

Albertson's Plans Upscale Push With Bristol Farms Expansion

BY ANDY FIXMER

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Albertson's Inc. is planning an aggressive expansion of its recently acquired Bristol Farms chain, potentially tripling the number of stores under the upscale banner.

Sources familiar with the plans said the Boise, Idaho-based supermarket chain wants to add about 10 new locations next year, with the first three to be announced as early as January. Another 10 could open as soon as 2006.

The expansion of the chain's current 11 units will take place through the conversion of existing Albertson's properties and the purchase or lease of new locations.

"Albertson's is like a little kid in a candy store," said Lloyd Greif, the investment banker who represented Oaktree Capital Management LLC in its sale of Bristol Farms. "Unlike other grocery stores, Bristol Farms is undersaturated. They have barely scratched the surface of the chain's potential."

Bristol Farms stores average 15,000 square feet, and first on the list of conversions will be smaller, older Albertson's supermarkets and Sav-On drug stores in communities without a significant high-end grocery presence. (Sav-On is owned by Albertson's.) The standard Albertson's store can be as large as 55,000 square feet.

Executives with Bristol Farms and Albertson's real estate

division have been meeting to identify where the conversions should take place, said sources familiar with the process.

Potential sites are in Santa Monica, Studio City, Sherman Oaks, Encino and communities in Ventura, Orange and San Diego counties. By late 2006, Bristol Farms may open Northern California locations.

"They are working on it now," said Greif, president of L.A.-based Greif & Co. "The task presented to executives at Bristol Farms is: 'How fast can you grow the chain and what synergies can you come up with?'"

Kevin Davis, Bristol Farms' president and chief executive, did not return calls. Lilia Rodriguez, an Albertson's spokeswoman, said, "I cannot comment on industry rumors."

Consistent with strategy

Albertson's plan to expand Bristol Farms is in keeping with what the company, the nation's second-largest grocery chain, has done in other markets, according to Mitchell Corwin, a supermarket equities analyst with Morningstar Inc.

In Texas and Louisiana, Albertson's is converting both existing and vacant stores to discount supermarket concepts under the banners of recently purchased chains Super-Saver and Max Foods, Corwin said.

"What they would do with Bristol Farms makes sense," he said. "It's the same thing they are doing elsewhere."



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Albertson's executives have been mostly silent about their intentions for Bristol Farms.

During a recent conference call with analysts to discuss third quarter results, Chief Executive Larry Johnston said the acquisition was a long-term investment aimed at entering the high-end grocery market.

The Bristol Farms deal, estimated at about \$135 million, closed Sept. 21 and was seen by a number of analysts as a way for Albertson's to gain market share and win back customers lost when unionized grocery workers went on strike in late 2003.

During the call, Johnston said that sales at Albertson's stores, unlike those operated by its competitors Kroger Co. and Safeway Inc., have returned to pre-strike sales levels in Southern California.

He told analysts that Bristol Farms had plenty of "opportunity for organic growth," and that it would continue to be run by a separate executive team more

familiar with the needs of the stores' "demanding clientele."

"The performance of the stores continues to be strong," Johnston said, "and they continue to hold onto the market gains made during the Southern California supermarket strike."

Still, Albertson's third-quarter earnings were shy of expectations. Executives blamed price-cutting aimed at staying competitive with wholesale discount stores, and the loss of wealthier customers to markets such as Monrovia-based **Trader Joe's Co. Inc.** and Austin, Texas-based **Whole Foods Market Inc.**

Albertson's reported net income of \$110 million, compared with \$92 million for the like period a year earlier. Sales were \$9.99 billion, up from \$8.72 billion.

Price cuts and promotions during the last six months of the year were expected to drag earnings to the bottom of its initial forecast of \$1.40 to \$1.50 per diluted share.

"Supermarkets are getting squeezed at the low end and the high end of things," said David Dietz, chief investment analyst of Point View Financial Services, which manages investments in Albertson's and other companies.

"What Albertson's is trying to do is experiment with the 'If you can't beat them, join them' concept. They hope to stay competitive by converting some stores or chains to the very low end or very high end."

Corwin said the expansion was also part of Albertson's strategy to place stores in wealthier neighborhoods.

"To be the supermarket of choice for their customers, they want to have different concepts to tailor stores to different demographics," he said. "If they have a higher-end consumer they are going after, they can put in a

Bristol Farms. If it's a lower income area, they can put in a Super-Saver."

While Greif wouldn't comment on which Albertson's and Sav-On stores would be converted to Bristol Farms first, he said the formula for finding candidates was pretty simple.

"Basically take a map of every Bristol Farms location and superimpose a map showing where the median income is above \$100,000," he said. "You'll find there are plenty of gaps that need to be filled."