

ALON BLUE SQUARE

MEGA Retail

New Strategic Plan for MEGA Retail , July 2013

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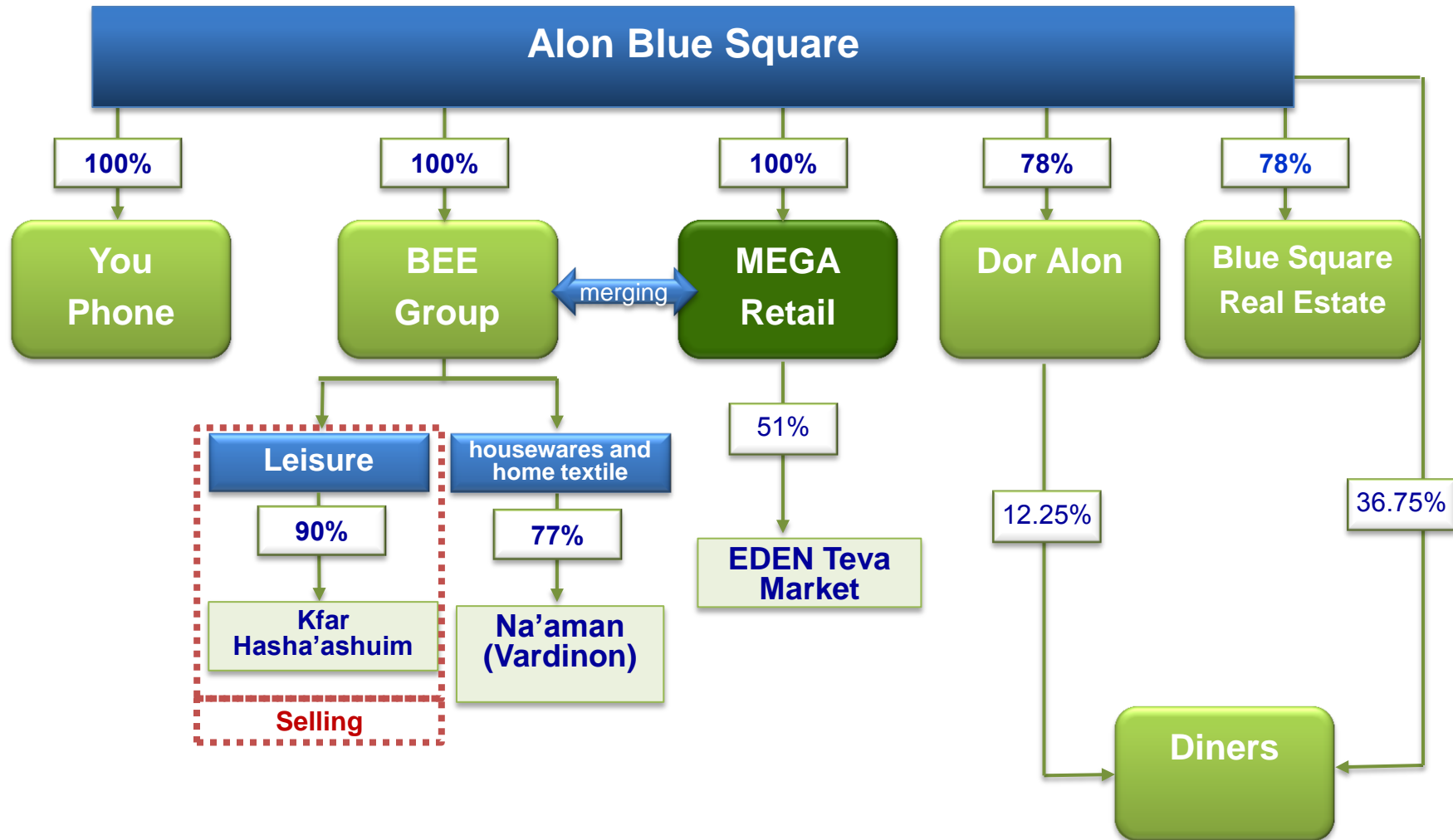
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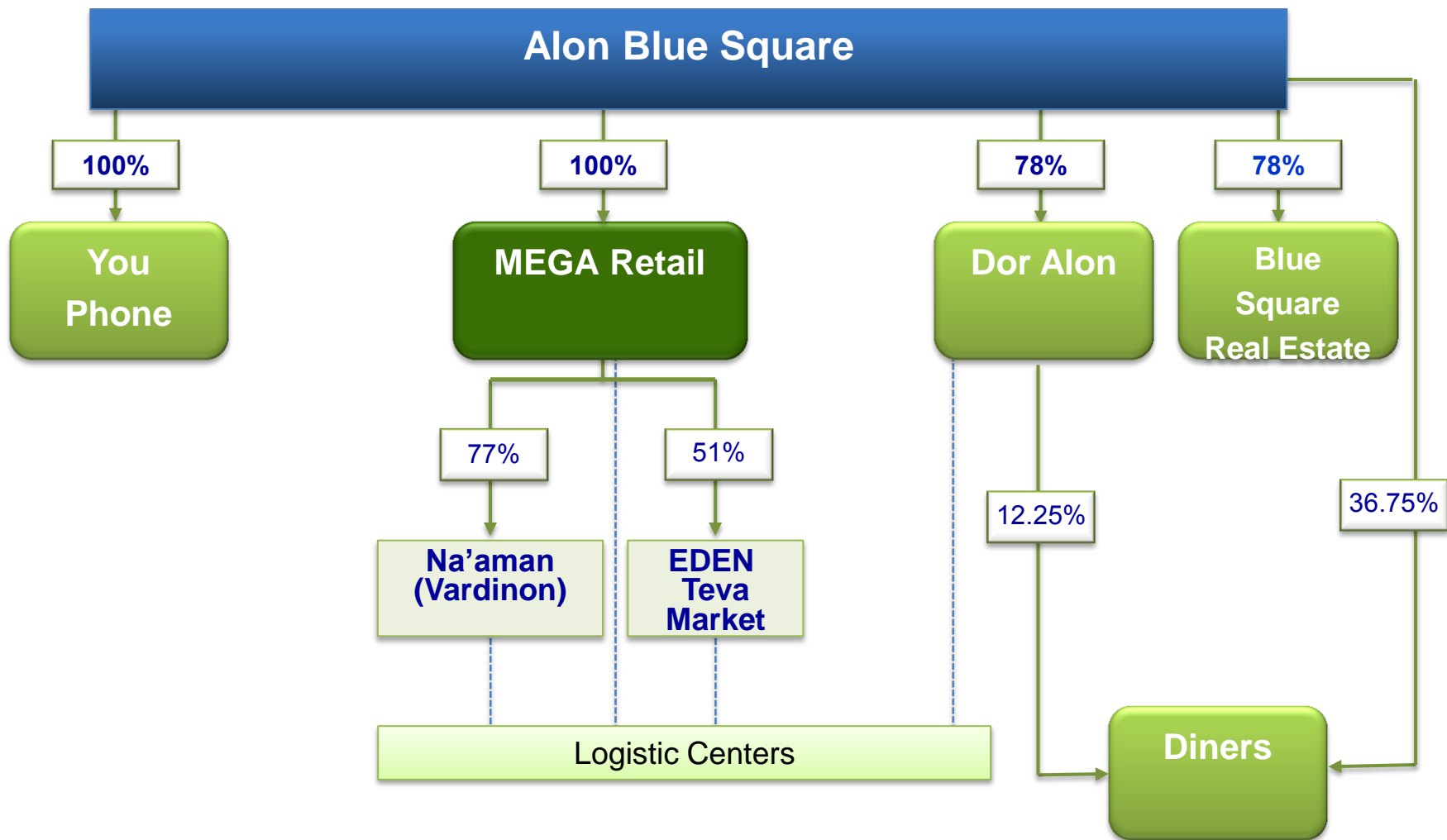
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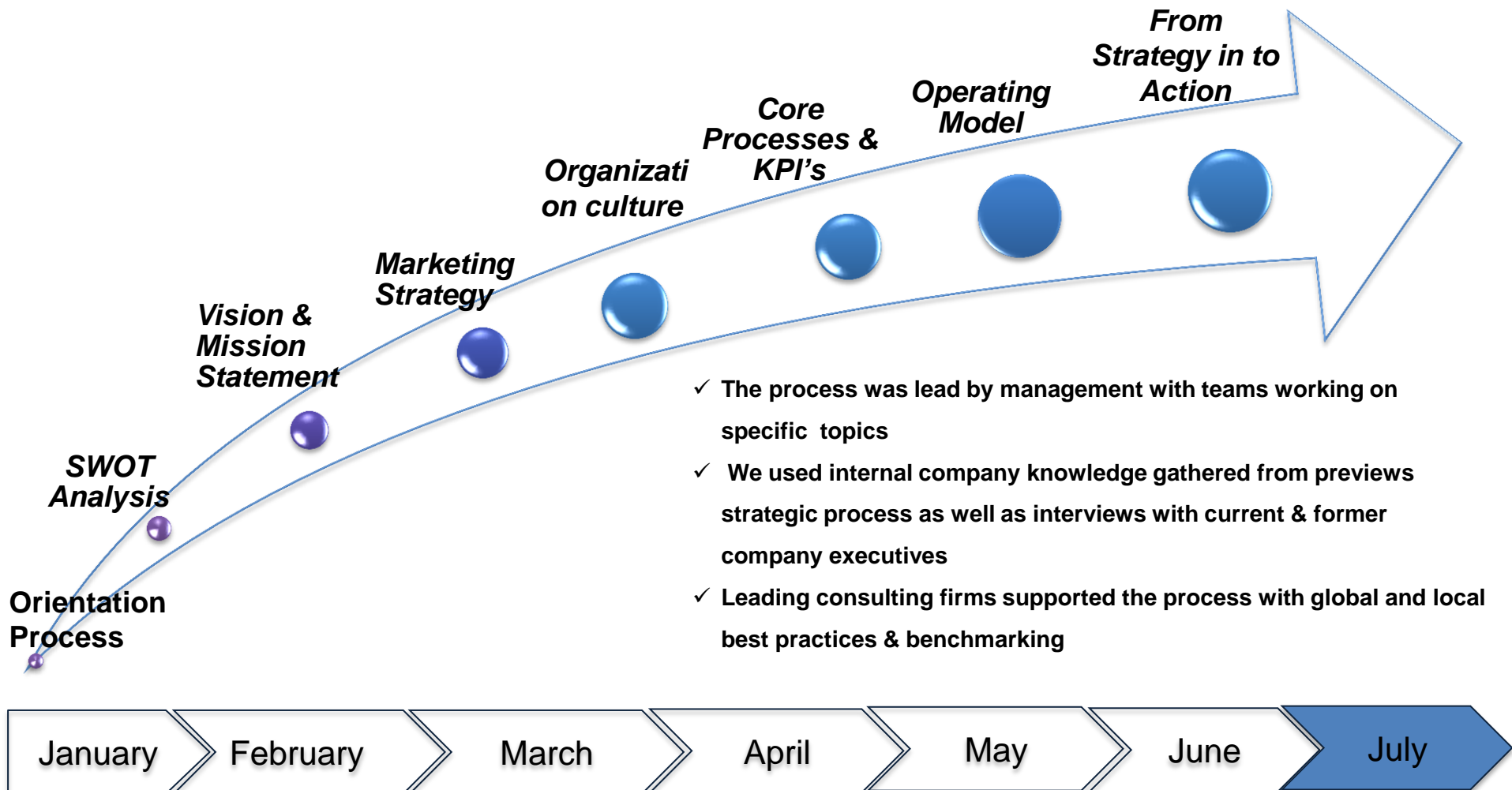
Current Holding's



Holding's After MEGA/BEE merger



Strategic Process Mile Stones



Israeli Retail Market Snapshot

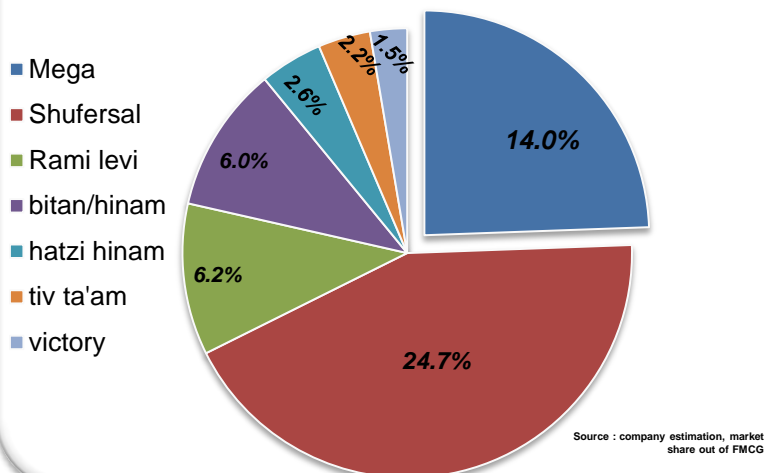
Competition

1. Competitive market with price being the key differentiation factor but many examples of add value customer proposition
2. New entries and expansion of private retailers lead by a strong founder
3. High levels of retail space per capita vs WE

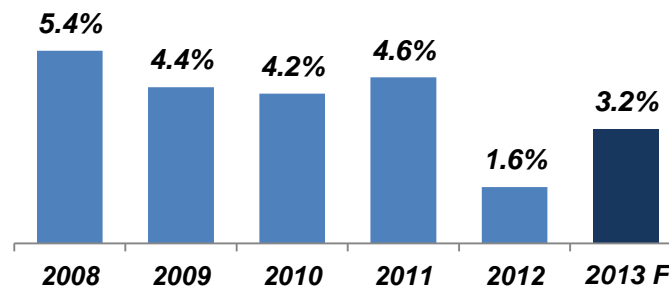
Market

1. High & frequent involvement of all the family in the shopping cycle
2. Consumer conversation dominated by price perception
3. Most growth coming from Discount format
4. Increase in government Regulation
5. Technological development is playing a key role in this market , starting with on line shopping

Market Share (2012)



FMCG Market Growth Rate



Source : StoreNext, May 2013



MEGA Market Positioning



The Customer is in The Center



• Product
Range

• Price
Perception

• Service

Our product – *Shopping Experience*

• Shopping
experience



• Quality
Perception

We want to optimize the customer proposition

....and to achieve high satisfaction from Shopping at our stores

We want our customers to love our stores





***MEGA
growth
Recipe***



MEGA's vision derives from our history



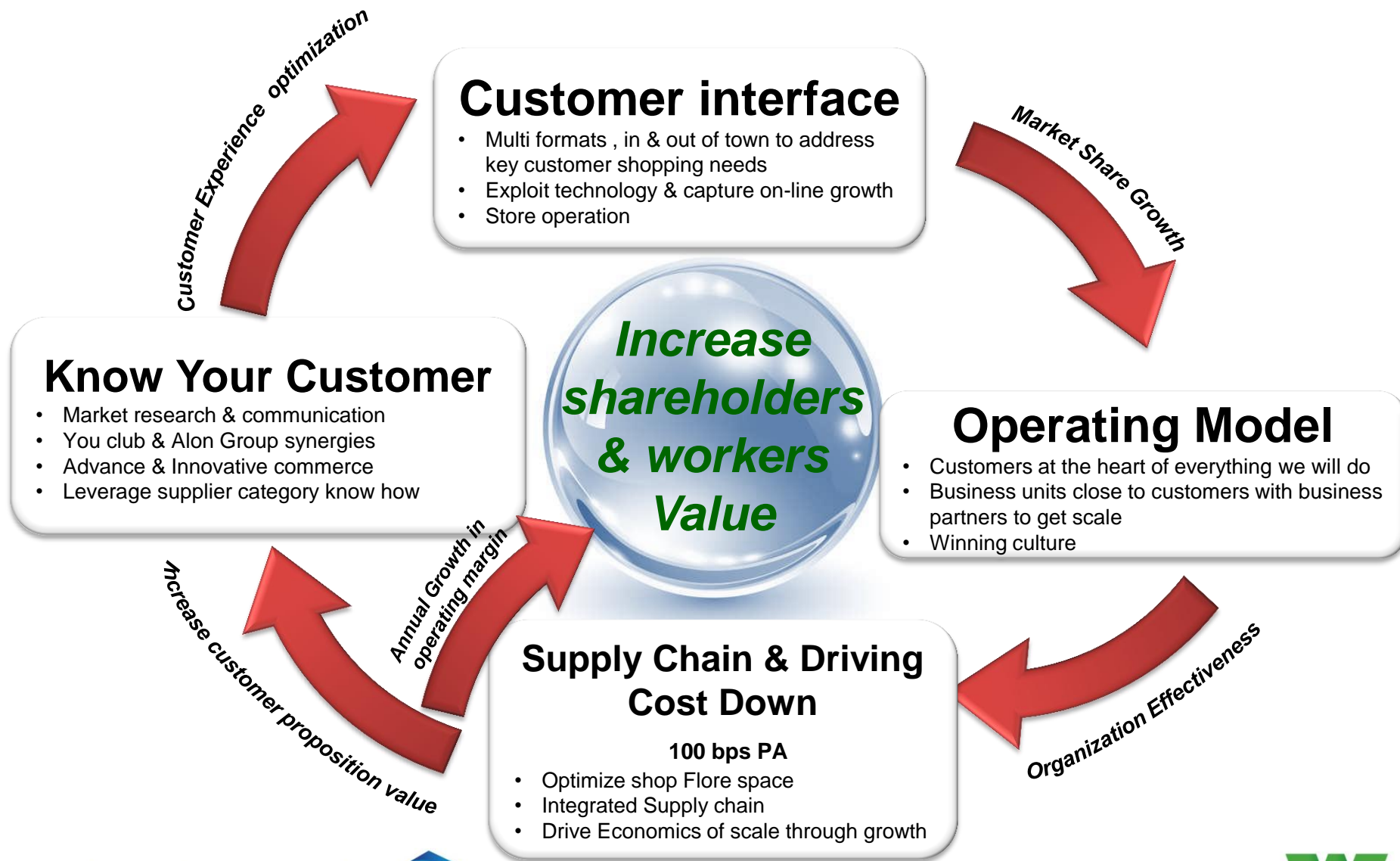
***(In Mega) We Listen To You !
Always, everywhere, in every
interaction
Because, we really care***

Strategic Mission



Increase our loyal customer base in order to grow our market share while consistently improving our operating margin

Mega's Virtual Value Chain



Supply Chain

Operational Planning & Inventory Management

Logical

Physical

Replenishment

- Thousand's of kilometers of shelves
- 650 million items per year

Delivery

- 1,200,000 pallet over 25,000 square kilometers
- To 500 stores (203 mege stores)

Distribution centers

- Fresh
- Chilled
- Room temp'
- Food Vs. non food

Procurement

- 25,000 SKU's
- Over 1 billion Nis of GNFR
- 1,500 suppliers

Rishon Distribution center



"Eyal" Distribution center

"be'er Tovya" Distribution center



- ▶ Logistic centers distribution accounts for 75% of operations in 3 years
- ▶ improving on shelf availability while reducing inventory & replenishment cost
- ▶ Comprehensive approach to product loss
- ▶ Centralized GNFR buying



Market guidelines

Annual growth above market rate

Comprehensive solution to price challenge in all formats & Geographic's

Keep gross margin at current levels by supply chain efficiency of 1% & innovative commercial

OPEX reduction mainly due to optimizing store size & closing losing stores

Closing operating margin gap Vs. Israeli average till 2014, afterward growth toward top quartile retailers margins

Capex in line with depreciation and on going CF improvement



Supporting Strategic action

- ▶ **Leading the healthy organic market Via EDEN Teve Market**
- ▶ **Strengthening Non food store activity (Na'aman group) for broadening the group costumer point of sell and additional support in MEGA stores**
- ▶ **Loyalty club & credit card for focused added value based on a broad retail portfolio**
- ▶ **Cellular growth as a differentiating factor**



Summery

- ▶ We built a customer focused plan, based on past experience, our competitive advantages & opportunities in the Israeli retail market
- ▶ We will build supporting organizational capabilities enabling execution
- ▶ We expect on going quarterly improvement



