

Conclusion on Grocers

Grocers are good business, I mean, you got to eat! However, those are not great businesses, it is most about price and the competition is fierce. The hard discounters like Lidl and Aldi and the price war they created over the past decade took off between 100 and 400 basis points from operating margins with other retailers. Wal-Mart also entered the field and lowered margins to compete and gain share.

But, on the other hand those are safe, stable businesses that are likely going to stay here for long given the infrastructure created. So, it will be good to keep an eye, compare and perhaps take the opportunity when it comes, and given the environment it is very likely it will come.

For me personally, these stocks might be a buy when things look really ugly from a price war point perspective, when estimates are not reached and when things look really ugly, but, we still got to eat. To be continued...

Just some risks to keep in mind: Currency – if the dollar goes south, this can get really ugly, if inflation comes and people have to spend less, higher rates can lead to higher required returns etc. We are in a frothy market, so one has to be careful.

What I don't like is the possible structural impacts on the sector. One thing is cyclicity where the underlying trend is positive, another is structural issues where you really don't know how will the sector look like in 10 years.