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Food World

1978 40 YEARS 2018

WWW.BEST-MET.COM

Vol. 74 No. 12 WHOLESALERS ISSUE December 2018

TAKING STOCK

by Jeff Metzger

Acosta Reorg Creates Uncertainty About National Broker's Long-Term Health

The first call came from a large retailer in the Northeast. He asked if I was aware of the recent changes at Acosta Sales & Marketing, the second largest national brokerage organization and one of the most influential sales and merchandising companies in the grocery business.

I have been following the Jacksonville, FL-based firm for many years and was certainly aware of some of their financial issues and organizational changes that have been made in the past few years, especially since private equity firm The Carlyle Group acquired Acosta in 2014. But as I further researched the current changes, I was surprised to learn the depth of its recent restructuring.

According to a video recorded by new CEO Alejandro Rodriguez Bas

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Parent Ahold Delhaize Tells Investors It Will Focus On Expanding Omnichannels, Technology

Giant Food To Get $175M Capital Infusion; Stop & Shop Also Gains

After nearly a decade of minimal store-driven capital investment, the Ahold USA banners in the Ahold Delhaize USA lineup will be getting considerable attention over the next few years.

Earlier this year, the best performing unit within the original Ahold USA network – Giant/Martin's - was given $70 million in store improvement funding. That investment will yield six new stores, five new fuel stations and two major remodelings. The Carlisle, PA-based brand also recently acquired and last month opened a new Lancaster, PA location that was previously owned by the Darrenkamp family. It plans to open its first Giant Heirloom Market next month in Center City Philadelphia, its first small format model. And in October, the division acquired five Shop 'n Save stores in Maryland, Pennsylvania, West Virginia and Virginia from UNFI. Those stores were formerly Food Lion stores before the government ordered them to be divested as part of the Ahold-Delhaize merger in 2016.

At Stop & Shop, Ahold Delhaize's largest brand, the Quincy, MA merchant will also be receiving substantial capital over the next five years. In the last two months, the division spent

trolled the lion's share of market. Next up is revitalizing its more than 50 stores on Long Island and by 2023, the Amsterdam-based organization is expected to spend as much as $2 billion remodeling Stop & Shop's more than 400 stores that cover the New England and Metro New York markets.

And earlier this month, the third original Ahold USA banner – Giant Food – said it would be receiving $175 million targeted for store improvement and market expansion over the next two years. This significant expenditure will include one new store and 24 store remodels. These efforts are in addition to the recently announced $21 million investment

GREEN VALLEY MARKET HELD A PREVIEW PARTY DECEMBER 13 FOR its third store, a unit at the site of a former Mars Super Market in Timonium, MD. Welcoming guests to the newly refurbished 31,256 square foot store are Green Valley Market's (l-r) store manager Rick Fischer, Benjy and Barbara Green and Rick and Darla Rodgers. Additional photos are on page 14.

C&S, Wakefern, UNFI Outpace All Wholesale Grocers In Northeast

C&S Wholesale Grocers is the leading wholesaler in the Mid-Atlantic and Northeast market area, according to data compiled by Best-Met Publishing Co. The

Martin's, Giant Food (all Ahold Delhaize USA firms), Tops Markets, Fairway Market, Gerrity's, Musser's and independent retailers that are part of the Key Food,

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duce and dry grocery items by mysterious Amazon skeptics.

"We're looking at any and all ways in which we can reassert the city's and people's process here. It cannot be that the mayor, governor and (Amazon CEO) Jeff Bezos – literally three men in a room – can conspire to give him $3 billion...," said councilman Van Bramer.

He's right. Not only would his constituents ultimately suffer, many other New York City denizens and merchants would also feel the torment of this insider deal.

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I have been following the Jacksonville, FL-based firm for many years and was certainly aware of some of their financial issues and organizational changes that have been made in the past few years, especially since private equity firm The Carlyle Group acquired Acosta in 2014. But as I further researched the current changes, I was surprised to learn the depth of its recent restructuring.

According to a video recorded by new CEO Alejandro Rodriguez Bas (ex-C&S, ex-Lala Dairy) who came aboard in July, Acosta has made these changes in order to become a more efficient organization that will "eliminate structural redundancies and barriers." Acosta will now operate six geographic regions (hubs) across the country with five dedicated customers teams – Kroger, Publix, Target, H-E-B and Albertsons/Safeway (what happened to Walmart, Ahold Delhaize USA and Wakefern?). The company said it will also resign "negative margin business" because "like you (Acosta's clients) we need to make a profit." Bas also promised that Acosta will have 4 percent more planning and selling resources than before.

Since we began Best-Met Publishing 40 years ago, our publications have always devoted a lot of space to the important role of the food broker in the entire grocery industry. We've seen the business evolve from a local/regional mom-and-pop entrepreneurial model to one where three huge national brokers, some large regional entities and a few specialty brokers now comprise the sales agency playing field.

Ever since the late 1990s, when the roll-up movement of many local brokerages began and evolved to the formation of a national broker model, there has been much industry discussion about whether a "one size fits all (or many)" sales organization could sustain itself and ultimately prosper. In the early years, the most public of those national firms – Marketing Specialists, which was formed in early 1998 and literally went public later that year – flamed out spectacularly three years later.

Today, along with Acosta, Advantage Solutions and Crossmark remain as the two other national food brokerage companies.

But all three companies, in my opinion, have been handicapped by the significant debt on their books and the ownership structures they are governed by (all are controlled by private equity firms and both Advantage and Acosta have had multiple PE owners over the past 14 years).

Of all three firms, Acosta seems to be the most strapped. It currently sits on a $3 billion debt load (that it reportedly hasn't been significantly reduced in 2018). Earlier this year, Moody's, the economic research and credit rating service, downgraded Acosta's credit rating (to Caa2 CFR). The April 2018 report noted: "The Caa2 also reflects ongoing industry headwinds and Acosta's financial sponsor ownership, both of which contribute to its weakened financial profile. Acosta's credit profile continues to benefit from its ability to cover its debt service costs with EBITA to interest expense of 1.4 times at January 31, 2018.

And according to Maggie Taylor, Moody's senior VP who is the company's chief Acosta analyst: "We view Acosta's capital structure as unsustainable as we believe industry headwinds will make it difficult for it to improve EBITDA over the next two years to the extent that it supports refinancing the large amount of debt which matures in 2021 without a high risk of a restructuring."

So, the restructuring was executed late last month, but at quite a cost. We

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spoke to more than a dozen current and former Acosta employees as well as some of the company's principals and retail customers. All were concerned about the staying power of one of the great selling organizations in the business and the effect the changes would have on the current associates. Several also expressed concerns about the Acosta executives who were riffed as part of the reorg.

Reportedly, Acosta cut approximately 10 percent of its total payroll – resulting in an estimated "savings" of about $30 million annually. More than 30 jobs at the SVP, VP and director level were also reportedly eliminated as the company seeks more financial stability and a revised operating model going forward. Moreover, we've heard that what remains of Acosta's "fresh" unit will be rolled into the company's core grocery business.

We reached out to Acosta for a comment on the current events and were told that we would only receive an email response: "As an organization with experience and a knowledge base that spans more than 90 years, Acosta has weathered and witnessed a myriad of changes in the retail environment and the consumer packaged goods (CPG) industry. In recent years, the market landscape has transformed much more rapidly than ever before in our Industry's history. Alongside our clients and customers, we have collectively felt the impact of this fundamental shift in our businesses.

"To successfully lead our organization, our clients and customers into the future, we realized a need to execute a strategic organizational redesign to respond more efficiently to our clients' business challenges and to mirror the trends impacting the CPG industry as a whole. After a thorough evaluation, Acosta will work to establish a simplified, more standardized model of operation that will not only eliminate inefficiencies and reduce organizational layers but will allow the company to better invest in frontline talent who can add value to clients' businesses. We are actively recruiting for these frontline positions. The redesign will enable Acosta to maximize results for our clients and customers." said Kirsten Barnhorst, senior manager marketing communications.

Of course, Acosta's issues are more than financial. Much like its industry peers, it has attracted some of the country's largest CPG manufacturers into its fold by offering a diversified menu of national services at reduced commission in many cases.

According to our reporting, large packers such as ConAgra and Nestle are paying 1 percent or less, a number that seems incompatible with profitability no matter what level of service any broker is performing.

If Bas and Acosta management think they can attain higher commissions from their larger CPG clients by offering a more personal and focused approach, that's a bet that I wouldn't want to make. And when financial decisions become a prime motivator on how to manage your business, you're already heading backwards.

With the tremendous industry consolidation of the past five years resulting in fewer retail customers to serve, you have to wonder, does the national broker route still provides the best service and sales opportunities for larger clients today?

And specifically at Acosta, can a new CEO and a restructured organizational approach allow it to overcome significant debt and the impediments that come with PE ownership?

'Round The Trade

It hasn't been a great month for UNFI which suffered an $18.8 million operating loss in its first quarter. And the financial community, which was not smitten by the company's acquisition of Supervalu earlier this year, hasn't helped to bolster UNFI's image. On the day prior to the purchase announcement (July 25), UNFI was trading at $41.18 per share; on December 19, the stock price had nosedived to a 15-year low of $9.75 per share (it was also announced that UNFI would be shifting its trading platform from NASDAQ to the New York Stock Exchange on January 2). Obviously, analysts fear the significant debt that UNFI inherited with the deal and they question the Providence, RI-based distributor's ability to shift from a natural/organic and specialty distributor to a full-service wholesaler, and a troubled one at that. UNFI is also making further progress on selling its corporate retail stores. Coborn's Inc., St. Cloud, MN, a current

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Amazon's NYC HQ2 Deal: Where's The Fair Shake For Other Competing Merchants?

Other than clueless New York City Mayor Bill de Blasio and slightly less clueless Governor Andrew Cuomo and Amazon itself, who actually likes the fact that one of the world's most powerful companies is getting a heavily subsidized ride to open HQ2, its second headquarters (along with Crystal City, VA), in the Big Apple?

The fact that local citizens and lawmakers (including city councilman Jimmy Van Bramer whose district covers Amazon's planned Long Island City site) knew virtually nothing about the deal until it was announced is unseemly enough. When you add the future effects of increased traffic (both automobile and subway), potentially spiraling real estate costs and the city's $2.8 billion incentive package bestowed upon Amazon, how is this a good deal for most

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Rugged Competition, Low Margins Impact Wholesalers, Annual Survey Reveals

C&S, Wakefern, UNFI Outpace All Wholesale Grocers In Northeast

C&S Wholesale Grocers is the eading wholesaler in the Mid-Atantic and Northeast market area, ccording to data compiled by Best-Met Publishing Co. The Keene, NH-based privately held wholesaler that supplies retailers such as Stop & Shop, Giant/Martin's, Giant Food (all Ahold Delhaize USA firms), Tops Markets, Fairway Market, Gerrity's, Musser's and independent retailers that are part of the Key Food, Associated Food Group and Alliance groups in Metro New York, had estimated wholesale revenue f $17.1 billion in that marketing rea for the period ended November 30, 2018. It also managed to remain (reportedly for two years) primary wholesaler for the Best Markets, which last month sold 27 stores to Lidl. And just before presstime, C&S announced it plans to acquire Olean Wholesale Grocery Cooperative which services approximately 270 grocery and convenience stores in upstate New York, Pennsylvania and Ohio.

Ranking second among all retail distributors in the region was member-owned Wakefern Food Corp. which rang up an estimated $13.3 billion in wholesale volume. The Keasbey, NJ based co-op's large volume is generated through the success of its more than 250 ShopRite stores and nearly 70 the large Metro New York and Delaware Valley markets.

In the boldest move of the year, UNFI's acquisition of Supervalu created the industry's first linking of a large natural, organics and specialty food distributor with a traditional full-service wholesaler. The $2.9 billion deal (including debt) was an expensive one for the Providence, RI-based company and significant changes are expected in the first six months of 2019. With the acquisition, UNFI now becomes the third largest wholesaler in the market, with estimated volume of $8.8 billion in the Mid-Atlantic/Northeast region.

Two of the largest national convenience store wholesal-

THE 2018 NEW YORK PRODUCE SHOW DREW THE TRADE TO NEW York City's Jacob Javits Center December 10-13. Among those from the *Food Trade News* market to attend were (l-r) Tom Kovacevich, TMK Produce; Mark Smith, newly appointed GM of the Philadelphia Wholesale Produce Market; John Vena, John Vena Inc.; and Derrick Jenkins, Wakefern. More photos are on pages 14-15.

11,500 Sq. Ft. C-Store Features Unique Offerings

New Center City Philadelphia Wawa Is Largest In Company

On December 14, Wawa Inc. opened the largest store in its history when it cut the ribbon on its phia.

"All of us at Wawa are incredibly proud to open our largest store