



**Global Credit Services**

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**Webinar Presentation:  
Roundy's Supermarkets  
February 11, 2015**

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# ROUNDY'S SUPERMARKETS

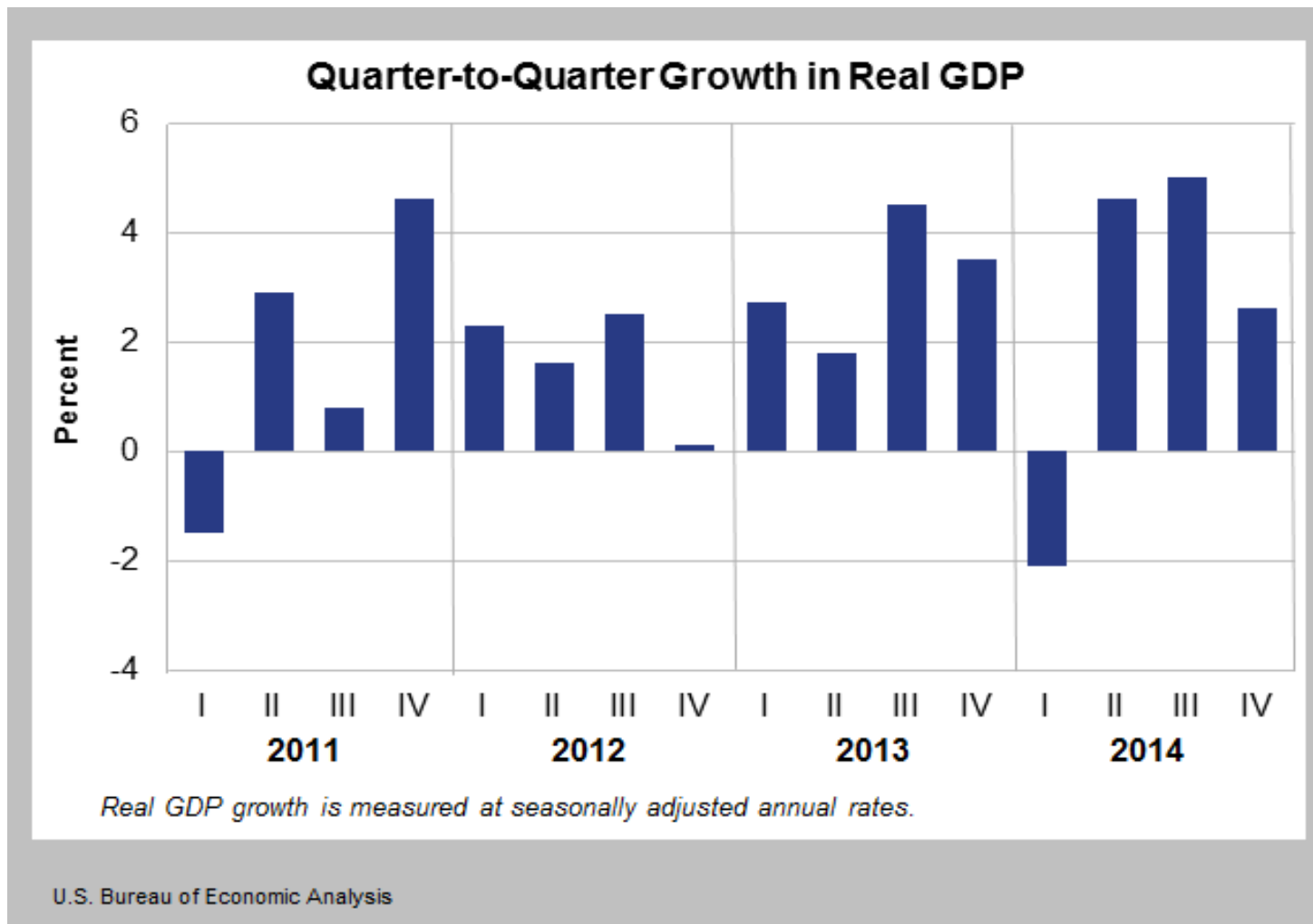
## Today's Agenda



- 1) Economic Overview
- 2) Supermarket Industry Update
- 3) Company Profile & Q3 2014 Summary
- 4) Financial History
- 5) Key Developments
- 6) Strategic Initiatives
- 7) GCS Observations & Conclusions
- 8) Q&A

# ECONOMIC OVERVIEW

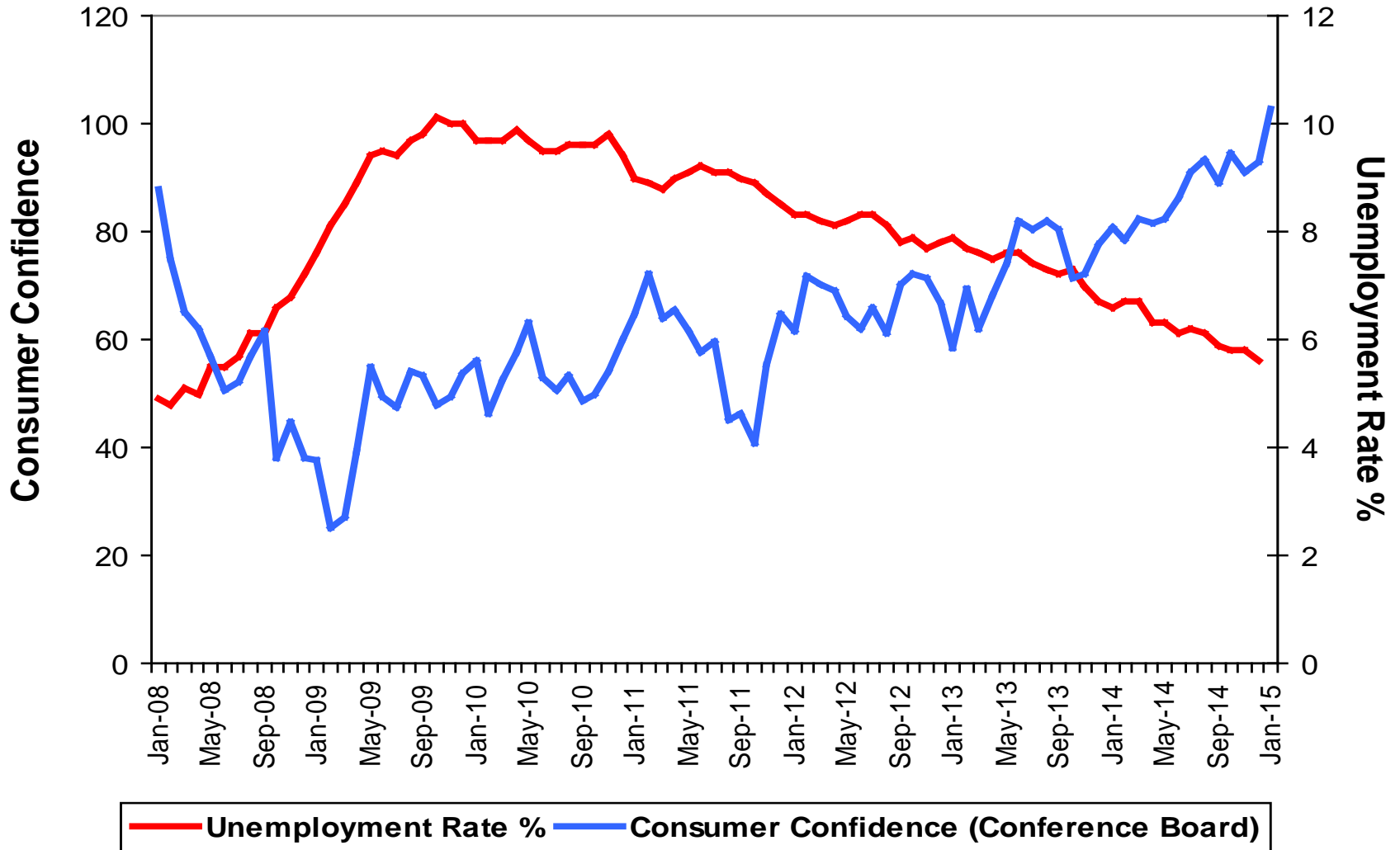
## GDP Growth



**Real GDP growth was 2.6% in Q4 '14 after ascending 5.0% in Q3 '14**

# ECONOMIC OVERVIEW

## Consumer Confidence Versus Unemployment



# SUPERMARKET INDUSTRY

## Recent Transactions & Management Changes



- **Safeway & Albertsons merged in January 2015**
  - Transaction passed thanks to 168 store divestitures to four separate parties: Haggen (146), Minyard Food Stores (12), Associated Food Stores (8), and Supervalu (2)
  - Winners from a distribution perspective: Unified Grocers, Supervalu, and Associated Wholesale Grocers
- **Aldi USA in the process of purchasing 66 Bottom Dollar Food stores from Delhaize Group**
  - Should add \$718mm in annualized revenue to a firm that generated ~\$10.1B in fiscal 2014
  - Boosts presence in Philadelphia and Pittsburgh
- **Top two officials being at Southeastern Grocers' Bi-Lo Holdings shown the door**
  - Private equity owners likely became disenchanted with a failed IPO attempt and softening operating performance in 2014
  - The COO left at December's end, and the CEO is leaving in early-March 2015 when his replacement begins
- **The Fresh Market parts ways with its CEO**
  - Moderating growth and perceived conflict between the CEO and the board of directors, which includes the firm's founder

# ROUNDY'S SUPERMARKETS

## Company Profile



- **The company was founded in 1872**
  - 21,160 employees as of December 2013, of which 7,806 were full-time and 13,354 were part-time
  - ~56% of employees are unionized
- **As of September 2014, Roundy's operated 149 supermarkets in Wisconsin (122) and Illinois (27)**
  - Includes 97 pharmacies and 7 fuel centers
- **The company currently has four banners:**
  - Pick 'n Save (93)
  - Cops (25)
  - Mariano's Fresh Market (27)
  - Metro Market (4)
- **Following a March 2014 refinancing, private equity firm Willis Stein's ownership stake was reduced to 19%**
- **Leases all but 2 of its stores and both distribution centers in operation**
  - Still owns Stevens Point DC, which it closed in July 2014

# ROUNDY'S SUPERMARKETS Company Profile (cont.)



- **Product Mix:**

(% of Sales)

		<u>9-Mos-2014</u>	<u>9-Mos-2013</u>
➤ Non-Perishable Food	-	44.4%	47.0%
➤ Perishable Food	-	38.2%	35.6%
➤ Non-Food	-	17.4%	17.4%

- **Principal Competition:** Jewel-Osco (Albertsons), Costco, Target, Wal-Mart, Woodman's Markets, Piggly Wiggly Midwest, Festival Foods, Meijer, Strack & Van Til, Aldi, Trader Joe's, and Whole Foods

- **Target Market:**

- Wisconsin-based shoppers who gravitate to promotional, high-low priced grocers in search of the standard broad assortments offered by conventional supermarket chains
- Chicago-based shoppers who seek premium perishable and prepared foods, along with a wide array of organic and natural offerings, within a highly differentiated, service-oriented food shopping format at everyday low price (EDLP) points

# ROUNDY'S SUPERMARKETS Management Team



<u>Name</u>	<u>Title</u>	<u>Ownership</u>
Robert Mariano	Chairman/President/CEO	0.8%
Mike Turzenski	CFO	N/A
Donald Rosanova	EVP - Operations	N/A



# ROUNDY'S SUPERMARKETS

## Key Shareholders



<u>Name</u>	<u>Ownership</u>
Willis Stein	~19.0%
Vanguard	2.5%
Lsv Asset Management	2.5%
BlackRock Fund Advisors	1.8%
Bridgeway Capital Management	1.4%
State Street Corporation	1.2%
Schwab Investment Management	1.2%
JP Morgan Chase	1.1%
Morgan Stanley	1.0%

# ROUNDY'S SUPERMARKETS

## Competitive Position: Milwaukee

<u>Rank</u>	<u>Grocer</u>	<u>Marketshare</u>	<u>YOY Δ</u>	<u>Stores</u>	<u>YOY Δ</u>
#1	Wal-Mart	26.8%	+90 bps	84	+4
#2	Roundy's	24.1%	-240 bps	121	0
#3	Woodman's Markets	7.3%	+10 bps	12	0
#4	Skogen's Festival Foods	4.8%	-10 bps	19	+1
#5	Aldi USA	2.2%	N/A	59	N/A

\* - data provided by AC Nielson; as of October 2014

# ROUNDY'S SUPERMARKETS

## Recent Developments - Milwaukee

- Roundy's relinquished its leadership position in Wisconsin to Wal-Mart in 2014
- This change came despite a host of initiatives undertaken by Roundy's in mid-2013 that were designed to boost service levels, augment customer experience, and incorporate different types of pricing and merchandising
  - Many of these stores began exhibiting positive trends across sales dollars, unit count, perishable sales, and EBITDA
  - Today, these stores continue to outperform the firm's stores that didn't receive these changes
  - However, the Milwaukee-area stores have been challenged by increased competitiveness and elevated levels of shrink
- Management enlisted Alix Partners to review the entire business for the purposes of performance improvement
  - Areas of focus included: supply chain, store operations, and competitive pricing
  - Analysis was completed in the fall of 2014; Roundy's officials were reviewing and prioritizing these action items heading into the winter

# ROUNDY'S SUPERMARKETS

## Competitive Position: Chicago

<u>Rank</u>	<u>Grocer</u>	<u>Marketshare</u>	<u>YOY Δ</u>	<u>Stores</u>	<u>YOY Δ</u>
#1	AB Acquisition LLC (Jewel)	28.0%	+180 bps	181	+9
#2	Wal-Mart	16.1%	+60 bps	92	+6
#3	Central Grocers	5.7%	+10 bps	38	+1
#4	Meijer	5.1%	+40 bps	26	+2
#5	Roundy's	4.7%	N/A	28	N/A
<i>* - data provided by AC Nielson; as of October 2014</i>					

# ROUNDY'S SUPERMARKETS

## Recent Developments - Chicago

- **On December 20, 2013, Roundy's acquired 11 Dominick's stores from Safeway for \$36mm in cash**
  - Through late-September 2014, 10 of these stores had been reopened with the Mariano's Fresh Market banner
  - The remaining store was converted to the Mariano's format in Q4 2014
  - Concluded FY 2014 with 29 stores and expects to end FY 2015 with 34 stores
- **As of late-September 2014, the revenue run rate for Mariano's was ~\$1.2B**
  - Run-rate likely ~\$1.3B at fiscal 2014's conclusion
  - Same store sales for this banner are growing at a healthy, albeit slightly decelerating, mid single-digit clip
- **Whole Foods, a fierce competitor of the Mariano's format, acquired 7 Dominick's locations in January 2014**
  - These stores, along with 3 other new locations, will debut in 2015 and ultimately give Whole Foods 28 Chicago-area stores

# ROUNDY'S SUPERMARKETS

## Competitive Position: Minneapolis

<u>Rank</u>	<u>Grocer</u>	<u>Marketshare</u>	<u>YOY Δ</u>	<u>Stores</u>	<u>YOY Δ</u>
#1	Wal-Mart	21.3%	+60 bps	63	+4
#2	Supervalu	15.6%	+180 bps	50	+7
#3	Target	10.1%	-10 bps	26	0
#4	Jerry's Enterprises	7.3%	+190 bps	24	+7
#5	Coborn's	5.5%	N/A	31	N/A
* - data provided by AC Nielson; as of October 2014					

# ROUNDY'S SUPERMARKETS

## Recent Developments - Minneapolis

- **In fiscal 2014, Roundy's made a business decision to exit the Minneapolis market**
  - **At the #4 position with ~6% market share, the firm's Rainbow banner was not only becoming irrelevant, but also losing money**
- **On July 9, 2014, the grocer sold 18 Rainbow stores to a group of local retailers that included Supervalu for \$65mm of cash plus inventory proceeds**
  - **Also made sense for Supervalu, which added incremental retail and wholesale revenues as a result of this transaction, which was completed on July 19<sup>th</sup>**
  - **MEPP withdrawal charge of \$25.8mm booked in Q2 2014**
  - **Included in discontinued operations beginning in Roundy's Q2 2014 results**
- **Then on July 22<sup>nd</sup>, the company shuttered the remaining 9 Rainbow stores that went unpurchased**
  - **Recorded a non-cash impairment charge of \$11.1mm**
  - **MEPP withdrawal charge of \$23.9mm was booked in Q3 2014**

# ROUNDY'S SUPERMARKETS

## P&L Statement



	<u>13 Weeks Ended</u>			<u>39 Weeks Ended</u>		
	<u>9/27/14</u>	<u>9/28/13</u>	<u>YOY Var.</u>	<u>9/27/14</u>	<u>9/28/13</u>	<u>YOY Var.</u>
Revenue	\$973.8	\$836.6	16.4%	\$2,779.4	\$2,499.9	11.2%
Same-Store Sales %	(2.7%)	(3.7%)		(3.1%)	(2.8%)	
Store Count	149	132				
Gross Margin	26.5%	25.5%	101 bps	26.5%	26.3%	25 bps
EBITDA	\$25.6	\$29.5	(13.2%)	\$82.3	\$111.1	(25.9%)
EBITDA Margin	2.63%	3.53%	(90 bps)	2.96%	4.44%	(148 bps)
Operating Income	\$8.3	\$15.7	(47.1%)	\$34.2	\$68.9	(50.4%)
Operating Margin	0.85%	1.88%	(103 bps)	1.23%	2.76%	(153 bps)
LTM EBITDAR Coverage	1.38x	1.72x				
Net Income – Cont.	(\$249.9)	\$3.2	N/A	(\$260.4)	\$22.6	N/A



# ROUNDY'S SUPERMARKETS

## P&L Statement Comments



- **Don't be fooled by top-line growth in Q3 2014**
  - 16% revenue growth attributable to new Mariano's store openings
  - Blended same store sales declined 2.7%
- **Gross margin expansion of 101 bps in Q3 2014**
  - Helped by reduced promotional spend, a benefit for the reduction in the LIFO reserve due to the disposition of inventory when the Stevens Point DC was closed, and a higher mix of perishables and store brand products
  - Limited to some extent by increased shrink
- **Yet, despite these gains, Q3 2014 adjusted EBITDA declined 13% to \$25.6mm**
  - Snake-bitten by higher start-up costs associated with new Mariano's store openings, as well as higher occupancy costs and the loss of fixed cost leverage due to lower Pick 'n Save revenues
- **Rent-adjusted coverage continued to erode, now below 1.4x**
  - LTM adjusted EBITDA of \$125.1mm as of 9/27/14, down ~21% y-o-y

# ROUNDY'S SUPERMARKETS

## Balance Sheet



<i>\$ in millions</i>	<u>9/27/14</u>	<u>12/28/13</u>	<u>12/29/12</u>
Cash & Equivalents	\$46.9	\$82.2	\$72.9
Receivables, net	\$37.2	\$38.8	\$33.1
Inventories	\$298.6	\$280.5	\$292.7
Current Assets Held For Sale	\$0.0	\$21.7	\$0.0
Prepaid & Other Assets	<u>\$27.4</u>	<u>\$53.2</u>	<u>\$14.9</u>
<b>Total Current Assets</b>	<b>\$410.2</b>	<b>\$448.5</b>	<b>\$314.0</b>
Property & Equipment, net	\$321.6	\$315.0	\$314.0
Goodwill	\$297.5	\$577.5	\$606.0
LT Assets Held For Sale	\$0.0	\$60.7	\$0.0
Other Assets, net	<u>\$60.4</u>	<u>\$59.8</u>	<u>\$46.4</u>
<b>Total Assets</b>	<b>\$1,089.7</b>	<b>\$1,461.6</b>	<b>\$1,380.1</b>

# ROUNDY'S SUPERMARKETS

## Balance Sheet (cont.)



<i>\$ in millions</i>	<u>9/27/14</u>	<u>12/28/13</u>	<u>12/29/12</u>
Accounts Payable & Accrued Liabilities	\$320.5	\$337.1	\$320.5
Current Debt & Capital Leases Obligations	\$6.0	\$3.6	\$10.9
Other Current Liabilities	<u>\$11.8</u>	<u>\$1.7</u>	<u>\$2.3</u>
Total Current Liabilities	\$338.4	\$342.4	\$333.7
Long-Term Debt & Capital Leases Obligations	\$650.4	\$734.3	\$685.6
Other Liabilities	<u>\$167.6</u>	<u>\$158.4</u>	<u>\$167.4</u>
Total Liabilities	\$1,156.5	\$1,235.1	\$1,186.8
Shareholders' Equity	<u>(\$66.8)</u>	<u>\$226.4</u>	<u>\$193.3</u>
Total Assets	\$1,089.7	\$1,461.6	\$1,380.1

# ROUNDY'S SUPERMARKETS

## Balance Sheet Comments



- **Cash provides weak coverage of current liabilities**
  - 13% as of 9/27/14; had been 24% at FY 2013's end
  - Cash balances down ~40% y-o-y
- **Goodwill impairment charge taken in Q3 2014**
  - This pre-tax, non-cash charge totaled \$280mm and eliminated all remaining book equity from the retailer's balance sheet
  - Tangible net deficit of \$364mm as of 9/27/14
- **Despite all the firm's challenges, it still managed to reduce its burdensome debt balance by 11%**
  - Funds were most recently sourced from asset sale proceeds, something which may or may not be repeatable going forward
  - With virtually all of its properties being leased, the reduction in debt failed to prevent rent-adjusted leverage from ascending further into excessive territory (6.7x as of 9/27/14; 6.0x as of 9/28/13)
  - Capital structure currently includes aforementioned term loan borrowings (~70% of debt), \$200mm of second-lien 10.25% notes due December 2020, and \$12mm of capitalized leases

# ROUNDY'S SUPERMARKETS

## Liquidity



- **As of September 27, 2014, Roundy's had cash & cash equivalents totaling \$46.9mm**
- **Also at that juncture, the company had availability of \$190.4mm remaining on its \$220mm secured revolver**
  - **No direct borrowings**
  - **\$29.6mm of outstanding letters of credit**
  - **Matures on March 3, 2019**
  - **Secured by eligible inventory, A/R, and pharmacy scripts on a first lien basis, and the collateral of the term loan on a second lien basis**
  - **LIBOR + 1.50% to 2.00% / Base rate + 0.50% to 1.00%**
- **The grocer's \$460mm secured term loan was fully drawn**
  - **Remaining principal balance of \$458.9mm**
  - **Matures on March 3, 2021, but could be accelerated to September 15, 2020 if Roundy's \$200mm second lien notes due December 15, 2020 aren't refinanced prior to September 15, 2020**
  - **Secured by all other assets on a first lien basis, and the collateral of the revolver on a second lien basis**
  - **LIBOR + 4.75% / Base rate + 3.75%**

# ROUNDY'S SUPERMARKETS

## Cash Flow Metrics



<i>\$ in millions</i>	<u>9/27/2014</u>	<u>9/28/2013</u>
Cash Earnings	\$29.9	\$79.8
W/C Fluctuations	<u>(\$13.4)</u>	<u>(\$16.8)</u>
Operating Cash Flow	\$16.5	\$63.0
Cap-Ex Spending	<u>(\$71.5)</u>	<u>(\$34.0)</u>
Free Cash Flow	<b>(\$55.0)</b>	\$29.0
Asset Sale Proceeds	\$77.5	\$0.5
Net Debt Increase/(Decrease)	(\$70.5)	(\$8.1)
Net Stock Issuance	\$19.3	--
Dividends Paid	(\$0.1)	(\$16.3)
Ending Cash	\$46.9	\$77.6

# ROUNDY'S SUPERMARKETS

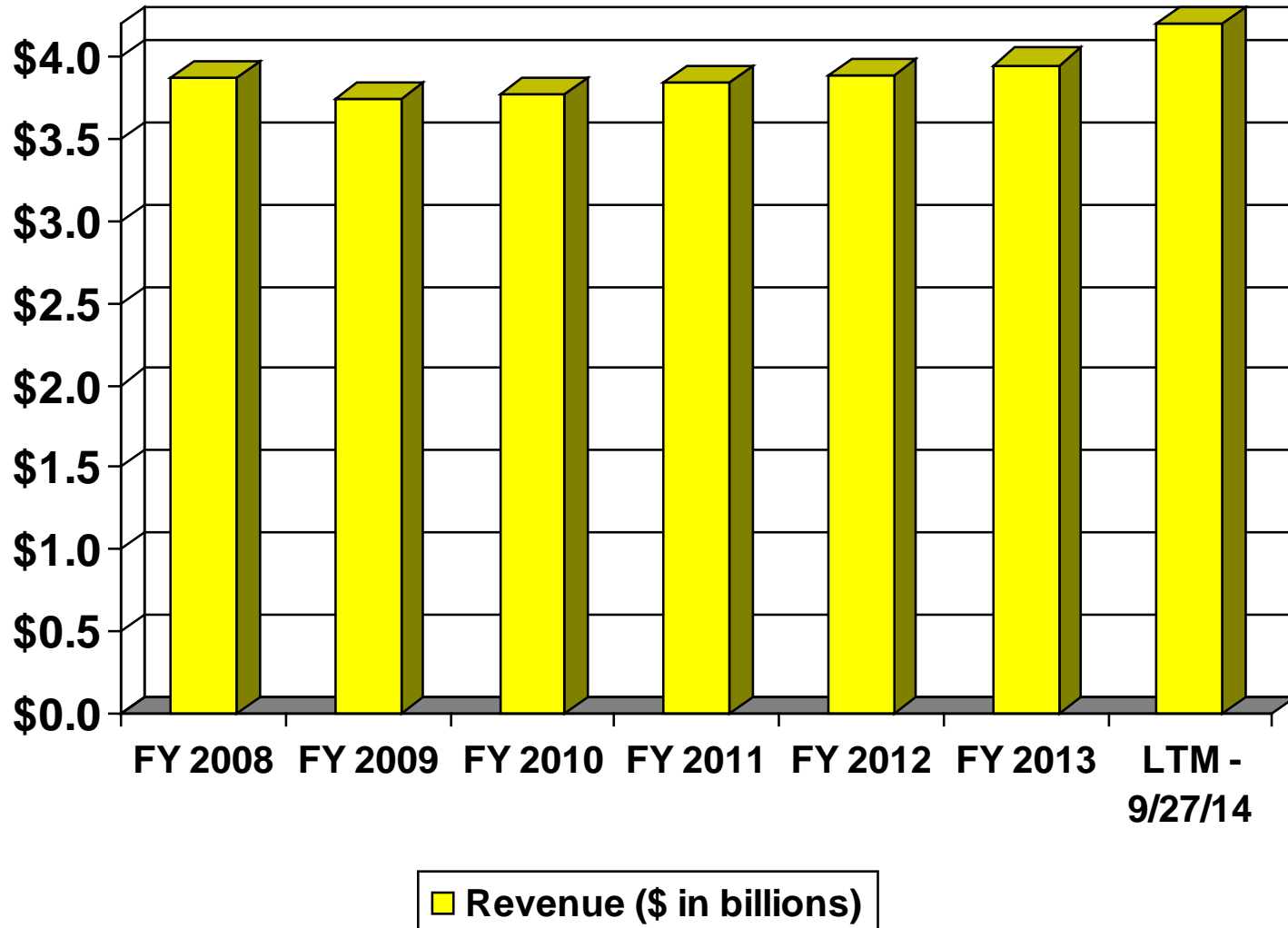
## Cash Flow Comments



- **Provides further affirmation of Roundy's weak operations**
  - Cash earnings off prior year's pace by ~63%
  - Non-cash working capital fluctuations immaterial in both periods
- **A dearth of free cash flow leaves Roundy's in a conundrum**
  - Free cash flow was well into the red, ~\$84mm below last year's level
  - The natural response from a retailer would be to aggressively reduce cap-ex spending; however, this isn't option given Mariano's ongoing expansion activities
- **Bottom line: Roundy's needs to generate more cash or better conserve what it has left**
  - Firm burned \$55mm in nine months; only had \$47mm remaining this fall
  - Unappealing options: heal the core business, slow investment in Mariano's, engage in additional asset sales, sell itself, etc.

# ROUNDY'S SUPERMARKETS

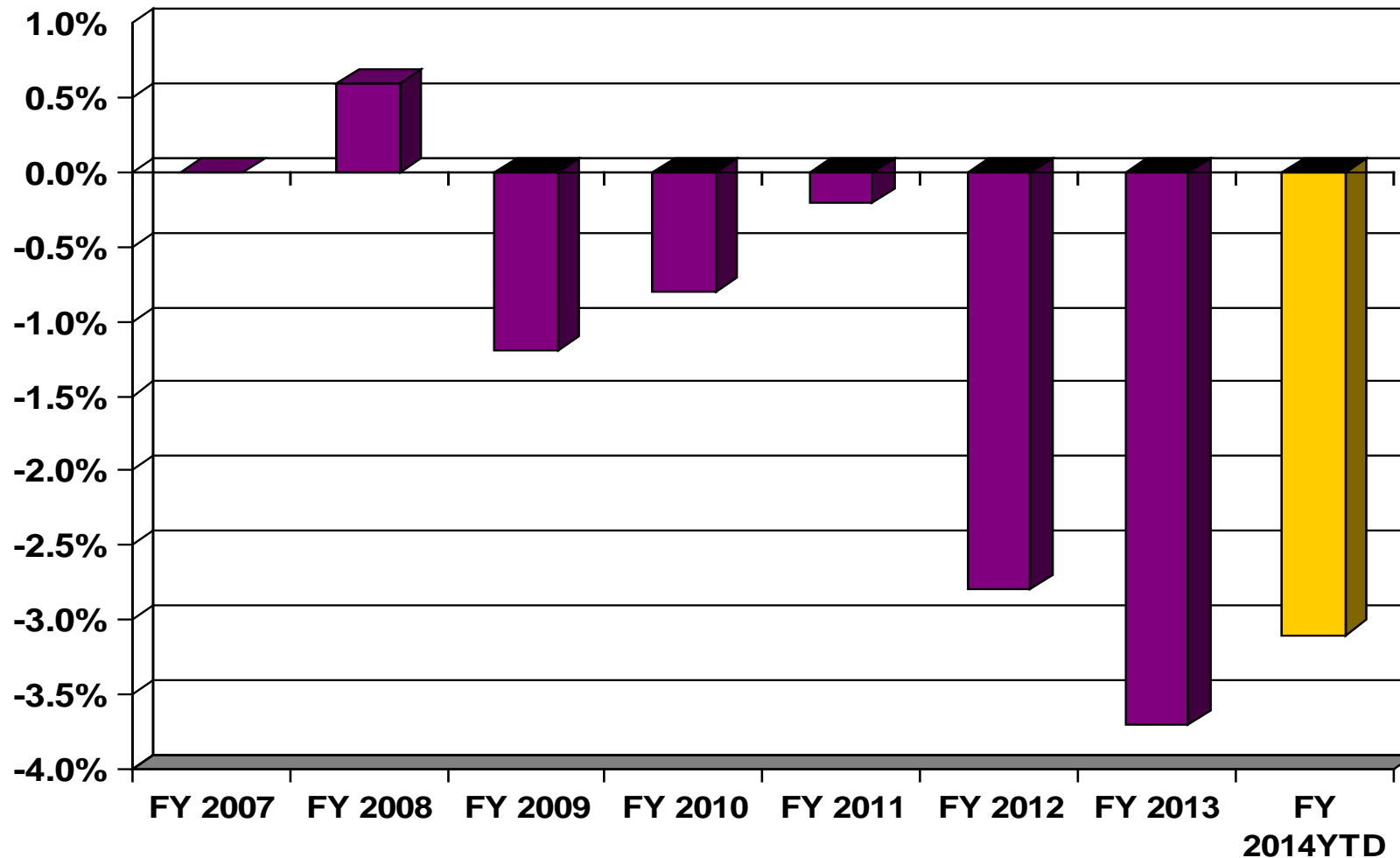
## Financial History: Revenue





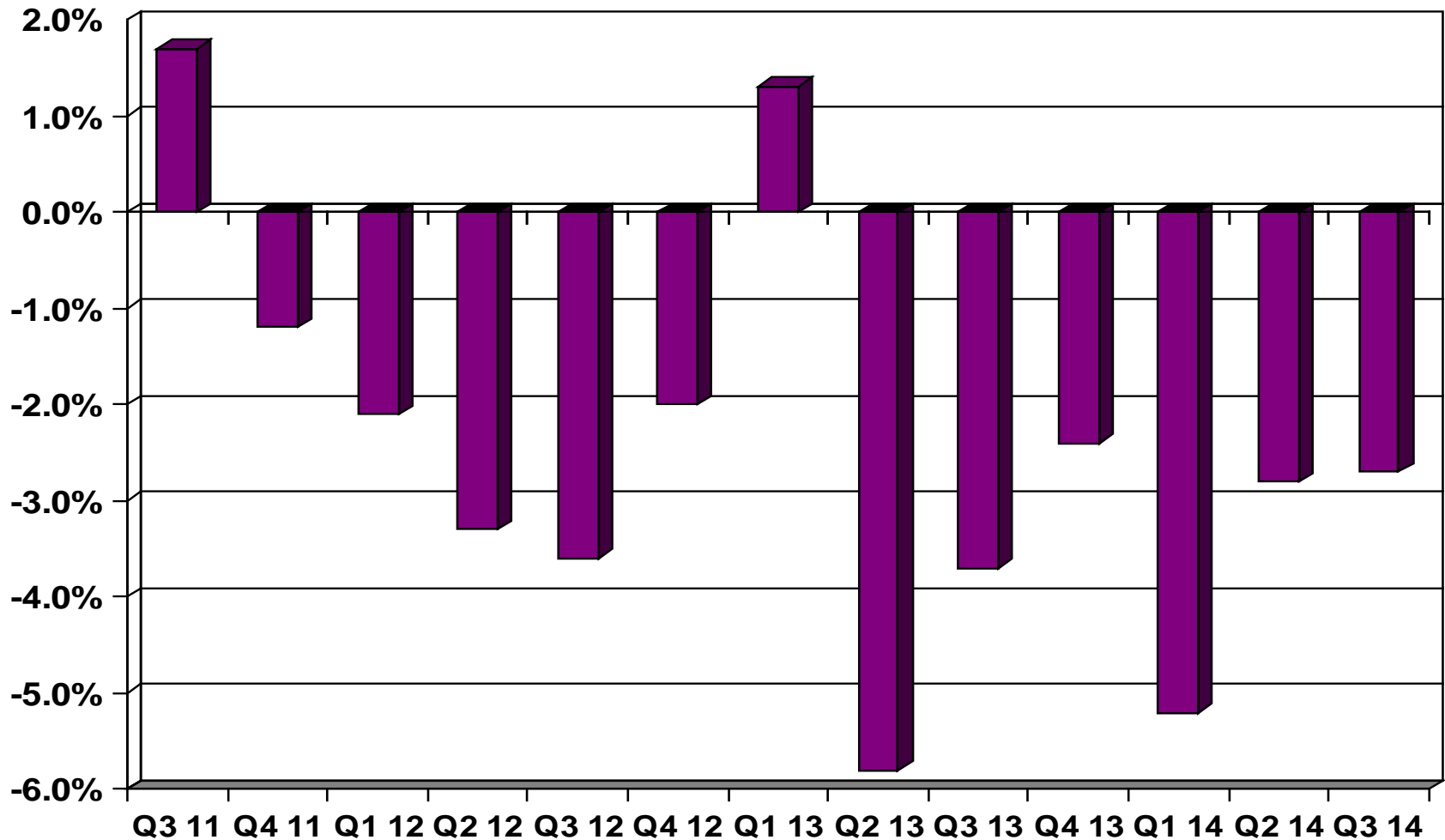
# ROUNDY'S SUPERMARKETS

## Financial History: Annual Same Store Sales Growth



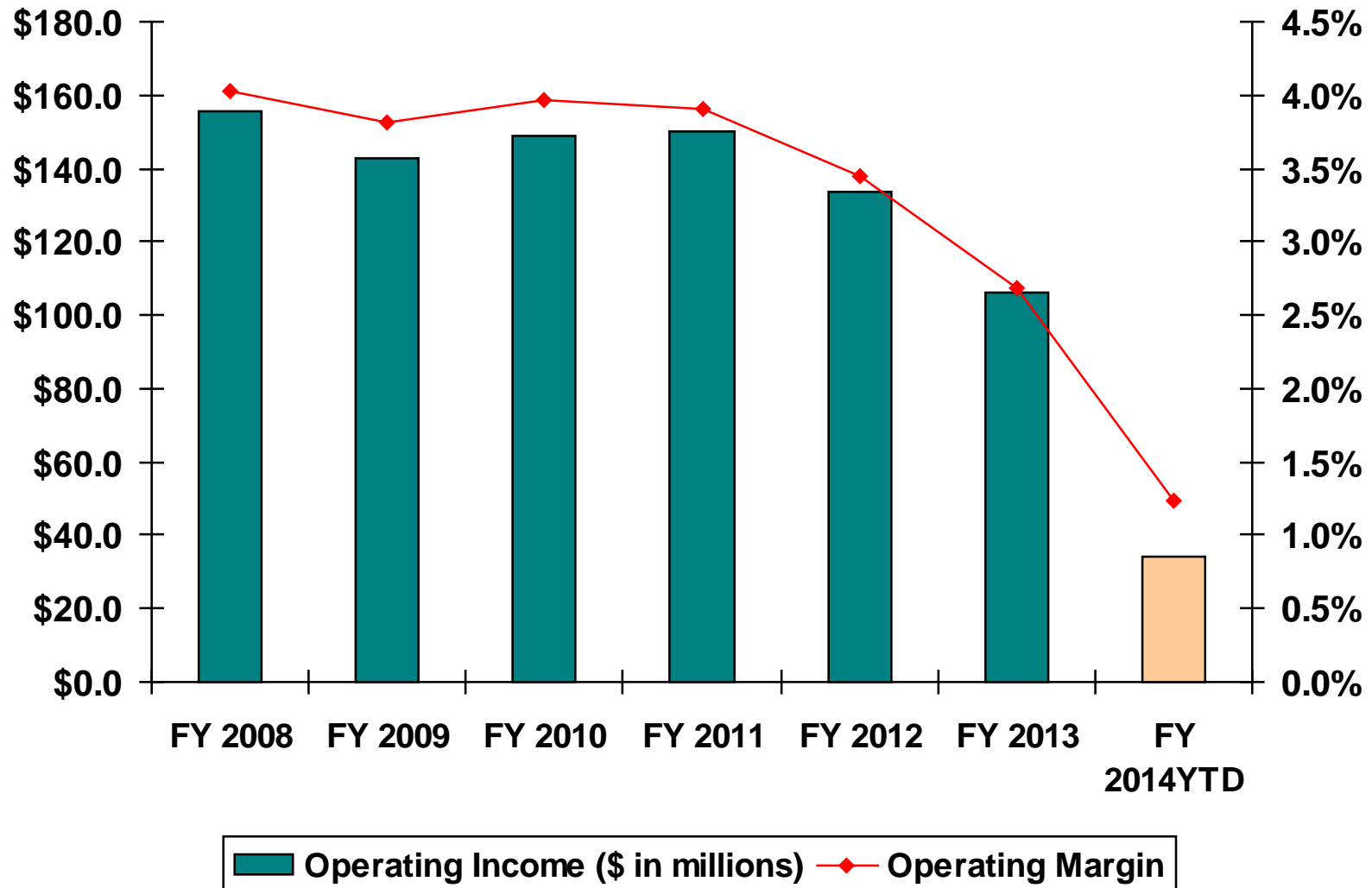
# ROUNDY'S SUPERMARKETS

## Financial History: Quarterly Same Store Sales Growth



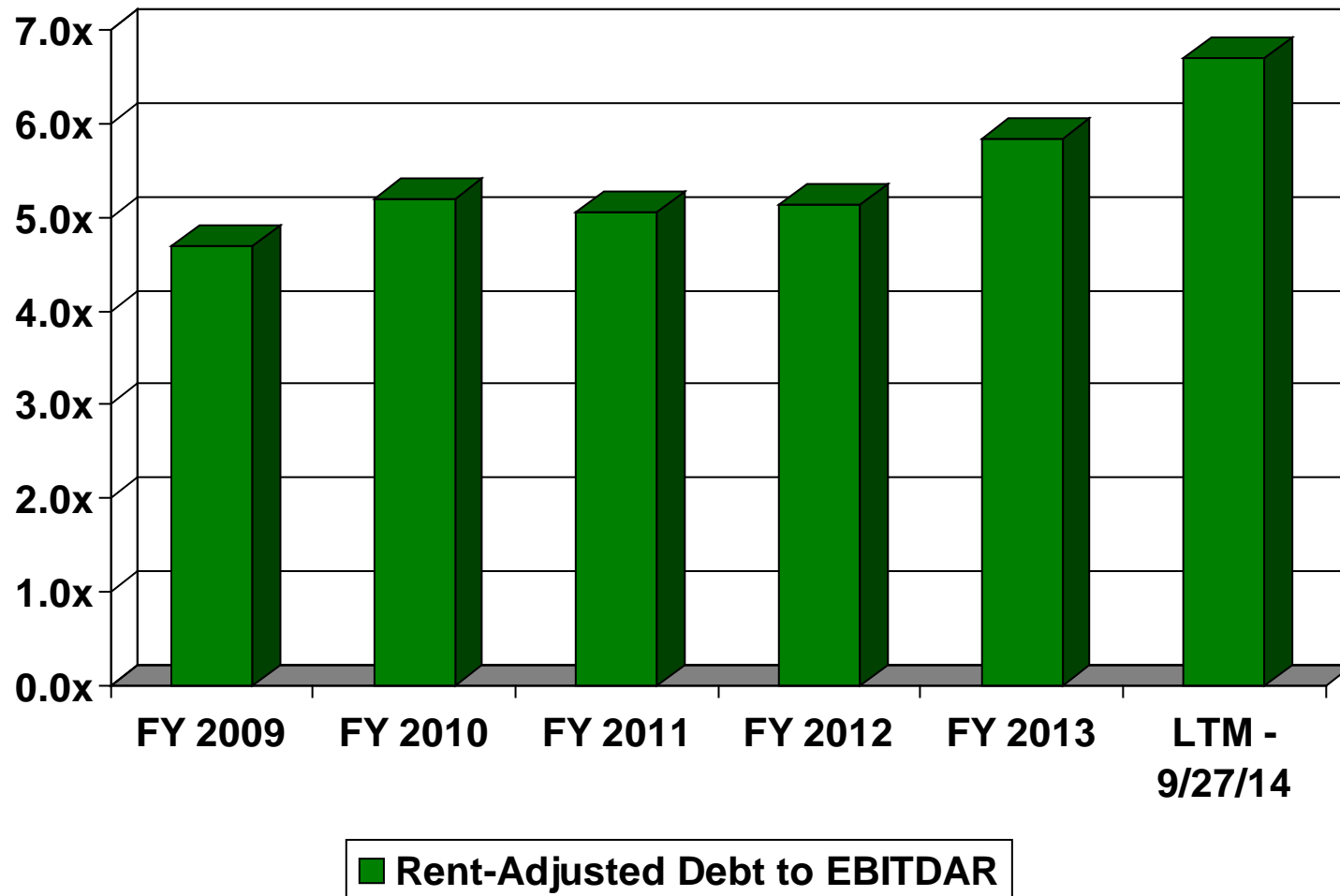
# ROUNDY'S SUPERMARKETS

## Financial History: Profitability



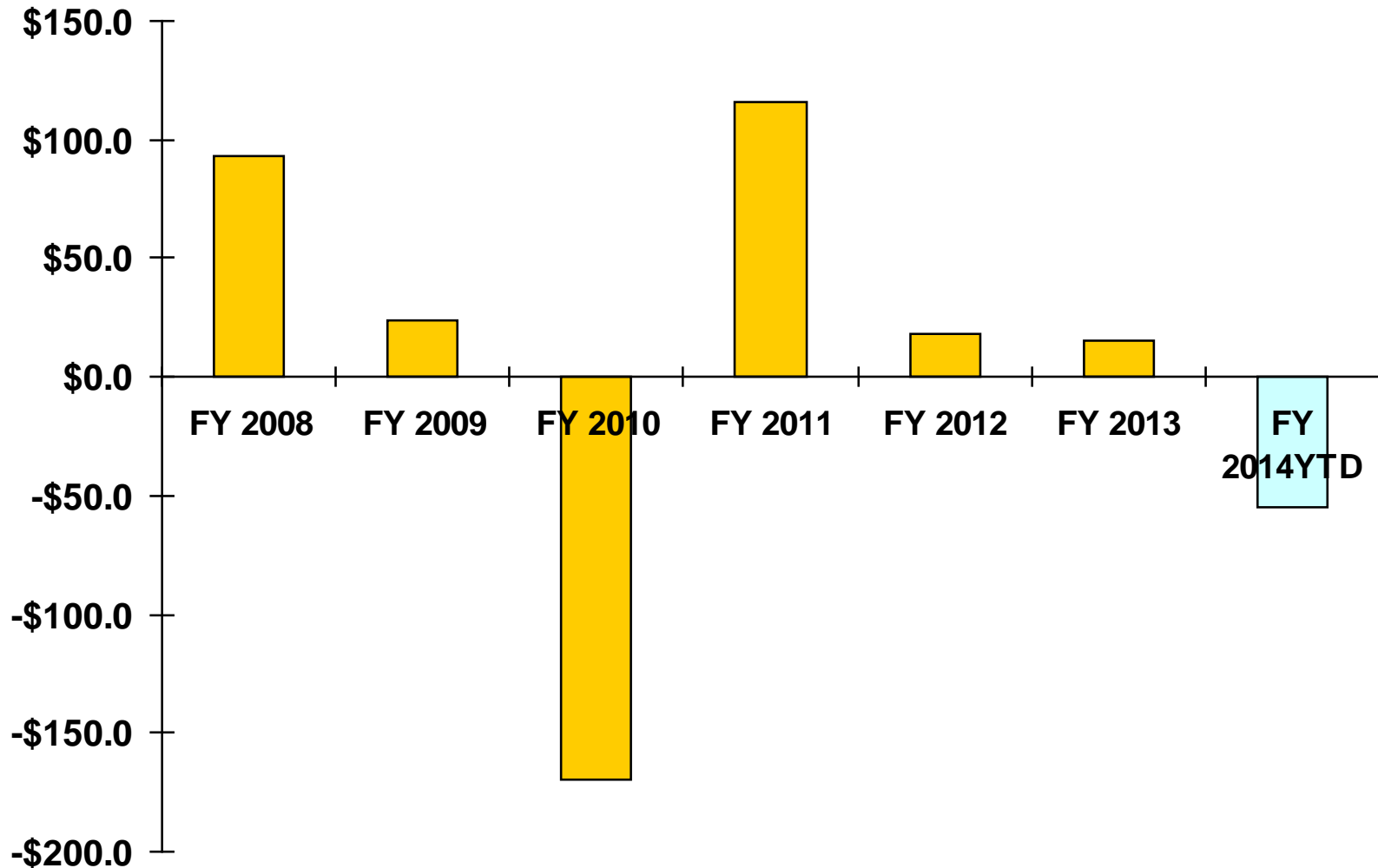
# ROUNDY'S SUPERMARKETS

## Financial History: Rent-Adjusted Leverage



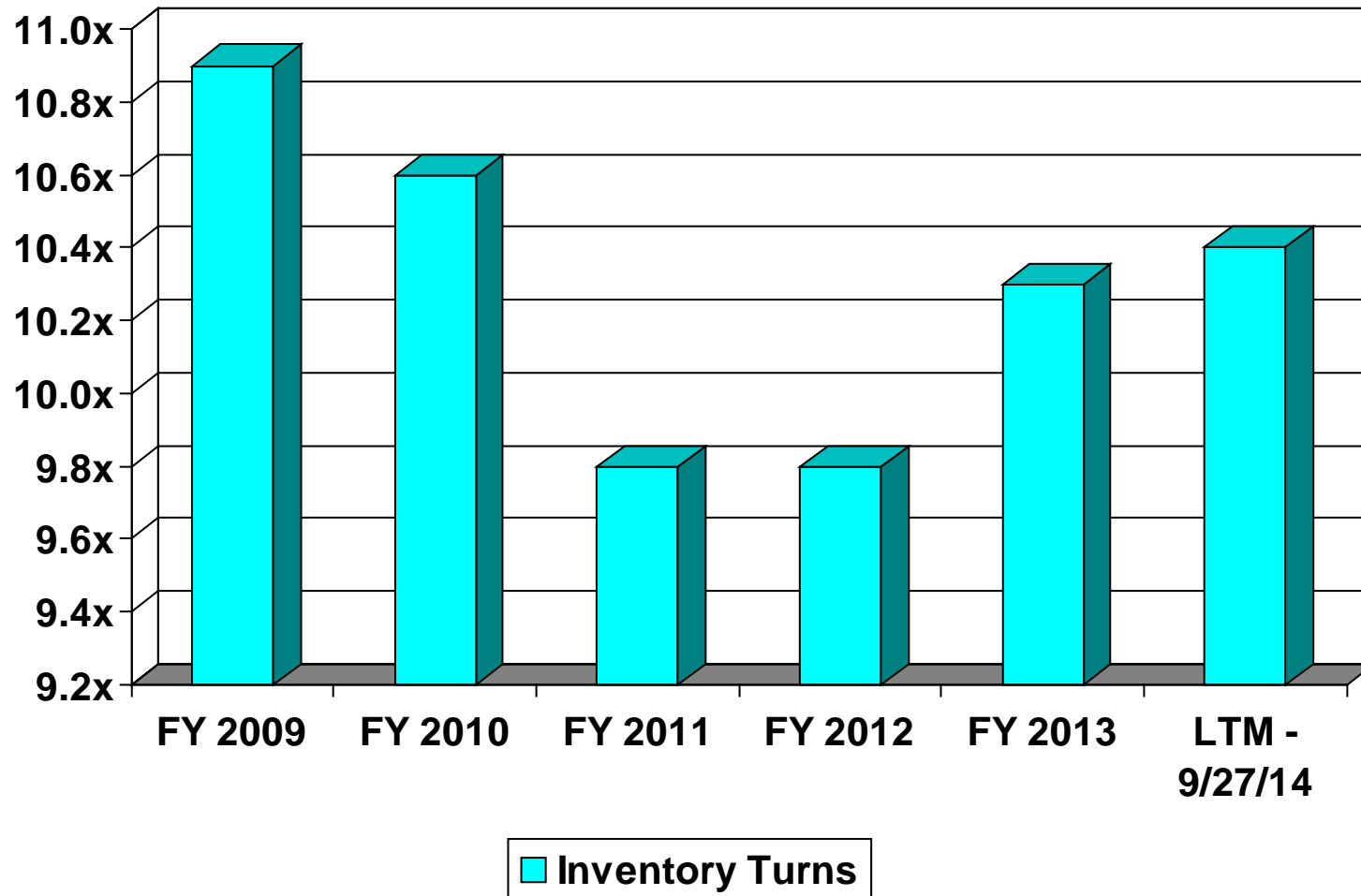
# ROUNDY'S SUPERMARKETS

## Financial History: Free Cash Flow



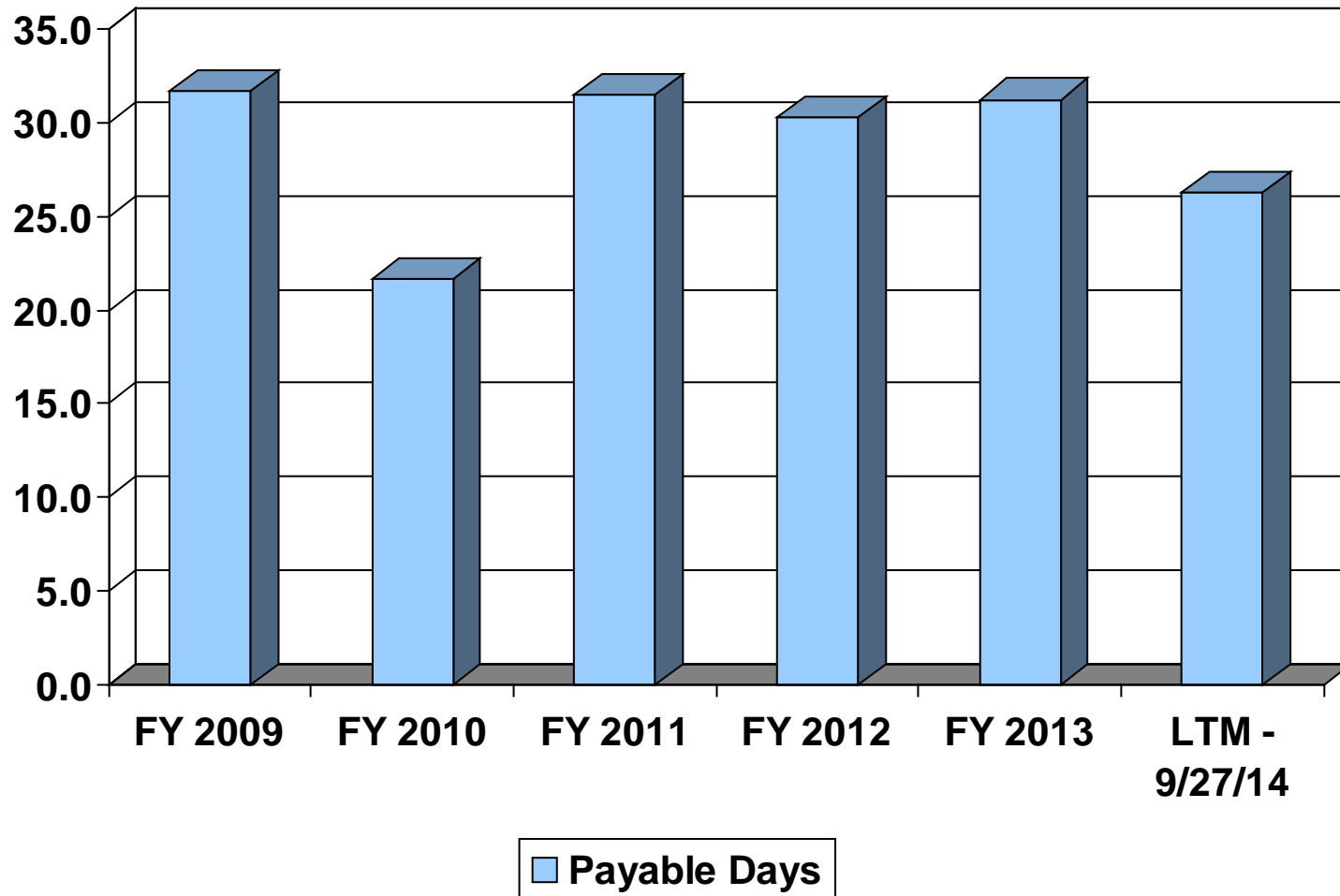
# ROUNDY'S SUPERMARKETS

## Financial History: Inventory Turns



# ROUNDY'S SUPERMARKETS

## Financial History: Payable Days



# ROUNDY'S SUPERMARKETS

## Key Developments



- **On July 1, 2014, management announced plans to close its 350,000 square foot Stevens Point distribution center**
  - **Shuttered during Q3 2014 and now being marketed for sale**
  - **Volume will be redirected out of Roundy's 1.1 million square foot Oconomowoc distribution center**
- **On August 6, 2014, management revealed that it hired Alix Partners to conduct an extensive business review**
- **On August 9, 2014, long-time Roundy's CFO Darren Karst left the firm to accept the CFO job at Rite Aid; he was replaced by Mike Turzenski, effective August 10<sup>th</sup>**
  - **Turzenski joined Roundy's in 2007 as Controller; he's most recently held the role of Chief Accounting Officer**
  - **Given that Turzenski worked very closely with Karst over the past several years and that he has intimate familiarity with Roundy's financials and controls, this transition went about as smoothly as the firm could have hoped**



# ROUNDY'S SUPERMARKETS

## Key Developments (cont.)



- **On August 18, 2014, John R. Willis, an independent director of Roundy's board of directors resigned from his position, effective December 31, 2014**
  - According to the company, his resignation was not the result of any disagreement with the company
- **On October 31, 2014, Roundy's reached an agreement with Crumbs Bake Shop to launch a test pilot in a Mariano's Store**
  - Will feature a sweet & snack bar featuring 25 flavors of Crumbs branded cupcakes and 15 types of brownies
- **On January 15, 2015, management issued fiscal 2015 guidance**
  - Revenues of \$4.00B to \$4.08B
  - Same store sales growth of between -2.75% and -0.75%
  - Adjusted EBITDA of \$115mm to \$125mm
  - Cap-ex spending of \$68mm to \$73mm

# ROUNDY'S SUPERMARKETS

## Key Developments (cont.)

- **In January 2015, rumors suggested that Kroger could be interested in acquiring Roundy's**
  - Kroger was also linked in similar fashion to Southeastern Grocers, the owners of Bi-Lo, Winn-Dixie, and other chains
  - We found neither of these rumors to be credible
- **In January 2015, Meijer announced plans to open 4 Milwaukee-based 24-hour supercenters in the summer of 2015**
  - 2 in June and 2 more in August
  - Meijer sees the potential for ~12 supercenters in this market
- **In February 2015, Roundy's opened its 30<sup>th</sup> Mariano's store**

# ROUNDY'S SUPERMARKETS

## Strategic Initiatives

- **Store expansion strategy in Chicago**
  - The company concluded fiscal 2014 with 29 Mariano's stores in operation
  - The 18 organic stores are generating ~\$1mm in weekly revenues, while the 11 former Dominick's acquired from Safeway are on average running at \$900k
  - Considering management's belief that Chicago could support 45 to 50 Mariano's locations, look for Chicago to remain the exclusive focal point for this banner; given the firm's resource constraints, it could take another 3 to 4 years to achieve this level of penetration
  - The threats of self-cannibalization and increased competition will only escalate going forward
- **Perishables initiative**
  - Perishables grew to 38.8% of sales in Q3 2014, up 300 bps y-o-y
  - Naturally, one would expect a higher concentration of perishable sales as more Mariano's stores are opened
- **Private label initiative**
  - Store brands totaled 24.2% of sales in Q3 2014, up 120 bps y-o-y
  - Includes >7,000 items

# ROUNDY'S SUPERMARKETS

## Strategic Initiatives (cont.)

- **Pricing & merchandising initiatives**
  - Price investments at the Milwaukee-based Pick 'n Save stores have adversely impacted overall firm margins by ~20-25 bps
- **Efficiency improvements & elimination of unproductive assets**
  - "Streamlined" its distribution network down to 2 DCs
  - Implemented general & administrative cost cuts that will save ~\$6mm per annum
  - Sold/shuttered each of its 27 Rainbow supermarkets, many of which were generating negative EBITDA
- **Debt management**
  - Paid down \$70.5mm of borrowings in 9M 2014, mainly with asset sale proceeds
  - Balance sheet debt is down 11% y-o-y
  - Rent-adjusted leverage metrics remain excessive at 6.7x, exacerbated by eroding EBITDA

# ROUNDY'S SUPERMARKETS

## GCS Observations & Conclusions



- **A Roundy's turnaround seems unlikely without improvement from the Wisconsin stores**
  - Mariano's, though growing, represents ~32% of continuing firm revenues. Barring additional store acquisitions akin to the Dominick's deal, the firm seems to be comfortable opening 5 of these units per annum.
  - Roundy's failed to fully address its problems in Wisconsin during a temporary lull in competitive store openings. In 2015, competitive openings will nearly double in this market to 13 (5 supercenters and 8 conventional supermarkets), making Roundy's road to recovery that much more treacherous.
- **Despite its successes, Mariano's needs to become more efficient**
  - The shining star of Roundy's portfolio is not without issues. Start-up costs, particularly for those stores acquired from Safeway, have been significantly higher than management had forecasted.
  - Due to the nature of this banner's product mix (~39% of sales are perishable), higher levels of shrink than conventional supermarkets are inevitable. Having said that, can Mariano's manage this figure as well as Whole Foods? Shrink runs ~40 to 50 bps higher in Mariano's than Pick 'n Save.

# ROUNDY'S SUPERMARKETS

## GCS Observations & Conclusions (cont.)



- **Is there a pathway to lower debt and/or leverage levels?**
  - Fiscal 2014 free cash flow will likely be significantly lower than last year's \$37mm.
  - Lower balance sheet debt has simply been a byproduct of the March 2014 refinancing and the July 2014 Rainbow asset sale
  - Other than selling the shuttered Stevens Point distribution center, we do not see many additional opportunities for generating liquidity to pay down debt. Stated differently, free cash flow generation must be revived through better operational execution and EBITDA stabilization.
  
- **It's unclear whether consulting firm Alix Partners has delivered realistic, high value opportunities that Roundy's can use to augment its business**
  - If so, can Roundy's implement such actions?
  - In November 2014, management hesitated to divulge any details on the consultant's findings, the quantification of the opportunities, and the timeframe for implementation.

# ROUNDY'S SUPERMARKETS

## GCS Observations & Conclusions (cont.)



- **GCS Rating & Outlook: high risk, "E" credit with a negative outlook**
  - Reduced outlook to negative from stable on May 9, 2014
  - Lowered rating to a high risk, "E" from an "E+" on August 15, 2013
- **Rationale considers:**
  - A tale of two companies, where the operational issues have quickly compounded in the legacy business, thereby offsetting some encouraging developments at Mariano's
  - Despite having covenant-light bank debt, leverage remains a significant issue
  - It's unclear whether management can stabilize EBITDA within the legacy business
  - Potential, albeit undisclosed solution set provided by outside consultants
  - Exit from Minneapolis => a good business decision
  - Competitive openings for the legacy business will re-accelerate in 2015
  - Mariano's may be beholden to Whole Foods' pricing actions in Chicago
  - Financial results not segmented out
  - Liquidity is sufficient for the near-term

# ROUNDY'S SUPERMARKETS

## Competitive Analysis



<u>Metric</u>	<u>Roundy's as of 9/27/14</u>	<u>Study Median*</u>	<u>Better/ Worse</u>
Quarterly Same Store Sales	(2.7%)	2.0%	X
Gross Margin	26.5%	26.6%	✓
Adj. Operating Margin	0.9%	3.4%	X
Rent-Adj. Leverage	6.7x	3.1x	X
Rent-Adj. Interest Coverage	1.4x	3.3x	X
Inventory Turnover	10.4x	13.4x	X
Payable Days	26 days	22 days	X

\* - data from Global Credit Services' Supermarket Industry Webinar from September 2013



# ADMINISTRATIVE ITEMS

## Contact Information

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# ADMINISTRATIVE ITEMS

## Upcoming Webinars

- **Stage Stores & Pacific Sunwear**
  - Thursday, March 12<sup>th</sup> @ 2PM Eastern
  - Iwan Juwana, CFA - Senior Industry Analyst
  
- **Sears Holdings**
  - Thursday, March 26<sup>th</sup> @ 2PM Eastern
  - Rafay Khalid, CFA - Senior Industry Analyst

# GCS RATINGS DEFINITIONS

Rating/Risk	Financial Structure	Liquidity	Cash Flow	Revenues	Operating Profitability
<b>A</b> MINIMAL Risk	<b>Strong financial structure</b> – low leverage, strong coverage, high quality capitalization. <sup>1</sup>	<b>Strong liquidity</b> – both cash & short-term investments, as well as proven access to unsecured credit	<b>Strong cash flow</b> – from profitable continuing business, adequate capital investment, strong management of working capital. <sup>2</sup>	<b>Dependable revenues</b> – organic growth; competitive dominance.	<b>High quality operating profitability</b> – margins better than industry norms.
<b>B</b> LOW Risk	<b>Solid financial structure</b> – modest leverage, strong coverage, tangible equity, longer debt capital.	<b>Solid liquidity</b> – both proven access to unsecured credit with committed lines backing any commercial paper; adequate cash, short-term investments.	<b>Solid cash flow</b> – from profitable continuing business, adequate capital investment, solid management of working capital.	<b>Dependable, growing organic revenues</b> – strong competitive position.	<b>Solid quality operating profitability</b> – solid margins vis-à-vis industry.
<b>C</b> MODERATE Risk	<b>Stable financial structure</b> – moderate leverage, acceptable coverage, moderate-quality capitalization; some elements of financial structure may pose risks.	<b>Dependable liquidity</b> – committed unsecured bank lines with moderate usage and availability, securitization programs, adequate cash holdings.	<b>Cash flow</b> – from profitable continuing business, capital investment, and adequate management of working capital; cash flow may be erratic some years.	<b>Dependable revenue base</b> – organic growth in line with economic environment.	<b>Operating profitability</b> – margins at or better than industry norms.
<b>D</b> ELEVATED Risk	<b>Risky financial structure</b> – heavier leverage, marginal coverage, lower quality capitalization.	<b>Defensive liquidity</b> – secured bank lines usually in use, availability still sufficient.	<b>Cash flow occasionally negative</b> – capital investment constrained, defensive management of working capital.	<b>Revenue base stagnant</b> – little organic growth, uncertain competitive standing.	<b>Weaker operating profitability</b> – margins at or below industry norms
<b>E</b> HIGH Risk	<b>Weak financial structure</b> – heavy leverage, weak coverage, short-to-medium-term debt capital, little if any tangible equity.	<b>Weaker liquidity</b> – secured bank lines mostly in use with little availability; defensive cash hoarding may be evident.	<b>Cash flow frequently negative</b> – capital investment limited, defensive management of working capital; asset sales material ongoing source of cash.	<b>Revenue base declining</b> – weak competitor that's losing market share.	<b>Weak operating profitability or losses</b> – margins below industry norms.
<b>F</b> DISTRESSED Risk	<b>Extremely weak financial structure</b> – overwhelming leverage, inadequate interest coverage, impending debt maturities, negative tangible equity.	<b>Little or no liquidity</b> – secured bank lines near limits with no effective availability; defensive cash hoarding.	<b>Negative cash flow</b> – inadequate capital investment, cash conversion cycle lengthening, working capital eroding; marketable assets mostly sold already.	<b>Declining revenues</b> – eroding competitive standing, losing market share.	<b>Operating losses</b> – on continuing business.

<sup>1</sup>Quality of capitalization includes tangible equity and maturity of debt capital. High quality capital includes tangible equity and long term unsecured and subordinated debt. Elements that weaken capitalization include goodwill and debt maturing within next couple of years.

<sup>2</sup>Management of working capital emphasizes the cash conversion cycle: turnover of receivables, inventory, payables and unearned income.

# MAP OF GCS SCORES & RATINGS TO AGENCIES Global Credit Services A passion for insight.

Global Credit Services					
Score		Rating			
From	To		S&P / Fitch	Moody's	
-	-	0	NR	NR	
1.00	1.32	A+	AAA	Aaa	
1.00	1.32	A+	AA+	Aa1	
1.33	1.65	A	AA	Aa2	
1.66	1.99	A-	AA-	Aa3	
2.00	2.32	B+	A+	A1	
2.33	2.65	B	A	A2	
2.66	2.99	B-	A-	A3	
3.00	3.32	C+	BBB+	Baa1	
3.33	3.65	C	BBB	Baa2	
3.66	3.99	C-	BBB-	Baa3	
4.00	4.32	D+	BB+	Ba1	
4.00	4.32	D+	BB	Ba2	
4.33	4.65	D	BB-	Ba3	
4.66	4.99	D-	B+	B1	
5.00	5.32	E+	B	B2	
5.00	5.32	E+	B-	B3	
5.33	5.65	E	CCC+	Caa1	
5.33	5.65	E	CCC	Caa2	
5.66	5.99	E-	CCC-	Caa3	
6.00	6.32	F+	CC+	Ca1	
6.00	6.32	F+	CC	Ca2	
6.33	6.65	F	CC-	Ca3	
6.66	6.99	F-	C	C	
6.66	6.99	F-	D	D	