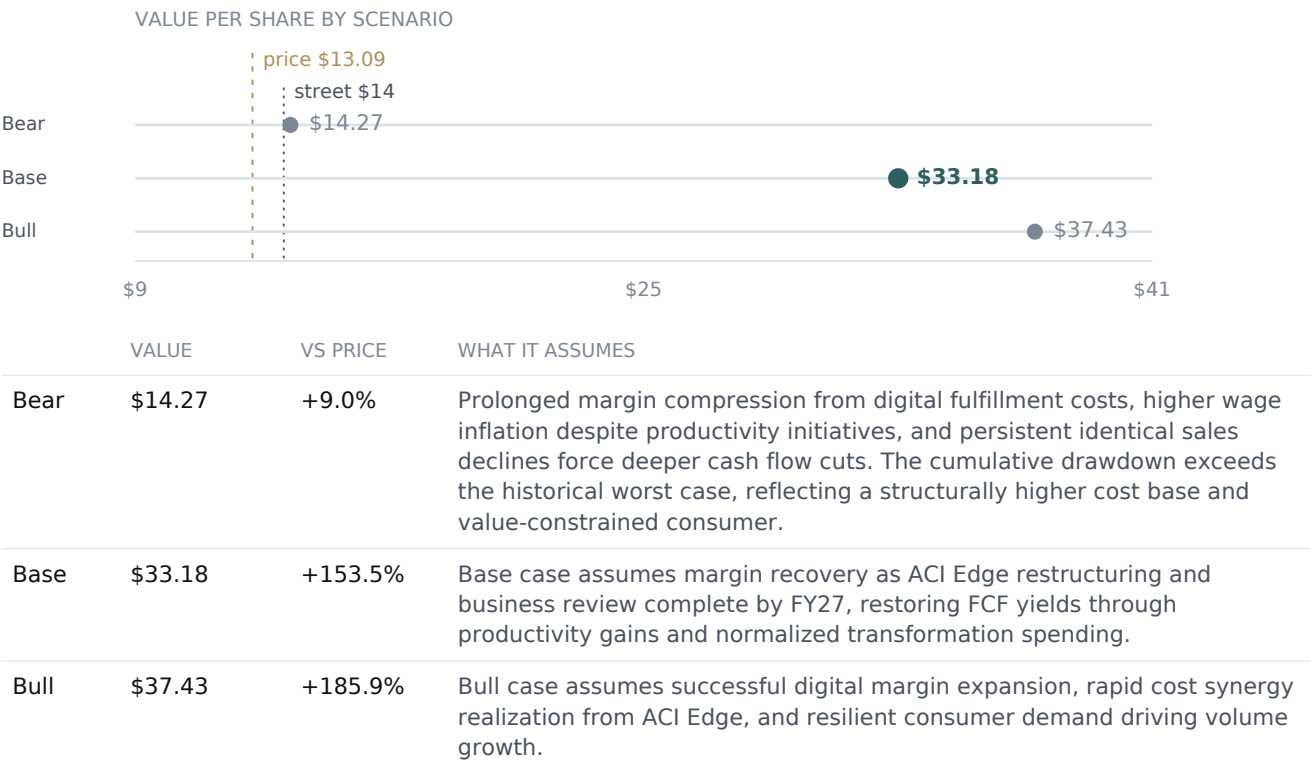


EQUITY RESEARCH / ACI

Albertsons Companies

LONG CANDIDATE · as of 2026-10-16 · horizon 540 days · DCF + P/E

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$13.09	\$33.18	+153.5%	\$26.47	\$6.35B	81.8x



STREET CHECK

Street target **\$14** (+7.4% vs price) · 4 buy / 12 hold / 3 sell · forward P/E 6.1x · EPS estimates \$2.15 this year, \$2.29 next

Our base case is **2.36x** the Street target: far from the Street.

Consensus is shown for calibration only. The model never receives it.

Thesis

Albertsons is deeply undervalued at \$13.09, as the market is pricing in a permanent margin collapse or severe credit stress driven by highly distorted fiscal 2026 earnings. The reported operating margin of 0.65% and net income decline of 77.3% are suppressed by a \$773.8 million pre-tax opioid settlement, \$153.7 million in business transformation costs, and \$84.1 million in merger-related expenses. Despite the earnings trough, the underlying business continues to generate robust operating cash flow of \$2,366.7 million and a normalized free cash flow of roughly \$1,062 million. With a nationwide footprint of 2,244 stores, a 51.2 million member loyalty program, and an expanding retail media network, the company's recurring cash generation supports a base-case value of \$33.18. The current price fails to reflect the normalized profitability and expected margin recovery post-business review.

What the market may be missing

The current price reflects a prolonged margin trough and operational drag from the ACI Edge realignment and merger litigation. The filing indicates management expects to normalize margins and provide a refreshed short and long-term financial framework by Q4 FY26, suggesting the current depressed valuation overstates the duration of the downturn. The market's fear of structural cost inflation and digital fulfillment headwinds is likely temporary as productivity initiatives scale.

Why the opportunity exists

A transient setback. The market is pricing in a permanent margin collapse or severe credit stress driven by highly distorted FY26 earnings, but these are temporary setbacks as management completes its business review and structural cost reforms. Evidence: Fact sheet shows FY26 operating income fell 52.9% to \$727.6M due to a \$773.8M pre-tax opioid settlement and transformation costs, yet operating cash flow remained robust at \$2,366.7M.

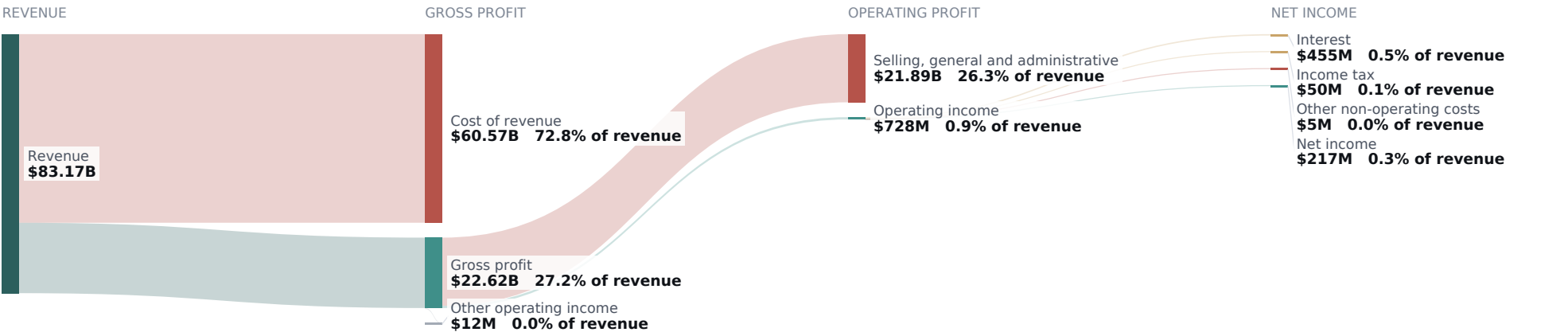
Since our last note

Thesis intact against our note of 2026-09-11 (investigate long). The shares have moved +11.9% since. No historical guidance track record is available to grade delivery versus expectations; management is currently conducting a comprehensive business review with a refreshed financial framework expected in Q4 FY26, which will be the key test of execution credibility.

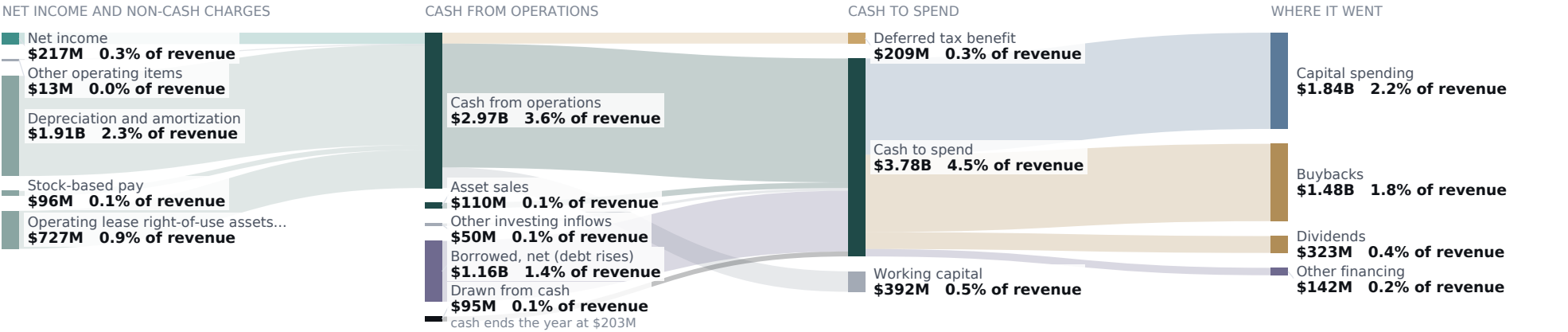
Follow the money: fiscal 2026

Of every \$100 of revenue, \$73 went to cost of revenue, \$26 to operating costs and \$0.6 to interest and tax, and \$0.3 became net income. Operations turned that into \$2.8 of cash; \$2.2 went to capital spending and \$2.2 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 16.8 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2026-02-28, XBRL accession 0001646972-26-000032. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

One of the largest U.S. food and drug retailers operating 2,244 stores across 35 states and D.C., leveraging a 22-banner portfolio, extensive private label, and an omnichannel platform to serve 36.5 million weekly customers.

What it sells

Grocery products, general merchandise, health and beauty care products, pharmacy, vaccines, fuel, and other items and services sold through physical stores and digital channels. Also sells private label 'Own Brands' products (14,000+ items) and provides targeted vendor advertising through the Albertsons Media Collective retail media network. Groceries and household goods (non-perishables and fresh produce/meat/deli/bakery), pharmacy and health services, fuel, general merchandise, and ancillary revenue streams including wholesale sales, commissions, rental income, media advertising, and coffee shop beverages. Food and drug retail products including fresh, non-perishables, pharmacy, and fuel, alongside digital/eCommerce services and media advertising.

Customers and channels

Approximately 36.5 million customers per week. Primary channels include brick-and-mortar stores, Drive Up & Go curbside pickup (>2,100 stores), and home delivery via Instacart, DoorDash, and Uber. Customer engagement and personalized marketing are driven through a loyalty program with 51.2 million enrolled members and digital platforms. Serves approximately 36.5 million customers weekly across 2,244 physical retail locations and digital channels. Loyalty program has 51.2 million members. Sales channels include in-store shopping, Drive Up & Go curbside pickup, home delivery, pharmacy, fuel centers, and coffee shops. Digital platforms include eCommerce, Loyalty, Pharmacy & Health, and a mobile app. ~275,000 associates serve ~36.5M customers weekly across 2,240 stores. Digital sales include Drive Up & Go curbside pickup and home delivery, with flash delivery as the fastest-growing component. Media business expands via advertising placements.

Unit economics and costs

The business is highly labor-intensive with 280,000 associates, of which approximately 190,000 are unionized under collective bargaining agreements that dictate wage rates, healthcare, and pension contributions. Costs are heavily impacted by energy/fuel price volatility, agricultural commodity inputs for manufacturing, and regulatory changes. The company pursues productivity initiatives and automation to offset cost inflation, while leveraging pricing investment and promotional activity to maintain margin and drive traffic. Retail media and own-brand manufacturing help improve margin mix. Gross margin rate declined to 27.2% in FY25 from 27.7% in FY24, a decrease of 59 basis points excluding fuel and LIFO, driven by pharmacy sales mix (lower margin) and rising delivery/handling costs from digital growth. S&A expenses rose to 26.3% of net sales from 25.6%, but decreased 38 basis points excluding fuel and opioid settlements, benefiting from sales leverage on employee costs and lower merger costs, partially offset by business transformation costs and inflation. Productivity initiatives continue to offset wage rate increases. LIFO expense was \$66.0 million. Depreciation & amortization totaled \$1,913.7 million. Gross margin decreased to 26.6% (Q1) and 26.8% (Q2) from 27.1%/27.0% respectively. Excluding fuel and LIFO, gross margin fell 23 bps (Q1) and 17 bps (Q2) due to delivery/handling costs from digital growth and higher fuel/shrink, partially offset by pharmacy margin improvements. S&A expenses increased to 25.6% of sales from 25.4%, driven by rent/occupancy, merger litigation, business transformation costs, and depreciation, partially offset by lower employee costs and productivity initiatives.

Segments

- **Food and Drug Retail Stores** - Operating divisions geographically based with similar economic characteristics, reported as one reportable segment. Products include grocery, general merchandise, health/beauty, pharmacy, fuel, and Own Brands via stores and digital channels.
- **Non-perishables** - Primarily general merchandise, grocery, dairy and frozen foods
- **Fresh** - Primarily produce, meat, deli and prepared foods, bakery, floral and seafood
- **Pharmacy** - Pharmacy and health services sales
- **Fuel** - Fuel sales (excluded from identical sales calculations)
- **Other** - Wholesale sales to third parties, commissions, rental income, media advertising revenue and other miscellaneous revenue

Revenue drivers

- Total store count and geographic footprint
- Identical sales growth driven by volume, pricing, and inflation/deflation dynamics
- Private label (Own Brands) penetration
- Digital commerce and omnichannel fulfillment adoption
- Retail media network revenue from vendor partnerships
- Fuel center transactions
- Pharmacy and vaccine volumes
- Loyalty program engagement and data monetization

Competitive position

Holds a leading position as one of the largest U.S. food and drug retailers with national scale and strong local market share in attractive geographies. Differentiates through a multi-channel approach, extensive loyalty program, own-brand portfolio, and localized decision-making within a 'Locally Great, Nationally Strong' structure. Faces intense competition from supercenters, club stores, discount grocers, online retailers, and drug chains, requiring continuous capital investment in digital, store conditions, and promotions. One of the largest food retailers in the US with a diversified portfolio of 22 banners. Competes through an integrated digital ecosystem (eCommerce, loyalty, pharmacy, mobile app), AI-driven supply chain and personalization tools, and a strong customer value proposition focused on affordability and consistency. Benefits from scale across 22 distribution centers and 19 manufacturing facilities. Leading U.S. food retailer executing ACI Edge realignment (consolidating 11 divisions into 4 regions, centralizing center-store merchandising) and a comprehensive business review to simplify costs, reinvest in customer value, and improve execution against value-conscious consumers.

Industry direction

The sector is experiencing a sustained shift toward online shopping, multi-channel fulfillment, and digital technologies. Intense competition and price investment have made consistent identical sales growth difficult. Companies are focusing on productivity, automation, and data analytics to improve efficiency. Inflation and deflation in food prices create margin pressure, while sustainability and corporate social responsibility goals are becoming increasingly material to stakeholder expectations. Operating in a dynamic macroeconomic and competitive environment with ongoing inflationary pressures on wages, energy, and logistics. Industry trends include rapid digital adoption, loyalty program expansion, and AI integration in supply chain and customer experience. Regulatory shifts impact pharmacy reimbursement. Market consolidation remains a factor, with the company navigating post-merger termination litigation and retention. Pressured unit sales environment, value-conscious consumer behavior, ongoing IRA impact on pharmacy sales, wage rate pressures, union negotiations, supply chain constraints, cyber risk, and macroeconomic/tariff uncertainty.

Recent developments

- Q1 & Q2 FY2026 results: identical sales -0.8% both quarters; digital sales +13% Q1, +11% Q2; adjusted EBITDA \$1,013M Q1, \$784M Q2
- ACI Edge operating structure realignment announced July 23, 2026 to simplify operations and centralize merchandising
- Comprehensive business review launched to tackle cost structure and accelerate turnaround
- Q2 FY2026 incurred \$42.4M net loss on property dispositions and impairment losses (retail store impairments, equipment disposals)
- Repaid \$56.5M of 7.75% Notes due 2026 on June 15, 2026; ABL facility shows \$700M outstanding and \$3.287B availability
- Capital expenditures of \$522M in Q1 (\$899.6M YTD); quarterly dividend increased to \$0.17/share in April 2026; share repurchase authorization increased to \$2.0B; 26.0M shares repurchased YTD for \$387.6M

- Merger-related litigation and business transformation costs continue to impact S&A (\$41.6M Q1, \$35.3M Q2; cumulative rolling 4Qs include \$773.8M opioid settlement)
- Opioid Settlement Framework charge of \$773.8 million pre-tax (\$599.8 million net of tax) recorded in Q4 FY25.

Management outlook

The Company is conducting a comprehensive business review of its customer strategy, cost structure, operating model, banner portfolio, market assets, and capital allocation priorities. No fiscal 2026 outlook will be provided until the review is completed in Q4 FY2026. Management plans to host an investor day in Spring 2027 and expects to provide a refreshed short and long-term financial framework by the Q4 earnings call. Strategy focuses on customer growth via digital connection, loyalty, media expansion, value proposition enhancement, and AI/technology modernization. Capital allocation balances future investment, balance sheet strengthening, and shareholder returns. FY26 capex guidance is \$2.0B to \$2.2B. Estimated liquidity needs for the next 12 months are \$6.0B to \$6.5B. Management expects continued productivity initiatives to offset inflation and is maintaining dividend growth and opportunistic buybacks. Multiemployer pension contributions expected at ~\$610 million in FY26. Strategy centers on driving customer growth and engagement via digital connection, enhancing the customer value proposition, modernizing capabilities through technology, and driving productivity. Management aims to tailor offerings to local demographics while leveraging national scale for buying power and tech platforms. Productivity improvements and data-enabled insights will support reinvestment in customer value and store operations. Management acknowledges uncertainty around inflation/deflation, labor negotiations, and the ability to fully realize estimated productivity benefits.

Accounting flags

- Non-GAAP measures (Adjusted EBITDA, Adjusted net income) with multiple add-backs
- LIFO expense (\$20.0M Q1, \$3.4M Q2)
- Merger-related litigation and retention costs (\$41.6M Q1, \$35.3M Q2)
- Business transformation costs (\$54.2M Q1, \$35.6M Q2)
- Retail store and equipment impairment losses
- \$773.8M opioid settlement charge in Q4 FY2025 included in rolling 4Q adjustments

Key figures

KEY FIGURES	TTM TO 2026-06-20	FY2026	
Revenue	\$83.23B	\$83.17B	+3.5% y/y
Gross margin	27.0%		
Operating income	\$541.9M	\$727.6M	0.7% margin
Net income	\$65.7M	\$217.4M	
Diluted EPS	\$0.16	\$0.40	81.8x trailing P/E
Operating cash flow	\$2.34B	\$2.37B	-11.7% y/y
Capital spending	\$1.78B	\$1.84B	2.1% of revenue
Unlevered FCF	\$923.4M		14.5% yield
Cash and short-term investments	\$293.4M	\$198.6M	
Net debt	\$452.7M		0.2x EBITDA
Share repurchases	\$1.39B	\$1.48B	21.9% yield
Market capitalisation	\$6.35B		12.6x EV/EBIT

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-06-20 (fiscal year 2026 plus year to date less the same period a year earlier, from the 10-Q filed 2026-07-28). No matching year-to-date fact, so these stay on fiscal-year figures: interest_expense. Balance-sheet items are as of 2026-06-20 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. Current debt of \$746.1M (Current maturities of long-term debt and finance lease obligations) falls due within twelve months of 2026-06-20; the price date is 118 days later, so check in the filing whether

The counter-case

The bear case DCF value of \$14.27 is only 9.0% above the current \$13.09 price, suggesting our downside scenario is too mild and the market may be rationally pricing in a deeper structural margin collapse or a near-term credit crunch. Identical sales have declined for two consecutive quarters, and digital growth is accompanied by handling cost drag, meaning the assumed margin recovery could take longer than the five-year forecast window. Furthermore, a synthetic B rating with a 15.0% pre-tax cost of debt highlights the difficulty and expense of refinancing the \$746.1 million in current maturities in a sustained high-rate environment. Prolonged identical sales declines, persistent digital fulfillment cost drag, and high wage inflation could keep operating margins structurally suppressed below 1.0% indefinitely. Combined with elevated interest coverage pressure (1.6x) and \$746.1 million in near-term debt maturities, the company faces genuine refinancing risk and potential credit stress that could invalidate the margin recovery thesis.

Valuation

The business generates positive, albeit currently depressed, FCFF and EPS. DCF captures the explicit capital spending and debt structure, while an earnings multiple reflects the market's view on margin recovery and cost-cutting post the business review.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -10%, -15%, -20%, -10%, -5%; WACC 9.4%; terminal growth 1.5%	\$14.27	+9.0%
Base	FCFF growth +8%, +6%, +4%, +3%, +2%; WACC 9.4%; terminal growth 2.0%	\$33.18	+153.5%
Bull	FCFF growth +12%, +9%, +6%, +4%, +3%; WACC 9.4%; terminal growth 2.2%	\$37.43	+185.9%
Bear (P/E)	8.0x forward EPS \$1.97 (normalized, growth +15.0%)	\$15.76	+20.4%
Base (P/E)	12.0x forward EPS \$1.97 (normalized, growth +15.0%)	\$23.64	+80.6%
Bull (P/E)	16.0x forward EPS \$1.97 (normalized, growth +15.0%)	\$31.51	+140.7%

- Discount rate: the model used 9.4% against an anchor of 9.4% (risk-free 5.10%, beta 0.80, equity risk premium 5.0%, cost of equity 9.1%, after-tax cost of debt 11.8%, debt 10% of capital).
- The price implies constant five-year FCFF growth of -15.0% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band -13.0% to +3.6% a year; own trailing P/E 9.05-44.75x (median 11.01x) over the last five fiscal year ends.
- Sensitivity to discount rate: 7.4% gives \$46, 8.4% gives \$39, 9.4% gives \$33, 10.4% gives \$29, 11.4% gives \$26.
- Sensitivity to terminal growth: 1.0% gives \$30, 1.5% gives \$32, 2.0% gives \$33, 2.5% gives \$35, 3.0% gives \$37.
- Per-share values use 485,325,683 shares as of 2026-07-24; the fiscal-year diluted average differs by +12.7%.
- Probability-weighted value \$26.47 (+102.2% vs price) at 40%/40%/20% weights.

Bear case assumes prolonged margin compression from digital fulfillment costs, higher wage inflation, and persistent identical sales declines, leading to deeper cash flow cuts and a longer path to deleveraging. Base case assumes a steady recovery as the ACI Edge restructuring and comprehensive business review complete by FY27, restoring FCF yields through realized productivity gains and normalized transformation spending. Bull case assumes rapid cost synergy realization, successful digital margin expansion, and resilient consumer demand driving volume growth and faster-than-expected margin recovery.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$33.18	+153.5%
WACC 100bp higher	\$29.08	+122.2%
Pre-tax cost of debt 200bp higher	\$32.42	+147.7%
Every year's FCFF growth 5 points lower	\$26.64	+103.5%
Every year's FCFF growth 5 points higher	\$40.99	+213.1%
Starting FCFF 10% lower	\$29.77	+127.4%
Starting FCFF 10% higher	\$36.59	+179.5%

The base case equals the price at a 19.8% WACC or if every annual FCFF growth rate were -20.0% points different. These are thresholds, not forecasts.

No listed peer was judged comparable. As noted in the anchors.peers packet, no peer tree is available for this quarter; therefore, no comparables or rejections are listed. The company is a large national grocery retailer with distinct scale and 22-banner portfolio, but peer data is explicitly unavailable per system constraints.

What would change the view

Key debates

- Operating margin trajectory post-transformation: Gross margin compression from digital fulfillment and labor costs is eroding FCF; recovery drives the entire value thesis. (MD&A details margin decline and S&A increase; business read notes productivity initiatives and digital fulfillment costs.)
- Debt refinancing and liquidity: \$746.1M of debt is near-term and leverage is high relative to earnings; refinancing terms dictate financial risk and cost of capital. (Fact sheet notes current debt of \$746.1M due within 12 months of price date.)
- Consumer demand resilience: Value-conscious behavior drives volume/price mix and identical sales growth, directly impacting revenue and margin. (Business read mentions intense competition and value-conscious consumer behavior.)

Exposures (verified against the filing)

- Interest rates, negative for the equity: Variable rate debt increases interest expense, compressing net income and FCFF.

Sensitivities the company discloses

- Interest rates: 100 basis point increase gives Approximately \$4 million increase in annual interest expense

Catalysts

- Q4 FY26 completion of the comprehensive business review and release of a refreshed financial framework.
- Successful refinancing of the \$746.1 million in current debt maturities at stable or lower rates.
- Operating margin recovery exceeding 1.0% as transformation and merger-related costs normalize.
- Acceleration of Albertsons Media Collective revenue and vendor advertising spending.

- Realization of double-digit percentage productivity gains from the ACI Edge operating structure realignment.

Invalidation

- Sustained operating cash flow decline below \$1.5 billion over two consecutive quarters.
- Operating margin compression remaining below 0.5% despite stated productivity initiatives.
- Failure to refinance or manage near-term debt maturities as credit spreads widen.
- Opioid settlement cash outflows or legal liabilities exceeding annual expectations by more than 20%.
- Major union work stoppages or multiemployer pension withdrawal events disrupting operations.

Risks

- Macroeconomic weakness and value-conscious consumer behavior pressuring identical sales.
- Persistent wage inflation and union contract renegotiations impacting SG&A.
- High interest rates impacting variable rate debt and increasing refinancing costs.
- Digital fulfillment cost drag compressing gross margins from current 27.0% levels.
- Credit stress if near-term debt (\$746.1 million) cannot be refinanced favorably.
- Opioid settlement cash outflows or additional litigation liabilities.
- Failure to realize anticipated cost synergies from the ACI Edge realignment.

Short side

A short position is not interesting due to unbounded loss risk and potential squeeze characteristics given the \$6.35 billion market cap and broad institutional ownership. Additionally, the base-case value (\$33.18) and even the bear case (\$14.27) are both above the current price, meaning the expected return from shorting is negative under the model's assumptions, and borrow availability for a large-cap retailer does not offset the asymmetric downside risk.

Open questions

What is the exact maturity schedule and refinancing terms for the \$746.1 million in current maturities of long-term debt due within twelve months of the price date?

(missing fact)

Monitor debt covenant compliance and credit facility amendments in subsequent quarterly filings. Watch: Any refinancing announcements or changes to the ABL facility covenants.

How quickly will the ACI Edge restructuring and business review yield measurable productivity gains to offset digital fulfillment and wage inflation? (forecast uncertainty)

Assumed to normalize by FY27 in the base case; stress tested in the bear scenario. Watch: Q4 FY26 earnings call providing the refreshed short and long-term financial framework.

Limitations

The bear case DCF value of \$14.27 remains 9.0% above the current price of \$13.09, indicating the bear scenario is likely too mild and fails to fully capture the severity of a prolonged margin trough or credit stress. The model relies on a 15% upward adjustment to starting FCFF to normalize for transformation costs, but if the business review delays extend past Q4 FY26 or if productivity gains materialize slower than historical OCF growth bands, the base case multiple and valuation would be compressed. The assumed margin normalization may also understate the structural drag of digital fulfillment handling fees and multiemployer pension obligations. Per-share values use point-in-time shares outstanding; the fiscal-year diluted weighted average differs by +12.7%. This historical count difference also reflects timing and share repurchases; it is not an estimate of future dilution. Outstanding options, RSUs or convertibles require a separate analysis. Software checks raised during valuation: the bear case still values the stock +9% above the price; a genuinely adverse scenario normally produces a loss at the entry price. Either explain why every scenario clears the price, or acknowledge in valuation limitations that the bear case may be too mild. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: bear case not adverse at price; exposure quote unverified:commodity input costs; exposure quote unverified:consumer demand.

Sources

10-K for the fiscal year ended 2026-02-28, filed 2026-04-27 (accession 0001646972-26-000032).

10-Q for the quarter ended 2026-06-20, filed 2026-07-28 (accession 0001646972-26-000046).

8-K for the earnings release dated 2026-10-13, filed 2026-10-13 (accession 0001646972-26-000059).

- Price: vendor close of \$13.09 on 2026-10-16.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: qwen3.8-flash-next-iq2_xs · run discovery-20260911 · job 609 · memo SHA-256 b55b0861118d2b4b... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.