MASTERS IN

FINANCE

MASTERS FINAL WORK

PROJECT

EQUITY RESEARCH:

JERÓNIMO MARTINS SGPS, SA

VASCO SEQUEIRA

OCTOBER 2022

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SUPERVISOR:

MARIYA GUBAREVA

OCTOBER 2022

Abstract

The main objective of this equity research project is to estimate the price target of Jerónimo Martins, based on cash flow forecasts. Jerónimo Martins is one of the largest Portuguese companies in the food retail sector, with sales in 2021 of more than € 20 billion. The forecast covers the period from 2022 to 2027 and is based on the past performance of the company, from 2017 to 2021. The study begins with a snapshot of the history of the company and its corporate governance and, then, provides an overview of the Jerónimo Martins´ business and industry. It also contains a SWOT analysis, a PESTEL analysis, and a Porter 5 Forces analysis. A financial analysis is conducted highlighting the outlook for key financial ratios. To reach the target value for 2023, two main valuation models are employed. The absolute model includes the Discounted Cash Flow (DCF), the Adjusted Present Value (APV), the Economic Value Added (EVA), and the Dividend Discount Model (DDM). The relative model is based on a comparison of the company's main indicators with those of the chosen peer group.

Subsequently, a risk matrix is used to consider the Jerónimo Martins´ risks. Ultimately, other analyses are considered, namely, the Scenario and Sensitivity Analysis, as well as the Monte Carlo simulation. The final investment recommendation is Hold, with a price of € 24,28, an upside of 10,17 % from the price of September 5, 2022. It is considered a medium risk investment.

Keywords: Equity Research; Valuation; Jerónimo Martins; Food Retail Industry; DCF; APV; EVA; DDM; Multiples.

JEL classification: G10; G32; G34.

Resumo

O principal objetivo deste projeto de *equity research* é estimar o preço da ação da Jerónimo Martins, com base nas previsões de *cash flow*. A Jerónimo Martins é uma das maiores empresas portuguesas do setor do retalho alimentar, com vendas em 2021 superiores a 20 mil milhões de euros. A previsão considerada abrange o período de 2022 a 2027 e tem como base o desempenho passado da empresa, de 2017 a 2021. O estudo começa com um resumo da pesquisa, um histórico da empresa, a sua governança corporativa e inclui ainda uma visão geral dos seus negócios e do setor. É igualmente feita uma análise SWOT, uma análise PESTEL e uma análise Porter 5 Forces. Também foi realizada uma análise financeira destacando as perspetivas para os principais índices financeiros. Para atingir o valor alvo para 2023, foram realizados dois principais modelos de avaliação. O modelo absoluto, que inclui o Fluxo de Caixa Descontado (FCD), o Valor Presente Ajustado (APV), o Valor Económico Adicionado (EVA) e o Modelo de Desconto de Dividendos (DDM). Também foi realizado o modelo relativo, comparando os principais indicadores da empresa com um grupo com características semelhantes. Posteriormente, foi utilizada uma matriz de riscos para considerar os riscos organizacionais. Por fim, outras análises foram consideradas, a Análise de Cenário e Sensibilidade, bem como a simulação de Monte Carlo. A recomendação final de investimento é *Hold*, com preço de € 24,28, uma valorização de 10,17 % em relação ao preço alvo de 5 de setembro de 2022. É considerado um investimento de médio risco.

Classificação JEL: G10; G32; G34.

Palavras-Chave: Avaliação de Empresas; Jerónimo Martins; Retalho alimentar; Fluxo de caixa descontado; Múltiplos.

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Abbreviations

A – Annual Results
APV - Adjusted Present Value
DIO – Day of Inventory Outstanding
DPO – Days Payable Outstanding
DSO – Day Sales Outstanding
CAPEX - Capital Expenditure
CAGR - Compound Annual Growth Rate
CAPM – Capital Asset Pricing Model
CRP – Country Risk Premium
CEO – Chief Executive Officer
COGs - Cost of Goods Sold
COP264 - Conference of the Parties 26
DCF – Discounted Cash Flow
E - Estimated
EBIT – Earnings Before Interested and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization
EBT – Earnings Before Taxes
ESG - Environmental, Social and Governance
EVA - Economic Value Added
F – Forecast
FCFE - Free cash flow to equity
FCFF - Free Cash Flow to the Firm
FY – Forecasted Year
g – Growth Rate g
GDP - Gross Domestic Product
GPM – Gross Profit Margin
ISEG – Instituto Superior de Economia e Gestão
JM- Jerónimo Martins
JMA- Jerónimo Martins Agro-Food
LFL – Like for Like
LT – Long Term
MRP – Market Risk Premium
M&A - Mergers and acquisitions
NOPAT - Net Operating Profit After Tax
NWC - Net Working Capital
PESTEL - Political, Economic, Social, Technological, Environmental and Legal

PP&E – Property Plant & Equivalent

PV – Present Value

RFR – Risk Free Rate

ROA – Return on Asset**s**

ROE – Return on Equity

SQM - Square Meter

ST – Short Term

SWOT- Strengths, weaknesses, opportunities, and threats

TV – Terminal Value

T - Trillions

WACC – Weighted Average Cost of Capital

Y – Year(s)

YE- Year End

Jerónimo Martins

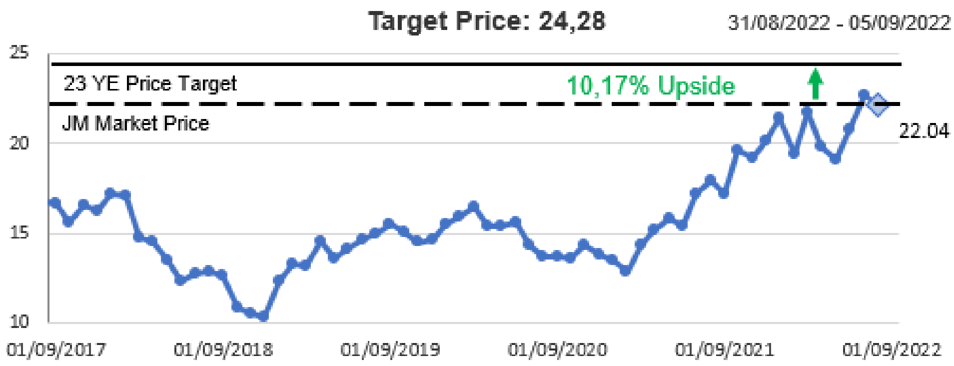
Year End (YE) 2023 Price Target: € 24,28 (+10,17 %); Recommendation: Hold; Risk: Medium.

1. Research Snapshot

The recommendation of Jerónimo Martins (JM) stands at Hold with a medium risk (Figure 1). At the YE 2023 the estimated target price was € 24,28, by using a Discounted Cash Flow (DCF) Model, that represented a 10,17 % upside potential compared to € 22,04, its stock price on the 5th of September of 2022 (Figure 2).

Main drivers were considered for the valuation and analysis of the business.

Figure 3 - Stock Price Evolution



Source: Yahoo Finance, Author Analysis

1.1 Main Valuation Drivers

The DCF target price was supported by other Absolute valuations and the Relative valuation. The two were based on important forecasts and ratios, which can be seen on Appendix 1 to 3 and in Appendix 16 to 19 and Appendix 20. From Appendix 4 to Appendix 8 it can be seen the weight of the Income Statement accounts in percentage of Sales, the Cash Flow accounts in percentage of Operational Cash Flow, the Balance Sheet accounts in percentage of total Assets and the Assumptions that were considered for the main financial statements.

The considered valuation forecast period covered 6 years, from 2022 to 2027, while the historical period comprised was 5 years, from 2017 to 2021.

Main forecasts and ratios analyzed in the valuation that led to the final recommendation, were the Terminal Growth Rate (g) (Appendix 11), the Weighted Average Cost of Capital (WACC) (Appendix 12), the forecast Depreciation (Appendix 12), the forecast of CAPEX (Appendix 14), and the Net Operating Profit After Tax (NOPAT), that is shown in Appendix 16.

1.2 Main Business and Industry Drivers

Jerónimo Martins SGPS, SA

Recommendation Hold

Medium risk

30 September 2022

Figure 1 - Risks

Low | **Medium** | High

Risks are considered at the medium level due to 2022 uncertainty times currently lived, with high inflation and conflicts between Russia and Ukraine.

Nevertheless, the company should keep increasing its revenues in the future.

Source: Author Analysis

Figure 2 - Market Profile

- Ticker Code JMT
- Euronext Lisbon
- Market Capital € 13.851 million
- Food Retail Industry
- Share Outstanding 628.4 million

Source: Bloomberg, Author Analysis

Figure 4 - Chronological History

1792
Jerónimo Martins opens the first store in Lisbon

1921
Francisco Manuel dos Santos buys Jerónimo Martins

1938
Elísio dos Santos becomes the manager of the company

1968
Alexandre Soares dos Santos becomes the leader of the company

1980
JM positions itself as a modern food retailer through Pingo Doce

The market environment is unstable mainly due to the conflict between Russia and Ukraine, which brought high inflation figures, and supply shortages, leading to an overall negative feeling amongst consumers. However, the company has strong sales, in mainly two countries, Poland and Portugal, and should stay so according to the revenue forecast for each banner on these countries, represented in Figure 12.

The main characteristics of the company market profile are in Figure 3.

2. Business Description

2.1 Historical Context

As shown in Figure 4, the history of the company dates back to 1792, when a young man named Jerónimo Martins opens a small grocery store in the center of Lisbon. After periods of great success and many improvements, such as the assortment of the store, financial problems arose, and the company had to declare bankruptcy in 1921. At that time, two merchants from Porto, Francisco Manuel dos Santos, and Elísio Pereira do Vale, acquired the company, and restructured it over the years.
After the death of Francisco Manuel dos Santos in 1938, his son-in-law Elísio dos Santos took over the management until his death. Alexandre Soares dos Santos, Elísio dos Santos' son, took the leadership of the company in 1968 and, with his vast international experience, led the company through a successful period. Alexandre acquired the shares of his grandfather's partner's heirs and achieved various milestones such as joining the modern food retail business through Pingo Doce in 1980, the listing of Jerónimo Martins on the Lisbon Stock Exchange in 1989, the establishment of the first stores in the Polish market in 1995, the creation of the Francisco Soares dos Santos Foundation, in 2009, and many others that led the company to expand and become one of the biggest companies in Portugal.

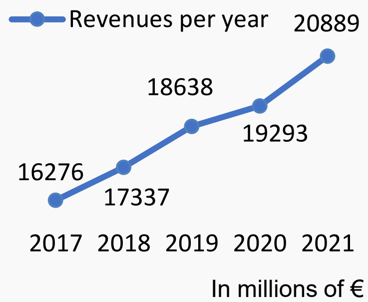
After Alexandre Soares dos Santos, who led the company for 45 years, the position of Chairman passed to Pedro Soares dos Santos when the company entered the Colombian market in 2013.
Thanks to the foresight of Pedro Soares dos Santos and his management team, investments were made in various areas, such as agriculture and brand expansion. The company now worths more than double what it was on December 18, 2013, when Pedro Soares dos Santos took over as Chief Executive Officer (CEO) and Chairman. A position he still holds, and may keep, at least until 2024, the year of the next election.

In 2022, and with 230 years of history, JM is known as a disruptive, innovative, groundbreaking and quality-driven company that has made it into the top 50 largest retailers in the world.
The company's main business is the food distribution market, which accounts for about 95% of its business.

Its business model consists mainly of discount stores or everyday low-price stores.
The company, nowadays, operates in three different countries: Portugal, Poland and Colombia. The company employs around 123.000 employees spread around the world and, in 2021, had made sales of € 20.889 billion (Figure 5). It is managed by the Soares dos Santos family, which holds the majority of the company's shares, about 56 %.
The company's core mission is towards its shareholders, seeking to balance the relationship between economic prosperity, social development and environmental conservation, as well as raising social awareness, wherever it is involved.

Source: JM Website, Author

Figure 5 - Historical Revenues



Source: Bloomberg, Author

In this context, JM implements a series of actions to differentiate itself from the competition, invests in a diversified portfolio, increases the offer of high quality and affordable goods, and increases the verticality of the business.

Adding new customers to the cloud while strengthening relationships with regular customers, will permit JM multiple banners to grow in the future, such as the ones present in Figure 6.

2.2 Company Banners by country

In the past, the company has acquired stakes in various companies, such as Finançor and Andjford Salmon, but JM's focus remains on its five different brands, which have more expressive power. These five main brands are present in three countries, Poland, where Bierdronka and Hebe are located, Portugal where Pingo Doce and Recheio are present, and Colombia, the country where Ara stores are stablished.

The Bierdronka brand is the largest company in the group and accounts for 70% of the company's total sales (Figure 7). The second largest company in the group is Pingo Doce, which accounts for approximately 20% of JM's total sales. The rest of the companies account for the remaining 10% of sales, that are: Ara (5.3%), Recheio (4.3%), Hebe (1.3%) and other smaller companies in terms of sales, such as Jeronymo, Hussel and Jerónimo Martins Agro-Alimentar (JMA), the agro-food business. These three minor brands are all located in Portugal.

In the following section, the five most valuable banners of the group are discussed in more detail.

2.2.1 Pingo Doce, Recheio, Specialized Retail and Agro-Food (Portugal)

Pingo Doce, is present in the supermarket sector, with more than 460 stores spread around the nation, representing 9 % of the company's total stores (Figure 8). Pingo Doce is considered a top retailer and a leadership banner in Portugal.

In 2021, the brand exceeded the value of € 4 billion (vs. € 387 million in 2020), and a Like for Like (LFL) growth of 2,9 %.

It's main investments were on prepared food, which includes two industrial kitchens to support their restaurants and take-away operation, the expansion of stores to other regions, and the inclusion of another private brand, called "Go Active".

From 2017 to 2021, the company ended with a Compounded Annual Growth Rate (CAGR) of 1,24 %, improving its efficiency level, sales per square meter (sqm), from € 7.3 per sqm, to € 7.6 per sqm.

Jerónimo Martins operates in the HoReCa channel, as well,with the banner Recheio. The cash and carry brand relies on more than 50 years of experience in the industry, counting with 42 stores around Portugal. Besides its day-to-day operation, Recheio is also focused on its delivery service, and on the development of the banner Amanhecer.

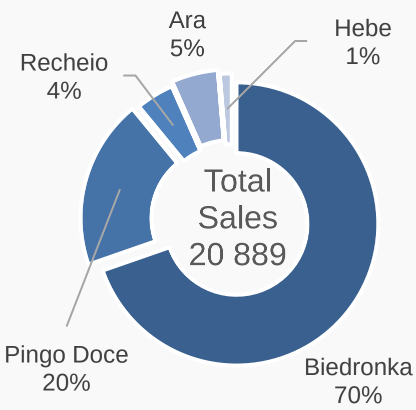
The firm increased its sales, from € 847 million, in 2020, to € 906 million, made in 2021, with a LFL of 7 %, recovering a lot from the damages caused by COVID-19. From 2017 to 2021, the final Compound Annual Growth Rate (CAGR) was of -0,49 %, mainly due to the closing of restaurantes, hotels, and coffee shops, due to the pandemic crisis. The level of efficiency for the same time period went from € 7,1 per sqm to € 6,7 per sqm.

Other 3 minor companies present in the country are: Jeronymo as coffee shops. Hussel as chocolate stores. And JMA, that, focuses on food production in a sustainable way. The products produced are mainly, milk, meat, fish, vegetables and fruits. All banners in Portugal had sales of about € 5 billion in 2021.

Figure 6 - JM Main Banners

Source: JM Website, Author

Figure 7 – Total Sales



Source: JM Website, Author

2.2.2 Bierdronka and Hebe (Poland)

Poland is considered the key country of the company, since it is where the neighborhood supermarket chain Bierdronka, the food retail leader in Poland, stands.

This large company represented € 14.542 billion of sales for JM, in 2021 increasing more than € 1 billon vs. 2020, with a LFL growth of 8,3 %.

Bierdronka is expected to keep a good financial growth pace, by opening more stores, remodeling old ones and countinuously investing on an even better price-quality ratio. Investment by banner in in Figure 9.

The company improved its level of efficiency by € 0,5 per sqm, passing the € 6 per sqm mark, from 2017 to 2021. On the same historical period, the banner accomplished a CAGR of 3,46 %.

Hebe steps away from the food industry and characterizes itself for being a recognized banner on the health and beauty chain, with an exceptional quality, but at competitive prices.

Also located in Poland, Hebe is increasingly gaining importance on the group, with more than 290 points of sale in 2021 and revenues rise of 13 %, from € 245 million to € 278 million. The LFL was extra positive, leading to an increase of 17,5 %.

The company is investing heavily on the digitalization of its business, gaining strength on the ecommerce and self-checkout paying methods on their stores.

For the historical period of 2017 to 2021, the CAGR of the brand was improved, obtaining the value of 6,7 %, but the level of efficiency declined, from a sale per sqm of € 3,9 to € 3,7 per sqm.

Nonetheless, the Polish market represented around 70 % of the total sales of the company in 2021.

2.2.3 Ara (Colombia)

The last brand created internationally was Ara, being introduced to the JM portfolio with a first store in 2013.

The company is mainly defined by being a proximity food store combining price and quality, in much the same way as the other banners from the company.

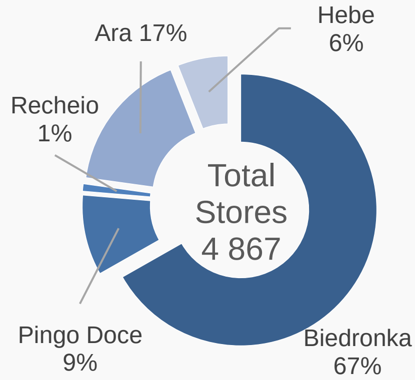
With almost the same number of store openings as the leader banner of the group, Biedronka (157 vs 164), the banner still has a big improvement margin in expansion manners. The main investments should answer, according to the mentioned, the goal of covering the most influential areas of Colombia but should also match the development of its own private brand and increase its operational efficiency.

Ara has a huge potential to become a top distribution food store in the country, and last year it reached the break-even mark. Finishing with sales of € 1.1 billion, more € 248 million sales since last year, that meant an increase of 29,0 %, and a LFL growth of 24,3 %.

With the outstanding increases of sales from Ara year by year, the final CAGR for the historical period already mentioned was 13,3 %, and an increase in the level of efficiency from € 3,0 per sqm, to € 4,0 per sqm.

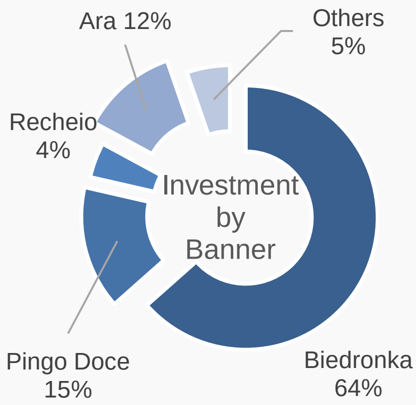
With last year's performance, the company had a strong cash generation reaching for the first time the mark of € 20 billion in sales, € 1.585 billion in Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and growth of 8.3 % compared to last year, despite the moment of uncertainty triggered by COVID-pandemic.

Figure 8 – Total Stores



Source: JM Website, Author

Figure 9 – Investment by Banner



Source: JM Website, Author

2.3 Main Strategies

2.3.1 Mission

Focusing on building a strong brand that may have a positive impact on the environment and the society, JM upholds two main priorities: profitable growth and sustainability.

2.3.2 Expansion Plans

The company is looking for new ways to innovate and continue to grow in the sector. However, Jerónimo Martins's plans to expand into other countries haven't materialized in recent years due to the COVID-19 pandemic. Similarly, the military conflict continues to create some uncertainty in the matter. Romania is certainly a target country for Bierdronka, but as the CEO Soares dos Santos P. mentioned in a Reuters article (2020): “The country we'd like to go to is Romania ... whether it will be this year or next, I don't know,".

Other expansion plans the company is pursuing include a growth in Colombia, which, while not international, is becoming more comfortable for the company to make a bold move.

2.3.3 Innovation

As consumers become more aware of the origins of the products they consume, the "farm to fork" ideology is increasingly more popular.
The agricultural industry is a good example of how it is trying to position itself in the marketplace. Faced with rising commodity prices and increasing consumer awareness of the benefits of national, organic, and high-quality products, from dairy products to fish, fruit and vegetables, the company aims to strengthen its position as a reference producer.
Investments in using ice water on fish to reduce their sensitivity, producing chickens raised without antibiotics, and raising cows that are massaged and listen to background music to relieve stress make the goal clear. A better quality of products with more sustainable and ethical methods to treat the animals until they end their lives.

The presence of a continuous search for opportunities, but also with rational steps, keeps the organization and its shareholders in anticipation of better and better results, where it can still further develop its sales and, subsequently, its valuation.

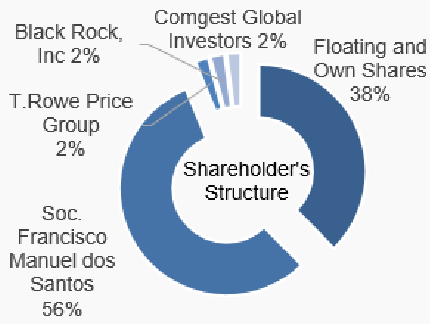
3. Management and Corporate Governance

3.1 Governance Model

The company is divided into four different Corporate Bodies and five Specialized Committees, following an Anglo-Saxon Model, that will be further detailed. Currently, JM has a social capital of 629.293.220 shares with a nominal value of € 1. As illustrated in Figure 10, the capital structure is split in 56,1 % of shares owned by the Soc. Francisco Manuel dos Santos, B.V, 37,7% of shares are floating and own shares and the remaining 6,2% is split between Comgest Global Investors, S.A.S, BlackRock, Inc and T. Rowe Price Group, Inc. The society with the larger number of shares of JM was created by Alexandre Soares dos Santos and became known for giving the group the milestones it needed to become one of the biggest Portuguese companies.

3.1.1 The Anglo-Saxon Model

Figure 10 – Shareholder Structure



Source: JM Website, Author

The company follows an Anglo-Saxon model of governance since 2007. This type of model should guarantee more control to the shareholders and to the board of directors.

In the case of Jerónimo Martins, corporate governance and management are organized by the Board of Directors, supplemented by the Audit Committee and the statutory auditor.
Nevertheless, the model allows you to take back remove control from shareholders. When the most important figure in corporate governance is the CEO, risks can arise because most of the power is in the hands of a single person. This power can lead to deviations and wrong decisions if the CEO's vision is not in line with the company's main goals and strategies.
Once the society of Francisco Manuel dos Santos holds the majority of the shares of the company, power is very much concentrated on the family and on the CEO, Pedro Soares dos Santos. This places the main responsibility for JM's success lies within the family and its CEO, in particular. This type of governance has both advantages and disadvantages. In the past, the company has achieved many great results under the leadership of the Soares dos Santos family. Since Pedro Soares dos Santos has been CEO, the value of the group has increased from about € 14 per share to the current value of € 22 per share. If history repeats itself in the future, coming investors shouldn't worry about this concentration of power. The concentration of power may even prove to be a good sign of stability and decisiveness.

Figure 11 – Main Governance Bodies

Source: JM Website, Author

3.1.2 Corporate Structure

The company is composed by four different Corporate Bodies, namely: the Board of Directors, the Shareholders' Meeting, the Audit Committee, the Statutory Auditor, and the Company Secretary. There are other five Specialized Committees set up to respond to the company's needs: the managing committee, the committee on corporate governance and corporate responsibility, the ethics committee, the internal control committee, and the remuneration committee. Figure 11 illustrate the main Corporate Bodies.

Board of Directors

The Board of Directors consists of seven to eleven members elected by the General Shareholders' Meeting for a three years' term. Pedro Soares dos Santos has been Chairman of the Board of Directors and CEO of the company since December 18, 2013.
The Board should meet at least four times a year and in 2021 the Board met seven times.
The panel should also include independent and non-executive directors to include a broad range of diversified contact networks and expertise.
In 2021, the term of office ended, and the Board of Directors was again proposed to the Shareholders' Meeting. The elected members of the Board of Directors have remained unchanged since the last term, except for Natalia Anna Olynec, who joined the Board for the new three-year term, bringing the total number of members to 11. Thus, the Board of Directors currently consists of 11 non-executive members, 7 of whom are independent and 36% of whom are women.
The duties of this body are manifold: it represents and manages all corporate operations and advises on the issuance of financial assets of any kind.

Shareholders' meeting

The body is represented by Luis Miguel Reis Sobral where the shareholders who meet certain conditions participate.

The Audit Committee

The Audit Committee meets at least once every three months and during 2021 it met five times.

The committee is represented by three people, Clara Christina Streit as the Chairwoman and Sérgio Tavares Rebelo and Elizabeth Ann Bastoni as members of the council.

The responsibilities of the Audit Committee include mainly the supervision of the company management.

The Statutory Auditor

The Statutory Auditor is proposed by the Audit Committee and is elected at the Shareholders' Meeting. The current Statutory Auditor for the new term is Ernst & Young Audit & Associates, SROC, S.A.

The Company Secretary

The Company Secretary is appointed by the Board of Directors in a three-year term (2022-2024). For the current period, the company secretary is João Nuno Magalhães.

4. Industry Overview and Competitive Positioning

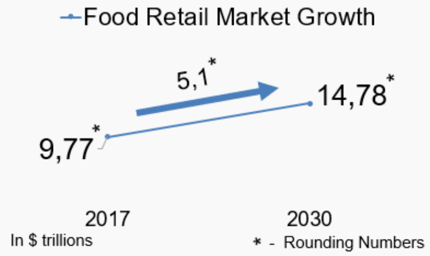
4.1 Industry Outlook

Food retailing is one of the oldest and most important industries in the world.

It is characterized by being non-cyclical, mature, highly competitive, and mostly composed of many large players dominating regional markets with low prices and economies of scale, forming a fierce competition in the globe.
A key factor in the financial stability of this industry is the purchasing power, which is influenced by the country's Gross Domestic Product (GDP).
In 2021, following the forecast analysis of Grand View Research (2022), the global food retail market was estimated at $ 14.78 trillion, and at an average annual growth rate of 3.0%, it is expected to reach the value of € 11.502 billion by 2027 (Figure 12).
Although the pandemic has changed consumers' eating habits and cooking at home is a strong driver of growth in the industry, we are now entering a new era. The conflict between Ukraine and Russia and with other countries indirectly present as well, got to a rise on prices, and consequently, to inflation levels never seen before in such a short period of time.

Industry drivers are described in the following sub-section. Namely, the current demand and supply factors are addressed, as well as other characteristics of the industry and of Jerónimo Martins business.

Figure 12 – Global Food Retail Market Growth from 2017 to 2030



Source: Grand View Research (2022), Author

4.2 Key drivers of Industry Profitability

4.2.1 Key Drivers of Costs

In the food retail business, there are four major cost expenses: rental costs, labor costs, food costs and distribution costs.

Although there are high costs in which every company of the business is prone to incur, the industry has an advantage when compared to others. Since companies in the sector tend to pay their suppliers long after receiving the inventory and selling it, they will have more money to spend in other costs or invest in opportunities. With this said, the Days Payable Outstanding will be high translating into a high and negative Cash Conversion Cycle.

There are also many important cost factors, such as taxes, government regulation and advertisement, that may substantially increase the costs of any company in the sector.

4.2.2 Key Drivers of Revenues

With unstable times and in the wake of trends, people tend to change their habits and consumption patterns. This was seen during the COVID-19 pandemic when people preferred walk-through stores, shopped less per week, and favored e-commerce, but also allowed trends such as healthy eating and sustainability to emerge more quickly.

Nevertheless, with raw materials like cereals and corn increasing their prices at unprecedented levels, the industry expects yet another shift in consumer behavior, by switching for cheaper products.

Regardless of any unexpected events, food will always remain an essential commodity for basic life, and the needs should continue rising with population growth and with a future balance of prices.

4.2.3 Demand and Supply Drivers

There are several demand and supply drivers in the industry and in the consumer behavior which may change even more in unstable times. Price increases in raw materials are crucial and can shift the whole food retail business to a different stage on its evolution. With that, every company should align its strategy and try to line up with these variations on consumer habits, through time.

4.2.4 Demand Drivers

Key demand drivers include consumer confidence, population growth, GDP per capita growth, urbanization, disposable income, consumer preferences, and product prices. Some of these drivers, for the Euro Area can be seen in Figure 13, Figure 14 and Figure 15, and for Colombia can be seen in Figure 16 and Figure 17.

With inflation on the rise, the industry can predict major changes in consumer buying behavior in the short term. Figure 14 shows the development of inflation between July 2017 and July 2022.

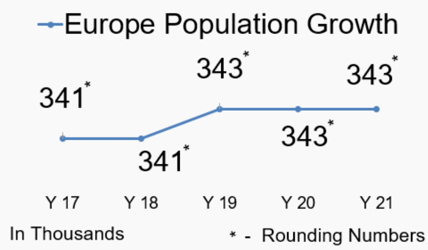
4.2.5 Supply Drivers

The situation on the supply side is complex and difficult to predict over long periods of time. International events like the military dispute between Russia and Ukraine, the lockdowns in China, and even ordinary events like bad weather, have a major impact on raw material shortages and distribution costs. The events may have negative impacts on prices throughout the chain, for example, on producers, which will cause changes on the final price of any product. Although not all food production is equally affected, different products may experience different disruptions at different stages of the supply chain. This leads to one of the most important factors, cost and consumer price volatility.

4.2.6 Supply Chain

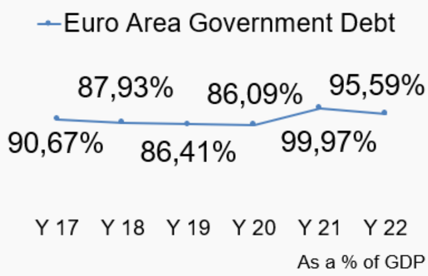
As in any other industry, there are different stages in the supply chain: the origin of the product, the manufacture of the product, and the distribution or sale.
In this particular business, the origin or production may be represented by farms and crops. The manufacturers, or processors are present at a stage in which the product

Figure 13 – Europe Population Growth (2017 to 2021)



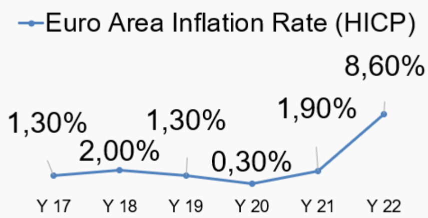
Source: European Central Bank (2022), Author

Figure 14 – Euro Area Government Debt from March 2017 to March 2022



Source: European Central Bank (2022), Author

Figure 15 - Euro Area Inflation Rate from July 2017 to July 2022



Source: European Central Bank (2022), Author

is processed until it takes its final form. And in the end of the supply chain is the distribution, where the product is taken to its final location and sold. Each stage contributes to the final price, that will be paid by the end consumer.
The relationship between a food retail company in the chain may differ from supplier to supplier. This relationship will vary according to the dependance of the retailer on the supplier, and the other way around. Price negotiations and contract terms may be mainly decided by the one that has a higher importance on this relationship.
For example, international suppliers with a larger volume of sales tend to be less dependent on retailers. Companies like Mowi, the biggest salmon supplier of the world, accordingly with the salmon business site (2020), or even companies like Unilever or Procter and Gamble have more negotiating leverage. Therefore, retailers try to maintain relationships with a variety of suppliers to reduce their dependency. In spite of these efforts, sometimes is difficult for retailers to manage this dependency. Take the example of the Gillette brand, owned by Procter & Gamble. Gillete is considered a unique product and should bring customers into the store. If the retailer stops selling this brand or tries to replace it with another brand, there may be immediate and indirect consequences, as people who want to buy this particular product may not shop in the store.
On the other hand, if retailers are strong enough to buy large volumes from their suppliers, they can also negotiate lower prices and have greater bargaining power. It is also important to emphasize that food retailers try to maintain good long-term relationships with their suppliers in order to retain the best suppliers.
Local and smaller suppliers, like small bakeries, may have different approaches from retail companies. When they can be easily replaced by other equivalent or better options, retailers may impose lower prices, since the small bakery may have more to lose if the retailer stops buying the products, than the supplier, that may have other options. Retailers in this case will have the negotiation power on its side and take advantage of it. During difficult times, the industry may tend to find other strategies. The strategies used can vary widely from company to company, but companies often try to sign exclusive contracts with suppliers or even buy the operations or factories, so that they may have a better and more effective control over the suppliers.
In times of crisis, such strategies may tip the scales, because when prices rise due to inflation, suppliers also want to profit and use times of need to expand their position and speculate on prices. But even in stable times, companies can use such contracts or acquisitions to expand their businesses and reduce margins with middlemen, so that in the long run, with proper management, food reaches the end consumer with less expense, less volatility and better market knowledge. This process can be referred to as backward integration, which means that a company integrates and develops a stage that occurred before its core business in the company's value chain.

4.2.7 Agriculture growth outlook in uncertain times

Although the number of COVID-19 positive cases is declining and the disease is becoming more and more accepted worldwide, there are new implications in the agriculture.
On the other hand, the conflict between Russia and Ukraine has driven up prices of many commodities, and the market still sees no way to recover. Many factors are contributing to a price increase in the coming months. According to Refinitiv, these two countries account for about 20 % to 30 % of the world's corn and wheat exports, respectively, and with the Western world banning Russian products and Ukraine unable to produce, or producing only in small quantities, it is easy to understand why the world should expect a higher cost of living and higher food prices. Inflation is also

Figure 16 – Colombian Total Consumer Price Index Growth (2017 to 2021)

Source: Colombia National Bank (2022), Author

Figure 17 – Colombian Food Consumer Price Index Growth (2017 to 2021)

Source: Colombia National Bank (2022), Author a consequence of the issue, with an expected annual inflation rate in the Euro Area of 8,6 % in Juy of 2022, accordingly to the European Central Bank (2022). Exporters such as Argentina have introduced new export restrictions to counter domestic inflation, which is an additional factor in the decline of food supply. With demand for commodities expected to remain robust this year, countries like the United States and Australia will try to export more and more, but even that may not be enough to stabilize prices for wheat, meat, fish and many other products.

4.2.8 Trends

Demand trends may vary depending on the culture of a country and the development of the industry in that country. Although there are many trends that differ from one nation to another, they can transition from one to another over time. Trends are an important point for companies to focus on, as they can grow over the long term and become realities and habits of food retail shoppers.

The most important and significant demand trends in the industry are:

(i) Digitalization and how quickly a customer can his purchase. An example of this is Amazon's latest feature where customers can leave the shop without meeting a cashier.

(ii) Sustainability and healthiness of our environment. With new regulations and people becoming more aware of environmentally harmful products, retailers are trying to find greener products and greener ways to transport those products.

(iii) Organic and healthier products, as well as sustainability awareness, are leading to a more conscious and confident customer base that knows more about the benefits of eating healthier by seeking out products with less fat, less sugar and fewer carbohydrates, more veggies, and other healthy options.

In addition, there are many other trends, such as buying food already prepared, which saves people time in preparing meals, and online shopping, which leads to more efficient ways to get food into shoppers', from dark stores, for example, to customers' homes with the click of a mouse.

4.3 Mergers and Acquisitions (M&A) Activity

The food retail industry is one of the most mature industries when compared to the technology and automotive industries, but there is room for organic growth since financing of inventory is eased with high Cash Conversion Cycle (CCC) values. But a better option when a company wants to increase its market share quickly is through merger and acquisition (M&A) deals.

Building an infrastructure from scratch and in a foreign country involves many difficulties when compared to a large company buying a smaller company and then understanding more and more about the culture in the region. Learning with the locals and understanding with people who have already run retail businesses in the area can bring valuable insights to improve and develop a better strategy and concept for the business.

Clearly, strategies depend not only on company to company, but also on external factors. Buying or renting places in a good location and at reasonable prices can also be difficult to find and lead to different approaches. Legal requirements are another external factor that may cause companies to act differently, such as opting for a partnership with a company already established in the region.

Biggest M&A deals in the last three years and M&A main indicators in 2021, according to PWC (2022), are illustrated in Table 1 and Table 2.

Table 1 – Biggest M&A Deals for the last three years in the Industry

M&A Deals - Last three years		
Target	Acquirer	EV
WM Morrison	Clayton, Dublier & Rice	12
Metro AG	EP Global	7,5
ASDA	TDR Capital	7,5
Selfridges & Co	Signa Holding	4,7
Lenta	Severgroup	1,6

Source: PWC (2022), Author

Table 2 - M&A Indicators

M&A Main Indicators (in € B)	
Deals Volume (n°)	36
Deals Value	27
Avg Deal Value	1,3

Source: PWC (2022), Author

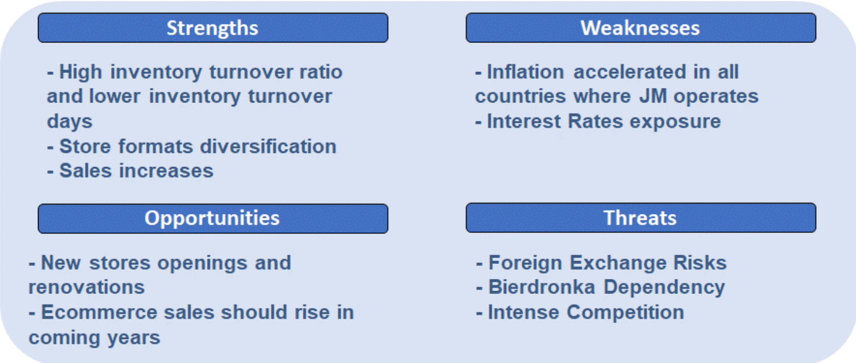
4.4 SWOT Analysis

The SWOT Analysis considers different perspectives of the company and represents the main Strengths, Weaknesses, Opportunities, and Threats the company, and the investors should know about.

The goal of the SWOT analysis is to keep track of the most important factors the company is dealing with, to help decision-makers make better choices and follow a business strategy with the SWOT factors in mind. If this analysis is sound and done well, investors will know what concerns and positive aspects can affect the value of the company to achieve a higher or lower price per share. On the business side, JM managers can easily identify what should be improved and changed and if investments should be made or continued.

Some issues can be managed outside the company, but even if they are difficult to deal with, they can be used to prevent or anticipate potential profit declines or increases. Figure 18 illustrates the final SWOT metrics.

Figure 18 – SWOT Analysis



Source: Author Analysis

4.4.1 Strengths

4.4.1.1 Inventory Turnover Ratio

The Inventory Turnover Ratio refers to the number of times a company sell and replace all its inventory over a given period of time.

A high inventory turnover ratio or a very low inventory turnover number of days, mean that the company incurs into low inventory carrying costs, enabling it to improve its operating performance. The company experiences this effect, that is translated as a strength in the analysis. The inventory turnover ratio is forecasted to be maintained at 14,68x, as can be seen in Appendix 9.

4.4.1.2 Store Format Diversification

Jerónimo Martins has a clear strategy, that brings diversification and exposure to different industries. By opening many stores in 2021 for example (Table 3), not only in the retail food industry, its main activity, but also in other industries like the health and beauty sector, JM can bring a wider range of customers to their portfolio.

With banners like Biedronka, Hebe, Recheio, Hussel, Jerónymo and even, Terra Alegre and Seaculture (JMA), the companies can reach multiple client targets and be well diversified even if one group is more affected than another by consumers changes, the company can adapt and be present in different manners of selling food products.

4.4.1.3 Sales Increase

Table 3 – Store Openings and Remodellings in 2021

Store	Openings	Remodellings
Total	361	356
Biedronka	164	334
Pingo Doce	14	14
Recheio	-	2
Ara	157	-
Hebe	25	4

Source: JM Annual Report, Author

Despite the uncertainty times lived last year, and with a new era of crisis that may happen due to consequences of the conflict between Russia and Ukraine, the food retail industry should stay stable.

Many crises have happened in the past, and although consumers may buy fewer durable goods, look for different distribution brands, or shift behaviors, people still need to be fed and need to feed their families.

This type of industry is not as much affected as other industries are, remaining strong even if its sales slowdown and even if retailers have to push margins down or cut on costs.

JM has come across different crises in the past decades, and with the last recession due to COVID-19, the company has continued to increase sales, and should continue to do so in the future.

4.4.2 Opportunities

4.4.2.1 New store openings and renovations

The company allocates most of its investment on store openings and on store renovations. These investments are meant to offer closer options to costumers to make their daily shopping easier and more attractive. By opening new stores and enhancing the customers' experience, by giving a better look with a renovation on a store, this will bring new customers to shop in the new or renovated stores.

The investments the company made in 2021, as can be seen in Table 3, will bring more customers, more sales and more profit to the company. By being exposed to more people, more will retain their preferences for the stores Jerónimo Martins manages.

4.4.2.2 Ecommerce

With COVID-19, and with people being confined to their houses due to circulating restrictions, people shifted their way to consumerism, and were encouraged and led to shop online, avoiding going to stores.

Through this experience, people became more aware of the benefits of online shopping, and continued to shop on websites, even after COVID-19 restrictions were lifted.

According to e-commerce Europe News (2022), in the last year, e-commerce rose by 13% in Europe, and should continue to rise in the coming years.

Accordingly with ecommerceDB (2022), in 2021, Colombia had sales of $ 7 billion, Poland had sales of $ 15 billion and Portugal had sales of $ 4 billion (Figure 19).

4.4.3 Weaknesses

4.4.3.1 Inflation

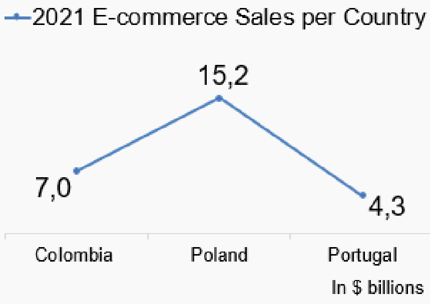
Inflation accelerated in all three countries, where JM is present, Poland, Portugal and Colombia, but mainly in Poland. This increase on prices could potentially damage the business since it is in Poland where Jerónimo Martins has a bigger exposure.

Price inflation is mainly characterized by higher product prices and may mean lower margins to retailer. The public will demand and protest with products increasing in price, while retailers must have food on the shelves and are limited by the number of suppliers, to whom they must pay a fair price.

4.4.3.2 Interest Rates

With high inflation levels, central banks increase interest rates to prevent inflation to escalate even further.

Figure 19 - E-commerce Sales per Country



Source: EcommerceDB (2022), Author

Interest rates rise will weaken the businesses, presenting higher costs if the company wants to borrow money to pay for certain costs or for making investments. With this, the costs may influence investment, and lead to slower growth rates.

4.4.4 Threats

4.4.4.1 Foreign Exchange Risks

Jerónimo Martins operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in Euro and its revenue is exposed to the volatility of the Euro against other functional currencies, as it conducts business operations worldwide. Fluctuations in Euro to Polish Zloty and in euro to Colombian Peso can be seen in Figures 20 and Figure 21.

4.4.4.2 Dependency on Bierdronka

Although Jerónimo Martins tries to foster a certain diversification, 70% of sales still come from Poland, with the presence of Bierdronka in the country. Therefore, Poland's change in governmental rules, taxes and changes in consumption behavior may affect more than the rest of the companies put together leading to an important threat. Although this should be taken into consideration, Poland's operations were never compromised, staying strong across the history of the company, and should remain so in the future.

4.4.4.3 Intense Competition

In a competitive market, it is normal for companies to fight for a market share and to lead a country's economy.

The company faces strong competition in its areas of operations. It competes with Mercadona, Lidl, Eurocash, Dino Market and multiple other companies, that might be even bigger than Jerónimo Martins.
In Portugal, Mercadona entered as a big new player in the food retail market. With a well-established business in Spain, being the main leader in the country, Mercadona will compete with Pingo Doce and SONAE on many fronts, in the coming years. Competition is for price, quality, and most importantly, for a place among the top two food retailers in Portugal. In 2021, according with the annual report of the company, Mercadona sold about € 27,819 million, from which € 414 million came from Portuguese stores.

Pepco is another big retail name that is about to enter the Portuguese retail food market, expecting to open its first store in 2023. Pepco is a company from Poland that also owns Poundland in the UK. The company ended in 2021 with € 4,122 million of revenues.

4.5 PESTEL Analysis

The PESTEL analysis is a strategic framework that will be addressed on the following sub-sections and will study the key external factors that may influence a company, and its financial stability and operations.

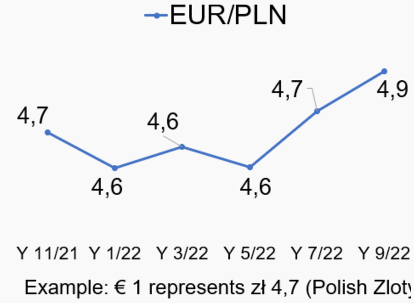
PESTEL evaluates 6 different factors as suggested by the 6 letters, in which P stands for Political, E for Economic, S for Social, T for Technological, L for Legal and E for Environmental.

4.5.1 Political and Economic

Since JM is spread across three different countries, Poland, Portugal and Colombia, the way politics are directed in each country will affect the business differently.

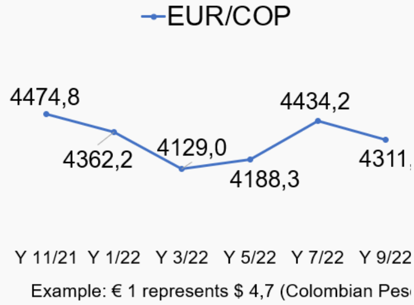
In all the three countries, crisis is being one issue that will bring inflation and uncertainty for the next months in a lot of different products, from energy to raw materials.

Figure 20 – Exchange Rate Euro to Polish Zloty



Source: Yahoo Finance (2022), Author

Figure 21 - Exchange Rate Euro to Colombian Peso



Source: Yahoo Finance (2022), Author

If countries are helpful by lowering their taxes and giving more support to companies, the impact in the economy of the companies in those countries may not be as big as expected.

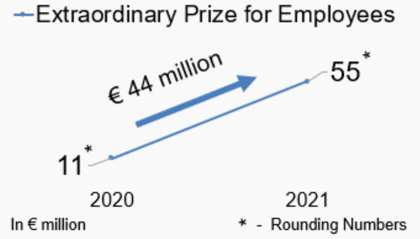
Tourism is also something to take into consideration since countries like Portugal may be positively affected.

4.5.2 Social

Jerónimo Martins is a company that promotes multiple charity events like Bairro Feliz in Portugal, which helps specific neighborhoods where Pingo Doce is present, and makes significant donations for different causes, like the donation that the company made in March 2022 of € 5 million to contribute to the humanitarian aid of Ukrainian refugees in Poland.

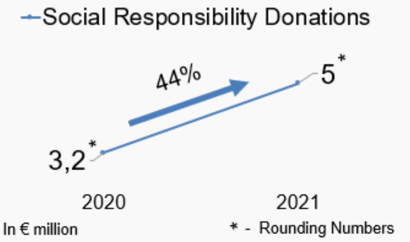
The company is also a benchmark employer being present in the Gender-Equality Index of Bloomberg on gender equality, improving the salary ratio between men and women to 97,6%. In 2021 the company invested around € 55 million in prizes for their employees and around € 5 million in Social Responsibility Donations, as can be seen in Figure 22 and 23.

Figure 22 - Extraordinary Prizes Increase from 2020 to 2021



Source: JM Website, Author

Figure 23 – Social Responsibility Donations Increase from 2020 to 2021



Source: JM Website, Author

4.5.3 Technological

As all the other industries, food retail sector is getting more technological every year by using external companies to work with them on the technological innovation but also by hiring more IT and software employees

Jerónimo Martins is getting noticed in the field, being one of the companies with more technological innovation in Portugal in this sector. At the present, the company has multiple projects in which they may work on alone or with other companies, like the *Mercadão* company that sells products of Pingo Doce and delivers them directly to the houses of consumers. Another example of technological innovation is the NOVA SBE Store, which operates with no cashiers, being fully autonomous in that perspective.

4.5.4 Environmental

Environment-wise, being a public company, it is very important that a group with such a position rank well in Environmental, Social and Governance (ESG) matters.

Jerónimo Martins achieves high marks in ESG programs and ranks. The company reached max grade of A in the combat against climate change and management of water of CDP, being the only company in Portugal to reach that grade.

In February of 2022, the ESG Risk Rating tiered JMT in the 13th place amongst 201 food retail companies, according to JM website. The company also reached the low-risk grade for the possibility of having financial impacts due to environmental, social and governance factors.

In the CDP 2021 score, Jerónimo Martins received an A rating (highest level) in water security and climate after implementing TCFD recommendations to better identify and quantify financial risks and opportunities related to climate change (Figure 24 and Figure 25).

Both overall value (t CO_2e) and specific value (t CO_2e/€ '000) decreased in 2021. Carbon emissions also decreased constantly from 2017 to 2021, the exception being 2020, as shown in Figure 26.

4.5.5 Legal

In 2021, Jerónimo Martins got his third fine in three years, being one of them a 13,2 million euros fine, for misinformation from where their potatoes, onions and apples came. In total, investigations on competition authority led to a payment of almost 200 million euros by the company.

JM other investigations involved missing price tags, abuse of bargaining power, and false advertising. The company wasn't charged but was required to conduct an educational program on advertising in the industry.

4.6 Porters Five Forces

A Porter Five Forces analysis was also conducted to get a more cleared view of the competition in the industry and its competitive attractiveness and intensity.

This analysis helps companies to understand the factors that can affect profitability in a particular industry and can be used to guide decisions about entering a particular sector or if a company wants to expand its capacity in a particular business. The five different forces addressed in the analysis are: (i) Threat of New Entrants. (ii) Threat of Substitute Products. (iii) Bargaining Power of Suppliers. (iv) Bargaining Power of Buyers. (v) Rivalry Among the Existing Competitors.

Alongside the forces, respective degrees of intensity were attributed, as can be seen in Figure 27.

4.6.1 Threats of New Entrants (Medium – 3)

In every industry a new company in the market may or may not be successful depending on the country or region where the company is trying to establish itself and also depending on a number of factors such as: (i) How the sector is structured in the area, if the market is an oligopoly or a monopoly if it is not developed enough to have a dominance of any company. (ii) How the culture of shoppers is entrenched, if customers prefer to use delivery features, how many times a week the consumer shops, among others. Every aspect will differentiate a business and may compromise the new entrant.

If the company is large enough to achieve economies of scale in a new region, this will be a key factor in entering a new market. If a company is large enough, depending on its importance to the supplier, it may be able to negotiate with them more easily and sometimes even sign exclusivity agreements. The company can also initiate backward integration by buying new suppliers and their factories or building the operation itself. In this way, demand for the product is satisfied at a lower cost, and at the same time, the retailer can better assess quality.

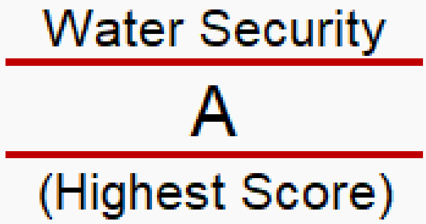
In the industry, investment in inventory is not the biggest concern, as retailers typically have several days to pay their suppliers. The biggest investment concerns then are labor costs, rents, or the acquisition of the property and everything related to it, such as machinery, delivery and marketing, amongst others.
The entry of new companies into the sector is always a threat, but companies that are already established in the industry should not worry about this, only if the strategy of the new entrant is well aligned, consistent, and if it meets demand with better products at better prices.

4.6.2 Threats of Substitute Products (Low – 2)

Substitute Products in this industry may be low within mature competitors on the region and organic growth. But, due to globalization brands are expanding and multiple organizations may be seen going to other regions like Lidl or even Mercadona. Other substitution threat that may be worth mentioning is the delivery apps of groceries, like Getir, a Turkish company that is expanding and investing furiously in this kind of technology or even Bairro, a Portuguese company that is on the same path as Getir.

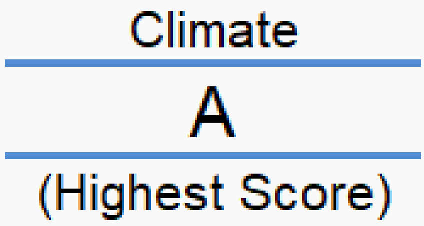
By using dark stores, delivery apps can offer cheaper fixed locations and deliver goods within minutes, while reducing costs and providing a more convenient way to

Figure 24 – Water Security CDP 2021 score



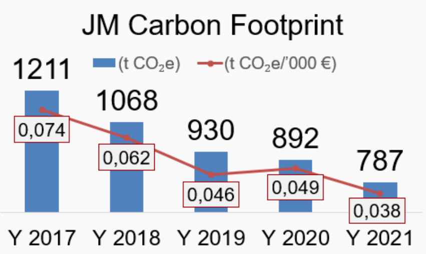
Source: JM Website, Author

Figure 25 - Water Security CDP 2021 score



Source: JM Website, Author

Figure 26 – JM Carbon Footprint



Source: JM Website, Author

Figure 27 – Porter Five Forces

Source: Author Analysis

store, as customers don't have to leave their homes and spend time standing in line or searching for the products they want on the shelves. But the feature comes with a price, even if large retailers invest in this type of technology, consumption can be streamlined and well-structured so that the impulse of consumption is left behind, resulting in less spending by customers, which can lead to lower sales.

4.6.3 Bargaining Power of Suppliers (Medium – 3)

Bargaining power of suppliers will depend a lot on how big the supplier is, and how the market is structured for that specific good.

International suppliers might have the monopoly of a certain good (or the best quality-price ratio). With that the position conquered may influence and put these suppliers in a better position when the negotiation begins.

The opposite occurs with local and more regional producers. Small producers may not achieve economies of scale and with that, don’t get the lowest price of raw materials, for example. With low barrier of entry, regional producers can be many on the sale of a specific good, and with that, be easily replaced.

The food retail business demands a low price with the best quality possible, and companies will choose suppliers that might have a lower quality at a lowest price, rather than another with a higher quality but with a higher price tag. Obviously, the choice will depend a lot on the way of working of every specific company, although the concept of “Everyday low price” is one of the most popular strategies set by food retail multinationals all over the world.

4.6.4 Bargaining Power of Buyers (High – 4)

On the costumer side, many options are available, and mainly in big cities, where switching costs are low.

The choice will depend a lot on quality, price, and location. With online stores locations might be a difficult factor to discuss since customers don’t even need to go to a physical place. But if the products take too long to arrive, clients will consider choosing for other options, even more if they want to consume right after the purchase of the product.

With a deeper conscience of products, their benefits, components and prices, buyers have more information to make their decision and to choose the product it better fits their needs.

4.6.5 Rivalry among the Existing Competitors (High – 4)

If a market has at least two strong competitors, a strong rivalry may happen, and with that, a war price may be set.

When one competitor reduces the price, the other competitor might want to lower the price even more next week, or even on the same date.

An array of strategies may be chosen by retailers to gain advantage compared to a competitor and to bring people to stores, even though sometimes margins must be sacrificed, and suppliers must be switched systematically for the best price. Other types of strategies may include giving away free products if a certain spending target is hit or a price voucher on the next purchase.

To bring customers back, strategies must be consistent, and the offer should have the best quality at the possible price. Occasionally, some quality may be sacrificed in favor of the cheapest price.

5. Investment Summary

Figure 28 – Main Valuations

Main Valuations	Stock Price
DCF FCFF	24,28
DCF FCFE	16,27
APV	24,51
EVA	21,42
(EV/Sales) Multiple	24,36
(P/S) Multiple	22,00

Source: Author Analysis

5.1 Valuation and Final Recommendation

The final recommendation stands at Hold, with a medium investment risk and a final target price of € 24,28, that represents an upside of 10,17 %. The final target value came from the DCF method using the Free Cash Flow to the Firm (FCFF) approach and was compared with the closing price of € 22,04 on September 5, 2022.

A relative valuation was also conducted. On this matter. *Jerald E. Pinto et al (2015)* said that “(P/E) is perhaps the most widely recognized valuation indicator,” and Damodaran (2017) also references in a paper, that in the retail industry, the most common multiples are revenue multiples.

That being said, two following multiples where highlighted, P/Sales and EV /Sales. The first multiple presents a downside of -0,19 %, and the second exhibits an upside of 10,5 %. By conducting an average of both, a final target price was reached of 23,18 €, with a upside value of 5,2 %, that supports the DCF recommendation of Hold.

With the last method leading to the same result as the first method, the recommendation was definitely supported.

The main valuations used can be seen in Figure 28.

5.1.2 Key Drivers

With the unforeseeable consequences of a military conflict coming in force without an end prediction for the near future, a high inflation solution, and a GDP prediction to rebound only on 2024, for Portugal and Colombia, the retail food industry will be affected leading to a slower consumption in the near future.

Despite all the instability that we are currently living, Jerónimo Martins remains a strong group, that already recovered from many crises and is expected to grow on revenues in the forecasted years.

The company is not expected to expand, freezing plans it might have had before, focusing on their existing main revenue channels.

Jerónimo Martins is the leader in the Polish market and continues to bring competition to the industry in the country with great and big companies leaving the market recently, like Tesco in 2020.

A positive outlook for the investment in Colombia is expected. As mentioned in the 2021 JM annual report, the break-even bar passed at Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) level last year, the company showed a lot of resilience since the first opening in 2013. EBITDA is illustrated in Figure 29.

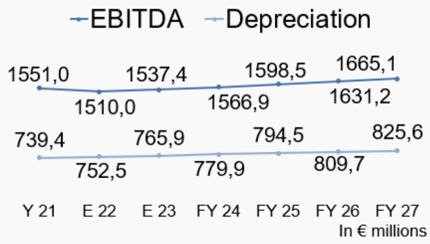
With a more stable and smaller market in Portugal, Pingo Doce is expected to keep delivering constant sales, together with Recheio. Investments made by the company in Portugal, should focus on prepared foods and on the verticalization of the business, growing as suppliers and finding other ways to control quality and cost prices.

Overall, the main prospects for the coming years, shown in Figure 30, is Earnings Before Interested and Taxes (EBIT) to grow at a steady pace from € 806 million in 2021, to € 855 million in 2027 at a CAGR of 0,85 %. Earnings Before Taxes and Net Income will follow a similar path, Figure 31 and Figure 32.

Based on the analysis, the expected terminal growth should be positive, reaching 1,55 % (Appendix 11 and Table 6).

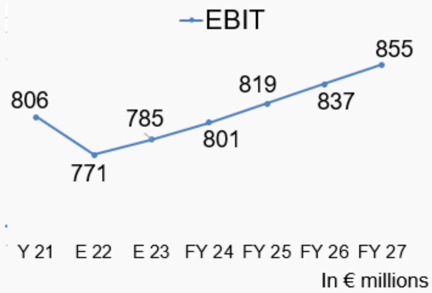
6. Valuation

Figure 29 - EBITDA



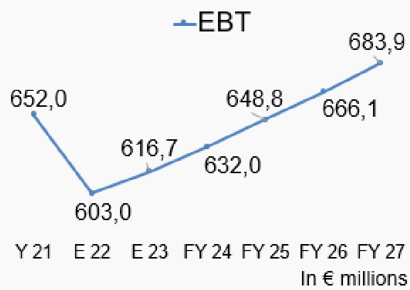
Source: Author Analysis

Figure 30 - EBIT



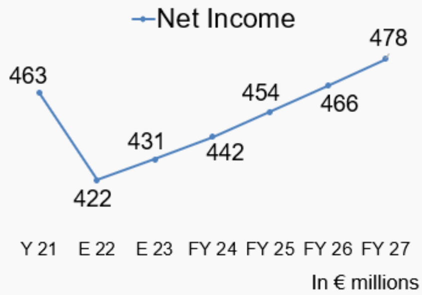
Source: Author Analysis

Figure 31 - EBT



Source: Author Analysis

Figure 32 – Net Income



Source: Author Analysis

The JM valuation was based on multiple sources and assumptions to reach the target value that may support the final recommendation.

The data used for the valuation come from the Bloomberg terminal, so they are consistent with other macroeconomic data extracted from the same platform.

The Valuation Period considered for the forecast is six years, from 2022 YE to 2027 YE and for terminal value, with an Historic Data period to support the forecast, from 2017 YE to 2021 YE.

To perform a Forecast Analysis of the JM company, several assumptions related to Revenues, Capital Expenditure (CAPEX) and Terminal Growth (g), have been considered. This analysis is fundamental for the calculation of future values of the company and the valuation models that will set a theoretical price to the company, and with that, a final recommendation.

The Financial Valuation is addressed based on two important models, the Absolute Model and the Relative Model. The final target price indicated by the Discounted Cash Flow (DCF) with FCFF Method, from the Absolute Model, will end with a value of 24,28 €, and a final upside of 10,17 %. Although the method mentioned is the most reliable, more valuation methods will be addressed.

6.1 Forecast Analysis

In the forecast analysis the base of the valuation with the financial estimates for the time horizon between 2022 and 2027 is constructed.

This analysis is classified as one of the most important for the valuation estimates, as it provides estimated information about the company's revenues, costs, profitability, debt, and dividends, amongst others.

Based on the analysis, most of the company's ratios should improve, resulting in better financial conditions for the coming years, and a stable increase of Net Income (Figure 32), which, based on the analysis, should increase by a CAGR of 0,47%, from the € 463 million value achieved in 2021, to € 478,5 million in 2027.

In this section, forecasts were based on different rationales as it will be addressed on the following sections.

6.1.1 Revenues

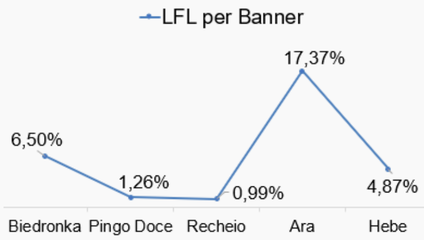
The revenues forecast for each of the five principal banners (Bierdronka, Hebe, Pingo Doce, Recheio and Ara) and historical values for the macroeconomies where the banner operates, were addressed separately, to get closer predictions to the reality.

The revenues forecast for the five banners were based on four aspects, two internal aspects of the company and two external factors of the company, connected with the country where the store is. The internal factors were, the Like-for-Like (LFL) growth, that is the historical revenue growth in percentage per banner, and the Level of Efficiency, based on the historical sales per number of stores' ratio. The two external factors were: (i) The Gross Domestic Product (GDP), based on its historical growth and on the forecast given by the National Bank of each country until 2024, except for the Colombian National Bank, that only forecasted the GDP growth until 2023. (ii) The historical Population Growth per Country.

The historical period over 2017 and 2021 was used to calculate the internal and external factors mentioned earlier.

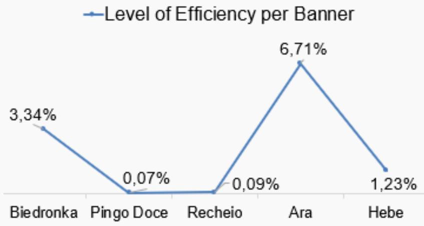
The "other and consolidation adjustments" line reflects other businesses which do not represent a significant percentage of the company, like Jeronymo and Hussel.

Figure 33 – Historical Average Like-For-Like per Banner



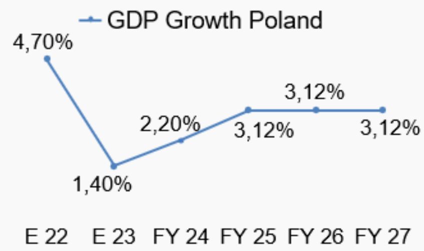
Source: JM Website (2022), Author Analysis

Figure 34 – Historical Average Level of Efficiency per Banner



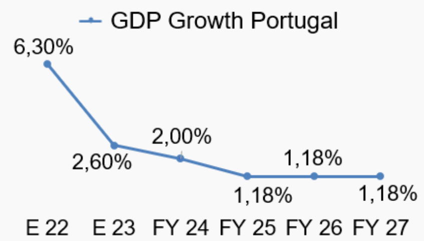
Source: JM Website (2022), Author Analysis

Figure 35 – GDP Forecast Poland



Source: National Bank of Poland (2022), Author Analysis

Figure 36 - GDP Forecast Portugal



Source: Bank of Portugal (2022), Author Analysis

These were considered stable, and an average value for the upcoming year with no variation was attributed.

Like-for-Like average growth

The Like-for-Like factor mentions the company's growth year over year, without taking into account new stores that were opened on the same year. For example, if in 2020 there were 100 stores opened, and in 2021, five more were opened, forming 105, those five stores won't be included in the Like-for-Like Growth, and will only be included on the next year LFL calculation. The average of this growth has taken into account the different five banners, as seen in Figure 33.

Efficiency Level

The efficiency level was computed through the historical revenues between 2017 and 2021, divided by the number of the stores of the corresponding years. The final average values of each five banners are shown in Figure 34.

GDP Growth per Country

The GDP growth per country, was based on the forecast of each bank until 2024, for Poland and Portugal, and until 2023 for Colombia. For the following years, until 2027, an average of historical data from 2017 to 2021 and an average from 2022 to 2024 (for Poland and Portugal), or 2023 (for Colombia), according to the country, was calculated. The Figures 35 to 37 show the prediction of this forecast from 2022 to 2027.

Since the forecast of National Banks GDP is used, inflation is reflected and considered on the forecast.

Population Growth

The population growth of each country between 2017 and 2021 was also taken into consideration, and an average of its historical growth was computed for the three countries where JM operates, as we can see in Figure 38. Data was extracted from Macro Trends Website (2022).

Final Revenue Forecast Growth

A weight of 15% for each internal factor (LFL average growth and efficiency level average growth value) was assumed whereas a weight of 35 % for each external factor (GDP growth and population average growth). For each year and for each banner the calculation followed the same rationale, the calculated forecast is based on the average of the LFL growth, Level of efficiency growth, Population Growth and GDP growth prediction for each year. This rationale can be seen in more detail on Appendix 10.

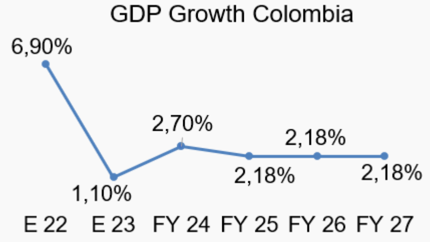
Revenues are expected to increase from € 20.889 million in 2021, to € 23.920 million in 2027 at a CAGR of 1,95 %. Total revenues and revenues per banner forecasted, can be seen in Figure 39 and Figure 40.

6.1.2 Margins

The Gross Profit Margin (GPM) was forecasted by total revenues minus the cost of revenues, that were based on the average rate of historical weights, as shown in Appendix 3. The final percentage of gross profit divided by revenues for the forecasted years was 21,65 %, with a CAGR of 0,08 %. Following GPM, EBT also increased at a constant rate of 0,69 % from € 652 million in 2021 to € 684 million in 2028. EBITDA increased from € 1551 million in 2021 to € 1665 in 2027, at a CAGR of 1,02 %, since the depreciation forecasted values, based on a historical growth rate of fixed assets and its variations (Appendix 15), increased from € 745 million in 2021 to € 810 million in 2027 at a CAGR of 1,2 %.

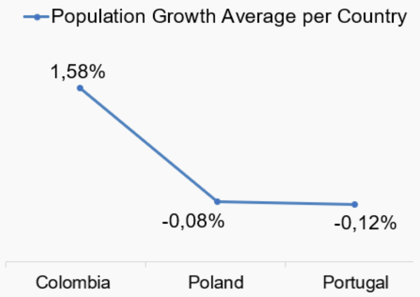
6.1.3 Working Capital (WC)

Figure 37 – GDP Forecast Colombia



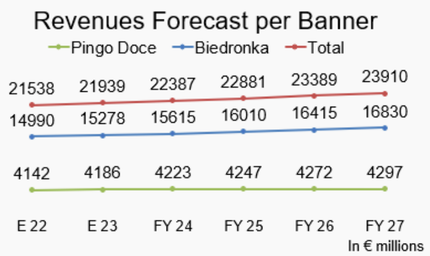
Source: Colombia National Bank (2022), Author Analysis

Figure 38 – Historical Average Population Growth per country



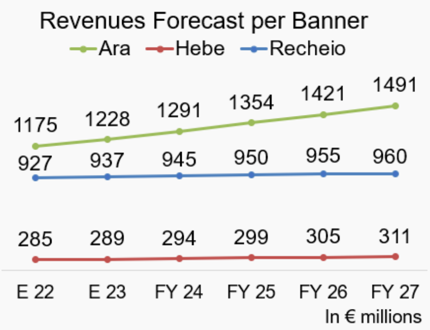
Source: Macro Trends Website (2022), Author

Figure 39 - Revenues Forecast Total, Pingo Doce and Bierdronka



Source: Author Analysis

Figure 40 - Revenues Forecast Ara, Hebe and Recheio



Source: Author Analysis

In the case of retail business, the impact of WC is very important. For retailers, this is a very common procedure of financing projects, since the profitability of a project may depend on this value. As expected, the calculation of the Working Capital for Jerónimo Martins remained negative over the forecasted years.

The food retail industry is characterized by paying suppliers weeks or even months, after receiving the inventory, while customers automatically pay in cash or card and, the company, almost instantly, receives the payment in their accounts. Most of the times, food retail companies, sell the inventory to customers, before they even pay it, generating a fictional investment from customers for possible new investments.

Companies from the industry usually have a high day payable outstanding ratio compared to day sale outstanding and day inventory outstanding ratios, meaning a negative Cash Conversion Cycle (CCC). This accomplishment gives the industry a competitive advantage when compared to other sectors. With a shorter CCC, a company is better at recovering cash from sales with the selling of inventories and the payment to suppliers. Also, with low CCC percentages, companies will reduce the amount of capital invested since they will need less invested cash to achieve the same level of profitability, almost as if their clients were financing them. CCC forecast can be seen in Figure 41.

The calculation of WC ended up with a value of € -3153 in 2021 and with the forecasted value of € -3512 in 2027, reaching a CAGR of 1,55 %, as can be seen in Figure 42 and in Appendix 12.

6.1.4 Capital Expenditure (CAPEX)

Predictions for 2022 included major investments, some of which already took place. Recheio opened a new store in 2022, since the last opening of a store in 2017. Colombian stores are expected to reach to 1000 in 2022, there were 819 in 2021. Poland is likely to open 160 stores and to remodel 350 stores.

According to RTP (Rádio e Televisão Portugal), a public service broadcasting organization of Portugal (2022), a statement, by Jerónimo Martins, was made to CMVM – Comissão de Mercado de Valores Mobiliários, saying that the capital expenditure should reach € 850 million in 2022. With this, the € 850 million value was considered for that year forecast. The following years forecasts were computed based on the weight ratio of CAPEX on historical revenues for 2022.

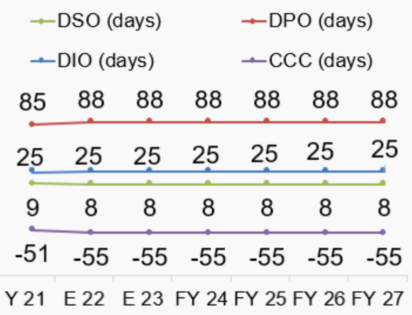
For a closer look, CAPEX evolution can be seen in Figure 43 and Appendix 13. In 2021, the metrics reached to the value of € 584 million, and are expected to end with a value of € 944 million in 2027, finalizing with a CAGR of 7,09 %.

6.1.5 Cost of Equity (Ke) and Cost of Debt (Kd)

The Cost of Equity was computed based on the CAPM model (Appendix 14). The Risk-Free Rate (RFR) considered in the calculation was the average 10Y German Government Bond, extracted from Bloomberg, and is maintained constant over the forecasted years. The Country Risk Premium (CRP) was extracted from Damodaran data base (2022). For the calculation of each country CRP, it was calculated the weight on sales of each CRP for Poland, Portugal and Colombia. With that calculation was made an average of all CRP's was determined. The Market Risk Premium (MRP) was also extracted from Damodaran data base (2022), and was computed based on the same rationale as CRP was calculated. Through the Raw Beta value of 62,3%, extracted from Bloomberg, the Levered Beta was calculated as shown in Appendix 14, finalizing with a value of 74,87%.

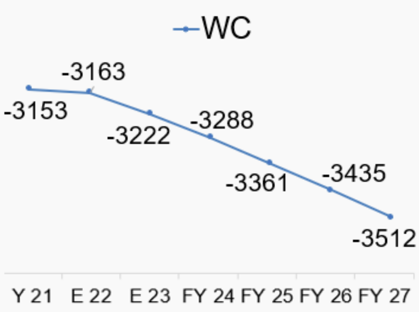
Ke ended with a value of 5,67 % and was maintained constant during the forecasted years, as highlighted in Appendix 14 and Table 4.

Figure 41 – DSO, DIO, DPO and CCC Forecast



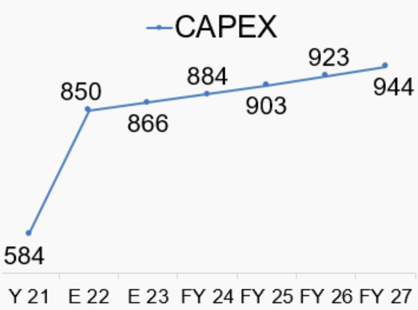
Source: Author Analysis

Figure 42 – Working Capital Forecast



Source: Author Analysis

Figure 43 - CAPEX



Source: Author Analysis

Table 4 – Cost of Equity Drivers

Ke Drivers	
RFR	0,43%
CRP	1,17%
MRP	5,43%
Levered Beta	74,87%
Ke	**5,67%**

Source: Author Analysis

Kd was calculated by total interest expenses divided by total debt, ending with a value of 5,11 %, as can be seen in Appendix 14 and Table 5.

6.1.6 Debt

For the forecast of debt, an important fact was taken into consideration, Jerónimo Martins does not issue bonds, is not rated by any rating agency and did not issue bonds in historical years.

Another important aspect that will influence debt accounts, is the IFR-16. The year 2019 was marked as a shift, bringing IFRS-16 as the new standard. That changed the perspective of leases, right-of-use, and lease lability.

Debt payments were divided into four categories: Long-term Borrowings, Short-term Borrowings, Long-term Lease Liabilities and Short-Term Lease Liabilities. The forecast of these four categories will be detailed over the next sections.

6.1.6.1 Long-Term Borrowings

In the case of Long-Term borrowings, the forecast was computed based on CAPEX and its historical weighted average % from 2017 to 2021.

Long-Term borrowings ended up with a CAGR of 5 % between 2021 and 2027 (Appendix 3). The forecast can be seen in Figure 44.

6.1.6.2 Short-Term Borrowings

For borrowings made for less than one year, JM has a major increase from 2018 to 2019, that might be connected to IFRS-16. Still, it decreased from 2019 to 2020, again, by a large difference, as can be seen in Appendix 3.

The forecast calculations were based on the historical accounts payables % between 2017 and 2021.

Short-Term borrowings finished with a 16,15% CAGR between 2021 and 2027, although it had a CAGR of only 1,76% from 2022 to 2027. The forecast, from 2022 to 2027 can be seen in Figure 44.

6.1.6.3 Long-Term Lease Liabilities and Short-Term Lease Liabilities

In JM accounts, the introduction of IFRS-16, a new accounting rule, made leases change a lot in values between 2018 and 2019. But after that, the long-term liabilities, have been stable from 2019 to 2021. Without the disclosure of lease terms by Jerónimo Martins, it was computed an average growth between 2019 and 2021, the years after the IFRS16 implementation.

The average growth between the years after the IFRS-16 was -0,02 %, and so, the forecasted Long-Term Lease Liabilities were computed based on that growth value, assuming that they would grow at that same level in the future years between 2022 and 2027.

In the case of Short-Term Liabilities, it was assumed that they would grow at the same pace as the Long-Term Liabilities.

According to these assumptions, the Short-Term Liabilities ended with the same CAGR as the Long-Term Liabilities.

The evolution of both Liabilities can be seen in Figure 45.

6.1.7 Dividends

The company Board of Directors has maintained a dividend policy, based on the following rule, this rule states that the company should have a total distribution of dividends between 40 % and 50 % of consolidated net earnings.

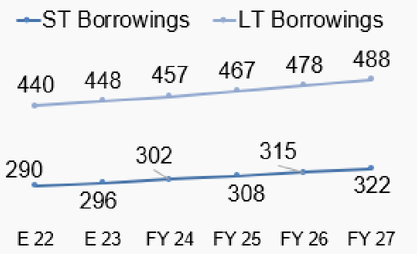
In spite of the existence of this regulation it can be overstepped by a second rule, as mentioned in the 2021 annual report of JM, that states the following:

Table 5 - Cost of Debt Drivers

Kd Drivers	
Total Interest	157,61
Total Debt	3086,25
Kd	**5,11%**

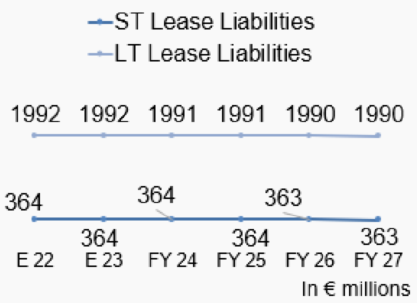
Source: Author Analysis

Figure 44 – Short Term and Long Term Borrowings



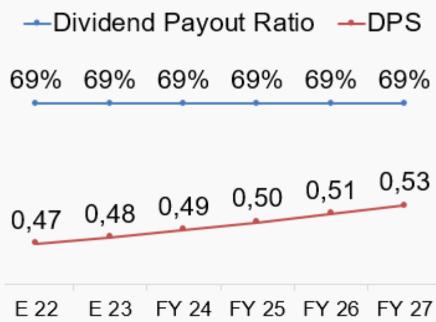
Source: Author Analysis

Figure 45 - Short Term and Long Term Lease Liabilities



Source: Author Analysis

Figure 46 – Dividend Payout Ratio and Dividend Per Share Payment Forecast



Source: Author Analysis

"if, by applying the above mentioned criteria, there is a drop in the dividend of a certain year compared to that of the previous year, and the Board of Directors considers that this decrease results from abnormal and merely circumstantial situations, it may propose that the value from the previous year should be maintained. It may even resort to the existing free reserves" …

In 2021, the company put the second rule into practice and proposed a dividend distribution of 0,288 € per share and projected another payment of dividends of 0,785 a month later.

With the half-year disclosure results in July 2022, a strong net cash position is stated, after the dividend payments of 2022. The payment of the dividends is also stated by JM as a top priority in capital allocation, and it is worth mentioning that in spite of the COVID-19 situation, in the past seven years, the dividend policy was higher than the roof stated of 50%, by three years.

That being stated, it was assumed that Jerónimo Martins would pay a constant 69 % of dividend payout ratio for its future payments, and have a steady Dividend per Share payment, that should vary from € 0,47 per share in 2022 to € 0,53 per share in 2027, as can be seen in Figure 46.

6.1.8 Terminal Growth (g)

The terminal growth (g) was computed according to Appendix 11, by multiplying the ROE for the Reinvestment Rate, where ROE is calculated as a Net Income divided by Total Equity. The reinvestment rate is equal to CAPEX minus Depreciations and Amortizations plus Working Capital, all divided by Net Operating Profit After Tax (NOPAT).

The calculation was made for each forecasted year, and to get a final value, an average was found from 2022 to 2027.

After applying the average, the final Terminal Growth Rate value ended at 1,55 %. The final value, as well as the final growth rate values calculated for each forecasted year, can be seen in Table 6.

6.2 Valuation Methods

For the valuation of the company, two main approaches were used, the absolute model and the relative valuation method.

The Absolute valuation models are used to compute the present values, which are considered fundamental in an equity valuation.

The Relative valuation models will estimate an asset value in accordance with another asset value, with similar characteristics. The peer group can be seen in Table 10.

6.2.1 Absolute Approach

The absolute approach was divided into four different methods - The Discounted Cash Flow (DCF), that was divided into two different approaches: the Free Cash Flow to the Firm (FCFF) and the Free Cash Flow to Equity (FCFE); The Adjusted Present Value (APV); The Economic Value Added (EVA), as the present value of the future Market Value Added (MVA); and the Dividend Discount Method (DDM), applied into two different models: The H-Model, based on two different growth rate expectations, for short and long-term, and a second model based on the long-term growth rate, only.

6.2.1.1 Discounted Cash Flow (DCF)

The first and most reliable method used to value the company was the DCF using the FCFF model. The method views a stock intrinsic value as the present value (PV) of its expected future free cash flows to the firm and to the equity. After estimating

Table 6 – Terminal Growth Rate (g)

Terminal Growth (g)	
E 22	2,78%
E 23	1,45%
FY 24	1,31%
FY 25	1,23%
FY 26	1,27%
FY 27	1,29%
Average	**1,55%**

Source: Author Analysis

Table 7 - DCFF Method with FCFF model

DCF - FCFF	
Enterprise value	**17154,43**
Debt	3099,19
Cash & Equivalents	1457,82
Non-controling interests	254,00
Equity value	**15259,06**
Shares outstanding	628,43
Stock price (DCF - FCFF)	24,28
Yahoo Finance 05/09/2022	22,04
Upside	10,17%

Source: Author Analysis

Table 8 - DCFF Method with FCFE model

DCF - FCFE	
Equity Value	**10225,69**
Shares	628,43
Stock price (DCF - FCFE)	16,27
Yahoo Finance 05/09/2022	22,04
Downside	-26,17%

Source: Author Analysis

Table 9 - APV Method

APV	
Equity Value	**15401,90**
Shares	628,43
Stock Price (APV)	24,51
Yahoo Finance 05/09/2022	22,04
Upside	11,20%

Source: Author Analysis

the main three main financial statements (Figures 1, 2 and 3), some assumptions were considered for the calculation of the WACC and the terminal growth rate.

First, the FCFF was computed by estimating the Enterprise Value, and afterwards, the corresponding price target for 2023. By discounting the FCFF forecast for each year and TV, by the WACC ratio, applying the necessary calculations to reach the Equity Value, and dividing it by the shares outstanding, the final price target was reached.

As shown in Table 7 and Appendix 16, the DCF method through the FCFF model, resulted in a final target price of € 24,28 per share with an upside of 10,17 %.

The final target value provided by the FCFE model is based on discounting the cost of equity. The model's final target price was € 16,27 per share, at a discount of -26,17 %, compared to the closing price of JM stock on September 5, 2022, of 22,04 as reported by Yahoo Finance.

The final recommendation from this model is a Hold since it was considered a medium risk investment company. However, the FCFE gave a sell recommendation illustrated in Table 8.

6.2.1.2 Adjusted Present Value (APV)

The APV is another method to reach a reference target price. With this model, it was discounted the interest tax shield was discounted and the Free Cash Flows at the Unlevered Cost of Capital (Ru), determining the unlevered firm value. The APV yielded a reference price of € 24,51 per share with an upside of 11,2 % (Table 17).

6.2.1.3 Economic Value Added (EVA)

The EVA approach was calculated, as seen in Appendix 18, and was discounted at the WACC ratio, where its sum through the year, led to the Market Value Added. With that value it was possible to get the Equity Value, and finally, the target price of € 21,42 per share with a downside of -2,83 % compared to the close price value, as is illustrated in Table 10.

6.2.1.4 Dividend Discount Method (DDM)

The Dividend Discount Method (DDM), as the name indicates, explores the Dividend Payments of a company as a form to get a price target. This model was applied due to the fact that Jerónimo Martins is a company that usually pay dividends to their share owners, although the payout ratio should be different every year. The approach was applied into two different models as shown in Appendix 18. The H-Model, that was based on two different growth rate expectations. For short-term (2,55 %) the terminal growth rate (g) was considered (Figure 11), and for long-term (1,55 %), the value was based on the Dividends per Share Growth (DPS) year on year from 2022 to 2027. The Normal Model, based on just the long-term growth rate (1,55%). As shown in Table 11, the target price for the first approach was of € 12,35 per share with a downside of – 43,95 %, and the target price for the second approach was of € 13,04 per share with a downside of -40,82 %, illustrated in Table 12.

The valuation based on dividends (DDM) wasn't considered reliable as the company has very irregular dividends that are highly volatile and this is likely to continue in the future due to the uncertain times that may come. The DDM valuation can be seen in Appendix 19.

6.2.2 Relative Valuation

For a market-based valuation, a group of different companies was used, as shown in Table 13. The scrutinized companies are not only from the countries where Jerónimo Martins has its operation installed, but from many other countries, that may represent the market in a bigger scope.

Table 10 - EVA Method

EVA	
Market Value Added	10665,09
Book Value of Equity	2792,79
Equity Value	**13457,88**
Shares	628,43
Stock price (EVA)	21,41
Yahoo Finance 05/09/2022	22,04
Reduce	-2,84%

Source: Author Analysis

Table 11 – Normal Model DDM

Normal Model DDM	
Equity Value	**7763,06**
Shares	628,43
Stock price (Normal DDM)	12,35
Yahoo Finance 05/09/2022	22,04
Downside	-43,95%

Source: Author Analysis

Table 12 – H-Model DDM

H-Model DDM	
Equity Value	**8197,49**
Shares	628,43
Stock price (H-Model DDM)	13,04
Yahoo Finance 05/09/2022	22,04
Downside	-40,82%

Source: Author Analysis

Table 13 - Peer Companies

Peer Companies	Country
Carrefour (CA)	France
Ahold Delhaize (AD)	BE-NL
Dino Polska (DNP)	Poland
Sonae (SON)	Portugal
Tesco (TSCO)	UK
Exito (EXITO)	Colombia
Axfood AB (AXFO)	Sweden
Colruyt NV (COLR)	Belgium
ICA Gruppen AB (ICA)	Sweden
J Sainsbury PLC (SBRY)	UK
Kesko Oyj (KESKOB)	Finland
WM Morrison (MRW)	UK

Source: Author Analysis

Almost all studied companies come from the retail (Grocery and Food) industry and are considered by Damoadaran in its company industry segmentation file. Carrefour and Exito, in accordance with the same file, come from the retail general industry.

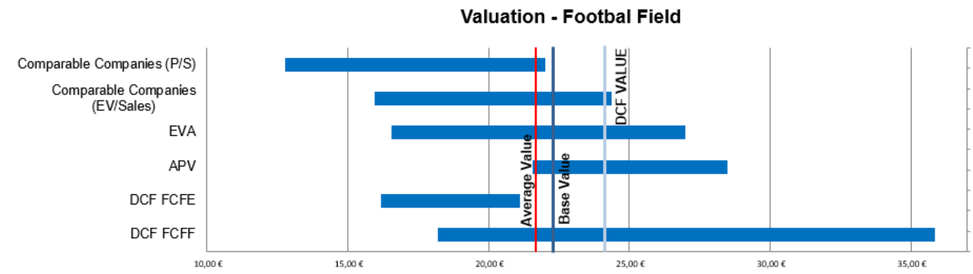
All the multiples from the comparable companies were taken from Bloomberg, and calculated, as seen in Appendix 20 to reach a specific target value. The different multiples chosen were: The Price-to-Sales multiple with a value per share of € 22,0 (Table 15). EV/Sales, that yielded a price target of € 24,36 per share (Table 16). The P/E that had a final value per share of € 14,53 (Table 17). The P/Book, that ended with a value per share of € 14,92 (Table 18). The P/CF obtained a value of € 25,68 per share (Table 19). The EV/EBITDA multiple ended with a value of € 21,37 per share (Table 20). And, finally, the EV/EBIT, that ended with a target price of € 20,21 per share (Table 21). Some averages were computed in order to produce a closer and different observation to the different price targets of the multiples.

The most relevant multiples conducted were the ones that are related to the sales of the company, which are, P/S and EV/Sales and were also the ones used to perform the Football Field Chart in Figure 47.

Table 14 shows the sales multiples average.

Besides this relative multiples, all absolute valuation models were used on the Football Field Chart, except for DDM models.

Figure 47 - Football Field Chart



Source: Author Analysis

The figure above shows the range of each multiple from minimum (Median) to maximum (Average) value of each multiple, and the target price of each valuation method with a variation of -0,5 % and 0,5 %. The average value of the price of each metric is marked with the red line, with a value of € 21,66, that means a downside value of -1,7 %, and a final recommendation of Reduce. The value given by the DCF model is shown in a soft blue line and the current price from yahoo finance with a dark blue line. With this chart, it is easy to realize that the current value and the target value from the DCF are aligned with the comparable companies sustaining the recommendation of Hold.

7. Financial Analysis

7.1 Financial Ratios

In the Financial Analysis, Liquidity, Solvency, Proftability and Efficiency ratios will be addressed, to allow for a better decision and a clearer overview of the company. The evolution of this metrics explains how well the company deals with its financial ratios for the historical period, from 2017 to 2021, and what is the expected evolution of those metrics, for the period between 2022 and 2027, as shown in Appendix 9.

7.1.1 Liquidity

Table 14 - Sales Multiples Average

EV/EBITDA	
Stock price P/Sales	22,00
EV/Sales	
Stock price EV/Sales	24,36
Sales Multiples Average	**23,18**
Yahoo Finance 05/09/2022	**22,04**
Hold	5,16%

Source: Author Analysis

Table 15 - P/Sales Multiple

P/Sales	
JMT Sales per Share	**33,24**
Shares Outstanding	628,434
Average Peers	0,66
Stock price P/Sales	**22,00**
Yahoo Finance 05/09/2022	**22,04**
Reduce	-0,19%

Source: Author Analysis

Table 16 - EV/Sales Multiple

EV/Sales	
JMT Sales F 23	20889,00
Average Peers EV/Sales	0,82
JMT EV F 22	**17201,05**
JMT Net Debt	1641,37
JMT Non-controling interests	254,00
JMT Equity	**15305,68**
Shares Outstanding	628,43
Stock price EV/Sales	**24,36**
Yahoo Finance 05/09/2022	**22,04**
Hold	10,50%

Source: Author Analysis

Table 17 - P/E Multiple

P/E	
JMT Book EPS	**0,69**
Average Peers	21,16
Stock price EV/EBITDA	**14,53**
Yahoo Finance 05/09/2022	**22,04**
Sell	-34,07%

Source: Author Analysis

With a steady increase in assets and cash in the following years from 2022 to 2027, as shown in Appendix 9, the ratios will show different fluctuations.

The Current Ratio should remain at 0,56 from the first to the last forecast year. Suppliers in this business indirectly finance retailers' new investments due to long payment term agreements. When the retailers have already sold the suppliers' inventories, the companies in the industry invest the money in new assets, as they sometimes need to pay the suppliers more than a month (depending on the contract) after receiving the inventories, thus financing their business by selling a product for which they haven't yet paid. Thus, the industry is characterized by the fact that current liabilities have a higher value than current assets, which is why WC is also negative.

Quick Ratio should maintain as well, at 0,35, since it is expected that current assets minus inventories, should follow the same variations as current liabilities for the forecasted year.

The Cash Ratio, following the forecasts, should maintain at the 0,26 value, once again due to the expected cash availability from the company, should follow the same increase, when compared to the current liabilities.

Current Ratio, Quick Ratio and Cash Ratio are illustrated in Figure 48.

Net Liquid Balance should decrease moving from -0,04 to -0,05, as opposite to Operating Cash Flow Ratio, that should slightly increase from 0,25 to 0,26, during the forecasted years. Both ratios are illustrated in Figure 49

7.1.2 Solvency

After analyzing liquidity ratios, several solvency ratios were conducted, to have a closer look on how the company will be able to meet its financial obligations.

Short term Debt to Equity is expected to decrease, from 0,25 in 2022 to 0,2 in 2027, as well as Long-term Debt to Equity, from 0,91 to 0,74, for the same respective years. The Short-Term and Long-Term Debt will be translated to an overall Debt to Equity decrease on the following years, showing that Debt will increase at a slower pace compared to Equity. It is forecasted that Debt to Equity and Debt to Capital (Debt plus Equity), will decrease from 1,16 in 2022 to 0,94 in 2027 and from 0,54 in 2022 to 0,49 in 2027, respectively. The evolution of these four metrics is illustrated in Figure 50.

The Equity Multiplier should decrease, from 4,05 to 3,61 for the forecasted years, contrarily to Debt Coverage Ratio that should increase from 0,14 to 0,15, from 2022 to 2027. The Interest coverage ratio should increase as well, since it is expected that EBIT should rise in value at a higher pace than interests. The three ratios are demonstrated in Figure 51.

As shown in Figure 52, the Net Debt to EBITDA and Debt to EBITDA ratios are may decrease in value from 1,10 in 2022 to 0,96 in 2027 and from 2,04 in 2022 to 1,90 in 2027, respectively.

In an overall approach, solvency ratios should remain strong across the coming years.

7.1.3 Profitability

In terms of profitability, key ratios were computed and analyzed, starting with EBIT.

Gross Profit Margin major impact comes from Cost of Revenues, and EBIT major impact comes from Cost of Revenues and Administrative and Distribution costs. Since those costs should grow at the same pace as Revenues, Gross Profit Margin and EBIT Margin should be stable for the forecast at 21,65 % and 3,58 %, respectively.

Table 18 - P/B Multiple

P/B	
JMT Book Value per Share	**4,44**
Average Peers	3,36
Stock price P/B	**14,92**
Yahoo Finance 05/09/2022	**22,04**
Sell	-32,31%

Source: Author Analysis

Table 19 - P/CF Multiple

P/CF	
JMT FCO per Share	**2,04**
Average Peers	12,58
Stock price P/CF	**25,68**
Yahoo Finance 05/09/2022	**22,04**
Buy	16,54%

Source: Author Analysis

Table 20 - EV/EBITDA Multiple

EV/EBITDA	
JMT EBITDA F 23	1537,41
Average Peers EV/EBITDA	9,97
JMT EV F 23	**15323,01**
JMT Net Debt	1641,37
JMT Non-controling interests	254,00
JMT Equity	**13427,64**
Shares Outstanding	628,43
Stock price EV/EBITDA	**21,37**
Yahoo Finance 05/09/2022	**22,04**
Reduce	-3,05%

Source: Author Analysis

Table 21 - EV/EBIT Multiple

EV/EBIT	
JMT EBIT F 23	784,90
Average Peers EV/EBIT	18,60
JMT EV F 23	**14597,15**
JMT Net Debt	1641,37
JMT Non-controling interests	254,00
JMT Equity	**12701,78**
Shares Outstanding	628,43
Stock price EV/EBIT	**20,21**
Yahoo Finance 05/09/2022	**22,04**
Sell	-8,29%

Source: Author Analysis

Since it is predicted that D&A will grow at a slow pace, EBITDA should grow at a slow pace as well. With Revenues increasing at higher value, than EBITDA, EBITDA Margin will decrease to the expected value of 6,96 % in 2027, from the 7,01 % value in 2022.

Given an unusual year of armed conflict in Europe and sanctions against Russia, a crisis looms, causing the projected net profit margin to drop slightly from 2021 to 2022, as seen in Appendix 9. However, the margin is expected to increase from 2022 to 2027, from 1,96% to 2,00%.

GPM, EBIT Margin, EBITDA Margin and Net Profit Margin forecasts can be seen in Figure 53.

Applied to the shareholder's equity, the ROE was calculated to better understand the return generated, by management, from the availability of equity. The company experienced a significant decline in its metrics from 2019 to 2020, primarily due to a decrease in Net Income, explained by the impact of the COVID-19 pandemic on the business. With a crisis in our day-to-day live's, the ROE forecast is intended to decrease once more in 2022. Despite the consistent decrease for the forecasted years, the ratio is still strong, remaining around 15%.

ROA should decrease from 2021 4,47 % value to 3,91 % in 2022, as shown in Appendix 9, but should increase after that, until 2027 to 3,95 %, showing an improvement by the company, on the generation of profit from their assets, but still not reaching to the 2021 value.

Historically, Jerónimo Martins has a good ROIC, that should be maintained on the coming years from 2022 to 2027, increasing from 10,7 % in 2022 to 10,9 % in 2027. It is also worth mentioning that for all the years, the estimated ROIC is higher than the WACC ratio, meaning that the company's investments are creating value. Figure 54 shows both ROIC and WACC forecast.

ROCE will show how good a company is using its capital to generate profits. The ratio should be maintained at around 14%, moving from 14,59 % in 2022 to 14,16 % in 2027.

Figure 55 illustrates the different fluctuations of the other profitability indicators shown in Appendix 9, such as ROE, ROA, ROIC and ROCE, over the forecasted period.

7.1.4 Efficiency

For a better understanding of the company's efficiency, further key ratios were calculated.

Inventory Turnover, Receivables Turnover and Payables Turnover remained constant for every month, finishing with the values of 43,6, 14,7 and 4,1, respectively, as can be seen in Figure 56.

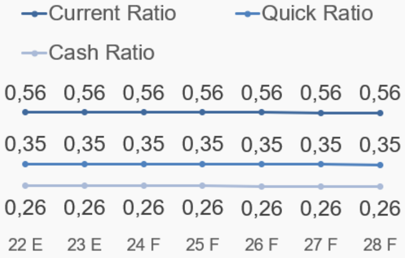
The Fixed Assets Turnover should increase for the forecasted period, from 3,39 % to 3,43 %, contrarily to Total Asset Turnover, that should decrease from 2 % in 2022 to 1,98 % in 2027. Regardless of the slight decrease, the ratio remains strong and is expected a strong generating sale from assets.

Working Capital Turnover should remain constant, following the historical growth trend, and ended up with 6,81 % for the forecasted years, as illustrated in Figure 64.

DIO, DSO and DPO are expected to maintain across, since that it was assumed that it is a mature market, lacking a lot of possibilities to increase pay days or decrease receivables. Since DPO will be higher than Operating Cycle, the CCC forecast should remain at -55,1 days, the negative value of the ratio is an important and common characteristic of this industry, meaning that companies have a more days

Figure 48 – Liquidity Ratios

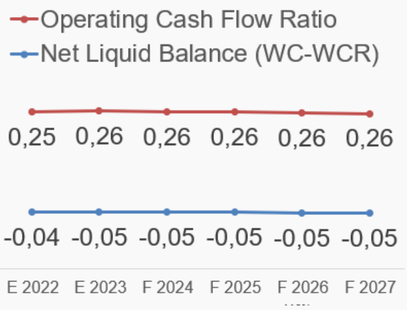
Current, Quick and Cash



Source: Author Analysis

Figure 49 – Liquidity Ratios

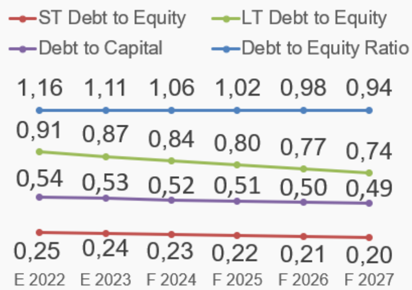
Operating Cash Flow Ratio and Net Liquid Balance (WC-WCR)



Source: Author Analysis

Figure 50 – Solvency Ratios

ST and LT Debt Ratios and Debt to Equity Ratio and Debt to Capital



Source: Author Analysis

to pay for their assets, than for their days for selling inventories and receive the money for their assets. The variations of these metrics for the forecasted years can be seen in Appendix 9 and in Figure 57.

8. Investment Risks

8.1 Risk Matrix

To measure the risks that may jeopardize or threaten the investment recommendation, a risk matrix was used, as shown in Table 22, promoting, in this way, the rank of risk by its probability of happening and impact in the company (low, medium, or high).

Different types of risks were considered, such as financial risks, like interest rates, and operational risks, for example, environmental risks and supply chain risks.

An event that is happening nowadays, is the military conflict we are living through. The conflict between Ukraine and Russia led to multiple events and relates to other risks presented on the Table, like the increase of interest rates due to the rise of inflation, energy prices, and lack of goods or the substantial rise on prices.

8.1.1 Operational Risk

8.1.1.2 Food Quality (OR1)

Food quality is the core of Jerónimo Martins' business and may be endangered if sanitation and quality regulations are not tightly implemented.

During the last years, the company has been improving its internal audits and its follow-up audits, showing its high investments concerning food safety and quality, as seen in Figure 60. One of the investments in this field was the opening of own laboratory to track food DNA and follow percentages of different monosaccharides, minerals, vitamins, and many other components of their products. The impact was considered medium/high, and the probability of a challenging episode is low, since the company already has a well stabilized procedure and knowledge in the matter.

8.1.1.3 Supply Chain (OR2)

The Supply Chain is one of the key procedures for a good operation in the food retail industry. The efficiency of transportation from distribution centers to the stores must be as high as possible to account for fewer costs, even more nowadays when fuel costs are very volatile and may be increase with the armed conflict and the sanctions environment that we are experiencing.

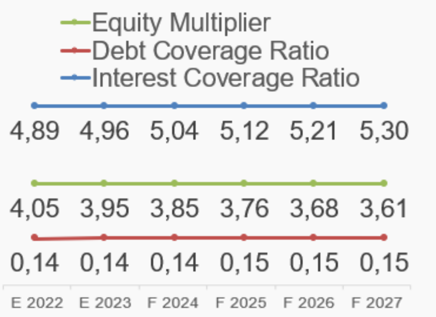
Another issue that concerns supply chain is the number of strikes that happen, mainly of truck drivers. Jerónimo Martins is exposed to this problem in the countries where it operates, but also from other locations where different products are bought and transported. Countries like Spain, Greece, and Turkey are examples where the company is exposed to the problem.

The impact of supply chain issues is considered medium, and the probability of severe problems is low, since when an increase of costs happens or when strikes are scheduled, the whole market would be exposed to the same problems.

8.1.1.4 Brand Reputation (OR3)

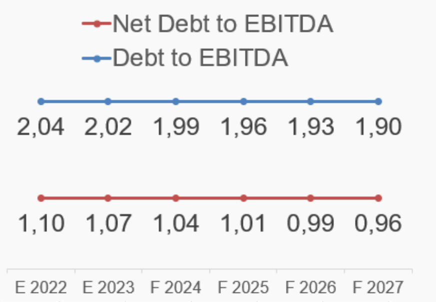
Big companies with outstanding revenues in Portugal are rare, and those ones, are exposed to a lot of scrutiny, which is increasing over time. For any company, it may take years to build a good reputation among consumers and society, but it is very easy to demolish it quickly. Different events may cause a negative impact on food

Figure 51 -Solvency Ratios
Equity Multiplier, Debt Coverage, and Interest Coverage



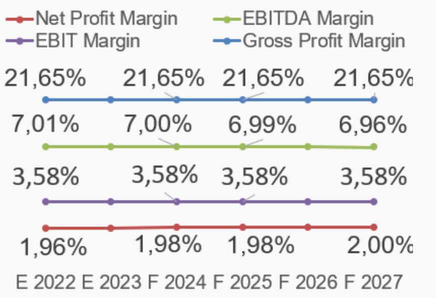
Source: Author Analysis

Figure 52 – Solvency Ratios
Net Debt and Debt to EBITDA



Source: Author Analysis

Figure 53 – Profitability Ratios
Margins



Source: Author Analysis

retail brands, food quality exposure, the hygiene of stores, customer service, to name just a few.

There are also many other occasions in which the brands may invest in their pursue for a better and more positive brand reputation, like philanthropic and environmental donations as an example. In the past, the company has done different donations that are increasing year-over-year, has shown in the Figure 61. Two recent donations made were: The reforestation of the Açor mountain range, with a total value of € 5 million. And another € 5 million donation to help the humanitarian aid in Poland for Ukrainian refugees. The impact was considered high, and the probability of happening is low, since the company is very well-stabilized, and every year tries to donate and help communities to develop in a financial or social way.

8.1.1.5 Operational Risk I Information Management (OR4)

Digital times bring advantages and disadvantages. One of the main drawbacks is the proliferation of data. Important data should be well kept and secured, because if, for example, financial data about the company are leaked to the public, it would cause problems that could worry shareholders, as this information could affect the target price of the company if no publication of results is planned. Information management can also cause other problems such as blocking the accessibility of online orders, as in the cyber-attack on Sonae, where consumers could not shop online. According to Embroker (2022), cyber-atacks cost $ 3 trillion in 2015, and should increase to $ 10,5 trillion in 2025, as illustrated by Figure 58. This is a risk with a high impact on the company, but with a medium probability of happening.

8.1.1.6 Operational Risk I Environment (OR5)

Environmental issues are a problem that is extensively discussed nowadays. These matters should be improved for the good health of our planet, ourselves, as well as of our food products. On a year-to-year basis more heat waves have been happening, causing wildfires, and droughts, these events mean more problems for agriculture and the production of raw materials. With COP26[4], countries aiming to 2050 as the year that greenhouse gas emissions will go to 0, this will be a major problem for the upcoming years. The risk has a medium/high probability to happen with medium/high impact.

8.1.2 Legal and Regulatory Risk

8.1.1.1 Legal Risk (LR1)

Legal issues may concern some industries more than others, and the regulation of the retail food industry is tight. Jerónimo Martins has already paid fines in the past and is currently on a legal trial in Poland. Due to some accusations of misleading consumer campaigns, the company may have to pay up to € 1,5 million. Even considering this outstanding value, it is probable that even if the court makes the company pay for it, it may not be that high. One of the biggest fines applied to the company was € 13,2 million, which is still very high, but did not put the operation at risk at any moment. The impact is considered low, and the probability of an issue in the legal and regulatory matter is medium.

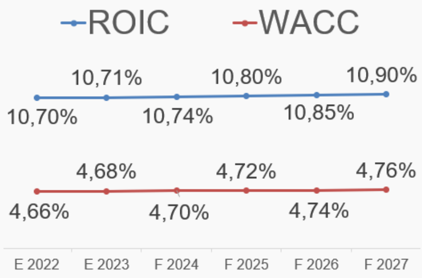
8.1.3 Financial Risk

8.1.3.1 Credit Risk (FR1)

Credit Risk is exposed on bank deposits, short-term investments and derivatives, this leads to a rating, given from different independent rating agencies.

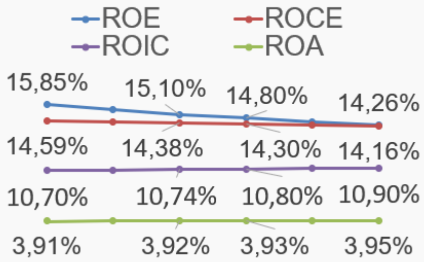
From an operation point of view, credit is conceded to customers in Recheio, the cash and carry in Portugal, and some stores of Ara in Colombia. The risk of a sale

Figure 54 – ROIC and WACC comparison



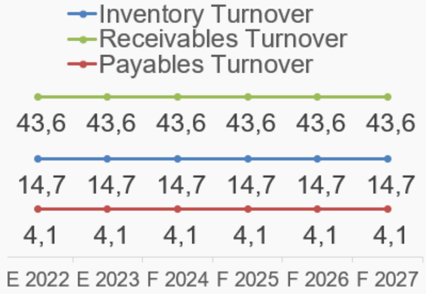
Source: Author Analysis

Figure 55 - Profitability Ratios ROE, ROIC, ROCE and ROA



Source: Author Analysis

Figure 56 – Efficiency Ratios Inventory, Receivables, and Payables Turnover



Source: Author Analysis

not being paid is very low, mainly due to a lot of strategies the company implements to mitigate the risk, through credit limits and insurance based on the experience and type of customer. With the recent crisis, credit may need to be adjusted, since, in general, customers will have more financing problems, but the probability of a real happening is still low, and with a low impact.

8.1.3.2 Dividend Policy (FR2)

The Dividend Payout Policy may vary and has been varying throughout the years. In times of crisis dividend payouts tend to fall, and Jerónimo Martins may pay less dividends if this crisis continues. Despite this, you should keep paying, dividend yields more similar from 2019 to 2022. The considered impact of this risk is medium and has a medium probability.

8.1.3.3 Exchange Rate (FR3)

Since Jerónimo Martins is settled in three different countries, and they all have their own currency, foreign exchange should be taken into account when changing one currency for another, not only during the operation, but also in reservations of currencies, and payments to exporters. With the price of Euro, Colombian Peso and Polish Zloty's volatility, this may bring some complexity to decrease the impact of this fluctuations. The risk impact was considered medium, but it is still very probable that this volatility may continue to exist, ending with a high probability in the risk matrix.

8.1.3.4 Interest Rates (FR4)

Interest Rates are a risk that must be closely taken into account. Inflation is rising, and many financial institutions do not know when the market may be more stable than it is at the moment we live currently. Interest rates may work as a problem solver to the increase of inflation as already seen in history and have risen significantly in the past months. With rising interest rates, many consumers will be affected, leading to fewer purchases of durable goods since they will pay more interest rates, slowing down the economy. Those who still want to borrow money will pay high interest rates, which will be reflected in their finances. This risk has a high probability and a medium/high impact.

8.1.4 Economic Risk

8.1.4.1 Taxation (ER1)

Taxation is also a problem that should be taken into consideration in times of crisis and uncertainty. Despite the inflation and price increases, taxes are decreasing in Poland for example, since the government is trying to put less pressure on the population and help consumers to deal better with the consequences brought from the military consequences currently existing. The impact of taxes has a medium risk and has a medium probability.

8.1.4.2 New Players (ER2)

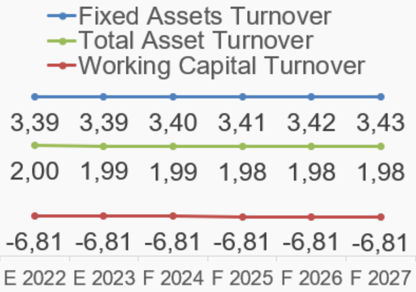
Although the food retail is a very mature industry, competition is still a risk that should be taken into consideration.

With not a lot of ways to increase in market share, the solutions include expanding to other countries or regions in the same country, either with merger and acquisition deals making this expansion faster, or through organic growth, that may take a slower pace to develop.

One important example in Portugal is Mercadona, a well-known company originally from Spain, that leads its original country market. With the entry of Mercadona in the Portuguese market, the food retail industry may change in the upcoming years since

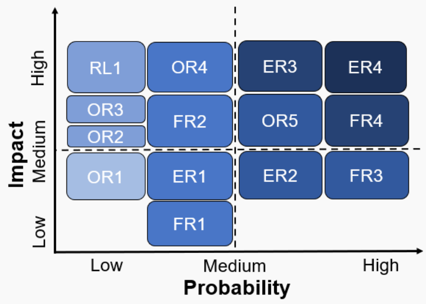
Figure 57 – Efficiency Ratios

Fixed Assets Turnover, Total Asset Turnover and WC Turnover



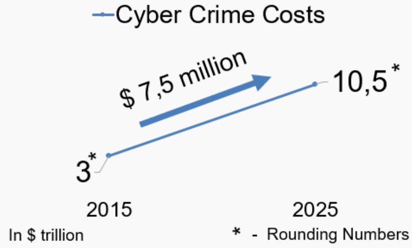
Source: Author Analysis

Table 22 - Risk Matrix



Source: Author Analysis

Figure 58 – Cyber Crime Costs from 2015 to 2025



Source: Embroker Analysis (2022), Author it is a very strong retailer, with a good position and knowledge of the industry. The company deals with many other strong competitors, present in the other countries where it operates, like Sonae, Lidl, Exito and Dino Market. This risk is considered a medium probability to happen with a medium impact on the industry if investments of big international companies maintain.

8.1.4.3 Energy Risk (ER3)

Energy costs are among the main costs a food retail company have**.**

Since transportation of goods is part the core of the business of Jerónimo Martins a lot of energy is used to maintain a store: refrigerator, freezers, ovens, among others. Therefore, increases on electricity price and fuel will increase costs significantly on Jerónimo Martins. Efficiency tactics should be implemented in a large scale to reduce this important cost as much as possible, even more because that is due to rise in the upcoming months, potentially having a big impact. The risk has a medium/high probability to happen with high impact.

8.1.4.4 Military Conflict Risk (ER4)

Russia attacked Ukraine in late February and, since then, the economy has been slowing, with outstanding levels of volatility versus last year, mainly on inflation. This has influenced all the economy through rising interest rates.

Shortages of multiple raw materials, mainly cereals, sunflower oil and many others has also been seen across the last months. Ukraine and Russia represent nearly 30% of wheat exports and 60% of sunflower oil in the world, being easy to understand that without these exports there will be supply and demand problems, since it is difficult for demand to decline at the same rate as meaning an increase in prices.

Not to mention that, by increasing the price of products like wheat, barley, and corn, that previously came from those countries, will lead to the increase of prices of multiple essential goods by direct influence or indirect influence.

On the other hand, countries like Argentina are closing borders on the exports of different goods so that they may avoid scarcity, keeping their potential exports in the country for their population consumption.

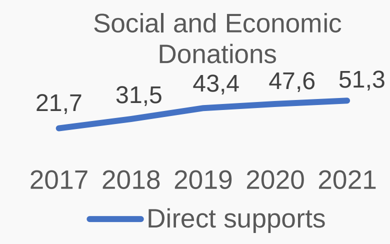
8.2 Sensitivity Analysis

In this study, Sensitivity Analysis was used to better assess and understand the fluctuations of certain inputs on the company's Enterprise Value and final price target.

Two relevant variables were used for the calculation of this analysis, the WACC and the terminal growth rate.

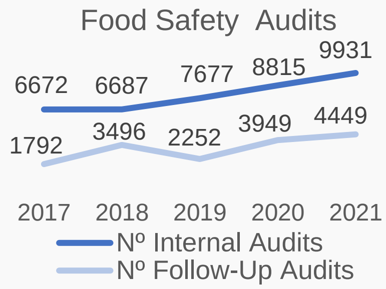
After computing the DCF method and applying variation of 0,1% on each variable (Table 23), it was computed the final target value and the Enterprise Value for each variation, as we can see in the Table 24 and Table 25. In the best-case scenario a target price of € 35,86 and enterprise value of € 24.433 million can be seen. In the

Figure 59 - Direct Donations



Source: JM Website, Author

Figure 60 - Food Safety Audits



Source: JM Website, Author

worst-case scenario can be seen a target price of € 18,18 and an enterprise value € 13.321 million.

Table 23 - WACC Variation

ΔWACC	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028
-0,10%	4,20%	4,22%	4,24%	4,26%	4,27%
-0,10%	4,30%	4,32%	4,34%	4,36%	4,37%
-0,10%	4,40%	4,42%	4,44%	4,46%	4,47%
-0,10%	4,50%	4,52%	4,54%	4,56%	4,57%
-0,10%	4,60%	4,62%	4,64%	4,66%	4,67%
Base Case	4,70%	4,72%	4,74%	4,76%	4,77%
0,10%	4,80%	4,82%	4,84%	4,86%	4,87%
0,10%	4,90%	4,92%	4,94%	4,96%	4,97%
0,10%	5,00%	5,02%	5,04%	5,06%	5,07%
0,10%	5,10%	5,12%	5,14%	5,16%	5,17%
0,10%	5,20%	5,22%	5,24%	5,26%	5,27%

Source: Author Analysis

Table 24 - Stock Price vs WACC and Terminal Growth Rate

Price Target		WACC										
24,28							Base Case					
	2,05%	35,86	34,19	32,65	31,23	29,93	28,72	27,59	26,54	25,56	24,65	23,79
	1,95%	34,32	32,78	31,36	30,05	28,83	27,70	26,65	25,67	24,75	23,89	23,08
	1,85%	32,91	31,49	30,17	28,95	27,82	26,76	25,77	24,85	23,98	23,17	22,40
	1,75%	31,62	30,29	29,07	27,93	26,87	25,88	24,95	24,08	23,27	22,50	21,77
	1,65%	30,42	29,19	28,04	26,98	25,98	25,05	24,18	23,36	22,59	21,86	21,17
g	1,55%	29,31	28,16	27,09	26,09	25,16	24,28	23,46	22,68	21,95	21,26	20,61
	1,45%	28,27	27,20	26,20	25,26	24,38	23,55	22,78	22,04	21,35	20,69	20,07
	1,35%	27,31	26,31	25,36	24,48	23,65	22,87	22,13	21,44	20,78	20,15	19,56
	1,25%	26,41	25,47	24,58	23,75	22,96	22,23	21,53	20,87	20,24	19,64	19,08
	1,15%	25,57	24,68	23,85	23,06	22,32	21,62	20,95	20,32	19,73	19,16	18,62
	1,05%	24,78	23,95	23,15	22,41	21,71	21,04	20,41	19,81	19,24	18,70	18,18

Source: Author Analysis

Table 25 - Enterprise Value vs WACC and Terminal Growth Rate

EV		WACC										
17154,43							Base Case					
	2,05%	24432,5	23379,4	22413,3	21523,9	20702,4	19941,4	19234,3	18575,6	17960,6	17385,0	16845,2
	1,95%	23466,2	22496,4	21603,5	20778,8	20014,7	19304,9	18643,7	18026,2	17448,4	16906,5	16397,2
	1,85%	22579,8	21683,5	20855,5	20088,5	19375,8	18712,0	18092,2	17512,1	16968,0	16456,8	15975,4
	1,75%	21763,8	20932,6	20162,5	19447,1	18780,7	18158,4	17576,1	17029,9	16516,6	16033,3	15577,5
	1,65%	21010,1	20237,0	19518,7	18849,7	18225,0	17640,3	17092,0	16576,7	16091,6	15634,0	15201,7
g	1,55%	20311,8	19590,7	18919,0	18291,9	17704,9	17154,4	16637,1	16150,1	15690,7	15256,7	14846,0
	1,45%	19663,0	18988,7	18359,1	17769,8	17217,1	16697,8	16208,8	15747,7	15312,0	14899,7	14509,0
	1,35%	19058,7	18426,6	17835,0	17280,2	16758,8	16267,9	15804,9	15367,5	14953,6	14561,4	14189,2
	1,25%	18494,4	17900,5	17343,5	16820,0	16327,2	15862,4	15423,3	15007,8	14614,0	14240,3	13885,3
	1,15%	17966,3	17407,1	16881,6	16386,8	15920,2	15479,3	15062,2	14666,9	14291,7	13935,3	13596,1
	1,05%	17471,0	16943,4	16446,7	15978,2	15535,6	15116,8	14720,0	14343,4	13985,5	13645,0	13320,7

Source: Author Analysis

8.3 Scenario Analysis

Scenario analysis allows the study of possible outcomes for different events. In this way, investors can understand the impact of different variables and be better prepared when a scenario occurs.

Two scenarios were created in the scenario analysis, the Optimistic Scenario and the Pessimistic Scenario, that can be seen in the Figure 61.

For both scenarios the variable chosen was the sales and a 1 % variation was implemented, to create a price target to compare with. The price target was reached with the DCF model, already performed for the valuation.

The Pessimistic Scenario ended with a value of € 22,42 as the price target and with a downside of 1,72 %, its final recommendation would be Hold.

The Optimistic Scenario ended with a value of € 26,36, with an upside of 19,62 %, the final recommendation would be Buy.

Figure 61 – Scenario Analysis

Scenario Analysis	Pessimistic	Base	Optimistic
Sales Variation	-1%	**0,0%**	1%
Price Target	22,42	**24,28**	26,36
Upside / Downside	1,72%	**10,17%**	19,62%

Source: Author Analysis

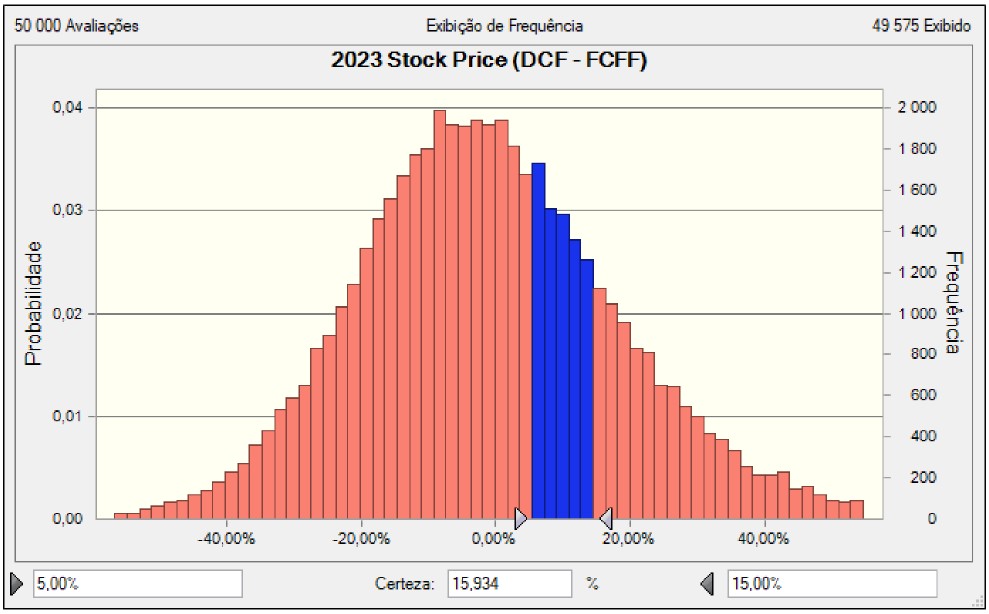
8.4 Monte Carlo

Another methodology which was applied in this study was the Monte Carlo Method, which was used to estimate the possible results of an uncertain event. This method will help explain the effects of risk and uncertainty in the forecasting method.

With the Oracle Crystall Ball spreadsheet application, multiple assumptions were taken into consideration with different standard deviations and the means calculated. In the end of the analysis there was a 16 % probability that the estimated stock price finalizes with a Hold recommendation, and 36 % finalizes with a Hold or Reduce recommendation market price. As it can observed in Figures 62 and 63, respectively.

As shown in Table 26, the simulation was conducted with 50.000 trials. The assumptions used through the simulation, were: The Risk-Free Rate; The Levered Beta; The Country Risk Premium; the Market Risk Premium; And the Terminal Growth Rate. Through this analysis, it was possible to conclude that the DCF model through the FCFF method is supported, since Monte Carlo gave a very significant percentage of downside and upside, leading to a final Reduce or Hold recommendation.

Figure 62 – Monte Carlo highlighting the Hold Recommendation



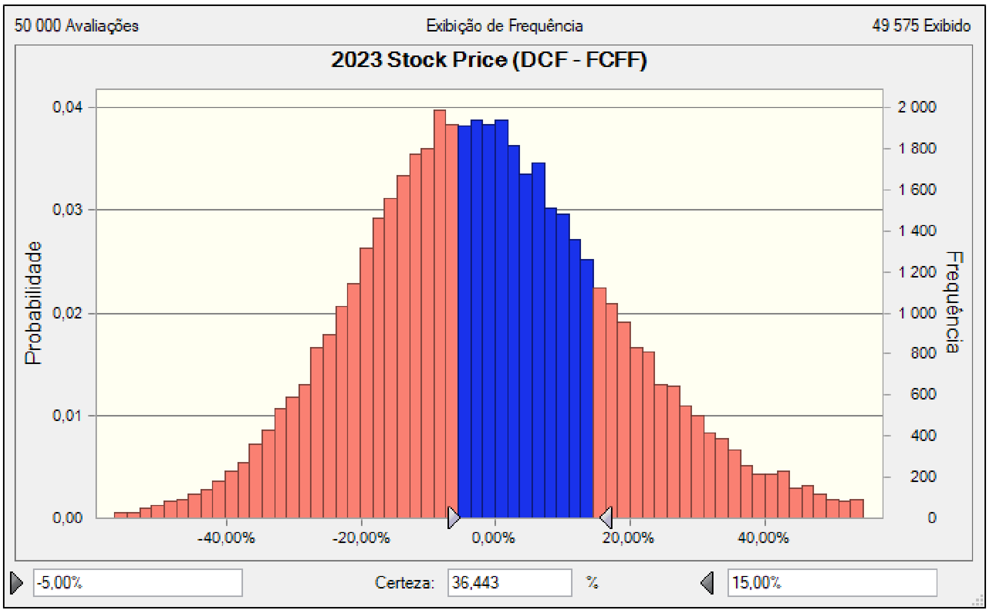
Source: Oracle Crystal Ball, Author

Table 26 – Monte Carlo Simulation

Forecast: Stock price (DCF - FCFF)	
Statistic	**Forecast values**
Trials	50 000
Base Case	**10,17%**
Mean	-1,05%
Median	-2,11%
Standard Deviation	19,88%
Variance	3,95%
10%	-25,19%
90%	24,73%
Minimum	-84,21%
Maximum	105,26%

Source: Oracle Crystal Ball, Author

Figure 63 - Monte Carlo highlighting the Hold and Reduce Recommendation



Source: Oracle Crystal Ball, Author

Appendices

Appendix 1: Income Statement

Income Statement In Millions of EUR	Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028	CAGR
Revenue	**16 276,2**	**17 336,7**	**18 638,2**	**19 293,5**	**20 889,0**	**21 538,3**	**21 938,7**	**22 387,5**	**22 881,4**	**23 388,8**	**23 909,9**	**24 445,3**	**1,95%**
Biedronka	11 075,0	11 691,0	12 620,5	13 465,0	14 542,0	14 990,0	15 278,7	15 615,8	16 010,5	16 415,3	16 830,2	17 255,7	**2,11%**
Pingo Doce	3 667,0	3 835,0	3 945,0	3 869,0	4 046,0	4 142,1	4 186,9	4 223,3	4 247,9	4 272,7	4 297,6	4 322,7	**0,87%**
Recheio	942,0	980,0	1 007,1	847,0	906,0	927,2	936,9	944,7	949,8	955,0	960,2	965,5	**0,83%**
Ara	405,0	599,0	783,9	854,0	1 102,0	1 174,5	1 227,9	1 290,7	1 354,3	1 421,0	1 491,1	1 564,5	**4,41%**
Hebe	166,0	207,0	259,0	245,0	278,0	285,0	288,9	293,6	299,4	305,3	311,3	317,4	**1,63%**
Other & Consolidation Adjustments	21,2	24,7	22,7	13,5	15,0	19,4	19,4	19,4	19,4	19,4	19,4	19,4	**3,76%**
Cost of Revenue	12 817,9	13 576,8	14 562,7	15 066,8	16 392,0	16 875,8	17 189,6	17 541,2	17 928,2	18 325,7	18 734,0	19 153,5	**1,93%**
Gross Profit	**3 458,3**	**3 759,9**	**4 075,5**	**4 226,7**	**4 497,0**	**4 662,5**	**4 749,1**	**4 846,3**	**4 953,2**	**5 063,0**	**5 175,9**	**5 291,8**	**2,03%**
Operating Expenses	2 881,1	3 173,2	3 369,5	3 587,8	3 691,0	3 891,9	3 964,2	4 045,3	4 134,6	4 226,3	4 320,4	4 417,2	**2,27%**
Distribution Costs	2 606,0	2 874,5	3 031,3	3 203,1	3 306,0	3 501,4	3 566,5	3 639,5	3 719,8	3 802,3	3 887,0	3 974,0	**2,34%**
General & Administrative	261,1	289,3	322,3	334,5	351,0	362,5	369,3	376,8	385,2	393,7	402,5	411,5	**1,97%**
Other Operating Expense	13,9	9,4	15,8	50,3	34,0	27,9	28,4	29,0	29,7	30,3	31,0	31,7	**-1,31%**
EBIT - Operating Income (Loss)	**577,2**	**586,7**	**706,0**	**638,9**	**806,0**	**770,6**	**784,9**	**801,0**	**818,6**	**836,8**	**855,4**	**874,6**	**0,85%**
Interest Expense, Net	11,6	19,6	155,5	146,1	17,0	157,6	158,3	159,0	159,8	160,7	161,6	162,4	**37,94%**
Other Non-Op (Income) Loss	4,7	6,5	3,8	4,6	134,0	4,9	4,9	4,9	4,9	4,9	4,9	4,9	**-37,70%**
EBT - Pretax Income	**564,8**	**561,8**	**549,2**	**458,7**	**652,0**	**603,0**	**616,7**	**632,0**	**648,8**	**666,1**	**683,9**	**702,2**	**0,69%**
Income Tax Expense (Benefit)	152,2	131,9	128,5	135,9	168,0	155,9	159,4	163,3	167,7	172,2	176,8	181,5	**0,73%**
Profit before non-controlling interests	**412,6**	**429,9**	**420,8**	**322,7**	**484,0**	**447,2**	**457,3**	**468,6**	**481,1**	**494,0**	**507,2**	**520,7**	**0,67%**
Minority Interest	27,2	28,8	30,9	10,6	21,0	25,3	25,9	26,5	27,2	27,9	28,7	29,4	**4,55%**
Net Income, GAAP	385,4	401,0	389,9	312,1	463,0	421,9	431,4	442,2	453,9	466,0	478,5	491,3	**0,47%**
Depreciation	**330,9**	**363,7**	**715,4**	**733,8**	**745,0**	**739,4**	**752,5**	**765,9**	**779,9**	**794,5**	**809,7**	**825,6**	**1,20%**
EBITDA	**908,1**	**950,5**	**1421,4**	**1372,7**	**1551,0**	**1510,0**	**1537,4**	**1566,9**	**1598,5**	**1631,2**	**1665,1**	**1700,1**	**1,02%**
Shares Outstanding (million)	**628,4**	**628,4**	**628,4**	**628,4**	**628,4**	**628,4**	**628,4**	**628,4**	**628,4**	**628,4**	**628,4**	**628,4**	**0,00%**
Basic and diluted EPS	**0,61**	**0,64**	**0,62**	**0,50**	**0,74**	**0,67**	**0,69**	**0,70**	**0,72**	**0,74**	**0,76**	**0,78**	**0,47%**
DPS	**0,61**	**0,32**	**0,21**	**0,29**	**0,79**	**0,47**	**0,48**	**0,49**	**0,50**	**0,51**	**0,53**	**0,54**	**-5,49%**
Dividend (m€)	**380,2**	**201,1**	**132,0**	**181,0**	**493,3**	**292,9**	**299,6**	**307,0**	**315,2**	**323,6**	**332,3**	**341,1**	**-5,49%**
Payout	**99%**	**50%**	**34%**	**58%**	**107%**	**69%**	**69%**	**69%**	**69%**	**69%**	**69%**	**69%**	**-6%**

Appendix 2: Cash Flow – Forecast

Cash Flow Statement In Millions of EUR	Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028
Operating Activities												
EBIT						770,57	784,90	801,16	818,79	836,89	855,50	874,61
D&A						739,40	752,51	765,93	779,89	794,50	809,75	825,62
Income Tax						155,86	159,39	163,40	167,74	172,20	176,79	181,50
Variation NWC						-10,48	-58,82	-66,74	-72,38	-74,34	-76,37	-78,46
CF from Operating						1364,60	1436,84	1470,43	1503,31	1533,54	1564,83	1597,19
Investment Activities												
CapEx						-850,00	-865,80	-883,74	-903,18	-923,16	-943,68	-964,76
Other LT Assets						-339,48	-66,98	-76,00	-82,42	-84,66	-86,97	-89,35
CF from Investing						-1189,48	-932,78	-959,73	-985,60	-1007,82	-1030,65	-1054,11
Financing Activities												
Interestes Paid						-157,61	-158,27	-159,02	-159,84	-160,69	-161,56	-162,45
Dividend Paid						-292,95	-299,59	-307,12	-315,28	-323,67	-332,28	-341,14
Debt Variation						301,25	12,94	14,77	16,07	16,53	16,99	17,48
Other ST and LT liabililities						-54,31	4,20	4,76	5,16	5,30	5,45	5,60
Other Financial Differences						-35,23	-35,80	-36,45	-37,15	-37,88	-38,62	-39,39
Cash Flow from financing activities						-238,84	-476,52	-483,06	-491,05	-500,41	-510,02	-519,90
Cash Flow						-63,72	27,54	27,64	26,67	25,31	24,16	23,19
Begining						1494,00	1430,28	1457,82	1485,46	1512,13	1537,44	1561,60
End						1430,28	1457,82	1485,46	1512,13	1537,44	1561,60	1584,79

Appendix 3: Balance Sheet

Balance Sheet In Millions of EUR	Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028	CAGR
+ Cash, Cash Equivalents & STI	681,3	546,0	929,3	1 041,4	1 494,0	1 430,3	1 457,8	1 485,5	1 512,3	1 537,7	1 561,9	1 585,1	**0,64%**
+ Accounts & Notes Receiv	388,8	434,3	424,0	423,3	503,0	493,7	502,9	513,2	524,5	536,1	548,1	560,3	**1,23%**
+ Inventories	847,1	974,4	1 044,2	978,7	1 115,0	1 149,6	1 171,0	1 195,0	1 221,3	1 248,4	1 276,2	1 304,8	**1,95%**
Total Current Assets	**1 921,6**	**1 961,2**	**2 409,7**	**2 434,2**	**3 112,0**	**3 073,6**	**3 131,7**	**3 193,6**	**3 258,1**	**3 322,2**	**3 386,2**	**3 450,2**	**1,21%**
+ Right Use	1,0	0,0	2 334,9	2 166,6	2 247,0	2 477,9	2 524,0	2 575,6	2 632,4	2 690,8	2 750,8	2 812,4	**2,93%**
+ Property, Plant & Equip, Net	3 474,8	3 687,1	3 969,9	3 817,3	3 993,0	4 103,6	4 216,9	4 334,5	4 457,6	4 586,2	4 720,1	4 859,2	**2,42%**
+ LT Investments & Receivables	11,0	96,4	95,3	78,9	65,0	88,4	90,1	91,9	93,9	96,0	98,1	100,3	**6,06%**
+ Other LT Assets	920,3	915,3	942,0	931,0	951,0	1 036,2	1 055,4	1 077,0	1 100,8	1 125,2	1 150,3	1 176,0	**2,75%**
Total Noncurrent Assets	**4 520,2**	**4 698,8**	**7 342,2**	**6 993,7**	**7 256,0**	**7 706,1**	**7 886,3**	**8 079,0**	**8 284,7**	**8 498,2**	**8 719,2**	**8 948,0**	**2,66%**
Total Assets	**6 441,8**	**6 659,9**	**9 751,9**	**9 427,9**	**10 368,0**	**10 779,7**	**11 018,0**	**11 272,6**	**11 542,9**	**11 820,4**	**12 105,4**	**12 398,2**	**2,24%**
+ Payables & Accruals	3 720,4	3 836,2	4 234,3	4 204,0	4 771,0	4 806,8	4 896,2	4 996,3	5 106,6	5 219,8	5 336,1	5 455,6	**1,61%**
+ Accounts Payable and accruals	3 569,4	3 622,6	3 621,5	3 719,0	3 803,2	4 086,0	4 162,0	4 247,1	4 340,8	4 437,1	4 535,9	4 637,5	**2,55%**
+ Accrued Taxes	151,0	155,8	172,9	165,9	135,0	174,7	178,0	181,6	185,6	189,8	194,0	198,3	**5,32%**
+ Other Payables & Accruals	354,2	407,4	406,3	503,8	588,0	546,0	556,2	567,6	580,1	593,0	606,2	619,7	**0,44%**
+ ST Debt	299,5	299,5	808,7	536,4	445,0	654,1	659,4	665,3	671,9	678,6	685,5	692,6	**6,37%**
+ ST Borrowings	297,5	297,5	423,7	159,7	113,0	290,2	295,6	301,7	308,3	315,2	322,2	329,4	**16,15%**
+ ST Lease Liabilities	2,0	2,0	385,0	376,7	332,0	363,8	363,7	363,6	363,5	363,4	363,3	363,2	**1,30%**
+ Other ST Liabilities	2,8	51,5	3,1	0,4	109,0	38,8	39,5	40,3	41,2	42,1	43,1	44,0	**-12,42%**
Total Current Liabilities	**4 022,7**	**4 187,2**	**5 046,0**	**4 740,9**	**5 325,0**	**5 499,7**	**5 595,0**	**5 702,0**	**5 819,6**	**5 940,5**	**6 064,7**	**6 192,3**	**1,88%**
+ LT Debt	237,8	288,4	2 308,1	2 260,3	2 340,0	2 432,2	2 439,8	2 448,5	2 458,0	2 467,8	2 478,0	2 488,4	**0,82%**
+ LT Borrowings	231,5	277,5	308,8	363,8	347,0	439,7	447,9	457,1	467,1	477,5	488,1	499,1	**5,00%**
+ LT Lease Liabilities	6,3	10,9	1 999,3	1 896,5	1 993,0	1 992,5	1 991,9	1 991,4	1 990,9	1 990,3	1 989,8	1 989,3	**-0,02%**
+ Other LT Liabilities	168,1	168,1	168,9	169,5	171,0	186,9	190,4	194,3	198,6	203,0	207,5	212,1	**2,80%**
Total Noncurrent Liabilities	**405,9**	**456,5**	**2 476,9**	**2 429,8**	**2 511,0**	**2 619,1**	**2 630,2**	**2 642,7**	**2 656,6**	**2 670,8**	**2 685,4**	**2 700,5**	**0,96%**
Total Liabilities	**4 428,6**	**4 643,7**	**7 523,0**	**7 170,7**	**7 836,0**	**8 118,7**	**8 225,3**	**8 344,7**	**8 476,2**	**8 611,3**	**8 750,1**	**8 892,7**	**1,59%**
+ Share Capital & APIC	651,7	651,7	651,7	651,7	651,0	651,0	651,0	651,0	651,0	651,0	651,0	651,0	**0,00%**
- Treasury Stock	6,1	6,1	6,1	6,1	6,0	6,0	6,0	6,0	6,0	6,0	6,0	6,0	**0,00%**
+ Retained Earnings	1 193,3	1 209,3	1 396,3	1 491,1	1 773,0	1 901,9	2 033,8	2 168,9	2 307,7	2 450,1	2 596,3	2 746,5	**5,60%**
+ Other Equity	-51,1	-77,0	-67,0	-128,7	-140,0	-140,0	-140,0	-140,0	-140,0	-140,0	-140,0	-140,0	**0,00%**
Equity Before Minority Interest	1 787,9	1 777,9	1 975,0	2 008,1	2 278,0	2 406,9	2 538,8	2 673,9	2 812,7	2 955,1	3 101,3	3 251,5	**4,51%**
+ Minority/Non Controlling Interest	225,3	238,4	253,9	249,1	254,0	254,0	254,0	254,0	254,0	254,0	254,0	254,0	**0,00%**
Total Equity	**2 013,2**	**2 016,3**	**2 228,9**	**2 257,2**	**2 532,0**	**2 660,9**	**2 792,8**	**2 927,9**	**3 066,7**	**3 209,1**	**3 355,3**	**3 505,5**	**4,10%**
Total Liabilities & Equity	**6 441,8**	**6 659,9**	**9 751,9**	**9 427,9**	**10 368,0**	**10 779,7**	**11 018,0**	**11 272,6**	**11 542,9**	**11 820,4**	**12 105,4**	**12 398,2**	**2,24%**

Appendix 4: Income Statement as Percentage of Sales

Income Statement % of Sales	Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028
Revenue	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**
Biedronka	68,04%	67,43%	67,71%	69,79%	69,62%	69,60%	69,64%	69,73%	69,96%	70,17%	70,38%	70,59%
Pingo Doce	22,53%	22,12%	21,17%	20,05%	19,37%	19,23%	19,08%	18,86%	18,56%	18,26%	17,96%	17,66%
Recheio	5,79%	5,65%	5,40%	4,39%	4,34%	4,30%	4,27%	4,22%	4,15%	4,08%	4,01%	3,95%
Cost of Revenue	78,75%	78,31%	78,13%	78,09%	78,47%	78,35%	78,35%	78,35%	78,35%	78,35%	78,35%	78,35%
Gross Profit	**21,25%**	**21,69%**	**21,87%**	**21,91%**	**21,53%**	**21,65%**	**21,65%**	**21,65%**	**21,65%**	**21,65%**	**21,65%**	**21,65%**
Operating Expenses	17,70%	18,30%	18,08%	18,60%	17,67%	18,07%	18,07%	18,07%	18,07%	18,07%	18,07%	18,07%
Distribution Costs	16,01%	16,58%	16,26%	16,60%	15,83%	16,26%	16,26%	16,26%	16,26%	16,26%	16,26%	16,26%
General & Administrative	1,60%	1,67%	1,73%	1,73%	1,68%	1,68%	1,68%	1,68%	1,68%	1,68%	1,68%	1,68%
Other Operating Expense	0,09%	0,05%	0,08%	0,26%	0,16%	0,13%	0,13%	0,13%	0,13%	0,13%	0,13%	0,13%
EBIT - Operating Income (Loss)	**3,55%**	**3,38%**	**3,79%**	**3,31%**	**3,86%**	**3,58%**	**3,58%**	**3,58%**	**3,58%**	**3,58%**	**3,58%**	**3,58%**
Interest Expense, Net	0,07%	0,11%	0,83%	0,76%	0,08%	0,73%	0,72%	0,71%	0,70%	0,69%	0,68%	0,66%
Other Non-Op (Income) Loss	0,03%	0,04%	0,02%	0,02%	0,64%	0,02%	0,02%	0,02%	0,02%	0,02%	0,02%	0,02%
EBT - Pretax Income	**3,47%**	**3,24%**	**2,95%**	**2,38%**	**3,12%**	**2,80%**	**2,81%**	**2,82%**	**2,84%**	**2,85%**	**2,86%**	**2,87%**
Income Tax Expense (Benefit)	0,94%	0,76%	0,69%	0,70%	0,80%	0,72%	0,73%	0,73%	0,73%	0,74%	0,74%	0,74%
Profit before non-controlling interests	**2,53%**	**2,48%**	**2,26%**	**1,67%**	**2,32%**	**2,08%**	**2,08%**	**2,09%**	**2,10%**	**2,11%**	**2,12%**	**2,13%**
Minority Interest	0,17%	0,17%	0,17%	0,05%	0,10%	0,12%	0,12%	0,12%	0,12%	0,12%	0,12%	0,12%
Net Income	2,37%	2,31%	2,09%	1,62%	2,22%	1,96%	1,97%	1,98%	1,98%	1,99%	2,00%	2,01%

Depreciation	**2,03%**	**2,10%**	**3,84%**	**3,80%**	**3,57%**	**3,43%**	**3,43%**	**3,42%**	**3,41%**	**3,40%**	**3,39%**	**3,38%**
EBITDA Margin	**5,58%**	**5,48%**	**7,63%**	**7,11%**	**7,42%**	**7,01%**	**7,01%**	**7,00%**	**6,99%**	**6,97%**	**6,96%**	**6,95%**

Appendix 5: Cash Flow as Percentage of Operating Activities

Cash Flow Statement % of Operational Cash Flow	Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028
Operating Activities												
EBIT						56,47%	54,63%	54,48%	54,47%	54,57%	54,67%	54,76%
D&A						54,18%	52,37%	52,09%	51,88%	51,81%	51,75%	51,69%
Income Tax						11,42%	11,09%	11,11%	11,16%	11,23%	11,30%	11,36%
Variation NWC						-0,77%	-4,09%	-4,54%	-4,81%	-4,85%	-4,88%	-4,91%
CF from Operating						100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Investment Activities												
CapEx						-62,29%	-60,26%	-60,10%	-60,08%	-60,20%	-60,31%	-60,40%
Other LT Assets						-24,88%	-4,66%	-5,17%	-5,48%	-5,52%	-5,56%	-5,59%
CF from Investing						-87,17%	-64,92%	-65,27%	-65,56%	-65,72%	-65,86%	-66,00%
Financing Activities												
Interestes Paid						-11,55%	-11,02%	-10,81%	-10,63%	-10,48%	-10,32%	-10,17%
Dividend Paid						-21,47%	-20,85%	-20,89%	-20,97%	-21,11%	-21,23%	-21,36%
Debt Variation						22,08%	0,90%	1,00%	1,07%	1,08%	1,09%	1,09%
Other ST and LT liabililities						-3,98%	0,29%	0,32%	0,34%	0,35%	0,35%	0,35%
Other Financial Differences						-2,58%	-2,49%	-2,48%	-2,47%	-2,47%	-2,47%	-2,47%
Cash Flow from financing activities						-17,50%	-33,16%	-32,85%	-32,66%	-32,63%	-32,59%	-32,55%
Cash Flow						-4,67%	1,92%	1,88%	1,77%	1,65%	1,54%	1,45%
Begining						109,48%	99,54%	99,14%	98,81%	98,60%	98,25%	97,77%
End						104,81%	101,46%	101,02%	100,59%	100,25%	99,79%	99,22%

Appendix 6: Balance Sheet as Percentage of Assets

Balance Sheet % of Total Assets	Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028
+ Cash, Cash Equivalents & STI	10,58%	8,20%	9,53%	11,05%	14,41%	13,27%	13,23%	13,18%	13,10%	13,01%	12,90%	12,78%
+ Accounts & Notes Receiv	6,04%	6,52%	4,35%	4,49%	4,85%	4,58%	4,56%	4,55%	4,54%	4,54%	4,53%	4,52%
+ Inventories	13,15%	14,63%	10,71%	10,38%	10,75%	10,66%	10,63%	10,60%	10,58%	10,56%	10,54%	10,52%
Total Current Assets	**29,83%**	**29,45%**	**24,71%**	**25,82%**	**30,02%**	**28,51%**	**28,42%**	**28,33%**	**28,22%**	**28,10%**	**27,97%**	**27,83%**
+ Right Use	0,02%	0,00%	23,94%	22,98%	21,67%	22,99%	22,91%	22,85%	22,81%	22,77%	22,72%	22,68%
+ Property, Plant & Equip, Net	53,94%	55,36%	40,71%	40,49%	38,51%	38,07%	38,27%	38,45%	38,62%	38,80%	38,99%	39,20%
+ LT Investments & Receivables	0,17%	1,45%	0,98%	0,84%	0,63%	0,82%	0,82%	0,82%	0,81%	0,81%	0,81%	0,81%
+ Other LT Assets	14,29%	13,74%	9,66%	9,88%	9,17%	9,61%	9,58%	9,56%	9,54%	9,52%	9,50%	9,49%
Total Noncurrent Assets	**70,17%**	**70,55%**	**75,29%**	**74,18%**	**69,98%**	**71,49%**	**71,58%**	**71,67%**	**71,78%**	**71,90%**	**72,03%**	**72,17%**
Total Assets	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**
+ Payables	57,75%	57,60%	43,42%	44,59%	46,02%	44,59%	44,44%	44,33%	44,24%	44,16%	44,08%	44,00%
+ Accounts Payable and accruals	55,41%	54,39%	37,14%	39,45%	36,68%	37,90%	37,77%	37,68%	37,61%	37,54%	37,47%	37,41%
+ Accrued Taxes	2,34%	2,34%	1,77%	1,76%	1,30%	1,62%	1,62%	1,61%	1,61%	1,61%	1,60%	1,60%
+ Other Payables & Accruals	5,50%	6,12%	4,17%	5,34%	5,67%	5,07%	5,05%	5,04%	5,03%	5,02%	5,01%	5,00%
+ ST Debt	4,65%	4,50%	8,29%	5,69%	4,29%	6,07%	5,98%	5,90%	5,82%	5,74%	5,66%	5,59%
+ ST Borrowings	4,62%	4,47%	4,34%	1,69%	1,09%	2,69%	2,68%	2,68%	2,67%	2,67%	2,66%	2,66%
+ ST Lease Liabilities	0,03%	0,03%	3,95%	4,00%	3,20%	3,38%	3,30%	3,23%	3,15%	3,07%	3,00%	2,93%
+ Other ST Liabilities	0,04%	0,77%	0,03%	0,00%	1,05%	0,36%	0,36%	0,36%	0,36%	0,36%	0,36%	0,36%
Total Current Liabilities	**62,45%**	**62,87%**	**51,74%**	**50,29%**	**51,36%**	**51,02%**	**50,78%**	**50,59%**	**50,42%**	**50,26%**	**50,10%**	**49,95%**
+ LT Debt	3,69%	4,33%	23,67%	23,98%	22,57%	22,56%	22,14%	21,72%	21,29%	20,88%	20,47%	20,07%
+ LT Borrowings	3,59%	4,17%	3,17%	3,86%	3,35%	4,08%	4,07%	4,06%	4,05%	4,04%	4,03%	4,03%
+ LT Lease Liabilities	0,10%	0,16%	20,50%	20,12%	19,22%	18,48%	18,08%	17,66%	17,25%	16,84%	16,44%	16,04%
+ Other LT Liabilities	2,61%	2,52%	1,73%	1,80%	1,65%	1,73%	1,73%	1,72%	1,72%	1,72%	1,71%	1,71%
Total Noncurrent Liabilities	**6,30%**	**6,85%**	**25,40%**	**25,77%**	**24,22%**	**24,30%**	**23,87%**	**23,44%**	**23,01%**	**22,59%**	**22,18%**	**21,78%**
Total Liabilities	**68,75%**	**69,73%**	**77,14%**	**76,06%**	**75,58%**	**75,32%**	**74,65%**	**74,03%**	**73,43%**	**72,85%**	**72,28%**	**71,73%**
+ Share Capital & APIC	10,12%	9,79%	6,68%	6,91%	6,28%	6,04%	5,91%	5,77%	5,64%	5,51%	5,38%	5,25%
- Treasury Stock	0,09%	0,09%	0,06%	0,06%	0,06%	0,06%	0,05%	0,05%	0,05%	0,05%	0,05%	0,05%
+ Retained Earnings	18,52%	18,16%	14,32%	15,82%	17,10%	17,64%	18,46%	19,24%	19,99%	20,73%	21,45%	22,15%
+ Other Equity	-0,79%	-1,16%	-0,69%	-1,36%	-1,35%	-1,30%	-1,27%	-1,24%	-1,21%	-1,18%	-1,16%	-1,13%
Equity Before Minority Interest	27,75%	26,70%	20,25%	21,30%	21,97%	22,33%	23,04%	23,72%	24,36%	25,00%	25,62%	26,23%
+ Minority/Non Controlling Interest	3,50%	3,58%	2,60%	2,64%	2,45%	2,36%	2,31%	2,25%	2,20%	2,15%	2,10%	2,05%
Total Equity	**31,25%**	**30,27%**	**22,86%**	**23,94%**	**24,42%**	**24,68%**	**25,35%**	**25,97%**	**26,57%**	**27,15%**	**27,72%**	**28,27%**
Total Liabilities & Equity	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**

Appendix 7: Income Statement Assumptions

Income Statement Assumptions	Unit	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028	Assumptions
Revenue		**3,11%**	**1,86%**	**2,05%**	**2,21%**	**2,22%**	**2,23%**	**2,24%**	
Biedronka		3,08%	1,93%	2,21%	2,53%	2,53%	2,53%	2,53%	
Pingo Doce	**YOY**	2,38%	1,08%	0,87%	0,58%	0,58%	0,58%	0,58%	
Recheio		2,34%	1,04%	0,83%	0,55%	0,55%	0,55%	0,55%	**Revenue Growth. See appendix nº 10**
Ara		6,58%	4,55%	5,11%	4,93%	4,93%	4,93%	4,93%	
Hebe		2,52%	1,36%	1,64%	1,97%	1,97%	1,97%	1,97%	
Other & Consolidation Adjustments	YOY	29,48%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	
Cost of Revenue	**% of Revenues**	**78,35%**	**78,35%**	**78,35%**	**78,35%**	**78,35%**	**78,35%**	**78,35%**	**Growth as historical average in % of Revenues since 2017 Y TO 2021 Y**
Operating Expenses	% of Revenues	18,07%	18,07%	18,07%	18,07%	18,07%	18,07%	18,07%	
Interest Expense, Net	% of Revenues	0,73%	0,72%	0,71%	0,70%	0,69%	0,68%	0,66%	**Growth as historical average in % of Revenues since 2019 Y TO 2020 Y**
Other Non-Op (Income) Loss	YOY	-96,36%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	**Constant over time since it's hard to Predict.**
Income Tax Expense (Benefit)	% of EBT	25,85%	25,85%	25,85%	25,85%	25,85%	25,85%	25,85%	**Growth as historical average in % of EBT since 2017 Y TO 2021 Y**
Minority Interest	% of Profit Bef. NCI	5,65%	5,65%	5,65%	5,65%	5,65%	5,65%	5,65%	**Growth as historical average in % of Profit Bef. NCI since 2019 Y TO 2021 Y**
Depreciation	% of Fixed Assets	11,94%	11,85%	11,85%	11,85%	11,85%	11,85%	11,85%	**Growth as historical average in % of FA since 2019 Y to 2021 Y %**
Dividend (m€)	**% Net Income**	**106,55%**	**69,44%**	**69,44%**	**69,44%**	**69,44%**	**69,44%**	**69,44%**	**Growth as historical average in % of Net Income since 2017 Y TO 2021 Y**

Appendix 8: Balance Sheet Assumptions

Balance Sheet Assumptions	Unit	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028	Assumptions
+ Cash, Cash Equivalents & STI	% of YOY	-4,27%	1,93%	1,90%	1,80%	1,68%	1,57%	1,48%	**Cash Flow Statement Appendix nº 2**
+ Accounts & Notes Receiv	% of Revenues	2,29%	2,29%	2,29%	2,29%	2,29%	2,29%	2,29%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
+ Inventories	% of Revenues	5,34%	5,34%	5,34%	5,34%	5,34%	5,34%	5,34%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
Total Current Assets									
+ Right Use	% of Revenues	11,50%	11,50%	11,50%	11,50%	11,50%	11,50%	11,50%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
+ Property, Plant & Equip, Net	% of FA	63,58%	65,24%	65,86%	66,49%	67,12%	67,75%	68,38%	**PP&E Last Year - Depre. + Capex**
+ LT Investments & Receivables	% of Revenues	0,41%	0,41%	0,41%	0,41%	0,41%	0,41%	0,41%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
+ Other LT Assets	% of Revenues	4,81%	4,81%	4,81%	4,81%	4,81%	4,81%	4,81%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
Total Noncurrent Assets									
Total Assets									
+ Payables & Accruals									
+ Accounts Payable and accruals	% of Revenues	18,97%	18,97%	18,97%	18,97%	18,97%	18,97%	18,97%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
+ Accrued Taxes	% of Revenues	0,81%	0,81%	0,81%	0,81%	0,81%	0,81%	0,81%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
+ Other Payables & Accruals	% of Revenues	2,54%	2,54%	2,54%	2,54%	2,54%	2,54%	2,54%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
+ ST Debt									
+ ST Borrowings	% Acc.Payb.	7,10%	7,10%	7,10%	7,10%	7,10%	7,10%	7,10%	**Growth as historical average in % of Accounts Payables since 2017 Y TO 2021 Y**
+ ST Lease Liabilities	YOY	18,26%	-0,03%	-0,03%	-0,03%	-0,03%	-0,03%	-0,03%	**Growth YOY in %**
+ Other ST Liabilities	% of Revenues	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
Total Current Liabilities									
+ LT Debt									
+ LT Borrowings	% Capex	51,73%	52,69%	52,79%	52,87%	52,88%	52,89%	52,89%	**Growth as historical average in % of Capex since 2017 Y TO 2021 Y**
+ LT Lease Liabilities	YOY	-0,03%	-0,03%	-0,03%	-0,03%	-0,03%	-0,03%	-0,03%	**Growth YOY in %**
+ Other LT Liabilities	% of Revenues	0,87%	0,87%	0,87%	0,87%	0,87%	0,87%	0,87%	**Growth as historical average in % of Revenues since 2019 Y TO 2021 Y**
Total Noncurrent Liabilities									
Total Liabilities									
+ Share Capital & APIC	YOY								**Last year amount**
- Treasury Stock	YOY								**Last year amount**
+ Retained Earnings	YOY	7,27%	6,93%	6,64%	6,40%	6,17%	5,97%	5,78%	**Ret. Ear. = Ret. Ear. t-1 + NI t - Div. t**
+ Other Equity	% of Revenues	0,65%	0,64%	0,63%	0,61%	0,60%	0,59%	0,57%	**Constant over time since it's hard to Predict.**
Equity Before Minority Interest									
+ Minority/Non Controlling Interest	% of Revenues	1,18%	1,16%	1,13%	1,11%	1,09%	1,06%	1,04%	**Constant over time since it's hard to Predict.**
Total Equity									
Total Liabilities & Equity									

Appendix 9: Key Financial Ratios

Finantial Key Ratios	Y2017	Y2018	Y2019	Y2020	Y2021	E2022	E2023	F2024	F2025	F2026	F2027	TV 2028
Liquidity Ratios												
Current Ratio (x)	0,48	0,47	0,48	0,51	0,58	0,56	0,56	0,56	0,56	0,56	0,56	0,56
Quick Ratio (x)	0,27	0,24	0,27	0,31	0,38	0,35	0,35	0,35	0,35	0,35	0,35	0,35
Cash Ratio (x)	0,17	0,13	0,18	0,22	0,28	0,26	0,26	0,26	0,26	0,26	0,26	0,26
Net Liquid Balance (WC-WCR)	-0,01	-0,01	-0,04	-0,03	-0,06	-0,04	-0,05	-0,05	-0,05	-0,05	-0,05	-0,05
Operating Cash Flow Ratio						0,25	0,26	0,26	0,26	0,26	0,26	0,26
Profitability Ratios												
Gross Profit Margin (%)	21,25%	21,69%	21,87%	21,91%	21,53%	21,65%	21,65%	21,65%	21,65%	21,65%	21,65%	21,65%
EBITDA Margin (%)	5,67%	5,54%	7,71%	7,38%	7,59%	7,01%	7,01%	7,00%	6,99%	6,97%	6,96%	6,95%
EBIT Margin (%)	3,55%	3,38%	3,79%	3,31%	3,86%	3,58%	3,58%	3,58%	3,58%	3,58%	3,58%	3,58%
Net Profit Margin (%)	2,37%	2,31%	2,09%	1,62%	2,22%	1,96%	1,97%	1,98%	1,98%	1,99%	2,00%	2,01%
ROE (%)	19,14%	19,89%	17,49%	13,83%	18,29%	15,85%	15,45%	15,11%	14,81%	14,52%	14,26%	14,01%
ROA (%)	5,98%	6,02%	4,00%	3,31%	4,47%	3,91%	3,92%	3,92%	3,93%	3,94%	3,95%	3,96%
ROIC (%)	23,13%	22,23%	10,65%	9,55%	10,78%	10,70%	10,71%	10,75%	10,80%	10,85%	10,91%	10,96%
ROCE (%)	23,86%	23,73%	15,00%	13,63%	15,98%	14,59%	14,47%	14,38%	14,31%	14,23%	14,16%	14,09%
Solvency Ratios												
Debt to Equity Ratio	0,27	0,29	1,40	1,24	1,10	1,16	1,11	1,06	1,02	0,98	0,94	0,91
ST Debt to Equity	0,15	0,15	0,36	0,24	0,18	0,25	0,24	0,23	0,22	0,21	0,20	0,20
LT Debt to Equity	0,12	0,14	1,04	1,00	0,92	0,91	0,87	0,84	0,80	0,77	0,74	0,71
Interest Coverage	49,57	29,89	4,54	4,37	47,41	4,89	4,96	5,04	5,12	5,21	5,30	5,38
Debt Coverage Ratio	0,72	0,68	0,13	0,11	0,17	0,14	0,14	0,14	0,15	0,15	0,15	0,15
Equity Multiplier	3,20	3,30	4,38	4,18	4,09	4,05	3,95	3,85	3,76	3,68	3,61	3,54
Debt to EBITDA	0,58	0,61	2,17	1,97	1,76	2,04	2,02	1,99	1,96	1,93	1,90	1,87
Net Debt to EBITDA	-0,16	0,04	1,52	1,23	0,81	1,10	1,07	1,04	1,01	0,99	0,96	0,94
Debt to Capital	0,21	0,23	0,58	0,55	0,52	0,54	0,53	0,52	0,51	0,50	0,49	0,48
Times Interest Earned Ratio	49,57	29,89	4,54	4,37	47,41	4,89	4,96	5,04	5,12	5,21	5,30	5,38
Cash Coverage	77,98	48,41	9,14	9,40	91,24	9,58	9,71	9,85	10,00	10,15	10,31	10,47
Financial leverage Ratio	3,20	3,30	4,38	4,18	4,09	4,05	3,95	3,85	3,76	3,68	3,61	3,54
Efficiency or Activity Ratios												
Fixed Assets Turnover (x)	4,68	4,70	2,96	3,22	3,35	3,39	3,39	3,40	3,41	3,42	3,43	3,44
Total Asset Turnover (x)	2,53	2,60	1,91	2,05	2,01	2,00	1,99	1,99	1,98	1,98	1,98	1,97
Working Capital Turnover	-6,55	-7,14	-6,74	-6,89	-6,63	-6,81	-6,81	-6,81	-6,81	-6,81	-6,81	-6,81
Inventory Turnover (x)	15,13	13,93	13,95	15,39	14,70	14,68	14,68	14,68	14,68	14,68	14,68	14,68
Receivables Turnover (x)	41,86	39,92	43,96	45,58	41,53	43,63	43,63	43,63	43,63	43,63	43,63	43,63
Payables Turnover (x)	3,59	3,75	4,02	4,05	4,31	4,13	4,13	4,13	4,13	4,13	4,13	4,13
DIO (days)	24,12	26,20	26,17	23,71	24,83	24,86	24,86	24,86	24,86	24,86	24,86	24,86
DSO (days)	8,72	9,14	8,30	8,01	8,79	8,37	8,37	8,37	8,37	8,37	8,37	8,37
DPO (days)	101,64	97,39	90,77	90,09	84,69	88,37	88,37	88,37	88,37	88,37	88,37	88,37
Operating Cycle (days)	32,84	35,34	34,47	31,72	33,62	33,23	33,23	33,23	33,23	33,23	33,23	33,23
Cash Cycle (days)	-68,80	-62,05	-56,29	-58,38	-51,07	-55,14	-55,14	-55,14	-55,14	-55,14	-55,14	-55,14
Value Creation and Cash Flow Values												
EVA						322,74	327,80	334,35	341,92	349,71	357,74	366,01
Cash to Income						1,77	1,83	1,84	1,84	1,83	1,83	1,83
Debt Coverage						0,44	0,46	0,47	0,48	0,49	0,49	0,50
Dividend Payment						4,66	4,80	4,79	4,77	4,74	4,71	4,68
Reinvestement						1,21	1,25	1,26	1,26	1,26	1,25	1,25
Debt Payment						0,56	0,59	0,60	0,61	0,62	0,63	0,64
Interest Coverage						10,65	11,09	11,27	11,45	11,62	11,78	11,95

Appendix 10: Revenue Growth

Revenues were computed based on four different criteria: Historical population Growth per Country, Level of Efficiency per Brand (sales divided by number of stores), Life-For-Like per banner and historical GDP Growth per country, forecast from the central banks of Portugal and Poland until 2024 and for 2023 for Colombia.

In the case of the GDP growth, an average was conducted from 2017 to 2024, or 2023 in the case of Colombia, for the calculation of the following years (2023 or 2024, until 2027). The rest of the criteria were based only on the historical values from 2017 and 2021.

For the final figure for each year and brand, a weight was assumed for each factor. It was attributed 0,15 % to the LFL growth factor and Level of Efficiency, and 0,35 % for the other two criteria, the population growth criteria, and the GDP growth criteria.

$$Revenues\ Growth\ per\ Banner = 0{,}15 * \frac{\sum(LFL\ Growth)}{5} + 0{,}15 * \frac{\sum(\frac{Sales}{Nº\ of\ Stores})}{5}$$

$$+ 0{,}35 * \frac{\sum(Population\ \ Growth)}{5} + 0{,}35 * \frac{\sum(GDP\ Growth\ from\ 2017\ to\ 2023\ or\ 2024)}{5}$$

Biedronka (€ Million) Level of Efficiency and LFL	Y 2021	Y 2020	Y 2019	Y 2018	Y 2017
Net Sales	14542	13465	12621	11691	11075
Store Network	3250	3115	3002	2900	2823
Level of efficiency	4,5	4,3	4,2	4,0	3,9
Level of Efficiency Growth	3,52%	2,82%	4,28%	2,76%	
LFL	8,30%	7,11%	5,79%	2,70%	8,60%

HEBE (€ Million) Level of Efficiency and LFL	Y 2021	Y 2020	Y 2019	Y 2018	Y 2017
Net Sales	278	245	259	207	166
Store Network	291	266	273	230	182
Level of efficiency	1,0	0,9	0,9	0,9	0,9
Level of Efficiency Growth	3,76%	-2,92%	5,41%	-1,33%	
LFL	17,50%	-10,30%	7,40%		

Pingo Doce (€ Million) Level of Efficiency and LFL	Y 2021	Y 2020	Y 2019	Y 2018	Y 2017
Net Sales	4046	3869	3945	3835	3667
Store Network	465	453	441	432	422
Level of Efficiency	8,7	8,5	8,9	8,9	8,7
Level of Efficiency Growth	1,89%	-4,53%	0,76%	2,16%	
LFL	2,90%	-3,38%	2,25%	3,50%	1,00%

Recheio (€ Million) Level of Efficiency and LFL	Y 2021	Y 2020	Y 2019	Y 2018	Y 2017
Net Sales	906	847	1007	980	942
Store Network	42	42	42	42	43
Level of efficiency	21,6	20,2	24,0	23,3	21,9
Level of Efficiency Growth	6,98%	-15,85%	2,70%	6,53%	
LFL	7,00%	-15,84%	3,17%	4,43%	6,20%

ARA (€ Million) Level of Efficiency and LFL	Y 2021	Y 2020	Y 2019	Y 2018	Y 2017
Net Sales	1102	854	784	599	405
Store Network	819	663	616	532	389
Level of efficiency	1,3	1,3	1,3	1,1	1,0
Level of Efficiency Growth	4,44%	1,21%	13,04%	8,15%	
LFL	24,30%	10,20%	17,60%		

Revenue Growth		Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	Average
Population Growth per Country	Poland	0,00%	-0,03%	-0,07%	-0,17%	-0,31%	-	-	-	-	-	-	-0,12%
	Portugal	-0,24%	-0,17%	0,00%	0,08%	-0,08%	-	-	-	-	-	-	-0,08%
	Colombia	1,52%	1,91%	1,85%	1,48%	1,15%	-	-	-	-	-	-	1,58%
Level of Efficiency per Brand	Biedronka	-	2,76%	4,28%	2,82%	3,52%	-	-	-	-	-	-	3,34%
	Pingo Doce	-	2,16%	0,76%	-4,53%	1,89%	-	-	-	-	-	-	0,07%
	Recheio	-	6,53%	2,70%	-15,85%	6,98%	-	-	-	-	-	-	0,09%
	Ara	-	8,15%	13,04%	1,21%	4,44%	-	-	-	-	-	-	6,71%
	Hebe	-	-1,33%	5,41%	-2,92%	3,76%	-	-	-	-	-	-	1,23%
LFL per Brand	Biedronka	8,60%	2,70%	5,79%	7,11%	8,30%	-	-	-	-	-	-	6,50%
	Pingo Doce	1,00%	3,50%	2,25%	-3,38%	2,90%	-	-	-	-	-	-	1,26%
	Recheio	6,20%	4,43%	3,17%	-15,84%	7,00%	-	-	-	-	-	-	0,99%
	Ara	-	-	17,60%	10,20%	24,30%	-	-	-	-	-	-	17,37%
	Hebe	-	-	7,40%	-10,30%	17,50%	-	-	-	-	-	-	4,87%
GDP Growth per Country	Poland	-	0,20%	-1,00%	-6,80%	6,90%	4,70%	1,40%	2,20%	3,12%	3,12%	3,12%	3,12%
	Portugal	-	-0,70%	-0,10%	-11,10%	13,30%	6,30%	2,60%	2,00%	1,10%	1,10%	1,10%	1,10%
	Colombia	-	1,20%	0,60%	-10,20%	17,70%	6,90%	1,10%	2,70%	2,18%	2,18%	2,18%	2,18%
Average assumptions growth per Brand	Biedronka	-	-	-	-	-	3,08%	1,93%	2,21%	2,53%	2,53%	2,53%	2,53%
	Pingo Doce	-	-	-	-	-	2,38%	1,08%	0,87%	0,56%	0,56%	0,56%	0,56%
	Recheio	-	-	-	-	-	2,34%	1,04%	0,83%	0,52%	0,52%	0,52%	0,52%
	Ara	-	-	-	-	-	6,58%	4,55%	5,11%	4,93%	4,93%	4,93%	4,93%
	Hebe	-	-	-	-	-	2,52%	1,36%	1,64%	1,97%	1,97%	1,97%	1,97%

Appendix 11: Terminal Growth

The Growth Rate was computed for every forecasted year with the formula below, and an average was done from 2022 to 2027 to get the Terminal Growth Rate (g).

$$\text{Growth (g)} = \text{ROE} * \text{Reinvestment Rate}$$

Terminal Growth	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027
ROE	16%	15%	15%	15%	15%	14%
CapEx	850,00	865,80	883,51	903,01	923,03	943,60
D&A	739,40	752,51	765,93	779,87	794,46	809,69
NWC Change	-10,48	-58,82	-65,92	-72,55	-74,52	-76,54
EBIT*(1-t)	571,41	582,03	593,94	607,04	620,50	634,33
Reivestment Rate	17,52%	9,36%	8,70%	8,33%	8,71%	9,04%
Growth (g)	2,78%	1,45%	1,31%	1,23%	1,27%	1,29%

Appendix 12: WC and CCC Calculation

The Working Capital was computed by the following formula:

$$\text{WC} = Account\ \&\ Notes\ Recivables + Inventories - Payables$$

WC and CCC Calculation	Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027
+ Accounts & Notes Receiv	**388,80**	**434,32**	**423,97**	**423,27**	**503,00**	**493,70**	**502,88**	**513,16**	**524,49**	**536,11**	**548,06**
DSO	8,72	9,14	8,30	8,01	8,79	8,37	8,37	8,37	8,37	8,37	8,37
+ Inventories	**847,06**	**974,44**	**1 044,19**	**978,71**	**1 115,00**	**1 149,63**	**1 171,01**	**1 194,96**	**1 221,32**	**1 248,40**	**1 276,22**
DIO	24,12	26,20	26,17	23,71	24,83	24,86	24,86	24,86	24,86	24,86	24,86
+ Payables	**3 720,40**	**3 836,21**	**4 234,29**	**4 204,05**	**4 771,00**	**4 806,81**	**4 896,18**	**4 997,59**	**5 107,56**	**5 220,52**	**5 336,56**
DPO	101,64	97,39	90,77	90,09	84,69	88,37	88,37	88,37	88,37	88,37	88,37
CCC	-68,80	-62,05	-56,29	-58,38	-51,07	-55,14	-55,14	-55,14	-55,14	-55,14	-55,14
WC	-2484,54	-2427,45	-2766,13	-2802,07	-3153,00	-3163,48	-3222,30	-3289,04	-3361,41	-3435,76	-3512,13

Appendix 13: CAPEX Forecast

CAPEX was forecasted in accordance with the weight of CAPEX on revenues in 2022. The 2022 value of € 850 million was given by the company in a report addressed to CMVM in 2022.

CAPEX Forecast	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027
CAPEX Forecast	850,00	865,80	883,51	903,01	923,03	943,60
Weight of CAPEX on Revenues	3,95%	3,95%	3,95%	3,95%	3,95%	3,95%

Appendix 14: Fixed Assets Calculation

Fixed Assets was forecasted in accordance with the Tangibles (Property Plant & Equipment) plus Right of Use. The forecast was estimated in accordance with the variation of CAPEX minus Depreciations and Amortization). In the Figure bellow is illustrated the Fixed Assets evolution.

Fixed Assets Calculation	Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027
Tangible	3474,8	3687,1	3969,9	3817,3	3993,0						
Right of Use			2334,9	2166,6	2247,0						
Fixed Assets	3474,8	3687,1	6304,9	5983,8	6240,0						
Initial Fixed Assets						6240,0	6350,6	6463,9	6581,7	6705,0	6833,6
+ CAPEX						850,0	865,8	883,7	903,2	923,2	943,7
- Depreciation						739,4	752,5	765,9	779,9	794,5	809,7
Final Fixed Assets						6350,6	6463,9	6581,7	6705,0	6833,6	6967,6

Appendix 15: WACC Calculation

$$WACC = \frac{Equity}{Debt + Equity} * Ke + \frac{Debt}{Debt + Equity} * Kd * (1 - t)$$

The WACC calculation is computed following the formula:

Where the Ke stands for the Cost of Equity, Kd stands for the Cost of Debt.

The Ke calculation was computed according to the CAPM Model:

$$\mathrm{Ke} = Rf + \beta \times MRP + CRP$$

To get the final Ke Value, multiple assumptions and calculations were computed.

It was considered for the Rf (risk-free rate) of the formula, the 10-year German treasury rate, with a value of 0,435%,

$$\text{Levered } \beta = Raw\beta \times \frac{2}{3} + 1 \times \frac{2}{3}$$

a monthly average computed since 28/10/2012 to 02/09/2022, where all the data to this computation were taken from Bloomberg.

By using the Raw Beta given by the Bloomberg platform, it was calculated the Levered Beta for the firm, that ended with the value of 74,87 %. The following formula was used:

WACC Calculation	E 2022	E 2023	FY 2024	FY 2025	FY 2026	FY 2027	TV 2028
Risk Free	0,43%	0,43%	0,43%	0,43%	0,43%	0,43%	0,43%
Country Risk Premium	1,17%	1,17%	1,17%	1,17%	1,17%	1,17%	1,17%
Market Risk Premium	5,43%	5,43%	5,43%	5,43%	5,43%	5,43%	5,43%
Beta Levered	74,87%	74,87%	74,87%	74,87%	74,87%	74,87%	74,87%
Beta Unlevered	40,25%	41,07%	41,86%	42,61%	43,35%	44,06%	44,75%
Ke	5,67%	5,67%	5,67%	5,67%	5,67%	5,67%	5,67%
Total Interest	157,61	158,27	159,02	159,84	160,69	161,56	162,45
Total Debt	3086,25	3099,19	3113,96	3130,03	3146,56	3163,55	3181,03
Kd	5,11%	5,11%	5,11%	5,11%	5,11%	5,11%	5,11%
Debt	3086,2	3099,2	3114,0	3130,0	3146,6	3163,6	3181,0
Equity	2660,9	2792,8	2928,0	3066,7	3209,2	3355,4	3505,6
D+E	5747,2	5892,0	6041,9	6196,8	6355,7	6519,0	6686,6
Tax	25,85%	25,85%	25,85%	25,85%	25,85%	25,85%	25,85%
WACC	4,66%	4,68%	4,70%	4,72%	4,74%	4,76%	4,77%
Ru Unlevered Cost of Capital	5,37%	5,37%	5,38%	5,38%	5,39%	5,40%	5,40%

The Country Risk Premium and Market Risk Premium data were extracted from Damodaran and was an average weight of sales per brand of the total sales of the company was applied, to get a more realistic value of the impact of these measures on the overall company. This calculation ended with a value of 1,17 % for the market risk premium, and 5,43 % for the Country Risk Premium. The two are illustrated bellow.

Weight of Sales per Country	% in 2021
Poland	70%
Portugal	26%
Colombia	5%

Country Risk Premium	Original Value	Weight per Sales
Poland	0,84%	0,58%
Portugal	1,88%	0,48%
Colombia	1,88%	0,10%
Average		1,17%

Market Risk Premium	Original Value	Weight per Sales
Poland	5,08%	3,54%
Portugal	6,12%	1,57%
Colombia	6,12%	0,32%
Average		5,43%

The Cost of Debt (Kd) was calculated through the following formula:

$$\mathrm{Kd} = \frac{Total\ Interests}{Total\ Debt}$$

With all the inputs determined, WACC remained around the 4,65 %.

Appendix 16: Discounting Cash Flow Model (DCF)

FCFF – Free Cash Flow to the Firm Method

$$\text{FCFF} = \text{EBIT} * (1 - \text{t}) + \text{D\&A} - \text{CAPEX} - \text{Variation in WC}$$

DCF - FCFF		F 2024	F 2025	F 2026	F 2027	TV 2028
NOPAT		593,9	607,0	620,5	634,3	648,5
D&A		765,9	779,9	794,5	809,7	825,6
CAPEX		883,5	903,0	923,0	943,6	964,7
Changes in WC		-65,9	-72,5	-74,5	-76,5	-78,6
FCFF		542,3	556,5	566,4	577,0	588,0
PV FCFF Forecasted period	1997,50	517,9	507,4	493,0	479,1	
PV FCFF Terminal Value	15156,93					15156,93
Enterprise value	**17154,43**					
Debt	3099,19					
Cash & Equivalents	1457,82					
Non-controling interests	254,00					
Equity value	**15259,06**					
Shares outstanding	628,43					
Stock price (DCF - FCFF)	24,28					
Yahoo Finance 05/09/2022	22,04					
Upside	10,17%					

Source: Author Analysis

FCFE – Free Cash Flow to Equity Method

$$\text{FCFE} = \text{Net Income} + \text{D\&A} - \text{CAPEX} - \text{Variation in WC} + \text{Net Borrowings}$$

DCF - FCFE		F 2024	F 2025	F 2026	F 2027	TV 2028
Net Income		442,2	453,9	466,0	478,5	491,3
D&A		765,9	779,9	794,5	809,7	825,6
CAPEX		883,5	903,0	923,0	943,6	964,7
Changes in WC		-65,9	-72,5	-74,5	-76,5	-78,6
Net Borrowings		15,2	16,7	17,2	17,7	18,1
FCFE		**405,7**	**420,1**	**429,2**	**438,8**	**448,9**
Ke		5,67%	5,67%	5,67%	5,67%	5,67%
PV FCFE		384	376	364	352	
PV FCFE						8749,8
Equity Value	**10225,69**					
Shares	628,43					
Stock price (DCF - FCFE)	16,27					
Yahoo Finance 05/09/2022	22,04					
Downside	-26,17%					

Source: Author Analysis

Appendix 17: Adjusted Present Value (APV)

$$\text{APV} = \text{FCFF} + \text{Interest Tax Shield}$$

APV		F 2024	F 2025	F 2026	F 2027	TV 2028
Tax rate		26%	26%	26%	26%	26%
Interest Paid		159,0	159,8	160,7	161,6	162,4
Tax Shield		41,1	41,3	41,5	41,8	42,0
FCFF		**543,0**	**556,2**	**566,3**	**576,8**	**587,9**
Unlevered Cost of Capital		5,37%	5,38%	5,38%	5,39%	5,40%
Pv FCFF		515	501	484	468	12402
Pv ITS		39,006	37,203	35,485	33,846	885,789
Equity Value	15401,28					
Shares	628,43					
Stock Price (APV)	24,51					
Yahoo Finance 05/09/2022	22,04					
Upside	11,20%					

Source: Author Analysis

Appendix 18: Economic Value Added (EVA)

$$\text{EVA} = \text{EBIT} * (1 - \text{t}) - \text{Invested Capital} * \text{WACC}$$

EVA		F 2024	F 2025	F 2026	F 2027	TV 2028
NOPAT		593,9	607,0	620,4	634,2	648,4
Invested Capital		5528,0	5622,0	5718,6	5817,7	5919,4
WACC		4,70%	4,72%	4,74%	4,76%	4,77%
EVA		334,2	341,7	349,5	357,5	365,8
Terminal Value						11367,5
PV EVA	1231,94	319,2	311,6	304,2	296,9	
PV Terminal Value	9433,14					9433,1
Market Value Added	10665,09					
Book Value of Equity	2792,79					
Equity Value	**13457,88**					
Shares	628,43					
Stock price (EVA)	21,41					
Yahoo Finance 05/09/2022	22,04					
Reduce	-2,84%					

Source: Author Analysis

Appendix 19: Dividend Discount Model (DDM)

Normal Dividend Discount Model

Normal Model DDM		F 2024	F 2025	F 2026	F 2027	TV 2028
Dividends paid		307,1	315,3	323,7	332,3	341,1
Ke		5,67%	5,67%	5,67%	5,67%	5,67%
GL	1,55%					
Discount Factor		**0,95**	**0,90**	**0,85**	**0,80**	**0,80**
Pv Dividends	1113,84	290,6	282,4	274,3	266,5	
PV of TV	6650,57					6650,6
Equity Value	7764,41					
Shares	628,43					
Stock price (Normal DDM)	12,36					
Yahoo Finance 05/09/2022	22,04					
Downside	-43,94%					

Source: Author Analysis

H-Dividend Discount Model

H-Model DDM		F 2024	F 2025	F 2026	F 2027	TV 2028
Dividends paid		307,1	315,3	323,7	332,3	341,1
Ke		0,1	0,1	0,1	0,1	0,1
Discount Factor		**0,95**	**0,90**	**0,85**	**0,80**	**0,80**
Pv Dividends	1113,84	290,6	282,4	274,3	266,5	
PV of TV	7085,64					7085,6
GS	2,55%					
GL	1,55%					
H	5,00					
Equity Value	**8199,47**					
Shares	628,43					
Stock price (H-Model DDM)	13,05					
Yahoo Finance 05/09/2022	22,04					
Downside	-40,80%					

Source: Author Analysis

Appendix 20: Relative Valuation

Jerónimo Martins has its stores diversified in three different nations, in Europe: Poland and Portugal, and in South America: Colombia.

It was identified one major competitor for each country, even if it was not listed on the stock market.

In Poland, Bierdronka is considered the main leader of the market, accordingly with Ministry of Agriculture Nature and Food Quality of the Netherlands (2018). The competition is high, and some tough competitors, with high sales and with a relevant number of stores are present in the market. Dino Market is an example of it, a chain that has a similar model to Bierdronka, installs their operations on rural locations. But other big competitors are present such as Lidl, one of the biggest retailers in Europe.

In the drugstores business, Hebe, has a tough and well-known competitor in the business, Rossman, a German based company.

As stated by the Global Agriculture Information Network (2021), the Portuguese food retail market is characterized by being an Oligopoly, where two chains are the market leaders, Pingo Doce, from Jerónimo Martins, and Continente, that belongs to the SONAE group. Other interesting competitors are present in the market, like Lidl, and Mercadona The gross retail market, where JM is present, only by Recheio has as its main competitor Makro, another well positioned Cash and Carry.

In the modern retail food industry, competitors like Exito, D1 and J&B split the market share, being Exito the one with more sales, accordingly to Statista (2021)

The peer companies selected were chosen due to their industry, business model, representing the supermarkets and hypermarkets business, listing on the stock market, and geography.

All companies chosen are from Europe, and just Exito was included to represent Colombia, since JM is also have present in the country.

Multiple companies' data were taken from Bloomberg, this data are according to the 2021 values.

The most Important Multiples, and the ones considered for the final recommendations were the ones related to sales, that are: EV/Sales and P/S.

Multiples	Country	P/E	P/Book	P/Tangible Book	P/Sales	P/Cash Flow	P/Free Cash Flow	EV/Sales	EV/EBITDA	EV/EBIT
Carrefour (CA)	France	12,3	1,2	13,5	0,2	3,7	7,3	0,3	6,2	13,6
Ahold Delhaize (AD)	BE-NL	13,8	2,2	32,0	0,4	5,8	10,3	0,6	7,0	13,3
Dino Polska (DNP)	Poland	44,7	11,7	12,1	2,7	28,1	-	2,8	29,2	36,2
Sonae (SON)	Portugal	8,3	0,8	1,5	0,3	2,8	4,4	0,6	7,9	20,2
Tesco (TSCO)	UK	14,4	1,4	2,1	0,4	5,8	7,7	0,5	7,6	12,7
Exito (EXITO)	Colombia	20,3	0,8	1,5	0,3	8,6	13,4	0,4	6,0	11,0
Axfood AB (AXFO)	Sweden	25,3	11,0	47,3	0,9	11,9	17,7	1,1	12,0	22,5
Colruyt NV (COLR)	Belgium	17,4	2,0	2,5	0,5	10,0	347,9	0,6	7,5	14,9
ICA Gruppen AB (ICA)	Sweden	23,7	2,9	17,3	0,8	10,2	14,0	0,9	10,6	20,5
J Sainsbury PLC (SBRY)	UK	8,3	0,7	0,8	0,2	5,6	9,5	0,4	5,1	10,5
Kesko Oyj (KESKOB)	Finland	20,4	4,6	6,7	1,0	10,1	12,8	1,2	11,0	18,1
WM Morrison (MRW)	UK	45,0	1,0	1,1	0,2	48,4	9,0	0,4	9,4	29,5
Average Peers		**21,2**	**3,4**	**11,5**	**0,7**	**12,6**	**41,3**	**0,8**	**10,0**	**18,6**
Median Peers		**18,8**	**1,7**	**4,6**	**0,4**	**9,3**	**10,3**	**0,6**	**7,8**	**16,5**
JMT		**32,1**	**5,0**	**2,2**	**0,0**	**10,8**	**0,1**	**0,7**	**19,4**	**19,4**

Source: Bloomberg, Author

P/E	
JMT Book EPS	**0,69**
Average Peers	21,16
Stock price (RV - EV/EBITDA)	**14,53**
Yahoo Finance 05/09/2022	**22,04**
Sell	-34,07%

Source: Author Analysis

P/CF	
JMT FCO per Share	**2,04**
Average Peers	12,58
Stock price (RV - EV/EBITDA)	**25,68**
Yahoo Finance 05/09/2022	**22,04**
Buy	16,54%

Source: Author Analysis

P/B	
JMT Book Value per Share	**4,44**
Average Peers	3,36
Stock price (RV - EV/EBITDA)	**14,92**
Yahoo Finance 05/09/2022	**22,04**
Sell	-32,31%

Source: Author Analysis

P/B	
JMT Book Value per Share	**4,44**
Average Peers	3,36
Stock price (RV - EV/EBITDA)	**14,92**
Yahoo Finance 05/09/2022	**22,04**
Sell	-32,31%

Source: Author Analysis

EV/EBITDA	
JMT EBITDA F 23	1537,41
Average Peers EV/EBITDA	9,97
JMT EV F 23	**15323,01**
JMT Net Debt	1641,37
JMT Non-controling interests	254,00
JMT Equity	**13427,64**
Shares Outstanding	628,43
Stock price (RV - EV/EBITDA)	**21,37**
Yahoo Finance 05/09/2022	**22,04**
Reduce	-3,05%

Source: Author Analysis

P/Sales	
JMT Sales per Share	**33,24**
Shares Outstanding	628,4342
Average Peers	0,66
Stock price (RV - EV/EBITDA)	**22,00**
Yahoo Finance 05/09/2022	**22,04**
Reduce	-0,19%

Source: Author Analysis

EV/EBIT	
JMT EBIT F 23	784,90
Average Peers EV/EBIT	18,60
JMT EV F 23	**14597,15**
JMT Net Debt	1641,37
JMT Non-controling interests	254,00
JMT Equity	**12701,78**
Shares Outstanding	628,43
Stock price (RV - EV/EBIT)	**20,21**
Yahoo Finance 05/09/2022	**22,04**
Sell	-8,29%

Source: Author Analysis

EV/Sales	
JMT Sales F 23	20889,00
Average Peers EV/Sales	0,82
JMT EV F 22	**17201,05**
JMT Net Debt	1641,37
JMT Non-controling interests	254,00
JMT Equity	**15305,68**
Shares Outstanding	628,43
Stock price (RV - EV/Sales)	**24,36**
Yahoo Finance 05/09/2022	**22,04**
Hold	10,50%

Source: Author Analysis

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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%

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