



JULY 19, 2019

KEY THEMES

In July, our online grocery pricing study in Denver showed Walmart once again retained its price leadership position. Kroger was the closest to Walmart, with a premium of 9.6%, followed by Target at 11.5%, Sprouts at 17.3%, and Amazon Fresh at 24.0%. We were pleased to see price cuts at Whole Foods, but it's still expensive at a 27.7% premium to Walmart. Safeway was the most expensive grocery at 31.5% premium to Walmart.

Covered Stocks

Amazon (AMZN, OP, PT=\$2,200): Amazon continues to disrupt retail, with its customer-centric approach, pursuit of efficiency, growing Prime membership, and advanced technology platforms. The solid growth and profitability of AWS and advertising also should help drive future growth. Our \$2,200 12-month price target is based on a combination of valuation metrics.

Kroger (KR, MP, PT=\$27): Kroger remains a solid food retailer, with a strong management team and data analytics platform. We are encouraged to see stabilization of the business, as well as new ecommerce and fulfillment initiatives. However, it remains in investment mode and has heightened competition. Our 12-month price target of \$27 is based on applying an EV/EBITDA multiple of ~6.25x to our NTM EBITDA estimate of \$5.5B.

Target (TGT, OP, PT=\$92): Target's initiatives — price investments, differentiated merchandising with private brands, remodeling stores, and investing in digital/delivery—are resonating with consumers and investment spending is starting to generate net benefits. Our 12-month price target of \$92 is based on applying a P/E multiple of ~15.5x to our 2019 EPS estimate of \$5.93.

Walmart (WMT, OP, PT=\$118): Walmart's store, digital, and operational strategies should allow it to lead and compete head-to-head with Amazon, supporting its higher valuation and expected outperformance. Our 12-month price target of \$118 is based on applying a P/E multiple of ~23x to our 2020 EPS estimate of \$5.13.

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Online Grocery Pricing - July 2019

WMT STILL PRICE LEADER; WHOLE FOODS CUTS PRICES; SAFEWAY MOST EXPENSIVE

In this report, we analyze monthly online grocery prices in Denver. We feature Walmart, Target (via Shipt), Amazon (Amazon Fresh), Kroger (King Soopers), Albertsons (Safeway), Sprouts (via Instacart), and Whole Foods (via Prime Now).

We price shopped 40 key items across two main categories—Non-Branded Grocery (e.g., produce, meat, and private label items) and Branded Grocery. In an effort to compare all grocers to one another, our basket includes several premium items. We also provide an analysis of delivery costs (on page 2).

Our Takeaways

July Food Prices Down MoM: Overall, our 40-item grocery basket was down an average of ~120 bps relative to June. All grocers, except Safeway, reduced prices in July. In our view, the reduction in prices is partly the result of grocers making proactive investments to gain market share, while others are in response to Amazon's Prime Day. The downtick in retail prices, despite inflation in food PPI, keeps us concerned about profitability.

Walmart Remains the Price Leader: On average, Walmart prices came down by 2.6% MoM in July, with price cuts in both non-branded (down 6.2%) and branded grocery (down 0.1%). On average, Walmart's prices were lower than the other grocers by an average of 20.2% in July.

Kroger and Target Follows Walmart: For the third consecutive month, Kroger was the second least expensive grocer in our survey, with a premium of 9.6% to Walmart vs. 8.5% in June. Target retained its number 3 spot, with a premium of 11.5% to Walmart, down from 11.8% in June.

Whole Foods Prices Tick Down: Our basket declined 3.8% (MoM) in July, with price cuts in both non-branded (down 4.3%) and branded (down 3.4%). We believe some of the price cuts are strategic (recall in April it cut prices on produce), while others were related to Prime Day. In addition, Amazon offered a special deal for Prime members —(get \$10 to spend on Prime Day when you spend \$10 at Whole Foods July 3-16) and Prime Now (\$15 off first order over \$35), which drove customer traffic.

Safeway The Most Expensive Grocer: Safeway has overtaken the number one spot as the most expensive grocer in July, with a premium of 31.5% to Walmart. Safeway needs to invest in prices to effectively compete in the marketplace and regain customer loyalty.

ONLINE GROCERY PRICING STUDY - JULY 2019

	Walmart	Kroger	Target	Sprouts	Amazon Fresh	Whole Foods	Safeway (Albertsons)
Non-Branded Grocery (20 Products)	\$54.69	\$61.22	\$65.20	\$67.25	\$79.19	\$73.44	\$74.86
MoM Price Change	(6.2%)	4.4%	(6.0%)	(3.4%)	3.9%	(4.3%)	8.3%
% Premium to Walmart		11.9%	19.2%	23.0%	44.8%	34.3%	36.9%
Branded Grocery (20 Products)	\$86.28	\$93.31	\$91.96	\$98.14	\$95.56	\$106.55	\$110.50
MoM Price Change	(0.1%)	(5.1%)	(0.6%)	1.7%	(6.5%)	(3.4%)	2.6%
% Premium to Walmart		8.1%	6.6%	13.7%	10.8%	23.5%	28.1%
Total Grocery Spending (40 Products)	\$140.97	\$154.53	\$157.16	\$165.39	\$174.75	\$179.99	\$185.36
MoM Price Change	(2.6%)	(1.6%)	(2.9%)	(0.4%)	(2.0%)	(3.8%)	4.8%
% Premium to Walmart		9.6%	11.5%	17.3%	24.0%	27.7%	31.5%

Source: Company websites, Instacart, Shipt, and TAG research.

Category Highlights

Walmart was the price leader in **non-branded grocery** (basket down 6.2% to \$54.69), partly due to price cuts on seasonal items, such as cantaloupe down 61.2% and mini watermelon down 37.7%. This was followed by Kroger (basket up 4.4% to \$61.22) at a 11.9% premium to Walmart, Target (basket down 6.0% to \$65.20) at 19.2%, and Sprouts (basket down 3.4% to \$67.25) at 23.0%. Whole Foods' non-branded grocery basket declined 4.3%, but still came out at a healthy premium of 34.3% to Walmart.

In **branded grocery**, Walmart also was the price leader (basket down 0.1% to \$86.28), followed by Target (basket down 0.6% to \$91.96) at a 6.6% premium to Walmart, Kroger (basket down 5.1% to \$93.31) at 8.1%, Amazon Fresh (basket down 6.5% to \$95.56) at 10.8%, Sprouts (basket up 1.7% to \$98.14) at 13.7%, and Whole Foods (basket down 3.4% to \$106.55) at 23.5%.

Delivery Analysis

Below, we compare grocery spending including delivery costs. In our target market, Denver, consumers can order groceries for delivery directly from Walmart, Kroger, Safeway, Amazon Fresh, and Whole Foods (via Prime Now). However, to shop from Sprouts and Target, consumers need to use Instacart and Shipt, respectively. In our analysis, we assume consumers order groceries for delivery every two weeks to provide a per use delivery cost for subscription models. Note, Walmart is testing Delivery Unlimited in select stores in four markets—Miami, Houston, Tampa, and Salt Lake City—with different subscription plans, including an annual subscription of \$98 and/or a monthly fee of \$12.95.

GROCERY PRICES INCLUDING DELIVERY - JULY 2019							
	Walmart	Amazon Fresh	Kroger	Safeway (Albertsons)	Sprouts	Target	Whole Foods
Total Grocery Spending (40 Products)	\$140.97	\$174.75	\$154.53	\$185.36	\$165.39	\$157.16	\$179.99
% Premium to Walmart		24.0%	8.6%	31.5%	17.3%	11.5%	27.7%
Delivery Provided By (in Denver)	Walmart (no subscription required)	Amazon (subscription required)	Instacart (no subscription required)	Safeway (no subscription required)	Instacart (subscription required)	Shipt (subscription required)	Prime Now (subscription required)
2-Day Delivery Fee (Assuming Reorder Every 2 Weeks)	-\$8.50/delivery (\$7.95 or \$9.95 Delivery Fee)	\$11.50/delivery (\$119 Annual Prime Fee + \$14.99 Monthly Fresh Fee)	\$9.95/delivery (Flat Rate)	\$7.90/delivery (\$0.95-\$6.95 Delivery Fee + \$3.95 Service Fee)	\$3.80/delivery (\$99 Annual Instacart Express Fee)	\$3.80/delivery (\$99 Annual Shipt Fee)	-\$4.60/delivery (\$119 Annual Prime Fee)
Total Order Cost (Grocery + Delivery)	\$149.47	\$186.25	\$164.48	\$193.26	\$169.19	\$160.96	\$184.59
% Premium to Walmart		24.6%	10.0%	29.3%	13.2%	7.7%	23.5%

Source: Company websites and reports, and TAG research.

Note: Delivery fees for subscription services was calculated on a bi-weekly basis (i.e. annual subscription fee divided by 26 weeks).

Note: Kroger (King Soopers) delivers through third-party delivery companies in Denver, such as Instacart, which usually leads to a slightly higher basket due to price markups.

Note: Prices were gathered on July 11, 2019 in the Denver market.

ONLINE GROCERY PRICES – JULY 2019

	Walmart	Amazon Fresh	Kroger	Safeway (Albertsons)	Sprouts	Target	Whole Foods
Non-Branded Grocery							
1 Organic Eggs, Large Grade A Brown (12 units)	\$2.48	\$3.99	\$3.99	\$3.99	\$3.99	\$3.99	\$3.99
2 Avocado, Large and Nonorganic (1 unit)	\$1.08	\$1.79	\$1.79	\$2.49	\$1.25	\$1.69	\$1.99
3 Granny Smith Apple, Nonorganic (1 unit)	\$1.06	\$1.07	\$1.50	\$0.80	\$0.65	\$0.52	\$0.85
4 Banana, Nonorganic (5 units)	\$1.00	\$1.53	\$1.25	\$1.60	\$1.05	\$1.45	\$0.95
5 Straw berries, Organic (1 lb)	\$2.32	\$2.50	\$2.50	\$4.59	\$3.99	\$2.99	\$3.00
6 Lemon, Nonorganic (1 unit)	\$0.42	\$0.50	\$0.34	\$0.69	\$0.33	\$0.45	\$0.69
7 Mini Watermelon (1 unit)	\$1.67	\$3.49	\$2.50	\$2.99	\$3.99	\$3.29	\$3.59
8 Cantaloupe Melon, Nonorganic (1 unit)	\$0.69	\$2.82	\$1.60	\$3.39	\$1.67	\$2.49	\$2.50
9 Yellow Bell Pepper, Nonorganic (1 unit)	\$1.18	\$1.49	\$1.25	\$1.25	\$0.98	\$1.29	\$1.00
10 Navel Orange (1 unit)	\$0.86	\$0.69	\$0.69	\$0.77	\$0.64	\$0.69	\$1.06
11 Yellow Onion (1 lb)	\$0.75	\$0.64	\$0.70	\$0.69	\$0.50	\$0.66	\$0.61
12 Ground Beef 20% Fat (1 lb)	\$3.48	\$5.47	\$3.49	\$3.49	\$2.99	\$4.29	\$4.99
13 Ribeye Steak, Choice, Boneless (1 lb)	\$11.77	\$19.60	\$12.99	\$13.99	\$12.99	\$13.99	\$13.99
14 Fresh Salmon (1 lb)	\$7.94	\$10.43	\$8.99	\$12.99	\$8.99	\$9.99	\$9.99
15 Pork Chops, Boneless (1lb)	\$4.88	\$6.99	\$3.99	\$4.99	\$2.99	\$3.39	\$7.99
16 Water (16.9 fl oz. 24 ct)	\$2.68	\$2.94	\$2.79	\$2.49	\$2.99	\$2.69	\$2.49
17 Flour (5 lb)	\$1.93	\$3.29	\$1.59	\$2.99	\$3.99	\$1.99	\$3.29
18 White Basmati Rice (2 lb)	\$3.26	\$3.69	\$4.79	\$5.69	\$5.99	\$3.99	\$3.69
19 Aluminum Foil (75 sq. ft.)	\$3.12	\$3.48	\$2.49	\$2.99	\$3.99	\$3.17	\$3.99
20 Plastic Wrap (200 sq. ft.)	\$2.12	\$2.79	\$1.99	\$1.99	\$3.29	\$2.19	\$2.79
Total (Non-Branded Grocery)	\$54.69	\$79.19	\$61.22	\$74.86	\$67.25	\$65.20	\$73.44
% Premium to Walmart		44.8%	11.9%	36.9%	23.0%	19.2%	34.3%
Branded Grocery							
1 Horizon Organic Whole Milk (1.89 L or 64 oz)	\$4.46	\$3.99	\$3.99	\$5.69	\$3.99	\$4.49	\$4.99
2 Silk Original Soy Milk (1.89 L)	\$3.17	\$3.27	\$2.79	\$3.49	\$3.49	\$3.19	\$4.22
3 Talenti Gelato, Sicilian Pistachio (16 oz)	\$3.98	\$4.19	\$4.99	\$3.99	\$4.79	\$4.19	\$3.57
4 La Croix Sparkling Water, Lime (12 fl oz. 8 count)	\$3.38	\$3.99	\$2.99	\$4.29	\$3.50	\$3.33	\$3.66
5 Justin's Classic Almond Butter (16 oz)	\$9.65	\$9.99	\$9.99	\$12.49	\$8.99	\$10.65	\$9.99
6 Emergen-c 1000 mg Drink Mix, Raspberry (30 count)	\$8.83	\$9.99	\$9.99	\$13.59	\$10.99	\$9.99	\$11.99
7 Seventh Generation Dish Liquid, Free & Clear (25 fl oz)	\$3.27	\$3.59	\$2.99	\$3.49	\$3.49	\$3.39	\$3.99
8 Daisy Sour Cream (16 oz)	\$1.98	\$2.29	\$2.29	\$2.69	\$2.39	\$1.99	\$2.69
9 Tom's Of Maine Long Lasting Unscented Deodorant (2.25 oz)	\$4.84	\$4.69	\$4.99	\$4.99	\$5.99	\$4.89	\$4.69
10 Plum Organics Stage 2 Pear, Purple Carrot & Blueberry (4 oz)	\$1.32	\$1.49	\$1.49	\$1.79	\$1.29	\$1.29	\$1.79
11 Vita Coco Pure Coconut Water (16.9 fl oz)	\$1.88	\$1.88	\$2.49	\$3.39	\$2.50	\$2.69	\$2.99
12 Rao's Homemade Marinara Sauce (24 oz)	\$6.28	\$7.99	\$6.99	\$9.09	\$7.99	\$7.39	\$7.19
13 Fage Total 0% All Natural Strained Yogurt (35.3 oz)	\$5.22	\$5.49	\$4.99	\$4.99	\$5.79	\$5.39	\$5.49
14 Annie's Shells & Real Aged Cheddar Macaroni & Cheese (6 oz)	\$1.48	\$1.69	\$1.59	\$2.29	\$1.69	\$1.59	\$2.19
15 Simply Orange Pulp Free Orange Juice (52 fl oz)	\$3.98	\$3.99	\$3.99	\$3.99	\$3.99	\$3.50	\$3.99
16 Stacy's Simply Naked Pita Chips, (7.33 oz)	\$2.38	\$3.49	\$2.99	\$3.49	\$3.00	\$2.99	\$2.25
17 Amy's Enchilada Cheese (9 oz)	\$3.98	\$4.49	\$4.49	\$4.49	\$4.49	\$3.79	\$5.39
18 Kashi GoLean Honey Almond Flax Crunch Cereal (14 oz)	\$3.28	\$3.49	\$2.99	\$4.59	\$3.49	\$3.26	\$4.99
19 Clif Energy Bar, Chocolate Chip (12 count)	\$9.48	\$11.28	\$12.00	\$11.99	\$12.00	\$9.97	\$16.20
20 Kerrygold Unsalted Pure Irish Butter (8 oz)	\$3.44	\$4.29	\$4.29	\$5.69	\$4.29	\$3.99	\$4.29
Total (Branded Grocery)	\$86.28	\$95.56	\$93.31	\$110.50	\$98.14	\$91.96	\$106.55
% Premium to Walmart		10.8%	8.1%	28.1%	13.7%	6.6%	23.5%
Total Grocery Spending (40 Products)	\$140.97	\$174.75	\$154.53	\$185.36	\$165.39	\$157.16	\$179.99
% Premium to Walmart		24.0%	9.6%	31.5%	17.3%	11.5%	27.7%

Source: Company websites and TAG research.

Note: Prices were gathered on July 11, 2019, 2019 in the Denver market.

ONLINE GROCERY PRICES – JUNE 2019

	Walmart	Amazon Fresh	Kroger	Safeway (Albertsons)	Sprouts	Target	Whole Foods
Non-Branded Grocery							
1 Organic Eggs, Large Grade A Brown (12 units)	\$3.97	\$2.99	\$2.99	\$4.59	\$3.99	\$3.99	\$3.99
2 Avocado, Large and Nonorganic (1 unit)	\$0.88	\$2.00	\$1.50	\$2.29	\$2.00	\$1.29	\$1.79
3 Granny Smith Apple, Nonorganic (1 unit)	\$1.06	\$1.25	\$1.50	\$0.80	\$0.54	\$0.44	\$1.02
4 Banana, Nonorganic (5 units)	\$1.15	\$1.53	\$1.25	\$1.40	\$1.05	\$0.45	\$0.95
5 Strawberries, Organic (1 lb)	\$2.77	\$2.50	\$2.50	\$4.59	\$2.50	\$3.29	\$2.50
6 Lemon, Nonorganic (1 unit)	\$0.42	\$0.69	\$0.69	\$0.69	\$0.33	\$0.50	\$0.69
7 Mini Watermelon (1 unit)	\$2.68	\$3.49	\$1.99	\$4.59	\$3.99	\$2.99	\$3.59
8 Cantaloupe Melon, Nonorganic (1 unit)	\$1.78	\$3.99	\$1.50	\$3.39	\$0.98	\$1.99	\$3.99
9 Yellow Bell Pepper, Nonorganic (1 unit)	\$1.18	\$0.74	\$1.25	\$1.25	\$1.25	\$1.69	\$0.83
10 Navel Orange (1 unit)	\$0.64	\$1.59	\$0.59	\$0.90	\$0.64	\$0.65	\$1.09
11 Yellow Onion (1 unit)	\$0.53	\$0.64	\$0.50	\$0.74	\$0.34	\$0.33	\$0.61
12 Ground Beef 20% Fat (1 lb)	\$4.34	\$4.29	\$3.49	\$3.49	\$4.99	\$4.00	\$4.99
13 Ribeye Steak, Choice, Boneless (1 lb)	\$9.97	\$15.66	\$12.04	\$12.99	\$12.79	\$13.99	\$13.99
14 Fresh Salmon (1 lb)	\$8.96	\$10.43	\$7.99	\$8.99	\$8.99	\$13.99	\$9.99
15 Pork Chops, Boneless (1lb)	\$4.88	\$5.19	\$4.49	\$2.99	\$4.99	\$5.49	\$7.99
16 Water (16.9 fl oz. 24 ct)	\$2.68	\$5.49	\$2.79	\$2.50	\$2.99	\$2.69	\$4.99
17 Flour (5 lb)	\$1.93	\$3.29	\$2.29	\$2.99	\$3.99	\$2.39	\$3.29
18 White Basmati Rice (2 lb)	\$3.26	\$3.69	\$4.79	\$4.09	\$5.99	\$3.39	\$3.69
19 Aluminum Foil (75 sq. ft.)	\$3.12	\$3.99	\$2.49	\$2.99	\$3.99	\$3.59	\$3.99
20 Plastic Wrap (200 sq. ft.)	\$2.12	\$2.79	\$1.99	\$2.89	\$3.29	\$2.19	\$2.79
Total (Non-Branded Grocery)	\$58.32	\$76.23	\$58.62	\$69.15	\$69.62	\$69.32	\$76.76
% Premium to Walmart		30.7%	0.5%	18.6%	19.4%	18.9%	31.6%
Branded Grocery							
1 Horizon Organic Whole Milk (1.89 L or 64 oz)	\$4.46	\$4.79	\$4.69	\$3.99	\$3.50	\$4.49	\$4.99
2 Silk Original Soy Milk (1.89 L)	\$3.17	\$3.99	\$3.29	\$2.99	\$2.99	\$3.19	\$3.99
3 Talenti Gelato, Sicilian Pistachio (16 oz)	\$3.98	\$4.29	\$4.99	\$5.69	\$4.99	\$4.19	\$5.49
4 La Croix Sparkling Water, Lime (12 fl oz. 8 count)	\$3.38	\$4.17	\$3.34	\$3.99	\$3.49	\$3.69	\$3.99
5 Justin's Classic Almond Butter (16 oz)	\$10.64	\$9.99	\$10.99	\$12.49	\$9.99	\$12.78	\$11.99
6 Emergen-c 1000 mg Drink Mix, Raspberry (30 count)	\$8.83	\$11.99	\$9.99	\$13.59	\$10.99	\$9.99	\$11.99
7 Seventh Generation Dish Liquid, Free & Clear (25 fl oz)	\$3.27	\$3.99	\$3.29	\$3.99	\$3.49	\$3.39	\$2.75
8 Daisy Sour Cream (16 oz)	\$1.98	\$2.69	\$2.29	\$2.69	\$2.39	\$1.99	\$2.69
9 Tom's Of Maine Long Lasting Unscented Deodorant (2.25 oz)	\$4.84	\$4.69	\$4.99	\$6.39	\$5.99	\$4.89	\$4.99
10 Plum Organics Stage 2 Pear, Purple Carrot & Blueberry (4 oz)	\$1.32	\$1.79	\$1.49	\$1.25	\$1.29	\$1.29	\$1.49
11 Vita Coco Pure Coconut Water (16.9 fl oz)	\$1.88	\$2.48	\$2.49	\$2.00	\$2.00	\$1.99	\$2.99
12 Rao's Homemade Marinara Sauce (24 oz)	\$6.28	\$8.39	\$7.99	\$9.09	\$4.99	\$7.39	\$8.99
13 Fage Total 0% All Natural Strained Yogurt (35.3 oz)	\$5.22	\$5.49	\$5.49	\$6.89	\$5.79	\$5.39	\$5.49
14 Annie's Shells & Real Aged Cheddar Macaroni & Cheese (6 oz)	\$1.48	\$1.79	\$1.59	\$1.00	\$1.67	\$0.99	\$1.09
15 Simply Orange Pulp Free Orange Juice (52 fl oz)	\$3.98	\$3.99	\$3.99	\$3.79	\$3.99	\$3.99	\$3.99
16 Stacy's Simply Naked Pita Chips, (7.33 oz)	\$2.38	\$3.49	\$3.99	\$4.59	\$3.99	\$2.50	\$3.29
17 Amy's Enchilada Cheese (9 oz)	\$3.98	\$4.79	\$4.49	\$5.69	\$4.49	\$4.29	\$5.39
18 Kashi GoLean Honey Almond Flax Crunch Cereal (14 oz)	\$3.28	\$4.29	\$2.99	\$4.59	\$3.49	\$3.39	\$4.99
19 Cliff Energy Bar, Chocolate Chip (12 count)	\$9.48	\$11.28	\$12.99	\$9.99	\$12.00	\$9.97	\$16.20
20 Kerrygold Unsalted Pure Irish Butter (8 oz)	\$2.56	\$3.79	\$2.99	\$2.99	\$4.99	\$2.69	\$3.49
Total (Branded Grocery)	\$86.39	\$102.16	\$98.35	\$107.68	\$96.51	\$92.48	\$110.27
% Premium to Walmart		18.3%	13.8%	24.6%	11.7%	7.1%	27.6%
Total Grocery Spending (40 Products)	\$144.70	\$178.39	\$156.97	\$176.83	\$166.13	\$161.81	\$187.03
% Premium to Walmart		23.3%	8.5%	22.2%	14.8%	11.8%	29.2%

Source: Company websites and TAG research.

Note: Prices were gathered on June 14, 2019, 2019 in the Denver market.

ADDENDUM**Important Disclosures:**

Valuation Method for Target Price: Price-to-Earnings, enterprise-value-to-EBITDA, P/E to growth, price to free cash flow, and discounted cash flow analysis.

Investment Risks: Telsey Advisory Group's (TAG's) equity research department covers consumer-focused sectors including apparel manufacturers, cannabis, children's and teen retailers, consumer electronics retailers, cosmetics, department stores, discounters, footwear, gaming and lodging, home furnishings retailers, home improvement retailers, internet, luxury goods, office supply retailers, off-price retailers, online travel agencies, restaurants, specialty apparel retailers, sporting goods retailers, and supermarkets. Risks across or specific to one or more of these sectors include volatility of commodity costs, consumer spending, currency, rising interest rates, weaker consumer confidence and unemployment rates. Additionally, access to capital, supply chain disruptions, commodity costs, private label distribution, currency, geopolitical uncertainty, unfavorable government regulations, lack of appropriate real estate sites, and the use of the World Wide Web to sell merchandise represent unique industry risks.

Analyst Certification

The Research Analysts, Joseph Feldman, Sarang Vora, CFA and Cristina Fernández, CPA, who prepared the research report hereby certify that the views expressed in this report accurately reflect the Analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

Company Specific Disclosures**Ratings Distribution & Investment Banking Disclosure**

Rating	Count	Ratings Distribution	Count	*Investment Banking
OUTPERFORM	41	43.16%	2	4.88%
MARKET PERFORM	54	56.84%	0	0.00%
UNDERPERFORM	0	0.00%	0	0.00%

On 09-11-2014 TAG launched a three-tiered rating system of Outperform, Market Perform, and Underperform to evaluate its stocks under coverage. Price targets continue to be used in conjunction with the new rating system.

Ratings Definition and Distribution

Our recommendation system is based on a stock's expected total return relative to the industry universe over the next 12 months.

We divide stocks under coverage into three categories, each defined by a prospective rate of return:

Outperform – the stock is expected to outperform the average total return of the industry universe over the next 12 months.

Market Perform – the stock is expected to perform in line with the average total return of the industry universe over the next 12 months.

Underperform – the stock is expected to underperform the average total return of the industry universe over the next 12 months.

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

The following are additional required disclosures:

Ownership and material conflicts of interest: TAG prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage.

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