A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

JERÓNIMO MARTINS VALUATION THROUGH THE LENS OF ESG

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A Project carried out on the Master in Finance Program, under the supervision of:

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Abstract
This report reviews the literature about environmental, social, and governance investing, examines the correlation between the ESG ratings and cost of equity, and assesses the impact of ESG considerations on Jeronimo Martins' Valuation. The results on Jeronimo Martins' share price are mixed with two scenarios decreasing the share value to 21.28€ and 21.60€ and two scenarios increasing to 24.85€ and 28.24€.

Keywords: Jeronimo Martins, ESG, expected return, equity cost of capital

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This report is part of the Jerónimo Martins a consumer's favorite report (annexed), developed by Francisco Jesus, Gonçalo Alegria, José Craveiro and Miguel Mendes and should be read has an integral part of it.

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Introduction

Over the past few years, investors have considered environmental, social, and governance (ESG) considerations in their valuation. Besides, the industry has been massively growing and does not seem to stop any time soon. However, there is still a debate about the ESG's role in the prospective returns of a company as the empirical literature does not guide any cohesive guidance.

In this report, we will start by defining ESG investing. Then we will review the empirical and theoretical literature to find if ESG creates value. After that, we will examine if the higher ESG ratings are linked with a lower cost of equity through financial econometrics. We will then end by implementing our findings in the discounted cash-flow model constructed by the team and see what happens to Jerónimo Martins's share value.

What is ESG investing?

Investors consider several factors when evaluating different investment opportunities. The analysis usually includes the expected return, the associated investment risks, and the costs and fees involved. However, many investors are now ESG considerations into their portfolio decisions. So, what is ESG?

According to Pedro Matos (2020), ESG is composed of three dimensions:

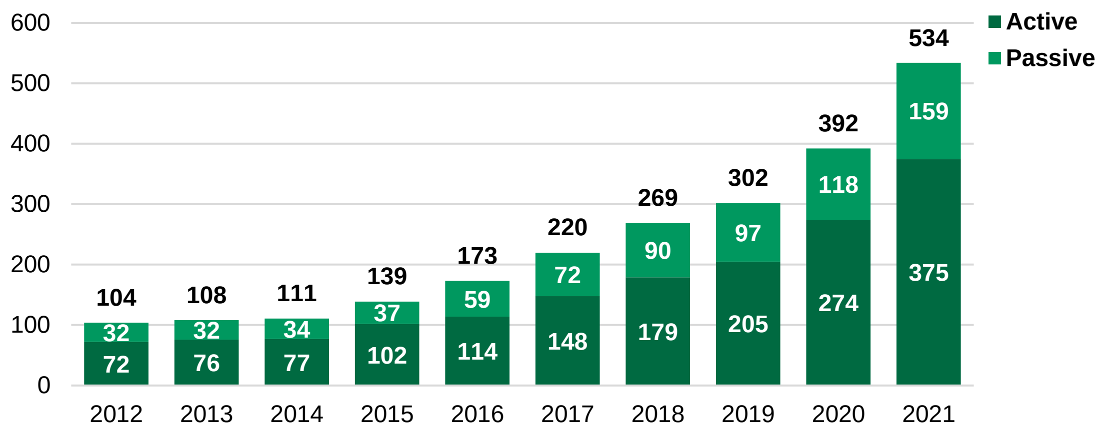
- The environmental (E) dimension determines a firm’s impact on the ecosystem. This analysis includes the pollution and waste generated, the emission into the earth's atmosphere of greenhouse gases, the efficient use of water, energy, and materials in the value chain, and the innovation efforts to develop products that make the lowest possible environmental impact.
- The social (S) dimension covers a firm's relations with its customers, community, and workforce. This analysis includes themes such as respecting human rights, proper working conditions, career training and development, employee health and safety, satisfying customers, and the impact on society.
- The governance (G) dimension can be split into three categories: corporate social responsibility (CSR), management practices, and shareholder rights. Therefore, the analysis usually includes the CSR strategy, ESG reporting transparency, management structure diversity and independence, board compensation policies, and fraud and bribery protection.

Although many ESG ratings include the metrics mentioned above, a consensus on their materiality and whether it makes sense to include them in the analysis is still to decide. Besides, ESG ratings rely on self-reporting information that could undermine the analysis. Therefore, ESG metrics must require clear guidelines as traditional financial accounting statements has.

ESG Industry Historical Analysis

The ESG industry has been growing exponentially over the last few years. Proof of that is the sustainable funds’ universe’s fast-paced growth in recent years and the ESG strategies standing out in inflows and new funds. According to Morningstar (2022), in 2021, there were 534 sustainable funds, of which 375 are active and 159 are passive. **Exhibit 1** tells us that the sustainable funds’ universe had a 36% increase from 2020 and fourfold the number of funds at the end of 2015. However, it is essential to note that these only include funds that make a clear and prominent commitment to the sustainability criteria of the fund’s selection process, which can understate the actual number of sustainable funds available.

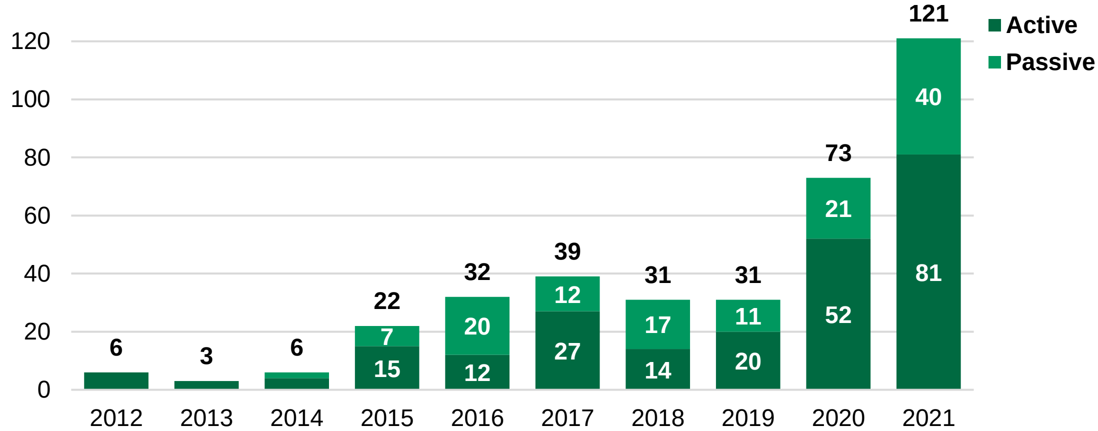
Exhibit 1: The Sustainable Funds Universe



Source: Morningstar Direct.

Morningstar (2022) also reports that sustainable fund launches continue to accelerate over the years, especially in 2020 and 2021, where the number of sustainable funds that entered the market was 73 and 121, respectively. A considerable increase, considering the average number of funds launched since 2015 is approximately 30. For the evolution of the funds launches throughout the years, please refer to **Exhibit 2**.

Exhibit 2: Sustainable Funds Launches



Source: Morningstar Direct.

Finally, sustainable funds flows continue to impress. 2021's annual net flows of $70 billion were 35% higher than the 2020 record, and 2020's numbers doubled 2019's. This sequence of breaking records after records continues till 2016 (Morningstar, 2022). Although these inflows remain small compared with the rest of the market, they are still exceptional since the ESG industry is less than a decade old, and as time passes, more investors are becoming aware of its importance.

Does ESG create value?

There are three perspectives on ESG creating value:

- “Do good while doing well.” High ESG-rated stocks should offer superior returns. Investing in greener stocks reduces downside risk. Thus, in the long run, it offers superior returns.
- “Do good but not well.” High ESG-rated stocks should offer lower returns. The primary rationale is that society reaps the benefits of ESG policies, not shareholders.
- ESG investing neither adds nor destroys portfolio value. The supports do not view ESG as a risk factor, so it should not affect expected returns.

In the following sections of this chapter, we will review the empirical and theoretical literature looking for the correct perspective.

Empirical Analysis

As expressed before, ESG investing has been a hot topic, so it is only natural to have a lot of empirical studies about it. However, we will only review some of them as the primary goal here is to highlight different perspectives rather than to do an extensive literature review.

Harrison Hong and Marcin Kacperczyk (2009) examined the effects on the market caused by social norms. For that, they studied publicly traded producers of tobacco and alcohol and involved with gaming, i.e., “sin stocks.” The authors document that large institutions’ exclusion of “sin” stocks significantly affected their cost of capital, leading them to have higher expected returns than comparable stocks.

Rob Bauer, Kees Koedijk, and Rogér Otten (2005) review and extend previous research on ethical mutual fund performance, examining if, in the 1990–2001 period, there is a statistically significant difference in the ethical and conventional funds returns. The authors document that the difference is insignificant after controlling for size, value, and momentum.

Stephen Brammer, Chris Brooks, and Stephen Pavelin’s (2006) research uses the stock returns of UK-quoted companies to find a relationship between financial performance and corporate social performance (CSP). The authors observe that higher CSP scores are linked with lower financial performance, while firms with lower CSP scores tend to outperform the market.

Li Cai and Chaohua He (2013), using 20 years’ data of 1992–2011, analyse the relationship between corporate environmental responsibility and long-run stock returns, find evidence that environmentally responsible company exhibit abnormal returns over the long term. The authors argue that the environmental responsibility is undervalued by the market and that environmental strength creates firm value.

John Nofsinger and Abhishek Varma (2014) explore whether conventional and Socially Responsible Investment (SRI) funds exhibit different average returns. Overall, the authors find no statistically significant difference between them. However, in non-crisis periods, SRI funds underperform conventional funds, but in crisis periods, SRI funds outperform conventional ones. The authors conclude that despite SRI funds' lousy performance in regular times, they can be a solid investment in a portfolio since they outperform in market crises, they can limit the portfolio's downside risk.

After this brief literature review, the empirical evidence appears inconclusive, with all three views documented. Therefore, empirical studies cannot give a clear answer on this subject.

Theoretical Analysis

Traditional finance tell us that the premium over the risk-free rate arises from three sources:

- Risk – systematic risk requires a premium since it cannot be diversified away.
- behaviour biases or investor preferences – biases and investor preferences can lead to premiums if they cannot be arbitraged easily.
- market impediments – for example, limited liquidity.

The main question is whether the theoretical literature can reconcile the inconclusive empirical literature.

Bradford Cornell (2020) analyses high ESG-rated returns, focusing on the abovementioned factors - investor preferences and risk. Firstly, investors' preferences for highly rated ESG companies will increase prices due to supply/demand imbalances. Higher prices imply a lower expected return and a lower discount rate for the company. Therefore, we can expect higher market values and more investment opportunities for green firms. Secondly, if ESG is a risk factor, high ESG-rated stocks are less risky, so they should deliver lower expected returns in equilibrium. The author concludes that investors looking only at financial performance should not invest in high ESG-rated stocks because although they may have social benefits, they do not offer higher expected returns.

L'uboš Pástor, Robert Stambaugh, and Lucian Taylor (2019) created a model where agents consider ESG in their investment decisions. The model has two types of firms: "green" and "brown" firms. The first type generates positive externalities, while the latter generates negative externalities. In equilibrium, green assets have negative CAPM alphas, whereas brown assets have positive alphas. Nevertheless, agents are happy because they derive non-pecuniary benefits from their holdings for two reasons:

- Agent tastes are incorporated into their utility function, so holding greener assets will increase their utility because investors enjoy owning them.
- If the climate deteriorates, it will undoubtedly impact people's lives negatively, and the government will make new regulations to combat it. Brown firms are less prepared for this regulation so they will lose more value than green firms. Therefore, green assets are less risky because they are less exposed to climate risk, deserving a lower premium than

brown ones.

Johannes Dreyer, Vivek Sharma, and William Smith (2023) created a model that explains why green assets should underperform brown ones. They hypothesize that investors are interested in financial assets not only by the return they offer but also because they are consumption goods. Agents get a non-pecuniary benefit, which they call a “warm glow,” by investing in green firms. This extra benefit increases its demand, thus also increasing its price and consequently lowering its rate of return. The authors conclude the paper by stating: “growing concern for environmentally responsible investment might explain the underperformance of green stocks.”

Contrary to the empirical analysis, the theoretical papers appear more consistent, with all presented papers agreeing that green firms should deliver lower expected returns in equilibrium. However, one question still needs to be answered: How can some authors document higher returns for high-rated ESG stocks?

This question has a straightforward and elegant answer, L’uboš Pástor, Robert Stambaugh, and Lucian Taylor (2019) explain that if the average investor’s taste for green stocks increases unexpectedly, then they will outperform brown stocks until the market fully adjusts to this new preference.

ESG ratings and the cost of equity

This chapter will first review the data used in our analysis. After that, we will analyse whether the overall or/and by pillars ESG ratings impact the company's equity cost. Finally, we will conclude our analysis by incorporating the effects found in the previous step and see how that changes Jerónimo Martins (JMT) value per share.

Data

All the data was collected from Refinitiv on the 11th of December.

The sample comprises publicly traded companies on European stock exchanges with ESG ratings for at least 2021. The equity cost of capital calculated by Refinitiv is available from 2015, so our sample also starts that year. **Exhibit 3** summarizes the sample composition by Refinitiv's economic sectors and year. The sample contains 6738 observations, with the number increasing over the sample period peaking in the latest year, 2021.

# Observations	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Financials	246	236	229	203	169	153	144
Real Estate	78	72	64	55	43	38	37
Utilities	57	53	51	49	42	37	35
Basic Materials	103	100	96	92	82	79	78
Energy	62	61	57	51	47	43	43
Industrials	205	197	186	170	135	122	115
Technology	142	133	122	108	87	74	69
Consumer Non-Cyclicals	**76**	**73**	**72**	**70**	**58**	**52**	**51**
Healthcare	87	86	82	72	52	47	42
Consumer Cyclicals	154	145	138	130	109	98	94
All sample	**1210**	**1156**	**1097**	**1000**	**824**	**743**	**708**

Exhibit 3 - Sample breakdown by economic sector and year. **Source**: Own contribution.

ESG Score

The ESG score is calculated using over 630 company-level ESG measures. The main goal of the ESG score is to reflect the company's ESG performance, commitment, and effectiveness based on publicly reported information.

To understand if the ESG score impacts the cost of equity, we need to perform a paired t-test. The t-test ascertains if the means of the two populations are equal. This test does not assume homoscedasticity. In our case, the test compares the mean cost of equity premiums of firms with low and high ESG scores based on the median ESG value of each economic sector.

The overall mean cost of equity for companies with a high ESG score is 7.92%, while for firms with a low ESG score is 7.52%. These results suggest that the mean cost of equity for companies with a high ESG score is 40 basis points higher than for firms with a low ESG score. Moreover, the difference is statistically significant at the one percent confidence level. However, for the economic sector of JMT, despite similar the results to the overall analysis, the difference is not statistically significant.

For a look at the economic sector results, please see bellow **Exhibit 4**.

t-test	ESG ≥ median	ESG < median	Difference	p-value
Financials	8.94	7.22	1.71	0.0%
Real Estate	6.81	5.62	1.19	0.1%
Utilities	5.93	7.53	-1.59	0.0%
Basic Materials	9.63	8.47	1.15	0.4%
Energy	9.11	10.66	-1.55	0.3%
Industrials	7.94	7.63	0.30	8.8%
Technology	6.90	7.36	-0.46	1.3%
Consumer Non-Cyclicals	**6.62**	**6.23**	**0.38**	**23.1%**
Healthcare	6.66	6.55	0.11	80.7%
Consumer Cyclicals	8.20	7.74	0.46	1.3%
All sample	**7.92**	**7.52**	**0.40**	**0.1%**

Exhibit 4 - Mean ESG Scores cost of capital and t-tests results. **Source**: Own contribution.

Environment Pillar Score

The environment pillar score, as previously stated, measures a company's impact on the natural ecosystem.

Like before, to comprehend if the environmental pillar score influences the cost of equity, a paired t-test was performed that compares the mean cost of equity premiums of firms with low and high environmental pillar scores based on the median of each economic sector.

The overall mean cost of equity for companies with a high environmental score is 7.93%, while for firms with a low environmental score is 7.52%. The results are statistically significant at the one percent level and almost identical to the previous analysis.

On the other hand, the results for the economic sector of JMT are different. The above median environmental pillar score firms have a lower cost of equity of about 51 basis points. The result is statistically significant at the ten percent confidence level.

For a look at the economic sector results, please see bellow **Exhibit 5**.

t-test	E ≥ median	E < median	Difference	p-value
Financials	8.92	7.23	1.69	0.0%
Real Estate	6.78	5.65	1.14	0.0%
Utilities	6.10	7.37	-1.27	0.0%
Basic Materials	9.59	8.51	1.08	2.0%
Energy	8.85	10.96	-2.11	1.8%
Industrials	7.97	7.60	0.36	0.3%
Technology	7.11	7.15	-0.05	85.6%
Consumer Non-Cyclicals	**6.19**	**6.70**	**-0.51**	**7.8%**
Healthcare	6.46	6.75	-0.29	31.8%
Consumer Cyclicals	8.21	7.73	0.49	11.0%
All sample	**7.93**	**7.52**	**0.41**	**0.1%**

Exhibit 5 - Mean environmental pillar cost of capital and t-tests results. **Source**: Own contribution.

Social Pillar Score

The social pillar score, as previously stated, measures a firm's capacity to generate trust and loyalty with its customers, workforce, and community.

In line with the previous analysis, a paired t-test was performed that compares the mean cost of equity premiums of firms with low and high social pillar scores based on the median of each economic sector.

The overall mean cost of equity for companies with a high social score is 7.88%, while for firms with a low social score is 7.57%. Contrary to the ESG and environmental pillar scores, the results are now statistically significant at the five percent level. So, the social pillar is less relevant to our analysis. Indeed, for the consumer non-cyclical, the results have a p-value of 23.1%, becoming, once again, statistically insignificant.

For a look at the economic sector results, please see bellow **Exhibit 6**.

t-test	S ≥ median	S < median	Difference	p-value
Financials	9.00	7.18	1.82	0.0%
Real Estate	6.46	6.00	0.46	5.0%
Utilities	5.83	7.63	-1.80	0.0%
Basic Materials	9.51	8.58	0.93	0.2%
Energy	9.04	10.73	-1.68	4.8%
Industrials	7.88	7.70	0.18	45.5%
Technology	6.94	7.32	-0.38	3.4%
Consumer Non-Cyclicals	**6.56**	**6.30**	**0.26**	**23.1%**
Healthcare	6.38	6.83	-0.46	31.0%
Consumer Cyclicals	8.08	7.86	0.22	30.6%
All sample	**7.88**	**7.57**	**0.31**	**1.0%**

Exhibit 6 - Mean social pillar cost of capital and t-tests results. **Source**: Own contribution.

Governance Pillar Score

The governance pillar score, as formerly mentioned, measures the firm’s process and systems that guarantee that the management presides in the best interest of its shareholders.

To understand if the governance pillar score impacts the cost of equity, we performed a final paired t-test, comparing the mean cost of equity premiums of firms with low and high governance pillar scores based on the median of each economic sector.

The overall mean cost of equity for companies with a high governance pillar score is 8.12%, while for firms with a low governance pillar score is 7.32%. These results suggest that the mean cost of equity for companies with high governance is 79 basis points higher than for firms with low governance. Moreover, the difference is statistically significant at the one percent confidence level. For consumer non-cyclical sector, the results also are statistically significant at the one percent level and suggest that the mean cost of equity for companies with high governance is higher by 120 basis points than for firms with low governance.

For a look at the economic sector results, please see bellow **Exhibit 7**.

t-test	G ≥ median	G < median	Difference	p-value
Financials	8.67	7.47	1.20	0.0%
Real Estate	6.84	5.59	1.24	0.2%
Utilities	6.15	7.30	-1.15	0.7%
Basic Materials	9.84	8.27	1.56	0.2%
Energy	9.99	9.72	0.27	34.7%
Industrials	7.95	7.62	0.33	4.3%
Technology	7.12	7.14	-0.02	90.8%
Consumer Non-Cyclicals	**7.02**	**5.82**	**1.20**	**0.5%**
Healthcare	7.26	5.96	1.30	0.1%
Consumer Cyclicals	8.46	7.49	0.97	0.0%
All sample	**8.12**	**7.32**	**0.79**	**0.0%**

Exhibit 7 - Mean governance pillar cost of capital and t-tests results. **Source**: Own contribution.

Jerónimo Martins Valuation Revisited

In this section we will apply the spreads in the previous analysis to JMT weighted cost of capital (WACC) and see how JMT's value per share is impacted. The results are displayed bellow in **Exhibit 8**.

	Score	Median	Spread	WACC	Value per share	Share Price	Expected Return
Base Case	**-**	**-**	**-**	**8.86%**	**22.74**	**20.64**	**10.19%**
ESG	84.67	66.43	0.40	9.26%	21.28	20.64	3.11%
Environmental Pillar	90.00	73.08	-0.51	8.35%	24.85	20.64	20.41%
Social Pillar	92.75	68.94	0.31	9.17%	21.60	20.64	4.67%
Governance Pillar	67.54	68.75	1.20	7.66%	28.24	20.64	36.81%

Exhibit 8 – Spreads impacts on JMT value per share. **Source**: Own contribution.

First and foremost, the ESG and Social Pillar used the overall spreads since the consumer non-cyclicals spread are not statistically significant. Second, the spread is the cost of equity of above-median scores minus the bellow median scores. For example, since the governance pillar is below the median, we need to subtract the governance spread from the WACC and add the spread to the WACC for the remaining cases because the scores are all above the median.

From Exhibit 8, the results are mixed. For the ESG score and social pillar scores, compared to the Base Case, the values per share decrease to 21.28€ and 21.60€, generating expected returns of 3.11% and -4.67%, respectively. On the other hand, for the environmental and governance pillar scores, , compared to the Base Case, the values per share increased to 24.85€ and 28.24€, generating a positive expected return of 20.41% and 36.81%.

To conclude, ESG can have real impacts on valuations, as demonstrated by this report. It can be costly to be unaware of ESG since ESG information can shed light on hidden risks or gems. That said, we must start implementing them in our investment analysis because only then will we get a complete picture.

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NOVA SCHOOL OF BUSINESS & ECONOMICS

MASTER IN FINANCE

JERÓNIMO MARTINS

COMPANY REPORT

FOOD DISTRIBUTION AND RETAIL

16 DECEMBER 2022

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Jerónimo Martins a Consumer's Favorite

Adapt and Overcome

- Based on our estimations, the price that we predict at the end of the **year 2023** is which represents a Recommendation.
- The Group was able **to adapt very quickly** to the global events that cause disruptions across the world, **reinforcing** its position as a market leader in most of its subsidiaries.
- The **expansion plans** of its subsidiaries have been **surpassing the company expectations**, especially in Colombia, where the company revised the strategy mid-year due to its success.
- We identify as a possible **future opportunity** the **development of the e-commerce** segment across all subsidiaries since it has high potential growth.

Company description

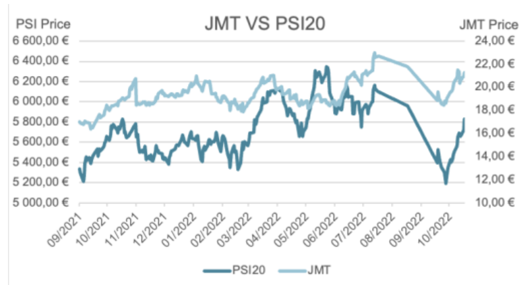
Jerónimo Martins SGPS, S.A. (JMT) is an international group founded in Portugal in 1972, operating in two different areas: food distribution their main business, and specialized retail. The company serves millions of consumers across Portugal, Poland, and Colombia. Through a value proposition centered in proximity stores, JMT has over 4,900 stores.

Recommendation:	**BUY**
Price Target FY23:	**22.91 €**
Price (as of 16-Dec-22)	**20.64 €**

Reuters: JMT.LS, Bloomberg: JMT.LI

52-week range (€)	17.67-23.30
Market Cap (€m)	11755.012
Outstanding Shares (m)	629.293
Other (…)	

Source: Refinitiv



Source: Refinitiv

(Values in € millions)	2021	2022E	2023F
Revenues	20 889	26 257	31 500
EBITDA	1 585	2 000	2 435
Net Profit	484	731	972
EPS	0.74	0.95	1.08
P/E	25.50	23.14	21.21

Source: Refinitiv, Team's Calculations

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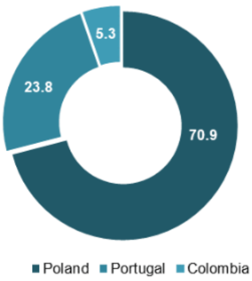
Company Overview

Figure 1: Jerónimo Martins Logo

Source: JMT Website

Jerónimo Martins SGPS, S.A. (JMT) is an international group founded in Portugal in 1972. Their core business, which accounts for almost 99% of the Group's consolidated sales, is Food Distribution. Besides that, the Group also operates in Specialized Retail Sectors such as Manufacturing, Marketing, Restaurant Services, Health & Beauty, and, since 2014, Agribusiness. The company has over 4,900 stores and more than 123,458 employees, generating around €20.9 billion in revenues in 2021.Through a value proposition centered in proximity stores with a pleasing environment that offers a large variety and quality of fresh food products at competitive prices, Jerónimo Martins' stores are appropriate and attractive for all consumers. This proposition allows the firm to serve the everyday needs of millions of consumers across three nations: Poland, Portugal, and Colombia. The company's revenues in 2021, displayed in **Figure 2**, were broken down into 70.9% in Poland, 23.8% in Portugal, and 5.3% in Colombia. Although there are expansion plans, they were postponed because of the uncertain environment caused by the pandemic and, more recently, the war.

Figure 2: Revenues



Source: JMT Annual Report

Poland

The company operates in Poland under two main banners, Biedronka, related to the food distribution segment, and Hebe, related to the Health and Beauty sector.

▪ Biedronka

Figure 3: Biedronka's Logo

Source: JMT Website

Biedronka is the largest subsidiary of the Group, representing 69.6% of the total group sales and 84.5 % of the Group's EBITDA in 2021. In the last few years, it has been the undisputed leader in food retail, particularly as a discounter, continuing to strengthen its leadership position. It comprises a store network of 3250 outlets in 2021 and intends to expand further in 2022, planning to open 130 new stores and refurbish 350 old ones to become more modern and include self-checkout services. On top of that, according to the company, it will continue to invest in intense promotional dynamics and price competitiveness, striving to maintain basket inflation below the average food inflation in the country.

Figure 4: Hebe's Logo

Source: JMT Annual Report

- Hebe

Hebe is a Health and Beauty retailer that manages a considerable collection of products following the company motto of offering competitive prices in all the markets it operates. The company also offers consultation services in its stores. With the momentum growth of the online channel, Hebe was able to reinforce its competitive advantage of differentiation by consolidating an omnichannel approach with the full integration of physical stores into its digital vision.

Portugal

Portugal is the country where Jerónimo Martins has a broader range of operations. The firm operates in the food distribution sector through Pingo Doce and Recheio. Further, they operate in the specialized retail sector with Jeronymo (coffee shops) and Hussel (chocolate stores). Finally, the company has recently launched a banner operating in the agribusiness sector, Jerónimo Martins Agro-Alimentar.

Figure 5: Pingo Doce's Logo

Source: JMT Annual Report

- Pingo Doce

Pingo Doce is one of the largest supermarket chains in continental Portugal and has recently entered the Azores market with a partnership with the Finançor group. As a result, in 2021, it registered its best year ever, surpassing €4 billion in sales and accounting for 15.4% of the Group's EBITDA, even with all the restrictions imposed by the Portuguese government. This increase resulted from the competitive pricing strategies and multiple promotions that rewarded Portuguese families. Besides, the company also focused on improving its online channel presence, gaining much visibility with the campaign "O Natal traz o melhor de nós" (Christmas brings out the best in us), with the partnership with Glovo and the improvement of its app.

Figure 6: Recheio's Logo

Source: JMT Annual Report

- Recheio

Recheio is one of the most significant Cash and Carry stores in Portugal, which had tough losses caused by the pandemic as their primary customers: Hotels, Restaurants, and Cafes (HoReCa), were heavily targeted by the restrictions imposed by the Portuguese government. Still, the company improved its business model by creating a specialized delivery system that served HoReCa customers. Moreover, the company also focused on Traditional Retail by partnering with Amanhecer.

- Jerónimo Martins Agro-Alimentar (JMA)

Figure 7: Jerónimo Martins Agro-Alimentar banners

Source: JMT Annual Report

A company created with the particular purpose of guaranteeing the supply of strategic products to the Group's companies always focused on sustainable production. JMA operates in three segments: dairy products (Terra Alegre), livestock farming (Best Farmer), and aquaculture (Seaculture). 2021 was a year of development for this company, entering multiple strategic partnerships and acquisitions to amplify its product sustainability and range.

- Others

Figure 8: Portugal specialized retail banners

Source: JMT Annual Report

Hussel is a specialized retailer that sells chocolates and confectionery and recently finished its rebranding process, hence starting 2022 with a consolidation process. This company suffered from the pandemic since its physical stores were closed, and its online presence was small. **Jeronymo** is a company that manages kiosks and coffee shops and is investing in innovation, sustainability, and communication with customers, particularly in social media.

Colombia

- Ara

Figure 9: Ara's logo

Source: JMT Annual Report

In Colombia, JMT operates under one banner in the retail food industry, **Ara**, one of the largest discounters in that market. Under new leadership in 2021, the company was able to improve its expansion strategy by opening a new location every two days. In 2022 this strategy was even more intensive and allowed the company to reach the 1000 outlets target. Currently, it is present in three regions the Coffee-Growing Region, the Caribbean Coast, and Bogota. Ara's motto is proximity stores that combine price competitiveness with promotional opportunities and a wide variety of high-quality products with the intention to become the "one-stop shop for all the food needs of Colombian families."

Business Description/Strategy

JMT commits to having solid brands in all businesses, with quality products and services, focusing on market leadership. It is recognized for its capability to adapt its business models to the markets and countries where it operates, understanding consumer needs, and having highly competitive prices. Also, the company looks to innovate with strong private brands and fresh, high-quality products.

They focus on the operating activities by improving efficiency, productivity, and exploiting economies of scale and Group synergies.

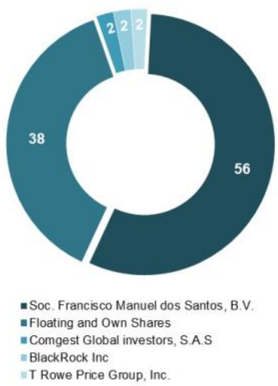
The Group adheres to the following four strategic guidelines to achieve value creation and fulfill its strategic goals:

- Strengthening the balance sheet continuously (by having a good net working capital, positive cash flows, and a balanced capital structure).
- Managing risk to protect asset values (through the hedging of many assets they have abroad).
- Maximizing economies of scale and synergies.
- Fostering innovation and a pioneering spirit.

Moreover, the Group introduces four lines of action: improve operational effectiveness, raise pricing competitiveness, and value proposition, incorporate innovative technology, and identify opportunities for profitable expansion.

Shareholder’s structure

Figure 10: JMT’s shareholder structure



Source: JMT Annual Report

Sociedade Francisco Manuel dos Santos, BV, JMT's largest shareholder, is owned by the Soares dos Santos family and represents 56.14% of the company's capital. The currently outstanding shares traded on the market are free float and represent 32.41% of the total shares. The remaining stockholders are present in **Figure 10**.

JMT has adopted the Anglo-Saxon governance model since 2007, which the Group feels to be the most appropriate in terms of serving shareholders' interests. JMT has 629,293,220 outstanding ordinary shares, each with a nominal value of one euro. In addition, the corporation has 859,000 shares in its portfolio, which accounts for 0.14% of the company's voting rights and share capital.

Management

JMT's corporate structure is composed of four entities elected for three years terms. In addition, there are five specialized committees to oversee and monitor particular areas.

The CEO, Pedro Soares dos Santos, presides over the Board of Directors (BoD), which currently has 11 members. Sixty percent of its members represent a variety of countries and are independent. A minimum of 7 and a maximum of 11 people, including the chairperson, must make up the Board of Directors. The BoD meets at least four times a year; in 2021, it did so seven times. The general conduct of the business, its management, direction, and performance are only a few of the many obligations that the BoD must take care of, both legally and internally. The Board of Directors has also established a Managing Committee (charged with assisting the CEO and the BoD) and specialized committees intended to monitor and oversee parts of the operations.

Environment, Social, and Governance

Not only is it essential to create value, but also to ensure social development and environmental sustainability as a priority.

The Jerónimo Martins ESG Risk Rating was ranked 13th among the 201 food retail companies evaluated by Sustainalytics in February 2022 and was part of the 2022 Top-Rated ESG Companies (which covers more than 14,000 companies from 42 industries). In addition, the Group has a low risk of experiencing material financial consequences impacts from environmental, social, and governance problems, receiving an ESG Risk Rating of 16.2.

Also, JMT is present in the STOXX Global ESG Environmental Leaders Index, the STOXX Europe Sustainability Index, and the EURO STOXX Sustainability Index, the leading European indexes in social, environmental, and governance best practices.

Environment

In 2021, Jerónimo Martins had an environmental score of 89.95, well above the average of its peers (82), resulting in an A grade. In addition, compared to 2017, the Group reduced its carbon footprint by 35% and energy consumption by 11% for every 1,000 euros in sales. On the other hand, compared to 2018, the Group reduced plastic consumption by 15% for every million sales.

Jerónimo Martins Group Environmental Policy outlines the top priorities for action aimed at minimizing the adverse environmental effects of its operations and supply chains: **protecting biodiversity**, combating **climate change**, and fostering a more circular economy, also through responsible **waste management**.

Relative to **preserving biodiversity**, the Group is aware of the importance of preserving ecosystems and reversing biodiversity loss. In their operations, for example, they promote the protection of wild fish species, introduce sustainable practices in their productions, and introduce products and services with a better environmental and social profile.

Regarding **climate change**, the Group's strategy is transversal to its entire value chain and includes measures to identify and manage climate-related risks and opportunities. It also includes mitigation measures such as reducing energy consumption in operations and action with suppliers through, for example, promoting good agricultural practices and pledges to fight deforestation. Also, the Group can mitigate climate change through renewable energies, efficient refrigeration, lighting technologies, and water-saving systems. Optimization of distribution routes and management of refrigeration gases are other measures.

As a result, Jerónimo Martins is the food retailer with the best CDP (Carbon Disclosure Project) score worldwide. Indeed, the Group received a double A (highest score) from CDP in the "climate change" and "water security" categories and is the only food retailer in the world to score A- in the management of deforestation commodities. Furthermore, since June 2020, JMT has been part of the Euronext Eurozone ESG Large 80 Index, which includes the Euronext-listed companies that better adapt their businesses to the energy transition, supporting the transition to a low-carbon economy and reducing climate impact. Also, Lean & Green distinguished Pingo Doce with three stars and Biedronka with one star for cutting greenhouse gas emissions associated with logistics.

To combat **waste management**, the Group wants to develop products and packaging that use materials efficiently, especially recycled ones. Furthermore, the Group is committed to halving food waste generated by 2030 by donating thousands of tons of food to charities through stores and distribution centers and selling products near their expiration date at a discount. Not surprisingly, JMT's integrated strategy for fighting food waste was distinguished in the first edition of the National Sustainability Award in the "Circular Economy" category. Also in 2021, Pingo Doce logistics won the "Decarbonisation" category (an initiative promoted by Jornal de Negócios).

Social

The social pillar of JMT's overall ESG framework is the best pillar of the Group, with a remarkable score of 92.84, above the peer median of 74. The social component articulates itself around three main concerns: **People**, **Health and Safety**, and **Local Communities**.

Regarding **People**, JMT's primary concern is becoming a benchmark employer. At the end of 2021, the Group employed 123,458 people, 4.4% more than the previous year. The company has employees of more than 75 different nationalities, and compared to 2020, the number of permanent contracts increased their relative weight by 1.2 p.p. The Group is committed to gender equality, ensuring women's representation at distinct levels of leadership and equal opportunity. Also, the Group provides options for internal mobility, more training hours, and active participation for their workers. For example, Biedronka was named the Best Quality Employer 2021 by the Central National Certification Office; JMT is the only Portuguese company listed in its sector on the Bloomberg

Gender-Equality Index; and finally, the Group was also distinguished as an Inclusive Employer by the Portuguese Employment and Professional Training Institute.

Regarding **Health & Safety**, JMT's business sector could pose some risks to its employees. However, all hazards are identified and assessed by the health and safety in the workplace (HSW) teams by measuring chemical, physical and biological agents and establishing measures to prevent workplace accidents. Furthermore, the Group promotes health and physical exercise initiatives and offers spaces dedicated to prevention and physical rehabilitation.

Finally, the Group strives to be an active part of society, focusing on and supporting the most vulnerable groups: the elderly and underprivileged children and young people, sponsoring institutions that help fight hunger and malnutrition, and working towards breaking cycles of poverty and social exclusion. JMT also promotes good lifestyle options like eating healthier and having better reading habits. In 2021, the firm donated more than €51.3 million to 1,800 organizations.

Governance

Governance is by far the poorest ESG pillar for JM, but it appears that this is the case for the entire sector, as the peers' median is also the worst of the three pillars. JMT has a score of 67.54 (B+), and the median of the peers is 67, so the Group is above its peers in this pillar as well.

Inside this pillar, the two worst scores are Management and Shareholders. The former measures a company's commitment and effectiveness towards following the best practice corporate governance. Here, we can highlight the lack of a succession plan for executive management in the event of unforeseen circumstances, the lack of information reporting regarding the total individual compensation of all executives and board members, and the remunerations not being linked to long-term targets/objectives. The latter score measures a company's effectiveness towards equal treatment of shareholders and the use of anti-takeover defenses. Here JMT is "punished" because not all board members were elected with a majority vote in shareholder's meetings.

Despite the Anglo-Saxon approach by Jeronimo Martins, we would like to bring up two possible risks for minority investors. First, there is a concentrated ownership structure, where the company's largest shareholder, the family holding Sociedade Francisco Manuel dos Santos, B.V. (**Figure 10**), holds a controlling interest in the business, giving them the right to veto any motion from a stockholder. Second, there is no distinction between management and control because Pedro Soares dos Santos serves as the CEO and the chairman of the board of Directors (while being a member of the family holding Sociedade

Francisco Manuel dos Santos). The thin line separating ownership and management exposes minority investors to the possibility of power abuse, requiring tighter control measures.

Industry Overview

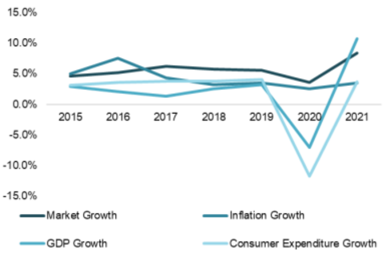
Overall, the food retail industry comprises multiple store formats and can be divided into Traditional channel formed by Mom & Pop stores and Modern channel that englobes all the other store formats such as Supermarkets, Cash and Carry, and Discounters. The main revenue source is the sale of all packaged and unpackaged food products, as well as beverages, tobacco, and household products.

This sector shares several similarities in terms of market forces independently of the geographic location, as can be seen by the similar effects of the Covid-19 pandemic that caused lockdowns all over the world, limiting the regular operation of the retail sector and drastically changing consumer habits. Moreover, it spiked an increase in global inflation and uncertainty that were even more drastically affected by the Russian invasion of Ukraine, which also caused more extensive disruptions in supply chains. The increase in inflation led to a relevant loss of consumer purchasing power and an increase in price sensitivity that made customers shift towards store formats that offer more competitive prices with a focus on local consumer preferences. Particularly discounters due to their ability to offer “Everyday Low-Prices” (EDLP) strategies while taking advantage of economies of scale and reduced overhead costs in the adaptation to the new volatile environment.

Even with the increase in raw materials and energy prices, large discounters (such as Biedronka, Ara, and Pingo Doce) maintained competitive pricing strategies due to their high bargaining power and tendency to represent a large part of suppliers’ revenues. Moreover, with the homogeneity of products, they may be able to change suppliers without relevant switching costs. Additionally, there are no appropriate substitutes for this market; the most common options are food services, subsistence agriculture, or homemade products (for household products), which during the pandemic saw their revenues decrease as consumers transferred to retail outlets (MarketLine, 2021a).

Poland

Figure 11: Poland Macro Indicators



Source: Euromonitor

Poland is currently the largest market for food and beverages in Central and Eastern Europe, accounting for almost 4.2% of the European food & grocery market value, representing the vital importance of the retail sector in Poland's economy (Figurska, 2021). However, the events mentioned before altered the retail market in Poland, as can be seen in **Figure 11**, the retail market suffered a slight decrease from 2019 to 2020, but from 2020 to 2021 it was able to recover and increase the growth rate, this was partially caused by the recovery of consumer spendings and slight increase in inflation rate. In terms of country effects, the pandemic caused a decrease in the growth rate of the Polish GDP swinging from a positive growth rate in 2019 to a negative in 2020. Additionally, increases in population numbers due to the immigration of Ukrainian refugees to this country, significant disruptions in the supply chain, and uncertainty regarding the future were some of the other consequences of the previously mentioned events. Poland's government is a critical participant in the polish food market, often implementing policies to help and benefit consumers. For example, in 2019, they changed the Family 500+ program to simplify the attribution process and to include more families. Additionally, to counterpoise the rapidly growing inflation levels in 2022 (expected to be around 13,6% by the end of the year according to the National Bank of Poland), the Polish Parliament approved the reduction of the Value Added Tax (VAT) on food to zero and monitored the companies to make sure that this reduction would be transferred to the final consumer. The government also increased the minimum wage to reduce the impact of inflation; however, more was needed to prevent the decrease in disposable income as inflation grew more than 20 % in some products (Figurska, 2022).

The most significant competitors in this market are Jerónimo Martins (largest retailer), Biedronka's owner (representing 67% market share of discounters in 2021), Eurocash (owner of Lewiatan and abc stores) and Schwarz Gruppe (owner of Lidl and Kaufland) with the following market shares in 2021,11.9%; 6.9% and 6.7%; respectively (Euromonitor International, 2022). This concentration leads to intense rivalry among the players as the price sensitivity of consumers increases, and price schemes influence not only rivals' strategies but also consumer choices. Hence companies are forced to diversify their product mix, introducing more private-label products according to local consumer preferences and loyalty programs while actively monitoring their prices (Euromonitor Int., 2021). For example, Biedronka launched 215 private brand products, reaching a 39% weight of private brand products in its stores.

Even though Hebe, operates in the specialized retail sector of health and beauty segment, which has as leading players Dirk Rossmann KG, Pelion Healthcare

Group, and JMT (Statista, 2021). Most of the effects mentioned above also apply to this market's conditions; some were even more drastic, such as consumer price sensitivity. For example, non-essential goods and services saw a significant decrease as consumers attributed more importance to essential goods, thus mainly decreasing the sales of the first segment. Additionally, with the closure of stores, lockdowns, and lack of tourists and students, people attributed less perceived value to these products, which drove more pressure into the segment (Passaport, 2022). Nevertheless, Hebe overcame the situation and quickly adapted by creating and executing a digital and omnichannel strategy that enhanced differentiation, resulting in improved sales performance (mentioned ahead) and overperforming the market.

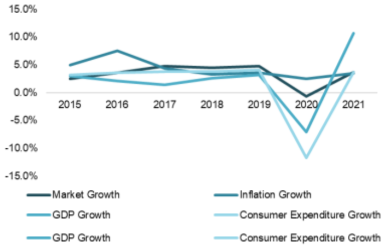
- Trends

The adoption and adaptability to integrate online shopping into companies' current business models have been one of the most common trends in this industry. Consumers started to value fast home delivery services with a considerable range of available products. Biedronka reinforced its online presence by partnering with Glovo, creating Biek, a delivery service that takes less than 15 minutes, available in six Polish cities. Furthermore, it reinforced its online catalog by offering more than 2000 products ready to be ordered in more than 31 cities (according to the company), allowing it to monitor the consumer's preferences and needs for each region more easily. Hebe also took advantage of this trend and started marketing its products outside of polish borders, consolidating its online platform (which won two awards in 2020 and 2021) and doubling the weight of online sales in its revenues (accounting for 13% in 2021).

Another noticeable trend is the improvement of the physical outlets to provide a better shopping experience and be closer to the consumers. Biedronka executed a robust investment plan to open 66 additional proximity stores in 2021 and refurbish other stores to provide more efficiency to shopping activities by using self-checkouts in more than 65 % of the total outlets. Besides, it invested in the creation of new products to improve its private brand. On the other hand, Hebe decided to close stores that were only used as pharmacies and invested in the digitalization of stores, being the first "Beauty retailer in Poland to offer 2-hour delivery and in-store pickup" as well as self-checkout in all its outlets.

Portugal

Figure 12: Portugal Macro Indicators



Source: Euromonitor

The Portuguese retail industry has a similar structure as the previously described; however, its competitive landscape is more concentrated than other countries. In Portugal, the big players are Sonae, JMT, and SG (with Lidl); these three players in 2020 represented around 60% of retail's market share. Covid-19 and Russia's invasion have clearly changed the macroeconomic environment of the country and the industry, impacted the economy and industry growth and affecting the inflation levels. Looking at **Figure 12**, it is possible to see the pandemic's impact because from 2019 to 2020 the consumer expenditures decreased significantly as well as the GDP growth, both reaching negative growth rates in 2020, contrasting with the stable growth rate from the previous periods. On the other hand, the growth rate of inflation increased between 2019 and 2021, meaning that the consumers were in fact losing their purchasing power. This translates into a more demanding situation for customers since they had to adapt and define new priorities, especially regarding their groceries.

In addition, during lockdowns, there was a shift from food services such as cafes and restaurants towards food retail and home food consumption since these businesses were closed, negatively impacting cash and carry stores such as Recheio, but partially explaining the increase in the retail market growth rate in 2021 (**Figure 12**). However, the implemented safety measures by the Portuguese government and the mass vaccination allowed the control of the virus spreading and the gradual reopening of stores, which, together with the National Recovery and Resilience Plan, provided an additional stimulus for the local economy and consumption (Medina, 2021).

This sector grew because of the changes retailers incorporated to meet new customer needs and operating conditions. One of the necessary changes was the adoption and improvement of online shopping platforms as well as the incorporation of click and collect method. Besides, consumers became more price sensitive as they saw purchasing power decrease. Therefore, Pingo Doce took this opportunity to reinforce its position among Portuguese families creating good trade opportunities with dynamic promotions and operating at a lower basket inflation than the one from the market.

- ### Trends

Online brand presence has been of the main trends in the Portuguese retail industry; this fast-growing segment was one of the main reasons for the growth of the food retail industry in Portugal during the pandemic. Numerous retailers quickly incorporated this channel into their activities or improved the one they had, making online revenues rise 44% compared to pre-pandemic levels

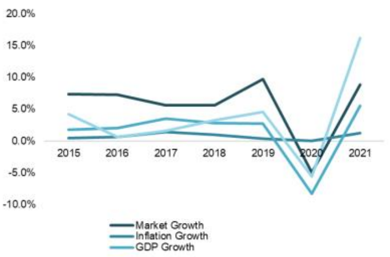
(MarketLine, 2021b). For example, Pingo Doce reinforced its e-commerce channel by partnering with Glovo to deliver ready-to-eat meals from Pingo Doce Fresh Food restaurants, launched the new Pingo Doce app to provide a better shopping experience for the customer, as well as to serve as the “ultimate savings assistant”. Likewise, Recheio also pursued digital opportunities investing in new communication strategies and creating partnerships with picking and delivery service players.

During the pandemic, consumers prioritized convenience and safety in their shopping visits, benefiting companies that operated near them with shorter queues and better safety measures, more specifically, neighborhood stores. For example, Jerónimo Martins had multiple banners under this type of store format, such as Amanhecer (Recheio’s banner) and Pingo Doce & Go, creating a higher connection with consumers and improving brand recognition and performance.

Consumers also became more aware of the product’s characteristics, such as its origin, how it is produced, and its nutritional scale. The demand for local and domestic products has notably increased over the last few years due to the previously mentioned events; consumers increased their demand for better “deals”, not only cheaper products but higher quality. Consequently, Portuguese private-label products have gained from this demand; according to Private Label Iberia, these products represent 43% of the market share (Private Label Iberia, 2022). Sourcing policies implemented by Jerónimo Martins have both these characteristics in common; for example, since 2021, 80% of Pingo Doce’s purchases have been from domestic producers, and many of the products available in store were 100% produced in Portugal by Jerónimo Martins Agro-Alimentar that ensures the supply of key products to the Group’s companies. Furthermore, both Recheio and Pingo-Doce have increased their offer of private label products with 105 launches and 26% weight of private brand; and 279 launches and 35% private brand weight, respectively. Pingo Doce also addressed the new healthier consumer habits by launching Go Active, the first private brand in food retail dedicated to a healthier and active lifestyle (eight of the private label launches are related to Go Active).

Colombia

Figure 13: Colombia Macro Indicators



Source: Euromonitor

The Colombian retail structure is divided in the same manner as previously described. According to Euromonitor, the top retailer in Colombia in 2021 is the Group Almacenes Éxito SA, which owns brands such as Éxito, Carulla, and Surtimax. It is followed by Koba Colombia SAS group, the owner of the larger discounter in Colombia, D1. Ara (owned by Jerónimo Martins) comes in sixth place as the largest food retailer and second as the largest discounter in Colombia (Euromonitor, 2022).

Regarding the discounters' segment, the only one in which JMT has operations, evidence shows that Covid-19 reinforced this channel position in the industry since it was the preferred store format to shop by Colombians (Euromonitor, 2022; FAS Staff, 2022). Moreover, the decrease in consumers' purchase power (due to the inflation increase available in **Figure 13**) and confidence, jointly with the fear of exposure to the virus and circulation restrictions, caused shoppers to start looking for safer and closer shopping channels while gaining more price-consciousness. All these restrictions caused a decrease in the market growth, in the Colombian GDP and in the growth of consumer spendings that even reached negative values in 2020 (**Figure 13**).

Ara developed multiple strategies during 2021 and 2022 to take advantage of these new habits. First, it adopted a more aggressive store expansion strategy by opening more than 100 stores in 2021 and increased its store expansion plan to around 250 store openings from the initial 180 stores in 2022. Hence achieving more than 1,000 stores operating (partially due to the bankruptcy of the third larger discounter Justo y Bueno). Additionally, Ara is aware of the high price competition in this market and the importance of economies of scale and reduced overhead costs to maintain its price leadership advantage (EDLP). Henceforward, in 2022 even with the roaring inflation, it started a project to strengthen its logistics and keep a lower store basket inflation than the overall market inflation, enabling it to capture more consumer surplus.

- ### Trends

With the increase in price consciousness, Colombian consumers became more open to purchasing private label products, mainly if retailers can offer high-quality products on their private label. Moreover, consumers also recognized the importance of sourcing and treating products, whether locally produced or processed. This is a positive trend for retailers and discounters since private label products tend to have higher profit margins, allowing companies to provide more competitive prices. Ara managed to increase its value proposition by leveraging this trend, investing in the differentiation and innovation of its private label portfolio, launching 97 new products, and relaunching 118, achieving a 40% weight of private brand products in 2021.

With the isolation effects of the pandemic, brand loyalty was far from being a customer preoccupation; however, retailers wanted to establish a closer relationship with the consumers, which is why many of them invested more in communication strategies. Their intention was not only to show their competitive pricing strategies and reliability but also the proximity to consumers' homes. Ara focused its approach on showing consumers that it is the one-stop store for all Colombian family's needs; consequently, it held numerous campaigns and, the most noteworthy, "Mercado Todo en Ara" (Shop All at Ara), which was nationally televised. Furthermore, leveraging the decentralized strategy to show proximity to consumers in different places and to fight local competition, Ara implemented local promotions ("Local Rebajon") that impacted some of the key stores, according to the company.

A Dynamic Overview

Revenues

▪ Main Banners – current year performance

Jerónimo Martins has had a strong sales performance across all businesses in the current financial year. In the first nine months:

- Biedronka's sales in local currency grew by 23%, with like-for-like (LFL sales – sales made by stores that operated under the same conditions in the two periods) growth of 19.5%. A strong price position was central to the strategy, focusing on containing food inflation, ensuring the competitiveness of shelf prices, and implementing relevant consumer campaigns.
- Hebe's sales have benefited from the previous year's low base, growing in local currency 33.6%, with LFL at 26.4%.
- Pingo Doce's sales grew by 10.3%, with LFL at 8.3%. The banner maintained an intense promotional dynamic, working to create valuable opportunities to help families cope with a deterioration in purchasing power.
- Recheio sales, helped by a favorable comparable impacted by pandemic-related restrictions and benefitting from the substantial HoReCa evolution driven by the tourism recovery, grew 28.8%, with LFL sales of 28.9%.

- Ara's local currency sales grew by 66.2%, including LFL at 40.2%. Low-price positioning and its promotional dynamics were the main sales drivers, guaranteeing consumer recognition in a challenging context for Colombian families.

Briefly, the price-focused strategies and the food inflation sharp increase in all markets boosted JMT sales.

▪ Main Banners – Forecast

Given that JMT operates in different markets and across several industries, we forecast the revenues of each banner in their local currency. Therefore, we forecasted Biedronka and Hebe in Polish zlotys, Pingo Doce and Recheio in euros, and Ara in Colombian pesos. Moreover, the forecasting period from 2022 to 2033 is divided into two subperiods - from 2022 to 2026 and from 2027 to 2033.

For the 2022 to 2026 subperiod, the forecasting process is as follows.

Firstly, revenues are forecasted by regressing past quarterly sales growth with its two main drivers, the number of stores growth and LFL. Our primary rationale is to follow what the company does. In all the company's annual reports, revenues are broken down by the same drivers used in our forecasting analysis and an extra one, the forex (FX) impact, which we did not consider because we are forecasting in local currency, which eliminates the FX effect.

Table 1: Sales growth regression results

Banners	Biedronka	Hebe	Pingo Doce	Recheio	Ara
R-squared	**0.53**	**0.30**	**0.16**	**0.14**	**0.63**
Stores Growth					
Coefficient	2.21	-0.55	1.46	3.10	-0.01
p-value	2.1%	57.6%	34.9%	36.8%	51.7%
Adj. Coefficient	2.21	0.37	1.46	3.10	0.03
LFL					
Coefficient	0.25	0.48	0.50	0.36	0.40
p-value	3.1%	3.7%	13.9%	11.0%	0.1%

Source: Team's contribution

The results of the regression, shown in **Table 1**, yield an R-squared over 0.3 for most banners, with Ara and Biedronka having the highest values (0.63 and 0.53, respectively). The LFL coefficient is statistically significant at the five percent level for Biedronka and Hebe and statistically significant at the one percent level for Ara. On the other hand, the number of stores' growth coefficients is statistically significant at the five percent level for Biedronka. Nevertheless, the number of stores coefficient from the regression for Hebe and Ara was negative, arguably a reasonable estimate. In this way, we adjusted their betas to reflect their actual values. For Ara's coefficient, we used the upper bound from the ninety-five percent confidence interval, and for Hebe's, we used the following formula:

$$\beta_{Hebe} = 0.66 \times \beta_{Hebe\ regression} + 0.33 \times \beta_{Biedronka}$$

We used two different methodologies because the two banners are inherently different. For Hebe it makes sense to use Biedronka's beta since it operates in the same country and its beta is statistically significant. On the other hand, for Ara, it makes more sense to look at the regression output, given that we do not have any banners from the same country.

Table 2: LFL regression results

Banners	Biedronka	Hebe	Pingo Doce	Recheio	Ara
R-squared	0.63	0.52	0.41	0.53	0.83
CPI					
Coefficient	2.91	4.92	1.49	6.77	14.18
p-value	0.0%	1.3%	1.7%	0.0%	0.0%
Total Retail Trade Volume					
Coefficient	0.98	1.45	0.44	1.18	0.37
p-value	1.3%	16.7%	0.4%	0.4%	3.2%

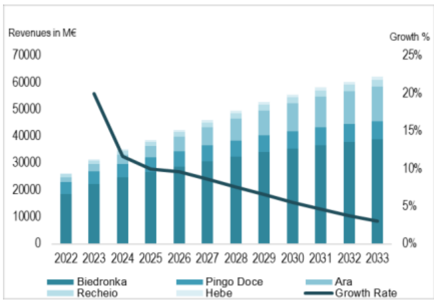
Source: Team's contribution

Table 3: Revenues CAGR

CAGR	2022-2026	2027-2033	2022-2033
Group	**10.0%**	**4.4%**	**7.4%**
Biedronka	9.1%	3.4%	6.3%
Hebe	4.8%	2.2%	3.6%
Pingo Doce	26.6%	9.7%	18.6%
Recheio	8.0%	4.1%	6.3%
Ara	16.1%	5.6%	10.8%

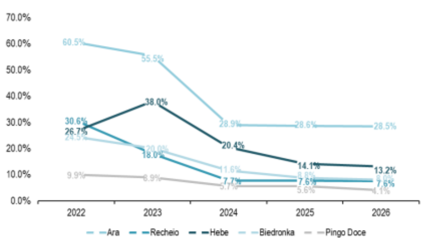
Source: Team consensus

Figure 14: Revenues Projections



Source: Team consensus

Figure 15: Banners sales growth rates



Source: Team consensus

Thirdly, the resulting coefficients are then paired with driver estimates to project annual segment revenue. It is important to note that the drivers' estimates are obtained in distinct ways.

The store's growth was estimated using JMT's store network outlook and team consensus.

LFL was projected by regressing past LFL against the CPI change and the total retail trade volume growth (or market growth), which makes economic sense. As previously mentioned, inflation can be a big sales driver, so naturally, it should be in our analysis. Besides that, if the company maintains its market share, as the market grows, so will its revenues.

The results of the regression, displayed in **Table 2**, produce an R-squared over 0.4 for all banners, with Ara and Biedronka having, once again, the highest values (0.83 and 0.63, respectively). In addition, the CPI change coefficient is statistically significant at the one percent confidence level for all banners, except for Hebe and Pingo, which is statistically significant at the five percent level. Furthermore, apart from Hebe, the market growth coefficient is also statistically significant at the five percent level for all banners.

From 2026 onwards, we applied an exponential decay factor to 2026's growth rate so that the sales growth rate in 2033 is in line with the average long-term economic growth.

The compound annual growth rate (CAGR) for the two subperiods and the total forecasting period are displayed in **Table 3**. In the first sub-period, 2022 to 2026, the group's revenues CAGR is 10%, while in the second sub-period, 2027 to 2033, it decreases to 4.4%. Thus, for the total forecasting period, the group's revenues CAGR is 7.9%, driven mainly by Ara's 19.3% revenues CAGR and Biedronka's 6.3% revenues CAGR.

For an overview of the evolution of main banners sales, check **Figure 14**. To see the yearly sales growth rates by banner, please see **Figure 15**.

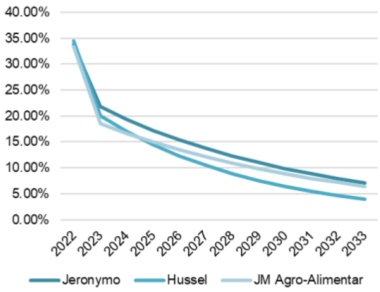
Growth Opportunities

Jerónimo Martins, in the others' segment, eliminations, and adjustments item, includes business units with reduced materiality (Jeronymo, Hussel, and Jerónimo Martins Agro-Alimentar), holding companies, and group consolidation adjustments.

The business units with reduced materiality can create a growth opportunity for JMT. In that sense, we will consider what the prospects for each company are:

- Jeronymo 2022 registered a growth of 33.7%, recovering the positive performance in sales after the challenging year of 2020 due to the

Figure 16: Growth Opportunities Revenues growth rate evolution



Source: Team consensus

pandemic restrictions, which negatively affected the business. For future forecasts, with the development of online promotions and the increase in the industry of coffee shops, mainly due to the success of Starbucks, it is expected to register strong sales growth over the years (**Figure 16**).

- Hussel was severely affected in 2020. The pandemic's restrictions and the tourism decline really made a dent in its sales growth rate. In 2022, by promoting campaign actions through its online channel, digital interactions, and with the ease of restrictions, we expected the banner to grow 34.5% this year and to continue to deliver a good performance over the long term (**Figure 16**).
- Jerónimo Martins Agro-Alimentar's business was not affected by the pandemic and registered strong growth in 2021 due to the entry into a new market under a partnership established for the production of sea bass and sea bream in Morocco. Therefore, in 2022, it is expected to grow by 33.3%. For the future, we forecast the company to maintain positive performance due to JMT's substantial investments, as the group wants to increase its sustainability. In this way, sales will rise for the following forecasting periods as the agribusiness sector continues to improve and grow (**Figure 16**).

To conclude, the total value of the metric "other, eliminations, and adjustments items" will increase by 33.3% in 2022, in line with the performance of their business units and also based on the nine-month results. In the future, it will increase but with a progressively lower growth rate, finishing our forecasting window in 2033 with €77 million in sales, representing only roughly 0.1% of total sales.

Costs

The company's Total Costs are divided in the Income Statement into four captions: Cost of Sales, Distribution Costs, Administrative Costs, and Other Operating Profits/Losses.

To start, according to the Jerónimo Martins annual report, the company's cost of sales represents the "costs of goods sold fewer vendor allowances based on volume purchased, and promotional allowances obtained for commercial activity and in-store advertisement, and it also includes materials consumed in the production of goods by the companies." In that sense, we analyzed the cost of sales as a percentage of revenues over the historical years. The value stays around 78% across the historical sample, giving confidence about its use for future forecasts of each subsidiary. Therefore, we assumed the cost of sales to be 78.44% of revenues, the historical average. For the year 2022, the consolidated cost of sales forecasted value is €-20.596 billion, and the gross margin is €5.661 billion. In the future, given that the cost of sales fluctuates with revenues, then by construction, the gross margin with remain constant throughout the forecasting period.

The company's operating costs, which include distribution and administrative costs, while excluding the depreciations and amortizations, represent 89.58% and 10.42%, respectively, in 2022. Moreover, the operating costs can be identified as staff costs, supplies, and services, transportation costs, rents, advertising costs, and other profits/losses.

In their annual report, Jerónimo Martins only provides the total costs by nature, meaning there is no disclosure about which costs are a part of the distribution and administration. Therefore, our team considered it crucial to look for information that would allow us to break the costs because it would add value to our valuation, especially when forecasting the future value of operating costs. In that sense, the costs were assigned to distribution and administration based on references from previous years' annual reports and notes.

In line with their importance, the operating costs were analyzed and forecasted in more detail from 2022 to 2026 according to each one of the subsidiaries.

Jerónimo Martins staff costs, which can be found in the distribution and administrative costs, include the wages, salaries, and social security of the company's employees. That said, as our cost driver, we used the number of employees of each subsidiary, computed by multiplying the number of stores in that year by the number of employees per store. In 2022, the total staff costs increased by 16.03%, reaching a value of €-2.163 billion, due to the considerable increase in employees coming from the high number of store openings. From 2022 to 2026, the number of employees continued to increase based on the number of stores growth.

The supplies and services are part of the distribution costs and were calculated in terms of the percentage of revenues, which had very stable historical values. We assumed they remained the same for the future in each one of the subsidiaries. Therefore, these costs increased in line with revenues achieving a consolidated value of €-1.542 billion in 2026.

Another metric that is a part of the distribution costs is transportation costs. The average diesel/biodiesel fuel price in each subsidiary country was used as our cost driver to estimate future transportation costs. Over the last two years, and especially in 2022, diesel prices have been booming because of the fuel scarcity worldwide, intensified due to supply constraints resulting from the war in Ukraine, except for Colombia, which as a petroleum exporter was not affected. So, in 2022 the consolidated transportation costs increased by 27.13% with an amount of €-0.296 billion. However, for the future, based on sources from reports (Søgaard and Aau, 2017) and recent news (Jorge Liboreiro, 2022), it is expected to see a reduction in the price of fuel, considering a recovery in the global economy with inflation turning back to normal in a few years.

The advertising costs are included in the administration costs, and their values forecasted were computed considering a growth rate of advertising spending from a reliable source (A. Guttmann, 2022), reaching a consolidated growth rate in 2026 of 4.70%.

Finally, the rents will increase, while other profits/losses will decrease and their total value over time. It is important to note that both these items are inside the distribution costs.

Table 4: Costs CAGR

CAGR	2022-2026	2027-2033	2022-2033
Cost of Sales	10.0%	4.4%	7.4%
Distribution Costs	10.2%	4.2%	7.3%
Administrative Costs	9.3%	4.1%	6.9%

Source: Team consensus

From 2026 onwards, we applied an exponential decay factor, similar to what was done in revenues, to 2026's growth rate. The CAGR for each of the costs in the two subperiods and the total forecasting period are displayed in **Table 4**.

To conclude, the values of other operating profit/losses were assigned to the "Others and Cons. Adjustments" segment since it was not a part of any of the subsidiaries in particular. For the current year, the value increased to €-75 million, more than double the value registered in 2021 because of the donations and other solidarity measures implemented by Jerónimo Martins related to the Ukraine war. So, for the future, it was assumed to be a constant value of €-34 million according to the value stated in 2021 prior to the war.

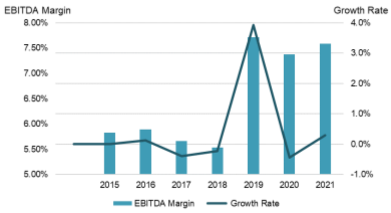
EBITDA

The company's earnings before interest, taxes, depreciation, and amortization (EBITDA) corresponds to the company's ability to generate value through its normal operations. The consolidated EBITDA achieved an estimated value of €2 billion in 2022, a 26.2% increase compared to the previous year. The high revenue growth rate was one of the main reasons for that result, which in our analysis will continue to grow until perpetuity. Moreover, to better understand the profitability of the company we decided to compute the EBITDA Margin which measures the operational profitability generated by one euro of revenues.

Looking at the historical value of the consolidated EBITDA Margin, the ratio has remained stable until 2018 at around 5.7%. However, in 2019, with the implementation of the IFRS-16 standard in the company's accounting methodology, the margin increased to 7.7%. Because, according to this new approach, an asset rented by the company is recognized as part of the balance sheet, whereas previously it was accounted for in the income statement as part of the operating costs (under item "rents").

In the next year (2020), the ratio decreased to a value of 7.4%, due to the slower increase in sales (only 3.5%), which was insufficient to cover the 14.5% growth rate in operating costs caused by the covid-19 pandemic.

Figure 17: Historical EBITDA



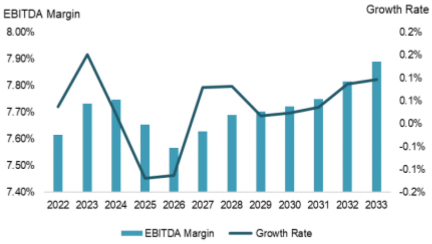
Source: JMT's Annual Report

Furthermore, after a year of intense restrictions that severely impacted the company, Jerónimo Martins managed to recover in 2021, achieving an 8.3% growth in revenues that increased the EBITDA margin to 7.6%, close to the value registered in 2019, before the pandemic (**Figure 17**). To better understand the performance of the company in an environment filled with uncertainty and volatility we decided to analyze each subsidiary's results:

- Biedronka increased both distribution and administrative costs by 26.20% and 19.76% respectively, mainly caused by the price increase of fuel and electricity. Nevertheless, in 2021 the EBITDA margin was 9.2%, which only translates to a 0.1 percentage point decrease compared to the previous year. This was only possible due to the implementation of a low-price investment strategy to alleviate the consumers from the sudden cost increase.
- Hebe presented strong EBITDA performance in 2021 with an increase in the total EBITDA of 37.95% compared to 2020 and an increase in EBITDA margin of 1.39 p.p. in the homologous period. One of the main factors for this growth was the lifting of restrictions in Poland which increased the demand for Hebe's products (visible in the 16.58% revenues increase in 2021).
- Pingo Doce, in line with the other subsidiaries, also saw an increase in its distribution and administrative costs, however, the recovery process from the pandemic on the country led to an increase of sales that more than offset this increase of cots (revenues increased 4.57% from 2020 to 2021) resulting in the EBITDA margin raising to 6.03%, an increase of 0.27 p.p.
- Recheio performance also benefited from the reopening of the economy and country's frontiers to alleviate the negative impact of the pandemic. Even though it still did not reach pre-pandemic levels, Recheio was able to leverage the increase of tourists and lifting of food services restrictions to increase its revenues and its EBITDA margin compared to the previous year. The value of the ratio in 2021 was 4.75%, above the 3.90% of 2020, but still under the 5.3% threshold of pre-pandemic levels.
- Ara's EBITDA margin in local currency amounted to 2.36%, hence establishing the first fiscal year when the company becomes profitable in terms of operational result. One of the major causes of this result

was the recovery from the pandemic because it enabled the company to register a large increase in sales (36.5% compared to 2020) and a lower increase in operating costs. Distribution costs only grew 7.05% in 2021 compared to a 20.68% increase in 2020 and administrative costs only grew 9.77% compared to the 17.73% increase in the previous year.

Figure 18: Forecasted EBITDA



Source: Teams Consensus

For the forecasted period, the EBITDA margin of Jerónimo Martins has remained stable from 2022 to 2026 around the values of 7.6% and 7.7%, which were based on more concrete assumptions of both revenues and operating costs and previously explained. Afterward, in 2027 the values started to increase because of the expectations that operating costs started to weigh less as a percentage of company revenues, allowing the EBITDA margin to register a value of 7.9% in 2030 (**Figure 18**).

Net Working Capital

JMT has an impressive Cash Conversion Cycle (CCC) of about -65 days in 2021, a result of a very low collection period (1 day), a low holding period (25 days), and a high payable period (90 days). JMT suppliers are financing the company's operational activity, leading to low execution risk and low pressure on the firm's liquidity. We estimate the CCC to remain stable during the forecasted period, although with some differences between banners: Biedronka and Hebe's of -53 days, Pingo Doce's, Recheio's, and Ara's of -67/68 days.

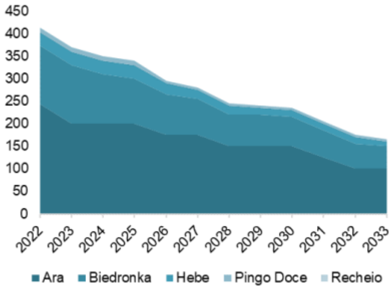
JMT carefully manages its working capital, and the proof of that is the impressive stability of the working capital (WC) around the -12% to -13% percent range of its revenues. Therefore, the company will maintain the WC stable in that range in our forecasted analysis.

CAPEX

JMT capital expenditures (CAPEX) are hard to forecast due to two main limitations. Firstly, JMT CAPEX numbers appear out of the blue, so we could not reconcile the company's CAPEX numbers with the ones the team calculated through the consolidated financial statements. Secondly, JMT incorporated the IFRS 16 in 2019, making historical data before 2019 "useless" because, without proper conversion, we cannot use it to forecast future years. Therefore, we opted not to convert this data as, in our opinion, the benefit of converting it was residual.

Despite the limitations mentioned, we tried to find a reasonable metric we could use in the future to forecast capital expenditures. In this way, the metric we chose was long-term assets – defined as the sum of tangible and right-of-use assets – per hundred square meters. We selected this ratio because it incorporates the square meter area of the store network and, indirectly, the total number of stores a given banner has. In addition, it is stable in the historical window from 2019 to 2021.

Figure 19: Total Number of Stores Forecast



Source: Teams Consensus

To reach the forecasted long-term assets per hundred square meters, we need to follow the next steps:

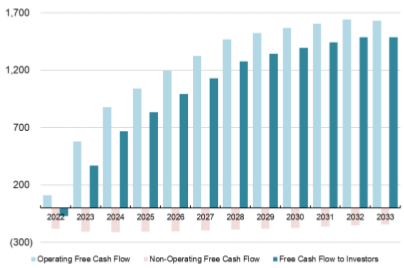
- Forecast the number of new stores. The number of stores was forecasted considering JMT's 2022 outlook and team consensus. **Figure 19** shows our forecast.
- Forecast the average number of square meters per store. The average square meters per store differs between banners due to their strategic differences. That said:
    - Biedronka, Hebe, and Pingo Doce will increase their average square meters per store ten percent less than the previous year growth rate. In this way, the banners will approach a mature phase throughout the years, where the average square meters per store stays mostly the same.
    - Ara and Recheio will keep the average square meters per store stable for varied reasons. Ara's history shows us that the average square meters per store are pretty much the same, and by the sales figures, the strategy is working, so we do not see a reason for the average square meters to change. On the other hand, we do not expect Recheio to open new stores, so consequently, the average square meter per store will not change as well.
- Multiply the average square meters per store by the total number of squares to get the total square meters.
- Multiply the total square meters by the long-term assets per hundred square meters, then divide the result by a hundred to get the total value of the long-term assets. It is important to note that the long-term assets per hundred square meters evolve with inflation. For example, if inflation is 3% in a given year, we expect the long-term assets per hundred square meters to increase by 3%.

Finally, we allocate a percentage of long-term assets to get long-term assets divided into tangible and right-of-use assets. Historically the percentage of tangible assets (right-of-use assets) is around 64% (36%), so we used this percentage for our forecasting period.

Notwithstanding, for the “Others and Cons. Adjustments” segment, we estimated long-term assets differently. We saw that this segment tends to have 6% of the main banners’ long-term assets. Thus, we just multiplied the long-term assets of the main segments by this percentage.

Cash Flows

Figure 20: Free Cash Flow Forecast



Source: Teams Consensus

In 2022, the first year of our forecasting period, we expect the values of the consolidated Operating Free Cash Flow to be €110 million and the Equity Cash Flow to be €-582 million, respectively. We also expect the Non-Operating Cash Flow to be €-180 million and the Debt Cash Flow to be €652 million, respectively (**Figure 20**).

In 2022, the first year of our forecasting period, the free cash flow (FCF) values are negative across all subsidiaries except for Biedronka. Therefore, the consolidated Operating FCF in 2022 decreased by 90.49%, obtaining a value of €74 million due to the high increase in CAPEX from the significant investment in store openings. However, over time the values of each subsidiary will improve, originating a CAGR of 9.2% from 2026 to 2028 and 2.2% from 2029 to 2033 in the consolidated FCF. In addition, each subsidiary registers a positive Operating FCF in 2033, the year before the terminal growth in perpetuity.

Valuation

WACC Calculation

Since we are doing a valuation divided by subsidiaries, a sum of the parts (SOTP), we decided to calculate the discount rate for each of them that will later be used to discount their cash flows to the present value. We assumed that the company implements a similar capital structure for each subsidiary, equal to the overall capital structure of the Group, which according to the company, is intended to remain stable in the future, particularly over our forecasted period.

At the time of the valuation, the market capitalization (market value) of JMT was around €12 billion and the market value of Debt, according to Refinitiv, was €1.3 billion, resulting in a Market Debt- to Equity (D/E) of 11%.

To calculate the levered beta (β), we selected a group of comparable companies for each subsidiary based on the business activities they conduct, their geographic positioning, and the similarity of their market capitalization compared to Jerónimo Martins. Then we aggregated the daily returns of each company, from May 2013 until the beginning of November 2022, getting 2418 data points for most of them. However, some companies were not publicly traded at the beginning of the period, so we only used the available period from when they started publicly trading. Additionally, we collected the same data points for the following indexes: Psi-20 (Portuguese market index (Mi)); WIG (Polish Mi); MXX (Mexican Mi); FTSE (British Mi); FCHI (French Mi); MSCI Europe Consumer Staples index and S&P Latin America 40. Subsequently, we performed a linear regression between each company and each respective index; for Portuguese companies, we used Psi-20; for Polish companies, we used WIG, and so forth; for British, French, and Mexican companies. For other European companies, we used the MSCI Europe Consumer Staples index, and for other south American companies, we decided to use S&P Latin America 40. The result of each linear regression was the levered beta of each company from the peers' group; however, we needed to exclude the effects of the capital structure of each company from this value to calculate the unlevered beta of each peer that would later be used to calculate the unlevered β of each subsidiary, which we did using the following formula.

$$\beta\ unlevered = \frac{\beta\ levered}{1 + (1 - Tax\ rate) * \frac{D}{E}}$$

Table 5: Peers Betas

Identifier	Market Cap	Net Debt	Levered Beta (t)	Unlevered Beta
JMT.LS	11,76B	1,32B	0,80	0,74
Biedronka Peers				
DNP.WA	36,04B	1,06B	0,73	0,71
AXFO.ST	54,65B	7,27B	0,47	0,42
CARR.PA	12,5B	11,6B	1,01	0,59
KESKOB.HE	11,46B	1,91B	0,68	0,60
Hebe Peers				
4MSP.WA	0,055B	0,004B	0,87	0,83
PHR.WA	0,088B	0,008B	0,94	0,87
GLC.WA	0,401B	0,044B	0,70	0,64
LAV.BB	0,038B	0,003B	0,11	0,10
Pingo Doce Peers				
YSO.LS	2,01B	1,77B	1,04	0,58
MKS.L	3,09B	2,55B	1,01	0,62
TSCO.L	21,87B	10,71B	0,71	0,52
AD.AS	31,51B	13,74B	0,61	0,45
Recheio Peers				
MARR.MI	1,26B	0,15B	0,67	0,62
EUR.WA	1,51B	2,92B	0,73	0,65
B4B.DE	4,08B	3,2B	0,95	0,88
ATP.WA	0,05B	0,05B	0,36	0,22
Ara Peers				
CHDRAUIB.MX	805,15B	552,4B	0,68	0,46
IMI.CN	51429,7B	-541,26B	0,41	0,41
SORIANAB.MX	467,64B	157,57B	0,51	0,42
GMAT3.SA	133,22B	11,17B	0,97	0,89

Source: Refinitiv

Afterward, we decided that the unlevered β of each subsidiary would be computed by doing the average of its peers' unlevered beta and the unlevered beta of the whole company, resulting in the unlevered betas present in **Table 5**. Moreover, we assumed a Debt beta equal to 0 (Debt is risk-free compared to an equity investment; therefore, the volatility of Debt is equal or remarkably close to 0) and re-levered the previously calculated β (using the formula below), according to the capital structure of each subsidiary, resulting in the levered beta used to calculate the cost of equity, present in Table 7. The tax rate used to calculate each subsidiary levered β corresponds to the effective tax rate of the country in which each of them operates.

$$\beta\ \text{levered} = \beta\ \text{unlevered} + \frac{D}{E} * (\beta\ \text{unlevered} - \beta\ \text{Debt}) * (1 - Tax\ rate)$$

Table 6: Country Inputs

Country Inputs	Portugal	Poland	Colombia
Tax rate per country in 2021	22,5%	19,0%	35,0%
Country Risk Premium	1,9%	0,8%	1,9%
Risk-free rate (10Y)	2,8%	5,9%	13,2%
Equity Risk Premium	4,2%	4,2%	4,2%

Source: Refinitiv, World Government Bons, Team Estimates, Damodaran

We calculated the cost of equity of each subsidiary according to the Capital Asset Pricing Model (CAPM) formula described below, using not only the "Equity Risk Premium" but also the "Country Risk Premium" (values used in **Table 6**) since most of the countries in which the company operates suffer from multiple risks such as the lack of liquidity in the stock market and unstable economic and social environments. (Aswath Damodaran, 2022).

$$rE = Rf + \beta\ \text{levered} * (Equity\ Risk\ Premium + Country\ Risk\ Premium)$$

For each subsidiary, we assumed the risk-free rate to be the yield of each government's ten-year bond (Portuguese, Polish and Colombian), visible in **Table 6**. Regarding the cost of Debt, we decided to use the previously mentioned risk-free rates plus a credit risk premium based on the company's past tradable bonds. Finally, we used the following equation to compute each subsidiary's weighted average cost of capital (WACC), resulting in the values presented in **Table 7**.

$$WACC = rE * \frac{E}{EV} + (1 - Tax\ rate) * rD * \frac{D}{EV}$$

Since each subsidiary has a different influence on the overall performance of the Group, the WACC of each subsidiary will also have a different impact on the Group's WACC. Therefore, we decided that the weighted method would be the percentage of total revenues in 2021 since it is the indicator that we found to be the most accurate in representing the individual impact of the company, which means that the subsidiary that has more influence on the Groups WACC is Biedronka since in 2021 it represented 69.62% of the total revenues of the company. Therefore, reaching a Group's WACC of 8.9%.

Table 7: WACC

	Biedronka	Hebe	Pingo Doce	Recheio	Ara	Consolidated
Cost of equity levered (Re)	**9,29%**	**9,44%**	**6,68%**	**6,95%**	**17,08%**	
β levered (Equity beta)	0,67	0,70	0,63	0,68	0,63	
β debt	0,00	0,00	0,00	0,00	0,00	
β unlevered (industry)	0,61	0,64	0,58	0,62	0,58	
Cost of equity unlevered (Ru)	9,01%	9,14%	6,37%	6,62%	16,82%	
Cost of debt (Rd)	**8,96%**	**8,96%**	**5,88%**	**5,88%**	**16,31%**	
Credit Risk premium	3,06%	3,06%	3,06%	3,06%	3,06%	
WACC	**9,1%**	**9,2%**	**6,5%**	**6,7%**	**16,4%**	**8,9%**

Source: Teams Consensus

Discounted Cash Flow

In order to value Jerónimo Martins, we decided to use the Discounted Cash Flows model (DCF) since we believe it to be the most accurate method to capture the consolidated Group's value and the subsidiaries' value. Hence, we made two analyses. On the one hand, a DCF for the whole Group using the Group's WACC of 8.9% to discount the total Free-Cash-Flow of each year to the present value, assumed to be the end of December of 2023.

On the other hand, we computed a sum of the parts evaluation by calculating each subsidiary's value by discounting each's FCFs by their respective WACC presented in the previous section (**Table 7**) to the same moment in time as the one presented above. Additionally, we used the FCFs in local currency to disregard the effect of future changes in the interest rates of the different countries, therefore after discounting these cash-flows with the accordingly WACC; we used the current spot rate (as of 30/11/2022), to convert the present value of each company from local currency to Euro to be able to sum them and obtain JMT's total core enterprise value.

To calculate the terminal value for the company and each subsidiary, we needed to calculate the perpetuity growth rate that would be used to determine the Group's and subsidiaries' growth after the forecasted period, from 2033 onwards. It is assumed across the report that in the future, the company as a whole and each subsidiary will tend to grow at approximately the same rate as the long-term growth of the economy, which according to specialists, will be around 1.5% to 3.5% (International Monetary Fund, 2022).

Firstly, focusing on the Group consolidated analysis, by discounting the Core FCFs by the Group's WACC, we reach a Core Enterprise Value of €18 372 million. By applying the same method for the Non-Core FCFs, we reach a non-Core enterprise value of €-2.033 billion. Deducting the Net Debt and the Non-controlling interests (assumed to remain constant over the forecasted period and equal to its value in 2021) results in a total Equity Value of €14.316 billion, which divided by the 629 million shares outstanding results in a value per share of €22.74 which represents a 10.2% upside compared to the value of the share on the 14th of December 2022, thus earning a BUY Recommendation.

On the other hand, on the SOTP analysis, by discounting each of the subsidiaries' local Core cash-flows with the respective WACC, the resultant Core Enterprise value for each company is present in **Table 8**. The sum of all the subsidiaries' Core enterprise value equals €18.478 billion. Since the value of Net Debt and non-Core enterprise value are equal to the ones presented above, by deducting them, the total Equity value of the company is equal to €14.422 billion, divided by the total shares outstanding, resulting in a value per share of €22.91 which represents a 11.0% upside compared to the value of the share in thus also earning a BUY Recommendation for JMT's stock.

Table 8: Valuation

Discounted Cash-Flow Model	Consolidated	SOTP
Biedronka Core Enterprise Value (M)		€ 16 260
Hebe Core Enterprise Value (M)		€ 375
Pingo-Doce Core Enterprise Value (M)		€ 1 338
Recheio Core Enterprise Value (M)		€ 1 529
Ara Core Enterprise Value (M)		-€ 506
Others & Cons Adjustments (M)		-€ 1 807
Core Enterprise Value in EUR	**€ 16 984**	**€ 17 188**
Non Core Enterprise Value (M)	-€ 2 042	-€ 2 042
Net Debt (M)	-€ 1 769	-€ 1 769
Non-controlling interests (M)	-€ 254	-€ 254
Equity Value	**€ 12 919**	**€ 13 124**
Number of shares (M)	629	629
Value per share	**€ 20,53**	**€ 20,85**
Current Share Value	€20,64	€20,64
Total Expected Return	**-0,6%**	**1,0%**

Source: Teams Consensus

This is the method that we considered to be the most accurate since the analysis involved a greater detail of the variables impacting each subsidiary. Thus, being the value assumed as the expected price in FY of 2023.

Relative Valuation/Multiples Analysis

Peers Multiples valuation was achieved using the multiples EV/Revenues, EV/EBITDA, EV/EBIT, and P/E for each subsidiary's peers.

This selection was mainly made through industry, geography, and market cap filtering according to the subsidiary we want to compare. The comparables were found using the Screener App on Refinitiv Workspace. All peers had to be public to have better access to their multiples.

For Biedronka, the criteria used to find a peer that best fitted the company was:

- In the first place, the industry, which belongs to the sector of Consumer Non-Cycliclals, with the industry name of Food Retail & Distribution.
- For the geography, the comparable had to operate in Europe (Eastern and Northern), to get a better perception and relatability of the European market.
- Finally, the market cap had to be greater than €1 billion.

For Hebe, the criteria used to find a peer that best suited the company were:

- The geography had to be in Europe, in order to get a better perception and relatability of the European market.
- Market cap wasn't filtered since there were already few options and the industry, which is in the sector of Consumer Non-Cyclicals with the name of Personal & Household Products.

About Pingo Doce, the criteria were similar to the ones used for Biedronka, but this time captured more peers in Central, Southern, and Western Europe. Same industry and same market cap filtering.

Recheio's peers' requirements only differ from those for Pingo Doce in terms of the industry because it is more appropriate here to select companies that are in the "Cash & Carry" business.

Finally, relative to Ara's peers, six Discount Stores in Latin America were elected.

Also, this valuation was done based on historical multiples (2021) and forecasted multiples (2022, 2023, and 2024). Although the share values were computed for all years, for the purpose of this valuation, it was given more relevance to the valuation computed for 2022, since the multiples are more accurate.

Since we do not have enough data to be able to compute these multiples for each subsidiary, in this analysis, the multiples obtained in all peers are going to be compared to the multiples of the whole Group.

Regarding EV/Revenues, which was the first multiple analyzed, JMT presents a value of around 0.65 in 2022. In this case, Biedronka and Hebe's peers present an average value for this multiple higher than the whole group (1.04 and 1.854), which might lead us to think that is because of the geographical regions where they operate (operating in central/northern Europe). Recheio's peers present a value a little bit lower than the whole group's EV/Revenue, but if this value is further analyzed, we can see that it is quite typical in the Cash & Carry Business to have lower ratios, while the "Health & Beauty" industry has higher multiples. The tendency for the following years for JMT as a group is to see this multiple decrease to 0.54 in 2023 and 0.48 in 2024, but that is a pattern for all peers.

About EV/EBITDA, JMT is expected to present a value of around 8.49. The same happens as in the previous multiple since we see Biedronka and Hebe peers presenting higher multiples (11.65 and 11.866, respectively). The remaining subsidiaries reach a lower value for the multiple, around 6x. This ratio is expected to decrease in the following years, but also move according to the comparable's ratios.

EV/EBIT for the whole group represents a value of 14.03 in 2022 (expectedly). In this case, all subsidiaries' peers but Ara's presented values higher than the Group, which might give indications that this ratio is below the average. In the upcoming years, it is anticipated a decline in this ratio.

Finally, for the P/E, the expected value for the Group is 21.27x. This value is a little bit higher when compared to all peers but is also expected to decrease in the future.

Utilizing the first three multiples, we were able to compute the Enterprise Value (EV) of each subsidiary, and then aggregate it to achieve the whole Group's EV. Once the Group's EV was reached, the only thing left was to remove the Net Financial Assets, and then divide it by the number of shares outstanding.

Regarding the last multiple (P/E), since we don't have the EPS of each subsidiary, we had to conduct the valuation for the Group itself, taking into account all peers.

To reach a final value for the share price of JMT, it was given to all multiples the same weight, since there's no outlier. To achieve this value, it was done an average of all the median share values for the four multiples in 2022, achieving a share price of €23.28 (the following 2 years serve only as a benchmark and for consulting).

Also, another method to perform a Relative Valuation is to analyze the multiples in the past transactions of this industry. This is a way of valuing businesses in which the price paid for comparable companies in the past is taken into account as a gauge of the company's value.

In order to select past transactions that are appropriate and that fit the purpose of this valuation, criteria had to be defined. Also, this method was performed for the Group and not for each subsidiary.

The chosen criteria to select the past transactions were: geography, since JMT is a European company, it only made sense to choose past transactions that occurred in Europe; the Deal Status had to be already completed; the target of the transaction had to be public, in order to know accurately the multiples associated with this transactions; the time frame, which we selected only from 2019 until now, in order to have updated and recent market values; transaction type could only be a Merger, an Acquisition or a Stock Purchase; the target had to operate in the industry of "Food Retail & Distribution" and, finally, the equity of the target had to be higher than €1 billion. Using these criteria, five past transactions were selected.

The same multiples were considered (EV/Revenues, EV/EBITDA, EV/EBIT, and P/E). In this case, the valuation was performed using LTM data, and the results were undervalued for all ratios. One should highlight that the EV/EBITDA was the multiple that provided the lowest value.

There was no multiple disregarded since, although the transactions are below what is the JMT's reality, there is no big outlier (the EV/EBITDA median value of 6.554 provided the lowest share value, but there is not that much of a difference when compared to the JMT's ratio of 8.29 for this multiple). With that being said, the same method was utilized. It was given to all multiples the same weight and the average of the median share values for all multiples LTM and achieved a final share value of €18.31.

Regarding Past Transactions, in the time span of approximately three years, five transactions were selected based on the industry (Food & Beverage Retail) and the transaction is made in Europe, with the target having an equity value of more than €1 billion. Again, the same multiples were considered, and the value was achieved the same way as the previous method (doing the average of the medians of all multiples), achieving a share value of €18.31.

Sensitivity Analysis

In order to estimate how sensitive, the share price target is to a setting of impactful variables of the model, we used a sensitivity analysis.

To start, we analyzed in more detail the sensitivity of the share price when fluctuating the WACC and the terminal growth rate, both considered to be key variables. First, the terminal value weighs around 51% of the total enterprise value, so the terminal growth value is very important for the final target price. If all variables remain the same and the terminal growth rate varies between 0.5% and 2.50%, the share price will range from €20.82 to €25.27. Then, the WACC is used in the DCF method as the discount rate for future cash flows to derive an enterprise value. The WACC values used in the sensitivity analysis are between 7.97% and 9.74%, which affects the share price achieving values from €26.91 to €19.48 respectively (assuming a constant terminal growth), since the WACC has a negative correlation with the share price.

In line with this analysis, to test the stability of the company target share price, we increased and decreased by 10% some of the key line-item assumptions of the model. As expected, the estimated share price is more sensitive to the discount rate used (WACC), meaning is the metric that affects more the share price of Jerónimo Martins (e.g., a 10% increase in WACC lowers the implied value by 14.34%). As mentioned, the consolidated firm's WACC was calculated according to each subsidiary discount rate, which makes the value much more accurate, since we accounted for various specific factors in each segment. The second largest risk factor is the Revenues values, in which a 10% increase (decrease) in revenues would generate a 3.32% rise (drop) in share price. Therefore, revenues were the item that suffered a more detailed analysis, as it was previously explained, to estimate future values that were highly accurate.

The other factors that were analyzed were the operating costs, Capex, terminal growth and EBITDA, which were not as relevant for the share price, since a 10% increase or decrease would only originate a change of less than 1.17%.

Scenario Analysis

Even though the assumptions and the data used across the model are well supported, unforeseeable events may cause a complete disruption in the objectivity of the model. In fact, recently, two of these events occurred, them being the Covid-19 pandemic that, as was stated before, affected companies, governments, and populations globally. Interfering with consumers' habits and liberties, causing disturbances in supply chains and political crises were some of the consequences that this event brough. Additionally, the war in Ukraine also caused significant changes in the world, for instance, the rise of raw materials, energy, and commodities prices. Therefore, financial analysts saw their forecasting models turn unreliable and obsolete, which is why in our analysis, we believe it is essential to consider what would happen to the company’s value if changes in its operational structure occurred. To this end, we decided to do a scenario analysis where we change the variables that most influence our model, them being Revenues, Operating costs, and the Number of stores.

Nevertheless, we assume that the changes will take time to occur; hence only after 2022 will there be changes in these factors. Moreover, as stated before, after 2026, the company will start to enter a stable growth stage, and the overall growth of the company will tend to the global economic growth. Also, our main forecast analysis will be considered the base scenario for the two scenarios presented.

In terms of revenues, we decided to incorporate an additional yearly growth rate (positive or negative depending on the case analyzed) to the local revenues of each subsidiary in local currency to eliminate any Fx gain or loss that may occur from changes in exchange rates, hence only accounting for the organic growth of each company. We decided on the growth rates based on the opportunities that each company has and that we found essential to explore; for example, Ara has been growing exponentially in Colombia, however in it is only present in three regions (Coffee-Growing Region, Bogota, and the Caribbean Cost), in our opinion, if it can increase its expansion plans than it would generate higher revenues as customers are responding very well to the strategies that the company is implementing such as EDLP and strong and relatable commercials. On the other hand, companies like Biedronka and Pingo-Doce are leaders in their countries and have more mature operations, will tend to have more difficulties in increasing their sales at a much larger growth rate.

Concerning Operational costs, we will also implement an additional yearly growth rate for each subsidiary in terms of local currency costs. The growth rates that we decided to use in each scenario are symmetrical variations for each company, representing the possibility of the company becoming more efficient in operations management, negotiating better prices with the suppliers, or reducing the costs related to staff and transportation. On the other hand, we also want to analyze the inverse situation, where costs are increased due to operations limitations, loss of buying power, or other reasons that may cause the increase in costs.

Lastly, regarding the number of stores, we decided to vary the projection of store openings since JMT only makes expansion plans for the next financial year. It is essential to evaluate how the company's results are impacted if it can open more stores than the ones we predict. On the other hand, what happens if the number of store openings we estimated is too high and there are fewer openings. We assumed symmetric movements for the number of additional or fewer store openings (depending on the scenario), except for Recheio, which will have no additional store openings or closings.

- Bull Scenario

In this scenario, we will assume that the company will surpass our expectations and will be able to increase its revenues in all its subsidiaries, reduce its operating costs and exceed the project store openings. We decided that the maximum yearly additional growth would be 2%, and the company with higher growth potential is Ara (for the reasons explained before), followed by Polish subsidiaries and then Portuguese companies. We believe that this additional increase will not be sustainable over time. Therefore, we reduce 0.25 percentual points (p.p.) to the previous year's additional growth until it reaches zero (which is the case of Pingo-Doce and Recheio after 2025). Regarding costs in this scenario, we decided that the maximum yearly operational cost savings are 2% in 2023 by Ara.

Moreover, we assumed that this improvement would not be sustainable in the future; therefore, the percentual decrease rate in operational cost will decrease by 0.25 p.p. each year until it reaches 0. Finally, in terms of store openings, we assumed that the subsidiaries with higher projections for stores opening would have more additional store openings; therefore, the companies with more exceeding openings are Biedronka and Ara. On the other hand, Recheio only has one projected opening every two years, and since it has been constant over the years, we believe that the company will keep this policy, thus not having any additional openings.

Looking at the impact on the Group's consolidated performance, the revenues increase led to an additional long-term growth of 2.5% in the total revenues and a cost decrease of 2.4% until 2033, both cases compared to the forecasts calculated before. The combination of these changes causes a long-term increase in the EBITDA Margin of 0.6 percentual points (8.4% growth) in 2033 compared to the same period on the initial forecast. This means that the company is more efficient in its operations, thus causing a visible effect in the Operating Free-Cash Flow generated by the company, which in 2033 shows a 24% additional growth compared to the base scenario.

Finally, by implementing these values in the SOTP DCF valuation method, we reach a new value per share of 27.67€ at the end of 2023, representing a 4.99€ increase (22%) from the base scenario. Compared with the price on the 14th of December 2022 (20.64€), it represents a 34.1% upside, thus receiving a hypothetical BUY recommendation.

- Bear Scenario

In terms of revenue additional growth, in this scenario, we assume that a possible event that damages the company's revenue growth rate will occur, which will cause them to be lower than the one previously computed in the base scenario, and the values assumed for each subsidiary are available in Table X. Regarding costs, we considered that the company instead of being able to decrease them, it would increase them. Either by the lack of operating efficiency or an increase in the distribution or administrative costs in an inverse percentage of the previous scenario.

As expected, this leads to a decrease in consolidated revenues, as well as an increase in operational costs across the analyzed period. This causes a long-term reduction in the EBITDA Margin of 0.7 percentual points (-8.2%) compared to the base scenario, consequently causing a decline in the Operational Free-Cash Flow.

Ultimately, by implementing the same valuation method as in the previous scenario, we reach a value per share of 18.63€, 4.05€ less than the base scenario (18% decrease), meaning that the price of the stock in December 2022 is overvalued, causing a negative expected return of 9.7% thus representing a SELL recommendation.

- Conclusion

This allows us to understand that if the company suffers structural changes caused by either endogenous or exogenous factors, investors need to be attentive to the stock's valuation since it can quickly change from a HOLD Recommendation to a SELL or a BUY. Besides, our base scenario is the one that best represents the most accurate valuation of the company, and therefore, it will be the one we choose as the final value of the share at the end of December 2022.

Investment Risks

Financial Risks

- Foreign Exchange Risk

Foreign exchange risk is related to the impact of a company engaged in international transactions that involve different currencies from the one the company usually uses. The volatility of exchange rates can severely impact a company's results and strategies. Poland and Colombia represent the principal sources of exposure to the Group's foreign exchange risk. This is because the transactions executed in these countries involve multiple currencies, namely the Zloty (in Polish operations), Colombian Pesos (in Colombia), and Euros and US Dollars. The Group uses a natural hedging policy by contracting debt in local currency when it deems it advantageous. Since the transactions in these countries are typically short-dated, forward purchases of the payment currency can cover the exchange rate risks of specific procedures such as the import of goods. If the transactions have distinctive characteristics that inhibit using these hedging instruments, the company negotiates hedging strategies using derivative instruments such as swaps and options.

- Interest Rate Risk

Interest rate risk results from the possibility of a loss of value in an investment caused by unexpected changes in interest rates caused by unforeseen events, such as the pandemic and the war. This risk is inherent to all financial liabilities since they are either directly or indirectly indexed to a reference interest rate, putting the Group's cash flow at risk. Therefore, as a preventive mechanism, the Group implemented regular risk assessments. The risk associated with interest rates is regularly assessed. Sensitivity tests to changes in the interest rate level are also carried out to evaluate future interest expenses based on forward rates. The main ones the Group is exposed to are the Euro, the Polish Zloty, and the Colombian Peso interest rate curves.

- Credit Risk

This risk results from the possibility of entities being unable to fulfill their contractual obligations. Jerónimo Martins is exposed to this risk due to the nature of its business since it can grant credit lines to some of its customers, especially in the Cash & Carry business. Also, the hedging instruments contracted to financial institutions may also be exposed to the risk of the institution not guaranteeing the conditions agreed upon in the future. Another exposure is in the company's bank deposits, to which the bank may limit its access. The company controls these risks by choosing institutions based on a minimum approved rating emitted from independent benchmark credit risk rating agencies and defining a maximum exposure to each financial institution. Regarding the Cash & Carry segment, the Group limits its exposure by limiting credit lines, contract credit insurance, and doing due diligence on the customer's background and financial position.

- Liquidity Risk

Liquidity risk corresponds to the threat that the company faces due to the inability to meet the payment obligations on time, therefore incurring in losses. One of the main factors that generate more of this type of risk in companies is related to the lack of liquidity of the company's assets. That is, even though the company has a significant excess of assets compared to liabilities, they are not liquid; therefore, they cannot be used to pay current liabilities, thus risking putting the company in an insolvency situation. Hence, it is essential that companies can professionally manage their current assets and liabilities. One way to control this risk is negotiating advantageous credit lines that ensure the normal development of the Group's activities and provide some flexibility to absorb shocks unrelated to those activities. JMT applies the methods described above in managing this risk but to better understand its liquidity position, we computed three ratios: Current Ratio, Quick Ratio, and Cash Ratio. These ratios are meant to evaluate the firm's ability to meet its short-term obligations. Firstly, the Current Ratio, which measures the firm's ability to meet its short-term obligations using all its short-term assets, should be higher than one so that the company verifies the minimum short-term financial equilibrium. However, this ratio, historically, was never above 0.58, which raises some concerns about the company's liquidity position.

The Quick Ratio measures the firm's ability to meet its short-term obligations using the assets that are more likely to be "quickly" converted into cash, excluding inventories. This ratio was never above 0.38 (FY2021), thus increasing the risk in the company's liquid position. Lastly, the Cash Ratio, which measures the firm's ability to meet its short-term obligations using only Cash and Equivalents (assets that are very easily converted into cash), was never higher than 0.28 (FY2021); thus, if for some reason the company is forced to pay a large segment of its current liabilities it most likely will have to liquidate non-current assets. This can be a problem for the company because financial institutions will impose worst financing terms due to the challenging liquidity position of the company. Therefore, this subject should be addressed; however, it could also mean that the company implemented an expansion and innovation strategy (which it did in most of its subsidiaries) that required more money invested in the business. Additionally, it is worth mentioning that all these ratios have been significantly improving since 2015.

- Capital Risk Management

This risk arises from the company's capability of absorbing (or not) the impact of the risks previously described. The Group has a clearly defined strategy to manage this risk to guarantee the continuation and growth of its operations and to provide reasonable returns while optimizing its cost of capital. There are two main ratios that the Group finds to be ideal for monitoring this risk; they are the Gearing Ratio (Equity/Net Debt) and the Net Debt/EBITDA ratio. According to the company, the first one should be below 100%, which, historically (until 2021), the company has accomplished, never surpassing the value of 56% and even reaching a negative value (-3%) in 2016. The second ratio should always be below 3, which the company has been able to maintain, reaching a maximum historical value of 1.77 in 2019, meaning that the risks of incurring in a situation of financial distress are lower due to the effective strategy of the company.

Operational Risks

▪ Food Quality and Safety Risk

Throughout the years, several food scandals in the food industry have been impacting the industry’s reputation and consumer confidence in the sector. Products that were contaminated were sold, causing health injuries to millions of people, and since companies were not able to guarantee the safety of equivalent products, it also caused significant losses in the results of the intervenient players. One example of these scandals is the contamination of a lot of spinach from a single producer that caused a nationwide outbreak of E. coli in the US. Since JMT’s operations involve the transaction of food products, it should be one of the firm’s primary concerns to guarantee food quality and safety because if it is not able to do it, not only will it lose consumers' trust, but it will also be required to pay massive fees and compensations to the hazard people.

Acknowledging the importance of the before mentioned, JMT carefully manages this risk by ensuring that each business unit has a Quality and Food Safety Department responsible for monitoring the products across the logistic process, thus guaranteeing rigorous compliance with food safety and quality requirements. Additionally, quality control professionals supervise each business unit to ensure that procedures are followed as regulated and evaluate the efficiency of training programs. Additionally, they assess the suitability of buildings and equipment.

▪ Environmental Risks

Environmental risks incorporate the probability and consequences of human or natural factors that cause unexpected ecological hazards. Identifying, evaluating, and managing environmental hazards is critical to Jerónimo Martins’s operations as they aim to protect it against potential natural risks like extreme weather occurrences and other events that may perturb the company's current operations that can cause significant imparity losses. Since the Group focuses its environmental strategy on fighting climate change, protecting biodiversity, and implementing efficient waste management processes, it aligns environmental risk management with the search for more sustainable products and processes.

Environmental hazards primarily affect the Group in terms of regulation, physical factors, and reputational issues. The company must follow the environmental legislation of each country but also aim to implement internal objectives that surpass the limits required by law and reinforce its sustainable internal policy. Regarding physical factors, adverse effects may lead to a decrease in natural resources, which could hurt the Group's supply chain. Regarding reputation, JMT needs to address climate issues given the societies' growing knowledge of these issues and the expectations of the Group's shareholders to reduce carbon emissions and aid in the prevention of deforestation.

- Information System Risks

This reflects the risk of malfunctions related to the use of technology in the company's everyday operations; these risks not only refer to hardware and software but also human error. A widespread problem related to this risk is information leeks and viruses, which is why the company has an exclusively dedicated Department that oversees the Group's risk management for information security, which entails putting in place and maintaining an information security management system to guarantee the privacy, availability, and integrity of crucial business data. As well as conducting, monitoring, and controlling operations to find and address potential vulnerabilities.

- Supply Chain Risk

Due to the fact that, usually, for products to arrive to the final consumer, they must cross multiple intervenients across the supply chain, which increases the probability of problems occurring compared to a direct sale from producer to consumer, supply chain risks emerge. The food supply chain has inherently more risks than other businesses' supply chains due to the intrinsic characteristics of the products that circulate in it (particularly the perishability of food products).

Therefore, for JMT is even more critical to have a well-managed supply chain that can adapt quickly to disruptions that may occur since its operations highly depend on having a network of suppliers that can guarantee the appropriate inventory levels, sales, and selling prices. Therefore, businesses must carefully choose their suppliers to accomplish their objectives and satisfy client expectations. 90% of JMT's total food purchases are still made through partnerships with regional vendors, which increases the Group's efficiency because goods are acquired and distributed inside the same nation. More information regarding this risk is explained in the individual report: "Is Blockchain the Hidden Gem for Jeronimo Martins' Supply Chain?".

Economic Risks

▪ Market Competition Risk

This risk refers to the possibility of competitors' decisions affecting the growth and success of the company's operations. As was previously stated, the industry in which JMT operates in all its geographical locations is characterized by a significant concentration of market power in a few participants. Besides, since margins tend to be low, companies must be very attentive to changes in competitors' strategies and be able to adapt quickly. Therefore, market competition is a significant risk to JMT's operations as the rivalry is very intense in the market, aggravated by the similarity of the products sold and the low switching costs for consumers. Consequently, companies like JMT strive to implement more efficient processes, for example, to achieve economies of scale and provide higher-quality and less expensive products that create added value for customers.

▪ Taxation Risk

JMT is vulnerable to various tax regulations because it operates in three countries and plans to expand into more nations. Hence, unexpected changes in any of these tax rates can cause more significant losses to the company results, thus being a risk that the company must consider.

▪ Geopolitical Risks

Since the Group has multinational operations, it is directly affected by political developments in each country it operates and by spillovers of countries with whom they transact. Examples of these negative spillovers caused by significant developments in large economies that indirectly affect the Group are Brexit and the US-China trade war. Ara reacted to calls for food assistance and distributed food supplies to poor people during recent political tensions in Venezuela, which borders Colombia. Biedronka also helped raise 9.5 million euros to "help people fleeing the war." Market disruptions, economic crises, and other variables detrimental to enterprises can result from political tensions. Thus, to lessen this risk, JMT makes sure that its risk management procedures are adequate and effective, for example, maintaining enough cash to manage immediate problems that may appear, such as the financial crisis and Covid-19. Due to its strategies, the company was able to adapt its stores and help the population deal with these problems (mainly through donations to charities that concentrate on solving those problems).

▪ Regulatory Risks

Companies must follow the regulations and legislation of the countries in which they operate; since these are constantly adapting and changing, companies must adapt to them; otherwise, they risk suffering the negative consequences of not following them, such as costly fees, removal of operational licenses and damage the reputation of the company. Consumer protection, market competitiveness, pricing control, and environmental protection are among the main regulatory priorities in the food retail sector. Jerónimo Martins' management team has specific departments to manage this risk and propose necessary regulatory changes; additionally, independent auditors and legal advisors are contracted to help the company comply with any regulation and legislation changes. However, it is not always possible to do so; for example, in August 2022, Biedronka was fined by the Polish Regulators for misleading advertising, and that fine could reach 10% of their yearly revenues.

Peers

To have a more accurate assessment between Jerónimo Martins' practices and the ones from the industry, we decided to attribute different peers to each of the subsidiaries to promote a better term of comparison for each one. The first criteria used to choose peers was to look at JMT's website and search for the companies that they considered as peers; however, since two of them (Distribuidora Int. de Alimentacion and Casino Guichard-Perrachon) had an extremely low volume of stock trading we believed that the use of these companies would prejudice the quality of our analysis, therefore, we decided to cut them from our selection. Subsequently, we decided to do a stock screen in Refinitiv for each subsidiary, restraining the geography location of peers to the ones that the subsidiary operates, restricting the market capitalization (market cap.) of companies to a value lower than € 13 billion (slightly higher than the current market of JMT), and restrict the sector to the same one as the subsidiary. We defined the maximum number of peers for each subsidiary to four.

Biedronka Peers

Dino Polska SA (DNP.WA) is a nationwide chain of grocery retail stores in Poland that was founded in 1999 and, at the end of 2021, operated 1 815 stores across the country. According to Euromonitor, it has a store proximity format and is one of the top 10 retailers in Poland.

Axfood AB (AXFO.ST) is a Swedish retail company, the second largest food retailer in Sweden, that opened its first store in 1958 and wants to become the leader in affordable, good, and sustainable food.

Carrefour SA (CARR.PA) is a French group founded in 1958 that owns a global chain of retail and wholesale operations. It is one of the top retailers in the world and currently has 12 225 stores in around 30 countries.

Kesko Oyj (KESKOB.HE) is a Finnish group that operates in multiple sectors of the retail industry, such as the grocery and car trade. It has approximately 1 800 stores across even European countries. It was founded in 1940 through a merger of four regional wholesaling companies.

Hebe Peers

4Mass SA (4MSP.WA) is a Polish health and beauty retailer focusing on producing and distributing cosmetic products, which currently has four private labels and exports worldwide with its online channel.

Pharmena SA (PHR.WA) is a Polish biotechnical company that was founded in 2002 to be able to commercialize an invention discovered by the Lodz University of Technology, but now has as its main activity the commercialization of Derma cosmetic products in Poland.

Global Cosmed SA (GLC.WA) is a leading Polish manufacturer of fast-moving consumer goods (FMCG) in Europe, founded in 182, that focuses on creating and selling its own brand of innovative and sustainable products.

Lavena AD (LAV.BB) was founded in 1962 and is currently one the leading Bulgarian retailer of cosmetic products that are produced, focusing on the balance between tradition and innovation. Besides, it is known worldwide for its essential oils.

Pingo Doce peers

Sonae - SGPS AS (YSO.LS) is a multinational Group founded in 1959 that operates in diversified business areas such as financial services, real estate, communications, and one of the most important, retail. In fact, Sonae is the leading retailer in Portugal.

Marks and Spencer Group PLC (MKS.L) is a leading British retailer founded in 1884 that focuses on offering high-quality food, clothing, and homeware products. The company also operates in other industries, such as renewable energy and financial services.

Tesco PLC (TSCO.L) was founded in 1919 in London and is currently one of the biggest multinational chains of retail and wholesale stores. It operates under multiple store formats, from convenience stores to larger outlets across the world.

Ahold Delhaize NV (AD.AS) was founded in 2016 due to a merger of Ahold and Delhaize Group, innovative retailers with almost 150 years of experience. It is one of the biggest retailers in the world, focusing on sustainable retail and e-commerce, and currently holds a 49% stake in Pingo-Doce.

Recheio Peers

Marr S.p.A (MARR.MI) is the Italian leader in food distribution to the Italian food services industry. This Group was founded in 1972 and started by serving hotels and restaurants on the Riviera and now serves commercial clients and canteens all over the country.

Eurocash SA (EUR.WA) is a Polish group that operates in the wholesale industry (with more than 180 wholesalers across the company) and retail distribution of FMCG. It was founded in 2003 through a buy-out from the previous owner, Jerónimo Martins.

Metro AG (B4B.DE) is a Germany-based company founded in 2017 that operates in the wholesale and food service sectors. Acting as a food specialist, it grew its wholesale presence in approximately 35 countries in Europe and Asia, owning one of the largest wholesalers in Portugal, Makro.

Atlanta Poland SA (ATP.WA) is a Polish company founded in 1990, engaged in the food industry through multiple activities, including manufacturing, wholesale, and retail. Since 2011 the Company's majority stakeholder was Rockfield Trading Limited, which collected a stake of 58.8% in the company.

Ara Peers

Grupo Comercial Chedraui SAB de CV (CHDRAUIB.MX) is a Mexico-based company primarily engaged in the retail and real estate sectors. The Company has a store network in over 20 Mexican states and is in the southern-east region of the United States.

Almacenes Exito (IMI.CN) is a Colombia-based company engaged in the retail sector. The Company's activities are structured into three geographical divisions: Colombia, Brazil, and other countries. In Colombia, the Company operates retail and wholesale departments and discount stores. In Brazil, its services comprise selling food products, distributing non-food goods, and operating e-commerce stores.

Organizacion Soriana (SORIANAB.MX) is a Mexico-based company primarily engaged in the food retail sector. The Company focuses on developing and managing a network of supermarkets, grocery, and discount stores. It operates stores under various brand names and offers online shopping and delivery services.

Grupo Mateus (GMAT3.SA) is a Brazil-based company engaged in the food distribution sector. The Company's activities are divided into two business lines: Wholesale and Retail. The Wholesale area focuses on self-service stores and delivery establishments for wholesale customers. The Retail segment operates supermarkets, convenience shops, furniture stores, and e-commerce platforms.

Appendix

Financial Statements

Income Statement

In Millions of EUR 12 Months Ending	FY 2015 12/31/2015	FY 2016 12/31/2016	FY 2017 12/31/2017	FY 2018 12/31/2018	FY 2019 12/31/2019	FY 2020 12/31/2020	FY 2021 12/31/2021	FY 2022E 12/31/2022	FY 2023F 12/31/2023	FY 2024F 12/31/2024	FY 2025F 12/31/2025	FY 2026F 12/31/2026	FY 2027F 12/31/2027	FY 2028F 12/31/2028	FY 2029F 12/31/2029	FY 2030F 12/31/2030	FY 2031F 12/31/2031	FY 2032F 12/31/2032	FY 2033F 12/31/2033
Core Business																			
Revenues	13 728	14 622	16 276	17 337	18 638	19 293	20 889	26 257	31 500	35 154	38 647	42 351	45 984	49 469	52 711	55 629	58 176	60 351	62 179
Growth Rate		6,5%	11,3%	6,5%	7,5%	3,5%	8,3%	25,7%	20,0%	11,6%	9,9%	9,6%	8,6%	7,6%	6,6%	5,5%	4,6%	3,7%	3,0%
- Cost of Revenue	(10 790)	(11 509)	(12 818)	(13 577)	(14 563)	(15 067)	(16 392)	(20 596)	(24 709)	(27 575)	(30 315)	(33 220)	(36 070)	(38 803)	(41 346)	(43 635)	(45 633)	(47 339)	(48 773)
% of Revenues	78,6%	78,7%	78,8%	78,3%	78,1%	78,1%	78,5%	78,4%	78,4%	78,4%	78,4%	78,4%	78,4%	78,4%	78,4%	78,4%	78,4%	78,4%	78,4%
Gross Margin	**2 937**	**3 113**	**3 458**	**3 760**	**4 076**	**4 227**	**4 497**	**5 661**	**6 792**	**7 579**	**8 333**	**9 131**	**9 914**	**10 666**	**11 365**	**11 994**	**12 543**	**13 012**	**13 406**
- Operating Costs	(2 138)	(2 251)	(2 536)	(2 800)	(2 638)	(2 804)	(2 912)	(3 661)	(4 356)	(4 856)	(5 375)	(5 926)	(6 407)	(6 862)	(7 304)	(7 699)	(8 036)	(8 296)	(8 500)
% of Revenues	15,6%	15,4%	15,6%	16,2%	14,2%	14,5%	13,9%	13,9%	13,8%	13,8%	13,9%	14,0%	13,9%	13,9%	13,9%	13,8%	13,8%	13,7%	13,7%
EBITDA	**800**	**862**	**922**	**960**	**1 437**	**1 423**	**1 585**	**2 000**	**2 435**	**2 723**	**2 958**	**3 205**	**3 507**	**3 804**	**4 060**	**4 295**	**4 508**	**4 716**	**4 906**
Growth Rate		7,8%	7,0%	4,1%	49,7%	-1,0%	11,4%	26,2%	21,8%	11,8%	8,6%	8,3%	9,4%	8,5%	6,7%	5,8%	5,0%	4,6%	4,0%
EBITDA Margin	5,8%	5,9%	5,7%	5,5%	7,7%	7,4%	7,6%	7,6%	7,7%	7,7%	7,7%	7,6%	7,6%	7,7%	7,7%	7,7%	7,7%	7,8%	7,9%
Depreciation & Ammortization	(295)	(294)	(331)	(364)	(715)	(734)	(745)	(789)	(940)	(1 094)	(1 204)	(1 300)	(1 395)	(1 492)	(1 589)	(1 690)	(1 791)	(1 892)	(1 993)
Depreciation of Tangible Assets	(280)	(280)	(318)	(350)	(379)	(405)	(412)	(444)	(529)	(616)	(678)	(731)	(785)	(839)	(893)	(950)	(1 006)	(1 064)	(1 121)
% of net PP&E$_{t-1}$		9,7%	10,5%	10,1%	10,3%	10,2%	10,8%	11,1%	10,9%	10,9%	10,9%	10,9%	10,9%	10,8%	10,8%	10,8%	10,8%	10,7%	10,7%
Depreciation of Righ-of-use Assets	-	-	-	-	(322)	(316)	(320)	(331)	(394)	(459)	(506)	(546)	(586)	(626)	(667)	(710)	(753)	(795)	(838)
% of Righ-of-use Assets$_{t-1}$						13,5%	14,8%	14,7%	14,4%	14,4%	14,4%	14,4%	14,3%	14,3%	14,3%	14,2%	14,2%	14,2%	14,2%
Amortisation of Intangibles Assets	(15)	(14)	(13)	(13)	(14)	(13)	(13)	(13)	(16)	(19)	(21)	(23)	(25)	(27)	(29)	(31)	(32)	(34)	(35)
% of Intangible Assets$_{t-1}$		8,2%	8,5%	8,2%	9,1%	8,7%	9,5%	9,7%	9,4%	9,3%	9,3%	9,3%	9,2%	9,2%	9,2%	9,1%	9,1%	9,1%	9,2%
EBIT	**505**	**568**	**591**	**596**	**722**	**689**	**840**	**1 211**	**1 496**	**1 629**	**1 754**	**1 905**	**2 112**	**2 312**	**2 471**	**2 604**	**2 716**	**2 824**	**2 913**
Growth Rate		12,4%	4,2%	0,8%	21,1%	-4,5%	21,9%	44,1%	23,6%	8,9%	7,7%	8,6%	10,9%	9,5%	6,9%	5,4%	4,3%	4,0%	3,1%
EBIT Margin	3,7%	3,9%	3,6%	3,4%	3,9%	3,6%	4,0%	4,6%	4,7%	4,6%	4,5%	4,5%	4,6%	4,7%	4,7%	4,7%	4,7%	4,7%	4,7%
- Other Operating Profits/Losses	(19)	(32)	(14)	(9)	(16)	(50)	(34)	(75)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)
% of Revenues	0,1%	0,2%	0,1%	0,1%	0,1%	0,3%	0,2%	0,3%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%
Core Result Before Taxes	**486**	**536**	**577**	**587**	**706**	**639**	**806**	**1 136**	**1 462**	**1 595**	**1 720**	**1 871**	**2 078**	**2 278**	**2 437**	**2 570**	**2 682**	**2 790**	**2 879**
Statutory Taxes	(109)	(121)	(130)	(132)	(159)	(144)	(181)	(256)	(329)	(359)	(387)	(421)	(468)	(512)	(548)	(578)	(603)	(628)	(648)
Statutory Tax Rate	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%
Tax Adjustments	23	27	34	33	35	32	45	51	55	55	55	54	53	51	49	46	44	41	38
Other Comprehensive Income	(1)	0	(0)	0	1	(2)	(0)	-	-	-	-	-	-	-	-	-	-	-	-
% of Revenues	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Core Result	**398**	**443**	**482**	**488**	**583**	**526**	**669**	**931**	**1 188**	**1 291**	**1 387**	**1 504**	**1 663**	**1 816**	**1 938**	**2 039**	**2 122**	**2 203**	**2 269**
Growth Rate		11,2%	8,8%	1,2%	19,5%	-9,8%	27,4%	39,1%	27,6%	8,7%	7,4%	8,4%	10,6%	9,2%	6,7%	5,2%	4,1%	3,8%	3,0%
% of Revenues	2,9%	3,0%	3,0%	2,8%	3,1%	2,7%	3,2%	3,5%	3,8%	3,7%	3,6%	3,6%	3,6%	3,7%	3,7%	3,7%	3,6%	3,7%	3,6%
Non-Core Business																			
Interest income	2	2	4	2	4	2	1	2	2	2	2	2	2	2	2	2	2	2	2
% of Excess Cash$_{t-1}$		1,1%	1,0%	0,6%	1,8%	0,4%	0,2%	0,2%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Interests on Capitalised Operating Leases	-	-	-	-	(133)	(127)	(130)	(142)	(149)	(148)	(144)	(139)	(135)	(129)	(124)	(119)	(113)	(107)	(102)
% of Righ-of-use Assets					5,7%	5,9%	5,8%	5,2%	4,7%	4,2%	3,8%	3,4%	3,1%	2,8%	2,5%	2,2%	2,0%	1,8%	1,6%
Other financial gains and losses	(4)	(3)	(4)	(4)	(5)	(7)	(6)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(6)	(6)	(5)	(5)
% of Revenues	0,03%	0,02%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Foreign Exchange (Gain) Loss	(0)	(3)	4	(1)	2	(30)	(1)	-	-	-	-	-	-	-	-	-	-	-	-
% of Revenues	0,00%	-0,02%	0,0%	0,0%	0,0%	-0,2%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Other Non-Operating (Gaines) Losses	15	226	(0)	0	2	0	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Core Result Before Taxes and OCI	**13**	**221**	**3**	**(3)**	**(130)**	**(161)**	**(136)**	**(147)**	**(155)**	**(153)**	**(150)**	**(145)**	**(140)**	**(134)**	**(129)**	**(123)**	**(117)**	**(111)**	**(105)**
Statutory Taxes	(3)	(50)	(1)	1	29	36	31	33	35	35	34	33	31	30	29	28	26	25	24
Statutory Tax Rate	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%
Tax Adjustments	(35)	9	(60)	(38)	(40)	(65)	(66)	(75)	(81)	(81)	(80)	(79)	(78)	(75)	(72)	(68)	(64)	(60)	(56)
Other Comprehensive Income	(24)	(33)	61	(29)	16	(86)	(9)	-	-	-	-	-	-	-	-	-	-	-	-
% of Revenues	-0,2%	-0,2%	0,4%	-0,2%	0,1%	-0,4%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Non-Core Result	**(49)**	**148**	**4**	**(70)**	**(124)**	**(276)**	**(181)**	**(189)**	**(201)**	**(200)**	**(196)**	**(192)**	**(186)**	**(179)**	**(172)**	**(164)**	**(155)**	**(146)**	**(137)**
Financial																			
Interest expense	(25)	(13)	(15)	(22)	(26)	(21)	(17)	(15)	(20)	(22)	(24)	(26)	(27)	(28)	(30)	(31)	(33)	(35)	(38)
% of Total Debt$_{t-1}$		2,8%	-31,5%	14,4%	6,3%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%
Other Investment (Income) Loss - Dividends	0	0	0	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative Instruments	-	-	(0)	(0)	(0)	2	(1)	-	-	-	-	-	-	-	-	-	-	-	-
Financing Result Before Taxes and OCI	**(25)**	**(13)**	**(16)**	**(22)**	**(27)**	**(20)**	**(18)**	**(15)**	**(20)**	**(22)**	**(24)**	**(26)**	**(27)**	**(28)**	**(30)**	**(31)**	**(33)**	**(35)**	**(38)**
Statutory Taxes	6	3	3	5	6	4	4	3	4	5	5	6	6	6	7	7	7	8	8
Statutory Tax Rate	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%
Tax Adjustments	2,5	1,6	-	0,0	-	0,0	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Comprehensive Income	(1)	(1)	(16)	3	(5)	26	(2)	-	-	-	-	-	-	-	-	-	-	-	-
% of Revenues	0,0%	0,0%	-0,1%	0,0%	0,0%	0,1%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Financing Result	**(18)**	**(9)**	**(28)**	**(14)**	**(26)**	**11**	**(16)**	**(11)**	**(15)**	**(17)**	**(19)**	**(20)**	**(21)**	**(22)**	**(23)**	**(24)**	**(26)**	**(27)**	**(29)**
Total Comprehensive income	**332**	**581**	**457**	**404**	**432**	**261**	**473**	**731**	**972**	**1 074**	**1 172**	**1 292**	**1 456**	**1 615**	**1 743**	**1 850**	**1 941**	**2 030**	**2 103**
Attributable to:																			
Non-controlling interests	25	21	27	29	31	11	21	18	18	18	18	18	18	18	18	18	18	18	18
Jerónimo Martins Shareholders	307	560	430	375	401	250	452	713	954	1 056	1 154	1 274	1 438	1 597	1 725	1 832	1 923	2 012	2 085
Total Comprehensive Income	**332**	**581**	**457**	**404**	**432**	**261**	**473**	**731**	**972**	**1 074**	**1 172**	**1 292**	**1 456**	**1 615**	**1 743**	**1 850**	**1 941**	**2 030**	**2 103**

Balance Sheet

In millions of EUR	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022E	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F	FY 2031F	FY 2032F	FY 2033F
12 Months Ending	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033
Core Business																			
Operating Cash	271	290	329	344	375	379	415	525	630	703	773	847	920	989	1 054	1 113	1 164	1 207	1 244
% of Revenues	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%
Accounts Receivable	54	46	56	58	64	43	52	69	81	91	99	108	117	125	133	140	146	151	156
Average Collection Period	1,4	1,1	1,3	1,2	1,3	0,8	0,9	1,0	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9
Accrued income and other current assets	224	265	331	377	361	350	427	525	626	702	769	840	906	970	1 029	1 083	1 130	1 171	1 206
% of Revenues	1,6%	1,8%	2,0%	2,2%	1,9%	1,8%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	1,9%	1,9%	1,9%	1,9%
Inventories	638	719	842	971	1 039	974	1 108	1 409	1 691	1 884	2 068	2 270	2 465	2 652	2 825	2 981	3 119	3 235	3 333
Average Holding Period	21,6	22,8	24,0	26,1	26,0	23,6	24,7	25,0	25,0	24,9	24,9	24,9	24,9	24,9	24,9	24,9	24,9	24,9	24,9
Biological Assets	0	1	5	4	6	5	7	9	10	11	12	12	13	14	14	14	15	15	15
% of Revenues	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Operating Current Assets	**1 187**	**1 321**	**1 564**	**1 754**	**1 844**	**1 751**	**2 009**	**2 537**	**3 037**	**3 390**	**3 721**	**4 078**	**4 421**	**4 750**	**5 056**	**5 331**	**5 573**	**5 779**	**5 953**
Accounts Payable	(2 542)	(2 790)	(3 215)	(3 273)	(3 655)	(3 534)	(4 048)	(4 969)	(5 935)	(6 700)	(7 370)	(8 081)	(8 807)	(9 491)	(10 133)	(10 717)	(11 223)	(11 656)	(12 020)
Average Payable Period	86,0	88,5	91,6	88,0	91,6	85,6	90,1	88,1	87,7	88,7	88,7	88,8	89,1	89,3	89,5	89,6	89,8	89,9	90,0
Accrued costs and other current liabilities	(330)	(377)	(447)	(521)	(527)	(619)	(723)	(902)	(1 090)	(1 181)	(1 317)	(1 462)	(1 568)	(1 685)	(1 796)	(1 890)	(1 976)	(2 042)	(2 093)
% of Cost of Revenue + Operating Costs	2,6%	2,7%	2,9%	3,2%	3,1%	3,5%	3,7%	3,7%	3,8%	3,6%	3,7%	3,7%	3,7%	3,7%	3,7%	3,7%	3,7%	3,7%	3,7%
Income tax payable, net	(26)	(43)	(53)	(37)	(41)	(33)	(24)	(21)	(16)	(11)	(7)	(5)	(3)	(2)	(1)	(1)	(1)	(0)	(0)
% of Consolidated Taxes	22,5%	32,8%	34,8%	27,9%	31,7%	24,1%	14,3%	8,6%	5,1%	3,1%	1,9%	1,1%	0,7%	0,4%	0,2%	0,1%	0,1%	0,1%	0,0%
Operating Current Liabilities	**(2 898)**	**(3 209)**	**(3 715)**	**(3 831)**	**(4 223)**	**(4 187)**	**(4 795)**	**(5 892)**	**(7 041)**	**(7 892)**	**(8 694)**	**(9 547)**	**(10 379)**	**(11 178)**	**(11 930)**	**(12 608)**	**(13 199)**	**(13 698)**	**(14 113)**
Working Capital	**(1 711)**	**(1 888)**	**(2 151)**	**(2 077)**	**(2 379)**	**(2 436)**	**(2 786)**	**(3 355)**	**(4 004)**	**(4 502)**	**(4 973)**	**(5 469)**	**(5 957)**	**(6 428)**	**(6 874)**	**(7 277)**	**(7 626)**	**(7 919)**	**(8 160)**
% of Revenues	-12,5%	-12,9%	-13,2%	-12,0%	-12,8%	-12,6%	-13,3%	-12,8%	-12,7%	-12,8%	-12,9%	-12,9%	-13,0%	-13,0%	-13,0%	-13,1%	-13,1%	-13,1%	-13,1%
Property Plant & Equipment, Net	2 890	3 023	3 475	3 687	3 970	3 817	3 993	4 852	5 639	6 209	6 722	7 226	7 744	8 261	8 805	9 352	9 896	10 436	10 993
% of Revenues	21,1%	20,7%	21,3%	21,3%	21,3%	19,8%	19,1%	18,5%	17,9%	17,7%	17,4%	17,1%	16,8%	16,7%	16,7%	16,8%	17,0%	17,3%	17,7%
Right-of-use assets	-	-	-	-	2 335	2 167	2 248	2 734	3 179	3 503	3 795	4 083	4 378	4 674	4 985	5 295	5 603	5 909	6 224
% of Revenues	0,0%	0,0%	0,0%	0,0%	12,5%	11,2%	10,8%	10,4%	10,1%	10,0%	9,8%	9,6%	9,5%	9,4%	9,5%	9,5%	9,6%	9,8%	10,0%
Intangible assets	170	157	164	155	153	137	139	172	201	225	248	273	296	319	338	355	368	379	387
% of Revenues	1,2%	1,1%	1,0%	0,9%	0,8%	0,7%	0,7%	0,7%	0,6%	0,6%	0,6%	0,6%	0,6%	0,6%	0,6%	0,6%	0,6%	0,6%	0,6%
Other non-currents assets	83	78	76	68	70	73	61	63	63	58	51	41	30	17	2	2	2	3	3
% of Revenues	0,6%	0,5%	0,5%	0,4%	0,4%	0,4%	0,3%	0,2%	0,2%	0,2%	0,1%	0,1%	0,1%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Core Invested Capital (excluding Goodwill)	**1 432**	**1 370**	**1 564**	**1 833**	**4 149**	**3 758**	**3 655**	**4 467**	**5 079**	**5 493**	**5 842**	**6 153**	**6 492**	**6 842**	**7 256**	**7 727**	**8 244**	**8 807**	**9 446**
Goodwill	640	630	647	637	641	620	618	627	626	624	623	622	622	622	622	622	622	622	622
% of Revenues	4,7%	4,3%	4,0%	3,7%	3,4%	3,2%	3,0%	2,4%	2,0%	1,8%	1,6%	1,5%	1,4%	1,3%	1,2%	1,1%	1,1%	1,0%	1,0%
Core Invested Capital	**2 072**	**2 000**	**2 211**	**2 470**	**4 790**	**4 378**	**4 273**	**5 095**	**5 704**	**6 117**	**6 466**	**6 776**	**7 114**	**7 464**	**7 877**	**8 349**	**8 865**	**9 429**	**10 068**
Non-Core Business																			
Investment property	20	14	14	12	9	9	8	-	-	-	-	-	-	-	-	-	-	-	-
Investments in joint ventures and associates	76	-	2	3	5	6	13	-	-	-	-	-	-	-	-	-	-	-	-
Other financial investments	2	1	1	1	1	1	2	2	2	3	3	3	4	4	4	4	5	5	5
Derivative financial instruments	0	1	(2)	(0)	(3)	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax, net	2	10	34	39	67	98	109	135	162	181	199	218	236	254	271	286	299	310	320
Employee benefits	(43)	(62)	(66)	(65)	(70)	(70)	(70)	(76)	(87)	(91)	(94)	(96)	(99)	(102)	(104)	(106)	(108)	(110)	(111)
# employees at the end of the year	89 027	96 233	104 203	108 560	115 428	118 639	123 458	135 618	156 523	166 243	172 987	178 643	185 250	190 853	196 263	201 483	205 857	209 400	212 641
Revenues per employee	0,2	0,2	0,2	0,2	0,2	0,2	0,2	25,7	27,7	27,7	27,3	26,9	26,8	26,7	26,5	26,4	26,3	26,1	26,0
Benefit for a thousand employees	(0,5)	(0,6)	(0,6)	(0,6)	(0,6)	(0,6)	(0,6)	(0,6)	(0,6)	(0,6)	(0,5)	(0,5)	(0,5)	(0,5)	(0,5)	(0,5)	(0,5)	(0,5)	(0,5)
Provisions for risks and contingencies	(84)	(22)	(29)	(27)	(28)	(33)	(34)	(42)	(51)	(56)	(62)	(69)	(74)	(80)	(85)	(90)	(94)	(98)	(100)
% of Revenues	-0,6%	-0,1%	-0,2%	-0,2%	-0,1%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%
Total Non-Core Invested Capital	**(26)**	**(58)**	**(47)**	**(36)**	**(18)**	**13**	**28**	**19**	**26**	**36**	**45**	**56**	**66**	**76**	**86**	**94**	**101**	**108**	**113**
Total Funds Invested	**2 046**	**1 942**	**2 164**	**2 434**	**4 772**	**4 391**	**4 301**	**5 113**	**5 730**	**6 153**	**6 511**	**6 831**	**7 180**	**7 540**	**7 963**	**8 443**	**8 967**	**9 537**	**10 181**
Financial																			
Short-term Bank Loans	123	224	298	347	424	160	113												
% of Revenues	0,9%	1,5%	1,8%	2,0%	2,3%	0,8%	0,5%												
Long-term Bank Loans	534	112	232	278	309	364	347												
% of Revenues	3,9%	0,8%	1,4%	1,6%	1,7%	1,9%	1,7%												
Lease Liabilities	0	4	8	15	2 384	2 273	2 387												
% of Revenues	0,0%	0,0%	0,1%	0,1%	12,8%	11,8%	11,4%												
Total Debt	**658**	**339**	**537**	**639**	**3 117**	**2 797**	**2 847**												
Debt/Equity (book value)	0,5	0,2	0,3	0,4	1,6	1,4	1,2												
Excess Cash	(171)	(353)	(352)	(202)	(554)	(662)	(1 078)												
% of Revenues	-1,2%	-2,4%	-2,2%	-1,2%	-3,0%	-3,4%	-5,2%												
Collateral deposits associated to financial debt	(34)	(34)	(34)	(19)	(19)	-	-												
Net Debt	**453**	**(48)**	**151**	**418**	**2 543**	**2 134**	**1 769**	**2 427**	**2 732**	**2 938**	**3 112**	**3 267**	**3 437**	**3 611**	**3 817**	**4 052**	**4 307**	**4 586**	**4 902**
Net Debt/Equity (book value)	0,3	0,0	0,1	0,2	1,3	1,1	0,8	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0
Non-controlling interests	252	253	225	238	254	249	254	259	267	277	287	297	307	318	328	340	352	365	378
% of Pingo Doce's Core Capital	28,5%	27,2%	24,1%	30,5%	19,7%	19,4%	21,4%	20,2%	20,2%	20,2%	20,2%	20,2%	20,2%	20,2%	20,2%	20,2%	20,2%	20,2%	20,2%
Net Financial Assets	**704**	**204**	**376**	**656**	**2 797**	**2 383**	**2 023**	**2 686**	**2 999**	**3 215**	**3 399**	**3 564**	**3 744**	**3 929**	**4 146**	**4 391**	**4 659**	**4 951**	**5 280**
Equity	**1 342**	**1 738**	**1 788**	**1 778**	**1 975**	**2 008**	**2 278**	**2 427**	**2 732**	**2 938**	**3 112**	**3 267**	**3 437**	**3 611**	**3 817**	**4 052**	**4 307**	**4 586**	**4 902**
Total Funds Invested	**2 046**	**1 942**	**2 164**	**2 434**	**4 772**	**4 391**	**4 301**	**5 113**	**5 730**	**6 153**	**6 511**	**6 831**	**7 180**	**7 540**	**7 963**	**8 443**	**8 967**	**9 537**	**10 181**

Cash Flows

In Millions of EUR	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022E	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F	FY 2031F	FY 2032F	FY 2033F
12 Months Ending	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033
Operating Result Before Taxes and OCI	486	536	577	587	706	639	806	1 136	1 462	1 595	1 720	1 871	2 078	2 278	2 437	2 570	2 682	2 790	2 879
Notional Taxes on Operating Result	(109)	(121)	(130)	(132)	(159)	(144)	(181)	(256)	(329)	(359)	(387)	(421)	(468)	(512)	(548)	(578)	(603)	(628)	(648)
Tax Adjustments Core	23	27	34	33	35	32	45	51	55	55	55	54	53	51	49	46	44	41	38
NOPLAT	**400**	**442**	**482**	**487**	**582**	**528**	**670**	**931**	**1 188**	**1 291**	**1 387**	**1 504**	**1 663**	**1 816**	**1 938**	**2 039**	**2 122**	**2 203**	**2 269**
Depreciation & Ammortisation	295	294	331	364	715	734	745	789	940	1 094	1 204	1 300	1 395	1 492	1 589	1 690	1 791	1 892	1 993
Operating Gross Cash Flow	**694**	**737**	**813**	**851**	**1 297**	**1 261**	**1 415**	**1 720**	**2 127**	**2 385**	**2 592**	**2 804**	**3 058**	**3 309**	**3 527**	**3 729**	**3 914**	**4 095**	**4 262**
[-] Investment in Working Capital		177	263	(74)	301	57	350	569	649	498	471	496	488	470	447	402	349	293	241
[-] Change in CAPEX		(414)	(769)	(562)	(3 319)	(399)	(989)	(2 121)	(2 155)	(1 970)	(1 988)	(2 069)	(2 184)	(2 277)	(2 415)	(2 517)	(2 611)	(2 704)	(2 830)
[-] Change in Intagibles Assets		(1)	(21)	(4)	(12)	3	(15)	(47)	(45)	(42)	(44)	(48)	(49)	(49)	(49)	(48)	(46)	(44)	(43)
[-] Change in Other Non-Currents Assets		6	1	8	(2)	(3)	12	(2)	0	5	8	9	11	13	15	(0)	(0)	(0)	(0)
[-] Change in Goodwill		10	(17)	9	(3)	21	2	(10)	2	2	1	1	0	0	0	0	0	0	(0)
Core Other Comprehensive Income	(1)	0	(0)	0	1	(2)	(0)	-	-	-	-	-	-	-	-	-	-	-	-
Operating Free Cash Flow		**515**	**271**	**228**	**(1 737)**	**937**	**775**	**110**	**578**	**878**	**1 039**	**1 194**	**1 324**	**1 466**	**1 524**	**1 567**	**1 606**	**1 640**	**1 630**
[-] Investment property		6	0	2	3	0	1	8	-	-	-	-	-	-	-	-	-	-	-
[-] Investments in joint ventures and associates		76	(2)	(2)	(2)	(0)	(7)	13	-	-	-	-	-	-	-	-	-	-	-
[-] Other financial investments		1	(0)	0	(0)	-	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
[-] Derivative financial instruments		(1)	3	(2)	3	(6)	3	-	-	-	-	-	-	-	-	-	-	-	-
[-] Deferred tax, net		(8)	(24)	(5)	(28)	(30)	(11)	(26)	(27)	(19)	(18)	(19)	(19)	(18)	(17)	(15)	(13)	(11)	(9)
[+] Employee benefits		19	5	(1)	5	0	(0)	6	11	4	3	2	3	2	2	2	2	1	1
[+] Provisions for risks and contingencies		(62)	8	(3)	1	5	1	8	9	5	6	7	5	6	5	5	4	4	3
Change in Invested Capital Non Core Business		**31**	**(11)**	**(11)**	**(18)**	**(31)**	**(15)**	**9**	**(7)**	**(10)**	**(9)**	**(10)**	**(11)**	**(10)**	**(9)**	**(8)**	**(7)**	**(6)**	**(6)**
Non Operating Result	(49)	148	4	(70)	(124)	(276)	(181)	(189)	(201)	(200)	(196)	(192)	(186)	(179)	(172)	(164)	(155)	(146)	(137)
Non-Operating Free Cash Flow		**179**	**(7)**	**(80)**	**(143)**	**(307)**	**(196)**	**(180)**	**(208)**	**(210)**	**(206)**	**(202)**	**(197)**	**(189)**	**(181)**	**(172)**	**(162)**	**(153)**	**(143)**
Free Cash Flow to Investors		**694**	**264**	**148**	**(1 880)**	**630**	**579**	**(70)**	**370**	**668**	**833**	**991**	**1 128**	**1 277**	**1 343**	**1 395**	**1 443**	**1 487**	**1 487**
Debt Cash Flow																			
Financial Result	(18)	(9)	(28)	(14)	(26)	11	(16)	(11)	(15)	(17)	(19)	(20)	(21)	(22)	(23)	(24)	(26)	(27)	(29)
Change in Net Financial Assets		(500)	172	280	2 141	(414)	(360)	663	313	217	184	165	180	185	217	246	268	291	329
Debt Cash Flow		**(509)**	**144**	**266**	**2 115**	**(403)**	**(376)**	**652**	**297**	**199**	**165**	**145**	**159**	**163**	**194**	**221**	**242**	**264**	**300**
Equity Cash Flow																			
Total Comprehensive Income		(581)	(457)	(404)	(432)	(261)	(473)	(731)	(972)	(1 074)	(1 172)	(1 292)	(1 456)	(1 615)	(1 743)	(1 850)	(1 941)	(2 030)	(2 103)
Changes in Equity		396	50	(10)	197	33	270	149	305	206	174	155	170	175	206	234	256	279	316
Equity Cash Flow		**(185)**	**(407)**	**(414)**	**(235)**	**(227)**	**(203)**	**(582)**	**(667)**	**(867)**	**(999)**	**(1 137)**	**(1 287)**	**(1 440)**	**(1 537)**	**(1 616)**	**(1 686)**	**(1 751)**	**(1 787)**
Free Cash Flow to Investors		**(694)**	**(264)**	**(148)**	**1 880**	**(630)**	**(579)**	**70**	**(370)**	**(668)**	**(833)**	**(991)**	**(1 128)**	**(1 277)**	**(1 343)**	**(1 395)**	**(1 443)**	**(1 487)**	**(1 487)**

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