

## EQUITY RESEARCH

March 13, 2020

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## INDUSTRY UPDATE

# RETAIL IN THE AGE OF SOCIAL DISTANCING, COWEN'S THOUGHTS

### THE COWEN INSIGHT

**Rethinking Retail As "Social Distancing" Takes Hold.** We believe retail & customer preferences will rapidly evolve as "social distancing" becomes common to slow infections. Retailers with curbside & digital delivery will gain share as shopper loyalty, engagement, & lifetime value grows. Cowen's top "social distancing" retail picks include: WMT, TGT, ULTA, & JWN. Complete mall closures is a risk.

We also include a Cowen "Retail in the Age of Social Distancing: Cowen's Reference Sheet" on page 5 where we compare eCommerce penetration and digital delivery capabilities across our universe. Furthermore, see our recent notes that evaluate and rank opportunities through market volatility, some thoughts from a supply chain expert on risks ahead: [Cowen's Retail Framework For Evaluating Outperform Stocks Amid The Pullback / Cowen Retail's Asia Supply Chain Expert Call – Risks to Monitor](#).

### Cowen Retail's Top Social Distancing stock picks include:

- **WMT: Cowen's Key Rationale & Statistics** – WMT has expanded Grocery Curbside Pickup to over 3,100 locations, and plans to add another 500 stores this year. We also like WMT's online grocery delivery options, next-day delivery on several hundred thousand of the top items sold, and free 2-day shipping on orders above \$35. WMT's physical fleet is incredibly proliferated across the U.S. with a store within 10 miles of 90% of the population. Additionally, WMT has one of the most sophisticated e-comm platforms as sales reached \$21+bn in FY20, and overall sales have grown at a +35% CAGR over the past four years as penetration reached 6% last year. Lastly, WMT is a grocery leader with 56% of mix, and continues to gain market share, which we expect to only further accelerate as the retailer benefits from shoppers stocking up.
- **TGT: Cowen's Key Rationale & Statistics** – TGT is also positioned to execute as social distancing becomes a more common practice. This will be done through various same-day fulfillment options, including: Drive Up, which TGT has quickly scaled to 1,750+ locations and will add it to its smaller format stores, TGT's Ship grocery delivery service which saw a 2.5x increase in sales at TGT, and buy online pickup in store which increased +50% Y/Y. TGT is also set up well to take share given its well-diversified portfolio as each category is only ~20% to 25% of mix (Food & Beverage ~20%, Beauty & Essentials ~24%). We are also impressed with TGT's digital platform, with a focus on curation, over being the everyday store. Sales have grown at a +25% CAGR over the past six years, as penetration reached 9.0% in FY19.



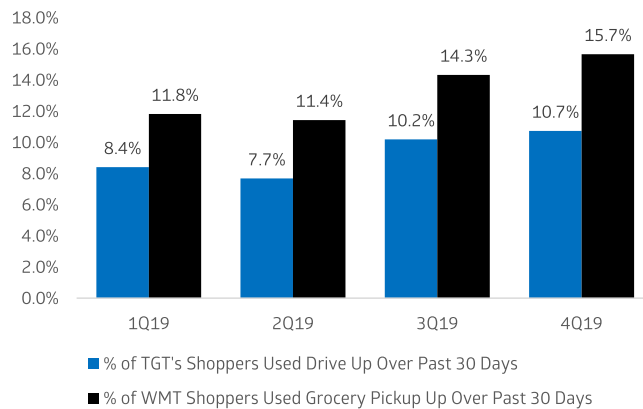
- **ULTA: Cowen's Key Rationale & Statistics** - We like that ULTA's 1,241 store-base is 90% off-mall, its 34mm-member loyalty program that can highlight value on an individualized basis, and its relatively resilient category that saw negative -L/MSD% comps for only three quarters in the prior 2008/09 recession that bottomed at -5.5% in 4Q08. Augmented reality functionality in ULTA's mobile app, a consistent and strong in-store service and talent culture, and an engaging and personalized marketing and loyalty program are also key competitive advantages.
- **JWN: Cowen's Key Rationale & Statistics** - JWN is a digital customer experience leader given strong integration of digital and stores, regional inventory management programs, and a compelling mobile app. Curbside product pickup is available at full-line stores. Furthermore, Nordstrom's "local market strategy" expands next day fulfillment to homes or stores across a wider amount of inventory. JWN has expanded its local market strategy to its top five markets (NYC, LA, Chicago, Dallas, and San Francisco), and will further expand it to another five markets in FY20. This strategy opens up its inventory for next day fulfillment by up to 7x. JWN's Nordy Club is a leading non-tender loyalty membership program with over 13mm members and members account for 66% of sales. Additionally, JWN has a leading digital platform, which drove 35% of sales in FY19.
- **Malls Could Close, Risk to Highlight** - Mall traffic could decelerate to low double digits or worse from an already negative trend. Furthermore, malls may partially or completely close if social distancing policies are implemented that limit numbers of customers in efforts to flatten the curve of infection. We are generally more cautious on mall-based retailers such as GPS, AEO, LB and others primarily based on the mall given the environment shifting consumer preferences toward more deliberate purchases that limit physical interaction. Mall traffic has already been sluggish, there are still too many malls, and traffic may decline to negative double digits.

Curbside or drive-up pickup is already experiencing rapid adoption at 12-17% of WMT and TGT shoppers. Ongoing demand for stocking up on both grocery and personal care and household items will drive adoption even faster. Critically, once a shopper uses these services – engagement increases and we estimate customers proceed to spend as much as 10-30% more across both physical and digital channels over the next year.

#### **Retail In The Age Of "Social Distancing" - Curbside Pickup to the Rescue**

We believe retailers including WMT, TGT, and JWN which offer various "curbside" product pickup services are better positioned during phases of "social distancing". Cowen's proprietary consumer survey indicates 15.7% of WMT's shoppers and 10.7% of TGT's shoppers already use the service as of 4Q19 (FY), which further accelerated to 17.2% at WMT and 12.2% at TGT in February. We anticipate the use of these services will significantly accelerate over the short to medium term as shoppers look to stock up on products and simultaneously avoid crowds. Curbside at both retailers has incredibly high Net Promoter Scores, and we think satisfied shoppers will continue to use the services beyond the end of the Coronavirus.

Figure 1 - Curbside Penetration Reached 15.7% At WMT And 10.7% At TGT

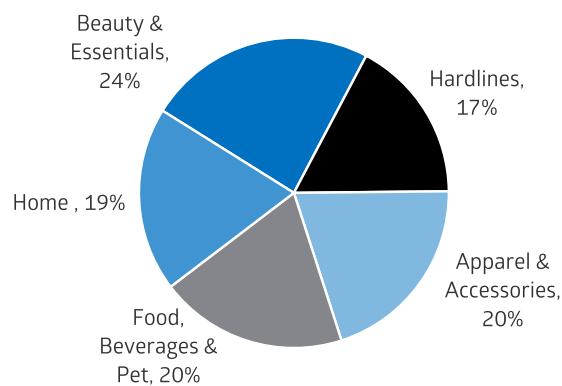


Source: Cowen Consumer Tracker, January 2019 - January 2020, n=2,500/month

**TGT - A Strategic Focus On Being America's Easiest Place To Shop Will Pay Dividends:**

Key customer-centric fulfillment options include Drive Up at 1,750 doors, Shipt same-day delivery which grew +2.5x at TGT in 2019, BOPUS, Target Restock for essentials, and two-day free delivery on orders above \$35. Target remains our top idea for 2020 ([report](#)) as we believe the retailer is well positioned to be a long-term market share winner in an accelerating bifurcating environment. TGT has a strong team of experienced merchants and the company continues to grow market share across many categories in the store. This is especially true in apparel, as we estimate the company was one of the bigger winners in 2019 and is set up well for continued strong growth. We estimate over 90% of apparel mix is private label, and TGT's merchants have done a good job of leaning into innovation and value, which is resonating with shoppers. Separately, we are constructive on prospects of continued gross margin expansion driven by strong acceptance of Drive Up and other in-store fulfillment options. Valuation has also come in, as shares are now trading at 12x, TGT generates annual FCF of at least \$2.5bn to \$4bn and offer investors a 2.5% dividend yield.

Figure 2 - TGT's Sales Mix



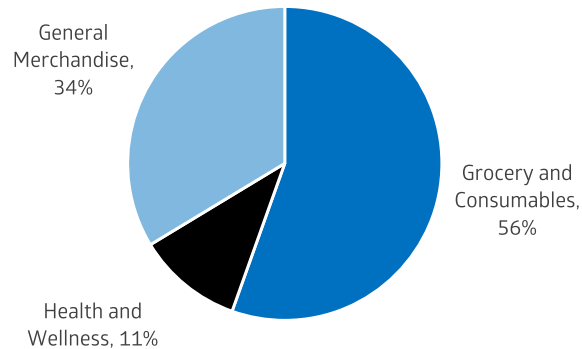
Source: Cowen and Company, Company Filings

**WMT - Compelling Offensive & Defensive Characteristics:** We view WMT as one of the best positioned retailers with strong offensive and defensive characteristics. On offense, WMT is winning through its various fulfillment options, including Grocery Pickup at 3,100 doors going to 3,600 this year, online grocery delivery, nextday delivery on several hundred thousand of the top items sold, and free 2-day shipping on orders above \$35. The company continues to drive strong comps which we believe are sustainable on physical and digital progress. Further, our analysis indicates despite ongoing strong digital growth, the retailer continues to maintain robust physical store comps which is helping drive expense leverage. Also, the digital channel continues to see impressive growth as sales have improved at a +35% CAGR over the past four years, and management is now taking a more focused view on balancing profitability vs. channel growth. Additionally, WMT's grocery business continues to gain momentum and take share as comps continually improve at +LSD to +MSD. Strength is being driven by continued growth in digital grocery as well as overall

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improvements to category fundamentals, especially on the fresh side. WMT also has a clean balance sheet, with net debt/EBITDA of 1.3x, annually generates at least \$15bn to \$20bn of free cash flow, as well as 1.9% dividend yield.

Figure 3 - Walmart U.S. Revenue Mix



Source: Cowen and Company, Company Reports

**ULTA - Off-Mall Exposure, a Powerful Mobile App, Scale Loyalty Program, & Resilient Beauty Category:** We like ULTA's (a) 90% off-mall presence, (b) a leading, innovative, and engaging mobile app that features virtual try-on enabled by augmented reality, and (c) its 34mm-member "Ultamate Rewards" loyalty program collectively position the retailer to continue taking market share in a social distancing environment. ULTA generates approx. 12% of sales online which is attractively growing at +20-30% y/y. This penetration is below our overall multi-category 17% coverage median but above beauty market averages. We also believe ULTA's in-store talent and culture can drive a competitive advantage based on specialty beauty service levels and store operations.

Ulta's loyalty program and mobile app power and drive a data advantage as 95%+ of transactions are identified to a customer. Given its deep and data-centric customer database, ULTA can target customers to communicate relevant value on an individualized basis to drive conversion.

Furthermore, as prospects of a recession also become key risk factors, Cowen notes that ULTA saw ongoing positive customer count and limited trade-down dynamics (i.e. mass in favor of prestige) throughout the 2008/09 recession. Cowen also believes that beauty and personal care as a category has elements of "the lipstick effect" in that it can be considered to be less discretionary and a 'necessary luxury' during times of economic stagnation - particularly among ULTA's beauty enthusiast customers. Per Euromonitor, the beauty and personal care category fared better than other discretionary categories in the past recession, contracting -1.5% through 2008/09 vs. apparel -2.7% and home furnishings -5.8%.

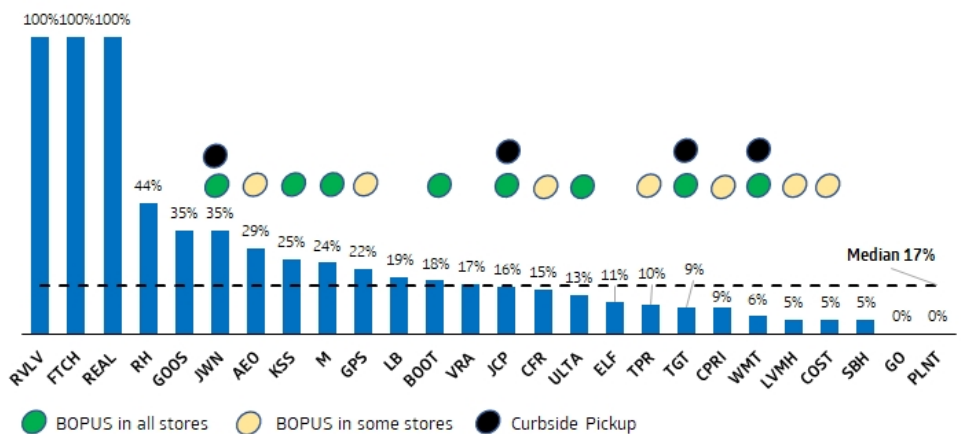
**JWN - Systems And Customer Centric Strategies Drive Fast And Convenient Inventory Availability:** We are constructive on JWN's strategy to win through exceptional customer centricity and shopping ease. JWN's "local market strategy" has opened its inventory by up to 7x for next-day fulfillment, rolled out curbside, and is succeeding through BOPUS and traditional delivery. These fulfillment options, along with a 13mm+ Nordy Club loyalty program are helping contribute to JWN's industry leading digital platform which now drive 35% of JWN's total sales. Looking ahead, we believe other features of JWN's market strategy, including expansion of its Local stores, and service options to Rack stores will drive further customer engagement and top-line momentum. Meanwhile, on the back-end, JWN has focused on integrating the physical with digital, including bringing its website to life through salesperson videos, inventory availability flags, and improved general design and user experience. Additionally, the team has focused on reducing friction, and making the shopping experience as seamless as possible. Note that JWN's full-line stores are in the mall; however, essentially all of these are in high quality A mall locations.

### Retail in the Age of Social Distancing: Cowen's Reference Sheet

Companies with higher digital penetration and more advanced pickup options will be better positioned to take share. We highlight digital penetration across our universe and buy online pick up capabilities within our coverage.

- 6 Stocks in our coverage universe with the highest digital penetration: digitally native RVLV-FTCH-REAL, RH, GOOS, JWN
- WMT, TGT, JWN have curbside/drive-up pickup capabilities
- JWN, KSS, M, JCP, WMT, TGT, and ULTA have buy online pickup in store (BOPIS) capabilities

Figure 4 - Cowen's Omni-Channel Framework



Source: Cowen and Company, Company Reports; note JCP testing curbside pickup service in 51 stores

Figure 1 OC Comp Table

Company	Ticker	Rating	Performance			Price Target		Mkt. Cap (US \$bn)	52-Week (Ic)		EPS (Ic)		EPS Growth		P/E		PEG (FY2)	3-Year FY2 P/E			EV/EBITDA		EBIT Margin (FY0)	Free Cash Flow (Ic)		Beta	Div. Yield	Net Debt (US \$bn)		
			Price (Ic)	YTD (%)	2019	\$ per share	Multiple		ETR	High	Low	FY1	FY2	FY1	FY2	FY1		FY2	Min.	Avg.	Max.	FY1		FY2	Yield				per share	
BROADLINES																														
Costco Wholesale	COST	1	279.85	(4.6%)	45.5%	\$350.0	37 x	25%	123.6	325.26	229.90	8.71	9.43	4%	8%	32.1 x	29.7 x	2.6	22.0 x	27.9 x	35.5 x	N.A	17.7 x	3.1%	2.8%	7.97	0.83	0.9%	(2,169)	
Target Corp.	TGT	1	92.62	(27.2%)	1.0%	\$150.0	20 x	62%	46.4	130.24	70.03	6.88	7.46	27%	9%	13.5	12.4	6.0	10.9	14.2	18.6	7.4	7.2	6.0%	8.0%	7.40	0.80	2.8%	8,922	
Wal-Mart Stores	WMT	1	104.05	(12.4%)	0.0%	\$140.0	26 x	35%	295.2	125.38	96.53	5.11	5.44	4%	6%	20.4	19.1	3.7	15.3	19.6	23.5	10.4	10.1	3.9%	5.3%	5.56	0.67	2.0%	51,887	
Broadlines Avg.				(14.8%)	15.5%				\$465.2					12%	8%	22.0 x	20.4 x	4.1	16.1 x	20.5 x	25.9 x	8.9 x	11.6 x	4.3%	5.4%		0.76	1.9%		
DEPARTMENT STORES																														
Macy's	M	2	7.38	(54.4%)	(37.8%)	\$17.0	7 x	130%	2.3	26.33	7.21	2.46	2.36	(41%)	(4%)	3.0 x	3.1 x	-	3.1 x	8.3 x	12.0 x	2.7 x	2.8 x	3.5%	64.0%	4.72	1.49	20.5%	3,475	
Kohl's	KSS	2	23.01	(54.8%)	(19.2%)	\$39.0	9 x	69%	3.6	75.91	23.00	4.37	4.28	(22%)	(2%)	5.3	5.4	2.0	5.4	11.2	15.2	3.1	3.2	5.5%	30.3%	6.98	1.35	11.6%	2,624	
JC Penney	JCP	2	0.41	(63.4%)	7.7%	\$1.0	-2 x	144%	0.1	1.92	0.36	-0.60	-0.50	(35%)	(16%)	-0.7	-0.8	5.8	NM	NM	22.9	5.8	6.0	(0.1%)	107.3%	0.44	1.55	0.0%	3,336	
Nordstrom	JWN	2	19.88	(50.5%)	(9.0%)	\$34.0	10 x	71%	3.1	46.20	19.22	3.37	3.51	(7%)	4%	5.9	5.7	1.9	5.7	13.1	17.8	3.2	3.2	5.1%	17.8%	3.53	1.23	7.4%	1,823	
Dillard's	DDS	N.R.	38.70	(47.3%)	22.7%	N.R.	-	-	1.0	N.R.	N.R.	3.56	3.39	-	(5%)	10.9	11.4	N/A	10.0	14.6	22.6	3.3	3.5	2.5%	39.9%	15.44	1.14	1.3%	291	
Department Stores Avg.				(54.1%)	(7.1%)				\$10.1					(26%)	(5%)	4.9 x	5.0 x	3.2	6.0 x	11.8 x	18.1 x	3.6 x	3.7 x	3.3%	51.9%		1.35	8.2%		
U.S. LUXURY & ACCESSORIES																														
Tapestry	TPR	2	15.01	(43.1%)	(16.1%)	\$27.0	10 x	80%	4.1	36.06	14.71	2.18	2.59	(15%)	19%	6.9	5.8	1.2	5.8	13.9	20.0	4.4	3.8	13.5%	16.3%	2.45	1.33	9.0%	437	
Capri Holdings	CPRI	2	14.34	(62.4%)	0.6%	\$42.0	9 x	193%	2.1	50.00	14.07	4.48	4.89	(10%)	9%	3.2	2.9	N/A	2.9	10.0	16.6	4.0	3.6	14.0%	32.4%	4.64	1.29	0.0%	1,881	
lululemon Athletica	LULU	1	169.13	(27.0%)	90.5%	\$241.0	42 x	42%	22.0	266.20	141.01	4.89	5.74	27%	17%	34.6	29.4	1.7	18.2	30.3	45.8	20.8	17.9	21.5%	2.0%	3.34	1.24	0.0%	(586)	
Tiffany & Co.	TIF	2	127.48	(4.6%)	68.8%	\$135.0	28 x	6%	15.4	134.42	78.60	4.60	4.78	(3%)	4%	27.7	26.7	2.2	14.3	21.3	27.6	15.8	15.3	17.8%	2.5%	3.24	0.55	1.8%	457	
Signet Jewelers	SIG	N.R.	13.12	(37.9%)	(26.9%)	N.R.	8 x	129%	0.7	31.44	10.40	3.67	3.54	(44%)	(4%)	3.6	3.7	1.1	3.7	8.8	16.5	4.0	4.1	(12.2%)	102.4%	13.43	1.72	11.3%	1,222	
Movado	MOV	2	11.65	(46.4%)	(28.7%)	\$18.0	11 x	55%	0.2	40.20	11.20	1.63	1.57	(19%)	(4%)	7.1	7.4	1.6	7.4	13.4	19.8	1.4	2.0	9.2%	21.5%	2.51	0.87	6.9%	(62)	
Fossil Group	FOSL	N.R.	3.84	(51.3%)	(49.9%)	N.R.	-	-	0.2	15.53	3.54	-0.27	-0.40	(122%)	51%	-14.5	-9.6	-	NM	9.5	NM	2.2	2.6	(1.4%)	23.2%	0.89	1.57	0.0%	6	
Ralph Lauren	RL	1	79.67	(32.0%)	15.9%	\$152.0	18 x	91%	5.9	133.63	77.84	7.80	8.60	-	10%	10.2	9.3	N/A	9.3	15.5	20.5	4.8	4.5	8.9%	8.8%	7.03	1.11	3.3%	(1,013)	
Restoration Hardware	RH	2	107.76	(49.5%)	78.2%	\$238.0	17 x	121%	2.0	256.27	84.11	11.54	13.68	58%	18%	9.3	7.9	0.5	7.9	14.4	21.6	7.1	6.0	10.2%	N.A.	N.M.	1.58	0.0%	1,407	
Farfetch Limited	FTCH	1	7.95	(23.2%)	(41.6%)	\$16.0	-17 x	101%	2.7	28.05	7.37	-1.14	-0.94	-	(17%)	-7.0	-8.4	N/A	N/A	N/A	N/A	-35.8	374.5	(38.0%)	(2.8%)	-0.22		0.0%	(33)	
Vera Bradley	VBRA	1	4.85	(58.9%)	37.7%	\$14.0	13 x	189%	0.2	14.51	4.75	0.96	1.06	62%	11%	5.1	4.6	1.6	4.6	17.2	27.9	2.2	2.0	3.9%	7.2%	0.35	1.42	0.0%	(29)	
Luxury & Accessories Avg.				(39.7%)	11.7%				\$55.6					(7%)	10%	7.8 x	7.2 x	1.4	8.2 x	15.5 x	24.0 x	2.8 x	39.7 x	4.3%	21.4%		1.27	2.9%		
SPECIALTY RETAIL/ SOFTLINES																														
Gap, Inc.	GPS	2	10.07	(41.7%)	(27.6%)	\$14.0	8 x	39%	3.8	27.00	9.35	1.69	1.77	(35%)	5%	6.0 x	5.7 x	1.6	5.7 x	10.8 x	16.1 x	2.3 x	2.2 x	#VALUE!	13.5%	1.36	1.05	9.6%	(405)	
Levi's Brands	LB	2	15.84	(10.9%)	(24.7%)	\$25.0	11 x	58%	4.4	29.02	15.79	2.04	2.18	(28%)	7%	7.8	7.3	1.3	6.4	11.4	18.9	4.6	4.6	2.0%	19.8%	3.14	1.27	7.6%	(3,457)	
Abercrombie & Fitch	ANF	N.R.	10.07	(40.6%)	(9.9%)	N.R.	-	-	0.6	30.63	9.98	0.81	1.07	(77%)	33%	NM	N/A	N/A	NM	NM	NM	0.8	0.8	1.9%	5.4%	0.54	1.14	7.9%	(427)	
American Eagle Outfitters	AEO	2	8.94	(38.2%)	(21.8%)	\$14.0	10 x	57%	1.5	24.30	8.50	1.33	1.42	(10%)	7%	6.7	6.3	2.3	6.2	12.0	17.8	2.3	2.2	5.4%	10.9%	0.97	1.05	6.2%	(417)	
Ascena	ASNA	N.R.	1.48	(80.7%)	(84.7%)	N.R.	-	-	0.0	41.80	1.33	NULL	NULL	-	-	-	-	0.7	NM	NM	NM	NM	N.A.	N.A.	(12.4%)	N.A.	N.M.	1.87	0.0%	892
TJX Companies	TJX	1	49.36	(18.8%)	38.5%	\$64.0	23 x	46%	59.4	64.95	48.00	2.86	3.13	18%	9%	17.3	15.8	1.4	15.0	18.4	22.3	10.5	9.9	10.6%	4.1%	2.04	0.83	1.8%	(980)	
Ross Stores, Inc.	ROST	1	91.35	(21.5%)	41.2%	\$119.0	26 x	54%	33.0	124.16	88.31	4.91	5.39	15%	10%	18.6	16.9	1.5	15.3	19.8	24.7	12.1	11.3	13.4%	5.1%	4.68	0.88	1.1%	(1,038)	
Sally Beauty Holdings	SBH	2	9.63	(47.2%)	7.0%	\$16.0	7 x	66%	1.1	21.98	9.38	2.27	2.35	5%	3%	4.2	4.1	0.8	4.1	7.9	11.0	4.7	4.7	11.8%	20.7%	1.99	0.89	0.0%	1,512	
Planet Fitness	PLNT	1	48.32	(35.3%)	39.3%	\$95.0	41 x	97%	4.2	88.77	46.17	1.88	2.33	18%	24%	25.7	20.7	1.6	20.6	32.9	46.4	16.7	14.4	33.8%	4.0%	1.92	1.29	0.0%	1,268	
Ultra Salon	ULTA	1	198.54	(21.6%)	3.4%	\$265.0	19 x	33%	11.3	368.83	190.83	12.87	14.24	18%	11%	15.4	13.9	1.0	13.8	22.0	31.7	8.7	8.3	12.2%	7.3%	14.44	0.96	0.0%	(502)	
Urban Outfitters	URBN	N.R.	14.62	(47.4%)	(16.4%)	N.R.	-	-	1.4	34.24	13.64	1.96	2.21	26%	13%	7.5	6.6	1.6	6.6	13.0	20.3	2.5	2.4	5.8%	12.7%	1.85	1.05	0.0%	(433)	
E.L.F. Beauty	ELF	1	11.99	(25.7%)	86.3%	\$22.0	36 x	83%	0.6	20.00	8.00	0.58	0.61	(12%)	5%	20.6	19.6	2.5	11.0	10.1	10.1	11.0	10.1	9.8%	5.3%	0.64	1.49	0.0%	66	
J.Jill	JILL	N.R.	0.52	(54.0%)	(74.7%)	N.R.	29 x	631%	0.0	6.03	0.50	0.11	0.13	(87%)	24%	5.0	4.0	0.7				3.5	3.5	(16.2%)	N.A.	N.A.	1.51	0.0%	212	
Canada Goose Holdings Inc	GOOS	2	17.00	(53.1%)	(17.1%)	\$29.0	17 x	71%	1.9	55.49	16.82	1.35	1.76	60%	30%	12.6	9.7	1.4				8.3	6.5	23.7%	5.2%	0.89	2.25	0.0%	295	
Grocery Outlet	GO	1	29.06	(10.4%)	13.8%	\$48.0	58 x	65%	2.6	47.57	27.75	0.75	0.83	4%	11%	NM	35.1	2.7				18.0	16.2	3.4%	0.5%	0.14		0.0%	423	
The Real Real	REAL	1	8.81	(53.3%)	(34.8%)	\$32.0	-43 x	263%	0.8	30.05	8.43	-0.98	-0.74	(8%)	(24%)	NM	-11.9	#N/A				-6.2	-10.7	NM	(44.7%)	-3.94		0.0%	(363)	
Revolve	RVLV	1	9.04	(50.8%)		\$19.0	27 x	110%	0.6	48.36	9.00	0.53	0.70	5%	33%	17.1	12.9	0.6				9.6	7.3	8.0%	5.3%	0.48		0.0%	(65)	
Peloton Interactive	PTON	1	19.51	(31.3%)	10.2%	\$36.0	-37 x	85%	5.5	37.02	18.01	-1.05	-0.98	-	(7%)	-18.5	-20.0	#N/A				-50.3	-63.4	(22.1%)	(8.8%)	-1.72		0.0%	(378)	
Boot Barn Holdings	BOOT	1	19.00	(57.3%)	161.5%	\$25.0	12 x	32%	0.5	48.11	17.13	1.82	2.05	47%	12%	10.4	9.3	0.9	8.8	16.8	23.7	6.2	5.7	8.3%	10.1%	1.92	1.27	0.0%	115	
Specialty Retail/Softlines Avg.				(38.9%)	5.0%				\$133.3					(43%)	11%	10.4 x	9.2 x	1.4	10.3 x	16.5 x	23.3 x	3.6 x	2.0 x	#VALUE!	4.5%	184.4%		1.25	1.9%	
GLOBAL LUXURY & ACCESSORIES																														
Swatch	UHR-VX	N.R.	169.50	(37.2%)	(3.0%)	N.R.	-	-	21.6	322.00	166.80	12.62	15.05	(16%)	19%	13.4 x	11.3 x	0.6	11.3 x	17.9 x	23.5 x	5.3 x	4.7 x	12.4%	7.0%	11.78	1.08	4.7%	(1,348)	
Richemont	CFR-SW	2	50.36	(33.8%)	23.9%	\$77.0	24 x	53%	52.9	87.44	49.15	2.61	2.98	21%	14%	18.3	16.0	1.1	15.8	20.8	26.9	7.7	7.1	13.9%	4.7%	2.39	1.12	3.8%	(2,940)	
Hugo Boss Group	BOSS-FR	N.R.	28.36	(34.6%)	(14.4%)	N.R.	-	-	6.2	65.10	28.00	3.31	3.59	3%	9%	8.6	7.9	0.9	7.9	16.0	20.5	4.8	4.4	11.9%	14.7%	4.18	0.91	9.8%	1,008	
Kering	KER-FR	N.R.	384.50	(33.7%)	44.7%	N.R.	-	-	49.8	614.90	378.40	26.96	30.59	10%	13%	%,														

Ticker	Rating	Price*	Price Target	Ticker	Rating	Price*	Price Target
WMT	Outperform	\$104.05	\$140.00	TGT	Outperform	\$92.62	\$150.00
JWN	Market Perform	19.88	\$34.00	ULTA	Outperform	198.54	\$265.00

\*As of 03/12/2020

## VALUATION METHODOLOGY AND RISKS

### Valuation Methodology

#### Retailing/Specialty Stores:

Our valuation methodology is primarily based on Price-to-Earnings (P/E), followed by Enterprise Value to EBITDA (EV/EBITDA), Price-to-Free Cash Flow (P/FCF) ratios, and DCF analysis. We may also use Enterprise Value to Revenue (EV/Revs) for companies operating at depressed levels of profitability. In some cases we use probability weighed, scenario-based decision trees as a basis for devising our price targets. We incorporate the company's and its peers' historical and current valuation multiples, as well as our analysis of future growth rates, company-specific risks, return on invested capital, and other inputs from our research when devising our valuation multiples and the probabilities we assign to different scenarios when developing our price targets.

#### Broadlines:

Our valuation methodology is primarily based on Price-to-Earnings (P/E), supplemented by, in some cases, Enterprise Value to EBITDA (EV/EBITDA) and Price-to-Free Cash Flow (P/FCF) ratios and DCF analysis. We may also use Enterprise Value to Revenue (EV/Revs) for companies operating at depressed levels of profitability. In some cases we use probability-weighted, scenario-based decision trees as a basis for devising our price targets. We incorporate the company's and its peers' historical and current valuation multiples, as well as our analysis of future growth rates, company-specific risks, return on invested capital, and other inputs from our research when devising our valuation multiples and the probabilities we assign to different scenarios when developing our price targets.

#### Department Stores:

Our valuation methodology is primarily based on Price-to-Earnings (P/E), supplemented by, in some cases, Enterprise Value to EBITDA (EV/EBITDA) and Price-to-Free Cash Flow (P/FCF) ratios and DCF analysis. We may also use Enterprise Value to Revenue (EV/Revs) for companies operating at depressed levels of profitability. In some cases we use probability-weighted, scenario-based decision trees as a basis for devising our price targets. We incorporate the company's and its peers' historical and current valuation multiples, as well as our analysis of future growth rates, company-specific risks, return on invested capital, and other inputs from our research when devising our valuation multiples and the probabilities we assign to different scenarios when developing our price targets.

### Investment Risks

#### Retailing/Specialty Stores:

Risks to the companies in our sector include risks and uncertainties associated with the global economic environment and consumer spending, as well as general competition within the consumer and fashion products industries and fluctuating consumer demand trends, which can create variability in sales and margins. Increases in the prices of raw materials, rent, freight, labor, tariffs, or manufacturers' inability to produce goods on time or to specifications may negatively impact results. Execution flaws and the departure of certain key executives may negatively affect performance and financial results. Legal, regulatory, political, currency, and economic risks, as well as challenges to maintain favorable brand recognition, loyalty, and reputation for quality, may affect the ability to conduct business in both domestic and international markets.

#### Broadlines:



Risks to the companies in our sector include risks and uncertainties associated with the global economic environment and consumer spending, as well as competition within consumer and fashion products industries and fluctuating consumer demand trends, which can create variability in sales and margins. Increases in the prices of raw materials, rent, freight, labor, tariffs, or manufacturers' inability to produce goods on time or to specifications may negatively impact results. Execution flaws and the departure of certain key executives may negatively affect performance and financial results. Legal, regulatory, political, currency, and economic risks, as well as challenges to maintain favorable brand recognition, loyalty, and reputation for quality, may affect the ability to conduct business in both domestic and international markets.

**Department Stores:**

Risks to the companies in our sector include risks and uncertainties associated with the global economic environment and consumer spending, as well as competition within consumer and fashion products industries and fluctuating consumer demand trends, which can create variability in sales and margins. Increases in the prices of raw materials, rent, freight, labor, tariffs, or manufacturers' inability to produce goods on time or to specifications may negatively impact results. Execution flaws and the departure of certain key executives may negatively affect performance and financial results. Legal, regulatory, political, currency, and economic risks, as well as challenges to maintain favorable brand recognition, loyalty, and reputation for quality, may affect the ability to conduct business in both domestic and international markets.



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