upscale gourmet retailers, the chain had been struggling amid stalling sales and an unsparing competitive landscape.
- **Lucky's Market** filed for Chapter 11 bankruptcy on January 27, 2020, with plans to sell some of its stores to Aldi and Public Super Markets at a bankruptcy court auction. The company listed USD 600 million in liabilities and, at the time of filing, owed Kroger, a majority equity investor and secured lender, USD 301 million. United Natural Foods, Lucky's largest unsecured creditor, was owed USD 13.2 million.¹⁰ Lucky's, the "organic store for the masses," struggled amid thin margins, rising competition and consolidation from big chains. Lucky's is set to sell its assets to Aldi, Publix, Southeastern Grocers, Dave's Market, Seabra's Market, Dollar General and others for a total of USD 29 million.
- **Fairway Market** filed for Chapter 11 bankruptcy on January 23, 2020 in the face of costly leases at struggling stores, fierce competition from less expensive rivals like FreshDirect, Trader Joe's and Amazon Fresh and an unsustainable capital structure. Rapid expansion plans under the ownership of financial sponsor Sterling Partners failed to generate enough cash flow to pay down the company's debt, ultimately leading to a bankruptcy filing in 2016. The restructuring reduced the debt load; however, it did not result in any fundamental changes to the business. Fairway continued to struggle due to market pressures and was unable to compete effectively. Village Supermarket, ShopRite's parent company, acquired various stores and assets for USD 76 million. Key Food and Amazon also bought various assets for USD 5 million and USD 1.5 million, respectively.¹¹
- **Save-A-Lot** recently secured a USD 350 million cash infusion to fuel the discount grocer's business transformation plan. Unlike many of its competitors, the company was able to avoid filing for Chapter 11 bankruptcy by successfully carrying out an out-of-court restructuring. On April 3, 2020, Save-A-Lot completed both debt-for-equity and debt-for-debt exchanges that reduced debt by USD 500 million and brought a USD 350 million capital infusion from new and existing lenders.¹² Much like industry peers, Save-A-Lot faced competitive pressures but was able to modify its capital structure to better weather such challenges plaguing smaller food retail players.

U.S. Food Retail Bankruptcies by Year¹

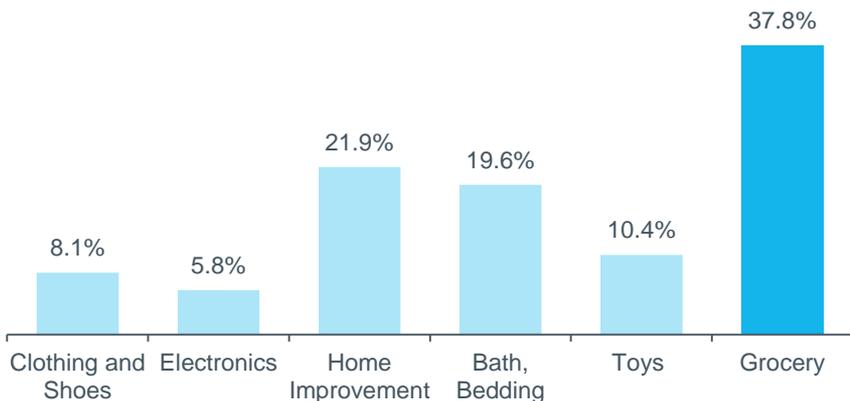


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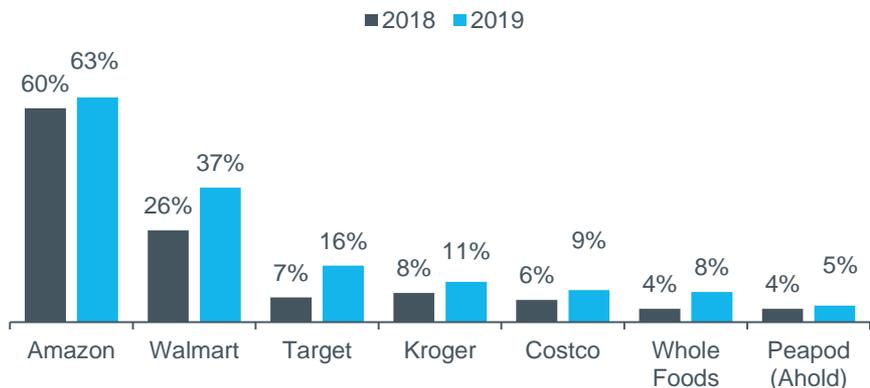
The Battle for E-Grocery

Projected E-Commerce Sales CAGR 2017-2022¹³



- Grocery has proven to be a category that has withstood e-commerce penetration in recent years. Online grocery orders often include dozens of item—some frozen, some cold, some room temperature—and much of the inventory is perishable and not standard. This dynamic makes the delivery of a positive consumer experience much more challenging. Despite this dynamic, Nielsen and the Food Marketing Institute estimate that Americans’ total online grocery spending will reach USD 117 billion by 2023. What may ultimately differentiate food retailers in the e-grocery race will be fast and reliable last-mile service, the most challenging and expensive link in the supply chain. Consumers who have a positive online experience tend to be more loyal to banners and increase spend. As a result, industry leaders such as Amazon and Walmart are devoting significant resources to developing a cost-efficient, potentially transparent “cold” supply chain. This is evident in the higher penetration of eCommerce sales at these two retailers as compared to other grocery chains.

% of U.S. Consumers Who Bought Groceries Online in the Past 12 Months¹³



- Consumers have adopted click-and-collect food shopping as an alternative to entering stores and walking down aisles. Research conducted by Nielsen shows almost half of U.S. shoppers have used click-and-collect methods for groceries. This share is likely to grow as a result of the current pandemic.
- For instance, Walmart has doubled efforts to provide a seamless pickup experience by tripling the number of items available for same-day pickup, increasing staffing at pickup desks and installing “pickup towers,” in-store high-tech vending machines for online orders that allow customers to pick up items in less than a minute by scanning a bar code sent to their smartphones.¹⁴ By leveraging existing store footprint and reorganizing spaces to better accommodate click-and-collect and delivery, companies like Walmart are able to generate higher return on assets without having to invest in new fulfillment facilities or other infrastructure.

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The Battle for E-Grocery

- As part of the last-mile race, food retailers are exploring various avenues to compete, including partnerships with delivery startups and vertical integration through acquisitions. Most notably, Kroger and Aldi have jumped on board with Instacart, which is now positioning itself as a savior for grocers with little to no e-commerce or delivery capabilities with an ability to efficiently reach more than 80% of U.S. households. Instacart also delivers groceries for some of the largest retailers in the U.S., including Albertsons and Costco. Albertsons, Target and H-E-B have all acquired food delivery startups to improve their delivery capabilities and digitize their operations⁵. Through its acquisition of startup Shipt in 2018, Target now offers same-day delivery.
- Boosting its last-mile capabilities, Costco has acquired third-party and logistics provider Innoval Solutions for USD 1 billion to grow e-commerce sales and expand customer reach.⁵ Costco's acquisition comes as competitors bolster their distribution, logistics and delivery capabilities to meet demand for fast-growing product categories and adapt to an emerging omnichannel business model. Efforts include the construction of new distribution centers, automated facilities to fulfill online offers and dedicated space in stores for e-commerce.
- To further fuel its e-commerce operations and improve associated labor costs, Kroger recently partnered with British online grocer Ocado Group, with the intention to build as many as 20 automated grocery warehouses in the U.S.¹⁵ Ocado's fulfillment process is designed for the unique aspects of grocery, including a system that notifies workers the order in which they should fill a grocery bag. Ocado's system saves one hour of labor for every 50-item order, a noteworthy feature considering the industry's notoriously thin profit margins, and will enable Kroger to fill orders particularly quickly and with a high level of accuracy, both key elements of customer satisfaction.
- Kroger's partnership comes at a time when rivals Amazon and Walmart are continually unveiling new techniques to differentiate their e-grocery models, including Walmart's initiative to test driverless cars for grocery delivery to optimize fulfillment and the implementation of blockchain to trace grocery last-mile transit.
- Delivery startups, large distribution centers, driverless delivery and blockchain form part of the grocery delivery puzzle. Grocery store players are working towards optimizing their distribution capabilities to offer the fastest, most reliable and cost efficient services.



Costco acquired Innoval to bolster its e-commerce distribution, logistics and delivery capabilities

Date: March 18, 2020

Acquisition Price: USD 1 billion



Partnered with British online grocer Ocado Group to build up to 20 automated grocery warehouses in the U.S.

Date: July 22, 2019

Acquisition Price: N/A



H-E-B acquired on-demand delivery startup Favor and have focused their primary operations within Texas

Date: February 15, 2018

Acquisition Price: N/A



Bought grocery delivery startup Shipt to increase its logistics capabilities. The acquisition enables Target to offer same-day delivery

Date: December 13, 2017

Acquisition Price: USD 550 million¹²

See page 2 for data sources

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Capital Raises for E-Commerce Food Retail Platforms

Company	Description	Latest Financing and Implied Valuation	Selected Investors
	<ul style="list-style-type: none"> Headquarters: Chicago, Illinois Foxtrot Deliver Market provides an online retail platform designed to facilitate both offline and online shopping for customers. The company's platform offers brick-and-mortar stores along with a mobile application to shop for curated collections of drinks, food and other everyday items and get it delivered to the specified address, enabling consumers to save their time and reduce their efforts in everyday shopping. 	<ul style="list-style-type: none"> Feb. 2020 – Series A1 USD 18 million raised Total Raised: USD 26 million Pre-Money Valuation: USD 20 million 	 
	<ul style="list-style-type: none"> Headquarters: Milwaukee, Wisconsin Bright Cellars's monthly wine subscription offers a personalized wine experience. The company's offering is based on a data collection model that utilizes an algorithm to provide personalized recommendations and deliver the product directly to the customer. 	<ul style="list-style-type: none"> Jun. 2019 – Series A USD 8 million raised Total Raised: USD 12 million 	 revolution
	<ul style="list-style-type: none"> Headquarters: San Francisco, California Instacart provides an on-demand goods delivery application designed to order and secure delivery of groceries from local stores. The company's application uses software that easily determines the right time to dispatch a shopper, based on weather, traffic, sporting events and other factors, enabling its users to shop for grocery items from multiple retailers and have them conveniently delivered on time. 	<ul style="list-style-type: none"> Dec. 2018 – Series F USD 871 million raised Total Raised: USD 1,950 million Pre-Money Valuation: USD 7 billion 	    TIGERGLOBAL
	<ul style="list-style-type: none"> Headquarters: Boston, Massachusetts Drizly is a developer of an online liquor retail platform intended to deliver alcohol and other related products. The company's e-commerce platform offers a wide range of alcoholic beverages like wines, beer, gin, vodka and whiskey, which can be ordered along with extras like mixers and garnishes, enabling customers to order alcoholic drinks without having to go to the store. 	<ul style="list-style-type: none"> Dec. 2018 – Series C USD 35 million raised Total Raised: USD 70 million 	 polarispartners TIGERGLOBAL
	<ul style="list-style-type: none"> Headquarters: Marina del Rey, California Thrive Market is a provider of an online grocery shopping platform intended to make healthy living easy and affordable for everyone. The company's membership-based, e-commerce platform offers edible products including, chicken, peanut butter, pasta, beauty-related goods, supplements, vitamins and baby products, providing consumers with access to a carefully curated collection of relatively healthy and organic food products. 	<ul style="list-style-type: none"> Jun. 2018 – Series B USD 65 million raised Total Raised: USD 226 million Pre-Money Valuation: USD 585 million 	
	<ul style="list-style-type: none"> Headquarters: Bronx, New York FreshDirect is a provider of an online retail platform to sell food and grocery products. The company delivers meat, sustainable fish, specialty cheese, fresh dairy and fresh grocery products in the U.S. 	<ul style="list-style-type: none"> May 2018 – PE Growth Total Raised: USD 517 million 	 

Sources: Pitchbook

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Persistent Margin Pressures

In recent years, the grocery industry has seen heightened pressure on profit margins, despite industry sales gains. Since 2018, over 15 states in the U.S. have increased the minimum wage, some entering the USD 8-10 range and others tracking to reach USD 20.¹⁶ Although raising prices used to be the go-to strategy for retailers looking to widen their grocery store profit margins, this practice is no longer sustainable in today's retail landscape. With key players, such as Aldi and Walmart, offering ultra-competitive prices, food price inflation has moderated, as the rest of the industry has shifted to match the prices of competitors.

Despite the current tailwind generated by higher prevalence of at-home dining and shelter-in-place orders, resulting in dramatic increases in sales volumes, food retailers are unlikely to experience improvements at the operating margin level. Operating margins will likely remain flat due to even higher labor, safety and logistics expenses. Not only are many retailers seeking to increase their employee base to handle the increase in demand, sparked by the COVID-19 pandemic, but wage increases and paid-leave benefits are required to keep staff motivated. Necessary investments in sanitation efforts, including the setup of protective barriers at registers to block germs between cashiers and customers and the daily sanitization of grocery carts, to protect consumers and employees will also limit any potential operating margin gains.

Although analysts estimate comparable sales growth for U.S. grocers of 3.9% for 2020, in lieu of the 2.5% forecast before the pandemic, higher costs will offset these gains, even after accounting for economic relief packages and tax holidays.¹⁷

Companies Investing in Sanitation/Workforce/Workers' Benefits:¹⁸

- Amazon temporarily increased wages by USD 2
- Walmart is deploying temperature checks and temporarily increasing wages by USD 2
- Kroger to provide USD 2 premium above typical base rate for all hours worked between March 29 and April 18, in addition to a one-time bonus for front-line associates
- Tesco (UK) is hiring 20,000 extra staff and has increased hourly wages by 10%
- Lidl U.S. will hire 1,000 temporary employees for a minimum of two months across its store network and distribution centers
- Kroger, Giant Foods, Albertsons and Publix Super Markets are installing plexiglass barriers and partitions to protect cashiers

Operational Benchmarking

Early 2020 analyst reports predict strong top-line growth before expected COVID-19 lift

				Revenue Growth		
		Same Store Sales ^a	Sales/Square Feet ^a	2019 Change	LTM Change ^b	2020E Change
Natural / Organic Supermarkets		1.1%	USD 604	2.5%	0.6%	4.6%
Small / Mid-Cap Supermarkets		2.1%	564	6.6%	1.3%	10.2%
Large-Cap Supermarkets		3.1%	687	2.8%	1.0%	4.3%
Total		2.2%	\$623	3.4%	0.9%	5.1%

Source: S&P Global Market Intelligence

^a Latest FY reported financials

^b Last Twelve Months period as of April 30, 2020

Note: All trademarks, trade names, or logos referenced herein are the property of their respective owners

Operational Benchmarking (cont'd)

Gross and profitability margins remain stable amid cost pressures

		Gross Margin		EBITDA Margin	
		LTM ^a	Year-Over-Year Change %	LTM ^a	Year-Over-Year Change %
Natural / Organic Supermarkets		23.8%	0.4%	3.9%	(0.1%)
Small / Mid-Cap Supermarkets		30.0%	0.1%	5.6%	0.0%
Large-Cap Supermarkets		21.7%	0.0%	5.6%	(0.1%)
Total		24.0%	0.2%	5.0%	(0.1%)

Source: S&P Global Market Intelligence

^a Last Twelve Months period as of April 30, 2020

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Valuation Benchmarking

Valuations for large-cap supermarkets continue to outperform the industry

	One-Year Stock Performance ^a	Enterprise Value		One-Year Change in Enterprise Value	
		LTM Revenue ^a	LTM EBITDA ^a	LTM Revenue ^a	LTM EBITDA ^a
Natural / Organic Supermarkets	20%	0.26x	6.9x	0.05x	1.48x
Small / Mid-Cap Supermarkets	(4%)	0.40x	7.0x	0.06x	0.85x
Large-Cap Supermarkets	24%	0.62x	9.4x	0.09x	1.15x
Total	17%	0.45x	7.9x	0.07x	1.23x

Sector index weight based upon company market capitalization at valuation date

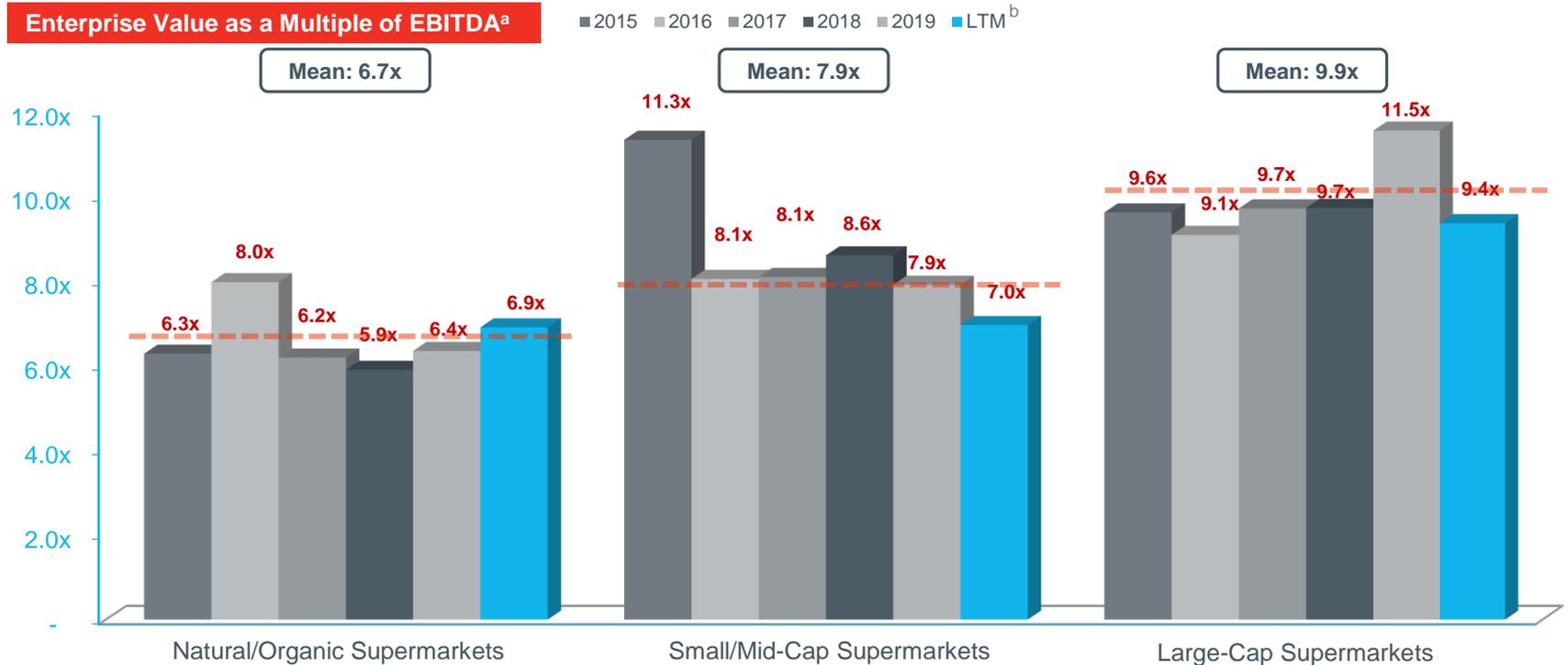
Note: Leases deducted from Enterprise Value to account for FASB's adoption of ASC 842.

^a Stock performance and Last Twelve Months period as of April 30, 2020

Note: All trademarks, trade names, or logos referenced herein are the property of their respective owners

Public Company Trends

Valuations for small/mid-cap supermarkets have been impacted the most by COVID-19



COVID-19 Impact on Valuations in 2020



^a Index EBITDA (Earnings Before Interest Taxation Depreciation and Amortization) calculation excludes any companies with nonmeaningful trading multiples

^b Last Twelve Months period as of April 30, 2020

Source: S&P Global Market Intelligence. Represents most actively traded public apparel, footwear, accessories and luxury companies

Note: Leases deducted from Enterprise Value to account for FASB's adoption of ASC 842

Public Company Valuations – Natural/Organic Supermarkets



(\$ in millions, except per-share data)

	Stock Price Apr. 30, 2020	One-Year Stock Performance	% of 52-Week High	Market Value	Enterprise Value	Enterprise Value as a Multiple of				2019 EBITDA Margin
						Revenue 2019	Revenue 2020E	EBITDA 2019	EBITDA 2020E	
Natural/Organic Supermarkets										
Ingles Markets, Incorporated	\$40.83	52.5%	83.1%	\$827	\$1,654	0.41x	0.38x	6.7x	6.1x	6.1%
SpartanNash Company	17.15	16.0%	95.9%	615	1,234	0.13x	0.14x	8.1x	6.0x	1.7%
Weis Markets, Inc.	50.03	24.4%	95.7%	1,346	1,215	0.26x	NM	5.3x	NM	4.9%
Village Super Market, Inc.	24.03	(13.0%)	82.9%	345	276	0.16x	NM	5.3x	NM	3.0%
Median		20.2%	89.4%	\$721	\$1,225	0.21x	0.26x	6.0x	6.0x	4.0%
Mean		20.0%	89.4%	\$783	\$1,095	0.24x	0.26x	6.4x	6.0x	3.9%

S&P 500		
L1M ^a	L1Q	L1Y
15.8%	(14.0%)	(0.2%)

S&P 500 – Food Retail		
L1M	L1Q	L1Y
13.9%	15.6%	22.3%

Nat./Org. Supermarket Index		
L1M	L1Q	L1Y
27.6%	16.6%	18.3%



Source: S&P Global Market Intelligence as of April 30, 2020

Note: Leases deducted from Enterprise Value to account for FASB's adoption of ASC 842

Represents most actively traded public apparel, footwear and accessories retailers

NM noted for revenue and EBITDA (Earnings Before Interest Taxation Depreciation and Amortization) multiples greater than 5.0x and 20.0x, respectively

Public Company Valuations – Small/Mid-Cap Supermarkets



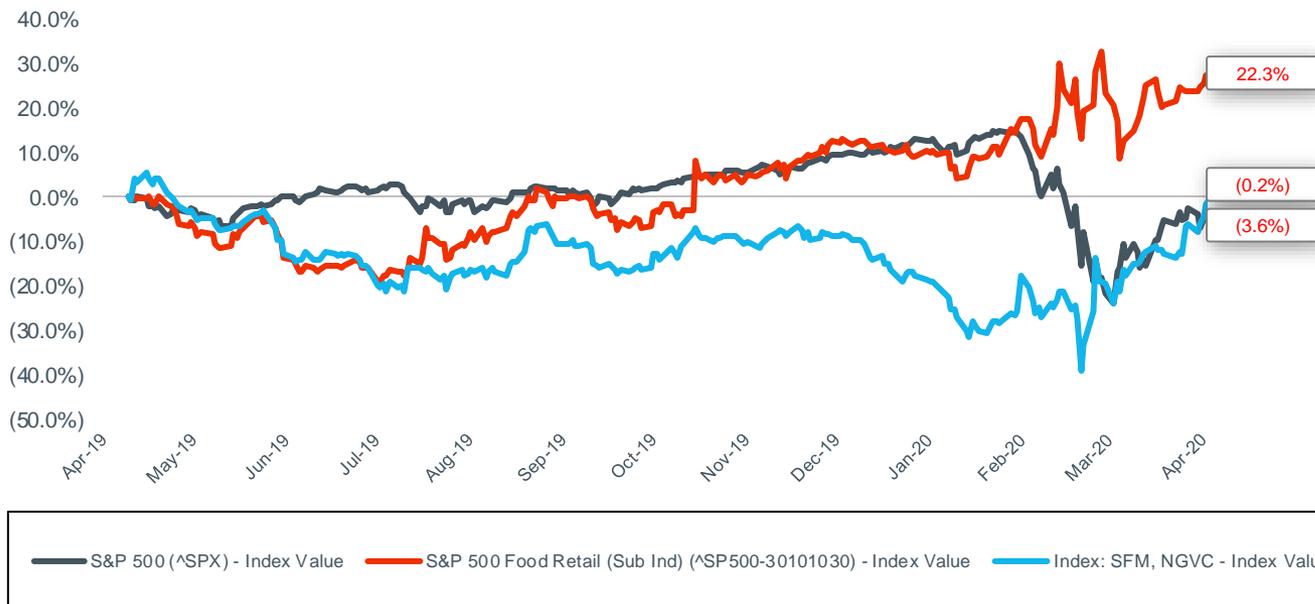
(\$ in millions, except per-share data)

	Stock Price Apr. 30, 2020	One-Year Stock Performance	% of 52-Week High	Market Value	Enterprise Value	Enterprise Value as a Multiple of				2019 EBITDA Margin
						Revenue 2019	2020E	EBITDA 2019	2020E	
Small/Mid-Cap Supermarkets										
Sprouts Farmers Market, Inc.	\$20.78	(2.4%)	86.4%	\$2,443	\$2,895	0.77x	0.47x	7.9x	7.8x	6.1%
Natural Grocers by Vitamin Cottage, Inc.	11.27	(5.7%)	79.6%	253	257	0.28x	5.57x	NA	NA	5.1%
Median		(4.0%)	83.0%	\$1,348	\$1,576	0.52x	3.02x	7.9x	7.8x	5.6%
Mean		(4.0%)	83.0%	\$1,348	\$1,576	0.52x	3.02x	7.9x	7.8x	5.6%

S&P 500		
L1M ^a	L1Q	L1Y
15.8%	(14.0%)	(0.2%)

S&P 500 – Food Retail		
L1M	L1Q	L1Y
13.9%	15.6%	22.3%

Small/Mid-Cap Supermarket Index		
L1M	L1Q	L1Y
17.9%	21.2%	(3.6%)



Source: S&P Global Market Intelligence as of April 30, 2020
 Note: Leases deducted from Enterprise Value to account for FASB's adoption of ASC 842.
 Represents most actively traded public apparel, footwear and accessories retailers
 NM noted for revenue and EBITDA multiples greater than 5.0x and 20.0x, respectively

Public Company Valuations – Large-Cap Supermarkets



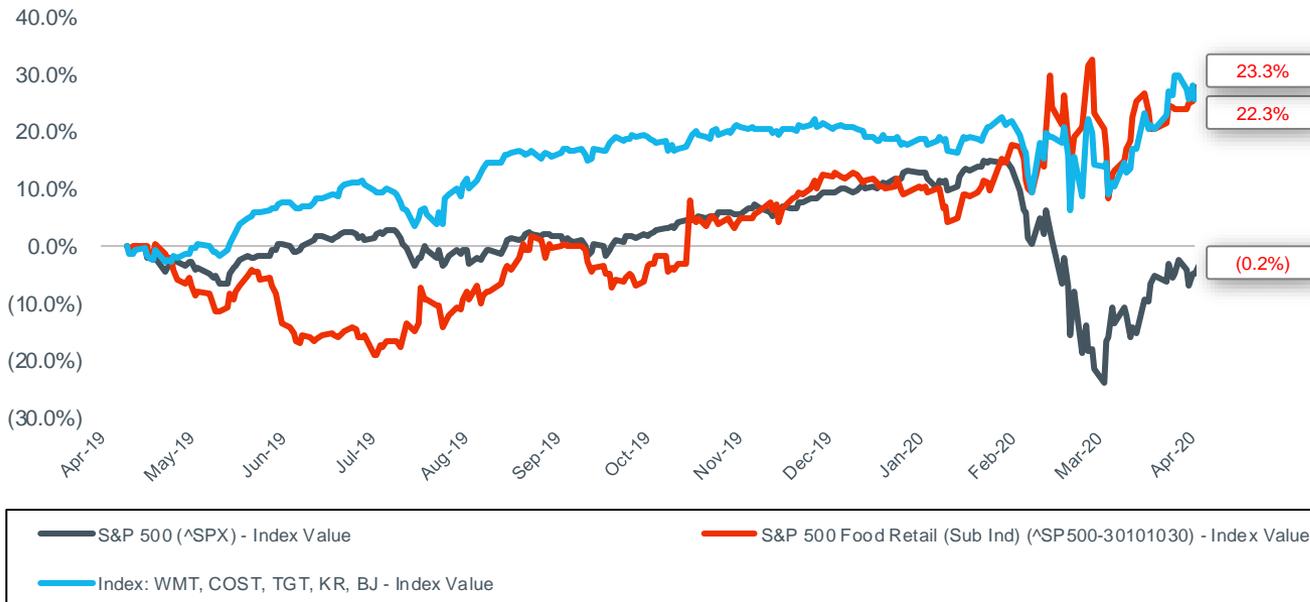
(\$ in millions, except per-share data)

	Stock Price Apr. 30, 2020	One-Year Stock Performance	% of 52-Week High	Market Value	Enterprise Value	Enterprise Value as a Multiple of				2019 EBITDA Margin
						Revenue 2019	Revenue 2020E	EBITDA 2019	EBITDA 2020E	
Large-Cap Supermarkets										
Walmart Inc.	\$121.55	22.2%	91.1%	\$344,436	\$392,201	0.74x	0.72x	11.8x	11.6x	6.3%
Costco Wholesale Corporation	303.00	26.9%	93.2%	133,799	131,068	0.82x	0.79x	19.9x	18.6x	4.1%
Target Corporation	109.74	49.2%	84.3%	54,851	62,403	0.95x	0.76x	10.1x	9.7x	9.4%
The Kroger Co.	31.61	26.6%	85.8%	24,589	37,436	0.29x	0.30x	6.6x	6.4x	4.4%
BJ's Wholesale Club Holdings, Inc.	26.31	(6.2%)	84.4%	3,612	5,301	0.37x	0.39x	9.3x	8.8x	4.0%
Median		26.6%	85.8%	\$54,851	\$62,403	0.74x	0.72x	10.1x	9.7x	4.4%
Mean		23.7%	87.7%	\$112,257	\$125,682	0.63x	0.59x	11.5x	11.0x	5.6%

S&P 500		
L1M ^a	L1Q	L1Y
15.8%	(14.0%)	(0.2%)

S&P 500 – Food Retail		
L1M	L1Q	L1Y
13.9%	15.6%	22.3%

Large-Cap Supermarket Index		
L1M	L1Q	L1Y
14.2%	6.9%	23.3%



Source: S&P Global Market Intelligence as of April 30, 2020

Note: Leases deducted from Enterprise Value to account for FASB's adoption of ASC 842

Represents most actively traded public apparel, footwear and accessories retailers

NM noted for revenue and EBITDA multiples greater than 5.0x and 20.0x, respectively

Recent Food Retail Transaction Activity

GrubMarket, Inc. Acquires Boston Organics, LLC

In April 2020, GrubMarket, Inc. acquired Boston Organics LLC. Boston Organics will continue to be led by its current leadership team and founder, Jeff Barry from its headquarters. Boston Organics LLC delivers fresh, organic fruits, vegetables and groceries to homes and offices in the Greater Boston Area.

US Foods, Inc. Acquires Smart Foodservice Stores LLC (Smart & Final)

In March 2020, US Foods, Inc. entered into definitive agreement to acquire Smart Foodservice Stores LLC from Smart & Final Stores, Inc. for \$970 million. Headquartered in the Greater Portland, Oregon area, Smart Foodservice Warehouse Stores is a wholesale food distributor and foodservice warehouse. Smart Foodservice had 2019 revenues of approximately USD 1.1 billion (0.9x implied EV/LTM revenue) and approximately USD 85 million in Adjusted EBITDA (11.4x implied EV/LTM EBITDA).

Dean & DeLuca, Inc.

In March 2020, Dean & DeLuca, Inc., filed a voluntary petition for reorganization under Chapter 11 in the U.S. Bankruptcy Court for the Southern District of New York. Dean & DeLuca, Inc. owns and operates a chain of retail stores for selling gifting, food, beverage, and holiday and occasions products. The company's goal is to cut a restructuring deal with creditors and eventually re-open its stores. The filing follows a failed effort to restructure outside of court.

Lucky's Market Parent Company, LLC

In January 2020, Lucky's Market Parent Company, LLC, along with its affiliates, filed a voluntary petition for reorganization under Chapter 11 in the U.S. Bankruptcy Court for the District of Delaware. As part of a court-supervised auction, bankrupt Lucky's Market plans to sell 23 stores and its distribution center for about USD 29 million to 10 winning bidders, including its founders and Publix Super Markets, Aldi, Southeastern Grocers, Schnuck Markets and Dollar General.

Fairway Group Holdings Corp.

In January 2020, Fairway Group Holdings Corp, along with its affiliates, filed a voluntary petition for reorganization under Chapter 11 in the U.S. Bankruptcy Court for the Southern District of New York. Village Super Markets prevailed in a modest bidding war for key assets and will acquire five of its stores along with Fairway's distribution center. Amazon will acquire Fairway store leases in Paramus and Woodland Park, N.J., but will not operate those stores as going concerns.

13 Shoppers Food Stores of United Natural Foods, Inc.

In December 2019, United Natural Foods, Inc. ("UNFI") sold 13 of 43 of the Shoppers Food & Pharmacy stores it acquired in its purchase of Supervalu, Inc. last year to three separate grocery operators. It will close four others and has 29 still on the block. Reportedly, UNFI is also trying to sell Supervalu's bigger retail unit, Cub Foods, the largest grocery chain in Minnesota.

Apollo Management IX, L.P. Acquires Smart & Final Stores, Inc.

In April 2019, Apollo Global Management IX, L.P. ("Apollo") announced the acquisition of Smart & Final Stores, Inc. The deal comes after Apollo sold Smart & Final to Ares Management, L.P. in 2012 for USD 975 million, including debt. It is Apollo's latest bet on the brick-and-mortar grocery sector, even after its last acquisition in the space, its USD 1.4 billion leveraged buyout of The Fresh Market, Inc in 2016, has soured amid increasing competition. Apollo paid \$6.50 per share in cash for Smart & Final, a 21% premium to its closing share price on the day the transaction was announced.

SpartanNash Company Acquires Five Stores of Gordy's Market, Inc.

In March 2019, SpartanNash Company ("SpartanNash") was declared as the winning bidder to acquire five stores from Gordy's Market, Inc. SpartanNash to rename Gordy's Market stores "Family Fare Supermarkets." SpartanNash owns and operates 86 Family Fare Supermarkets in Michigan, Iowa, Nebraska, North Dakota, South Dakota 22 and Minnesota.

About Our Food Retail Corporate Finance Practice

Duff & Phelps' Consumer group is among the most active middle-market advisors, providing sell-side, buy-side and capital raising services for clients worldwide. With expertise in consumer, food, restaurant, apparel and retail sectors, our professionals have executed more than 100 industry transactions over the past 10 years.

Proven Execution

100+ Consumer M&A and Capital Raise transactions over the past 10 years

Deep Sector Expertise

Category focus drives thought leadership and builds invaluable relationships with buyers and investors alike

Customized Approach

Successful track record of premium value transactions driven by hands-on execution and creativity

Experienced Team

More than *30 bankers* dedicated exclusively to the consumer sector within North America

Global Platform

Nearly 4,000 professionals across 25 countries, with an extensive presence in North America, Europe and Asia

#4 Middle-Market M&A Advisor over the past 10 years²

300+ M&A transactions over the past five years

#1 Ranked for U.S. and Global Fairness Opinions for 2019¹

1,000+ transaction opinions for USD 2 trillion in deal value since 2005

650+ private equity groups (PEGs) proactively covered by our Financial Sponsors Group

1,730+ PEGs contacted under engagement mandates in 2017

45+ PE coverage officers across North America

¹ Source: Thomson Financial Securities Data (U.S. deals USD 15M < USD 170M, including deals without a disclosed value). Full years 2010 through 2019.

² Source: Published in Thomson Reuters' "Mergers & Acquisitions Review - Full Year 2015, 2016, 2017, 2018 and 2019"

Select Duff & Phelps Food Retail Experience

M&A Advisor



has divested



M&A Advisor



has completed a reorganization

Board Advisory



M&A Advisor



has sold stores to



M&A Advisor



has acquired certain retail grocery assets from



M&A Advisor



M&A Advisor



has been acquired by



M&A Advisor



has merged with



Financial Advisor



Wawa, Inc. has merged with Rock Run Merger Sub, Inc.

Financial Advisor



Solvency opinion to Tops Market

Financial Advisor



Grocery Outlet, Inc. has completed a leveraged dividend recapitalization transaction

Financial Advisor



Solvency opinion to the board of Sprouts Farmers Market

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