NUS INVESTMENT SOCIETY

Grocery Outlet Holding Corp (NASDAQ: GO)

BUY: US$41.88 (+77.8%)

Equity Research Department – Consumer Staples

03 November 2021

Analysts

Jovan Lee
Analyst, Equity Research
jovan.lee@u.nus.edu

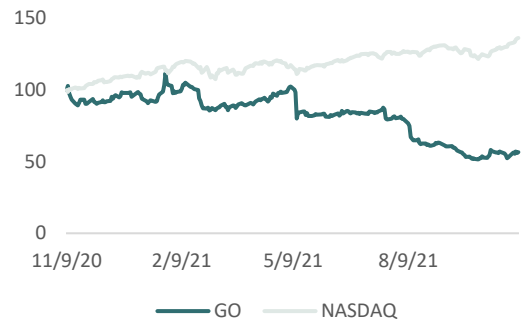
Bryan Danker
Analyst, Equity Research
bryan.danker@u.nus.edu

Lim Qi Hui
Analyst, Equity Research
limqihui@u.nus.edu

Basic Information

Last Closed Price	US$23.55
12M Target Price	US$41.88
+/- Potential	+77.8%
Bloomberg Ticker	GO
GICS Sector	Consumer Staples
GICS Sub-Industry	Food Retail

1Y Price vs Relative Index



Company Description

Grocery Outlet Holding Corp. owns and operates a network of independently operated stores in the United States. The company's stores offer products in various categories, such as dairy, grocery, general merchandise, and health products. Grocery Outlet has more than 400 stores as of June 2021, and is rapidly growing its presence in the United States.

Key Financials

Market Cap	US$2,228.20m
Basic Shares O/S	91.80m
Free Float	90.9%
52-Wk High-Low	US$21.01 – US$48.87
Fiscal Year End	31-Dec-2020

(S$ M)	FY19A	FY20A	FY21E	FY22E
Revenue	2,560	3,135	3,101	3,595
Gr Rate (%)	*11.9*	*22.5*	*(1.1)*	*15.9*
EBIT	68.3	107.4	95.5	119.2
Margin (%)	*2.7*	*3.4*	*3.1*	*3.3*
ROE (%)	*2.1*	*11.6*	*7.3*	*8.4*
ROA (%)	*0.7*	*4.3*	*2.8*	*3.4*

We are initiating coverage of **Grocery Outlet Holding Corp, ("GO" or "Company")** with a BUY rating and a **$41.88** 12M price target.

2Q21 Earnings Highlights

- Net sales decreased by 3.5% to $775.5 million.
- Comparable store sales decreased by 10.0% compared to a 16.7% increase in the same period last year.
- Net income decreased 33.0% to $19.6 million
- Adjusted net income decreased 27.1% to $23.3 million

Investment Thesis

- **Unique independent operator model facilitates geographical expansion within the US -** Grocery Outlet's independent operator business model will facilitate rapid geographical expansion and provide a sustainable differentiating factor
- **Expansion of e-commerce offerings will drive market share gains –** A potential move to e-commerce will allow Grocery Outlet to widen its outreach to millennials and expand its total addressable market. Grocery Outlet's continued emphasis on providing deep discounts and a superior customer experience will differentiate itself from competitors and facilitate its e-commerce expansion.
- **Focus on quality and healthy foods combined with deep discounts serve as a strong value proposition –** A focus on providing high quality and healthy food options at cheap prices will help Grocery Outlet position itself to serve price-sensitive consumers who care about wellness, especially amongst the lower income demographic. This is expected to be a strong revenue driver amidst growing consumer trends towards healthier food.

Catalysts

- A pandemic-induced lockdown will likely see consumers stocking up on groceries, providing a boost to Grocery Outlet. Higher unemployment rates and lower discretionary incomes will also see more consumers flocking to Grocery Outlet, with its key value proposition being its low prices.
- Successful implementation of e-commerce offerings will appeal to the millennial population and drive market share gains.
- New partnerships with large Consumer-Packaged Goods companies will serve as a hedge against supply-chain shocks and allow Grocery Outlet to maintain its low prices for customers.

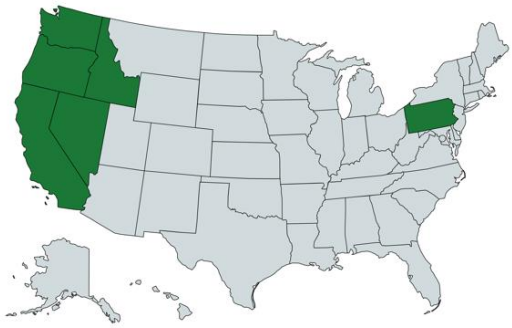
Valuations

Our 12M price target at the date of coverage is **US$41.88**, based on a discounted cash flow analysis with a 10-year forecast period. A relative valuation was used as a sanity check for our DCF valuation, comparing Grocery Outlet to its industry peers based on +1FY P/E and +1FY EV/EBITDA ratios.

Investment Risks

- **Inflation may cause margin pressures:** Higher prices may diminish Grocery Outlet's key value proposition and lead to lower margins and earnings
- **Competition from well-established competitors may hamper growth**: Crowded market may hinder Grocery Outlet's expansion
- **Quality of Independent Operators may deteriorate as Grocery Outlet expands**: Rapid expansion may undermine the importance of competent independent operators, affecting revenue growth and profitability

Figure 1: Geographical Distribution Of Stores



Source: Grocery Outlet, Compiled On MapChart.net

Figure 2: Profit & Cost Distribution Of The Independent Operator Business Model

	GO	IO
Upfront Investment		
CapEx Buildout	✓	✗
Inventory/Pre-Opening	✓	✗
IO Assets/Working Capital	✗	✓
Sales		
Share Of Gross Profits	50%	50%
Wages, Taxes, Benefits	✗	✓
Occupancy	✓	✗

Source: Grocery Outlet

Figure 3: Fresh Meat Section At Grocery Outlet

Source: Grocery Outlet

Figure 4: Large Variety Of Name-Brand Products Offered By Grocery Outlet

Source: Grocery Outlet, Compiled By NUS Investment Society

Company Overview

Grocery Outlet is an extreme value discount supermarket chain in the United States. The company sells name-brand consumables and fresh produce through its network of independently operated stores. As of September 2021, Grocery Outlet operates over 400 stores in 6 states (Figure 1), with operations mainly concentrated along the East Coast. According to MarketWatch, products at Grocery Outlet are priced as much as 40-70% lower than conventional supermarkets, and up to 20% lower than other fellow discount grocers by using opportunistic sourcing for many of their products.

Business Model

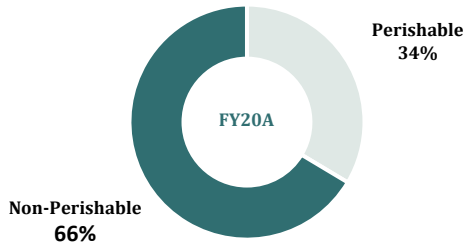
Grocery Outlet adopts an independent operator business model, meaning that operations of individual stores are managed by an independent third party such as individuals or families. The independent operators are responsible for the day-to-day operations and decisions of their respective stores such as staffing, selecting and pricing products for sale. On the other hand, Grocery Outlet is in charge of procuring, distributing inventory and paying rent for the store space. From this arrangement, Grocery Outlet and the independent operators will take a 50/50 split of each outlet's gross profits (Figure 2).

Product Offerings

Unlike traditional discount supermarkets who only sell fast moving consumer goods (FMCG) and avoid fresh produce in an attempt to keep storage costs low, Grocery Outlet sells all categories of groceries that would be typically found at a normal supermarket such as Walmart or Target. According to Grocery Outlet, their store offerings include but are not limited to "grocery, deli and dairy, frozen produce, fresh meat (Figure 3), wine and beer, general merchandise and health and personal care products." As a result, Grocery Outlet is able to position itself as the only one-stop discount supermarket in the market.

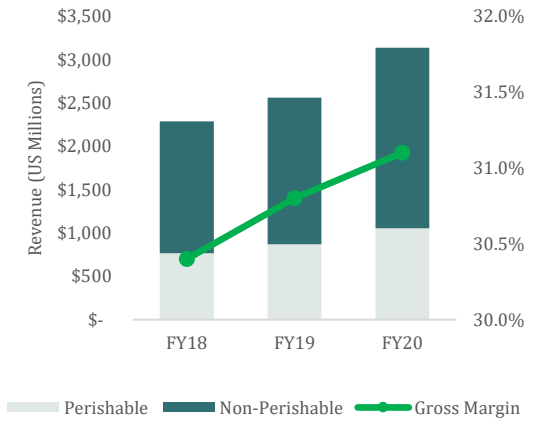
To keep prices low, Grocery Outlet utilises a variety of strategies. Firstly, the company makes use of "opportunistic sourcing" where they source directly from the manufacturer and target excess inventory such as products with packaging changes which cannot be sold with the rest. Since manufacturers are eager to release these goods, Grocery Outlet will be able to purchase at an extremely low price and pass on the savings to consumers. Secondly, Grocery Outlet's independent operator model reduces fixed and operating costs, allowing them to spend more on storage for fresh produce (e.g. dairy, drinks) which may not be available at a rock-bottom price, making a one-stop discount supermarket possible. Thirdly, the independent operator model also allows Grocery Outlet to capitalise on the owner's knowledge of the local community's preferences and stock the different outlets according to the different needs and wants of consumers. Finally, Grocery Outlet combines both name-brand and private label products. Household brands such as Proctor & Gamble, Mars Chocolate and Kellogg's (Figure 4) help to attract brand conscious consumers, while extremely cheap private label items help to reduce costs. To get the best deals, Grocery Outlet sources globally for private label brands.

Figure 5: Non Perishable Goods Make Up The Bulk Of Grocery Outlet's Revenue



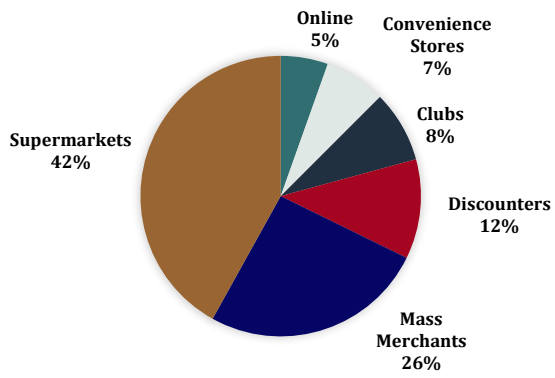
Source: Grocery Outlet

Figure 6: Revenues From Both Perishable And Non Perishable Goods Are Growing



Source: Capital IQ, Grocery Outlet

Figure 7: Breakdown of US Grocery Industry



Source: Kantar Retail IQ

Revenue Breakdown

The bulk of Grocery Outlet's revenue comes from non-perishable items (Figure 5), such as packaged foods and FMCG. This is in line with the company's opportunistic sourcing and private label strategy as non-perishable items generally have a longer shelf life and are easier to transport, keeping costs low. The remaining 33% of revenue comes from perishable items such as dairy and frozen produce, reflecting Grocery's Outlet position as a one-stop discount grocer.

In general, demand for both perishable and non-perishable goods have been on the rise (Figure 6), but revenue from perishable goods saw a larger spike in 2020. This can be mainly attributed to COVID-19 induced lockdowns during which consumers stocked up on non-perishable food items.

1H21 Earnings Review

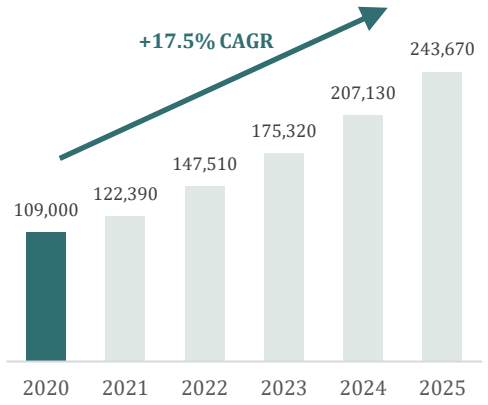
- Revenues declined 2.3% y-o-y to US$1.53 billion while net income fell by 8.2% to $38.5 million as pandemic related restrictions in US continue to be lifted, resulting in lower demand for groceries as more people dine-out and stock up on fewer produce
- Comparable store sales fell by 9.1% y-o-y as a result of aforementioned consumer trends
- Gross margins fell 70bps to 30.7%, reflecting an increase in cost of goods sold due to inflationary pressures
- Although profitability metrics declined, they remained higher than in 1H19
- There was a net increase of 20 stores in 1H21 compared to 15 in 1H20, suggesting that expansion plans remain on track

Industry Outlook

Grocery Outlet operates in the United States grocery industry which consists of stores that sell a range of products from packaged food and drinks, fresh and frozen produce, deli, fruits and vegetables, consumer goods, general merchandise and personal products.

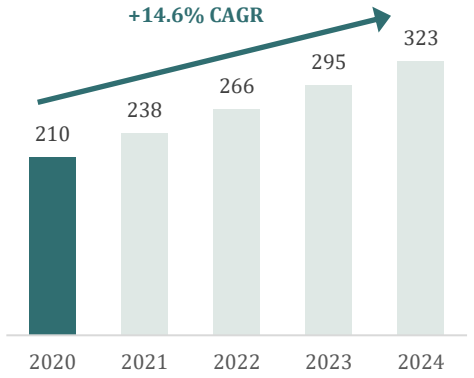
In the grocery industry, Grocery Outlet operates within the discount grocer sub-segment, which constitutes 12% of the entire US grocery industry (Figure 7). This subsegment is the second fastest growing subsegment, with a CAGR of 6.2% from 2015 to 2019 according to McKinsey. Discount grocers are grocery stores which appeal to price conscious consumers by pricing their offerings at lower prices compared to conventional supermarkets, and often adopt a private-label strategy to keep costs low. Grocery Outlet competes with WinCo, Trader Joes, Aldi and Lidl in the discount grocer industry, as well as Big Lots and 99 Cents Only in acquiring merchandise through opportunistic sourcing.

Figure 8: Growth In Grocery E-Commerce Sales (US$ Millions)



Source: Insider Intelligence

Figure 9: Growth In Global Organic Food Market



Source: Zion Market Research

Figure 10: Price Is The Most Important Factor For Supermarket Customers

Source: McKinsey & Company

Sustainable Growth In The Grocery Industry Accelerated By Digital Commerce

The pandemic-induced grocery shopping resulted in a spike in demand for grocers in 2020, with the industry's market size increasing by 10%, the first double digit growth in over a decade. While a reversal in demand is expected in 2021, the long term growth trajectory remains intact and the industry is expected to grow at a steady CAGR of 5.0% from 2020 to 2027 as the disposable wealth of consumers increase. E-commerce is expected to be the fastest growing sub-segment within the grocery industry, growing at a CAGR of 17.5% till 2025 (Figure 8). Therefore, grocers who are able to target the increasing tech-savvy consumers will be able to benefit greatly.

Increasingly Health Conscious Consumers Coupled With A Growing Focus On Affordability

With an increased focus towards healthier living, customers are pivoting towards healthier product choices such as organic food. The global organic food market is expected to grow at a CAGR of 14.6% till 2024 (Figure 9) and North America is set to experience the largest growth rate among all regions. The region is also the largest market for organic produce, accounting for 40% of global organic market share in 2017. This comes amidst an increasing consumer focus towards healthier produce, with the net intent of US customers to focus on healthy eating and nutrition expected to increase 38 percentage points over 2020, according to a survey by McKinsey.

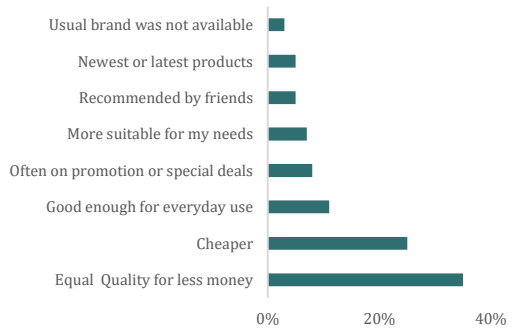
At the same time, consumers are also increasingly price-conscious, placing a greater focus on affordability when shopping for groceries. According to McKinsey, price is the most important factor for consumers when buying groceries, beating other considerations such as e-commerce optionality and healthier options (Figure 10). This emphasis on affordability has also accelerated the growth of private label products, which are common for discount grocers. In 2020, discount retailers Albertsons and Kroger saw private-label sales rise by more than 13 percent, outpacing sales of brand name products, reflecting consumer's preference towards cheaper options (Figure 11).

Therefore, supermarkets who can provide healthy and nutritious products at affordable prices will be able to benefit from growing customer demand in the long run.

Growing Expectation Of Personalization

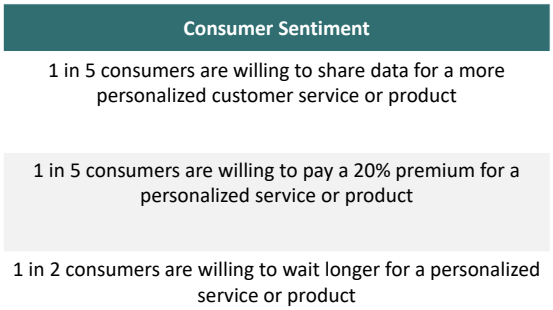
Personalization in retail has gained massive traction over the past five years, evolving from a predominantly mass promotion–based approach to segmented, customized, and real-time dynamic offers. Although the definition of personalization can be broad, consumers tend to reward retailers that combine great timing, relevant offers, and attractive pricing. This trend toward personalization is evident in the investments retailers are making. 60 percent of leading grocery retailers indicated they had made investments in 2020 to enhance capabilities to better personalize promotions and pricing.

Figure 11: Price And Value For Money Are The Top Reasons For Buying More Private Label Products (%)



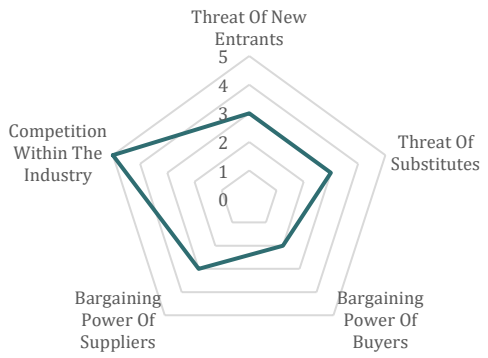
Source: McKinsey

Figure 12: Consumers Are Willing To Trade Off Data And Price For Better Personalisation



Source: Deloitte

Figure 13: Porter's Five Forces



Source: NUS Investment Society Estimates

Research by Deloitte has also shown that customers do not mind sharing personal data for more personalised services and are willing to pay more or wait longer for personalised services and products (Figure 12). Therefore, personalisation is an important way forward for supermarkets to stand out in a crowded market.

Porter's Five Forces

Competition within industry – High

Grocery Outlet operates in a highly competitive discount grocery sub-industry. In this market, Aldi is the outright market leader with 60% of market share, whereas Grocery Outlet comes in third with 6%, according to Euromonitor (Figure 14).

Given that discount grocers often sell private label, non-branded goods, there is minimal product differentiation in the market and competitors mainly compete on their pricing to attract consumers. While Grocery Outlet is able to price its goods 20% lower than fellow discounters, competition remains high as Grocery Outlet lacks the scale of Aldi and Save-A-Lot.

Threat of new entrants – Moderate

Barriers of entry to the grocer industry is rather high as high initial capital investments are required to secure physical store space, machinery and equipment. Existing players like Grocery Outlet are also able to better leverage on scale economies and better cost savings to keep their prices competitive in the midst of newer competition. This creates difficulties for new entrants to successfully capture market share as aggressive discounting is not a realistic strategy given the low margins of the industry.

However, with the prevalence of digital retail, new entrants now have the option of adopting an e-commerce model in its entirety. This will reduce the initial capital outlay required for store fronts and machinery, thereby lowering the barriers to entry.

Threat of substitutes - Moderate

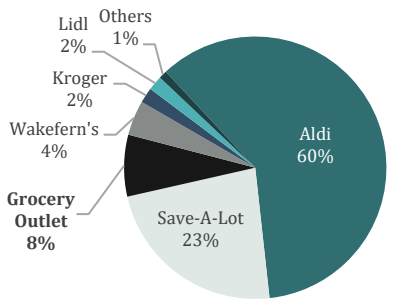
The threat of substitutes for groceries as a whole is relatively low given that groceries mainly consists of essential items such as food and health products which are quintessential to humans.

However, within discounted goods such as private label brands, threat of substitutes is high as products are almost identical from the perspective of consumers, with a lack of differentiating factors apart from its price. Grocery Outlet works around this this through their opportunistic sourcing strategy and independent operator model which allows them to price their products lower than their competitors. Therefore, the threat of substitutes is moderate, given that Grocery Outlet provides a unique value proposition to customers.

Bargaining power of buyers – Low

Since groceries are a staple in a typical individual's diet, it is quintessential in our everyday lives. The bargaining power of consumers is relatively low as they would have to purchase grocery

Figure 14: Market Share Of The Discount Grocer Industry



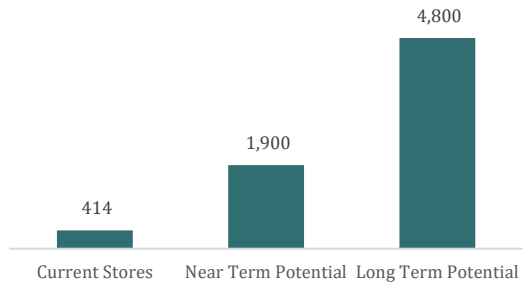
Source: Euromonitor

Figure 15: Individual Customers Are Insignificant To Grocery Outlet's Top Line

Average Annual Household Spending On Groceries	$4,643
GO 2020 Revenue	$3,135,000,000
Revenue Contribution Of An Average Customer	0.0001%

Source: Yahoo Finance, Capital IQ

Figure 16: Grocery Outlet's Large Potential For Store Expansion



Source: Grocery Outlet

Figure 17: Advantages Of Having Owner Operators

Criteria & Training For IOs	Results
Locals who are connected and know the culture of the community	Able to tailor and offer products based on local tastes and preferences
At least five years of retail management experience	Ensure ability and know-how in running a business
9-month training to understudy experienced operators	Ensure that the IOs have the expertise to provide a good customer experience and adapt to GO's model

Source: Bloomberg, Financial Times

regardless of the price. Although there are over 26,000 traditional supermarkets and 65,000 alternative grocers in the United States, which theoretically means that customers have the option to pick different grocers should they deem the products or prices to be undesirable, customers do not have any bargaining power in general, given that individual customers are insignificant to Grocery Outlet's revenue (Figure 15).

For instance, due to the supply chain crunch and the pandemic-induced demand this year, supermarkets have raised prices on grocery items, in a bid to pass rising costs to customers. According to CNN, prices of common grocery items have risen 3% on average this year, and is expected to continue increasing till the first half of 2022. In response, customers can only mitigate this increase by buying less items or switching to a cheaper alternative.

Therefore, on an individual level, customers do not have significant bargaining power over grocery stores like Grocery Outlet. Prices are largely determined by market forces; demand and supply.

Bargaining power of suppliers - Moderate

Grocery Outlet has two main types of suppliers; suppliers for private label goods and name brands suppliers which provide their excess inventory. In general, the former has low bargaining power as private label goods are ubiquitous, meaning that Grocery Outlet can easily switch to another supplier without much impact to demand.

On the other hand, name brands suppliers have higher bargaining power given that there are multiple supermarket chains competing for their excess goods. However, Grocery Outlet has continued to expand and diversify its network of suppliers for opportunistic sourcing, which will diminish the bargaining power of these suppliers as Grocery Outlet will not be over-reliant on any particular brand. Hence, Grocery Outlet's suppliers only has moderate bargaining power as a whole.

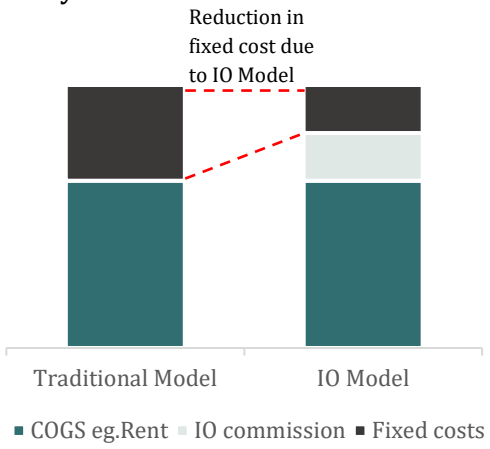
Investment Thesis

1. Unique Independent Operator Model Facilitates Geographical Expansion Within The US

Grocery Outlet's main growth driver is geographical expansion within the US. Currently, Grocery Outlet only operates 414 stores in seven states, with its stores mainly concentrated in California and the surrounding states along the East Coast. This provides a good opportunity for further expansion of its stores. Grocery Outlet's management has identified ~1900 potential stores in current and neighbouring states, which represents a 5 times increase in the number of outlets. In the long term, management estimates a potential market of ~4,800 stores nation-wide (Figure 16). In the companies' 2Q21 earnings call, management has also reaffirmed the target of 10% annual unit growth. Given Grocery Outlet's current geographical footprint and their unique independent operator model, we believe that this expansion target is realistic even in a competitive grocery industry.

Grocery Outlet will benefit from the increasing demand for "discount" goods in the US as consumers are becoming more price conscious.

Figure 18: IO Model Reduces Fixed Costs For Grocery Outlet



Source: Grocery Outlet

Figure 19: Grocery Outlet's Lower SG&A To Sales Compared To Rivals

Grocery Outlet	24.6%
Big Lots	31.7%
Sprouts Farmers Market	28.9%
Ollie's Bargain Outlet	25.4%
Natural Grocers	29.1%

Source: Capital IQ

Figure 20: Grocery Outlet's In-Store Experience Is A Key Value Proposition

Source: Supermarket News

According to Unilever, over 40% of American households make up this group of price-focused consumers, representing $1.6 trillion in spending power, which Grocery Outlet can tap on.

Despite being a smaller player in the discount grocer industry, we opine that the independent operator model provides Grocery Outlet with a competitive advantage (Figure 17). Store owners, having greater and more in-depth knowledge of the area they are opening the store in, can better tailor and choose the types of products on offer to suit local taste and preferences, giving Grocery Outlet an edge over other larger competitors. Since individual store owners are also financially incentivised, they will be encouraged to attract locals to the store either via targeted advertisements or through local connections. All these facilitates Grocery Outlet's geographical expansion as they are able to "outsource" the management of individual stores to people with better knowledge on the local environment and less resources are needed to evaluate and manage each expansion location, facilitating rapid expansion. Through this model, Grocery Outlet is also able to keep its operating costs low as staff, training and equipment expenses are mainly borne by the owner operators (Figure 18). This is reflected in Grocery Outlet having the lowest proportion of SG&A expenses as compared to its peers (Figure 19). Consequently, these lower operating costs will allow Grocery Outlet to spend more on expansion plans and keep its prices below that of competitors.

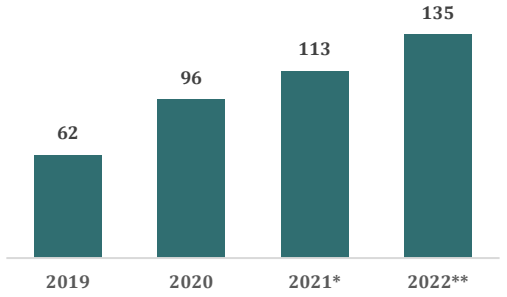
Moreover, it will be difficult for current market players to pivot to Grocery Outlet's business model due to high switching costs. Currently, Grocery Outlet has very stringent criteria for owner-applicants. The company screens around 2000-3000 owner-operators a month, but only 10-12 are selected for the subsequent stage, which is a nine-month operator training program for potential owners to work alongside current owners and gain experience on running the business successfully. Therefore, it will be onerous for competitors to find hundreds or even thousands of experienced owner-operators within a short period of time. Even if they managed to do so, proper training will require close to a year and the supermarket will need existing expertise and stores to conduct an efficient program. Finally, the company would also need to restructure its internal operations and change its employees to suit the new business model. All of these would be costly and time-consuming. Hence, we believe that none of Grocery Outlet's major competitors will rationally pivot to adopt their strategy. Since the majority of competitors are low margin and positive income generating companies, we believe that the likelihood of other companies forcefully engaging in a price war is low, as there is little incentive to do so and is unsustainable in the long run.

As a result, Grocery Outlet's independent operator business model will facilitate a sustainable geographical expansion, simultaneously providing a differentiating factor for the company.

2. Expansion of e-commerce offerings to drive market share gains through millennials

Grocery Outlet's long-standing growth driver has always been store expansion and providing value to customers through their in-store experience (Figure 20). However, as the COVID-19 pandemic forced

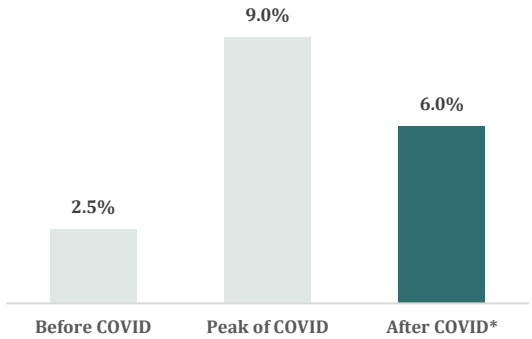
Figure 21: Net Sales Of US Online Grocery Shopping (US$b) Is Expected To Continue Increasing



**estimates for 2021*
***projections for 2022*

Source: USDA Economic Research Service

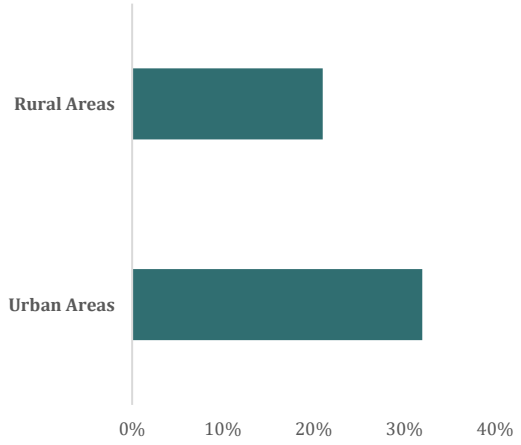
Figure 22: US Grocery E-Commerce Penetration (%) is expected to remain at elevated levels post-pandemic



**estimated*

Source: McKinsey

Figure 23: High Percentage of Millennials do most of their grocery shopping online



Source: Progressive Grocer

consumers to find alternative ways to obtain grocery, grocery e-commerce is expected to continue growing post-COVID given its convenience (Figure 21), with e-commerce adoption expected to permanently increase (Figure 22). According to McKinsey & Company, 17% of consumers have shifted away from purchasing at their primary stores, as a result of the availability of e-commerce options. Furthermore, consumers have increasingly shifted to omni-channel models, with buy online, pick up in store (BOPIS) and grocery delivery up by 28% and 57% y-o-y respectively. These consumer trends are expected to continue growing, with over 50% of consumers stating that they will continue using BOPIS and grocery delivery services, even after the pandemic. This is especially the case with millennials, with a significant proportion of them stating that they do most of their grocery shopping online (Figure 23).

Grocery Outlet has previously resisted venturing into an online shopping model, lamenting the difficulty in replicating the same in-store experience online. However, recognizing the attractive growth opportunities, Grocery Outlet decided to reposition themselves in 2021, towards "exploring complementary ways to reach new customers and deliver value". CEO Eric Lindberg expects Grocery Outlet to pilot real-market tests of online grocery solutions in the coming months, with a key focus on retaining the company's unique treasure hunt experience on online platforms. Grocery Outlet recently had a collaboration with Instacart, which allows customers to have their goods delivered to their doorstep within an hour. The low delivery fees, coupled with the same 40-70% markdown in the price of their goods, ensures that Grocery Outlet remains cheaper than the other e-commerce competitors (Figure 24), reinforcing their value proposition to customers even in the digital space.

The initial foray into e-commerce via Instacart is expected to yield positive results for Grocery Outlet, as fellow discount competitors such as Aldi, Family Dollar and Five Below have all partnered with Instacart and witnessed success. Dollar Tree cited positive feedback from shoppers and noted that transactions had materially higher average ticket and gross margins (Figure 25). As a result, we opine that potential success in this partnership will further push Grocery Outlet into expanding its e-commerce offerings, and provide valuable insights to the development of Grocery Outlet's own e-commerce platform.

Additionally, Grocery Outlet's plans to introduce a shopper app in 2022 signals their continued efforts to make its products more accessible to a wider audience. Leveraging on transaction data, Grocery Outlet will be able to communicate new products and their WOW! values to consumers based on their preferences, improving personalisation. By improving the customer experience and providing extra convenience through digital commerce expansion, this will help Grocery Outlet better capture the millennial shoppers who are more inclined to shopping online. This complements the geographical expansion strategy which mainly targets the older shoppers and provides a convenient location for BOPIS purchases.

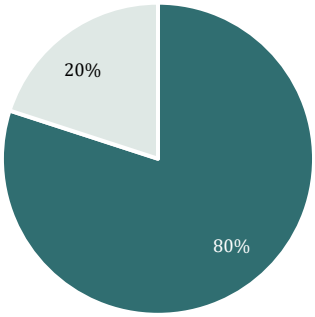
As seen during the COVID-19 pandemic, same store customer traffic is becoming increasingly volatile, with demand spikes in 2020 due to lockdowns, and subsequent declines in the first two quarters of 2021 as

Figure 24: Grocery Outlet's partnership with Instacart differentiates itself from other e-commerce options and opens up a new market segment-millennials

Features	Benefits
Low delivery fees- $3.99 for same-day orders over $35	Provides consumers with affordable ecommerce option – with the same 40-70% markdown in prices
Same day delivery – as fast as within an hour	Fast service and convenience for consumers
Retained "treasure-hunt" experience	Unique customer experience
Low-Cost Structure for Grocery Outlet	Third-party contractor to run operations

Source: Supermarket News

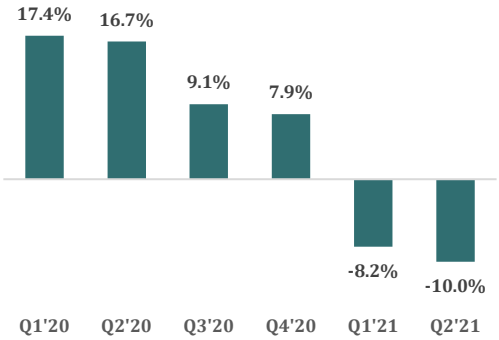
Figure 25: DollarTree's success with Instacart bodes well for Grocery Outlet to enjoy similar success



80% of Family Dollar stores had more than 1 Instacart transaction (within 3 weeks)

Source: Grocery Business

Figure 26: Grocery Outlet Comparable Stores Sales Growth



Source: GO Investor Relations

the United States opened up (Figure 26). However, with the future of the pandemic being uncertain, we believe that Grocery Outlet's pivot towards an omni channel solution will also help to stabilise the growth in revenue as customers will be able to alternate between online and offline platforms depending on the pandemic situation or regulations at that point in time. At the same time, Grocery Outlet will be able to tap into a wider range of customers, especially millennials, many of whom are likely to continue with online grocery shopping habits, due to the pandemic.

3. Focus on quality and healthy foods while maintaining affordability targets the lower income demographic

Grocery Outlet is trying to position themselves as a grocer with high quality offerings and healthier options.

Grocery Outlet offers customers quality, name-brand consumables and fresh produce at deep discounts that almost simulates a treasure hunt where customers try to search for the best deals currently available. A typical Grocery Outlet basket is priced approximately 40% lower than conventional grocers and approximately 20% lower than the leading discounters. This focus on affordable groceries takes advantage of the shift towards affordability. In the initial stages of the pandemic, grocery shoppers chose where to shop based on in-stock products, store hygiene, and cleanliness procedures. However, through 2020, affordability began to climb the ranks in importance, and 2021 is poised to see consumers demonstrate even more bargain-hunting behaviour; 45% of consumers indicate that they plan to look for ways to save money, and 32% of consumers will seek a price–quality balance in product offerings. These line up well with Grocery Outlet's value proposition of delivering quality at a great price.

However, another trend that has seen a rise in recent years will be the increasing focus on healthy eating and overall wellness. Latest research show that consumers care deeply about wellness and that their interest is growing. In a survey of roughly 7,500 consumers in six countries inclusive of the US, 79% of respondents said they believe that wellness is important, and 42% consider it a top priority. Traditionally, healthier options are more expensive. Organic foods, for instance, tend to be more expensive as they tend to have lower yields from the lack of artificial fertilisers and pesticides. With lower supply and rising demand, prices tend to be on the higher side. The main reason why the lower income demographic tends to choose less healthy options is largely due to cost. Processed foods tend to carry more calories at a lower price, offering greater value for their budget. Grocery Outlet is well positioned to take advantage of this particular demographic through its NOSH (Figure 27) offerings which include natural, organic, specialty and healthy foods. Similar to the other product lines, Grocery Outlet's NOSH products are much cheaper than the market rate (Figure 28) as they are able to leverage on their expertise in opportunistic sourcing. One example would be aged balsamic which is a high-quality vinegar. Traditional grocers tend to sell this for $20 per bottle but Grocery Outlet is able to directly source it from Italy and sell it at a competitive price of only $5.99.

Figure 27: Grocery Outlet's NOSH Product Offerings

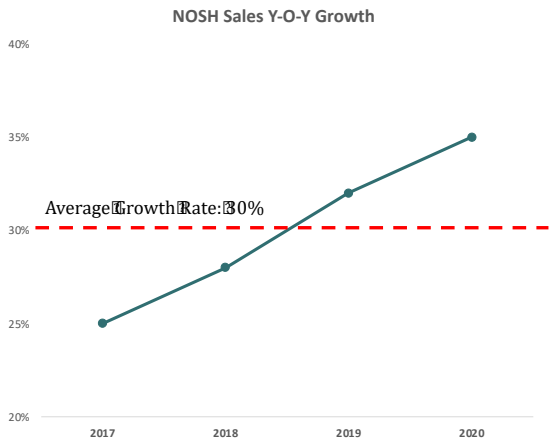
Source: Grocery Outlet

Figure 28: Grocery Outlet's NOSH Products Are Cheaper Than Competitors

	VONS Ingredients for life...	GROCERY OUTLET Bargain Market
	$4.99	$1.99
	$2.99*	$.99
	$1.00	$.50
	$3.99	$1.99
	$2.50	$.99

Source: Grocery Outlet

Figure 29: NOSH Products Average 30% Growth Per Year



Source: Supermarket News

In totality, NOSH is Grocery Outlet's fastest growing food segment, increasing 30% on average from 2017 to 2020 (Figure 29) as consumers begin to spend more on healthier food options (Figure 30). Given that NOSH specifically appeals to customers from lower income levels who are traditionally excluded from the healthier foods market and has been demonstrating strong results, we believe that this segment will continue to be a strong growth driver for Grocery Outlet, considering growing consumer trends towards healthier foods and affordability, both of which have been exacerbated by the pandemic.

Catalysts

- **Pandemic-Induced Lockdown**

A lockdown of the economy induced by the COVID-19 pandemic could spur a growth in sales as consumers rush to stock up on groceries. As seen from the 1Q20 earnings, sales grew by more than 25%. While consumers make fewer trips to physical outlets, as seen from a reduction in store traffic and transactions, this has been more than offset by the increase in average transaction size. Additionally, due to the high unemployment rate and lower discretionary income, consumers tend to be more prudent in their spending and search for cheaper alternatives. This provides a boost for Grocery Outlet, which has price as one of its key value propositions. These factors catalyzed the stock to increase by 24.6% in 2020, reaching a high of US$46.58. Given another lockdown, Grocery Outlet will be in a good position to leverage on the opportunity, and this is likely to be reflected in a rise in the stock price.

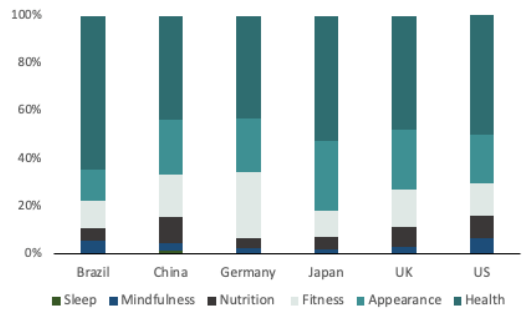
- **Successful Implementation of E-commerce Offerings**

The online presence of Grocery Outlet could increase avenues to market its low-priced products to wider audiences. By offering convenience at a lower cost compared to its peers, Grocery Outlet will appeal to the relatively untouched market segment of millennials who prefer to shop for groceries online. This will drive substantial market share gains for Grocery Outlet.

- **New Partnerships with Large CPG Companies & Suppliers**

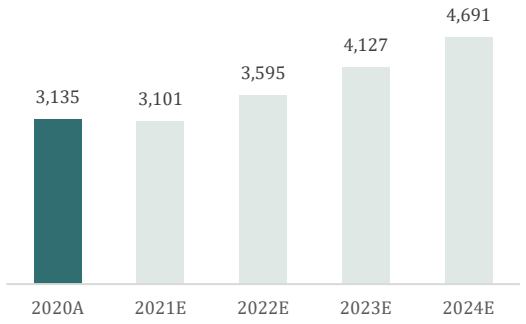
As the scale of Grocery Outlet's operations increase, new partnerships with large Consumer-Packaged Goods companies will strengthen its existing network of suppliers. Grocery Outlet will be able to opportunistically source for goods at a deep discount, and the cost savings that can be passed on to consumers will increase its value proposition. Furthermore, Grocery Outlet will be less susceptible to supply shocks which may lead to the raising of prices of their goods. This puts Grocery Outlet in a strong position, as they are able to maintain low costs, unlike other competitors.

Figure 30: United States Consumers Spend About 50% Of Wellness Spending On Healthier Options



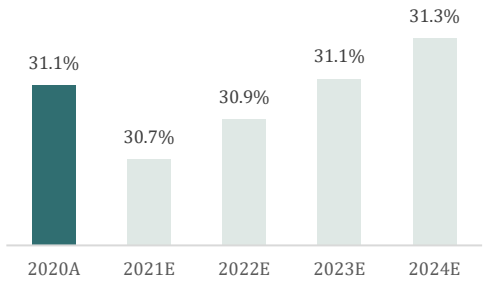
Source: GO Investor Relations

Figure 31: Steady Revenue Growth (US$ Millions)



Source: NUS Investment Society Estimates, Capital IQ

Figure 32: Stable Gross Profit Margins



Source: NUS Investment Society Estimates, Capital IQ

Financial Analysis

(US$m)	2020A	2021E	2022E	2023E
Revenue	3,135	3,101	3,595	4,127
Operating Income	107	96	119	146
OI Gr Rate (%)	*57.1%*	*(11.1%)*	*24.9%*	*22.3%*
Operating Profit Margin (%)	*3.4%*	*3.1%*	*3.3%*	*3.5%*
ROA (%)	*4.3%*	*2.8%*	*3.4%*	*4.0%*
ROE (%)	*11.6%*	*7.3%*	*8.4%*	*9.3%*
ROIC (%)	*10.4%*	*6.2%*	*6.7%*	*7.1%*
D/E	1.50	1.39	1.24	1.10

Overview

The chart above reveals Grocery Outlet's financial condition prospects for the next three years, highlighting our assumptions. Most indicators yield positive and favourable trends that are supportive of our overall BUY recommendation.

Stable Margins

Over the past five years, Grocery Outlet's revenue has grown at a CAGR of 14% while its profitability margins have remained stable. We expect revenue to continue growing steadily throughout the forecast period (Figure 31). Gross margins have been steadily increasing from 30.6% in 2016 to 31.1% in 2020, while operating margins are hovering within the 3.4% to 3.7% range.

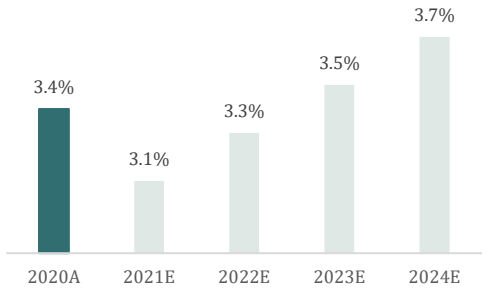
In 2021, both gross and operating margins are expected to decrease slightly as pandemic-induced demand for groceries begin to subside with the relaxation of restrictions in the US (Figure 32 & Figure 33). In 1H21, Grocery Outlet recorded a lower gross margin of 30.7% and an operating margin of 3.1%, which reflects this trend.

However, we expect a recovery post-2021 as demand for discount grocery normalises. We opine that Grocery Outlet will be able to realise greater efficiency through economies of scale. As Grocery Outlet expands its geographical footprint and store count, they will be able to purchase more goods in bulk, lowering COGS. Hence, we would expect gross margins to increase steadily towards that of its larger competitors (Figure 34), while operating margins would trend back towards the company's five-year average (Figure 33). We do not expect operating margins to increase beyond the historical average as Grocery Outlet's SG&A expenses are already lower than its peers due to their independent operator model and has remained relatively stable (Figure 35).

Improving Returns

Grocery Outlet's return on assets ("ROA") has seen an upward trend since 2017 (Figure 36). Since pandemic-induced demand is only forecasted to subside in 2021, we expect that return on assets ("ROA") and return on equity ("ROE") will decline slightly in 2021. Similarly, as

Figure 33: Operating Profit Margins



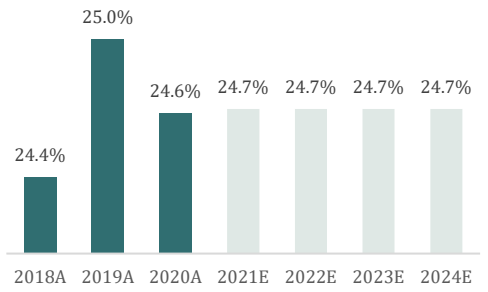
Source: NUS Investment Society Estimates, Capital IQ

Figure 34: Gross Profit Margins Of Grocery Outlet As Compared To Larger Discount Grocer Peers

	Gross profit Margin	Revenue (US$b)
Grocery Outlet	31.1%	3.1
Sprouts Farmers Market	36.9%	6.5
Big Lots	40.3%	6.2

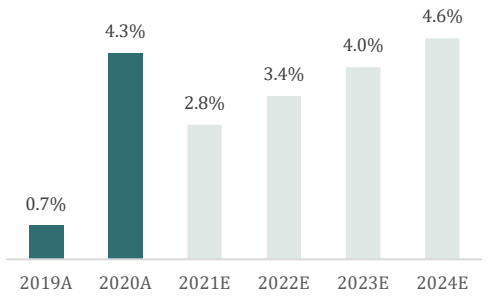
Source: Capital IQ

Figure 35: High Operational Efficiency (SG&A as % of Sales)



Source: NUS Investment Society Estimates, Capital IQ

Figure 36: Increasing Return On Assets (ROA)



Source: NUS Investment Society Estimates, Capital IQ

earnings growth resumes from 2022 onwards, we expect the long term ROA and ROE to increase gradually, facilitated by margin improvements.

Improving Solvency Ratios

Grocery Outlet's has considerably high debt ratios (Figure 37) as expansion has historically been financed with debt due to the company being privately owned. However, Grocery Outlet recently went public in 2019, providing an alternative source of funding for the company.

With rapid store expansion, debt from lease liabilities will continue to increase, but this would be offset by the growing profitability and cash generation ability of Grocery Outlet.

Valuation

Valuation Price Target: US$41.88

We executed a discounted cash flow analysis to estimate the intrinsic value of Grocery Outlet. The model adopts a 10-year forecast period, and we derived our terminal value by using a blended average of the Exit Multiple Method and the Perpetual Growth Method.

Revenue Projections

Grocery Outlet's main source of revenue is its physical grocery retail operations. We have broken down Grocery Outlet's revenue into revenue from existing stores and revenue from newly opened stores in each fiscal year.

Growth In Store Count

Grocery Outlet's management has projected a 10% annual increase in store count. Given that the company has been able to increase its store count at a similar rate historically, and having assessed the potential of growth to be feasible in Thesis 1, it is reasonable to forecast that Grocery Outlet will follow its planned expansion in 2021. We have progressively stepped down the growth rate from 10% till 2030 due to the increasing difficulty of maintaining the same growth rates as the company matures.

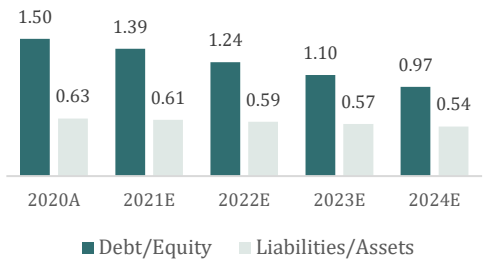
Comparable Store Sales Growth

In 2021, we expect comparable store sales to dip by 10% as the pandemic-induced grocery demand subsides. This is in line with the 10% y-o-y dip reported by Grocery Outlet in 1H21 as we expect demand to dry up as states continue to relax restrictions. From 2022 to 2025, we expect same-store sales to normalize as we move into a post-COVID environment. We stepped down the growth rate from a historical average of around 6% to 2% in the terminal year, which matches the US rate of inflation.

Average Sales Per New Store

As Grocery Outlet did not disclose sales figures for new store openings within the year, and did not provide absolute revenue figures for existing stores, we estimated revenue per store by taking 2018 as the base year.

Figure 37: Improving Solvency Ratios



Source: NUS Investment Society Estimates, Capital IQ

Figure 38: Weighted Average Cost of Capital

Grocery Outlet WACC Build	
Cost of Equity	
Risk Free Rate	1.60%
Equity Risk Premium	4.72%
Beta	0.94
Cost of Equity	6.04%
Cost of Debt	
Pre-Tax Cost of Debt	5.56%
Tax Rate	14%
After-Tax Cost of Debt	4.81%
WACC Calculation	
Total Debt (USD '000,000)	1,379
Market Capitalisation (USD '000,00)	3,442
Total Capital	2,302
Debt as proportion of current capital structure	59.9%
Equity as proportion of current capital structure	40.1%
WACC	5.30%

Source: NUS Investment Society Estimates

Figure 39: Blended Share Price

	Exit Multiple	Perpetual Growth
Present Value of Cumulative FCFF	758	758
Present Value of Terminal Value	3,355	4,061.67
Implied Enterprise Value	4,113	4,820
Terminal Value as % of Implied Enterprise Value	82%	84%
Less: Debt	449	449
Plus: Cash	105	105
Less: Minority Interest	-	-
Less: Preferred Shares	-	-
Implied Equity Value	3,769	4,476
Implied Share Price	38.29	45.46
% Upside/Downside	**62.6%**	**93.1%**
Blended Share Price (50%)	**41.88**	
Blended % Upside/Downside	**77.8%**	

Source: NUS Investment Society Estimates

Figure 40: Sensitivity Analysis for Terminal Value

Implied Share Price	Exit EV/EBITDA Multiple					
WACC	9.00x	9.50x	10.00x	10.50x	11.00x	11.50x
4.5%	35.72	37.45	39.19	40.92	42.65	44.38
5.0%	34.16	35.82	37.48	39.14	40.79	42.45
5.5%	32.68	34.26	35.85	37.44	39.02	40.61
6.0%	31.26	32.78	34.30	35.81	37.33	38.85
6.5%	29.90	31.36	32.81	34.27	35.72	37.18
7.0%	28.61	30.00	31.40	32.79	34.18	35.58

Implied Share Price	Perpetual Growth Rate					
WACC	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
4.5%	52.90	62.85	77.78	102.67	152.44	302
5.0%	43.99	50.83	60.41	74.77	98.70	146.57
5.5%	37.34	42.27	48.85	58.06	71.88	94.90
6.0%	32.19	35.88	40.63	46.96	55.82	69.11
6.5%	28.08	30.93	34.48	39.05	45.14	53.67
7.0%	24.74	26.98	29.72	33.14	37.53	43.40

Source: NUS Investment Society Estimates

Grocery Outlet's average sales per new store is quite volatile and on a declining trend. We attribute this to the fact that new stores do not operate for a full year, hence revenue per new store is largely dependent on the month in which the store begins its operations. Additionally, Grocery Outlet has yet to expand beyond its 6 current states and that could have contributed to a declining growth rate, as the higher concentration of stores in the same geographical region is unlikely to boost revenues substantially. We opine that Grocery Outlet will see eventual positive growth once it begins its expansion into the other states, as discussed in the aforementioned thesis. As a result, we stepped up the growth in average revenue per new store from -5% in 2021 to 4% in the terminal year.

Operating Expenses

In line with our investment thesis, we expect higher gross and operating margins due to three main factors:

1. Economies of scale from store expansions
2. E-commerce expansion
3. Premium product line (NOSH)

However, we expect margin expansion to be moderated by the low prices of its products. Since Grocery Outlet is an "extreme value" retailer, and places a strong emphasis on offering great value to consumers, Grocery Outlet will likely pass on the some of the cost savings to consumers, as shown by the company's slow improving margins. Hence, we are forecasting moderate expansion in the company's gross margins. Operating margins is also expected to expand only moderately as detailed in our financial analysis section.

Weighted Average Cost of Capital (WACC)

The Capital Asset Pricing Model ("CAPM") was used to estimate the Cost of Equity. The 10 Year US Treasury rate (1.60% as of 03/11/21) was used as a proxy for the Risk-free rate since Grocery Outlet only operates in the US. A Beta of 0.94 was calculated by leveraging an industry average unlevered beta from Professor Damodaran. Equity Risk Premium of 4.72% was also adapted from Professor Damodaran. Hence, we calculated cost of equity to be 6.04%.

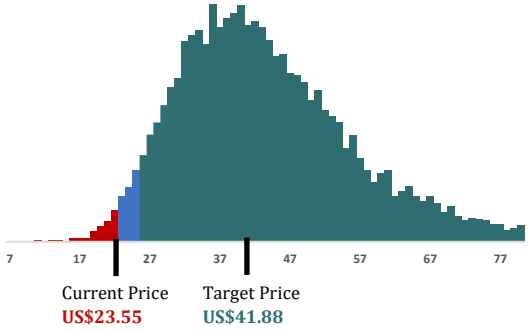
Cost of debt was calculated by taking the weighted average interest rate of all the company's interest-bearing debt. We derive a cost of debt of 4.81%. Based on its current capital structure, Grocery Outlet has a WACC of 5.30% (Figure 38).

Terminal Value

For the Exit Multiple method, we used the +1FY EV/EBITDA ratio of its comparable peers. We took the median value to derive the terminal value.

For the Perpetual Growth method, we used the risk-free rate as a proxy for the terminal growth rate. In the long-term, the real growth rate of an economy cannot be lower than the real interest rate. Since an economy approaches maturity over time, it is also impossible that the real growth rate of an economy exceeds the real interest rate in perpetuity. Hence,

Figure 41: Monte Carlo Simulation suggests that the model is robust to parameter changes



Source: NUS Investment Society Estimates, Company Data

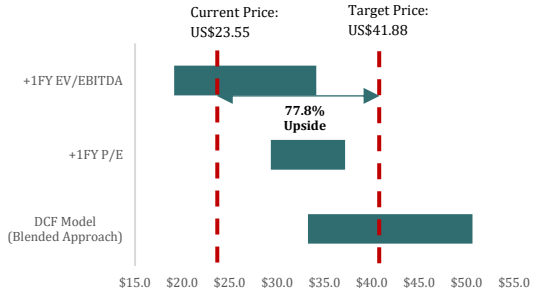
Figure 42: Relative Value Calculations

Relative Valuation (P/E)	
90th Percentile 2021 P/E	34.41
2021 EPS	1.08
Implied Share Value	**37.17**

Relative Valuation (EV/EBITDA)	
90th Percentile 2021 EV / EBITDA	25.18
2021 EBITDA	147.05
Implied Enterprise Value	3,702.25
Less: Debt	449.23
Add: Cash	105.33
Implied Equity Value	3,358.34
Share Count	98.5
Implied Share Value	**34.11**

Source: NUS Investment Society Estimates

Figure 43: Valuation Football Field



Source: NUS Investment Society Estimates

using the risk-free rate as a proxy for the terminal growth rate is a reasonable estimate.

We calculated the blended share price by taking an average of the intrinsic value derived from the Exit Multiple method and the Perpetual Growth method, arriving at a target price of US$41.88 (Figure 39 & Figure 40).

Sensitivity Analysis

We performed a Monte Carlo simulation with 10,000 simulations by flexing key variables in order to gain a more holistic view on Grocery Outlet's share price trajectory under uncertainty (refer to Appendix: Monte Carlo Simulation). By varying the comparable store sales growth, number of new stores, average revenue per new store, COGS, WACC, terminal growth rate as well as EV/EBITDA ratio, we arrive at a 90% probability of obtaining prices with a minimum of 20% upside. 50% of our scenarios also yield a price above our initial target price. Only 3% of our scenarios will lead to a sell recommendation. From the results, our model remains robust even with changes in our base case assumptions, which leads us to believe in the asymmetric risk-reward opportunity that our base-case valuation of Grocery Outlet provides (Figure 41).

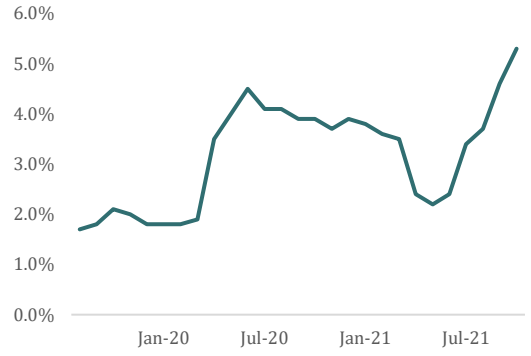
Relative Valuation

We conducted a relative valuation as a sanity check for our primary DCF valuation. We compared Grocery Outlet to its industry peers that have similar business segments, market capitalisation and geographical operations. Our valuation metrics were the +1FY EV/EBITDA multiple and the +1FY P/E ratio. We believe that Grocery Outlet should trade at the 90th percentile multiples of its peers given its long term growth prospects and unique business model (Figure 42). Grocery Outlet is still a young and aggressively growing company, with high potential for EBITDA growth, hence, we believe that it is reasonable to use the 90th percentile multiple for its valuation. This is in contrast to the median EV/EBITDA multiple used to calculate the terminal value, which we believe should be more closely related to the industry median, as the company matures over the years.

Football Field Analysis

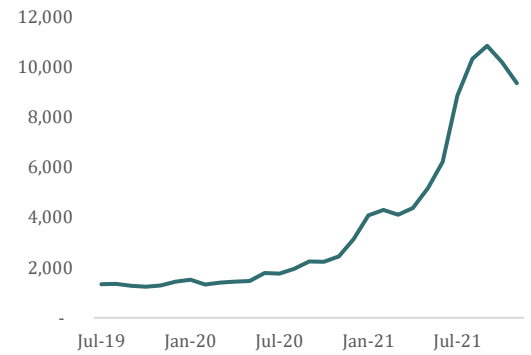
Our target price of US$41.88 falls slightly above the 75th-90th percentile of the +1FY P/E and +1FY EV/EBITDA price range (Figure 43). This is expected given that Grocery Outlet is a young and aggressively growing company. Compared to some of its peers, which have relatively stable earnings growth, Grocery Outlet's earnings are still in the early innings and growing rapidly. Hence, it is justified that Grocery Outlet is trading at higher valuation multiples and this validates our target price of US$41.88.

Figure 44: Rising Food Inflation Rate In The United States



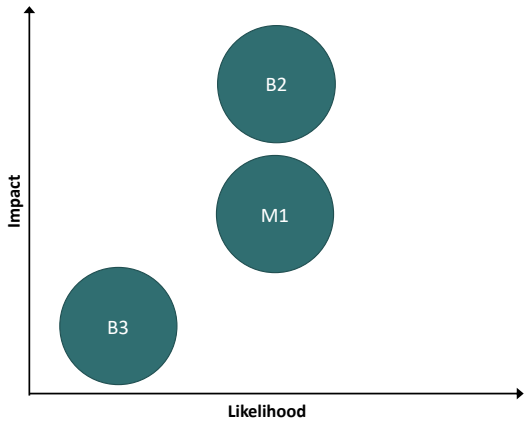
Source: US Bureau Of Labour Statistics

Figure 45: Exponentially Rising Global Freight Rates Per Container ($)



Source: Freightos Baltic Index

Figure 46: Risk Matrix For Grocery Outlet



Investment Risks

Market Risk 1 (M1): Inflation May Cause Margin Pressures

Since the pandemic in 2019, there has been upward inflationary pressure on the prices of grocery products (Figure 44) mainly due to supply chain bottlenecks and a tightening labour market, as a result of "a mix of unemployment benefits, COVID-19 health concerns and low wages", according to Business Insider. This had led to an increase in costs across the various parts of the supply chain for grocery companies. For instance, freight costs per container has increased by more than five times (~$10,000) since April 2020 (Figure 45).

As a result, prices of grocery products have been steadily increasing over the past two years. From August 2019 to August 2021, the price of fruits, vegetables, dairy products and cereal have risen 4-5%, while the price of meat, poultry, fish and eggs are the hardest hit, rising by more than 15%.

Since Grocery Outlet mainly sources products through "opportunistic sourcing", the tightening of the supply chain could also limit production of wholesalers, reducing the availability of deep value goods. Furthermore, Grocery Outlet also procures grocery items such as dairy products and meat due to their strategy of being a one-stop discount grocer. As a result, rising prices would put a downward pressure on Grocery Outlet's margins as COGS increases. Should inflationary pressures persist in the longer term, this could negatively impact margins and earnings more than expected.

However, Grocery Outlet should be able to pass on some of the increase in costs to its consumers since supermarkets around the nation are already doing so, as reflected by rising prices nationwide. This will allow Grocery Outlet to relieve some margin pressures while remaining as the cheapest option available. Furthermore, as prices continue to increase, more price conscious consumers might flock to Grocery Outlet for more affordable products. Hence, margin pressures could also be offset by a more than proportionate increase in sales.

Business Risk 2 (B2): Competition From Well-Established Competitors May Hamper Growth

There are already many big name players in the US grocery industry such as Walmart, Costco, Target. While these supermarket chains may not directly compete with Grocery Outlet in the extreme-value market, these large supermarket chains already have a strong brand reputation and loyalty programs within the communities they are located in. Therefore, if Grocery Outlet is unable to differentiate its offerings or successfully adapt to the local taste and preferences of each location, physical store expansion growth may be hampered.

To mitigate this, Grocery Outlet tends to open new stores in locations with a lower average household income as these people are the most price sensitive. Furthermore, the independent operator model helps in adapting and personalising each store to the community it serves.

Business Risk 3 (B3): Quality Of Independent Operators May Deteriorate As Grocery Outlet Expands

As Grocery Outlet expands, they will need to partner with more owner-operators. This poses a risk that the quality and capability of the independent operators may drop if the supply of competent independent operators is not able to catch up with the rate of expansion. Since Grocery Outlet's revenue and profits depend directly on the results of each operator, deteriorating quality of the owner-operators could result in slower growth rates or even negative growth rates should the new stores be unprofitable and not well ran.

To mitigate this, Grocery Outlet requires its independent owners to have five years of retail management experience, proven merchandising, marketing and hiring skills amongst other criteria. They also provide new operators with a nine-month training where they will understudy experienced operators. Given that Grocery Outlet currently screens around 2000-3000 interested independent operators each month, the likelihood of this materialising is low (Figure 46).

Disclaimer

Appendix:

Pro-Forma Financial Statement

Grocery Outlet
Financial Statements

Figures in '000,000 USD	Historical 2018A	2019A	2020A	Forecasted 2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
income Statement													
Revenues	2,288	2,560	3,135	3,101.0	3,594.7	4,127.0	4,691.0	5,277.7	5,876.0	6,472.7	7,053.4	7,602.4	8,103.6
Cost Of Goods Sold	(1,592)	(1,773)	(2,161)	(2,147.99)	(2,482.77)	(2,842.12)	(3,221.14)	(3,613.46)	(4,011.32)	(4,405.77)	(4,786.91)	(5,144.28)	(5,467.24)
Gross Income	**695**	**787**	**973**	**953.1**	**1,112.0**	**1,284.9**	**1,469.8**	**1,664.2**	**1,864.6**	**2,067.0**	**2,266.5**	**2,458.1**	**2,636.4**
Selling General & Admin Expenses	(557)	(639)	(772)	(764.7)	(886.4)	(1017.6)	(1156.7)	(1301.4)	(1448.9)	(1596.1)	(1739.3)	(1874.6)	(1998.2)
Stock-Based Compensation	(10)	(31)	(38)	(30.0)	(34.7)	(39.9)	(45.3)	(51.0)	(56.8)	(62.5)	(68.1)	(73.4)	(78.3)
Depreciation & Amortization	(45)	(48)	(55)	(63.0)	(71.6)	(81.6)	(92.9)	(105.7)	(119.8)	(135.5)	(152.5)	(170.8)	(190.4)
Operating Income	**82**	**68**	**107**	**95**	**119**	**146**	**174.9**	**206.2**	**239.1**	**272.9**	**306.6**	**339.2**	**369.5**
Interest Expense	(57)	(48)	(22)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)
Interest and Invest. Income	1	2	2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Net Interest Expense	(55)	(46)	(20)	(11.4)	(11.4)	(11.4)	(11.4)	(11.4)	(11.4)	(11.4)	(11.4)	(11.4)	(11.4)
Other Unusual Items	(5)	(6)	(0)	0	0	0	0	0	0	0	0	0	0
EBT Incl. Unusual Items	**22**	**17**	**87**	**84.1**	**107.8**	**134.4**	**163.5**	**194.8**	**227.8**	**261.5**	**295.3**	**327.8**	**358.1**
Income Tax Expense	(6)	(1)	20	(11.4)	(14.6)	(18.2)	(22.1)	(26.3)	(30.8)	(35.4)	(39.9)	(44.3)	(48.4)
Earnings from Cont. Ops.	**16**	**15**	**107**	**72.7**	**93.3**	**116.2**	**141.4**	**168.5**	**197.0**	**226.2**	**255.3**	**283.5**	**309.7**
Net Income to Company	**16**	**15**	**107**	**72.7**	**93.3**	**116.2**	**141.4**	**168.5**	**197.0**	**226.2**	**255.3**	**283.5**	**309.7**
Minority Int. in Earnings	-	-	0	0	0	0	0	0	0	0	0	0	0
Net Income	**16**	**15**	**107**	**72.7**	**93.3**	**116.2**	**141.4**	**168.5**	**197.0**	**226.2**	**255.3**	**283.5**	**309.7**
Balance Sheet													
Assets													
Cash, Cash Equivalents & STI	21.1	28.1	105.3	115.1	21.2	-70.0	-153.9	-225.0	-277.5	-304.9	-300.9	-258.8	-173.0
Accounts Receivables	5.8	8.0	9.2	8.9	10.3	11.9	13.5	15.2	16.9	18.6	20.3	21.8	23.3
Notes Receivables	1.3	1.9	2.2	2.0	2.4	2.7	3.1	3.5	3.9	4.3	4.7	5.0	5.4
Inventory	198.3	219.4	245.2	259.0	299.4	342.7	388.4	435.7	483.7	531.3	577.2	620.3	659.3
Prepaid Exp.	13.9	13.5	20.1	18.3	21.2	24.4	27.7	31.2	34.7	38.3	41.7	44.9	47.9
Total Current Assets	**240.4**	**270.8**	**382.0**	**403.4**	**354.5**	**311.7**	**278.9**	**260.6**	**261.7**	**287.5**	**343.0**	**433.3**	**562.8**
Net PPE	304.0	356.6	433.7	480.4	536.0	600.4	673.4	754.5	842.6	936.1	1033.2	1131.4	1227.7
PPE	422.8	516.5	639.8	749.5	876.7	1022.7	1188.7	1375.4	1583.3	1812.3	2061.9	2330.9	2617.6
Accumulated Depreciation	-118.8	-159.9	-206.1	-269.1	-340.7	-422.3	-515.2	-620.9	-740.7	-876.2	-1028.7	-1199.5	-1389.9
Operating Lease Right-Of-Use Assets	0.0	734.3	835.4	858.1	994.7	1141.9	1298.0	1460.3	1625.9	1791.0	1951.7	2103.6	2242.2
Goodwill	747.9	747.9	747.9	747.9	747.9	747.9	747.9	747.9	747.9	747.9	747.9	747.9	747.9
Other Intangibles	68.8	47.8	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2
Loans Receivable Long Term	13.6	20.3	27.4	23.4	27.2	31.2	35.4	39.9	44.4	48.9	53.3	57.4	61.2
Other Long Term Assets	2.0	7.7	11.0	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Total Non-Current Assets	**1136.4**	**1914.7**	**2103.7**	**2165.0**	**2360.8**	**2576.6**	**2809.9**	**3057.8**	**3315.9**	**3579.1**	**3841.2**	**4095.4**	**4334.2**
TOTAL ASSETS	**1376.8**	**2185.5**	**2485.6**	**2568.3**	**2715.4**	**2888.2**	**3088.8**	**3318.3**	**3577.6**	**3866.5**	**4184.2**	**4528.7**	**4897.1**
Liabilities													
Accounts Payable	98.1	119.2	114.3	130.1	150.4	172.2	195.2	218.9	243.0	266.9	290.0	311.7	331.2
Accrued Exp.	42.0	46.3	62.1	58.2	67.4	77.4	88.0	99.0	110.2	121.4	132.3	142.6	152.0
Curr. Port. of LT Debt	7.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Curr. Port. of Leases	-	38.2	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7
Curr. Income Taxes Payable	3.5	4.6	7.5	5.9	6.9	7.9	9.0	10.1	11.2	12.4	13.5	14.5	15.5
Total Current Liabilities	**150.9**	**208.6**	**232.6**	**242.9**	**273.4**	**306.2**	**340.8**	**376.7**	**413.1**	**449.4**	**484.5**	**517.4**	**547.4**
Long-Term Debt	848.0	447.7	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2
Long-Term Leases	2.0	767.8	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4
Def. Tax Liability, Non-Curr.	15.1	16.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Non-Current Liabilities	60.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Non-Current Liabilities	**926.0**	**1231.5**	**1330.7**	**1330.7**	**1330.7**	**1330.7**	**1330.7**	**1330.7**	**1330.7**	**1330.7**	**1330.7**	**1330.7**	**1330.7**
Total Liabilities	**1076.9**	**1440.1**	**1563.3**	**1573.6**	**1604.1**	**1636.8**	**1671.4**	**1707.3**	**1743.8**	**1780.0**	**1815.1**	**1848.1**	**1878.0**
Shareholder's Equity													
Common Stock	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Additional Paid In Capital	287.5	717.3	787.0	787.0	810.7	835.0	860.0	885.8	912.4	939.8	968.0	997.0	1026.9
Retained Earnings	12.4	28.0	135.2	207.6	300.5	416.3	557.2	725.1	921.3	1146.6	1401.0	1683.5	1992.0
Total Equity	**300.0**	**745.4**	**922.3**	**994.8**	**1111.3**	**1251.4**	**1417.3**	**1611.0**	**1833.8**	**2086.5**	**2369.1**	**2680.6**	**3019.0**
TOTAL LIABILITIES AND EQUITY	**1376.9**	**2185.5**	**2485.6**	**2568.3**	**2715.3**	**2888.2**	**3088.8**	**3318.3**	**3577.6**	**3866.5**	**4184.2**	**4528.7**	**4897.1**
Balance Check	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*
Statement of Cashflows													
Operating Activities													
Net Income	15.9	15.4	106.7	72.7	93.3	116.2	141.4	168.5	197.0	226.2	255.3	283.5	309.7
Subtract: Changes in Working Capital	42.9	67.3	16.5	1.4	14.5	15.6	16.4	17.0	17.2	17.0	16.4	15.3	13.8
Subtract: Changes in Other Assets/Liabilities		792.7	128.2	14.5	140.3	151.3	160.3	166.8	170.1	169.6	165.1	156.0	142.5
Add: Depreciation & Amortization	47.1	50.1	58.1	63.0	71.6	81.6	92.9	105.7	119.8	135.5	152.5	170.8	190.4
Cash from Operating Activities	**105.8**	**925.6**	**309.5**	**119.7**	**10.0**	**30.9**	**57.6**	**90.4**	**129.6**	**175.0**	**226.4**	**283.0**	**343.9**
Investing Activities													
CAPEX	-64.8	-97.2	-124.9	-109.7	-127.2	-146.0	-166.0	-186.7	-207.9	-229.0	-249.6	-269.0	-286.7
Gain/Loss From Sale Of PP&E	1.1	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing Activities	-9.9	-11.4	-9.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from Investing Activities	**-73.6**	**-108.0**	**-133.8**	**-109.7**	**-127.2**	**-146.0**	**-166.0**	**-186.7**	**-207.9**	**-229.0**	**-249.6**	**-269.0**	**-286.7**
Financing Activities													
Debt Issued	871.7	-	90.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Repaid	-725.1	-415.7	-91.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from Issuance of Common Stock	0.0	412.1	32.6	0.0	23.6	24.3	25.0	25.8	26.6	27.4	28.2	29.0	29.9
Dividends Paid	-153.6	-3.6	-0.4	-0.3	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-1.0	-1.1	-1.2
Other Charges	-10	-10.6	-1.2	0	0	0	0	0	0	0	0	0	0
Cash from Financing Activities	**-17.0**	**-17.8**	**29.8**	**-0.3**	**23.3**	**23.9**	**24.5**	**25.2**	**25.8**	**26.5**	**27.2**	**28.0**	**28.7**
Net Change in Cash	**15.3**	**799.8**	**205.5**	**9.8**	**-93.9**	**-91.2**	**-83.8**	**-71.1**	**-52.5**	**-27.5**	**4.1**	**42.0**	**85.9**

Revenue Projections

Grocery Outlet
Revenue Model

	Historical			Forecasted									
Figures in '000,000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Number Of Same Stores	293	316	347	380	418	457	497	536	576	614	651	686	718
Average Same Store Revenue	7.36	7.74	8.73	7.85	8.32	8.78	9.22	9.64	10.02	10.37	10.68	10.95	11.17
Comparable Store Sales Growth %	3.90%	5.2%	12.7%	-10.0%	6.0%	5.5%	5.0%	4.5%	4.0%	3.5%	3.0%	2.5%	2.0%
Same Store Revenue	2,156.4	2,446.6	3,027.8	2,984.2	3,479.6	4,013.6	4,579.5	5,168.4	5,769.3	6,369.4	6,954.1	7,508.1	8,015.6
Number Of New Stores	23	31	33	38	39	40	40	39	38	37	35	32	29
% Increase In Stores	7.8%	9.8%	9.5%	10.0%	9.3%	8.7%	8.0%	7.3%	6.7%	6.0%	5.3%	4.7%	4.0%
Revenue Per New Stores	5.71	3.65	3.24	3.07	2.95	2.86	2.81	2.78	2.78	2.81	2.86	2.95	3.07
Growth In Revenue Per New Store	-19.5%	-36.1%	-11.2%	-5.0%	-4.0%	-3.0%	-2.0%	-1.0%	0.0%	1.0%	2.0%	3.0%	4.0%
Total New Store Revenue	131.3	113.0	106.8	116.8	115.2	113.4	111.5	109.3	106.6	103.4	99.3	94.3	88.0
Total Number Of Stores	316	347	380	418	457	497	536	576	614	651	686	718	746
Total Revenue	**2,287.7**	**2,559.6**	**3,134.6**	**3,101.0**	**3,594.7**	**4,127.0**	**4,691.0**	**5,277.7**	**5,876.0**	**6,472.7**	**7,053.4**	**7,602.4**	**8,103.6**

Financial Projections

Grocery Outlet
Financial Projections

	Historical			Forecasted									
Figures in '000,000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total Revenue	2,287.7	2,559.6	3,134.6	3,101.0	3,594.7	4,127.0	4,691.0	5,277.7	5,876.0	6,472.7	7,053.4	7,602.4	8,103.6
Revenue Growth	*10.2%*	*11.9%*	*22.5%*	*(1.1%)*	*15.9%*	*14.8%*	*13.7%*	*12.5%*	*11.3%*	*10.2%*	*9.0%*	*7.8%*	*6.6%*
Gross Profit	695.4	787.1	973.3	953.1	1,112.0	1,284.9	1,469.8	1,664.2	1,864.6	2,067.0	2,266.5	2,458.1	2,636.4
Margin %	*30.4%*	*30.8%*	*31.1%*	*30.7%*	*30.9%*	*31.1%*	*31.3%*	*31.5%*	*31.7%*	*31.9%*	*32.1%*	*32.3%*	*32.5%*
Operating Income	*82.5*	*68.3*	*107.4*	*95.5*	*119.2*	*145.7*	*174.9*	*206.2*	*239.1*	*272.9*	*306.6*	*339.2*	*369.5*
Pretax Income	*21.9*	*16.8*	*87.1*	*84.1*	*107.8*	*134.4*	*163.5*	*194.8*	*227.8*	*261.5*	*295.3*	*327.8*	*358.1*
Net Income	*15.9*	*15.4*	*106.7*	*72.7*	*93.3*	*116.2*	*141.4*	*168.5*	*197.0*	*226.2*	*255.3*	*283.5*	*309.7*
Operating Margins	*3.6%*	*2.7%*	*3.4%*	*3.1%*	*3.3%*	*3.5%*	*3.7%*	*3.9%*	*4.1%*	*4.2%*	*4.3%*	*4.5%*	*4.6%*
ROE	*5.3%*	*2.1%*	*11.6%*	*7.3%*	*8.4%*	*9.3%*	*10.0%*	*10.5%*	*10.7%*	*10.8%*	*10.8%*	*10.6%*	*10.3%*
ROA	*1.2%*	*0.7%*	*4.3%*	*2.8%*	*3.4%*	*4.0%*	*4.6%*	*5.1%*	*5.5%*	*5.8%*	*6.1%*	*6.3%*	*6.3%*
Cost Build													
COGS	(1,592.3)	(1,772.5)	(2,161.3)	(2,148.0)	(2,482.8)	(2,842.1)	(3,221.1)	(3,613.5)	(4,011.3)	(4,405.8)	(4,786.9)	(5,144.3)	(5,467.2)
COGS as % of Revenue	*69.6%*	*69.2%*	*68.9%*	*69.3%*	*69.1%*	*68.9%*	*68.7%*	*68.5%*	*68.3%*	*68.1%*	*67.9%*	*67.7%*	*67.5%*
SG&A	(557.1)	(639.4)	(772.4)	(764.7)	(886.4)	(1,017.6)	(1,156.7)	(1,301.4)	(1,448.9)	(1,596.1)	(1,739.3)	(1,874.6)	(1,998.2)
SG&A as % of Revenue	24.35%	24.98%	24.64%	24.66%	24.66%	24.66%	24.66%	24.66%	24.66%	24.66%	24.66%	24.66%	24.66%
Stock Based Compensation	(10.4)	(31.4)	(38.1)	(30.0)	(34.7)	(39.9)	(45.3)	(51.0)	(56.8)	(62.5)	(68.1)	(73.4)	(78.3)
Stock Based Compensation as % of Revenue	0.46%	1.23%	1.21%	0.97%	0.97%	0.97%	0.97%	0.97%	0.97%	0.97%	0.97%	0.97%	0.97%
Depreciation & Amort.	(45.4)	(47.9)	(55.5)	(63.0)	(71.6)	(81.6)	(92.9)	(105.7)	(119.8)	(135.5)	(152.5)	(170.8)	(190.4)
Depreciation & Amort. as % of revenue	1.99%	1.87%	1.77%	2.03%	1.99%	1.98%	1.98%	2.00%	2.04%	2.09%	2.16%	2.25%	2.35%
Operating Expense (as % of Revenue)	26.79%	28.08%	27.63%	27.65%	27.62%	27.60%	27.61%	27.63%	27.66%	27.72%	27.79%	27.87%	27.97%
Dividend Payout	(153.6)	(3.6)	(0.4)	(0.3)	(0.3)	(0.4)	(0.5)	(0.6)	(0.7)	(0.8)	(1.0)	(1.1)	(1.2)
As % of Net Income	967.99%	23.35%	0.37%	0.37%	0.37%	0.37%	0.37%	0.37%	0.37%	0.37%	0.37%	0.37%	0.37%
Income Tax Expense	(6.0)	(1.0)	20.0	(11.4)	(14.6)	(18.2)	(22.1)	(26.3)	(30.8)	(35.4)	(39.9)	(44.3)	(48.4)
Effective Tax Rate	*27.5%*	*6.0%*	*(23.0%)*	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
LT Investments	15.9	15.4	106.7	48.6	56.3	64.7	73.5	82.7	92.1	101.4	110.5	119.1	127.0
As % of Net Income	*0.7%*	*0.6%*	*3.4%*	*1.6%*	*1.6%*	*1.6%*	*1.6%*	*1.6%*	*1.6%*	*1.6%*	*1.6%*	*1.6%*	*1.6%*
Net Working Capital													
Account Receivable	5.8	8.0	9.2	*8.9*	*10.3*	*11.9*	*13.5*	*15.2*	*16.9*	*18.6*	*20.3*	*21.8*	*23.3*
Accounts Receivable as % of Revenue	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
Inventory	198.3	219.4	245.2	*259.0*	*299.4*	*342.7*	*388.4*	*435.7*	*483.7*	*531.3*	*577.2*	*620.3*	*659.3*
Inventory as % of COGS	*(12.5%)*	*(12.4%)*	*(11.3%)*	*(12.1%)*	*(12.1%)*	*(12.1%)*	*(12.1%)*	*(12.1%)*	*(12.1%)*	*(12.1%)*	*(12.1%)*	*(12.1%)*	*(12.1%)*
Other ST Assets	15.2	15.3	22.2	*20.4*	*23.6*	*27.1*	*30.8*	*34.7*	*38.6*	*42.5*	*46.3*	*50.0*	*53.2*
Notes Receivable	1.3	1.9	2.2	*2.0*	*2.4*	*2.7*	*3.1*	*3.5*	*3.9*	*4.3*	*4.7*	*5.0*	*5.4*
Notes Receivable as % of Revenue	0.1%	0.1%	0.1%	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*
Prepaid Expense	13.9	13.5	20.1	*18.3*	*21.2*	*24.4*	*27.7*	*31.2*	*34.7*	*38.3*	*41.7*	*44.9*	*47.9*
Prepaid Expense as % of Revenue	0.6%	0.5%	0.6%	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*
Accounts Payable	98.1	119.2	114.3	*130.1*	*150.4*	*172.2*	*195.2*	*218.9*	*243.0*	*266.9*	*290.0*	*311.7*	*331.2*
Accounts Payable as % of COGS	6.16%	6.73%	5.29%	6.06%	6.06%	6.06%	6.06%	6.06%	6.06%	6.06%	6.06%	6.06%	6.06%
Accrued Expenses	42.0	46.3	62.1	58.2	67.4	77.4	88.0	99.0	110.2	121.4	132.3	142.6	152.0
Accrued Expense as % of Revenue	1.84%	1.81%	1.98%	1.88%	1.88%	1.88%	1.88%	1.88%	1.88%	1.88%	1.88%	1.88%	1.88%
Other ST Liabilities	10.8	43.1	56.2	54.6	55.5	56.6	57.6	58.8	59.9	61.0	62.2	63.2	64.2
Short Term Lease Liabilities	-	38.2	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7
Other Liabilities	3.5	4.6	7.5	5.9	6.9	7.9	9.0	10.1	11.2	12.4	13.5	14.5	15.5
As % of Revenue	*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%
Net Working Capital	68.4	34.1	44.0	45.4	60.0	75.5	92.0	108.9	126.1	143.0	159.4	174.7	188.4
Increase in NWC		(34.3)	9.9	1.4	14.5	15.6	16.4	17.0	17.2	17.0	16.4	15.3	13.8
Proceeds from Share Issuance				0.0	23.6	24.3	25.0	25.8	26.6	27.4	28.2	29.0	29.9
Share Capital	287.5	717.3	787.0	787.0	810.7	835.0	860.0	885.8	912.4	939.8	968.0	997.0	1026.9
Increase of Share Capital				3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Non-Current Accounts													
Loans Receivable Long Term	13.6	20.3	27.4	23.4	27.2	31.2	35.4	39.9	44.4	48.9	53.3	57.4	61.2
Loans Receivable LT as % of Revenue	0.6%	0.8%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Operating Lease Right-Of-Use-Assets	0.0	734.3	835.4	858.1	994.7	1141.9	1298.0	1460.3	1625.9	1791.0	1951.7	2103.6	2242.2
Operating Lease Right-Of-Use-Assets as % of Revenue	0.0%	28.7%	26.7%	27.7%	27.7%	27.7%	27.7%	27.7%	27.7%	27.7%	27.7%	27.7%	27.7%
PPE Build													
Depreciation Schedule													
CAPEX	64.8	97.2	124.9	109.7	127.2	146.0	166.0	186.7	207.9	229.0	249.6	269.0	286.7
CAPEX as % of Revenue	2.83%	3.80%	3.98%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%
Accumulated Depreciation	-118.8	-159.9	-206.1	-269.1	-340.7	-422.3	-515.2	-620.9	-740.7	-876.2	-1028.7	-1199.5	-1389.9
PPE													
Leasehold Improvements	190.2	225.5	275.6	318.6	368.4	425.6	490.6	563.8	645.2	734.9	832.7	938.1	1050.4
Fixtures and Equipment	220.3	274.5	330.3	386.9	452.5	527.7	613.3	709.6	816.8	934.8	1063.5	1202.2	1350.0
Other	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Construction in Progress	11.9	16.1	33.5	43.6	55.4	69.0	84.3	101.7	120.9	142.2	165.3	190.3	216.8
Total PPE	422.8	516.5	639.8	749.5	876.7	1022.7	1188.7	1375.4	1583.3	1812.3	2061.9	2330.9	2617.6
Acquisition													
Leasehold Improvements		35.3	50.1	43.0	49.8	57.2	65.0	73.2	81.4	89.7	97.8	105.4	112.3
Fixtures and Equipment		54.2	55.8	56.6	65.6	75.3	85.6	96.3	107.2	118.1	128.7	138.7	147.8
Other		-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction in Progress		4.2	17.4	10.2	11.8	13.5	15.4	17.3	19.3	21.2	23.1	24.9	26.6
Total CAPEX		93.7	123.3	109.7	127.2	146.0	166.0	186.7	207.9	229.0	249.6	269.0	286.7
				-					-				
Acquisitions as % of CAPEX													
Leasehold Improvements		37.7%	40.6%	39.2%	39.2%	39.2%	39.2%	39.2%	39.2%	39.2%	39.2%	39.2%	39.2%
Fixtures and Equipment		57.8%	45.3%	51.6%	51.6%	51.6%	51.6%	51.6%	51.6%	51.6%	51.6%	51.6%	51.6%
Other		-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Construction in Progress		4.5%	14.1%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
Total CAPEX		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Useful Life (Years)													
Leasehold Improvements	15.0												
Fixtures and Equipment	15.0												
Other	12.0												
Construction in Progress	12.0												

Financial Projections (Continued)

Depreciation Expense													
Leasehold Improvements				2.9	3.3	3.8	4.3	4.9	5.4	6.0	6.5	7.0	7.5
Fixtures and Equipment				3.8	4.4	5.0	5.7	6.4	7.1	7.9	8.6	9.2	9.9
Other				-	-	-	-	-	-	-	-	-	-
Construction in Progress				0.8	1.0	1.1	1.3	1.4	1.6	1.8	1.9	2.1	2.2
Sum				7.5	8.7	10.0	11.3	12.7	14.2	15.6	17.0	18.3	19.6
Total Depreciation Expense	(45.4)	(47.9)	(55.5)	(63.0)	(71.6)	(81.6)	(92.9)	(105.7)	(119.8)	(135.5)	(152.5)	(170.8)	(190.4)
Total Intangible Assets	68.8	47.8	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2
Annual Amortization Expense				-	-	-	-	-	-	-	-	-	-
Total D&A Expense	(45.4)	(47.9)	(55.5)	(63.0)	(71.6)	(81.6)	(92.9)	(105.7)	(119.8)	(135.5)	(152.5)	(170.8)	(190.4)

Debt Schedule	Year	Principal	Interest	Weighted Average Interest Rate
Long Term Debt				
Finance Leases	2038	6.1	6.08%	0.03%
Operating Leases	2038	924.1	6.91%	4.59%
Term Loan	2025	460.0	2.84%	0.94%
Total Long Term Debt	1,390.2			
Weighted Cost of Debt	**5.56%**			

	Historical			Forecasted									
Figures in '000,000 USD	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Interest Repayment Schedule													
Interest Paid	(56.7)	(47.9)	(21.8)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)
Principal Repayment	(725.1)	(415.7)	(91.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ST & LT Debt													
Short Term Debt													
Beginning Balance		7.3	0.2	0	0	0	0	0	0	0	0	0	0
Additions		-	-	0	0	0	0	0	0	0	0	0	0
Repayment		7.1	0.2	0	0	0	0	0	0	0	0	0	0
Ending Balance	7.3	0.2	0.0	0	0	0	0	0	0	0	0	0	0
Interest Rate on ST Debt				-	-	-	-	-	-	-	-	-	-
Interest Paid				-	-	-	-	-	-	-	-	-	-
Long Term Debt													
Beginning Balance		848.0	447.7	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2
Additions		15.4	92.7	0	0	0	0	0	0	0	0	0	0
Repayments		($415.7)	($91.2)	0	0	0	0	0	0	0	0	0	0
Ending Balance	848.0	447.7	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2	449.2
New LT Debt Additions													
Balance				0	0	0	0	0	0	0	0	0	0
Interest Expense on New Debt				0	0	0	0	0	0	0	0	0	0
Total Interest Expense				(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)
Cash & Cash Equivalents	21.1	28.1	105.3										
Cash as % of Revenue	0.9%	1.1%	3.4%										
Minimum Target Cash Balance				55.60	64.45	73.99	84.10	94.62	105.35	116.05	126.46	136.30	145.29
Minimum Target Cash Balance as & of Revenue				1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Revolver													
Cash available at beginning of period				105.3	115.1	21.2	(70.0)	(153.9)	(225.0)	(277.5)	(304.9)	(300.9)	(258.8)
Cash generated during current year				9.8	(93.9)	(91.2)	(83.8)	(71.1)	(52.5)	(27.5)	4.1	42.0	85.9
Minimum cash desired				55.6	64.4	74.0	84.1	94.6	105.3	116.0	126.5	136.3	145.3
Cash Surplus (Deficit)				59.5	(43.3)	(144.0)	(238.0)	(319.6)	(382.8)	(421.0)	(427.3)	(395.1)	(318.2)
ST & LT Leases													
Interest Paid				64.2	64.2	64.2	64.2	64.2	64.2	64.2	64.2	64.2	64.2
Principal Repayment				(137.3)	(132.3)	(132.3)	(236.8)	(236.8)	(136.3)	(132.3)	(132.3)	(236.8)	(236.8)
Short Term Lease													
Beginning Balance		-	38.2	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7
Additions		-	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7
Repayment		-	(38.2)	(48.7)	(48.7)	(48.7)	(48.7)	(48.7)	(48.7)	(48.7)	(48.7)	(48.7)	(48.7)
Ending Balance	-	38.2	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7
Long Term Lease													
Beginning Balance		2.0	767.8	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4
Additions		767.8	881.4	137.3	132.3	132.3	236.8	236.8	136.3	132.3	132.3	236.8	236.8
Repayments		(2.0)	(767.8)	(137.3)	(132.3)	(132.3)	(236.8)	(236.8)	(136.3)	(132.3)	(132.3)	(236.8)	(236.8)
Ending Balance	2.0	767.8	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4	881.4
New LT Leasee													
Balance				137.3	132.3	132.3	236.8	236.8	136.3	132.3	132.3	236.8	236.8
Interest Expense on Leases				(9.5)	(9.1)	(9.1)	(16.4)	(16.4)	(9.4)	(9.1)	(9.1)	(16.4)	(16.4)
Total Lease Expense				(73.7)	(73.4)	(73.4)	(80.6)	(80.6)	(73.6)	(73.4)	(73.4)	(80.6)	(80.6)
Total Interest (Debt + Lease) Expense				(86.8)	(86.4)	(86.4)	(93.7)	(93.7)	(86.7)	(86.4)	(86.4)	(93.7)	(93.7)

Valuation

Grocery Outlet
DCF

Model Assumptions

Terminal Growth Rate	2.0%
Effective Tax Rate	14%
Discount Rate	5.30%
Valuation date	3/11/21
Current Share Price	23.55
Basic Shares Outstanding ('000,000)	98.45

Model Output

Grocery Outlet
WACC Build

Cost of Equity

Risk Free Rate	1.60%
Equity Risk Premium	4.72%
Beta	0.94
Cost of Equity	6.04%

Cost of Debt

Pre-Tax Cost of Debt	5.56%
Tax Rate	14%
After-Tax Cost of Debt	4.81%

WACC Calculation

Total Debt (USD '000,000)	1,379
Market Capitalisation (USD '000,00)	3,442
Total Capital	2,302
Debt as proportion of current capital structure	59.9%
Equity as proportion of current capital structure	40.1%
WACC	5.30%

Terminal Value Calculation

Exit Multiple

Exit EV/EBITDA Multiple	10.53x
Implied Perpetual Growth Rate	1.33%
Terminal Year EBITDA	511.44
Terminal Value (EV)	5,385.51
Present Value of Terminal Value	3,355.27

Gordon Growth Method

Perpetual Growth Rate	2.0%
Country GDP Growth Rate Estimate	2%
Terminal Year FCFF	210.97
Terminal Value	6,519.34
Present Value of Terminal Value	4,061.67

	Exit Multiple	Perpetual Growth
Present Value of Cumulative FCFF	758	758
Present Value of Terminal Value	3,355	4,061.67
Implied Enterprise Value	4,113	4,820
Terminal Value as % of Implied Enterprise Value	82%	84%
Less: Debt	449	449
Plus: Cash	105	105
Less: Minority Interest	-	-
Less: Preferred Shares	-	-
Implied Equity Value	3,769	4,476
Implied Share Price	38.29	45.46
% Upside/Downside	**62.6%**	**93.1%**
Blended Share Price (50%)	**41.88**	
Blended % Upside/Downside	**77.8%**	

Free Cash Flow Calculation

	Historical			Forecasted									
Figures in '000,000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue	2,288	2,560	3,135	3,101	3,595	4,127	4,691	5,278	5,876	6,473	7,053	7,602	8,104
% Growth		11.9%	22.5%	-1.1%	15.9%	14.8%	13.7%	12.5%	11.3%	10.2%	9.0%	7.8%	6.6%
EBIT	82	68	107	95	119	146	175	206	239	273	307	339	369
% Growth		-17.1%	57.1%	-11.1%	24.9%	22.3%	20.0%	17.9%	16.0%	14.1%	12.4%	10.6%	8.9%
Margin %	3.6%	2.7%	3.4%	3.1%	3.3%	3.5%	3.7%	3.9%	4.1%	4.2%	4.3%	4.5%	4.6%
Tax	(23)	(4)	25	(11)	(15)	(18)	(22)	(26)	(31)	(35)	(40)	(44)	(48)
Tax Rate %	27.5%	6.0%	-23.0%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
Tax-Adjusted EBIT	60	64	132	84	105	128	153	180	208	238	267	295	321
Add: Depreciation and Amortisation	45	48	55	63	72	82	93	106	120	135	152	171	190
% of Revenue	2.0%	1.9%	1.8%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.1%	2.2%	2.2%	2.3%
EBITDA	105	112	187	147	176	209	246	286	328	373	419	466	511
Less: CAPEX	(65)	(97)	(125)	(110)	(127)	(146)	(166)	(187)	(208)	(229)	(250)	(269)	(287)
% of Revenue	2.8%	3.8%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Less: Change in Net Working Capital	-	34	(10)	(1)	(15)	(16)	(16)	(17)	(17)	(17)	(16)	(15)	(14)
% of Revenue	-	1.3%	-0.3%	0.0%	-0.4%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%
Unlevered FCFF	40	49	53	36	35	48	63	82	103	127	153	181	211
% Growth		21.7%	7.1%	-31.9%	-3.9%	37.8%	33.1%	29.2%	26.0%	23.2%	20.7%	18.4%	16.3%
Period				2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Year Fraction				0.16	1.16	2.16	3.16	4.16	5.16	6.16	7.16	8.16	9.16
Discount Factor				0.99	0.94	0.89	0.85	0.81	0.77	0.73	0.69	0.66	0.62
Present Value of Unlevered FCFF				**36**	**33**	**43**	**54**	**66**	**79**	**92**	**106**	**119**	**131**

Valuation (Continued)

Sensitivity Analysis

Implied Share Price

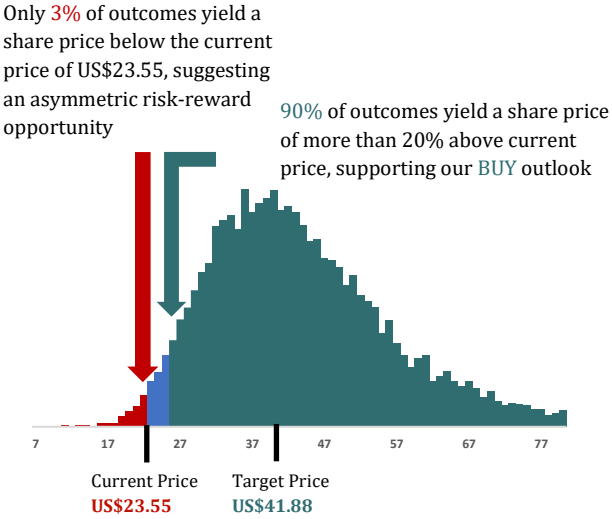
WACC	Exit EV/EBITDA Multiple					
	9.00x	9.50x	10.00x	10.50x	11.00x	11.50x
4.5%	35.72	37.45	39.19	40.92	42.65	44.38
5.0%	34.16	35.82	37.48	39.14	40.79	42.45
5.5%	32.68	34.26	35.85	37.44	39.02	40.61
6.0%	31.26	32.78	34.30	35.81	37.33	38.85
6.5%	29.90	31.36	32.81	34.27	35.72	37.18
7.0%	28.61	30.00	31.40	32.79	34.18	35.58

Implied Share Price

WACC	Perpetual Growth Rate					
	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
4.5%	52.90	62.85	77.78	102.67	152.44	302
5.0%	43.99	50.83	60.41	74.77	98.70	146.57
5.5%	37.34	42.27	48.85	58.06	71.88	94.90
6.0%	32.19	35.88	40.63	46.96	55.82	69.11
6.5%	28.08	30.93	34.48	39.05	45.14	53.67
7.0%	24.74	26.98	29.72	33.14	37.53	43.40

Monte Carlo Simulation

Category	Mean	Std. Dev	Distribution Assumed	Justification for Range
Comparable Stores Sales Growth	6.14%	± 3.7%	Normal	One Standard Deviation of Past 4/5 Year's Rate of Change
Increase in Number of Stores	9.42%	± 1.2%	Normal	
Revenue Per New Store	-18.12%	± 13.3%	Normal	
Variation in Other Operating Expense	-27.28%	± 0.6%	Normal	
Cost of Goods Sold	-69.34%	± 0.3%	Normal	Limit testing a possible decrease or increase in COGS
WACC	5.30%	± 1.0%	Normal	Accounting for changing and uncertain economic conditions
Terminal Growth Rate	2.00%	± 0.5%	Normal	
EV/EBITDA Multiple	10.53x	± 0.5x	Normal	



To assess how Grocery Outlet's stock price would be affected by uncertainty, we performed a Monte Carlo simulation. In the simulation, we stress the following variables as seen above.

1) Comparable Stores Sales Growth
2) Increase in Number of Stores
3) Revenue Per New Store
4) Variation in Other Operating Expenses
5) Cost of Goods Sold
6) WACC
7) Terminal Growth Rate
8) EV/EBITDA Multiple

The mean and standard deviation for these parameters are based on historical values and our own analysis of Grocery Outlet. We performed 10,000 iterations.

Results: We observe that 90% of all outcomes yield a share price of more than 20% above the current price, supporting our **BUY** recommendation. Only 3% of the scenarios lead to a sell recommendation.

Relative Valuation

Grocery Outlet
Relative Valuation (Comparable Company Analysis)

Company Name	Market Capitalization USDm	+1FY P/E	+1FY EV/EBITDA
Grocery Outlet	2,207	32.87x	25.13x
The Kroger Co.	29,054	15.60x	8.50x
Ingles Market, Incorporated	1,242	10.97x	6.90x
Dollar Tree, Inc.	22,554	24.56x	13.68x
Natural Grocers by Vitamin Cottage, Inc.	267	18.68x	7.33x
Sprouts Farmers Market	2,540	12.69x	10.53x
Dollarama Inc.	14,017	27.16x	15.15x
Ollie's Bargain Outlet Holdings	4,318	40.59x	25.36x
Big Lots	1,508	13.05x	9.51x

Comparables Beta Average

Screening Criteria: Consumer Staples (Grocery)

	+1FY P/E	+1FY EV/EBITDA
25th Percentile	13.05	8.50
Median	18.68	10.53
75th Percentile	27.16	15.15
90th Percentile	34.41	25.18
Max	40.59	25.36

Relative Valuation (P/E)	
75th Percentile 2021 P/E	27.16
2021 EPS	1.08
Implied Share Value	**29.33**

Relative Valuation (EV/EBITDA)	
75th Percentile 2021 EV / EBITDA	15.15
2021 EBITDA	147.05
Implied Enterprise Value	2,227.88
Less: Debt	449.23
Add: Cash	105.33
Implied Equity Value	1,883.97
Share Count	98.5
Implied Share Value	**19.14**