

Albertsons Companies Inc. (ACI)

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Investment decision: *Invested \$10,000 in the School Fund*

Introduction:

The grocery industry has historically remained resilient during periods of economic uncertainty, which is what initially drew us to Albertsons Companies. Following its failed merger with Kroger, the company's stock appears undervalued relative to its fundamentals, creating a potential opportunity for investors. We believe Albertsons is well positioned to regain market confidence through its continued investment in technology, including AI-driven initiatives to improve efficiency and customer experience, as well as the expansion of its higher-margin private-label portfolio, particularly Signature Select and other in-house brands. Additionally, strong growth in its pharmacy segment is driving increased customer traffic and recurring revenue, further supporting long-term performance. Taken together, these factors suggest Albertsons offers a compelling blend of defensive stability and strategic growth potential.

Company and Valuation Details:

Albertsons Companies, Inc. is a leading U.S. food and drug retailer headquartered in Boise, Idaho, operating a broad portfolio of supermarkets including Safeway, Vons, Jewel-Osco, and Albertsons. The company serves millions of households across its national footprint, offering grocery, fresh foods, pharmacy services, and private-label products, while also supporting commercial and institutional customers through its extensive supply chain network. Albertsons complements its retail operations with a growing digital and loyalty ecosystem, providing integrated online ordering, delivery, and customer engagement capabilities.

- **Current Price:** \$17.07
- **Target Price:** \$40.27
- **Upside Potential:** ~58%
- **Valuation Methods:** DCF (70%), Comparable Companies (10%), Precedent Transactions (20%)
- **DCF Implied Value:** \$38.14
- **Comps Implied Value:** \$62.16
- **Precedents Implied Value:** \$36.78

Albertsons Companies, Inc (ACI) is positioned well for the rising long-term demand for value-driven grocery as inflation and private-label growth tailwinds persist. ACI's scale, store footprint, and loyalty ecosystem underpin the thesis. Management highlights recent growth initiatives (expanded Own Brands portfolio, digital/e-commerce investments, and pharmacy growth) and a strong store base of ~2,270 locations across 34 states. Key risks include food price volatility,

intense competitive pressure from Walmart and Kroger, and execution risk around ongoing cost-efficiency and digital transformation efforts.

Historical Performance:

Over the last five years, Albertsons has not delivered strong equity performance, reflecting both the structural challenges of the grocery sector and the overhang from the failed Kroger merger. While the broader market, including the S&P 500 ETF (SPY), has generated substantial returns with volatility in the low-teens, Albertsons' share price has remained comparatively stagnant despite stable underlying cash flows. This disconnect between operational resilience and muted market performance underscores the defensive nature of the business and highlights the potential for valuation normalization as strategic and industry headwinds gradually ease.

Albertsons has been able to grow their pharmacy revenue in large part due to Rite Aid closures. Former Rite Aid clients have been able to request a prescription refill right through the Albertsons' app. This has allowed Albertsons to capture more of this industry, and with future potential Walgreens closures that have been announced, we could see this trend continue. The additional demand for GLP-1s has also strengthened this source of revenue for Albertsons.

A new partnership with Open AI is also hopeful to bring in new clients and increase revenue. Albertsons has partnered with Open AI for their new ad features, showing ads for Albertsons products when prompted with a related query. This, among other technology advancements, are showing growth potential for Albertsons.

Even though Albertsons faces competitive pressure and operates in a low-margin industry, our investment remains justified given its stable cash generation, expanding private-label margins, and growing digital ecosystem. The company continues to benefit from structural tailwinds in pharmacy, loyalty monetization, and technology-driven customer acquisition. As Albertsons strengthens its balance sheet and executes operational efficiencies, it is positioned to deliver consistent, risk-adjusted returns that complement the higher-beta components of our portfolio.