

# The Resilience of the Consumer

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**Alex Bernstein:** Hello, I'm Alex Bernstein. And you're listening to The Alger Podcast: Investing in Growth and Change. In our last couple of podcasts, we've been looking at some of the industries and sectors that have been hit harder during the COVID-19 crisis, and where investors might look within those industries for opportunities. Today, we're turning to the Consumer Discretionary sector and speaking with Alger Analyst Leeanne Su. Leeanne, thanks so much for joining me this afternoon.

**Leeanne Su:** Thanks, Alex

**Alex:** And Leeanne, you actually joined Alger just a few months before this crisis started?

**Leeanne:** Yes, pretty much. I think I started working from home in early March. So, yes about half the time I've been here I've been remote.

**Alex:** Leeanne, the Consumer Discretionary sector was doing well at the beginning of the year, when all of this began. How did you react when you first heard of the virus?

**Leeanne:** So, we had seen this happening I guess in China starting in February with some of the companies I follow. I think initially people underreacted to the risk of COVID spreading to the rest of the world.

So I think initially we were just very concerned about our companies with exposure to China, and then as the virus began to spread, we looked across our coverage and really tried to figure out, okay, if things get bad in the U.S. and they would get bad in Europe, which companies will be the most impacted? Who could actually be some of the winners? That's how we went about it.

**Alex:** And your sector was hit pretty hard.

**Leeanne:** The consumer sector was hit particularly hard by the COVID disruption, so we still see attractive opportunities out there, companies that have lagged in terms of the share price recovery.

**Alex:** Can you tell us about some of the opportunities you're seeing in your sector?

**Leeanne:** So, ecommerce obviously has been one of the big winners during the disruption. What we see generally is a lot of these trends that have been occurring for a few years now, the disruption only accelerated it, and that's an example with ecommerce. For instance, we had an investment in a tech company that essentially operates as an operating system to help merchants set up ecommerce businesses and run their online platforms and, in addition to that, the company also provides payment services, shipping and fulfillment.

What we saw was, as brick-and-mortar retailers and restaurants and service businesses started having to shut down their physical locations, there was a rush to sign up for online accounts and set up their storefronts digitally. So, these companies who facilitate ecommerce and provide software-priced services have seen a really strong sign-up in terms of customer growth. So that's one way we've been playing the theme.

**Alex:** Can you give an example of how brick and mortar stores have made changes?

**Leeanne:** So, there's been a couple of the consumer brands or even retailers where the bulk of their business book comes from brick-and-mortar sales, but they were very quick to adjust to the shift in consumer demand and quickly added curbside pickup, released new shopping apps. One example I'll give is in the athleisure space. So even though apparel spending is down double digits, some of the athletic and athleisure players have been much better off. I guess people working from home, they want to be comfortable.

Some of these players, even though they had to close their stores, they're seeing triple-digit growth in their online business because they already had a pretty robust ecommerce infrastructure set up, and they've been able to offset a lot of the declines from the brick-and-mortar part of the business by leveraging their online platform.

**Alex:** What kind of shifts have you seen in consumer behavior?

**Leeanne:** I think there's been some positive surprises in certain segments of consumer spending. So, for instance, we're hearing from footwear and athletic apparel retailers that traffic in some spots has already recovered to normal levels in a few weeks after opening. That's another segment that we like.

**Alex:** Has branding had an impact?

**Leeanne:** Branding has definitely been a factor. I think during times of stress and uncertainty, oftentimes consumers stick with the brands that they trust and that they prefer. So, the stronger brands, whether it's in athletic apparel, even in luxury, we're seeing that the brands that were strong before the outbreak, they've continued to outperform.

Unfortunately, I think there will be further retail bankruptcies and even for retailers who survive. There will be some stores that closed during COVID, and they're never going to reopen again.

That said, for those stronger retailers and brands who are still growing their store base, who are still seeing positive same-store sales, they're going to be in a better position not only because they can pick up share from some of the struggling retailers, but as landlords struggle to replace some of the tenants that are struggling, I think the stronger players will get more favorable lease terms and also just in terms of supplier relationships. Suppliers will want to work with the retailers that will be the good survivors out of this crisis.

**Alex:** Leeanne, what do you think the landscape of Consumer Discretionary will look like, when all of this finally comes to an end?

**Leeanne:** I think the U.S. consumer will be resilient. I do think spending is going to come back. When we think about the longer term ramifications, there's some behavior that we think is more temporary such as the pantry loading. There's only so much toilet paper you can buy. So, I think some of the pantry loading will moderate. There's other behavior that may be more permanent.

So, one sector that's been a bright spot has been home improvement. What we saw was as people were stuck at home, they finally got around to doing DIY projects that had been on their to-do list for a long time. So, we've actually seen growth in home improvement during this time.

We think some of these changes could be more permanent. So some of the large tech companies have announced that they're going to allow more of their employees to work from home permanently, so there may be a more permanent shift to people spending more time at home which will prompt them to want to invest in their home which could be good for home improvement.

In terms of some of the other changes to the landscape, as mentioned earlier, I think ecommerce is going to continue to be the growth channel for retailers and brands, and this crisis has accelerated a penetration, probably brought it ahead by two to three years.

So you have millions of people who maybe they haven't ordered food delivery online or groceries online, and as they try these services for the first time and see the benefits and the convenience factor, I think a lot of this will be quite sticky.

And retailers have realized that they really do need to have a really strong online presence not just for future crises, but that's where the growth is going.

We've also seen that in terms of behavior, the states that have opened earlier, people are going back out to eat. They're going shopping again. So, I think in many ways, consumer behavior will go back to normal once the outbreak fades.

**Alex:** Leeanne, thanks so much for talking with me this afternoon.

**Leeanne:** Thanks, Alex. Great talking with you.

**Alex:** And thank you for listening. For more of our latest insights please visit [www.alger.com](http://www.alger.com).

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