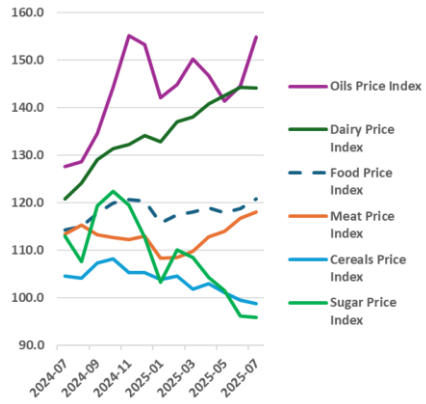
Restaurants and Retail: State of the Consumer

A phenomenon we underlined last month (report) was the expected rise in input costs as companies replenish inventories at higher, post-tariff prices, resulting in lower EBITDAR Margin. This was reflected in **WMT**'s earnings call last week. The firm saw some weakness in EBITDAR Margin as of the quarter ending July, with company management flagging higher procurement costs as they restock inventories. Firms with underlying pricing power strength and superior cost management abilities, reflected in favorable EBITDAR Margin trends, should remain more resilient through this period of elevated inflation levels. In this note, we screen for such names within the Food and Beverages (FnB)-related industries.

Figure 1: U.N. FAO Food Price Index [July'24 – July'25]

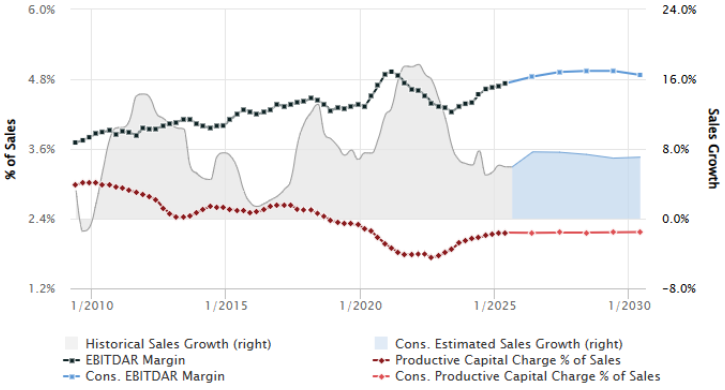


In the chart on the left (**Figure 1**), we show the U.N. FAO Food Price Index and the core commodity group indices which make up the index. Dairy, Meat, and Vegetable Oils have seen a continued increase in prices, especially since March, resulting in the Food Price Index also moving slightly higher through the last few months.

The cost-push inflation dynamic discussed above is one side of the story, the other being the sustained weakness in consumer demand, reflected in pressured economic profitability, as measured by EVA Margin, for both the consumer sectors over the last few years, Staples and Discretionary. McDonald's (**MCD**) is reportedly slashing prices of its combo meals, while Pizza Hut (**YUM**) has introduced a $5 pizza, in a bid to pull value-conscious customers to their stores.

As highlighted above, we often look at EBITDAR Margin as a reflection of underlying pricing power and cost management abilities, both of which are crucial for positive incremental EVA creation, especially through periods of elevated inflation. Below (**Figure 2**), we look at the EVA drivers for **COST** (rated 'Overweight'), focusing on EBITDAR Margin, which has seen eight consecutive quarters of expansion, combined with sustained top-line growth. Strong membership income growth and an improving sales mix of its private label brands have resulted in improving P&L profitability, translating into positive and steady EVA Momentum (growth) trends (not shown).

Figure 2: EVA Drivers – Costco Wholesale Corp (COST)



Key Summary

- Firms have started flagging increased procurement costs as they restock inventories at higher, post-tariff rates, a phenomenon we underlined in a paper last month. Firms with underlying pricing power strength and superior cost management abilities, reflected in favorable EBITDAR Margin trends, should remain more resilient through this period of elevated inflation levels.
- In this report, we screen for firms that have demonstrated strong expansion in EBITDAR Margin over the last eight quarters and are currently at favorable levels relative to the longer-term trend.

EVA Primer

1. EVA measures the true economic profit of a business after compensating shareholders for use of their capital and is therefore superior to standard accounting measures.

2. The value of a company is the capital invested plus the present value of future EVA generation. The math is like a DCF: Market Value = Capital + PV(EVA).

3. Therefore, more Economic Value Added (EVA) is better.

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About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

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Below, we screen for firms that have demonstrated strong expansion in EBITDAR Margin over the last eight quarters and are currently at favorable levels relative to the longer-term trend. We cover the FnB space in Developed Markets, looking at the following industries/sub-industries: Food Products, Beverages, Restaurants, Food Retail, Food Distributors, and Staples Merchandise Retail. We filter out firms with a market cap < $10bn.

Screen: DM Restaurants, Retailers, and FnB Manufacturers with Attractive EBITDAR Margin Trends

On average, the firms in the list have strong Risk-Adjusted Profitability, offset by a high Valuation. Valuations are especially high for the largest names in the cohort. The unfavorable Quality-Value tradeoff makes some firms look unattractive in the PRVit framework.

Name	Ticker	Sub-industry	Country	Market cap ($mm)	PRVit Score	Quality (P-R)	Profitability Score (P)	Risk Score (R)	Valuation Score (V)	Returns YTD (%)	ESG Perf Score	EBITDAR Margin Trend
COSTCO WHOLESALE CORP	COST	Staples Merchandise Retail	U.S.	425,131	56	94	85	11	85	5.02%	41.76	
COCA-COLA CO	KO	Soft Drinks & Non-alc Bev	U.S.	302,209	22	78	86	60	87	14.28%	44.27	
MCDONALD'S CORP	MCD	Restaurants	U.S.	224,811	46	86	86	40	90	9.56%	33.52	
PEPSICO INC	PEP	Soft Drinks & Non-alc Bev	U.S.	205,028	45	83	80	35	70	0.24%	57.46	
DOORDASH INC	DASH	Restaurants	U.S.	107,278	24	72	89	79	96	47.43%	27.48	
COMPASS GROUP PLC	CPG LN	Restaurants	U.K.	60,138	48	86	77	23	76	0.12%	41.06	
CHIPOTLE MEXICAN GRILL INC	CMG	Restaurants	U.S.	58,594	55	93	91	26	95	-27.63%	47.44	
KROGER CO	KR	Food Retail	U.S.	46,246	55	58	54	37	42	15.37%	44.42	
SYSCO CORP	SYY	Food Distributors	U.S.	39,050	60	79	69	23	60	7.05%	50.2	
KRAFT HEINZ CO	KHC	Packaged Foods & Meats	U.S.	33,227	81	52	29	3	4	-3.42%	53.23	
CONSTELLATION BRANDS	STZ	Distillers & Vintners	U.S.	29,595	46	66	74	61	51	-22.77%	36.15	
KELLANOVA	K	Packaged Foods & Meats	U.S.	28,033	42	81	79	38	70	0.40%	50.11	
WOOLWORTHS GROUP LTD	WOW AU	Food Retail	Australia	26,287	80	87	84	32	52	9.90%	54.02	
WESTON (GEORGE) LTD	WN.	Food Retail	Canada	24,551	33	63	64	48	56	19.09%	39.31	
DARDEN RESTAURANTS INC	DRI	Restaurants	U.S.	24,449	57	78	81	49	72	14.03%	24.18	
MCCORMICK & CO INC	MKC	Packaged Foods & Meats	U.S.	19,461	49	82	68	13	66	-4.04%	46.65	
CASEYS GENERAL STORES INC	CASY	Food Retail	U.S.	18,712	29	65	69	53	71	27.41%	31.54	
US FOODS HOLDING CORP	USFD	Food Distributors	U.S.	17,914	67	78	66	19	53	15.73%	51.48	
PERFORMANCE FOOD GROUP CO	PFGC	Food Distributors	U.S.	15,988	36	52	56	54	50	20.53%	47	
CELSIUS HOLDINGS INC	CELH	Soft Drinks & Non-alc Bev	U.S.	15,973	10	64	90	98	94	133.56%	16.2	
KERRY GROUP PLC	KYGA ID	Packaged Foods & Meats	Ireland	15,484	56	76	58	8	43	-12.18%	53.56	
DOMINO'S PIZZA INC	DPZ	Restaurants	U.S.	15,363	70	98	95	14	93	8.27%	33.49	
SPROUTS FARMERS MARKET	SFM	Food Retail	U.S.	14,344	54	90	89	31	80	15.12%	40.57	
BJS WHSL CLUB HLDGS INC	BJ	Staples Merchandise Retail	U.S.	12,874	53	73	77	52	59	8.68%	25.34	
SMUCKER (JM) CO	SJM	Packaged Foods & Meats	U.S.	12,086	78	68	53	15	25	5.76%	50.66	
PILGRIM'S PRIDE CORP	PPC	Packaged Foods & Meats	U.S.	10,965	84	79	87	57	30	20.20%	37.08	
ZENSHO HOLDINGS CO LTD	7550 JP	Restaurants	Japan	10,739	20	58	67	66	67	9.72%	13.75	
MOLSON COORS BEVERAGE CO	TAP	Brewers	U.S.	10,475	91	69	58	22	7	-6.23%	47.81	
COCA COLA CONSOLIDATED INC	COKE	Soft Drinks & Non-alc Bev	U.S.	10,359	47	75	82	58	60	-4.78%	15.76	
Average				63,288	52	75	74	39	62	11.26%	39.84	

About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.
EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + PV of EVA
If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge
EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales
A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales
An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum
Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)
The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV
Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com (link): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework
EVA for Investors (link): A full introduction to the key EVA concepts and metrics

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