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# Penn Traffic Sells Wholesale Business to C&S

By ELLIOT ZWIEBACH

**SYRACUSE, N.Y.** — Penn Traffic Co. here said last week it has agreed to sell its wholesale business to C&S Wholesale Grocers, Keene, N.H., for about $43 million in cash.

The wholesale segment has been considered the most solid part of Penn Traffic's operations, industry observers told *SN* last week.

Penn Traffic said it will use the proceeds from the deal with C&S and from the previously announced sale of two stores to Price Chopper Supermarkets to pay down 62% of its outstanding debt, including a $17 million revolving line of credit and approximately $15 million of a $25 million supplemental real estate facility — enabling the company to focus on its 91 retail stores while dramatically improving its capital structure, Gregory J. Young, president and chief executive officer, said.

"Refocusing our resources on our supermarkets, as well as addressing our capital structure, is essential to our strategy for rebuilding the company, restoring profitability and positioning Penn Traffic for long-term success," he said in a conference call with investors last week. "By modernizing, streamlining and

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improving our cost structure today while times are tough, we should be ready to emerge from this recession stronger and better prepared to take advantage of incremental improvements in the economy as they occur."

Burt Flickinger III, managing director at Strategic Resource Group, New York, said the wholesale operation has been the most solid part of Penn Traffic's business.

When Penn Traffic sought to acquire Tops Markets from Ahold USA in 2007, part of its purpose was to boost its wholesale operation, he pointed out. "But even without Tops, Penn Traffic was benefiting from a balanced business, with the outside wholesale business still going strong."

However, Penn Traffic's operating area "is one of the toughest retail regions in the U.S.," Flickinger said, "with declining population, declining employment and declining disposable incomes," along with strong competition on several fronts: from Wegmans, Price Chopper, Tops and Hannaford Bros. on the conventional side, plus a host of discounters, including Wal-Mart, dollar stores and limited-assortment players.

"There's just not enough business to go around for everyone," Flickinger said, "so there's got to be some contraction in 2009 among the traditional competitors."

Bob Gorland, Harrisburg, Pa.-based vice president of consulting firm Matthew P. Casey & Associates, Clark, N.J., said the stores Penn Traffic operates are in generally good shape, "and the company has been investing heavily in remodels — anywhere from $500,000 to $1 million at some locations."

Among its wholesale customers, there was general satisfaction with the service they were getting, but there has been ongoing uncertainty over whether the company would be sold, which kept many of them on edge, he said.

On the retail side, the situation has been worse, one industry observer told *SN*. "The stores aren't really competitive, and the company is so far down a hole with debt, it's tough to see how they can ever recover."

Last week's action apparently addressed those concerns.

Under the agreement, Penn Traffic said it will continue to handle all transportation, warehousing and distribution to its former wholesale accounts under a third-party logistics contract with C&S; and C&S has engaged Penn Traffic to continue to provide various support services to those accounts to ensure a seamless transition.

About 30 Penn Traffic wholesale employees are expected to join C&S and serve their independent accounts from Penn Traffic's existing distribution facilities in Syracuse and in Dubois, Pa.

According to Rick Cohen, chairman and CEO of C&S, "The wholesale team at Penn Traffic has done an outstanding job with its independent accounts, and we want their independent operators to know C&S intends to keep this group, its processes and its successful service model in place."

Cohen said C&S is looking forward "to further developing the New York, Pennsylvania and eastern Ohio markets, as well as leveraging Penn Traffic's proven service model in other regions."

Many of the 120 independents supplied by Penn Traffic operate under the Bi-Lo, Big M and Riverside Market banners.

Penn Traffic and C&S have been working together since March 2007, when C&S began providing procurement and distribution services for general merchandise and health and beauty products to the retailers. Last March, C&S began providing procurement services for produce, and in September it added main-line and commodity grocery items, fresh meat and floral products.

Penn Traffic announced the sale plans shortly after releasing financial results for the fiscal third quarter, which ended Nov. 1.

The company reported a loss for the quarter of $5.6 million, compared with a loss of $9.6 million a year earlier, reflecting non-recurring charges of $5.6 million for closed-store costs, legal costs, severance, asset sales and reorganization costs. Sales fell 3.8% to $287.3 million, which the company said reflected a reduction in corporate-owned stores to 93 from 104.

For the 39-week period the loss was $21.4 million, compared with a loss of $21.9 million, reflecting non-recurring charges of $16 million. Sales fell 3.7% to $881.2 million for the year to date.

In the retail food segment, which represented about 80% of Penn Traffic's sales, revenues from continuing operations fell 7.6% to $225.9 million for the quarter and 6.5% to $702.5 million for the nine-month period, while comparable-store sales fell 0.8% for the quarter and 1.3% for the year to date.

Sales in the wholesale distribution segment rose 13% to $59.3 million for the quarter and 10.2% to $172.6 million for the 39 weeks, with the gains due in part to the sale of three corporate-owned stores to independent operators and from acquiring three new customers.

"In the third quarter, we've continued to see a trend that began earlier in the year, with shoppers consolidating trips, trading down their purchasing decisions and curbing impulse buying," Young said in the conference call. "In the spring and summer, we believe this was largely driven by skyrocketing gas prices. Even with today's lower gas prices, we do not expect shoppers to bounce right back, given the effect unemployment, the housing market and the stock market have had on consumers' real and perceived economic security."

He said this is illustrated by the rising percentage of shoppers whose benefit-payment and paycheck cycles are dictating their shopping schedules.