Albertsons

INVEST/STAY
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INITIAL REPORT JUNE 25, 2023
LAST UPDATED JUNE 25, 2023

ALBERTSONS COMPANIES, INC.

$21.34; Recommendation: HOLD, target $24.00

Albertsons (ACI) is the fourth largest food retailer in the United States operating 2,271 stores in 34 states under 24 different banners, including Safeway and Vons. The largest 3 food retailers are Walmart, Kroger and then Costco. The company was sold to Kroger for $34.10 in October of 2022. But there are questions about the approval process. As part of the sale a special $6.85 per share dividend was paid in January that was deducted from the buyout price. In addition, current shareholders are expected to bear the burden of any required store divestitures, that are not sold, through the issuance of a new "SpinCo" equity. So, the remaining cash value of the buyout is $27.25 minus the value of the SpinCo equity shares.

The deal attracted lawsuits from attorney generals in Washington and California where Kroger and Albertsons have the heaviest overlap of stores. Currently, the companies own around 4,990 grocery stores and may be required to divest over 300 stores if the merger is approved by the FTC. The question of who would actually benefit from the merger or created synergies (if any) seems to be somewhat fuzzy. Cost savings of $1 billion are projected for Kroger, which is over $200,000 per store and seems high to us. SpinCo is advertised to be a "new, agile competitor with quality stores" but we view this as barely possible.

We estimate the possible value of SpinCo shares to be $1-$2.50 per share leaving around $25-26 per share in cash payment if the deal is consummated. However, the valuation of the SpinCo shares could be as high as $5 or 6 depending on if there are buyers for the stores.

Albertsons is a solid company at an attractive valuation of 4.8 X EBITDA and 9 X our 2023 earnings. The company also has large real estate holdings. Recently, the company has had a positive correlation with inflation leading to higher operating income. Our price target of $24 is based on 5.2 X EBITDA & 10 X 2023 earnings as well as our projected after dividend cash flow build of $4.5 billion over the next 3 years. Although investors will get a small benefit if the merger is completed, we view this as more of a distraction with an unpredictable outcome and advise investors to observe from the sidelines for a possible entry point.

COMPANY STATS $	
Shares Out	574 mm
Equity Market Cap	12,247 mm
Total Debt	8,484 mm
Current Stores	2,271
2023 Revenues Est.	79,979 mm
2023 Cash Flow - Capex Est.	1,679 mm
Current Equity Market Cap.	**12,247 mm**
Enterprise Value	20,275 mm
EBITDA (2023 Est.)	4,206 mm
EV/EBITDA (2023 Est.)	4.8 X
Cash Flow after Capex	1,679 mm
Cash Flow/Equity Cap	13.7%
Net Debt/EBITDA	**1.9 X**
Broxton 2023 GAAP EPS Est.	2.40
Broxton 2024 GAAP EPS Est	2.48
Broxton 2025 GAAP EPS Est	2.85
Dividend	.48 (2.24%)
Real Estate appraised value*	11,200 mm

MERGER PRESENTATION

RECENT EARNINGS RELEASE

SMART YIELD
Income Fund

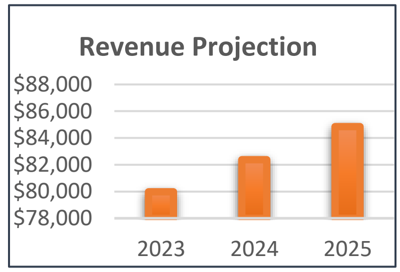
BROXTON CAPITAL ADVISORS **ACI as of 2/25/2023**

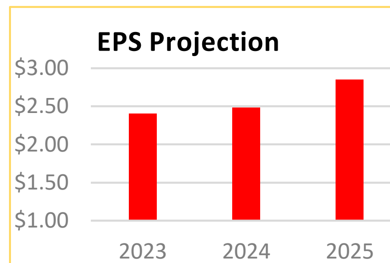
Monday, June 26, 2023

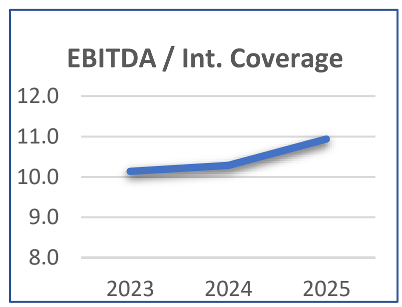
share price	$21.34		
PROJECTIONS IN MMs (fiscal)	2023	2024	2025
Income Statement			
Revenue	$79,979	$82,379	$84,850
Gross Profit	22,194	22,654	23,334
Operating Income	2,206	2,267	2,538
Pre-Tax Income	1,791	1,852	2,123
Net Income	1,379	1,426	1,635
EPS	$2.40	$2.48	$2.85
Non-GAAP EPS	$2.67	$2.75	$3.12
Revenue growth	3.00%	3%	3%
EBITDA	$4,206	$4,267	$4,538
Interest Exp	415	415	415
Capitalized Expense	1,700	1,700	1,700
Cash Flow	3,379	3,426	3,635
Equity Dividends	276	276	276
Cash Flow Dividend Coverage	**610%**	**626%**	**702%**
Cash Flow after capex	1,679	1,726	1,935
Retained Cash Flow Sum	1,404	2,854	4,514
Valuations			
Cash Flow Yield Vs. Equity	13.7%	14.1%	15.8%
EV/EBITDA	4.8	4.8	4.5
P.E Ratio	8.9	8.6	7.5
Enterprise Value	20,275		
Net Total Debt	8,028		
Equity Market Cap	12,247	12,247	12,247
Debt Ratios			
EBITDA/Interest Coverage ratio	10.1	10.3	10.9
Net Debt/EBITDA	**1.9**	**1.9**	**1.8**
Liquidity	Feb. 25 2023		
Cash & Marketable Sec	456		
Borrowing Availability *est.*	2000 +		
Total Current Assets	1,261		
Total Current Liabilities	1,211		
Current Ratio	104%		
Debt			
Borrowings	$8,484		
Borrowings Net	$8,028		

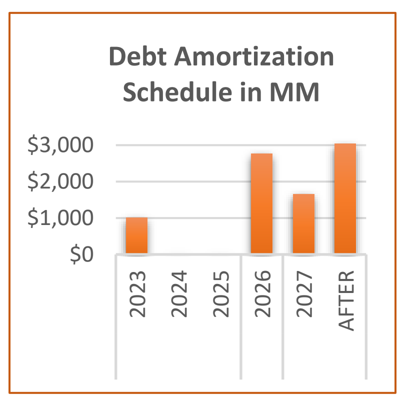
NOTES:

*source 2020 ACI IPO prospectus









SMART YIELD

Income Fund

Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. 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