RETAIL OUTLOOK

2023

JANUARY 31, 2023

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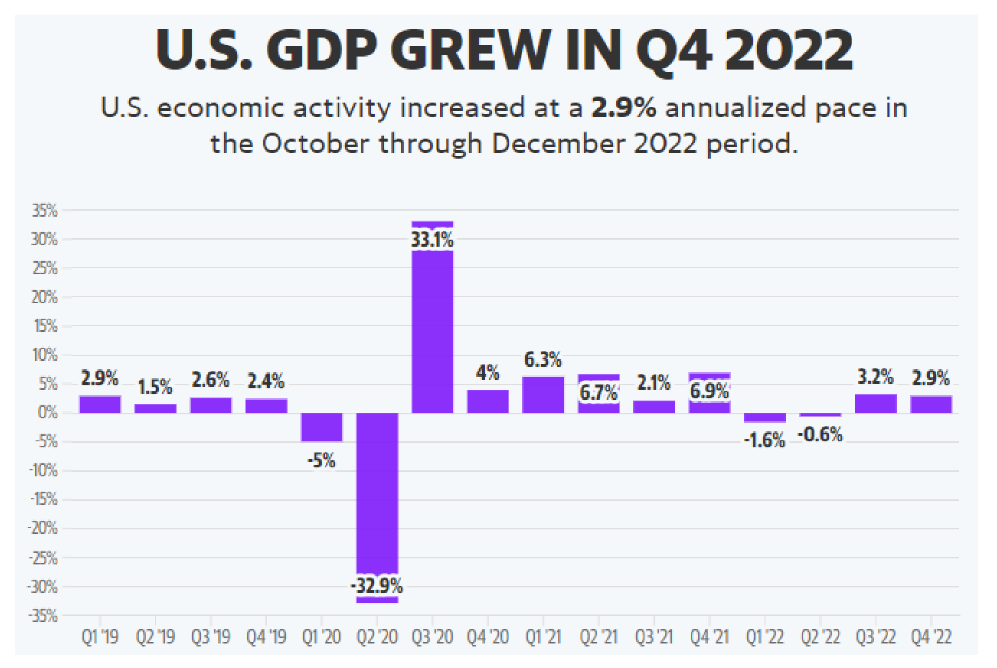
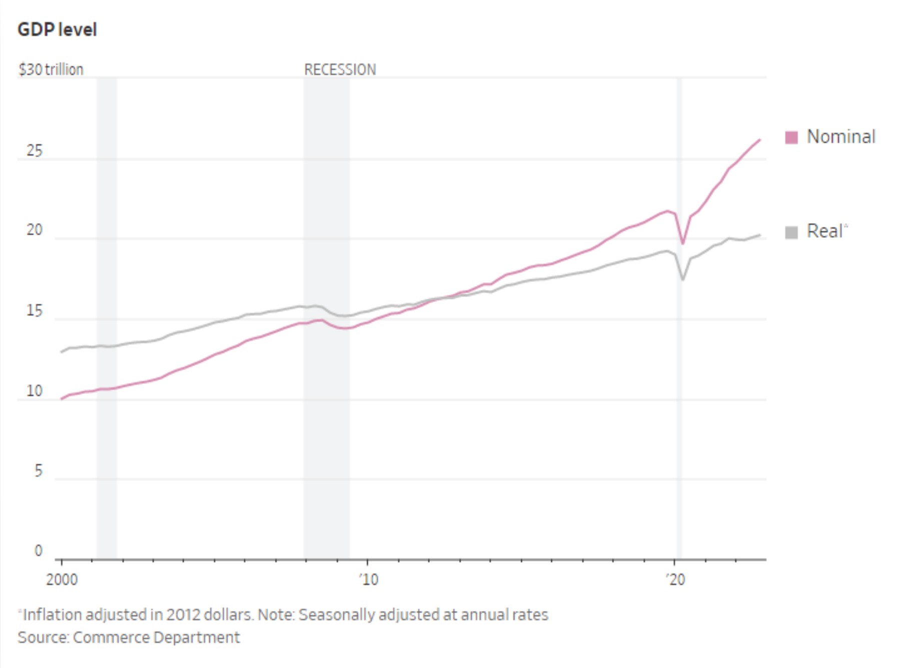
GDP

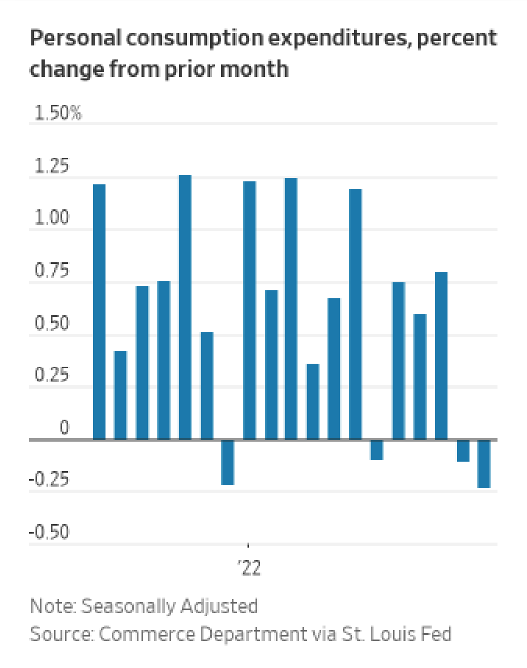
- 4Q real GDP growth cooled to 2.9%, down from 3.2% in 3Q
- Consumer spending (2/3 of GDP) grew 2.1%, but weakened from 3Q
- Housing investment fell sharply, and exports decreased; business and government spending were positive
- Soft landing, or deep recession and layoffs?

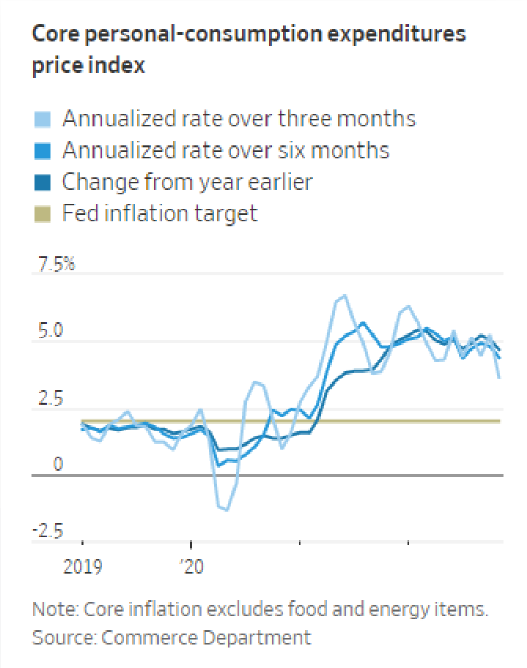


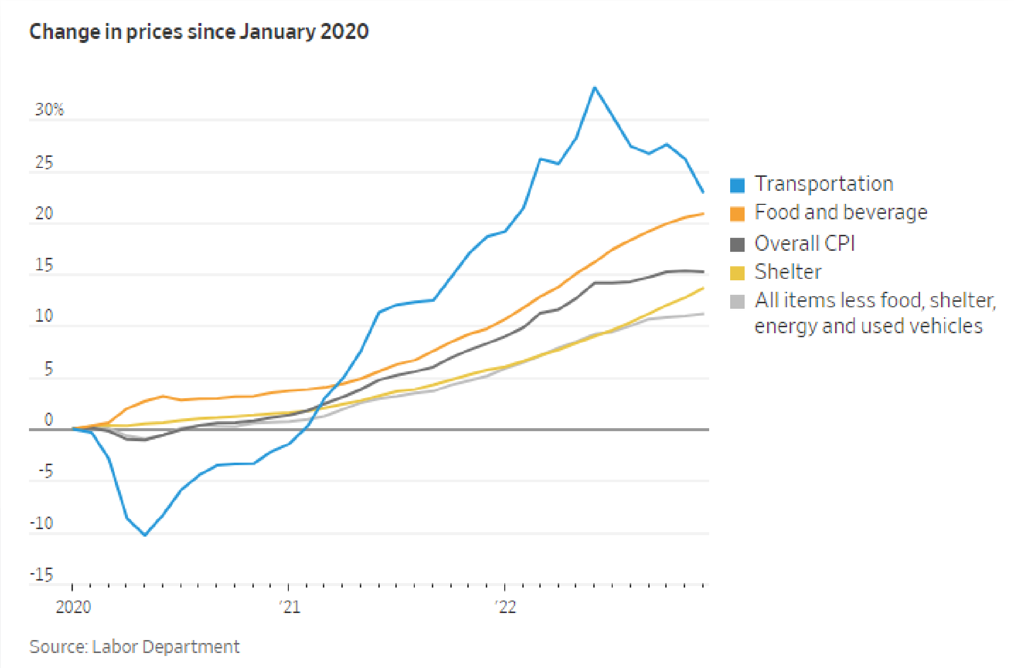


Inflation

- Inflation higher due to shifts in consumer demand, stimulus, supply constraints, energy/commodities and geopolitics
- After hitting a 40-year high of 9.1% in June, CPI eased to 6.5% in Dec
- Consumers still spending, but slowing - monthly retail sales fell in Nov & Dec; Dec personal consumption expenditures adj for inflation fell 0.3%







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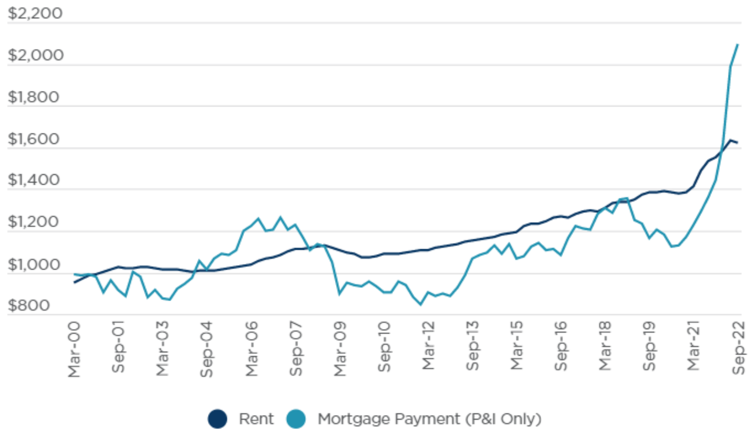
Inflation

- High prices for essentials and shift back to services pressuring discretionary goods spending
- Transient vs. sticky costs
- Other pressures: China reopening, trade wars, Ukraine, climate change, deglobalization

Notable Spread Between Monthly Payments

Monthly Rent vs. Mortgage Payment



Source: U.S. Department of Housing and Urban Development, Cushman & Wakefield Research
Note: Assumes a 20% down payment and average prevailing mortgage rate that quarter.

Inflation breakdown for December 2022 (YOY)

Eggs	59.9%
Fuel oil	41.5%
Butter + margarine	35.3%
Airfare	28.5%
Lettuce	24.9%
Utility	19.3%
Public transportation	18.9%
Frankfurters	18.2%
White bread	17.7%
Roasted coffee	15.5%
Dairy + related products	15.3%
Coffee	14.3%
Electricity	14.3%
Tools, hardware + supplies	13.8%
Poultry	12.2%
Food at home	11.8%
Food	10.4%
Rent of primary residence	8.3%
Health insurance	7.9%

Energy	7.3%
All items	6.5%
New vehicles	5.9%
All items less food + energy	5.7%
Admissions	5.7%
Sporting goods	3.5%
Apparel	2.9%
Major appliances	−0.6%
Gasoline, unleaded regular	−2%
Women's dresses	−2.3%
Beef + veal	−3.1%
Bacon + related products	−3.7%
Car + truck rental	−4.9%
Computers + smart home assistants	−5.8%
Used cars + trucks	−8.8%
Televisions	−14.4%

Note: Items in bold represent major consumer price index categories.
Table: Gabriel Cortes / CNBC
Source: Bureau of Labor Statistics' Consumer Price Index
Data last published Jan. 12, 2023

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Interest Rates

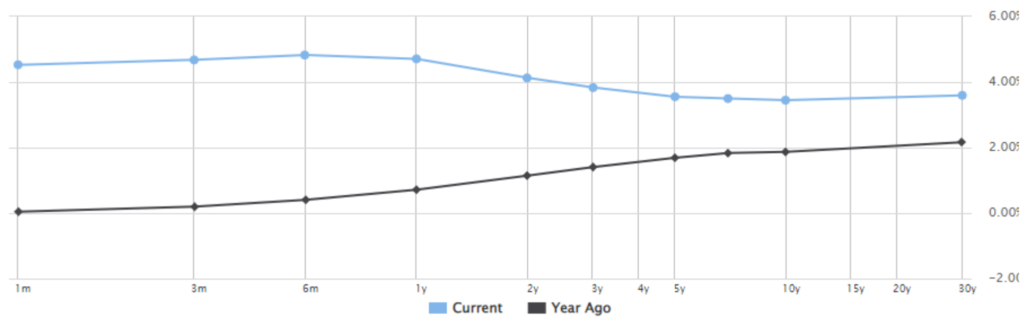
- Federal Funds Rate hiked 4.25% in 2022; Prime now at 7.5%
- Treasury rates and corporate spreads higher, lending more restrictive
  - Spread on high yield debt up ~ 150 bps (Bank of America)
  - Kroger BBB note due 2029 YTM rose 3% in 2022; CCC debt yielding low teens
- Mortgage rates jumped from historical low to 20 year high in months (7.8% average since 1971)
- Inverted yield curve
- Debt ceiling

Consumer Rates 1/24/23

	YIELD/RATE %		52 WEEK		CHG IN PCT PTS	
	LAST	WK AGO	HIGH	LOW	52-WK	3-YR
Federal-Funds Rate Target	4.25 - 4.50	4.25 - 4.50	4.25 - 4.50	0.00 - 0.25	4.25	2.75
WSJ Prime Rate*	7.50	7.50	7.50	3.25	4.25	2.75
Money Market, Annual Yield	0.38	0.35	0.38	0.07	0.31	-0.12
Five-Year CD, Annual Yield	2.78	2.78	2.78	0.43	2.33	1.38
30-Year Mortgage, Fixed	6.46	6.43	7.41	3.74	2.68	2.79
15-Year Mortgage, Fixed	5.66	5.63	6.53	3.16	2.47	2.46
Jumbo Mortgage, Fixed	6.51	6.44	7.44	3.75	2.71	2.71
Five-Year Adj Mortgage (ARM)	5.40	5.37	5.60	2.86	2.54	2.01
New-Car Loan, 48-Month	6.57	6.56	6.69	3.51	3.04	2.07

* Base rate posted by at least 70% of the nation's largest banks.

Yield Curve

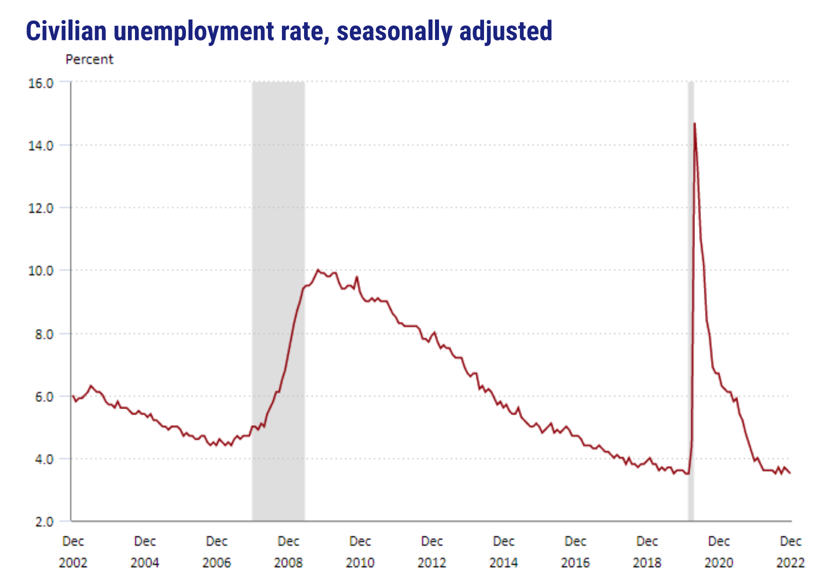


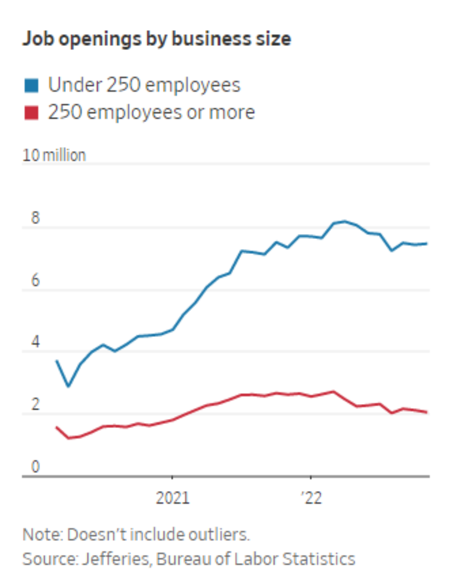
10-Year Note

Labor

- Dec unemployment 3.5% - 4.5M jobs added in 2022
- Labor participation rate increasing @ 62.3%, but below 63.3% in Feb 2020
- Over 10M openings, nearly 2 jobs for each job seeker
- Small business optimism falling, and temp staffing fell five straight months

- Small companies (less than 250 employees) responsible for net job growth
  - Four out of five job openings; hired net 3.7 million, while large companies cut a net 800,000 (Since Feb 2020, Jefferies)
  - Two out of three jobs past 25 years (SBA)

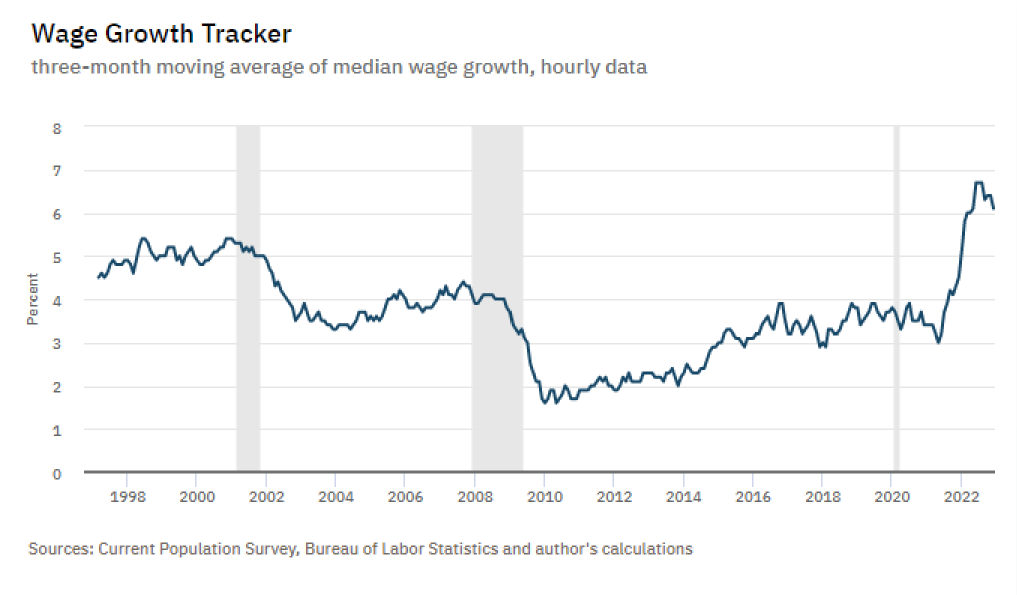


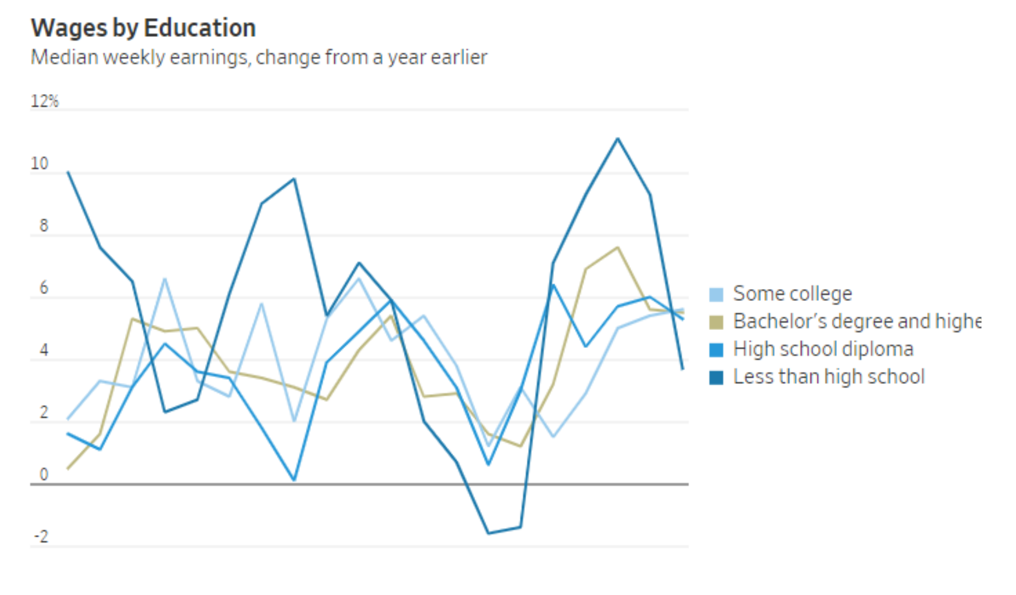


Labor

- Wage growth strong but falling
- Wage gains led by black, young and bottom income scale workers

- Inequality gap closing?
- Middle-income household wages squeezed
  - Purchasing power down 2.9% for middle-income, up 1.5% and 1.1% for lower and top fifth, respectively (CBO)





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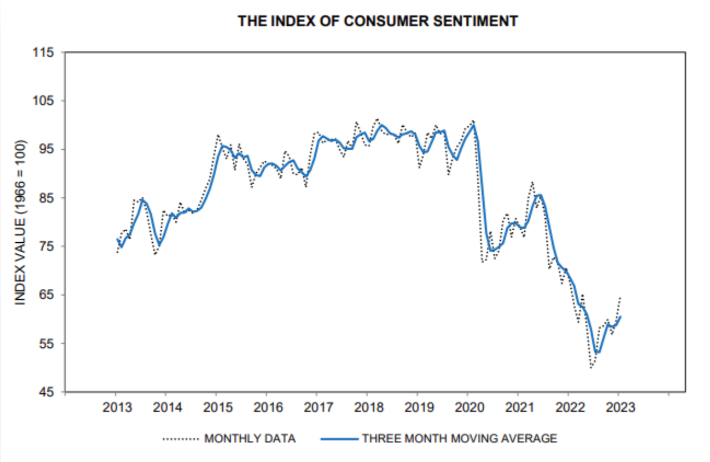
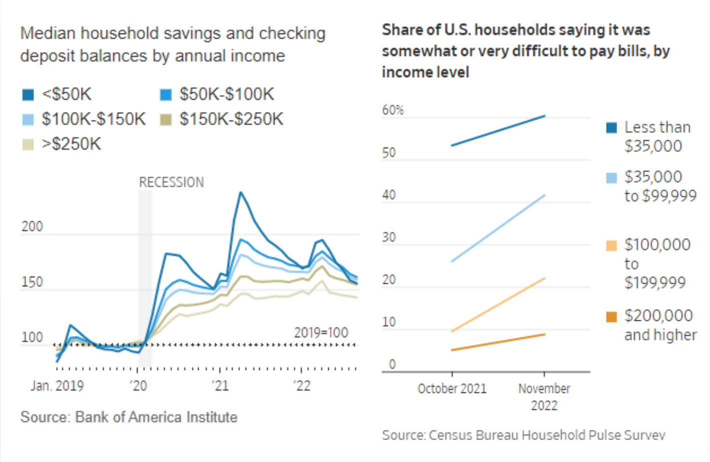
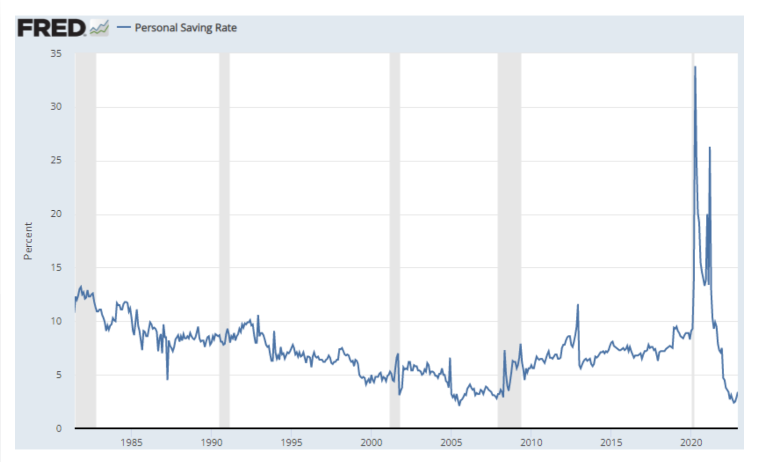
Consumer

- $2.3T in excess savings is being slowly depleted
- Personal savings rate 3.4% in Dec, down from 34% in Apr 2020
- Consumer sentiment low but trended up – 2/3 expect a recession
- Bifurcated consumer – luxury lag
- Consumer debt on the rise







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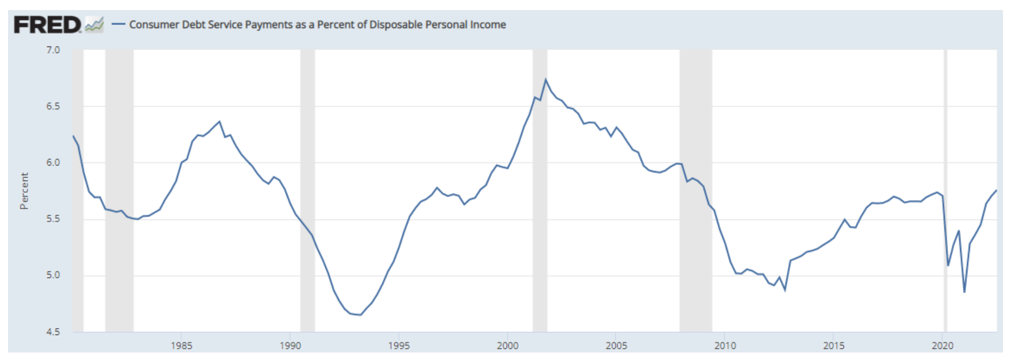
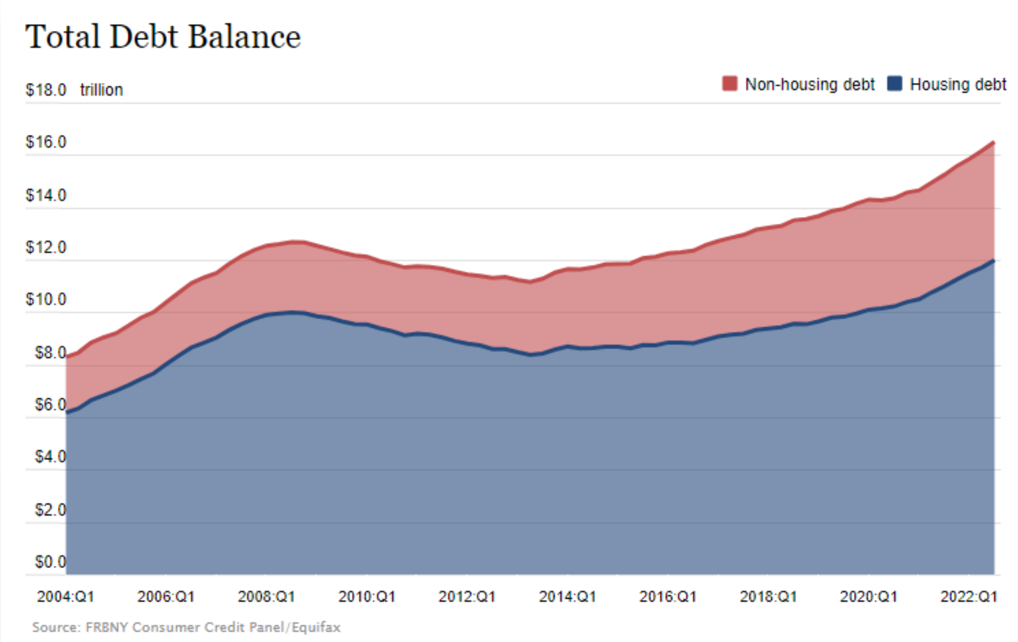
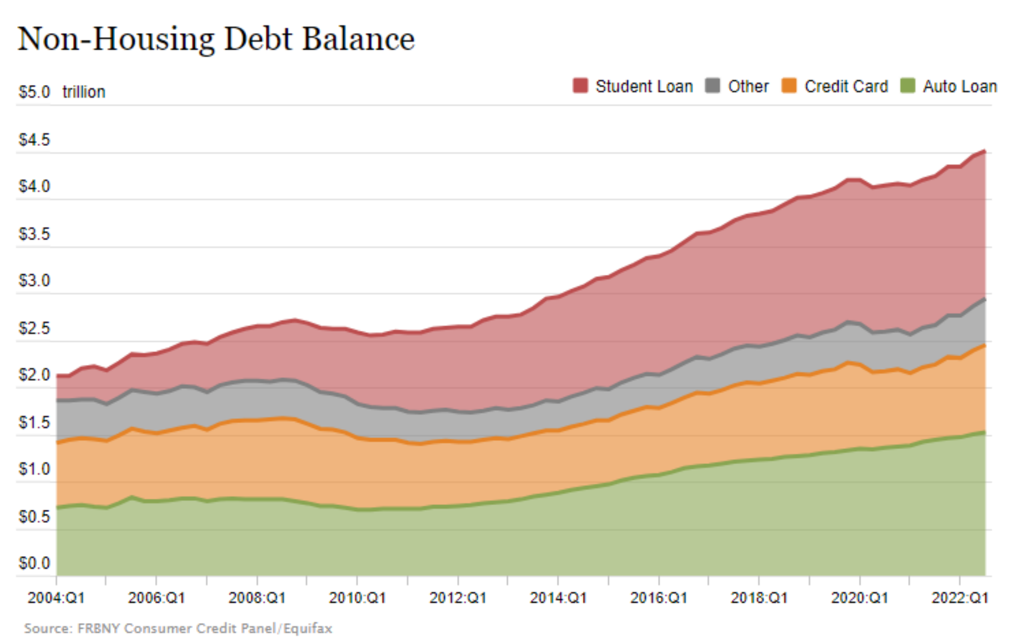
Consumer

- Household debt increased 2.2% in 3Q22 to $16.51T
- Credit card balances rose 15%, largest increase in over 20 years
- Delinquencies starting to increase
- Student loans





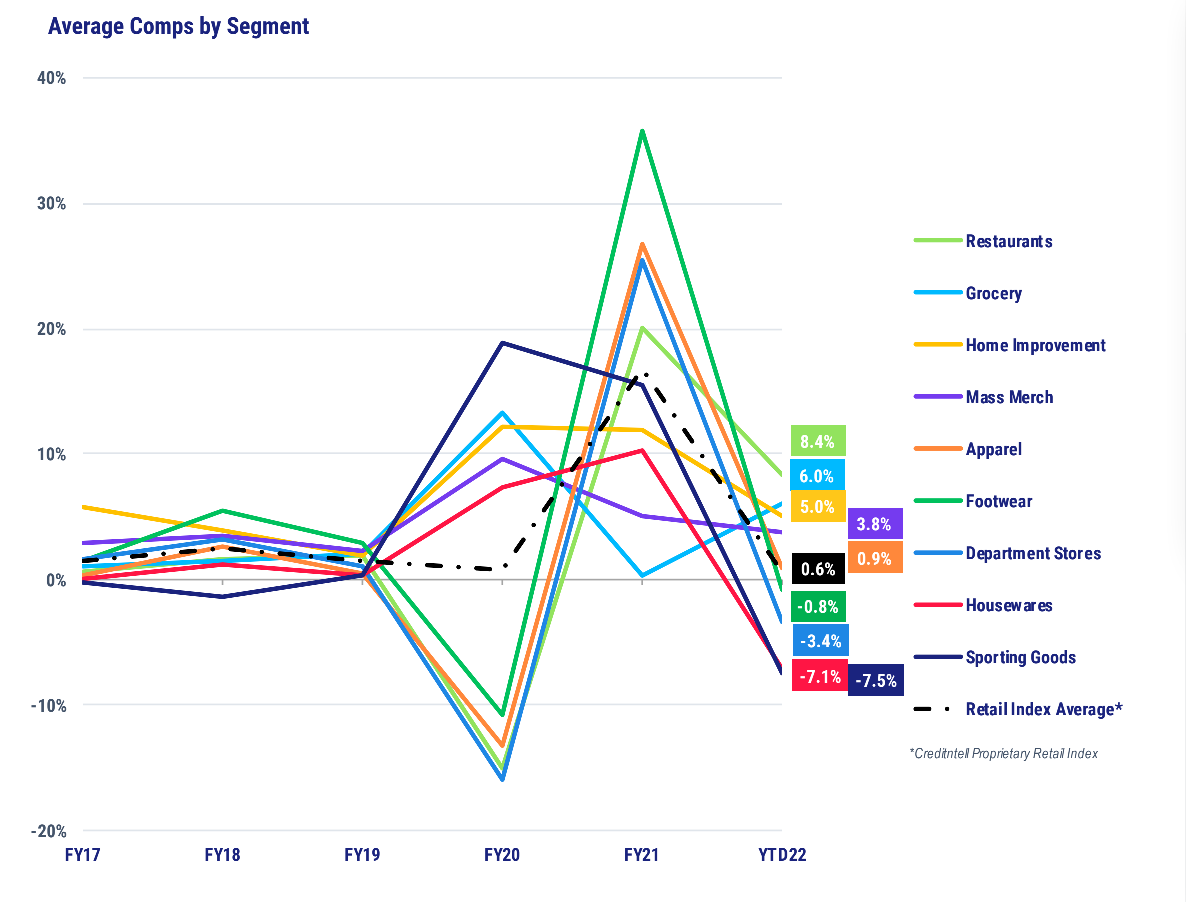


2023 Retail Trends

The harmonization of digital and physical retail

- Returns, Returns, Returns
- At some point, it has to be about profitability
- Retail Media will continue its surge
- Experiential / differentiation vs. ordinary
- ReSale

Average Comps by Segment



Segment	FY17	FY18	FY19	FY20	FY21	YTD22
Restaurants	0.6%	1.7%	1.9%	-15.0%	20.1%	8.4%
Grocery	1.1%	1.4%	2.1%	13.3%	0.3%	6.0%
Home Improvement	5.7%	3.9%	1.9%	12.2%	11.9%	5.0%
Mass Merch	2.8%	3.5%	2.3%	9.6%	5.0%	3.8%
Apparel	0.4%	2.7%	0.5%	-13.2%	26.7%	0.9%
Footwear	1.5%	5.5%	2.9%	-10.8%	35.8%	-0.8%
Department Stores	1.7%	3.2%	1.1%	-16.0%	25.5%	-3.4%
Housewares	0.0%	1.2%	0.3%	7.4%	10.3%	-7.1%
Sporting Goods	-0.2%	-1.3%	0.3%	18.9%	15.6%	-7.5%
*Retail Index Average**	*1.5%*	*2.4%*	*1.5%*	*0.7%*	*16.8%*	*0.6%*

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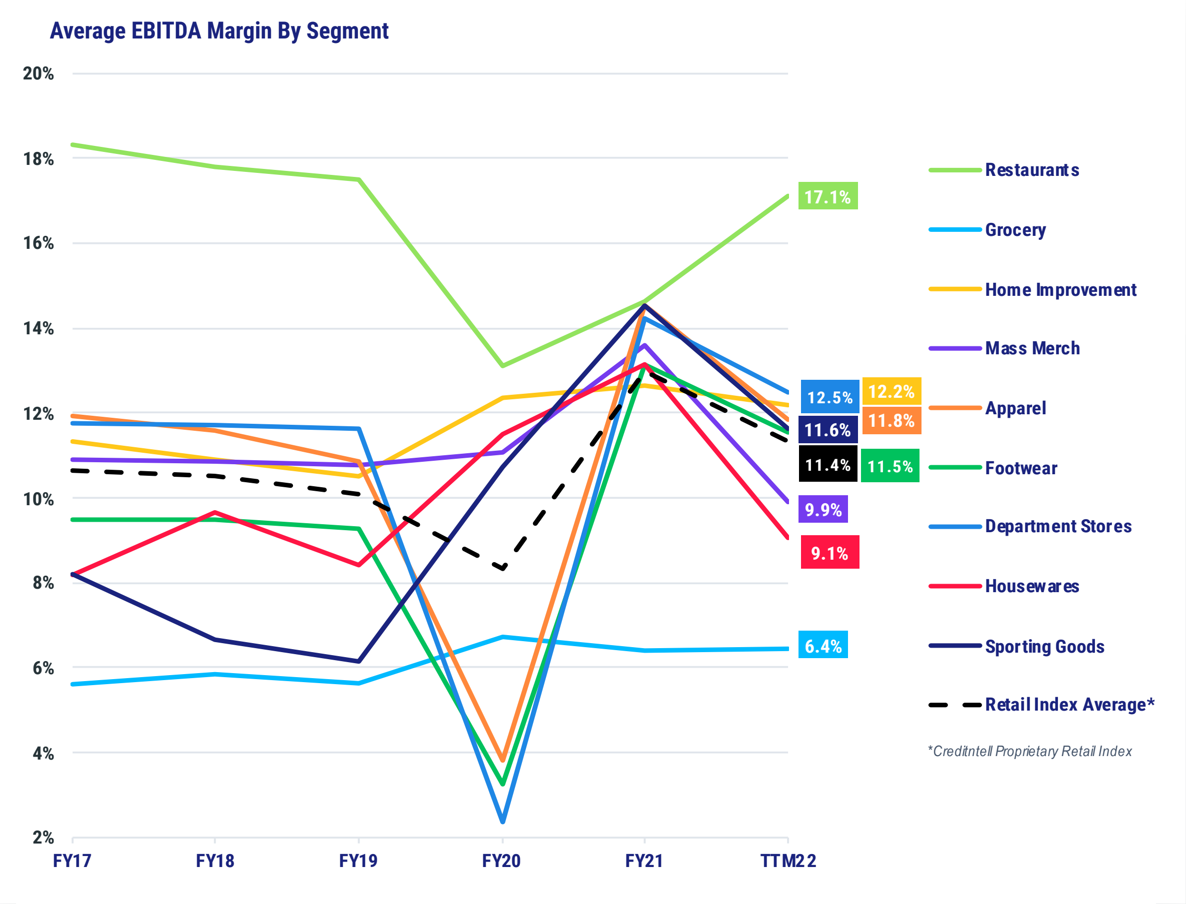
Average EBITDA Margin by Segment

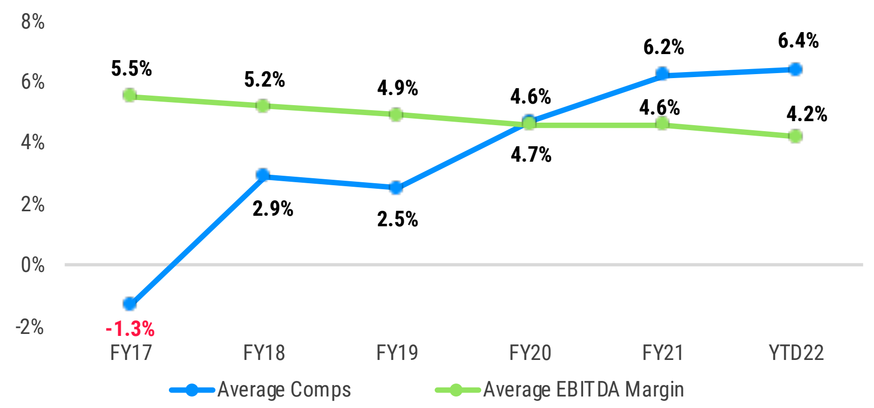


Segment	FY17	FY18	FY19	FY20	FY21	TTM22
Restaurants	18.3%	17.8%	17.5%	13.1%	14.6%	17.1%
Grocery	5.6%	5.9%	5.6%	6.7%	6.4%	6.4%
Home Improvement	11.3%	10.9%	10.5%	12.4%	12.7%	12.2%
Mass Merch	10.9%	10.9%	10.8%	11.1%	13.6%	9.9%
Apparel	12.0%	11.6%	10.9%	3.8%	14.5%	11.8%
Footwear	9.5%	9.5%	9.3%	3.3%	13.1%	11.5%
Department Stores	11.8%	11.7%	11.6%	2.4%	14.2%	12.5%
Housewares	8.2%	9.7%	8.4%	11.5%	13.2%	9.1%
Sporting Goods	8.2%	6.7%	6.2%	10.8%	14.5%	11.6%
*Retail Index Average**	*10.6%*	*10.5%*	*10.1%*	*8.3%*	*13.0%*	*11.4%*

Retail Drug

- 2022 saw the expected rebound in acute scripts, which were more than offset by COVID headwinds (declining vaccinations and testing)
- Front-end performance was largely improved, but shrink (theft) remained elevated and is only now beginning to normalize
- Walgreens Boots Alliance and CVS Health each announced $5 billion opioid settlements, still potential for further litigation
- The sector still faces ongoing headwinds from reduced pharmacy reimbursement rates, increasing front-end and potential pharmacy online competition, including from Amazon, leading to store rationalization
- Walgreens and CVS transition into primary & value-based care, while Rite Aid struggling with underperforming stores and a leveraged capital structure

RETAIL DRUG SEGMENT



*excludes BJ's Wholesale and Costco

WINNERS

CVS pharmacy

IN QUESTION

Walgreens

LOSERS

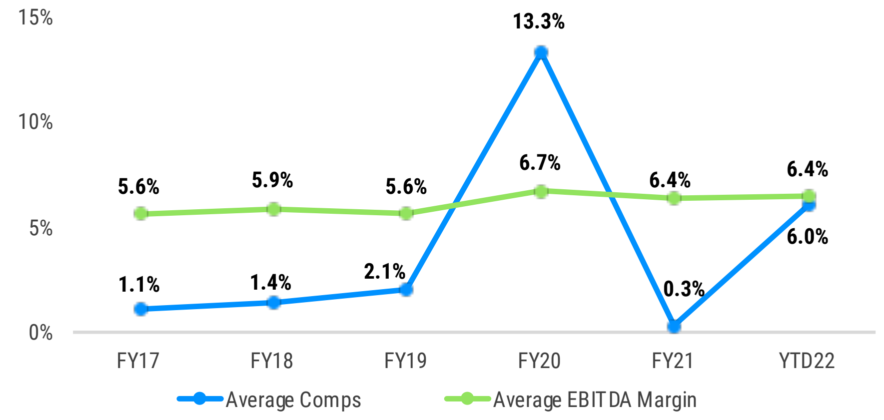
RITE AID

Grocery

- Inflation anticipated to continue to bolster grocers' top lines
  - Extreme weather, wage-rates, impacts on crops and livestock, supply chain complications, and geopolitical unrest - all contributing to stubbornly high grocery inflation

- Decent outlook in 2023; sales gains from inflation but profitability to retreat
  - Consumer demand becoming more elastic, sparking promotional activity
  - Inflation and omnichannel fulfillment keep costs high
  - Private Label gaining traction
- Growth from M&A, E-commerce
  - Kroger / Albertsons focused on merger. Creates opportunities for broader industry

GROCERY SEGMENT



excludes BJ's Wholesale and Costco

WINNERS

IN QUESTION

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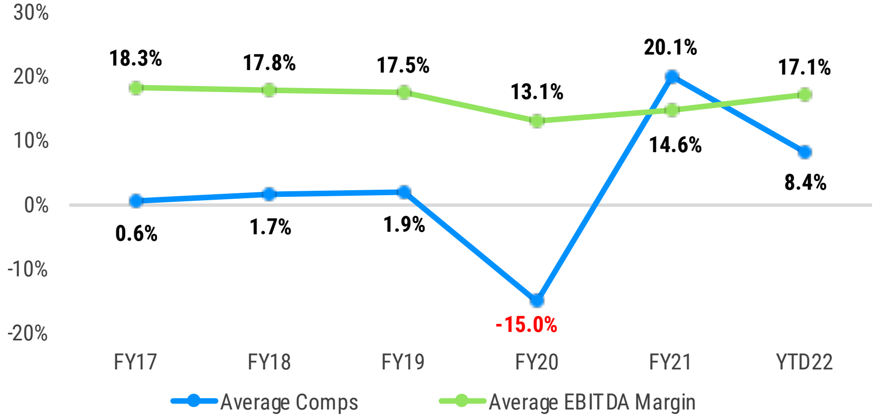
Restaurants

- Restaurants continued their recovery in 2022 amid the diminishing impact of the pandemic, and many full-service companies joined their fast casual and QSR peers in finally surpassing pre-COVID sales levels on a consistent basis
- Sales growth was largely driven by increased menu prices, partially offset by weaker traffic trends
- With inflation starting to ease in the latter half of the year and supply chain costs normalizing, price increases are likely to slow down in 2023, but restaurants will have to balance preserving margins with becoming more promotional to maintain share
- Construction supply chain issues delayed expansion in 2022 and/or pushed openings into 2023

RESTAURANTS SEGMENT



*excludes BJ's Wholesale and Costco

WINNERS

Chipotle Mexican Grill

IN QUESTION

noodles & company

Wendy's

Potbelly Sandwich Shop

LOSERS

Famous for Steak 'n Shake Steakburgers

Mass Merchandisers

- Consumers were flush with cash in 2021 and shifted spending to discretionary items, propelling sales and margins
- 2022 was a reversal of fortune
  - The sudden shift in demand and improvements in supply chain led to bloated inventories
  - Consumers allocated budgets to necessities amid rising costs
- Store expansion continued, with most retailers notching double-digit store openings, although supply chain issues slowed planned openings
- Big boxes should experience only moderate growth as they have shifted much of their capital spending to remodels and digital infrastructure.
- With murky economic outlook, expect more of same in '23 – shift to consumables & value
  - Those with a higher proportion of food / grocery sales will continue to perform favorably
  - Dollar stores and those with higher percentage of consumables likely to bode well as consumers trade down

WINNERS

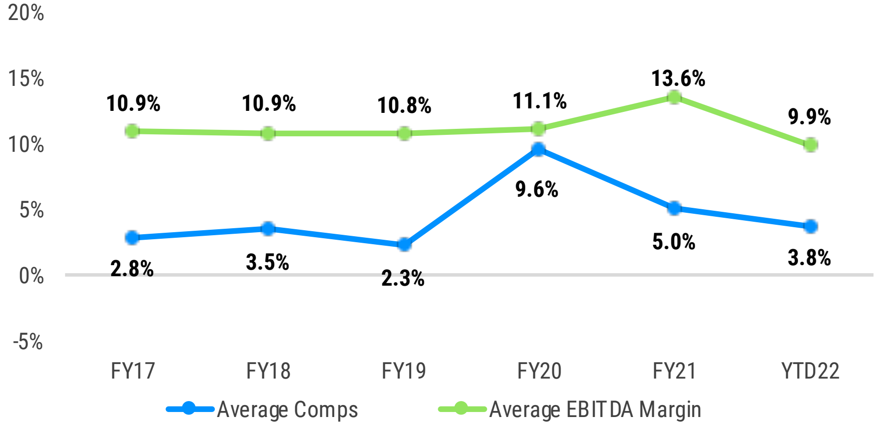
Costco Wholesale

BJ's Live Generously

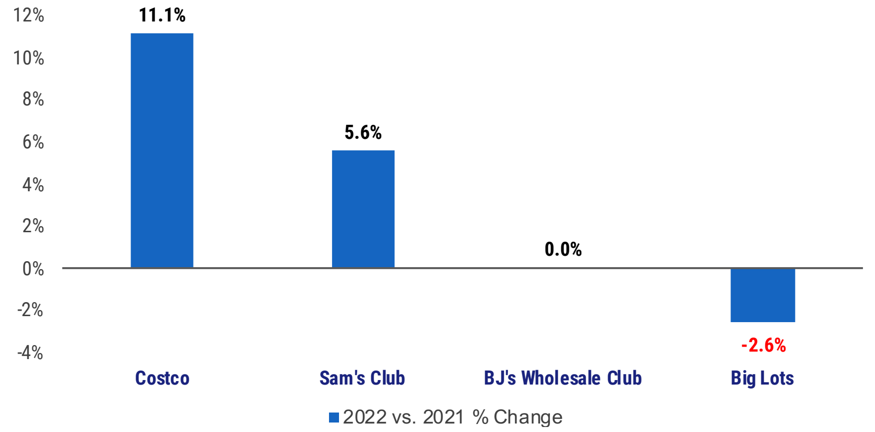
LOSERS

Big Lots!

MASS MERCHANDISERS SEGMENT



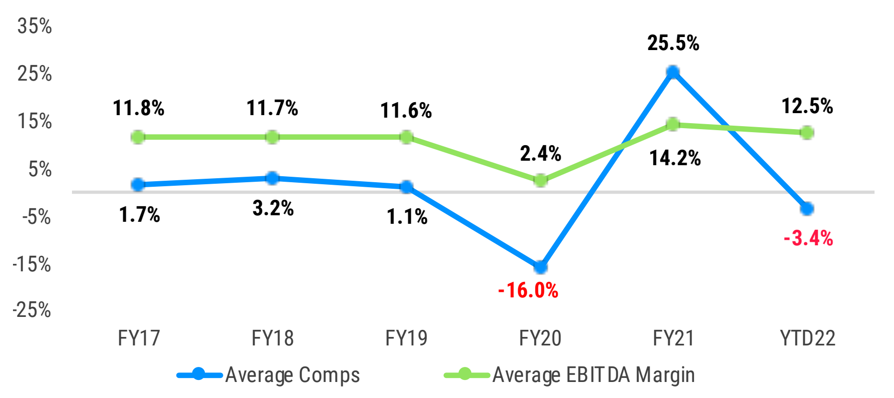
MASS MERCHANDISERS
PORTFOLIO AVERAGE VISITS 2022 VS. 2021 % CHANGE



Department Stores

- Sector faces a challenging outlook following a sharp rebound from early pandemic lows
- Evidence of a bifurcated consumer
  - Retailers that cater to lower and middle-income consumers have been hit hardest (i.e., JCPenney, Kohl's)
  - Cracks starting with luxury and higher-end banners (i.e., Neiman Marcus, Bloomingdales)
- 4Q expected to be highly promotional, stressing margins and profits
- Retailers focused on cleaner balance sheets and inventory levels entering 2023
- Off-price continues to expand retail footprint
- Differentiation will be the key to success

DEPARTMENT STORES SEGMENT



WINNERS

TJX THE TJX COMPANIES, INC.

ROSS DRESS FOR LESS

IN QUESTION

JCPenney

Burlington

macy's

LOSERS

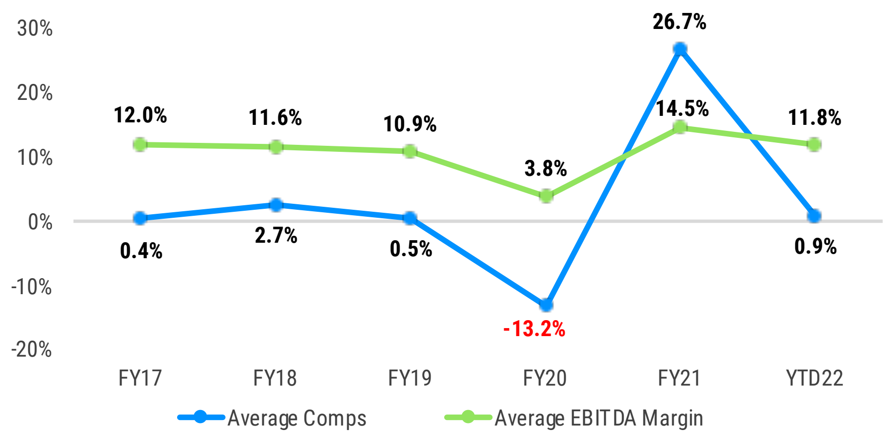
belk

KOHL'S

Apparel

- Capped FY22 with mixed sales results during the critical holiday period and bloated inventory levels
- Price inflation did not offset declines in transaction volume
- Headwinds from FY22 expected to continue into 2023, including inflation, declines in discretionary spending, and economic uncertainty
- Retail consumption may decline as consumers shift spending to services and excess savings continues to shrink
- Inventory levels have returned to historical levels but slowing demand may pressure gross margins
- On a brighter note, there should be some relief from lower supply chain and transportation costs

APPAREL SEGMENT



WINNERS

Chico's
lululemon
Buckle

IN QUESTION

J.Jill
VS&Co
Express

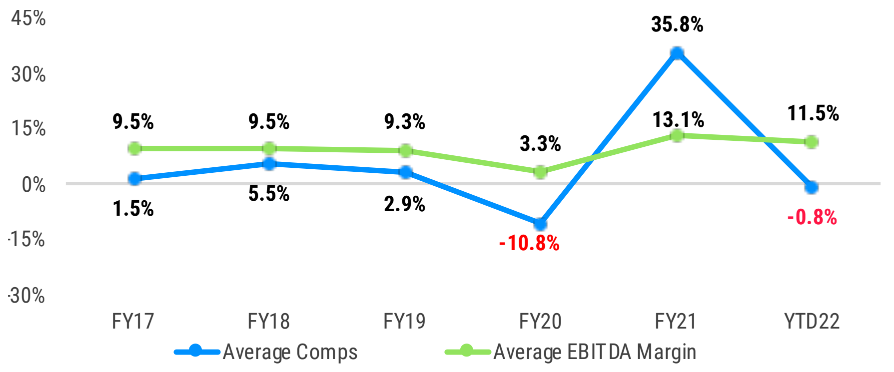
LOSERS

Stitch Fix
Lands' End

Footwear

- The footwear industry contended with supply chain disruptions and product availability issues for much of 2021 and early 2022
- Most retailers bulked up their inventory to avoid out-of-stocks, only to find themselves over-inventoried just as consumers began cutting back discretionary spending due to soaring inflation
- The industry has become more promotional, and combined with high freight expenses, retailers' margins are being squeezed, though, there are several positive trends, including continued recovery in the dress and fashion categories
- Store expansion is varied by retailer, with stronger operators like Boot Barn maintaining double-digit growth and others like Designer Brands, Caleres, and Genesco continuing to trim down their store fleets in the low to mid-single-digits

FOOTWEAR SEGMENT



WINNERS

BOOT BARN

IN QUESTION

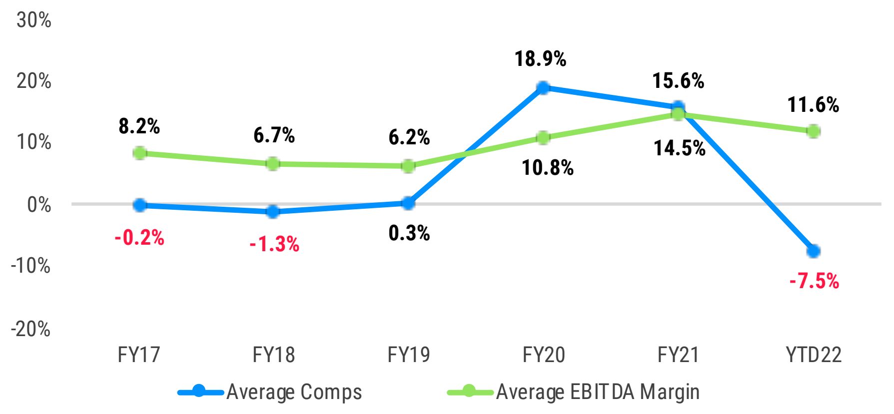
SHOE CARNIVAL

CALERES

Sporting Goods

- Market still fragmented; Dick's has an 8% share
- We expect continued sales retrenchment following the two-year long top-line expansion, fueled by the pandemic shift in consumer preferences for outdoor activities and stimulus
- The ability to maintain at least a portion of the outsized margin growth may be the biggest differentiator between the winners and losers
- Vulnerabilities include excess inventory, a high concentration of promotional apparel and footwear, and store expansion amid a weak economy
- Continue to see manufacturers selling more via the direct-to-consumer channel, and paring their retail customers, while further developing relationships with their strongest retail partners (e.g., Nike and Dick's)

SPORTING GOODS SEGMENT



WINNERS

- DICK'S SPORTING GOODS
- PGA TOUR SUPERSTORE

IN QUESTION

- SPORTSMAN'S WAREHOUSE
- Academy SPORTS+OUTDOORS

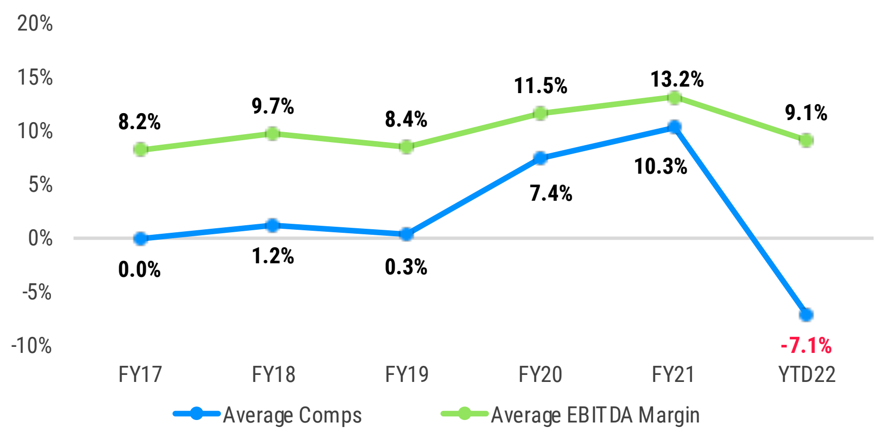
LOSERS

- BIG 5 SPORTING GOODS
- CAMPING WORLD
- HIBBETT | CITY GEAR ESTABLISHED 1945

Housewares & Home Furnishings

- Consumers began to pull back on spending in 2022 - steep inflation and demand pulled forward in 20/21
- 2022 margin impact - highly elevated supply chain and freight costs. Excess inventory buildup results in enhanced promotional activity, compared to nearly none the prior year when inventory was scarce
- We expect a slight improvement in 2023 based on normalizing freight costs and potentially less need for discounting, however, macro/ consumer spending issues will determine any type of rebound

HOUSEWARES & HOME FURNISHINGS SEGMENT

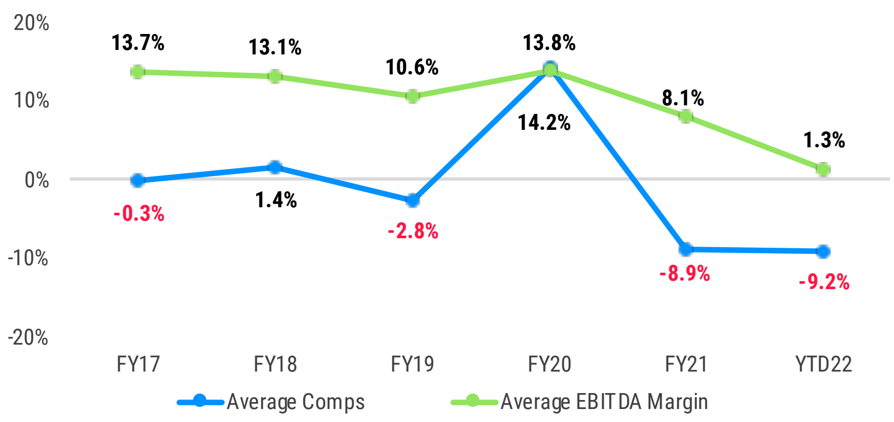


WINNERS	IN QUESTION	LOSERS
WILLIAMS SONOMA CALIFORNIA	Kirkland's	Tuesday Morning
	at home The Home Décor Superstore	BED BATH & BEYOND

Arts & Crafts

- After a mini boom from late 2020 through the 1H21, the pendulum has swung in the other direction in the Arts & Crafts space
- Lapping government stimulus and pent-up demand, 2022 inflation and impact on discretionary spending drags down revenues
- Supply chain challenges, extensive promotional activity, and increased labor and e-commerce fulfillment costs impact revenue, margins and liquidity
- Segment that has shown reliance on consumer spending – macro and consumer environment will have outsized impact on performance

ARTS & CRAFTS SEGMENT



FY21 and YTD22 data includes only Joann
FY17 - FY20 data includes both Joann and Michaels

WINNERS

HOBBY LOBBY

IN QUESTION

Michaels

LOSERS

JOANN
Party City

ELECTRONICS / OFFICE

Inventory issues remain unresolved and will spill over into 2023, pushing elevated promotions and lower margins

BEST BUY
Conn's HomePlus

Staples
GameStop
THE ODP CORPORATION

FURNITURE / MATTRESS

The segment will remain challenged in 2023, with continued pricing volatility and costs of transportation and labor

HAVERTYS FURNITURE

FRG FRANCHISE GROUP, INC.

GYMS / FITNESS

Though recessionary risks / wallet tightening could slow growth in 2023, expect continued slow recovery

planet fitness
XPONENTIAL FITNESS

24 HOUR FITNESS
EQUINOX

HOME IMPROVEMENT

In 2023, sector to face pressure as economic uncertainty continues to weigh on consumer investment in home improvement projects

FLOOR & DECOR

LL Flooring LUMBER LIQUIDATORS

MOVIE THEATRES

Slow recovery continues. Additional content should help attendance, which still substantially lags pre-COVID levels

CINEMARK

amc THEATRES

PET CARE

Strength in premium food and services likely to continue, however, a pullback in consumer spending, increased promotions, and a shift towards value will continue to impact revenue and margins

chewy
petco

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