

RED DAWN AT MORNING

AN UPDATE ON THE RETAIL OPPORTUNITY

“Our proprietary research continues to indicate while physical stores remain highly relevant to retailers, operating profitability fell in 2022 and will likely stay depressed due to slowing macro trends and inflationary wage pressures. Thus, highlighting the need to create store-level efficiencies.”

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DM Buck Advisory

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BACKDROP: EARLIER REPORT

MerchLogix commissioned DM Buck Advisory in 2021 to provide a quantified analysis of top retailer sales in both the store and online channels, using public filings, press releases, conference calls, a consumer survey, and third-party databases. In short, we essentially checked the pulse of U.S. retailers, and the resulting report (*“Retailers and Shoppers Turn Attention (and Investments) to Stores: A Financial Analysis”* (available at MerchLogix.com)) attempted to answer the following question.

Does it make sense for retailers to further invest in store openings in the age of online penetration?

We asked the question because retailers suffered from share loss to growing e-commerce players, a trend that was accelerating due to the impact of COVID. Retailer stock prices had languished in the preceding years as a result.

U.S Retail Sales Trends							
	2022E	2021	2020	2019	2018	2017	2016
Total Retail Sales (\$B) *	\$5,391	\$5,039	\$4,364	\$4,160	\$4,047	\$3,855	\$3,696
Growth	7%	15%	5%	3%	5%	4%	2%
Online Penetration	\$1,017	\$959	\$817	\$572	\$508	\$444	\$384
Percent of total sales	19%	19%	19%	14%	13%	12%	10%

* U.S. Census Bureau. Total Sales exclude motor vehicles and parts. 2022 is a DM Buck Advisory estimate based on nine-month actuals, holiday commentary

Our key conclusions from the 2021 report were:

(1) Despite notable challenges, many retailers are in better financial health than many suppose (i.e., positive same-store sales gains, square footage growth in the years before the pandemic, and higher year-to-year EBIT profit margins).

(2) Customers (of all ages) regard store visits as an integral part of their shopping solution (our proprietary DM Buck Survey results show consumers would prefer shopping in stores by a margin of almost 3 to 1 (young people were even more decisively positive toward stores)).

(3) Retail success going forward will depend on the right positioning (category, pricing,

convenience, proprietary leverage, in-store consultancy, intelligent use of square footage) and a relentless focus on cost efficiency. Retail is a low-margin business, so even modest improvements in the efficiency of store labor (~ 50% of the operating cost structure) and inventory turns (cost of sales are typically >60% of revenue) would have an outsized impact on a retailer’s profits.

We sought to update a few key metrics since the 2021 report in this addendum report. Have retailers continued to invest in growing their store bases? Has retail profitability changed materially? What about prevailing stock market sentiment towards the sector?

STORE CONTRACTION TRENDS STABILIZATION

In the years preceding 2021, a major part of the U.S. retail story narrative was aggregate store closures exceeding openings, a net negative for the collective retail physical presence. We sensed

an inflection point that year even as COVID stresses exacerbated the online penetration tension. What have we seen since then?

U.S. Public Retailer Store Fleets

	Number of Stores at Year End					Percent Change				
	2022P	2021	2020	2019	2018	CAGR '18-'22	'22/'21	'21/'20	'20/'29	'19/'18
Apparel										
Abercrombie & Fitch Co.	770	729	735	854	861	-2.8%	5.6%	-0.8%	-13.9%	-0.8%
American Eagle Outfitters	1,175	1,133	1,078	1,095	1,055	2.7%	3.7%	5.1%	-1.6%	3.8%
Urban Outfitters	704	685	645	641	625	3.0%	2.8%	6.2%	0.6%	2.6%
Total	2,649	2,547	2,458	2,590	2,541	1.0%	4.0%	3.6%	-5.1%	1.9%
Mass Merchants										
BJ's Wholesale Club	232	226	221	217	216	1.8%	2.7%	2.3%	1.8%	0.5%
Costco Wholesale Corp.	847	828	803	785	768	2.5%	2.3%	3.1%	2.3%	2.2%
Target Corporation	1,948	1,926	1,897	1,868	1,844	1.4%	1.1%	1.5%	1.6%	1.3%
Walmart Inc.	10,586	10,261	11,104	11,170	11,037	-1.0%	3.2%	-7.6%	-0.6%	1.2%
Total	13,613	13,241	14,025	14,040	13,865	-0.5%	2.8%	-5.6%	-0.1%	1.3%
Dollar Stores										
Dollar General	19,000	18,130	17,177	16,278	15,370	5.4%	4.8%	5.5%	5.5%	5.9%
Dollar Tree	16,340	16,077	15,685	15,288	15,237	1.8%	1.6%	2.5%	2.6%	0.3%
Total	35,340	34,207	32,862	31,566	30,607	3.7%	3.3%	4.1%	4.1%	3.1%
Grocery										
Ahold Delhaize	7,659	7,452	7,137	6,967	6,769	3.1%	2.8%	4.4%	2.4%	2.9%
Albertson's	2,270	2,276	2,277	2,252	2,269	0.0%	-0.3%	0.0%	1.1%	-0.7%
Ingles Market	198	198	197	198	200	-0.3%	0.0%	0.5%	-0.5%	-1.0%
Kroger	2,976	2,276	2,742	2,757	2,764	1.9%	30.8%	-17.0%	-0.5%	-0.3%
Natural Grocers	164	162	159	153	148	2.6%	1.2%	1.9%	3.9%	3.4%
Sprouts	386	374	362	340	313	5.4%	3.2%	3.3%	6.5%	8.6%
Weis Markets	197	196	196	198	202	-0.6%	0.5%	0.0%	-1.0%	-2.0%
Total	13,850	12,934	13,070	12,865	12,665	2.3%	7.1%	-1.0%	1.6%	1.6%
Home Décor										
Bed, Bath & Beyond	949	953	1,020	1,500	1,533	-11.3%	-0.4%	-6.6%	-32.0%	-2.2%
Kirkland's	356	361	373	432	428	-4.5%	-1.4%	-3.2%	-13.7%	0.9%
Williams-Sonoma	577	544	581	614	625	-2.0%	6.1%	-6.4%	-5.4%	-1.8%
Total	1,882	1,858	1,974	2,546	2,586	-7.6%	1.3%	-5.9%	-22.5%	-1.5%
Home Improvement										
Floor & Décor	191	160	133	120	101	17.3%	19.4%	20.3%	10.8%	18.8%
The Home Depot	2,322	2,135	2,114	2,109	2,105	2.5%	8.8%	1.0%	0.2%	0.2%
Lowe's Companies	2,181	1,971	1,974	1,977	2,015	2.0%	10.7%	-0.2%	-0.2%	-1.9%
Tractor Supply	2,333	2,181	2,105	2,024	1,940	4.7%	7.0%	3.6%	4.0%	4.3%
Total	7,027	6,447	6,326	6,230	6,161	3.3%	9.0%	1.9%	1.5%	1.1%
Sports										
Academy Sports and Outdoors	267	259	259	259	253	1.4%	3.1%	0.0%	0.0%	2.4%
Big 5 Sporting Goods	432	431	430	434	436	-0.2%	0.2%	0.2%	-0.9%	-0.5%
Dick's Sporting Goods	868	861	854	850	859	0.3%	0.8%	0.8%	0.5%	-1.0%
Hibbett Sports	1,133	1,096	1,067	1,081	1,163	-0.7%	3.4%	2.7%	-1.3%	-7.1%
Total	2,700	2,647	2,610	2,624	2,711	-0.1%	2.0%	1.4%	-0.5%	-3.2%
Consumer Electronics										
Best Buy	1,138	1,144	1,159	1,231	1,238	-2.1%	-0.5%	-1.3%	-5.8%	-0.6%
GameStop Corp.	4,400	4,573	4,816	5,509	5,830	-6.8%	-3.8%	-5.0%	-12.6%	-5.5%
Total	5,538	5,717	5,975	6,740	7,068	-5.9%	-3.1%	-4.3%	-11.4%	-4.6%
Auto Parts										
Advance Auto Parts	5,086	4,972	4,763	5,037	5,109	-0.1%	2.3%	4.4%	-5.4%	-1.4%
AutoZone	6,943	6,767	6,549	6,411	6,202	2.9%	2.6%	3.3%	2.2%	3.4%
O'Reilly Automotive	5,971	5,784	5,616	5,460	5,219	3.4%	3.2%	3.0%	2.9%	4.6%
Total	18,000	17,523	16,928	16,908	16,530	2.2%	2.7%	3.5%	0.1%	2.3%
Department Stores										
Dillard's	274	277	282	285	291	-1.5%	-1.1%	-1.8%	-1.1%	-2.1%
Kohl's	1,157	1,165	1,174	1,171	1,175	-0.4%	-0.7%	-0.8%	0.3%	-0.3%
Macy's	722	725	727	775	867	-4.5%	-0.4%	-0.3%	-6.2%	-10.6%
Nordstrom	358	356	369	390	380	-1.5%	0.6%	-3.5%	-5.4%	2.6%
Total	2,511	2,523	2,552	2,621	2,713	-1.9%	-0.5%	-1.1%	-2.6%	-3.4%
Off Price										
Big Lots, Inc.	1,425	1,431	1,408	1,404	1,401	0.4%	-0.4%	1.6%	0.3%	0.2%
Ollie's Bargain Outlet	471	431	388	345	303	11.7%	9.3%	11.1%	12.5%	13.9%
Ross Stores	2,015	1,923	1,859	1,805	1,717	4.1%	4.8%	3.4%	3.0%	5.1%
TJX Companies	4,835	4,689	4,572	4,529	4,306	2.9%	3.1%	2.6%	0.9%	5.2%
Total	8,746	8,474	8,227	8,083	7,727	3.1%	3.2%	3.0%	1.8%	4.6%
Drug Retail										
CVS	9,642	9,939	9,962	9,896	9,921	-0.7%	-3.0%	-0.2%	0.7%	-0.3%
Rite-Aid	2,251	2,450	2,510	2,461	2,469	-2.3%	-8.1%	-2.4%	2.0%	-0.3%
Walgreens Boots	13,000	13,004	13,220	13,645	13,882	-1.6%	0.0%	-1.6%	-3.1%	-1.7%
Total	24,893	25,393	25,692	26,002	26,272	-1.3%	-2.0%	-1.2%	-1.2%	-1.0%
Total Stores	136,749	133,511	132,699	132,815	131,446	1.0%	2.4%	0.6%	-0.1%	1.0%

NET STORE ADDITIONS STRENGTHENED

Above is a chart depicting the year-ending store counts of U.S. publicly held retailers' year-end total store counts (worldwide). (These companies constitute an estimated 35% of the country's retail sales; their numbers are verifiable from public filings). The transfer of stores between public and private retailers would detract from the extrapolation of trends, but we believe that activity was limited. Moreover, unusual company-specific variables are sometimes at play. For instance, Walmart's 7.6% store decline in 2021 reflects exiting from the U.K. (WMT's domestic store count was flat that year). Conversely, Bed, Bath and Beyond's ending store count in the chart doesn't reflect the chain's imminent significant downsizing in 2023 because of liquidity issues.)

The green shaded lines show the year-to-year changes of stable or growing categories. ***Eight of the twelve categories show net new store growth.***

As noted in our 2021 report, while many retailers took an understandable break from store investment to react to changing online dynamics, we believe many retailers understand the necessity of presenting consumers with robust, blended approaches.

Also noted in our last report, store-level waste and inefficiency, specifically around resets and restocking, haven't benefitted from the more evolved practices in other operational areas. Store workers add additionally tasked with online fulfillment need highly accurate planograms and inventory information. As seen in a later chart, retailers operate with narrow profit margins, and even modest operational improvement can have an outsized impact on profit dollars.

INVESTOR SENTIMENT HAS ALSO STABILIZED

We wouldn't go so far as to suggest that retailers enjoy any sort of premium status on Wall Street, something that hasn't been seen since the big box phenomenon was relatively new and contributed to robust square footage growth. Since then, retail valuations (in general) have been consistently weighed down by concerns of saturation and, more recently, retail stores being rendered obsolete by online penetration.

However, in the last few COVID-impacted years, investor psychology has stabilized, we believe, by (1) a pivoting of consumer spending away from travel and restaurants during COVID shutdowns to general retail shopping, particularly for home (nesting) related items, (2) some probable share pickup from weaker, smaller retailers who didn't survive the pandemic, and (3) increasing recognition that retailers with robust omnichannel approaches (blended stores/e-commerce) would be long term survivors.

Again, we're not suggesting significant outperformance by the retail group. But we have seen a *performance generally in-line with the broader market averages, despite e-commerce increasing its presence as consumers shopped from home during the pandemic.*

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- S&P 500
- RUSSELL 2000



The following chart shows the stock performance of public retailers in 2022. As seen at the bottom of the chart, the public retail average performance in that problematic year was in line with that of the broader market (and better than the tech-heavy NASDAQ Composite average). Similarly, the early rebound for the

retail group thus far in 2023 is also in line with the broader market, and the P/E ratio valuation is at a “not-unhealthy” 17x. We think the retail group wouldn’t match the broader market performance if incremental negativity stemmed from e-commerce share loss concerns; we’d still see the group underperforming.

U.S. Public Retailers

Stock Price Performance

	12/30/21	12/30/22	% Chg.	3/12/23	YTD 2023	P/E Ratio	52 WK High	% from High
Apparel								
🏠 ABERCROMBIE & FITCH CO. (XNYS:ANF)	\$ 35.46	\$ 22.91	-35%	\$ 26.98	18%	NMF	\$ 38.49	-30%
🏠 AMERICAN EAGLE OUTFITTERS, INC. (XNYS:AEO)	\$ 25.77	\$ 13.96	-46%	\$ 13.33	-5%	23x	\$ 19.47	-32%
🏠 URBAN OUTFITTERS, INC. (XNAS:URBN)	\$ 30.05	\$ 23.85	-21%	\$ 26.96	13%	16x	\$ 29.74	-9%
Average			-34%		9%	19x		-24%
Mass Merchants								
🏠 BJ'S WHOLESALE CLUB HOLDINGS, INC. (XNYS:BJ)	\$ 66.62	\$ 66.16	-1%	\$ 74.78	13%	20x	\$ 80.41	-7%
🏠 COSTCO WHOLESALE CORPORATION (XNAS:COST)	\$ 563.91	\$ 456.50	-19%	\$ 471.14	3%	35x	\$ 612.27	-23%
🏠 TARGET CORPORATION (XNYS:TGT)	\$ 231.91	\$ 149.04	-36%	\$ 158.23	6%	27x	\$ 254.87	-38%
🏠 WALMART INC. (XNYS:WMT)	\$ 143.17	\$ 141.79	-1%	\$ 136.98	-3%	32x	\$ 160.77	-15%
Average			-14%		5%	29x		-21%
Dollar Stores								
🏠 DOLLAR GENERAL CORPORATION (XNYS:DG)	\$ 235.83	\$ 246.25	4%	\$ 216.09	-12%	21x	\$ 262.21	-18%
🏠 DOLLAR TREE, INC. (XNAS:DLTR)	\$ 141.27	\$ 141.44	0%	\$ 140.29	-1%	19x	\$ 177.19	-21%
Average			2%		-7%	20x		-19%
Grocery								
🏠 Koninklijke Ahold Delhaize NV (OTCM:ADRNY)	\$ 34.53	\$ 28.70	-17%	\$ 32.04	12%	12x	\$ 33.62	-5%
🏠 ALBERTSONS COMPANIES, INC. (XNYS:ACI)	\$ 30.17	\$ 20.74	-31%	\$ 19.92	-4%	9x	\$ 27.90	-29%
🏠 INGLES MARKETS, INCORPORATED (XNAS:IMKTA)	\$ 87.12	\$ 96.46	11%	\$ 91.89	-5%	7x	\$ 102.99	-11%
🏠 THE KROGER CO. (XNYS:KR)	\$ 45.14	\$ 44.58	-1%	\$ 47.09	6%	15x	\$ 62.78	-25%
🏠 NATURAL GROCERS BY VITAMIN COTTAGE, INC. (XNYS:NGVC)	\$ 14.29	\$ 9.14	-36%	\$ 11.00	20%	15x	\$ 24.25	-55%
🏠 Sprouts Farmers Market, Inc. (XNAS:SFM)	\$ 29.88	\$ 32.37	8%	\$ 33.03	2%	14x	\$ 35.59	-7%
🏠 WEIS MARKETS, INC. (XNYS:WMK)	\$ 66.85	\$ 82.29	23%	\$ 82.28	0%	18x	\$ 95.57	-14%
Average			-6%		4%	13x		-21%
Home Décor								
🏠 BED BATH & BEYOND INC. (XNAS:BBBY)	\$ 14.93	\$ 2.51	-83%	\$ 1.34	-47%	NMF	\$ 30.00	-96%
🏠 KIRKLAND'S, INC. (XNAS:KIRK)	\$ 15.37	\$ 3.30	-79%	\$ 2.93	-11%	4x	\$ 12.11	-76%
🏠 WILLIAMS-SONOMA, INC. (XNYS:WSM)	\$ 169.39	\$ 114.92	-32%	\$ 120.60	5%	8x	\$ 176.89	-32%
Average			-65%		-18%	6x		-68%
Home Improvement								
🏠 FLOOR & DECOR HOLDINGS, INC. (XNYS:FND)	\$ 129.98	\$ 69.63	-46%	\$ 86.75	25%	31x	\$ 104.83	-17%
🏠 THE HOME DEPOT, INC. (XNYS:HD)	\$ 409.94	\$ 315.86	-23%	\$ 286.31	-9%	17x	\$ 347.25	-18%
🏠 LOWE'S COMPANIES, INC. (XNYS:LOW)	\$ 256.39	\$ 199.24	-22%	\$ 196.59	-1%	20x	\$ 238.37	-18%
🏠 TRACTOR SUPPLY COMPANY (XNAS:TSCO)	\$ 236.72	\$ 224.97	-5%	\$ 227.24	1%	23x	\$ 241.54	-6%
Average			-24%		4%	23x		-15%
Sports								
🏠 ACADEMY SPORTS AND OUTDOORS, INC. (XNAS:ASO)	\$ 42.72	\$ 52.54	23%	\$ 59.87	14%	9x	\$ 63.89	-6%
🏠 BIG 5 SPORTING GOODS CORPORATION (XNAS:BGFV)	\$ 19.57	\$ 8.83	-55%	\$ 8.08	-8%	7x	\$ 19.60	-59%
🏠 DICK'S SPORTING GOODS, INC. (XNYS:DKS)	\$ 111.85	\$ 120.29	8%	\$ 146.28	22%	14x	\$ 152.61	-4%
🏠 HIBBETT, INC. (XNAS:HIBB)	\$ 72.00	\$ 68.22	-5%	\$ 65.35	-4%	7x	\$ 75.38	-13%
Average			-7%		6%	9x		-21%
Consumer Electronics								
🏠 Best Buy Co., Inc. (XNYS:BBY)	\$ 101.55	\$ 80.21	-21%	\$ 78.61	-2%	13x	\$ 103.23	-24%
🏠 GAMESTOP CORP. (XNYS:GME)	\$ 38.83	\$ 18.46	-52%	\$ 17.25	-7%	NMF	\$ 49.85	-65%
Average			-37%		-4%	13x		-45%
Auto Parts								
🏠 ADVANCE AUTO PARTS, INC. (XNYS:AAP)	\$ 237.52	\$ 147.03	-38%	\$ 128.04	-13%	16x	\$ 231.43	-45%
🏠 AUTOZONE, INC. (XNAS:AZO)	\$ 2,084.52	\$ 2,466.18	18%	\$ 2,421.39	-2%	20x	\$ 2,610.05	-7%
🏠 O'Reilly Automotive, Inc. (XNAS:ORLY)	\$ 701.77	\$ 844.03	20%	\$ 819.92	-3%	25x	\$ 873.94	-6%
Average			0%		-6%	20x		-19%
Department Stores								
🏠 DILLARD'S, INC. (XNYS:DDS)	\$ 251.03	\$ 323.20	29%	\$ 335.82	4%	7x	\$ 417.86	-20%
🏠 KOHL'S CORPORATION (XNYS:KSS)	\$ 50.27	\$ 25.25	-50%	\$ 24.83	-2%	7x	\$ 63.74	-61%
🏠 MACY'S, INC. (XNYS:M)	\$ 26.84	\$ 20.65	-23%	\$ 19.59	-5%	5x	\$ 28.06	-30%
🏠 NORDSTROM, INC. (XNYS:JWN)	\$ 22.95	\$ 16.14	-30%	\$ 18.24	13%	12x	\$ 29.59	-38%
Average			-18%		3%	8x		-37%
Off Price								
🏠 BIG LOTS, INC. (XNYS:BIG)	\$ 45.51	\$ 14.70	-68%	\$ 13.76	-6%	10x	\$ 40.45	-66%
🏠 OLLIE'S BARGAIN OUTLET HOLDINGS, INC. (XNAS:OLLI)	\$ 51.86	\$ 46.84	-10%	\$ 53.68	15%	37x	\$ 72.27	-26%
🏠 ROSS STORES, INC. (XNAS:ROST)	\$ 114.27	\$ 116.07	2%	\$ 104.17	-10%	24x	\$ 122.45	-15%
🏠 THE TJX COMPANIES, INC. (XNYS:TJX)	\$ 75.53	\$ 79.60	5%	\$ 74.30	-7%	25x	\$ 83.13	-11%
Average			-18%		-2%	24x		-29%
Drug Retail								
🏠 CVS HEALTH CORPORATION (XNYS:CVS)	\$ 103.68	\$ 93.19	-10%	\$ 77.10	-17%	NMF	\$ 109.69	-30%
🏠 RITE AID CORPORATION (XNYS:RAD)	\$ 14.80	\$ 3.34	-77%	\$ 3.28	-2%	NMF	\$ 11.61	-72%
🏠 WALGREENS BOOTS ALLIANCE, INC. (XNAS:WBA)	\$ 51.99	\$ 37.36	-28%	\$ 33.26	-11%	7x	\$ 48.62	-32%
Average			-39%		-10%	7x		-44%
Overall Average								
			-20%		0%	17x		-29%
🏠 S&P 500 INDEX	\$ 4,766	\$ 3,840	-19%	\$ 3,862	1%		\$ 4,637	-17%
🏠 NASDAQ Composite Index	\$ 15,742	\$ 10,466	-34%	\$ 11,139	6%		\$ 14,620	-24%

RETAIL STOCKS PERFORMING IN-LINE

PROFITABILITY: AN OPPORTUNITY

Retailers generally show operating profit margins under 10%; thus, a typical retailer only keeps 10 cents of every dollar of sales, and this is before paying any applicable interest or taxes. As such, this is not a high-margin sector. The following chart shows annual operating (or EBIT) profit margins for the last several years, plus forecasts (courtesy of marketscreener.com). In 2021, profitability rose nicely for most retailers who, in turn, benefited from the acceleration in topline sales (shown in the first chart). However, last year (according to the estimates) was a step down in aggregate profitability as consumers resumed

spending for travel and entertainment (and not retail goods), and retailers also had to cope with inflation and supply chain challenges.

Currently, forecasts call for a better 2023; however, thus far in earnings season, retailers have been generally cautious in 2023 profitability guidance (i.e., below prevailing forecasts) due to slowing macroeconomic factors and, notably, retail worker wage inflation. (Note that this is despite many retailers artificially benefiting in 2023 by an extra week in the retail calendar.)

Retail Hourly Wages are Growing Faster than Most		
	<u>Retail Wages</u>	<u>General Wages</u>
2019	+3.8%	+2.7%
2020	+3.9%	+2.5%
2021	+6.9%	+4.4%
2022	+6.0%	+5.1%
2023E	+6.5%	+4.6%

Source: Bureau of Labor Statistics, Y Charts, DM Buck Advisory estimate

The 2023 estimate for retail wages in the above chart might be low, given that Walmart, the largest retail employer, is raising wages by approximately 17% this year, thus increasing the ante for other employers.

U.S. Retail Companies

Operating (EBIT) Profit Margins

	2023E	2022P	2021	2020	2019	2018
Apparel						
Abercrombie & Fitch Co.	4.5%	2.9%	9.2%	-0.7%	0.2%	3.5%
American Eagle Outfitters, Inc.	5.8%	5.0%	11.8%	-7.2%	5.4%	8.4%
Urban Outfitters, Inc.	5.7%	5.0%	9.0%	0.1%	5.8%	9.7%
Average	5.3%	4.3%	10.0%	-2.6%	3.8%	7.2%
Mass Merchants						
BJ's Wholesale Club	3.7%	3.8%	3.7%	4.2%	2.7%	2.3%
Costco Wholesale Corp.	3.7%	3.5%	3.4%	3.1%	3.0%	3.0%
Target Corporation	4.5%	3.6%	8.4%	7.0%	6.0%	5.5%
Walmart Inc.	4.5%	4.5%	4.5%	4.0%	3.9%	4.3%
Average	4.1%	3.9%	5.0%	4.6%	3.9%	3.8%
Dollar Stores						
Dollar General	9.2%	9.0%	9.4%	10.5%	8.3%	8.3%
Dollar Tree	7.9%	7.9%	6.9%	7.4%	5.3%	-4.1%
Average	8.6%	8.5%	8.1%	9.0%	6.8%	2.1%
Grocery						
Ahold Delhaize	4.0%	4.3%	4.4%	2.9%	4.0%	4.2%
Albertson's	3.4%	3.6%	3.3%	2.3%	2.3%	1.3%
Ingles Market	NA	7.4%	7.0%	6.1%	3.6%	3.0%
Kroger	3.3%	2.8%	2.5%	2.1%	1.8%	2.1%
Natural Grocers	NA	2.8%	2.7%	2.7%	1.9%	1.8%
Sprouts	5.4%	5.6%	5.5%	6.1%	3.9%	4.3%
Weis Markets	NA	NA	3.5%	4.0%	2.4%	2.4%
Average	4.0%	4.4%	4.1%	3.7%	2.8%	2.7%
Home Décor						
Bed, Bath & Beyond	-12.0%	-19.0%	-5.2%	-1.2%	-6.3%	-0.7%
Kirkland's	-1.0%	-8.0%	4.5%	1.4%	-8.8%	0.8%
Williams-Sonoma	14.7%	17.3%	17.6%	13.4%	7.9%	7.7%
Average	0.6%	-3.2%	5.6%	4.5%	-2.4%	2.6%
Home Improvement						
Floor & Décor	9.1%	9.3%	9.9%	8.8%	7.8%	7.7%
The Home Depot	14.5%	15.3%	15.2%	13.8%	14.4%	14.4%
Lowe's Companies	13.7%	10.5%	12.6%	10.8%	8.8%	5.6%
Tractor Supply	10.2%	10.1%	10.3%	9.4%	8.9%	8.9%
Average	11.9%	11.3%	12.0%	10.7%	10.0%	9.1%
Sports						
Academy Sports and Outdoors	12.4%	13.0%	13.4%	7.5%	3.7%	2.7%
Big 5 Sporting Goods	2.0%	3.4%	11.7%	7.0%	1.5%	-0.1%
Dick's Sporting Goods	12.1%	11.8%	16.6%	7.7%	4.3%	5.3%
Hibbett Sports	9.2%	9.9%	13.5%	6.9%	3.1%	3.7%
Average	8.9%	9.5%	13.8%	7.3%	3.2%	2.9%
Consumer Electronics						
Best Buy	3.9%	4.4%	6.0%	5.1%	4.6%	4.4%
GameStop Corp.	-5.0%	-6.8%	-6.1%	-5.0%	-0.2%	3.8%
Average	-0.6%	-1.2%	-0.1%	0.0%	2.2%	4.1%
Auto Parts						
Advance Auto Parts (Non-GAAP)	10.0%	9.8%	9.6%	8.2%	8.2%	7.8%
AutoZone	19.8%	19.4%	20.1%	19.1%	18.7%	16.1%
O'Reilly Automotive	20.0%	20.5%	21.9%	20.8%	18.9%	19.0%
Average	16.6%	16.6%	17.2%	16.0%	15.3%	14.3%
Department Stores						
Dillard's	9.5%	14.6%	15.2%	-1.9%	2.7%	4.2%
Kohl's	4.0%	1.4%	8.6%	-1.6%	6.1%	7.2%
Macy's	6.3%	7.1%	9.6%	-5.2%	3.9%	7.0%
Nordstrom	4.0%	3.1%	3.4%	-10.1%	5.2%	5.4%
Average	6.0%	6.6%	9.2%	-4.7%	4.5%	6.0%
Off Price						
Big Lots, Inc.	-3.5%	-4.8%	3.9%	6.4%	2.9%	4.2%
Ollie's Bargain Outlet	9.0%	7.1%	11.7%	15.3%	12.2%	13.1%
Ross Stores	11.0%	10.6%	12.3%	1.5%	13.4%	13.6%
TJX Companies	9.4%	9.7%	9.8%	1.8%	10.6%	10.7%
Average	6.5%	5.7%	9.4%	6.3%	9.8%	10.4%
Drug Retail						
CVS	5.4%	5.4%	5.9%	6.0%	6.0%	2.0%
Rite-Aid	-0.1%	-2.0%	0.3%	0.2%	0.7%	0.4%
Walgreens Boots	3.5%	3.9%	1.7%	3.9%	5.4%	5.9%
Average	2.9%	2.4%	2.6%	3.4%	4.0%	2.8%
Overall Average	6.4%	5.9%	8.1%	4.8%	5.3%	5.7%

OPERATING PROFITABILITY STILL CHALLENGED

As such, we believe retailers will necessarily seek ways to improve profitability. Our research highlights the inherent opportunities to address store labor efficiencies and improve gross margin return on investment (GMROI). Over 50% of the public retailers on our list are estimated to have had operating margins in 2022 of 5% or less. As such, moving the needle by only 3%-5% in labor costs (as a percentage of sales) and GMROI (through more efficient buying, supply chain, and

inventory turns) would have an outsized impact (up to 40%) on a given retailer's profit dollars.

Note the following example. ***Using a composite view of public U.S. grocery retailers, a sector notably with below-average margins, we can see even modest positive tweaks in gross profitability or operating expenses yield impressive profit dollar payoffs.***

Grocery Retail Opportunity			
A Composite View			
(\$B)		Gross Margin Improves by 3%	Back Room Labor Improves by 5%
Sales (Public Sector Total)	\$290.0		
Weighted Gross Margin	25.5%	26.3%	
Gross Dollars	\$74.0		
Weighted GMROI	\$4.90		
Weighted Expense Ratio	22.3%		
Labor Component	\$52.2		
Backroom Labor	\$26.1		\$24.8
Weighted EBIT Margin	3.2%	4.0%	3.7%
EBIT Dollars	\$9.3	\$11.6	\$10.6
Incremental Dollars		\$2.4	\$1.3
		26%	14%
			Combined +40%