The Anchor

Placer's CRE Executive Intelligence Report

R.J. Hottovy, CFA
Head of Analytical Research
+1-312-305-3433
rj.hottovy@placer.ai
LinkedIn

Schedule time with R.J.

Thomas Paulson
Director of Research and Business Development
+1-612-986-6475
thomas.paulson@placer.ai
LinkedIn

Schedule time with Thomas

Like these insights? Prior analysis can be found at The Anchor.
Subscribe here or learn more about location-based analytics at Placer.ai.

Intelligence for the Week Ended 7/29/22

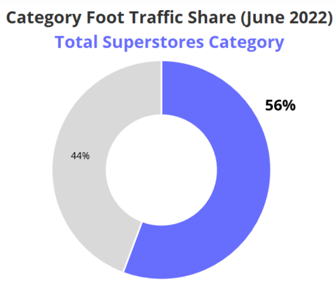
- Walmart: Retail's Champagne Moment Ends with Walmart? Retail Now onto a Curvy Recovery
- Albertsons: Digital Loyalty Program and Productivity Driving Outperformance Versus Peers
- McDonald's: More than a Trade Down Story
- Chipotle: Visits Trending Down, but Peak Hour Throughput Improvements Indicate Future AUV Potential
- Best Buy: Tightening Discretionary Spending Results in Reduced Full-Year Outlook
- LVMH: Sephora's Continued Success at Kohl's
- Dollar General: Accelerated Western Expansion Plans
- Visa: Consumer Spending Continues Its Resilience Due to Spending Mix Changes
- Google's and Meta's Signal
- E-Commerce Slips to Pre-Covid Trajectory--Shopify Announces 10% Workforce Reduction
- Amazon: Revenue Growth Shifting from Product Sales to User Monetization
- Wireless Wars Update
- GM's 2Q22 Update, The CHIPs Act, and the Mid-Central Electric Valley

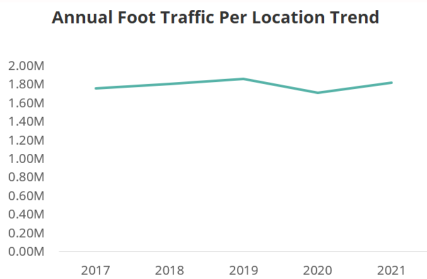
- Notable Economic Reports: Inflation Squeezing Spending on Necessities. Affluent Off to Europe
- National and Regional Foot Traffic Trends

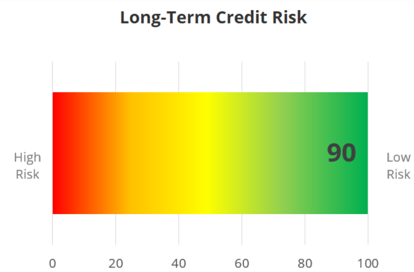
Placer's Tenant Insights for CRE Executives

Walmart: *Retail's Champagne Moment Ends with Walmart? Retail Now onto a Curvy Recovery*

Key Walmart Metrics

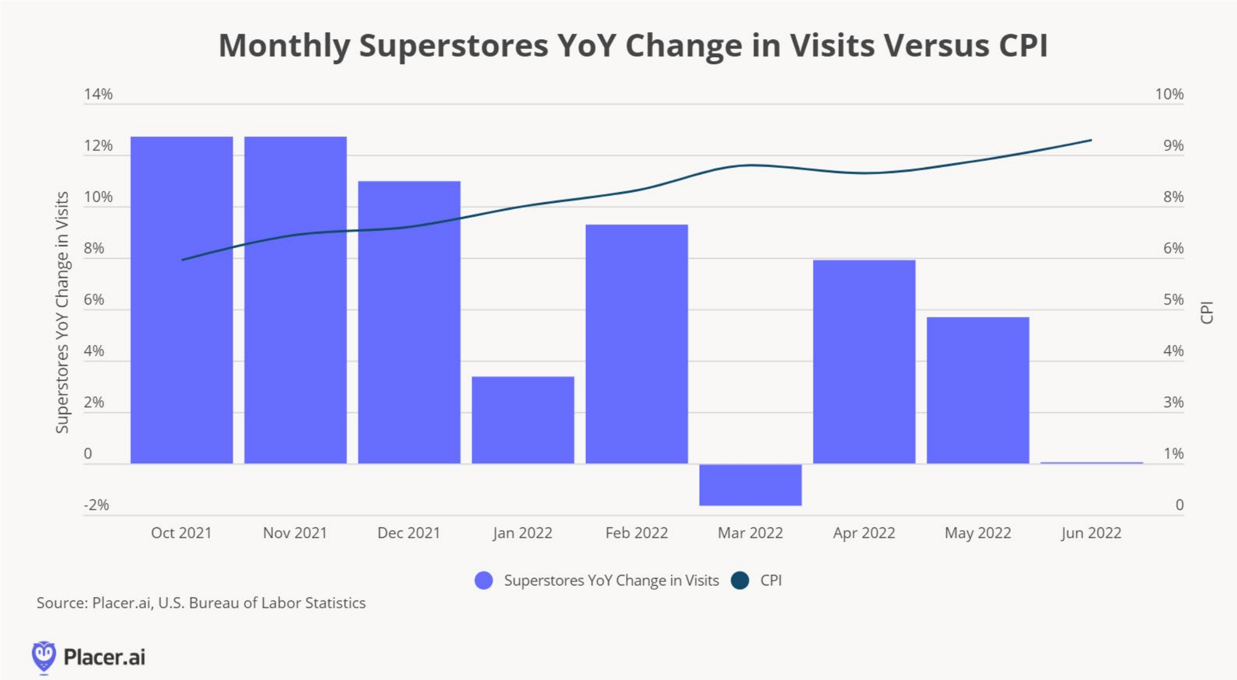






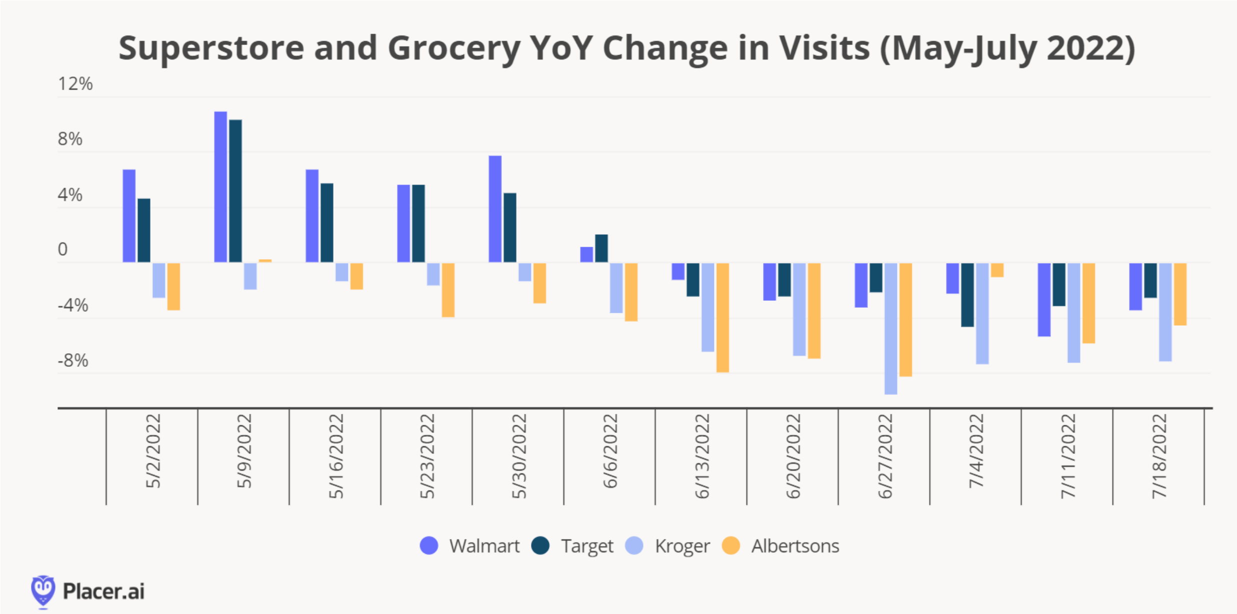
Following similar news from **Target, Old Navy, Kohl's**, and others, **Walmart** announced that sales of discretionary goods--especially apparel--were running materially below its plans, impacting margins and earnings in the process. The company expects its **2Q22 (July-end quarter) and full-year 2022 earnings** to decrease around 13% as clearance actions are taken to clear inventory at both Walmart and **Sam's Club**, as well as a negative sales mix. This lower view of margins would represent its lowest full-year margin in at least the two past decades and below its pre-COVID margin.

- Walmart's update also announcement noted that, "Food inflation is double-digits and higher than at the end of 1Q22. **This is affecting customers' ability to spend** on general merchandise categories and requiring more markdowns to move through the inventory, particularly apparel." Walmart CEO Doug McMillion stated that, **"We're now anticipating more pressure on general merchandise in the back half [of the year]."** While consumers increased visits to superstores as inflation rose during April and May, YoY visitation trends in June softened materially (below) and lend credence to McMillon's comments.

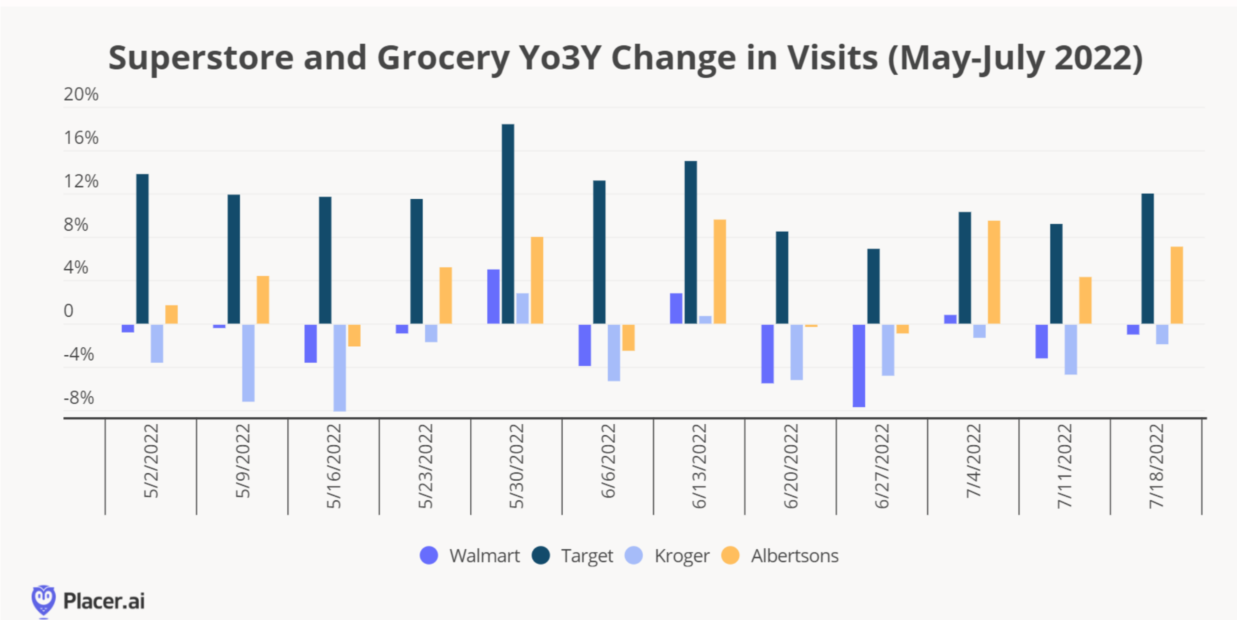


- Of note, Walmart said they are seeing signs of **trade down, particularly in grocery**. This includes an acceleration in private label penetration and more households shopping for groceries **across income groups**.
- The company expects comparable store sales for the quarter to be up +6% and is planning for +3% in 2H22. As grocery is 50% of its sales mix, that implies that nearly all of its general merchandise categories posted negative comparable sales in 2Q22 and are expected to in 2H22. For reference, 1Q22 grocery comps increased +12% and general merchandise decreased -3%.
- Of note, Walmart is primarily focused on markdowns--which should take longer although likely better for preserving margins--whereas, Target and Kohl's are more focused on a liquidation strategy with targeting clean inventory by the end of 2Q22.
- Given Walmart's enormous size and the magnitude of its planned clearance activity combined with price reductions at Target, it will create downward pressure across all of mid-tier and below retail, as well as downward pressure on core CPI. We would also expect these retailers to push for price rollbacks from their suppliers, both for general merchandise and grocery items.

- Placer shows visitation trends for Walmart and Target sliding lower in June, following the slide at Kroger and Albertsons. (See our 7/15/22 report for more discussion on the impact of food and gas inflation on the grocery category.)



- With respect to visits on a year-over-three-year basis, Walmart's traffic pulled lower in June and July as well, whereas, Target and Albertsons have remained relatively stable. When Kroger reported results in mid-June, **CEO Rodney McMullen** shared that its "customers are coming in more frequently than before but they're not buying as many items on each shop." Since those comments, it's apparent that "more frequently" has inflected to "less frequently".

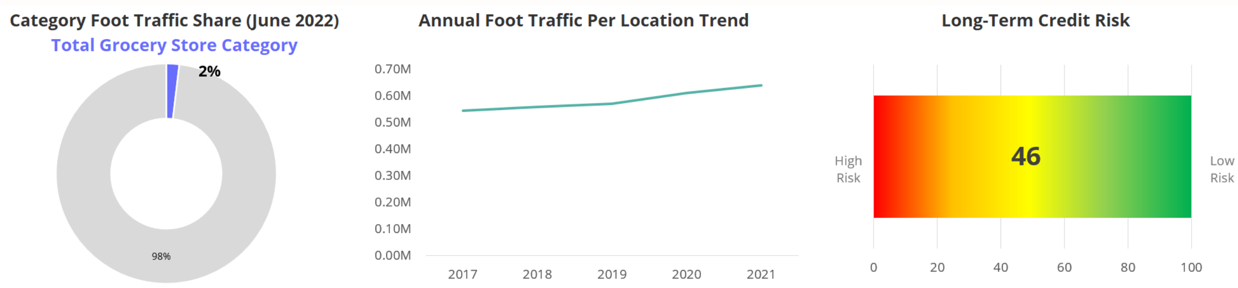


- **How to think about the different brands and their health?** First, we would observe that demand destruction is part of the Fed's plan. Two, we are cycling unprecedented times. Three, we are coming off a very flourishing period of demand for goods and personal spending, a champagne moment period, filled with lots of levity. These are all macro and affect all brands, and we are in a settling period. (See our comments on Shopify below.) And so, we think that as things "settle back" we want to see companies also settle back into their pre-pandemic trend, if not better. That is what

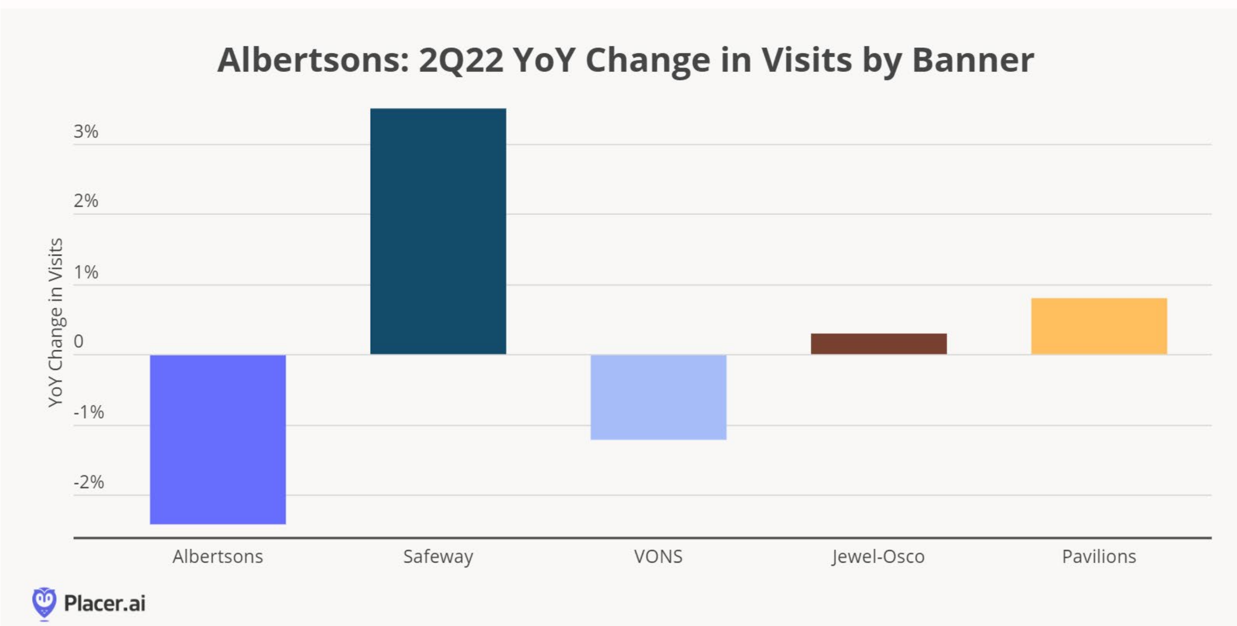
Target is demonstrating. For those that were doing well, and that can track, if not improve upon, their pre-pandemic trend, things will begin to normalize and their sales and earnings will grow again. For those that weren't or can't, we'd be wary.

Albertsons: *Digital Loyalty Program and Productivity Driving Outperformance Versus Peers*

Key Albertsons Metrics



- Albertsons comparable sales increased +6.8% and management raised its full-year comp outlook by 100 bps to +3%-4%, as was the earnings guidance. According to the company, July comps have growing in the mid-single-digit range.
- Omnichannel household growth was +34% and in-store **transactions increased**. Placer shows that traffic was up at Safeway (+3%) and Pavilions (+1%) and down modestly at Albertsons and Vons.



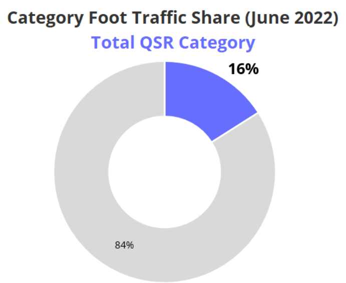
- **Just-for-U** loyalty members increased 1M QoQ to 31M. As a reminder, these households spend $1.8K per year which is 4 times what a non-member spends. On average, a U.S. household spends $9.3K (based on Bureau of Economic Analysis

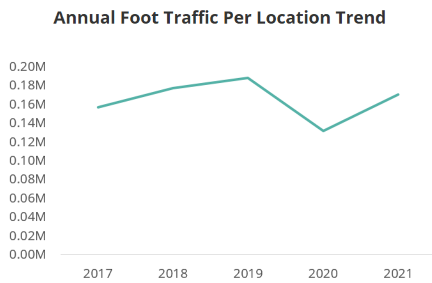
PCE data from 2021); thus, Albertson's still has a lot of market share capture ahead of it. As a reminder, the company's pinnacle strategy is **Customers for Life**, which is based on placing the customer at the center of everything it does, with the goal of interacting with customers daily, not only to shop, but to consume relevant content about food, plan meals or find information to inspire their well-being, as well as to meet the customer's preferences. For example, express delivery (under 2 hours) is now available to 74% of Albertsons households and penetration of this option increased five-fold. **CEO Vivek Sankaran** shared, "Everything we're doing on the app to enable meals, to provide more meals is also working for us. If you go to our app, we just launched a meal capability where you can pick your meal and it populates the items that you want, and we're seeing a lot of traction and things like that."

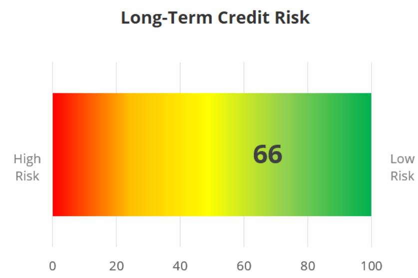
- Market share was up in food and households grew. According to the company, "We are gaining market share in units. people are eating more at home, if they're, in fact, trading out of food away from home, trading into food at home, and they're eating more at home, **the Fresh portfolio really, really matters**."
- Sankaran also added, "I think our sector and we, in particular, we are doing really well relative to where we were pre-pandemic and the initiatives that we have in place have accelerated so many different things we're doing. They're gaining customers, we're keeping them. Our portfolio is working with better execution."
- Like **Walmart** and **Kroger**, Albertsons is seeing some consumer trade down both in center-store and the perimeter. Sankaran noted that Albertsons, "tonnage is better than our units because it's sort of because a bag of avocados is 1 unit, right? Instead of 3 avocados that they have bought in the past." (In our opinion, it is likely that basket size is increasing as the consumer works to reduce miles driven, consolidating trips and cutting out stops.)
- Tralining-twelve-month (TTM) sales (excluding fuel) per square foot was $608, up from $600 last quarter, and it is highly likely to grow by mid-single-digits by time next year.
- TTM EBITDA/free cash flow (FCF) of $4.3B/$1.7B represented an increase of $3.5B/$1.1B at this point last year, and it is highly likely to be up by a similar amount by next year.
- Profitability declined due to investments in its omnichannel capabilities, higher wages, and as it cycled last year's margins that were boosted by vaccine administrations. **COO Sharon McCollam** shared that, "we are seeing the highest labor productivity (tonnage per labor hour) that we have experienced in the history of the company." Sankaran noted, "We're putting a lot more technology into our promotions. It's a lot more personalized. That's a gross margin tailwind."

McDonald's: *More than a Trade Down Story*

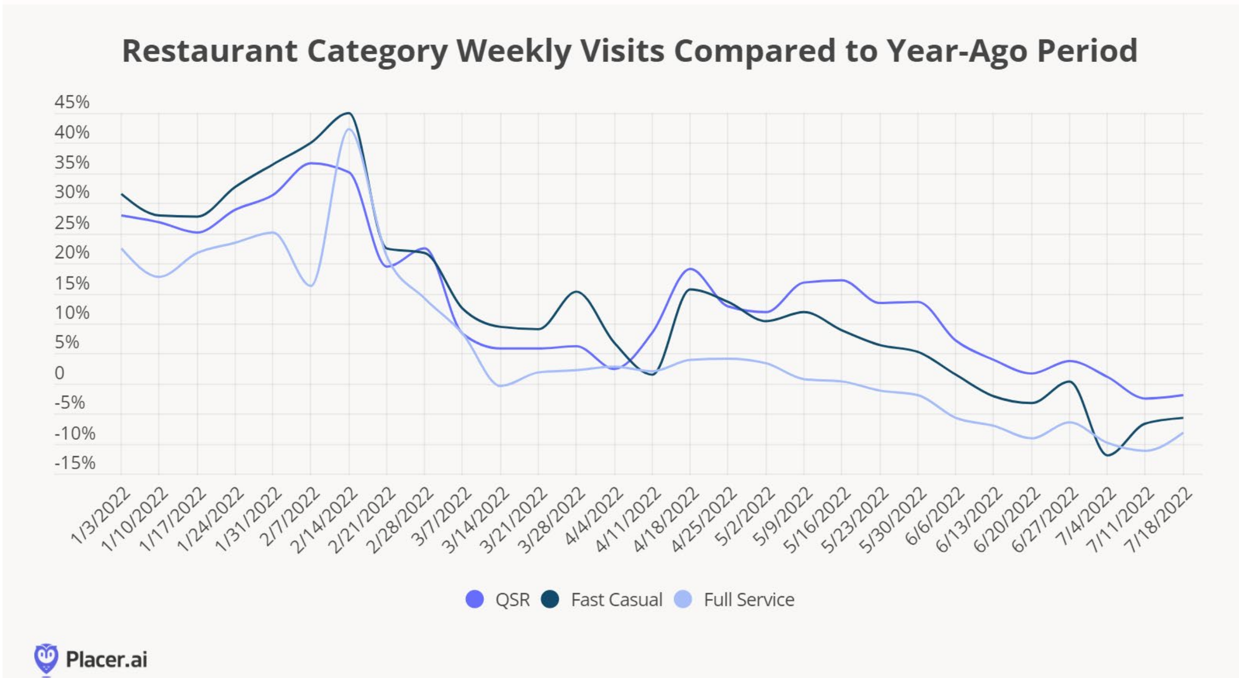
Key McDonald's Metrics



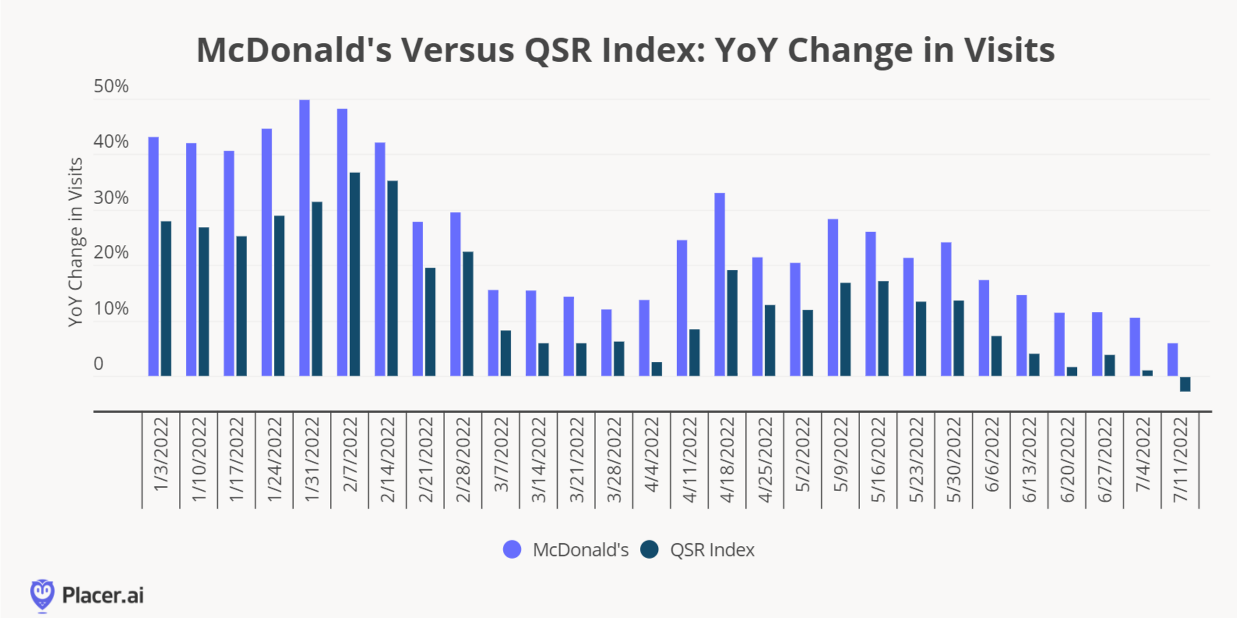




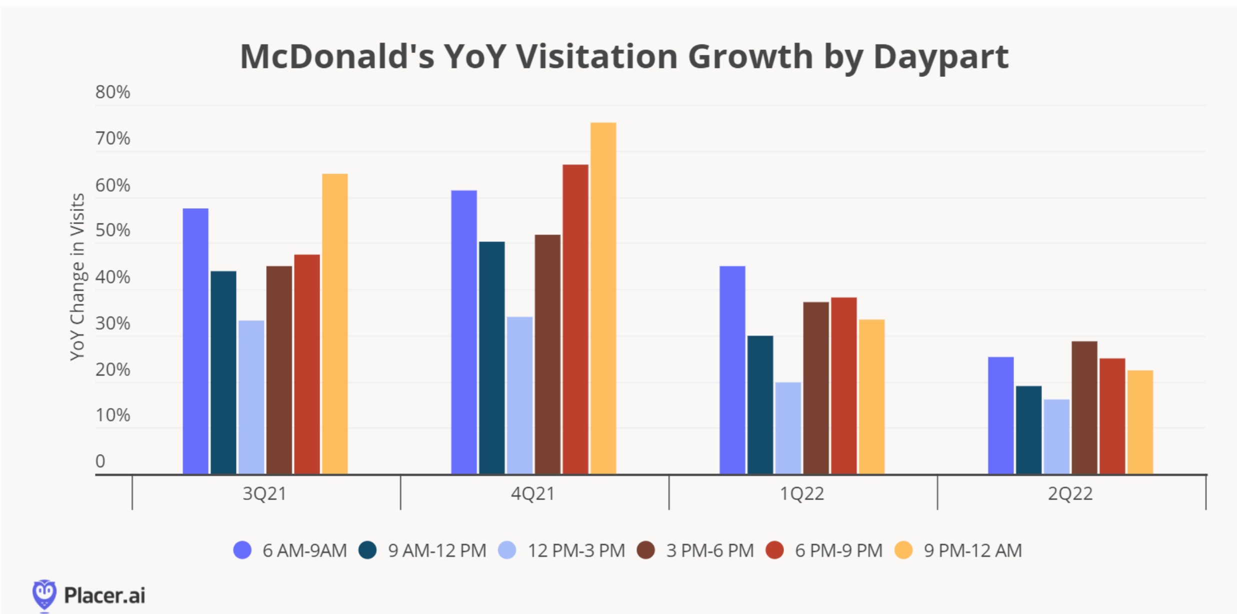
With **foot traffic trending downward across much of the retail and restaurant industry**, it's easy to attribute **McDonald's** resilient 2Q22 results to macro and industry factors. While the company has likely benefited from lower- to middle-income consumers' shift away from fast casual and full service restaurants–see category visitation trends below–**it's also clear that other factors including digital marketing/exclusives and continued recovery at breakfast were also contributors**. Not surprisingly, there was little discussion about [U.S. franchisee concerns over changes to the company's 20-year lease renewal process and other factors]() but McDonald's recent visitation outperformance **reinforces the overall health of its U.S. franchisees**.



- **Everyday affordability driving visitation outperformance**. For 2Q22, McDonald's posted U.S. comps of 4% driven by average check due to strategic price increases with overall transaction counts coming in flat. Placer's data suggests that in-store visits were positive year-over-year (below), but that short-visits (drive-thru and mobile-order takeout) started to decline on a year-over-year basis starting in June. Like past cyclical downturns, it appears that McDonald's everyday affordability will continue to benefit visits in the near future (**management noted that its customers have been "resilient" with only some trade-down among lower-income consumers**). Historically, McDonald's comparable restaurant sales trends have been less impacted by gas prices–a [byproduct of 75% of the population across the company's top markets living within three miles of a McDonald's location]()–and are more correlated with unemployment rates and wage growth, both of which have remained positive.



- **Breakfast daypart recovery?** During the quarter, McDonald's posted positive comps across all dayparts in the U.S., led by breakfast. Our data confirms positive in-store visitation trends across all dayparts during 2Q22 (below), with breakfast and dinner seeing the strongest growth. Breakfast has historically been an outsized contributor to McDonald's sales trends–nearly 30% of the U.S. revenue mix–so it's encouraging to see the growth in this daypart as consumers gradually return to work.

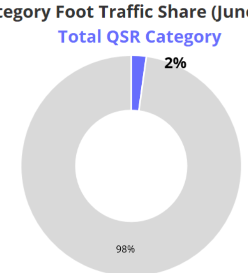


- **Expanded McPlant test ended**. In other interesting developments from the quarter, [McDonald's has ended the test of its McPlant burger in the U.S.](), which had been expanded to 600 stores in Dallas and San Francisco earlier in 2022. [Earlier this month](), we reviewed visitation trends from McDonald's stores in these markets and saw that, at least in Dallas, McDonald's growth trends had been outperforming the broader QSR market by a wide margin. However, after [seeing reports that McPlant sales were disappointing] and that the product was pulled from stores in many markets, it appears as if the outperformance in Dallas was due to other factors cited above. While McDonald's may revisit McPlant in the future, it may take a different approach to the test (i.e., urban versus suburban locations).

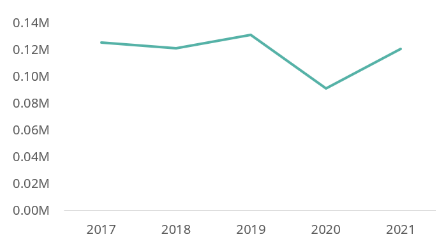
Chipotle: *Visits Trending Down, but Peak Hour Throughput Improvements Indicate Future AUV Potential*

Key Chipotle Metrics

Category Foot Traffic Share (June 2022)



Annual Foot Traffic Per Location Trend

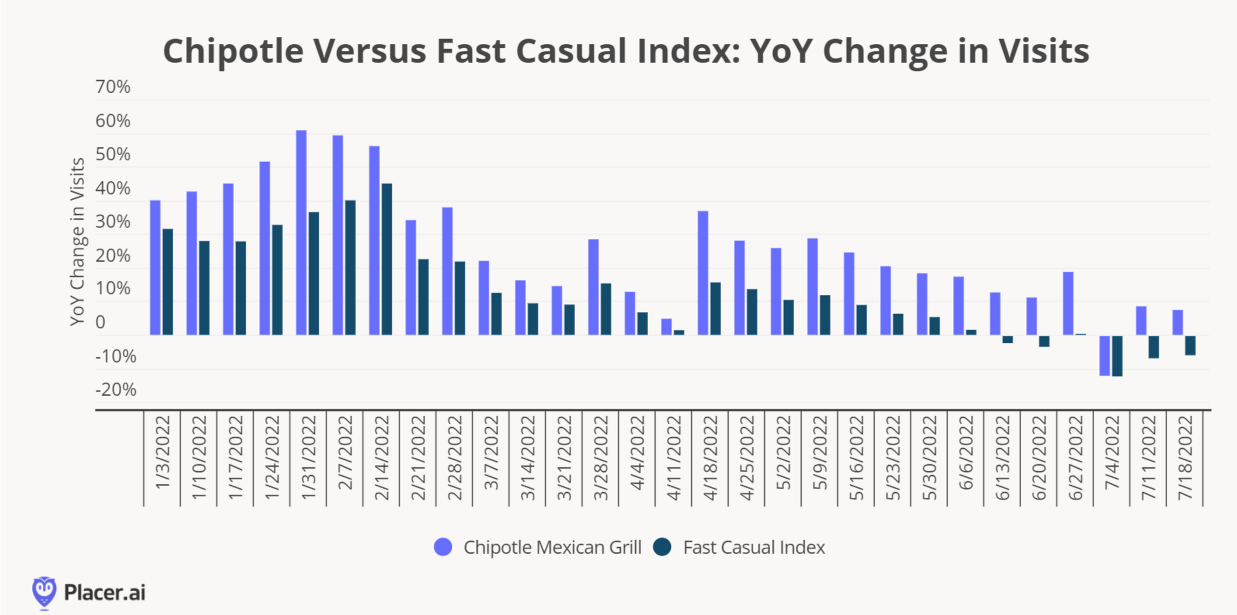


Long-Term Credit Risk

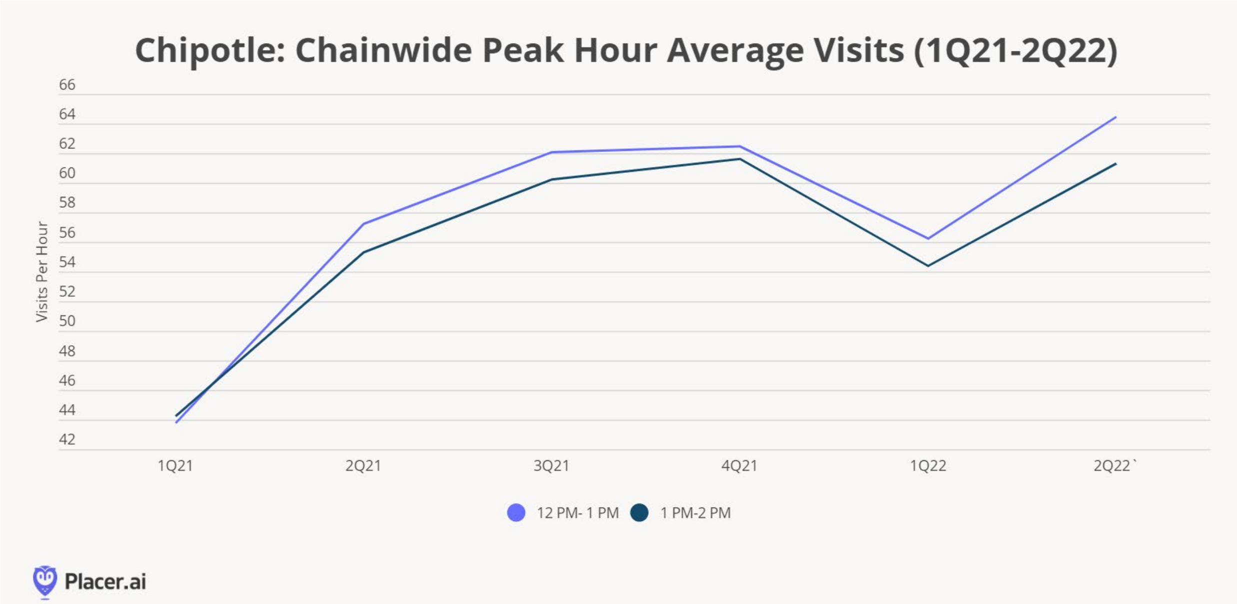
No Credit Ratings Available

Chipotle was not immune to the decelerating visitation trends that impacted much of the restaurant category during 2Q22, with comparable-store sales decelerating in mid-May (a consistent theme). Nevertheless, we believe the most important takeaway from a CRE perspective were comments regarding throughput and what improvements on that front might mean for the chain's future per-unit sales potential.

- **Chipotle visitations decelerate in May, but remain ahead of the fast casual category.** Chipotle noted that its comparable sales were on track to reach the top end of its 2Q22 outlook range (10%-12%) through mid-May before decelerating and coming in at 10.1% for the quarter (indicating mid- to high-single-digit comparable sales growth during the back half of the quarter). For the quarter, transaction growth increased 3.5%-4%, with management attributing the **step-down due to a combination of macro pressures, its ability to handle the growth with a relatively new workforce (more on that below), and a return to normal summer seasonality for college-based restaurants**. The company was also impacted by a decrease in the average group transactions as transactions moved from digital into in-restaurant. Looking ahead to 3Q22, with pricing from last year rolling off, Chipotle noted that July comparable sales are running in the mid-single digit range and that it expects this figure to be in the mid to high-single digit range for the full quarter (including a planned August price increase of about 4% to help offset incremental inflation pressures in dairy, tortillas, and packaging, as well as pockets of wage pressure throughout the country). Management noted that it expects transaction growth will be flat to slightly positive for the quarter. Placer data suggests that in-store visits are up but that short visits (digital order and pickup and delivery orders) have decelerated due difficult year-over-year comparisons, accounting for the delta to Chipotle's reported numbers. Positively, Chipotle's in-store visit growth trends remain ahead of the broader fast casual restaurant category (below).



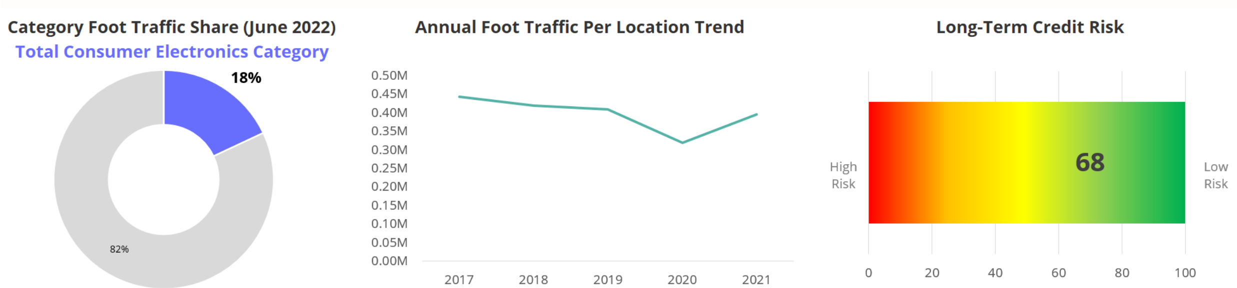
- **Chipotle insulated from low-income consumer pullback.** With respect to consumer behavior, Chipotle CEO Brian Niccol offered some perspective: "[W]hat we saw was probably not all that different from what people have been saying. The low-income consumer definitely has pulled back their purchase frequency. Fortunately for Chipotle, that is not the majority of our customers. The majority of our customers are the higher household income consumer. We've actually seen their frequency increase."
- **Chipotle's throughput not back to historical levels but improving**. Throughput was a major discussion topic throughout Chipotle's 2Q22 update, as it has been across much of the restaurant category that has struggled with labor scarcity for several years. According to management, the company has a lot of new employees that "are still getting trained up on frankly the basics of great throughput." Management cited its goal to get its front of the restaurant make line back to peak-hour historical transactions in the "high 20s to low 30s" per 15 minutes (indicating roughly 120 transactions per hour). We thought we'd examine the potential throughput opportunity by looking at the chain's peak hour visitation trends over the past several quarters. We reviewed visitations from 12 PM-2 PM (historically the company's peak lunchtime hours) for the past several and found that visits per hour were currently running in the mid 60s (which is clearly below historical peaks) but remains on an upward trajectory. However, we believe there are a few caveats to explain some of the difference. One, lunchtime visits are down across the restaurant industry due to increased work from home and hybrid work models, which is impacting demand. Two, this data largely represents in-store visits and not short visits (mobile order takeout and delivery orders), which now represent 40% of total sales volume. Three, there is a wide range of variability in peak hour visitation trends across the chain, but the company's top locations (many in markets less impacted by work from home shifts) have been posting close to 160 visits per hour, suggesting there is considerable upside to current metrics.



- **Throughput improvements offers upside to future sales growth.** As Chipotle improves on its throughput metrics, there is considerable upside to average unit sales. At present, Chipotle's locations are posting trailing-twelve-month average unit volumes of about $2.8 million (with 39% coming from digital orders, as discussed above). Still, as the company improves efficiency on both its front and second make lines, it sees that opportunity to improve this number above $3 million. According to Niccol, there may be even greater upside, as he doesn't "see any capacity constraint that would prevent us from saying $4 million is next up."

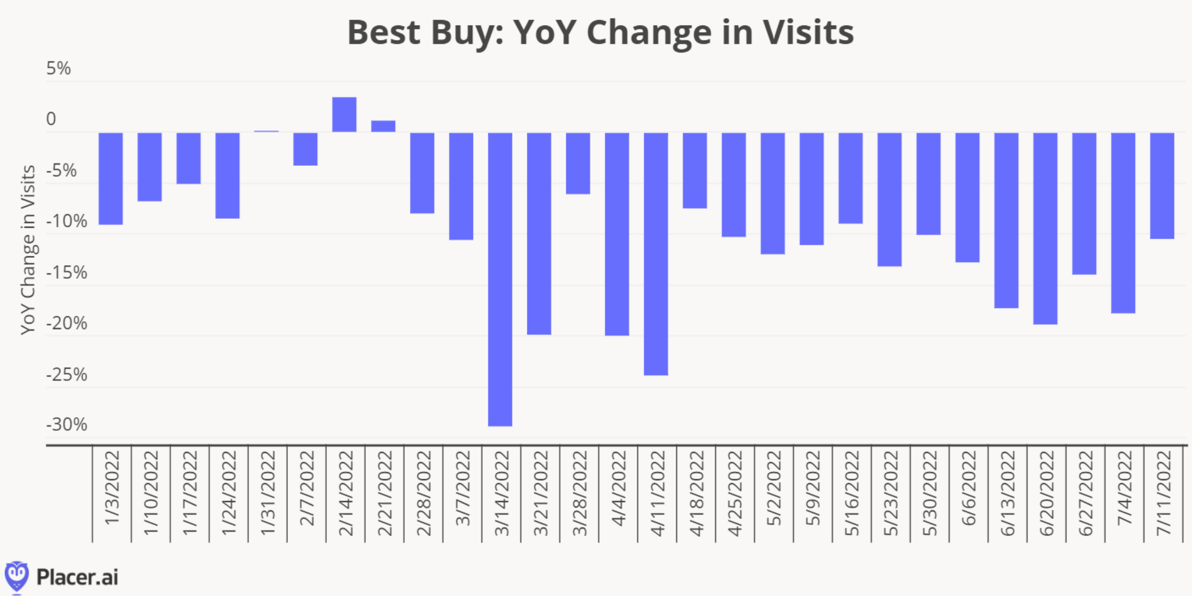
Best Buy: *Tightening Discretionary Spending Results in Reduced Full-Year Outlook*

Key Best Buy Metrics



With the consumer electronics retail category already underperforming the broader retail industry as it lapped last year's government stimulus efforts, it's not surprising that **Best Buy** revised its calendar 2Q22 outlook downward as visitation trends continued to soften since the company reported its calendar 1Q22 results in May.

- **Visitation trends**. Best Buy management expects calendar 2Q22/fiscal 2Q23 (quarter ending in July 2022) comparable sales to decline approximately 13%, versus a 19.6% comparable sales growth in 2Q21. Placer data (below) suggests that Best Buy's YoY visitation trends have been declining in the mid- to high-teens for much of the quarter, so when coupled with inflation, slowing home furnishing product sales (which we believe has impacted Best Buy's appliance sales), supply chain constraints, and the absence of a major consumer electronics product cycle, this outlook makes sense. The company expects its 2Q22 adjusted operating income rate to be in a range around 3.7%, versus 6.9% a year ago. Additionally, Best Buy anticipates quarter-end inventory balances to be approximately flat to the same period last year.

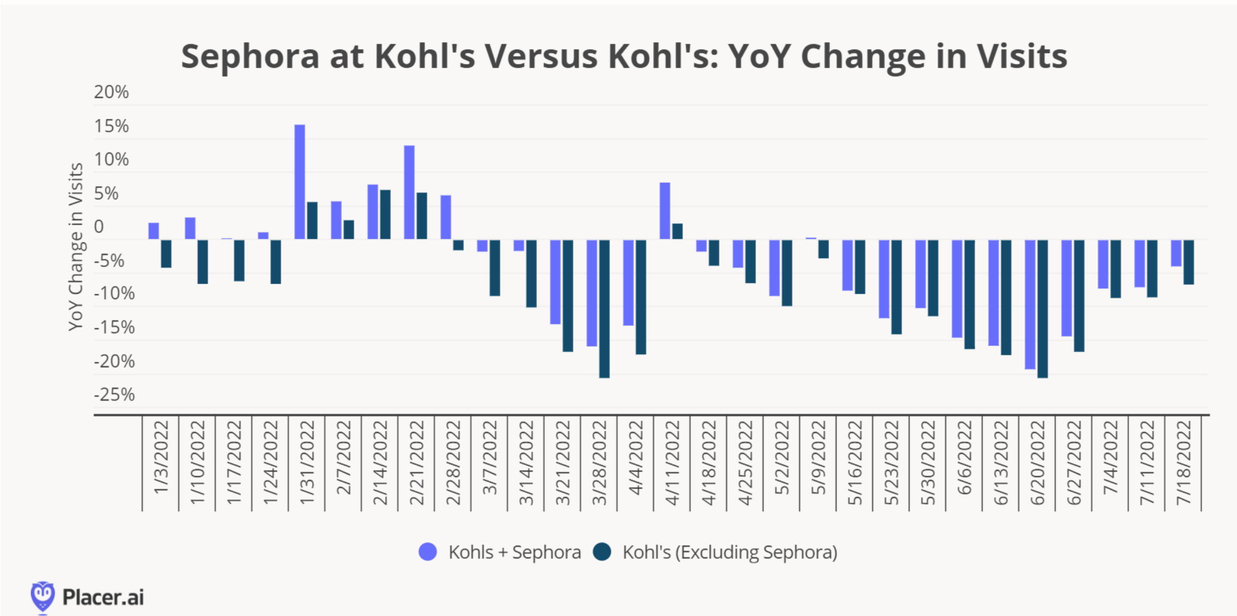


- **Back half outlook.** For the full-year, Best Buy is forecasting a comparable store sales decline of approximately 11% (compared to a previous outlook calling for a 3%-6% decline), which factors in "ongoing uncertainty as it relates to macroeconomic conditions and consumer electronics demand" as well as "increased promotional activity in the consumer electronics industry".
- **Alternative formats continue to offer promise.** While it's likely that we'll continue to see YoY visitation declines, we remain encouraged by Best Buy's evolving store layout formats, which do a better job of addressing various need states for different consumer electronics shoppers. We've previously discussed Best Buy's outlet and experiential formats, but the company also unveiled a small-format, 'digital-first' store in Monroe, NC this week.

LVMH

LVMH: *Sephora's Continued Success at Kohl's*

- LVMH's overall sales were robust, with the U.S. category growing +22% (but slightly less than the +26% posted in 1Q22). Wines & Spirits outperformed (as cognac was released from being stuck in the port) while Fashion & Leather Goods, Perfumes & Cosmetics, and Watches & Jewelry moderated. Management didn't flag a slowdown in the U.S. during its update; however, from the questions by analysts, it appears that many are expecting one. Moreover, management did say that the weak Euro to Dollar "creates a little bit of activity with U.S. clients [shopping instead] in Europe, **which is something that we haven't seen in a very long period of time**." And "we've seen, probably this is connected with the strength in the U.S. dollar, is that towards the end of 2Q22, we've seen a little bit of shift, particularly in fashion and leather **from the U.S. into Europe**." That said, CFO **Jean Guiony** stated that they saw "no tangible sign of slowdown" and the company was "not particularly gloomy about the outlook". (Nevertheless, as a consequence of this shift, we expect sequentially softer results for **Bloomingdales, Macy's**, and **Nordstrom** when they report.)
- The company flagged strong sales at **Sephora** and they called out the partnership with **Kohl's** as part of that in the release. On its update, LVMH management noted that, "Sephora's partnership with Kohl's **is working well** with more than 250 new stores opened in the first half." It is unusual for LVMH to be that flagrant on a particular business or partnership. As such, LVMH must be viewing the Kohl's partnership as fundamental to its U.S. Sephora business and something that one should weigh when thinking about Kohl's business, positioning, and strategy. Placer data indicates continued visitation outperformance for Sephora at Kohl's locations compared to the rest of the chain (below).

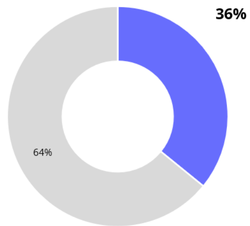


Dollar General: *Accelerated Western Expansion Plans*

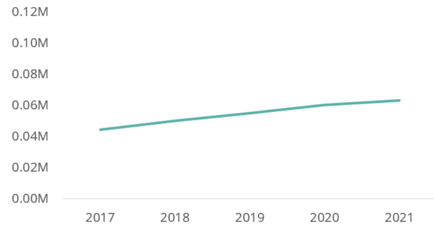
Key Dollar General Metrics

Category Foot Traffic Share (June 2022)

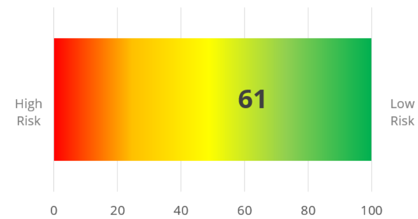
Total Dollar Store Category



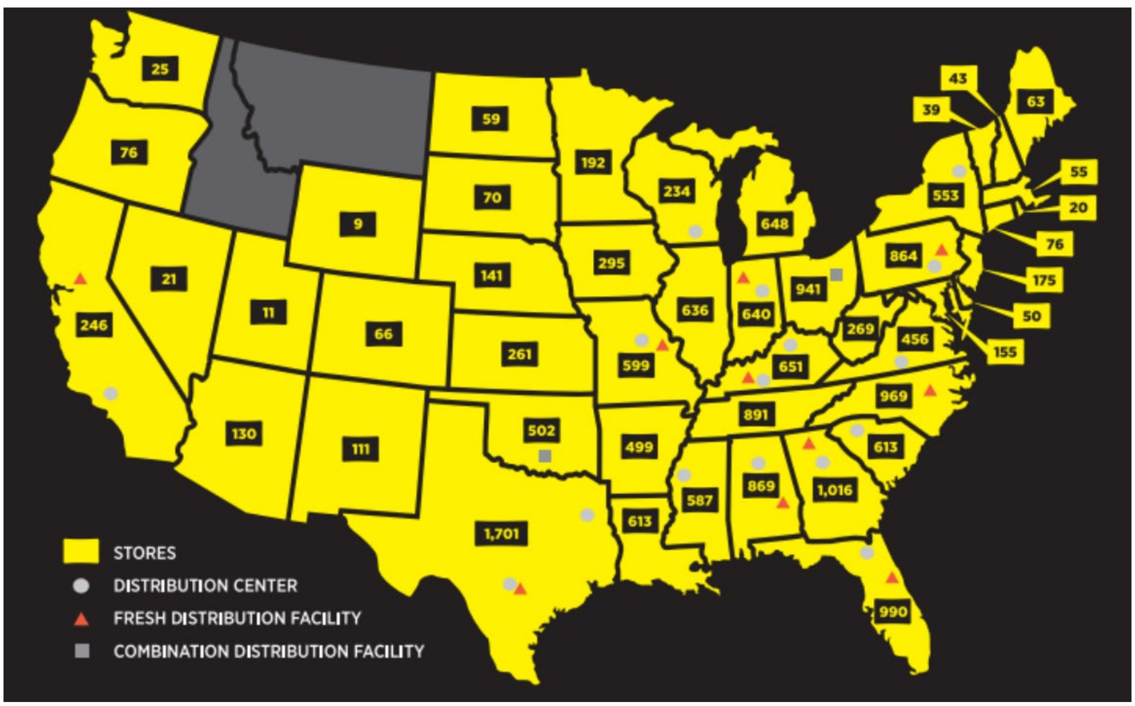
Annual Foot Traffic Per Location Trend



Long-Term Credit Risk



- **Dollar General** announced plans to open three new distribution centers in Arkansas, Colorado, and Oregon. It currently operates 28 DCs, each of which supports 700 stores. Each of the 1M sqaure foot facilities will help support the company's **growing private fleet presence**. As shown in the figure below from DG's 2021 annual report, **DG has ample room for expansion** throughout the West.
- At the end of 1Q, Dollar General had 950 tractors in its private fleet and expects to more than double its private fleet count from F'21 levels to ~40% of its outbound transportation fleet by year end.



Other Consumer Industry Insights

VISA

Visa: *Consumer Spending Continues Its Resilience Due to Spending Mix Changes*

- **Visa CEO Al Kelly**: "[We're seeing no evidence of a pullback in consumer spending]...this has been the case for most of 2022 with no indication of any slowdown, including in more recent weeks...Early in the pandemic, goods surpassed services, reversing the historic trend. Even as services have rebounded in the last 6 months, the percentage spending on goods in our payments volume still remains higher than the pre-pandemic levels. For example, while U.S. home improvement and retail goods spending during the third quarter grew only low single digits year-over-year, it remains well ahead of the pre-pandemic trend line. Second, many discretionary segments have further strengthened. If you look at U.S. travel spend, it is now back -- it is not back to the pre-COVID trend line but grew more than 40% versus last year. Third, the affluent spender continued to recover, particularly in the areas of restaurants, travel and entertainment. At the same time, nonaffluent spend remained relatively resilient. We mentioned the affluent spend returning to restaurants last quarter. That trend continued this quarter with affluent restaurant spend indexing in the 160%-180% range versus 2019... [In regard to inflation and a spending pull back], U.S. transaction growth relative to 2019 is strong and stable."

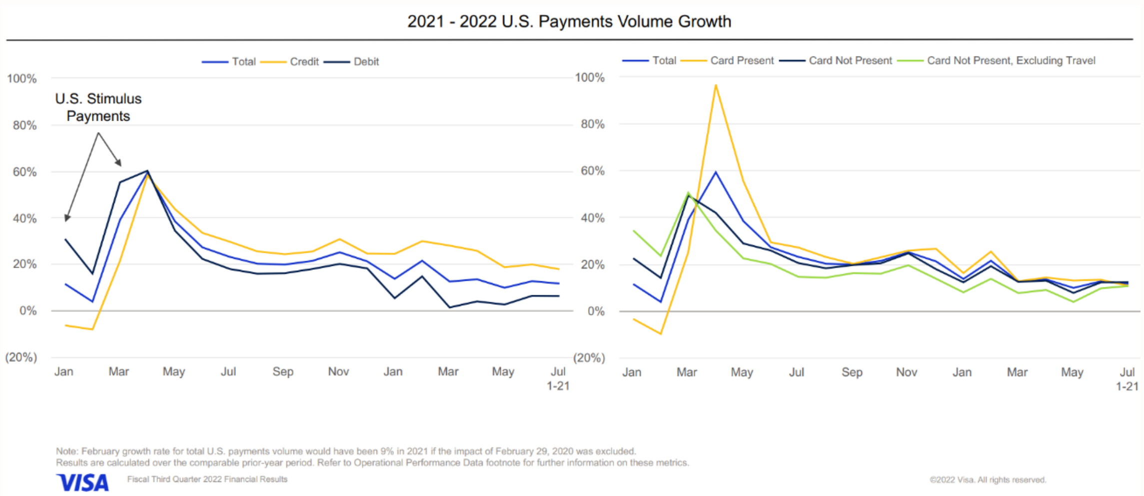
- **On cross-border travel**, **CFO Vasant Prabhu** shared, "There's a huge amount of interest in traveling to Europe...so Europe has been also recovering very fast and is indexing at pretty high levels relative to pre-COVID volumes. **The other area that continues to surprise is Latin America**...Outbound from the U.S. is very strong. It's been at about 2019 levels now for a few, if not weeks, a couple of months. Inbound to the U.S. we told you was indexing in the high 80s, so it's still below 2019 levels. We think that there's room for recovery there. What we've seen on the cross-border side is a little bit of a stair step where you have periods where there's rapid growth...When a variety of countries remove restrictions, you see a huge amount of travel happening fairly quickly. And then you see a certain amount of stabilization after that...As we look at the fourth quarter, most of the world is open. We are assuming steady improvement in travel out of Asia, steady improvement of travel into and out of Europe, improvement of travel into the U.S."
- Regarding consumer spending:

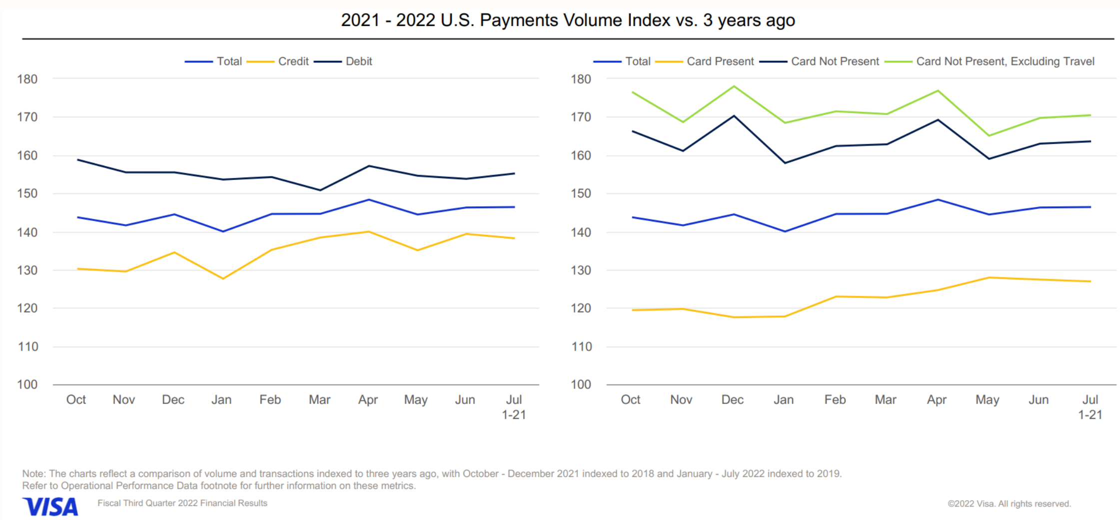
Visa CEO Al Kelly

"Affluent spenders are returning to the economy and their higher spending in restaurants and travel, among other categories. And this isn't necessarily inflation, but a mix shift. The impact of people working from home and hybrid work definitely continue to have impact on smaller tickets that are things that people buy in the mornings and at lunch time when they're actually commuting and working in an office environment. Certainly, small tickets, as a percentage of overall tickets, are still below pre-pandemic levels as a result. Last year, stimulus clearly drove ticket sizes up, particularly in discretionary categories, and we're kind of lapping that now. What we don't know are what level of substitutions are taking place, where people might be buying more staples and less discretionary items but they're spending at the same level they did, or whether as some retailers have said, people are trading down from brands to private labels. But it's also difficult for us to understand consumption reduction. For example, consumers could be buying less fuel, but spending at the same amount or buying smaller package sizes of things like snacks and yet spending the same amount...Clearly, inflation is in our numbers. And people are likely to change making some changes on what they're buying. But as I said earlier...they're not changing how they're paying."

CFO Vasant Prabhu

"We keep looking for [a slowdown in spending by lower income consumers] because we've heard some other people say it, and we're not seeing any evidence of that. We're also not seeing [signs of slower spending because of a wealth effect on affluent consumers due what's happening in the stock market]...If anything, affluent spending has been on the rise and is one of the reasons why we've seen some of the robust growth we saw this quarter. Remember, we're lapping a very significant growth quarter last year that included sizable stimulus payments. And despite that, we had some very good growth this quarter. And a lot of that is driven by affluent consumers, by discretionary spending coming back and no evidence of a wealth effect that people are holding back."





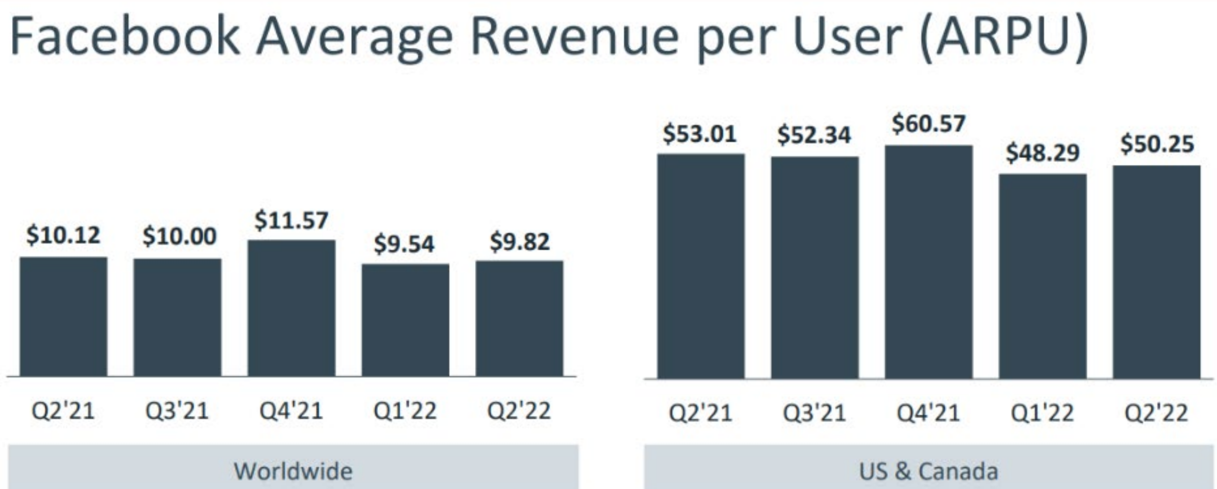
Google Meta

Google's and Meta's Signal

- **Google's** 2Q22 advertising results reflected the slowdown in the digital economy, lapping two years of juice in the digital economic, share losses to TikTok, and geopolitical/macro headwinds.
- Chief Business Officer Philipp Schindler shared, "From a trend perspective...**omnichannel remains the way to when retailers continue to build their digital presence** to drive both online and offline sales, and we're obviously helping them do it...For example, local inventory ads. These are mobile-first and location-based and helping businesses of all sizes showcase their products and stock in-store, online or available for store, curbside pickup, all different variations.

Additionally, we're midway through the migration from smart shopping campaigns...and advertisers have been pleased with increased reach and the increased performance. Our focus really has always been on building tools and features that help both offline and online businesses connect directly with these customers across our platforms, and we're excited about what's next for retail commerce across our services, especially search and YouTube." (See our comments from our 6/17/22 report on how physical is being viewed as the driver for digital.)

- **Meta** reported a decline in advertising revenue per U.S. user (ARPU) and guided for flattish Y/Y revenue growth in 3Q22, which at \$27.3B is \$3.5B below recently lowered Wall Street expectations. Analysts now expect to 4Q22 revenue growth to be flattish as well. Meta's advertising in the U.S. has been principally driven by slicing the audience into niche-like targeted segments and then charging a lot for that. "Slicing" is now going the other way due to IDFA and demand is dropping, which drives down pricing. As a reminder, on a trailing-twelve-month basis, Meta generates \$211 in ad revenue per user in the U.S., which is a really big number.



- **Meta CEO Mark Zuckerberg** said, "We seem to have entered an economic downturn that will have a broad impact on the digital advertising business. And it's always hard to predict how deep or how long these cycles will be, but I'd say that the situation seems worse than it did a quarter ago...Given the more recent revenue trajectory that we're seeing, we are slowing the pace of…investments and pushing some expenses that would have come in the next year or two, off to a somewhat longer timeline. Our plan is to steadily reduce headcount growth over the next year."
- In response to its ad targeting challenges stemming from IDFA, Meta is adapting its ad system to manage with less outside data by growing on-side data conversations. Said differently, the company wants to drive engagement and time spent higher (reversing an earlier strategy), Reels (see TikTok), and "click-to-message" ads.
- **Meta CFO Dave Wehner** said, "We're also continuing to face targeting and measurement **headwinds** such as Apple's iOS changes, which we believe are contributing to the growth challenges across the digital advertising industry." "Headwinds" implies that the challenge was strengthened, not slackened as they lap those headwinds that were present in 2020 and 2021. Wehner noted that, "We're seeing just generally challenging environment for digital advertising…[as] we're lapping periods in which there was still a benefit from COVID in some of the sectors that are important to us, like **e-commerce**."
- **Meta COO Sheryl Sandberg**, "We know we have to earn our share and continue to deliver great ROI **and be able to measure results**. (Declining measurement and

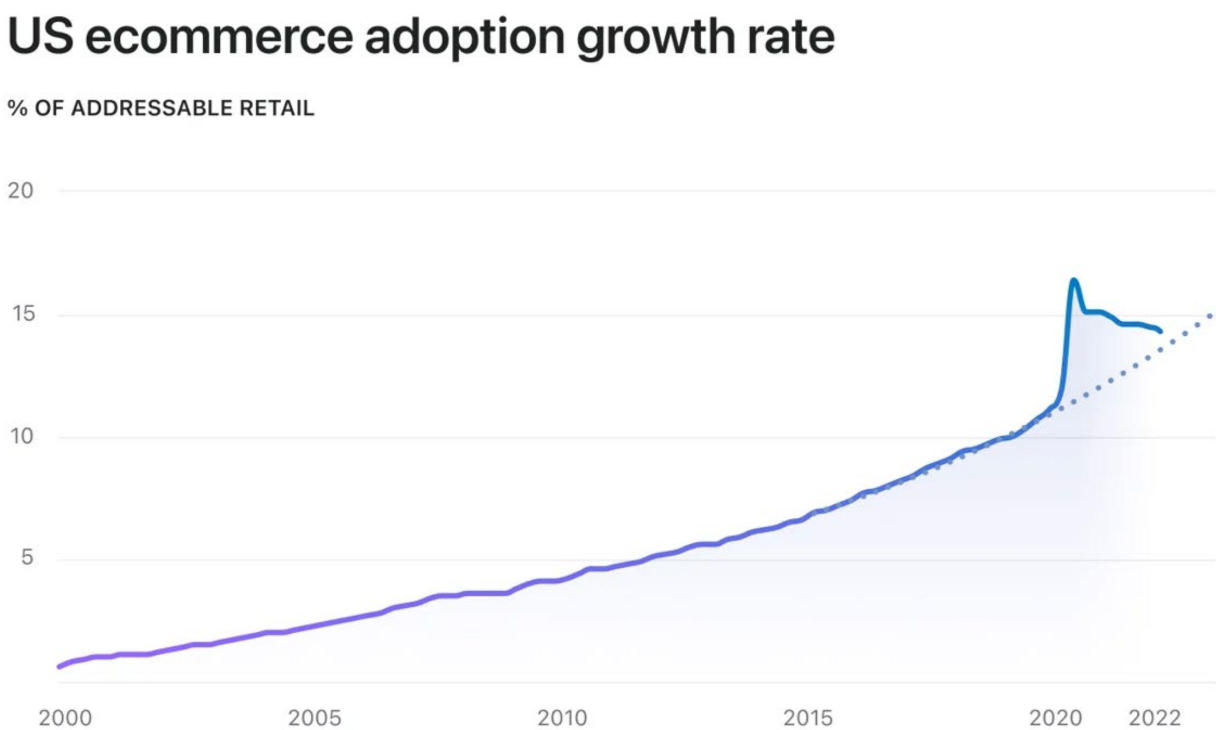
ROI is what's behind Meta's declining advertiser participation and revenue.) And on Reels, "There are still some challenges. Video is harder than photos, than static photos. Small businesses are better at static photos than they are at video…[Reels] is very promising but we've got some hard work ahead of us."

---

shopify

E-Commerce Slips to Pre-Covid Trajectory--Shopify Announces 10% Workforce Reduction

- **Shopify Founder and CEO Toby Lütke** wrote a memo to all which included his own admission of fault for overbuilding and outlines a 10% workforce reduction. The reduction impacts roles in recruiting, support, sales, and other roles.
- Lütke's memo reads, "Shopify has always been a company that makes the big strategic bets our merchants demand of us - this is how we succeed. Before the pandemic, e-commerce growth had been steady and predictable. Was this surge to be a temporary effect or a new normal? And so, given what we saw, we placed another bet: We bet that the channel mix--the share of dollars that travel through e-commerce rather than physical retail--would permanently leap ahead by 5 or even 10 years. We couldn't know for sure at the time, but we knew that if there was a chance that this was true, we would have to expand the company to match. **It's now clear that bet didn't pay off**. What we see now [in the graphic below] is the mix reverting to roughly where pre-Covid data would have suggested it should be at this point. Still growing steadily, but it wasn't a meaningful 5-year leap ahead. Our market share in e-commerce is a lot higher than it is in retail, so this matters. Ultimately, placing this bet was my call to make and I got this wrong. Now, we have to adjust. As a consequence, we have to say goodbye to some of you today and I'm deeply sorry for that."



Source: U.S. Census Bureau, Shopify

- Thus, Shopify's story is the same story as **Amazon's** and one of responsibility to its customers and stakeholders. The "leap" wasn't permanent and things are now "settling" back into their pre-pandemic rhythms.
- Shopify also reported 2Q22 results which included substantially slower revenue growth, more of a pivot to their in-store products and solutions (see **Square**, or **Block**, and **Clover**), and guidance to operating profit losses in 2H22. (**Shopify is now 10% of all U.S. e-commerce,** per the company, and a market share taker.)
- On its 2Q22 update, Lütke said, "We've seen incredible growth in **offline GMV on Shopify** as more merchants come to us to modernize their point-of-sale software. Our world-class retail point-of-sale offering, which gives merchants a seamless view of their online and off-line operations, is quickly becoming the point of sale of choice...2Q22 offline GMV grew 47% year-over-year as we continue to take market share." (Online GMV grew +8%.)
- Regarding Shopify's Fulfillment Network (**SFN**, a $1B investment) and its recent acquisition of **Deliverr**, Lütke said, "through Deliverr we are accelerating the simplification of the distribution phase...Using software and machine learning, these SFN hubs, leveraging Deliverr's capabilities, will unpack, scan and inspect all inventory, then compare against metadata in Shopify's back office throughout the goods to merchants' various distribution channels as well as forward position inventory into SFN's spoke direct-to-consumer fulfillment centers based on expected buyer demand. With this software-based approach, Deliverr is helping us expand two-day delivery across SFN...By leveraging Deliverr software in SFN hubs and SFN's spoke partner warehouses all equipped with Six River Systems technology, we can forward position merchants inventory to support timely fulfillment with a minimal inventory commitment for merchants. We've also continued our early access to Shop Promise, which lets merchants offer 2-day delivery promises across online storefronts and channels like Google, Facebook and Instagram."

amazon.com

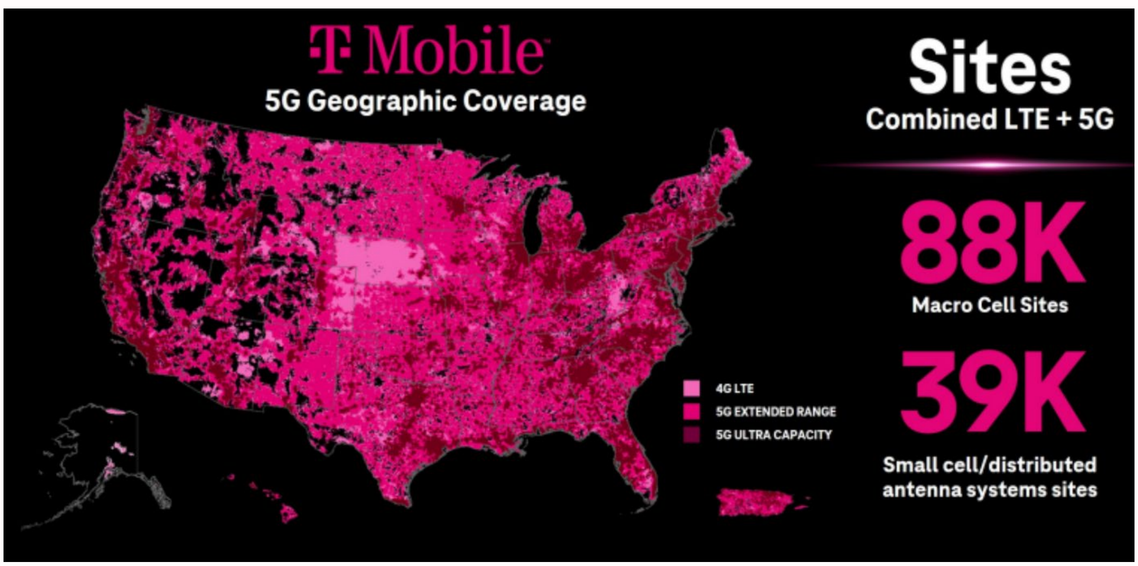
Amazon: *Revenue Growth Shifting from Product Sales to User Monetization*

- Always zigging when others are zagging, **Amazon** surprised Wall Street with an outlook for faster 3Q22 revenue growth (adjusted for foreign currency) at +17%-21% compared to +10% in 2Q22 and versus market expectations calling for deceleration given persistent macro fears.
- When asked about the economy, a consumer pullback, and excess inventory at other retailers, **Amazon CFO Brian Olsavsky** said, "We're not seeing some of the pressures that other [retailers] are seeing right now. **Our macroeconomic issues are principally on inflation** and...the energy electricity rates in our data centers because of the ramp-up in natural gas prices if you've seen that...There's a certain amount of conservatism always built into this because we are in a very difficult macroeconomic state potentially [but]…it's not hit[ing] our businesses directly. In fact, **we're seeing strong growth in sales through the quarter in 2Q22**…and that's how we set our forward guidance."
- Parsing through the results and the discussion above we think there are several factors behind Amazon's stronger outlook that bridge the 9 pts of acceleration between the 3Q22 outlook and the 2Q22 reported results (+19% compared to +10%). These include: (1) Prime Day moved to 3Q from 2Q (+400 bps); (2) significant membership fee increases in big markets like the UK and Germany (+200 bps); (3) increased service fees from3P sellers and partners; (4) easier YoY comparisons (+24% growth in 2Q21 versus +15% in 3Q21) which was partially self-inflicted; (5) consumers using Amazon to save on driving/higher fuel expense; (6) the addition of MGM for a full quarter; and (7) **a "X-Factor"**.
- Amazon's X-Factor is that it's now monetizing its audience more compared to selling more products. The number of units sold during 2Q22 was +1% versus 20% reported growth excluding AWS, Whole Foods, and 1P revenue growth. That 19-point difference reflects more monetization via advertising, higher Prime Membership rates, and higher 3P seller fees. 3Q22 likely holds more X-Factor.
- Management has a huge incentive to get the stock price stabilized and moving upward again in order to make its stock-based comp more tangible in an effort to secure employees from its competitor's pouching efforts. (Amazon's SEC disclosures point to a very large number of option forfeitures in 2Q22, which indicates substantial employee departures, and a very large number of grants, which indicate increased retention offers, as well as new hires.)
- Olsavsky also shared, "2Q22 includ[ed] quarter-over-quarter improvements in delivery speed and inventory in-stock levels. We have also moved quickly to adjust our staffing levels and improved the efficiency of our significantly expanded operations network." On future fulfillment and shipping capacity, he stated, "We've **continued to moderate our build expectations** to better align with customer demand. We expect the fulfillment and transportation dollars spent on capital projects to be lower in 2022 [than 2021].

  If the business is running better and the consumer demand is there, productivity will be on the rise. Faster revenue growth and higher productivity will drive margins, which is the path to driving the stock price higher. Things go poorly for retailers when inventory levels are too high and stores/employees are too many. When these begin to remediate, things can turn upward. Recent examples include **Target**, **Walmart**, and **Lowe's**, all of which had strong upturns beginning in 2019.

Wireless Wars Update

- As an update on our recent discussions around Wireless Wars--which we previewed last week--**T-Mobile** reported a robust 560K high-speed Internet fixed wireless access (**FWA**) net additions. **T-Mobile CEO Mike Sievert** declared, "Demand continues to build from dissatisfied suburban cable customers to underserved customers in smaller markets and rural areas. I am so excited to see our broadband business hit this pace, which puts us right on track to meet the multiyear ambitions we shared with you last year [for 8M+ subscribers]." Two-thirds of the adds are coming from suburban and urban environments, where they're switching from cable, and one-third is coming from rural, where **T-Mobile is the only high-speed alternative**.
- The FWA offering also allows T-Mobile to sell a bundled service, including wireless, and that offer is resulting in accelerating post-paid account additions (+380K this quarter compared to +268K in 2Q21) with the uptake on the bundle being "really terrific." According to the company, customers are "coming in buying high-speed Internet and then going ahead and switching, including Magenta MAX. That's starting to work as a very successful cycle." In contrast, **Verizon** lost -92K accounts.
- In addition, Sievert shared that revenue per user was increasing "reflect our differentiated strategy to unlock growth across smaller markets and rural areas." (These markets' users rely more heavily on mobile broadband.) As such, we continue to expect T-Mobile to continue **setting up new retail locations** in these markets as it densifies its network.



GM's 2Q22 Update, The CHIPs Act, and the Mid-Central Electric Valley

- **GM's** 2Q22 update showed no consumer pushback to continued price increases. The company reiterated its 2H22 plans; namely, production levels are to increase, reflecting an easing of supply chain challenges and the semiconductor shortage.

This increase is a bump from 1H22, but not a hockey stick that would increase dealer inventory levels sufficiently to bring consumer prices down.

- **GM CEO Mary Barra** shared, "We are just weeks away from the launch of the 7-day operations at the first Ultium Cells JV plant in Ohio. Then **each quarter, the plant will add 20% to its capacity**, reaching the full 35 gigawatt per hour capacity in 4Q23. Securing cells from this plant are key to significantly ramping up production of the Hummer EV and the Cadillac Lyriq to beat pent-up demand. The **second cell plant**, which is under construction in Tennessee, is **on track to open next year**...In Lansing, Michigan, the site of **the third cell plant**…steel work will begin in August. And that plant opens in 2024. And the team is also making good progress towards selecting the site for **the fourth U.S. cell**, which will take our projected total battery capacity to 160 gigawatts...GM now has binding agreements securing all battery raw materials supporting our goal of **1 million units in annual capacity in North America in 2025**." (For context, GM will produce 2.5M units total for the U.S. this year.)
- Obviously, the passage of the **CHIPs act** is significant to the prospective reality of the Mid-Central Electric valley.

Other Intelligence that CRE Executives Need to Know

Notable Economic Reports: *Inflation Squeezing Spending on Necessities. Affluent Off to Europe*

June PCE: *Where are Consumers Cutting Back Versus 2019? Eggs, Milk, and Gas*

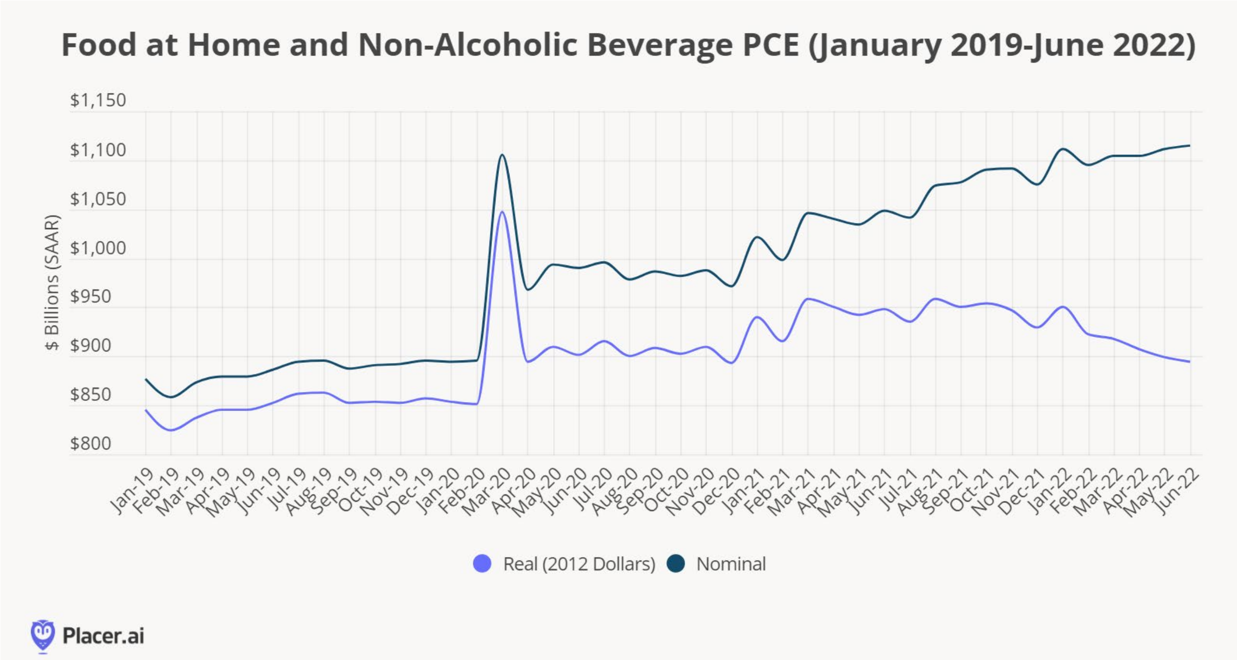
- June's reading for the personal consumption expenditure (PCE) price index will keep inflation in the Fed's penalty box as the headline/core reading increased a faster +1.0%/+0.6% MoM and +6.8%/+4.8% YoY (versus the Fed's target range of +2%). Food and gas prices were the drivers.
- Personal consumption expenditures (PCE) rose +0.1% MoM, partially reversing May's -0.3% decline.
- Private industry wages & salaries rose by $52B to $11.3T on a seasonally adjusted annual rate (SAAR), PCE rose by $181B to $17.1T, and personal savings fell to $946B (still positive as Personal Income was $21.7T).
- May and June slowed versus the 2019 trendline from April, w/ slower PC and jewelry sales in durables and declines in milk, eggs, and gas.
- Looking at the food-at-home segment of PCE, it is clear that inflation is having a significant demand destruction impact, as is the shift to away-from-home, but it is still above the pre-pandemic level.
- Spending on hotels finally above '19's level and **foreign travel coming on strong**.
- Hairdressers and barbers? Still down 33% from '19. Go get a haircut.

Real Personal Consumption Expenditures (2012 dollars)

	$-billions	2022 Jun-level	YoY $ Change ('22 vs. '19) Apr	May	Jun	YoY % Change ('22 vs. '19) Apr	May	Jun
1	**Personal consumption expenditures**	$13,912	$886	$810	$788	8%	7%	7%
2	**Goods**	$5,441	$836	$727	$711	20%	17%	16%
3	**Durable goods**	$2,178	$504	$417	$432	33%	25%	26%
5	New motor vehicles	$314	$71	$26	$30	31%	10%	15%
23	Furniture	$164	$22	$19	$21	19%	17%	15%
28	Major household appliances	$63	$5	$5	$6	13%	10%	11%
33	Tools and equipment for house and garc	$40	$8	$8	$8	29%	24%	22%
39	Televisions	$185	$68	$68	$71	75%	69%	71%
46	PCs & Software	$346	$129	$117	$116	65%	62%	54%
50	Sporting equipment, etc.	$124	$35	$33	$33	42%	39%	40%
62	Jewelry	$95	$37	$33	$36	63%	47%	49%
69	Telephones, etc.	$154	$56	$56	$57	63%	64%	64%
70	**Nondurable goods**	$3,302	$362	$333	$305	14%	12%	11%
73	Grocery	$790	$54	$49	$37	10%	8%	6%
77	Meats and poultry	$169	$6	$6	$5	7%	4%	4%
84	Fresh milk	$26	$0	$0	$0	1%	-1%	-2%
86	Eggs	$12	-$1	-$2	-$2	-3%	-10%	-13%
97	Off-prem BevAlc	$162	$27	$27	$25	23%	21%	19%
102	**Clothing and footwear**	$492	$95	$89	$86	26%	23%	21%
113	Gasoline and other motor fuel	$384	-$32	-$30	-$31	-8%	-6%	-9%
125	Games, toys, and hobbies	$171	$52	$49	$50	48%	46%	44%
148	**Services**	$8,612	$164	$182	$175	2%	2%	2%
197	Public transportation	$161	-$12	-$7	-$12	-7%	-6%	-5%
209	Membership clubs and Fit Clubs	$44	-$7	-$9	-$10	-12%	-14%	-14%
210	Amusement parks, etc.	$39	-$22	-$23	-$23	-34%	-38%	-37%
213	Live entertainment, excluding sports	$11	-$21	-$21	-$21	-68%	-66%	-66%
225	Casino gambling	$96	$4	$1	-$4	3%	-1%	0%
240	Meals at QSR	$320	$15	$20	$18	6%	7%	7%
241	Meals at full-service	$286	$24	$15	$14	10%	8%	7%
248	Hotels and motels	$103	$1	-$3	$3	-4%	-4%	2%
307	Hairdressing salons and personal groom	$46	-$22	-$21	-$22	-36%	-34%	-32%
332	Foreign travel by U.S. residents (129)	$188	-$21	$1	$0	-6%	1%	0%

Source: BEA, Table 2.4.6U, July 29, 2022

- Looking at the food-at-home segment of PCE (below), it is clear that inflation is having a significant demand destruction impact, as is the shift to away-from-home. Still, PCE remains above pre-pandemic levels.



- Looking at the food-at-home segment of PCE, it is clear that inflation is having a significant demand destruction impact, as is the shift to away-from-home, but it is still above the pre-pandemic level.
- Spending on hotels finally above 2019's level and **foreign travel coming on strong**.
- Hairdressers and barbers? Still down 33% from 2019.

U.S GDP Down in 1H22

- 2Q22 real GDP fell -0.9% QoQ following 1Q22's decline of -1.6%. (See our 5/13/22 report for additional information on how a recession is defined.) The decrease reflected decreases in inventory, residential housing, government spending, and corporate capital investment. Ironically, the inventory decrease was principally led by the retail trade. The decline in housing was "broker commissions" which reflects the sluggish pace of home sales. Of note, the decrease in federal spending reflected the sale of crude oil from the Strategic Petroleum Reserve (SPR), which also results in a corresponding decrease in personal consumption expenditures. Said differently, **this is a very noisy GDP reading**.
- Of note, demand for goods (on a real basis) fell for the 1H22, which is what the Fed is looking for. The largest category dollar decline was in off-premises food & beverage (i.e., groceries).
- Current-dollar GDP (nominal) increased at a +7.8% annual rate, up from +6.6% in 1Q22.
- The PCE price index for 2Q22 was +8.2% versus +8.0% in 1Q22.

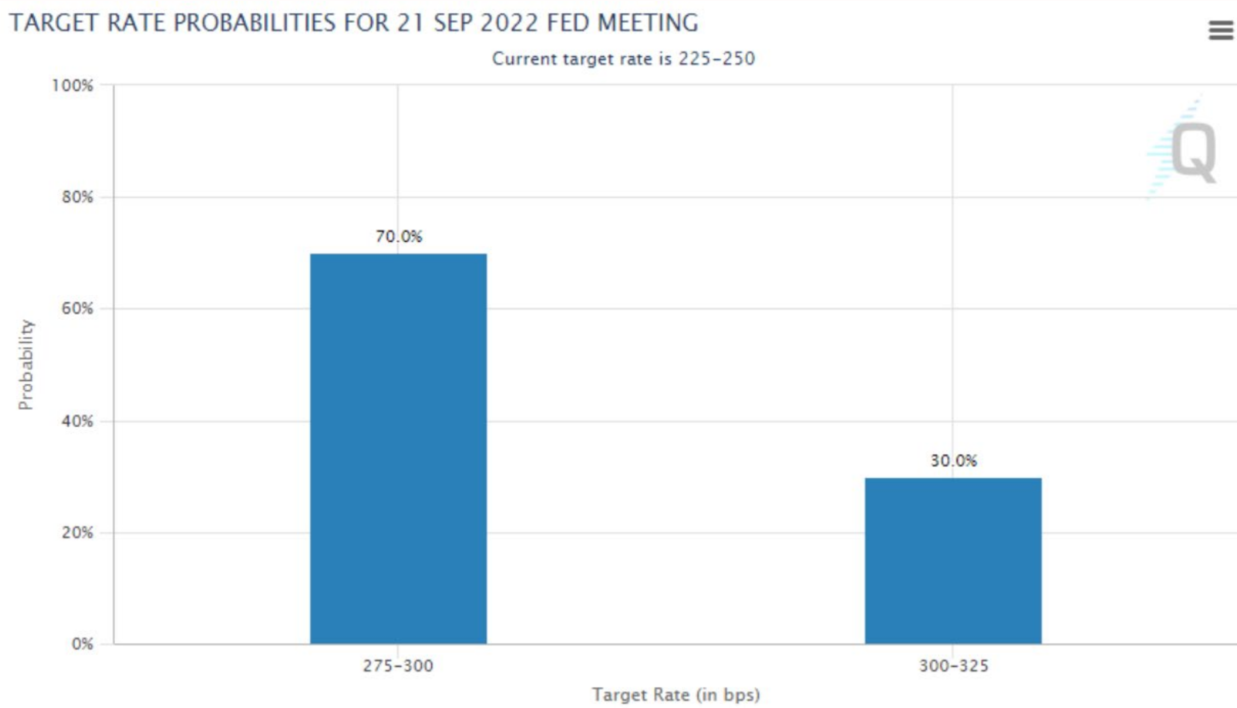
FOMC

- As expected, the **Federal Reserve** increased the Fed Funds rate by 75 bps to 2.25%-2.5%.
  Key changes in the statement are shown below and to us suggest a view that inflationary pressures have become more entrenched, extended, and outside of the Fed's control.

~~Overall economic activity appears to have picked up after edging down in the first quarter. Job~~Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

~~The invasion of~~Russia's war against Ukraine ~~by Russia~~ is causing tremendous human and economic hardship. The ~~invasion~~war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. ~~In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions.~~ The Committee is highly attentive to inflation risks.

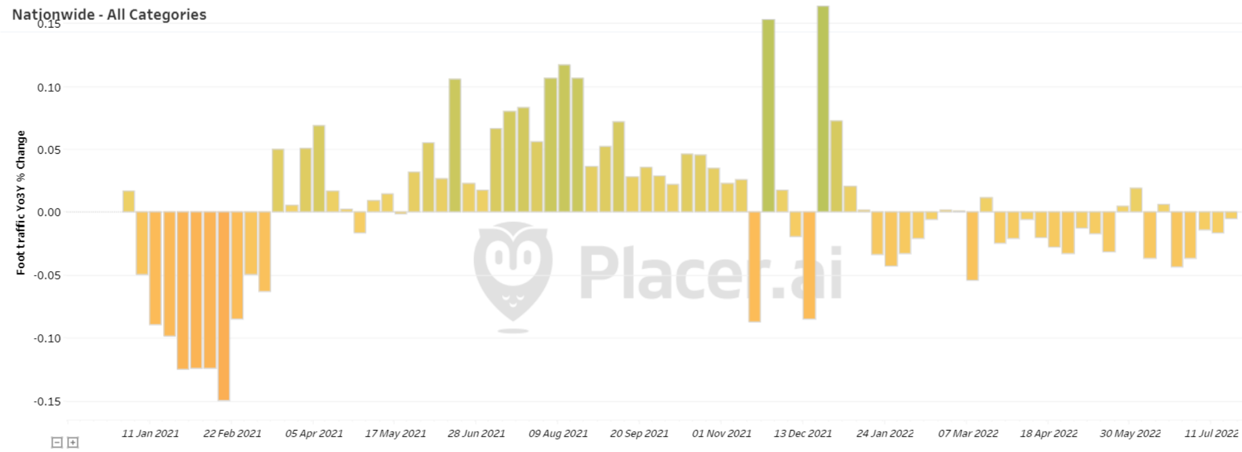
- At **Chairman Powell's** press conference, he said something to the effect the FOMC would "be looking for compelling evidence that inflation is coming down in the months ahead" before slowing down.
- The CME FOMC FedWatch Tool shows that the financial markets generally expect a 50 bps increase at the FOMC's September meeting.



National and Regional Foot Traffic Trends

Industry Trends Over Time - Compared to Three Years Ago

Nationwide - All Categories



* Data reflects the weekly foot-traffic % change compared to three years ago

Weekly Foot Traffic % Change Compared to Three Years Ago

Nationwide Overall Change

All Categories	-0.48%
Apparel	-10.79%
Beauty & Spa	22.23%
Dining	-5.90%
Electronics	-15.92%
Fitness	30.37%
Groceries	5.97%
Home Improvement	-3.13%
Hotels & Casinos	-13.63%
Medical & Health	9.84%
Shopping Centers	-8.77%
Shops & Services	14.91%
Superstores	2.61%

* Data reflects the foot-traffic % change for Week 30, Jul 18 2022 - 24 Jul 2022, compared to the same week three years ago

About the Authors

R.J. Hottovy, CFA has covered the restaurant, retail, and e-commerce sectors for nearly 20 yea He has held several analyst positions in the past, including Global Consumer Equity Strategist at Morningstar and equity analyst roles at William Blair & Co. and Deutsche Bank. Hottovy also brir a wealth of experience with early-stage investments as an investor and member of the investmer committee for the IrishAngels / Vitalize venture capital group (an early Placer investor). Over the past three years, he has worked with more than 50 foodservice and foodservice technology companies, advising on more than $200 million in early-stage capital raises and other buy- and s side M&A transactions. Hottovy is also a member of the Chicago Seed Co. network, a group of Chicago-area investors focused on early-stage food & beverage companies.

+1-312-305-3433 rj.hottovy@placer.ai **LinkedIn**

Thomas Paulson spent 20 years as a Wall Street analyst and a member of significant asset management teams at AllianceBernstein and Cornerstone Capital where he represented top-50 ownership positions in such companies as Target, Home Depot, Ralph Lauren, Nike, Disney, Comcast, Amazon, Google, and many more. Thomas' industry expertise is consumer-related industries, including retail, CPG, financial services, telecom, entertainment (TV and film), and internet services, as well as consumer insights and economics. Thomas is well versed in most m to large-size enterprises within these verticals and their histories, industries, and markets. Prior t this tenure, Thomas was an early-stage-VC, economist, and mechanical engineer.

+1-612-986-6475 thomas.paulson@placer.ai **LinkedIn**