Siena Market Line
4th week of November 2016

SpartanNash Co.

NASDAQ:SPTN

Analyst: Peter Gadze
Sector: Food Retail

Buy

Price Target: $44.70

Key Statistics as of 11/25/2016

Market Price:	$37.44
Industry:	Leisure/Restaurants
Market Cap:	$1.40 B
52-Week Range:	$17.66-37.81
Beta:	0.97

Catalysts:

- Trump Cutting Taxes
- Increasing Food Prices

Company Description:

SpartanNash Co. is a distribution of grocery products to military commissaries in the U.S. The majority of their business works under three main segments: Military, Food Distribution, and Retail. The company is fairly new and was established on November 19 2013. It is one of the largest distributors of grocery products to military commissaries in the United States. Wholesale distribution accounts for 40%, retail accounts for 30%, and military operations account for 30% of their business. Their company is headquartered in Grand Rapids, MI and operates various retail supermarkets in the Midwest under the names of Family Fare Supermarkets, No Frills, Bags' Save, Family Fresh Markets, D&W Fresh Markets, Sun Markets and Econo Foods.

Thesis

SpartanNash is a fairly new company that due to acquisitions in 2014 and being able to constantly expand under deflating food prices. This means that if the company is succeeding under difficult Macro-Economic times it will not only continue to succeed in the future. Additionally, massive discretion centers that are positioned in intelligent locations will create economies of scale which will benefit the company in the long run.

Industry Outlook

The company operates on three different segments, but each one is dependent on food prices in the US because these are the type of products they are distributing. Over nine straight months of year to year declines for food prices has left and the industry has been in a recession for quite some time now. However, the Agriculture Department expects U.S food prices to rise beyond inflation for the next few years. Therefore, the industry seems to be on the rise and this could only stand to benefit SPTN in the future. Since SPTN was founded they have been able to reduce operating costs while still increasing their level of production.

Expenditure category	Relative importance Sep. 2016	Unadjusted percent change Oct. 2015-Oct. 2016	Unadjusted percent change Sep. 2016-Oct. 2016	Seasonally adjusted percent change Jul. 2016-Aug. 2016	Seasonally adjusted percent change Aug. 2016-Sep. 2016	Seasonally adjusted percent change Sep. 2016-Oct. 2016
All items	100.000	1.6	0.1	0.2	0.3	0.4
Food	13.731	-0.4	0.1	0.0	0.0	0.0

Since food prices are no longer depreciating according to the Agriculture Department the company stands to profit because it will be able to capture more market share and profit in the future.

Business Model

As explained earlier there are three segments to SPTN's business: Food Distribution, and retail and currently operated over 160 grocery stores, and provides wholesale distribution to various companies over 46 different states. They have 8 million square feet in warehouse space, have 960 refrigerated trailers, 575 dry vans, and over 490 tractors. When it comes to distribution. Dollar general is their main customer and SPTN provides to over 13,000 of DG retail stores. In a very small amount of time the company has been able to establish themselves within the industry and create long lasting bonds with very big name clients like Dollar General. As explained in the last earnings call net sales have increased from $804.5 million from $762.3 million proving that their strategy has been working. When it comes their Military segment the company delivers to locations all across the United States, Puerto Rico, Egypt, and Cuba. Manufacturers generally contract with distributors like SpartanNash and according to last fiscal year the company had 250 distribution contacts for the military that have made last quarter's sales under this division improve to $506.6 million. The final division of retail has struggled, but in order to cope with this the company has remodeled its stores and have still managed to grow under a retail store recession. This business model has been very affective because it is diversified.

EBITA Margin		
	History	*LFY*
SPTN	2.1%	2.0%
Competitors	5.0%	4.4%

Since the company operates under a sort of hybrid model the recession has not impacted their ability to have much better bottom lines than their competitors.

Acquisitions

Acquisitions in previous years are one of the main reasons why this company is still undervalued at this moment in time. In 2016 SPTN acquired Caito Foods Services strengthening Spartan Nash's product offerings because this company focused on offering fresh foods. Management made this move in order to cope with their struggles in the retail segment. The acquisition was made with $217.5 million in cash and analysts have yet to factor in the extra revenue potential on top of an accelerated industry next year. In the last fiscal year the company has generated $600 million in revenue. The acquisition does not take full affect Q1 of 2017 so it will be interesting to see exactly how much this expansion will impact SPTN in the future.

Summary

Although many analysts believe that SPTN has reached its maximum potential and the price will depreciate this will not be the case. Due to an impeccable business model that protects SpartanNash from the majority risks that all of its competitors have. They are still looking to expand and although they have announced a dividend and the company is at its 52 week high there is still room for the company to move forward. There is also significant potential for the SPTN due to potential tax cuts by the president in the near future. EBITA will continue to increase due to new acquisitions and constant attempts by management to expand mean SpartanNash are on the way up.

SIENAcollege

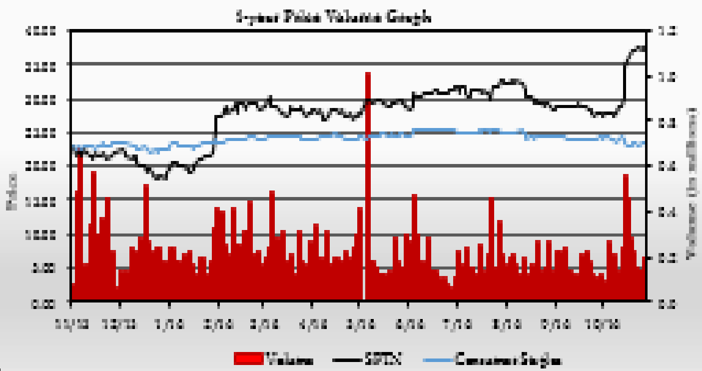
SpartanNash Company (SPTN)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by	Current Price:	$37.44	Intrinsic Value	$37.61
11/27/2016	Dividend Yield:	0.0%	Target Price	$44.70

Target 1 year Return: 19.38%
Probability of Price Increase: 6



Description

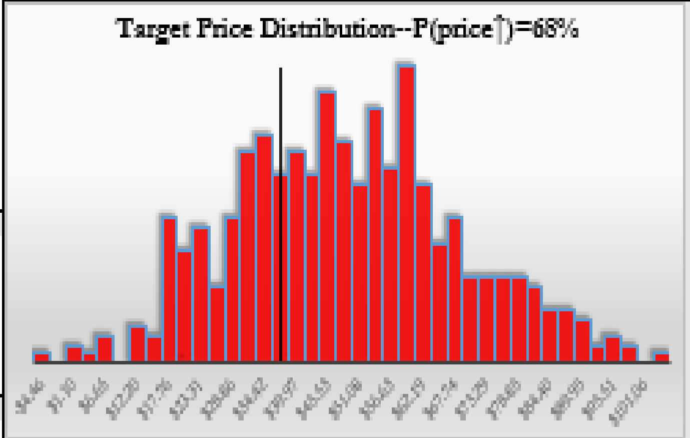
SpartanNash Company operates as a grocery distributor and retailer primarily in the United States.

General Information

Sector	Consumer Staples
Industry	Food and Staples Retailing
Last Guidance	November 3, 2016
Next earnings date	February 22, 2017
Estimated Country Risk Premium	11.72%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data

Market Capitalization	$1,403.30
Daily volume (mil)	0.00
Shares outstanding (mil)	37.40
Diluted shares outstanding (mil)	36.94
% shares held by institutions	91%
% shares held by investments Managers	81%
% shares held by hedge funds	4%
% shares held by insiders	2.65%
Short interest	1.70%
Days to cover short interest	3.70
52 week high	$37.84
52-week low	$17.66
Levered Beta	0.80
Volatility	30.35%



Past Earning Surprises

Quarter ending	Revenue	EBITDA
10/10/2015	-2.04%	-4.66%
1/2/2016	-3.20%	6.21%
4/23/2016	-1.77%	-7.03%
7/16/2016	0.70%	-3.43%
10/8/2016	-1.16%	-5.43%
Mean	-1.63%	-3.10%
Standard error	0.7%	2.5%

Peers

United Natural Foods, Inc.
Whole Foods Market, Inc.
Casey's General Stores, Inc.
Sprouts Farmers Market, Inc.
The Kroger Co.
Sysco Corporation
Weis Markets, Inc.
Ingles Markets, Incorporated

Management	Position	Total compensations grow	Total return to shareholders
Eidson, Dennis	Chairman and Chief Executive	-100% per annum over 4y	2.11% per annum over 4y
Staples, David	President and Chief Operatin	-100% per annum over 4y	2.11% per annum over 4y
Mahoney, Kathleen	Chief Legal Officer, Executi	N/M	0% per annum over 0y
Adornato, Theodore	Executive Vice President of	-100% per annum over 4y	2.11% per annum over 4y
Jones, Derek	Executive Vice President and	-100% per annum over 4y	2.11% per annum over 4y
Meyers, Christopher	Chief Financial Officer and	N/M	N/M

Profitability	SPTN (LTM)	SPTN (5 years historical a	Industry (LTM)
ROIC	6.4%	10.10%	10.94%
NOPAT Margin	1%	3.12%	2.0%
Revenue/Invested Capital	4.57	3.26	3.06
ROE	7.2%	16.63%	12.55%
Adjusted net margin	1%	2.77%	2.3%
Revenue/Adjusted Book Value	7.04	6.03	5.43
Invested Funds	**SPTN (LTM)**	**SPTN (5 years historical a**	**Industry (LTM)**
Total Cash/Total Capital	1.3%	0.0%	11%
Estimated Operating Cash/Total Capital	1.1%	0.0%	N/A
Non-cash working Capital/Total Capital	13.4%	13.2%	-3%
Invested Capital/Total Capital	85.1%	84.6%	91%
Capital Structure	**SPTN (LTM)**	**SPTN (5 years historical a**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.70	0.00	0.23
Cost of Existing Debt	7.64%	5.43%	6.63%