PROPRIETARY RESEARCH
CONSUMER INSIGHT – NORTH AMERICA

Trending Now: Home Time Means Online Sales Rocket

Reporting analyst:
Jharonne Martis
Jharonne.Martis@refinitiv.com

Media Questions: 646 223 8360
PR team: 646-223-5985

July 16, 2020

REFINITIV™
DATA IS JUST THE BEGINNING

One of the consequences of the coronavirus pandemic has been a shift to consumers "nesting" at home. Consumers were asked to stay-at home and became teachers, fixed their homes, ordered takeout, took online workouts, cooking and DIY lessons. This has substantially accelerated the pace and shift to online shopping, which became evident when retailers reported strong digital sales in Q1 2020.

Looking forward to anticipated Q2 performance, we used StarMine's SmartEstimate to determine which companies in the Refinitiv Retail and Restaurant Index are better poised to continue beating earnings estimates. The results tell us that there is a nesting theme in consumer purchasing patterns.

The pandemic has many corporations withdrawing their earnings guidance. Therefore, the SmartEstimate may be more significant than ever for anticipated clues, as it helps determine the direction of future earnings and revenue surprise results.

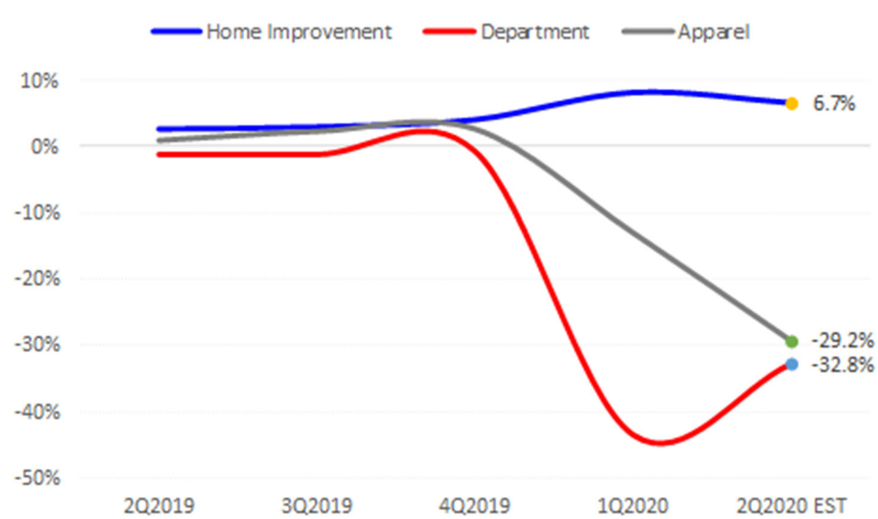
This year, some brands took the opportunity to strengthen their relationships with their consumers with online experiences. This definitely helped brands like Nike offset the sales weakness caused by closed stores around the globe. The retailer offered free workout classes through its app, gaining new followers and thus converting those visits into digital sales. Now, Lululemon is also attempting the same with its acquisition of Mirror, a fitness start-up.

This bodes well for these retailers as consumers told us that they crave and miss experiences more than visiting malls. What's more, they are not ready to go out as they did pre-COVID. The recent Refinitiv/Ipsos reading on consumer sentiment around reopening the economy suggests that the bulk of consumers are willing to attend a live concert, theater performance or movie theater — when there is a proven coronavirus vaccine, even if that's a year or more from now.

DIY - HOME IMPROVEMENT

Consumers have been fixing their homes by themselves in 2020, and as a result the home improvement sector continues to grow and outperform the other retail groups. This comes at a time when over 80% of retailers are expected to post negative Same Store Sales (SSS) in the second quarter of 2020. And yet, despite facing difficult year-ago results, the home improvement sector is one of the few standouts as it continues to post robust SSS (Exhibit 1).

Exhibit 1: Exhibit 1: Home Improvement vs. Department and Apparel sectors: 2019 - 2020



Source: I/B/E/S data from Refinitiv

Do-it-yourself business outpaced pro sales at Home Depot during the first quarter. The retailer leveraged its e-commerce platform and said online sales increased approximately 80% during the quarter. More than 60% of the time, customers opted to pick up online orders curbside. That trend may continue.

Looking forward to anticipated Q2 performance, we used StarMine's SmartEstimate to determine which companies in the Refinitiv Retail and Restaurant Index are better poised to beat earnings estimates. The results show that positive surprises for Home Depot and Lowe's might be in the offing.

Exhibit 2: Q2 2020 SSS Estimate and Quarterly Earnings

		Earnings Per Share Q2 2020			Same Store Sales	StarMine
Identifier (RIC)	Company Name	SmartEstimate®	Mean	Predicted Surprise %	Q2 Estimate	ARM Score
LOW.N	Lowe`s Companies Inc	2.66	2.54	**5.0%**	7.8%	99
HD.N	Home Depot Inc	3.42	3.30	**3.6%**	6.0%	85
COST.OQ	Costco Wholesale Corp	2.78	2.71	**2.5%**	5.2%	79

Source: Refinitiv I/B/E/S

The SmartEstimate is a weighted average of analyst estimates, with more weight given to more recent estimates and more accurate analysts. Our studies have shown that when the SmartEstimate differs from the consensus (I/B/E/S mean) by more than 2%, the company is likely to post subsequent earnings surprises directionally correct 70% of the time. This percentage difference is referred to as Predicted Surprise (PS%).

For Q2, the SmartEstimate data shows investors can expect positive surprises from both Lowe's and Home Depot. The later currently has an EPS mean forecast of $3.30 a share. However, there's a five-star rated analyst with a very accurate rating that published a Bold Estimate, which is different (in this case higher) than the consensus estimate. The analyst expects Home Depot to report earnings of $3.38 a share, well above the mean.

Home work stations

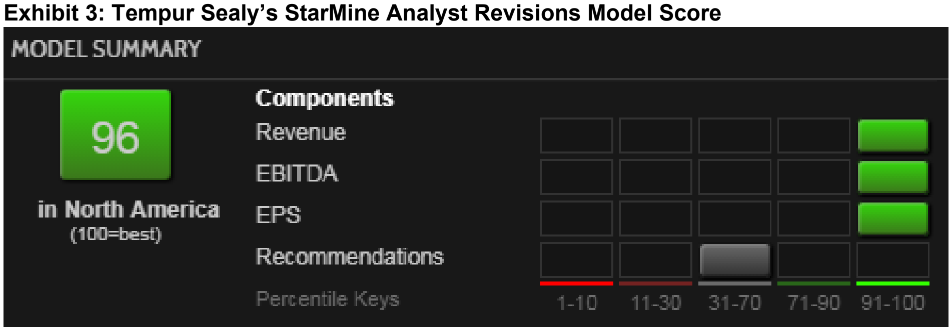
Many corporations are discussing permanent working-from-home conditions. Accordingly, shoppers have been buying office and home furniture to improve the stay-at-home experience. This has boosted sales at stores like Lovesac, Tempur Sealy, Wayfair and Williams Sonoma.

Wayfair has an EPS mean forecast of $0.80 a share. However, there's a five-star rated analyst with a very accurate rating that published a Bold Estimate, calling for Wayfair to report earnings of $1.01 a share, well above the mean.

Meanwhile, the Lovesac company, dubbed the "world's most adaptable couch," consistently has the strongest SSS results in our retail universe. This is remarkable considering it has also been facing difficult year-ago comparison, and still manages to outperform. The retailer posted a robust 50% SSS during the first quarter of 2020, above last year's 43.1% Q1 SSS result. "Lovesac's origins as an 'e-commerce-first' platform confers a distinct competitive advantage in this environment" (Source Lovesac Q1 2020 Earnings, 6/9/2020).

Consumers are also investing in new mattresses. Online bedding sales surged, causing Tempur Sealy's revenue to spike 19.03%, and a record 148.15% growth in earnings in the first quarter of 2020. As various economies have reopened, the retailer is now seeing an improvement in its wholesale channels. Additionally, the company said bedding sales rocketed 125% due to global e-commerce sales in the second quarter of 2020. Analysts polled by StarMine are bullish on the stock (Exhibit 3).

Exhibit 3: Tempur Sealy's StarMine Analyst Revisions Model Score



Source: Eikon

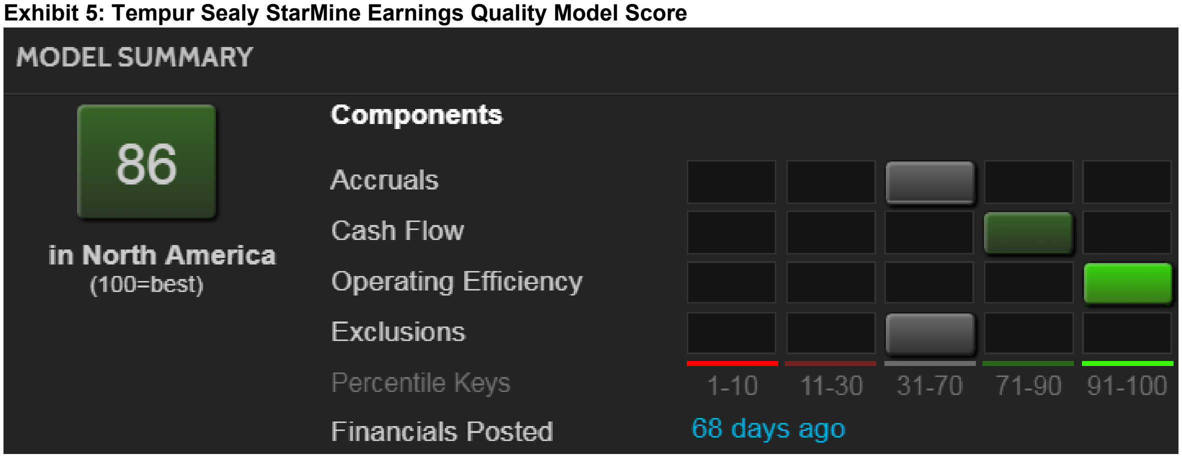
The StarMine ARM model is highly predictive of both the direction of future revisions and price movement. Tempur Sealy scores 96 out of a possible 100 suggesting that analysts are likely to revise earnings estimates upward.

Exhibit 4: Tempur Sealy StarMine Analyst Revisions Model Score vs. Stock Price Performance

Source: Eikon

What's more, earnings are of good quality. According to the StarMine Earnings Quality model, the company scores an 86 out of a possible 100. Its high score suggests that profits could be from sustainable sources. The company's cash flow and operating efficiency components also suggest the company is a top performer in these areas.

Exhibit 5: Tempur Sealy StarMine Earnings Quality Model Score



Source: Eikon

Health and wellness - working out at home

Consumers quarantined at home stocked up on workout gear including weights, workout clothes and other fitness gear to keep them healthy and in shape. Weights sold out everywhere including Amazon, Target, Walmart and others. As a result, Dick's Sporting Goods' eCommerce sales, including curbside contactless pickup, increased by 210%. The retailer said, "We believe coming out of the current crisis, health and fitness will become even more important to the consumer" (Dick's Sporting Goods Earnings Report, 6/2/2020).

Analysts polled by Refinitiv seem to agree. The retailer is expected to report 0.70 cents a share for the second quarter of 2020. Still, a 5-star rated analyst who has been more accurate, with early estimates, different from consensus in the past, thinks its earnings could be as high as 0.92 cents a share.

The sporting goods retailer scores a 90 out of a possible 100 in the StarMine ARM model, suggesting that analysts are likely to revise earnings estimates upward. Accordingly, analysts polled by Refinitiv have been upgrading their stock recommendation. In April 2020, Dick's Sporting Goods stock had six buy recommendations, and 19 neutral. Today, the buy recommendations have increased to nine and there are fifteen neutral recommendations.

Exhibit 6: Dick's Sporting Goods Stock Recommendations

RECOMMENDATION SUMMARY	Analysts Per level			
	15-Apr-2020	15-May-2020	15-Jun-2020	Current
1-StrongBuy	1	2	3	3
2-Buy	5	5	5	6
3-Hold	18	18	17	15
4-Sell	1	1	1	1
5-StrongSell	-	-	-	-
Rec Mean	**2.8**	**2.7**	**2.6**	**2.6**

Source: Eikon

Takeout and food delivery

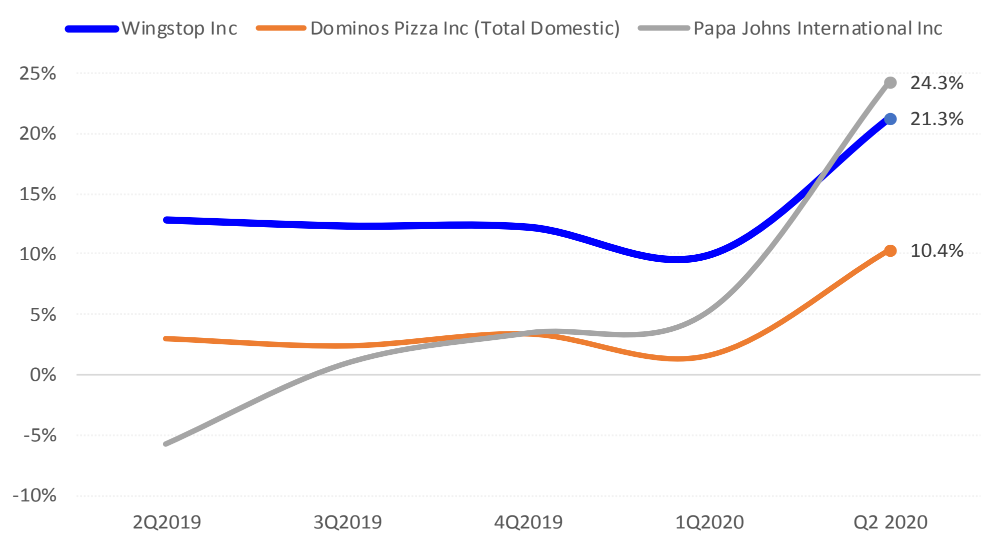
Most restaurants have suffered from weak sales during the pandemic, especially fine dining. However, among the many restaurants that are expected to post negative Q2 2020 Same Store Sales, there are a few standouts. Papa John's, Domino Pizza and Wingstop are all expected to post robust SSS.

Online consumer spending continues to grow, and the coronavirus crisis amplified and accelerated the process, even beyond most companies' expectation. Pre-COVID, Wingstop was already making the move towards digital sales. The company received a huge boost from its digital transaction platform during the first quarter of 2020. Pre-COVID-19, digital represented about 40 percent of sales and that has now grown to 65 percent.

As a result of their online strategies, these restaurants are among consumers' favorites. Papa John's CEO said, "the events of the past few months have accelerated Papa John's transformation into an innovation-driven organization, contributing to our strong business momentum." Initiatives like "no contact delivery" have been attractive during the pandemic.

All three of these restaurants are expected to see double digit comp growth in the current quarter (Exhibit 7). They also rank in the top quartile scores on both the StarMine ARM and Earnings Quality models, suggesting analysts polled by Refinitiv are bullish on these companies and earnings are from sustainable sources.

Exhibit 7: Restaurant Same Store Sales: 2019 - 2020



Source: I/B/E/S data from Refinitiv

Consumers buying patterns show a nesting theme, and their strong cravings for experiences has allowed some brands to capitalize on digital experiences which translates into stronger sales.

Ultimately, Retailers with a solid e-commerce strategy continue to show the capability to provide greater organization resilience to ensure business continuity during the pandemic. Various retailers and restaurants continue to tell us that the pandemic accelerated their e-commerce transformation resulting in strong digital sales.

As a result, consumers have been able to learn to rely on their business during the pandemic which could potentially translate into loyal customer following in the future.

Ultimately, the success of the reopening will depend on the pubs' ability to master social distancing to diminish the further spread of the coronavirus. This will give consumers reassurance that health risks have been reduced and start feeling more confident about the economy's reopening.

Notes/Definitions

Important notice

This disclaimer is in addition to and not in replacement of any disclaimer of warranties and liabilities set forth in a written agreement between Thomson Reuters and you or the party authorizing your access to the Service (“Contract Disclaimer”). In the event of a conflict or inconsistency between this disclaimer and the Contract Disclaimer the terms of the Contract Disclaimer shall control.

By accessing these materials, you hereby agree to the following:

These research reports and the information contained therein is for your internal use only and redistribution of this information is expressly prohibited. These reports including the information and analysis, any opinion or recommendation is not intended for investment purposes and does not constitute investment advice or an offer, or an invitation to make an offer, to buy or sell any securities or any derivatives related to such securities.

Thomson Reuters does not warrant the accuracy of the reports for any particular purpose and expressly disclaims any warranties of merchantability or fitness for a particular purpose; nor does Thomson Reuters guarantee the accuracy, validity, timeliness or completeness of any information or data included in these reports for any particular purpose. Thomson Reuters is under no obligation to provide you with any current or corrected information. Neither Thomson Reuters nor any of its affiliates, directors, officers or employees, will be liable or have any responsibility of any kind for any loss or damage (whether direct, indirect, consequential, or any other damages of any kind even if Thomson Reuters was advised of the possibility thereof) that you incur in connection with, relating to or arising out of these materials or the analysis, views, recommendations, opinions or information contained therein, or from any other cause relating to your access to, inability to access, or use of these materials, whether or not the circumstances giving rise to such cause may have been within the control of Thomson Reuters.

The information provided in these materials is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Thomson Reuters or its affiliates to any registration requirement within such jurisdiction or country.

Disclaimers

The service does not constitute a recommendation to buy or sell securities of any kind and Thomson Reuters has not undertaken any liability or obligation relating to the purchase or sale of any securities for or by you.

The service is furnished to you on an “as is” basis with all faults and defects contained therein. Thomson Reuters does not make any representations or warranties either express or implied, including without limitation, any implied warranty of merchantability or fitness for a particular purpose or use, with respect to any aspect of the service. Thomson Reuters does not make any warranties that the service will be uninterrupted, timely, complete, and accurate or error free, or the results to be obtained from use of the service. Use of the service is at your sole risk and Thomson Reuters shall not have any responsibility or liability for any errors or omissions in, or resulting from the use of, the services or the software product, any decision made or action taken by you in reliance upon the services, any failures or delays in providing the service, any loss of use thereof, or for any loss, damage, injury or expense caused directly or indirectly by its actions or inactions in connection with this agreement or the production, distribution or redistribution of the service. Thomson Reuters will not in any way be liable to you or to any other entity for any indirect, consequential, punitive, special or exemplary damages, including, but not limited to, loss of profits, resulting there from, regardless of cause and regardless of whether or not Thomson Reuters was advised of the possibility of such damages.

Jurisdiction

These Terms and Conditions shall be construed and enforced in accordance with the law of the State of New York without giving effect to any choice of law or conflict of law provisions. In no event shall these Terms and Conditions be governed by the United Nations Convention on Contracts for the International Sale of Goods. UCITA, whether enacted in whole or in part by any state or applicable jurisdiction, regardless of how codified shall not apply to these Terms and Conditions and is hereby disclaimed. Any disputes arising under these Terms and Conditions will be brought and heard in the appropriate Federal or state court located in New York County in the State of New York and each of the parties hereby irrevocably consents to the jurisdiction of such courts.

You may not assign these Terms and Conditions nor any rights granted hereunder by sale, change in control or otherwise without Thomson Reuters’ prior written consent.

About Eikon

Eikon is more comprehensive and collaborative than anything you've ever worked with. It is a real-time research and portfolio management solution that delivers a broad and deep range of global financial content and insight. You get direct, unfiltered access to industry-leading sources of financial information and analytics, all in a fully integrated workspace designed to help you better analyze your investable universe and monitor your holdings. In a single application, you can: access broker research, estimates, financials, events, news, fixed income and credit analysis, and more; conduct in-depth portfolio analysis versus indices, sectors, and industries; investigate data aggregates and complex data relationships; broaden your understanding of the credit markets; monitor negative developments and uncover new investment ideas. We also provide effortless integration of our content into your proprietary spreadsheets, and allow you to stay connected to critical portfolio information on your BlackBerry®.
Request free trial of Eikon today.

About Refinitiv

Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in over 190 countries. We are new market pioneers with 167 years of confidence. We provide leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community - driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.

The Same Store Sales Report provides a snapshot of U.S. consumer spending relative to expectations ahead of the monthly comps reporting cycle.
View all Thomson Reuters Proprietary Research subscription channels.

All data sourced from Eikon, a complete solution for research and analytics. It places the most comprehensive market information, news, analytics and trading tools available into a desktop as simple to use as the Internet. Thomson Reuters Eikon clients can run fundamental and technical screens against a global dataset representing more than 100 countries and over 200,000 securities. Learn more. Request a free trial of Eikon today.