NoBull Consumer Research Weekly

Corporate & Market Newsletter. No bull.

Bubble Monitor - Asset Class Performance

Change Over Preceding Week or Preceding Period

Stocks	9/28/23	Weekly	Monthly	Currency	9/28/23	Weekly	Monthly
S&P 500	4,295	-0.8%	-4.5%	*DXY (USD Index)*	106.54	1.1%	2.9%
Nasdaq	13,203	-0.2%	-3.7%	Bitcoin USD	$27,160	2.1%	-1.6%
Russell 2000	1,795	0.7%	-4.0%	Ethereum USD	$1,661	4.6%	-3.8%
EEM - Emerging Markets	38	-0.3%	-3.5%	**Money Supply**			
VIX - Volatility Index	$17	-1.2%	19.9%	2 Year Treasury Rate	5.10%	-0.1%	0.2%
Commodities				10 Year Treasury Rate	4.58%	0.1%	0.5%
Crude Oil	$92	2.4%	13.0%	CPI-U*	307.03	3.7%	
Gold oz.	$1,867	-2.7%	-3.6%	M1 ($B)*	$18,320	-10.5%	
Silver oz.	$23	-2.6%	-5.8%	M2 ($B)*	$20,865	-3.7%	
Platinum oz.	$916	-0.9%	-5.4%	Fed Bal. Sheet, Assets, ($B)	$8,024	-0.9%	-1.4%
Copper lb.	$4	1.1%	-1.2%	**Economic Activity**			
RR Commodity Index*	176	11.6%		New Orders Manuf. Goods			-2.1%
Real Estate				Unfilled Orders Manuf. Goods			0.5%
VNQ - Real Estate Index	$75	-2.4%	-6.7%	Unemployment*	3.80%	0.1%	
Zillow Avg Rent*	$2,052	3.3%		U6 Unemployment*	7.00%	0.1%	

* Y/Y change for latest data available

September 29, 2023

Darden 1Q24: Sales +11.6% Y/Y, Comps +5.5% Y/Y (View Full)

Darden reported that industry same-restaurant sales increased +0.9% and industry same-restaurant guest counts decreased -4.2% during its fiscal 1Q24. The chain's comps outperformed the industry by +4.1% and its traffic outperformed by +4.3% (= flattish traffic for Darden during the quarter).

Macro/Consumer

- Wage growth has been higher for the lower income demo & while inflation impacts this demo more, their wages have grown faster than inflation over time.
- All-the-same, Darden experienced softness from consumers with household incomes of $125k+ as they increased their spend on luxury & international travel as opposed to fine dining.
- Notably, the company posited that $125k+ consumers may have decided to pay off their student loans to avoid higher interest rate payments driven by Fed hikes.
- Darden is focused on restoring demand from 65+ y/o consumers who were badly spooked by covid & the company reported a big increase in younger consumers.
- Geographic strength was reported in New England & the Northeast with softness in California, Texas & Florida.
- The addition of international airline routes could explain the softness in Florida & California given a possible tourism decline in these markets.
- While the impact of California's FAST Act should extend beyond fast food (by driving higher wages across other restaurant segments), Darden is well positioned with a national average wage of $22/hr. including tips.

Sales

- A fiscal 1Q24 sales increase of +11.6% y/y was driven by the addition of 77 company-owned Ruth's Chris Steakhouse restaurants, the addition of 46 net Darden legacy restaurants & +5% y/y comp growth.
- The quarterly same-store-sales decline in fine dining reflected a difficult y/y comparison given last year's resurgence for dine-in demand that drove traffic to 107% of pre-covid levels.
- Darden's strategy is to: keep overall pricing below inflation; avoiding deep discounting; & run better restaurants.

Margin Expansion

- While commodity costs are easing, net food inflation persists & labor inflation remains elevated (up +6% y/y during the quarter). Notably, the supply of beef (22% of basket) is down mid-single digits.
- Sales growth, along with labor productivity & higher overall pricing relative to inflation, drove a +2.3% y/y segment profit margin increase at both Olive Garden & LongHorn.
- Restaurant-level EBITDA was 19% during the quarter, +170 bps y/y.
- Elevated SG&A during the quarter reflected that bottom-line outperformance drove higher incentive comp.

The Economics of Politics (View Full)

As the U.S. gears up for the 2024 elections, it is important to consider changes to our elections and governance that can unite the citizens of this great country.

- Perhaps the greatest challenge we face is how to create guardrails that will separate profit from governance. In other words, no government official (or any corporation/individual with a position of trust under them) should be able to profit from the governance of this country.
- That is simply unconstitutional according to Article 1, Section 9: "No Title of Nobility shall be granted by the United States: And no Person holding any Office of Profit or Trust under them, shall, without the Consent of the Congress, accept of any present, Emolument, Office, or Title, of any kind whatever, from any King, Prince, or foreign State."
- So how do we keep profits & the pursuit of profits out of the public arena?
- We suggest that the answer lies in the introduction of competition. Just like wisdom from the constitution saw fit to introduce competition between the executive, legislative & judiciary branches, we need to introduce competition among government employees. More competition is likely to better expose graft and incompetence.
- Refer to our proposed reforms in the table below:

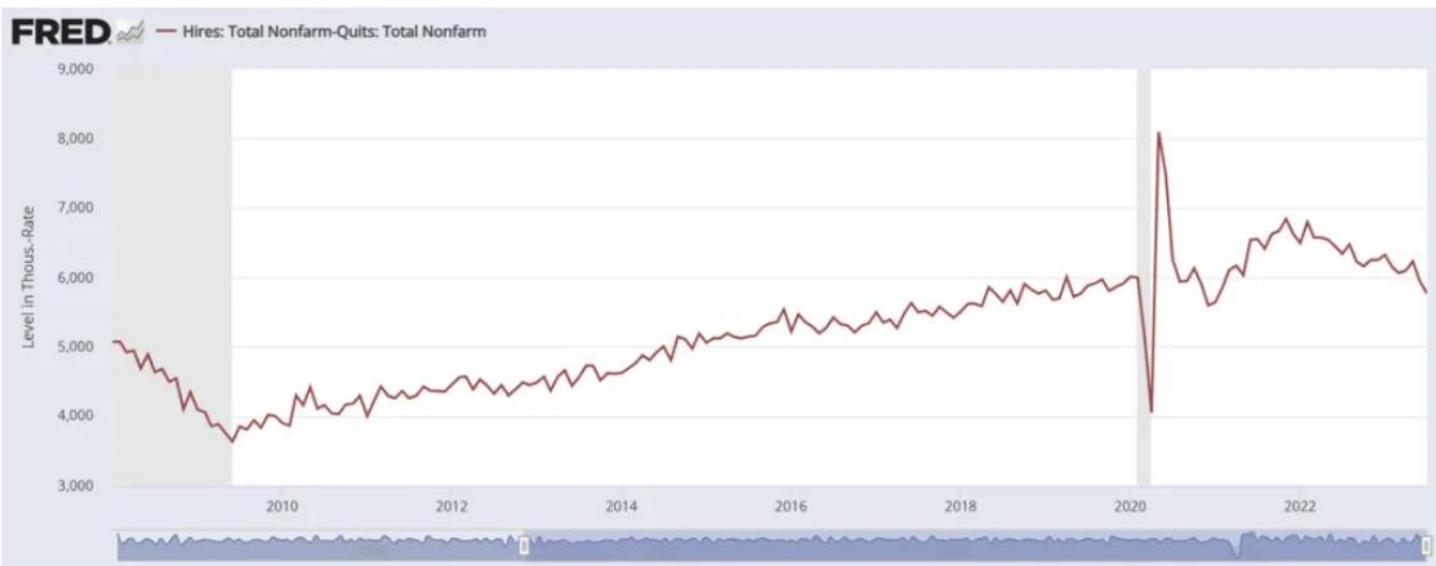
Getting the Economics of Politics Right

Eliminate the 2-party system	Introduce competition into the election process and let anyone with a pre-determined number of supporters run (say 100,000 supporters needed for federal offices). Ban all political parties.
Fix campaign finance	Prohibit election contributions from corporations & PACs and especially from foreign countries.
Term limits & mandatory retirement	No government official can serve more than 4 years & no civil servant can serve more than 7 years. Mandatory 70-year-old retirement age.

Job Market Looks Solid (View Full)

In this chart, we subtract total quits from total hires. The excess of hires over quits looks very good relative to the historical level even though the positive gap recently dipped slightly. Workers are staying at their jobs longer even as they continue to have new employment opportunities.

- As further evidence of job market strength, the Teamster Union announced that it just negotiated its most lucrative agreement ever with UPS. Notably, full and part-time union workers will receive a $2.75/hour raise in 2023 & $7.50 more in total by the end of the 5-year contract. Starting hourly pay for part-time employees was increased to $21/hour and by the end of the new contract, the average UPS full-time driver will make $170k/year in pay & benefits.

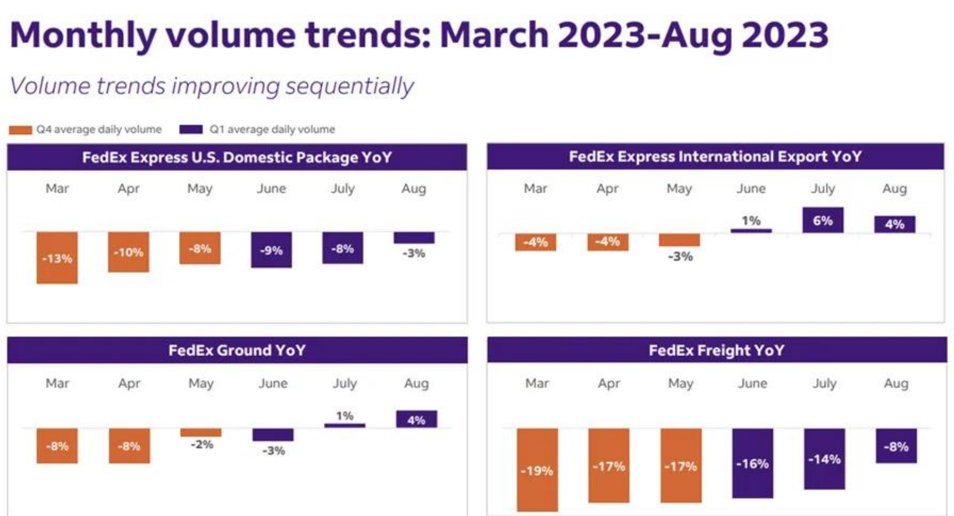


FedEx Fiscal 1Q24: Revenue Down -7% Y/Y, Operating Income Up +29% Y/Y (View Full)

FedEx's FY23 domestic parcel volume declined -0.5% y/y which was lower than expected. While recent monthly volume trends are improving, they continue to reflect a weak shipping environment.

Fiscal 1Q24 Sales Results

- FedEx Ground: +3% revenue growth driven by a +1% increase in volume & +3% increase in yield.
- FedEx Express: -9% revenue decline as volume remained pressured (parcel volume declines were most pronounced in the U.S.).
- FedEx Freight: -16% revenue decline driven by -13% decline in volume. U.S. freight pounds were down -27%, reflecting a strategy change by the United States Postal Service. In any case, segment results reflected a significant volume improvement in August due to Yellow's closure.
- Notably, FedEx added +400k in average daily packages across Ground & Express because of share gains from UPS which was disrupted by labor negotiations with the Teamsters Union. FedEx's fiscal 1Q24 volume weakness would have been more dramatic without this share gain.
- Guidance FY24: flat sales expectation down from the prior forecast of flat to a low-single-digit increase. Management expects normal volume seasonality during the upcoming holiday peak season compared to current volume trends.



Margins

- Amid significant demand disruption, FedEx's DRIVE initiative drove $2B+ in y/y cost savings during FY23 & the company is on track to drive another $1.8B in structural benefits during FY24.
- $130MM DRIVE savings during this quarter were primarily driven by: lower third-party transportation rates as a result of a newly implemented purchase bid system; optimized rail usage; and the continued benefit from reduced Sunday coverage.
- Cost cuts led to the company's most profitable quarter for its FedEx Ground segment with its fiscal 1Q24 adjusted operating income up +61% y/y. Costs per package declined -2% y/y.
- Management announced a +5.9% y/y general rate increase effective this coming January on top of last year's +6.9% increase.

FedEx Corporation	Rank (1 best - 80)	34			
	2Q23	3Q23	4Q23	1Q24	LTM
Total Revenues $MM	$22,814	$22,169	$21,930	$21,681	$88,594
Total Revenues / CAGR 1Y	-2.8%	-6.2%	-10.1%	-6.7%	-6.5%
Gross Profit Margin %	25.4%	25.8%	32.2%	26.9%	27.5%
SG&A Margin %			2.0%		0.5%
EBITDA Margin %	10.3%	10.4%	16.4%	12.5%	12.4%
Capex as % of Revenues	8.1%	5.8%	8.0%	6.0%	7.0%
Free Cash Flow/Revenue	-1.5%	4.5%	7.7%	4.3%	3.7%
Return on Total Capital	5.3%	5.1%	9.9%	6.3%	6.6%
Net Debt / EBITDA	2.3	2.3	1.6	2.0	1.9
EV / EBITDA (LTM)	5.2	5.9	5.7	5.8	6.1

Insights from Domino's Investor Presentation (View Full)

Domino's is working hard to hold down menu & delivery price increases while seeking to drive incremental loyalty & profitable DSP transactions.

Loyalty

- One of the big unlocks from Domino's loyalty program was the learning that many of its lighter volume customers were not provided an incentive as they needed 6 visits to earn a free pizza & they visit less often than 6x/year (particularly carryout customers).
- Steps taken to make the program more attractive to light volume users included: a reduction in the spending threshold to earn rewards from $10 to $5, providing opportunities for $7.99 carryout customers; a reward redemption threshold reduction from a minimum of 60 points to new 20,40 & 60 point tiers (so members can enjoy rewards after just 2 visits); and increased reward personalization such that the program is now able to drive trial for its new pepperoni stuffed cheesy bread launch by offering it for 20 points instead of 40 such that, after 2 occasions of $5+ orders, members can trial a $6.99 menu item.
- The higher cost for this program should be paid for by incremental visits.

DSP Aggregator Delivery

- Domino's initial reluctance to offer DSP (third-party) delivery service reflected its desire to avoid driving business to competitors. However, now that the DSP business is fully developed, Domino's believes that it can leverage the DSP platforms without cannibalizing its own sales.
- The chain's customer overlap with the DSP players has flattened and even slightly declined over the last couple of quarters.
- Domino's will not offer discounts on DSP platform & will instead promote premium-priced products to this less price-sensitive demo.
- The chain will not use ad dollars to drive traffic to the DSP platform.

Domino's Pizza	Rank (1 best - 80)		28		
	3Q22	4Q22	1Q23	2Q23	LTM
Total Revenues $MM	$1,069	$1,392	$1,024	$1,025	$4,510
Total Revenues / CAGR 1Y	7.1%	3.7%	1.3%	-3.8%	2.1%
Gross Profit Margin %	25.1%	25.7%	26.6%	28.6%	26.4%
SG&A Margin %	8.5%	9.1%	9.3%	9.5%	9.1%
EBITDA Margin %	18.3%	19.1%	19.1%	20.9%	18.9%
Capex as % of Revenues	1.7%	2.6%	1.9%	1.9%	2.1%
Free Cash Flow/Revenue	14.9%	7.8%	9.3%	10.6%	10.5%
Return on Total Capital	40.7%	59.4%	41.2%	45.4%	46.4%
Net Debt / EBITDA	6.4	4.5	6.2	5.7	5.5
EV / EBITDA (LTM)	19.5	17.8	17.8	20.0	20.3

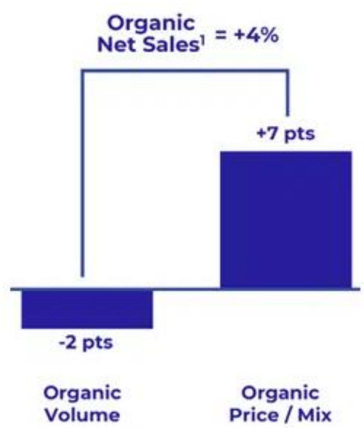
General Mills Fiscal 1Q24: Organic Net Sales +4% Y/Y, Adj Operating Income +2% Y/Y (View Full)

General Mill's FY24 focus is on the evolving external environment highlighted by: moderating inflation; stabilizing supply chains; and a resilient, but increasingly cautious consumer.

Highlights

- Fiscal 1Q24 organic net sales growth of +4% y/y reflected +7% positive organic price/mix, partially offset by a -2% decline in pound volume. Sales growth moderated from FY23 double-digit rates, reflecting less impact from inflation-driven pricing & a shift toward value for some consumers.
- Organic net sales growth outpaced retail sales growth by 2%, reflecting double-digit growth in non-measured channels (including club, discount & dollar stores) and a modest rebuild of retailer inventory.
- Strong retail sales were reported for the segment's 3 key global platforms: ice cream, Mexican food & snack bars.
- Net sales for U.S. Snacks were up +8% & U.S. Morning Foods was up +3%.
- Private label on-shelf availability in categories like grain & and refrigerated baked goods increased +10% y/y, revealing increased demand for value.
- A -5% pet segment organic sales decline reflected pet parents spending more time out of home & an increase in value-seeking behaviors.
- Net pet sales were up mid-single digits for dry food, flat for wet food & down double digits for treats.
- Notably, the $44B pet category is supported by +1% to +1.5% pet population growth & an ongoing humanization trend that benefits premium brands like Blue Buffalo over the long term.
- A +2% y/y increase in its constant currency adjusted operating profit during the quarter was driven by positive price/mix which was offset by higher input costs, higher SG&A expenses (including a double-digit increase in media), and lower volume.

First Quarter	Organic Volume	Organic Price/Mix
North America Retail	(4) pts	8 pts
Pet	(5) pts	5 pts
North America Foodservice	4 pts	--
International	(5) pts	13 pts
Total	(2) pts	7 pts



KEY FINANCIAL METRICS[1]	F24 OUTLOOK
Organic Net Sales Growth	+3 to +4%
Adjusted Operating Profit Growth[2]	+4 to +6%

AutoZone Fiscal 4Q23: Net Sales +6.4%, Domestic Comps +1.7% Y/Y (View Full)

AutoZone reported that it hasn't yet seen a consumer wobble & that its industry is in a very strong position. In any case, it's been a 2-speed world where the low-end consumer has been under some pressure while higher-income consumers are doing well.

Commentary

- AutoZone benefits from a growing & aging car park in a challenging new & used car sales market and management is forecasting a consistent & resilient DIY business environment for FY2024.
- FY2023 sales were pressured by a mild winter which limited tire changes (summer to winter tires & back in the spring) that typically allow mechanics to inspect brakes & suspensions when the wheel is off.
- Retail traffic declined -0.8% y/y during fiscal 4Q23, with a +2% ticket increase representing the weakest results since FY2020 as the chain lapped significantly higher y/y inflation (fiscal 4Q22 ticket was up +8%).
- Inflation was up low single-digits during the quarter & should be in the same range during fiscal 1Q24 as the industry migrates back to pre-covid inflation levels (low to mid-single-digit range).
- Domestic commercial sales increased +3.9% y/y during the quarter (accelerating to +7% during the last 4 weeks of the quarter as the rainy weather ended). While commercial traffic & ticket continued to grow, ticket growth has markedly decelerated as hyperinflation abates (+11% ticket growth during fiscal 4Q22 decelerated to +2% this quarter).
- AutoZone's commercial customers have been experiencing trade down & lower car counts (especially for customers in the tire business) since February, reflecting consumer economic pressure.
- Commercial is now available in 90%+ of its domestic stores & AutoZone sees a good long-term growth opportunity as it continues to build out its capabilities in this segment.
- The company's FY23 domestic average weekly sales per store was +33% higher than in 2019, helping to propel a + 61% increase in adjusted operating profit compared to its 2019 level.

Fourth Quarter FY 2023

Financial Highlights

- ✓ Net Sales +6.4%
- ✓ Total Company SSS +2.8%; Domestic SSS +1.7%; International SSS +14.9%; (Constant Currency[1])
- ✓ Diluted weighted shares outstanding decreased 6.9% vs Q4 FY22
- ✓ During Q4 FY23, we repurchased $1.0 billion in AutoZone stock

in millions (excluding EPS and percentages)	16 Weeks Ended August 26, 2023	16 Weeks Ended August 27, 2022	Better/(Worse)
Net Sales	$ 5,691	$ 5,348	6.4%
Gross Margin	52.7%	51.5%	118 bps [2]
Operating Expense Ratio	31.2%	30.9%	(34 bps)
Operating Profit (EBIT)	$ 1,222	$ 1,104	10.8% [2]
Operating (EBIT) Margin	21.5%	20.6%	84 bps [2]
Interest	$ 109	$ 64	(69.9%)
Tax Rate	22.4%	22.1%	(25 bps)
Net Income	$ 865	$ 810	6.8% [2]

Insights From Sysco Corp.'s Investor Call (View Full)

Sysco Corp. reported that its business is performing well although investors are concerned about slowing restaurant traffic. In any case, Sysco expects positive volume growth this year although traffic will be muted vs. historical levels.

Commentary

- Sysco is the largest food service distribution player & the backbone of the food-away-from-home industry. The company serves big & small restaurants, hospitals, hotels & sports arenas.
- Sales guidance calls for mid-single-digit growth.
- Guidance also calls for wholesale food prices to be deflationary for the first half of the year (correcting from +15% to +18% inflation during FY23), returning to muted inflation during the second half.
- Beef prices have returned to an inflationary trend while poultry remains double-digit deflationary for the time being until supply is reduced sufficiently to return to a +2% to +3% price inflation level.
- The dry grocery category continues to exhibit a healthy amount of inflation.
- The company's costs further benefit from progress in staff retention & productivity (Sysco is fully staffed across its network with no constraints on labor availability) which, taken together with sales leverage, should drive gross profit growth.
- Strategic pricing software supports margins by limiting how much of its cost savings are passed to its customers.
- 35% of customers placed their own orders on digital tools 3.5 years ago & now 80%+ of orders are digital, driving tickets higher.
- The company's delivery operation will always be manual & humans will be required to bring food into restaurants for a lot of complex reasons. However, warehouses will increasingly incorporate robotic investments which may require 10 to 20-year learning curves.

Sysco Corporation	Rank (1 best - 80)		59		
	3Q22	4Q22	1Q23	2Q23	LTM
Total Revenues $MM	$19,127	$18,594	$18,876	$19,728	$76,325
Total Revenues / CAGR 1Y	16.2%	13.9%	11.7%	4.1%	11.2%
Gross Profit Margin %	18.2%	18.0%	18.2%	18.7%	18.3%
SG&A Margin %	14.2%	14.5%	14.3%	19.6%	15.7%
EBITDA Margin %	5.0%	4.5%	4.9%	0.0%	3.6%
Capex as % of Revenues	0.9%	0.8%	0.9%	1.6%	1.0%
Free Cash Flow/Revenue	0.0%	1.1%	4.0%	5.7%	2.7%
Return on Total Capital	15.0%	12.5%	13.7%	-3.9%	9.4%
Net Debt / EBITDA	2.8	3.2	2.8	42.7	3.5
EV / EBITDA (LTM)	14.5	13.0	12.3	16.3	15.3

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- NoBull's **Consumer Research Weekly Newsletter** provides succinct, value-added research covering key corporate & economic insights germane to consumer spending which drives 68% of GDP.
- Make operational & investment decisions based upon the direction of top management teams across the consumer landscape.
- Our Restaurant Research clients have been relying on us to provide them with analyses on $1B+ restaurant chains since 2000, now trust us to cover the entire consumer landscape for you.

- **Corporate Insights:** Key analyses & intelligence from 85 public consumer companies.
- **Macro Insights:** Succinct analyses of key economic data impacting the consumer landscape.