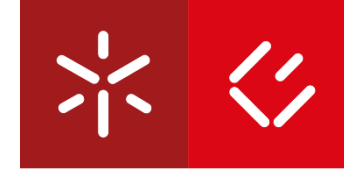




Equity Research Report
Jerónimo Martins SGPS, SA

Catarina Moreira

UMinho | 2023



Universidade do Minho
Escola de Economia e Gestão

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May 2023



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Equity Research Report
Jerónimo Martins SGPS, SA

Master's Project
Master in Finance

Supervised by
Professor Doutor Nelson Areal

May 2023

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RESUMO

Este Equity Research Report é o resultado do Projeto de Mestrado realizado como parte do programa Mestrado em Finanças da Universidade do Minho. O relatório é sobre o Grupo Jerónimo Martins, uma empresa portuguesa que atua na indústria de Retalho e Distribuição Alimentar em Portugal, Polónia e Colômbia.

A estrutura do documento segue as diretrizes fornecidas pelo CFA Institute. O estudo começa com uma introdução sobre a Jerónimo Martins e as suas marcas proeminentes, nomeadamente Pingo Doce, Recheio, Biedronka, Hebe e Ara. Em seguida, o relatório inclui uma análise do desempenho e metas ESG da empresa, bem como uma visão geral da indústria. As seções subsequentes abordam as informações financeiras do Grupo e explicam as metodologias de avaliação utilizadas para a análise. As informações financeiras da empresa foram principalmente obtidas a partir do Relatório Anual de 2021, complementadas pelo relatório preliminar de vendas de 2022. Outros valores incluídos na avaliação foram atualizados pela última vez no dia 25 de abril, sem ajustes subsequentes. O método principal de avaliação utilizado nesta pesquisa é a Avaliação de Fluxos de Caixa Descontados (FCD). Este é complementado por uma Análise de Sensibilidade, Análise de Cenários e Avaliação de Pares para enriquecer a análise e sustentar a recomendação de investimento. Por fim, o relatório é concluído com uma avaliação dos riscos de investimento associados à empresa, a probabilidade de ocorrência e o respetivo impacto.

Os resultados da Avaliação FCD resultam num preço-alvo para a ação de 22,90€. Isto representa um potencial de valorização de 5,05% e leva a uma recomendação de investimento HOLD.

Em conclusão, este Equity Research Report descreve informações relevantes sobre a Jerónimo Martins, como a estratégia de investimento sólida para a expansão da Ara na Colômbia, a importância das renovações para o Pingo Doce e a Biedronka, uma vez que são marcas mais maduras com forte presença em Portugal e Polónia, e a notável pontuação ESG que eles têm mantido consistentemente. Todos estes fatores destacam a Jerónimo Martins como uma oportunidade de investimento atrativa na indústria de Retalho e Distribuição Alimentar.

Palavras-chave: Análise de Sensibilidade, Avaliação de Fluxos de Caixa Descontados, Avaliação de Pares, Jerónimo Martins, Recomendação de Investimento.

ABSTRACT

This Equity Research Report is the outcome of the Master's Project conducted as part of the Master in Finance program at University of Minho. The report is about the Group Jerónimo Martins, a Portuguese company operating in the Food Retail and Distribution industry across Portugal, Poland, and Colombia.

The structure of the document adheres to the guidelines provided by the CFA Institute. The study begins with an introduction to Jerónimo Martins and their prominent brands, namely Pingo Doce, Recheio, Biedronka, Hebe, and Ara. Afterwards, the report includes an analysis of their ESG performance and goals, as well as an industry overview. The subsequent sections delve into the financials of the Group and expound upon the valuation methodologies used for the analysis. The Company's financial information is primarily sourced from the 2021 Annual Report, supplemented by the preliminary sales report from 2022. Other valuation figures were last updated on April 25th, with no subsequent adjustments made. The main valuation method employed in this research is the Discounted Cash Flow (DCF) Valuation. It is complemented with a Sensitivity Analysis, Scenario Analysis, and Relative Valuation to enrich the analysis and support the investment recommendation. Lastly, the report is concluded with an assessment regarding the investment risks associated with the Company, the probability of occurrence and respective impact.

The results from the DCF Valuation yield a target share price of 22.90€. This represents a potential upside of 5.05% and leads to a HOLD investment recommendation.

In conclusion, this Equity Research Report offers valuable insights into Jerónimo Martins, such as the strong investment strategy in place for Ara's expansion in Colombia, the importance of renovations for Pingo Doce and Biedronka as these are more mature brands with strong presence in Portugal and Poland respectively, and the notable ESG score they have consistently upheld. All these factors highlight Jerónimo Martins as an attractive investment opportunity in the Food Retail and Distribution industry.

Keywords: Discounted Cash Flow Valuation, Investment Recommendation, Jerónimo Martins, Relative Valuation, Sensitivity Analysis.

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Jerónimo Martins

RECOMMENDATION

HOLD

Date	25.04.2023
Current Price	21.80 €
Target Price	22.90 €
Upside	5.05%
52-Week Range	17.96€ - 23.30€
Industry	Food Retail & Distribution
Sector	Consumer Defensive
Ticker	JMT.LS
Stock Exchange	Euronext Lisbon
Shares Outstanding	628,434,220
Market Capitalization	13,700M €
EPS (2022)	0.93
Free Float	37.71%

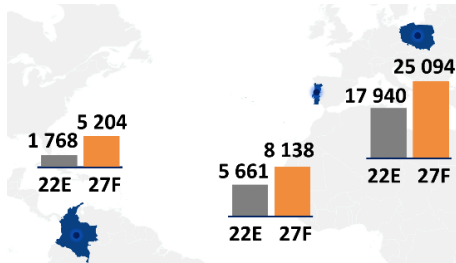
Group Jerónimo Martins operates predominantly in the Food Retail and Distribution sector and holds prominent market positions in Portugal and Poland. Also, the Company has adopted an ambitious growth strategy in Colombia. Based on the analysis of revenue growth and store network expansion, it is estimated that JMT's intrinsic value exceeds its current market value.

Figure 1: JMT Share price evolution from 01/01/2018 to 25/04/2023



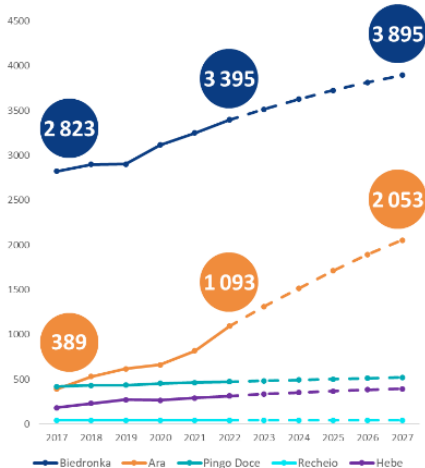
Source: Investing.com

Figure 2: Revenues for 2022YE and 2027YF by country (M€)



Source: Company Data and Author

Figure 3: Forecasted number of stores per brand up to 2027



Source: Company Data and Author

INVESTMENT SUMMARY

The present report issues a **HOLD** recommendation for Jerónimo Martins with a target price of 22.90€/ share, corresponding to a 5.05% upside potential on the closing price of 21.80€ on April 25th, 2023. The target price is based on a Discounted Cash Flow (DCF) valuation methodology, complemented by a Sensitivity Analysis, a Scenario Analysis and a Relative Valuation.

The investment recommendation is built on the following key catalysts:

Proven Leadership in Poland Despite the challenges posed by the pandemic and the ongoing conflict between Ukraine and Russia, **Biedronka** continues to outperform its peers, cementing its position as the leading player in the Polish Food Retail market with a market share of over 20%. In 2022, the company witnessed a revenue growth of 20.9% compared to the previous year. JMT remains committed to its strategy of expanding physical store networks, with plans to open more than 100 Biedronka stores annually in the near future. The positive revenue trend is expected to continue, driving sustainable growth for the Group. Revenues from the Polish segment are anticipated to maintain their upward trajectory, with a projected CAGR of 6.94% during the forecasted period, reaching 25 094M€ in 2027YF (Figure 2).

Sustaining a Competitive Edge in the Digital Era In October 2021, Biedronka partnered with Glovo to launch a pioneering delivery service named **Biek**, which is supported by 14 micro-fulfilment centres. This service is currently available in six Polish cities and provides customers with a more convenient shopping alternative. As companies continue to focus on accelerating their online presence, Jerónimo Martins is keeping up with the trend, particularly with their Health and Beauty brand, **Hebe**, which generated 14% of their total revenue from e-commerce in 2022.

Unlocking Potential in the Colombian Market JMT's most ambitious and aggressive growth strategy is with **Ara's** neighborhood stores. Based on the estimates, it is expected that revenues grow at a CAGR of 24.1% from 2022YE to 2027YF, reaching 5204M€ in sales at the end of this period. This represents almost triple their current results, and positions Ara as a major value driver for Jerónimo Martins, for which the representation in total sales will

increase from the current 7% to an estimated 13.5% in 2027YF. To achieve this growth, the plan is to continue the aggressive expansion strategy by opening 200+ Ara stores per year during the forecasted period, meaning that the number of stores will be close to double compared to today (Figure 3).

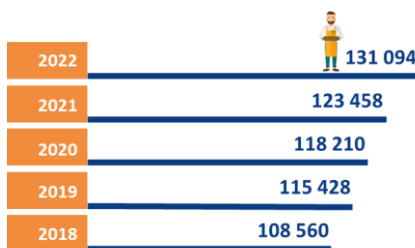
BUSINESS DESCRIPTION

Figure 4: Number of stores per brand in 2022



Source: Company Data and Author

Figure 5: Total number of employees



Source: Company Data

Figure 6: Jerónimo Martins' brands



Source: Company Data

Jerónimo Martins SGPS SA is an international publicly-traded company, headquartered in Portugal, operating mainly in the Food Retail and Distribution sector. Their story began with a single convenience store in Lisbon in 1792. In 1989, Jerónimo Martins entered the Lisbon Stock Exchange with an IPO placing 25% of the Company's share capital on the market and, five years later, it was listed on the PSI, the Portuguese stock index. Currently, the Group has a Free Float of 37.7% and is operating in Portugal, Poland and Colombia, combining more than 5300 stores (Figure 4) and 131k employees¹ (Figure 5).

FOOD RETAIL AND DISTRIBUTION

The Group's main business sector is Food Retail and Distribution, contributing to over 98% of total sales. In Poland, Jerónimo Martins is the leader in the supermarket segment with **Biedronka**, known for its low prices, wide selection of products, and convenient locations, representing close to 70% of total sales (Figure 7). In Portugal, this sector is embodied by the **Pingo Doce** supermarket chain, one of the leading retailers in the country, and by **Recheio** in the Cash & Carry segment. Together, these make up 22.3% of total sales in 2022. Recheio has three major brands: Amanhecer, MasterChef, and Gourmês, and its business model includes a specialized delivery operation in food service, which essentially serves HoReCa customers (Hotels, Restaurants and Coffee shops).

Since 2013, the Company has also started operations in Colombia with the **Ara** neighborhood stores brand, which has shown impressive growth in the latest periods and contributed to 7% of total sales in 2022 (up from the sales figures in 2021: 5.3%). Ara currently operates in three regions of the country: The Coffee-Growing Region, the Caribbean Coast, and Bogota.

SPECIALIZED RETAIL

The Specialized Retail sector in Jerónimo Martins is composed of the **Hebe** Health and Beauty chain in Poland and, in Portugal, the Jeronymo coffee shops and Hussel chocolate stores. The Hebe chain contributed with 358M€ to total sales in 2022 (1.4%) and the e-commerce segment is responsible for 14% of its revenue. The e-commerce platform is currently delivering to four other European countries besides Poland: Germany, Czech Republic, Slovakia, and Portugal.

Since Jeronymo and Hussel are smaller brands and together represent around 0.1% of the Group's total sales, thus being materially irrelevant, their metrics will not be considered individually for the valuation constructed in this report and will only appear in the consolidated statements.

AGRIBUSINESS

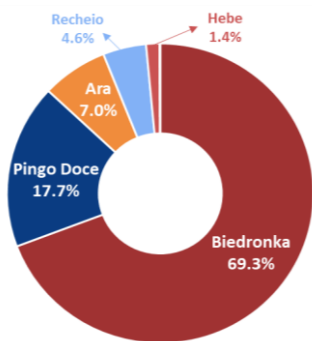
The Agribusiness from JMT was created in 2014 with the goal of supporting the Food Distribution operations specifically in Portugal, by ensuring direct access to the supply sources of strategic products. It currently operates in four distinct areas: dairy, livestock farming, aquaculture, and fruits and vegetables. In 2021, this business was responsible for the production of 81.5M liters of milk, 2201 tons of Angus beef and 1400 tons of sea bream and sea bass. However, comparing to other business areas of the Group, the revenues for this sector are proportionally immaterial, and therefore will only be included in the consolidated financial forecasts.

COMPANY STRATEGY

The Group focuses on providing high-quality and affordable food solutions, tailored to the local markets. Their vision is dedicated on achieving profitable and sustainable growth by prioritizing leadership in their markets, responsible management of their environmental and social impact, and ensuring independence through sensible management of their finances and supply-chain. Their main priority regarding capital allocation is Capital Expenditure, which reached 604M€ in 2021. One of the main current efforts is to maintain aggressive growth for the stores network for Ara since this neighborhood stores' model is filling a great business opportunity in Colombia.

¹ Jerónimo Martins. Retrieved in March, 2023, from <https://www.ieronimomartins.com/pt/>

Figure 7: Sales of each brand in 2022 as a percentage of total sales



Source: Company Data

For Biedronka, renovations represent the most significant investment, but new stores are also expected to keep opening at the current rate for the next years. Renovations also play a very important role for Pingo Doce stores, for which the investment has been substantial, since the retail market in Portugal is dominated by discounters. To face such strong competition, the Group intends to invest in new restaurant areas and meal solutions that will boost customer visits.

Jerónimo Martins has been reinforcing their online presence, prioritizing adaptability to changing consumer lifestyles. The partnership between Biedronka and Glovo covers Poland's largest cities, enabling JMT to monitor trends in the needs and preferences of consumers. Also in partnership with Glovo, Biedronka launched a delivery service, **Biek**, now available in six Polish cities.

ENVIRONMENTAL, SOCIAL & GOVERNANCE

ESG analysis, which stands for Environmental, Social, and Governance, plays a crucial role in investment decision-making. By integrating ESG factors into investment analysis, investors gain valuable insights that help identify risks and opportunities that may affect a company's financial performance, reputation, and overall value.

Jerónimo Martins' ranking has declined over the years (Figure 8) but it still maintains an upper-end average rating in the industry. Morningstar Sustainalytics rates the Group as having a low ESG risk, with a score of 14.1, placing it as the 8th in the Food Retailers sector in a set of 194 companies². Compared to some of the closest peers, JMT' score sits just behind Tesco's in 2020 (Figure 9). The Group has progressed in every ESG component in the latest periods and continues to set ambitious targets. Nonetheless, it is recommended that they place greater emphasis on corporate behavior to mitigate potential controversies and maintain their strong ESG position and low risk.

In 2022, JMT made significant strides in fulfilling their commitment to corporate responsibility, focusing on five key pillars: promoting good health through food, respecting the environment, sourcing responsibility, supporting surrounding communities and being a benchmark employer.

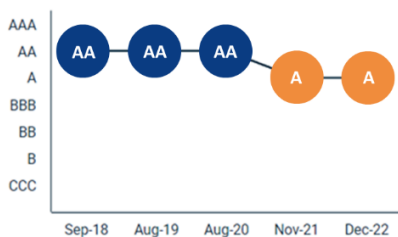
ENVIRONMENT

Jerónimo Martins has notably worked in reducing their environmental impact and is considered a low environmental risk investment, since they have consistently held a high environmental score in past years. Their carbon emissions target is ambitious, with a plan to reduce at least 40% per 1000€ in revenue for the 2021-2023 period, compared to 2017. In 2021, the Group reduced their Scopes 1 and 2 carbon emissions by 48% per €1000 of sales, meeting the target. This reduction is partly due to JMT's preference for local suppliers, leading to lower logistics-based emissions.

In terms of energy usage, the Group is increasing the investment in renewable energy production, particularly in Poland, with about 36% of total energy consumption being renewable in 2021YE. The Company determined a target of 10% reduction in energy consumption for every €1000 in sales for the 2021-2023 period, which was achieved in 2021, with consumption reduced by 11%. With these results, Jerónimo Martins is aligned with The Paris Agreement temperature rise target, implying a temperature rise of 1.7oC.

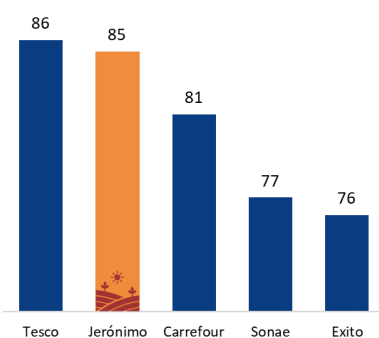
As for 2022 highlights, the Company revamped their private brand products to reduce levels of fat, sugar, and salt, while implementing eco-design packaging that led to the avoidance of thousands of tons of plastic. JMT's dedication to sustainability was recognized by CDP, a non-profit charity managing the global disclosure systems³, as the Group was considered the leading global food retailer, earning the highest 'A' score for climate change, water security, and responsible management of commodities associated with deforestation risks, such as palm oil and beef. Jerónimo Martins has prioritized responsible sourcing by increasingly relying on local suppliers, which now account for over 90% of total suppliers in Poland, 80% in Portugal, and 95% in Colombia. These highlights demonstrate that, despite the setbacks caused by the COVID-19 pandemic, the eco-friendly measures in place are sufficient for JMT to keep reducing their environmental impact.

Figure 8: JMT's historical ESG rating



Source: Morgan Stanley Capital International

Figure 9: ESG peer comparison (2020)



Source: Refinitiv Eikon

² Morningstar Sustainalytics. Retrieved in May, 2023, from <https://www.sustainalytics.com/esg-rating/jer-nimo-martins-sgps-sa/1008756492>

³ CDP. Retrieved in May, 2023, from <https://www.cdp.net/en/info/about-us>

Figure 10: Yearly ESG score grades of JMT between 2017 and 2020

JM Yearly ESG Score Grades				
	2020	2019	2018	2017
ESG Score	A	A-	B+	A-
ESG Controversies Score	C-	A	A+	A+
ESG Combined Score	B-	A-	B+	A-
Environmental Score	A	A	A-	A
Social Score	A+	A	A	A
Governance Score	B+	B-	C+	B-

Source: Refinitiv Eikon

SOCIAL

In 2021, the Company experienced a 4.6% increase in employee turnover rate as a result of returning to normal operations. Over the past five years, the number of employees has grown by an average of 5.1%, with human capital development metrics following the same trend. The majority of JMT's workforce is female, representing 76.5% of total employees. The Group's Social score (93) exceeds the industry mean (53) and is only slightly below the highest (95). This score is primarily attributed to the pillars related to Workforce and Product Responsibility.

Jerónimo Martins is considered strong in social areas such as its gender pay ratio, gender equality efforts, increasing female representation in top-level management, and employee training. However, the Group lags in ESG metrics related to privacy/ data security, and corporate behaviour due to controversial business activities such as price-fixing, abusing bargaining power against suppliers, and dishonest marketing. These actions have resulted in a tarnished reputation, lower ESG scores (Figure 10), and significant fines, totalling 124M€ in 2021 and 198M€ in 2020, bringing the score down from 85 to 57 when taking controversies into account (Appendix 3).

Regarding the standout events of 2022, JMT demonstrated their commitment to humanitarian causes by supporting Ukrainian refugees through cash and food donations, along with essential products provided by Hebe, Pingo Doce, and Recheio. As an employer, JMT invested 289M€ in awards and recognitions, 33% more than in 2021, while promoting over 21k employees and allocating 18M€ to training initiatives, a nearly 50% surge from the previous year.

GOVERNANCE

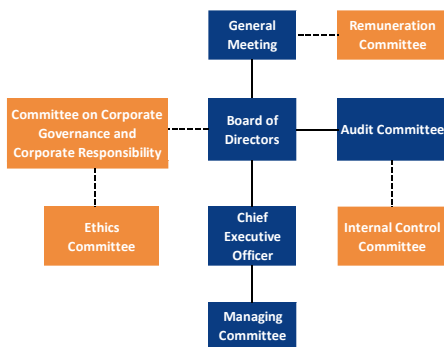
Jerónimo Martins' governance is the weakest of the three ESG pillars. Between 2016 and 2020, the governance score increased from B- to B+ (Figure 10), placing 34th within the industry.

Board of Directors The Board is composed by 11 members with distinct professional and educational backgrounds spanning different areas of expertise. Independent board members represent 60%, and there is a 36% female representation, which includes a new member with expertise in sustainability (Appendix 1). However, one of the significant issues is the potential agency problems that may arise due to the fact that the CEO also holds the position of Chairman of the Board. The term of office is three years with the possibility of re-election.

Executive Compensation The Remuneration Committee (Figure 11) is responsible for supervising executive compensation. Non-executive directors receive a fixed amount, while executive directors, particularly the CEO, receive a combination of fixed and variable components, with the latter capped at twice the amount of the former. The variable component is tied to shareholder return, key financial performance indicators, and sustainability, strategy and ESG performance. JMT is transparent in its remuneration policies and practices, considered as a positive attribute.

Shareholder Structure The Group has held 859k of their own shares since their acquisition in 1999. Institutional ownership accounts for 27.15% with Comgest holding the largest stake of 2.06% (Appendix 2). The primary shareholder is *Sociedade Francisco Manuel dos Santos*, owning approximately 56.14% of the Company. The fact that the CEO and Chairman of the Board of Directors is a member of the family who is the majority shareholder leads to the belief that JMT's long-term interests are aligned. However, with majority control, minority shareholders may face limitations in their influence.

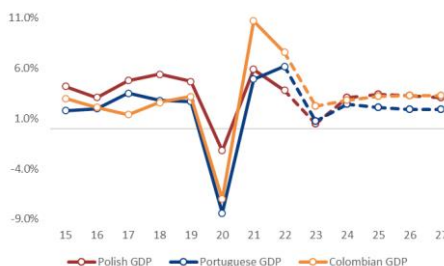
Figure 11: JMT' Governance Structure



Source: Company Data

INDUSTRY OVERVIEW

Figure 12: GDP growth rate from 2015 to 2027 (forecasted)



Source: IMF

ECONOMIC OVERVIEW

Jerónimo Martins has a direct presence in three countries with distinct consumer and economic characteristics. The year 2022 introduced a great deal of economic uncertainty, deviating from the bullish trend, low inflation, and low interest rate period seen before and shortly after the peak of the COVID-19 pandemic (Figure 12). According to IMF forecasts, the global economy is expected to stabilize from 2024 onwards⁴, however the potential outcomes of the Ukrainian conflict could have significant implications for economic recovery and inflation rates.

Consumer Price Index, Real Growth, and Inflation Jerónimo Martins operates in Poland, Portugal, and Colombia, through its various brands. The Company is heavily reliant on the Polish segment, which accounts for 70.7% of its revenues in 2022. Therefore, the economic

⁴ IMF. Retrieved in October, 2022, from https://www.imf.org/external/datamapper/NGDP_RPCH@WEQ/OEMDC/ADVEC/WEOWORLD

Figure 13: SWOT Analysis

S	W
<p>Strength</p> <ul style="list-style-type: none"> > Low-priced player > Reputation and Experience > Logistics base > Economies of scale > Private brands > Strong Balance Sheet 	<p>Weakness</p> <ul style="list-style-type: none"> > Political pressure > Geographical restrictions > Currency risk exposure > Exposure to fuel and energy prices > Increasing in minimum wages > Employees turnover
O	T
<p>Opportunities</p> <ul style="list-style-type: none"> > Thinking beyond the borders > Continuous expansion > M&A operation > Refugees customers retention > Partnerships 	<p>Threats</p> <ul style="list-style-type: none"> > Political issues > Acelaration of cost inflation > Rise of labor costs > Competition increase > Economic recession

Source: Author

conditions prevailing in Poland are of significant interest to JMT's performance. The country's geographical proximity to Ukraine, one of the world's largest wheat producers, and its dependency on Russian fuel and natural gas have contributed to a rise in inflation, resulting in increased energy, distribution, and food prices. Inflation in the food sector has been consistently higher than the CPI, leading to a reduction in purchasing power, which has deeply affected the food retail industry (Figure 14).

Interest Rate The Group's estimated debt ratio for 2022E is 28%, indicating that the Company has a relatively low level of financial leverage. However, they are still vulnerable to interest rate increases in their loans, leases, and market expectations. It is worth noting that 100% of Colombian stores, 80% of Polish stores, and 50% of Portuguese stores are rented, which exposes JMT to interest rate volatility. This is particularly concerning given the aggressive expansion strategy for the forecasted period, mostly for Ara, representing a threat (Figure 13).

RETAIL INDUSTRY OVERVIEW

Poland Biedronka is Jerónimo Martins' largest brand in the retail food sector, and is the leading supermarket chain in Poland. This market is valued at €71.29 billion in 2023 according to Statista, and is expected to grow annually by a CAGR of 7.17% (2023F-2028F)⁵. In the first half of 2022, Biedronka attracted a remarkable 93.5% of customers among all discount stores, boasting the largest customer base. Moreover 24% of all customers exclusively chose Biedronka without visiting other grocery stores⁶. In comparison, the largest competitor, Lidl, has a consumer loyalty base of 5%. Other Biedronka's competitors are Kaufland, Auchan, and Dino.

As for the Health and Beauty industry in Poland, it is expected to have a 4.33% CAGR from 2023F to 2027F⁷. Some competitors of Hebe in the Polish market are Rossmann, Sephora, Doz, Apteka Gemini, and Natura, all of which have a strong online presence. E-commerce constitutes 14% of Hebe's entire sales; however, online sales represent 23% for this Polish industry, indicating a significant growth potential for Hebe's digital commerce. Population growth is another key driver of overall demand in the Polish market, which increased by 4.04% from 2021 to 2022⁸.

Portugal Pingo Doce is a well-established player in the Portuguese food retail industry, holding a market share of around 21%. It trails behind SONAE MC, the market leader, holding a market share of 26%.⁹ The industry is known for its high level of competition, making it challenging for players to maintain their market position. Other peers in the Portuguese market include Intermarché, Lidl and Auchan. The Cash & Carry brand, Recheio, is a leader in the wholesale segment, along with Makro. Given that Recheio mainly supplies hotels and restaurants, its performance is positively correlated with the tourism activity.

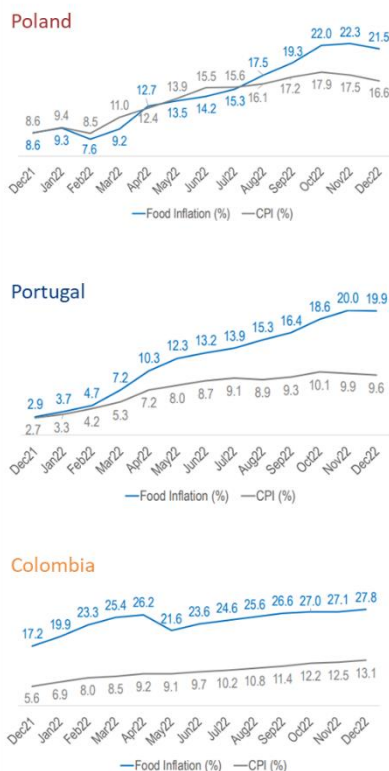
Colombia For Ara, the Company is pursuing an aggressive expansion strategy to increase their presence in the Colombian market. Grupo Éxito, with their extensive workforce and diversified offering of store formats, holds a prominent position in the Colombian food retail industry as the country's largest food retailer and the most valuable store brand. Leading grocery discounters, such as Ara, D1 and Justo & Bueno, have emerged in this space, collectively operating a large network of physical stores¹⁰. JMT's strategy is to capture the market share of small mom-and-pop stores by opening community-oriented stores in neighbourhoods and smaller communities. The Colombian food retail market is expected to grow annually by 6.31% CAGR (2023F-2028F)¹¹.

COMPETITIVE POSITIONING

Threat of New Entrants LOW

Entering the food retail market requires significant initial investment in equipment and stores, and net margins are not as attractive as in other industries. In addition, reinvestment in infrastructure is crucial to remain competitive. Among the three markets JMT operates in, the most mature business with the lowest forecasted growth is in Portugal, meaning the threat of new entrants is low for this market. In Poland, despite being the largest market with strong demand drivers, Biedronka occupies the market leadership position, which makes the threat of new entrants relatively low as well. In contrast, Colombia has a higher threat of new

Figure 14: Food inflation (%) and CPI (%) in Poland, Portugal and Colombia during 2022



Source: Company Data

⁵ Statista. Retrieved in May, 2023, from <https://www.statista.com/outlook/cmo/food/poland?currency=EUR>

⁶ AIPH. Retrieved in December, 2022, from <https://aiph.org/floraculture/news/biedronka-continues-to-dominate-polands-discounter-market/>

⁷ Statista. Retrieved in January, 2023, from <https://www.statista.com/outlook/cmo/beauty-personal-care/poland?currency=EUR>

⁸ Macrotrends. Retrieved in February, 2023, from <https://www.macrotrends.net/>

⁹ European Supermarket Magazine. Retrieved in March, 2023, from <https://www.esmmagazine.com/retail/top-10-supermarket-retail-chains-in-portugal-234618>

¹⁰ Statista. Retrieved in November, 2022, from <https://www.statista.com/topics/7143/supermarkets-in-colombia/#topicOverview>

¹¹ Statista. Retrieved in May, 2023, from <https://www.statista.com/outlook/cmo/food/colombia?currency=EUR>

entrants due to its underdeveloped market with growth opportunities, and because customers are not as demanding for quality and size, the initial investment needs are lower (Figure 15).

Bargaining Power of Suppliers **MODERATE**

Historically, Jerónimo Martins has maintained strong relationships with suppliers, benefiting from a diversified supply chain and multiple distribution centres, which typically reduces the bargaining power of suppliers. However, due to supply chain disruptions caused by the ongoing Ukrainian conflict, there may be an increase in supplier bargaining power, particularly for products that the Company heavily depends on. As JMT has 17 distribution centres in Poland, this represents an advantage over its competitors in mitigating the negative effects of the war. In Portugal, the Group benefits from investments in Agribusiness and the Norwich salmon company. However, in Colombia, the Group is still establishing their own supply chain, which means suppliers may hold more bargaining power compared to the other two countries.

Bargaining Power of Customers **MODERATE**

In Portugal, customers are known to be very demanding and price-sensitive, making discount-based strategies effective in boosting sales. With a considerable number of stores nearby each other in most cities, customers in Portugal have high bargaining power. In Poland, customers are not as concerned with pricing as Portuguese customers, and there are fewer stores per square kilometre. As a result, their bargaining power is considered moderate. In Colombia, the market is dominated by mom-and-pop stores, leading to a lot of information asymmetry and a lack of established players, resulting in moderate customer bargaining power as well.

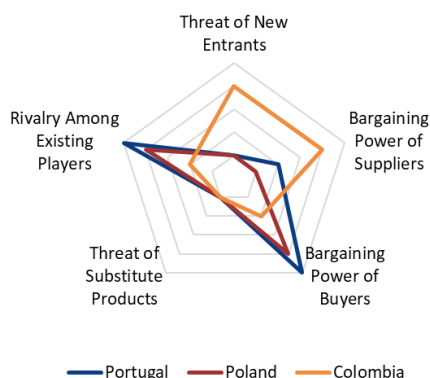
Threat of Substitute Products **LOW**

The Group may face potential threats from innovative services like direct-to-customer online sales and grocery delivery services. However, this possibility is being mitigated by JMT with their recent Biek service in partnership with Glovo. Also, the threat of substitution is generally low since food products are essential for human life.

Rivalry among existing players **MODERATE**

In Portugal, the food retail market is highly competitive, with established players holding a strong market share. This intense rivalry is driven by both brand and geographical factors. In Poland, Biedronka has upheld the market leader title, but there is still room for growth for other retailers without having to engage in aggressive competition for market share. As a result, rivalry among players in Poland is moderate. In Colombia, the food retail industry is dominated by small companies, presenting many opportunities for growth without the need for extensive competition between players. Therefore, rivalry is currently low in this market.

Figure 15: Five forces of Porter analysis for operations in Poland, Portugal and Colombia



Source: Author

FINANCIAL ANALYSIS

Table 1: Key Financials of Jerónimo Martins; actual values for 2019-2021, expected values for 2022 and forecasted values for 2023-2027

KEY FINANCIALS (M€)	2019YA	2020YA	2021YA	2022YE	2023YF	2024YF	2025YF	2026YF	2027YF
Revenues	18638	19293	20889	25369	29253	31259	33479	35917	38470
EBIT	706	639	806	972	1170	1251	1339	1437	1539
Net Income After Taxes	421	323	484	593	716	765	821	883	949
Change in WC	220	246	375	-31	284	931	310	341	357
Capex Payment	-577	-510	-604	-639	-665	-690	-713	-734	-753
FCFF	442	452	364	902	740	159	850	897	961
FCFE	339	301	250	773	587	-4	677	714	768
PROFITABILITY RATIOS									
Gross Profit margin	21.87%	21.91%	21.53%	21.65%	21.65%	21.65%	21.65%	21.65%	21.65%
Net Profit margin	2.26%	1.67%	2.32%	2.34%	2.45%	2.45%	2.45%	2.46%	2.47%
ROA	5.13%	3.37%	4.89%	5.55%	6.11%	5.80%	5.70%	5.75%	5.79%
ROE	19.85%	14.41%	20.22%	23.23%	27.17%	27.44%	27.47%	27.50%	27.40%
SOLVENCY RATIOS									
Debt/Equity	1.40	1.24	1.12	1.20	1.35	1.34	1.32	1.29	1.25
Financial Leverage ratio	3.87	4.28	4.13	4.18	4.44	4.73	4.82	4.78	4.73
Interest Coverage ratio	4.50	3.55	5.23	5.63	5.69	5.69	5.74	5.82	5.92
LIQUIDITY RATIOS									
Current ratio	0.49	0.52	0.59	0.57	0.65	0.71	0.74	0.77	0.81
Cash ratio	0.18	0.22	0.28	0.23	0.29	0.38	0.41	0.44	0.48
ACTIVITY RATIOS									
Inventory turnover	14.49	14.97	15.75	16.16	15.74	15.18	15.20	15.21	15.20
Receivables turnover	43.29	47.17	47.91	46.79	40.05	35.33	35.37	35.40	35.37
Payables turnover	3.65	3.61	3.67	4.02	4.18	3.83	3.65	3.65	3.65

A consistent upward trend in sales is evident for Jerónimo Martins along the forecasted period, attributed to the expansion of new stores as well as organic growth per store. These figures already account for the impact of inflation, as they are nominal values. Representatives from Jerónimo Martins have affirmed their intention to mitigate the effects of future inflation by partially shifting the burden to consumers, thereby indicating that inflation is unlikely to significantly impact profitability margins. The forecasted Balance Sheet, Income Statement and Cashflow Statement are displayed in Appendixes 10, 11 and 12.

LIKE-FOR-LIKE METHODOLOGY

To forecast revenues, one of the most important factors for the FCFF computation, a Like-for-like approach was applied, using the number of stores as the basis. This Like-for-like analysis compares the revenues of each quarter since 2017 with the number of stores from 2017, then from 2018, 2019 and so forth (Appendixes 4-8). For this calculation, the results using the number of stores from older periods received higher multiplier coefficients, as they involve more data and therefore represent more realistic scenarios. This method resulted in a quarterly revenue growth rate of **0.76%** for Biedronka, **0.55%** for Pingo Doce, **1.14%** for Recheio, **2.01%** for Ara and **1.06%** for Hebe. This means that, regardless of the opening of new stores, each brand is expected to grow their revenues quarterly by these percentages.

REFUGEE IMPACT

In Poland, Biedronka's revenues grew 20.90% from 2021 to 2022. Part of this growth is attributed to the refugees from Ukraine that moved to Poland to escape the ongoing conflict. In total there were 1.6 million people in that situation, which corresponds to around 4.24% of the Polish population. Assuming that they will gradually leave the country during 2023, 2024 and 2025, a decreasing discount rate was applied in Biedronka's revenues for these years. This is a way to account for the sales to these potential customers that will not be consistent in the long run.

KEY FINANCIALS

The **Operating Profit** of Jerónimo Martins, along with other performance factors, exhibits a strong growth trajectory in the short term. The projected growth for 2023YF is comparable to the growth observed in 2022YE, with a stabilized growth rate anticipated for the subsequent four years. A comprehensive breakdown of the assumptions utilized in estimating each component contributing to the operating profit is found in Appendix 9.

The **Net Income**, considered the ultimate metric of annual performance, follows a similar growth pattern as the operating profit. The Group has consistently demonstrated stable margins in recent periods, which signifies a robust financial position. This consistent growth in net income further reinforces the financial health of Jerónimo Martins, since it implies a sense of maturity with lower variation and therefore reduced risks for equity holders.

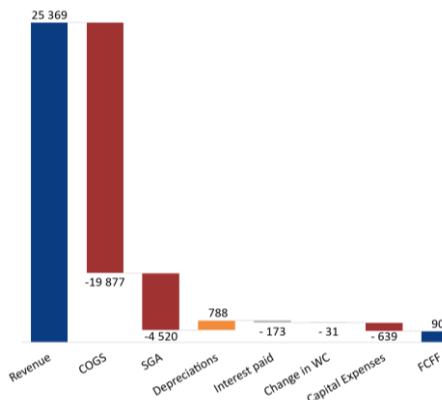
The negative **Change in Working Capital** observed in 2022YE is attributed to maintaining turnovers at historical averages. However, this trend is swiftly reversed in 2023YF, with subsequent periods showing stable and consistent values similarly to previous periods. The decision to project the growth of Inventories, Trade Debtors, and Trade Creditors based on their respective turnover rates was derived from an analysis of past periods, leading to the conclusion that this approach best aligns with realistic long-term forecasts.

The **Free Cash Flow to Firm** represents the amount of cash available to all investors, including equity and debt holders. For JMT it is anticipated steady growth in FCFF over the coming years, with the exception of 2024YF, due to an outlier value regarding the change in working capital. Nonetheless, this anomaly is rectified in 2025YF, and a stabilized trend is projected to persist in the long run. A waterfall breakdown analysis from Revenues to FCFF is displayed in Figure 16. For the **Free Cash Flow to Equity**, similar expectations are held for the long term, with anticipated maintenance of a stable trend from 2025YF on.

Profitability One of the key assumptions for Jerónimo Martins' financials forecast is the ability of the Group to maintain gross profit and net profit margins stable in the foreseeable future. In the near future, it is anticipated a consistent **Return on Assets** for Jerónimo Martins, albeit with a potential standard error induced by macroeconomic uncertainties (Figure 17). When considering the industries in which JMT operates, it is typically observed lower variability and consequently a lower level of risk compared to the broader market, suggesting that investing in the Company may offer relative safety during bearish market conditions. However, it is important to note that the aggressive investment strategy in the latest periods and near future possibly leads to mistimed decisions that may not be favourably received by the market. Regarding the **Return on Equity**, the expectation is for an increase in 2023YF, which is also substantiated by the aforementioned arguments regarding ROA. The aggressive investment path lately pursued by the Group reinforces the anticipation of subsequent growth in returns. Additionally, considering that investors tend to favour anticyclical investments during bearish market conditions, JMT may present itself as a prudent investment choice.

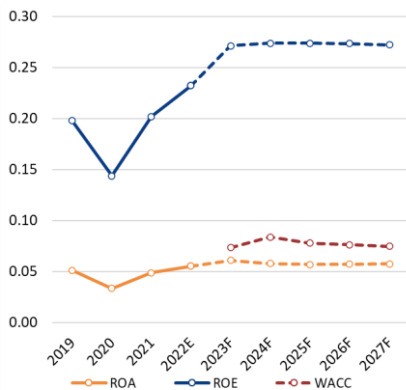
Solvency Regarding solvency, the **Debt-to-Equity** ratio is expected to increase from 1.20 to 1.35, reflecting the upsurge in **Financial Leverage** as the Group expands the stores network, especially for Biedronka and Ara. This is mainly reflected through the increase in the value of non-current leases. For the following periods, these metrics are anticipated to stabilize and even reduce in the long run, as the investment in physical stores is expected to slow down

Figure 16: Waterfall from Revenues to Free Cash Flow to Firm in 2022



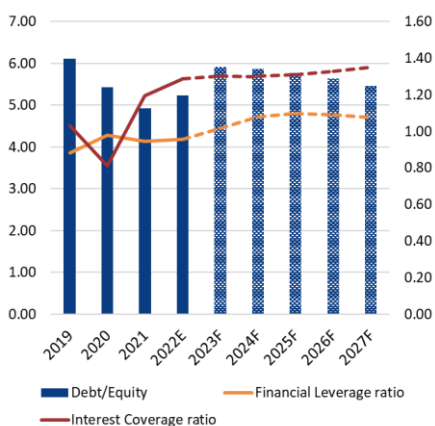
Source: Company Data and Author

Figure 17: Profitability ratios



Source: Company Data and Author

Figure 18: Solvency ratios

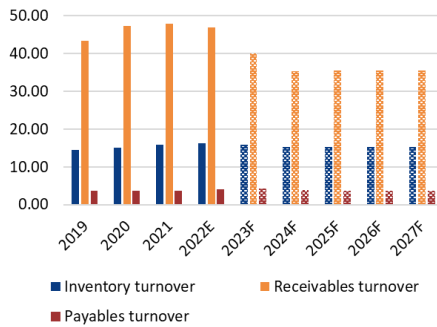


Source: Company Data and Author

(Figure 18). The **Interest Coverage Ratio** is projected to slowly increase over time, signalling a slight improvement in the company's ability to meet interest obligations. These considerations lead to conclude that JMT's solvency is on the path to improve, motivated by solid equity growth and stable levels of debt.

Liquidity Jerónimo Martins' liquidity is projected to keep improving as the latest trend suggests, mainly because of increasing levels of cash over the forecasted period, due to a solid operating cashflow generation.

Figure 19: Activity ratios



Source: Company Data and Author

Activity Ratios The stability of the **Inventory turnover** ratio indicates a good predictability of future cashflows in order to remain competitive while demand fluctuates (Figure 19). A ratio of 15.2 indicates that JMT's inventories last on average 24 days. Regarding **Receivables turnover**, even though this metric seems to have been improving in recent periods, it is expected to be lower for the following years, reflecting the overheated economy as the aftermath of the COVID-19 pandemic and current recession environment. A ratio of around 35.4 indicates that it takes 10 days to collect receivables. This metric stands out as a positive aspect of the Group's operations. For the **Payables turnover**, the low values reflect the favourable credit terms JMT has with their suppliers. A ratio of 3.65 indicates that the company takes around 100 days to pay their creditors and suppliers.

Dividend Policy Jerónimo Martins' payout policy describes an ideal dividend payout ratio between 40% to 50% of net earnings¹². The Group has consistently paid earnings every year, but recently the company has found itself with more excess cash, which supported their decision for extraordinary dividends, reaching a payout ratio of 95.5% in 2022. This undermines valuation methods such as the Dividend Discount Model. For the forecasted period, it was assumed a constant dividend payout ratio equal to 45%.

VALUATION

The main valuation approach employed for Jerónimo Martins is the Discounted Cash Flow (DCF) Valuation, known for its thoroughness and comprehensive nature. This approach considers the future cash flows that were projected using a Like-for-like methodology and a forecast of store openings and renovations for each brand, therefore presenting a forward-looking perspective.

The DCF Valuation was followed by a Sensitivity Analysis, a Scenario Analysis and a Relative Valuation, as complementary approaches, to enrich the analysis and substantiate the investment recommendation.

FCFF SUM OF PARTS (SoP)

To cater to the unique characteristics of the countries where JMT operates, the FCFF Sum of Parts method proves to be suitable, particularly given the rapid growth of the Colombian and Polish brands compared to the Portuguese brands. By projecting revenues for each brand and consolidating the results, the DCF valuation yields a 2023YF price target of 22.90€ per share.

With Poland constituting JMT's largest segment at 70.7% of revenues, the Group continues to heavily invest in the Polish market, aiming to maintain its position as the leader in Poland's food retail industry. While Portugal holds historical significance for Jerónimo Martins as its birthplace, the Company's focus on future growth has shifted away from the Portuguese market. CEO Pedro Soares dos Santos has expressed a cautious outlook on the long-term prospects of the Portuguese economy. Consequently, the Portuguese brands Pingo Doce and Recheio, have experienced slower growth compared to their Polish and Colombian counterparts. Although currently representing a modest portion of JMT's total sales at 7%, Ara is witnessing the most aggressive and expansive investment strategy within the company. This market is poised to continue its growth trajectory in the upcoming years. The conducted valuation accounts for all these aspects.

STORES AND RENOVATIONS

In 2022 alone, 275 new stores for Ara were opened and 1 was closed. Meanwhile, Pingo Doce opened 7 net new stores, Recheio with 1 new store, Biedronka with 145 new stores and Hebe with 24 new openings. In total, 451 net stores were opened. This means that around 93% of new stores belong to Ara and Biedronka, reinforcing the belief that these two brands are the future value drivers of the Company.





Figure 20: Forecasted number of store openings per brand 2023-2027

	Store Openings				
	2023F	2024F	2025F	2026F	2027F
ara	220	200	200	180	160
Biedronka	120	110	100	90	80
pingo doce	10	10	10	10	10
hebe	20	18	16	14	12

Source: Author

¹² Jerónimo Martins. Retrieved in December, 2022, from <https://www.jeronimomartins.com/en/investors/jeronimo-martins-shares/dividend/>

Figure 21: Forecasted number of store renovations per brand 2023-2027

	Store Renovations				
	2023F	2024F	2025F	2026F	2027F
	39	53	62	66	82
	339	348	348	374	390
	42	43	43	45	47
	18	23	27	27	29

Source: Author

For Ara, Jerónimo Martins intends to maintain the current aggressive expansion, therefore the forecast is of 200+ new stores per year up to 2025, and slower growth in the following periods (Figure 20). In the Group's strongest market, Biedronka is expected to continue opening 100+ stores in the near future. For Pingo Doce, since it is a mature brand, the expectancy is to continue opening around 10 stores per year as has happened in the previous periods. In the Health and Beauty sector, Hebe's forecasted store openings are purely based on historical data. The forecast for Recheio is to maintain the current number of stores during the forecasted period.

In relation to renovations, historical data from JMT shows that the number of stores renovated annually for Biedronka account for approximately 12% of the total number of stores Biedronka had five years before. For Ara, Pingo Doce and Hebe, the percentage is around 10%. Therefore, these values were kept for future projections (Figure 21). Assessing the effect of these renovations on brand revenues, it is important to note that while they attract more customer visits, it was assumed that each renovated store has one-fourth the sales impact of a new store opening.

WEIGHTED AVERAGE COST OF CAPITAL

Jerónimo Martins operates in different markets with divergent risks, especially when factoring in the Ukrainian conflict, which neighbors Poland, where most of the Company's revenue comes from. Therefore, a WACC weighted by the revenue from each segment is warranted. Also, because of the store openings over the forecasted period, the weight of revenues from each brand will shift, giving more predominance to Ara over time. This justifies computing distinct WACC values on a yearly basis.

Cost of Debt (after tax) Since JMT does not currently have bonds in the market, one way of determining its Cost of Debt is by looking at the Yield to Maturity of a bond from a comparable peer. Carrefour S.A. has a bond with maturity in Dec/2027 and a current YTM of 3.67%¹³. Also, the total interest paid by Jerónimo Martins from loans and leases (in accordance with IFRS16), adjusted for the effective tax rate (25.77%) corresponds to 3.66% of total loans and leases from the Balance Sheet. This demonstrates that a Cost of Debt of 3.67% is suitable.

Cost of Equity This variable was calculated through the CAPM model (Table 2). The Risk-Free Rates are based on the US Government 10Y Bond Yield. For 2023 the rate corresponds to the Bond Yield on the 25th of April¹⁴. As for the following years, the Risk-Free Rates are assumed to correspond to the US treasury par yield curve rates, as they represent market sentiment and economic trends. These values were obtained for each forecasted year based on the different bond maturities, also on the 25th of April¹⁵.

The Equity Risk Premium is the value for the US market, obtained via Damodaran's website, as well as the Country Risk Premiums (Portugal: 3.29%; Poland: 1.46%, Colombia: 3.29%)¹⁶. For the final component, the unlevered betas for each industry in each market were found in Damodaran's website and were leveraged according to JMT's Debt-to-Equity ratio and effective tax rate, using the bottom-up approach. The unlevered beta for Hebe was manually computed using as peers the companies L'Oreal SA, Beiersdorf AG, Jacques Bogart SA, Madara Cosmetics AS and Ontex Group NV, as the beta insights found for the Beauty industry were not cohesive.

Since the betas differ between industries and countries, and because the Country Risk Premium is added to the equation, a value for the Cost of Equity was computed for each brand. Then, a weighted average Cost of Equity for 2023 was obtained, based on the weights of the revenues from each segment. Because these weights change over time (Figure 22), as does the Risk-Free Rate, a final Cost of Equity was calculated on a yearly basis.

Figure 22: Percentage of revenues from each brand over time

	Portugal	Biedronka	Hebe	Ara
% Rev 23F	22.0%	68.7%	1.6%	7.8%
% Rev 24F	21.9%	67.2%	1.6%	9.3%
% Rev 25F	21.6%	65.9%	1.7%	10.7%
% Rev 26F	21.4%	64.7%	1.7%	12.2%
% Rev 27F	21.2%	63.5%	1.8%	13.5%

Source: Author

¹³ Börse Frankfurt. Retrieved in April, 2023, from <https://www.boerse-frankfurt.de/bond/fr0013505260-carrefour-s-a-2-625-20-27>

¹⁴ Investing.com. Retrieved in April, 2023, from <https://www.investing.com/rates-bonds/u.s.-10-year-bond-yield-historical-data>

¹⁵ U.S. Department of the Treasury. Retrieved in April, 2023, from https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2023

¹⁶ Aswath Damodaran. Retrieved in February, 2023, from https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

Table 2: Values of all metrics included in the calculation of the yearly Cost of Equity

Risk-Free Rate	2023	2024	2025	2026	Terminal
	3.40%	4.60%	3.86%	3.62%	3.40%
Equity Risk Premium	5.94%				
Country Risk Premium	Portugal	Biedronka	Hebe	Ara	
	3.29%	1.46%	1.46%	3.29%	
Unlevered Betas	0.39	0.39	0.40	0.56	
Levered Betas	0.46	0.46	0.47	0.65	WAverage
Cost of Equity 2023	9.39%	7.56%	7.63%	10.57%	8.20%
Cost of Equity 2024	10.59%	8.76%	8.83%	11.77%	9.44%
Cost of Equity 2025	9.85%	8.02%	8.09%	11.03%	8.74%
Cost of Equity 2026	9.61%	7.78%	7.85%	10.79%	8.54%
Cost of Equity 2027	9.39%	7.56%	7.63%	10.57%	8.36%

With a Debt proportion of 18% and an Equity proportion of 82%, based on market values, the WACC for each forecasted year is:

Table 3: Weighted Average Cost of Capital (%) for forecasted period

	2023	2024	2025	2026	2027
WACC	7.37%	8.38%	7.81%	7.65%	7.50%

DISCOUNTED CASH FLOW VALUATION

Free Cash Flow to Firm (FCFF) Beginning with Operating Profit (EBIT), calculated as Gross Profit (Revenues-COGS) minus SGA expenses, then the effect of taxes is subtracted to obtain the after-tax Operating Profit. By adding back depreciations, and finally subtracting the Change in Working Capital and Capital Expenses payments (CAPEX), the following values for the FCFF were obtained:

Table 4: Free Cash Flow to Firm in M€ for forecasted period

	2023	2024	2025	2026	2027
FCFF (M€)	739.74	158.69	850.37	897.29	961.38

Terminal Growth Rate The Terminal Growth Rate is a very important factor for Jerónimo Martins' valuation, as it represents the rate at which the Group is expected to grow perpetually. This value was computed as an average of the actual growth rates from 2017 up to 2022, excluding the year 2021 as it was the most atypical during that period. For the remaining years, the average was computed by applying higher multiplier coefficients to the years 2017 and 2022, as these better represent stable growth rates for a mature firm such as JMT. This culminated in a Terminal Growth Rate of **2.41%**, which is a feasible value, commonly associated with mature companies (Table 5).

Table 5: Actual growth rates from 2017 to 2022 and Terminal growth rate (%)

	2017	2018	2019	2020	2021	2022	Terminal
Growth Rate (g)	0.35%	0.22%	6.02%	5.49%	8.12%	0.84%	2.41%

Terminal Value For this valuation, Terminal Value is assumed to be the present value of future cashflows from 2028 onwards. This value was determined by applying the Gordon Growth Model, in which the 2027 FCFF grows at the Terminal Growth Rate and this value is then divided by the Terminal WACC minus the Terminal Growth Rate. After this computation, the estimated Terminal Value is **19 337 M€**.

To find the Enterprise Value, the present value of the Terminal Value is added to the sum of the present values of the yearly FCFF from the period of 2023YF to 2027YF. Then, after adjusting for the current amounts of cash and debt from Jerónimo Martins, and dividing by the number of shares available in the market, the target price obtained per share is 22.90€.

SENSITIVITY ANALYSIS

In this section it is observed the impact of slight variations in some of the key metrics of the valuation on the target share price. The Terminal Growth Rate, Terminal WACC and EBIT Margin were defined as some of the most important variables in a Food Retail industry environment, as inflation and economic prospects are of key importance in 2023.

By applying 0.3% shifts on the Terminal Growth Rate, the results are a range of target price values from 18.67€/share in a bearish scenario, to 29.79€/share in a bullish scenario (Table 6).

Table 6: Terminal growth rate sensitivity analysis

Terminal Growth Rate								
1.21%	1.51%	1.81%	2.11%	2.41%	2.71%	3.01%	3.31%	3.61%
18.67 €	19.57 €	20.57 €	21.68 €	22.90 €	24.31 €	25.90 €	27.70 €	29.79 €

In a discounted cash flow (DCF) valuation, the Terminal WACC is used to calculate the present value of cash flows beyond the projection period, having a notable impact on Jerónimo Matins' valuation. Measuring the impact of 0.3% changes in this variable leads to a variation of the target share price between 18.65€ and 29.75€ (Table 7). This suggests that the sensibility of the share price to changes in the terminal WACC and to changes in the terminal Growth Rate is identical.

Table 7: Terminal WACC sensitivity analysis

Terminal WACC								
8.70%	8.40%	8.10%	7.80%	7.50%	7.20%	6.90%	6.60%	6.30%
18.65 €	19.55 €	20.55 €	21.66 €	22.90 €	24.29 €	25.86 €	27.67 €	29.75 €

EBIT Margin allows investors to understand the true business costs of running JMT. However, retailers tend to have lower profit margins when compared to other industries. As mentioned, inflation can have a significant impact on the Group's profitability margins, and consequently, their EBIT margins, which could make the price range from 16.60€/share in a high inflation scenario (WACC values are held constant), to 29.19€/share in a low inflation scenario (Table 8). This scope is significant, so the Company should be focused on mitigating the effects of inflation to keep profitability margins high and maintain investor confidence.

Table 8: EBIT margin for forecasted period sensitivity analysis

EBIT Margin for forecasted period								
3.2%	3.4%	3.6%	3.8%	4.0%	4.2%	4.4%	4.6%	4.8%
16.60 €	18.17 €	19.75 €	21.32 €	22.90 €	24.47 €	26.04 €	27.61 €	29.19 €

Predicting the opening of new stores is crucial for Jerónimo Martins' valuation because it directly affects the Group's revenue growth potential. In spite of that, variations in the opening of new stores will cause shifts in the proportion of that specific brand's revenues to total revenues. This directly impacts the Cost of Equity, as it was calculated on that basis. Since the Cost of Equity computed yearly for Poland remained very approximate to the final weighted Cost of Equity, the shifts on the opening of new stores are not very prominent. In a range of -100 new stores up to +100 new stores for each year, compared to the initial forecast, the interval for the share price moves between 22.55€ and 23.04€, always kept above the current market share price (Table 9).

Table 9: Difference in new Biedronka stores sensitivity analysis

Difference in new Biedronka stores per year				
-100	-50		+50	+100
22.55 €	22.82 €	22.90 €	22.97 €	23.04 €

For Ara, the circumstances somewhat diverge. Since the Cost of Equity yearly values for Colombia are consistently higher than the final weighted Cost of Equity, the shifts on the opening of new stores are accentuated in a negative form. In a range of -150 new stores up to +150 new stores for each year, the interval of the share price moves between 23.46€ and 22.38€ (Table 10), meaning that the more Ara stores JMT opens, the lower is the target share price. This is because equity as a source of capital in Colombia is more expensive than in Portugal or Poland.

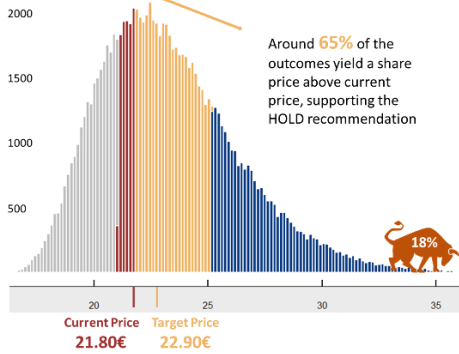
Table 10: Difference in new Ara stores sensitivity analysis

Difference in new Ara stores per year						
-150	-100	-50		+50	+100	+150
23.46 €	23.27 €	23.09 €	22.90 €	22.72 €	22.54 €	22.38 €

SCENARIO ANALYSIS

This section includes a Monte Carlo simulation with 100k iterations by flexing the variables Terminal Growth Rate and Terminal WACC, to gain a more holistic view on the possible Jerónimo Martins share price trajectory under today's market uncertainty. This was achieved using RStudio to obtain a triangular distribution for both variables. The minimum and maximum values were defined according to the Sensitivity Analysis tables on the above section. Therefore, the Terminal Growth Rate has a range between 1.21% and 3.61%; as for

Figure 23: Graphical representation of the Monte Carlo simulation



Source: Author

the Terminal WACC, it varies between 6.30% and 8.70%. The final share price distribution is displayed in Figure 23.

Given the data from this analysis, around 65% of the outcomes show a share price above the current market price of 21.80€, which supports the Hold recommendation in this report. Adding to this, around 18% of the results correspond to a share price of over a 20% upside (26.16€/ share). Furthermore, considering the summary information from the distribution (Table 11), the minimum outcome corresponds to a downside of around 27% relative to the current price, but the maximum value represents a more accentuated shift: an upside of over 86%.

Table 11: Summary of the Monte Carlo simulation - triangular distribution

Minimum	1st Quantile	Median	Mean	3rd Quantile	Maximum
15.99 €	20.96 €	22.90 €	23.34 €	25.24 €	40.68 €

RELATIVE VALUATION

The following table presents a Relative Valuation analysis that compares Jerónimo Martins with six handpicked peers (Table 12). The aim of this comparable assessment is to determine the Group's market value based on the peers' respective ratios. The selection of peers was based on industry and geographical source of revenues, with all companies operating in the Food Retail/ Food Distribution sectors. Carrefour SA, Tesco PLC, and J Sainsbury PLC are headquartered and operating physical stores in the European region, while Dino Polska SA is a primary competitor to Biedronka in Poland. In Colombia, Almacenes Exito SA is the main rival of Ara, while Sonae SA is the main competitor of Pingo Doce in Portugal. The ratios applied are the EV/Sales, EV/EBITDA, EV/EBIT, Price-to-Earnings and Price-to-Sales. For the first three ones, the market value is obtained after adjusting to the amounts of Cash and Debt of JMT. These ratios were obtained in Refinitiv Eikon.

Table 12: Relative Valuation analysis between Jerónimo Martins and six peer companies

	Data of 2022	LFY 31/12/2022	LFY 25/02/2023	LFY 05/03/2022	LFY 05/03/2023	LFY 31/12/2022	LFY 31/12/2022				
	JMT SA	Carrefour SA	Tesco PLC	Sainsbury PLC	Dino Polska SA	Alm. Exito SA	Sonae SA	WAverage	MKT Cap	Share Price	Result
EV/SALES	0.57	0.35	0.47	0.38	2.17	0.35	0.57	0.42	8972.43	14.28 €	Overvalued
EV/EBITDA	8.18	6.33	7.22	5.25	23.18	4.67	9.74	9.36	14725.76	23.43 €	Undervalued
EV/EBIT	14.81	12.22	11.90	11.53	27.9	7.13	103.19	14.51	12352.71	19.66 €	Overvalued
P/E	23.09	10.29	27.89	9.60	36.67	53.95	6.99	21.75	12903.81	20.53 €	Overvalued
P/Sales	0.54	0.17	0.31	0.22	2.1	0.26	0.27	0.25	6408.17	10.20 €	Overvalued
Mkt Cap (1M USD)		14959.87	25369.50	8249.81	10011.61	1179.69	2276.50		Average	17.62 €	Overvalued
Industry Weight		24.11%	40.89%	13.30%	16.14%	1.90%	3.67%				

Upon analysis of the table presented, it can be inferred that there are significant differences between each of the peer companies. While there are some similarities in the metrics of Carrefour and Sainsbury, no other pair of companies share those same similarities. Additionally, any extreme outliers highlighted in red were not included in the computations. Following the collection of all the ratios, a weighted average was calculated based on the market capitalization of the companies. After comparing the EV/EBITDA ratio obtained from its peers, Jerónimo Martins is considered undervalued. However, it is overvalued compared to all other metrics. Of particular concern is the Price-to-Sales ratio, where Jerónimo Martins has a value of 0.54, more than double the weighted average of 0.25 from the peers. It is worth noting that this may be attributed to the Biedronka business in Poland, as the value for its main competitor Dino Polska is four times that of JMT, and was not considered in the average computation. Overall, the Group is overvalued when compared to their peers, which can be attributed to differences in size, locations, and business models.

In light of the conclusions drawn from the previous analysis, two additional comparisons were carried out to evaluate the Group's performance, namely with the Global industry average and with the European industry average (Table 13). The values were obtained from Damodaran's website, regarding the "Retail - Grocery and Food" industry, which also includes JMT.

Table 13: Relative Valuation analysis between Jerónimo Martins, the Global industry average and the European industry average

	Updated by Damodaran on 05/01/2023				Updated by Damodaran on 05/01/2023				
	JMT SA	Industry Average (Global)	MKT Cap	Share Price	Result	Industry Average (Europe)	MKT Cap	Share Price	Result
EV/SALES	0.57	0.65	14734.08	23.45 €	Undervalued	0.55	12197.18	19.41 €	Overvalued
EV/EBITDA	8.18	9.04	14157.72	22.53 €	Fairly valued	8.80	13735.24	21.86 €	Fairly valued
EV/EBIT	14.81	14.28	12124.39	19.29 €	Overvalued	12.71	10598.35	16.86 €	Overvalued
P/E (trailing)	23.09	35.32	20956.73	33.35 €	Undervalued	28.26	16767.76	26.68 €	Undervalued
P/Sales	0.54	0.44	11162.36	17.76 €	Overvalued	0.32	8118.08	12.92 €	Overvalued
			Average	23.28 €	Undervalued		Average	19.55 €	Overvalued

Given the Industry average for Europe, Jerónimo Martins would still be considered overvalued, but with an overall share price closer to the current market price of 21.80€/share. In this case, the Price-to-Earnings ratio indicates that the Group is undervalued, and the EV/EBITDA ratio results in a value close to the current share price, proving to be a reliable metric for JMT's Relative Valuation. Conducting a comparison with the Global Industry average appears to be imperative, considering Ara's operations in Latin America over the past decade and its continuous expansion. The outcome of this analysis reveals an overall average share price of 23.28€, which signifies that Jerónimo Martins is undervalued, and is closely aligned with the target share price of 22.90€ obtained with the DCF Valuation. This can be attributed to the investors' belief that operations in Colombia will continue to follow an aggressive growth path, or possibly that the Group will expand to other markets, as has been mentioned as a future possibility in past communications. These conclusions are consistent with the Hold recommendation in this report and reveal the importance of combining both valuation methods.

INVESTMENT RISKS

OPERATIONAL RISKS | OR

Supply Chain | OR1

Probability **MODERATE** | Impact **MODERATE**

The pandemic had a significant impact on businesses, including Jerónimo Martins, with disruptions to the supply chain and transportation of goods. The ongoing conflict in Ukraine also affects global supply chains due to agricultural production shocks. In Colombia, social protests and strikes in 2021 caused disruptions to the domestic supply chain. These events underline the importance of having a strong and diversified supply chain to sustain operations. JMT's Agribusiness, operational in Portugal, is a valuable way of mitigating the effects of such disruptions by ensuring regular production and supply to customers. Therefore, the impact of this risk is moderate (Figure 24).

ECONOMIC RISKS | ER

Innovation & Competition (ER1)

Probability **LOW** | Impact **LOW**

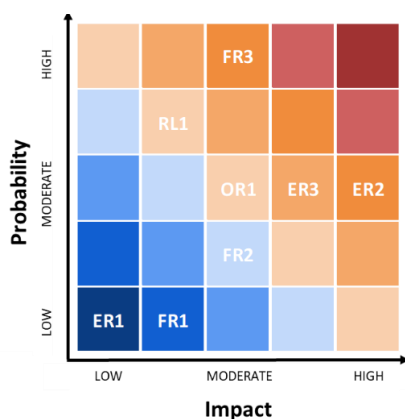
E-commerce has become increasingly important in recent years due to the convenience and flexibility it offers to both businesses and consumers. In addition, e-commerce demand has been exponentiated by the pandemic, especially for food retailers, as several stores closed, and people turned to online shopping as a safer alternative. To respond to this new way of doing business, JMT launched Biek, and is focused on accelerating their online presence, especially for Hebe.

Geopolitical Risk (ER2)

Probability **MODERATE** | Impact **HIGH**

The Ukrainian war had a significant impact on global food prices, particularly for grains such as wheat and corn, since the conflict disrupted agricultural production in the country, which is one of the world's largest grain exporters. In addition, the imposition of sanctions on Russia, another major grain exporter, also contributed to higher food prices, affecting costs and supply chain operations for many retailers. Also, the expected return of Ukrainians that sought refuge in Poland to their home country once the conflict comes to an end will have a negative impact in Biedronka's revenues, since these families have been contributing to the recent boost in sales.

Figure 24: Risk Matrix



Source: Author

Taxation Risk (ER3)

Probability **MODERATE** | Impact **MODERATE-HIGH**

As Jerónimo Martins operates in three distinct markets, it is subject to diverse tax codes. Any increase in tax rates leads to a decrease in net profits. In 2022, the Portuguese government approved a European regulation that imposes an extraordinary tax of 33% on companies in the Energy and Food Distribution sectors, which includes JMT, that reported profits 20% above the average of their last four years' net profits¹⁷. In Poland, a new tax was introduced to target large retailers with price advantages, which translates to 0.8% or 1.4% of their sales, depending on revenues¹⁸. These new tax regulations have a direct impact in JMT's financial performance.

FINANCIAL RISKS | FR

Interest Rate Risk (FR1)

Probability **LOW** | Impact **MODERATE-LOW**

Market risk refers to the impact that changes in interest rates have on the valuation of JMT as an asset, since higher interest rates can result in investors demanding a higher return on their invested capital. Given that most of the Group's debt has fixed interest rate terms, the probability of this risk is low. On the other hand, cash flow risk is the risk that changes in interest rates can affect a company's cash flow, potentially impacting its profitability and ability to meet financial obligations. Companies can use financial instruments such as swaps and futures to hedge against changes in interest rates and macroeconomic variability. Jerónimo Martins issues its debt in the currency in which they intend to invest the money, and uses various derivatives to protect their financial position. Therefore, this risk can be regarded as having moderate to low impact.

Foreign Exchange Risk (FR2)

Probability **MODERATE-LOW** | Impact **MODERATE**

Jerónimo Martins is exposed to Foreign Exchange risk due to its operations in three countries with three different currencies: Euro, Złoty, and Colombian Peso. Most of JMT's revenues are in Złoty, making variations in the EUR/PLN pair relevant for the Company. Additionally, the Group's expansion in Colombia means that the EUR/COL pair will become increasingly important over time. Historically, JMT has faced challenges as the Euro has tended to appreciate relative to both the Colombian Peso and the Polish Złoty (Figure 26), which can negatively impact their financial performance, especially as they pursue aggressive expansion in both Colombia and Poland, which together result in around four times the revenues that JMT earns in Portugal.

Inflation Risk (FR3)

Probability **HIGH** | Impact **MODERATE**

Inflation can have a significant impact on the costs of production for a company that is highly dependent on energy prices, especially transportation costs. Additionally, Personnel Costs (wages) and investment in the construction of new stores, which reflect wages and commodity price effects, are also influenced by inflation. To mitigate the impact of inflation on its operations, the Group plans to increase prices for their products to pass some of the inflation costs onto the final consumer. Despite the retail sector being highly sensitive to inflation, JMT's economies of scale and stable relationships with suppliers suggest that the impact of inflation-related risks is only moderate, even though the probability of such risks is high for today's economic conditions.

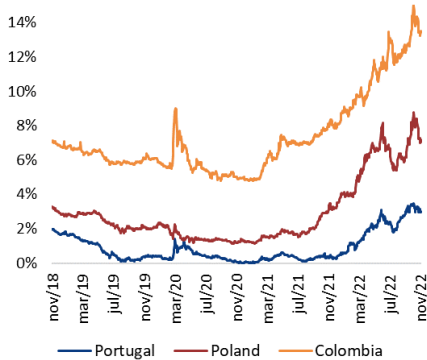
REGULATORY AND LEGAL RISKS | RL

Regulatory and Legal Risk (RL1)

Probability **MODERATE-HIGH** | Impact **MODERATE-LOW**

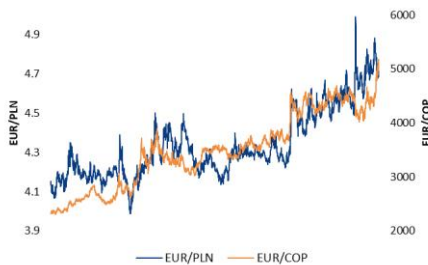
The implementation of the "Sunday Trading ban" law by the Polish government in 2018 has required big retailers such as Biedronka and Hebe to close on Sundays¹⁹, while antitrust authorities in both countries create pressure on JMT's operations. In addition, the retail industry typically experiences a high turnover of workers, and large retailers like Jerónimo Martins often employ a significant number of minimum wage workers. As such, an increase in the minimum wage creates pressure on labour costs and reduces profit margins for the Company. This presents a moderate to low impact risk, but with a moderate to high probability of occurrence.

Figure 25: 10Y Treasury Bonds by country



Source: Refinitiv Eikon

Figure 26: Exchange rate evolution from 2012 to 2022



Source: Refinitiv Eikon












¹⁷ Essential Business. Retrieved in January, 2023, from <https://www.essential-business.pt/2022/11/18/government-starts-energy-and-supermarket-windfall-taxes/>

¹⁸ EY. Retrieved in January, 2023, from https://www.ey.com/en_gl/tax-alerts/poland-implements-retail-sales-tax-effective-from-1-january-2021

¹⁹ Notes from Poland. Retrieved in December, 2022, from <https://notesfrompoland.com/2022/08/25/sunday-is-time-for-prayer-and-family-not-shopping-polish-government-reminds-retailers/>

APPENDICES

Appendix 1 Board of Directors of Jerónimo Martins SGPS SA

BOARD OF DIRECTORS								
Name	Nationality	Position	Age	Appointed to the Board	Shares (as of 31.12.21)	Total Remuneration (Euros in 2021)	Relevant Experience/Positions	
 Pedro Soares dos Santos ³	Portuguese	• CEO • Board Chairman	62	December 2013	274805	10776000		
 Andrzej Szlęzak	Polish	• Non-Executive Director	67	April 2013	-	83000	• Deputy Chairman, Arbitration Board of the Arbitration Court, Polish Chamber of Commerce	
 António Viana-Baptista	Portuguese	• Non-Executive Director	64	April 2010	-	80000	• Non-Executive Director, Semapa SGPS S.A., Atento S.A. and Azora Capital SL • Director, Alter Venture Partners G.P., SARL	
 Artur Stefan Kirsten	German	• Non-Executive Director	61	April 2015	-	80000	• Board Chairman, Adler Group • Co-founder, MONARCH	
 Clara Christina Streit	American/German	• Non-Executive Director • Chairwoman of the Audit Committee	53	April 2015	800	80000	• Board Member, Vontobel Holding AG • Member of the Supervisory Board, Deutsche Börse AG and Vonovia SE	
 Elizabeth Ann Bastoni	American	• Non-Executive Independent Director • Member of the Audit Committee	56	April 2019	-	90000	• President, Bastoni Consulting Group LLC • Director, Société BIC • Chairwoman of the Board of Directors, Limeade Inc.	
 Francisco Seixas da Costa	Portuguese	• Non-Executive Independent Director	74	April 2013	-	80000	• Chairman of the Advisory Council, Kearney • Member of the Board of Directors, Mota-Engil S.A. • Chairman of the Fiscal Council, Tabaqueira, S.A.	
 José Soares dos Santos ¹	Portuguese	• Non-Executive Director	60	April 2004	20509	-	• Chairman, Unilever Fima and Gallo Worldwide	
 María Ángela Holguín Cuellar	Colombian	• Non-Executive Independent Director	58	April 2019	-	80000	• Former Minister of Foreign Affairs of the Colombian Government	
 Natalia Anna Olync ²	American/Canadian	• Non-Executive Independent Director	-	April 2022	-	-	• Head of Sustainability, IMD Business School	
 Sérgio Tavares Rebelo	Portuguese	• Non-Executive Independent Director • Member of the Audit Committee	62	April 2013	-	120000	• Member of the Supervisory Board, Warta – Retail & Services Investments B.V. and New World Investments B.V.	

1 - Waived remuneration
2 - Recently appointed member
3 - Variable remuneration adjusted retroactively

Appendix 2 Main shareholders of Jerónimo Martins SGPS SA

Shareholder Structure			
Shareholder	Shares (in millions)	Total Position (%)	Country
Sociedade Francisco Manuel dos Santos SGPS, SA.	353.26	56.14%	Portugal
Comgest S.A.	12.98	2.06%	France
BlackRock Institutional Trust Company, N.A.	12.95	2.06%	United States
Wellington Management Company, LLP	12.59	2.00%	United States
T. Rowe Price International (UK) Ltd.	11.76	1.87%	United Kingdom
AllianceBernstein L.P.	10.18	1.62%	United States
JPMorgan Asset Management U.K. Limited	8.74	1.39%	United Kingdom
Norges Bank Investment Management (NBIM)	8.39	1.33%	Norway
The Vanguard Group, Inc.	7.71	1.22%	United States
JP Morgan Asset Management	5.41	0.86%	United States
Remaining Shares	184.46	29.45%	-
Total Shares Outstanding	628.43	100.00%	

Appendix 3 ESG Pillar breakdown peer analysis sorted by highest ESG score (source: Refinitiv Eikon)

ESG Pillar Breakdown Peer Analysis												
Company	ESG Score		ESG Controversies Score		ESG Combined Score		Environmental Score		Social Score		Governance Score	
Industry Best*	86	A	100	A+	84	A	92	A+	95	A+	90	A
Tesco	86	A	18	D+	52	B-	74	B+	90	A	88	A
Jerónimo Martins	85	A	29	C-	57	B-	90	A	93	A+	69	B+
Carrefour	81	A-	28	C-	55	B-	91	A	86	A	66	B
Casino Guichard-Perrachon	81	A-	38	C	60	B	82	A-	92	A+	64	B
Sonae	77	A-	72	B+	74	B+	78	A-	69	B+	88	A
Exitto	76	A-	72	B+	74	B+	69	B+	71	B+	89	A
Industry Mean*	52	B-	88	A	49	C+	44	C+	53	B-	55	B-

* Food Retail & Distribution (455 Constituents)

Appendix 4 Like-for-like methodology to obtain the quarterly growth rate for Biedronka's revenues

Net Sales per store (M€)	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022	3Q2022	Geometric average	Multiplier Coefficient
Actual	0.928	1.013	1.016	1.053	1.034	1.002	1.007	1.055	0.998	1.091	1.093	1.166	1.084	1.113	1.107	1.142	1.082	1.140	1.150	1.204	1.178	1.354	1.343	1.69%	
With stores 1Q17	0.928	1.021	1.028	1.091	1.073	1.043	1.054	1.123	1.064	1.163	1.165	1.243	1.198	1.239	1.239	1.306	1.244	1.320	1.340	1.437	1.411	1.633	1.629	2.59%	7
With stores 1Q18		1.093	1.072	1.062	1.035	1.006	1.017	1.084	1.026	1.122	1.124	1.199	1.156	1.195	1.260	1.200	1.273	1.293	1.386	1.361	1.575	1.572	2.35%	7	
With stores 1Q19					0.971	0.976	1.013	1.055	0.947	1.032	1.016	1.072	0.963	1.033	1.000	1.053	0.952	1.068	1.015	1.071	0.982	1.159	1.159	2.51%	7
With stores 1Q20									0.947	0.999	1.092	1.167	1.125	1.163	1.163	1.226	1.168	1.239	1.258	1.349	1.325	1.533	1.530	3.12%	2
With stores 1Q21									0.947	0.999	1.092	1.167	1.125	1.163	1.163	1.226	1.168	1.239	1.258	1.349	1.325	1.533	1.530	4.60%	2
With stores 1Q22													1.082	1.148	1.166	1.250	1.228	1.420	1.418	1.178	1.363	1.361	7.45%	2	
																							Quarterly Growth Rate		0.76%

Appendix 5 Like-for-like methodology to obtain the quarterly growth rate for Pingo Doce's revenues

Net Sales per store (M€)	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022	3Q2022	Geometric average	Multiplier Coefficient
Actual	1.983	2.194	2.277	2.321	2.090	2.202	2.351	2.329	2.085	2.276	2.348	2.380	2.118	2.032	2.236	2.263	2.042	2.178	2.258	2.344	2.114	2.360	2.507	1.07%	
With stores 1Q17	1.983	2.205	2.299	2.349	2.125	2.255	2.436	2.424	2.181	2.381	2.455	2.489	2.255	2.173	2.424	2.470	2.239	2.393	2.492	2.627	2.373	2.655	2.834	1.64%	6
With stores 1Q18		1.118	1.042	1.020	0.946	1.061	1.081	0.951	0.896	0.917	1.034	1.013	0.916	0.937	1.153	1.019	0.963	1.068	1.043	1.052	0.937	1.188	1.067	1.61%	5
With stores 4Q19					1.061	1.081	0.951	0.896	0.917	1.034	1.013	0.916	0.916	0.937	1.153	1.019	0.963	1.068	1.043	1.052	0.937	1.188	1.067	1.05%	4
With stores 1Q20								2.329	2.095	2.287	2.359	2.391	2.167	2.088	2.329	2.373	2.150	2.299	2.394	2.523	2.280	2.551	2.722	2.31%	3
With stores 1Q21									0.963	1.068	1.043	1.052	0.937	1.188	1.067	1.052	0.937	1.188	1.067	1.052	0.937	1.188	1.067	4.01%	2
With stores 1Q22													2.042	2.182	2.273	2.396	2.165	2.422	2.585	2.114	2.365	2.524	9.27%	1	
																							Quarterly Growth Rate		0.55%

Appendix 6 Like-for-like methodology to obtain the quarterly growth rate for Recheio's revenues

Net Sales per store (M€)	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022	3Q2022	Geometric average	Multiplier Coefficient
Actual	4.786	5.738	6.452	5.452	4.884	5.767	6.535	5.605	5.095	6.024	6.929	5.952	5.095	4.405	5.714	4.837	4.023	5.209	6.093	5.744	5.302	6.628	7.837	2.27%	
With stores 1Q17	4.786	5.738	6.452	5.452	4.884	5.767	6.535	5.605	5.095	6.024	6.929	5.952	5.095	4.405	5.714	4.837	4.023	5.209	6.093	5.744	5.302	6.628	7.837	2.38%	6
With stores 1Q18		1.190	1.125	0.850	0.598	0.677	0.581	0.516	0.610	0.701	0.602	0.602	0.516	0.445	0.578	0.501	0.417	0.540	0.631	0.595	0.549	0.687	0.812	2.66%	5
With stores 4Q19					1.190	1.125	0.850	0.598	0.677	0.581	0.516	0.602	0.602	0.516	0.445	0.578	0.501	0.417	0.540	0.631	0.595	0.549	0.687	2.26%	4
With stores 1Q20								0.558	0.495	0.586	0.674	0.579	0.495	0.428	0.556	0.481	0.400	0.519	0.606	0.572	0.528	0.660	0.780	4.65%	3
With stores 1Q21									0.880	1.122	1.150	0.851	0.850	0.845	1.297	0.867	0.831	1.294	1.196	0.942	0.921	1.250	1.182	1.175%	2
With stores 1Q22													0.484	0.419	0.543	0.471	0.391	0.507	0.593	0.559	0.516	0.645	0.762	21.58%	1
																							Quarterly Growth Rate		1.14%

Appendix 7 Like-for-like methodology to obtain the quarterly growth rate for Ara's revenues

Net Sales per store (M€)	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022	3Q2022	Geometric average	Multiplier Coefficient
Actual	0.357	0.364	0.333	0.301	0.324	0.339	0.328	0.301	0.312	0.336	0.353	0.364	0.374	0.298	0.300	0.360	0.344	0.337	0.391	0.420	0.459	0.505	0.517	1.70%	
With stores 1Q17	0.357	0.402	0.426	0.480	0.549	0.611	0.639	0.656	0.693	0.766	0.836	0.918	0.963	0.770	0.787	0.980	0.971	0.971	1.164	1.410	1.566	1.811	1.914	7.94%	6
With stores 1Q18		1.126	1.061	1.125	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	1.196	7.18%	5
With stores 4Q19					1.119	1.047	1.026	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	7.40%	4
With stores 1Q20								0.301	0.318	0.352	0.383	0.421	0.442	0.353	0.361	0.449	0.445	0.534	0.647	0.718	0.831	0.818	0.778	7.11%	3
With stores 1Q21									1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	1.056	11.97%	2
With stores 1Q22													0.374	0.299	0.306	0.381	0.377	0.452	0.548	0.608	0.704	0.744	0.561	10.57%	1
																							Quarterly Growth Rate		2.01%

Appendix 8 Like-for-like methodology to obtain the quarterly growth rate for Hebe's revenues

Net Sales per store (M€)	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022	3Q2022	Geometric average	Multiplier Coefficient
Actual	0.226	0.244	0.247	0.280	0.246	0.235	0.242	0.274	0.235	0.247	0.247	0.289	0.228	0.180	0.254	0.244	0.213	0.242	0.250	0.289	0.247	0.307	0.297	1.24%	
With stores 1Q17	0.226	0.245	0.258	0.321	0.296	0.296	0.314	0.396	0.352	0.384	0.396	0.497	0.403	0.321	0.409	0.409	0.358	0.415	0.447	0.528	0.453	0.572	0.560	4.20%	6
With stores 1Q18		1.083	1.051	1.243	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	1.293	3.61%	5
With stores 4Q19					1.000	1.063	1.260	0.274	0.243	0.265	0.274	0.343	0.278	0.222	0.283	0.283	0.248	0.287	0.309	0.365	0.313	0.396	0.387	2.33%	4
With stores 1Q20								0.228	0.181	0.231	0.231	0.203	0.203	0.235	0.253	0.299	0.256	0.324	0.317	0.228	0.246	0.265	0.332	3.35%	3
With stores 1Q21													0.213	0.246	0.265	0.313	0.269	0.340	0.332	0.247	0.312	0.305	7.71%	2	
With stores 1Q22																				1.178	1.363	1.361	11.18%	1	
																							Quarterly Growth Rate		1.06%

Appendix 9 Assumptions made to determine financials metrics

The following are the assumptions made in order to determine the financials. The correspondent letters are included in each line of the Financial Statements in the following Appendixes.

- Revenue forecast was executed quarterly with a Sum of Parts methodology, breaking down JMT's sales by brand and estimating their metrics separately.
- Growing with Revenues, assuming a constant Gross Profit margin of 21.6% (historical average).
- Determined as a fixed percentage of the Gross Profit, using 2021 values (last financial report available).
- Growing at the historical average of FY2017-FY2021.
- Interest is growing with total Debt (total borrowings and leases).
- Fixed at the 2021 effective Tax rate of 25.77%.
- Growing with Net Income.
- Growing with new physical store openings.
- Growing at the corresponding turnover ratio: Inventories at **Inventory turnover**; Trade Debtors, Accrued Income and Deferred Costs at **Receivables turnover**; Trade Creditors, Accrued Costs and Deferred Income at **Payables turnover**.
- Retained Earnings are a sum of the previous year's value with the present year's Net Income after dividends paid, and subtracting 0.2M€ for each new store/renovation (store renovations are estimated to represent a third of the cost of a new opening: 67K€). The additional funding for expansion comes from Capex.
- Kept as a fixed percentage of Total Shareholder's Equity (14%).
- Kept as a fixed percentage of EBITDA (23.7%).
- Growing with Operating Profit.
- Payout ratio fixed at 45%.

Appendix 10 Balance Sheet

Balance Sheet (in Millions €)	2019A	2020A	2021A	2022E	2023F	2024F	2025F	2026F	2027F	Assumptions
Tangible assets	3970	3817	3993	4368	4685	4973	5252	5503	5727	h)
Intangible assets	794	757	757	739	739	739	739	739	739	Equal to 2022E value
Investment property	9	9	8	9	9	9	9	9	9	Equal to 2022E value
Right-of-use assets	2335	2167	2248	2290	2290	2290	2290	2290	2290	Equal to 2022E value
Biological assets	3	3	5	7	7	8	9	10	11	d)
Investments in joint ventures and associates	5	6	13	15	15	15	15	15	15	Equal to 2022E value
Other financial investments	1	1	2	19	19	19	19	19	19	Equal to 2022E value
Trade debtors, accrued income and deferred costs	87	70	57	58	58	58	58	58	58	Equal to 2022E value
Deferred tax assets	138	163	175	175	175	175	175	175	175	Equal to 2021A value
Total Non-Current Assets	7342	6993	7258	7680	7997	8287	8566	8819	9044	
Inventories	1039	974	1108	1352	1560	1666	1785	1915	2051	i)
Biological assets	6	5	7	9	9	10	10	11	12	d)
Income tax receivable	11	17	23	23	23	23	23	23	23	Equal to 2021A value
Trade debtors, accrued income and deferred costs	425	393	479	605	855	914	979	1050	1125	i)
Derivative financial instruments	0	4	1	2	2	2	2	2	2	Equal to 2022E value
Cash and cash equivalents	929	1041	1494	1326	1983	3040	3508	4049	4652	
Total Current Assets	2458	2488	3161	3317	4432	5655	6307	7050	7865	
Total Assets	9752	9428	10368	10998	12429	13941	14873	15869	16909	
Share capital	629	629	629	629	629	629	629	629	629	Equal to 2021A value
Share premium	22	22	22	22	22	22	22	22	22	Equal to 2021A value
Own shares	-6	-6	-6	-6	-6	-6	-6	-6	-6	Equal to 2021A value
Other reserves	-67	-129	-140	-205	-247	-264	-284	-305	-328	g)
Retained earnings	1396	1491	1773	1883	2042	2248	2479	2738	3029	j)
Non-controlling interests	254	249	254	254	254	254	254	254	254	Equal to 2021A value
Total Shareholders' Equity	2228	2256	2532	2577	2694	2883	3094	3332	3600	
Borrowings	309	364	347	255	376	403	432	465	503	k)
Lease liabilities	1999	1897	1993	2180	2338	2482	2621	2747	2859	h)
Trade creditors, accrued costs and deferred income	1	1	1	1	1	1	1	1	1	Equal to 2021A value
Employee benefits	70	70	70	72	72	72	72	72	72	Equal to 2022E value
Provisions for risks and contingencies	28	33	34	45	45	45	45	45	45	Equal to 2022E value
Deferred tax liabilities	71	66	66	71	71	71	71	71	71	Equal to 2022E value
Total Non-Current Liabilities	2478	2431	2511	2624	2903	3074	3243	3401	3550	
Borrowings	424	160	113	215	471	497	525	554	584	l)
Lease liabilities	385	377	394	431	462	491	518	543	565	h)
Trade creditors, accrued costs and deferred income	4182	4154	4771	5111	5852	6949	7442	7984	8552	i)
Derivative financial instruments	3	0	1	2	2	2	2	2	2	Equal to 2022E value
Income tax payable	52	50	47	33	40	42	45	49	52	m)
Total Current Liabilities	5046	4741	5325	5796	6831	7985	8537	9136	9759	
Total Liabilities	7524	7172	7836	8420	9735	11059	11779	12537	13309	
Total Shareholders' Equity and Liabilities	9752	9428	10368	10998	12429	13941	14873	15869	16909	

Appendix 11 Income Statement

Income Statement (in Millions €)	2019A	2020A	2021A	2022E	2023F	2024F	2025F	2026F	2027F	Assumptions
Revenues	18638	19293	20889	25369	29250	31250	33463	35893	38437	a)
Cost of sales	-14563	-15067	-16392	-19877	-22918	-24486	-26220	-28123	-30116	b)
Gross profit	4076	4227	4497	5492	6332	6765	7244	7770	8320	
Gross Profit Margin (%)	21.9%	21.9%	21.5%	21.6%	21.6%	21.6%	21.6%	21.6%	21.6%	
Distribution costs	-3031	-3203	-3306	-4009	-4622	-4938	-5288	-5672	-6074	c)
Administrative costs	-322	-334	-351	-429	-494	-528	-565	-606	-649	c)
Other operating profits/losses	-16	-50	-34	-39	-45	-48	-52	-55	-59	d)
SGA	-3369	-3587	-3691	4520	5161	5514	5905	6334	6783	
Operating profit	706	639	806	972	1170	1250	1339	1436	1538	
Operating Profit Margin (%)	3.79%	3.31%	3.86%	3.83%	4%	4%	4%	4%	4%	
Net financial costs	-159	-180	-154	-173	-206	-220	-234	-247	-260	e)
Gains (losses) in joint ventures/ associates	0	0	0	0	0	0	0	0	0	Equal to 2021A value
Gains (losses) in other investments	2	0	0	0	0	0	0	0	0	Equal to 2021A value
Profit before taxes	549	459	652	799	965	1031	1105	1189	1278	
Income tax	-128	-136	-168	-206	-249	-266	-285	-306	-329	f)
Profit before non-controlling interests	421	323	484	593	716	765	820	883	948	
Attributable to:										
Non-controlling interests	31	11	21	43	49	53	56	60	65	g)
Jerónimo Martins Shareholders	390	312	463	583	667	712	764	822	884	
Basic and diluted earnings per share (€)	0.62	0.50	0.74	0.93	1.06	1.13	1.22	1.31	1.41	

Appendix 12 Cash Flow Statement

Cashflow Statement (in Millions €)	2019A	2020A	2021A	2022E	2023F	2024F	2025F	2026F	2027F	Assumptions
Cash generated from operations	1647	1623	1931	1741	2275	3031	2527	2681	2821	
Income taxes paid	-154	-174	-174	-217	-249	-266	-285	-306	-329	From Income Statement
Cash flow from operating activities	1492	1449	1756	1524	2026	2765	2243	2374	2492	
Disposals of tangible and intangible assets	2	4	6	7	7	7	8	8	8	9 h)
Disposals of other financial investments	5	0	0	0	0	0	0	0	0	Equal to 2021A value
Interest received	4	2	1	1	1	1	1	1	1	Equal to 2021A value
Dividends received	0	0	0	0	0	0	0	0	0	Equal to 2021A value
Acquisition of tangible and intangible assets	-576	-514	-584	-639	-685	-727	-768	-805	-838	h)
Acquisition of other financial investments	0	0	-33	0	0	0	0	0	0	Equal to 2022E value
Acquisition of businesses, net of cash acquired	-2	0	-6	-2	-2	-2	-2	-2	-2	Equal to 2022E value
Collateral deposits associated to financial debt	0	19	0	0	0	0	0	0	0	Equal to 2021A value
Cash flow from investment activities	-567	-488	-617	-633	-679	-721	-761	-797	-830	
Loans interest paid	-33	-28	-22	-22	-22	-22	-22	-22	-22	Equal to 2021A value
Leases interest paid	-133	-127	-130	-130	-130	-130	-130	-130	-130	Equal to 2021A value
Net change in loans	100	-146	-40	49	234	567	226	224	213	From Balance Sheet
Leases paid	-265	-274	-286	-313	-336	-356	-376	-394	-410	h)
Dividends paid	-220	-232	-198	-262	-300	-321	-344	-370	-398	n)
Cash flow from financing activities	-549	-807	-676	-678	-553	-262	-647	-692	-747	
Cash and cash equivalents at the beginning of the year	546	929	1041	1494	1693	2473	4242	5063	5935	
Net changes in cash and cash equivalents	376	153	463	213	794	1782	835	885	916	
Effect of currency translation differences	8	-41	-10	-14	-14	-14	-14	-14	-14	Equal to 2022E value
Cash and cash equivalents at the end of December	929	1041	1494	1693	2473	4242	5063	5935	6836	