

HEDGEYE INVESTING SUMMIT



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*"Macro Meets Micro: The
Outlook for Retail Stocks"*

LEGAL

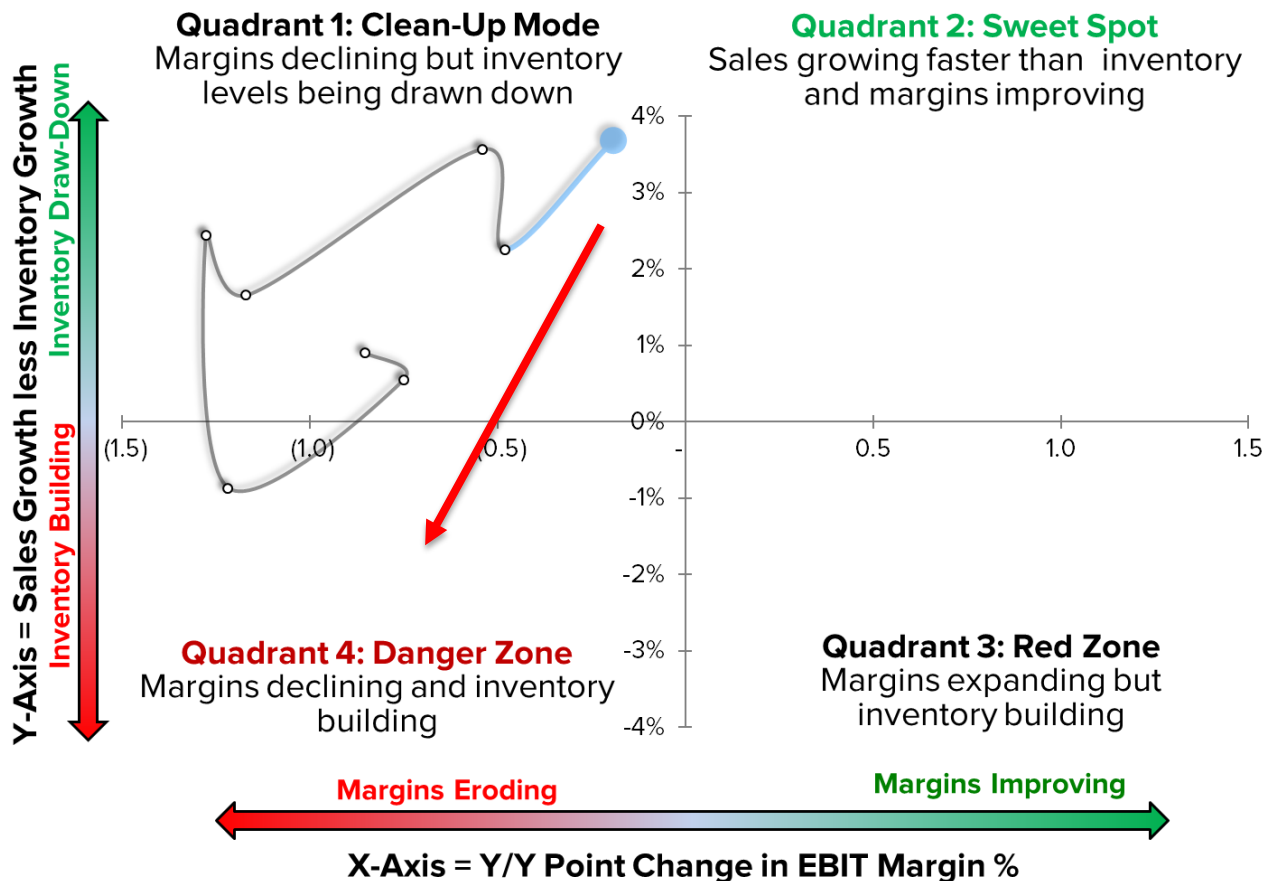
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RETAIL HATES QUAD 4, AND MARKET IGNORING IT



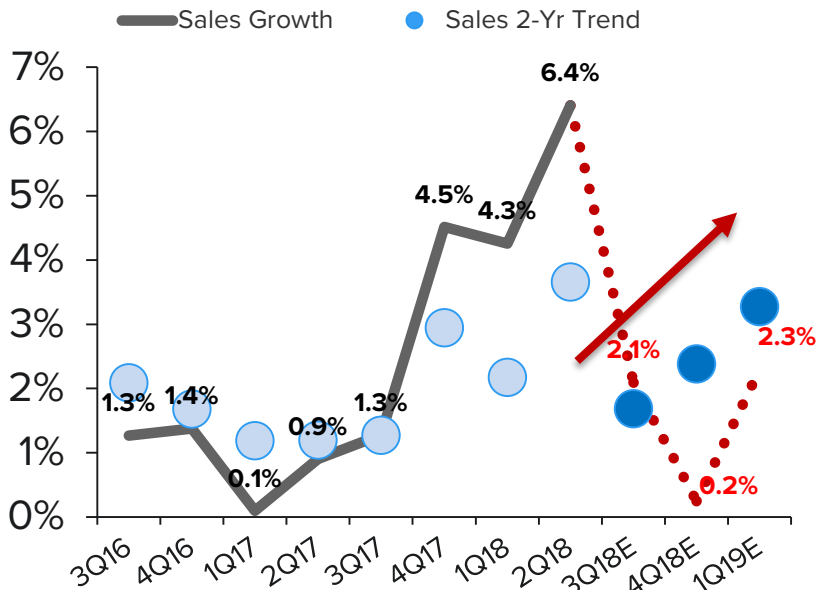
Retailers are already planning for a 3% comp on top of last year's monster 4th quarter.

The product is on the water.

The consumer either shows up big or we have an inventory problem.

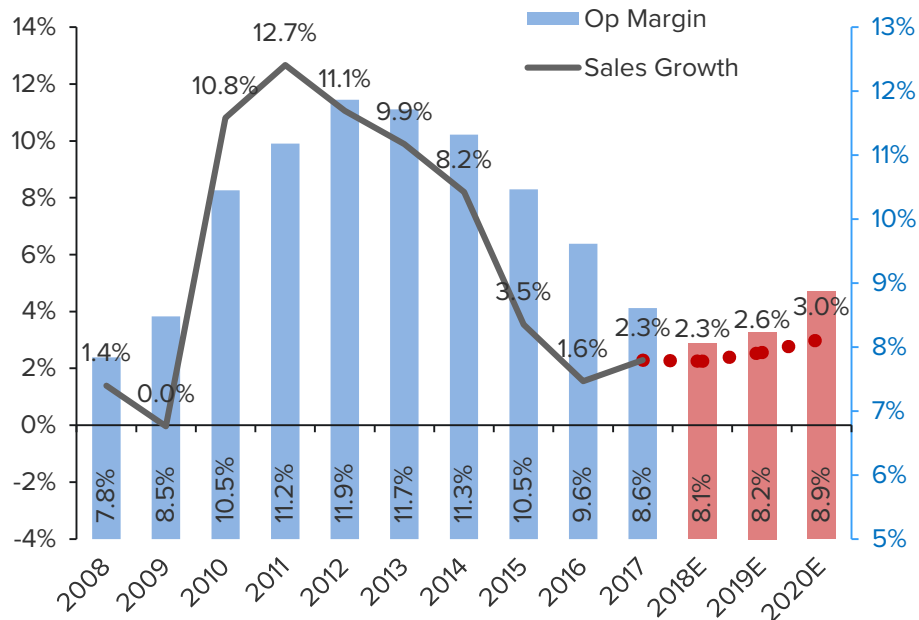
If we have an inventory problem, then we have an earnings problem.

THE STREET THINKS RETAIL WILL PERPETUALLY COMP



QUARTERLY SALES

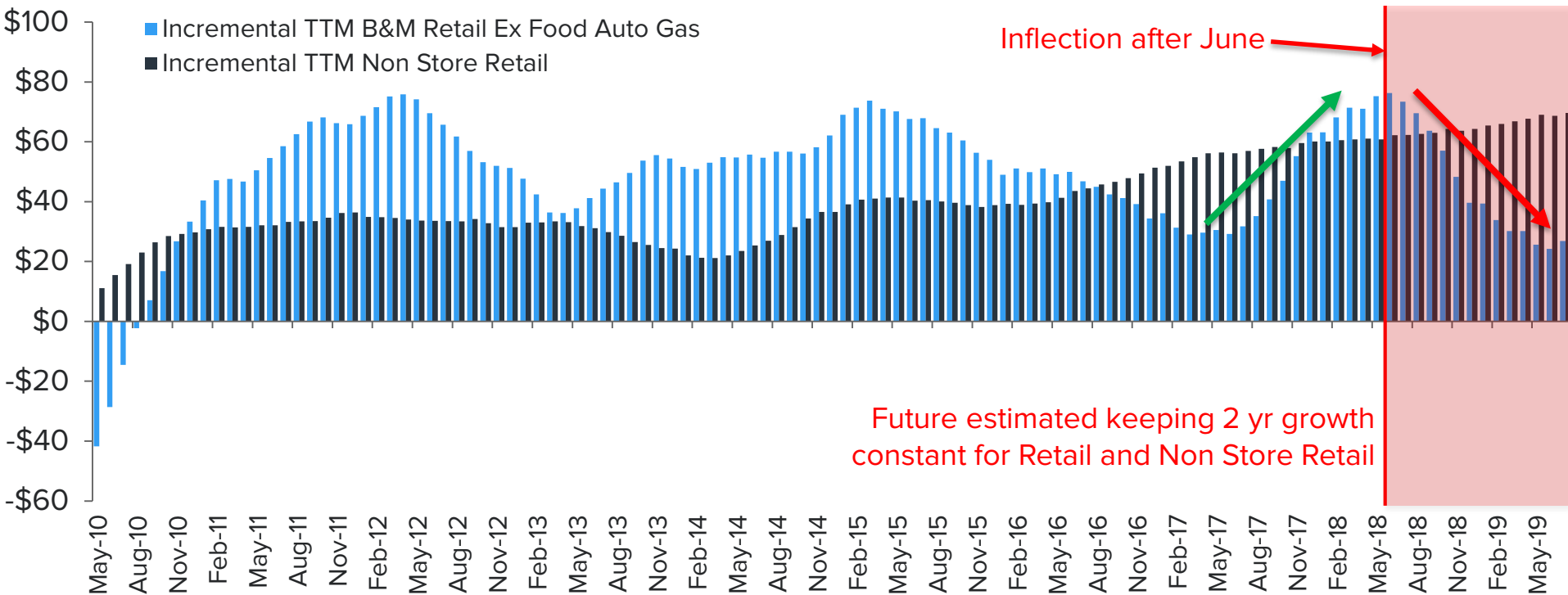
Smoking it through 2Q. Street looking for 2-year acceleration in back half. But that is understated as this looks at 80 retailers in aggregate. 'junk tail' like KSS and TGT are looking for 2-3% back half comps, which are undoable.



ANNUAL SALES & MARGIN

And naturally, the Street is looking for margin to climb steadily on a multi-year basis.

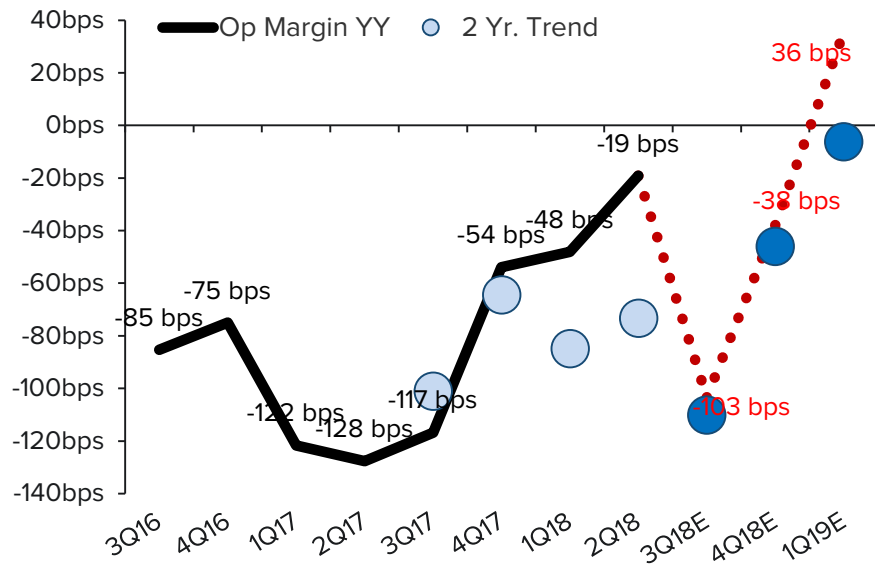
THIS IS KEY...WILL BRICK & MORTAR EVER COMP AGAIN?



MACRO IMPROVEMENT HAS ACCRUED DISPROPORTIONATELY TO HISTORIC B&M

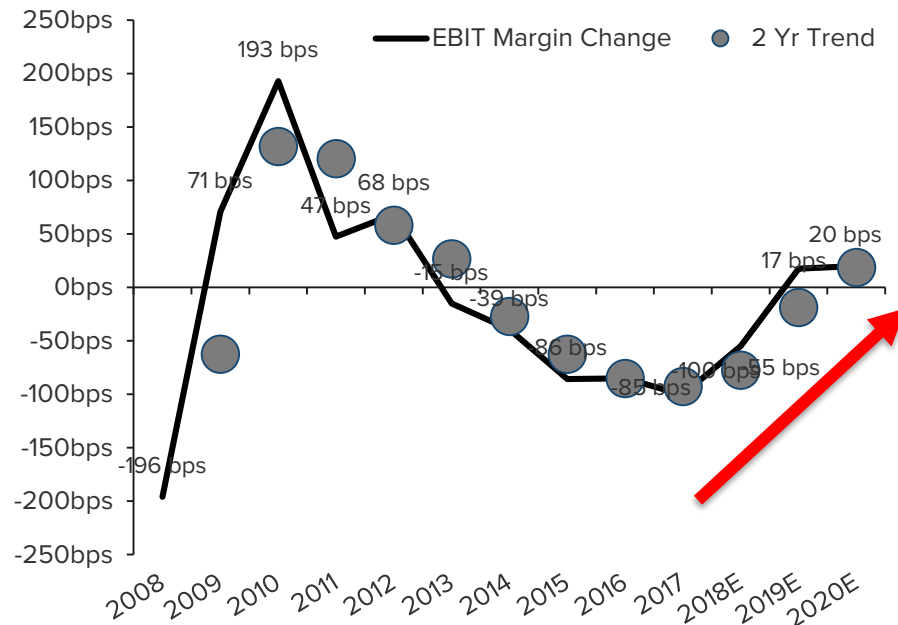
This quarter may be the last time we ever see \$ growth in B&M exceed \$ growth in ecom again.

WHY SHOULD MARGINS ACCELERATE?



QUARTERLY STREET MARGIN EXPECTATIONS

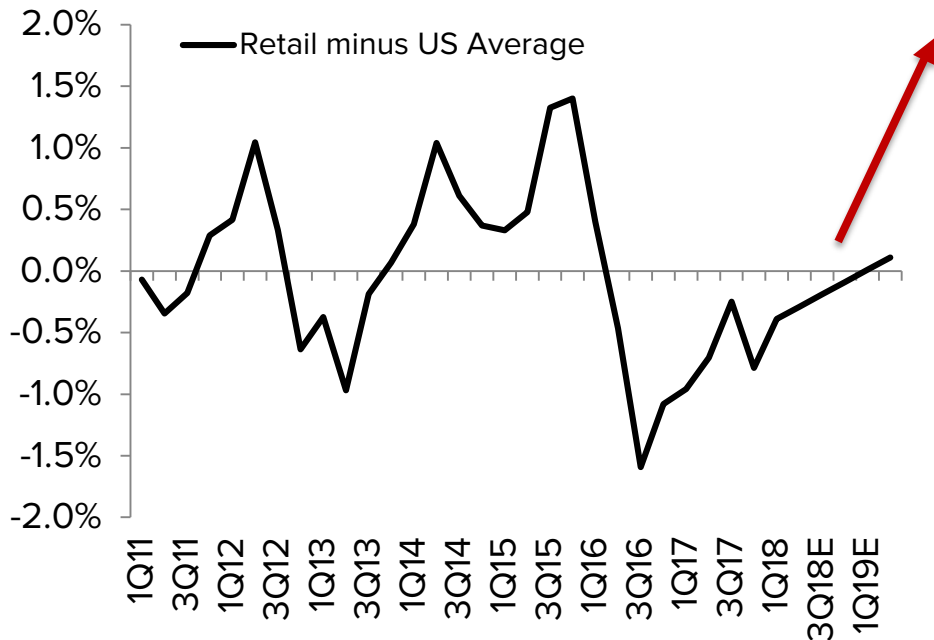
Why should we see a recharge in margins in 2H when inventories likely to build, costs are rising, and comps are tough?



ANNUAL STREET MARGIN EXPECTATIONS

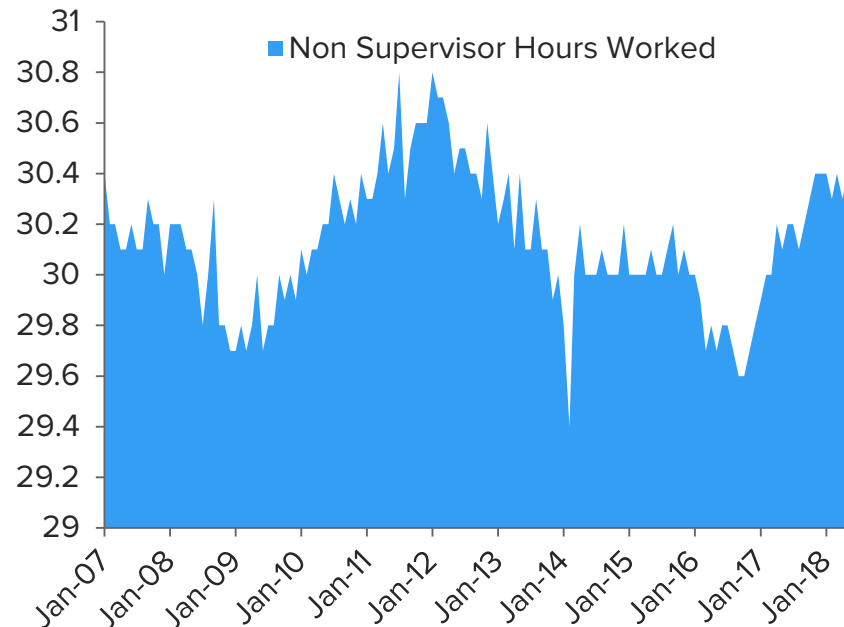
Again, the Street is naturally expecting margins to rebound materially next year despite strengthening cyclical and secular headwinds.

LABOR COSTS SEVERELY UNDERAPPRECIATED



RETAIL WAGE RELATIVE GROWTH

Wage growth has shown a rebound this far (bearish) but the next 12 months is setting up for a meaningful surge in costs.

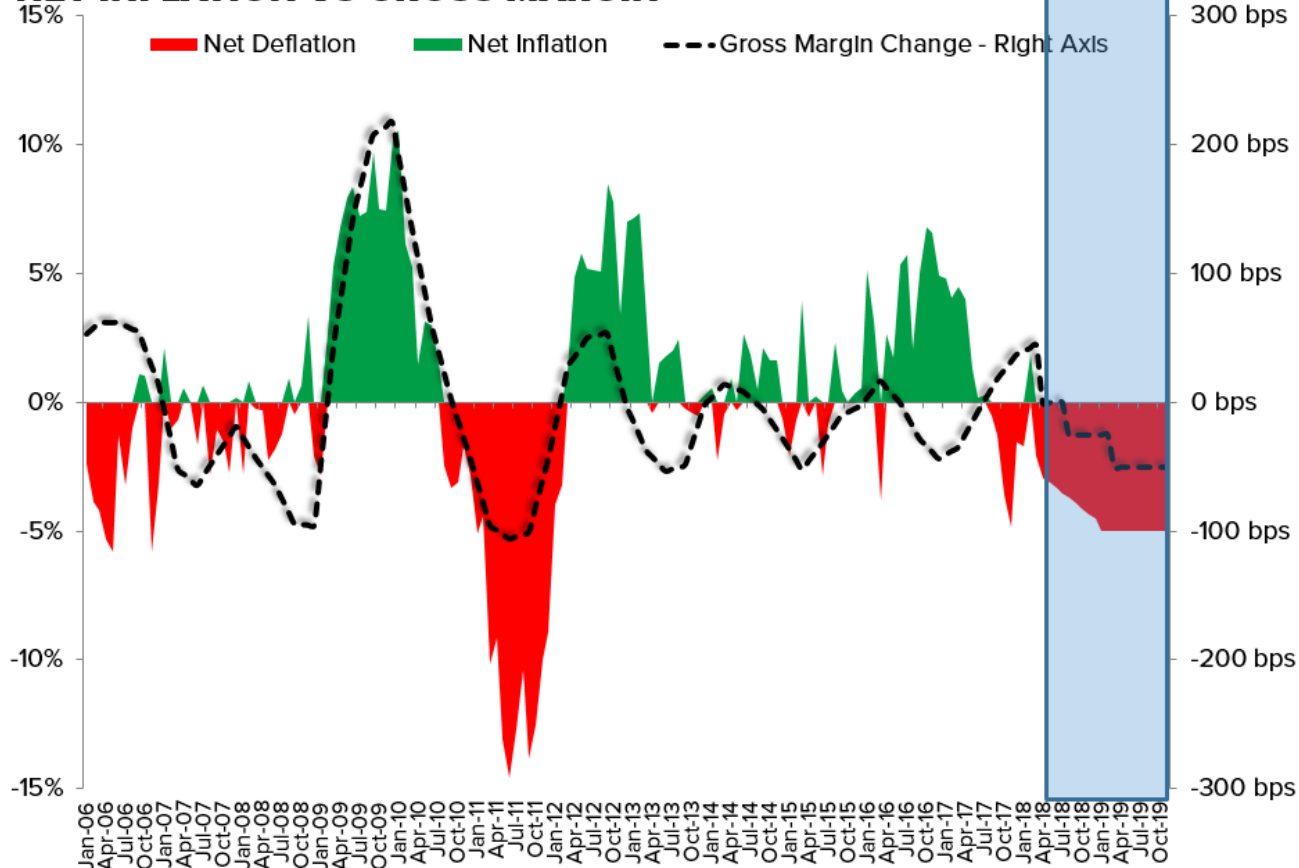


RETAIL HOURS WORKED

The poor quality retailers will take down the number of hours worked to keep comp costs even, but then service levels suffer in the stores which dings the guest experience. Definitely revenue #bearish.

DOES ANYONE CARE ABOUT TARIFF UNIT ECONOMICS

NET INFLATION VS GROSS MARGIN



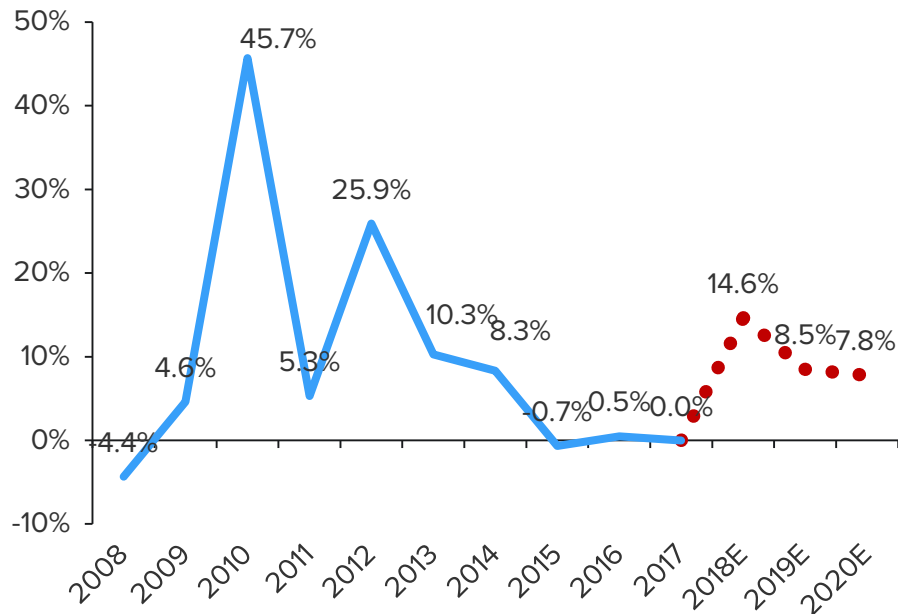
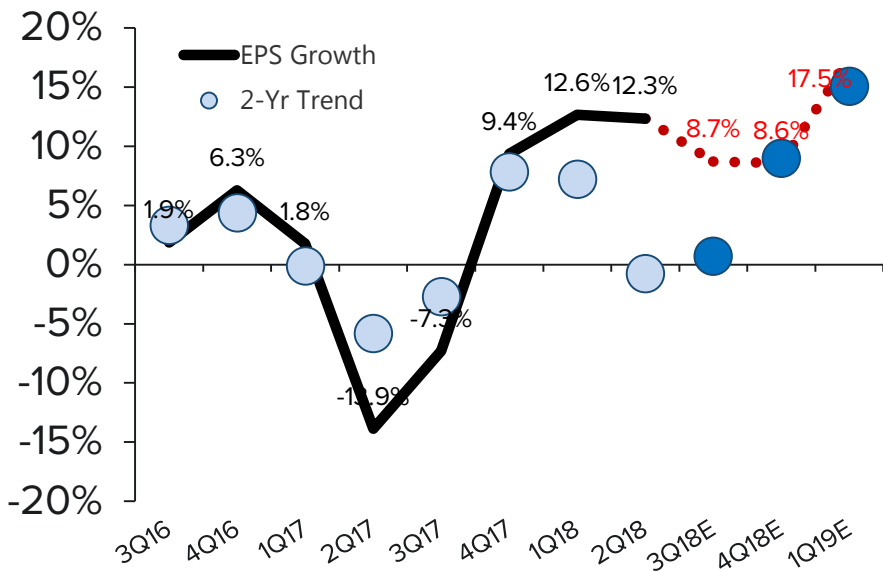
This is what nobody gets. The spread between the PER UNIT INPUT COST of goods relative to the PER UNIT CONSUMER PRICE of goods is what matters.

It's different than a simple percentage change. Gotta do the per-unit math.

Unless retailers are successful in passing through costs on higher 2H and 2019 per-unit orders, then the GM degradation is very real.

There's 10 years of history to prove it.

BUT DON'T WORRY, EARNINGS WILL BE FINE...



STREET LOOKING FOR 2H REBOUND

We need an exceptionally strong consumer who is willing to pay higher prices on like for like purchases WITHOUT sacrificing per capita unit consumption in order to hit estimates.

2018, '19, AND '20 ALL TOO HIGH

Given all these headwinds, why should earnings growth reverse a 3-year trend of being flat – by 800-1,000 bps? There's no credible research to support that this is in any way doable.

RETAIL POSITION MONITOR

HEDGEYE RETAIL POSITION MONITOR

BEST IDEAS - LONG			Trend	Tail	BEST IDEAS - SHORT			Trend	Tail
Active Longs		Mkt. Cap (\$MM)			Active Shorts		Mkt. Cap (\$MM)		
TPR	Tapestry	\$14,390	✓	✓	HBI	Hanesbrands	\$6,367	×	×
GIL	Gildan	\$6,027	✓	✓	KSS	Kohls	\$13,545	×	×
RH	RH	\$2,881	✓	✓	TGT	Target	\$46,782	×	×
ORLY	O'Reilly Automotive	\$27,770	✓	✓	CRI	Carter's	\$4,510	×	×
DLTR	Dollar Tree	\$19,535	×	✓	FL	Foot Locker	\$5,626	×	×
AMZN	Amazon.com	\$955,148	✓	✓	UAA	Under Armour	\$9,081	×	×
ADS-DE	Adidas	\$48,214	✓	✓	GPS	Gap Inc	\$11,244	×	×
					M	Macy's	\$10,855	×	×
					NKE	Nike, Inc	\$129,403	×	✓
TAIL Bullish/Need Better TREND Conviction or Price					TAIL Bearish/Need Better TREND Conviction or Price				
PUM-DE	Puma	\$7,623	✓	✓	JWN	Nordstrom	\$10,975		×
AAP	Advance Auto Parts	\$12,388		✓	AEO	American Eagle	\$4,420		×
DKS	Dick's Sporting Goods	\$3,877		✓	DDS	Dillards	\$2,082		×
KORS	Michael Kors	\$10,872		✓	RL	Ralph Lauren	\$10,635		×
LULU	Lululemon	\$19,988		✓	SIG	Signet Jewelers	\$3,790		×
VRA	Vera Bradley	\$599		✓	SFIX	Stitch Fix	\$4,423		×
ULTA	Ulta Beauty	\$16,476		✓	AZO	AutoZone	\$20,400		×
HIBB	Hibbett Sports	\$389		✓	JCP	JC Penney	\$538		×
VFC	VF Corp	\$36,193	✓	✓	W	Wayfair	\$11,997		×
OLLI	Ollie's Bargain Outlet	\$5,484		✓	WSM	Williams-Sonoma	\$5,744		×
TJX	TJX Cos	\$69,354		✓	BBBY	Bed Bath and Beyond	\$2,543		×
ROST	Ross Stores	\$36,656		✓	GES	Guess?	\$1,858		×
					URBN	Urban Outfitters	\$4,744		×
					FIVE	Five Below	\$6,426		