

June 5, 2020

Dear Clients and Colleagues:

Despite the job losses seen over the past weeks, some categories within the consumer space have remained relatively strong during the health crisis, thanks to the positive effects of stimulus programs, lower personal taxes and changing consumer behaviours.

As retail reopens, some retail owners estimate that 30% of stores could stay closed due to supply chain or inventory issues, a lack of proper health measures or financial difficulties. We have been seeing an acceleration in bankruptcies (J.C. Penney, Debenhams, Aldo, etc.), and the situation could remain gloomy for a while.

That said, some retail categories will outperform: online retailers with strong logistics capabilities, strong and well-known brands, hardware stores (DIY), food & essential products, even decoration and furniture, as working from home could mean increased spending on home office supplies and furniture.

Based on various retail sales reports and some company interviews, we have concluded that consumer demand has shifted to certain hardline, home-related categories, resulting in some of the highest levels of growth these retailers have ever experienced. The use of money earmarked for out-of-home expenses to home-related ones has played an important role.

DIY stores, pool equipment and landscaping are also seeing a positive trend, as consumers continue to spend more time at home and in their gardens. We believe that the home-related expenses could remain at the core of spending for a while.

When it comes to leisure and hospitality, demand is improving but remains weak. Although domestic tourism will undoubtedly offer some relief, it is unlikely to fully compensate for the losses incurred from international travel restrictions.

Significant restrictions placed on hospitality operators, such as maximum occupancy levels in hotels, and stringent health and safety regulations are likely to dampen revenue in the short term. Businesses will have to consider price hikes to compensate for the reduced capacity.

With the absence of international tourism flows, the luxury sector is likely to suffer in the coming quarters. Tourists represented 40% of the sector's revenue, and we don't expect international airline

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traffic to be back before 2021. Perhaps Asia will do better as most mainland Chinese consumers will not dare travel outside of the country, and will be forced to shop at home rather than abroad. People might embrace the staycation trend. This shift could have a positive sales impact on biking, RVs, golfing, gaming and other segments.

We have read and heard encouraging anecdotes that golf courses are busier than normal. That seems to be in line with data published by the National Golf Foundation on retail square footage and confidence levels. Open United States (US) retail square footage improved significantly over the past month, moving from 39% in early May to 85% at the beginning of June. Golfer sentiment also shifted positively, and golf-related demand should continue to improve as the percentage of golfers believing their financial position will be the same or better after COVID-19 grew from 59% in April to 78% at the end of May.

Here are some of our companies that could do relatively well in this new consumer paradigm:

Husqvarna

The company is a global leader in outdoor power products, including chainsaws, trimmers, lawn mowers, and garden tractors. It is also active in consumer watering products under the Gardena brand. Husqvarna's portfolio includes products for consumer and professional use. The lawn and garden equipment market should be in a good position to outperform. Husqvarna remains the global leader in robotic lawn mowers and battery-powered products. These product categories should continue to experience high consumer demand.

Royal Unibrew

Royal Unibrew is a multi-beverage company operating in Eastern and Western Europe, several Caribbean countries, America and Africa. Its product portfolio includes branded beers, malt beverages, non-alcoholic beverages and soft drinks. Off-trade demand has been notable, and we expect that the recent reopening of the economy will help boost on-trade sales.

Melia

Melia is one of the leading European hotel groups; it owns and manages more than 326 hotels and resorts in 33 countries, mainly in America and Europe. After more than two months of quarantine, European authorities are now focusing on reopening for tourism. As of July 1st, most Western European countries will be open to tourists from Europe. Melia could see an uptick in demand for its coastal hotels. Summer vacations and warm weather could push Europeans to visit Iberia.

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BioGaia

BioGaia is a Swedish-based producer of probiotic supplements for children and adults. BioGaia's probiotic products help digestive and the immune systems. We expect demand to increase on a growing preference for preventive healthcare, coupled with the growing awareness among customers of the inherent health benefits of probiotics.

Konami

Konami develops and sells consumer video game software and arcade game machines for entertainment facilities. Social distancing measures have contributed to an increase in demand for mobile games.

Have a great weekend.

The Global Alpha team

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