



# CAPITAL

Research Reimagined.

## Overview of Services

---

Scott Mushkin, CEO & Founder  
R5 Capital LLC  
[smushkin@r-5cap.com](mailto:smushkin@r-5cap.com)  
917-873-1497

# Scope – Immersion/Competitive Analysis

---

R5 conducts a complete business immersion normally over a three-to-four-week period, through in-person checks, visiting 10% to up to 100% of a company's locations (depending on the size of the company). All field research is conducted by an experienced member of the R5 team, and no third parties are utilized when doing the research. It is also important to note that the research encompasses the all-important weekend period.

Normally to prep for the project, R5 researchers are brought together to go through several locations to gain understanding of where there may be friction points, developing a proprietary ranking system around characteristics, such as service levels, the omnichannel experience and asset quality, among others. In addition, any loyalty and membership programs are joined inclusive of obtaining a credit card, if available. R5, as part of the process, usually frequents a number of competitor sites to gain understanding of how the company being analyzed compares to its rivals in the marketplace. This generally includes loyalty and membership programs and any omnichannel offerings. Pricing studies are often run in multiple markets during this time. The field researchers may also visit downstream assets, such as distribution facilities, manufacturing locations and/or key supplier facilities, observing operating efficiencies and backend workflow processes.

Concurrent with the field research, R5's analytics group can be engaged to do a competitive analysis of certain markets to provide better understanding of the market dynamic facing the company and any noteworthy socioeconomic differences between it and the competition. A comparison of population density, income disparities and race/ethnic variables are examples of variances that might be investigated. The analytics team can also comb through data around the company's current fleet of locations to understand variability in financial metrics such as sales, profitability and returns and what socioeconomic factors are perhaps driving inconsistencies. Operating discrepancies, both positive and negative, can be flushed out by region, location, department and/or product offering. As part of the process, the in-field group can visualize, experience and investigate the competitive landscape, as well as areas of strengths and weaknesses the analytics department discovers. When appropriate, the team will conduct interviews of location employees, local/regional managers and suppliers, and observe any operational differences that may be occurring and driving the disparate results. As reference, inconsistent application of workforce management tools could be something discovered.

# Scope – Consumer Surveys/Focus Groups

---

Consumer perception surveys are usually designed to examine all facets of a business, including service levels, brand relevance, execution, pricing, the omnichannel offering, the app, merchandising and the loyalty program, to name several. This data is then normally compared to competitors. Surveys can be customized to target areas such as regions of the country, certain demographic groups or specific company attributes. A survey normally runs 25 to 50 questions and is expected to have a margin of error of +/- 3.5% on the broad data set. While margins of error can increase, many projects explore additional avenues of inquiry, like why a customer has switched brands or how a company might get a consumer to re-engage with the business. All questions are constructed exclusively for the client by the R5 Capital team, in consultation with the client to home in on the sought-after information.

Focus groups are either done prior to the broader survey or concurrently. Focus groups are a more personal way of getting to know the strengths and weaknesses of a company, directly from the consumer. A typical project will include 3 to 5 gatherings around the country of 10-12 individuals to discuss the company and its competitors. Participants in the discussions normally receive a stipend to shop a retailer, frequent a restaurant, use the consumer service or buy the consumer brand being discussed and answer a short survey before the gathering. In most cases, the group includes a wide variety of consumers from different socioeconomic backgrounds and with an age range between 21 and 65. These are broad parameters, however, can be adjusted depending on the company being analyzed. All groups are arranged and attended by at least one experienced R5 team member.

R5 then thoroughly analyzes all the information from the survey and observations from focus groups looking for themes/patterns in the data. The conclusions are synthesized into a PowerPoint report which, in most cases, runs 50 to 100 slides. Then the firm presents the findings either over zoom or in person during a 1-to-2-hour meeting. There are typically a few follow-up calls with most projects, and, in some instances, follow up surveys to drill down an issue/issues that are revealed. It can not be stressed enough that R5's work is very differentiated from what companies do themselves around consumer perception, which tend to rely on voluntary participation of current customers. Our approach yields an unbiased deep-dive into how the company is perceived in the marketplace in isolation and versus competitors. In combination with a business immersion project, R5 can provide an unbridled, and an extremely deep view of a company potentially being acquired or one that is a current portfolio holding. This creates a much clearer understanding of points of friction that might be hard to resolve and/or places where improvements can drive much stronger operating performance. The aim is to lower risks of an investment while maximizing returns. This approach has proven itself to be very successful and we are happy to provide references.

# Deliverables

---

Initial consultations around a plan of action discussing items such as targeted markets, survey construction and pricing analysis, among others

Check-in calls to review preliminary data and make any needed adjustments

Participation and critique of any management presentations

Detailed PowerPoint presentation/s

Zoom or in-person meeting/s to discuss the findings and suggestions

Access to location research files...pictures, notes, rankings, interviews

# The R5 Difference

---

Decades of experience doing field research, competitive analysis, financial analysis, focus groups and consumer surveys

All research is conducted by an experienced member of the R5 team, inclusive of senior partners being in the field

The ability to work with very short timetables and with a focus on the all-important weekend periods

Due to the buy-side research division, research on consumer companies, competitive industry dynamics and the macroeconomic climate is always ongoing

High ROI...relatively small cost of projects when compared to potential gains, with a particular focus on understanding longer term business risks

Active investors in both private and public consumer companies and a willingness to be compensated, in part, with equity when appropriate

*\* Please note that references are available upon request and that the information in this overview is the property of R5 Capital and can not be redistributed without prior authorization.*

# In-Store Execution

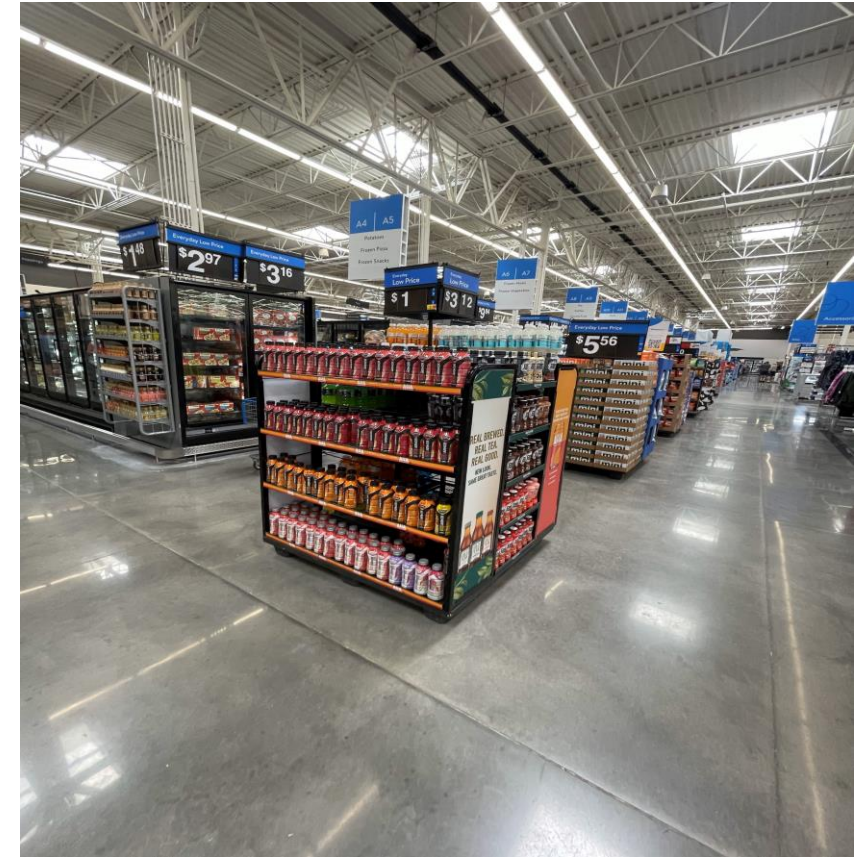




# Walmart - Superior Store Execution

A better in-store experience has become more commonplace, especially in locations that have been remodeled. WMT's history of struggles with store execution is quickly turning to an advantage. In part, this is due to the investments it has made in its labor force. Having a more capable and well-paid employee base, in our opinion, has become a competitive advantage and a reason it has been gaining share. We believe market share gains are likely to further accelerate with the supply chain transformation.





# Walmart - Improving Displays/Merchandising

Remodeled stores were well displayed and well merchandised, even with some local flare. The traditional advantage enjoyed by supermarkets around superior execution is disappearing quickly. Adding in the Walmart+ membership program that includes free pick up and delivery, as well as its lower prices, we anticipate Walmart will continue to gain share.





Reebok, U.S. Polo Association, Wrangler...at Walmart! Our Nashville focus group indicated WMT has an opening to grow its apparel business to the detriment of competitors, including Target.

## Walmart - Brand Partnerships



## Kroger - Self Checkout Before Labor Day

There were two cashiers out of 6 manned lines, as the self checkout backed up. This is just one example of the company appearing to cut corners on store expenses, which helps near term results, but hurts long term business.

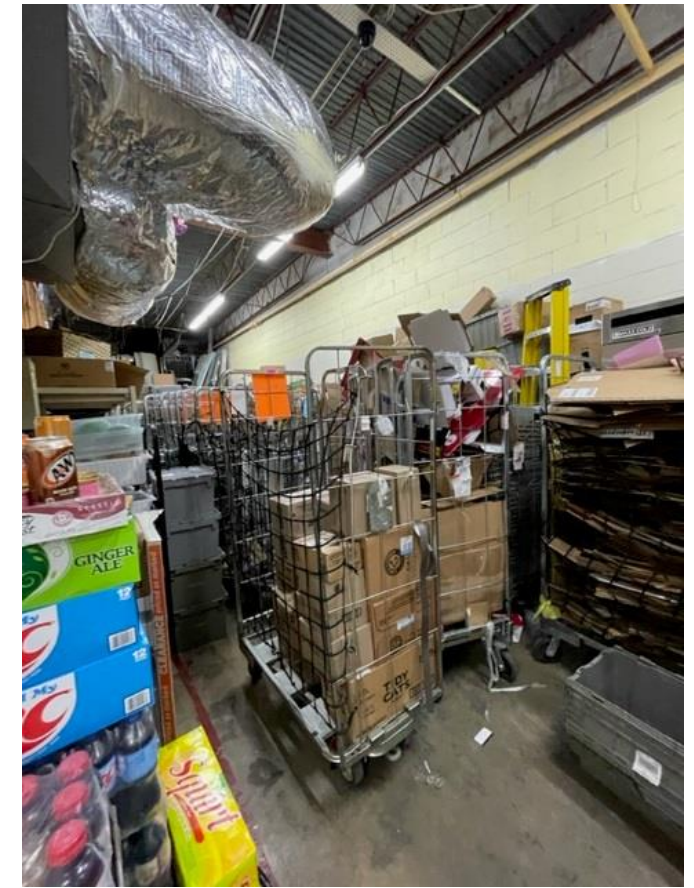




# Kroger - Promotions

The promotional level was high in both Nashville and Houston. In Houston, it was expected, in our minds, given we were there just before Labor Day. Nevertheless, it appeared that all areas of the store were operating at a heightened level of discounting. The looming question is how much of this will be funded by vendors, and how much will come out of the P&L of retailers. Our take around Kroger is that it is some of both, and this could weigh on gross margin rates as we move through the end of 2023.

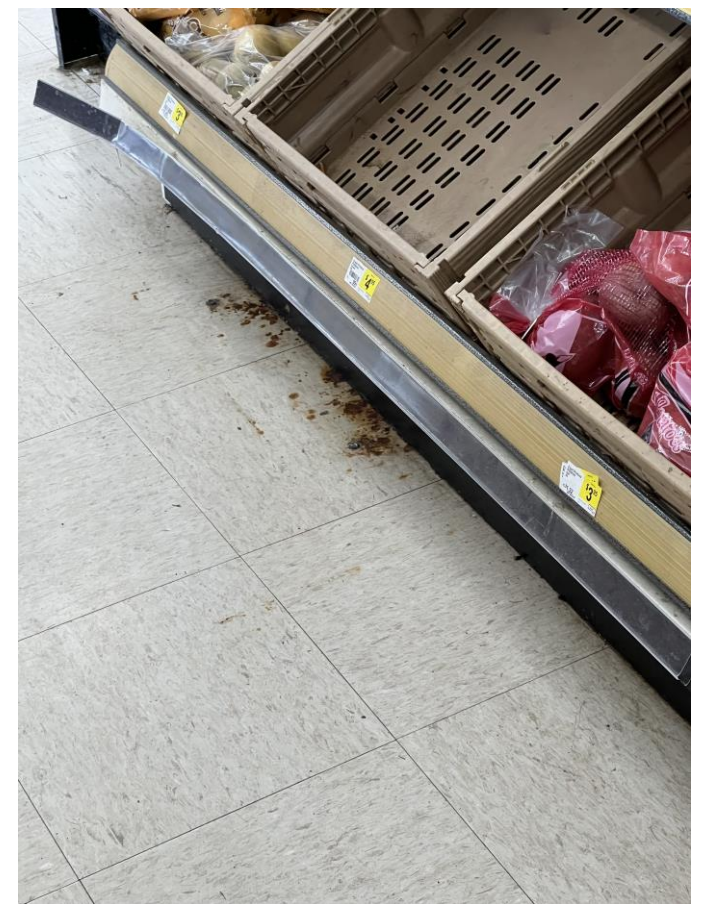




## Dollar General - Back Rooms

Almost all backrooms had too much product, confirming our financial analysis regarding inventory growth. The best store (far left) also had the best backroom. What was different about this location in Arkansas was that the manager was noticeably on the floor and actively engaged with the employees. The number of employees working was also noteworthy.





## Dollar General - Cleanliness was Subpar

We attribute a lot of the problematic store conditions to needing more labor hours and our analysis suggests that an incremental investment of \$300 million may be required. In our opinion, DG is currently overearning, inflating operating cashflow and ROIC.





# Dollar General Out-of-Stocks

Distribution issues continue with both severe out-of-stocks and significant overstock, depending on the location. We attribute this to, among other things, a poor inventory management and ordering system. The company has since acknowledged as much.

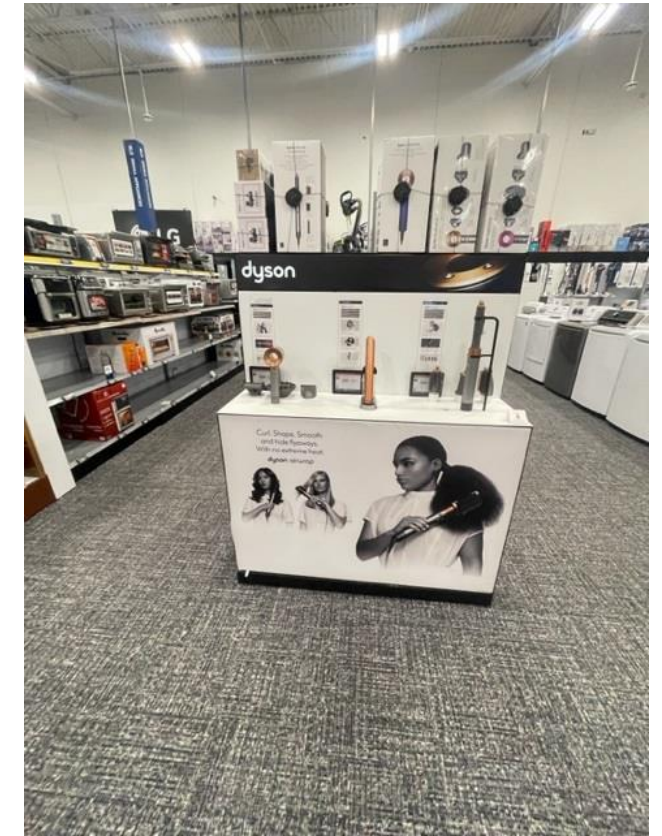




# Dollar General - Staffing Shortage

Our industry research indicates that DG not only has to add labor hours, that it also needs to raise pay rates.

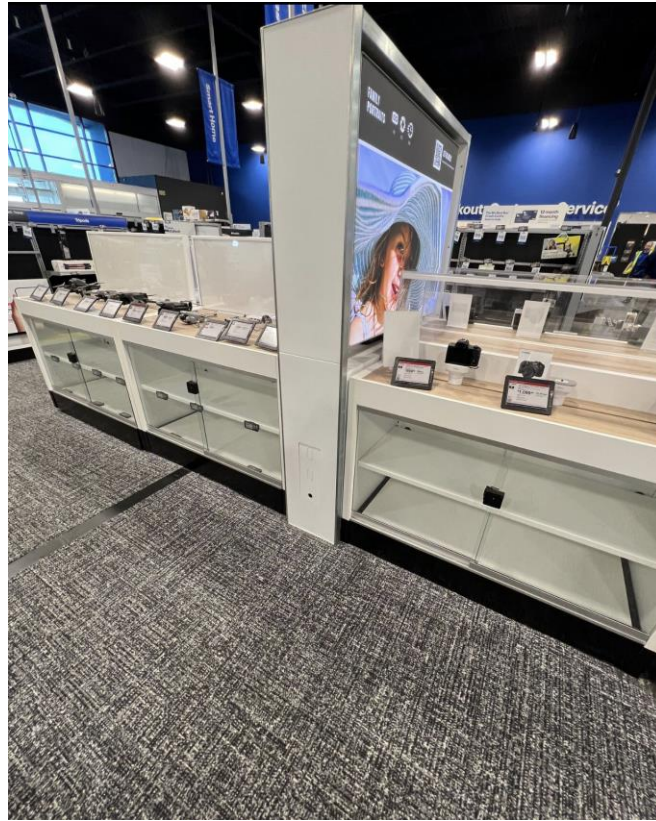




## Best Buy – Endcaps are a Work in Progress

The company is trying to figure out how to best utilize its endcap space. While a lot of it remains devoid of product, there are tests going on with certain vendors, such as Dyson (above right), that showcase the brand/products (for a fee, of course). Finding a sustainable business model revolves around improving the in-store experience, in our opinion.





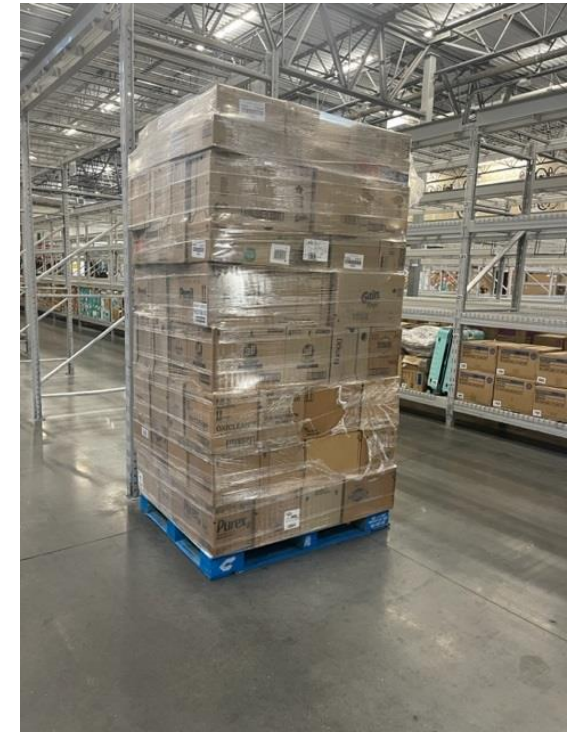
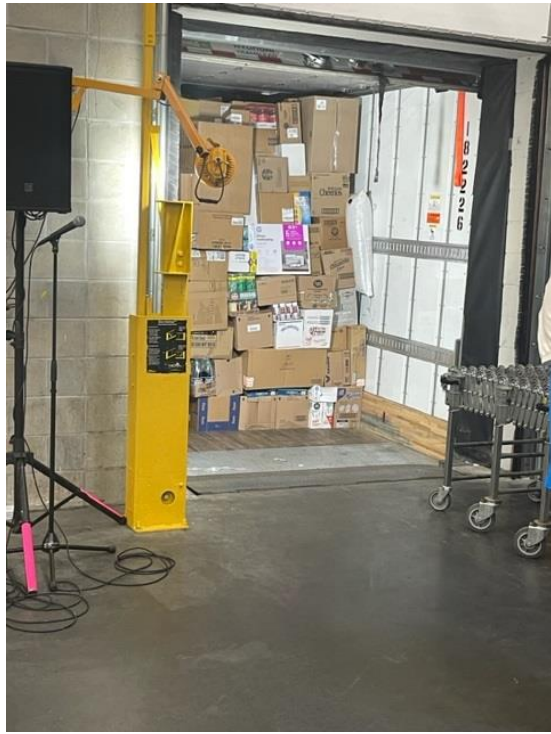
## Best Buy - Lots of Empty Cases

Certain categories have largely moved online, or the products are frequently stolen, and now are in the back room, leaving many cases simply empty. This is another example of how the current store model has broken down.



Downstream





# Walmart – Downstream Improvements Drive Productivity

Store execution is likely a beneficiary of the supply chain transformation. As seen with the left two pictures, most product is currently cubed out manually in the trucks and then unloaded using an expandable conveyor system. The product is then sorted in the back room and then sent to the floor. Going forward (two pictures on the right), most of the product will arrive pre-sorted by department and go straight to the floor. The result...lower costs (30% estimated productivity gain per item), better in-stock and more labor allocated to help customers.

# Omnichannel/Memberships/ Services

## Walmart Rewards is now Walmart Cash



### Why you'll love it

- ✓ Redeem it to save more on future purchases online & in-store.
- ✓ Redeem it as cash back in-store. **NEW!**
- ✓ It never expires!



### On your mark, jet set, go

- 1 Get 5% Walmart Cash on hotel bookings, vacation & car rentals, tours, activities & more.
- 2 Get 2% Walmart Cash on air travel.
- 3 You'll receive your Walmart Cash 30 days after your trip is complete.

## Walmart - Omnichannel

Walmart continues to enhance the value of a Walmart+ membership. The rollout of Walmart+ travel is a good example of how the company is both increasing the value of a membership for consumers, while also investing in price. Walmart+ is becoming a major competitive advantage and a challenge, according to our research, to competing retailers.

Membership Benefits	
Walmart+	Kroger Boost
Book travel easily and get rewarded	Free Grocery Delivery
Unlimited grocery delivery from your local store	Save Money with More Fuel Points
Return items from home	\$100s in Savings
More low prices and options with online shipping	
Fuel savings at many locations	
Rack up Walmart Cash when you shop	
Early access to deals	
Video streaming with Paramount+	
Mobile scan & go	
Video streaming with Pluto TV	
<i>Please note: Walmart+ is offering SNAP benefits \$49/year or \$6.47/month</i>	<i>Please Note: Free Next Day Delivery is \$59/year</i>
	<i>Offering free 1-year Boost membership</i>

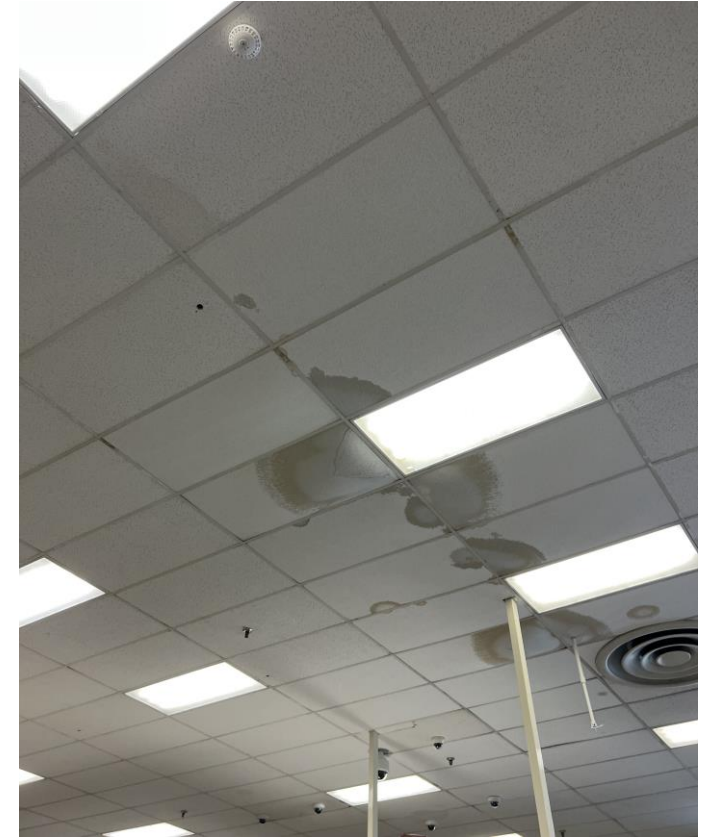
Sources: Walmart.com & Kroger.com

## Walmart - Advantage Walmart+

Walmart already offers, in our view, a much more attractive membership plan when compared to Kroger, which we believe will only expand. This is due to our research that suggests that WMT will use some of its productivity savings from automating its distribution centers to enhance the Walmart+ program.

# Asset Quality





## Kroger - Ceilings

In Nashville, there were lots of leaks in lots of stores, and lots of buckets on the floors. Our experience suggests that the company is dragging its feet on store maintenance, inflating financial performance.



## Kroger - Floors

The stores in Houston were in generally better shape, looking more tired rather than run down. That was not the case in Nashville, where many of the stores were in need of some major TLC.

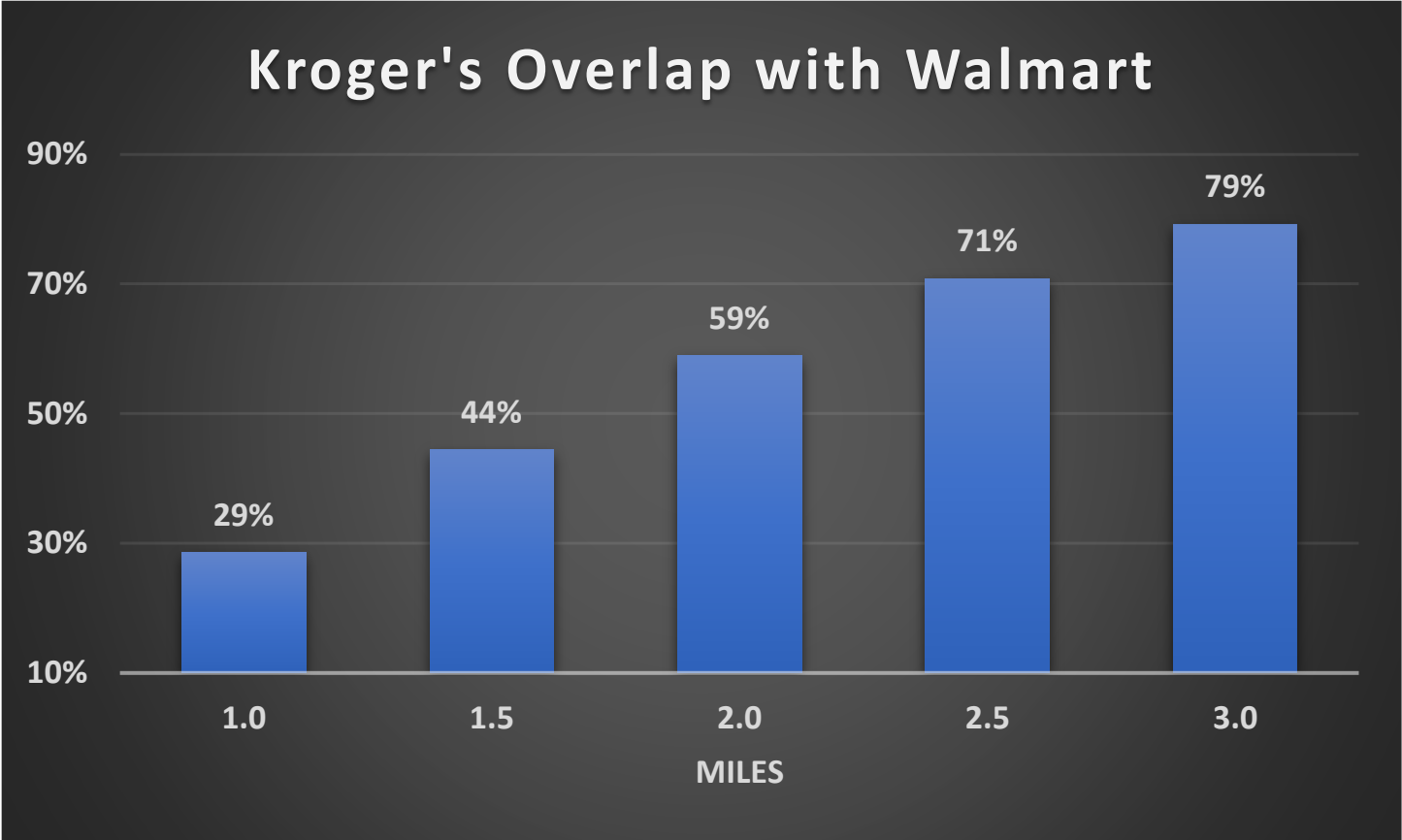




## Kroger - Doors

Of the stores that we visited, approximately a quarter of them had some kind of refrigeration/freezer equipment issue, which begs the question, in our minds, if the company is keeping up with its maintenance Capex. This was particularly noticeable in Nashville, but in the end, it lowers expenses for short term gains, but tends to cause long term pain as equipment breaks down and needs to be replaced, suggesting future Capex spending may need to be higher.

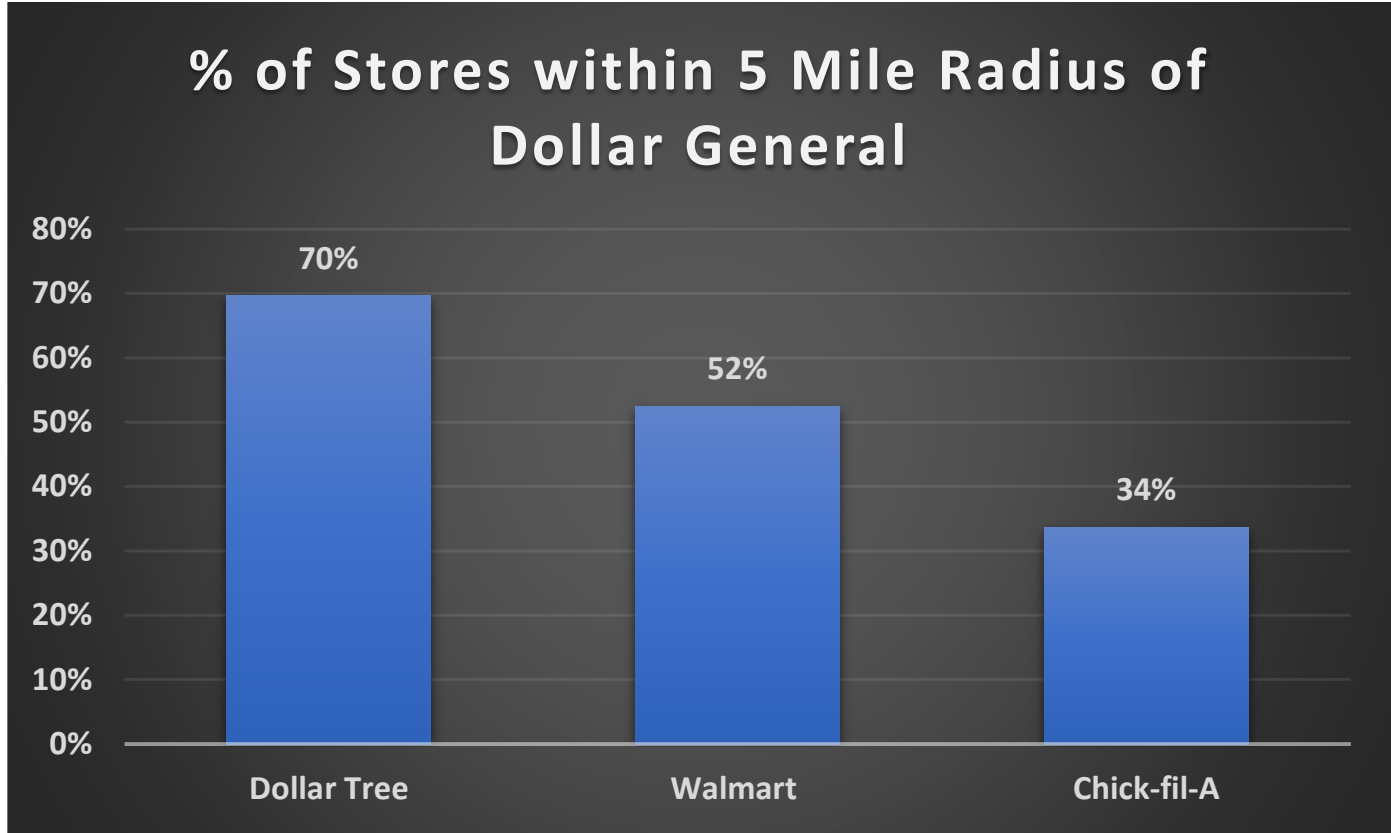
# Competitive Analysis



## Kroger - Overlap Analysis

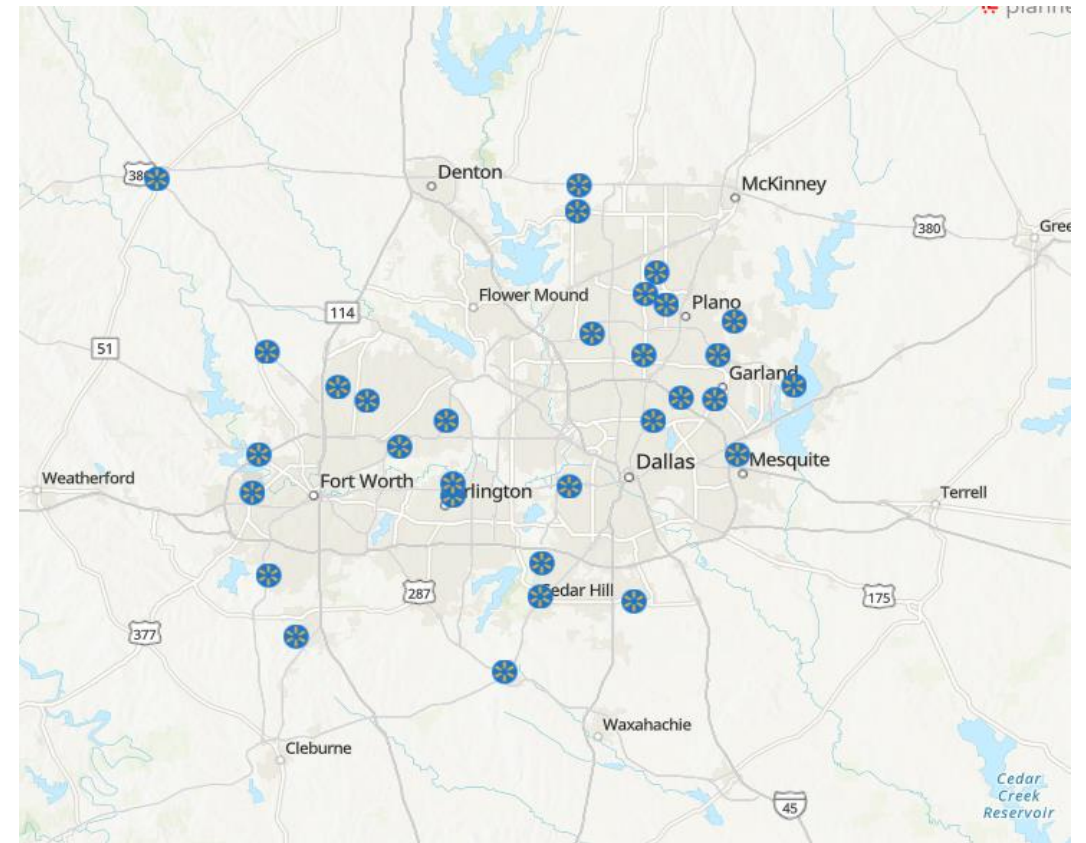
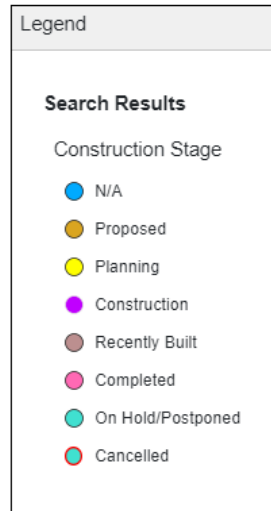
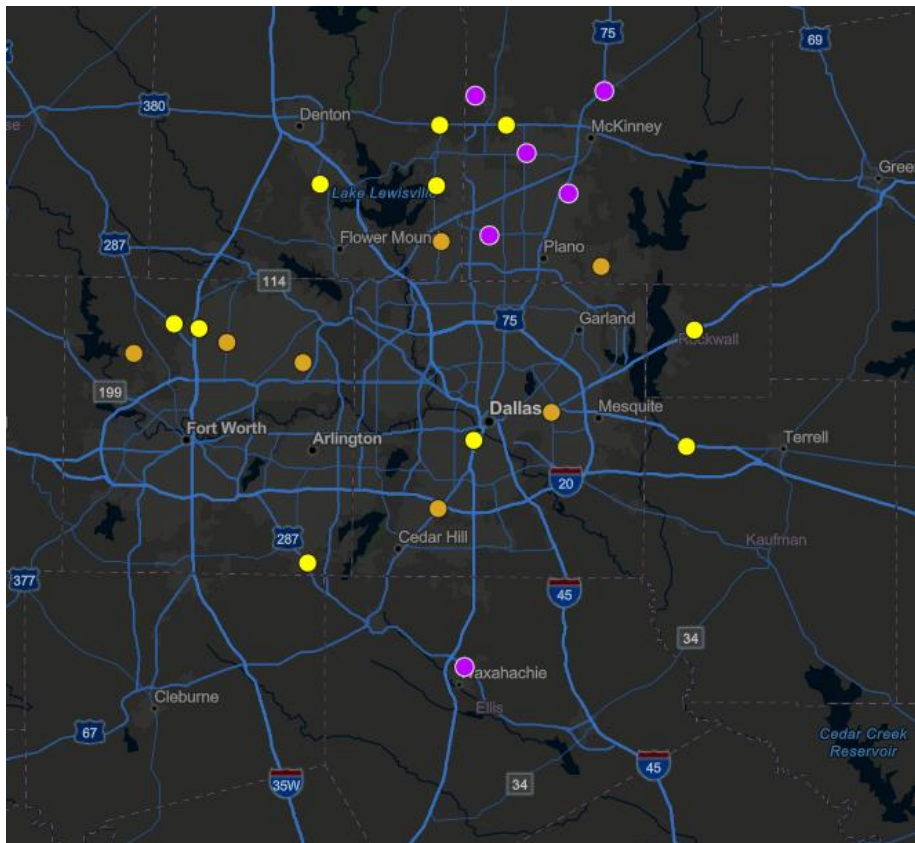
There are going to be a lot of Kroger stores competing against remodeled Walmart locations. At the Walmart Annual Meeting earlier this year, much fanfare was given to the efficiency gains in omnichannel and distribution and the remodel program's improvements of store ambiance in apparel/home. Less of a focus, but we believe very concerning for Walmart's top competitor, Kroger, were a few items that flew a bit more under the radar. These include over 700 total remodels and strong hints of acceleration of the program next year, a revamping of the fresh distribution capabilities that are aimed at driving days out of the fresh supply chain and further improving quality and an increased focus on private label. Simply, a bunch of remodeled Walmart's (that are executing better), with upgraded fresh quality and a broader selection of lower cost private label items, is terrible news for Kroger, in our view.





# Dollar General - Labor Competition

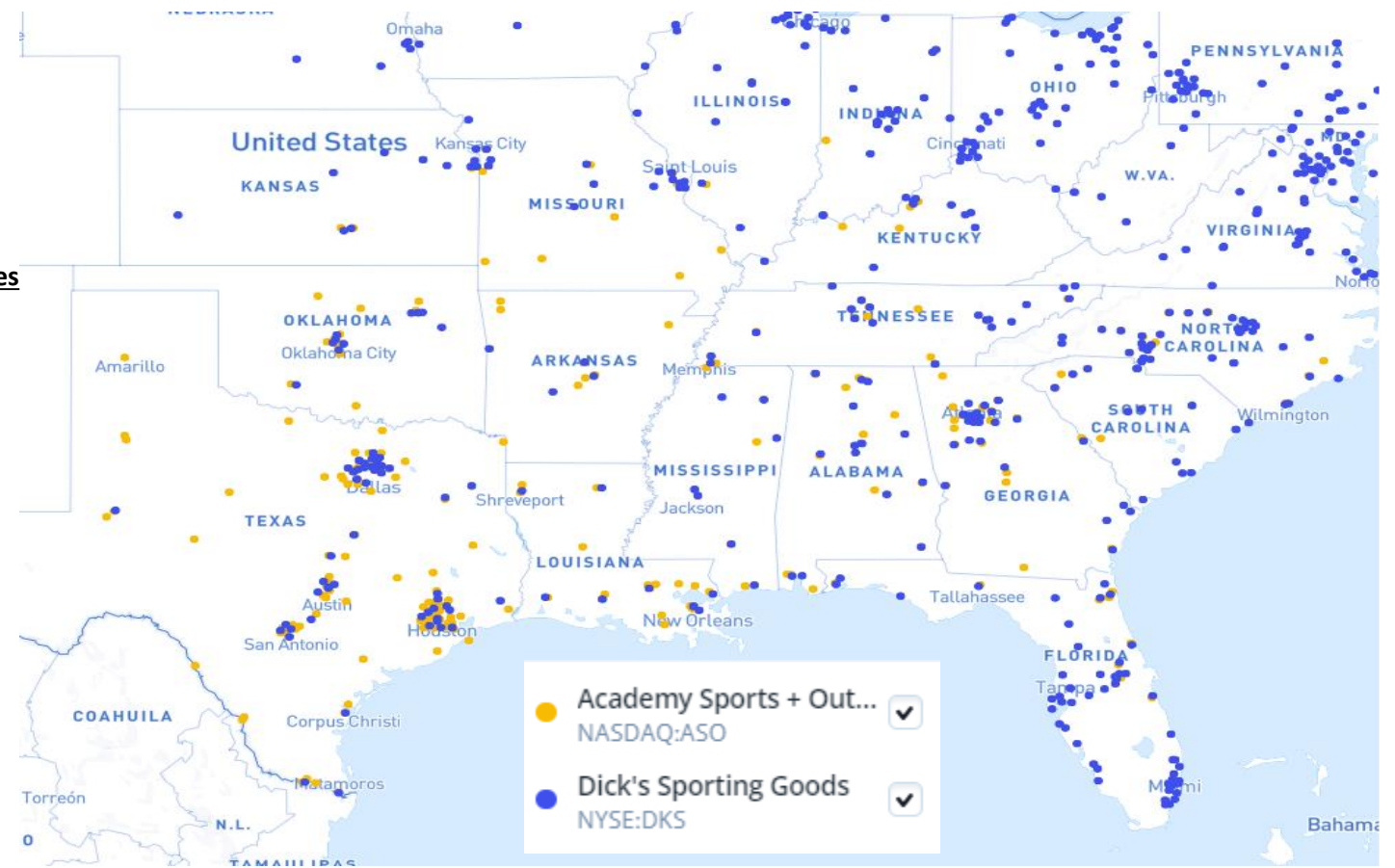
A case study of rural northwest Tennessee is instructive around labor competition, in our opinion. There are two medium-sized towns, including Union City and Martin, both with a bit more than 10,000 residents. The broad area would undoubtedly be considered rural, in our view, and the heart of DG “country”. One might assume, given the aforementioned, that there is little in the way of competition, as working at a DG is the only game in town. This line of thought is something management has articulated. While we believe that assessment is correct in certain circumstances, by and large, it paints a rosy picture for Northwest, TN, and many other areas of the country. First off, the unemployment rate is slightly below the national average in the area, and there are plenty of help wanted/now hirings signs posted. Second, there are many retail/fast food establishments in need of labor.



# Kroger - New Projects Competition, Dallas

With HEB having set its sights on Dallas and with Walmart aggressively remodeling its store base, in our estimation, North Texas is a good example of why Kroger continues to shed volume share and why it may continue. Indeed, our research indicates volumes are down 10%+ at Kroger over the last 24 months.

	<u>Pre-pandemic stores</u>	<u>2022-2023 new stores</u>
	259	21
% of Academy within 3 miles of Dick's	41%	52%
% of Academy within 5 miles of Dick's	52%	52%
% of Academy within 10 miles of Dick's	69%	67%
% of Academy within 5 miles of Walmart	100%	100%



Sources: Thinknum, R5 Capital

## Academy Sports + Outdoors - Store Growth Potential

Academy and Dick's can arguably co-exist in close proximity, in part, we believe, because of differing customer demographics. 69% of Academy stores are within 10 miles of a Dick's, and we believe there is plenty of whitespace for future Academy stores to perform well. Our financial analysis indicates that Academy's new post-pandemic stores, so far, have essentially the same geographical exposure to Dick's and Walmart as the existing store base.

## Geographic Concentration of Stores

	<u>Academy</u>	<u>Dicks</u>	<u>Big 5</u>	<u>Hibbett</u>	<u>Sportsman's</u>	<u>REI</u>
Home state	TX	PA	CA	AL	UT	WA
Total stores	268	791	434	1140	137	179
Total states	18	47	11	36	30	43
% in home state	40%	6%	52%	9%	9%	6%
% home + adjacent states	54%	23%	72%	39%	36%	11%

*Source: R5 Capital*

## Academy - Texas Centric Investment Concerns

The company and CEO, Ken Hicks, both grew up in Texas. Academy appears to us to know its home turf customers quite well. However, it has already stumbled a bit growing into new regions. Stores have not pushed past the snow belt, and Big5 is the only competitor still more geographically concentrated. Academy is the only one of its peers that does not ship merchandise to California and outside the contiguous 48 states. We estimate that only about 1.2% of sales is to customers in markets without stores.

## Private Label: Academy vs. Walmart & Target

	<u>Private Label Brand</u>		<u>SKU Count</u>
Academy	Magellan	outdoors apparel, boots, camping/outdoors equipment	2032
Academy	BCG	low-cost apparel	1181
Walmart	Ozark Trail	outdoor equipment, camping gear, bikes	1155
Walmart	Athletic Works	athletic wear & equipment	757
Target	All in Motion	activewear	571
Target	Sun Squad	summer outdoors goods	569
Academy	O'rageous	swimwear, sandals	445
Academy	Academy	chairs, tents, tables, balls, sports equipment, water bottles	412
Academy	H2O Express	fishing gear	359
Academy	Marine Raider	boat parts & accessories	344
Academy	Game Winner	hunting accessories	235
Target	Kona Soul	swimwear	235
Academy	Freely	women's athletic wear, sneakers	184
Walmart	Love & Sports	activewear, swimwear, footwear, accessories	179
Academy	Outdoor Gourmet	bbq, fryers, outdoor cooking	166
Academy	Ozone	bicycles	120
Target	Embark	camping gear	65

Sources: Academy Sports + Outdoors, Walmart, Target

Academy - Private  
Label is an  
Investment  
Positive

Our balanced view on Academy's equity considers the threat of large retailers like Walmart and Target moving more deeply into private label sporting goods merchandise. Academy's flagship Magellan brand began in 1989 and we believe it is fairly well-known, while competing brands like Target's All In Motion and Walmart's Ozark bicycle line were only introduced in the last few years. For now, Academy's top 10 private label brands seem to dominate the largest competing brands from Target and Walmart, based on number of available SKUs.



Target		
Target Easter- Top 3	Views	Likes
<a href="https://www.tiktok.com/t/ZTRcD64Tw/">https://www.tiktok.com/t/ZTRcD64Tw/</a>	0.65	0.04
<a href="https://www.tiktok.com/t/ZTRcDQaTQ/">https://www.tiktok.com/t/ZTRcDQaTQ/</a>	0.05	0.01
<a href="https://www.tiktok.com/t/ZTRcDhpx/">https://www.tiktok.com/t/ZTRcDhpx/</a>	0.04	0.00
Total	0.74	0.05
Target Easter Finds	Views	Likes
<a href="https://www.tiktok.com/t/ZTRvFW7fy/">https://www.tiktok.com/t/ZTRvFW7fy/</a>	1.10	0.05
<a href="https://www.tiktok.com/t/ZTRcDJToN/">https://www.tiktok.com/t/ZTRcDJToN/</a>	0.27	0.02
<a href="https://www.tiktok.com/t/ZTRcDmweT/">https://www.tiktok.com/t/ZTRcDmweT/</a>	0.14	0.01
Total	1.50	0.08
Target Easter Dresses	Views	Likes
<a href="https://www.tiktok.com/t/ZTRvFww5f/">https://www.tiktok.com/t/ZTRvFww5f/</a>	3.60	0.73
<a href="https://www.tiktok.com/t/ZTRvE3cqL/">https://www.tiktok.com/t/ZTRvE3cqL/</a>	0.29	0.01
<a href="https://www.tiktok.com/t/ZTRvEp7Ef/">https://www.tiktok.com/t/ZTRvEp7Ef/</a>	0.12	0.01
Total	4.01	0.74
Overall Total	6.25	0.87

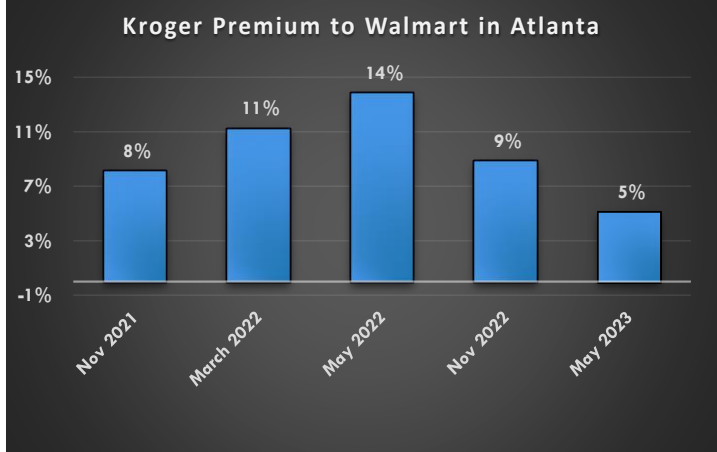
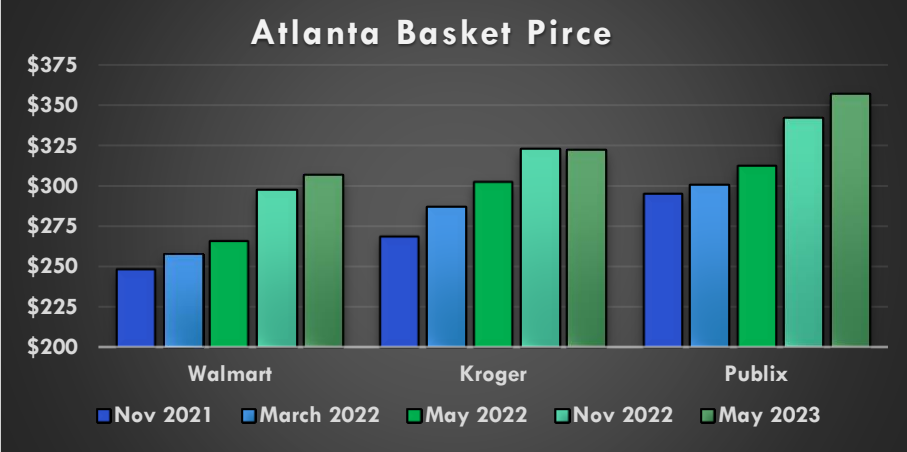
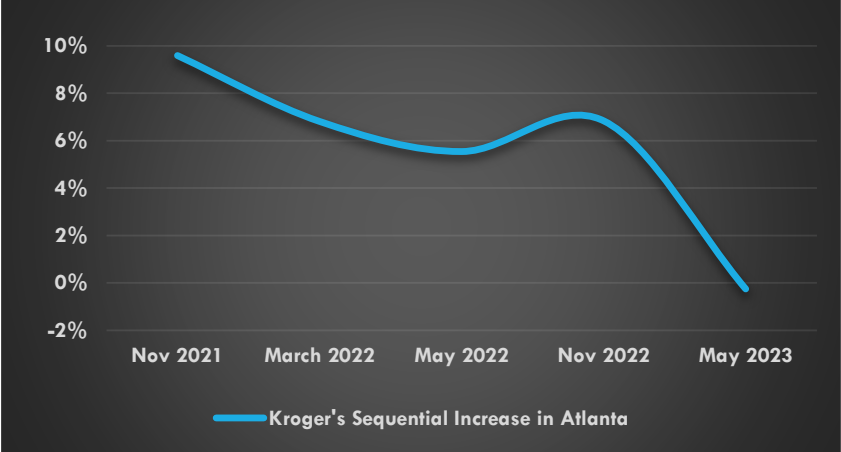
Amazon		
Amazon Easter- Top 3	Views	Likes
<a href="https://www.tiktok.com/t/ZTRvQ8Ucu/">https://www.tiktok.com/t/ZTRvQ8Ucu/</a>	1.70	0.07
<a href="https://www.tiktok.com/t/ZTRvEqysr/">https://www.tiktok.com/t/ZTRvEqysr/</a>	0.66	0.02
<a href="https://www.tiktok.com/t/ZTRcD8hQB/">https://www.tiktok.com/t/ZTRcD8hQB/</a>	0.46	0.02
Total	2.83	0.10
Amazon Easter Finds- Top 3	Views	Likes
<a href="https://www.tiktok.com/t/ZTRvEcr3B/">https://www.tiktok.com/t/ZTRvEcr3B/</a>	3.10	0.20
<a href="https://www.tiktok.com/t/ZTRvE3FJQ/">https://www.tiktok.com/t/ZTRvE3FJQ/</a>	0.56	0.12
<a href="https://www.tiktok.com/t/ZTRcAt4hN/">https://www.tiktok.com/t/ZTRcAt4hN/</a>	0.68	0.05
Total	4.34	0.36
Amazon Easter Dresses- Top 3	Views	Likes
<a href="https://www.tiktok.com/t/ZTRcA3g5F/">https://www.tiktok.com/t/ZTRcA3g5F/</a>	0.96	0.07
<a href="https://www.tiktok.com/t/ZTRvEnNNS/">https://www.tiktok.com/t/ZTRvEnNNS/</a>	0.88	0.05
<a href="https://www.tiktok.com/t/ZTRvEbrdE/">https://www.tiktok.com/t/ZTRvEbrdE/</a>	0.69	0.04
Total	2.53	0.16
Overall Total	9.70	0.62

Walmart		
Walmart Easter- Top 3	Views	Likes
<a href="https://www.tiktok.com/t/ZTRvKPujE/">https://www.tiktok.com/t/ZTRvKPujE/</a>	8.30	0.87
<a href="https://www.tiktok.com/t/ZTRvENofN/">https://www.tiktok.com/t/ZTRvENofN/</a>	2.30	0.15
<a href="https://www.tiktok.com/t/ZTRcDRce2/">https://www.tiktok.com/t/ZTRcDRce2/</a>	1.20	0.09
Total	11.80	1.11
Walmart Easter Finds- Top 3		
<a href="https://www.tiktok.com/t/ZTRvEBfWo/">https://www.tiktok.com/t/ZTRvEBfWo/</a>	0.65	0.07
<a href="https://www.tiktok.com/t/ZTRcDRDwL/">https://www.tiktok.com/t/ZTRcDRDwL/</a>	0.87	0.05
<a href="https://www.tiktok.com/t/ZTRvEd2LP/">https://www.tiktok.com/t/ZTRvEd2LP/</a>	0.86	0.04
Total	2.38	0.16
Walmart Easter Dresses- Top 3		
<a href="https://www.tiktok.com/t/ZTRvEXLBq/">https://www.tiktok.com/t/ZTRvEXLBq/</a>	0.51	0.06
<a href="https://www.tiktok.com/t/ZTRvEPfB5/">https://www.tiktok.com/t/ZTRvEPfB5/</a>	0.13	0.01
<a href="https://www.tiktok.com/t/ZTRcDYgPY/">https://www.tiktok.com/t/ZTRcDYgPY/</a>	0.40	0.01
Total	1.04	0.08
Overall Total	15.22	1.35

## The TikTok Effect

Social media can be a blessing and/or a curse for companies and this certainly applies to TikTok. In our view, what we are calling the “TikTok Effect”, is gaining significant importance, as according to Business of Apps, TikTok was the most downloaded app globally in 2022. Indeed, with its large audience, TikTok can expose companies for their weaknesses and promote them for their strengths. The data above, in conjunction with our Nashville focus group, demonstrates how Amazon is utilizing TikTok better than competitors.

# Pricing Studies



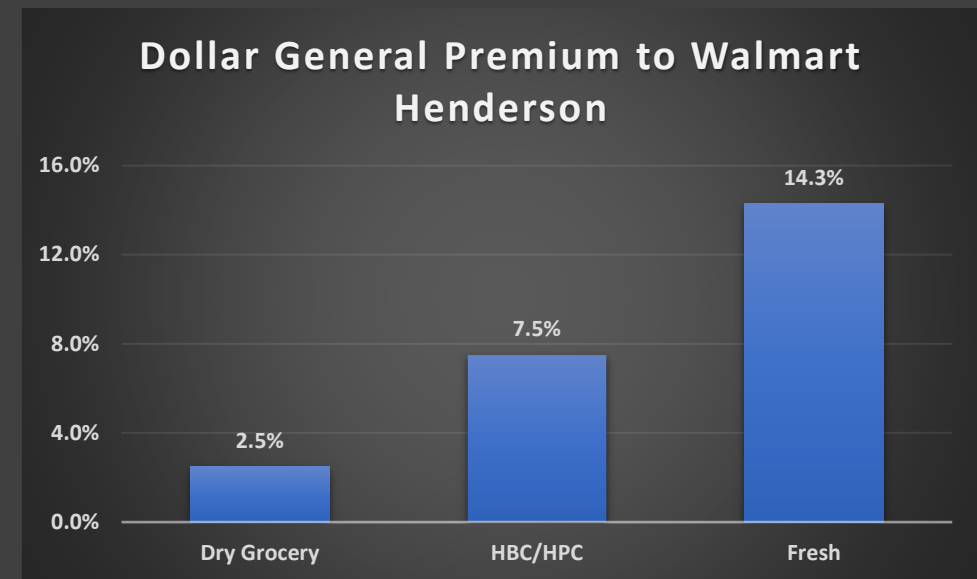
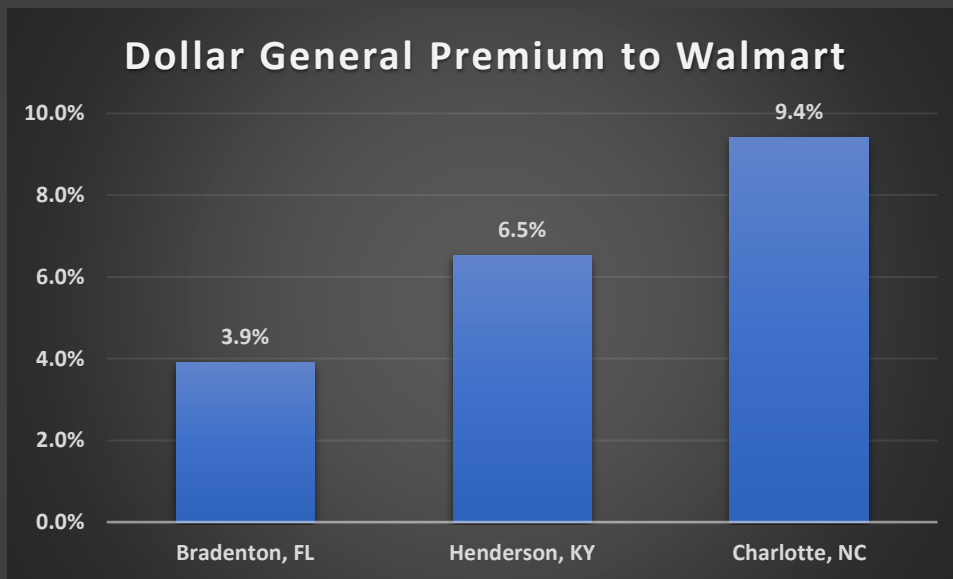
# Kroger - Pricing Survey

Kroger draws first blood. In our R5 Reflections: Hello Promo! client letter earlier this spring, we documented a significant uptick in promotional activity at Kroger's King Soopers banner. Since then, we have visited Atlanta, and we observed the same dynamic with Kroger heavily discounting, which resulted in our sequential basket at Kroger being flat in dollar terms. This cut Kroger's premium to Walmart in Atlanta to 5% and widened its discount to Publix to about 10%. It appears that the volumes/market losses Kroger has been experiencing over the last two years, especially to Walmart and Publix, has finally caused the company to take some actions to reverse the decline.



# Dollar General - Pricing Delta with Walmart

We have been delving into DG's pricing in comparison to Walmart over the last few months, with varying results. Charlotte, NC, in June showed DG at a just over a 9% premium, while Bradenton, FL, was only 4% in July. We were less than satisfied with the number of common items in these two surveys, given the breadth of the offering at DG (limited number of coolers). We were able to conduct a more robust survey in Henderson, KY, doubling the number of fresh/frozen products to 20, from 10. This moved DG's premium to WMT to 6.5% and is more in line with what our research has shown as the delta between the two companies over the last decade. Walmart had a notable price advantage in both fresh, HBC/HPC, but very little on branded dry grocery. This theme was evident in all three surveys. While it is hard to ascertain if Walmart has reacted to Dollar General's promotional activities, anecdotally we have seen more price reductions at Walmart recently. In addition, our broader pricing research would indicate an uptick in the competitive climate in the consumables industry. Our data also indicates that Walmart continues to take meaningful share in the industry and one of its main competitors is DG, suggesting there could be pressure on both sales and gross margins for Dollar General, in our opinion.



## Amazon - Bosch Comparison

Item	Amazon	Home Depot	Lowe's
BOSCH 11264EVS 1-5/8 SDS-Max Combination Hammer, Blue	\$474, Original Price \$599	\$549	\$549, Original Price \$649
BOSCH JS470E 120V 7.0-Amp Corded Top-Handle Jig Saw	\$109, Original Price \$179	\$129, Original Price \$179	\$129, Original Price \$179
BOSCH GWS13-50VS High-Performance Angle Grinder, 5"	\$90, Original Price \$159	\$139, Original Price \$159	\$139.02
BOSCH GWS13-50P High-Performance Angle Grinder with Paddle Switch, 5"	\$109, Original Price \$149	Discontinued	\$139
BOSCH GCB18V-2N 18V Compact Band Saw (Bare Tool)	\$179, Original Price \$199	N/A	\$179, Original Price \$219
BOSCH GA50DC Small Angle Grinder Dust Collection Attachment, 4-1/2" to 5"	\$49, Original Price \$59	N/A	\$54.98
BOSCH GLI18V-1900N 18V Lithium-Ion 1,900 Lumens LED Floodlight (Bare Tool)	\$89, Original Price \$119	N/A	\$99, Original Price \$119
BOSCH 18V Handheld Vacuum Cleaner (Bare Tool) GAS18V-02N, Blue	\$99, Original Price \$129	N/A	\$99, Original Price \$129
BOSCH GSB18V-975C 18V Brushless Connected-Ready Brute Tough 1/2 In. Hammer Drill/Driver (Bare Tool)	\$101.05, Original Price 169	N/A	\$119, Original Price \$169
Bosch MRF23EVS 2.3 HP Electronic VS Fixed-Base Router with Trigger Control	\$159, Original Price \$239	\$209, Original Price \$239	\$209, Original Price \$239
BOSCH PR20EVS Router Tool, Colt 1-Horsepower 5.6 Amp Electronic Variable-Speed Palm Router	\$86.73, Original Price \$129	\$89, Original Price \$129	\$89, Original Price \$129
BOSCH GXL12V-220B22 12V Max 2-Tool Brushless Combo Kit with 3/8 In. Drill/Driver, 1/4 In.	\$132.79, Original Price \$189	N/A	\$159
BOSCH GBH18V-28DCN 18V Brushless Connected-Ready SDS-plus® Bulldog™ 1-1/8 In. Rotary Hammer	\$199, Original Price \$299	\$299	\$249, Original price \$299

Amazon is more frequently using price to drive volumes. This is something that our research indicates could put pressure on pricing in many categories and pull-down gross margin rates at competitors.

# Focus Groups





## Walmart - Fashion

It's an uphill battle for Walmart, but one that can be won, and clearly worth fighting, in our opinion. That is our conclusion after conducting a focus group in Nashville around Walmart's drive to improve its fashion business. Indeed, if WMT's efforts prove successful in fashion, we believe it will have a halo effect on the overall brand and, as a result, the pace of revenue growth and margin rates for a number of years.



# Walmart - Fashion

R5's consulting practice commonly uses focus groups for clients to gain insights into how consumers are viewing a brand/company, and how that may be evolving over time. We decided to deploy this process to our Walmart research, specifically targeting what is being done in fashion. We gathered a group of college educated Millennials together after providing a gift card to shop the company's fashion departments, either in person or online. The group consisted of 3 men and 8 women, ranging in age from 25 to 42.

# Focus Group- Further Detail

---

**Walmart appears to have a significant negative stereotype to overcome, at least with this group.** The majority of the focus group had shopped Walmart prior to our event, but those experiences had built up some significant baggage. The group cited inconsistent store conditions, high variability between stores, poor customer service, a clunky online experience, as well as a plethora of negative social media posts regarding store conditions/customer service. And while we have been writing about improving store standards, many in this group went to a local Walmart close to the city that appears to remain quite challenged. With that said, several in the group did venture into other stores and came away pleasantly surprised with the merchandise and store conditions.

**We may have forced them to shop Walmart for clothes, but the group was impressed with some aspects of what they found.** Most notably was athleisure, where five of the women had purchased items and thought it was stylish and very good value for the money. For this group, Walmart had nailed it. Other aspects of the fashion area were more mixed, with things being hard to find, including the right size, as the biggest gripe. The group also did not like that the “good, stylish, stuff” tended to be hidden in back, while the “junk” was center stage. Poor signage and not being able to find an associate were also common complaints. When we showed the group our pictures of the fashion area from the Springdale, AK, flagship store, they were astounded that many of their complaints had been addressed. Most appeared enthusiastic that this Walmart may be coming to a neighborhood near them in the coming years, which we believe is the case. With that said, the negative bias ran strong with a few participants, and it was clear, in our minds, not much could be done to overcome it. To quote, “there is no way I would ever go into a Walmart store to shop for clothes, no matter what it looked like or what brands they brought in...it’s still Walmart.” Interestingly, this sentiment melted away for online purchases.



# Consumer Surveys

# Dollar Tree - Consumer Perception Survey

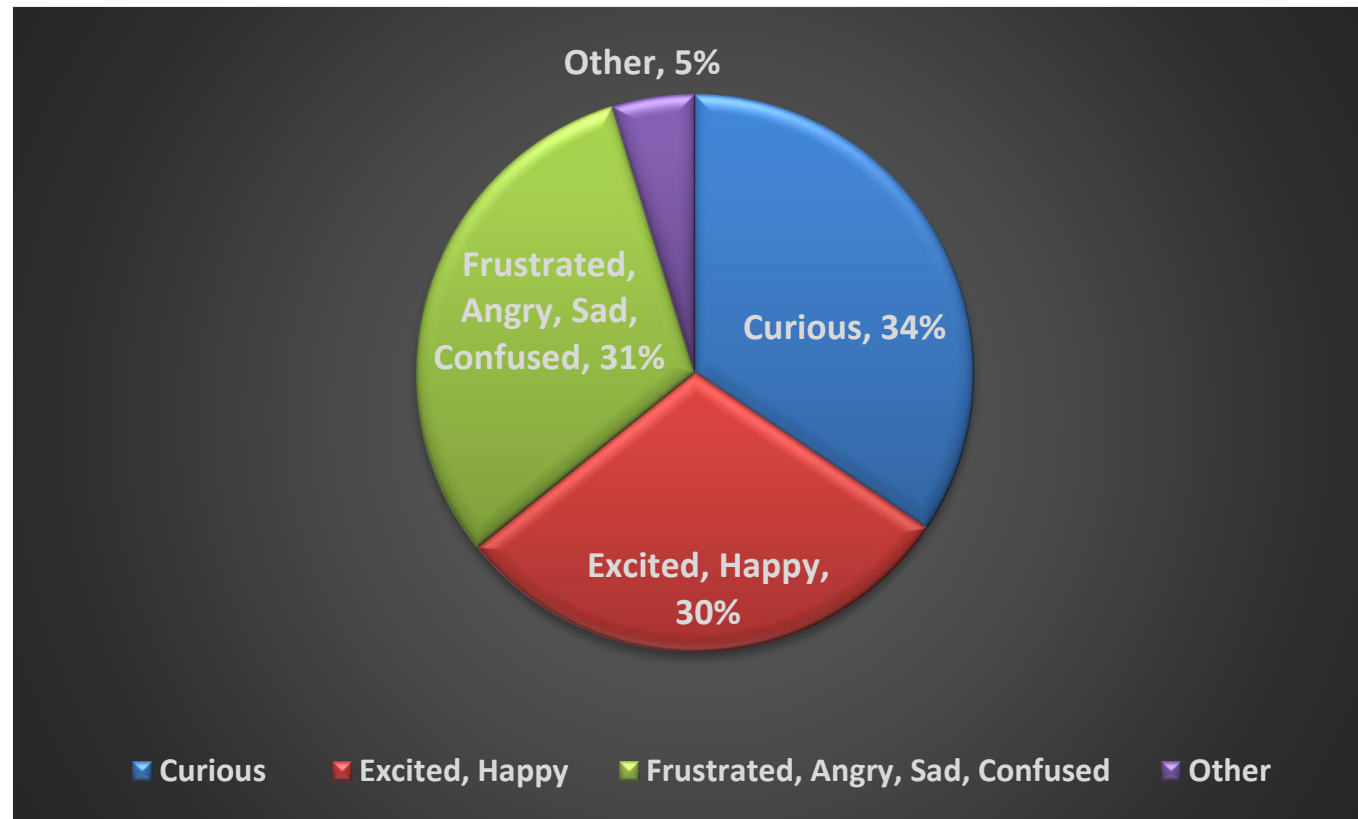
---

R5 conducted a perception study on the Dollar Tree stores to primarily ascertain how consumers would view the move by Dollar Tree to include multiple price points, rather than having everything being priced at \$1. The survey included approximately 550 respondents, of which 450 were current customers and 100 were lapsed with a margin of error +/- 3.5%. The survey was based on successful consulting projects R5 has completed over the last few years.

The impetus for the study was unenthusiastic focus group feedback on the change (especially when shown the pictures from a multi-price point store), as well as our visit to a converted location, which found us equally/more unenthusiastic. Further propelling us to run the survey, was our past consumer research that had shown Dollar Tree's unique go-to-market approach (everything's \$1), in combination with its merchandising acumen, has broad consumer appeal across socioeconomic groups. It was our hypothesis that the current rollout of multi-price points was likely to do considerable damage to the very strong Dollar Tree brand over time, even if it lifted near-term financial results. The survey did not disappoint in this regard, as it revealed a lot of trepidation around the change from respondents.

To our surprise, however, it also pointed to the potential for meaningful opportunity if the transformation was done in a thoughtful and deliberate manner. This is especially true, in our opinion, given the inflationary environment. While the current strategy to transition to a multi-price point offering falls very short of what is needed to succeed over time, it is clear, in our minds, that the future is far from written and that Mantle Ridge/Richard Dreiling may be just what the doctor ordered.

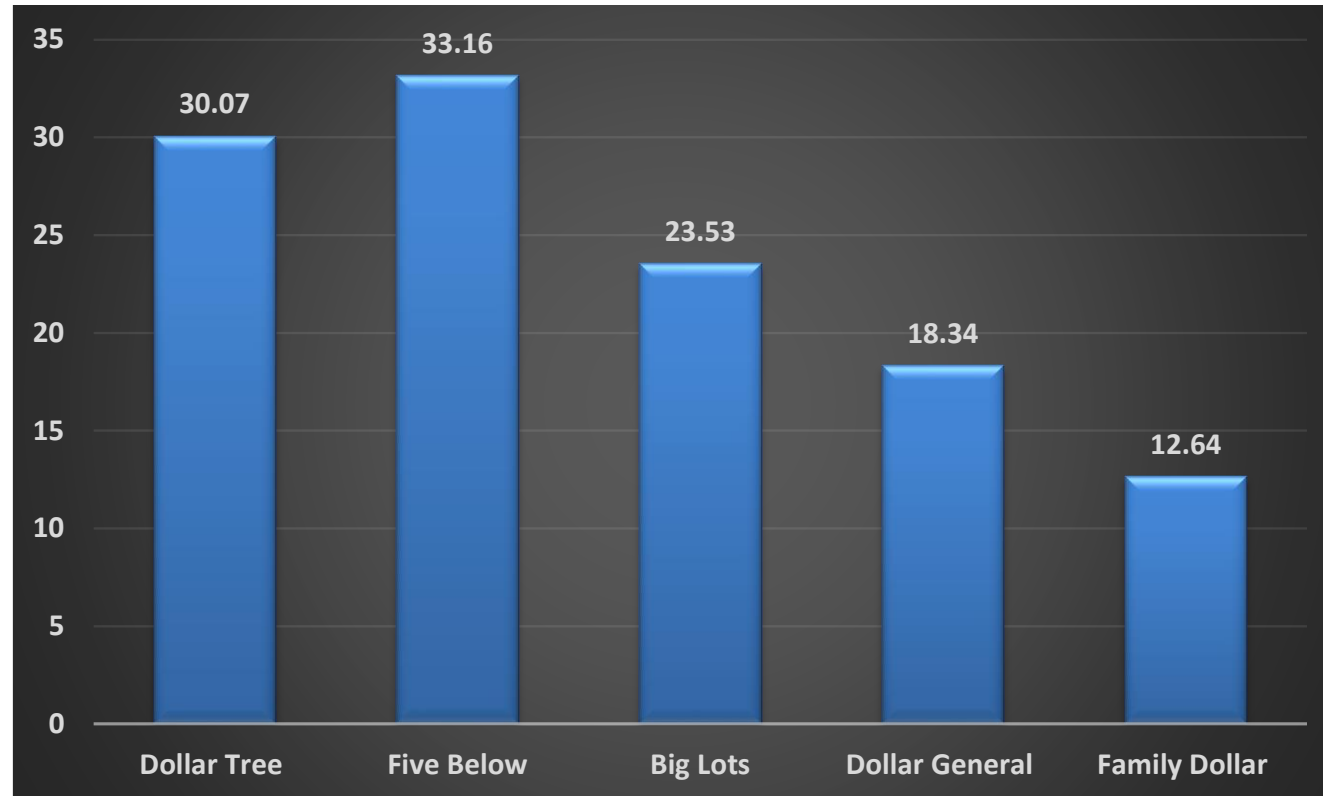
*"I knew this day would eventually come." ~ comment from a recent Chicago area focus group*



## Dollar Tree - Consumer Survey

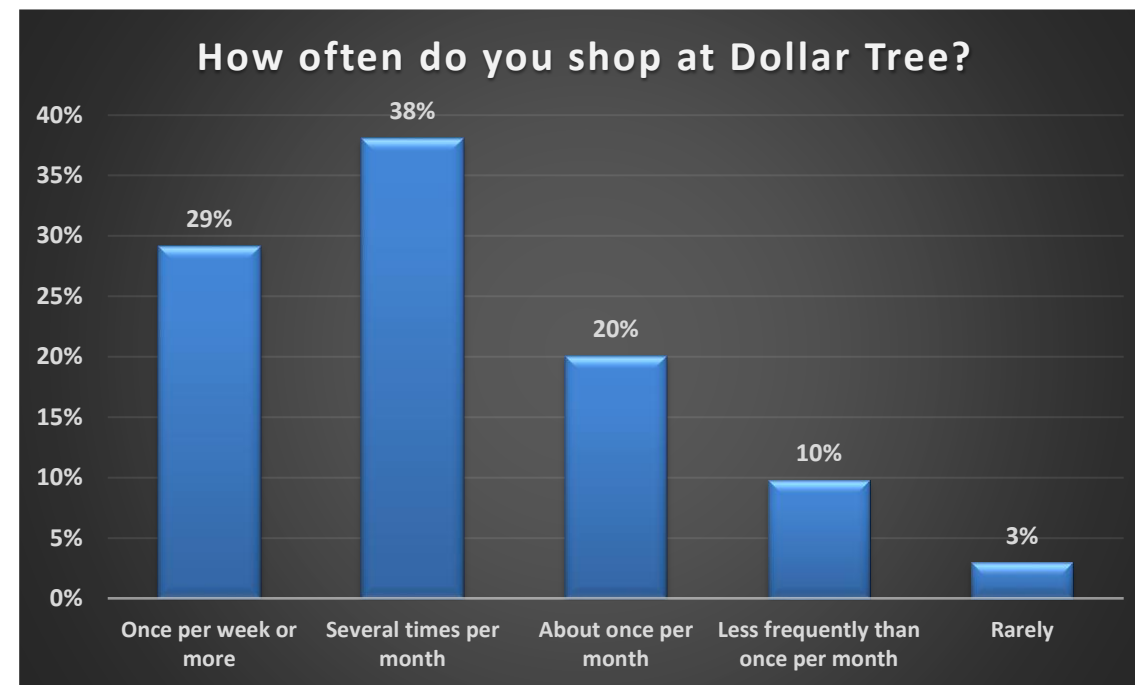
If one question in the study encapsulated the opportunity for the company, it was the answers to the question “how do you feel about the increased price at Dollar Tree?”. Despite some very negative sentiment around moving away from the \$1 price point overall, this answer, in our view, shows a strong willingness of consumers to accept, perhaps even celebrate, the change, if marketed in the right way.





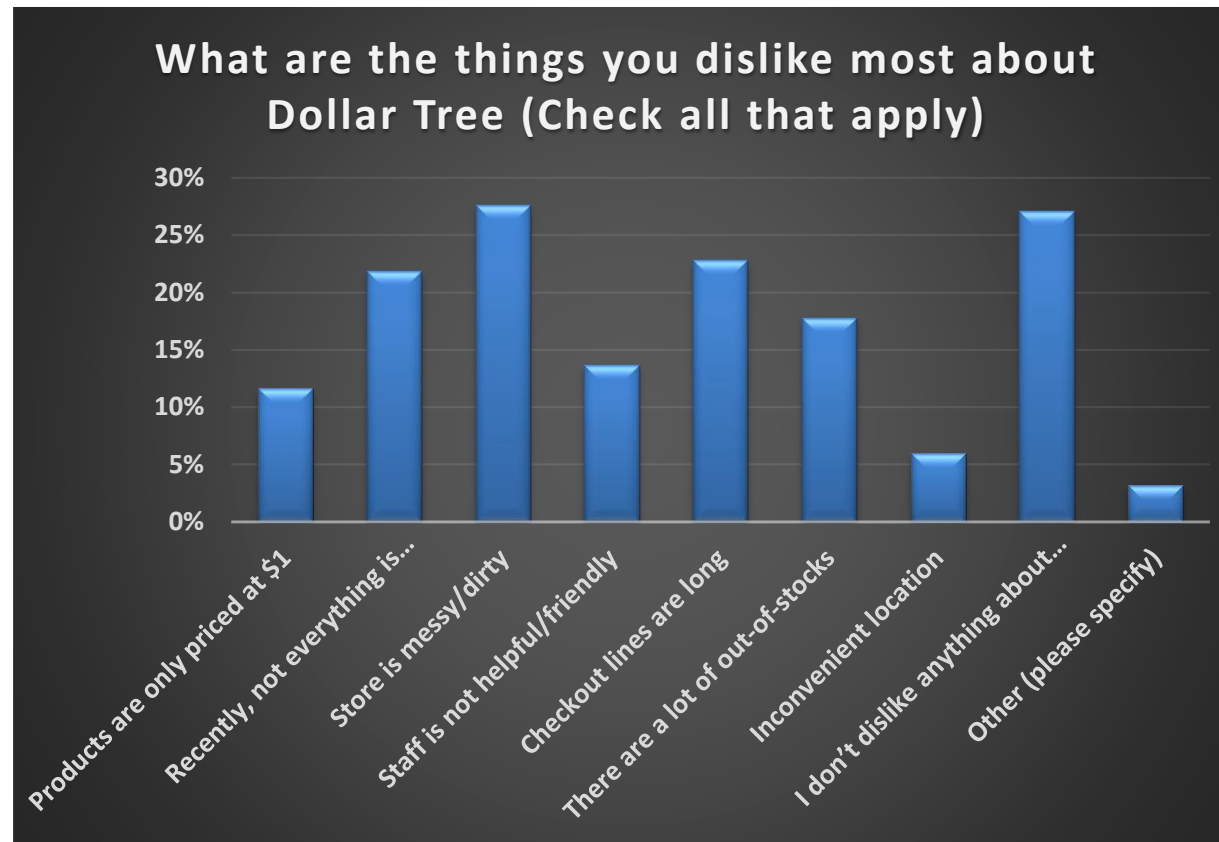
## Dollar Tree - Net Promoter Score

Strong Net Promoter Scores indicates brand resilience for Dollar Tree, while results for Family Dollar show there is clear room for improvement. We view this as very supportive of the idea that Mantle Ridge/Richard Dreiling can help enhance the company's operations and financial performance.



## Dollar Tree - Consumer Survey

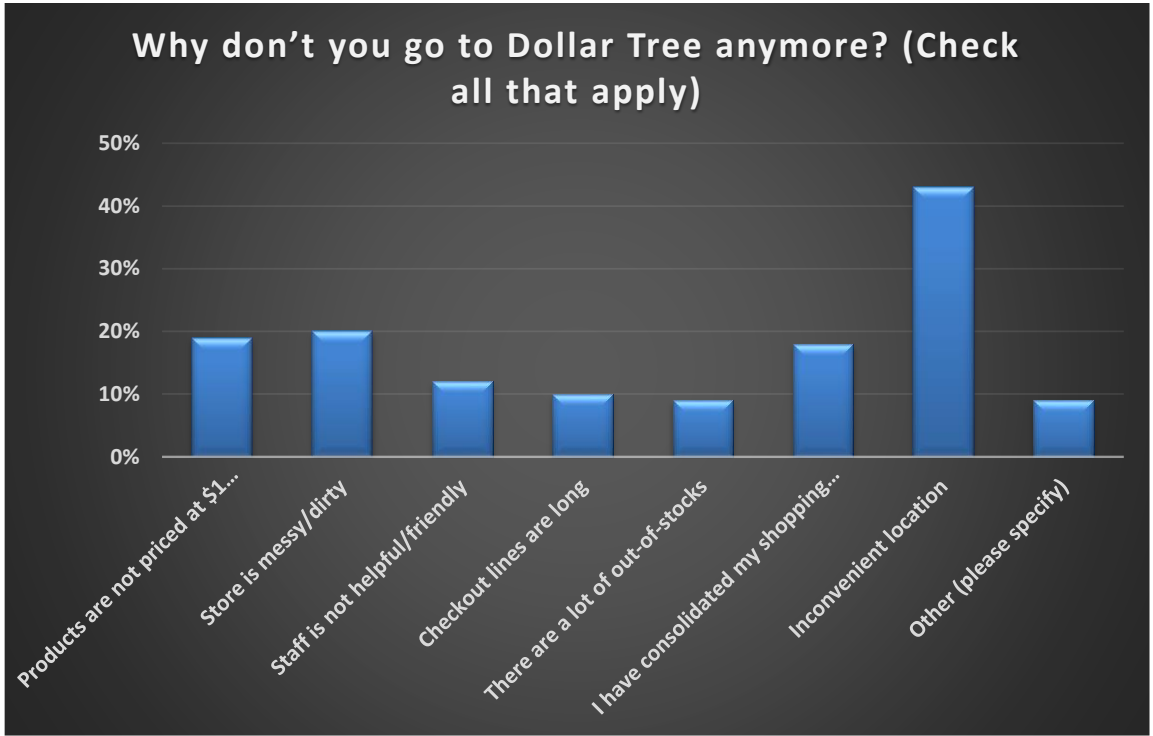
Our survey respondents like the Dollar Tree experience and come in a lot. These are favorable answers suggesting lots of promise.



## Dollar Tree - Consumer Survey

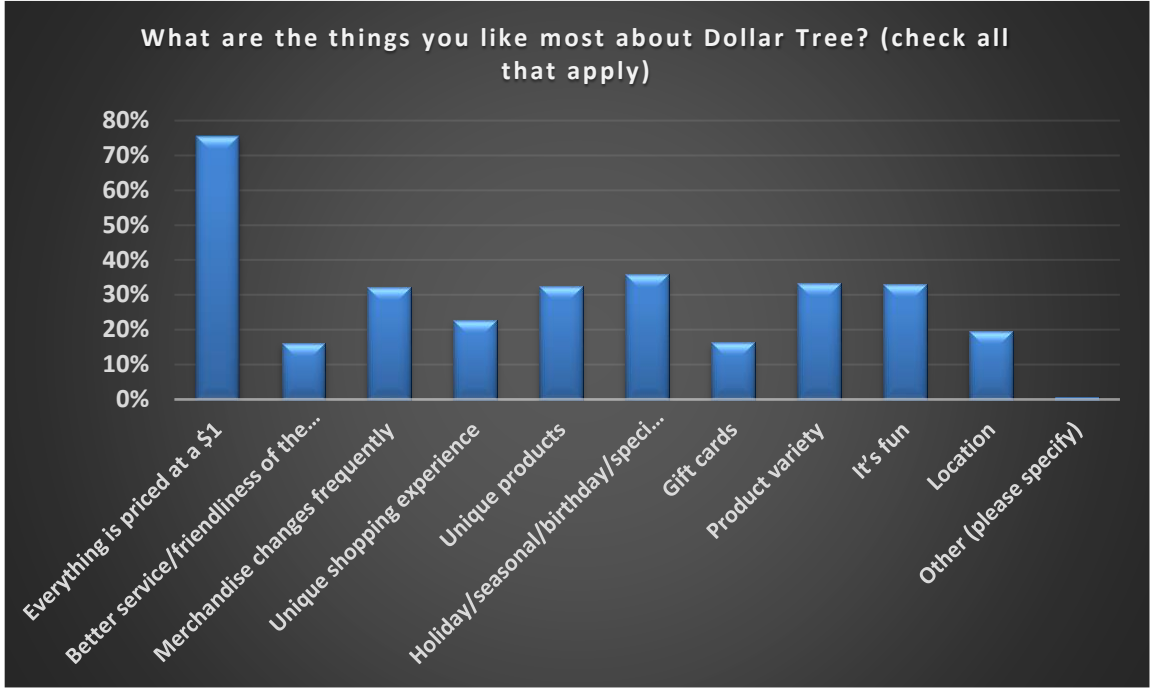
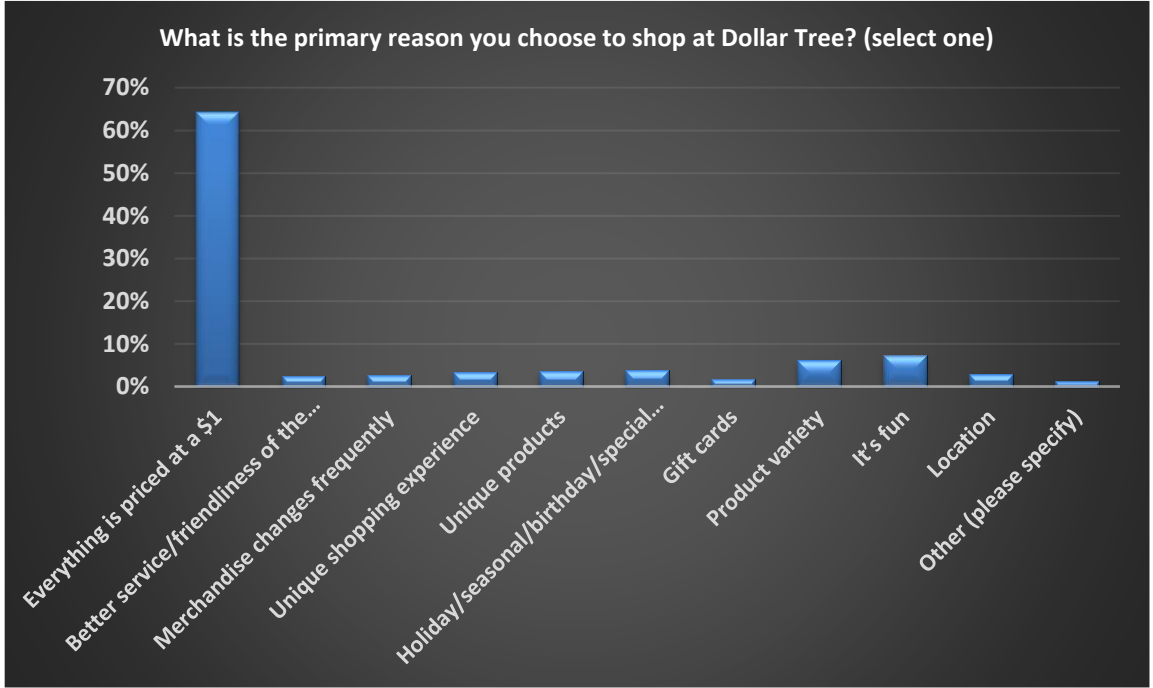
Most of these answers suggest the problems at Dollar Tree are fixable over time.





# Dollar Tree - Consumer Survey

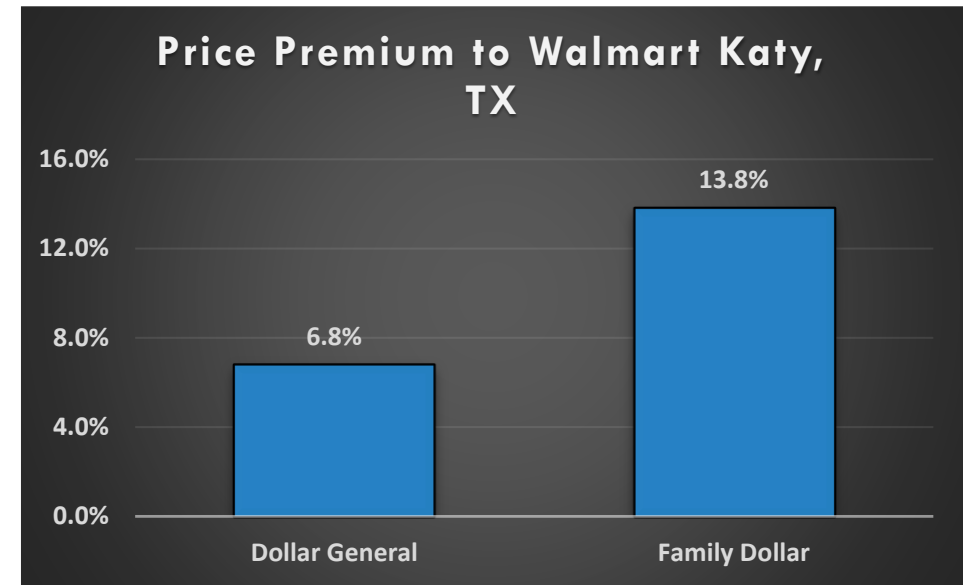
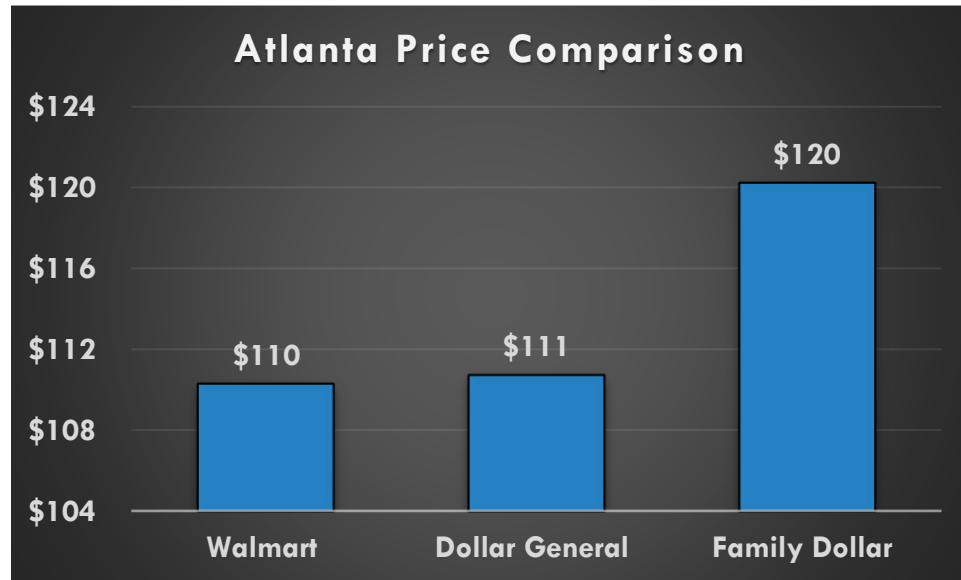
More good news...of the 100 people that indicated they have stopped shopping at Dollar Tree, 94 said they would consider going back.



# Dollar Tree - Consumer Survey

Moving away from the \$1 price point appears to be the biggest hurdle to overcome. In order to navigate the change to multi-price points and make it successful, will require the best possible team, in our opinion.





## Dollar Tree – Pricing Overlay

Family Dollar has a pricing problem, and these are hard to solve, which is an advantage for Dollar Tree.



# Expertise Through the Years



Source: R5 Capital

## 2020 Solid Execution At Albertsons



# 2019 Historical Price Spread Analysis

Annual Average Relative Pricing Spread to Walmart - R5 Studies					
<b>Orange County</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Ralphs	15.9%	15.9%	16.8%	18.6%	16.8%
Vons	24.1%	25.6%	27.8%	22.4%	27.1%
Stater Bros.	14.5%	8.6%	10.8%	14.9%	16.0%
<b>Washington D.C.</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Harris Teeter	14.7%	13.0%	15.4%	16.3%	18.8%
Wegmans	4.6%	4.9%	7.8%	7.3%	7.2%
Giant	11.5%	12.8%	13.3%	14.9%	16.2%
Safeway	19.7%	18.9%	22.2%	26.0%	28.0%
<b>Chicago</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Jewel	11.5%	11.3%	12.7%	17.1%	15.8%
Meijer	2.1%	0.8%	1.1%	-0.3%	-0.6%
Target	2.8%	3.3%	3.9%	4.5%	2.8%
Marianos	7.1%	8.5%	8.6%	7.0%	3.0%
<b>Philadelphia</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Wegman's	2.9%	5.7%	7.3%	7.6%	6.9%
Giant	6.7%	10.9%	12.6%	11.6%	8.5%
Acme	19.7%	24.0%	26.9%	30.8%	27.0%
ShopRite	7.2%	9.1%	13.3%	15.7%	16.4%
Weis	NM	NM	15.6%	16.1%	13.1%
<b>Houston</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
HEB	-1.1%	-1.5%	-3.0%	-1.6%	-3.2%
Kroger	4.8%	4.4%	2.0%	4.7%	3.0%
Randalls	18.4%	17.8%	15.9%	21.0%	20.7%
<b>Average</b>	<b>18.7%</b>	<b>19.5%</b>	<b>21.1%</b>	<b>23.5%</b>	<b>23.7%</b>

Source: R5 Capital

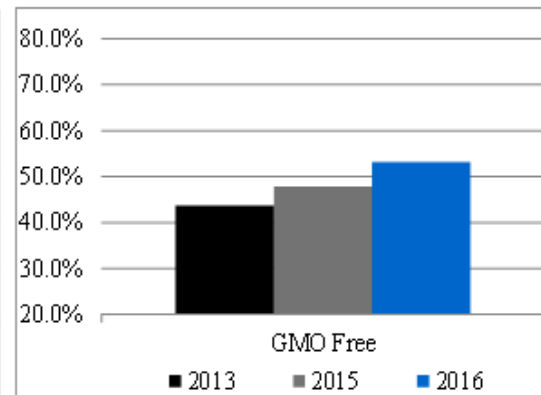
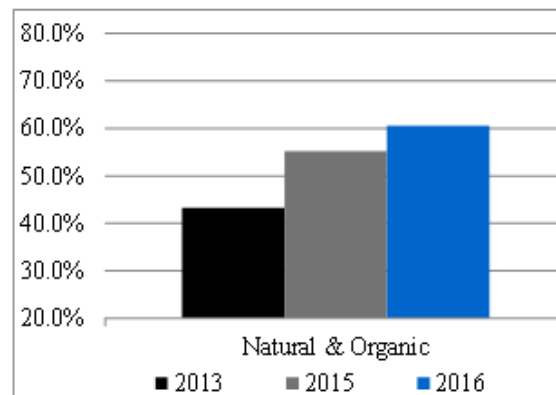
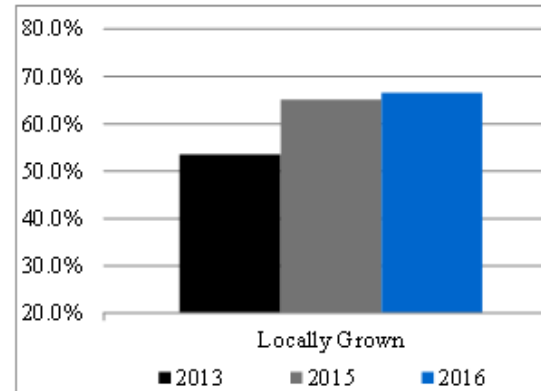
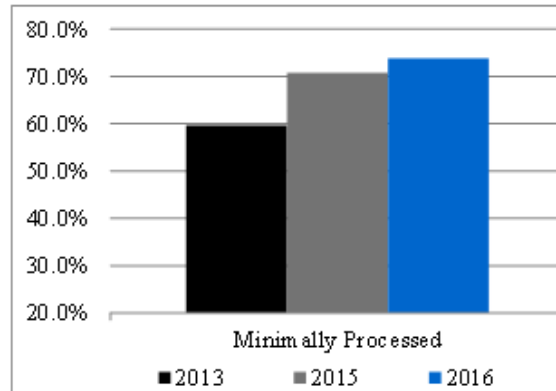


	<b>BJ'S</b>	<b>Costco</b>	<b>Sam's Club</b>	<b>Amazon Visa</b>
In-Store	3% cash back on in-club and online BJ's Purchases (5% BJ's Perks Elite Cardmembers)	2% Cash Back on All Purchases other than Gas from Costco and Costco.com	1% cash back on other purchases at Sam's Club and everywhere Mastercard is accepted	5% cash back at Amazon.com and Whole Foods Market
Gas	\$0.10 off per gallon at BJ's Gas 2% on non-BJ's Gas purchases	4% off Costco gas and eligible gas worldwide (up to \$7,000 per year and then 1% after)	5% cash back on eligible gas worldwide, including Sam's Club (up to \$6,000 per year and then 1% after)	2% at gas stations
Dining & Travel	2% cash back on dining	3% cash back on restaurant and eligible travel purchases	3% cash back on dining and travel	2% cash back at restaurants
Other-Purchases	1% cash back everywhere Mastercard is accepted	1% cash back on all other purchases		2% at drugstores 1% cash back on all other purchases

## July 2018 Club Store Credit Card Comparison

# The Pure Food Trends- 2016

Please rank in importance to you the following characteristics in your food purchasing decisions:  
Extremely/Very Important



June 2012



**Scott Mushkin**  
Equity Analyst  
smushkin@jefferies.com  
212.708.2628

**David Garfield**  
Managing Director  
dgarfield@alixpartners.com  
312.286.1274

**Richard Vitaro**  
Director  
rvitaro@alixpartners.com  
617.461.4004

**Brian Cullinane**  
Equity Associate  
bcullinane@jefferies.com  
212.323.3393

**Thilo Wrede**  
Equity Analyst  
twrede@jefferies.com  
212.284.2473

**Michael Otway**  
Equity Associate  
motway@jefferies.com  
212.323.3954

**Margot Schacter**  
Equity Associate  
mschacter@jefferies.com  
646.805.5407