

HEDGEYE



Hedgeye Live

Consumer Staples

May 4, 2024



Hedgeye Consumer Staples:

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Consumer Staples

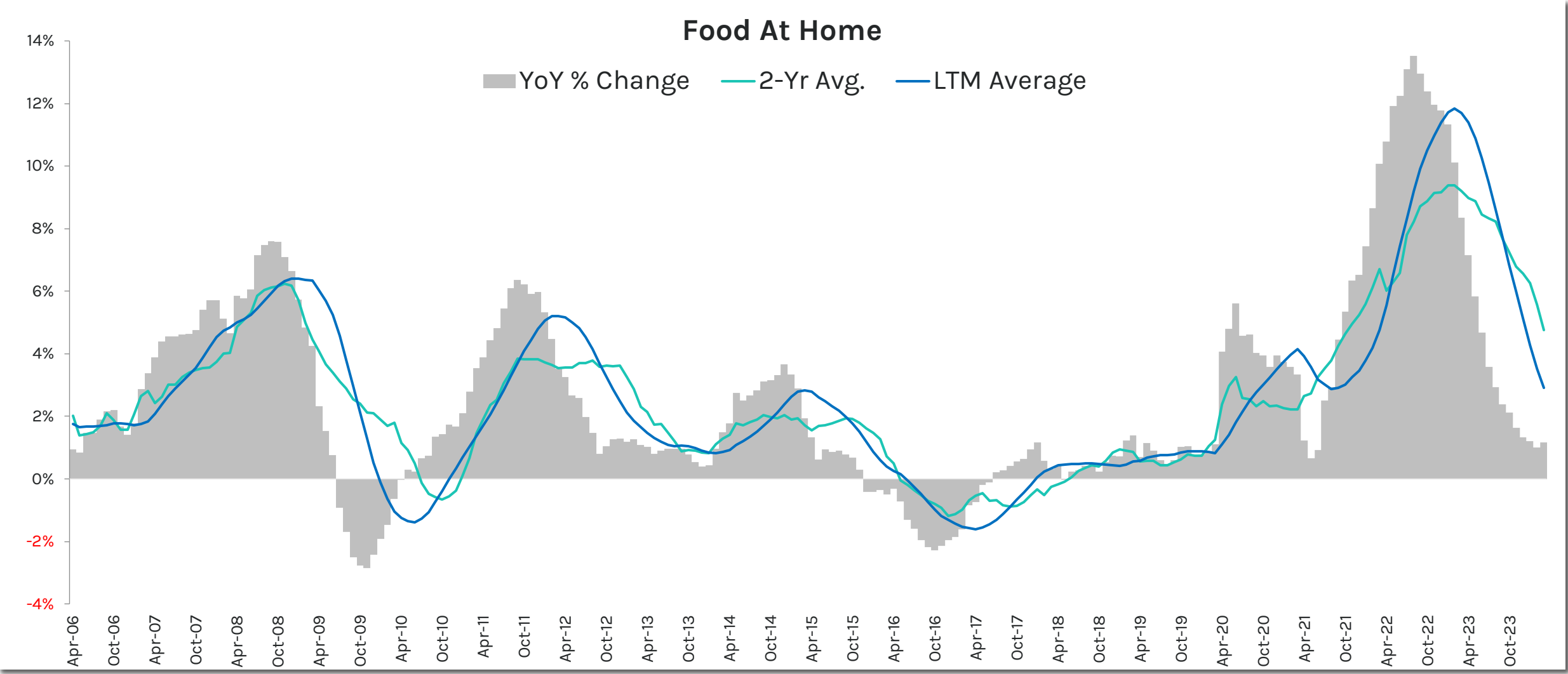
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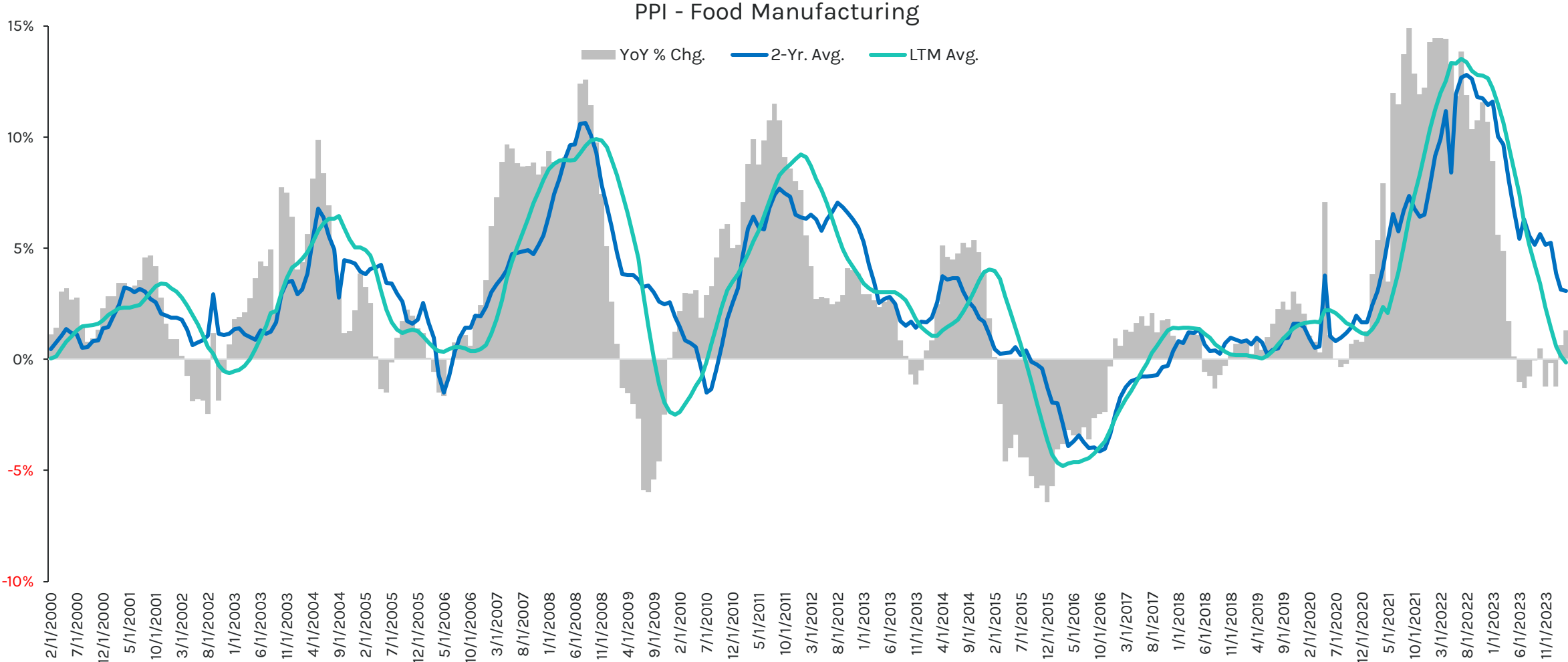
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Staples | CPI | Food At Home Inflation



Staples | PPI | Food Manufacturing PPI

The PPI Accelerated To 1.3% In March, From 0.6% in February.



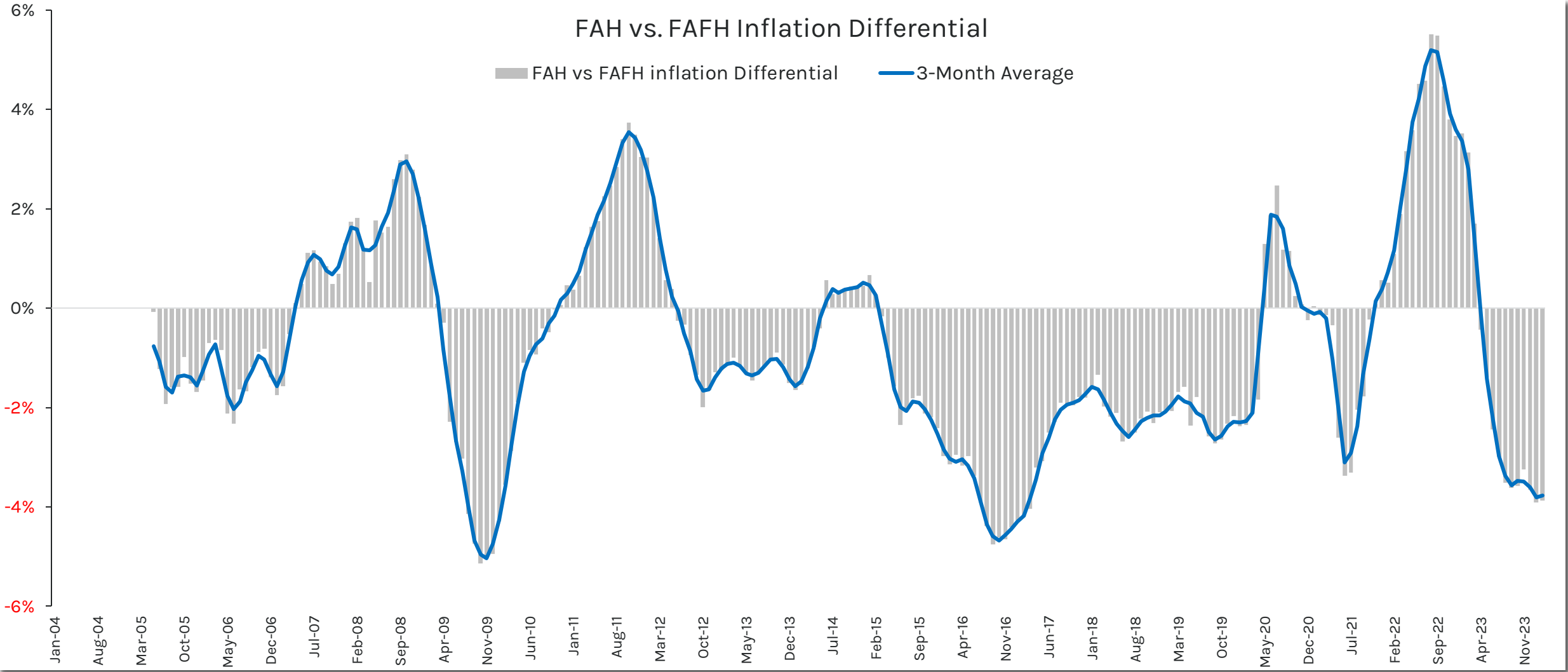
Staples | Credit & Debit Card Spending - Soft & Stable

March +0.3% Decelerating From February's +2.9%, But Adjusting For Easter -0.7% MoM S.A.



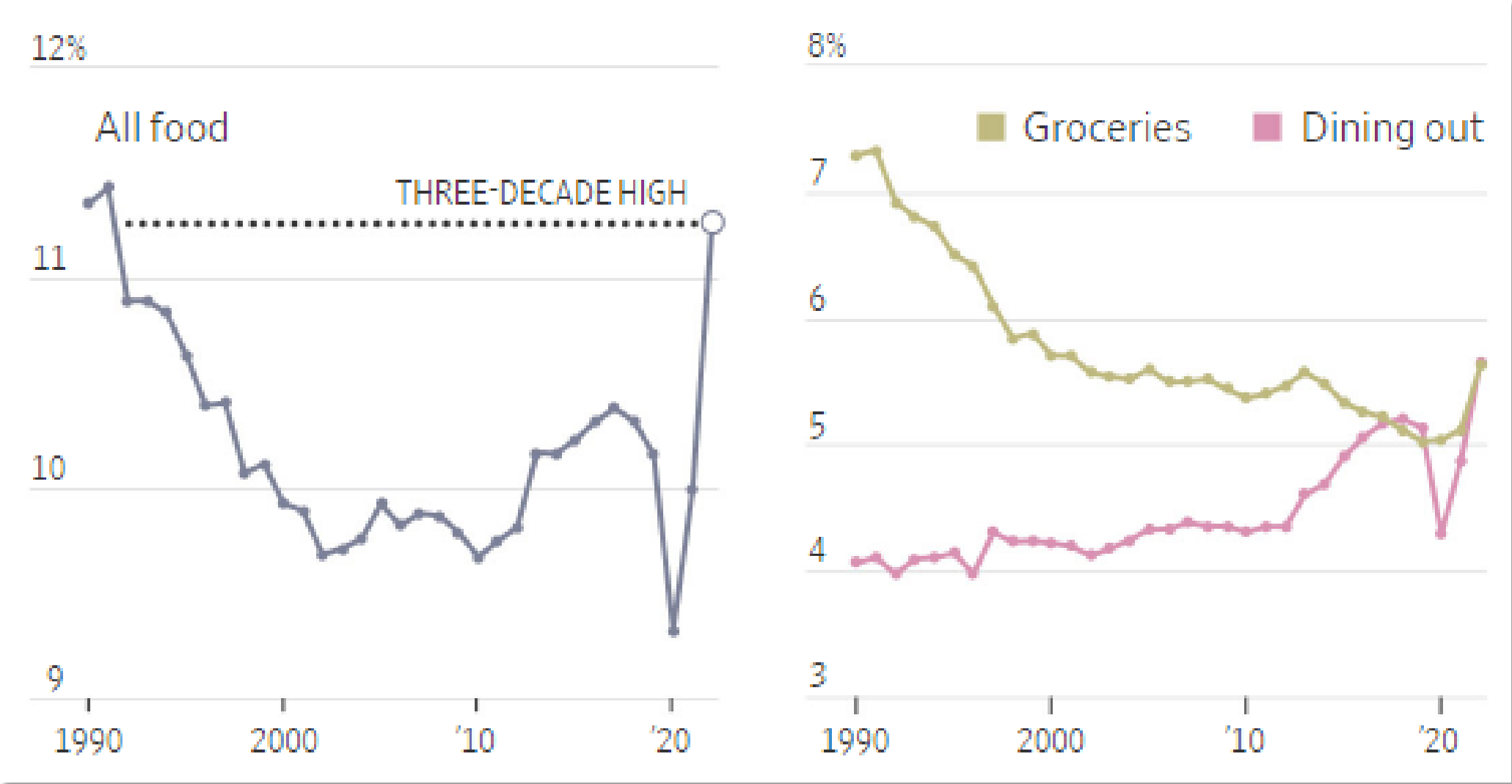
Staples | FAH | Pricing Differential Is Favorable

FAFH Price Differential Vs. FAH Is The Widest In Six Years.



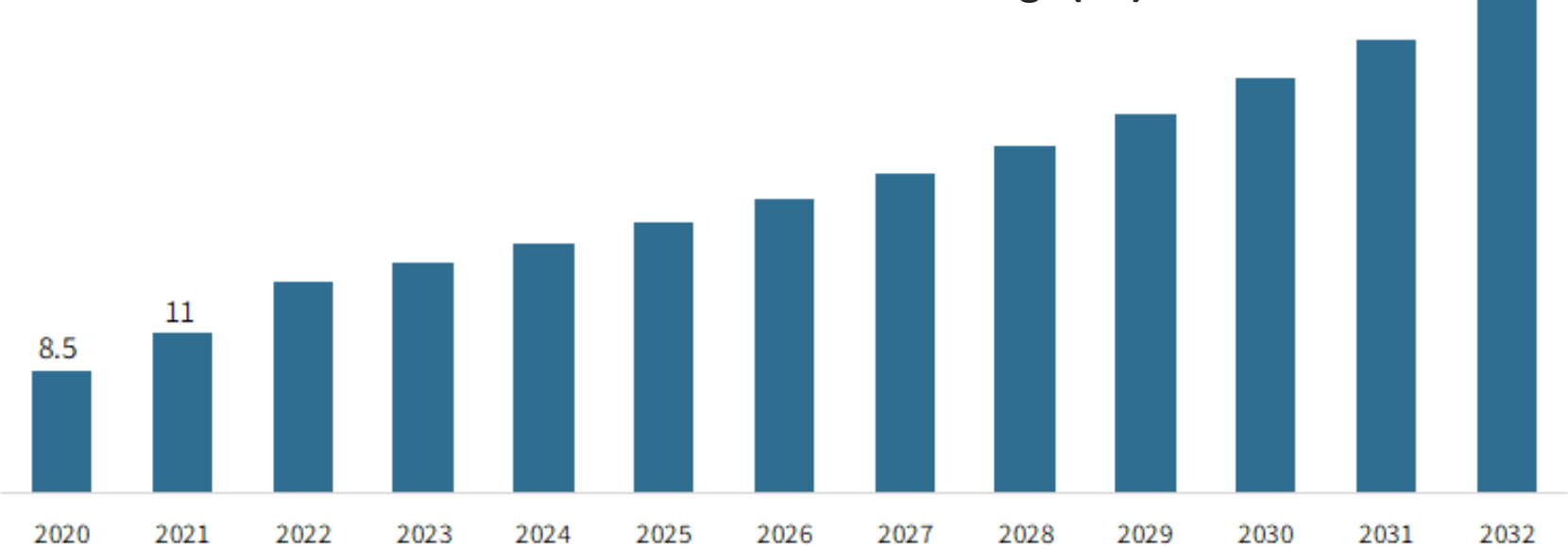
Staples | Food Spending Share Of Disposable Income

The Percentage Americans Are Spending On Food Is At A 30 Year High.



Staples | GLP-1 Drugs Suppress Appetite

U.S. Market Size of GLP-1 Drugs (\$B)



Semaglutide drugs such as Ozempic, Wegovy, and Rybelsus cost \$800-1,300 per month without health insurance. Novo Nordisk’s patent will expire in 2033 at the earliest.

Broad adoption will depend on insurance coverage which will not be overnight. Rarely will insurance cover the drugs for weight loss. Insurance companies have to restrict access due to the high cost and large addressable market. Insurers are using multiple different strategies to deny or limit coverage. Patients do use manufacturer coupons for lower doses.

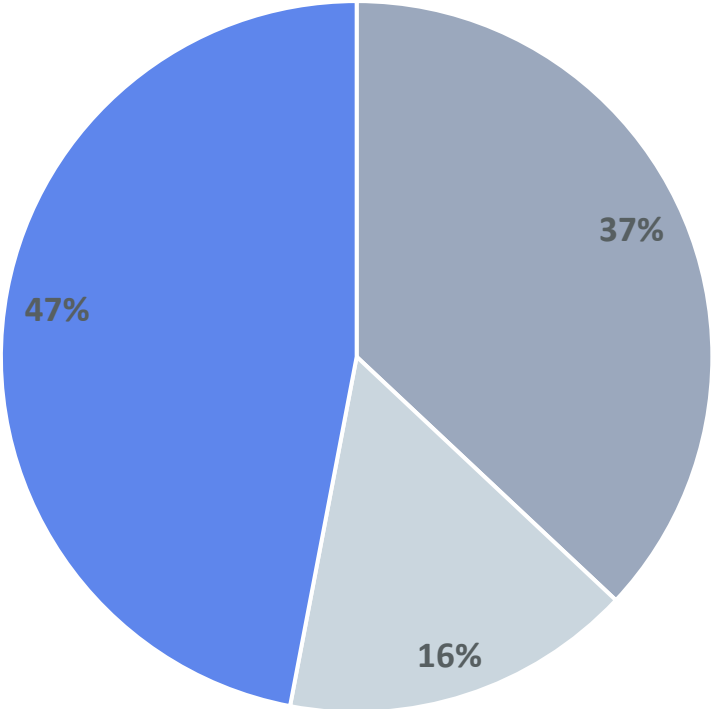
	Population	Drug Takers	% of Obese & Overweight On GLP-1	Individual Caloric Reduction			
				20%	33%	50%	60%
Total U.S.	334,000,000						
Obese & Overweight	215,620,000	6,468,600	3%	0.4%	0.6%	1.0%	1.2%
		10,781,000	5%	0.7%	1.1%	1.6%	2.0%
		21,562,000	10%	1.3%	2.1%	3.3%	3.9%
65% of the population is obese/overweight				Total Calorie Reduction			

Staples | GLP-1 Calorie Consumption Is Not That Different

Total Adults Avg. Daily Calorie Consumption 1,837

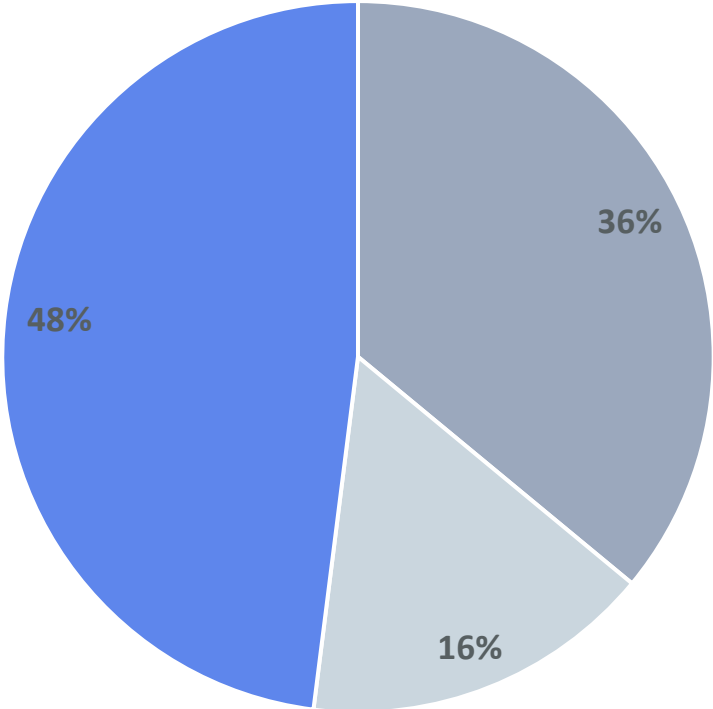
Adults On Weight Loss Medications Avg. 2,008

Calorie Source By Macronutrient



■ Fat ■ Protein ■ Carbohydrate

Calorie Source By Macronutrient



■ Fat ■ Protein ■ Carbohydrate

1 The Pullback After FQ3 Results Is A Buying Opportunity

It's déjà vu all over again. Volume declines while capacity is being added is giving the fear of price declines and margins unwinding oxygen again. Questioning the secular growth of French fries is back. Our view is that the supply and demand outlook for the popular side dish remains stable. Lamb Weston is one of the few Consumer Staples companies that will grow alongside the secular gains in food away from home spending.

2 ERP Issues, QSR Slowdown, & Price Deflation Concerns

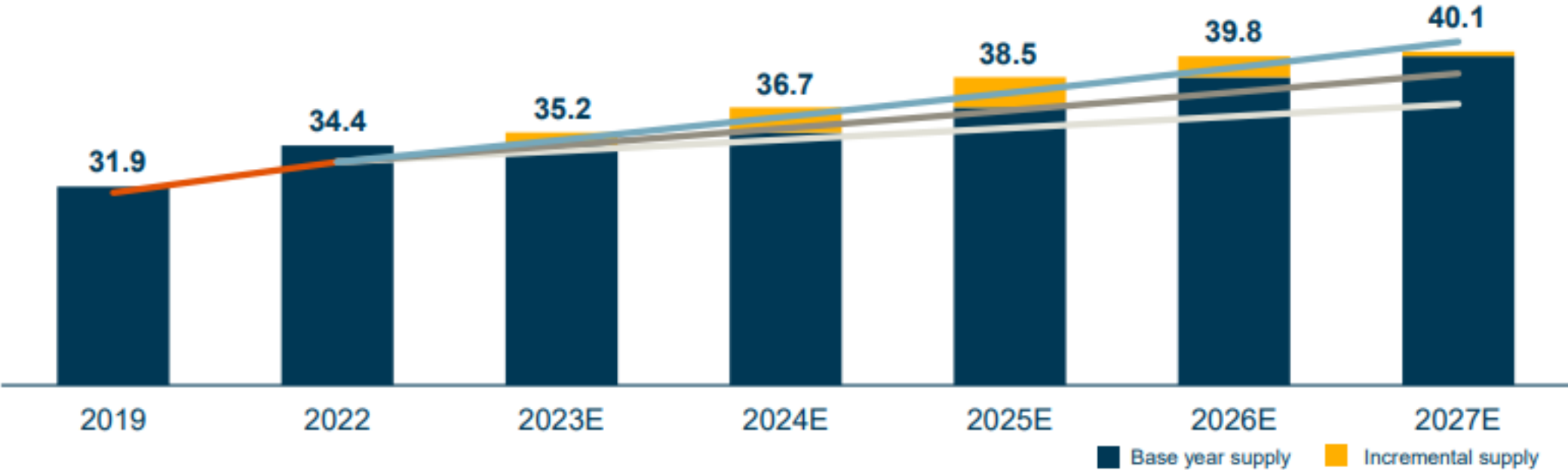
ERP implementation issues led to a loss of revenue in FQ3. The system problems are behind the company, but some customers have to be won back. QSR sales have slowed, but the industry is best positioned to drive traffic. The fry attachment rate continues to remain above pre-pandemic levels. Lamb Weston and the industry have proven their pricing power, but the potential for lower French fry prices after an inflationary surge gives concern to lower sales and margins.

3 LW's Lowest Valuation Implies Price Cuts Or An Opportunity

Lamb Weston shares are trading at its lowest valuation since being spun off. Our upside/downside analysis points to an asymmetric risk/reward from current levels. Out year EPS power is between \$7-8, which gets upside to the shares >\$160. The current share price underestimates the industry's pricing discipline, underestimates the returns from capacity expansions, and overestimates the pricing impact from capacity growth.

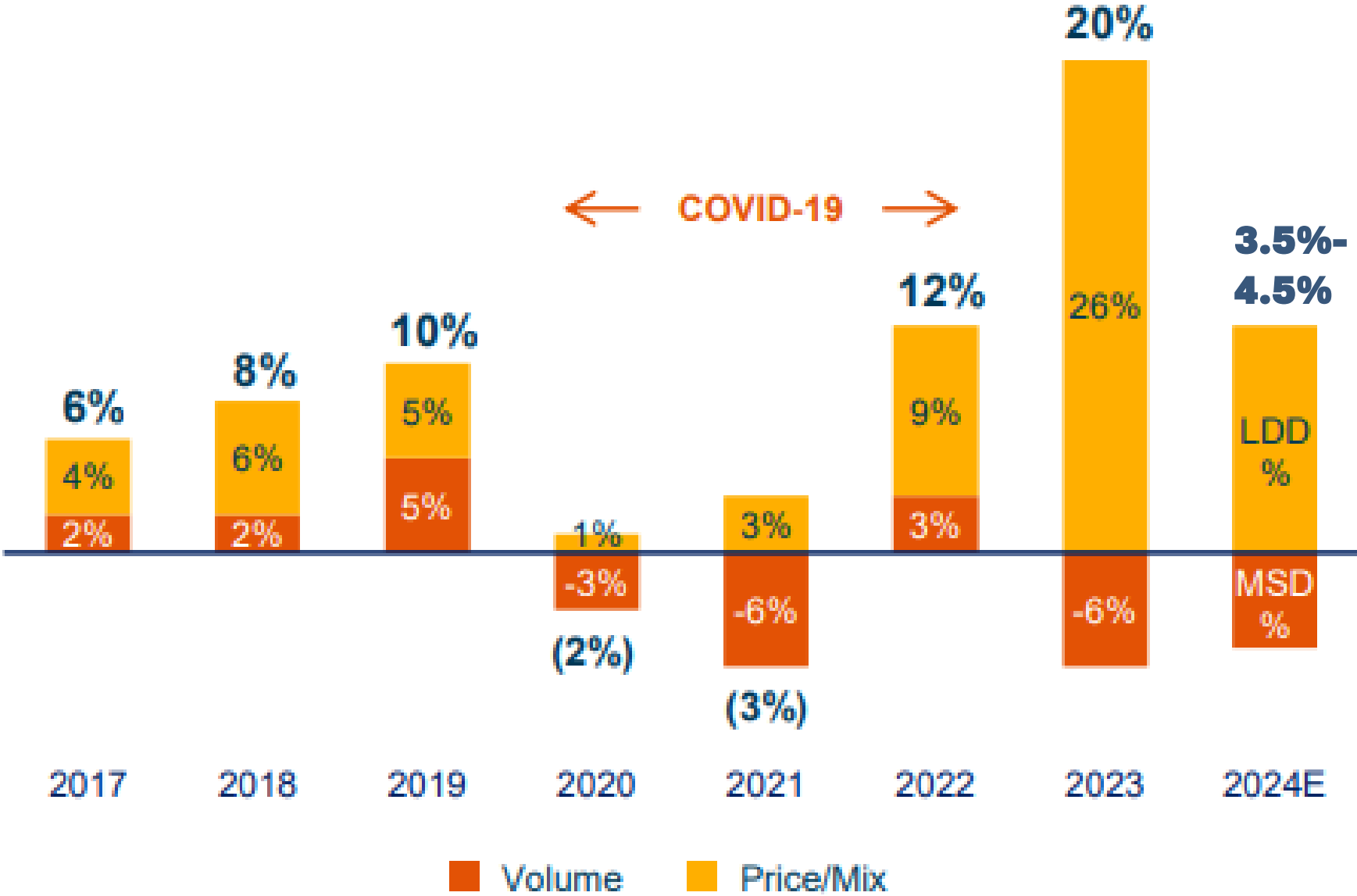
LW | Supply Vs. Demand Outlook

5.6B lbs of incremental capacity | 3.5B - 7.2B lbs of incremental demand



Annual Demand Growth	Implied Capacity Utilization					
	2019	2022	2023E	2024E	2025E	2026E
99%	97%	97%	95%	92%	91%	92%
	2%	98%	97%	95%	95%	97%
	3%	99%	98%	98%	98%	101%
	4%					

LW | Organic Sales Growth



1 Smoking Cigarettes Is In Secular Decline, But Nicotine Is Not

Cigarette smoking is the leading cause of preventable disease in many countries. Philip Morris' strategy is to move away from tobacco smoke and its health risks towards smoke-free nicotine delivery. The company's smoke-free products now represent nearly 40% of revenue. Driving that change is Zyn, a nicotine oral pouch that is among the fastest growing consumer brands in the U.S. and IQOS, now the largest nicotine brand globally outside China. By the end of the decade, smoke-free products project to represent 2/3 of the company's top line.

2 PMI's Entry Into The U.S. With Zyn & IQOS Change The Narrative

Consumers want to reduce their risks from smoking. Cigarettes have been in secular decline. Whether it is vaping, smokeless tobacco, or heated tobacco units consumers are voting on reduced risk nicotine and Philip Morris is well positioned globally to support the transition. Certain governments like the U.S. have been a hinderance to the transition, but key approvals are approaching. Macro-economic trends in interest rates, global economies, and Fx could inflect after years of being headwinds.

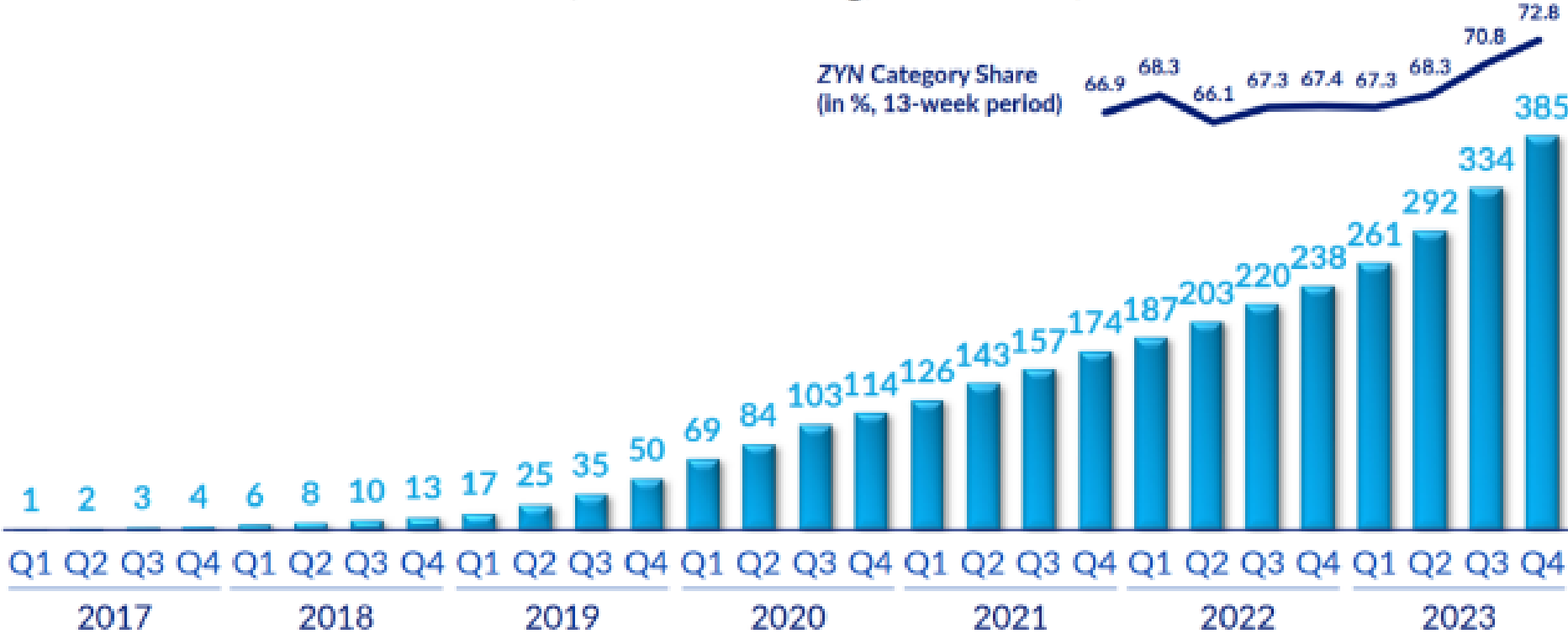
3 Shareholder Returns Are Set Up For A Multi-Year 25% CAGR Potential

Three consecutive years of HSD% organic revenue growth with positive volumes ranks among the best in class in Consumer Staples. Yet Philip Morris International trades at a modest 15x PE and offers a 5.5% dividend yield. Tobacco's health and regulatory/legal risks keep investors at bay. Over a multi-year duration PMI's total returns can double in almost any economic scenario driven by earnings growth, the dividend, and a multiple re-rating as the vice stock/melting ice cube discount dissipates.

PM | Zyn Sales Are Soaring

ZYN U.S. Shipment Volumes
(12 months rolling, million cans)

77.4%
Q4'23 ZYN
Category Retail
Value Share
(13-week period)



Zyn sales are soaring in the U.S. Shipments in Q4 rose 78% YOY. Growth in 2023 was 62% in the U.S. It has already achieved a quarter of the smokeless category which includes dip and chew.

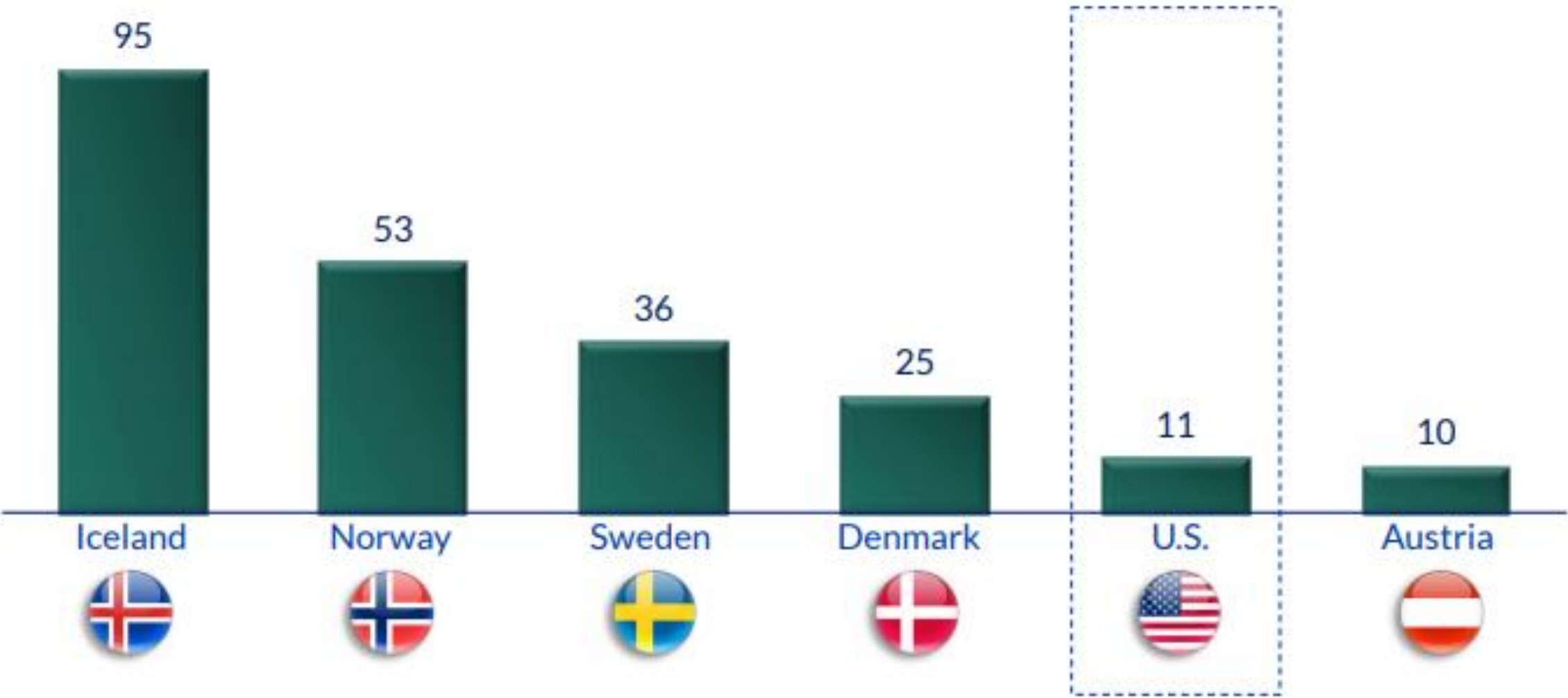
55% of PMI's oral nicotine revenue is comprised of U.S. sales of Zyn.

PMI sees the potential of \$3.5B in revenue from Zyn in the U.S. by 2030 (market 3x and retain share).

Tobacco consumers are brand loyal.

PM | Nicotine Pouch Penetration U.S. Opportunity

Compared To Nordic Countries There Remains Significant Upside In The U.S.



1 Carving A Niche In The Growing Energy Drink Category

Celsius Energy sought out to invent a usage opportunity as a pre-workout energy drink and in the process created a better-for-you segment of energy drinks. The brand has aligned itself with attributes that extend well beyond young consumers and the gym. Competitors are responding, but brand associations work against them and for Celsius. We see the niche becoming a significant portion of energy drinks.

2 Expecting More From The PepsiCo Agreement

Celsius has fueled and supplied its growth to date without the support of an industry giant. The distribution agreement and investment with PepsiCo opens even more doors for growth. The new increased incentives have de-risked the agreement. The near-term continued U.S. door expansion and the mid-term international growth opportunity are compelling with PepsiCo's support and the international playbook following the U.S. success.

3 Focus On Celsius Growing The Category Over Share & Valuation

Functional and better-for-you are the direction energy drinks will continue to grow. The concerns most often cited are the valuation, what ultimate share Celsius can achieve, and the rate of growth slowing. Focusing on peak share misses the overall growth in the energy drink category. Fast-growing, multi-year compounders are the most fundamentally mis-priced companies in the stock market. The growth rate has to slow, but it misses the rate of growth in the out years.

CELH | Wide Distribution Across Channels

Celsius' Brand Has Been Able To Sell Across A Wide Spectrum Of Retail Channels.

<p>CONVENIENCE</p>	<p>CONVENTIONAL GROCERY</p>
<p>VITAMIN SPECIALTY & DRUG</p>	<p>FITNESS</p>
<p>MILITARY</p>	<p>E-COMMERCE</p>
<p>VENDING</p>	<p>MASS MARKET</p> <p>NATURAL CHANNEL</p>

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