Resumo

Este estudo tem como objectivo dar a conhecer o Grupo Jerónimo Martins, que é actualmente a empresa líder no sector da distribuição e cujas insígnias têm uma posição de liderança nos segmentos retalhista e grossista no mercado português, e no segmento de *hard discount* na Polónia, o outro país onde actualmente se encontra estabelecida a empresa. De modo a cumprir essa finalidade e de que forma ela se relaciona com a realidade presente, é realizada uma breve contextualização sobre a conjuntura económica sobre os países e sectores onde a Jerónimo Martins está inserida, passando em seguida para uma descrição sobre a empresa bem como uma análise à sua situação financeira e às suas perspectivas futuras tendo em conta o conjunto de decisões que é tomado pela sua administração com vista ao crescimento e desenvolvimento sustentáveis dos seus negócios.

A conclusão do estudo centra-se exclusivamente na recomendação sobre a acção da empresa de acordo os devidos critérios de avaliação do preço-alvo da mesma, ao mesmo tempo que tal valor é confrontado com os resultados obtidos por outras entidades especializadas na avaliação de títulos financeiros de forma a conseguir apurar se a conclusão obtida está dentro de um intervalo de valores considerados verosímeis para a situação em causa e para comparar recomendações de modo a que seja possível a um investidor obter um conjunto mais alargado de recomendações que apontam para uma postura específica face à acção da Jerónimo Martins em uma determinada data.

Conceitos chave: Avaliação de Empresa, Rendibilidade, Risco, Saúde Financeira.

JEL: G30, G39

Abstract

This case study has the objective to provide an insight regarding Jerónimo Martins Group, which is the leader in the distribution sector and whose banners hold the lead position in the Portuguese Retail and Wholesale market segments, as well as the hard discount one in Poland, which is the only other country where the company is established. In order to do so and to relate it toward the present, it begins with a small contextualization over the economic conjuncture concerning both countries and their respective sectors where Jerónimo Martins operates, followed by its thorough description and a detailed financial status analysis. Finally it is laid out what are the Group's future prospects bearing in mind the set of managerial decisions taken in order to keep the healthy business growth and development.

This study concludes by issuing a recommendation over the company's stock price according to some suitable valuation methods and by making a comparison between the result achieved and a few other recommendations from other financial entities to see whether the recommendation made is somewhat in line with the other ones and in order for a given investor to get a larger set of opinions pointing out a certain stance regarding Jerónimo Martins stock and its price at a given date.

Key concepts: Corporate Valuation, Profitability, Risk, Financial Health.

JEL: G30, G39

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Index

Page

- Sumário Executivo……………………………………………………………..1
- Introduction……………………………………………………………………3
- Portuguese Economic Conjuncture…………………………………………….4
- Polish Economic Conjunture…………………………………………………...5
- Portuguese Food Retail & Wholesale Markets Conjuncture……………………..6
- Polish Food Retail Market Conjucture……………………………………………8
- Group's Investment Program…………………………………………………….10
- Business Areas Performance……………………………………………………13
- Financial Analysis……………………………………………………………….15
  - Risk Assessment……………………………………………………………....16
  - Profitability Valuation………………………………………………………...18
    - Return on Sales……………………………………………………………..18
    - Return on Invested Capital…………………………………………………18
    - Return on Equity……………………………………………………………19
    - Value Creation Gap…………………………………………………………...19
    - Gross Profit Margin…………………………………………………………...20
    - Cash Flow Margin……………………………………………………………21
  - Overall Financial Health & Business Stability…………….........................21
    - Jerónimo Martins……………………………………………………………...21
    - Sonae…………………………………………………………………………23
    - Walmart……………………………………………………………………….24
- SWOT Analysis…………………………………………………………………..25
  - Strengths……………………………………………………………………....25
  - Weaknesses………………………………………………………………….....26
  - Opportunities…………………………………………………………………..26
  - Threats……………………………………………………………………......27
- Future Prospects…………………………………………………………………...28
- Recommendation………………………………………………………………...32
- Bibliography……………………………………………………………………..35

- Appendices……………………………………………………………………37
  - Jerónimo Martins Analysis………………………………………………..….37
    - Risk Assessment Measures…………………………………………37
    - Profitability Measures………………………………………………37
    - Financial Health Measures…………………………………………38
    - Valuation Measures…………………………………………………...39
  - Sonae Analysis………………………………………………………….43
    - Valuation Measures…………………………………………………...43
    - Risk Assessment Measures……………………………………….....45
    - Profitability Measures………………………………………………45
    - Financial Health Measures…………………………………………46
  - Walmart Analysis……………………………………………………….47
    - Valuation Measures…………………………………………………...47
    - Risk Assessment Measures…………………………………………49
    - Profitability Measures……………………………………………….49
    - Financial Health Measures………………………………………….50

Sumário Executivo

Este estudo de caso tem a finalidade de proporcionar uma visão geral sobre o Grupo Jerónimo Martins e os seus negócios cujas insígnias assumem posições extremamente relevantes, por vezes de liderança, nos segmentos de mercado em que operam. Nomeadamente, a cadeia de supermercados Pingo Doce e o Recheio que são as insígnias líderes nos segmentos de retalho e grosso portugueses respectivamente, e a Biedronka que é líder no segmento no retalho *hard discount* na Polónia. Esta posição também se estende ao sector industrial, fruto da parceria com a Unilever que lhe permite assumir a posição de liderança na produção de diversos produtos alimentares (entre os quais o azeite através da empresa Gallo Worldwide Lda. resultante da sua desagregação da Unilever) e outros consumíveis. Outras cadeias importantes do Grupo incluem a Hussel na comercialização de chocolates e produtos de confeitaria, os cafés Jeronymo, os gelados Olá, os restaurantes franchisados Chili's e as lojas Ben & Jerry's, entre outras cadeias extra-sector alimentar.

Sendo a conjuntura dos países e respectivos mercados um conjunto de factores decisivos no desempenho da actividade da empresa, este estudo começa por apresentar as conjunturas económicas portuguesa e polaca, bem como os seus mercados retalhista e grossista ao longo do triénio 2007-2009. O seu objectivo visa situar a empresa temporalmente de modo a poder relacionar com clareza essas condições com o programa de investimentos do Grupo, que permitem compreender a trajectória de crescimento que a Jerónimo Martins atravessa e antever futuras necessidades de investimento e financiamento. Essa informação também tem uma influência directa na performance das áreas de negócio da empresa, cujo ramo está directamente dependente das condições económicas vigentes, fruto das oscilações no rendimento das famílias e restantes agentes económicos. Já no ramo financeiro, é realizada uma análise detalhada aos domínios mais importantes para a manutenção de uma situação financeira e económica saudáveis. Estes domínios centram-se nas componentes de avaliação do risco económico-financeiro; de rendibilidade dos negócios, dos capitais, das margens e avaliação da capacidade de criação de valor; e finalmente na componente de estabilidade e segurança financeiras de forma a evitar desequilíbrios no financiamento

dos negócios e na manutenção do normal curso das suas actividades. Com o objectivo de conseguir transmitir uma maior compreensão e noção das situações agora referidas, é realizada uma comparação entre a Jerónimo Martins e outras duas empresas que operam no mesmo sector, sendo a Sonae o concorrente mais directo da entidade em análise já que ambas operam também no mesmo mercado nacional, e a Walmart que ostenta a dupla distinção de maior retalhista e empresa que mais receitas gera em todo o mundo.

Seguidamente é apresentada uma análise SWOT segundo as características gerais do Grupo, bem como as suas perspectivas futuras quanto ao potencial de crescimento das suas principais insígnias, o desenvolvimento da sua área de influência e negócio não só em território nacional como também na Polónia (onde se espera que exista um vasto potencial de crescimento de actividade ainda inexplorado) e segundo diversas fontes num terceiro país sobre o qual ainda não existe nenhuma decisão tomada, mas que será certamente divulgada nos próximos meses.

O estudo de caso é concluído com uma recomendação sobre a acção da Jerónimo Martins, sendo utilizado para tal efeito os métodos DCF (Discounted Cash-Flow), EVA (Economic Value Added), FCFE (Free Cash-Flow to the Equity), e a análise dos Múltiplos. Mais uma vez, tal como na análise da situação financeira da empresa, a recomendação deste estudo é comparada a diversas outras recomendações de outras entidades como os bancos de investimento Goldman Sachs e Naxitis; e os bancos BES e BCP de forma a verificar a coerência da recomendação realizada.

Introduction

This case study will seek to provide an overview of Jerónimo Martins Group and its businesses whose banners hold relevant positions in their own markets, namely Pingo Doce and Recheio within Portuguese borders and Biedronka within Polish ones. This status is also extended to the industry sector, as a result of its partnership with Unilever which allows seizing the leadership in several goods production and other consumables; and other retail chains such as Hussel, Jeronymo and Olá.

As a way to better understand the overall Group activity, it will be laid out a brief description of the Portuguese and Polish economic conjuncture along with an overview of the conditions in their retail and wholesale markets over the 2007-2009 triennium. With these environments in mind, it will be explained Jerónimo Martins' investment program and business performance over those years in order to better understand the changes that were witnessed in the company on their way to achieve its influence sported nowadays. From there it will be laid out a precise analysis over the vital domains to attain a healthy financial status, by going through a comparison between the Group, its main retail competitor in Portugal, Sonae, and american giant Walmart which may assume the role of reference here. The indices by which those match ups will be done are the financial risk assessment measures, the profitability of its businesses, capitals and margins, as well as the financial stability measures that assess whether those business are well financed so that their activity are running normally.

Next up it will be presented a SWOT analysis and their future prospects regarding the potential of its main banners and the extension of its area of influence not only within Portuguese soil, but also in Poland and even in a third country, whose possibility has been studied recently.

Wrapping up the case study there will be a recommendation over Jerónimo Martins stock, whose price target will be assessed using the Discounted Cash Flow, Economic Value Added, FCFE and Multiple Analysis methods. Furthermore, this result will be matched up against other entities' price targets, so that a much better notion of this stock value may be attained as far as an average investor is concerned.

Portuguese Economic Conjuncture

The Portuguese economy has been through a wide variety of situations over the 2007-2009 triennium. According to data from some of main references in macroeconomic indicators, 2007 was a very productive year in amidst of a restrictive fiscal policy effort begun in 2005 and a global economic sentiment pointing towards a deceleration, with an economic expansion of about 1.9% (still underperforming in comparison to the figures achieved by the overall Euro Zone) and a further budget deficit correction, which may have had a harmful effect on the unemployment rate, given it has risen to the 8% mark. The inflation rate was 2,4%, similar to the Euro Zone one, and that prompted a raise in interest rates by BCE. The Portuguese main stock index performed very well, piling up earnings around 17% with very little volatility, losing out within European borders to Germany and Finland only, both appreciating above 20% each.

Unlike the previous year, 2008 was a year of economic stagnation, due to a deep contraction in the last quarter as its main trading partners were also through a major downturn, which had decisive ripples in the Portuguese exports, known as the most critical economy engine for the country. Furthermore, the energetic burden has boosted its toll on the external and budgetary deficit as the oil and other energy sources' prices skyrocketed until July of that year, hampering even more the economic activity and slipping the inflation rate further away from the 2% BCE's reference. The unemployment though, remarkably, went through this year mostly unscathed, as its rate in the last quarter equaled its homologous period, notwithstanding some expected volatility throughout. As expected, the PSI-20 plunged during 2008, losing more than half of its value with huge volatility, signaling the investors' outright fear towards the future.

2009 went the same way as 2008 ended, enduring a deep recession (-2,7%, a figure not as severe as in the rest of Europe) helped by a further worsening of the global economic environment to a scale hardly ever matched, with direct effects on exports, and a sinking private consumption. Moreover, the unemployment rate breached through the 9% mark by far and the government decided to shift from the budget deficit

shrinkage efforts to increase its expenditure to support the economy and the unemployed (which included a 2,9% raise in the public sector wages), along with less tax revenue due to the recession. The result was a mind-blowing 9.4% budget deficit and yet another increase in public and external debts. However, the inflation plunged to -0.8%, which was unprecedented for some decades and allowed for overall less strained family budgets, and the Portuguese stock exchange bounced back strongly from the previous year losses and the investors' renewed faith accounted for a 33.5% increase in its main index, the second most in Europe.

Polish Economic Conjuncture

The economy of Poland, as it is easily predictable, is in a very different stage of development toward the Portuguese one, and aside from other factors, it leads to a quite distinct performance, as it will be stated here.

In 2007 Poland saw its economy expand 6.5%, by means of an increasing investment and consumption and managed to keep its budget deficit fairly below the 3% threshold enforced by EU. However, inflationary pressures had build up along that year, triggering a rampant raise of interest rates by the Polish Central Bank and the greater internal demand is further eroding the account balance deficit.

More of the same was to come next year; the economy registered yet again a 5% plus growth, with a major contribution from the exports and internal demand. The inflation peaked in the first half of 2008, easing up afterwards, and upon concerning signs of an industrial production slowdown, the Polish monetary authorities loosened up their policy at the end of the year.

Remarkably, Poland was the only EU country whose economy has actually grown (over 1,5%) in 2009, with the usual responsible factors again playing a decisive role in this outstanding result. The unemployment rate has escalated throughout the year, but its expected negative effect on the public budget was somewhat countered by higher tax revenues due to economic growth. Unlike the majority of EU nations, Poland still struggled with high inflation levels (about 3.5%), due to its currency devaluation

and the rampaging energy prices. The Polish Central Bank has followed the same procedures as many other monetary authorities, by lowering its interest rates to stabilize the economy and the inflation levels.

Portuguese Food Retail & Wholesale Markets Conjuncture

In 2007 the modern food retail market (where the main companies in the sector compete) was able to keep a steady growth through the opening of 154 new stores and also setting up processes on hypermarket and discount formats. The most specific examples are the Carrefour buyout by Sonae and the preference for smaller sized stores, due to change of consumption habits, which are switching overtime from less visits and more shopping volume in each visit to the opposite way. Also the discount players sustained their expansion by increasing the number of stores. Jerónimo Martins has managed to buy 75 new Plus discount stores from Tengelmann, a german holding, thus expanding its retailing area and extending its lead in that sector by revamping them under the Pingo Doce brand.

Overall, it is estimated that these developments led to a 12% increase in both sales area and store count. In addition, according to sources from DGAE, there were about 130 new licenses granted in 2007 for stores opening purposes, and a little more than half of them accounted for the discount format, which is almost entirely run on small sized ones.

Mostly due to the deteriorating economic conditions, in 2008 the sector saw its strong growth cut in half (6%) of last year's performance (82 new stores). However, it's worth noting the Minipreço brand, whose efforts focused to expand its sales area and led to over 30 new shopping stores. On Jerónimo Martins' side, the rebranding of Feira Nova and recently bought stores kept the Pingo Doce insignia up front in sales area.

DGAE reported over 385 licenses were granted for the same aforementioned purpose, upon which is expected a 40% growth in sales area distributed in a small size store fashion. This dimension tendency has been seen as an answer to the losing ground

on hypermarkets' behalf, whose format has become increasingly less appealing to general public.

Among the minor market contestants, the most relevant development was the announcement by Netto, from Intermarché Group, remarking its intention to quit its Portuguese project.

The modern food retail market reached its bottom point in 2009, with its main causes being a economic environment at its poorest and the harmful effects spawned by price deflation. It was witnessed both an almost stagnation in consumer goods and a drop in other ones. Moreover, Consumers have been changing their preferences, spreading their shops across a wider range of brands, with special focus on white-labeled ones, along with a greater adherence to home consumption goods leaves the supermarket format much better off since they are scattered over a larger area, and therefore their consumer reach is higher in comparison with other shopping places.

Notwithstanding the economic struggles, the food retail market roughly kept the same growth pace in sales area (6%), albeit less stores were open (77 ones, 5 less than in 2008). Minipreço kept its momentum by opening a further 26 stores whilst Sonae and Auchan led the sales area growth department.

As for the wholesale market, apart from Recheio (the sector leader), in 2007 every brand withstood considerable drops on their sales for the fifth year in a row, up to 10% in some cases. In response, the major wholesale players have been shifting their scopes to meet the demands from food service industry, namely the HoReCa channel which has been one of the fastest growing sectors in Europe and includes supplying hotels, restaurants and other food-related establishments.

The following year witnessed not only the HoReCa channel growth maintenance but also the increasingly focus it received by the market wholesalers. However, later on there were signs of less clearance on the other end of the chain (consumers) due to the deteriorating economic conditions, which in the end translated itself in a sector growth deceleration. As far as the wholesale players are concerned, Recheio stood out as being the sole banner who reported business value growth above inflation among the ones whose sales fared well, in yet another year of food wholesale activity volume drought.

As a side note, due to the encouraging results achieved by Recheio, efforts were made to expand its activity by means of acquiring Santos Cavaco, a wholesaler, which in addition to a few other market refurbishings brought the aggregated top five wholesalers' market share from 80% in the previous year to 86%, shaping further up to a oligopoly market structure.

By 2009 the HoReCa could not withstand the pressure caused by the consumption decline and a wiser choice making (price has a higher weight in the decision making process) due to economic environment whose impact struck in form of lesser turnover, even though there were more establishments than before. The major players have withstood a new three-year maximum 2% reduction on their sales. Remarkably, despite the deflation witnessed throughout the year, Recheio managed to keep their sales value roughly at the same level as in 2008, which means that the volume sold has actually increased.

Although there were not any major market changes, the top five companies have lost a little market share down to 82,3%. Nevertheless it is undeniable the oligopoly features this market conveys.

Polish Food Retail Market Conjuncture

The Polish food retail market has reportedly grown over 10% in 2007, amidst a very healthy economic environment. The modern organized retail has been increasingly playing a major role in this process as its expansion efforts put forward (through the opening of over 200 stores) delivered further market share gains, even though the independent retailers still hold the bulk of that domain. It is therefore noticeable the intense competitiveness that features the Polish market, as not only the aforementioned expansion actions were made, but also there were several consolidation changes among the smaller retail chains, in order to better face the challenges presented by the other contestants.

An important step forward for Jerónimo Martins further stake its claim as one major player in the Polish market was the decision to quit the Poland's project by

Tengelmann Group, whose 210 stores were sold to the Portuguese company, allowing its Polish subsidiary, Biedronka, to increase its total sales area by over 20%.

One detail worth mentioning is the licensing system reform which took place later that year, which did not get the utmost approval by the market players and were subject of discussions then.

This market continued to show little hindrance to develop at an outstanding rate (about 8.9%) in the following year, as its dynamism has been leading the consolidation movements throughout 2008, to the extent of the 20 largest brands produced almost half of the total market revenues, with Jerónimo Martins' ones leading the pack by owning more than 1300 open stores.

Upon the whole Polish food retail market, the modern one accounts for nearly 1/3 of it, which embeds the super and hypermarkets whose share is very similar, with discount format not too far behind. However, it was the latter who posted the higher growth rate (28%/187 new stores), followed closely by the supermarket format (25%/132 new stores) and lastly, the hypermarket one with half the previous segment expansion rate (12%/27 new stores), which may suggest this concept is entering in a maturity stage where the room for growth is rapidly shrinking.

Apart from the takeover and rebranding of 193 Plus stores from Tengelmann Group later that year, there were a few more acquisitions in the market, gearing up further its consolidation process.

In 2009 the market barely escaped an effective stagnation, as it just grew 0.4% due to the worldwide recession and most of it was owed by the discount stores, which is the fastest growing food retail format in the country on the back of highly competitive price policies, and reached almost 10% of market share by 2009 whilst the modern food retail gained further ground on the whole retail market.

As in Portugal, the creation of white-label brands was swiftly embraced by the consumers, since the new economic environment urges for some consumption behavior changes.

There were fewer acquisitions over the year than it happened in the previous ones. However, at the end of 2009 the companies leading the Polish food retail market

were Jerónimo Martins Dystrybucja S.A; Tesco Polska; Carrefour Polska, Auchan Sp Z and Real Sp Z.

Group's Investment Program

The three-year span covered in this analysis marks a chapter of utmost importance in the Group's bid to both seize and hold the leadership in the business segments where it is involved in Portugal and Poland.

The importance behind this objective reaches far beyond the objective to take advantage of those business opportunities that the retail markets is able to provide, allowing the company to reward the stockholders as well as possible. It is also a matter of establishing a market influence that conveys to the consumers a sense of standard reference which they can rely on and make them loyal enough to shop in its stores time after time. In order to do so, the company has been through an expansion process in both countries which includes not only the opening of new stores, but also the revamp and improvement of already existing ones, as well as resorting to the closure when, among other reasons, it does not deliver enough results to meet the Group profitability and value creation standards; or the Competition Authorities in either country demands that such changes have to be made so that the market power balance remains restored.

As a result of those efforts, since the beginning of 2007 until the end of 2009 Jerónimo Martins managed to increase its store count in Portugal and Poland from 275 to 393 and from 905 to 1466 respectively, which indicates respective 12,6% and 17.4% growth rates. For reasons later pointed out, most of this expansion effort has been focused in the Pingo Doce and especially Biedronka brands, as it can be seen here:

Table 1 – Jerónimo Martins' Store Expansion Policy

	New Stores			Revamping			Stores Closure		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Retail Portugal	10	94	33	22	30	30	10	7	4
Recheio	0	2	0	1	3	2	0	0	0
Biedronka	163	359	156	51	83	71	56	45	16
Other Businesses	32	54	54	6	12	3	9	9	7

It must be mentioned that these figures are already taking into account the large Plus stores takeover operation carried out by the Group in 2008, and since the majority of those establishments were located in Poland, this process helped hugely Jerónimo Martins' quest to expand its business in that country. Moreover, it is important to stress the investment that has been made in other business areas which allowed for a more versatile value creation:

- No Sitio do Costume restaurants

- Na Zdrowie pharmacies in Poland and Bem Estar parapharmacies in Portugal

- New Code stores (adult and children's clothing)

- Prio gas stations

- Electric Co (electrical appliances) and GET (telecommunications, music and books).

Given both the high competition level at the markets the Group operates and its quest to optimize its chains functioning, Jerónimo Martins has been allocating a quite large slice of its earnings in maintenance and remodeling its store network, which in practical terms turns out to have a vital role in like-for-like sales growth and it also has a positive effect on costumers.

Table 2 – Jerónimo Martins' Investment Allocation

Business Area	2009			2008			2007		
(million €)	Expansion[1]	Other[2]	Total	Expansion[1]	Other[2]	Total	Expansion[1]	Other[2]	Total
Retail Portugal	45.1	67.7	112.8	87.2	89.8	177	173	66.4	239.4
Stores	45.1	60.1	105.2	82.4	84.2	166.5	172.1	63.5	235.6
Logistics	0	7.5	7.6	4.9	5.6	10.5	1	2.8	3.8
Cash & Carry	0	11.2	11.2	4.5	11.5	16	0	12.8	12.8
Madeira	0	1	1	1.6	3.2	4.7	2.7	6	8.7
Food Dist. PT	**45.1**	**79.9**	**125**	**93.3**	**104.4**	**197.8**	**175.7**	**85.1**	**260.8**
Poland	136.4	45.8	182.2	209.9	79.8	289.6	143.7	56.4	200.1
p.m PLN '000	588.5	197.5	786	737.9	280.5	1018.3	541.8	212.5	754.3
Biedronka	131.9	41.4	173.4	193.2	52.5	245.7	140.4	40.4	180.8
Logistics	4.5	4.4	8.9	16.7	27.3	44	3.3	16	19.3
Total Food Dist.	**181.5**	**125.7**	**307.2**	**303.2**	**184.2**	**487.4**	**319.4**	**141.5**	**460.9**
Takeovers (Plus & SCGR)	0	0	0	378.1	0	378.1	0	0	0
Manufacturing & Services	1.3	3.6	4.8	4.1	4.6	8.7	4.2	3.4	7.6
Total JM	182.8	129.2	312	685.4	188.8	874.2	323.6	144.9	468.5
% of EBITDA	34.6%	24.5%	59.1%	144.9%	39.9%	184.8%	88.9%	39.8%	128.7%

[1] New Stores and Distribution Centers

[2] Refurbishing, Maintenance and Others

At this table is laid out the investment allocations for the last three years, and it is very clear the priority given to its polish business interests from 2008 onwards, due to higher growth potential yielded by the better economic environment in comparison to the Portuguese conjuncture. Furthermore, the Group's intention not to invest in the expansion of its wholesale network in 2009 shows a high awareness level by Jerónimo Martins concerning the path to continue its growing pattern, which means they must plant its resources where the Group has its strongest operations, namely the retail market.

In light of the previously referred criteria for stores closure, the Competition Authorities allowed Jerónimo Martins to takeover the Plus chain and rebrand it under its own banners. However, these institutions requested several of the Group stores to be

closed in order to prevent an unfair market advantage toward the other market players, and that demand accounts for most of those stores closed in 2009 the aforementioned table indicates.

Business Areas Performance

For starters, it is important to layout the Group's full business portfolio so that a specific order of operations may be established, and also to consider the businesses' growth rates as the three-year average, in order to provide an overall picture of how they fared over this time frame.

Besides its three main Portuguese brands (Pingo Doce, Feira Nova and Recheio), its Polish chain (Biedronka) and the other aforementioned operations, Jerónimo Martins also holds manufacturing businesses in the consumer goods branch, by means of a partnership with Unilever, who leads among others the margarines, iced tea and ice creams segments. It also holds the olive and seed oils markets' helm through the company Gallo Worldwide, established in 2009 to allow the product spin-off from Unilever. The Group also owns Hussel, a retail chain present in the confectionary market, as well as other minor businesses such as Caterplus, Jeronymo, and Olá, which represent the international brands in national territory (some of those are market leaders in the fast moving consumer goods segment), and operate as chains of coffee-shops, and ice-cream respectively.

Jerónimo Martins' consolidated net sales grew an average 20,8% over the 2007-2009 triennium (excluding the exchange rate effect), up to 7317 million euros. These outstanding results are accounted mostly to very favorable developments regarding the Pingo Doce and Biedronka like-for-like growth sales and the successful Plus stores takeover operation in 2008 which allowed a significant sales area increase.

Beginning precisely by Pingo Doce, the Portuguese leading supermarket chain recorded a 7,5% like-for-like sales growth and 20.4% in total terms. This wide gap is explained by the said Plus stores integration, as well as the revamping of several other stores. A remarkable aspect is although the disinflation and deflation conjunctures that

took place at the majority of that time, the chain felt the need to further reduce its prices and still managed to keep its sales growth trend, which means that the volume factor played a much more crucial role in that development than the price.

Moving on to Feira Nova, the Group's player in the hypermarket segment has been struggling to face the aggressive competition campaigns. In addition, this segment's growth expectations are lower than in supermarket and discount ones, and thereby it does not have been seen as a business investment priority by Jerónimo Martins, as the constant store count throughout these years testify it. And these reasons account for much of 6,23% decrease in sales, which are like-for-like for the reasons stated. The chain was progressively rebranded by Pingo Doce and folded in mid-2009.

The expansion and successful integration of the discount chain Biedronka has been one of the Group's top objectives, and as seen before, this chain has been the target of large amounts of investment resources to mount a serious contention to seize the lead in the polish discount market. The results were very rewarding: Biedronka has not only become Jerónimo Martins' greater revenue source, but also the market leader for several years until now, and more importantly it does not show any signs of relinquish it any time soon, by registering an average 16.5% in like-for-like sales and a staggering 34% average total sale amidst a disinflation environment from the end of 2008 onwards. The latter result was definitely aided by the ambitious expansion project carried out by Jerónimo Martins, which included the opening of a large number of new stores. Nonetheless, it reveals an instant and massive adherence to the concept by the polish consumers and the vital role that sheer price competitiveness plays when they need to shop.

Recheio's activity has received a healthy boost since it began supplying the HoReCa channel, given the huge amount of goods it demands to meet the requirements of those establishments to the extent of being its main customer since 2006 and even Recheio's business strategy was directed specifically towards it. The leading wholesale player recorded an average 3.3% like-for-like sales growth and 5.8% in total terms, whose gap is explained by the opening of one new store acquired in late 2008. Taking into account the awareness that the demand from its costumers might fade a little due to the economic downturn from then on, renewed efforts were made to further improve the

quality and variety of its products, including the introduction of a new private brand for the traditional retail.

As for the manufacturing business, it did not fare as well as the aforementioned operations. As a whole it posted an average 0.8% decrease in sales, due mainly to the dropping prices in raw materials such as olive oil and the reinforcement of competitiveness among the market players in a bid to seize the market leadership. Nevertheless, the volume sales had actually increased over this time, but that growth was not enough to counter the price drop effect.

Finally, Marketing, Representation and Restaurant Services recorded an average 5.8% sales increase, reflecting mainly the revenue growth yielded by the restaurant sector, the opening of further stores, and the introduction of seven new brands.

Table 3 – Group's Consolidated Revenues

	2009		2008		2007	
	Thousand €	% Total	Thousand €	% Total	Thousand €	% Total
Sales & Services						
Retail Portugal	2.839.863	38.8%	2.631.741	38.2%	2.234.766	41.8%
Biedronka	3.724.684	50.9%	3.520.934	51.1%	2.392.282	44.7%
Recheio	688.544	9.4%	654.484	9.5%	626.053	11.7%
Manufacturing	237.755	3.2%	253.868	3.7%	246.349	4.6%
Mkt. Rep. & Rest Services	87.159	1.2%	81.809	1.2%	75.908	1.4%
Cons. Adjustments	-260.896	-3.6%	-249.099	-3.6%	-225.680	-4.2%
Total JM	7.317.108	100%	6.893.737	100%	5.349.678	100%

Financial Analysis

This section covers the Group's financial situation, whose objective is tracking the potential business risks that may arise from the investment decisions taken by the Board, as well as its business profitability in order to figure out if the company is generating enough earnings to pay back its expenses and other obligations while still

holding the required resources to either invest on its operations or reward the shareholders for its investment.

In order to better assess where Jerónimo Martins stands in these indices, its data will be matched up against the homologous data from Sonae, its main competitor in the Portuguese retail market and most likely is the company whose reality is as closely comparable to Jerónimo Martins' as it can get, and Walmart, the American retail giant which according to Forbes is the world's largest company by turnover and may as well be seen as the worldwide retail market reference for every company in that business.

Risk Assessment

After a thorough analysis over the business risk measures performed (as displayed on the appendices 1.1.1; 1.1.2; 2.2.1 and 3.2.1), it is well disclosed that Jerónimo Martins has a quite less burdensome cost structure than Sonae.

This gap is broadest when it comes to the operational costs, since its fixed costs' weight in the business' results falls by a long way short to that of Sonae, which means that the former's sales have a lesser impact on its business earnings, and therefore is less reliant on a certain level of sales to keep its surely more efficient cost structure properly covered. In other words, Jerónimo Martins has a less risky activity than Sonae, even though both have been tracking the right tendency in that matter.

As far as the financial obligations are concerned, it must be underlined that, even though Jerónimo Martins is going through a very quick-paced business' growth period, which reaches beyond borders proportions, the financial costs were kept at a relatively low profile in comparison with Sonae, which not only have a higher interest weight in its business' earnings, but also its growth rate over analysis' time frame is noticeably higher (which can lead to larger earnings' swings, increasing the company's financial risk) , not to mention that these more onerous liabilities doesn't account for as much business growth such as it does in Jerónimo Martins's case.

On to Walmart's data, its status as a long established company in the business and one of the top players in the retailing market is clearly demonstrated, since its fixed costs (both operational and financial ones) are consistently lower than those of Jerónimo

Martins. These facts suggest an extremely competitive and productive structure, capable of creating large economies of scale and other synergies, along with a well expanded business beyond the US borders, which makes up for very few financing needs given the company business profit margin. In other words, Walmart sports a strong business with a very low risk.

In each case, the leverage ratio somewhat complies with the aforementioned conclusions, since it only accounts for the interest-bearing debt. Therefore, and given that the retailing is not that much of a capital intensive business, Sonae has pretty high figures, and Jerónimo Martins apart from 2008 has been able to somehow keep up with the Walmart ratio. Considering that both Jerónimo Martins and Walmart are at distinct stages of their development, this data most likely means that the former has elected to finance most of its business growth with equity (by means of retained earnings, for instance) rather than debt, and the spike seen on 2008 is strictly related to the plunging share price at the end of that year, which affected the company's market capitalization.

From another point of view, it can be learnt that all three companies have seen a rise in their sales breakeven because trade margins didn't tag along with the ever increasing activity fixed costs. Nevertheless, Jerónimo Martins has managed to remarkably widen up its very thick safety margin due to a healthy turnover over these years, whilst in Walmart and Sonae cases it have been almost unchanged, with a slight downward trend, which is more of a concern for the latter since its revenues are not too far from breaking even costs and receipts.

Finally, the overall breakeven data shows that even though the economic environment and its downturn trend over this triennium, Jerónimo Martins managed to steadily reduce the overall breakeven point, which not only suggests (once again) a higher efficiency in resources usage, but also an effort to finance its business with equity means rather than using debt in order to avoid a less organic business growth by further leveraging its activity, as it is noticeable by the less interests paid in 2009.

Meanwhile, Sonae has maintained its threshold stable and above Jerónimo Martins's figures, mostly due to both sales and costs have been floating roughly likewise and that may indicate very few gains in cost efficiency. On its turn, Walmart has seen its overall breakeven slide up a bit, fueled by further interest payments in

addition to the higher fixed costs that on a major quote has been leading to a smaller safety margin.

Profitability Valuation

The major concepts to be covered here are the returns on several key factors such as sales, assets, equity and the business margins. The data used is shown on the appendices 1.2.1; 1.2.2; 2.3.1; 2.3.2; 3.3.1 and 3.3.2.

Return on Sales

Beginning with the Sales Return and given the notion that trends plays a more relevant role than the number themselves, it's worth noting that Jerónimo Martins is the only company whose trend in this matter goes upwards. This signals a higher efficiency at the use of its available resources overtime as the turnover keeps its positive momentum, whereas Walmart and especially Sonae have withstood a loss, if slightly, in their ability to generate profit from the amount of sales. This is more of a warning sign for Jerónimo Martins's most direct competitor, since they were already struggling to maintain their revenues high enough to stay afloat of the sales breakeven because of their less than optimal operational cost structure.

Return on Invested Capital

Regarding the gains harvested from the capital employed in the business, it comes to light immediately the huge gap between the two main Portuguese retailing companies. The difference reaches roughly a three-fold ratio, and it is mostly accounted for Sonae's heavy investment in non-current assets (which figure doubles Jerónimo's), and the fact that both companies' EBIT have shown a matching tendency overtime it is a good enough example of how much apart they are from each other in those terms, even though Jerónimo Martins has been consistently extracting further gains from its overall investment whilst Sonae ones have been grown at a very modest pace.

Walmart has been able to hold steady onto its return from their invested capital, slightly above Jerónimo Martins's figure. This is probably explained by its role of major and long-established player in its market, which allows it for benefitting from a sturdy and mild-paced increasing profit, and any casual investment needs were likely made as they came.

Return on Equity

One of the most widely known requirements for the famous investor Warren Buffett to invest on a certain company is a return on equity of at least 15% on a consistent basis. According to that rule, Jerónimo Martins would certainly be considered to figure in Mr. Buffett's portfolio since even though the company's equity has been growing overtime, not only its shareholders are getting a return fairly over 15%, but it also has an upward trend, which in addition to the business' growth pace it may be a prelude of higher degrees of return for them. On the other end of spectrum, Sonae has withstood profit shrinkage, a major cause for the loss of equity's return over these three years and becoming almost half of Jerónimo's shareholders return in 2009, which is quite stunning given that both operate in the same business and home market.

As for Walmart, it could well be called a true "Cash Cow", since the company has a remarkable ability to generate income with resources mobilized by the stockholders (exceeding slightly Jerónimo's figures), which allied to a mature and fully-developed business, it allows the perk to direct the created cash-flow to both business upgrading according to the incoming needs and generously reward their stockholders.

Value Creation Gap

Assuming the role of investors seeking for a way to maximize their returns for any given level of risk, it is fair to conclude that Jerónimo Martins is a very rewarding investment if we consider its somewhat low beta towards its national stock index. Over this three-year period, if we account for the required return for this asset (Jerónimo's stock), the company managed to consistently double the minimum required return by the investors, which exceeded the very healthy 10% mark in 2009 in a very stark

contrast with Sonae, whose stock volatility tends to amplify the same national index movements, and has been cutting close to the aforementioned minimum return threshold to the breakeven point in 2008 and even a slight value destruction in 2009.

Joining the set of top investments is Walmart, which has been able to achieve value creation figures fairly higher than Jerónimo Martins's. However, once both their return of equity are somewhat close, this result is mostly leveraged by a relatively low required return for Walmart's stock due to the company's small beta and comparatively tiny risk-free rates yielded by the American securities or other assets.

Gross Profit Margin

Jerónimo Martins's slightly-increasing margin seems to convey the message that the company has been making a considerable effort to keep their overall competitiveness in their market whilst raising their selling prices as much as it is possible for them. That fact may be a sign that the company doesn't have enough power in their market to raise their selling prices without yielding its market share to the other market competitors. As for Sonae, its far higher but decreasing profit margin might be a proof that, although the company is still the leading player in the Portuguese retailing market, the rising challenge of its competitors with J. Martins leading the pack has to be faced off with a higher price competitiveness. This concern comes into the spotlight if it is taken into account the supermarket sector for instance, because for almost any given basket of goods, an average consumer is able to figure out that Jerónimo has cheaper prices in that kind of stores than Sonae.

In Walmart's case, it must be considered the company's pricing policy, whose objective is to maximize its earnings by expanding its costumer base instead of raising their prices as much as the market conditions allow for it. A 2006 study reveals that Walmart sells its goods at a lower price than its competitors (which are mostly other large supermarket chains) by as much as 8%-27%, managing therefore to lure any costumer into becoming a loyal one regardless of its income. Nevertheless, the company is still able to get a very healthy profit margin from its activity, whose growth over the three-year period is almost meaningless, but it still goes in the right direction, reaffirming its unequaled competitiveness.

Cash-Flow Margin

Since the Cash-Flow Margin is directly related to the Gross Profit Margin, being the single difference between them the accountancy of the fixed costs by the former, it is possible to analyze it using the information provided by each company's degree of operational leverage.

Jerónimo Martins's capability to generate liquid resources from its activity has slightly but consistently increased, helped by means of more favorable profit margin overtime and higher fixed cost efficiency. On the other hand, Sonae's same ability has been harmed by the relatively burdensome fixed cost structure the company sustains, which soaks nearly three-quarters of the activity's margin, whose decreasing pattern has further hampered the company in this domain.

As for Walmart, given that its business's margin development has been roughly offset by the fixed costs' behaviour, the company's cash-flow margin remain almost virtually unchanged, since its net change can be seen as meaningless.

Overall Financial Health & Business Stability

The goal for each company to strive for a state of financial stability is never overzealous enough, given that's what warrants its dues fulfillment as they come along overtime. Therefore, it matters to assess whether these entities sport a balanced manageable mix of equity and liabilities among their assets, fully fixed-asset coverage by their long-term capital resources, and also if their capital return exceeds their average cost of capital, in order to figure out whether the use of debt is helping or hampering its business and so forth.

Jerónimo Martins

According to the data indicated on the appendices 1.3.1; 1.3.2 and 1.3.3, the company has noticeably shifted its funding and investment policies mostly through

liability stagnation whilst retaining the activity earnings to finance its business' needs. This turnabout over its earnings appliance policy in order to support the company's large blossoming business has a major role in making it less dependent towards its creditors, who may be more eager to build on their business partnership.

A concerning fact may be the lesser fixed-asset coverage by the permanent capital, which means that some of the short-term liabilities are being used to finance the fixed assets (its most direct result is an increasingly eroded and negative working capital), and that may cause some financial imbalances due to the time gap between the chargeability of those current liabilities and the expected investment recovery time period, by way of further pressure on the treasury whose resources haven't been plenty.

Since the invested capital return falls a little short of the return on equity, it's clear that the extra resources boost granted by the use of debt doesn't deliver enough earnings for the interest payment burden to be worthwhile. Instead, on roughly terms, the extra return of the interest-bearing debt is totally countered by its interest and it is actually not enough to totally cover it. However, the wide gap (above 10 p.p.) that apart capital return from the average cost of capital (see WACC at the appendix 1.4.2) suggest that the company can handle this charge quite well, and therefore doesn't tend to hamper its overall stability in the long run.

As for working capital needs, it must be taken into account beforehand that given the nature of these companies' business, their activity cycle is relatively short and so it is the time frame it takes for the costumers to get their merchandise, which implies that they tend to pay back their bills well before the company pay its debts to the suppliers.

It must be kept in mind that since both the Balance Sheet and Income Statement data is laid out differently by each company, the time frame between the collection and payment acts is not very accurate, so a little wider perspective is needed here.

The data concerning Jerónimo Martins in this matter indicates a quite large time gap between the point in which the company charges its receivables and pays back to its creditors. There can be a number of causes for the build-up of such financial surplus, but among them is surely J. Martins's succeeded effort to optimize the collection and

payment conditions concerning its business partners such as the use of loose deadlines for these types of charges.

Finally, the last key component yet to be mentioned is the treasury, which for clearer understanding purposes it will be evaluated as the surplus left by the working capital net of working capital needs, or in its first approach. At a first glance, given the positive figures presented by the net treasury, it's safe to consider a financially stable situation because the company still has spare liquidity after allocating the necessary resources for a proper business functioning. Furthermore, since that amount left is not that much, it's a sign that the company is getting as much return from its activity as it could attain given the resources at its disposal, and it is not keeping plain cash for itself and overlooking suitable investments for it.

Sonae

As seen on appendices 2.4.1; 2.4.2 and 2.4.3, Jerónimo Martins's main retailing competitor on national soil has been slowly eroding the equity's weight on their assets in favor of more debt, more specifically bank loans and letting piling up their short-term dues to creditors. This change by itself, although there's still no cause to raise any concerns as of yet, it can lead the company into a less comfortable position if left unchecked, and even more so if its business won't fare that well down the line, which could result in further pressures on its treasury. Indeed, these facts are further endorsed by a shrinking degree of net fixed-assets coverage by the company's long-term capital, which carries along the range of previously mentioned issues that can compromise Sonae's financial stability in the long term.

The profitability analysis indicates a return on equity figure which doubles the return on invested capital one. There are two possible reasons for this to happen:

- The company is not able to allocate properly these extra resources in its business in order for them to generate enough return so that its use becomes justifiable.
- The increasing amount of interest-bearing debt the company is contracting is reaching a point where the interest charged overwhelms the returns attained by that capital.

In either case, the rampant debt is not being used well enough, and this process must be halted in order to prevent financial issues in the future since the average cost of capital is dangerously close to the whole company's capital return, even though has shown a slight improvement over the three-year span.

The working capital needs data points out quite more funding needs than the ones in J. Martins's case, although it's worth notice a quite similar gap between the debtors and creditors. A likely cause for this might be a tighter allowance to delay dues' payments (such as taxes, or accruals and deferments) to other parties including the State, whilst towards Jerónimo Martins there are more lenience regarding those charges.

Likewise, Sonae's treasury can well be considered as equally healthy as J. Martins's, since the liquidity indicated seems to be enough to effectively face any unexpected situations its business can come across, as well as it is not that many so that could exist large opportunity costs.

Walmart

The company sports a much safer financial situation concerning the asset coverage by the equity, as well as its solvency capability, in comparison with the previous firms, as the appendices 3.4.1; 3.4.2 and 3.4.3 suggest. And the fact that both remained mostly unchanged is a testament of the stability enjoyed by the company. Furthermore, the amount of non-current assets that are being financed by short-term capital is quite less than in Jerónimo Martins or Sonae's cases if considered on terms of proportion permanent capital, resulting in a lesser likelihood of getting into some sort of struggle in the future.

Unlike the other two firms, Walmart clearly makes a more efficient use of its available capital, taking advantage of its debt to boost the return of its resources beyond its equity profitability, which not only suggest that the company is extremely cautious when it comes to making decisions towards its business leverage but also the maturity and consequent synergies that features it allows for further gains in economies of scale, by extracting more value out of less capital. Therefore, the interest charged does not

have any stellar effect on the company operational or solvency capabilities in the long run.

By looking on to working capital needs, it must be remarked the difficulty to establish a comparison between J. Martins's and Walmart data on this subject due to the huge differences between them, such as their business scale. However, it foremost stands out how well funded its business is, resulting in a hugely negative working capital needs to an extent of even allowing itself to hold enough cash so that it takes a little less than a month gap to enclose the full business cycle, whilst the other companies require almost three months to do so.

As it is guessable by the previous thought, the company's liquidity status is very secure, wrapping up the full picture of an extremely successful company whose overall financial condition is enviable.

SWOT Analysis

Strengths

The Group's retail banners exhibit a very high competitiveness level in the supermarket and discount segment, to the extent of leading the Portuguese and Polish markets respectively by a long margin, as its main competitors seem to display some struggles to keep up with the aggressive price policy adopted especially by both Pingo Doce and Biedronka whilst maintaining high quality indices on their private brands' products.

The company also leads the Portuguese wholesale market through the Recheio banner, even though this is a segment where the costumers' dynamism is not high enough to sustain too many expectations for business growth. Nevertheless, its presence at the market's helm is revealing of the resilience and business edge it have over the other players, whose market share seem to be shrinking in favour of Recheio.

Jerónimo Martins also sports a very healthy financial status, due to the profitability of its businesses which yields a comfortable margin to reward the

shareholders and yet enough resources are left to allow the Board to finance its business investments (both capex and working capital) mostly with its own funds and a somewhat light mix of debt, so that its financial obligations do not become too much of a liability whilst taking advantage of the benefits of using it. Also, the wise managerial decision to prioritize short-term debt (average maturity in 2009 was 3,1 years) does not allow the uncertainty featured in the economic conjuncture to play too much of a role in the future of the company and its bond redemption (roughly 60% of total debt) has been carefully spread out more or less evenly among the forthcoming years, so that when it comes the time to redeem the debts not too much strain would be put over the Group's liquid resources.

Weaknesses

The Group does not seem able (and is probably not interested) to mount a challenge towards the competition in the hypermarket sector, especially after the fumbled Feira Nova experience. This is probably not only because this segment looks to have entered in a decline stage in favour of the smaller ones due to the shift in consumer preferences towards more frequent visits and less shopping each time, but also given the strong establishment of stores mounted by Sonae under the Continente banner does not leave too much room for another company to attempt a full scale entrance in that segment in such a way that makes the consumers consider doing their shopping there.

Opportunities

The company will continue to strongly benefit from the favourable economic conditions in Poland, where its larger population and a more dynamic domestic market demand suggest that there's still plenty of growth potential yet to be tapped. Therefore, these conditions shall continue to play into Jerónimo Martins' aggressive growth strategy in that country (which is the Group's first priority) as the company and its investors become more and more exposed to Poland (as it could be previously seen, over half of the Group's receipts come from there) and increasingly less exposed to its home country.

Jerónimo Martins are currently considering an approach to a third country, although there are not any decisions taken, the most likely possibility may be another Eastern European nation, not only because these set of countries are amidst a strong development and economic growth path, but also due to the geographical proximity to its most valuable market (Poland), useful synergies could be created to reinforce the company's presence in that region, delivering further business growth opportunities. However, Latin American markets are definitely among the candidates, which make a return to Brazil a possibility that can't be ruled out.

Threats

Group's Portuguese businesses' activities have been hampered by the increasingly deteriorating economic conditions in the country, whose most direct impact is the consumer demand curtailment due to families' lower income available as a consequence of increased unemployment and a less bias towards consumption.

Also, these conditions tend to favour the hard discount stores attendance such as Lidl, Dia and Netto (even though the latter is planning to withdraw its Portuguese project), whose price policy is extremely aggressive and very appealing to the lower-income end of consumers universe, whose number tends to grow for the reasons above stated. Therefore, considering the not-so-remote possibility of this economic situation keeps escalating further, these chains may at least be able to put up a fiercer challenge to the leadership position held by Pingo Doce.

Future Prospects

The Jerónimo Martins Group has become over the years a very successful company in Portugal (where it is the highest retailing player) and abroad. The path to this stellar accomplishment has been paved by a very consistent business strategy, whose primary objectives were cost efficiency policy and strict debt management, as it can be seen in the company's balance sheet.

Given these facts, the expectations for the company's business future are quite favourable. After a thorough analysis over the investments data, it may well be fair to say that the Group is shifted in different gears depending on the target market. A plausible explanation for this fact could be the growth strategy employed for its business interests in Poland (in which Biedronka is a major success), whereas in Portugal its plan leans more towards a consolidation objective due to the mature stage of this market (Pingo Doce chain has been steadily chipping market share from almost all this competitors for itself). With these prospects and financial status in mind, the company seems to be able to continue and even gear up its investment program in the Polish market, where there is still a lot of untapped growth and turnover-yielding potential, whilst keeping its reference position in Portugal when it comes to retail market and possibly initiating operations in a third country.

As far as Poland is concerned, due to the GDP growth records and its notorious economic resilience during the recession led by the subprime crisis, it must be considered an investment prime target, and Jerónimo Martins is and will continue to reap the rewards for those invested capitals, as the latest reports confirmed the fastest GDP growth pace for at least two years recorded in the last quarter of 2010. Furthermore, the country inability to join the Euro Zone until 2012 is actually helping to keep this pattern, as the Zloty's value has a direct impact in dialling up the Polish exports. Fully aware of this reality, Biedronka opened 170 new stores in 2010, with a higher trend on larger metropolis for the coming years, and it is expected by the Group to reach over 2300 stores in 2013, and 3000 stores in 2015. In the long term, this store opening program will likely yield to Biedronka increasing power price without a loss of market share as the sales volume will certainly soar.

On the other end, in Portugal the frail public finance situation and the expected measures to be enforced to counteract it will seriously hamper its growth capacity in the future, with a major impact on private consumption, since it will likely result in wage cuttings in the public sector, tax raises, rampant unemployment rates and investment freezing in order to persuade investors not to turn off the financing tap as the current situation can be turned around by its own actions. In addition, the soaring inflation at the dawn of 2010 is beginning to compel the European monetary authorities to raise the interest rates, further sinking the Portuguese economy growth prospects and bulking up its already exorbitant financing prices. As a result the Portuguese retail market will certainly be tougher due to the declining purchasing power, and Jerónimo Martins expects to open just 5 new Pingo Doce stores until 2013, in addition to an almost absolute focus with Like-for-Like sales (focus on sales volume) instead of margins, as it cannot afford to raise their prices for the reasons stated above.

Indeed, the Group has seen its sales behaving well in both countries, and the increased number of customers has been the main driver for Like-for-Like records. This market share increase pattern is very likely to continue in the future as Biedronka has in line the aforementioned store count expansion and as Pingo Doce will surely tighten up its highly aggressive price policy, which includes bearing the cost of the possible future VAT raises on its own (as it happened when the VAT rose 1% in all its variants in July 2010 and as most of the market leaders will feel obliged to do), along with the possible future exit of Minipreço from the Portuguese market.

As for the business margins, it seems plausible to expect slightly lower ones for the Group's operations in Portugal given the more difficult conditions in their markets that will be brought by the coming austerity measures, although the expected market share gains from the traditional retail might yield enough power to the largest modern retail chain such as Pingo Doce for at least not to lower those margins as much as it would have to if only the effect of government future measures were considered, due to the cost reduction by scale economies' effects and the further power to raise prices without losing its demand. At best, it even could totally offset those austerity effects making these operations almost well shielded from those tough forecasts.

Shifting to Poland, Jerónimo Martins' operations there will likely have higher margins as the increasing dimension of operations will tend to create efficient synergies

that will dilute the fixed costs whilst once more the increasing market share (over 70% in 2010) will allow for more power to raise prices at no expense of less customers demand, as stated above. Although it can never be overlooked that a market where high margins are practiced it is more appealing for new companies to enter it, by figuring that Jerónimo Martins has the most aggressive expansion plan among its market peers (around 1275 million euros in Poland between 2011 and 2013) it seems safe to conclude that neither the existing companies nor the possible newly-arrived ones might become a threat to Biedronka.

Therefore, the company's net margin trend for the coming years is a positive one, reflecting larger scale operations in both countries and the unlikelihood of aggressive price wars led by other companies to steal market share from Jerónimo Martins' operations, which would leave every player worse off.

Next up, after having reached 312 million Euros in capex, it is almost certain that this figure will go up in the coming years (the Group expects that it reaches 400 million Euros in 2010), as Jerónimo Martins is eager to hasten up its investments in Poland to expand its store network so that most benefits will be reaped from that fast-growing market. The most likely route to do so should be the acquisition of new stores instead of another competitor, as it could be forbidden by local competition authorities. Regarding Portugal, a much smaller investment figure is estimated (around 400 million Euros between 2011 and 2013) as the market potential is not high enough to compel as much capital allocation as in Poland, in the light of the aforementioned treacherous economic conditions yet to come. Another factor pointing toward the fulfillment of the capex prediction above is the expansion to a third country; whose selection is surrounded by those vague options mentioned previously but will certainly be made until 2012. However, it seems correct to admit this country in question share the same growth potential with Poland, and Jerónimo Martins will lay its preference (with a higher likelihood degree) in a nation geographically close to its most valuable market, in order to create useful scale economies.

Bearing in mind the considerable likelihood of this set of prospects, the indicators' growth rates needed to estimate the stock price through the Discounted Cash Flow method have to be adjusted accordingly.

Table 4 – Jerónimo Martins's Expected Future Growth Rates

	2010	2011	2012	Perpetuity
Revenues	19,6%	20.0%	20.0%	3,0%
EBIT Growth	27,5%	25,0%	25,0%	3,0%
Working Capital Growth	19,6%	20.0%	20.0%	3,0%
CAPEX Growth	13,0%	14,0%	14,0%	3,0%
EPS Growth	25.0%	25.0%	25,0%	3,0%
Dep. & Amortizations Growth	4,1%	4,1%	4,1%	3,0%

As such, and given how these variables have been behaving in the last few years, these are the growth rates deemed most likely for the coming years: Revenues will maintain a rather high level, with a very slight stabilization as both its main banners (Pingo Doce and Biedronka) will face those different challenges mentioned before, as well as the operational results which might fall a little due to the worldwide rising energy costs. As it is common in well managed companies, the working capital will more or less follow the revenues' behaviour, and Jerónimo Martins has certainly that reputation. The capex rate will rise as the investments mentioned above take place and those earnings per share will certainly maintain the same momentum as there are not any foreseeable stock issuance and the earnings are likely to keep the same growth pace. Also, to keep things as simple as possible it is considered the same depreciation growth pace overtime. Finally, the perpetuity growth rate considered for the company suits as much as possible the long term trend of a business which is expected to grow at a fast rate whilst taking into account possible economic or even activity setbacks that will hamper the business performance.

Recommendation

This analysis have provided a deep insight over the company business and some of the most important managerial decisions regarding business development beyond borders whilst keeping them out of too much risk for the investor's capital and resilient to downturn environments should they arrive.

In order to figure out the Price target that fits the assumptions just made, it is best to use the Discounted Cash Flow (DCF), which is the most accurate way to estimate it. A very important factor that needed to be calculated was the WACC (which considers the whole company debt) and therefore is displayed in the appendix 1.4.2, whose figure along with the above predictions allowed for the following estimation:

Table 5 – Group's Stock Price Valuation by DCF Method

Discounted Cash-Flow					
FCFF	2009	2010	2011	2012	2013
Revenues	7.317.108	8.751.261	10.501.513	12.601.816	12.979.871
EBIT	349.841	446.047	557.559	696.949	717.857
EBIT (1-t)	280.066	357.084	446.356	557.944	574.683
Depreciations/Amortizations					
Operating CF	280.066	357.084	446.356	557.944	574.683
NWC	- 1.160.981	- 1.388.533	-1.666.240	-1.999.488	-2.059.473
Desinvestment NWC		-227.552	-277.707	-333.248	-59.985
Net Capex	3.051.805	3.448.540	3.931.335	4.481.722	4.616.174
Investment Capex		396.735	482.796	550.387	134.452
FCFF		187.902	241.267	340.805	500.216
PV FCFF		174.417	207.880	272.571	
Perpetuity					10.572.142,38
PV Perpetuity					8.455.425,64
Enterprise Value	9.110.293				
Cash & Equivalents	225.016				
Firm Value	9.335.309				
Debt Value	1.050.146				
Equity Value	8.285.163				
Price per Share	**13,17**				

It is important to remark that the EVA estimation (appendix 1.4.4) yielded the same result, which gives further consistency and credit to this price target. Furthermore, the FCFE and dividend analysis estimations (appendices 1.4.5 and 1.4.6 respectively) led to a much lower price. This is owed to the development stage in which the company is these days. Since the Group is growing at a very fast pace, it is expected the earnings to be mostly held by it to finance its business and keep that flourishing trend and so less funds would be distributed among the shareholders, thereby blurring the stock price estimation and deeming them unsuitable to fulfill their function.

Therefore, and according to the financial analysis performed on the company, the Price Target is set at 13.17 Euros. Here is how this estimate square up against other recommendations made by two Portuguese banks (BCP and BES), one French investment bank (Naxitis), the investment banking giant Goldman Sachs, and an Portuguese website for stock analysis (BolsaPT). It is being considered a stock price of 11.4 Euros, as it was on 31/12/2010, and the following recommendations:

Table 6 – Stock's Possible Recommendations

App./Dep. Potential	Recommendation
Above 20%	Strong Buy
Between 10% and +20%	Buy
Between -10% and +10%	Hold
Between -20% and -10%	Sell
Below -20%	Strong Sell

Thus the recommendations were labeled as below:

Table 7 – Jerónimo Martins' Stock Recommendations

Entity	Price Target (Euros)	App./Dep. Potential	Recommendation
Goldman Sachs	16.50€	+44.74%	Strong Buy
Naxitis	14€	+22.81%	Strong Buy
BCP	13.90€	+21.93%	Strong Buy
Case-Study	**13.17€**	**+15.52%**	**Buy**
BolsaPT.com	12.12€	+6.32%	Hold
BES	11.60€	+1.75%	Hold

By judging these evaluations, it is quite clear that these entities, as well as other investors, are relying on the benefits the Group will gain from its operations in Poland, whose weight in the company's earnings structure is getting increasingly heavier year after year, and they are certainly expecting an extension of this trend, even though according to the Multiples Analysis it looks like the stock is overvalued, as it can be seen here:

Table 8 – Jerónimo Martins, Sonae and Walmart's Multiple Analysis Valuation

Multiple Analysis Comparison			
Company	**Jerónimo Martins**	**Sonae**	**Walmart**
PER	21,96	17,40	14,21
EV/EBITDA	17,25	7,87	8,23
Price to Book Value	4,13	1,02	3,81

Even though the Price/Earnings ratio for Jerónimo Martins is quite higher than the other retailers overviewed here, the expected earnings growth should prevent this ratio from going too much further up, and the only suitable recommendation to be made according to all these facts is to buy the stock.

From this case study viewpoint, Jerónimo Martins' stock seems to have indeed the potential to appreciate in the long term, given all the reasons stated previously, and its upside potential is high enough to recommend to any investor to buy this stock, reinforcing the confidence in this extremely successful company and its business strategy.

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Appendices

1. Jerónimo Martins Analysis

1.1- Risk Assessment Measures

Appendix 1.1.1 – Risk Measures

	2009	2008	2007
Degree of Operational Leverage	4,910	5,225	5,439
Degree of Financial Leverage	1,254	1,363	1,199
Degree of Combined Leverage	6,159	7,123	6,523
Degree of Total Leverage	6,159	7,123	6,523
Control	0	0	0

Appendix 1.1.2 - Operationa Risk Measures

	2009	2008	2007
Sales Break-Even	4.393.731	4.284.203	3.466.877
Safety Margin	39,95%	37,85%	35,19%
Break-Even	0,792	0,818	0,838

1.2- Profitability Measures

Appendix 1.2.1 – Capital Profitability

	2009	2008	2007
Return on Sales (ROS)	4,78%	4,39%	4,21%
Return on Invested Capital (ROIC)	18,50%	16,11%	14,73%
Operating Profit	349.841	302.815	225.180
Invested Capital	1.890.824	1.880.094	1.528.925
Net Fixed Assets	3.051.805	2.905.243	2.366.962
Working Capital Needs	-1.160.981	-1.025.149	-838.037
Return on Sales (ROS)	4,78%	4,39%	4,21%
Invested Capital Turnover	3,87	3,67	3,5
Return on Equity (ROE)	18,80%	17,53%	15,19%
(ROE) (Product Factor Model)	18,80%	17,53%	15,19%
EBT/Equity	0,26	0,2385405	0,21727
Corporate Tax Effect (Net Income/EBT)	0,72	0,73	0,7
Value Creation Gap	10,44%	9,67%	7,33%
ROE	18,80%	17,53%	15,19%
Re (CAPM)	8,36%	7,86%	7,86%
Rf (10-year portuguese treasury bond)	4,50%	4,00%	4,00%
β	0,701	0,701	0,701
Rm-Rf	5,50%	5,50%	5,50%

Appendix 1.2.2 – Margin Profitability

	2009	2008	2007
Gross Profit Margin	1.717.734	1.582.102	1.224.754
Gross Profit Margin (%)	23,48%	22,95%	22,89%
EBITDA	528.000	473.948	351.400
Cash-Flow Margin	7,22%	6,88%	6,57%
Depreciations & Amortizations	178159	171133	126220
EBIT	349841	302815	225180

1.3- Financial Health Measures

Appendix 1.3.1 – Working Capital Situation

	2009	2008	2007
Total Equity	1.065.694	931.125	864.205
Medium & Long Term Debt	922.567	868.794	817.144
Permanent Capital	**1.988.261**	**1.799.919**	**1.681.349**
Net Fixed Assets	2.902.600	2.766.947	2.217.099
Working Capital	**-914.339**	**-967.028**	**-535.750**
Inventories	334.478	385.653	308.571
Taxes Receivable	22.335	34.736	28.657
Trade Debtors, Accrued Income & Deferred Costs	190.793	172.764	153.626
Operational Needs	**547.606**	**593.153**	**490.854**
Trade Creditors, Accrued Costs & Deferred Income	1.647.490	1.560.042	1.289.562
Taxes Payable	61.021	58.178	39.262
Deferred Profits - State Grants	76	82	67
Operational Resources	**1.708.587**	**1.618.302**	**1.328.891**
Necessary Operational Working Capital	**-1.160.981**	**-1.025.149**	**-838.037**
Net Treasury (First Approach)	**246.642**	**58.121**	**302.287**

Appendix 1.3.2 – Activity Ratios

	2009	2008	2007
Average Daily Sales	20046,87	18835,35	14656,65
Average Inventory Period	17	20	21
Average Collection Period	10	9	10
Average Payment Period	84	85	91

Appendix1.3.3 – Coverage Ratios

	2009	2008	2007
Asset Coverage			
by Total Equity	0,367	0,337	0,39
Total Equity	1.065.694	931.125	864.205
Net Assets	2.902.600	2.766.947	2.217.099
by Permanent Capital	0,684993	0,650507	0,758355
Total Equity	1.065.694	931.125	864.205
Medium & Long Term Debt	922.567	868.794	817.144
Equity/Assets	0,203	0,174	0,184
Equity/Liabilities	0,386	0,333	0,382

1.4- Valuation Measures

Appendix 1.4.1 – Future Growth Rates

	2010	**2011**	**2012**	**Perpetuity**
Revenues	19,6%	20,0%	20,0%	3,0%
EBIT Growth	27,5%	25,0%	25,0%	3,0%
Working Capital Growth	19,6%	20,0%	20,0%	3,0%
CAPEX Growth	13,0%	14,0%	14,0%	3,0%
EPS Growth	39,4%	23,5%	20,0%	3,0%
Dep. & Amortizations Growth	4,1%	4,1%	4,1%	3,0%

Appendix 1.4.2 – WACC Calculation

	2009	2010
Rf	4,50%	6,70%
Re	8,36%	
Rd(1-t)	0,075	
E/(D+E)	0,279	
D/(D+E)	0,721	
Beta Unlevered	0,604	
Beta Levered	0,701	
Market Premium	0,055	
WACC	7,73%	
g	3,0%	
t	0,199	
ROE	18,80%	
Nº Shares	629.293.220	
Share Price (31/12/2009)	6,99	
Share Price (31/12/2008)	3,97	
Share Price (31/12/2007)	5,40	
Distribution	0,840	

Average Corporate Tax Rate	0,201
Average Leverage Ratio	0,284
Debt	880.856
Market Cap	4398759,608
D/E 2009	0,200
D/E 2008	0,419
D/E 2007	0,233

Appendix 1.4.3 – Valuation by DCF

Discounted Cash-Flow					
FCFF	2009	2010	2011	2012	2013
Revenues	7.317.108	8.751.261	10.501.513	12.601.816	12.979.871
EBIT	349.841	446.047	557.559	696.949	717.857
EBIT (1-t)	280.066	357.084	446.356	557.944	574.683
Depreciations/Amortizations					
Operating CF	280.066	357.084	446.356	557.944	574.683
NWC	-1.160.981	-1.388.533	-1.666.240	-1.999.488	-2.059.473
Desinvestment NWC		-227.552	-277.707	-333.248	-59.985
Net Capex	3.051.805	3.448.540	3.931.335	4.481.722	4.616.174
Investment Capex		396.735	482.796	550.387	134.452
FCFF		187.902	241.267	340.805	500.216
PV FCFF		174.417	207.880	272.571	
Perpetuity					10.572.142,38
PV Perpetuity					8.455.425,64
Enterprise Value	9.110.293				
Cash & Equivalents	225.016				
Firm Value	9.335.309				
Debt Value	1.050.146				
Equity Value	8.285.163				
Price per Share	**13,17**				

Appendix 1.4.4 – Valuation by EVA

Economic Value Added / Market Value Added					
	2009	2010	2011	2012	2013
EBIT (1-t)	280.066	357.084	446.356	557.944	574.683
Invested Capital	1.890.824	2.060.006	2.265.095	2.482.234	2.556.701
WACC		7,73%	7,73%	7,73%	7,73%
Capital Change		146.188	159.268	175.125	191.913
EVA		210.896	287.087	382.820	382.770
MVA	7.219.469,16	7.566.742,58	7.864.674,42	8.089.908,17	
Enterprise Value	9.110.293				
Cash & Equivalents	225.016				
Firm Value	9.335.309				
Debt Value	1.050.146				
Equity Value	8.285.163				
Price per Share	**13,17**				

Appendix 1.4.5 – Valuation by FCFE

FCFE	2009	2010	2011	2012	2013
Interest Expense	6,74%	77.101	84.777	92.904	95.691
Financial Debt	55,54%	1.144.108	1.258.013	1.378.610	1.419.968
Interest (1-t)		61.724	67.869	74.375	76.606
Δ Financial Debt		93.962	113.904	120.597	41.358
CF Debt		32.239	46.036	46.222	-35.248
FCFE		220.140,88	287.302,58	387.027,82	464.968,18
PV FCFE		203.165,39	244.702,05	304.221,08	
Perpetuity					8.682.068,56
PV Perpetuity					6.824.492,00
Enterprise Value	7.576.581				
Cash & Equivalents	225.016				
Equity Value	7.801.597				
Price per Share	**12,40**				

Appendix 1.4.6 Valuation by Dividend Analysis

Dividend Analysis					
	2009	2010	2011	2012	2013
Group Net Income	200.349				
EPS	0,318	0,398	0,497	0,622	0,64
Distribution	44,90%	44,90%	44,90%	44,90%	44,90%
DPS	0,143	0,179	0,223	0,279	0,288
Discounted DPS		0,165	0,19	0,219	
Perpetuity					6,078
PV Perpetuity					4.777
Price per Share	**5,35**				

Appendix 1.4.7 – Expected Dividend Payout

Dividend Payout					
		2010	2011	2012	2013
Total Dividends		112.445,88	140.557,35	175.696,68	180.967,58
FCFE		220.140,88	287.302,58	387.027,82	464.968,18
Free Cash-Flow Distributed (%)		51,08%	48,92%	45,40%	38,92%

Appendix 1.4.8 – Multiple Analysis Valuation

Multiple Analysis (FCFF Optic)	
Entreprise Multiple (EV/EBITDA)	17,254
EV/Sales	1,245
Price/EPS	21,955
g EPS	0,030
PEG	7,318
(EV/EBITDA)/g EBITDA	5,751

Appendix 1.4.9 – Multiple Analysis Comparison

Multiple Analysis Comparison			
Company	**Jerónimo Martins**	**Sonae**	**Walmart**
PER	21,96	17,40	14,21
EV/EBITDA	17,25	7,87	8,23
Price to Book Value	4,13	1,02	3,81

2. Sonae Analysis

2.1- Valuation Measures

Appendix 2.1.1 – Expected Future Growth Rates

	2010	2011	2012	Perpetuity
Revenues	7,0%	7,0%	7,0%	2,0%
EBIT Growth	8,0%	8,0%	8,0%	2,0%
Working Capital Growth	7,0%	7,0%	7,0%	2,0%
CAPEX Growth	4,0%	4,0%	4,0%	2,0%

Appendix 2.1.2 – WACC Calculation

Re	10,28%
Rd(1-t)	3,48%
E/(D+E)	0,225
D/(D+E)	0,775
Nº Shares Outstanding	2.000.000.000
WACC	5,01%
g	2%
Beta Levered	1,05
Beta Unlevered	
EPS	0,086
PER	17,4
EV/EBITDA	7,873
Share Price (31/12/2009)	0,87
Share Price (31/12/2008)	0,44
Share Price (31/12/2007)	1,98
Price to Book Value	1,022
Average Corporate Tax Rate	0,083

Appendix 2.1.3 – Valuation by DCF

Discounted Cash-Flow					
FCFF	2009	2010	2011	2012	2013
Revenues	5.665.000	6.061.550	6.485.859	6.939.869	7.078.666
EBIT	349.000	376.920	407.074	439.639	448.432
EBIT (1-t)	290.717	248.013	267.854	289.283	295.068
Depreciations/Amortizations					
Operating CF	290.717	248.013	267.854	289.283	295.068
NWC	-762.000	-815.340	-872.414	-933.483	-952.152
Desinvestment NWC		-53.340	-57.074	-61.069	-18.670
Net Capex	6.108.000	6.352.320	6.606.413	6.870.669	7.008.083
Investment Capex		244.320	254.093	264.257	137.413
FCFF		57.033	70.835	86.095	176.325
PV FCFF		54.312	64.237	74.351	
Perpetuity					5.857.499
PV Perpetuity					5.058.448
Enterprise Value	5.251.348				
Cash & Equivalents	230.000				
Firm Value	5.481.348				
Debt Value	3.875.000				
Equity Value	1.606.348				
Price per Share	**0,80**				

2.2- Risk Assessment Measures

Appendix 2.2.1 –Risk Measures

Risk			
	2009	2008	2007
Sales Break-Even	4.800.571	4.459.527	3.734.999
Safety Margin	15,26%	16,69%	15,44%
Break-Even	0,906	0,918	0,91

	2009	2008	2007
Degree of Operational Leverage	5,971	6,172	6,020
Degree of Financial Leverage	1,531	1,919	1,342
Degree of Combined Leverage	9,140	11,844	8,081
Degree of Total Leverage	9,140	11,844	8,081
Control	0	0	0

2.3- Profitability Measures

Appendix 2.3.1 – Capital Profitability

Profitability			
	2009	2008	2007
Return on Sales (ROS)	6,16%	6,20%	6,75%
Return on Invested Capital (ROIC)	6,53%	6,33%	5,95%
Operating Profit	349.000	332.000	298.000
Invested Capital	5.346.000	5.244.000	5.010.000
Net Fixed Assets	6.108.000	5.871.000	5.635.000
Working Capital Needs	-762.000	-627.000	-625.000
Return on Sales (ROS)	6,16%	6,20%	6,75%
Invested Capital Turnover	1,06	1,021	0,882
Return on Equity (ROE)	10,05%	10,17%	12,24%
(ROE) (Product Factor Model)	10,05%	10,17%	12,24%
EBT/Equity	0,134	0,111	0,137
Corporate Tax Effect (Net Income/EBT)	0,75	0,919	0,892
Value Creation Gap	-0,61%	0,01%	2,08%
ROE	10,05%	10,17%	12,24%
Re (CAPM)	10,66%	10,16%	10,16%
Rf (10-year portuguese treasury bond)	4,50%	4,00%	4,00%
B	1,12	1,12	1,12
Rm-Rf	5,50%	5,50%	5,50%

Appendix 2.3.2- Margin Profitability

	2009	2008	2007
Gross Profit Margin	2.499.000	2.505.000	2.109.000
Gross Profit Margin (%)	44,11%	46,80%	47,75%
EBITDA	667.000	620.000	536.000
Cash-Flow Margin	11,77%	11,58%	12,13%

2.4- Financial Health Measures

Appendix 2.4.1 – Working Capital Situation

Financial Stability			
	2009	2008	2007
Total Equity	1701000	1563000	1618000
Medium & Long Term Debt	3561000	3560000	3600000
Permanent Capital	5262000	5123000	5218000
Net Fixed Assets	5764000	5487000	5325000
Working Capital	**-502000**	**-364000**	**-107000**
Total Operating Current Assets	**1.213.000**	**1.186.000**	**1.066.000**
Stocks	603.000	560.000	469.000
Trade Debtors	208.000	215.000	229.000
Others	402.000	411.000	368.000
Total Operating Current Liabilities	**1.975.000**	**1.813.000**	**1.691.000**
Trade Creditors	1.220.000	1.050.000	989.000
Others	755.000	763.000	702.000
Net Working Capital Needs	**-762.000**	**-627.000**	**-625.000**
Net Treasury (First Approach)	**260.000**	**263.000**	**518.000**

Appendix 2.4.2 – Activity Ratios

	2009	2008	2007
Average Collection Period	13	15	19
Average Payment Period	93	84	97

Appendix 2.4.3 – Coverage Ratios

Coverage			
	2009	2008	2007
Equity/Assets	0,225	0,214	0,23
Equity/Liabilities	0,291	0,272	0,298
D/E	1,872	3,848	0,749

3. Walmart Analysis

3.1- Valuation Measures

Appendix 3.1.1 – Expected Future Growth Rates

	2010	**2011**	**2012**	**Perpetuity**
Revenues	8,0%	8,0%	8,0%	3,0%
EBIT Growth	7,5%	7,5%	7,5%	3,0%
Working Capital Growth	8,0%	8,0%	8,0%	3,0%
CAPEX Growth	2,5%	2,5%	2,5%	3,0%
EPS Growth	9,0%	9,0%	9,0%	3,0%
Dep. & Amortizations Growth	3,0%	3,0%	3,0%	3,0%

Appendix 3.1.2 – WACC Calculation

Nº Shares Outstanding	3.561.990.000
WACC (Foreseeable Years)	7,27%
WACC (Perpetuity)	9,07%
g	3,0%

EPS	3,762
PER	14,21
EV/EBITDA	8,234707818
Share Price (31/12/2009)	53,45
Share Price (31/12/2008)	56,06
Share Price (31/12/2007)	47,53
Price to Book Value	3,8056

Appendix 3.1.3 – Valuation by DCF

Discounted Cash-Flow					
FCFF	2009	2010	2011	2012	2013
Revenues	405.607.000	438.055.560	473.100.005	510.948.005	526.276.445
EBIT	22.798.000	24.507.850	26.345.939	28.321.884	29.171.541
EBIT (1-t)	15.001.084	16.126.165	17.335.628	18.635.800	19.194.874
Dep./Amortizations					
Operating CF	15.001.084	16.126.165	17.335.628	18.635.800	19.194.874
NWC	-12.210.000	-13.186.800	-14.241.744	-15.381.084	-15.842.516
Desinvestment NWC		-976.800	-1.054.944	-1.139.340	-461.433
Net Capex	114.480.000	117.342.000	120.275.550	123.282.439	126.980.912
Investment Capex		2.862.000	2.933.550	3.006.889	3.698.473
FCFF		14.240.965	15.457.022	16.768.251	15.957.833
PV FCFF		13.275.814	13.432.884	13.584.789	
Perpetuity					262.896.756
PV Perpetuity					202.613.924
Enterprise Value	242.907.411				
Cash & Equivalents	7.275.000				
Firm Value	250.182.411				
Debt Value	50.423.000				
Equity Value	199.759.411				
Price per Share	**56,08**				

3.2- Risk Assessment Measures

Appendix 3.2.1 – Risk Measures

Risk			
	2009	2008	2007
Sales Break-Even	305.040.976	280.888.770	257.280.352
Safety Margin	23,98%	24,96%	25,42%
Break-Even	0,780	0,771	0,765

	2009	2008	2007
Degree of Operational Leverage	4,172	4,007	3,941
Degree of Financial Leverage	1,091	1,089	1,081
Degree of Combined Leverage	4,552	4,363	4,259
Degree of Total Leverage	4,550	4,363	4,259
Control	0	0	0

3.3- Profitability Measures

Appendix 3.3.1 – Capital Profitability

Profitability			
	2009	2008	2007
Return on Sales (ROS)	5,68%	5,86%	5,95%
Return on Invested Capital (ROIC)	22,29%	20,99%	21,75%
Operating Profit	22.798.000	21.952.000	20.497.000
Invested Capital	102.270.000	104.584.000	94.242.000
Net Fixed Assets	114.480.000	115.494.000	104.605.000
Working Capital Needs	-12.210.000	-10.910.000	-10.363.000
Return on Sales (ROS)	5,68%	5,86%	5,95%
Invested Capital Turnover	3,92	3,579	3,658
Return on Equity (ROE)	20,53%	19,70%	18,33%
(ROE) (Product Factor Model)	20,53%	19,70%	18,33%
EBT/Equity	0,320	0,312	0,308
Corporate Tax Effect (Net Income/EBT)	0,641	0,632	0,595
Value Creation Gap	14,83%	15,97%	12,92%
ROE	20,53%	19,70%	18,33%
Re (CAPM)	5,70%	3,73%	5,41%
Rf (10-year US treasury bond)	3,85%	2,25%	4,04%
β	0,39	0,39	0,39
Rm-Rf	4,74%	3,80%	3,50%

Appendix 3.3.2–Margin Profitability

	2009	2008	2007
Gross Profit Margin	99.449.000	92.126.000	84.389.000
Gross Profit Margin (%)	24,79%	24,61%	24,48%
EBITDA	29.498.000	28.269.000	25.988.000
Cash-Flow Margin	7,35%	7,55%	7,54%

3.4- Financial Health Measures

Appendix 3.4.1 – Working Capital Situation

Financial Stability			
	2009	2008	2007
Total Equity	65.285.000	64.608.000	61.573.000
Medium & Long Term Debt	42.754.000	40.428.000	37.866.000
Permanent Capital	108.039.000	105.036.000	99.439.000
Net Fixed Assets	114.480.000	115.494.000	104.605.000
Working Capital	**-6.441.000**	**-10.458.000**	**-5.166.000**
Total Operating Current Assets	**41.674.000**	**42.528.000**	**39.215.000**
Receivables	3.905.000	3.642.000	2.840.000
Inventories	34.511.000	35.159.000	33.685.000
Prepaid Expenses and Other	3.063.000	2.760.000	2.690.000
Current Assets of Discontinued Operations	195.000	967.000	
Total Operating Current Liabilities	**53.884.000**	**53.438.000**	**49.578.000**
Accounts Payable	28.849.000	30.344.000	28.484.000
Accrued Liabilities	18.112.000	15.725.000	14.675.000
Accrued Income Taxes	677.000	1.000.000	706.000
Current Liabilities of Discontinued Operations	83.000	140.000	
Long-Term Debt due within 1 Year	5.848.000	5.913.000	5.428.000
Obligations under Capital Leases due within 1 Year	315.000	316.000	285.000
Net Working Capital Needs	**-12.210.000**	**-10.910.000**	**-10.363.000**
Net Treasury (First Approach)	**5.769.000**	**452.000**	**5.197.000**

Appendix 3.4.2 – Activity Ratios

	2009	2008	2007
Average Collection Period	4	4	3
Average Payment Period	28	31	32

Appendix 3.4.3 Coverage Ratios

Coverage			
	2009	2008	2007
Equity/Assets	0,399	0,395	0,406
Equity/Liabilities	0,665	0,653	0,684
D/E	0,214	0,198	0,215