



#RETAIL5.0 M&A FLASH CALL

THE BEGINNING NOT THE END

June 16, 2017

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PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*



#RETAIL5.0 PUSHBACK

“LEVER-UP OR MELT”

April 25, 2017

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THIS IS WHY WE'RE FOLLOWING UP ON #RETAIL5.0

1

DOES MANAGEMENT KNOW, DO THEY WANT TO?

If there was EVER a time to put yourself in the shoes of Strat Planning departments and Board members, this is absolutely it. In this #Retail5.0 update, we review all the key issues we'll be pelting management teams with. The answers, or lack thereof, will determine who wins, who loses, and who has a job in 2-3 years. We don't have all the answers, but we have the questions that matter.

2

BIGGEST AREAS OF PUSHBACK

1) How in the world is Retail investable? 2) People argue with our view that there's a square footage equivalent to an e-comm sale. 3) Retail analysts don't understand REITs, REIT analysts don't understand Retail. 4) Consensus is that Regional (#Retail3.0) malls are dead, strips are not. 5) Amazon sub-Prime is still new to people. 6) Why is Amazon adding stores? 7) Universal pushback on winners and losers. Classic 'not Bullish ENOUGH and not Bearish ENOUGH. 8) Long onlies want to believe, HFs want to doubt. Both consensus will likely be wrong. 9) not enough focus on dividends.

3

LEVERAGE IS THE NEW CASH

For the first time in 20 years, I think that SG&A is no longer the key to brand investment. Our strong sense (and math) suggests that levered companies are the new BKs IF they do the right thing and step up capital deployment – and mis-execute – then = toast. If they don't invest then = melting ice cube. Under-levered companies will be the new levered-companies in 2-3 years. At the same time we're going to see a wave of both quality and junk IPOs from the new experiential concepts that nobody knows about today.

KEY MACRO QUESTIONS FOR EVERY MANAGEMENT TEAM

IF STRAT PLANNERS AND BOARDS ARE NOT ASKING AND ANSWERING THESE QUESTIONS, THEN THERE'S A PROBLEM

- If a CEO is younger than 60-years old, ask 'em if they acknowledge that a paradigm shift drive retail over the course of their career.
- Will people buy more units as prices reflate due to a change in a 25-year retail paradigm?
- How many square feet of retail space is out there?
- Is there a square footage equivalent to an incremental e-comm sale?
- In 2023, what % of Total Retail sales will e-commerce?
- Will Amazon start selling gas and Labradoodles?
- How do 'dirt owners' get paid when a person buys online when standing in a store? Rent economics/structures HAVE to change. Are discussions going on today?
- How much does the Consumer spend on their cable bill, streaming music, entertainment, ground beef, winter coats, and mortgage debt service? In other words, what is the impact of Amazon going sub-Prime?
- Nobody knew who Wayfair, chewey.com, bonobos, Warby Parker, Casper, were 5-years ago. What type of businesses will IPO over 3-5 years that time period?

KEY COMPANY-SPECIFIC MANAGEMENT QUESTIONS

- How do you approach the concept of financial leverage? Are you incentivized to take risk and lever up to bury your competition?
- What is your leverage today, what will it be when you invest to win? What will your competition's leverage be if they invest properly?
- How will your retail presence be experiential in 3-5 years?
- How much of your product is Push vs Pull?
- Which of your competitors will go away, how will that affect your vendors, their suppliers, your competitors.
- If the price of an avocado goes up, how does it affect your margins? (yes, I'm serious).
- How much of your content would the consumer NOT miss if it went away?
- Why can your own e-comm (which our kids will call 'shopping') be more effective than doing a t-mall site on Amazon ie Alibaba?

PUSHBACK #1: HOW CAN WE NOT BE LONG AMAZON

WE ARE LONG AMZN

- The reality is that over a TAIL duration, I can't NOT be bullish. But so is everyone else. I'd argue that people are not Bullish ENOUGH and largely not for the right reasons. But that's irrelevant today.
- I'm not going to play the 'pick a magic multiple out of the air' game on a name like this.
- Keith will manage the TRADE – and 1Q growth likely to accelerate.
 - Risk Range = 886-916
 - TREND support underpins that at \$840
- I'll focus on generating Alpha on the Amazon eco-system, which has 10x the market cap that Amazon does (for now).

LEVERAGE IS THE NEW 'NET CASH'

COMPANIES NEED TO INVEST. BUT CAN THEY, AND DO THEY WANT TO?

Free Cash Flow Margin = 6.1%

Capex % of Sales = 3.4%

Current Leverage 1.1x

Post Lease Cap Leverage 3.3x

Leverage After 2x Capex for 3 yrs = 4.7x

... After 3x Capex for 3 yrs = 5.8x

**Regulator Max Leverage for LBOs is 6x*

“but the cash flow is so good”

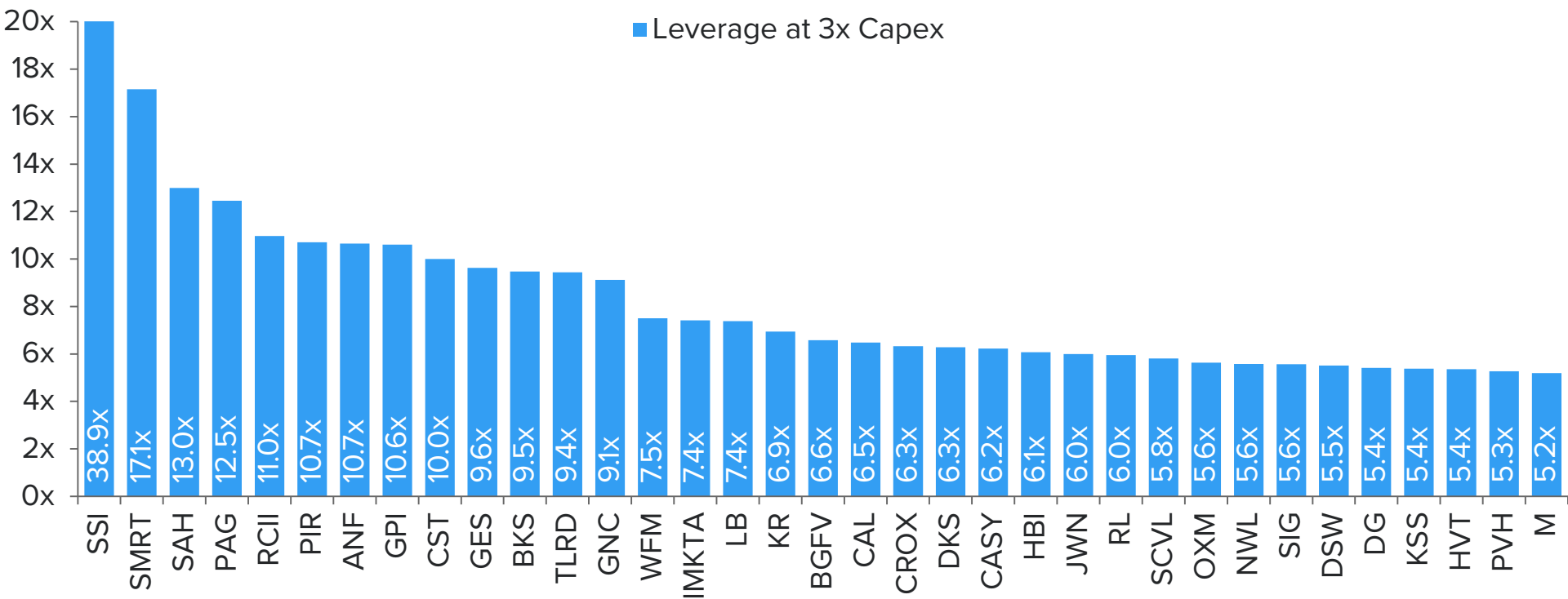
“but retail bankruptcies take decades to play out bc of the cash”

I don't buy that for a minute.

Investments – PP&E before SG&A) need to double, triple for 3+ years. Otherwise the ice cube melts.

Lots of value traps, and lots of great businesses people don't know about yet that will IPO.

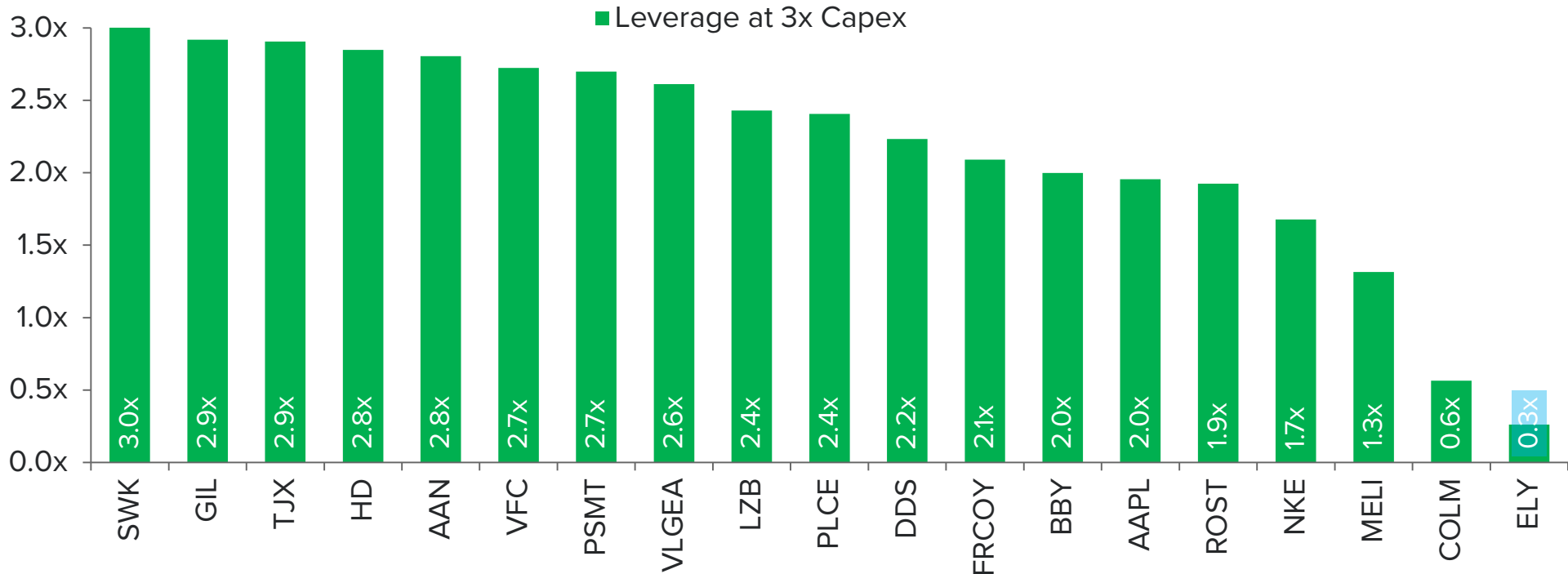
MELTING ICE CUBE



DIVIDEND PAYERS - HIGHEST LEVERAGE UNDER MEGA INVESTMENT CYCLE

35 dividend paying retail companies end up with leverage above 5x (3x Capex for 3yrs)
Good luck with that...

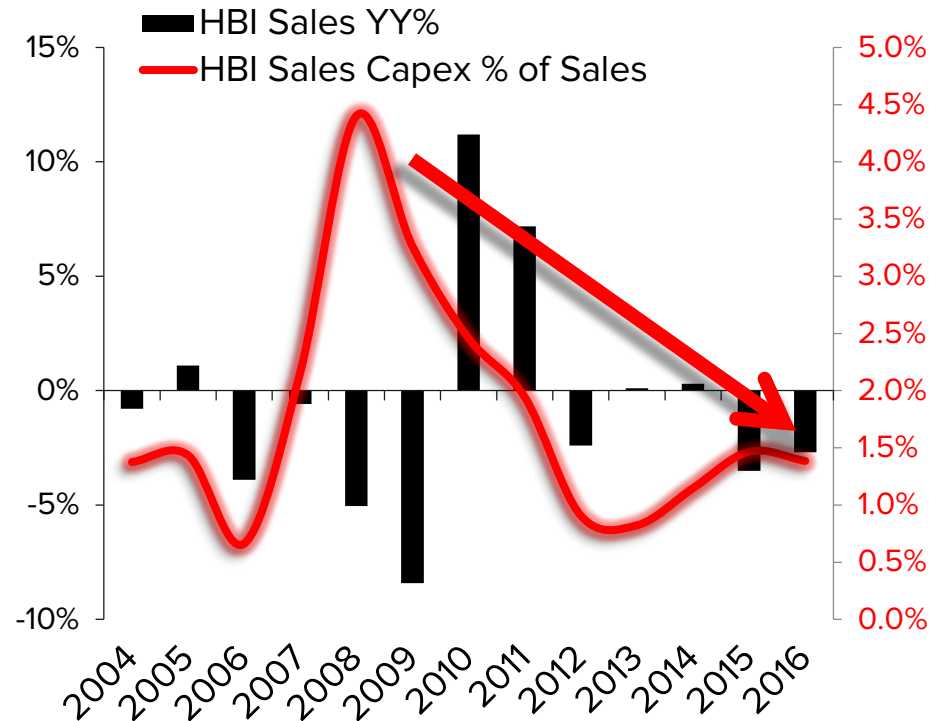
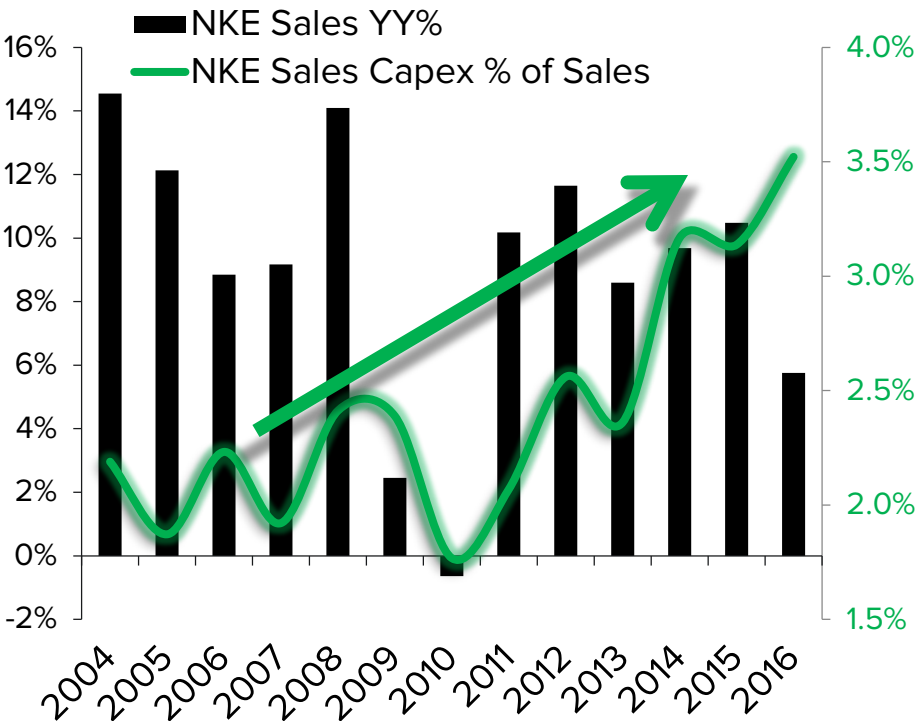
THESE GUYS CAN WIN...IF THEY WANT TO



DIVIDEND PAYERS - LOWEST LEVERAGE UNDER MEGA INVESTMENT CYCLE

19 dividend paying retail companies end up with leverage below 3x.

WINNERS WIN, LOSERS LOSE. THIS IS SIMPLE.



CAPEX AS A % OF SALES

This is pretty simple, good companies step up when sales are healthy – to make sure they stay that way. The inverse holds true. Look no further than Hanes. Though there will be plenty more HBIs.

REALIZATION: COMPANIES NEED TO INVEST, SO DO WE

THIS IS WHAT WE HAVE TO KNOW...AND WE WILL

#Retail3.0 Strat Planning

Where every one of the 3.6mm stores in the US is located.

#Retail4.0 Strat Planning

What people spend in every MSA – footballs, shoes, couches, toothpaste, and ground turkey.

#Retail5.0 Strat Planning

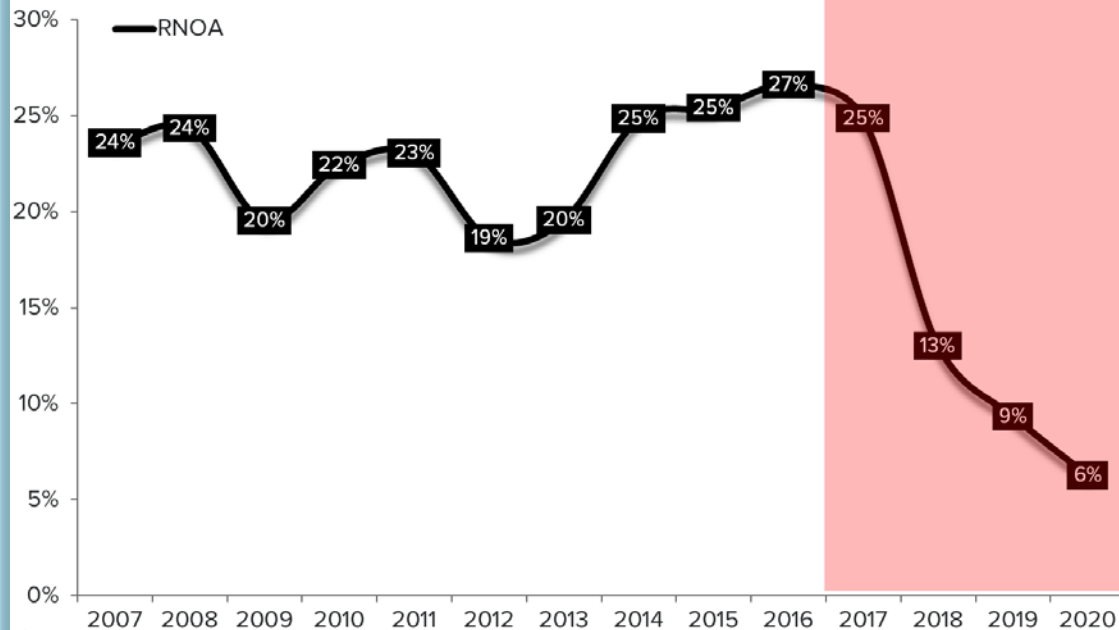
HOW people spend – by FICO, Demo, Activity level, age, where they shop, online penetration vs in-store (it varies by MSA – a lot). If companies don't know this – how know where to build? And how much of it to build? Who to align with up and down the chain?

“MCGOUGH, YOU’RE BEING WAY TOO AGGRESSIVE”

ASSET TURNS X MARGINS

RNOA WORSE THAN GREAT RECESSION

RETAIL INDUSTRY RNOA



Data Source: Hedgeye Estimates, Factset

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One of them has to take it on the chin.

Then lap on lease accounting.

The industry will take both – defensively.

Winners will go on offense.

“34% THAT’S WAY TOO MUCH MCGOUGH”

DOES ANYONE DISPUTE E-COM 12% - 34% IN 10-YEARS?

DIDN'T THINK SO....



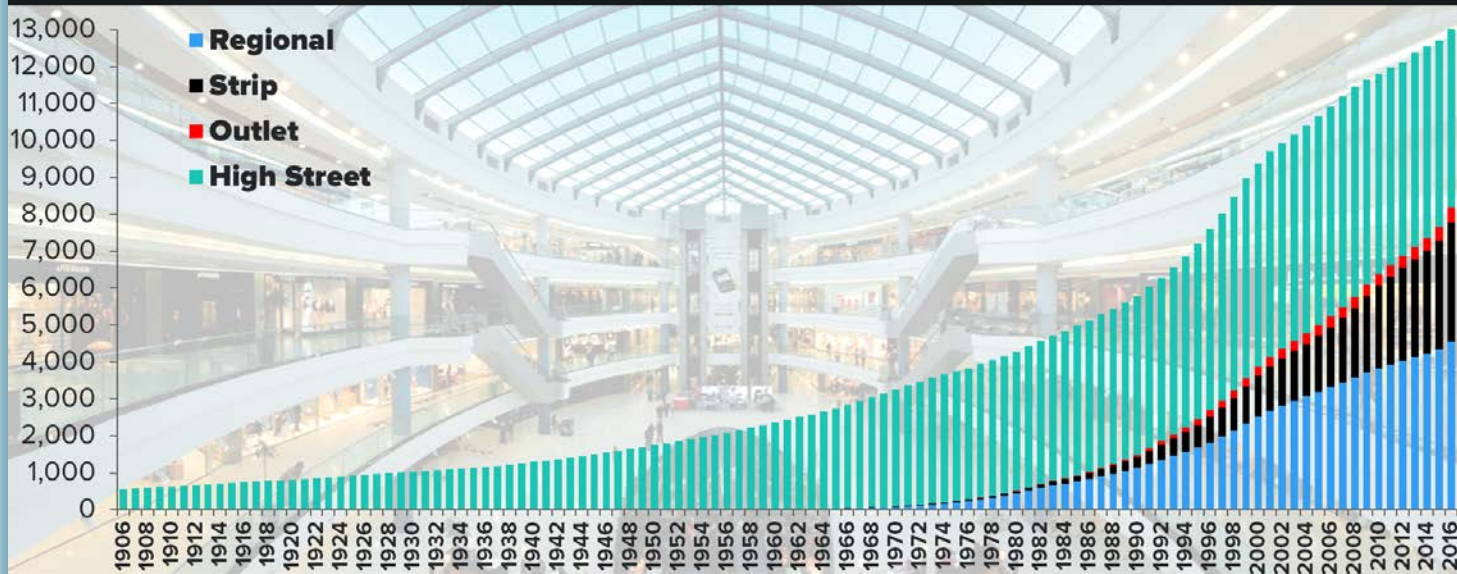
People are modeling 25% tops bc they're doing math based on what they see today.

Online pet grooming? Yep.

Online gas? Yep.

REGIONALS VS STRIP DISCONNECT

#FAKESTATE 101 – THIS ALONE IS BEARISH



LONG TERM TRENDS IN REAL ESTATE

The proliferation in Strip Malls without declines in Regional Malls is the problem. I know, that's common sense. But there's your 'tough retail environment' and 'declining mall traffic'.

You can't paint all property with one broad brush.

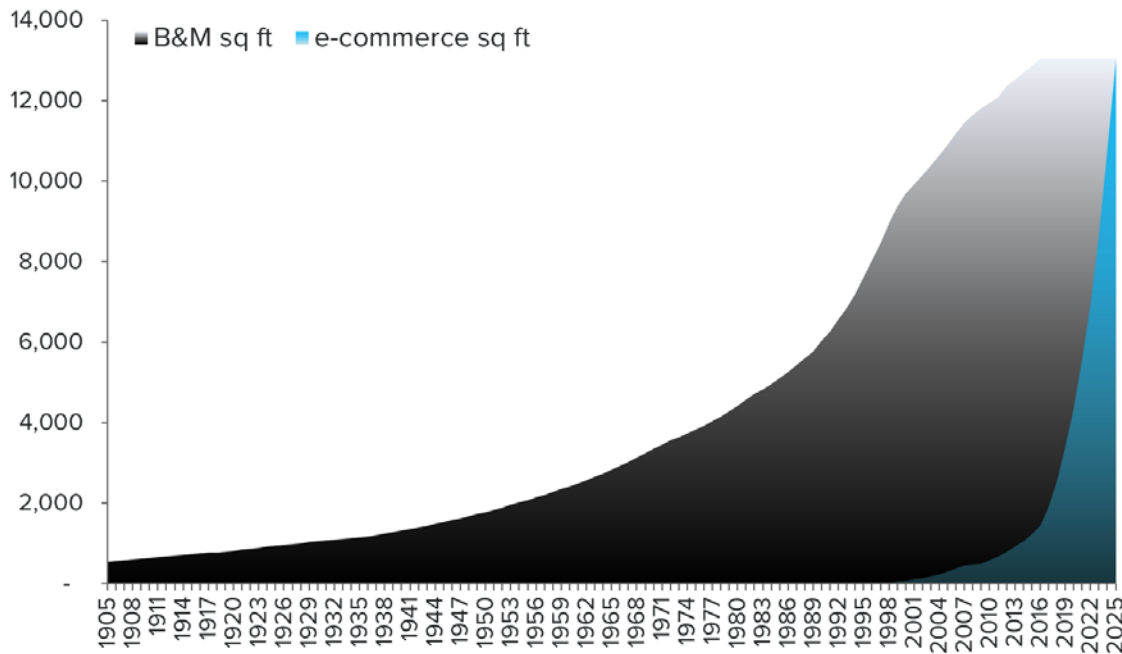
Strip centers are the risk...but some will win, some lose.

Ditto on regionals – which are more defensible – that's counter consensus.

“THIS MATH CAN’T BE RIGHT MCGOUGH”

...ENTER RETAIL 1.0—5.0

E-COMM SQ FT IN 10-YEARS



That blue area should scare every CEO out there.

But they probably have not done this math.

If they have, they think their Brands are better than they are – which means they’re not closing stores fast enough.

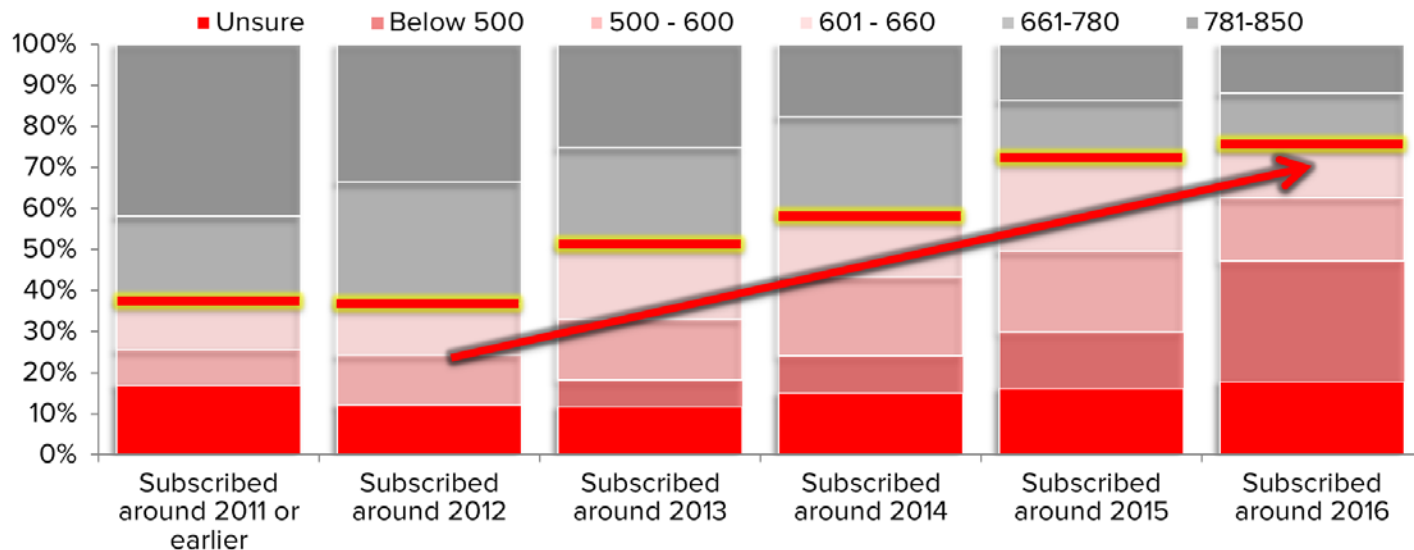
Yes, it is.

\$275/ft productivity today goes to \$137 3-years into #Retail5.0.

If productivity goes lower (which I’d argue it should) then implied square footage add goes up.

“HMMMM... THAT’S INTERESTING”

PRIME MOVING MORE INTO SUBPRIME



INCREMENTAL PRIME CUSTOMERS BY FICO SCORES

As Prime subscribers are added, Credit Scores get worse. Perhaps commonsensical, but this is a bigger trend than we thought we'd see. This is TGT bullish, and 'middle-America -retail' (WMT, TGT, KSS, JCP, BBBY, WSM, Rx front-end, Dollar Stores, etc...) bearish.

Data Source: Hedgeye Risk Management

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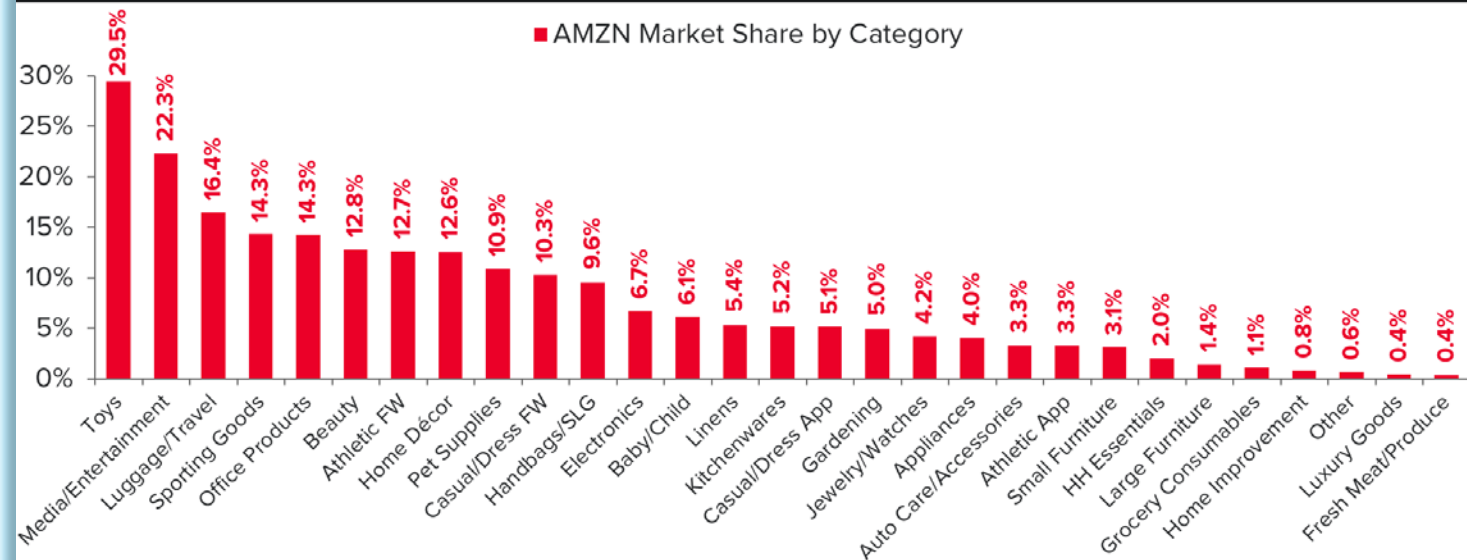
Yes, it is.

This slide resonates extremely well.

“AMZN PUSH IS BBY/DKS BULLISH? NO WAY”

MARKET SHARE BY CATEGORY

■ AMZN Market Share by Category



AMAZON SHARE BY CATEGORY

Amazon makes up about 3.9% of US Retail (Ex Automobiles & Gas). It has 33% share of US Online Retail.

Maybe (definitely) not bullish.

But incremental AMZN capital going to the right side of this chart – not the left.

THE NEW 'A-MALL'

天猫 Tmall.com PUMA官方店

描述 服务 物流 4.8↓ 4.7↓ 4.7↑

手机逛

提前准备好电脑

搜天猫 搜本店

puma | 运动卫衣 | cap | 运动鞋

全场满399元包邮 购物帮助 收藏店铺

男子 女子 儿童 运动 SELECT 新品 季末清仓

杨洋同款

PUMA 男神节

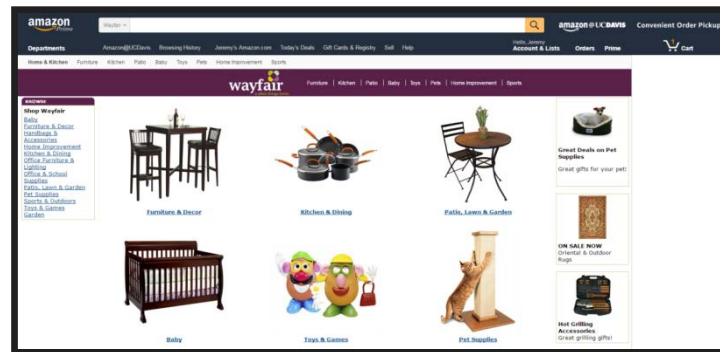
果敢男神 清新主张

满399减30 满699减60 满999减100

活动时间
4月24日-4月26日

下单即可参与抽奖
赢取PUMA定制小米手环
(限量20个)

点击查看



THIS COULD SAVE COMPANIES 'STUCK IN THE MIDDLE'

Ethan Allen launching new deal with Amazon for branded online showroom.

Why can't AMZN follow the Alibaba model?

Remember when it ran TGT's ecomm business, then gave it back, then buried TGT?

Data Source: tmall.com, Amazon.com, ethanallen.com

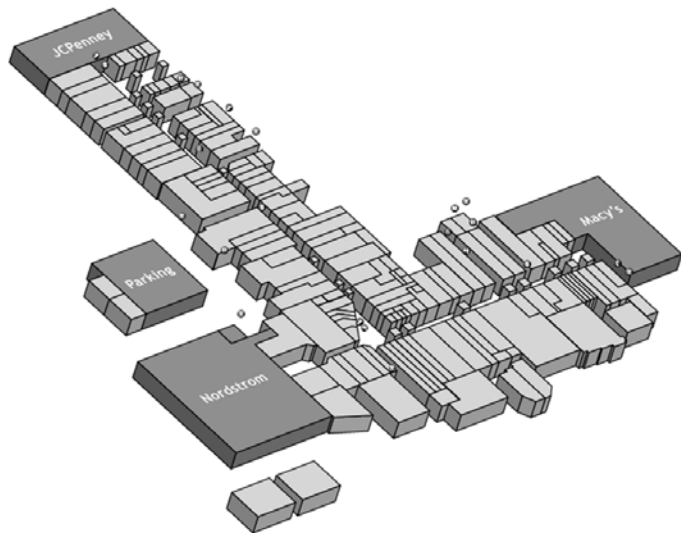
WHY SHOULD AMAZON BUILD STORES? WHY SO BIG?

WANT VS NEED

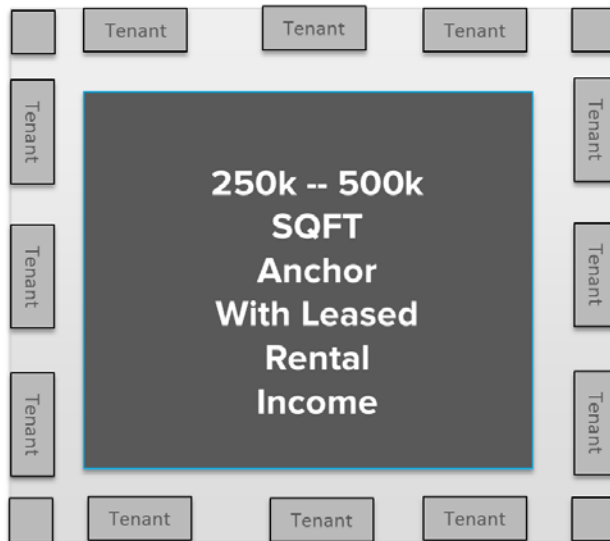
#RETAIL3.0 VS #RETAIL5.0 CENTER

SQUARE FOOTAGE IS NOT A ZERO SUM GAME

3.0 Shopping Center



5.0 Shopping Center



I don't care what I think Bezos SHOULD do, I care about what he WILL do.

Brick and Mortar absolutely needs to co-exist w online.

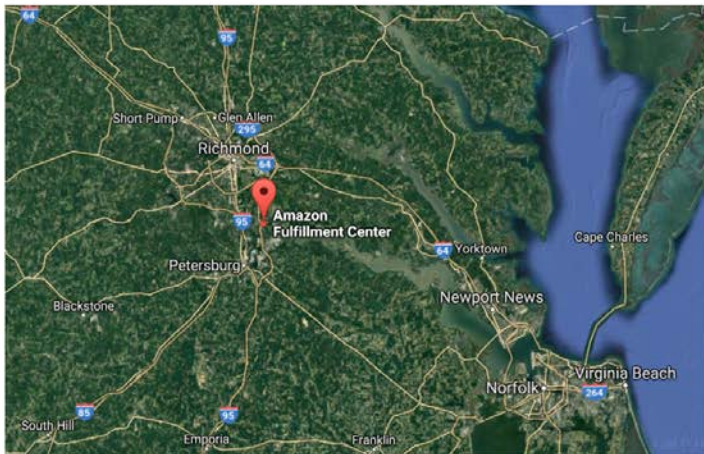
In other words, Bezos is validating the premise that some retailers are making about a physical presence.

THERE'S NOWHERE FOR AMAZON TO BUILD

YES, I ACTUALLY GET THAT PUSHBACK

Remember Costco?

WHERE'S THE VALUABLE PROPERTY?



DESTINATION AREAS, OR BEST DISTRIBUTION LOCATIONS?

Will the best property be in the sticks? Will stores be destinations like Costco?

Are highway access areas with cheap land values within driving or flying distance of metro areas the next boom markets?

THERE'S HEATED DEBATE OVER THIS

NOT SO MUCH AS THE IDEA, BUT THE NEED AND DURATION

THINK BIG FOLKS, CROSS SECTOR DEALS = NEW REALITY

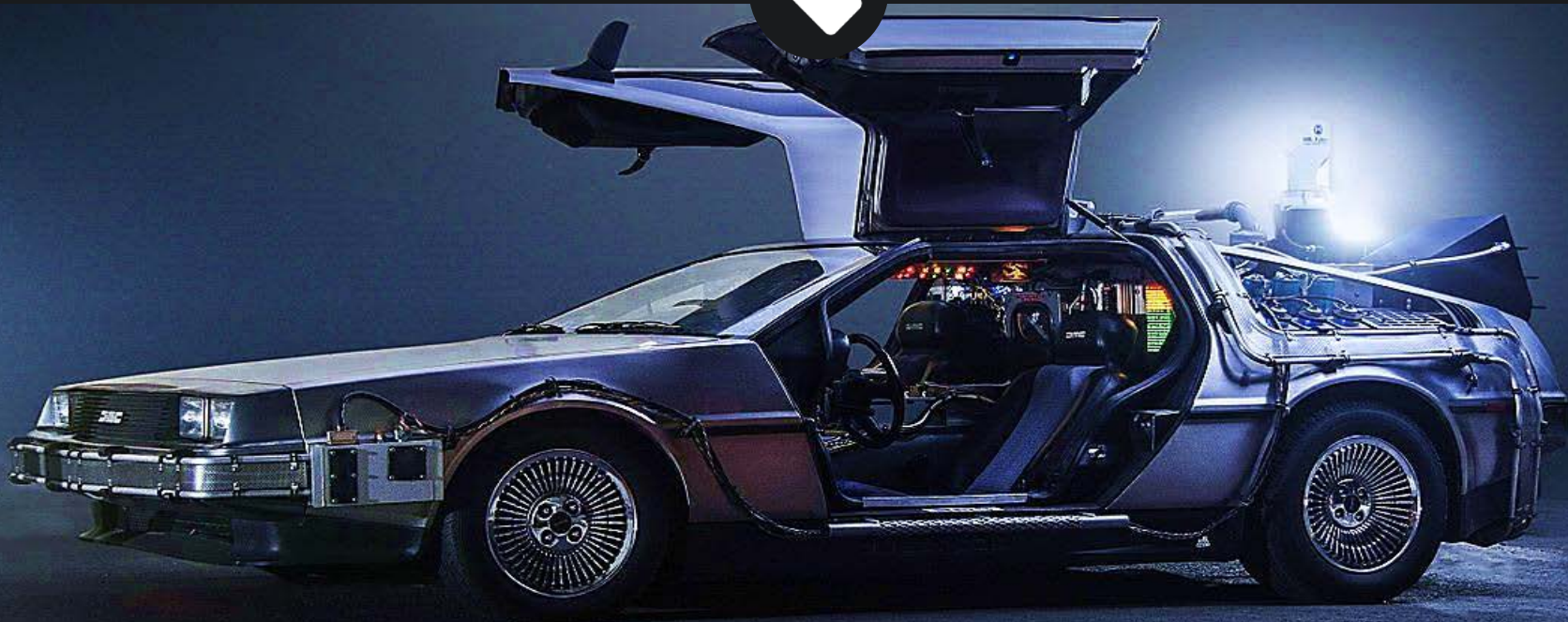


Data Source: Company Websites

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I'll buy that. But does not mean we should not plan for it.

Let's get the research right and then get the timing (and we will focus on doing so).



#RETAIL5.0

THE BOX YOU DON'T THINK OUTSIDE OF = #CAREERCOFFIN

March 28, 2017

THIS DECK = CONCEPT CAR OF RETAIL

1

I WILL FLAT OUT REJECT THE 'IT CAN'T HAPPEN' PUSHBACK

Retail is deemed 'uninvestable', but it is very investable – if you can short, or pick the big winners as in the tech bubble. 20% of today's companies are likely to account for 90% of tomorrow's market cap. Bankruptcies should keep accelerating – both public and Private. Half of the winners will be companies you have never heard of. Returns are tee'd up to decline by 2,000bp – 4x the rate we saw in the Great Recession. And like it or not, there are plausible scenarios that tank content as powerful as Nike and Ralph Lauren if they don't invest.

2

SQUARE FOOTAGE MATH IS MORE BEARISH THAN BEARS THINK

We review the 5 #megacycles of retail back to the first Macy's store in 1858. One of the trends today is that the Strip Malls, Big Box Specialty and Off-Price centers – those that disintermediated Dept Stores from 1993-2010 – are now themselves being disintermediated. Like it or not, there's a 'square footage equivalent' associated with e-comm. By our math, 13.6bn in square footage today grows to 26bn by the end of #retail5.0. That implies square footage per capita goes from 43x to 76x.

3

A NEW KIND OF M&A

The 'no that deal can't happen' mindset is very JV. As in past periods of generational change, we see defensive generational deals. Content is key, but it's not King anymore. Now the 'Final Mile' wears that crown, and it will through #retail5.0. Next comes content, customer acquisition, vertical sourcing, and distribution. I'm completely 'valuation-agnostic' this climate – as will CEOs, Boards – and especially bankers. Valuation only matters when levered companies buy garbage at peak multiple on peak margins when a generational wave of deflation is over, and unit velocity declines – which will meaningfully take down margins.

THIS DECK 'IS OUT THERE'

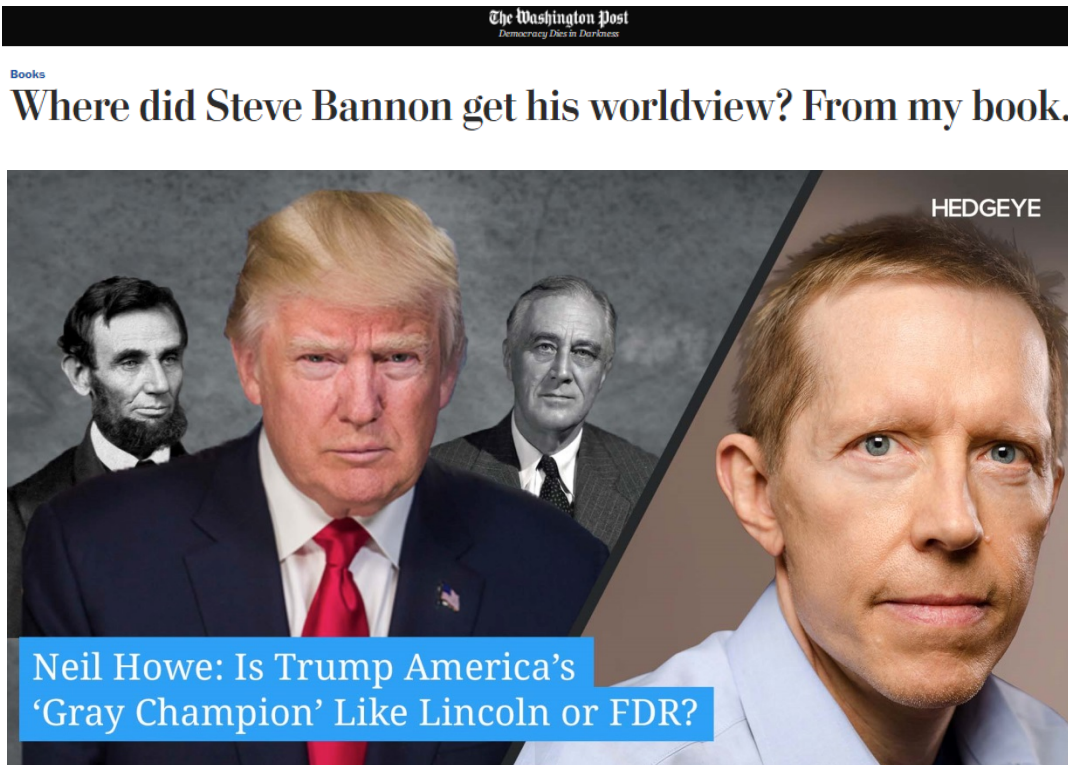
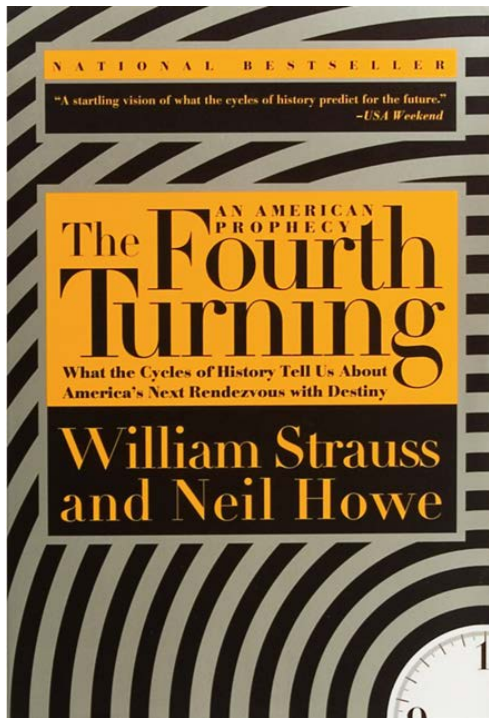




RETAIL 1.0



WE GOT THIS GUY...



RETAIL 1.0 = BIRTH OF MOM & POP

1858-1879

- 1858 First Macy's Store
- 1859: Great Atlantic & Pacific Tea
- 1869: Union Pacific and Central Pacific Promontory point
- 1879: First Woolworths

1888-1906

- 1888: First Sears catalogue
- 1887: Gimbels
- 1899: Kmart
- 1901: First Walgreens
- 1902: First Target
- 1906: Sears IPO

1907-1928

- 1916: Piggly Wiggly – first self-serve grocery
- 1924 First Macy's Day parade
- 1929 Stock Market crash

GREATEST CRASH

DELUGE OF PANIC SELLING
OVERWHELMS MARKET

19,000,000 SHARES CHANGE
HANDS

1929-1939

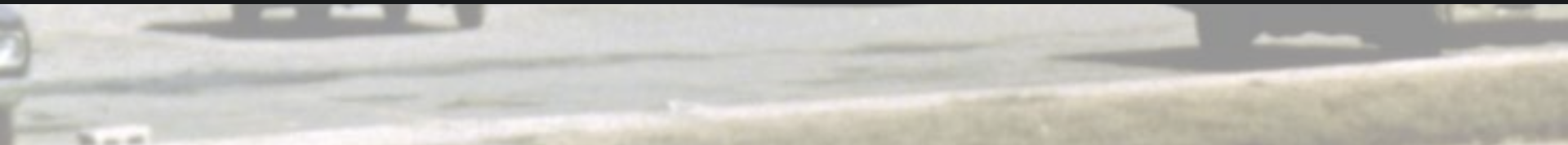
- 1929-1939: Great Depression
- 100% US manufacturing
- 1936: Jesse Owens breaks Olympic records
- 1939-1945: WW2



1890-1930 Mom and Pop merchants. 1929 = 22% of Retail Sales
100% US Manufacturing



RETAIL 2.0



RETAIL 2.0 = RAMP OF THE CHAIN STORE

1940-1950

- 1940's: Baby Boom
- 1941: Pearl Harbor
- 1946: First 7-Eleven
- 1949: NATO formed
- 1950: Korean War
- 95% U.S. Manufacturing

1953-1961

- 1953: First Color TV released
- 1956: Southdale Mall
- Zayre (TJ Maxx) formed
- First DKS

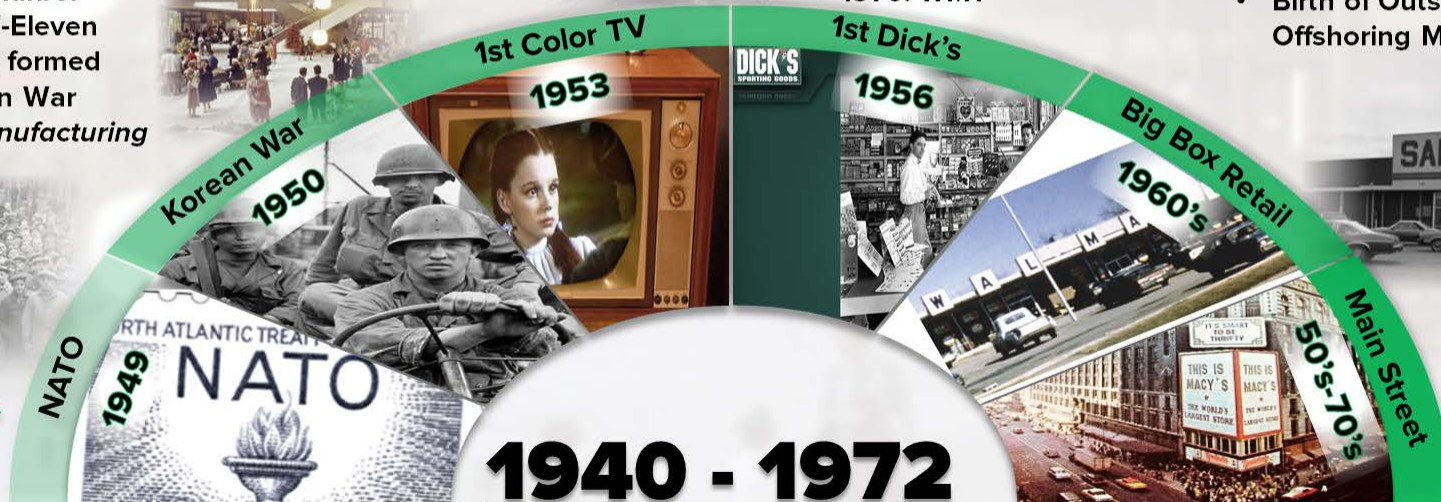
1962-1970

- Vietnam War
- Big Box retail proliferates
- 1962: First Kohl's
- 1963: First CVS
- Blue Ribbon Sports
- 1970: WMT



1971-1972

- BRS Renamed = Nike
- Birth of Outsourcing/ Offshoring Model



1940 - 1972

1950-1970 'Main Street Chain Stores' Thrive



RETAIL 3.0



RETAIL 3.0 = BIRTH OF THE 100-YEAR LEASE



1973-1980

- 61 malls built in 1973.
- 438 Malls in Total
- 1978: Home Depot Formed
- Birth of Mall REIT, anchor tenant, and the 100-year lease



1981-1992

- 1985: First Bed Bath and Beyond
- 1992: Macy's IPO
- KSS IPO
- Mall of America opens

1993-1994

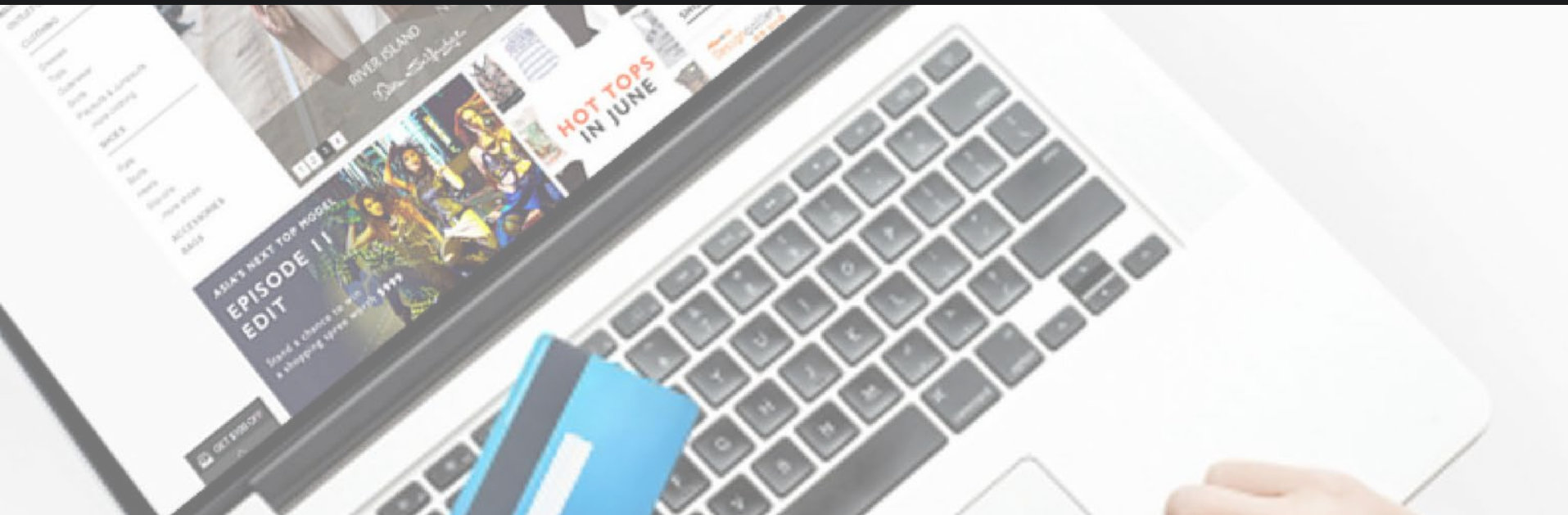
- McGough starts on Wall Street
- 1994: Pizza Hut is the first to accept an online order
- Amazon is founded



Early 1990's

- Gulf War
- 1990-91 Recession
- Otherwise 'normal'





RETAIL 4.0

RETAIL 4.0 = RISE OF STRIP CENTER, OFF PRICE



1995-2000

- 1994: Import Quotas start 10-year lift
- NAFTA
- 1997: AMZN IPO
- Strip Mall is born
- Ecomm 1% of retail sales. 2% of GAFO

2000-2005

- 2000: pets.com fails
- Regional mall growth slows to 1%
- DKS, HD, BBBY, KSS consolidate key categories & take mall traffic
- 'Off Price' concept grows

2005-2017

- 2007: Great Recession
- 9/2011: chewy.com born
- 2016 e-comm 12% of retail sales and 28% of GAFO
- 2017: Rise in Bankruptcies



2018-2020

- 2018 Birth of the Amazon Store
- Sq ft goes from 14bn to 26bn

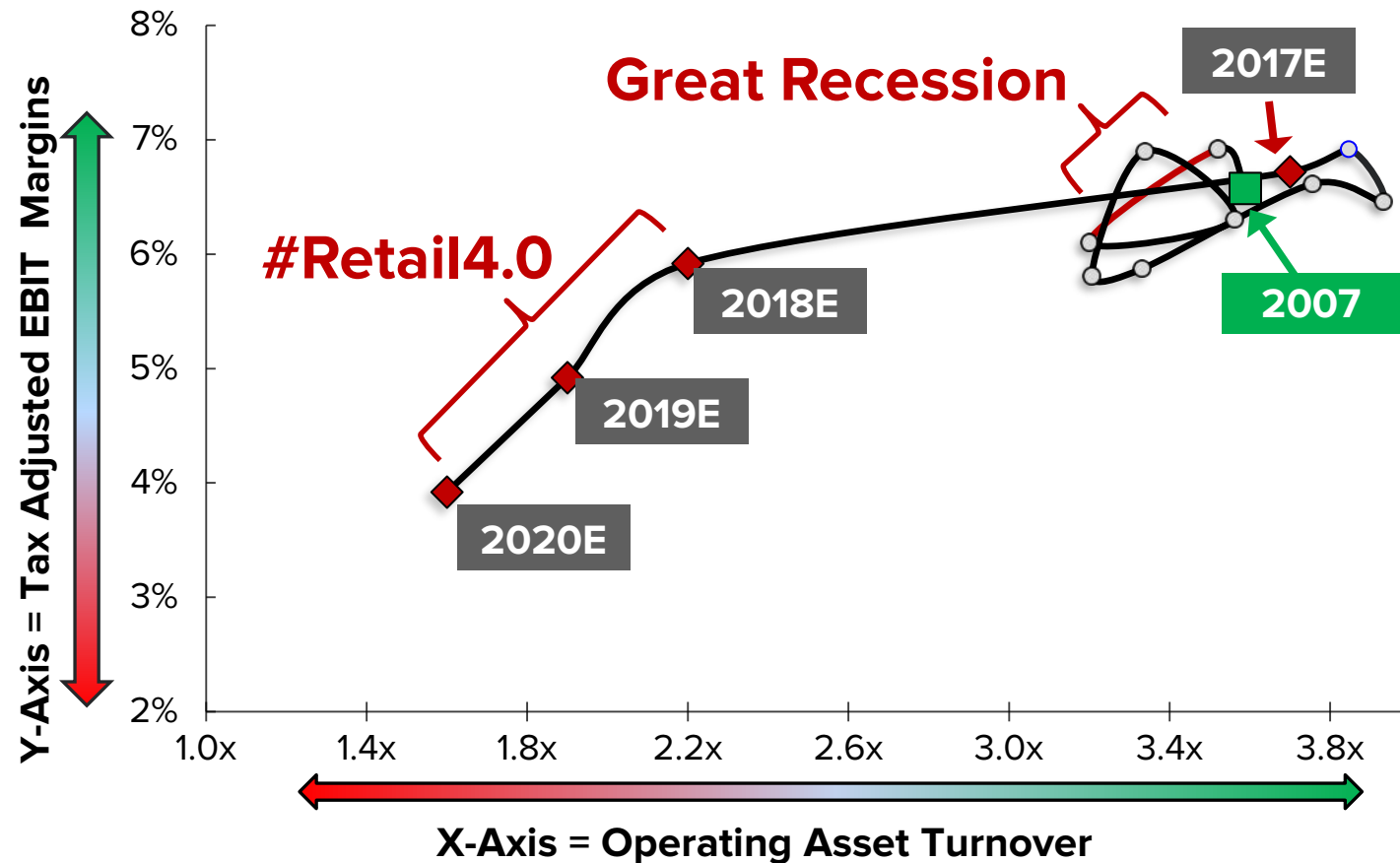


1995-2020

Deflation = Dept Store Disintermediation

URNS X MARGINS WORSE THAN GREAT RECESSION

RETAIL RNOA MAP



CRITICAL

Asset Turns

3.8x → 1.5x

Working Capital
Capex

Lease Accounting

Tax-Adj Margins

6.8% 3.9%

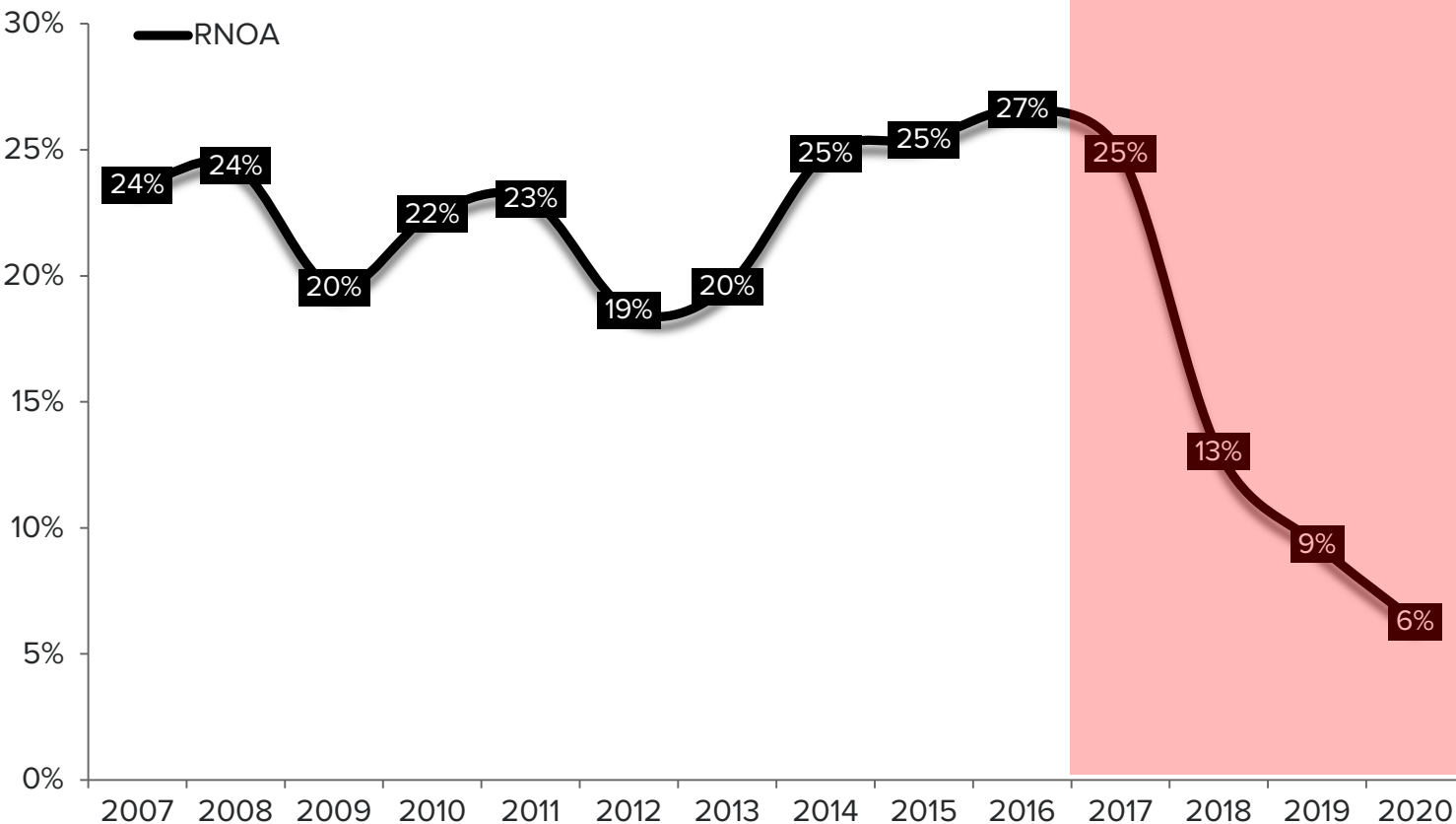
Discounting

TrumpFlation

More than offsets Strong \$

RNOA WORSE THAN GREAT RECESSION

RETAIL INDUSTRY RNOA



NEWSFLASH

Stocks don't go up when this happens to returns – even the winners.

Bankruptcy

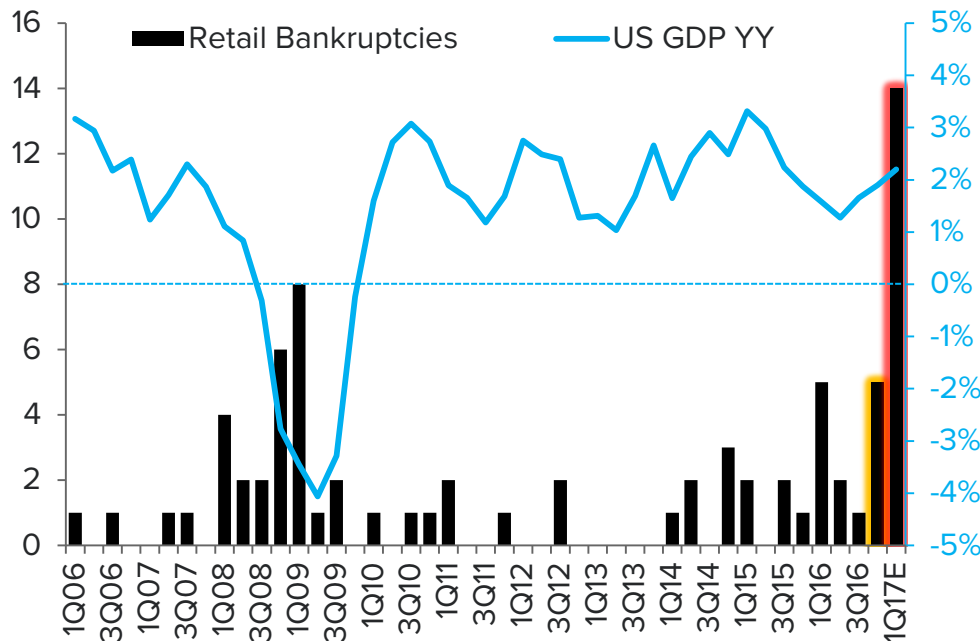
Do not pass Go,

do not collect \$200



RETAIL 4.0 – #CH11 AND GROWTH ACCELERATING

BANKRUPTCIES AND GROWTH #ACCELERATING?



RETAIL VS MACRO BIFURCATION

Retail Bankruptcies are accelerating to all time high levels, while US GDP growth is strengthening. Something isn't right.

CONFLUENCE

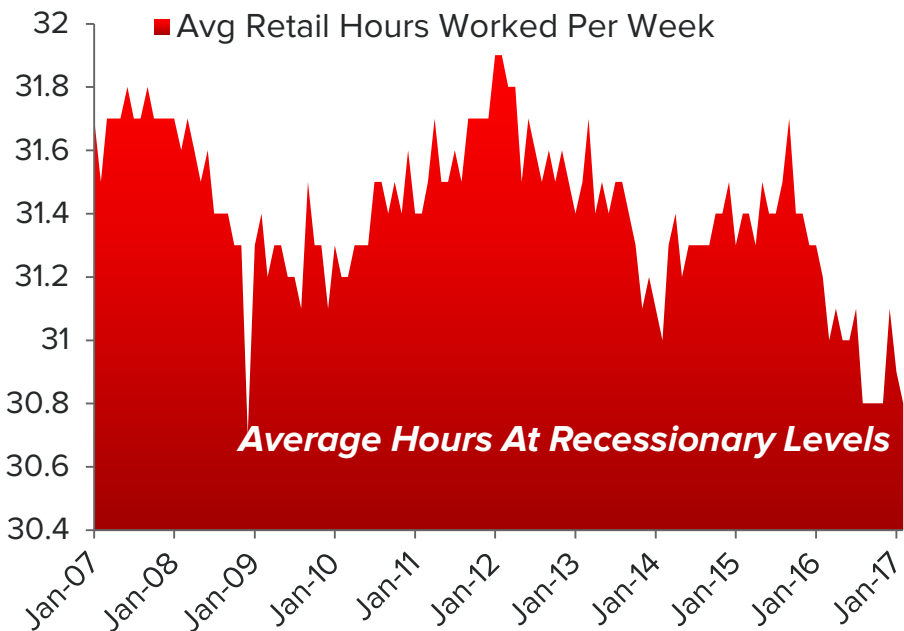
- Brands going direct
- AMZN investing on one end
- WMT on the other
- Lower profitability Survivors (TGT, COST) in the middle – but surviving
- Marginals left out in the cold
 - KSS
 - Claires
 - Party City
 - Etc...
- Deflation stalling at a minimum. That's your Bullish case. And that's Bearish.

DID EVERYONE FORGET ABOUT WAGES?



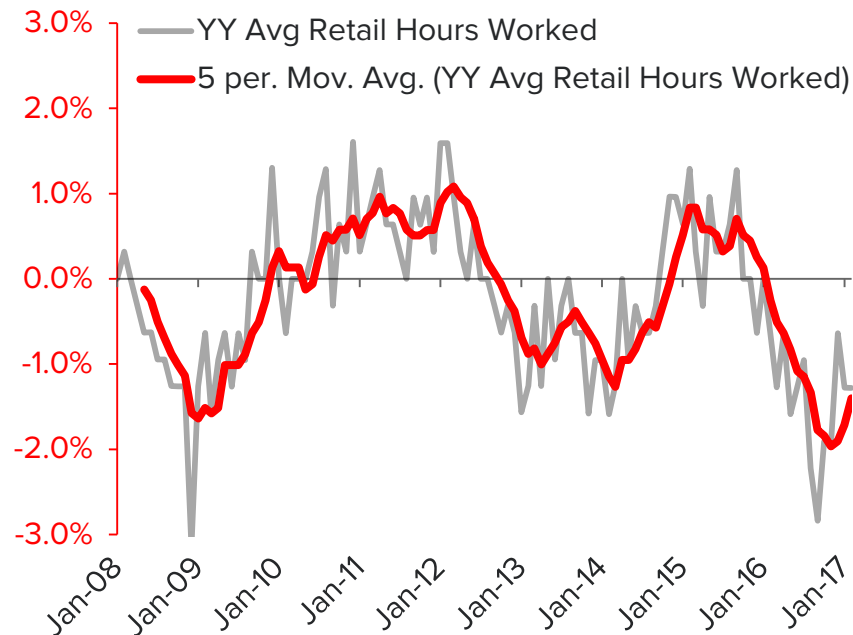
RETAIL WAGES VS ALL WAGES

RETAILERS HAVE CUT HOURS IN RESPONSE



RETAIL AVG HOURS WORKED

Fewer hours creates a negative pressure on traffic. Less customer service, slower checkout, worse conditioned store.



RETAIL HOURS PER WEEK YY

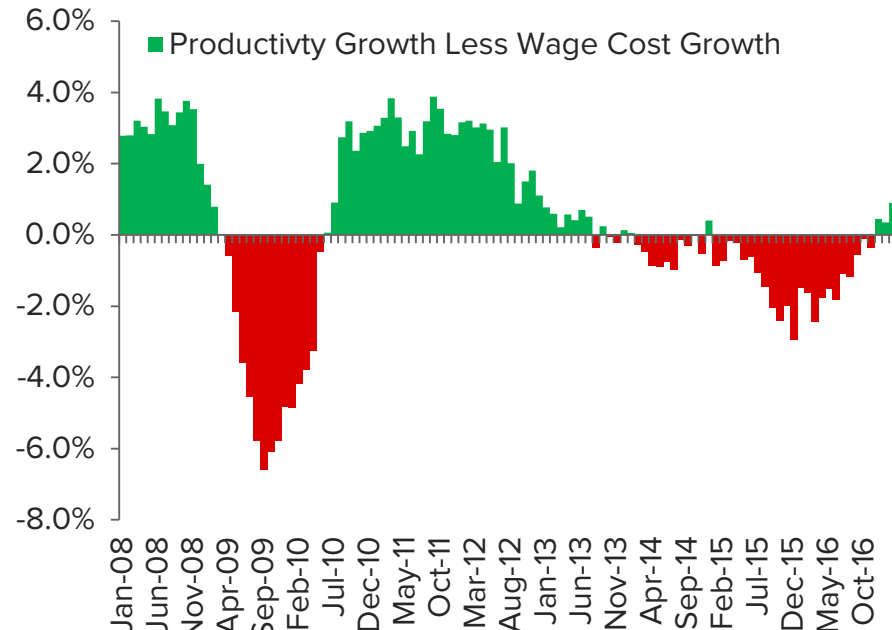
Hours have accelerated downwards since the WMT wage announcement in Feb 2015.

PRODUCTIVITY FALLS, LABOR MARGINS COMPRESS



RETAILER PRODUCTIVITY VS COST

Pulling hours is hurting productivity growth.



EMPLOYEE LEVEL MARGIN COMPRESSION

For two years, employees have been costing more and generating less. This just inflected, but will it last?

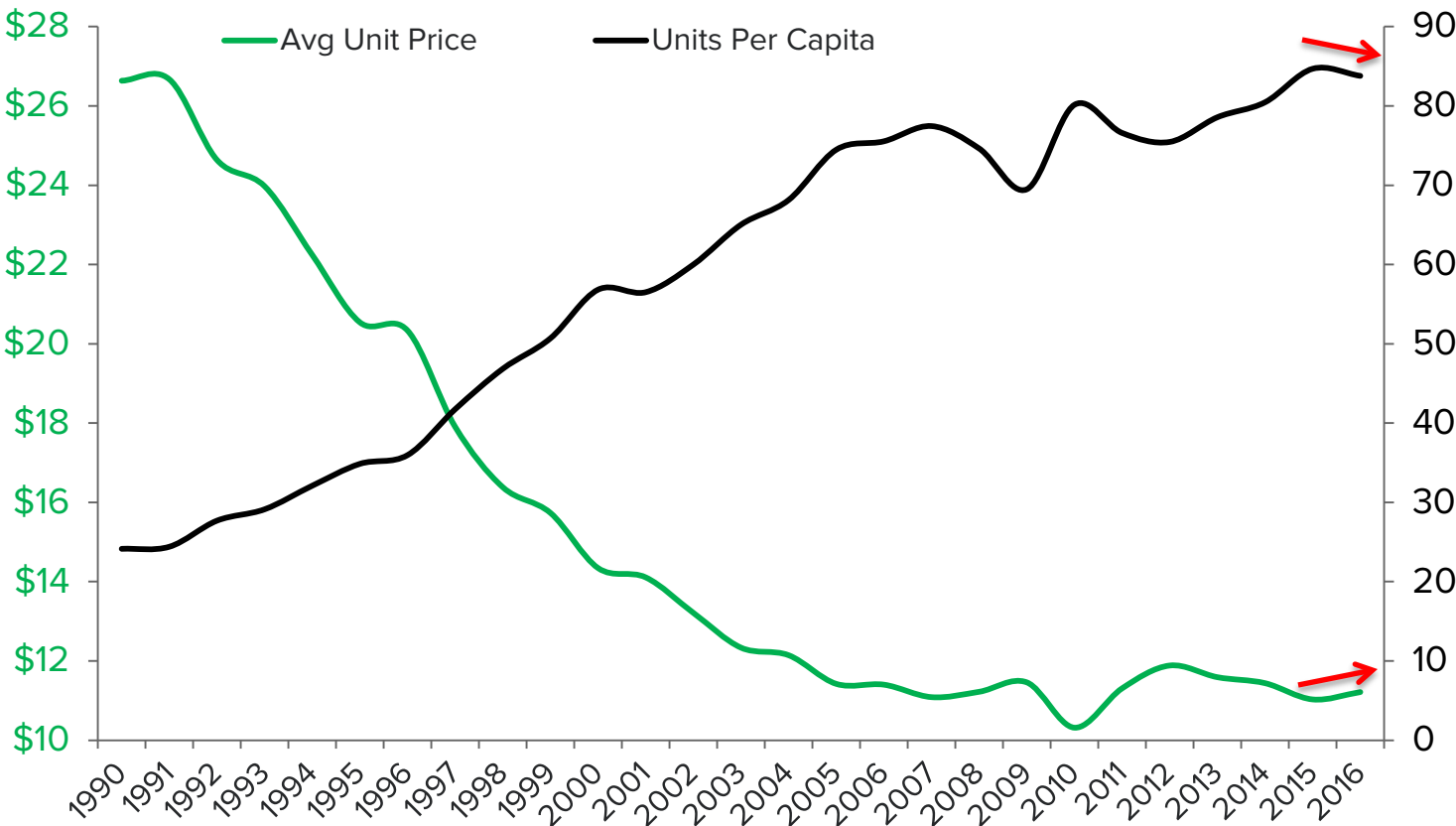
Was This Wal-Mart's Master Plan???
Squeeze the bottom feeders out of the market.

The background of the slide features a close-up, slightly blurred image of the United States flag on the left and the Chinese flag on the right, both waving. The American flag shows its stars and stripes, while the Chinese flag shows its red field with yellow stars. A solid black horizontal band is positioned across the middle of the image, containing the title text in white.

RETAIL 4.0 – #TRUMPFLATION

IT'S ALL ABOUT VELOCITY, AND THAT'S DECELERATING

APPAREL DEFLATION STALLING & INFLECTING



OTEXA uses a standardized unit. (SME, or M2).

The number comes from qty of different types of garments, that are converted with standard conversion factors

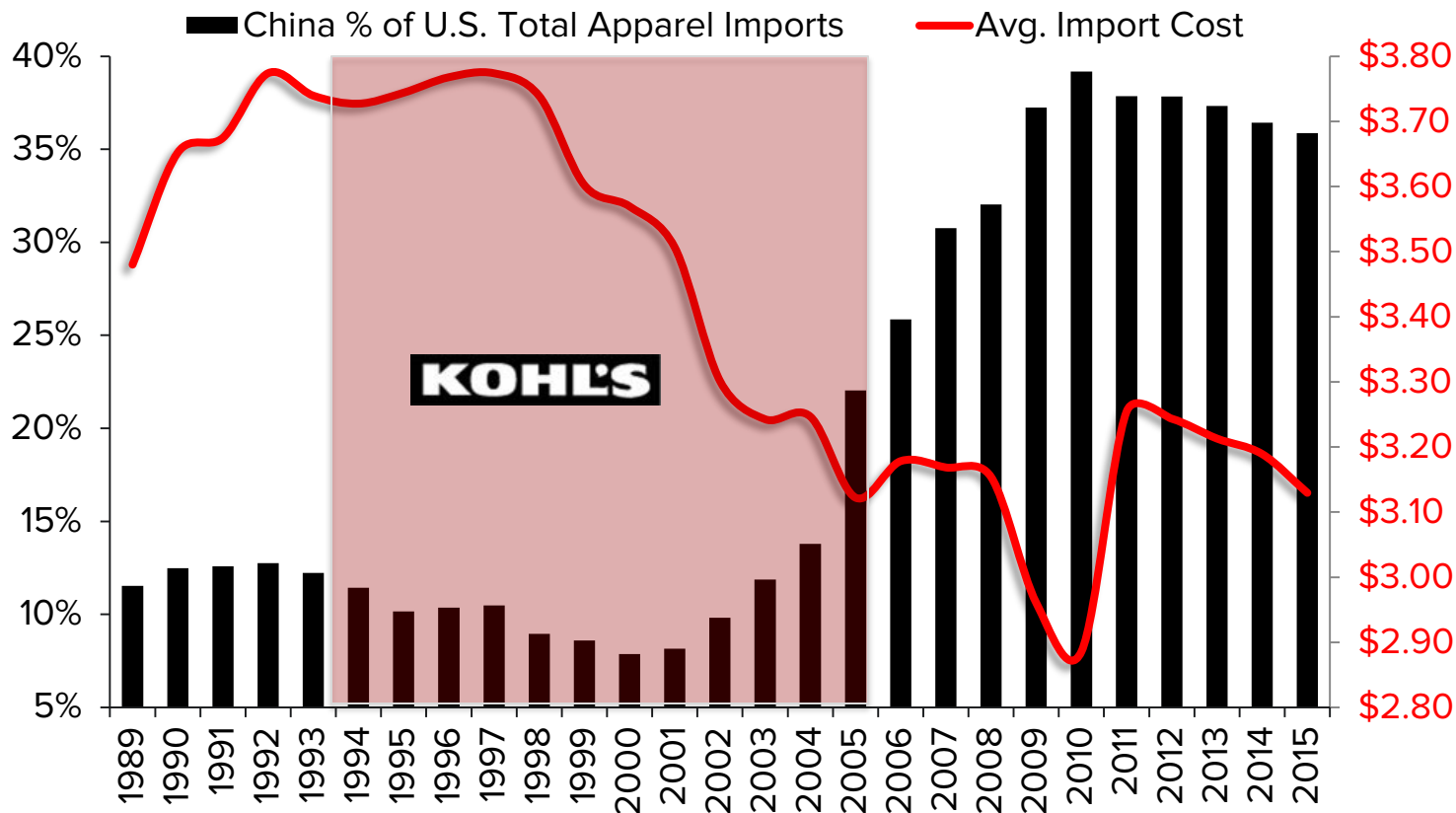
<http://otexa.trade.gov/corr.htm>

For example 1 Dozen women's/girls knit shirts/blouses = 12.5 SME, or 1 shirt = ~1 SME.
1 Dress is about 3 SME, 1 pair of socks is about 0.2 SME.

*Assuming imported units = Consumed units

THE 'ALLOWED TO EXIST, GROW THEN IPO' DECADE

CHINA % OF U.S. TOTAL APPAREL IMPORTS



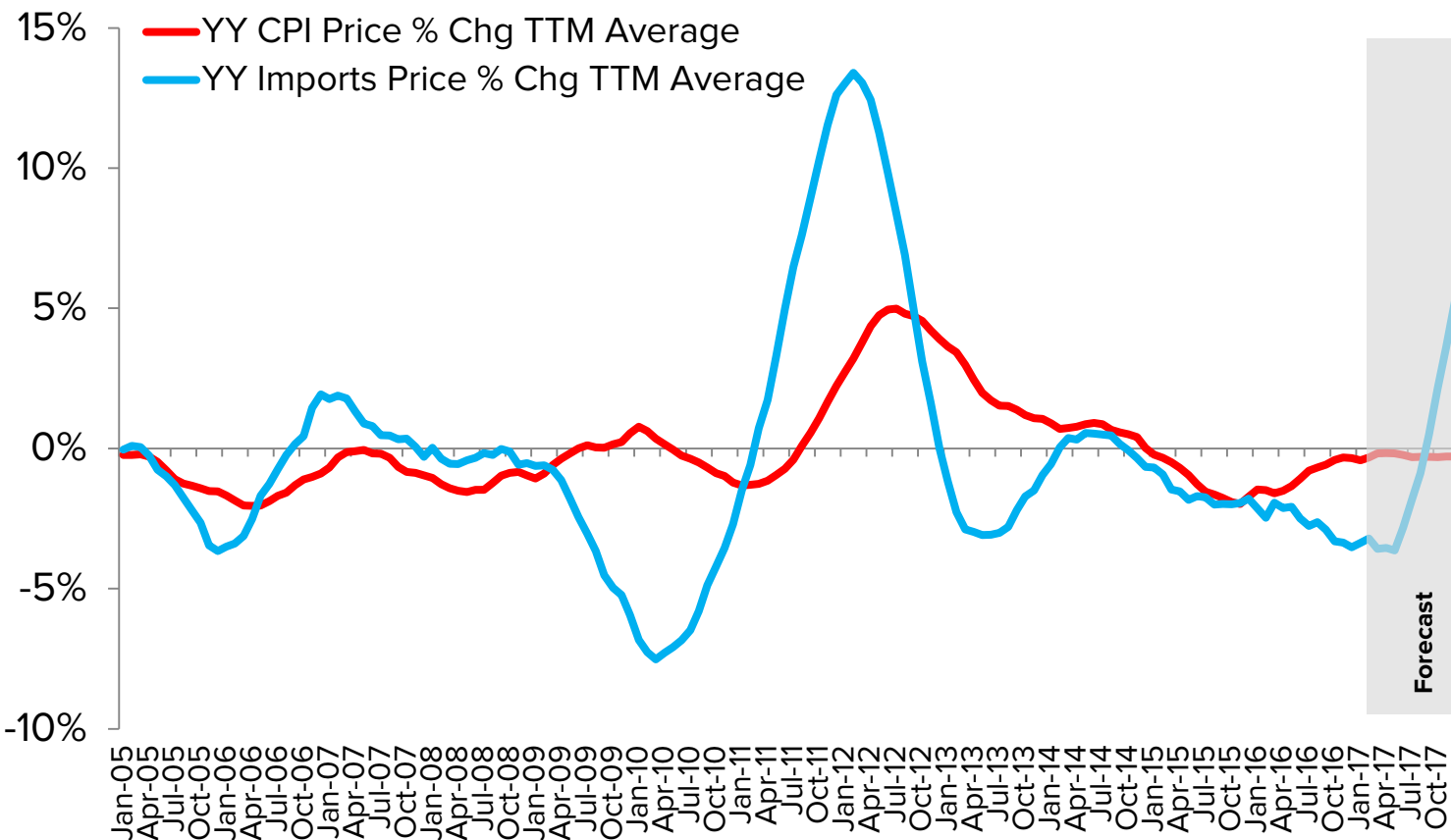
- January 1 2005 – apparel import quotas completely gone out after a decade of phasing.

- They were reinstated temporarily to prevent flooding – limited to 7.5% per year for t-shirts, cotton pants, and underwear (just before HBI went public). But by 2010 these temp safeguards were totally gone.

- In 2006, for example, imports of Chinese cotton pants surged 1,500% and cotton shirts were up 1,300%.

COST/PRICE, TRACKS WELL OVER TIME

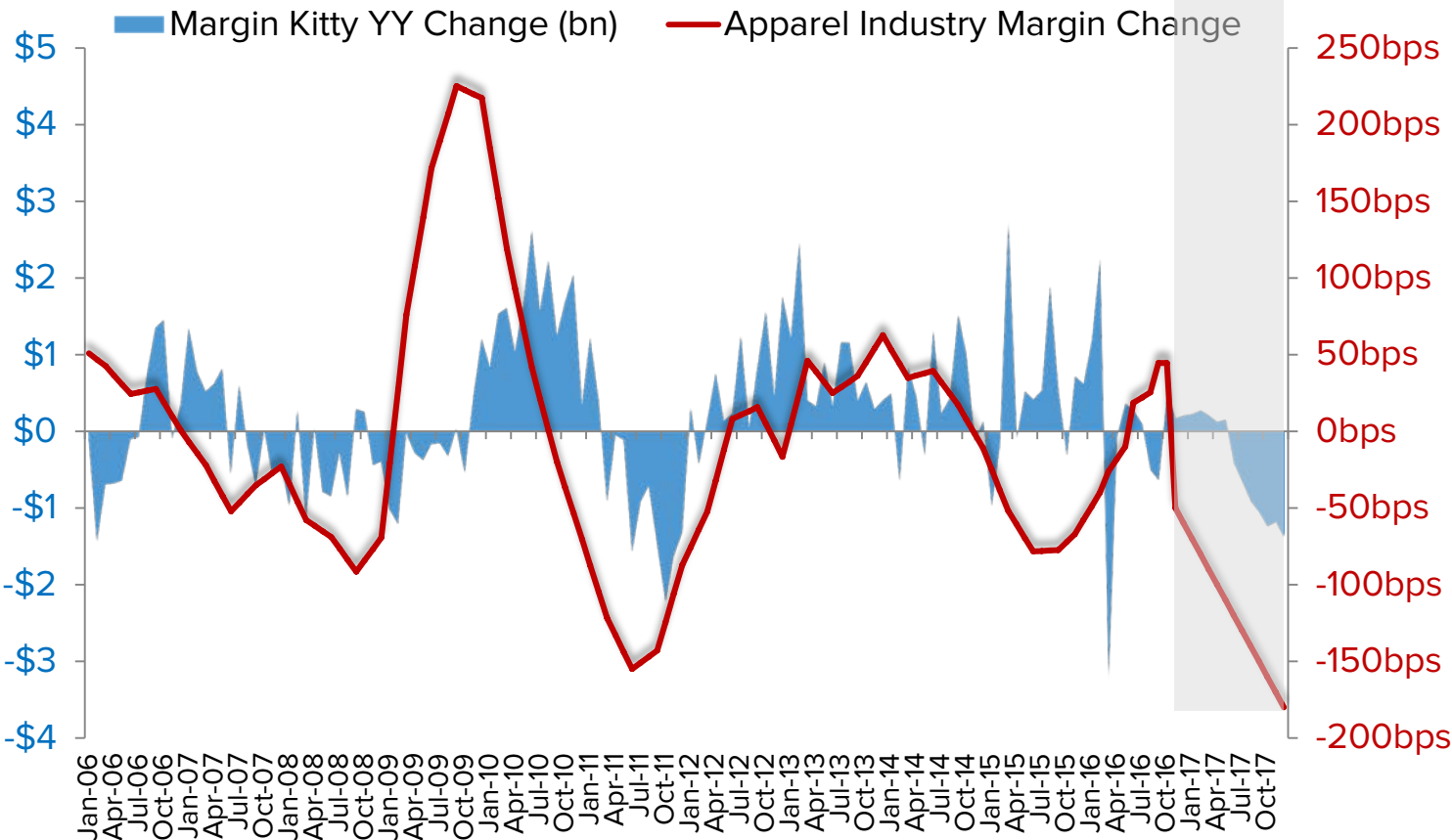
CPI VS IMPORT COST, YY CHG



This is common sense.
Retail price generally
tracks wholesale cost.

...AND YES, THIS IMPACTED MARGINS DIRECTLY

MARGIN KITTY (NET PRICE LESS SUPPLY CHAIN COSTS)



Here's your key slide...

Industry margins track the supply chain/import-export spread with a $0.9R^2$.

Our assumption is for a 15% increase in import costs, with minimal ground cover in the form of higher consumer pricing.

IF there is higher pricing, then we're likely to see per capita unit consumption (ie 84 SME for Apparel) retreat.

Volume hurts much more than pricing.

MORE BANKRUPTCIES TO COME

Bankrupt



At Risk of \$0 Equity

SSI	CBK
GNC	HBI
ICON	BONT
SPWH	PIR
RCII	SHLD
TPX	Claire's
TLRD	Sears
TCS	J Crew
BOOT	True Religion
PRTY	Gymboree
JCP	Academy
KSS	Neiman
ASNA	Nine West
FRED	David's Bridal

High Risk



THE BANKRUPTCY SPECTRUM

'Stuck in the middle' + Leverage – Cash Flow = Bad

The 'junky company short call that didn't work for the past decade should finally start working.'



RETAIL 4.0 – #FAKEESTATE

#FAKEESTATE 101

13 BILLION SQUARE FEET – 8.2BN IS MERCHANDISE RETAIL

4.5bn SQFT
Regional Mall



3.2bn SQFT
Strip Mall



0.4bn SQFT
Outlet Mall



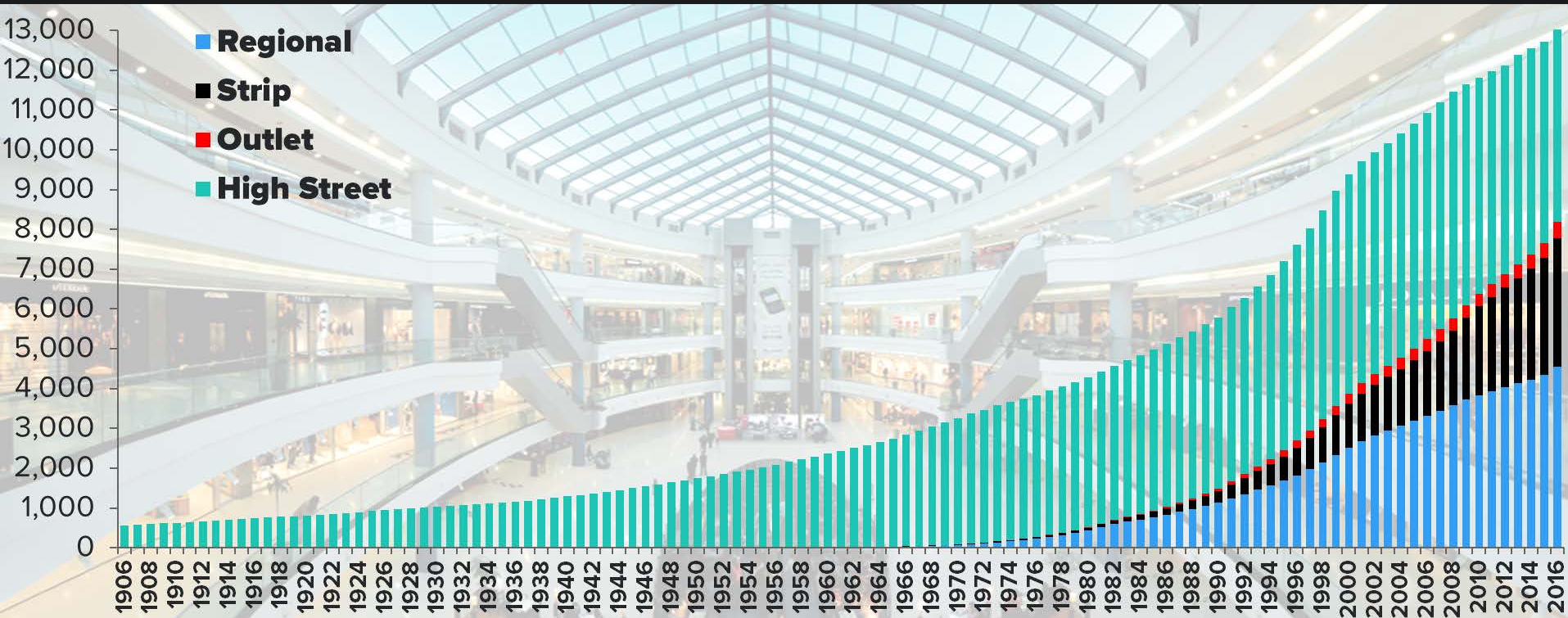
4.9bn SQFT
High Street



13bn SQFT
Total

ALL STORES

#FAKEESTATE 101 – THIS ALONE IS BEARISH



LONG TERM TRENDS IN REAL ESTATE

The proliferation in Strip Malls without declines in Regional Malls is the problem. I know, that's common sense. But there's your 'tough retail environment' and 'declining mall traffic'.

DOES ANYONE DISPUTE E-COM 12% - 34% IN 10-YEARS?

DIDN'T THINK SO....

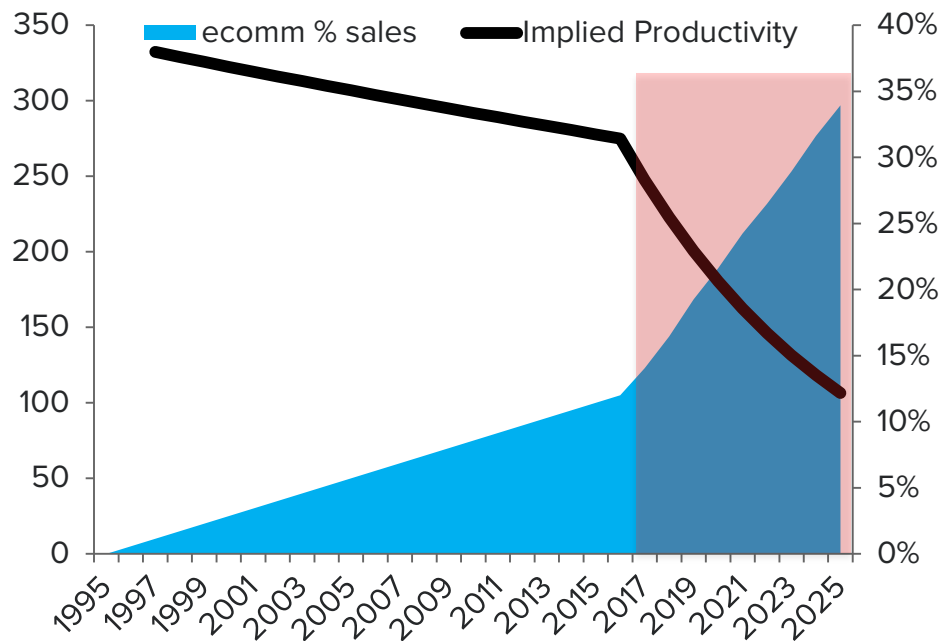
Online
Penetration

34%

12%

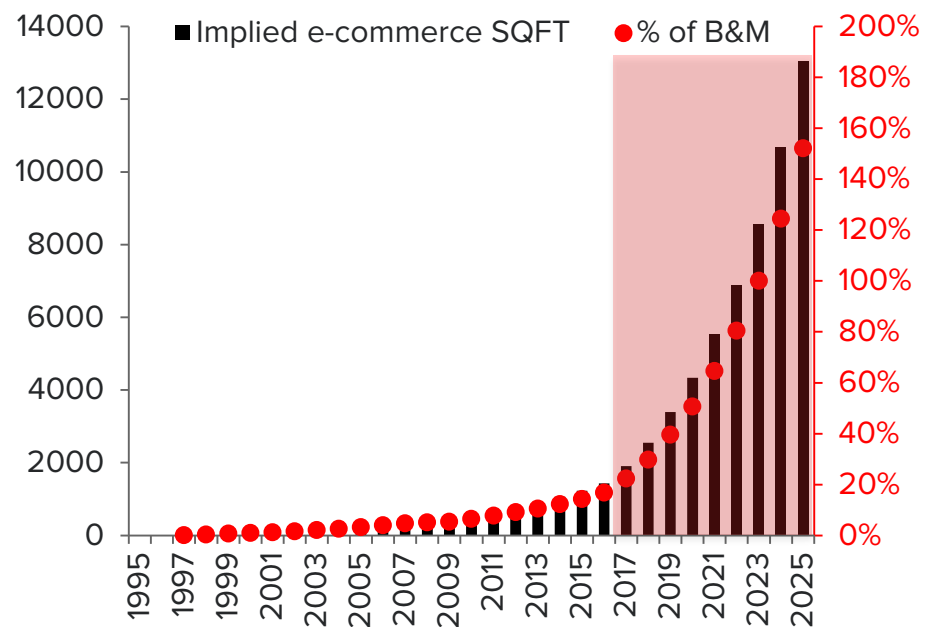


...BUT THOSE MALL NUMBERS ARE #FAKE



ECOM PRODUCTIVITY IS A KEY CONSIDERATION

Like it or not, e-comm has a square footage equivalent

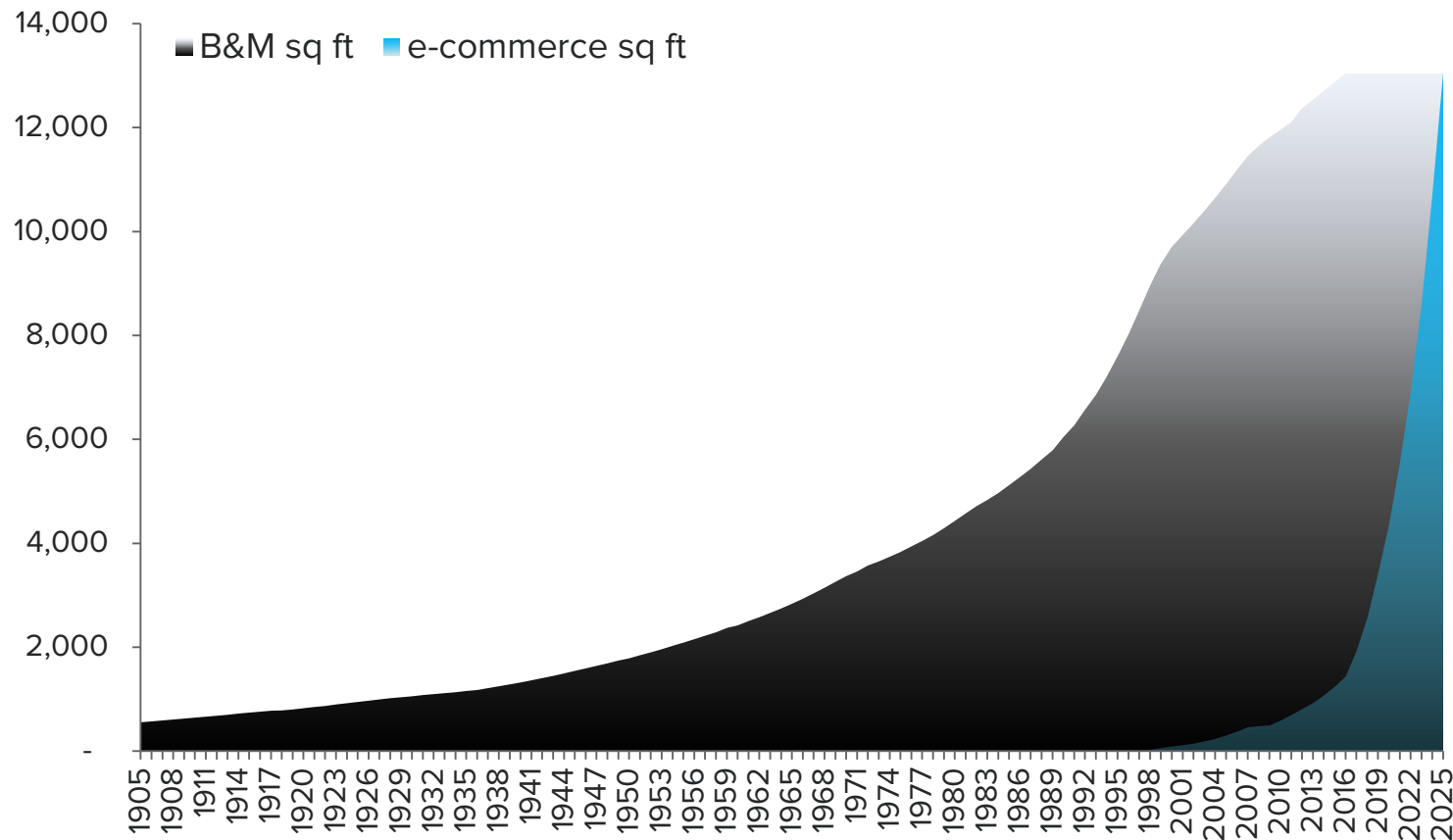


ECOMM SQFT VS B&M

If we agree on e-comm going to 34%, AND that e-comm incremental productivity declines at rate of e-comm growth, then e-comm will be 100% of B&M by the end of #Retail4.0.

...ENTER RETAIL 1.0—5.0

E-COMM SQ FT IN 10-YEARS



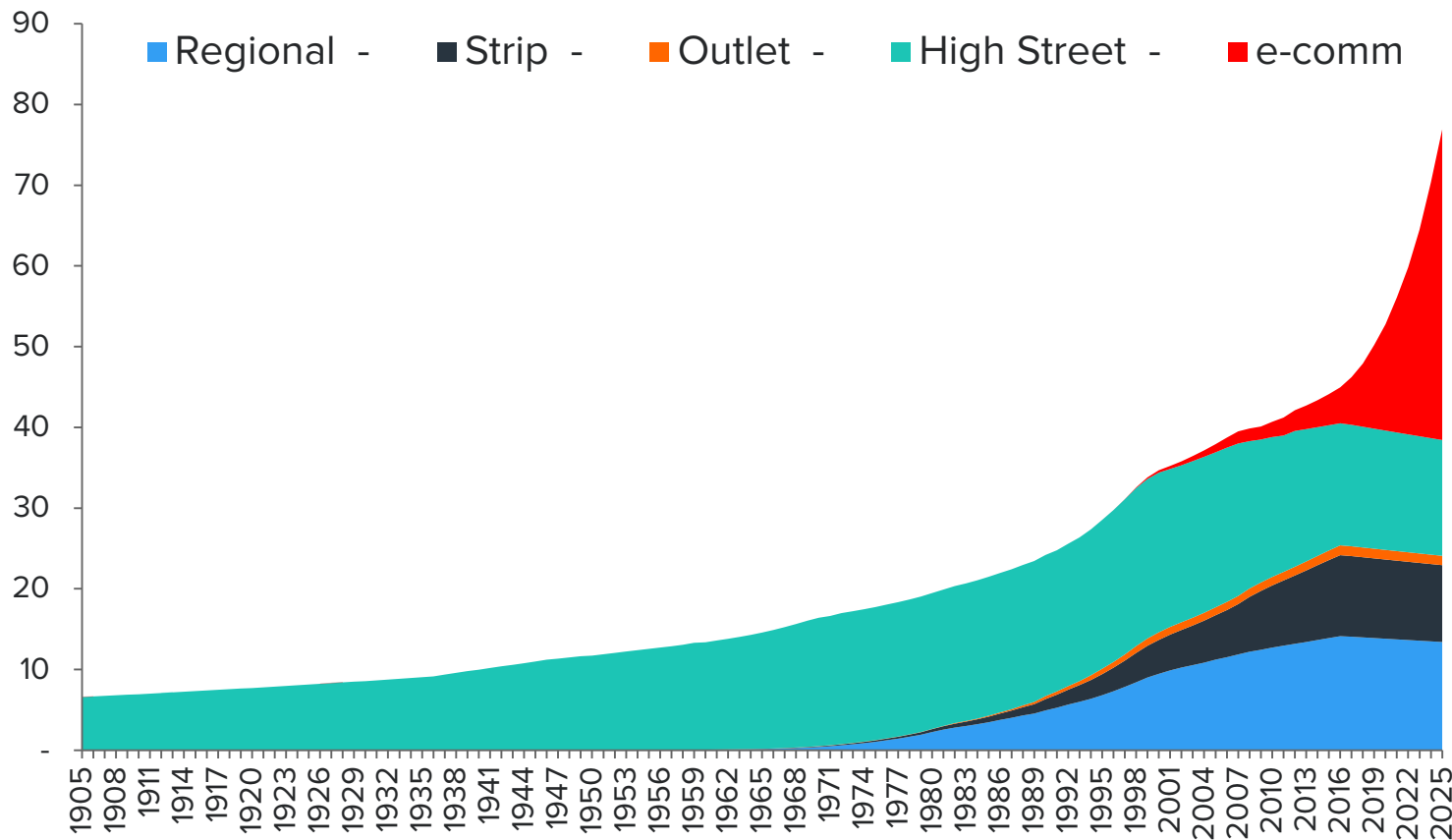
That blue area should scare every CEO out there.

But they probably have not done this math.

If they have, they think their Brands are better than they are – which means they're not closing stores fast enough.

IMPLIED 'FEET PER CAPITA' SIMPLE CAN'T HANDLE THIS

IMPLIED PER CAP SQUARE FOOTAGE

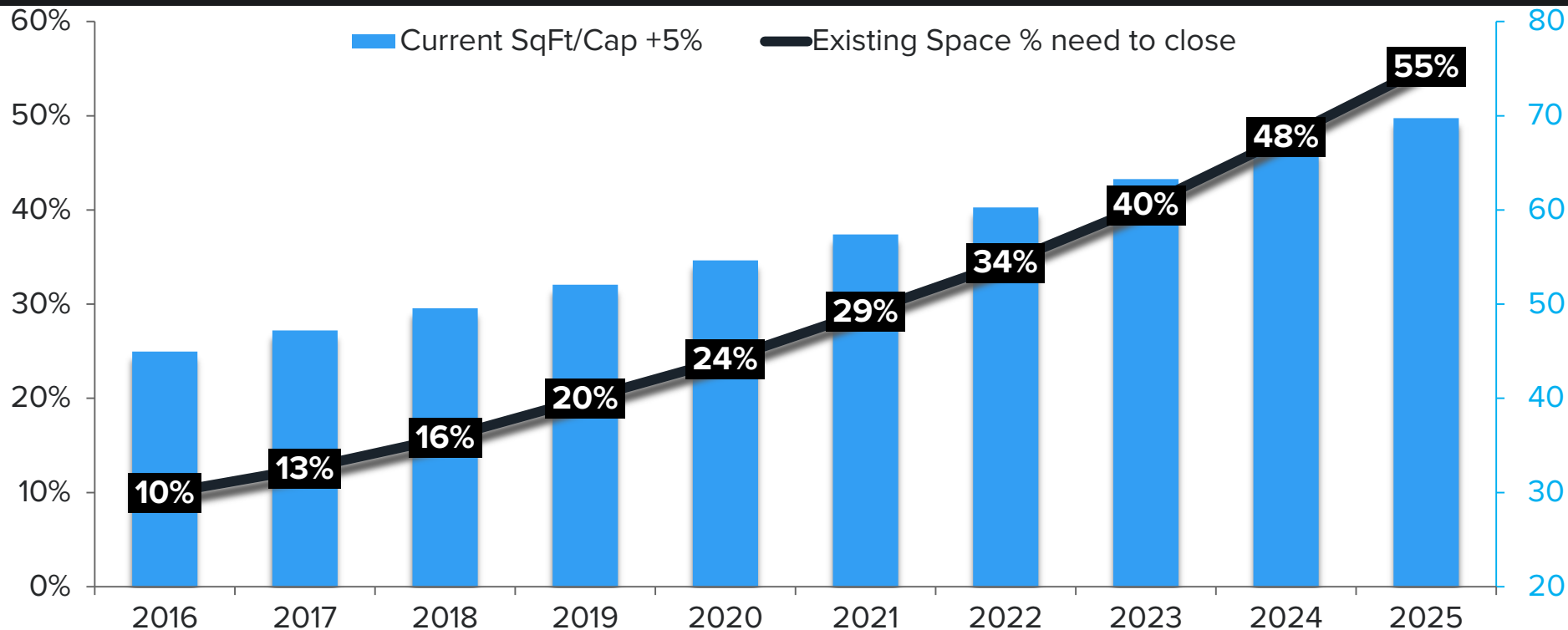


Bull Case = We're at 44 square feet per cap – the number that's 'thrown around' is 30-33x.

Base Case = With 30% of retail square footage vanishing (ie not reopening under a different banner), we are up to 62feet/cap.

Grizzly = 76x/cap with no store closures.

50% OF B&M NEEDS TO CLOSE



THIS IS WHAT WE NEED TO MAINTAIN CURRENT SUPPLY/DEMAND BALANCE

...and that assumes that the current supply/demand balance is acceptable – which it's not.

6BN FEET OF BARREN WASTELAND?

WHY NOT? UNLESS THERE ARE CONCEPTS/EXPERIENCES THAT YOU AND I HAVE NOT THOUGHT OF YET.

- Newsflash: Space can't vanish.
- Remember Linen's? Circuit? Sports Authority?
How about Woolworth? Sears/Kmart?
- It simply gets recycled.
- But will we have 6bn feet of barren wasteland?



MALL OWNERS PROPERTY MIX BY PERCENTILE

		Regional Mall Rank Percentile Buckets				Strip Mall Rank Percentile Buckets			
Ticker	Company	0-24.9%	25-49.9%	50-74.9%	75-100%	0-24.9%	25-49.9%	50-74.9%	75-100%
GGP	General Growth Properties, Inc.	21%	21%	20%	29%	2%	3%	1%	4%
SPG	Simon Property Group, Inc.	15%	20%	20%	26%	2%	3%	2%	11%
TCO	The Taubman Company	6%	-	6%	71%	-	-	6%	12%
VNO	Vornado Realty Trust	20%	-	-	20%	-	20%	-	40%
MAC	Macerich	16%	16%	16%	33%	4%	2%	5%	7%
CBL	CBL & Associates Properties, Inc.	37%	21%	10%	5%	7%	8%	7%	6%
DDR	DDR Corp.	3%	4%	5%	4%	19%	23%	23%	19%
WPG	Washington Prime Group	26%	11%	15%	5%	12%	12%	9%	11%

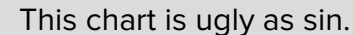
REIT EXPOSURE BY BRAND/RETAILER – HERE'S PAYLESS EXAMPLE

	Owned Malls w/ Payless ShoeSource	% of Total Owned		Owned Malls w/ Payless ShoeSource	% of Total Owned
Simon Property Group	111	51%	CBRE	6	17%
General Growth Properties	87	74%	DLC Management Corporation	6	16%
Kimco Realty Corporation	60	25%	Federal Realty Investment Trust	6	10%
Washington Prime Group	59	61%	Madison Marquette	6	40%
CBL & Associates Properties	58	67%	Moonbeam Capital Investments	6	43%
Brixmor Property Group	55	22%	Regency Centers	6	8%
DDR Corp.	46	20%	The Taubman Co.	6	32%
Macerich	33	57%	Acadia Realty Trust	5	31%
JLL	28	34%	Blackstone Group	5	19%
Rouse Properties	25	68%	Casto	5	14%
Weingarten Realty Investors	25	24%	Centennial Real Estate Co.	5	63%
Westfield	22	63%	GK Development	5	56%
PREIT	21	75%	IRC Retail Centers	5	13%
Starwood Retail Partners	20	71%	Kohan Retail Investment Group	5	42%
InvenTrust Property Mgmt.	19	36%	Lexington Realty International	5	63%
Cafaro	14	50%	Merlone Geier Management	5	23%
The Pyramid Companies	14	88%	Morguard Management Co.	5	56%
Hull Property Group	12	44%	Property Commerce	5	42%
RPAI US Management	12	23%	Saul Centers	5	38%
The Kroenke Group	12	18%	ShopCore Properties	5	25%
Vestar	12	43%	The Sterling Organization	5	42%
Namdar Realty Group	11	48%	Vintage Real Estate	5	100%
Kite Realty Group	9	15%	Wharton Realty Group, Inc.	5	63%
Ramco-Gershenson Properties Trust	9	17%	Cedar Realty Trust	4	18%
Urban Edge Properties	8	31%	Cypress Equities	4	29%
Forest City Realty Trust	7	32%	Donahue Schriber	4	21%
Hendon Properties	7	78%	DP Management	4	50%
RPAI Southwest Management	7	20%	Equity One	4	15%
Spinoso Real Estate Group	7	70%	National Realty & Development Corp.	4	20%
WS Development	7	18%	North American Development Group	4	36%

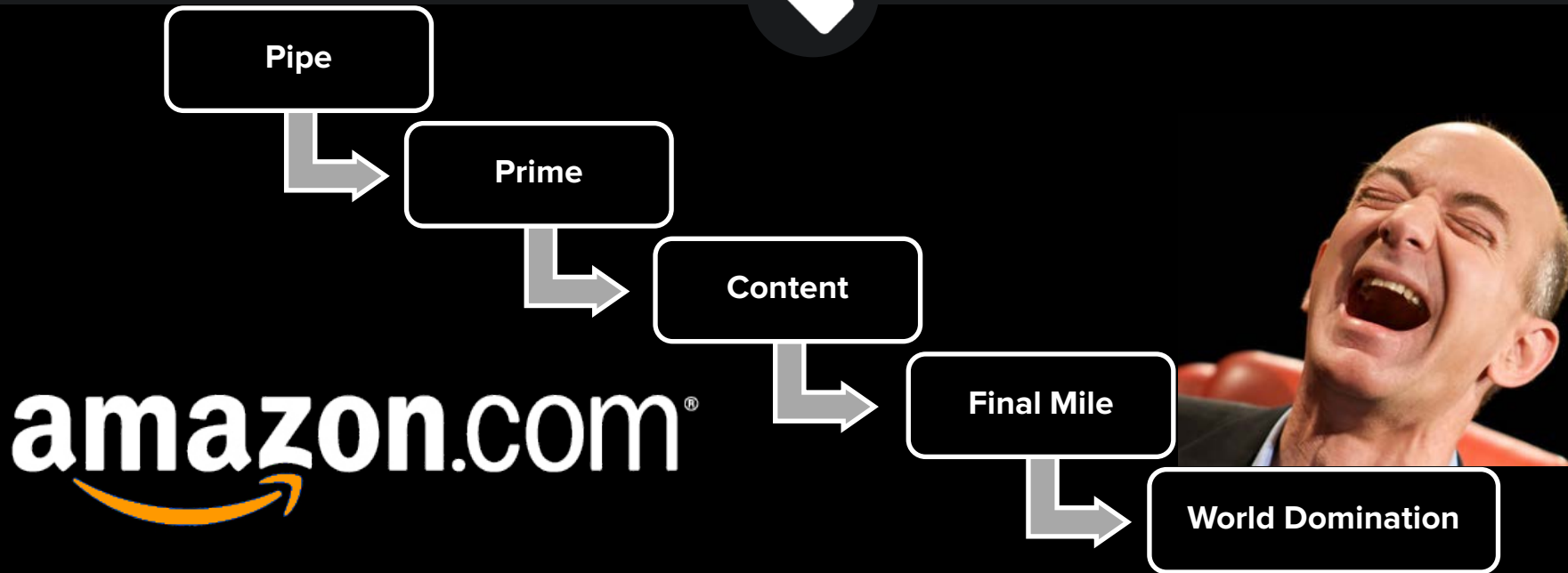
We have a database of every property in the US every brand, every retailer, location and co-tenants.

On the list of 'next factors to research' we have to look at each brand/retailers footprint, and the most exposed REITs.

RETAILERS VS PAYLESS SHOESOURCE MALL OVERLAP %



Check out the outliers
(high store base
+percent overlap).



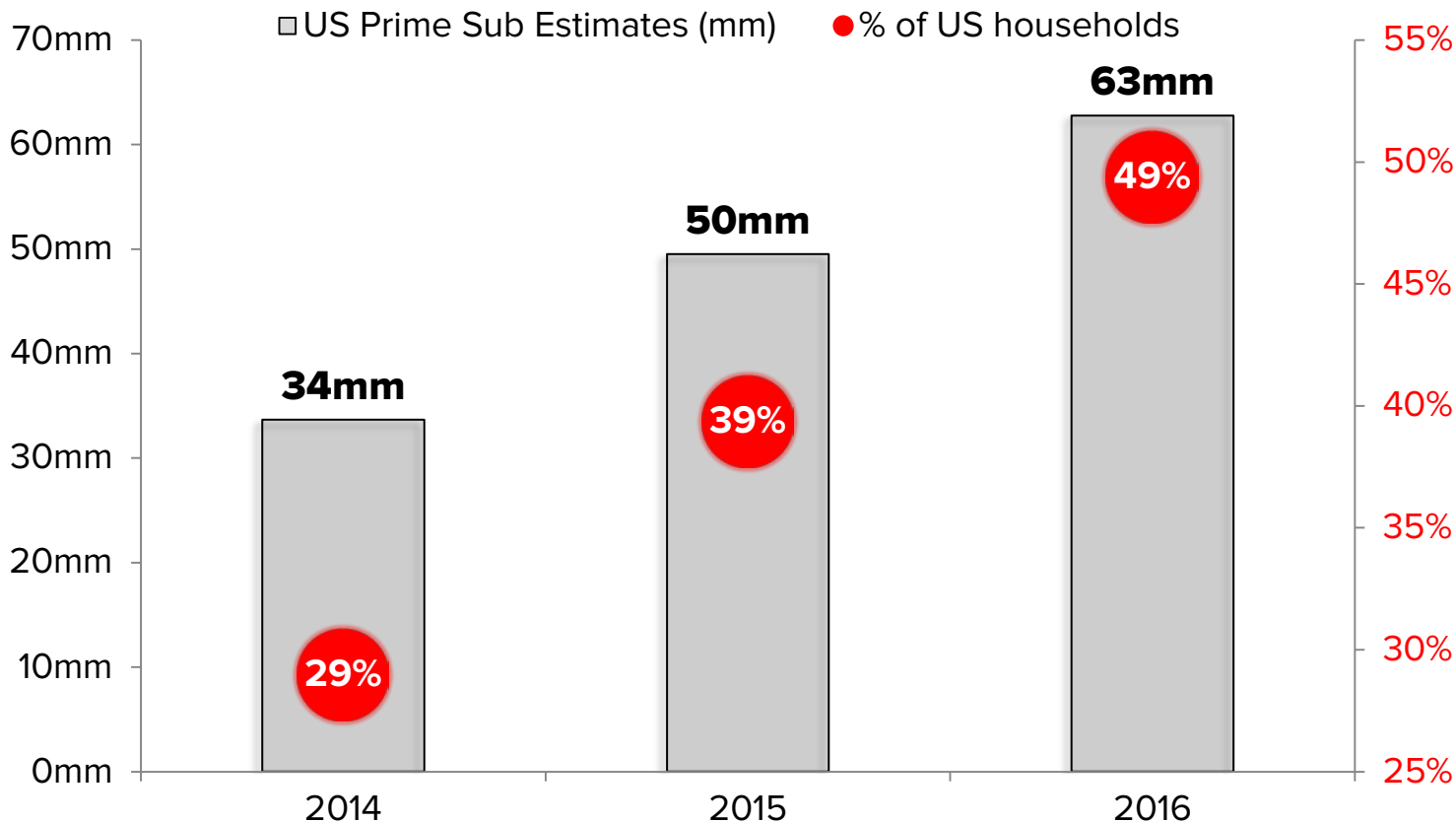
AMAZON.COM

AMZN – THE GENERATIONAL CALL

January 17, 2017

OUR ESTIMATE OF NUMBER OF US PRIME MEMBERS

TOTAL U.S. PRIME USERS VS % OF TOTAL U.S. HOUSEHOLDS

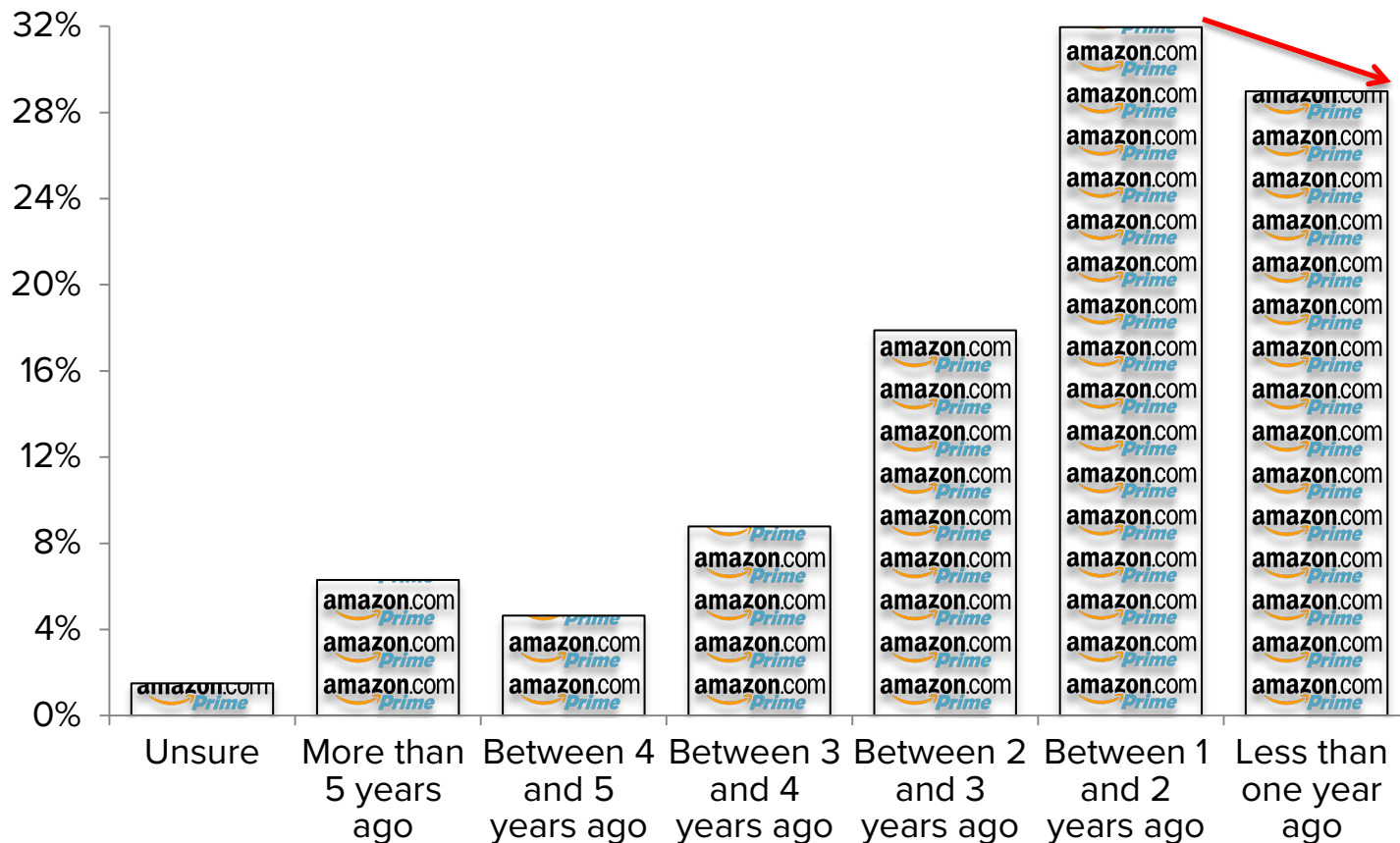


About 49% of US households currently have Prime.

We need more households.

LAW OF LARGE NUMBERS

HOW LONG AGO DID YOU SUBSCRIBE TO AMAZON PRIME?



But still – 13mm incremental users vs 2015.

That's 4.1% of the US population.

Or..

10.4% of households added in 1-year

BEYOND SHIPPING - TRY TO COMPETE WITH THIS BOX



\$99
Per Year

=



\$1,000+
Per Year

COMPANIES WITH SERVICES SIMILAR TO THAT OFFERED IN PRIME

Prime music, prime drive, prime photos, prime video, prime magazines, prime books... the list goes on (see next page)

NEW 5% PRIME CREDIT CARD, REPLACING 3%



5% Back
at Amazon.com
with an eligible Prime
membership* [Learn more](#)

2% Back
at restaurants,
gas stations,
and drugstores*

1% Back
on all other
purchases*

**New
Credit Card**

get a **\$70 Amazon.com Gift Card** instantly upon approval for



**5% Back
every day**

**Access to
promotional financing**

**No
annual fee⁷**

**Store Card
(Still There,
Not New)**

Get a free **\$50 Amazon Gift Card**



3

3% Back
Earn 3% Back at Amazon.com.*



No annual credit card fee[†]

2

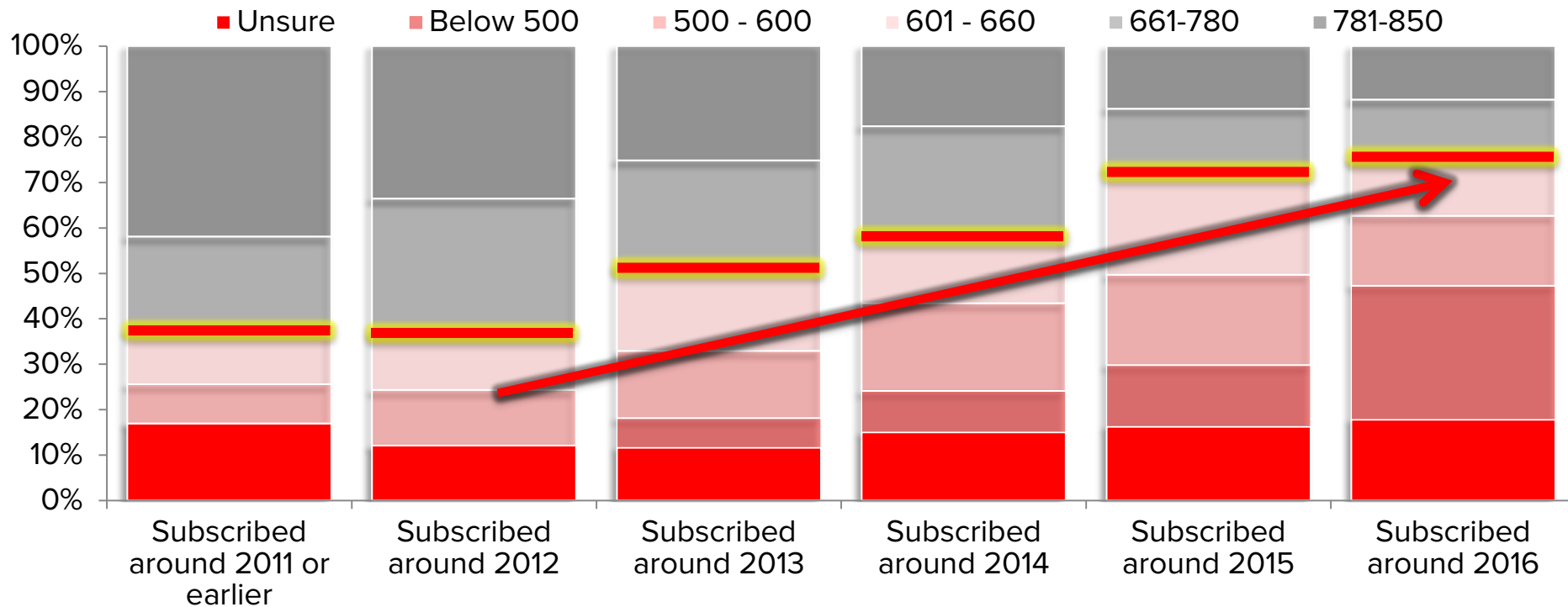
2% Back
Earn 2% Back at restaurants, gas stations and drugstores.*
1% Back
Earn 1% Back on all other purchases.*

**Former Card
And the Non-
Prime Card**

CREDIT CARD OFFERING FROM AMAZON

Amazon's may be introducing this card to help push up penetration on its own card to save on interchange fees to third parties. There is speculation that the trump administration will change interchange limits regulations pushing the fee rate up.

PRIME MOVING MORE INTO SUBPRIME



INCREMENTAL PRIME CUSTOMERS BY FICO SCORES

As Prime subscribers are added, Credit Scores get worse. Perhaps commonsensical, but this is a bigger trend than we thought we'd see. This is TGT bullish, and 'middle-America –retail' (WMT, TGT, KSS, JCP, BBBY, WSM, Rx front-end, Dollar Stores, etc...) bearish.

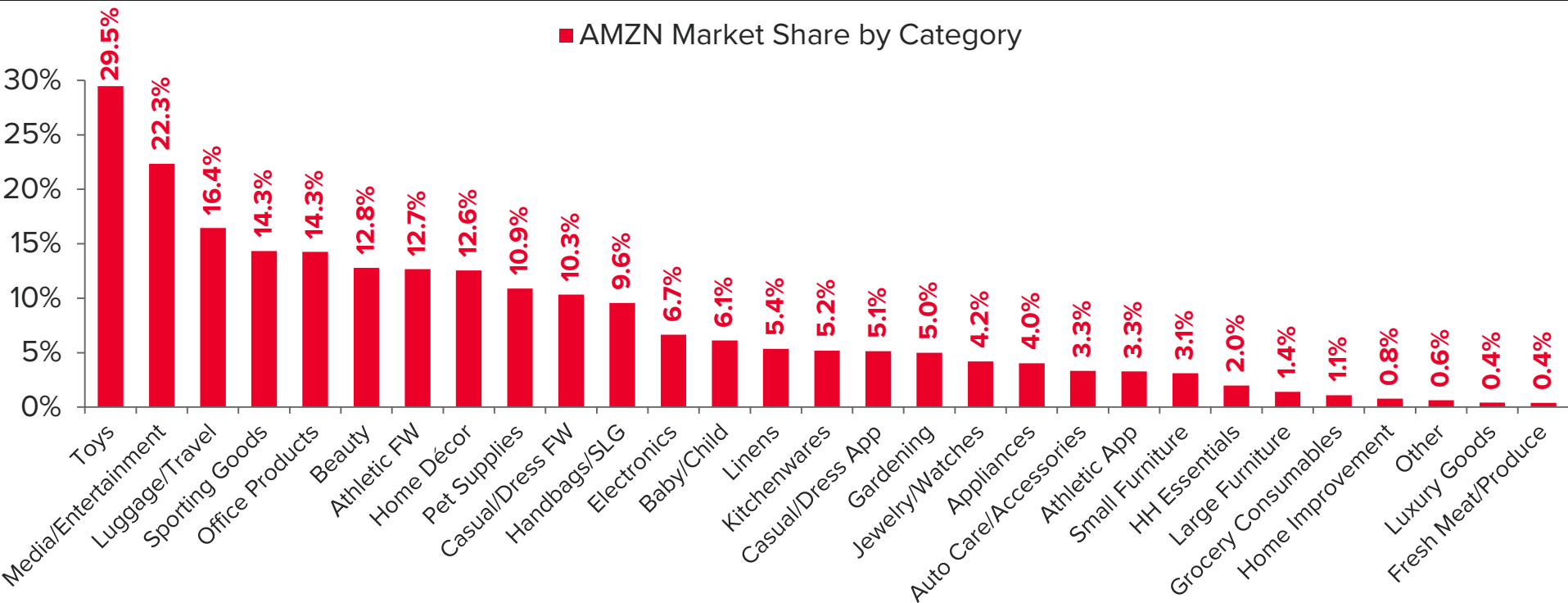
2016 US AMAZON CATEGORY BREAKDOWN



US AMAZON END RETAIL BY CATEGORY

You can actually make an argument that the segments on the right hand side of this chart have greater 'Amazon Impact'.

MARKET SHARE BY CATEGORY



AMAZON SHARE BY CATEGORY

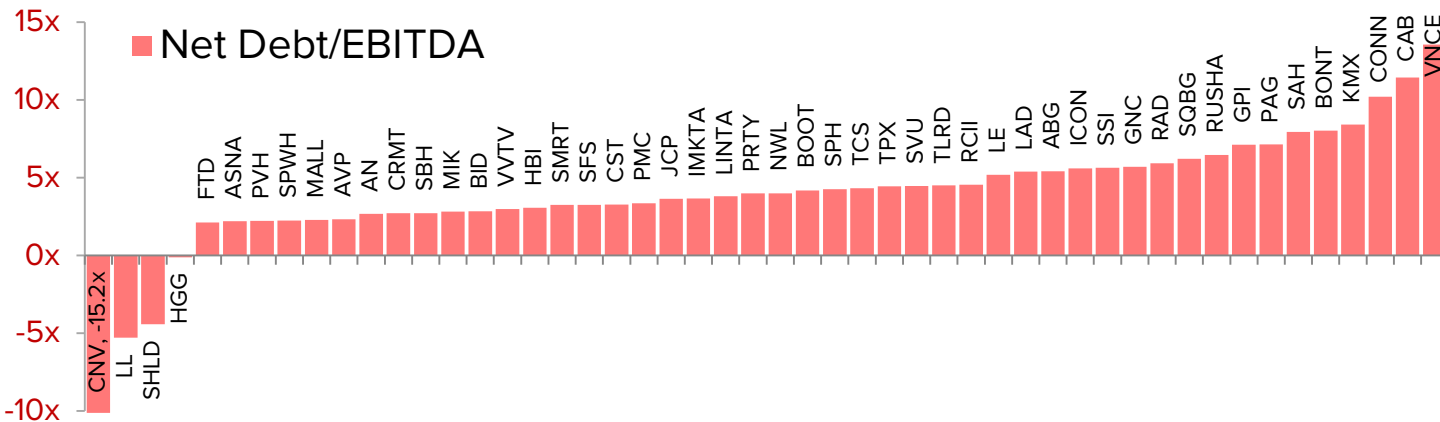
Amazon makes up about 3.9% of US Retail (Ex Automobiles & Gas). It has 33% share of US Online Retail.



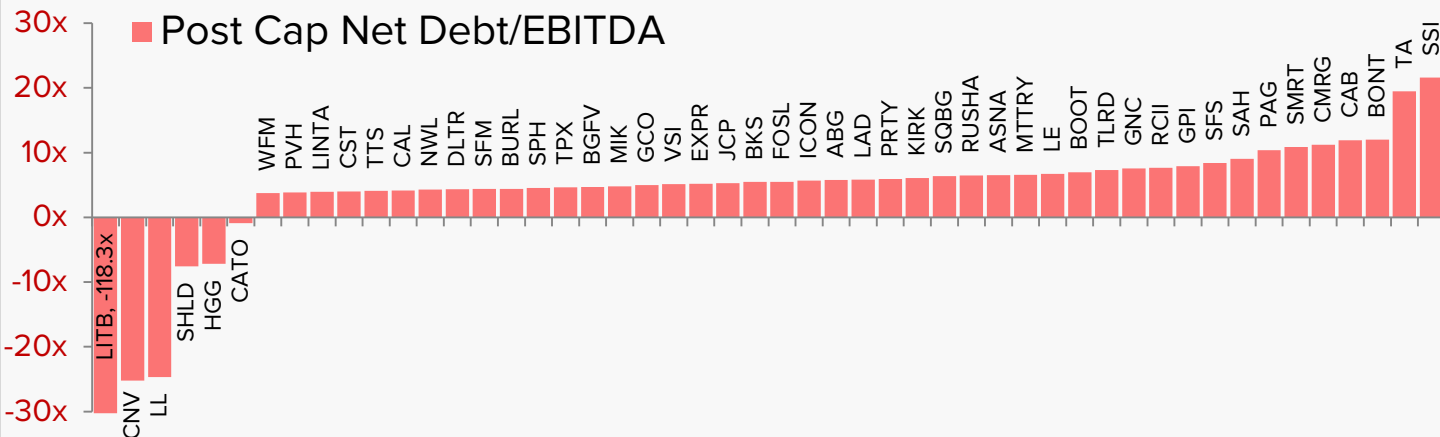
RETAIL 4.0 – LEASE ACCOUNTING = SUPER BEARISH



LEVERAGE SCREEN PRE / POST LEASE

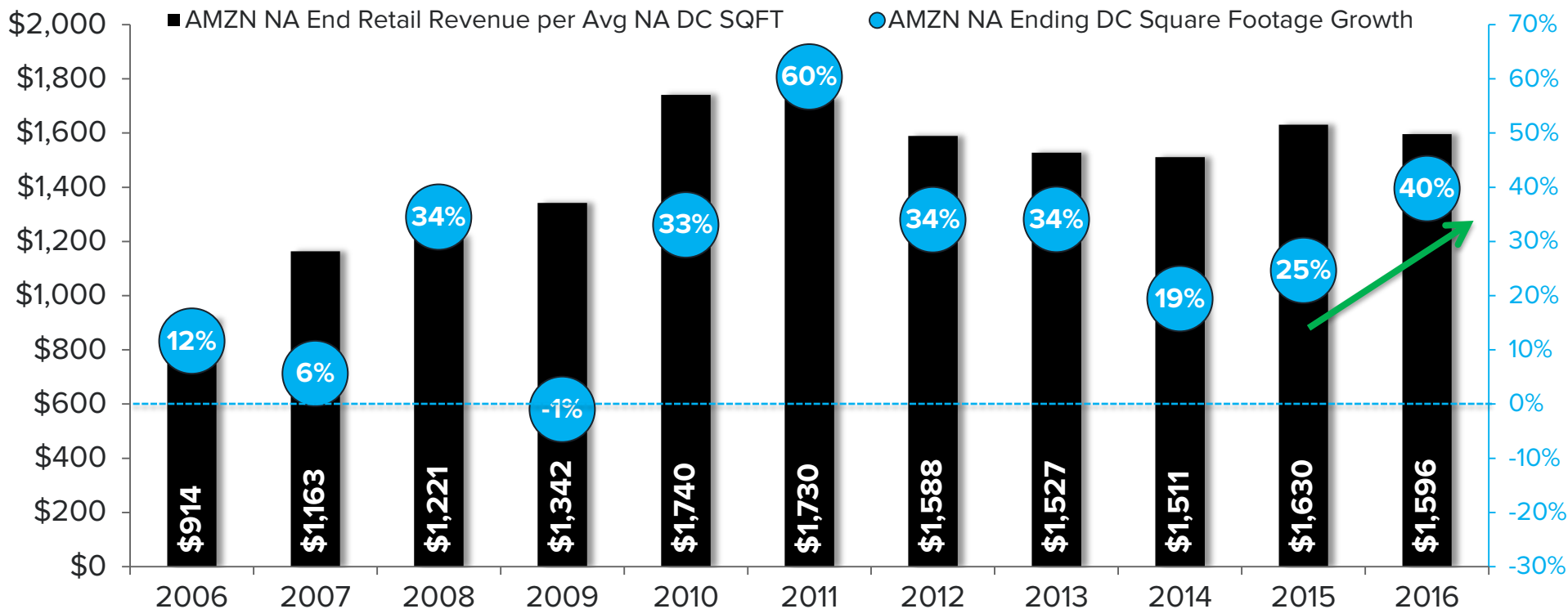


Here is a screen of tickers on our watch list. The worst before and after lease capitalization.



Lease value calculated as PV of year 1 obligation over the average duration with 7% discount rate.

#1 AMAZON BLOW-UP FACTOR IS IN CHECK



AMZN NA DC SQUARE FOOTAGE PRODUCTIVITY

Amazon is accelerating distribution center growth to maintain lower productivity. Extended productivity means extended capacity which means risk to growth, and lost market share opportunity. If it happens, that's a very negative stock event.



RETAIL 5.0

THE MALL IS NOT DEAD, SORRY FOLKS

Store Immaterial

Store Critical

1

2

3

4

5

6

7

8

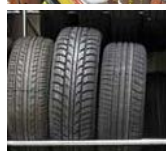
9

10

Media/ Ent
Toys
Office products
Pet supplies



Home Décor
Sporting Goods
Athletic Apparel
Kitchen wares
Luggage/Travel
Auto care/accessories



Casual/Dress Apparel
Linens
Electronics



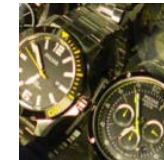
Casual/Dress Footwear
Handbags/ Leather Goods
Athletic Footwear
Grocery
Baby/Child



Small Furniture
Home improvement



Jewelry/Watches
Appliances
Fresh Fruit & Vegetables
Fresh Meats

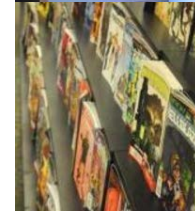
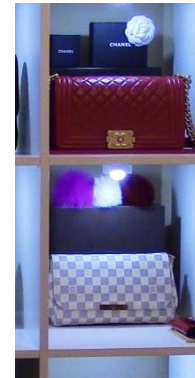


Gardening

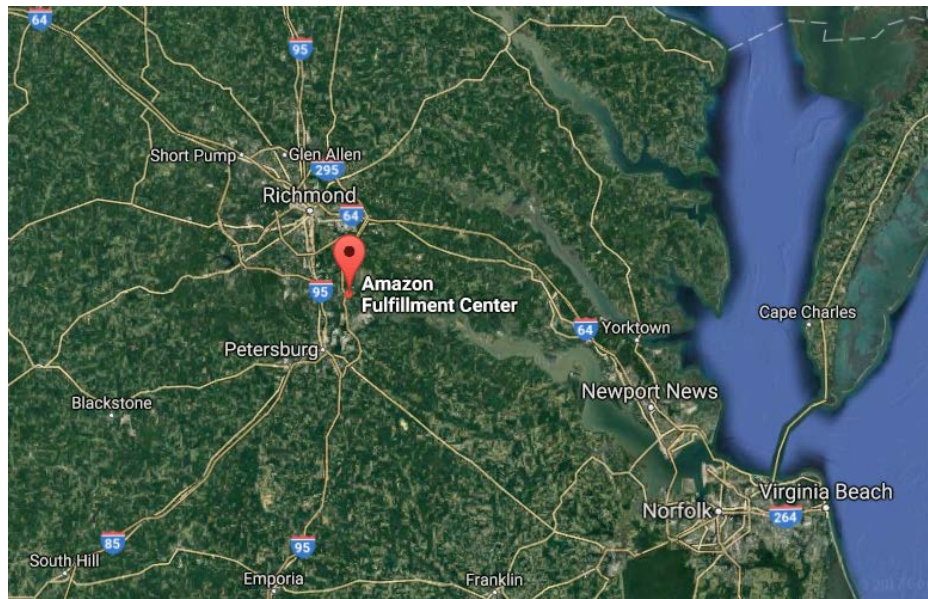


Fragrance & Cosmetics
Luxury goods
Auto Parts

Automobiles
Large Furniture



WHERE'S THE VALUABLE PROPERTY?



DESTINATION AREAS, OR BEST DISTRIBUTION LOCATIONS?

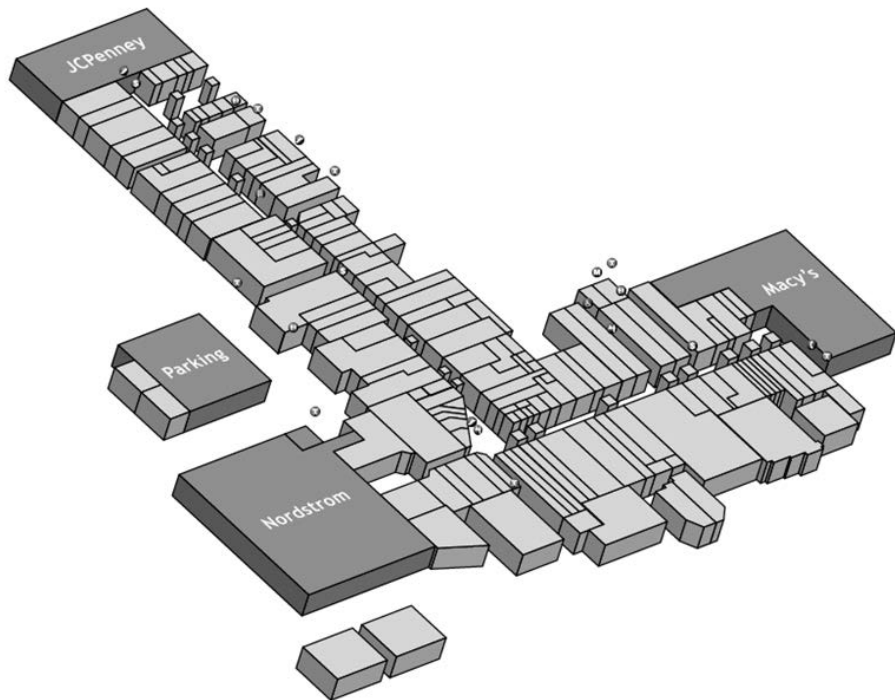
Will the best property be in the sticks? Will stores be destinations like Costco?

Are highway access areas with cheap land values within driving or flying distance of metro areas the next boom markets?

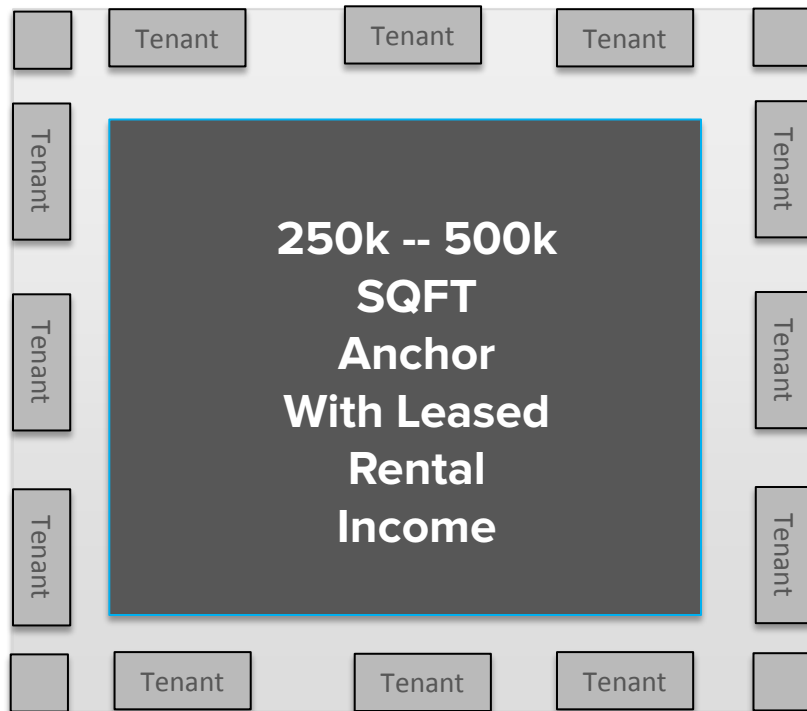
#RETAIL3.0 VS #RETAIL5.0 CENTER

SQUARE FOOTAGE IS NOT A ZERO SUM GAME

3.0 Shopping Center



5.0 Shopping Center



SQUARE FOOTAGE IS NOT A ZERO-SUM GAME

6k Strip Malls



1k Strip Malls



Add 2k-3k 5.0 Boxes



4k Strip Malls Need to Close



AMAZON 'EXPERIENTIAL, THEN COMMERCIAL' BARBELL



*New store concept?
Robots do the picking for you???*



Flying 3 Miles is more feasible than 300

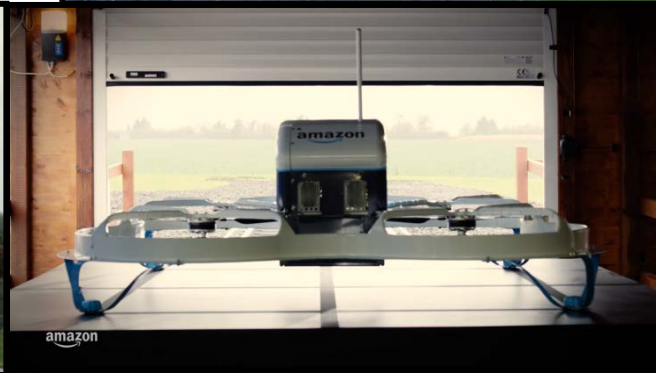
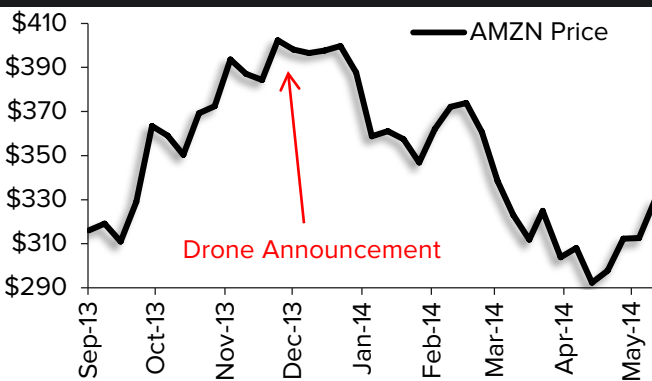
Radio Shack®

Payless Shoe Source®

THE AMAZON PHYSICAL STORE

Amazon opens stores – barbell strategy. REITS pay amazon to open a box ½ the size of a modern day DC (250-500k square foot store). Shack and Payless off-mall boxes at the other end. Regional Malls can't handle an amazon box – even with a lot of cranes. You can fly drone or support underground delivery from 3 miles, Not 300

PRIME AIR = REMEMBER WHEN IT COST AMZN \$60BN IN CAP



THE FIRST AMAZON PRIME AIR DELIVERY – 12/7/16

Prime Air will use specially designed fulfillment centers nearby customer homes. Autonomous drones will deliver packages in 30min or less. Cruising below 400ft, with packages up to 5 pounds.

The first US Prime Air delivery was this month in California at an Amazon robotics conference, the order... sunscreen.

NEWSFLASH (NOT REALLY) AMAZON VR/AR

ICH

The New York Times



Amazon's Ambitions Unboxed: Stores for Furniture, Appliances and More

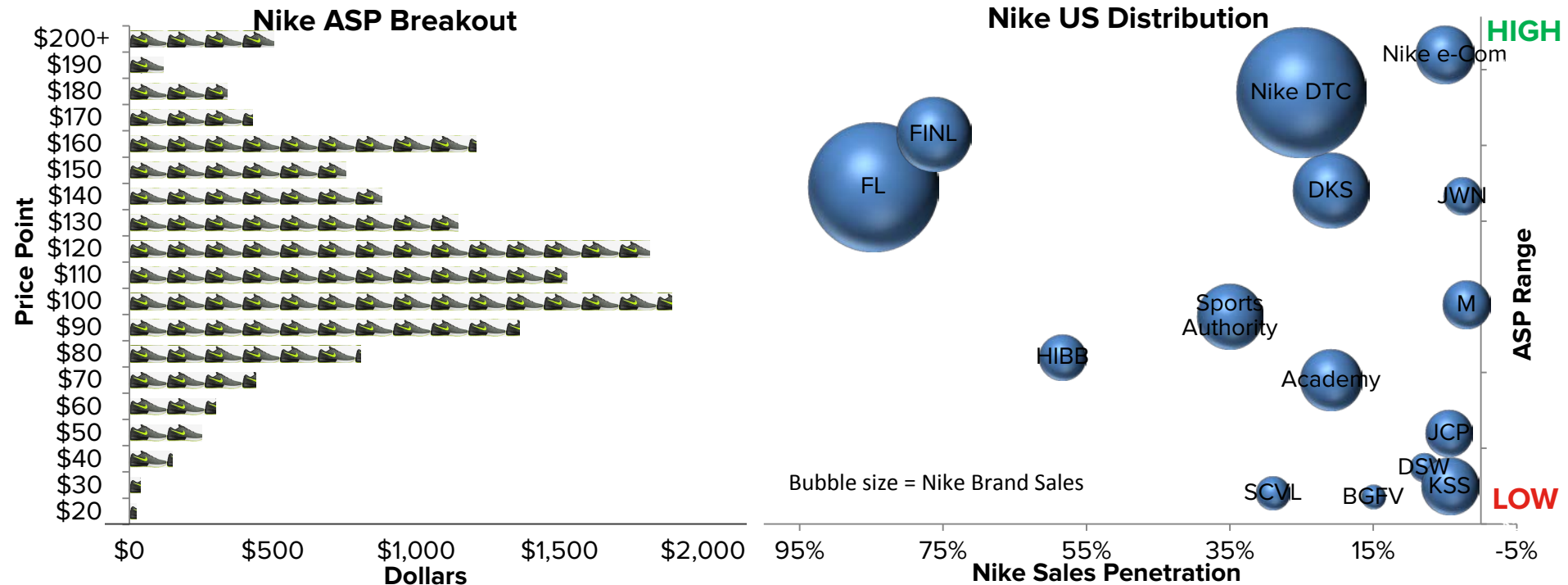
By NICK WINGFIELD MARCH 25, 2017



Giacomo Marchesi

*“Amazon has considered using forms of augmented or virtual reality to allow people to see how couches, stoves and credenzas will look in their homes”
3/27/17*

THIS COULD BLOW UP 'BIG CONTENT'



THERE'S NO MORE 'TAKE THIS STUFF OR ELSE'

Is all of Nike's product great? Ha. The [Hey Foot Locker, if you want those LeBron retros then I'm jamming you with junk...] thing will die. There's a reason Nike told HIBB to NOT build an ecomm business.

DISINTERMEDIATING THE DISINTERMEDIATORS

#Retail1.0



#Retail2.0



#Retail3.0



#Retail4.0



#Retail5.0

Reverb

Gear ▾ Find used & new music gear...

Browse By Category ▾ Reverb News ▾ You

Categories

Accessories (114,777)

Parts (89,206)

Effects and Pedals (79,469)

Electric Guitars (75,583)

Solid Body (48,034)

Semi-Hollow (6,460)

Hollow Body (4,277)

Archtop (1,656)

Left-Handed (1,217)

12-String (409)

Lap Steel (392)

Baritone (389)

Travel / Mini (376)

Pedal Steel (32)

Drums and Percussion (66,089)

Pro-Audio (54,615)

Acoustic Guitars (35,814)

Amps (26,872)

Band and Orchestra (17,672)

Bass Guitars (15,584)

75,583 listings

Filtered by Electric Guitars ✕

Used

Brand New

REVERB BUMP



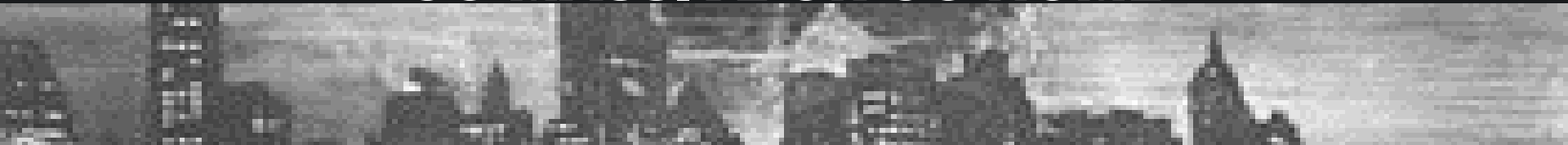
Big Lou Cobra 2016 Black 1 7/8" Nut

\$245

MINT



RETAIL 5.0 CROSS SECTOR M&A
GO MASSIVE OR GO HOME



THINK BIG FOLKS, CROSS SECTOR DEALS = NEW REALITY



URBAN OUTFITTERS



The
Washington
Post

News Corp

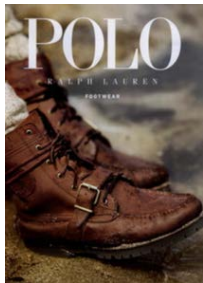


FACTOR 1: WE ALL GET THIS...

...BUT IT MIGHT NOT BE TRUE ANYMORE

**CONTENT
IS
KING!**

FACTOR 3: DISTRIBUTION/PIPE/CUSTOMER OWNERSHIP



STUART
WEITZMAN



FACTOR 4: GOING VERTICAL AGAIN?

NIKE MISSED BY NOT BUYING ZAPPOS PRE-2009



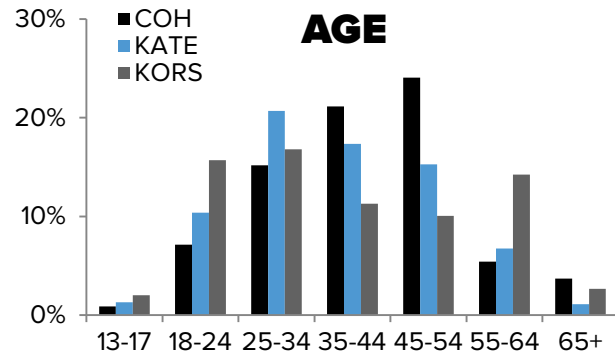
Nobody is better at filling a container with 5,652 pairs of shoes – but others did it.



Zappos was the ONLY entity that could full 5,652 individual orders.

Spent \$2bn+ over a decade for what it could have bought for \$500mm

FACTOR 5: ACQUIRE NEW CUSTOMER

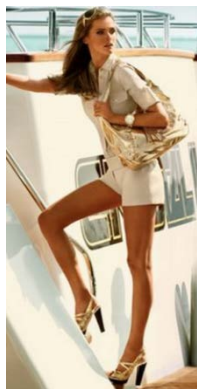
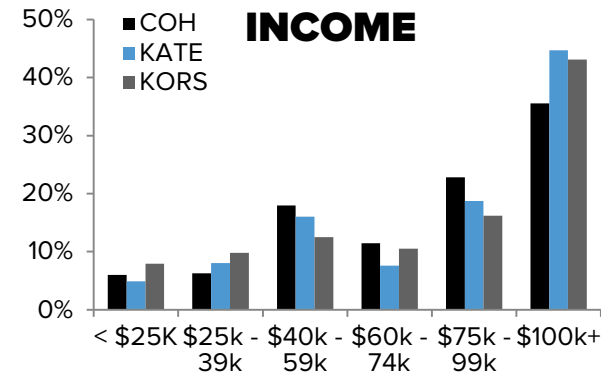


kate spade

NEW YORK



- Professional woman
- Age: 25 - 44 years old
- Core is 25 - 35 years old
- Highly educated
- \$150k+ household income
- Urban / Suburban - enjoying living in a big city



- Income > \$50K
- 25-54 Years Old
- Core is 25-34
- Aspires to live an elite, glamorous lifestyle
- Knows MK equally for Accessories and Ready to Wear

MICHAEL KORS

VISITATION OVERLAP			
	KATE	KORS	COH
KATE	100%	17%	12%
KORS	10%	100%	9%
COH	5%	7%	100%



COACH

- Intelligent, self-assured
- Looking for style and function.
- Product to complement her lifestyle
- Household income around \$100k
- College educated
- Full Price = Mid 30s, Factory = 40s
- Full Price = white collar workforce
Factory = Former white collar work

M&A VALUATION AGNOSTIC...

REMEMBER WHEN LIZ CLAIBORNE OVERPAID FOR KATE?
IT'S THE ONLY ONE OF ITS 40 BRANDS THAT'S STILL BREATHING

Axcess
Bora Bora
C&C California
Candie's®
City DKNY®
Claiborne
Crazy Horse
Curve
Dana Buchman
DKNY Active®
DKNY Jeans®
Elisabeth
Ellen Tracy
Emma James
Enyce
First Issue
Intuitions
Jane Street
J.H. Collectibles

Juicy Couture
Kenneth Cole New York
Lady Enyce
Laundry by Shelli Segal
LIZ
Liz Claiborne
Lucky Brand Jeans
Mambo
Marvella
Mexx
Monet
Monet 2
Reaction Kenneth Cole
Realities
Sigrid Olsen
Spark
Swé
Trifari
Villager

LIZ Bought KateSpade
in 2004 for \$124mm.

And it was #expensive

LIZ EV was \$3.5bn
Then dropped to
\$500mm

Today KateSpade is all
that's left.

EV = \$2.9bn EV



...UNLESS MULTIPLES ARE EGREGIOUS FOR BAD ASSETS

HIGH MULTIPLES + LEVERAGE + PEAK MARGINS + POOR COMPETITIVE POSITIONING =



Alternative Cool Down Eco-Jersey Space-Dye Zip Hoodie
L Urban Grey

\$46.00 from 5+ stores

★★★★★ (1)

More options

DB Apparel



\$39.99

Zappos.com



\$18.61



\$32.99

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\$48.00

Alternative Apparel



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BONDS

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red robin

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IT'S NOT JUST BAD COMPANIES THAT LACK TIERING

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Carter's 3-Pc.
Plaid Hoodie,

\$15.99

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Carter's Boys 3
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\$16.00

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BABY GIRL BABY BOY BABY NEUTRAL TODDLER GIRL TODDLER BOY GIRL

ENDS WEDNESDAY! 20% off your \$40+ purchase **ONLINE c**

Baby Clothes > Baby Boy > Sets

DOORBUSTER
3-Piece Little Jacket Set
\$13.00 MSRP: \$32.00
★★★★★ Read 1 review | W

Size: [Size Chart](#)

Color: ☒ Red

Quantity:

ADD TO CART

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Carter's® Baby
Boys' 3-Piece

\$14.40

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\$17.50

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Carter's Boys 3
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\$16.00

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\$16.00

Boscov's



Carter's
3-Piece Little

\$19.20

Belk

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Search: Baby Boy Carter's Buffalo Plaid Microfleece Cardigan, Bodysuit & Face-Covering Pants

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Carter's
Carter's Baby Boys' 3 Piece Vest Set (Baby)
★★★★★ 1 customer review

Price: \$22.00 - \$29.99 & FREE Returns on some sizes and colors
Fit: As expected (100%) +

Size: [Size Chart](#)

Color: Blue Plaid

- Vest: polyester. Bodysuit & pants: cotton
- Imported
- 3-Piece set
- Neckline: wrap on reinforced panel
- No-pinch elastic: waistband
- Ribbed cuffs

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Save up to 25% on baby and toddler clothing from Girls and sizes. Prices as marked. [See more](#)

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