Investment Analysis of Dairy Farm

8 May 2016

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Investment Thesis

Investment Thesis	Dairy Farm (DF)'s two fundamental strengths are: (i) resilience in its business model (as evidenced by high ROIC) and (ii) a wide platform across business lines and geographical territories to create organic and acquisition growth on top of same-store-sales growth. In recent years, its financial performance has deteriorated. Share price has also slide from high of ~USD12 in Feb2013 to low of ~USD6 in Feb2016. Assuming that financial performance would improve, and at share price of USD5.80, an investment in DF could yield a FCF return of 9.0%. From dividend yield perspective, at share price of USD5.80, return based on FY2015 dividend of USD20cts/share is 3.4%.
Earnings Power	Assessing DF's underlying business performance and excluding performance of its associates and joint ventures, DF earns a high ROIC of about 50%. The high ROIC is in spite of low FCF margin (~4%) and is due to high asset turnover (~3x) and high leverage on operating capital (~4x). ROIC has declined in recent years as FCF margin compressed under challenging trading conditions and as DF invested a higher amount in operating capital.
Industry Conditions and Competition	In recent years, DF has faced challenging trading conditions: weaker economic environment, heightened competition and higher operating costs. Adverse FX movements have also impacted reported earnings. In response to challenging trading conditions, DF reduced dividend to USD20cts/share in FY2015 (FY2014: USD23cts/share).
Strengthening of Value Proposition and Competitive Position	As a retailer, DF has continuously improved its business, by increasing appeal to customers (refurbishing stores to enhance store attractiveness, promoting own labels) and by increasing operating efficiency (investing in supply chain and systems). Graham Allan, appointed as CEO in 2013, emphasised even more strongly on: (i) consumer-centric retailing; (ii) store-level volumes and profitability and (iii) expansion based on sound business models, and had re-organised DF into four business divisions to better execute these strategies. Prior to January 2013, DF managed the business by geographical territory.
Potential for growth	DF's store network has expanded through organic growth and acquisitions. However, downsizing in certain markets (e.g. Taiwan, Singapore and Indonesia) and exit from India show that unattractive business economics and misjudgments by DF exist in some markets. Overall, surmise that DF's presence across Asia provides a wide platform for organic and acquisition growth.
Capital Management	DF has historically maintained a low level of debt and an overall net cash position. The large amount (USD1,065mn) spent on acquisitions in FY2015 has increased DF's debt level and greatly reduced its cash reserve. Even so, financial position at Dec2015 is conservative, with gearing ratio of 33% and interest cover of 29x.

Valuation Assumptions (Plausible Optimistic Scenario)

Pricing
in mn USD

Test share price here ($)	5.80	
No of shares (mn)	1,352	1,352.2 million shares isssued and fully paid at Dec 2015.
(Excess cash)	(63)	At Dec 2015, cash of USD259mn. Deposits with banks = USD63mn. Assume bal needed for operations.
Debt	900	Subsequent to FY2015, DF refinanced borrowings through new bank loans totaling USD900mn.

Base Year
in mn USD

Revenue	11,137	
Operating assets	3,459	
Operating capital	833	
Free cash flow	439	
(+) Other income	62	Dividends from associates: Maxim's and Yonghui
(-) Other expenses	-	

Projection	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8	Yr9	Yr10
Revenue growth	3.0%	→	→	→	→	6.0%	→	→	→	→
Revenue / Op assets	330%	→	→	→	→	360%	→	→	→	→
Op assets / Op capital	415%	→	→	→	→	415%	→	→	→	→
FCF / Revenue	4.5%	→	→	→	→	6.0%	→	→	→	→
Other income growth	3.0%	→	→	→	→	6.0%	→	→	→	→
Other expenses growth	0.0%	→	→	→	→	0.0%	→	→	→	→

Industry Conditions and Competition	Assume that in Yr1-5, Asian economies remain weak and sales growth subdued. Assume stronger growth in Asian economies in Yr6-10 with positive impact on DF's revenue growth and FCF margin.
Strengthening of Value Proposition and Competitive Position	Assume that in Yr1-10, DF's attractiveness to shoppers and operational efficiency would gradually improve under a new management team (spearheading more direct sourcing, increased fresh participation, stronger focus on corporate brands development and investment in supply chain and systems). Assume that such improvements would positively impact revenue growth, FCF margin and asset turnover.
Potential for growth	Assume that DF's presence across Asia provides a wide platform for further organic (new stores) and acquisition growth.
Other income • Dividend from Maxim's • Dividend from Yonghui	**Maxim's (DF has 50% of ownership interest)** DF's restaurant business is wholly carried out by its 50%-owned associate-Maxim's. Maxim's generated nearly USD2bn revenue and USD169mn net profit and paid USD46mn in dividends to DF in 2015. From 2012 to 2015, Maxim's revenue and net profit had averaged annual growth of ~10% and ~7% respectively. Assume that dividends from Maxim's would grow 3% p.a. in Yr1-5 and 6% p.a. in Yr6-10. Near-term, assume weak economic environment in Asia. Medium-term, there is potential for Maxim's to expand franchises across geographies. However, Maxim's large size limits growth rate. **Yonghui (DF has 19.99% of ownership interest)**

Yonghui paid USD16mn in dividends to DF in 2015. Assume same growth rate as Maxim's.

Valuation (Plausible Optimistic Scenario)

Valuation

in mn USD

							EV		10-yr Avg CF		Return
Share price ($)	5.80		(Cash)	(63)							
No of shares (mn)	1,352	+	Debt	900	=		8,680	vs	781	=	9.0%
Market cap	**7,843**		**Net (Cash) / Debt**	**837**							

Projections	**Base**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
YE Dec											in mn USD
Revenue	11,137	11,471	11,816	12,170	12,535	12,911	13,686	14,507	15,377	16,300	17,278
Revenue growth		*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
Operating assets	3,459	3,476	3,580	3,688	3,799	3,912	3,802	4,030	4,272	4,528	4,799
Asset turnover	322%	330%	330%	330%	330%	330%	360%	360%	360%	360%	360%
Operating capital	833	838	863	889	915	943	916	971	1,029	1,091	1,156
Op assets / Op capital	415%	415%	415%	415%	415%	415%	415%	415%	415%	415%	415%
Free cash flow	439	516	532	548	564	581	821	870	923	978	1,037
FCF margin	3.9%	4.5%	4.5%	4.5%	4.5%	4.5%	6.0%	6.0%	6.0%	6.0%	6.0%
FCF / Op capital	53%	62%	62%	62%	62%	62%	90%	90%	90%	90%	90%
FCF growth		*17.6%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*41.3%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
Other income	62	64	66	68	70	72	76	81	85	91	96
Other expenses	-	-	-	-	-	-	-	-	-	-	-
Total cash flow		580	597	615	634	653	897	951	1,008	1,069	1,133
(-) CF re-invested		(4)	(25)	(26)	(27)	(27)	27	(55)	(58)	(62)	(65)
CF distributed		**576**	**572**	**589**	**607**	**625**	**924**	**896**	**950**	**1,007**	**1,067**

Projection overall	Overall, DF is projected to average USD781mn in distributable cash flow in FY2016-2025, an increase of 56% over the USD501mn generated in FY2015. Importantly, this projected improved performance and the positive assumptions driving it are predicated on two fundamental strengths of DF, namely: (i) resilience in its business model (as evidenced by DF's high ROIC) and (ii) a wide platform across business lines and geographical territories to create organic and acquisition growth on top of same-store-sales growth.
Valuation	At share price of USD5.80, an investment in DF could yield a FCF return of 9.0%.
Pessimistic scenario (lower FCF margin)	Returns are highly sensitive to FCF margin. If FCF margin is 4% through FY2025, at share price of USD5.80, an investment in DF could yield a lower FCF return of 6.9%.

Analysis of Earnings Power

YE Dec in mn USD	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Business Growth										
Revenue	-	-	-	-	7,971	9,134	9,801	10,357	11,008	11,137
Revenue % y-o-y		***0.0%***	***0.0%***	***0.0%***	***0.0%***	***14.6%***	***7.3%***	***5.7%***	***6.3%***	***1.2%***
Free cash flow (4)	-	-	-	-	502	528	481	446	427	439
FCF % y-o-y		***0.0%***	***0.0%***	***0.0%***	***0.0%***	***5.1%***	***-8.9%***	***-7.3%***	***-4.3%***	***2.9%***
Revenue / Op assets										
Revenue	-	-	-	-	7,971	9,134	9,801	10,357	11,008	11,137
Operating assets	-	-	-	-	2,524	2,685	3,003	3,010	3,456	3,459
Revenue / Op assets	**0%**	**0%**	**0%**	**0%**	**316%**	**340%**	**326%**	**344%**	**319%**	**322%**
Op assets / Op capital										
Operating assets	-	-	-	-	2,524	2,685	3,003	3,010	3,456	3,459
Operating capital	-	-	-	-	459	340	538	515	850	833
Op assets / Op capital	**0%**	**0%**	**0%**	**0%**	**550%**	**791%**	**558%**	**585%**	**407%**	**415%**
									(3)	
FCF / Revenue										
Free cash flow	-	-	-	-	502	528	481	446	427	439
Revenue	-	-	-	-	7,971	9,134	9,801	10,357	11,008	11,137
FCF / Revenue	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**6.3%**	**5.8%**	**4.9%**	**4.3%**	**3.9%**	**3.9%**
							(2)			
FCF / Op capital										
Revenue / Op assets	0%	0%	0%	0%	316%	340%	326%	344%	319%	322%
Op assets / Op capital	0%	0%	0%	0%	550%	791%	558%	585%	407%	415%
FCF / Revenue	0.0%	0.0%	0.0%	0.0%	6.3%	5.8%	4.9%	4.3%	3.9%	3.9%
FCF / Op capital	**0%**	**0%**	**0%**	**0%**	**109%**	**155%**	**89%**	**87%**	**50%**	**53%**
										(1)

(1) High though declining ROIC

Assessing DF's underlying business performance and excluding performance of its associates and joint ventures, DF earns a high ROIC of about 50%. The high ROIC is in spite of low FCF margin (~4%) and is due to high asset turnover (~3x) and high leverage on operating capital (~4x).

ROIC has declined in recent years as FCF margin compressed under challenging trading conditions and as DF invested a higher amount in operating capital.

(2) Downtrend in FCF margin

While revenue grew in FY2010-2015, FCF decreased due to a reduction in FCF margin from 6% in FY2010 to 4% in FY2015. Reduction in FCF margin reflects increasingly challenging trading conditions: weaker economic environment, heightened competition and higher operating costs.

(3) Large increase in operating capital

Large increase (USD335mn) in operating capital from FY2013 to FY2014, contributed largely by goodwill arising from acquisitions and net capex.

(4) Operating and free cash flow

OCF computed as: Cash flow from operating activities less dividends from associates and joint ventures, and less interest received and add back interest and other financing charges paid.

FCF computed as: OCF less D&A. D&A is used to proxy maintenance capex as reported capex includes growth capex (for new stores).

In FY2015, DF incurred total capex of USD304mn:
- USD134mn was used for investment in new stores.
- USD170mn was used for investments in supply chain, systems and store refurbishment (maintenance capex).
- D&A was USD$212mn, > than maintenance capex.

In FY2014, DF incurred total capex of USD345mn:
- USD173mn was used for investment in new stores.
- USD173mn was used for investments in supply chain, systems and store refurbishment (maintenance capex).
- D&A was USD$203mn, > than maintenance capex.

Analysis of DF's high leverage on operating capital

20. CREDITORS

	2014 US$m	2013 US$m
Trade creditors	1,599.2	1,556.8
Accruals	787.3	734.0
Rental and other refundable deposits	27.0	22.8
Derivative financial instruments	0.3	0.1
Other creditors	11.5	9.7
Financial liabilities	2,425.3	2,323.4
Rental and other income received in advance	4.1	3.2
	2,429.4	2,326.6
Non-current	16.5	17.3
Current	2,412.9	2,309.3
	2,429.4	2,326.6

Balance Sheet

(US$ m)	31/12/2013	31/12/2014
Intangible Assets	408	566
Property	453	520
Other Fixed Assets	636	701
Associates and Joint Ventures	370	388
Net Working Capital	(1,041)	(1,027)
Net Cash	638	475
Others	(87)	(100)
Total Equity	1,377	1,523
Trade Creditors to Stock Ratio	1.6x	1.6x

Operating assets is funded to a large extent by current creditors, with stocks more than fully funded by suppliers

DF enjoys high leverage on operating capital because operating assets is funded to a large extent by current creditors, which is made up largely by trade creditors and accruals.

Trade creditors to stock ratio was 1.6x in FY2013 and FY2014. Thus surmise that at any time, stocks in stores are more than fully funded by suppliers.

- FY2013 = 1557 / 976 = 1.6x
- FY2014 = 1599 / 1011 = 1.6x

Analysis of increase in operating capital from FY2013 to FY2014			
YE Dec	**2013**	**2014**	**Analysis**
in mn USD			
Intangible assets	407.5	566.1	Key operating asset Increase of USD159mn
Tangible assets	1,081.7	1,219.2	Key operating asset Increase of USD138mn
Non-current debtors	138.2	179.7	
Deferred tax assets	22.2	27.7	
Pension assets	7.2	–	
Stocks	976.0	1,011.0	Key operating asset
Current debtors	213.2	252.1	
Current tax assets	6.6	4.0	
Bank balances	75.1	94.9	
Cash balances	82.1	101.4	
Operating assets	**3,009.8**	**3,456.1**	**Key operating assets are (i) intangible +tangible assets and (ii) stocks.**
Current creditors	(2,309.3)	(2,412.9)	Key operating liability
Current tax liabilities	(58.2)	(52.9)	
Current provisions	(11.0)	(6.3)	
Deferred tax liabilities	(44.9)	(46.7)	
Pension liabilities	(24.0)	(37.7)	
Non-current creditors	(17.3)	(16.5)	
Non-current provisions	(30.6)	(33.6)	
Operating liabilities	**2,495.3**	**2,606.6**	**Key operating liabilities are (i) current creditors.**
Operating capital	**514.5**	**849.5**	**Large increase in operating capital due to an expansion in intangible + tangible assets**

Large increase in operating capital from FY2013 to FY2014	Large increase in operating capital (USD335mn) from FY2013 to FY2014 contributed largely by goodwill arising from acquisitions and net capex. Increase in intangible assets of USD159mn contributed largely by goodwill arising from the acquisition of Rustan (USD125mn). In 2014, DF acquired an additional 16% interest in Rustan Supercenters, Inc., increasing its shareholding to 66%. Increase in tangible assets of USD138mn contributed by additions (USD306mn) > depreciation charge (USD193mn) by USD113mn.

Capital Management

Financial Position					
YE Dec	**2012**	**2013**	**2014**	**2015**	**2016P**
in mn USD					
Debt	146	91	187	740	900
Cash	(667)	(728)	(662)	(259)	→(259)
Net debt (Cash)	(521)	(638)	(475)	482	641
Equity	1,239	1,377	1,523	1,455	→1,455
Net debt / equity	**net cash**	**net cash**	**net cash**	**33%**	**44%**

Subsequent to the year end (of FY2015), the Group has refinanced existing borrowings through new bank loans totaling **US$900 million** in a range of maturities up to 5 years. These new bank loan facilities have **taken into consideration the funding requirement to invest a further US$200 million in Yonghui** to maintain the Group's 19.99% interest following a proposed placement by Yonghui of 10% shareholding to JD.com. These loans are largely expected to be drawn down during March 2016.

		2015	2016P
EBIT	n.m.	435	→435
Interest expense		15	18
EBIT / interest		**29x**	**24x**

- Assume 2016P interest expense = 2% x USD900m = USD18mn.
- DF has historically maintained a low level of debt and an overall net cash position.
- Financial position at Dec2015 is still conservative, with gearing ratio of 33% and interest cover of 29x.

Acquisition of Yonghui

- At 31st December 2014, the Group had an investment commitment of RMB5.69 billion (equivalent to **US$912.0 million**) to acquire, by way of subscription of new shares, 19.99% of the enlarged share capital of Yonghui. The acquisition was completed in April 2015.
- Drawdown of borrowings in 2015 included a **US$800.0 million bank loan** drawn to finance the acquisition of the 19.99% interest in Yonghui.
- → Acquisition of Yonghui financed almost entirely by debt.

2015 Interest Rate Profile

	Fixed rate borrowings				
By currency	**Weighted average interest rates %**	**Weighted average period outstanding Year**	**US$m**	**Floating rate borrowings US$m**	**Total US$m**
2015					
Brunei dollar	2.5	–	–	0.4	**0.4**
Indonesian rupiah	10.2	–	–	7.3	**7.3**
Malaysian ringgit	4.2	–	–	49.7	**49.7**
New Taiwan dollar	1.4	–	–	3.3	**3.3**
Philippines peso	3.6	0.9	74.2	5.3	**79.5**
United States dollar	0.7	–	–	600.0	**600.0**
			74.2	**666.0**	**740.2**

Cash Flow Statement		
YE Dec	**2015**	**Analysis**
Cash flows from operating activities + Dividends from associates and jvs	**699.8**	
Capex	(300.4)	
FCF	**399.4**	2015 dividends could be fully funded by FCF with excess to spare.
Acquisitions	(1,065)	2015 Acquisitions funded largely by debt, and cash reserves and some FCF.
Net drawdown / (repayment) of borrowings	573.1	2015 Acquisitions funded largely by debt, and cash reserves and some FCF.
Others	15.7	
Dividends paid by the Company	(311.0)	2015 Dividends could be fully funded by FCF with excess to spare.
Net decrease in cash and cash equivalents	**(387.8)**	Cash reserves reduced from funding acquisitions in 2015.
Effect of exchange rate changes	(12.1)	
Cash and cash equivalents at 1st January	656.6	Cash reserves reduced from funding acquisitions in 2015.
Cash and cash equivalents at 31st December	**256.7**	
PATMI	**428.1**	

Management and Substantial Shareholders

New Chairman from 2013

- New Chairman, Ben Keswick, is son of previous Chairman, Simon Keswick.
- Ben Keswick took over the positon of Managing Director of Jardine Matheson Holdings Limited from Anthony Nightingale in 2012.

> I will be stepping down as Chairman of the Company after the Annual General Meeting on 15th May 2013. I will remain as a non-executive Director. I am pleased to advise that Ben Keswick will be succeeding me as Chairman.
>
> **PROSPECTS**
>
> Good performances were seen in many of the Group's operations in 2012, although the reported underlying profit was affected by the reversal of supplier income in Giant Malaysia. While trading conditions remain challenging in some areas, Dairy Farm's prospects for 2013 are underpinned by its market leading businesses and strong financial position.
>
> SIMON KESWICK
> *Chairman*

New CEO from 2013

- Graham Allan took over the CEO position from Michael Kok in 2013, having been COO since June 2012.
- Prior to joining Dairy Farm, Mr Allan was President and CEO at Yum! Restaurant International and was responsible for global brands KFC, Pizza Hut and Taco Bell in all markets except the US and China.

> Michael Kok retired as Group Chief Executive at the end of December 2012 after six years in the role. On behalf of the Board, I would like to record our appreciation and to thank Michael for his valuable contributions to the Group. He remains as a non-executive Director. We welcome his successor, Graham Allan, who joined the Board as Group Chief Executive on 1st January 2013.

Substantial Shareholders

As at 3rd March 2016

- Jardine Strategic Holdings Limited has 77.62% of the voting rights.
- No other holders of voting rights of 5% or more.

As at 11th March 2015

- Jardine Strategic Holdings Limited has 77.63% of the voting rights.
- Franklin Resources, Inc. has 6.16% of the voting rights.
- No other holders of voting rights of 5% or more.

Annex A – Business Platform

North Asia contributes bulk of profit	North Asia (Hong Kong, Taiwan, China and Macau) accounts for about 80% of operating profit.

By Business Lines

4. Sales

	Including associates and joint ventures			Subsidiaries	
	2015 US$m	2014 US$m		**2015 US$m**	2014 US$m
Analysis by operating segment:					
Food	**12,893.6**	8,404.1		**8,196.8**	8,108.8
– Supermarkets/hypermarkets	**11,012.3**	6,544.5	57%	**6,315.5**	6,249.2
– Convenience stores	**1,881.3**	1,859.6	17%	**1,881.3**	1,859.6
Health and Beauty	**2,563.1**	2,454.5	21%	**2,372.5**	2,402.1
Home Furnishings	**568.0**	497.4	5%	**568.0**	497.4
Restaurants	**1,882.3**	1,746.8		**–**	–
	17,907.0	13,102.8		**11,137.3**	11,008.3

5. Operating Profit

		2015 US$m	2014 US$m
Analysis by operating segment:			
Food		**235.8**	298.6
– Supermarkets/hypermarkets	35%	**171.7**	225.9
– Convenience stores	13%	**64.1**	72.7
Health and Beauty	38%	**185.5**	218.8
Home Furnishings	13%	**63.6**	50.7
		484.9	568.1
Support office		**(49.6)**	(43.8)
		435.3	524.3

By Geographical Territories

4. Sales (Continued)

Set out below is an analysis of the Group's sales by geographical locations:

	Including associates and joint ventures		Subsidiaries			
	2015	2014		**2015**		2014
	US$m	US$m		**US$m**		US$m
Analysis by geographical area:						
North Asia	**12,911.0**	7,716.9	57%	**6,344.2**	54%	5,976.8
East Asia	**2,546.4**	2,908.2		**2,523.0**		2,891.7
South Asia	**2,449.6**	2,477.7		**2,270.1**		2,139.8
	17,907.0	13,102.8		**11,137.3**		11,008.3

The geographical areas covering North Asia, East Asia and South Asia, are determined by the geographical location of customers. North Asia comprises Hong Kong, mainland China, Macau and Taiwan. East Asia comprises Malaysia, Indonesia, Vietnam and Brunei. South Asia comprises Singapore, Cambodia, the Philippines and India.

5. Operating Profit (Continued)

Set out below is an analysis of the Group's operating profit by geographical locations:

		2015		2014
		US$m		US$m
Analysis by geographical area:				
North Asia	86%	**416.0**	73%	414.8
East Asia		**31.6**		79.2
South Asia		**37.3**		74.1
		484.9		568.1

Annex B - Retail Network at Dec2015

2012

Dairy Farm enters the Cambodian market through the acquisition of a 70% interest in a company that operates seven **Lucky** supermarkets and nine fast food outlets in the country.

2012

Dairy Farm enters the Philippines market by acquiring a 50% interest in **Rustan's Supercenters**, which operates ten Shopwise hypermarkets, 13 Rustan's supermarkets and nine Expresslanes supermarkets.

2013

The first **Guardian** health and beauty store opens in Phnom Penh, Cambodia.

2015	Food			Health and Beauty	Home Furnishings	Restaurants	Total	Net addition
	Supermarkets	Hypermarkets	Convenience Stores					
Hong Kong	319	–	933	365	3	705	**2,325**	38
Macau	15	–	47	17	–	11	**90**	20
China	99	283	747	230	–	179	**1,538**	474
Singapore	110	8	458	136	–	–	**712**	(49)
Indonesia	154	53	84	318	1	–	**610**	(94)
Malaysia	76	79	–	434	–	–	**589**	7
Brunei	–	1	–	21	–	–	**22**	(1)
Taiwan	247	–	–	–	5	–	**252**	(3)
The Philippines	43	13	–	250	–	–	**306**	14
Vietnam	–	1	–	38	–	18	**57**	19
Cambodia	10	–	–	6	–	11	**27**	2
Total	**1,073**	**438**	**2,269**	**1,815**	**9**	**924**	**6,528**	**427**
Net change over 2014	97	282	(10)	15	–	43	427	

2015

Invested in a 20% stake in **Yonghui** Superstores in China in 2015.

2015

Acquired **San Miu** supermarket chain in Macau in 2015.

2013

Maxim's opens its first **Starbucks** store in Vietnam.

2014

Entered the Philippines Health and Beauty market through the acquisition of a 49% stake in **Rose Pharmacy** Inc.

2015

The first **IKEA** store opens in Indonesia in 2015.

Annex C – Insights into Supermarket Retail

Low prices	Customers are willing to pay an annual membership fee to Costco because they know prices at Costco will be low. Everything at Costco is priced at 14% margin except its own brands which are priced at 15%.
Customer centric	Shopping at Trader Joe's is a cultural experience. Trader Joe's delights customers with interesting new items. Trader Joe's product placement is based on what works best for customers and not based on products' profit margins.
Direct sourcing from manufacturers	Cut out distributors.
Own brands	At Trader Joe's, 80% of stock bears its brand.
Fewer SKUs	Fewer SKUs is better for in-store labour productivity.
Leverage with vendors	High sales volume and few vendors give supermarkets more bargaining power.
Focus on frontline employees	Retail is about many small transactions and logistics. Walmart raised minimum wages for associates and increased training time in order to give more responsibility and get more accountability from frontline workers.
Supplier income	Supplier incentives, rebates and discounts are collectively referred to as supplier income in the retail industry. Supplier income is recognized as a deduction from cost of sales on an accruals basis based on the expected entitlement which has been earned up to the balance sheet date for each relevant supplier contract. Supplier income could be more profitable for a supermarket than generating sales from customers.
Greenfield vs mature markets	Difficult to grow a retail network of much size in mature markets.

Acronyms

Capex	Capital expenditure
D&A	Depreciation and amortisation
DF	Dairy Farm
FCF	Free cash flow
FY	Financial year
OCF	Operating cash flow
ROIC	Return on invested capital