IS THIS THE WORST STORM IN RETAIL HISTORY?

How to Weather the Rapidly Changing Grocery Industry

JOHNNY BLUE CRAIG - GROCERY SPECIALIST
Grocery, however, has long been considered immune from the e-commerce space and even the vagaries of economic downturns. No more. Historic deflation, a new round of price wars, and yes, the growing impact of e-commerce are taking a toll on what was once a highly resilient sector.”

“Comparable store sales are anemic across almost every key grocery retailer and I’m starting to see a growing number of chains that might follow general retail down the bankruptcy trail.”

Forbes.com - May 2017

**NOTABLE EVENTS**

- Warren Buffet Exits Walmart Disposing of $3B in Stocks
- Kroger’s same store sales drop for the first time in 13 years
- Publix’s same store sales drop for the first time in 7 years
- Southeastern Grocers (BI-LO/Winn-Dixie) CEO steps down. June 2017
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YES - IT’S A WAR...
AND IT’S JUST GETTING STARTED

WWW.PLANNEDGROCERY.COM

THIS IMAGE REPRESENTS NEWLY PROPOSED AND PLANNED GROCERY DEVELOPMENTS AS OF MAY 2017
The grocery sector has long been thought of as one of the lowest-risk investments on the market. Groceries are not “elective” goods, they are a necessity, and thus are deemed to be recession-proof.

No more. Even if groceries are a necessity, no grocery store chain is free from turmoil in today’s market. Historic deflation, new rounds of price wars, and the growing impact of e-commerce are taking a toll on what was once a highly-resilient sector. “It’s definitely a war, and it’s just starting,” stated Madison Marquette, Florida director of the International Council of Shopping Centers.

A grocery war is also a real estate war. While it is true that the market is far from fading away, property owners must not mistake the necessity of an industry as a guarantee of the security of their real estate investment.

The market is changing dramatically and landlords need to understand and monitor how the market evolves.

Examples abound in our current market. When Aldi bleeds Walmart, they are bleeding 55 percent of a shadow centers traffic as well. Lidl is coming after the traditional grocer with an ambitious pace of 100+ stores per year. Kroger is moving across the street from existing stores and leaving current landlords and shadow centers behind.

The trends are becoming clear, and mirror trends in retail as a whole. The market is splitting into high-end and low-end, as the market share of traditional grocers, which has declined 40 percent since 1980, continues to decline.

Hard questions arise as to the future of struggling chains like Winn-Dixie, BI-LO, and Food Lion, grocers who lack a unique marketing differentiator for today’s consumer, and will struggle to sustain themselves in a rapidly-evolving industry.

Matthews™ keeps track of trends and financial performance of grocers in every region of the U.S., as well as international chains that are making fast inroads into the American market. What we provide in the following pages, is a blueprint for winning the war.
ALDI & LIDL -
THE GREATEST THREAT TO THE U.S. GROCERY MARKET

To understand how the grocery industry is changing, look at Aldi and Lidl, who are emerging as the greatest threat to traditional grocers. Their entry into the British market sparked price wars that upended the United Kingdom grocery market. One casualty was the July 2016 resignation of Walmart Europe’s CEO Andy Clarke, who described the duo as “the worst storm in retail history.”

A LOOK AT THE EUROPEAN GROCERY MARKET
Aldi and Lidl are rapidly expanding their U.S. presence, with a format that is being embraced by U.S. consumers. These stores offer a reduced number of products at discount prices, primarily by shelving only private label products. Their branding positions the stores as environmentally-conscious, organic, and higher quality, and store personnel are trained to present a friendly and casual demeanor – like Southwest Airlines.

Aldi and Lidl’s market positioning is based on an insight into today’s savviest consumers: younger shoppers with money. An article on these chains in Harvard Business Review points to a customer profile that is better-educated and with a higher level of disposable income than the norm. These consumers consider themselves ‘smart’ for purchasing groceries at hard discounters like Aldi and Lidl. A full 31 percent of Aldi and Lidl consumers are from the AB demographic (A = highest quintiles, B = middle quintiles).

The appeal of Aldi and Lidl is not limited to millennials. These stores also attract the older generation, who value lower prices and saving money. As a result, Aldi and Lidl capture both the price-focused consumer, and the savvy shopper with disposable income.

This combination of low pricing, ‘green’ products, and a casual, inviting store atmosphere results in a following that is more passionate than one would expect for a grocery store. Aldi won “Price Leader Award” from consumers in 2015 and 2016, ahead of Costco and WinCo, and Aldi and Lidl garnered “Grocer of the Year” awards in Europe each year from 2014 to 2016.

Given their impending impact, it is important to understand how these two powerhouses have come to dominate Europe’s market.

PASSIONATE FAN BASE

2016 Grocer of Year | Aldi
2015 Grocer of the Year | Lidl
2014 Grocer of the Year | Aldi
2016 Price Leader Award | Aldi
(Followed by Costco and Winco)
2015 Price Leader Award | Aldi
(Followed by Costco and Winco)
**ALDI: THE KING OF PRICE AND PRIVATE LABEL**

The Aldi grocery chain has more than 10,000 supermarkets in 18 countries. Based in Germany and known in Europe as the “king of price and private labels.” Aldi was founded by brothers Karl and Theo Albrecht in 1946. The brothers actually have two companies: Aldi Nord, which owns the Trader Joe’s brand, with more than 450 stores in the U.S.; and Aldi Sud, which operates under the Aldi name. Aldi plans to increase its U.S. store count to over 2,500 by 2022.

Aldi is a private company and does not break out revenues for its U.S. operations. Kantar, the international grocery consultancy, estimates that Aldi’s U.S. business is close to $13 billion a year, and projects that with their expansion, their revenues will grow to $20 billion by 2018.

A key component of their rapid expansion is the freestanding format they prefer, with parameters that allow developers to work quickly and efficiently. Aldi store formats are typically 18,000 square feet with 80 parking spaces, and site selection requires two acres or more. A newer Aldi prototype will increase the store footprint and the number of parking spaces.

**Aldi prices are up to 20-30 percent less than Walmart**

Almost all of Aldi’s products are private label. By featuring store-branded products, Aldi reduces the amount of shelf space required for multiple brands of the same base product, like peanut butter. Another advantage of private brands is an increase in pricing leverage with suppliers and an opportunity to reduce costs via efficiencies in mass-producing a limited number of items.

Competitors have been struggling to fend off Aldi for years. A 2009 Harvard Business Review article documents the visit of Proctor and Gamble’s CEO to Aldi’s European headquarters. The reason for the visit stemmed from Aldi’s low prices. To remain competitive in Germany, P&G was forced to cut prices on Always sanitary napkins by 17 percent and Pampers diapers by 11 percent.

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**Aldi has a target retailer in their site selection: Walmart.**

+70%

of all Aldi sites in Florida and Georgia are within one mile of a Walmart.

Aldi chooses locations along the corridor that commands Walmart’s traffic, planting its new stores on a convenient, usually lighted corner. This approach – bleed Walmart of their traffic – has proven successful in Europe.
GROVETOWN, GA IS AN EXAMPLE OF HOW QUICKLY THE GROCERY ENVIRONMENT IS CHANGING.

In the span of one year, two seemingly secure Food Lion assets became the prey of Kroger Marketplace, Aldi, Lidl, and Walmart Neighborhood Market. This is happening all-across the East Coast. Food Lion, BI-LO, and Winn-Dixie are low hanging fruit, and competitors know this. The market is evolving – the question is – will owners recognize this shift before it is too late?
LIDL: THE TRADITIONAL GROCER’S WORST NIGHTMARE

Lidl is a high-quality discounter. Described as “insanely cheap prices with an emphasis on fresh food” by Business Insider, Lidl shoppers can expect to save up to 30 percent on products compared to traditional grocery stores. Like Aldi, private labels drive Lidl’s success.

By announcing their goal of opening 100 new stores per year in the foreseeable future, Lidl has made it apparent that they have big plans for U.S. expansion. At 36,000 square feet, Lidl stores are double the size of an Aldi store, and require a 4.5 acre-site. Lidl has selected more than 80 sites in the greater Washington D.C. area, and plans to open more than 100 stores by 2018, with new stores as far south as Atlanta, and as far west as Texas.

Lidl’s expansion is due, in part, to strong capital backing. Lidl’s rapid rate of development is made easier by its preference for free-standing buildings. The grocer prefers to own their sites and typically refuses to ground-lease.

“Unlike Aldi, the Lidl will be a hybrid similar to Trader Joe’s or Harris Teeter, but closer to a Trader Joe’s,” reported Business Insider. “They will sell high-end brands, quality not quantity, best products only.”

ALDI AND LIDL CAUSE EUROPEAN GROCERY INDUSTRY MELTDOWN

ASDA is Walmart’s prized European outpost, and the second largest grocer in Britain. And ASDA is in trouble. ASDA prided itself on offering the lowest prices, but now Aldi and Lidl have taken the lead.

ASDA is posting a series of declines in revenues, including their worst-ever quarterly sales drop in August of 2016, reporting a 7.5 percent decline in like-for-like store sales. November 2016 marked their eighth consecutive quarterly sales decline, with like-for-like store sales diving 5.8 percent.

Aldi and Lidl are to blame. When ASDA CEO Andy Clarke resigned in June 2016, he declared the battle with Aldi and Lidl “the worst storm in retail history.” Clarke gave this explanation: “When we set the plan, I don’t think anyone anticipated the market being in meltdown.”

Walmart and ASDA are not the only grocery chains affected by the onslaught of low-price, consumer-friendly competition. In the UK, sales across all supermarkets dropped two percent for the quarter ending in March 2017. While ASDA’s fell four percent, Tesco, Europe’s largest grocer, reported a sharp drop in revenues for the year, causing their stock to plummet to an 18-year, all-time low. Similarly, Sainsbury’s recorded their second straight year of profit decline.

By contrast, Aldi and Lidl’s sales are experiencing double-digit growth per year.

ALDI DOMINATES AUSTRALIAN GROCERY MARKET

It’s not just Europe. Landlords with BI-LO or Winn-Dixie stores should be aware of what is happening in Australia.

In 2007, Australia was arguably the most concentrated grocery market in the world. Approximately 80 percent of the market was controlled by Woolworth’s and Coles, creating a virtual oligopoly. Ian McLeod, then CEO of Coles, led Coles in an impressive turnaround as his company strong-armed suppliers and slashed prices. The strategy was successful: with only one competitor to beat, Coles’ price-cutting strategy allowed the grocery chain to steal market share from Woolworth’s.

Then, everything changed. Aldi entered the market and has wreaked havoc, catapulting from a 5 percent market share in 2007 to over 12 percent in 2015. Woolworth’s, Australia’s largest supermarket chain, issued a second profit warning, slashed 1,200 jobs, and fired CEO Grant O’Brien. They are now seeking a new leader to lift sales amidst intensifying competition. Australia’s third largest grocer, Metcash, also reported disappointing results, after a stunning after-tax loss of $384.2 million in 2015.

And Coles’ CEO Ian McLeod became the new CEO of U.S. based Southeastern Grocers, the company that owns BI-LO, Harvey’s, and Winn-Dixie.

The story is the same. Aldi entered a market focused on price, and is dominating the competition.
PRICE-FOCUSED GROCERS IN TROUBLE: WALMART, BI-LO, WINN-DIXIE, FOOD LION

Aldi and Lidl are a force to be reckoned with in Europe. How will they affect the grocery landscape in the U.S.? Grocers who compete on price should be concerned, as both Europe and Australia provide historical insight into what could occur in the American market. Grocers who compete on price are in trouble.
IS THIS THE WORST STORM IN RETAIL HISTORY?
WALMART: SHADOW CENTER VACANCIES ON THE RISE

Wal-Mart Stores, with 2016 revenues of $486 billion, is brick-and-mortar retail’s behemoth. Estimates are that 55 percent of its volume is in groceries, which translates to $268 billion in annual sales.

As big as Walmart may be, it is experiencing problems. In 2015, the company’s annual revenue fell for the first time since it went public in 1970. Walmart announced 154 U.S. store closures in early 2016, another company first. Walmart share price has dropped over the past two years, and famed value investor Warren Buffet’s Berkshire Hathaway has recently unloaded $3 billion in Walmart stock.

While the retailer has over $290 billion in U.S. revenue and is on solid financial footing, it is not the first time that a secure retailing giant has begun a decline. Kmart and Sears were once dominant factors in the retail landscape, and Sam Walton, Walmart’s founder, viewed Kmart as the ideal store and copied and perfected many of their processes. But by the 1990s, Kmart and Sears stumbled and today are mere shadows of their former selves.

Walmart appears to be experiencing a similarly-challenging period. However, they are not competing against one rising retail giant. “It’s like a thousand cuts,” said Leon Nicholas, a Senior Vice President of consulting firm Kantar Retail. “They are impacted by Aldi, Amazon, by the dollar store – and all these things add up for Walmart.”

“In the days when I traveled to stores with [Wal-Mart Stores founder] Sam Walton, no one had lower prices,” “But Walmart, after 15 or 20 years of misguided management, their prices aren’t that different than their competitors. Then along comes Lidl. They’re going to fry Walmart’s brains.”

HOWARD DAVIDOWITZ
Chairman of retail consulting and investment banking firm Davidowitz & Associates.
WALMART STRATEGY ONE: FEWER PRIVATE LABEL BRANDS
Walmart has attempted to combat competition with their own private labels. However, the strategy has not prospered. Walmart announced in April 2016 that they would phase out two brands they launched in 2014 to combat competition at both the high and low end of the market:

- Wild Oats – Launched in 2014, this organics product line offered low-priced organic food for the masses. In 2016, Walmart announced Wild Oats will be discontinued.
- Price First - An ultra-low price in-house label for Walmart’s most cost-conscious consumer. Walmart discontinued this line in 2016.

WALMART STRATEGY TWO: NEIGHBORHOOD MARKETS
Walmart Neighborhood Markets are smaller stores in close proximity to the main store Neighborhood Market “stars” that surround a supercenter “sun.” The premise was that consumers could satisfy quick, convenient grocery shopping at the Neighborhood Market and make “bulk” purchases at the supercenter.

Walmart Neighborhood Markets had positive comparable sales growth for five consecutive years. The company opened 300 smaller stores in 2015 and 161 in 2016.

However, the net result of the strategy is less foot traffic for the supercenter: Neighborhood Market stores are cannibalizing the main store revenues.

In October 2016 Walmart radically scaled back its Neighborhood Market strategy. The company planned just 20 stores in 2017, and may abandon the Neighborhood Market altogether.

| WALMART NEIGHBORHOOD MARKET STORE OPENINGS BY YEAR |
|-----------|--------|
| 2015      | 300    |
| 2016      | 161    |
| 2017      | 20     |

WALMART STRATEGY THREE: E-COMMERCE
In August 2016, Walmart acquired online e-tailer Jet.com for $3.3 billion. Two months later, Walmart announced an abrupt halt to new store openings. Yet Capital Expenditures will remain the same, at $11 billion. The capital will be poured into the company’s new focus, e-commerce.

Walmart Stores CEO, Doug McMillon told Bloomberg News: “This company over time will look like an e-commerce company. We have to build technology into the company more than ever before and become more of a digital enterprise.”

In pursuing an e-commerce strategy, the Jet.com acquisition recognized Walmart’s change in direction and that Amazon was a significant threat. “By our account, Walmart and Amazon are neck-and-neck in penetration of American households... It’s a battle to be America’s retailer because there’s a lot of competition,” said Laura Kennedy, Director of Retail Insights at Kantar Media.

WALMART’S ISSUES IMPACT SHADOW CENTERS
One of the primary casualties of Walmart’s decline in growth is shadow center owners, who have traditionally relied on supercenter traffic to spill into their centers. Walmart’s commitment to e-commerce, combined with low-priced competitors that bleed traffic, point to a drastic decrease in supercenter foot traffic. Don’t be fooled by stock price, which can be boosted by sales through online channels. Shadow centers depend on foot traffic. Since grocery provides 55 percent of Walmart’s traffic, these shadow centers will need to come up with a new survival strategy – or perish.
THE MOST IMPORTANT QUESTION: HOW CAN MY PROPERTY INCREASE IN VALUE?

Real estate strategy begins by looking at a current asset and evaluating if that asset has a reasonable chance to increase in value. If not, sell it, and move the money into a new asset with upside potential.

Owners need to assess how a loss of traffic will affect their center and develop a strategy that optimizes their opportunities to adapt and succeed.

HOW TO DETERMINE WHEN TO SELL: CAP RATE VS. VALUE

Unfortunately, many property owners view real estate from a cap rate perspective and not a value perspective. As soon as a shadow center nears its full upside potential, whether that be at 70, 80 or even 100 percent leased, an owner is essentially holding a NNN asset with management responsibilities. Owners need to assess how a loss of traffic will affect their center.

Example: If a property owner has a grocery store anchor or is a shadow center adjacent to a grocer, and that grocer is in decline, the center is likely to lose retail tenants due to a decline in foot traffic. If the owner were to lose one 1,500 square foot retailer paying $15 per square foot, the direct revenue loss is $22,500 per year. Using an 8 percent cap rate, the owner just lost $281,000 in value.

To illustrate the value vs. cap rate concept, consider another scenario:

An owner who sells a Walmart shadow center at a 9 percent cap rate and repositions the capital into a Publix-anchored shadow center at an 8 percent cap rate with 10 percent upside potential, makes a profit. In this scenario, taking a loss in cash flow on the front-end was a good investment.
Winn-Dixie, BI-LO and Food Lion are three traditional supermarket chains that grew steadily for decades. While the chains evolved by mimicking popular innovations like more fresh and organic produce, in-store delis and loyalty programs, these tactics are likely insufficient to weather the sea of changes in today’s evolving grocery store environment.
BI-LO & WINN-DIXIE DEATH WATCH

BI-LO and Winn-Dixie are two supermarket chains that are owned by Southeastern Grocers, with headquarters in Jacksonville FL. BI-LO has 164 stores in the Carolinas and Georgia, and Winn-Dixie has 495 stores in the Southeastern U.S.

These grocery chains are “in the dreaded middle,” noted David J. Livingston of DJL Supermarket Location Research, pointing out that their middle price points lose price-conscious shoppers to Aldi, Lidl, and Walmart, and their traditional merchandising strategies and shopper experiences lose the growing cadre of younger, more discriminating consumers to stores like Publix. As a result, Livingston says, BI-LO and Winn-Dixie are “two of the worst performers per square foot in the business.”

According to Livingston, "In any given market, Winn-Dixie operates at 65-70 percent of whatever the market average is.” Winn-Dixie averages $5 per square foot per week. By comparison, Publix averages $12-13 per square foot per week.

Winn-Dixie attempted to match Publix on the high end with its Sweetbay chain. However, Winn-Dixie was not successful – Sweetbay closed 33 stores in 2013, then sold its stores to BI-LO.

Since that time, Winn-Dixie and BI-LO have been in a race to the bottom. As of January 2015, the chains reduced prices by 50 percent. The company described the price cuts as a long-term change in the grocer’s position, making the pair officially discount grocers.

Southeastern Grocers strategy has been led by CEO Ian McLeod, and it is the same strategy McLeod incorporated with his prior firm, Coles, in Australia. The only “minor” difference is that the grocery landscape in Australia consisted of two players who had 80 percent of the market. As discussed previously, Aldi entered that market and has wreaked havoc. To further illustrate the issues with this strategy, and Southeastern Grocers future, McLeod resigned in June 2017, and the chain recently closed 20 stores this summer.

Simply cutting prices is not a unique selling proposition. The combination of Aldi, Lidl, and Walmart Neighborhood Markets are the perfect storm to put an end to BI-LO and Winn-Dixie.
Aldi, Lidl, and Walmart Neighborhood Market are the perfect storm to put an end to BI-LO and Winn-Dixie.
FOOD LION:
THE DREADED MIDDLE

Food Lion, once known as Food Town back in the 1950’s, has close to 1,100 stores along the U.S. Eastern seaboard. In 2015, Food Lion lowered prices on thousands of items as part of a new store concept focused on fresh products and low prices, promoted with the slogan, “Easy, Fresh, and Affordable.”

Food Lion’s tactics are not paying off. The chain is one of the worst performers in the industry, closing hundreds of stores in the past several years, and will be leaving Georgia soon.

Food Lion’s parent company, Delhaize Group, responded by merging in 2016 with Royal Ahold. Whether ‘bigger is better’ remains to be seen – both companies have experienced significant market share erosion and historically, a merger between two mediocre companies has proved to be unsuccessful.

Grocery analyst David J. Livingston goes further, stating: “In my opinion chains like BI-LO/ Winn Dixie, Food Lion, Save-A-Lot, and Marsh would be on death watch. When sales per square foot tanks, chains will often merge to postpone their inevitable demise. Safeway-Albertsons, Sprouts-Sunflower, Delhaize-Ahold, BI-LO-Winn Dixie are some recent examples.”

The competition is ramping up, particularly in Virginia and the Carolinas, the site of the majority of Food Lion stores:

• Lidl is targeting Virginia and the Carolinas.
• Publix, which has already out-competed Food Lion in Florida and Georgia, is now opening new stores in Virginia.
• Walmart has Neighborhood Markets in Virginia and the Carolinas, which has already proven how vulnerable Food Lion is to competition.

Expect a major wave of store closures in the next couple of years. The issue landlords face is that Food Lions are typically in poor locations. Given the state of retail, it is hard enough to backfill a vacant box – and even harder to backfill Food Lion locations.
THE PERFECT STORM
GROVETOWN, GA

Walmart Neighborhood Markets picked off secondary Food Lion locations.

Publix crushed Food Lion in Florida, chased them out of Georgia, and will finish the job with the Carolina’s and Virginia. Throw in Lidl, and it’s over.
“One per thousand (1/1000) is not an aggressive parking ratio; it’s the number of grocery stores-to-people entering the Tar Heel state.”

Mark Thompson. GroceryAnchored.com

“Ahold Delhaize has about 52.7% of its stores in those three states”
(Virginia, North Carolina, South Carolina)

Mark Hamstra. Supermarket News
Not Convinced? Firsthand look at who is dying when other grocers are nearby
“They’re two of the worst performers per square foot in the business”

Source: David J. Livingston, DJL Research

“They’re just poor operators who couldn’t compete with Publix or Wal-Mart.”

Source: Roger Bull, Jacksonville.com

“Turning around a retailer that has been slipping for a long time would be very difficult. Can you think of an example of a retailer that was successfully turned around?”

Source: Warren Buffet
Not Convinced? Firsthand look at who is dying when other grocers are nearby

1329 SC-160, Fort Mill, SC

3720 Boiling Springs Road, Boiling Springs, SC

2640 W Palmetto St, Florence, SC

50 Burnt Church Road, Bluffton, SC

4430 Ocean Highway, Murrells Inlet, SC

BI-LO - CLOSING ANNOUNCED MAY 2017

BI-LO - CLOSING ANNOUNCED MAY 2017

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IS THIS THE WORST STORM IN RETAIL HISTORY?
The fresh format grocer industry is poised for continued growth. Between 2014 and 2019 the fresh format market is expected to have the highest sales growth, forecast at over 80 percent. Fresh format grocers are also expected to have the highest increase in store count as a percentage, over 70 percent. While the overall market share of this format is small, their net gain could be between 1.5 to 2.5 percent in the next few years.
# Fresh Format Grocers

<table>
<thead>
<tr>
<th>Grocer</th>
<th>Grade (based on sales per sq ft)</th>
<th>Sales Per Sq Ft per Week</th>
<th>Known For</th>
<th>Future</th>
</tr>
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<tbody>
<tr>
<td>Trader Joe’s</td>
<td>A+</td>
<td>$41.67</td>
<td>Quality private label brand at affordable prices.</td>
<td>Trader Joe’s is the strongest performer in the grocery industry. Private labels drive the company’s success.</td>
</tr>
<tr>
<td>Whole Foods</td>
<td>A-</td>
<td>$17.56</td>
<td>“America’s Healthiest Grocery Store.” - Whole Foods Slogan</td>
<td>Entering “healthy foods for less” market with smaller store formats called Whole Foods 365 will help the company maintain market share with the healthy, price conscious consumer (i.e. the Trader Joe’s or Lucky’s Market customer).</td>
</tr>
<tr>
<td>Sprouts</td>
<td>C+</td>
<td>$11.72</td>
<td>Affordable option for healthy shoppers.</td>
<td>Growing quickly (perhaps too quickly). They do not have a unique differentiator that compels consumers to choose them over a competitor.</td>
</tr>
<tr>
<td>Natural Grocers</td>
<td>C+</td>
<td>$11.50</td>
<td>Another farmers market style grocer.</td>
<td>Have been in a testing phase and are starting to expand more rapidly and gain traction. Success depends on avoiding competitors. Matthews™ broke a national cap rate record for this asset class in June, 2016.</td>
</tr>
<tr>
<td>Lucky’s Market</td>
<td>C-</td>
<td>$10.00</td>
<td>“Organic for the 99%.” - Lucky’s Market Slogan</td>
<td>Successful at capturing the millennial consumer. Kroger’s expertise with capital and site selection should result in successful growth.</td>
</tr>
<tr>
<td>The Fresh Market</td>
<td>D</td>
<td>$9.29</td>
<td>Quality Local Produce.</td>
<td>In May, 2016, Fresh Market was officially out of Texas, Iowa, Missouri and Kansas with the closure of 13 stores across the U.S. The general consensus in the industry is that the private owners who purchased of the company desire to milk the company. The recent store closers and poor sales appear to confirm this.</td>
</tr>
<tr>
<td>Earthfare</td>
<td>F</td>
<td>$8.75</td>
<td>“Healthy Food for Everyone” - Earth Fare Slogan</td>
<td>Poorest performer in the fresh format category. Success depends on avoiding locations where competitors can enter the market. Competitors outclass them in both size and operations.</td>
</tr>
</tbody>
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Source: davidjlivingston.com
WHAT SHOULD AN OWNER DO?

TURNAROUNDS ARE TOUGH – MAYBE IMPOSSIBLE
Will troubled grocery retailers like Walmart, Winn-Dixie, BI-LO and Food Lion survive? Walmart certainly has the financial muscle to last a long time; the other chains are much more vulnerable.

Berkshire Hathaway’s Warren Buffet does not present a rosy scenario: “Turning around a retailer that has been slipping for a long time would be very difficult. Can you think of an example of a retailer that was successfully turned around?”

DON’T WAIT. START PLANNING NOW.
Property owners and investors need a coherent plan to accommodate the changes in the marketplace. The only assets that are safe in this rapidly evolving environment are those in high density locations where competition cannot penetrate. For everyone else – start planning now.

In looking at the commercial real estate market, grocery assets are in demand. The question is, should you sell now and reposition the capital, or invest in your asset to better position it against new competition?

That decision should be based on a value perspective. Your center must be analyzed to determine multiple potential values:

- Value if sold as is
- Value if repositioned
- Value if grocer is re-tenanted by a non-grocer

Determining these values takes an understanding of current commercial market values, the competitive situation in your market area – now and in the near future – as well as analytics of foot traffic and projected revenues based on multiple tenant mix scenarios.

Your best course of action is an evaluation by an investment analyst who specializes in grocery assets to compare the strengths and weaknesses of the asset with the evolving market. An analysis should explain your assets strengths, its weakness, where potential threats will come from, and whether it should be held or sold.

IS THIS THE WORST STORM IN RETAIL HISTORY?
MATTHEWS™ SHOPPING CENTER DIVISION

Matthews™ Shopping Center Division analyzes thousands of assets each year. At any given time, the company represents 40 percent of institutional non-core assets on the market and exclusively represents 18 of the top 20 publicly traded REIT’s. Matthews™ Grocery Specialist, Johnny Blue Craig and his team have transacted over $2.3B in grocery anchored acquisitions and dispositions. Matthews™ continues to outperform the market and has broken 14 national cap rate records in the past 24 months.

For strategies to capitalize on changes in the grocery industry, contact Johnny Blue Craig.
LET THE NUMBERS

+2,400
DEALS
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14
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RECORDS

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PROFESSIONALS
IN MULTIPLE
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DO THE TALKING

#1
LARGEST CLIENT BUYER DATABASE (400,000+)

#1 IN TRANSACTIONS CLOSED PER AGENT

1,224% REVENUE GROWTH SINCE 2012

Matthews Real Estate Investment Services™ is the nation’s fastest-growing brokerage firm, ranked #1 in annual retail sales and recognized as an industry leader in shopping center, STNL retail, multifamily, portfolio disposition and 1031 Exchange transactions.
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