ALON BLUE SQUARE

MEGA Retail

New Strategic Plan for MEGA Retail , July 2013

אלון רבוע כחול ישראל בע"מ

קמעונאות

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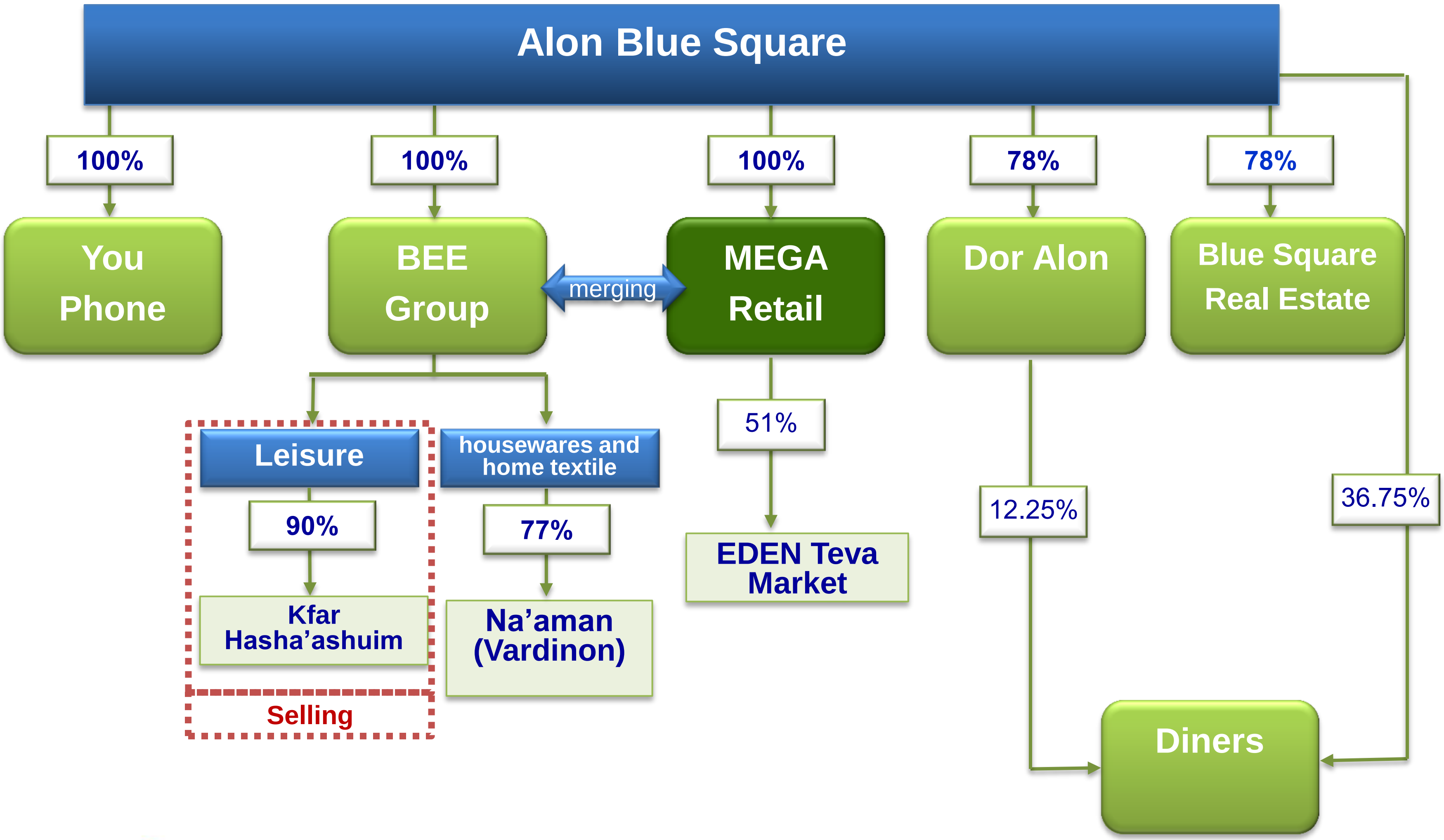
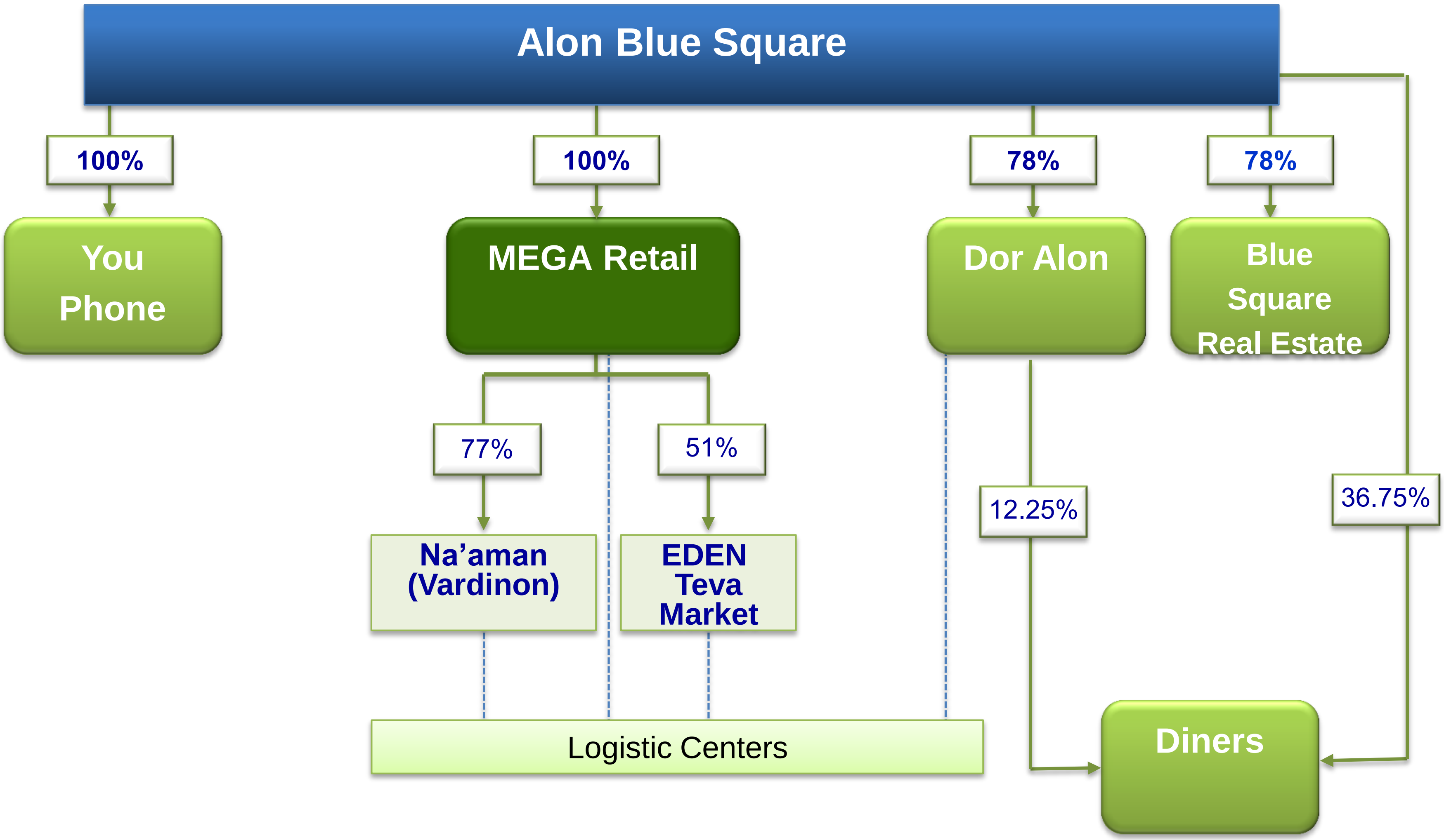
Current Holding’s



The company intent to sell the activity

Holding's After MEGA/BEE merger



Strategic Process Mile Stones

Orientation Process

SWOT Analysis

Vision & Mission Statement

Marketing Strategy

Organization culture

Core Processes & KPI's

Operating Model

From Strategy in to Action

- ✓ **The process was lead by management with teams working on specific topics**
- ✓ **We used internal company knowledge gathered from previews strategic process as well as interviews with current & former company executives**
- ✓ **Leading consulting firms supported the process with global and local best practices & benchmarking**

January	February	March	April	May	June	July

Israeli Retail Market Snapshot

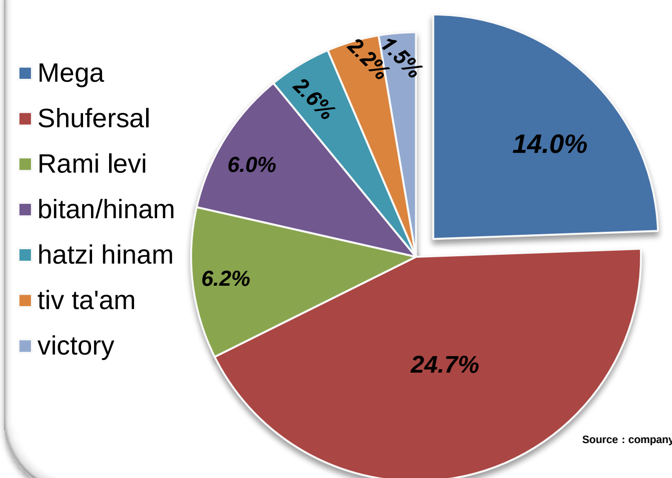
Competition

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

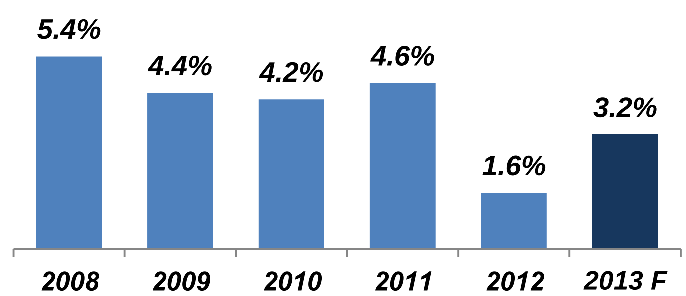
1. High & frequent involvement of all the family in the shopping cycle
2. Consumer conversation dominated by price perception
3. Most growth coming from Discount format
4. Increase in government Regulation
5. Technological development is playing a key role in this market , starting with on line shopping

Market Share (2012)



Source : company estimation, market share out of FMCG

FMCG Market Growth Rate



Source : StoreNext, May 2013

MEGA Market Positioning

Challenges

- High cost base
- High price perception
- Sub optimal Execution capability's
- Inconsistence customer proposition and branding

Strength & Opportunities

- **Rich history (1937) which is rooted in the state of Israel foundation story**
- **leveraging the YOU loyalty club**
- **Superior store locations mainly city centers**
- **Leading in fresh food, mainly meat**
- **Part of Alon group, Israel largest retail group**

The Customer is in The Center

Product Range

Price Perception

Service

Our product – Shopping Experience

Sopping experience

Quality Perception

We want to optimize the customer proposition


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

Customer interface

- Multi formats , in & out of town to address key customer shopping needs
- Exploit technology & capture on-line growth
- Store operation

Market Share Growth

Operating Model

- Customers at the heart of everything we will do
- Business units close to customers with business partners to get scale
- Winning culture

Organization Effectiveness

Supply Chain & Driving Cost Down

100 bps PA

- Optimize shop Flore space
- Integrated Supply chain
- Drive Economics of scale through growth

Annual Growth in operating margin

Increase customer proposition value

Know Your Customer

- Market research & communication
- You club & Alon Group synergies
- Advance & Innovative commerce
- Leverage supplier category know how

Customer Experience optimization

Increase shareholders & workers Value

Supply Chain

Operational Planning & Inventory Management | **Logical**

Physical

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

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

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

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

Rishon Distribution center

"Eyal' Distribution center

"be'er Tovya" Distribution crnter

- 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

Thank You