U.S. GROCERY – A FEW THINGS YOU MIGHT NOT KNOW

Spring 2024







SUMMARY – A FEW THINGS YOU MIGHT NOT KNOW

- 1. Definition of Grocery
- 2. Grocery Market Transformation (Rapid Growth of National / Discount Grocers)
- 3. Grocery Competition Facts
- 4. Impact on Supermarket Grocers (Kroger / Albertsons Urgency)
- 5. Why Kroger / Albertsons is Good for America

SUMMARY – DRASTICALLY TRANSFORMED GROCERY LANDSCAPE



Grocery Market Definition

- Grocery ≠ Supermarkets
- Grocery = Supercenters + Club Grocers + Discount Grocers + Dollar **Grocers + Drug Grocers + Online Grocers + Specialty / Ethnic Grocers** + Supermarket Grocers
- Rapid growth of National / Discount Grocers:

DOLLAR GENERAL



sam's club













Grocery **Market Transformation**

- Supermarket Grocers were 10 of the Top 15 U.S. Grocers 20 years ago: only 5 of Top 15 U.S. Grocers today
- National / Discount Grocers added ~39,000 grocery stores in the past 20 years to >70,000 today, vs. <26,000 supermarkets
- Average consumer shops at 4 grocery types and 5 grocery banners
- Online Grocery up 4x in 4 years, led by National / Discount Grocers with AA/A credit ratings and nearly unlimited investment capacity
- Instacart expanded grocery choice (reaches 95% of NA consumers)



National / Discount Grocers Growth

- Supermarket Grocers were "primary shop" 20 years ago for 79% of Americans; now only 38%
- Walmart, Target, Costco, Amazon, Dollar General and Aldi increased market share ~30% in the past 20 years
- National / Discount Grocers have over 60% market share; **Supermarket Grocers market share down to 36%**



Consequences on **Supermarket Grocers** (Kroger / Albertsons Merger Urgency)

- Kroger, Albertsons and Ahold Delhaize (all mostly unionized grocers) have lost roughly 10% share in the past 20 years
- Unionized Grocers employee share down from 50% to 15%⁽¹⁾
- Non-Union National / Discount Grocers added ~2.5 million jobs
- Supermarket Grocers profit margins down considerably over time

SUMMARY - NATIONAL / DISCOUNT GROCERS COMPETITION





- \$321B U.S. Grocer: 3x Kroger, 3x Costco, 5x Albertsons, 5x Amazon
- U.S. Grocery Sales roughly as big as next four Grocers combined
- Ubiquitous storebase and fulfillment footprint; 36% Q2 Online Grocery



- World's #2 Grocer
- #3 U.S. Grocer Majority of sales are groceries
- Stores generate 5x grocery sales of average supermarket
- Valued 80% above all U.S. supermarkets / grocery suppliers <u>combined</u>



- World's #3 Grocer (#2 in Europe)
- Owned by German Albrecht family (the 11th-wealthiest in the world);
 also owns Trader Joe's
- Over 12,000 global stores, including 2,800 in the U.S. (more than Kroger)
- Replicating global grocery leadership in U.S.; sales up 9x in 20 Years



Vast majority of sales are groceries

- ~\$50B combined grocery sales with ~37,000 U.S. stores
- Added ~24,000 stores in last 20 years
- Dollar General added >2,800 stores in the last 3 years



- #6 U.S. Grocer
- Most sales are groceries
- 440,000 non-union employees
- Leading online grocer with Shipt



- Valued more than all public U.S. grocers <u>combined</u>; AA credit rating
- Long-term focus on grocery and extraordinary fulfillment footprint
- To overtake Walmart as #1 Global Retailer, need to be #1 Grocer
- #5 Global / U.S. Grocer today but have not yet "figured out" grocery;
 begging simple question what happens when they do?



SUMMARY – KROGER / ALBERTSONS TRANSACTION RATIONALE

- Good for Consumers, Employees and Local Communities
- Kroger's 20-year track record of investing \$5B in better prices
- Kroger's cost savings at acquired stores used toward better prices, e.g., Harris Teeter and Roundy's
- Kroger added 110,000 unionized jobs in past 20 years
- Merger preserves the viability of Albertson's stores, nearly 300,000 (mostly union) jobs and increase food access – with lower prices – for millions of Americans

0

Kroger's
Clear
Commitments

- No store closures.
- No front-line job losses.
- \$500M better prices
- \$1B better wages
- \$1.3B better store improvements
- 10% increase in locally-sourced products
- 10 billion meals being donated to help fight food insecurity

C&S Wholesale Grocers
is a Strong
Divestiture Buyer

- Divestiture transaction designed to prevent Haggen failures
- ~\$30B sales business; one of the largest private companies in the U.S.
- Family-owned, with 104-year operating / integration track record
- Buying / licensing local banners (Carrs, QFC, Mariano's / Albertsons);
 will maintain customer continuity, loyalty and performance
- Strong, well-capitalized buyer supplying 7,500 stores across country
- · Balance Sheet to support customers, jobs and store investments
- Experienced management team with extensive acquisition and integration experience; spending \$1.9bn to expand retail footprint
- Previously validated by FTC as divestiture buyer; assuming union CBA



1. GROCERY ≠ SUPERMARKETS

GROCERY = SUPERCENTERS



+ CLUB GROCERS



sam's club









.AR GROCERS









DRUG GROCERS







+ ONLINE GROCERS













+ SPECIAL































1. NATIONAL / DISCOUNT GROCERS HAVE TRANSFORMED **AMERICAN GROCERY**

NATIONAL / DISCOUNT GROCERS



























1. 20 YEARS AGO, SUPERMARKET GROCERS COMPRISED 10 OF THE TOP 15 U.S. GROCERS

(\$ In Billions)

U.S. GROCERS – 2003

Ranking	Company	Grocery Sales	% Market Share
1	Walmart 💢	\$73 \$24bi	16%
2	Kroger	\$49 []]	11%
3	Albertsons ^a	\$32	7 %
4	SAFEWAY ()	\$28	6 %
5	Ø Ahold USA	\$24	5 %
6	COSTCO WHOLESALE	\$20	4 %
7	DELHAIZE AMERICA	\$14	3 %
8	Publix.	\$14	3 %
9	OTARGET	\$11	2 %
10	Winn Dixie	\$10	2 %
11	SUPERVALU	\$10	2 %
12	A [®] P	\$10	2 %
13	H-E-B	\$8	2 %
14	♥CVS Health	\$8	2%
15	meijer	\$7	1%

NOT ON THE LIST













Walgreens

National / Discount Grocers



2. TODAY, ONLY 5 OF THE TOP 15 U.S. GROCERS ARE SUPERMARKETS; 10 ARE NATIONAL / DISCOUNT GROCERS

(\$ In Billions)

U.S. GROCERS – 2023

Ranking	Company	Grocery Sales	% Market Share
1	Walmart 💢	\$321 _{\$270}	obn 29%
2	Kroger	\$111	10%
3	COSTCO	\$98	9%
4	Albertsons	\$66	6 %
5	amazon whôle	\$64	6 %
6	○ TARGET _® Shipt 🖰	\$55	5%
7	Ahold Delhaize	\$52	5%
8	Publix.	\$47	4 %
9	H-E-B	\$34	3 %
10	DOLLAR GENERAL	\$31	3%
11	♥CVS Health	\$22	2%
12	//≜ ALDI	\$20	2%
13	POLLAR TREE FAMILY DOLLAR	\$18	2%
14	Walgreens	\$17	2%
15	TRADER JOE'S"	\$15	1%

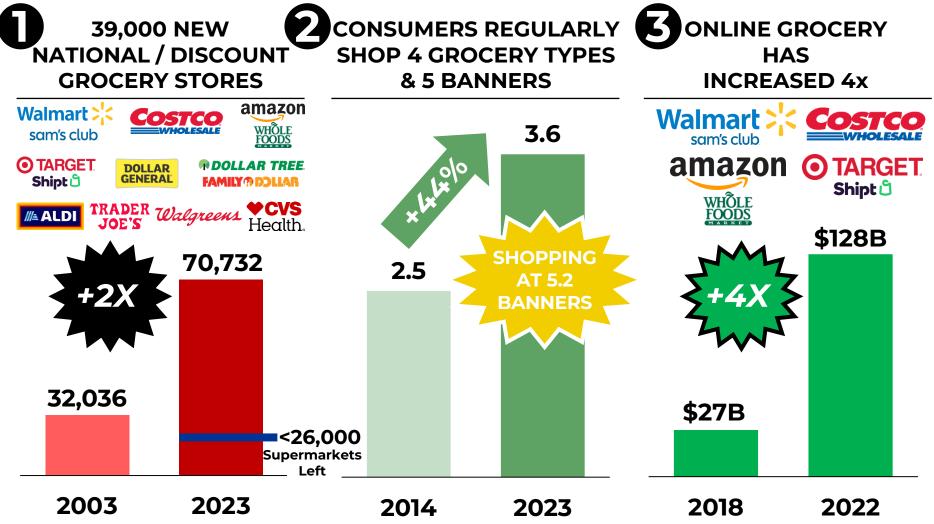
U.S. GROCERY SHARE



National / Discount Grocers



3. NATIONAL / DISCOUNT GROCERS' EXTREME STORE GROWTH, BROAD CUSTOMER TRIP DISPERSION AND ONLINE GROCERY HAVE TRANSFORMED U.S. GROCERY



Supermarket Grocers face existential competitive risk from powerful National / Discount Grocers.



3. NATIONAL / DISCOUNT GROCERS ACCOUNT FOR FAR MORE GROCERY SALES THAN SUPERMARKET GROCERS

(\$ In Billions)

\$700

\$600

\$500

\$400

\$300

\$200

\$100

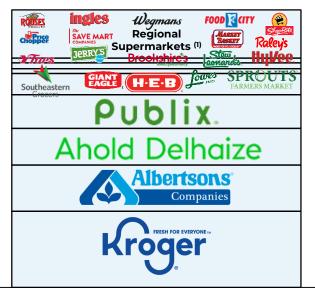
\$0

~\$700



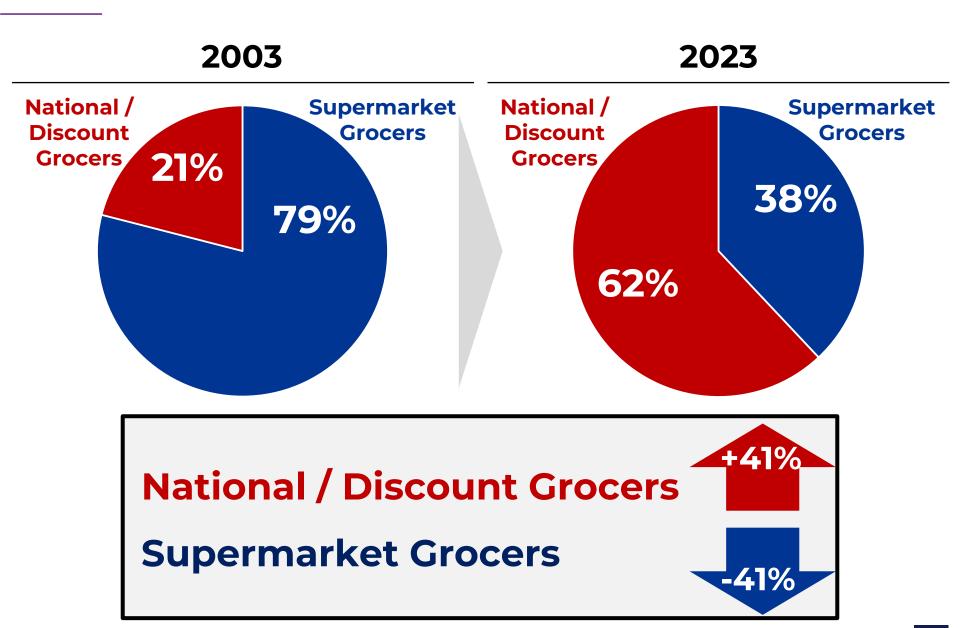
National / Discount Grocery
Sales

~\$395



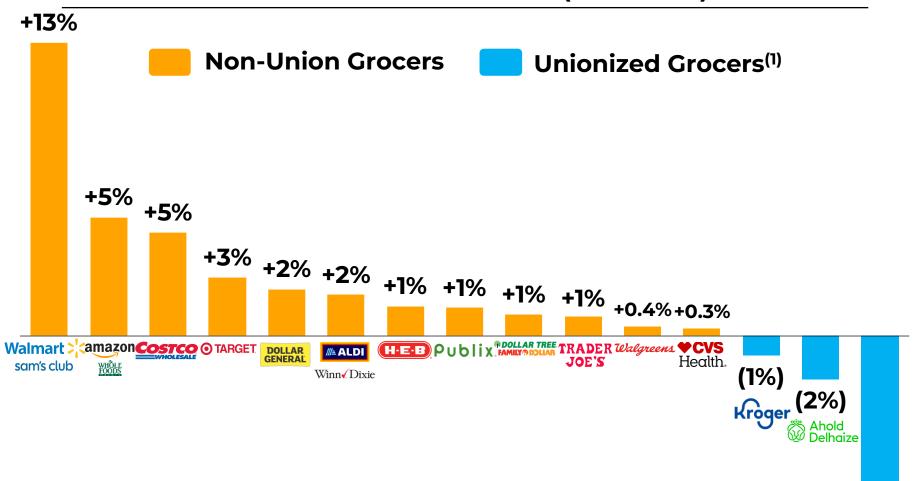
Supermarket Grocery
Sales

3. SHOPPERS' PRIMARY CHANNEL – 2003 VS. 2023



3. WALMART, AMAZON, COSTCO, TARGET, DG AND ALDI (ALL NON-UNION) HAVE TAKEN LOTS OF GROCERY SHARE

GROCERY SHARE CHANGE (2003-2023)

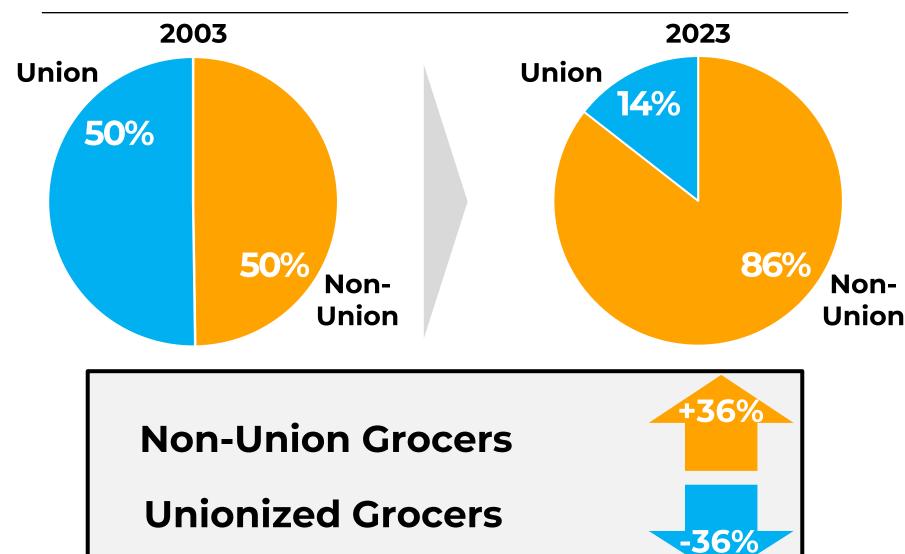






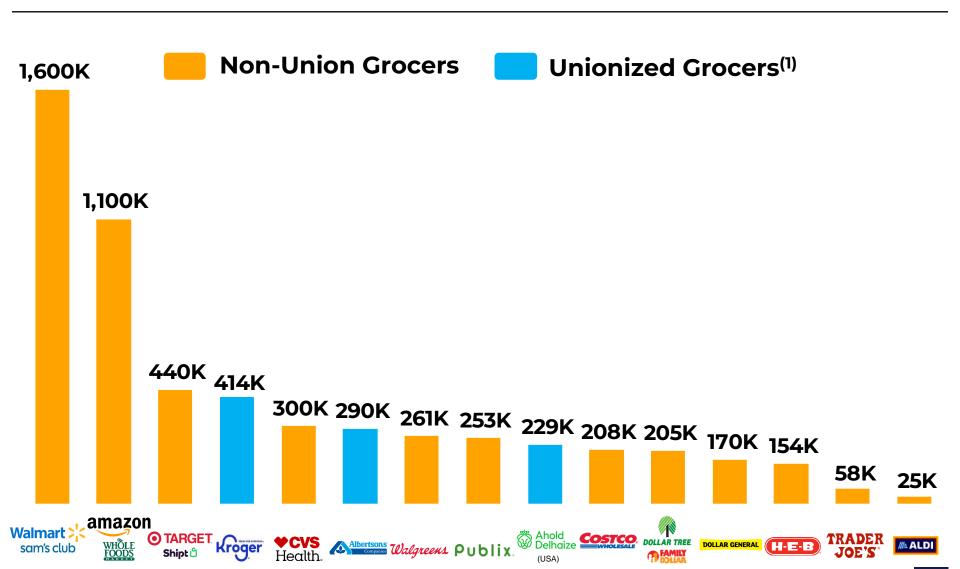
3. NON-UNION GROCERS HAVE TAKEN THE VAST MAJORITY OF AMERICAN GROCERY JOBS IN THE PAST 20 YEARS

UNION VS. NON-UNION JOB SHARE – TOP 15 GROCERS



3. MILLIONS OF AMERICANS RELY ON GOOD JOBS WITH SUPERMARKET GROCERS

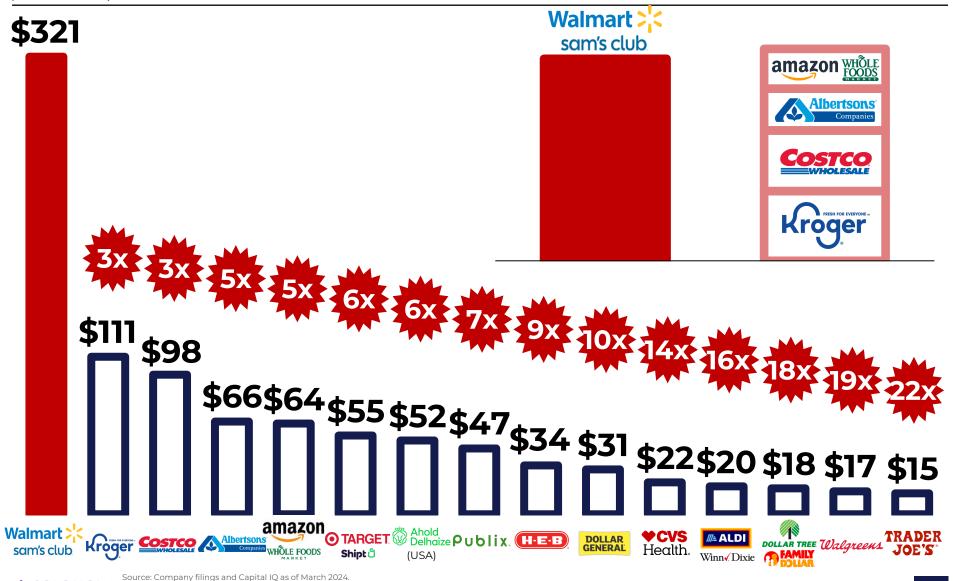
2023 EMPLOYEE COUNT



4. WALMART, AMERICA'S #1 GROCER, HAS U.S. GROCERY SALES THAT ARE MANY TIMES ITS GROCERY COMPETITORS

(\$ In Billions)

U.S. GROCERY SALES

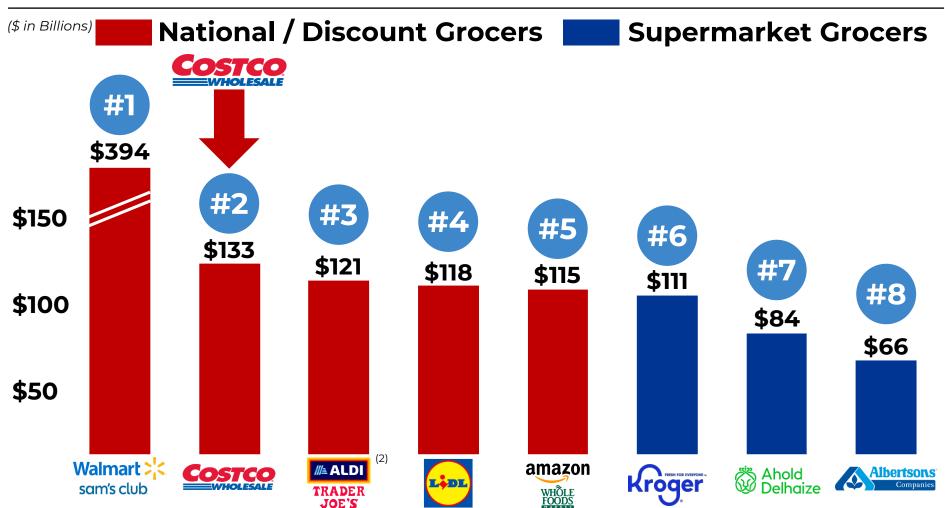


5. COSTCO IS THE WORLD'S #2 GROCER AND #3 U.S. GROCER



COSTCO'S U.S. GROCERY BUSINESS GENERATES >\$90 BILLION IN GROCERY SALES; ~40% OF U.S. HOUSEHOLDS ARE COSTCO MEMBERS

GLOBAL GROCERY SALES RANKINGS (U.S. GROCERS)(1)





¹⁾ Among grocers with operations in the U.S.

²⁾ Includes Aldi Sud 2022 & Aldi Nord 2021 figures, which represents the latest publicly available information. Pro forma for Winn Dixie and Harvey's stores to be acquired per announcement in August 2023.

5. COSTCO'S EXTRAORDINARY GROCERY BUSINESS



GROCERY SALES ACCOUNT FOR 54% OF COSTCO'S ~\$300M AVERAGE ANNUAL STORE REVENUE

~\$160M⁽¹⁾



5. COSTCO'S EXTRAORDINARY GROCERY BUSINESS (CONT'D)



COSTCO'S VALUATION IS ~80% MORE THAN ALL PUBLICLY-TRADED SUPERMARKETS AND SUPPLIERS, **COMBINED**

~\$320B





~\$180B





6. DOLLAR STORES HAVE SIGNIFICANTLY EXPANDED THEIR GROCERY OFFERING













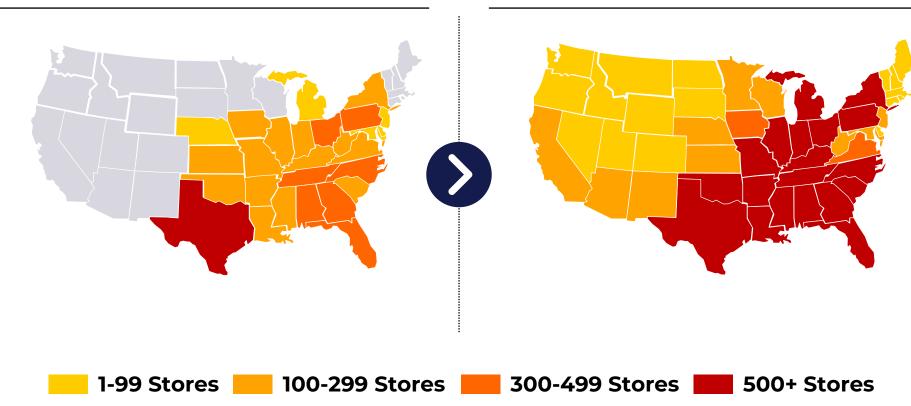


6. DOLLAR GENERAL'S RAPID GROCERY GROWTH CONTINUES, WITH ~14,000 NEW STORES FROM 2003-2023 TO BECOME A NATIONAL GROCER









Dollar General is projected to grow to 34,000 stores across the United States



THE WALL STREET JOURNAL.

LIFE & STYLE

One-Percenters Keep Shopping at the Dollar Store

Wealthy consumers scour discount-chain aisles for bargains

June 19, 2023 9:00 pm ET

"No matter how much you make, there is no longer a stigma in going after a good deal."

"A carrot is a carrot is a carrot."







Dollar General Surpasses Milestone of 5,000 Stores Nationwide Offering Fresh Produce

January 30, 2024 06:55 AM

"...more individual points of produce distribution than any other U.S. mass retailer or grocer"

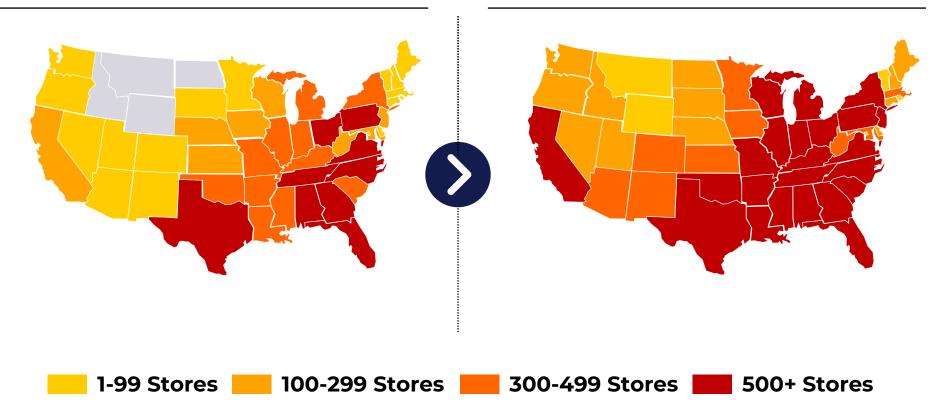
6. OVER THE PAST 20 YEARS, THE TWO LEADING DOLLAR GROCERS HAVE ADDED ~24,000 STORES & NOW GENERATE ~\$50B IN ANNUAL GROCERY SALES



DOLLAR TREE
FAMILY OD LLAR



2023 – 36,622 STORES



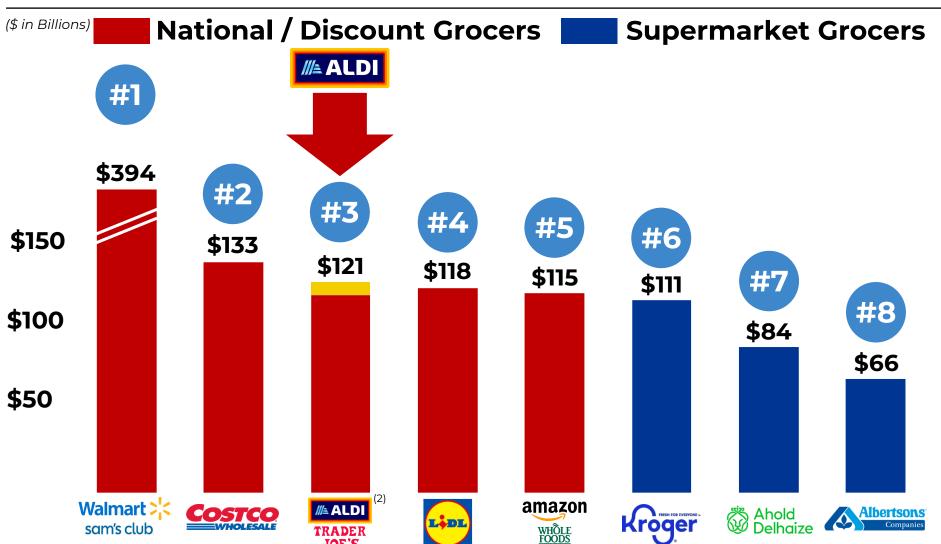
~37,000 combined dollar grocery stores is well more than the <26,000 Supermarket Grocers remaining in the U.S.



7. ALDI IS THE #3 GLOBAL GROCER AND #2 IN EUROPE (LIDL IS #1)



GLOBAL GROCERY SALES RANKINGS (U.S. GROCERS)(1)



Source: Company Filings & Company Websites as of March 2024.

JOE'S

¹⁾ Among grocers with operations in the U.S.

²⁾ Includes Aldi Sud 2022 & Aldi Nord 2021 figures, which represents the latest publicly available information. Pro forma for Winn Dixie and Harvey's stores to be acquired per announcement in August 2023.

7. ALDI'S U.S. GROCERY BUSINESS HAS GROWN RAPIDLY, EVEN BEFORE ITS ACQUISITION OF WINN-DIXIE

ALDI'S U.S. STORE EXPANSION (2003 – 2023)

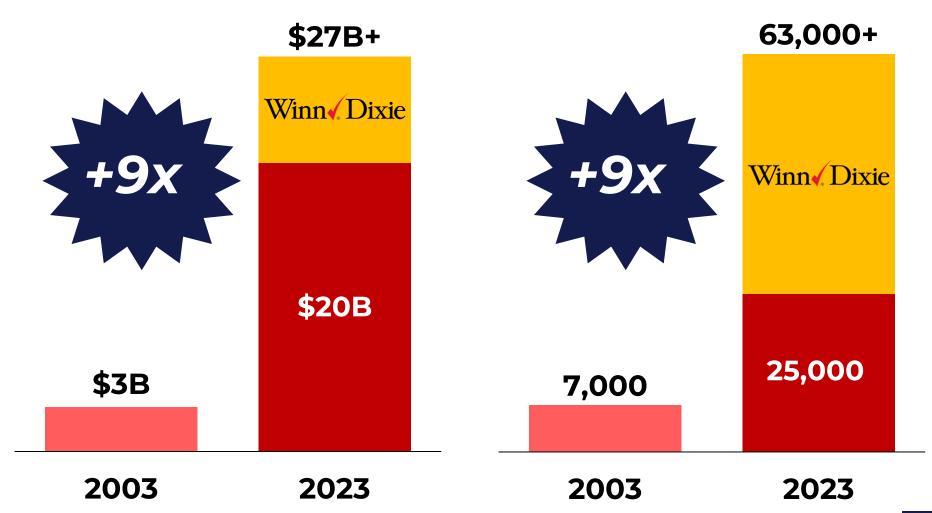


7. ALDI WILL HAVE A \$27BN U.S. GROCERY BUSINESS WITH WINN-DIXIE, AND OVER 60,000 NON-UNION JOBS



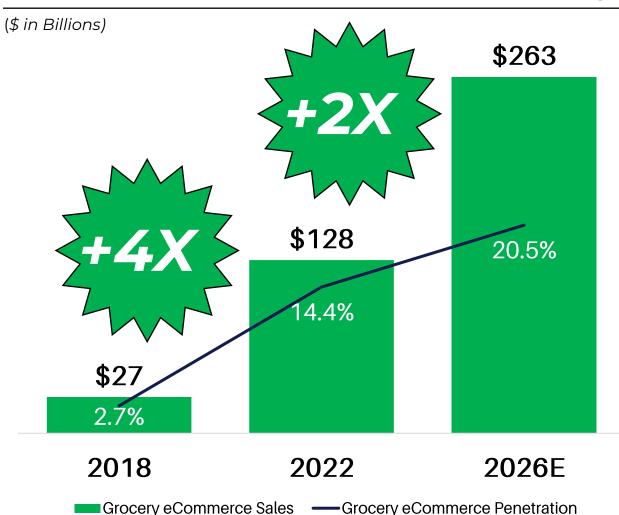


U.S. GROCERY JOBS GROWTH



8. ONLINE GROCERY INCREASED 4X FROM 2018 TO 2022 AND IS EXPECTED TO SURPASS 20% AND \$250BN BY 2026

GROCERY ECOMMERCE SALES (2018-2026)



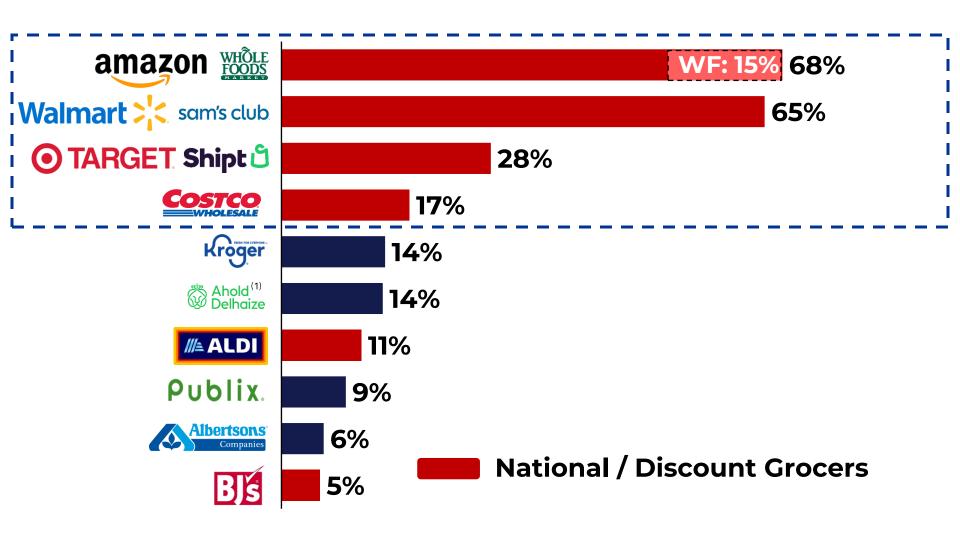
In the past 90 days:

- 72% of U.S. households used online grocery
- >50% purchased dairy, produce, meat and frozen groceries online

Before COVID, 63% bought most grocery staples at physical stores; it's 44% today

8. AMAZON / WHOLE FOODS, WALMART, TARGET AND COSTCO DOMINATE ONLINE GROCERY

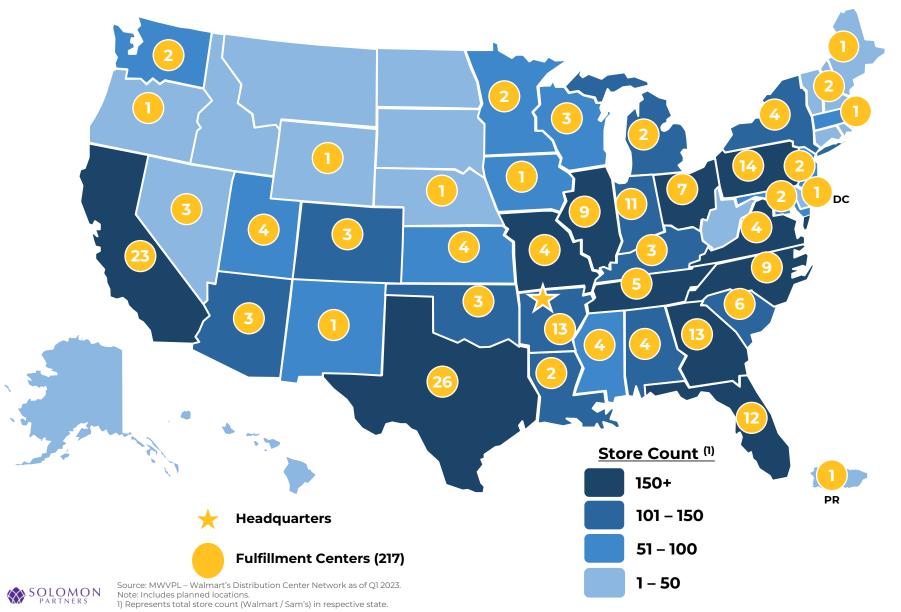
% OF ONLINE GROCERY PENETRATION



8. WALMART'S EXTENSIVE FULFILLMENT FOOTPRINT



WALMART HAS OVER 200 FULFILLMENT CENTERS ACROSS THE U.S.



THE WALL STREET JOURNAL.

Walmart, in a Reversal, to Open New Stores in the U.S.

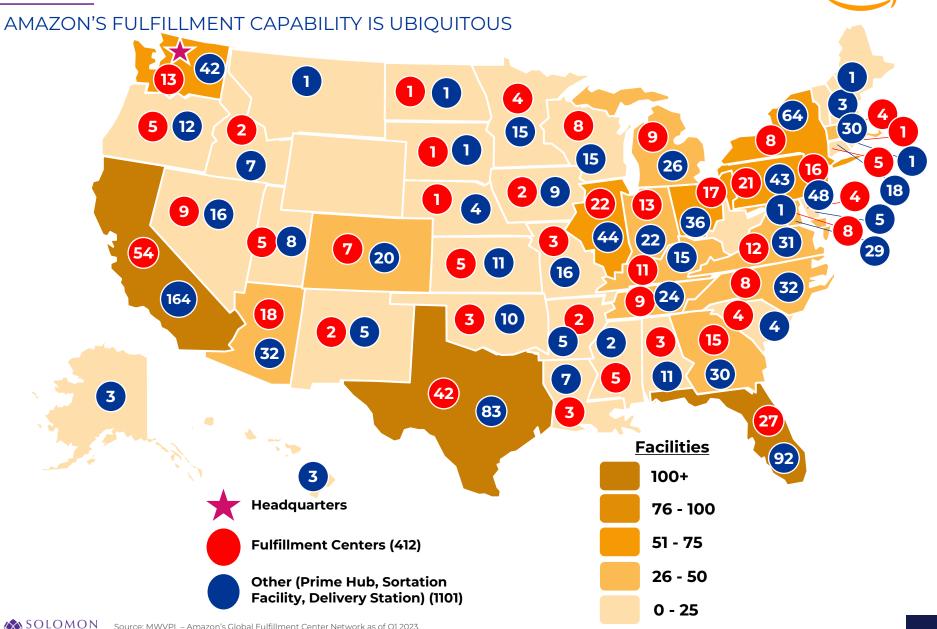
January 31, 2024 9:00 AM

"The retail giant plans to open or expand 150 stores in the U.S. over the next five years...

...Walmart...also plans to remodel around 650 of its U.S. locations over the next 12 months...

...That is on top of upgrades to around 1,400 stores over the last two years, an effort that the company said cost around \$9 billion."

8. AMAZON'S EXTRAORDINARY FULFILLMENT FOOTPRINT amazon



9. AMAZON'S \$1.9 TRILLION VALUATION IS MANY MULTIPLES ITS GROCERY COMPETITORS



9. AMAZON'S \$1.9 TRILLION VALUATION EXCEEDS ALL OTHER PUBLICLY-TRADED U.S. GROCERS, COMBINED amazon

(\$ In Trillions)

\$2.0

\$1.6

\$1.2

\$0.8

\$0.4

~\$1.9T



~\$1.3T





CEO Andy Jassy Remains Optimistic About Grocery and Pharmacy

February 2, 2024

"It's a big business, and it's continuing to grow at a very healthy clip, and we're really pleased with that business."



Amazon CEO & President Andy Jassy Speaks with CNBC's Jim Cramer on "Mad Money"

December 7, 2023

"And if you look at our consumables business, the growth rate there is pretty extraordinary."

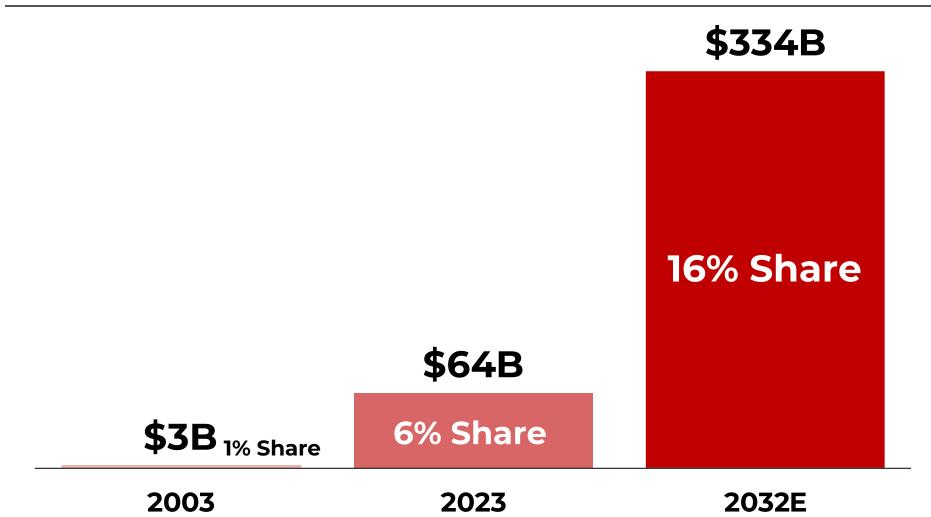
"...if you look at just the first half of this year in our top 60 metros, over 60% of the shipments were coming to people in the same day or one day."

"...when you're able to get them delivery much faster, they consider you for much more of their purchases..."

9. AMAZON'S GROCERY SALES ARE PROJECTED TO CONTINUE ACCELERATING



AMAZON'S GROCERY SALES (2003 – 2023 – 2032E)

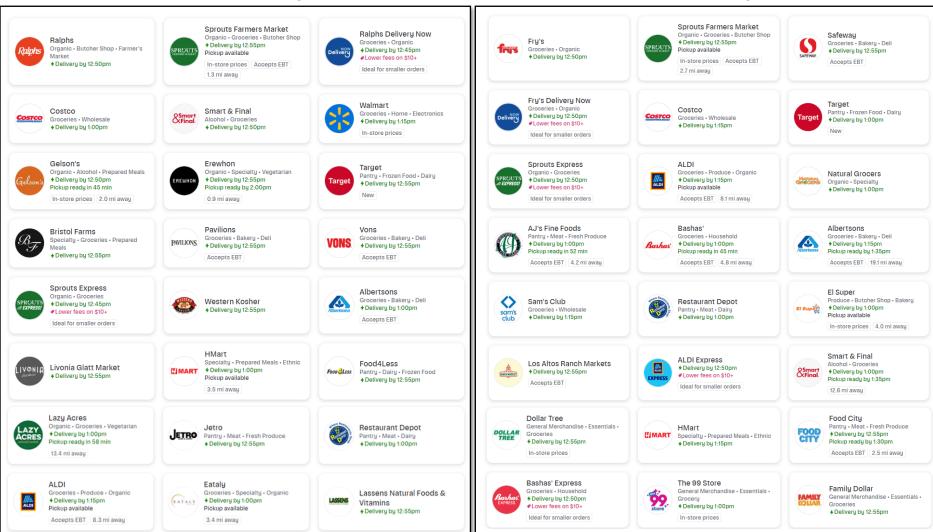


10. INSTACART'S NUMEROUS GROCERY CHOICES **instacart**

REACH 95% OF NORTH AMERICAN HOUSEHOLDS WITH 1,400 RETAIL BANNERS (80,000 STORES)

LOS ANGELES, CA

PHOENIX, AZ



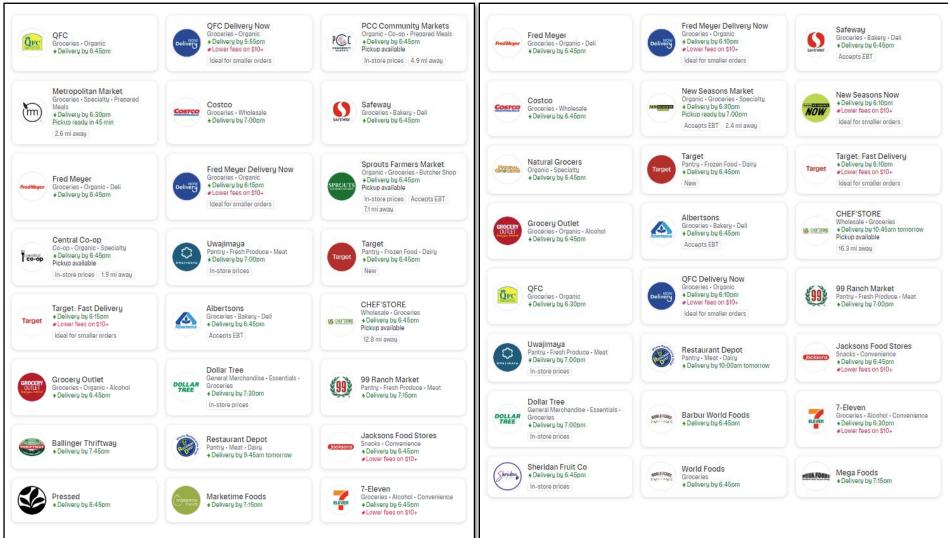


10. INSTACART'S NUMEROUS GROCERY CHOICES ***instacart** (CONT'D)

REACH 95% OF NORTH AMERICAN HOUSEHOLDS WITH 1,400 RETAIL BANNERS (80,000 STORES)

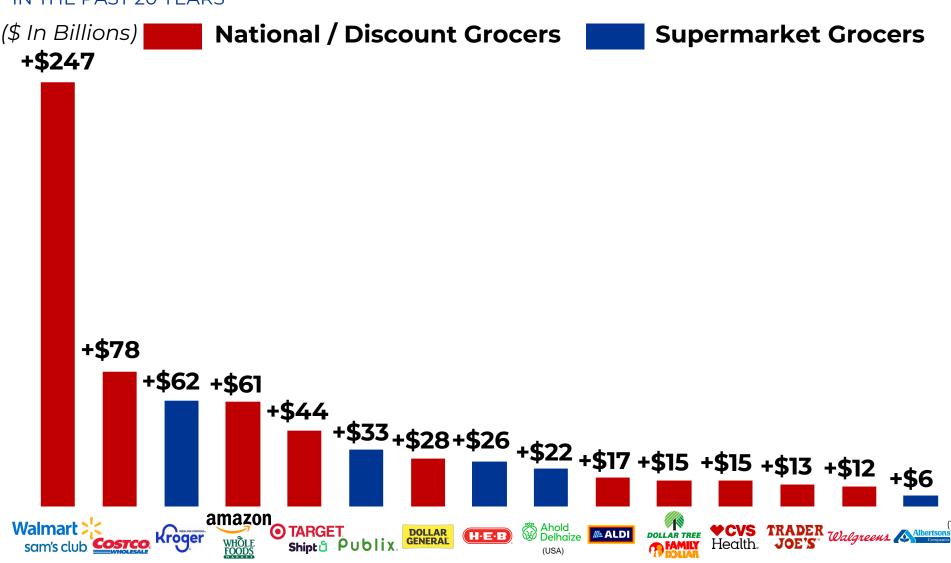
SEATTLE, WA

PORTLAND, OR



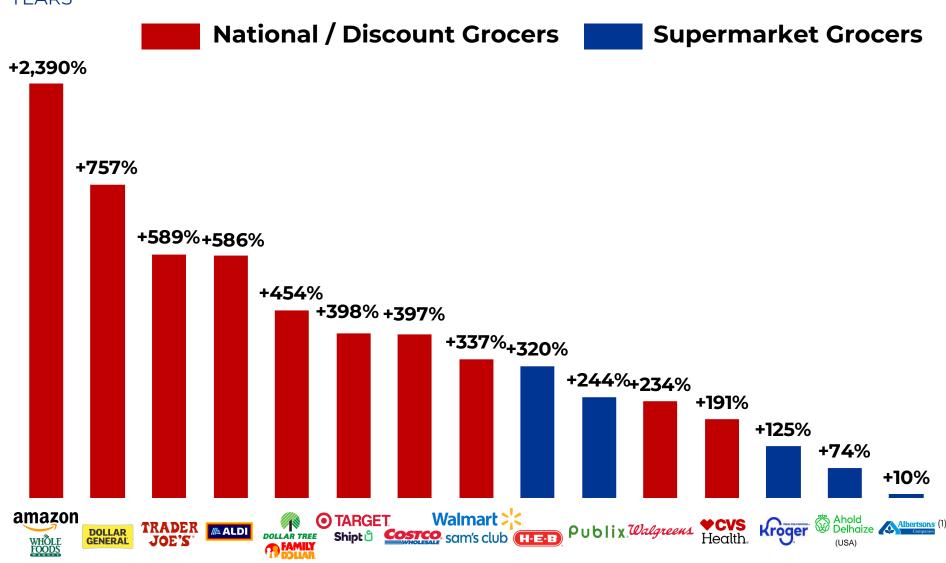
11. 20-YEAR U.S. GROCERY SALES GROWTH (TOP 15 GROCERS)

NATIONAL / DISCOUNT GROCERS HAVE ADDED EXTRAORDINARY AMOUNTS OF GROCERY SALES IN THE PAST 20 YEARS



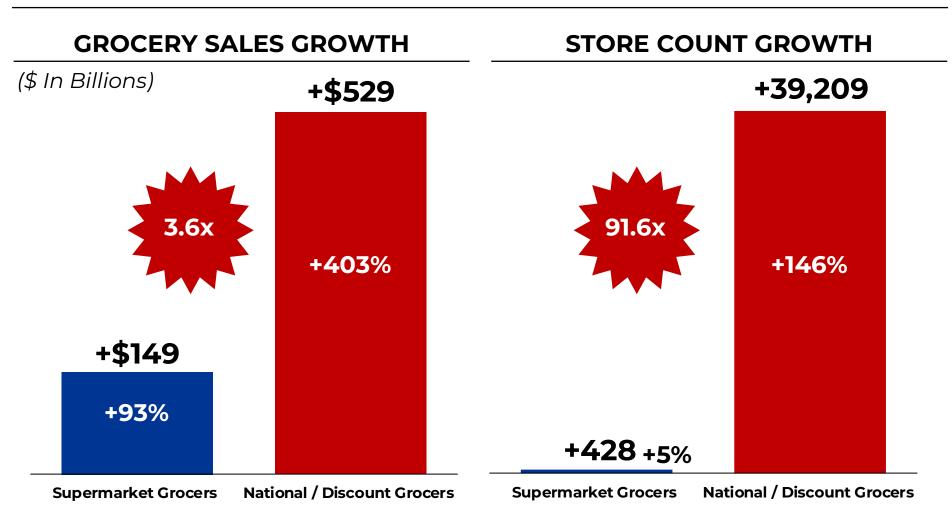
11. 20-YEAR U.S. GROCERY SALES GROWTH CONT'D (TOP 15 GROCERS)

NATIONAL / DISCOUNT GROCERS HAVE INCREASED GROCERY SALES RAPIDLY IN THE PAST 20 **YEARS**



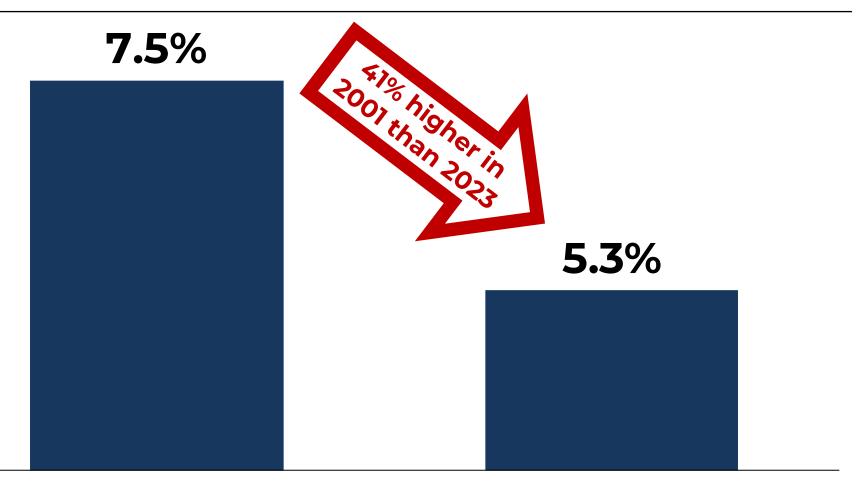
11. NATIONAL / DISCOUNT GROCERS GROWTH HAS FAR EXCEEDED THAT OF SUPERMARKET GROCERS OVER THE PAST 20 YEARS

GROCERY GROWTH (2003 – 2023, TOP 15 GROCERS)



12. SUPERMARKET GROCER EBITDA MARGINS HAVE MEANINGFULLY DECLINED

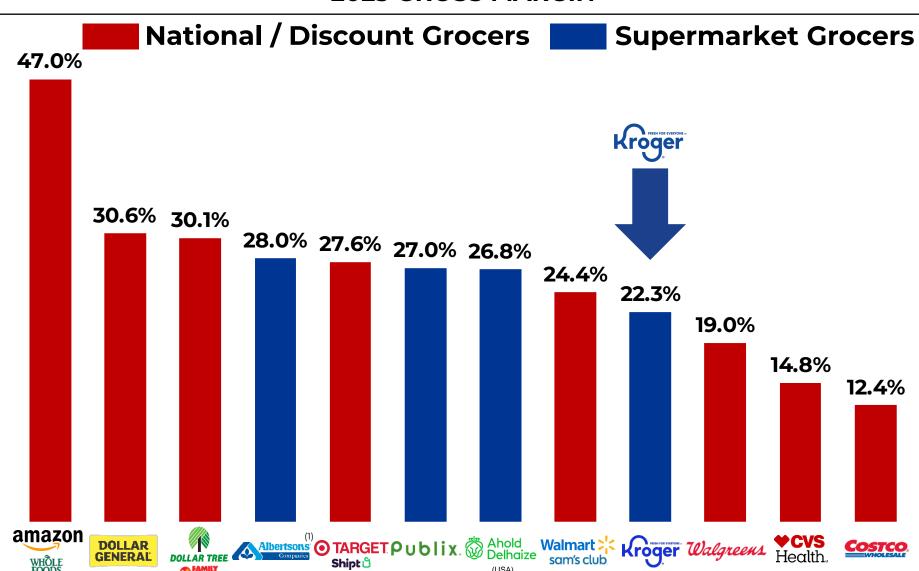
HISTORIC SUPERMARKET GROCERS' EBITDA MARGIN



2001 2023¹⁰

12. KROGER'S GROSS MARGIN IS WELL LESS THAN MOST PEERS

2023 GROSS MARGIN



12. WHILE MANY GROCERS' GROSS MARGINS HAVE INCREASED, KROGER'S HAS DECLINED CONSIDERABLY

20-YEAR GROSS MARGIN CHANGE







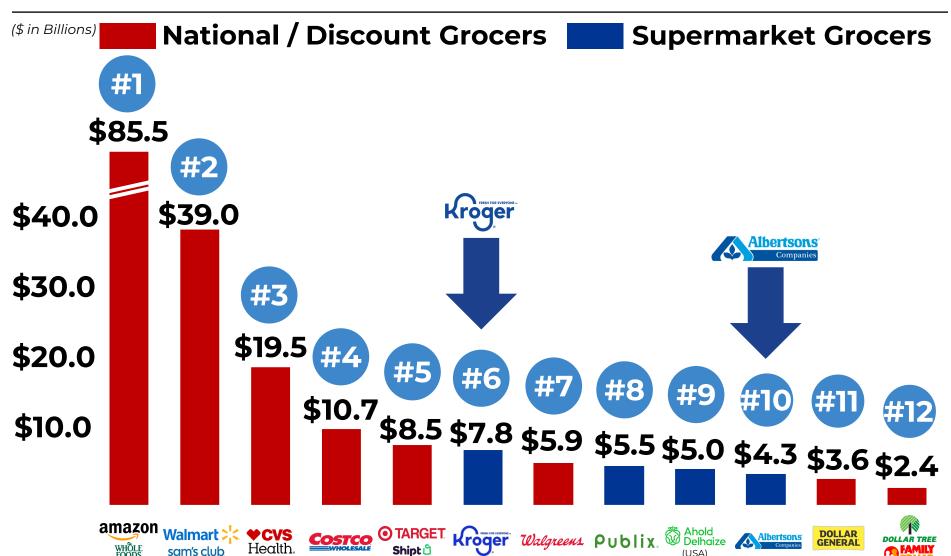






12. THERE IS AN EXTREME EBITDA DIFFERENCE BETWEEN AMERICA'S NATIONAL / DISCOUNT GROCERS AND THEIR SUPERMARKET GROCER PEERS

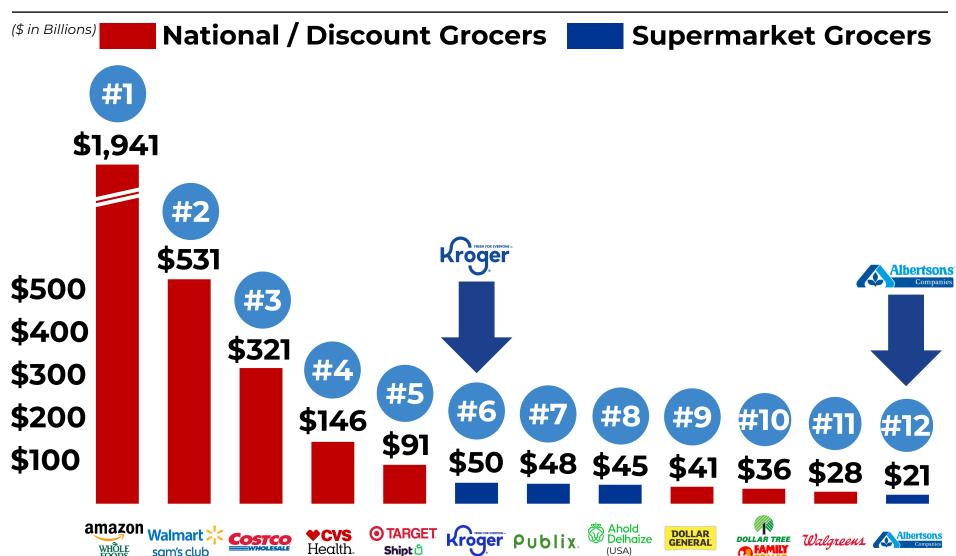
LTM EBITDA





12. AMERICA'S NATIONAL / DISCOUNT GROCERS HAVE MEANINGFULLY LARGER VALUATIONS THAN SUPERMARKET **GROCERS**

FIRM VALUATION



sam's club

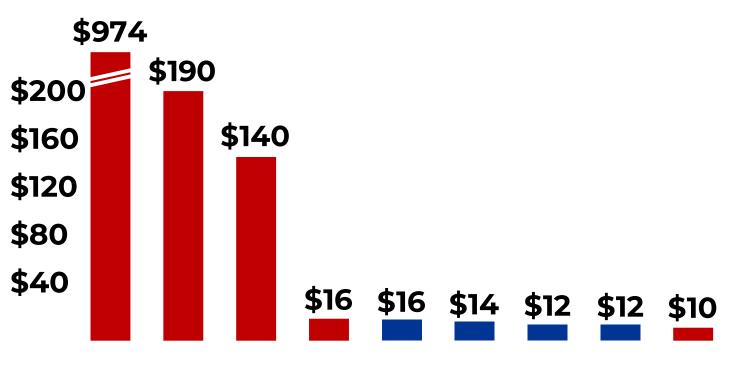
Health

Shipt 🖰

12. THE VALUATIONS OF AMERICA'S NATIONAL / DISCOUNT GROCERS HAVE INCREASED FAR MORE DURING THE PANDEMIC THAN SUPERMARKET GROCERS

FIRM VALUATION GROWTH SINCE JANUARY 2020























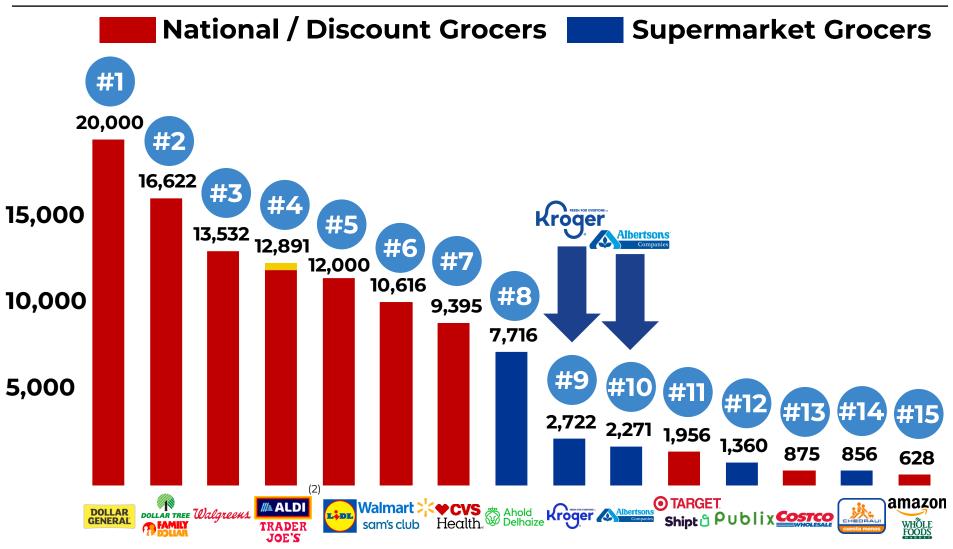






12. MOST U.S. NATIONAL / DISCOUNT GROCERS HAVE THE BENEFIT OF GLOBAL SCALE

GLOBAL STORE COUNT (U.S. GROCERS)(1)



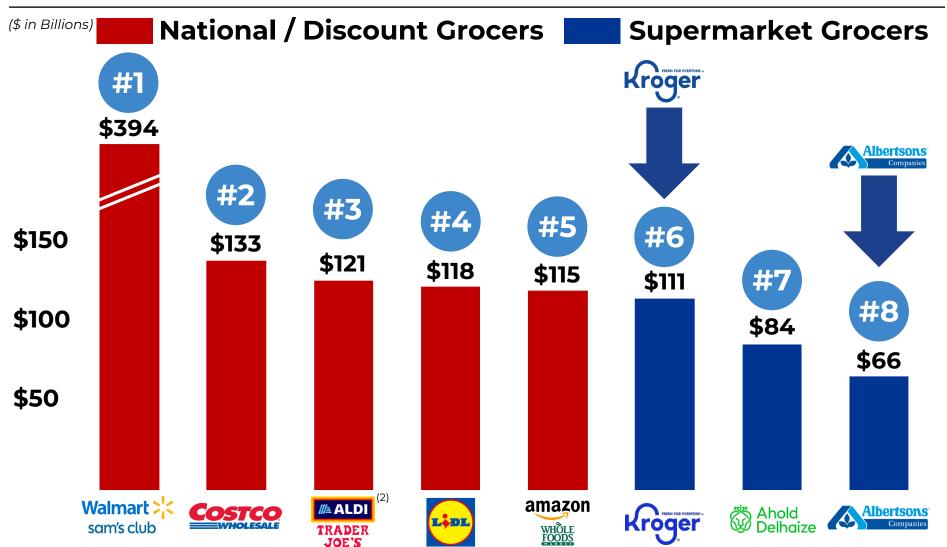


¹⁾ Among grocers with operations in the U.S.

²⁾ Includes Aldi Sud 2022 & Aldi Nord 2021 figures, which represents the latest publicly available information. Pro forma for Winn Dixie and Harvey's stores to be acquired per announcement in August 2023.

12. ON A GLOBAL GROCERY BASIS, KROGER AND ALBERTSONS ARE RANKED JUST #6 AND #8, RESPECTIVELY

GLOBAL GROCERY SALES RANKINGS (U.S. GROCERS)(1)



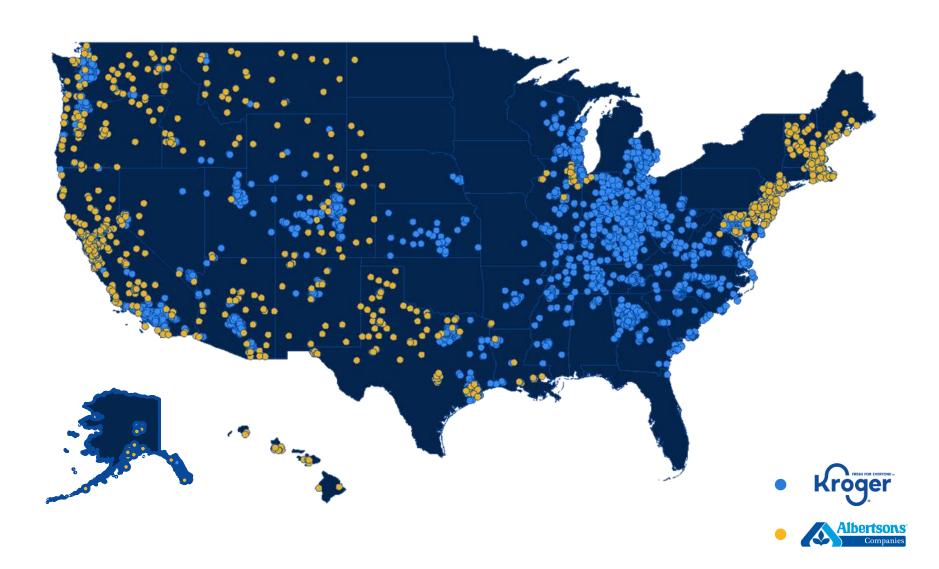
Source: Company Filings & Company Websites as of March 2024.

¹⁾ Among grocers with operations in the U.S.

²⁾ Includes Aldi Sud 2022 & Aldi Nord 2021 figures, which represents the latest publicly available information. Pro forma for Winn Dixie and Harvey's stores to be acquired per announcement in August 2023.

KROGER / ALBERTSONS TRANSACTION BACKGROUND

KROGER / ALBERTSONS: COMPLEMENTARY FOOTPRINT WITH ICONIC AND TRUSTED SUPERMARKET BANNERS





KROGER / ALBERTSONS IS GOOD FOR CUSTOMERS, EMPLOYEES AND COMMUNITIES

Kroger / Albertsons
 Will Lower Prices

Kroger / Albertsons
 Will Strengthen and
 Protect Union Jobs



KROGER'S 20-YR BETTER PRICE AND UNION JOBS TRACK RECORD IS EXCEPTIONAL

Kroger's 20-Year Track Record

- Invested nearly \$5bn in better prices company-wide
- Consistently improved prices at acquired companies:
 - Invested \$130 million to lower prices at Harris Teeter
 - Invested \$110 million to lower prices at Roundy's
- Reduced Gross Profit Margin by 5% (500 bps), while Amazon,
 Walmart, Ahold and Dollar General have all increased
- Added 110,000 union jobs, while unionized grocery jobs declined from ~50% to 15% of the Top 15 Grocers



KROGER'S CLEAR PUBLIC COMMITMENTS RELATED TO THE ALBERTSONS MERGER

- No store closures.
- No front-line job losses.
- \$500mm more price investment
- \$1 Billion for better wages
- •\$1.3 Billion for better store investments
- Donating 10 Billion meals to combat food insecurity⁽¹⁾
- \$21,000 tuition reimbursement for employees
- More local food sourcing



KROGER / ALBERTSONS IS GOOD FOR AMERICAN CONSUMERS AND EMPLOYEES.

- Transaction Benefits for Consumers and Employees
- Better Prices \$500M better price investment
- Better Grocery Choice better food and multi-channel options
- Better, Sustainable Union Jobs stronger stores
- Better Community Service
- Kroger's 20-Year Track Record of Better Prices (Customer 1st)
- Since 2003, Kroger has invested \$5B to lower prices for customers
- Kroger's gross profit margin is down 5% from 27% to 22% (Amazon, Ahold Delhaize, Walmart and DG have all increased)
- Kroger's Track Record of Better Prices at Acquired Companies
- Kroger has historically invested in lower prices at acquisitions
- Harris Teeter: \$130M lower price investment (2014)
- Roundy's: \$110M lower price investment (2017)

- Kroger / Albertsons
 Is <u>NOT</u>
 Albertsons / Safeway
- Kroger will be running the combined business
- Kroger has a much stronger balance sheet than Albertsons
- C&S is a much stronger divestiture buyer well-capitalized,
 \$30BN unionized grocer with deep acquisition/integration experience; buying / licensing local banners for continuity

Kroger's
Clear
Commitments

- No Store Closures
- No Front-Line Job Losses
- Prevent Food Insecurity donating 10 billion meals
- \$1BN Better Wage Investment / \$21,000 Tuition Reimbursement

"... We have lowered our cost of doing business.
We have reinvested all of those savings in lower prices..."

- Rodney McMullen, Kroger Chairman & CEO, Earnings Call, June 2014



COMPARING C&S WHOLESALE GROCERS TO HAGGEN IS INCORRECT ON MULTIPLE LEVELS

THE DISTINCT CHARACTERISTICS THAT LED TO THE FAILURE OF HAGGEN'S ACQUISITION OF DIVESTED STORES IN 2015 ARE NOT PRESENT WITH C&S WHOLESALE GROCERS TODAY

HAGGEN (2015)







- Very small chain owned by a small private equity firm
- One of the largest private companies in the U.S.; \$30 billion in sales and ample financial investment capacity; serves 7,500 grocery stores across U.S.
- Haggen banner was unknown to customers in the new markets where they changed banner and re-opened stores as Haggen
- C&S buying / licensing local banners (Carrs, QFC, Mariano's and Albertsons) to maintain continuity, strong customer loyalty and performance
- Haggen's weak balance sheet led to insufficient capital invested to build brand recognition
- Robust balance sheet and infrastructure to support customers, jobs and store investments
- Haggen's senior management team lacked local operating and integration experience

Experienced management team with extensive acquisition and integration experience (as an approved FTC divestiture buyer just two years ago)



GROCERY = SUPERCENTERS



+ CLUB GROCERS



sam's club









GROCERYOUTLET Smart & Final. WinCo

.AR GROCERS









DRUG GROCERS







+ ONLINE GROCERS













+ SPECIAL





























CONCLUSION – ADDING UP GROCERY FACTS

- Supermarket Grocers are a shrinking part of a much larger U.S. Grocery landscape
- 2. There's more Grocery choice, convenience and competition than ever before
- 3. Just like Department Stores before them, Supermarket Grocers are under siege from National / Discount operators
- 4. Millions of jobs especially union jobs are at risk, as is the deeply important place Supermarket Grocers hold as pillars of thousands of American communities

KEY TAKEAWAYS – A FEW THINGS YOU MIGHT NOT HAVE KNOWN

- 1. Grocery ≠ Supermarkets; 20 Years Ago, 10 of 15 Top American Grocers Were Supermarket Grocers Today, 10 of 15 Top American Grocers Are National / Discount Grocers, NOT Supermarket Grocers
- 2. National / Discount Grocers Have Added ~39,000 Stores in the Past 20 Years and Doubled Share; Consumers Regularly Shop at 4 Grocery Types and 5 Banners; Online Grocery Has Grown 4x Since Covid
- 3. Non-Union National / Discount Grocers Have Over 60% Grocery Share and Most Grocery Jobs; In 2003, Supermarket Grocers Were the "Primary Shop" for 79% of Americans; Today, It's 38%
- 4. Walmart is #1 Global Grocer; has \$320B+ Grocery Business That Has Quadrupled in the Past 20 Years; U.S. Grocery sales roughly as large as Kroger, Costco, Amazon and Albertsons, combined
- 5. Costco is #2 Global Grocer and #3 U.S. Grocer, Stores Sell 5x the Groceries of Average Supermarkets
- 6. Dollar General and Dollar Tree Have a \$50B U.S. Grocery Business and ~37,000 Grocery Stores
- 7. Aldi is #3 Global Grocer; Added >2,000 Non-Union U.S. Grocery Stores and \$24B Sales in 20 Years
- 8. Amazon/Whole Foods, Walmart, Target/Shipt and Costco Are the Top Online Grocers
- 9. Amazon is #5 Global / U.S. Grocer; \$1.9 Trillion Valuation Is Many Multiples Its Grocery Rivals; Worth More All Public U.S. Grocers, *Combined*, Fueling Significant Grocery Investment
- 10. Instacart Reaches 95% of North American Households; Unprecedented Grocery Convenience & Choice
- 11. National / Discount Grocers' 20-Year Sales and Store Growth Far Exceeds Supermarket Grocers
- 12. Global Scale Helps National / Discount Grocers' EBITDAs and Valuations Dwarf Supermarket Grocers
- <u>Conclusion</u> Kroger / Albertsons is Necessary, and Good for American Consumers and Employees.



APPENDIX – FOOD INFLATION CAUSES SUMMARY

MACRO FACTORS DRIVING RECENT FOOD INFLATION

Supply Chain **Disruption**

- COVID
- Global heatwave / Avian flu
- **Commodities volatility**
- Consumer behavior changes

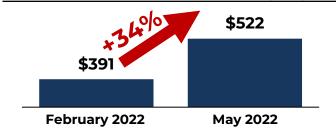


Russia-**Ukraine** Conflict

- Impeded flow of goods
- **Fueled food supply**
- **Shortages increased** energy costs



WHEAT PRICES PER METRIC TON (USD)



Food Manufacturers **Passing Cost Increases** to Supermarkets and Consumers

Various food manufacturers' gross margins increased 247 bps over the last year⁽¹⁾



Shrinkflation By Food **Manufacturers**

Reducing product size and quantity while charging the same price

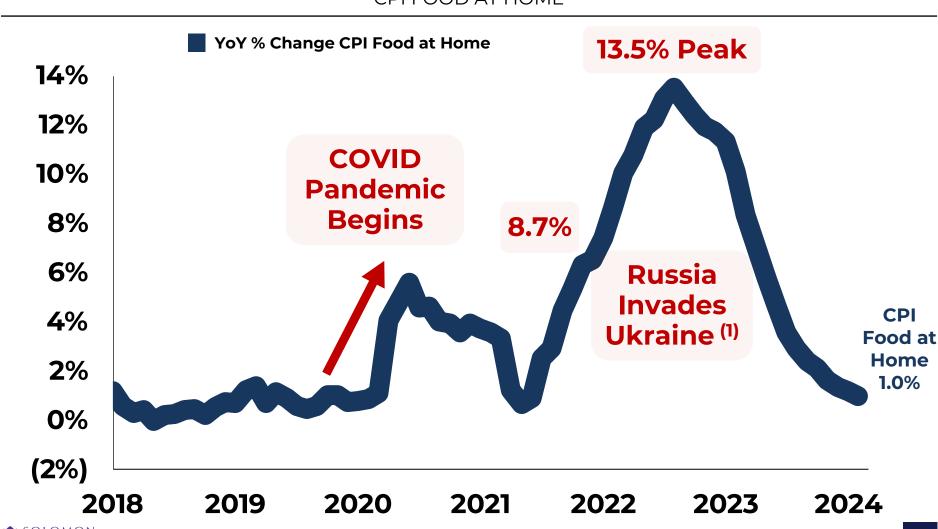
SHRINKFLATION EXAMPLES





COVID, SUPPLY CHAIN CHALLENGES, UKRAINE AND FOOD MANUFACTURERS DROVE FOOD INFLATION (NOT GROCERS)





FOOD INFLATION CAUSES

1. Supply Shocks

- Meat Global cow reduction
- Poultry 2022 U.S. Avian flu
- Vegetable oil Indonesia banning exports
- Soybean oil Argentina & Brazil droughts
- Oranges Hurricane Ian & citrus greening disease

2. Commodity Prices

- Wheat & Fertilizer Russia / Ukraine
- Sugar Mexico, Texas, Louisiana droughts
- Cocoa Ivory Coast & Ghana climate crisis

3. Food Manufacturer "Profiteering"

- Meat Tyson Foods
- Beverages Coca-Cola, Keurig Dr Pepper & PepsiCo
- Snacks Hershey, Mondelez & PepsiCo



SUPPLY SHOCKS, COMMODITIES VOLATILITY AND FOOD MANUFACTURER PROFITEERING DROVE INFLATION

Wheat



War in Ukraine has caused rising wheat price; U.S. orange decreased 12

Ukraine was 5th largest exporter before the war

Global wheat prices immediately rose,

reaching historic highs in

 Russia has continued to restrict and attack Ukrainian export ports

May 2022

Citrus



Cocoa



Beverages



Snacks (3)



U.S. orange production decreased 12% in 2022

- In 2022, Hurricane Ian destroyed over \$400M worth of citrus plants in Florida, causing lowest citrus production since the Great Depression
- Incurable citrus greening disease also reduced the citrus supply in Mexico, Brazil and Florida
- Global cocoa supply has declined 1/3 as climate crisis ravages Ivory Coast and Ghana, the world's largest producers (60% of global supply)
- As a result, cocoa futures have doubled since January 2023
- PepsiCo and Coca-Cola expanded Q3 2023 profit margins by raising prices roughly 10%
- PepsiCo noted that cost pressures induced by Russia-Ukraine war eased
- Keurig Dr Pepper nearly doubled its operating margin for its U.S. noncoffee beverage segment in O3 2023 to 30%
- Hershey's profit margins grew 19% YoY in Q3 2023 as pricing & productivity gains more than offset inflation and higher manufacturing costs
- In Q3 2023, PepsiCo, increased profit margins by 12%, primarily driven by increased prices
- Mondelez increased Q3 2023 profit margins 75%

Fertilizer 2



Prices hit near-record levels in 2022 and remain elevated, in part due to Russia's war on Ukraine

 Accounts for nearly 1/5 of U.S. farm costs

Vegetable Oil

- Several factors drove prices up 50% since 2019
- Indonesia, the world's largest palm oil producer, temporarily banned exports in April 2022 to bring down rising domestic food prices

Soybean Oil



- Droughts in Argentina and Brazil, the top global soybean exporters, caused yields to hit a near-50-year low
- Argentina increased export taxes and restricted exports since escalation of Ukraine war

Sugar



- Global sugar prices hit a decade-high in Fall 2023 (70%), largely due to drought conditions caused by El Niño
- Droughts in Mexico,
 Louisiana and Texas have
 reduced the sugar supply

Meat



- In 2021 and 2022, wholesale prices grew much more rapidly than input prices
- Tyson Foods noted that its pricing actions "more than offset the higher COGS" on a 2021 earnings call

SHRINKFLATION BY FOOD MANUFACTURERS MAKES CONSUMERS FEEL CHEATED

- 1. Shrinkflation is when food manufacturers reduce product size or quantity while still charging the same price; it is another form of food price inflation
- 2. Shrinkflation Examples (Prices Remained Constant)







3. Negative Impacts on Consumer Psychology

"...New study indicates that nearly three quarters of consumers (73%) are concerned about shrinkflation..." – Supermarket News (04/04/2023) "More than eight in ten (83%) report noticing that they are getting less and paying the same amount or more. And nearly as many (79%) say they feel cheated when it happens."

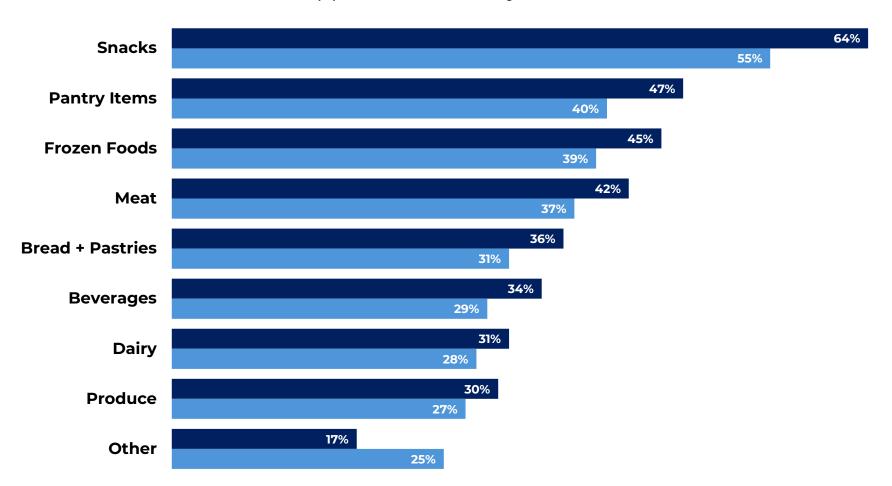
- Ipsos Consumer Tracking (06/12/2023)



SHRINKFLATION BY FOOD MANUFACTURERS MAKES CONSUMERS FEEL CHEATED (CONT'D)

AMERICANS ARE SEEING SHRINKFLATION ACROSS GROCERY CATEGORIES

- Shoppers are **worried** about shrinkflation
- Shoppers have already **noticed** shrinkflation





FOOD MANUFACTURERS HAVE LARGELY PASSED INFLATION COSTS ONTO THEIR CONSUMERS

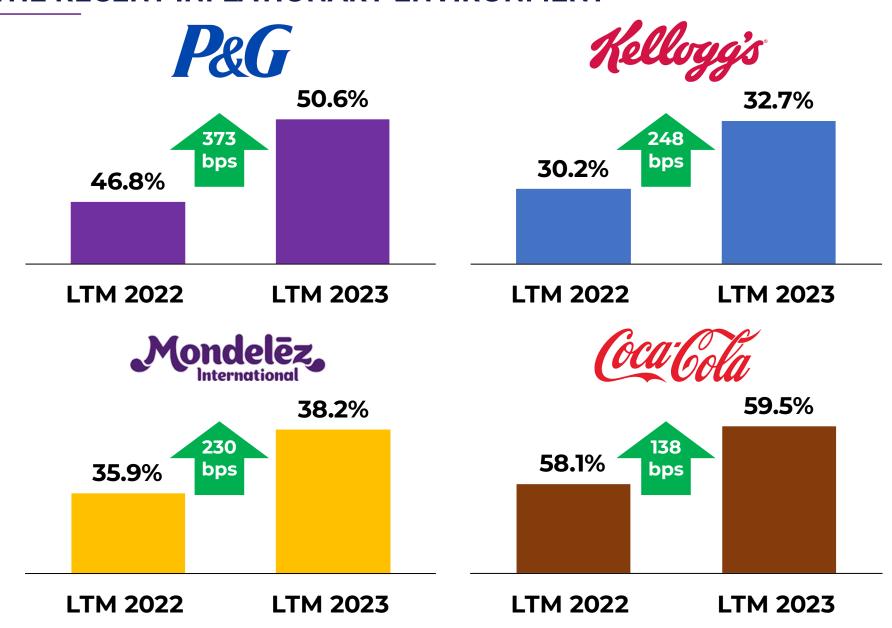
"OUR DOUBLE-DIGIT ORGANIC GROWTH AND NET SALES IN 2022 WAS DRIVEN BY PRICE MIX WHICH ACCELERATED IN THE SECOND HALF AS WE CONTINUED TO EXECUTE REVENUE GROWTH MANAGEMENT ACTIONS AROUND THE WORLD TO COVER ACCELERATED INPUT COST INFLATION."

-Steve Cahillane, CEO of **Kellogg**, Q4 2022 Earnings Transcript

GROSS MARGIN EXPANSION / (COMPRESSION)



FOOD MANUFACTURERS SHOW GROSS MARGIN EXPANSION IN THE RECENT INFLATIONARY ENVIRONMENT



RECENT FOOD MANUFACTURER EARNINGS CALL COMMENTARY

FOOD MANUFACTURERS CONTINUE TO PASS ALONG COST INCREASES TO CONSUMERS

- "Raw and packaging material costs ... still remain a significant headwind versus last fiscal year ... In addition to these impacts, we are also facing higher inflation in wages and benefits ... we are offsetting a portion of these cost headwinds with price increases and productivity savings." - Andre Schulten, CFO, Q3 2023 Earnings Call
- "Pricing has been a core component of our growth for 18 out of the last 19 years." - Andre Schulten, CFO, Q1 2024 Earnings Call

- "We've increased prices more aggressively than Clif would have done historically. We increased prices in August, in January and another one later in Q1." - Dirk Van de Put, CEO, Q2 2023 Earnings Call
- "Our strong profit dollar growth was driven by cost discipline and pricing to offset cost inflation." - Luca Zaramella, CFO, Q2 2023 Earnings Call
- "And so we will have to price again, much less than we had to do this year, but we have to price. And so, so far, elasticity is good. Volumes are good." - Dirk Van de Put, CEO, Barclays 2023 Global Consumer Staples Conference



- "When you take the type of pricing, you're talking about 30-plus percent pricing over the last 18 months ... As we go into next year, we're lapping a lot of this pricing. Consumers are becoming much more used to different price points." - Steve Cahillane, CEO, Q3 2023 Earnings Call
- "Our double-digit organic growth and net sales in 2022 was driven by price mix which accelerated in the second half as we continued to execute revenue growth management actions around the world to cover accelerated input cost inflation." -Steve Cahillane, CEO, Q4 2022 Earnings Call



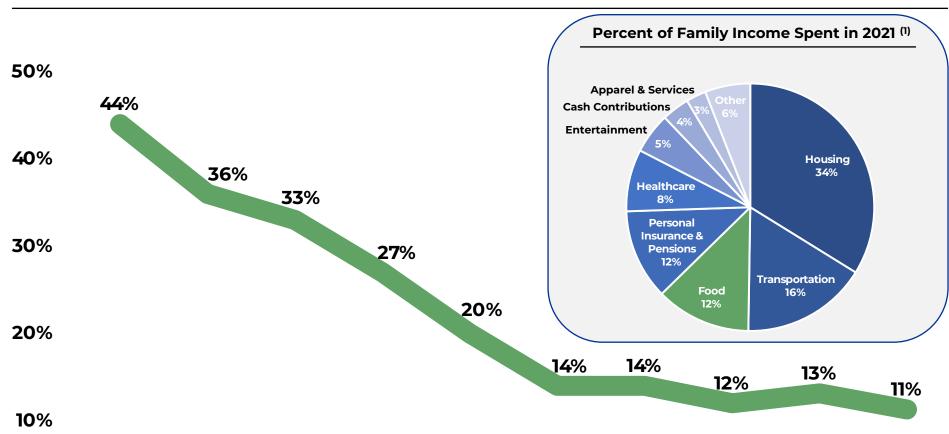
- "If you look over the last 4 years ... we've been able to sustain a pretty resilient gross margin ... with respect to 2023, the key ingredients ... were the impact of the various pricing actions we've had around the world." - John Murphy, CFO, Q4 2023 Earnings Call
- "Most of the inflation is in a set of markets where we do price for local inflation. And in a way, the higher inflation gets, the more likely it is we're just -- you're going to follow inflation." - James Quincey, CEO, Q3 2023 Earnings Call
- "We delivered 12% organic revenue growth in the quarter. This was primarily driven by pricing actions across markets." – James Quincey, CEO, Q1 2023 Earnings Call



HISTORICAL PERSPECTIVE – AMERICAN FAMILIES CURRENTLY SPEND LESS INCOME ON FOOD VERSUS ANY OTHER TIME IN HISTORY

U.S. FAMILIES SPEND ROUGHLY HALF OF THEIR TOTAL INCOME ON HOUSING AND TRANSPORTATION, THOUGH AT LESS FREQUENT INTERVALS THAN THEIR FOOD SPEND

PERCENT OF FAMILY INCOME SPENT ON FOOD: 1901-2022



1960

1972-73

1984-85

1996-97

2002-03



1901

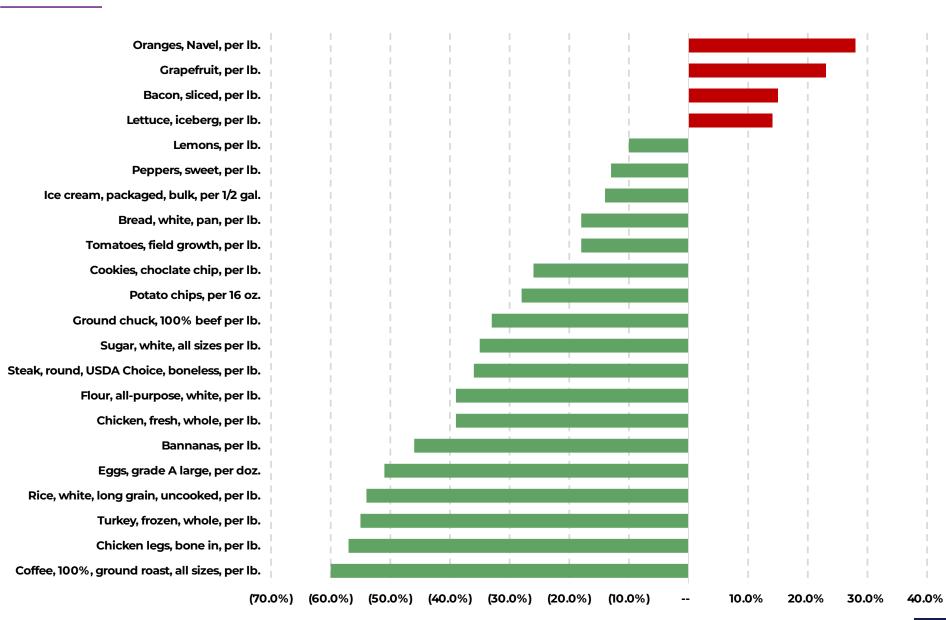
1934-36

1950

1918-19

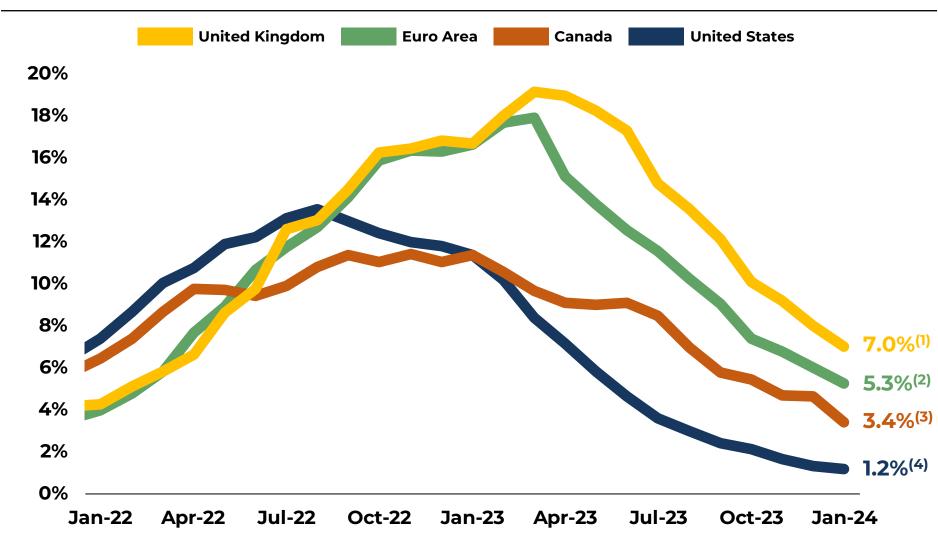
2022

HISTORICAL PERSPECTIVE – MOST GROCERY PRODUCTS ARE MEANINGFULLY LESS EXPENSIVE THAN THEY WERE 40 YEARS AGO



GLOBAL PERSPECTIVE – INTERNATIONAL FOOD INFLATION IS SUBSTANTIALLY HIGHER THAN IN THE U.S.

YEAR-OVER-YEAR % CHANGE IN PRICE



Source: Bureau of Labor Statistics, Office for National Statistics and Statistics Canada as of March 2024.

¹⁾ Consumer Price Index: Food and Non-Alcoholic Beverages.

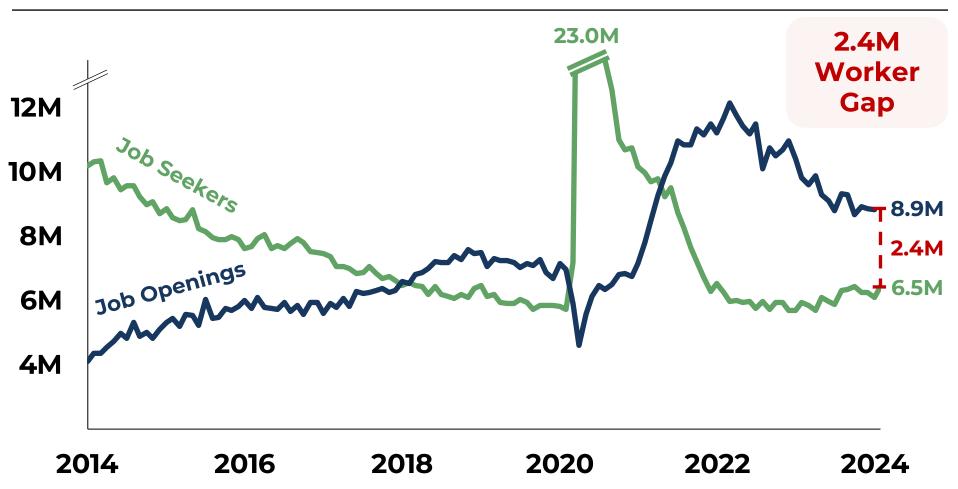
²⁾ Harmonized Index of Consumer Prices: Food for Euro Area (excludes food products sold for immediate consumption away from the home).
3) Canada Consumer Price Index: Food Purchased from Stores.

⁴⁾ Consumer Price Index for All Consumers: Food at Home in U.S. City Average.

U.S. WORKER SHORTAGE HAS EXACERBATED FOOD INFLATION

JOB OPENINGS CURRENTLY OUTNUMBER JOB SEEKERS BY 2.4 MILLION WORKERS

JOB OPENINGS VS. JOB SEEKERS: 2014-PRESENT



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