

Economic Outlook and Revenue Assessment Committee

Presentation by WinCo Foods

January 3, 2014

Madam/Mr. Chair, members of the committee, thank you for your interest in WinCo Foods' opinion on the state fiscal years 2014 and 2015 economic outlook. My name is David Butler; I am WinCo Foods' Executive Vice President of Finance and Chief Financial Officer. Also with me are Michael Read, WinCo's Vice President of Public & Legal Affairs and Del Ririe, WinCo's Vice President and Controller.

WinCo Foods is an employee owned company founded in 1967 in Boise, Idaho as Waremart. WinCo is a regional discount supermarket chain operating 91 stores and 4 distribution centers in the states of Arizona, California, Idaho, Nevada, Oregon, Utah and Washington. WinCo has total sales of approximately \$5.6 billion and has roughly 15,000 employee owners. Of the 91 locations, 10 or about 11% of our store portfolio are located in Idaho (Boise-2, Eagle, Meridian, Nampa, Moscow, Coeur d' Alene, Idaho Falls, Pocatello & Twin Falls). Additionally one of our distribution centers and our corporate office are located in the state.

In 1985 WinCo became an ESOP, employee stock ownership plan. This is the core of our Company and culture. The ESOP structure allows our employees ownership in the Company. By IRS definition the ESOP is a defined contribution retirement plan. Our employee owners basically receive 20% of their W-2 wages contributed to their retirement plan on an annual basis, at no cost to themselves. The success of the Company is solely attributable to the dedication and work ethic of our owners. This structure and our employee owners' efforts have allowed us to expand and grow into the 9th largest ESOP, in terms of employees, in the United States. This growth has also allowed our dedicated employee owners to retire with security and peace of mind. Over the last five years, the Company has paid over \$660 million dollars to our retirees, of which roughly \$177.5 million was paid to Idahoans as retirement benefits.

The definition of the grocery industry has become clouded and blurred over the last decade. When we were all growing up, the grocery store was simply that, the store on Main Street where your family shopped for all the traditional food items. Today, the grocery industry is led by the largest mass merchandiser in the world, Wal Mart, which is now considered a grocery store. Other non-traditional competitors have also entered the industry. Other mass merchandisers like Target; warehouse format stores such as Costco or Sam's Club. Drug stores

like Walgreens now carry several aisles of grocery items; and convenience stores have expanded in size, while adding more aisles of grocery. In the 2013 ranking of the largest grocery operations, as published by Supermarket News a new type of non-traditional competitor was added. Two of the twenty-five largest grocery chains in the United States now include Dollar General and Family Dollar, as the dollar store format has also expanded its offering of perishable and nonperishable grocery items. So with all this in mind here are some of the numbers associated with the industry.

In Idaho: Total Food sales, which includes food manufacturing averages about 15% of Idaho's GDP; Grocery and Convenience stores which include gasoline sales average 14%; and Grocery alone, which would include grocery sales from mass merchandisers and club stores like Wal Mart and Costco, average between 6.5 – 7% of Idaho's GDP.

If you simply look at the grocery segment in the traditional manner, you have national chains like Wal Mart, Kroger (Fred Meyer & Smiths), Safeway and Cerberus owned Albertsons. You have regional operations like WinCo and you have independent owner operators, such as Super 1, Paul's and Ridley's.

National chains do not break out individual operating areas, so I cannot speak or provide data to that area, however, in regards to WinCo, our 10th Idaho store, Coeur d' Alene opened on November 7th, excluding Coeur d' Alene, our existing 9 stores in Idaho represented sales of almost \$600 million dollars over a trailing 12 month period ending in June 2013. Our 1,795 Idaho employee owners were paid gross wages of \$56.55 million. Payroll taxes paid were about \$6.25 million. Sales tax collected and use tax paid was approximately \$27.1 million. Additionally the company paid about \$2.1 million in property taxes and another \$550,000 in personal property taxes. WinCo also proudly donated approximately \$940,000 in 2013 and over \$4.7 million dollars over the last five years in food which was donated to Idaho community food banks, schools and other organizations. We are proud to be a contributing economic partner to the communities we operate in, and believe we are a positive benefit to the State.

Carving out the smaller independent grocers you have about 117 retail stores, employing approximately 5,340 individuals. These stores produce about \$837 million in retail sales, paid approximately \$184.1 million in wages and collect and pay roughly \$141.3 million in all taxes combined.

When reviewing the growth of the sector, Trade Dimensions reported that in 2012 the grocery sector grew at a rate of 5.8%, while in 2013 the sector increased 6.1% and projected 2014 growth to be in the 6.3% range. Most recently food inflation numbers have been reported as 1% on the retail side, while the producer price index reported a 5% increase year over year. Our internal reportable calculation showed manufacturer costs increasing 2.7% over

the prior year. The key difference between the cost increases and the lesser retail price increase is a demonstration of continuing overall weakness in the economic conditions in WinCo's western United States operating area. Consumers continue to lack discretionary income. Generally speaking, shoppers will not and cannot pay more for basic necessities and they continue to actively seek the lowest possible price for goods to stretch their limited budgets.

The industry's impact is far reaching. The food side is the most visible, impacting the entire food supply chain from Idaho farms and ranches to manufacturing facilities. Yet, other areas are impacted as well. As new stores are built and expansion occurs, there are numerous ancillary businesses that are also impacted: Architects; Engineers; Environmental and Geotechnical consultants; Construction firms and their selected independent subs and material manufacturers & suppliers just to name a few. In a study for the National Grocers Association conducted by John Dunham & Associates, the NGA looked at Idaho's independent grocers. Beyond the direct sales, wages and taxes paid mentioned earlier, the study estimates that the 117 stores impact another 3,050 individual's employment elsewhere in the food and manufacturing supply chain. The affiliated Companies that employ those people have approximately \$1.2 billion in sales. The wages associated are in the range of \$102.5 million dollars. Again, this study was conducted only on the independent grocers, but the impact could be extrapolated for the regional and national grocers as well.

Economically for the last six months of state fiscal year 2014 and the first six months of fiscal year 2015, our suppliers remain cautiously optimistic. However, as not much has changed in the Country, we tend see and expect the economic picture to continue to remain sluggish. The majority of consumers' income goes for necessities and consumer confidence does not appear to be strengthening.

In our operating region, Idaho is economically stable. Beyond Idaho; Arizona and Utah seem to be showing signs of improvement; Washington and Oregon have difficulties but have pockets or areas of improvement; while California and Nevada continue to struggle.

This can be tied primarily to continuing rates of unemployment, which remains a major concern. This is most evident when we open a new location. When posting for the approximately 175 jobs needed for a new store, we received approximately 4,000 applications for the Coeur d' Alene store over an eight week time frame or about 71 applications per day. Similarly, a recent store in Arizona had numbers close to Coeur d' Alene's. While this number of applications may seem extreme or a lot, in California, we received 3,000 applications in three weeks at one store, or 143 applications per day; and, 2,400 applications in just three days at another California opening, or 800 applications per day.

In conclusion, as I see my allotted time is up, the economic outlook remains mixed. Idaho appears to be stable, it will have ebbs and flows, but it will be steady. The western United States is mixed and the Country as a whole, without any significant change, should remain similar to what we have seen over the last eighteen to twenty-four months. The grocery industry will continue to serve the needs of its customers via the numerous traditional and non-traditional outlets that are available to consumers. And the dollars spent on food items will continue to compete with other expenditure items, such as fuel, clothing, housing and entertainment for consumers with budgetary constraints.

Madam/Mr. Chair, members of the committee, I would again like thank you for your interest in WinCo Foods, the grocery industry and our opinion on the 2014-2015 economic outlook. My colleagues and I will now stand for any questions you might have.