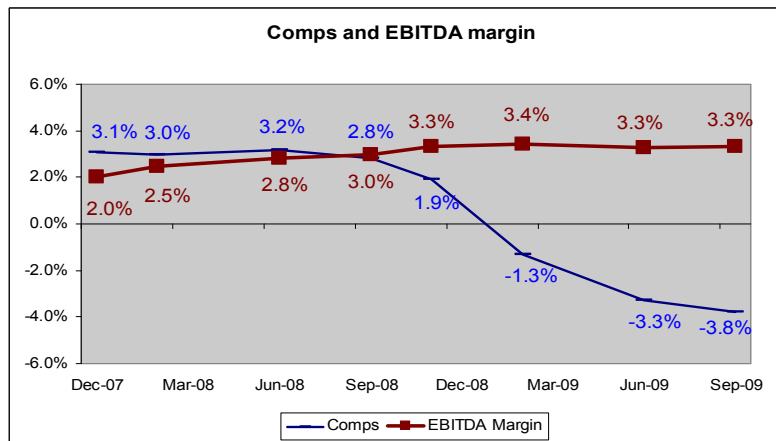


## THE GREAT ATLANTIC & PACIFIC TEA CO., INC. Montvale, NJ

### Segment Performance Analysis

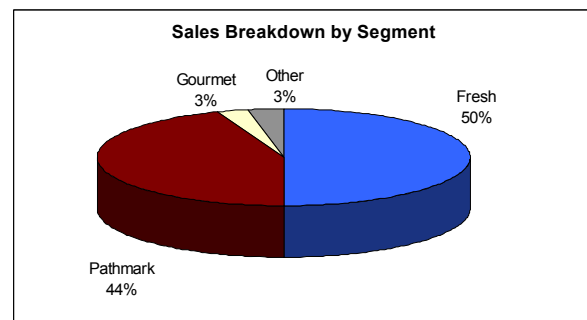
On December 3, 2007, The Great Atlantic & Pacific Tea Co., Inc. completed its purchase of Pathmark Stores resulting in a Company with approximately 450 stores and \$9.40 billion in revenue. While the integration was completed ahead of schedule in mid-2009, the performance, especially of the newly acquired Pathmark business, can't be what the Company had in mind. Disappointing trends in both sales and margins required a \$435.0 million recapitalization which was completed this past August. As the chart below shows, EBITDA margin has increased over the past two years but this is mostly due to the easily achieved cost reductions and synergies related to the Pathmark acquisition. These improvements have now leveled off and threaten to decline in step with the worrisome trend in declining comp store sales, also depicted.

The chart below shows comp store sales and EBITDA margin trends for A&P over the past eight quarters. Note that comps exclude the acquired Pathmark stores until the fiscal 2008 fourth quarter period ended February 28, 2009 (Mar-09).



The charts below show the Company's store base by format and corresponding banner as well as the sales breakdown for the first half of fiscal 2009.

BANNER	NUMBER OF STORES	STATES
A&P (Fresh)	110	CT, NY, NJ
Waldbaum's (Fresh)	64	NY
Super Fresh (Fresh)	69	DC, DE, MD, MJ, PA
Pathmark (Price Impact)	144	NY, NJ, PA, DE
The Food Emporium (Gourmet)	23	NY, NJ
Food Basics USA (Other)	9	NY, NJ, PA
A&P Liquor (Other)	25	CT, NJ
<b>Total</b>	<b>444</b>	



A&P's overall sales declined 4.5% during the fiscal 2009 first quarter and deteriorated further to a 5.4% decline during the second quarter (4.9% for the year-to-date [YTD] period). While Pathmark was a prime culprit for the drop in sales, three of the four segments are actually showing a drop in the top line. The following analysis takes a closer look into the Company's performance, including our estimates on comp-store sales and EBITDA performance by segment.

(\$ in 000's)	For the 12 Weeks Ended			For the 28 Weeks Ended		
	September 12,	September 6,	% change	September 12,	September 6,	% change
	2009	2008		2009	2008	
<b>Sales:</b>						
Fresh	\$ 1,042,713	\$ 1,118,794	(6.8%)	\$ 2,429,453	\$ 2,580,627	(5.9%)
Price Impact (Pathmark)	898,655	947,792	(5.2%)	2,137,878	2,249,981	(5.0%)
Gourmet	56,010	56,717	(1.2%)	141,391	141,745	(0.2%)
Other (Food Basics/Best Cellars)	<u>67,683</u>	<u>59,333</u>	14.1%	<u>146,582</u>	<u>132,948</u>	10.3%
<b>Total Sales</b>	<b>\$ 2,065,061</b>	<b>\$ 2,182,636</b>	<b>(5.4%)</b>	<b>\$ 4,855,304</b>	<b>\$ 5,105,301</b>	<b>(4.9%)</b>

While most of the blame has been placed on Pathmark, in fact, the Fresh segment has been experiencing an even tougher sales environment. 2Q09 Fresh sales were down 6.8% compared to the 5.2% decline at Pathmark. Some of this is a result of conversions of Fresh stores to the Price Impact banner. However, on a comparable store sales basis, Fresh has been the weakest unit again. While 1Q comps were very similar between the two units, 2Q saw a negative 3.4% at Pathmark versus a sliding 4.3% at the Fresh segment. Comps for Pathmark and A&P Fresh were 2.9% and 2.8%, respectively, during the second quarter of fiscal 2008.

	<b>Segment Comp Store Sales</b>	
	2Q09	1Q09
	12 Weeks Ended 6/20/2009	16 Weeks Ended 9/12/2009
Fresh	-4.3%	-3.7%
Price Impact (Pathmark)	-3.4%	-3.8%
Gourmet	-1.2%	0.4%
Other (Food Basics/Best Cellars)	0.1%	7.6%
<b>Total Corporate Comps</b>	<b>-3.8%</b>	<b>-3.3%</b>

Note: Segment comp store sales calculations are F&D estimates based on segment information provided by the Company.

While sales provide insight into the short-term direction and outlook of a Company's performance, in the end profitability is the ultimate goal. Evaluating EBITDA by segment provides somewhat of a different look into unit performance. Here the Fresh segment has shown sharp improvements for the latest two quarters resulting in an approximate 10% gain for the YTD period. EBITDA margin for the Fresh segment is also 4.2% for the YTD period, still well below the industry average of 5.5%-6.0% but strong enough to work with. In contrast, Pathmark's EBITDA has slid about 60% for two straight quarters and comes in at just 1.0% for the first half of the year. Pathmark's margins are actually the much more alarming indicator than the negative comp-store sales performance. The Company has stated repeatedly that Pathmark's pricing is too high and is exercising both enhanced promotional pricing as well as further reductions in everyday low prices to improve its competitive position as a value retailer. This has resulted in an initial easing of comp-store sales declines at the chain but has also resulted in the severe drop in margins.



The Gourmet and Food Basics segments are showing mixed results as Gourmet is achieving an impressive 11% EBITDA margin but sales are trending slightly negative. Meanwhile the Food Basics and Liquor business is the only one showing some top line growth, but that is mostly related to new store activity. While EBITDA margin is improving, it remains at a relatively weak 2.0% for the first half. Overall these segments each only comprise 3% of total sales and will not determine the success of the Company as a whole.

(\$ in 000's)	For the 12 Weeks Ended			For the 28 Weeks Ended		
	September 12,	September 6,	% change	September 12,	September 6,	% change
	2009	2008		2009	2008	
<b>Segment EBITDA:</b>						
Fresh	\$ 50,420	\$ 45,072	11.9%	\$ 103,247	\$ 94,033	9.8%
Price Impact (Pathmark)	6,319	16,170	(60.9%)	22,132	52,738	(58.0%)
Gourmet	5,378	4,604	16.8%	15,536	14,308	8.6%
Other (Food Basics/Best Cellars)	1,652	1,224	34.9%	2,914	2,206	32.1%
<b>Total Corporate EBITDA</b>	<b>\$ 63,769</b>	<b>\$ 67,070</b>	<b>(4.9%)</b>	<b>\$ 143,829</b>	<b>\$ 163,284</b>	<b>(11.9%)</b>
<b>Segment EBITDA margin:</b>						
Fresh	4.8%	4.0%	0.8%	4.2%	3.6%	0.6%
Price Impact (Pathmark)	0.7%	1.7%	-1.0%	1.0%	2.3%	-1.3%
Gourmet	9.6%	8.1%	1.5%	11.0%	10.1%	0.9%
Other (Food Basics/Best Cellars)	2.4%	2.1%	0.3%	2.0%	1.7%	0.3%
<b>Total Corporate EBITDA Margin</b>	<b>3.1%</b>	<b>3.1%</b>		<b>3.0%</b>	<b>3.2%</b>	

Note: Segment EBITDA and EBITDA margin calculations are F&D estimates based on segment information provided by the Company along with pro-rata corporate items.

With Fresh and Price Impact (Pathmark) comprising 50% and 44% of the Company's business, respectively, performance at these business units remain critical. The Company indicated that the improving gross margin at the Fresh segment has come from negotiated cost reductions with vendors. However, the Company must also watch the top line here as comps are dropping quickly. Margins will be very difficult to maintain if these comp trends continue much longer. Pathmark poses a much larger challenge. The Company is making the decision to price more aggressively and push segment losses even further in the red; EBITDA margin was under 1% for the second quarter. However, the Company is counting on the new value message to eventually resonate with consumers, which would then revive comparable store sales and eventually turn around margins. The recent \$435.0 million capital infusion provides the financial flexibility for the Company to implement this strategy. The questions are how long will it take and what is the cost. With the Company stating that it continues to see consumers trading down and expects its customers to continue to be challenged in 2010, there is no evidence that the Company has hit bottom or that the actual beginnings of a turnaround are anywhere in site.

For questions or analytical support on the Company please call [Albert Furst](#), Sr. Vice President at (800) 789-0123, ext. 147.

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