



IMKTA

INGLES MARKETS
AND THE ILL-INFORMED LAND REPORT

A MAIDEN FINANCIAL REPORT

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Introduction

In April of this year, I published an updated and expanded report on US regional banks to supplement [a presentation I made at MOI Global's Best Ideas 2024 Conference](#). The purpose of the report was to highlight the significance of Hingham Institution for Savings (NASDAQ:HIFS), a Massachusetts-based bank, and to identify practicable correlations on how to effectively analyze and invest in regional banks across the economic cycle. Report construction involved the comparative assessment of 138 banks included in the SPDR S&P Regional Banking Index (NYSEARCA:KRE). In addition to successfully showcasing Hingham's prowess as a financial institution, the report discovered notable correlations between the degree of banker inside-ownership and positive long-term economics. Even better, [since the report's publication on April 18th, Hingham's share price has increased 55.1%](#). Yowzah!

Following publication, my report caught the attention of Guernsey-based investor, [Sven Lorenz](#). Sven is an allocator and well-known financial writer who organizes investor events across Europe and Asia. He also does a spectacular job authoring his blog, [Undervalued Shares](#). Sven loves weird ideas, [and is making waves with his new venture in Sark](#): a small self-governing island located in the British Isles. I encourage the reader to follow Sven, and for those able, to explore the potential for partnership.

Sven discovered my report [through a LinkedIn post](#), and what followed was a kind surprise. [He not only proceeded to write a blog article on my report](#), generously titled, "Hingham Institution for Savings, or How to Analyze Stocks," [but he also promoted my book](#).

To give thanks, I offered to return the favor by analyzing an industry, company, or asset class of Sven's choosing, and he was quick to respond.

Inspired by a 2003 report authored by Porter Stansberry titled, "The Undervalued Land Report," Sven was curious if I could author a land report of my own. Having never analyzed a land stock in my life, I naturally agreed.

And gee whillikers at a backyard barbeque in southern Arkansas on a Sunday afternoon, what I found on my ill-informed quest has me more excited than receiving a Gameboy Pocket for my 9th birthday 24 years ago. Combing over nearly 1,000 annual reports on the hunt for land led me to an unassuming, family-owned supermarket in Asheville, North Carolina: Ingles Markets.

"A grocery store? Ha, what a snoozefest." OK Mr. Efficient Market Hypothesis, sometimes the way a company discloses its owned properties implies understatement. You just have to visit the magical and exciting place called "county record tax land" to find out. Oh, you've never been? Gosh, that's... That's really surprising, *cough.*

So anyway, off to county record tax land I went, and after a good thousand or so record searches across 400 counties (my thanks to Ingles' management for buying real estate through multiple subsidiaries) I had rounded a gaggle of acres that exceeded those disclosed by 2,170 percent. Even better, the assessed fair value of the land, including improvements, exceeds the company's current market cap, and don't get me started on the value of Ingles' off-balance sheet assets (about \$658 million worth).

"But what about the business, Gwen?" Ah, the business. The sweet, misunderstood, under-analyzed business that is Ingles Markets. I'll tell you what, let's do a deal. I'll sell you \$1.4 billion dollars in fair market land and all its developed properties (which I promise will keep expanding through price appreciation and consistent annual purchases), and I'll throw in a profitable and competitively astute supermarket business, for free, that is so inflationary-resistant that its pricing power is more akin to a convenience store than a supermarket. I'm not kidding, even Warren Buffett's Kroger doesn't want to compete with these guys.

Ah, you're still not buying? Allow me to up the ante. Okay, so I'll sell you a growing real estate portfolio with a fair market value of \$1.4 billion, the supermarket business, that has a \$1.7 billion price tag, and I'll add in (again, for free) an e-commerce and inflation-resistant shopping center business that's growing at north of 14% per year and has an FFO margin of about 87% (gasssp). I figure it'll be worth about \$600 million in 5 years, and maybe \$1 billion in 10. Oh and I really don't want the company's profitable milk production and distribution business either because I'm lactose intolerant, so I'll give that away for ~~\$75-million~~ free too.

Okay, you're interested? Good, well listen, you should know that the managers you'll be hiring hate talking, but they're owner-operators that provide great disclosure. Think Berkshire. These guys have never reported a net loss, have repurchased 20% of company shares over the past 10 years, and have paid down debt to the point where Ingles has a better balance sheet than any of its competitors. These guys are just of... the librarian variety, you know? They'll give you something to read, but otherwise they want you to sit down and shut your yap.

What, why are you looking at me like that? Hey, some land stocks rip with management teams that are as communicative as a graveyard. Give me a break. Okay, okay, I'm sorry Management won't talk to Mr. Market on the phone about his feelings, but as long as you're not a crybaby about a little hard work, I think we could do a deal. You're not a crybaby, are you?

Okay great. I had tissues ready just in case. No judgement. So let's summarize. I'm offering you about \$5.1 billion dollars worth of assets, inclusive of real estate portfolio appreciation and expansion over time, maybe \$4.7 billion on the low-end if you want to be a weenie and cap the shopping center business at \$600 million, and I'll sell this all for, let's call it... 5 plus 5 is... Uh, how about \$1.4 billion? That's like, I don't know, 27% of its 10-year value? Okay like 31% on an enterprise value basis, but citing market cap is so much more dramatic! The

debt's going down, don't ya know?

Oh, and one last thing. About the 160 acres the company reportedly owns. Yeah, that's a typo. The company owns about 3,700. In case you want to confirm, [here's a dataset I built with over 10,000 data points for you to fall asleep to while reviewing](#).

Method

Initial work involved the identification of every traditional land stock in North America, with the intention of analyzing each. The list included industries such as farming, water utilities, vineyards and distilleries, as well as paper and forest products. The list totaled 112 names, with acreage identification a key first step in the analytical process.

However, with such a small list of securities where land ownership would be an expected feature, I became skeptical that the list would result in the production of a differentiated analysis. In response, the list was expanded to include 117 additional land companies based in Europe and the South Pacific, with the idea that some may own overlooked land in North America.

The expansion resulted in the identification of [T&G Global](#) (NZSE:TGG), a New Zealand-based apple grower with roughly half its business based in America (the company owns several thousand acres in Washington state), but the screen begot no other foreign addition that held material exposure to North American land.

Accordingly, to magnify the potential for differentiated analysis, a screen was run that produced a list of 753 companies, all in traditionally non-land industries, with market capitalizations between \$20 million and \$2 billion.

The screen largely excluded the following industries:

- Non-insurance financial services
- REITs
- Agricultural producers
- Water utilities
- Vineyards and distilleries
- Livestock
- Land and development

The motivation for avoiding industries where land ownership would be an expected feature was to increase the odds of identifying overlooked land. To further heighten the likelihood of under-analysis, small capitalized securities were favored. Exceptions were made for [Acadian Timber Corp](#) and [Andrew Peller](#)—a timber management company and a British Columbia-based vineyard and estate owner—as both businesses are thought to exhibit unique economic characteristics worth further exploration.

Once compiled, a keyword search was conducted to highlight companies on the list that disclosed land ownership. While improved property was an important consideration in the asset valuation process, with limited time for report production, a basic litmus test of, “Acres = Yes,” “No Acres = No,” was applied to maximize analytical efficiency.

From the 753 company screen, 72 companies disclosed a combined 61,033 owned acres at the report level, which equated to a land discovery rate of 9.6%. That said, upon closer analysis, it is likely that the total owned acreage of land-owning companies generated by the screen is materially more than disclosed.

For example, [TWC Enterprises](#) (TSE:TWC) is a Canadian owner-operated business that owns and manages golf courses in Ontario and Florida. In the company’s annual report, TWC discloses 1,214 owned acres, but the nature of the disclosure belies the extent of total acres held. The key distinction is that the 1,214 acres disclosed are noted as *surplus acres*. In other words, TWC discloses undeveloped acres in their reporting, but excludes the disclosure of those developed.

Due to high price-per-tax-record fees charged by the province of Ontario, complete acreage assessment of TWC’s properties was limited to Florida county records. Nonetheless, despite limited overall access, assessment of TWC’s Florida properties yielded compelling results.

TWC’s Florida golf courses represent just 27% of courses owned, and yet analysis of Hillsborough County and Broward County records reveals 1,864 owned acres in the highly desirable locales of Pompano Beach, Coral Springs, and Sun City Center, FL. Considering that TWC’s owned Florida acres are 53.3% higher than the total acres reported in TWC’s 10-K, the discovery implies that company owned acres greatly exceed those disclosed, which presents an opportunity for a reader with greater means to complete the analysis.

The 1,864 Florida acres, at prevailing USD-CAD exchange rates, have a fair market value of \$C65MM, or 21.7% of TWC’s enterprise value. If that is not enough to pique your interest, TWC also discloses a \$102MM investment in [Automotive Properties REIT](#) (TSX:APR.UN), and has only reported a net loss once in its 30 years as a publicly traded company.

Although TWC is an attractive research target, it was merely one of several companies that were identified as being “of interest.” However, no prospect stood out more than an unassuming supermarket headquartered in Asheville, North Carolina.

Ingles Markets (NASDAQ:IMKTA)

Note that for the purposes of this report, “Ingles Supermarkets” refers to Ingles’ supermarket retail operations, “Milkco” refers to Ingles’ dairy production and distribution business, and “Ingles Leasing” refers to Ingles’ shopping center leasing business.

[Ingles Markets](#) (NASDAQ:IMKTA) is a family-owned, small town operator of 198 supermarkets and 93 shopping centers across North Carolina, South Carolina, Georgia, Tennessee, Alabama, and Virginia. The company is run by CEO James W. Lanning and Chairman Robert P. Ingle II (AKA, “Bobby”), and was founded in 1963 by Bobby’s father, Robert P. Ingle. The company’s primary business is the operation of supermarkets under the brands “Ingles Markets” and “Sav-Mor,” of which 189 and 9 respective locations are operated.

Ingles Supermarkets prizes the provision of high quality, affordable grocery products in clean, thoughtfully laid-out stores, with convenient on-site amenities. On-site amenities include Ingles Express fuel stations (108 locations), Ingles Wash Express (18 locations), Ingles Pharmacy (114 locations), Starbucks pop-ups (108 locations), and curbside pickup (129 locations). The average Google review of an Ingles supermarket is 4.3 out of 5.

Ingles is highly vertically integrated. The company owns 1.65 million square feet of distribution and warehouse space in Asheville, North Carolina, that supplies 57% of all supermarket stock. The distribution center is strategically situated within 280 miles of every Ingles supermarket, and distributes stock through the company’s wholly owned and maintained fleet of 183 tractors and 864 trailers. To maximize fleet efficiency, Ingles leases out tractors and trailers via back-haul contracts to transport merchandise for third-party retailers when unused.

Furthermore, through its subsidiary Milkco, Ingles manufactures and supplies 72% of stocked dairy products via its 140,000 square-foot Asheville-based milk plant, of which 81% of the plant’s total capacity is sold wholesale to third-party retailers, distributors, and grocery warehouses across 17 states. Additionally, Ingles also houses Ingles Leasing: a fast growing, highly profitable, and strategically important shopping center leasing business.

A Cornucopia of Hidden Land

Questions Arise Regarding Disclosure

In its reporting, Ingles discloses 160 owned acres of commercial property adjacent to its distribution center, its warehouse, and its milk plant, along with 29 undeveloped sites. The business also discloses 8.6 million of owned leasable shopping center space, of which 4.1 million square feet is occupied by Ingles Supermarkets.

Questions about the extent of Ingles’ land ownership arose when \$345.6MM of unleased land was identified in Note 3 of the company’s 2023 10-K, “Property and Equipment.” Per the figure disclosed, if the company truly owned 160 acres of land, the implied value per acre would be \$2.2MM, which seemed lofty. Adding \$1.13bn in the lease-adjusted, reported cost of owned buildings, the per acre value rose to \$9.2MM.

There were also questions about the transparency of Ingles' improved land disclosure, for management discloses the square-footage of owned shopping center space, but excludes square-footage disclosure of stand-alone supermarkets. The latter, coupled with the lofty per-acre cost of reported acres, suggested that management was dramatically understating the extent of Ingles' real estate holdings. In response, Ingles became the focus of this report.

Going Beyond the 10-K

To test the theory that Ingles was not accurately profiling its real estate portfolio, a dataset was created to assist the analytical process. [The dataset includes over 10,000 datapoints](#), which I encourage the reader to freely explore, export, and factcheck as they so please. There is additional work to be done regarding shopping center exploration, and the "Raw Property" tab is less detailed than desired. Halfway through property data collection, it became clear that Ingles' real estate portfolio was larger than originally anticipated. Consequently, a cutback on including both tax record and GIS links, as well as property images and detailed notes, was necessary to expedite the project. Due to time constraints, analysis of Alabama and Virginia county records were further excluded on behalf of limited store locations.

Importantly, the primary tab, "Ingles Stores," is fully detailed. Of the company's 198 supermarkets that Ingles operates, 89.4% have been identified and included in the aforementioned tab. Of the company's 167 owned supermarkets, 164, or 98.2% of the total owned, are included and appraised.

Each identified supermarket contains detailed information regarding land ownership, unimproved and improved market appraisals, depreciation estimates, and property square-footage (where disclosed). A Google link and drop point is further provided for each location to allow readers to explore supermarket quality and property layout.

Concerning the method of appraisal, every included owned property has been appraised using fair market values derived through county tax record analysis, although not all counties provided information on sale data, the year of property construction, and the square-footage of improved property.

Additional issues, such as subsidiary property ownership, made the property identification and appraisal process arduous. Several properties were identified as owned by subsidiaries, "Sky King," "Shopping Center Financing II," and "Land O Sky." Errors were also identified in county record reporting, where some of Ingles' properties are logged as owned by "Ingles Market," instead of "Ingles Markets," which may partially explain the slight deficit of identified owned properties. Moreover, [one property was recorded as owned by "Ingles Acquisitions,"](#) which is a subsidiary not disclosed in Ingles' reporting.

While the closest approximation of Ingles' real estate portfolio was made, it is possible that this report's appraisal is understated. Fortunately, enough supermarkets were identified and appraised to allow for the relative appraisal of those unidentified.

Findings

Land

Through analysis of company records across 400 counties in Georgia, North Carolina, South Carolina, and Tennessee, a total of 448 owned properties were identified, logged, and appraised. Despite gaps in disclosure re improved land square-footage, the analysis revealed ownership of 12.7 million heated square feet of improved property, or 47.7% more than disclosed.

Total acres identified was the highlight of the analysis, with 3,631.6 acres logged and appraised at a fair market value of \$383.1MM, or \$37.4MM greater than those reported in Ingles' filings. Adjusting for the three missing Ingles stores, a suspected additional 39.6 acres of land valued at \$123,478 per acre is absent, which equates to a total adjusted land value of \$388MM, or \$42.3MM in off-balance sheet land.

To repeat what partial analysis of TWC demonstrated: The fact that Ingles' undisclosed acres are 2,170% higher than those disclosed suggests that the 61,033 acres identified in the Ill-Informed Land dataset are understated and ripe for exposition by a willing analyst.

Improved Land

Of Ingles' improved land, the average property owned was built or acquired in 1999, while the average Ingles supermarket was built in 2004. By segregating Ingles' fair market land and improved land values, a depreciation estimation was conducted based on the year each improved property was acquired or completed. In total, an estimated \$615.4MM in improved land has been accounted for as depreciated, while the estimated net improved value of owned properties is \$384.6MM. Adding the \$615.4MM of fully depreciated property to the \$42.3MM in off-balance sheet land, a total of \$657.7MM in real estate value is estimated to be absent from Ingles' consolidated balance sheet per FY2023 figures. In consideration of off-balance sheet values, on-balance sheet land and buildings are estimated to account for \$730.2MM of reported assets, or 49.3% of consolidated property, plant, and equipment.

Via county record analysis, the total fair market value of Ingles' land and buildings totals \$1.39 billion, which appears to be \$86.3MM short of consolidated non-lease land and building values. Exploration of further owned properties and sale data is necessary to assess the validity of the footnote value reported, as the assessed fair value of several properties are reported as materially lower than provided sale data.

For example, the highest valued shopping center Ingles owns, [the Cherrydale Shopping Center](#), located in Greenville, SC, was purchased at \$37MM by Ingles in 2018, [but is currently appraised at \\$33.9MM: a \\$3.1MM difference](#). With numerous such examples, this report's independently-derived appraisal of Ingles' real estate is favored over company reported values.

Ingles Supermarkets: Competitively Misunderstood

Following the conclusion of this report's analysis on Ingles, institutional and retail analyst reports were assessed to gauge the uniqueness of report findings. Disappointingly, no report rendered by any institutional analyst covering Ingles provided detailed exposition of the company's real estate portfolio, nor did they convey an adequate understanding of Ingles' stature as a competitive enterprise. Although retail analyses sourced from [Seeking Alpha](#) and [Value Investors Club](#) (VIC) demonstrated improved quality over institutional coverage, they failed to meaningfully corroborate core report findings.

For instance, "Paradox," a VIC member, [authored an analysis on Ingles in 2021](#). Paradox did a satisfactory job profiling Ingles as a company of interest, and their analysis was timely in the midst of inflationary conditions. Particularly notable was a comment Paradox made in the "Messages" tab of their analysis, which significantly contributed to the quality of this report.

Ingles Supermarkets Vs Trader Joe's Vs Aldi Vs Publix

Trader Joe's

Per aggregate, state-level data provided by Paradox that profiles competitor store count, they concluded that Ingles was facing a concerning level of competition from Aldi and Trader Joe's, but that the intensity of the competition was "difficult to gauge."

☆ 10	Paradox	3/04/21	Re: RE Capex
mitc567 - Can you elaborate on your comments that Ingles is under attack from Trader Joe's and Aldi?			
Stores			
North Carolina			
Ingles:	73		
Trader Joe's:	7		
Aldi:	2		
Georgia			
Ingles:	66		
Trader Joe's:	6		
Aldi:	4		

To test Paradox's claim, analysis of 119 of Ingles' markets was conducted that covered 184 Ingles and Sav-Mor locations. The aim of the exercise was to assess the distribution of stores owned by each competitor on a per-market basis to roughly estimate the competitive threat of each chain. The exercise revealed that, three years after Paradox's comment, only four Trader Joe's locations compete in the same town as an Ingles supermarket.

In Ingle's first and third largest markets, Asheville, NC, and Greenville, SC, Trader Joe's operates one store in each, with a respective market share of 2.86% and 2.04% on a store count basis. Trader Joe's Asheville location competes against 19 Ingles and 2 Sav-Mor locations that account for 60% of total supermarkets in the area. The furthest Ingles supermarket in Asheville is located just 24.2 miles from Ingles' flagship distribution center, or roughly a thirty minute drive. Conversely, Trader Joe's Greenville location competes against 7 Ingles supermarkets that control 14.3% of the market. Greenville is one of Ingles' less competitive markets, as share fragmentation is high.

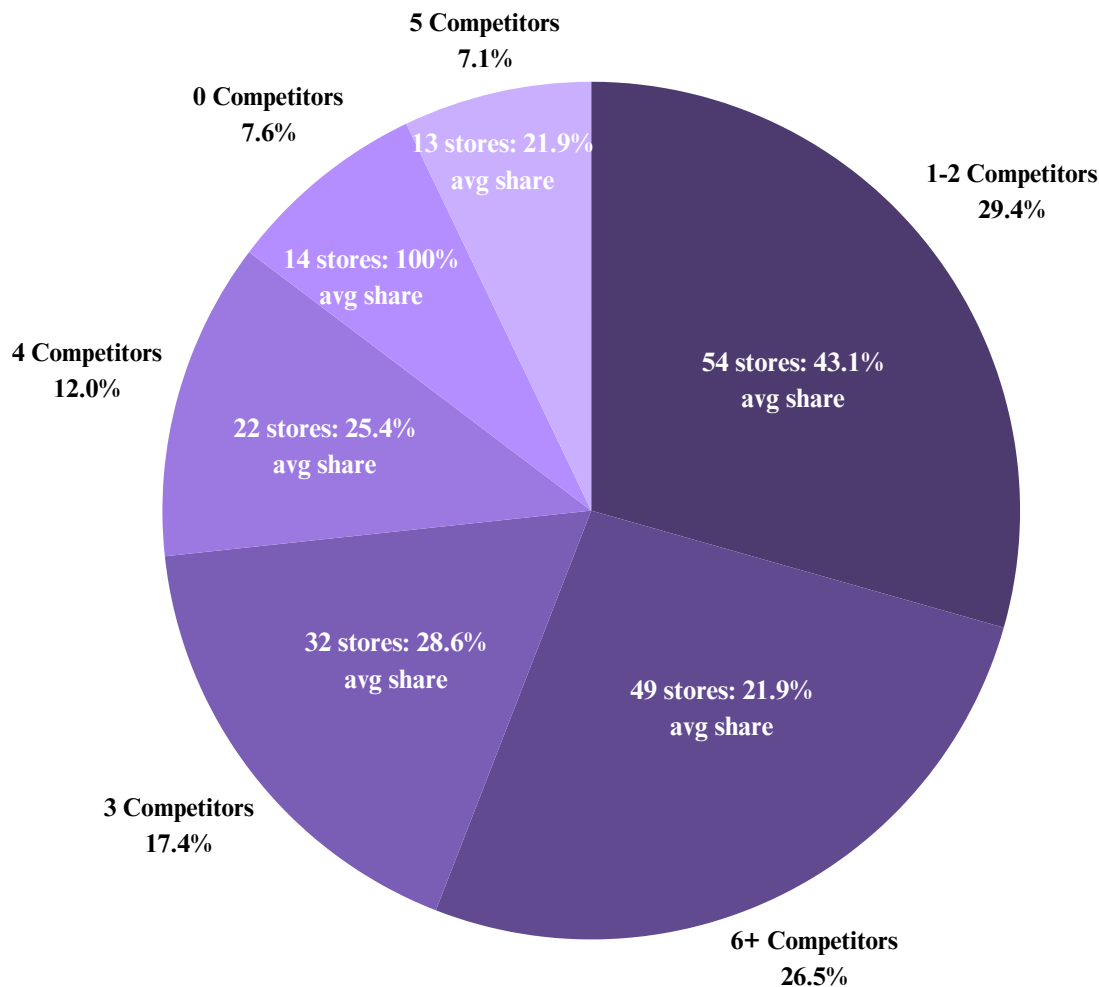
Greenville, SC	# of stores	Share %
Ingles	7	14.29%
Lidl	2	4.08%
Food Lion	8	16.33%
Walmart	11	22.45%
Aldi	7	14.29%
Whole Foods	1	2.04%
Publix	9	18.37%
Trader Joe's	1	2.04%
Harris Teeter	2	4.08%
Target	1	2.04%
Total	49	100.00%

Trader Joe's remaining two locations are in Peachtree Corners, GA, and Karns, TN, where both Ingles and Trader Joe's have one location each, with parity in store count.

Aldi

As for Aldi, the supermarket is Ingles' third largest competitor by store count. Yet, across 43 markets, Aldi's store count surpasses Ingles' in only one: Knoxville, TN. Being a larger city, Knoxville is an ancillary market for Ingles, where the chain operates only one store location. The city is dominated by Kroger, where their supermarkets comprise nearly 50% of total in-city supermarkets. Aldi operates two stores in Knoxville, with 18.2% market share on a store count basis. Across all 43 markets that Aldi and Ingles share, Aldi has 53 stores with an average same-town market share of 16.3%, which compete against 107 Ingles locations with an average same-town market share of 26.2%.

Ingles Supermarkets: 41.8% Average Market Share Across 119 Locales



Across 119 markets assessed, Ingles averages 41.8% market share on a store count basis. Ingles' largest competitor in assessed markets is Walmart, with 84 stores competing in 64 markets that sport an average same-town market share of 26.1%. Walmart is also Ingles' most common competitor in 1-2 competitor markets, with locations in 20 out of Ingles' 54 1-2 competitor markets. While a significant presence, Walmart competes against 124 Ingles locations that have an average same-town market share of 30.7%.

Publix

Ingles' second largest competitor is Publix, which is a more like-competitor over Aldi or Walmart. Similar to Ingles, Publix operates large-format supermarkets that range between 40,000-60,000 square feet (Ingles supermarkets average roughly 52,000 square feet), and are clean, well laid out stores that offer high quality products.

Example of the produce section at Publix



Example of the produce section at Ingles Markets



Notably, despite format and product quality similarities, Publix does not provide customers with the same level of convenience as Ingles Supermarkets. For instance, Publix is also a Starbucks partner, but no Publix that shares a market with an Ingles supermarket contains one. Publix also tried and failed to add fuel stations to its business model, [where it ultimately sold its fuel stations to Alimentation Couch-Tarde in 2013](#). That said, Publix is still a formidable competitor, with 54 supermarkets competing against 82 Ingles locations across 33 markets. In their shared markets, Publix enjoys 21.1% of average total supermarket store count, which is just shy of Ingles' 23.4%.

Even though store count comparison at the local level does not paint a comprehensive picture of market share re revenue distribution, it is still an exercise that provides meaningful insight into the competitive dynamics of markets. The exercise not only disconfirms Paradox's claim that Trader Joe's is a motivated competitor, but it also shows that Aldi is presently at a location disadvantage.

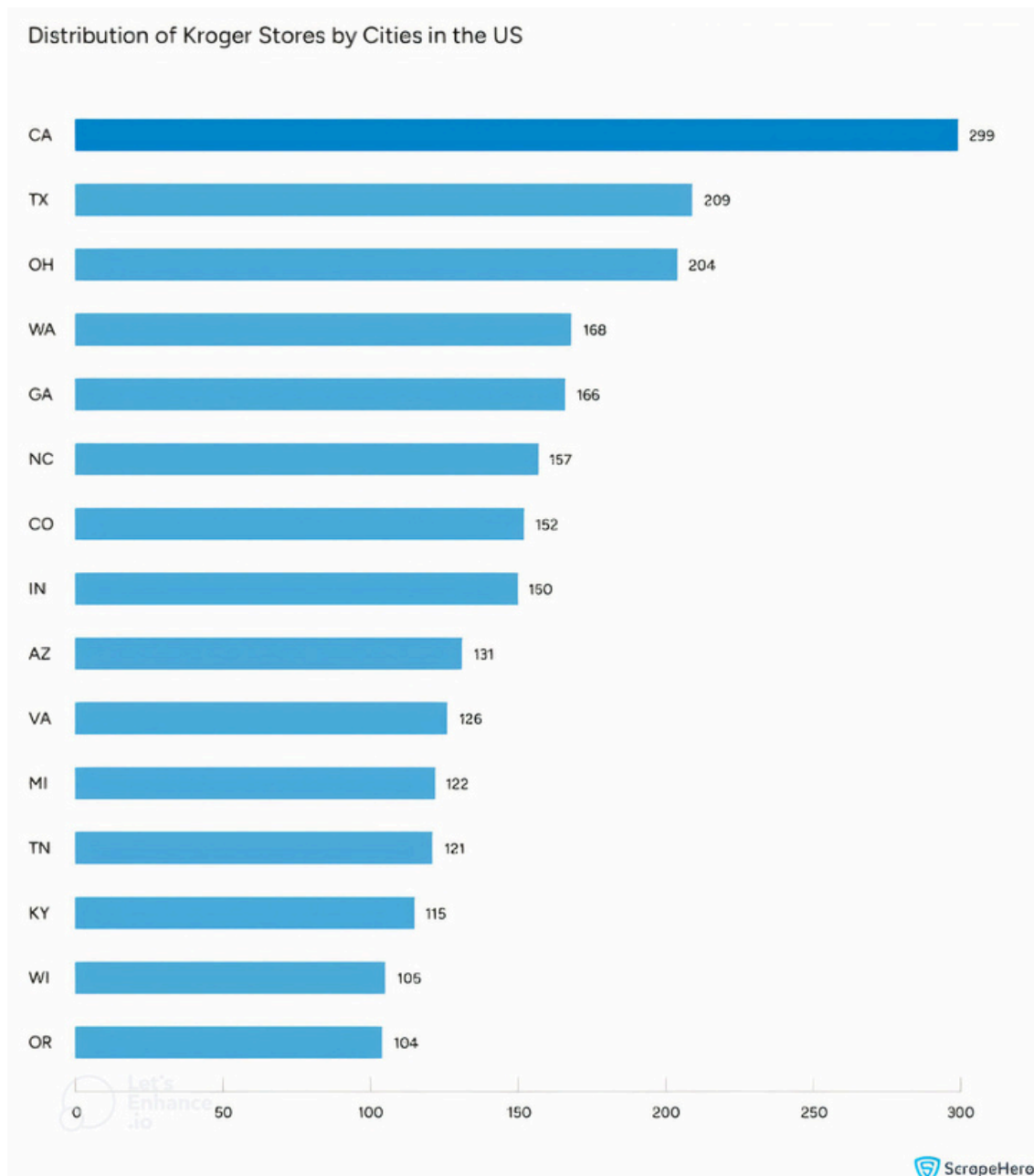
The plight of aggregate data is that it often obfuscates the particulars in a way where true knowledge may only be acquired when the significance of each data point in an aggregation is understood. In North Carolina alone, there are 100 counties and 552 municipalities, which questions the efficacy of state-level data citation as evidence of a supermarket's competitive prowess prior to the execution of town-level analysis.

Ingles Vs Kroger

Notwithstanding similarities between Publix and Ingles, the competitor that bears the closest resemblance to Ingles is favored by none other than Warren Buffett: Kroger.

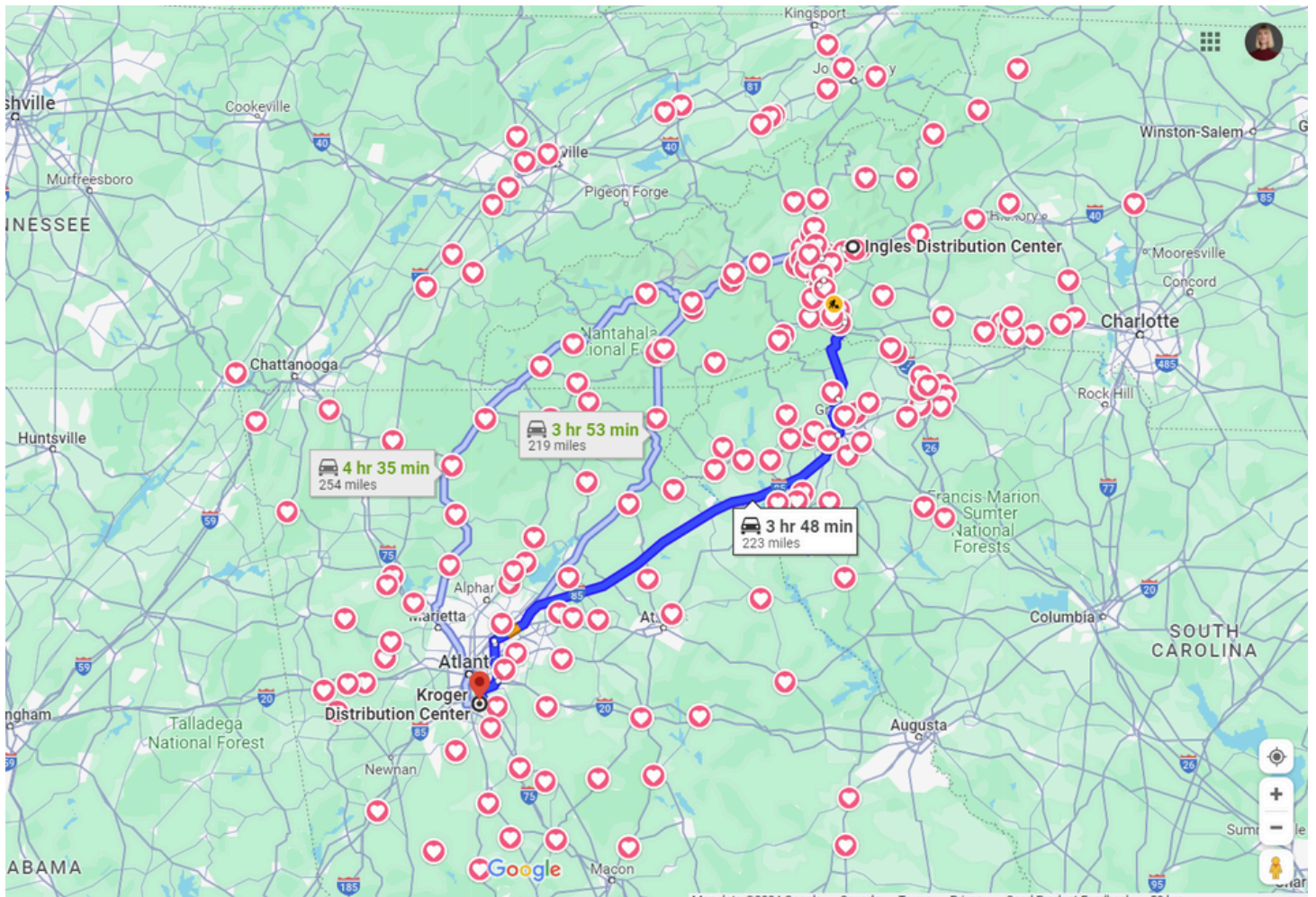
Kroger is the largest supermarket operator in the US, with 2,722 locations across the nation. The chain manufactures 43% of its grocery product stock through 33 food production plants, and operates a vast network of fuel stations that are available at 61% of locations. Kroger further operates a variety of store formats with an average square-footage similar to Ingles Supermarkets, at 66,127 square feet. Interestingly, the business owns an estimated 50% of stores, but discloses no owned acres in its annual report. Kroger also operates their own logistics network across 44 supply chain and distribution centers that include a large fleet of owned trailers and tractors.

Curiously, despite Kroger's success and competitive fortitude, the chain shares a market with Ingles in just 28 out of 119 markets analyzed. This is surprising, as Kroger owns a distribution center in Atlanta, GA, just 223 miles from Ingles' distribution center. North Carolina and Georgia are also Kroger's 5th and 6th largest geographic markets by store count.



There are a few possible explanations.

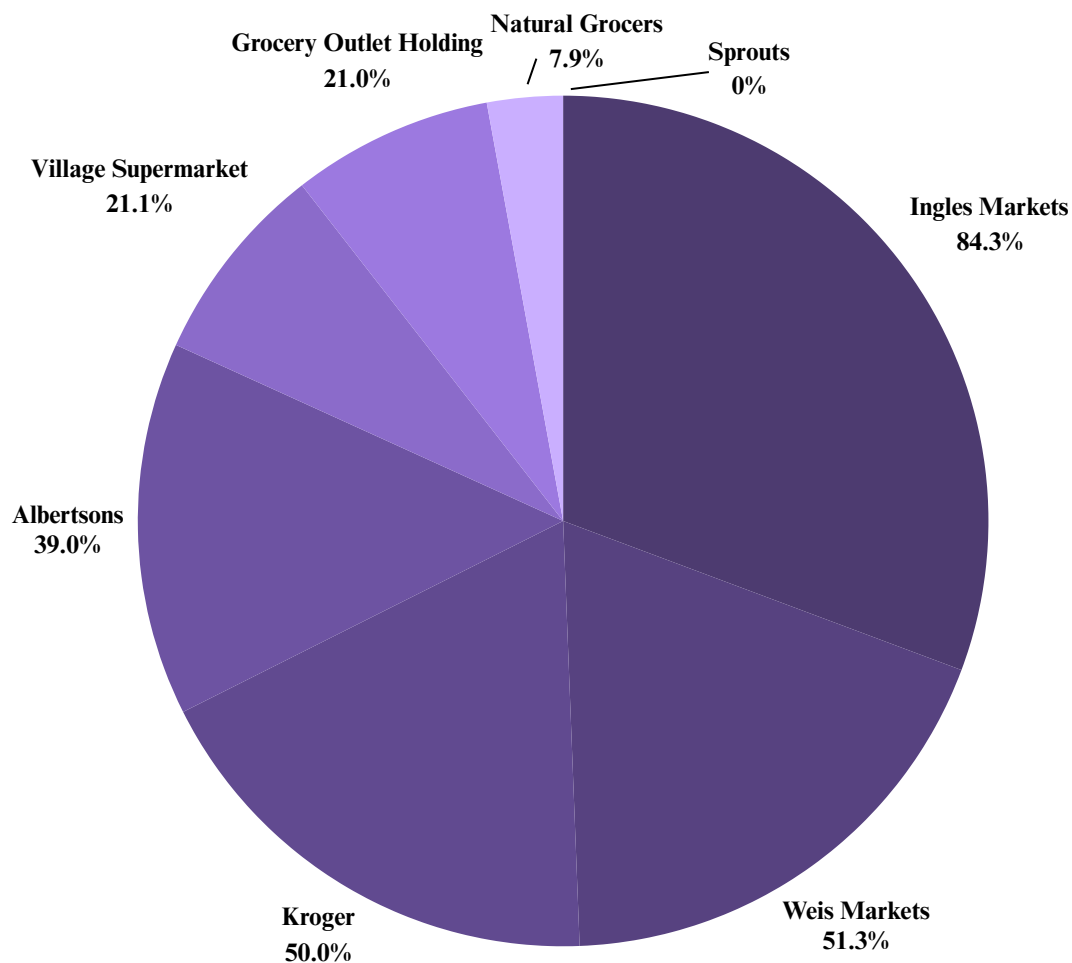
First, Ingles is likely cost-advantaged in its chosen markets. The map below shows the route one would take were they to travel between Kroger's Atlanta-based distribution center to Ingles' Black Mountain center. Note that the majority of Ingles' supermarkets are closer to Ingles' distribution center than they are to Kroger's. With Milkco also a competing factor, Ingles' cost of goods sold is likely more competitive in close-proximity markets than Kroger's. This is perhaps why, among Ingles locations in Asheville, [Ingles remains more affordable to shop at compared to traditional competitors Harris Teeter \(Kroger\) and Publix.](#)



Second, being both large format, one-stop-shops, Kroger's operating model is likely not differentiated enough from Ingles to attract customers in shared markets. There are only so many supermarkets of a similar nature that a market can sustain, with Ingles' cost advantage a compounding factor that encourages competitive avoidance.

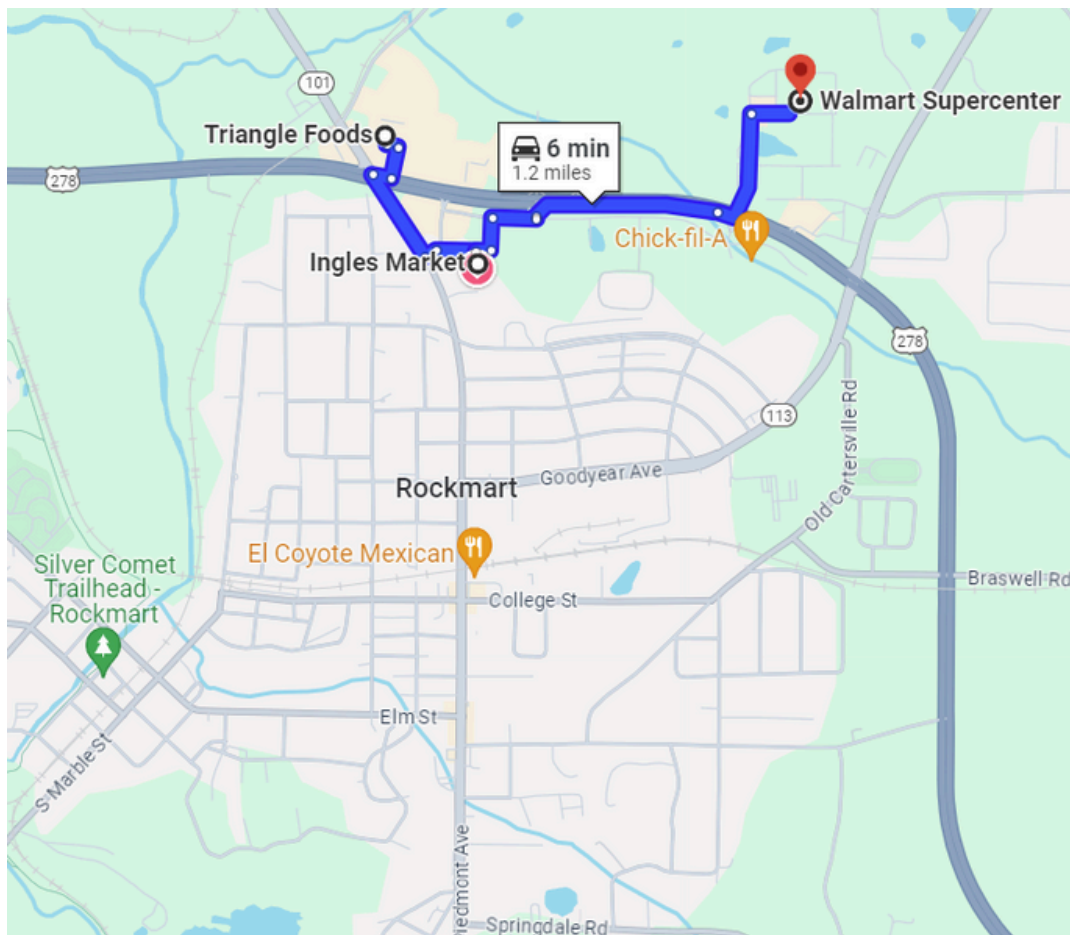
Third, while Ingles only owns one more store than they did in 2005, their real estate holdings have steadily increased. The chain owns a staggering 84.3% of its supermarkets, which is the highest store ownership rate among publicly traded US supermarkets.

Publicly Traded Supermarkets % of Stores Owned



Beyond acres attached to improved land, Ingles owns 1,845 acres of undeveloped or partially developed land, a lot of which is owned with the intention of restricting competition.

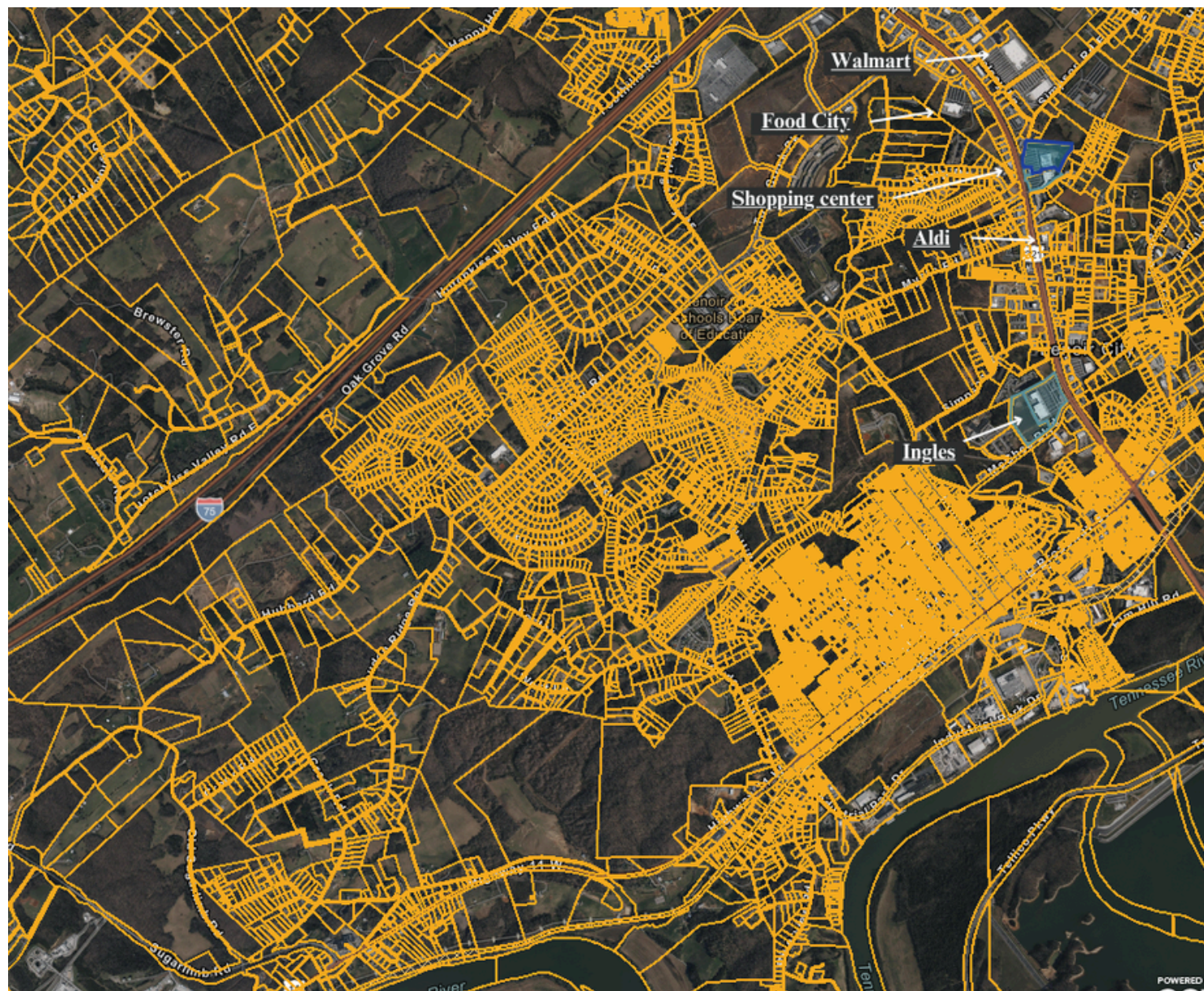
For example, in Rockmart, GA, a 3 competitor market, Ingles has positioned its store closest to residential suburbs to have a customer-convenience advantage.

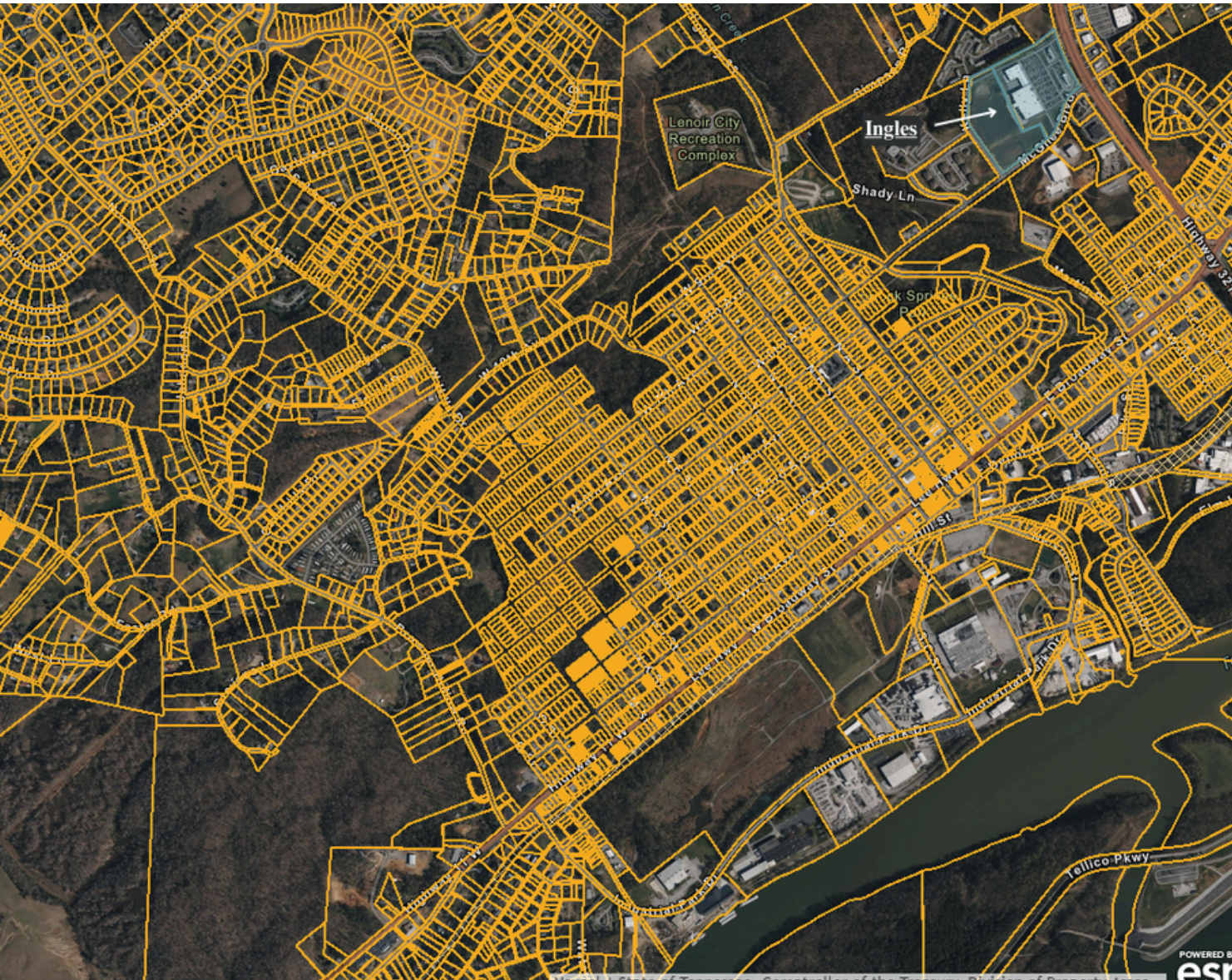


The business also owns the 10.46 acre plot of land directly beside their Ingles location at 100 Nathan Dean Bypass in Rockmart, GA, which otherwise could be used for commercial development by a competitor.



In Lenoir City, TN, another 3 competitor market, [Ingles owns two shopping centers](#). Through ownership of their northern shopping center, Ingles has quarantined competitors in a way that situates Ingles Supermarkets as the closest major supermarket to Lenoir's largest suburb.







In the Ingles dataset, countless examples of the previous exist, where Ingles has strategically positioned a location to be the closest supermarket to a large suburban neighborhood, while also having a sizable real estate presence in the area. Lenoir City is also interesting, as Ingles owns a shopping center that could house a competing supermarket were it not company-owned. Case in point: One of the shopping center's tenants is DG Markets, which is Dollar General's discount grocery format. What a cruel tenant to place nearby an Aldi.

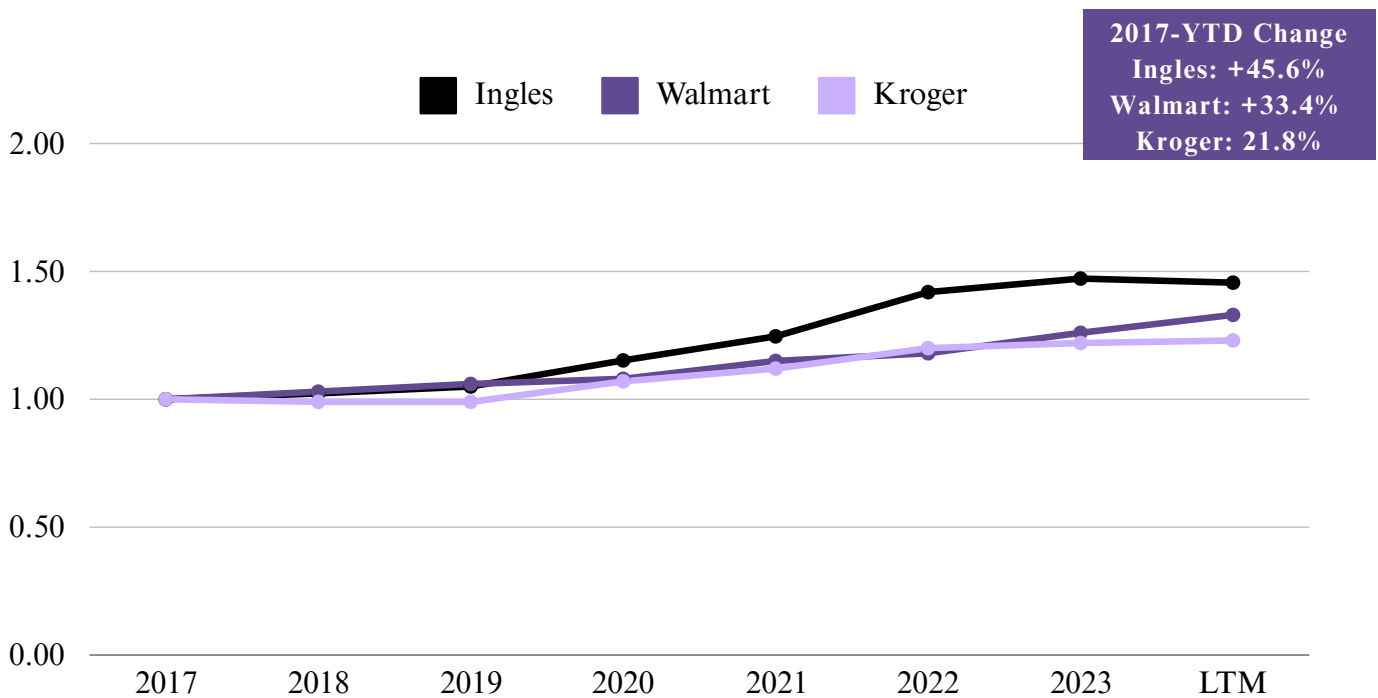
As for the replicability of Ingles' real estate strategy by competitors, competitors may find it challenging due to a) limited shopping center and commercial real estate supply in established markets, b) Ingles' already sizable real estate portfolio, and c) the extent of Ingles' experience in shopping center acquisition and management, for which Bobby and James have 20 years each.

Ingles Supermarkets is an Inflation-Resistant Anomaly

As inflation caused by Covid-19 ramped in 2021, supermarkets came into vogue as inflation-

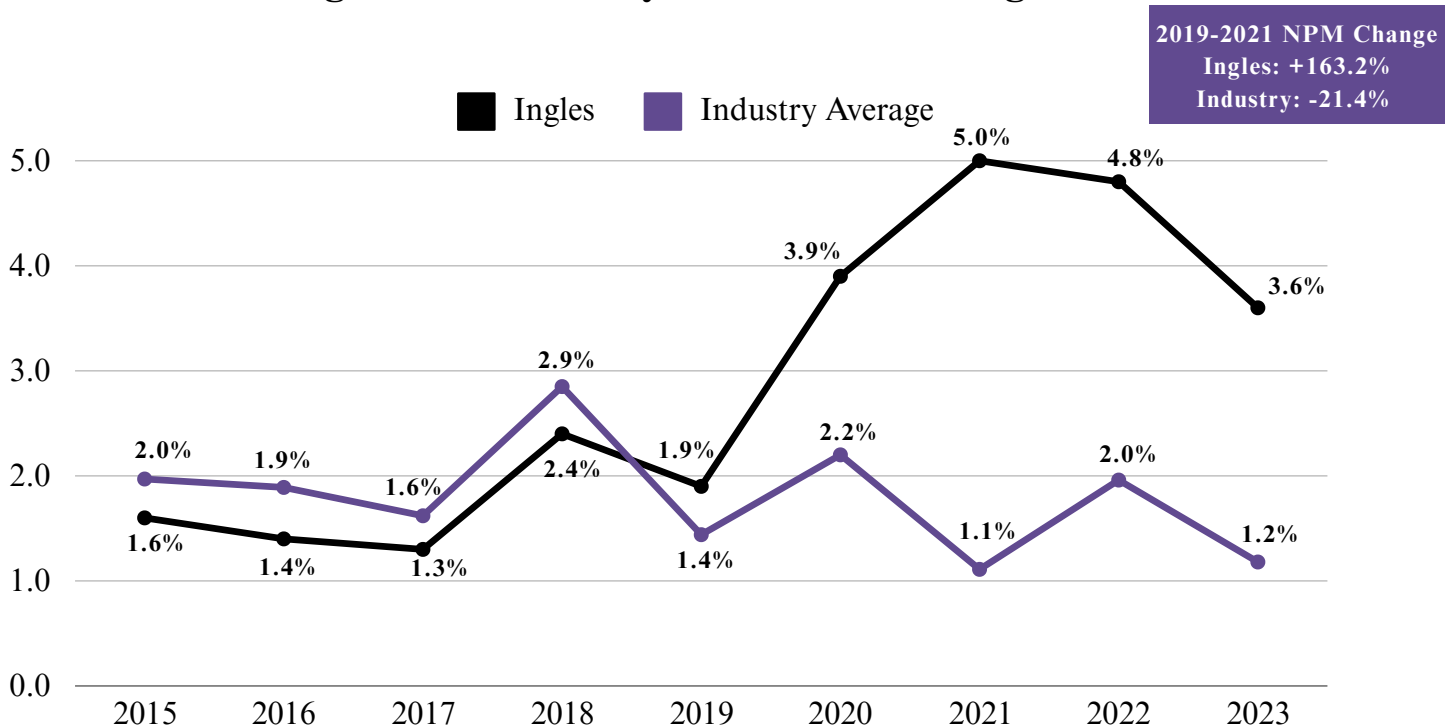
resistant assets. Indeed, Ingles' supermarket sales were near-flat between 2009 and 2019, yet expanded by 39% following rapid increases in the cost of fuel and grocery items.

Revenue Growth: Ingles Vs Walmart Vs Kroger

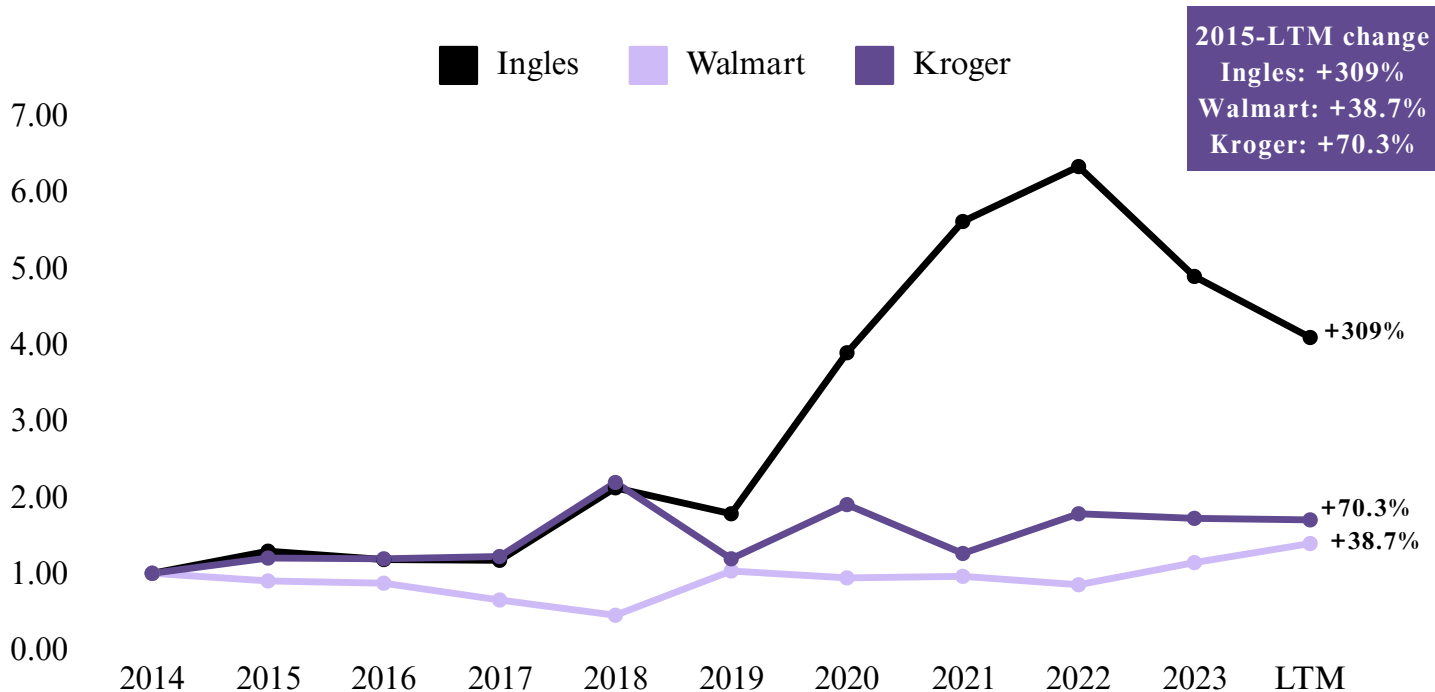


Ingles' true colors shine when one analyzes the company's historical net profit margin and EPS growth, as their expansion between 2020-2022 illustrate an unusual ability for Ingles Supermarkets to increase prices above the rate of inflation over direct competitors and the industry at-large.

Ingles Vs Industry Net Profit Margin

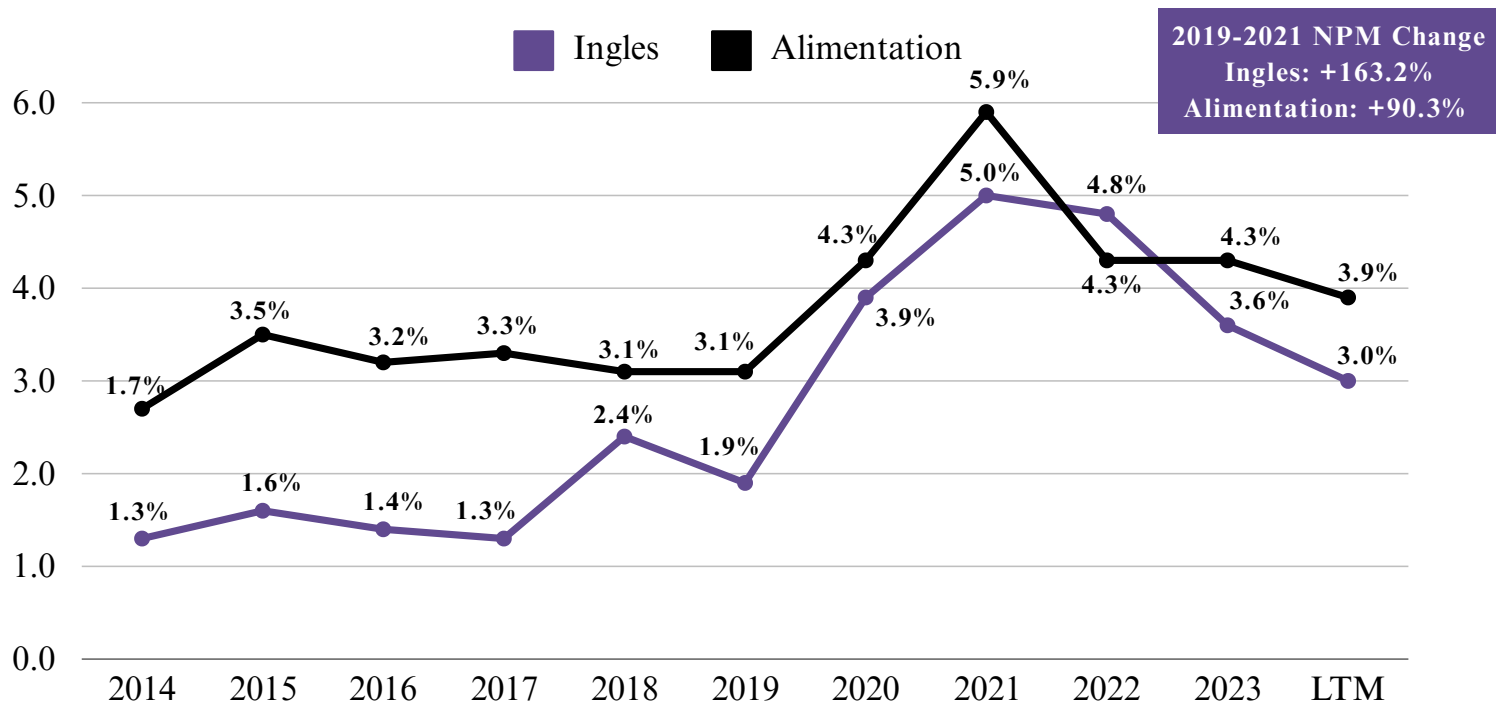


Ingles Vs Local Peers EPS Growth



In analysis of Ingles' margin expansion, the asymmetric benefit identified overlaid more closely with the inflation defensibility of Alimentation Couche-Tard, one of the world's largest operators of convenience stores.

Ingles Net Profit Margin Vs Alimentation



Comparing Ingles to Alimentation confirmed suspicions that Ingles' low-cost offerings, extra-amenities, and strategic store positioning provides Ingles Supermarkets with a convenience factor on a scale not replicated by peers. While further analysis is needed to corroborate findings, Ingles' inflation resistance, coupled with its large real estate portfolio, makes Ingles an ideal asset for the inflation-concerned investor.

Comparing the Status Quo:

A Basket of Groceries at Ingles, Harris Teeter, Walmart, and Aldi

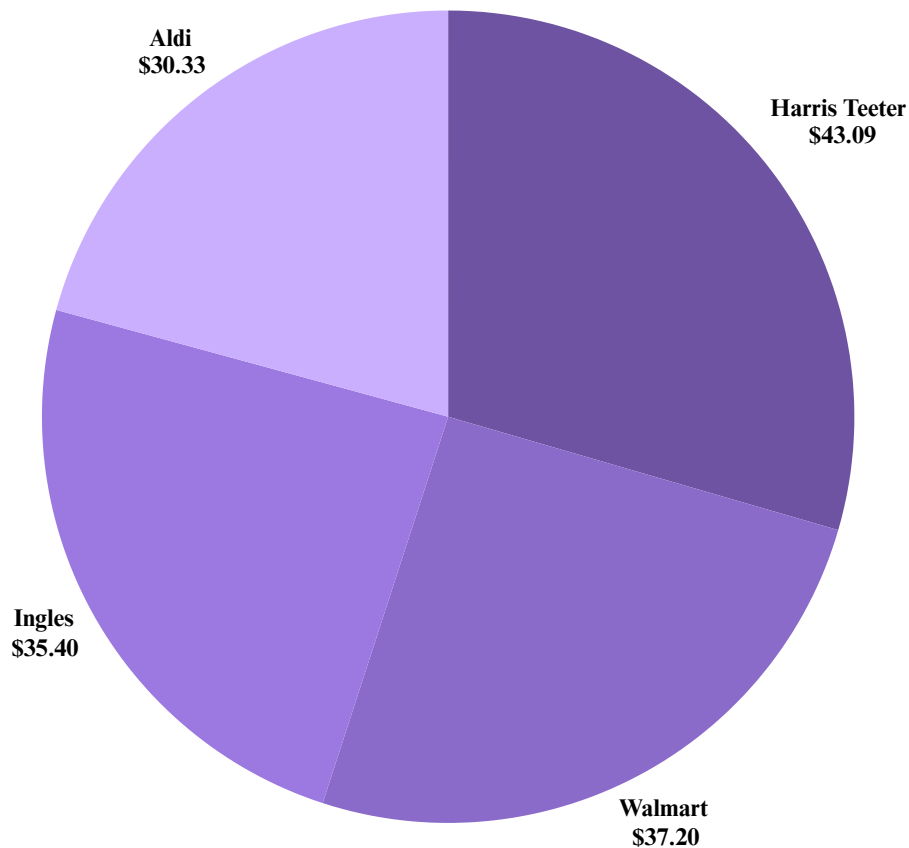
Out of curiosity, a basket of groceries was assembled on Ingles' website and compared to primary competitors. The point of the exercise was to measure where I would shop were I to live in Asheville, NC (area code 28806). The only absent competitor is Publix, as their website only lists the price of groceries if they are part of a promotion.

For the exercise, each basket comprised a list of perishable items that I frequently use, which included the price of each item, along with my favorite name brands.

Harris Teeter, Asheville	Price
0.5 gal. unsweetened almond milk	\$3.99
1 Loaf of bread, whole-grain	\$4.29
1 dozen eggs, free range	\$4.99
Price of ground beef/lb 85/15	\$6.99
1 head of iceberg lettuce	\$1.49
Corn tortillas, 30 count	\$1.99
Refried beans Old El Paso	\$2.39
Salsa	\$3.49
Tortilla chips	\$4.29
Red bell pepper ea	\$1.67
Zucchini ea	\$0.85
Cucumber ea	\$0.67
Feta cheese 4 or 5 oz	\$5.99
Total	\$43.09

The results showed that my basket of groceries would be cheapest to purchase at Aldi, while Ingles would be the least expensive among traditional supermarkets, and Harris Teeter the most expensive.

Shopping Cart Cost Per Store



Although Aldi was the cheapest in dollar terms, shopping at Aldi would come with strings attached. First, Aldi does not stock either of my favorite brands of almond milk: Almond Breeze, and Silk. Second, the tortilla chips identified as the Aldi product I would buy, [Simply Nature Organic](#), is only offered in an 8.25 ounce bag, on sale for \$2.29 (Reg. \$2.55). Conversely, Ingles sells a 12 ounce bag of fresh tortilla chips at a regular price of \$2.99. Adjusting the price of Aldi's Simply Nature offering to 12 ounces, the sale price for a quality-equivalent bag of tortilla chips would cost \$3.44 at Aldi, with the regular price closer to \$3.82. Ingles also sells the cheapest eggs among peers, at just \$2.98 for a carton of 12 free range eggs (I care about my chickens).

Accounting for the \$1.53 difference in high quality tortilla chips, I would only save \$3.54 were I to shop at Aldi. Were I to briefly visit Aldi for a half gallon of almond milk and a dozen eggs, the extra \$0.57 cents for the free range egg option would not be a shopping deterrent, but the lack of my preferred almond milk would be. The fact that I cannot fill up on gas at Asheville's Aldi locations is also a notable drawback, as I am generally time-constrained and favor one-stop-shops.

That said, the grocery basket exercise was not designed to imply that Ingles is superior; the purpose of the exercise was to demonstrate that where one shops for groceries is not just about price, but about preference. I like to keep my grocery bill low, but I also like high

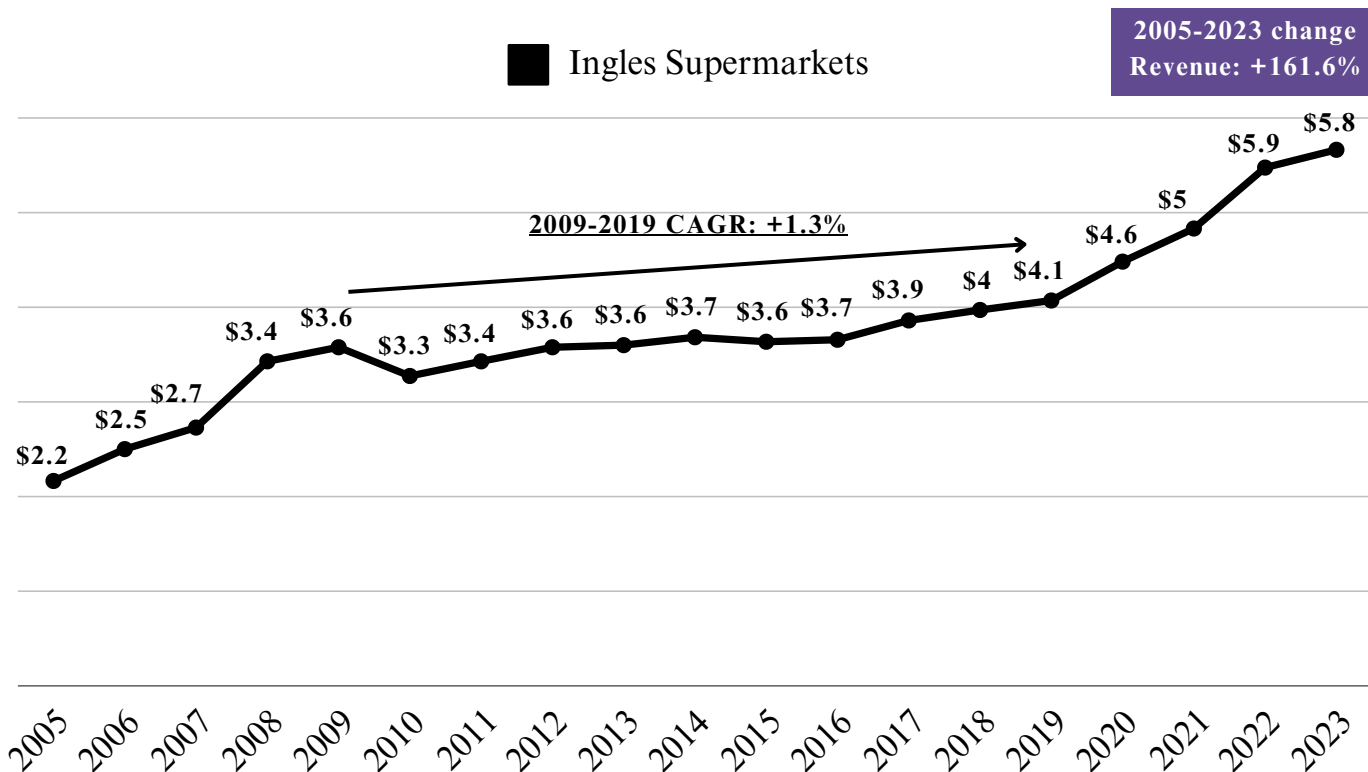
quality food that is accessible nearby at a location that conveniently serves multiple needs. To another shopper, a different basket of groceries and a focus on promotions could see Harris Teeter as the better option for their needs, but I digress.

Ingles Leasing: A Hidden Business Marks a Shift in Priorities

Ingles Supermarkets is Slowing

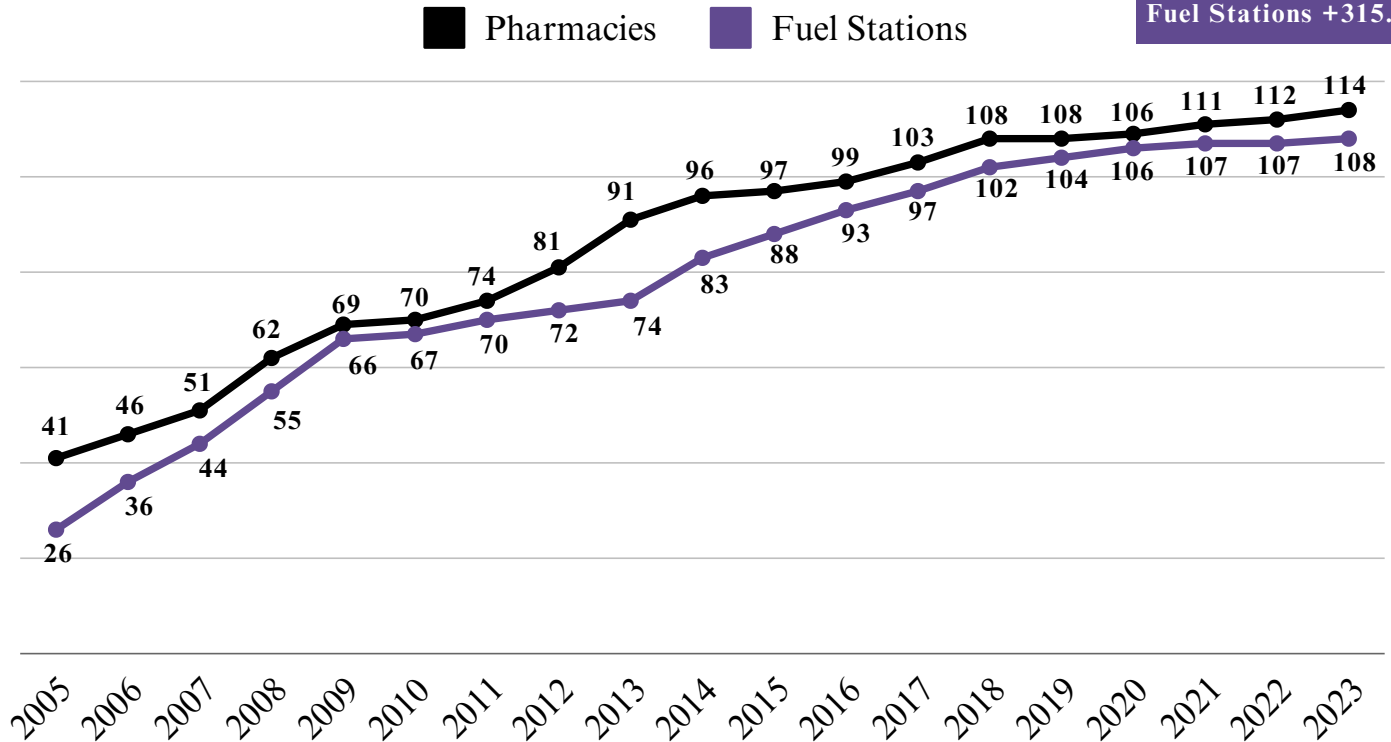
Between 2005 and 2018, management's aim for Ingles Supermarkets was less focused on store growth, and more focused on increasing consumer spend per store through the expansion of convenience. Over the period, the number of pharmacies increased by 41 to 108, and the number of fuel stations from 26 to 102. However, in 2014, the price of fuel crashed, and Ingles' fuel sales fell by 29.5%. Supermarket revenue stagnated, and the economic feasibility of new fuel stations and pharmacies began to wane.

Ingles Supermarkets Revenue (\$bn)



Number of Fuel Stations and Pharmacies

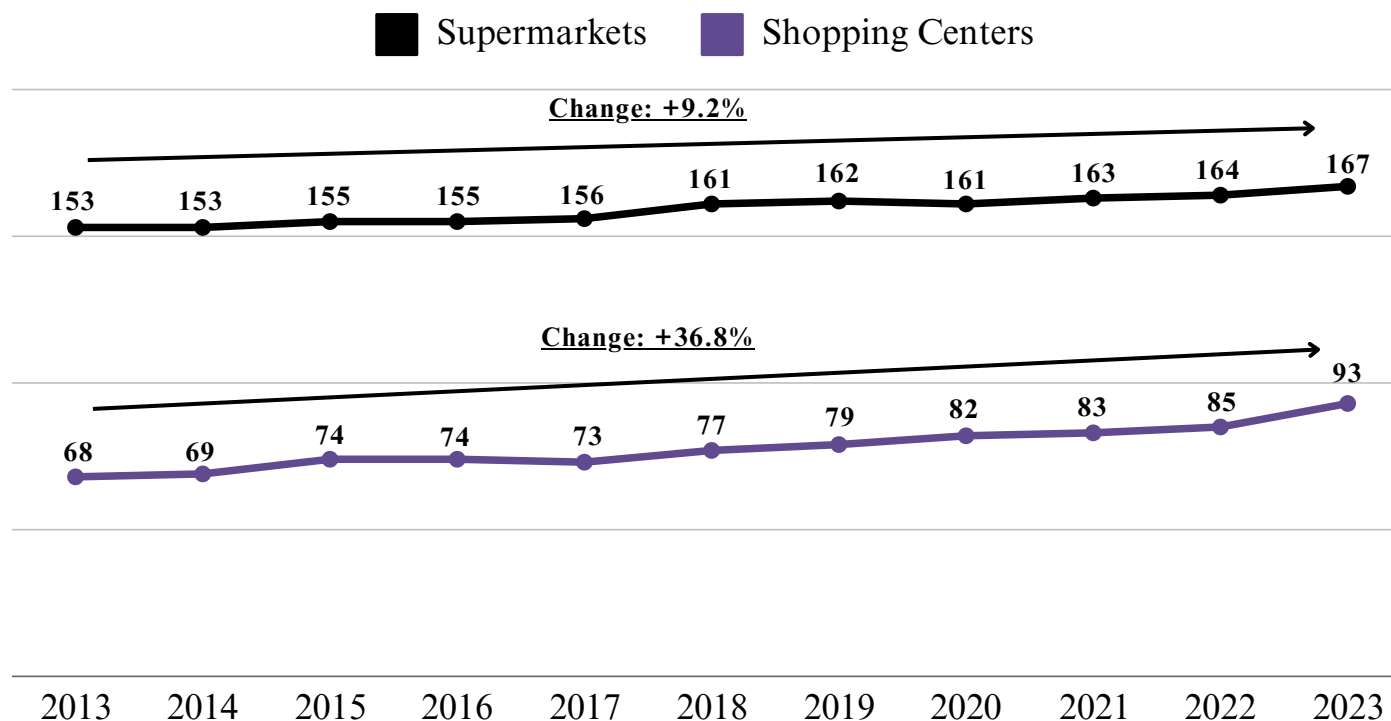
2005-2023 change
Pharmacies: +178%
Fuel Stations +315.4%



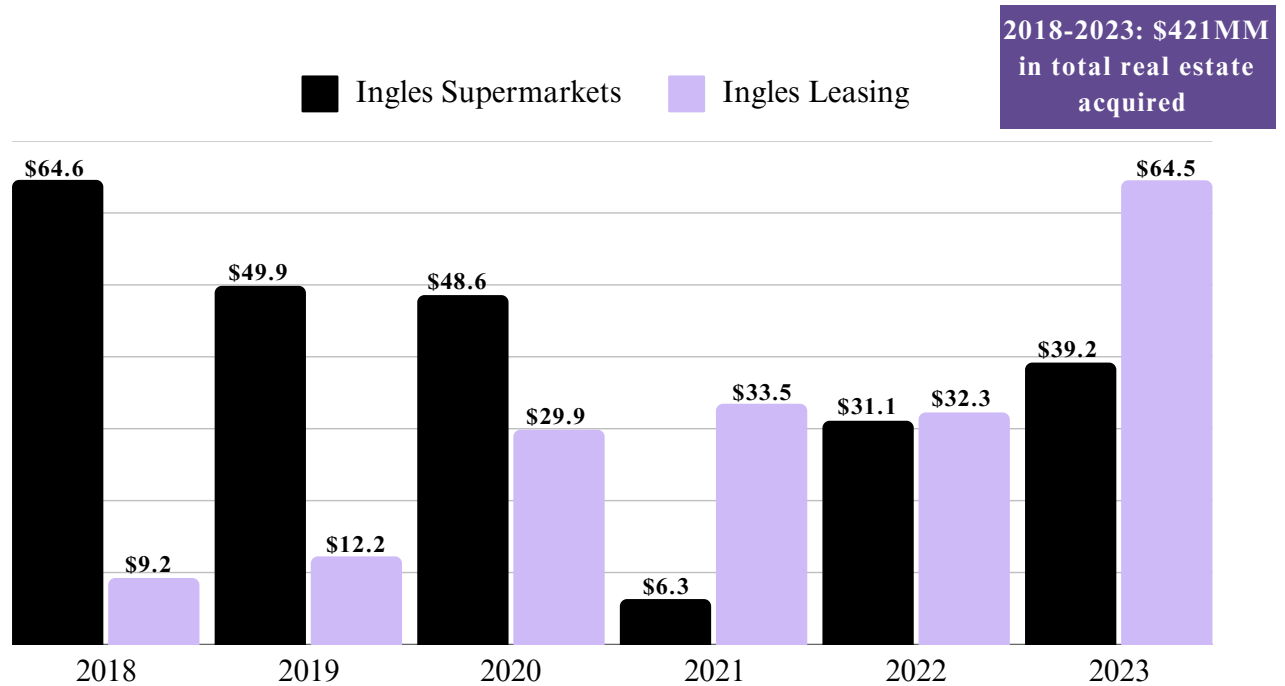
A Shift in Real Estate Acquisitions Signals a Shift in Priority

Since 2014, an average 19.3% of annual EBITDA has been allocated to real estate acquisitions, but closer analysis reveals marked shifts in that allocation. From 2013 to 2017, total supermarkets owned increased by 2%, while owned shopping centers increased by 7.4%. In 2018, management accelerated their real estate acquisition strategy, but shifted the bulk of capital allocated to shopping center acquisition. Hence, from 2018 to 2023, Ingles' shopping center ownership increased 27.4%, compared to just 7.1% for supermarket ownership.

Ingles Supermarket Ownership Vs Shopping Center Ownership



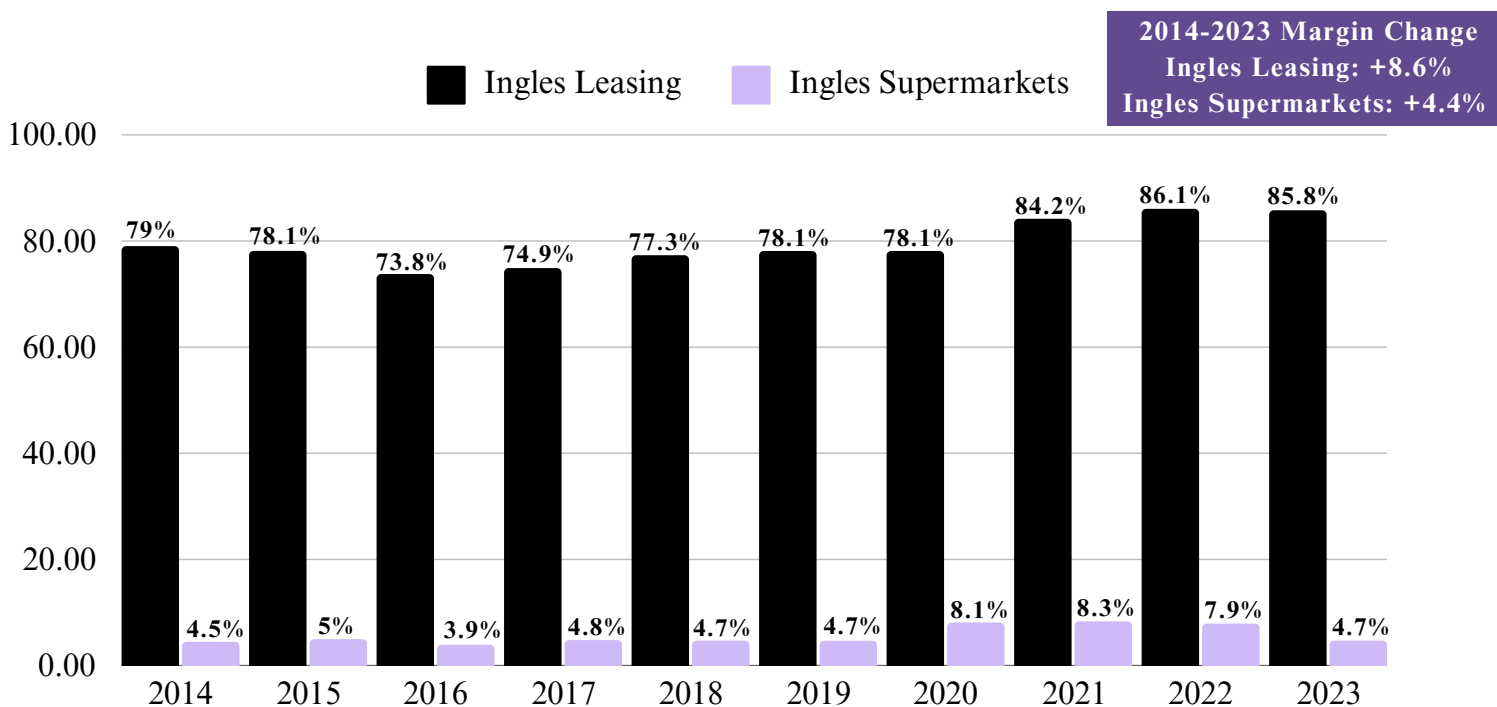
Property Acquisition: Ingles Supermarkets Vs Ingles Leasing (\$MM)



The Rise of Ingles Leasing

The impact of management's decision to focus on the expansion of Ingles Leasing is significant. Not only does shopping center ownership reduce retail space availability for competitors, but the property leasing industry is substantially more profitable than the supermarket industry. Consequently, the rise of Ingles Leasing likely to result in company-wide margin improvement over time.

Margins: Ingles Leasing FFO Vs Ingles Supermarkets EBITDA



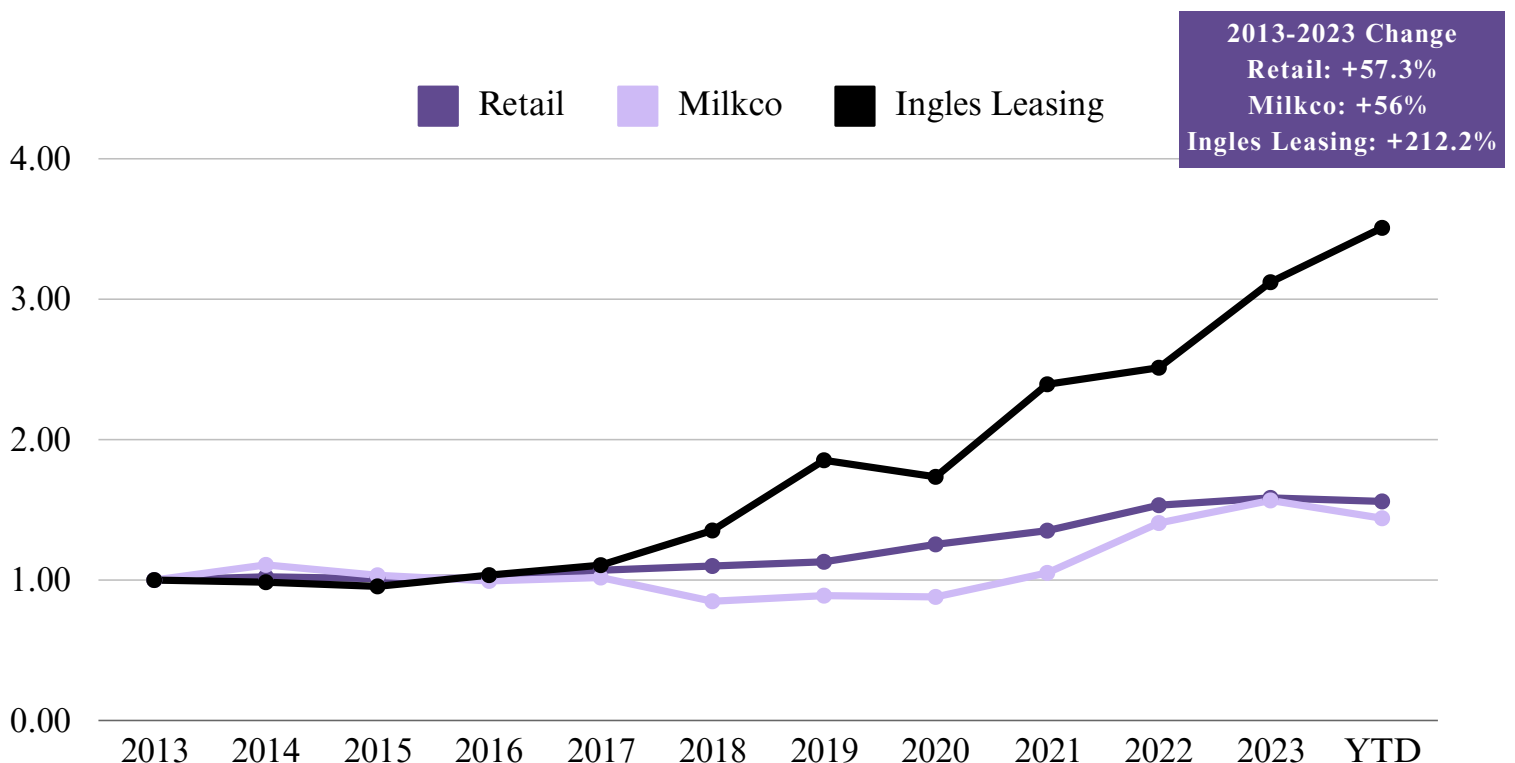
Of the \$228.9MM in 2023 sales generated by Ingles' "Other" segment category, Ingles Leasing contributed just \$25MM, with the difference going to Milkco. Be that as it may, closer analysis reveals that, while revenue contribution by Ingles Leasing is small, its EBIT contribution is substantial.

In 2023, Ingles reported \$29.1MM in "Other" EBIT, of which \$13.6MM was generated by Ingles Leasing. But, since Ingles Leasing is a pure-play real estate business, an accurate calculation of operating income necessitates the add-back of depreciation to calculate "funds from operations," or FFO. The logic is simple: Land does not depreciate, and improvements made to owned land tend to appreciate, not depreciate, over time.

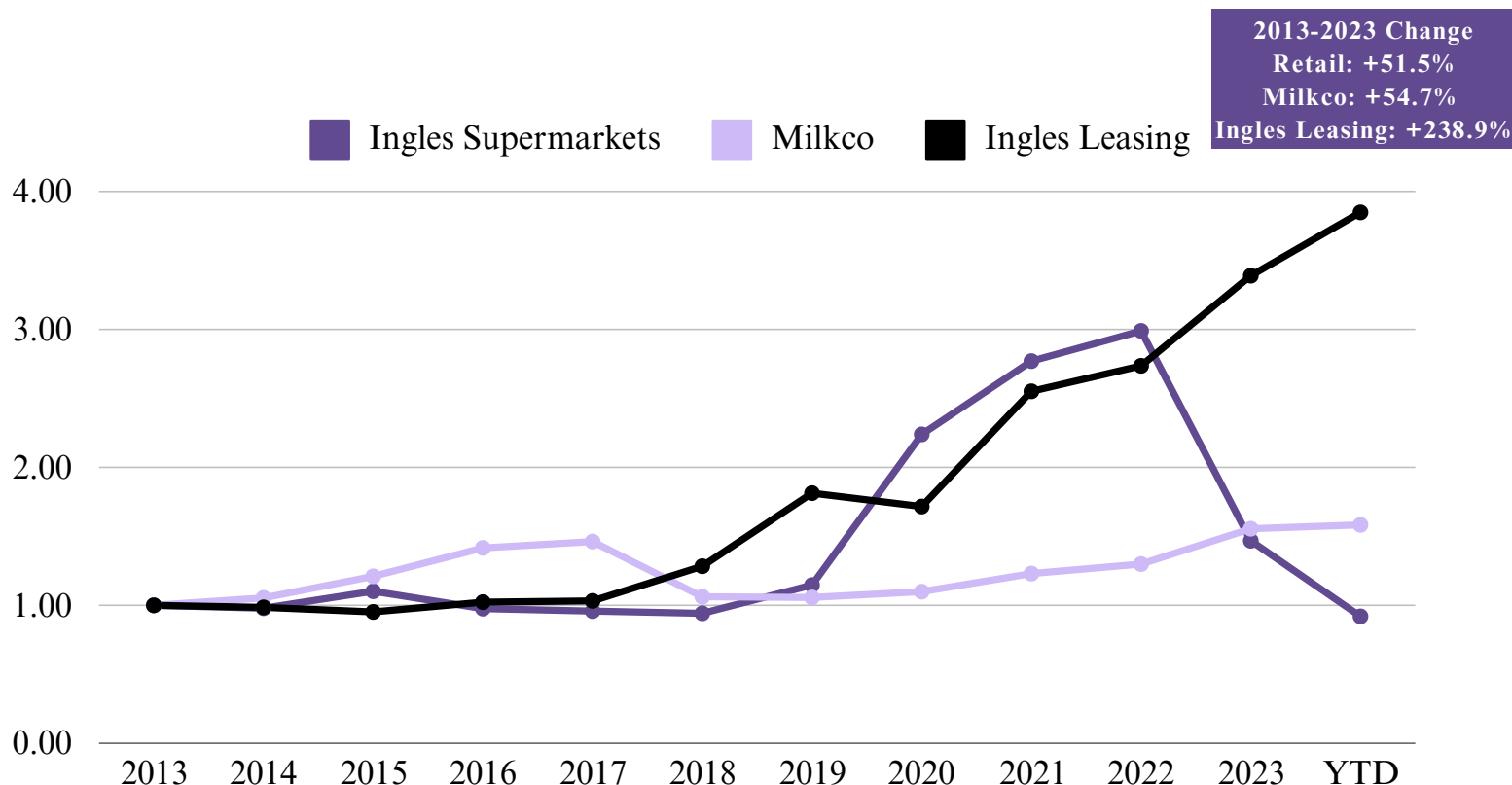
Adding \$7.8MM in reported depreciation and subtracting expenses, not only does "Other" reported EBIT rise to \$36.9MM, it results in 2023 FFO generated by Ingles Leasing of \$21.5MM, for an FFO margin of 86%: a favorable lead over Milkco's 7.6% EBIT margin.

Beyond heightened profitability, Ingles Leasing is fast growing. Since 2014, Ingles Leasing has grown total rents and FFO at a compound annual rate of 13.7% and 14.7%, respectively. Over the same period, Milkco grew sales and EBIT at a respective rate of 4.5% and 4.6%, while Ingles Supermarkets' managed sales and EBIT growth of 4.6% and 4.2%.

Revenue Growth: Ingles Leasing Vs Retail Vs Milkco

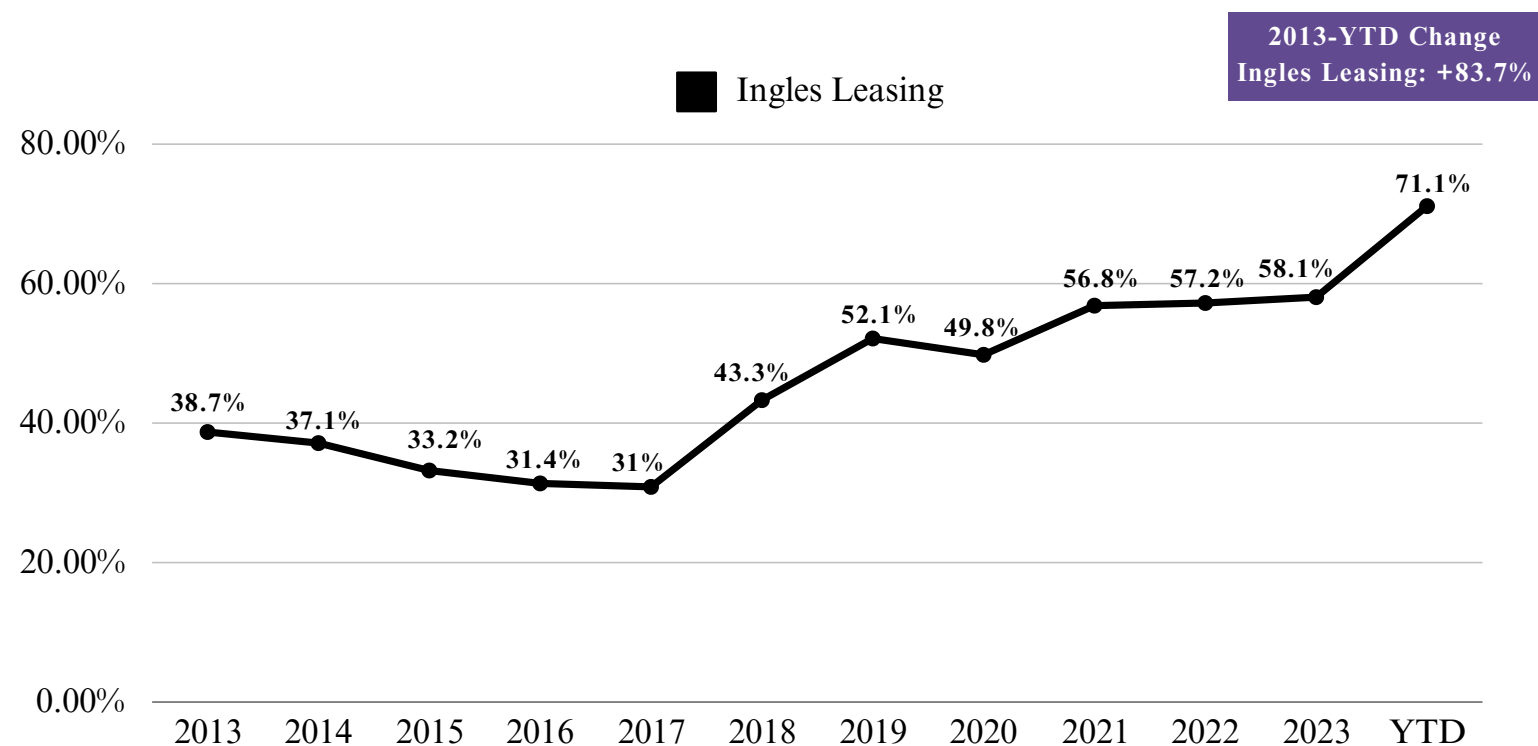


EBIT Vs FFO Growth: Ingles Leasing Vs Ingles Supermarkets Vs Milkco



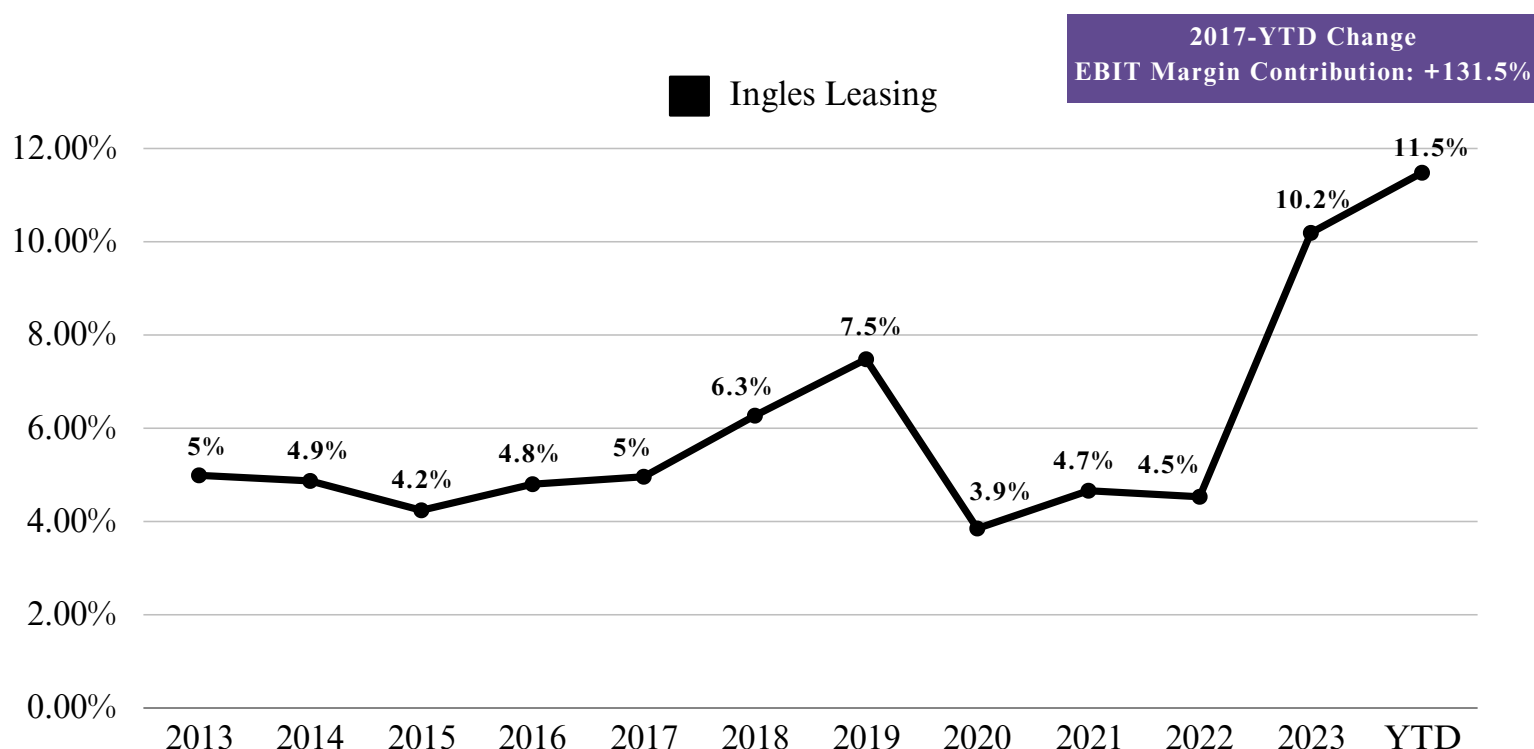
Particularly notable is the impact of Ingles Leasing on “Other” EBIT margin, as the segment’s share has rapidly expanded since management began prioritizing the segment.

Ingles Leasing Share of Other EBIT



To add context, management's focus on Ingles Leasing is more likely to have a greater impact on company-wide EBIT and EBIT margins than it is to have on consolidated revenue. For example, on a nine-month basis, Ingles Leasing constituted a meager 0.5% of Ingles' consolidated \$4.2 billion in revenue, yet FFO generated by Ingles Leasing comprised 11.5% of consolidated EBIT. This is up substantially from 7.5% in 2019, and from 4.9% in 2014.

Ingles Leasing: FFO Margin % of Total EBIT

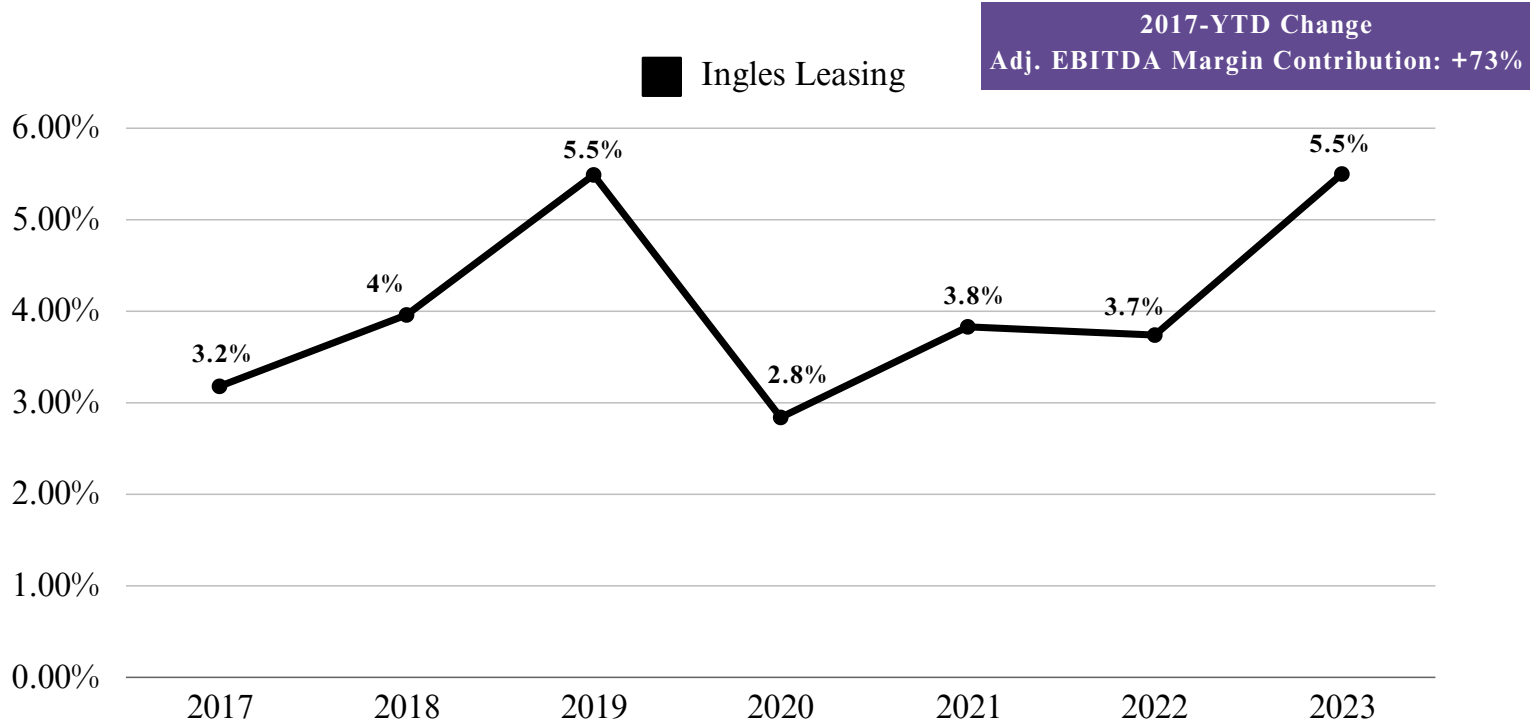


Total EBIT margin contribution by Ingles Leasing has increased 131.5% since 2017, despite contribution declines throughout the pandemic. As demonstrated by earlier charts that highlight Ingles Leasing as a steady-growing segment, the decline in margin contribution between 2019 and 2022 was not the fault of any segment-related issue; rather, it was caused by inflation-related supermarket profitability distortions.

One critique of measuring FFO as a percentage of EBIT may be that it unfairly exaggerates the impact Ingles Leasing has on pre-tax margins in the absence of like add-backs for the depreciation of owned real estate by Ingles Supermarkets. To get a like-comparison, the addition of depreciation, less capex unrelated to changes in land and buildings needs to be calculated. For the purposes of this report, the aforementioned adjustments are calculated as change in land and buildings, minus: change in leasehold improvements, change in construction in progress, change in transportation equipment, and change in store, office, and warehouse equipment.

Per the prior adjustments, which effectively amount to EBITDA less capex, the following change in margin contribution by Ingles Leasing is observed.

Ingles Leasing: FFO Margin % of Adj. EBITDA



There are two issues associated with the comparison of capex-adjusted EBITDA margins. One, occasional spikes in supermarket/dairy capex unrelated to Ingles Leasing, such as those incurred in 2019, falsely inflates adjusted EBITDA margin contribution by Ingles Leasing in certain years. Second, disaggregated PP&E data is absent from quarterly reports, which makes YTD adjusted EBITDA margin contribution incalculable despite demonstrable YTD contribution improvement by Ingles Leasing on an unadjusted basis. Nonetheless, a 72% improvement in adjusted EBITDA margin contribution since FY2017 is impressive, and has likely expanded YTD in response to supermarket EBITDA normalization.

Ingles Leasing is Not a Mall Operator

Management's use of the word "shopping center," is questionable, as the language suggests that Ingles may be an owner-operator of malls. On the contrary, Ingles' "shopping centers," are more akin to residential shopping plazas. These plazas expand Ingles' convenience footprint through the inclusion of e-commerce resistant, "treasure hunt" discount stores, like Goodwill and Bealls, as well as home and garden stores, local restaurants, dollar stores, barbers, hair stylists, nail salons, fitness studios, and massage parlors.

Location: [404 Hwy 321 N, Unit 1 Lenoir City, TN](#)

Tenants: Bealls, Kelly Jennifer, 5th Nail Lounge



Location: [785 US-321 Ste 32, Lenoir City, TN](#)

Tenants: Tractor Supply, Goodwill, Foothills Boots, Gold's Gym, Papa John's, Barber Shop 11, Tobacco King, DG Market, Victoria Nails



Location: [134 Foothills Center Dr, West Union, SC](#)

Tenants: Bealls, Family Dollar, Save A Lot, Happy Nails, Dollar Tree, Cricket Wireless



Location: [5679 Appalachian Hwy Blue Ridge, GA](#)

Tenants: TJ Maxx, Roses Discount, El Manzanillo, Lendmark, Bed, Shoe Show



Location: [1865 Hendersonville Rd, Asheville, NC](#)

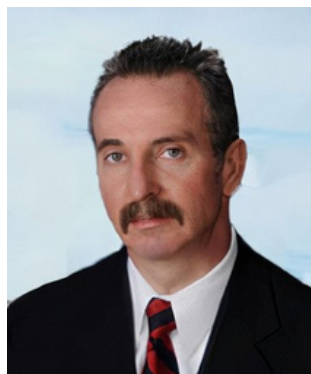
Tenants: Massage Envy, Humana, Pure Barre, Mountain Juicery, Batteries Plus, Divine Spa & Nails, Anytime Fitness



Management

In addition to Ingles' uniquely competitive and inflation-resistant nature, the company's management team is long-tenured, experienced, and well aligned with shareholders.

James W. Lanning, CEO, President, Age 65



Appointed as Ingles' CEO in 2016, James Lanning has been with the company since 2003. Prior to appointment, Lanning served as Ingles' COO for 13 years, and is intimately familiar with company operations and strategy execution. Before his career at Ingles, Lanning served as District Manager for the state of Georgia from 1995 until 2003, where he oversaw management of northeast Georgia.

Bobby P. Ingle, Chairman, Age 55



As Robert's son, Bobby was first employed by his father to work at Ingles in 1985, when Bobby was still in high school. In 1996, Bobby was promoted to Vice President of Operations, and to Chairman in 2004. As an owner-operator who holds 22.1% of shares outstanding, Bobby has dedicated his life to Ingles, and is focused on keeping the company prosperous and close to its Asheville roots.

“Zzz,” Goes Mr. Market

Mr. Market fell asleep on Ingles in 2018, after management decided that they would no longer conduct earnings calls with Wall Street. This prompted GAMCO Asset Management, home to Wall Street’s favorite Italian, Mario Gabelli, to buy shares in an attempt to encourage management to restore “effective communication.” The attempt failed per Bobby’s 72% voting power, but GAMCO remains a 5% shareholder.

“The golden rule is he (who) has the vote... “He (Bobby) controls the company, clearly.”
— *Mario Gabelli*

Contrary to Gabelli’s qualms, Ingles’ annual reports are high quality. For over two decades, management has provided a detailed account of Ingles’ business dealings above what is normally disclosed in company filings. Management simply grew tired of investors wanting to control how they ran their business, and decided to hang up the phone on Wall Street.

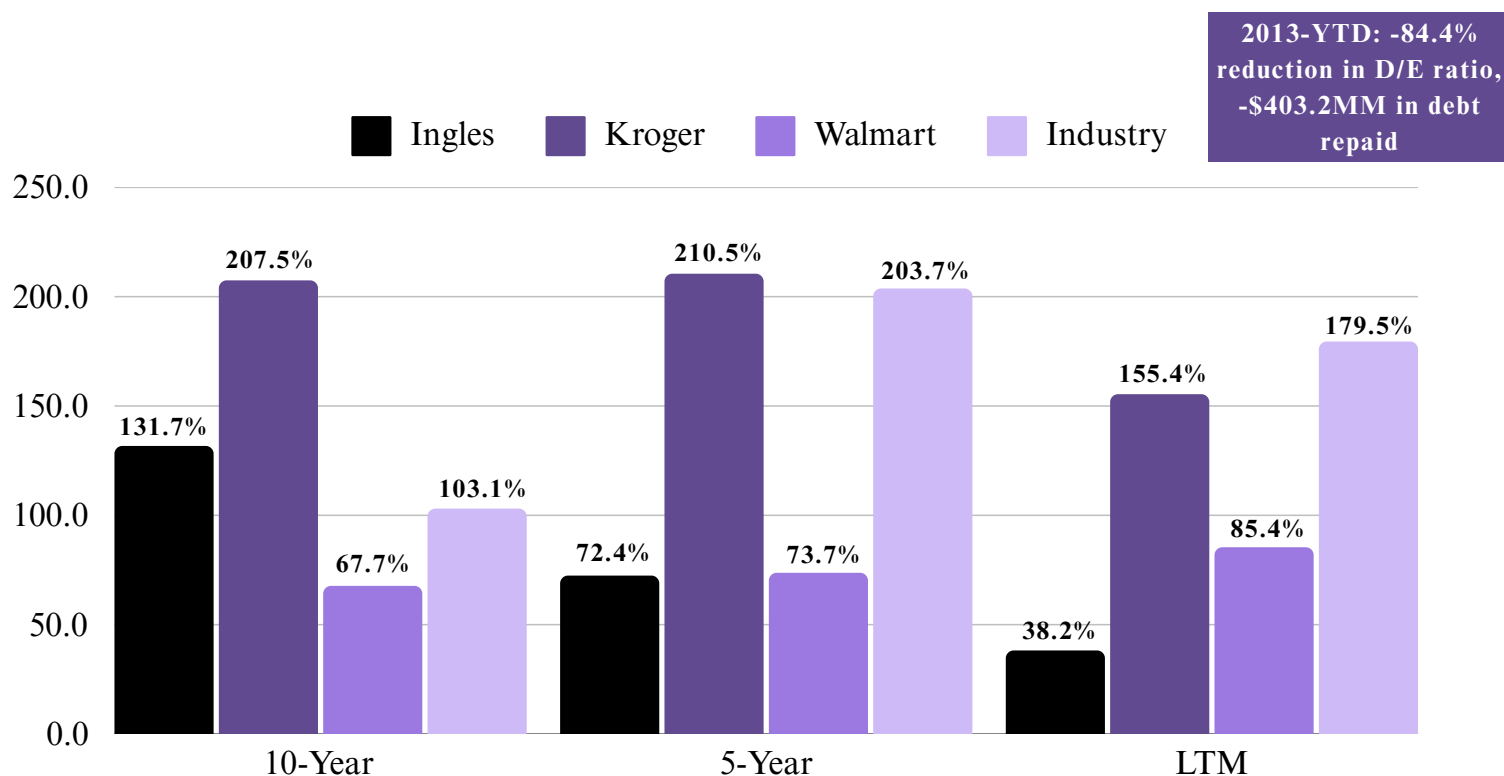
“We’re a public company and we’ve got so many people wanting to talk about so many different things, how to do this, how to do that... Ingles discloses so much more information than any company would ever put out about us... We don’t really go to market or talk about our strategies or talk about what we’re trying to do because then some investor goes crazy on us.”

— *Bobby Ingle*

And there is little to complain about. Since 2013, management have repurchased 20.4% of shares outstanding, is growing Ingles Leasing at an attractive rate, and has bought vast amounts of real estate. Bobby does not pay himself stock-based compensation, does not play with excessive leverage, and does not acquire other businesses.

On the topic of leverage, Bobby has paid down \$403MM in debt over the past ten years, where balance sheet improvement has positioned Ingles’ capital structure to hold a superior position over competitors. As a final cherry, throughout Ingles’ entire life as a publicly traded company, the business has never reported a net loss.

10-Year Avg Vs 5-Year Avg vs LTM D/E Ratio



Management may not do interviews or earnings calls, and the company's measly 0.91% dividend is nothing to write home about, but it is hard to argue that management is doing a poor job in a way that might require the assistance of Mr. Market.

Valuing Ingles

A Note on Ingles' Price-to-Tangible Book Value

In reaction to deflation fears, Ingles' stock price is presently -28.3% off its 2022 high of \$99.7. The business also trades at a P/TB ratio of 0.87 times versus its historical average of 1.28 times. That said, the multiple of book Wall Street is presently applying rests on a materially understated equity base that needs to be adjusted.

Recall that county-level data reveals an approximate \$657.7MM in fair market real estate value that is absent from Ingles' balance sheet. To get an accurate read of company equity, the base needs to be adjusted to incorporate Ingles' off-balance sheet real estate value.

Adding the \$657.7MM to Ingles' \$1,553.8MM in reported equity, the result is an adjusted equity base of \$2,211.5MM. This adjustment reduces Ingles' already below average P/TB multiple of 0.87 times to 0.61 times, which is -52.3% lower than Ingles' historical average P/TB ratio, and -11.6% below the company's all-time P/TB low of 0.69 times: a multiple not seen since October, 1992.



Forecasting Ingles' Real Estate Portfolio

Reviewing Ingles' \$1.39bn in fair market real estate, two key questions remain:

1. Is the value of Ingles' existing real estate holdings likely to remain stagnant over time, or are they likely to appreciate with inflation?
2. In consideration of management's real estate acquisition strategy, at what rate might investors expect Ingles' real estate portfolio to grow at going forward?

First, while analysis of property appreciation at the state level would provide the greatest insight, commercial property in the US has appreciated by 3.3% per year since 2005, inclusive of current stress in commercial office space. Barring a calamitous economic event, application of the average growth rate would not be an unreasonable position to take.

To account for this report's lack of state-level commercial land and commercial retail property growth data, a moderated 2% rate of appreciation on Ingles' existing owned properties is favored. Through application of the moderated rate, Ingles' real estate may produce incremental value of \$272MM by 2023, for a 10-year value of \$1.66bn.

Second, as mentioned, management's 10-year average allocation to real estate acquisitions have equaled 19.3% of annual, consolidated EBITA. Adjusting for inflationary margin distortions, real estate acquisitions have increased to 21.5% of EBITDA over the past five years.

Ingles' EBITDA margin has receded to its pre-pandemic level of 4.7%, which is positive, as it provides analytical clarity re forecasting Ingles Supermarkets. Per a 4.7% EBITDA margin, EBITDA of \$326MM may become the new normal. Still, a conservative 17% real estate acquisition rate is assumed in the event that unforeseen circumstances befall the company.

At 17% of normalized EBITDA, Ingles would add an additional \$288.4MM in real estate value by 2028, and \$606.8MM by 2033, without any added appreciation for new properties. To add context for the 2028 projection, Ingles' real estate acquisitions totaled \$274MM between 2017 and 2020.

Should the prior scenarios manifest, the value of Ingles' real estate portfolio will increase from \$1.39bn to \$2.27bn by 2033. Put into perspective, the present cost of reported land and buildings, including leased properties, is \$1.87bn, up \$568.2MM since 2013: a CAGR of 3.8%. Amalgamation of \$272MM in inflationary improvements plus \$606.8MM in acquired real estate would increase consolidated land and buildings to roughly \$2.75bn by 2033, for a forward CAGR of 3.9%.

Ingles Leasing

FFO Growth Rate: Margin Adjustments

Per Mr. Market's petulance, Wall Street has largely missed the emergence of Ingles Leasing, which is an asset that has the potential to become highly valuable. But, before an expected growth rate may be applied to the business, it is important to think about how Covid-induced inflation may have positively impacted margins.

Increased inflation in 2021 and 2022 coincided with an 8.7% increase in FFO margin over 2020, of which 6.1% of the improvement occurred in 2021. In commercial lease contracts, common clauses require lessors to pay a percentage above base rent if a certain threshold of annual sales is achieved. Though not disclosed, the sharp rise in inflation in 2021 and 2022 likely had a positive impact on FFO margins re increased performance payment inflows.

Conversely, FFO margins expanded by 4.4% between 2017 and 2020 due to increased shopping center acquisitions, which designates recent-year margin improvements as unlikely to be wholly thanks to inflation. While FFO margin has expanded further YTD, to 86.8%, if we assume 3% of additional ex-inflation margin improvement and a total reduction of any inflationary benefit on future rents collected, a normalized FFO margin of 81.1% is the result. In response, the latter, normalized FFO margin is favored for valuation of Ingles Leasing.

Multiple

Although this report's definition of FFO has been calculated as EBIT, plus depreciation, less operating expenses, it is unclear if reported expenses for the segment includes taxes. Consequently, assessment of an appropriate FFO multiple for Ingles Leasing was benchmarked against the 10-year average REIT EV/EBITDA multiple of 20.4 times, [per data collected from Damodaran Online](#). To continue to err on the side of conservatism in lieu of an independent, segment capital structure, an FFO multiple of 16 times is assumed.

Valuation

Fading 2023 FFO to \$20.2MM per an adjusted 81.1% FFO margin, the model assumes FFO of \$62.8MM by 2023 at a CAGR of 12%. Application of the 16 times EBITDA multiple to expected future FFO reveals a valuation estimate for Ingles Leasing of \$570.2MM by 2028, and \$1,005MM by 2033.

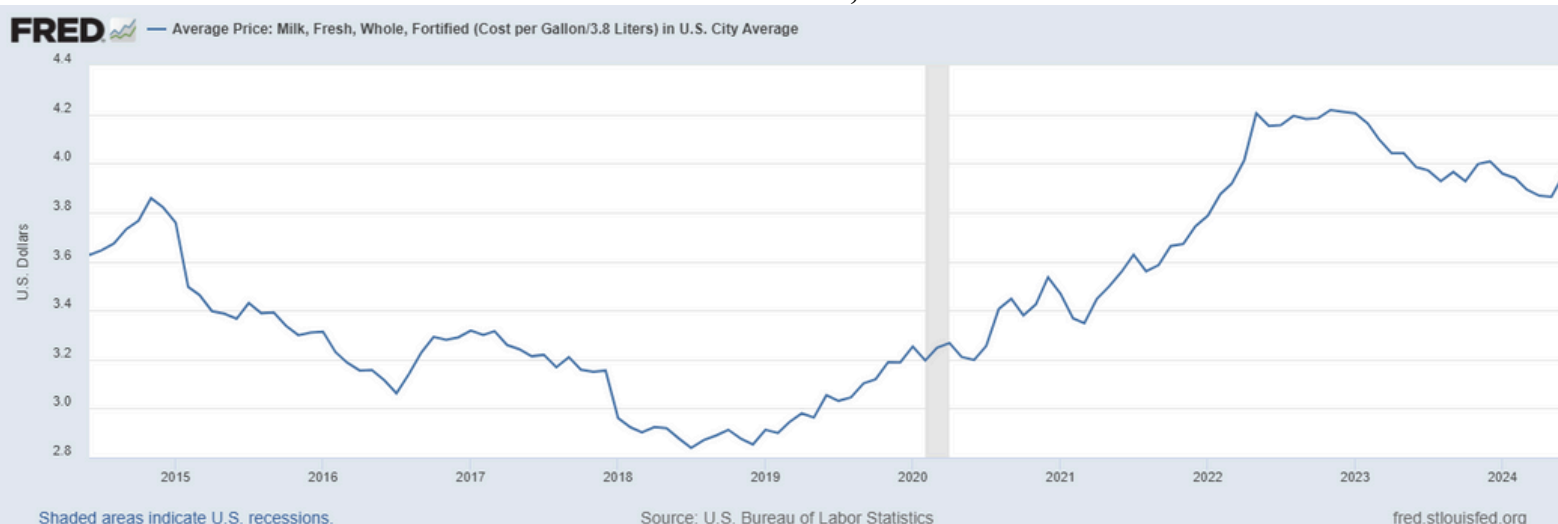
Ingles Leasing 5Y Valuation					
Year	2024	2025	2026	2027	2028
Total Rents	\$27,960,022	\$31,315,224	\$35,073,051	\$39,281,817	\$43,995,635
Expenses	\$5,312,404	\$5,949,893	\$6,663,880	\$7,463,545	\$8,359,171
Fed Rate	4%	4%	4%	4%	4%
FFO	\$22,647,617	\$25,365,332	\$28,409,171	\$31,818,272	\$35,636,465
FFO Margin	81%	81%	81%	81%	81%
EBITDA 2028 16x	\$570,183,433				

Ingles Leasing 10Y Valuation					
Year	2029	2030	2031	2032	2033
Total Rents	\$49,275,112	\$55,188,125	\$61,810,700	\$69,227,984	\$77,535,342
Expenses	\$9,362,271	\$10,485,744	\$11,744,033	\$13,153,317	\$14,731,715
Fed Rate	4%	4%	4%	4%	4%
FFO	\$39,912,840	\$44,702,381	\$50,066,667	\$56,074,667	\$62,803,627
FFO Margin	81%	81%	81%	81%	81%
EBITDA 2028 16x	\$1,004,858,032				

Milkco

In the six years preceding the Covid-19 Pandemic, Milkco's sales declined by \$130.7MM to \$115.8MM, while margin improvements saw EBIT remain relatively flat, at \$10.5MM. In the wake of Covid-19, Milkco's sales and EBIT have increased to \$204MM and \$15.5MM, respectively. Disconcertingly, the causes are less related to changes at Milkco, and more related to changes in the consumer price of dairy.

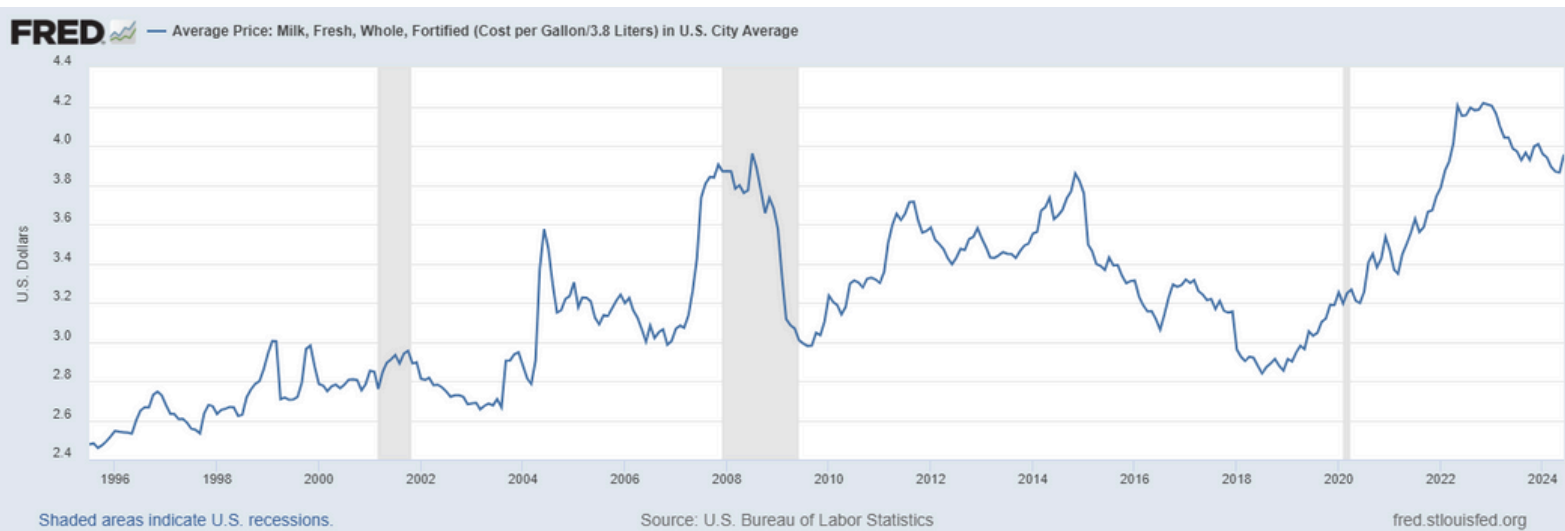
Price of Fresh Milk, 2014-2024



[Per July 2024 USDA forecasts](#), US food prices are expected to rise 2% in 2025, but dairy products are expected to decline 0.4% by year-end thanks to increased production and declining demand.

However, with supply and demand dynamics weak pre-covid, dairy prices have returned to their long-term trend, and should continue to grow with inflation over time.

Price of Fresh Milk, 1996-2024



To be tentative, 2021 EBIT of \$12.5MM was selected as Milkco's earnings base for valuation, as it captures mid-range dairy prices from 2007 to present. EBIT was also favored over free cash flow, as disaggregated PP&E data is not available for the segment. As a result, total capex unrelated to Ingles Leasing, but including Milkco, is featured in the valuation of Ingles Supermarkets. Nonetheless, at a reasonable 6x 2021 EBIT with zero 10-year growth expected, Milkco fetches a valuation of \$75MM, or a pre-tax yield of 16.7%.

Ingles Supermarkets

Valuation of Ingles as a consolidated entity required extensive thought, as the company's reported free cash flow is distorted by management's inclusion of land and building acquisitions in capital expenditures. Fortunately, segregated PP&E data in Ingles' 10-K allows investors to parse out real estate and non-real estate acquisition capex solely related to Ingles Supermarkets.

3. Property and Equipment

Property and equipment, net, consisted of the following:

	2023	2022
Land	\$ 457,048,257	\$ 417,414,333
Construction in progress	43,281,401	38,591,661
Buildings	1,414,696,772	1,350,593,056
Store, office and warehouse equipment	1,053,056,285	1,045,266,039
Transportation equipment	78,531,980	75,163,558
Leasehold improvements	60,950,486	60,958,847
Finance lease right-of-use assets	3,656,078	—
Total	3,111,221,259	2,987,987,494
Less accumulated depreciation and amortization	1,679,348,970	1,613,956,325
Property and equipment - net	<u>\$ 1,431,872,289</u>	<u>\$ 1,374,031,169</u>

Non-real estate acquisition capex has averaged \$29.4MM over the past five years at Ingles Supermarkets, inclusive of construction in progress and leasehold improvements. Additionally, since properties leased to third-parties are unlikely to make use of company-owned equipment, free cash flow estimation for Ingles Supermarkets includes the add-back of all depreciation unrelated to Ingles Leasing, and further includes capex for Milkco. Ex Ingles Leasing depreciation, Ingles Supermarkets has reported average depreciation of \$109.9MM over the past five years, with \$108.2MM reported in 2023.

Subtraction of Ingles Supermarkets' non-real estate acquisition capex from segment depreciation results in 5-year average capex-adjusted depreciation of \$80.4MM. Given that EBIT margin for the segment has normalized YTD, to 3.1%, barring a material decline in sales, 2023 EBIT of \$174MM in not an unreasonable base; but for the sake of conservatism, Pre-Covid EBIT of \$135.4MM is assumed. To be aggressive about future potential tax hikes, the application of a 30% rate to adjusted EBIT would result in supermarket net income of \$95MM. Accounting for flat average Pre-Covid changes in working capital, and adding adjusted depreciation, we arrive at a free cash flow estimate of \$175.4MM for Ingles Supermarkets.

Dividing the \$175.4MM in adjusted free cash flow by the number of shares outstanding implies base free cash flow per share of \$9.23. Assuming 1% growth in base EBIT and an additional 20% of shares repurchased by 2033, 10-year adjusted free cash flow per share equals \$12.75. Ingles tends to trade between 10-14 times EBIT, but trades at a muted 6.5x EBIT related to earnings sustainability concerns. As we have included tax but added depreciation, a moderated 9 times adjusted free cash flow multiple values Ingles Supermarkets at \$114.75 per share, or \$1.74 billion on a 10-year basis.

Adding it All Together: A Sum-of-the-Parts Valuation

A sum-of-the-parts valuation was chosen for appraisal of Ingles Markets due to the several assets that comprise the business.

Absent any forecast of real estate acquisition and appraisal, the present fair value of owned real estate, in addition to the 5-year expected value of Ingles Leasing, produces a combined present value of \$1.96 billion, compared to Ingles' present market capitalization of \$1.37 billion, and its enterprise value of \$1.59 billion: a discount of 30.1% and 13.8%, respectively.

Accordingly, Ingles Leasing, in tandem with Ingles' current fair value real estate, combine to provide investors with a striking offer: An investor who buys shares of Ingles today receives an attractive real estate portfolio and a profitable and growing shopping center leasing business, with Ingles Supermarkets and Milkco thrown in for free.

Notably, Ingles is not frozen in time. Management is actively acquiring new real estate, while maintaining, updating, and enhancing its legacy supermarket business. Thus, in consideration of all forecasts conducted, amalgamation of each valued component highlights a discount so striking as to be borderline unbelievable.

Total combined 10-Year SOTP for Ingles Markets amounts to no less than \$4,652MM, inclusive of the 5-year forecast for Ingles Leasing. Inclusive of the 10-year forecast for Ingles Leasing, estimation of 2033 SOTP rises to \$5,087MM.

Put differently, Ingles trades at a present value that is between 27% and 29.4% of its probable 10-year value.

10-Year SOTP	
Real Estate	\$2,267MM
Ingles Leasing	\$1,005MM
Milkco	\$75MM
Ingles Supermarkets	\$1,740MM
SOTP Value	\$5,087MM
Market Capitalization	1,370MM
Enterprise Value	1,590MM
Market Cap Discount	-73.10%
Enterprise Value Discount	-69.70%

Talking Shop: The Halfwit Crustacean

Before I get into the risks of owning Ingles Stock, I thought I would take time to talk about my book, [*The Halfwit Crustacean: Inside the Mind of a First-Year Investor*](#).

Value investors are quick to cite price and value as the two biggest drivers of investment performance, but they are wrong: **What matters is price, value, *and* behavior.** Without good behavior in the course of stock ownership, even the most price and value-disciplined investors are unlikely to maintain consistent and satisfactory results over time.

I started my investing career not as a stoic investor able to separate the businesses I owned from the movement of their respective stock prices, but as an erratic chaser of high-flying stocks. In fact, my first day investing in the stock market was mired by a double-digit loss.

By the end of 2018, I knew that if my behavior didn't change, that I would never achieve success in finance. As any good Mungerite would do, my solution to improve my behavior was to write an entire book on all of the worst investing mistakes that I made that year, and to share them with the world.

Contrary to claims made by famous investors, like Howard Marks, that define sound investing behavior as an innate characteristic of the individual, **it turns out that even a halfwit can learn how to behave well investing in the stock market.** Today, I can confidently say that I am almost entirely immune to volatility. At my former firm, [Folly Partners](#), the average price decline from a stock's peak before I recommended it was 51%, and the companies recommended were no slouches, but formidable businesses like CarMax, Aritzia, Micron, Meta, Hingham Institution for Savings, and 4Imprint Group. Hence, I evolved from an investor solely focused on the movement of stock prices, to an investor solely focused on the quality of businesses and the prices worth paying for them.

If you wish to learn how you may improve your own investing behavior by reading about my first year in the stock market, [please consider buying a copy of my book](#), as every dollar helps to sponsor my continued evolution as an analyst and investor. **Now back to the report!**

"A MUST READ FOR ANYONE LOOKING TO LEARN
AND GROW AS AN INVESTOR!" - JOHN MIHALJEVIC

THE HALFWIT CRUSTACEAN



INSIDE THE MIND OF A FIRST-YEAR
INVESTOR

GWEN M. HOFMEYR

EDITED BY DERIC CADORA

Risks to Ownership

Deflation of Food and Non-Food Products

Although the business remains cost-competitive, meaningful deflation in non-food and food product categories would result in lower sales for Ingles Supermarkets. As recent-year margin reversion implies, present sales may be sustained by increased cost-cutting at the expense of higher margins.

To combat the previous, a conservative approach to company valuation and a long-term mindset should coincide favorably with higher future grocery prices, particularly as the populations within Ingles' markets continue to grow, and demand for food rises.

Competition

Regardless of the fact that Ingles' markets are constrained by the volume of grocery sales that each can sustain, further expansion by Aldi could curtail revenue and EBIT growth for Ingles Supermarkets. Yet, as demonstrated, Ingles' cost-competitiveness as a large-format supermarket chain is formidable, and its convenience and large real estate holdings in chosen markets makes the business a force to be reckoned with. Preference plays a role as well, as individuals who prefer well-known brands are likely to be disappointed by Aldi's limited choices.

Competition from dollar stores, such as Dollar General, was also an initial concern for Ingles Supermarkets in its no-competitor markets. Serendipitously, in the 14 markets where Ingles is the only supermarket chain in town, the average population is 3,227, which is too large for dollar stores to pose an extinction-level threat. In fact, Dollar General is a tenant at several of Ingles' shopping centers.

Of the four towns that fall below a population of 1,000, Ingles has positioned each store with intention: [one as part of a shopping center](#), [one next to a local high school](#), [one on a major highway with an Ingles Express on-site](#), [and one that is not in a favorable position in relation to the local Dollar General](#), but is a high-rated store with 847 Google reviews rating it 4.4 out of 5.

Anti-Competitive and Regulatory Risk

On behalf of Ingles' large and continually expanding real estate portfolio, there is a risk that Ingles could be accused of, or even charged, with engaging in anti-competitive practices intended to restrict the competitiveness of certain markets.

In the normal course of business, it is not uncommon for supermarkets to own real property intended to reduce competition. That said, given Ingles' disproportionate real estate holdings

in relation to other publicly traded supermarkets, an investor in Ingles should be aware that there may be a future where Ingles could be required to dispose of certain assets or to pay fines in the event that an anti-competitive verdict befalls the company.

Furthermore, if Vice President Kamala Harris wins election in November, there is a risk that her critical stance on inflationary supermarket profits may be followed by restrictive legislation for the industry. Government-imposed subsidies for smaller competitors could increase deflationary risk, while the potential imposition of price controls would erode Ingles' inflationary-resistance.

Related Party Transactions

Investors who read Ingles' 10-K may be alarmed by the number of related party transactions that management has engaged in. As of 2023, there were \$330,000 in loans that had been issued to insiders, and none the prior year. Also in 2023, two properties assessed at a combined fair market value of \$5.8MM were sold to Ingles by an LLC where Bobby is one its named principals, with an additional property owned by Bobby's LLC traded for a like-property owned by Ingles.

Fortunately, the asset transfers in 2023 were unusual in the context of past related party transactions. Since 2012, \$13.3MM in assets have been exchanged between Ingles and Bobby's LLC, with the most curious being a \$2.5MM sale of Bobby's private plane to Ingles in 2012.

Related party transactions are always worth an investor's scrutiny, for which their primary concerns should be, a) do the transactions pose a material risk to the company, and b) do they indicate a concerted and continued effort by management to steal from shareholders.

First, on a combined basis, Ingles has generated almost \$2.2 billion in acquisition-adjusted free cash flow since 2014, which renders the materiality of Bobby's transactions with Ingles inconsequential to the company's wealth. They are also immaterial to Bobby's personal wealth.

Second, the theft of assets by insiders is typically associated with companies that carry large amounts of debt. The idea is that if an insider is going to steal, they are going to steal as much as they can. Considering Bobby's transactions are not of a size and frequency that suggest he is engaging in a concerted campaign to defile his father's company, there is likely little for shareholders to worry about.

Key Personnel Risk

Bobby is not at retirement age, but succession will become an increasingly important question for shareholders over the next decade, as new management could mark a shift in

the company's operational strategy. Luckily, as an established, counter-cyclical and inflation-resistant supermarket business, Ingles should be relatively self-sufficient. Meanwhile, the release of Ingles to the black suits of Wall Street is improbable given Bobby's attachment to his father's legacy. Should a possible future sale of the business be considered alongside Bobby's retirement, the most likely buyer of choice would be a firm intent on preserving Ingles for the long-term, like Berkshire Hathaway.

"We've got shoppers that are from all walks of life and we want to please them"... "We're a hometown grocery, been doing this stuff since '63. And we're very fortunate, very fortunate to be in Asheville."

— *Bobby Ingle*

Conclusion

Every time I conduct a long-form analysis, I discover a corner of the market where an analyst could dedicate a career to. In the case of Ingles, there are thousands of publicly traded companies across the globe, many of which hold real assets but do not disclose the details of their ownership. If it does not already exist, a service solely dedicated to sifting through county records and publishing company real estate portfolios would surely be valued by the market. It is tiring work, but in a world dominated by passive and quantitative strategies, the tiring work is the work worth doing.

My analysis of Ingles is proof that a level of understanding not widely known by the market can still be had if one patiently commits themselves to the pursuit of understanding, even if it means going beyond company filings. For, despite a large volume of research produced by our industry each year, the quality of it is just that: more volume-oriented than quality-oriented. This presents investors and analysts with a unique opportunity to buck the trend and to identify projects with dirt too tough or too deep for the market to perform a timely dig.

Speaking of dirt, lately I have been thinking that the best way for an analyst or investor to improve the quality of their analyses is through the application of archeological principles.

The prerogative of the archeologist is to apply their training to identify sites of interest for excavation (In our case, a company, industry, or group of assets). Each dig site is thoughtfully identified and carefully mapped prior to excavation. Once excavation begins, the archeologist is hyper-focused on the production of quality-driven work designed to maximize the exposition and preservation of the artifacts and fossils uncovered. Each step of the excavation process is patient and diligent, with no expectation of immediate reward beyond the acquisition of knowledge.

Why is the intersection of archeological principles with financial analysis important? Because research of an archeological nature is chronically under-commissioned by large firms in

today's world. Sales and relationship-building are what turn the wheels of modern finance, not in-depth analysis.

The fallout has spawned a dearth of knowledge and a malignant gaggle of marketers whose *modus operandi* is the enrichment of the firm at the expense of the client. In response to the status quo, investors and analysts have an opportunity to distinguish themselves from their competition as both contrarian in capital allocation and contrarian in their analytical conduct.

As a corollary, if comprehensive analysis is not the status quo, then what credibility can the efficient-market hypothesis, that is, that all securities are priced efficiently due to the sum-knowledge of market participants, claim? For if the aim of the average large-scale firm is not to intelligibly price securities through thoughtful evaluation, but to market securities that generate the most sales irrespective of price, then the sum-knowledge that is supposed to drive the efficient pricing of securities is, at least in-part, corrupted by price agnostic incentives.

Regarding Ingles Markets, the application of an archeological approach to its discovery and excavation unveiled a highly inflation-resistant, recession-resistant, and competitively astute, owner-operated business with a vast real estate portfolio. In the process of exposition, Ingles was found to be woefully under-analyzed, and considerably undervalued in relation to its present and future value.

Excitingly, in my near-decade as an analyst and investor, it is rare to identify an asset like Ingles, where the business is both characterized by quality and extreme undervaluation. Ingles' assets are not in a state of deterioration, but in a state of *appreciation*, and their quality is also incrementally expanding.

In other words, Ingles is no cigar butt, but it is priced like one. Yet, no impairment is present, nor is the company facing existential threat. There is no evidence of fraud, and the company is not financially encumbered. In the course of land company analysis, I could not identify, nor, in my opinion, recommend another land-owning vehicle as more suitable and cost-effective than Ingles Markets; undoubtedly, the business is an attractive asset for investors concerned with achieving long-term capital preservation through the ownership of land.

As a caveat, for managers with an impatient client base, it is my opinion that a potential position should not exceed ten percent of a portfolio's total assets, as it may take time for Ingles' value to be realized by the market. Here is to hoping that this report helps Ingles receive the attention, understanding, and valuation that it deserves.

Signed,
Gwen Hofmeyr

