Goldman Sachs

Global Investment Research

The Goldman Sachs Group, Inc.

The US Consumer 2022 Outlook

Deep dive consumer analysis points to bifurcation across the sector

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Agenda

We are less constructive on discretionary names and more constructive on defensive pockets within our coverage

- Macro View – Out like a lion, In like a lamb
  - Income growth to slow after stellar years of growth
  - Cash in the consumer's wallet shrinks net of inflation
  - Normalization of savings rate a powerful offset
  - Outlook deviates meaningfully across income cohorts
  - Retained savings benefit is equally skewed
  - Look for consumer fundamentals to bifurcate in 2022 with lower income consumers bearing brunt of income pressure

- Themes in focus
  1. Share of wallet shifts - Reopening drives "normalization" but not yet "normal"
  2. Pricing power - Distinguishing leaders/laggards
  3. Supply chain issues - Expect little alleviation until at least 2H of 2022
  4. Labor & freight inflation in focus - Favor franchised restaurants, hotel c-corps, cruise lines and goods manufacturers

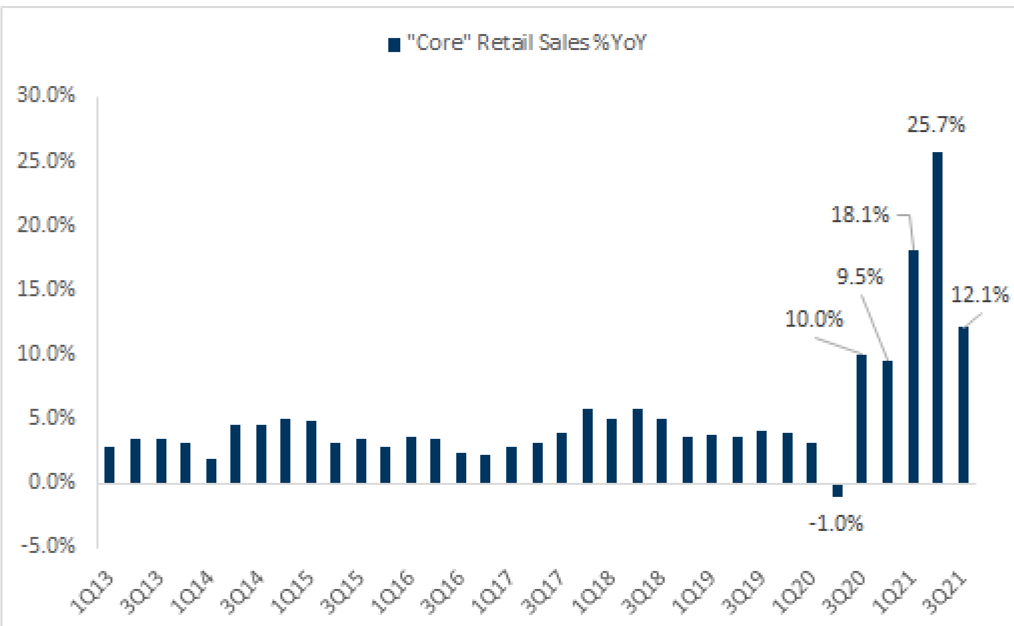
- Views by sector

- Q&A

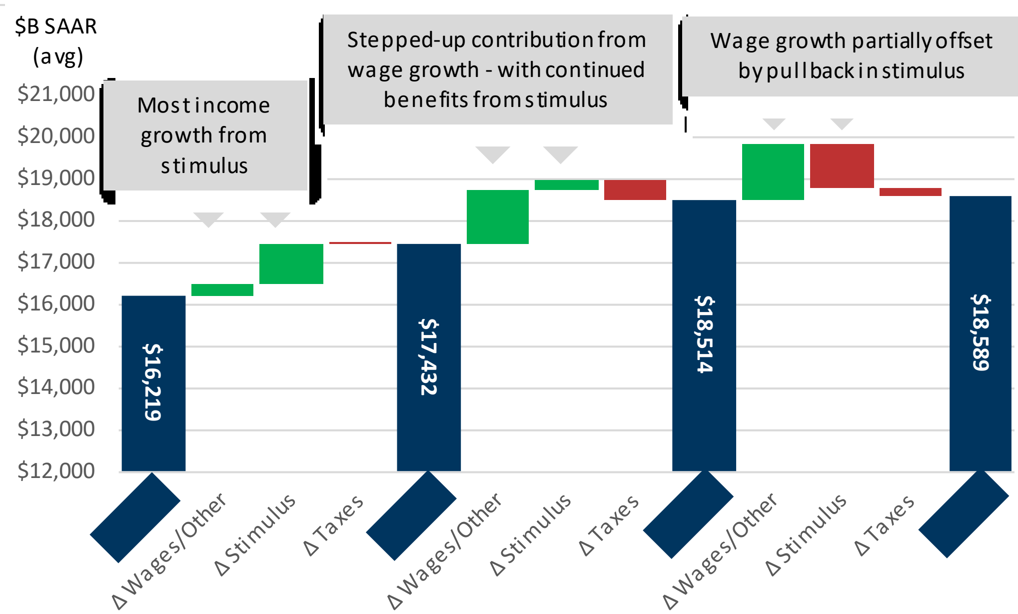
The macro view: Income growth to slow after stellar years of growth

- In 2020 & 2021 discretionary personal income post the most robust growth seen in a decade
- Spending followed, with core retail sales achieving 5 years' worth of growth in last 4 quarters alone
- In 2022, much of the stimulus benefit is likely to go away, largely offsetting what is likely to be another strong year of wage growth
- Disposable personal income is expected to be flatfish in 2022, albeit at levels still well above 2019

"Core" retail sales inflected sharply after a brief dip in 2Q20 and peaked in mid-2021 behind stimulus



Overall disposable personal income ($B, SAAR) is likely to be up slightly y/y in 2022 after increasing in both 2020 & 2021, although wage growth will be almost fully offset by the pullback in stimulus

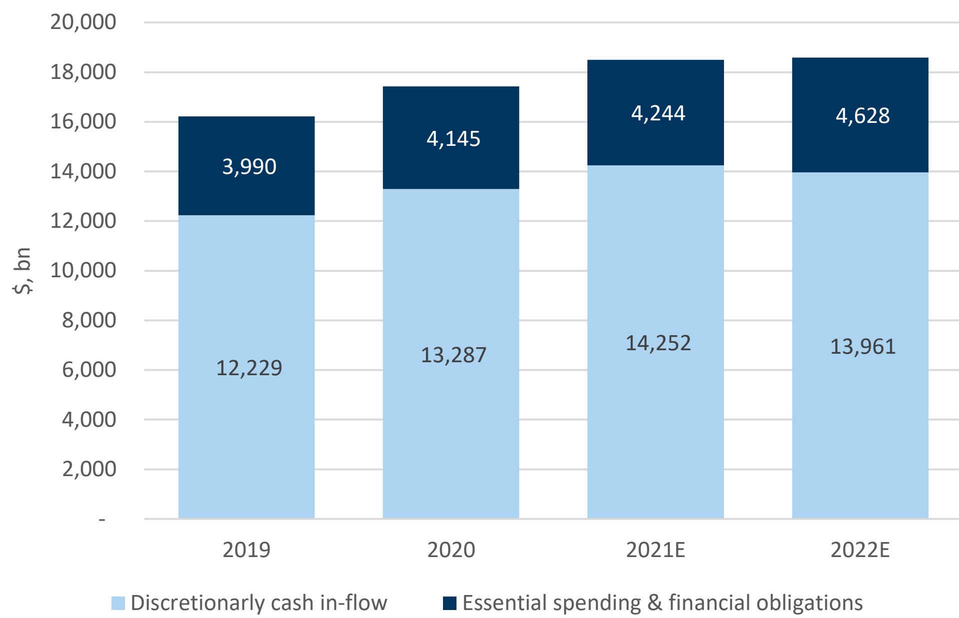


Source: Census Bureau, US Bureau of Economic Analysis (BEA), Goldman Sachs Global Investment Research

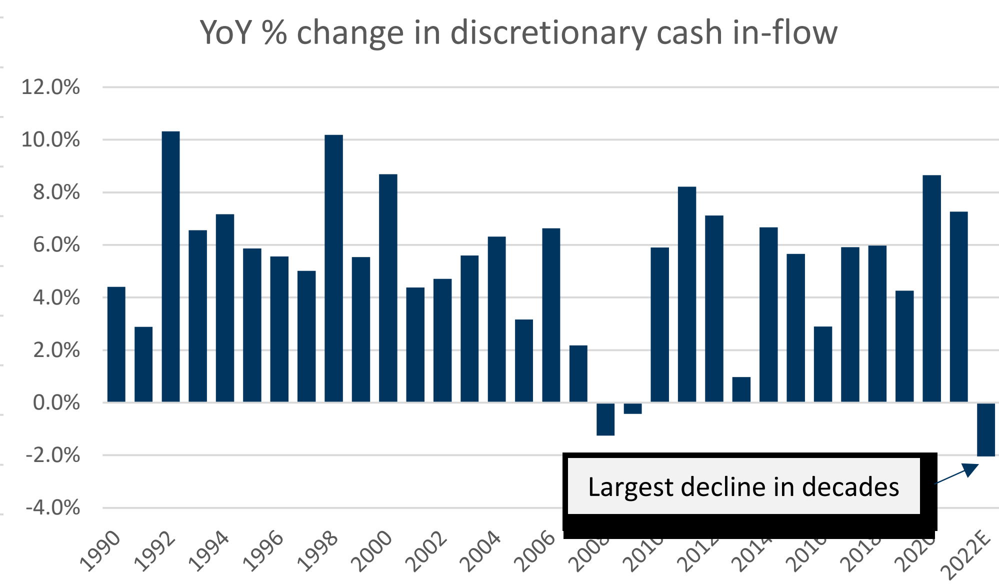
Cash in the consumer's wallet shrinks net of inflation

- Modest DPI growth to be accompanied by more than modest step-up in obligatory expenditures, resulting in the first decline in discretionary cash in-flows since the last recession
- Inflation drives essential expenditures higher (+3.9% in FY22, with risk perhaps skewing higher)
- Financial obligations move higher (+9.7% y/y), especially as lower-income consumers will be lapping tailwinds such as the eviction moratorium and mortgage forbearance

Higher essential expenditures and financial obligations are expected to weigh on DPI, driving overall US household discretionary cash in-flows down YoY



Overall disposable cash in-flows (net of obligatory expenditures) is expected to decline for the first time since the Great Recession



Source: Census Bureau, US Bureau of Economic Analysis (BEA), Goldman Sachs Global Investment Research

Normalization of savings rate a powerful offset

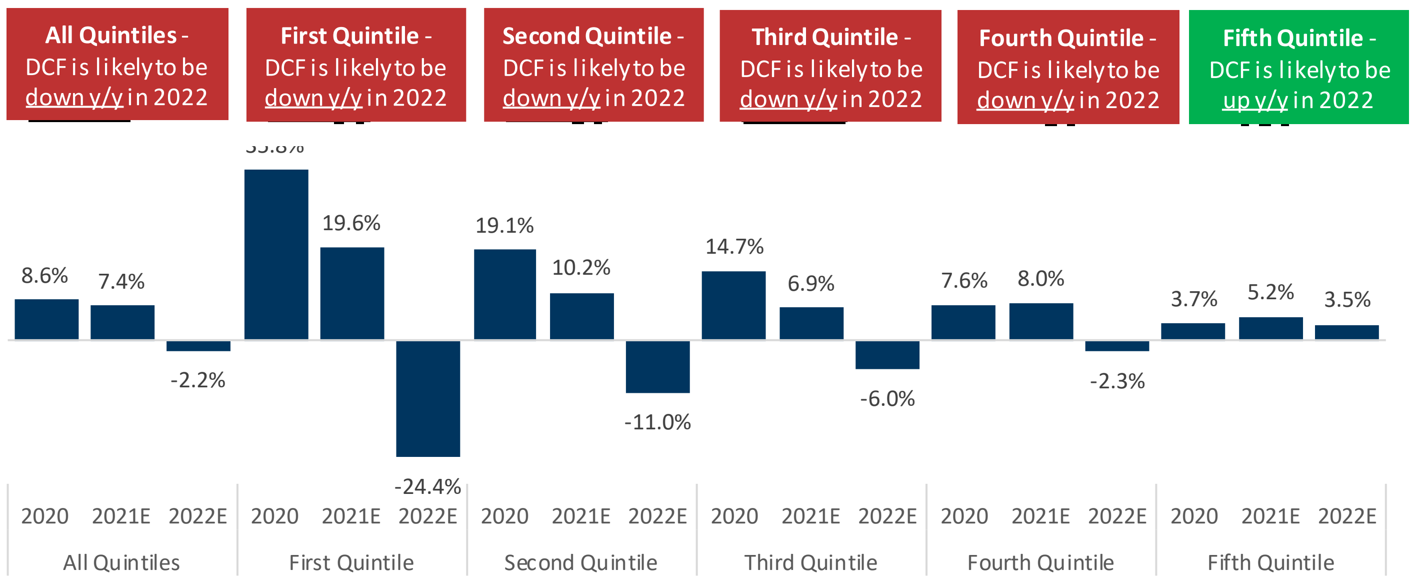
- US Consumers have accrued roughly $2.5 tn of excess savings. The combination of a normalization of savings rate and excess draw-down is expected to fuel a 6% YoY increase in spending power (savings-adjusted discretionary cash flow) despite lower cash in-flow to consumer

	2019	2020	2021E	1Q22E	2Q22E	3Q22E	4Q22E	2022E	
Disposable Personal Income	**$16,219**	**$17,432**	**$18,496**	**$4,577**	**$4,622**	**$4,673**	**$4,717**	**$18,589**	
% change	**3.8%**	**7.5%**	**6.1%**	**-6.4%**	**2.0%**	**3.7%**	**3.2%**	**0.5%**	
Cash adjustments	$440	$484	$480	$137	$117	$123	$118	$495	
% change	**13.5%**	**9.9%**	**-0.8%**	**2.5%**	**3.1%**	**5.6%**	**1.2%**	**3.1%**	
"Cash income"	**$16,660**	**$17,916**	**$18,976**	**$4,713**	**$4,740**	**$4,795**	**$4,835**	**$19,083**	
% change	**4.0%**	**7.5%**	**5.9%**	**-6.1%**	**2.0%**	**3.7%**	**3.2%**	**0.6%**	**<--- 2022 cash income up slightly y/y (with negative growth in 1Q22 on lower stimulus)**
Borrowing	$182	$3	$197	$37	$39	$43	$44	$163	
% change	2.6%	-98.3%	6441.5%	26.1%	-49.5%	-30.2%	51.2%	-17.2%	
Total household cash flow	**$16,926**	**$18,068**	**$19,321**	**$4,780**	**$4,803**	**$4,882**	**$4,926**	**$19,392**	
% change	**4.0%**	**6.7%**	**6.9%**	**-5.9%**	**1.2%**	**3.2%**	**3.4%**	**0.4%**	
Financial obligations	-$2,471	-$2,520	-$2,582	-$701	-$708	-$715	-$722	-$2,846	
% of DPI	15.2%	14.5%	14.0%	15.3%	15.3%	15.3%	15.3%	15.3%	
% change	4.5%	2.0%	2.5%	11.3%	13.1%	11.7%	5.3%	10.2%	**<--- Financial obligations and essential expenditures to rise with inflation/rates**
Essential spending[(2)]	-$2,225	-$2,262	-$2,488	-$642	-$648	-$654	-$641	-$2,585	
% change	2.0%	1.6%	10.0%	6.5%	4.8%	3.2%	1.2%	3.9%	
Discretionary cash flow	**$12,229**	**$13,287**	**$14,252**	**$3,437**	**$3,448**	**$3,512**	**$3,564**	**$13,961**	
$ change	**$499.1**	**$1,057.6**	**$964.8**	**-$410.7**	**-$55.4**	**$56.9**	**$118.5**	**-$290.8**	**<--- 2022 Discretionary cash flow (what consumer can spend) poised to decline**
% change	**4.3%**	**8.6%**	**7.3%**	**-10.7%**	**-1.6%**	**1.6%**	**3.4%**	**-2.0%**	
Savings adjustment									
Savings rate (% of income)	**7.6%**	**16.4%**	**12.1%**	**7.0%**	**6.7%**	**6.7%**	**6.6%**	**6.8%**	
YoY chg	0.0%	8.7%	-4.3%	-13.9%	-4.1%	-2.1%	-1.1%	-5.3%	**<--- Sustained expenditure growth is predicated on sizable drop in savings**
Savings from cash flow	**$1,421**	**$2,856**	**$2,432**	**$356**	**$349**	**$357**	**$357**	**$1,419**	
Adj. discretionary cash flow	**$10,809**	**$10,431**	**$11,820**	**$3,081**	**$3,098**	**$3,156**	**$3,207**	**$12,542**	
% change	**4.3%**	**-3.5%**	**13.3%**	**10.0%**	**5.6%**	**5.4%**	**4.8%**	**6.1%**	

Source: Census Bureau, US Bureau of Economic Analysis (BEA), Goldman Sachs Global Investment Research

Outlook deviates meaningfully across income cohorts

Y/Y % change in discretionary cash in-flow overall & by income quintile for 2020, 2021 & 2022 ($B, SAAR)



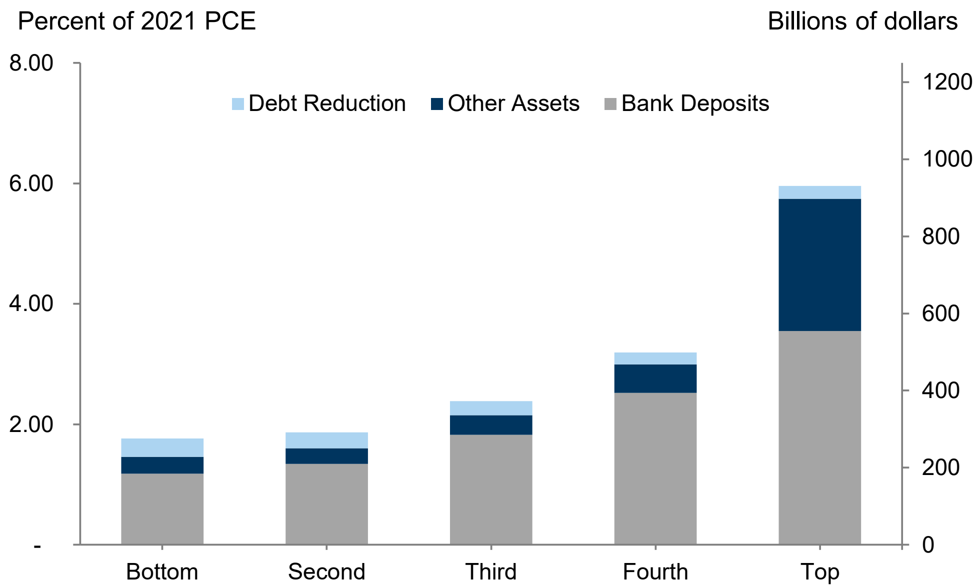
- Lower income consumer wallets poised to shrink meaningfully:
  - Sizable YoY stimulus drop and while wages are up, only a little more than 30% of income comes from wages for bottom quintile
  - Inflation pressure most pronounced for this group with financial obligations and essential expenditures accounting for close to 40% of cash income vs. closer to 20% for high income consumers.
- Upper income consumers faring well with minimal change in y/y income & ample retained spending power – and will likely see an increase in discretionary cash in 2022

Source: US Bureau of Economic Analysis (BEA), Goldman Sachs Global Investment Research

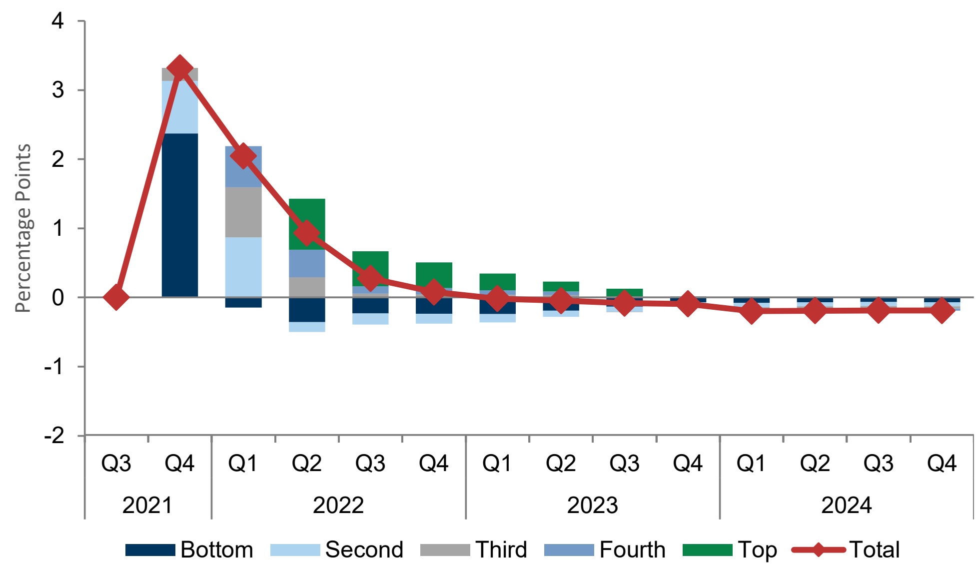
Retained savings benefit is equally skewed

- Draw-down of excess savings is expected to support personal consumption expenditure growth will into 2023, but…
- The majority of savings reside with upper income cohorts and…
- The draw-down of savings for the bottom two income quintiles is not expected to support PCE growth beyond 1Q22

We believe that more than 60% or retained savings reside with the top two income quintiles



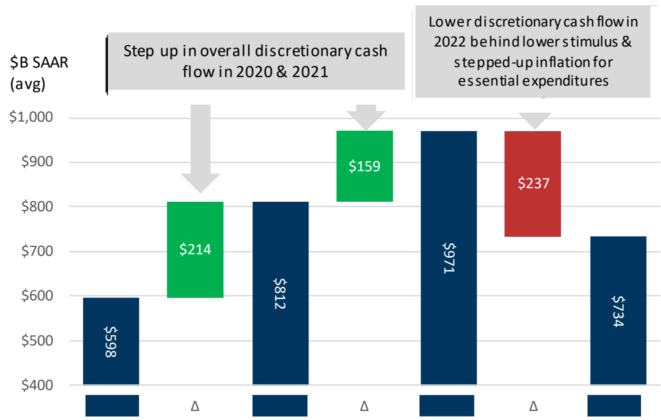
Our economists expect that excess savings will no longer be supporting personal consumption expenditure growth for the bottom two quintiles by 2Q22



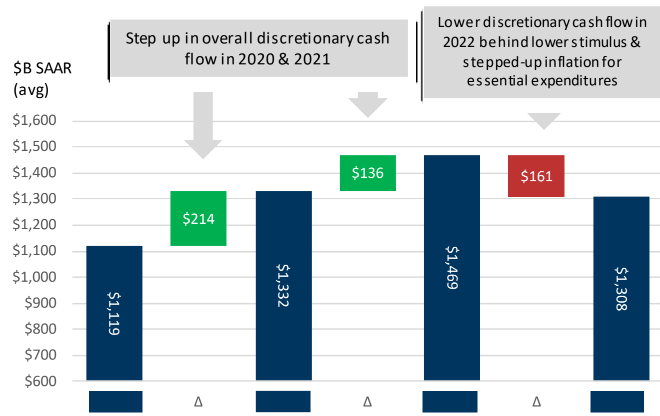
Source: Goldman Sachs Global Investment Research

DCF view: A closer look at disposable cash in-flow by quintile

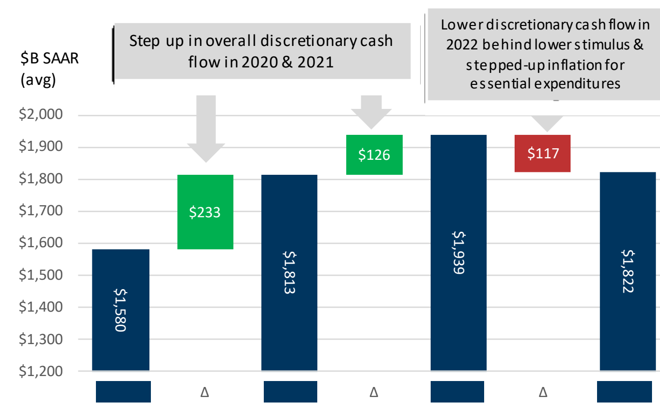
Lowest income quintile: Wage growth coming out of the pandemic likely to be more than offset by pullback in govt. stimulus & inflation



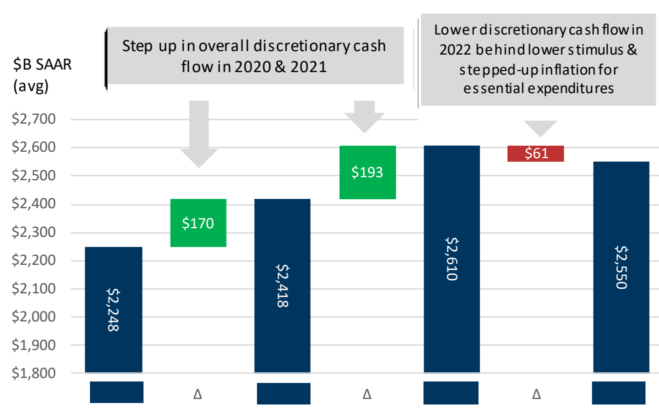
Second income quintile: Also likely to be pressured, albeit to a slightly lesser degree than the lowest income consumer quintile



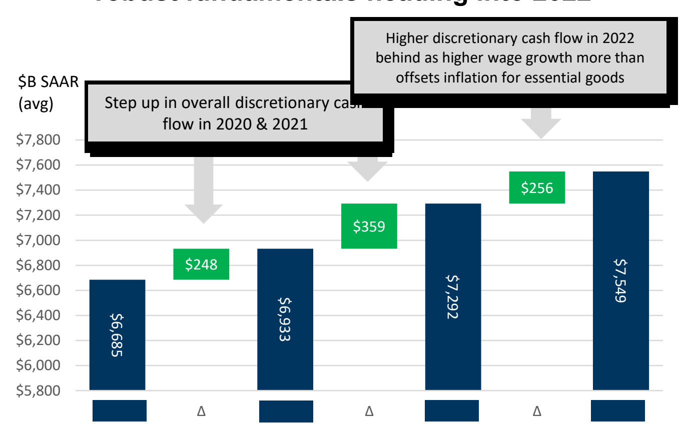
Middle income quintile: Likely to see wage growth be more than offset by the pullback in stimulus (although effect of lower stimulus to be less pronounced vs bottom two cohorts)



Fourth income quintile: Strong wage growth is likely to be largely offset by the pullback in stimulus; also not likely to be immune from stepped-up inflationary pressures



Highest income quintile: Strong wage growth and limited effects from lower stimulus should support robust fundamentals heading into 2022



Source: US Bureau of Economic Analysis (BEA), Goldman Sachs Global Investment Research

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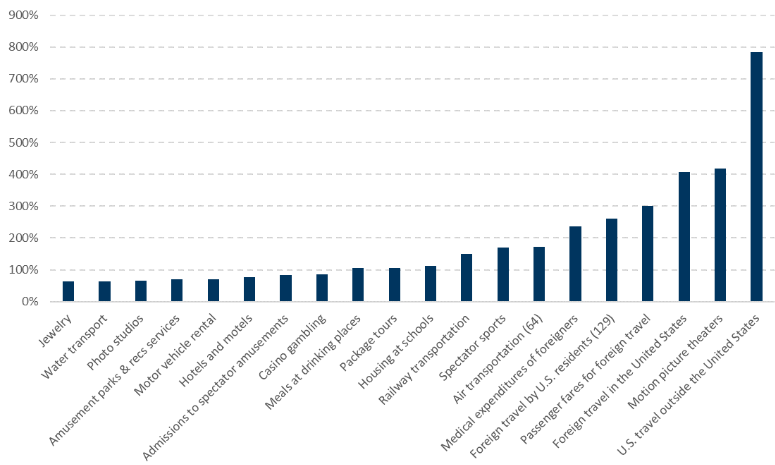
Theme 1: Share of wallet shifts

Reopening drives “normalization” but not yet “normal”

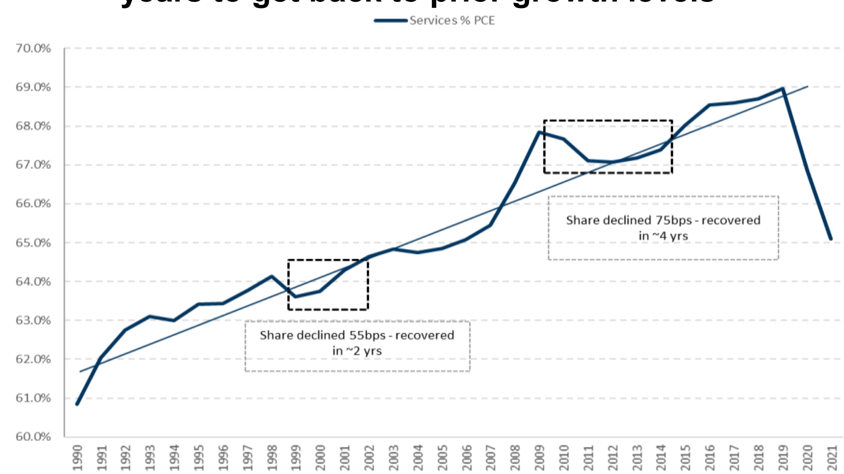
Share donors thru Covid were share gainers in 2021…



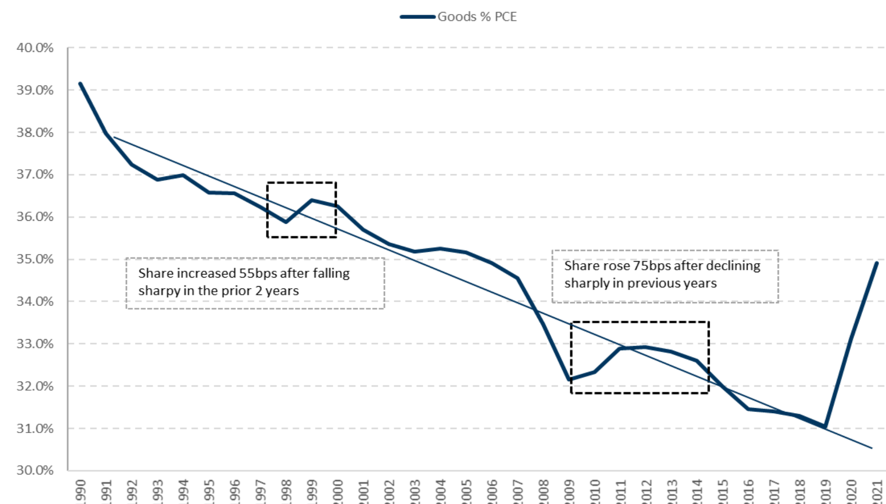
…however, growth today remains below historical averages

Categories of spending - share of total	2021'TD	Vs. Hist.
Gasoline and other energy goods (NDG)	2.2%	(91bps)
Clothing and footwear (NDG)	3.0%	(4bps)
Luggage and similar personal items (DG)	0.2%	2
Physician services (S)	1.0%	(3bps)
Dental services (S)	0.2%	(4bps)
Motor vehicle services (S)	1.9%	(14bps)
Ground transportation (S)	0.2%	(16bps)
Air transportation (S)	0.5%	(25bps)
Membership clubs, sports centers, parks, theaters (S)	0.7%	(74bps)
Gambling (S)	1.0%	(9bps)
Food services (S)	5.7%	24
Accommodations - Hotels, Motels, Housing at Schools (S)	0.7%	(35bps)
Personal care services (S)	0.7%	(29bps)
Clothing/ footwear services - laundry, dry cleaning, etc. (S)	0.1%	(3bps)
Foreign travel by U.S. residents (S)	0.5%	(64bps)
Aggregate of the above listed categories	**18.6%**	**(347bps)**

If history is any guide, the service sector took 2-4 years to get back to prior growth levels



As the service sector dropped, the goods sector excelled



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Theme 1: Share of wallet shifts

Reopening drives "normalization" but not yet "normal"

The fastest growing categories in 2021 are all among those still the furthest off 2019 levels as a share of spend

	2021	'21 vs. '19	
	% PCE	% PCE	Abs
Recreation services	3.1%	(94bps)	-17%
Transportation services	2.6%	(80bps)	-17%
Hospital & nursing home services	8.8%	(41bps)	3%
Accommodations	0.7%	(40bps)	-32%
Personal care & clothing services	0.8%	(40bps)	-27%
Outpatient services	7.5%	(38bps)	3%
Education services	1.8%	(22bps)	-4%
Food services	5.7%	(16bps)	5%
Bottom Third	**31.1%**	**(372bps)**	-4%
Clothing and footwear	3.0%	23	17%
Other durable goods	1.8%	26	26%
Furnishings & durable household equipment	3.0%	52	30%
Other nondurable goods	8.9%	58	15%
F&B at Home	7.9%	73	19%
Recreational goods & vehicles	3.7%	76	36%
Motor vehicles & parts	4.5%	94	36%
Top Third	**32.7%**	**402**	**23%**

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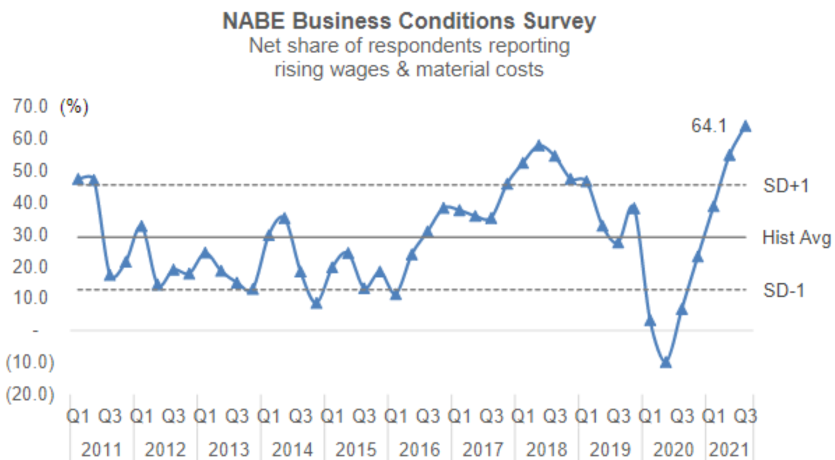
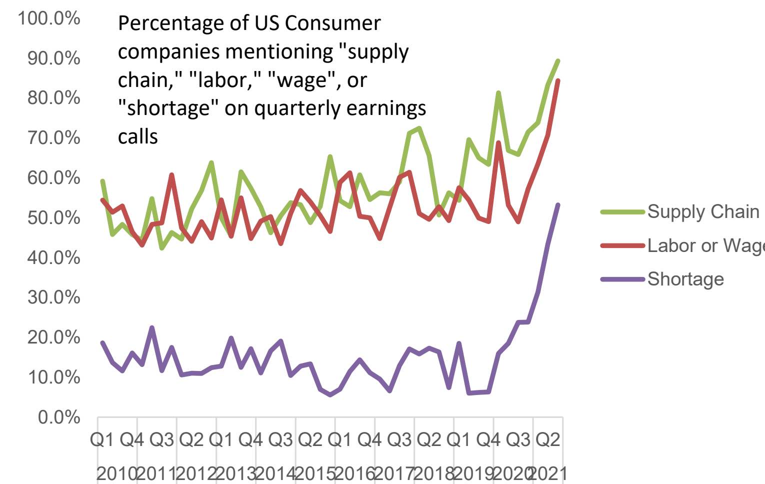
Theme 2: Pricing power distinguishes leaders/laggards

Favor manufacturers over retailers & franchised- over company-owned services

Rising wages & materials costs are a growing concern across the broader market…



…with corp mgmts across consumer increasingly vocal about inflation dynamics

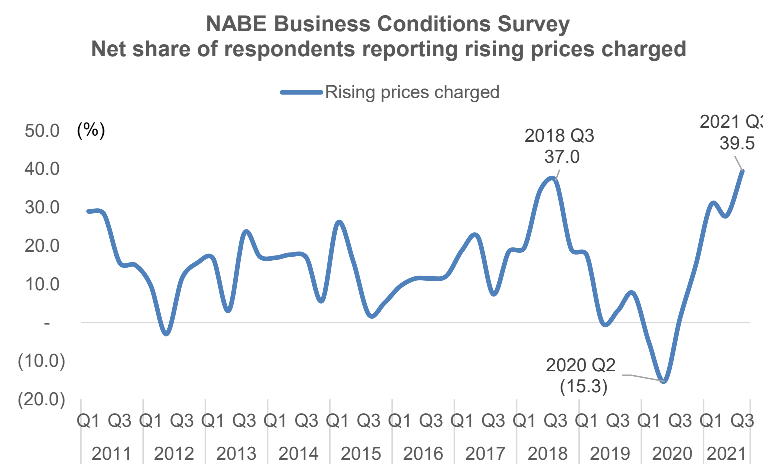


Mgmts have also gotten significantly more vocal about margin pressures than in the past

Percentage of consumer stocks discussing "supply chain," "labor/wages" or "shortage" in quarterly earnings calls

Sector	YTD 2021	5y avg	Difference
Restaurants	97%	90%	7%
Retail Hardlines	91%	82%	9%
Lodging, Leisure & Gaming	77%	62%	14%
Beverages, Tobacco & C-Stores	73%	48%	26%
Food/HPC	71%	32%	38%
Apparel & Accessories	49%	33%	16%

As a result, companies are pushing thru price increases at an accelerated rate



Theme 2: Pricing power distinguishes leaders/laggards

Favor manufacturers over retailers & franchised- over company-owned services

QSRs, Tobacco & Accessories stocks screen as having the most pricing power, while Casual Diners, Big-Box Discount and Home Improvement stocks screen as having the least pricing power through this lens

Pricing power appears higher where gross margins are:
Relatively high
Relatively stable
And rising over time

	Avg GM change as % of 5 yr avg	5 yr GM SD as % of mean	5 yr mean GM	Weighted Rank	Note:
Ranking weights:	**50%**	**25%**	**25%**		
QSRs	4.2%	1.8%	53.2%	1	Refranchising benefit
Tobacco	1.0%	0.4%	63.7%	2	Cig mfrs are pricing stronger and/or more frequently
Accessories	0.8%	0.3%	64.6%	3	
C-Stores	7.8%	3.6%	16.8%	4	Supported by recent step-up in fuel margins
Apparel	0.4%	0.4%	48.3%	5	
Dollar Stores/Food Retail	1.3%	0.6%	24.5%	6	
Auto Dealers/Parts	0.5%	0.3%	38.8%	7	
HPC	0.3%	0.3%	50.6%	8	
Athletic	0.4%	0.3%	45.1%	9	Adj to ctrl for chgs in occupancy leverage in COGS
Gaming	-2.5%	2.0%	40.5%	10	
Home Furnishings	-0.1%	0.4%	37.5%	11	
Food	-0.3%	0.6%	36.5%	12	
Lodging	-3.8%	5.7%	38.9%	13	
Beverages	-0.6%	0.2%	54.3%	14	
Specialty Retail	0.4%	0.1%	27.9%	15	Adj to ctrl for chgs in occupancy leverage in COGS
Leisure	-29.9%	13.2%	36.7%	16	Covid-19 led to park closures & capacity limitations
Department Stores	-4.5%	1.9%	35.7%	17	
Off Price	-3.3%	1.5%	29.0%	18	
Cruise	-38.2%	17.9%	30.5%	19	CDC issued no sail order from Mar 2020-Oct 2020
Home Improvement	-0.5%	0.2%	33.7%	20	
Big-Box Discount	-0.5%	0.4%	23.2%	21	
Casual Diners	-7.2%	2.9%	17.9%	22	

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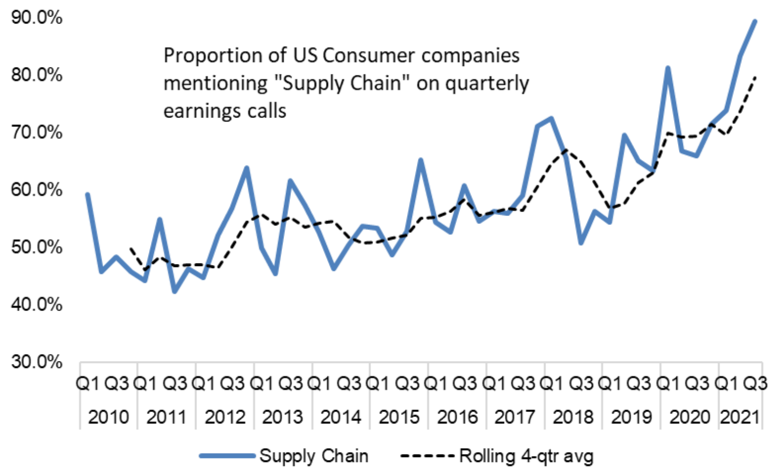
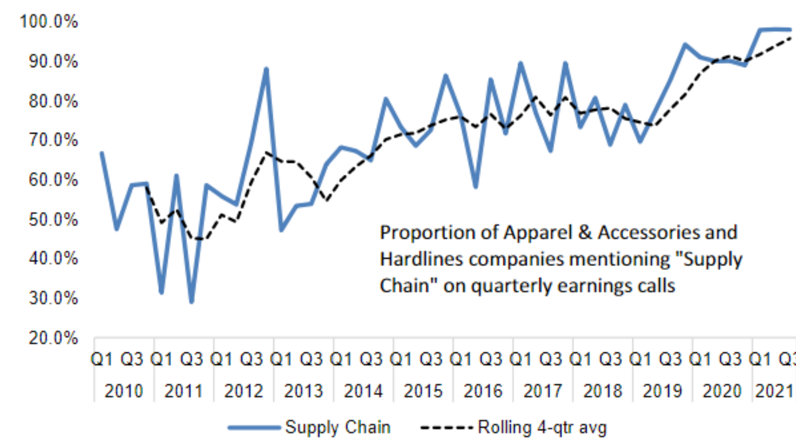
Theme 3: Supply chain issues to persist

Expect little alleviation until at least 2H of 2022

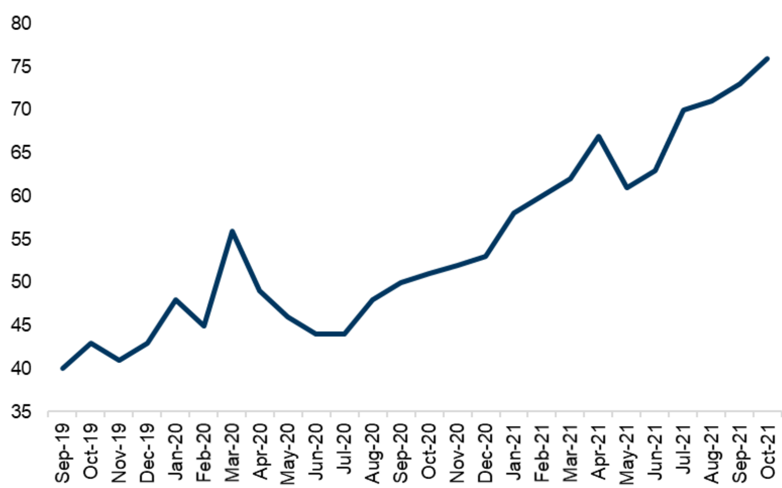
Supply chain is a central topic across Consumer…



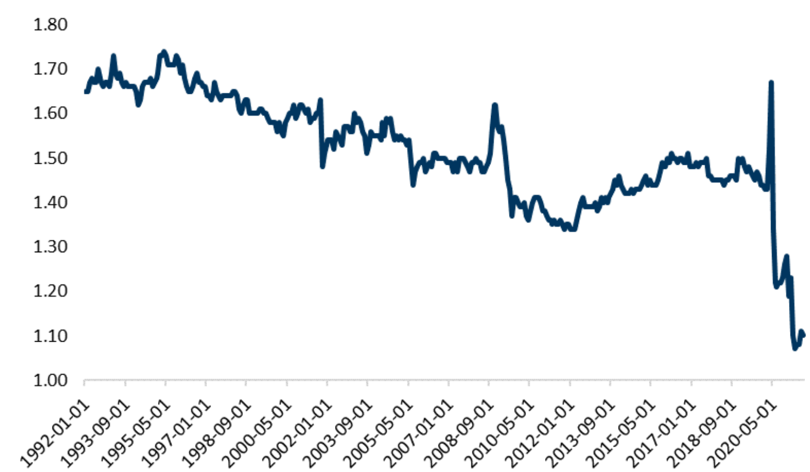
…and within Retail specifically



Freight delays have pushed delivery times higher



…and retailers' inventory-to-sales ratios to hist lows…



Theme 3: Supply chain issues to persist

Expect little alleviation until at least 2H of 2022

How our Hardlines & Apparel/Accessories coverage stacks up

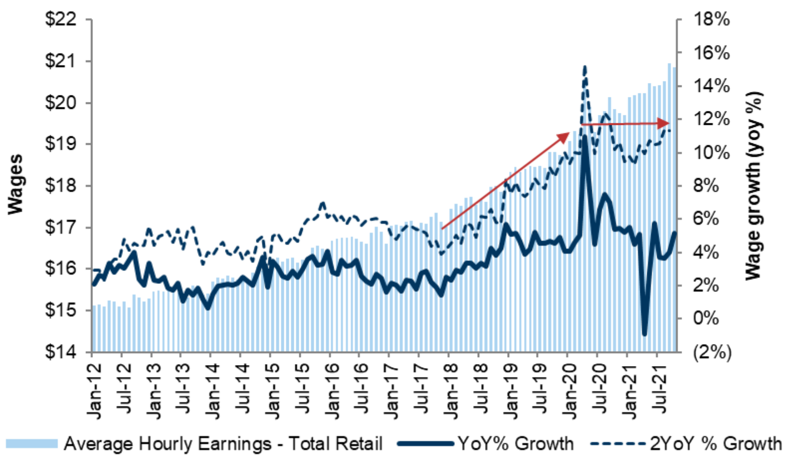
Sequential improvement in the gap between sales & inventory growth bodes well, but full sustained recovery will take time

	Sales Growth y/y			Inventory Growth y/y			Inv Less Sales Delta		
	1Q21	2Q21	3Q21	1Q21	2Q21	3Q21	1Q21	2Q21	3Q21
AAP	23.4%	5.9%	3.1%	-1.1%	1.6%	1.9%	-24.5%	-4.3%	-1.2%
AZO	31.4%	8.1%	16.3%	5.1%	3.7%	3.0%	-26.3%	-4.4%	-13.3%
BBY	35.9%	19.6%	0.5%	43.3%	55.1%	14.7%	7.4%	35.6%	14.2%
BJ	**1.7%**	**5.6%**	**14.4%**	**9.3%**	**2.8%**	**-0.7%**	**7.6%**	**-2.8%**	**-15.1%**
COST	**21.7%**	**17.5%**	**16.7%**	**26.9%**	**16.1%**	**5.0%**	**5.2%**	**-1.4%**	**-11.7%**
DG	-0.6%	-0.4%	3.9%	24.2%	20.2%	5.4%	24.7%	20.6%	1.6%
DKS	118.9%	20.7%	13.9%	-4.0%	7.2%	7.3%	-123.0%	-13.4%	-6.6%
DLTR	3.1%	1.0%	3.9%	12.7%	12.0%	13.8%	9.6%	10.9%	9.9%
FIVE	197.6%	51.7%	27.5%	-11.1%	18.1%	21.1%	-208.7%	-33.6%	-6.4%
FND	41.0%	86.0%	28.0%	3.2%	15.1%	39.2%	-37.8%	-71.0%	11.2%
HD	32.7%	9.8%	8.1%	27.9%	40.1%	27.4%	-4.7%	30.3%	19.3%
LOW	24.1%	1.0%	2.7%	28.7%	25.2%	6.2%	4.6%	24.3%	3.5%
ORLY	24.8%	12.1%	8.5%	1.8%	3.4%	3.4%	-23.0%	-8.7%	-5.1%
RH	78.3%	39.3%	19.1%	20.2%	32.5%	27.5%	-58.1%	-6.9%	8.3%
TGT	**23.3%**	**9.4%**	**13.2%**	**22.8%**	**26.8%**	**17.7%**	**-0.5%**	**17.5%**	**4.4%**
TSCO	42.5%	13.4%	15.8%	9.4%	18.0%	14.9%	-33.1%	4.6%	-0.9%
ULTA	65.2%	60.2%	28.6%	1.0%	5.5%	33.2%	-64.3%	-54.7%	4.6%
WMT	**2.6%**	**2.2%**	**4.1%**	**12.5%**	**16.2%**	**10.9%**	**9.9%**	**14.0%**	**6.8%**
WOOF	27.1%	18.7%	14.5%	19.2%	28.5%	19.0%	-7.9%	9.8%	4.5%
WSM	41.6%	30.7%	16.0%	1.6%	12.3%	13.0%	-40.0%	-18.4%	-3.0%
Average	41.8%	20.6%	12.9%	12.7%	18.0%	14.2%	-29.1%	-2.6%	1.3%

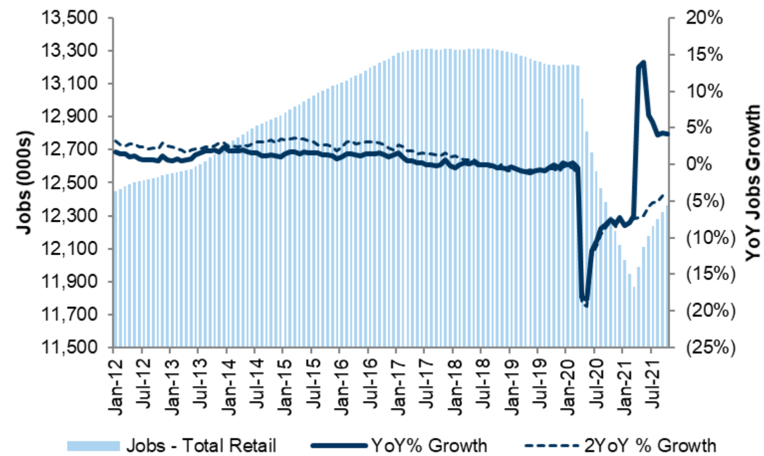
Theme 4: Labor & freight inflation in focus

Favor franchised restaurants, hotel c-corps, cruise lines and goods manufacturers

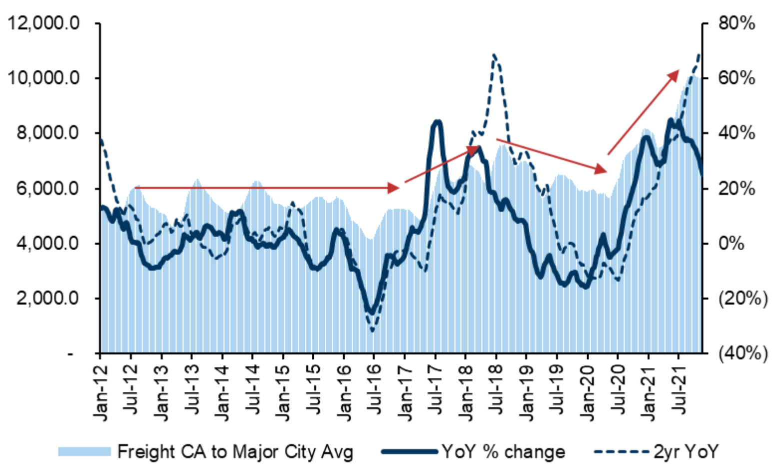
Consumer sector wages grew +LDDs thru pandemic…



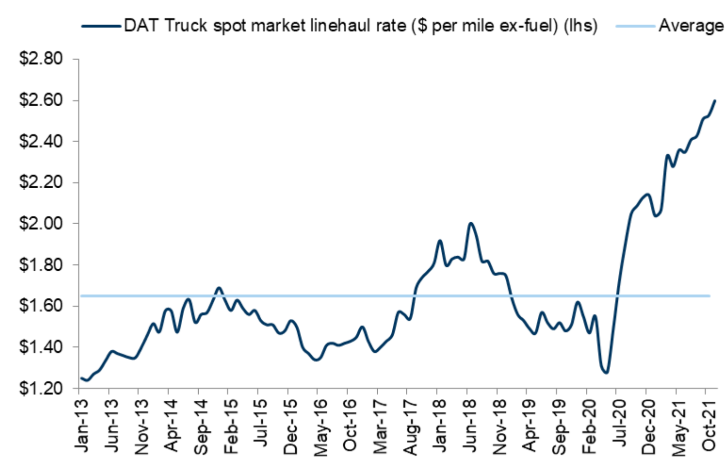
…but job counts remain at their lowest in a decade



Freight costs have risen materially during the pandemic re-opening



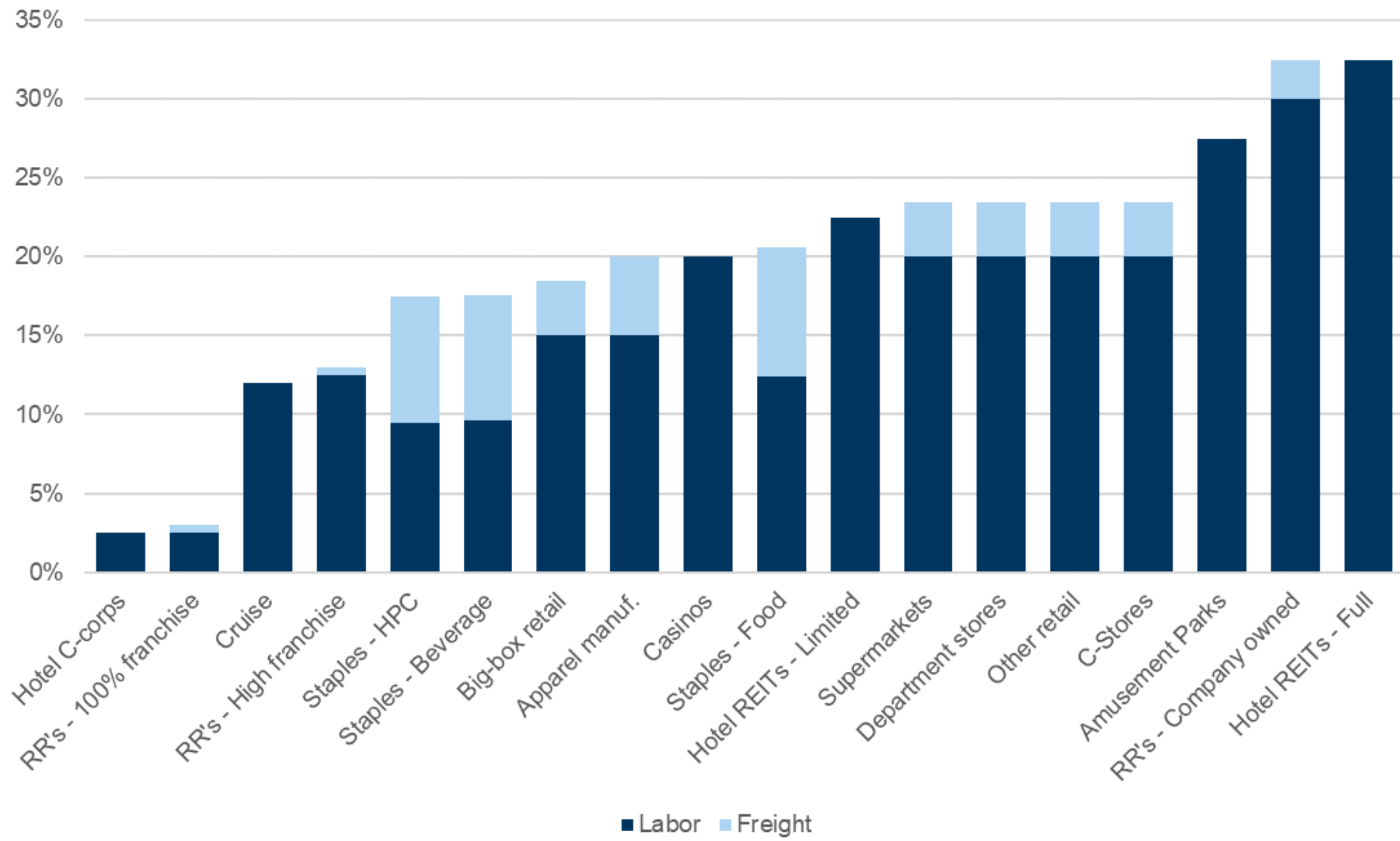
Freight rates continue to rise further to new highs…



Theme 4: Labor & freight inflation in focus

Favor franchised restaurants, hotel c-corps, cruise lines and goods manufacturers

Assuming sustained labor/freight inflation, franchised restaurants are advantaged vs company-owned, Hotel C-corps are advantaged over Hotel REITS, Cruise over Amusement Parks, and goods manufacturers over goods retailers



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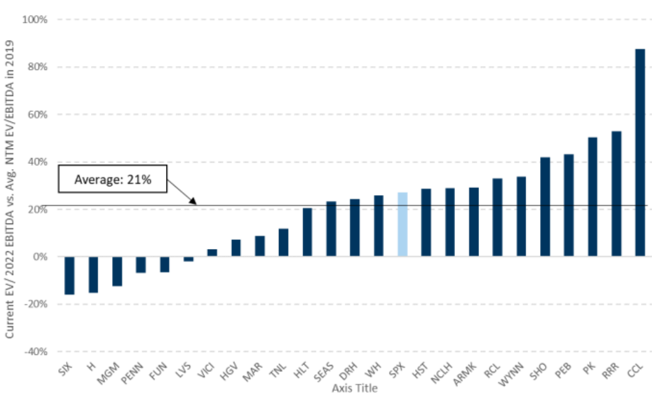
Sector views

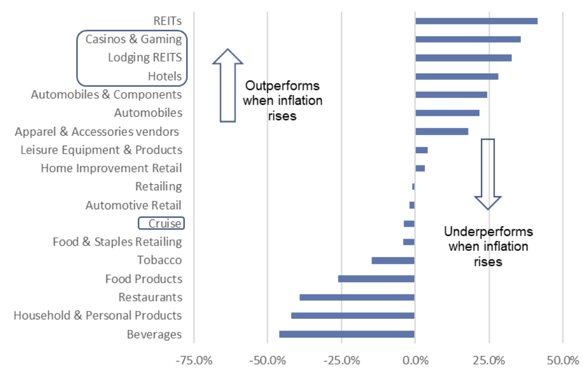
Gaming, Lodging & Leisure

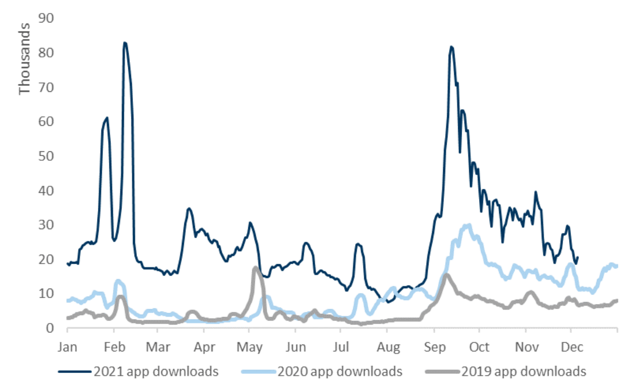
- Given the correction across our group over the past month (-10% vs. S&P +2%), we see potential for a return to the "reopening" trade driving broad-based upside, but believe investors will still focus on those names with greater visibility and/or secular growth themes in our coverage over the course of the year.

- Buy recommendations:
  - Upgrade SIX to Buy from Neutral (34% Upside): Expect beats and upward guidance to drive re-rating back to historical levels
  - H (27% upside): Transitioning business to asset-light model with highest growth potential, still trading at a discount
  - MAR (on CL)/HLT/WH (17%/21%/23% Upside): Fundamentals recovering with capital returns resuming
  - DKNG/PENN/GENI (100%/94%/194% Upside): Greatest exposure to secular growth in OSB/iGaming

- Sell recommendations:
  - PEB/DRH/SHO/PK: Greatest exposure to hardest hit urban/gateway markets and labor inflation
  - Downgrade MCG to Sell: Restrictions in Europe/UK to drive downward revisions and keep stock range-bound







Source: Goldman Sachs Global Investment Research

Goldman Sachs

Restaurants

We are most constructive on names that have strong digital ecosystems and better cost offsets (more franchised and/or stronger pricing power). Exposure to the high-end consumer as well as market share are also key themes for 2022 as the former increases mobility and the low-end consumer is pressured.

- Buy recommendations:
  - **CMG (on CL):** Strong digital business, increasingly driven by high-margin pick-up transactions. Top-tier unit growth momentum, fueled by Chipotlanes (higher returns), with pricing power above peers per our quarterly survey. Menu innovation remains a catalyst as the company utilizes its strong digital ecosystem to drive frequency through innovation.
  - **MCD:** SSS consistently outperforming peers without heavy LTO/promotional activity in 2021, with incremental upside from mobility improvements (breakfast/late-night). Franchised system limits cost inflation, and scale allows for better management of COGS versus peers. Also expect MCD will benefit from trade-down as lower-end consumer wallets are pinched.
  - **JACK:** Strong SSS during pandemic along with digital gains indicate a new consumer with stickiness. Comps drove record franchisee FCF, which could result in accelerating unit growth in-line with 1%-3% guidance. Valuation depressed despite GS modeling below most long-term targets as management sets the store pipeline. Largely franchised, and unit development pipeline updates are catalysts in FY22.
  - **SHAK:** Should be a 2022 winner with easiest SSS laps and continued urban/tourism mobility. New formats could drive better store returns and more attraction in suburban markets. Digital sales are retaining ~80% of COVID peaks, and high cash balance provides support for accelerating unit growth.
- Sell recommendations:
  - **QSR:** Tim Hortons continues to struggle with mobility issues in Canada and is ceding share to market newcomers (such as SBUX and MCD). Cost inflation also weighs on the TH supply chain business, a large portion of company EBITDA. Burger King SSS are materially underperforming peers (share loss to MCD, WEN), and the store base needs likely needs investment. Popeyes is still too small to make a large impact on the story, but SSS have decelerated since the chicken sandwich launch, and momentum may be fading.
  - **DNUT:** Exposed to cost pressures via its extensive in-house delivery business and company-owned model. International markets are struggling to recover from COVID-19. Strategy relies on foot traffic to retailers, which is increasingly pressured by digital and BOPIS. Disclosures are limiting and do not allow for confident modeling of revenues/costs, potentially pressuring valuation upside.

Source: Goldman Sachs Global Investment Research

Goldman Sachs

Hardlines, Broadlines & Specialty Retail

We are more constructive on names that operate in a highly fragmented industry, have limited exposure to low income consumers, and have pricing power.

- Buy recommendations:
  - ORLY (on CL): DIFM demand should benefit from increasing miles driven; DIY driven by incremental spend on older vehicles due to limited new/used vehicle availability and rising prices; pricing power due to the relatively inelastic nature of auto parts demand; best-in-class supply chain; long history of solid execution
  - WMT (on CL): expect improving traffic and trade-downs as consumers shift to value; positioned to grow EBIT dollars, despite continued investments, due to greater e-commerce scale, improving mix, and growth from higher-margin ancillary businesses
  - HD: home price appreciation and the housing shortage should be supportive of home improvement spend; Pro backlogs remain strong; customers still have projects planned; better positioned than most retailers to weather any continued supply chain pressures
  - LOW: turnaround story has progress extremely well; in-store efficiency and customer experience investments are resulting in solid operating margin flow-through; poised to capture market share among small/medium-sized pro customers
  - ASO: expect the trend of recently adopted new interests/hobbies to be sticky within the outdoor, fitness, and sports categories; store footprint favorably exposed to recent migration trends; relationship with NKE is a competitive advantage over less-differentiated competitors; potential for gross margin expansion; improving omnichannel/digital capabilities; opportunity for significant unit growth

- Sell recommendations:
  - OLLI: expect traffic to be pressured; high discretionary mix; expect closeouts to be more limited in 2022
  - BIG: expect traffic to remain pressured; high discretionary mix; large exposure to furniture/home-related products; expect inventory and supply chain headwinds to remain
  - SFM: anticipate lackluster comps; margins are expected to track at current levels; expect delayed execution of the unit growth story; lack of sufficient visibility into the impacts of underlying initiatives to capture lost transactions/new customers
  - KR: anticipate further margin declines due to incremental price investments along with inflationary cost pressures

Source: Goldman Sachs Global Investment Research

Apparel and Accessories

We prefer brands with momentum and idiosyncratic top line and margin opportunity, overlaid with favorable DTC/channel opportunity and reasonable valuation. We are more guarded on brands with fading momentum and those where we perceive more limited pricing power.

- Buy recommendations:
  - LULU (on CL): A compelling brand momentum story with strong pricing power and new category momentum set to propel sales and margins.
  - CPRI: Strengthening momentum at Versace and sustainable margin improvements at Michael Kors supports growth and valuation upside. Further, we see idiosyncratic opportunity from a new management team and capital allocation strategy.
  - KTB: Several idiosyncratic levers for margin-accretive growth, including emerging brand momentum (which is supported by an improving denim backdrop), new distribution wins, category extension, and strengthening momentum in DTC.
  - PVH: Structural business model changes, a focus on consumer connection and optimizing product are set to drive top line momentum and continued gross margin gains against a strong base. With an attractive valuation and robust earnings growth, and an investor day catalyst on the horizon, we see an attractive risk/reward.

- Sell recommendations:
  - VFC: Brand momentum indicators remain weak, and we expect ongoing market share losses for the high-margin Vans and Supreme brands.
  - RL: Brand momentum indicators are fading, and we anticipate a tougher sales growth environment to meet a rising cost environment, driving lackluster earnings growth.

Source: Goldman Sachs Global Investment Research

Beverages, Tobacco & Convenience stores

We prefer large incumbents with (1) strong pricing power, (2) multiple levers to offset input cost pressures, (3) limited exposure to down-trading (and private label competition) and (4) exposure to improving volume/demand trends as consumer mobility accelerates.

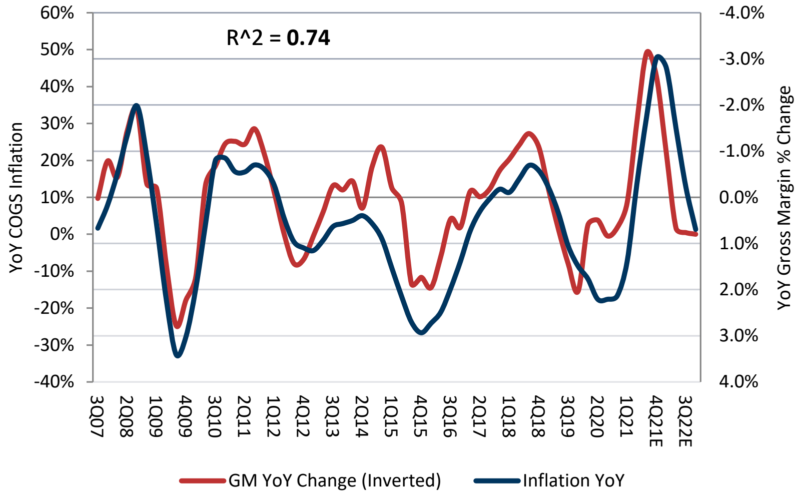
- Buy recommendations:
  - **MNST:** Expect pricing growth to accelerate significantly in 2022 with the company implementing pricing actions (incl. potential full price/rate increase) and continuing to reduce promos. We believe these actions will stick given the strength of consumer demand for MNST and given MNST's generally attractive price gap relative to CSDs & Red Bull. We also expect margin/supply chain pressures to be broadly transitory as inventories continue to normalize and trade-down risk to be limited given the continued recovery in consumer mobility & improved purchasing power.
  - **STZ (on CL):** Strong pricing power relative to Beverage peers with ample topline momentum behind its core beer brands to offset mounting cost pressures. Among the best positioned to benefit from a recovery in consumer mobility with the reopening of the on-premise channel. STZ remains one of the best growth stories in US Staples, and is advantageously levered to the most attractive opportunities in alcoholic bevs — premium import beer & premium W&S.
  - **PEP (on CL):** PEP remains very well positioned given its strong brand portfolio (esp. Frito Lay) and long-term growth opportunities in Beverages. PEP should also benefit from its stepped-up pricing & ongoing productivity initiatives to deliver FY22 FX-neutral EPS growth in line with its +HSD l.t. target.
  - **PM:** We see a compelling setup for PM next year & beyond given (1) robust momentum behind iQOS fueled by strong innovation, high full-conversion rates and the compounding effect of new user acquisitions – all of which should drive attractive, sustainable +LDD EPS growth for the foreseeable future; (2) improved visibility on the chip shortage situation, and (3) continued resilience across PM's combustible cig business. We also see PM as a strong reopening play as improved consumer mobility and reduced travel restrictions are broadly supportive of tobacco/RRP consumption.
- Sell recommendations:
  - **TAP:** Progress on expanding into Above-Premium beer and emerging growth categories is encouraging, but we have yet to see that translate into a sustained improvement in fundamentals. Specifically, we remain concerned by continued pressure on TAP's overall Sales-to-Retailer (STR) volume and volume deleverage in a very tough cost environment. As such, we expect margin pressure to continue as rising transportation/input costs are unlikely to be fully offset by pricing or TAP's hedging program and as mgmt steps up spending to support its ongoing revitalization plan.

Source: Goldman Sachs Global Investment Research

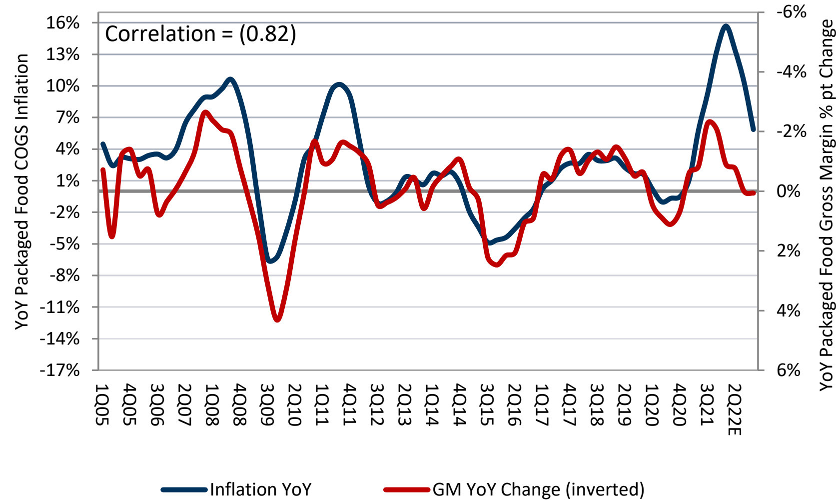
HPC & Food: Charts we are Focused On

Costs and the Cadence of Margin Recovery

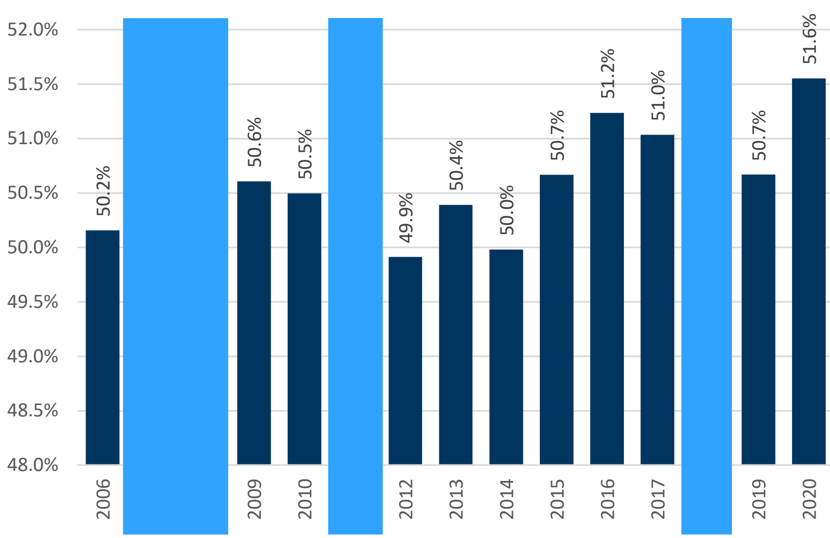
HPC cost curve points to resumed GM expansion in 2H22



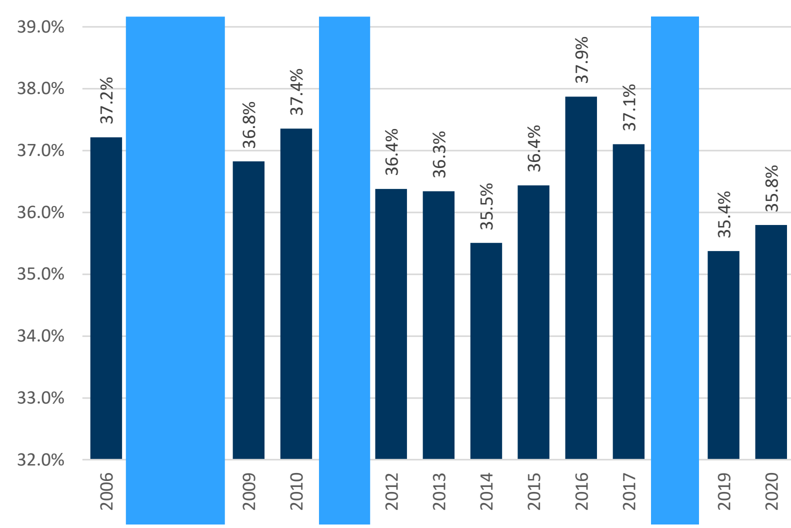
Recovery in Food will likely be more prolonged



History demonstrates ability for HPC GMs to recovery



Gross margins recovery is less consistent in Food



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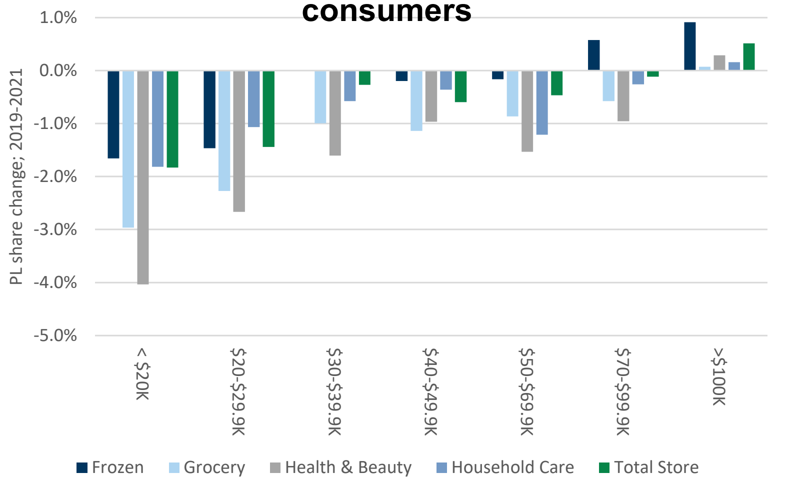
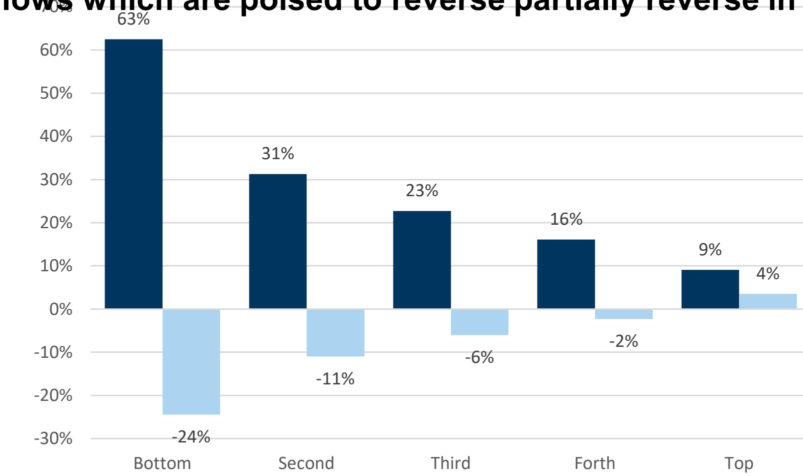
HPC & Food: Charts we are Focused On

Trade Down Risks

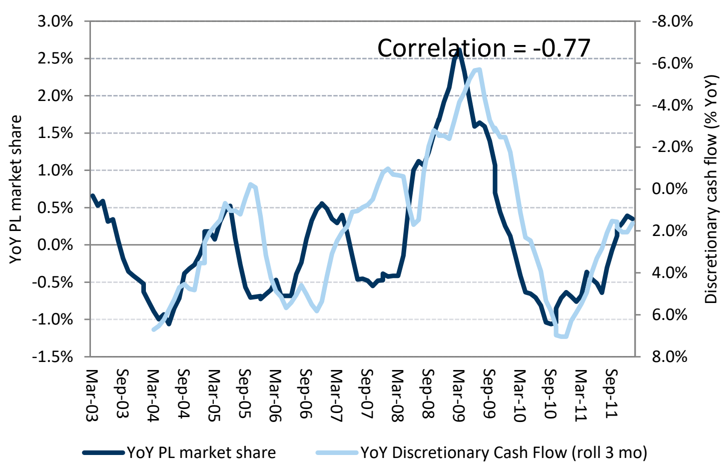
Private label share fell since 2019, lead by low income consumers



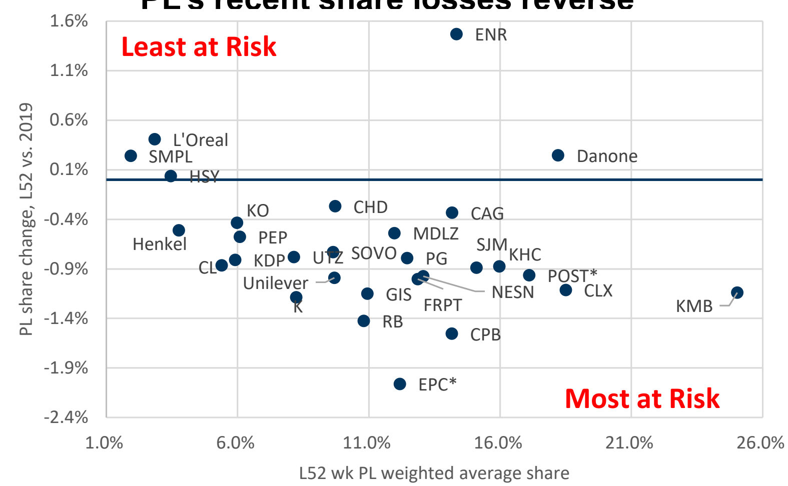
The fall corresponded with higher discretionary cash in-flows which are poised to reverse partially reverse in 2022



We expect the historical relationship with DCF and PL share to repeat, driving a recovery in PL share



Companies such as KMB, CPB & CLX are most at risk if PL's recent share losses reverse



*Note: EPC, POST, and REYN (off chart) are major private label suppliers in the core categories

HPC & Food

- Buy recommendations:
  - **PG**: Market share momentum fuels organic sales growth upside. Four quarters or price growth yet to come yet only two more quarters of outsized inflation = visible path to gross margin inflection as soon as CY2Q22. Favorable investor positioning: the most underweight Consumer Staples stock among mutual funds = potential flow of funds benefactor if MFs chose to revisit their decade high underweight position in the sector.
  - **OLPX**: See upside to FY22/FY23 FactSet consensus sales (+6%/+14%) and EBITDA (+10%/+20%) as penetration ramps from still low-levels, aided in part by an ongoing distribution build. We believe that recent expansion efforts into Ulta in the US and T-mall in China remain underappreciated and we see a long runway for growth beyond.
  - **BRBR:** A growth advantaged asset on sale. While it faces near-term challenges related to capacity constraints and a technical overhang owing to POST's pending spin-off, we believe those concerns have created an opportunity, as reflected by its now 3.5X EV/EBITDA discount to SMPL (on CY22).
  - **EPC**: A transformed portfolio with a valuation transformation that should follow. Overlay its healthy sun care, wet wipes and women's shaving portfolio with previously acquired Jack Black, Cremo and Bull Dog, along with its pending acquisition of Billie and the growth potential of the portfolio is mispriced: 9X CY22 EV/EBITDA vs. HPC weighted averaged of 20.5X.
- Sell recommendations:
  - **CLX**: CLX's categories resemble more of a center-store food company than HPC company. Overlay CLX's risk to market share losses in a trade-down economy (given PL's share growth during the last recession & set back during Covid), we expect CLX to face ongoing pressure over the next year.
  - **CPB:** Center-of-the-store food companies saw meaningful boost in demand during Covid and we expect volume pressure in CY22 as a result, with CPB no exception. Importantly, we see it facing outsized share risk from private label in its meals and sauces division while its mounting share losses in snacks are another area of concern. Moreover, in an environment where we expect input cost pressure to begin to fade in CY22 (at least on YoY basis), CPB is expected to see accelerating inflation through 1H22.

Source: Goldman Sachs Global Investment Research

Q&A

Disclosure Appendix

December 14, 2021

Disclosure Appendix

Reg AC

We, Jason English, Bonnie Herzog, Kate McShane, CFA, Stephen Grambling, CFA, Jared Garber and Brooke Roach, CFA, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our coverage universe) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

M&A Rank

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

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Disclosure Appendix

Disclosures

Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	50%	35%	15%	65%	58%	47%

As of October 1, 2021, Goldman Sachs Global Investment Research had investment ratings on 3,017 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by the FINRA Rules. See 'Ratings, Coverage universe and related definitions' below. The Investment Banking Relationships chart reflects the percentage of subject companies within each rating category for whom Goldman Sachs has provided investment banking services within the previous twelve months.

Rating and pricing information

Academy Sports & Outdoors Inc. (Buy, $42.52), Bellring Brands Inc. (Buy, $25.06), Big Lots Inc. (Sell, $43.97), Campbell Soup Co. (Sell, $43.66), Capri Holdings (Buy, $62.49), Chipotle Mexican Grill Inc. (Buy, $1,690.93), Clorox Co. (Sell, $172.08), Constellation Brands (Buy, $237.37), DiamondRock Hospitality Co. (Sell, $8.82), DraftKings Inc. (Buy, $28.85), Edgewell Personal Care (Buy, $44.39), Genius Sports Ltd. (Buy, $7.15), Hilton Worldwide Holdings (Buy, $142.41), Home Depot Inc. (Buy, $405.24), Hyatt Hotels Corp. (Buy, $82.63), Jack in the Box Inc. (Buy, $78.83), Kontoor Brands Inc. (Buy, $52.57), Krispy Kreme (Sell, $15.98), Kroger Co. (Sell, $45.63), Lowe's Cos. (Buy, $257.24), Lululemon Athletica Inc. (Buy, $403.75), Marriott International (Buy, $153.68), McDonald's Corp. (Buy, $263.09), Membership Collective Group Inc. (Neutral, $12.25), Molson Coors Beverage Co. (Sell, $46.02), Monster Beverage Corp. (Buy, $89.78), O'Reilly Automotive Inc. (Buy, $671.76), Olaplex Inc. (Buy, $26.15), Ollie's Bargain Outlet Inc. (Sell, $50.47), PVH Corp. (Buy, $98.39), Park Hotels & Resorts Inc. (Neutral, $17.73), Pebblebrook Hotel Trust (Sell, $21.04), Penn National Gaming Inc. (Buy, $47.50), PepsiCo Inc. (Buy, $169.81), Philip Morris International Inc. (Buy, $91.67), Procter & Gamble Co. (Buy, $157.67), Ralph Lauren Corp. (Sell, $120.08), Restaurant Brands Intl Inc. (Sell, $58.51), Shake Shack Inc. (Buy, $72.12), Six Flags Entertainment Corp. (Neutral, $37.38), Sprouts Farmers Market Inc. (Sell, $27.43), Sunstone Hotel Investors Inc. (Sell, $10.94), VF Corp. (Sell, $74.79), Walmart Inc. (Buy, $143.57) and Wyndham Hotels & Resorts (Buy, $79.92).

Disclosure Appendix

Regulatory disclosures

Disclosures required by United States laws and regulations

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