

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the
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Jerónimo Martins' Adoption to a New Reality

The Growth and Expansion through e-commerce for

Jerónimo Martins

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Abstract

Jerónimo Martins operates in Portugal, Poland, and Colombia, through food retail and distribution. The company is listed on the Euronext Lisbon Stock Exchange and is part of the PSI20 index, with a share capital of 629 million euros.

The study of the company was based on market economic trends, on the industry in which it is positioned, and on a comparative analysis between Jerónimo Martins and its peers.

The analysis was based on the DCF and Multiple Valuations. Thus, in December 2022, the projected share price is 23,41€, obtaining a total return for the investor of 15,80%, buy position.

Keywords: Jerónimo Martins, Valuation, Market Trends, Competitors

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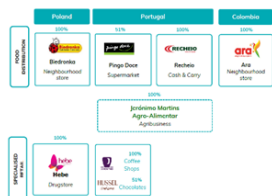
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Company Overview¹

The Jerónimo Martins group has already more than 225 years of operations associated with retail and commerce. In 1792², a young man named Jerónimo Martins opens his first shop in Chiado, Lisbon, with a wide range of products. As the years went by, the shop became a company and went through periods of remarkable growth. At the end of the First World War, the consequences of the war were significant, and it was unable to resist the torment. So, in 1921, as a solution to what had happened, Francisco Manuel dos Santos and Elysio Pereira do Vale open Jerónimo Martins & Filho.

In 1949, the Group expands into manufacturing, establishing a joint venture with the multinational Unilever. With the death of Francisco Manuel dos Santos, his son Alexandre Soares dos Santos, took over the presidency of the Group in 1968, and stood out for his binding thought on the importance that Modern Distribution would have for the company, in an era dominated by manufacturing, as well as for the notable growth that the company underwent for over 45 years, going from an average family business to an international group of companies.

Figure 1 - Company Structure



Source: Annual Report 2020

In Portugal, Pingo Doce assures some leadership in supermarkets and Recheio assumes the same position in cash and carry. In Poland, Biedronka, the company's largest business structure, and also Hebe a chain of beauty shops. In turn, in Colombia they are represented by the Ara chain. Thus, the activity with the greatest impact, which represents around 95% of the company's sales, is food distribution. Furthermore, in Portugal, the Jerónimo Martins Group operates at the food production level in order to supply its shops with the products.

Thus, on 31st December 2020, the company had **sales of 19,293 billion euros**, with a total workforce of **118 210 employees**, resulting in a **net profit of 312 million euros**.

Poland

In 1995, the Jerónimo Martins Group expanded into Poland through the Biedronka brand as a result of the partnership established between the British company Booker and Recheio. Later, in 2011, the company opens Hebe shops, linked to the cosmetics, beauty, and personal care sector.

Jerónimo Martins has been present in Poland for more than 25 years, starting with food retail through Biedronka, the country's leader, and later with the Hebe brand in the beauty and health area.

Biedronka represents around **13,5 billion euros in sales** with a total of **3100 shops** throughout the country by 2020.

Hebe has a total amount of **sales of around 245 million euros with 260 shops** by 2020, based on high quality products at affordable prices and with emphasis on its own brands of products: "Hebe Cosmetics" (soaps and shower gels), "Hebe Professional" (make-up and accessories for hands and feet) and "By hebe" (accessories).

Figure 1 - Biedronka's Logo



Figure 1 - Hebe's Logo



Portugal

Figure 1 - Pingo Doce's Logo



Figure 1 - Recheio's Logo



Figure 1 - Hussel's Logo



Figure 1 - Jeronymo's Logo



Figure 1 - Agro-Alimentar Logo



Figure 1 - Ara's Logo



In Portugal, Jerónimo Martins has four distinct brands associated with different areas of the food business. At food distribution level, it operates through Pingo Doce, while at the wholesale level it is presented under the Recheio brand, with these two branches accounting for around **25% of the Group's total sales**. Over the years, it also developed Jeronymo and Hussel, the two smallest brands of the company.

In 1980, the **Pingo Doce** supermarkets appear, with the restart of the distribution activity. In 1985, in order to develop the Pingo Doce brand, the Company agreed a strategic partnership with Delhaize Group "Le Lion", a Belgian retailer, thus becoming a holding company, changing its name to "Estabelecimentos Jerónimo Martins & Filho - Administração e Participações Financeiras"².

Thus, with almost 40 years of activity, Pingo Doce is one of the leaders in supermarkets in Portugal with sales of **3,869 billion euros in 2020**, being present in more than 300 locations of the country with around **450 shops**, based on the principle of product quality and competitive prices.

1988 was marked by the acquisition of **Recheio**, having a **market share of 60% of the Cash & Carry type of stores in Portugal**, associated to the wholesale sector. The following year, the group acquired 15 "Pão de Açúcar" supermarkets. In 1992, the company acquired Delhaize's "Le Lion" retail stake and formed a joint venture with the Dutch company Royal Ahold, also involved in food retail. Recheio stands out among the partners in the restaurant, hotel, and traditional trade business, with around **38 shops** and sales of **847 million euros in 2020**. Quality, innovation, and a high number of options are the brand's strong points.

In 1990, through a joint venture between the Group (51%) and the German company Douglas AG (49%), the **Hussel** brand was created in association with the chocolate and confectionary retail business. The brand's main focus is on shopping centres across the country.

In 2002, **Jeronymo** emerged within the shops belonging to the group, but only as small kiosks, later expanding into cafés, and by 2020 it had around **22 establishments**.

With the main focus on supporting establishments with products in Portugal, the Group developed **Jerónimo Martins Agro-Food (JMA)** in 2014. It operates in three areas: **Terra Alegre**, associated with dairy products, **Best Farmer**, connected to Angus beef production and fattening, and **Sea culture**, related to aquaculture.

Colombia

In 2011, the group expanded into Colombia, opening its first Ara shop in 2013. This expansion into a new market was more challenging as a result of the Colombian people's lifestyle and preference for more traditional shops and the preference for unit products that are available in these establishments as opposed to packaged products.

Thus, the Ara brand present in this country, associated with proximity to the population, located in residential neighbourhoods, and with the mandatory presence of own brand products, which are produced locally. The largest number of shops is in the capital, Bogotá. The development of the brand was based on the country's biodiversity and with an emphasis on the importance of

birds, developing a business based on the Colombian style. As of 31 December 2020, Ara contained **663 shops**, **8135 employees** and had reached a **sales value of 854 million euros**.

Capital Structure

Jerónimo Martins Group is composed by **629.293.220 listed shares** and also holds **859.000 shares in treasury**. Thus, the company's share capital is reflected at 629.293.220 euros, leading to a nominal value of **1€ per share**.

The company holds 859 000 shares in its portfolio, having acquired them in 1999 at an average price of **7,07€ per share**, thus representing **0,14%** of the company's share capital with voting rights.

It should be noted that the shares of this company are only ordinary shares, with full trading and no restrictions.

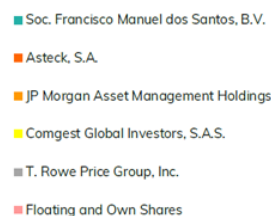
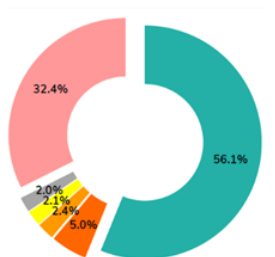
Stockholder Structure

As of 30th June 2021, the largest shareholder of Jerónimo Martins was Sociedade Francisco Manuel dos Santos, SGPS, S.E., with a **56,14%** share of the total capital, reaching 353.260.814 shares in the company. In turn, Asteck, SA presents itself with a number of shares of around **31.464.750**, representing a capital of **5%**.

JP Morgan Asset Management Holdings holds **2,35%** of the total capital, comprising **14.815.917** shares, Comgest Global Investors around **2,06%** (**12.983.594** shares) and T. Rowe Price Group **2,04%** of the total capital (**12.821.174** shares). In addition, Floating and Own Shares represent **32,41%** of the company's total capital.

This was the structure until December 2020, in turn, during the year 2021, more precisely on November 15, the subsidiary Asteck, belonging to the Dutch group Heerema announced the sale of its **5% stake in the group**³. This news came a bit unexpected, but this subsidiary had already owned about **10%** of the group, and in 2013 it had already sold a part of it, leaving only the **5%** that ended up being sold in 2021.

Figure 1 - Stockholder Structure



Source: Annual Report 2020

Board of Directors

Given the expansion of the Company at an international level, the executive structure of the Jerónimo Martins Group needs to be adapted in order to respond to the different points around the world. The Board of Directors is made up of the Chairman and Chief Executive Officer Pedro Eduardo dos Santos and nine Directors, Andrzej Szlezak, António Viana-Baptista, A. Stefan Kirsten, Clara Christina Streit, Elizabeth Ann Bastoni, Francisco Seixas da Costa, José Soares dos Santos, Marí Ángela Holguín and Sérgio Tavares Rebelo, and the entities of the Management Committee support the day-to-day running of the Company's businesses.

Sérgio Tavares Rebelo is the Chairman of the Audit Committee, Clara Christina Streit and Elizabeth Ann Bastoni are members of the audit committee.

Figure 1 - Board of Directors



Source: Annual Report 2020

Business Strategy

The Jerónimo Martins company focuses on ensuring four central aspects: **strong brands**, **business models**, **focus on efficiency** and **management capacity**, while trying to ally **sustainable responsibility**, which is increasingly prominent in the company.

Thus, based on these four pillars, the company aims to achieve strategic guidelines, objectives, and lines of action.

Allied to these focuses is the **sustainability** of the company, which is based on the promotion of health through its food, in the search for increasingly environmentally friendly measures, extending the measures to the production phase, and carries a concern for the community around its shops as well as being aware of the need to be an employer of reference. On the 7th of December 2021, Jerónimo Martins announced that it **“is the food retailer with the best CDP score worldwide”**⁴. CDP is a “non-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts”⁵. Jerónimo Martins had a grade A on the climate change and water security classifications being the only Portuguese company to even be on the CDP score assessment.

It should be noted that the company's strategy also involves introducing the concept of **e-commerce** in some brands, in order to be able to sell their products quickly, easily, and just an app or website away.

Pingo Doce has a partnership with Mercadão, an online sales website, in which the products offered in the Pingo Doce supermarket are sold through Mercadão.

Hebe shops in Poland already have the intention to extend their online sales to new countries and internationalize via internet reaching a larger number of people and being able to commercialize their own brands.

Hussel was one of the shop chain that also launched an online platform a year ago, since it was in the middle of a pandemic the results might not come so fast, or on the other hand it might grow faster than expected exactly for the same reason. Since we were in a pandemic period and people could not leave their houses they ordered much more than before and Hussel saw an opportunity to boost their sales in that way, we believe that the online sales will be the future and will increase sales exponentially.

Moreover, it must be taken into account that the pandemic brought with it the need for brands to adjust and adapt to new forms of commerce and manage to reach the consumer while complying with the rules imposed by the various countries, but continuing to solve consumer demand, awakening, and accelerating this e-commerce process at a general level.

In turn, the expansion of the group to Romania was already disclosed before the pandemic hit the entire world and that consequently impact the year 2020 and part of 2021, leading the company to postpone this expansion strategy and to be cautious before starting the investment, worrying at this moment in understanding and analyzing the economy and the state of the country in a post-pandemic. If this expansion takes place, it is expected to be by means of an acquisition in order to bypass the operators that already exist in Romania.

Figure 1 - Mercadão's Logo



Stock Prices Evolution

Jerónimo Martins' stock prices have come a long way in a short amount of time. The company engaged in an IPO in 1989 and it is currently listed in the Euronext Lisbon Stock Exchange. The company has recently reached a new maximum closing price of **21,61€ as of 15th of November 2021**. When compared to the closing price of 2020, which amounted **13,82€**, in just less than a year the price rose about **56,37%**.

In order to understand the impact of the pandemic in 2020 and the beginning of 2021, we have made the graph (Graph 1) with prices starting in 2007 in order to compare this situation with the crisis experienced in 2008. It is possible to see from the graph that the decrease from 2007 to 2008 was around **-1,43€** per share, noting that at this time the stock values were much lower. In turn, in the year 2020 the decrease was **0,84€**, a lower value per share.

We decided to also analyse the Jerónimo Martins' stock prices behaviour with one of the indexes that it is listed on, the PSI20, which is an Index that aggregates the top 20 companies listed in the Euronext Lisbon Stock Exchange (Graph 2). Through the we can see that the behaviours are not very similar actually. From 2000 until 2008 more or less, the trends were identical, in nominal terms but PSI20's returns were higher than Jerónimo Martins'. In turn, when the crisis hit, the trends reverted, becoming Jerónimo Martins with increasing returns and PSI20 with its return declining, having now an immense gap between them.

To complement this analysis, we decided to also compare the company's share price movement with the MSCI Index in Euros (Graph 3), and we can see a clear similarity in behaviours, prices go down around the same time, and then go back up the same way, meaning that the beta from comparing Jerónimo Martins' share price with the index share price might reflect some of this relation.

Industry and Sector Overview

2021 is being marked by the resumption or creation of alternatives in the face of the installation of a pandemic in 2020 at a global level. In turn, the most drastic consequences of this situation were felt in March 2020, with a notable improvement being seen in 2021 throughout the year.

Macroeconomic Environment

- Poland

Looking at the total real GDP per capita of Poland (Graph 4), in the face of a global pandemic, GDP per capita growth rate decreased in 2020 from **4,7% to a negative rate of about -2,5% in 2020**. In turn, and based on the forecasts of the European Commission, Poland's GDP per capita growth rate is expected to be about **4,8%** at the end of 2021 compared to 2020, **5,2%** in 2022 and **4,40%** in 2023. When we analyse total inflation in comparison with food inflation (Graph 5), it is possible to see that in 2020 food inflation has decreased and not increased, contrary to the total inflation.

Taking in consideration the Retail Gazette⁶, Poland is seen as a large Western European market, with a growing number of consumers, and with an attractive position given its membership in the

Graph 1 - Stock Prices Evolution



Source: Finance Yahoo

Table 1 - Historical Stock Prices

Year	Closing Price	Volume
2007	5,40 €	18 636 397
2008	3,97 €	30 136 505
2009	6,99 €	26 283 656
2010	11,40 €	18 406 918
2011	12,79 €	10 371 667
2012	14,60 €	9 126 561
2013	14,22 €	11 389 674
2014	8,30 €	28 419 897
2015	12,09 €	22 967 518
2016	14,74 €	16 398 130
2017	16,19 €	14 776 131
2018	10,34 €	14 002 153
2019	14,66 €	12 758 238
2020	13,82 €	13 130 839
2021	20,53 €	685 567

Source: Finance Yahoo

Graph 2 - PSI20 vs. JMT



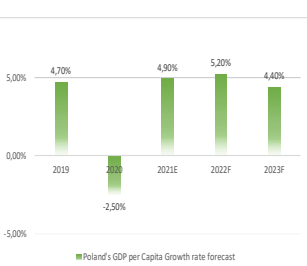
Source: Bloomberg

Graph 3 - MSCI Index (EUR) vs. JMT



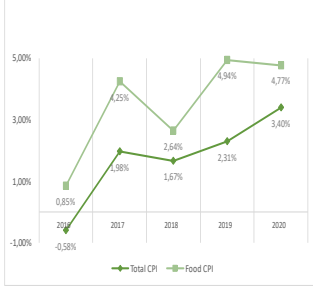
Source: Bloomberg

Graph 4 - Poland's GDP per capita growth rate



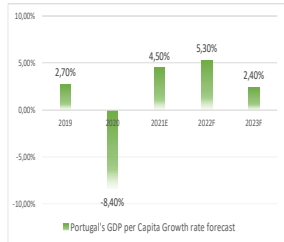
Source: European Commission Forecast

Graph 5 – Poland's Total and Food CPI



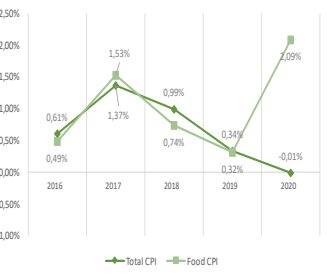
Source: OECD, Data

Graph 7 - Portugal's GDP per Capita Growth Rate



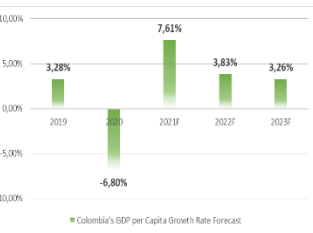
Source: European Commission Forecast

Graph 6 – Portugal's Total and Food CPI



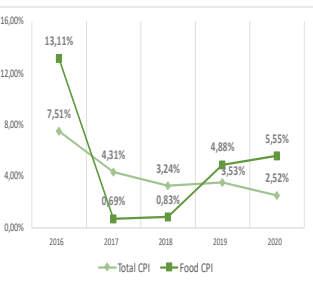
Source: OECD, Data

Graph 8 - Colombia's GDP per Capita Growth Rate Forecast



Source: World Bank, Data

Graph 9 - Colombia's Total and Food CPI



Source: OECD, Data

EU as well as its economic stability and an appealing tax system at the business level, not to mention easy access to skilled and cheap labour.

According to Cushman & Wakefield's 2019 report⁷, the strong investment in this sector is essentially due to four characteristics that this country offers: its **location**, **growing consumer demand**, an assuredly **strong economy**, and possible **higher rates of return** compared to other Western European countries.

▪ Portugal

Based on the Graph 6 presented, it is clear that the GDP per capita growth rate decreased in 2020, which went from a positive value of around **2,7% in 2019** to a negative value of **-8,4% in 2020**. It was expected that the percentage of final consumption expenditure would also decrease due to the decrease in purchasing power and the increase in the difficulties that citizens went through with the changes that surprised everyone in their daily lives. In turn, based on the European Commission's forecasts, we can see that an increase is expected in 2021, of **4,5%**, followed by a growth rate of around **5,30% in 2022**, and **2,40% in 2023**. Regarding inflation (Graph 7), in general, it can be seen that it has been decreasing since 2017, with a notable decrease in 2020, from **0,34% in 2019** to **-0,01% in 2020** and the European Commission expects it to increase in the following couple of years. The behaviour of food CPI was similar until 2019, however, it had a notable increase in 2020, reaching the value of **2,09%**.

▪ Colombia

According to The World Bank⁸, Colombia has a **high inflation rate**, with a flexible exchange rate and rules that provide a fiscal structure that makes it possible to respond to the various adversities that may occur, as in the case of the situation arising from covid-19.

However, the crisis arising from a pandemic brought with it unexpected challenges, such as the case of production, which is characterized as a negative weight for economic growth, as well as the external shocks it suffers as a result of the export of non-renewable energies, specifically oil.

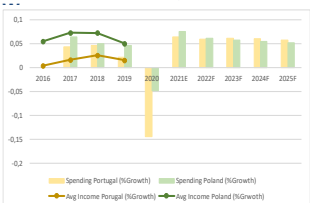
When we analyse the GDP per capita growth rate (Graph 8) we realize that the value has been decreasing considerably in 2020, even reaching the value of **-6,80%**. As for future forecasts, it is expected that there will be a notable increase in GDP in 2021, of around **7,61%**, the highest value of the last few years.

When we analyse the general inflation of the country with food inflation (Graph 9), it is noticeable that in 2020 there is a much higher value in food inflation compared with the overall value, something that was not so noticeable in 2019, with this increase resulting from the higher prices in the food products.

▪ Macroeconomic Trends Comparison

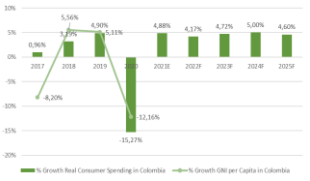
In order to understand the macroeconomic trends in each of these economies, we analysed the growth in real consumer spending in **Portugal** and **Poland** and the variation in average monthly wages in each of these countries, (Graph 10). The graph shows that there is a clear relationship between these indicators over the years, that is, the increase in average wages is accompanied by a growth in the amount spent by consumers. In turn, through the projections until 2025 of the

Graph 10 – Poland and Portugal's Consumer Spending Growth vs.



Source: Statista

Graph 11 - Colombia's Consumer Spending Growth vs. Wages



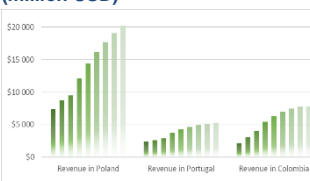
Source: Statista

Graph 12 - Share of E-commerce Retail Sales



Source: Statista

Graph 13 - E-commerce Retail Sales (million USD)



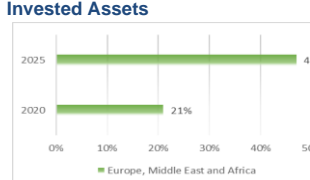
Source: Statista

Graph 14 - Companies that Report on Sustainability



Source: Statista

Graph 15 - Share of Sustainably Invested Assets



Source: Statista

Graph 16 - Organic Retail Sales in Europe (billion EUR)



Source: Statista

growth of real consumer spending, it is possible to see that this consumption growth has an increasing trend over the years, thus having an impact on the economy and the retail industry, projecting a generalized increase in sales in these two economies.

In turn, for **Colombia**, the analysis had to be performed based on the growth of real consumer spending in Colombia and the Gross national income per capita (Graph 11), since this country has a different approach from the others and also because there is not so much information available as the other two regions. The graph shows that these two variables have a similar behaviour in recent years, with the year 2020 being marked by a clear decrease in both indicators. In turn, in subsequent years it is expected an improvement in the growth of consumption in Colombia, thus expecting an improvement and an increase in sales in the market.

So, based on the countries in which the group is present, it is perceptible that both in Poland and Portugal there is a faster and continuous recovery, given the economic characteristics of these two points. In turn, due to the characteristics associated with trade in Colombia, a slower improvement and response to this pandemic is expected.

Trends and Challenges in the Market

The arrival of COVID-19 accelerated what had long been expected and was slowly being introduced in the food retail market, **e-commerce**. Globally this trend is increasingly gaining new followers and is expected to grow exponentially over the next years, even establishing a new form of commerce globally, (Graph 12). The Jerónimo Martins Group has increasingly pushed and adhered to strategies that allow it to reach the consumer through the digital world, thus and based on the analysis carried out in each of the economies in which it is presented (Graph 13), it is possible to see that e-commerce will be the Group's new expansion tool and that in each of the countries there is gradual growth and an increasing presence among consumers.

In addition, one of the other major trends or even a challenge in this market is to increasingly ensure the **implementation of sustainability and environmental protection measures**. Through these two graphs (Graph 14 and Graph 15), it is possible to see not only that the percentage of companies worldwide that report on sustainability has been increasing, but also that the concern of investors in investing in companies that seek to integrate sustainability as part of the company will increase to a percentage of about **47%** in 2025.

In turn, over the years there has been an increasing concern and demand for the consumption of mostly **produced nationally goods, more organic products**, with a production as natural as possible, and with a simpler connection between the consumer and the producer. Thus, and through the graph with figures regarding sales of these products in Europe, it is possible to see that demand for them and consequently their sale has been increasing, and it is expected that this growth will continue over the years, leading to increased production of these products in general, (Graph 16). In turn, Jerónimo Martins already has its own production line of food products, as well as the availability of private label products and also a line of organic products. Therefore, it expects to expand its production lines and private label products and to develop more and more organic goods in order to respond not only to consumer demand but also to establish a strategic competitiveness with its competitors.

Jerónimo Martins and its Competitors

Table 1 - Profitability Ratios

NAME	Profitability from Operations		
	Gross Margin	EBITDA Margin	Profit Margin
Carrefour	22,22%	5,47%	0,88%
Tesco	7,37%	7,51%	1,67%
Sonae	30,74%	7,19%	1,04%
Ahold Delhaize	27,26%	8,32%	2,67%
Casino Guichard-Perrachon	23,81%	6,09%	-2,78%
Metro AG	17,01%	4,08%	1,79%
Eurocash	13,25%	3,16%	0,24%

Source: Bloomberg/Sonae's Report/Euronext

The Jerónimo Martins Group has a prominent position in the market, constantly seeking to grow in relation to its main competitors. After studying the market, we concluded that Jerónimo Martins' main competitors were the following:

- Carrefour

Carrefour is a French hypermarket chain company founded in France that started its business in 1959. The company started in the e-commerce market in 2016 and in 2020, it reached an EBITDA margin of around **5,74%**, a profit margin of around **0,88%** and an Asset Turnover of **1,47**. Regarding its returns it had a Return on Invested Capital (ROIC) of **6,05%**, a Return on Equity of **6,50%** and a Return on Assets (ROA) of **1,29%**.

- Tesco

Tesco represents a UK-based multinational in the retail and distribution business. In 2020, this company had an EBITDA margin of **7,51%**, with about **1,67%** of profit margin, and an Asset Turnover of **1,06**. Its ROIC was **6,97%** which is not a high value when comparing to "more normal" years. The ROE and ROA were accounted for **7,23%** and **1,76%**, respectively.

Table 2 - Solvency and Activity Ratios

NAME	Solvency ratios		Activity Ratios
	ICR		Asset Turnover
Carrefour	6,246		1,47
Tesco	3,160		1,06
Sonae	1,519		0,79
Ahold Delhaize	4,426		1,82
Casino Guichard-Perrachon	0,906		0,96
Metro AG	1,047		1,65
Eurocash	1,929		3,19

Source: Bloomberg/Sonae's Report/Euronext

Table 3 - Liquidity Ratios

NAME	Liquidity Ratios		
	Current Ratio	Quick Ratio	Cash Ratio
Carrefour	0,82	0,49	0,22
Tesco	0,74	0,33	0,29
Sonae	0,79	0,41	0,33
Ahold Delhaize	0,76	0,40	0,32
Casino Guichard-Perrachon	0,82	0,31	0,23
Metro AG	0,87	0,44	0,32
Eurocash	0,60	0,29	0,02

Source: Bloomberg/Sonae's Report/Euronext

- Sonae

Sonae is one of Jerónimo Martins' main competitors in food retail, with a wide range of businesses spread throughout Portugal, from large supermarkets to small corner shops, as well as an e-commerce platform. We can see that Sonae achieved an EBITDA margin of **7,19%** in 2020, with a profit margin of **1,04%** and a **0,79** asset turnover. Its ROIC accounted for **2,46%**, a **3,44%** ROE and a **0,83%** ROA.

Table 4 - Return on Investments

NAME	Return on Investments		
	ROE	ROA	ROIC
Carrefour	6,50%	1,29%	6,05%
Tesco	7,23%	1,76%	6,97%
Sonae	3,44%	0,83%	2,46%
Ahold Delhaize	10,54%	3,40%	7,45%
Casino Guichard-Perrachon	-33,25%	-2,67%	2,67%
Metro AG	21,07%	2,97%	2,86%
Eurocash	6,82%	0,78%	6,86%

Source: Bloomberg/Sonae's Report/Euronext

- Ahold Delhaize

The Ahold and Delhaize was a result of a merger between the Ahold and the Delhaize groups in 2016, having existed separately for 150 years⁹. It is currently based in the Netherlands with an EBITDA margin of **8,32%**, a profit margin of **2,67%** and an asset turnover of **1,82**. The ROIC accounted for **7,45%**, ROE of **10,54%**, and a ROA of around **3,40%**.

- Casino Guichard-Perrachon

Casino Guichard-Perrachon is a French based company founded in 1898 and is considered the number one convenience store in France. In 2020 it had a higher EBITDA margin when comparing with 2019 (5,56%) in 2020 it reached **6,09%**, it showed a negative profit margin of **-2,78%** and an asset turnover of **0,96**. In terms of return it reached a low ROIC, **2,76%**, which means that with a general WACC of around 5% or 6%, the company is actually destroying value instead of creating. Its ROE and ROA accounted for **-33,25%** and **-2,67%**. We can state that it was not a profitable and stable year for Casino Guichard-Perrachon.

Table 5 - JMT Ratio Analysis

JERÓNIMO MARTINS		
Profitability from Operations	Gross Margin	21,91%
	EBITDA Margin	7,38%
	Profit Margin	1,62%
Solvency Ratio	ICR	3,54
Activity Ratio	Asset Turnover	1,93
Liquidity Ratios	Current Ratio	0,346
	Quick Ratio	0,207
	Cash Ratio	0,149
Return on Investments	ROE	11,54%
	ROA	1,62%
	ROIC	10,92%

Source: Own Calculations/Bloomberg

▪ Metro AG

Metro is a German company specialized in the wholesale food sector. It operates in 24 countries, and it also has a digital platform with delivery services. The company had an EBITDA margin of **4,08%** in 2020, a profit margin of **1,79%** and a asset turnover of **1,65**. Its ROIC was once again a not “attractive” value, of **2,86%**, its ROE actually hit a good level in terms of efficiency in using its capital, **21,07%**, and a ROA of **2,97%**.

▪ Eurocash

Eurocash is a Polish group mainly in the wholesaler sector, but it also has a retailing channel as well as an online platform. In 2020 its EBITDA margin was about **3,16%**, it registered a **0,24%** profit margin and an asset turnover of 3,19, the highest among these comparable companies. Regarding the returns of the company, it had a **6,86%** ROIC, a **6,82%** ROE and an almost non existing ROA, of **0,78%**.

▪ Jerónimo Martins’ Performance

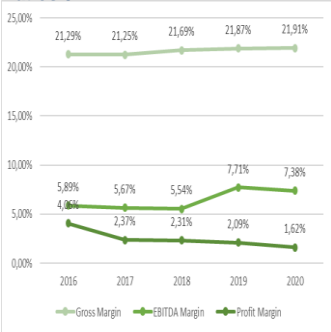
Before we start a future analysis of the Group it is important to get a general grasp of what has been Jerónimo Martins’ performance over the last 5 years. As we can see in the Graph 17 presented on the left, its **profitability from operations** has been quite constant with not many variations except for the last year where its profit margin decreased from **2,09%** to **1,62%** due to the current situation.

Another story comes when looking at the **interest coverage ratio** (Graph 18), that suffered a drastic decrease due to the increase in its interest expenses/financial costs. The last two years the group had some losses regarding currency matters of some leasing contracts in Poland, regarding some rents from warehouses contracts that started in 2019. Since these contracts are between 5 to 10 years this ratio will probably remain around these values from 2020 forward. Its asset turnover ratio has been **slowly decreasing** which can be explained by the fact that the amount of assets has been increasing more than the increase in sales which means that the company’s efficiency in utilizing their assets to boost the sales has been lower throughout the years.

In terms of **liquidity** (Graph 19), it has remained relatively stable throughout the years except for 2019 that had some decrease due to the fact that the company contracted these leasing contracts that directly affect the amount of liabilities that the company has.

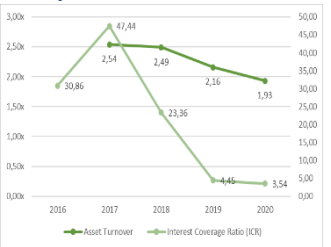
Regarding the **profitability from investments** (Graph 20), they have been decreasing except for the ROA that has been somewhat stable during this period. The ROE had a big slow down in 2020 due to the pandemic but the ROIC decreased a lot in 2019 because of the increase in the company’s obligations such has the leasing contracts mentioned above.

Graph 17 - Historical Profitability Ratios JMT



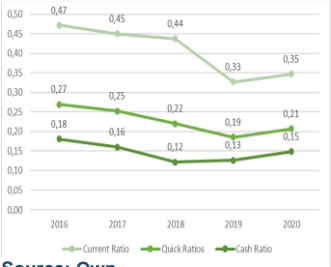
Source: Own Calculations/Bloomberg

Graph 18 - Historical Solvency and Activity Ratios JMT



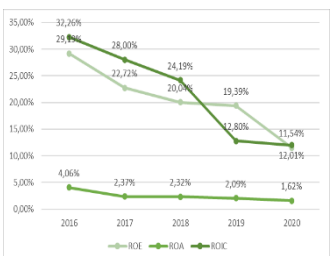
Source: Own Calculations/Bloomberg

Graph 19 - Historical Liquidity Ratios JMT



Source: Own Calculations/Bloomberg

Graph 20 - Historical Return on Investments Ratios JMT



Source: Own Calculations/Bloomberg

Table 6 - Average Ratios' Values in Food Retail Sector

Food Retail Sector (2020)			
Gross Margin	26,25%	Quick Ratio	0,37
EBITDA Margin	4,36%	Cash Ratio	0,29
Profit Margin	2,20%	ROE	30,63%
ICR	4,25	ROA	2,75%
Asset Turnover	2,79	ROIC	9,63%
Current Ratio	1,1		

Source: Damodaran, Federal Reserve, CSI Market, Ready Ratios, Investing for Beginners

Table 8 – Profitability - Competitors vs. Table 8 – Profitability -

NAME	Profitability from Operations		
	Gross Margin	EBITDA Margin	Profit Margin
Carrefour	BELOW	ABOVE	BELOW
Tesco	BELOW	ABOVE	BELOW
Sonae	ABOVE	ABOVE	BELOW
Ahold Delhaize	ABOVE	ABOVE	ABOVE
Casino Guichard-Perrachon	BELOW	ABOVE	BELOW
Metro AG	BELOW	BELOW	BELOW
Eurocash	BELOW	BELOW	BELOW
Jerónimo Martins	BELOW	ABOVE	BELOW

Source: Own Calculations

Table 9 - Solvency and Activity - Competitors vs. Sector

NAME	Solvency ratios		Activity Ratios
	ICR	Asset Turnover	
Carrefour	ABOVE	BELOW	
Tesco	BELOW	BELOW	
Sonae	BELOW	BELOW	
Ahold Delhaize	ABOVE	BELOW	
Casino Guichard-Perrachon	BELOW	BELOW	
Metro AG	BELOW	BELOW	
Eurocash	BELOW	ABOVE	
Jerónimo Martins	BELOW	BELOW	

Source: Own Calculations

Table 10 - Liquidity - Competitors vs. Sector

NAME	Liquidity Ratios		
	Current Ratio	Quick Ratio	Cash Ratio
Carrefour	BELOW	ABOVE	BELOW
Tesco	BELOW	BELOW	ABOVE
Sonae	BELOW	ABOVE	ABOVE
Ahold Delhaize	BELOW	ABOVE	ABOVE
Casino Guichard-Perrachon	BELOW	BELOW	BELOW
Metro AG	BELOW	ABOVE	ABOVE
Eurocash	BELOW	BELOW	BELOW
Jerónimo Martins	BELOW	BELOW	BELOW

Source: Own Calculations

Table 11 - Return on Investments - Competitors vs. Sector

NAME	Return on Investments		
	ROE	ROA	ROIC
Carrefour	BELOW	BELOW	BELOW
Tesco	BELOW	BELOW	BELOW
Sonae	BELOW	BELOW	BELOW
Ahold Delhaize	BELOW	ABOVE	BELOW
Casino Guichard-Perrachon	BELOW	BELOW	BELOW
Metro AG	BELOW	ABOVE	BELOW
Eurocash	BELOW	BELOW	BELOW
Jerónimo Martins	BELOW	BELOW	ABOVE

Source: Own Calculations

Final Comparison

When comparing the sector's average values (Table 7), with the values from these companies we are able to take some conclusions. For instance, we can see that the company with the most profit from its operations in general is **Ahold Delhaize** even though the company with the highest Gross Margin is **Sonae**. **Metro AG** and **Eurocash** show profits from operations below the average of the sector in all comparable ratios (Table 8). Regarding solvency (Table 9), **Carrefour** shows the highest interest coverage ratio of all with a value of **6,25** and **Ahold Delhaize** comes right after with a **4,43** ratio meaning it has the ability to cover its financial interests from the respective period. From the activity ratios we can see that the only company that reaches the average of the sector is **Eurocash**, with an asset turnover of **3,19** which reflects the level of efficiency in the usage of the company's assets in relation to their sales. Liquidity wise, neither of the companies show very good results when comparing the current ratios with the average values of the sector, due to the fact that all the values are below 1, which means that these companies do not have the general capability to pay their current or short-term obligations making this one of the not so attractive characteristics. **Carrefour**, **Sonae**, **Ahold Delhaize** and **Metro AG** come through when comparing the Quick ratio and the Cash Ratio, they show results above the average which becomes a good advantage towards their competitors (Table 10). Finally, the returns on the investments (Table 11), Jerónimo Martins takes the lead on the ROIC with a value of **10,92%**, which is indeed higher than the average of the sector. **Ahold Delhaize** and **Metro AG** also show some advantage on the ROA since their values are also above average. From the evaluation of all these ratios from all the different Jerónimo Martins' competitors the biggest threat to the group in the European market is currently Ahold Delhaize, it shows the best results, having almost all of the ratios above average.

Forecast

Sales Forecast

In order to obtain the estimated value of Jerónimo Martins, we proceeded to analyse and subsequently make projections regarding its main source of income: **sales**.

Just like the retail market, Jerónimo Martins is no exception and intends to follow a strategy based on digitalization, e-commerce, the availability of organic products and also take into account sustainability, central ideas that move the market today.

Thus, based on the sales behaviour of the group in recent years and taking into account the expected GDP value in each of the economies and inflation in Portugal, it was possible to make revenue projections up to 2030.

Furthermore, it is possible to see that Jerónimo Martins has been following market growth and the challenges it faces in each of the industries, revealing some differences between each of the locations it retails in. In turn, we must take into consideration future expectations for each of the economies presented above, which reveal consumer behaviour over the next few years and consequently their predisposition towards retail consumption.

One of the big market trends is related to **e-commerce**, so, in order to understand the weight that this sales strategy will have in the total sales of the group, we start by analysing its competitors, (Table 12).

Table 12 - Competitors' Share of Online Sales in 2020 (millions)

	Online Sales	% of Online in Offline
Carrefour	2 300,00 €	3,15%
Tesco	\$ 7 589,00	11,37%
Ahold Delhaize	7 600,00 €	10,17%
Sonae SGPS	480,00 €	7,03%

Source: Annual Report of each Company

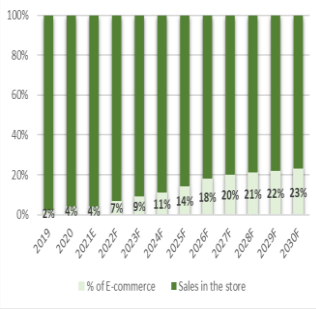
Nowadays, the group only has online sales through Hebe in Poland and in Portugal Pingo Doce, through a company that supports it, Mercadão. In turn, the percentages of online sales are not disclosed by the group, leading us to conduct a study and analysis of the peer companies in order to reach the most truthful conclusion possible.

Through the Table 12 it is possible to see that Carrefour, for example, sold only 3,15% of its revenues online in 2020, but on the other hand Tesco is the competitor with the highest percentage of online sales. Therefore, it is possible to understand the need and the tendency that Jerónimo Martins will have in betting on the online market and making digital its new strategy.

In this way, and based on the market study, it was possible to project the online sales percentages of the Group in the coming years, and it is expected that in **2030 it will reach 23% of its sales**, (Graph 21).

In turn, in order to make a more accurate forecast, 2020 was analysed with more attention and not taken into account that much, given the adverse situation that has been witnessed worldwide. In addition, for 2021 a different projection was made since the values of certain captions under analysis were already available for the first 9 months.

Graph 21 – JMT's Online vs. Offline Sales



Source: Own Estimates

JERÓNIMO MARTINS

FOOD RETAIL AND DISTRIBUTION

STUDENTS: JÉSSICA SANTOS, RAFAELA ESTEVES

COMPANY REPORT

17 DECEMBER 2021

44237@novasbe.pt; 44234@novasbe.pt

Jerónimo Martins' Return After COVID-19

The expansion through the e-commerce

- The final price target for the fiscal year of 2022 is equal to **23,41€** with a total return of **18,33%** which implies a **BUY** recommendation for the Jerónimo Martins group.
- After the global pandemic situation, Jerónimo Martins' share price has been increasing, even breaking records in the last year. This trend of rising prices is expected to continue over the coming years.
- With the recovery of the economy and the insertion of measures to address the past situation a general improvement in the group is expected, with increased demand for sectors that had suffered from Covid-19, as well as increased consumption of households as a result of demand for their time in lockdown. In addition, with the opening of the airways and the encouragement of tourism a notable improvement is expected at the distribution level of Jerónimo Martins.
- Jerónimo Martins' development depends on its growth in e-commerce and the expansion of existing brands to new locations within the same country, or even to different countries but through international sales.

Company description

The Jerónimo Martins group has already more than 225 years of activity, operating in two specific areas: **food distribution** and **specialized retail**. The Group operates nationally and internationally through the following brands: Pingo Doce, Recheio, Jeronymo, Hussel, Biedronka, Hebe and Ara. In addition, the company also produces its own goods to be sold in its own shops. The company is made up of more than 4,500 shops spread between Colombia, Portugal, and Poland with more than 118 000 employees.

Recommendation: **BUY**

Vs Previous Recommendation **BUY**

Price Target FY22: **23,41 €**

Vs Previous Price Target **21,99 €**

Price (as of 17-Dec-21) **20,09 €**

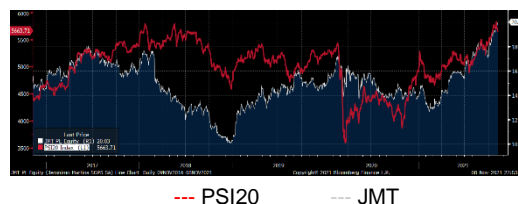
Bloomberg: JMT:PL

52-week range (€) 12,50-21,61

Market Cap (€m) 12.642,5

Outstanding Shares (m) 629,29

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2020	2021E	2022F
Revenues	19 293,50	20 276,60	22 978,62
EBITDA	1 423,17	1 270,20	1 404,16
Net Profit	311,85	212,77	254,05
EPS	0,496	0,338	0,404
P/E	27,89x	64,21x	58,00x

Source: Own Estimates

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY JÉSSICA SANTOS AND RAFAELA ESTEVES, A MASTER IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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Company Overview¹

The Jerónimo Martins group has already more than 225 years of operations associated with retail and commerce. In 1792², a young man named Jerónimo Martins opens his first shop in Chiado, Lisbon, with a wide range of products. As the years went by, the shop became a company and went through periods of remarkable growth. At the end of the First World War, the consequences of the war were significant, and it was unable to resist the torment. So, in 1921, as a solution to what had happened, Francisco Manuel dos Santos and Elysio Pereira do Vale open Jerónimo Martins & Filho.

In 1949, the Group expands into manufacturing, establishing a joint venture with the multinational Unilever. With the death of Francisco Manuel dos Santos, his son Alexandre Soares dos Santos, took over the presidency of the Group in 1968, and stood out for his binding thought on the importance that Modern Distribution would have for the company, in an era dominated by manufacturing, as well as for the notable growth that the company underwent for over 45 years, going from an average family business to an international group of companies.

In Portugal, Pingo Doce assures some leadership in supermarkets and Recheio assumes the same position in cash and carry. In Poland, Biedronka, the company's largest business structure, and also Hebe a chain of beauty shops. In turn, in Colombia they are represented by the Ara chain. Thus, the activity with the greatest impact, which represents around 95% of the company's sales, is food distribution. Furthermore, in Portugal, the Jerónimo Martins Group operates at the food production level in order to supply its shops with the products.

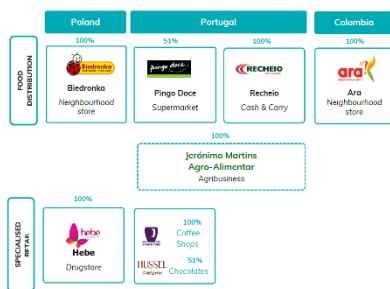
Thus, on 31st December 2020, the company had **sales of 19,293 billion euros**, with a total workforce of **118 210 employees**, resulting in a **net profit of 312 million euros**.

○ Poland

In 1995, the Jerónimo Martins Group expanded into Poland through the Biedronka brand as a result of the partnership established between the British company Booker and Recheio. Later, in 2011, the company opens Hebe shops, linked to the cosmetics, beauty, and personal care sector.

Jerónimo Martins has been present in Poland for more than 25 years, starting with food retail through Biedronka, the country's leader, and later with the Hebe brand in the beauty and health area.

Figure 1 - Company Structure



Source: Annual Report 2020

Figure 2 - Biedronka's Logo



1. All the information in the section Company Overview was based on the website and annual reports of the company Jerónimo Martins.
2. Feed, Jerónimo Martins World's Magazine. June 2017, "Jerónimo Martins History". Accessed October 29.
<https://feed.jeronimomartins.com/age/225-years-distribution-age/jeronimo-martins-history/>

Figure 3 - Hebe's Logo



Biedronka represents around **13,5 billion euros in sales** with a total of **3100 shops** throughout the country by 2020.

Hebe has a total amount of **sales of around 245 million euros** with **260 shops** by 2020, based on high quality products at affordable prices and with emphasis on its own brands of products: "Hebe Cosmetics" (soaps and shower gels), "Hebe Professional" (make-up and accessories for hands and feet) and "By hebe" (accessories).

○ Portugal

In Portugal, Jerónimo Martins has four distinct brands associated with different areas of the food business. At food distribution level, it operates through Pingo Doce, while at the wholesale level it is presented under the Recheio brand, with these two branches accounting for around **25% of the Group's total sales**. Over the years, it also developed Jeronymo and Hussel, the two smallest brands of the company.

In 1980, the **Pingo Doce** supermarkets appear, with the restart of the distribution activity. In 1985, in order to develop the Pingo Doce brand, the Company agreed a strategic partnership with Delhaize Group "Le Lion", a Belgian retailer, thus becoming a holding company, changing its name to "Estabelecimentos Jerónimo Martins & Filho - Administração e Participações Financeiras"².

Thus, with almost 40 years of activity, Pingo Doce is one of the leaders in supermarkets in Portugal with sales of **3,869 billion euros in 2020**, being present in more than **300 locations** of the country with around **450 shops**, based on the principle of product quality and competitive prices.

1988 was marked by the acquisition of **Recheio**, having a **market share of 60% of the Cash & Carry type of stores in Portugal**, associated to the wholesale sector. The following year, the group acquired 15 "Pão de Açúcar" supermarkets. In 1992, the company acquired Delhaize's "Le Lion" retail stake and formed a joint venture with the Dutch company Royal Ahold, also involved in food retail. Recheio stands out among the partners in the restaurant, hotel, and traditional trade business, with around **38 shops** and sales of **847 million euros in 2020**. Quality, innovation, and a high number of options are the brand's strong points.

In 1990, through a joint venture between the Group (51%) and the German company Douglas AG (49%), the **Hussel** brand was created in association with the chocolate and confectionary retail business. The brand's main focus is on shopping centres across the country.

Figure 4 - Pingo Doce's Logo



Figure 5 - Recheio's Logo



Figure 6 - Hussel's Logo



Figure 7 - Jeronymo's Logo



In 2002, **Jeronymo** emerged within the shops belonging to the group, but only as small kiosks, later expanding into cafés, and by 2020 it had around **22 establishments**.

With the main focus on supporting establishments with products in Portugal, the Group developed **Jerónimo Martins Agro-Food (JMA)** in 2014. It operates in three areas: **Terra Alegre**, associated with dairy products, **Best Farmer**, connected to Angus beef production and fattening, and **Sea culture**, related to aquaculture.

- **Colombia**

In 2011, the group expanded into Colombia, opening its first **Ara** shop in 2013. This expansion into a new market was more challenging as a result of the Colombian people's lifestyle and preference for more traditional shops and the preference for unit products that are available in these establishments as opposed to packaged products.

Thus, the Ara brand present in this country, associated with proximity to the population, located in residential neighborhoods, and with the mandatory presence of own brand products, which are produced locally. The largest number of shops is in the capital, Bogotá. The development of the brand was based on the country's biodiversity and with an emphasis on the importance of birds, developing a business based on the Colombian style. As of 31 December 2020, Ara contained **663 shops, 8135 employees** and had reached a **sales value of 854 million euros**.

- **Capital Structure**

Jerónimo Martins Group is composed by **629.293.220 listed shares** and also holds **859.000 shares in treasury**. Thus, the company's share capital is reflected at 629.293.220 euros, leading to a nominal value of **1€ per share**.

The company holds 859 000 shares in its portfolio, having acquired them in 1999 at an average price of **7,07€ per share**, thus representing **0,14%** of the company's share capital with voting rights.

It should be noted that the shares of this company are only ordinary shares, with full trading and no restrictions.

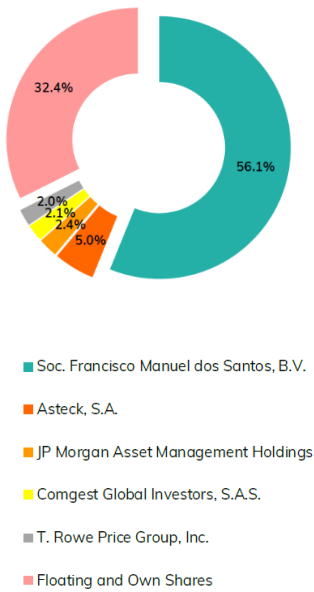
Figure 8 - Agro-Alimentar Logo



Figure 9 - Ara's Logo



Figure 10 - Stockholder Structure



Source: Annual Report 2020

○ **Stockholder Structure**

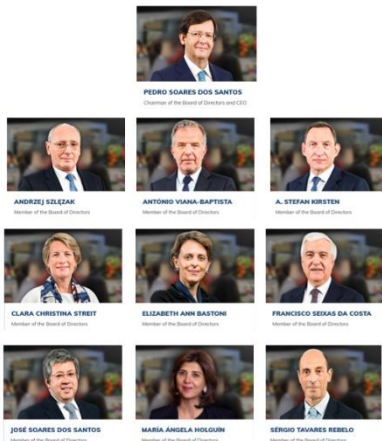
As of 30th June 2021, the largest shareholder of Jerónimo Martins was Sociedade Francisco Manuel dos Santos, SGPS, S.E., with a **56,14%** share of the total capital, reaching **353.260.814** shares in the company. In turn, Asteck, SA presents itself with a number of shares of around **31.464.750**, representing a capital of **5%**.

JP Morgan Asset Management Holdings holds **2,35%** of the total capital, comprising **14.815.917** shares, Comgest Global Investors around **2,06%** (**12.983.594** shares) and T. Rowe Price Group **2,04%** of the total capital (**12.821.174** shares). In addition, Floating and Own Shares represent **32,41%** of the company's total capital.

This was the structure until December 2020, in turn, during the year 2021, more precisely on November 15, the subsidiary Asteck, belonging to the Dutch group Heerema announced the sale of its **5% stake in the group**³. This news came a bit unexpected, but this subsidiary had already owned about **10%** of the group, and in 2013 it had already sold a part of it, leaving only the **5%** that ended up being sold in 2021.

Figure 11 - Board of Directors

● **Board of Directors**



Source: Annual Report 2020

Given the expansion of the Company at an international level, the executive structure of the Jerónimo Martins Group needs to be adapted in order to respond to the different points around the world. The Board of Directors is made up of the Chairman and Chief Executive Officer Pedro Eduardo dos Santos and nine Directors, Andrzej Szlezak, António Viana-Baptista, A. Stefan Kirsten, Clara Christina Streit, Elizabeth Ann Bastoni, Francisco Seixas da Costa, José Soares dos Santos, Marí Ángela Holguín and Sérgio Tavares Rebelo, and the entities of the Management Committee support the day-to-day running of the Company's businesses.

Sérgio Tavares Rebelo is the Chairman of the Audit Committee, Clara Christina Streit and Elizabeth Ann Bastoni are members of the audit committee.

● **Business Strategy**

The Jerónimo Martins company focuses on ensuring four central aspects: **strong brands, business models, focus on efficiency and management capacity**, while trying to ally **sustainable responsibility**, which is increasingly prominent in the company.

3. Varela Rodrigues, J. 2021. Dinheiro vivo. "Segundo maior acionista da Jerónimo Martins confirma venda da participação". Accessed 11 December. <https://www.dinheirovivo.pt/empresas/segundo-maior-acionista-da-jeronimo-martins-confirma-venda-da-participacao-14321262.html>

Thus, based on these four pillars, the company aims to achieve strategic guidelines, objectives, and lines of action.

Allied to these focuses is the **sustainability** of the company, which is based on the promotion of health through its food, in the search for increasingly environmentally friendly measures, extending the measures to the production phase, and carries a concern for the community around its shops as well as being aware of the need to be an employer of reference. On the 7th of December 2021, Jerónimo Martins announced that it **“is the food retailer with the best CDP score worldwide”**⁴. CDP is a “non-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts”⁵. Jerónimo Martins had a grade A on the climate change and water security classifications being the only Portuguese company to even be on the CDP score assessment.

Figure 12 - Mercadão's Logo



It should be noted that the company's strategy also involves introducing the concept of **e-commerce** in some brands, in order to be able to sell their products quickly, easily, and just an app or website away.

Pingo Doce has a partnership with Mercadão, an online sales website, in which the products offered in the Pingo Doce supermarket are sold through Mercadão.

Hebe shops in Poland already have the intention to extend their online sales to new countries and internationalize via internet reaching a larger number of people and being able to commercialize their own brands.

Hussel was one of the shop chain that also launched an online platform a year ago, since it was in the middle of a pandemic the results might not come so fast, or on the other hand it might grow faster than expected exactly for the same reason. Since we were in a pandemic period and people could not leave their houses they ordered much more than before and Hussel saw an opportunity to boost their sales in that way, we believe that the online sales will be the future and will increase sales exponentially.

Moreover, it must be taken into account that the pandemic brought with it the need for brands to adjust and adapt to new forms of commerce and manage to reach the consumer while complying with the rules imposed by the various countries, but continuing to solve consumer demand, awakening, and accelerating this e-commerce process at a general level.

In turn, the expansion of the group to Romania was already disclosed before the pandemic hit the entire world and that consequently impact the year 2020 and part of 2021, leading the company to postpone this expansion strategy and to be

cautious before starting the investment, worrying at this moment in understanding and analyzing the economy and the state of the country in a post-pandemic. If this expansion takes place, it is expected to be by means of an acquisition in order to bypass the operators that already exist in Romania.

• Stock Prices Evolution

Jerónimo Martins' stock prices have come a long way in a short amount of time. The company engaged in an IPO in 1989 and it is currently listed in the Euronext Lisbon Stock Exchange. The company has recently reached a new maximum closing price of **21,61€ as of 15th of November 2021**. When compared to the closing price of 2020, which amounted **13,82€**, in just less than a year the price rose about **56,37%**.

In order to understand the impact of the pandemic in 2020 and the beginning of 2021, we have made the graph (Graph 1) with prices starting in 2007 in order to compare this situation with the crisis experienced in 2008. It is possible to see from the graph that the decrease from 2007 to 2008 was around **-1,43€** per share, noting that at this time the stock values were much lower. In turn, in the year 2020 the decrease was **0,84€**, a lower value per share.

We decided to also analyze the Jerónimo Martins' stock prices behavior with one of the indexes that it is listed on, the PSI20, which is an Index that aggregates the top 20 companies listed in the Euronext Lisbon Stock Exchange (Graph 2). Through the we can see that the behaviors are not very similar actually. From 2000 until 2008 more or less, the trends were identical, in nominal terms but PSI20's returns were higher than Jerónimo Martins'. In turn, when the crisis hit, the trends reverted, becoming Jerónimo Martins with increasing returns and PSI20 with its return declining, having now an immense gap between them.

To complement this analysis, we decided to also compare the company's share price movement with the MSCI Index in Euros (Graph 3), and we can see a clear similarity in behaviors, prices go down around the same time, and then go back up the same way, meaning that the beta from comparing Jerónimo Martins' share price with the index share price might reflect some of this relation.

Industry and Sector Overview

2021 is being marked by the resumption or creation of alternatives in the face of the installation of a pandemic in 2020 at a global level. In turn, the most drastic

Graph 1 - Stock Prices Evolution



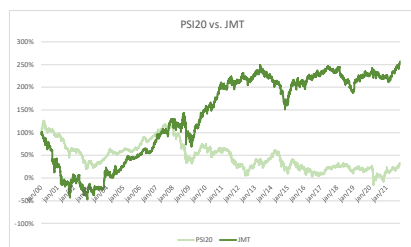
Source: Finance Yahoo

Table 1 - Historical Stock Prices

Year	Closing Price	Volume
2007	5,40 €	18 636 397
2008	3,97 €	30 136 505
2009	6,99 €	26 283 656
2010	11,40 €	18 406 918
2011	12,79 €	10 371 667
2012	14,60 €	9 126 561
2013	14,22 €	11 389 674
2014	8,30 €	28 419 897
2015	12,09 €	22 967 518
2016	14,74 €	16 398 130
2017	16,19 €	14 776 131
2018	10,34 €	14 002 153
2019	14,66 €	12 758 238
2020	13,82 €	13 130 839
2021	20,53 €	685 567

Source: Finance Yahoo

Graph 2 - PSI20 vs. JMT



Source: Bloomberg

Graph 3 - MSCI Index (EUR) vs. JMT



Source: Bloomberg

consequences of this situation were felt in March 2020, with a notable improvement being seen in 2021 throughout the year.

• **Macroeconomic Environment**

○ **Poland**

Looking at the total real GDP per capita of Poland (Graph 4), in the face of a global pandemic, GDP per capita growth rate decreased in 2020 from **4,7% to a negative rate of about -2,5% in 2020**. In turn, and based on the forecasts of the European Commission, Poland's GDP per capita growth rate is expected to be about **4,8%** at the end of 2021 compared to 2020, **5,2%** in 2022 and **4,40%** in 2023. When we analyze total inflation in comparison with food inflation (graph 5), it is possible to see that in 2020 food inflation has decreased and not increased, contrary to the total inflation.

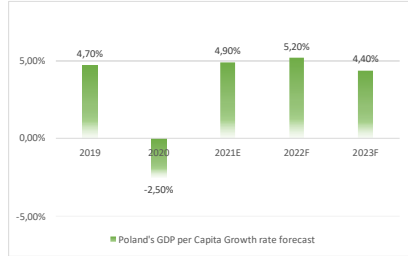
Taking in consideration the Retail Gazette⁶, Poland is seen as a large Western European market, with a growing number of consumers, and with an attractive position given its membership in the EU as well as its economic stability and an appealing tax system at the business level, not to mention easy access to skilled and cheap labor.

According to Cushman & Wakefield's 2019 report⁷, the strong investment in this sector is essentially due to four characteristics that this country offers: its **location**, **growing consumer demand**, an assuredly **strong economy**, and possible **higher rates of return** compared to other Western European countries.

○ **Portugal**

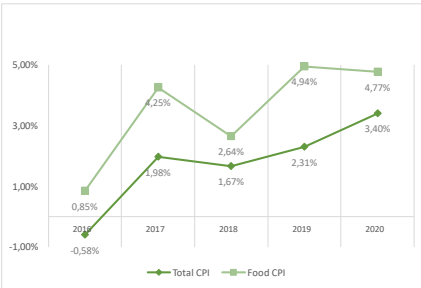
Based on the graph 6 presented, it is clear that the GDP per capita growth rate decreased in 2020, which went from a positive value of around **2,7% in 2019** to a negative value of **-8,4% in 2020**. It was expected that the percentage of final consumption expenditure would also decrease due to the decrease in purchasing power and the increase in the difficulties that citizens went through with the changes that surprised everyone in their daily lives. In turn, based on the European Commission's forecasts, we can see that an increase is expected in 2021, of **4,5%**, followed by a growth rate of around **5,30% in 2022**, and **2,40%** in 2023. Regarding inflation (Graph 7), in general, it can be seen that it has been decreasing since 2017, with a notable decrease in 2020, from **0,34% in 2019 to -0,01% in 2020** and the European Commission expects it to increase in the following couple of years. The behavior of food CPI was similar until 2019, however, it had a notable increase in 2020, reaching the value of **2,09%**.

Graph 4 - Poland's GDP per capita growth rate



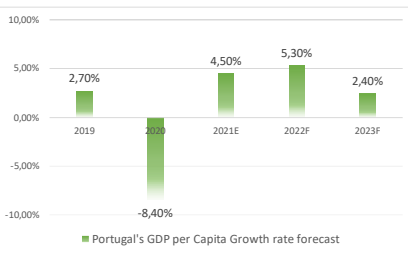
Source: European Commission Forecast

Graph 5 – Poland's Total and Food CPI



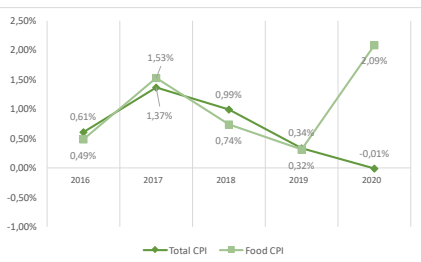
Source: OECD, Data

Graph 6 - Portugal's GDP per Capita Growth Rate



Source: European Commission Forecast

Graph 7 – Portugal's Total and Food CPI

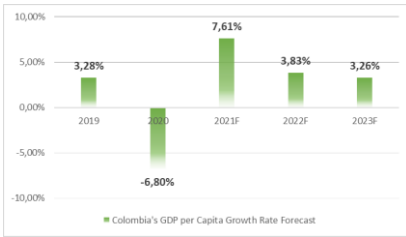


Source: OECD, Data

6. Retail Gazette. May 2021. "Market Snapshot: Poland". Accessed October 29. <https://www.retailgazette.co.uk/blog/2021/05/poland-retail-market-snapshot-polish-in-depth-analysis-country-profile-business/>

7. Cushman & Wakefield. March 2020, "Cushman & Wakefield: A summary of the Polish retail market in 2019". Accessed October 29. <https://www.cushmanwakefield.com/en/poland/insights/cushman-and-wakefield-a-summary-of-the-polish-retail-market-in-2019>

Graph 8 - Colombia's GDP per Capita Growth Rate Forecast



Source: World Bank, Data

○ **Colombia**

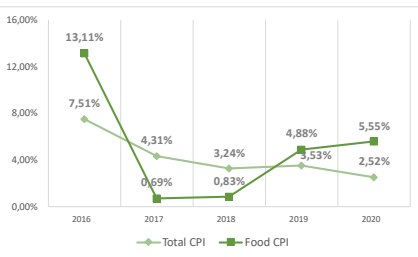
According to The World Bank⁸, Colombia has a **high inflation rate**, with a flexible exchange rate and rules that provide a fiscal structure that makes it possible to respond to the various adversities that may occur, as in the case of the situation arising from covid-19.

However, the crisis arising from a pandemic brought with it unexpected challenges, such as the case of production, which is characterized as a negative weight for economic growth, as well as the external shocks it suffers as a result of the export of non-renewable energies, specifically oil.

When we analyze the GDP per capita growth rate (Graph 8) we realize that the value has been decreasing considerably in 2020, even reaching the value of **-6,80%**. As for future forecasts, it is expected that there will be a notable increase in GDP in 2021, of around **7,61%**, the highest value of the last few years.

When we analyze the general inflation of the country with food inflation (Graph 9), it is noticeable that in 2020 there is a much higher value in food inflation compared with the overall value, something that was not so noticeable in 2019, with this increase resulting from the higher prices in the food products.

Graph 9 - Colombia's Total and Food CPI

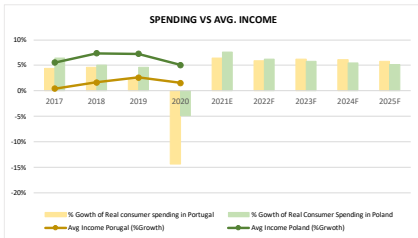


Source: OECD, Data

○ **Macroeconomic Trends Comparison**

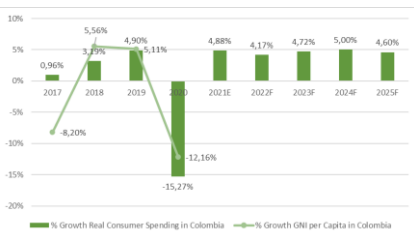
In order to understand the macroeconomic trends in each of these economies, we analyzed the growth in real consumer spending in **Portugal** and **Poland** and the variation in average monthly wages in each of these countries, (Graph 10). The graph shows that there is a clear relationship between these indicators over the years, that is, the increase in average wages is accompanied by a growth in the amount spent by consumers. In turn, through the projections until 2025 of the growth of real consumer spending, it is possible to see that this consumption growth has an increasing trend over the years, thus having an impact on the economy and the retail industry, projecting a generalized increase in sales in these two economies.

Graph 10 – Poland and Portugal's Consumer Spending Growth vs. Wages



Source: Statista

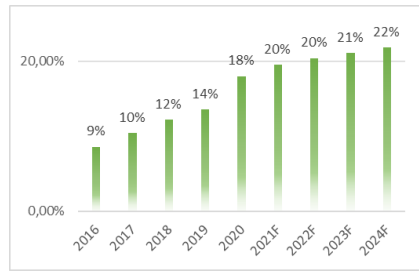
Graph 11 - Colombia's Consumer Spending Growth vs. Wages



Source: Statista

In turn, for **Colombia**, the analysis had to be performed based on the growth of real consumer spending in Colombia and the Gross national income per capita (Graph 11), since this country has a different approach from the others and also because there is not so much information available as the other two regions. The graph shows that these two variables have a similar behavior in recent years, with the year 2020 being marked by a clear decrease in both indicators. In turn, in subsequent years it is expected an improvement in the growth of consumption in Colombia, thus expecting an improvement and an increase in sales in the market.

Graph 12 - Share of E-commerce Retail Sales

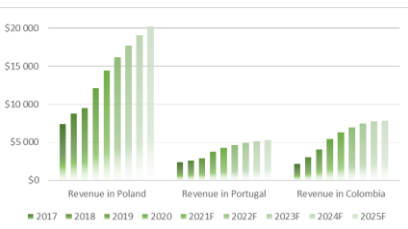


Source: Statista

So, based on the countries in which the group is present, it is perceptible that both in Poland and Portugal there is a faster and continuous recovery, given the economic characteristics of these two points. In turn, due to the characteristics associated with trade in Colombia, a slower improvement and response to this pandemic is expected.

• **Trends and Challenges in the Market**

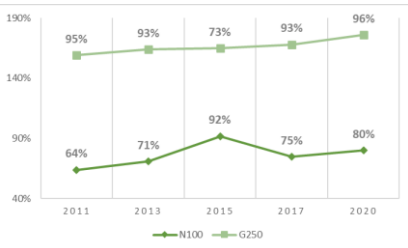
Graph 13 - Ecommerce Retail Sales (million USD)



Source: Statista

The arrival of COVID-19 accelerated what had long been expected and was slowly being introduced in the food retail market, **e-commerce**. Globally this trend is increasingly gaining new followers and is expected to grow exponentially over the next years, even establishing a new form of commerce globally, (Graph 12). The Jerónimo Martins Group has increasingly pushed and adhered to strategies that allow it to reach the consumer through the digital world, thus and based on the analysis carried out in each of the economies in which it is presented (Graph 13), it is possible to see that e-commerce will be the Group's new expansion tool and that in each of the countries there is gradual growth and an increasing presence among consumers.

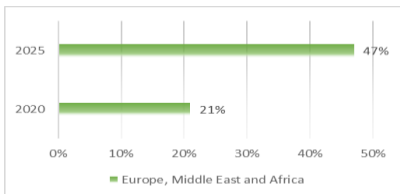
Graph 14 - Companies that Report on Sustainability



Source: Statista

In addition, one of the other major trends or even a challenge in this market is to increasingly ensure the **implementation of sustainability and environmental protection measures**. Through these two graphs (Graph 14 and Graph 15), it is possible to see not only that the percentage of companies worldwide that report on sustainability has been increasing, but also that the concern of investors in investing in companies that seek to integrate sustainability as part of the company will increase to a percentage of about **47%** in 2025.

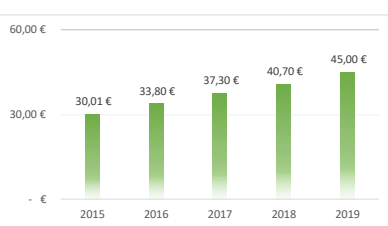
Graph 15 - Share of Sustainably Invested Assets



Source: Statista

In turn, over the years there has been an increasing concern and demand for the consumption of mostly **produced nationally goods, more organic products**, with a production as natural as possible, and with a simpler connection between the consumer and the producer. Thus, and through the graph with figures regarding sales of these products in Europe, it is possible to see that demand for them and consequently their sale has been increasing, and it is expected that this growth will continue over the years, leading to increased production of these products in general, (Graph 16). In turn, Jerónimo Martins already has its own production line of food products, as well as the availability of private label products and also a line of organic products. Therefore, it expects to expand its production lines and private label products and to develop more and more organic goods in

Graph 16 - Organic Retail Sales in Europe (billion EUR)



Source: Statista

order to respond not only to consumer demand but also to establish a strategic competitiveness with its competitors.

• **Jerónimo Martins and its Competitors**

The Jerónimo Martins Group has a prominent position in the market, constantly seeking to grow in relation to its main competitors. After studying the market, we concluded that Jerónimo Martins' main competitors were the following:

• **Carrefour**

Carrefour is a French hypermarket chain company founded in France that started its business in 1959. The company started in the e-commerce market in 2016 and in 2020, it reached an EBITDA margin of around **5,74%**, a profit margin of around **0,88%** and an Asset Turnover of **1,47**. Regarding its returns it had a Return on Invested Capital (ROIC) of **6,05%**, a Return on Equity of **6,50%** and a Return on Assets (ROA) of **1,29%**.

• **Tesco**

Tesco represents a UK-based multinational in the retail and distribution business. In 2020, this company had an EBITDA margin of **7,51%**, with about **1,67%** of profit margin, and an Asset Turnover of **1,06**. Its ROIC was **6,97%** which is not a high value when comparing to "more normal" years. The ROE and ROA were accounted for **7,23%** and **1,76%**, respectively.

• **Sonae**

Sonae is one of Jerónimo Martins' main competitors in food retail, with a wide range of businesses spread throughout Portugal, from large supermarkets to small corner shops, as well as an e-commerce platform. We can see that Sonae achieved an EBITDA margin of **7,19%** in 2020, with a profit margin of **1,04%** and a **0,79** asset turnover. Its ROIC accounted for **2,46%**, a **3,44%** ROE and a **0,83%** ROA.

• **Ahold Delhaize**

The Ahold and Delhaize was a result of a merger between the Ahold and the Delhaize groups in 2016, having existed separately for 150 years⁹. It is currently based in the Netherlands with an EBITDA margin of **8,32%**, a profit margin of **2,67%** and an asset turnover of **1,82**. The ROIC accounted for **7,45%**, ROE of **10,54%**, and a ROA of around **3,40%**.

Table 2 - Profitability Ratios

NAME	Profitability from Operations		
	Gross Margin	EBITDA Margin	Profit Margin
Carrefour	22,22%	5,47%	0,88%
Tesco	7,37%	7,51%	1,67%
Sonae	30,74%	7,19%	1,04%
Ahold Delhaize	27,26%	8,32%	2,67%
Casino Guichard-Perrachon	23,81%	6,09%	-2,78%
Metro AG	17,01%	4,08%	1,79%
Eurocash	13,25%	3,16%	0,24%

Source: Bloomberg/Sonae's Report/Euronext

Table 3 - Solvency and Activity Ratios

NAME	Solvency ratios	Activity Ratios
	ICR	Asset Turnover
Carrefour	6,246	1,47
Tesco	3,160	1,06
Sonae	1,519	0,79
Ahold Delhaize	4,426	1,82
Casino Guichard-Perrachon	0,906	0,96
Metro AG	1,047	1,65
Eurocash	1,929	3,19

Source: Bloomberg/Sonae's Report/Euronext

Table 4 - Liquidity Ratios

NAME	Liquidity Ratios		
	Current Ratio	Quick Ratio	Cash Ratio
Carrefour	0,82	0,49	0,22
Tesco	0,74	0,33	0,29
Sonae	0,79	0,41	0,33
Ahold Delhaize	0,76	0,40	0,32
Casino Guichard-Perrachon	0,82	0,31	0,23
Metro AG	0,87	0,44	0,32
Eurocash	0,60	0,29	0,02

Source: Bloomberg/Sonae's Report/Euronext

Table 5 - Return on Investments

NAME	Return on Investments		
	ROE	ROA	ROIC
Carrefour	6,50%	1,29%	6,05%
Tesco	7,23%	1,76%	6,97%
Sonae	3,44%	0,83%	2,46%
Ahold Delhaize	10,54%	3,40%	7,45%
Casino Guichard-Perrachon	-33,25%	-2,67%	2,67%
Metro AG	21,07%	2,97%	2,86%
Eurocash	6,82%	0,78%	6,86%

Source: Bloomberg/Sonae's Report/Euronext

Table 6 - JMT Ratio Analysis

JERÓNIMO MARTINS		
Profitability from Operations	Gross Margin	21,91%
	EBITDA Margin	7,38%
	Profit Margin	1,62%
Solvency Ratio	ICR	3,54
Activity Ratio	Asset Turnover	1,93
	Current Ratio	0,346
Liquidity Ratios	Quick Ratio	0,207
	Cash Ratio	0,149
	ROE	11,54%
Return on Investments	ROA	1,62%
	ROIC	10,92%

Source: Own Calculations/Bloomberg

• **Casino Guichard-Perrachon**

Casino Guichard-Perrachon is a French based company founded in 1898 and is considered the number one convenience store in France. In 2020 it had a higher EBITDA margin when comparing with 2019 (5,56%) in 2020 it reached **6,09%**, it showed a negative profit margin of **-2,78%** and an asset turnover of **0,96**. In terms of return it reached a low ROIC, **2,76%**, which means that with a general WACC of around 5% or 6%, the company is actually destroying value instead of creating. Its ROE and ROA accounted for **-33,25%** and **-2,67%**. We can state that it was not a profitable and stable year for Casino Guichard-Perrachon.

• **Metro AG**

Metro is a German company specialized in the wholesale food sector. It operates in 24 countries, and it also has a digital platform with delivery services. The company had an EBITDA margin of **4,08%** in 2020, a profit margin of **1,79%** and a asset turnover of **1,65**. Its ROIC was once again a not “attractive” value, of **2,86%**, its ROE actually hit a good level in terms of efficiency in using its capital, **21,07%**, and a ROA of **2,97%**.

• **Eurocash**

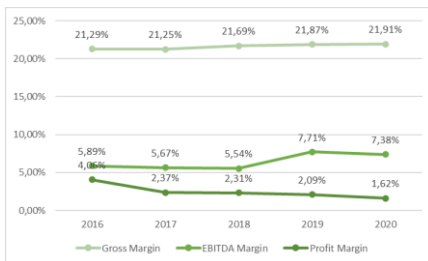
Eurocash is a Polish group mainly in the wholesaler sector, but it also has a retailing channel as well as an online platform. In 2020 its EBITDA margin was about **3,16%**, it registered a **0,24%** profit margin and an asset turnover of **3,19**, the highest among these comparable companies. Regarding the returns of the company, it had a **6,86%** ROIC, a **6,82%** ROE and an almost non existing ROA, of **0,78%**.

• **Jerónimo Martins’ Performance**

Before we start a future analysis of the Group it is important to get a general grasp of what has been Jerónimo Martins’ performance over the last 5 years. As we can see in the Graph 17 presented on the left, its **profitability from operations** has been quite constant with not many variations except for the last year where its profit margin decreased from **2,09%** to **1,62%** due to the current situation.

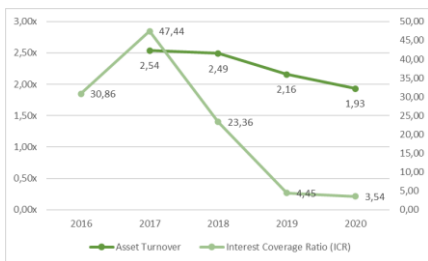
Another story comes when looking at the **interest coverage ratio** (Graph 18), that suffered a drastic decrease due to the increase in its interest expenses/financial costs. The last two years the group had some losses regarding currency matters of some leasing contracts in Poland, regarding some rents from warehouses contracts that started in 2019. Since these contracts are between 5 to 10 years this ratio will probably remain around these values from 2020 forward. Its asset turnover ratio has been **slowly decreasing** which can be explained by the fact

Graph 17 - Historical Profitability Ratios JMT



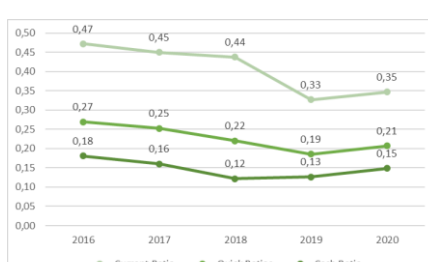
Source: Own Calculations/Bloomberg

Graph 18 - Historical Solvency and Activity Ratios JMT



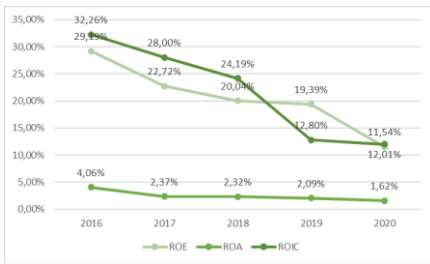
Source: Own Calculations/Bloomberg

Graph 19 - Historical Liquidity Ratio JMT



Source: Own Calculations/Bloomberg

Graph 20 - Historical Returns on Investments JMT



Source: Own Calculations/Bloomberg

Table 7 - Average Ratios' Values in Food Retail Sector

Food Retail Sector (2020)	
Gross Margin	26,25%
EBITDA Margin	4,36%
Profit Margin	2,20%
ICR	4,25
Asset Turnover	2,79
Current Ratio	1,1
Quick Ratio	0,37
Cash Ratio	0,29
ROE	30,63%
ROA	2,75%
ROIC	9,63%

Source: Damodaran, Federal Reserve, CSI Market, Ready Ratios, eInvesting for Beginners

Table 8 - Profitability: Competitor vs. Sector

NAME	Profitability from Operations		
	Gross Margin	EBITDA Margin	Profit Margin
Carrefour	BELOW	ABOVE	BELOW
Tesco	BELOW	ABOVE	BELOW
Sonae	ABOVE	ABOVE	BELOW
Ahold Delhaize	ABOVE	ABOVE	ABOVE
Casino Guichard-Perrachon	BELOW	ABOVE	BELOW
Metro AG	BELOW	BELOW	BELOW
Eurocash	BELOW	BELOW	BELOW
Jerónimo Martins	BELOW	ABOVE	BELOW

Source: Own Calculations

Table 9 - Solvency and Activity - Competitors vs. Sector

NAME	Solvency ratios	Activity Ratios
	ICR	Asset Turnover
Carrefour	ABOVE	BELOW
Tesco	BELOW	BELOW
Sonae	BELOW	BELOW
Ahold Delhaize	ABOVE	BELOW
Casino Guichard-Perrachon	BELOW	BELOW
Metro AG	BELOW	BELOW
Eurocash	BELOW	ABOVE
Jerónimo Martins	BELOW	BELOW

Source: Own Calculations

Table 10 - Liquidity - Competitors vs. Sector

NAME	Liquidity Ratios		
	Current Ratio	Quick Ratio	Cash Ratio
Carrefour	BELOW	ABOVE	BELOW
Tesco	BELOW	BELOW	ABOVE
Sonae	BELOW	ABOVE	ABOVE
Ahold Delhaize	BELOW	ABOVE	ABOVE
Casino Guichard-Perrachon	BELOW	BELOW	BELOW
Metro AG	BELOW	ABOVE	ABOVE
Eurocash	BELOW	BELOW	BELOW
Jerónimo Martins	BELOW	BELOW	BELOW

Source: Own Calculations

Table 11 - Return on Investments - Competitors vs. Sector

NAME	Return on Investments		
	ROE	ROA	ROIC
Carrefour	BELOW	BELOW	BELOW
Tesco	BELOW	BELOW	BELOW
Sonae	BELOW	BELOW	BELOW
Ahold Delhaize	BELOW	ABOVE	BELOW
Casino Guichard-Perrachon	BELOW	BELOW	BELOW
Metro AG	BELOW	ABOVE	BELOW
Eurocash	BELOW	BELOW	BELOW
Jerónimo Martins	BELOW	BELOW	ABOVE

Source: Own Calculations

that the amount of assets has been increasing more than the increase in sales which means that the company's efficiency in utilizing their assets to boost the sales has been lower throughout the years.

In terms of **liquidity** (Graph 19), it has remained relatively stable throughout the years except for 2019 that had some decrease due to the fact that the company contracted these leasing contracts that directly affect the amount of liabilities that the company has.

Regarding the **profitability from investments** (Graph 20), they have been decreasing except for the ROA that has been somewhat stable during this period. The ROE had a big slow down in 2020 due to the pandemic but the ROIC decreased a lot in 2019 because of the increase in the company's obligations such has the leasing contracts mentioned above.

Final Comparison

When comparing the sector's average values (Table 7), with the values from these companies we are able to take some conclusions. For instance, we can see that the company with the most profit from its operations in general is **Ahold Delhaize** even though the company with the highest Gross Margin is **Sonae**. **Metro AG** and **Eurocash** show profits from operations below the average of the sector in all comparable ratios (Table 8). Regarding solvency (Table 9), **Carrefour** shows the highest interest coverage ratio of all with a value of **6,25** and **Ahold Delhaize** comes right after with a **4,43** ratio meaning it has the ability to cover its financial interests from the respective period. From the activity ratios we can see that the only company that reaches the average of the sector is **Eurocash**, with an asset turnover of **3,19** which reflects the level of efficiency in the usage of the company's assets in relation to their sales. Liquidity wise, neither of the companies show very good results when comparing the current ratios with the average values of the sector, due to the fact that all the values are below 1, which means that these companies do not have the general capability to pay their current or short-term obligations making this one of the not so attractive characteristics. **Carrefour**, **Sonae**, **Ahold Delhaize** and **Metro AG** come through when comparing the Quick ratio and the Cash Ratio, they show results above the average which becomes a good advantage towards their competitors (Table 10). Finally, the returns on the investments (Table 11), Jerónimo Martins takes the lead on the ROIC with a value of **10,92%**, which is indeed higher than the average of the sector. **Ahold Delhaize** and **Metro AG** also show some advantage on the ROA since their values are also above average. From the evaluation of all these ratios from all the different

Jerónimo Martins' competitors the biggest threat to the group in the European market is currently Ahold Delhaize, it shows the best results, having almost all of the ratios above average.

Forecasts

- **Sales Forecast**

In order to obtain the estimated value of Jerónimo Martins, we proceeded to analyze and subsequently make projections regarding its main source of income: **sales.**

Just like the retail market, Jerónimo Martins is no exception and intends to follow a strategy based on digitalization, e-commerce, the availability of organic products and also take into account sustainability, central ideas that move the market today. Thus, based on the sales behavior of the group in recent years and taking into account the expected GDP value in each of the economies and inflation in Portugal, it was possible to make revenue projections up to 2030.

Furthermore, it is possible to see that Jerónimo Martins has been following market growth and the challenges it faces in each of the industries, revealing some differences between each of the locations it retails in. In turn, we must take into consideration future expectations for each of the economies presented above, which reveal consumer behavior over the next few years and consequently their predisposition towards retail consumption.

One of the big market trends is related to **e-commerce**, so, in order to understand the weight that this sales strategy will have in the total sales of the group, we start by analyzing its competitors (Table 12).

Nowadays, the group only has online sales through Hebe in Poland and in Portugal Pingo Doce, through a company that supports it, Mercadão. In turn, the percentages of online sales are not disclosed by the group, leading us to conduct a study and analysis of the peer companies in order to reach the most truthful conclusion possible.

Through the table 12 it is possible to see that Carrefour, for example, sold only 3,15% of its revenues online in 2020, but on the other hand Tesco is the competitor with the highest percentage of online sales. Therefore, it is possible to understand the need and the tendency that Jerónimo Martins will have in betting on the online market and making digital its new strategy. In this way, and based on the market study, it was possible to project the online sales percentages of the Group in the coming years, and it is expected that in **2030 it will reach 23% of its sales**, (Graph 21).

Table 12 - Competitors' Share of Online Sales in 2020 (millions)

	Online Sales	% of Online in Offline
Carrefour	2 300,00 €	3,15%
Tesco	\$ 7 589,00	11,37%
Ahold Delhaize	7 600,00 €	10,17%
Sonae SGPS	480,00 €	7,03%

Source: Annual Report of each Company

Graph 21 - JMT's Online vs. Offline Sales



Source: Own Estimates

Table 13 - Biedronka's Sales and EBITDA Forecast (millions EUR)

	Sales Biedronka	EBITDA	EBITDA Margin
2019	12 620 €	1 185 €	9,39%
2020	13 465 €	1 252 €	9,30%
2021E	14 173 €	1 054 €	7,44%
2022F	16 255 €	1 165 €	7,17%
2023F	18 022 €	1 258 €	6,98%
2024F	19 891 €	1 348 €	6,78%
2025F	21 944 €	1 440 €	6,56%
2026F	23 722 €	1 519 €	6,40%
2027F	24 748 €	1 571 €	6,35%
2028F	25 818 €	1 625 €	6,30%
2029F	26 934 €	1 681 €	6,24%
2030F	28 099 €	1 739 €	6,19%

Source: Own Estimates

In turn, in order to make a more accurate forecast, 2020 was analyzed with more attention and not taken into account that much, given the adverse situation that has been witnessed worldwide. In addition, for 2021 a different projection was made since the values of certain captions under analysis were already available for the first 9 months.

○ **Poland**

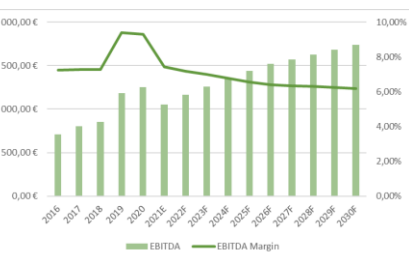
Starting with **Biedronka**, it is the largest value driver for Jerónimo Martins, with an average share of **68% of the Group's total sales**, and it is the leading discount chain retailers in Poland. The company is looking to further expand this segment, as it is an important growth driver, and during 2021 it is expected to open another **100 consumer shops**.

In addition, and despite the importance and dimension that this brand has for the group, a strategy is envisaged that allows the desired products to reach the consumer without them having to leave their homes. Thus, there is the projection of a possible development of an online shop. The pandemic brought not only disadvantages, but also the need to search for and improve new forms of commerce and retail.

So, given the prospect of a rapid improvement in Poland in the face of a pandemic situation, a sharp rise in sales is expected in 2022, amounting to **16 255 million euros**, (Table 13). In turn, it is projected that this value will continue to increase in response to the continuous improvement of the economy, the increase in the number of shops, and the creation and development of the digital platform in Poland, continuously seeking to gradually maintain and increase its position in this part of the world. In turn, when we analyze the **EBITDA margin** we realize the weight that costs have in this sector is significant and that this percentage is expected to decrease over the years, reaching **7,17%** in 2022,(Graph 22).

The retail chain of Specialized Health and Beauty products, **Hebe**, is one of the potential long term growth driver of this group. It launched an e-commerce channel in July 2019, which was one of the “saviors” of sales of 2020. The company took advantage of the pandemic to accelerate some of the transformations of this e-commerce channel which allowed the segment to sort of compensate the decrease of sales in person with the increase of online sales. Even though this segment of the company does not represent a big share of the results, representing currently 1,3% of the total sales of Jerónimo Martins, it is expected that the chain start selling internationally through this channel, which will boost the sales and growth of the group as a whole, so it is possible that this share will increase in the long-term.

Graph 22 - Biedronka's EBITDA/EBITDA Margin Forecast



Source: Own Estimates

Table 14- Hebe's Sales and EBITDA Forecast (millions EUR)

	Sales Hebe	EBITDA	EBITDA Margin
2019	238,99 €	20 €	7,72%
2020	225,99 €	19 €	7,76%
2021E	233,26 €	25 €	9,82%
2022F	272,44 €	28 €	9,34%
2023F	313,83 €	30 €	8,81%
2024F	352,52 €	32 €	8,44%
2025F	391,69 €	35 €	8,14%
2026F	430,74 €	37 €	7,83%
2027F	449,69 €	38 €	7,76%
2028F	469,48 €	39 €	7,70%
2029F	490,13 €	40 €	7,63%
2030F	511,68 €	42 €	7,57%

Source: Own Estimates

Graph 23 - Hebe's EBITDA/EBITDA Margin Forecast



Source: Own Estimates

○ Portugal

Table 15 - Pingo Doce's Sales and EBITDA Forecast (millions EUR)

	Sales Pingo Doce	EBITDA	EBITDA Margin
2019	3 945 €	264 €	6,69%
2020	3 869 €	223 €	5,76%
2021E	3 941 €	229 €	5,80%
2022F	4 284 €	253 €	5,90%
2023F	4 501 €	273 €	6,06%
2024F	4 716 €	292 €	6,20%
2025F	4 931 €	312 €	6,33%
2026F	5 095 €	329 €	6,46%
2027F	5 260 €	341 €	6,48%
2028F	5 429 €	352 €	6,49%
2029F	5 604 €	365 €	6,51%
2030F	5 785 €	377 €	6,52%

Source: Own Estimates

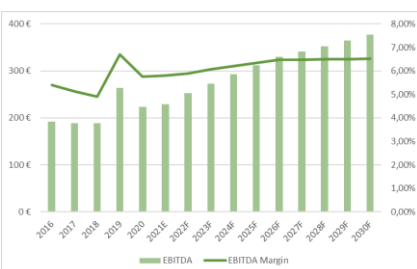
Pingo Doce is one of the main food retailers in Portugal, occupying the second position of market share. It represents an average of **19.5%** of the group's total sales, a percentage which has been falling over the last five years. In turn, the brand's strategy involves not only a gradual and slower increase in the number of shops, but also establishing a new sales strategy, since there are already a large number of physical shops spread from north to south of Portugal.

Thus, the Pingo Doce brand signed a contract with the company **Mercadão** in order to make available the online sale of its products. However, this tool is only available in the major cities in Portugal, leading the group to analyze and establish its own online sales platform, thus seeking to reach a greater number of people in a more convenient way and through a simple app, decentralizing itself from the major cities and reaching all parts of the country.

In addition, sales are also based on the company's own brand as well as the line of organic products that the infrastructure has at its disposal, thus attracting more consumers and establishing a link of trust with the customer. We estimated the sales to reach **4 284 million euros** in 2022, (Table 15).

In turn, when we analyze the EBITDA of the brand, we can see that the conditioning factor of the cost of sales persists in this economy, leading to an **EBITDA margin** in 2022 of **5,90%** (Graph 24), as a result not only of these costs but also of the distribution and administrative costs.

Graph 24 - Pingo Doce's EBITDA/EBITDA Margin Forecast



Source: Own Estimates

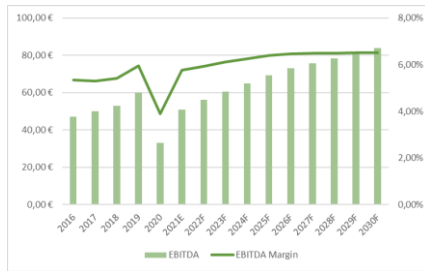
Table 16 - Recheio's Sales and EBITDA Forecast (million EUR)

	Sales Recheio	EBITDA	EBITDA Margin
2019	1 007 €	60 €	5,96%
2020	847 €	33 €	3,90%
2021E	880 €	51 €	5,77%
2022F	946 €	56 €	5,94%
2023F	993 €	61 €	6,10%
2024F	1 040 €	65 €	6,25%
2025F	1 086 €	69 €	6,39%
2026F	1 132 €	73 €	6,46%
2027F	1 181 €	76 €	6,41%
2028F	1 219 €	78 €	6,43%
2029F	1 258 €	81 €	6,44%
2030F	1 298 €	84 €	6,45%

Source: Own Estimates

Recheio shops are trying to recover from the damage caused by the pandemic situation, since their main source of income comes from restaurants, cafes and hotels, infrastructures that were greatly affected by this situation and were even forced to close at certain times in 2020. In addition, the absence of tourism had a notorious impact in Portugal, as it ensured a large part of the movements in these establishments. Thus, the year 2021 is being marked by a gradual recovery in trade, leading to a positive variation in the second and third quarters of the year in brand sales.

Graph 25 - Recheio's EBITDA/EBITDA Margin Forecast



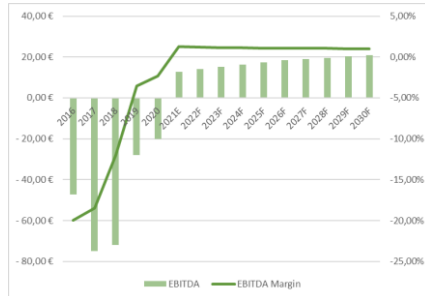
Source: Own Estimates

Table 17 - Ara's Sales and EBITDA Forecast (million EUR)

	Sales Ara	EBITDA	EBITDA Margin
2019	784 €	28 €	-3,57%
2020	854 €	20 €	-2,34%
2021E	1 011 €	13 €	1,26%
2022F	1 181 €	14 €	1,19%
2023F	1 336 €	15 €	1,13%
2024F	1 472 €	16 €	1,10%
2025F	1 591 €	17 €	1,09%
2026F	1 703 €	18 €	1,07%
2027F	1 805 €	19 €	1,05%
2028F	1 894 €	20 €	1,03%
2029F	1 988 €	20 €	1,02%
2030F	2 086 €	21 €	1,00%

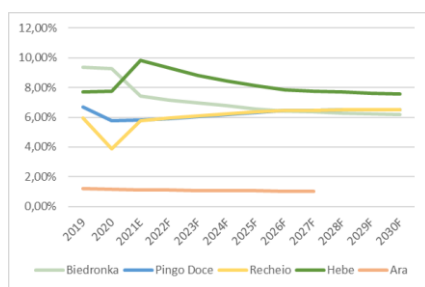
Source: Own Estimates

Graph 26 - Ara's EBITDA/EBITDA Margin Forecast



Source: Own Estimates

Graph 27 - EBITDA Margin by Business Unit Forecast



Source: Own Estimates

In this way, and based on a company expansion strategy, it is possible to project a gradual increase in the number of establishments over the next few years (estimation of 44 establishments by the end of 2022), and expansion to more locations in order to reach a greater number of establishments that require their products quickly and easily, so we estimate the sales to reach **946 million euros** by the end of 2022 (Table 16), and the EBITDA margin to go from **3,9%** in 2020 to **5,94%** in 2022, (Graph 25).

○ **Colombia**

Ara shops in Colombia represent a growing line of establishments in this economy, i.e. discount retailers and neighborhood grocery shops. Their weight and sales have been increasing and in the first 9 months of 2021 Ara opened **64 new locations** with the intention to open 36 more until the end of the year. It is projected that by 2022 the company will have **1 181 million euros** of sales (Table 17) and they will even reach a positive **EBITDA margin of around 1,19%**, (Graph 26). It should be noted that consumer behavior in this country is somewhat different and has taken root a culture of local shops.

In turn, the group's strategy for this company involves following market trends and expanding digitally. As previously proved, an increase in online sales and a search for strategies that make the consumer's life easier can be expected.

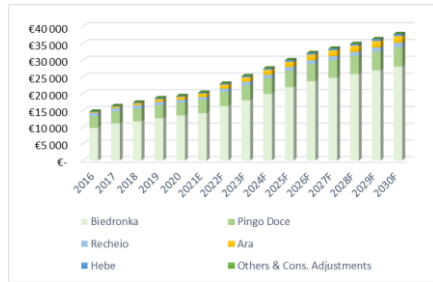
Furthermore, Jerónimo Martins' strategy in this country also involves taking advantage of its resources and marketing the largest quantity of products produced by this economy, thus establishing a link between the brand and consumers through trust in the products marketed.

● **Synthesis**

Thus, analyzing the group at a general level taking into account all its business branches (Graph 27), it is possible to project a recovery from the pandemic situation as early as 2022, implying a rapid recovery of the sector in the economy, as a result of the regions in which the group is located as well as the company's improvement compared to the market and the strategies it develops to face adversity.

In turn, in 2027 is estimated that Jerónimo Martins will reach a total of **33 493,17 million euros** in sales, associated to a **long-term growth rate of about 4,24%** annually, thus reaching its steady state, (Graph 28).

Graph 28 - Total JMT's Sales Forecast by BU



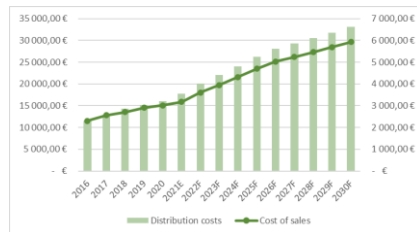
Source: Own Estimates

Two central points should be retained. The two main sources of revenue are **Biedronka** and **Pingo Doce**, stores that, given their characteristics, were not forced to close during the COVID-19 pandemic. In turn, the economic situation of the countries under analysis is what defines the propensity and increase of the group's sales, since there are various factors to take into consideration when looking at a chain of consumer goods.

• **Costs Forecast**

○ **Cost of Sales and Distribution Costs**

Graph 29 - Cost of Sales and Distribution Costs Forecast (in module)

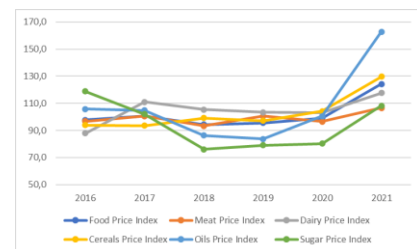


Source: Own Estimates

Cost of sales is the main caption of Jerónimo Martins total costs, corresponding to the cost of goods sold in the Group's shops. In addition, another relevant component is distribution costs, which are related to retail main activity in store, logistics and warehousing.

These costs are highly influenced by sales but also by the price of the materials sold and by the costs associated with distribution, such as fuel (Graph 29).

Graph 30 - Food Price Index (categories)



Source: FAO, World Food Situation

If we analyze the food price index (Graph 30), we can see that throughout 2020 and 2021 there is a tendency for these products to increase. In turn and based on the projections expected for the coming years of analysis, it is expected that these price variations will continue to increase over the coming years, leading to an increase in the materials sold by Jerónimo Martins, as the price at which they buy from the supplier increases, and consequently they are forced to charge the consumer a higher price.

In turn, Jerónimo Martins also takes into consideration having an increasingly sustainable footprint, which means that it prefers cardboard and multiple-use plastics packaging than the typical single-use plastic packaging, which is normally more expensive.

We can see from Jerónimo Martins' costs that they have increased over recent years and are projected to continue to increase as a result of the increase in sales, since these are expected to grow in coming years. In turn, despite the Group's attempt to manage the costs of materials sold in the best way, the retail market has led to very high costs related to materials sold, which makes it impossible for the Group to achieve a higher margin on its sales.

○ **Depreciation**

In order to understand the amount of depreciation of the company, we analyzed it based on Property Plant and Equipment (PP&E) over the last few years. Thus, and as depreciation represents around **12,27% of PP&E** over the last few years, we have made a projection of the growth of this item based on this percentage.

Through the Graph 31 it is possible to see that there is a growing trend in the value of depreciation over the coming years, going from **734 million euros** in 2020 to **845 million euros** by the end of 2022. One of the factors that may explain this variation is related to the fact that Jerónimo Martins is developing an expansion strategy based on an investment in assets, not only through the opening of shops but also through technological improvement and expansion.

○ **Staff Costs**

According to Jerónimo Martins, around **118 210 employees** operated in the company until December 2020.

The arrival of the pandemic in 2020 not only came as a surprise with a greater number of shops, as well as employees and an increase of around **7,45% in staff costs**, (Graph 32).

In order to analyse these variables, we established a clear relationship between the number of sales, shops and employees. Thus, for each additional shop, the company needs an average of **26 employees** and each employee represents a cost of around **14 116€ per year**, (Table 18).

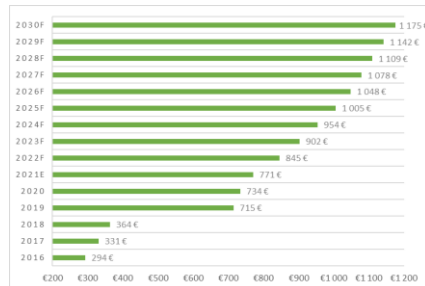
Thus, with an expansion projection for 2022, staff costs are expected to increase by **9,53%**, in the same proportion as the increase in employees. In turn, and despite there being an interconnection between employees and shops, we foresee a need for certain employees to be assigned to online sales, which is also considered here.

Table 18 - Staff Costs Computations

Year	Total Number of Stores	Number of Employees	Number of Employees per store	% of growth	Staff Cost	% of employees	% of growth
2016	3 594	96 233	27		1 153,06 €	-1,20%	
2017	3 904	104 203	27	8,28%	1 306,13 €	-1,25%	13,27%
2018	4 182	108 560	26	4,18%	1 470,03 €	-1,35%	12,55%
2019	4 419	115 428	26	6,33%	1 629,43 €	1,41%	10,84%
2020	4 584	118 210	26	2,41%	1 750,89 €	1,48%	7,45%
2021E	4 812	124 090	26	4,97%	1 751,70 €	1,41%	0,05%
2022F	5 271	135 919	26	9,53%	1 918,69 €	1,41%	9,53%
2023F	5 624	145 035	26	6,71%	2 047,37 €	1,41%	6,71%
2024F	5 948	153 372	26	5,75%	2 165,07 €	1,41%	5,75%
2025F	6 262	161 479	26	5,29%	2 279,51 €	1,41%	5,29%
2026F	6 526	168 284	26	4,21%	2 375,58 €	1,41%	4,21%
2027F	6 713	173 114	26	2,87%	2 443,76 €	1,41%	2,87%
2028F	6 906	178 087	26	2,87%	2 513,95 €	1,41%	2,87%
2029F	7 104	183 206	26	2,87%	2 586,22 €	1,41%	2,87%
2030F	7 309	188 477	26	2,88%	2 660,62 €	1,41%	2,88%

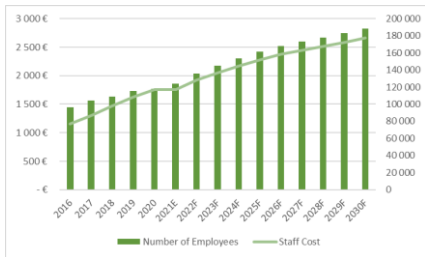
Source: Own Estimates

Graph 31 - Depreciation Forecast



Source: Own Estimates

Graph 32 - Staff Costs and Number of Employees Forecast



Source: Own Estimates

○ **Capex – Capital Expenditures**

Graph 33 - Capital Expenditures Forecast



Source: Own Estimates

The development and expansion of Jerónimo Martins is the result of the investment made in capital expenditure (Capex). In order to proceed with the Capex analysis taking into account the analysis performed by Jerónimo Martins we analyze the Capex Payment which takes into account the Disposal of tangible and intangible fixed assets, Disposal of available-for-sale financial assets and investment properties, Acquisition of tangible and intangible fixed assets, Acquisition of financial investments and investment properties, Acquisition of joint ventures and associates and Acquisitions of tangible assets classified as finance leases under previous regulations.

With the Graph 33 we can see that until the outbreak of the pandemic situation Jerónimo Martins had considerably increased its investment every year, still increasing in 2020 having a Capex value of approximately **510 million euros**.

As we have seen so far, the Group intends to expand its number of shops on a global level, and it also intends to broaden its strategy to a more technological approach, reaching the customers through e-commerce. In the following years, this expansion is expected to continue, but at a lower rate, since a higher initial investment is expected, with consequent maintenance and expansion but at a lower speed.

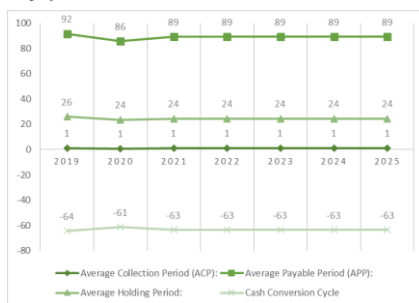
At the beginning of what we estimated as the steady state, end of 2027, the company would have a total CapEx invested of **796 million euros**, being its major caption the Acquisition of Tangible and Intangible fixed assets, which is indeed the major asset the company owns.

● **Net Working Capital**

In order to analyze the management of the company's funds, we proceeded to study the Net Working Capital based on the parameters that the company analyses and which make up this indicator. This indicator is based on variables such as Trade Debtors, Accrued Income and Deferred Costs, Trade Creditors, Accrued Costs an Deferred Income, Employee Benefits, Inventories, Biological Assets and Others.

Both in recent years and projection for the future (Graph 34), it is expected that the **Average Collection Period (ACP)** will remain on **average 1 day**, meaning the company waits 1 day to receive from its clients, which in supermarkets is normal to have a value so low since due to the fact that clients buy immediately. In the

Graph 34 - NWC Decomposition Forecast (in days)



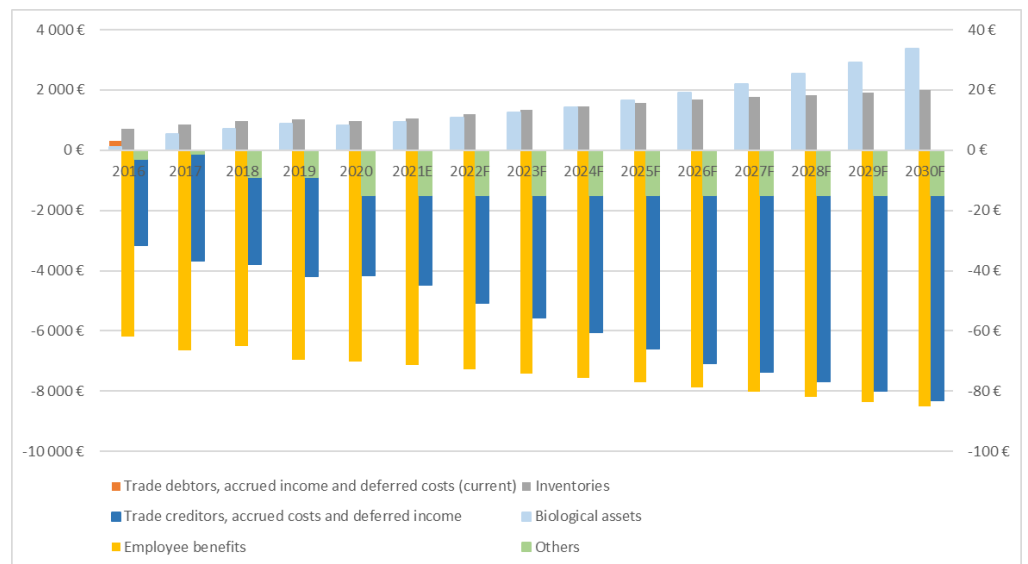
Source: Own Estimates

case of the group, in some cases like Recheio, that serves as a supplier to some other companies is common to wait to receive from clients.

In turn, the **Average Holding Period (AHP)** will remain constant over the years at **24 days** from 2020 onwards which reflects improvement in inventory management since the AHP before 2020 was 26 days. Regarding **Average Payable Period (APP)**, this will increase slightly in 2021, which means that the company will be less pressured in terms of liquidity, and the necessity to get external funding will probably be reduced. Through these three parameters, the **Cash Conversion Cycle** equals **-63 days**, showing that suppliers are essentially financing the operational activity of the company since it takes longer for the company to pay them than to receive from the clients.

To conclude our analysis, the NWC (Graph 35) shows that the main pillars of this analysis are the **Trade debtors, accrued income and deferred costs, Trade Creditors, Accrued Costs and Deferred Income** and **Inventories**, leading to a value that is always negative over the years, revealing the dynamics of a retailer that receives its funds faster than it pays its creditors. This relationship is not distinct from the market as in this business the company receives immediately upon purchase, in turn sometimes the item sold is still for payment to the supplier.

Graph 35 - NWC Components Forecast



Source: Own Estimates

Valuation

- **DCF Method**

In order to value the company, we used the DCF model, which assumes that the company's price today equals to the present value of the company's future cash flows. We believe this would be the most appropriate model to value the company, as it allows not only to take into consideration the necessary information both of the company as well as of the industry. Furthermore, this model also allows to take into account foreseen and unforeseen events that may happen and influence the valuation of the group.

Thus, to obtain the value of the company we used the data projected until 2030, and to obtain the terminal value we applied the perpetuity growth rate. In turn, this **perpetuity growth rate** was estimated based on the long term growth rate GDP of Poland, Portugal and Colombia and the inflation rate forecast for Portugal, thus obtaining a value of **4,18%**, a value slightly higher than the economies under analysis, since in Portugal it is expected a value of **1,80%**, in Poland of **3,50%** and in Colombia of **2,88%** and an inflation rate in Portugal of **1,40%**, the weight of Poland in sales is higher than the other economies having thus a greater influence. All future cash flows were updated based on a weighted average cost of capital (**WACC**) of **6,39%**.

As the Jerónimo Martins Group's performance is highly dependent on risk and opportunity situations that may affect the company, in order to make a more realistic analysis of the adversities that may occur (whether foreseen or not), five scenarios were defined, assigning their probability of occurrence. Firstly, we analyse the base case scenario, associated to the highest probability of occurrence, two risk scenarios and two opportunity scenarios.

Based on the analysis, the **price** in December 2022 for Jerónimo Martins' shares will be **23,41 €**, with a **total return** of **15,80%**, a **capital gain** of **14,04%** and a **dividend yield** of **1,78%**. We therefore recommend a **Buy position** in Jerónimo Martins' shares (Table 20).

○ WACC Calculation

Table 19 - WACC Calculation

WACC Calculation	
Rf	-0,16%
β	1,0133
(Rm - Rf)	6,00%
Re	5,92%
<hr/>	
Rd	0,90%
Book Value of Debt	523,53 €
Cash and Cash Equivalents	1 246,79 €
Net Debt	723,26 €
Value of Equity	8 696,83 €
	7 973,57 €
Net Debt to Equity	-8,32%
Tax Rate	22,50%
WACC	6,39%
Ru	6,37%
g	4,18%

Source: Own Estimates, Bloomberg, Damodaran

In order to obtain the Weighted Average Cost of Capital for Jerónimo Martins (Table 19), we first calculated the **market Debt-to-Equity (D/E) ratio** in order to obtain a value of **-8,32%**.

The Jerónimo Martins Group has no bonds under negotiation and in this sense, in order to estimate the **cost of the debt** we proceeded to an analysis based on the Synthetic Credit Rating, thus, this method is based on the estimation of the Interest Coverage Ratio, this value is obtained by dividing the group's EBIT, 459 million euros and the Interest Expenses, 180 million euros, and the value obtained defines the Synthetic Rating of the company, thus for an interest coverage ratio of 3,54 the company has a **A3/A-** (depending on the rating agency terminology) which implies a spread of **1,33%**, we then adjusted the spread to the risk-free rate, **-0,16%**, and after adding the rate, the value of the cost of debt after tax corresponds to **0,90%**.

To compute the **cost of equity**, Re ($Re = Rf + \beta \cdot (Rm - Rf)$), we assumed as the risk-free rate the 10y German Government Bond since it is a good proxy. In order to achieve the beta, we proceeded to study the market through the values of the competing companies, but this value was not a realistic value taking into account the retail market in Europe and interfered with the reality of the model, so we extracted the unlevered beta of the Food Retail and Distribution Industry from the *Aswath Damodaran* studies¹⁰. We then levered it with the Jerónimo Martins D/E ratio to get the levered beta. From the book "Valuation" by McKinsey we then assumed a **6% Market Risk Premium**, it is a good proxy for the estimation of a global market risk premium, and since we are using the MSCI World in Euros it is a viable estimation. After all the calculations our **Cost of Equity** accounted for **5,92%**.

Thus, having all the essential variables and assuming a **tax rate** of **22,5%**, we obtained a post-tax **WACC** of **6,37%** based on the formula: $WACC = \frac{E}{E+D} \cdot Re + \frac{D}{E+D} \cdot Rd \cdot (1 - t)$

Table 20 - DCF Output

Share Price (millions of € except share price)	2020	2021 (as of 17th Dec)	2021E	2022F
Free Cash Flow			166,23 €	112,67 €
Enterprise Value (PV)			15 596,12 €	16 479,86 €
Net Debt			1 934,91 €	1 746,32 €
Equity Value (PV)			13 661,21 €	14 733,53 €
Shares Outstanding	629,293	629,293	629,293	629,293
Share Price	13,82 €	20,53 €	21,71 €	23,41 €
Market Cap	8 696,832 €	12 919,390 €	13 661,212 €	14 733,533 €
EPS	0,496 €		0,338 €	0,404 €
P/E Ratio	27,89x		64,21x	58,00x
Dividends/Transactions with Shareholders	232,27 €		190,08 €	226,95 €
Dividend per Share	0,369 €		0,302 €	0,361 €
Capital Gains			57,08%	14,04%
Dividend Yield			1,39%	1,76%
Total Return			58,47%	15,80%
DECISION			BUY	BUY

Source: Own Estimates and Bloomberg

• Multiples Valuation

In order to complete our analysis and to understand the possible functioning of the company based on its competitor companies we performed the Multiples Valuation Method. Thus, through the main company peers presented previously, Carrefour, Eurocash, Tesco, Ahold Delhaize, Casino Guichard-Perrachon, Metro AG and Sonae, we proceeded to the valuation analysis of Jerónimo Martins.

Based on the values of each company and with the subsequent relationship between the multiples, both the enterprise value multiples - EV/EBITDA, EV/EBIT and EV/SALES - and the equity value multiples - Price/Book and P/E Ratio - it was possible to establish a relationship between these companies in order to achieve the projected value for Jerónimo Martins.

Thus, among the multiples under analysis, it can be seen that the multiples that came closest to reality were **EV/EBITDA** and **EV/Sales**, that is, the first projected a share price of **12,89 €** and the second a share price of **13,56 €** (Table 22). In turn, in order to incorporate all the items under analysis, the value of the company only reached **9,56 €** per share in December 2022 (Table 21).

However, we consider this analysis as a complement to the DCF method, although these stand out as its main competitors, we have under analysis three different geographical points and companies of different sizes and scopes, which leads us to a somewhat inaccurate assessment of the company. Furthermore, the presence of these companies as a basis for the study of Jerónimo Martins is an added value because it leads us to understand new behaviors and paths that companies can take.

Table 21 - Share Price with Multiples Valuation

	2022
Sales	22 978,62 €
EPS	0,49 €
EBITDA	1 404,16 €
EBIT	349,62 €
Net Profit	254,05 €
EV/EBITDA Multiple	6,08x
Net Financial Assets	1 286,75 €
# shares outstanding	629,29
Book Value	3 676,17 €
Book Value (price per share)	5,84 €
EV	8 534,90 €
Equity	5 210,19 €
SHARE PRICE	9,56 €

Source: Own Estimates, Bloomberg

Table 22 – EV and Equity Multiples

Companies	EV Multiples			Equity Multiples		
	FWD EV/EBITDA	FWD EV/EBIT	FWD EV/Sales	Price to Book	FWD P/E Ratio	Market Cap
Carrefour	4,7x	9,6x	0,3x	0,8x	17,5x	11 471,30 €
Eurocash	5,3x	14,9x	0,2x	2,0x	30,6x	428,10 €
Tesco	6,3x	11,8x	0,5x	1,4x	21,8x	20 064,30 €
Ahold Delhaize	5,5x	9,9x	0,5x	1,9x	17,6x	24 197,00 €
Casino Guichard-Perrachon	6,1x	11,5x	0,5x	0,4x	-3,1x	2 715,10 €
Metro	5,7x	18,3x	0,3x	1,5x	7,2x	3 071,10 €
Sonae	8,1x	24,8x	0,6x	0,0x	16,5x	1 323,00 €
Jerónimo Martins Average Comparables	5,70x	11,27x	0,44x	1,44x	17,62x	10 324,48 €
Jerónimo Martins	8 112,88 €	5 167,06 €	8 533,73 €	6,05 €	6,27 €	
Share Price	12,89 €	8,21 €	13,56 €	6,05 €	6,27 €	9,40 €

Source: Inputs from Bloomberg (own calculations)

Risk Analysis

After some research on the risks that the company might be subject to, we concluded that the biggest risk at these moments is indeed the possibility of a recession of the COVID-19 pandemic. As of 14th of December 2021 the pandemic

is starting to worsen compared to the summer and some countries are already implementing some of the restrictions imposed in the first and second waves, and Portugal is one of those countries.

- **Scenario Analysis**

In order to analyze this company taking into account possible events that may happen, we have established five scenarios. One of them being the base case scenario from which we computed the valuation of the company. Thus, we proceeded to study the various situations based on the probability of the event happening and its impact on the Jerónimo Martins Group. Firstly, we will analyze the scenarios under analysis taking into account a more economic position that is external to the company, but which consequently has an influence on it. Next, we will analyze the main sources of change for the company, such as sales and costs. Finally, our study will focus on the impact it will have on the valuation of the group and on the company's indicators.

- **Scenario 1: Base case**

Our baseline scenario, with a **75% probability** of happening foresees a gradual growth of the company and an expansion in essentially **e-commerce** and the **demand for sustainability measures** and **organic products**. Furthermore, it is based on the idea of a continuous improvement of the economy at a general level, leading citizens to maintain their proportion of increased income to increased consumption. Thus, with a notable improvement in the face of the pandemic situation at world level and with a quick response to vaccination, it is possible to project a notable improvement already in the year 2022 compared to the year 2021.

In turn, this model is essentially related to the increase in sales by company sectors, so with an improvement in the economic situation and consequently of the consumer, it is possible to forecast that sales will already total **22 978,62 million euros** in 2022.

In turn, with this scenario, the company will have a share price of **23,41€**, and an EPS of **0,404€**. The recommendation is to **Buy** with a total return of **17,05%** per share.

○ **Scenario 2: Recession and Intensification of COVID-19**

This scenario, with a **10% probability** of occurrence, is based on the possible recession and with an increased intensity of the pandemic situation worldwide, leading to the adoption of more restrictive economic policies by countries and a longer period of study and analysis for a possible solution to the situation, arising a new variant that changes the choices of consumers and makes them purchase only the essential goods, thus leading to a decrease in consumption worldwide.

In turn, with this worsening of the situation, the Jerónimo Martins Group sees its digitalization strategy as an essential element, even providing assistance to people who are isolated and find it impossible to go to the shops.

Thus, in-store sales would be expected to decrease, but this decrease would be the consequence of an adaptation of the consumers' lifestyle, as they would have to manage their income as consciously as possible. In addition, the decrease in sales would not be the same in all the economies where the group is commercializing, with a higher decrease in Colombia, Ara, (-10 p.p. relatively to the base case growth rates until 2026) and a less accentuated decrease in Poland, Biedronka and Hebe (-2,5 p.p. relatively to the base case growth rates until 2026) and Portugal, Pingo Doce and Recheio (-3 p.p. relatively to the base case growth rates until 2026), given the economic characteristics of these nations.

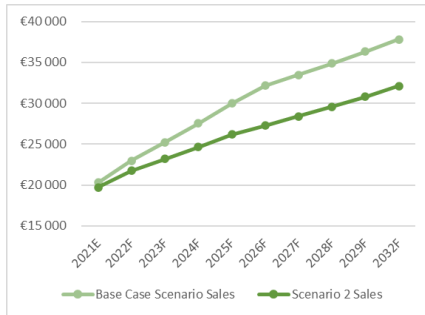
Thus, in this situation, total sales in 2022 would be expected to be around **21 746,40 million euros**, totaling in a **decrease of 5,3%** relatively to the total sales of the base case scenario, with a price of **13,34€** per share, and an EPS of **0,268€**. The final recommendation is to **Sell** the company's shares with a total return of **-33,13%** per share.

○ **Scenario 3: Entry of a New and Strong Retailer in Poland**

With a world that is constantly changing, the ease with which you move between markets and become a brand at international level is increasing. Therefore, the possibility of entering new shops in the economies where the Jerónimo Martins Group is located must be taken into account, being this scenario associated with a **5% probability** of occurrence.

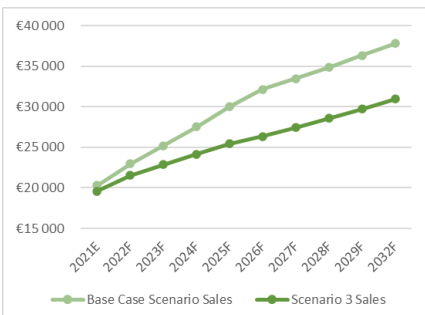
Let us focus our analysis on Poland, as it is one of the geographical points with a higher percentage of the company's sales and also, due to the aforementioned characteristics, it continues and is expected to continue to be one of the main points in Europe for retail investors. Therefore, and in the event of the entrance, for example, of a Walmart in Poland, the company's biggest sales driver, Biedronka, would lose some market share (currently at **30,42%**), causing it to decrease to around **25%** or **27%** and consequently reduce the company's sales.

Graph 36 - Base Case vs. Scenario 2 Sales



Source: Own Estimates

Graph 37 - Base Case vs. Scenario 3 Sales



Source: Own Estimates

Thus, Biedronka's growth rate would decrease **5 p.p.** until 2026 relatively to the growth rates from the base case which would imply the group's total sales to **decrease 6,3%** comparing to the 2022 sales forecasted in the base case scenario. over the next few years, leading to total company sales of **21 531,67 million euros**. In turn, the company would have a value per share of **10,63€** the lowest share price among all scenarios. The recommendation is to **Sell** the company's shares with a total return of **-46,6%** per share.

○ **Scenario 4: Expansion in Poland**

As one of the most optimistic scenarios, and one with a **5% probability** of coming about, we would highlight the possibility of a notable expansion throughout Poland by Biedronka. Thus, the Group's big bet would continue to take advantage of a country with an excellent opportunity for growth and expansion in all areas and not only in the large urban centers.

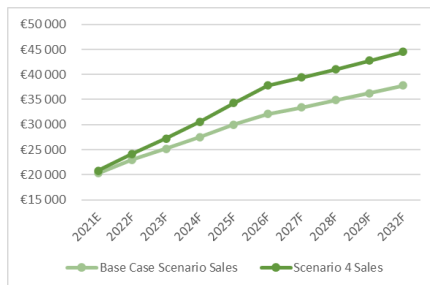
Over the last few years, this expansion has taken place and it is expected to gradually recover after the pandemic situation. In turn, in view of this vision, Poland would become an even more important part of the group and the strategy would be to reach a greater number of cities through physical shops. In addition, with the integration of e-commerce in Biedronka, citizens would not only be able to shop in physical shops, but also online. In turn, the remaining shops would continue with the behavior projected in the base case scenario.

Thus, an increase of **4 p.p.** of the base case sales growth rate of Biedronka, would imply an increase of total sales of around **5,25%** in relation to the total sales of the base case scenario, totaling **24 184,91 million euros** in sales for Jerónimo Martins in 2022. In this scenario, the Group would reach a share price of **31,76€** and a **0,538€** EPS. The recommendation is to **Buy** the company's share with a total return of **58,75%** per share.

○ **Scenario 5: Strong Recovery in the Market**

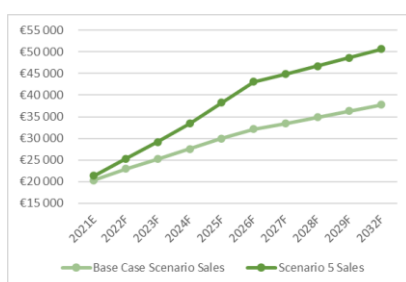
This scenario is the most optimistic of all, with a **5% probability** of occurrence, which presupposes a notorious improvement of the market on a worldwide level, almost like an adoption of the consumer behavior of the roaring 20s. This projection is based on the assumption that with a pandemic recovery of society and a resumption of activities on the part of citizens, they will see the chance to make the most of their days and allow themselves to spend a little more of their income, adopting a perspective of working to survive and not surviving to work. Thus, there would be a general improvement in the circulation of money and an extreme improvement in the economy because citizens would be more inclined to consume.

Graph 38 - Base Case vs. Scenario 4 Sales



Source: Own Estimates

Graph 39 - Base Case vs. Scenario 5 Sales



Source: Own Estimates

Thus, there is an improvement in the company's sales at a global level, increasing by **10,12%**, and a total value of **25 303,96 million euros** in sales in 2022. With this approach, the group would achieve a value of **36,64€** per share, and EPS of **0,666€**. The final recommendation is to Buy the company's shares with a total return of **83,35%** per share.

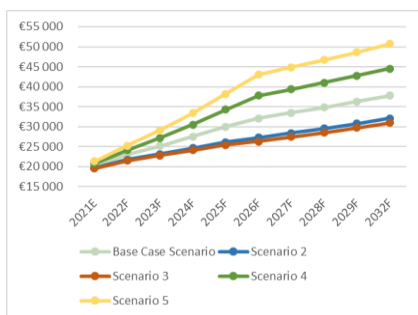
Table 23 - Scenario Analysis Output

SCENARIOS	Probability	Share Price	Reccomendation	Price Change
Scenario 1: Base Case	75%	23,41 €	BUY	-
Scenario 2: Recession and Intensification of COVID-19	10%	13,34 €	SELL	-43,01%
Scenario 3: Entry of New and Strong Retailer in Poland	5%	10,63 €	SELL	-54,61%
Scenario 4: Expansion in Poland	5%	31,76 €	BUY	35,66%
Scenario 5: Strong Recovery in the Market	5%	36,64 €	BUY	56,51%

SCENARIOS	2022 Total Sales	2022 Total Sales Change	EPS	Total Return
Scenario 1: Base Case	22 978,62 €	-	0,404 €	17,05%
Scenario 2: Recession and Intensification of COVID-19	21 746,40 €	-5,36%	0,268 €	-33,13%
Scenario 3: Entry of New and Strong Retailer in Poland	21 531,67 €	-6,30%	0,245 €	-46,60%
Scenario 4: Expansion in Poland	24 184,91 €	5,25%	0,538 €	58,75%
Scenario 5: Strong Recovery in the Market	25 303,96 €	10,12%	0,666 €	83,35%

Source: Own Estimates

Graph 40 - Scenarios' Sales Comparison



Source: Own Estimates

• Sensitivity Analysis

We started our sensitivity analysis based on **Re**, cost of equity, where we realized that for a **Re** that varies between **3,92%** and **7,92%**, our **WACC** will comprise values between **4,12%** and **8,57%** (Table 24).

In turn, we performed the same analysis, but now with the cost of debt, **Rd**, varying it from its initial level of A3/A-, verifying that when it varies between **-1,10%** and **2,90%**, the **WACC** assumes values between **6,53%** and **6,25%**. With this analysis we could see that the **Rd** has little influence on the **WACC** and based on the price analysis with the **WACC** variations we could see that it would vary very little.

When we analyze the influence of **Re** and **Rd** variations on **WACC** (Table 25) we quickly realize that **Re** variations have much more impact than **Rd** and that both move in the same direction, if **Re** increases or **Rd** increases the **WACC** increases, but if both increase at the same time, **WACC** also increases and vice-versa.

Next, we analyze the sensitivity of enterprise value to changes in **WACC** and **g** (Table 26), and we see that **WACC** has a negative impact, that is, the higher the **WACC** for the same **g**, the Enterprise value decreases. However, for the same **WACC**, if **g** is lower than **WACC** the enterprise value increases, however, if **g** is higher than **WACC** the enterprise value decreases, since we are destroying value. In turn, this same analysis occurs when we analyze the terminal value.

Table 24 - WACC Sensitivity Analysis (1)

Re	3,92%	4,92%	5,92%	6,92%	7,92%
WACC	4,21%	5,30%	6,39%	7,48%	8,57%
Rd	-1,10%	-0,10%	0,90%	1,90%	2,90%
WACC	6,53%	6,46%	6,39%	6,32%	6,25%

Source: Own Estimates

Table 25 - WACC Sensitivity Analysis (2)

		Re				
		3,92%	4,92%	5,92%	6,92%	7,92%
Rd	-1,10%	4,35%	5,44%	6,53%	7,62%	8,71%
	-0,10%	4,28%	5,37%	6,46%	7,55%	8,64%
	0,90%	4,21%	5,30%	6,39%	7,48%	8,57%
	1,90%	4,14%	5,23%	6,32%	7,41%	8,50%
	2,90%	4,07%	5,16%	6,25%	7,34%	8,43%

Source: Own Estimates

Table 26 - EV Sensitivity Analysis

		WACC				
		4,39%	5,39%	6,39%	7,39%	8,39%
g	2,18%	18 700,43 €	12 749,53 €	9 630,51 €	7 712,00 €	6 413,72 €
	3,18%	32 325,10 €	17 549,11 €	11 987,89 €	9 072,05 €	7 277,71 €
	4,18%	176 875,16 €	30 294,17 €	16 480,44 €	11 279,99 €	8 552,33 €
	5,18%	- 43 659,50 €	165 512,13 €	28 410,20 €	15 487,76 €	10 621,56 €
	6,18%	- 18 044,05 €	- 40 784,89 €	154 978,30 €	26 661,28 €	14 564,98 €

Source: Own Estimates

Table 27 - Share Price Sensitivity Analysis

		WACC				
		4,39%	5,39%	6,39%	7,39%	8,39%
g	2,18%	26,94 €	17,49 €	12,53 €	9,48 €	7,42 €
	3,18%	48,59 €	25,11 €	16,27 €	11,64 €	8,79 €
	4,18%	278,29 €	45,36 €	23,41 €	15,15 €	10,82 €
	5,18%	- 72,15 €	260,24 €	42,37 €	21,84 €	14,10 €
	6,18%	- 31,45 €	- 67,59 €	243,50 €	39,59 €	20,37 €

Source: Own Estimates

Finally, we check the price's sensitivity to changes in the **WACC** and **g** (Table 27) and we see that the relationship that existed before **g** and **WACC**-dependent values vary under the same conditions. Furthermore, it is also possible to verify that the highest price occurs, for example, when the **g** is maintained and **WACC** reaches the value of **4,39%**, thus obtaining a price of **278,29€**, and the lowest price, in negative value, corresponds to **-72,15€**.

Final Recommendation

Therefore, according to our valuation based on the Discounted Cash-Flow method, from 31 December 2022 Jerónimo Martins will be traded at a **price of 23,41€**. It should be noted that we performed our analysis based on this model as we considered it to be the most appropriate for the Group taking into account its business and areas of operation.

In turn, and based on the forecast values, we expect an **EPS of 0,404 € per share**, thus leading to a **dividend per share** of approximately **0,361€** in 2022.

In summary, and based on our study, it is recommended that Jerónimo Martins shares be **buy** as from January 2022, with an **expected yield for the shareholder of 18,33%**, of which **16,54%** represents the **capital gains** and **1,80%** corresponds to the **dividend yield**.

Appendix - Financial Statements

Income Statement (in millions of €)	2016	2017	2018	2019	2020	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Sales and services rendered	14 622 €	16 276 €	17 337 €	18 638 €	19 293 €	20 276 €	22 979 €	25 209 €	27 517 €	29 991 €	32 132 €	33 464 €	34 851 €	36 296 €	37 803 €
Biedronka	9 781 €	11 076 €	11 691 €	12 620 €	13 465 €	14 173 €	16 255 €	18 022 €	19 891 €	21 944 €	23 722 €	24 748 €	25 818 €	26 934 €	28 099 €
Pingo Doce	3 558 €	3 667 €	3 835 €	3 945 €	3 869 €	3 941 €	4 284 €	4 501 €	4 716 €	4 931 €	5 095 €	5 260 €	5 429 €	5 604 €	5 785 €
Recheio	878 €	942 €	980 €	1 007 €	847 €	880 €	946 €	993 €	1 040 €	1 086 €	1 132 €	1 169 €	1 207 €	1 245 €	1 286 €
Hebe	122 €	166 €	207 €	259 €	245 €	259 €	301 €	344 €	385 €	426 €	467 €	488 €	509 €	531 €	554 €
Ara	236 €	405 €	599 €	784 €	854 €	1 011 €	1 181 €	1 336 €	1 472 €	1 591 €	1 703 €	1 787 €	1 876 €	1 968 €	2 066 €
Others & Cons. Adjustments	46 €	20 €	24 €	23 €	14 €	12 €	12 €	12 €	12 €	13 €	13 €	13 €	13 €	13 €	14 €
Cost of sales	-11 509 €	-12 818 €	-13 577 €	-14 563 €	-15 067 €	-15 889 €	-18 014 €	-19 763 €	-21 572 €	-23 511 €	-25 190 €	-26 234 €	-27 321 €	-28 454 €	-29 635 €
Gross profit	3 113 €	3 458 €	3 760 €	4 076 €	4 227 €	4 387 €	4 965 €	5 447 €	5 945 €	6 480 €	6 942 €	7 230 €	7 530 €	7 842 €	8 167 €
Distribution costs	- 2 308 €	- 2 606 €	- 2 874 €	- 3 031 €	- 3 203 €	- 3 548 €	- 4 021 €	- 4 412 €	- 4 815 €	- 5 248 €	- 5 623 €	- 5 856 €	- 6 099 €	- 6 352 €	- 6 615 €
Depreciation	- 294 €	- 331 €	- 364 €	- 715 €	- 734 €	- 771 €	- 845 €	- 902 €	- 954 €	- 1 005 €	- 1 048 €	- 1 078 €	- 1 109 €	- 1 142 €	- 1 175 €
Administrative costs	- 238 €	- 261 €	- 289 €	- 322 €	- 334 €	- 339 €	- 384 €	- 422 €	- 460 €	- 501 €	- 537 €	- 560 €	- 583 €	- 607 €	- 632 €
Total Operating Costs	-13 760 €	-15 354 €	-16 377 €	-17 201 €	-17 870 €	-19 006 €	-21 574 €	-23 694 €	-25 893 €	-28 256 €	-30 302 €	-31 571 €	-32 893 €	-34 272 €	-35 708 €
Biedronka	9 074 €	10 271 €	10 841 €	11 435 €	12 213 €	13 119 €	15 089 €	16 764 €	18 543 €	20 504 €	22 203 €	23 177 €	24 193 €	25 254 €	26 360 €
Pingo Doce	3 366 €	3 479 €	3 647 €	3 681 €	3 646 €	3 713 €	4 031 €	4 229 €	4 424 €	4 619 €	4 766 €	4 919 €	5 077 €	5 240 €	5 408 €
Recheio	831 €	892 €	927 €	947 €	814 €	829 €	890 €	933 €	975 €	1 017 €	1 059 €	1 093 €	1 128 €	1 164 €	1 202 €
Hebe	137 €	176 €	215 €	239 €	226 €	233 €	272 €	314 €	353 €	392 €	431 €	450 €	469 €	490 €	512 €
Ara	283 €	480 €	671 €	812 €	874 €	998 €	1 167 €	1 321 €	1 456 €	1 573 €	1 685 €	1 768 €	1 856 €	1 948 €	2 045 €
Others & Cons. Adjustments	68 €	57 €	75 €	86 €	98 €	114 €	124 €	134 €	142 €	151 €	159 €	164 €	170 €	175 €	181 €
EBITDA	862 €	922 €	960 €	1 437 €	1 423 €	1 270 €	1 404 €	1 516 €	1 624 €	1 735 €	1 830 €	1 893 €	1 957 €	2 025 €	2 094 €
Biedronka	707 €	805 €	850 €	1 185 €	1 252 €	1 054 €	1 165 €	1 258 €	1 348 €	1 440 €	1 519 €	1 571 €	1 625 €	1 681 €	1 738 €
Pingo Doce	192 €	188 €	188 €	264 €	223 €	229 €	253 €	273 €	292 €	312 €	329 €	341 €	352 €	364 €	377 €
Recheio	47 €	50 €	53 €	60 €	33 €	51 €	56 €	61 €	65 €	69 €	73 €	76 €	78 €	81 €	84 €
Hebe	- 15 €	- 10 €	- 8 €	20 €	19 €	25 €	28 €	30 €	32 €	35 €	37 €	38 €	39 €	40 €	42 €
Ara	- 47 €	- 75 €	- 72 €	- 28 €	- 20 €	13 €	14 €	15 €	16 €	17 €	18 €	19 €	20 €	20 €	21 €
Others & Cons. Adjustments	- 22 €	- 37 €	- 51 €	- 63 €	- 84 €	- 102 €	- 112 €	- 121 €	- 130 €	- 139 €	- 146 €	- 151 €	- 157 €	- 162 €	- 168 €
Exceptional operating profits/losses	- 32 €	- 14 €	- 9 €	- 16 €	- 50 €	- 29 €	- 32 €	- 36 €	- 39 €	- 42 €	- 45 €	- 47 €	- 49 €	- 51 €	- 53 €
Depreciation	- 294 €	- 331 €	- 364 €	- 715 €	- 734 €	- 771 €	- 845 €	- 902 €	- 954 €	- 1 005 €	- 1 048 €	- 1 078 €	- 1 109 €	- 1 142 €	- 1 175 €
Operating profit (EBIT)	536 €	577 €	587 €	706 €	639 €	471 €	527 €	578 €	631 €	687 €	737 €	767 €	799 €	832 €	867 €
Net financial costs	- 17 €	- 12 €	- 25 €	- 159 €	- 180 €	- 179 €	- 179 €	- 179 €	- 180 €	- 182 €	- 184 €	- 188 €	- 192 €	- 198 €	- 205 €
Gains in joint ventures and associates	10 €	0 €	0 €	0 €	0 €	2 €	2 €	2 €	2 €	2 €	2 €	2 €	2 €	2 €	2 €
Gains on disposal of business	221 €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €
Gains/ losses in other investments	- 5 €	- 0 €	- €	2 €	0 €	- 1 €	- 1 €	- 1 €	- 1 €	- 1 €	- 1 €	- 1 €	- 1 €	- 1 €	- 1 €
Profit before taxes (EBT)	744 €	565 €	562 €	549 €	459 €	293 €	350 €	400 €	452 €	507 €	554 €	581 €	608 €	636 €	663 €
Income tax	- 129 €	- 153 €	- 131 €	- 129 €	- 136 €	- 69 €	- 83 €	- 94 €	- 106 €	- 118 €	- 128 €	- 134 €	- 140 €	- 147 €	- 153 €
<i>Effective Tax Rate</i>	0 €	0 €	0 €	0 €	0 €	0 €	0 €	0 €	0 €	0 €	0 €	0 €	0 €	0 €	0 €
Profit before non-controlling interests	615 €	412 €	430 €	421 €	322 €	224 €	267 €	306 €	347 €	389 €	425 €	446 €	468 €	489 €	511 €
Attributable to:															
Non-controlling interests	-21,01 €	-27,18 €	-28,86 €	-30,85 €	-10,59 €	-11,13 €	-12,61 €	-13,83 €	-15,10 €	-16,46 €	-17,63 €	-18,36 €	-19,12 €	-19,92 €	-20,74 €
Jerónimo Martins Shareholders	593,70 €	385,14 €	401,47 €	389,86 €	311,85 €	212,77 €	254,05 €	292,34 €	331,41 €	372,77 €	407,73 €	428,00 €	448,46 €	469,08 €	489,82 €
EPS	0,943 €	0,612 €	0,638 €	0,620 €	0,496 €	0,338 €	0,404 €	0,465 €	0,527 €	0,592 €	0,648 €	0,680 €	0,713 €	0,745 €	0,778 €
# Shares Outstanding (millions)	629,29	629,29	629,29	629,29	629,29	629,29	629,29	629,29	629,29	629,29	629,29	629,29	629,29	629,29	629,29
Core Cash Flow (millions of €)	2016	2017	2018	2019	2020	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Operational Cash Flow (IS)	446 €	436 €	443 €	531 €	453 €	362 €	405 €	444 €	486 €	530 €	568 €	592 €	616 €	642 €	669 €
Core Invested Capital (BS)	1 382 €	1 558 €	1 830 €	4 148 €	3 772 €	3 983 €	4 283 €	4 517 €	4 703 €	4 866 €	5 022 €	5 190 €	5 362 €	5 551 €	5 744 €
Invested Cash Flow	177 €	271 €	2 319 €	- 376 €	211 €	301 €	234 €	186 €	164 €	155 €	168 €	172 €	188 €	193 €	
Free Cash Flow Core Business	260 €	171 €	- 1 788 €	829 €	152 €	104 €	211 €	299 €	366 €	412 €	423 €	444 €	454 €	476 €	
Non Core Cash Flow (millions of €)	2016	2017	2018	2019	2020	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Non Operational Cash Flow (IS)	149 €	30 €	19 €	24 €	53 €	7 €	8 €	9 €	10 €	12 €	13 €	13 €	14 €	14 €	15 €
Invested Capital (BS)	597 €	636 €	627 €	641 €	627 €	619 €	618 €	618 €	617 €	617 €	616 €	616 €	616 €	615 €	615 €
Invested Cash Flow	39 €	10 €	14 €	- 14 €	- 8 €	- 1 €	- 1 €	- 1 €	0 €	0 €	0 €	0 €	0 €	0 €	0 €
Free Cash Flow Non Core Business	- 9 €	- 9 €	10 €	- 38 €	15 €	9 €	10 €	11 €	12 €	13 €	14 €	14 €	15 €	15 €	
Free Cash Flow	251 €	162 €	- 1 778 €	791 €	166 €	113 €	221 €	310 €	378 €	425 €	437 €	458 €	469 €	491 €	
Financing Cash Flow (millions of €)	2016	2017	2018	2019	2020	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Financial Result	- 34 €	- 37 €	- 48 €	- 154 €	- 150 €	- 150 €	- 151 €	- 152 €	- 155 €	- 157 €	- 160 €	- 164 €	- 168 €	- 173 €	- 179 €
Net Financing	12 €	- 181 €	- 440 €	- 2 560 €	- 2 141 €	- 1 935 €	- 1 746 €	- 1 417 €	- 965 €	- 412 €	218 €	873 €	1 564 €	2 278 €	3 027 €
Change in Financing	- 193 €	- 258 €	- 2 58 €	- 2 120 €	419 €	206 €	189 €	329 €	452 €	554 €	629 €	655 €	691 €	714 €	749 €
Equity	1 991 €	2 013 €	2 016 €	2 229 €	2 257 €	2 666 €	3 155 €	3 717 €	4 355 €	5 072 €	5 856 €	6 679 €	7 542 €	8 444 €	9 386 €
Change in Equity	23 €	3 €	213 €	28 €	409 €	489 €	562 €	637 €	717 €	784 €	823 €	863 €	902 €	942 €	
Comprehensive Income	560 €	430 €	375 €	401 €	250 €	219 €	262 €	301 €	341 €	384 €	420 €	441 €	462 €	483 €	505 €
Financing CF	- 251 €	- 162 €	1 778 €	- 791 €	- 166 €	- 113 €	- 221 €	- 310 €	- 378 €	- 425 €	- 437 €	- 458 €	- 469 €	- 491 €	
Free Cash Flow	251 €	162 €	- 1 778 €	791 €											

Consolidated Balance Sheet (millions of €)	2016	2017	2018	2019	2020	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Assets															
Tangible assets -PP&E	3 023 €	3 475 €	3 687 €	6 305 €	5 984 €	6 284 €	6 889 €	7 355 €	7 781 €	8 196 €	8 544 €	8 791 €	9 045 €	9 307 €	9 576 €
Land and natural resources	447 €	495 €	515 €	528 €	518 €	754 €	827 €	883 €	934 €	984 €	1 026 €	1 055 €	1 086 €	1 117 €	1 149 €
Buildings and other constructions	1 741 €	1 979 €	2 236 €	2 382 €	2 352 €	3 171 €	3 476 €	3 711 €	3 926 €	4 135 €	4 310 €	4 435 €	4 563 €	4 695 €	4 831 €
Plants, machinery and tools	490 €	532 €	702 €	751 €	722 €	937 €	1 027 €	1 097 €	1 160 €	1 224 €	1 274 €	1 311 €	1 349 €	1 388 €	1 428 €
Transport equipment and others	56 €	59 €	89 €	78 €	76 €	106 €	116 €	124 €	131 €	138 €	144 €	148 €	153 €	157 €	162 €
Work in progress and advances	289 €	410 €	146 €	231 €	150 €	396 €	434 €	463 €	490 €	516 €	538 €	554 €	570 €	586 €	603 €
Right-of-use assets	- €	- €	- €	2 335 €	2 167 €	921 €	1 009 €	1 077 €	1 140 €	1 201 €	1 251 €	1 288 €	1 325 €	1 363 €	1 403 €
Intangible assets	787 €	811 €	793 €	794 €	757 €	757 €	764 €	779 €	795 €	812 €	841 €	874 €	899 €	927 €	943 €
Goodwill	630 €	647 €	637 €	641 €	620 €	620 €	620 €	620 €	620 €	620 €	620 €	620 €	620 €	620 €	620 €
Other intangible assets	157 €	164 €	156 €	153 €	137 €	137 €	144 €	159 €	175 €	192 €	221 €	254 €	279 €	307 €	323 €
Investment property	14 €	14 €	12 €	9 €	9 €	9 €	9 €	9 €	9 €	9 €	9 €	9 €	9 €	9 €	9 €
Biological assets	1 €	5 €	7 €	9 €	8 €	9 €	11 €	12 €	14 €	17 €	19 €	22 €	25 €	29 €	34 €
Investments in joint ventures and associates	- €	2 €	3 €	5 €	6 €	6 €	6 €	6 €	6 €	6 €	6 €	6 €	6 €	6 €	6 €
Available-for-sale financial assets/Other Financial Investments	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €
Trade debtors, accrued income and deferred costs	113 €	111 €	85 €	87 €	70 €	113 €	128 €	140 €	153 €	166 €	178 €	186 €	193 €	201 €	210 €
Net Derivative financial instruments	1 €	- €	- €	- €	3 €	3 €	3 €	3 €	3 €	3 €	3 €	3 €	3 €	3 €	3 €
Deferred tax assets	66 €	103 €	113 €	136 €	161 €	174 €	199 €	228 €	264 €	307 €	359 €	421 €	496 €	586 €	695 €
Excess over legal provisions	48 €	59 €	70 €	78 €	96 €	116 €	140 €	168 €	203 €	245 €	296 €	357 €	431 €	520 €	627 €
Update of assets to fair value	4 €	4 €	4 €	4 €	4 €	4 €	4 €	4 €	4 €	4 €	4 €	4 €	4 €	4 €	4 €
Employee benefits	10 €	10 €	10 €	19 €	14 €	14 €	14 €	14 €	15 €	15 €	15 €	15 €	16 €	16 €	16 €
Recoverable losses	- €	- €	- €	- €	2 €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €
Effects of the application of leases standard	- €	- €	- €	8 €	17 €	12 €	12 €	11 €	11 €	11 €	10 €	10 €	10 €	9 €	9 €
Other temporary differences	4,63 €	29 €	29 €	27 €	28 €	29 €	30 €	31 €	32 €	33 €	34 €	35 €	36 €	37 €	38 €
Total non-current assets	4 006 €	4 522 €	4 701 €	7 346 €	6 999 €	7 357 €	8 009 €	8 533 €	9 026 €	9 517 €	9 960 €	10 312 €	10 678 €	11 070 €	11 476 €
Inventories	719 €	842 €	971 €	1 039 €	974 €	1 066 €	1 209 €	1 326 €	1 448 €	1 578 €	1 690 €	1 761 €	1 834 €	1 910 €	1 989 €
Income tax receivable	2 €	5 €	5 €	11 €	17 €	9 €	10 €	11 €	12 €	14 €	15 €	15 €	16 €	16 €	17 €
Trade debtors, accrued income and deferred costs	311 €	388 €	436 €	425 €	393 €	460 €	521 €	572 €	624 €	680 €	729 €	759 €	790 €	823 €	857 €
Commercial creditors	46 €	56 €	58 €	64 €	43 €	63 €	72 €	79 €	86 €	93 €	100 €	104 €	109 €	113 €	118 €
Others	265 €	331 €	377 €	361 €	350 €	397 €	449 €	493 €	538 €	587 €	629 €	655 €	682 €	710 €	739 €
Cash and cash equivalents	644 €	681 €	546 €	929 €	1 041 €	1 247 €	1 481 €	1 859 €	2 373 €	3 004 €	3 716 €	4 453 €	5 241 €	6 071 €	6 956 €
Total current assets	1 675 €	1 916 €	1 957 €	2 404 €	2 426 €	2 782 €	3 222 €	3 769 €	4 457 €	5 275 €	6 150 €	6 987 €	7 881 €	8 820 €	9 819 €
Total assets	5 682 €	6 438 €	6 658 €	9 750 €	9 425 €	10 139 €	11 231 €	12 302 €	13 483 €	14 792 €	16 110 €	17 300 €	18 559 €	19 890 €	21 295 €
Liabilities															
Employee benefits	62 €	66 €	65 €	70 €	70 €	71 €	73 €	74 €	76 €	77 €	79 €	80 €	82 €	83 €	85 €
Provisions for risks and contingencies	22 €	29 €	27 €	28 €	33 €	37 €	42 €	48 €	55 €	63 €	71 €	81 €	93 €	105 €	120 €
Deferred tax liabilities	56 €	68 €	74 €	69 €	64 €	67 €	70 €	74 €	78 €	82 €	87 €	91 €	96 €	102 €	107 €
Deferred income for tax purposes	45 €	56 €	61 €	52 €	52 €	55 €	58 €	62 €	66 €	70 €	75 €	79 €	84 €	89 €	95 €
Differences on valuation criteria in other countries	12 €	13 €	12 €	12 €	12 €	12 €	12 €	12 €	12 €	12 €	12 €	12 €	12 €	12 €	12 €
Deferred Tax from Derivative instruments	0 €	0 €	0 €	0 €	0 €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €
Total non-current liabilities	140 €	164 €	165 €	166 €	166 €	175 €	185 €	196 €	209 €	222 €	237 €	253 €	271 €	291 €	313 €
Borrowings	339 €	537 €	639 €	732 €	524 €	583 €	649 €	724 €	808 €	901 €	1 005 €	1 121 €	1 251 €	1 395 €	1 556 €
Lease Liabilities	- €	- €	- €	2 384 €	2 273 €	2 193 €	2 118 €	2 048 €	1 980 €	1 914 €	1 851 €	1 789 €	1 730 €	1 672 €	1 617 €
Trade creditors, accrued costs and deferred income	3 167 €	3 663 €	3 795 €	4 183 €	4 155 €	4 462 €	5 057 €	5 548 €	6 056 €	6 600 €	7 071 €	7 364 €	7 670 €	7 988 €	8 319 €
Other commercial creditors	2 561 €	2 913 €	3 040 €	3 321 €	3 256 €	3 554 €	4 028 €	4 419 €	4 823 €	5 257 €	5 632 €	5 866 €	6 109 €	6 362 €	6 626 €
Other non-commercial creditors	229 €	302 €	233 €	334 €	279 €	324 €	367 €	403 €	440 €	479 €	513 €	535 €	557 €	580 €	604 €
Other taxes payables	79 €	93 €	114 €	121 €	116 €	122 €	139 €	152 €	166 €	181 €	194 €	202 €	210 €	219 €	228 €
Contracts liabilities with customers	- €	- €	4 €	4 €	7 €	3 €	4 €	4 €	4 €	5 €	5 €	5 €	5 €	6 €	6 €
Refunds liabilities to customers	- €	- €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €	1 €
Accrued costs and deferred income	298 €	355 €	403 €	403 €	497 €	458 €	519 €	569 €	622 €	678 €	726 €	756 €	787 €	820 €	854 €
Income tax payable	45 €	58 €	42 €	52 €	50 €	59 €	66 €	68 €	76 €	83 €	90 €	93 €	96 €	101 €	105 €
Net Derivative financial instruments	- €	2 €	0 €	3 €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €
Total current liabilities	3 551 €	4 261 €	4 476 €	7 355 €	7 002 €	7 297 €	7 890 €	8 389 €	8 920 €	9 498 €	10 017 €	10 368 €	10 746 €	11 156 €	11 597 €
Total liabilities	3 691 €	4 425 €	4 642 €	7 521 €	7 168 €	7 472 €	8 076 €	8 585 €	9 128 €	9 720 €	10 254 €	10 620 €	11 017 €	11 446 €	11 909 €
Shareholders' equity and liabilities															
Share capital	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €	629,3 €
Share premium	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €	22,5 €
Own shares	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €	- 6,1 €
Other reserves	- 96,9 €	- 51,1 €	- 77,0 €	- 67,0 €	- 128,7 €	- 141,5 €	- 155,7 €	- 171,2 €	- 188,4 €	- 207,2 €	- 227,9 €	- 250,7 €	- 275,8 €	- 303,4 €	- 333,7 €
Retained earnings	1 189,2 €	1 193,3 €	1 209,3 €	1 396,3 €	1 491,1 €	1 580,3 €	1 674,9 €	1 775,2 €	1 881,4 €	1 994,0 €	2 113,3 €	2 239,8 €	2 373,9 €	2 515,9 €	2 666,5 €
Non-controlling interests	252,5 €	225,3 €	238,4 €	253,9 €	249,1 €	299,4 €	317,3 €	336,3 €	356,4 €	377,7 €	400,3 €	424,3 €	449,7 €	476,6 €	505,1 €
Total Shareholders' equity	1 990,5 €	2 013,2 €	2 016,3 €	2 228,9 €	2 257,2 €	2 666,4 €	3 155,1 €	3 717,3 €	4 354,8 €	5 071,7 €	5 855,9 €	6 679,1 €	7 541,7 €	8 443,9 €	9 386,0 €
Total Shareholders' equity and liabilities	5 681,8 €	6 438,0 €	6 657,9 €	9 749,7 €	9 425,2 €	10 138,6 €	11 230,7 €	12 302,2 €	13 483,0 €	14 792,0 €	16 109,6 €	17 299,6 €	18 558,6 €	19 890,0 €	21 295,2 €

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Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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