GLOBAL EQUITY | MARCH 2023

Consumer Retail & Healthcare

State of Retail Post-COVID

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Consumer Retail

I. Softlines

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Softline – Active Sportswear

Just Wear It

April 2023

"Softlines" generally refer to soft goods such as clothing and bedding. Sportswear is typically made from materials that are strong, durable, and comfortable, while capable of protecting users from various sporting conditions. The sportswear sector comprises apparel, footwear, equipment, and accessories products.

Industry Overview

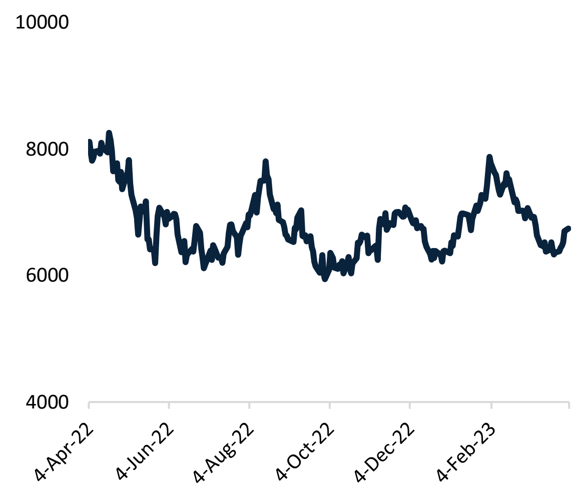
The global sportswear market size is US$338.3B in 2023, expected to grow at a CAGR of ~6% between 2023 and 2028, and the market is projected to reach a value of $450B in 2028. The sportswear industry has seen multiple hurdles in the past year, including the Russia-Ukraine war, supply chain challenges, and inflationary pressure. Amid the presence of a possible recession and continued headwinds in 2023, a high level of optimism is elicited from stakeholders driven by strong industry trends.

Industry Drivers

Since the COVID-19 pandemic, demand for sportswear has been surging due to rising health consciousness and the desire to live an active lifestyle. Over the next few years, the market will be primarily driven by the megatrend of "Athleisure", a mixture between traditional sportswear and street fashion. The industry will transition to offering products that can be worn for exercise as well as leisure. Furthermore, other trends such as digitalization and sustainability will also be impactful to the industry.

Industry Research	
Global Revenue	$204.08B
Annual Growth (Past 5 Years)	5.08%
Annual Growth (Next 5 Years)	5.65%
Key Companies	
Nike, Inc	NYSE: NKE
Enterprise Value	$185.77B
EV/2022 EBITDA	25.32x
Adidas	FWB: ADS
Enterprise Value	$29.39B
EV/2022 EBITDA	10.22x
Puma	FWB: PUM
Enterprise Value	$9.21B
EV/2022 EBITDA	13.44x
V.F Corporation	NYSE: VFC
Enterprise Value	$16.57M
EV/2022 EBITDA	19.66x
Lululemon Athletica	Nasdaq: LULU
Enterprise Value	$40.15B
EV/2022 EBITDA	21.48x

S&P Retail Select Industry Index

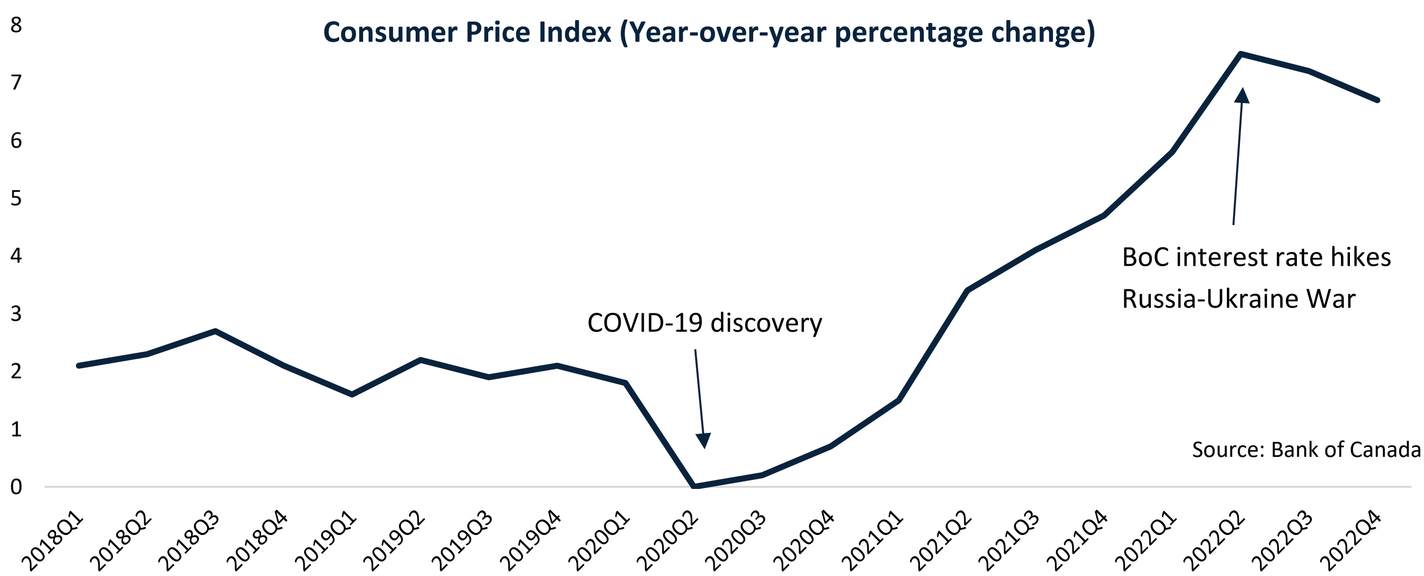


Industry Overview

When compared to other clothing, sportswear is designed to enhance user performance, prevent user discomfort, and reduce injuries when performing sports or wellness activities. The enhancement features that are built into sportswear such as breathability and sweat-wicking drive consumer demand and subsequently encourage market development and innovation. The sportswear market is fueled by health-conscious consumers who seek to incorporate activewear into their style, causing new trends to emerge and therefore perpetuating the growth of the market to a large extent. Traditionally, rising disposable income levels, low manufacturing costs, and sports participation rates are the leading factors accelerating market growth. The global sportswear market size is 338.3B in 2023, expected to grow at a CAGR of ~6% between 2023 and 2028, and the market is projected to reach a value of 450B in 2028. The sports apparel market is segmented by products (Apparel, Footwear, Wearables), by end users (Men, Women, Children), by distribution channel (Direct to Consumers, Wholesale), and by geography (North America, Europe, Asia-Pacific, South America, Middle East, and Africa).

Competitive Landscape

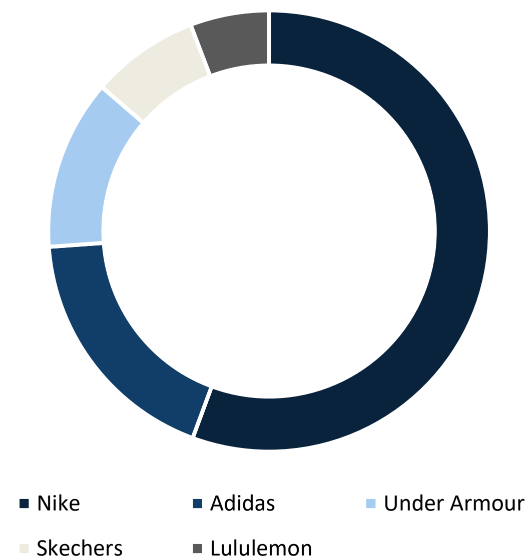
The sportswear industry is highly competitive, with high barriers to entry. To be able to compete in this market, it takes an enormous amount of financial and human capital to design, produce and distribute quality and functional products. Further, the sportswear industry has an oligopolistic structure, where a handful of companies dominate the market (namely Nike, Adidas, and others). Their market power allows them to benefit from economies of scale, and spend millions on branding and advertisements, making a hostile environment for market newcomers in such a brand-conscious industry. In the sportswear industry, companies sell products that are very similar but not perfect substitutes, therefore providing an opportunity for market newcomers to compete in this industry through product differentiation. With that said, companies must set themselves apart from other similar products by establishing brand recognition, and attracting consumers through their unique branding and products. As Athleisure became a megatrend in the sportswear industry, brands such as Lululemon are leveraging their innovation abilities and marketing strategies to win market share in this growing segment, resulting in a 25% year-over-year increase in revenue.



Nike Inc. (NYSE: NKE): Nike together with its subsidiaries sells men, women, and children's athletic sportswear worldwide. Nike has strong differentiators but it all started with a strong mission/vision - "Just do it". With their marketing strategy, the naming, logo, and tagline, are all parts of a marketing strategy established even before the internet existed. Nike commands ~15% of the global sportswear market.

Lululemon Athletica Inc. (NASDAQ: LULU): Lululemon Athletica is a Canadian company that offers retail athletic apparel and accessories worldwide. The company is a lifestyle brand that promotes a healthy lifestyle and creates a community of fitness enthusiasts who loves premium quality. Lululemon differentiates by positioning its products as functional and quality sportswear that still looks great in daily life. Lululemon commands ~2% of the global sportswear market.

Sportswear Market Share by Company



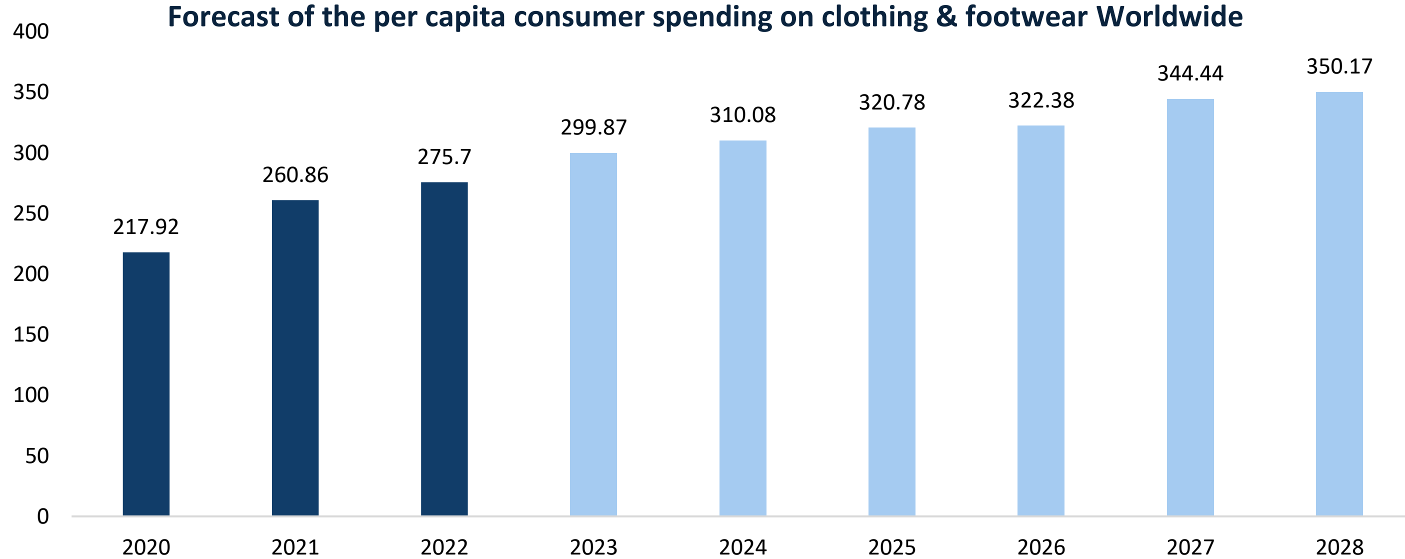
Source: Statista

Industry Driver

Consumer Disposable Income

Traditionally, the apparel industry is primarily driven by consumer disposable income. Over the past 10 years, the surging growth of the sportswear industry is attributed to a higher purchasing power from consumers, which causes higher demand for quality products, as consumers heavily emphasize product functionality and comfortableness when making purchasing decisions. According to IBIS World, disposable income is still being affected by the high inflation rate and government stimulus. As announced by the Bank of Canada in early 2023, a rebounding economy is projected, as inflation will likely fall to 3% by the middle of 2023, and back to the 2% target by 2024.

Forecast of the per capita consumer spending on clothing & footwear Worldwide



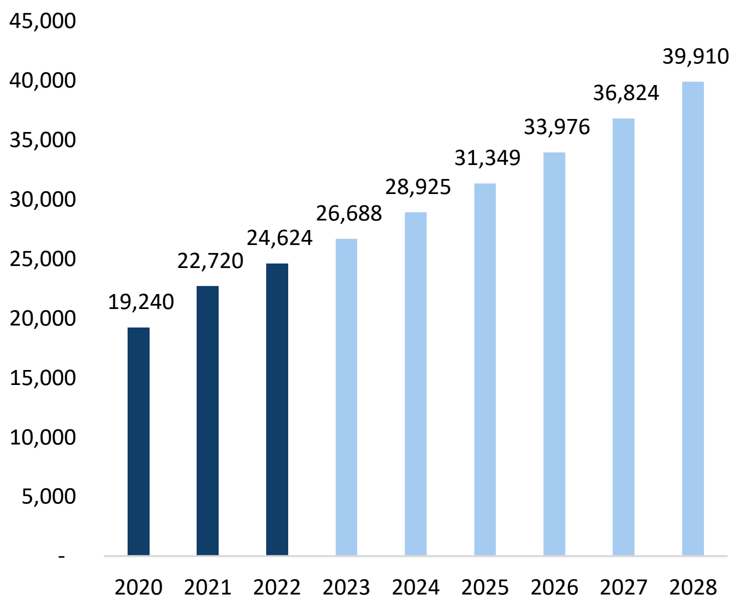
Source: Statista

Industry Trends

"Athleisure" Megatrend

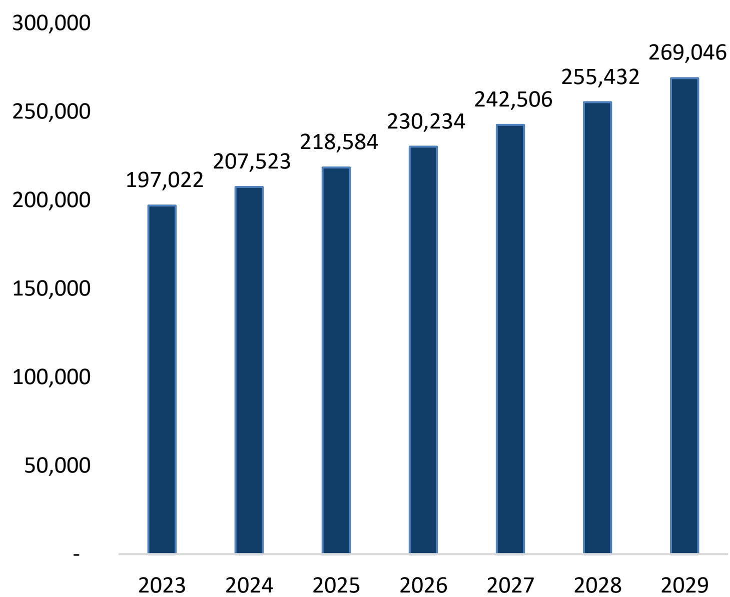
Athleisure is a megatrend that accelerated faster than ever by COVID-19, it refers to a hybrid style of athletic clothing typically worn as everyday wear. Before the pandemic, people typically engage in traditional sports such as soccer and basketball, but the outbreak of COVID-19 significantly changed the sporting habits of the general public, due to lock-down policy and gathering restrictions implemented by the government. Because people were forced to stay home for a long period, they became more health-conscious than ever. Home exercises were strongly encouraged which led to the rise of yoga culture, as there are 85% more yoga products in stock year-to-year at retailers in the U.S. Consumers started to ditch the traditional black and grey color sportswear, and opt for yoga pants, tank tops, sports bras, and pastel color clothing. With the help of digital media like TikTok and Instagram, athleisure became a fashion trend and consumers started to demand comfortable clothing that would still look stylish. This trend changed sportswear to be more versatile, comfortable, and fashionable, and this trend will continue to fuel the industry for the next few years.

Value of yoga wear market Worldwide (mm)



Source: Statista

Women's activewear market value Worldwide (mm)



Source: Statista

Female Sports Participation

An increasing number of females participating in sporting activities contributed to the rising demand for sportswear, and the difference between the number of men and women playing sports has been rapidly reducing. According to Statista, female athletes account for 45% of the total participating athletes in the 2022 Beijing Winter Olympics. An increasing number of women's involvement in sporting activities changed the dynamic of the sportswear industry which is traditionally dominated by men. The success of Lululemon which was known for women's yoga apparel represented the impact women could make in the sportswear industry.

Digital Marketing

Marketing initiatives by sportswear companies used to rely on traditional channels such as sponsoring sports clubs, sports leagues, athletes, or event sponsorships. As in-person sporting events were being canceled during most of the COVID-19 period, consumers started to leisure on the internet and the trend is here to stay, which means that sportswear companies need to pivot to digital marketing. During the pandemic, TikTok, a short-video-based social media platform where content creators and influencers can express their individuality, became a popular platform for influencers to market and build brand awareness. Nike, for example, collaborated with athletes to promote its products and tab into influencer's audience In the future. As social media platforms became the main leisure activity, digital marketing is crucial for brands to align themselves with ongoing social trends.

Risks

The Counterfeit Market

The counterfeit market has been the biggest restraining factor of the industry, according to the Organization for Economic Co-operation and Development, trade in counterfeit goods accounts for 3.3% of world trade. The expansion of e-commerce triggered by COVID-19 has fostered the growth of the counterfeit market, consumers are aware that the price of counterfeit products is often a fraction of the cost with a high level of imitation of the original product, which poses a great threat to the industry. Trade data projects that global counterfeit trade will exceed $3T in the next few years.

Private Label Penetration

Private label products are produced by a third-party manufacturer but sells under the retailer's brand name. Even though traditional brands continue to dominate consumer purchasing, under economic circumstances like high inflation and interest rates, private labels are growing strong. A strong driver behind this trend is potential savings for consumers, as inflation continues to drive prices up, prices are becoming more important than the brand name. Going forward, traditional brands should look at private labels the same way as any other competitor. Focusing on assurance of quality, and building on their solid foundation to compete with private labels will likely be most companies' strategy.

Consumer Retail

II. Hardlines

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Hardline – Automotive Manufacture

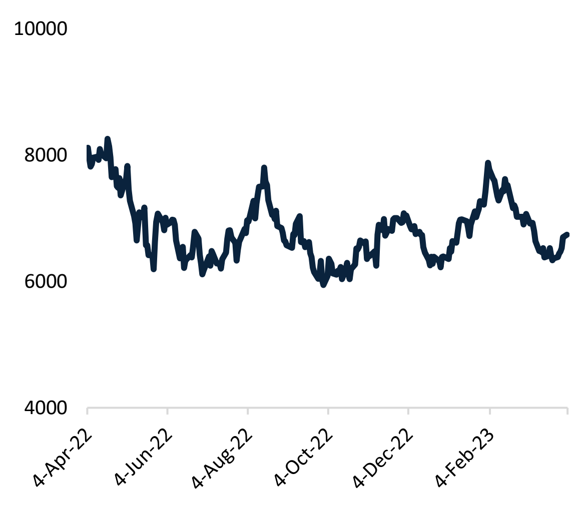
Fast & Furious

April 2023

The automotive manufacturing industry "Automotive" comprises companies that design, manufacture, and sell motor vehicles. Currently, the automotive industry is ranked first out of all global manufacturing industries in terms of market size.

Industry Research	
Global Revenue	$2.9T
Annual Growth (Past 5 Years)	-0.6%
Annual Growth (Next 5 Years)	2.5%
Key Companies	
Volkswagen	FWB: VOW
Enterprise Value	$205.97B
EV/2022 EBITDA	3.7x
Toyota Motor Corporation	NYSE: TM
Enterprise Value	$335.67B
EV/2022 EBITDA	0.06x
Ford Motor Company	NYSE: F
Enterprise Value	$144.52B
EV/2022 EBITDA	12.84x
General Motors Company	NYSE: GM
Enterprise Value	$138.39B
EV/2022 EBITDA	5.8x
Mercedes-Benz Group	FWB: MBG
Enterprise Value	$146.9B
EV/2022 EBITDA	5.68x

S&P Retail Select Industry Index



Industry Overview

The automotive industry has a market size of $3.8T in 2023. The industry is expected to grow at a CAGR of 2.5% between the period from 2022 to 2027. It contributes around 3% of the world's total GDP output, and that share seems to be increasing in emerging markets. The market suffered due to a slowdown in demand for passenger vehicles during COVID-19. As the impact of the macroenvironment eases off, demand is recovering with an increase of 3.1% in industry revenue in 2022.

Industry Drivers

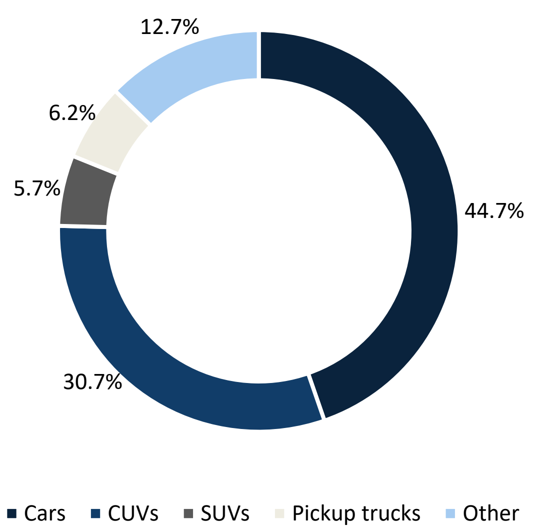
The world price of steel, aluminum, and lithium is amongst the most important inputs in the automotive industry. The global health crisis disrupted the supply of key raw materials and electronic components used in vehicle manufacturing. Other drivers include global per capita income and technological advancements. In the foreseeable future, manufacturers are eager to invest in technology and innovation, including the transformation to electric and autonomous technologies as the economy recovers.

Industry Overview

The automotive manufacturing industry is one of the largest worldwide. The industry involves companies that manufacture motor vehicles, including engines and bodies, but excluding tires, batteries, and fuel. The principal products are passenger automobiles and lightweight trucks, and heavyweight commercial vehicles are considered secondary. The industry originated in Europe in the late 19th century, the United States quickly took over through its industrial power to mass-produce automobiles in the first half and the 20th century, and Western European countries and Japan dominated the market share in the second half of the 20th century. The global economy is currently facing dramatic changes, but strong industry trends are believed to counteract and continue to drive the industry forward. The automotive industry has a market size of $3.8T in 2023 and is expected to grow at a CAGR of 2.5% from 2022 to 2027.

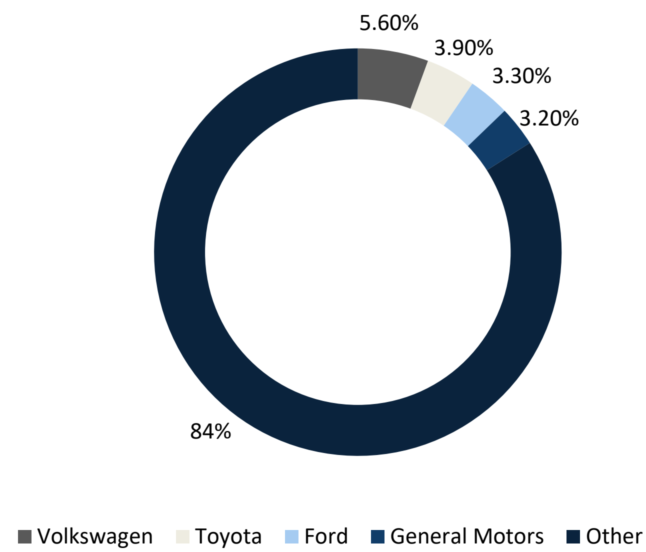
The market is segmented by vehicle types (Cars, CUVs, SUVs, Pickup trucks, and Others), and by application (Personal use, municipal use, and business use).

Segment by Vehicle Types



Source: Statista

Key Players Market Share



Source: Statista

Competitive landscape

The global automotive market is highly competitive, with a handful of well-established companies dominating the market. Globalization of the automotive industry has been accelerated by the establishment of important manufacturing facilities overseas, and by strategic mergers between multinational automakers. Key players such as Toyota, Ford, Volkswagen, and General Motors not only benefit from economies of scale, but they also have the capital to invest in production facilities in emerging markets as well as engage in strategic partnerships with other manufacturers, to reduce production costs and expand geographically. The industry is driven by technological innovations, therefore the CapEx and R&D in this sector are experiencing high growth ~5% of revenue, to take advantage of the opportunities in the industry.

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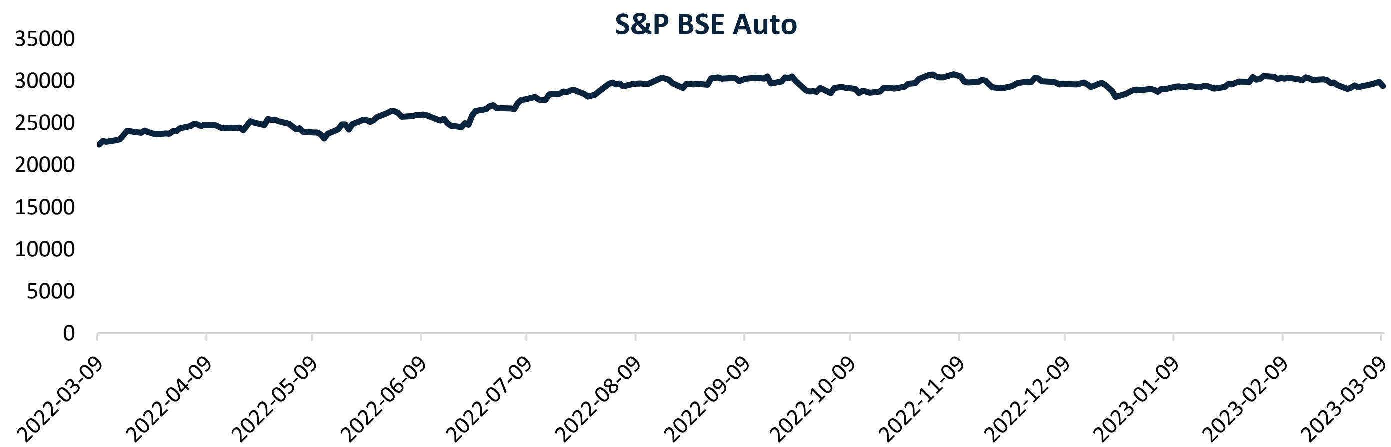
Industry Drivers

Primary manufacturing materials

The automotive industry is heavily relied on economic conditions, especially the cost of purchasing steel and aluminum. Many reasons support the selection of steel and aluminum as the primary material for automotive manufacturing, some main factors include thermal, chemical, mechanical, and environmental resistance, as well as other factors such as durability, accessibility, and affordability. For the past few years, prices of these primary materials were volatile caused of global supply chain disruptions, which significantly shortened the supply of these materials to the manufacturers in the industry. For the next few years, as current conflict, lockdowns, and supply chain crises are likely to ease off, the strong demand in this industry is likely to offset the lingering effects of macroeconomic conditions. In addition, despite the emergence of new electric vehicle (EV) brands like Tesla, brand familiarity is key to attracting consumers in this industry, and traditional companies will still have the edge over electric newcomers due to their reputations for quality and prestige.



Source: S&P

Technological advancements

Technology is a significant driving factor influencing the automotive industry, manufacturers seek to explore and achieve technological breakthroughs to increase market share and meet the increased demand for quality, safety, and cost. Companies that actively engage in technological innovations can set themselves apart and address the competitive pressure, but also enable them to satisfy environmental regulations.

The success of EVs has caught global attention in 2022, as Tesla became the 3rd most valuable auto brand in the world, surpassing industry leaders such as BMW, Honda, and others. Traditional brands are also catching up, Volkswagen has committed to increasing investment from $17B to $52B, and other major manufacturers have also announced their multi-billion-dollar investment plans to remain competitive. Further, the transition from conventional vehicles to electric vehicles will help to meet strict environmental regulations dealing with fuel economy and emissions control. According to McKinsey, it is predicted that around 15% of new cars sold will be fully autonomous by the end of the decade, a steady increase in consumer demand for fuel-efficient, safe, and low-emission vehicles will force manufacturers to make the shift to EV production in stages.

Industry Trends

Car Sharing

The car-sharing market has surpassed $2B in 2020 and is anticipated to grow at ~20% CAGR from 2021 to 2027. Impacted by the pandemic, the public largely prefer personal mobility solutions for daily commute. Car sharing is an affordable & convenient solution offered by car-sharing companies to commute over short distances and allows passengers to pay according to distance traveled and fuel cost, and they can simply use a smartphone app as a digital car key. As shared cars become more accessible, they will reduce car ownership and subsequently solve ongoing issues such as traffic congestion in urban areas and vehicular emissions. Further, peer-to-peer car-sharing software allows car owners to share their vehicles with other drivers around residential areas, it provides an opportunity for car owners to earn money and allow car renters to save money from purchasing a vehicle. Therefore, the car-sharing industry is gaining popularity among consumers mainly due to flexibility, accessibility, and comfort. However, many shared cars remain idle almost 80% of the time which degrades the engine performance, so better monitorization and utilization will be crucial to driving market growth in the future.

Automotive Connectivity

Automotive connectivity is fundamental for EV vehicles, it implies a link and communication between highly automated vehicles, such technology helps keep cars from drifting out of lane, getting too close to the car in front, monitoring blind spots, and more. Soon, EVs will be able to offer personal assistance as well, monitoring your health conditions, and if the system detects an abnormality, the adaptive cruise control will kick in and give you more room from the car ahead. Automotive demand is significant and requires sophisticated software engineering, so technology will increasingly improve automotive connectivity, which means that companies will be collecting, analyzing, and sharing data collected from drivers, to allow cars to be upgradable. Automotive connectivity will eventually allow us to become better drivers, by informing us about driver behavior, the realities of the road, and even the performance of the EV. However, consumers or investors should be aware of the strict regulations and basic security requirements, as well as the usage of lithium in the production of EVs.

Consumer Retail

III. Food and Beverages

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Food and Beverage

March 2023

The food and beverage (F&B) industry encompasses companies involved in the production, distribution, and sale of food and drink products, serving as a fundamental component of the consumer staples sector.

Industry Overview

The food and beverage industry produces and distributes food and drink products globally, with agriculture, processing, packaging, retail, and foodservice being its main sub-sectors. Recent trends in health and wellness, convenience, and sustainability have influenced innovation and consumer preferences. The COVID-19 pandemic has had a significant impact, leading to restaurant closures, supply chain disruptions, and shifts in consumer behavior. Nevertheless, the industry has shown resilience, with the growth of e-commerce and food delivery, plant-based products, and increased focus on hygiene and safety measures.

Market Size

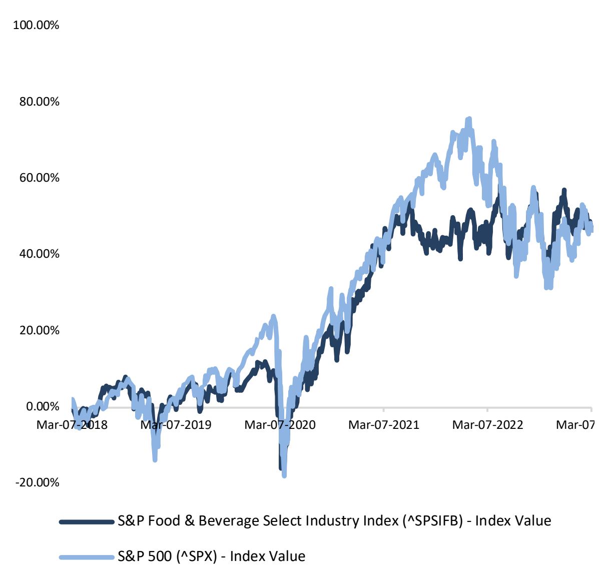
According to industry reports, the global food and beverage market was valued at approximately $7.2T in 2020 and is expected to grow to $9.2T in 2027 at a CAGR of 6.3%. This growth is primarily driven by increasing demand for convenience foods, the rising popularity of healthy and organic foods, and the growing number of foodservice establishments worldwide.

Trends and Drivers

One of the key trends is the growing demand for healthy and organic foods, as consumers are becoming increasingly health-conscious and are seeking out healthier food options. Another trend is the increasing popularity of sustainable packaging within the industry. Other drivers of the industry include the growing popularity of online food delivery services and inflationary pressures.

Industry Research	
F&B Market	$7.2T
Annual Growth (Past 5 Years)	6.9%
Annual Growth (Next 5 Years)	7.1%
Key Companies	
Nestle	**SWX: NESN**
Enterprise Value	$358.9B
EV/2022 EBITDA	17.5x
PepsiCo	**NASDAQ: PEP**
Enterprise Value	$273.2B
EV/2022 EBITDA	18.3x
Company Name	**NYSE: KO**
Enterprise Value	$284.7M
EV/2022 EBITDA	20.6x
Unilever	**LON: ULVR**
Enterprise Value	$153.0B
EV/2021 EBITDA	11.7x
Anheuser-Busch InBev	**EBR: ABI**
Enterprise Value	180.7B
EV/2021 EBITDA	9.5x

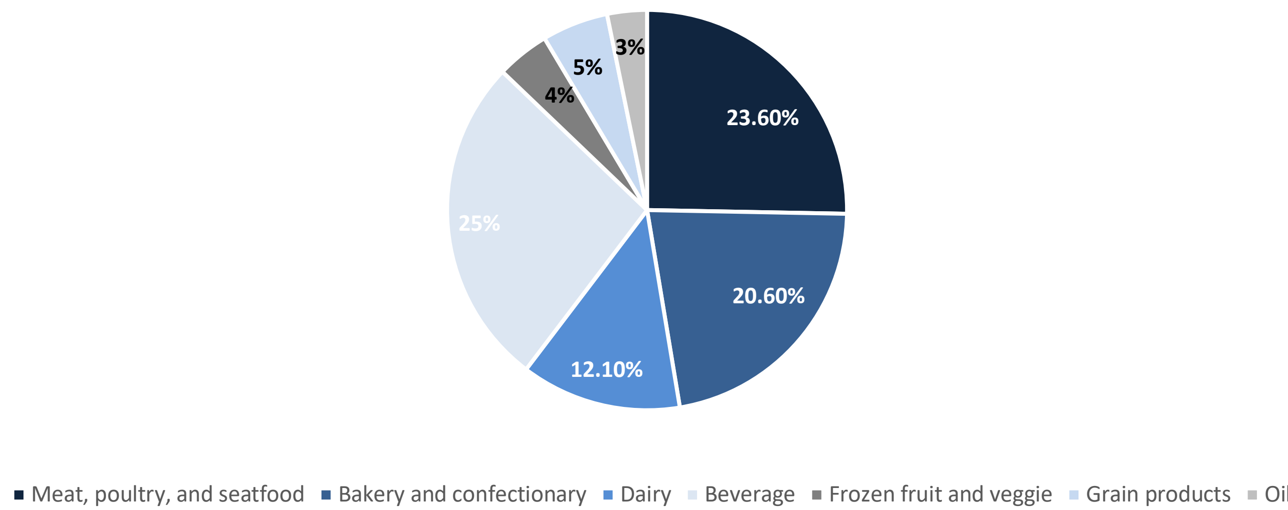
Cumulative Returns of F&B



Subsector Updates

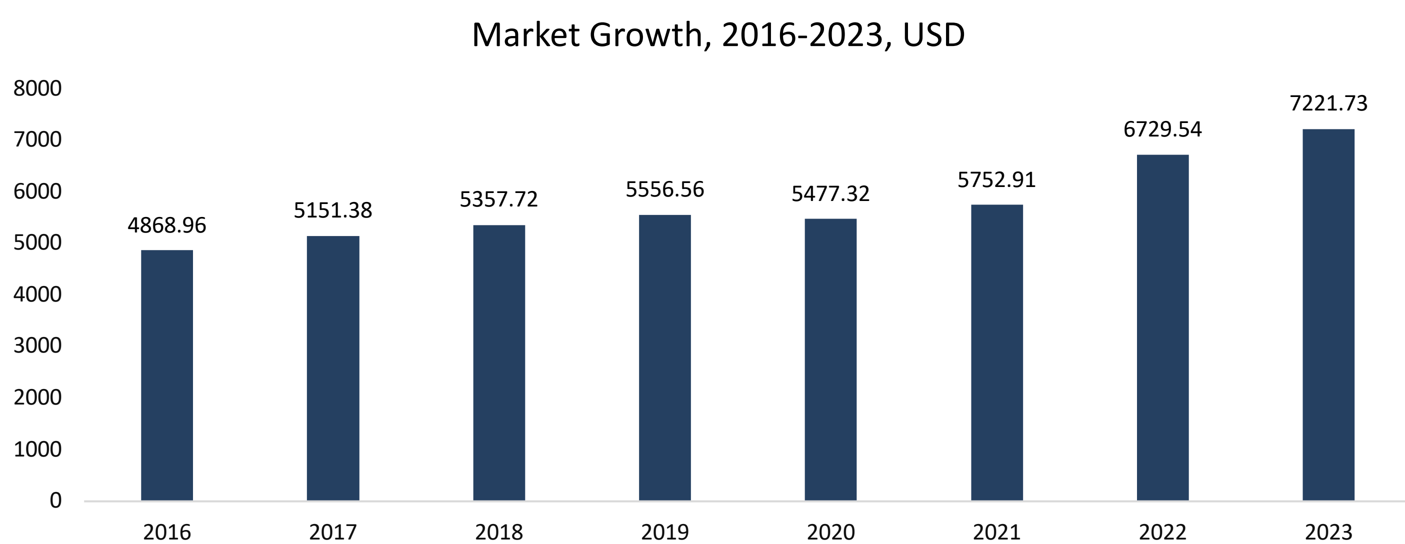
Subsector Segmentation and Growth

The food and beverage industry is segmented by: Alcoholic beverages, non alcoholic beverages, grain products, bakery and confectionary, frozen fruit and veggie, dairy, meat, and oil and seasoning.



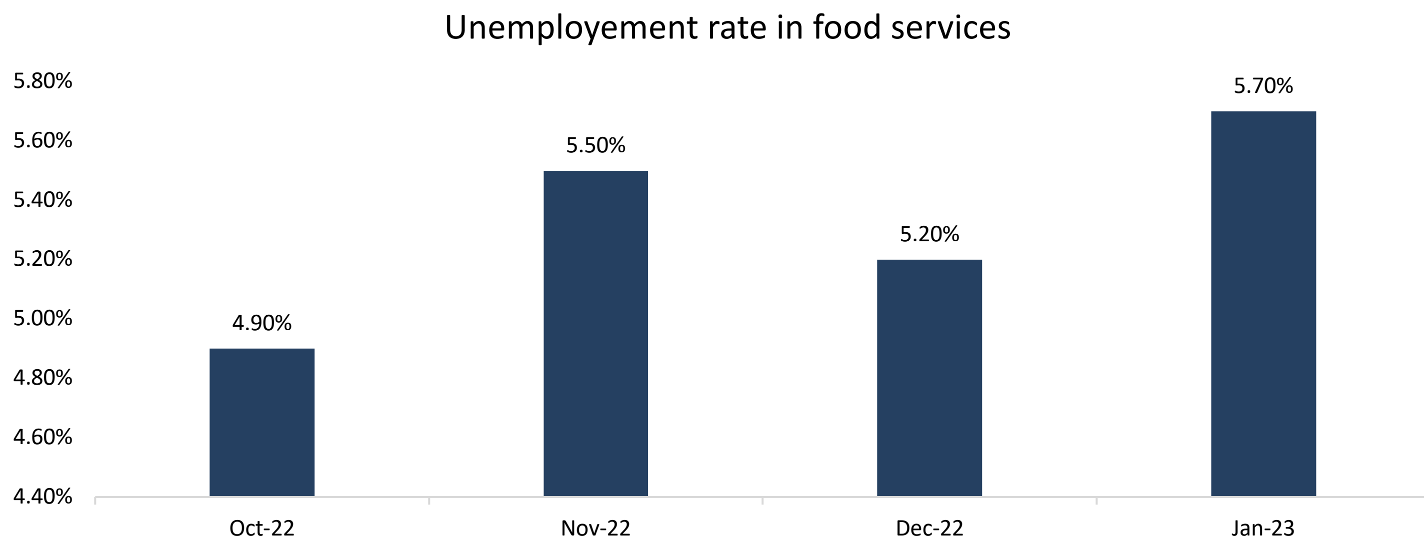
Historic Growth

The food and beverage (F&B) industry faced inflation and labour shortage pressures in 2022. Food and beverage businesses will likely encounter similar challenges in the near future as consumers remain uncertain about ongoing inflation, geopolitical issues, and the potential for a recession. These difficulties are significantly different from the earlier days of the pandemic when consumers were stockpiling goods.



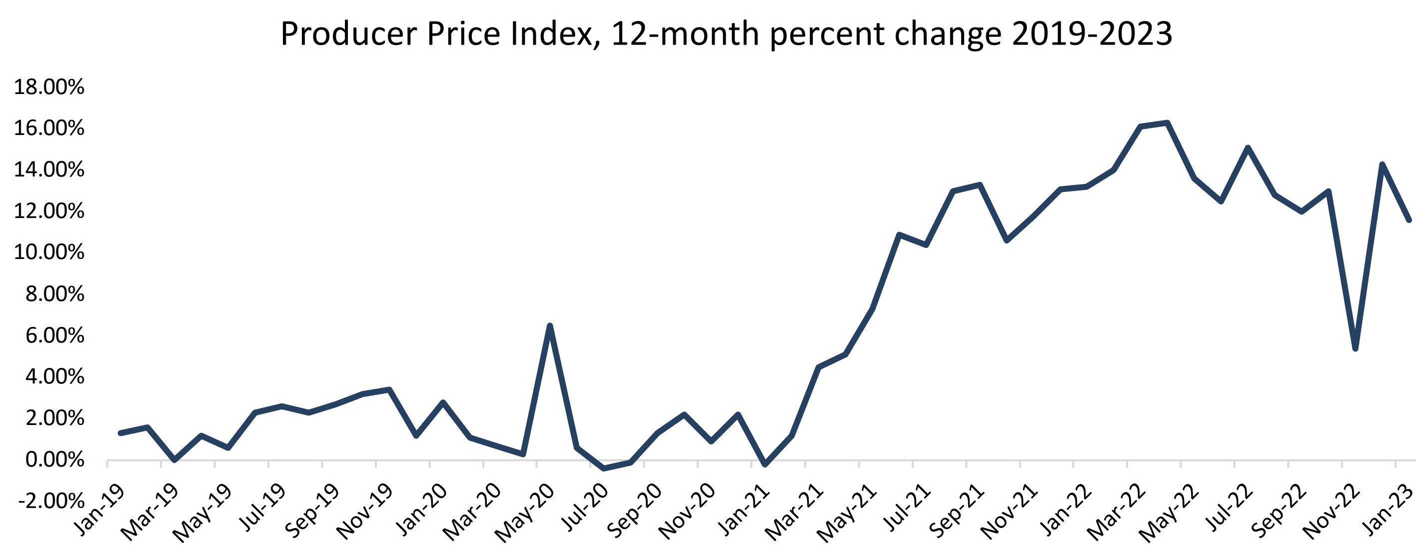
Labour

Labor remains a significant issue, as hiring must slow for interest rates to decrease. Although the technology sector appears to be hit the hardest, the food services industry is still experiencing higher unemployment due to the downturn of the economy. In the US, unemployment within the food services industry rose from 4.9% to 5.7% in 3 months, and accommodation and food services is the industry with the highest unemployment in Canada at 5.3%.



Rising Costs

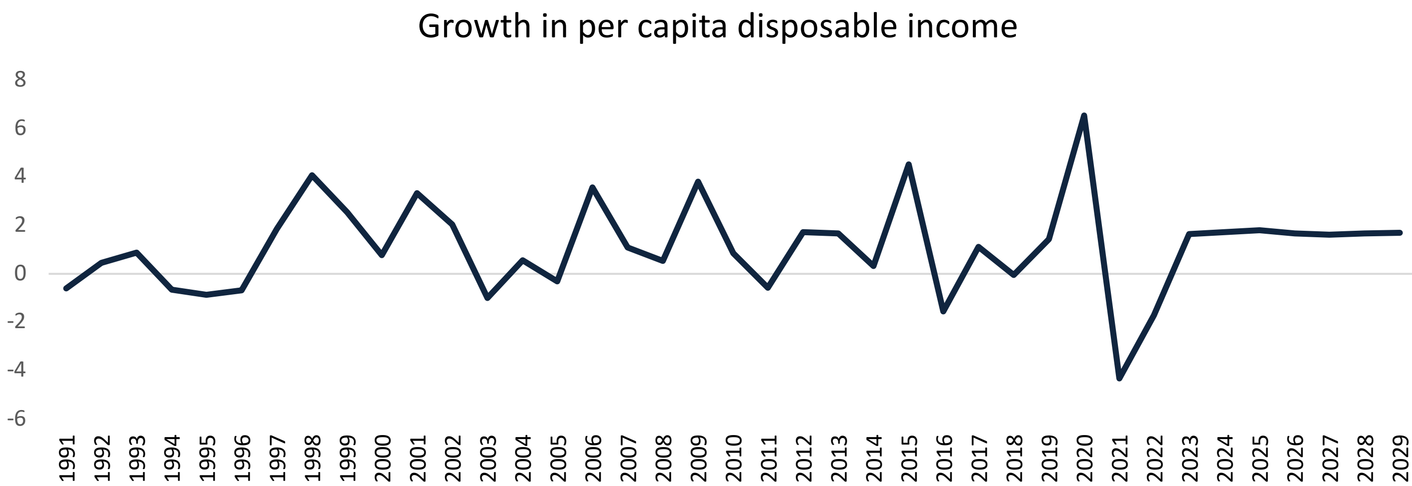
Food and beverage businesses will continue to experience margin pressure due to escalating costs. Although the increase in commodity prices has slowed down, it has not yet fully reached the entire supply chain. The year-over-year increase in the producer price index (which indicates what producers are paying their suppliers) remains in the low double digits. Additionally, the most influential commodity prices in the food and beverage sector are highly unstable and can be impacted by a range of factors, including weather patterns, geopolitical events, and policy decisions.



Industry Drivers

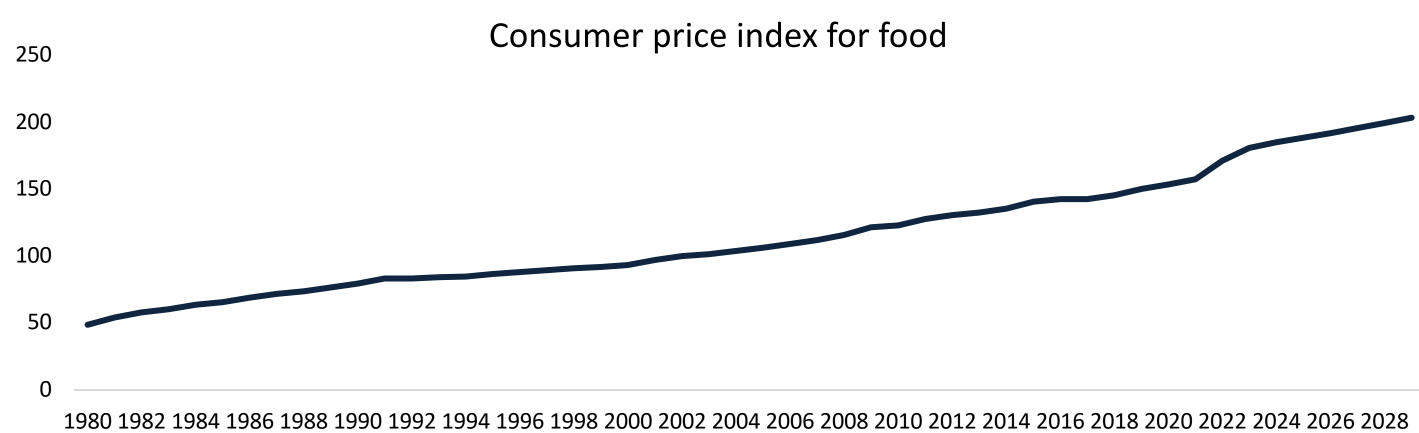
Per Capita Disposable Income

During the historic period, the food and beverage market was stimulated by the increase in disposable income levels in many countries. For example, India's disposable personal income increased from $3145.81 in 2020 to $3145.81 in 2021. The growth in per capita net disposable income resulted in increased consumer spending on food and beverages, including dining out with friends and family. This trend drove the market during the historic period. However, this could change due to the impending US recession.



Consumer Price Index for Food

Food prices in Canada increased in 2020 and 2021 due to the COVID-19 pandemic, low oil prices, supply chain issues, and increased costs for retailers. Inflation and external factors such as the war in Ukraine, labor shortages, and the Western Canadian drought led to a further increase in 2022. According to Canada's 2023 Food Price Report, prices for vegetables, dairy, and meat will continue to rise due to a weakening Canadian dollar and ongoing supply chain challenges. The consumer price index for food in Canada is expected to rise by 4.5% annually until 2023.



Trends

Premium Pricing for Healthier Items

Food manufacturers and marketers are capitalizing on consumers' growing interest in taking charge of their own health and wellness by offering foods with added ingredients that provide certain health benefits. There has also been a significant shift in consumers' willingness to pay a premium for products with desirable health and wellness attributes. According to surveyed consumers, 55% indicated that they are willing to pay more for food that promotes their health and wellness. Furthermore, 84% stated that they take into account the health and wellness benefits of fresh food when making a purchase, while 80% believe that fresh food is healthier than packaged or processed food that is marketed as healthy

Sustainable Packaging

In light of growing concerns regarding climate change, demand among consumers for environmentally friendly products, particularly those made from recycled or repurposed materials, have increased due to their biodegradability compared to petroleum-based materials. Sustainability is a growing concern among consumers worldwide, with 85% of individuals now considering sustainability when making purchasing decisions, according to Ipsos. Companies that ignore sustainable packaging may face challenges in the retail market, particularly when targeting Millennials and Gen Z who are interested in the materials and sourcing methods used. In the next five to ten years, beverage companies will focus on becoming carbon neutral through the use of rPET bottles, improved recycling, and a circular economy approach.

Home-made Convenience

Amid the pandemic, a significant number of consumers bought in-home appliances to simplify meal preparation. The surge in sales for air fryers and multi-cookers indicates that many households now own these appliances. As a result, manufacturers are expected to introduce more products tailored for these appliances, and existing products may include cooking instructions or recipes for them. According to Statista, the revenue in the ready-to-eat meals segment amounts to $47B in 2022, with 0.83% compound annual growth expected by 2026.

Contact Free Everything

The pandemic has necessitated adaptations in the hospitality industry, with the US experiencing a 110% increase in daily online grocery sales in April 2020 alone. New protocols implemented by foodservice establishments include QR codes, touchless menus, and payment options, and are all expected to stay as fundamental parts of the industry. Furthermore, there has been a significant surge in grocery delivery and curbside pickup methods, which reduce the necessity for in-store visits. US online grocery sales are projected to hit $187.7 billion in 2024, and searches for "food delivery app" have increased by 66% over the last 5 years.

Overview of Key Players

Nestle

Nestle S.A. (Nestle) is a Swiss multinational food and beverage company that operates globally. The company's operations are divided into three main segments: powdered and liquid beverages, milk products and ice cream, and nutrition and health science. Nestle's products are sold in over 190 countries, and the company is known for its iconic brands such as KitKat, Nescafe, and Maggi. Nestle has a diverse range of products and brands, with over 2,000 brands in its portfolio. The company operates over 2,000 stores worldwide and has a strong market presence in Europe, the Americas, and Asia. Some of Nestle's notable brands include Nespresso, Gerber, Purina, and Perrier. Nestle has been actively acquiring smaller companies to expand its product portfolio and gain access to new markets.

PepsiCo

PepsiCo has a vast portfolio of brands, including Pepsi, Lay's, Gatorade, Tropicana, Quaker, and Fritos. The company operates more than 23,000 stores worldwide, and its products are sold through a variety of channels, including supermarkets, convenience stores, and vending machines. PepsiCo has a strong market presence in North America, which accounts for around 60% of the company's total revenue. The company's international operations are focused on emerging markets, particularly in Asia, the Middle East, and Africa. PepsiCo has been investing heavily in these regions to drive growth and expand its market share.

Coca-Cola

Coca-Cola is a prominent player in the non-alcoholic beverage sector, engaged in the production and distribution of a broad range of non-alcoholic drinks such as carbonated and non-carbonated soft drinks, sports drinks, juices, and ready-to-drink teas and coffees. The company has a global presence in more than 200 countries and boasts a wide variety of brands in its portfolio, including Coca-Cola, Sprite, Fanta, Minute Maid, and Powerade. Coca-Cola's distribution model relies on a franchise system and covers a vast retail network of over 1.9 million outlets worldwide.

Unilever

Unilever is a major player in the consumer goods industry, involved in the manufacturing and distribution of a wide range of products such as food, beverages, personal care, and household items. The company has a global footprint, operating in more than 190 countries and owning a diverse portfolio of well-known brands like Dove, Lipton, Knorr, and Axe. Unilever's growth strategy revolves around innovation, expanding its presence worldwide, and emphasizing sustainability. The company has been acquiring smaller firms to bolster its portfolio, with recent purchases such as Dollar Shave Club and The Vegetarian Butcher. Unilever has a robust presence in both developed and emerging markets, with Europe, the Americas, and Asia serving as its primary regions of operation. The company's finances are solid, with steady revenue growth and a strong balance sheet.

Company Highlight: Loblaw Companies Ltd (TSE: L)

Canadian Grocery Retailer

Loblaw Companies Limited (Loblaw) is a Canadian food and drug retailer that operates a broad range of businesses in the grocery, pharmacy, health and beauty, apparel, and general merchandise sectors. The company's grocery operations account for the majority of its revenue and are anchored by its national network of retail stores and online channels. Loblaw also operates several private label brands and has a growing presence in the e-commerce space.

Internal Analysis

Loblaw has a leading market position across diversified but related businesses and a collection of strong assets, including its store base, e-commerce, private label and loyalty programs. The company's renewed focus on "retail excellence" delivered strong levels of profitability in F2021 though we see ample runway in the company's initiatives and believe Loblaw can deliver earnings growth in excess of its earnings framework over the near term.

External Analysis

Despite facing increased competition in the Canadian retail landscape, Loblaw has maintained its market-leading position and continues to pursue growth opportunities both domestically and internationally.

Trends and Driver

Driverless Trucks: Loblaw has been collaborating with Gatik Inc., a Silicon Valley-based autonomous technology firm, for roughly two and a half years to operate a fleet of five self-driving trucks equipped with cameras, laser sensors, and sonar. These trucks have conducted 150,000 trips without any safety issues or accidents, transporting online grocery orders from a fulfilment center to several pickup points across Toronto. Currently, all five trucks are operating in Toronto for 12 hours each day without a driver, making them the first autonomous commercial delivery vehicles in Canada.

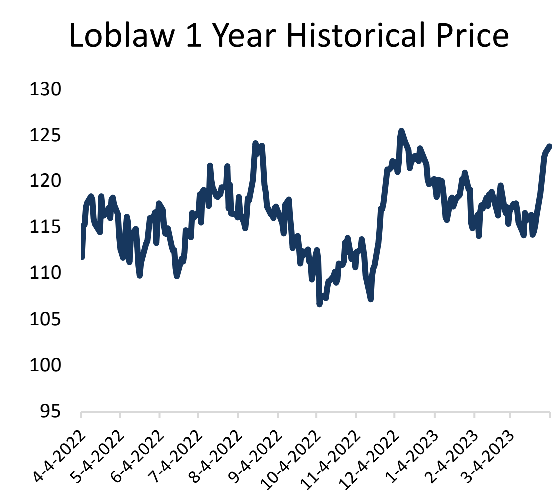
Fewer Trips and Less Contact: As the country comes out of a pandemic, the company noticed a change in consumer behavior. While store traffic increased, the amount of groceries bought per visit decreased in 2022. During the pandemic, customers shopped less often but bought more in

Equity Research	
Share Price (Mar 06. Close)	$117.58
Key Statistics	
52 Week H/L	126.29/105.41
Market Capitalization	37.94B
Average Daily Trading Volume	477.23k
Net Debt	17.61B
Enterprise Value	53.17B
Current Ratio	1.3x
Diluted Shares Outstanding	323.96M
Free Float	156.65M
Dividend Yield	1.38%

Westpeak's Forecast

	2022	2023E	2024E
Revenue	56B	57.8B	59B
EBITDA	6.1B	6.24B	6.37
Net Income	1.9B	2.1B	2.2B
EPS	$5.73	$7.53	$8.23
P/E	20.2x	20.7x	
EV/EBITDA	6.3x	8.2x	

1-Year Price Performance



one go. Many people opted for full-service stores to minimize trips outside the home. The result is increased curbside pickup and grocery deliveries.

Consumer Retail

IV. HPC

ANALYSTS

Frank Xue
Senior Analyst

WESTPEAK
RESEARCH ASSOCIATION

Household & Personal Care - Primer

Amid Turbulence

February 2023

The Household & Personal Care (hereinafter HPC) industry is comprised of five major sectors, Beauty and Personal care, Consumer Health, Home Care, Pet Care, and Retail Tissue & Hygiene. The report will provide a high-level overview of the industry followed by specific analysis on the Beauty and Personal Care and the Pet Care sector.

Industry Overview – Resilience to Inflation

The global HPC market reported a total retail revenue of $921.9B in 2022, achieving a lowered growth of 4.5% after the rebound from the pandemic in 2021. Among the subsectors, Home Care demonstrated the lowest growth of 1.54% whereas the leading Consumer Health sector grew by 6.46% over the same time horizon. Under the inflationary pressure throughout the last year, companies in HPC still demonstrated resilience and were able to pass part of the inflated cost to consumers with their strong pricing power.

Industry Outlook

As aforementioned, the strong pricing power has been able to drive short-term growth in the last 12 months for most of the staple sectors. By contrast, discretionary sectors like Beauty and Personal Care faced a decline in retail sales while product development was still a primary aim for main constituents. Across all sectors, multi-channel growth and the expansion of e-commerce continues to be important growth engine.

Industry Research	
Global Revenue	$921.9B
Annual Growth (Past 5 Years)	4.8%
Annual Growth (Next 5 Years)	5.0%
Key Companies	
Procter & Gamble	NYSE: PG
Enterprise Value	$359.4B
EV/2022 EBITDA	16.9x
The Estée Lauder Companies	NYSE: EL
Enterprise Value	$95.0B
EV/2022 EBITDA	22.8x
Kimberly-Clark Corporation	NYSE: KMB
Enterprise Value	$51.9B
EV/2022 EBITDA	13.4x
Johnson & Johnson	NYSE: JNJ
Enterprise Value	$435.1B
EV/2022 EBITDA	13.2x
Colgate-Palmolive Company	NYSE: CL
Enterprise Value	$70.7B
EV/2022 EBITDA	16.3x
Industry Financial Performance	

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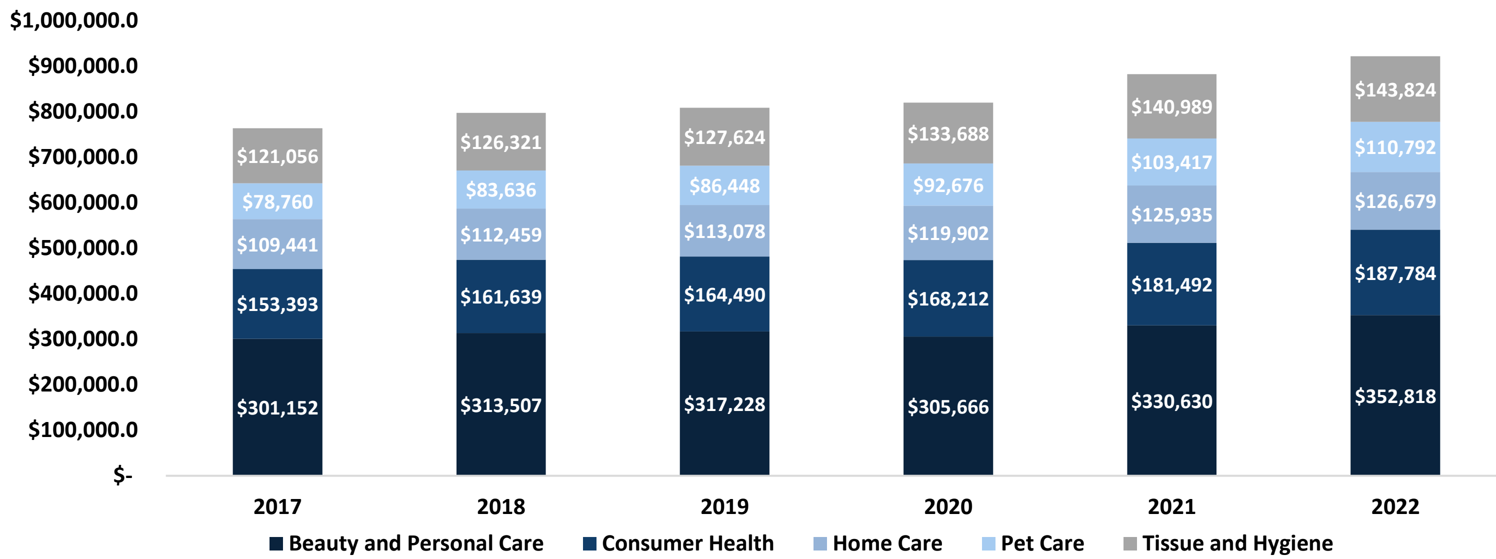
HPC OVERVIEW

Market Structure

The HPC market overall has five main sectors: Beauty and Personal Care, Consumer Health, Home Care, Pet Care, and Tissue and Hygiene. Beauty and Personal Care, accounting for approximately 38% of the total sales revenue of the industry has been the most important growth driver for the industry with the Pet Care growing rapidly to become the fastest-growing sector after the pandemic.

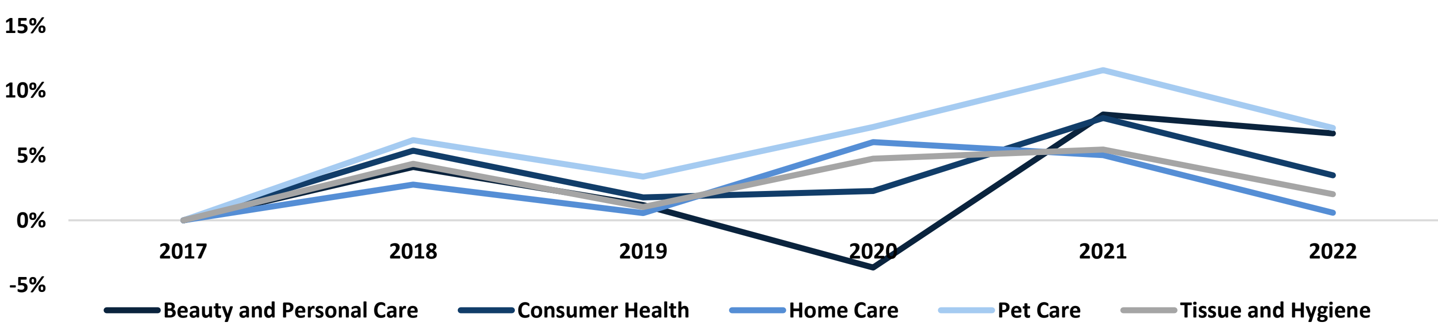


Global HPC Market Breakdown ($M)

Source: Euromonitor

Industry Overview

The HPC industry achieved a stable CAGR of 3.83% from 2017 to 2022. All sectors faced a decline in growth or contraction during the pandemic and quickly rebounded after the re-opening of main economic regions. However, supply chain disruptions and other new macro variables like hiking interest rates, inflation, and shifting consumer behaviors by the macro environment continue to threaten growth prospects from 2022 onwards. Across the five sectors, several common trends can be observed:

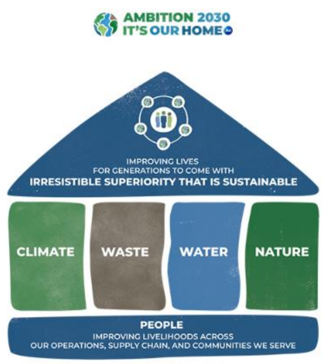


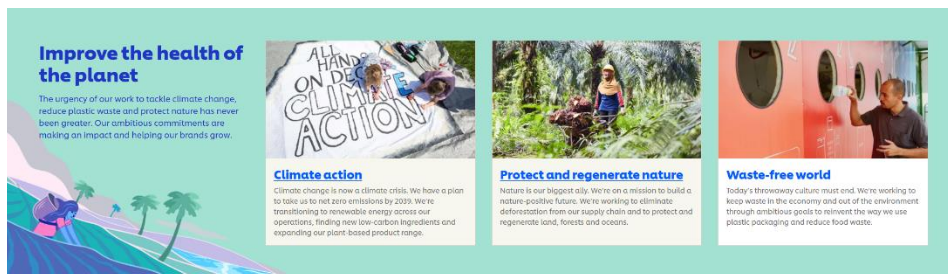
HPC Market Historical Growth (%)

Source: Euromonitor

Emphasis on Sustainability

Consumers still care about ESG claims: in a 2020 McKinsey US consumer sentiment survey, more than 60 percent of respondents said they'd pay more for a product with sustainable packaging. A recent study by NielsenIQ found that 78 percent of US consumers say that a sustainable lifestyle is important to them. Consequently, HPC brands have been investing heavily in incorporating ESG initiatives. Main players within the space have all launched their ESG campaignes, mainly focusing on addressing environmental impacts of their value chain and sourcing green ingredients. However, the return on such investment can vary. According to a Mckinsey study, 88% of the Private Labels made ESG claims were able to achieve outsized growth while only 50% of the top 60% sales contributors achieved the same growth.



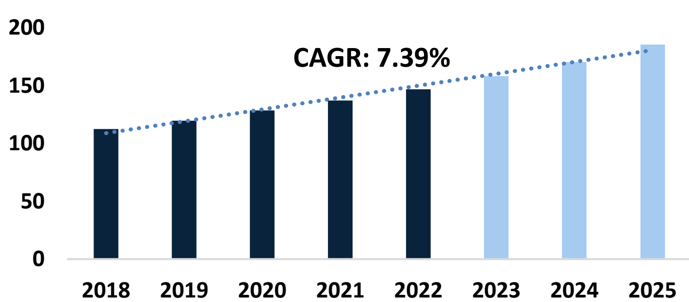


Green Initiatives launched by Unilever and P&G

Source: Company Website

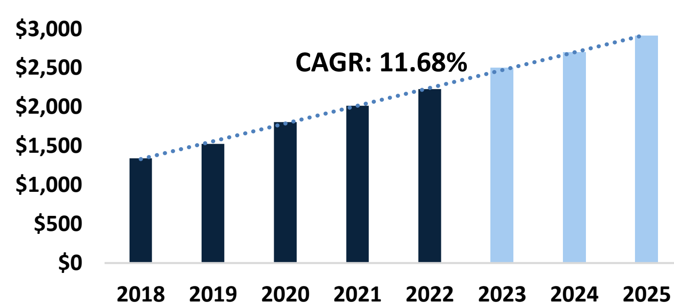
Health Consciousness

The global public health crisis has raised peoples' health consciousness. Although the lockdown has ended in 2022, the shift in behaviors has brought several permanent consumers to the category. As consumers become increasingly aware of the importance of their overall health and wellness, multiple product categories under consumer health such as dietary supplements, vitamins and minerals, and probiotics are expected to benefit from this trend.



Global Dietary Supplements Sales ($B)

Source: Euromonitor



Global Dietary Supplements Sales ($M)

Source: Euromonitor

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Competitive Landscape

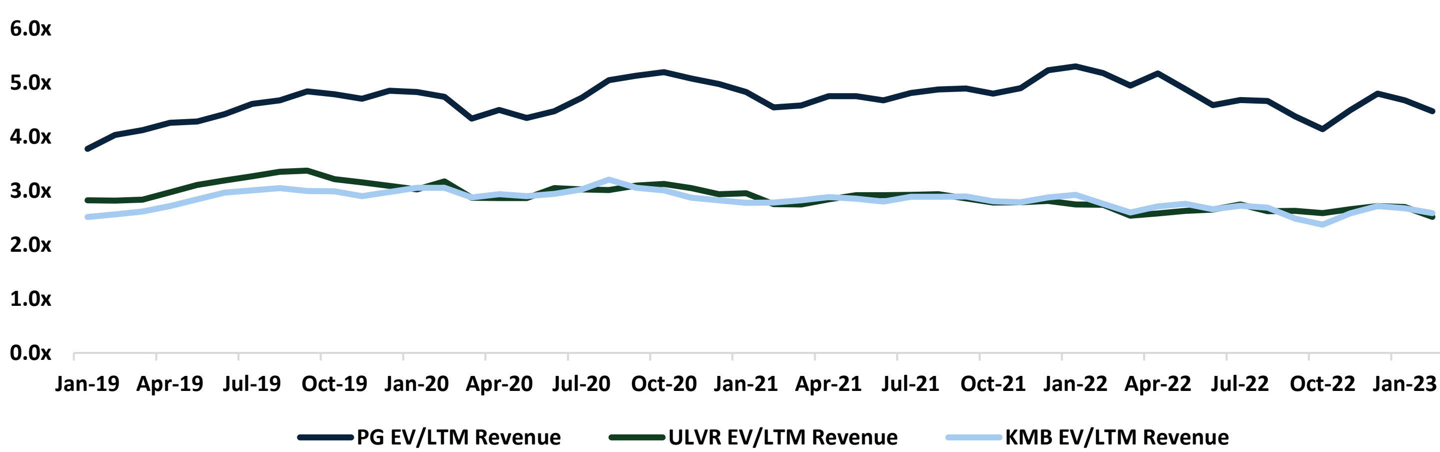
Beauty & Personal Care		Consumer Health		Home Care		Tissue & Hygiene		Pet Care	
Company	Share (%)	Company	Share (%)	Company	Share (%)	Company	Share (%	Company	Share (%)
L'Oréal Groupe	10.4	Private Label	5.7	Procter & Gamble	18.5	Procter & Gamble	14.2	Mars Inc	15.4
Procter & Gamble	7.7	GlaxoSmithKline Plc	5.3	Unilever Group	10.5	Private Label	14.2	Nestlé SA	15.1
Unilever Group	7.1	Johnson & Johnson Inc	3.3	Reckitt Benckiser	6.9	Kimberly-Clark Corp	13.1	Private Label	11
Estée Lauder	3.8	Bayer AG	2.9	Henkel AG & Co	6.8	Essity AB	5.6	Colgate-Palmolive	3.5
Colgate-Palmolive Co	3.3	Sanofi	2.3	Private Label	6.3	Unicharm Corp	4.3	JM Smucker Co	2.4
Private Label	2.7	Herbalife Nutrition Ltd	2	SC Johnson & Son	6.2	Hengan International	2	General Mills Inc	2.3
Beiersdorf AG	2.5	Amway Corp	1.7	Colgate-Palmolive Co	2.6	Georgia-Pacific Corp	1.6	Central Garden &	1.2
Johnson & Johnson	2.5	Reckitt Benckiser Group	1.7	Kao Corp	2.1	Daio Paper Corp	1.4	Unicharm Corp	1.2
Coty Inc	2.1	Nestlé SA	1.5	Clorox Co, The	2	Kao Corp	1.3	Spectrum Brands	1.1
LVMH	2	Procter & Gamble	1.4	Guangzhou Liby	1.5	Johnson & Johnson	1.3	Elanco Animal Health	1
Top 10 Brands	55.9	Top 10 Brands	72.2	Top 10 Brands	36.6	Top 10 Brands	41	Top 10 Brands	45.8

Leading HPC Brands (By Market Share)
Source: Euromonitor

The HPC industry overall is an oligopolistic industry with large-cap companies demonstrating a strong presence with their diverse product portfolios across different sectors. For example, P&G holds the leading position in both Home Care (18.5%) and Tissue & Hygiene (14.2%), while Unilever stayed strong in Beauty & Personal Care (7.1%), and Home Care (10.5%). By contrast, Pet Care is largely dominated by companies specializing in the industry such as Mars, Nestle, and other Private Labels.

In terms of the subsector structures, Consumer Health is the most segmented sector with Private Labels (5.1%) being the leading group of players. Beauty and Personal Care tends to have the highest industry concentration, with top 10 brands taking up 55.9% of the total market share.

Key Constituents



Historical HPC Major Constituents EV/Revenue Multiple
Source: Capital IQ

Procter & Gamble (NYSE: PG)

The Procter & Gamble Company provides branded consumer packaged goods worldwide. As the operator with the largest market cap in the HPC industry, P&G holds a diversified product mix under five segments: Beauty; Grooming; Health Care; Fabric & Home Care; and Baby, Feminine & Family Care. However, the over-diversified portfolio has also exposed the company to risks coming from consumers' various price sensitivities to different products. Net Sales remained at $41.4B, as growth in Health Care and Home Care are fully offset by a decrease in Grooming and Beauty segments. Under the dynamic macroeconomic and soaring commodity prices, the company's gross profit dropped 160 bps to 47.5%.

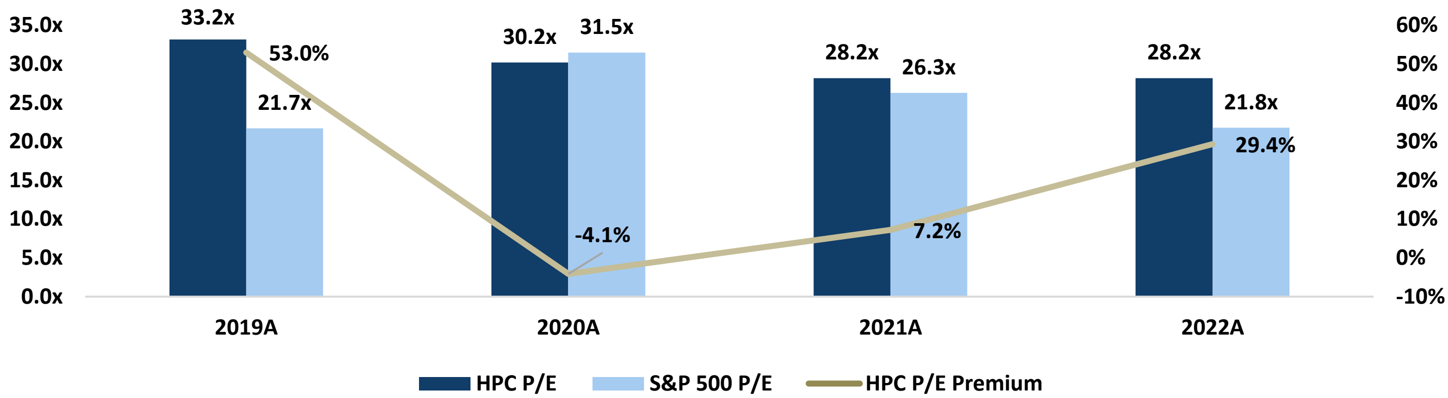
Unilever (LSE: ULVR)

Unilever PLC operates as a fast-moving consumer goods company. It operates through Beauty & Personal Care, Foods & Refreshment, and Home Care segments. Similar to other HPC companies, the growth for the past year was primarily driven by price increases with the decline in volume acting as a moderator. This was more pronounced in Home Care, which was particularly exposed to rising input costs and took the highest pricing action, leading to underlying sales growth of 10.7%. Beauty & Personal Care grew 7.5%, driven by price and continued strong growth in Prestige Beauty and Health & Wellbeing, which is Unilever's vitamins, minerals, and supplements business.

Kimberly-Clark (NYSE: KMB)

Kimberly-Clark Corporation, together with its subsidiaries, manufactures and markets personal care and consumer tissue products worldwide. It operates through three segments: Personal Care, Consumer Tissue, and K-C Professional. In February 2022, the company completed an acquisition of majority interest in Thinx, Inc., an industry leader in the reusable period and incontinence product market. The transaction, totaling $181M, is in line with Kimberly-Clark's strategic vision of expanding in the incontinence underwear category.

Industry Valuation

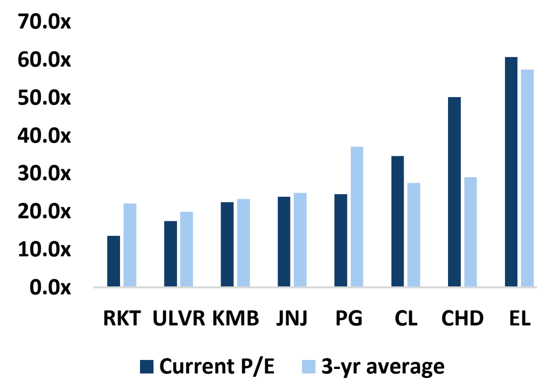


P/E Multiple Valuation

Source: Capital IQ

Sitting in the Consumer Staples sector, the HPC industries have historically traded at a premium over the S&P 500 index. However, the index rally in 2020 and 2021 led by tech stocks have largely diminished this premium. Looking back to 2022, investors became more pessimistic as the Federal Reserve started another round of rate hikes, cutting valuation in the public markets while allowing the resilient HPC stocks to trade at a premium of 29.4% again.

As for the valuation for individual companies, most of the HPC firms in the industry are trading at a discount to their 3-year average. However, Estee Lauder (NYSE: EL), Church & Dwight (NYSE: CHD), and Colgate-Palmolive Company (NYSE: CL) are still trading at a premium of 25.8%, 72.8%, and 5.7% respectively compared to their historical average.



P/E Multiple Comparasion

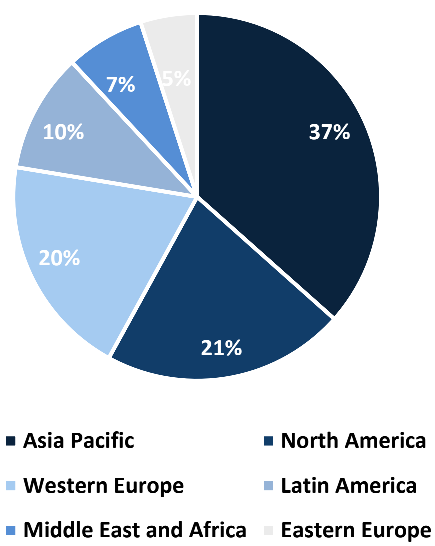
Source: Capital IQ

SUBSECTOR ANALYSIS

Beauty and Personal Care

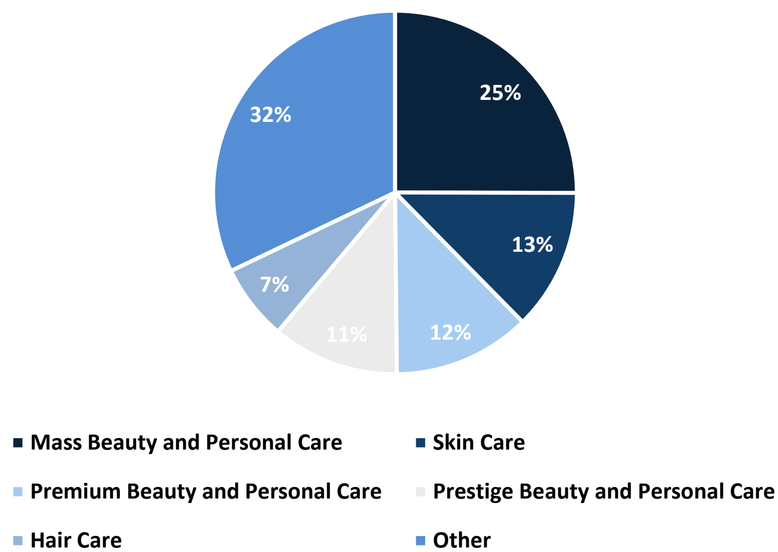
Subsector Structure

The beauty and Personal Care sector has been the largest sector within HPC, consistently contributing 38% of the total global sales revenue within the industry. The industry is poised for a 3.8% CAGR until 2026. In terms of geographical segmentation, Asia and the Pacific is the largest market across the globe, followed by North America, Western Europe, and Latin America.



Geographical Segmentation (%)

Source: Euromonitor



Product Segmentation (%)

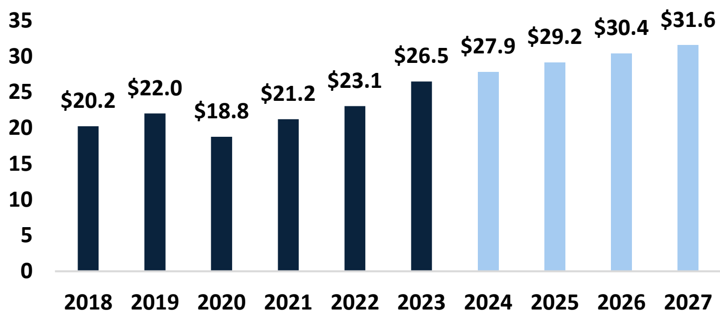
Source: Euromonitor

The Beauty and Personal Care industry is a highly product-segmented industry. Within the sector, there exist 16 different product categories, including Fragrance, Bath and Shower, Men's Grooming, Oral Care, Sun Care, and Skin Care, among others. The most competitive constituents in Beauty and Personal Care offer diverse product mixes. Beauty products, ranging from Mass Beauty Products to Prestige Beauty Products take up 48% of the total sales revenue. Within this segment, the market can be further categorized by price ranges, resulting in the three product categories shown above. Following Beauty Products are other main categories like Hair Care, Skin Care, and so on.

Global Growth Driver

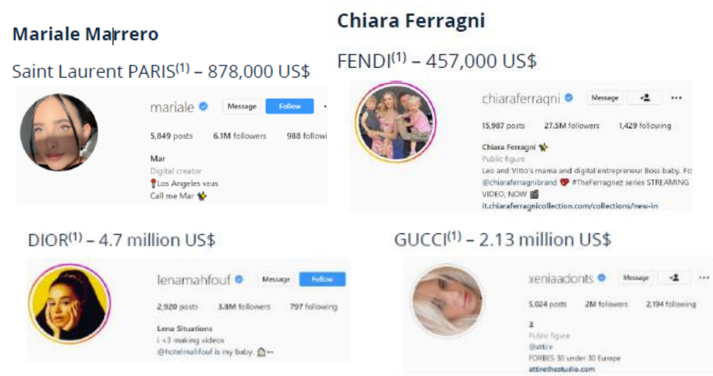
Brand Awareness

When the demographic expands, as it has over the past five years, the market opportunity for cosmetics manufacturers grows. More importantly, many brand-conscious young buyers such as Gen Zs and Millennials seeking prestigious brands have gained purchasing power. As a result, these shoppers choose designer cosmetics, which retail for far less than designer clothing. This trend has driven growth over the past five years and has encouraged the industry's major players to develop more products that successfully cater to this demand. This demographic has also been heavily affected by influencers, allowing influencers to generate millions of media impact value for luxury brands.



Global Luxury Cosmetics Revenue ($M)

Source: Statista



Select Top-Performing Influencers

Source: Company Social Media

Value Creation Through Limited Editions & Multifunctionality

As consumer discretionary spending declines in 2022, major luxury brands have quickly responded and adapted to the shift in consumer behaviors. Hermès's recent launch of lip oils, priced at $55, capitalizes on this desire for multi-benefit products. Not only have lip oils received a boost in demand after the lifting of mask mandates in most markets, but they also match the current "no make-up" make-up aesthetic for simple, streamlined routines.

Select Prestige Cosmetics & Product Launches
Source: Company Website

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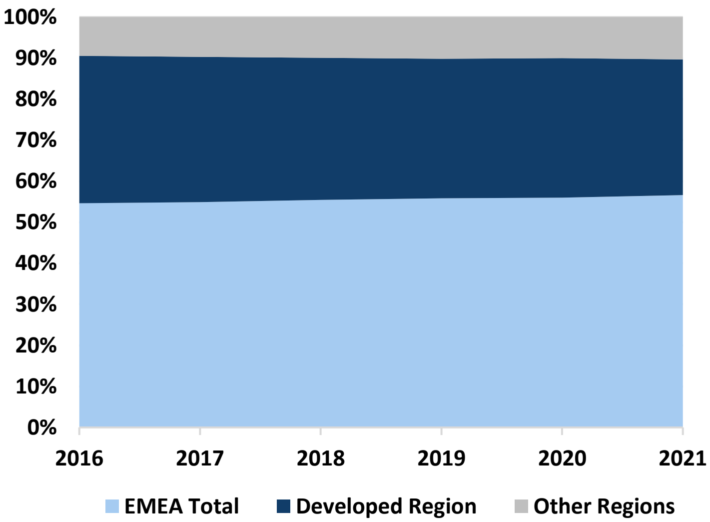
The deteriorating macro has also made consumers become more price sensitive. Consequently, luxury players have been capitalizing on another form of value creation through "emotional value". Limited edition collabs from luxury fashion brands have proven records in increasing newness and prestige among premium beauty consumers to drive revenue. For example, Chanel's autumn 2022 debut of eye shadow inspired by its iconic tweed designs combines the appeal of tweed and make-up, while the limited-edition nature drives newness and encourages consumption.

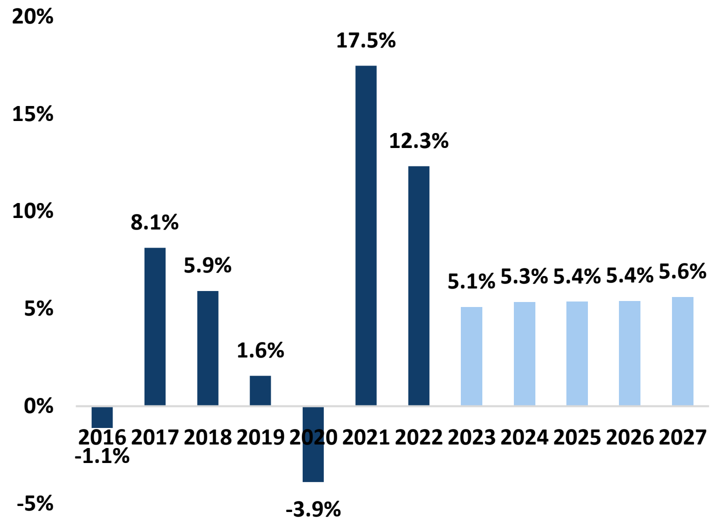
Emerging Market Income Per Capita

Mature markets like Western Europe and North America have limited room for drastic growth within traditional product segments. Henceforth, many industry operators are spreading their reach to currently underrepresented countries. Additionally, Emerging Markets also accounted for up to 55% of the total industry product volume. As growth in the Emerging Markets normalizes and the purchasing power continues, consumers in these countries will be able to afford more premium beauty products, effectively driving the total sales revenue globally.



Beauty & Personal Care Product Sales Volume (By Region)

Source: Euromonitor



EMEA Growth Prediction

Source: Inernational Monetary Fund

However, it remains uncertain when this growth driver will materialize. The sensitivity to the commodity price fluctuations and depreciation of local currencies to US Dollars has exposed these countries to higher inflationary pressure. Inflation in these regions is forecasted to reach 7.9% in 2023 and 5.8% in 2024. As of now, IMF still predicts that Emerging Markets will be able to maintain an average growth rate of 5% in the future five years.

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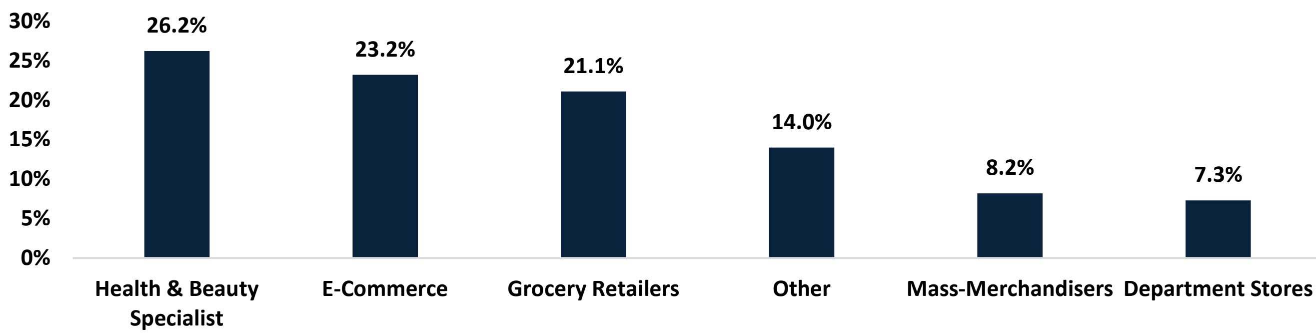
Key Trends

The Shift to E-Commerce Continues

As online product availability continues to increase, the retail channel for beauty and personal care products has also become more concentrated on e-commerce. As of 2022, e-commerce is the second-largest channel for beauty product distribution, closely following specialized health & beauty product stores.



Beauty Care Sales Breakdown (By Distribution Channel)

Source: Euromonitor

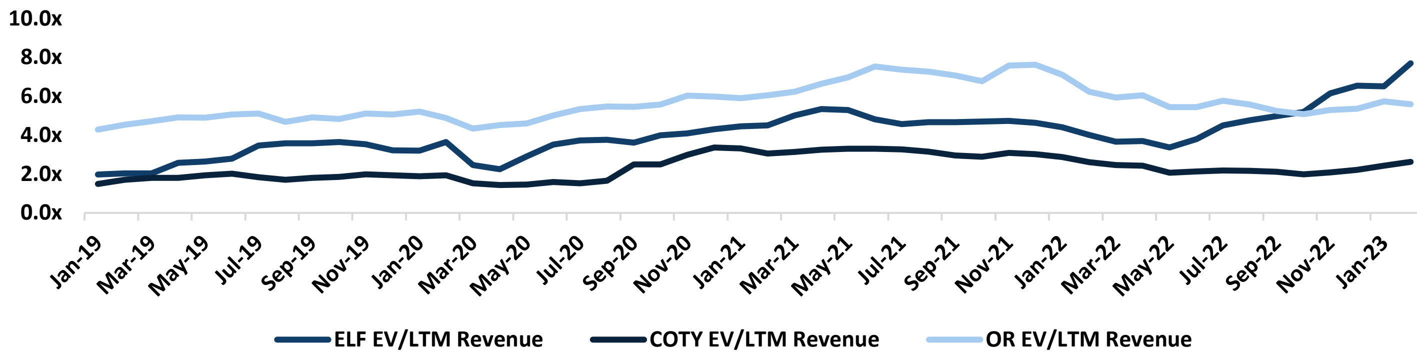
Price Increases Across Segments

While beauty purchases appear to be on the rise for now, so too are the prices for those products, with inflation leading brands to up their RRPs to cover higher labor and material costs. In addition, continued supply chain disruption also contributed to inflated product prices. Pricing for fragrances in main retail channels such as Ulta Beauty, Sephora, and Nordstrom has increased by 12% since 2020, while skincare has seen an 11% jump, and makeup has gone up by 7%. However, this negative trend poses different challenges to different segments of Beauty and Personal Care. This could have a larger negative impact on categories in which gains were based mainly on incremental purchasing, such as fragrances (e.g., fragrance wardrobe, layering, discovery kits, etc.), color cosmetics (e.g., color cosmetic sets/kits, eye make-up, etc.), and certain categories of skin care (e.g., face masks). On the other hand, rising unit prices may have less of an impact on personal care staples like oral care.

Private Label Penetration

As price increases remain to be a negative factor, consumers are more likely to trade down to private labels, creating gaps for private label brands to increase their penetration. Although dominant brands are still the bedrock of the beauty industry, private labels are still going to act as a disruptive force within the subsector.

Key Constituents



EV/LTM Revenue Multiples

Source: Capital IQ

Coty Inc. (NYSE: COTY)

Coty Inc., together with its subsidiaries, manufactures, markets, distributes and sells beauty products worldwide. It operates through Prestige and Consumer Beauty segments, with 62% of the 2022 total sales revenue coming from prestige beauty products. In addition to further growing the consumer beauty makeup segment, Coty is also implementing multiple expansion strategies such as building new skincare portfolios, building e-commerce expertise, and geographical expansion to China.

e.l.f. Beauty, Inc. (NYSE: ELF)

e.l.f. Beauty, Inc., together with its subsidiaries, provides cosmetic and skin care products under the e.l.f. Cosmetics, e.l.f. Skin, Well People, and Keys Soulcare brand names worldwide. The company offers eye, lip, face, face, paw, and skin care products. It sells its products through national and international retailers and direct-to-consumer channels, which include e-commerce platforms in the United States, and internationally primarily through distributors. Over the last fiscal quarter, the company was able to achieve $48.4 M growth in net sales, driven by both price and volume increases. Gross margin also increased to 67% from 66% when compared to the three months ended December 31, 2021, primarily driven by price increases, cost savings, and product mix, partially offset by inventory adjustments and costs related to space gains.

L'Oreal (ENXTPA: OR)

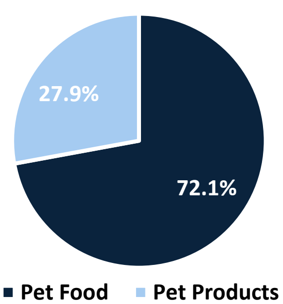
L'Oréal S.A., through its subsidiaries, manufactures and sells cosmetic products for women and men worldwide. The company operates through four divisions: Consumer Products, L'oréal Luxe, Professional Products, and Active Cosmetics. It offers shampoos, hair care products, shower gels, skin care products, cleansers, hair colors, styling products, deodorants, sun care products, make-up, perfumes, etc. With a balanced strategy between volume growth and value creation, the company achieved 18.5% growth in total sales revenue and an improved operating margin of 19.5% (+ 40 bps) in 2022. L'Oreal is poised to continue this momentum by keep building its multiple growth engines through diversifying offerings, technology, and innovation, and expanding multiple retail channels.

SUBSECTOR ANALYSIS

Pet Care

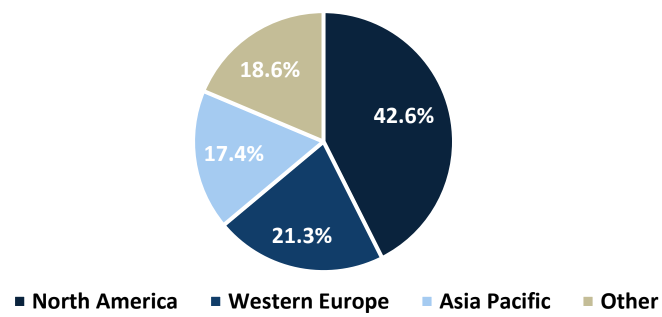
Subsector Structure

Pet Care has been the fastest-growing sector ever since the pandemic. With lockdowns across the globe and stay-at-home restrictions, people started spending more time with pets and gearing towards healthier and high-quality pet products. The industry can be segmented into two product categories: Pet Food (72.1%) and Other Pet Products (27.9%).



Pet Care Market Breakdown (By Product Segments)

Source: Euromonitor



Pet Care Market Breakdown (By Geography)

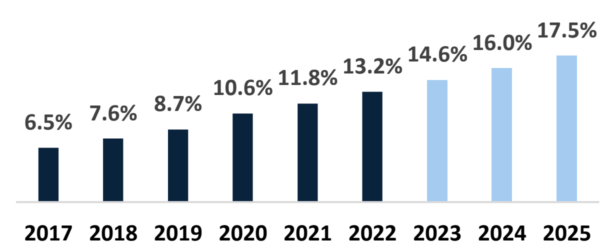
Source: Euromonitor

Geographically, the North American market is the dominant geographical region, taking up 42.6% of the global market share, followed by Western Europe, and Asia Pacific. Within North America, 68% of the U.S. and 60% of Canadian households own a pet. The common pet ownership in this region has created a huge market for operators within the Pet Care industry.

Global Growth Driver

Online Retailing & Subscription Model

As e-commerce continues to gain distribution share in pet care, online retailers such as Chewy have become prominent players. Recognizing the growth of this channel, most retailers have started to offer online ordering options for pet food and pet products. The convenience created by this option has increased product availability to consumers, fueling growth for e-commerce retailers. As of the end of 2022, the current percentage of revenue from online retailers is 13.2% and is poised to grow to 17.5% in 2025. This boom in online orders has given way to a sharp rise in subscription models within pet care. Many premium dog and cat food brands offer subscriptions, making it easy for consumers to ensure that food will be delivered to their homes at regular intervals.



Pet Care Online Retail Revenue (%)

Source: Euromonitor

Consumers Chasing Premiumization

Consumers want the best for their pets and view their pets as cherished family members. This rise in pet humanization during the pandemic has led many consumers to seek out ways to ensure that their pet has long, healthy life. Such consumer behavior has driven organic growth for the industry as operators continued to supply nourished, and healthy products. Additionally, such consumer preference also demonstrated a stickiness despite the inflationary pressure in 2022. According to a recent survey by 84.51°, only 7% of consumers are trading down for lower-cost brands in pet food, whereas 52% of respondents are cutting back on other categories.

Bolsting M&A and Financial Sponsor Activities

The tailwind in pet care created by the pandemic has allowed multiple brands to achive organic growth. Hence the transaction volume in pet care saw historical highs in 2021 and 2022. Both strategic buyers and financial buyers stayed active for different incentives. Strategic buyers, mainly large public companies, continued to seek and acquire mature brands that grew rapidly throughout the pandemic.

2022

SWEDENCARE

Has Acquired

NaturVet

$447.5M

2021

ADM

Has Acquired

P4 Companies

$450.0M

2022

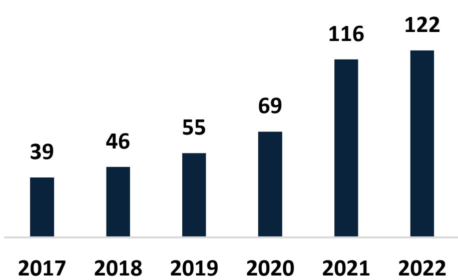
H&H Group

Has Acquired

Zesty Paws

$610.0M

Having seen the recession-resilient growth throughout the pandemic, PE firms also started actively deploying dry poweders into the Pet Care space. The deal count for leveraged buyouts from PE investors in 2021 and 2022 totaled 116 and 122, respectively. Active PE firms, mainly mid-market funds, have brought market intelligence into the space, allowing Pet Care companies to streamline their operations and accelerate industry integration through roll-up acquisitions.



Pet Care LBO Deal Count

Source: Pitchbook

Date	Target	Buyer	Enterprise Value ($M)	EV/Revenue	EV/EBITDA
2022.02.01	The Garmon Corporation	Swedencare (OM: SECARE)	$475.0	-	22.7X
2022.01.04	Oxbow Enterprises	Manna Pro Products	$135.0	1.4X	-
2021.12.04	GlobalOne Pet Products	Nextmune	$80.0	4.0X	16.0X
2021.08.23	Zesty Paws	Health & Happiness (SEHK:1112)	$149.0	1.3X	18.0X

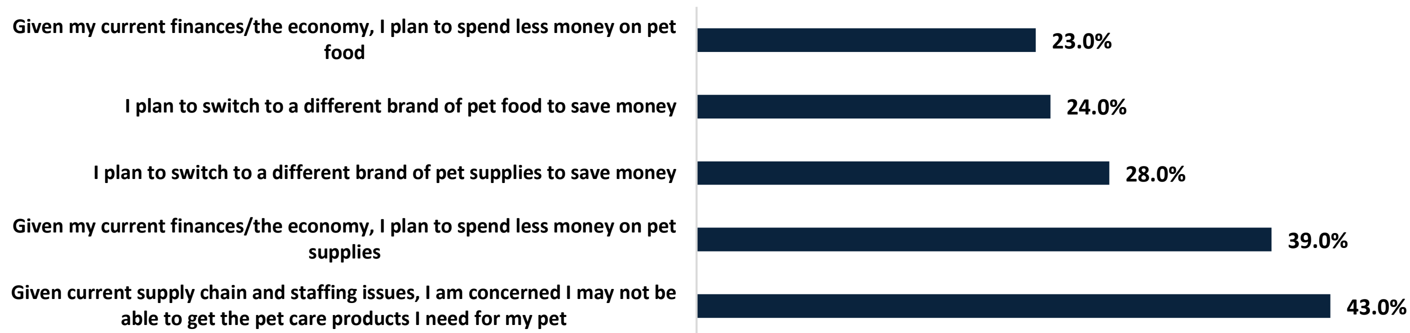
Pet Care Select Transactions

Source: Pitchbook

Key Trends

Continuous Price Inflation

As supply chain issues worsen and food becomes less available and more expensive, consumers are likely to be more concerned with being able to find and afford their preferred pet foods. Looking at the U.S., the largest pet care market across the globe, the overall annualized 2022 CPI was at 8% while Pet Care was 8.9%, nearly a full point more although tracking closely. Like other consumer goods, this inflation was mainly attributable to inflated ingredient costs and labor costs. Although consumers still aren't willing to trade down, they are still becoming concerned about how their current employment and financial status will influence their affordability in the future.



Consumer Attitude on Pet Care Product Purchases Under Inflation (2022)

Source: Statista

Shift of Growth Engine

One of the primary drivers for growth within the subsector in the past two years was increases in pet ownership. To capture this opportunity, companies invested heavily to expand their production capacity and confront the challenge posed by supply chain issues. Several examples are Hill's $700M investment in the acquisition of three Red Collar Pet Foods facilities, Mars and Nestle Purina Investments in 2022, as well Mars' acquisition of 10th global player, Champion Petfoods. Although the growth in pet ownership is projected to normalize after the re-opening of main regions and countries, this trend in integration will allow the industry to keep growing as more value creation is finished through deal synergies.

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The Estee Lauder Companies Inc. (NYSE: EL)

Consumer Retail - HPC

Gloomy Outlook

March 6, 2022

The Estee Lauder Companies Inc. ("Estee Lauder" or "The Company") is a leading prestige beauty and personal care product manufacturer headquartered in New York, New York. Across four different product segments, the company has a diverse portfolio offering products from a variety of retail prices for 150+ countries and territories.

External Analysis – Deteriorating Macros

The challenging macro environment in 2022 has led to demand contraction for all of Estee Lauder's product lines. The premium skincare segment faced a decline of 25% in sales while makeup and fragrance faced 9% and 3%, respectively. Although the pricing ability partially offset this decline, reduced volume resulted from decreasing consumer disposable income, and the shift from premium products posed a significant challenge for the company's revenue profile. The soaring commodity prices and disrupted supply chains have also contributed to a contraction in margins.

Drivers – Internal Growth Engines

The industry leader has been implementing both organic and inorganic growth strategies in a global landscape. Over the past two years, the company has made investments in 6 different firms, such as Tom Ford International, FemTec Health, and DECIEM. The investments and acquisitions, mainly focusing on emerging technologies and other prestige beauty brands, will allow Estee Lauder to further take advantage of the next upward cycle, compounding growth in the long run.

Valuation – Limited Upside

The significant macro headwind has made investors increasingly pessimistic about the growth prospects for Estee Lauder. After reaching a peak of $370.20 in December 2021, the company's share price has declined by 47.1%. With a negative past performance and gloomy growth outlook, we recommend a **Sell** rating for Estee Lauder. This is based on our output for intrinsic valuation where the free cash flow generation is weakened in the forecast period due to thinner margins and shrinking sales revenue.

Equity Research	US
Price Target	**USD$ 236.02**
Rating	Sell
Share Price (Mar. 6 Close)	USD$ 251.69
Total Return (1 Year)	-13.48%

Key Statistics	
52 Week H/L	$289.59/$250.60
Market Capitalization	$90.5B
Average Daily Trading Volume	$1.58M
Net Debt	$3.9B
Enterprise Value	$95.2B
Net Debt/EBITDA	1.2x
Diluted Shares Outstanding	$357.2M
Free Float	64.5%
Dividend Yield	1.0%

WestPeak's Forecast

	2022A	**2023E**	**2024E**
Revenue	$16.4B	$16.7B	$18.8B
EBITDA	$3.33B	$3.28B	$4.40B
Net Income	$2.39B	$1.80B	$2.62B
EPS	$6.55	$5.02	$7.28
P/E	60.95x	50.14x	34.58x
EV/EBITDA	22.80x	28.81x	21.49x

1-Year Price Performance

GLOBAL EQUITY | MARCH 2023

Healthcare

Life Sciences Tools and Diagnostics (LSTDx)

ANALYSTS

Terence Cheung
Senior Analyst

WESTPEAK RESEARCH ASSOCIATION

Life Sciences Tools and Diagnostics - Primer

Normal is the New Normal

March 10, 2023

The Life Sciences Tools and Diagnostics (LSTDx) industry is a fundamental piece of the Pharmaceutical, Biotechnology, and Life Sciences sector due to the importance it plays in helping institutions diagnose, treat, and prevent infections. The industry is synonymous with serving as the "picks and shovels."

Industry Overview – Normalcy, a Calling for Differentiation

LSTDx is currently undergoing a normalization phase, with peak demand for bioprocessing materially decreasing as the economy exits the pandemic. This has led to valuations and share price performances relative the beginning of 2022 to be much lower. Companies need to decide on which strategies will differentiate them to capture growth, expand margins, and other metrics as soon as normalization ends.

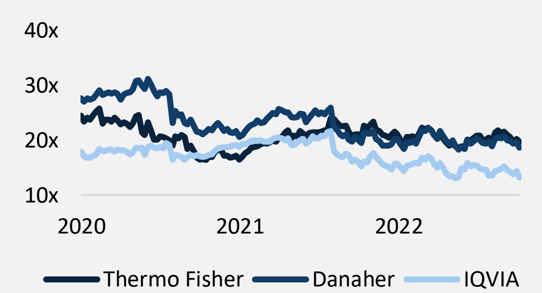
Industry Drivers – Molecular Diagnostics and Point-of-Care

Rising demand for targeted, personalized medicine has cemented molecular diagnostics as an interesting target market for Life Sciences Tools and Diagnostics companies as algorithms and data analysis on a person's characteristics (i.e., genetics and lifestyle) continue to improve. Additionally, point-of-care's (PoC) fast turnaround times and convenience have heightened interest among end markets, incentivizing LSTDx companies to cater towards this.

Industry Valuation – Traditional Metrics and Others

The most common valuation method in the Life Sciences Tools and Diagnostics industry is EV/EBITDA (earnings before interest, taxes, depreciation, and amortization). It flourished during the COVID-19 pandemic, but has now come down due to the economy exiting the pandemic and the absence of revenue growth, margins, and profitability across a majority LSTDx companies.

Industry Research (US$)	
Industry	**LSTDx**
Global Revenue (2022)	209.4B
Key Companies (US$)	
Thermo Fisher	NYSE: TMO
Enterprise Value	238.1B
EV/EBITDA	20x
Danaher Corporation	NYSE: DHR
Enterprise Value	191.2B
EV/EBITDA	19x
IQVIA Holdings	NYSE: IQV
Enterprise Value	48.9B
EV/EBITDA	13x
ICON	NYSE: ICLR
Enterprise Value	22.1B
EV/EBITDA	13x
Avantor	NYSE: AVTR
Enterprise Value	20.5B
EV/ETBIDA	13x
EV/EBITDA	**Top 3**



Pharmaceuticals, Biotechnology, and Life Sciences

Sector Overview

At just over US$1.7T in global sales (FY 2022), Pharmaceuticals, Biotechnology, and Life Sciences plays a critical role in the global health care sector. The United States accounted for 65% of sector activity, while Switzerland and the United Kingdom followed with 10% and 6%, respectively. However, emerging countries (i.e. China) are expected to come online in the next couple decades as investments and capital allocation in such areas continue to increase. Pharmaceuticals, Biotechnology, and Life Sciences can be broken down into three segments: Pharmaceuticals with a weighting of 61%, Biotechnology (23%), and Life Sciences Tools and Diagnostics (16%). Between the three groups, the Life Science Tools and Diagnostics industry serves as the "picks and shovels" for companies operating in Pharmaceuticals and Biotechnology, which will be explored throughout this report.

Exhibit 1: Pharmaceuticals, Biotechnology, and Life Sciences Characteristics

Segmentation and Performance	
Number of Constituents	75
Mkt Cap	**(USD Millions)**
Sector	4,503,558
Largest	402,948
Smallest	2,202
Average	60,047
Median	19,982
Gross Returns	**(%)**
3 Months	-6
1 Year	2
5 Year	9
10 Year	10

Top 10 Constituents	Country	Float Adj Mkt Cap (USD Billions)	Index Wt. (%)
Johnson & Johnson	US	402.95	9
Abbvie	US	272.11	6
Merck & Co	US	269.14	6
Lilly (Eli) & Company	US	251.36	6
Novo Nordisk B	DK	234.99	5
Pfizer	US	227.69	5
Thermo Fisher Scientific	US	212.26	5
Astrazeneca	GB	204.1	5
Roche Holding Genuss	CH	203.74	5
Novartis	CH	182.99	4
Total		2461.33	55

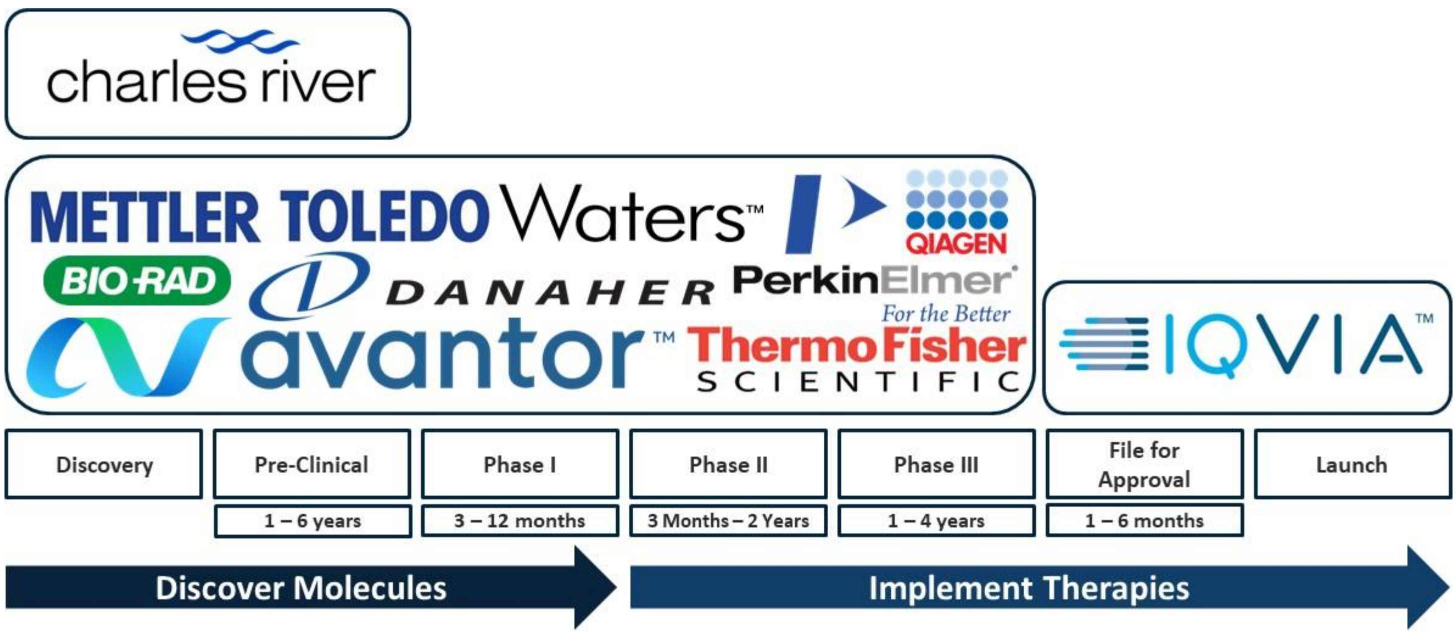
Source: MSCI

Life Science Tools and Diagnostics

Industry Overview

With sales of approximately US$210.1B and an 8-year (2022 – 2030) CAGR of 15%, the Life Sciences Tools and Diagnostics (LSTDx) industry plays a leading role in the global effort to enable institutions to diagnose, treat, and prevent infections as 70% of clinical decisions rely on diagnostic tests. The largest end markets that the LSTDx industry is exposed to can be segmented into four categories, with 49% of revenues deriving from Pharmaceuticals, Industrial/Applied (29%), Clinical (26%), and Government/Academic (10%). LSTDx companies are extremely embedded in the end markets that they participate in, seen with Exhibit 2 (albeit simplified) illustrating where they are positioned throughout the development of pharmaceutical drugs. Additionally, the Good Laboratory Practice (GLP) regulations from the US Food & Drug Administration (FDA) sets the minimum standard for operating procedures, including the quality of equipment used. This incentivizes biotechnology and pharmaceutical companies to rely on authorized tools and diagnostics systems, which is also reflected in Exhibit 2. Generally, the products and services that are offered measure the mass, density, composition, or quantities of a compound or chemical. For instance, a liquid chromatography separates molecules in a liquid mobile phase using a solid stationary phase. As the industry pioneers into 2023 and beyond, winners will materialize based on their ability to retain a talented workforce that can drive innovation in-house, solidify customer loyalty to maximize recurring revenue, and perform accretive mergers and acquisitions that can bolster the strength of their existing portfolios.

Exhibit 2: Life Sciences Tools and Diagnostics in the Pharmaceuticals Value Chain



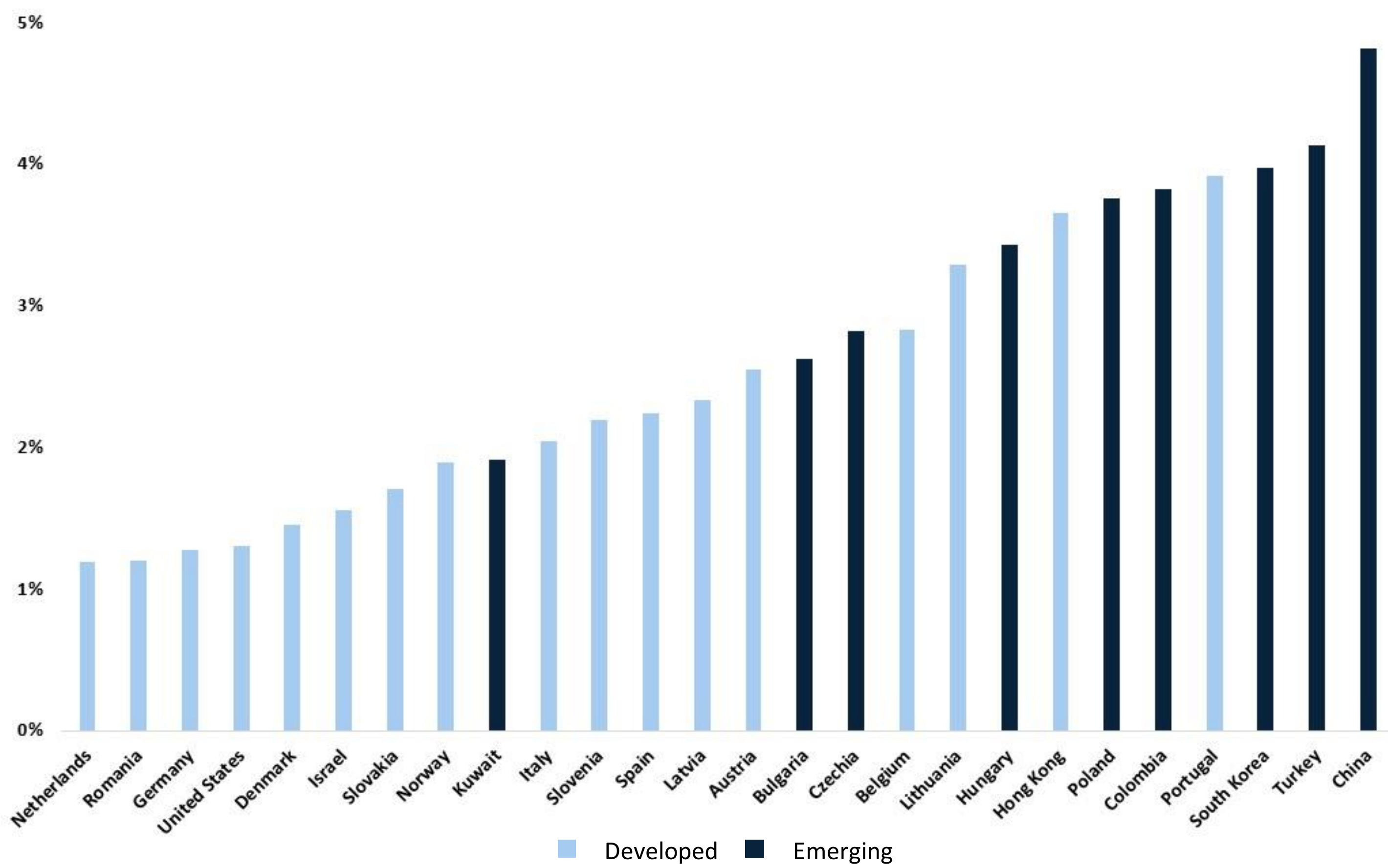
Source: WestPeak Research

Key Trends — Instruments vs Bioprocessing, Emerging Countries, Mergers and Acquisitions

Instruments vs Bioprocessing: The LSTDx industry is experiencing a Covid unwind, creating a sharp rotation out of bioprocessing exposed names (i.e. Danaher, Thermo Fisher, Avantor) and into instrument heavy, Covid clean names (i.e. Agilent, Waters, Brucker) as they have been the most durable aspect of the post Covid recovery. Companies, like Danaher and Thermo Fisher, need to work through Covid vaccine inventory build ups, resulting in inventory issues, fluctuations in lead times, and lower overall growth, which will last through Q1 2023. While Covid clean stories are not experiencing challenges with the Covid unwind and will grow relatively strong through 1H23, bioprocessing historically has yielded higher margins and more defensive characteristics given its recurring nature. Therefore, as both markets normalize by 2H23, with instrument replacement cycles and the inventory situation having returned to normal standards, we expect to see the market prefer bioprocessing once again.

Emerging Countries: Emerging countries are prime targets for LSTDx constituents and are increasingly investing into manufacturing and distribution facilities, and salesforce efforts to maximize brand recognition with the hopes of capitalizing on long-term, high growth opportunities as governments begin to prioritize health and safety. While companies reap the benefits of rapidly growing markets, they are vulnerable to political risks and rapidly evolving landscapes that are specific to each country. China serves as a notable example, with companies facing the government's Value Based Pricing (VBP) policy where large volumes can be bought at low prices, resulting in the value of medical devices being suppressed. It has led to an average price reduction of nearly 80% and a maximum of 98% for devices on the list. Despite it only encompassing names in MedTech, the number of devices on the VBP has expanded throughout 2022 and could find itself in the LSTDx industry. Companies like Danaher (NYSE: DHR), Mettler-Toledo (NYSE: MTD), and Agilent Technologies (NYSE: A) will be impacted as China accounts for 10 – 20% of their total revenues.

Exhibit 3: CAGR of Gross Domestic Expenditure on R&D (GERD) as % of GDP (2000 – 2020)



Source: Organisation for Economic Co-operation and Development (OECD)

Mergers and Acquisitions: Given valuations have come down over the past year, there could be a significant number of opportunities for mature companies to perform acquisitions. Balance sheets are relatively flush, especially companies that generated Covid related cash flows, and while the cost of capital has increased, we believe that this encourages companies to be more diligent and focused on potential synergies from an acquisition rather than limit their activity. Acquisitions will primarily be conducted in Biopharma as it continues to be the fastest growing end market, showcasing 8% growth in 3Q 2022 compared to the -1%, 1%, and 6% with Industrial/Applied, Clinical, and Academic/Government, respectively. However, accretive targets can be difficult to find given that many of their valuations have come down because of the absence in the growth, margins, and profitability that investors look for in the current macro environment.

Exhibit 4: Mergers and Acquisitions in Life Sciences Tools and Diagnostics

HITACHI / invivoscribe	BV Battery Ventures / LI-COR	ThermoFisher Scientific / PPD
Acquisition *May 2022*	***Investment*** *December 2021*	***Acquisition*** *December 2021*

Source: WestPeak Research

Growth Drivers —Molecular, Point-of-care (PoC)

Molecular: Molecular diagnostics is the fastest growing segment within the diagnostics market, registering a CAGR of 7% for 2022 – 2025, as it supplies diagnostic tests (i.e. reagents, assays, kits) and instruments. The most common use cases include clinical pathology, epigenetics, immunotherapy, endocrinology, and toxicology for the development of targeted, personalized medicine (i.e. understanding an individual's genetic makeup to improve therapeutic outcomes), which serves as a key secular tailwind. The use of sequence-specific primers and probes in assays allows for testing to detect multiple pathogens in one test run, compared to nucleic acid amplification tests (NAT) detecting the presence of only a single copy of nucleic acid from a single organism.

Point-of-Care (PoC): PoC testing is defined as the diagnostic testing that is performed outside traditional clinics and laboratories. Features of PoC testing include a rapid turnaround time, the use of smaller, more efficient benchtop or handheld analyzers, and someone who isn't an accredited laboratory professional performing the test. A common example are the blood gas analyzers that are usually found in emergency departments or ICU settings due to their simple interfaces, reduced time to return results, and close proximity from patients. Given these characteristics, PoC is an attractive market for LSDTx companies to deviate towards.

Competitive Landscape

The LSTDx space is large and fragmented, with Thermo Fisher and Danaher accounting for approximately 19% and 17%, respectively, of market share, with the rest accounting below 4%. However, one commonality across companies is their razor-razor blade business model (e.g. DHR sells or leases a diagnostics machine to a hospital and makes additional money off recurring cartridge sales).

Thermo Fisher (NYSE: TMO)

Thermo Fisher is the largest player in the LSTDx industry, it dwarfs other companies with its US$215.4B market cap and US$44.9B in revenues (FY 2022). While bigger is not always better, the company is the premier life science supplier with an elite portfolio of products, resources, and manufacturing capabilities that enable it to meet client needs at scale. From its long-term commitment to accumulate as many robust product offerings under one roof, it has reached its aspirations of serving as a one-stop shop of life science instruments and consumables.

Danaher Corp. (NYSE: DHR)

Following closely behind Thermo Fisher, Danaher is the second largest company in the LSTDx space, with US$184.3B in market cap and US$31.5B in revenues (FY 2022). The company has been an active portfolio manager for several decades and with the Danaher Business System (DBS), it has positioned itself as a decentralized organization (i.e., each organization has their own P&L, R&D budgets, control over customer relationship), with accountability to DHR. Danaher's acquisition focused strategy has helped it penetrate attractive end markets with strong growth and sticky revenue streams. Notable acquisitions include Beckman Coulter, Pall, Cepheid, Cytiva, and Aldevron.

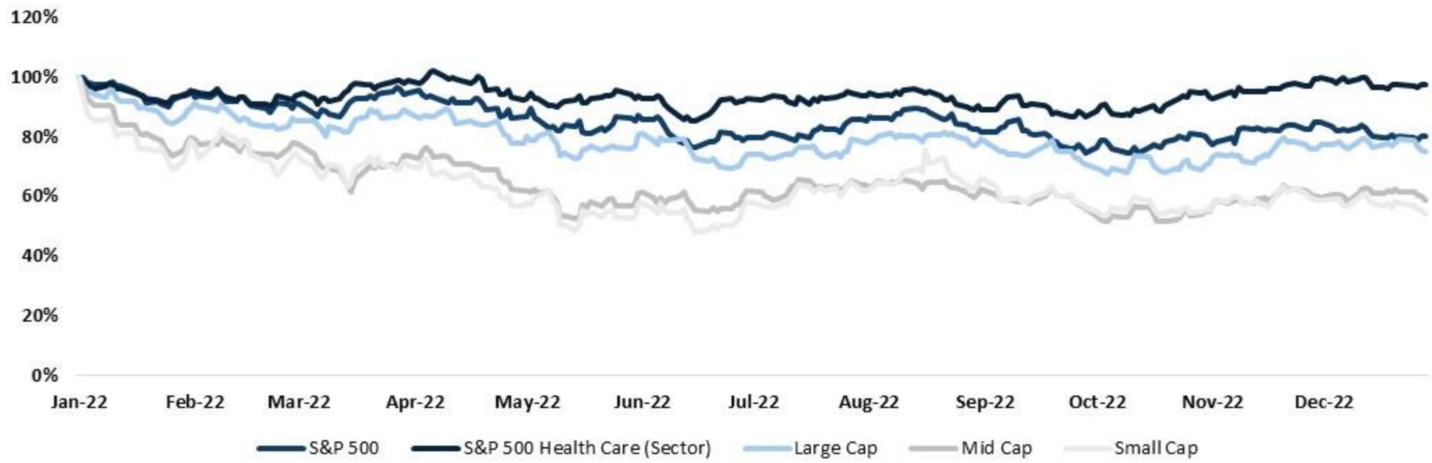
Eurofins Scientific SE (EPA: ERF)

With a market cap of US$12.5B, revenues reaching US$7.1B, and 900 laboratories across 54 countries, Eurofins Scientific is one of the world's largest testing, inspection, and certification companies, with a specialty in food and feed, environmental, and pharmaceutical products. Examples of services range from discovery pharmacology, genomic sequencing, and product quality testing. Acquisitions of laboratories are a key component of Eurofin's strategy as it provides complex testing solutions with short turnaround times and maximizes the firm's hub-and-spoke network. In return, customer relationships are often long-lasting and sticky as clients are hesitant to switch to another laboratory partner because of the potential risk of testing errors, high costs of switching, and Eurofins' ability to offer custom testing solutions.

Valuation and Metrics

Following the outbreak of COVID-19 in Q1 2020, LSTDx companies outperformed the broader markets throughout the year. However, just as quickly, they are met by a flurry of macroeconomic challenges, including: a looming recession, high inflation and energy costs, and reduced volumes in end markets due to staffing and talent shortages. Subsequently, large cap, mid cap, and small cap/emerging entities witnessed a valuation reset, leading to underperformance relative to the broader markets throughout 2022. Large cap stocks currently trade at an average EV / LTM EBITDA of 19.0x versus a three-year average of 24.1x, while mid cap stocks trade at an average of 17.2x compared to their three-year average of 25.7x. In the midst of normalization, we can draw lessons from previous businesses that performed well during a similar environment, such characteristics can bolster valuations coming out.

Exhibit 5: Share Price Performances Relative to January 2022



Source: WestPeak Research

Maintain Growth and Margins: Life Sciences Tools and Diagnostics companies' growth and profit margins are being challenged on multiple fronts. On the demand side, inflation and high interest rates tighten spending from public-health systems as government budgets are placed under pressure. Additionally, the Covid unwind has created headwinds for short-term topline growth as demand for bioprocessing services normalize and staffing shortages across all end markets are compressing procedure volumes across the globe. Amid these challenges, companies that can adapt and build resilience will materialize as a top contender. Three of many characteristics that foreshadow this include: leaner operations and addressing debt early, flexible resource allocation, and a focused investment profile.

Attract and Retain Talent: In a global survey conducted by McKinsey between February 2022 and April 2022, an astounding 45% of respondents said it would be easy to get a job outside of LSTDx with similar pay and benefits, and 33% commenting that they were likely going to quit in the next three to six months. This has increased competition among companies looking for digital and analytics talent as innovation stems from the people and not the company.

Revaluate Inorganic-Growth and Financing Strategies: Optimizing portfolios by shedding dilutive assets to focus on the company's long-term growth targets can differentiate the top performers from the rest of the industry when coming out of a normalization period. The most successful companies will have clean, strategic portfolios that can accelerate growth after the uncertainty has ended. Similarly, LSTDx companies need to rethink merger and acquisition strategies by approaching transactions with proper cash management and financing options, and a clear outlook on whether the target is a value creator.

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Eurofins Scientific SE (EPA: ERF)

Pharmaceuticals, Biotechnology, Life Sciences - LSTDx

An Acquisition Story

March 10, 2023

Founded in Nantes, France in 1987, Eurofins has become one of the world's largest testing, inspection, and certification companies, with 900 laboratories across 54 countries. It specializes in testing food, feed, environmental, and pharmaceutical products.

Internal Analysis – Scale through M&A, and the Hub-and-Spoke

Dr. Martins, the founder of Eurofins, is an excellent capital allocator and has proven their acquisition strategy. In 2021, the company made 38 acquisitions that cost €533M and delivers €252M in annualized revenues. The company's hub-and-spoke model is essential to Eurofins' acquisition strategy as labs communicate through it. For instance, tests with fast turnaround time requirements are sent to local "spoke" labs while more complex tests are performed at "hub" labs. Subsequently, the company can create high-switching costs and generate recurring revenue in localities that they operate in.

External Analysis – Growing End Markets

In the long-term, Eurofins' end markets, Biopharma, Food, Environmental, and Pharmaceutical, can all grow at mid-single to low-double digits. The company can capitalize on secular tailwinds, such as regulation, outsourcing, and complex modalities, as they are usually a top player, seen with ranking third in Biopharma, and having 20 – 30% market share in Food and Environmental. Combined with their acquisition strategy, and hub-and-spoke model, Eurofins poses as a formidable contender.

Valuation – Room for Growth

After using a DCF and comparable company analysis, we believe that Eurofins is undervalued at the share price of €63.42. Instead, a target price of €73.12 with an implied upside of 15.3% is more reasonable, thus we initiate a Buy rating on the Company.

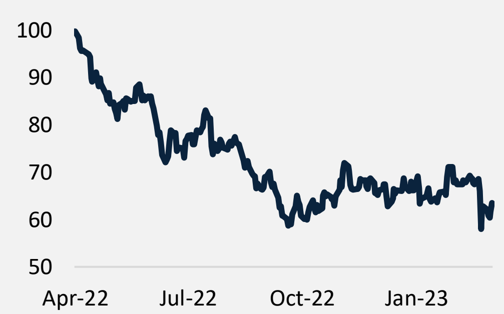
Equity Research	Canada/US
Price Target	**€72.93**
Rating	Buy
Share Price (March. 10 Close)	€63.42
Total Return	15.3%

Key Statistics	
52 Week H/L	€100.5/€56.6
Market Capitalization	€12.25B
Average Daily Trading Volume	566.36k
Net Debt	$100M
Enterprise Value	€2.8B
Net Debt/EBITDA	1.8x
Diluted Shares Outstanding	199M
Free Float	67%
Dividend Yield	1.66%

WestPeak's Forecast

	2022A	2023E	2024E
Revenue	€6.7B	€7.1B	€7.6B
EBITDA	€1.5B	€1.7B	€2B
Net Income	€610M	€503M	€594M
EPS	€3.3	€2.8	$3.0
P/E	21.2x	21.0x	18.1x
EV/EBITDA	10.4x	10.8x	9.9x

1-Year Price Performance



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