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Equity Research
Consumer

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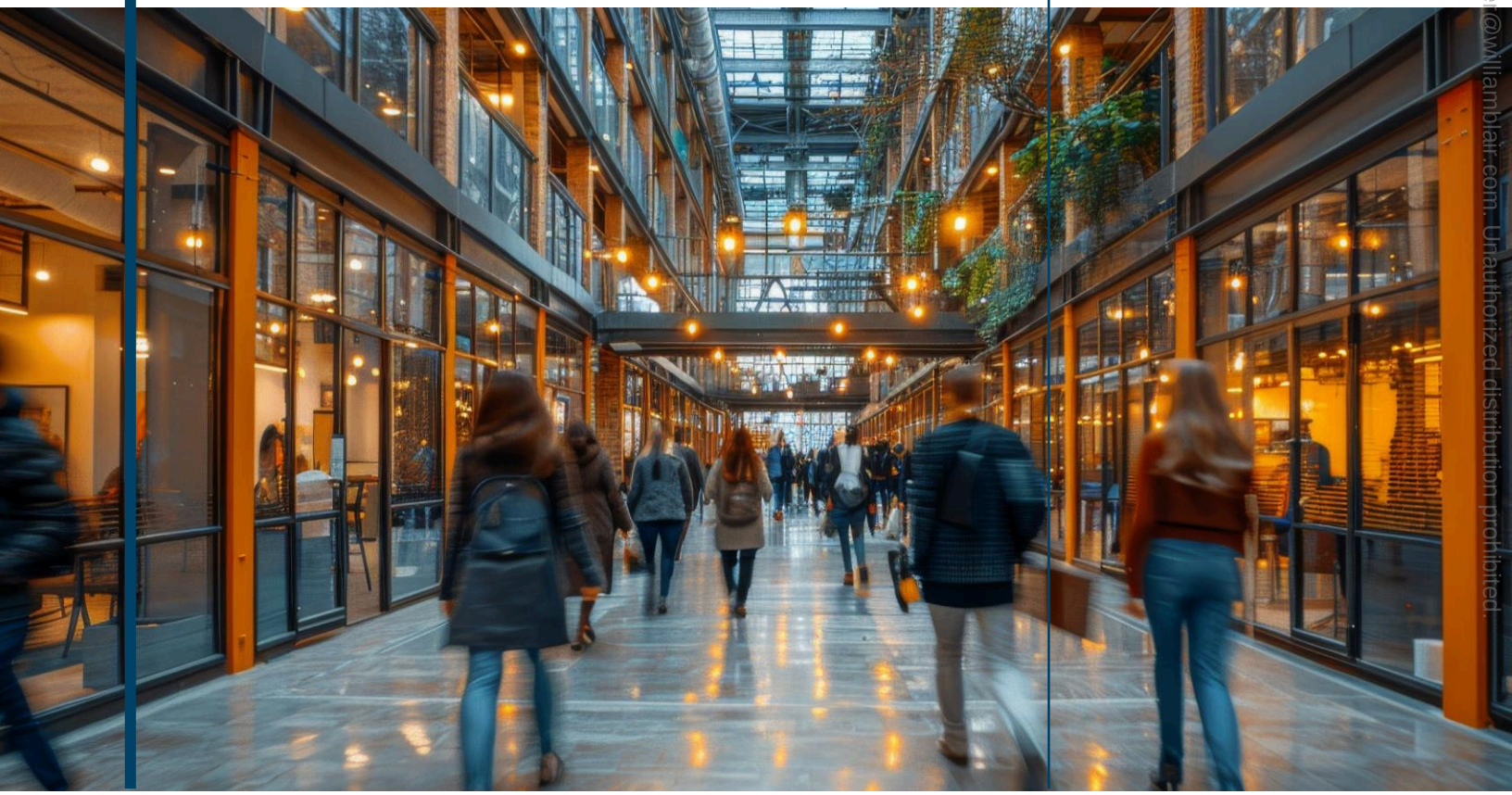
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# State of the Consumer

## The 2026 Edition



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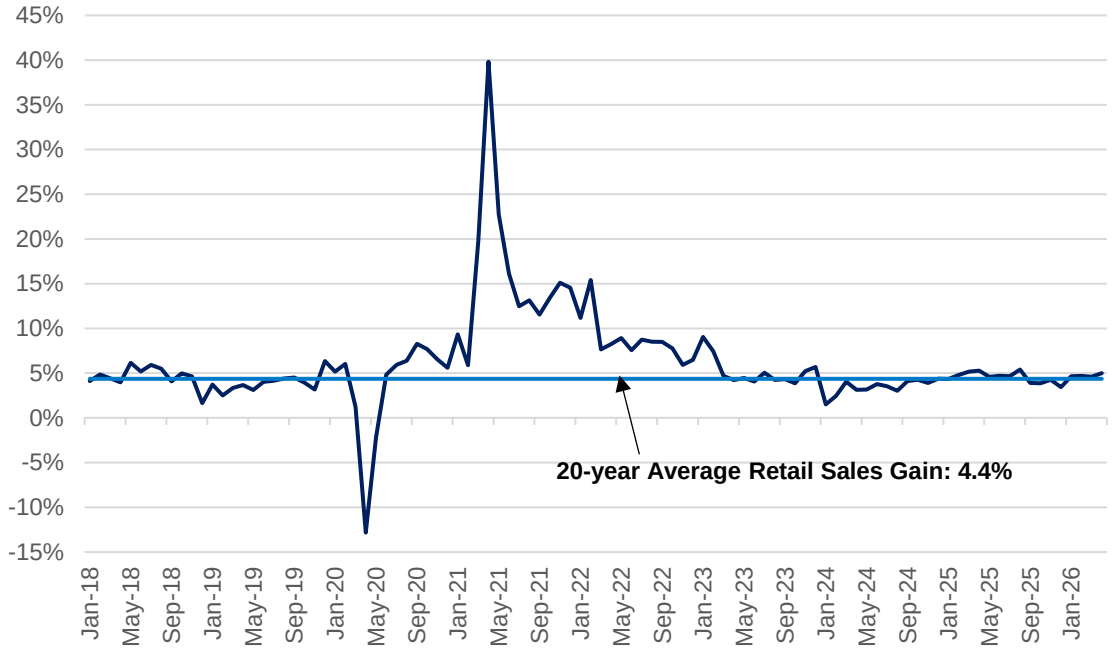
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## Another Year of Curveballs for the Consumer

Following a year punctuated by tariffs, rising youth unemployment, and a federal government shutdown, investors entered 2026 hoping for a quieter and more stable backdrop for American consumers. That hope began to fade in late February as the U.S. and Israel launched coordinated strikes against Iran, with the subsequent prolonged fallout leading to a sustained spike in gasoline prices. As a result, many investors are underweight consumer stocks, with gasoline concerns exacerbated by the outperformance of widely owned names downwind of hyperscaler capex.

Despite higher gas prices, the U.S. consumer has been incredibly resilient, with retail sales since the end of February growing at a pace slightly above the 20-year average of 4.4% (excluding car dealers and gasoline stations) and the growth rate of the fourth quarter of 2025.

**Exhibit 1**
**Retail Sales (Ex. Autos and Gas) Year-Over-Year % Change**
(January 2018 - April 2026)




Source: U.S. Bureau of Economic Analysis

Still, performance in the consumer space has been mixed. Since the end of February, categories with an uptick in sales trends include sporting goods, electronics/appliances, building/garden, and e-commerce, with all except building/garden also trending ahead of pre-pandemic averages. Conversely, categories such as health and personal care stores, restaurants, and furniture have decelerated, with growth also trending below pre-pandemic averages.

**Exhibit 2**
**Performance of Major Retail Sectors**

| | Pre-Pandemic CAGR 5 Years Ended Feb-20 | % Change 1-Year Ended Feb-24 | Feb-25 | Feb-26 | % Change Mar-26 | Apr-26 | May-26 | Average Mar-26 - May-26 | Difference Average Mar-26 - May-26 vs. 1 year Ended Feb-26 |
|---|---|---|---|---|---|---|---|---|---|
| Gasoline stations | 0% | -12% | -3% | -1% | 17% | 21% | 25% | 21% | 23% |
| Sporting goods, hobby, book, and music | -1% | -1% | -3% | 4% | 7% | 11% | 11% | 10% | 6% |
| Electronics and appliances | -2% | -1% | 0% | 2% | 7% | 9% | 6% | 7% | 5% |
| Building equipment and garden supplies | 4% | -4% | 0% | -1% | 6% | 4% | 2% | 4% | 4% |
| E-commerce/catalog | 10% | 10% | 8% | 7% | 13% | 10% | 10% | 11% | 4% |
| General merchandise stores | 1% | 2% | 3% | 2% | 4% | 2% | 4% | 3% | 1% |
| Grocery | 3% | 2% | 2% | 2% | 1% | 1% | 1% | 1% | -1% |
| Clothing | 1% | 1% | 2% | 6% | 7% | 5% | 4% | 5% | -1% |
| Miscellaneous store retailers | 3% | 1% | 5% | 10% | 10% | 10% | 7% | 9% | -2% |
| Furniture | 4% | -6% | 0% | 1% | -1% | -3% | -3% | -2% | -3% |
| Restaurants | 6% | 10% | 4% | 6% | 2% | 3% | 2% | 2% | -3% |
| Health and personal care stores | 3% | 8% | 3% | 6% | 4% | 2% | 1% | 2% | -4% |
| Motor vehicles and parts | 4% | 4% | 2% | 4% | -2% | -2% | 2% | -1% | -4% |

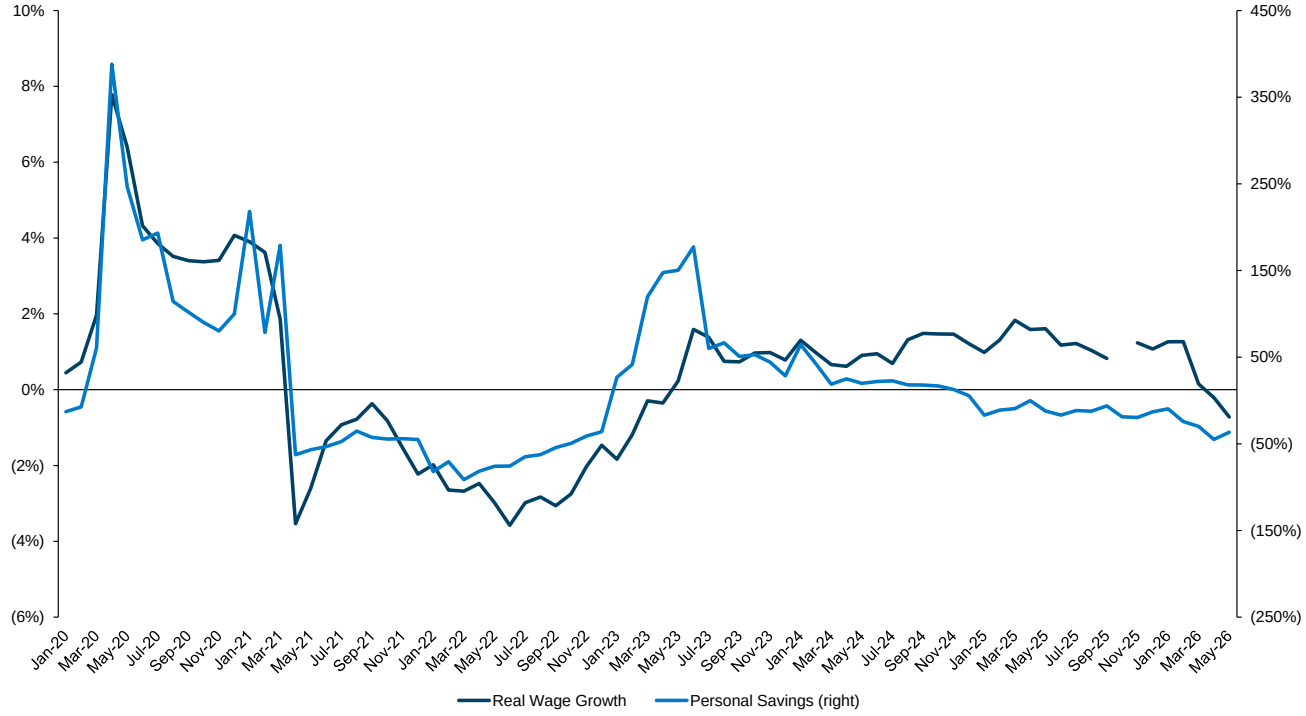
Source: U.S. Census Bureau

Despite varied subsector performance, recent discussions with clients reflect a growing interest in consumer discretionary given an anticipated—albeit elusive—end to the Iran war. The thinking is that with an end to the war, gas prices will come down and free consumer headspace and discretionary dollars. And yet, analysis shows that gas prices matter most to brands skewed to lower-income cohorts, with short-term gas price movements having a low correlation to demand in many discretionary categories (e.g., apparel +0.25).

## Broader Sustained Inflation Is Key Issue

The U.S. consumer is still set up relatively well with full employment and widespread market participation; the percentage of households that own U.S. equities and/or bonds is approaching 60%, from closer to 50% in 2000. Still, we are also starting to see some signs of concern in a recent dip in real wage growth beginning in April alongside a year and a half of significant drawdown on savings. Consumer spending has been supported by a structurally tight labor market where unemployment over the last year has bounced between 4.1% and 4.5%. However, despite a strong employment environment, consumers have been drawing down heavily against savings since early 2025, implying increasingly less spending power.

**Exhibit 3**
**U.S. Real Wage Growth and Consumer Savings – YoY %**




Source: Bureau of Economic Analysis

The top of the K (in a K-shaped economy) continues to drive the consumer economy, almost entirely a function of how concentrated wealth has become with the top 20% of household incomes now accounting for nearly 60% of consumer spending. We are also beginning to see consumers reject areas of the market that have taken more aggressive price increases, with the strongest-performing brands often those that have taken the least amount of price since 2019 (such as **CAVA** in restaurants, **Casey's** in c-stores, and **Wayfair** in furniture).

The most tangible area of weakness is once again (almost definitionally) the lower-income consumer. This cohort has increasingly been bombarded by a growing number of crosswinds, including higher gas prices, higher interest rates, a lack of affordable housing, and depleted savings. But this consumer cohort also remains complex in its behavior patterns, with brands like **CAVA** as well as off-price retailers recently calling out strength from lower-income cohorts.

Ultimately, we believe the larger issue facing consumers is not gas prices, but broader sustained outsized inflation that has built up over the last five years. Compounding matters, some discretionary categories like apparel and furniture have historically had no pricing power, as evidenced by annualized flat to negative pricing trends from the mid-1990s through 2019. And yet constant supply shocks (and likely some opportunism) have caused pricing to run well above historical levels. Supply shocks remain, including protracted conflicts and a Super El Niño effect.

**Exhibit 4**
**Inflation by Category**

| | CAGR 1995*-2019 | CAGR 2020-2025 | YTD May 2026 |
|---|---|---|---|
| Gasoline | 3.4% | 2.2% | 54.0% |
| Airline fares | 1.4% | (0.1%) | 30.0% |
| Apparel | (0.3%) | 1.0% | 7.3% |
| Appliances* | (1.3%) | 0.5% | 6.6% |
| Sports equipment | (1.8%) | 1.3% | 4.0% |
| **CPI** | **2.2%** | **3.9%** | **3.4%** |
| Personal care | 1.9% | 3.7% | 2.9% |
| Housing | 2.5% | 4.5% | 2.1% |
| Food at home | 2.0% | 4.4% | 1.7% |
| Pets, pet products & services* | 2.7% | 4.3% | 1.6% |
| Recreation | 1.1% | 2.6% | 1.3% |
| Food away from home | 2.7% | 5.1% | 1.2% |
| Medical care | 3.5% | 2.3% | 1.0% |
| Education | 4.7% | 2.6% | 0.3% |
| New & used motor vehicles | (0.0%) | 4.0% | (0.1%) |
| Furniture and bedding | (0.5%) | 2.9% | (0.8%) |

*Appliances and pets, pet products & services data begins December '97
Source: U.S. Bureau of Labor Statistics

However, there are signs that demand is starting to weaken, suggesting pricing from here is harder won. To that point, CPG could be the canary, with companies such as PepsiCo, Kraft Heinz, and General Mills and retailers like Kroger and Walmart signaling during first-quarter earnings that they were lowering prices across a broad range of items. Similarly, the restaurant promotional environment since the fourth quarter of 2025 has been arguably the most intense since the Great Recession, discounts in home-related categories are running at a decades-plus high (even among the premium brands), and **Chewy** called out smaller baskets and value-seeking behavior coming out of the first quarter as a rationale behind its more cautious outlook. We believe that given the higher frequency of purchasing CPG and foodstuffs, these could represent early signs of broader consumer price fatigue that could permeate through lower-purchase-frequency categories such as apparel in the second half.

**Exhibit 5**
**Price Reductions in 2026**

| Company | Calendar Period | Comment |
|---|---|---|
| PepsiCo[1] | 1Q26 | "[We] are taking a meaningful step to lower the price on many of our most loved snacks by up to nearly 15%" |
| Target[1] | 1Q26 | "The price reductions—most of which are 5% to 20% lower than the original price—are the latest example of Target's strategy to deliver style and design at an incredible value to guests …" |
| McDonald's[1] | 2Q26 | "… the revamped menu offers customers more of what they're craving—more choice and flexibility, and meals at a great price—by serving up a brand-new Under $3 Menu and offering a $4 Breakfast Meal Deal ..." |
| Kraft Heinz[3] | 2Q26 | "… Cahillane [CEO] said Kraft Heinz is also cutting prices on items that had grown too expensive, as well as boosting promotions and introducing smaller package sizes at lower prices" |
| Ahold Delhaize[1] | 2Q26 | "Ahold Delhaize's local U.S. brand Stop & Shop announced it has lowered everyday price on thousands of items across all 137 of its stores in New York and New Jersey as part of its ongoing efforts to improve affordability ... |
| Kroger[2] | 2Q26 | Preparing to cut prices on thousands of items. Kroger plans to test price reductions before rolling out more broadly. |
| Walmart[1] | 2Q26 | "We started in the second half of last year, and we now have about 7,200 rollbacks [price reductions] in place … which is up more than 20% versus last year" |

Sources: (1) company disclosure, (2) Reuters, (3) The Wall Street Journal

So is it time to load back up on discretionary in anticipation of an end to the Iran conflict and lower gas prices? Our point in calling out broader inflation trends is to refocus the conversation. While the anticipation of lower gas prices might be a short-duration trade (like tax refunds in the second half of last year), we believe there is still lingering risk in several pockets of discretionary as relates to deflation, where there is warranted caution, namely for companies whose growth in recent years has been price-led. For example, we believe that a deflationary apparel setup is the largest risk for traditional apparel retailers such as **Abercrombie**, **J.Jill,** and **Torrid.** Conversely, we see reason for optimism in restaurants in the second half as 1) earnings visibility improves as the impact of gas prices on demand inherently becomes clearer given sustained high gas prices now for over four months and 2) inflationary cost pressures begin to abate on the lapping of the sharp rise in beef costs last year. In hardlines and broadlines, the divide between winners and losers will likely continue to deepen. We expect those that have invested in brand health and supply chains that support stronger value propositions and more frequent, compelling new product **innovation (e.g., Costco, Five Below, SharkNinja, Somnigroup, Wayfair,** and **Yeti**) will maintain more pricing power and outsized share gains, while we expect there could be ticket pressures on those that took above-average price increases (e.g., **RH**) or those with category-specific headwinds (e.g., **Floor & Decor**).

## Cost Pressures Increasingly in Focus

While investors continue to prioritize demand visibility, the Street has become increasingly focused on gross margin given moving pieces such as rising input cost pressures related to the surge in oil, broader inflationary headwinds, and shifting tariff policies—all amid questions about the consumer's ability to absorb more price increases. The concern for many investors is that these cost headwinds may become permanent, or at least remain above prewar levels, even as oil prices begin to fall given the high level of uncertainty about a durable resolution with Iran.

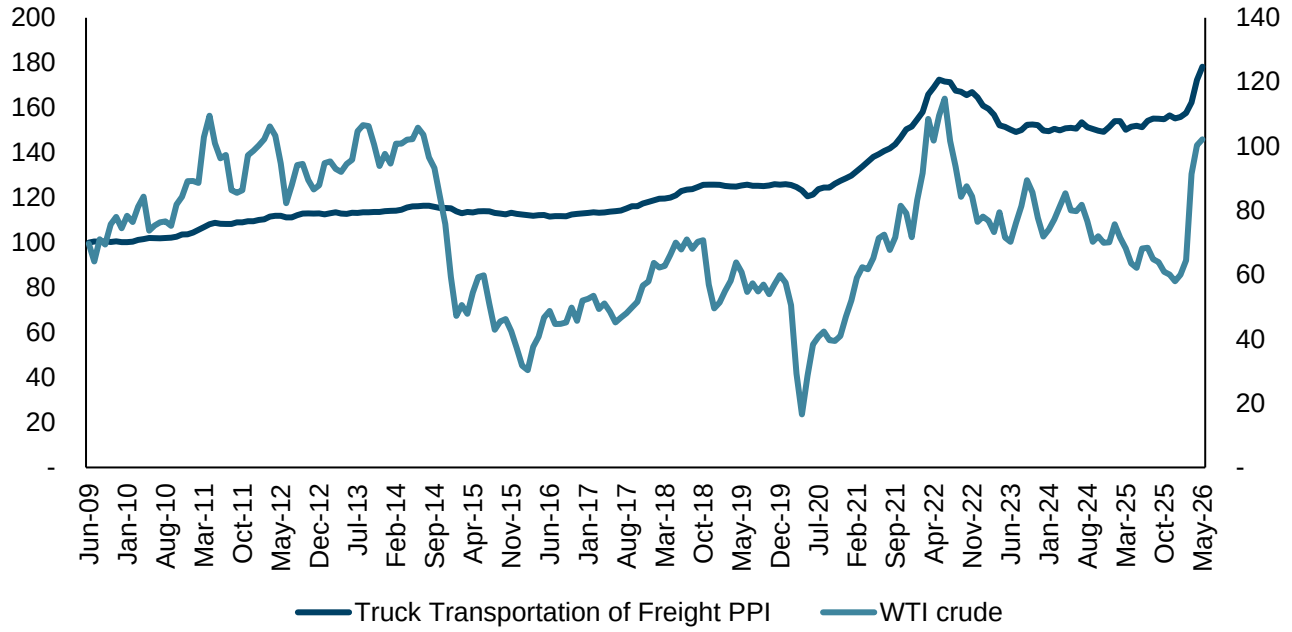
Reflecting increasing caution around pricing, the posturing from many of the companies across our coverage suggests price will be used as a last resort to help offset cost increases, a departure from 2025 when tariffs gave most companies permission to take price without much consumer pushback. That same level of comfort with price elasticity is absent this year, suggesting sustained cost headwinds could have an adverse effect on margins or volumes in the second half of the year and into 2027 for impacted subsectors. Still, those with strong brands and innovative, trend-right products are still feeling emboldened around price, with additional increases largely planned to take effect by the middle to late summer to help alleviate oil-related pressures.

The major caveat here centers on tariffs: the reprieve from IEEPA tariffs has provided companies with a bit of a cushion, but the Trump administration could begin to layer in additional tariffs through Section 232 and 301 any day now. It seems to be roughly a 50/50 split across much of our coverage on whether companies are assuming that tariffs remain at the 10% temporary rate under Section 122 or return to the 20% average on July 24. Still, we expect those with exposure to remain equally volatile on the tariff trade until we have visibility, potentially providing a solid entry point for those with more conservative guides.

We highlight the top areas of concern related to recent cost pressures below.

- ***Domestic trucking and shipping costs.*** Perhaps the most significant area of near-term concern is the increase in diesel fuel and the related impact on domestic fulfillment costs. Exposure to domestic trucking and shipping costs varies heavily by subsector and digital mix, but between 5% and 10% of sales is a general rule of thumb for the typical omnichannel retailer; it can skew to 15%-plus in e-commerce and for those with large-parcel products that require a higher-touch last-mile-delivery service. By and large, these elevated costs are expensed as incurred and will likely be a pain point in the upcoming second-quarter earnings season before mitigation efforts begin to flow through in the second half. Still, diesel costs peaked in late May or early June and fell nearly 15% by the beginning of July. We expect most companies that provide color around quarterly expectations likely assumed diesel costs remained stable or continued to increase from peak levels. However, we caution investors on getting too ambitious about the opportunity for earnings upside stemming from the recent reprieve as domestic trucking and shipping providers are quick to raise prices and enact surcharges against rising oil costs, but are slower to adjust on the way down. Domestic transportation costs have risen 15% from 2025. We expect there is a risk they could remain 5% to 10% higher for the remainder of the year, even with normalizing oil prices, given continuing uncertainty in the Middle East and expectations for generally higher inflation. We saw a similar dynamic in 2022 when pandemic-related supply chain disruptions drove a nearly 40% increase from 2019 levels at the peak, before slightly retreating and normalizing at a 25% premium versus pre-pandemic levels over the past three years.

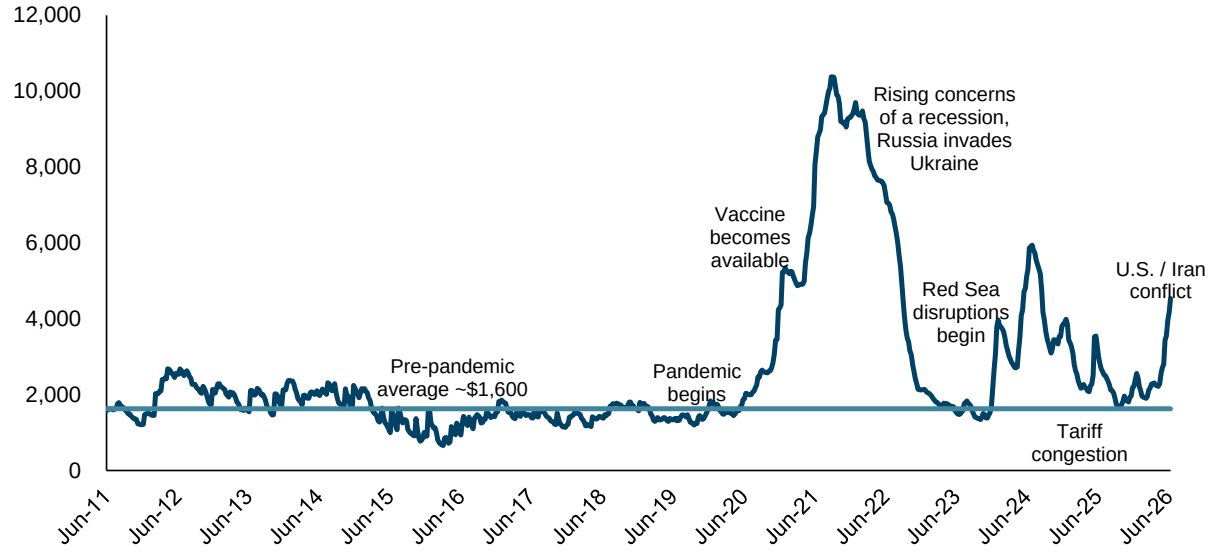
**Exhibit 6**
**Domestic Transportations Costs and the Price of Oil**




Sources: Bureau of Labor Statistics and William Blair Equity Research

- ***Inbound ocean freight.*** Inbound ocean freight costs are up by an average of 14% since April, including a 30% average increase in June, reflecting a swift reversal from the average 30% decline during 2025 and the first quarter of 2026. Still, inbound freight is generally capitalized into inventory, and any potential headwinds will likely not flow through P&L statements until late in the second half of 2026 or the first half of 2027 depending on inventory stocks and turns, where companies will have more flexibility to offset through various mitigation efforts. Similar to domestic transportation costs, exposure to inbound freight costs varies by sector and sourcing model, but brands and retailers generally pay 1% to 5% of sales. However, for larger, heavier, and more fragile products, such as certain furniture and home improvement categories, inbound freight costs can trend between 10% and 15%-plus as a percentage of sales. Inbound freight spot rates have remained volatile since the pandemic, largely driven by geopolitical disruptions. However, following the reopening of the Red Sea and ahead of a major influx of new container ships (capacity expected to increase by roughly 15% over the next two years), expectations were for further relief as contracts with major carriers were renegotiated in the spring. But volatility in oil prices gave freight providers a bargaining chip and provided justification for surcharges that are likely to pressure gross margins. However, assuming geopolitical tensions along major shipping routes do not escalate and oil prices continue to normalize, we believe the increase in capacity should provide relief in 2027 that should more than offset any near-term pressures.

**Exhibit 7**
**Inbound Ocean Freight Container Costs**

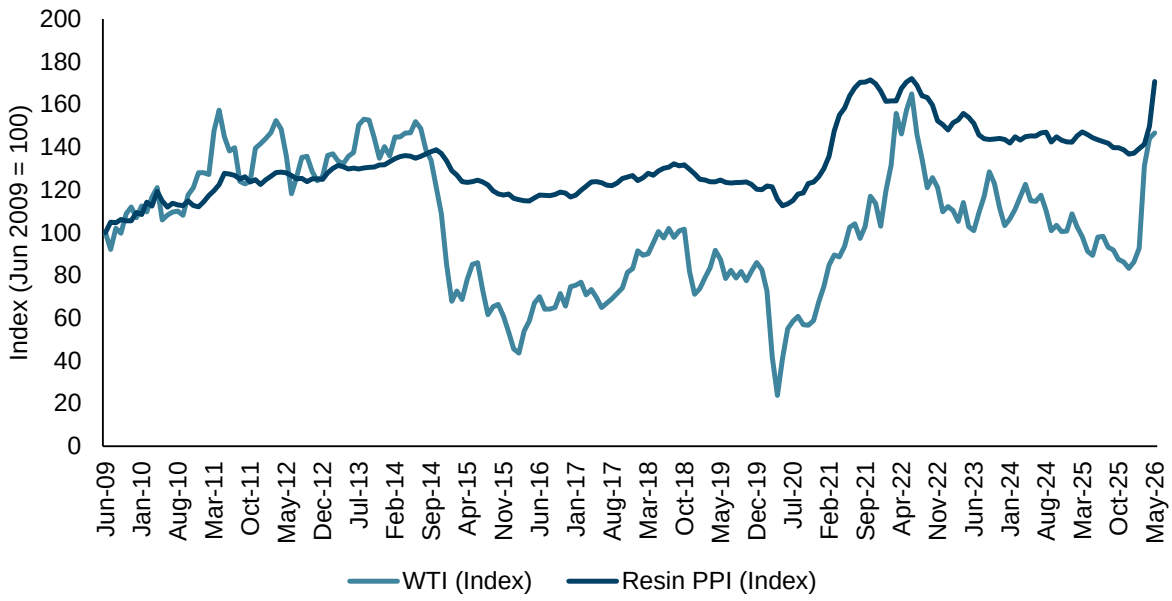



Sources: Bloomberg, and William Blair Equity Research

- ***Resin***. Resin is one of the top oil-derivative product input costs impacting consumer durables. Spot rates for resin are up about 20% over the past two months on higher oil costs after remaining flat to slightly down year-over-year throughout 2025 and the first quarter of 2026. Similar to inbound freight, these costs are capitalized into inventory and will likely not impact the P&L statement until the second half of 2026 or first half of 2027, leaving plenty of time to roll out price increases or other mitigating initiatives. Resin prices increased by some 36% during the 2022 peak inflation era from the pre-pandemic average, before falling some 17% and flattening out over the past two years as oil prices normalized. Resin prices over the past two years reflected a 13% premium to the pre-pandemic average, below the 25% increase in CPI over the same time frame and suggesting an elasticity that could help minimize the gross margin impact for exposed companies assuming oil costs normalize. However, if oil remains volatile and resin costs continue at elevated levels, we believe companies will likely lean into various mitigating efforts, such as value engineering and deconfiguring products and vendor negotiations, before turning to price in the event of a more structural change in costs.

**Exhibit 8**

**Resin Costs and the Price of Oil**

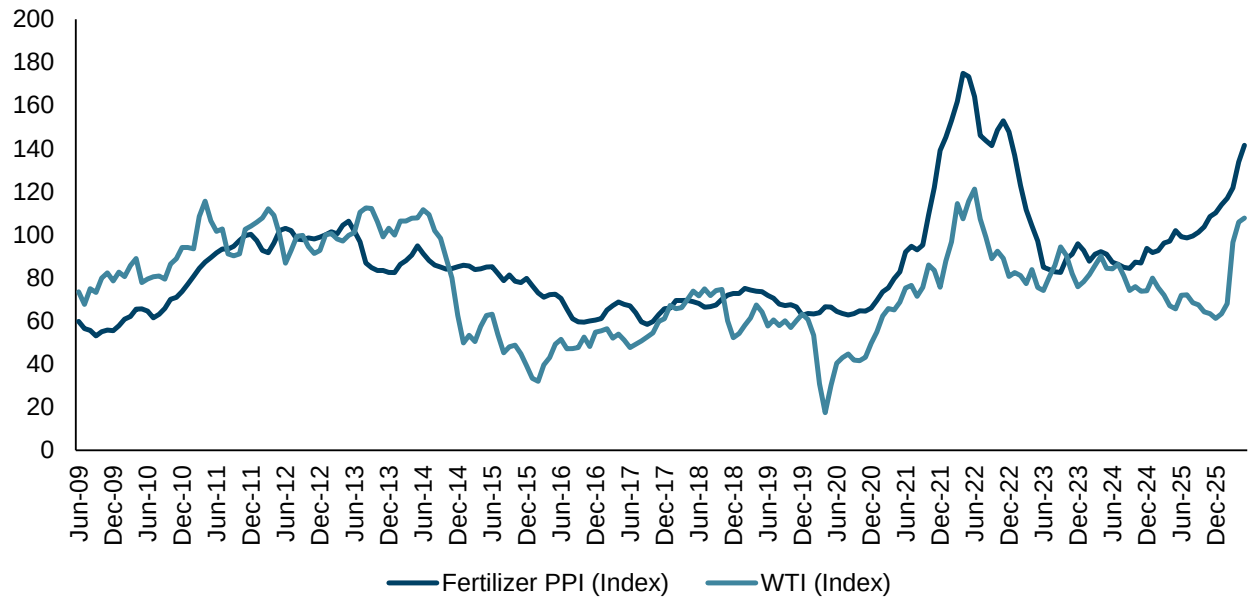



Sources: Bureau of Labor Statistics and William Blair Equity Research

- ***Urea.*** Urea is the world's most widely used source of nitrogen, serving as a key raw material in many consumer lawn and garden fertilizer products and serving more broadly as an essential piece of global crop production. Given the abundance of fertilizer plants in the Gulf region, roughly one-third of global trade in urea passes through the Strait of Hormuz. Over the past several months, U.S. Gulf urea prices had risen from about $400 per ton (December) to a peak of $700 to $800 per ton (April), largely due to fears of a prolonged fertilizer supply disruption. Since then, prices have fallen dramatically over the past two months to about $385 per ton (July) as shipping flows normalized, geopolitical fears subsided, and additional export availability emerged, effectively evaporating the "worst case" risk premium. The dramatic reversal from early weeks of the war has eased threats to consumer lawn and garden product manufacturers, and more broadly, agricultural producers. Assuming no renewed disruption to global fertilizer trade routes, current urea prices suggest a significantly more favorable input-cost environment than was feared earlier this spring.

**Exhibit 9**

**Urea Costs and the Price of Oil**




Sources: Bureau of Labor Statistics and William Blair Equity Research

## Top Picks for Second Half of 2026

Given a backdrop of geopolitical uncertainty, higher input costs across certain categories, and an inflation-fatigued consumer, we highlight below the companies across our coverage that we believe have the highest and lowest earnings visibility throughout the remainder of 2026.

**Exhibit 10**
**William Blair Consumer Group**

**Highest Earnings Visibility**

| Company Name | Ticker | Rating | Analyst | Mkt Cap. ($ mil.) | 7/10/26 Price | CY 2026E EPS | CY 2026E P/E | Div. Yield |
|---|---|---|---|---|---|---|---|---|
| Casey's General Stores, Inc. | CASY | O | Blee | $30,490 | $819.83 | $21.29 | 38.5x | 0.3% |
| CAVA Group, Inc. | CAVA | O | Zackfia | 8,540 | 72.18 | 0.58 | 124.4x | 6.4% |
| Costco Wholesale Corporation | COST | O | Blee | 407,209 | 916.25 | 20.85 | 43.9x | 0.6% |
| Dutch Bros Inc. | BROS | O | Zackfia | 8,606 | 67.56 | 0.82 | 82.4x | 0.0% |
| Freshpet, Inc | FRPT | O | Andersen | 3,006 | 53.62 | 2.74 | 19.6x | 0.0% |
| OneSpaWorld Holdings Limited | OSW | O | Zackfia | 2,692 | 26.31 | 1.18 | 22.3x | 0.7% |
| O'Reilly Automotive, Inc. | ORLY | O | Blee | 72,692 | 86.28 | 3.30 | 26.1x | 0.0% |
| Primo Brands Corporation | PRMB | O | Andersen | 8,776 | 23.99 | 1.20 | 20.0x | 2.0% |
| Ross Stores, Inc. | ROST | O | Carden | 71,596 | 222.88 | 7.74 | 28.8x | 0.8% |
| SharkNinja, Inc. | SN | O | Blee | 21,731 | 152.65 | 6.10 | 25.0x | 0.0% |
| Somnigroup International Inc. | SGI | O | Blee | 15,637 | 73.55 | 3.35 | 22.0x | 0.9% |
| The TJX Companies, Inc. | TJX | O | Carden | 169,501 | 151.34 | 5.12 | 29.6x | 1.3% |
| TheRealReal, Inc. | REAL | O | Carden | 1,333 | 10.60 | (0.20) | NM | 0.0% |
| ThredUp Inc. | TDUP | O | Carden | 843 | 6.60 | (0.10) | NM | 0.0% |

**Lowest Earnings Visibility**

| Company Name | Ticker | Rating | Analyst | Mkt Cap. ($ mil.) | 7/10/26 Price | CY 2026E EPS | CY 2026E P/E | Div. Yield |
|---|---|---|---|---|---|---|---|---|
| Abercrombie & Fitch Co. | ANF | M | Carden | $4,251 | $93.07 | $10.56 | 8.8x | 0.0% |
| Advance Auto Parts, Inc. | AAP | M | Blee | 3,529 | 57.95 | 3.10 | 18.7x | 1.7% |
| Dave & Buster's Entertainment, Inc. | PLAY | M | Zackfia | 365 | 10.45 | (0.63) | NM | 0.0% |
| Driven Brands Holdings, Inc. | DRVN | M | Blee | 2,552 | 15.50 | 1.22 | 12.7x | 0.0% |
| Floor & Decor Holdings, Inc. | FND | O | Blee | 6,199 | 57.13 | 2.00 | 28.6x | 0.0% |
| J.Jill, Inc. | JILL | M | Carden | 244 | 16.29 | 0.13 | 125.3x | 2.1% |
| lululemon athletica inc. | LULU | M | Zackfia | 13,772 | 119.26 | 11.05 | 10.8x | 0.0% |
| RH | RH | M | Blee | 3,116 | 165.35 | 4.85 | 34.1x | 0.0% |
| The Campbell's Company | CPB | M | Andersen | 6,599 | 22.07 | 2.18 | 10.1x | 7.1% |
| The Vita Coco Company, Inc. | VITL | M | Andersen | 578 | 12.95 | (0.39) | NM | 0.0% |
| Warby Parker, Inc. | WRBY | O | Carden | 3,647 | 29.05 | 0.22 | 132.0x | 0.0% |
| Wingstop Inc. | WING | O | Zackfia | 4,230 | 153.29 | 4.61 | 33.3x | 0.8% |

Note: Lists sorted by alphabetical order.
Sources: FactSet and William Blair estimates

We have also compiled two lists of top picks for the remainder of the year, with the first comprising more defensive, high-visibility names and the second more offensive names with greater earnings and multiple upside should consumer and investor sentiment firm. Our analysts have chosen their top two to three ideas for each list.

**Exhibit 11**
**William Blair Consumer Group**
**Top Stock Recommendations for Remainder of 2026**

**Defense**

| Company Name | Ticker | Rating | Analyst | Mkt Cap. ($ mil.) | 7/10/26 Price | CY 2026E EPS | CY 2026E P/E | Div. Yield |
|---|---|---|---|---|---|---|---|---|
| Boot Barn Holdings, Inc. | BOOT | O | Carden | $4,952 | $161.23 | $8.43 | 19.1x | 0.0% |
| Casey's General Stores, Inc. | CASY | O | Blee | 30,490 | 819.83 | 21.29 | 38.5x | 0.3% |
| Church & Dwight Co., Inc. | CHD | O | Andersen | 22,943 | 96.36 | 3.76 | 25.6x | 1.3% |
| Costco Wholesale Corporation | COST | O | Blee | 407,209 | 916.25 | 20.85 | 43.9x | 0.6% |
| Dutch Bros Inc. | BROS | O | Zackfia | 8,606 | 67.56 | 0.82 | 82.4x | 0.0% |
| OneSpaWorld Holdings Limited | OSW | O | Zackfia | 2,692 | 26.31 | 1.18 | 22.3x | 0.7% |
| Ross Stores, Inc. | ROST | O | Carden | 71,596 | 222.88 | 7.74 | 28.8x | 0.8% |
| The Scotts Miracle-Gro Company | SMG | O | Andersen | 3,870 | 65.48 | 4.30 | 15.2x | 4.0% |
| TheRealReal, Inc. | REAL | O | Carden | 1,333 | 10.60 | (0.20) | NM | 0.0% |

**Offense**

| Company Name | Ticker | Rating | Analyst | Mkt Cap. ($ mil.) | 7/10/26 Price | CY 2026E EPS | CY 2026E P/E | Div. Yield |
|---|---|---|---|---|---|---|---|---|
| Arhaus, Inc. | ARHS | O | Blee | $1,114 | $7.86 | $0.50 | 15.7x | 0.0% |
| CAVA Group, Inc. | CAVA | O | Zackfia | 8,540 | 72.18 | 0.58 | 124.4x | 6.4% |
| Carvana Co. | CVNA | O | Zackfia | 74,233 | 65.83 | 1.70 | 38.7x | 0.0% |
| e.l.f. Beauty, Inc | ELF | O | Andersen | 4,620 | 76.75 | 3.28 | 23.4x | 0.0% |
| Freshpet | FRPT | O | Andersen | 3,008 | 53.62 | 2.74 | 19.6x | 0.0% |
| On Holding AG | ONON | O | Carden | 11,600 | 38.54 | 1.10 | 35.0x | 0.0% |
| Somnigroup International Inc. | SGI | O | Blee | 15,637 | 73.55 | 3.35 | 22.0x | 0.9% |
| ThredUp Inc. | TDUP | O | Carden | 843 | 6.60 | (0.10) | NM | 0.0% |
| S&P Retail Index | | | | | 5,539.45 | | | |
| S&P Consumer Staples Index | | | | | 930.18 | | | |
| S&P 500 | | | | | 7,575.39 | | | |
| NASDAQ | | | | | 26,281.61 | | | |
| Russell 2000 | | | | | 2,977.81 | | | |

Note: List is sorted by market capitalization.
Sources: FactSet and William Blair estimates

## Top Picks for Remainder of 2026—Defense

**Boot Barn Holdings, Inc. (BOOT $161.23; Outperform)**
Entering the year, Boot Barn's valuation reached beyond a mid-20-times P/E range (something it has rarely done), positioning the name as an attractive short to fund broader exposure to apparel retail ahead of expected tailwinds from tax refund growth. Around this trading, a narrative that the company is disproportionately benefiting from a Western fashion trend has reemerged, echoing a similar, but ultimately unfounded, argument from 2021–2022. In reality, roughly 70% of Boot Barn's assortment is on auto-replenish (i.e., trendless), approximately 85% is sold at full price (well above industry averages), and only 10% to 15% is exposed to markdown risk (i.e., fashion risk), consistent with historical levels. Demand is supported by exposure to end-markets such as agriculture, oil and gas, and construction, where customers often replace boots multiple times per year, largely in-store, with less discretionary sensitivity. Beyond trend resilience, management has successfully expanded into new geographic markets since its IPO and now sees a path to 1,200 stores from a base of 539, with square-footage growth of 10% to 15% alongside low- to midsingle-digit comps. Margins should expand with scale, store maturity, and improved sourcing in its private label mix that now represents up to 40% of revenue. In the medium term, we see potential for more stable comps supported by continued elevated unit growth and more efficient marketing. Full-year comp guidance seems to embed relatively modest transaction growth, where we see upside potential from accelerating e-commerce and performance marketing. In addition, sourcing initiatives next year should further support margin expansion, creating upside to earnings that could stack with the potential recovery of $18 million in tariff refunds, which is not contemplated in current guidance. Shares trade at 16 times our fiscal 2028 EPS estimate, broadly in line with our expected earnings growth. Value from here should be driven by the long runway for store growth over the next decade and by potential valuation expansion as durability becomes better appreciated. The largest risk moving through the year is potential price deflation, which could broadly impact consumer-facing retailers and brands. That said, Boot Barn's focus on a core work-oriented customer base, which purchases out of necessity and tends to be less price sensitive, provides some degree of insulation.

**Casey's General Stores (CASY $819.83; Outperform)**
For those assuming that a resolution to the war with Iran remains uncertain and that oil prices remain volatile through the remainder of the year, look no further than an investment in Casey's. We believe Casey's is a rare combination of everything investors want in the current environment—defensive and consistent but with several opportunities for accelerated growth. As such, we believe the stock can work in both a risk-on and risk-off environment, but we believe the stock will particularly benefit from a shift toward a more defensive posturing around an uncertain macro backdrop. Our thesis is based on three core tenets: 1) Casey's scale and integrated supply chain should support elevated fuel margins against continued volatility in oil prices; 2) the company's unique positioning as both a convenience store and a quick-service restaurant provides the opportunity to lean on growing gas profits and expand the value proposition of its prepared food and beverage offering versus peers supporting upside to inside-store comps, with the potential for an additional lift stemming from the remodels of acquired stores and the rollout of wings and fries; and 3) management's increased appetite for larger-scale, transformational M&A that could boost unit growth and earnings synergies on the tail end of the successful integration of the 2024 acquisition of CEFCO supported by a strong balance sheet. Investors have some concerns that the company has already addressed most of the low-hanging fruit in leveraging SG&A through store labor reductions over the past few years. However, we believe the concern is overblown and, based on recent conversations with management, we expect this is just the starting point with the next phase expanding into a continuous improvement beyond stores into supply chain, merchandising, and administrative processes, supported by AI-enabled tools that have already driven measurable results (e.g., roughly 33% reduction in DC inventory and a roughly 550-basis-point improvement in in-stock rates). Efficiency gains are now shifting from one-time process fixes to repeatable, systemwide leverage, allowing new units and incremental sales to come on at a lower cost-to-serve. We believe the company's execution on additional operating expense efficiencies over the next few quarters should help to alleviate concerns and provide further support to shares. Casey's trades at 33.9 times our fiscal 2028 EPS estimate. While valuation may appear rich at face value, we believe the premium is warranted given the consistent, defensive nature of the model. We believe shares will find continued support on upside to sales and earnings as we believe EBITDA growth should be sustainable in the low-double-digit range. Primary risks to our thesis include pressures on inside-store sales comps from increasing GLP-1 adoption and SNAP restrictions; rural store exposure to agriculture economic cycles; fuel margin and commodity volatility; adoption of electric and hybrid vehicles; large-scale M&A integration; unit growth execution risk; and an intensifying competitive landscape.

**Church & Dwight (CHD $96.36; Outperform)**
Church & Dwight is an attractive defensive name in consumer-packaged goods with a portfolio balanced across household and personal care products, well-established value and premium brands—Arm & Hammer, OxiClean, ThreaBreath, Waterpik, Hero, Batiste, and Touchland—with relatively low exposure to private label and successful track record of organic growth and share gain. The company is also a disciplined capital allocator, using cash flow from operations to reinvest in high-ROI internal projects, accretive acquisitions, and return of cash to shareholders through dividends and share repurchases—all while maintaining a prudent capital structure. In the first quarter of 2026, the company delivered sales and earnings above expectations and reaffirmed its full-year guidance on all metrics. More specific, it achieved organic growth of 5%, which was volume-driven and broad based across domestic and international markets. Looking forward, we believe the company remains well positioned to achieve its 2026 sales and earnings guidance given strong new product pipeline, distribution gains (top of peer set), marketing plans, and productivity and cost-out programs. More broadly, while consumers in aggregate may continue to be choiceful (perhaps even more so in the future) in their purchases, we believe Church & Dwight is relatively more insulated given its focus on everyday consumables, ownership of trusted brands, and capital allocation optionality. We believe in our thesis that Church & Dwight's balanced portfolio of premium and value-based products in key consumables categories, innovation- and marketing-responsive brands, strongly cash-generative business, and capital allocation optionality support solid shareholder returns. With enterprise value about 16 times forecast 2027 EBITDA, our rating is Outperform. Risks include competition, input and tariff costs, and M&A execution.

**Costco (COST $916.25; Outperform)**
We believe Costco is a solid defensive play, particularly after the recent pressure where shares have declined some 16% from all-time highs near $1,100 reached in mid-May. The decline has been partly driven by the company falling just below very elevated expectations after robust traffic growth in April and May on elevated demand for its discounted fuel offering, but we believe most of the pressure has been more rotational as investors have shifted toward beat-up discretionary names on rising hopes for an end to the war with Iran. That being said, if the Street shifts back toward a more risk-off positioning, we expect Costco would be a major beneficiary as a defensive, consistent, and high-quality name that is a historically safe place for investors to hide. Furthermore, investors continue to maintain concerns about the health of the consumer and potential pressure on volumes as inflation rises. However, Costco's high-income membership base and discounted offering should support resilient, strong comp growth even in a broader consumer pullback. Furthermore, the company's highly specialized merchants and the flexibility of its limited in-store assortment and high inventory turnover should allow the company to deepen its value proposition with any price increases likely well below peers. While resilient, strong comp growth should be compelling enough, we also believe the company could see accelerated margin expansion. Assuming a resolution to the war with Iran remains elusive and oil price volatility continues, Costco's scale and high inventory turnover should support elevated fuel profitability as c-store peers maintain higher gas prices to protect margins, particularly if inflation inside the store continues to rise. In addition, we expect Costco will continue to leverage SG&A at a clip of 20 basis points-plus over the next year as it laps a multiyear cycle of elevated investments in store wages, with little risk of adjustments outside the typical, annual merit increase going forward against a cooling labor market. We believe the accelerated earnings growth should support strong cash generation to an already-healthy stockpile, increasing the likelihood for elevated buybacks (especially given the current share weakness) and a special dividend, particularly as the company approaches its typical 2.5-year gap since its last payout. We believe the probability of a sizable special dividend will only increase as the company gains visibility into the magnitude of tariff refunds expected. Costco trades at 39.2 times our fiscal 2027 EPS estimate. Valuation remains at a premium compared to peers and its historical average, although slightly below the average of 40.4 since early 2022 when fears about the health of the consumer began to ramp up and versus its all-time high around 54. That being said, we believe the premium versus peers is warranted given the scarcity of names providing this level of consistency in the consumer space. We expect shares to benefit from sustainable low-double-digit earnings growth, with potential for multiple expansion in a risk-off environment as investors seek out safe places to hide. The main risks include a significant pullback in consumer spending, rising transportation costs, oil and gas volatility, exposure to California, and potential international pressures.

**Dutch Bros (BROS $67.56, Outperform)**
Against a volatile restaurant backdrop, Dutch Bros has been a model of consistency, delivering mid- to high-single-digit comps each of the last six quarters alongside solidly positive traffic growth. The brand keeps getting stronger, with enviable customer loyalty (74% of transactions from Rewards members), industry-leading innovation (30% increase in LTO unit velocity year-over-year), and the halo effect of increased store densification (Texas comps up 20%). The brand's resiliency in the face of spiking gas prices (versus a 200-basis-point penalty when gas prices spiked in March 2022) is a testament to improved Reward capabilities (including segmentation), paid media capabilities, rising brand awareness, and Dutch's strong value proposition (with as little price taken as possible). As a result, the brand has become more insulated from macro pressures and more capable of influencing customer behavior in the wake of macro events. Sales momentum continued into the second quarter, with comps expected around 5% and no discernible competitive infringement. With Dutch being one of the fastest-growing publicly traded restaurant concepts with stellar unit-level profitability and persuasive evidence of geographic portability, we peg its long-term opportunity at annual revenue of over $14 billion on at least 7,000 domestic locations, translating to annual EBITDA of more than $3 billion. Key risks include potential sales transfer and the impact to comps as markets are filled in and geographic portability risk as expansion moves east.

**OneSpaWorld (OSW $26.31, Outperform)**
OneSpaWorld is the dominant operator of spas on cruise ships, with a 90%-plus market share and significant barriers to competitive entry including logistics, training/staffing of thousands of new staff annually from roughly 80 countries, data analytics, healthy product attachment rates, and exclusive at-sea arrangements for some products and services. Despite spiking gas prices, the company has seen no discernible change in consumer behavior and no signs of trade down, with continued resilient demand for premium offerings. This remains consistent with prior periods of consumer volatility as OneSpaWorld has historically been much more insulated than its cruise line partners and most other leisure companies as cruise ships always sail full (yielding a consistent audience for OneSpaWorld's offering) with the cruise lines bearing the cost of customer acquisition. We also believe OneSpaWorld is in the early innings of harvesting nascent AI initiatives that have the power to boost future revenue growth above management's algorithm for high-single-digit revenue growth yielding similar-to-better profit growth, with opportunities to improve capacity utilization and revenue per ship. Machine learning is now available on 190 ships (essentially the addressable fleet) following promising results in an initial 40-ship test, and the company continues to refine its algorithmic engine to improve revenue and utilization. The company is also in the process of building out true dynamic pricing capabilities for its 11,000-plus itineraries, with a hoped-for initial rollout to pre-booking engines late this year followed by a move to onboard dynamic pricing likely in 2027. Given strong visibility on continued healthy cash flow generation and an asset-light model in which cruise operators pay for spa buildouts, capital allocation plans include paying off debt, repurchasing shares, and paying (and hopefully raising) its cash dividend. Risks include disruptions in the cruise space, the potential for unfavorable contract extensions or nonrenewals, concentration of revenue with a few key companies, the potential for pandemics and/or terrorism to impact the willingness of consumers to cruise, and economic sensitivity.

**Ross Stores, Inc. (ROST $222.88; Outperform)**
We believe Ross in the early stages of momentum, driven by tangible improvement to merchandising that was put in place two years ago, and more recent investment in marketing and customer experience. As such, and in a momentum market, Ross is our favorite of the three off-price retailers (although we think Burlington is getting more interesting here if it can string together more consistent comp performance). TJX has also reported strong figures, with four straight quarters of comp above its guided range. And yet, parsing through commentary, much of the incremental here appears to have driven by basket and more specifically ticket (i.e. price). Given the more recent price sensitivities in the market, we see risk that price benefit could stall, or worse, reverse out into 2027. Ross's momentum, while perhaps in small part price related, feels more tangible. CEO Jim Conroy joined in late 2024 as a relatively unknown entity. We covered Conroy during his time at Boot Barn and know him to be particularly effective in merchandising, marketing and store experience, all muscles that Ross let atrophy over the years. In addressing all three, comp growth has exploded, bringing the brand to a wider audience and taking disproportionate share, most of which has been led by traffic. From here, we acknowledge comp will decelerate, but remain strongly positive, with upside to expectations still in the early innings on marketing and retail experience.

Valuation is still below TJX at 25.9 times forward consensus EPS estimate, a number that we believe still has upside potential on better top-line performance. We continue to see capacity to close the valuation gap, which historically has not existed, while from there upside becomes more levered to the longer-term earnings, dividend, and buyback algorithm that gets a high-single- to low-double-digit return, but with an important margin of safety in the current

market. We see the largest risk as potential faster deceleration of comp performance, with a negative narrative around harder comparisons already starting to work into some of the conversation, resulting in a recent downgrade.

**The Scotts Miracle-Gro (SMG $65.48; Outperform)**
Scotts Miracle-Gro is a quality focused franchise in consumer-packaged goods with a portfolio of do-it-yourself lawn and garden products, dominant brands—Scotts Turf-builder, Miracle-Gro, Ortho—that are synonymous with the categories in which they compete, relatively low exposure to private label, and solid track record of innovation and consumer engagement. The company also has distinctive assets and capabilities—brands, R&D, supply chain, and sales—that create competitive advantages in quality, cost, and service for customers (retailers) and consumers. In the fiscal second (June) quarter, the company achieved sales and EPS above forecast and reaffirmed its full-year guidance. More specific, it produced core sales growth of 5%, which was aided by gains for (focus) branded products, fertilizers, and replenishment orders for controls from Western states. Looking forward, we believe the company should achieve its fiscal 2026 earnings guidance, even if sales trend toward the lower end of the range, given gross margin and cost flexibility enabled by price, product mix, supply chain productivity, and discrete cost savings. In addition, we see a new CEO, strategy to focus on the core, commitment to further de-lever, maintenance of a healthy dividend, and opportunistic buy-back of stock as offering downside protection. More broadly, even if the macro backdrop were to deteriorate, we see Scotts Miracle-Gro as relatively more sheltered given its focus on do-it-yourself lawn and garden, a market that has proved more resilient given the experiential nature of gardening and the prevalence of staycations during periods of greater financial hardship. We believe in our thesis that Scotts—given its superior brands and distinctive capabilities—operates with a wide a moat in the attractive North American lawn and garden market. With the price of the shares at 14 times forecast 2027 EPS, our rating is Outperform. Risks include consumer demand, weather dependence, and input costs.

**TheRealReal, Inc. (REAL $10.60; Outperform)**
We believe resale is the largest thematic play in apparel retail at present, set up for outsized growth as consumers increasingly embrace the channel. Conceptually, we believe the channel is taking the baton from off-price retail, offering even more compelling value and a dynamic search environment via high velocity of unique goods (what off-price calls a treasure hunt). True the goods are secondhand, but consumers seem to be increasingly embracing the channel across all age and income cohorts, eroding the historical stigma of owning used goods. RealReal plays in the secondhand luxury market, offering product anywhere from 30% to 60% off the corresponding retail cost. One clear unique aspect of the model is that it is a consumer-facing company that does not have a demand problem in that luxury on discount always finds a market, and it is on the seller to find the efficient frontier on price. What is more, there are real networking effects in that half of buyers are sellers, and vice versa, creating for efficient marketing and broader access to goods, while new pockets of inventory can be opened up relatively efficiently through the hiring of luxury managers who act as concierges for consignors. Much of the company's history has been focused on investment in obtaining and authenticating supply, for which it now has a competitive lead that we believe would be hard for anyone to catch up with. From here, the company has meaningful capacity to improve the efficiencies of its operations, driving automated authentication across half of its goods by year-end, and improving throughput around bottlenecks such as photography. RealReal is committed to high-single- to low-double-digit top-line growth over the next five years, a pace at which it believes it can add 200-300 basis points per year to adjusted EBITDA margin, driving growth above 40% over at least the next three years. Valuation at 18x forward EBITDA, sub-2x sales, with a free cash flow yield of 4% does not seem to be giving full credit to this opportunity. RealReal is carrying a burdensome debt load around 7 times projected earnings, though the company has and will continue to pay this down and/or refinance via a growing free cash profile. Debt aside, the primary risk, in our view, remains execution regardless of the macro environment.

## Top Picks for Remainder of 2026—Offense

**Arhaus (ARHS $7.86; Outperform)**
Arhaus shares have been pressured after a lackluster first-quarter performance and concerns about the war's impact on consumer sentiment, with the stock down some 31% from year-to-date highs, underperforming peers in the home-related space. However, we expect Arhaus will deliver strong second-quarter results, with upside to comps and earnings, despite the tough comparisons. Based on recent demand trends, we expect the company drove a meaningful acceleration in written sales, with potential for elevated comps on the recoup of deferred sales from March as consumers digested the potential impact of the war. We also believe Arhaus should be a share gainer during the quarter after the company revamped its interior designer trade program, which drove sign-ups double its normalized rate in the first two months, and given its influx of new product that is heavily differentiated from peers and in line with recent trends. We believe the momentum in the second quarter should be sustainable through the second half of the year, providing the opportunity for upside against what we see as a very conservative guide. In addition, we believe demand should be relatively resilient given the company's high-income customer base, which, coupled with its differentiated product assortment, provides plenty of pricing power with lower tariffs providing the flexibility to lean into promotions to drive conversion without an impact to margins. Furthermore, we believe investors will begin to see some of the fruits of the company's multiyear investments in distribution and tech infrastructure in the second half of the year, which should go a long way to ease investor concerns about the model's earnings potential after three years of EBIT margin degradation. While the company is not out of the woods yet, with an order management system and ERP still planned to go live in early 2027, which should be the last of the major infrastructure upgrades, we believe increasing visibility into transportation and distribution efficiencies stemming from prior investments in the second half of the year should be enough to re-spark investor interest. Furthermore, given the company's lack of debt and healthy balance sheet, we expect the increased earnings potential of the model, coupled with an influx of cash related to tariff refunds, could support the introduction of share repurchase program, which at current levels should produce a nice return to shareholders. Arhaus trades at 13.6 times our 2027 EPS estimate. We believe the company should trade at a multiple in the high-teens to low-20s range, in line with other premium peers and unit growth retailers, with additional upside stemming from the recent improvement in underlying demand. In our view, the primary risks include disruptions following recent management changes, potential volatility in earnings stemming from major infrastructure investments, tough multiyear comparisons against a choppy demand environment, uncertainty in the housing market, and elevated competition over higher promotions and demand for real estate.

**CAVA Group (CAVA $72.18; Outperform)**
Despite a highly promotional restaurant environment, CAVA remains focused on driving great everyday value. The success of this approach is evident in accelerating two-year traffic trends throughout 2025 and into the first quarter, which we believe reflects 1) a compelling value proposition with CAVA underpricing CPI by 10 percentage points in recent years and 2) rising brand awareness driven by the brand's fast-growing footprint and successful menu innovation. As a result, we believe the brand's strong value proposition alongside its health-conscious and extensively customizable menu has positioned it well to benefit from both trade up from quick service and trade down from casual dining. CAVA's new unit productivity remains stellar with productivity for new units running above the systemwide AUV of $3 million. This also speaks to the opportunity for CAVA to become a much larger brand relative to its roughly 460 units today, with our saturation analysis suggesting the ultimate opportunity for at least 2,000 domestic locations. Comps have accelerated so far into 2026 with a 10% gain in the first quarter, with similar strength early in the second quarter suggesting potential upside to embedded midsingle-digit comp guidance for the second half of the year. With CAVA sitting at the intersection of multiple consumer trends including better-for-you food with bold flavor profiles, customization, and convenience, we project it will achieve 20%-plus annual revenue growth through 2027, predicated on 15%-plus unit expansion and midsingle-digit comps, yielding 55%-plus increases in revenue and adjusted EBITDA versus 2025. In the intermediate term, we continue to see the potential for CAVA to generate more than $2.5 billion in revenue and roughly $400 million of adjusted EBITDA by 2032 at roughly 1,000 locations. Key risks include intense competition in a promotional restaurant environment, ongoing labor inflation, the need to source quality leaders to run restaurants at an elevated rate of expansion, and moderate geographic concentration in the DMV metro area.

**Carvana (CVNA $65.83; Outperform)**
Versus tens of thousands of undifferentiated dealers that have the same cost structures, Carvana has become the fastest-growing and most profitable used car retailer by leveraging technology to fundamentally offer a better customer experience in what is traditionally viewed as one of the worst consumer buying experiences. We believe this translates to an experience delta that is much larger than for e-commerce in other consumer verticals, with the gap

widening with Carvana's feedback loop. In addition, we believe Carvana is in the early stages of weaponizing its industry-leading GPU to further drive sales via a broader inventory selection, increased marketing, faster delivery times, and lower loan rates (the last of which began in the fourth quarter). Opportunities for further fundamental productivity gains exist across all areas of the business. Ultimately, we are increasingly of the belief that Carvana's market share opportunity is greater than originally anticipated (versus about 1.5% today), as 1) AI is more likely to benefit Carvana than its peer group since it can be interwoven into its bespoke tech stack, 2) autonomous driving technology in trucking could eventually halve the cost of inbound logistics, and 3) older cars represent a meaningful, largely untapped opportunity as the company has skewed toward less-old vehicles given the greater reconditioning time associated with older cars (reconditioning is the company's largest current constraint as it builds scale). In the near term, we believe Carvana is well poised to top sales expectations for the second quarter with its seventh straight quarter of 40% or greater growth in retail units sold, and believe the company is on a path to hit 3 million retail units sold annually at the nearer end of its 4- to 9-year target (implying a 40% CAGR in retail units sold). Risks include the challenges of managing a large pool of fast-depreciating assets, the potential for finance income per car to decline in an inclement credit environment, and the inherent economic sensitivity associated with selling high-ticket discretionary items.

**e.l.f. Beauty, Inc (ELF $76.75; Outperform)**
E.l.f. Beauty is a disrupter in consumer-packaged goods with a portfolio focused on attractive color cosmetics and skincare categories; next-generation brands including e.l.f., e.l.f. SKIN, Naturium, and rhode; unique superpowers—premium quality at accessible price points, powerful innovation, disruptive marketing, and flexible efficient supply chain; and a distinguished track record of growth and share gain. The business is also highly profitable and free cash flow generative with a solid balance sheet and capital allocation optionality that includes (as recently demonstrated) share repurchases. In the fiscal fourth quarter (March) of 2026, the company delivered sales and earnings above expectations and established initial fiscal 2027 guidance for earnings growth in the double digits. More specific, it achieved sales growth of 35% based on strong retail demand (and a successful launch with Mecca in Australia) for rhode; with (as expected) organic sales up low single digits with e.l.f. triple-digit share gains masked in part by a challenging year-ago (distribution) comparison. Looking forward, we believe the company is on track to deliver on its full-year guidance given e.l.f. brand share momentum and category expansion (skincare, haircare), Naturium brand-building advertising and space expansion (at Walmart), and rhode launches including with Sephora in Europe across 19 countries this fall. More broadly, e.l.f. Beauty is well positioned to grow across cycles with a portfolio focused on essential beauty and value proposition fashioned on accessible price points. We believe in our thesis that e.l.f. Beauty's distinctive value proposition and go-to-market capabilities will enable it to further its pursuit of becoming a global leader in beauty. With enterprise value about 13 times forecast 2027 EBITDA, our rating is Outperform. Risks include consumer demand, competition, tariffs, and acquisition integration.

**Freshpet (FRPT $53.62; Outperform)**
Freshpet is a pioneer in consumer-packaged goods with a portfolio focused on fresh refrigerated foods and treats for dogs, a singular leadership brand in Freshpet, and highly differentiated business model—reinforced with nearly 40,000 branded fridges at retail and proprietary manufacturing capabilities and IP supporting the best combination of quality, range, cost, and service. The company is also making progress scaling and leveraging its operations and infrastructure to expand margins and increase returns on capital, and recently (for the first time) inflected to positive free cash flow. In the first quarter of 2026, the company delivered sales and earnings above expectations and raised its full-year sales guidance and maintained its EBITDA range. More specific, it delivered organic sales growth of 13% that was volume driven, broad-based across channels including e-commerce, and reflected both household penetration gain and buy rate improvement. Looking forward, we believe the company remains well positioned to achieve its 2026 sales and earnings guidance given recent consumption trends (sustained up in the low teens), distribution and item expansion, new and effective marketing messages and media mix, and productivity programs focused on quality, yield, and throughput. More broadly, Freshpet is a beneficiary of a solid consumer spending backdrop given its focus on premium better-for-you fresh refrigerated dog food that accrues share from the acquisition of younger first-time pet parents and from trade-up or conversion of existing pet parents from dry kibble. We believe in our thesis that Freshpet will maintain a strong leadership position in a fast-growing (fresh) segment of the dog food category. With enterprise value about 12 times forecast 2027 EBITDA, our rating is Outperform. Risks include consumer demand, competitive entry, and operational execution.

**On Holding AG (ONON $38.54; Outperform)**
On was our top pick for the year, though recent management changes have added some overhang to the story. Our view coming into the year was that the stock reflected negativity around the competitive threat of Nike and fears that it would follow a similar deceleration as that of Hoka One One. Our belief is that of all the brands that were allowed a certain amount of oxygen in the specialty running channel when Nike de-emphasized wholesale in the 2018-2019 period, On has done the most to capitalize on that opportunity. This is not to dismiss the trend risk. A typical hot shoe silhouette will get roughly six years, with the first three years really being the ones investors want to own as an equity holder, as the last three will be the deceleration. The solution for a brand is to keep seeding new styles to backfill the inevitable decline in popular ones. Nike has done this successfully. Hoka has not, drawing much of its business from just two styles (Clifton and Bondi). In our view, On has successfully iterated on product in a way that it has both permission from its customers and extended the overall use-cases for the brand. Tennis is a natural extension, which reinforces lifestyle product. Categories tangential to run, like training and hiking, have also been easy lateral moves. Further out we see golf and European football as likely expansions. This is all in supporting a significantly larger business we believe can approach CHF10 billion at more likely a high-teens to low-20% growth clip over the next three years. At an 18x P/E for that same time frame, we believe the stock gets little credit for that kind of top-line growth, which should be naturally margin accretive as growth favors the DTC channel. Management changes remain a risk, though not in that they signal internal weakness, more that we question whether founders are the right leaders for this next leg of growth. Other risks include FX volatility and broader macro-driven demand pressure, although the company has so far shown relatively greater insulation to these forces given its higher-income base.

**Somnigroup International Inc. (SGI $73.55; Outperform)**
We believe Somnigroup has been unfairly punished over the past three months, with shares down some 25% from prewar highs near $100. Admittedly, the stock's decline is in line with other discretionary, housing-related names, but we believe this overlooks the higher level of visibility into annual earnings growth of roughly 25% over the next three years on synergies stemming from the Mattress Firm acquisition, which we believe remains conservative, and catalysts for comp growth and share gains including closures of regional mattress store chains and the bankruptcy of Sleep Number and sale to Sleep Country Canada, which we expect will result in a significant number of store closures. We estimate Sleep Number should operate between 125 and 150 locations, in line with other specialty home brands, compared to the 577 locations currently, providing a significant opportunity for Somnigroup to expand its market share. The mattress industry has remained pressured in recent years, with volumes down some 26% versus the prepandemic average and down some 12% versus multidecade lows in 2009, suggesting about 8 months of pent-up demand. We believe the industry has flattened out and expect volumes were slightly up in the second quarter with a strong performance during the key promotional periods over Memorial Day and the Fourth of July. Management's guide assumes the industry remains flat to slightly down in 2026, but if second-quarter trends continue, we expect the company could generate EPS upside in the high-single-digit range for the full year. Earnings have been a key concern for investors as higher oil prices are pressuring key chemical inputs for foam; however, the company recently instituted a roughly 4% price increase that should fully offset the cost headwinds, with potential for excess margin expansion if oil prices normalize. We expect the company maintains plenty of pricing power here with minimal risk to volumes despite consumers who are increasingly weary from inflation, given the strength of the Tempur-Pedic brand and the long purchase cycles inherent to the category. Furthermore, we expect there is upside to EPS expectations from synergies not captured in management's current targets, including the increasing effectiveness of its marketing campaigns and incremental co-op dollars from third-party brands, efforts to remodel Mattress Firm stores and enhance its real estate portfolio, potential new store growth, and logistics and distribution consolidation and optimization. We believe the additional synergies could support annual EPS growth of 35% over the next three years before considering a more meaningful improvement in industry volumes. Somnigroup's pending acquisition of Leggett & Platt remains a bit of a wildcard. We believe the Street leans favorable on the deal with plenty of potential for synergies well above the $50 million target and expect the transaction to go through, but it remains a bit of an overhang in the near term. Somnigroup trades at 17.7 times our 2027 EPS estimate, where we expect shares should find support from increasing visibility into earnings upside and multiple expansion to the low-20s range. We see potential for earnings growth of at least 35% over the next two years as additional synergies from the Mattress Firm acquisition materialize. In our view, the most significant risks include the time and effort required to ramp up two major acquisitions of Leggett & Platt and Mattress Firm, higher-for-longer interest rates pressuring large-ticket demand and housing turnover, elevated promotional and pricing pressures, international uncertainty, and general execution risk as the company is investing in several growth initiatives across its product assortment and operations.

**ThredUp, Inc. (TDUP $6.60; Outperform)**
We continue to view ThredUp as a differentiated asset within the resale space, having built a complex reverse logistics infrastructure that has steadily improved contribution margins, from the high-20% range around the IPO to the mid-40% level today (and up from the low 40s a year ago). This progress has been achieved despite structurally lower AOVs, necessitating higher efficiency of the model. The company continues to generate strong active and new buyer growth while lowering customer acquisition costs, pointing to a healthy and efficient marketplace. Ongoing investment in seller acquisition should further support inventory growth and, ultimately, demand. Looking ahead, management highlighted incremental AI-driven initiatives across search, personalization, and fulfillment, which we see as supportive of both the customer experience and longer-term margin expansion. Shares are currently valued at 32x out-year EBITDA. We believe ThredUp can sustain at least low-double-digit top-line growth over the next several years, supported by improved marketing efficiency, continued enhancements in platform functionality, and favorable resale industry tailwinds. The key emerging risk, in our view, is competition for supply, where ThredUp appears to be leaning into marketing for supply for the first time in its history. Other risks include a volatile macro backdrop and execution risk as the company implements broad changes to customer engagement and the overall platform experience.

The prices (as of 7/10) of the common stock of other public companies mentioned in this report follow:

| | |
|---|---|
| Abercrombie & Fitch Co. (Market Perform) | $93.07 |
| Amazon.com, Inc. (Outperform) | $245.34 |
| American Express Company (Outperform) | $350.58 |
| Capital One Financial Group | $201.52 |
| Carnival Corporation (Outperform) | $26.83 |
| Church & Dwight Co., Inc. (Outperform) | $96.36 |
| Designer Brands Inc. | $5.52 |
| Duluth Holdings Inc. (Market Perform) | $4.03 |
| Floor & Decor Holdings, Inc. (Outperform) | $57.13 |
| The Hain Celestial Group, Inc. (Market Perform) | $0.57 |
| Hoka One One | $105.99 |
| Holley, Inc. (Outperform) | $2.52 |
| J.Jill, Inc. (Market Perform) | $16.29 |
| Kenvue Inc. (Market Perform) | $19.48 |
| Kura Sushi USA, Inc. (Outperform) | $51.65 |
| Leggett & Platt | $10.94 |
| lululemon athletica inc. (Market Perform) | $119.26 |
| Nike, Inc. | $44.37 |
| O'Reilly Automotive, Inc. (Outperform) | $86.28 |
| Planet Fitness, Inc. (Market Perform) | $51.33 |
| Portillo's, Inc. (Outperform) | $4.59 |
| The Procter & Gamble Company, Inc. (Market Perform) | $147.04 |
| Revolve Group, Inc. (Outperform) | $23.93 |
| RH (Market Perform) | $165.35 |
| Royal Caribbean Group (Outperform) | $285.37 |
| Shake Shack, Inc. (Outperform) | $58.6 |
| The Simply Good Foods Company (Outperform) | $12.77 |
| Sweetgreen, Inc. (Market Perform) | $8.36 |
| ThredUp, Inc. (Outperform) | $6.60 |
| Torrid Holdings Inc. (Market Perform) | $1.98 |
| Traeger, Inc. (Market Perform) | $72.47 |
| The Vita Coco Company, Inc. (Market Perform) | $71.40 |
| Wayfair Inc. (Outperform) | $89.23 |
| YETI Holdings, Inc. (Outperform) | $48.91 |

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DOW JONES: 52498.60
S&P 500: 7515.34
NASDAQ: 25873.20

Additional information is available upon request.

**Current Rating Distribution (as of July 14, 2026):**

| Coverage Universe | Percent | Inv. Banking Relationships * | Percent |
|---|---|---|---|
| Outperform (Buy) | 73 | Outperform (Buy) | 14 |
| Market Perform (Hold) | 26 | Market Perform (Hold) | 2 |
| Underperform (Sell) | 1 | Underperform (Sell) | 0 |

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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