



**SpartanNash™**

Andrew Stetler

11/16/2023

# Agenda

- Overview of Consumer Staples
- Company Overview
- Industry and Company SWOT
- Ratio Analysis
- DCF Valuation
- Recommendations



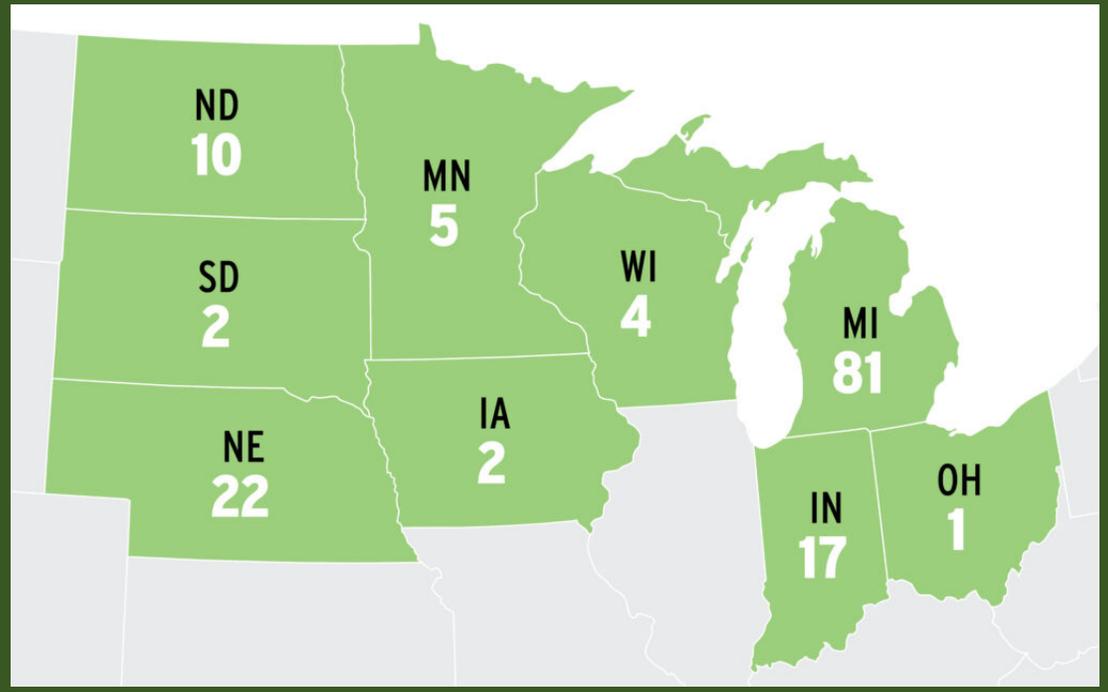
# Consumer Staples

- Certain Consumer Staples companies do better than others in a downturn economy
- Dollar Tree and Walmart compared to Sysco and Target
- More inflation = less cash in hand = less things getting bought

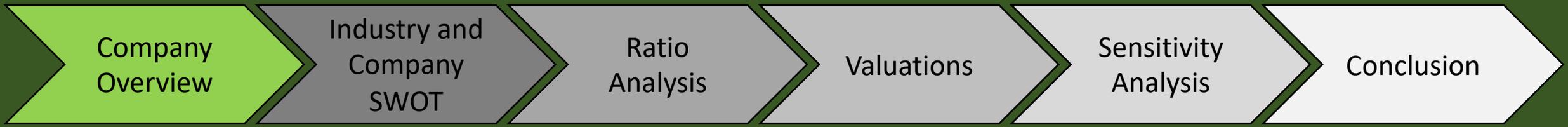


# Company Overview

- Formed in 2013 when Spartan Stores (MI) and Nash Finch Company (MN) merged
- In 2017 acquired SpartanNash Logistics, freight and logistics solutions company
- SpartanNash operates two complementary business segments – food wholesale and grocery retail
- Retail customer base is in the Midwest

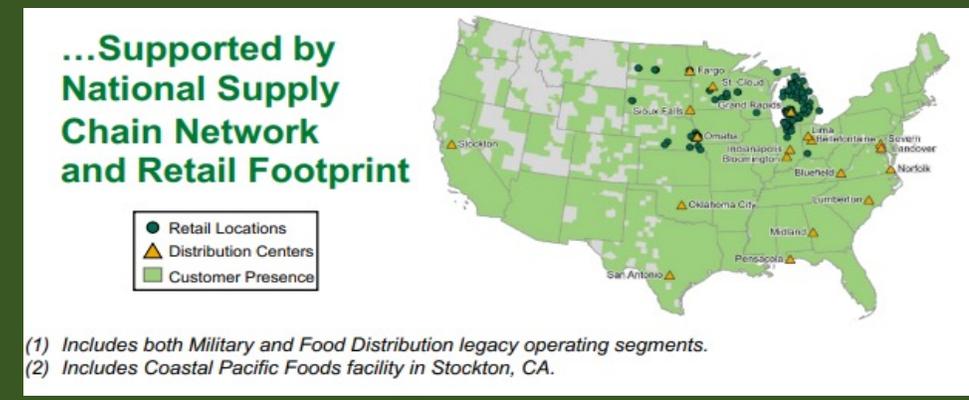
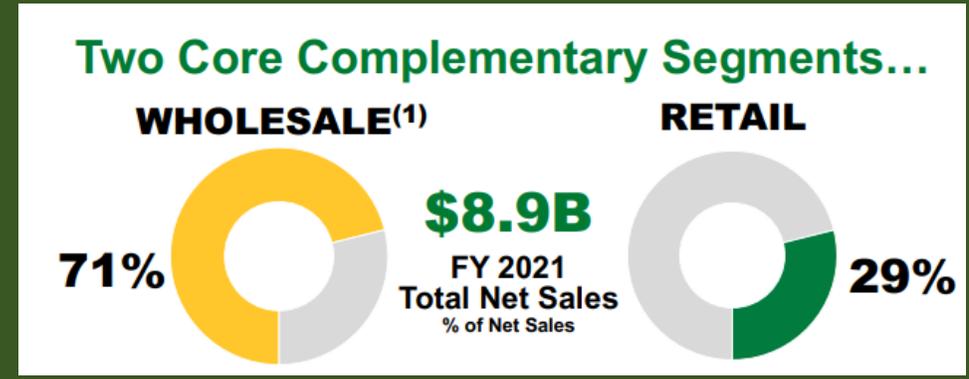


<https://www.spartannash.com/grocery-retail/banners/>

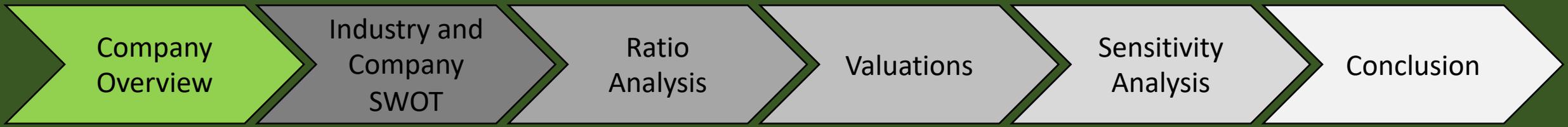


# Retail and Wholesale Business

- Wholesale makes up largest portion of net sales
- Most of this wholesale revenue come from military contracts with DeCa
- 20 Distribution centers across the United States
- 144 brick-and-mortar stores under 3 banners: Family Fare, Martin's Super Markets, and D&W Fresh Market



<https://www.spartannash.com/wp-content/uploads/2022/11/SPTN-Investor-Day-Presentation-2022.pdf>



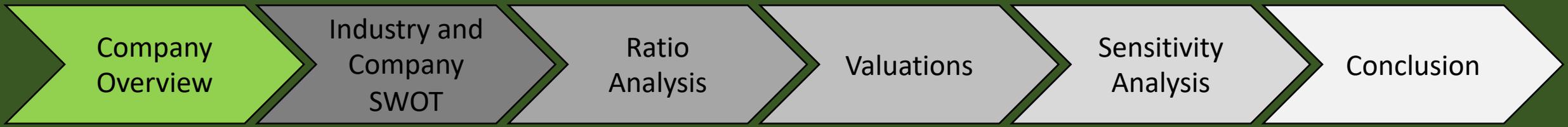
# Competitors in the Industry



- 20.8% wholesales market share
- NP margin '22 was 2.32%
- Global food distributor for mainly foodservice or “food-away-from-home industry”

- 12.9% wholesale market share
- NP margin '22 was .78%
- Foodservice and restaurant focused

- 5.9% wholesale market share
- NP margin '22 was .36%
- Wholesale mainly to military commissaries, retail business as well



# Industry SWOT

## Strengths

- Low capital requirements
- Low product concentration
- Low imports

## Weaknesses

- Highly competitive
- Low profit margin
- Inflationary costs

## Opportunities

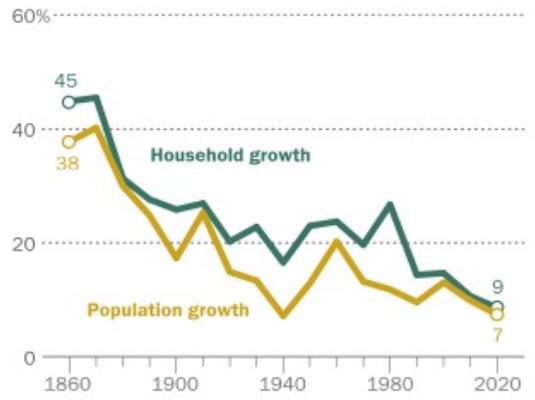
- High revenue growth in last 5 years
- Growth in number of households
- Societal shift to dine out

## Threats

- Low performance drivers
- Agricultural price index
- Population decrease

### 2010s had slowest percentage growth in households in at least 160 years

% growth in number of U.S. households and population per decade



Note: Population growth refers to growth in the population residing in households since the previous decennial census.  
Source: Pew Research Center analysis of Census Bureau historical statistics and 2010 and 2020 census PL94-171 redistricting data.

PEW RESEARCH CENTER

<https://www.pewresearch.org/short-reads/2021/10/12/u-s-household-growth-over-last-decade-was-the-lowest-ever-recorded/>

IBIS World



# Company SWOT

## Strengths

- Diversified OurFamily Products
- Centralized Retail Stores in the Midwest
- Two unique integrated businesses
- Of a substantial size to battle with suppliers

## Weaknesses

- Low profit margin
- Times interest earned has plummeted
- High cost of sales

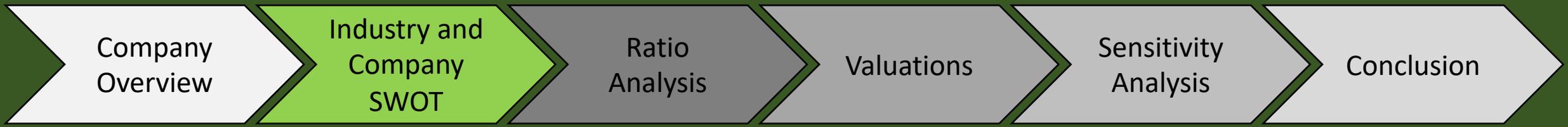


## Opportunities

- E-commerce and third-party integration
- International conflicts and war
- New OurFamily products expansion

## Threats

- New entrants seeking government bids
- Rising inflationary costs

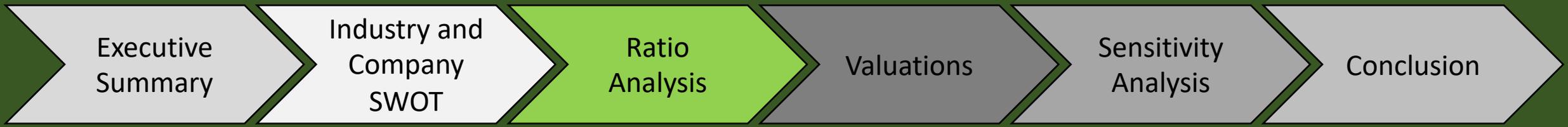




# Ratio Analysis

- SpartanNash has the longest Cash Conversion Cycle
- Times interest earned is concerning for SpartanNash
- EBIT margin indicates that SpartanNash has inefficient selling procedures

2022	SPTN	SYSCO	US Food
<u>Current ratio</u>	1.51	1.24	1.37
<u>DSO</u>	15.29	24.35	18.27
<u>DSI</u>	25.59	26.22	20.65
<u>DPO</u>	21.83	35.26	23.70
<u>Cash Conversion Cycle</u>	19.05	15.31	15.22
<u>EBIT Margin</u>	0.49%	2.99%	17.44%
<u>Times interest earned</u>	2.06	4.34	2.33
<u>Price to Earnings</u>	31.49	19.87	23.58





# DCF Model Valuation

- DCF Model shows that SpartanNash is 9% undervalued
- SpartanNash has gone as high as \$32.00 YTD
- This was with conservative sales estimates
- This is consumption season

DCF Model	
WACC	5.96%
NPV first 5 years	\$189,320,663
Smoothed TY	46,896,052
Net Reinvestment Rate	22.474%
ROIC	4.36%
LT Growth Rate	0.979%
Terminal Value	950,147,888
PV of TV	711,238,180
Enterprise Value	900,558,843
Less: net debt	503,581
Equity Value	900,055,262
S/O	36,313
Implied Share price	24.79
Market Price	22.56
Undervalued	-9.0%



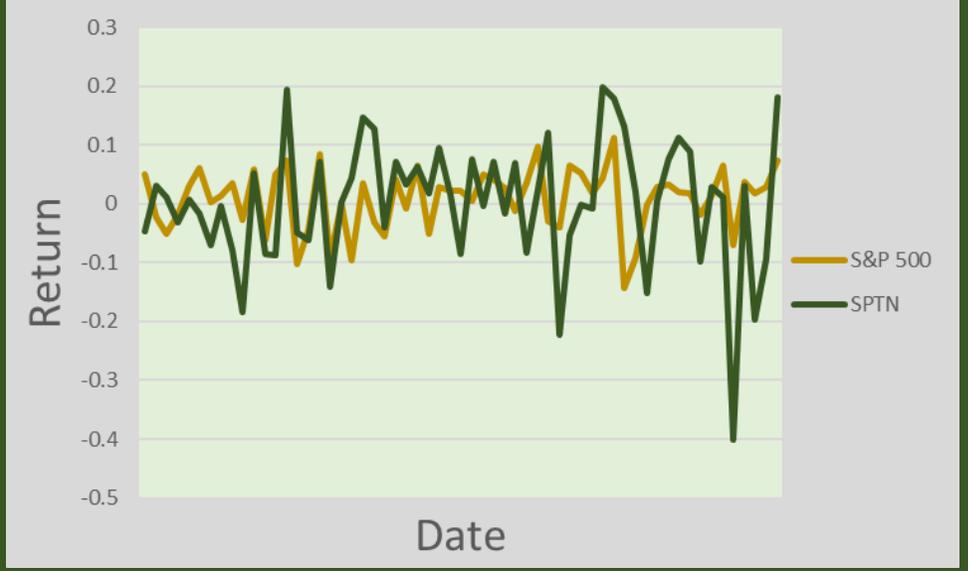


# WACC Calculation and Beta

CAPM cost of equity	
risk free rate (per fed 11/13/2023)	4.73%
Risk Premium	5.00%
<b>CAPM Cost of equity</b>	<b>7.92%</b>

Cost of debt	
Effective interest rate	4.65%
Tax rate	26.40%
<b>After-tax cost of debt</b>	<b>3.42%</b>

Weighted Average Cost of Capital Calculation				
Market Capitalization				
Stock Price	\$ 21.72			
Shares o/s as at 12/31/2022	36,313			
Market Capitalization	788,718			
		<b>Weights</b>	<b>Costs</b>	<b>WACC</b>
Equity	788,718	0.610321714	7.92%	4.831%
Debt	503,581	0.389678286	3.42%	1.3336%
<b>Total Capitalization</b>	<b>1,292,299</b>	<b>100%</b>		<b>6.16%</b>



Beta	
<b>Calculated Beta</b>	<b>0.64</b>
<b>Yahoo Finance Beta</b>	<b>0.66</b>





# EV to EBITDA Model

- EV to EBITDA model shows undervalued by 131%
- Sysco is the largest competitor in the wholesale market
- Might be bullish but confident in the growth of SpartanNash

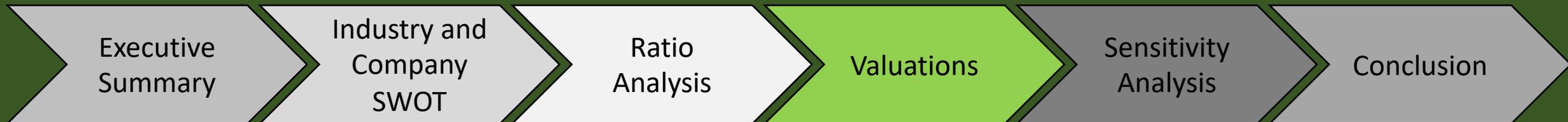
EV to EBITDA Model	
Sysco Market Cap	
S/O as at (07/01/2023)	765,174,900
Market price as at (07/01/2023) yahoo finance	73.13
Sysco Market Cap	55,957,240,437
Add: Net Debt	
Current maturities of long-term debt	62,550
Long-term debt	10,066,931
Sysco Enterprise Value	55,967,369,918
Sysco EBIT	2,285,355,000
Add: depreciation (per stat. of cash flows 2023)	775,604,000
Sysco EBITDA	3,060,959,000
Sysco EV/EBITDA Multiple	18.28
SpartanNash Equity Value	
SpartanNash Enterprise Value	2,975,287,909
Less: Net Debt	(503,581,000)
Equity Value	2,471,706,909
S/O as at 12/31/2022	36,313,000
SpartanNash implied share price	68.07
Market price as at 12/31/2022 per Yahoo Finance	29.38
Undervalued	131.68%



# P/E Model

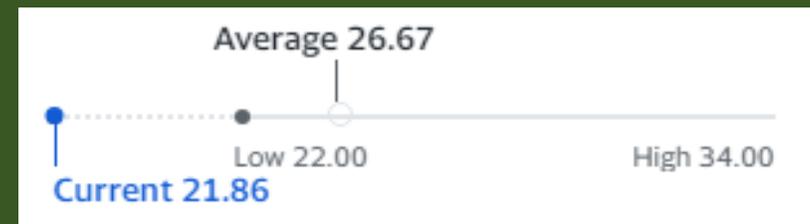
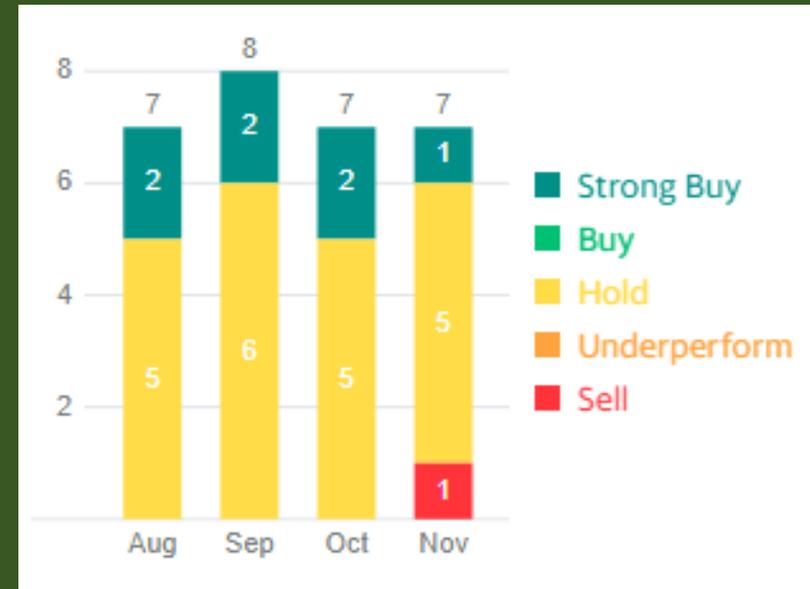
- Price to Earnings shows undervalued by 13.19%
- SpartanNash does not have good EPS
- EPS has dropped dramatically in past three years; 2.12, 2.10, .95

Price to Earnings Sysco	
Sysco Market Price	73.13
Earnings (Sysco)	1,770,124,000
Share o/s as at 07/01/2023	765,174,900
EPS Sysco	2.3134
P/E multiple	31.61
Earnings (SpartanNash)	34,518
Shares o/s as at 12/31/2022	36,313
EPS SpartanNash	0.95
P/E multiple Sysco	31.61
Implied share price	33.26
Market price	29.38
undervalued	13.19%



# Analyst Projections

- Deutsche Bank to hold stock
- BMO Capital market perform to Market perform
- Most analyst believe to hold on to the stock
- 22.00 low estimate and 34.00 high estimate



Yahoo Finance





# Sensitivity Analysis

- SpartanNash shows great resilience against sensitivity
- Worst case the share price falls 33%
- Best case the share price increases 60%

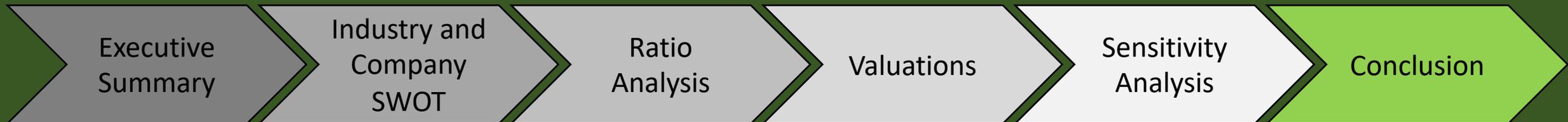
Sensitivity Analysis						
		WACC				
		4.00%	5.00%	6.16%	7.00%	8.00%
LT Growth rate	23.82	32.03	25.58	20.72	18.21	15.91
	0.00%	35.53	27.68	22.02	19.18	16.62
	0.45%	41.00	30.76	23.85	20.50	17.57
	0.98%	48.59	34.68	26.03	22.05	18.65
	1.50%	59.63	39.74	28.66	23.84	19.86
	2.00%					





# Conclusion

- DCF and P/E models indicate that SpartanNash is undervalued; **8.8%** and **13.19%** respectively
- Great opportunities for growth
- Low beta stock, reduce portfolio volatility
- Purchase 300 shares, around \$6,768
- Exit Strategy: 10% drop in share price



# Appendix – Assumptions



Sales Assumption								
Year	2021	2022	2023	2024	2025	2026	2027	2028
Wholesale	6,349,753	6,845,236	6,921,120	7,073,385	7,228,999	7,388,037	7,550,574	7,716,686
Retail	2,581,286	2,797,864	2,828,880	2,925,062	3,024,514	3,127,348	3,233,677	3,343,623
Net sales	8,931,039	9,643,100	9,750,000	9,998,447	10,253,513	10,515,385	10,784,251	11,060,309
% of sales wholesale	71.10%	70.99%	70.99%	70.74%	70.50%	70.26%	70.01%	69.77%
% of sales retail	28.90%	29.01%	29.01%	29.26%	29.50%	29.74%	29.99%	30.23%

Wholesale sales growth	2.20%	IBIS World
retail sales growth	3.40%	IBIS World
weighted average growth	2.55%	calculation

Market price of stock	
11/15/2023	21.72
Shares O/S	36,313

Interest Rate Assumptions	
weighted average interest rate for all borrowing	4.65% for 2022 SEC 10-K

WACC	
WACC	6.16% calculated
risk free rate	4.73% treasury.gov

Tax rate Assumptions	
2022	2021
26.40%	25.20%
Tax Rate	26.4% SEC 10-K

# Appendix – Free Cash Flows



Free Cash Flows					
Year	2024	2025	2026	2027	2028
EBIT	71,904,499	73,983,089	76,374,783	79,101,942	82,188,108
Tax	18,982,788	19,531,536	20,162,943	20,882,913	21,697,660
NOPAT	52,921,711	54,451,554	56,211,840	58,219,029	60,490,447
NWC Changes					
Acc payable	5,401,093	12,552,695	12,872,559	13,200,573	13,536,947
Acc recievable	(4,478,779)	(10,409,141)	(10,686,499)	(10,971,602)	(11,264,679)
Inventories	(6,330,625)	(14,713,021)	(15,087,934)	(15,472,400)	(15,866,663)
NWC changes	(5,408,310)	(12,569,467)	(12,901,874)	(13,243,429)	(13,594,395)
NOPAT + NWC Changes	47,513,401	41,882,086	43,309,966	44,975,600	46,896,052
Less: Capital Expenditures	-	-	-	-	-
Free Cash Flows	47,513,401	41,882,086	43,309,966	44,975,600	46,896,052

# Appendix – Valuation Models



DCF Model	
WACC	6.16%
NPV first 5 years	\$188,285,756
Smoothed TV	46,896,052
Net Reinvestment Rate	22.474%
ROIC	4.36%
LT Growth Rate	0.979%
Terminal Value	913,243,163
PV of TV	677,153,062
Enterprise Value	865,438,818
Less: net debt	503,581
Equity Value	864,935,237
S/O	36,313
Implied Share price	23.82
Market Price	21.72
Undervalued	-8.8%

EV to EBITDA Model	
Sysco Market Cap	
S/O as at (07/01/2023)	765,174,900
Market price as at (07/01/2023) yahoo finance	73.13
Sysco Market Cap	55,957,240,437
Add: Net Debt	
Current maturities of long-term debt	62,550
Long-term debt	10,066,931
Sysco Enterprise Value	55,967,369,918
Sysco EBIT	2,285,355,000
Add: depreciation (per stat. of cash flows 2023)	775,604,000
Sysco EBITDA	3,060,959,000
Sysco EV/EBITDA Multiple	18.28
SpartanNash Equity Value	
SpartanNash Enterprise Value	2,975,287,909
Less: Net Debt	(503,581,000)
Equity Value	2,471,706,909
S/O as at 12/31/2022	36,313,000
SpartanNash implied share price	68.07
Market price as at 12/31/2022 per Yahoo Finance	29.38
Undervalued	131.68%

Price to Earnings Sysco	
Sysco Market Price	73.13
Earnings (Sysco)	1,770,124,000
Share o/s as at 07/01/2023	765,174,900
EPS Sysco	2.3134
P/E multiple	31.61
Earnings (SpartanNash)	34,518
Shares o/s as at 12/31/2022	36,313
EPS SpartanNash	0.95
P/E multiple Sysco	31.61
Implied share price	33.26
Market price	29.38
undervalued	13.19%

# Appendix – WACC and Beta Calculations



CAPM cost of equity	
risk free rate (per fed 11/13/2023)	4.73%
Risk Premium	5.00%
CAPM Cost of equity	7.92%

Cost of debt	
Effective interest rate	4.65%
Tax rate	26.40%
After-tax cost of debt	3.42%

Beta Calculation	
Variance	0.028226655
Covariance	0.017983291
Calculated beta	0.64
Yahoo finance beta	0.66



Weighted Average Cost of Capital Calculation				
Market Capitalization				
Stock Price	\$	21.72		
Shares o/s as at 12/31/2022		36,313		
Market Capitalization		788,718		
			<b>Weights</b>	<b>Costs</b>
				<b>WACC</b>
Equity	788,718	0.610321714	7.92%	4.831%
Debt	503,581	0.389678286	3.42%	1.3336%
Total Capitalization	1,292,299	100%		<b>6.16%</b>



# Appendix – Forecasted Balance Sheet



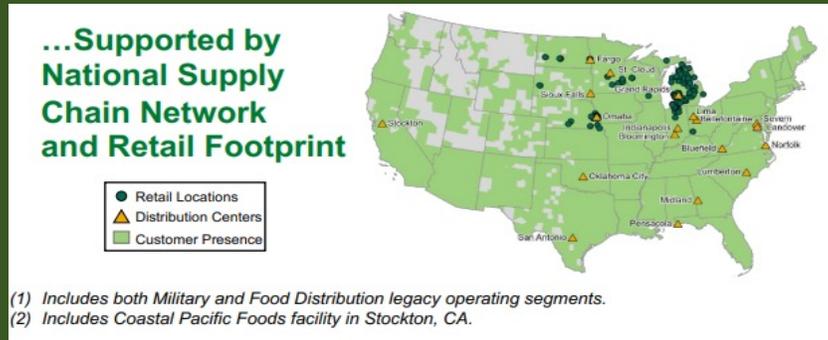
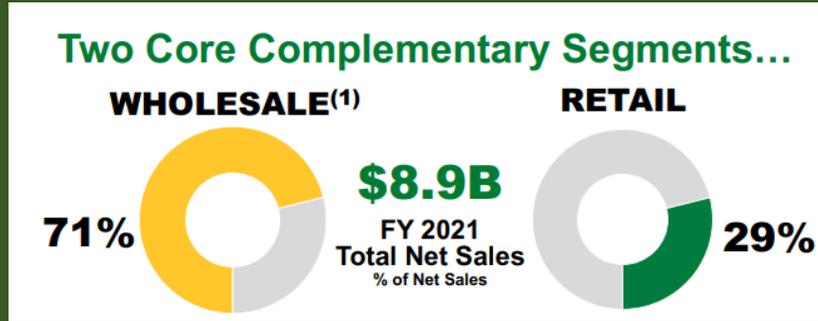
SpartanNash Balance Sheet	Historical Years				Forecasted Years				
	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Assets</b>									
<b>Current Asset</b>									
Cash and cash equivalents	19,903	10,666	29,086	29,086	29,086	29,086	29,086	29,086	29,086
Accounts and notes receivables, net	357,564	361,686	404,016	408,495	418,904	429,590	440,562	451,827	463,393
Inventories, net	541,785	522,324	571,065	577,396	592,109	607,197	622,669	638,536	654,807
Prepaid expenses and other current assets	72,229	62,517	62,244	62,934	64,538	66,184	67,874	69,610	71,392
Property and equipment held for sale	23,259	-	-	-	-	-	-	-	-
<b>Total current assets</b>	<b>1,014,740</b>	<b>957,193</b>	<b>1,066,411</b>	<b>1,077,910</b>	<b>1,104,636</b>	<b>1,132,057</b>	<b>1,160,191</b>	<b>1,189,058</b>	<b>1,218,677</b>
<b>Property and equipment, net</b>	<b>577,059</b>	<b>577,359</b>	<b>610,220</b>						
<b>Goodwill</b>	<b>181,035</b>	<b>181,035</b>	<b>182,160</b>						
<b>Intangibles assets, net</b>	<b>116,142</b>	<b>110,960</b>	<b>106,341</b>						
<b>Operating lease assets</b>	<b>289,173</b>	<b>283,040</b>	<b>257,047</b>	<b>259,897</b>	<b>266,519</b>	<b>273,318</b>	<b>280,299</b>	<b>287,466</b>	<b>294,824</b>
<b>Other assets, net</b>	<b>99,242</b>	<b>97,195</b>	<b>84,382</b>						
<b>Total assets</b>	<b>2,277,391</b>	<b>2,206,782</b>	<b>2,306,561</b>	<b>2,320,910</b>	<b>2,354,258</b>	<b>2,388,478</b>	<b>2,423,593</b>	<b>2,459,627</b>	<b>2,496,604</b>
<b>Liabilities and Shareholders' Equity</b>									
<b>Current liabilities</b>									
Accounts payable	464,784	447,451	487,215	492,616	505,169	518,041	531,242	544,779	558,661
Accrued payroll and benefets	113,789	86,315	103,048	103,048	103,048	103,048	103,048	103,048	103,048
Other accrued expenses	60,060	67,893	62,465	62,465	62,465	62,465	62,465	62,465	62,465
Current portion of operating lease liabilities	45,786	47,845	45,453	45,453	45,453	45,453	45,453	45,453	45,453
Current portion of long-term debt and finance lease liabilities	5,135	6,334	6,789	7,075	7,377	7,697	8,037	8,398	8,785
<b>Total current liabilities</b>	<b>689,554</b>	<b>655,838</b>	<b>704,970</b>	<b>710,657</b>	<b>723,512</b>	<b>736,704</b>	<b>750,245</b>	<b>764,143</b>	<b>778,412</b>
<b>Long-term liabilities</b>									
Deferred income taxes	45,728	63,692	66,293	66,293	66,293	66,293	66,293	66,293	66,293
Operating lease liabilities	278,859	266,701	239,062	239,062	239,062	239,062	239,062	239,062	239,062
Other long-term liabilities	46,892	38,292	33,376	33,376	33,376	33,376	33,376	33,376	33,376
Long-term debt and finance lease liabilities	481,309	399,390	496,792	470,398	453,784	435,579	415,505	393,261	368,515
<b>Total long-term liabilities</b>	<b>852,788</b>	<b>768,075</b>	<b>835,523</b>	<b>809,129</b>	<b>792,515</b>	<b>774,310</b>	<b>754,236</b>	<b>731,992</b>	<b>707,246</b>
<b>Shareholders' equity</b>									
Common stock	491,819	493,783	468,061	468,061	468,061	468,061	468,061	468,061	468,061
Preferred stock	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive gain/(loss)	(2,276)	(1,455)	2,979	2,979	2,979	2,979	2,979	2,979	2,979
Retained earnings	245,506	290,541	295,028	330,084	367,191	406,424	448,072	492,452	539,906
<b>Total shareholders equity</b>	<b>735,049</b>	<b>782,869</b>	<b>766,068</b>	<b>801,124</b>	<b>838,231</b>	<b>877,464</b>	<b>919,112</b>	<b>963,492</b>	<b>1,010,946</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,277,391</b>	<b>2,206,782</b>	<b>2,306,561</b>	<b>2,320,910</b>	<b>2,354,258</b>	<b>2,388,478</b>	<b>2,423,593</b>	<b>2,459,627</b>	<b>2,496,604</b>



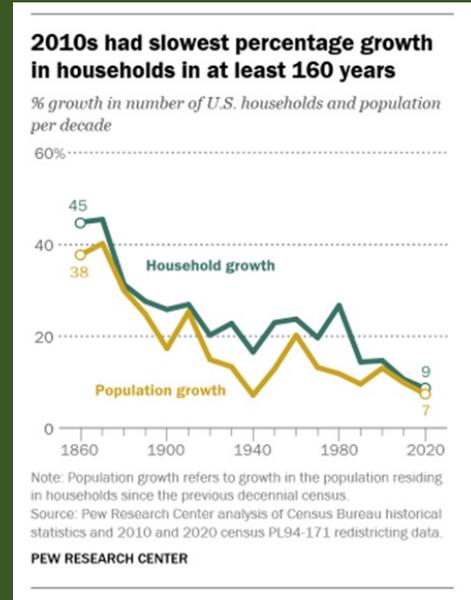
# Appendix – Miscellaneous



## SpartanNash Investors Relations



## PEW Research



## Yahoo Finance

