

NoBull Quarterly Corporate Analysis

# 4Q23 Financial Reporting

| NoBull Retail Company Coverage | | | |
|---|---|---|---|
| **Apparel** | **FSR** | **Home Goods** | **QSR** |
| Burlington Stores | BJ's Restaurants | Best Buy | BurgerFi |
| Lululemon Athletica | Bloomin' Brands | Williams-Sonoma | Chipotle |
| Ross Stores | Brinker International | **Home Improvement** | Domino's Pizza |
| The Gap | Cracker Barrel | Lowe's | Dutch Bros |
| The TJX Companies | Darden Restaurants | The Home Depot | El Pollo Loco |
| **Auto** | Denny's Corporation | **Hotels** | Jack in the Box |
| Advance Auto Parts | Dine Brands Global | Choice Hotels | Krispy Kreme |
| AutoZone | Red Robin | Hilton | McDonald's |
| CarMax | Shake Shack | Hyatt Hotels | Papa John's |
| O'Reilly Automotive | Texas Roadhouse | Marriott | Potbelly |
| **Big Box** | The Cheesecake Factory | **Packaged Foods** | Starbucks |
| Amazon.com | **Grocery** | Coca-Cola | Sweetgreen |
| Costco Wholesale | Albertsons | Conagra Brands | Wendy's |
| Dollar General | Arko Corp. | General Mills | Wingstop |
| Dollar Tree | Casey's General Stores | J&J Snack Foods | Yum! Brands |
| Target | Grocery Outlet Holding | Kellogg Company | **Pharmacy** |
| Walmart | Ingles Markets | Mondelez | CVS Health |
| **Food Suppliers** | Sprouts Farmers Market | PepsiCo | Walgreens Boots |
| Beyond Meat | The Kroger Co. | The Kraft Heinz Company | **Other** |
| Performance Food Group | United Natural Foods | United Natural Foods | DoorDash |
| Sysco Corporation | Village Super Market | | FedEx |
| The Chefs' Warehouse | Weis Markets | | |
| Tyson Foods | | | |
| US Foods | | | |

Retail Report


| Categories | Pages |
|---|---|
| QSR Restaurants | 2 - 6 |
| FSR Restaurants | 7 - 10 |
| Food Companies | 11 - 16 |
| Retail & Services | 17 - 22 |


**Click contents icon (top left) for easier navigation**

# 4Q23 QSR Restaurants

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| CMG | Chipotle | Chipotle reported that its AUV now exceeds $3MM, driven by increased operational efficiency, resonating marketing campaigns, a growing loyalty program and product innovation (such as its successful carne asada LTO). 1Q24 comps are expected to be in the +2.5% to +3% range (reflecting adverse January weather conditions) with full-year FY24 comps up mid-single digits. |
| DPZ | Domino's Pizza | 2023 was a tale of two stories for Domino's: (1) restoring delivery times, and (2) rebuilding franchisee profitability. While management expects ongoing pressure on QSR industry orders and transactions during 2024, it expects that this will not be the case for Domino's. |
| BROS | Dutch Bros | Dutch Bros reported a record 2023 in terms of development, opening 159 new shops across 13 states. Over the past 5 years, the system has opened 500+ shops, growing its company-operated shop count from 90 to 542 at an average annual growth rate of +43%. Development benefits from a record AUV which is driving substantial margin expansion. |
| JACK | Jack in the Box | As Jack in the Box's customers earning under $75k (especially those under $45k) are attaching fewer low-priced items to their orders, the chain is focused on ensuring sufficient deals to encourage as much attachment as possible. Despite anticipated 1H24 sales challenges (including January's adverse weather), full-year FY24 comp guidance is still expected to be up low to mid-single digits. |
| DNUT | Krispy Kreme | Krispy Kreme expanded its point of access by +17.8% during 4Q23 as the brand succeeded in expanding into new grocery & convenience store channels. Sales strength also reflected demand for its holiday-themed premium doughnuts and healthy e-commerce growth. Full-year 2024 guidance: organic revenue growth of +6% to +8%; and adjusted EBITDA growth of +8% to +11%. |

Visit Report

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| MCD | McDonald's | McDonald's posted very strong 2023 results with U.S. comps up +8.7% for the full year. 4Q results moderated because of weakness from lower-income customers and management expects to maintain this level of growth in 2024, with system comps guided to +3% to +4% and an operating margin in-line with 2023. In any case, elevated absolute menu prices and muted consumer confidence indicate that consumers will continue to be discriminating with their dollars during 2024. |
| PZZA | Papa John's | Papa John's reported that a more cautious consumer is placing more pressure on transactions through its organic delivery channel even as its third-party aggregator sales continue to accelerate. Resultantly, its comps declined -1% for the first 8 weeks of 1Q24 and management now expects full-year 2024 comps at the lower end of its +2% to +4% target. Fortunately, February sales strengthened after softening in January and the pizza segment is well positioned, having taken less pricing relative to the other QSR segments. The chain's 2024 sales should also benefit from new 2.0 marketing initiatives. |
| QSR | Restaurant Brands Int. | Restaurant Brand International reported further progress in getting Burger King back on track after investing $40MM in BK advertising and $16MM for facility upgrades during 4Q23. Popeyes (+5.8% comp growth), Firehouse (+3.8%) & Tim Hortons (+8.7%) added their strong performance to BK's +4.6% comp increase during the quarter. |
| SBUX | Starbucks | Starbucks continues to work on its operational efficiency & digital capabilities and reported the following 1Q24 accomplishments: Doordash partnership drove a +80% y/y increase in delivery sales (2% transaction mix); the new Siren System drove faster customization service speeds; and a continued rollout of its efficient Clover Vertica brewer (installed in 10% of U.S. stores during the quarter). Going forward promotions which are expected to help drive traffic include: the Milano Roast; its Oleato coffee platform; Valentine's Day promotions; and 3 new, yet-to-be-announced, beverage platforms in the next 6 months. |

Trial Copy

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| SG | Sweetgreen | Sweetgreen, an emerging "Better for You" fast-casual dining chain that includes 225 restaurants in 18 states & D.C., is moving towards profitability. Notably, the chain's new "Infinite Kitchen" automation, capable of improving store-level margins +7% by generating 500 bowls/hour, points to a new future for restaurant operations. |
| WEN | Wendy's | Wendy's reported that while the consumer is under pressure (resulting in a soft 4Q23 for the industry), prospects are looking up. The brand's barbell menu strategy is working well to address the traffic decline for low-income consumers (under $75k) with its Biggie Bag value platform while ensuring higher-income consumers are well served with premium Made to Crave offerings. |
| WING | Wingstop | Wingstop's impressive 4Q comp growth was especially notable because it was primarily driven by traffic during a time when the industry was suffering traffic losses. Management further noted that its sales benefit from competitive wing promotions which act to draw consumers into its own stores. Top-line growth is supported by an expanding marketing budget (the company's 2023 ad expense increased +35% y/y) fueled by an AUV closing in on the $2MM mark, together with an abundance of unit development (1,400 restaurant commitments under development agreement at the end of 2023). |
| YUM | Yum! Brands, Inc. | Taco Bell's continued strength has been a bright spot for Yum! as its 2023 U.S. system comps increased +8% (+3% 4Q23 growth) and it is notable that the brand has been able to hold onto its lower-income customers. However, KFC's U.S. comps were flat and Pizza Hut posted a U.S. comp decline of -4%. 2024 results are expected to benefit from: an increase in menu innovation across its 3 largest brands; the launch of KFC's loyalty program; and tech advances. |

# Chipotle's 4Q23 Revenues +15.5%, Comps +8.4%, Restaurant Level Op Margin +1.4%

Chipotle reported that its AUV now exceeds $3MM, driven by increased operational efficiency, resonating marketing campaigns, a growing loyalty program & product innovation (such as its successful carne asada LTO). 1Q24 comps are expected to be in the +2.5% to +3% range (reflecting adverse January weather conditions) with full-year FY24 comps up mid-single digits.

**Restaurant Sales Performance**

- 4Q23 system comp increase of +8.4% was driven by +7% traffic & +1% average check.
- Digital sales mix of 36% is supported by app & loyalty upgrades which include: order readiness messaging; wrong location detection; reminders to scan loyalty points at checkout; prior order history; suggestive upselling; and the addition of Freepotle which provides rewards members with up to 10 free food drops throughout the year.
- Expected AUV growth to $4MM will be driven by its rewards program, menu innovation & marketing.
- Chipotle opened a record 121 new restaurants (including 110 Chipotlanes, bringing the total to 800+) during the quarter.
- Plans to open between 285 & 315 new restaurants in 2024, with 80%+ having a Chipotlane.

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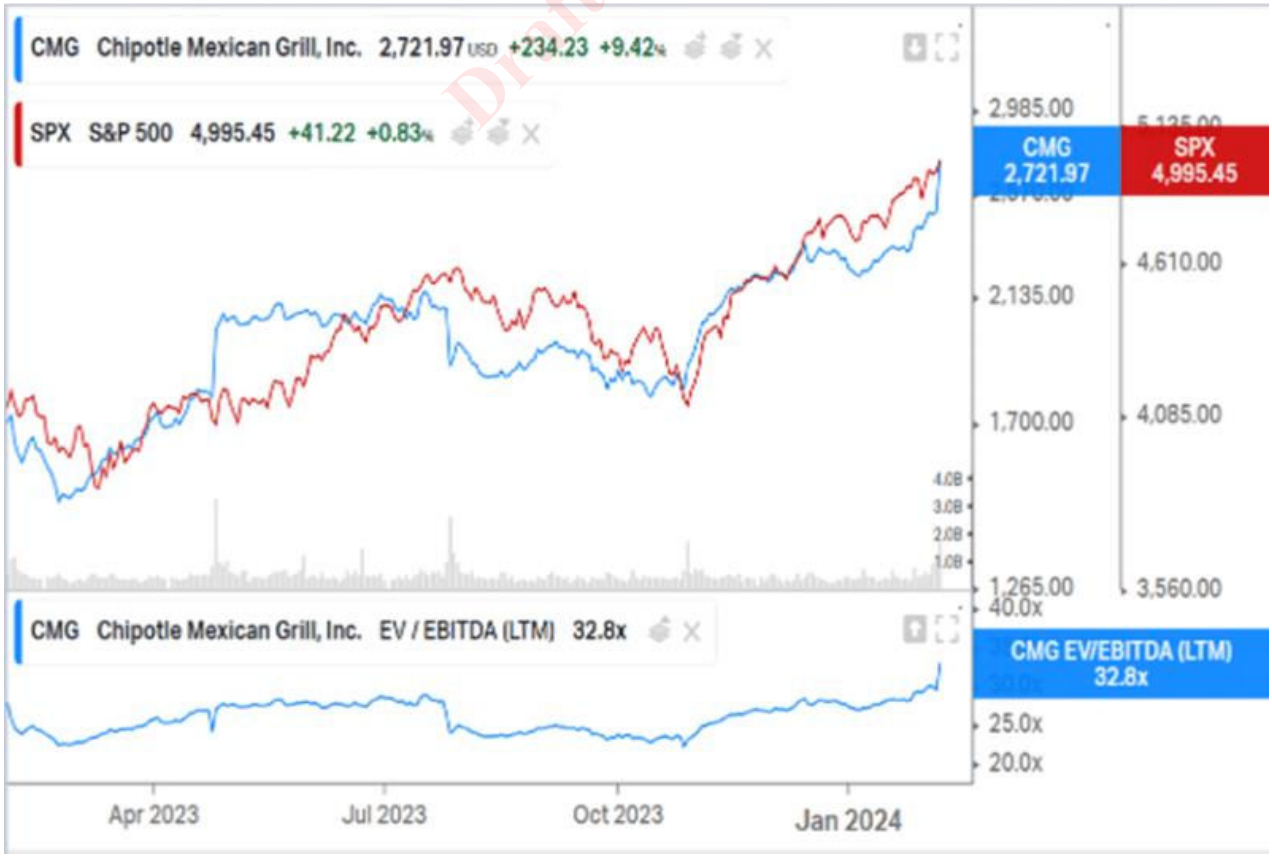
**Menu**

- Recently launched Lifestyle Bowls cater to many different healthy diets including plant-based, high protein, keto, or paleo.

**Margins**

- COGs during the quarter increased +40 bps y/y, reflecting: the mix shift driven by its successful carne asada LTO; & inflated beef, produce & queso prices.
- 1Q24 COGs are expected to improve slightly as the mix shifts out of its carne asada promotion even though this will be partially offset by avocado & tortilla inflation.
- FY24 food cost inflation is expected to be low to mid-single-digits.
- Wage inflation was in the low to mid-single-digit range & should increase to the mid-single-digit range as California wages increase +20% in April.
- GM turnover is at the lowest level in management's memory.
- 4Q23 restaurant-level operating margin increased +1.4% y/y to +25.4%.

| Chipotle | Rank (1 best - 80) | | 14 | | |
|---|---|---|---|---|---|
| | 4Q22 | 2Q23 | 3Q23 | 4Q23 | LTM |
| Total Revenues $MM | $2,369 | $2,515 | $2,472 | $2,516 | $9,872 |
| Total Revenues / CAGR 1Y | 17.2% | 13.6% | 11.3% | 15.4% | 14.3% |
| Gross Profit Margin % | 41.0% | 41.4% | 40.3% | 40.1% | 40.7% |
| SG&A Margin % | 6.3% | 6.2% | 6.5% | 6.7% | 6.4% |
| EBITDA Margin % | 19.1% | 21.0% | 19.5% | 18.1% | 19.4% |
| EBITDA / CAGR 1Y | 70.0% | 27.9% | 16.1% | 21.1% | 30.5% |
| Free Cash Flow/Revenue | 14.1% | 17.7% | 14.1% | 3.7% | 12.4% |
| Capex as % of Revenues | 5.1% | 5.5% | 5.3% | 6.8% | 5.7% |
| Return on Total Capital | 15.2% | 17.4% | 14.8% | 13.2% | 15.1% |
| Net Debt / EBITDA | 1.2 | 1.0 | 1.1 | 1.2 | 1.1 |
| EV / EBITDA (LTM) | 24.0 | 26.3 | 22.1 | 29.4 | 29.4 |




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# 4Q23 FSR Restaurants

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| BJRI | BJ's Restaurants Inc. | BJ's Restaurants continues to drive towards its 2019 16% restaurant-level margin level, with plans to implement $35MM in 4-wall cost savings opportunities that include menu simplification efforts and a push to optimize core menu items for both operational efficiency & overall menu appeal. The system's AUV will benefit from continued remodeling efforts which drive a +10% sales lift. |
| BLMN | Bloomin' Brands, Inc. | Bloomin' Brands reported that bad weather during the first few weeks of 2024 will pressure its 1Q24 comps by -1.3%, and resultantly, management is now guiding to a comp decline of between -50 bps to -2% y/y for the upcoming quarter. All-the-same, management reported that it expects sales growth going forward and noted that its Valentine's Day week represented the strongest week in its history. Bloomin' believes its full-year 2024 traffic performance will exceed the category, with its flat to -2% forecasted results expected to top -2% to -3% for the category. |
| EAT | Brinker International, Inc. | Brinker is guiding to mid-single-digit comp growth for its full FY24, even after its weather-driven sales difficulties during January. Increased TV advertising is boosting brand awareness and promises to drive traffic. All the same, management expressed caution over consumers who are more likely to shop value offers such as Chili's 3 for Me (with a 2Q24 +2% mix increase for its lowest $10.99 price point option). While loan & credit card past due balances are increasing because of resumed student loan payments, its customers are responding well to Brinker's increased TV advertising and menu improvements, which should help the chain's going forward mix performance. Notably, management reported that it has not observed any pullback in any of its consumer income demos. |
| CBRL | Cracker Barrel | Cracker Barrel is planning on a brand repositioning and in the coming weeks management will review: brand identity; menu; marketing; digital; and decor. Although the breakfast daypart, which is heart of the business, has remained strong, management seeks to address suffering retail sales and margin pressure. |
| DRI | Darden Restaurants, Inc. | Darden reported that industry same-restaurant sales decreased -1.3% and industry same-restaurant traffic decreased -4.8% during the quarter. This contrasts with Olive Garden's Never Ending Pasta Bowl promotion (offered at the same price point as last year) which drove a y/y demand increase and its highest refill rate ever. |

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| DENN | Denny's Corporation | Denny's reported that it does not have a lot of confidence in the general economy when looking into 2024 and this explains expectations for continued traffic pressure, especially from half of its customer base that earns less than $50k. However, on the plus side, recent Yelp data showed that there were 6,000 new restaurant openings in the breakfast category during 2023, revealing an enormous demand for a daypart that Denny's is well positioned in as America's Diner. |
| DIN | Dine Brands Global, Inc. | Both Applebee's & IHOP generated positive 2023 y/y comps in a difficult FSR operating environment. Applebee's going forward sales should benefit from its new website & mobile app (improving the brand's digital experience) and an emphasis on value & alcohol promotions. IHOP looks to build upon its 11 straight quarters of positive comps by recruiting more customers to its loyalty program (which represents a substantial growth opportunity). |
| SHAK | Shake Shack Inc. | Shake Shack continues to improve the customer experience by adding more drive-thrus and in-store kiosks (which drive higher checks). Further plans for improvement include: faster service time objectives; goal to reduce new build costs by -10%; and an increase in marketing partnerships (like its 2024 partnership with the Trolls movie). |
| TXRH | Texas Roadhouse Inc. | Texas Roadhouse reported that its restaurants are the busiest they've ever been, and that consumer behavior did not change during 4Q nor during the first 50 days of 2024. Management expects to continue facing inflationary pressures in 2024 (reflecting ongoing cattle supply challenges), albeit at a lower rate relative to the last several years. |
| CAKE | The Cheesecake Factory | Positive 4Q23 comps for all of The Cheesecake Factory Incorporated's brands was attributed to: menu innovation; maintaining the design & decor of its restaurants; delivering exceptional food quality; and good service. |

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# BJ's Restaurants, Inc. 4Q23: Comps +0.6%, Restaurant-Level Margin Up +1.5% to 14.4%

BJ's Restaurants continues to drive towards its 2019 16% restaurant-level margin level, with plans to implement $35MM in 4-wall cost savings opportunities that include menu simplification efforts and a push to optimize core menu items for both operational efficiency & overall menu appeal. The system's AUV will benefit from continued remodeling efforts which drive a +10% sales lift.

**Sales Performance**

- 4Q23 revenue increased +0.9% y/y (excluding the extra week in 2022), driven by a +0.6% comp increase (+7% to +8% pricing offset by a -6% traffic decline) which exceeded the industry average.
- While management is not seeing material changes in its dining room order mix, off-premise incidents & mix have turned negative. Further, party sizes have declined y/y.
- BJ's late-night daypart performed best during the quarter, with comps up low to mid-single digits. Management reported that its late-night authority is an established core competitive advantage.
- Long-term goal is to drive revenue growth of +8% to +10%, mid-to-single digit comps and +5% unit growth.

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**Menu**

- The chain's Brewhouse Fabulous Culinary Strategy, implemented in July 2023, introduced: a smaller menu that eliminated non-core menu items; plans to provide a better visual presentation for 50% of the menu; & plans to improve the value equation for 20% of its menu.
- Successful promotions during the quarter included the Spooky Pizookie Dessert in October and the Surf & Turf combo which boosted weekly sales by +$300 during the promotional period.

**Margin**

- 4Q23 restaurant-level margin increased +1.5% y/y to 14.4% and management believes it is very attainable for the chain to achieve its 2019's restaurant margin of 16%. Notably, management has identified $35MM in 4-wall cost savings opportunities to this end.
- A 1.3% y/y COGs improvement during the quarter was driven by a -1% q/q sequential decline in food costs as a switch to a new, more cost-effective meat sourcing program helped offset commodity inflation. 2023 food cost inflation of +1% would have been +3% higher without its savings initiatives.

- Labor costs decreased -0.3% y/y during the quarter, driven by: a simplified menu requiring less kitchen prep; numerous cost-saving initiatives applied to the labor model; and the tracking of labor efficiency metrics.
- 2024 labor inflation is expected to be in the mid-to-upper single digits and food cost inflation is expected to be in the flat-to-low single-digit range.

**Facilities**

- 36 remodels were completed in 2023 with another 20 planned for 2024. By the end of 2024, corporate expects half the system to either be remodeled or feature BJ's Liter prototype. Currently, there are 130 restaurants in the system that need to be remodeled.
- New restaurants opened after 2021 are generating weekly sales +10% higher than the system average, with restaurant-level margins in the mid-to-upper teens.
- Management seeks to reduce new build costs by -$1MM to $6.1MM net of landlord allowances. At the same time, management is working to reduce investment costs for its prototype by another -$500k.

| BJ's Restaurants Inc. | Rank (1 best - 80) | | 59 | | |
|---|---|---|---|---|---|
| | 1Q23 | 2Q23 | 3Q23 | 4Q23 | LTM |
| Total Revenues $MM | $341 | $350 | $319 | $324 | $1,333 |
| Total Revenues / CAGR 1Y | 14.2% | 6.1% | 2.3% | -6.0% | 3.8% |
| Gross Profit Margin % | 12.6% | 14.5% | 11.9% | 14.4% | 13.3% |
| SG&A Margin % | 5.8% | 6.1% | 6.1% | 6.7% | 6.2% |
| EBITDA Margin % | 6.6% | 8.3% | 5.3% | 7.6% | 7.0% |
| EBITDA / CAGR 1Y | 114.3% | 37.4% | 34.7% | 4.2% | 36.9% |
| Free Cash Flow/Revenue | 1.4% | -4.6% | 0.9% | N/a | N/a |
| Capex as % of Revenues | 7.9% | 7.4% | 9.1% | N/a | N/a |
| Return on Total Capital | 1.4% | 3.2% | -0.3% | 1.9% | 1.6% |
| Net Debt / EBITDA | 3.2 | 2.8 | 3.8 | 5.1 | 5.4 |
| EV / EBITDA (LTM) | 8.3 | 8.4 | 6.8 | 14.3 | 14.0 |

Draft Report



# 4Q23 Food Companies

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| ARKO | Arko Corp.<br><br>**(Convenience Store)** | ARKO Corp (sixth largest convenience store operator) is positioning 1Q24 for a high-single-digit decline in retail fuel gallons and a mid-single-digit comp decline for merchandise. Management says it doesn't want to blame bad weather for a weak start to 2024 and perhaps a better explanation is to look at the impact of inflation on the lower-income consumers in its rural markets (40% of the chain's stores are in towns with <20,000 people & 20% in towns that have 20,000 to 50,000 people.) However, management also noted that national fuel gallon demand is down -7% during 1Q, so it seems that the entire country is driving less. While part of this phenomenon must be attributable to an increasing EV mix, it raises the question: is everyone really hunkering down at home?? |
| CASY | Casey's General Stores Inc.<br><br>(**Grocery**) | Casey's General Stores reported strong sales for its Prepared Foods business, reflecting increased quality, menu innovation (including new crispy, spicy chicken sandwiches), and low prices compared to its QSR competitors. Notably, sales of whole pizza pies increased +11% (helped by its new thin crust option), bakery products were up +11% y/y, and apps & side items grew +9%. Growth in Prepared Foods was primarily driven by lower-income customers who are attracted to Casey's value & quality equation. Management noted that consumers, who have proven to be resilient, have not made real changes to their purchasing behavior. |
| CAG | Conagra Brands Inc.<br><br>**(Packaged Food)** | After tremendous initial resilience in the face of a record inflation super cycle, U.S. consumer behavior shifts emerged last spring as the cumulative effect of inflation caused consumers to begin to stretch their budgets by pivoting away from single-serve frozen meals in pursuit of more cost-effective multi-serve meals & scratch cooking. |
| DASH | DoorDash Inc.<br><br>**(Food Delivery)** | Over half of the new consumers in the U.S. today start their journey with DoorDash, and with 100 possible use cases per month for every consumer in terms of their consumption (whether that's eating or buying in retail), DoorDash believes it has a huge opportunity to increase order frequency. The company is already well established with 37MM monthly active customers and 7MM+ Dashers providing delivery services. Finally, management provided an update on its progress in grocery. |

Draft Report

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| GIS | General Mills Inc.<br><br>**(Packaged Food)** | General Mills reported that consumers are currently stressed by the cumulative impact of inflation over the past few years. Management further noted that it is over-indexed to the pet specialty channel which has not done particularly well. Going forward sales will be pressured by a difficult y/y comparison over SNAP emergency allotments paid to low-income consumers between January & March 2023, which drove a +1% benefit to the company's categories last year. |
| GO | Grocery Outlet Holding Corp.<br><br>**(Grocery)** | While food inflation has been moderating, consumers still face higher food prices & other financial burdens according to Grocery Outlet Holding Corp. Further, consumer pressure is aggravated by high interest rates & consumer credit. While this value-oriented chain is well positioned in today's economy, it reports a lower basket indicative of smaller, more frequent trips & moderating inflation (retail prices). |
| MDLZ | Mondelez International Inc.<br><br>**(Packaged Food)** | Mondelez's 4Q characterization of consumers: waiting to buy on promotions & not buying with the same frequency; downsizing & purchasing an increased volume of smaller formats; an increase in club & e-commerce channel mix; and less disposable income from SNAP reductions. However, the company's volume outlook is positive given its view that U.S. consumers have the most favorable perception of economic prospects in the last 2.5 years. |
| PEP | PepsiCo inc.<br><br>**(Packaged Food)** | PepsiCo reported a slowdown in its U.S. food & beverage categories during 4Q driven by: elevated prices; disposable income pressure; and a pivot away from in-home to away-from-home consumption in its U.S. business. Management feels good about the consumer in 2024 given: a low unemployment level; wage growth expected to exceed inflation; and an expected decline in interest rates by the summer. This confidence supports its guidance for +4% revenue growth for 2024. |
| PFGC | Performance Food Group<br><br>**(Food Suppliers)** | PFG's +8.7% y/y 2Q24 independent restaurant case volume growth accelerated from 1Q, partially reflecting market share gains. Independent restaurants represent a primary going-forward market focus for Performance Food Group. |
| SFM | Sprouts Farmers Market Inc.<br><br>**(Grocery)** | Sprouts Farmers is becoming a leading specialty food retailer that provides a broad assortment of differentiated, healthy, fresh, high-quality products that are hard to find. This strategic approach and specialty positioning allows the chain to focus on a highly profitable slice of the $1.6 trillion food-at-home space instead of trying to compete in an over-crowded broadline grocer space. |

Sample Report

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| SYY | Sysco Corporation<br><br>**(Food Suppliers)** | While Sysco (food supplier to restaurants & other service providers) had wins during the quarter in the travel, healthcare, education & non-national restaurant sectors, it is notable that sales to QSR clients generated its lowest margins. As the company's revenues have been outdistancing U.S. Broadline inflation (which was only slightly positive), SYY shares have rebounded nicely with investors rewarding it with a healthy EV/EBITDA valuation multiple. |
| KO | The Coca-Cola Company<br><br>**(Packaged Food)** | Coke reported that North American consumer spending in aggregate is holding up well although its unit case volume declined -1% as growth in juice, value-added dairy, plant-based beverages & legacy Coca-Cola was more than offset by a decline in water, sports, coffee, and tea. While inflationary pressures are moderating or stabilizing across most of Coke's markets, the cumulative impact of inflation is pressuring certain consumer segments who are seeking value. Resultantly, Coke increased its affordability offerings throughout 2023 sufficient to win volume & value share. |
| KHC | The Kraft Heinz Company<br><br>**(Packaged Food)** | Kraft reported that business was more challenging than originally anticipated during 4Q as the impact of higher interest rates continued to weigh on the consumer at the same time lapping excess SNAP benefits hit peak level. Notably, the resumption of student loan repayments in October 2023 is not expected to have a meaningful impact on sales at this point. In any case, management expects to drive top-line growth, return to positive volumes, and expand gross & operating margins during 2024. |
| TSN | Tyson Foods Inc.<br><br>**(Food Suppliers)** | The company reported a challenging consumer environment overall with increased competition both with branded players and private labels. While consumers still face high prices compared to 2 years ago, they are still willing to purchase brands they know & trust. While beef continues to be volatile, management expects more pork on the market this year. |
| UNFI | United Natural Foods Inc.<br><br>**(Food Suppliers)** | United Natural Foods reported that inflation rates are declining sequentially, yet consumers continue to endure the impact of structurally higher food prices. Management reported that while its inflation rate declined by -2% y/y during the quarter, it remains modestly above historical levels. To manage these higher prices, consumers continue to buy less and shift their purchases away from the grocery channel. This has led to negative volumes across the retail food industry and share gains for mass merchandisers & discounters. |
| USFD | US Foods Holding Corp.<br><br>**(Food Suppliers)** | US Foods Holding's full year 2024 guidance: net sales +5% to +8%; case volume growth +4% to +6%; and slight inflation of +0.5% to +1.5%. |

# Arko Corp 4Q23: Fuel Gallon Comps -7.5%, Merchandise Comps -2.8%

ARKO Corp (sixth largest convenience store operator) is positioning 1Q24 for a high-single-digit decline in retail fuel gallons and a mid-single-digit comp decline for merchandise. Management says it doesn't want to blame bad weather for a weak start to 2024 & perhaps a better explanation is to look at the impact of inflation on the lower-income consumers in its rural markets (40% of the chain's stores are in towns with <20,000 people & 20% in towns that have 20,000 to 50,000 people.) However, management also noted that national fuel gallon demand is down -7% during 1Q, so it seems that the entire country is driving less. While part of this phenomenon must be attributable to an increasing EV mix, it raises the question: is everyone really hunkering down at home??

ARKO Corp. is a family of community convenience store brands that offer fuel, prepared foods, beer, snacks, candy, hot & cold beverages, and multiple popular QSR restaurant brands. Over the past 18 months, the company has closed on 5 acquisitions, adding 200 retail stores & 520 new sites across its Wholesale & Fleet Fueling segments. Its Fas Rewards loyalty program offers exclusive savings on merchandise & gas.

Draft Report

| | For the Three Months Ended December 31, | | For the Year Ended December 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Fuel gallons sold | 279,035 | 251,658 | 1,122,321 | 1,006,469 |
| Same store fuel gallons sold decrease (%) [1] | (7.5%) | (8.3%) | (5.3%) | (8.1%) |
| Fuel contribution [2] | $ 109,336 | $ 104,304 | $ 435,322 | $ 416,228 |
| Fuel margin, cents per gallon [3] | 39.2 | 41.4 | 38.8 | 41.4 |
| Same store fuel contribution [1,2] | $ 86,183 | $ 99,778 | $ 360,141 | $ 406,262 |
| Same store merchandise sales (decrease) increase (%) [1] | (2.8%) | 1.2% | 0.4% | (1.0%) |
| Same store merchandise sales excluding cigarettes (decrease) increase (%) [1] | (1.8%) | 4.3% | 2.5% | 2.6% |
| Merchandise revenue | $ 446,727 | $ 403,084 | $ 1,838,001 | $ 1,647,642 |
| Merchandise contribution [4] | $ 146,773 | $ 122,771 | $ 585,122 | $ 501,219 |
| Merchandise margin [5] | 32.9% | 30.5% | 31.8% | 30.4% |
| Same store merchandise contribution [1,4] | $ 125,050 | $ 120,346 | $ 513,112 | $ 492,537 |
| Same store store operating expenses [1] | $ 164,925 | $ 162,019 | $ 660,082 | $ 647,396 |

**Key Points**

- The company's core destination categories (packaged beverages, candy, salty snacks, packaged sweet snacks, alternative snacks, & beer) drove 50%+ of its merchandise contribution during both 4Q & full-year 2023.
- While there is concern that less driving (-7.5% decline in 4Q fuel gallon comps) correlates with less merchandise sales (-2.8% during the quarter), management countered that its in-store sales should independently benefit from its loyalty program & new food offerings discussed below.
- Its Fas Rewards loyalty program exceeded 2MM enrolled members during the quarter, generating an average transaction of $12.70 which was +32% higher than non-enrolled members.
- The company continues to establish its food service credibility as it seeks to establish itself as a food destination. In 2023, the chain added bean-to-cup coffee in 391 locations, bringing the offering to 945 locations. A recent collaboration with Tyson resulted in the launch of a value-oriented chicken sandwich available for $2.99 for loyalty members ($3.99 for non-members). In January 2024, the chain launched a $4.99 pizza take-and-bake offering for members ($7.99 for non-members). 70%+ of those surveyed indicated they will purchase the pizza again.
- The company's strategy to optimize its fuel contribution at the site level (requiring a tradeoff between gallons sold & fuel margin) resulted in a +4.6% y/y increase in fuel contribution during 2023.
- However, a -3.5% y/y decline in its 2023 adjusted EBITDA reflected a large increase in-store operating and general & administrative expenses, reflecting the need to better integrate its acquisitions.
- The company's full-year 2024 guidance anticipates current trends to normalize coming out of 1Q24, with an average retail fuel margin from $0.35 to $0.39 during the first quarter ($0.392 during 4Q23).

Draft Report

| Arko Corp. | Rank (1 best - 80) | | 69 | | |
|---|---|---|---|---|---|
| | 1Q23 | 2Q23 | 3Q23 | 4Q23 | LTM |
| Total Revenues $MM | $2,089 | $2,469 | $2,622 | $2,233 | $9,413 |
| Total Revenues / CAGR 1Y | 5.9% | -2.8% | 7.0% | 2.4% | 3.0% |
| Gross Profit Margin % | 25.7% | 26.1% | 25.3% | 27.3% | 26.1% |
| SG&A Margin % | 11.2% | 10.6% | 10.3% | 11.7% | 10.9% |
| EBITDA Margin % | 1.9% | 3.2% | 3.1% | 2.7% | 2.8% |
| EBITDA / CAGR 1Y | -12.1% | 5.3% | -11.2% | -12.7% | -7.2% |
| Free Cash Flow/Revenue | -0.4% | 0.1% | 0.3% | 1.0% | 0.3% |
| Capex as % of Revenues | 1.1% | 1.1% | 1.0% | 1.6% | 1.2% |
| Return on Total Capital | 1.0% | 3.9% | 4.1% | 2.3% | 2.9% |
| Net Debt / EBITDA | 6.8 | 4.6 | 4.5 | 5.7 | 5.5 |
| EV / EBITDA (LTM) | 8.1 | 8.0 | 8.0 | 8.0 | 7.5 |




Draft Report

# 4Q23 Retail & Services

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| AAP | Advance Auto Parts Inc.<br><br>**(Auto)** | Advance Auto Parts is executing a turnaround and the key drivers of its industry remain strong according to management. The average age of vehicles continues to increase (12.5 years currently), while miles driven are projected to further increase this year, strengthening do-it-for-me demand. |
| AMZN | Amazon.com Inc.<br><br>**(Big Box Retail)** | As if Amazon's quarter wasn't sufficiently outstanding, the company is planning on expanding into medical services where it believes it can easily outperform an outdated healthcare system which requires consumers to schedule appointments far out in advance, drive 20 minutes to an appointment before waiting 15 minutes in an exam room to receive a prescription, and then driving even further to a pharmacy to pick up their prescription. |
| BBY | Best Buy Co. Inc.<br><br>**(Home Goods)** | While inflation has been slowing, prices for the basics like food & lodging are still much higher and consumers are prioritizing & making trade-off spending decisions according to Best Buy. Also, there continues to be a consumer propensity to spend on services like concerts & vacations in lieu of goods. Consumer electronic (CE) demand is pressured by: a relatively stagnant housing market; significant pull-forward of CE demand during the first 2 years of covid; less CE innovation post-covid; and remaining CE supply chain challenges. |
| KMX | CarMax Inc.<br><br>**(Auto)** | CarMax reported that used car affordability remains a challenge for consumers and that delinquency levels for its finance arm remain elevated versus historic norms (as is the case industry-wide). Notably, the company's $20k average vehicle sale price in 2019 has risen to $27k currently (+35%) and management hopes it will eventually decline to ~$25k. In any case, new cars are becoming more & more expensive. |
| COST | Costco Wholesale Corp.<br><br>**(Big Box Retail)** | Costco reported that discretionary merchandise trends are improving, helped by inflation during the quarter which was flat to +1% (someone please tell the Fed!). Notably, some deflationary items declined -20% to -30% during the quarter and deflation was more apparent in some big & bulky items like furniture sets due to lower freight costs. |

Sample Report

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| DG | **Dollar General Corporation**<br><br>**(Big Box Retail)** | Dollar General reported that positive traffic for the last 2 quarters reveals that their customers are getting healthier. Management can tell by observing transaction data (units & mix) that consumers are finally figuring out their expenses in light of the post-covid inflationary shock. Customers are starting to purchase more discretionary items and a continued increase in CPG promotional activity is expected to encourage even more spend. 1Q24 comps are expected to increase +1.5% to +2%. |
| DLTR | **Dollar Tree Inc.**<br><br>**(Big Box Retail)** | Dollar Tree Inc. plans to close 600 Family Dollar stores during 1H24 and an additional 370 Family Dollar & 30 Dollar Tree stores at the end of their lease terms (8,415 Dollar Tree stores at the end of 4Q). While this means $730MM less in annual revenues, it is expected to boost its annual EPS by $0.30. Management noted that persistent inflation and reduced government benefits continue to pressure the lower-income consumers that comprise a sizable portion of Family Dollar's customer base. Accordingly, Family Dollar's discretionary comp declined by more than -12% y/y during the quarter. |
| H | **Hyatt Hotels Corporation**<br><br>**(Hotel)** | The recovery in travel demand is well illustrated by a +39% increase from 4Q19 to 4Q23 in fees generated by Hyatt's legacy management and franchise business. |
| LOW | **Lowe's Companies Inc.**<br><br>**(Home Improvement)** | Despite near-term consumer uncertainty, Lowes remains bullish over the medium & long term given the following business drivers: healthy disposable personal income; ongoing home price appreciation; an aging housing stock; the chronic undersupply of homes; millennial household formation; baby boomers deciding to age in place; and a sustained number of people working from home. |
| MAR | **Mariott International Inc.**<br><br>**(Hotel)** | Marriott recently reported at its 9/23 investor conference that consumers have been prioritizing experiences over goods post-covid. According to Mastercard, as of March 2023, spending on travel & experiences increased +65% over 2019 levels, compared to spending on goods, which had risen only +12% over 2019. Further, a recent survey by the American Society of Travel Advisors found that nearly 50% of respondents in the U.S. ranked a vacation as their top discretionary spend. This is 2x the second choice of home improvement or renovation. This momentum carried over into Marriott's 4Q23 results. |

Draft Report

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| ORLY | O'Reilly Automotive Inc.<br><br>**(Auto)** | Due to the resiliency of its customers and the nondiscretionary nature of its business, O'Reilly has confidence that its industry will perform well in 2024, even if the broader economy ends up facing challenges. In any case, O'Reilly's full-year 2024 outlook is based upon an assumption of a reasonably stable economic environment. |
| TGT | Target Corporation<br><br>**(Big Box Retail)** | Target reported a mixed consumer outlook, with many feeling stretched and making trade-offs to meet the needs of their families while also indulging in the occasional luxury. |
| GPS | The Gap Inc.<br><br>(**Home Improvement**) | The Gap reported that its 4Q23 store sales increased +4% y/y while its online sales declined -2% y/y to a 40% sales mix. Comps by brand: Old Navy +2%; Gap Brand's +4%; Banana Republic -4%; and Athleta -10%. The company managed to increase its gross margin by +5.3% y/y during the quarter, helped by lower input costs and improved promotional activity. A turnaround in its financial performance also included a -16% y/y inventory reduction and $1.1B+ in 2023 free cash flow generation which helped drive the company's cash balance to $1.9B at year-end 2023. |
| HD | The Home Depot Inc.<br><br>**(Home Improvement)** | Long-term drivers for Home Depot's business include: an aging housing stock with 50%+ of homes now 40+ years old; an ongoing shortage of homes of between 2-6MM units; & a sustained work-from-home trend. A shortage of new homes is good for Home Depot's business as consumers are forced to fix up their aging housing stock & it is forecasted that during 2024 demand will exceed the supply for new homes by 200,000. |

Draft Report

| Ticker | Company | 4Q23 Summary |
|---|---|---|
| TJX | **The TJX Companies, Inc.**<br><br>**(Apparel)** | The TJX Companies (including T.J. Maxx, Marshalls & HomeGoods chains) reported solid results for another quarter by supplying the burgeoning demand from a younger demo for its affordable luxury merchandise. The company's impressive growth is notable given tepid industry sales for both the clothing & accessories and furniture & home furnishings retail categories. |
| WBA | **Walgreens Boots Alliance**<br><br>**(Pharmacy Retail)** | Walgreens reported accumulating consumer pressures from inflation & depleted savings and somewhat slower-than-anticipated market trends in pharmacy prescription volumes, including impacts from a weaker respiratory season and Medicaid redetermination. Third-party data showed flu, cold and respiratory activity was down -13.5% y/y. |
| WMT | **Walmart Inc.**<br><br>**(Big Box Retail)** | Walmart's management was encouraged by the strength of its unit and transaction growth during the quarter. The retailer gained a share in almost every category, with a substantial contribution from households earning $100k+. In its general merchandise category, two-thirds of its share gains were driven by new high-income customers & digital sales (the company passed $100B in global eCommerce sales for the first time during the year). In any case, Walmart's value & convenience resonates with consumers of all income levels, driving traffic & share. |

Draft Report

# Advance Auto Parts, Inc 4Q23: Net Sales -0.4%, Gross Profit -8.3%

Advance Auto Parts is executing a turnaround and the key drivers of its industry remain strong according to management. The average age of vehicles continues to increase (12.5 years currently), while miles driven are projected to further increase this year, strengthening do-it-for-me demand.

**Sales**

- 4Q net sales declined -0.4% y/y and comparable store sales decreased -1.4%. This was primarily driven by softness in DIY (do it yourself) throughout the quarter and particularly in the last 4 weeks of the year.
- The West & Northeast were the top-performing regions, while the Mid-Atlantic & Midwest were the most challenged during the quarter and impacted by unfavorable weather.
- Full-year 2023 net sales increased +1.2% y/y and comparable store sales declined -0.3%.

Draft Report

**Margins**

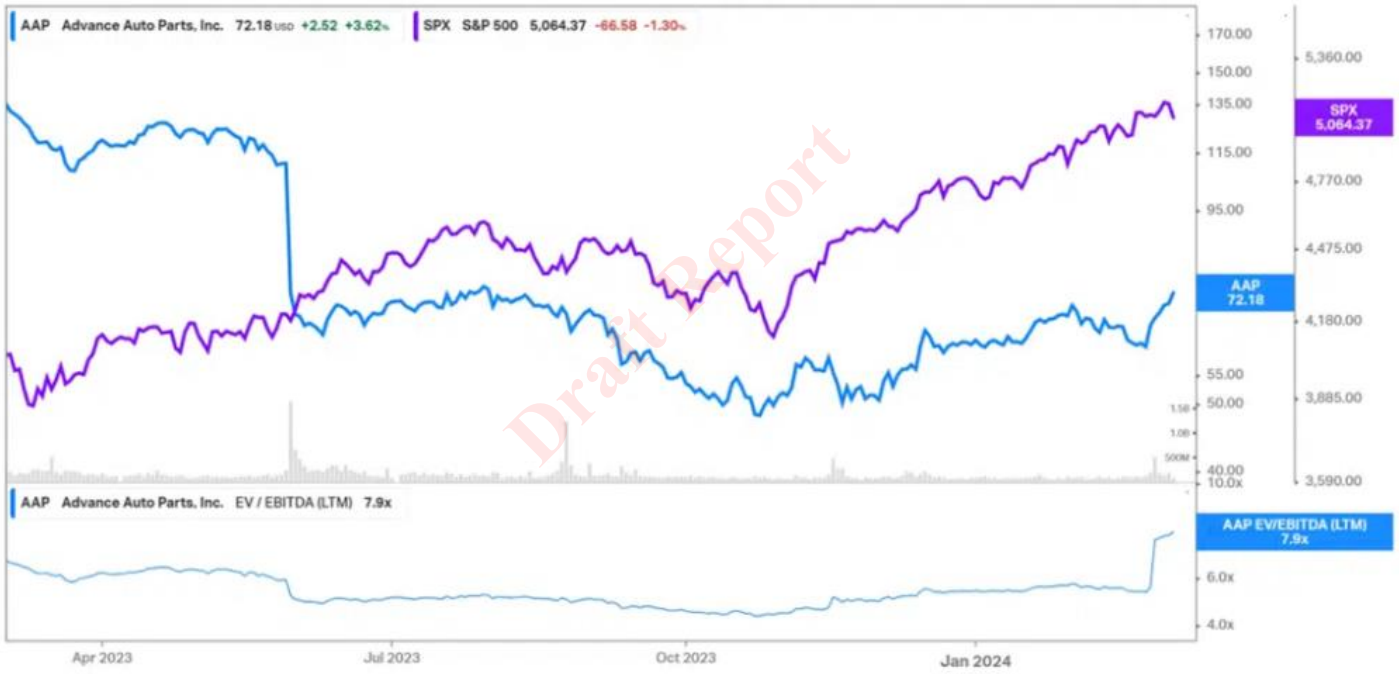
- 4Q23 gross profit decreased -8.3% y/y, reflecting a -4% y/y gross profit margin contraction to 40.1%.
- The company's full-year 2023 operating income decreased -83% y/y to $114MM.
- The company's new management team has implemented significant cost reductions by eliminating superfluous roles and initiatives that will result in at least $150MM of SG&A savings in 2024. In turn, management will reinvest $50MM to increase front-line wages, bonus programs, and enhanced training.
- Management also plans to consolidate its supply chain into a single, unified network. This initiative will be funded by the company's potential divestiture of Worldpac and the company's Canada business. Worldpac is an automotive wholesale distributor of original equipment and aftermarket parts for all makes/all models. The company's Canadian business, which predominantly serves commercial customers, goes to market under the Carquest banner.

**Outlook**

- Management expects continued 2024 pressure on the DIY consumer offset by a DIFM (do it for me) improvement and modest inflation. Full-year 2024 net sales are expected at $11.3B to $11.4B (vs. $11.3B during 2023), comparable store sales of 0% to +1%, and an operating income margin of 3.2% to 3.5% (1% during 2023). +1% inflation is expected for 2024.

# NoBull Quarterly Corporate Analysis

| Advance Auto Parts Inc. | Rank (1 best - 80) | | 72 | | |
|---|---|---|---|---|---|
| | 1Q23 | 2Q23 | 3Q23 | 4Q23 | LTM |
| Total Revenues $MM | $3,418 | $2,686 | $2,719 | $2,465 | $11,288 |
| Total Revenues / CAGR 1Y | 1.3% | 0.8% | 2.9% | -0.4% | 1.2% |
| Gross Profit Margin % | 43.0% | 42.6% | 36.3% | 38.6% | 40.1% |
| SG&A Margin % | 40.4% | 37.1% | 37.9% | 40.6% | 39.1% |
| EBITDA Margin % | 5.3% | 8.2% | 1.0% | 0.9% | 3.7% |
| EBITDA / CAGR 1Y | -36.8% | -11.2% | -88.1% | -89.1% | -59.4% |
| Free Cash Flow/Revenue | -13.7% | 5.9% | 5.6% | 8.1% | 0.4% |
| Capex as % of Revenues | 2.6% | 2.0% | 1.6% | 2.2% | 2.2% |
| Return on Total Capital | 3.2% | 5.1% | -1.5% | -1.7% | 1.0% |
| Net Debt / EBITDA | 2.7 | 4.9 | 5.1 | 5.6 | 3.8 |
| EV / EBITDA (LTM) | 5.2 | 5.1 | 5.2 | 7.6 | 7.8 |



# Retail Financial Research

## Brand Positioning & Benchmarking

- Strategy
- Competitive Intelligence
- Investing
- Economic Analysis
- Consumer Insights
- Trend Forecasting

**Covering 80+ Companies**

***Research products to boost your retail consumer business IQ***

| NoBull Retail Company Coverage | | | |
|---|---|---|---|
| **Apparel** | **FSR** | **Home Goods** | **QSR** |
| Burlington Stores | BJ's Restaurants | Best Buy | BurgerFi |
| Lululemon Athletica | Bloomin' Brands | Williams-Sonoma | Chipotle |
| Ross Stores | Brinker International | **Home Improvement** | Domino's Pizza |
| The Gap | Cracker Barrel | Lowe's | Dutch Bros |
| The TJX Companies | Darden Restaurants | The Home Depot | El Pollo Loco |
| **Auto** | Denny's Corporation | **Hotels** | Jack in the Box |
| Advance Auto Parts | Dine Brands Global | Choice Hotels | Krispy Kreme |
| AutoZone | Red Robin | Hilton | McDonald's |
| CarMax | Shake Shack | Hyatt Hotels | Papa John's |
| O'Reilly Automotive | Texas Roadhouse | Marriott | Potbelly |
| **Big Box** | The Cheesecake Factory | **Packaged Foods** | Starbucks |
| Amazon.com | **Grocery** | Coca-Cola | Sweetgreen |
| Costco Wholesale | Albertsons | Conagra Brands | Wendy's |
| Dollar General | Arko Corp. | General Mills | Wingstop |
| Dollar Tree | Casey's General Stores | J&J Snack Foods | Yum! Brands |
| Target | Grocery Outlet Holding | Kellogg Company | **Pharmacy** |
| Walmart | Ingles Markets | Mondelez | CVS Health |
| **Food Suppliers** | Sprouts Farmers Market | PepsiCo | Walgreens Boots |
| Beyond Meat | The Kroger Co. | The Kraft Heinz Company | **Other** |
| Performance Food Group | United Natural Foods | United Natural Foods | DoorDash |
| Sysco Corporation | Village Super Market | | FedEx |
| The Chefs' Warehouse | Weis Markets | | |
| Tyson Foods | | | |
| US Foods | | | |

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