



ALEX LEE, INC.

www.alexlee.com

General Information

Address:	120 4 th Street S.W. Hickory, NC 28602	Annual Sales:	\$2.20 billion
Phone/Fax:	(828) 725-4424 / (828) 725-4435	Market Areas Served:	AL, FL, GA, KY, NC, OH, PA, SC, TN, VA, WV
Business Type:	Retail / Wholesale Grocer	Operations:	Alex Lee, Inc. is the parent company of Merchants Distributors, Inc. (wholesale grocery distribution) and Lowes Food Stores, Inc. (supermarket operator with about 100 stores).



Key Personnel

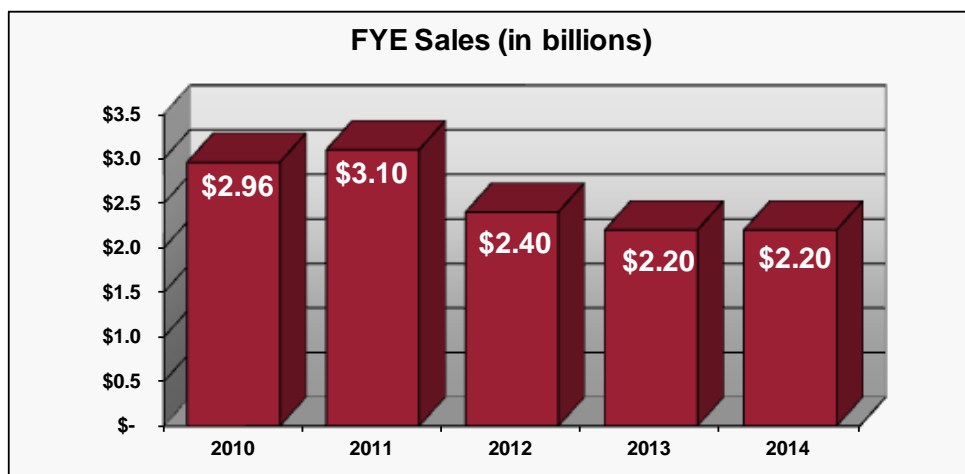
Chairman & CEO:	Boyd L. George	EVP & CFO:	Ronald W. Knedlik
President:	Brian George		

Analyst's Insight

Alex Lee is a holding company comprised primarily of two Southeastern food companies: Merchants Distributors (MDI) and Lowes Food Stores. Merchants Distributors is a wholesale grocery distributor that supplies over 600 retail food stores with food and non-food items in 11 states from roughly one million square feet of warehouse space in Hickory, NC. Meanwhile, Lowes Food Stores operates about 100 supermarkets throughout North Carolina, South Carolina and Virginia under the Lowes Food Stores and Just\$ave Foods banners; its stores are supplied by MDI. Alex Lee's estimated top line was flat at \$2.20 billion in fiscal 2014 and fiscal 2013, **down from \$2.40 billion in fiscal 2012, attributed by the Company to the loss of a large customer which they did not name.** Also in 2012, Lowes Foods began to sharply reduce its presence in the Charlotte region by swapping stores with Harris Teeter (subsequently acquired by Kroger), selling 10 stores to Harris Teeter in exchange for six Harris Teeter stores in smaller markets. Since that time, **Alex Lee has continued to gradually pare down its store portfolio, closing its remaining two stores in Gastonia in April 2015. The Company also closed stores in Cary, Shelby and Gastonia, NC in September 2014.** While the Company has stumbled a bit in North Carolina, Publix has thrived, opening its first North Carolina location in February 2014 and quickly growing to 10 stores by April 2015, with plans for at least two more by the end of the year. **That level of intense competition has forced the Company to take an aggressive stance on pricing;** the business model of the Company's Just\$ave stores, often called Lowes Foods "frugal cousin," is to offer low prices to lower income consumers. In addition, in February 2015, Lowes said it would step up its investment in rebranding existing stores, building new stores, and evaluating strategic opportunities (see below for more information). The move builds on a 2013 initiative that created stores that strived to enhance the customer experience. We view the plan in a positive light given that the Company reported a 7% increase in basket size and a 23% increase in transaction volume during the first half of 2014 at its initial wave of rebranded stores; in 2014 the Company completed 10 remodels and opened three new stores. That improvement likely provided the impetus to move forward with additional store upgrades. Lowes also said it will enter the Greenville, SC market in 2016, and has plans to enter an additional two or three new, but unnamed, markets. Vendor payments are solid, with the **Company's ARMS Payment Score** generally in the low 900 range. As of May 2015, the Company maintained an unsecured \$125.0 million line of credit scheduled to mature September 1, 2018, which suggests a level of financial flexibility.

Michael Infranco, Sr. Analyst. (800) 789-0123, ext. 126.

Sales Trend



NOTE: Revenue decline in fiscal 2012 reflects the June 2012 sale of Institution Food House, which generated annual sales of about \$600.0 million.

Retail Market Share

The following displays a two-year comparison of the Company's share in its major markets, as of July 2015 and July 2013:

Raleigh, NC	Jan 2015			Jan 2013	
	Market Share	Store Count		Market Share	Store Count
Kroger - Harris Teeter, Kroger	31.6%	37	Delhaize	23.5%	61
Walmart	22.8%	22	Walmart	22.6%	17
Delhaize	22.4%	61	Harris Teeter	21.8%	26
Alex Lee	7.5%	15	Alex Lee	9.2%	18
Target	3.6%	3	Kroger	8.6%	10
All Other	12.1%	42	All Other	14.3%	43

Winston-Salem, NC	Jan 2015			Jan 2013	
	Market Share	Store Count		Market Share	Store Count
Walmart	32.3%	11	Delhaize	32.8%	39
Delhaize	31.5%	37	Walmart	29.2%	8
Alex Lee	12.8%	13	Alex Lee	13.8%	13
Kroger - Harris Teeter	11.5%	8	Harris Teeter	12.6%	8
Whole Foods	2.6%	1	Aldi	1.6%	5
All Other	9.3%	18	All Other	10.0%	16

Greensboro, NC	Jan 2015			Jan 2013	
	Market Share	Store Count		Market Share	Store Count
Walmart	33.3%	14	Walmart	31.6%	12
Delhaize	29.6%	36	Delhaize	30.4%	37
Kroger - Harris Teeter	19.6%	11	Harris Teeter	21.0%	11
Alex Lee	7.8%	10	Alex Lee	8.2%	10
Whole Foods	2.4%	1	Whole Foods	2.0%	1
All Other	7.3%	19	All Other	6.9%	17

Hickory, NC	Jan 2015			Jan 2013	
	Market Share	Store Count		Market Share	Store Count
Walmart	36.6%	7	Walmart	31.4%	5
Delhaize	27.0%	20	Delhaize	27.0%	19
Alex Lee	11.0%	7	Alex Lee	14.7%	8
Ingles Markets	7.0%	3	Ingles Markets	7.5%	3
Market Basket	4.0%	5	Lone Star - BI-LO	4.2%	2
All Other	14.4%	15	All Other	15.3%	16

Wilmington, NC	Jan 2015			Jan 2013	
	Market Share	Store Count		Market Share	Store Count
Kroger - Harris Teeter	32.4%	9	Harris Teeter	33.2%	9
Delhaize	27.1%	16	Delhaize	28.5%	16
Walmart	18.3%	2	Walmart	19.5%	2
Alex Lee	9.0%	5	Alex Lee	7.7%	4
Whole Foods	5.1%	1	Whole Foods	3.5%	1
All Other	8.2%	8	All Other	7.6%	7

Source: The Nielsen Company – TDLinx

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What's Happening

- **Announces Expanded Growth Strategy.** In February 2015, the Company's Lowes Foods unit announced a growth strategy that includes accelerating investment in rebranding existing stores, building new stores, and entering new markets. The plan includes rebranding existing Lowes Foods stores (2.5 million square feet) and building new stores (1.0 - 1.5 million square feet). The ultimate goal is to complete remodels at all Lowes Foods branded locations by 2019. In addition, Lowes Foods will enter the Greenville, SC market in 2016, and has plans to enter two or three additional new markets. In 2013, the Company partnered with a branding expert who specifically focused on improving Lowes stores sensory dimensions, and writers from Walt Disney to help make each customer visit a memorable experience; the first store remodeled was in Clemmons, NC. As a result of these efforts, five unique departments have been added. These departments, known as "Lowes Foods Originals" include: the Chicken Kitchen, Sausage Works, Pick & Prep, the Beer Den, and the Beef Shoppe.
- **Store Activity.** In April 2015, the Company closed two Lowes Food Stores in Gastonia, NC. In October 2014, the Company opened a new 49,000 square foot Lowes Foods store in Jacksonville, NC, the Company's first in the area. In September 2014, the Company closed three Lowes Food stores in Gastonia, Shelby and Cary, NC. In November 2013, the Company closed three stores in North Carolina, including a Lowes Foods store in Morganton and two Just\$ave stores in Scotland Neck and Spring Hope. In September 2013, the Company closed two Lowes Foods stores in North Carolina's Triangle region, including one in Cary and the other in Raleigh.
- **Sale of Institution Food House.** In June 2012, Alex Lee, Inc. sold Institution Food House, Inc. (IFH), with estimated annual sales of \$600.0 million, to Performance Food Group, Inc.; terms of the deal were not disclosed. Based in Hickory, NC, IFH is a foodservice distributor; it has an additional location in Florence, SC. Founded in 1966, IFH is the largest independent foodservice distributor based in the Carolinas.
- **Purchase & Sale Agreement.** On June 1, 2012, the Company completed a store swap with Harris Teeter in which it transferred 10 Lowes Foods stores to Harris Teeter and acquired six Harris Teeter locations; in connection with the deal, the Company also received \$26.3 million in cash.

Bank & Lien Searches

- The Company maintains an unsecured \$125.0 million line of credit with Wells Fargo Bank scheduled to mature September 1, 2018.
- Multiple UCCs filed for leased equipment
- There are currently no tax liens or material lawsuits pending against the Company.

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