Goldman Sachs Exchanges
What's ahead for retail: how retail CEOs are navigating a more complex environment
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Recorded: January 29, 2024 & February 9, 2024

Allison Nathan: After the pandemic forced retailers to reinvent themselves to meet changing consumer behaviors, the economic backdrop is more constructive today. So, what are the implications for companies, investors, and consumers in 2024?

Tim Ingrassia: I think we're going to be in the first year of micro influence where we'll be back to retail of old where the actions that each company takes will be more important to how they perform than the action of the economy, the actions of COVID, the actions of consumers writ large. So, we're going from macro to what retail has always been, which is micro.

Allison Nathan: I'm Allison Nathan and this is Goldman Sachs Exchanges.

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In this special episode, I'm sitting down with Goldman Sachs' Tim Ingrassia, co-chairman of the Investment Bank's Global Mergers & Acquisitions business, and Vishal Rana, from the Investment Bank's Consumer Retail group to talk about the evolution, challenges, and opportunities facing the retail industry.

We'll also hear from Ted Decker, the chairman, CEO, and president of Home Depot. And Dave Kimball, the CEO of Ulta Beauty, who joined them on a panel that was recorded at the Retail Industry Leaders' Association CEO Forum in Tucson, Arizona in late January.

We'll first turn to Tim and Vishal who are joining me in the New York studio. Tim, Vishal, welcome to the program.

Vishal Rana: Happy to be here.

Tim Ingrassia: Thank you.

Allison Nathan: So, let's start with the state of the consumer. Inflation, as we all know, is coming down. That's great news. But, you know, we go to the grocery store, when we go to the gasoline pump, prices are still high. So, are we really seeing pressures on households easing right now? What is consumer sentiment looking like? Tim, maybe you can start us off.

Tim Ingrassia: So, I think the really interesting aspect to this is there are three things going on. One is consumer ability. One is consumer sentiment. And one is consumer actions. And they might not all always agree with one another. We've had some really positive data in the last couple of months that consumer confidence is improving and is improving materially. That's really good news on the back of some improvements in inflation, on the back of some improvements in wages and household income.

Having said that, consumer actions still tell us that how the pie gets divided is a really important pattern that people are still figuring out post inflation and post COVID -

how their dollars get split between different demands for their dollars. So, I think it's going to be a very, very interesting year as we see that develop.

Allison Nathan: And what are you observing in terms of the impact on retail?

Tim Ingrassia: So, retail is moving from an industry that has spent the last several years dominated by macro economic forces. Supply shortages, inflation, wages. All these things that impact everyone at the exact same time. So, let's call it two years of macro influence.

I think we're going to be in the first year of micro influence where we'll be back to retail of old where the actions that each company takes will be more important to how they perform than the action of the economy, the actions of COVID, the actions of consumers writ large. So, we're going from macro to what retail has always been, which is micro.

Allison Nathan: Right. Interesting. Vishal, what are private equity firms thinking about the space at this point?

Vishal Rana: Retail CEOs will tell you this, and investors sometimes are laggards on this, which is retail is really hard. You know? Every morning somebody has to come to your store or your website and make a purchase that, often, is discretionary. Okay? And that is very difficult to predict. And when it's difficult to predict, especially as we just talked about in a post COVID era, a private equity model that has historically relied on leverage is harder to come by. Okay? The debt markets have recovered a little bit. But there's still a ways to go. And the history of retailers having too much leverage hasn't been a great one. It's been a mixed bag at best.

So, I think private equity is being selective around retail. And their definition of retail, where they've invested, has generally been in the services space - if it's some sort of service that they think is less discretionary but has a recurring element to it. And the classic one I sort of bring up is there's been a huge explosion of people investing in collision repair in the auto space. So, I almost call it defensive growth retail. It can have a little bit of growth. But it's still got an element to it that, through the cycle, will be okay. I think that's where people spent time.

I think food retail has historically been an area where private equity has invested. Been a couple of wins. But there's also been a number of challenges.

I think where it's truly discretionary and inventory management is particularly challenging, I think we've seen private equity be relatively cautious.

Tim Ingrassia: Well, we'll find out. There are some things going on right now.

Vishal Rana: Yeah. That's a good point.

Tim Ingrassia: So, the great thing about private equity is their full-time job is to think about things to buy. So, they're always thinking. They're always studying. And then it's a matter of finding out whether there's an overlap between their interest and their valuation and the other choices that the owners of assets can make. And everybody's looking at everything.

Vishal Rana: We'll know soon. We'll know soon.

Tim Ingrassia: We'll know. We'll know.

Allison Nathan: So, do you think there could be more consolidation in the industry?

Tim Ingrassia: Well, what we haven't seen a lot of in retail is retailers acquiring unrelated other retailers. So, most consolidation in retail has been a department store buying a department store. A supermarket buying a supermarket. What we haven't seen is a lot of a fast fashion retailer buying a women's contemporary retailer, or whatever other mixes you can imagine where a public company then runs or manages multi banners targeting different segments. There's not been a lot of that. I don't expect there will be a lot of that.

This mantra from investors is focus. So, public companies in particular are very focused on listening to their investors and doing one thing and one thing well. Which is why private equity has been so important to the M&A business in retail. When private equity is interested, there's more M&A in retail because there's a buyer universe that doesn't rely on diversification. It relies on focus.

Allison Nathan: That makes sense, right? I mean, ultimately, that promotes efficiency. I mean, it seems like that investors are pushing companies in that direction.

Tim Ingrassia: Yeah, hopefully. And the challenge going forward on efficiency is increasingly the cost of logistics, the cost of technology becomes a really important defining characteristic of which companies can afford those investments and which can't? And can some of those investments be spread across more banners? We'll find out. But I think that's a new fact relative to maybe the last ten or 15 years.

Allison Nathan: And as long as we're talking about activity, Vishal, when we think about the market for IPOs, how is that pipeline looking for the retail sector in 2024?

Vishal Rana: Yeah, I think the pipeline, whether it's retail or consumer-oriented companies, which I've defined as some of them are product, some of them have a digital element to it, there is definitely a pipeline of companies that would love to go public. The IPO market for consumer retail companies since the heights of late '21 has been tenuous at best. There've been two very large transactions that have been well-known, Amer Sports and Birkenstock.

But I would say the, I don't know, the last four months we've moved into a bull market. Three or four months. The performance of the overall equity market is ahead of where the IPO market is in terms of investor receptivity.

And I think the main reason, Allison, is it's a little bit what I was talking about earlier around defensive growth where a lot of the names for 2021 have struggled in the public market. Across all sectors, not retail specific. Not consumer specific.

And so, as you come back and looking at the IPO asset class and investment opportunity, that's the last thing you have in your investment committee that you've looked at. So, this time, when people bring new issuances, the first two, three innings of it are always going to be cautious. And I think that cautiousness has led to conversations where those names in the pipeline are, like, wow, okay, so maybe the valuation I thought I may get, I may not get. Let me wait a while. Okay, let others go public.

And sometimes, nobody goes public. It just remains, you know, baby steps.

Tim Ingrassia: But it's a dialogue that's happening.

Vishal Rana: Correct. Very active.

Tim Ingrassia: A year ago, we weren't even having that dialogue. So, we'll see--

Vishal Rana: We wouldn't talk about pipeline last year. This year, we have a pipeline.

Allison Nathan: So, what factors do you think could actually drive momentum turning those conversations into action?

Tim Ingrassia: Well, I think there are a couple of things. One is if investment opportunities in the public market domains because that bull run pauses. Oddly. If I don't need to take the risk on the new issuance because I can own the S&P 500 and earn a 15 or 20 percent annualized return, why do I need to take the risk on something new?

So, sort of counter-intuitively, I think a pause in the equity market, a stability in the equity market will be worth more to the IPO opportunity than continued growth.

Now, obviously, a crash would go the other way. Because that will encourage people to say, "I've got to find new ways. I've got to find new risks."

I think the other thing, frankly, that happens is you just end up with a backlog of things that are owned by people who want liquidity. And at some point, the debate isn't can I get a great IPO done, it's can I get an IPO done? And when you take that word "great" out, it's a different dialogue and it's a different answer. Can I get the deal done is a very different question to answer than can I get a great deal done.

Allison Nathan: And you might just want to get a deal done for other strategic priorities.

Tim Ingrassia: Yeah. Look, one of the things. I mostly focus on M&A, so Vishal, you'd have a lot more to say here. But in M&A we tend to sell the whole company. So, the price right now matters. In an IPO, you might be selling ten or 15 percent of the company. The other 85 percent, it'll be worth what it's worth in two years.

Vishal Rana: If 85 percent of your investment you believe is going to be worth more in the future, but you can start the clock on that today because I do think we have a functional IPO market right now. A year ago, I think that would have been a harder claim to make. I very much agree with Tim's comment. It is interesting, I just talked to some names that are in the quote, "backlog." And there's a frustration which is, gosh, the last three, or four, five months, my personal portfolio, which is just the S&P 500 index, and not my personal one but sort of the large market, has gone up. It's gone up quite a bit. So, how come if that's up 20 percent, why can't I get my company public like this?

I think you need a plateauing of that. You need a plateauing because then all of the sudden it's like if you're a fund manager who, like, missed that through the so-called IPO discount or whatever the discount may be to the long-term value of the company, maybe that's an investment opportunity I can get excited about again. Otherwise, hey, I'm happy to invest in your IPO, but I'm going to take a little bit more insurance, i.e., a discount to what the longer-term value is. Because I can just hold my terrific performance in the broader market and I'm already up 20 percent this year. So, why take some risk? I get paid on what my year end value is of my portfolio.

Allison Nathan: So, you were both just at the Retail Industry Leaders' Association CEO Forum. What were some of your key takeaways about what CEOs are focused on right now in this space?

Tim Ingrassia: Oh, certainly for me, and I'd be curious, Vishal, your perspective. Just this complexity of consumers' sources of information, decision making, and how they execute against their wants, needs, and desires mean that every physical retailer needs to master all kinds of other skills. And those skills are how do I contact my customer? How do I stay in touch with my customer? How do I meet them where they are, when they are? How do I work new brands through that system? How do I change? How can I keep up?

The complexity is daunting. And the larger you are, the more plates you need to keep spinning in the air.

Vishal Rana: Yeah. And I think some of it is retail 101. The store experience is really important. The stores, for some of the names that, as Ted and Dave talk about, the power of their store network remains a critical part of their respective company's experience. Customers want to be delighted. Customers want to be engaged in the store. Customers want service in the store. Customers may want access to information directly in the store. Those things are complicated, and they take time to figure out, even with the history of many of these terrific retailers that we met with.

And I think the other part of retail 101 is we're still working through a lot of new things around technology when it comes to getting goods from point A to point B in a way that can be just a little bit cheaper. Because that impacts what you price things at.

And I think the benefits of e-commerce have created logistics centers everywhere. But it's created more complexity too because you're competing with folks who can do same day delivery. And maybe you've got the better product, but maybe the consumer doesn't want to wait an extra 24 hours. But wait a second, there are logistics centers everywhere. How do I figure out my network in a better way so I can behave similar to some of our larger tech-enabled competitors? But also provide what is unique to our banner? I think those, I wouldn't call it plumbing, those challenges are very real. And we don't typically see those, whether as consumers or as economists or investment bankers. But I think that's what these guys are focused on. And we found it fascinating.

Allison Nathan: So interesting. Tim, Vishal, thank you so much for joining us.

Tim Ingrassia: Thank you.

Vishal Rana: Thanks for having us.

Allison Nathan: We'll now turn to their conversation with the CEOs of Home Depot and Ulta Beauty, which was recorded at the Retail Industry Leaders Association CEO Forum. We hope you enjoy it.

Vishal Rana: What we're going to do is basically focus on the theme of the state of retail in 2024. Get perspectives from our panel here. So, two questions for each of you, and I'll probably start with Ted, can you reflect on 2023 a little bit? And how have the, at least real or perceived macro tailwinds heading into 2024, impacted consumer demand for your business?

Ted Decker: As we all sat here last year it was, you know, for certain we were going to have a recession. And all the talk was hard landing or soft landing. Hats off to the Fed. What a remarkable job they've done to bring inflation down when, really, no landing at all. And I think most people who are not necessarily calling for a recession at all, I think the odds are stacked that we won't have one.

So, as we went into this year anticipating recession and didn't have one, and things are still a bit uncertain, how long do we have higher for longer? The takeaway for us was just agility in our planning. And we expect the same in '24.

Dave Kimball: Yeah, I'd say, you know, as you look at 2023, again, to your point Ted when we were here a year ago, a lot of uncertainty. And overall, economically, I think we feel pretty good about where we've landed. And I should preface all of this by acknowledging that I'm fortunate to be in the beauty category, which has been on a very healthy run for a couple of years. Our business benefits from that. And so, that's an overarching theme that's obviously been helpful for our business.

But while the economy has been good, we track our consumer behavior very closely, of course like I know everybody does, staying really tight on understanding how they're feeling. And while there may not have been an economic recession, it does feel like in talking to our guests, there's, I don't know, maybe an emotional recession. They're challenged. Our consumer is challenged. Even in beauty where spending is healthy and the category is healthy, there are a lot of overarching concerns that are just dragging on the consumer.

Consumer confidence hasn't kept up with the actual economic performance. And as we enter into 2024, I'm pretty optimistic from an economic standpoint with unemployment and inflation getting under control, and on some of the other things that you called out. I'd, though, probably like many of you, I'm anxious because we're hearing it from our guests about the anxiety as we enter here in January going into what is shaping up to be a pretty wild year, both here domestically, and then all the events that are happening around the world. So, that's influencing consumers even if the economy is kind of hanging in there and helping in some ways.

Vishal Rana: Tim, your views on consumer sentiment?

Tim Ingrassia: So, we had many years ago at Goldman Sachs an II Ranked analyst in the retail space. His name was Joe Ellis. And some of you will remember Joe Ellis. But Joe's innovation in looking at retail was to conclude that Americans will spend every dollar available to them. And so, if you develop a feel for the income of the consumer, you will therefore understand what's going to happen in retail.

And if you're telling people how to invest in retail, in fact, where people spend their money changes wildly based on mood, based on needs, based on wants, based on desires. Last year, economically, was better than expected. GDP growth. Wage growth. Inflation that was declining throughout the year. It was much worse than was expected on consumer confidence. Which really only turned in sort of the October timeframe. And we're now on three months.

If you look at the University of Michigan Consumer Sentiment Survey, we're now on the back of three months of pretty material improvement in that survey. So, I think it'll be interesting to see what happens there.

We have to add the world and what's going on in the world to that mix. We have to add a presidential election cycle to that mix, which I think makes '24 harder to predict. But I prefer an environment where we're not just saying, "If the recession isn't tomorrow, it's the next week." And so, that tepid optimism, I think, is a nice backdrop. And then we'll have to see where that goes.

Ted Decker: Yeah, it is nice to see the Michigan sentiment increasing. Because the spending has been there. As you said. GDP, remarkably strong through the year. Certainly, Q3, gangbusters almost. And now Q4. But driven by personal consumption expenditure. I mean, the consumer has continued to spend. I mean, there's some wealth effect and housing, certainly. Wealth effect in the stock market. And with that confidence, they have spent.

Vishal Rana: Ted, home improvement, lots of things impact it. Talk a little bit about interest rates, the impact it's had on your business and other economic factors that affect the consumer that walks into a Home Depot.

Ted Decker: I mean, we'd certainly like them to be lower of all the things that have materialized. We don't know how long the Fed will keep interest rates up. For our business, the higher interest rates translates into higher mortgage rates. And, obviously, a huge impact in housing, new household formation, new home builds and sales. And most particularly, in turnover. So, that certainly impacts our business.

But again, we're focused on being agile. Obviously, can't control the Fed. Nor what the macro will do. But higher interest rates for longer have put a damper on housing. You look just at turnover. Turnover, year in and year out, 5 or 6 million units. We're seeing turnover decades low now. We had months we ran at an annualized rate in the 3 plus million range. So, significant, significant reduction in turnover because of affordability with higher mortgage rates.

Vishal Rana: Dave, you mentioned your consumer and her resiliency. Just talk a little bit more about that. I mean, there are so many extraordinary brands in the beauty space. And it feels like there are new brands emerging every day. And you've only got so much shelf space. And just curious how you've been able to sort of manage that and get the consumer excited, and how she's remained super resilient.

Dave Kimball: Yeah, fortunately in the beauty category, what we call our beauty enthusiasts are those that are just passionate and engaged in the category and interested in trends and discovering new brands and talking to their friends and on social media just immersed in the beauty world, which is a good percentage of the population, fortunately. That interest has really even accelerated over the last few years coming out of the pandemic.

And it's been driven by a greater connection between wellness and beauty. The understanding that how I take care of myself is every bit as important about how I look and how I show up in the world.

And so brands, to your question about brands, we've been fortunate. It's actually one of the best things about this category and the Ulta Beauty business is the number of entrepreneurs that are consistently creating new, exciting brands. And there's an insatiable appetite.

Our team that's focused on just new, small, emerging brands sees about 2,000 new brands every year. And we take less than 5 percent of them. So, there is an enormous amount of creativity and innovation.

And what's really interesting about this category, unlike maybe some other categories that I've worked in over my career, is the opportunity. It's hard. I mean, there are 2,000 just to get into Ulta or any of our competitors is hard. But there are many proven successes of brands that come in that have the right product, the right brand personality, the right connection, and an entrepreneur that's driven. And they've proven, again and again.

Vishal Rana: Great. The next topic we wanted to hit on a little bit was the power of the store network. I know at Goldman, from 2019 through COVID, I think we probably took 35 or so companies in the consumer retail space. The vast majority of them were direct-to-consumer in some form, versus an era of taking lots of retailers and restaurants public. And I bring that up in the context of the power of your store network. Why has it been a winning strategy for you? What are you seeing on the consumer when he or she is purchasing now, whether it's omni or brick and mortar? And how has that integration happened?

Dave Kimball: The role of our physical stores is so important to our success. It's the core of our company. And we believe so strongly in what we call the power of human connection. The idea of creating emotional connections with our guests because we're in a category that's so emotionally driven. How you show up, how you feel about self, how you express yourself to the world is so important to everybody that walks into one of our doors or visits us online.

And I see it when I'm in the store. And the connection that our team has when they help somebody, either, you know, look great for an event coming up. Or help addressed or solve an issue that they're having with their hair. Or whatever is going on in their lives beyond just, again, the superficial aspects, but the emotional, human, self care aspects of it.

So, that is best expressed in a human way. And fortunately for us, we see in both the results and all our research there is an overwhelming preference still to shop in a physical environment because of that human connection and all the other things that come along with it. The discovery aspects. The touch and feel and smell. The tactile elements of the beauty category.

And then on top of it, we have a big service component. We have full service hair salons and brow services. Makeup. Skincare. And not yet can you do that by a drone visiting your house. And we work hard with our 55,000 team to deliver that human connection.

And then on top of it though, of course, of course, the interaction starts almost always digitally in how we engage in an omnichannel way and the intersect that it has. And probably like everybody in the room, if we can get somebody shopping in store to connect with us online, their spend goes up over 2.5 times. If they download our app, it's like 3 times. All the things that digital can fuel and add to human connection that support the core of our business, which is the store.

But the heart still is this human connection, the experience they get when they sit with a stylist for two and a half hours getting their hair cut and colored, that can't be replicated in any other way. And so, that balance is really important and it's something we work hard on delivering every day.

Ted Decker: I absolutely agree. The store, as much as we invest in our digital assets and increasingly delivery capabilities, our apps, our outside field salesforces, the store remains the center of the ecosystem. And we hadn't built stores in the longest time in our sector. And we're building stores again. Nothing like we did in the past when we were opening a store every couple, few days. But we'll build 80 odd stores in the next five years. And that's after really not building any for quite a number of years.

Vishal Rana: Tim, do you think investors are recognizing that?

Tim Ingrassia: Well, just think over the last five years, the cycle of valuation and where capital has been available. And to some extent, I would say one of the myths was that direct-to-consumer was a lower cost way of serving your customer. And that has not proven to be the case in most categories. It's a higher cost way. It's very good at other things. It maintains connection, energy, vitality, trial, branding, all of these other things. But if you believe that the key to real estate was having the right location, well, the key to the first step of direct-to-consumer is being noticed. It's really expensive to get noticed in lots of ways.

The next step was logistics. Well, logistics is much harder when you take that centralized pick and pack. What if I could talk every one of your customers into going into the warehouse and doing their own pick and pack and delivery for free? Well, that's what a store actually is at its core.

But I think the most important thing that a store has proven to be in this ecosystem of all of it counts and all of it matters is a place for an editor with a point of view to say, these are the products that you ought to be focused on. Because the internet can be infinite. And infinite is hard for anyone. I can't deal with infinity. Right? I'm pretty good with numbers. You lose me somewhere short of infinity.

But then you move to direct retail, and all of the sudden it's finite. And that means that someone has made choices for you. And if someone has made choices for you, I think it helps.

Now, the big change on Wall Street is investors were willing to fund losses for revenue growth. And they've been reminded that revenue growth needs to be sustainable. And then that revenue growth needs to ultimately generate returns. There's still a patience among investors and a focus on revenue growth. And yes, you can lose money first and make money second. But I think that continuum is much more important than it was, certainly, two, three years ago.

Vishal Rana: Yeah, it's interesting. The capital raising side, I think from a Wall Street perspective, I would argue one of the weakest parts of our business is the so-called private placement business, which is essentially raising money for higher growth private companies. That part of our business has struggled the most, which I think is a proxy for where the capital has right now shifted to. Hopefully it shifts to more retailers. But it's certainly not with the private companies that are still losing money.

Tim Ingrassia: The composite of direct-to-consumer fashion retailers, I think the last time I looked at it, was down 97 percent from its peak in '21. It's hard to go down more than 97 percent. Though, I guess in theory, you could. I must say though that the recovery in retail valuations, I always try to ground myself in comparison to what I call the last normal. And for much of retail, the last normal was 2019 because it didn't have all of the unusual events of COVID, supply chain disruption, inflation, whatever else it may be. And if you compare valuations for most retailers to 2019, what you see is that dramatic improvement over the last several years was just trying to claw your way back to those highs from 2019.

So, I think that the moment that you measure matters quite a bit. But that willingness to extrapolate that existed for a lot of those startup companies and say, wait, you grew 75 percent. That means next year you can grow 75 percent. And next year you can grow 75 percent. I think, instead, the extrapolation is you grew 25 million. Maybe next year-- maybe it was easier the first 25. Maybe next year you grow 15. And the next year you grow 5. And so, it doesn't feed on itself the same way. And that's really caused capital to look in other places.

The other challenge that a lot of startups have, Vishal made the reference to private capital raising. If you're losing money, you need to raise money. And if you think about how investors think about valuation, lots of valuation is what a banker would call terminal value. What's the value five years from now? What's the value ten years from now? What's left?

And if you have to keep selling pieces of yourself because you have to fund losses along the way, the current investors don't own 100 percent of the value five years from now. They might only own 50 percent of the value or 25 percent of the value. So, you make the decisions you need to make based on the money that's available to you. But it becomes very, very difficult math if you can't raise capital and you lose money.

Vishal Rana: Okay, I'll turn to a couple of others that I have. Maybe we'll touch, because we brought up international supply chain for a second. Been through a lot of supply chain. Where are we today for each of your businesses? And then, Tim, I'd love you to comment on what you're hearing across multiple industries, increased geopolitical risk we see out there right now.

Dave Kimball: Well, we in the beauty category, we've benefited that even coming into the pandemic was not as heavily dependent on China. Like for our business, small dependency on some componentry. Still, a lot of production already in the US or Mexico. Some in Europe. Some big manufacturers in Europe. So, we didn't have as much of a disruption as some other categories.

And then on top of it, just the nature of the product, it tends to be smaller, higher value, higher margin product. So, even when there was disruption, in particular, our brand partners were willing to invest in either air freight or other means to get the product. And it was feasible, and it made sense.

And so, we had some, but it wasn't anywhere near as impactful as I know some other categories that, I'm sure Ted and others, will talk about. But so, for us, we navigated. And then even some of the disruption right now, similar dynamics, what's happening in the Middle East is not impacting beauty as acutely. I mean, there's some on the edges. But we're not anticipating any major disruption that would lead to significant out of stocks. We don't have as big of seasonality on our business outside of some holiday items the rest of the year. So, we're not as seasonally dependent. So, we've got a little bit easier job to navigate some of that.

Ted Decker: Yeah, we had all of the above. Big, bulky products shipped to either coast. And the supply chain team did an incredible job during COVID. We grew the business over 40 percent, over $40 billion. And, you know, we chased a lot of goods. We chased a lot of supply chain assets.

And we've worked our way through that. And inventory levels are way down. More manageable. Where we want them to be. I mean, we were close to being very much operationally sound pre COVID. As we all know, the domestic freight rates and international freight rates have all settled, more or less, pre COVID levels. And again, my opening comments about having to be agile, we're like, okay, obviously, a lot of attention to supply chain. But we've recovered. And then who knew what would happen in water levels in the Panama Canal, which is causing a lot more freight to go through the Red Sea. And for us, not as big of a problem. That's usually for east coast transit where you go from Asia through the Suez to the east coast of the States. And now they're having to go all the way down around Africa. So, adding considerable freight on the extra fuel and time.

But just goes to show, you never know. And remain agile. And take whatever comes.

Tim Ingrassia: I get reminded that the revenue line for most of the people in the room here is driven by the US consumer and the US economy, but much of the other lines of the P&L depend on the global economy and what's going on in the global economy.

You still hear some people debate about how hard the last percentage point of inflation may be to wring out of the system. I think the risks are much higher that the Fed moves too slowly in bringing interest rates down than that they move too quickly in bringing interest rates down. But you get reminded that much of the world is focused on deflation right now and the impact of deflation on their economy and their people and their supply chain. So, I think that will ripple through in a broader way for people who are importing and consuming things from around the world.

I think also every one of us grew up in the only country in the world where you get to go until you're the CFO or the CEO of a major retailer without thinking about the US dollar and whether the dollar being strong ought to be called strong, or whether the dollar being strong ought to be called something else because currency matters. And it impacts an awful lot of things.

We've been beneficiaries at times in the economy exchange rates. They've worked against us at times. But all of this flows together and makes things more complicated.

I do think that there aren't big friction points right now. But of course, that's what lulls you into complacency. And I think if we've learned nothing from the last four or five years, it's that the organizations just need to be ready to change and need to be ready to pivot.

Vishal Rana: Ted?

Ted Decker: We talked for years about diversifying, and we didn't make a lot of progress. And you put the rising costs, the labor costs of the Chinese exchange rates, certainly the pandemic and the tariffs, you put all that together and now we're dramatically diversifying, as well as our branded suppliers. So, very little net new investment in new capacity into China. I would say new capacity is going about a third into Southeast Asia, a third into Mexico, and even a third back into the United States.

And we've diversified from 90 plus percent largely China in our private label to something like two thirds from China. So, still a lot. I mean, a lot of purchases out of China. But very real diversification. The last trip I took before the lockdown of COVID with the weekend of mid March of 2020 was with a certain private label manufacturer for us. And we were touring their distribution facility at one of the ports. And I was asking, you know, why don't you-- we were growing the business tremendously. Why don't you bring manufacturing closer? Because there've always been supply chain issues. And this was a product category that got hit with the tariffs. And he said, "Categorically, we will never move our manufacturing out of China. They have the know-how. They have the scale." It's a highly capital-intensive manufacturing process. They just opened a factor in Pennsylvania. So, couldn't be more dramatic in how this is changing.

Vishal Rana: Tim, Dave, Ted, thanks so much.

Allison Nathan: Thanks for listening to this episode of Goldman Sachs Exchanges, recorded on Friday, February 9th, and Monday, January 29th, 2024.

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