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Shopping Jewel to prospects, but no takers yet

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The fate of Jewel-Osco grocery stores will be shaped by bids that analysts say could leave Jewel's parent company, Supervalu, and the supermarket chain flailing.

No one expects Supervalu, based in Eden Prairie, Minn., to be sold as a whole, but one analyst believes the Jewel-Osco chain could have a bright future with the right owner. Jewel, which operates 174 stores locally, remains the No. 1 grocer in the Chicago area with a 31 percent market share, though it has been losing ground to low-price rivals.

Supervalu announced July 11 it had hired Goldman Sachs and Greenhill & Co. to help it review "strategic alternatives," including selling all or part of the company. That announcement coincided with Supervalu reporting disappointing earnings, suspending dividends and reducing capital, administrative and operational spending.

Among the pessimistic forecasters is Michael Keara, equity analyst at Chicago-based Morningstar, who described Supervalu as "missing on all cylinders."

"It's a bad business," Keara said. "Other retailers, such as Target and Wal-Mart, get people in their stores by selling food at extremely low profits, and make their money when shoppers buy a TV or cosmetics or clothes."

Jewel-Osco and its parent company are deep in debt and have lost sales and market value for more than four years — a situation that prompted one expert to predict Jewel grocery stores may go out of business in 10 to 15 years.

"They have enough cash to ride it out that long but there's a high expectation of default if their profits don't improve," said the expert who asked not to be named.

The expert said Supervalu's distribution business, including a Melrose Park distribution center, is also dwindling because the ma-and-pa stores who once were its customers are going out of business themselves.

Analyst Joshua Norman of Boston-based Saibus Research sees a different future.

“We believe a good, smart grocery company should consider acquiring Jewel-Osco and integrating it into its operations,” Norman said.

Saibus Research concludes that Dominick’s parent company, Safeway of Pleasanton, Calif., or Kroger, based in Cincinnati, would be suitable buyers because they would gain greater heft in the industry and be better able to negotiate deals with food manufacturers. The firm estimates Jewel-Osco could fetch $1.5 billion to $2 billion, the Save-A-Lot discount chain $2 billion, and the distribution business $1 billion to $1.5 billion.

Despite its struggles, Supervalu continues to throw off cash, generating $1 billion in cash flow last year, and boasts a $400 million market capitalization, Norman said. That’s despite the company’s $2.54 billion in losses and 75 percent plunge in market value over the past two years, according to Bloomberg and Saibus Research.

The company will report second-quarter earnings Oct. 18.

Supervalu traded at more than $40 five years ago. It has been on a retreat ever since: $30 in 2008, $20 in 2010, $10 a year ago. Thursday’s close was $1.90.

Supervalu initially set Monday as a bid deadline and then extended it to an unknown date, Norman said.

Supervalu spokesman Mike Siemienas said Thursday the company has set no timeline.

Analysts have speculated on bidders for various pieces of Supervalu, in addition to Safeway and Kroger. They include private equity players Cerberus Capital Management, Kohlberg Kravis Roberts, TPG Capital and the Yucaipa Companies. Spokespeople for those companies either declined comment or didn’t return calls.

If no bidders emerge, analyst Norman said he believes Supervalu’s new CEO, Wayne C. Sales, could steer the company in the right direction, and might sell one of the supermarket chains to pay down debt. Sales improved revenues and profits at Canadian Tire Corp. when he was CEO from 2000 to 2006 in a similarly competitive market.

Analysts trace Supervalu’s debt problems to Albertson’s 1999 acquisition of American Stores Co. for $9.5 billion, and, seven years later, Supervalu’s $9.8 billion acquisition of Albertson’s, including 202 Jewel-Osco stores in the Chicago region.

The deal put Supervalu into debt just as the economy started sinking, as shoppers sought out discounts over well-known food brands, and as discounters — in particular Walmart — moved into urban areas where traditional supermarkets had few rivals.
