Weekend Thoughts 7/9/22

Weekly collection of unstructured hypotheses for current and future research projects

- Inflation
  - WD-40 Company (WDFC)
    - "Inflationary cost pressures are broad-based and continue to increase with little sign of near-term relief."
    - "We are also implementing significant price increases in Europe this summer. . . Make no mistake, we will continue to take measures and implement price increases to offset rising input costs."
- Supply chain normalization
  - WD-40 Company (WDFC)
    - "Lockdown measures in Shanghai were lifted on June 1. Subsequent to that date, we resumed shipping product to our customers in Asia and in China. Barring any further supply chain disruptions, we expect we will ship most of what we were unable to ship in the third quarter in the fourth quarter."
- Bullwhip
  - WD-40 Company (WDFC)
    - ". . .recent increases in our inventory levels. As we continue to work to improve the resilience of our supply chain, we have increased the raw materials, components and finished goods that we have in inventory to ensure supply and improve our ability to meet market demand."
  - Helen of Troy Limited (HELE)
    - "With regard to our inventory, we are taking steps now to return to more normalized levels. During the pandemic, carrying elevated inventory proved to be a winning strategy. It helped us meet surges in demand and mitigate supply chain disruptions that were hard to predict. It moved input cost inflation and it delivered considerable benefits for consumers, retail customers, our sales, our profitability and our market shares. Now over 2 years into the pandemic, we believe it is time to decrease our inventory in areas where we have reliable visibility. Our goal is to reduce operating costs, increase efficiency in our distribution centers and improve cash flow without impacting customer service levels."
    - "As we reduce our purchase orders, we have a sharp eye on maintaining sufficient buffer stocks on items that continue to have longer lead times, and we are leaning forward on some materials and critical components that remain challenging to secure. As we bring down inventory, we are also focusing on making sure we have the most valuable mix of products to maximize the productivity of our holdings.
    - "As we look on the visibility that we have, which is pretty good with the big customers, we see that their choices in our Q4 were to take on more inventory. Some of that was replenishment of the strong POS that you heard us talk about quite a lot in the fourth quarter call that we made in April, and some of it was forward buying against the remainder of our price increases. As the demand shifted in their own forecast, they then got a realization that they want to reduce their inventory. Those actions now are showing up in those shifts in orders. I can't say how much of it was them attempting to secure the inventory based on potential

supply chain interruptions and I say that because our track record in that area has been very good. We have been able to deliver nearly all of our products because we ourselves have taken on more inventory during the pandemic. Now that we ourselves are reducing hours and they're reducing theirs, it will lead for an opportunity to renormalize for both, and it will be for the benefit of all over time. It's just painful on the path from here to there."

- Consumer health
    - Helen of Troy Limited (HELE)
        - "Since our April earnings release, it has been well publicized that the macroeconomic environment has changed significantly. Consumers are shifting their buying patterns and adapting to a number of factors, including the impact of higher-than-expected inflation and interest rates rising more rapidly than previously signaled by central bankers. In response, many of our major retail customers announced actions to rebalance their inventory stemming from rapid revisions to their sales forecast."
        - "Factoring in trends from consumer buying patterns and inflation, we now anticipate softer category and consumption trends to have a more significant impact on our results for the balance of the fiscal year."
- Catalyst
    - WD-40 Company (WDFC)
        - "For a long time, we have assumed that due to price point concerns, emerging markets couldn't be easily premiumized. We recently conducted some extensive market research with fantastic results and learned that we have huge opportunities in emerging markets around premiumization. We believe that there is a significant opportunity to drive sales of premiumized products in both developed and emerging markets."
- DTC
    - Levi Strauss & Co (LEVI)
        - "Our direct-to-consumer business continues to thrive, allowing us to deepen our connection with consumers, while showcasing the fullest expression of our brands. This quarter, total DTC net revenue increased 22%, with growth driven by our company-operated stores. Strength in our global brick-and-mortar business was driven by both mainline and outlet stores across geographic segments as a result of increased foot traffic and store expansion, as well as higher unit volumes and AURs. During the quarter, we also benefited from a return of tourist traffic in many of our downtown locations, propelling growth in our flagship stores in key cities, including San Francisco, New York, Paris and London. Our latest generation of new stores continue to perform against our expectations, reflecting the market potential that we have yet to unlock."

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