

# Mossberg's Investor Digest

## Best Idea Profile:

## Roundy's, Inc. (NYSE:RNDY)

### DESCRIPTION:

Roundy's is a leading grocer in the Upper Midwest, including Minnesota, Wisconsin and Illinois, with 160 stores and 100 pharmacies, averaging 61,000 square feet. It holds a first or second place share in its primary markets. Its core store banners include Pick 'n Save, Cops, and Rainbow, and its growth store banners are Metro Market and Mariano's. Pick 'n Save has the most stores at 93. Roundy's was founded in Milwaukee in 1872 and remains headquartered there.

### KEY INVESTMENT CONSIDERATIONS:

**Growing Through Economic Adversity** – Roundy's has proven its ability to grow during financial crisis and through recovery. Sales in 2008 and 2009 were relatively flat and have been growing since. Net sales reached \$3.9 billion in fiscal 2012. Second quarter 2013 results were disappointing in core markets because of a "perfect storm" of events related to timing of holidays, weather, competitive store openings, and regional lag in economic recovery. Management has plenty of experience to manage profitably through these factors. Roundy's is on target with the renewal project of 69 Pick 'n Save stores in Milwaukee. This started in late 2012 with a test group that proved the repositioning at the higher end will increase sales and EBITDA in 2014. The transition of the remaining stores will be complete in the third quarter.

**Advantages of Local Market Leadership** – Roundy's enjoys strong customer recognition, traffic and loyalty giving it increased flexibility to respond to competitive activity. It uses merchandising, pricing and advertising strategies that are customized to the local demographics and customer preferences. Distribution, logistics and purchasing also benefit from regional emphasis.

**Track Record with Big Boxes** – During the past decade, Roundy's market share has expanded even in markets where Wal-Mart has shown considerable growth. It is the smaller independent operators that are ceding market share to the rivals. In each of Roundy's primary Wisconsin markets, Roundy's share has grown from 34% to 39%, despite Wal-Mart more than doubling their share to 16%.

**Growth in Chicago Exceeding Expectations** – Roundy's opened its first Chicago location in 2010 under the Mariano's banner and currently has ten stores operating. The Chicago market, the third-largest metropolitan area in the U.S., has above-average

demographics to support greater spending on higher margin quality which is the target of this higher end brand. Mariano's sales volumes are two times the average store with highly compelling store profitability and return on investment. Roundy's is targeting five new stores per year and has so far exceeded its goals related to timing and store economics.

**Strong Cash Flow** – Roundy's cash flow is capable of funding innovative store growth and a continued dividend yielding approximately 5.5% annually. It has an interest coverage ratio of more than four times.

**Emphasis on Margins** – Initiatives in place to increase margins include focus on higher margin items such as Roundy's own brand items, and perishable products and specialty prepared foods. Since 2005, company-branded SKUs have grown from 1,600 to 6,100. Perishables are a key differentiator for Roundy's and are in growing demand based on healthier eating habits. On the other side of the equation, the company is also implementing labor productivity measures, distribution improvements, and strategic remodels and relocations.

### VALUATION:

The current stock price allows investors to basically buy the core business and get the exploding Mariano's opportunity as a bonus.

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Investment Data (as of 9/24/13)

<b>Recent Price</b>	<b>\$9.19</b>
52-Week Range	\$3.69 - \$9.87
Fiscal Year End	Dec 29
Dividend	\$0.48
Yield	5.4%
Shares Outstanding	45 M
Average Trading Volume (3 mos)	460k
Market Capitalization	\$414 M
Cash	\$76 M
Long-term Debt	\$690 M
Enterprise Value (EV)	\$1 B
Book Value	\$4.59
TTM Revenue	\$3.9 B
P/ Revenue	0.1x
TTM EPS	\$(1.53)
P/ EPS	NA
TTM EBITDA	\$180 M
EV/ EBITDA	5.6x

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