

## Consumer Staples

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# Ingles: A Leading Grocery Store Chain in the Southeastern US

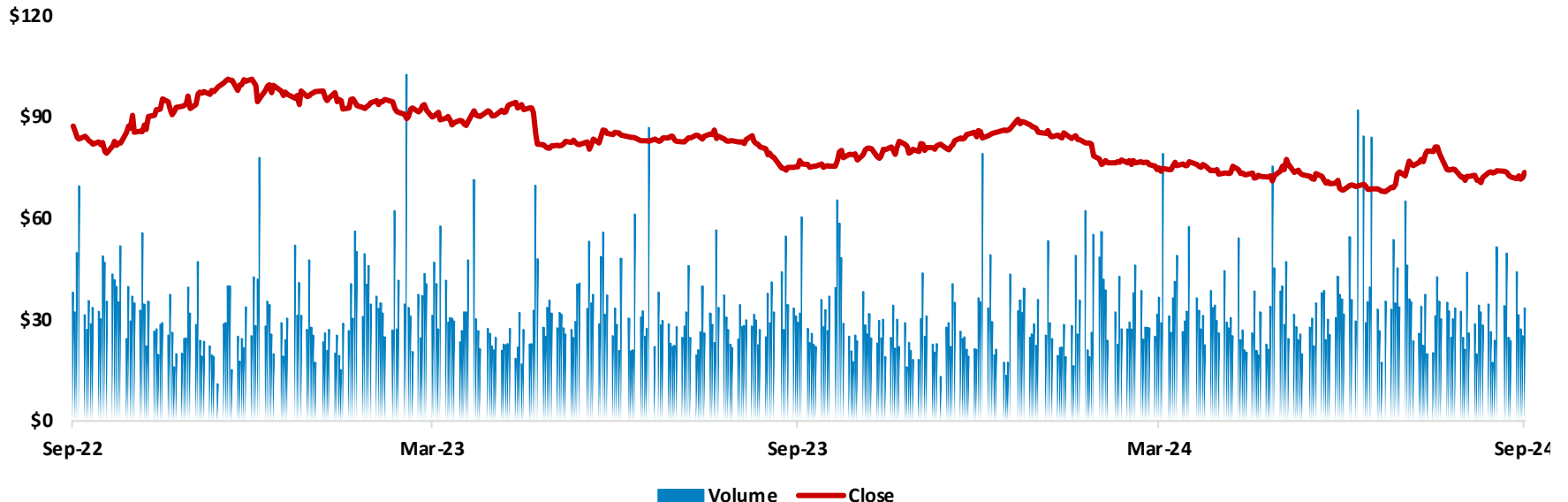
# ingles

<b>Market Cap</b>	<b>\$1.37B</b>
<b>Last Close</b>	<b>\$73.43</b>
<b>52 Week Range</b>	<b>\$67.10-\$89.59</b>
<b>P/E</b>	<b>8.56x</b>
<b>EV/EBITDA</b>	<b>4.53x</b>

Recommendation: **BUY** with a **PT of \$96.00** representing an upside of **30.75%** from 9/13 close – **5% weight**

## Investment Thesis Introduction:

1. Low-income consumers will rebound and continue to shop at Ingles above competitors
2. The understatement of real estate holdings makes for good competition and shareholders will ultimately be paid from the cash flows that the land produces
3. Due to RE holdings we believe that Ingles is an undervalued sleeper stock, but for how much longer?





# Elmer's Fresh PRODUCE

ORGANIC  
PRODUCE



FRESH  
VARIETIES 124

Yellow Pearl  
GREEN PEARL  
WHITE PEARL  
ONIONS  
LOCAL FRESH FRESH PRODUCE  
ALWAYS DELICIOUS. ALWAYS ELMER'S FRESH.

APPLES  
ALWAYS DELICIOUS. ALWAYS ELMER'S FRESH.

juice

dressings

lettuce

broccoli

Company & Industry  
Overview

**ingles**



# Ingles is a Dynasty with the Founding Family Still in Control

## Ingles In-Store Amenities Make for Easy, Convenient, and Cheap One-Stop Shopping for the Region<sup>1</sup>

### Grocery



**Ingles** offers national brands, private label products, & fresh products while providing online shopping & curbside pickup

~60% of Revenue

### Fuel Stations



**107** stores provide full-service gas stations where customers can earn 1 point /\$1 spent for discounts on groceries

~14% of Revenue

### Non-Foods



**114** stores provide full-service pharmacies; also includes sales from liquor stores, tobacco, and health & beauty products

~22% of Revenue

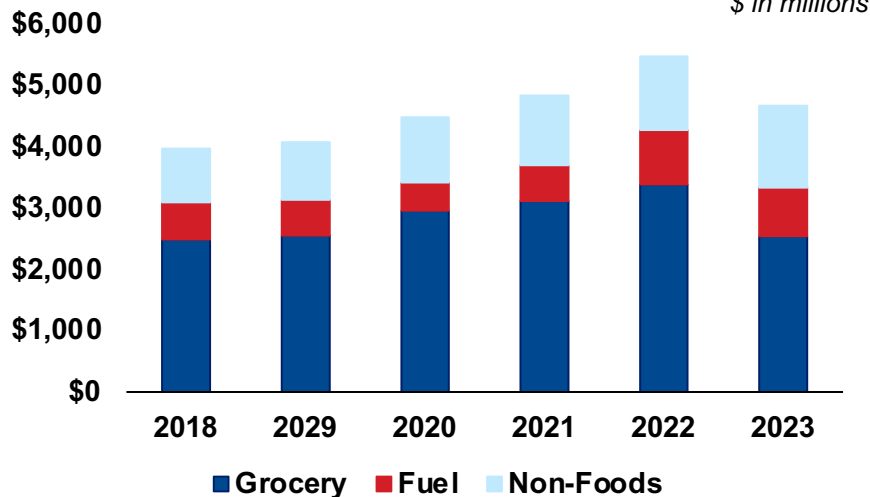
### Cafes



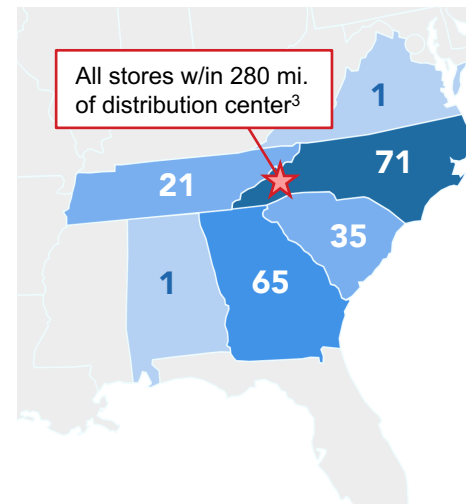
**108** stores provide Ingles-produced cafes and Starbucks pop-up locations to increase foot traffic & customer loyalty

"Other" Revenue ~4%

## EBIT by Operating Segment<sup>2</sup>



## Niche Bubble of Loyal, Consistent Customers<sup>3</sup>



**Robert "Bobby" Ingle II**  
Chairman of the Board

"Inspired by the 'small town values' upon which we began our company, we remain **dedicated to our customers, our associates, and our communities.**"



# Ingles' Low-Cost Offerings & Positioning Soars Above Competitors

## Major Players

### National Retail Chains



### Major Supermarkets



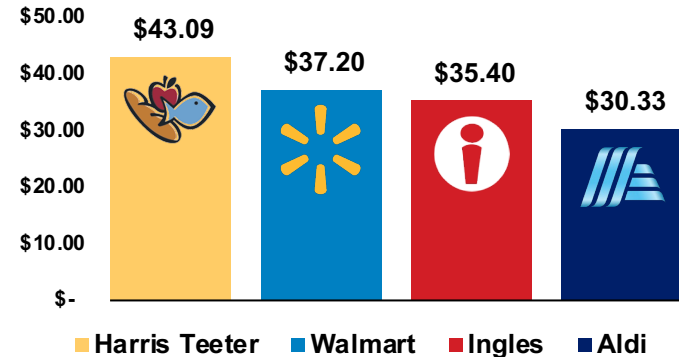
### Regional Grocery Stores



## Ingles vs. Competitor Prices

As a regional grocery store, Ingles can foster strong local loyalty while also competing effectively on price with major retailers.

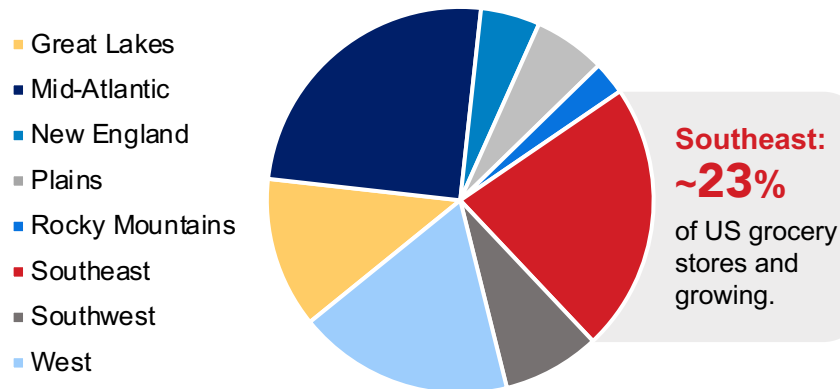
### Shopping Cart Cost Per Store<sup>1</sup>



## Geographic Breakdown of Grocery Industry

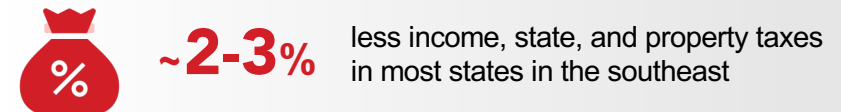
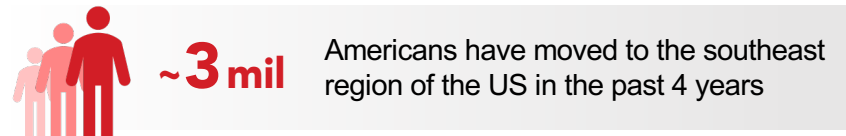
SE is a major region for the industry, second to the Mid-Atlantic.

### Regional Share of Grocery Establishments (%)<sup>2</sup>



## Growth in Southeastern Region is now a Tailwind

SE population has grown and has continued expected growth higher than the national average in coming years.<sup>3</sup>







organic  
Gala Pink Lady  
FUJI RED DELICIOUS  
GREEN Granny Smith  
GOLDEN DELICIOUS  
APPLES  
HOW DO YOU LIKE THESE APPLES?  
ALWAYS DELICIOUS. ALWAYS ELMER'S FRESH.

ORGANIC  
PRODUCE  
162 FRESH  
VARIETIES

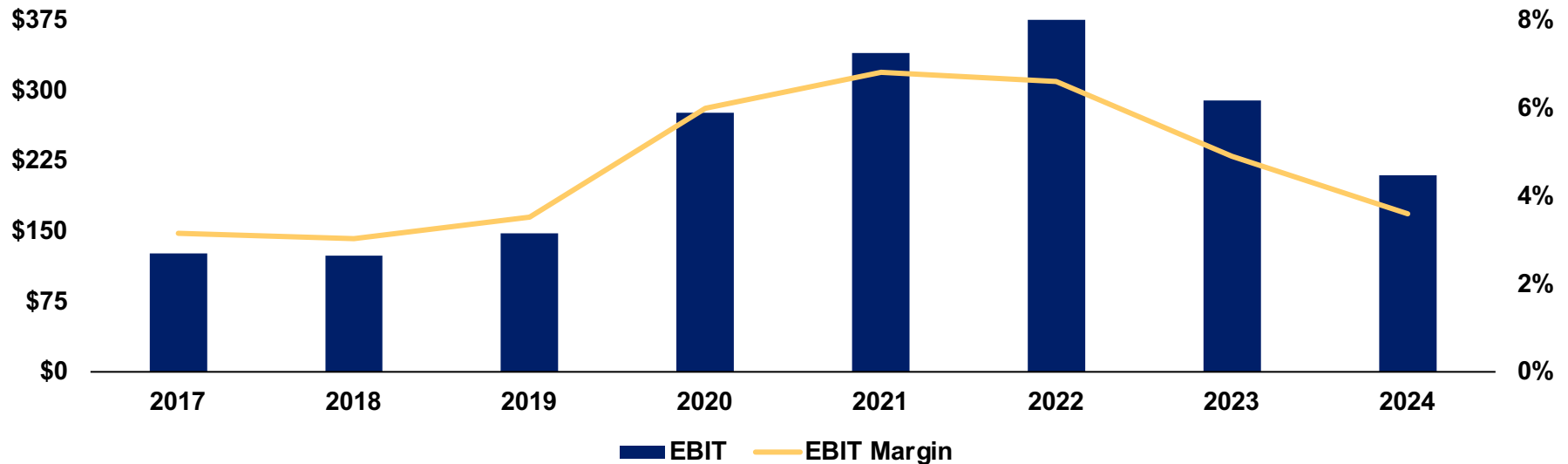
Starting in 1963, Dale Greene and his father would haul cabbage from mountain farms in the farmers market. Over the years, their hard work paid off. What started as a small farmers market the largest fresh cabbage operation for retail  
© Appalachian Sustainable Agriculture Project [www.AppSust.org](http://www.AppSust.org)





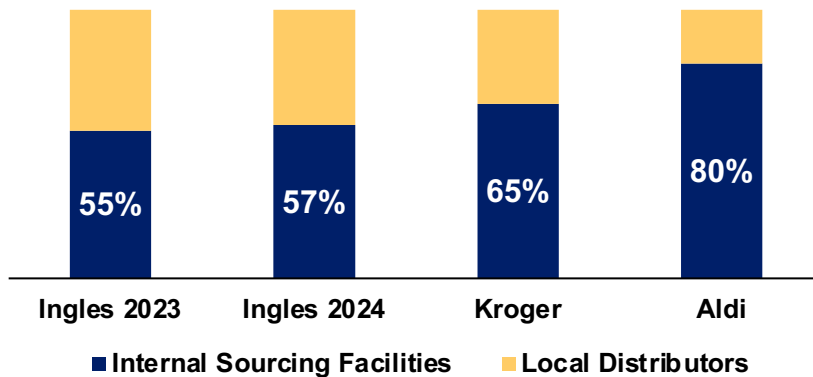
# Low Income Consumers will Rebound to Improve Margins

## Weak Consumers & Higher Costs Have Affected Ingles' Margins<sup>1</sup>

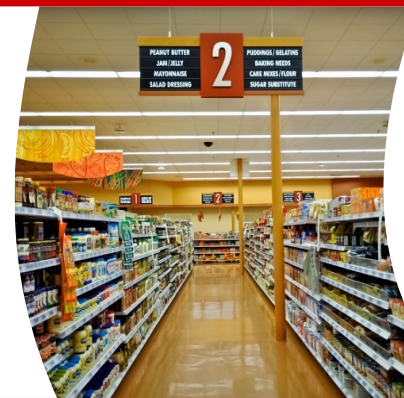


## Ingles is Positioned Well Against Competitors as they have Proved Differentiation & Sourcing Tailwinds

Ingles can differentiate through their distribution network (warehouses and transportation infrastructure) to get back to 8% margins they had in 2022, and ultimately stay ahead of larger competitor's margins, such as Kroger.



Ingles' vertical integration helps control costs and manage supply chain challenges better than competitors who rely on 3<sup>rd</sup> parties.

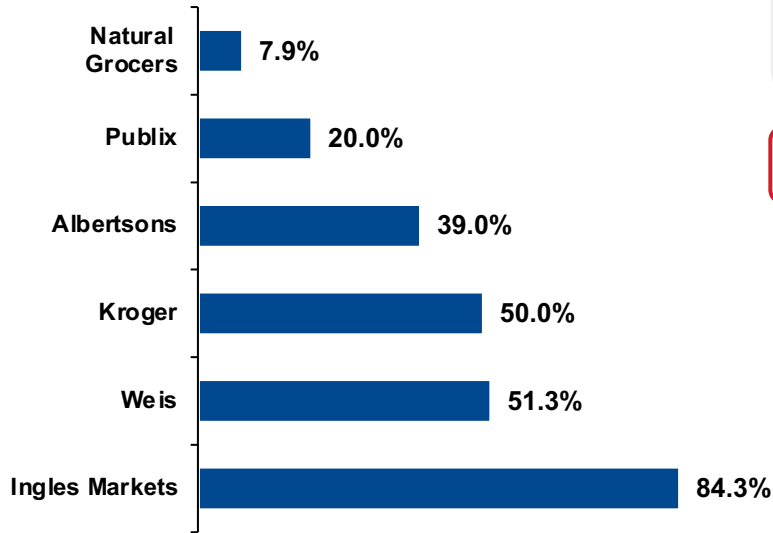


Management believes that their ability to stock its stores more efficiently during the current periods of inflation can result in better margins.



# Understatement of Real Estate Makes Ingles not Just a Grocer

## % of Stores Self-Owned Across Industry<sup>1</sup>



## Boxing Out Competitors<sup>1,2</sup>

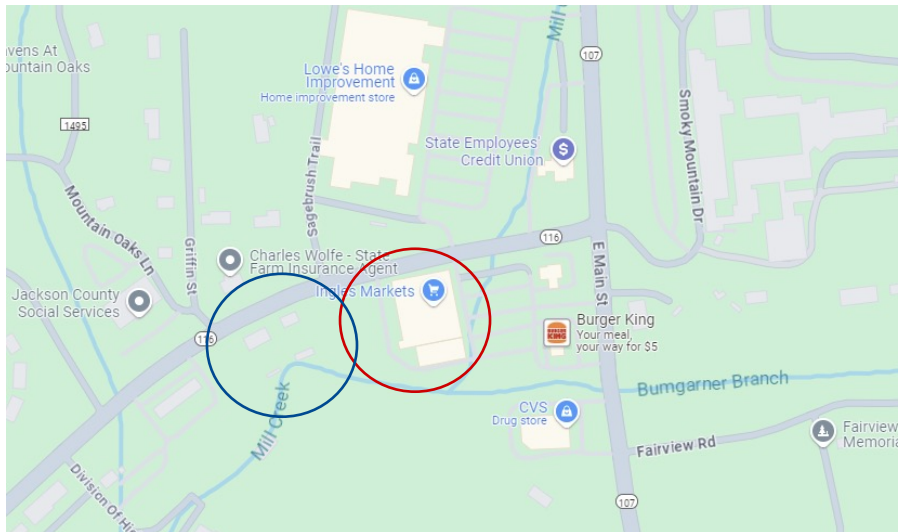
"Ingles Markets owns the 10.46-acre plot of land directly beside their Ingles location at 100 Nathan Dean Bypass in Rockmart, GA, which otherwise could be used for commercial development by a competitor."

Disclosed Land Holdings

Actual Land Holdings



## What Does this Real Estate Actually Look Like?<sup>3,4</sup>

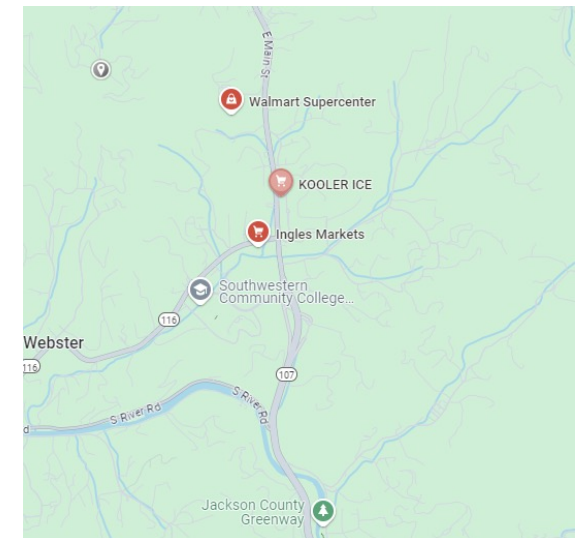


157 Webster Road

173 Webster Road

Only 2 competitors within 20 miles

Consumers are not willing to drive extra miles for groceries

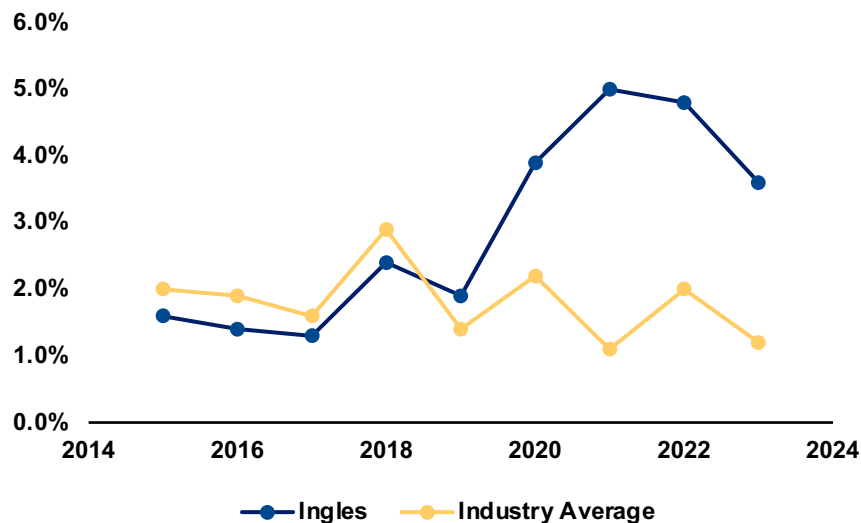




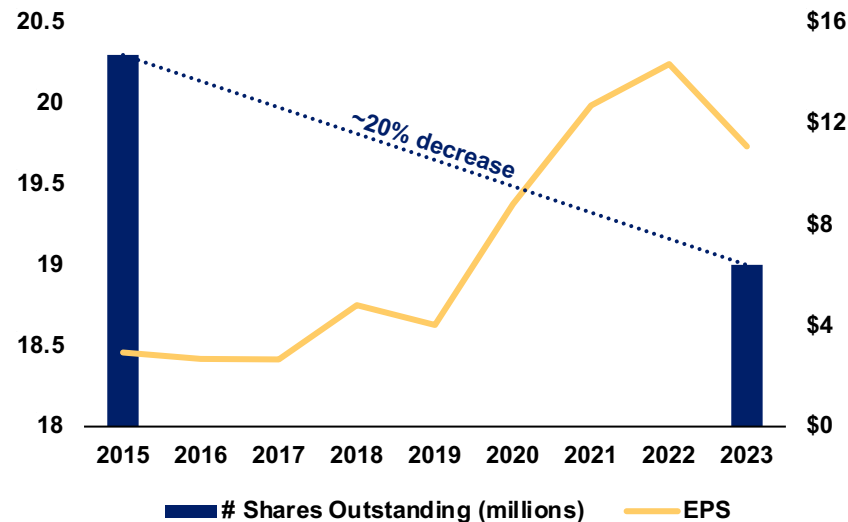
# Ingles is an Undervalued Sleeper Stock, but for How Much Longer?<sup>1</sup>



## A Continued Outperformance in Net Income Margin



## With Substantial Buybacks Throughout the Years



## Recent Deals within the Grocer Sector

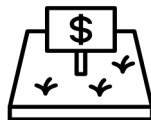


APOLLO

Apollo buys Cardenas Market from KKR through **\$512m in debt** for 59 stores. Representing an average of **\$8.6m per store**



Kroger plans to **sell 579 stores** to C&S Wholesale Albertsons for **\$1.9b** to close a merger with Albertsons. Represents an average of **\$3.2m per store**



Food Lion sold a store for **38,750 square feet** for **\$5.2m** for an average of **\$134.19 per square foot**

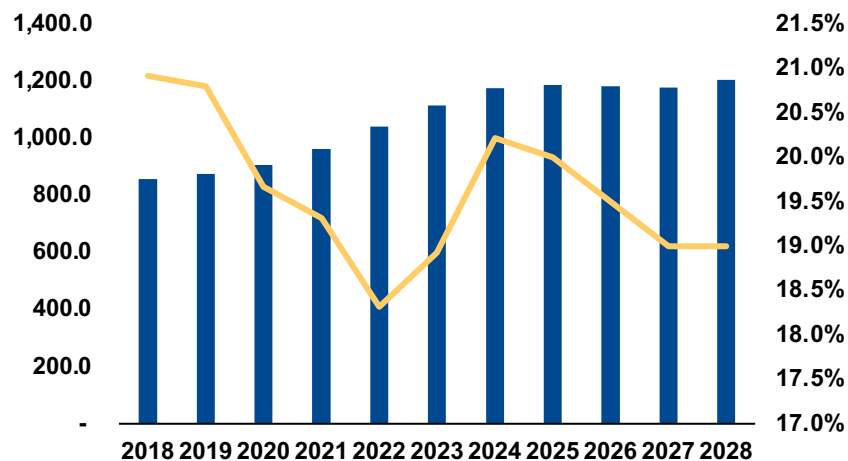


Piggly Wiggly sold two stores at **54,968 square feet** for **\$3.2m** for an average of **\$58.21 per square foot**

Thesis in the Model<sup>1</sup>

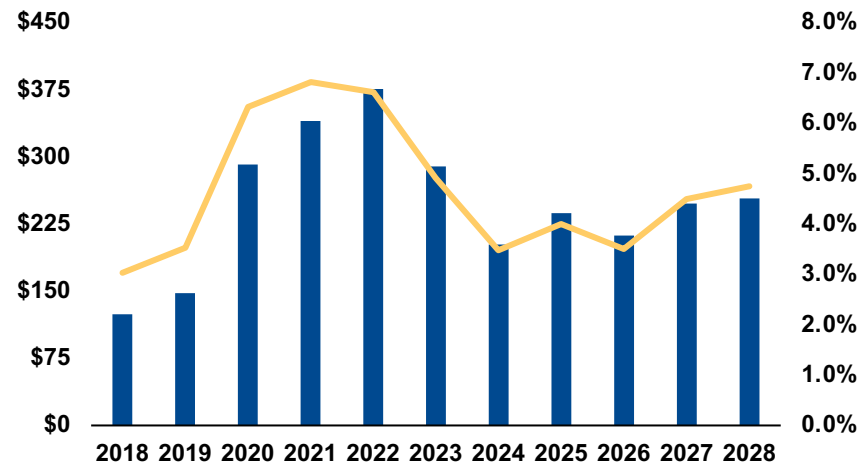
## Increased Operating Expenses Depressing EBIT

Operating Expense vs. Margin

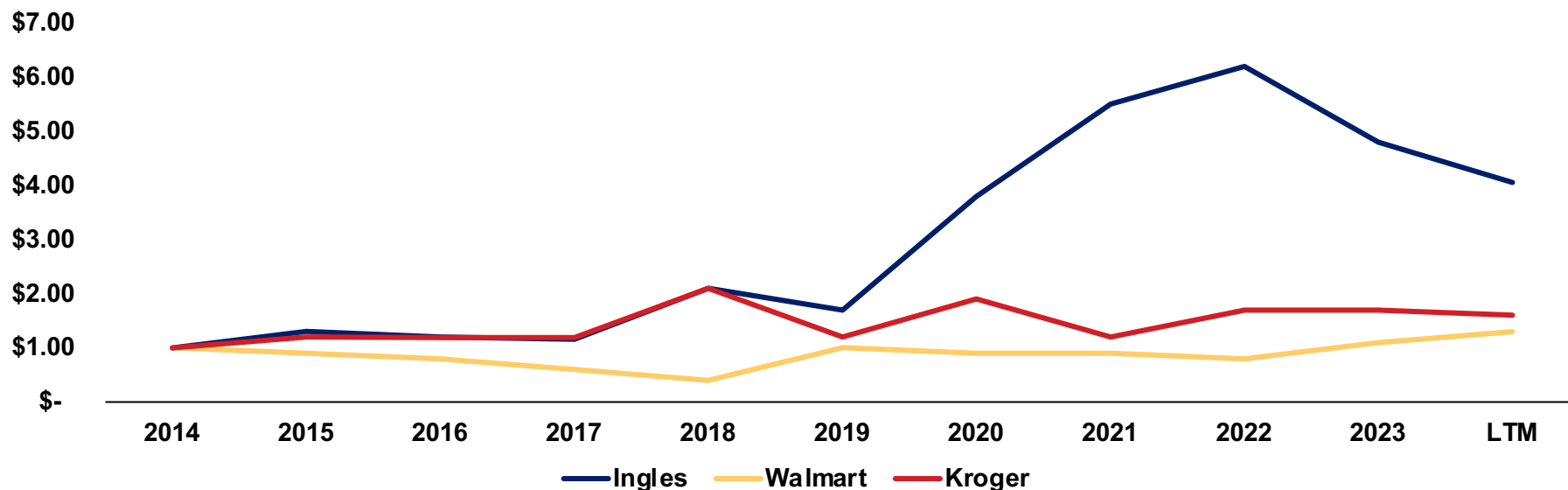


## How Are They Going to Return?

EBIT vs EBIT Margin



## Ingles EPS vs. Peers



(1) CIMG Model  
Culverhouse Investment Management Group – Consumer Staples Committee





Valuation

**ingles**



## Summary

**Recommendation: Buy**  
**Price Target: \$96.00**  
**Upside: 30.75%**  
**Weight: 5.0%**

What We're Playing For:

- Low-income consumers will rebound as well as Ingles playing on their differentiation and sourcing strategies to return to 2022 margins
- Understatement of real estate holdings in company earnings ultimately boxes out customers and undervalues Ingles book prices
- Continued outperformance in net income margins, as well as substantial buybacks

Catalyst Path:

- Management continues increasing internal sourcing to rebound EBIT margins
- Management decides to “unpause” expansion/renovation as COVID-19 price shocks decrease
- Activists continue to fight for shareholder transparency

Risks:

- Ingles fails attempt to continue vertical integration, depressing EBIT margins
- Ingles management unsuccessfully leverages Real Estate holdings

## Valuation

**10% Discount Rate & 2% Long-Term Growth**  
**Rate 9.0x EV/EBIT Multiple**

## 2 Yr Forward Multiple - 10 Yr. DCF

Terminal Value	\$	2,136
PV of Terminal Value	\$	881
PV of Free Cash Flow	\$	1,062
<b>Enterprise Value</b>	\$	1,943
Less: Debt	\$	518
Less: Preferred / Other	\$	-
Plus: Cash	\$	355
<b>Implied Equity Value</b>	\$	1,779
Diluted Shares Outstanding		19
<b>Implied Share Price</b>	\$	93.67
<i>Upside / (Downside)</i>		27.56%
<i>PV TV as a % of the Enterprise Value</i>		45.35%
<i>Implied Long Term Growth Rate (FCF)</i>		1.32%

## Long Term Growth Rate Method - 10 Yr. DCF

Terminal Value	\$	2,335
PV of Terminal Value	\$	963
PV of Free Cash Flow	\$	1,062
<b>Enterprise Value</b>	\$	2,025
Less: Debt	\$	518
Less: Preferred / Other	\$	-
Plus: Cash	\$	355
<b>Implied Equity Value</b>	\$	1,861
Diluted Shares Outstanding		18.99
<b>Implied Share Price</b>	\$	97.98
<i>Upside / (Downside)</i>		33.44%
<i>PV TV as a % of the Enterprise Value</i>		47.56%
<i>Implied Terminal Multiple (EV/EBIT)</i>		9.44x
<i>Implied Terminal Multiple (EV/EBITDA)</i>		6.20x



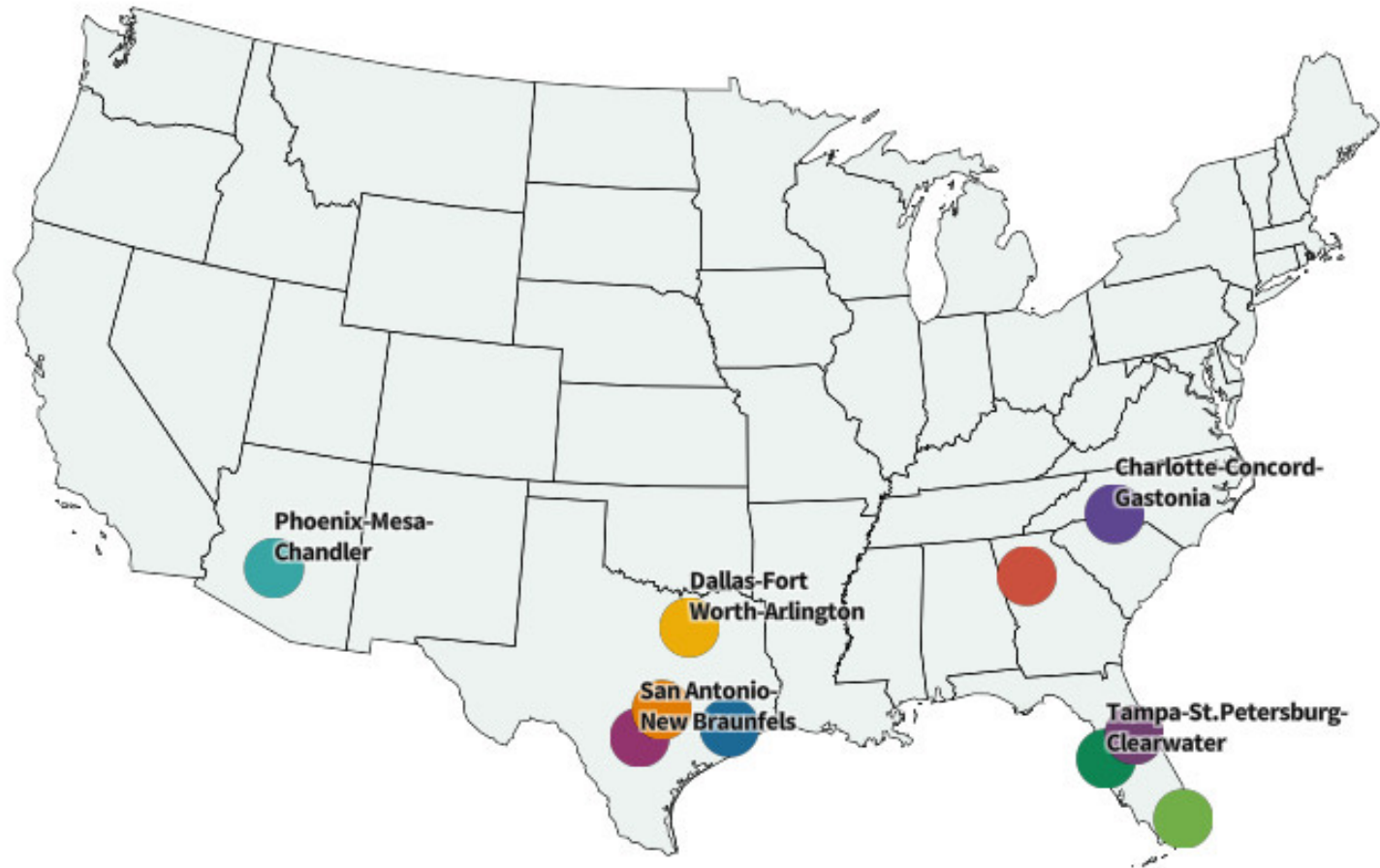
Appendix

**ingles**





# Map of SE Population Growth







# Deeper Dive into the Real Estate Story<sup>1</sup>



## Gwen Hofmeyr:

Equity Research Analyst at Folly Partners

B.A. in Political Science and Government at the University of Victoria

### How This Differentiates Ingles



## Shutting out competitors

*"Ingles Markets owns the 10.46 acre plot of land directly beside their Ingles location at 100 Nathan Dean Bypass in Rockmart, GA, which otherwise could be used for commercial development by a competitor."* - Hofmeyr



## Compete with Harris Teeter, Aldi, Walmart

### Her Findings:

*Gwen manually sourced from 400 county tax offices across GA, NC, TN, and VA to comprise a 10,000-point dataset:*

#### Ingles Disclosed Figures:

##### Cash Flowing Real Estate:

\$352 million

160 Acres

**1 acre = \$2.2m**

*Ingles is not overstating the value of their land; rather, it is understating the total amount of land owned*

#### Actual Figures:

**After-tax adjustments on leaseholds and buildings:**

**1 acre = \$9.2m**

**Total Acreage:**

**3700 acres**

(1) Gwen Hofmeyr

## Ingles Historical P/E

