

Monitor

Grocery

VOLUME
307



SALES RISE, BUT COMPETITION REMAINS FIERCE

GROCERS GO DIGITAL

Retailers are investing in omnichannel capabilities to remain competitive in the digital age

SHRINKING SHARE

Traditional grocers continue to lose market share to alternative formats

PICKUP TICKS UP

Grocery pickup remains the most popular method for online grocery shopping

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Deals are a moving target. A constantly shifting mix of people, numbers and timing. We're here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need even on the most complex deals, so you can leverage our hard-won knowledge to close the deal.

Overview

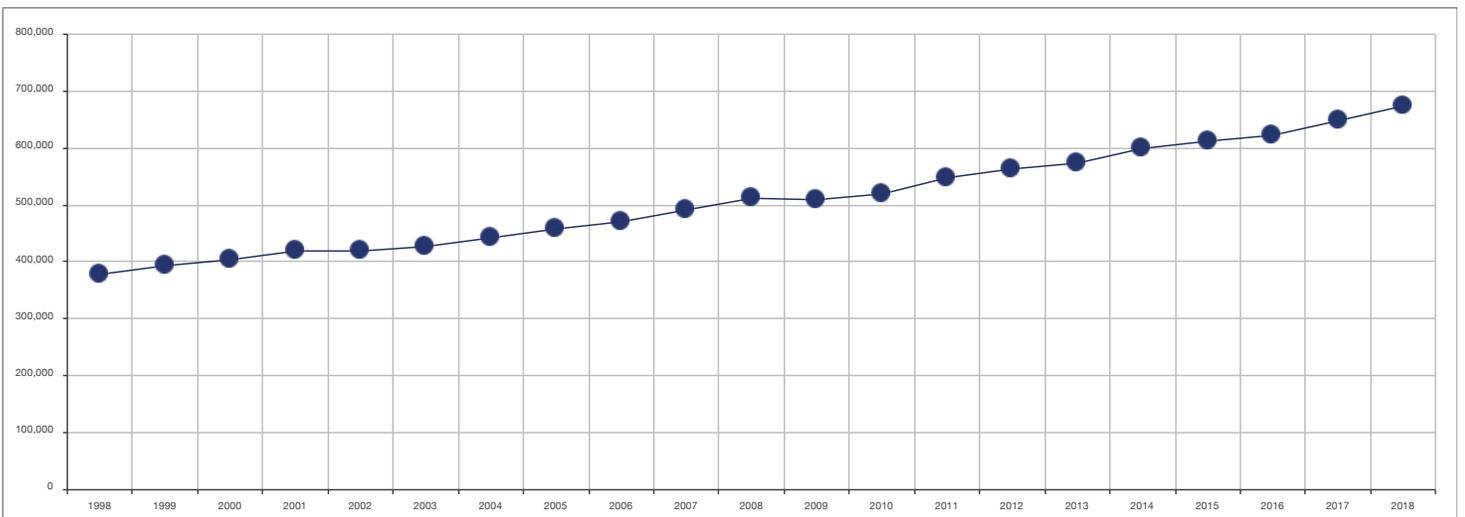
Recent sales trends for most major industry players have been positive, with low single-digit increases over the past several quarters. However, stiff competition has forced many to raise volumes through promotions and aggressive pricing.

The grocery stores industry generated \$674.2 billion in sales in 2018 according to the U.S. Census Bureau, an increase of 3.9% compared to the prior year. Although industry-wide sales are trending up, traditional supermarkets, such as Kroger, Albertsons, Publix, and Ahold Delhaize, continue to lose market share to non-traditional formats such as mass merchants (Walmart, Costco, Target), fresh formats (Sprouts), limited-assortment discounters (Aldi, Lidl), dollar stores (Dollar General), and others. Despite this fact, grocery store retailers did expand in 2018, with *Supermarket News* reporting that openings of new grocery stores increased 30% in 2018, as over 17 million square feet of grocery space was added in the U.S. Grocers such as Publix, Aldi, Kroger, Sprouts Farmers Market, and H-E-B led the charge, with expansion seen in areas such as Texas, Florida, and California in particular.

Even so, most capital expenditure within the industry has been directed not on new stores, but on modernizing existing stores and investing in omnichannel capabilities as online grocery shopping continues to gain traction. There is also a trend toward smaller stores. According to a study by Shopcore Properties, although the perimeter of the store is increasing by 3% to 5%, overall store size has declined by 20% since 2000.

Recent years had been characterized by a number of mergers, acquisitions, and divestitures as retailers sought to increase their footprint through store acquisition versus building from the ground up. However, the pace of this slowed in 2019.

1 Grocery sales in millions (Source: U.S. Census)



Overview

2 Top grocery stores (Source: Progressive Grocer)

2019 Rank	2018 Rank	Company	Fiscal Year-end Sales (\$ in 000s)	Store Count
1	1	Walmart	\$514,410,000	4,253
2	2	Kroger	\$121,162,000	2,764
3	3	Albertsons	\$62,179,000	2,275
4	4	Ahold Delhaize	\$48,090,120	1,963
5	5	Publix	\$36,100,000	1,215
6	6	H.E. Butt	\$26,000,000	331
7	12	Meijer	\$17,400,000	242
8	7	WakeFern	\$16,500,000	352
9	9	Aldi	\$16,053,440	1,900
10	8	Amazon/Whole Foods	\$15,887,300	477
11	10	Trader Joe's	\$11,665,680	486
12	15	Hy-Vee	\$10,200,000	249
13	11	Southeastern Grocers	\$9,055,800	552
14	16	Giant Eagle	\$8,900,000	474
15	13	Target	\$7,402,200	241

Going forward, the industry will see a continued increase in e-commerce, forcing it to strike a balance between rising customer expectations surrounding fast, free delivery and turning a profit. It is expected that most retailers will adopt some type of hybrid model that includes home delivery, pickup, or both. There will also be continued interest in convenience and prepared foods, a scenario in which grocers may find themselves competing with the food service industry and grappling with how to manage shrink and fine tune their assortment. Experts predict there will also be continued growth of alternative store formats or non-traditional merchandise assortments, as well as a focus on technology to improve convenience and the customer experience and emphasis on private label brands to differentiate themselves.

*Note(s): Grocery store is defined as "a grocery store with a minimum of \$2 million in annual sales." Data excludes convenience stores, drug stores, and wholesale clubs. Target sales include only sales of grocery merchandise.



Grocery

NON-TRADITIONAL FORMATS GROW

Walmart continues to be the number one grocery store with an estimated 25% market share. According to a recent report by the Institute for Local Self Reliance, Walmart captures 50% or more of grocery sales in 43 metropolitan areas and 160 smaller markets. Nationwide, one out of every four U.S. grocery dollars goes to Walmart. During its fiscal 2020 second quarter, Walmart reported continued strong growth in its grocery category.

Within e-commerce, the retailer offers click-and-collect in more than 2,700 stores (a figure that is projected to reach 3,100 by year end) and home delivery in approximately 1,100 stores. This translates to delivery being available to more than 50% of U.S. households and pickup available to more than 80%. Walmart has the distinct advantage of having more store locations than any other retailer from which to provide pickup and delivery services, as well as the financial resources to build the infrastructure necessary to support omnichannel capabilities.

Walmart is also testing unmanned pickup locations, a grocery delivery subscription service, and has partnered with third-party delivery services in certain markets. It is even testing driverless cars for grocery pickup. As of June 2019, Walmart surpassed Instacart in the number of online grocery customers, according to research from Second Measure. Data showed that 62% more shoppers used Walmart's pickup and delivery services than Instacart.

TREND TRACKER

NOLVs	Mixed	▲▼
Sales Trends	Increasing	▲
Gross Margin	Mixed	▲▼
Discounting	Mixed	▲▼

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Kroger	1.5%	1.8%	1.6%	1.6%
Ahold Delhaize	0.2%	1.2%	2.7%	3.0%
Publix	4.8%	1.9%	1.1%	0.6%
Ingles	4.3%	3.4%	3.9%	2.3%
Weis Markets	1.4%	1.4%	0.9%	0.7%

*Note(s): All sales exclude fuel, except for Weis Markets. The most recent quarter for Kroger ended May 25, 2019; Ahold Delhaize ended June 30, 2019; Publix, Ingles, and Weis Markets ended June 29, 2019.

Grocery

Target, which has had less success in the grocery space than Walmart, is continuing to make investments in its grocery business by improving freshness, redesigning the layout, and revamping its private label brands. Target acquired same-day grocery delivery company Shipt in 2017 and now offers nationwide grocery delivery. It also offers grocery pickup in more than 1,500 stores.

Costco recently launched CostcoGrocery, which offers two-day delivery of shelf-stable products. It is also expanding its relationship with Instacart to more locations for fresh products.

Dollar General has been ramping up its perishables expansion by adding fresh produce to hundreds of stores and expanding the number of coolers in each door. As of May 2019, Dollar General carried fresh produce in approximately 480 stores. Similarly, Family Dollar is swiftly adding frozen and refrigerated cases in its stores.

EUROPEAN INVASION

European limited assortment discounters Aldi and Lidl continue their U.S. invasion. Both are known for their low prices, streamlined assortment, and focus on private label brands versus national brands. Aldi currently has 1,900 stores, with plans to open 160 stores in 2019 and reach 2,500 stores nationwide by the end of 2022. This would make it the third largest supermarket chain behind Walmart and Kroger. Most of its growth is targeted toward the Midwest, Mid-Atlantic, Florida, and California regions, particularly in upper middle-class suburbs. It is also planning to remodel/expand 1,300 stores by 2020 with a focus on fresh, organic products. Aldi also partnered with Instacart to offer online shopping nationwide and has partnered with Kohl's to open stores adjacent to select Kohl's locations.

German retailer Lidl has opened over 65 stores since its June 2017 U.S. debut. This is less than the 100 it planned to have by June 2018, and it now says it plans to reach 100 stores by 2020. Lidl recently announced plans for 25 stores along the east coast over the next year. In addition, *Supermarket News* reports that it has partnered with Boxed.com and will be testing a home delivery service.

FOOD PRICES INCH UP

Food prices play a key role in the industry, as any significant price inflation or deflation can impact a supermarket's top line sales and gross margin. According to the USDA, in 2018, retail food prices increased 0.4%, which represented the first time in three years that food prices increased. The USDA has forecasted that the Consumer Price Index for food-at-home will increase between 1% and 2% in 2019. The impact of the recently imposed U.S. tariffs remains unclear. These tariffs will affect prices for certain foods, food additives, and packaging materials. In addition, rising freight costs could also impact food prices in 2019.

ONLINE, NOT IN LINE

Unlike other retail sectors, e-commerce represents only a small percentage of grocery sales. According to estimates, online sales represent less than 5% of grocery sales. Pinpointing actual sales figures has proven difficult due to the various methods of online shopping: click-and-collect, home delivery, and retailers that use third-party partnerships with companies like Instacart. However, it is estimated that click-and-collect accounts for more than half of online sales. In keeping with this trend, Instacart launched its Instacart Pickup service at the end of 2018, which is now available in more than 30 states via more than 25 retail partners including Albertsons, Publix, Food Lion, and Sprouts.

Grocery

Although increasing, online grocery sales have grown more slowly than overall online retail sales. The grocery business presents a challenge given the small profit margins, delivery expenses, and the high cost of storing and managing perishable items. In addition, many consumers still like to select their own produce and meat. E-commerce has been slowly siphoning off center store sales for some time and many believe that fresh sales will be soon to follow as consumers become more accustomed to buying groceries online. Any company that wishes to be a major player in the grocery space is now embracing e-commerce. Only the largest players (Amazon, Walmart, Kroger) have built their own infrastructure, while smaller companies have turned to third-party partnerships.

Recently, companies have been lowering delivery fees, which has been successful in attracting more online shoppers, but has eaten away at profits. Several retailers, such as Albertsons, Walmart, and Ahold Delahize, have been testing unlimited delivery subscription services.

Retailers are also grappling with how grocery pickup impacts their physical stores. Many have been retrofitting their stores to better accommodate pickup, including special checkout

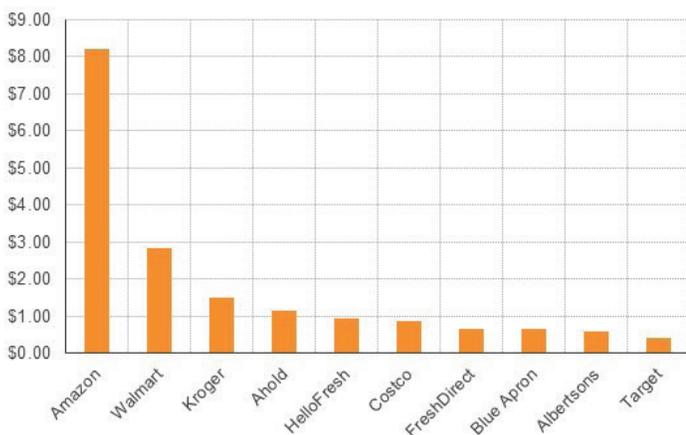
lanes, replacing snack aisles with freezers in order to store pickup orders, and adding pickup lockers and kiosks. In addition, some have experienced issues with aisles being clogged with dedicated e-commerce shoppers and Instacart personnel.

Grocery Dive recently reported on results from the U.S. Online Grocery Survey 2019, conducted by Coresight Research, which found that 36.8% of shoppers in the U.S. bought groceries online during the past 12 months, increasing from 23% in the prior year. However, only 11.8% reported using online delivery to buy a significant amount of groceries; many use it for smaller purchases. Of the shoppers that purchased groceries online, 62.5% purchased from Amazon, while 37.4% reported purchasing from Walmart, and 15.7% from Target.

Amazon ranks first in the online grocery space with consumers purchasing goods directly through the Amazon website (mostly non-perishables) or via its AmazonFresh and Amazon Prime Now services. According to Edge by Acential, Amazon was the top online seller of groceries in 2018 with sales of \$8.2 billion, up 12.5% from 2017. Walmart was second, with sales of \$2.84 billion, followed by Kroger at \$1.51 billion, and Ahold Delhaize at \$1.17 billion. The largest gain came from Kroger, with sales up 66% due to its expansion of click-and-collect and partnership with Instacart. The Edge by Acential study defined online grocery sales as items typically sold at supermarkets that were purchased through a retailer's website, app, or third-party service.

Although Amazon is still considered the industry leader in the online grocery space, Walmart is quickly gaining. According to a recent survey by Citi, Walmart was ranked best by consumers when it comes to delivery service. And, Walmart boasts over 4,000 physical locations compared to Amazon's 480 Whole Foods stores, a clear advantage when it comes to grocery pickup.

3 Top 10 Online Grocery Retailers in billions (Source: Edge by Acential)



Grocery

When looking at basket size, data suggests that most shoppers use Amazon only occasionally for groceries or to purchase a small number of items compared to Walmart and Target shoppers, who are more likely to purchase a full basket.

Within the traditional segment, Kroger leads the way in online operations, offering click-and-collect, as well as delivery through its own Kroger Ship program and Instacart.

Although online grocery sales are projected to grow more slowly than overall e-commerce retail sales, they are expected to grow nonetheless. A recent study by Brick Meets Click forecasts that online grocery sales will increase at 10 times the rate of in-store sales over the next five years, or 13% per year, and reach 8% of U.S. grocery sales by the end of 2022. So far, growth is occurring more rapidly in urban areas and it is expected that grocers will tailor their services based on their geographic location and customer demographics rather than take a one-size-fits-all approach.

With powerhouses like Amazon, Walmart, and Kroger rapidly growing their e-commerce business, smaller regional players with fewer resources are fighting back using a variety of tactics. Many of these tactics focus on customer experience, something that is often lacking from the larger players. For example, SpartanNash is testing a new tracking system that will alert employees as to when a customer is on their way so that the groceries are ready when they pull up. It also has prizes for employees who accumulate the most positive customer reviews based on their shopping to ensure online customers are receiving the best possible products.

AMAZON/WHOLE FOODS

In August 2017, Amazon completed its acquisition of Whole Foods in a move that sent shockwaves throughout the industry. While many changes have taken place at Whole Foods since the acquisition, it has not yet caused the major disruption that so many feared. As expected, Amazon tied much of its Whole Foods discounts to its Prime membership program. In doing this, the retailer benefits from driving current Prime members to shop at Whole Foods stores and by using the physical stores to acquire new Prime members.

There had been much hype regarding price cuts that Amazon used to help change the retailer's reputation for being overpriced, often referred to as "Whole Paycheck." While much publicized, these price cuts have been underwhelming. According to Gordon Haskett Research Advisors, which analyzed a shopping basket of 106 items, prices declined by only 2.5%.

While Amazon does not separately report results for its Whole Foods stores or grocery sales, it does report its physical store sales, which consist primarily of Whole Foods sales. During its second quarter ended June 30, 2019, Amazon reported that physical sales were relatively flat, increasing 0.4% from the prior year.

Although no sweeping changes have occurred thus far, rumors abound within the industry that it is only a matter of time before Amazon flexes its muscle in the grocery space by developing an alternative store format.

Monitor Information

GA's *Grocery Monitor* highlights key industry drivers within the grocery sector and their relation to GA's valuation process. GA strives to contextualize important indicators to provide an in-depth perspective of the market. Any comparable store sales illustrated in this monitor reflect figures as they have been reported by public retailers. The methodology for calculating comparable store sales may vary by company. GA welcomes the opportunity to make our expertise available. Should you need any further information or wish to discuss recovery ranges for a particular segment, feel free to contact your GA Business Development Officer.

The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

Experience

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, including the grocery industry. Examples include A&P, Haggen, The Markets, C&K Markets, and Penn Traffic.

These experiences provide GA with valuable insight into the market trends and the consumer response that can be expected in a liquidation. They give us an understanding as to recovery values that can be achieved for retailers.

GA has also worked with and appraised numerous retailers. While our clients remain confidential, GA's extensive list of appraisal experience includes:

- Many of the country's largest grocery store operators including those with sales in excess of \$10 billion and upwards of 800 stores;
- Smaller regional supermarket chains; and
- Wholesale distributors of grocery products.

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



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About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *Grocery Monitor*, GA also provides clients with industry expertise in the form of monitors for the retail, home furnishings & home improvement, automotive, metals, chemicals and plastics, and building products sectors, among many others. For more information, please visit www.greatamerican.com.

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