Consumer

Insight: Virtual Back To School - Fewer Backpacks & More Laptops

August 14, 2020

Key Takeaway
Back to school is going virtual and with kids at home, time & walletshare will be different. Across 83 districts (top 50 in the US by enrollment + largest in each state, if not in top 50), 47% (59% of students) will return in a virtual setting and 53% in a hybrid format. In a survey of 2,200 parents, 75% noted their districts had designated a Fall 2020 model, and nearly 40% of parents (54% of working parents) will continue to WFH while kids learn at home.

Highlights from Alt Data Index: Sample of 83 districts representing 12,500 schools, total enrollment of 8.1M students (16% of the national tally).

• From our sample, 47% of districts are planning to start the year entirely remote, representing 58% of schools. All other districts (53%) are offering a choice/hybrid learning model. No district in our sample is offering only a fully in-person option.
• Search activity across a set of back to school keywords & phrases: 1) top terms/themes are safety (#1), school models, and reopening plans; 2) search for "home schooling" was 50% higher than "hybrid school;" 3) search for Chromebook (+36%), learning toys (+34%) vs. lunchbox (-23%), backpack (-25%), beauty (-37%), and locker decor (-73%).

Highlights from BTS Survey: Sample of 2,200 parents; 88% public/12% private school

• Reflecting a highly divided view of back to school models, parents prefer: 34% virtual, 38% hybrid, and 29% in-person. 76% of districts (per parents) have notified of plans for: 23% virtual, 50% hybrid, 27% in-person.
• 77% of parents cited safety as their #1 concern followed by the value of in-person instruction (55%) and value of social interaction (44%).
• 59% cited lacking adequate info to pick a learning model models with 37% considering virtual, 67% hybrid, 35% in-person (could select more than one).
• Tech needs are top of mind. 56% cited they have/will purchase resources for virtual learning, 32% say schools are providing, and 13% note they lack resources for virtual learning.
• Nearly 40% indicated they would not return to work if their kids do not return to in-person learning; 54% of working parents.

Stocks Exposed to Virtual BTS: See pg 2 regarding detailed thesis impacts for: AEO, ARMK, BFAM, CHGG, NWL, TOY CN, ULTA as well as sectors including Waste (WCN, CWST, WM, RSG) and Food Service Distribution (PFGC, SYY, USFD).

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Companies With Opportunity/Risk from Virtual BTS

- **AEO (Buy, Stichter):** Less in-person schooling may pose a headwind to traditional BTS spend, but Aerie (nearing 30% of F’21 sales) benefits from stay-at-home/casualization trends, making the co. better-positioned vs. teen peers. See our recent Aerie deep dive here.

- **ARMK (Hold, Mazari):** Education represents ~22% of total revenue and ~33% of US FSS revenue (down ~71% in 3FQ20), we expect education to rebound ~15% in FY21 with our US FSS Revenue estimates ahead of the street by ~8% (For more details on FQ3 see link). We note that more than half of ARMK’s higher ed clients (~80% of Education portfolio) are expected to return in person, which is better than the overall reopening trends in person which stands at ~21% while ~10% are planning for remote learning exclusively and the balance are contemplating hybrid approaches.

- **BFAM (Buy, Mazari)** We expect ~85% of child care centers to reopen by the end of Q3 and proprietary survey work shows strong demand for childcare with ~91% returning by March 2021 (see link). Half of BFAM business is infants/toddlers but rest are pre-K (typically 3-5 year olds).

- **CHGG (Buy, Thill):** Pure-play digital education offering that already boasts nearly 4MM subscribers. Lack of in-person learning capabilities is a tailwind for CHGG as students flock to digital alternatives (just $15 a month for a Chegg Study subscription). Usage accelerated in the spring as schools went digital, and we expect more of the same this fall given the environment (enrollment trends are the biggest risk).

- **NWL (Hold, Grundy):** ~20%/~40%/> 45% of co.’s sales/profit/EV tied to its writing business w/~25% FY segment results levered to BTS, which is off to a poor start (~23.0% in July, incl. -32.3% 2-wks ended 7/25 in Nielsen channels), posing risk to Street ests. - see our 8/7 note (link)

- **TOY CN (Buy, Wissink):** Games, Crafts & Activities at 30% of sales mix should benefit as complements to at-home learning, carrying forward +DD retail sales trends; compares ease & op issues resolved. Valuation gap to peers implies 25%+ upside. Upgrading to Buy (see LINK)

- **ULTA (Buy, Wissink):** Less in-person is a headwind for FQ3. We est. 1/3 of spend is tied to school starts. We rely on $2B+ dept store share dislocation & skincare as comp drivers FTM, but persistent weakness in make-up could prove an offset.

Sectors With Opportunity/Risk from Virtual BTS

- **FS Distribution (PFGC, SYY, USFD [Buy], Mandeville):** We est. that SYY/USFD each have ~4% exposure vs. ~2% PFGC to education. While modest, every headwind matters as the rate of seq. case growth improvement is a key investor focus and primary driver to N-T share performance. This is one more reason why we prefer PFGC (see link) as the best way to play a gradual recovery of the FAFH channel. More broadly, all should benefit as children in school should translate into greater commuting to the workplace for parents, and in turn, a higher likelihood that they eat out for bfast/lunch.

- **Waste (WCN, CWST [Buy], WM, RSG [Hold]:** Commercial business (~35% of profits or more) should recover quicker as more educational institutions open. For WM, we think the commercial volume recovery could be 10 pts higher relative to pre COVID levels (50% current recovered in terms of units vs 60% netting out education, see link) while we think CWST is the most resilient of the group with education exposure of ~2% of revenue and 3-4% of commercial revenue (see link)
Back To School: Alternative Data Tracker

Exhibit 2 - School Year Starting Status, Top District By Enrollment Per State

Exhibit 3 - Status of Top 20 Districts In U.S.

<table>
<thead>
<tr>
<th>Rank</th>
<th>School District</th>
<th>State</th>
<th>Schools</th>
<th>Enrollment</th>
<th>Decision</th>
</tr>
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<tr>
<td>1</td>
<td>Los Angeles Unified</td>
<td>CA</td>
<td>785</td>
<td>495,255</td>
<td>Virtual</td>
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<tr>
<td>2</td>
<td>City Of Chicago Sd 299</td>
<td>IL</td>
<td>658</td>
<td>359,476</td>
<td>Choice</td>
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<tr>
<td>3</td>
<td>Miami-Dade</td>
<td>FL</td>
<td>529</td>
<td>350,434</td>
<td>Virtual</td>
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<tr>
<td>4</td>
<td>Clark County School District</td>
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<td>385</td>
<td>330,225</td>
<td>Virtual</td>
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<tr>
<td>5</td>
<td>Broward County</td>
<td>FL</td>
<td>328</td>
<td>270,978</td>
<td>Virtual</td>
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<tr>
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<td>Virtual</td>
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<tr>
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<td>VA</td>
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<td>Hawaii Department Of Education</td>
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<td>Gwinnett County</td>
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<td>161,784</td>
<td>Virtual</td>
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<td>Cypress-Fairbanks Independent</td>
<td>TX</td>
<td>89</td>
<td>116,512</td>
<td>Choice</td>
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Source: Jefferies

Exhibit 4 - Districts - Virtual vs. Choice

83 districts sampled

Exhibit 5 - Schools - Virtual vs. Choice

12,500 schools surveyed

Exhibit 6 - Students - Virtual vs. Choice

8.1M students sampled

Source: Jefferies

Exhibit 4 - Districts - Virtual vs. Choice

Source: Jefferies

Exhibit 5 - Schools - Virtual vs. Choice

Source: Jefferies

Exhibit 6 - Students - Virtual vs. Choice

Source: Jefferies

BTS Survey of 2,200 Parents

Exhibit 7 - Has your school decided its 2020/2021 instructional model?

Yes 89.0%
No 10.0%
Unsure 1.0%

Source: Jefferies Proprietary Survey

Exhibit 8 - Is the instructional model the same for elementary/ middle-jr high/high school?

Yes 57.6%
No 17.6%
Unsure 24.8%

Source: Jefferies Proprietary Survey
Exhibit 9 - What instructional model is being pursued?

Exhibit 10 - Do you feel you have enough information to make a decision about your child’s return to school?

Exhibit 11 - What instructional model is being considered?

Exhibit 12 - Does your school expect to split students into groups to reduce contacts, also known as cohorting?

Exhibit 13 - Do you have the necessary tech resources at home for virtual learning?

Exhibit 14 - Which instruction model would you allow your children to participate in?

Source: Jefferies Proprietary Survey

Source: Jefferies Proprietary Survey

Source: Jefferies Proprietary Survey

Source: Jefferies Proprietary Survey

August 14, 2020
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Exhibit 15 - Please rank the following instruction models, with 1 being your most preferred option and 3 being your least preferred.

- A full Onsite return (of students to their school building/in-person instruction)
- A Hybrid Model (of instruction which will combine onsite instruction and remote instruction)
- A fully Remote Model

Source: Jefferies Proprietary Survey

Exhibit 16 - Of the following choices, which represent the top 3 factors that determine your preference?

- Safety of child/family
- Enable parental return to work/childcare
- Value of in-person academic instruction
- Value of social interaction
- School meal program
- Special education
- Other academic services

Source: Jefferies Proprietary Survey

Exhibit 17 - If your school chooses, or has chosen, an onsite or hybrid model, assuming adherence to social distancing protocols, will you send your children?

- Yes 72.0%
- No 28.0%

Source: Jefferies Proprietary Survey

Exhibit 18 - Will you allow your child(ren) to return to school at start of term, or will you wait to see what happens after school begins?

- I will allow my child(ren) to return at the start of term. 63.3%
- I will wait to see how what happens after school begins. 36.7%

Source: Jefferies Proprietary Survey

Exhibit 19 - Do you plan to utilize school provided transportation?

- Yes 39.2%
- No 60.8%

Source: Jefferies Proprietary Survey

Exhibit 20 - Do you believe an all virtual learning environment can be effective?

- Yes 63.3%
- No 36.7%

Source: Jefferies Proprietary Survey
Exhibit 21 - Prior to COVID-19, did your child(ren) eat lunch that was paid for by the school/government?

Yes: 47.6%
No: 52.4%

Source: Jefferies Proprietary Survey

Exhibit 22 - If your child(ren) return to school, would you allow them to eat lunch that is provided by the school?

Yes: 63.2%
No: 36.8%

Source: Jefferies Proprietary Survey

Exhibit 23 - Prior to the COVID-19 lockdown were you working full-time?

Yes: 74.5%
No: 25.5%

Source: Jefferies Proprietary Survey

Exhibit 24 - Have you been able to work full-time since COVID-19 lockdowns began?

Yes, I have gone to my workplace or previously worked from home: 63%
Yes, but I am unable to go to my workplace and have been working at home: 37%
No: 0%

Source: Jefferies Proprietary Survey

Exhibit 25 - Do you plan to go back to your workplace if your child is unable to return to school full-time?

Yes: 31.9%
No: 37.6%
Not applicable: 30.5%

Source: Jefferies Proprietary Survey

Exhibit 26 - Did you receive stimulus or unemployment benefits?

I received a stimulus check: 60%
I received both a stimulus check and unemployment benefits: 30%
I did not receive a stimulus check, but I have received unemployment benefits: 5%
I did not receive either: 5%

Source: Jefferies Proprietary Survey
Google Search Trends - Terms Related to COVID

Exhibit 27 - Search: School Reopen

Exhibit 28 - Search: School Safety

Exhibit 29 - Search: Back to School Models

Google Search Trends - Common Back To School Items

Source: Google Trends, Jefferies
Company Valuation/Risks

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(Article 3(1)e and Article 7 of MAR)
Recommendation Published August 13, 2020 , 20:19 ET.
Recommendation Distributed August 14, 2020 , 00:10 ET.

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- Republic Services, Inc. (RSG: $90.71, HOLD)
- Spin Master Corporation (TOY CN: C$27.84, BUY)
- SYSCO Corporation (SYY: $58.60, BUY)
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