LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

MASTER OF SCIENCE IN FINANCE

MASTERS FINAL WORK PROJECT

EQUITY RESEARCH: JERÓNIMO MARTINS

SOFIA TEIXEIRA LOPES

NOVEMBER 2020

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SUPERVISOR:

JOÃO CARVALHO DAS NEVES

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Abstract

This project consists of estimating the target price of Jerónimo Martins for the end of 2020, according to ISEG's Master of Finance Final Work Project. This Equity Research follows the CFA Institute research report recommended guidelines.

Jerónimo Martins is a Portuguese company operating in the food retail and distribution sector in Portugal, Poland, and Colombia. The company is listed in Euronext Lisbon since 1989, being one of the companies included in PSI-20, with a share capital over € 629M. Jerónimo Martins was chosen due to its stable position in the market and for the personal interest of knowing how this industry operates.

This Masters Final Work Project analyzes the financial statements of Jerónimo Martins, its business model, the respective industry and major competitors, as part of the equity valuation process. The aim is to estimate the market value of the share at 2020 year-end and provide an investment recommendation.

The methodology chosen to perform the valuation of the company's share was through Discounted Cash Flow method (DCF) reaching a target price at the end of 2020 of € 16.36, with an upside potential of 19.39% comparing with the share price displayed on 30th September 2020 of €13.70. The investment recommendation is to Buy. In addition, the valuation has also used the Multiples Valuation by using EV/EBITDA and EV/Revenues.

The risk assessment for the company is based on medium risk due to this industry being highly competitive. In addition, it was considered that the main risks come from the cost of debt, risk-free rate, market risk premium and perpetual growth rate.

Keywords: Equity Research; Valuation; Discounted Cash Flow method; Free Cash Flow to the Firm; Multiples Valuation; Jerónimo Martins; Food Retail Industry.

Resumo

Este projeto consiste em estimar o preço alvo da ação da Jerónimo Martins para o final do ano de 2020, de acordo com as normas do ISEG do trabalho final de mestrado de Finanças. Este relatório de avaliação está de acordo com as diretrizes recomendadas do Instituto CFA para relatórios de avaliação.

A Jerónimo Martins é uma empresa portuguesa que opera no sector de retalho e distribuição alimentar na Polonia, Portugal e Colômbia. A empresa está cotada na Euronext Lisbon desde 1989, sendo uma das empresas que constitui o índice PSI-20, com um valor de capital social de mais de € 629M. A empresa Jerónimo Martins foi escolhida para a realização deste trabalho pela sua posição estável no mercado e pelo interesse pessoal de conhecer como esta indústria atua.

Este trabalho final de mestrado tem como objetivo analisar as demonstrações financeiras da Jerónimo Martins, o seu modelo de negócio, a sua respetiva indústria e os maiores concorrentes, como parte do processo do relatório de avaliação para estimar o preço alvo, valor de mercado, no final do ano 2020 e apresentar uma recomendação de investimento.

Os métodos escolhidos para fazer a avaliação da empresa foi através dos Fluxos de Caixa Ponderados (DCF), obtendo um preço alvo no final de 2020 de €16.36, com um potencial de valorização de 19.39% comparando com o preço da ação disponível a 30 de setembro de 2020 de € 13.70. A recomendação de investimento é para comprar. Como complementar, foi usado o método dos múltiplos comparáveis através de EV/EBITDA e EV/Revenues.

A atribuição de risco para a empresa é de médio risco devido à elevada competitividade existente na indústria. Os maiores riscos considerados derivam do custo da dívida, da taxa de retorno sem risco, o prémio de risco de mercado e a taxa de crescimento perpétuo.

Palavras-Chave: Equity Research; Avaliação de Empresas; Jerónimo Martins; Discounted Cash Flow method; Free Cash Flow to the Firm; Relative Valuation method; Retalho Alimentar.

Acknowledgements

This chapter has come to an end. It was incredibly challenging at different levels and paths. I am grateful to have enrolled this Masters and for all the knowledge that I gained.
I could not do it without the support of all the people that were part of this journey.

Firstly, I would like to thank my parents, especially my father, for always supporting all of my decisions and for being there for me. Without their support, I would not be able to accomplish most of my achievements.

I would also like to thank my friends, in particular to Halyna for the wise words and friendship and to Inês for all the Cappuccino evenings and for being my late-night study partner in these last weeks.

To my boyfriend, Fábio, for being my best friend during all these years and being patient with me in the most stressful moments. I am blessed to have you in my life. Thank you also to his parents.

Finally, a deep mention of gratefulness to my supervisor João Carvalho das Neves for all the guidance and time spent during the project as well as for embracing my work.

Index

List of Figures

List of Tables

LISBON SCHOOL OF ECONOMICS & MANAGEMENT
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Jerónimo Martins SGPS, SA

BUY

Medium risk

November 2020

Portugal

JM: Making a difference in a Meaningful way

(YE2020 Price Target of € 16.36 (19.39%); recommendation is to Buy)

1. Research Snapshot

Our recommendation for JM stands at **BUY,** with a YE 2020 target price of € 16.36, representing a 19.39% upside potential to the company's stock price of €13.70 on September 30, 2020, with medium risk. We attribute a medium risk due to the industry being extremely competitive.

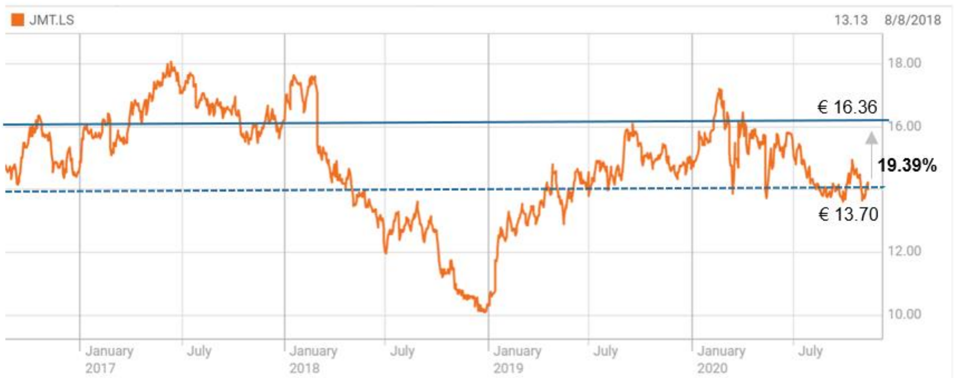
The company is continuously improving its investments through the countries where it operates, always exceeding the stakeholders' expectations on the way to sustainable development. Permanently focusing on leadership, responsibility, and independence, the JM core business is the leader in Portugal with a strong position in supermarkets allied with customers' loyalty.

Figure 1. Risk Assessment

Low	Medium	High

Source: Author

Figure 2. Share Price



Source: Reuters, Author

Table 1. Market Profile

Volume	930 952
52 Week High	17.43
52 Week Low	13.11
Shares Out (MIL)	628.43
Market Cap (MIL)	8,961.14
Forward P/E	24.11
Dividend (Yield %)	1.45

Source: Reuters, Author

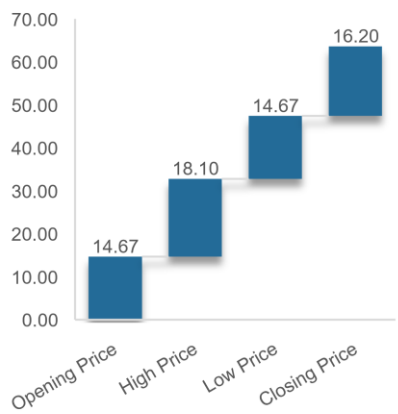
2. Business Description

Jerónimo Martins SGPS SA is an international retail company based in Portugal, which operates in the Food Distribution area with over 4,419 stores and more than 115,000 employees spread across Portugal, Poland and Colombia. The core business of the Group is Food Distribution which represents 95% of total sales.

The Group has other different business segments besides **Food Distribution** and Specialized Retail such as Manufacturing, Marketing Representations Restaurant Services and, recently since 2014, Agribusiness. This last sector has the objective of supporting the Food Distribution sector in Portugal ensuring that JM's stores have direct access to supply sources of strategic products.

The main goal of the company is to on provide quality services based on a competitive price strategy at the same time as it satisfies the expectations of its stakeholders.

Figure 3. JM Stock Value 2014-2017



Source: Bloomberg, Author

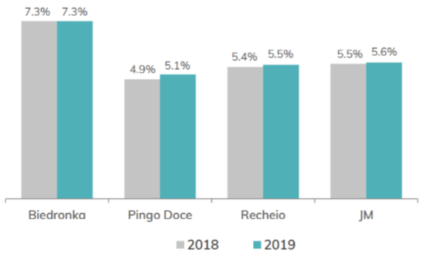
Regarding the countries where JM is present, in **Portugal** the company is leader in the Supermarket segment through the Pingo Doce chain and in the Cash & Carry segment with Recheio. JM counts with 528 stores across the country and more than 33,000 employees. Although the Food Retail in Portugal is extremely competitive, the consumers remain loyal to the company. In fact, Pingo Doce has reinforced its market position as a result of the continuous innovation and strategic differentiation pillars. As a result, total sales have a stable growth of 2.9% around € 3.9 billion, indicating a notable LFL growth performance of 2.5% jointly with the opening of 9 new stores.
In 2020, Pingo Doce completed a development project for a new store concept leveraging on meal solutions.

Figure 4. Geographical Distribution

Source: Company Website

In **Poland**, Biendroka is the biggest Food Distribution chain in the country with 3,002 stores and reached € 12.6 million of sales, reinforcing its market share. It had the strongest top line progression of the Group in 2019 driven by 5.8% LFL and good contribution from expansion. In addition, it had opened 102 new stores.
Regarding **Colombia**, despite the presence of JM being more recent since it has been there only for 7 years, it already counts with 616 stores and 6 Distribution Centres. In addition, JM is the sales leader in the Coffee Growing Region with Ara Chains and has been expanding across Colombia to Bogotá region contributing to 40% of the GDP and an increase in sales € 784 million. In 2019 it had a remarkable progression in LFL +17.6% at the FY mostly driven by strong price investment and assertiveness of the offer. In addition, it had opened around 85 stores over 2019.

Figure 5. EBITDA Margin



Source: Company Results Presentations

In terms of performance JM has increased their value continuously as shown by the amounts reported in sales of around € 18M in 2019FY and € 1M in EBITDA.

Company Strategy

The company strategy is based on value creation while looking for sustainable development through strategic guidelines and objectives with the core competences present. Therefore, there are three pillars aligned with the Group strategy: Corporate Responsibility, Value Creation and Sustainable Development.

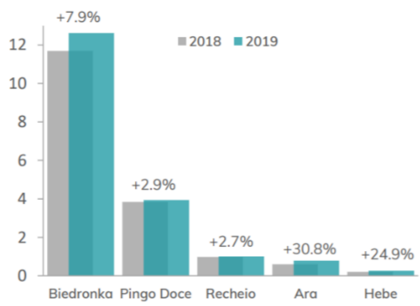
Figure 6. Core Competences

Source: Author, Company data

The Group **Corporate Responsibility** strategy seeks to implement processes that can have a significant impact on the environment and on the people of the geographical areas in which the company is present. Moreover, JM manages to balance the economy, social and environmental conservations.

Moreover, when focusing on **Value Creation**, the Group aims to achieve a competitive position in every area where the it is present, with a particular focus on Retail and Wholesale Specialized Retail, implementing strategies for benefiting from economies of scale and synergies.
In the Retail Segment, the company is the leader in Portugal due to Pingo Doce chain stores and the leader in Polonia due to Biendroka. Regarding the Wholesale Segment, the company in Portugal is present through Recheio. In fact, in 2019YE the Food Service segment proves again to be one of the Company's growth drivers with an increase of more than 15%. The brand continued to make a threefold investment in Food Service - namely in specialized assortment, service and distribution.
Regarding Specialized Retail Segment, the Group has Hussel and Jeronymo Coffee Shop, both settled in Portugal and Hebe drugstore in Poland.

Figure 7. Sales by banner (Bn€), 2019FY



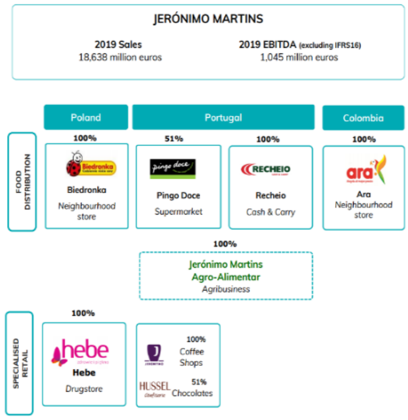
Source: Company Results Presentations

In addition, in order to achieve the short and medium-long term objectives related to the continuous growth of business units and sales margins, the company relies on the technology updates.
Furthermore, the company outlook for the future is to expand and increase the number of stores, especially internationally.

As regards **Sustainable Development** the company is involved in social and environmental concerns in the value chain, always promoting healthy quality food supporting the community where the Group works. In 2019 the Group's carbon footprint has less than 21.3% per €1,000 of sales continuing to be "A" in the CDP Climate Change. Moreover, the company is also focused on offering sustainable products as well as healthy products.

Along these main pillars, JM commitment is based on the development of high-quality and convenient products through Food Solutions, Competitive Prices, Proximity of Locations, Operational Efficiency, Excellence in Perishables and quality private brands. Also, through management capacity, together with flexibility and discipline, it is possible to set clear priorities with the core competences built for the business. These core competences allow the company to diversify production and achieve its objectives whilst creating more value to the business via strong brands, efficiency and management capacity. Combining the expertise of private brands and fresh produce with the condition of filling consumer needs in tandem with keeping innovationing is one of the core competences of the Group which allows it to keep its market position.

Figure 8. Business Structure

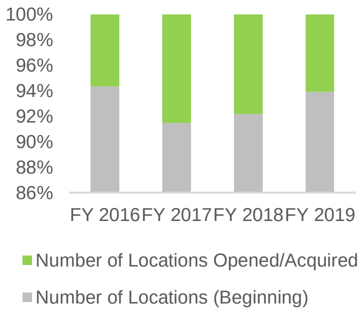


Source: Company Annual Report

3. Management and Corporate Governance

The Corporate Governance of Jerónimo Martins is based on the best practices in the market with the aim of being the most appropriate to the interests of stakeholders. For that, JM has followed the **Anglo-Saxon** governance model since 2007 which is organized through a Board of Directors, which includes the Audit Committee, and a Statutory Auditor. The Board of Directors includes six Independent Directors, following a majorirty rule, besides supporting the process of value creation, their role is also to protect the interests of all shareholders and stakeholders through the best practices of Company's management. With this role and functional purpose, they supervise and guarantee effective monitoring of the rest of the members of the Board of Directors.

Figure 9. Number of JM Stores



Source: Author, Bloomberg

Board Members

The **Board of Directors** of JM is composed by ten effective members which during 2019 met seven times. Attending the Shareholders' Meeting is not subject to holding a minimum number of shares
Pedro Manuel dos Santos is the Chairman of the Board of Directors since 18 December 2013 and is also the CEO of JM. He joined the Operating Division of Pingo Doce in 1983 and has been Director of JM since 31st March 1995 and Chief Executive Officer since 9th April 2010 and Chairman of the Board of Directors of the Company since 18th December 2013. As the Chairman of the Board of Directors he has the special responsibility for chairing meetings, for monitoring actions taken based on the decisions made by this body, for taking part in meetings of other

committees set up by the Board of Directors and for defining the overall strategy of the Company.
Andrzej Szlezak has been a Non-Executive Director of the Company, since 10th April 2013. With Andrzej JM has **Artur Stefan Kirsten** enrolling as a Non-Executive Director since 2015.
António Viana-Baptista is one of the independent Non-Executive Director of the company since 2010 together with Clara Streit, Francisco Seixas da Costa and Hans Eggerstedt and Henrique dos Santos. He is also a Non-Executive Director of Semapa, SGPS, S.A. and of Atento, S.A., and Director of Alter Venture Partners G.P., SARL. **Clara Christina Streit** besides the role in the Company is also a Non-Executive Director of several European corporations. **Francisco Seixas da Costa** has been a Non-Executive Director of the Company since 2013.
Sérgio Tavares Rebelo has been a Member of the Advisory Council to the Global Markets Institute at Goldman Sachs, since April 2012 and Non-Executive Director of JM since April 2013.
Elizabeth Ann Bastoni is one of the Independent Non-Executive Director since April 2019. She had also chaired the Remuneration Committee of the Jerónimo Martins Group between 2016 and 2018.
José Manuel da Silveira e Castro Soares dos Santos is a Non-Executive Director appointed by Sociedade Francisco Manuel dos Santos. He is also chairman of Movendo Capital B.V., since 2017.
María Angela Holguín Cuéllar is also an Independent Non-Executive Director. Her first appointment took place in April 2019. Maria is a Colombian national and she is a member of the Supervisory Board of New World Investments B.V. (company that is part of the Group).

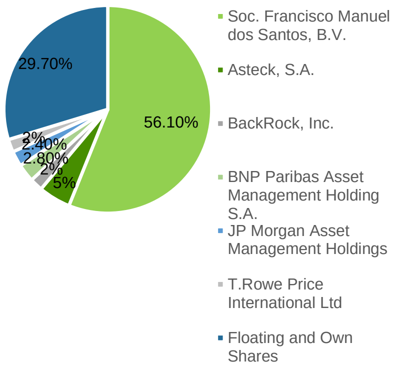
Regard The **Audit Committee**'s main duties are monitoring the effectiveness of internal control systems, internal auditing and risk management, evaluating the external audit on a regular basis, approving activity plans in the risk management field and following up on their execution as well as other responsibilities to audit area. In 2019 the Audit Committee met six times and is responsible for supervising Company management and it is constituted by Sérgio Rebelo, being the Chairman of the Committee, and Clara Streit.
The **Statutory Auditor** is Ernst & Young Audit & Associados, SROC, S.A., represented by João Carlos Miguel Alves. EY confirmed not holding any shares or bonds of the company as well as not having made any transactions during 2019, with JM securities. The Statutory Auditor also carries out the role of the Company's External Auditor.

Shareholder Structure

Jeronimo Martins' share capital is € 629,293,220 with all issued shares being ordinary and paying up with a nominal value of € 1 each.
All issued shares are ordinary and have been admitted to trading on the Euronext Lisbon Stock Exchange.

JM holds 859,000 of its own shares, acquired in 1999 at an average price of € 7.06, which represent 0.14% of the Company's share capital with equal percentage of voting rights.

Figure 10. Company's Shareholder Structure



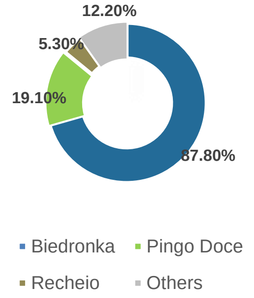
Source: Author, Company Annual Report

Table 2. List of Qualifying Holdings as at 31st December 2019

Shareholder	No. of Shares Held	% Capital	No. of Voting Rights	% of Voting Rights
Sociedade Francisco Manuel dos Santos, SGPS, S.E. Through Sociedade Francisco Manuel dos Santos, B.V.	353,260,814	56.14%	353,260,814	56.14%
Heerema Holding Company Inc. Through Asteck, S.A.	31,464,750	5.00%	31,464,750	5.00%
BNP Paribas Asset Management Holding S.A. Through Investment Funds Managed by BNP Paribas	n.d.**	n.d.**	n.d.**	2.77%
JP Morgan Asset Management Holdings Through Investment Funds Managed by JP Morgan	14,815,917	2.35%	14,815,917	2.35%
Of which, through **JP Morgan Investment Management**	n.d.**	n.d.**	n.d.**	2.04%
T. Rowe Price Group, Inc. Through T. Rowe Price International Ltd	12,821,174	2.04%	12,694,305	2.02%
BlackRock, Inc.	n.d.**	n.d.**	12,620,324	2.01%

Source: Company Annual Report

Figure 11. EBITDA by Business Area 2019

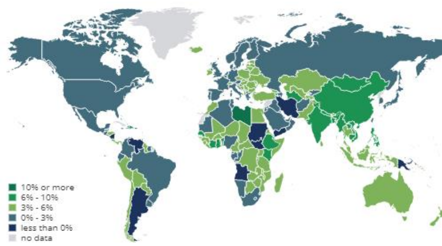


Source: Author, Company data

Table 2 presents qualifying holdings at 2019 YE and shows shareholders that cross the 2% threshold.

The biggest percentage, around 56.1%, is from Sociedade Francisco Manuel dos Santos representing the main shareholder of JM followed by Floating and Own Shares, 29.7%. The miniature percentage, 2.0%, belongs to T.Rowe Price International Ltd.

Figure 12. GDP growth 2018



Source: International Monetary Group

4. Industry Overview and Competitive Positioning

Economic Outlook

The year of 2019 was mired with political and commercial conflicts which have been present in most part of the globe especially in Europe.

Furthermore, throughout 2019YE and begging of 2020, the world has been living the Covid-19 pandemic.

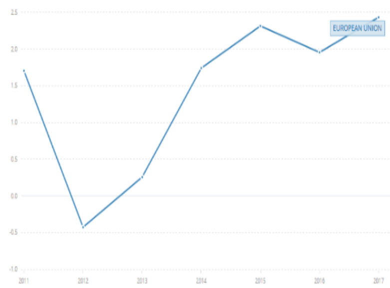
Although of this pandemic has been felt all over the world, the initial impact of this global health crisis for JM was initially felt in the first half of March of 2020. In fact, the company was able to maintain a strong financial position against the possible consequences brought by the pandemic.

In Portugal, the pandemic was strongly felt in the tourism sector. In addition, the restrictions impacted the retail sector and were directly on the profitability of the Group business models.

On the other hand, in Poland, Biedronka responded to the challenges posed by the pandemic with remarkable certainty, combining agility and flexibility aligned with promotional campaigns which allowed it to increase its market share and protect the company's profitability.

In Colombia, the impact of confinement measures and restrictions on economic activity is still being felt.

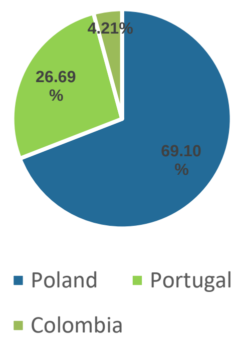
Figure 13. GDP growth EU (annual%)



Source: World Bank Group

Looking back to 2019 in **Portugal**, 2019 was in fact a positive year for the country since unemployment decreased to 6.6%. GDP growth dropped from 2.6% in 2018 to 2.2% in 2019, consequence of the reduction in exports. The inflation was lower

Figure 14. 2019 Revenues (%) per country



Source: Author, Company data

during 2019 standing at 0.3%. Private consumption growth has reached 2.3%, in line with GDP growth.

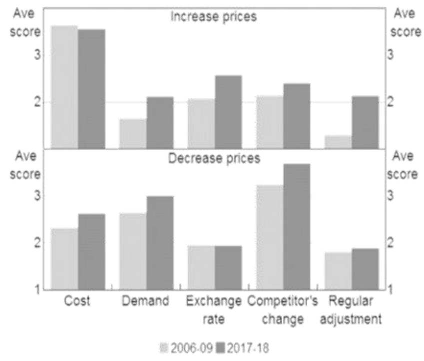
In **Poland**, in 2019 the economy grew roughly 4.1%. The biggest driver was Domestic Consumption with salary increases and with lower unemployment rate. In addition, the food inflation significantly increased to 4.9% contributing to a higher Consumer Price Index (CPI) of 2.3% in 2019.

However, general consumer traffic is expected to remain lower than in 2019 due to the lower regular visits to the stores and to the preference of buying more in each visit.

In **Colombia,** GDP also grew considerably from 2.5% in 2018 to 3.3% in 2019. On the other hand, unemployment rate increased in 2019 to 10.5%, compared to 9.7% in 2018.

Higher prices of food products and services contributed to the increase of the inflation rate (3.5% in 2019 versus 3.2% in 2018).

Figure 15. Price Changes Factors

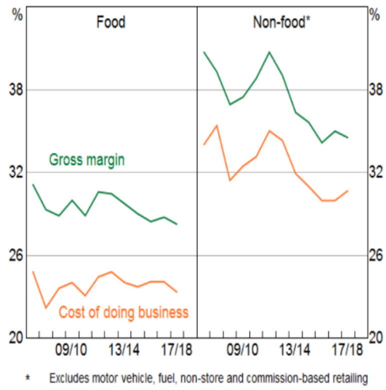


Source: RBA

Future outlooks expected for both Portugal and Poland are to increase their market in food retail field due to the historic increase in the food retail market being directly linked to the increase in the real GDP growth.

On the contrary, the forecast for Colombia is not to so optimistic since the retail f market is expected to have a slow decrease following the economic deceleratio the country.

Figure 16.Components of Retail Net Margins as a share of total Income



Source: RBA. ABS

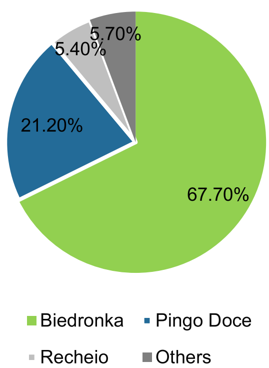
Market Analysis

Since the 2000s the Retail market has been facing continuous changes due to rise of **online shopping** and the entry of **new international firms** into the indu: Firms are dealing with these challenges by increasing competitive pressures an adjusting their price behavior to compete for market share.

In addition, **net profits margins** for food retail have been decreasing over recent years due to a decline in gross margins suggesting a reduction in firms' pricing power. To overcome this issue in the gross margins, retailers are focused in reducing operating expenses as rent and labor, but with mixed success.

So far in 2019, the average **gross initial yield** achieved was around 25bps higher compared to 2018 at 6.47% a reflection of both the softening trend in retail yields as well as the rising number of value-add type of transactions.

Figure 17. Sales by Business Area 2019



Source: Author, Company data

The **costs** incurred by distributors are broadly split between labor and other input costs, with distributors' profit margins accounting for a little under 10%of the final sale price. These share of labor and other input costs have remained relatively stable for at least the past decade.

The fact that consumers have become more price sensitive been made companies adjust their price strategy, generally by increasing the discounts on their products. The fact that currently consumers are able to easily compare the price of products across multiple firms and determine which is offering the lowest price affected the profit margins of retailers since they aim to maintain a lowest price position in the market.

The market where the Group operates is an important factor for the leadership position. For instance, the economic growth in the Eurozone, during the beginning of 2019 was stronger than expected. Consumer spending in Europe will maintain this behavior and is forecasted to grow by 1.7% in 2019 and 2020. The fact that Retail market has been responding to consumer needs and changes makes it more dynamic. However, JM needs to adapt to the new preferences of consumer's purchases. In fact, online retail is becoming a solid and reliable way to shop. European online sales are expected to match the 5-year average growth of +14%. Facing this scenario, JM needs to adapt in new ways to respond to the changing consumer trends.

Interest rates

JM use derivatives in order to anticipate any adverse effect from **interest rate** movements. The Group uses derivatives in order to manage any financial risk to which it is exposed.
When the hedged item affects profit or loss the amounts accumulated in equity are reclassified. This profit or loss is recognized in the income statement, making all costs associated with the underlying exposure carried at the interest rate of the hedging instruments.
In addition, all financial liabilities are indexed to a reference interest rate, exposing the Group to cash flow risk. Hence, a certain portion of this risk is hedged through interest rate swaps, thus the Group is also exposed to fair value risk. Exposure to interest rate risk is monitored continuously. In addition to evaluating future interest costs based on forward rates, sensitivity tests to variations in interest rate levels are performed. The Group is essentially exposed to **the euro, and the zloty interest rate curves, as well as to the Colombian peso interest rates.** Interest rate risk is managed through operations involving financial derivatives contracted at zero at the initial moment.

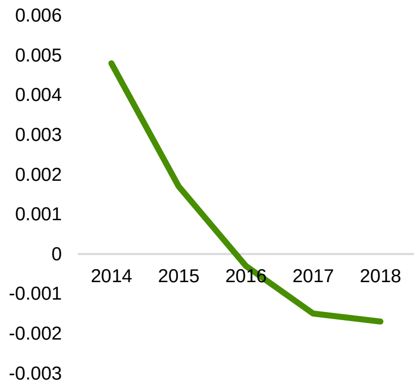
Foreign exchange risk (net investments in foreign entities hedge)

With respect to foreign exchange risks, the Group follows a natural hedge policy, raising debt in local currency whenever market conditions are judged to be convenient, considering the level of interest rates. As a matter of fact, the main source of exposure to foreign exchange risk comes from Jerónimo Martins' operations in Poland and in Colombia.
The Group hedges its exposure to foreign exchange risk inherent to the purchase of stocks in foreign currency. For this purpose, in 2019, the Group contracted currency forwards in zlotys, with maturity in the first quarter of 2019, with a notional amount of EUR € 92 million.

Food Retail Industry

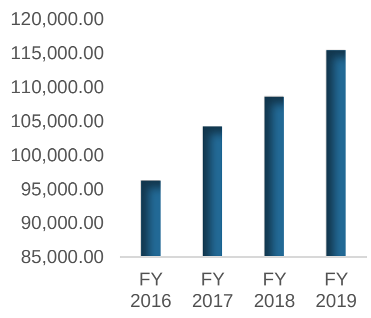
The **Food Retail Industry** is one of the largest market segments Worldwide and competition has been continuously growing for the last few years. In comparison with previous years the economy experienced an upturn, which drove an increase in private consumption.
Although food retailers have been increasing their scale while concentrating sales into large stores, they are currently facing a significant issue of overcapacity which may affect their earnings.
To face this, retailers are predicting more accurately their labor needs. Hence, supply chains forecasts are already using the full capacity. With this, it is possible to support inventory planning as well as capacity and workforce optimization either in distributions centers or in stores.

Figure 18. Short-term Interest Rate



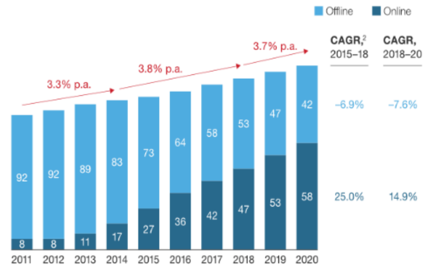
Source: Author, EuroStat

Figure 19. JM's Employees



Source: Author, Bloomberg

Figure 20. Food Delivery Market

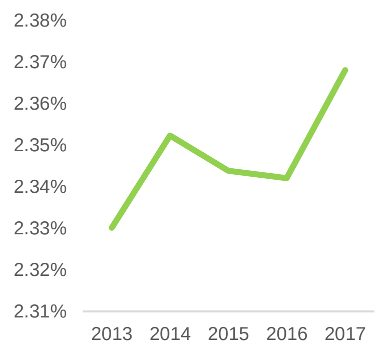


Source: Mckinsey

On the other side, whilst consumers are reducing their per capita spending, grocers have continued to build out new locations, leading to a drop in per-store and per-square-meter productivity.

Besides those factors, food retail industry is getting a new approach through online shopping since E-Commerce continues to grow. This new trend is starting to have a strong position on the consumers' side. From that, Retailers are absorbing the costs of free shipments, promotions and high customer acquisitions in order to retain market share.
JM is adapting to these new approaches and in fact in July 2019, launched E-Commerce operation by HEBE in Poland.

Figure 21. OECD GDP Spending on R&D

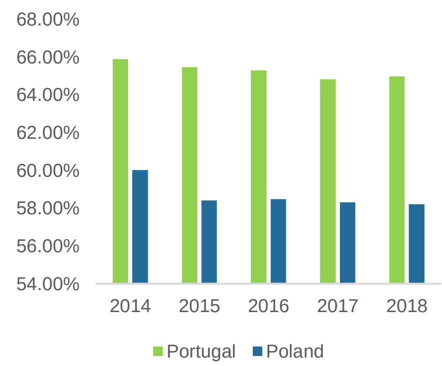


Source: Author, OECD

Also, the impact on the environment is a major concern for consumers whom are being more conscious and worry about the environment impact. This allows big changes to retails since consumers are getting more concern about ethical, sustainable and ecological choices when they purchase the service or good. Making healthier preferences is notable which reinforces the conscious attitude.

The huge number of choices on the consumers' side makes the lack of **switching costs** and limitations in product differentiation lead to buyer mobility, which forces larger retailers to maintain attractive pricing schemes.

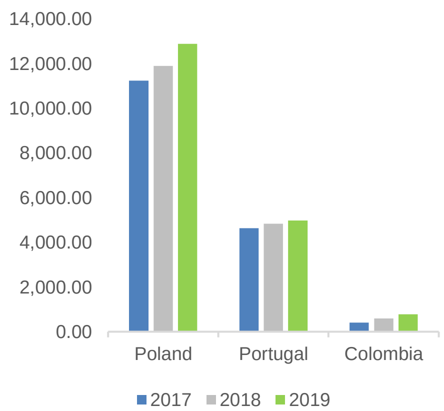
Figure 22. Household Spending (% of GDP)



Source: Author, Global Economy

In **Europe**, **food retail market** continues to play an important role in terms of value and employment. In fact, this has been a consequence of globalization which allowed a sales' increase in the sector both inside Europe and internationally.
Even though the issues of overcapacity are presented, European food retailers have increased their scale while concentrating sales into large stores
It is expected that European Food sector will continue to grow. Forecasts predict that the market will rise annually by 2.3% between 2019 and 2023. In addition, Consumer Price Index (CPI) is continuously growing and in FY 2018 has a value of 102.4. Households have also experienced a constant increase such as in 2018 had a value of 296.10.

Figure 23. Historical Revenues



Source: Author, Company data

In **Portugal**, even with the crisis that has been felt in Europe, the confidence of consumers is remaining stable with consumers looking for good value and more promotions always with quality, especially fresh products. Portuguese consumers continue to prefer traditional shopping rather than online. In fact, the online grocery entry in the country was only around 0.9% compared to a global average of 4.6%.
Despite the new arrival of a possible competitor in the country, Mercadona, JM is still looking confident. Although it has the possibility to change Portuguese retail market, the Group has not felt threatened yet and will keep a close eye on the possible competitor.
In **Poland,** it is expected that grocery sales grow 3.7% yoy on average untill 2020. This positive expectation is the result of the continued GDP growth and the increase in wages as well as inflation. The Consumer Price Index in 2018 grew 1.6%. However, this increase was relatively low due to the pressure of increased internal demand and the increase in fuel prices.

On the other side, the behavior of consumers in **Colombia** is changing, as result of the improvement of economic conditions and the expectations of traders and consumers. Adding to this, higher purchases were observed due to the decline of political uncertainty. Furthermore, strategies are being developed focusing on small grocers and larger discounters working together since it will offer lower prices. The desire to offer not only quality products but also goods with value allied to a unique shopping experience is present in the sector. Regardless of the Colombian GDP increase of 1.8% in 2017, it was lower than in previous years, but still higher than other Latin American economies.

Drivers of costs

The mainly costs that food retail industry has are directly related with costs pressures. In order to have profitability, retailers must rethink their strategies to combine costs. In addition, the availability of credit allows a proportional growth and consequently a higher consumption outflow. According to 2017 financial survey the turnover for part-time workers was around 48.9%. This is a result of the combination of the rise in low wages and low company loyalty in having new opportunities for them.
In spite of the increase in the costs of distribution, specifically in fuel and improvements to logistics operations), the EBITDA margin stands at 5.4% of sales.

Distribution costs are the biggest expense of JM accounts. It is expectable that distribution costs remain the major expense to the Group since they are related with retail main activity in store, logistics and warehousing. In order to reduce fluctuations in this expense, food retail industry is usually holding inventory and consolidated supplies.

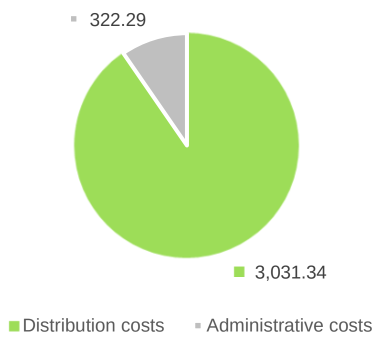
Drivers of revenues

The 5Y Retail Revenue Growth Compound annual growth rate (CAGR) from FY2011 to 2016 was around 4.8%. Regarding economic growth – 2017 GDP growth annual was around 2.4%.
The increase in disposable income due to economic growth has spurred higher spending on retail as consumers look out for preference and become brand conscious. This gives firms the chance to target the large middle class who were earlier hard to reach because of their price sensitivity.
One key to create loyalty in consumers is pricing and promotional strategies by developing a diversified product which is priced just right for the target market. Adding to this, new technology is fundamental to leverage revenues through operational excellence derived from it. With new technology, a new approach of shopping was stablished in the market some years ago: Online Food Delivery. In fact, revenue in the Online Food Delivery segment is expected to display an annual growth rate, based on CAGR 2018-2023, of 11.1%, meaning that retailers must apply the technological changes in their business strategies.
With all changes in the market the consumer mindset and preferences also change where the product uniqueness will gain advantage when compared to marketing. In addition, product quality and trust in the brand are fundamental to consumers in order to drive sales. Therefore, brands will need to focus on providing a unique and right product to the customers at an appropriate price.

Demand and Supply

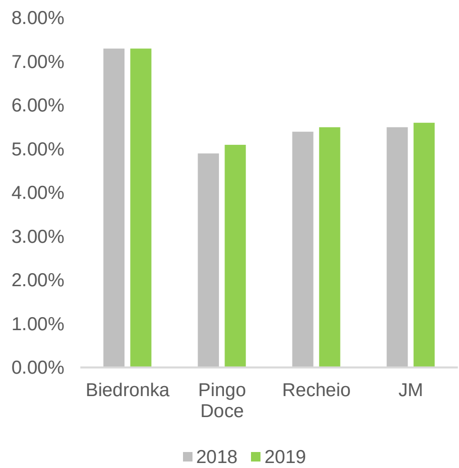
Strategic implications include the need for scale to compete and organizational relationships to move from supply push to demand pull retailing. Consequences are different for private label and for branded manufacturers, who must respond to the

Figure 24. JM's main costs (€mio)



Source: Author, Company Annual Report

Figure 25. EBITDA Performance



Source: Author, Company Annual Report

Figure 26. Company demand message

Source: Company Website

demands of retail supply chains whilst retaining control of product development. The Food Retail Industry can have a tendency of growth depending on the needs of consumers. Figure 20 compares that (increasing) growth tendency between 2015YE to 2020YE. The CAGR shows the possible increase on sales of retail industry.

One important point of this sector is the geographic position. Some regions are more propense due to economic context and local demand than others. If we look at geographical areas of peer companies, the geographic position is mainly concentrated in European and American countries. Figure 27 shows that the highest percentages are in Europe and America countries.

One way to analyze the demand and supply is to look at some ratios such as the: number of customers; customer traffic; customer conversion ratio based on the number of transactions divided by the customer traffic multiplied by 100; average of sales which is the measure of the total sales divided by the number of transactions; the items per purchase (size of an average shopping cart); and, finally, gross margin.

Figure 27. Top Retailers, ranked by Total Retail Sales from 2015 to 2020 (in bn USD)

	2015	2020	CAGR
1. Wal-Mart	$523.93	$608.97	3.1%
2. Costco	$127.91	$177.42	6.8%
3. Carrefour	$122.22	$151.43	4.4%
4. The Kroger Co.	$116.40	$139.62	3.7%
5. Amazon	$113.69	211.20	13.2%
6. Tesco	$107.69	$121.93	2.5%
7. Walgreens	$105.24	$127.27	3.9%
8. Schwarz Undernehmenstreuhand KG	$103.16	$134.72	5.5%
9. Seven & I Holdings	$101.51	$123.93	4.1%
10. The Home Depot	$90.92	$108.26	3.6%
11. Aldi	$90.12	$115.69	5.1%
12. Aeon Group	$89.63	$107.62	3.2%
13. Metro Group	$80.62	$91.88	2.6%
14. Target	$80.40	$89.97	2.3%
15. Auchan	$77.36	$103.85	6.1%
16. CVS	$74.76	$103.85	3.2%
17. Groupe Casino	$66.29	$92.99	7.0%
18. REWE	$61.35	$72.13	3.3%
19. Lowe's	$60.61	$71.00	3.2%
20. Albertsons	$59.89	$65.48	1.8%

Source: eMarketer

Competitive Analysis

Jerónimo Martins has a strong position in the market. Besides Food Distribution industry, the Group continues to be staple, year-on-year- in all the areas it operates. In fact, by country it is notable the continuously growth of the company and the stable position relative to competitors.

In **Poland** the major competitor of the group is **Dino Polska** characterized by the lack of promotions and expansion. In 2018YE was notable the increase of the market share of Dino Polska which was allied with higher EBITDA margin as 9.3% vs 5.5.% of Biendronka. **Eurocash, Lidl and Auchan** are also getting their position stable in Poland market.

To compete against the main chains allocated in the country, JM applies a different strategy in order serve customers in smaller areas by opening smaller Biedronka stores.

Figure 28. Dino Polska Logo

Source: Dino Polska's company

In **Portugal**, Food Retail is typically extremely competitive and promotional where JM faces some competitors in the area. However, Pingo Doce continues to strengthen its market position, pulling its promotional capacity in an innovative way in one of its strategic differentiation pillars – Perishables.

The mainly competitor still is **Sonae MC** with Continente Stores, which is the hypermarket brand leader in the country as well as the most popular grocery retailer. Their brand is strongly present in the country for several years.

Figure 29. Sonae MC Logo

Source: Sonae's company

Despite of that, Pingo Doce banner continues to be the market leader in the supermarket channel.

The competitors have applyied the same strategies (expansion by increasing the number of convenience stores), but JM does not seem be affected.

As a matter of fact, the strongest competitor, Sonae has number of stores that is slightly higher comparing with Pingo Doce. Continente in 2018 had as total of 581 stores and Pingo Doce only counted with 436.

Figure 30.Tesco Logo

Source: Tesco's company

In 2019, a new arrival of a possible competitor occurred in Portugal. This arrival of a new player that has the potential to really shake up the Portuguese retail sector — Spanish retail market leader Mercadona. Portugal's major players are keeping a close eye on Mercadona's strategy where it is gaining some margin in the north of the country.

Despite of this new player, JM does not see it as a major threat. Portuguese market is mature. Therefore, the Group does not expect a significant expansion and changes in growth.

Despite of these two big players, the peers group includes also Tesco PLC, Casino Guichard Perracon SA and Axfood AB.
Tesco PLC (Tesco) is a retail company founded in the United Kingdom with an operation based on Retail and Retail Banking and Insurance services. It is also a big competior in Polish retail competing with JM.

Casino Guichard Perrachon SA is a France-based food retailer company that is located in France and abroad. The Company operates across all food and non-food formats: hypermarkets, supermarkets, convenience stores, discount stores and wholesale stores. Abroad, the Company operates in South America particularly in Brazil and Colombia.

Figure 31. Casino Guichard Perrachon Logo

Source: Casino's company

Axfood AB is a Swedish retailer and wholesaler. The company operates its retail business through Willys, Hemköp, and Eurocash chains; and the online store Mat.se. Axfood AB (publ) is also involved in the e-commerce business. It serves from restaurants to convenience retailers and foodservice operators. It has its own service stations and distribution centers.

Figure 32. Axfood Logo

Source: Axfood's company

Competitive Position

SWOT Analysis

Strengths	Weaknesses
- Diversity of the stores and the range of products; Exclusive linkup with Unilever; - Being one of the largest food retail stores in South America with operation in Europe; - Strong market reputation and efficient operations; - Economies of scale and Group synergies; - Constant innovation and technology updates; - Attractive prices to customers and high customer loyalty; - JM strategy on the brand reputation in the quality-price of the products contributing to differentiate against competitors; - Overall shopping experience in the stores; - Company's knowledge about consumers' needs and strengthening price competition.	- Geographical restrictions; - Limited market share; - Frequent rotation of employees.
Opportunities	**Threats**
-Growth and expansion in emerging economies; - Cooperation with more suppliers; - Online Shopping.	- Competition from larger retail chains; - Tough economic scenario leading to lower scope for growth, falling consumer demand; - Rising costs of operation and fuel; - Saturation of the market; - Policy changes in the retail industry as well as in the taxation system; - Rise of labor costs.

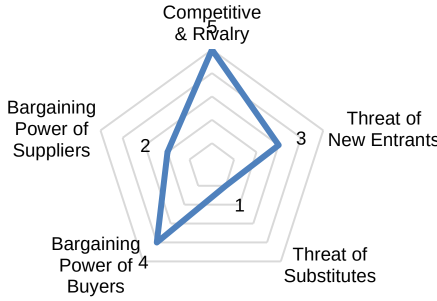
Porter's Five Forces Analysis

Threat of substitutes (medium-low)
Grocery retail offers a lack of diversified services, which makes difficult to control the switching options from customers of changing from one brand to another. The most known forms of substitutes in the industry are the small stores, online retailers and grocery delivery services. However, the threat of substitutes is particularly low for food products and medium for non-food products because most of the products offered in this industry consists of essential and basics of the daily life of consumers. Given that companies try to achieve all needs of customers, the threat of substitutes is smaller.

Bargaining power of suppliers (moderate- low)
The Bargaining power of suppliers is moderate-low as there is a high number of possible suppliers. In fact, many European retailers often have a range of suppliers which allows them to have a strategy that ensures stability. Retailers avoid possible delays in deliveries and price fluctuations. In some cases, retailers have started to

sell own brand products in order to diversify. It should be noted that suppliers are inclined towards major food and grocery retailers and dread losing their business contracts with large supermarkets. Therefore, this industry can easily affect them. Tough competition among suppliers and large availability of supplies, makes it difficult for them to affect the retail industry.

Figure 33. Porter's Five Forces



Source: Author

Threat of new entrants (moderate-high)

The retail industry has a lot of threats of new entrants because new retail companies can easily enter the market as a result of moderate capital cost. Despite that, the low growth rate, with an average growth rate (of revenues) in 2017 of 3.15% sometimes makes the industry not so attractive to new competitors. Regarding barriers, there are some such as the high marketing approaches and pricing structures of the large retailers in the industry but one of the biggest is the fact most of the companies have an established position in the market and it huge capital investments are needed. Therefore, new entrants must create something at an exceptionally low price with high quality to establish their market value.

Bargaining power of buyers (high)

The bargaining power of buyers in the market is extremely high due to the weight of the switching costs which are low, and consumers can easily switch companies. To deal with, retailers have to take an attractive price approach. In fact, consumers are attracted with low prices and since online shopping is becoming more popular nowadays, customers can easily compare and selected the companies. Typical customers involve private people, small restaurants and food distribution. There is no big dependency on large customers.

Rivalry among existing competitors (extremely high)

Rivalry between competitors in this industry is high because of the low existing switching costs for the consumers. The industry is known for the similarity in the basic products which contributes to the price competition. The fact that consumers are getting more and more concerned about price and relationship between quality and price leads to significant comparisons in the market by their part. The way that companies compete is through high promotion and price positioning to achieve a leading market position.

5. Investment Summary

With a **price target** of € 16.36 and an **upside potential** of 19.39% at 2020YE using the **Discounted Cash Flow (DCF) method**, calculating FCFF approach, our recommendation is to **BUY**.

Relative valuation through multiples supports the recommendation with an average price standing at € 16.60 with an upside level of 21.19%. Both of the methods show that Jerónimo Martins is currently undervalued (Table 3).

Table 3. Valuation Summary

DCF		
Price at 2020YE	**€**	**16.36**
Upside Potential		19.39%
Multiples Valuation		
EV/Revenues	€	20.53
EV/EBITDA	€	12.68
Price at 2020YE	**€**	**16.60**
Upside Potential		21.19%
Price on 30 September, 2020	€	13.70

Source: Author

Company Valuation

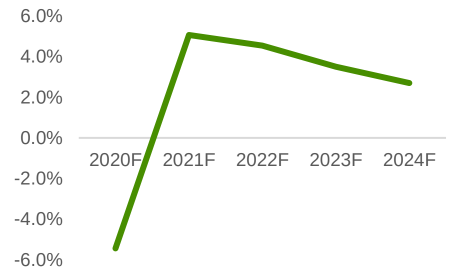
In order to valuate Jeronimo Martins two methods were used: **Discounted Cash Flow (DCF)** approach and **Multiple Valuation.**

We follow a Top-down approach where it was assumed that revenues grew relative to GDP growth.

For the forecast period, most of the key drivers of the business grow with the revenues.

The Terminal growth rate was also an essential factor for the company's valuation in which is expected to be equal to 2.71%. For the estimation of the perpetuity growth rate calculation the GDP forecasts for each country where the Group operates were cpmsodered, and it was weighted by the percentage of each region's sales.

Figure 34. Terminal growth rate



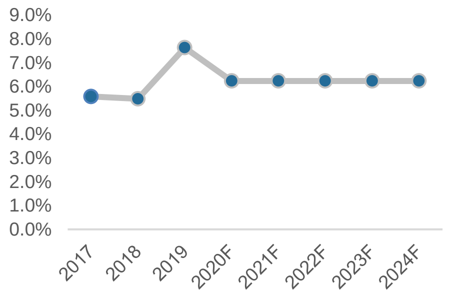
Source: Author, IMF

Table 4. Terminal growth rate

Country	2020F	2021F	2022F	2023F	2024F	Terminal Value
Colombia	-0.36%	0.17%	0.15%	0.16%	0.16%	0.16%
Poland	-2.52%	3.22%	3.14%	2.58%	2.02%	2.02%
Portugal	-2.56%	1.68%	1.25%	0.75%	0.52%	0.52%
Growth Rate (g)	**-5.44%**	**5.06%**	**4.54%**	**3.50%**	**2.71%**	**2.71%**

Source: Author, IMF

Figure 35. EBITDA Margin (%)

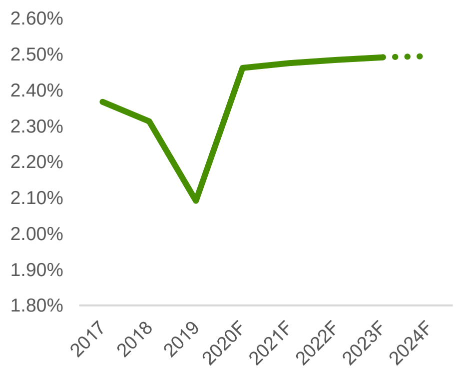


Source: Author

Key drivers

Looking at the historical data of the company over 2017-2019 it is expected that the revenues will continue to growth yoy until 2024F.
Although the **Gross Profit Margin** followed a downward trend from 2019YE to the first year forecasted 2020, it is expected to reverse at 2020YE and continue to growth constantly until 2024F to 21.60%, assuming the stable strategies that the Group applies.
Keeping up with performance, the **EBITDA Margin** will continue stable after the decrease of the 2019YE to the 2020F reaching at 6.23% at the end of the forecast period.
In addition, the **Net Profit Margin** will show a continued growth yoy of 2.49% at 2024F (+0.40% vs 2019YE).

Figure 36. Net profit margin (%)



Source: Author

Company Risks

The instability both in economic and political evolution in Europe for the last year, from the Brexit to the commercial US-China trade war have had consequences and led to uncertainties in the capital market.

In order to compute the impact of the investment risks to the Price target, a sensitivity analysis and a Monte Carlo Simulation (Chapter 8 – Investment Risks) were performed.

6. Valuation

For the Jerónimo Martins' valuation it was used the historic data period, 2017 to 2019, from the financial statements in the company's Annual Reports.

Methods

Two methods were used to valuate JM Group: **Discounted Cash Flow** through FCFF and the **Multiples Valuation**, based on the peer companies' multiples of the Group.

Regarding Discounted Cash Flow (DFC) the methodology is used to compute the value of an investment of the company, considering the future cash-flows discounted at the WACC rate. Under this method, it was applied the FCFF for the forecast period 2020-2024 and for Terminal Value.

Forecast Analysis

Total Revenues

The Revenues forecast was supported by the Annual Report of the Company, breaking down the sales by the geographical areas where the Group operates: Poland, Portugal and Colombia.

Historically, the company's revenue growth had a constant behavior. The **CAGR** of total revenues of the Group from 2017 to 2019 was 7.01%. It is assumed that the company revenues follow the expected GDP of each country.

Table 5. Revenues (%) increase yoy

	2020F	2021F	2022F	2023F	2024F
Poland	-4.40%	4.30%	2.60%	2.60%	2.60%
Portugal	-9.50%	5.20%	3.80%	2.10%	2.10%
Colombia	-2.39%	3.75%	2.50%	2.75%	2.75%

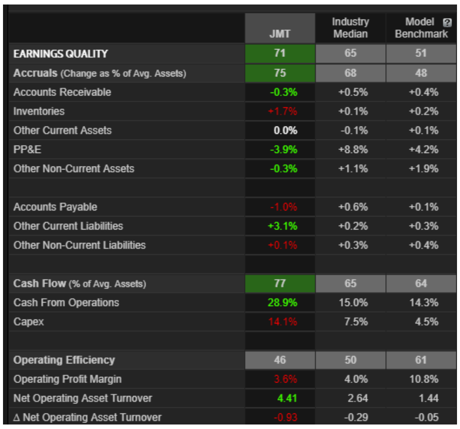
Source: Author

Capital Expenditure (Capex)

To estimate the Capital Expenditure (Capex) for the Group it was calculated by the variation on the Property Plant and Equipment (PP&E) and the sum of depreciation.

The Capex contracted at 2019YE was € 42 million (versus € 124 million reported in 2018). It was referred to work in progress, in particular for the initial agreements for the acquisition of land, buildings and equipment.
For depreciation and amortization was assumed that both growth with the average of the three years historical data of the weight of the depreciation on sales.

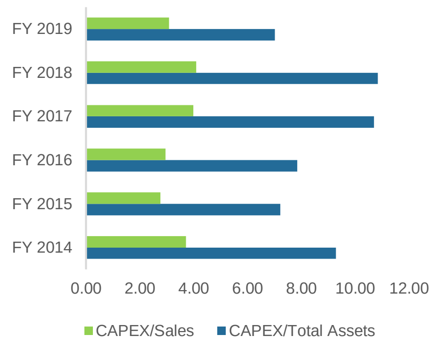
Figure 37. Component Details, Jun 2020



	JMT	Industry Median	Model Benchmark
EARNINGS QUALITY	71	65	51
Accruals (Change as % of Avg. Assets)	75	68	48
Accounts Receivable	-0.3%	+0.5%	+0.4%
Inventories	+1.7%	+0.1%	+0.2%
Other Current Assets	0.0%	-0.1%	+0.1%
PP&E	-3.9%	+8.8%	+4.2%
Other Non-Current Assets	-0.3%	+1.1%	+1.9%
Accounts Payable	-1.0%	+0.6%	+0.1%
Other Current Liabilities	+3.1%	+0.2%	+0.3%
Other Non-Current Liabilities	+0.1%	+0.3%	+0.4%
Cash Flow (% of Avg. Assets)	77	65	64
Cash From Operations	28.9%	15.0%	14.3%
Capex	14.1%	7.5%	4.5%
Operating Efficiency	46	50	61
Operating Profit Margin	3.6%	4.0%	10.8%
Net Operating Asset Turnover	4.41	2.64	1.44
Δ Net Operating Asset Turnover	-0.93	-0.29	-0.05

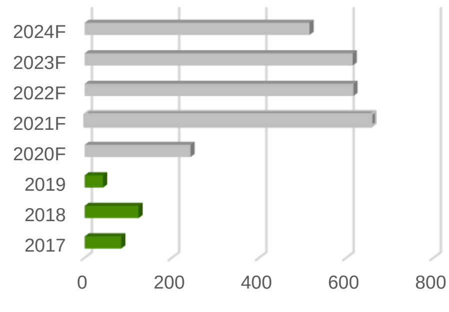
Source: Reuters

Figure 38. Historical Capex



Source: Author, Bloomberg

Figure 39. Capex (in mio€)



Source: Author, Company data

Dividends

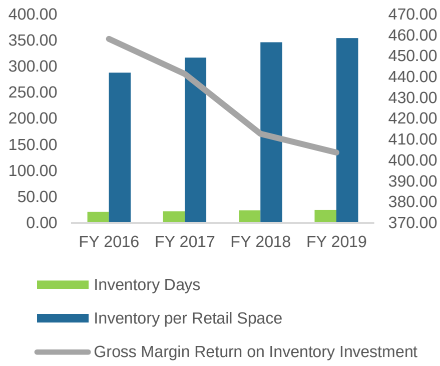
For the dividends it was assumed by the average of the three years historical data by the proportion of the revenues.
The company's dividend policy state that the value of the dividend distributed must be between 40%-50% of the ordinary consolidated net earnings.

Table 6. JM Dividends

	2020	2019	2018	2017
Dividend per share (before tax)	0.21 €	0.33 €	0.61 €	0.61 €
Payout ratio (in accordance with ordinary consolidated net earnings)	29.40%	50.30%	97.90%	96.80%
Dividend yield (Dividend per share / share price close at the end of previous year)	1.40%	3.10%	3.80%	4.10%
Payment Date	15-Jul-20	9-May-19	10-May-18	4-May-17

Source: Author, Company data

Figure 40. Inventory Productivity (€mio)

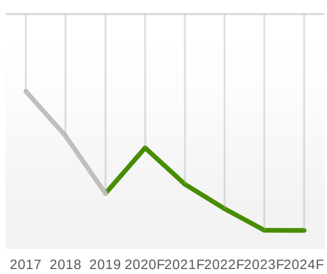


Source: Author, Bloomberg

Cost of Revenue

Cost of Revenues has a huge impact on the financial statement since the it represents around 78% of the total sales. From 2017 to 2019, cost of revenue represents an average of 78.40% of total revenues. Taking into account that these costs had represented a linear percentage, it was assumed for the years forecast that the cost of revenues will grow as the percentage of the historical cost of revenues' average.

Figure 41. Cost of Revenue



Source: Author, Company data

Net Working Capital (NWC)

Regarding **Net Working Capital (NWC),** since we observed that most of the current assets and current liabilities follow the revenues behavior, we assume the same performance of those financial positions in order to get the NWC. NWC was calculated by deducting the **accounts payable** to the **inventory** and **accounts receivable**.

Table 7. Net Woking Capital (NWC)

Net Working Capital	2019	2020F	2021F	2022F	2023F	2024F
Current Assets						
Inventory	1,038.63	957.39	1,000.54	1,029.60	1,055.10	1,055.27
Accounts Receivable	424.69	420.42	439.36	452.13	463.32	463.40
Current Liabilities						
Accounts Payable	3,655.09	3,413.14	3,566.95	3,670.57	3,761.47	3,762.07
Net Working Capital	**(2,191.77)**	**(2,035.33)**	**(2,127.05)**	**(2,188.85)**	**(2,243.05)**	**(2,243.41)**
Change in NWC		**156.44**	**(91.72)**	**(61.79)**	**(54.21)**	**(0.36)**

Source: Author, Company data

DCF Valuation

The Target Price under DCF Valuation is **€16.36** for the end of 2020 (Table 8), representing an **upside of 19.39%.** Based on this, our perspective is that the company is undervalued, and the recommendation is to **BUY**.

Table 8. DCF Valuation

Price Target	
Enterprise Value	14,338.49
Net Debt	4,059.62
Value of Equity	10,278.86
# shares outstading	628.43
Equity Value per share	16.36
Price at 2020YE	**16.36**
Price on 30 September, 2020	**13.70**
Upside Potential	**19.39%**

Source: Author

DCF Assumptions

The Valuation Period considered was 5 years, from 31 December 2019 until 31 December 2024. Afterwards, the Terminal Value was added.

By using the DCF model, the value of any asset is the present value of its expected future cash flows, based on the FCFF which represents the cash flow from operations minus capital expenditures.
To estimate the value of JM by discounting the FCFF, firstly we need to calculate need to have the Weighted Average Cost of Capital (WAAC).

Table 9. Enterprise Value

Enterprise Value	
Terminal Growth Rate	2.71%
Perpetuity WACC	6.14%
Terminal Value	15,426.04
PV of Terminal Value	12,152.57
NPV of FCFF	2,185.92
Enterprise Value	**14,338.49**

Source: Author

For the Discount Rate it was used the **Weighted Average Cost of Capital (WAAC):**

$$WACC = k_e \times [E/(E+D)] + k_d \times [D/(E+D)] \times (1-t)$$

The WACC obtained was **6.14%,** being the after corporate tax required rates of return for debt and equity where the weight reflects both debt and equity which are the proportion of the Group's total market value. All the support calculations to determine the WACC are represented in the table below:

Table 10. WACC Inputs

DCF Analysis	2020F	2021F	2022F	2023F	2024F	Terminal
Cost of Equity						
Risk Free Rate R(f)	-0.58%	-0.58%	-0.58%	-0.58%	-0.58%	-0.58%
Beta Unlevered ß (u)	0.80	0.80	0.80	0.80	0.80	0.80
Market Risk Premium	7.66%	7.66%	7.66%	7.66%	7.66%	7.66%
Debt to Equity Ratio	2.28	2.30	2.32	2.33	2.32	2.32
Tax Rate	23.40%	23.40%	23.40%	23.40%	23.40%	23.40%
Beta Levered ß (L)	2.00	2.62	2.63	2.64	2.64	2.64
Cost of Equity R (E) by CAPM	14.72%	19.46%	19.55%	19.62%	19.60%	19.60%
Cost of Debt						
Cost of Debt (D)	0.54%	0.51%	0.49%	0.47%	0.46%	0.46%
After tax cost of Debt	0.41%	0.39%	0.38%	0.36%	0.35%	0.35%
WACC						
Weight of Equity	30.51%	30.29%	30.16%	30.06%	30.09%	30.09%
Weight of Debt	69.49%	69.71%	69.84%	69.94%	69.91%	69.91%
WACC	**4.78%**	**6.17%**	**6.16%**	**6.15%**	**6.14%**	**6.14%**

Source: Author, Bloomberg, Damodaran

To obtain this rate, firstly the cost of equity, k_e, was calculated. For calculating the k_e, the **Capital Asset Pricing Model (CAPM)** formula was applied:

$$K_e = Rf + \beta \times MRP$$

For the **Risk Free Rate (Rf)** it was considered the Germany government bond with 10 years maturity, reaching -0.58%. It was assumed that Rf be transversal to the three countries.

For the **Market Risk Premium (MRP)**, it was used Aswath Damodaran's calculations as in October 25, 2020. It was taken from Damodaran's Equity Risk Premium of each country where the company is present. Hence, an average of the three countries was assumed as input for the $\boldsymbol{K_e}$, of 7.66%.

Table 11. WACC inputs by countries

	Poland	Portugal	Colombia
Risk Free Rate	-0.58%	-0.58%	-0.58%
Market Premium	6.48%	8.46%	8.03%
Beta Unlevered	0.7959	0.7959	0.7959

Source: Author, Bloomberg, Damodaran

For the **Unlevered Beta,** it was used the corresponding beta of the industry of **0.80**, according to Damodaran. In addition, in order to calculate the $\boldsymbol{\beta_L}$ it was applied the following formula, reaching a beta levered of 2.64:

$$\boldsymbol{\beta L} = \boldsymbol{\beta U} \times (\mathbf{1} + \tfrac{\boldsymbol{D}}{\boldsymbol{E}}) \times (\mathbf{1} - \boldsymbol{tc})$$

Then, using the **CAPM** Formula in order to determine the cost of equity, we got 19.60%.

$$\boldsymbol{re} = \boldsymbol{rf} + (\boldsymbol{mrp} \times \boldsymbol{\beta L})$$

To calculate **Cost of Debt,** $\boldsymbol{rd}$, we divided the financial costs by the total amount of liabilities, leading to a $\boldsymbol{rd}$ of 0.46%.

The **corporate tax rate** is the income tax rate from the 2019 Annual Report, of 23.40%.

After computing all the inputs needed, we computed the FCFF for the forecasting period, discounting it at WACC. The FCFF was computed through the formula:

$$FCFF = EBIT \ \times (1 - t) + D\&A - \Delta NWC - CAPEX$$

Table 12. FCFF

	2020F	2021F	2022F	2023F	2024F	Terminal
EBIT (1- Tc)	481.14	502.82	517.43	530.24	530.32	544.67
D&A	467.01	488.05	502.23	514.67	514.75	514.75
Δ NWC	156.44	-91.72	-61.79	-54.21	-0.36	-0.37
CAPEX	242.62	656.85	615.95	614.42	515.41	529.35
FCFF	**549.09**	**425.75**	**465.50**	**484.69**	**530.02**	**530.44**
Terminal Value						**15,426.04**
PV (FCFF) by WACC	**549.09**	**401.01**	**413.05**	**405.22**	**417.55**	**12,152.57**

The value of equity is afterwards found by subtracting the value of net debt from the estimated value of the company, reaching the value of € 10,278.86 thousand.

Terminal Value

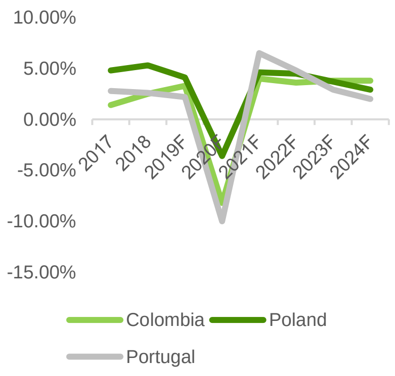
Terminal value is a key factor assumption about the company's future prospects.
To compute the terminal value, it was followed the **Perpetuity Growth Model** Approach.
For the **perpetuity growth rate, g,** it was estimated the GDP growth rate over the next five years projection by the International Monetary Fund (IMF), consulted on November 1, 2020 for each country:

Table 13. Perpetuity growth rate

	2020F	2021F	2022F	2023F	2024F
Colombia	-8.20%	4.00%	3.60%	3.80%	3.80%
Poland	-3.60%	4.60%	4.50%	3.70%	2.90%
Portugal	-10.00%	6.50%	4.80%	2.90%	2.00%

Source: Author, IMF

Figure 42. Real GDP Growth



Source: Author, IMF

Then, with the weight of the revenues of each country multiplying with the estimation of the perpetuity growth rate for each forecast year it was calculated the **perpetuity growth rate, g,** of 2.71%. To determine the Terminal Value the following formula was used:

$$TV_{2024} = [FCFF_{2024} \times (1+g)/(WACC - g)$$

Multiples Valuation

Assumptions

For the Multiples Valuation, it was used the forecast multiples **EV/EBITDA** and **EV/Revenues**.
The peer group was selected from Bloomberg and the competitors have been already described in Chapter 5.

Table 16. Peer companies

Group of Peer companies	Market Capitalization	P/E	EV/EBITDA	EV/EBIT	EV/Rev
Sonae SGPS SA	1,240.0	9.1	7.3	13.5	0.6
Tesco PLC	2,473.2	13.8	7.9	13.9	0.6
Casino Guichard Perrachon SA	8,554.9	21.6	9.7	18.7	0.8
Dino Polska SA	4,844.3	32.4	20.1	25.5	1.9
Axfood AB	4,018.19	23.2	9.9	19.5	0.9
Average	**4,226.13**	**20.03**	**10.98**	**18.23**	**0.96**
Jeronimo Martins SGPS SA	8,873.03	21.08	8.02	15.80	0.56

Source: Author, Bloomberg

Table 14. Multiple Average Output

Multiple Average		
EV/Revenues	€	**20.53**
EV/EBITDA	€	**12.68**
Price at 2020YE	€	**16.60**
Price on 30 September, 2020	€	**13.70**
Upside Potential		**21.19%**

Source: Author, Bloomberg

Table 15. EV/EBITDA Output

Multiple EV/EBITDA	
EV/EBITDA Peer	10.98
JM EBITDA	1,095.12
JM EV	12,027.83
Net Debt	4,059.62
Equity Value	7,968.21
# shares outstading	628.43
Equity Value per share	12.68
Target Price	**€ 12.68**

Source: Author, Bloomberg

Table 17. EV/Revenues Output

Multiple EV/Revenues	
EV/Revenues Peer	0.96
JM Revenues	17,580.18
JM EV	16,959.60
Net Debt	4,059.62
Equity Value	12,899.98
# shares outstading	628.43
Equity Value per share	20.53
Target Price	**€ 20.53**

Source: Author, Bloomberg

For the **EV/EBITDA,** we reached a target price of € 12.68 for 2020YE.
For the **EV/Revenues**, we reached a target price for the end of 2020 of € 20.53.

By calculating the average of the both multiples, we reached a target price of **€16.60,** with an **upside potential** of **21.19%.** Our recommendation is to **BUY**, supporting the DCF Valuation recommendation**.**

Even though the output generated by the multiples' valuation was consistent with the previous valuation method applied, we consider that the DCF valuation provides a better estimation of Jerónimo Martins target price and value, being the multiples valuation a complement valuation.

7. Financial Analysis

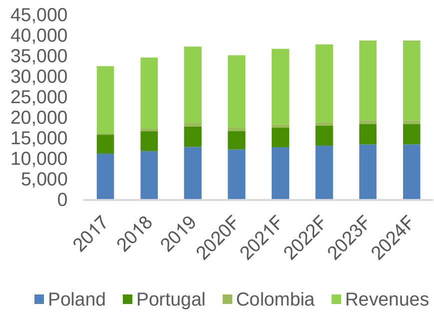
From 2017 to 2019 the **EBITDA** of Jerónimo Martins had increased yoy, breaking the barrier of € 1M in 2019YE, up 8.9% yoy and above revenues growth. 88% contributions derived from Poland. Hence, after the end of 2019 we continue to expect the increase of the EBTIDA. Even though 2020F be an abnormal year, the company has the strategies needed to overtake the pandemic regression and for that reason, the forecast will continue to be stable after 2020F with an expected increase of the EBITDA.

Following the same behavior, we predict that **EBIT** will continue to grow yoy from the historical financial results from 2017 to 2019, reaching a total amount of € 706M in the end of 2019. The majority impact in EBIT comes from distribution costs, associated with the main activity of the Group in the retail segment applied in stores, logistics and warehousing. After 2020, EBIT will continue to grow with sales.

Gross Profit Margin of the Group had a noticiable growth in the three historical years, reaching the highest percentage at the end of 2019 with 17.49%. Furthermore, from the first year of the valuation, 2020, the Gross Profit had inverted its behavior, expericing a decline continuing to be stable at 21.60% until the end of the valuation year.

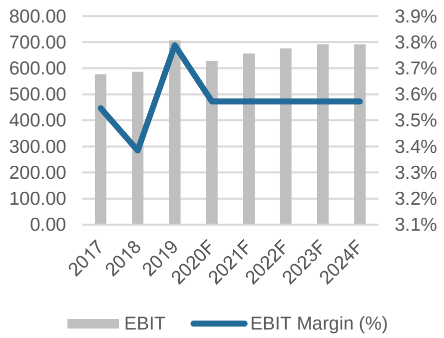
With regards to **Return on Equity (ROE)**, it corresponds to the return generated on the equity invested in the company. JM experienced a decrease from 2018 to 2019 due to lower profits in 2019. After that, this ratio had increased from 20.62% in the first year forecast to 21.51% for the end of the valuation.
Moreover, under **profitability ratio** analysis, the **Return on Assets (ROA)** presented the same drop off from 5.64% in 2018 to 2.37% in 2019. From that year until the end of the valuation, the trend for ROA is to continue to growth to 6.15%.

Figure 43. Revenues



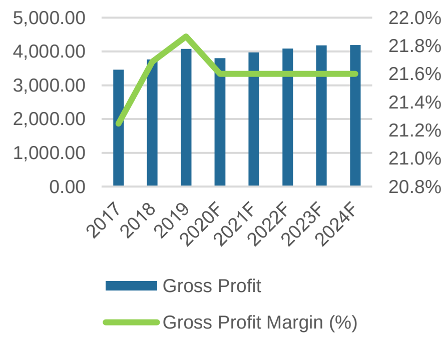
Source: Author, Company data

Figure 44. EBIT Margin



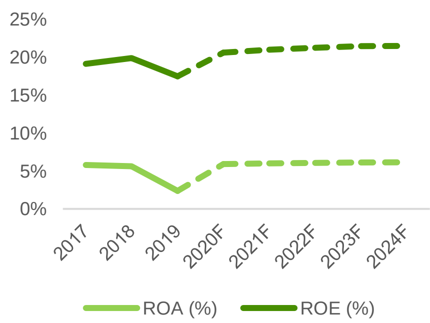
Source: Author, Company data

Figure 45. Gross Profit Margin



Source: Author, Company data

Figure 46. Profitability Ratios



Source: Author, Company data

8. Investment Risks

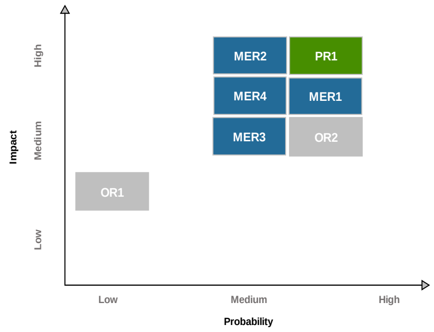
For the risk analysis a risk matrix was used which allows to minimize the subjective factor when raising and ranking risks and promoting common understanding on risk ranking. The management of these risks is focused on the unpredictable nature of financial markets and aims to minimize its adverse effects on the Group's financial performance. Certain types of exposure are managed using financial derivative instruments.

Market and Economic Risks

Market and Economic Risks | Interest rate risk (MER1)

JM is exposed to fair value along with cash flow risk, in specific to interest rate curves due to the local currency - Euro, Zloty and Colombian peso- of the countries where the Group operates.
Interest rate risk is managed through operations involving financial derivatives contracted at zero cost at the initial moment. At 2019YE it was estimated a positive impact of € 976,000 comparing with 2018YE negative in € 397,000. Since the analysis is carried out for the net debt, we consider that the profitability of a high variation on the currency is **medium/high impact** and a **medium/high probability** to happen.

Figure 47. Risk Matrix



Source: Author

Market and Economic Risks | Credit Risk (MER2)

With the stability of the current economy being unpredictable due to the pandemic it is highly important that JM manages its exposure to credit risk.
This exposure is mainly managed on bank deposits, derivates and short-term investments. It is present on the deposits from stores and in customers where the risk is present in Cash&Carry business. JM deals with the last risk through an evaluation of the experience and knowledge of the customers and of the credit insurance. We consider that the Credit risk has a **high impact** and a **medium probability** to happen.

Market and Economic Risks | Liquidity Risk (MER3)

Liquidity risk is extremely important in the industry in which JM operates. For that, this risk is managed by maintaining an adequate level of cash or cash equivalents, as well as by negotiating credit limits that not only ensure the regular development of the Group' activities, but that also ensure some flexibility to be able to accommodate some surprises which could not be directly related with the core activities of the Group.
Liquidity risk is considered to have a **medium impact** and a **medium probability** to happen.

Market and Economic Risks | Foreign exchange risk (MER4)

Pricing risk impacts the company where the major contributor comes from the foreign exchange rate in Poland and in Colombia. JM purchases merchandise in foreign currency, mostly Zloty and US dollars for the Portuguese operations, and Euros and US dollars for the Polish and Colombia operations. Exposure is managed through hedging through loans denominated in the local currency. Otherwise, when natural hedge is not possible, the hedging is contracted using swaps, forwards or options.

At 2019YE both Zloty and Colombian depreciation against Euro of about 10% which did have a positive impact on the results and on equity.
It was assumed that foreign exchange rate has a **medium/high impact** and **medium probability** to occur.

Regulatory and Legal Risks

Political and Regulatory Risk| Geopolitical Risks (PR1)

With the development of the European economy over the last few years, the performance of the index which the company is listed has also reflected the impact from the risks and uncertainties from the all the events on the capital market. From the risk posed by the commercial US-China trade war, Brexit, the difficulty in approving Italy's budget, instability in France and, more recently, to the Spanish political crisis and the Covid-19 pandemic. Hence, Regulatory and Legal represent a major risk for the JM group, since each government, where JM operates, have their own regulations and laws regarding the prices of several types of products and different tax rates and fees, which can represent a major threat to the strategies planned by JM.
We consider that it has a **high impact** and **medium/high probability** to occur.

Operational Risks

Operational Risks | Food Quality and Safety (OR1)

One of the Jerónimo Martins main goals is to provide healthier products and food solutions. Furthermore, the product safety measures in strict compliance with food safety standards are always followed up with audits and the product throughout the whole logistics flow. In addition, all the process it is continuously monitored by quality control technicians, to ensure the implementation of procedures and to measure the efficiency and the suitability of equipment and services.
Food quality and safety is one of the most relevant features for Jerónimo Martins and its stakeholders, considering this a **low/medium** impact and a **low probability** to occur.

Operational Risks | New players enters the market (OR2)

In 2019, a new arrival of a possible competitor has occurred in Portugal from the Spanish chain leader Mercadona. This arrival of a new player has the potential to really shake up the Portuguese retail sector, however the group has stable strategies to continue to have its market share in the country. We considered a **medium impact** and a **medium/high probability** to occur.

Sensitivity Analysis

Price Target

In order to test the sensitivity analysis, the key variables used were the WACC and the growth rate of the Terminal Value.
In the table below can be seen that the impact on the target price at the end of 2020 from these two variables changed by 5 bps. In the worst scenario the share price can decrease at € 9.31 a downside potential of 43.09%. On the other hand, in the best scenario the target price can reach € 29.20, representing a upside potential of 78.54%.

Table 18. Changes in growth rate and WACC

Perpetuity WACC	Change in growth rate (g) of Terminal Value						
€ 16.36	2.32%	2.44%	2.57%	**2.71%**	2.84%	2.98%	3.13%
5.27%	€ 20.33	€ 21.34	€ 22.50	€ 23.85	€ 25.34	€ 27.10	€ 29.20
5.55%	€ 18.11	€ 18.94	€ 19.88	€ 20.97	€ 22.17	€ 23.57	€ 25.21
5.84%	€ 16.14	€ 16.83	€ 17.61	€ 18.50	€ 19.47	€ 20.59	€ 21.89
6.14%	€ 14.41	€ 14.98	€ 15.62	€ 16.36	€ 17.15	€ 18.05	€ 19.09
6.45%	€ 12.93	€ 13.41	€ 13.95	€ 14.57	€ 15.22	€ 15.97	€ 16.82
6.77%	€ 11.60	€ 12.01	€ 12.47	€ 12.98	€ 13.53	€ 14.15	€ 14.85
7.11%	€ 10.40	€ 10.75	€ 11.14	€ 11.57	€ 12.03	€ 12.55	€ 13.13
7.47%	€ 9.31	€ 9.61	€ 9.94	€ 10.30	€ 10.69	€ 11.13	€ 11.61

Source: Author

Table 19. Changes in growth rate and WACC (%)

Perpetuity WACC	Change in growth rate (g) of Terminal Value						
€ 16.36	2.32%	2.44%	2.57%	**2.71%**	2.84%	2.98%	3.13%
5.27%	24.32%	30.48%	37.56%	45.79%	54.93%	65.69%	78.54%
5.55%	10.70%	15.77%	21.56%	28.22%	35.55%	44.07%	54.11%
5.84%	-1.30%	2.91%	7.67%	13.11%	19.04%	25.88%	33.82%
6.14%	-11.93%	-8.42%	-4.48%	0.00%	4.84%	10.37%	16.74%
6.45%	-20.96%	-18.00%	-14.68%	-10.94%	-6.92%	-2.37%	2.84%
6.77%	-29.09%	-26.58%	-23.78%	-20.64%	-17.28%	-13.50%	-9.21%
7.11%	-36.44%	-34.30%	-31.92%	-29.27%	-26.46%	-23.30%	-19.74%
7.47%	-43.09%	-41.26%	-39.24%	-37.00%	-34.62%	-31.98%	-29.01%

Source: Author

Monte Carlo Simulation

In addition, a Monte Carlo Simulation was perfomed in order to have a sensitivity analysis to the Target Price at 2020YE through the variation of possible inputs from the Discounted Cash Flow method.

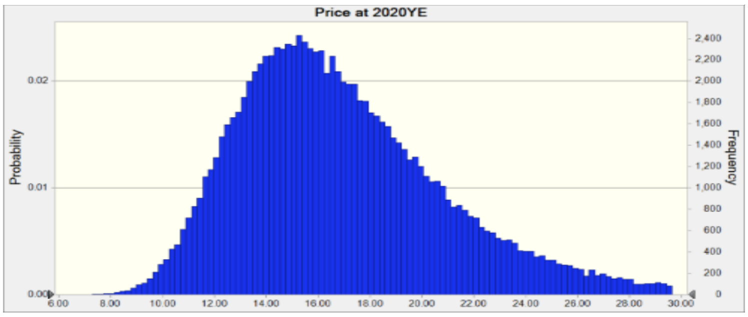
The simulation has done through 100,000 trials with the **Risk-free rate**, M**arket Risk Premium, Cost of Debt** and **Terminal Growth Rate** as inputs. Furthermore, it was reached to a mean Target Price of **€ 17.11** per share at 2020YE a BUY recommendation.

Figure 48. Monte Carlo' Statistics

Trials	100,000
Base Case	16.36
Mean	17.11
Median	16.34
10% percentile	12.34
90% percentile	22.74

Source: Author, Crystal Ball

Figure 49. Monte Carlo' Simulation



Source: Crystal Ball

Appendices

Appendix 1: Statement of Financial Position

in million of EUR

BALANCE SHEET	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Property, Plant & Equipment, Net	3,474.84	3,687.05	3,969.94	3,745.55	3,914.34	4,028.06	4,127.81	4,128.46
Intangible assets	811.04	792.51	794.01	785.69	777.46	769.31	761.25	753.28
Investment property	13.71	11.68	8.56	10.95	11.44	11.78	12.07	12.07
Investments in joint ventures and associates	1.56	3.25	5.19	5.19	5.19	5.19	5.19	5.19
Other financial investments	1.42	1.32	1.33	1.36	1.36	1.36	1.36	1.36
Trade debtors, accrued income and deferred costs	111.38	84.71	86.77	96.24	100.57	103.50	106.06	106.07
Right-of-use assets	-	-	2,334.95	-	-	-	-	-
Derivative financial instruments	0.23	-	-	-	-	-	-	-
Biological assets	-	3.40	3.34	3.37	3.37	3.37	3.37	3.37
Deferred tax assets	106.03	114.84	138.13	120.42	125.85	129.50	132.71	132.73
Non-Current Assets	**4,520.20**	**4,698.76**	**7,342.21**	**4,768.76**	**4,939.58**	**5,052.06**	**5,149.81**	**5,142.53**
Inventories	841.57	970.65	1,038.63	957.39	1000.54	1029.60	1055.10	1055.27
Biological assets	5.50	3.79	5.56	5.01	5.24	5.39	5.52	5.52
Income tax receivable	5.09	5.04	11.47	7.14	7.46	7.68	7.87	7.87
Trade debtors, accrued income and deferred costs	387.83	435.64	424.69	420.42	439.36	452.13	463.32	463.40
Derivative financial instruments	0.29	0.06	-	-	-	-	-	-
Cash and cash equivalents	681.33	545.99	929.31	722.04	754.58	776.50	795.73	795.86
Current Assets	**1,921.62**	**1,961.17**	**2,409.66**	**2,112.00**	**2,207.18**	**2,271.30**	**2,327.55**	**2,327.92**
Total Assets	**6,441.82**	**6,659.93**	**9,751.87**	**6,880.76**	**7,146.76**	**7,323.36**	**7,477.36**	**7,470.45**
Long-term debt	237.76	288.39	308.76	280.16	292.79	301.29	308.76	308.80
Trade creditors, accrued costs and deferred income	0.78	0.77	0.76	0.78	0.77	0.76	0.78	0.77
Derivative financial instruments	-	0.06	-	-	-	-	-	-
Employee benefits	66.48	65.07	69.67	67.84	70.89	72.95	74.76	74.77
Provisions for risk and contingencies	29.31	26.57	27.78	28.27	29.54	30.40	31.15	31.16
Deferred tax liabilities	71.58	75.63	70.68	73.56	76.87	79.10	81.06	81.08
Lease Liabilities	-	-	1,999.29	-	-	-	-	-
Non-Current Liabilities	**405.91**	**456.49**	**2,476.95**	**450.60**	**470.86**	**484.51**	**496.51**	**496.58**
Short-term debt	299.51	350.81	423.69	(2.61)	(17.54)	(30.19)	(42.22)	(50.22)
Accounts Payables	3,215.22	3,273.04	3,655.09	3,413.14	3,566.95	3,670.57	3,761.47	3,762.07
Accrued Taxes	151.03	155.80	172.94	161.41	168.69	173.59	177.88	177.91
Other payables & Accruals	354.16	407.38	406.27	392.95	410.65	422.58	433.05	433.12
Derivative financial instruments	2.81	0.16	3.06	3.06	3.06	3.06	3.06	3.06
Lease Liabilities	-	-	384.98	363.13	379.49	390.51	400.19	400.25
Current Liabilities	**4,022.71**	**4,187.19**	**5,046.02**	**4,331.07**	**4,511.30**	**4,630.13**	**4,733.43**	**4,726.19**
Total Liabilities	**4,428.62**	**4,643.67**	**7,522.96**	**4,781.67**	**4,982.17**	**5,114.64**	**5,229.93**	**5,222.77**
Common Stock	629.29	629.29	629.29	629.29	629.29	629.29	629.29	629.29
Additional Paid in Capital	22.45	22.45	22.45	22.45	22.45	22.45	22.45	22.45
Treasury Stock	(6.06)	(6.06)	(6.06)	(6.06)	(6.06)	(6.06)	(6.06)	(6.06)
Retained earnings	1,193.32	1,209.26	1,396.29	1,277.40	1,334.97	1,373.75	1,407.77	1,407.99
Other Reserves	(51.11)	(77.05)	(67.01)	(65.51)	(68.47)	(70.45)	(72.20)	(72.21)
Non-controlling interests	225.30	238.36	253.94	241.53	252.41	259.74	266.18	266.22
Total Equity	**2,013.19**	**2,016.25**	**2,228.91**	**2,099.10**	**2,164.60**	**2,208.72**	**2,247.43**	**2,247.68**
Total Equity + Total Liabilities	**6,441.82**	**6,659.93**	**9,751.87**	**6,880.76**	**7,146.76**	**7,323.36**	**7,477.36**	**7,470.45**

Appendix 2: Income Statement

in million of EUR

INCOME STATEMENT	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Revenue								
Sales & Services Revenue	**16,276.15**	**17,336.71**	**18,638.22**	**17,580.18**	**18,372.44**	**18,906.16**	**19,374.36**	**19,377.44**
Poland	11,240.89	11,898.48	12,879.45	12,312.76	12,842.20	13,176.10	13,518.68	13,519.71
Portugal	4,629.88	4,838.80	4,974.83	4,502.22	4,736.34	4,916.32	5,019.56	5,020.58
Colombia	405.38	599.42	783.94	765.20	793.89	813.74	836.12	837.15
Cost of Revenue	-12,817.88	-13,576.83	-14,562.71	-13,782.79	-14,403.92	-14,822.35	-15,189.42	-15,191.83
Gross Margin	**3,458.27**	**3,759.88**	**4,075.51**	**3,797.39**	**3,968.52**	**4,083.81**	**4,184.94**	**4,185.61**
Distribution costs	-2,605.99	-2,874.49	-3,031.34	-2,862.97	-2,991.99	-3,078.91	-3,155.15	-3,155.65
Administrative costs	-261.14	-289.30	-322.29	-293.14	-306.35	-315.25	-323.06	-323.11
Other operating profits/losses	-13.94	-9.38	-15.84	-13.17	-13.76	-14.16	-14.51	-14.51
Operating Income (EBIT)	**577.19**	**586.71**	**706.03**	**628.11**	**656.42**	**675.49**	**692.22**	**692.33**
Net Financial Costs	-12.17	-25.11	-158.70	-25.78	-25.56	-25.18	-24.75	-24.01
Gains (losses) in joint ventures and associates	-0.01	0.19	-0.02	0.05	0.05	0.05	0.05	0.05
Gains (losses) in other investments	-0.20	0.00	1.90	0.57	0.57	0.57	0.57	0.57
EBT	**564.82**	**561.79**	**549.21**	**602.96**	**631.48**	**650.93**	**668.08**	**668.93**
Income Taxes	-152.24	-131.93	-128.46	-141.09	-147.77	-152.32	-156.33	-156.53
Net Income including Non-Controlling Interests	412.58	429.86	420.75	461.87	483.71	498.61	511.75	512.40
Non-controlling interests	27.23	28.82	30.90	28.98	28.98	28.98	28.98	28.98
Net Income	**385.36**	**401.04**	**389.85**	**432.89**	**454.73**	**469.63**	**482.77**	**483.42**

Other Information:

D&A	330.91	363.74	715.37	467.01	488.05	502.23	514.67	514.75

Appendix 3: Cash Flow Statement

CASH FLOW STATEMENT	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Operating Activities				**1,392.65**	**1,200.52**	**1,268.25**	**1,309.02**	**1,363.25**
+EBIT				628.11	656.42	675.49	692.22	692.33
+D&A				467.01	488.05	502.23	514.67	514.75
-Income Tax				141.09	147.77	152.32	156.33	156.53
- Change in NWC				156.44	-91.72	-61.79	-54.21	-0.36
Investment Activities				**-242.62**	**-656.85**	**-615.95**	**-614.42**	**-515.41**
-CAPEX				-242.62	-656.85	-615.95	-614.42	-515.41
+-Other Inv.				0.00	0.00	0.00	0.00	0.00
Financing Activities				**-276.94**	**-333.31**	**-339.63**	**-347.84**	**-341.22**
-Interest paid				25.78	25.56	25.18	24.75	24.01
-Dividends				-331.32	-346.25	-356.31	-365.13	-365.19
Ddebt				28.60	-12.63	-8.51	-7.46	-0.05
Change in Cash				873.10	210.36	312.67	346.75	506.62
Begining				929.31	1,802.41	2,012.76	2,325.43	2,672.18
End				1,802.41	2,012.76	2,325.43	2,672.18	3,178.81

Appendix 4: Key Financial Ratios

Key Financial Ratios	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Liquidity Ratios								
Current Ratio (x)	0.48	0.47	0.48	0.49	0.49	0.49	0.49	0.49
Quick Ratio (x)	0.27	0.23	0.27	0.26	0.26	0.27	0.27	0.27
Cash Ratio (x)	0.17	0.13	0.18	0.17	0.17	0.17	0.17	0.17
Efficiency Ratios								
Total Assets Turnover (x)	2.53	2.60	1.91	2.55	2.57	2.58	2.59	2.59
Accounts Receivables Turnover (x)	41.97	39.80	43.89	41.82	41.82	41.82	41.82	41.82
Collection Period (days)	8.70	9.17	8.32	8.73	8.73	8.73	8.73	8.73
Inventory Turnover (x)	-15.23	-13.99	-14.02	-14.40	-14.40	-14.40	-14.40	-14.40
Days in Inventory (days)	18.87	20.44	20.34	19.88	19.88	19.88	19.88	19.88
Payables Turnover (x)	-3.99	-4.15	-3.98	-4.04	-4.04	-4.04	-4.04	-4.04
Payables Period (days)	-91.56	-87.99	-91.61	-90.39	-90.39	-90.39	-90.39	-90.39
Operating Cycle (days)	26.74	25.81	29.87	27.42	27.42	27.42	27.42	27.42
Cash Cycle (days)	30.72	29.96	33.85	31.46	31.46	31.46	31.46	31.46
Assets Turnover	2.53	2.60	1.91	2.55	2.57	2.58	2.59	2.59
Profitability Ratios								
Gross Profit Margin (%)	21.25%	21.69%	21.87%	21.60%	21.60%	21.60%	21.60%	21.60%
EBITDA Margin (%)	5.58%	5.48%	7.63%	6.23%	6.23%	6.23%	6.23%	6.23%
EBIT Margin (%)	3.55%	3.38%	3.79%	3.57%	3.57%	3.57%	3.57%	3.57%
Net Profit Margin (%)	2.37%	2.31%	2.09%	2.46%	2.48%	2.48%	2.49%	2.49%
ROA (%)	5.79%	5.64%	2.37%	5.92%	6.01%	6.07%	6.13%	6.15%
ROCE (%)	15.93%	16.22%	8.28%	16.98%	17.25%	17.44%	17.59%	17.62%
ROE (%)	19.14%	19.89%	17.49%	20.62%	21.01%	21.26%	21.48%	21.51%
SG&A/Sale (%)	-17.62%	-18.25%	-17.99%	-17.95%	-17.95%	-17.95%	-17.95%	-17.95%
Solvency Ratios								
Long-term Debt Ratio (%)	6.30%	6.85%	25.40%	6.55%	6.59%	6.62%	6.64%	6.65%
Debt to Equity Ratio (x)	2.20	2.30	3.38	2.28	2.30	2.32	2.33	2.32
Equity Multiplier (x)	3.20	3.30	4.38	3.28	3.30	3.32	3.33	3.32
Debt to EBITDA	4.88	4.89	5.29	4.37	4.35	4.34	4.33	4.33
Interest Coverage Ratio (x)				-47.56	-40.18	-43.32	-45.57	-49.25
Value Creation and Cash Flow Ratios								
Debt Coverage				0.29	0.24	0.25	0.25	0.26
Cash to Income				3.22	2.64	2.70	2.71	2.82

Appendix 5: Common-Size Statement of Financial Position

BALANCE SHEET	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Property, Plant & Equipment, Net	53.94%	55.36%	40.71%	54.44%	54.77%	55.00%	55.20%	55.26%
Intangible assets	12.59%	11.90%	8.14%	11.42%	10.88%	10.50%	10.18%	10.08%
Investment property	0.21%	0.18%	0.09%	0.16%	0.16%	0.16%	0.16%	0.16%
Investments in joint ventures and associates	0.02%	0.05%	0.05%	0.08%	0.07%	0.07%	0.07%	0.07%
Other financial investments	0.02%	0.02%	0.01%	0.02%	0.02%	0.02%	0.02%	0.02%
Trade debtors, accrued income and deferred costs	1.73%	1.27%	0.89%	1.40%	1.41%	1.41%	1.42%	1.42%
Right-of-use assets	-	-	23.94%	-	-	-	-	-
Derivative financial instruments	0.00%	-	-	-	-	-	-	-
Biological assets	-	0.05%	0.03%	0.05%	0.05%	0.05%	0.05%	0.05%
Deferred tax assets	1.65%	1.72%	1.42%	1.75%	1.76%	1.77%	1.77%	1.78%
Non-Current Assets	**70.17%**	**70.55%**	**75.29%**	**69.31%**	**69.12%**	**68.99%**	**68.87%**	**68.84%**
Inventories	13.06%	14.57%	10.65%	13.91%	14.00%	14.06%	14.11%	14.13%
Biological assets	0.09%	0.06%	0.06%	0.07%	0.07%	0.07%	0.07%	0.07%
Income tax receivable	0.08%	0.08%	0.12%	0.10%	0.10%	0.10%	0.11%	0.11%
Trade debtors, accrued income and deferred costs	6.02%	6.54%	4.35%	6.11%	6.15%	6.17%	6.20%	6.20%
Derivative financial instruments	0.00%	0.00%	-	-	-	-	-	-
Cash and cash equivalents	10.58%	8.20%	9.53%	10.49%	10.56%	10.60%	10.64%	10.65%
Current Assets	**29.83%**	**29.45%**	**24.71%**	**30.69%**	**30.88%**	**31.01%**	**31.13%**	**31.16%**
Total Assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Long-term debt	3.69%	4.33%	3.17%	4.07%	4.10%	4.11%	4.13%	4.13%
Trade creditors, accrued costs and deferred income	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Derivative financial instruments	-	0.00%	-	-	-	-	-	-
Employee benefits	1.03%	0.98%	0.71%	0.99%	0.99%	1.00%	1.00%	1.00%
Provisions for risk and contingencies	0.45%	0.40%	0.28%	0.41%	0.41%	0.42%	0.42%	0.42%
Deferred tax liabilities	1.11%	1.14%	0.72%	1.07%	1.08%	1.08%	1.08%	1.09%
Lease Liabilities	-	-	20.50%	-	-	-	-	-
Non-Current Liabilities	**6.30%**	**6.85%**	**25.40%**	6.55%	6.59%	6.62%	6.64%	6.65%
Short-term debt	4.65%	5.27%	4.34%	-0.04%	-0.25%	-0.41%	-0.56%	-0.67%
Accounts Payables	49.91%	49.15%	37.48%	49.60%	49.91%	50.12%	50.30%	50.36%
Accrued Taxes	2.34%	2.34%	1.77%	2.35%	2.36%	2.37%	2.38%	2.38%
Other payables & Accruals	5.50%	6.12%	4.17%	5.71%	5.75%	5.77%	5.79%	5.80%
Derivative financial instruments	0.04%	0.00%	0.03%	0.04%	0.04%	0.04%	0.04%	0.04%
Lease Liabilities	-	-	3.95%	5.28%	5.31%	5.33%	5.35%	5.36%
Current Liabilities	**62.45%**	**62.87%**	**51.74%**	**62.94%**	**63.12%**	**63.22%**	**63.30%**	**63.27%**
Total Liabilities	**68.75%**	**69.73%**	**77.14%**	**69.49%**	**69.71%**	**69.84%**	**69.94%**	**69.91%**
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Common Stock	9.77%	9.45%	6.45%	9.15%	8.81%	8.59%	8.42%	8.42%
Additional Paid in Capital	0.35%	0.34%	0.23%	0.33%	0.31%	0.31%	0.30%	0.30%
Treasury Stock	-0.09%	-0.09%	-0.06%	-0.09%	-0.08%	-0.08%	-0.08%	-0.08%
Retained earnings	18.52%	18.16%	14.32%	18.56%	18.68%	18.76%	18.83%	18.85%
Other Reserves	-0.79%	-1.16%	-0.69%	-0.95%	-0.96%	-0.96%	-0.97%	-0.97%
Non-controlling interests	3.50%	3.58%	2.60%	3.51%	3.53%	3.55%	3.56%	3.56%
Total Equity	**31.25%**	**30.27%**	**22.86%**	**30.51%**	**30.29%**	**30.16%**	**30.06%**	**30.09%**
Total Equity + Total Liabilities	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Appendix 6: Common-Size Income Statement

INCOME STATEMENT	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Revenue								
Sales & Services Revenue	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Poland	69.06%	68.63%	69.10%	70.04%	69.90%	69.69%	69.78%	69.77%
Portugal	28.45%	27.91%	26.69%	25.61%	25.78%	26.00%	25.91%	25.91%
Colombia	2.49%	3.46%	4.21%	4.35%	4.32%	4.30%	4.32%	4.32%
Cost of Revenue	-78.75%	-78.31%	-78.13%	-78.40%	-78.40%	-78.40%	-78.40%	-78.40%
Gross Margin	**21.25%**	**21.69%**	**21.87%**	**21.60%**	**21.60%**	**21.60%**	**21.60%**	**21.60%**
Distribution costs	-16.01%	-16.58%	-16.26%	-16.29%	-16.29%	-16.29%	-16.29%	-16.29%
Administrative costs	-1.60%	-1.67%	-1.73%	-1.67%	-1.67%	-1.67%	-1.67%	-1.67%
Other operating profits/losses	-0.09%	-0.05%	-0.08%	-0.07%	-0.07%	-0.07%	-0.07%	-0.07%
Operating Income (EBIT)	**3.55%**	**3.38%**	**3.79%**	**3.57%**	**3.57%**	**3.57%**	**3.57%**	**3.57%**
Net Financial Costs	-0.07%	-0.14%	-0.85%	-0.15%	-0.14%	-0.13%	-0.13%	-0.12%
Gains (losses) in joint ventures and associates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Gains (losses) in other investments	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
EBT	**3.47%**	**3.24%**	**2.95%**	**3.43%**	**3.44%**	**3.44%**	**3.45%**	**3.45%**
Income Taxes	-0.94%	-0.76%	-0.69%	-0.80%	-0.80%	-0.81%	-0.81%	-0.81%
Net Income including Non-Controlling Interests	2.53%	2.48%	2.26%	2.63%	2.63%	2.64%	2.64%	2.64%
Non-controlling interests	0.17%	0.17%	0.17%	0.16%	0.16%	0.15%	0.15%	0.15%
Net Income	**2.37%**	**2.31%**	**2.09%**	**2.46%**	**2.48%**	**2.48%**	**2.49%**	**2.49%**

Appendix 7: Forecasting Assumptions

Balance Sheet Assumptions	Notes	2020F	2021F	2022F	2023F	2024F	Assumption
Property, Plant & Equipment, Net	%Revenues	21.31%	21.31%	21.31%	21.31%	21.31%	Assuming to growth with average historical revenues
Intangible assets	%Revenues	98.95%	98.95%	98.95%	98.95%	98.95%	Assuming to growth with the percentage weight of historical data
Investment property		0.06%	0.06%	0.06%	0.06%	0.06%	Assuming to growth with the percentage weight of historical data
Investments in joint ventures and associates		5.19	5.19	5.19	5.19	5.19	Assuming constant investment based on 2019
Other financial investments		1.36	1.36	1.36	1.36	1.36	Assuming the average historical data since it was constant
Trade debtors, accrued income and deferred costs	%Revenues	2.53%	2.53%	2.53%	2.53%	2.53%	Assuming to growth with average historical revenues
Right-of-use assets		-	-	-	-	-	As it is hard to predict, it is assumed at zero and no further investments will be made.
Derivative financial instruments		0.04%	0.04%	0.04%	0.04%	0.04%	As it is hard to predict, it is assumed at zero and no further investments will be made.
Biological assets		3.37	3.37	3.37	3.37	3.37	Assuming the historical average data
Deferred tax assets	%revenues	0.68%	0.68%	0.68%	0.68%	0.68%	Deferred tax asset has been stable, the projection is based on the average of historical data
Non-Current Assets							
Inventories	%Revenues	25.21%	25.21%	25.21%	25.21%	25.21%	Average of total revenue percentage
Biological assets	%Revenues	0.03%	0.03%	0.03%	0.03%	0.03%	Average of total revenue percentage
Income tax receivable	%Revenues	0.04%	0.04%	0.04%	0.04%	0.04%	Average of total revenue percentage
Trade debtors, accrued income and deferred costs	%Revenues	2.39%	2.39%	2.39%	2.39%	2.39%	Assuming to growth with average historical revenues
Derivative financial instruments		-	-	-	-	-	As it is hard to predict, it is assumed at zero.
Cash and cash equivalents	%Revenues	4.11%	4.11%	4.11%	4.11%	4.11%	Assuming to growth with average historical revenues
Current Assets							
Long-term debt	%Revenues	1.59%	1.59%	1.59%	1.59%	1.59%	Assuming to growth with average historical revenues
Trade creditors, accrued costs and deferred income		0.77	0.77	0.77	0.77	0.77	Assuming the average historical data since it was constant
Derivative financial instruments		-	-	-	-	-	As it is hard to predict, it is assumed at zero.
Employee benefits	%Revenues	0.39%	0.39%	0.39%	0.39%	0.39%	Assuming to growth with average historical revenues
Provisions for risk and contingencies	%Revenues	0.16%	0.16%	0.16%	0.16%	0.16%	Assuming to growth with average historical revenues
Deferred tax liabilities	%Revenues	0.42%	0.42%	0.42%	0.42%	0.42%	Assuming to growth with average historical revenues
Lease Liabilities		-	-	-	-	-	As it is hard to predict, it is assumed at zero.
Non-Current Liabilities							
Short-term debt	%Revenues	2.05%	2.05%	2.05%	2.05%	2.05%	Assuming to growth with average historical revenues
Accounts Payables	%Revenues	19.41%	19.41%	19.41%	19.41%	19.41%	Assuming to growth with average historical revenues
Accrued Taxes	%Revenues	0.92%	0.92%	0.92%	0.92%	0.92%	Assuming to growth with average historical revenues
Other payables & Accruals	%Revenues	2.24%	2.24%	2.24%	2.24%	2.24%	Assuming to growth with average historical revenues
Derivative financial instruments	%Revenues	2.01	2.01	2.01	2.01	2.01	Assuming the average historical data
Lease Liabilities	%Revenues	2.07%	2.07%	2.07%	2.07%	2.07%	Assuming to growth with revenues considered the weight of 2019 data
Current Liabilities							
Common Stock		-	-	-	-	-	Assuming constant over the forecasting period
Additional Paid in Capital		-	-	-	-	-	Assuming constant over the forecasting period
Treasury Stock		-	-	-	-	-	Assuming constant over the forecasting period
Retained earnings	%Revenues	7.27%	7.27%	7.27%	7.27%	7.27%	Assuming to growth with average historical revenues
Other Reserves	%Revenues	-0.37%	-0.37%	-0.37%	-0.37%	-0.37%	Assuming to growth with average historical revenues
Non-controlling interests	%Revenues	1.37%	1.37%	1.37%	1.37%	1.37%	Assuming to growth with average historical revenues
Equity							

Income Statement Assumptions	Notes	2020F	2021F	2022F	2023F	2024F	Assumption
Revenues	YoY						Based on annual GDP crowth per country
	Poland	-4.40%	4.30%	2.60%	2.60%	2.60%	
	Portugal	-9.50%	5.20%	3.80%	2.10%	2.10%	
	Colombia	-2.39%	3.75%	2.50%	2.75%	2.75%	
Cost of Revenues	Cost of revenues as % of Total Sales	78.40%	78.40%	78.40%	78.40%	78.40%	Assuming to grow in line with revenues, with the average historical data.
Distribution costs	% of Revenues	16.29%	16.29%	16.29%	16.29%	16.29%	Growth in line with the average relationship between 2017 and 2019
Administrative costs	% of Revenues	1.67%	1.67%	1.67%	1.67%	1.67%	Growth in line with the average relationship between 2017 and 2019
Other operating profits/losses	% of Revenues	0.07%	0.07%	0.07%	0.07%	0.07%	Growth in line with the average relationship between 2017 and 2019
Net Financial Costs	% of Debt	9.29%	9.29%	9.29%	9.29%	9.29%	Assuming the average relationship between 2017 and 2019
Gains (losses) in joint ventures and associates	Constant	0.05	0.05	0.05	0.05	0.05	Assuming the average relationship between 2017 and 2019
Gains (losses) in other investments	Constant	0.57	0.57	0.57	0.57	0.57	Assuming the average relationship between 2017 and 2019
Income Taxes	Effective	23.40%	23.40%	23.40%	23.40%	23.40%	Assuming constant tax rate based on 2019
Non-controlling interests	Constant	28.98	28.98	28.98	28.98	28.98	Assuming the average relationship between 2017 and 2019

Appendix 8: Discounted Cash Flow Calculations

DCF Analysis	2020F	2021F	2022F	2023F	2024F	Terminal
Cost of Equity						
Risk Free Rate R(f)	-0.58%	-0.58%	-0.58%	-0.58%	-0.58%	-0.58%
Beta Unlevered ß (u)	0.80	0.80	0.80	0.80	0.80	0.80
Market Risk Premium	7.66%	7.66%	7.66%	7.66%	7.66%	7.66%
Debt to Equity Ratio	2.28	2.30	2.32	2.33	2.32	2.32
Tax Rate	23.40%	23.40%	23.40%	23.40%	23.40%	23.40%
Beta Levered ß (L)	2.00	2.62	2.63	2.64	2.64	2.64
Cost of Equity R (E) by CAPM	14.72%	19.46%	19.55%	19.62%	19.60%	19.60%
Cost of Debt						
Cost of Debt (D)	0.54%	0.51%	0.49%	0.47%	0.46%	0.46%
After tax cost of Debt	0.41%	0.39%	0.38%	0.36%	0.35%	0.35%
WACC						
Weight of Equity	30.51%	30.29%	30.16%	30.06%	30.09%	30.09%
Weight of Debt	69.49%	69.71%	69.84%	69.94%	69.91%	69.91%
WACC	**4.78%**	**6.17%**	**6.16%**	**6.15%**	**6.14%**	**6.14%**

	2020F	2021F	2022F	2023F	2024F	Terminal
EBIT (1- Tc)	481.14	502.82	517.43	530.24	530.32	544.67
D&A	467.01	488.05	502.23	514.67	514.75	514.75
Δ NWC	156.44	-91.72	-61.79	-54.21	-0.36	-0.37
CAPEX	242.62	656.85	615.95	614.42	515.41	529.35
FCFF	**549.09**	**425.75**	**465.50**	**484.69**	**530.02**	**530.44**
Terminal Value						**15,426.04**
PV (FCFF) by WACC	**549.09**	**401.01**	**413.05**	**405.22**	**417.55**	**12,152.57**

Enterprise Value	
Terminal Growth Rate	2.71%
Perpetuity WACC	6.14%
Terminal Value	15,426.04
PV of Terminal Value	12,152.57
NPV of FCFF	2,185.92
Enterprise Value	**14,338.49**

Price Target	
Enterprise Value	14,338.49
Net Debt	4,059.62
Value of Equity	10,278.86
# shares outstading	628.43
Equity Value per share	16.36
Price at 2020YE	**16.36**
Price on 30 September, 2020	**13.70**
Upside Potential	**19.39%**

Appendix 9: Relative Valuation Calculations

Group of Peer companies	Market Capitalization	P/E	EV/EBITDA	EV/EBIT	EV/Rev
Sonae SGPS SA	1,240.0	9.1	7.3	13.5	0.6
Tesco PLC	2,473.2	13.8	7.9	13.9	0.6
Casino Guichard Perrachon SA	8,554.9	21.6	9.7	18.7	0.8
Dino Polska SA	4,844.3	32.4	20.1	25.5	1.9
Axfood AB	4,018.19	23.2	9.9	19.5	0.9
Average	**4,226.13**	**20.03**	**10.98**	**18.23**	**0.96**
Jeronimo Martins SGPS SA	8,873.03	21.08	8.02	15.80	0.56

Multiple EV/EBITDA		
EV/EBITDA Peer		10.98
JM EBITDA		1,095.12
JM EV		12,027.83
Net Debt		4,059.62
Equity Value		7,968.21
# shares outstading		628.43
Equity Value per share		12.68
Target Price	**€**	**12.68**

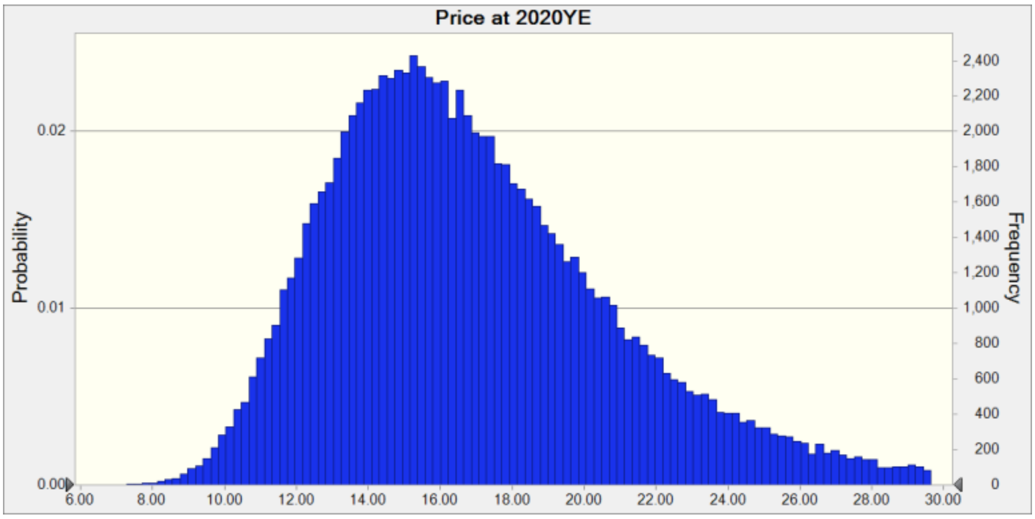
Multiple EV/Revenues		
EV/Revenues Peer		0.96
JM Revenues		17,580.18
JM EV		16,959.60
Net Debt		4,059.62
Equity Value		12,899.98
# shares outstading		628.43
Equity Value per share		20.53
Target Price	**€**	**20.53**

Multiple Average		
EV/Revenues	**€**	**20.53**
EV/EBITDA	**€**	**12.68**
Price at 2020YE	**€**	**16.60**
Price on 30 September, 2020	**€**	**13.70**
Upside Potential		**21.19%**

Appendix 10: Sensitivity Analysis

Perpetuity WACC	Change in growth rate (g) of Terminal Value						
€ 16.36	2.32%	2.44%	2.57%	**2.71%**	2.84%	2.98%	3.13%
5.27%	€ 20.33	€ 21.34	€ 22.50	€ 23.85	€ 25.34	€ 27.10	€ 29.20
5.55%	€ 18.11	€ 18.94	€ 19.88	€ 20.97	€ 22.17	€ 23.57	€ 25.21
5.84%	€ 16.14	€ 16.83	€ 17.61	€ 18.50	€ 19.47	€ 20.59	€ 21.89
6.14%	€ 14.41	€ 14.98	€ 15.62	€ 16.36	€ 17.15	€ 18.05	€ 19.09
6.45%	€ 12.93	€ 13.41	€ 13.95	€ 14.57	€ 15.22	€ 15.97	€ 16.82
6.77%	€ 11.60	€ 12.01	€ 12.47	€ 12.98	€ 13.53	€ 14.15	€ 14.85
7.11%	€ 10.40	€ 10.75	€ 11.14	€ 11.57	€ 12.03	€ 12.55	€ 13.13
7.47%	€ 9.31	€ 9.61	€ 9.94	€ 10.30	€ 10.69	€ 11.13	€ 11.61

Appendix 11: Monte Carlo Simulation



Appendix 12: Recommendation System

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	0%≤	>0% & ≤10%	>10% & ≤20%	>20% & ≤45%	>45%
Medium Risk	-5%≤	>-5% & ≤5%	>5% & ≤15%	>15% & ≤30%	>30%
Low Risk	-10%≤	>-10% & ≤0%	>0% & ≤10%	>10% & ≤20%	>20%

Abbreviations

Bps - basis point

CAPEX- Capital Expenditure

CAPM- Capital Asset Pricing Model

COGs - Cost of Goods Sold

DCF – Discounted Cash Flow

EBIT- Earnings Before Interested and Taxes

EBITDA- Earnings Before Interest, Taxes, Depreciation and Amortization

EBT-Earnings Before Taxes

F- Forecast

FCFF- Free Cash Flow to the Firm

FY- Forecasted Year

Fx- Foreign exchange

g- Growth Rate g- Growth Rate

GDP- Gross Domestic Product

IMF- International Monetary Fund

ISEG- Instituto Superior de Economia e Gestão

JM - Jerónimo Martins

LFL - Like-for-like

MRP - Market Risk Premium

NWC - Net Working Capita

OCED - Organization for Economic Co-operation and Development

PP&E - Property Plant & Equivalent

P&L - Profit and Loss

PV- Present Value

RFR - Risk Free Rate

ROA-Return on Asset

ROE- Return on Equity

TV- Terminal Value

WACC- Weighted Average Cost of Capital

YTM- Yield to Maturity

Y- Year

YE – Year End

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