



CONSUMER

MILLENNIALS MOVING IN: TAG'S TAKE ON INVESTING IN THIS DEMOGRAPHIC

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EXECUTIVE SUMMARY

MILLENNIALS – EXECUTIVE SUMMARY

Consumer companies are increasingly focused on capturing the mind and wallet share of Millennials, given their size and future spending power, which should exceed that of Baby Boomers.

CRITERIA	MILLENNIALS	BABY BOOMERS
Age:	> 15 – 34 years old.	> 50 – 69 years old.
Generation Size:	> ~88 million.	> ~79 million.
Tech Savviness:	> Natives.	> Learners.
Means of Communication:	> Text.	> Face-to-face / Phone call.
How to Reach:	> Social Media / Internet.	> TV, Newspapers, Radio, Catalogs.
Influenced by:	> Word of mouth (family, friends, celebrities, online shopping sites).	> Traditional advertising, Advice from experts / sales representatives.
Main Distribution Channels:	> Omnichannel (all).	> In-Store.
Shopping Experience Sought:	> Social, Interactive, Convenient.	> Customer Service.
Access vs. Ownership:	> Access (Airbnb, Uber and other sharing economy services).	> Ownership (purchase and own home, car, luxury goods).

MILLENNIALS – EXECUTIVE SUMMARY

Millennials are the largest population group in the U.S. and their discretionary spending power should increase to \$1.1T (40.9% of total) in 2035 from \$459B (28.1%) in 2015, according to TAG estimates.

Millennials Income and Discretionary Spending Power																				
Age Group	Under 5	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85-89	Above 90	Total
2015																				
Population (MM)	20.0	20.5	20.6	21.1	22.7	22.5	21.7	20.3	20.2	20.8	22.3	21.8	19.1	16.1	11.5	8.1	5.8	3.9	2.4	321.4
% of Total Population	6.2%	6.4%	6.4%	6.6%	7.1%	7.0%	6.7%	6.3%	6.3%	6.5%	6.9%	6.8%	5.9%	5.0%	3.6%	2.5%	1.8%	1.2%	0.8%	100.0%
% Population By Generations	19.0%			27.4%				19.1%				24.7%				9.9%				100.0%
	Generation Z (2000-2020)			Millennials (1980-2000)				Gen X (1965-1980)				Baby Boomer (1945-1965)				Silent Generation (1925-1945)				
# of Anticipated Households (MM)	7.9	8.1	8.1	8.3	9.0	8.8	8.5	8.0	7.9	8.2	8.8	8.6	7.5	6.3	4.5	3.2	2.3	1.5	1.0	126.5
Household Median Income (\$)	0	0	0	34,605	34,605	54,243	54,243	66,693	66,693	70,832	70,832	60,580	60,580	45,227	45,227	28,535	28,535	28,535	28,535	53,657
Total Spending Power (\$MM)	\$0	\$0	\$0	\$287,358	\$309,810	\$479,922	\$462,539	\$534,227	\$529,815	\$580,516	\$622,206	\$520,201	\$455,376	\$286,568	\$204,768	\$91,290	\$65,226	\$43,533	\$27,288	\$5,500,642
% of Total	0.0%	0.0%	0.0%	5.2%	5.6%	8.7%	8.4%	9.7%	9.6%	10.6%	11.3%	9.5%	8.3%	5.2%	3.7%	1.7%	1.2%	0.8%	0.5%	100.0%
Spending Power/Income % of Total	0.0%			28.0%				29.9%				34.3%				7.9%				100.0%
Total Discretionary Spending (\$MM)	\$0	\$0	\$0	\$87,261	\$94,079	\$141,546	\$136,419	\$153,448	\$152,181	\$173,872	\$186,359	\$156,216	\$136,749	\$89,439	\$63,909	\$24,310	\$17,369	\$11,593	\$7,267	\$1,632,018
Discretionary Spending %	30.4%	30.4%	30.4%	30.4%	30.4%	29.5%	29.5%	28.7%	28.7%	30.0%	30.0%	30.0%	30.0%	31.2%	31.2%	26.6%	26.6%	26.6%	26.6%	
% of Total	0.0%	0.0%	0.0%	5.3%	5.8%	8.7%	8.4%	9.4%	9.3%	10.7%	11.4%	9.6%	8.4%	5.5%	3.9%	1.5%	1.1%	0.7%	0.4%	100.0%
Discretionary Spending % of Total	0.0%			28.1%				29.4%				34.9%				7.6%				100.0%

Next 10 Years																				
Population (MM)	21.0	20.9	20.6	21.2	22.1	23.1	24.5	23.6	22.3	20.6	20.1	20.3	21.3	20.2	16.9	13.2	8.2	4.5	3.0	347.3
% of Total Population	6.0%	6.0%	5.9%	6.1%	6.4%	6.7%	7.0%	6.8%	6.4%	5.9%	5.8%	5.8%	6.1%	5.8%	4.9%	3.8%	2.4%	1.3%	0.9%	100.0%
% of Population By Generation	6.0%			24.4%				26.9%				17.6%				20.6%				100.0%
# of Households (MM)	8.3	8.2	8.1	8.4	8.7	9.1	9.6	9.3	8.8	8.1	7.9	8.0	8.4	8.0	6.7	5.2	3.2	1.8	1.2	136.7
Median Income (\$) (2.0% Annual Growth)	0	0	0	42,183	42,183	66,122	66,122	81,298	81,298	86,344	86,344	73,847	73,847	55,131	55,131	34,784	34,784	34,784	34,784	65,408
Total Spending Power (\$MM)	\$0	\$0	\$0	\$352,397	\$366,646	\$601,423	\$636,489	\$754,923	\$713,473	\$700,711	\$682,014	\$590,018	\$618,248	\$438,490	\$366,624	\$180,137	\$112,172	\$61,913	\$40,549	\$7,216,226
% of Total	0.0%	0.0%	0.0%	4.9%	5.1%	8.3%	8.8%	10.5%	9.9%	9.7%	9.5%	8.2%	8.6%	6.1%	5.1%	2.5%	1.6%	0.9%	0.6%	100.0%
Spending Power/Income % of Total	0.0%			10.0%				37.5%				27.3%				22.2%				100.0%
Total Discretionary Spending (\$MM)	\$0	\$0	\$0	\$107,012	\$111,339	\$177,381	\$187,723	\$216,839	\$204,934	\$209,872	\$204,272	\$177,182	\$185,660	\$136,854	\$114,425	\$47,970	\$29,871	\$16,487	\$10,798	\$2,138,619
Discretionary Spending %	30.4%	30.4%	30.4%	30.4%	30.4%	29.5%	29.5%	28.7%	28.7%	30.0%	30.0%	30.0%	30.0%	31.2%	31.2%	26.6%	26.6%	26.6%	26.6%	
% of Total	0.0%	0.0%	0.0%	5.0%	5.2%	8.3%	8.8%	10.1%	9.6%	9.8%	9.6%	8.3%	8.7%	6.4%	5.4%	2.2%	1.4%	0.8%	0.5%	100.0%
Discretionary Spending % of Total	0.0%			10.2%				36.8%				27.6%				22.7%				100.0%

Next 20 Years																				
Population (MM)	21.3	21.5	21.7	21.7	22.2	23.5	24.0	24.4	25.2	23.9	22.3	20.3	19.4	19.1	19.1	16.8	12.3	7.6	4.3	370.3
% of Total Population	6.1%	6.2%	6.2%	6.2%	6.4%	6.8%	6.9%	7.0%	7.2%	6.9%	6.4%	5.8%	5.6%	5.5%	5.5%	4.8%	3.6%	2.2%	1.2%	106.6%
% of Population By Generation	18.6%			26.3%				27.6%				16.9%				16.1%				106.6%
# of Households (MM)	8.4	8.5	8.5	8.5	8.7	9.2	9.4	9.6	9.9	9.4	8.8	8.0	7.6	7.5	6.6	4.9	3.0	1.7	1.7	145.8
Median Income (\$)	0	0	0	51,421	51,421	80,602	80,602	99,102	99,102	105,253	105,253	90,019	90,019	67,205	67,205	42,402	42,402	42,402	42,402	79,731
Total Spending Power (\$MM)	\$0	\$0	\$0	\$439,429	\$449,085	\$744,143	\$761,437	\$950,446	\$982,283	\$991,157	\$922,286	\$718,023	\$685,808	\$504,593	\$505,122	\$280,768	\$206,048	\$127,238	\$71,548	\$9,339,414
% of Total	0.0%	0.0%	0.0%	4.7%	4.8%	8.0%	8.2%	10.2%	10.5%	10.6%	9.9%	7.7%	7.3%	5.4%	5.4%	3.0%	2.2%	1.4%	0.8%	100.0%
Spending Power/Income % of Total	0.0%			25.6%				41.2%				20.4%				12.0%				100.0%
Total Discretionary Spending (\$MM)	\$0	\$0	\$0	\$133,440	\$136,373	\$219,475	\$224,575	\$273,000	\$282,145	\$296,864	\$276,237	\$215,622	\$205,948	\$157,485	\$157,650	\$74,768	\$54,870	\$33,883	\$19,053	\$2,761,388
Discretionary Spending %	30.4%	30.4%	30.4%	30.4%	30.4%	29.5%	29.5%	28.7%	28.7%	30.0%	30.0%	30.0%	30.0%	31.2%	31.2%	26.6%	26.6%	26.6%	26.6%	
% of Total	0.0%	0.0%	0.0%	4.8%	4.9%	7.9%	8.1%	9.9%	10.2%	10.8%	10.0%	7.8%	7.5%	5.7%	5.7%	2.7%	2.0%	1.2%	0.7%	100.0%
Discretionary Spending % of Total	0.0%			25.9%				40.9%				21.0%				11.6%				100.0%

Source: U.S. Census Bureau; Bureau of Labor Statistics; TAG Research.

MILLENNIALS – TAG'S TOP PICKS

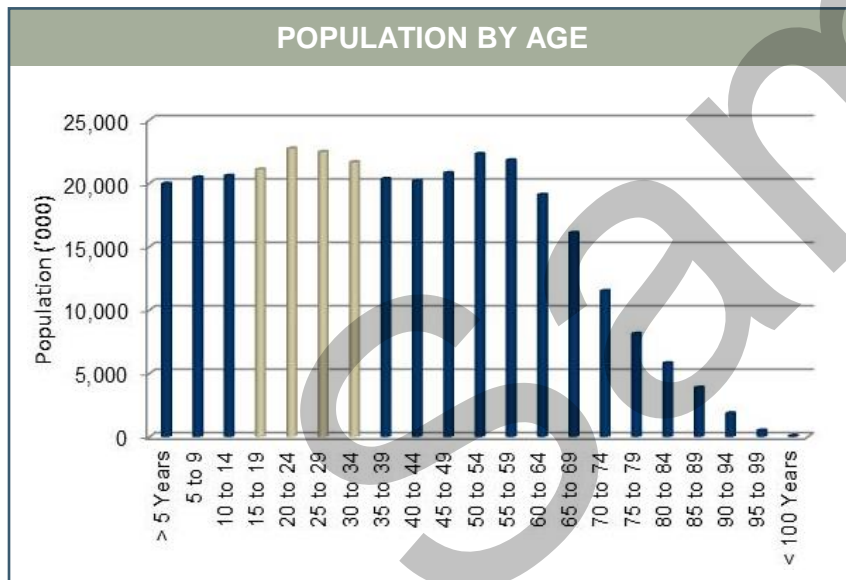
SECTOR		TOP PICKS		
Apparel:	VF Corporation (VFC—Outperform, PT=\$70)			
Department Stores:	Macy's (M—Market Perform, PT=\$44) Nordstrom (JWN—Market Perform, PT=\$52)		NORDSTROM	
Discounters & Supermarkets:	Costco (COST—Outperform; PT=\$170) Target (TGT—Outperform; PT=\$91) Whole Foods Market (WFM—Market Perform; PT=\$30)			
Footwear & Sporting Goods:	Nike (NKE—Outperform; PT=\$72) Steven Madden (SHOO—Outperform; PT=\$40) Under Armour (UA—Outperform; PT=\$99)		STEVE MADDEN	
Gaming & Lodging:	Churchill Downs (CHDN—Outperform; PT=\$175) InterContinental Hotels Group (IHG—Market Perform; PT= \$35)		CHURCHILL DOWNS INCORPORATED	
Hardlines:	Best Buy (BBY—Outperform; PT=\$38) Dick's Sporting Goods (DKS—Outperform; PT=\$54) Williams-Sonoma (WSM—Outperform; PT=\$65)			
Luxury & Cosmetics:	Burberry (BRBY—Market Perform; PT=£13) ULTA, Inc. (ULTA—Outperform; PT=\$215)	BURBERRY		
Media:	Viacom, Inc. (VIAB—Outperform; PT=\$60) comScore, Inc. (SCOR—Outperform; PT=\$60)			
Restaurants:	Chipotle Mexican Grill (CMG—Market Perform; PT=\$448) Panera Bread Co. (PNRA—Outperform; PT= \$225) Sonic Corp. (SONC—Outperform; PT=\$37)			
Specialty Stores:	H&M (HMB-SE—Outperform; PT=SEK340) Inditex (ITX.MCE—Outperform; PT=€38) lululemon (LULU—Outperform; PT=\$76)		INDITEX	lululemon  athletica

OVERVIEW

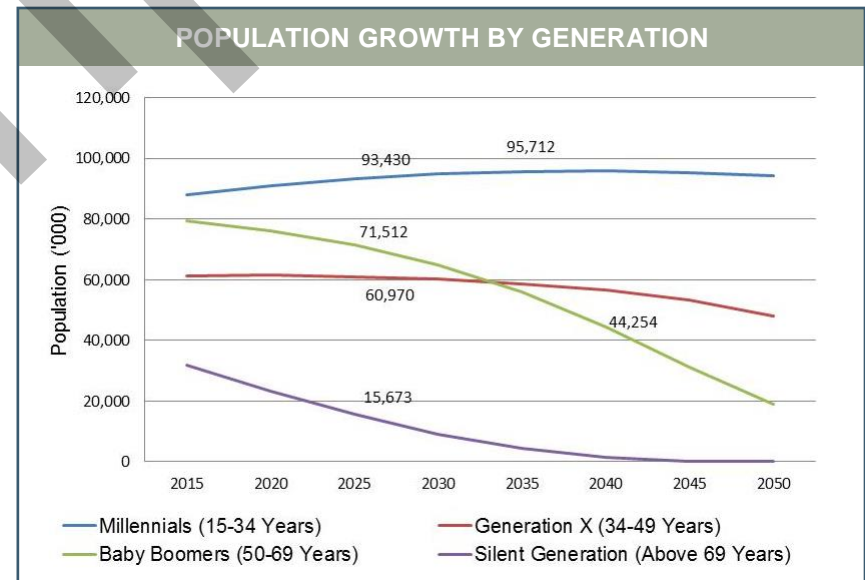
MILLENNIALS – WHO ARE THEY?

> The “We” Generation of Millennials Transitions From the “Me” Generation of Boomers

- Currently, 15-34 years old, comprising the largest U.S. population group with an estimated total of ~88MM people (~27.5% of the population), ahead of the Baby Boomers (50-69 years) at ~79MM people (~24.5% of the population).
- Millennials are value-conscious, with price being the greatest influencer on decision making.
- High student loans and tough employment trends have changed their approach to key life events.
 - 36.4% of women and 42.8% of male Millennials live with their parents or relatives, up from ~25% and ~32% respectively from 1990 and 2000, according to Pew Research Center.
 - Prefer the “use” of assets, rather than ownership, resulting in sharing or rental models.
 - Average age of marriage continues to rise, 27 for women and 29 for men, up from 23 for women and 26 for men in 1990 and 20 and 22 in 1960, which delays other life events.



Source: U.S. Census Bureau; TAG Research



Source: U.S. Census Bureau; TAG Research

MILLENNIALS – WHO ARE THEY?

> **Idealistic, Individualistic, Realistic, Confident, Self-expressive**

- Millennials are ambitious but not entirely focused.
- Goal-oriented and seek positive feedback, but not always willing to work long hours.

> **Technology-Driven**

- The first generation to have grown up with technology, making them early and fast adopters.
- Seek convenience and speed, making omnichannel retailing and fast-casual dining important.
- Social media, blogs, reviews, emails and text messages influence their purchasing behavior.
- Options, such as order click-and-collect and shorter delivery times, have high value.
- On-demand, such as entertainment, food, and transportation, is in demand.

> **Active and Healthy**

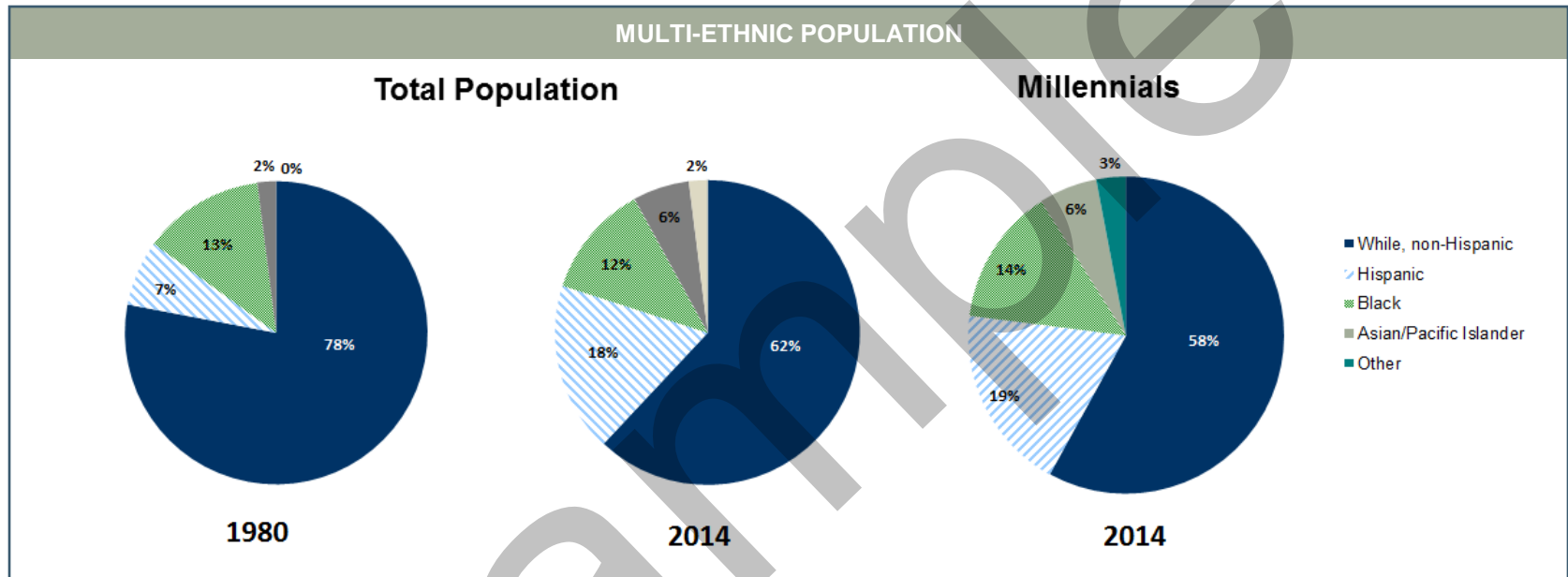
- Aspire to healthy living.
- Prefer casual lifestyle.
- Express care for their community and environment.
- Prefer locally and responsibly sourced products.
- Motivated by time to pursue interests.

> **Experiential**

- Open to change and willing to try new things.
- Ready to spend on and seek out experiences.
- Influenced by global and multi-ethnic cultures.
- Make decisions based on peer feedback and reviews.
- Desire comfort, ease, and quality of life.

MILLENNIALS – WHO ARE THEY?

- > **Multi-Ethnic Population:** The influence of the Hispanic and Asian population is increasing. Together, these groups represent 25% of the total Millennial population in the U.S., and 24% of the total U.S. population vs. 9% in 1980.



Source: U.S. Census Bureau, Pew Research, ets.org and TAG Research.

- > **Gender Composition:** Interestingly, male Millennials outnumber female Millennials, unlike the total U.S. population.

GENDER COMPOSITION		
Gender	National	Millennials
Male	49.3%	51.0%
Female	50.7%	49.0%

Source: U.S. Census Bureau and TAG Research Estimates.

MILLENNIALS – WHY ARE THEY IMPORTANT?

> Beneficiaries of the Greatest Transfer of Wealth

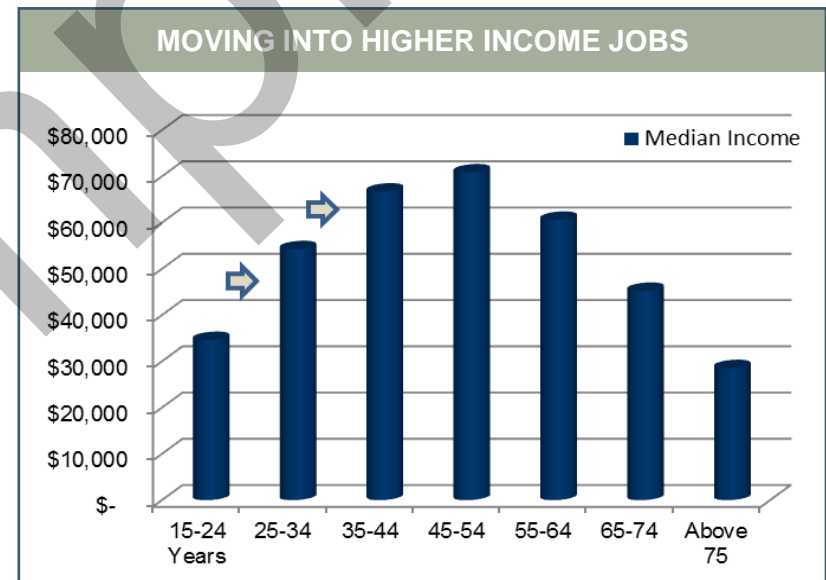
- Millennials will receive \$30 trillion from their parents over the next few decades, about 2.5x more than the \$12 trillion Baby Boomers received, according to a report by Accenture.

> Moving into Higher Income Jobs

- Millennials' median salaries should increase to \$65,000-\$70,000 per year over the next two decades, up from \$34,000-\$55,000 currently, an average increase of 54%, according to the U.S. Census Bureau.



Source: Accenture



Source: U.S. Census Bureau; TAG Research.

TAG VIEW:

Millennials will become the largest spending group over the next 20 years.
The group should benefit from wealth transfer and aging into higher income jobs.

MILLENNIALS – WHAT IS THE BEST WAY TO INVEST IN THE THEME?

- > **Approach:** We evaluated the relevance of our coverage universe for Millennials based on the following metrics:
 - **Brand Strength**
 - Company demonstrates solid brand strength and brand recognition, as well as deep customer loyalty.
 - **Consumer Experience**
 - Company is able to provide consumers with a consistent, convenient, and memorable retail experience that enhances its brand.
 - **Omnichannel / Technology**
 - Company has invested in and installed sophisticated technologies, including omnichannel retail, beacon technology, mobile apps, advanced POS, supply chain changes, etc., or has clearly defined initiatives to do so.
 - **Social Media**
 - Company has a sophisticated social media presence that reaches a significant number of its consumers.
 - **Social Responsibility**
 - Company values and demonstrates corporate social responsibility.
 - **Value**
 - Company is able to provide value to its consumers through the price-quality relationship and experience.

SECTOR COMMENTARY

MILLENNIALS – APPAREL OVERVIEW

APPAREL



- > We have a positive view on the Apparel sector given increasingly diversified business models in terms of channels, demographics and strong brand portfolios. As such, we believe apparel companies have vast opportunities to appeal to Millennials.
- > According to a report by Androit Digital, Millennials are very brand-loyal, in fact more so than their parents, and are highly informed regarding pricing and product quality and even business practices. We believe apparel companies remain focused on growing their brands through product quality and innovation.
- > Further, according to Androit Digital, most Millennials want brands that are willing to change based on consumer opinion and feedback to maintain future relevance. In addition, they want brands to be more about the consumer and less about the brand. Apparel companies continue to make greater investments in marketing/branding through multiple media channels whether it be digital, mobile, social media and TV.
- > The bottom line is that many apparel brands are using their decades of authenticity to play to their strength while in the process of revitalizing their overall image through innovative products, new-age marketing techniques and elevated in-store experiences in order to resonate with the Millennial consumer.

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MILLENNIALS – APPAREL TRENDS & DRIVERS

Some of the actions being taken by apparel companies to appeal to Millennials include:

- > **Product Extension & Technology:** Extending products outside core categories to offer a well-rounded assortment that appeals to multiple aspects of one's lifestyle.
 - Active/Athleisure continues to be a standout performer across categories.
 - Infusing technology into fabrications increases functionality and enhances quality.
- > **Marketing:** Tapping into the hearts of the consumer through enhanced marketing campaigns that tell a story and engage younger demographics.
 - Using more age appropriate models/celebrity figures, locations/scenery and props.
 - Sponsoring grass roots events.
 - Hosting unique/exclusive in-store events/sweepstakes.
 - Interacting through social media platforms (Facebook, Twitter, Instagram).
- > **In-Store Experience:** Remodeling stores and selling space to create a meaningful brand experience.
 - Elevating imagery/visual presentation.
 - Improving the use of floor space with updated fixtures and shop-in-shops, and reducing clutter through tight inventory management and social seating/eating areas.
 - Increasing the frequency of product flow to create a constant sense of newness.

MILLENNIALS – APPAREL FOCUS NAMES

> VF Corporation (VFC—Outperform, PT=\$70)

- VF Corporation's diverse portfolio of more than 30 brands has the ability to reach a broad range of consumer needs whether they be activity-based or lifestyle driven.
- Further, the company delves into consumer insights, documents the information and uses these insights to inform innovation and concepts that lead to new product franchises.
- Digital advertising initiatives such as social media and mobile platforms as well as sponsorship of major sporting, musical and special events are creative vehicles to connect with the consumer, especially Millennials. Last year, VF spent 5.8% of revenue on overall advertising compared to 5.3% in 2012.
- We believe Outdoor & Action Sports, representing 60% of annual revenue, offers the largest opportunity to engage the Millennial consumer.
 - The North Face — A goal is to inspire and develop the next generation of athletes and outdoor enthusiasts.
 - Timberland — Marketing campaigns have featured digital content touting an outdoor life-styler, who is trendy and outdoorsy.
 - Vans — The brand's "Warped Tour" is touted as the best Millennial and Gen Z event experience on tour.

MILLENNIALS – DEPARTMENT STORES OVERVIEW

DEPARTMENT STORES



- > In general, we believe it will be a challenge for department stores to attract Millennials, especially given that the channel's core demographic profile tends to be an older female, age 35-65 years old.
- > That said, department stores have spent years of investment in creating the omnichannel experience given massive advancements in technology in general, unparalleled communication access, and media exposure that allowed people to spread information faster to a wider audience.
 - Investments in enhancing the omnichannel experience is at the forefront given the Millennials' appetite for technology and ability to browse, research and shop across multiple platforms wherever and whenever they prefer.
- > For department stores, bricks-and-mortar is still important and therefore elevating the in-store experience is another means to engage Millennials.
- > Efforts to directly communicate with and frequently engage Millennials through more effective mediums such as social media and digital platforms are priorities.

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MILLENNIALS – DEPARTMENT STORES TRENDS & DRIVERS

Department store initiatives that could help attract Millennials include:

- > **Omnichannel:** Enhancing omnichannel capabilities and their overall experience by investing in e-commerce functionality and product services (search, product info, reviews and check-out) as well as speed of delivery (reducing cycle/lead times, BOPUS, ship-from-store, same-day pick-up).
- > **In-Store Experience:** Elevating the in-store experience by updating store formats, department layouts and visual product presentation; introducing unique services and digital capabilities.
- > **Product Differentiation:** Increasing differentiated brand/product penetration to lessen the ability to price match on the internet with:
 - Private label brands that offer new fashions, value and quality.
 - Exclusive styles from national labels.
- > **Marketing:** Modernizing marketing to have a greater ROI and materially increase impressions.

MILLENNIALS – DEPARTMENT STORES FOCUS NAMES

> Macy's (M—Market Perform, PT=\$44)

- Although Macy's is working to improve its core business, we believe there are several initiatives that are aimed at elevating the overall Macy's brand and omnichannel experience to regain lost market share as well as acquire a wider and younger consumer base.
- With beauty and cosmetics being called-out as an outperforming and growing category, there are 42 Blue Mercury openings on tap in 2016. We believe this is an appealing growth vehicle as it offers a new, differentiated and social brand and service-oriented experience that should appeal to Millennials.
- Given the younger consumers' gravitation towards value, we believe the company's off-price concept, Backstage, is a great way to introduce the Millennial group to the brands and affordable price points offered at Macy's. For 2016, there are 16 scheduled to open and while still a test, we believe 2016 will be an instrumental year to learn how to optimize this concept.
- Although we believe Macy's is one of the farthest along and has one of the most successful mobile apps, the company is investing to enhance the overall functionality of its mobile/digital platform.
- Partnerships such as The Sunglass Hut, Finish Line and Starbucks offer a differentiated branded experience, with the latter also providing the social scene that Millennials crave.

MILLENNIALS – DEPARTMENT STORES FOCUS NAMES

> Nordstrom (JWN—Market Perform, PT=\$52)

- We believe Nordstrom is best-positioned within the department store sector to capture the Millennial demographic given its relentless focus on personalized customer service offerings through its well-established multi-channel business model.
- **Service & Experience is Key Advantage.** Nordstrom is already well-established in terms of blending the store experience with the convenience of shopping online, which is key to attracting Millennials. In fact, its multi-channel customer shops 3-4x more than a single-channel customer.
 - Mobile, an important channel to Millennials, has played an integral part in driving customer engagement. Nordstrom has indicated that 90% of its customers use smartphones; its service offerings include near-store notifications, personalized homepage and loyalty program integration. Further, mobile POS is used in all stores.
- **Strong Brands & Differentiated Product.** We believe Nordstrom remains focused on staying relevant through well-known and diversified brands and assortments.
 - Trunk Club is a personalized service that could appeal to Millennials.
 - Top Shop and its Pop-In@Nordstrom shop are examples of unique concepts that should appeal to Millennials.
- **Channel Diversification.** The company has previously indicated that Nordstrom Rack, combined with HauteLook, has been an effective means to attract a younger demographic that could potentially become a full-line Nordstrom customer over time.

MILLENNIALS – DISCOUNTERS & SUPERMARKETS OVERVIEW

DISCOUNTER & SUPERMARKETS



- > We have a positive view on **Discounters** and **Supermarkets**. These sectors are relatively more stable than other parts of Retail as they cater to all demographics, given their need-based products, mainly consumables. Millennials, while an important group, is a subset of the overall customer base.
- > **Discounters** cater to a broad spectrum of demographics, particularly lower and middle income groups, with a greater focus on value than demographics. That said, these retailers are adjusting the product mix and opening smaller stores in metro markets to cater to Millennials. In addition, discounters are actively investing in technology to support digital sales and offer convenience via delivery and supply chain enhancements, as they merge physical and digital seamlessly.
- > The **Supermarket** sector generates ~\$600B in annual sales, with an estimated CAGR of 2.5%. The sector is bifurcated into traditional and specialty grocery, with the latter focused on Millennials' desire for healthy (natural and organic) and ready-to-cook meal options. That said, traditional grocers are catching up by increasing their natural and organic items, many of which are owned by large CPG companies. Supermarkets also are investing in technology to offer delivery and pick-up, an emerging trend to cater to Millennials.
- > *We believe food is the new fashion among Millennials and supermarkets are at the center of this transformation.*

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MILLENNIALS – DISCOUNTERS & SUPERMARKETS TRENDS & DRIVERS

- > **Value:** All consumers are value-focused, especially Millennials given their stage of life, combined with lower income and more student debt than prior generations. This trend should continue to favor discounters.
 - About ~33% of Costco's new member signups in 2015 were Millennials.
 - Walmart sees Millennials as the most value-driven generation, even slightly ahead of Gen X. The company's data indicate that ~66% of Millennials shopped at Walmart in February 2016. Walmart has increased its market share with Millennial moms by 450 bps in the past two years.
 - Whole Foods plans to open a new smaller concept, named "365", focused on value offerings.
- > **Healthy Lifestyle:** Millennials gravitate to healthy options, such as natural and organic products, ethnic/authentic products, and less processed/packaged products. In addition, their busy lifestyle supports the growth of ready-to-cook and prepared foods.
 - Kroger, Target, and Whole Foods are all trying to expand into these new areas.
- > **Omnichannel:** The shop anywhere, anytime concept has resulted in retailers increasing spending on omnichannel capabilities, with website enhancements, such as improved search, detailed product reviews, and easy check out. This is true for all retailers regardless of customer segment or merchandise offering.
- > **Data Analytics and Digital Marketing:** The shift in advertising toward social media is primarily targeted at Millennials. Retailers are analyzing data to enhance personalization through tailored marketing and merchandising.

MILLENNIALS – DISCOUNTERS & SUPERMARKETS TRENDS & DRIVERS

- > **Speed of Delivery:** Delivery everything, including grocery, is what Millennials want.
 - Retailers are investing in supply chain enhancements, such as pick-up in-store and ship-from-store, to reduce delivery time and costs.
 - Target's new order management system routes an order to a store or distribution center where inventory is closest to the consumer. Target also uses ship-from-store.
 - Walmart is testing curbside pick-up, along with ship-from-store and pick-up-in-store.
 - Costco and Whole Foods have partnered with Instacart for delivery.
 - There has been active participation from tech companies to provide convenience via delivery. Amazon, Google, Instacart, and Shipt are all attempting to improve delivery.
 - Retailers are testing smaller, more productive stores that are closer to target consumers and offer curated assortments.
 - Dollar General is testing a smaller format, primarily to cater to urban consumers.
 - Target is rolling out new urban stores and college stores to connect with Millennials.
- > **Differentiation via In-store Experience:** Investment in visual merchandising, customer service standards, and customer experience via the use of handheld devices and free product demonstration and food tasting programs are becoming the norm.
 - Target has hired visual merchants to improve aesthetics and has provided technological devices to associates to assist customers.
 - Whole Foods has among the highest in-store service levels that resonate with Millennials.

MILLENNIALS – DISCOUNTER & SUPERMARKETS FAVORITE IDEAS

- > **Costco (COST—Outperform; PT=\$170):** Over the next decade, Costco should benefit as Millennials get married, start a family, move to the suburbs, buy a house, and increase their demand for value via bulk merchandise. In the near term, Costco is successfully changing its product mix to more natural and organic items and ready-to-bake products, along with investing in its website and supply chain (delivery partnership with Google and Instacart). Costco is testing new ways to attract Millennials, such as recently running its second nationwide Living Social offer for new members.
- > **Target (TGT—Outperform; PT=\$91):** Across all major departments, Target is introducing products that resonate with Millennials. In food, Target is upgrading its assortment to include more natural, organic, and ready-to-eat products. The introduction of two new brands (Pillowfort and Cat & Jack) in kids, the expansion of activewear in apparel, and new trend-right merchandising in home, all target Millennials. Target also continues to enhance website and supply chain functionalities, which is driving solid growth.
- > **Whole Foods Market (WFM—Market Perform; PT=\$30):** The store is in the sweet spot of Millennials' eating preferences, offering a greater selection of healthy lifestyle/natural and organic products. Taking one step further, Whole Foods is set to launch its new "365" format, which is aimed at Millennials, who seek healthy food, value, and convenience. In addition, Whole Foods' digital efforts, including social media and its delivery partnership with Instacart, are starting to connect with Millennials. Overall, the food quality, experience, and service levels resonate with Millennials.

MILLENNIALS – FOOTWEAR & SPORTING GOODS OVERVIEW

FOOTWEAR & SPORTING GOODS



- > **Sporting Goods Market Overview:** We estimate that the Global Sporting Goods market totaled ~\$395B in 2014. We expect the industry to grow 4%-6%, driven by LSD-MSD growth in mature markets (increases in discretionary spending, appetite for more premium products, and beneficiary of ath-leisure trend) and HSD-DD growth in emerging markets (emerging middle class with higher discretionary income).
 - **2016 Outlook:** Heading into 2016, we see another strong year for Sporting Goods as athleisure remains a key driving force in apparel and footwear. In addition, we expect the space to benefit from a ramp up in demand creation and product launches in 1H16 ahead of the UEFA Euro Championships and Summer Olympics in Rio.
- > **Footwear Market Overview:** We estimate that the Global Footwear market totaled ~\$361B in 2014. We expect the industry to grow 4%-6%, driven by LSD-MSD growth in mature markets (increases in discretionary spending and higher ASPs as companies pass along higher sourcing costs) and HSD-DD growth in emerging markets (emerging middle class with higher discretionary income).
 - **2016 Outlook:** On the Footwear side, we believe that inventory issues and markdowns over the holiday in the U.S. will lead to a cautious posture in 2016, particularly on the wholesale side as department stores are likely to reign in orders and opt to buy closer to need.

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MILLENNIALS – FOOTWEAR & SPORTING GOODS TRENDS & DRIVERS

- > **Sporting Goods:** Athleisure has been a driving force in the apparel market with activewear representing ~16% of sales in 2014, up from ~14% in 2011 (NPD). Athletic footwear has also been gaining share with 2015 sales up 9% YoY, outpacing total footwear growth at 2% YoY (NPD).
 - **Healthy Lifestyle** – Millennials value a healthy lifestyle and are willing to pay up for it. Digital agency, Deep Focus, explained in their report that Millennials are willing to cut spending in other categories to spend more on health-related purchases.
 - **Casualization** – Dress codes for the work place and other social occasions have become more lenient, shifting to a more casual style (NPD).
 - **Desire for Comfort** – As opposed to style or brand name, comfort and quality are now two traits that are becoming increasingly important to Millennials (NPD). A study done by Cotton Inc. shows that 42% of consumers reported comfort as the number one reason for liking their favorite activewear item.
 - **Personalization** – Millennials value individualization and have a desire to make something their own. The ability to customize products resonates well with this quality. A survey done by Bain showed that 25%-30% of online shoppers would like to have customized options. The same study went on to show that customers who personalized a product for a brand visited its website more frequently, stayed on the page longer, and were more loyal to the brand.
 - **Digital/Connected Fitness** – Millennials – referred to as “the digital generation” – easily adopt and readily use technology as a part of their daily lives. Given that Millennials also value a sense of community and social interaction, the digital/connected fitness trend plays well into this as it allows for Millennials to track, interact with, and share their physical activity. A study by MDDI shows that ~50% of sport band users are Millennials.
- > **Footwear:** Athleisure has also been a big influence on the non-athletic Footwear industry. We believe brands like Steve Madden and Sperry have benefited from casual sneaker trends (not just technical) and have been infusing comfort elements into their offerings.
 - **Fast Fashion** – Millennials want the best fashion at a low cost, on demand. With little money in their pocket, and a desire for quick fashion trends, the fast-fashion trend ties in well with Millennial lifestyles. A study by Hanover Research showed that 52% of Millennials were more likely to make an impulse purchase than any other generation – bracketing them as the generation that “gets what they want, when they want it.”

MILLENNIALS – FOOTWEAR & SPORTING GOODS FAVORITE IDEAS

- > **Sporting Goods**—Given the strength of athleisure and the importance of living a healthy lifestyle, we believe that all of our brands are well positioned to capitalize on becoming a bigger part of the Millennial wallet. In particular, we would highlight Under Armour and Nike.
 - **Under Armour (UA—Outperform; PT=\$99):** Under Armour is the youngest sporting goods brand in our coverage space. Unlike their parents, Millennials grew up with Under Armour on the playing field and have seen the brand expand into new categories and sports. We believe that the brand's reputation (focused on technology and performance, for being young and hungry, for being a leader in digital apps and products) resonates strongly with Millennials.
 - **Nike (NKE—Outperform; PT=\$72):** Nike is the market leader in sporting goods and dominates here in the U.S. in some of the categories (e.g. basketball) and channels (specialty mall footwear and sporting goods stores) that are important to the Millennial consumer. It is best-in-class at demand creation and is also a leader on the digital front (e.g. Fuelband, NTC app, social media outreach, grass roots events etc.). Nike also benefits from their NIKEiD option which allows for customers to customize their product.
- > **Footwear**—Fast fashion has been a dominant force on the apparel side of the business and consumers now expect to get top notch fashion at low prices, with lots of newness throughout the season. On the Footwear side of the business, we view Steve Madden as the brand that is best suited to meet those demands.
 - **Steve Madden (SHOO—Outperform; PT=\$40):** One of Steve Madden's biggest competitive advantages is its "test and react" business model, where industry-low lead times (6-8 weeks vs. 3-4 months) enable the brand to be quick and nimble with fashion trends. That makes it a good match for Millennials who prefer to shop on the fast-fashion model. The brand also was an early adopter of e-commerce/omnichannel and does a good job of staying engaged with its customers via social media, a great website, and use of fashion bloggers and style icons that are relevant to Millennials.

MILLENNIALS – GAMING & LODGING OVERVIEW

GAMING & LODGING



- > Millennials key attributes as it relates to gaming and lodging:
 - 24% intend to take more trips in the next year, 18% intend to take fewer – wider differential than all other age groups.
 - 9% view gambling as a key attribute of a vacation vs. 10%-13% for other age categories.
 - Most prefer a city trip and/or a food vacation.
 - Las Vegas is the only gaming related market that makes the top 10 destinations – non-gaming activities are ~65% of revenue.
 - Slot machines are seen as boring, prefer social media activities.
 - Much prefer DFS: average wager \$465 vs. \$150 on traditional gaming.
 - They grew up playing video games – 27MM people watched the League of Legends online, while only 25MM watched the Masters.
 - Brand loyalty is much more fragile.
 - Much more amenable to utilizing the shared economy.

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MILLENNIALS – GAMING & LODGING TRENDS & DRIVERS

> Gaming

- Focus on skill-based games within traditional gaming context, such as skill-based bonus rounds in slot machines.
- Proprietary table games with a social element.
- Enhanced technology and loyalty on the casino floor.
- Establishing a social casino presence to extend the relationship engagement beyond the casino floor.
 - Playing branded slots and tables in a “freemium” model online.
 - Driving loyalty through social channels to increase B&M play.

> Lodging

- Designing targeted hotel brands with a tailored offering, competitive pricing, and features such as video games in the lobby.
- Hi-tech operations: smartphone-based room keys, property based apps, hi-tech lobbies.
- Internet-savvy: last minute cancellation policies provide opportunity for OTA's to recapture business, causing Lodging companies to experiment with new cancellation policies.
- More likely to use shared economy as substitute.
 - VRBO which has an advantage in some circumstances.
 - Airbnb-type model is being experimented in hotel branded context.

MILLENNIALS – GAMING & LODGING FAVORITE IDEAS

> **Churchill Downs (CHDN—Outperform; PT=\$175)**

- Big Fish Games (32% of total company adj. EBITDA in 2015) is a leading social gaming business targeting Millennials.
- Social gaming evolution will be an important link to traditional gaming as companies seek to establish a link to consumers outside of bricks and mortar casinos and racetracks.
- The social gaming business both in casual play and casinos has established permanence over the past few years that warrant increasing attention from the capital markets. Big Fish has been increasing its share of casino-style and casual free-to-play games in the market.

> **InterContinental Hotels Group (IHG—Market Perform; PT= \$35)**

- Numerous brands catering to the preferences of Millennials, including:
 - Acquisition of Kimpton hotels in 2014, a leading collection of boutique hotels and restaurants in the United States. The boutique hotel segment has been the fastest growing in the hospitality industry over the last four years, with demand, supply, and RevPAR growth for boutique hotels in the U.S. each significantly outperforming the overall industry, driven by Millennial demand.
 - The opening of the first EVEN Hotels in 2014, a lifestyle brand catering to wellness-minded travelers. EVEN focuses on eating well, keeping active, being productive, and relaxing environments while on the road, all cornerstones of the Millennial mindset.
 - Hotel Indigo, a global boutique hotel brand which reflects the local community. Each Hotel Indigo property is unique and designed to reflect the local culture, character and geography of the surrounding area. Recent Hotel Indigo openings include NYC's Lower East Side and Phuket, Thailand.

MILLENNIALS – HARDLINES OVERVIEW

HARDLINES



- > We expect a mixed year for Hardlines retailing. We continue to see the strongest growth in the **Home Improvement** sector, which is benefiting from maintenance & repair work, new household formation, and home remodeling as a result of housing turnover and home price appreciation. We expect household formation and remodel spending to also benefit the **Home Furnishings** sector, but see profitability pressured by elevated promotions, increased competition, and a shift to the online channel.
 - Millennials are contributing to the improvement in the housing market. With better jobs, some are now able to move out of their parents homes and form new households. While Millennials have lower incomes and more student debt than prior generations, some are beginning to form families and become first time home owners.
- > We are also positive on the **Sporting Goods** sector, driven by healthier lifestyles and the athleisure trend. Millennials are healthier than previous generations, lead more active lifestyles, and dress more casually.
- > While the **Consumer Electronics** industry is not growing, Millennials are tech-savvy and we see them upgrading to the latest consumer electronics devices and adopting smart technologies in their homes.
- > The **Office Supply** sector seems the most disadvantaged as it relates to Millennials' habits, as this group has grown up in an electronic world and likely sees less use for traditional office and paper products.

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MILLENNIALS – HARDLINES TRENDS & DRIVERS

- > In the **Home Improvement** sector, companies are catering to Millennials by enhancing e-commerce capabilities, facilitating in-store purchases, and offering smart home products. Examples include: 1) offering buy online, pick up in store; 2) expanding the product assortment available online (Home Depot has over 1MM SKUs online vs. 35,000 in store); and, 3) adding content and instructional videos to their websites.
- > In **Arts & Crafts** and **Home Furnishings**, we see companies like Bed Bath & Beyond, Ethan Allen, Michaels, Pier 1, and Williams-Sonoma being active in social platforms like Facebook, Instagram, and Pinterest. Millennials have the ability to personalize in arts & crafts and home furnishings, which has made monogramming more prevalent. They are also passionate about cooking and food, which should drive demand for housewares and cookware items.
- > In **Sporting Goods**, the focus on Millennials is largely through adding technology to products and brands to the assortment, as well as shifting to more digital marketing. Millennials tend to live healthier lifestyles than Gen Xers and Baby Boomers, and we see fitness as a big part of their lives, which bodes well for sporting goods retailers.
- > In **Consumer Electronics**, popular products include 4K televisions and fitness devices, both of which satisfy Millennials' desire for experiential activities and healthy lifestyles. While for some time Amazon seemed to be the retailer of choice for consumer electronics, Best Buy has gained ground with its improved e-commerce experience and free shipping on orders over \$35.

MILLENNIALS – HARDLINES FAVORITE IDEAS

- > **Best Buy (BBY—Outperform; PT=\$38):** The company has transformed its operations and is executing at a high level. While the consumer electronics industry is challenged due to a decline in tablets, we expect a better 2H16 driven by new mobile phone launches, such as the iPhone 7. In recent years, Best Buy has improved its website and mobile experience, invested in price and customer service, elevated the store presentation with shop-in-shops from Apple, Samsung, Sony, and others, and shortened shipping times by utilizing ship from store. All these make Best Buy a compelling retailer for Millennials to shop at for their consumer electronics needs.
- > **Dick's Sporting Goods (DKS—Outperform; PT=\$54):** The company is the one major sporting goods retailer in the U.S., with increased focus on apparel and footwear, as well as women and young athletes. While the majority of its products come from technical brands, such as Nike, Under Armour, and The North Face, Dick's has been adding fashion via its private label brand, Calia. Its website experience is set to meaningfully increase in 2017 when it takes the operation in-house.
- > **Williams-Sonoma (WSM—Outperform; PT=\$65):** The company is far ahead along the e-commerce curve, generating 50% of sales from the channel, with a high percentage of product being online-only. Of its three major brands (Pottery Barn, Williams-Sonoma, and West Elm), West Elm is the most focused on Millennials, catering to the group's values of affordable, personalized, locally sourced, and socially conscious products. As the generation grows and becomes more affluent, Williams-Sonoma could appeal to the group with its focus on quality food and cooking, an experience that is top of mind with Millennials.

MILLENNIALS – LUXURY & COSMETICS OVERVIEW

LUXURY/COSMETICS



- > We expect the global personal luxury market to remain sluggish again, with a similar growth rate in 2016 as the 1%-2% growth in 2015 at constant exchange rates. We see this growth rate as the “new normal” for the time being, as the Chinese luxury consumer continues to curtail spending and travel following personal austerity measures taken by the new government and the volatility of markets there.
- > The opportunity to capture Millennial mindshare comes from digital marketing. As the luxury goods industry is now increasing its focus on social media, the opportunity in the future to capture the attention and wallet share of Millennials exists.
- > In the near term, stronger growth from other luxury categories should continue to crowd out the personal luxury market, including cars, hospitality, and fine art.
- > FX continues to have an outsized impact. A lower euro has benefitted the continent, and southern Europe is seeing better growth. Overall trends appear to have held up well after a slowdown following the Paris attacks.
- > In Asia, FX is skewing Chinese spend to Japan and the mainland. Hong Kong and Macau remain significantly challenged. In the Americas, the strong dollar has curtailed spending by tourists in the U.S., while benefitting Canada and Mexico.
- > The market wobbles to start the year in the U.S. has continued the trend of uneven spending from local customers.
- > Beyond China, other emerging markets that had been engines of growth are also slowing meaningfully, including Russia, as commodity prices come under pressure.
- > Accessories and cosmetics continue to outperform apparel, as the RTW fashion cycle has not been supportive. Wholesale destocking, particularly in Asia, remains a headwind as well.

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MILLENNIALS – LUXURY & COSMETICS TRENDS & DRIVERS

- > **Luxury Market:** While the luxury market as a whole has been somewhat slower to adopt practices and technologies that better cater to the younger, Millennial generation, select companies are making significant strides. Below we highlight some of the key areas of focus:
 - **Improving mobile technology:** A key focus of many retailers is to not only improve their e-commerce capabilities, but also to create optimized mobile websites that make for an easier, more efficient shopping experience.
 - **Increased social media penetration:** Most retailers have embraced the use of social media as not only a source of free marketing, but also a way to better connect with customers and engage with them more frequently.
 - **Accelerating speed-to-market capabilities:** Some luxury retailers are taking a cue from the fast fashion giants by creating speedier, more efficient supply chains that allow for new product on display during runway shows to be immediately available.
- > **Cosmetics Market:** The cosmetics industry is in the midst of a renaissance, with traditional brands attempting to engage younger customers, while newer brands gain market share. EL is focusing on Millennials with the introduction of the Estée Edit line in around 320 NA Sephora doors, specifically targeted at Millennials and being promoted on social media, and new Clinique color product offerings.
 - **Test many brands in-store:** Millennials are keen on in-store offerings. If they are to get up and go to a brick-and-mortar store, they want the ability to see and test different products.
 - **In-store services:** When Millennials visit stores, they expect more than the traditional retail shopping experience. Service offerings are a major driver of store traffic for the cosmetics industry.

MILLENNIALS – LUXURY & COSMETICS FAVORITE IDEAS

> Burberry (BRBY—Market Perform; PT=£13)

- **Mobile/Digital:** Invested significantly to help improve the online shopping experience for its customers, including an optimized mobile website and payment/checkout functionality as well as access to a single, company-wide pool of inventory; In stores, associates are now equipped with iPads to browse available inventory company-wide.
- **Social Media:** Committed to expanding its digital presence through various social media platforms (Facebook, Twitter, Instagram, Snapchat, LINE, Kakao, etc); Continues to further penetrate third-party digital platforms such as T-Mall in China and Amazon; Launched on Apple Music, previewing its shows for its customers.
- **See Now, Buy Now:** Recently announced that product on display during runway shows will be immediately available both online and in stores vs. a six month lag previously; Speaks to the investments the company has made in its systems and infrastructure, giving it a competitive advantage with superior speed-to-market in the notoriously slow and deliberate luxury space.

> ULTA, Inc. (ULTA—Outperform; PT=\$215)

- **Differentiated guest experience:** ULTA utilizes its strong CRM and consumer insight capabilities to enhance customer experience, further building its relationship with the customer. This includes more targeted offers and customized communications.
- **Product innovation:** Continues to offer the most extensive variety of brands and products in the industry.
- **Growth in services:** The salon business (hair, skin care, and brows) has helped drive traffic and increase ticket.

MILLENNIALS – MEDIA OVERVIEW

MEDIA



- > All sub-sectors within media (Cable TV, Programmmers, Measurement, and Ad Agencies) are innovating at a rapid pace in order to evolve along with the technical and viewership habits of Millennials.
- > Many Millennials have been reluctant to subscribe to the traditional 200 channel PayTV packages. This has resulted in many PayTV providers offering “skinny bundles”. We believe this might increase the number of households subscribing to PayTV, offsetting the recent trend towards OTT (over-the-top) viewing.
- > Of all the Entertainment companies, the one that programs its content most squarely at Millennials, is Viacom (VIAB). Their cable channels such as MTV and Comedy Central have a massive Millennial following. And with the Millennial’s use of digital devices to watch video, VIAB has embraced new platforms (like Snapchat) to carry its programming.
- > Proliferation of non-traditional TV viewership has resulted in declining ratings at most broadcast and cable networks. As a result, network ad revenue has slowed. Importantly, viewership is not down, it’s just on different devices. The measurement company, SCOR, is developing a methodology to measure viewership across all of these media platforms.

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MILLENNIALS – MEDIA TRENDS & DRIVERS

> Millennials have pushed the industry to accept new media formats and platforms

- Compared to Generation X and Baby Boomers, Millennials spend more time viewing content on their computers, tablets, and smartphones.
 - Younger Millennials, ages 15-25, spend only 43% of their time watching movies on linear TV compared to 69% and 78% for Generation X and Baby Boomers, respectively.
 - Among Millennials, the top reasons for watching TV online include: convenience, less advertising and lower costs than PayTV.
 - Millennials consist of more than one fifth of the American TV audience.
 - Millennial subscription trends follow other generations: 89% of Millennials who still live with their parents utilize their family TV subscription. When they move out (before starting a family), only 75% have subscriptions. This increases to 80% when they have kids.
- While TV still remains the dominant platform for news, its importance amongst Millennials is low. For younger Millennials', ages 15-25, the most frequent news source remains TV at 28%. Use of Social media has been gaining traction and now stands at 26% among this group.
- Not surprising, studies show that Millennials are reading newspapers and magazines less than previous generations. As a result, newspaper and magazine advertising dollars, as a percentage of total advertising, has declined from 27% in 2011 to 17% in 2015. Millennials also spend more than 90 hours per month on their mobile devices, nearly 50 hours more than on their computers.

MILLENNIALS – MEDIA FAVORITE IDEAS

- > **Viacom, Inc. (VIAB—Outperform; PT=\$60):** VIAB cable networks include the brands that Millennials favor including MTV and Comedy Central. Like other Media conglomerates, VIAB has faced declining viewership metrics as younger viewers abandon traditional TV and watch video on the web and mobile devices. Viacom has combatted this with adjustments to its advertising services to include metrics that are not solely driven by NLSN ratings. In 2015, 30% of the company's ad revenue was fueled by these other ad services. The company expects to increase this ratio to 50% in the next few years. At the same time, new cross-platform measurement techniques by NLSN and SCOR will enable the digital viewership of VIAB content to finally be counted. With its significant younger audience, we expect VIAB could benefit more than other cable networks by the inclusion of digital viewership. For example, Viacom and Snapchat recently extended their deal to allow Viacom to sell advertising on the mobile app's behalf. This new deal allows Viacom to sell more of its own content on Snapchat.
- > **comScore, Inc. (SCOR—Outperform; PT=\$60):** SCOR measures media consumption on digital devices including PCs, iPads, tablets, and phones. Millennials prefer to consume much of their news and entertainment on these devices. As viewership has continued to migrate away from traditional TV and towards digital platforms, SCOR is well positioned to benefit from the need for better measurement. SCOR recently completed a merger with Rentrak (RENT) to improve its cross platform measurement capabilities. SCOR is combining RENT's measurement of linear TV and VOD with its own digital measurement. Together, these two companies can better compete with NLSN, the sole measurement currency for TV ad dollars. 2016 Upfront negotiations start this spring and SCOR has indicated that it will have its cross platform service ready for these discussions. One risk: SCOR has yet to file its 2015 10-K due to an investigation of its accounting practices. This could push back the new service roll-out. But, we believe the measurement battle is a marathon not a sprint. Long term, we see material upside for SCOR as they penetrate the cross platform measurement market.

MILLENNIALS – RESTAURANTS OVERVIEW

RESTAURANTS



- > As the restaurant industry continues to try and tap into the wallets of Millennials (~23% of total annual restaurant sales), operators are shifting their focus to providing the customer with “an experience” by offering customizable healthy menu items in a unique dining atmosphere.
- > More fickle than the traditional boomers, Millennials are changing the way restaurants adapt their menus and causing the industry as whole to be more conscious of the ingredients in its menu offerings.
- > As consumers have become more complex, operators have seen a greater need for dependable workers and as a result, companies have raised hourly wages in hopes of attracting and retaining the best workers, thus putting more pressure on margins and increasing the need for operating efficiencies.
- > Technology has increasingly played a significant role in the industry in recent years as operators are looking to keep customers through loyalty programs via mobile apps. Additionally, in an effort to improve the customer experience, more restaurants are using tablets in stores so that customers may customize orders and checkout at their convenience.
- > Aggressive advertising and promotions will play a vital role in the future success of restaurants as the industry continues to experience growth in new unique concepts.

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MILLENNIALS – RESTAURANTS TRENDS & DRIVERS

- > **Transparency of Menu:** Restaurants are focusing on transparency of menu items and offering simple, fresh food with no additives.
 - As consumers become more health conscious, restaurants continue to evolve menus to offer whole foods with no additives, that promote sustainable agriculture.
 - Consumers have demonstrated their willingness to pay up for healthier better quality meals.
- > **Customization:** Restaurants offering customization of menu items brings a sense of individuality to the dining experience. The ability to customize meals drives Millennials creative desire and need for uniqueness.
- > **Advertising Strategies:** Restaurants have revised their advertising strategy to aggressively engage consumers. We see restaurants offering promotions through texts, email, social media, and online ads, allowing brands to cater to and reach customers on a more personal level.
- > **Loyalty Program and To-Go Ordering Platforms:** Increasing number of loyalty programs and to-go ordering platforms are being offered through mobile apps. The convenience of placing to-go orders and participating in loyalty offerings all from the palm of their hand drives Millennials to be brand loyal.
- > **Unique Dining Environment:** Restaurants are creating a unique environment to enhance the Millennials dining experience. Dining out has become just as much about the experience as it is about the food, and by offering a unique environment, restaurants are able to enhance their customers' experience exponentially.

MILLENNIALS – RESTAURANTS FAVORITE IDEAS

> **Chipotle Mexican Grill (CMG—Market Perform; PT=\$448)**

- Often dubbed the number one Millennial restaurant, CMG is a leader in the sustainable whole foods offerings. With a “create your own” menu Chipotle offers customers the ability to customize their meals and feed their individual cravings from its non-additives menu.
- Additionally, the open atmosphere at Chipotle’s restaurants offer a rustic feel where customers are able to engage others and have a unique dining experience.

> **Panera Bread Co. (PNRA—Outperform; PT= \$225)**

- Widely seen as one of the industry’s healthiest restaurants, Panera Bread has done an exceptional job positioning itself with the “on the go health conscious Millennial.”
- With the rollout of its 2.0 concept, PNRA has been able to increase throughput by streamlining its to-go order process, by adding tablets for ordering, and by offering delivery services.

> **Sonic Corp. (SONC—Outperform; PT=\$37)**

- With over 1.3 million different drink combos and the ability to order burgers for breakfast, Sonic clearly meets the needs of the creative Millennials.
- Its unique drive-in concept and open patios, create a fun experience for customers allowing them to enjoy a meal with friends in both the comfort of their own car or out in the open air on its patio.

MILLENNIALS – SPECIALTY STORES OVERVIEW

SPECIALTY STORES



- > Looking at 2016, we expect slow, grinding 2%-3% retail sales growth to continue in the U.S. Against this backdrop, we look to categories that we believe can continue to gain share of wallet for the Millennials.
- > Millennials have freedom of choice; technology allows them to compare styles, prices and product offerings, even the way an item may look by sending mobile photos, along with delivery options, based upon speed and availability.
- > Millennials want to combine the activity of shopping, whether online or in a physical location, such as a mall, with an experience such as a restaurant or movie theatre.
 - We believe that strong category defining brands with exposure to athleisure, personal care and beauty, and home (where applicable in the specialty retail space) are the focus of Millennials and can deliver above-average top line results.
 - Overall, we expect basic apparel to remain a slower growth category, facing deflationary pressures, increased competition and a lack of fashion newness.
 - While our outlook for U.S. retail sales growth is modest, it has at least been stable.
 - We remain concerned with European and Asian markets that rely more heavily on slowing foreign tourism, and we prefer names with domestic exposure or significant growth pipelines in the U.S.

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MILLENNIALS – SPECIALTY STORES TRENDS & DRIVERS

- > **Specialty Retail Market Overview:** In recent years, the specialty retail space has seen a massive shift towards two key categories: fast fashion and athleisure.
 - **Fast Fashion:** When it comes to Millennials, fashion choices and trends are constantly evolving. Millennials clamor for new, on-trend fashion at affordable prices, meaning those retailers that can get product from runway to market quickest are most appealing.
 - **Casual and comfortable are top priorities:** With the increased emphasis on healthy living over the past few years, combined with the shift in culture to more casual, comfortable attire, Millennials have thoroughly embraced the athleisure trend.
 - **Basics are big:** Millennials want versatile offerings that can be worn in a variety of ways and for differing occasions.
 - **Significant depth of offerings:** When Millennials shop, they often do not want to be pigeon-holed into a style or fashion. Instead, they prefer to create their own style. We believe retailers with several brand concepts are able to offer more to shoppers seeking a diverse assortment.

MILLENNIALS – SPECIALTY STORES FAVORITE IDEAS

> H&M (HMB-SE—Outperform; PT=SEK340)

- **Secondary brands offer growth opportunities.** H&M is the flagship concept, yet the company also operates a growing portfolio of global brands, including COS, Monki, Weekday, & Other Stories, and Cheap Monday.
- **Category extensions.** H&M continues to grow its offerings, branching out from just apparel into the Home and Beauty categories as well, increasing its appeal to Millennials.

> Inditex (ITX.MCE—Outperform; PT=€38)

- **Diverse brand portfolio offers greater depth of offerings.** Inditex has eight concepts globally (Zara, Bershka, Massimo Dutti, Pull&Bear, Stradivarius, Zara Home, Oysho, and Uterque) which give the company a vast array of style and price point offerings.
- **Unique “pull” model.** Inditex operated a decentralized model in which store managers have significant input into the product offering and mix of their specific location. In this way, Inditex considers itself to utilize a “pull” model. Instead of telling customers what they want, it responds quickly to customer demand.

> lululemon (LULU—Outperform; PT=\$76)

- **Market leader in athleisure category.** We continue to see the “comfort” trend as more of a cultural shift than one of fashion as evidenced by the adoption of stretch and other fabric innovations to most apparel segments.

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 advertising, apparel manufacturers, children's and teen retailers, consumer electronics retailers, cosmetics, department stores, discounters, footwear, gaming and lodging, home furnishings retailers, home improvement retailers, luxury goods, office supply retailers, off-price retailers, pay TV companies, 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.

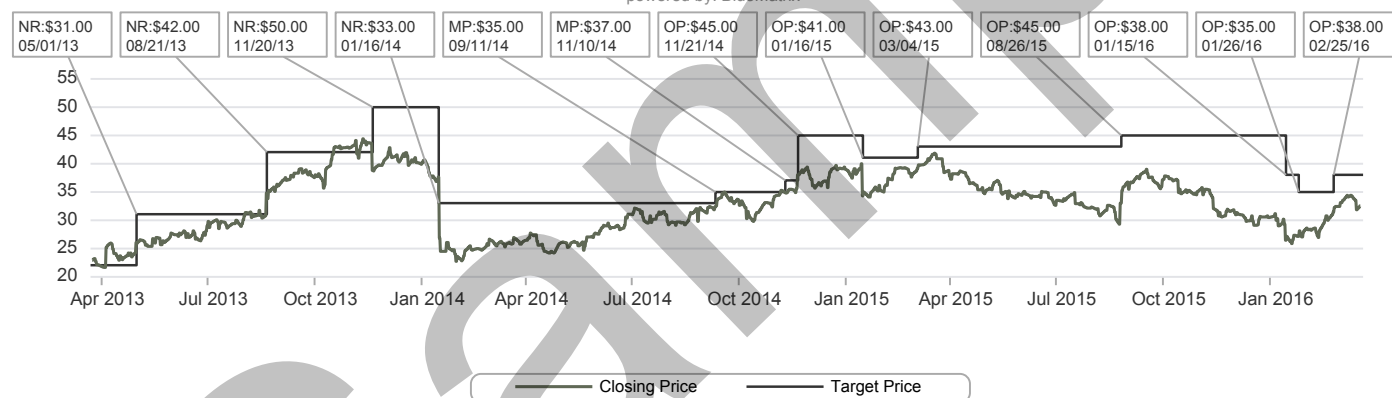
Analyst Certification

The Research Analysts, Dana Telsey and Joseph Feldman, 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

Best Buy Co., Inc. Rating History as of 03/20/2016

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On September 16, 2012 TAG completed a transition from price target ranges to specific price targets. All price target changes prior to September 16, 2012, are displayed as price target averages.

* Telsey with ratings are effective as of 09/11/14

Churchill Downs, Inc. Rating History as of 03/20/2016

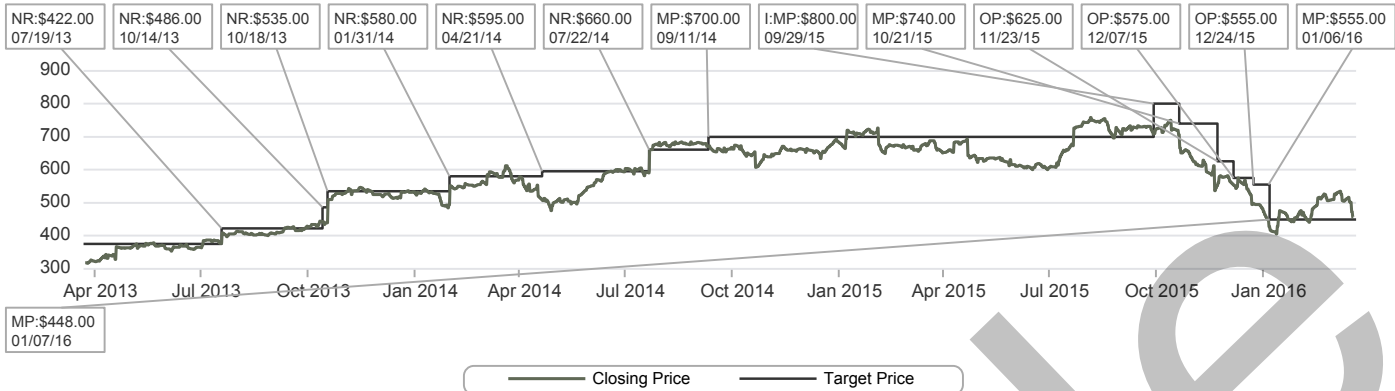
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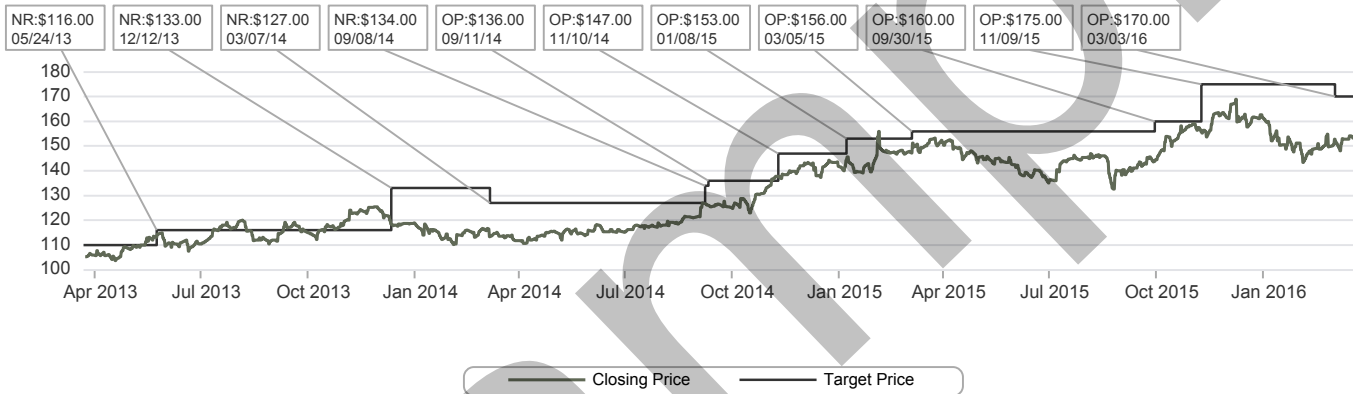
Chipotle Mexican Grill, Inc. Rating History as of 03/20/2016

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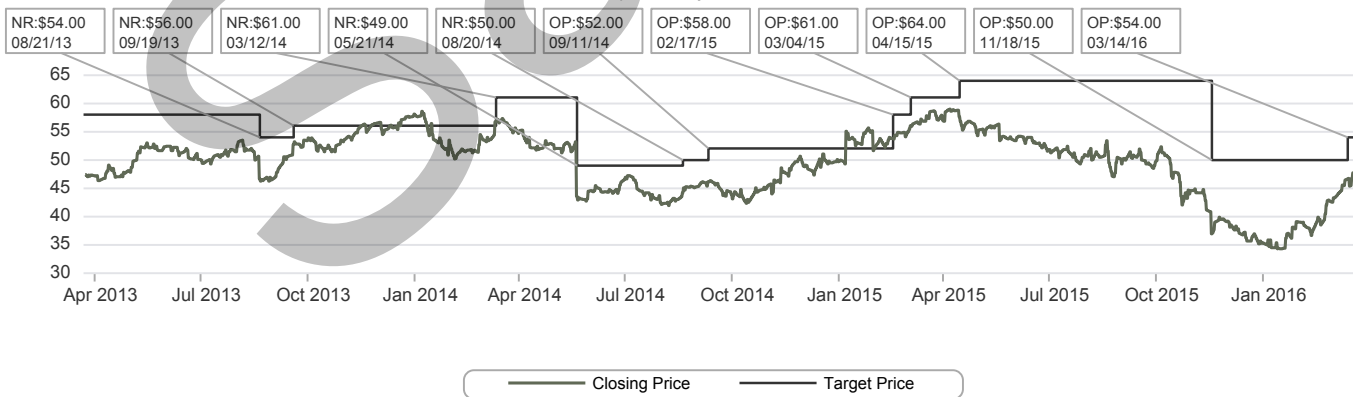
Costco Wholesale Corp. Rating History as of 03/20/2016

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Dick's Sporting Goods, Inc. Rating History as of 03/20/2016

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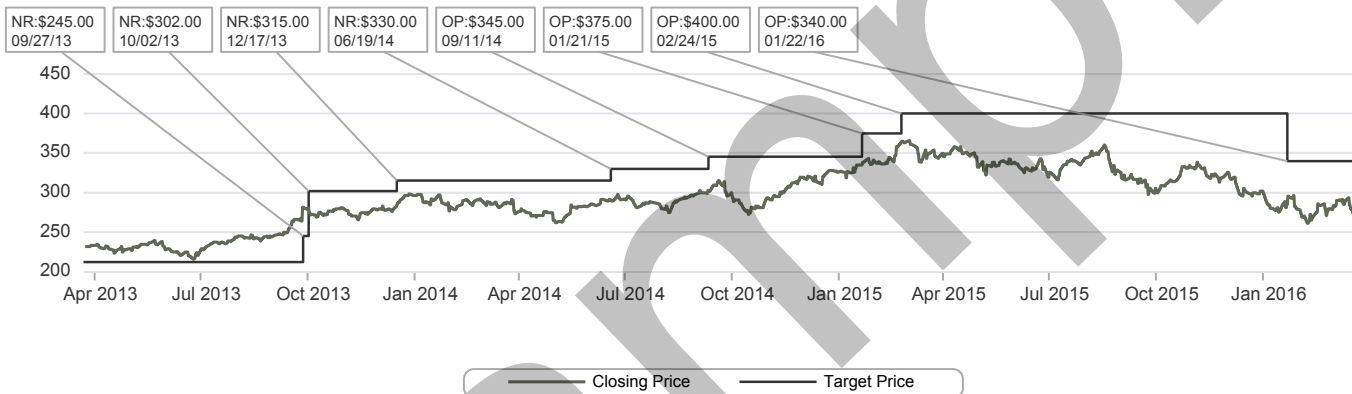
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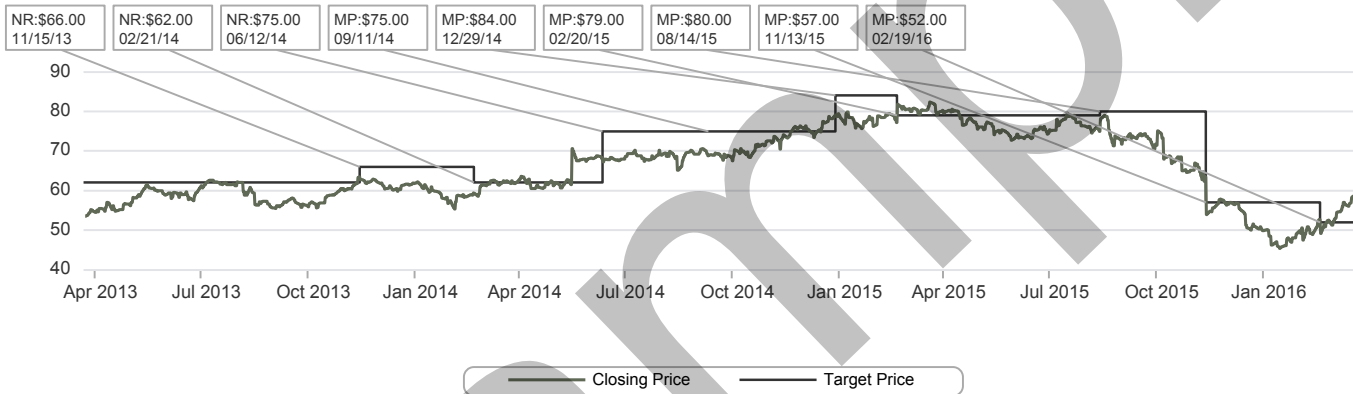
Inditex Group Rating History as of 03/20/2016

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Nordstrom, Inc. Rating History as of 03/20/2016

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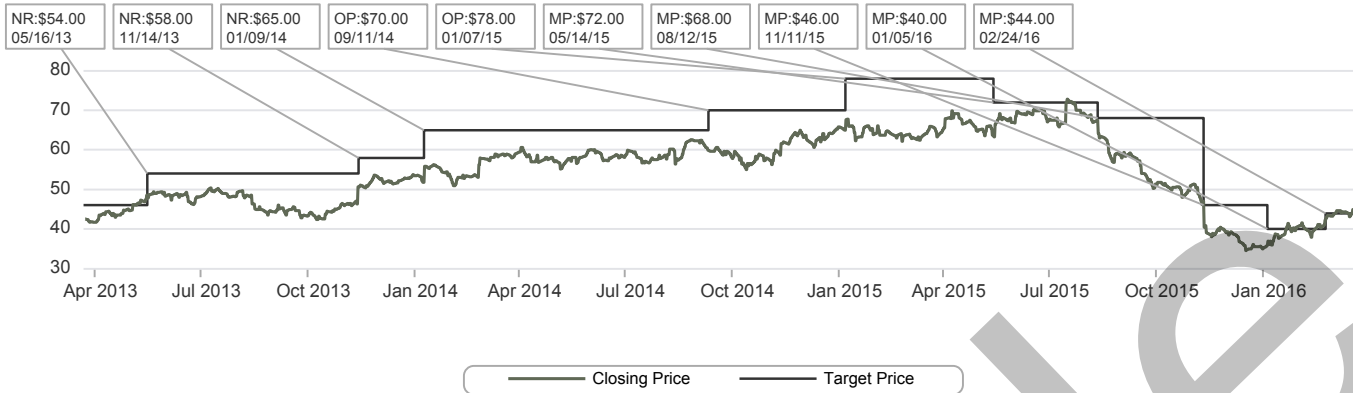
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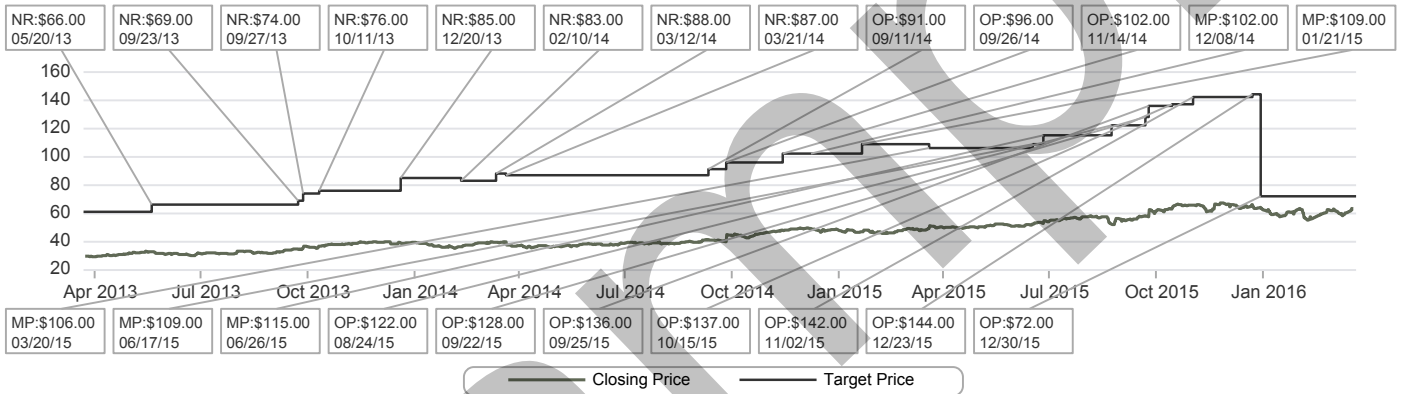
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Panera Bread Co. Rating History as of 03/20/2016

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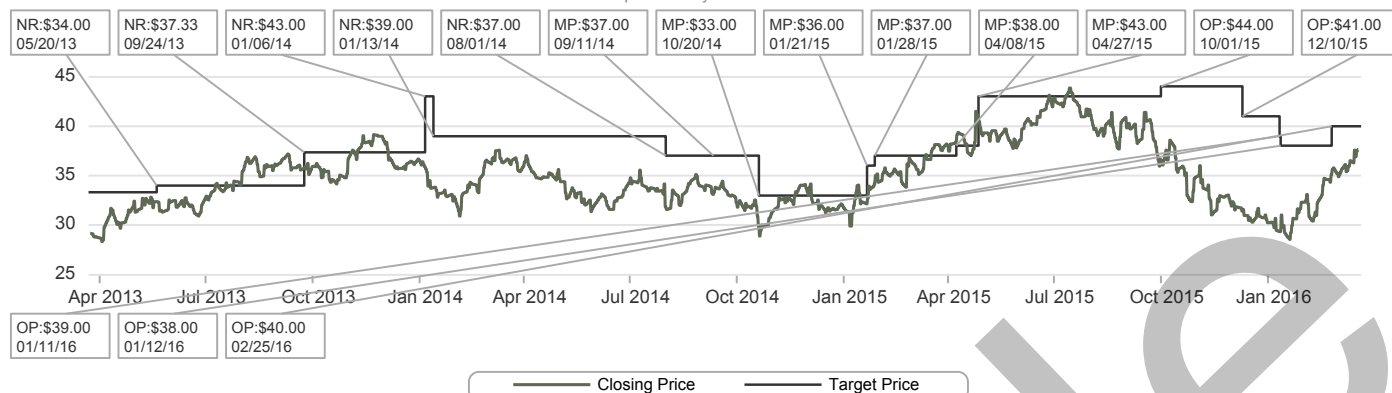
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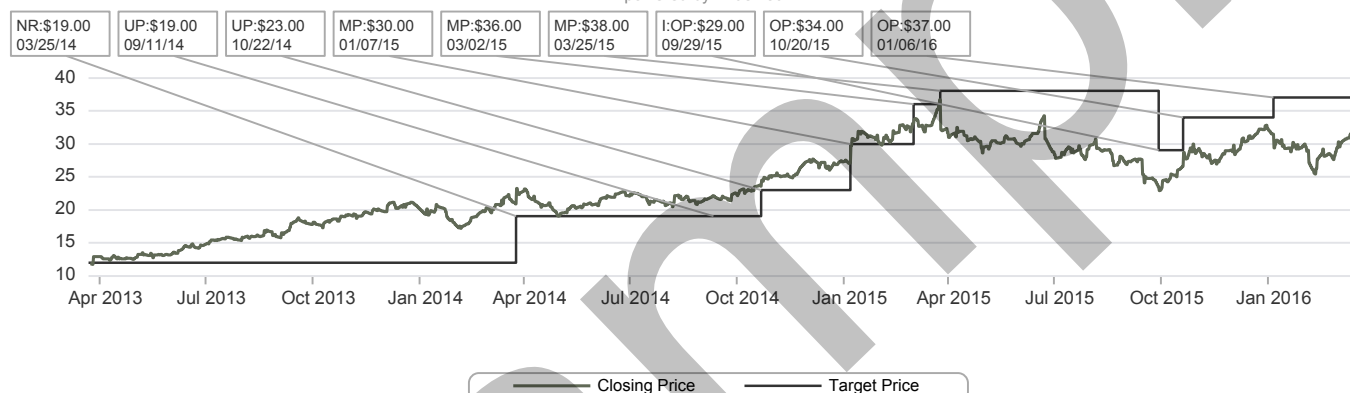
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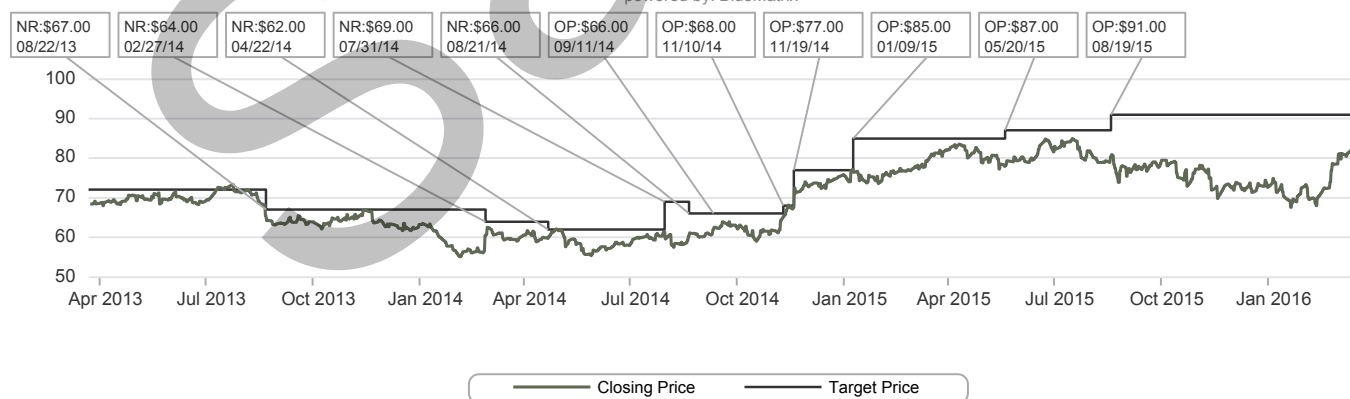
Sonic Corp. Rating History as of 03/20/2016

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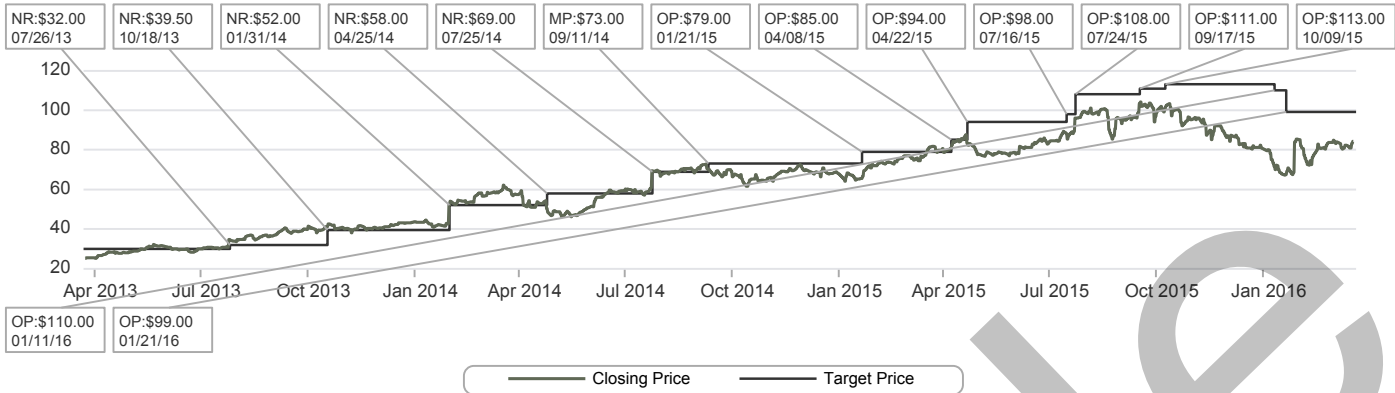
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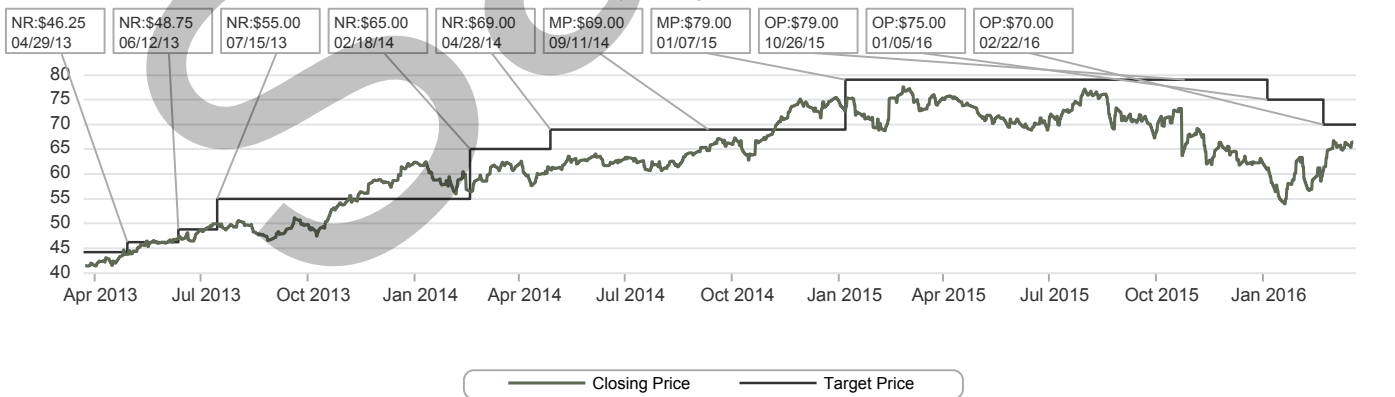
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Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution	Count	*Investment Banking
OUTPERFORM	66	48.18%	1	1.52%
MARKET PERFORM	66	48.18%	1	1.52%
UNDERPERFORM	5	3.65%	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.

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