Retail Outlook: 2H25 Update

June 17, 2025

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Today's Agenda

1. Economic/Macro Recap
2. Grocery
3. Restaurants
4. Mass Merchandisers
5. Retail Drug
6. Department Stores
7. Apparel
8. Footwear
9. Sporting Goods
10. Home Improvement
11. Home Furnishings
12. Specialty

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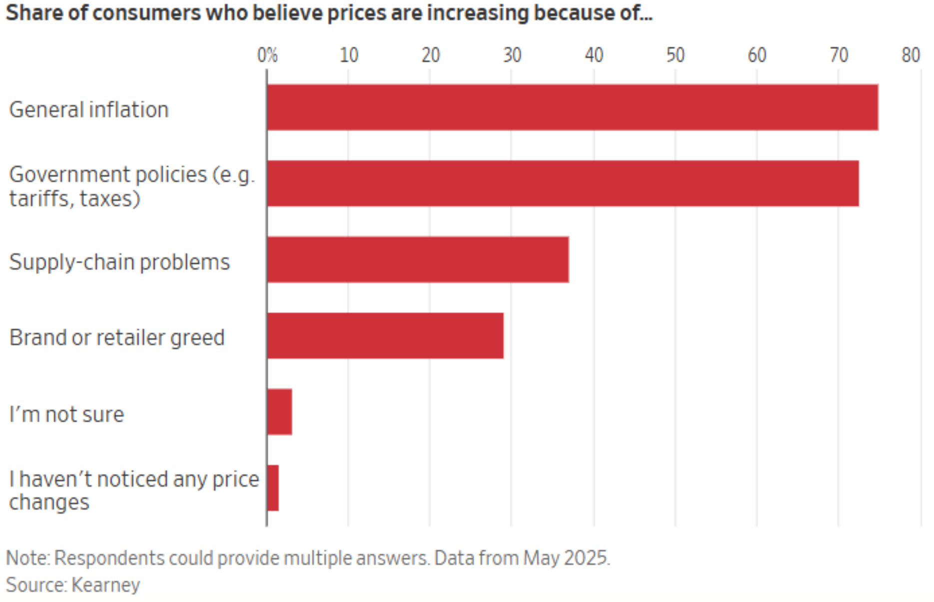
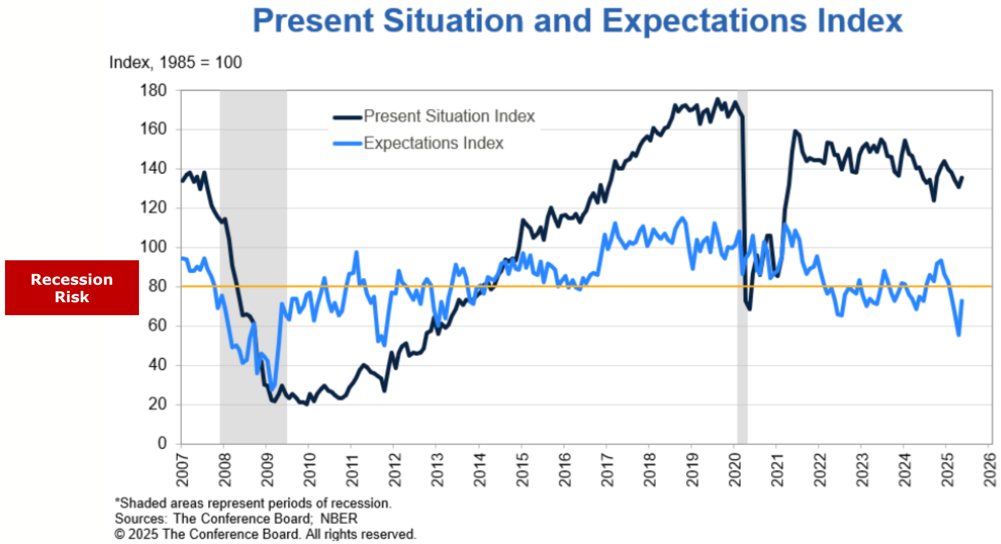
Economic Trends — Where Are We Now?

- U.S. economy shrank 0.2% in 1Q25 as imports surged ahead of tariffs
  - Forecast was for 0.4% growth
  - Trade had a 5% negative impact – largest impact since 1947
  - Consumer spending grew 1.8% – pull forward?
- Strong labor market, but hiring slowing and cuts growing
  - Migrant crackdown
- Consumer Confidence improved in May after plummeting four straight months as expectations for business, employment and income all deteriorated
  - Inflation driven
- Financial markets surprisingly resilient
- Rising public and consumer debt





Tariff Retail Impact

- Tariffs / trade war confusion creating increasing uncertainty for businesses and consumers
- 10% universal, 30% China, 25%+ steel and aluminum
  - 90-day pause expires Jul 8; China deal – 55% total tariff
  - China de minimus exemption suspended in Feb
- March retail sales rose a stronger than expected 1.7%, April up 0.1%
  - Consumers may have pulled forward purchases
- Discretionary goods most exposed
  - Toys, furniture, household, footwear, apparel, appliances, consumer electronics, musical gear, machine tools, leather, books, arts & crafts, jewelry, baby gear, personal care (China represents > 25% of U.S. market share, and up to 90%)
- Inventory build-up and typical turns delay initial consumer impact
  - Initial pull forward of inventory in 1Q, then shift to less inventory
  - Adds warehouse costs for 30-60 days of goods
- Rising credit risk
- Who can benefit?
  - Off-price, resellers

Tariff Impact by Retail Segment (April 2025)

Segment	Exposure	Comments
Apparel	5	Heavy reliance on imports (esp. China, Vietnam); price-sensitive category
Furniture / Mattress	5	Large volume of imports, often from tariffed regions; bulkier items magnify cost impact
Toys	5	Predominantly China-based supply chain; cost-sensitive consumers
Footwear	5	High % sourced from Asia; heavily impacted by footwear-specific tariffs
Housewares & Home Furnishings	4	Wide range of imported SKUs; kitchen/deccor goods often tariffed
Department Stores	4	Carries multiple high-risk product types (apparel, toys, home)
Sporting Goods	4	Imported gear and branded items; strong overlap with apparel sourcing
Auto Parts	4	Component parts heavily sourced from China/Mexico; metal tariffs relevant
Mass Merchandisers	3	Broad import exposure across many categories; high volume amplifies effect
Home Improvement / Building Materials	3	Import exposure in tools, lighting, etc.; diversified sourcing helps
Arts & Crafts	3	Mixed import footprint; seasonal goods hit hardest
Office & Consumer Products	3	Imported paper, electronics, and stationery from tariffed countries
Drug Retailers	2	Limited exposure; OTC products mostly domestic, but some imports (e.g., vitamins)
Health & Beauty	2	Imported beauty tools and accessories; core products domestic
Pet Care	2	Toys/accessories are imported; food and meds mostly domestic
Grocery & Wholesale Food	1	Food is primarily U.S.-sourced; minor exposure from specialty imports & packaging
Restaurants / Food Service	1	Ingredients domestic; equipment/furnishings/packaging partially

Source: RetailStat estimates. Note – Electronics is not shown because expected impact is currently unknown.

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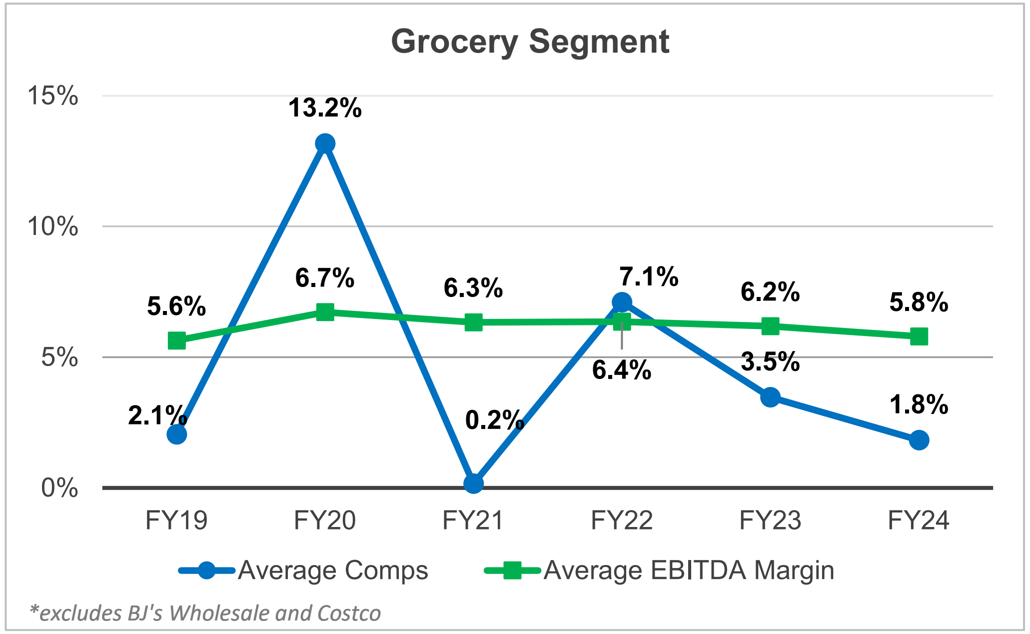
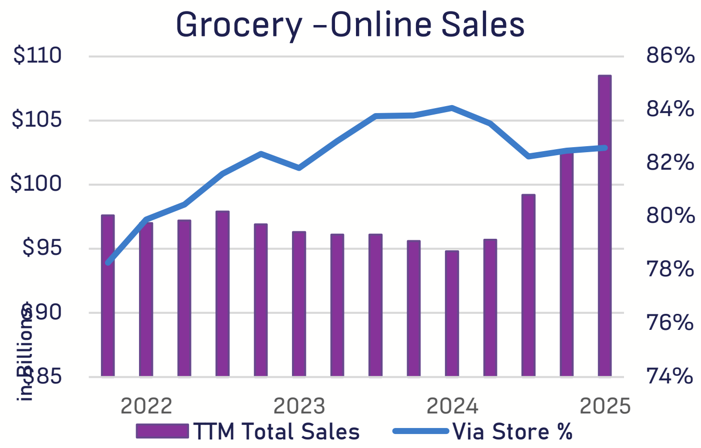
Grocery

- Expect continued challenging operating environment
  - Positive comps driven by inflation, price investments
  - Ongoing shift from traditional grocery to Walmart, Costco, BJ's and deep discount players who are thriving
  - Largest gains driven by niche players, private label, pharmacy and e-commerce



- Grocery e-commerce strong. Up 10% TTM.
- Major players reporting 15% – 25% gains (membership programs and promotions)



- New Stores? Mostly niche players (small format, value, natural/organic/ethnic). WM, KR and ACI smaller base than 5 years ago. Walmart re-start?
- Sector poised for a heightened level of M&A; some want to grow, some need to exit

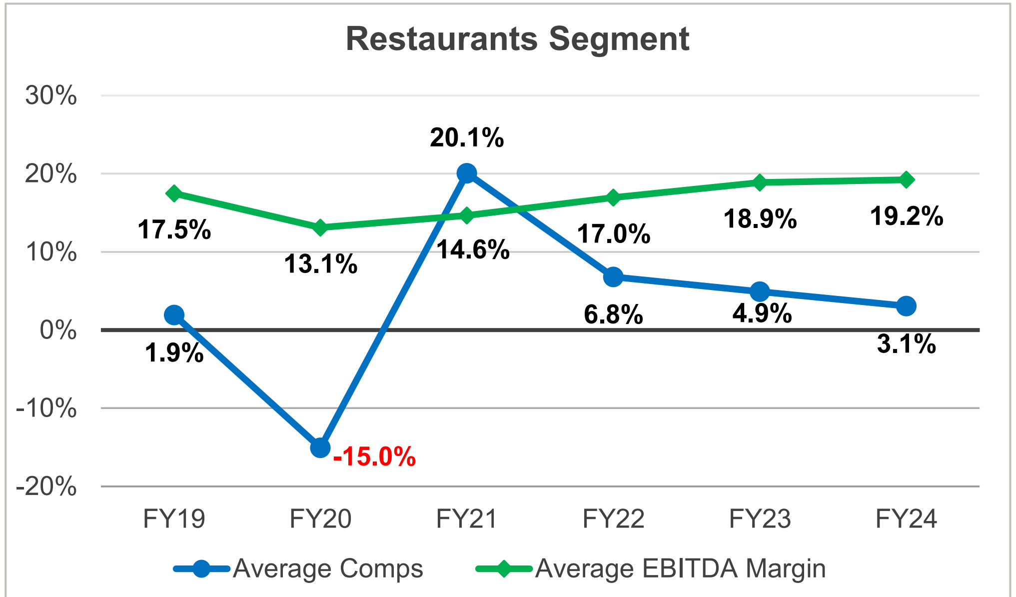
WINNERS

IN QUESTION

LOSERS

Restaurants

- Restaurants across all categories are seeing weaker customer traffic trends due to macroeconomic uncertainty and years of menu price increases that have led to a deterioration in the value proposition of dining out vs. cooking at home.
- Lower-income consumers have pulled back on outside food spending, and restaurants' efforts to win back share through promotions, value offerings, updated loyalty platforms, and other initiatives have had mixed success.

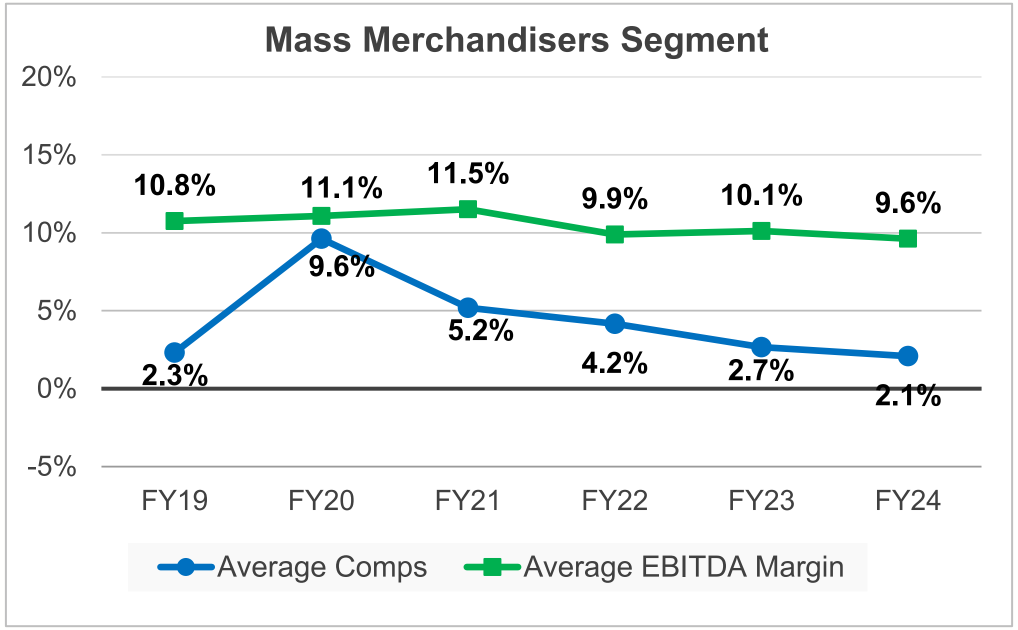


*excludes BJ's Wholesale and Costco

WINNERS	IN QUESTION	LOSERS
Texas Roadhouse	Starbucks Coffee	Jack in the box
Wing Stop	Wendy's	Denny's
Chili's	Darden	Applebee's
Shake Shack	McDonald's	Noodles & Company
CAVA		Red Robin Gourmet Burgers and Brews
Chipotle Mexican Grill		

Mass Merchandisers

- Major Themes
  - Increasingly bi-furcated results
  - Essentials, value and convenience driving gains (Walmart, Costco, BJ's)
  - Discretionary remains weak, with consumers prioritizing major sales events like Prime Day, Back-to-School, and Holiday shopping.



- Store expansion and ecommerce investments remain key focus areas; ecommerce gains driven by BOPIS and delivery.
  - Expect pruning amongst weaker players
- Outlook –
  - Winners continue to Win as a value and convenience driven consumer boosts Essential focused Mass retailers with strong online platforms. Most gains from online.
  - Tariff impact primarily concentrated with Dollar Tree, Five Below, Target and many smaller Mass retailers (Fleet Farm, Variety)

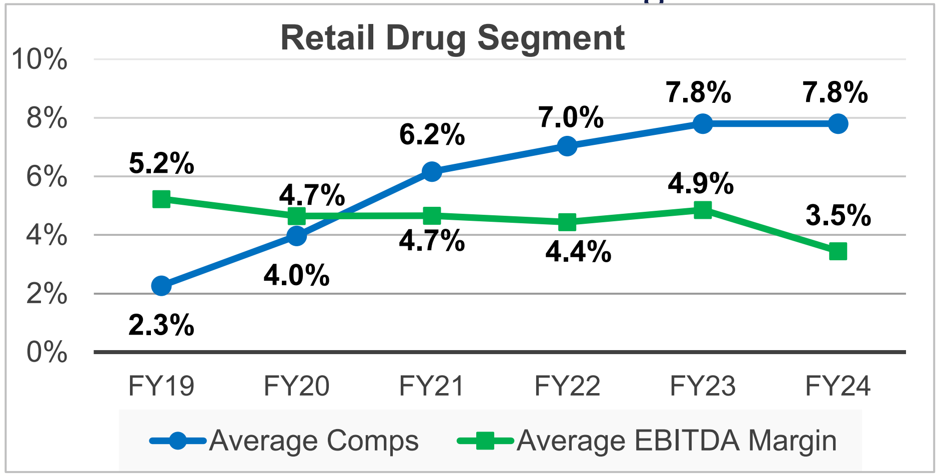
WINNERS

IN QUESTION

:"Big Lots"

Retail Drug

- Prescription drug usage continues to grow
  - Specialty drug volume growing but yielding share to the rapidly expanding GLP-1 category
- Retail chain shakeout continues due profit pressures
  - Profits pressured by reduced pharmacy reimbursements and soft front-end sales
  - Competition from Walmart, Amazon and others
  - ~4,000 store closures by top chains over past three years – including liquidation of Rite Aid's liquidation
- CVS remains a diversified vertically integrated company, while Walgreens is going private and focused on U.S. retail pharmacy
- Primary care slower than expected growth — Walmart exited and Walgreens plan to reduce stake in VillageMD
- Opioid & legal liabilities straining cash flow
- Role of PBMs? Federal and state regulation intensifying



IN QUESTION

CVS pharmacy
Walgreens
Walmart
amazon

LOSERS

RITE AID

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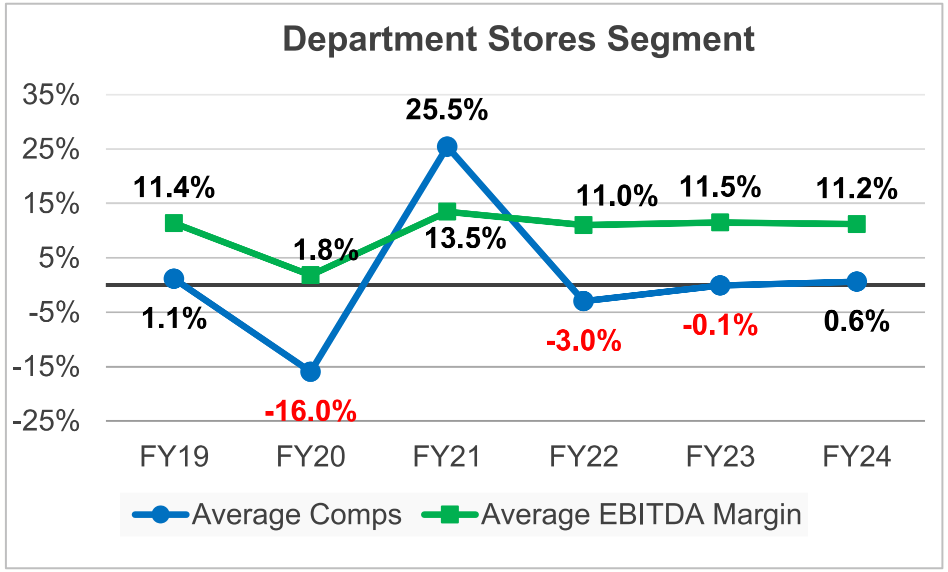
Department Stores

- Traditional department stores ceding market share to specialty apparel, online and off-price
- Store closures increasing, notably Macy's & Kohl's
- Off-price comps & store counts continue to grow
- Store openings – off-price and new small-formats
- Investment focused on omnichannel and building loyalty
- M&A activity – Nordstrom's go-private; Saks & Neiman Marcus Merger; JCPenney & SPARC form Catalyst Brands
- Mixed bag of privates – Boscov's, Von Maur, Beall's, Belk
- Vulnerable to tariffs, port strikes & supply chain disruption



WINNERS

Burlington
NORDSTROM
ROSS DRESS FOR LESS
TJX THE TJX COMPANIES, INC.

IN QUESTION

macy's
BEALLS
belk

Losers

JCPenney
KOHL'S
SAKS GLOBAL
HUDSON'S BAY

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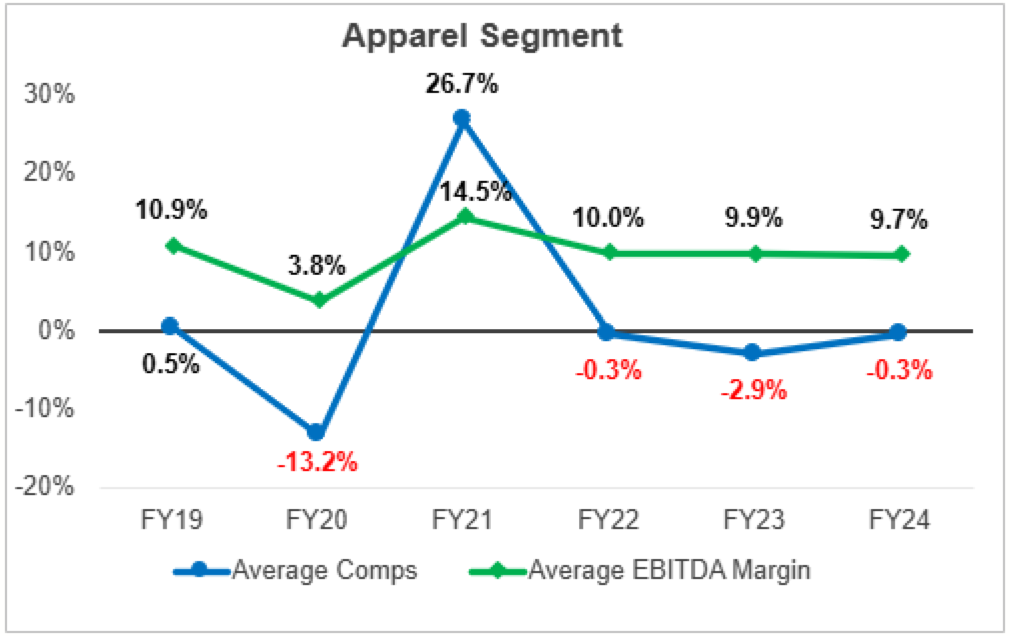
Apparel

- Muted Demand: Elevated interest rates, resumption of student loan repayments, and weak consumer sentiment continue to weigh on discretionary apparel spending.
- Consumer Shift to Value: Shoppers are increasingly turning to off-price, mass merchants, and resale channels, putting pressure on full-price retailers.
- Tariff Uncertainty: Potential hikes on China tariffs remain a risk to margins. China still accounts for roughly 31% of U.S. apparel imports.
- Inventory Discipline: Retailers remain focused on lean inventory and tighter buys, limiting promotional activity but constraining top-line growth.
- Fast Fashion Shakeout: Intense competition forced Forever 21, Rue 21 and Express into bankruptcy. Looming end of de minimis tax exemption aims to level the playing field for U.S.-based retailers against Shein, Temu and other cross-border players.
- Omnichannel Investment: Retailers are leaning into e-commerce with AI-driven personalization, integrated loyalty programs and expanded store-based fulfillment.



WINNERS

AMERICAN EAGLE
Abercrombie & Fitch
GAP

IN QUESTION

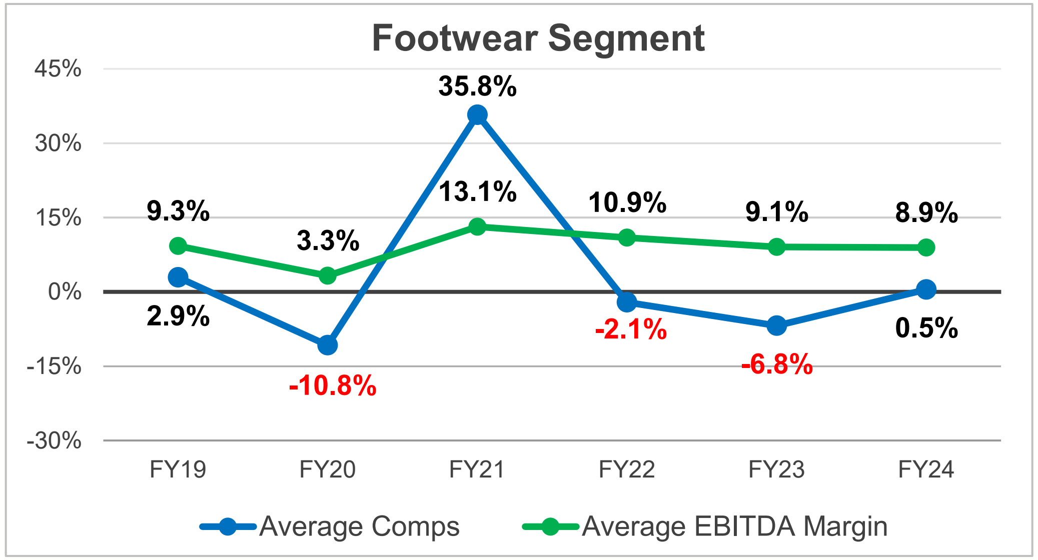
VS&Co VICTORIA'S SECRET & CO.
EXPRESS

LOSERS

TILLYS CLOTHING • SHOES • ACCESSORIES
CATO The Cato Corporation
THE CHILDREN'S PLACE

Footwear

- Retailers refreshed their assortments to include more athletic/athleisure and casual footwear and have largely seen a benefit to sales from the shift, though overall spending trends remain soft, especially outside of traditionally stronger shopping events/seasons.
- In this tougher environment, retailers remain promotional, though improved inventory positions have reduced the need for heavy markdowns and clearance in recent periods. Stronger operators have been able to push more full-priced selling to support margins.



- Fast-expanding Boot Barn maintains a 15%-unit growth rate, and the majority of Skechers' 8% growth has come in international markets. Other major footwear retailers continue to shed underperforming stores, with Genesco closing 64 Journeys and Caleres closing 29 Famous Footwear.
- Foot Locker closed 4.7% of its store fleet as part of its ongoing transformation initiative, and Shoe Carnival plans minimal expansion over the next two years as it instead focuses on conversions to Shoe Station

WINNERS	IN QUESTION	LOSERS
BOOT BARN, SKECHERS	Foot Locker, SHOE CARNIVAL	DESIGNER BRANDS

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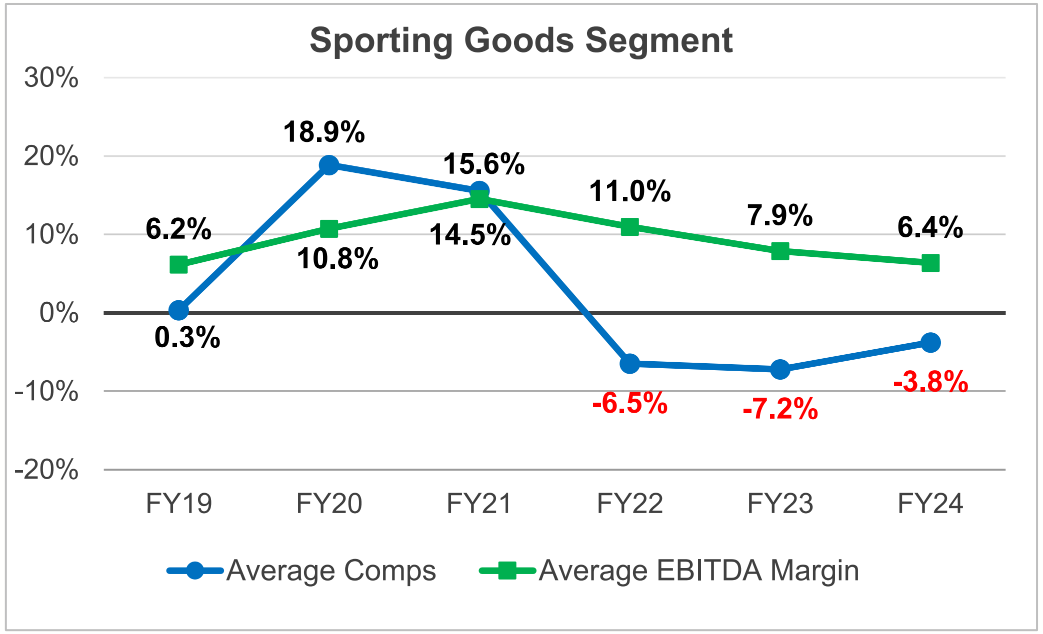
Sporting Goods

- After sales showed signs of a rebound in 4Q, sporting goods sales slowed in 1Q
- Tariffs threaten expected 2025 rebound
- Equipment and outdoor gear sales still lag
- Legacy issues impairing underperforming chains
- Investment focus remains on building omnichannel & loyalty
- Dick's Sporting Goods remains the outlier – positive comps, store growth & Foot Locker deal
- More mergers ahead?



WINNERS

DICK'S SPORTING GOODS

PGA TOUR SUPERSTORE

IN QUESTION

Academy SPORTS+OUTDOORS

REI

Bass Pro Shops

LOSERS

BIG 5 SPORTING GOODS

CAMPING WORLD

SPORTSMAN'S WAREHOUSE

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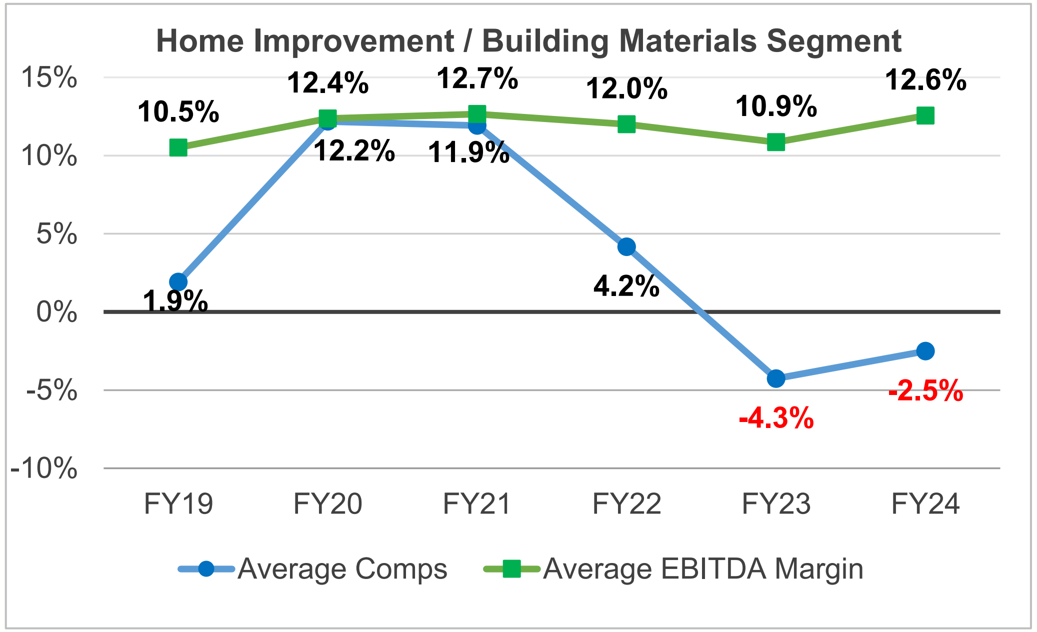
Home Improvement

- After a somewhat mild pullback in 2024, spending for improvements and repairs on owner-occupied homes is set to expand once again in 2025, according to the Leading Indicator of Remodeling Activity (LIRA)
- The LIRA projects that year-over-year spending for home renovation and repair will increase by 1.8% in 2025
- Upward trending retail sales of building materials and steady permitting for remodeling indicate that homeowners are slowly but surely expanding the pace and scope of projects compared to the last couple years



- Currently though, bellwether retail Home Improvement players Home Depot and Lowe's both continue to contend with DIY customer preference for smaller projects
- While overall demand for certain big-ticket, discretionary categories remains muted, interest is slowly picking up again, another positive indication for 2025
- M&A activity should remain robust going forward

WINNERS

Do it Best Corp.

The Home Depot

LOSERS

The Tile Shop
WWW.TILESHOP.COM

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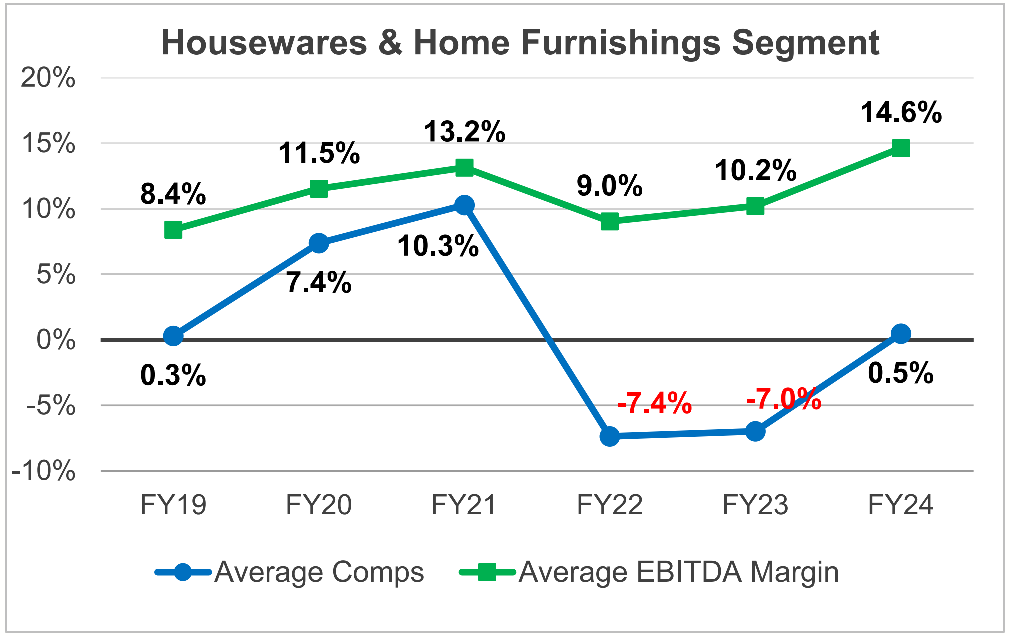
Home Furnishings

- Segment has been down for approaching four years. No signal of near-term recovery.
- Numerous failures in the space/billion in sales: Bed, Bath & Beyond, Christmas Tree Shops, Badcock, Tuesday Morning…
- Had been anticipating replacement and needs based purchasing to pick up. Will the fed cut rates and spur housing?
- Headwinds: Volatile markets, tariffs (high % of goods sourced from China), consumer confidence and spending. Housing market has yet to recover. Demand still curbed on big ticket/furniture.
- Those with leveraged balance sheets/weak liquidity will be impacted sharpest; At Home DIP, The Container Store, Kirkland's, Beyond, World Market.



WINNERS	IN QUESTION	LOSERS
WILLIAMS-SONOMA	wayfair	Kirkland's
	at home The Home Décor Superstore	BED BATH & BEYOND
	The Container Store	
	WORLD MARKET	

Electronics / Office

IN QUESTION

Arts / Crafts

WINNERS

LOSERS

Gyms / Fitness

WINNERS

IN QUESTION

Movie Theatres

IN QUESTION

LOSERS

Pet Care

WINNERS

IN QUESTION

Other

LOSERS

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