



Consumables Pro

Covering Restaurants, Consumer Staples, & Cannabis

November 11, 2020



Hedgeye Consumables Pro

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HOWARD PENNEY, MANAGING DIRECTOR

Restaurants, Consumer Staples and Cannabis Sector Head Howard Penney's research coverage focuses on the restaurant industry and other Consumer Staples sectors in the U.S. He has over three decades of experience following consumer related sectors including tobacco, beverage (including Latin America), gaming, and restaurants. Prior to Hedgeye Risk Management, Howard spent 14 years at Morgan Stanley, including working on the Macro team covering small company strategy. During his tenure at Morgan Stanley, Howard was ranked #1 by Institutional Investor (Restaurants) and #1 in the WSJ poll (Tobacco). Following Morgan Stanley Howard worked at FBR and SunTrust Robinson Humphrey.

DANIEL BIOLSI, DIRECTOR

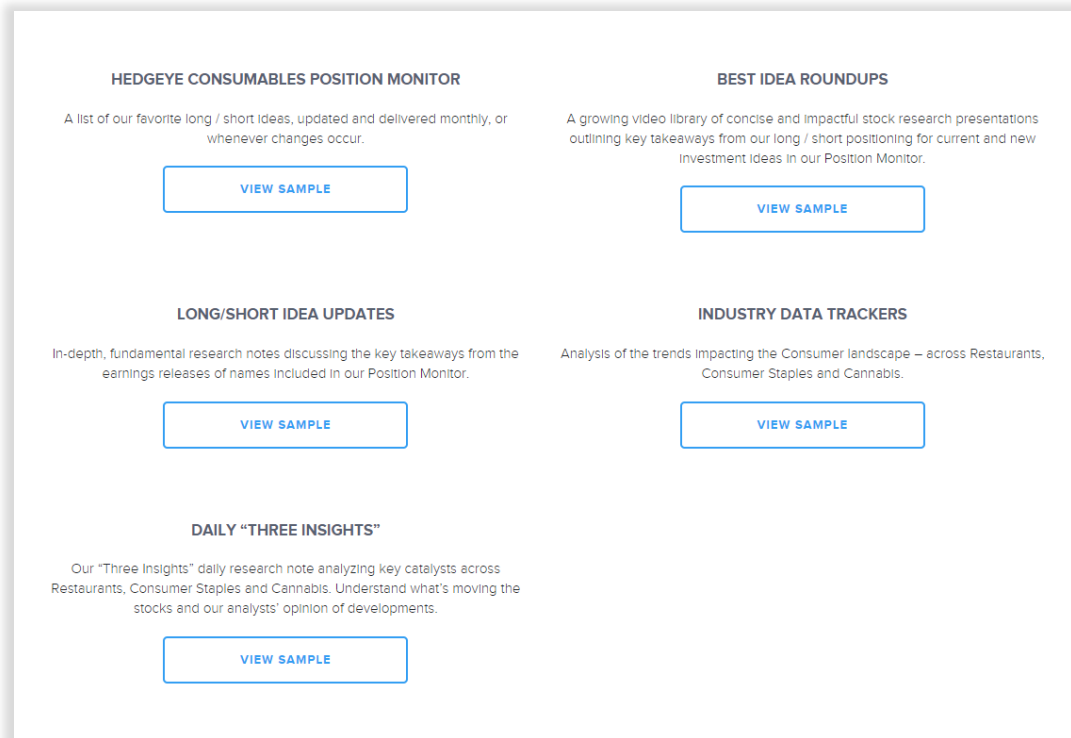
Daniel Biolsi, CPA, primarily focuses his research coverage on the Consumer Staples and Cannabis sectors in the U.S. He has nearly two decades experience following consumer related sectors including retail, beverages, consumer products, apparel, and airlines. Prior to Hedgeye Risk Management, Daniel spent 10 years at Glenhill Capital investing in consumer companies. His career also included stints at several other hedge funds. Earlier in his career he was on the #1 Institutional Investor ranked Health Care Distribution & Technology teams.

KOSEI SUZUKI

Kosei Suzuki is a recent addition to the Restaurants, Consumer Staples, and Cannabis team. He is an English major at Columbia University and a former intern at Hedgeye.

Consumables Pro | What To Expect

Current Product Offering and What's to Come



CURRENT PRODUCTS:

- INVESTMENT AND TRADING IDEAS
- DAILY NOTES IN EACH SECTOR
- INVESTMENT THESIS VIDEO SUMMARIES
- Q&A LIVE VIDEO WITH ANALYST TEAM
- INDUSTRY TRACKERS AND SENTIMENT MONITORS

IN PROCESS:


- INVESTMENT TOOLS
- INTRA DAY “WHAT IS MOVING THE STOCK” ANALYSES
- VIDEO INTERVIEWS WITH INDUSTRY LEADERS AND PARTICIPANTS
- LIBRARY OF PAST CONTENT
- AND MORE TO COME

Consumables Pro is the leading Consumer Sector investing product designed by Hedgeye’s Consumables team Howard Penney, Daniel Biolsi, and Kosei Suzuki.

As a subscriber you get a service designed to provide serious investors, sophisticated investors and registered investment advisors with institutional-grade investment research in their pursuit of generating alpha across the consumer universe.


Consumables Pro | Three Insights

Our Most Read Product – Three Daily Insights for Each Vertical in the AM


 HEDGEYE CONSUMABLES PRO

07/24/20 10:51 AM EDT

RESTAURANTS INSIGHTS | SOUTHWEST CEO, BJRI LABOR INFLATION, BLMN - IF IT WERE ONLY JUST OUTBACK



Howard Penney
@HowardVPenney





Daniel Biolsi
@Hedgeye_Staples

SOUTHWEST CEO

"I think business travel will be very slow to recover, and my guess is that it will take five to 10 years for business travel to fully recover to 2019 levels." There are significant implications for the recovery of high-end dining recovery trends. This can also be seen in the AMEX T&E tracker, which is showing a stalled out recovery in business spending.


American Express T&E Tracker




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07/24/20 06:06 AM EDT

STAPLES INSIGHTS | ADDING LOBLAW TO SHORT BIAS, SAM'S TRULY POWERS Q2, GROCERY SPEND ELEVATED (ACI)



Howard Penney
@HowardVPenney




Daniel Biolsi
@Hedgeye_Staples

Adding Loblaw to short bias list


Canada's largest grocer reported Q2 EPS of C\$.74, C\$.03 above consensus expectations, but down 27% from the prior year. Loblaw's market division SSS grew 18.8% while the discount division SSS grew 4.9%, and drug SSS declined by 1.1%. Food retail SSS grew 10% while pharmacy SSS decreased 6.2%, and front end SSS grew 3.3%. The average food retail price increased by 4.6%. Gross margins in retail contracted 30bps, but on an organic basis contracted 90bps, driven by mix and front end drug store pressure. SG&A costs deleveraged 90bps due to higher operating costs. The company spent C\$282M more in COVID-19 related costs, including C\$180M related to temporary pay premiums. Operating margins contracted 190bps. Canadian grocery executives had to appear before a parliamentary committee about ending their employees' pay premiums during the pandemic. Management said that COVID-19 costs have fallen from C\$23.5M per week in Q2 to C\$4.75M in July. Pandemic costs are not the only source of pressure. Loblaw will have to step up its e-commerce investments to accommodate the shift in demand. Walmart Canada announced this week that it would spend C\$3.5B (\$2.6B) over the next five years to better tie together physical and digital, with much of the capital going towards distribution centers. Walmart will also renovate more than 150 stores (400 total store base) over three years. While Loblaw's food revenues are 50% larger than Walmart's Canadian revenues, it will force a competitive response.

We are adding Loblaw to our short bias list. Loblaw will have the same difficulty lapping the sales benefit from COVID-19 that all grocers have, but it did not have the profit benefit. The consensus projects more than a snapback in earnings in 2021 with 17% EPS growth over 2019, which is too aggressive with


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07/23/20 09:32 AM EDT

CANNABIS INSIGHTS | RECORD SALES IN CANADA, FDA DRAFT GUIDANCE, AND MA'S VERTICAL-INTEGRATION



Howard Penney
@HowardVPenney



Daniel Biolsi
@Hedgeye_Staples

Canada has record legal cannabis sales in May


Statistics Canada May 2020 data showed a record CA\$186 mm in legal cannabis sales. MoM, total legal sales grew by 4.2%. The growth seems to be driven by the provinces from Alberta and British Columbia, with respective market shares of 24.9% and 14.6% of May sales, BPS market share change MoM of 118 BPS, and 123 BPS, and MoM sales growth of 9.4% and 13.8%.

In an interview with CTV News, a spokesperson for a Toronto cannabis store suggested that the strong sales data was at odds with the revenue losses that he and other cannabis retailers have incurred during COVID. Rather, he suggested that the surge in sales could be explained by the influx of active, licensed retailers across the country.

Since January, the total number of active cannabis retailers has grown 36%. Ontario has been the force behind the momentum in unit growth, growing 333% in the same time period.

Cannabis | Canada Retail Cannabis Sales

Record Month in May at CA\$186 Million



Data Source: Hedgeye Estimates

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Consumables Pro | Why Consumables Pro?

Points of Consideration



This is for the serious investor who wants the company and industry insights professional investors have.

This is intended for the investor that wants to learn and make informed decisions for themselves.

We are an independent research firm – we have no investment banking or trading relationships.



We have our earnings models, industry trackers, and decades of investment experience.

The goal being that we have the same conviction in our investment ideas.

This is not for hobbyists and people who want someone to invest for them.





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RESTAURANTS



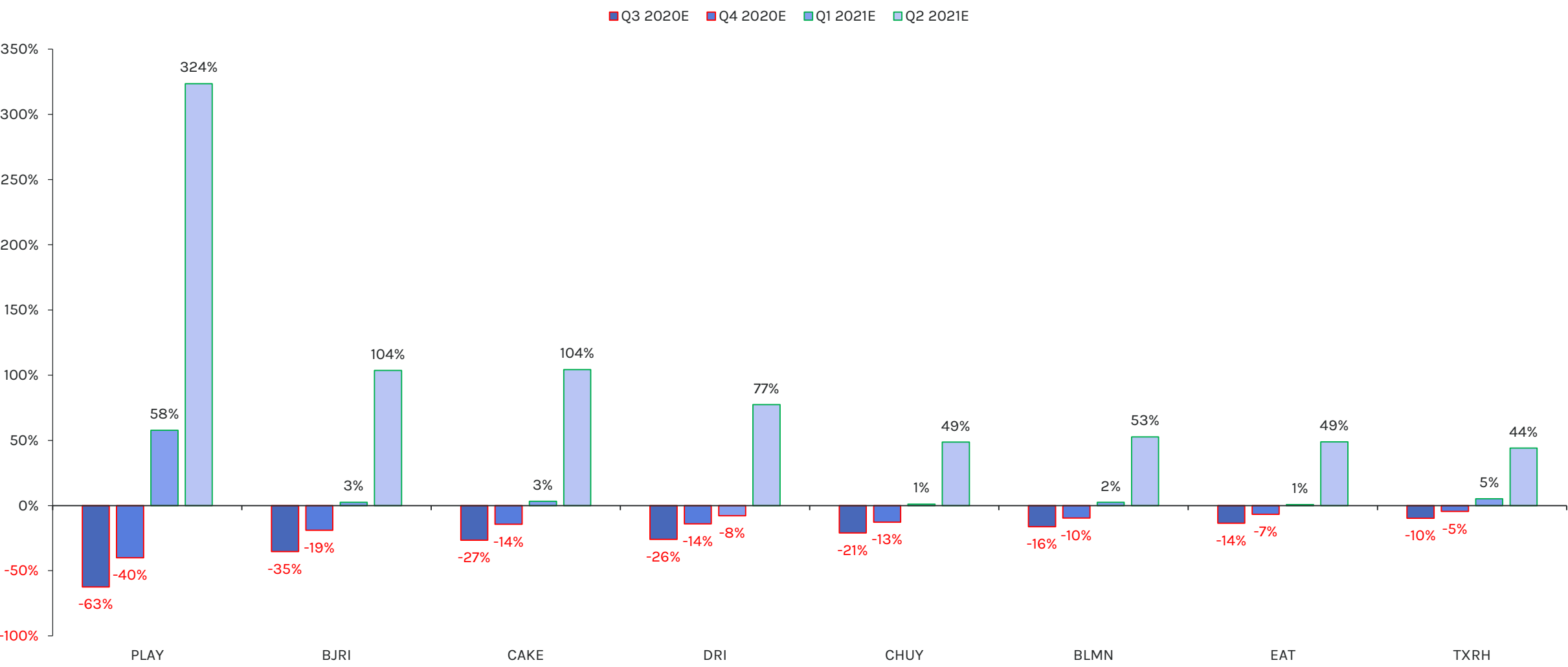
HEDGEYE RESTAURANTS POSITION MONITOR															
BEST IDEAS - LONG								BEST IDEAS - SHORT							
TICKER	COMPANY	Price	Mkt. Cap (M)	NTM P/E	Avg D Vol (M)	SI % FLT	Ratings	TICKER	COMPANY	Price	Mkt. Cap (M)	NTM P/E	Avg D Vol (M)	SI % FLT	Ratings
EAT	Brinker International	\$48.35	\$2,190	14.9	1.92	10.5	1.5	BYND	Beyond Meat	\$125.01	\$7,806	491.9x	4.69	19.5	2.0
TXRH	Texas Roadhouse	\$76.82	\$5,338	32.5	0.90	7.1	1.8	SHAK	Shake Shack	\$79.45	\$3,293	1095.0x	1.09	17.4	1.9
STKL	SunOpta	\$7.22	\$954	56.8x	0.62	0.9	1.0								
LONG BIAS								SHORT BIAS							
PZZA	Papa John's	\$79.67	\$2,625	36.5x	0.70	11.8	1.2	DIN	Dine Brands Global	\$61.29	\$1,006	12.6	0.49	7.0	1.4
DPZ	Domino's	\$381.67	\$15,039	29.7x	0.66	2.6	1.4	BLMN	Bloomin' Brands	\$16.55	\$1,449	18.1	2.86	16.5	1.4
DRI	Darden	\$113.35	\$14,758	22.5	2.13	3.2	1.4	TAST	Carrols	\$5.75	\$300	138.9	0.37	5.9	1.1
BJRI	BJ's Restaurants	\$38.73	\$864	234.7	0.44	6.6	1.9	SBUX	Starbucks	\$93.92	\$110,196	32.8x	7.38	0.9	1.6
MCD	McDonald's	\$213.32	\$158,947	26.5x	2.84	0.7	1.3	QSR	Restaurant Brands	\$58.43	\$35,523	21.7x	1.85	3.2	1.4
TKWY-AMS	Just Eat Takeaway	\$94.64	\$13,531	100.7x	0.67	N/A	1.3	WING	Wingstop	\$123.45	\$3,664	88.6x	0.65	10.1	1.4
OPES	Opes Acquisition Corp.	\$10.69	N/A	N/A	N/A	N/A	N/A								

Rating is an average of third-party stock ratings from sell-side firms sourced by FactSet. Rating of 1 equals a bullish buy rating, while a 3 equals a bearish sell rating.

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Restaurants | Casual Dining Sales Trends Q3 2020E – Q2 2021E

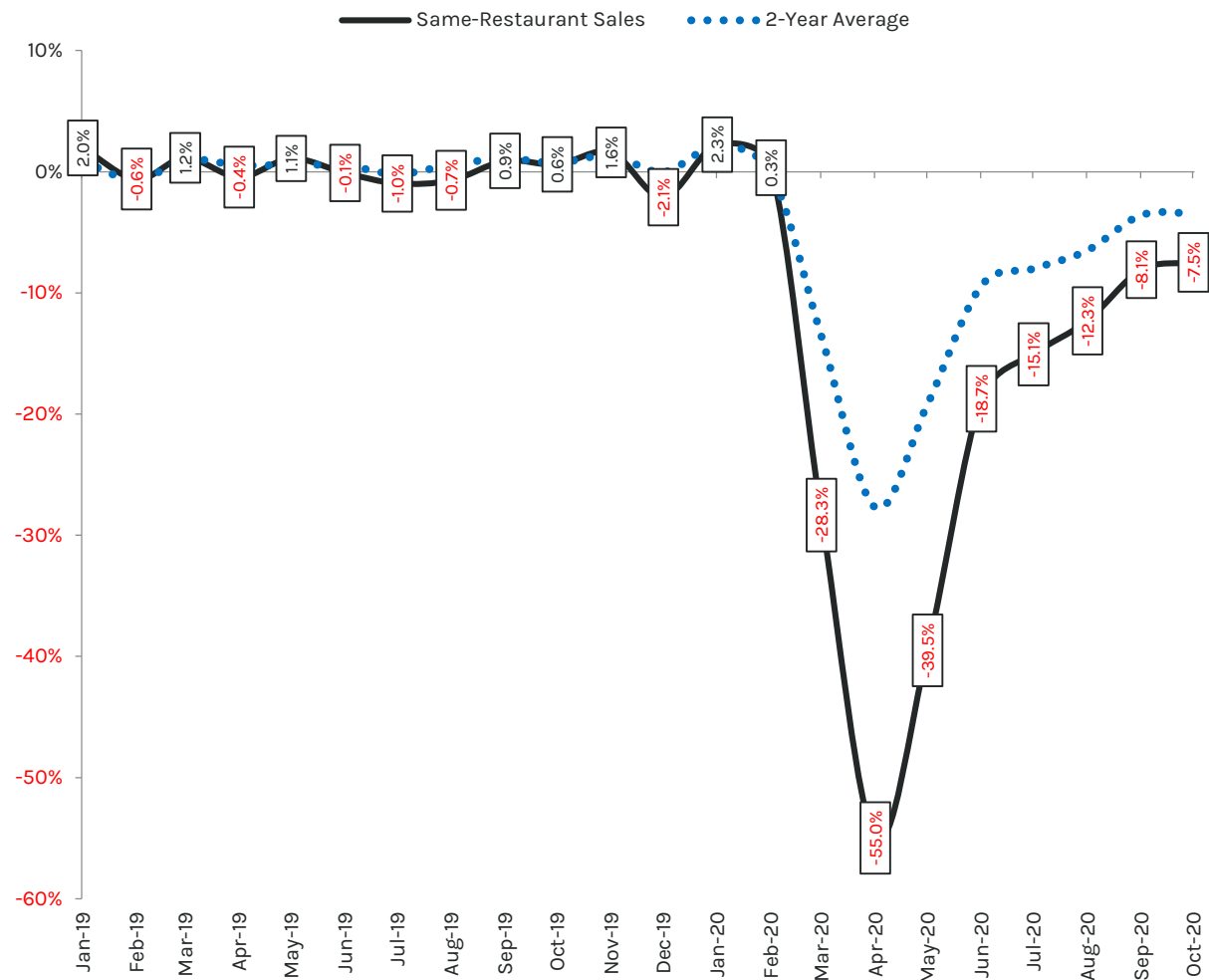
PLAY's Recovery Timeline Is Less Certain; BLMN, EAT, & TXRH Best Positioned



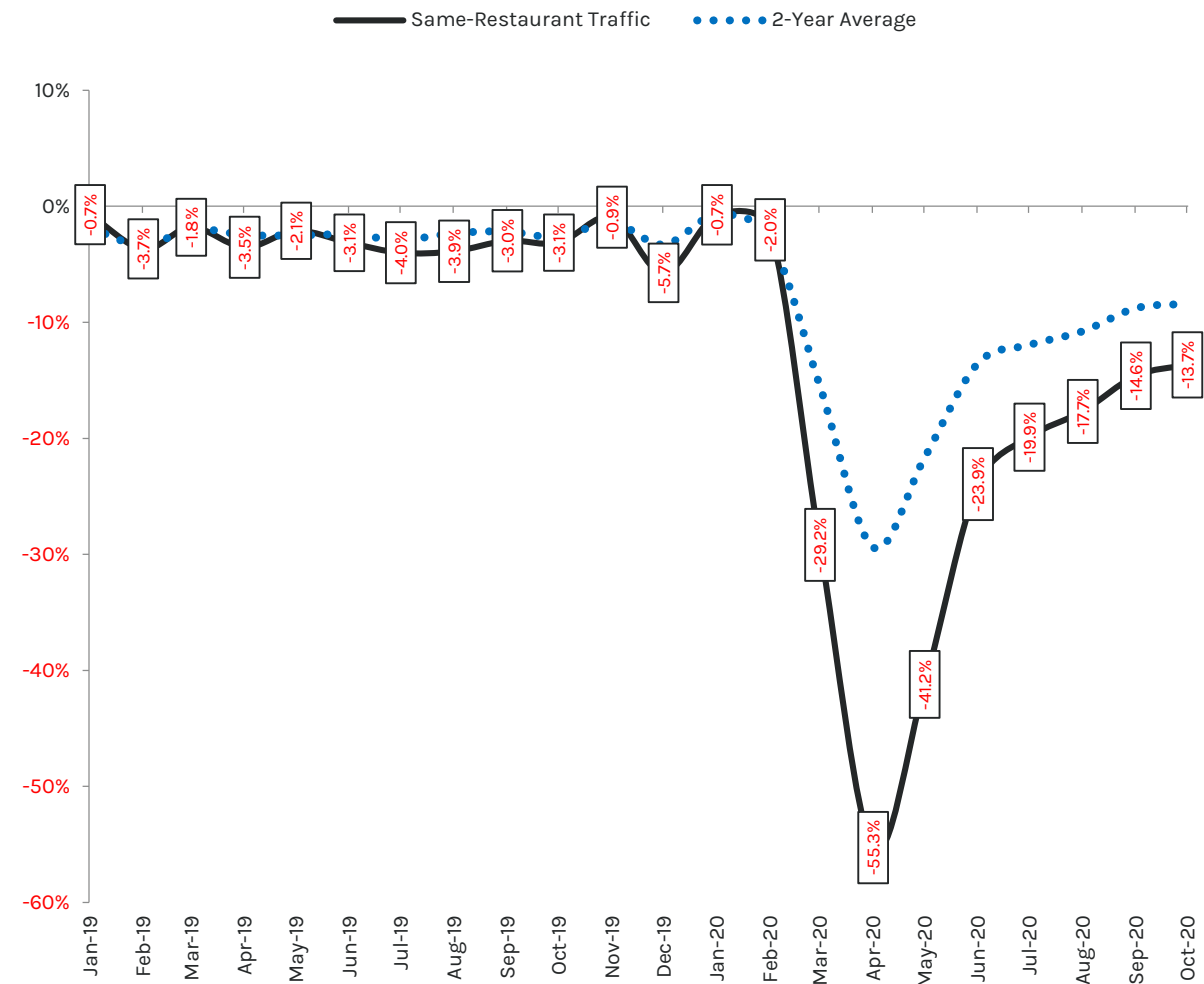
Restaurants | Black Box Same-Restaurant Sales and Traffic

The Gradual Recovery

BLACK BOX SAME RESTAURANT SALES

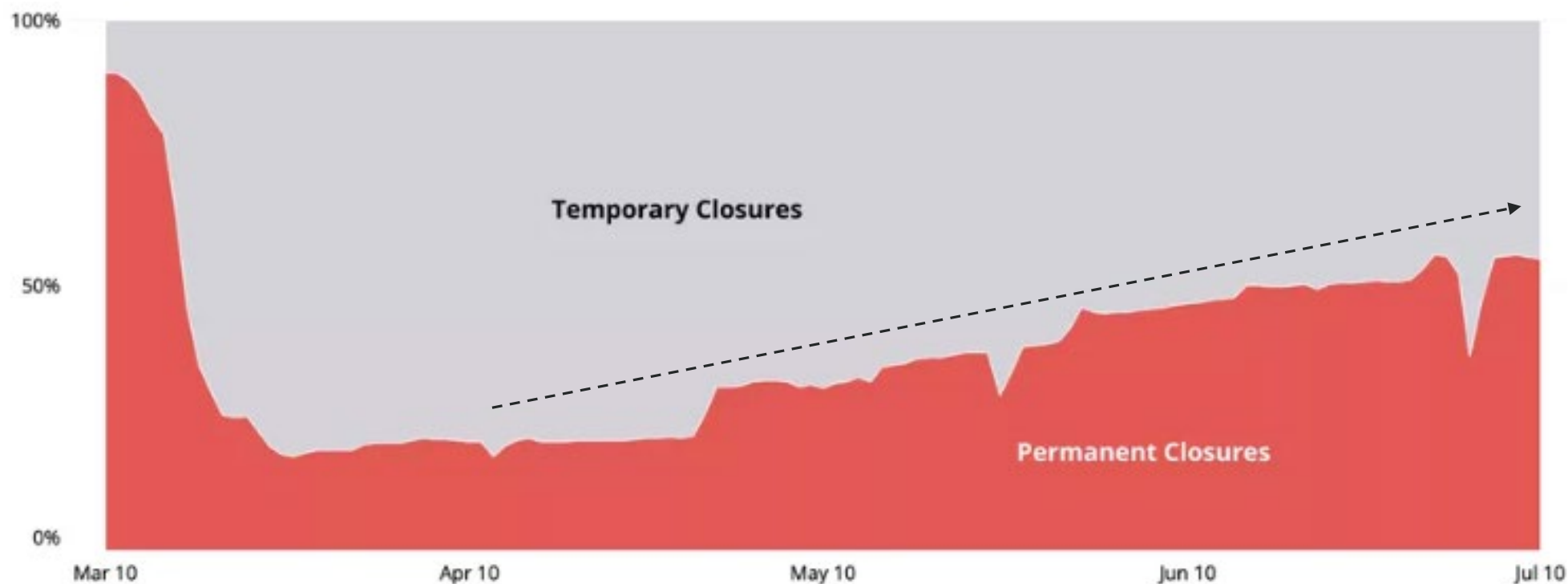


BLACK BOX SAME RESTAURANT TRAFFIC



Restaurants | Permanently Closed Restaurants Are Growing

Yelp: Share Of Permanent Closures vs. Temporary Closures



**Among U.S. businesses that were open on March 1. A business was counted as closed if it was marked as permanently or temporarily closed, changed its hours to mark itself as closed for entire days, or included the word "closed" in the COVID-19 business updates section of its Yelp page. Closures are updated through July 10. Data may lag actual closures because of time taken to report and verify closures.*

Restaurants | R_t COVID-19

Reopening Now Is a Negative

R_t < 1.0 =
VIRUS WILL STOP SPREADING

R_t > 1.0 =
VIRUS WILL SPREAD QUICKLY

In an online event this past Tuesday (7/7), Dr. Deborah Brix of the White House coronavirus response team said, “100 percent of the American population in those hot zones, in the red areas of the country, should be wearing masks all of the time and social distancing.”

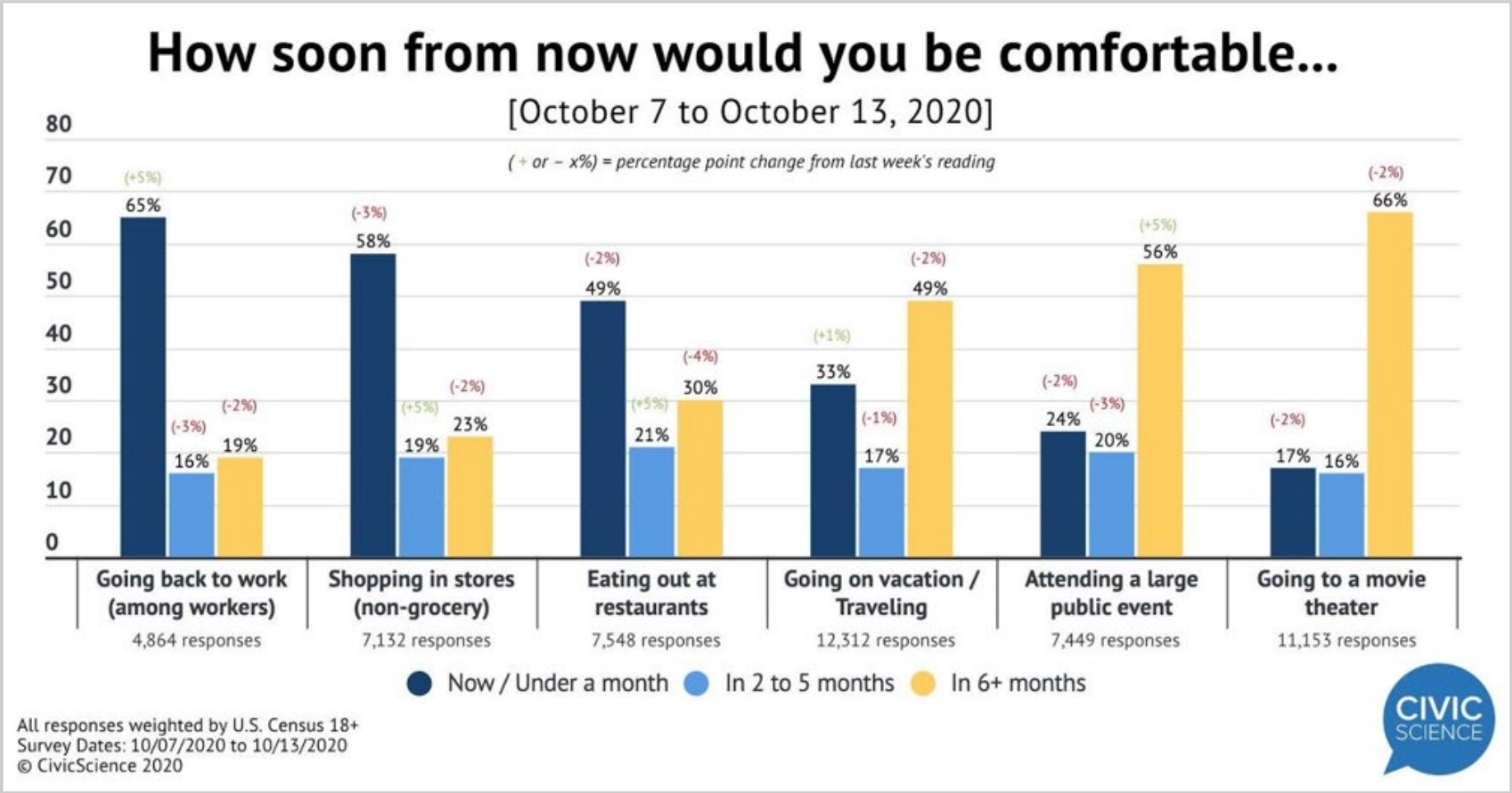
She also encouraged Americans to not eat inside restaurants.



The value of R_t is a crucial measure of how fast the virus is growing. R_t represents the effective reproduction rate of the virus calculated for each locale. It provides an estimate of how many secondary infections are likely to occur from a single infection in a specific area. Values over 1.0 mean we should expect more cases in that area, values under 1.0 mean we should expect fewer.

Restaurants | Comfort of Eating out at Restaurants

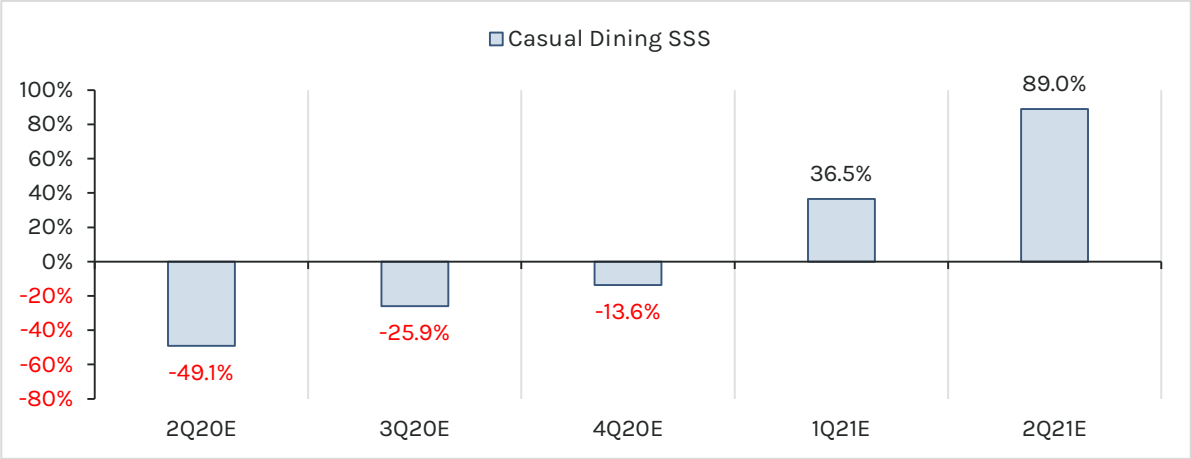
Close to 50% Are Comfortable Eating Out Either Now/Under a Month



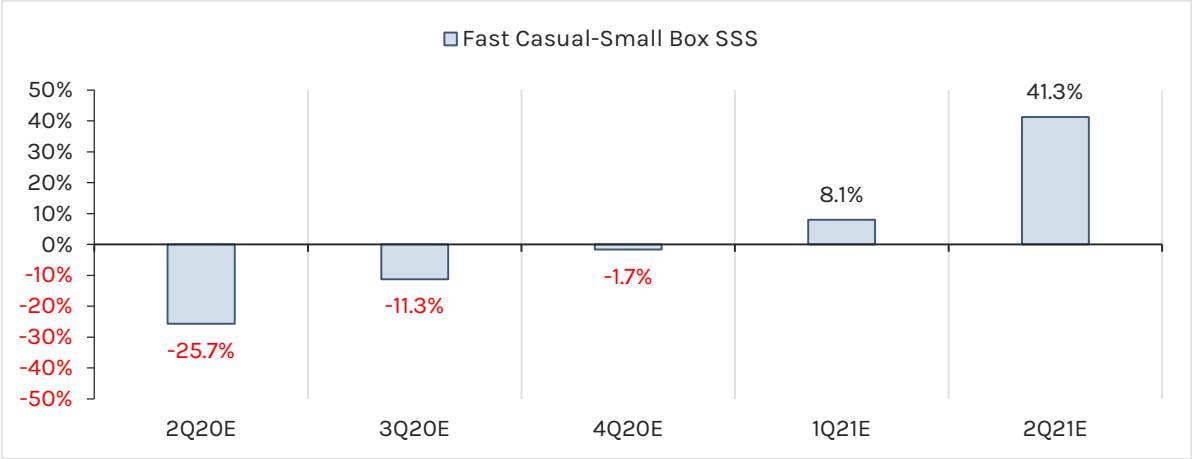
Restaurants | Same-Store Sales Trends 2Q20E - 2Q21E

Casual Dining and Family Dining Hit the Hardest

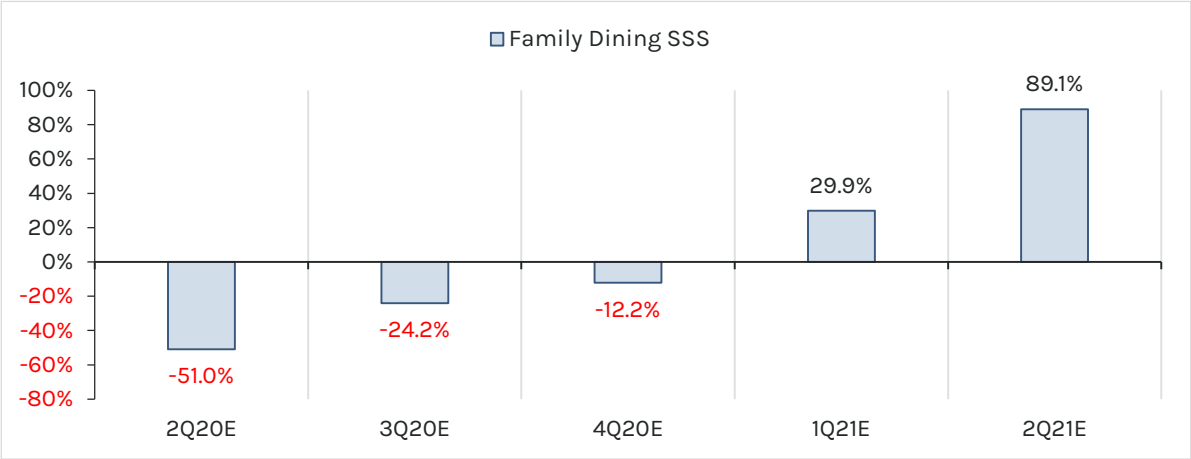
CASUAL DINING



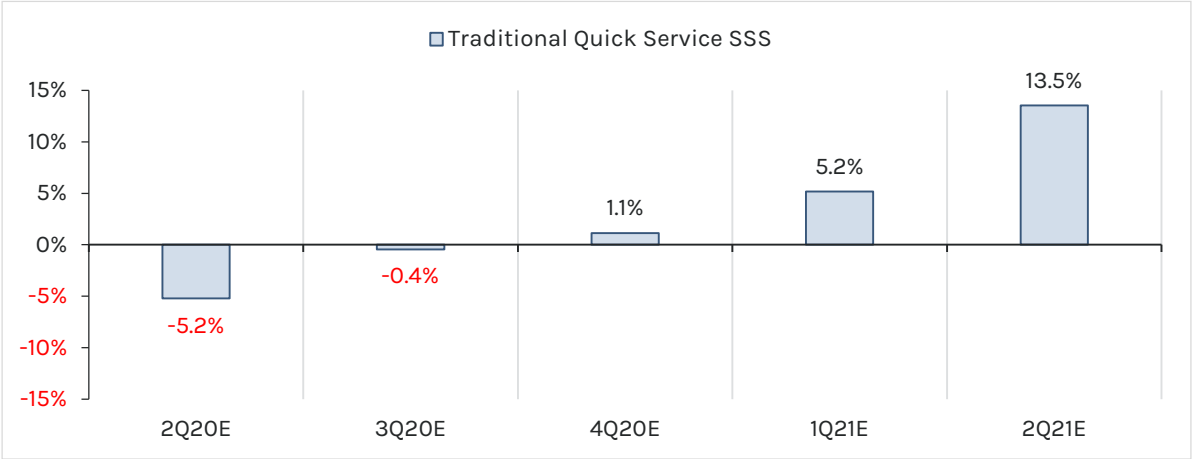
FAST CASUAL-SMALL BOX



FAMILY DINING



TRADITIONAL QUICK SERVICE





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STAPLES



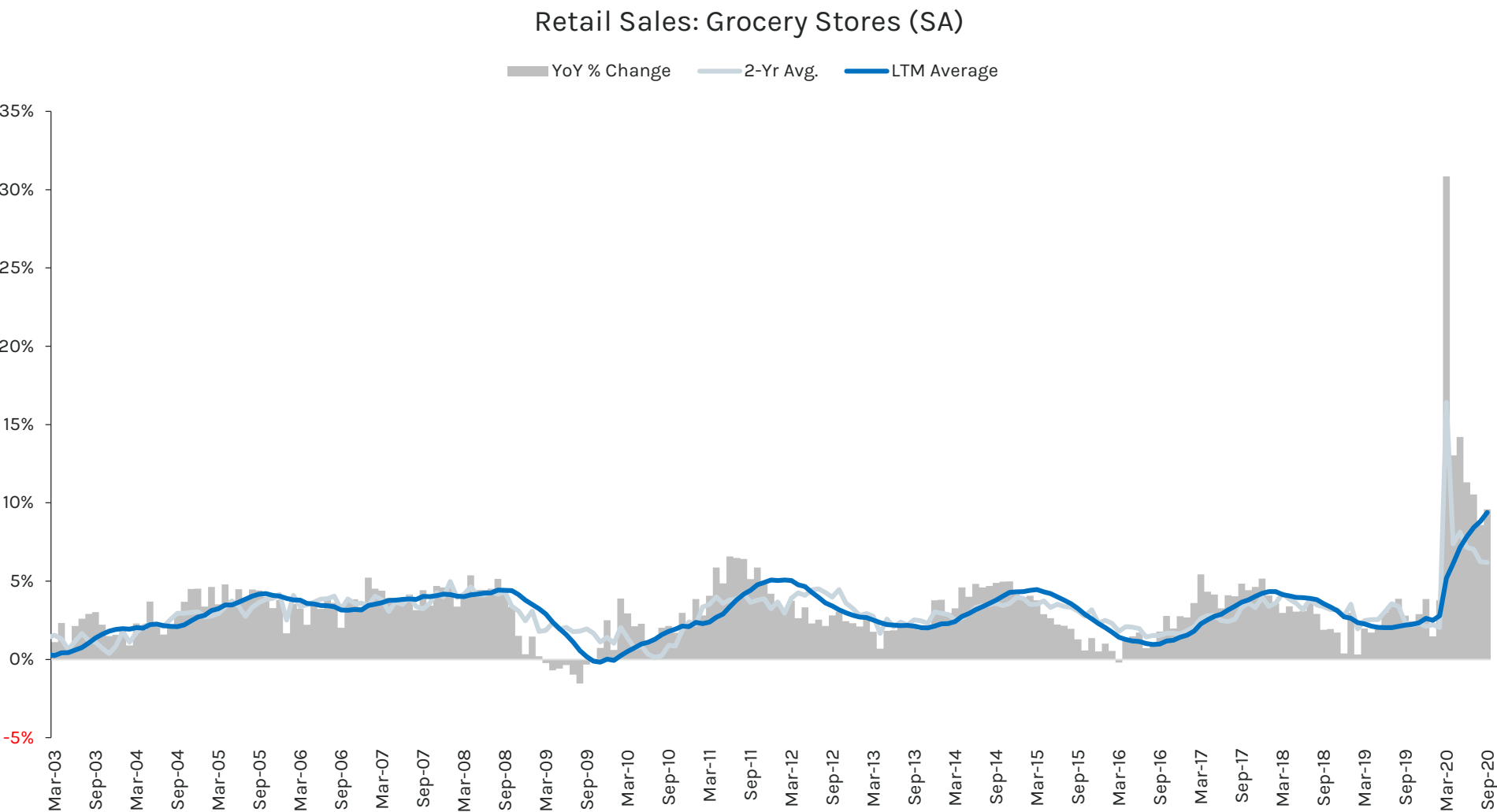
HEDGEYE CONSUMER STAPLES POSITION MONITOR															
BEST IDEAS - LONG								BEST IDEAS - SHORT							
TICKER	COMPANY	Price	Mkt. Cap (M)	NTM P/E	Avg D Vol (M)	SI % FLT	Ratings	TICKER	COMPANY	Price	Mkt. Cap (M)	NTM P/E	Avg D Vol (M)	SI % FLT	Ratings
NOMD	Nomad Foods	\$23.07	\$4,448	13.7x	1.36	1.1	1.1	KR	Kroger	\$31.92	\$24,012	11.3x	8.21	7.5	1.8
GO	Grocery Outlet	\$42.44	\$3,775	37.8x	0.95	8.1	1.4								
STZ	Constellation Brands	\$200.56	\$38,904	20.2x	1.08	3.1	1.4								
ACI	Albertsons	\$14.99	\$6,995	7.2x	2.96	25.5	1.2								
LONG BIAS								SHORT BIAS							
CAG	Conagra	\$34.98	\$16,795	13.7x	2.71	2.1	1.5	SYN	Sysco	\$72.28	\$36,205	31.1x	3.05	2.1	1.6
MDLZ	Mondelez	\$57.09	\$79,975	20.5x	5.88	0.7	1.1	SJM	J.M. Smucker	\$117.57	\$12,920	13.7x	0.83	7.0	2.1
LW	Lamb Weston	\$76.46	\$11,103	29.5x	0.99	2.8	1.7	LBLCF	Loblaw	\$50.74	\$18,154	13.6x	0.67	7.0	1.6
PEP	Pepsico	\$141.72	\$191,332	23.8x	4.16	0.7	1.4	SMPL	Simply Good Foods Co	\$22.41	\$2,141	22.7x	0.62	3.1	1.1
SFM	Sprouts Farmers Market	\$20.01	\$2,307	10.9x	2.26	15.1	1.8	TAP	Molson Coors	\$42.80	\$8,942	10.3x	2.37	6.0	1.9
BUD	Anheuser-Busch InBev	\$66.60	\$87,358	22.3x	1.74	N/A	1.5	SAM	Boston Beer	\$917.64	\$11,626	43.0x	0.12	8.5	1.6

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Staples | Grocery Stores Retail Sales

Grocery Sales Accelerated in September From August



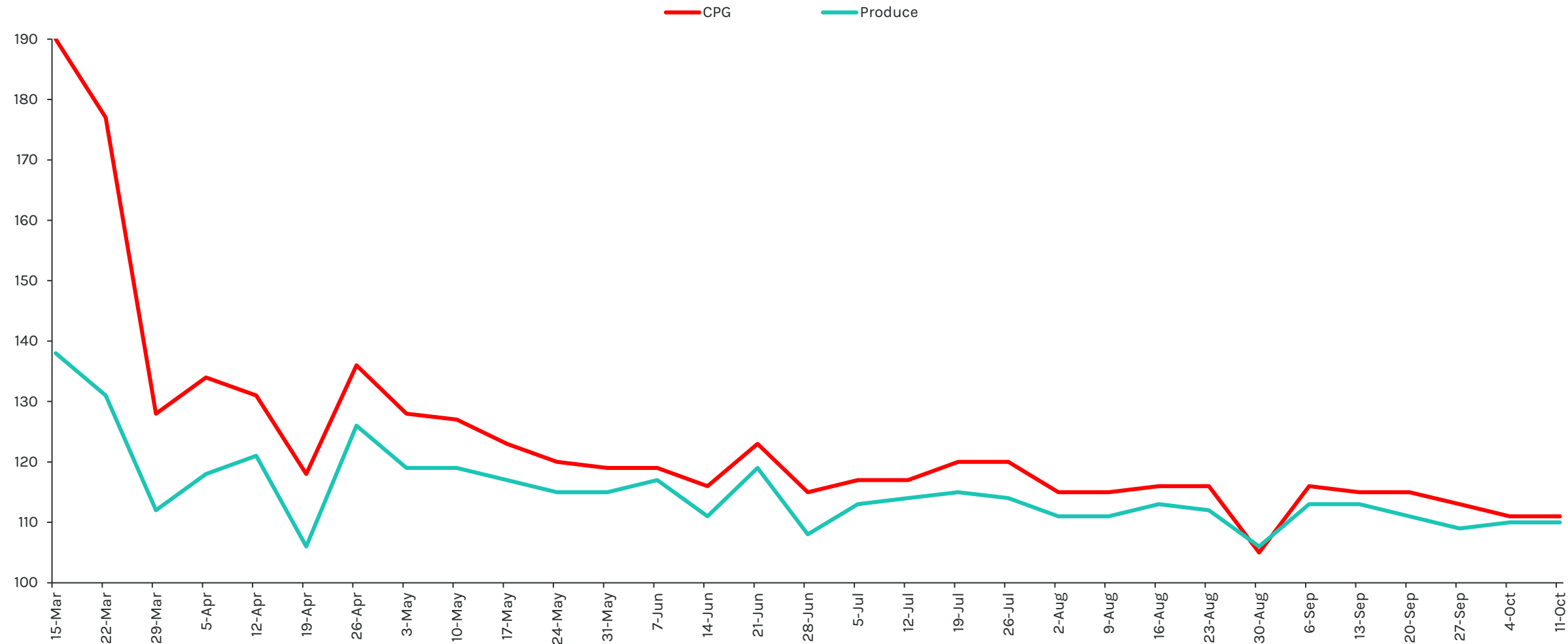
Grocery stores sales grew 9.6% YOY, accelerating from 8.6% in August on an adjusted basis. On an unadjusted basis grocery store sales grew 10.5% YOY in September, accelerating from 7.2% growth in August.

Behavioral Changes Behind Elevated Grocery Spending

- Consumers are making fewer trips.
- Consumers are spending more per trip.
- Consumers are consuming more meals at home.
- Consumers are cooking more at home.
- Consumers are still stockpiling food. Not deliberately like in mid-March, but pandemic concerns has instilled the mindset of buying more than needed.
- Out of stocks have caused consumers to generally be less price sensitive and brand loyal. Stores have pulled back on promotions. Consumers have trialed more new products and returned to familiar ones.
- Many consumers have reported weight gains during COVID-19 which has led to an increased interest in diets and eating healthy.
- The breakfast daypart change is largely driven by work from home changes.
- The lunch daypart change is due to distance learning for school and work from home.
- The dinner daypart at restaurants is largely missing the celebratory and travel occasions.
- Restaurants are also missing the eat away from home occasion for events.

Staples | Produce Demand Growth Has Been Steady

Fresh Produce (a Good Indicator of Home Meal Preparation) Has Been Up LDD% Since July



*IRI, Total U.S., Grocery, 1 week % change vs. YA

Staples | How the Largest Categories Performed During COVID-19 HEDGEYE

The Location of Consumption Was Often the Determinant of Performance.

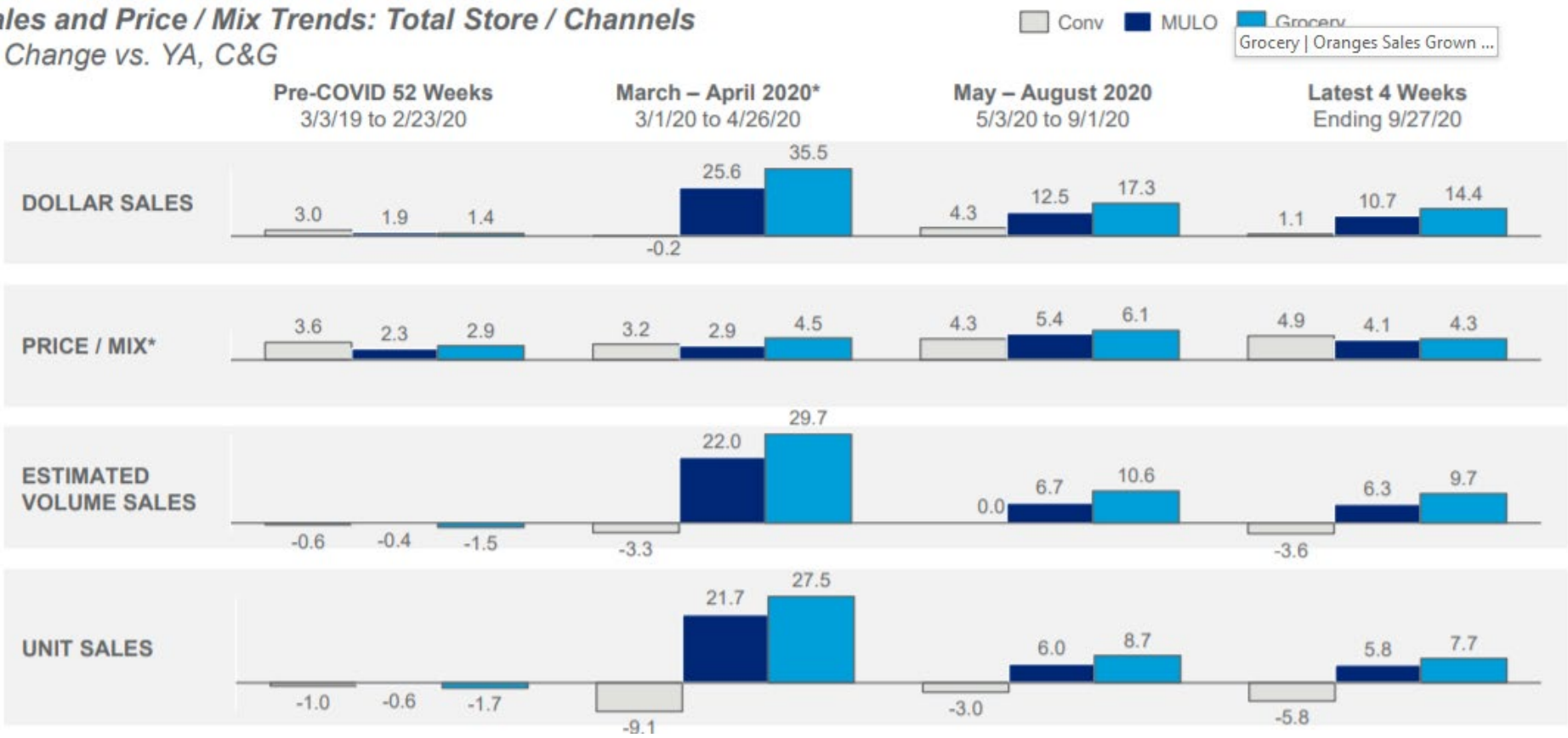
Top 21 C&G Categories // % Change vs. YA by Channel // May to Sept 2020

Ranked by C&G Pre-COVID-19 52 Weeks \$	\$ % Change vs. YA			
	C&G	MULO	Grocery	eComm w/POS
Beer / Ale / Alcoholic Cider	16.0%	17%	20%	127%
Spirits / Liquor	41.0%	23%	27%	109%
Wine	12.0%	17%	18%	158%
Energy Drinks	3.0%	16%	19%	37%
Carbonated Beverages	3.0%	16%	18%	123%
Bottled Water	-5.0%	8%	10%	101%
Tea / Coffee RTD	0.0%	14%	15%	101%
Sports Drinks	8.0%	15%	19%	70%
Bottled Juices – SS	1.0%	15%	18%	112%
Salty Snacks	-7.0%	14%	16%	106%
Dried Meat Snacks	10.0%	18%	17%	79%
Chocolate Candy	3.0%	11%	17%	101%
Non-Chocolate Candy	7.0%	4%	14%	79%
Pastry / Doughnuts	-8.0%	11%	13%	104%
Gum	-27.0%	-23%	-21%	52%
Entrées – RFG	-8.0%	14%	15%	45%
Milk	2.0%	9%	11%	139%
Cigarettes	2.0%	-14%	1%	N/A
Smokeless Tobacco	6.0%	-16%	-1%	90%
Electronic Smoking Devices	-7.0%	-93%	-18%	N/A
Cigars	15.0%	-6%	3%	N/A

Staples | One-Stop Shopping Favoring Conventional Grocery

The Pandemic Impact on Consumer Behavior

Sales and Price / Mix Trends: Total Store / Channels
% Change vs. YA, C&G



Consumers are making fewer trips, so they are visiting retailers that carry everything they need. Convenience stores are seeing weaker trends in September.

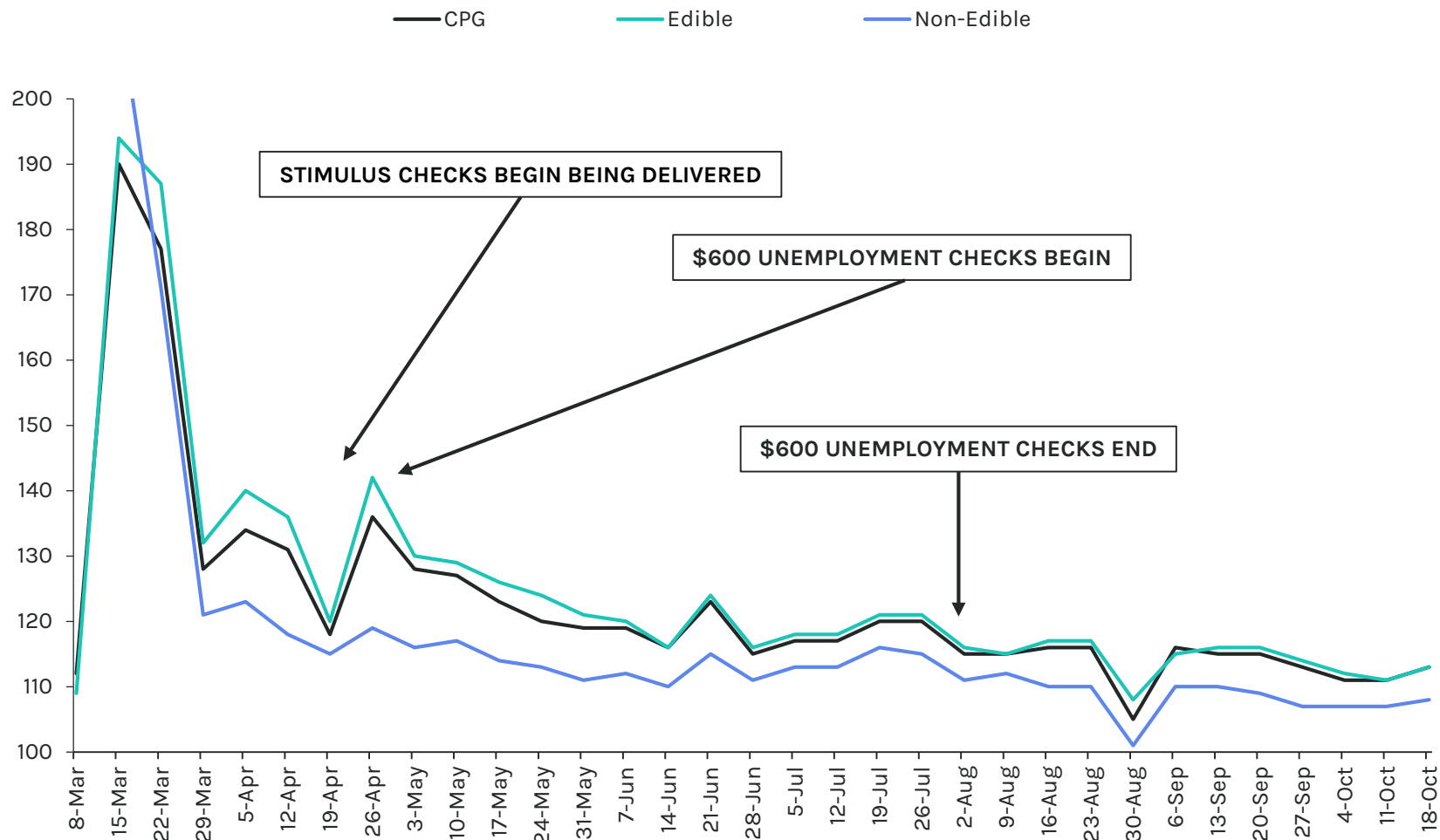
*IRI Consumer Network Panel , IRI eMarketing Insights data ending 9/27/20.



BOPIS has increasingly become the cost of doing business and is more popular than delivery. E-commerce grocery sales in August totaled \$5.7B, 20% less than June, but up significantly from \$1.2B in August 2019. 29% of all U.S. households are considered monthly active users of online grocery in August, up from 16.1M a year ago.

According to IRI the four-week period ended November 1 has seen a 64% YOY increase in online CPG demand. That represents a 5% acceleration from the previous four weeks.

Staples | Government Stimulus Will Be Another Tailwind

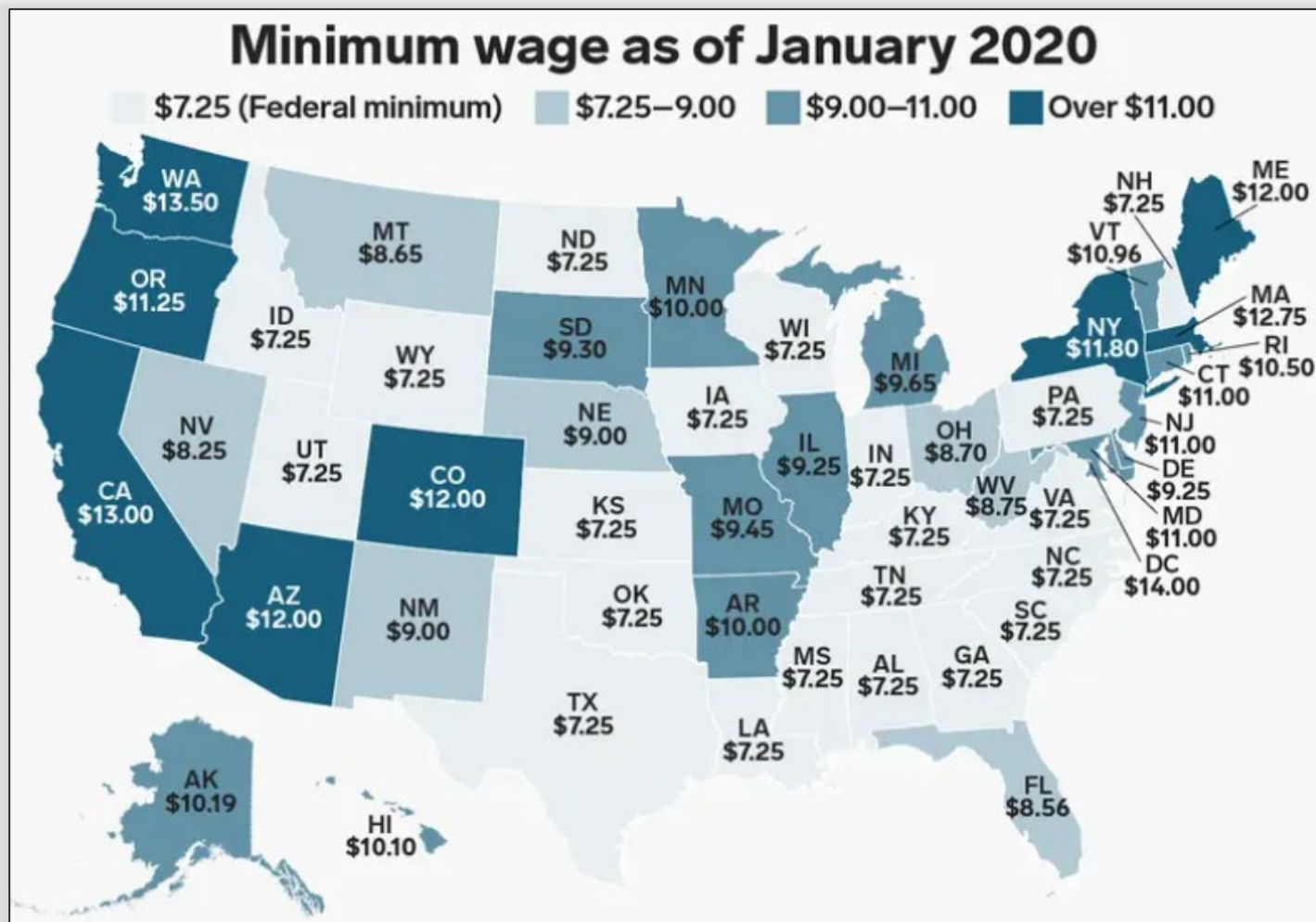


A fiscal stimulus is much more likely after the election.

The Democrats HEROES Act includes a number of programs that would boost consumer spending including \$600 weekly federal unemployment benefits, stimulus payments of up to \$1,200 for individuals earning an AGI of up to \$75,000 and \$500 per dependent, \$50B for emergency assistance to low-income renters, \$57B for child care families, and \$10B for a 15% SNAP benefit increase.

Staples | Labor Inflation

Extra Payments Have Continued at Competitors, Higher Federal Minimum Is a Risk.



- Walmart has given three rounds of bonuses or increased worker pay during the pandemic.
- Target announced a \$200 bonus for frontline workers.
- H-E-B announced a \$500 bonus for all employees in U.S. stores. The company previously had a \$2 hourly pay increase from March through June.
- In September Stop & Shop agreed to retroactive pay for workers equal to 10% of hours worked between July 5 and Aug. 22.
- The UFCW is still campaigning for hazard pay for as long as the risks of COVID-19 remain.
- A Democratic win in the election could see higher federal minimum wages which would disproportionately hit the “red” states.



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CANNABIS



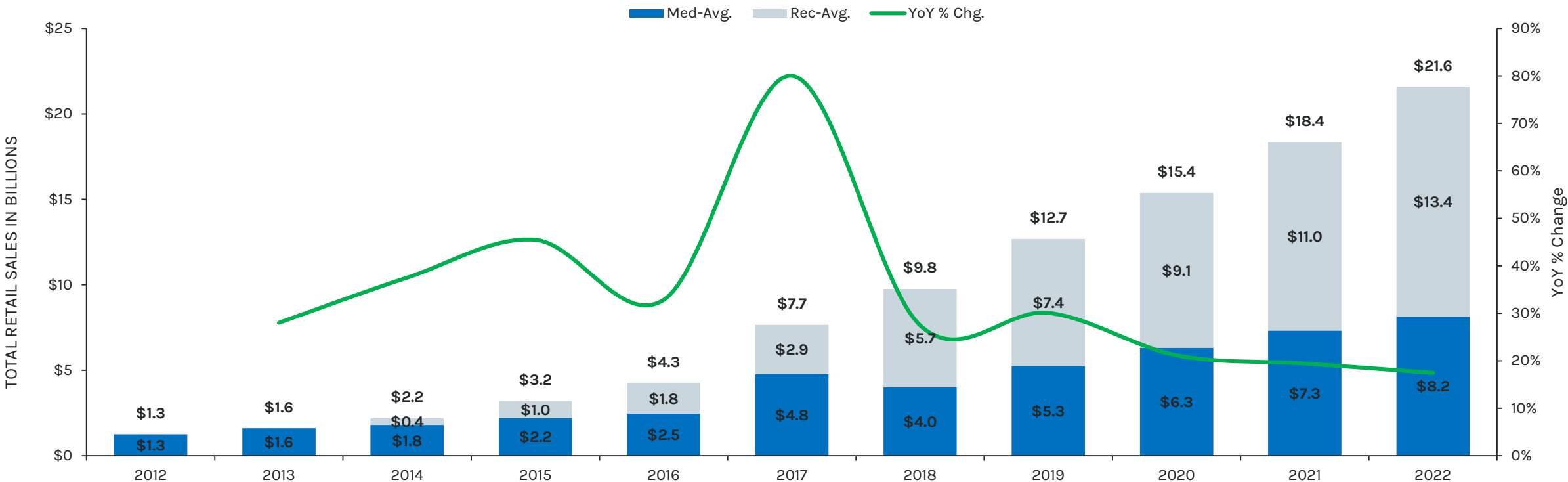
HEDGEYE CANNABIS POSITION MONITOR															
BEST IDEAS - LONG								BEST IDEAS - SHORT							
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AYRSF	AYR Strategies	\$17.24	\$646	26.5x	0.04	N/A	1.1	APHA	Aphria	\$5.53	\$2,080	N/A	6.57	11.4	1.1
TCNNF	Trulieve	\$26.49	\$3,811	24.1x	0.47	N/A	1.0								
IIPR	Innovative Industrial Properties	\$153.49	\$3,404	27.3x	0.43	5.2	1.1								
GTBIF	Green Thumb Industries	\$20.34	\$5,636	71.6x	0.49	N/A	1.1								
CRLBF	Cresco Labs	\$8.44	\$3,940	140.5x	0.64	N/A	1.1								
LONG BIAS								SHORT BIAS							
CRON	Cronos Group	\$7.27	\$3,380	N/A	4.24	25.0	2.0	ACB	Aurora	\$8.30	\$1,732	N/A	21.03	19.9	2.2
CGC	Canopy Growth	\$23.71	\$11,469	N/A	6.04	17.2	2.0	TLRY	Tilray	\$8.33	\$1,243	N/A	10.67	30.3	1.9
TRSSF	TerrAscend Corp.	\$7.29	\$1,885	106.2x	0.25	N/A	1.0								
HRVSF	Harvest Health	\$1.94	\$921	N/A	0.66	N/A	1.3								
CURLF	Curaleaf	\$10.68	\$7,432	95.6x	0.86	N/A	1.1								
CCHWF	Columbia Care	\$3.90	\$878	N/A	0.20	N/A	1.1								
VFF	Village Farms	\$6.36	\$878	23.3x	1.32	11.6	1.0								
FFNTF	4Front Ventures	\$0.67	\$878	46.3x	0.39	N/A	1.0								
SAMA	Schultze SPAC - Clever Leaves	\$10.18	N/A	N/A	N/A	N/A	N/A								

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*Hedgeye’s “bias” represents Hedgeye’s outlook on companies currently under Hedgeye’s review. Hedgeye may or may not provide further commentary on any or all companies represented on the bench and representation of a company on the bench does not forecast whether Hedgeye will or will not issue any additional material on that company.

Cannabis | Projected U.S. Legal Cannabis Market

U.S. Cannabis Retail Sales Estimates: 2012 - 2022

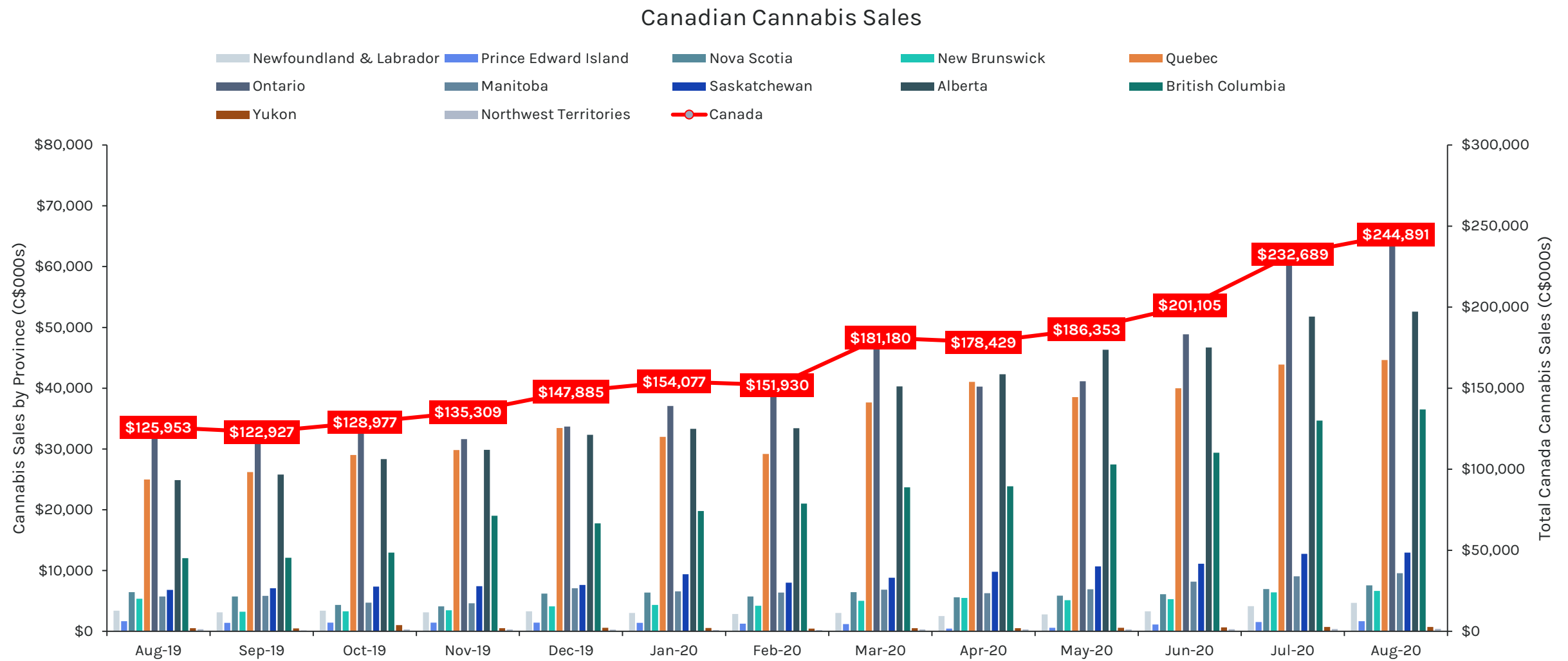


How Realistic Are These Estimates?

With a number of states needing to go adult-use in order for these estimates to come to fruition, we feel there is a lot of risk and optimism built into the industry's top-line. These projection contemplate the current regulatory environment; bear in mind that these numbers don't include the illicit market.

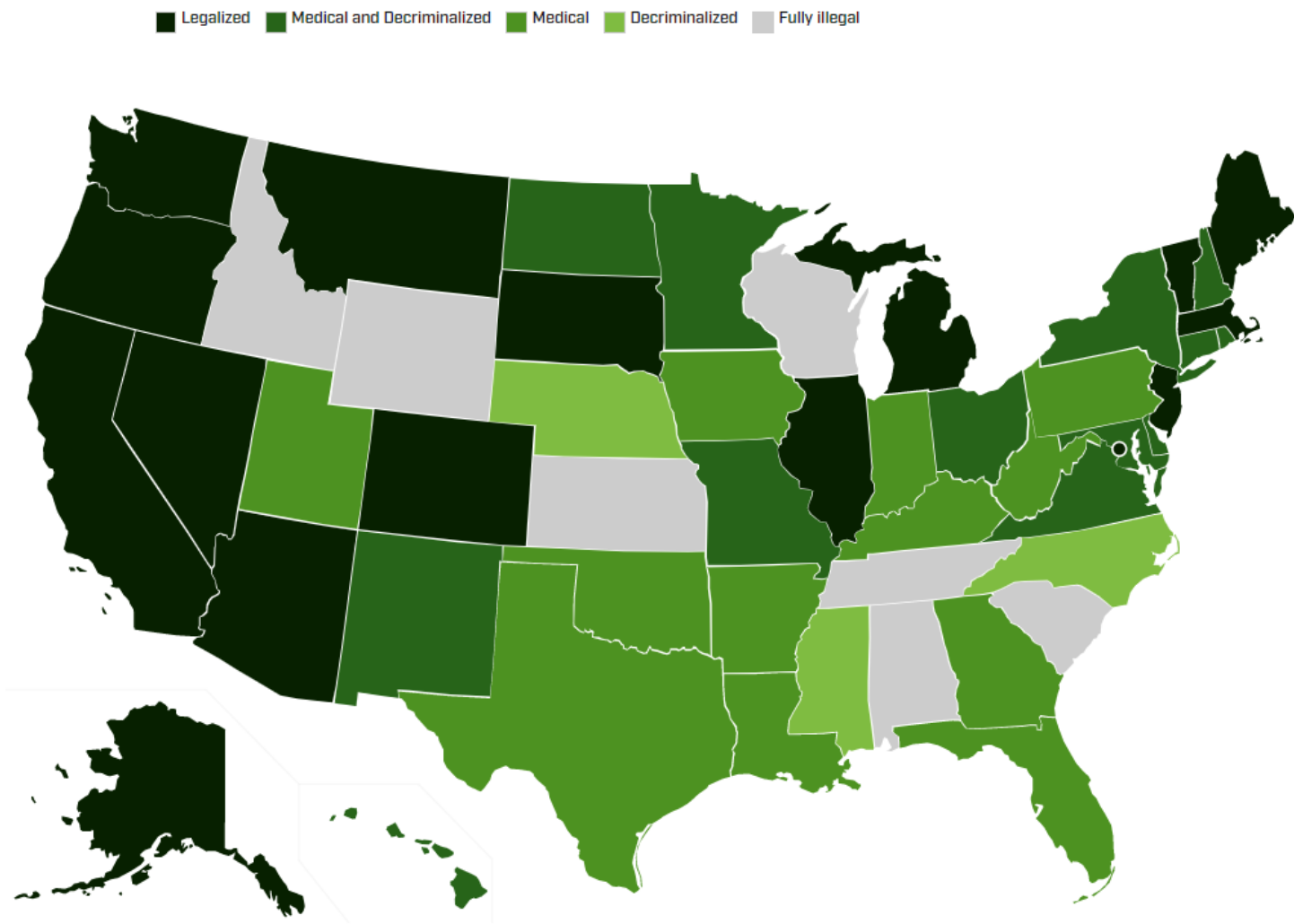
Cannabis | Adult-Use Retail Sales

Five Record Months In A Row



Cannabis | Post-Election Legalization

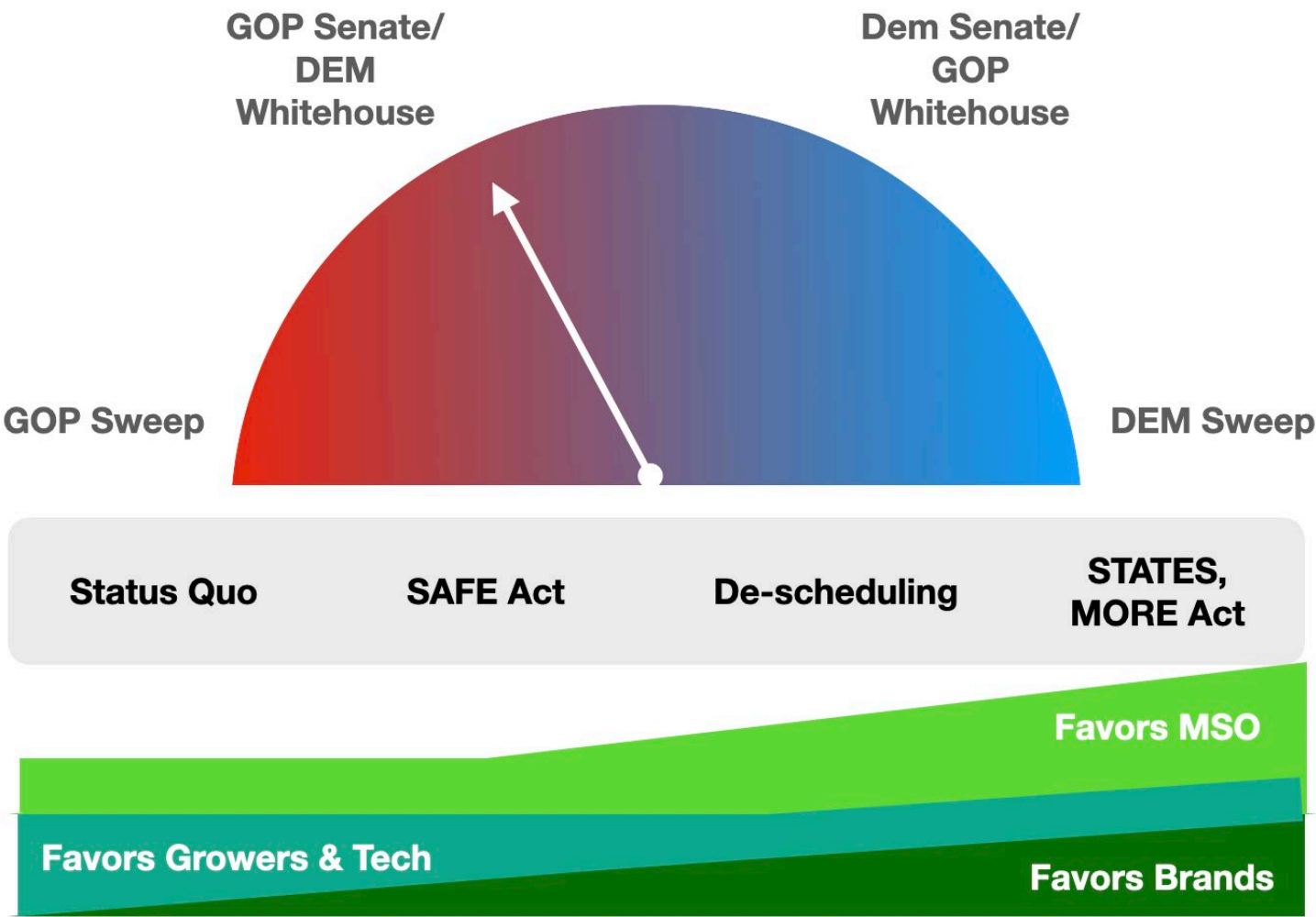
15 States Have Legalized Both Adult-Use & Medical, 21 States Have Legalized Just Medical



Following the 2020 elections, there are 15 states that have gone fully legalized cannabis. 10 have operating retail sales, while the other five are made up of the most recent states to go recreational and Vermont.

Cannabis | 2020 Election Industry Impact

”STATUS QUO PLUS” Some Action Possible Despite A GOP-Controlled Senate



States Legalization Puts Pressure On The Federal Government

As more states come online with adult-use cannabis reform in 2021-2022, pressure will grow for the federal government to enact changes.

Banking Reform And Descheduling Possible

Absent a full-blown STATES or MORE Act, its possible we will see reforms around banking and possibly de-scheduling. Banking reform allows for cannabis businesses to transact electronically (versus cash) which centers on safety, security and taxation issues. Descheduling to a Class III/IV Controlled Substance allows for prescriptions and research on cannabis.

Who Benefits?

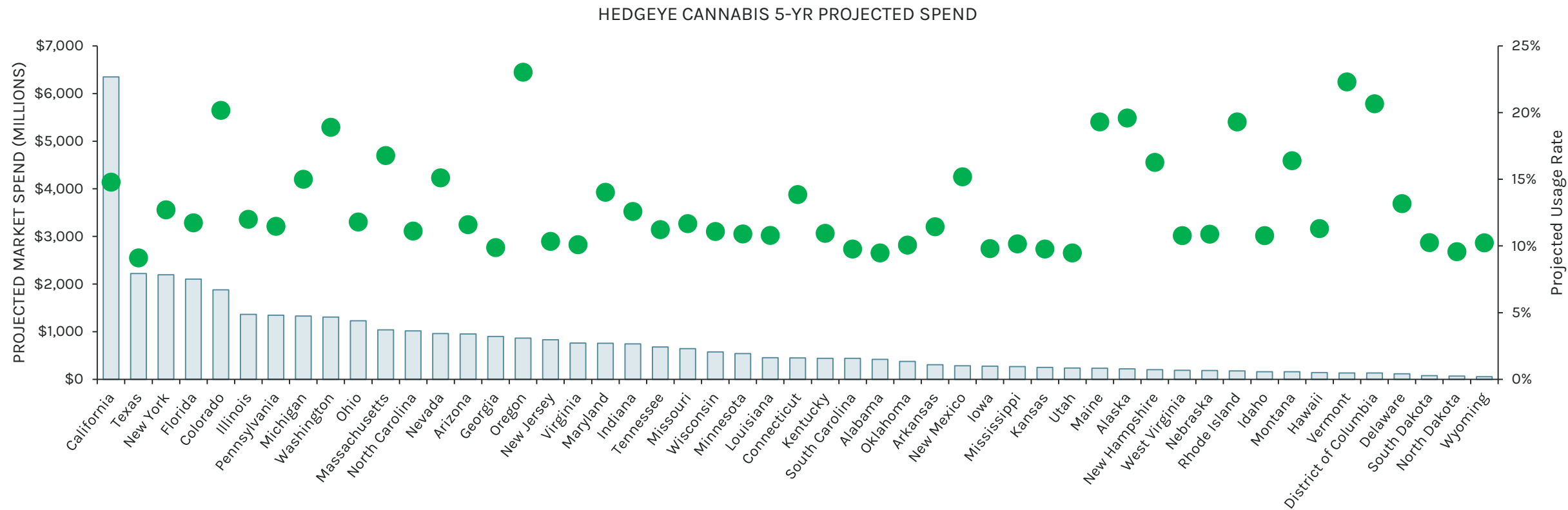
While subtle, these changes have powerful impacts to the industry. With cannabis banking reform, the cost of capital will shift dramatically for cannabis businesses (e.g. loans, deposits, refinancings). Descheduling repeals 280E taxes.

Who Loses?

While these are net positives for the industry, cross-state commerce will be curtailed as will M&A from outside the cannabis industry.

Cannabis | The United States Could be a \$40B Market

California Will Lead The Way By A Wide Margin

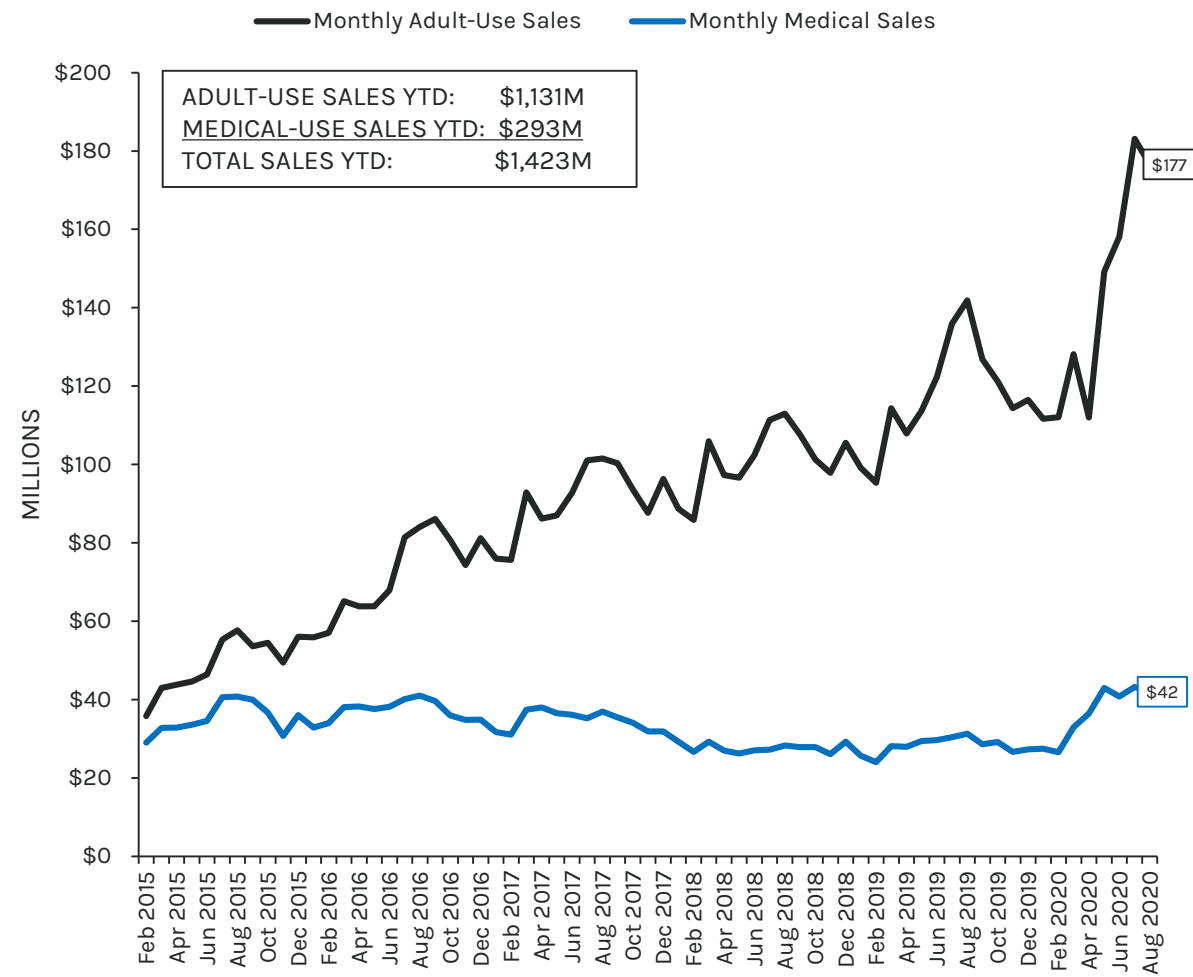


Taking Colorado as a model, and giving a little extra growth given the fact that this scenario will be happening in the future (300bps increase in usage rate, and a 0% increase in spend per consumer, while bringing every state to a floor spend of \$1,200 per active consumer per year), we believe it is reasonably possible that the United States will form into a \$40B legal market, with some sales still existing in the black market (as much as 25% given current trends in CO). Outside of cannabis sales, there will also be the consumption of THC and CBD for other means, pain medication, sleep, etc. that is harder to judge the timing for given the lack of studies and FDA action on the substance thus far.

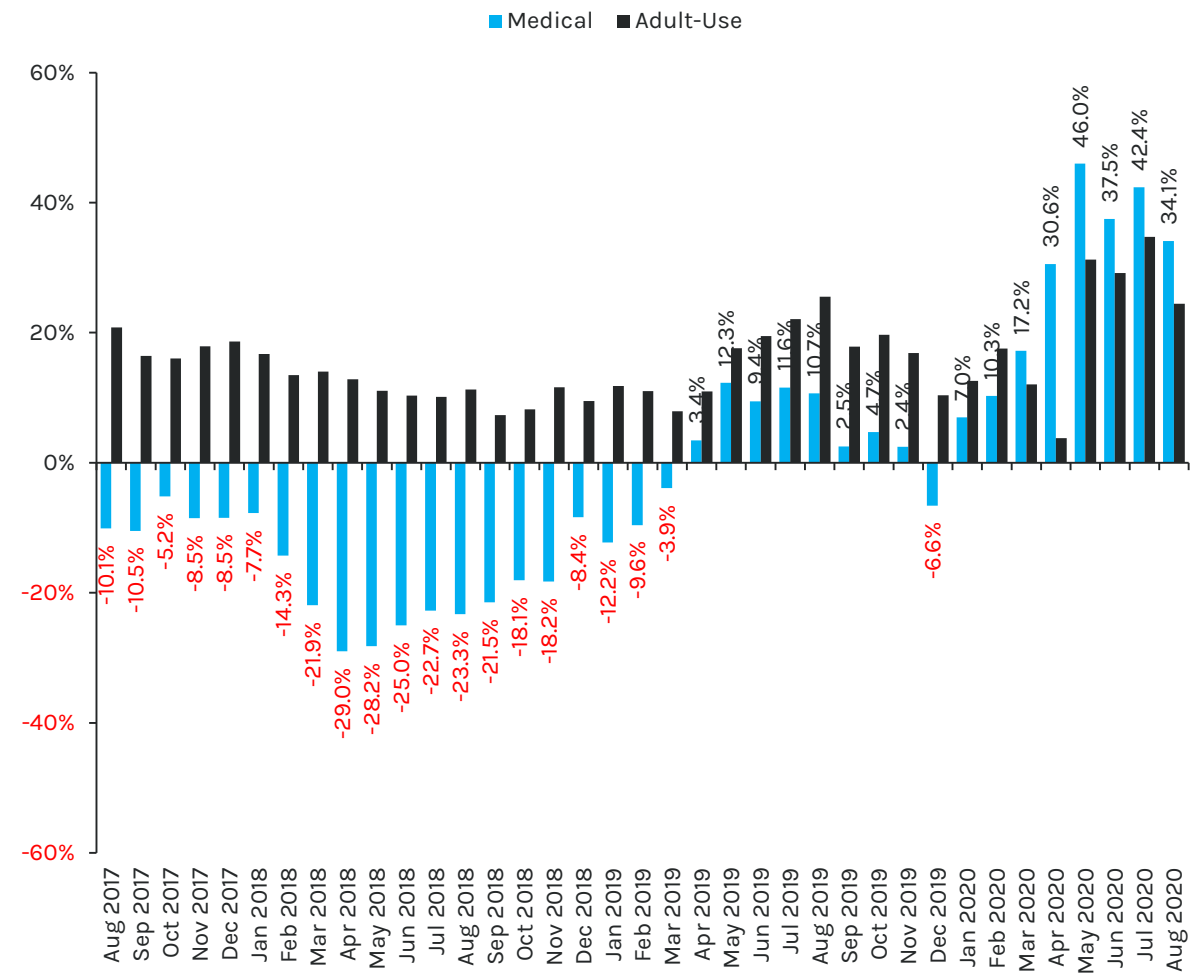
Cannabis | Colorado's Adult-Use and Medical Sales

\$1.42 Billion in Total Legal Sales YTD

COLORADO LEGAL MARIJUANA SALES



COLORADO LEGAL SALES GROWTH



Best Ideas



Best Ideas | High Conviction Longs & Shorts

Marrying Company Analysis with Macro Team's Quads

TRULIEVE (TCNNF/TRUL)
FEBRUARY 20, 2020

HEDGEYE

Turning to Strength Amidst Chaos

LONG Trulieve (TCNNF/TRUL)

February 20, 2020



Hedgeye Cannabis
Howard Perley | hperley@hedgeye.com | (866) 222-0204
David Boisi | dboisi@hedgeye.com | (202) 362-9000 ext. 115


BEYOND MEAT (BYND)
JUNE 5, 2020

HEDGEYE

BYND BELIEF

Why BYND Is More Hype Than Reality

June 5, 2020



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CONSTELLATION BRANDS (STZ)
MAY 26, 2020

HEDGEYE

The Next Decade Ahead / Fork in the Road

Best Idea LONG - Constellation Brands (STZ)

May 26, 2020



Hedgeye Consumer Staples
Howard Perley | hperley@hedgeye.com | (866) 222-0204
David Boisi | dboisi@hedgeye.com | (202) 362-9000 ext. 115

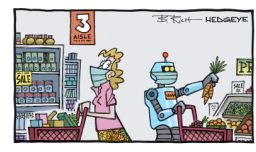
GROCERY BLACKBOOK (SFM, KR)
JULY 2, 2020

HEDGEYE

Grocery Stores in a Pandemic

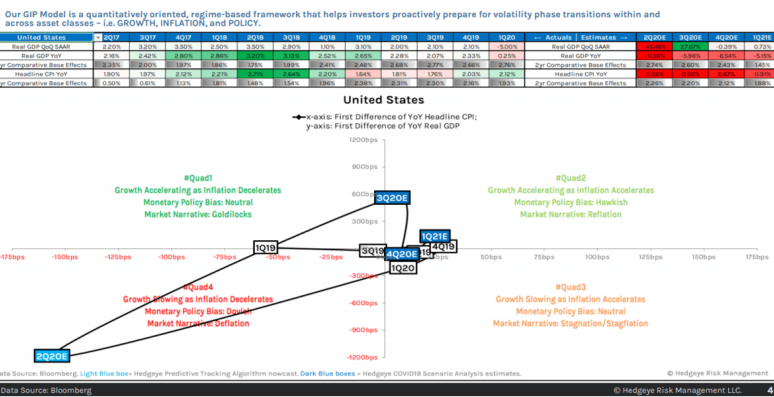
BEST IDEAS LONG: SPROUTS FARMERS MARKET (SFM)
LONG BIAS: KROGER (KR)

July 2, 2020

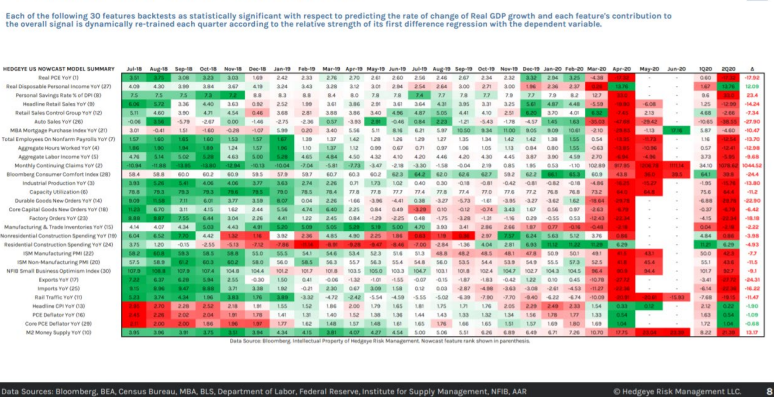


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What Are The Quads?



US Real GDP Nowcast Model



Company Analysis: Beyond Meat

Best Idea **SHORT** – BYND

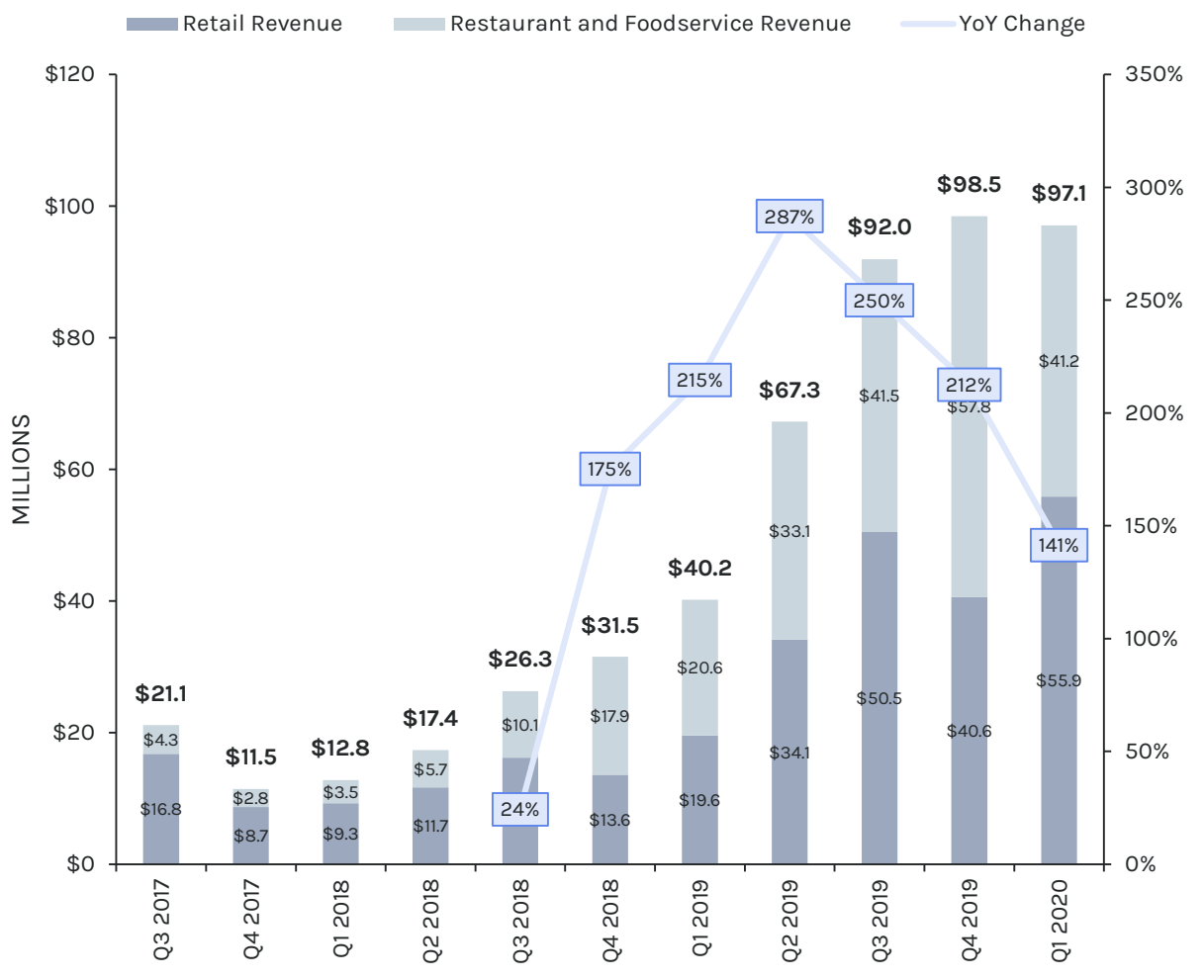


BEYOND MEAT®

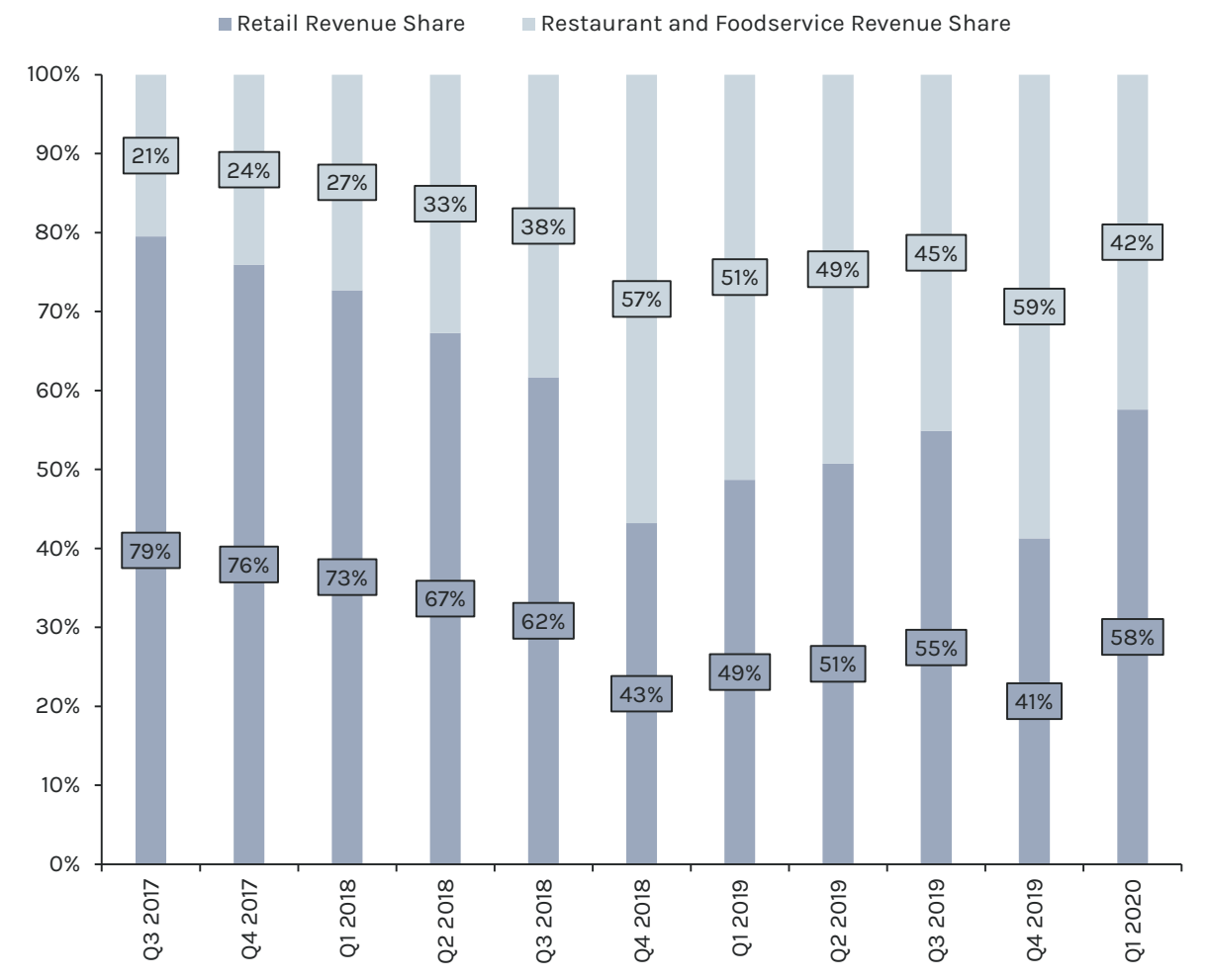
BYND | Retail & Restaurant/Foodservice Revenues

141% YoY Growth in 1Q20, But First Sequential Decline in Top-line Since 4Q17

RETAIL & RESTAURANT/FOODSERVICE REVENUE 3Q17 - 1Q20



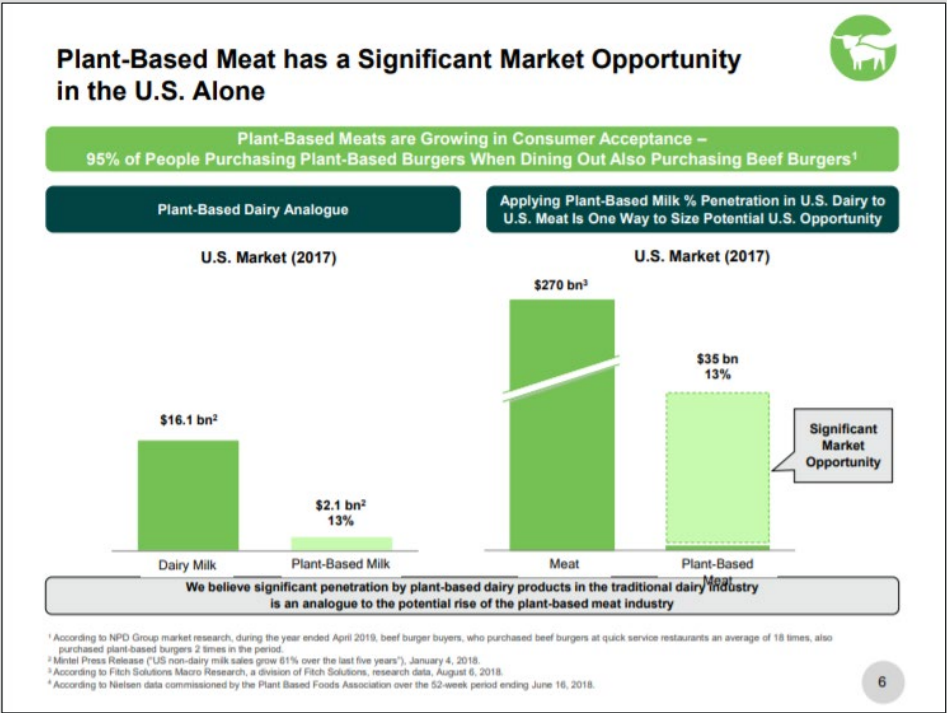
RETAIL & RESTAURANT/FOODSERVICE SHARE 3Q17 - 1Q20



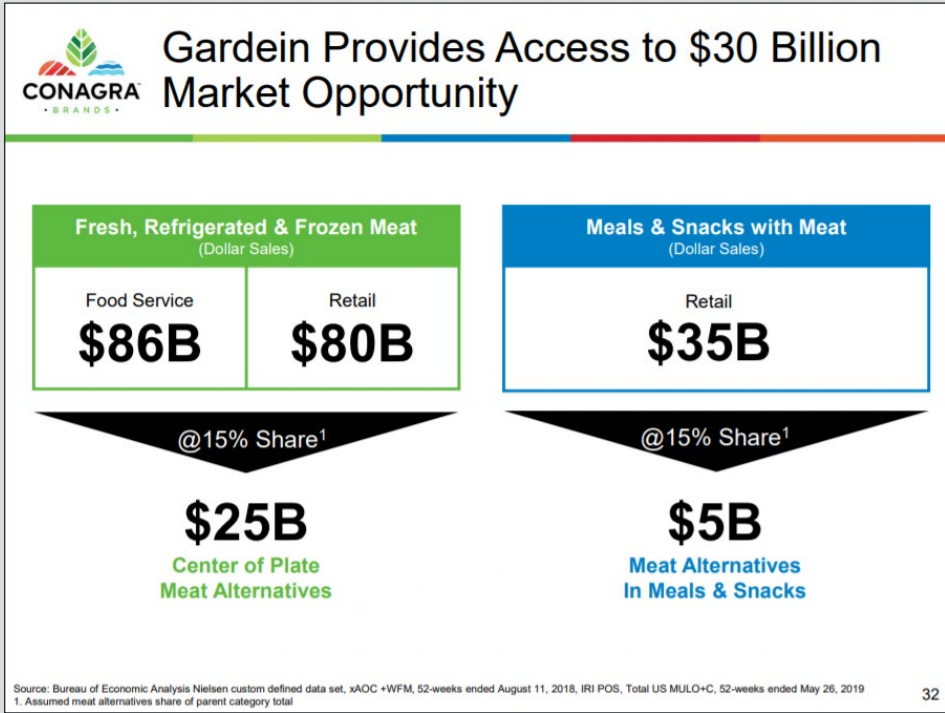
BYND | Is the U.S. TAM Overly Optimistic?

The Plant-based Milk Category Is an Often-Used Metric to Size the Market Potential

SLIDE FROM BYND’S 3Q19 INVESTOR PRESENTATION



SLIDE FROM CAG’S FY19 INVESTOR PRESENTATION



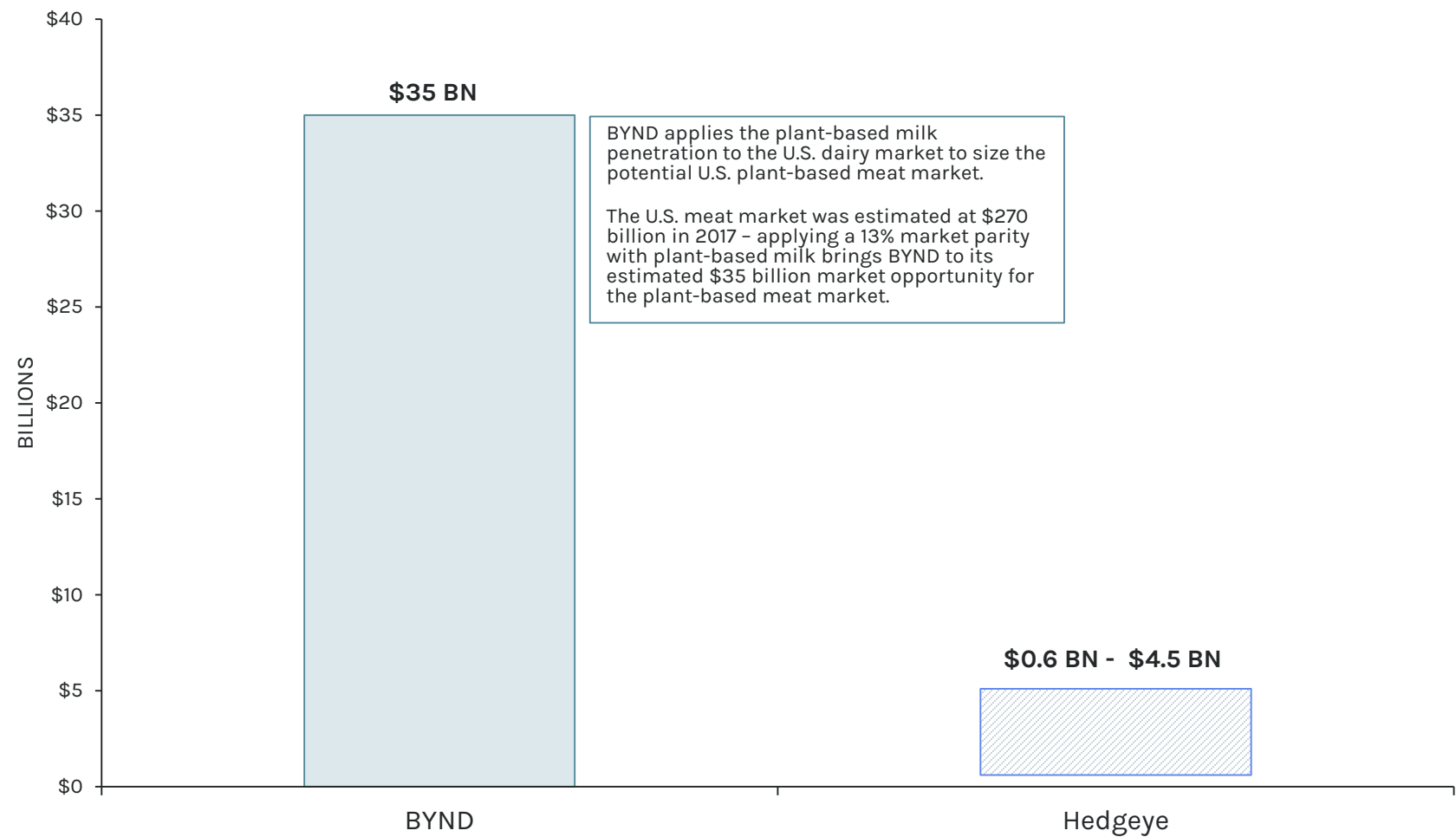
BYND’s management favors using the plant-based milk market penetration into dairy milk to project the potential plant-based meat market. Conagra Foods in their FY19 investor presentation has likewise estimated the market potential for their plant-based meat brand Gardein using the plant-based milk category, estimating a lower \$30 billion opportunity in the US.

However, is it sensible to assume that the plant-based meat market can reach parity with the plant-based milk market?

BYND | Sizing the U.S. Opportunity

Hedgeye Estimates the U.S. TAM for Plant-based Meat at \$0.6 - \$4.5 Billion

Estimates of the U.S. Plant-based Meat TAM



About 12% of Americans and 65% of the global population have reduced ability to digest lactose after infancy.

Red meat is the animal protein sought to be replaced. Different health attributes and significantly lower price of poultry effectively reduces the replacement market by ~25%.

BYND’s premium pricing at 2x alternate vegetarian options and 3x beef limits its TAM.

Considering premium food brands like Ben & Jerry’s and Annie’s suggest a 9% share of a category as a ceiling.

Organic food share is 5-6% of U.S. food sales, and grass-fed beef is ~1% of U.S. beef sales.

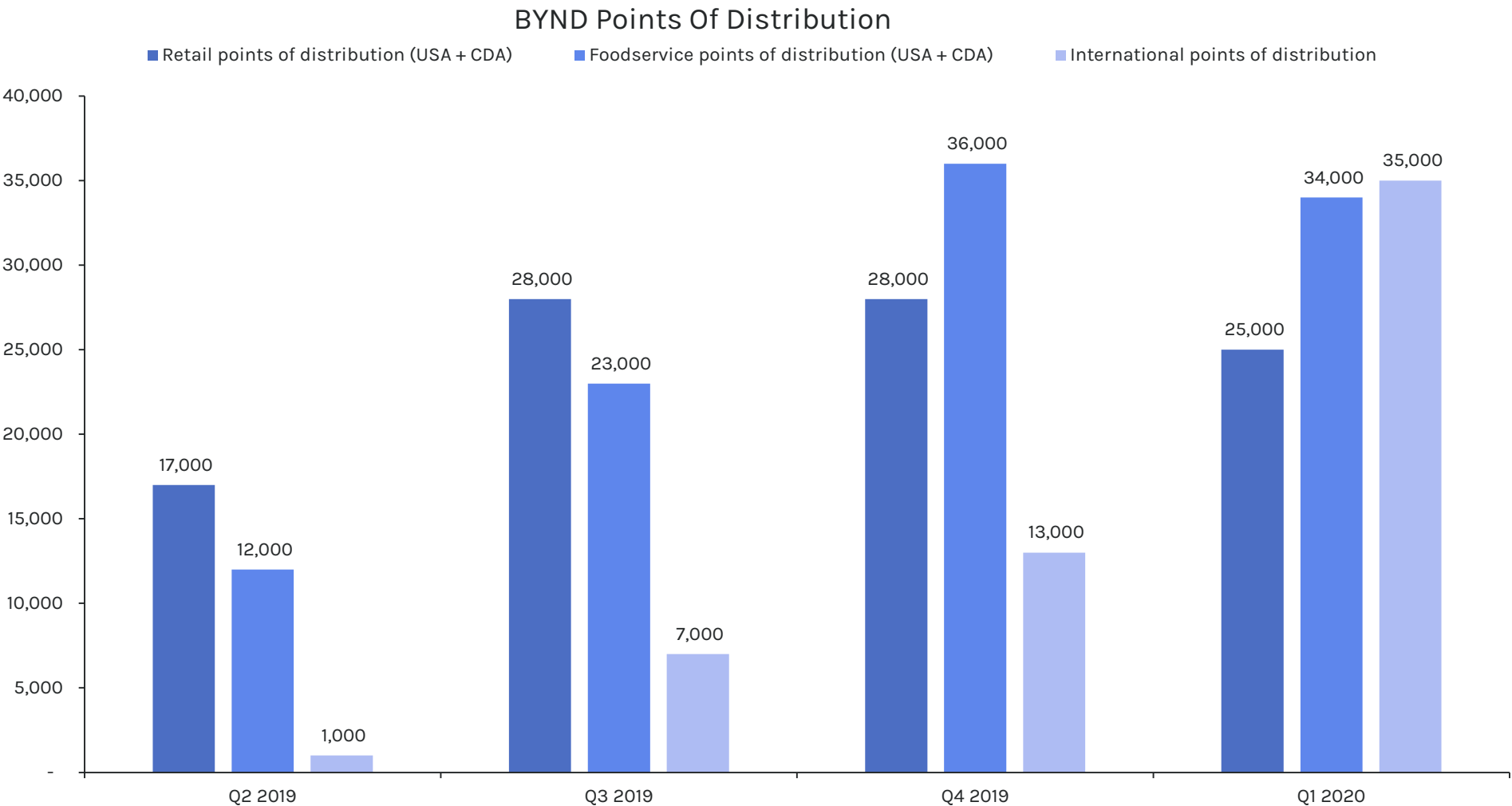
New entrants, like Nestle, Sysco, etc., will also take share if plant-based meat becomes more of a commodity, like most food items, creating a 70% share ceiling.

Retail markup is 100% in beef and 170% in pork.

70% share of 1-9% of the wholesale red meat market makes for our estimated TAM of **\$0.6B - \$5.4B**.

BYND | Points of Distribution

Sequential Decline in Foodservice at Pandemic Onset

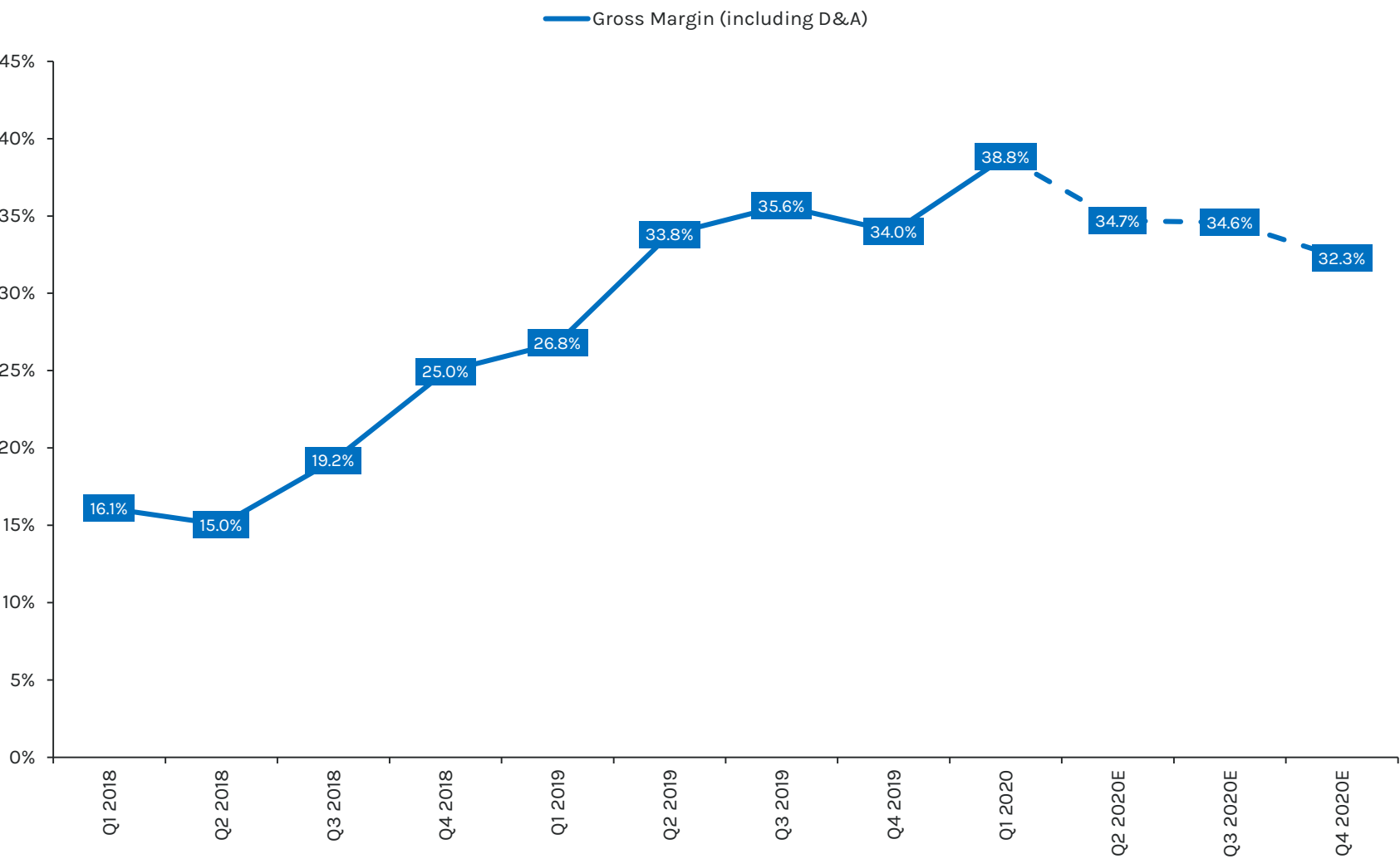


If the industry was growing to become a \$35 billion TAM, points of distribution in the USA would not be declining!

1Q20 was the first quarter since going public this occurred.

BYND | Gross Margin Headwinds in FY20

1Q20 YoY Jump of 1,200 BPS Likely As Good As It Gets For the Foreseeable Future



“While we are extremely pleased with our strong gross margin performance in Q1 2020, we do expect near-term headwinds at the gross profit level associated with volume deleveraging and repackaging costs as we repurpose a certain portion of our existing foodservice inventory into retail SKUs. In light of these factors, we expect our gross margin to be sequentially lower in Q2 2020 compared to our strong margin performance in Q1 2020.”

CEO Ethan Brown, 1Q20 Earnings Call

As the company continues to build excess capacity, and the real opportunity falls short of the company inflated TAM, the target of mid to high-30s gross margins is going to be challenging to achieve.

We anticipate sequential decline in gross margins for the rest of FY20, not just in Q2.

Company Analysis: Constellation Brands

Best Idea LONG – STZ



Constellation Brands

STZ | Corona – ‘Find Your Beach’

Marketing Genius Was Held Back



MARKETING GENIUS

The tagline to find your beach anywhere with a Corona appeals to everyone no matter your age, sex, or race. Instead of other big beer slogans that emphasize the temperature of the beer, something they don't understand like "cold filtered," or something that's just funny like burping frogs but unrelated, Corona's marketing sets the bar.

UNIQUE IN BEERS

Corona took what's a liability – beer in a clear glass and added a lime. It's that little bit of theater that makes it unique.

HISTORICALLY HELD BACK

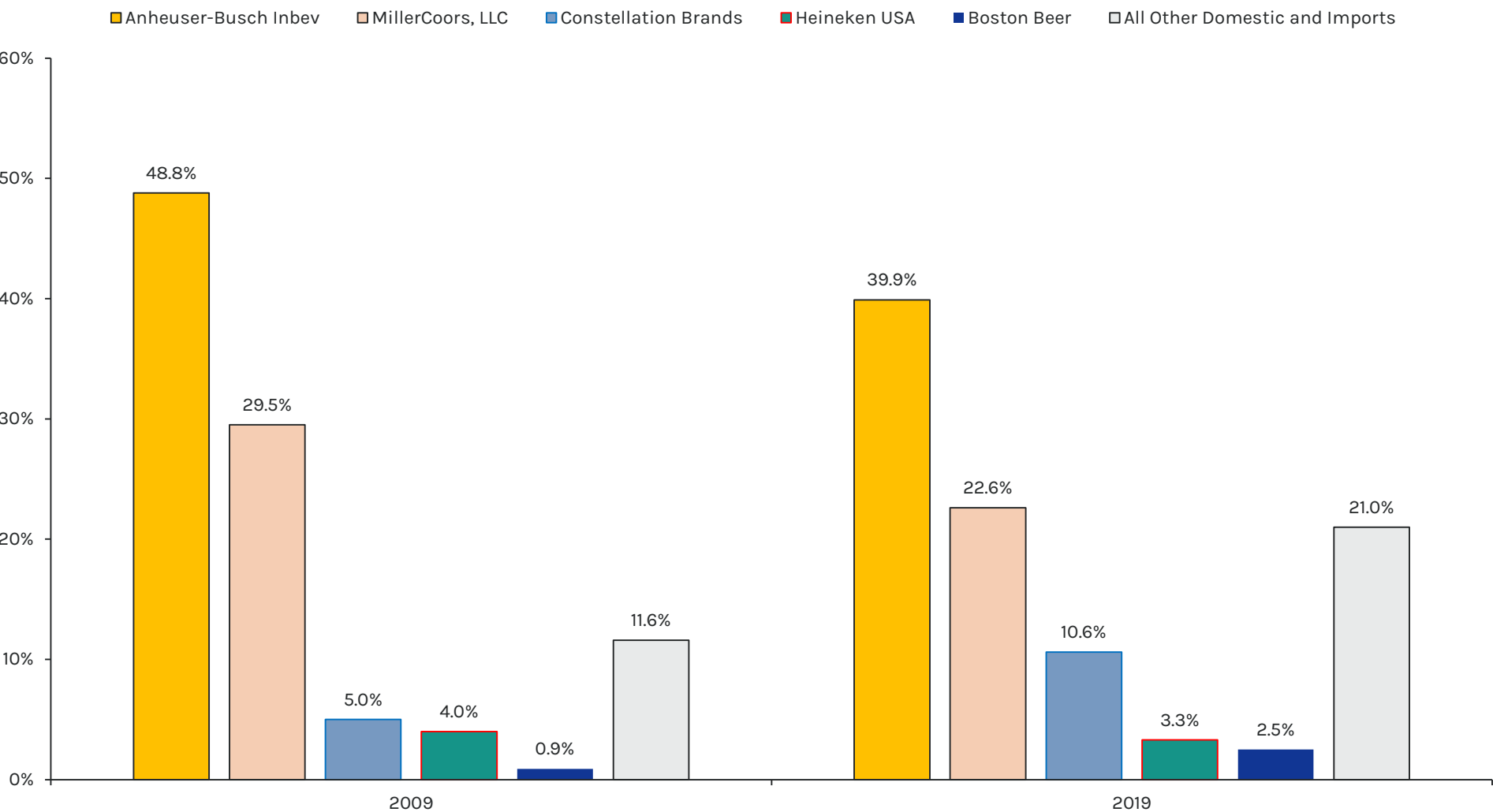
To understand why it still has momentum you have to understand where it came from. Prior management viewed the glass bottle as iconic and limited distribution of cans and draft.

FLEXING ITS MUSCLES

Some of its distribution partners also held it back due to the Anheuser-Busch relationship Crown did not always have the strongest distributor in each market and in other cases was taken for granted. Crown also did not have its share of shelf space for its turnover.

STZ | Market Share of Brewers/Importers 2009 – 2019

STZ Has the Largest Market Share Increase of the Top 5 Brewers/Importers



% CHANGE IN MARKET SHARE OVER A DECADE

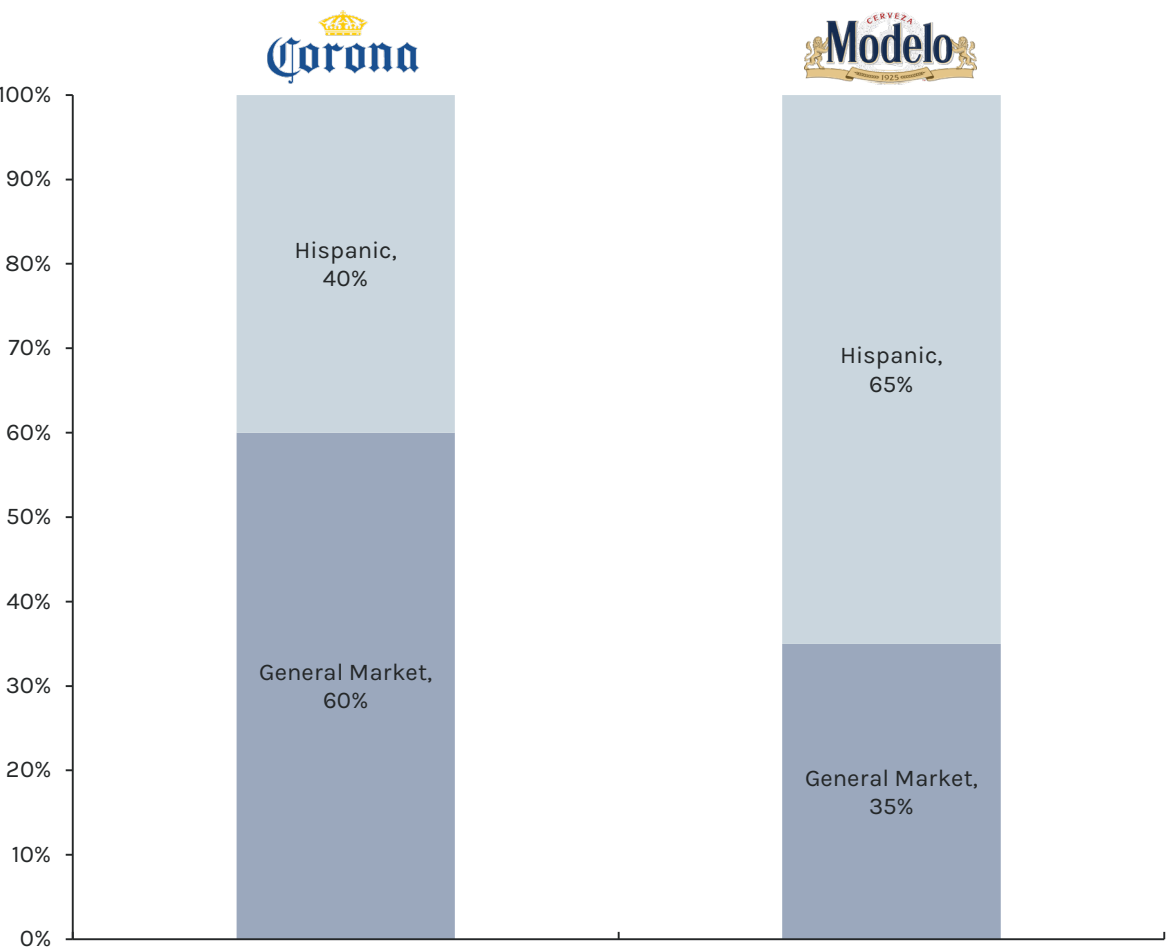
- Anheuser-Busch InBev: **-8.9%**
- MillerCoors, LLC: **-6.9%**
- Constellation Brands: **+5.6%**
- Heineken USA: **-0.7%**
- Boston Beer: **+1.6%**
- All Other Domestic and Imports: **+9.4%**

The changing market landscape since 2009 has seen market volume shift from the top 5 brewers/importers to smaller and newer entrants. However, STZ has been an outlier among the legacy players, taking market share from BUD and TAP.

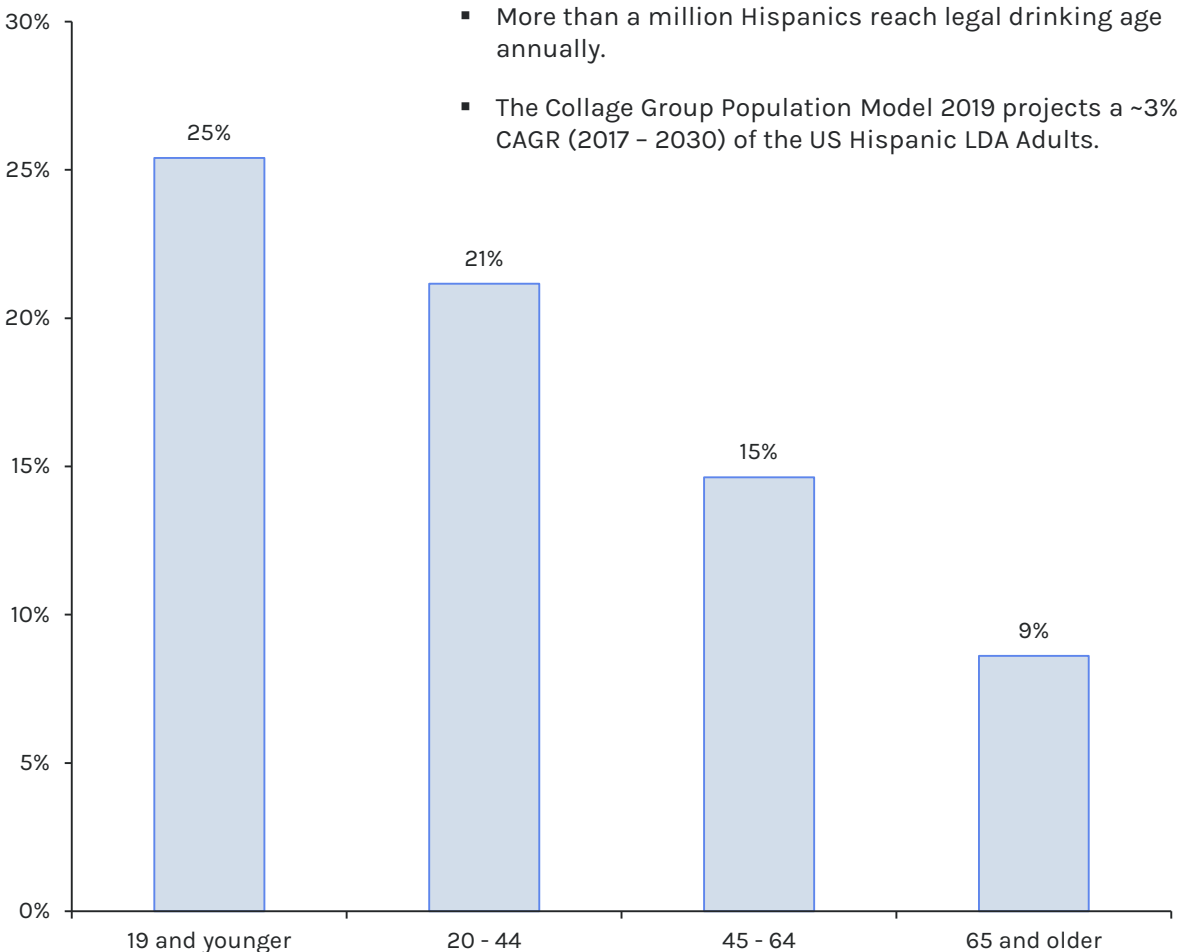
STZ | Secular Tailwind of the Hispanic Demographic

Brands Fueled by Strength with Hispanic Consumers

HISPANIC % OF CONSUMERS BY BRAND



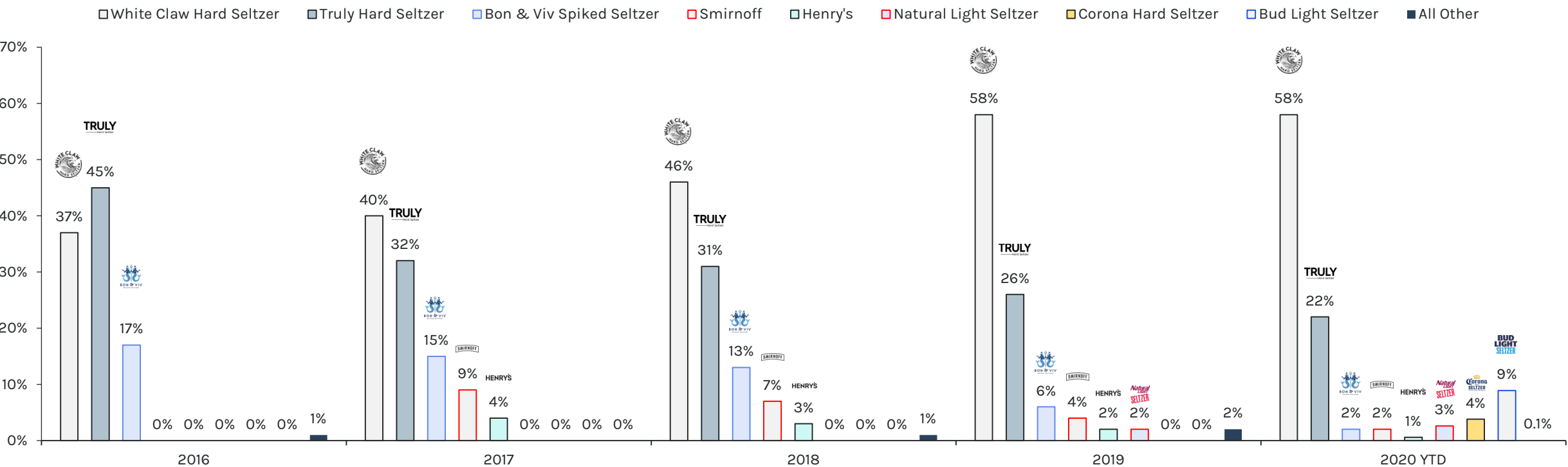
HISPANIC % OF THE US POPULATION BY AGE GROUP - 2019



STZ | Hard Seltzer Dominated by Early Entrants

Heading Into 2020, White Claw and Truly Are the Market Leaders

Hard Seltzer Market Share in the US



*YTD up to 4/18/20. Represents data from retail channels tracked by Nielsen for the year ended Dec. 28, 2019. Sources: Nielsen xAOC, Jefferies

White Claw has been the brand synonymous with the hard seltzer category. According to IRI data, White Claw sold 388,584 cases (24-can) in 2016, 7.3 million cases in 2018, and accelerated to 29.1 million cases in 2019. In 2019, both White Claw and Truly posted triple-digit sales growth. There is no reason to believe all the new entrants will succeed. Rather a few brands may be associated with the category and dominate it.

Company Analysis: IIPR

Best Idea LONG – IIPR



1 A PURE PLAY ON THE RAPIDLY GROWING CANNABIS INDUSTRY

IIPR has a stable business model: it purchases a property from a state-licensed medical marijuana company and leases it back to the operator, providing needed capital in an industry where traditional financing isn't available. With a weighted average lease length of ~16.1 years, the company's revenue streams are predictable, and rents are subject to contractual escalation. U.S. regulated cannabis sales grew to an estimated \$12.2 billion in 2019 an increase of 34% over 2018's total of \$9.1 billion and are expected to grow to over \$31 billion by 2024. As core markets continue to grow, state-licensed cannabis operators will continue to ramp spending on their existing and new state-licensed facilities. The company has grown their presence in key states, like IL, MA, and PA.

2 POSITIVE LEGISLATIVE CATALYSTS IN THE NEAR-TERM

The November elections were a positive catalyst for IIPR. The results of the election were clear for the industry – it is a green wave. The successful passing of state ballot initiatives has opened up new markets, thus creating new investments that will need funding. IIPR is uniquely positioned to provide the growth capital the industry needs. The market had perceived the largest risk for IIPR to legalize cannabis nationally or the passage of pro-industry banking legislation. With the Senate unlikely to be Democratic-controlled, the probability that either legislation would pass has fallen dramatically. Senator Cory Gardner (R-CO) was the most pro-cannabis senator in the Republican party, and his loss in the election drastically reduces bipartisan support for federal cannabis bills.

3 LACKING COMPETITION, ENJOYING OUTSIZED RETURNS

Under federal prohibition, IIPR is uniquely positioned as a key capital provider for the rapidly growing cannabis industry. The combination of limited access to traditional financing options and a high demand for growth capital by licensed operators makes for an ideal business environment for IIPR. The company has a protective moat and competitive advantage made by its exclusive U.S. listing, enabling it to tap equity markets to fund its investment activities with ease. Operating in an oligopoly within the space, IIPR is poised to continue and maintain its role as the preferred lender to the industry. Since its IPO in December 2016, the company has raised its dividend eight times, increasing it by almost 7x.

Business Model

WHAT IS A REAL ESTATE INVESTMENT TRUST (REIT)?

- They are corporate entities that own, operate, develop, manage, acquire, or finance real estate. By filing as a REIT, a company avoids taxation at the corporate level in exchange for passing on 90% or greater of its taxable income to shareholders. This has historically resulted in significant and reliable income streams for investors.

HOW DOES IIPR OPERATE?

- IIPR targets specialized industrial real estate assets for the regulated medical-use cannabis industry for acquisition, including sale-leaseback transactions with quality tenants that are licensed operators under long-term, triple net leases.
- A triple net lease is a lease agreement whereby the tenant/lessee promises to pay all the expenses of the property including real estate taxes, building insurance, and maintenance. These payments are in addition to the fees for rent and utilities, and all payments are typically the responsibility of the landlord in the absence of a triple, double, or single net lease.
- The company's sales-leaseback program is especially attractive to cannabis operators in a capital scarce environment – with IIPR, they can free up capital through off balance sheet financing without forgoing company equity.

IIPR SALE LEASEBACK PROGRAM

We act as a source of capital to these state-licensed operators by acquiring and leasing back their real estate. This allows for the opportunity to redeploy the proceeds into core operations, yielding a higher return than they would otherwise get from owning real estate.

We work with licensed operators across all product types: cultivation, processing, distribution and retail.

Our sample sale leaseback terms:

- Targeted deal size - \$5 million to \$30+ million
- Additional expansion capital available
- Lease term – 10 to 20 years
- Initial base rent – 10% to 16% on total investment (based on property underwriting)
- Annual base rent escalations – 3% to 4.5%
- Security deposit and corporate guaranty based on credit underwriting
- Transaction timeline – closing 30 to 60 days from signed purchase and sale agreement

What Does IIPR Look For in an Investment?

TOP PERFORMING OPERATORS

Target properties are owned by licensed operators that have been among the top candidates in the state licensing process and have been granted one or more licenses to operate multiple facilities. IIPR counts among its tenants top-performing public companies, like Green Thumb Industries (GTBIF), Trulieve (TCNNF), Cresco Labs (CRLBF), and Curaleaf (CURLF), and private operators, like Ascend Wellness Holdings and Holistic Industries.

CAPITAL STACK REQUIREMENT

The company prefers that they're not the only creditor to the operator.

HISTORY OF MAINTAINING COMPLIANCE

Given that these cannabis operators are operating under federal prohibition, notwithstanding legalization at the state level, having a history of practicing compliance is critical – especially for the maintenance of the state license. Being in line with regulatory compliance of a Schedule One narcotic is also a good indicator of management.

MEDICINAL-USE CULTIVATION FACILITIES

IIPR focuses on the asset class of medical-use cannabis facilities, which require significant infrastructure to maintain compliance with their state licenses. Extensive capital improvements are necessary to equip medical-use, indoor cultivation facilities. Such improvements include HVAC systems for environmental controls, high capacity electrical and plumbing systems, specialized lighting systems, and sophisticated building management, cultivation monitoring, and security systems. Cultivation facilities, rather than retail properties, are mission-critical to cannabis operators and defaulting on rent payments would be the last resort for any of their tenants. While IIPR has a few retail properties in its portfolio, the overwhelming bulk of its portfolio are the asset class of highly-specialized, industrial, medicinal-use quality properties – real estate assets that have high potential for long-term appreciation in value.

LIMITED LICENSE STATES

The company targets properties owned by licensed operators that have been among the top candidates in the state licensing process and have been granted one or more licenses to operate multiple facilities. Winning a license to produce and sell cannabis in these states is often a time-extensive and expensive process – owning properties in limited license states curbs tenant turnover. It also ensures scarcity value and significantly increases the likelihood the facility will be operated even if the existing operator fails or is sold.

IIPR | Typical Lease

Specialized Industrial Properties for Medical-Use Cannabis



Location: Capitol Heights, MD
Size: 72,000 Sq. Ft.
Use: Cultivation and Processing



Location: North Palm Springs, CA
Size: 70,000 Sq. Ft.
Use: Cultivation, Manufacturing and Distribution



Location: Willcox, AZ
Size: 358,000 Sq. Ft.
Use: Cultivation and Processing



Location: Barry, IL
Size: 75,000 Sq. Ft.
Use: Cultivation and Processing



Location: Hamptonburgh, NY
Size: 127,000 Sq. Ft.
Use: Cultivation and Processing



Location: Harrison Township, MI
Size: 45,000 Sq. Ft.
Use: Cultivation and Processing

Properties are leased on a long-term, triple-net lease basis, where the tenant is responsible for all aspects of and costs related to the property and its operation during the lease term, including structural repairs, maintenance, taxes and insurance.

Lease terms are typically 10-20 years and subject to contractual rent escalators of between 3%-4.5%.

While IIPR targets medical-use cannabis facilities, none of the company's leases prohibits the tenant from conducting adult-use cannabis operations at the applicable property, provided such operations are in compliance with applicable state and local laws.

[1] STATUS QUO

The industry continues as is, with states voting on medical and recreational legalization. The MSOs will operate under federal prohibition, with traditional financing institutions legally barred from providing capital. IIPR's competitive advantage is maintained and its exclusivity as the only cannabis REIT with a U.S. listing is preserved.

As MSOs expand operations to keep up with demand in core markets, IIPR appears to have a robust pipeline.

IIPR BULLISH

[2] STATES MOVE FORWARD

The federal government is continuing to take a hands-off approach when it comes to cracking down on state-legal markets. Come this November, five more states could legalize marijuana sales for medical or recreational purposes. As we have noted, the legalization wave could have been much bigger, as a number of states saw their efforts derailed in large part due to the pandemic, with Nebraska's medical campaign the latest blow after losing a legal challenge last week.

The biggest stakes are in New Jersey and Arizona, where polling suggests voters will back recreational sales.

IIPR BULLISH

[3] FULL LEGALIZATION

While a planned House vote on legalizing weed at the federal level is scheduled for later this month, the real action remains in the states. Even if the House passes the MORE act, there's zero chance the Republican-controlled Senate will take up the bill, which would eliminate federal criminal penalties and erase some past marijuana convictions.

We don't believe that full legalization is in the cards for at least 5 years.

IIPR BULLISH

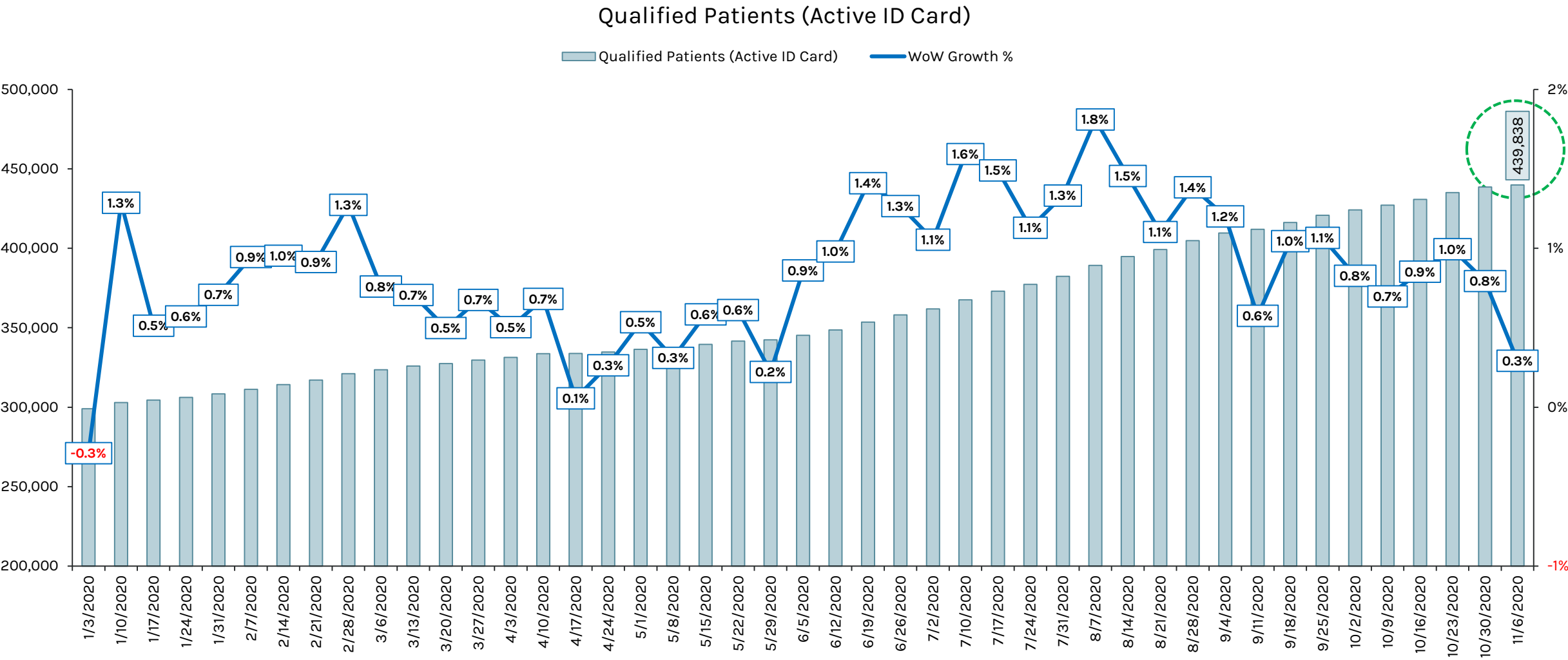
Company Analysis: Trulieve

Best Idea LONG – TCNNF/TRUL



TCNNF | Qualified Patients (Active ID Card)

Week Ending November 6th

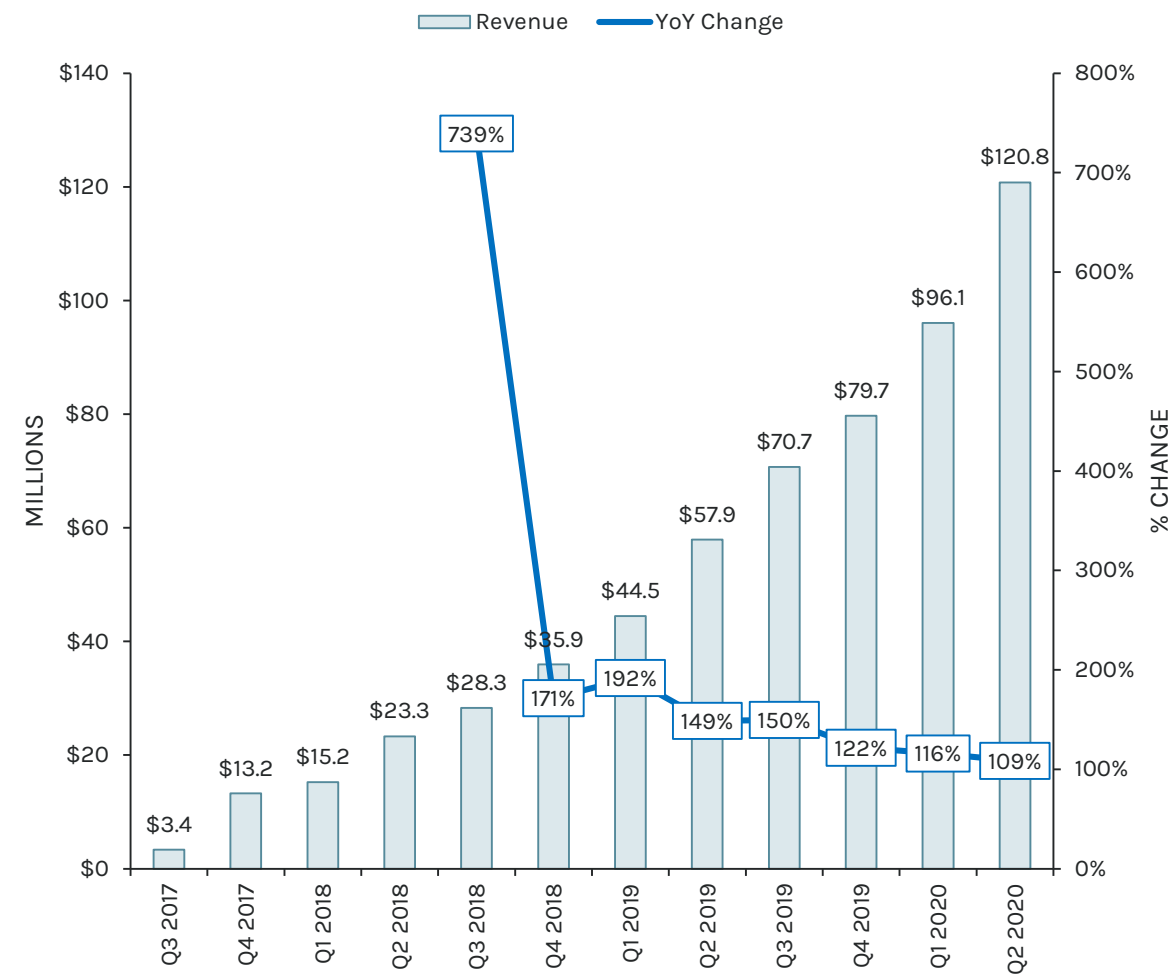


*7/2 reported on a Thursday due to the holiday weekend of July 3rd/July 4th falling on a Friday.

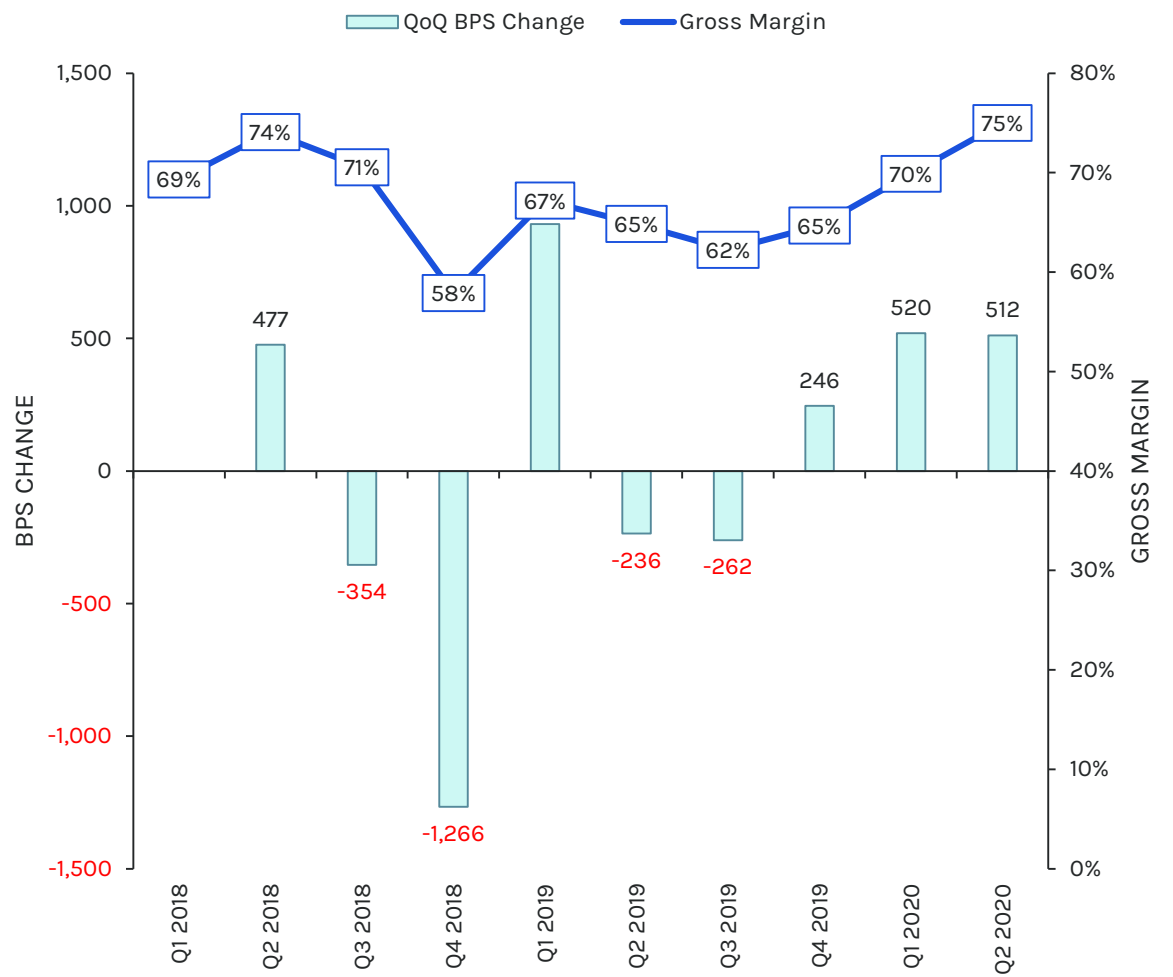
TCNNF | Revenue & Gross Margins

A Record-Breaking Quarter

REVENUES Q3 2017 - Q2 2020

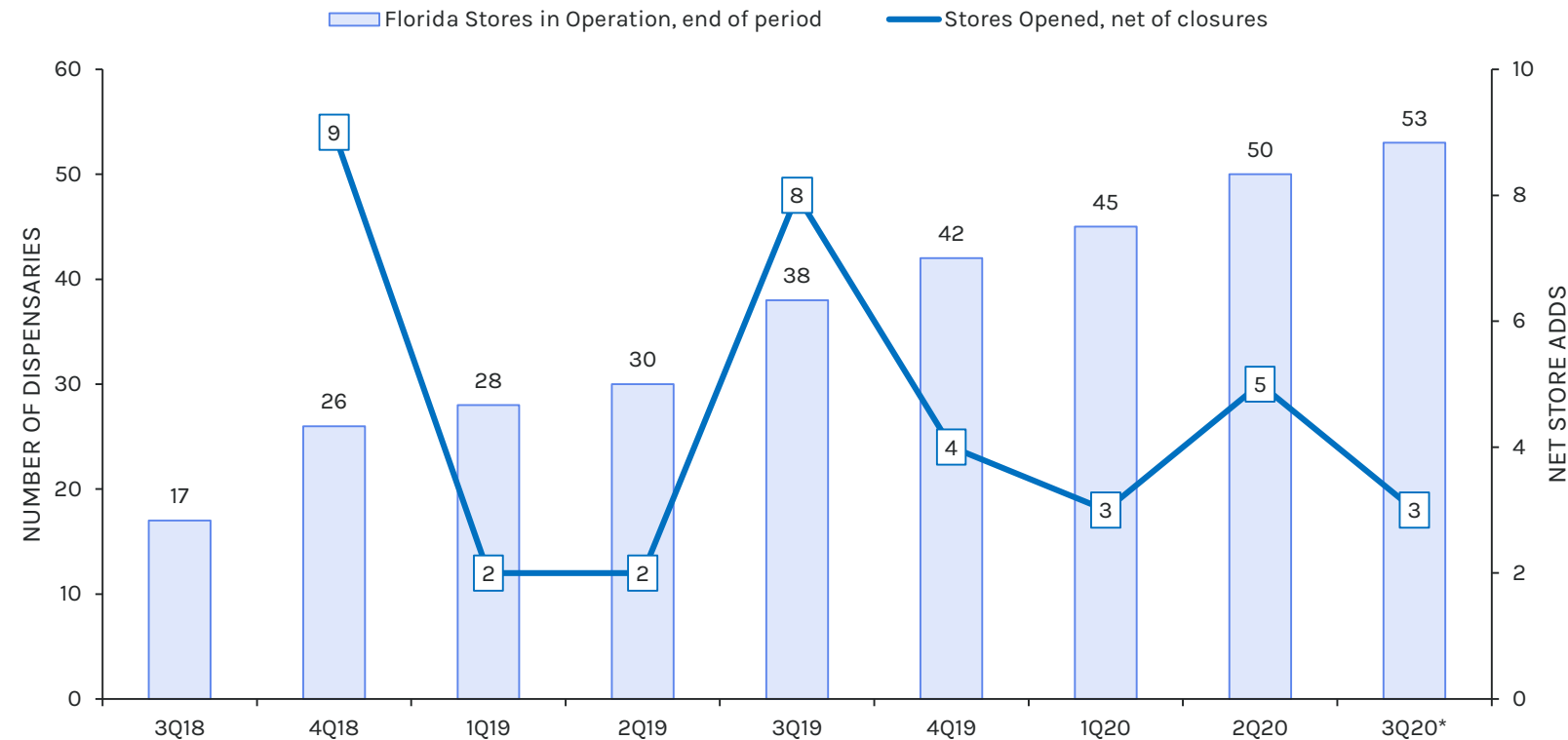


GROSS MARGINS Q1 2018 - Q2 2020

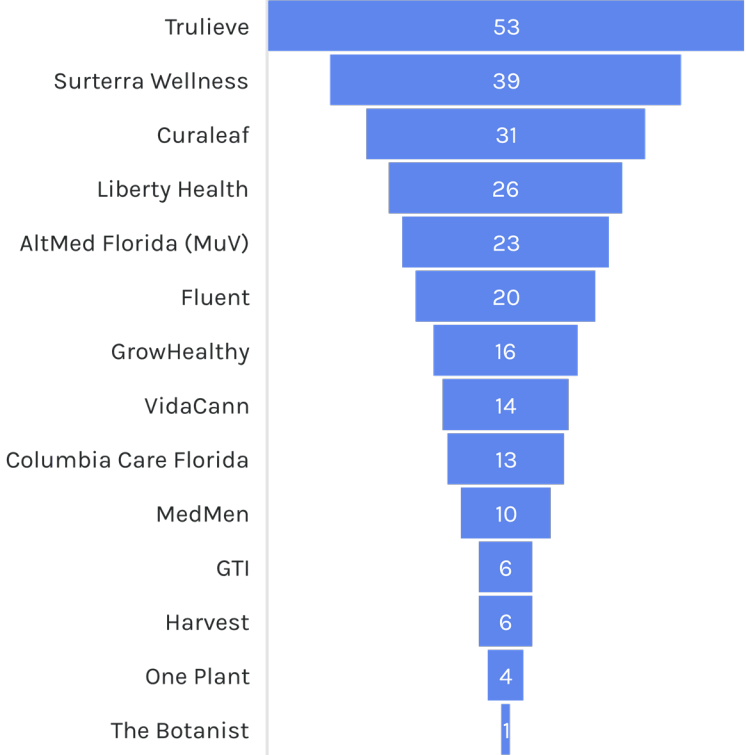


TCNNF | Capturing Patient Adds via Accessibility

NUMBER OF TRULIEVE RETAIL DISPENSARIES IN FLORIDA



DISPENSARY COUNT IN FLORIDA



As of July 2020, Trulieve has the largest dispensary network in Florida. In FY19 alone, Trulieve opened 16 new locations net of closures. Besides their brick-and-mortar operations, Trulieve has their own delivery service at ~200 vehicles strong and call center support, which averaged 4500 daily interactions in Q2 2020.

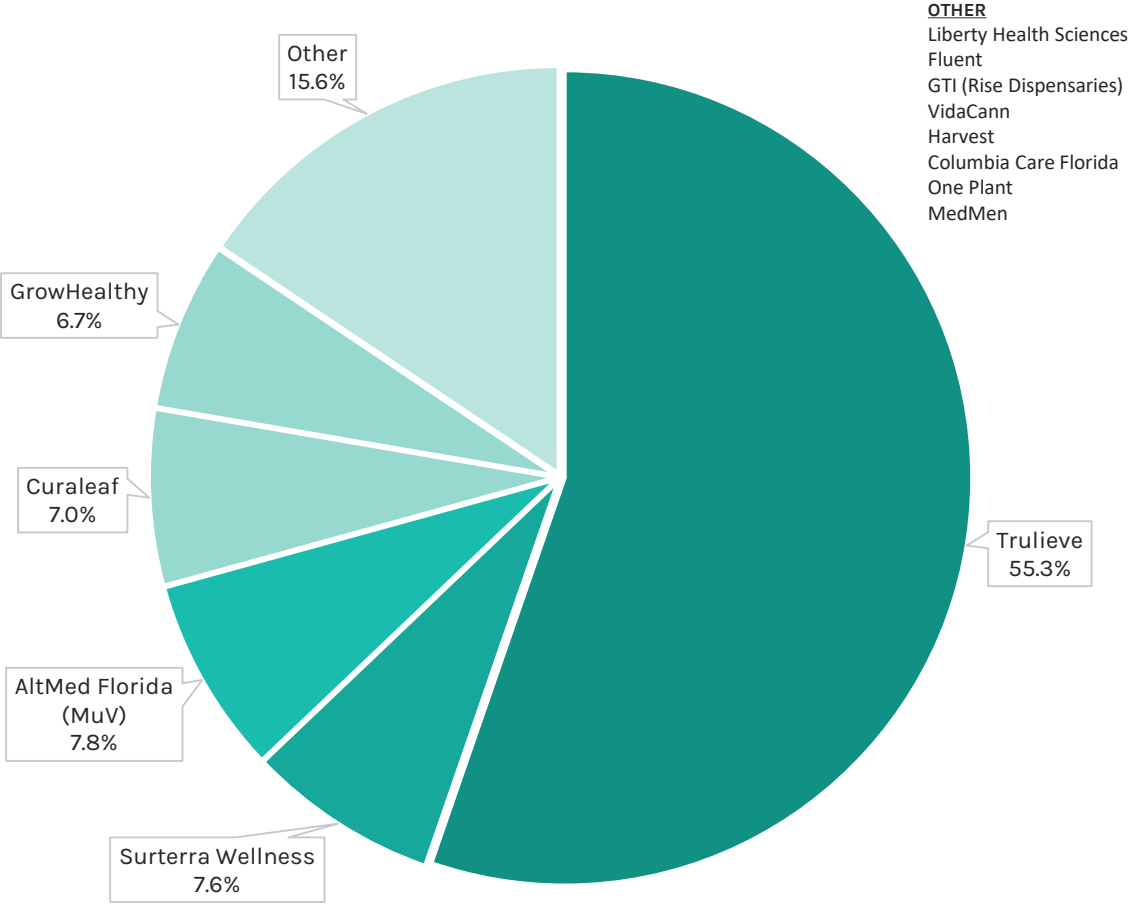
Their tight control over their supply chain and consumers’ experiences is a significant differentiator that shouldn’t be overlooked as simply a complementary service.

*Unit count and net adds as of 7/27/20

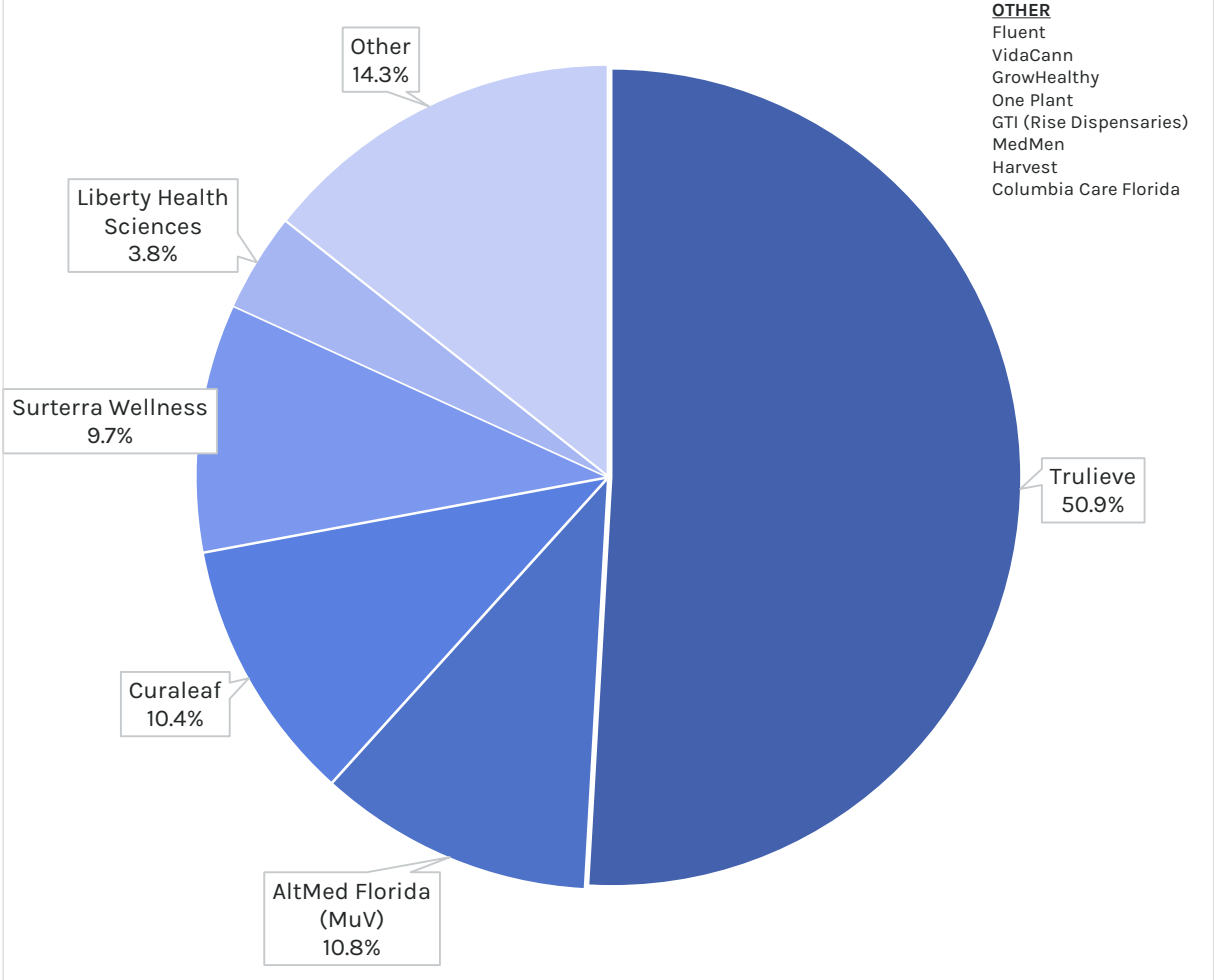
TCNNF | Market Share of Flower and THC

4WMA of Week Ending November 6th

4 WEEK MOVING AVG. OF MARKET SHARE OF FLOWER (OZ)



4 WEEK MOVING AVG. OF MARKET SHARE OF THC (MGS)



TCNNF | Promising Outlook in Expansion Outside Florida

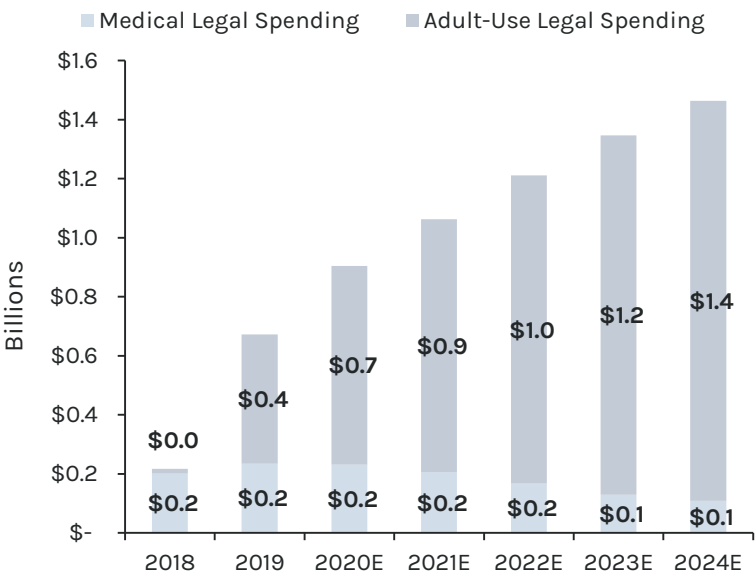
MASSACHUSETTS

ACQUISITION:
100% acquisition of **Life Essence, Inc**

STATUS:
Not revenue generating, targeted open in **2020**

LICENSES:
3 medical registered marijuana dispensaries
3 recreation marijuana licenses
140,000 square foot cultivation and processing facility

MA - Projected Legal Spending



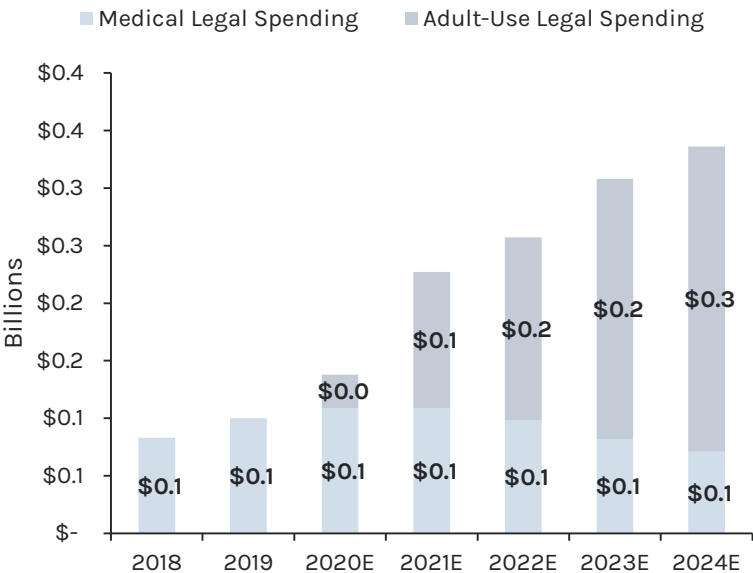
CONNECTICUT

ACQUISITION:
100% acquisition of **The Healing Corner** in Bristol, CT

STATUS:
Revenue generating, opened in 2014
Management guidance of >\$9M in 2019 revenues

LICENSES:
Licensed medical dispensary

CT - Projected Legal Spending



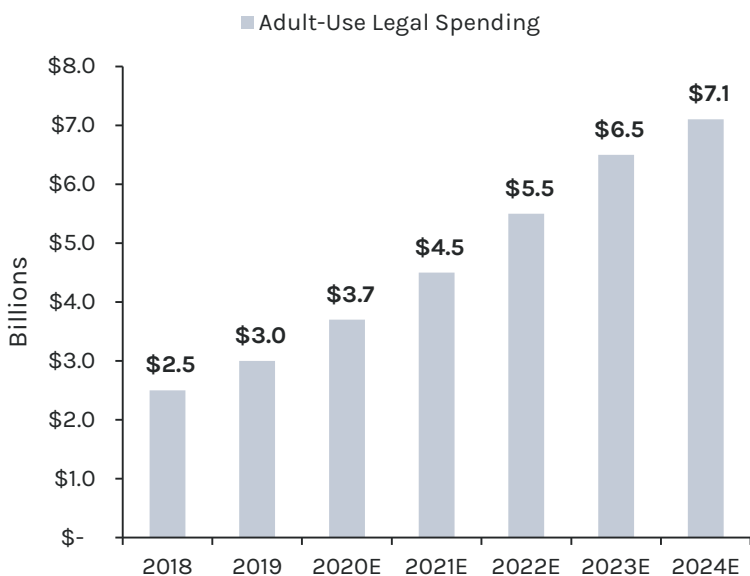
CALIFORNIA

ACQUISITION:
100% acquisition of **Leef Industries** in Palm Spring, CA

STATUS:
Revenue generating, opened in 2018
Management guidance of >\$1.2M in 2019 revenues

LICENSES:
Licensed medical and adult-use cannabis dispensary

CA - Projected Legal Spending



Kroger (KR)

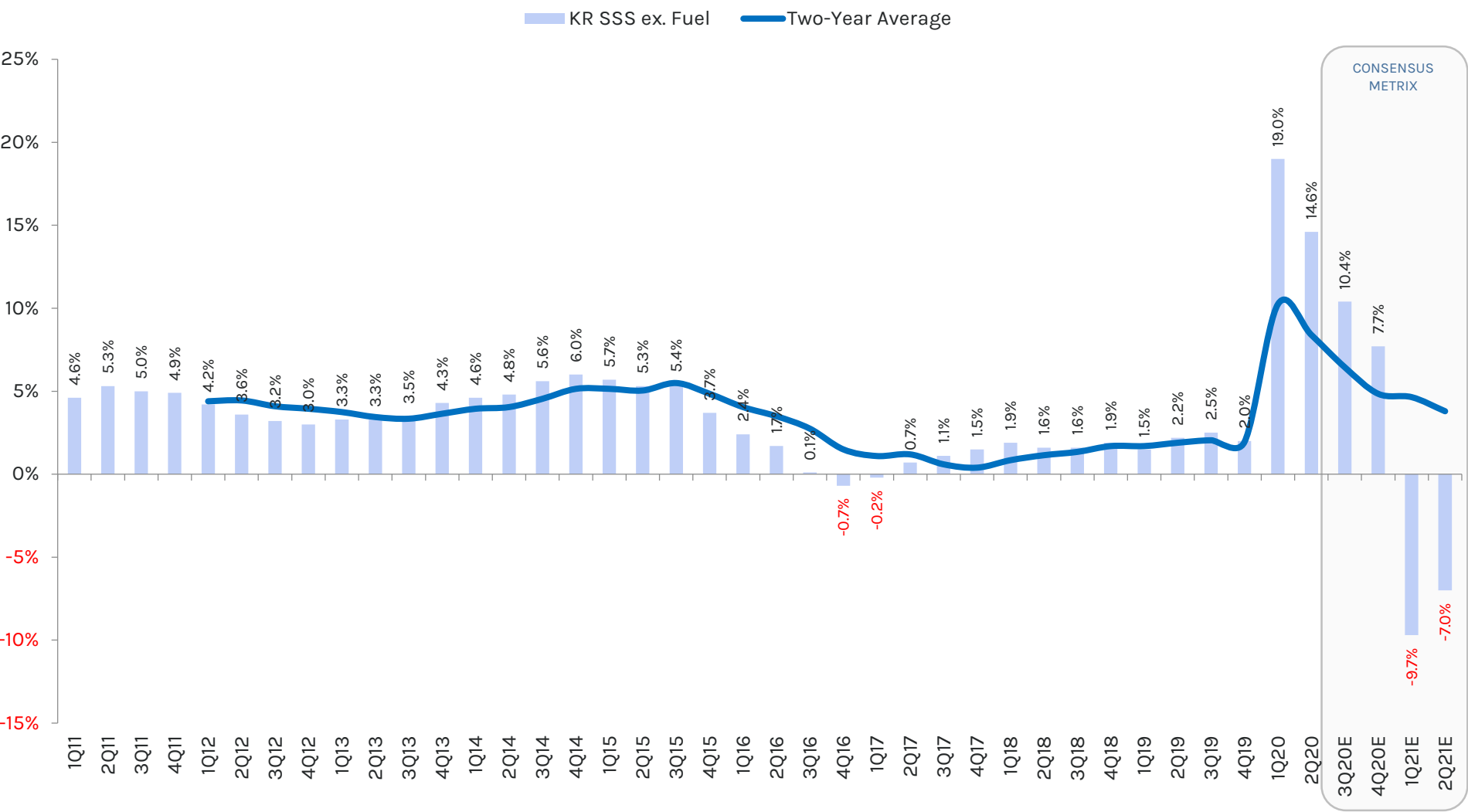
BEST IDEA **SHORT**



- KR is competing in one of the largest and most competitive spaces in consumer, up against the likes of WMT, COST, and AMZN. KR's competitors are willing to take lower margins in KR's core business and invest in technology and SG&A expense in order to gain share and drive transactions.
- Management reaffirmed EPS guidance for 2020 yesterday, but our concern isn't this year - it is 2021. So even with 2H EPS upside, 2021 estimates will have to come down.
- Investors are not valuing companies in grocery based on 2020 projections. On 2021 consensus expectations shares are currently trading at 12x EPS and 7x EBITDA - in line with its three-year average P/E and .5x higher on EV/EBITDA.
- There is no gross margin expansion now despite having the strongest tailwinds the industry has seen in decades.
- Pass through rate on incremental store sales is 15% vs. "positive" for digital sales.
- Grocery is entering a capex investment cycle it has not seen since WMT's supercenters, which means returns are headed lower. The pandemic has accelerated the shift to online shopping.
- Lacks store growth that GO and SFM have.
- Inflation has picked up - higher future LIFO charges.
- Doesn't have a high mix of e-commerce, but it is investing in it and partnering with Ocado.
- Facing industry-wide headwinds in both fuel and pharmacy retail.
- Pension obligations much larger than near term cash flow upside.

KR | Quarterly SSS Trends

1Q20 Was the Best Quarter of SSS in a Decade



The first quarter of 2020 gave KR its best SSS ex. Fuel growth in a decade due to the pandemic stockpiling.

Sales were broadly based across all retail divisions and remained heightened throughout the quarter as customers adjusted to the new restrictions and started preparing and eating more meals at home.

Heading into the pandemic, sales were improving, building momentum from the second half of 2019.

February identical supermarket sales, without fuel, were ahead of our internal expectations

In 1Q20 Digital sales grew 92% and contributed slightly over 3% to identical sales without fuel.

Digital sales in the second quarter remain elevated, up triple digits in the first 3 weeks.

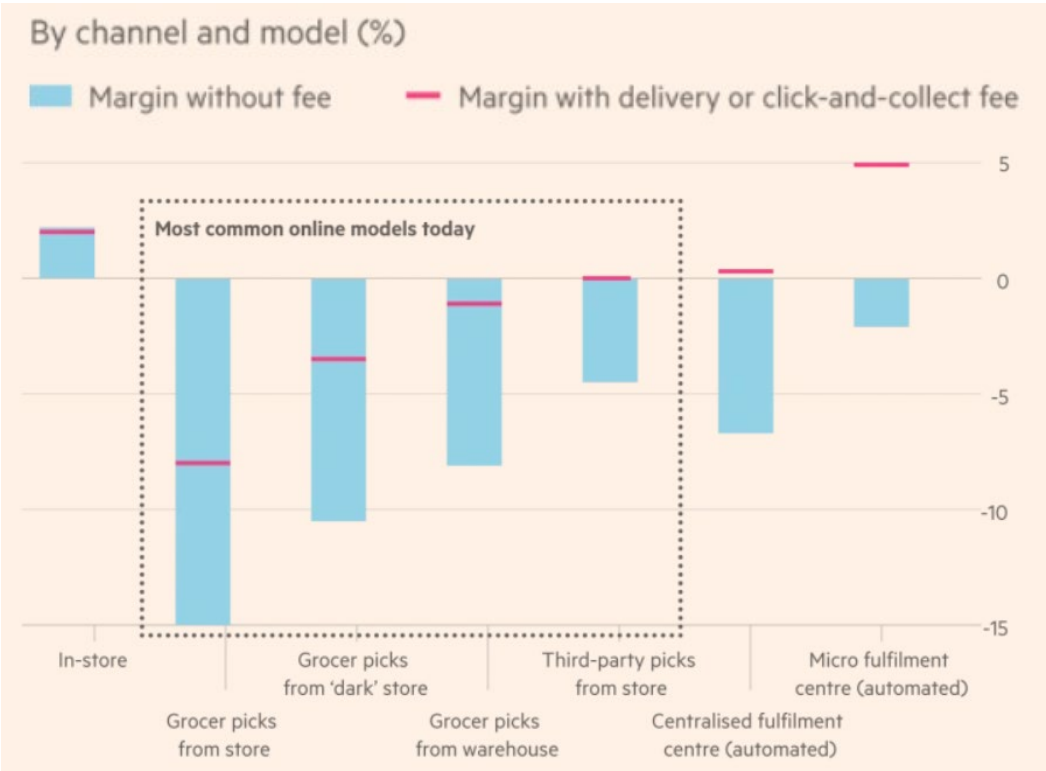
KR | Gross Margin Compares

	Q1 2019	Q2 2019	Q3 2019	Q4 2020	Q1 2020	Q2 2020
GM Change (bps)	30	70	24	-70	210	89
GM ex Fuel Change (bps)	-40	-29	-24	6	44	5
Fuel Sales	\$ 4,396	\$ 3,405	\$ 3,242	\$ 3,009	\$ 2,692	\$ 2,281
% Change	-4%	-10%	-11%	-13%	-39%	-33%
Fuel ASP % Change	0%	-5%	-7%	10%	-19%	-20%
Fuel GM (inc/dec)	increase	increase	increase	flat	increase	increase
Lifo Charge	\$ 15	\$ 30	\$ 23	\$ 36	\$ 31	\$ 23
Fuel Margin/gal	\$ 0.23	\$ 0.35	\$ 0.30	\$ 0.33	\$ 0.48	\$ 0.37

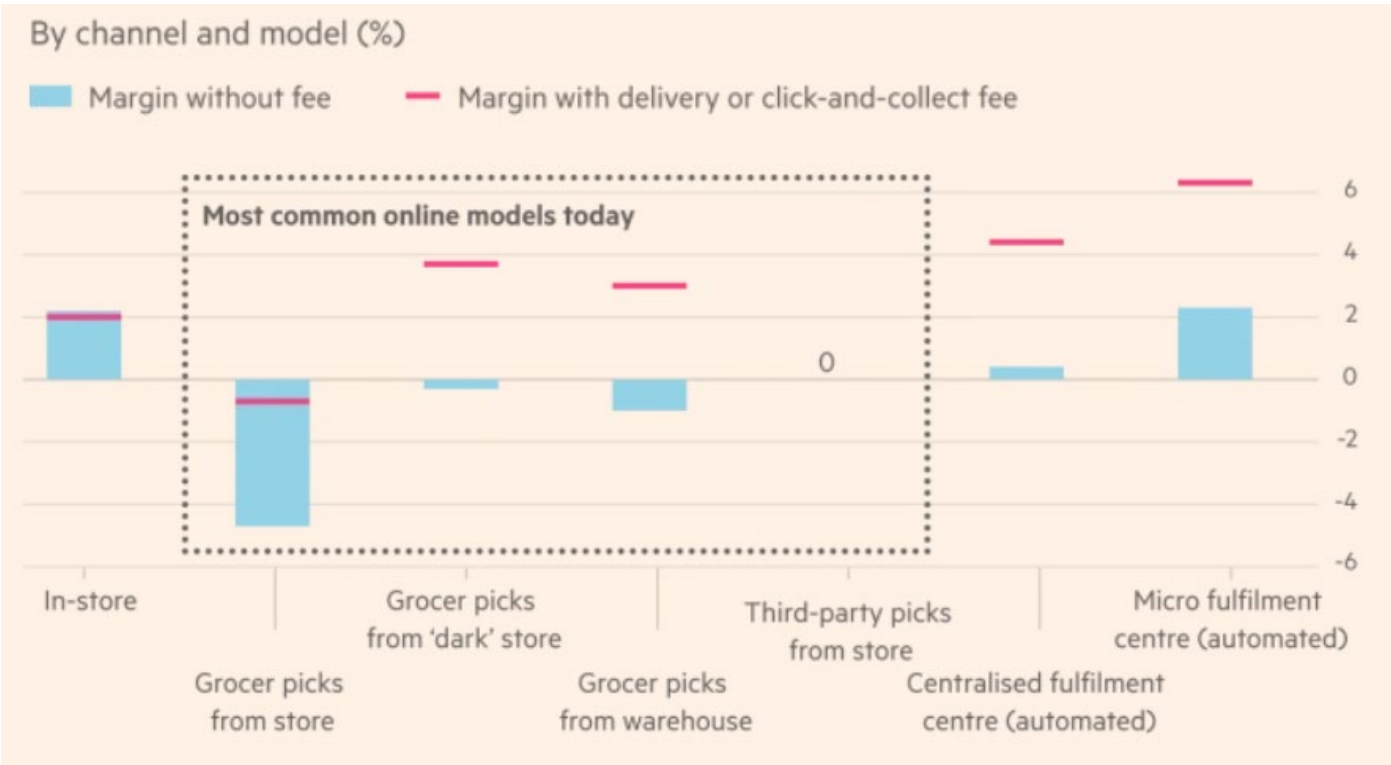
KR | Online Grocery Business Model Comparison

Fulfilment Centers Have the Best Profit Model Plan

HOME DELIVERY



CLICK & COLLECT



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