

July 31, 2018

FOUNDATION

Food Retailers

5th Annual AlphaWise Food Retail Survey



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In May 2018, in conjunction with Morgan Stanley AlphaWise, we conducted the 5th wave of the online survey among n=2,951 US 18+ year old consumers who are responsible for grocery shopping for their household; including 61% of respondents who have purchased natural/organic products in the past 3 months. The sample is representative of the U.S. population in terms of age, gender and region. The margin of error on the total sample is +/- 1.8% at a 95% confidence level and higher between subgroups. Where applicable, findings are compared to the previous waves of the survey.

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Survey Methodology:

In May 2018, in conjunction with Morgan Stanley AlphaWise, we conducted the 5th wave of the online survey among n=2,951 US 18+ year old consumers who are responsible for grocery shopping for their household; including 61% of respondents who have purchased natural/organic products in the past 3 months. The sample is representative of the U.S. population in terms of age, gender and region. The margin of error on the total sample is +/- 1.8% at a 95% confidence level and higher between subgroups. Where applicable, findings are compared to the previous waves of the survey. Note: demographic age group breakdowns are as follows: Gen Z (23 or younger), Millennials (24-38), Gen X (39-53), and Baby Boomers (54 or older) (as of 2018).

Key Survey Takeaways

Online grocery gaining further traction

Online grocery ordering continues to gain traction, especially among younger consumers. ~20% of consumers purchase groceries online at least occasionally (63% of whom are Millennials / Gen Z) and ~30% have shopped online at least once in the past 3 months. Current online penetration largely exists through AMZN and directly through food retailer websites (often via Instacart partnerships).

Amazon leading online grocery push

AMZN dominates among online-only retailers with highest levels of awareness (66% awareness of at least one of AMZN's grocery-specific services) and purchases (25% L3M vs. 9% combined for other online-only services). AMZN also has a promising outlook (56% N6M purchase intention of online shoppers), driven by leading top-of-mind positioning with consumers.

Where does online grocery need to improve most?

Top barriers remain consumers' preference for seeing and choosing groceries, freshness, and high delivery fees. We expect online grocery to continue taking share, but at a measured pace, as brick-and-mortar consumer behavior in grocery shopping is highly ingrained in the US, in our view.

Hard Discount (led by Aldi) is traditional brick & mortar winner

Aldi experienced the greatest share gain of shoppers who switched retailers (19% vs. 15% LY), attracting younger consumers (including Millennials) looking to switch retailers for lower prices and convenience. Consumers continue to shop multiple retailers for groceries (3 on average), Walmart being the most frequented (1 in 4 shoppers).

Changes to Whole Foods perceptions post-AMZN

Whole Foods customers noticed better quality products and lower prices post-AMZN ownership, but price perception still remains higher than other specialty retailers and shopper penetration is essentially unchanged y/y (41% vs. 40% LY).

Key Survey Takeaways (cont.)

Natural / organic secular shift shows signs of leveling off

The natural / organic segment showed signs of leveling off for the first time since 2015, with declines in penetration (natural: 56% vs. 62% LY, organic: 50% vs. 56% LY) and share of spend (natural or organic: 37% vs. 39% LY), indicating possible maturation. However, outlook remains strong for younger consumers, who tend to look for healthier grocery options. Kroger and Sprouts continue to perform well; better quality and prices noticed at Whole Foods, but price still lags and penetration unchanged y/y.

Walmart maintains its dominance

WMT, the grocery leader, holds a dominant 23% share, or 2.5x the #2 retailer. In addition to strength in B&M, WMT online adoption is gaining traction (17% of consumers have ordered groceries from Walmart.com vs. 15% LY). Interestingly, we see a high degree of overlap with WFM shoppers (67%), which could be a potential opportunity. However, the key to watch going forward is Aldi given its rapid growth, in our view.

Investment Implications

Online grocery services which can offer the most competitive prices / lowest delivery fees likely to take most share near-term. Gaining consumers' trust will be key for shifting (and capturing) total grocery wallet online. Offering the fastest delivery is unlikely to drive winners and losers, at least at first.

In traditional Food Retail, we continue to believe there will be [share gainers \(KR, SFM\)](#) and [share donors \(SFS\)](#). But Food Retail remains unlikely to be a winner-take-all category (only 12% of consumers do all their grocery shopping at one store).

Kroger (KR, EW) remains best-positioned conventional food retailer with omnichannel capabilities (ClickList offering; partnerships with Instacart, Ocado, Nuro; acquisition of Home Chef) and size / scale advantages over smaller, undifferentiated competitors. Sprouts (SFM, EW) is viewed favorably in the specialty channel, while Smart & Final (SFS, UW) lags and continues to cede share.

Remain cautious on Food Retail subsector overall as margin pressure unlikely to change and as food retailers aggressively invest in price to challenge Hard Discount / WMT / WFM threats and allocate capital towards eCom / delivery investments.

Online Grocery Trends

31% of consumers have ordered groceries online at least once in the past 3 months

Additionally, more consumers use online-only platforms (25%) than traditional retailer sites (22%) when ordering groceries online, indicating strong uptake of online services (primarily Amazon's various grocery services).

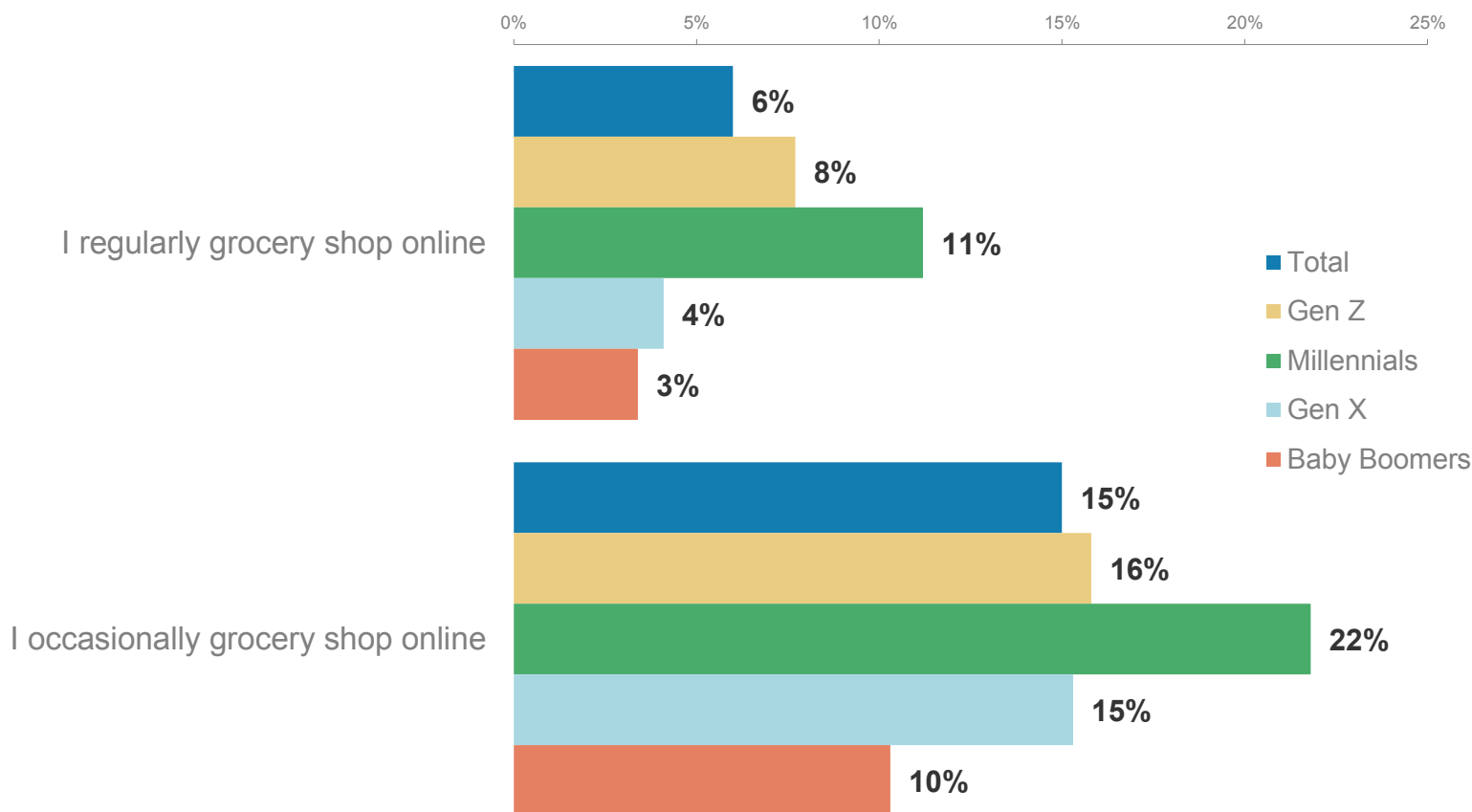
Consumers Purchased Groceries Online (P3M)



~20% of consumers grocery shop online occasionally / regularly, skewed towards Gen Z / Millennials

72% of regular and 59% of occasional online grocery shoppers are Millennials or Gen Z, indicating willingness to use online grocery shopping repeatedly among younger consumers is relatively high.

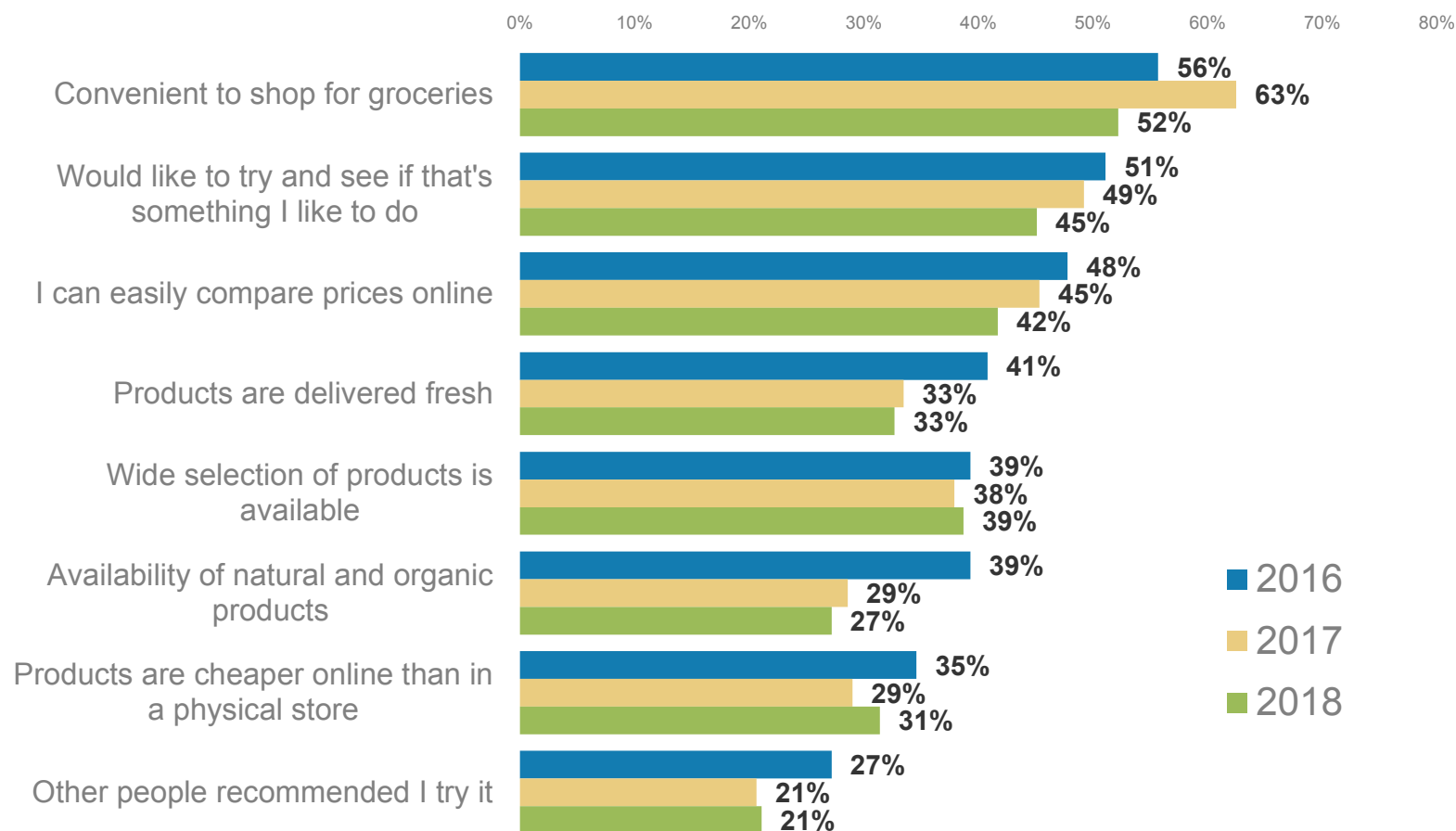
Experience Towards Grocery Shopping Online



Consumers continue to order groceries online primarily for convenience

Additional drivers include interest in trying out online ordering and ability to compare prices (similar to prior years).

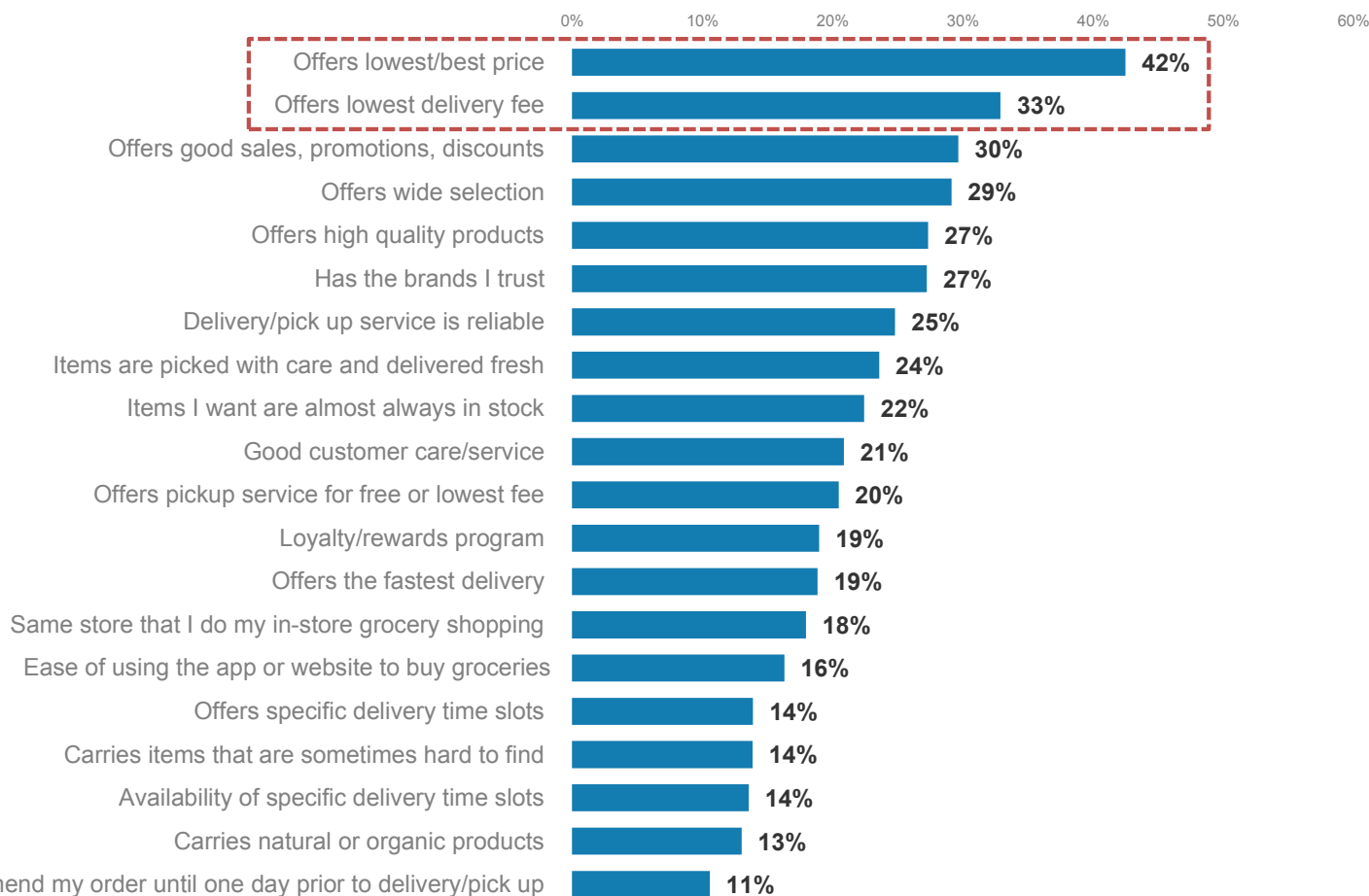
Reasons for Ordering Groceries Online to be Shipped



Most important factors in choosing an online grocery service: price tops the list

Consumers consider competitive prices (products and delivery fees), wide selection, and product quality to be the most important factors in choosing an online grocery store.

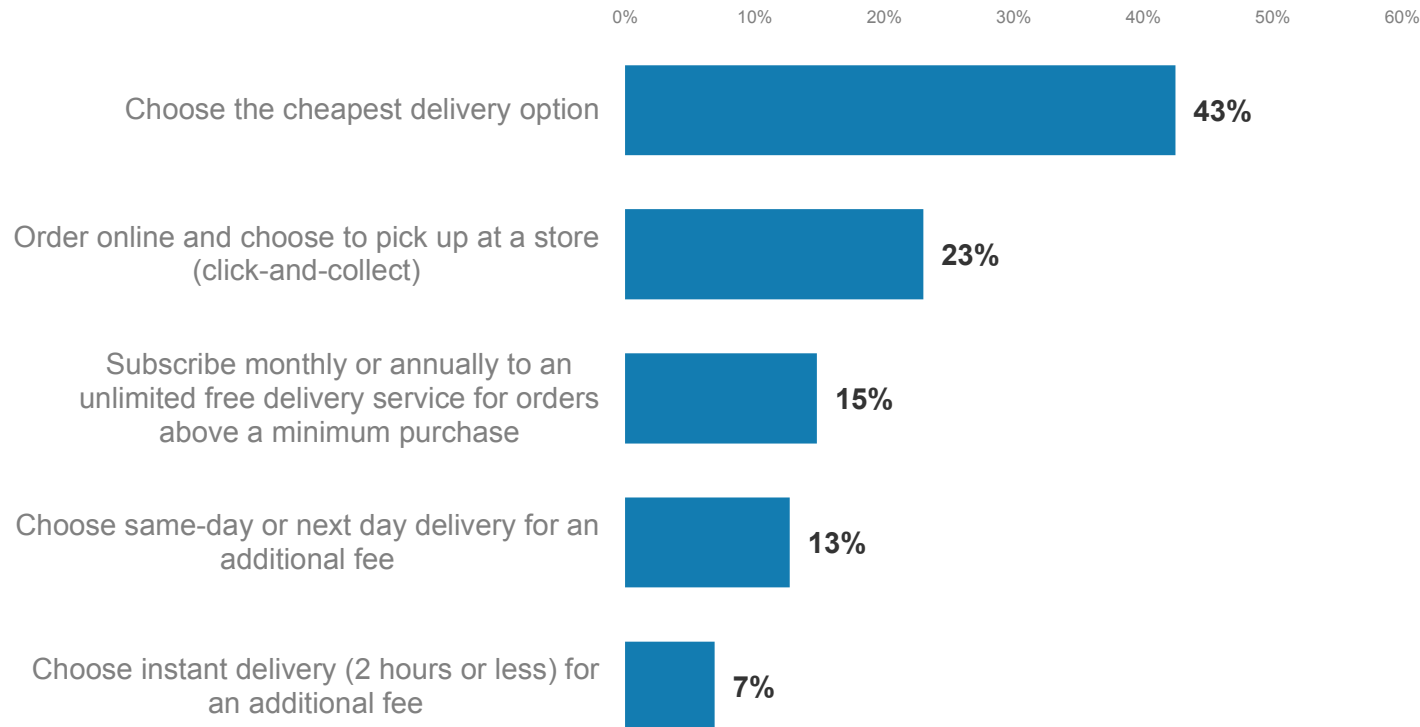
Important Factors For Online Grocery Shopping



Furthermore, 43% of online grocery shoppers will choose the cheapest delivery option when ordering

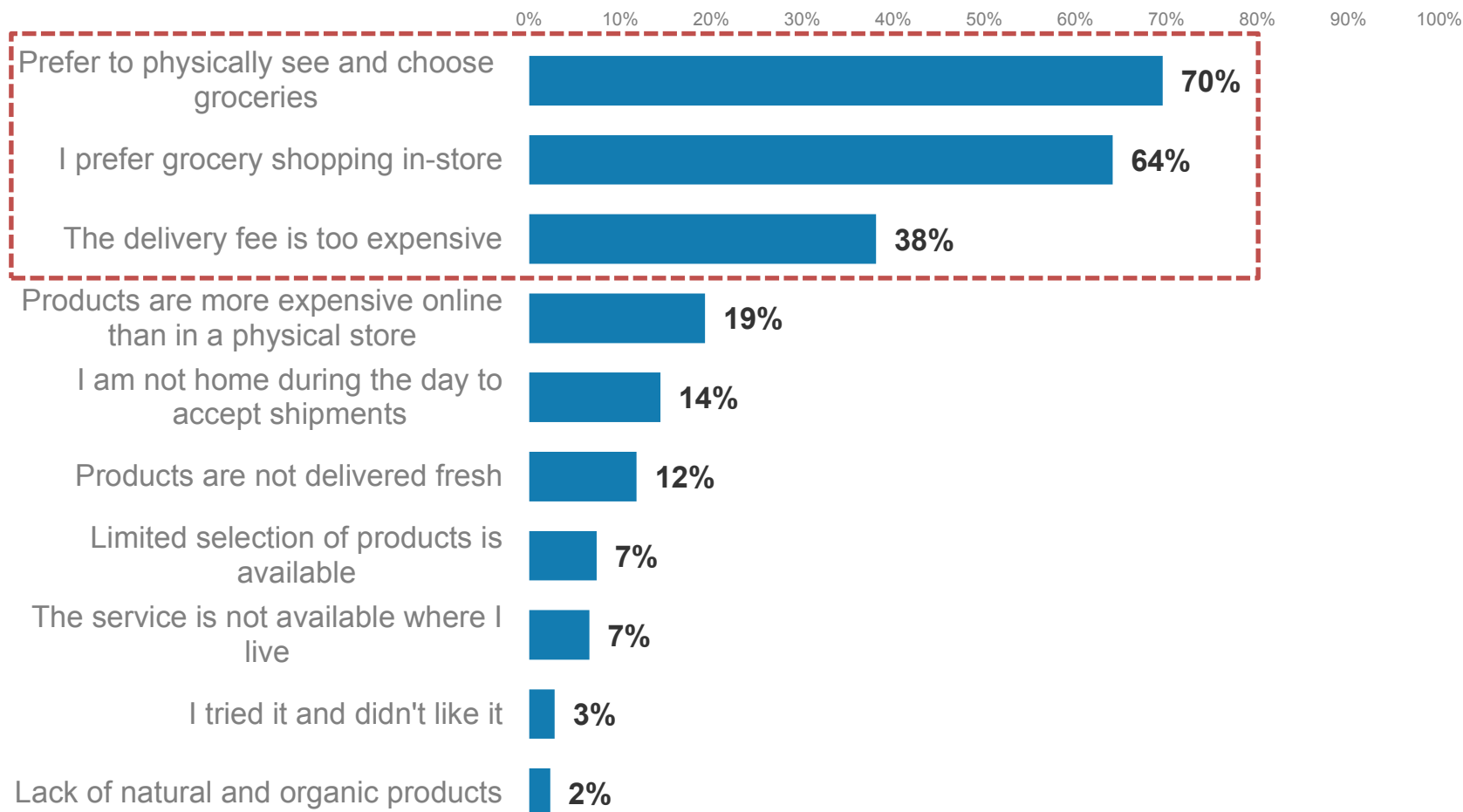
Therefore, we think the first ‘winners’ in online grocery are more likely to be those which can offer the cheapest / free delivery, not necessarily who can offer the fastest delivery.

Delivery Preference When Shopping Main Grocery Online (Among Regular/Occasional Online Grocery Shoppers)



Overarching barriers to online grocery shopping: picking out goods in-store and delivery fee

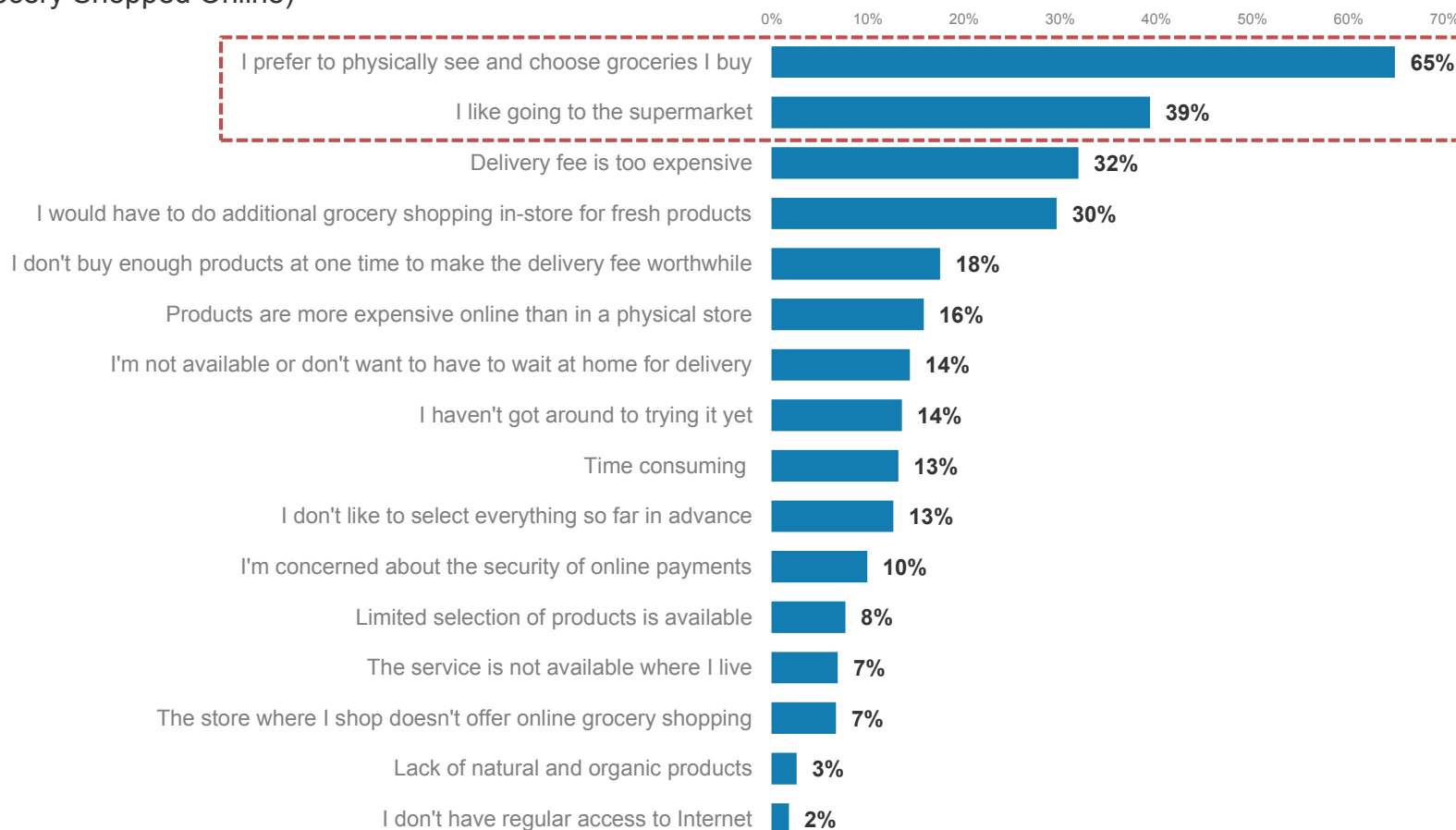
Reasons for NOT Ordering Groceries Online to be Shipped



Key barrier for those who have never tried online grocery: physically seeing / choosing groceries

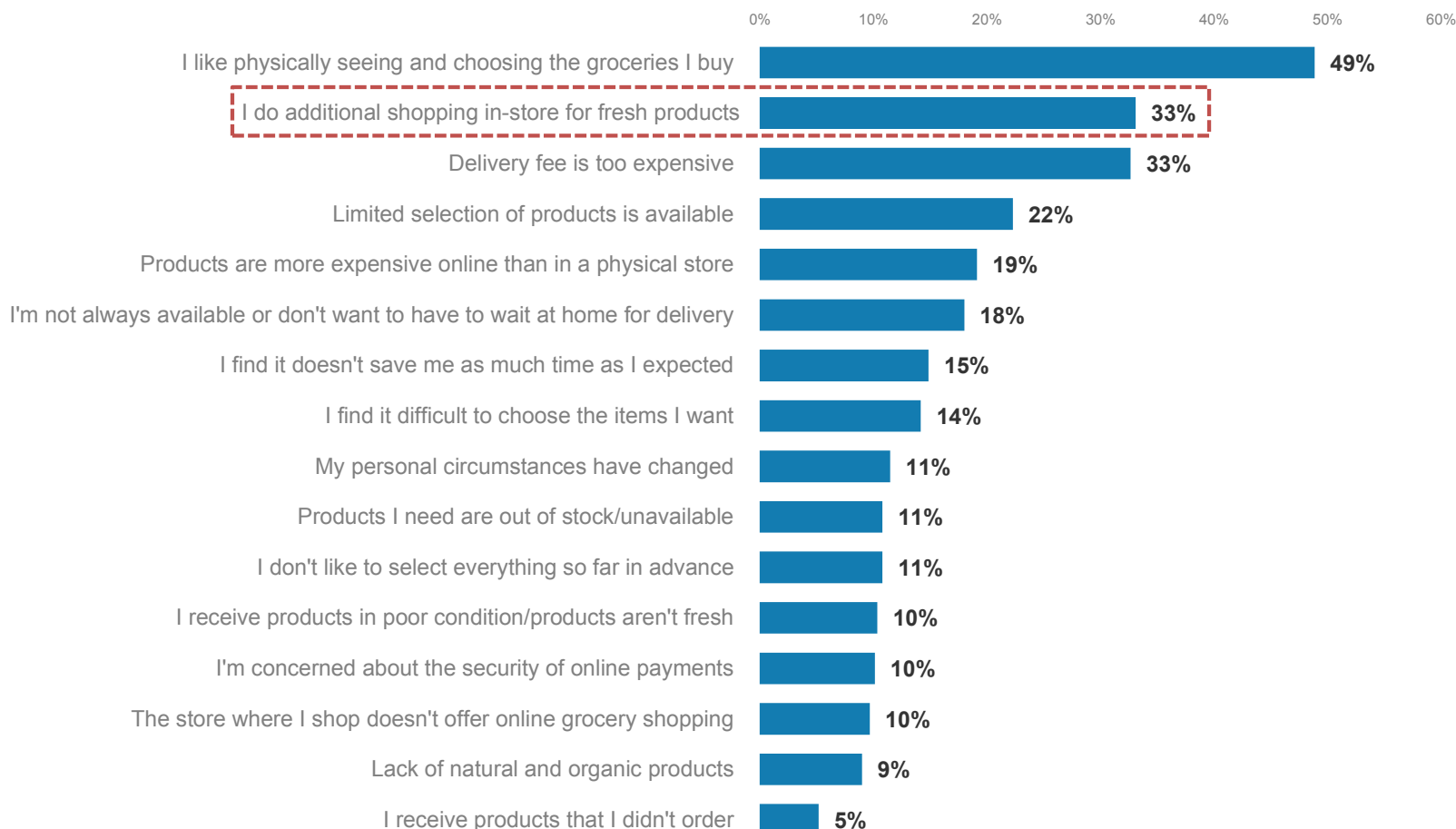
Results indicate a somewhat unique, ingrained desire amongst US consumers to shop for groceries in-store. We continue to believe it will take time for even improved online grocery services to dramatically change shopping behaviors.

Reasons For Not Doing Online Grocery Shopping (Among Consumers Who Have Never Grocery Shopped Online)



Key barrier for those who only shop online occasionally: still shopping in-store for fresh products

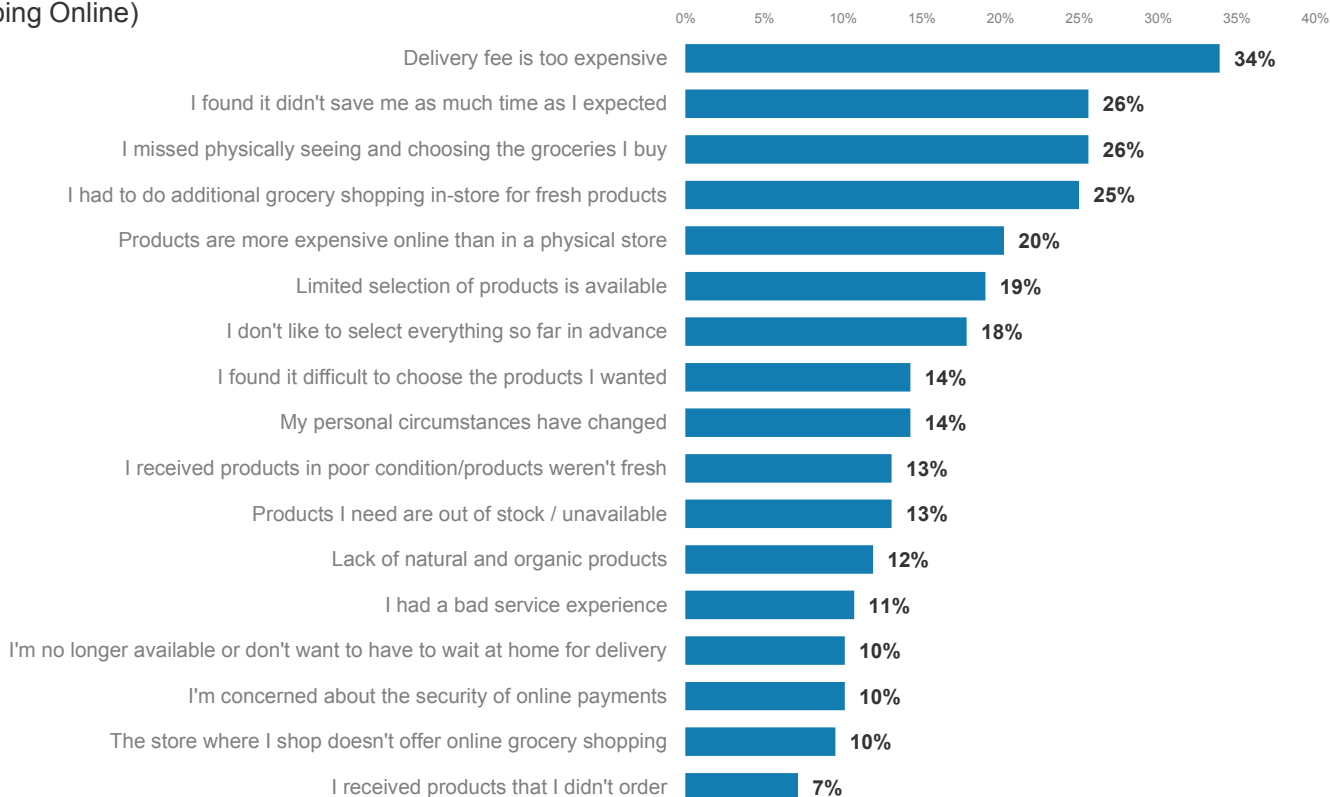
Reasons For Not Doing Online Grocery Shopping Regularly (Among Consumers Who Grocery Shop Online Occasionally)



Key barriers for those who stopped shopping online: price, saving time, preferring in-store shopping

Expensive delivery fees, not saving as much time as expected, wanting the experience of choosing groceries in-person, and still needing to do more grocery shopping in-store were key reasons why shoppers stopped online grocery shopping. Longer-term, we do not believe \$5-10 per order delivery fees are sustainable – we note AMZN has already rolled out free 2-hour grocery delivery through Prime Now in certain locations.

Reasons For Stopping Online Grocery Shopping (Among Consumers Who Stopped Grocery Shopping Online)



Categories most likely to be ordered online: skewed towards non-perishables

Consumers are more likely to order nonperishable food categories online to be shipped, while perishables like fruits / vegetables, dairy products (milk, cheese, ice cream), and fish / seafood are more likely to be ordered online for pick up. Pick-up-at-store is more evenly spread across perishable and non-perishable categories.

Medium-term, we continue to believe pick-up at-store will have greater overall uptake than delivery given convenience of online ordering without added delivery costs.

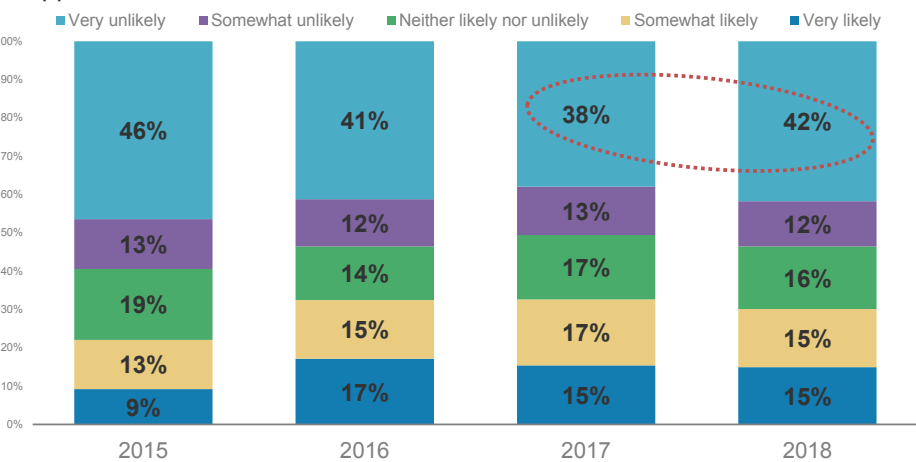
Categories Most Likely to be Ordered Online (Among Consumers Likely to Order Groceries Online in Next 6 Months)



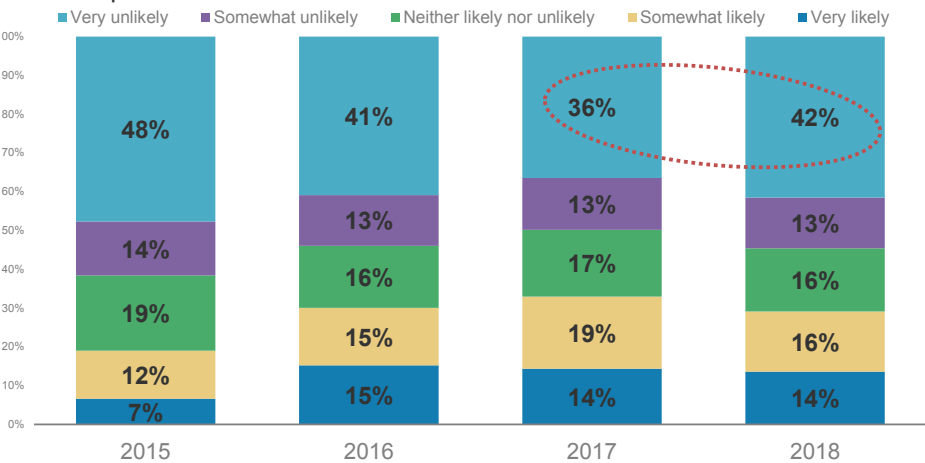
Likelihood to order groceries online in next 6 months similar to past 2 years, but resistance increased

‘Very unlikely’-to-‘very likely’ skew of 3:1 still down dramatically from 6:1 three years ago, while ‘very likely’ online grocery customers were unchanged y/y.

Likelihood to Order Groceries Online in Next 6 Months to be Shipped

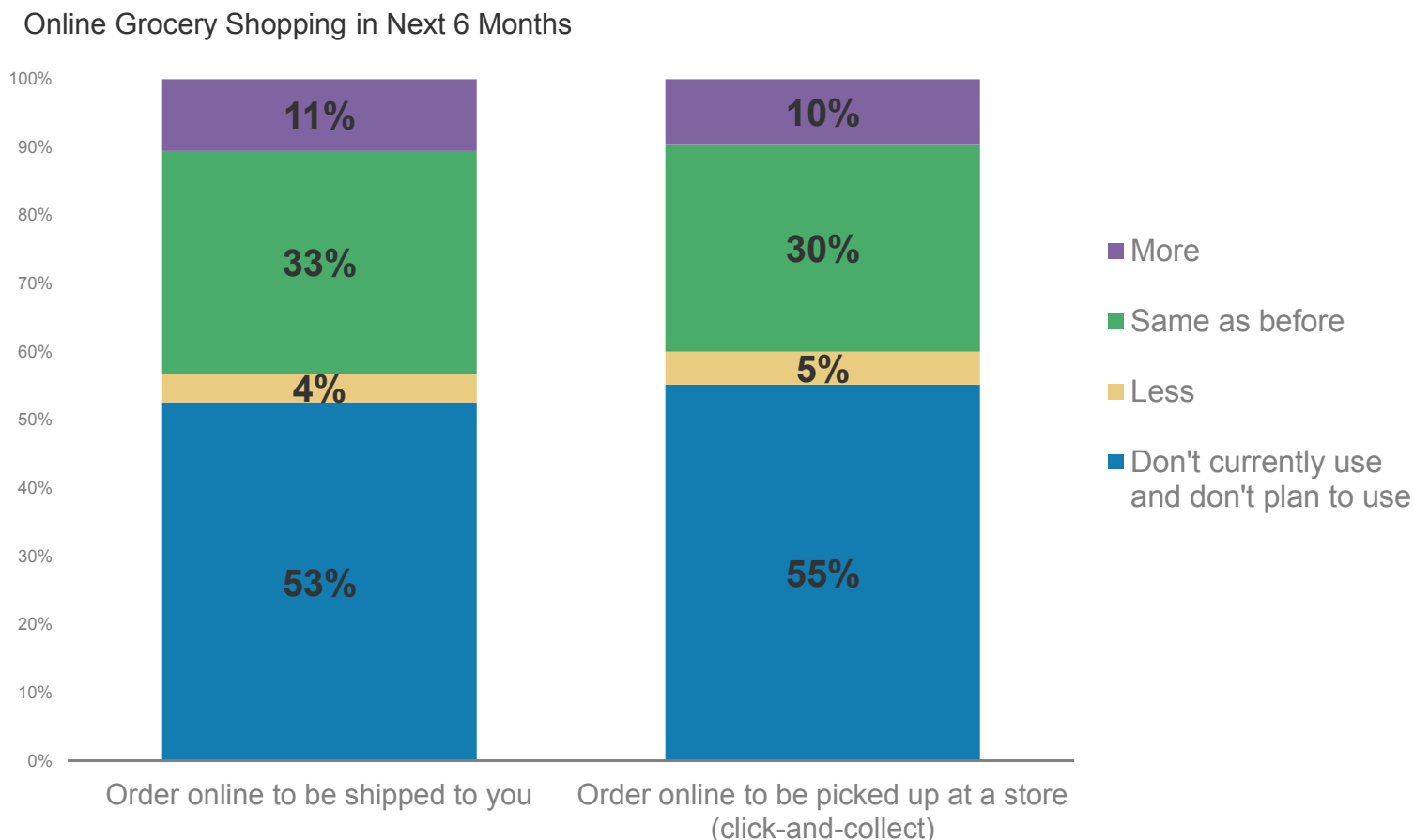


Likelihood to Order Groceries Online in Next 6 Months to be Picked Up



More consumers likely to increase online grocery shopping (11%) than decrease online shopping (4%)

Results imply grocery penetration should continue to increase over the next year. However, we note ~85% of consumers are still unlikely to change their online grocery shopping frequency / behavior in the next 6 months.



Willingness to pay for various online grocery options

Willingness To Pay A Flat Fee For Delivery When Doing Grocery Shopping Online (in \$)

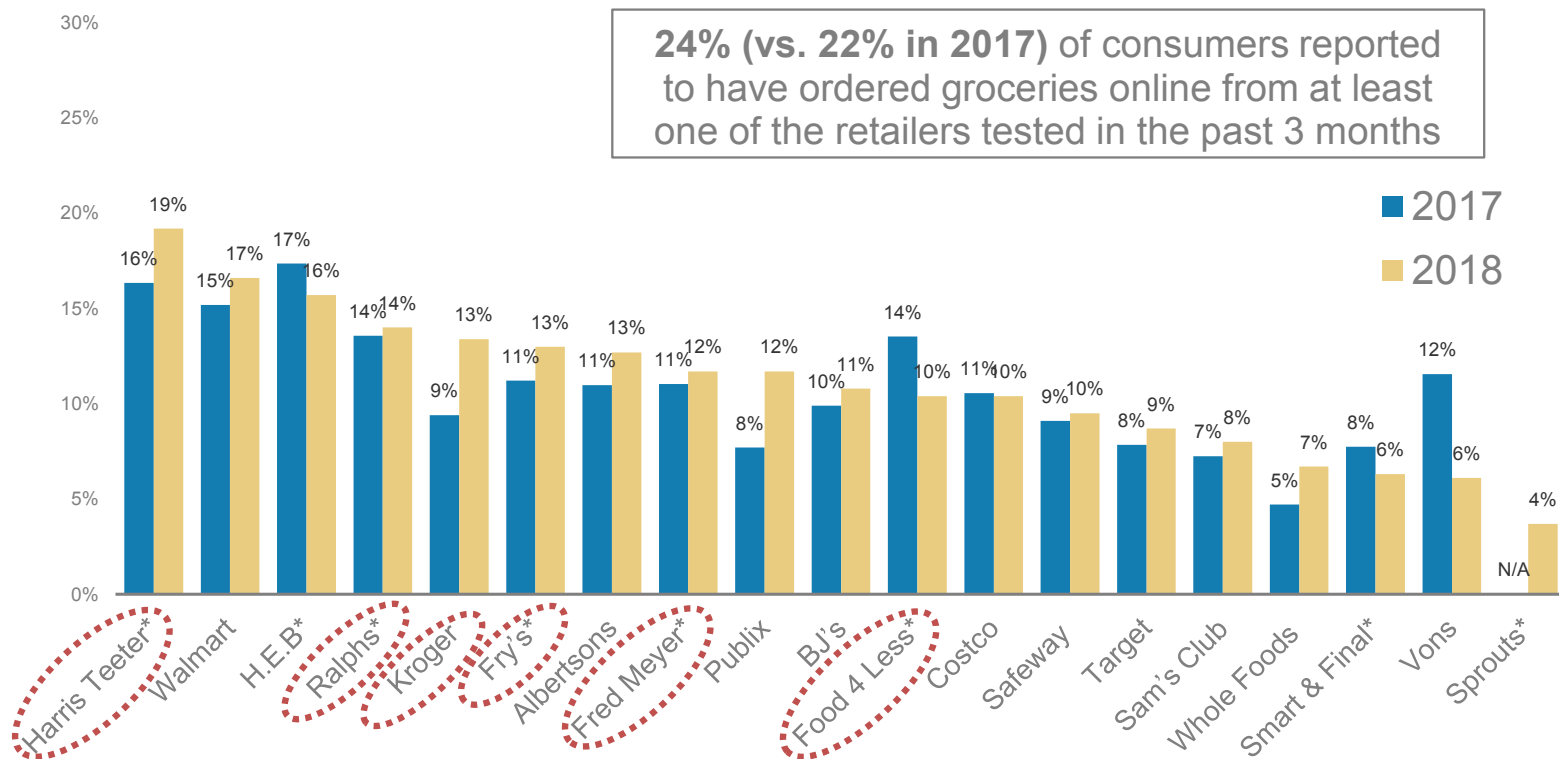


Online grocery ordering directly from retailer websites rose y/y, led by Kroger banners (highlighted)

Kroger and Walmart lead amongst store-only websites. Smart & Final remained below average, as did Whole Foods despite +2% penetration y/y. Sprouts rose to 4% after partnering with Instacart at the beginning of 2018.

Average across retailers was 11% (+1% y/y), which we continue to view as relatively low.

Ordered Groceries Online Directly on Retailer's Website in Past 3 Months
(Among Consumers who Live in Vicinity of Retailer)



Source: AlphaWise, Morgan Stanley Research

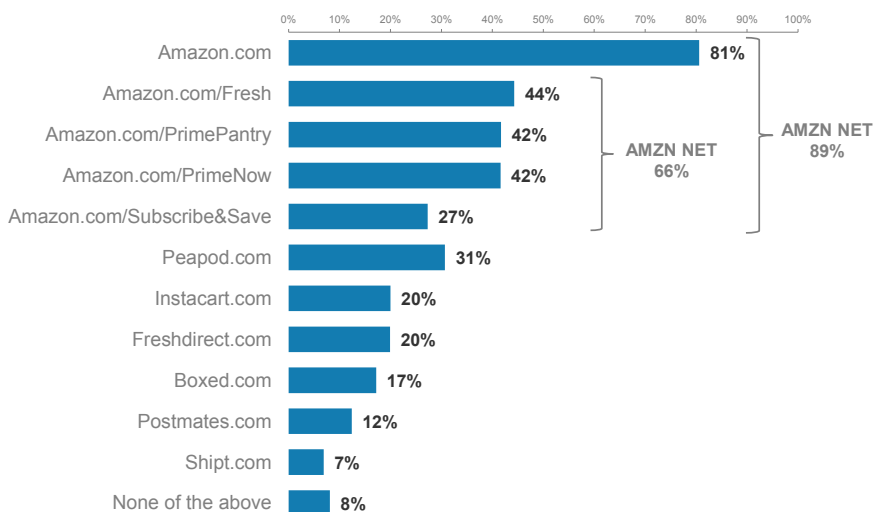
Note: * indicates low base size

AMZN and Online Grocery

AMZN rates a clear #1 among online-only grocers on awareness and purchase frequency...

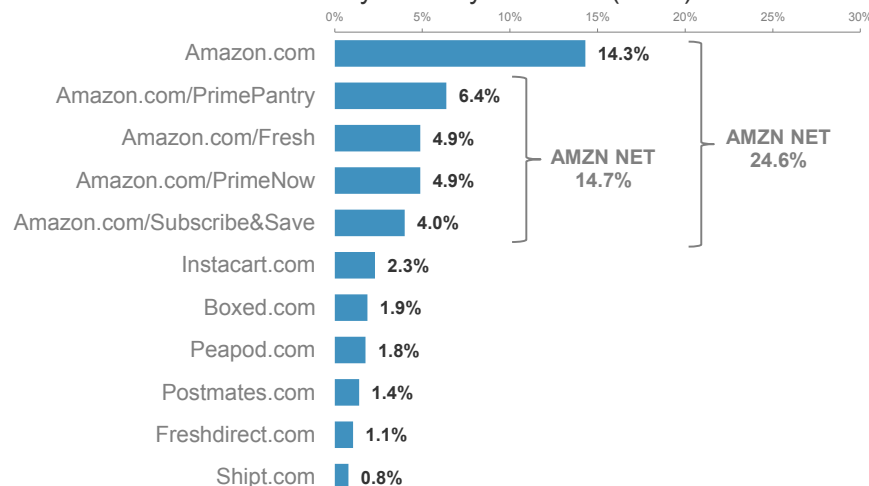
AMZN's main site and its grocery-related services rate highest on awareness, including 66% awareness of at least one of AMZN's specific grocery services.

Awareness of Online Only Grocery Retailers (2018)



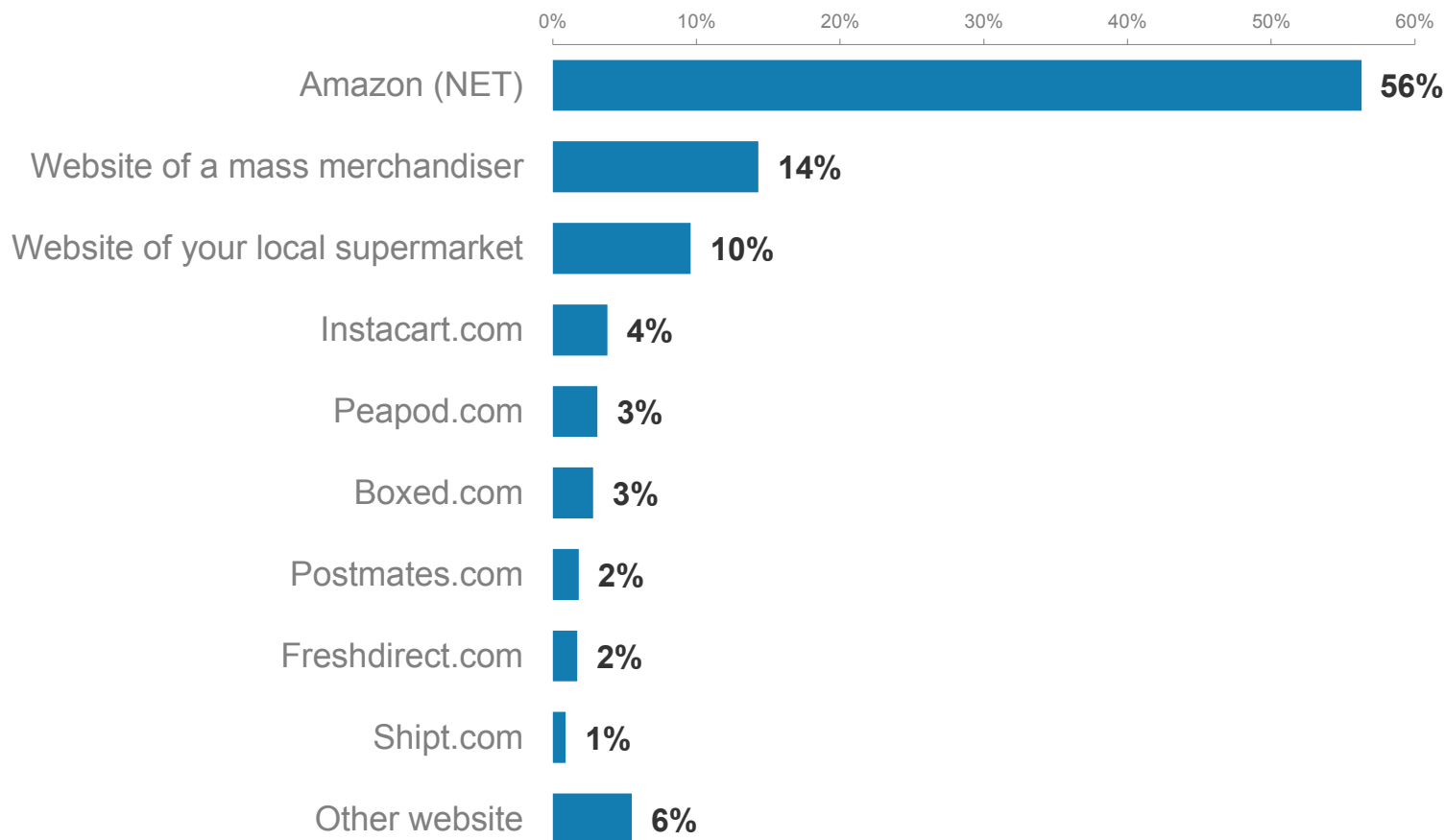
~25% of consumers have ordered groceries from one of AMZN's sites in the past 3 months, while incidence of ordering via non-AMZN websites is comparatively low (~9% combined).

Purchased from Online Only Grocery Retailers (2018)



...And AMZN sites likely to continue benefiting from being top of mind for consumers ordering online

Most Likely to Order Groceries Next 6 Months (Among Consumers Likely to Order Online)



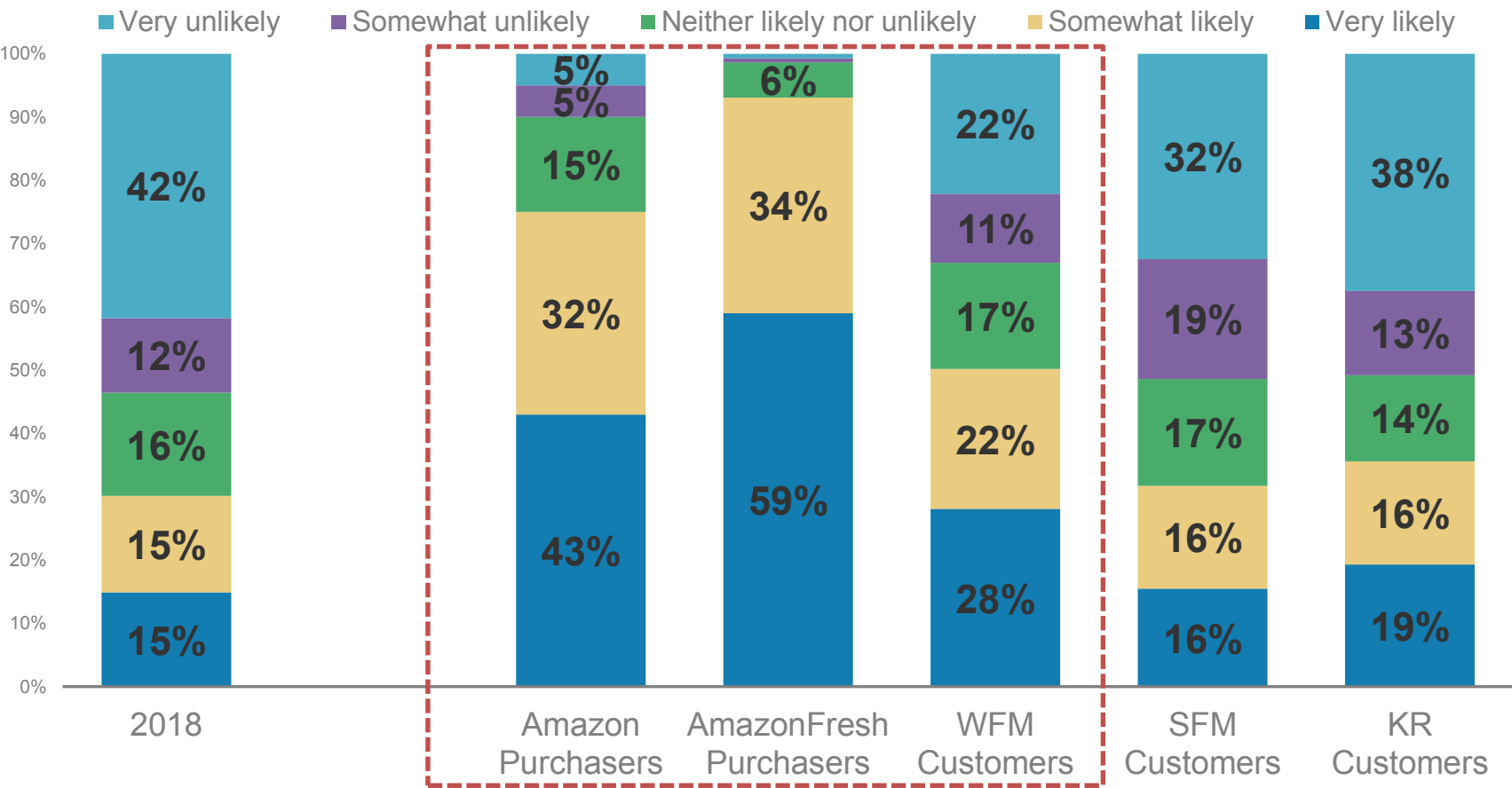
Source: AlphaWise, Morgan Stanley Research

Note: AMZN (NET) includes Amazon.com, Prime Pantry, AmazonFresh, Prime Now, and Subscribe & Save

Note: Question was single punch (respondents asked to select only one option)

Furthermore, likelihood of AMZN / WFM shoppers to order online higher than overall average / peers

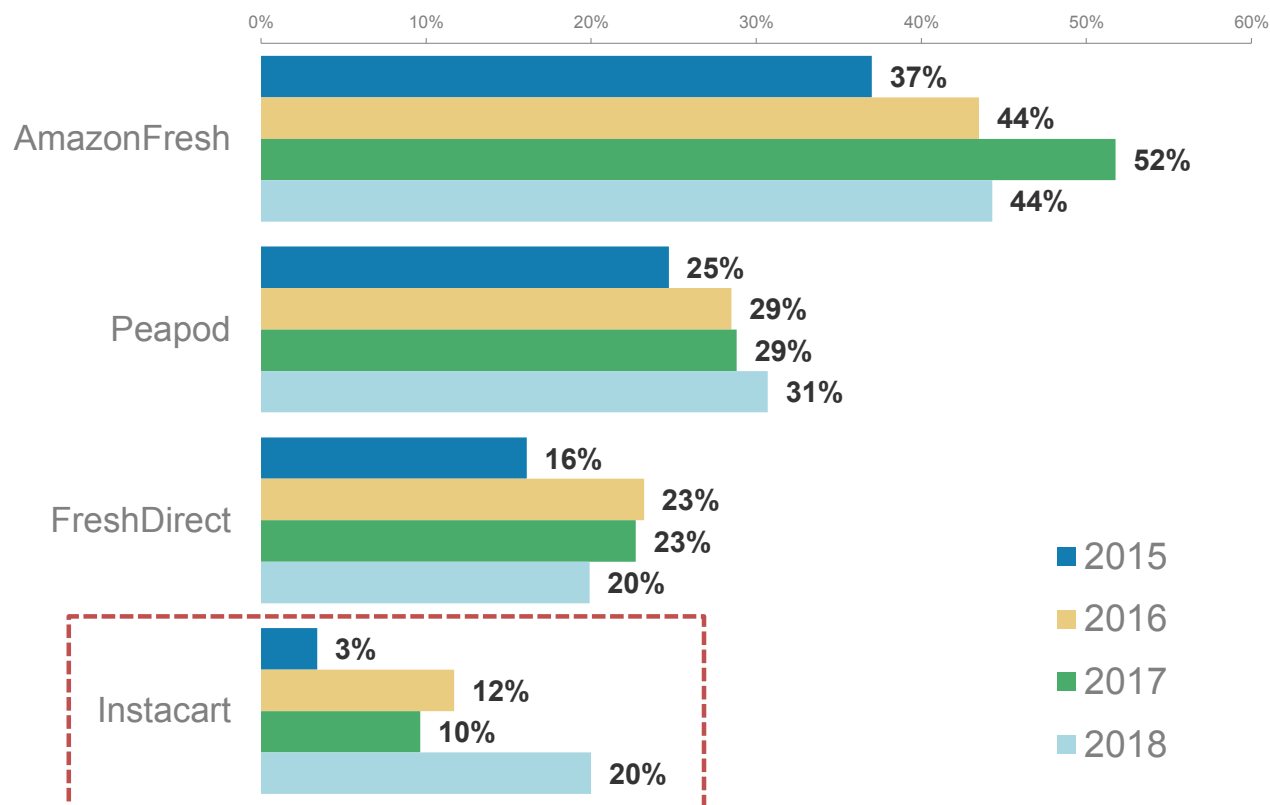
Likelihood to Order Groceries Online in Next 6 Months to be Shipped



Instacart awareness doubled, while AmazonFresh fell (possibly due to AMZN emphasizing Prime Now)

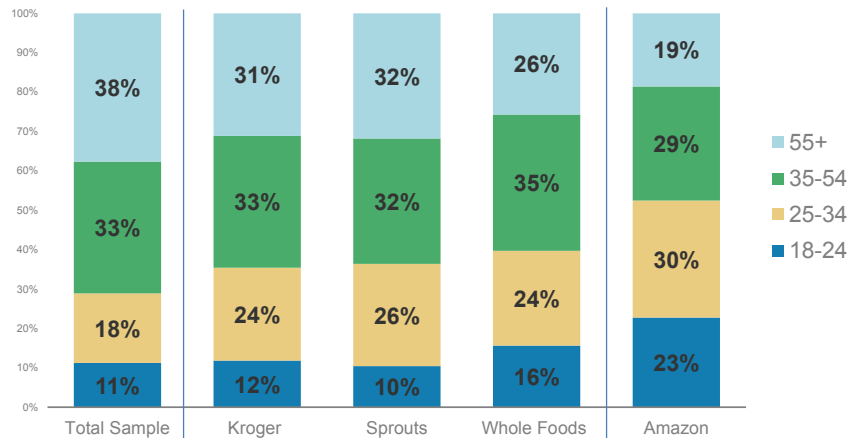
We note post-AMZN/WFM, Instacart expanded existing partnerships with Costco and CVS and began partnerships with Kroger, Albertsons, and Sam's Club; now partners with the top 8 grocers in the US. We also note WMT is the most shopped retailer on Instacart.

Awareness of Online Only Grocery Retailers

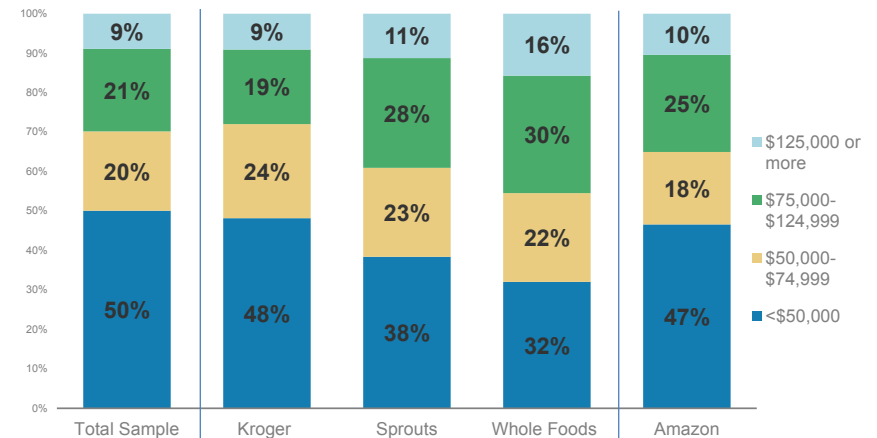


AMZN shoppers skew younger, but have only slightly higher incomes than the general population

Age Mix of Past 3-Month Shoppers



Income Mix of Past 3-Month Shoppers



In-Store Grocery Trends

Top 2 drivers of grocery shopping remain convenient location and low prices

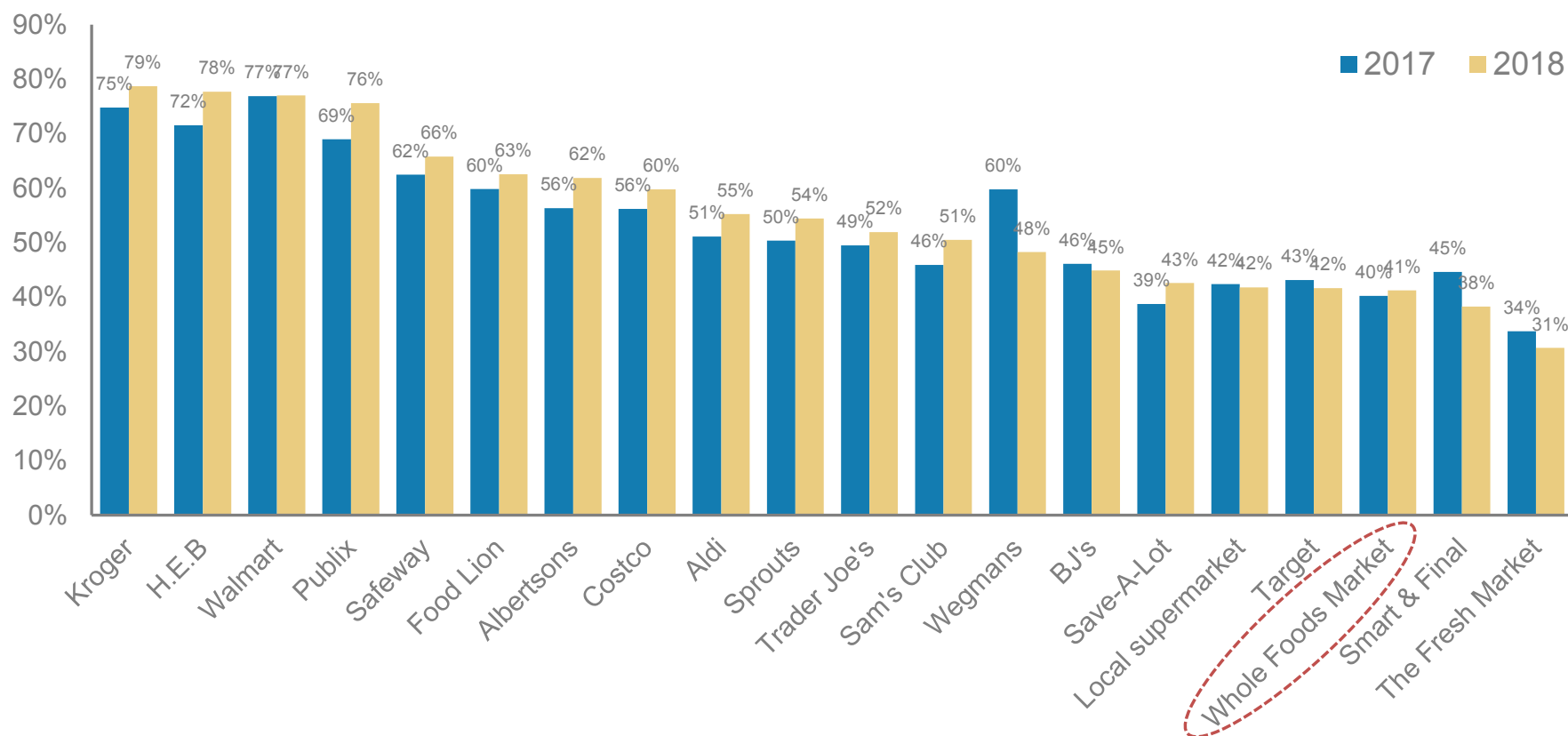
Drivers of Grocery Shopping



Kroger, HEB, and Walmart have greatest share of shoppers (who live in vicinity of a store)

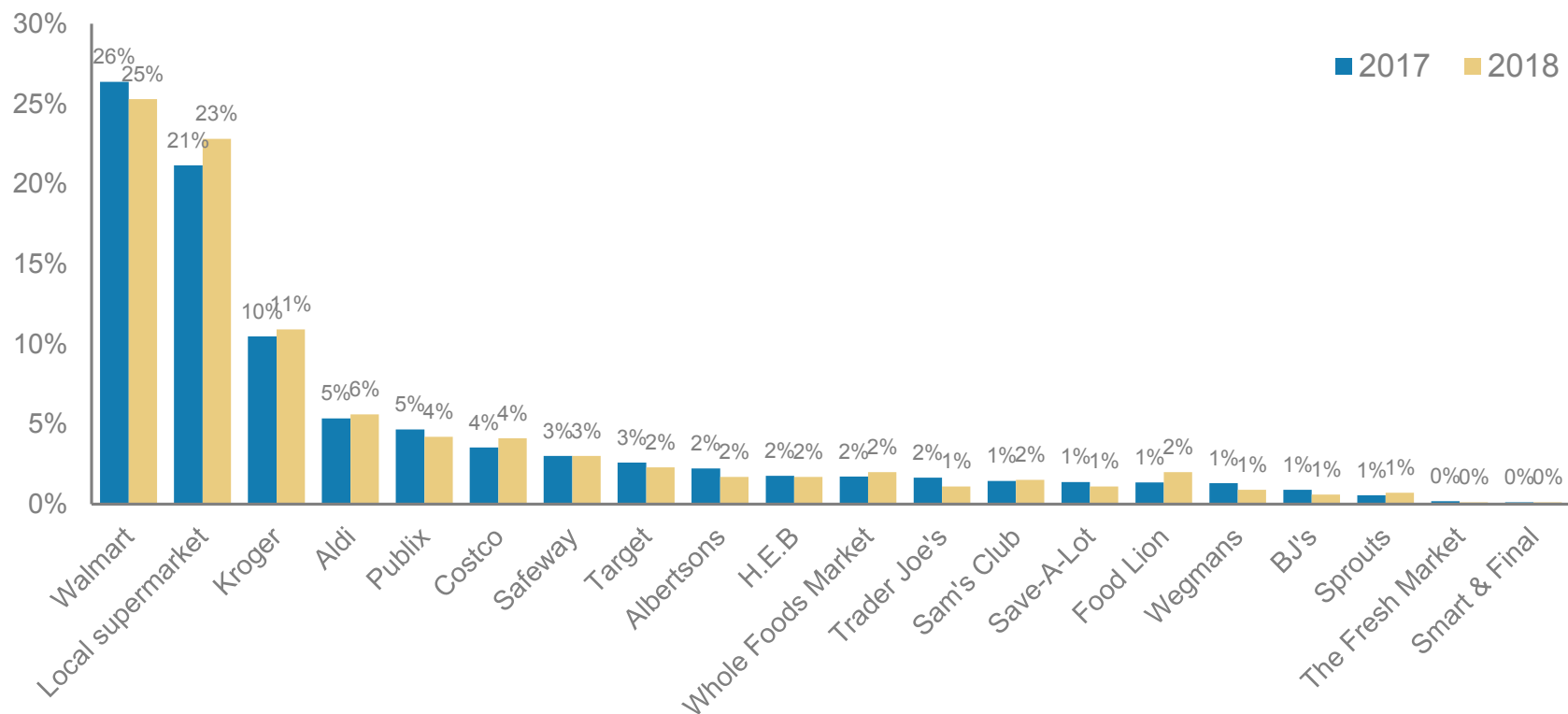
We note UW-rated Smart & Final (SFS) had the second-biggest drop y/y, from 45% in 2017 to 38% in 2018. We also view Walmart's high share as impressive considering it is typically not the local supermarket.

Purchased Groceries in Past 3 Months (Among Consumers Who Live in Vicinity of Retailer)



Walmart maintains position as most-frequented retailer (25%), ahead of Kroger (11%) and Aldi (6%)

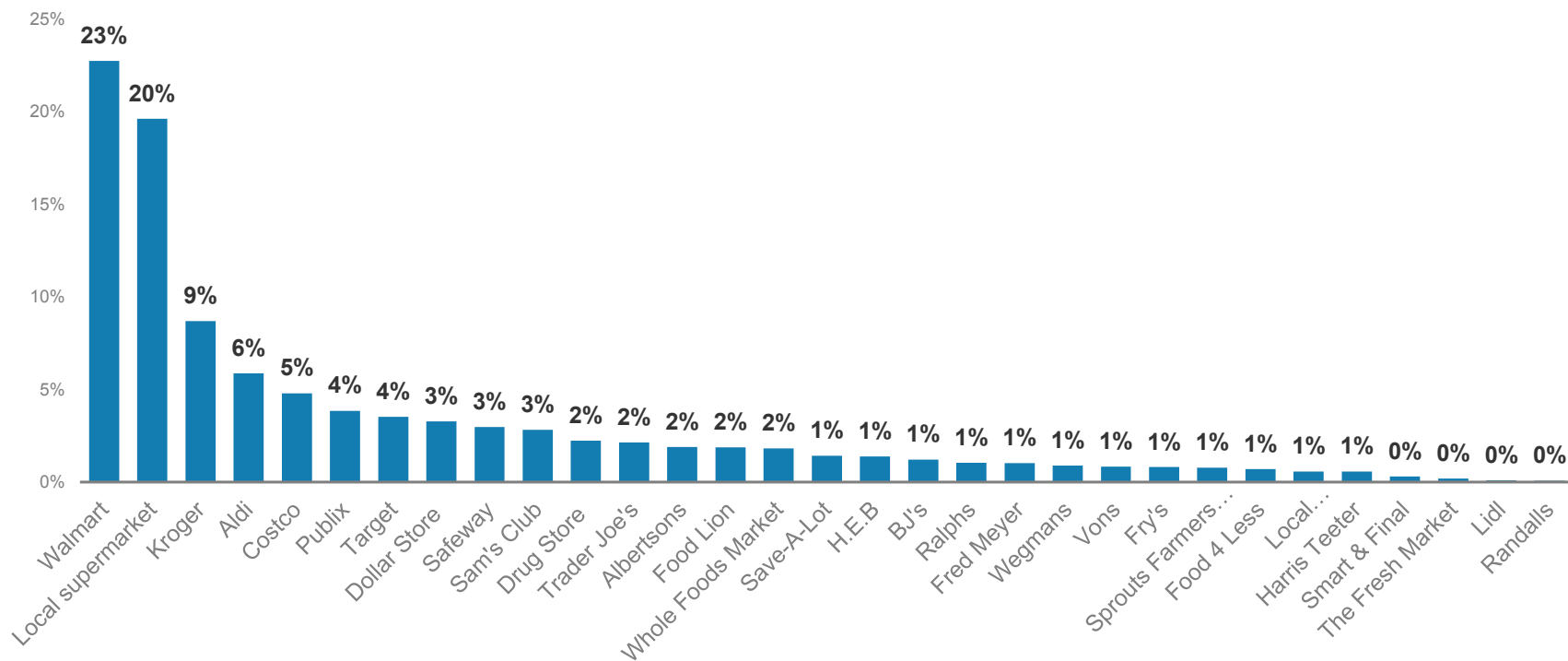
Most Often Purchased Groceries (Among Consumers Who Live in Vicinity of Retailer)



Walmart has a dominant 23% share of grocery spend

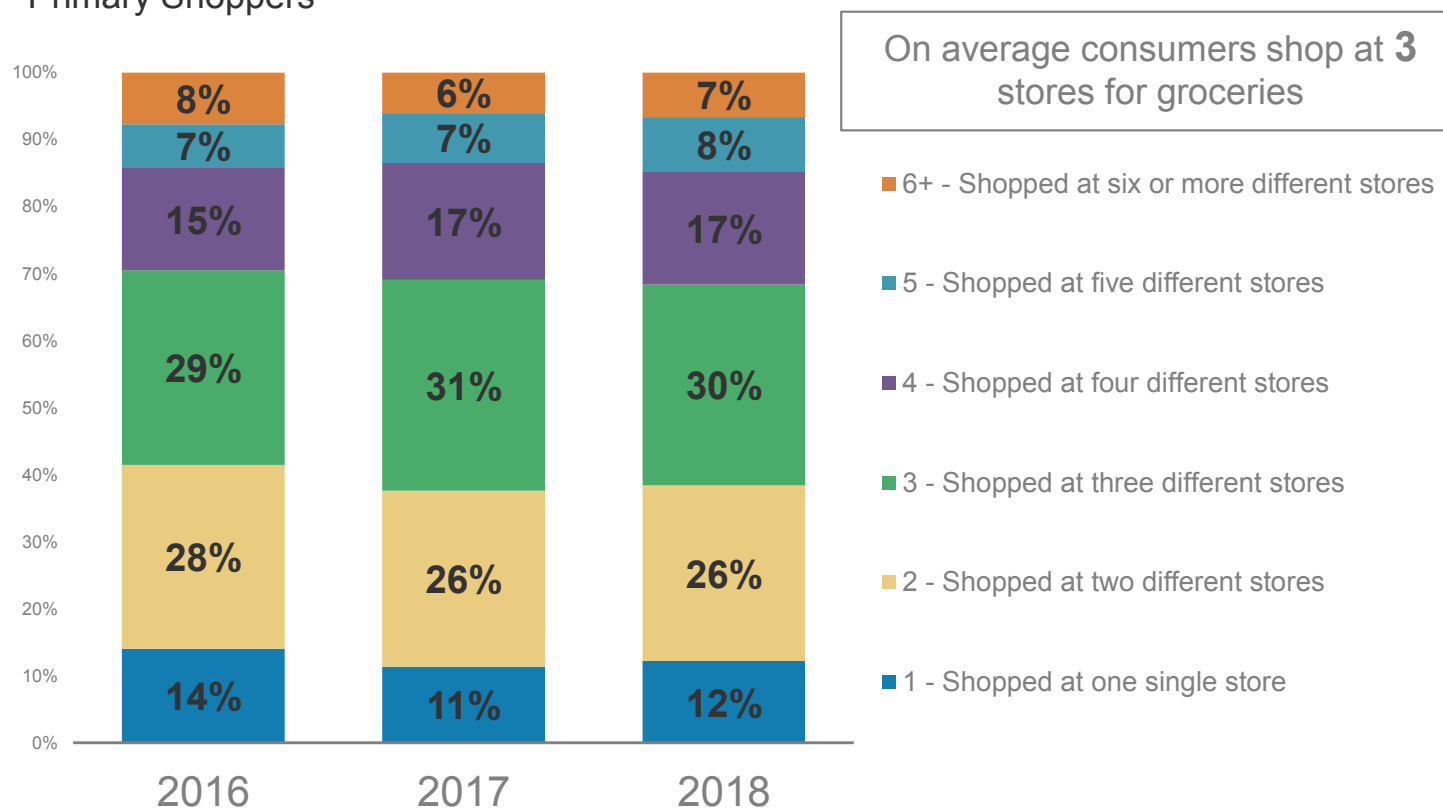
Walmart's share is 2.5x the next national retailer (Kroger).

Total Grocery Spending by Stores in Past 3 Months



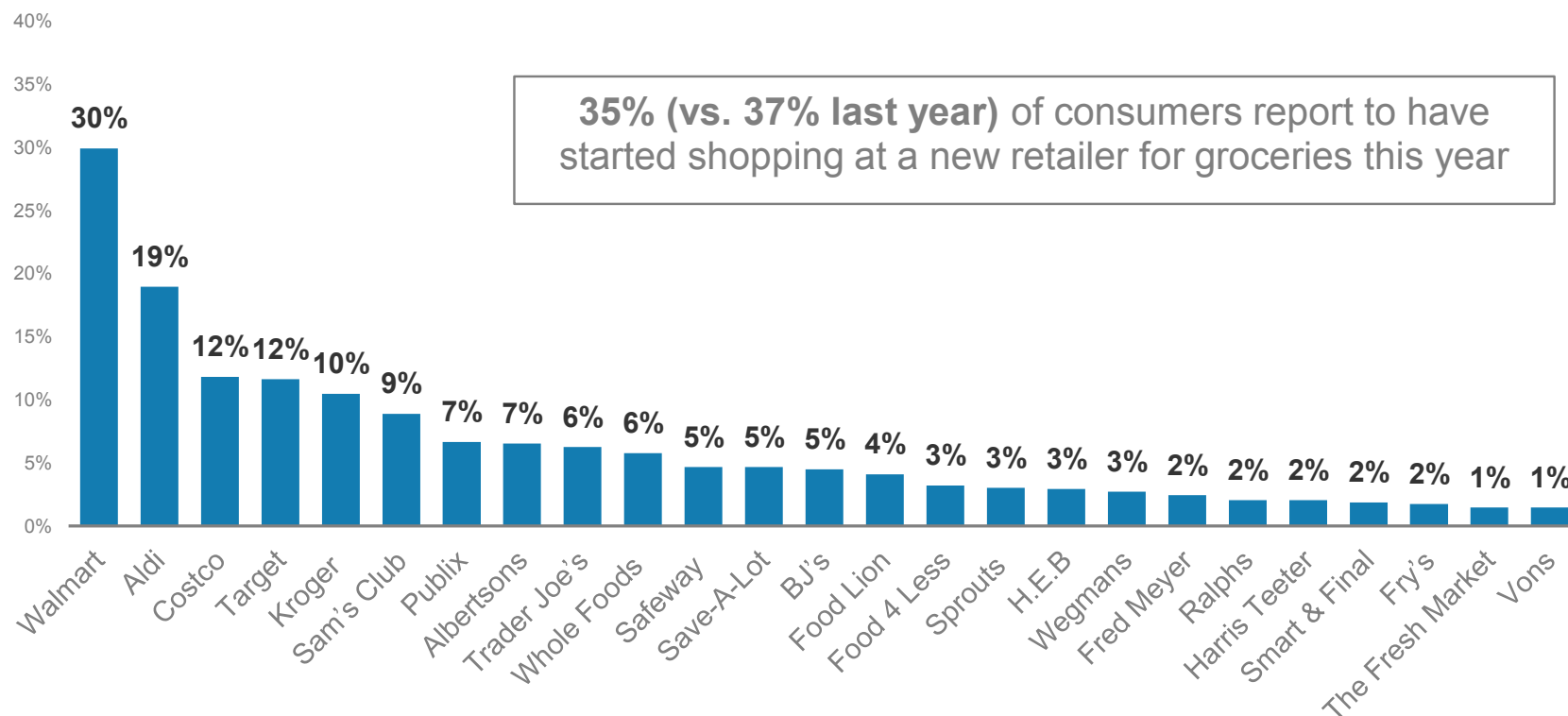
Consumers continue to shop at 3 stores for groceries (on average), consistent with past few years

Number of Stores Shopped for Groceries in Past 3 Months Among Primary Shoppers



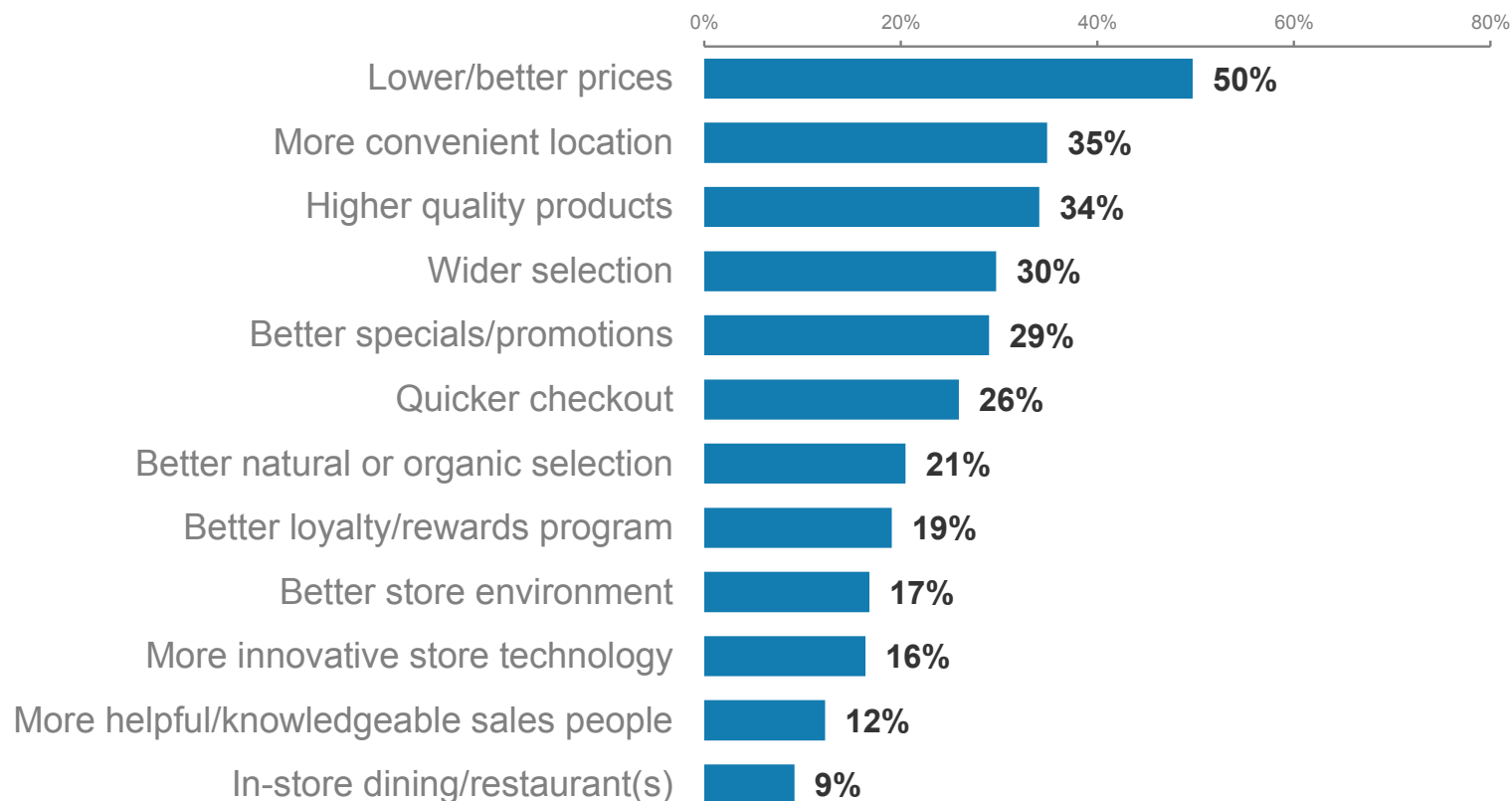
35% of consumers have started shopping at a new retailer for groceries this year...

New Retailers Shopped for Groceries in 2018 (Among Consumers Who Have Started Shopping at New Retailer)

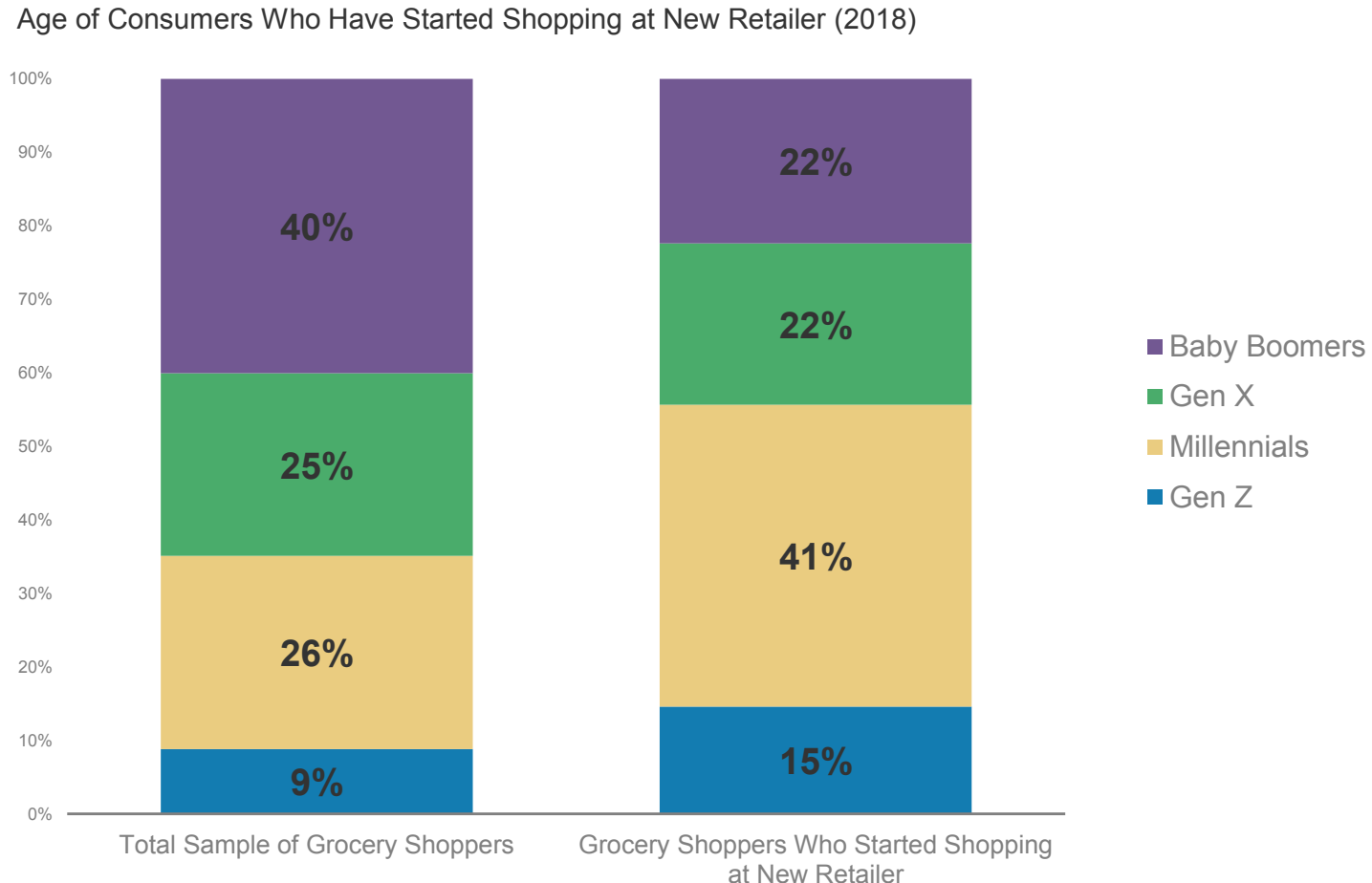


...Motivated primarily by price, as well as convenience and higher quality products

Reasons for Shopping at New Retailers for Groceries in 2018 (Among Consumers Who Started Shopping New Retailer)



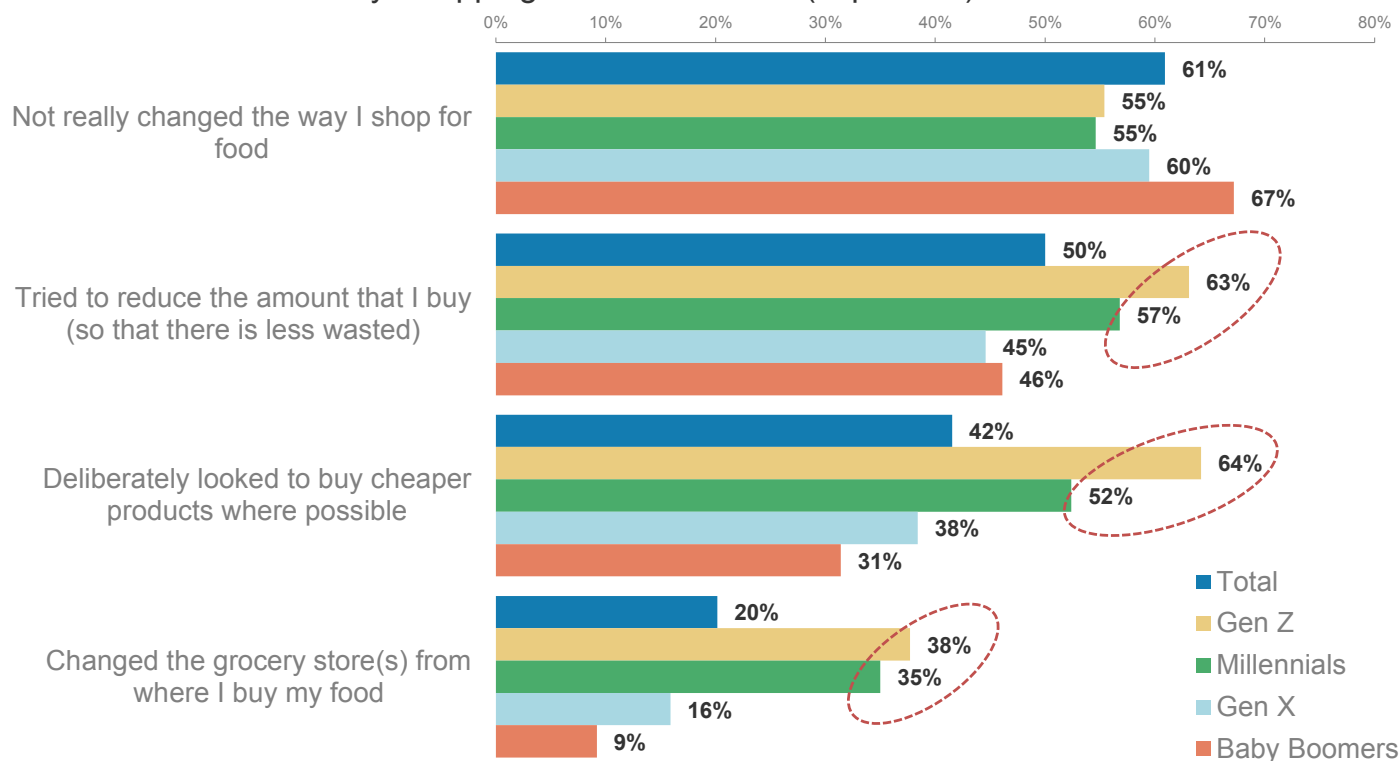
Shoppers who switched retailers over-index to Millennials / Gen Z, under-index to Baby Boomers...



...And younger consumers are more prone to changing retailers and how they shop for groceries

Millennials and Gen Z tend to skew higher on reducing the amount of groceries they purchase, buying cheaper / promotional items, and changing retailers.

Attitude Towards Grocery Shopping in Past 3 Months (Top 2 Box)



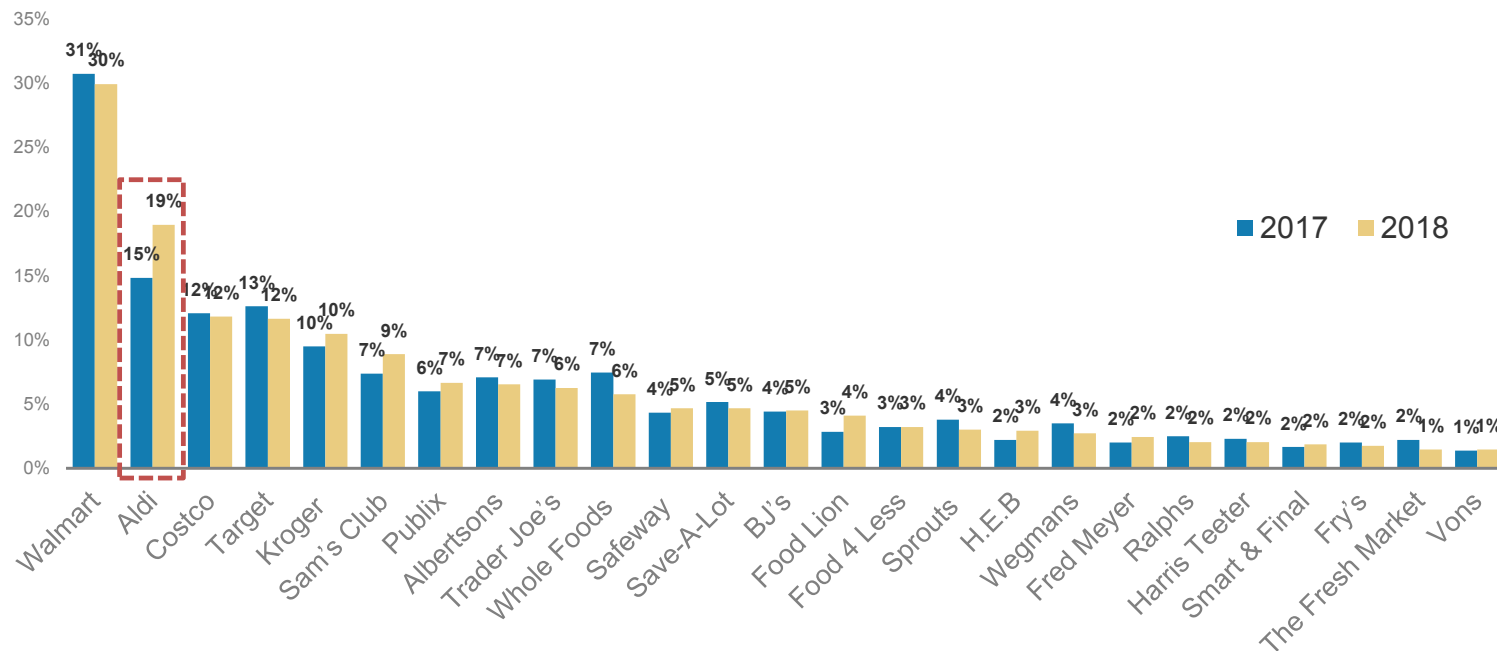
Hard Discounter Aldi saw biggest share gain of shoppers who switched retailers

Drawn to lower prices, 19% of consumers shopping at new retailers started purchasing at Aldi, up 4% from 2017 and second only to Walmart at 30% (down 1% from 2017).

Longer-term, we expect emerging Hard Discount threats (ie Aldi, Lidl) to continue to gain share and pressure margins within Food Retail as dollars gravitate toward value segments. Hard Discount market share in the US is likely ~2-3% currently, but we see a pathway for share to double over the next decade.

We note Walmart remains the dominant share gainer, but the rate of gain is slowing.

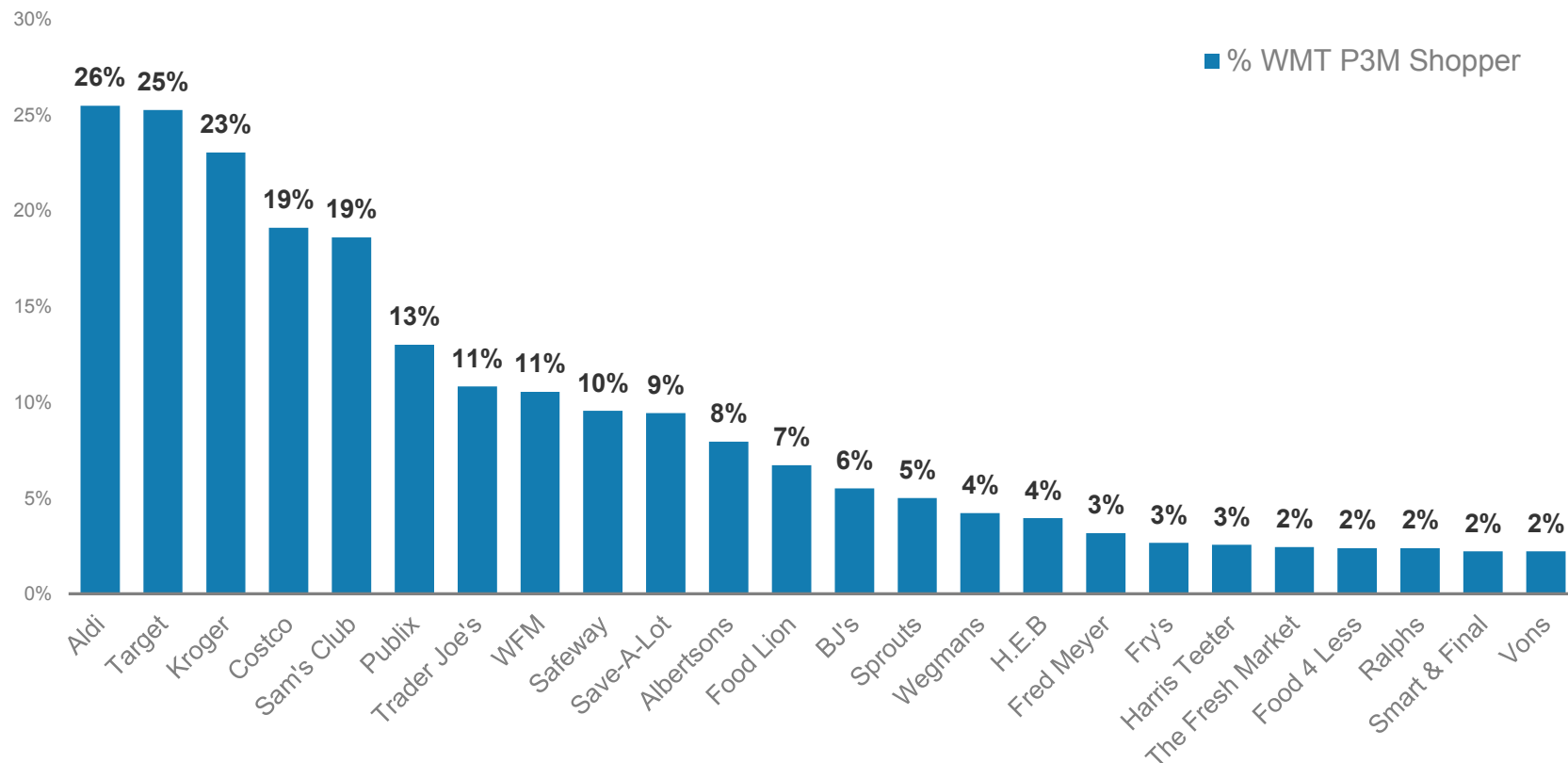
New Retailers Shopped for Groceries (Among Consumers Who Have Started Shopping at New Retailer)



26% of WMT shoppers also shop at Aldi, a potential risk factor if Aldi continues to gain wallet share

Additionally, we note only 11% of WMT shoppers are also WFM shoppers, which indicates that AMZN grocery gains are not likely coming from WMT.

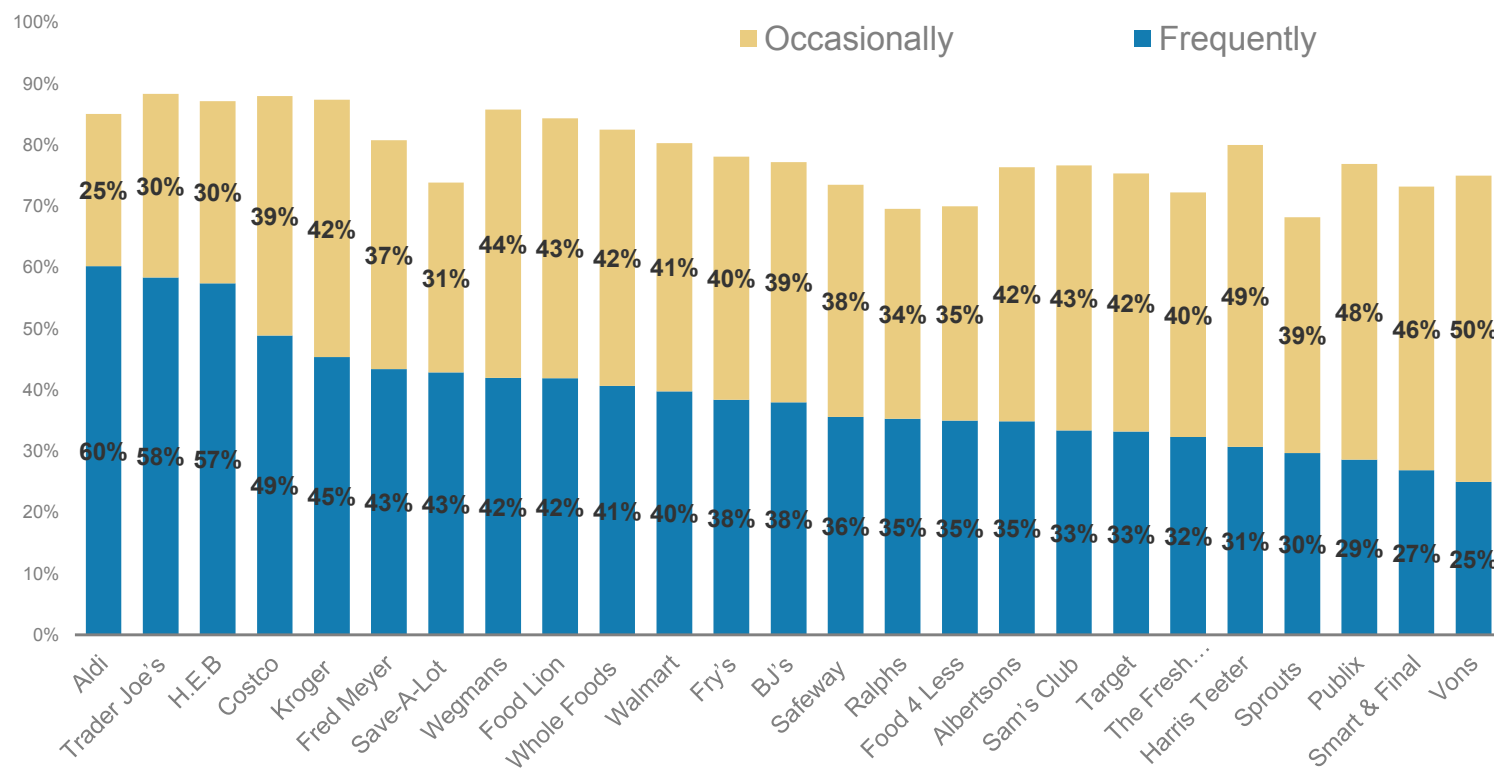
Retailer Shopper Profile: Overlap of WMT Past 3 Month Shoppers



Private label spend is high across retailers

Walmart private label penetration is solid and ahead of competitors such as Target. Private label-heavy retailers Aldi and Trader Joe's have the highest penetration overall.

Purchase Retailer's Store Brand/Private Label Products (Among Retailer Customers)



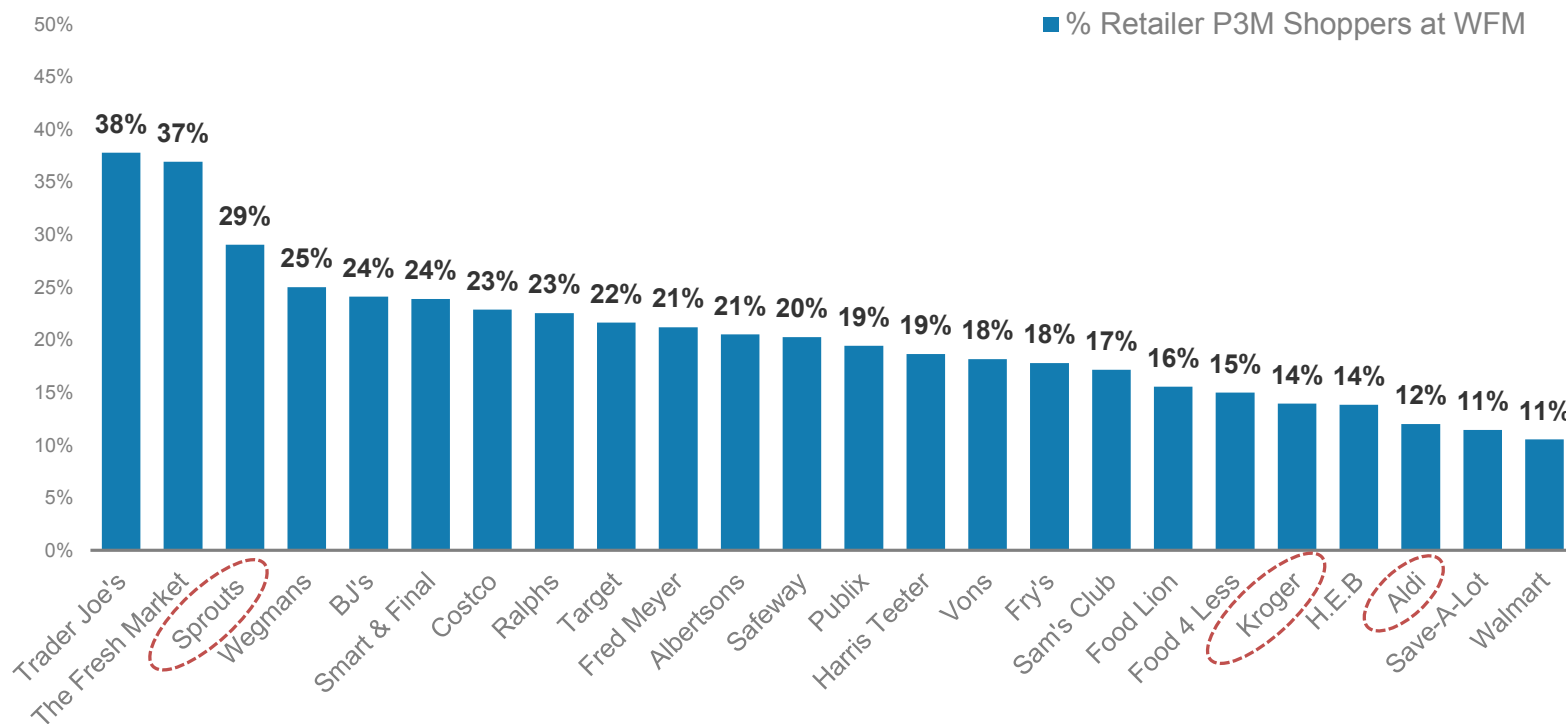
Whole Foods Post-AMZN

Whole Foods has greatest shopper overlap with Trader Joe's, The Fresh Market, and Sprouts

38% of Trader Joe's shoppers, 37% of The Fresh Market shoppers, and 29% of Sprouts shoppers also shop at Whole Foods. We note Kroger's namesake banner (14%) and Aldi (12%) have significantly less shopper overlap.

Interestingly, the number of Whole Foods shoppers who also shop at Walmart increased from 59% LY to 67% this year. This could suggest Walmart is having increasing success in attracting higher-end customers.

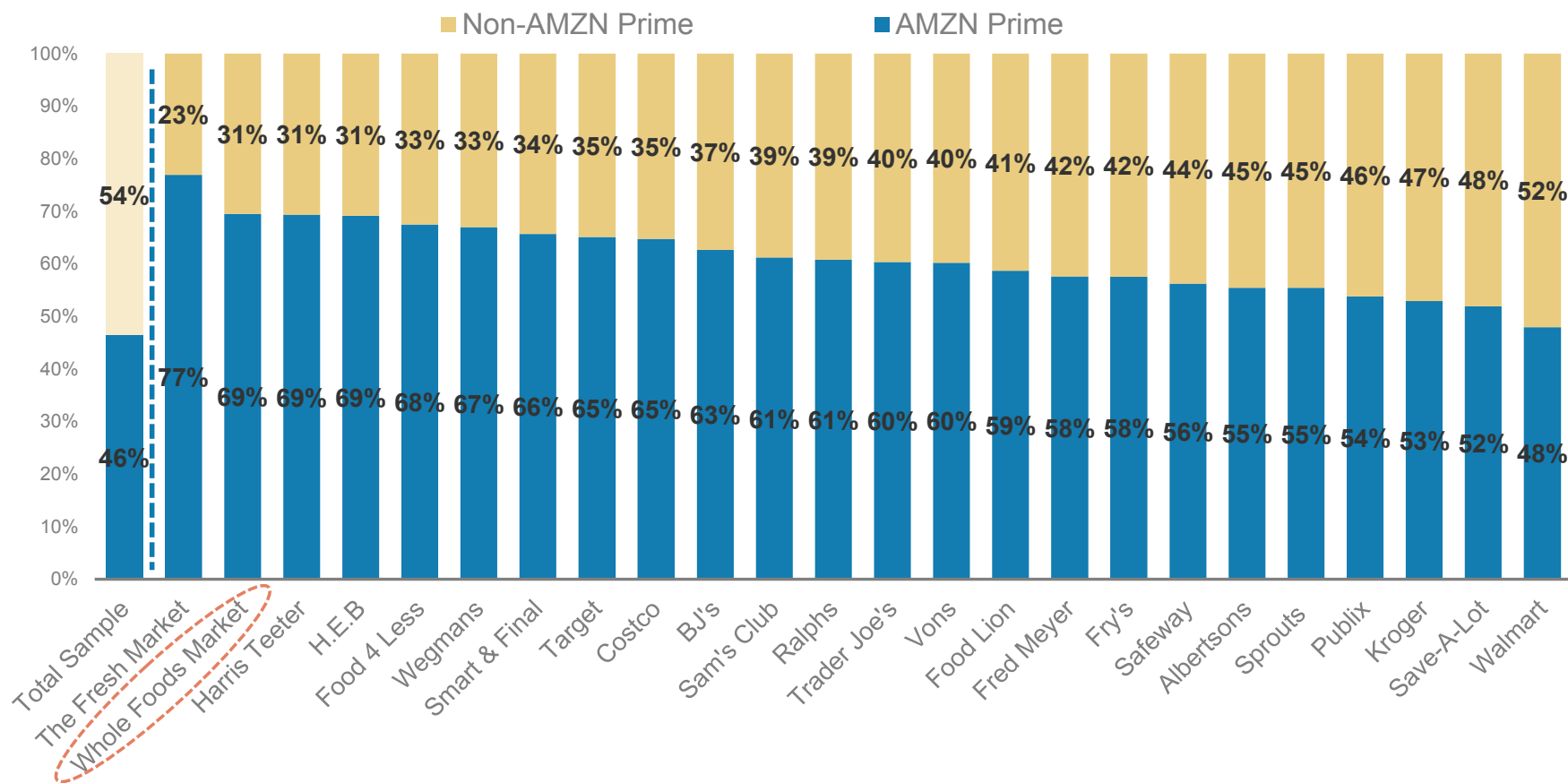
Retailer Shopper Profile: Overlap of Retailer Past 3 Month Shoppers at WFM



69% of Whole Foods shoppers are Prime members, +7% y/y; WMT has lowest Prime overlap

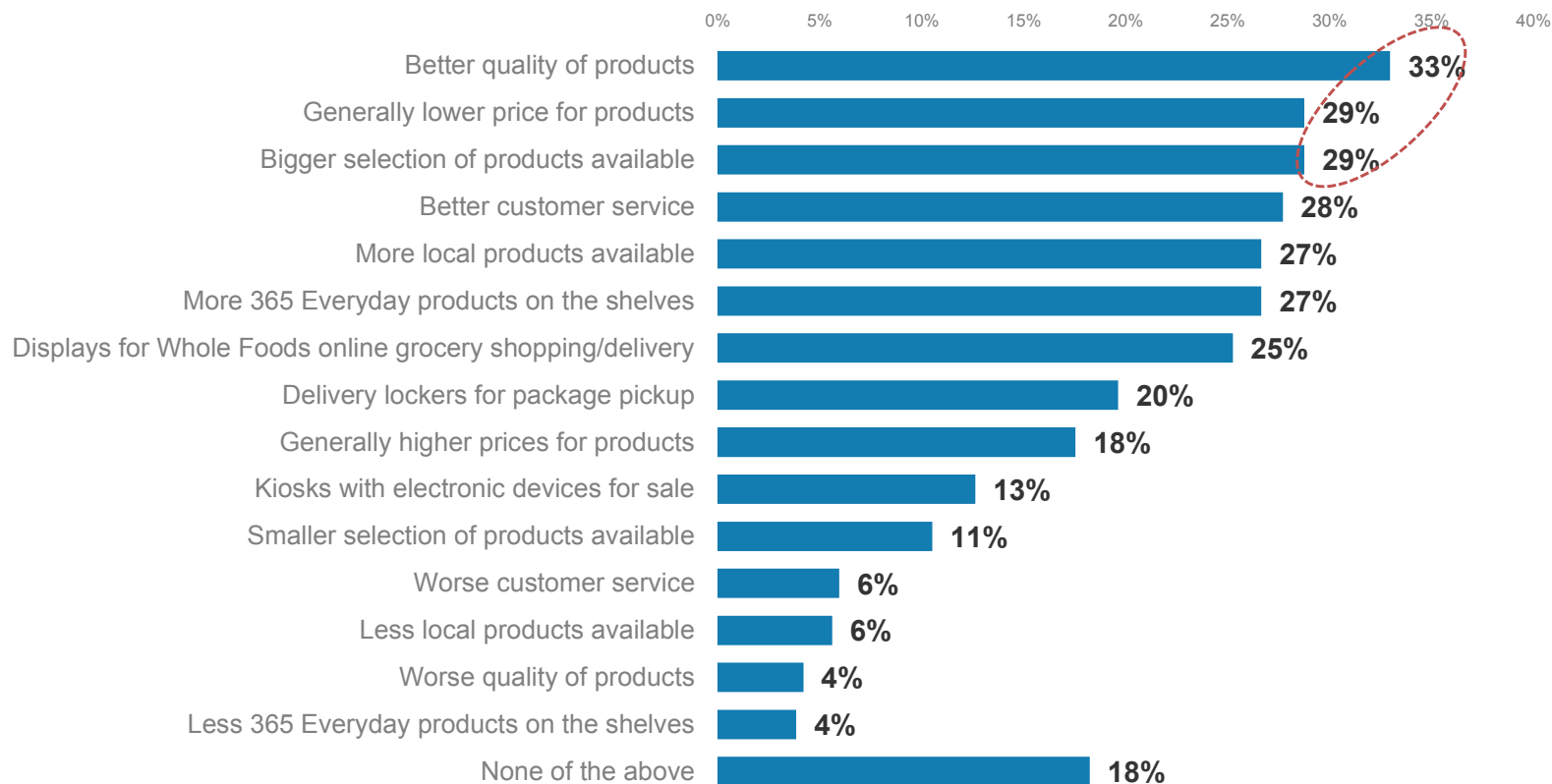
WMT has the lowest overlap with Prime members and grew only +2% y/y, below +5% y/y average for all retailers. A low overlap highlights WMT's potential moat relative to its low end competitors, which are more exposed to the AMZN threat.

Retailer Shopper Profile: AMZN Prime Members



Top changes observed at Whole Foods: better quality of products, lower prices, and bigger selection

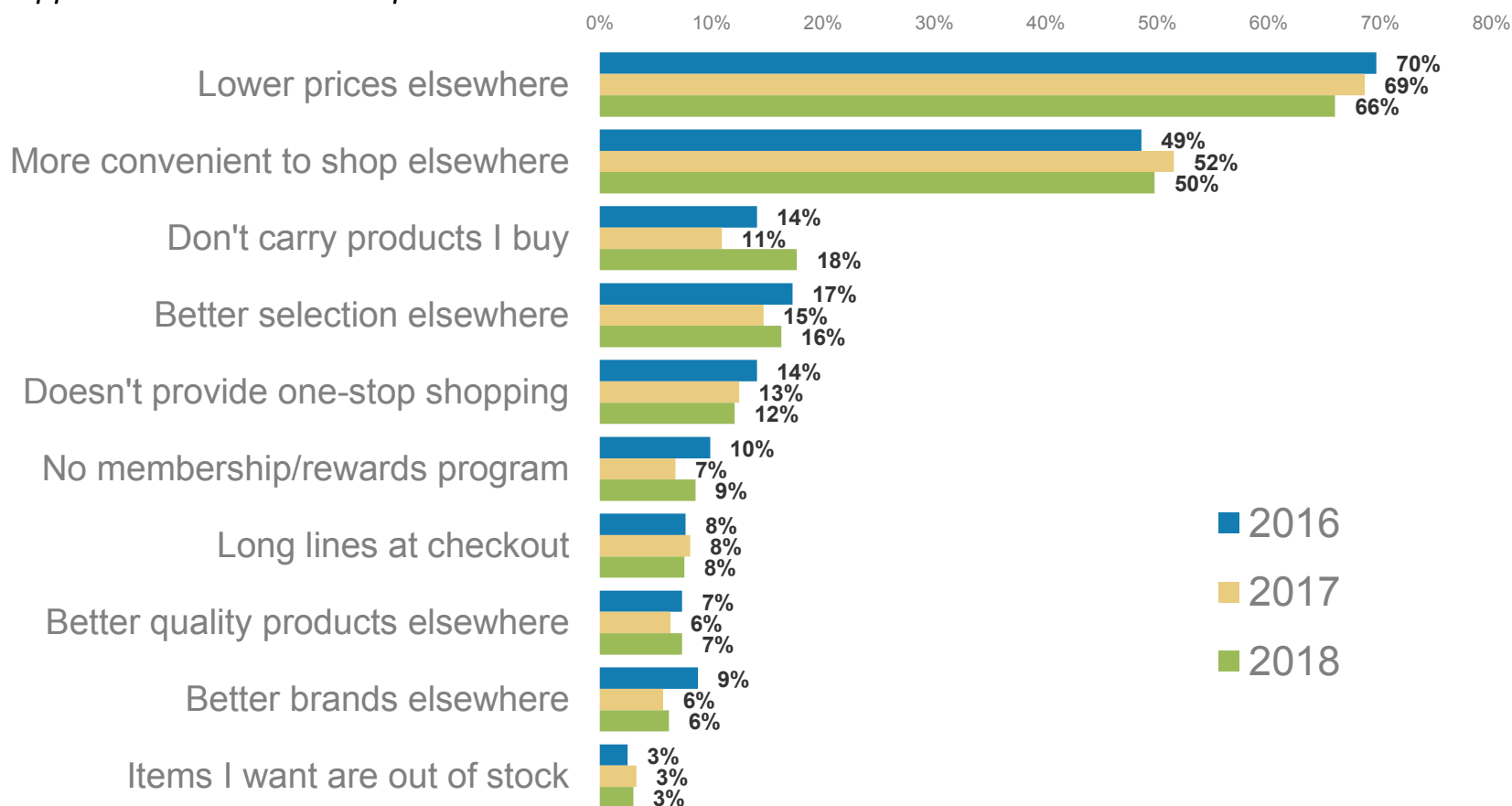
Changes Observed at Whole Foods Market (Past 6 Months)



High prices remains main barrier from shopping at Whole Foods (66%), but 3% less than last year

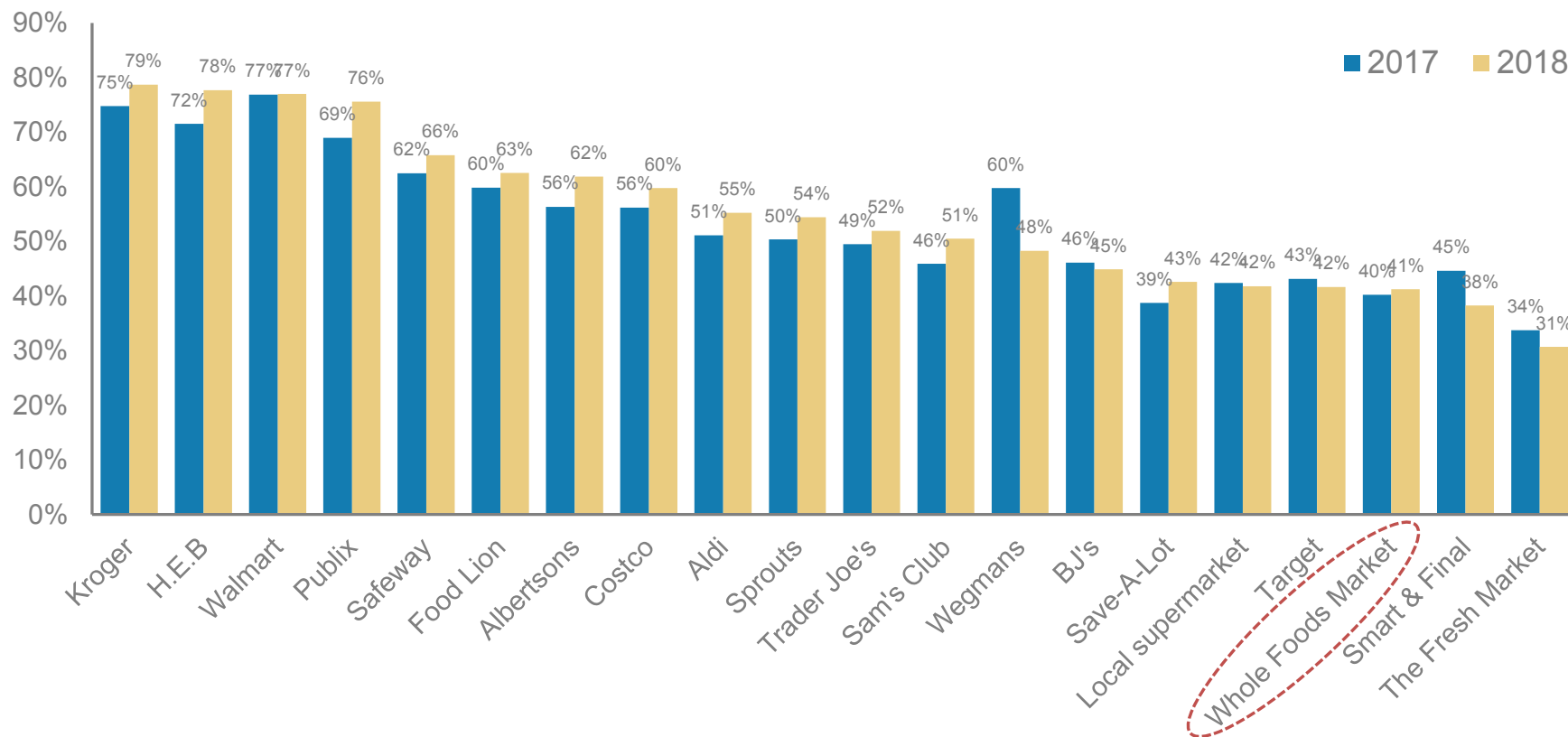
Barriers of Shopping at Whole Foods Market

Among shoppers who live in vicinity but have not shopped at a location in the past 3 months



Perceived changes to Whole Foods have yet to affect shopper penetration (41% vs. 40% last year)

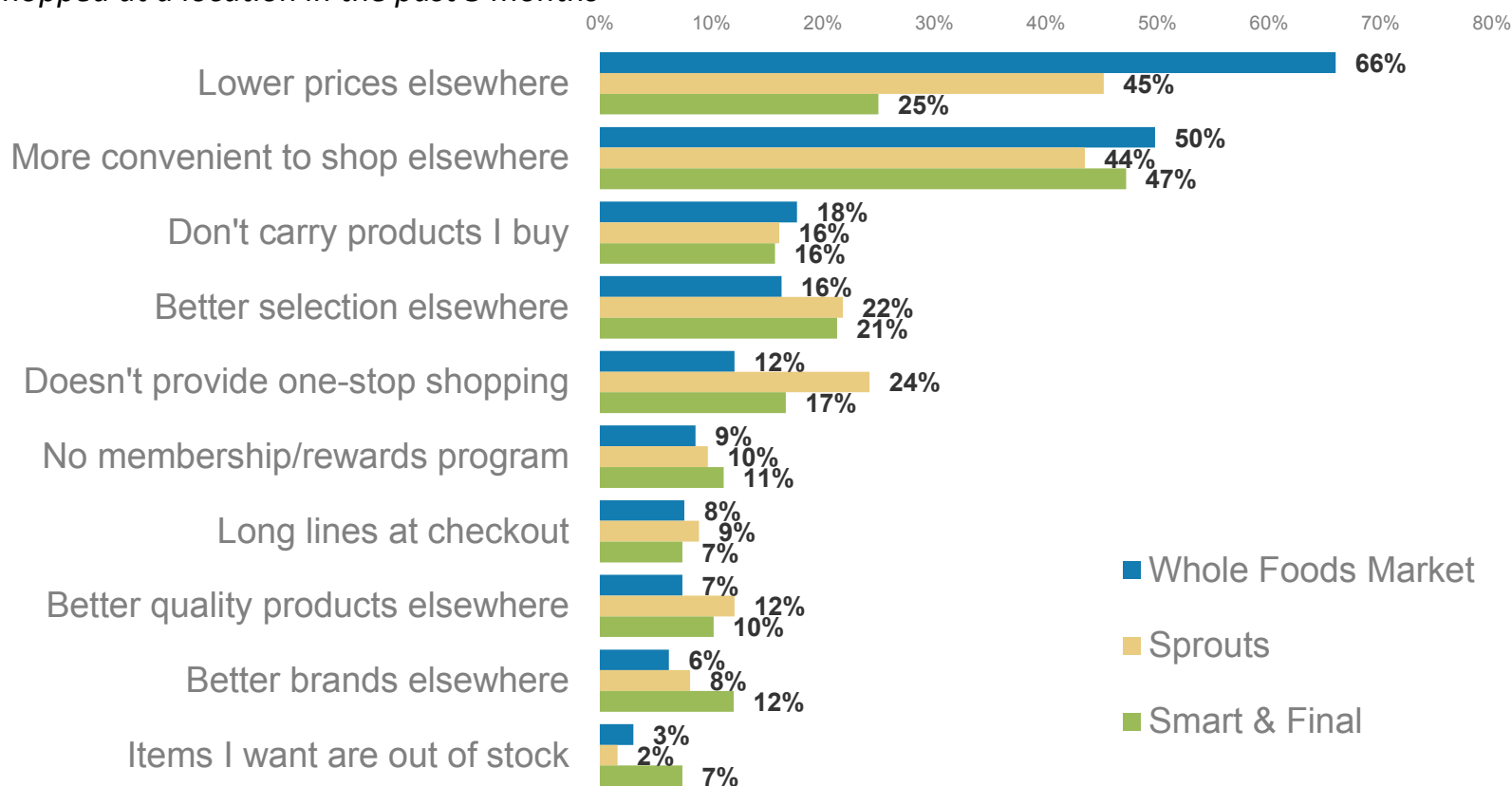
Purchased Groceries in Past 3 Months (Among Consumers Who Live in Vicinity of Retailer)



Consumers still view Whole Foods pricing as an incrementally larger barrier vs. other specialty retailers

Barriers of Shopping at Retailer

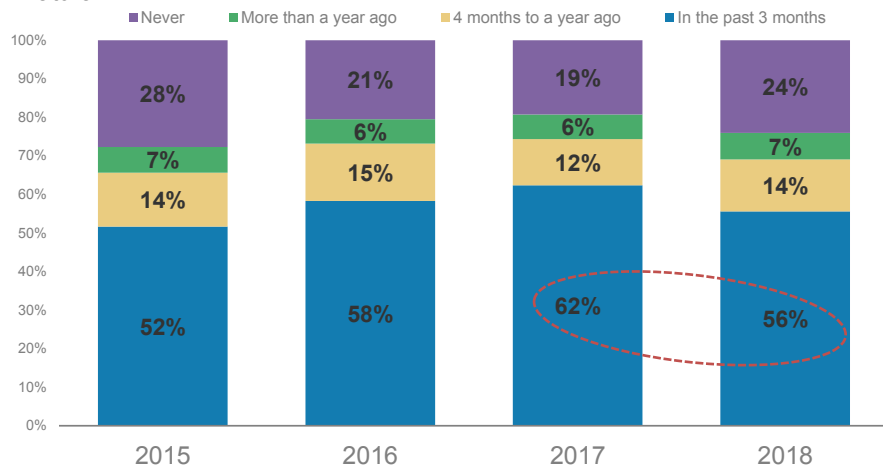
Among shoppers who live in vicinity but have not shopped at a location in the past 3 months



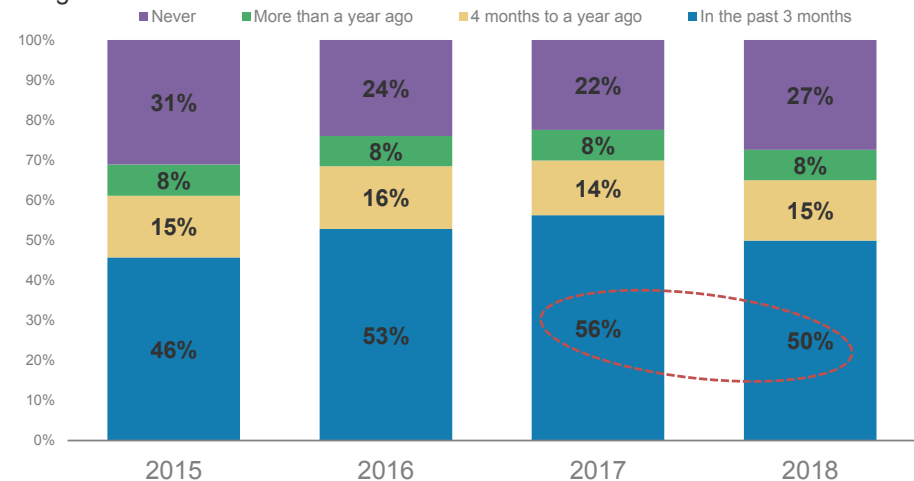
Natural / Organic Trends

P3M purchasing of natural / organic products decreased for the first time since 2015

Purchased Food/Beverage Products Labeled/Certified as Natural

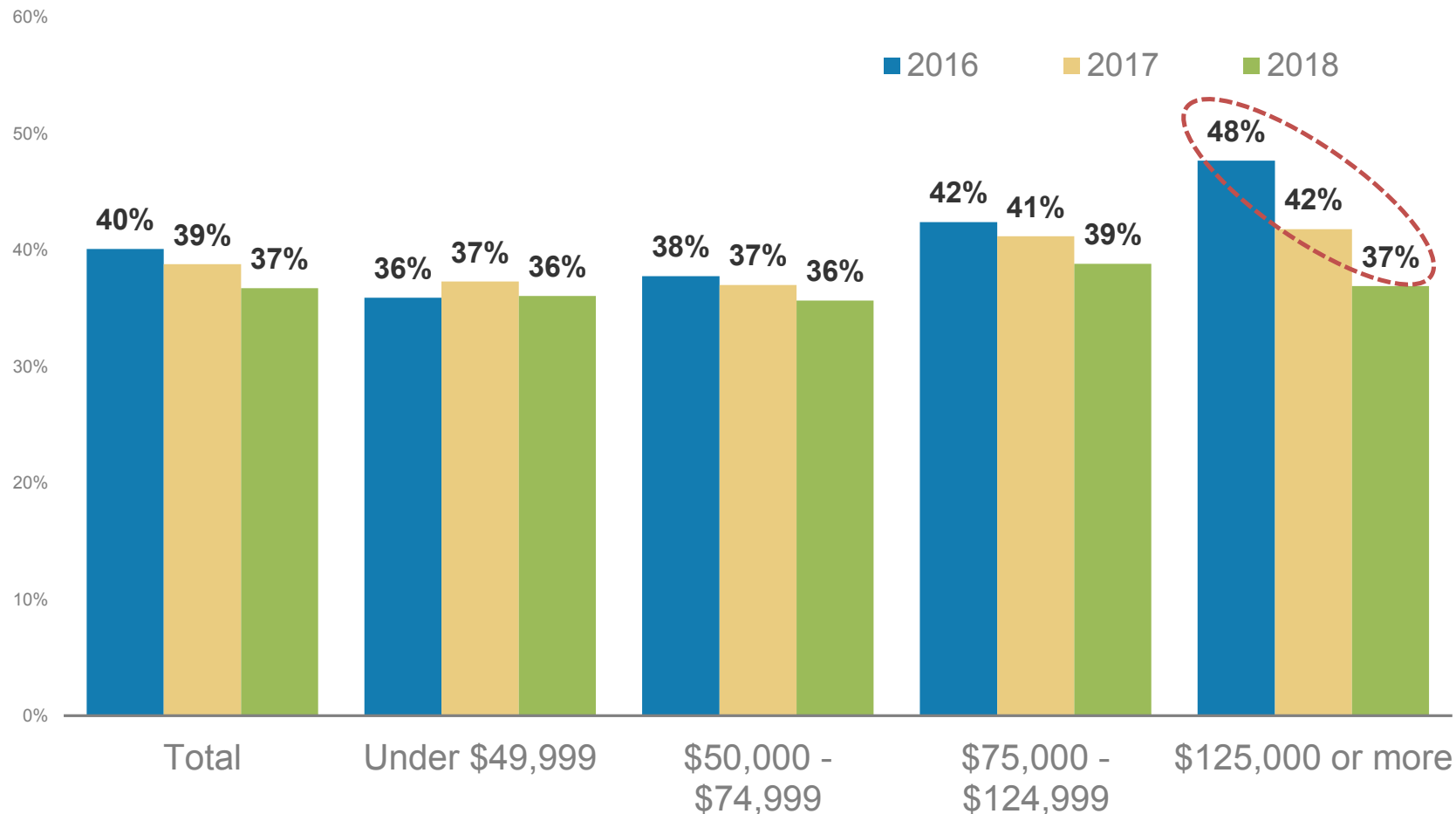


Purchased Food/Beverage Products Labeled/Certified as Organic



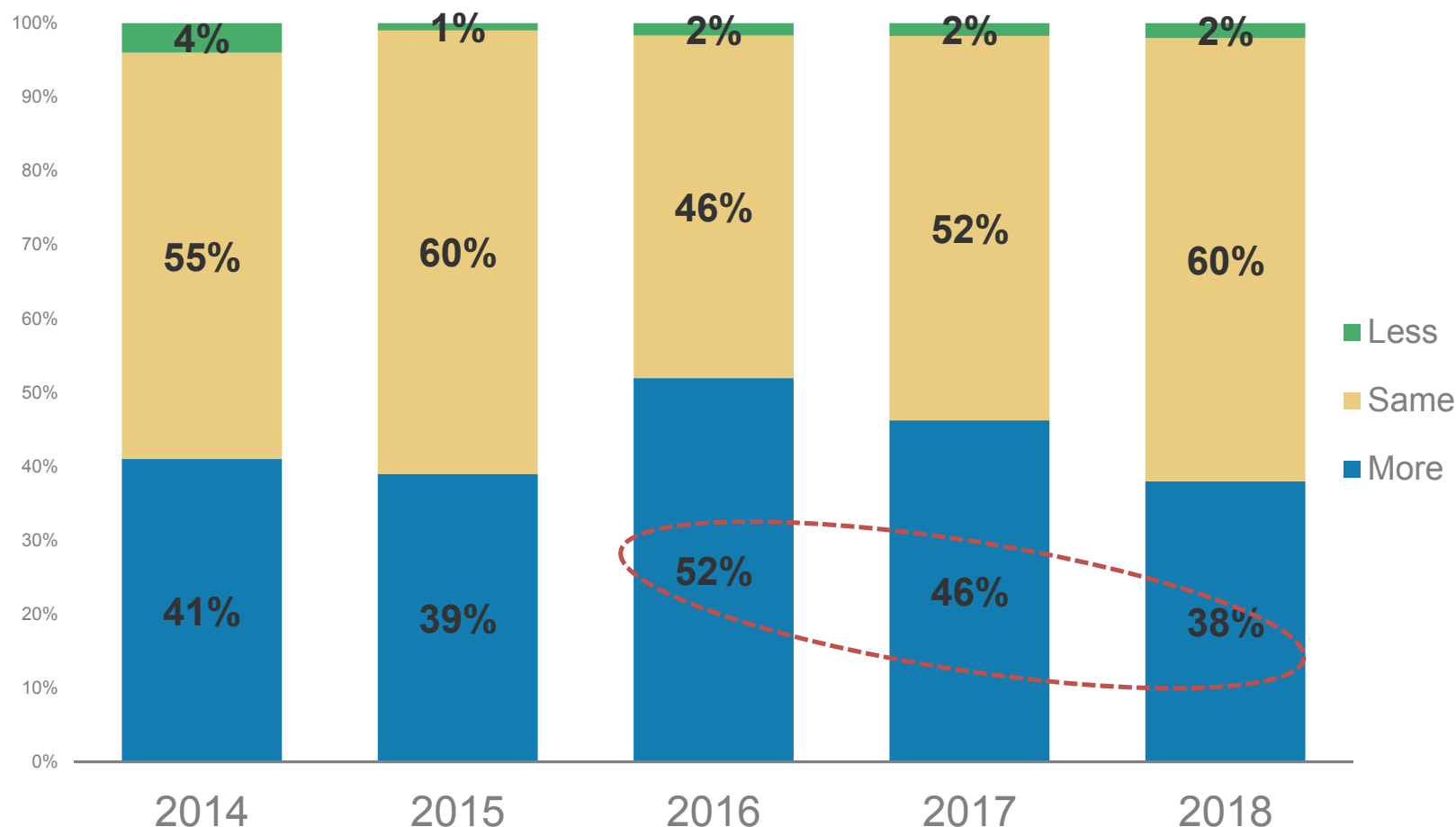
Natural / organic share of groceries also decreased, driven by higher income households

Average Monthly Percentage of Natural/Organic by Income (Among Purchasers)



Fewer nat / org purchasers plan on increasing their consumption, indicating possible maturation

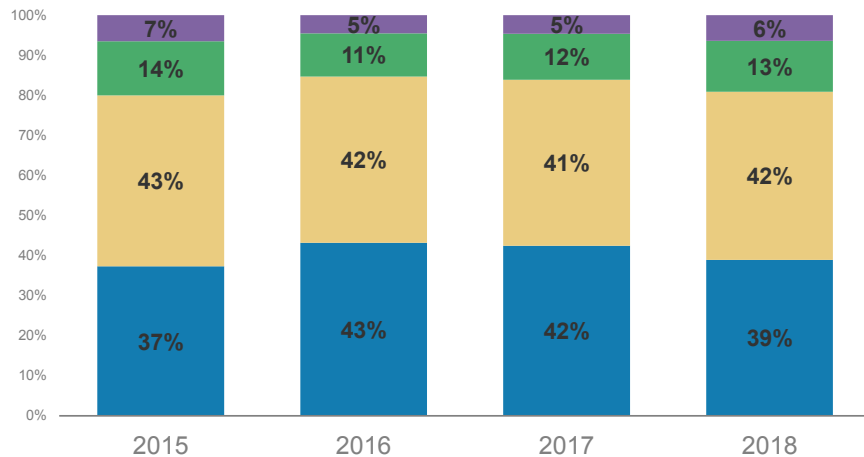
Natural/Organic Consumption Trends One Year From Now (Among Purchasers)



Majority of consumers (especially Gen Z / Millennials) still continue to seek healthy grocery options...

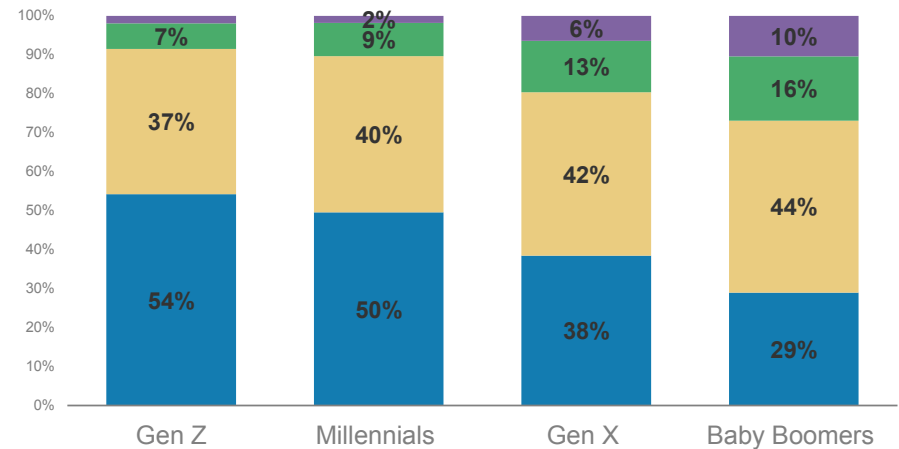
Typically Look for Healthy Options When Shopping for Groceries

■ Never ■ Only occasionally ■ Some of the time ■ All the time



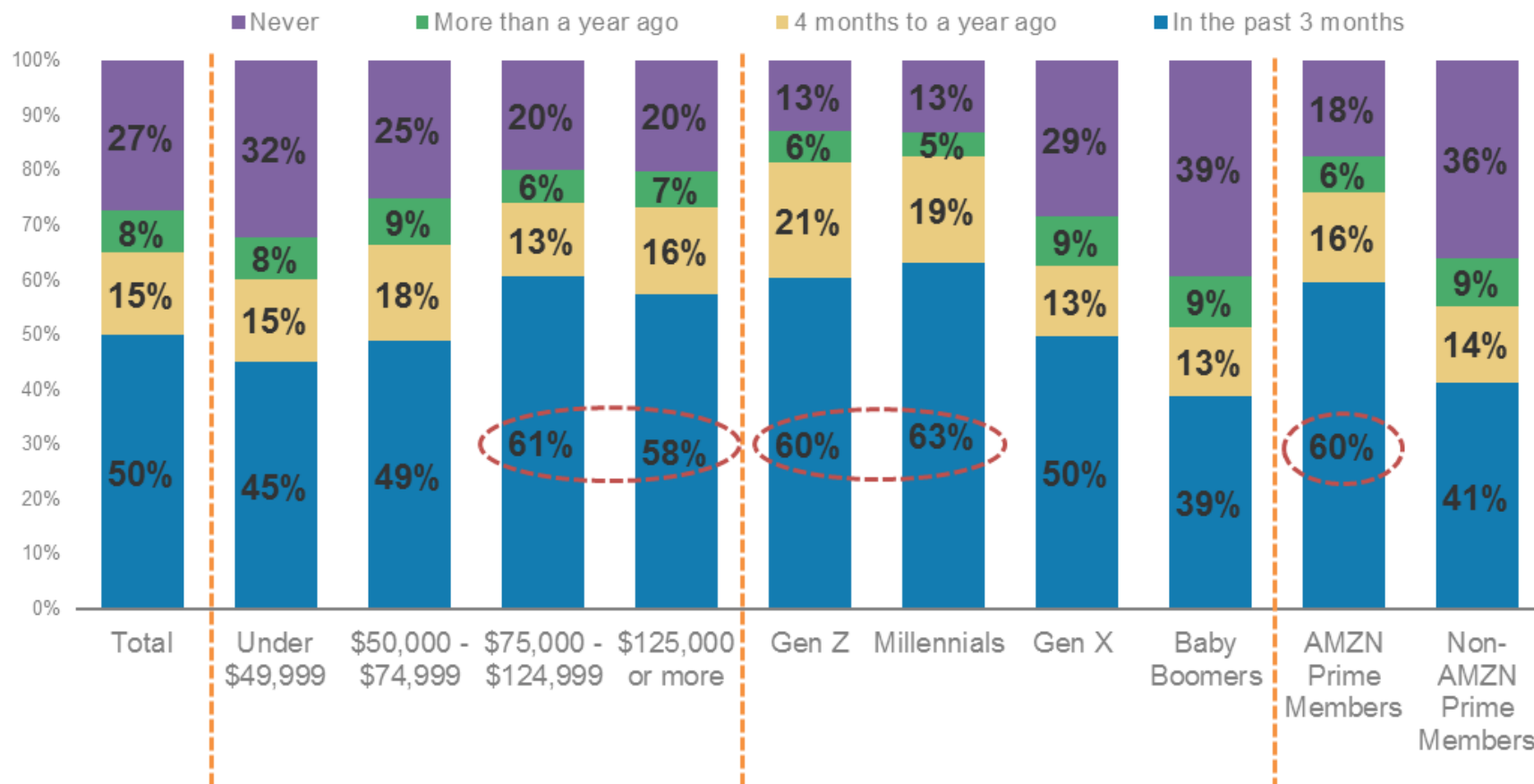
Typically Look for Healthy Options When Shopping for Groceries by Generation

■ Never ■ Only occasionally ■ Some of the time ■ All the time



...And purchasing continues to skew towards younger and higher income consumers

Purchased Food/Beverage Products Labeled/Certified as Organic by Subgroups



Price still key barrier for consumers to try nat / org, but once switch is made price is less important

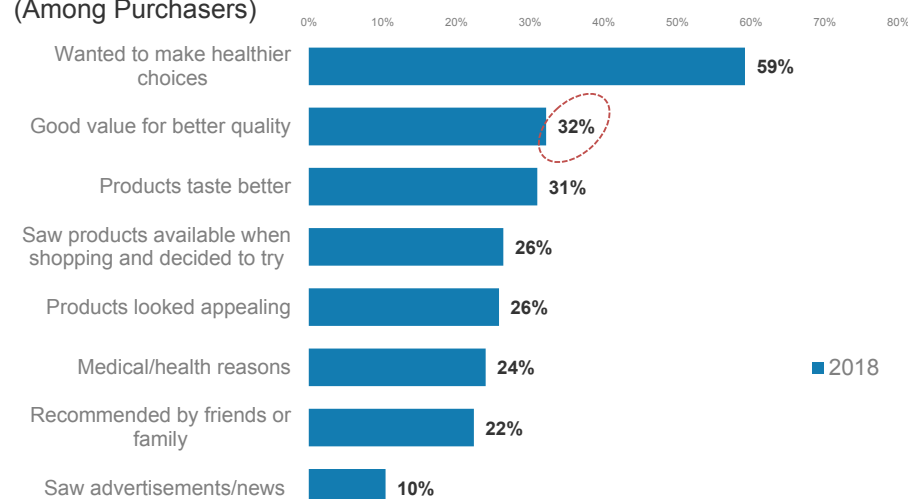
More non-purchasers cited not believing organic products are better for you as a reason for not purchasing organic products (35% vs. 27% LY). Cost still remains the primary barrier...

Reasons for NOT Purchasing Organic Products (Among Non-Purchasers)



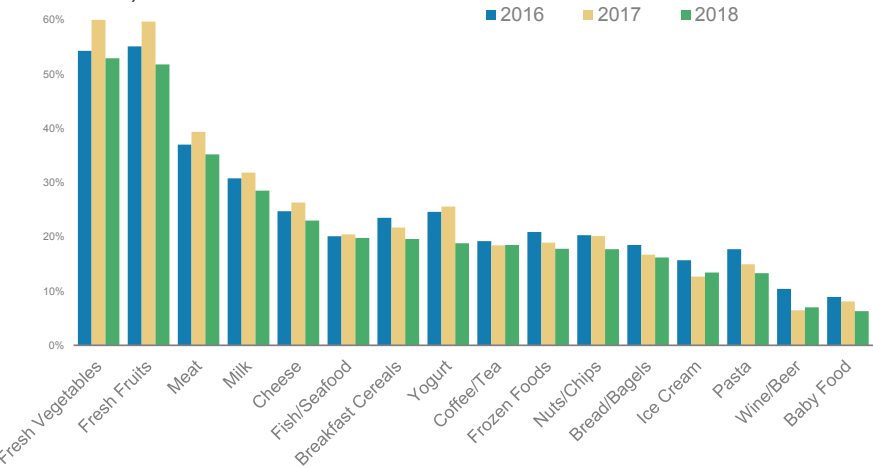
...However, good value for better quality becomes a key motivator once consumers start purchasing natural / organic products

Motivators to Start Purchasing Natural/Organic Products (Among Purchasers)

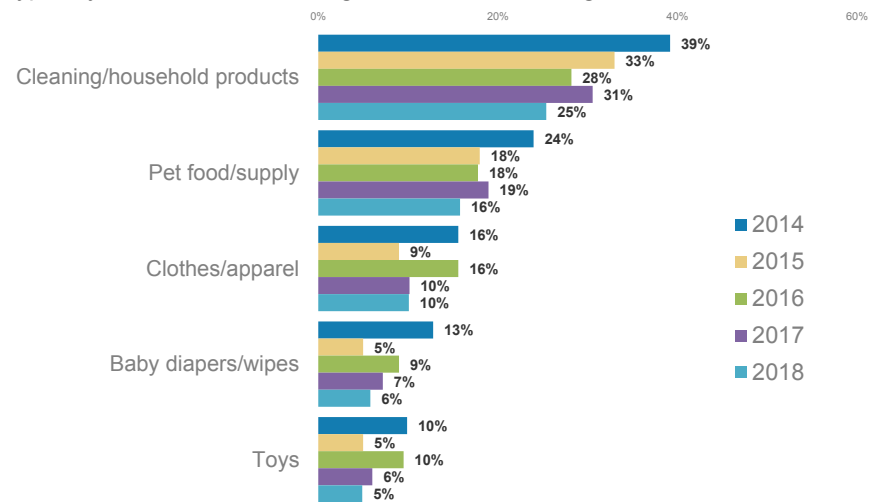


Organic purchases remain concentrated in ‘fresh’ categories, while non-food uptake remains low

Categories Purchased in Past 3 Months: Organic (Among Purchasers)



Typically Purchase Natural/Organic Non-Food Categories



Nat / org attribute perceptions by retailer; 'checkmark' if retailer ranks in at least 75th percentile

Key takeaways:

- Kroger (KR) ranks highly in the most areas, followed by Publix, Trader Joe's, and The Fresh Market
- Sprouts (SFM) and Whole Foods slightly lost ground y/y, each losing one attribute in the 75th percentile
- SFM still ranks highly on price, quality, and selection
- Whole Foods ranks highly only on quality and selection, but price perception continues to lag
- Smart & Final (SFS) continues to lag with no attributes in the 75th percentile, same as last year
- Walmart (WMT) has no attributes in the 75th percentile and saw perception for metrics such as location decline y/y

2018 Retailer Perceptions for Natural/Organic	Specialty					Warehouse / Mass Merch.				Supermarkets		Hard Discount	
	Whole Foods Market	The Fresh Market	Sprouts Farmers Market	Smart & Final	Trader Joe's	BJ's	Costco	Target	Walmart	Kroger	Publix	Save-A-Lot	Aldi
Location										✓	✓		
Lowest price		✓	✓		✓					✓			✓
High quality	✓	✓	✓		✓					✓			
Retailer I trust		✓			✓					✓	✓		
Wide selection	✓	✓	✓		✓								
Brands I trust	✓				✓		✓			✓	✓		
Weekly specials			✓							✓	✓		
Items are in stock		✓								✓	✓		
Overall ease					✓					✓	✓		
Easy to find items			✓		✓					✓	✓		
Loyalty/rewards										✓			
Store environment	✓	✓						✓		✓	✓		

✓ indicates above 75th percentile perceptions rating among retailers listed







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AlphaWise Reports & Interactives

AlphaWise conducts proprietary evidence-based investment research. For further information, please contact alphawise@morganstanley.com.



Recent Morgan Stanley Research Based on AlphaWise Evidence

Retail 	John Glass	June 28, 2018
Starbucks: Where Did the Traffic Go?: We recently downgraded SBUX to EW, based in part on the results of our AlphaWise survey of over 2,000 US coffee drinkers. In this presentation, we explore the results of our survey in greater detail.		
Software 	Adam Wood	June 27, 2018
VAR survey results suggest caution....: Our AlphaWise survey of SAP re-sellers suggests a deceleration of spending into 2018 on the back of slower adoption of S/4 HANA. Complexity overtakes cost as the biggest barrier to adoption. Risk from SaaS players in CRM/HCM remains manageable. Stay Equal-weight.		
Retail 	Simeon Gutman; Kimberly C Greenberger; Brian Nowak	June 26, 2018
Home Furnishings Survey Wave 22: W, WMT, AMZN, HD, and BBBY Takeaways: WMT and AMZN most frequently shopped and biggest winners in big ticket furniture. BBBY 20% coupon less effective; pricing weaker than W/AMZN. Home furnishings spend backdrop sideways. Market share analysis points to BBBY Q1 comps of -1% vs. consensus of 0%.		
Software 	Keith Weiss; Sanjit K Singh	June 20, 2018
1Q19 Preview: Can Shares Continue to Climb If Billings Growth Slows?: Expectations for 15% billings growth looks within reach given easier compares and a FX benefit. However, softer results from our AlphaWise reseller survey, lower durations and a smaller renewal base point to risk of slowing billings growth in FY19, making shares tough to own at ~30x CY19 FCF.		
Software 	Keith Weiss; Stan Zlotsky	June 14, 2018
4Q18 Preview - Can Oracle Make the Numbers Work?: Customer survey results trended positively for Fusion Applications adoption and migration to the newest database versions. While longer-term drags on the database business remain, we think stronger near-term trends can cut through the noise, exceeding low expectations.		
India Industrial 	Girish Achhipalla	June 13, 2018
India's Capex Journey Accelerates: While public capex momentum continues, our work suggests that a recovery in private capex is on the anvil. Markets are skeptical about public capex and, given the low visibility, are not pricing in a recovery in private capex. L&T is the best way to play the acceleration in India's capex journey.		

Source: AlphaWise

Valuation Methodology and Risks

TGT: Our price target is derived using a historic and relative EBITDA & P/E multiple approach. Our \$64 price target represents ~12x our 2019 EPS of ~\$5.40 or a 7x EBITDA multiple. A 12x P/E multiple is approximately two turns below the two-year average given a subdued earnings outlook. Risks to achieving our Price Target include: 1. Traffic reverses into negative territory; 2. Sales mix shifts to e-commerce channel pressures gross margin; 3. A sustained pickup in comps leads to further multiple expansion.

WMT: Our price target is derived using a historical and relative EBITDA & P/E multiple approach. Our \$93 price target represents ~10x our F'20e EBITDA of \$31.7 billion and ~20x our F'20e EPS of \$4.60. Risks to achieving our Price Target include: 1. Lower end consumer strengthens to drive 2%+ comps. 2. Flow-through, on 2% comps, improves despite increased investments. 3. Omni-channel investment curve may be deeper than expected.

KR: Price target of \$28 is equal to Base Case value, reflecting a DCF valuation with a 7% cost of capital, 1.0% terminal growth rate, and 2.3% terminal EBIT margins. Price target implies 12x 2019e EPS, 2x below KR's 5-year average of 14x (range 10-20x), warranted given industry pressures that likely drive EPS growth below historical averages. Downside risks include high level of competition for conventional supermarkets, potential difficulties managing through inflationary / deflationary periods, potential for increasing competition (including from eCommerce operators) to pressure margins. Upside risks include continued share gains from other conventional operators, increased scale as KR benefits from industry consolidation, a return to inflation improves operating performance.

SFM: Price target of \$24 equal to Base Case value. Our target is based on our long-term DCF valuation, with a WACC of 9.4% and terminal growth rate of 2.0%. Our DCF includes 900 nationwide locations long-term and 3.7% terminal EBIT margins. PT implies 19x 2019e EPS. Downside risks include potential difficulties finding new locations for productive expansion, impact from swings in inflation / deflation, margin pressures from industry competition (including discounters and eCommerce). Upside risks include widespread middle class nat/org adoption, geographic expansion faster than anticipated, favorable produce pricing environment, potential strategic value.

SFS: Price target of \$4.50 implies 11x 2019e EPS. PT derived using a long-term DCF valuation with a beta of 1.2, a 7.5% cost of capital, and a 2.0% terminal growth rate. Implied multiple on the lower end of SFS' post IPO range (9-27x) given industry pressures driving near-flat forecast earnings growth. Downside risks include difficulties executing on unit growth plans, including facing cannibalization, increased competition (including discounters and online) pressuring margins, effects of inflation / deflation and macro environment, particularly in California. Upside risks include faster than expected new market expansion, increased consumer shift to value offerings, and uptake in new product categories, and better than expected margins in new stores.

AMZN: Our \$1,850 PT is derived using a sum-of-the-parts methodology where we value the N. America and International retail businesses based on long-term CSOI margins (as % of GMV) and the AWS business is based on 7.5x EV/Rev. Our valuation is supported by a 10-year DCF. Risks to our price target include: Weakness in core market retail sales could hurt growth, slower than expected Prime membership growth or Prime gross profit contribution, which could be caused by a: 1) weaker macro environment, 2) increased competition from other eCommerce or offline retail platforms, or 3) failure of Prime investments (shipping speed, selection, streaming content, etc.) to drive subscriber growth/higher spend per subscriber, inability to grow Prime US subscriber base outside of households that earn \$75k+ in annual income, larger than expected investments in brick & mortar retail locations (Amazon Go stores, book stores, grocery pickup points, etc), in digital content (movies, TV shows, originals, etc), and/or in new markets, price wars with laaS competitors may lead Amazon to cut AWS prices further while incremental AWS investment offsets cuts elsewhere.

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1170	38%	292	39%	25%	550	39%
Equal-weight/Hold	1343	43%	363	49%	27%	645	46%
Not-Rated/Hold	50	2%	5	1%	10%	7	0%
Underweight/Sell	544	18%	81	11%	15%	211	15%
TOTAL	3,107		741			1413	

Disclosure Section (cont'd)

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INDUSTRY COVERAGE: Hardline/Broadline Retail

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/30/2018)
Simeon Gutman, CFA		
Advance Auto Parts Inc (AAP.N)	O (06/23/2014)	\$140.68
At Home Group Inc (HOME.N)	O (06/26/2018)	\$35.76
AutoZone Inc. (AZO.N)	E (07/06/2017)	\$696.46
Bed Bath & Beyond Inc. (BBBY.O)	U (06/23/2014)	\$19.40
Best Buy Co Inc (BBY.N)	E (01/19/2016)	\$74.44
B/S Wholesale Club (BJ.N)	E (07/23/2018)	\$24.75
Costco Wholesale Corp (COST.O)	E (10/06/2017)	\$219.11
Dick's Sporting Goods (DKS.N)	E (05/20/2016)	\$33.47
GNC Holdings Inc (GNC.N)	E (05/30/2018)	\$3.02
Home Depot Inc (HD.N)	O (02/23/2017)	\$197.28
Lowe's Companies Inc (LOW.N)	O (01/21/2015)	\$99.28
Lumber Liquidators Holdings Inc (LL.N)	E (03/02/2015)	\$24.37
National Vision Holdings Inc. (EYE.O)	O (11/20/2017)	\$40.14
O'Reilly Automotive Inc (ORLY.O)	E (07/06/2017)	\$304.59
Party City Holdco Inc (PRTY.N)	E (01/19/2016)	\$15.65
Pier 1 Imports, Inc. (PIR.N)	U (04/01/2015)	\$2.17
Sally Beauty Holdings Inc (SBH.N)	U (11/08/2017)	\$16.34
Target Corp (TGT.N)	U (06/23/2014)	\$81.21
The Michaels Companies, Inc. (MIK.O)	O (01/17/2017)	\$20.39
Tractor Supply Co (TSCO.O)	E (06/23/2014)	\$77.41
Ulta Beauty Inc (ULTA.O)	O (01/17/2018)	\$243.54
Valvoline Inc. (VV.N)	E (10/18/2016)	\$22.37
Vitamin Shoppe Inc (VSL.N)	E (05/11/2017)	\$8.00
Wal-Mart Stores Inc (WMT.N)	E (01/21/2015)	\$88.88
Wayfair Inc (W.N)	E (04/25/2018)	\$109.67
Williams-Sonoma Inc (WSMN)	E (08/28/2014)	\$58.80

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

INDUSTRY COVERAGE: Internet

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/30/2018)
Brian Nowak, CFA		
Activision Blizzard Inc (ATVI.O)	O (09/23/2016)	\$72.75
Alphabet Inc. (GOOGL.O)	O (08/11/2015)	\$1,230.04
Amazon.com Inc (AMZN.O)	O (04/24/2015)	\$1,779.22
Blue Apron Holdings Inc (APRN.N)	E (07/24/2017)	\$2.46
Booking Holdings Inc (BKNG.O)	O (06/30/2016)	\$2,029.90
Criteo SA (CRTO.O)	E (01/26/2016)	\$33.55
Despegar.com Corp (DESP.N)	E (10/16/2017)	\$21.64
eBay Inc (EBAY.O)	O (04/18/2018)	\$33.67
Electronic Arts Inc (EA.O)	E (01/12/2018)	\$126.21
Etsy Inc (ETSY.O)	U (01/12/2018)	\$40.23
Expedia Inc. (EXPE.O)	O (01/10/2018)	\$134.81
Facebook Inc (FB.O)	O (04/27/2016)	\$171.06
Groupon, Inc. (GRPN.O)	E (03/05/2018)	\$4.81
GrubHub Inc. (GRUB.N)	E (04/18/2018)	\$124.28
Snap Inc. (SNAP.N)	U (11/09/2017)	\$12.27
Take-Two Interactive Software (TTWO.O)	O (02/01/2018)	\$113.11
TRIVAGO NV (TRVG.O)	E (09/28/2017)	\$4.09
TrueCar Inc (TRUE.O)	E (01/12/2018)	\$10.87
Twitter Inc (TWTR.N)	E (04/17/2018)	\$31.38
Yelp Inc (YELP.N)	E (07/29/2015)	\$37.27
Zillow Group Inc (Z.O)	E (04/18/2018)	\$55.72
Zynga Inc (ZNGA.O)	O (06/08/2017)	\$3.84

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* Historical prices are not split adjusted.

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INDUSTRY COVERAGE: Food Retailers

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/30/2018)
Vincent J Sinisi		
Big Lots Inc (BIG.N)	O (09/25/2017)	\$43.44
Dollar General Corporation (DG.N)	O (02/16/2016)	\$98.14
Dollar Tree Inc (DLTR.O)	E (02/16/2016)	\$90.02
Five Below Inc (FIVE.O)	E (06/24/2014)	\$96.98
Kroger Co. (KR.N)	E (06/19/2017)	\$29.72
Ollie's Bargain Outlet Holdings Inc (OLLI.O)	E (09/25/2017)	\$69.75
Performance Food Group Co (PFGC.N)	E (10/27/2015)	\$36.10
Smart & Final Stores, Inc. (SFS.N)	U (08/16/2016)	\$5.95
Sprouts Farmers Market Inc (SFMO)	E (06/15/2017)	\$21.21
Supervalu Inc (SVU.N)	E (07/29/2015)	\$32.14
Sysco Corp (SYY.N)	E (01/16/2018)	\$66.67
United Natural Foods Inc. (UNFI.O)	U (04/11/2016)	\$31.99
US Foods Holding Corp. (USFD.N)	O (05/15/2018)	\$33.51

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.