LikeFolio

MEGA TRENDS

Delivery Services & Technology

MegaTrends Report

August 22, 2019

Introduction

In the land of instant gratification, convenience is king. Companies easing the buyer's journey stand to profit the most. Amazon sparked a retail revolution, but that was just the beginning. As consumer expectations rise, the final sprint is underway for "The Last Mile" in delivery.

This MegaTrends Report dives deep into the rising delivery expectations of the consumer, and how you can profit from all.

Here's a quick preview of what you're about to see:

1. **Three unstoppable driving forces** behind the delivery MegaTrend.
2. The incoming impact on **retail companies.**
3. How **food companies** are positioning themselves (or failing to) for the delivery wave.
4. The **technology companies** building the "picks and axes" that are powering the delivery movement.
5. **Actionable trade ideas** that you can implement today to take advantage of this MegaTrend for years to come.

Quite frankly, when we started this research (at the request of a major hedge fund client), I never expected to discover a MegaTrend. But the deeper we looked, the more obvious it became that delivery is in the 2nd or 3rd inning of a massive consumer shift that is changing the world.

I hope you enjoy reading about these incredible insights and opportunities as much as we enjoyed discovering them.

And don't forget… this report is just the beginning. You also have full access to **our MegaTrend Roundtable Discussion with TradeSmith founder and CEO Dr. Richard Smith**… it got pretty wild and we came away from it with some unbelievable investment ideas. I'm sure you will too.

Enjoy!

Andy Swan
founder, LikeFolio

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Prior Report Performance

Actionable Trade Ideas

BULLISH IDEAS

Bold Moonshot Pick

UBER TECH (NYSE: UBER) -- See page 25 for deeper dive research

Buy Uber (NYSE: UBER) up to $37.50 per share over the next 6-12 months using dollar cost averaging to take advantage of likely short-term volatility in the shares.**

We believe the stock could move up by more than 300% in the next 3-5 years, and 1500% in the 2020's.

UBER does not have a TradeStops SSI Health score due to the recency of its IPO.

Conservative long-term pick

Walmart (NYSE: WMT) – See page 12 for deeper dive research

Buy Walmart (NYSE: WMT) up to $115 per share.**

WMT is in the TradeStops Stock State Indicator (SSI) Green zone.

Long-term pick

Target (NYSE: TGT) – See page 14 for deeper dive research.

Buy Target (NYSE: TGT) up to $90 per share.**

TGT is in the TradeStops Stock State Indicator (SSI) Green zone.

Massive upside pick

Shake Shack (NASDAQ: SHAK) – See page 20 for deeper dive research

Shake Shack (NASDAQ: SHAK) was highlighted as a BULLISH PICK in our Protein report at under $65 per share. Those not yet into this name should look for pullbacks of 10% or more to accumulate shares. We continue to believe this stock could be worth more than $120 by the end of 2021.**

SHAK is in the TradeStops Stock State Indicator (SSI) Green zone.

Watch for entry pick

Grubhub (NYSE: GRUB) – see page 22 for deep dive research

Buy Grubhub (NYSE: GRUB) upon entry into the TradeStops Green Zone.**

GRUB is in the TradeStops Stock State Indicator (SSI) Red zone.

Backbone of the Industry pick

Intel (NASDAQ: INTC) – see page 28 for deep dive research

Buy Intel (NASDAQ: INTC) upon entry into the TradeStops Green Zone.**

INTC is in the TradeStops Stock State Indicator (SSI) Red zone.

Disruptive Tech pick

Nvidia (NASDAQ: NVDA) – see page 29 for deep dive research

Buy Nvidia (NASDAQ: NVDA) upon entry into the TradeStops Green Zone.**

NVDA is in the TradeStops Stock State Indicator (SSI) Red zone.

** ON ALL TRADES, it is important to use proper risk management to correctly allocate and protect your capital. Popular options for an exit strategy of bullish trades include a 25% trailing stop, a trailing stop based on the stock's TradeStops Volatility Quotient (VQ), or an exit when the stock enters the SSI Red Zone in TradeStops.

BEARISH IDEAS

Bold Contrarian Pick

AMAZON (NASDAQ: AMZN) – see page 18 for deep dive research

Sell Short Amazon (NASDAQ: AMZN) above $1700 per share. Alternative approaches would include selling OTM call options each month to generate income until a position is established.**

AMZN is in the TradeStops Stock State Indicator (SSI) Red Zone and we believe it could trade as low as $940 in the next two years.

Overbought pick

Dominos (NYSE: DPZ) -- see page 23 for deep dive research

Sell Short Dominos (NYSE: DPZ) above $230 per share. Alternative approaches would include selling OTM call options each month to generate income until a position is established.**

DPZ is in the TradeStops Stock State Indicator (SSI) Red Zone and we believe it could trade as low as $145 in the next two years.

Short the Rallies Pick

Macy's (NYSE: M) – see page 16 for deep dive research

Sell Short Macy's (NYSE: M) above $20 per share, or when the LikeFolio Year over Year indicator turns Bearish. Alternative approaches would include selling OTM call options each month to generate income until a position is established.**

M is in the TradeStops Stock State Indicator (SSI) Red Zone and we believe it could trade as low as $4 in the next five years.

**ON ALL TRADES, it is important to use proper risk management to correctly allocate and protect your capital. Popular options for an exit strategy on bearish positions include a 25% trailing stop, a trailing stop based on the stock's TradeStops Volatility Quotient (VQ), or an exit when the stock enters the SSI Green Zone in TradeStops.

Expert Roundtable Discussion: Swans & Dr. Richard Smith

It is our pleasure to invite you to watch LikeFolio founders Andy & Landon Swan discuss this report with Dr. Richard Smith, the CEO and founder of TradeSmith.

In this video, you'll see:

- Discussion of positions from prior MegaTrends Reports
- Blah blah from this report
- Alternative approaches to implement this report's findings

CLICK HERE TO WATCH THE ROUNDTABLE DISCUSSION

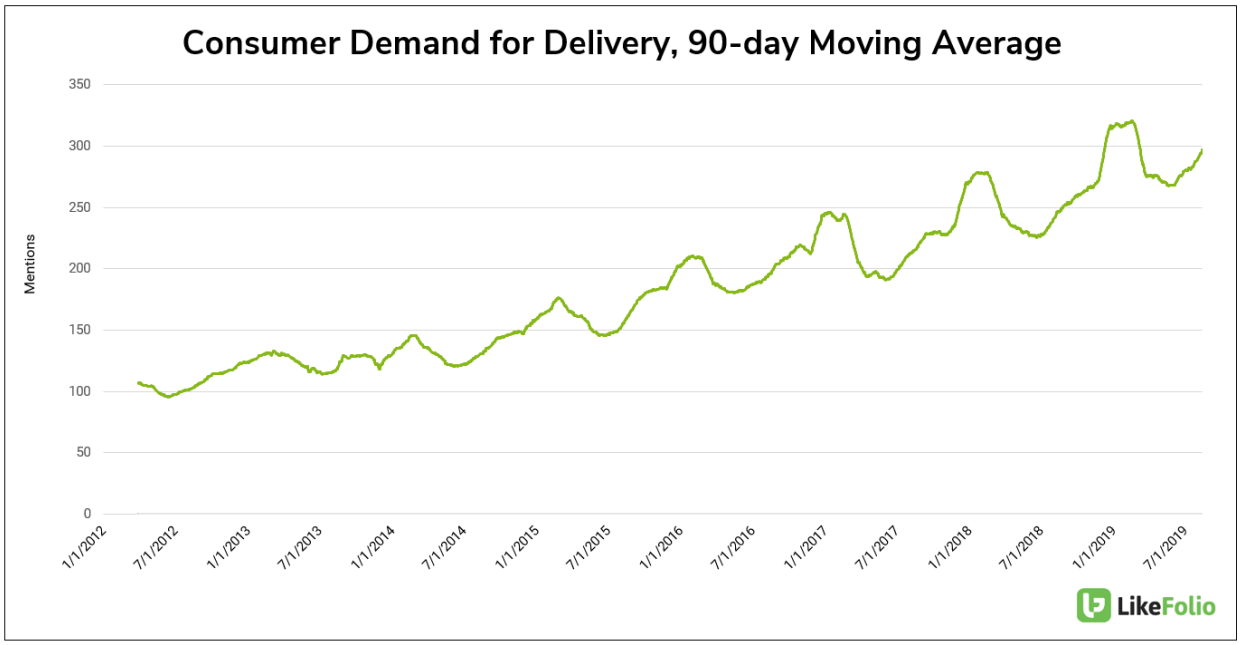
Three Driving Forces Behind the Delivery MegaTrend

Trends become MegaTrends when there are multiple consumer movements all pointing in the same direction. For delivery, it's really simple.

Consumers now see delivery as a **non-negotiable** shopping feature that they want to be **fast**, and they want it to be **free**.

MegaTrend Driving Force #1: Delivery is non-negotiable

This one doesn't need much explaining. For a growing segment of the population, delivery is the expectation when shopping – whether it's for clothes, household items, food, or even cars.

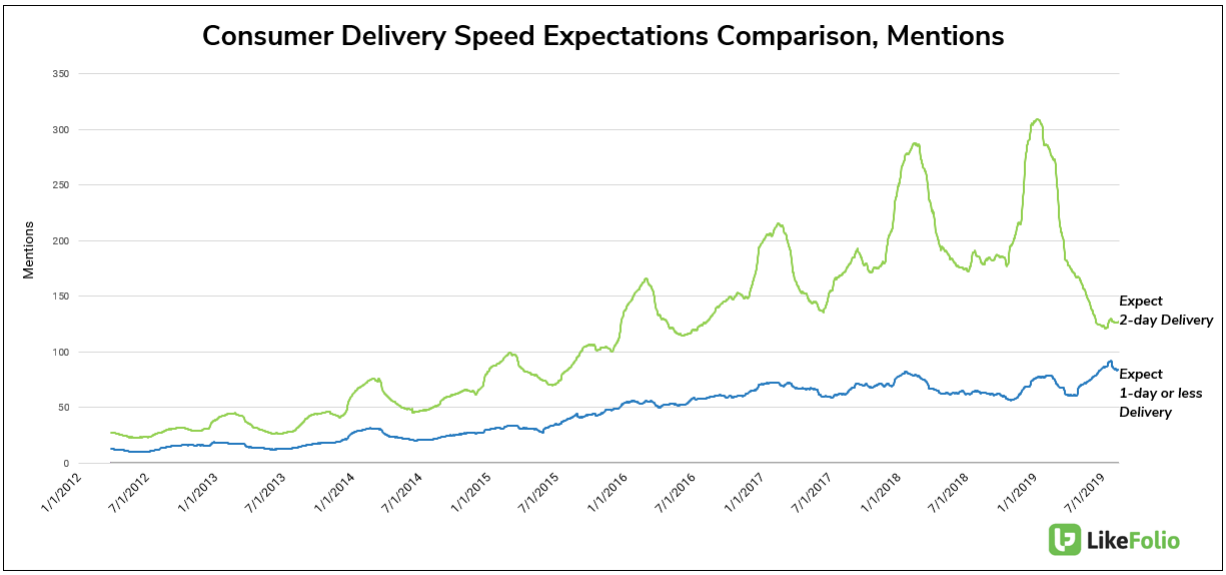


The chart above shows that demand for delivery is growing at a faster and faster pace, reaching over 20% year over year growth in the last quarter.

MegaTrend Driving Force #2: Speed

When Amazon Prime unveiled free 2-day shipping, they established a new industry standard. Consumers became accustomed to speedy receipt of ordered items and many turned over business to the online behemoth.

In order to stay competitive, other retailers (like Walmart and Target) followed suit. Consider the chart below, displaying the *90-day Moving Average* of consumer expectations for delivery speed.



Note the pattern emerging: consumers increasingly expected 2-day delivery as the industry standard through 2019. A major shift is currently underway. Two-day delivery expectation mentions have dropped ~29% YoY in the last quarter. In contrast, consumers expecting delivery in one day or less has increased by ~31% YoY.

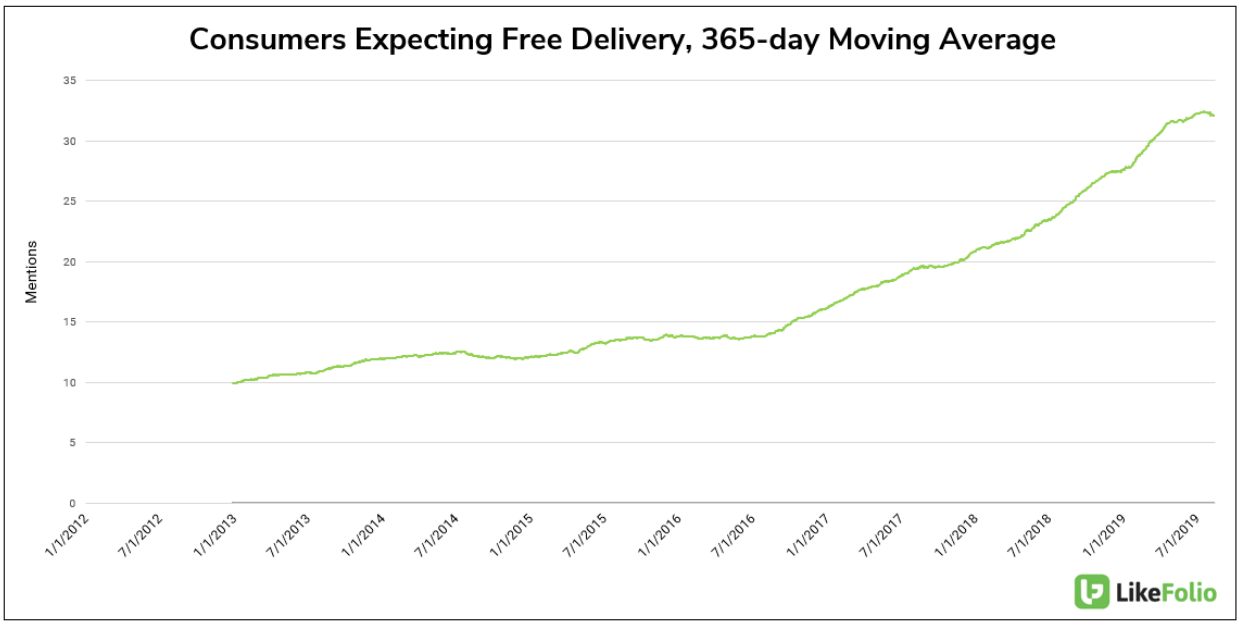
In other words, consumers want it NOW.

As consumer expectations regarding delivery speed continue to rise, companies positioning themselves well logistically (and those offering technology to implement those logistics) stand to benefit greatly.

MegaTrend Driving Force #3: Free

The final major driving force behind delivery demand is cost.

"Shipping and handling" used to be par for the course, but today's consumer is increasingly angered by extra fees. In fact, a shipping charge is a deal-breaker for a fast-growing segment of the shopping public.



The chart above clearly shows that the consumer expectation of free shipping is on the rise, and accelerating.

Free delivery demand mentions increased by 30% in the last year. This is indicative of a tipping point in consumer behavior which we do not believe will ever reverse.

Bottom line?

Consumers demand delivery. They want it fast, and they want it free.

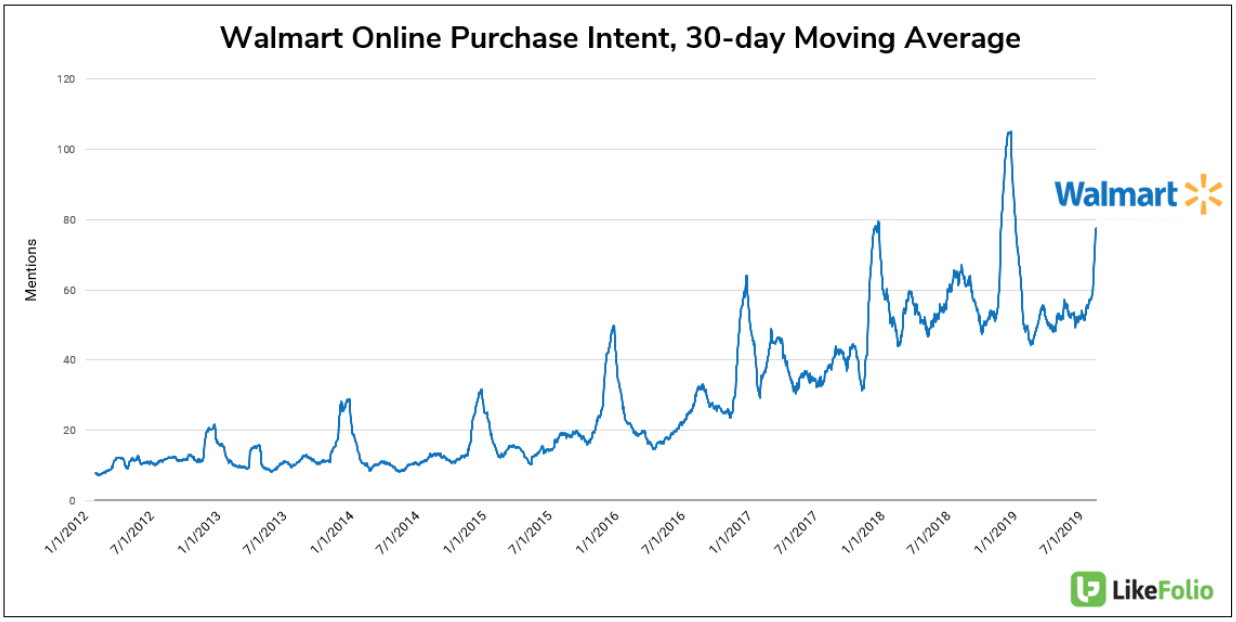
Next we'll dive into the three industry segments set to be most impacted by this MegaTrend, and find the companies inside each that stand to benefit (or lose) the most…

Retail Fallout: Winners & Losers

Retail Winner: Walmart (NYSE: WMT)

While many brick-and-mortar businesses flail, some retailers are using their national physical presence to pivot and thrive in the digital era.

One such champion: Walmart. Consider the chart below, showcasing the growth in Walmart's ecommerce segment.



In their last earnings release, $WMT reported a 37% Year over Year increase in eCommerce sales, led by strength in the grocery segment (Whole Foods who?).

In addition, the company is making **strategic moves** to support their digital game:

- **(FREE)** While Amazon Prime requires a membership fee, Walmart only requires a minimum purchase of $35.
- **(FAST)** In May, Walmart announced next-day delivery in response to Amazon that will reach 75% of Americans by the end of 2019 and they reached this goal AHEAD of schedule, confirming goal reach in their 20Q2 report.

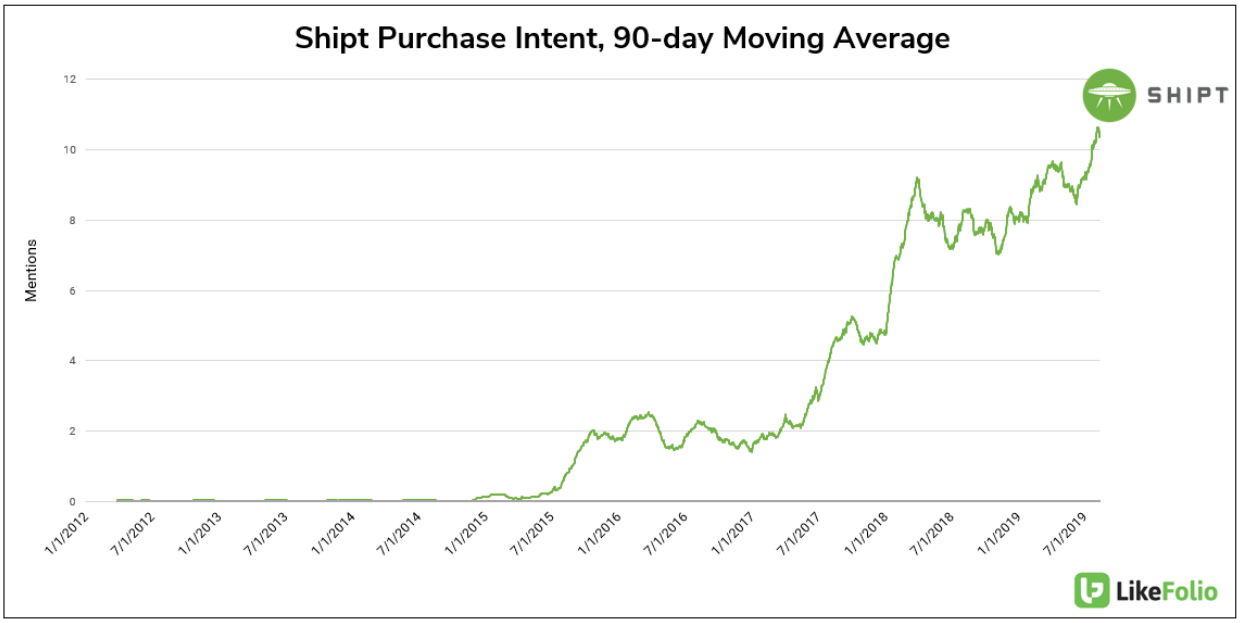
With more than 5,000 potential distribution hubs as of April 2019, Walmart is set up logistically for this ambitious update due to the sheer positioning and quantity of physical locations across the U.S.

Retail Winner: Target (NYSE: TGT)

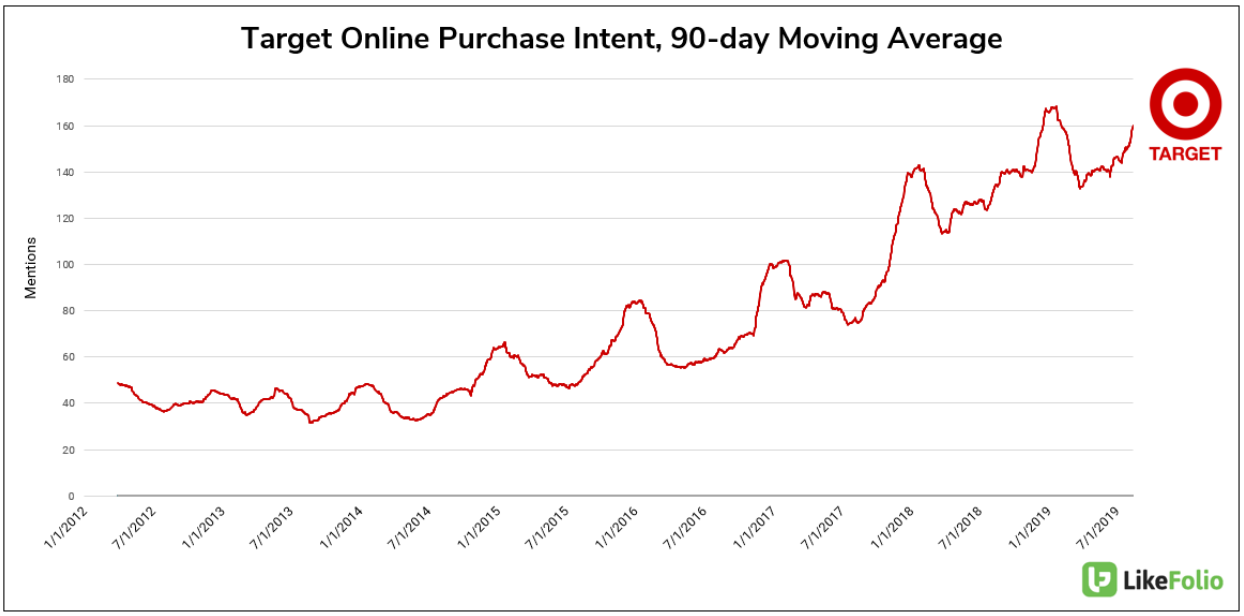
Walmart isn't the only retailer capitalizing on digital consumers. In fact, competitor **Target may be BEST positioned in the long-run.**

While Walmart and Amazon announced plans to bring 1-day delivery to consumers, Target was a step ahead of both parties. A strategic acquisition of Shipt in 2017 allowed the company to unveil same-day delivery in June 2019, way ahead of the competition.

One look at the consumer usage of Shipt delivery services explains this acquisition…



The chart below shows Target's executional success, showcasing Purchase Intent Mentions for Target's digital channel climbing 23% in the last year.



In fact, in Target's Q1 2019 quarterly press release, the company highlighted its ecommerce growth as a major driver of success.

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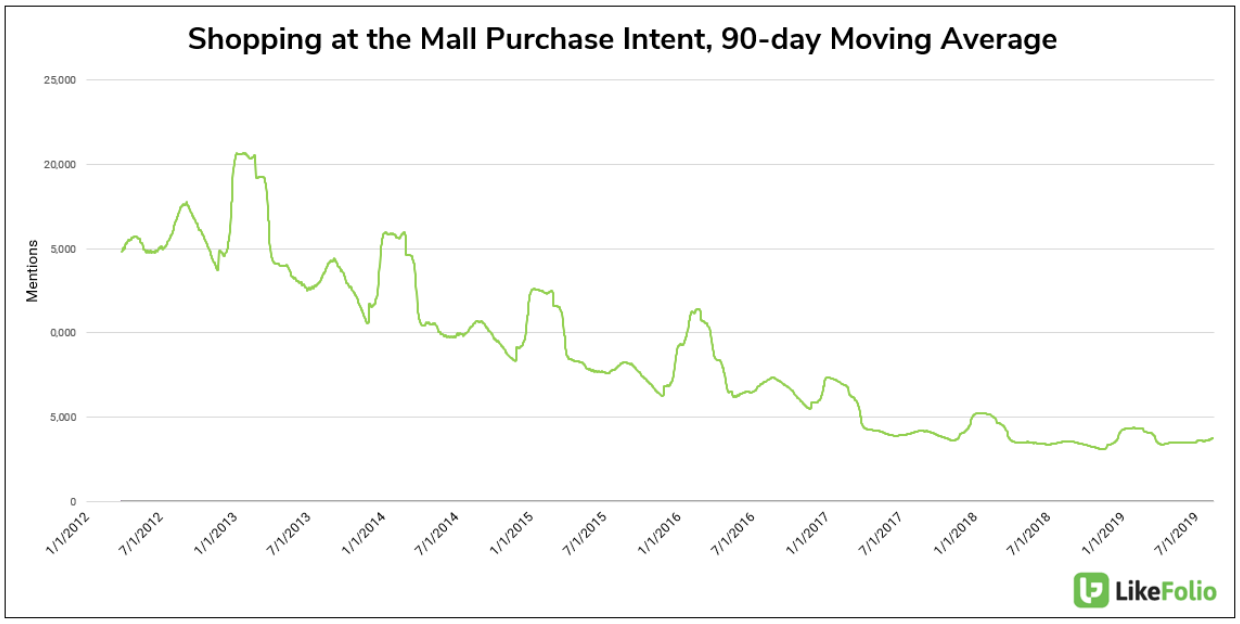
*"First quarter comparable **digital channel sales grew 42 percent**, on top of 28 percent last year.*

*Comparable digital sales contributed 2.1 percentage points to Target's overall comparable sales growth. **Same-day fulfillment services (Order Pick Up, Drive Up and Shipt) drove well over half of the Company's digital sales growth."***

Delivery, delivery, delivery.

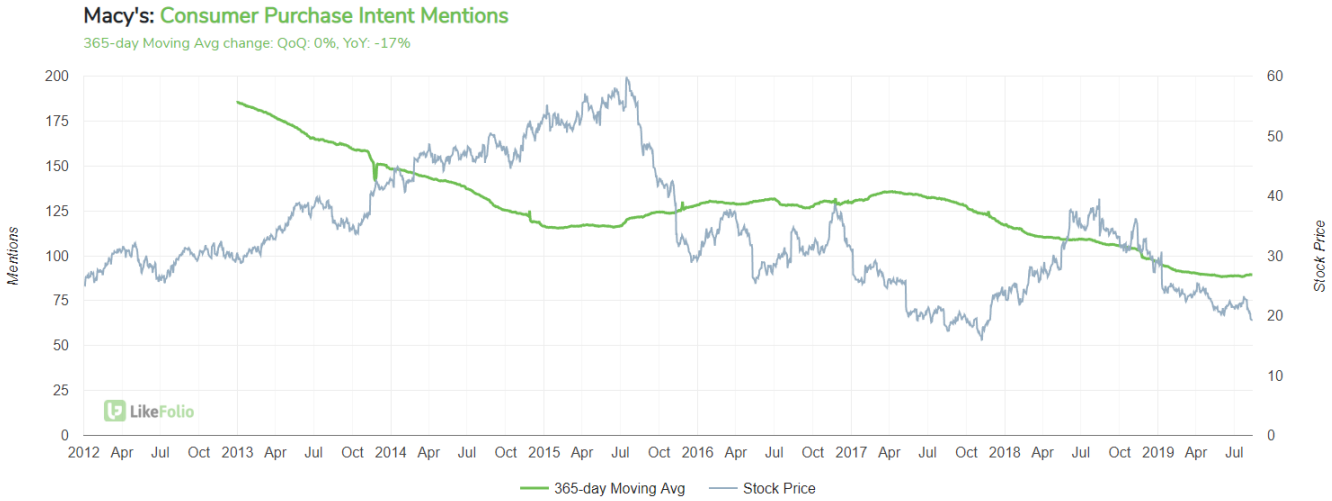
Brick & Mortar Losers: Nordstrom & Macy's (NYSE: M)

Retailers dependent on a physical store presence AND those lacking digital infrastructure are in serious trouble here, as they are completely missing the consumer trend – and it may be too late to recover.



It's not news that Mall-based stores are struggling (see chart above). But companies with a mall presence have a more urgent need to boost digital sales and allow themselves to be propelled by shifting consumer winds.

Macy's purchase intent mentions show a dreadful trend since 2017, and the stock has followed suit:



Macy's recently reported a "disaster of a quarter": missing earnings, revenue, and slashing guidance as they struggle to compete with consumer shopping habits.

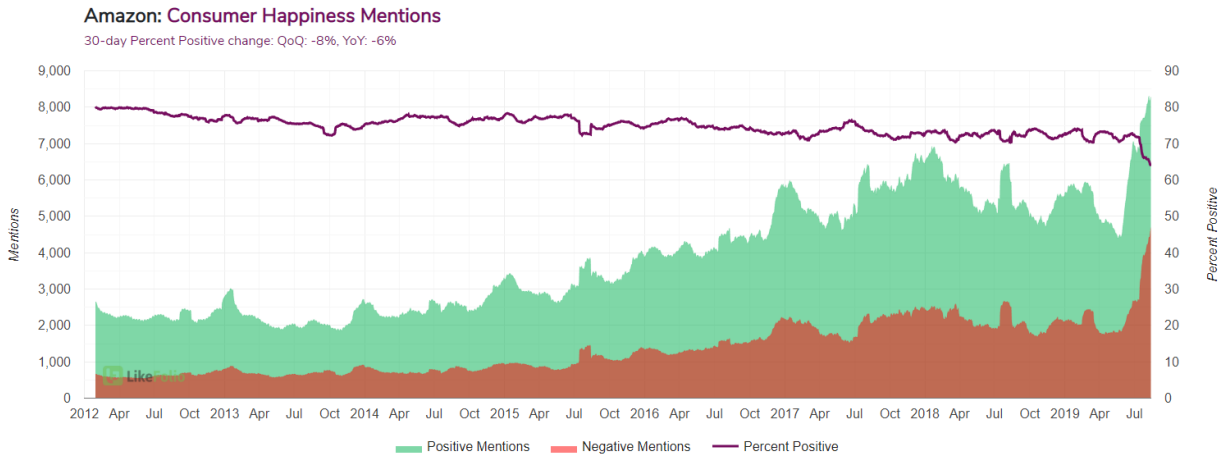
Unless the company can truly capture the digital consumer, or shift to a profitable niche (perhaps enhancing Macy's Backstage discount offerings), **the long-term outlook for Macy's is convincingly bearish.**

eCommerce Loser: Amazon (NASDAQ: AMZN)

We'll admit, it's hard to place Amazon next to the word "Loser". It just doesn't seem logical.

This company was the leader of the digital transformation, pioneering 2-day shipping and raising the bar for competitors. However, multiple views of LikeFolio data suggest a disturbance in the Force.

First, consider the distinct drop in Consumer Happiness in Amazon products and services beginning with Prime Day 2019.



A qualitative analysis of tweets reveals **two emerging delivery problems for Amazon:**

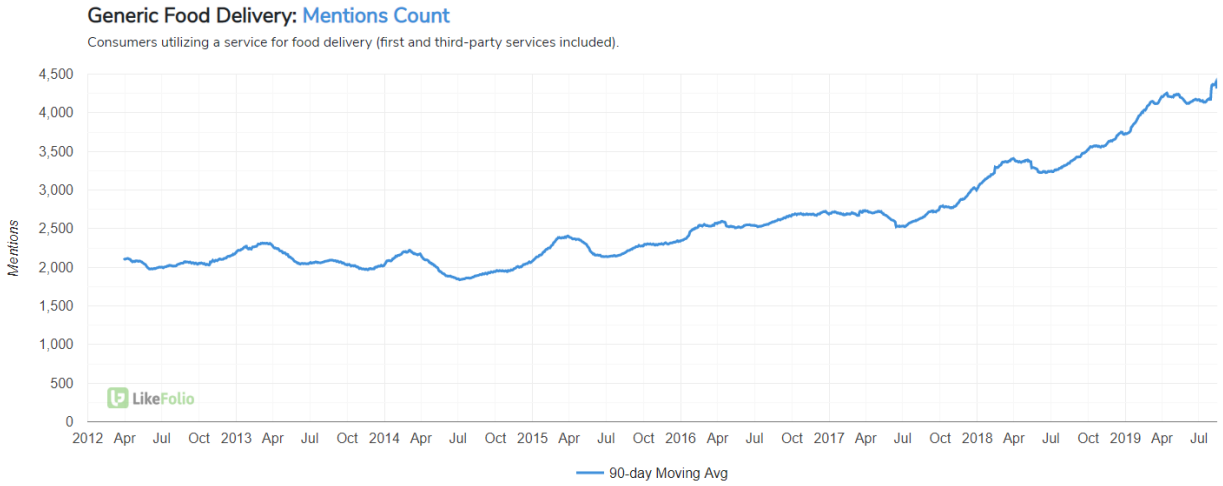
1. **Amazon is beginning to frustrate customers** by not delivering packages when they say they will, negating the allure of "1-day" shipping.
2. Consumers can now find comparable services and products **through competitors like Walmart and Target** without paying a fee (another win for capitalism).

Look, Amazon is probably one of the greatest companies in history. But its valuation is built upon its reputation.

If Amazon continues to disappoint consumers with respect to delivery, it will lose customers to fast & free rivals like Walmart and Target. And when a company is "priced to perfection" the way Amazon has (deservedly) been for decades, the unwind can be really nasty when they begin to disappoint investors.

Food Companies: Winners & Losers

Consumers utilizing food delivery services are a growing squad. The chart below highlights the accelerating growth in consumer mentions that indicate the user is getting food delivered.



This wave of consumer demand for food delivery is beginning to have enormous impacts throughout the industry.

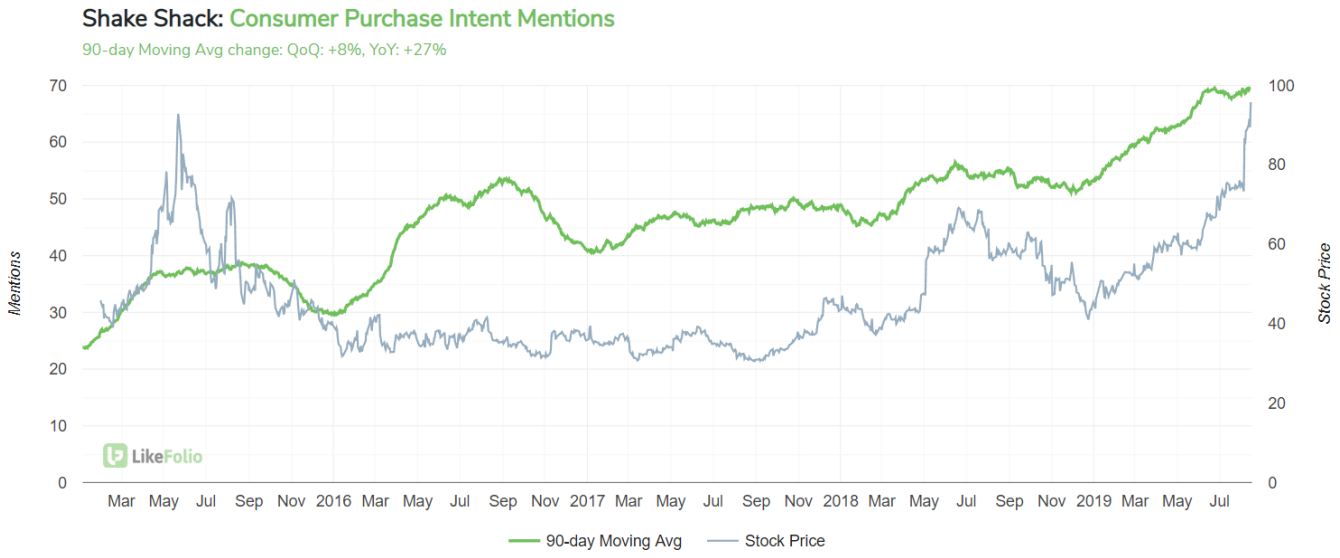
Just as we saw in the retail sector, the companies positioned to take advantage of delivery are starting to get a massive leg up on their competitors. Let's take a look at some of these winners and losers in the food category.

Restaurant Winner: Shake Shack (NASDAQ: SHAK)

Sound familiar? Yep – **Shake Shack** was one of the companies we highlighted as a bullish opportunity in our Protein MegaTrend Report.

Incredibly, it seems Shake Shack is positioned to ride yet another MegaTrend with delivery.

Through delivery, Shake Shack's potential consumer base opens up in a huge way. Instead of needing to make it to their store, a burger lover (or more importantly – an entire office full of hungry folks!) can have the tasty meal and milkshake brought to wherever they are.



As you can see in the chart above, Shake Shack Purchase Intent levels are powering through new highs as the chain expands its geographic footprint while simultaneously leveraging a brand-new delivery channel through a strategic partnership with Grubhub.

Speaking of Grubhub…

Delivery App Winner: Grubhub (NASDAQ: GRUB)

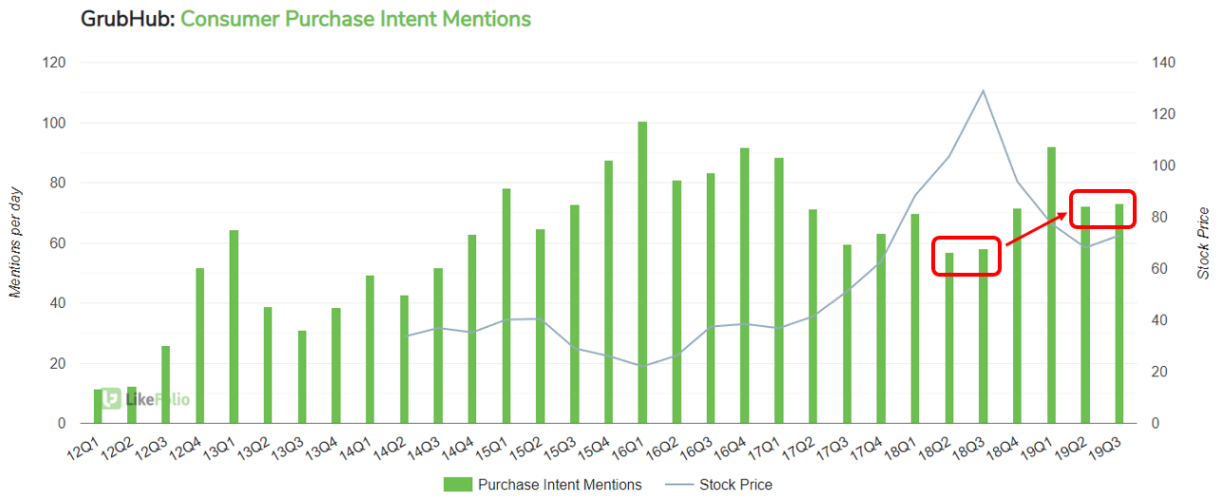
Food delivery service providers are positioned to capitalize on a the growing market of customers that they are creating for restaurants like Shake Shack.

The market currently valued near $66 Billion is expected to surpass $90 billion in 2025.

Grubhub is showing solid yearly growth (near 36%) with an accelerating pace. In addition, it is Grubhub who ranks highest in our Consumer Happiness levels, indicating that their growth is sustainable.

While the company is facing extremely stiff competition from private competitors and Uber (more on them later), everything we see indicates that Grubhub is here for the long haul.

In fact, we're already starting to see a resurgence in demand for Grubhub services on a year over year basis.



Grubhub stock has sold off more than 50% from highs, making this an attractive target for investors looking to accumulate potentially undervalued shares over time in a solid name riding the delivery MegaTrend.

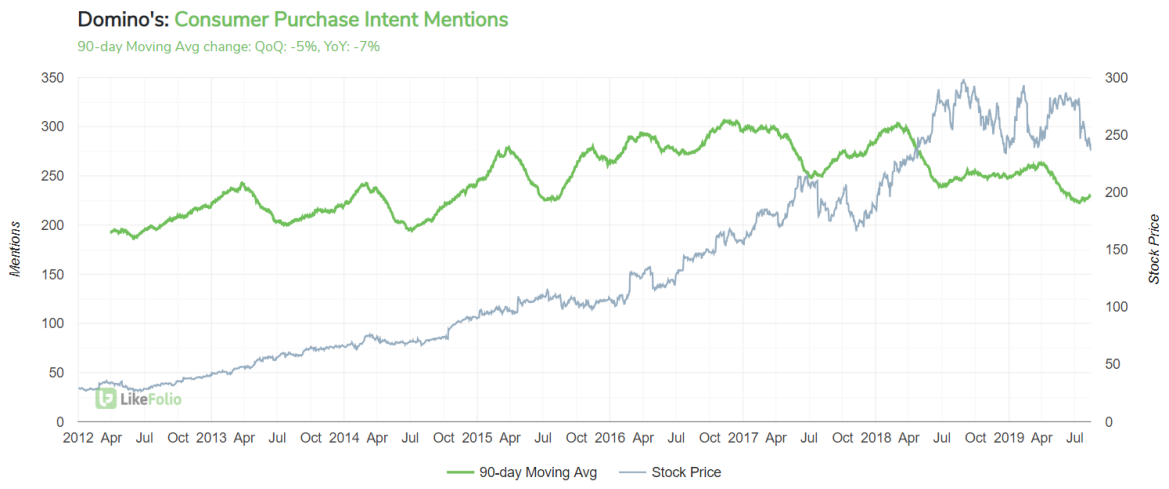
Restaurant Loser: Dominos (NYSE: DPZ)

Dominos brilliantly utilized technology to help it accomplish one of the greatest turnarounds in American restaurant history. Unfortunately, that "build your own technology" approach appears to be their Achilles heel when it comes to delivery.

Company leadership is doubling down on a decision to reject any type of outsourced delivery, choosing instead to invest in self-driving delivery vehicles.

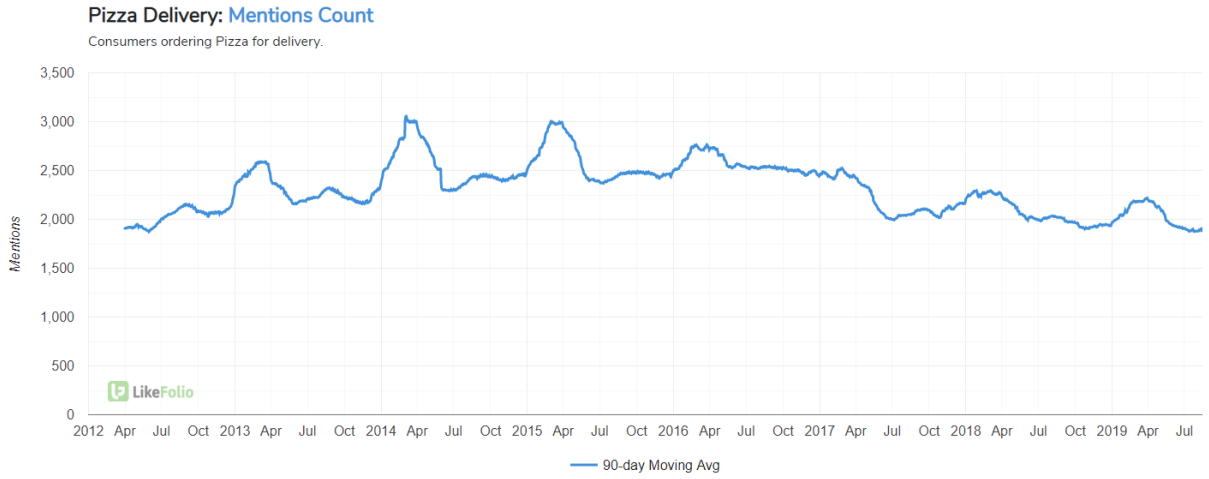
The result?

Unimpressive growth in consumer demand.



This phenomenon isn't limited to Dominos either.

Pizza in general is struggling as it faces increasing competition from other restaurant options that can now offer delivery through third party apps like Grubhub.



Think about it. What once was the only delivery option in town is now competing with Taco Bell, Shake Shack, and favorite local restaurants for the delivery dollar.

We're confident that most pizza companies will struggle in this new world of on-demand delivery. But after the massive run it's had, and stubbornness in the face of this MegaTrend, we think **Dominos is most likely to disappoint Wall Street in the years to come.**

Logistics Technologies: Winners & Losers

The "last mile" is the final frontier in the delivery arena. To bring retail goods, meals, or even people to the right destination in a fast and cost-effective way, companies require extremely advanced technology. Routes must be calculated, vehicles must be matched with the "cargo", and drivers must be properly summoned (for now.)

There are a few companies that stand out as potentially huge multi-year winners as a result of the Delivery MegaTrend.

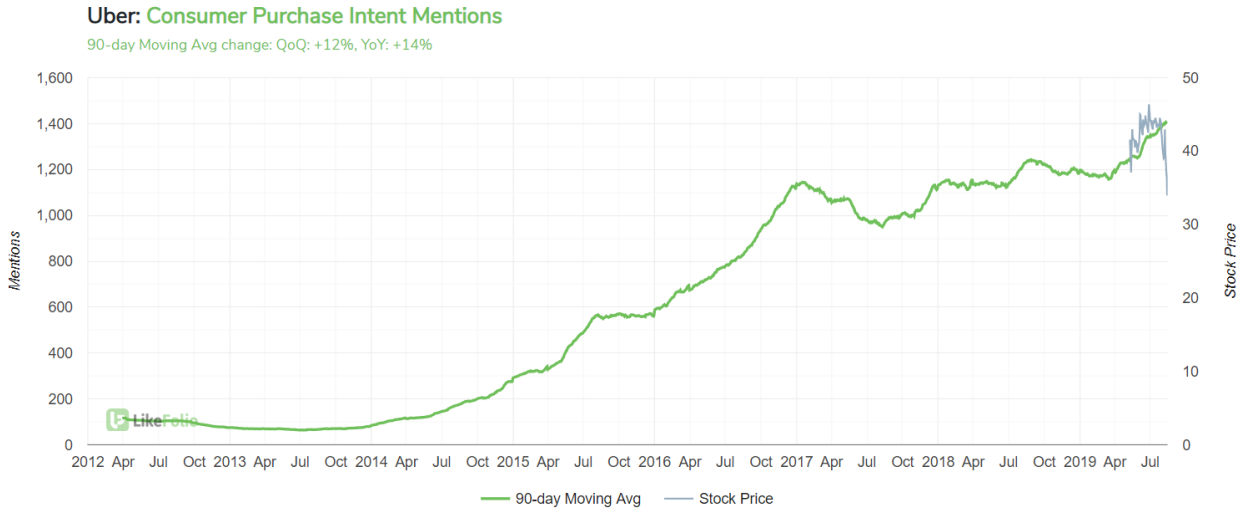
Logistics Technology Winner: Uber (NYSE: UBER)

Before we get started on this one – let me be very clear. **UBER stock is probably in for some rough times over the next 3-12 months.** There are valid reasons to think the stock is currently overvalued, post-IPO shares will unlock soon, and the company is losing money at an alarming rate due to its aggressive investments in platform and technology expansion.

We see this likely weakness **as an opportunity to build a long term position in a company that could very well change the world.**

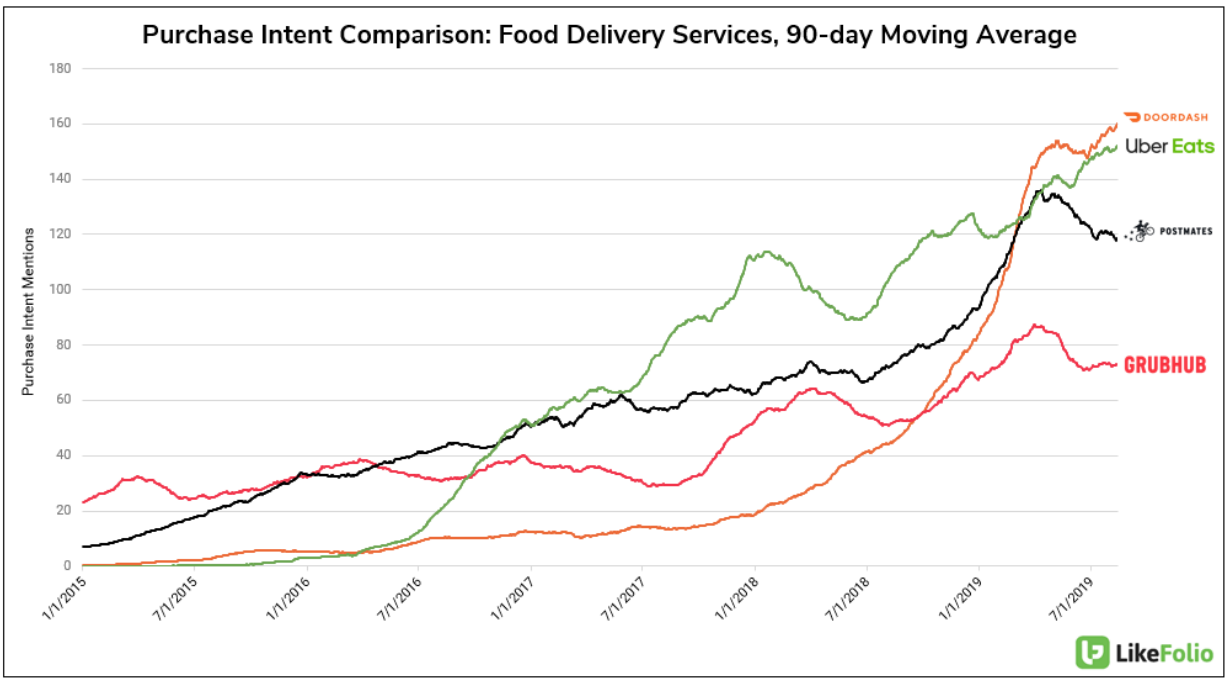
Consider the many facets of Uber's business: Uber, Uber EATS, Uber Freight, Jump (scooters), UberElevate (air taxis resembling really nice helicopters)...the list continues to grow.

With this growth in offerings, consumers are finding more and more and more value in Uber's services, as evidenced in this chart showing the growth in LikeFolio purchase intent mentions:



Each Uber brand provides another opportunity for a potential market crossover and dominance.

A great example of this is already playing out in the food delivery space. After establishing a dominant position in ride sharing, Uber launched its Uber Eats service, quickly becoming a dominating player in the industry.



Because of the wide distribution of their ride-sharing app, they were able to instantly match hungry eaters with drivers who were ready and available to bring them food. In other words, by simply switching what was being delivered (in this case, food instead of people), Uber was able to enter and dominate a new market very quickly.

We expect this success to repeat over and over again. Around the world, as delivery of everything becomes the norm, it will be Uber that is ready to take advantage extremely quickly.

Because of this massive distribution and technology advantage, we expect that **Uber could grow to dominate local logistics** just as FedEx and UPS have dominated shipping logistics. If it's local and it needs to be delivered, odds are it will happen on the Uber network.

While there is no way to realistically value the future cash flows of a company that is literally changing the world, we think **there is a real chance that Uber could become one of the most valuable companies in the world in the next 10-15 years.**

Logistics Technology Winners: Intel & Nvidia (NASDAQ: INTC, NVDA)

The "last mile" is the final frontier in the delivery arena, and companies are getting creative. One major technology push to enhance delivery capabilities revolves around the development and testing of autonomous vehicles.

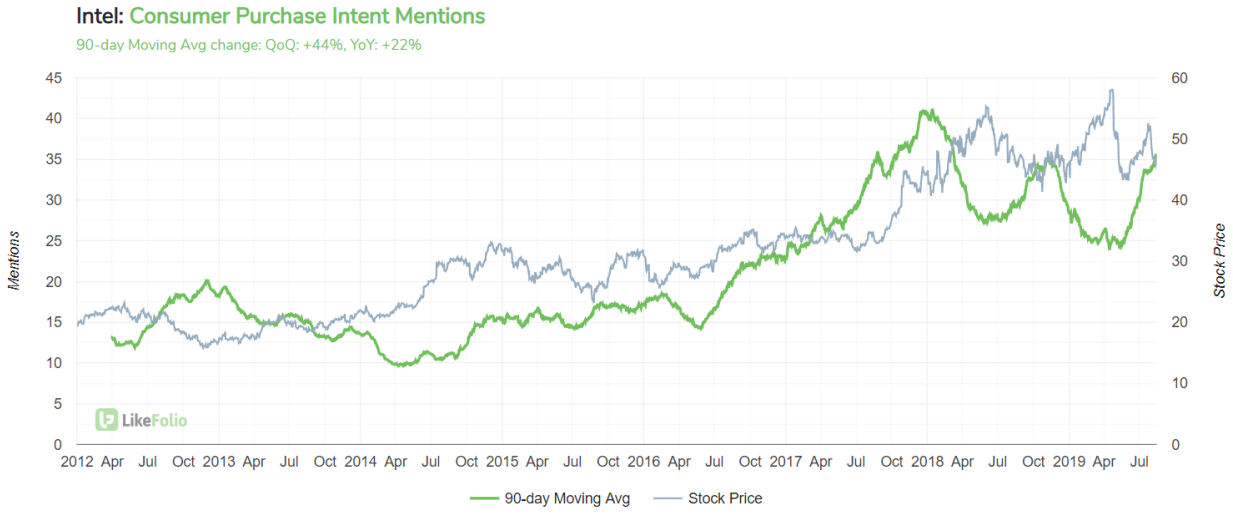
There are a handful of companies behind the scenes powering the tech that will make autonomous driving and same-day/1-day delivery possible at a low cost. Who? Chip Makers.

These companies are responsible for accelerating computing and are key drivers in autonomous initiatives. A big-picture view reveals a pair of companies set to rise alongside each other.

Intel plunged into the autonomous driving market with the acquisition of MobileEye in an endeavor to create a platform any car company could use.

While intel gaming mentions are driving growth for $INTC in LikeFolio data, the company also led peers in fleshing out a strategy including more than PC, gaming and data center.

Consider the chart below, showcasing QoQ and YoY growth for Intel.

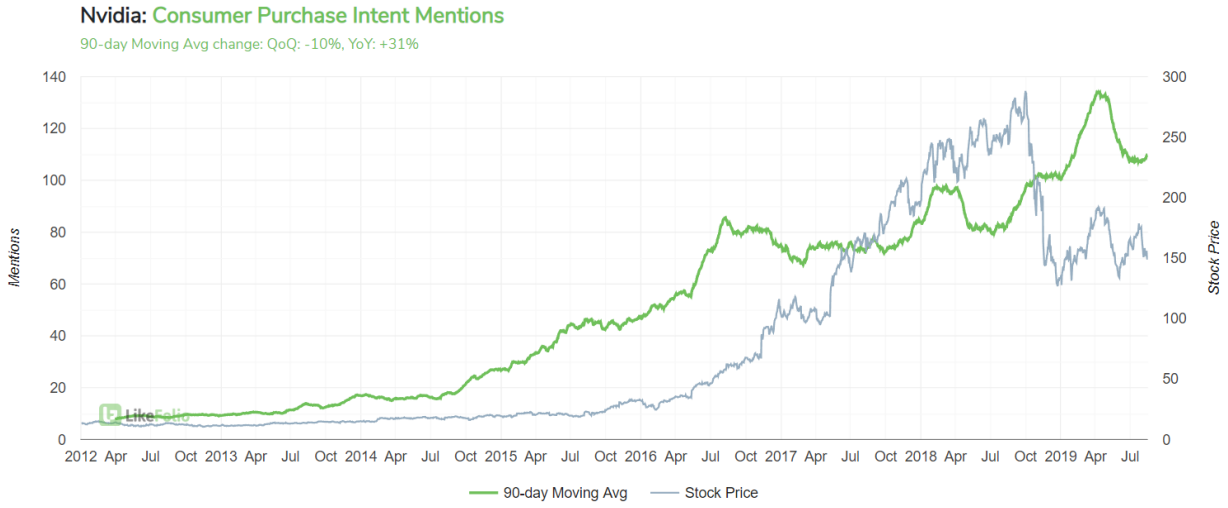


According to Intel's goal setting, Mobileye will deploy fully autonomous vehicles in 4 years and an autonomous ride-hailing fleet will roll out early next year.

The potential growth alongside relatively flat stock movement arguably sets up a nice, long-term entry point.

Nvidia is already dominating gaming chip competition. GeForce (think gaming chips) Purchase Intent mentions are up 50% YoY.

Consider the chart below, showcasing building Purchase Intent levels.



They're the industry standard in high-performance computing. But what elevates NVDA is a combination of long-term investments, partnerships, and complex resources.

First, the recent acquisition of Mellanox positions Nvidia well into a futuristic mindset: Mellanox's network and storage capacity alongside Nvidia's accelerated computing creates a data center functioning as a giant computing engine. This is the type of engine that will necessary for the sheer quantity of data created when harnessing AI and Machine Learning.

In addition, Nvidia has secured partnerships in the autonomous driver sector. "Toyota will use Nvidia's platform for training deep neural networks, testing, validation and eventual deployment for its cars."

These vehicles are a key component in the logistics that power improved delivery.

Perhaps the most Nvidia product that stands to benefit from last-mile efforts is the Drive Constellation platform. Get into the weeds here, but moral of the story is that **Nvidia has created a robust simulation platform to allow automakers to test performance in very complex scenarios.**

Lastly, the Jetson (AI) ecosystem extends beyond "vehicles", allowing for the real-time, multiple-algorithm processing that is needed for delivery bots to navigate crowded walkways.

Bottom line?

Delivery gets faster and cheaper when humans aren't required to execute it. **Intel and Nvidia are building the hardware and software that will allow that transition to happen.**

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Before investing in any strategy, consider your investment objectives and speak with a professional.

Past performance does not guarantee future results, and the likelihood of investment outcomes is hypothetical.

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