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Society of Professional Management Consultants

Validation & Risk Assessment

CORPORATE FINANCE INC.

Financial-Operational Model
Cash & Carry America, Inc.

Corporate Finance, Inc. ("CFI") and the Society of Professional Management Consultants ("SPMC") jointly conducted an assessment of the core logic, application methodology, operating practices, and market assumptions that form the basis of the Cash & Carry America, Inc. ("CCA") financial/operational ("FINOP") model. Assessment findings are the subject of this report. The project required multi-disciplinary expertise. The project team relied upon CFI for validation of the mathematics, particularly Monte Carlo methodology, and financial modeling: upon SPMC for validation of operation practices and market environments, particularly the current state of ethnic markets. Additional market data was obtained from publicly available information and industry publications. These sources generally state the information they provide has been obtained from sources they believe to be reliable, but that the accuracy and completeness are not guaranteed. The investigation also included numerous tests and comparisons with independently verified real-world conditions. The scope of the project was limited to validating CCA's FINOP model and projections. It did not address CCA's valuation which was the subject of a separate, independent project by The McLean Group. Readers are cautioned that statements in the report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995

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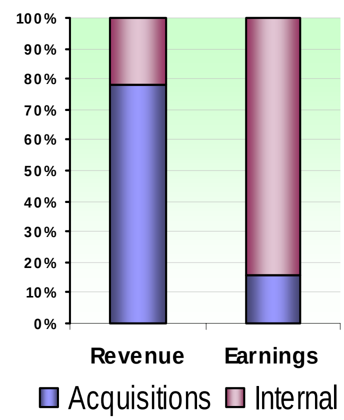
Validation & Risk Assessment

Financial-Operational ("FINOP") Model
Cash & Carry America, Inc.

Cash & Carry America, Inc. ("CCA") is conducting a value-added consolidation of the rapidly emerging ethnic sector of the grocery market. The value-added portion of the consolidation is highly leveraged by CCA's proprietary inventory and store management technology together with best practices adopted from industry leaders.

The company's financial-operational ("FINOP") model[1] is based upon existing revenue that is simply purchased (at roughly 10¢ on the dollar). Approximately 20% of projected revenue is predicated upon internally generated growth from existing clients.



Internally generated revenue growth is predictable because it is largely derived from risk-free[2] sources, and only one moderate-risk source. Uncertainties of customer acquisition are also avoided. Although the probability that CCA will acquire some number of new customers approaches 100%, no revenue growth is projected from new customers: initiatives are planned to attract new customers, but anticipated revenue is excluded.

The uncertainties of projecting internally generated revenue growth are further reduced by excluding all revenue from the 60% of CCA's market which is less predictable. Excluded items consist of brand and service extensions that, while highly successful (approximately $300 billion in size, 15-20% annual growth), have been only partially tested by CCA. The exclusion is ultra conservative in that early results, from tests conducted at the "stalking horse" operated by CCA management, indicate that $7 billion of revenue in year five may be a more accurate projection than the $3.5 billion shown in the plan. However, a probability profile of anticipated revenue from the excluded market will not be computed until fiscal year 2006 results are known. CCA management therefore elected to totally exclude the revenue from CCA's model in the interim.

Approximately 20% of earnings "come from" acquired revenue; 70% from risk-free operating improvements; and, 10% from the moderate-risk product extension.

[1] FINOPs model financial implications of operational assumptions and practices. Done right, they are a more accurate predictor of actual financial results than pure financial models: and, significantly more accurate than commonly used proforma projections.

[2] The term "risk-free" is used to describe risks that, although greater than zero, are statistically insignificant. During the last 20 years, for example, insufficient failures have occurred in CCA's universe of acquisition targets to compute the probability that a CCA target will suddenly decline. (CCA cash & carry targets have an average of $80 million revenue, minimum $40 million, and a five year history of profitability. They wholesale necessities, food, to a customer base that is growing 6-10% per year and has few attractive alternative sources of wholesale supply.)

Post acquisition, operational risks are the principal focus of the analysis. They are addressed in two sections:

- projections shown in the business plan, and
- un-projected, potential revenue and earnings from the excluded market.

The relatively minor acquisition risks are discussed separately in the section beginning on page 10. The very real risks associated with obtaining funding are discussed on page 11. The last section presents conclusions and recommendations.

Acquisition Schedule (Units)[1]

Acquisitions	Year 1	2	3	4	5
Current Year					
Total	6	8	12	18	24
Annualized Equivalent	3.5	4.5	6.5	9.5	12.5
Previously Held					
1 year		6	8	12	18
2 years			6	8	12
3 years				6	8
4 years					6
Cumulative					
Total	6	14	26	44	68
Annualized Equivalent	3.5	10.5	20.5	35.5	56.5

[1] units of $40 million revenue (minimum size acquired.) An $80 million acquisition equals 2 units.

Operating Projections Included in Plan

Roughly 80% of the revenue in CCA's model is purchased. This 80% of revenue is a given: acquired revenue is what it is. CCA's forensic examiners[3] will have peeled the flesh down to the bones and taken X-rays prior to closing. In almost all instances, actual revenue acquired will exceed the contracted-for revenue because "unreported owner draw" works to CCA's advantage. In addition to acquiring revenue, CCA obtains the associated inventory, movement history, and long term supplier and customer relationships. Start-up delay and risk are eliminated by acquiring well established, going concerns.

The remainder of this section is devoted to revenue that is not a given – the 20% that is dependent upon internally generated growth.

CCA Financial Model

CCA internal growth projections are derived from a "bottom-up" financial model based upon revenue and earnings drivers. The model reflects the operating experience of CCA management in that it's based on "work-a-day" criteria. The model has been extensively "driven," using Monte Carlo techniques, to measure the relative sensitivity of drivers on which to base "key factor" metrics. Such models, by themselves, tend to reduce risk when used in this manner during planning and, subsequently, when comparing results to plan.

Monte Carlo methods are more typically used in hedging, derivatives, and other financial engineering than in M&A; nevertheless, they are a highly useful tool for modeling CCA's market environment. Used correctly, Monte Carlo based projections related to internally

P&L Forcast For <u>One</u> $40 Million Cash & Carry
(all figures $000 except percetages)

Drivers: CRISP; SMA; XM	Historical	*Projected* *month* 6	6	*year* 1	2	3	4	5
Groceries	40,000	20,761	23,405	44,167	54,791	65,019	76,673	88,863
Financial Products	0	0	0	0	675	1,250	1,550	1,800
XM rental revenue		0	0	0	68	94	116	135
Total Revenue	40,000	20,761	23,405	44,167	55,533	66,363	78,340	90,798
Groceries COGS	34,000	17,517	19,624	37,141	45,305	53,762	63,399	73,478
Groceries COGS %	*85.0%*	*84.4%*	*83.8%*	*84.1%*	*82.7%*	*82.7%*	*82.7%*	*82.7%*
Gross Profit Groceries	6,000	3,244	3,781	7,025	10,228	12,600	14,940	17,319
Fin'l Service G. Profit	0	0	0	0	473	875	1,085	1,260
XM rental revenue				0	68	94	116	135
Total Gross Profit	6,000	3,244	3,781	7,025	10,768	13,569	16,142	18,714
Gross Margin	*15.0%*	*15.6%*	*16.2%*	*15.9%*	*19.4%*	*20.4%*	*20.6%*	*20.6%*
Baseline C&C O/H (4% growth)	5,300	2,650	2,650	5,300	5,512	5,732	5,962	6,200
Increment Warehouse	0	(29)	(29)	(58)	(58)	(58)	(58)	(58)
Incremental Labor	0	50	50	100	75	75	75	75
XM Promotion Costs	0	0	50	50	0	0	0	0
Other Incremental O/H	0	50	25	75	50	50	55	60
Total C&C O/H	5,300	2,721	2,746	5,468	5,580	5,800	6,034	6,278
O/H %	*13.3%*	*13.1%*	*11. 3%*	*12.4%*	*10.1%*	*8.7%*	*7.7%*	*6.9%*
EBITDA	700	523	1,035	1,558	5,189	7,769	10,107	12,437
EBITDA %	*1.8%*	*2.5%*	*4.4%*	*3.5%*	*9.3%*	*11.7%*	*12.9%*	*13.7%*
EBITDA Grocery only	700	523	1,035	1,558	4,716	6,894	9,022	11,177
EBITDA % Grocery only	*1.8%*	*2.5%*	*4.4%*	*3.5%*	*8.6%*	*10.6%*	*11.8%*	*12.6%*

Table A

[3] Forensic accountants are the accounting profession's Sherlock Holmes's. The specialty requires scientific, multi-disciplinary methodologies beyond GAAP and best practice audit procedures. The American College of Forensic Examiners is the certifying entity – http://www.acfei.com/ See *Management Profile: Duane Wolter, CPA – Ex. VP. Administration & CFO.*

generated growth have smaller standard deviations than results from more commonly used linear computations (which is to say, the results are more likely to be accurate.) They also profile the distribution of likely outcomes. For example, the technique shows the probability of revenue being less than $2.5 billion in year 5 is 6% (i.e., the probability revenue will exceed $2.5 billion is 94%.)

A Monte Carlo tutorial[4] is beyond the scope of this paper. Other than validating the methods used are appropriate and the algorithms accurate, the analysis was limited to evaluating whether the right driver criteria were chosen for modeling and that values used in the drivers reflect real world conditions.

CCA's model is based on $40 million revenue "units," the smallest operation that will be acquired. See Table A. The table does not represent a particular cash & carry – it is the result with the highest probability. Revenue in CCA projections (Table B) is the sum of the results obtained by multiplying the number of annualized equivalent cash & carrys acquired times the number of "years held." See previous acquisition schedule.

Year 5 revenue from internal growth is approximately 54% of total revenue in Table A versus 22% in Table B. This is not an error. It reflects realities of the acquisition schedule. For example, 12.5 annualized equivalent acquisitions in year five are presumed to have had no growth: revenue from growth in the 18 "held 1 year" units is 10% of total revenue. In year 5, only 6 units will have been held 4 years (and experienced 4 years of growth.)

Projected Income Statement

Consolidated Statement for Multiple Cash & Carry Centers

CRISP, SMA and XM Implementation

	Year 1	Year 2	Year 3	Year 4	Year 5
Gross Revenue					
Groceries	154,582,900	527,493,321	1,115,521,058	2,057,260,756	3,465,103,637
Financial Products	0	4,050,000	12,900,000	27,400,000	50,350,000
XM rental	0	405,000	1,102,500	2,257,500	4,080,000
Total Revenue	154,582,900	531,948,321	1,129,523,558	2,086,918,256	3,519,533,637
Cost of Goods Sold					
Groceries	129,994,130	438,965,404	926,432,778	1,706,996,701	2,872,969,692
Financial Products	0	607,500	1,935,000	4,110,000	6,945,000
Total COG	129,994,130	439,572,904	928,367,778	1,711,106,701	2,879,914,692
Groceries COGS %	84.1%	82.7%	82.7%	82.7%	82.7%
Gross Profit					
Groceries	24,588,770	88,527,917	189,088,279	350,264,055	592,133,945
Financial Services	0	3,442,500	10,965,000	23,290,000	43,405,000
XM rental	0	405,000	1,102,500	2,257,500	4,080,000
Total Gross Profit	24,588,770	92,375,417	201,155,779	375,811,555	639,618,945
Gross Profit Margin	15.9%	17.4%	17.8%	18.0%	18.2%
Sales and Administrative Expenses					
Distribution Center O/H	19,136,250	58,080,750	114,974,630	201,500,765	324,315,246
Corporate SG&A	2,065,000	4,030,000	4,230,000	4,405,000	4,650,000
Total SG&A	21,201,250	62,110,750	119,204,630	205,905,765	328,965,246
SG&A %	12.4%	10.9%	10.2%	9.7%	9.2%
EBITDA	3,387,520	30,264,667	81,951,149	169,905,790	310,653,699
EBITDA %	2.2%	5.7%	7.3%	8.1%	8.8%
Interest	428,353	1,766,664	1,892,791	1,456,887	2,008,717
Depreciation	1,351,500	4,645,000	9,605,000	17,322,500	28,368,000
Amortization	179,059	1,074,351	2,097,543	3,632,330	5,781,032
Net Income before Income Tax	1,428,609	22,778,652	68,355,816	147,494,074	274,495,950
Income tax at 38%	542,871	8,655,888	25,975,210	56,047,748	104,308,461
Net Income	885,738	14,122,764	42,380,606	91,446,326	170,187,489
Net Income Percent	0.6%	2.7%	3.8%	4.4%	4.8%

Table B

Internal Sources of Revenue Growth

Three sources of internal revenue growth are projected in Table B:

- *Grocery*;
- *Financial Products*; and,
- *XM Rental*.

XM Rental is insignificant and, therefore, not addressed. Projected

[4] The technique involves "running the numbers" many times (in CCA's case, several million iterations) using random variations of key assumptions to complement intuitive insights and develop probability profiles of likely results. For example, the profile might show that the probability of $3.5 billion of revenue in year five is 32% plus or minus 2%. Readers are referred to *Monte Carlo Methods in Financial Engineering: Stochastic Modeling and Applied Probability* by Paul Glasserman, 2004, Springer-Verlag New York, Inc. Separately, a modification of CCA's approach was used by The McLean Group, Inc to prepare an independent valuation of CCA. The results were essentially identical. The McLean Group methodology was not validated as part of this analysis.

Financial Product revenue is ultra conservative.[5] The remainder of this section is devoted to projected growth in Grocery Revenue.

Growth in grocery revenue is derived from three sources:

- *baseline* – overall market growth,
- *share growth* – the increased share of customer "wallet" that is obtained by implementing four operational improvements; and,
- *customer growth* – as a supplier of wholesale products, CCA participates in its customers' growth: as their sales increase, so do their purchases from CCA.

Projected growth in grocery revenue is not based upon entering new lines of business. The plan is exclusively based on existing business – which is primarily mainstream (Anglo, "Procter & Gamble-like") packaged goods. Few cash & carrys, for example, offer much in the way of perishables. And, few offer extensive selections of ethnic products despite common perceptions and the fact that many cash & carrys are owned by minorities.

Customer Distribution Profiles

In CCA's model, the $40 million "building block" is assumed to have 900 wholesale customers and no retail customers. The 900 customer assumption falls in the midrange of comparably sized cash & carrys. Further, projections are relatively insensitive to the number of customers – whether 800 or 1,000. Distribution of revenue among the customers, based on profile analysis, is:

Distribution of Revenue From 900 Customers		
Sales to Top 50	35%	14,000,000
Sales To Next 150	40%	16,000,000
Sales To Other 700	25%	10,000,000
Total	100%	40,000,000

Grocery Sales Growth (%)

	Historical	Forecast month 6	Forecast month 6	Forecast year 1	Forecast year 2	Forecast year 3	Forecast year 4	Forecast year 5
Baseline Growth Top 50 Accounts	4.0	2.00	2.00		4.00	4.00	4.00	4.00
Incr. Share of Customer Purchases		4.00	10.00		16.50	9.00	7.00	5.00
Increased Retailer Growth - CRISP (a)		0.00	0.80		2.40	2.80	3.20	3.20
Additional Customer - CRISP (b)		0.00	8.00		19.80	12.60	11.20	8.00
Total Sales Inc. Top 50 Accounts		6.00	20.80	17.02	42.70	28.40	25.40	20.20
Baseline Growth Next 150 A/Cs	2.5	1.25	1.25		2.50	2.50	2.50	2.50
Incr. Share of Customer Purchases		2.00	8.00		12.50	9.50	8.00	8.00
Increased Retailer Growth W/ CRISP (a)		0.00	0.00		0.42	0.58	0.75	0.92
Inc. Customer Share - CRISP Retailers(b)		0.00	0.00		2.08	2.22	2.40	2.93
Total Inc. Sales Next 150 A/Cs		3.25	9.25	8.03	17.50	14.80	13.65	14.35
Baseline Growth Other 700 A/Cs	1.3	0.63	0.63		1.25	1.25	1.25	1.25
Incr. Share of Customer Purchases		1.00	6.00		4.50	4.00	6.00	5.00
Total Sales Inc. Other 700 A/Cs		1.63	6.63	4.99	5.75	5.25	7.25	6.25

when retailer installs CRISP:
(a) Inc. in retailers's baseline growth rate 1.0%
(b) Rate of increase in CCA share of retailer's business 2.0%

Share of Customer's Gross Purchases (%)

	Historical	month 6	month 6	year 1	year 2	year 3	year 4	year 5
Share of Top 50 Accounts	15.0	15.59	18.32	16.97	22.76	27.37	32.01	35.89
Share of Next 150 Accounts	12.5	12.75	13.75	13.25	15.13	16.85	18.55	20.51
Share of Other 700 Accounts	10.0	10.10	10.70	10.40	10.86	11.29	11.96	12.55

Grocery Sales ($000)
One $40 million Unit

	Historical	month 6	month 6	year 1	year 2	year 3	year 4	year 5
To Top 50 A/Cs ($MM)	14,000	7,420	8,963	16,383	23,379	30,019	37,643	45,247
To Next 150 A/Cs	16,000	8,260	9,024	17,284	20,309	23,314	26,497	30,299
To Other 700 A/Cs	10,000	5,081	5,418	10,499	11,103	11,686	12,533	13,316
Total Grocery Sales	40,000	20,761	23,405	44,167	54,791	65,019	76,673	88,863
Total Grocery Sales Growth %				*10.4%*	*24.1%*	*18.7%*	*17.9%*	*15.9%*

Table C

[5] Projected revenue from financial products is less than 20% of what would reasonably be anticipated based on "official" statistics. Further, it is increasingly recognized that "ACNielsen-like" research and government figures for the sector are as much as 50% lower than actual.

Assumed revenue distribution varies considerably from mid-range distributions. Most cash & carrys obtain 90-95% of their revenue from their largest 200 customers. Revenue within the top 200 is not concentrated. Rarely does any one customer account for more than 3-4% of total revenue.

Using a profile in which only 75%, of total revenue is obtained from the top 200 customers – as done in CCA's model – is more conservative than using the more probable 90-95% of revenue. It is more conservative because it reduces the beneficial impact of focusing customer relationship management ("CRM") on customers with the most growth potential.

Distributions of the following customer factors for the 900 customers are shown in Table C.

- Growth in grocery purchases from CCA (% growth)
- CCA's share of customer gross purchases (%share)
- CCA grocery sales ($000)

Average baseline (market) growth, one of the three growth factors, is assumed to be 3% which is overly conservative.[6] Distribution of baseline growth among the three customer classes is as follows:

Distribution of Baseline Growth Among 900 Customers		
	Top 50	4%
	Next 150	2.5%
	Other 700	1.5%
	Average	3%

Increase Share of Customer Purchases

	Historical	Projected month 6	Projected month 6	year 1	year 2	year 3	year 4	year 5
(1) Reduced Out-of-Stocks								
Begin Out-of-Stocks	15%	15.00	7.50	15.00	5.00	5.00	5.00	5.00
Ending OOS		7.50	5.00	5.00	5.00	5.00	5.00	5.00
Resulting % sales increase p.a.								
Top 50 Accounts		2.00	3.00		1.50	0.00	0.00	0.00
Next 150 Accounts		1.00	2.00		1.50	0.00	0.00	0.00
Other 700 Accounts		1.00	2.00		1.50	0.00	0.00	0.00
(2) Customer Relationship Marketing								
% Increase In Sales								
Top 50 Accounts		2.00	3.00		5.00	3.00	2.00	1.00
Next 150 (a)		1.00	2.00		3.00	5.00	3.00	2.00
Other 700 (b)		0.00	1.00		1.00	1.00	1.00	1.00
(3) Efficient Assortment								
% Increase In Sales								
Top 50 Accounts		0.00	2.00		4.00	3.00	2.00	1.00
Next 150 (a)		0.00	2.00		2.00	1.50	2.00	3.00
Other 700 (b)		0.00	2.00		1.00	2.00	3.00	2.00
(4) Strategic Supplier Agreement								
% Increase In Sales								
Top 50 Accounts		0.00	2.00		6.00	3.00	3.00	3.00
Next 150 (a)		0.00	2.00		6.00	3.00	3.00	3.00
Other 700 (b)		0.00	1.00		1.00	1.00	2.00	2.00
Total Revenue Increase								
Top 50 Accounts		4.00	10.00		16.50	9.00	7.00	5.00
Next 150 (a)		2.00	8.00		12.50	9.50	8.00	8.00
Other 700 (b)		1.00	6.00		4.50	4.00	6.00	5.00

Table D

The 4% market growth attributed to the Top 50 (where CCA plans to focus CRM) is especially conservative in that the elite merchant class has historically experienced 15-25% annual growth. Further, CCA's model assumes a constant rate of market growth whereas the sector is expected to experience accelerated growth rates reflecting favorable demographic changes and the continuing shift of advertising[7] from Anglo markets to ethnic markets by Consumer Product Goods companies ("CPGs.").

Cash & carrys typically capture no more than 10% of their customers' business. CCA's model is based on 12.5% historical share, an overly conservative number. It is conservative because achieving percentage share gains from a higher base is more difficult (conservative) than starting from a lower, more realistic base. Further, the model assumes historical share of its primary target for future growth (the top 50 customers) is 15% – an assumption which would make hitting percentage growth targets more difficult than is likely to be the real-world case. Share growth, above historical levels, is addressed in Table D and in the next section.

[6] The baseline growth rate of 3% used in the plan is 25% less than the 4% baseline growth rate of the overall grocery industry: and, approximately 70% less than the actual market growth of 10-12% of CCAs market (independent grocers). The model is sensitive to base growth rate. Using the actual growth rate of 10% would dramatically increase revenue projections.

[7] Procter & Gamble cut its 2005 advertising on the four networks 25% while increasing its overall ad budget. CPGs did not "discover" the ethnic sector until it constituted approximately 25% of the USA market (today it is more than 40%.) CPG efforts are currently focused on Latin markets. Although other ethnic markets (approximately 17% of the USA market) receive little CPG attention, they are expected to also be belatedly discovered.

Revenue Growth from Increases in Sales of Packaged Grocery Goods

Grocery revenue growth is based on "Anglo-Procter & Gamble-like" packaged goods. Growth available from perishables and ethnic products is excluded from the model. Table C provides an overview. Percentage growth from three sources – baseline, increased share of customer wallet, and increased growth of CRISP-equipped customers' stores – is shown for each customer class. Percentage growth is translated into total resultant dollar sales at the bottom of Table C.

Baseline growth, described in the preceding section, is assumed to be constant.

Share growth (Table C) sources for the three customer classes are shown in Table D. Four share growth drivers are modeled.

1) *reduced out of stocks* – the model is based on reducing out-of-stocks from 15% to 5%. The assumption is overly conservative in that it is based on averages. In the real world, historical out-of-stocks are higher on fast moving products, lower on slow moving products. Sales are therefore more adversely affected than averages indicate. CCA's assumed result, a 1.5% sales increase in year one, and none in subsequent years, is also overly conservative. Low out-of-stock factors have a psychological affect that is cumulative from year-to-year. CRISP supports today's best inventory management practices for both packaged goods and perishables.

Merchant CRISP Installations
for one cash & carry

Year End XM Installations	Historical	Forecast month 6	6	year 1	2	3	4	5
Top 50	**0**	0	20	20	30	35	40	40
Next 150	**0**	0	0	15	25	35	45	55
Total YE.	**0**	0	20	35	55	70	85	95
Avg. # Installations				10	45	62.5	77.5	90

Table E

2) *customer relationship management ("CRM")* – aligning promotions and inventory to customer preferences using CRM practices have historically resulted in beneficial impacts exceeding those shown in the model. CRISP supports today's best CRM practices.

3) *efficient assortment* – balancing inventory by category based on demand, also known as category management, has a long proven record of double digit sales increases in supermarkets without perpetual inventory control and automatic reordering. Wal*Mart and others achieve larger increases by integrating category management with in-store perpetual inventory and automatic reordering. CRISP supports the better "Wal*Mart-like" version of efficient assortment. CCA assumptions for growth from this driver average 80% lower than the minimums widely experienced in the real world.

4) *strategic supplier agreement* – sales increases from this factor are the result of four sub-drivers: (i) strategic purchasing agreement with a distributor that operates on a 7% gross margin[8] rather than the more typical 9% of such wholesalers as SuperValue; (ii) pricing and promotion transparency available via a strategic relationship vs. closed-book, contentious relationship of typical supply agreements; (iii) participatory access to two private labels; and, (iv) access to producers that has been pioneered at the "stalking horse" operated by CCA management.

   Projected sales growth rate from this source are unrealistically[9] low considering CCA management has identified sources that will enable across the board price cuts of 5-7% while maintaining margin. CCA's management team is highly experienced in negotiating (both buy and sell side) supplier agreements and has personal relationships spanning 20 years with C-level executives at major suppliers. In addition, promotions facilitated by greater transparency should, by themselves, increase sales more than total projected growth from this source.

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[8] CCA managers have a ten year working relationship with a major full-line distributor that operates on a 7% margin.

[9] Management has a purchasing track record with the sources and records of sales increases (at the stocking horse) resulting from lower prices as lower costs were negotiated with suppliers.

Additional share of customer wallet derived from equipping certain customers' stores with the XM (small merchant) version of CRISP is shown in Table C for the top two customer classes. Two factors related to XM induced wallet share increases were assessed:

- *placement schedule* – The installation schedule for XM at an average cash & carry shown in Table E is achievable. The three benefits of CCA's "Diamond Store Program" (CRISP; access to private label brands at 27% discount; and, CPG promotion funds) will cause more stores to apply for the program than would be prudent to admit.[10] Cost and effort of installation and training are understood and documented as CCA management is experienced in selling (for $17,500) and placing CRISP in bodegas. Any scheduling problems will be related to requests for Diamond Status from under-qualified retailers rather than from lack of demand. XM rental revenue shown in the model is a "placeholder" (with insignificant revenue) in the event rentals are needed to decrease demand.
- *resultant share increase* – Projected increases are modest given CCA's realtime access to: inventory levels; shopping basket mix; sales and purchases by product; retail pricing; and, promotions. CCA knows every item CRISP-equipped stores buy, every item they sell. CCA can thus suggest alternative (faster selling) products and improved product assortment. It is also positioned to reduce stock-outs by better anticipating demand and to "pick-up" new items based on customers' experiences.

  Although the market intelligence gained via CRISP-equipped stores tends to also increase CCA's share at stores without CRISP, such increases have been excluded from the model.

Growth due to higher sales at CRISP-equipped customers' stores is shown in Table C for the top two customer classes. No increases are assumed the first year. In the 2nd through 5th years, the additional growth in customer's stores equipped with the XM version of CRISP is assumed to be equal to the baseline growth rate (4% for top 50 stores; 2.5% for next tier 150 stores.) Both numbers are ultra conservative considering the substantial sales increases experienced by retailers that improve certain key business practices.[11]

Margin Improvement

All margin increases are assumed to be passed-on to customers in the form of lower prices, except the following two:

- *shrink reduction* – a 5% historic shrink rate is assumed. Actual shrink at operations with minimal automation is 5-7%. It is assumed realtime perpetual inventory control will cut shrink from theft, spoilage, and dating in half resulting in a 2.19% cost-of-goods reduction. The assumptions are conservative.
- *deal management* – deal management mistakes are an often overlooked source of profit loss. Examples include overselling promotions (selling product, purchased at regular prices, at promotion price), neglecting to raise prices at the end of promotion periods, and failing to collect promotion rebates from suppliers. The 0.13% improvement used in the model is overly conservative.[12]

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[10] In Huthwaite terminology, participants in CCA's "Diamond Store Program" are "Strategic Value Customers." The relationship with such customers is an "enterprise relationship" which creates extraordinary value for a few key customers. Participation by unqualified customers reduces the effectiveness of such programs and needlessly increases costs. Readers are referred to *Rethinking the Sales Force* and *Managing Major Sales* both by Neil Rackham and published by McGraw Hill. Also see *Wholesale Grocery Buying*, a CCA White Paper.

[11] CCA's CFO, Duane Wolter, increased sales 20% per year while COO of a 17 store chain in the face of new superstore competition by introducing best practices. Bodegas automated by CCA management experienced annual sales increases ranging from 12% to 85%.

[12] More than 7% of the items stocked in the first cash & carry automated by CCA management had been sold for the prior six months at less than cost because prices were not raised after the end of a promotion. Less than half the available promotion rebates had been billed to suppliers. Industry deal management losses range 0.75% - 0.8% – higher in CCA's market. CRISP essentially eliminates such losses.

Balance Sheet Items

The model assumes acquired cash & carrys historically stock 20 days of inventory and that CCA gradually reduces inventory to 10 days over 5 years. The assumption is conservative. Cash & carrys average 22-24 days of inventory. A more realistic scenario would be to reduce inventory to 10 days in 6 months based on the following factors:

- Outdated inventory is typically subject to hold-backs when wholesale companies are purchased.
- Three deliveries per week are the norm.
- Wal*Mart stocks 7 days of grocery inventory in its stores;
- The “stalking horse” operated by CCA management stocks 4 days of inventory.

As CRISP provides additional market intelligence, inventory levels should be reduced to less than 7 days if best practices are followed. The more realistic scenario also has a positive P&L effect in that it further reduces losses to shrink and deal errors.

The model assumes existing terms from suppliers are maintained. The assumption is conservative. A 50% improvement in terms (for example, from 10 days to 15 days) is more realistic. Terms are often renegotiated with suppliers during acquisitions. Management should be tasked with achieving a 50% improvement within six months after acquisition.

Tests

The FINOP was subjected to certain limit tests, capacity analysis, and reasonableness checks. Reducing inventory from 20 days to 10 days, for example, frees-up sufficient warehouse space to double packaged goods sales without adding capacity. The planned front-end POS and IT capacity is sufficient to support projected growth because of two strategies: CRM focus on expanding share rather than customer base; and, automation of customer records (non-profit, credit, returns, tax levels, etc). Reasonableness checks include analysis of gross customer sales levels based on CCA share (Table F.)

Average Total Sales at Stores Owned by CCA Customers
($000)

	Historical	Forecast						
		month		year				
		6	6	1	2	3	4	5
Top 50	2,489	1,269	1,305	2,574	2,739	2,925	3,136	3,362
Next 150	1,138	576	583	1,159	1,193	1,230	1,270	1,313
Other 700	190	96	96	192	195	197	200	202

Table F

Items Excluded From the Plan

Opportunities excluded from the plan consist of both product and service extensions.

Product Extensions

Despite common perceptions, cash & carrys historically stocked few ethnic, perishable, or paper products. The oversight is counterintuitive in that many stores purchasing from cash & carrys are operated by ethnic owners who, in turn, cater to both Anglo and ethnic consumers. The three

Perishable Suppliers: Example Terms

Supplier	Terms *days*	Products *Supplier Profile*
Gold Kist	7	meats, poultry – *one of largest USA poultry suppliers*
XYZ Seafoods	14	shrimp, tilapia
SE Wholesale	7	retail pack dry groceries, frozen foods, paper products, and household chemicals – *a leading supplier to supermarket chains such as Food Lion, A&P, IGA, Winn Dixie, Brunos, Piggly Wiggly, Community Cash, Save A Lot*
Excel	10	meats – *one of the two largest USA meat packers*
XYZ Dairy	7	milk, eggs, cheese, cultured products – *a large regional dairy supplying Florida, Michigan and Wisconsin*
Cheney Bros.	30	commodities – *one of the top 4 SE USA wholesalers*

categories also represent a sizable ($300 billion, 15-20% growth) potential source of revenue growth.

The three categories are being tested at a micro-cash & carry operated as a stalking horse by CCA management in Florida. The operation was started in 3,500 ft^2 of warehouse space on a shoestring ($100,000 capital.) Total sales of the three categories reached $200,000 per month after 10 months of operation and 2 expansions. Gross margins grew from an initial 9% to 20% as volume increased and supply agreements were negotiated with suppliers. Inventory declined from 10 days supply to 4 days.

Perishable Suppliers: Example Pricing
low volume, relationship based, terms

	Shrimp 31/40 per lb	*Milk gallon*	*Eggs Large 15 doz*	*Pork Butt g/m*	*Beef Cheek per lb*
Wholesale					
Target Cost	*5.00*	*3.00*	*12.50*	*20%*	*1.00*
Favorable Variance %	*14%*	*3.6%*	*16%*	*50%*	*10%*
Empire[1]					
Sam's Club		2.99	12.65		[2]1.19
Velda Farms		3.19	13.00		
XYZ Dairy		2.89	10.50		
SE Frozen			12.70		
Gold Kist				17%	1.15
Excel				30%	
US Food	5.20				
XYZ Seafood	4.30				
Retail					
Publix		4.35			

[1] terms with all suppliers other than Empire
[2] negotiated $0.90 per pound with quantity commitment

- *Perishables* –cash & carrys tend to steer away from perishables which are more difficult to manage than packaged goods. In this space, perishables are the province of small, undercapitalized wholesalers and brokers focused on narrow specialties. Perishables make-up 30% of the grocery industry (higher in ethnic markets.) Adding perishables to a "pure packaged goods" cash & carry increases its revenue potential by 45%. An additional advantage is that gross margins on perishables average 35% versus 15% on packaged goods. CCA management is testing perishables practices and supplier relations. Current status is shown below. Numbers in parenthesis are days of inventory (compared to Wal*Mart's 7 days, Safeways 17 days, and CCA's 5 year goal of 10 days)
  - ✓ meat – terms from second largest USA meat packer (2.5 days)
  - ✓ seafood – terms from a primary distributor; confirmation that, with increased volume, CCA can move-up supply chain to packer (2 days)
  - ✓ dairy – terms with one of largest USA diaries, the largest in Wisconsin and Florida (2 days)
  - ✓ produce – terms from farms and secondary distributors; produce sources and procedures need improvement (4 days)
- *Paper* – terms from primary distributors confirm CCA can purchase from manufacturers (12 days)
- *Hispanic-Specific* – The few cash & carrys that stock Latin foods purchase far down the supply chain. Small grocers primarily acquire product from second and third tier specialty distributors. Agreements CCA management already have with Hispanic-food manufacturers enables product to be sold to grocers at less than the prices *paid* by their existing suppliers – while maintaining 20% margins. Adding Hispanic-specific foods to "packaged goods cash & carrys" expands their market approximately 45%; and, tightens relationship with small grocers who sell to Latin consumers. Current "stalking horse" status includes:
  - ✓ The top selling six hundred SKUs were selected from 8,000 items sourced while performing due diligence related to acquisition of Fleming's 800,000 ft^2 Miami distribution center (product analysis; vendor evaluation; customer interviews.)
  - ✓ Terms are established with Hispanic food manufacturers, including some regional exclusive distribution rights from leading brands (eg. La Autentica) and brokerage revenue into major distributors and chains (as a test of the Brand Marketing service extension)
  - ✓ CCA exclusive private brand for Hispanic brand (meat & seafood spreads) were established.

Ethnic markets, other than Hispanic, are potential and often neglected sources of add-on revenue. In the Washington, DC market, for example, the $12 million worth of whole goats wholesaled each Easter are consumed by members of the Ethiopian community. CCA management has longstanding relationships with numerous non-Latin ethnic operators with family ties to source producers.

Service Extensions

Although financial services account for approximately 30% of revenue generated in the bodegas where CCA management installed CRISP, insignificant revenue (0.8% in year 2, increasing to 1.4% in year 5) is modeled for financial services. All other revenue from service extensions is excluded from the plan. The authors of this report recommend three services be added to CCA's FINOP.

- *Promotion Management* – CPGs distribute $60- $85 billion of promotional funding to major retail chains each year. Many contract out management of promotions to promotion management companies that specialize in one or more of the associated tasks, including: design, in-store production and training, and compliance audit. Although independents in CCA's market comprise 25% of the market, they receive less than 0.5% of the promotional funding – despite the desire of CPGs to reach them, or at least the Latin segment of the market. Lack of promotion management companies with experience in independent ethnic markets is one of the main obstacles. For several reasons, CCA cash & carrys are well suited to fill the void – and CCA management plans to do so (management has CEO level access at numerous CPGs.)
- *Brand Marketing* – Snapple was "created" by cash & carrys. It can be argued the Muppets were created by PBS. Neither benefited from the ultimate success of the products they launched. In contrast, NASDAQ negotiated ownership (typically 10-35%) in third party brands launched by NASDAQ. Despite its small footprint, the Florida stalking horse negotiated exclusive regional rights to certain brands, including a major Hispanic brand. Exclusive private labels from Hispanic manufacturers were also arranged. More than 100 requests to help launch new brands were received by CCA before acquiring its first cash & carry.
- *Analytics* – Data about ethnic markets (37% of the market) is largely missing from ACNielsen and IRI products. CRISP, in CCA cash & carrys and later in bodegas, provides granularity and support for analytic product extensions that cannot be matched by either company. Pressure to obtain ethnic data is mounting for CPGs because their promotion budgets are increasingly misallocated.[13]

Acquisition Risk

CCA funded and coordinated surveys by various trade associations to develop financial and operating characteristic profiles of cash & carrys in the USA. Approximately 511 in the USA meet CCA acquisition criteria including 76 on the East Coast. Management has access to additional financial information about 44 of the East Coast entities via certain institutional sources. Seven candidates have been vetted. Additional candidates have approached CCA.

CCA has audited financials for one large ($300 million) cash & carry. Few other candidates have audited financials. Audit risk in mitigated by the operating experience and forensic accounting capabilities of CCA management. Management is also supported by two outside M&A firms – one which specializes in "rust belt" acquisitions for hedge funds.

[13] CPGs concentrate 85% of their promotion budgets in declining Anglo markets which now account for less than 63% of industry sales.)

The plan assumes 34 acquisitions, depending on size, over a 5 year period. Based upon a review of the company's "acquisition factory" and integration "tiger team" plans, it is the opinion of the authors of this report that acquisition risks are insignificant and, further, can be made the subject of term sheet conditions.

Funding

Acquisition expenditures of $300 million are required to reach $3.5 billion in revenue in year five. Outside funding of $45 million is assumed; the remainder (cash & debt) is internally generated. The model supports an interest load of 14% on outside funding. The plan produces sufficient cash to accelerate acquisitions in the 4th and 5th years. The debt and equity mix, used in the plan, results in $180 million of cash in the 5th year.

Funding sources have been narrowed to two types: private equity and strategic. Private equity qualifiers, liquidity and deal size being the most important, are listed in Table G. Product suppliers have proven to be highly qualified sources. Companies launching new product and foreign suppliers seeking a US foothold are especially qualified. Three deal types are modeled:

1) $45 million ($3.5-5 billion, five years)
2) $10 million/$45 million – prearranged refinancing ($2-4 billion, 5 years)
3) bootstrap stalking horse – bank debt, vendor financing, seller notes ($0.75-1 billion, 5 years)

Option 1 is preferred: option 3, the least preferred. Option 3, however, eliminates CCA's financing risk. The Option 3 revenue run rate is expected to reach $10 million within 12 months. At some point, the business will gain access to inexpensive bank financing negating the need for risk capital. In pursing Option 1, management is "cobbling together" smaller ($2-5 million) commitments as leverage with larger funds.

Private Equity Source Qualification

criteria	description
Capacity	$600 million minimum; $1 billion preferable; $150 million liquid
Portfolio	Industrial; not government or technology
Deal Size	$25-100 million
Blink test	
Qualifiers	o Understand they are buying $3 billion of existing revenue o Rust bucket focus o See opportunity in low margin, poorly run businesses with growth potential o Understand value of inventory control & packaged goods best practices o Understand current IPO culture o Appreciate CCA IPO/public governance credentials o Lean staffing; prefer completed staff work o Understand grocery margins are highly stable
Disqualifiers	o High margin focus o Herd mentality o View grocery negatively o Question value of perpetual inventory or CCA expertise in packaged goods o IPO novices o High overhead; o Junior MBAs without COO experience o View CCA as start-up o Discount $18 million CRISP investment

Table G

Conclusions & Recommendations

Operational plans and drivers are solidly rooted in the real world. The FINOP model is mathematically correct and operationally sound. Metrics chosen as key factors demonstrate sophistcated and experienced understanding of operations and market conditions.

The values assumed for the key factors leave much to be desired and, in our opinion, do serious disservice to CCA. The model is proof that a virtue, in this case conservatism, taken to an extreme ceases to be a virtue.

Particular exception is taken with three modeling decisions:

- The exclusion of 60% of CCA’s revenue potential is ultra conservative in that $2.5 million is already being generated from perishables and ethnic foods in the stalking horse under highly unfavorable conditions.
- The exclusion of service extensions is similarly conservative and robs the plan of sizzle.
- The use of a 3% base growth rate, rather than the industry’s actual 10% growth rate.

Taken together, the three decisions tend to reduce CCA to consideration by the lowest common denominator elements of the private equity community.

The two decisions reduce an otherwise stimulating plan to mundane ranking. CCA’s basic premise is stimulating. It bootstraps, in a practical low-risk way, the next generation marketing paradigm. It integrates physical and virtual elements into a neural marketing network of 2,500 points of presence and 2 million cardholding consumer “members.” It harnesses the brains and work ethic of an entrepreneurial elite that outperform workforces marshallable by conventional means. It does this with existing, proven components. Revenue scales in units of $40-80 million purchased at 10¢ on the dollar. Nothing new is needed.

By setting unrealistically low goals, the three decisions tend to reduce operational reach and risk appetite. If used as performance measures, they increase the risk of rewarding mediocre performance.

It is therefore recommended that perishables, ethnic products (Hispanic at a minimum) and service extensions be included in the model. It is also recommended the base growth rate be changed to 10%.

Corporate Finance, Inc.
Society of Professional Management Consultants

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