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SPECIALTY EQUITY RESEARCH

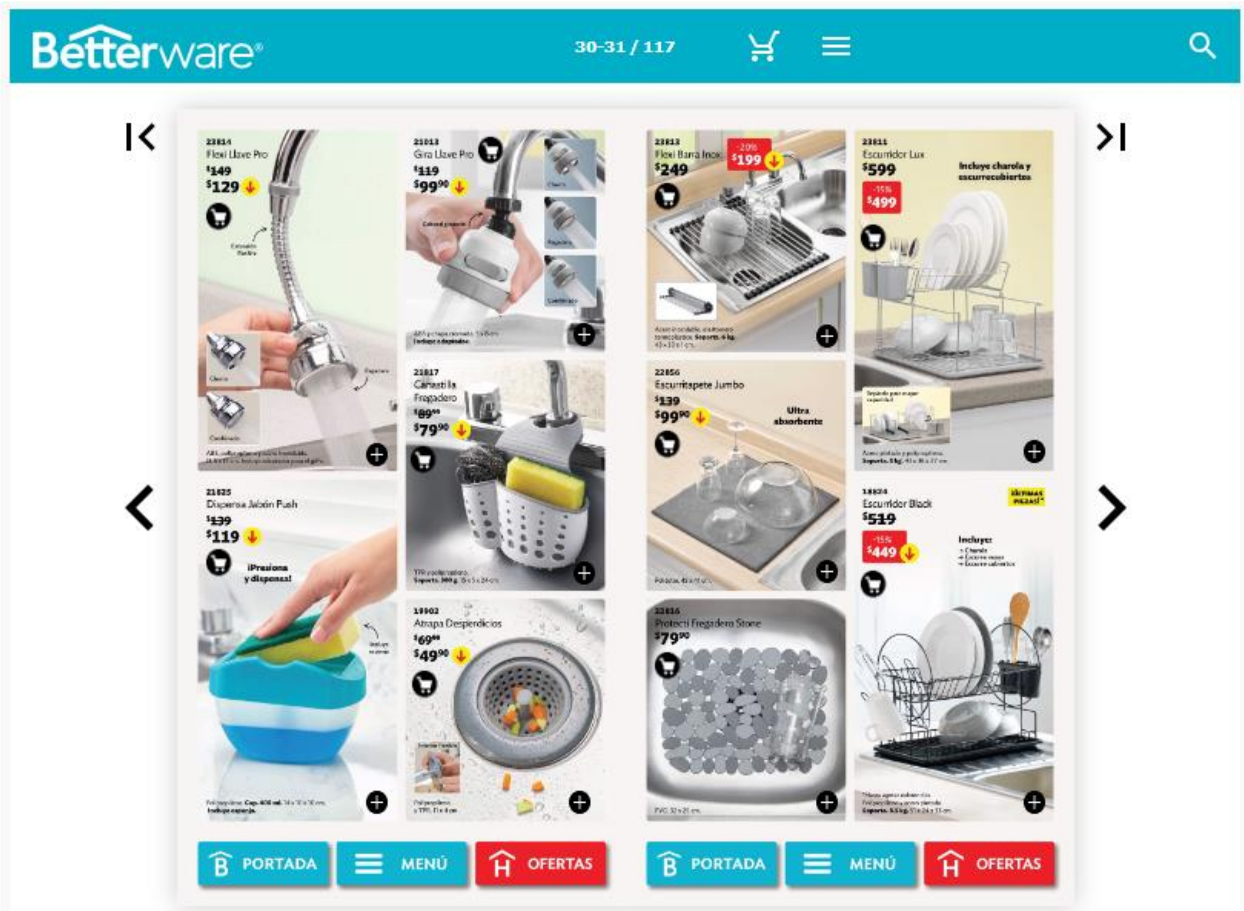
JAGUAR CONSUMER WEEKLY CALLOUTS SEPTEMBER 10th, 2023

-**Betterware de Mexico (BWMX)**, a direct-to-consumer retailer in Mexico, is being mentioned in Consumer Callouts for the third time in four months. Shares are up approximately 30% and 40% respectively from their last two mentions on May 7th and June 19th. Similar to the past two mentions, analyst Eric Beder would analyze and review the company's most recent September catalog which is continuing with the key trend of record SKUs and newness, with Betterware adding new products across all categories.

The September catalog had a total number of 355 SKUs, up 6 from the prior month and an impressive 12.3% *(39 SKUs)* Y/Y, as the company has begun to anniversary a nine-month period where Betterware was materially impacted by supply chain issues and registered among the lowest SKU levels in the three years of this analyst tracking the catalogs.

As analyst Eric Beder would call out, for 2023, overall discounting has slowly been in decline, going from 38% of total SKUs in January to 30% in August. ***However, for September, he highlights that Betterware management decided to shift the overall pricing focus to a materially higher overall level of discounts, from 30.4% in August and 28.2% in the corresponding period to 73% of total SKUs in September 2023.***

"The shift was accompanied, for the first time in 2023, by Betterware, emphasizing over 160 initial price markdowns in the catalog cover (and over 250 total price cuts). Further, the catalog highlighted the price cuts with a new symbol. That said, the new round of price cuts only saw a 220 bp increase (to 19% of SKUs) for the deep (>30%) price cuts. The majority of the increase was in the 11% to 20% price cut category (23.3% of SKUs versus 3.2% the prior month) and the 1% to 10% price cut (9.8% of September SKUs versus 0.0% the prior month). ***Given the company's ability to continue to raise YoY pricing above inflation and the material improvement in Betterware's logistics and infrastructure, we are unsure the overall potential impact; we believe lower prices and price cuts should drive sales and increase the distribution network. Further, we are unsure if this shift is a one-time impact or new business model.****"*



-B. Riley analyst Jeff Lick would say that he spent the majority of August analyzing over 60 footwear, apparel, and accessory companies' results, compiling and analyzing a variety of industry and macro data points, speaking with dozens of public and private footwear, apparel, and accessory companies, and canvassing the opinions and sentiment of numerous buy-side investors regarding the consumer space, in general, and **Crocs (CROX)**, in particular. In his downgrade note on Thursday, where he went from Buy to Neutral, he would discuss the topic of *"Too Much Inventory."*

His chart, which is shown at the end, lays out his analysis of estimated and normal inventory levels based on pre-pandemic inventory relationships with costs of goods sold for 60 publicly traded U.S.-based consumer companies, which have data going back far enough historically. These estimates of too much or too little inventory are based on consensus Q3 sales and COGS estimates, which he believes could prove optimistic.

*"**According to our work, there is roughly $2.4B in excess inventory floating around the footwear ecosystem.** We use the term "floating around" because often, the excess inventory of one company has been spread around to a variety of other companies. Another point relative to footwear is that one of the larger contributors of excess footwear inventory, Vans, does not show up in our $2.4B estimate because VFC is lumped in our wholesale category. Our channel checks, conversations, and eyeball checks led us to conclude that there is still quite a lot of excess HEYDUDE inventory in the system. This is not really news, as CROX has been quite open about this. **We have come to the conclusion that we do not know how all***

of this footwear inventory gets cleared without substantial discounting, and even that may not be enough. In addition, it is hard to see the ordering patterns of footwear retailers picking up any time soon. If retailers were pushing back on HEYDUDE orders in July, it is hard to see how this changes any time soon given the overall inventory situation and the observation that HEYDUDE has already been identified as a brand where retailers are willing to cancel or pushback orders."

Exhibit 1: Too Much Inventory in Most Sectors

Apparel, Footwear and Accessory Inventory By Sub Sector Based on 60 U.S. Based Publicly Traded Consumer Companies ($ in millions)	Current Inventory Balance (1)	Estimated Normal Inv Balance (1)	$'s Too Much (Too Little)	% Too Much (Too Little)
footwear distribution	$5,351	$4,814	$537	11.2%
footwear content	$12,191	$10,281	$1,910	18.6%
specialty retail	$8,792	$7,286	$1,506	20.7%
wholesale	$15,300	$11,903	$3,397	28.5%
dept store	$26,310	$27,063	($752)	(2.8%)
off price	$10,181	$9,512	$669	7.0%
accessory	$2,552	$1,727	$825	47.8%
Total	$80,677	$72,587	$8,091	11.1%

Footnotes
(1) based on 2Q23 reported results for 55 companies, 1Q23 for 5 companies.

Source: B. Riley Securities Research and company reports and filings.

-On Wednesday, Bed Bath & Beyond, now operated by **Overstock (OSTK)**, provided a performance update on Q3-to-date trends through 9/4 that captured the Labor Day weekend period:

Active customers as of September 4th were approximately 4.8M, a miss vs. Street expectations at 4.7M and BofA's 5.3M estimate. Orders grew mid-single digits, including high-teens percent Y/Y growth since August 1st. ***Average Order Value, or AOV, declined high-teens percent Y/Y in Q3TD, including a low-20% Y/Y decline since the U.S. launch. Lastly, Q3TD revenue had declined mid-teens percent Y/Y, including low-double digit Y/Y decline since August 1st vs. Street expectations at -11% Y/Y***.

Shares of Overstock would trade down by over 20% as the Street was underwhelmed by the update. BofA analyst Curtis Nagle would comment on how these metrics reveal OSTK added only approximately 200K net customers Q/Q despite approx. 8pts of margin compression between gross costs and S&M. They think gross margin pressure *(-4.4ppts Q/Q)* is likely from high promotional rates as opposed to BBBY's lower AOV mix given muted net customer adds through early September. In their investor meetings last week, Overstock management noted they are in the early innings of re-engaging BBBY's roughly 20M customers on file, and we should expect high promotions and marketing for a few quarters as customers ramp.

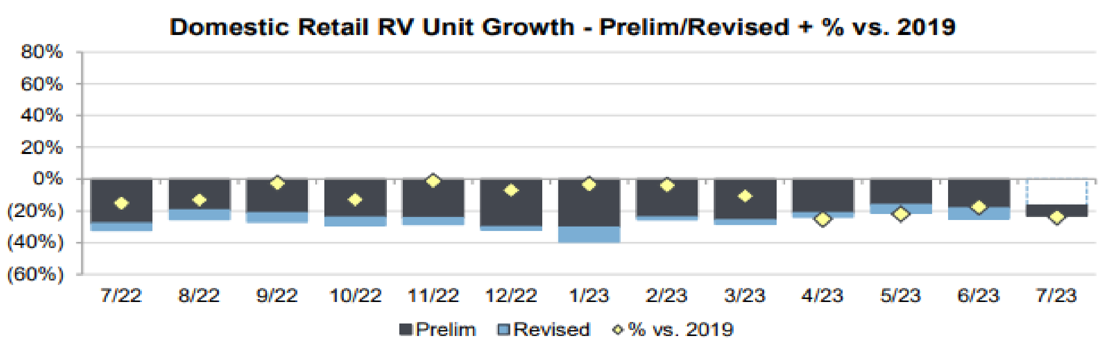
*"**Disclosures likely reveal a greater magnitude of margin pressure than previously thought despite communication that margins would trend below historical levels for a few quarters.** While we are constructive on the large runway for OSTK to add customers from BBBY's 20M customer file, **we remain cautious on the incentives needed to drive conversion and when/how much the promotions can be dialed back.**"*

-According to preliminary data from Statistical Surveys (SSI), July North American RV retail registrations declined -16% Y/Y *(U.S. -17%, Canada -10%)* to 37,272 units. North American towable registrations declined -17% Y/Y in July, and -30% vs. 2019. Fifth wheel registrations declined -16% Y/Y *(-32% vs. 2019)*, while travel trailers declined -17% *(-29% vs. 2019)*.

BMO Capital would highlight that in July, **Thor Industries (THO)** towable market share declined -130 bps Y/Y to 41.3% from 42.6%, while YTD share has grown +30 bps to 41.3%. **Winnebago (WGO)** lost towable share *(10.5% vs. 10.8%)* in the month with share losses at Grand Design *(-30 bps)*, while Winnebago Towable share was flat Y/Y. Lastly, Winnebago's YTD towable share is down -70 bps to 10.2%.

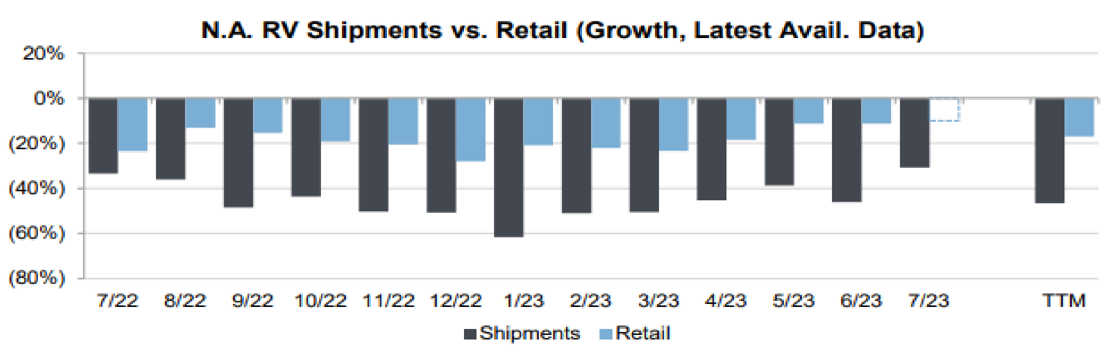
KeyBanc would say, *"Looking ahead, while we were cautiously optimistic the clearing of MY22 would be a positive for the eventual MY24 appetite 60-90 days ago, and absolute inventories screen OK,* ***softer retail trends and arguably stale MY23 inventory (see latest checks here) have prompted excessive MY23 discounting (i.e., dealers approaching invoice pricing in some cases) in anticipation of lower MY24 pricing, creating a more precarious setup*** *into Open House/F1H for the OEMs, in our view.* ***Heading into the offseason, we think successful MY23 rationalization and recovering demand into fall/early 2024 RV shows will be necessary to improve sentiment from here.****"*

Figure 2. Domestic Unit Registrations – Preliminary vs. Revised Growth



Sources: Statistical Surveys, Inc.; KeyBanc Capital Markets Inc.

Figure 3. Comparable RV Shipments vs. Retail Growth (Latest Available Data)



Sources: RVIA; Statistical Surveys, Inc.; KeyBanc Capital Markets Inc.

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