

# Millennial Moms

Equity Research

## Spending implications from a new generation of parents

### Ushering in a new generation of parents

Millennials are maturing into parenthood at a time of improving economic conditions, accelerating household formation and a recovery in the number of births. We believe this shift triggers two important spending catalysts: 1) a cyclical increase in child-related expenditures like onesies, diapers, and infant formula, 2) a secular trend towards brands and business models that align with this generation's unique set of values (with the potential spillover effect on spending for the entire family).

### Reality check: acknowledging the known and the unknown

This report focuses primarily on the secular market share implications from the rise of this new generation of parents. We see the \$1 trillion that parents spend on children each year growing, but also shifting as Millennials' unique set of values and influencers – aided by technology – leads to new choices. Based on our observations of this cohort to date, we think their affinity is greatest towards brands with authentic narratives that deliver a frictionless experience across physical and digital spaces. Furthermore, their attitude towards parenthood strikes us as being more idealistic and aspirational. Having said this, we acknowledge that we are still in the infancy of this theme and are likely to be introduced to changes in values, companies and business models as it develops. Indeed, many of the companies mentioned in this report did not exist a decade ago.

### This theme supports a continued rise of small brands

We believe the rise of the Millennial Mom combined with the ubiquity of smartphones and social media create an environment ripe for small brands like **Babyganics** and **UPPABaby** to better compete through tailored offerings and grassroots marketing. Meanwhile, large legacy incumbents like **McDonald's**, **Mattel** and **Kellogg** face the challenge of adapting or become serial acquirers.

### How to invest behind Millennial Moms today

For those looking to invest in this theme today, we recommend the following as best positioned in their respective industries: CL-Buy **CRI** in kids apparel, CL-Buy **SBUX** in restaurants, CL-Buy **WSM** in home, Buy-rated **HAS** in toys and Buy-rated **ZU** in e-commerce. We believe **CRI**, **HAS**, **ZU**, along with Buy-rated **MJN**, also benefit from the birth cycle.

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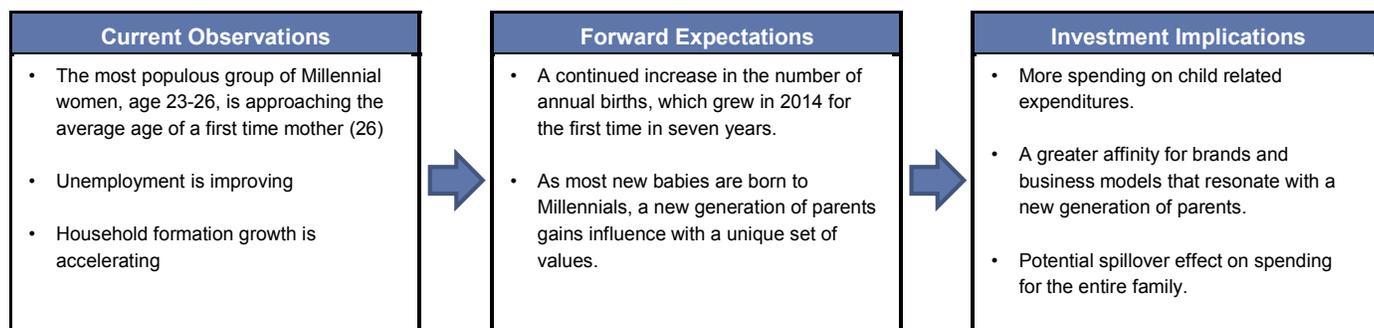
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## Exhibit 1: A summary of this report’s takeaways

The convergence of macro and demographic factors is set to give way to a new generation of parents with unique values



Source: Goldman Sachs Global Investment Research

## PM Summary: Implications from a new generation of parents

### Why should you read this report?

This report aims to offer a unique perspective on the changing consumption habits of Millennials as they mature into parenthood. We believe in the infancy of this theme as less than 45% of children age 0-17 had Millennial parents last year.

"Millennial Moms" is part of a series of research on this important demographic theme spanning across multiple verticals, which include:

- **Food.** *Millennial Munching (April 19, 2015)*
- **Housing.** *Millennials: The Housing Edition (August 4, 2014)*
- **Millennials, food, & fitness:** *Commercial impact of the generation that gets their wellness on the daily (May 12, 2014)*
- **Apparel.** *Millennials Coming of Age in Retail (September 23, 2013)*

Note - throughout this report, we make references to "Millennial Moms", a term we use interchangeably with Millennial parents.

### Five trends shaping Millennial families and related spending

- #1. **A cyclical recovery in US births.** The number of births is increasing in the US for the first time in seven years as the macroeconomic backdrop improves. A historically significant inverse correlation between unemployment and births leads us to expect this trend to continue.
- #2. **Almost all new moms are now Millennial moms.** Cyclical birth trend aside, the composition of new parents is now highly skewed by Millennials. Millennials accounted for almost 90% of the 1.5 million new mothers last year, up from 50% a decade ago, while 43% of children have Millennial parents.
- #3. **Parenthood is a catalyst for a new way of spending.** We believe Millennials' ascent into parenthood triggers two important spending catalysts: 1) a cyclical increase in child-related expenditures like onesies, diapers, and infant formula, 2) a secular trend towards brands and business models that align with this generation's unique set of values (with the potential spillover effect on spending for the entire family).
- #4. **Millennials disrupt traditional consumption patterns.** Millennials have been having kids for years, but only began to reach critical mass as parents a decade ago. Since then, we have seen many cases of disruption affecting both child-related and family-oriented categories.
- #5. **Expect a continued rise of small brands challenging large incumbents.** We believe the rise of the Millennial Mom coupled with the ubiquity of smartphones and social media creates an environment ripe for small brands, many which are private, to address their unique needs through tailored offerings and grassroots marketing. While many new brands have emerged, more will likely follow. In our view, incumbents risk losing market share unless they either evolve to suit changing tastes or acquire brands that already have.

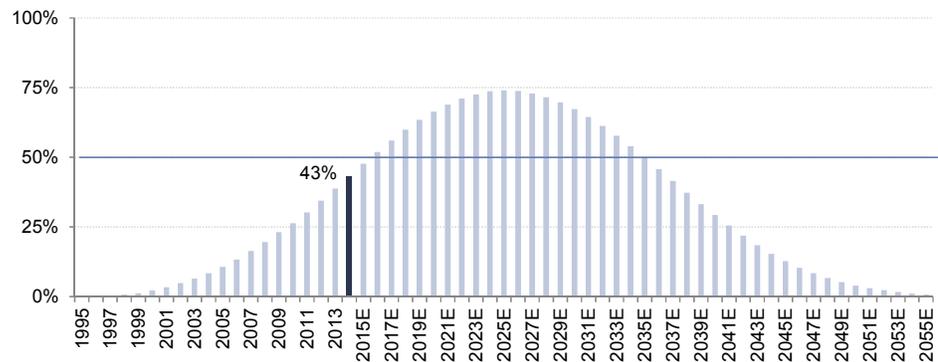
### A reality check: acknowledging the known and the unknown

We believe we are still in the early innings of Millennials entering parenthood. Exhibit 2 illustrates that only 43% of children age 0-17 had Millennial parents in 2014 (per our estimates). Importantly, this figure appears set to exceed 50% in 2016.

### Where are we in the cycle?

#### Exhibit 2: Percent of children age 0-17 whose parents are Millennials

We estimate that Millennials only recently reached critical mass, with a long runway to go



Note: Based on annual births. Does not account for immigration or adolescent mortality.

Source: US Department of Health and Human Services, Goldman Sachs Global Investment Research

The goal of this report is to provide a framework for understanding Millennial parents – as we think we know them today – with an appreciation of their value system and history of disruption. Our views are based on third party surveys, historic industry case studies and other observations. As this theme develops and we conduct more research, we expect to gain greater insights into what makes this generation of parents distinctly unique.

#### What we already know about Millennial Moms

- They have a unique set of values.
- They have proven disruptive in many industries.
- They are more technologically enabled than prior generations were at a similar stage in life.
- Their population is growing in size.

#### What we *think* we know about them

- Key principles of their value system (page 9).
- They are increasingly open to variety and small (lesser known) brands.
- They consume and share content differently from other generations.

#### What we still do not know

- How their parenting styles – and by extension their decisions on education and healthcare – will compare to Gen-X and Boomer parents.
- How their value system will evolve as they get older and as the economy improves.

# What makes Millennials unique?

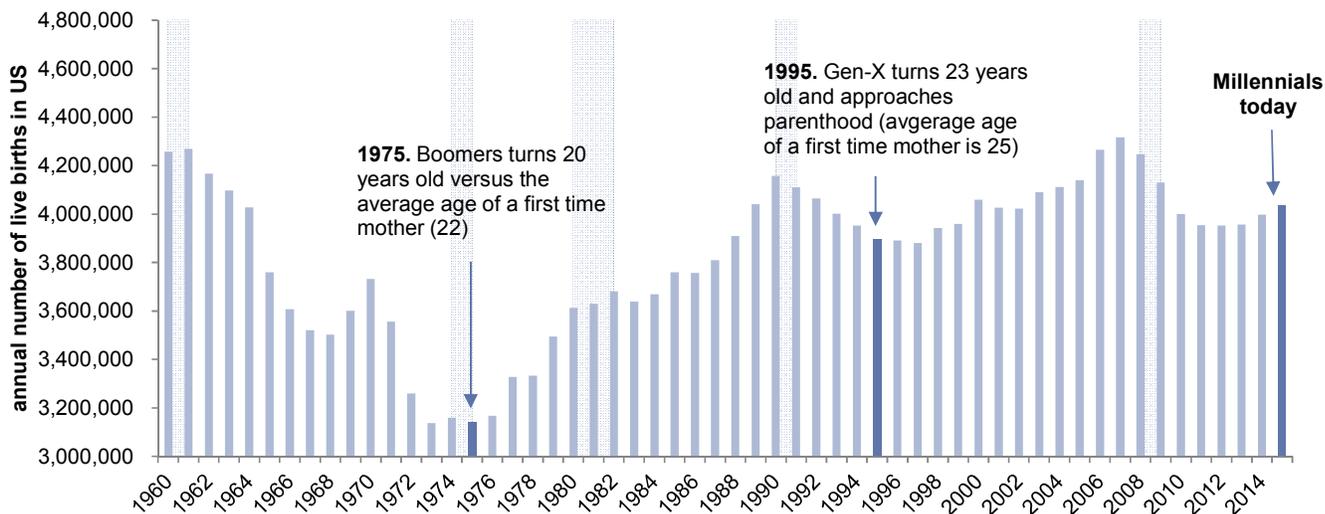
## How Millennials compare to prior generations

Below, we compare Millennial Moms today versus Gen-X and Boomers in similar stages in life (i.e., 1-2 years from parenthood) 20 and 40 years ago, respectively.

We believe many of the factors shaping Millennial Moms' values today –technology, the economic cycle, and geopolitics – also affected Gen-Xers and Boomers as they entered parenthood. While the times have certainly changed, we believe this generation's impact on consumption will be most influenced by its unique set of values and greater access to technology (i.e., smartphones, social media usage, digital content).

### Exhibit 3: Millennials, Gen-Xers and Boomers at similar stages in life (entering parenthood)

Annual number of US births



Source: CDC; Goldman Sachs Global Investment Research

### Boomers and Gen-X also faced economic challenges in their formative years

One of the most defining characteristics of Millennials today is their coming of age during the 2008/2009 recession. As adults, they appear reluctant (or financially unable) to own homes or cars as a result. While these factors are likely to influence their value system, a glance at history shows that Gen-X and Boomers also matured into parenthood during difficult economic times.

We estimate Gen-X was at a similar life stage to Millennials today in 1995, a period that also followed a recession and an unemployment spike. The same can be said about the Boomers, who matured into adulthood in the 70's, a period defined by slow economic growth and inflation.

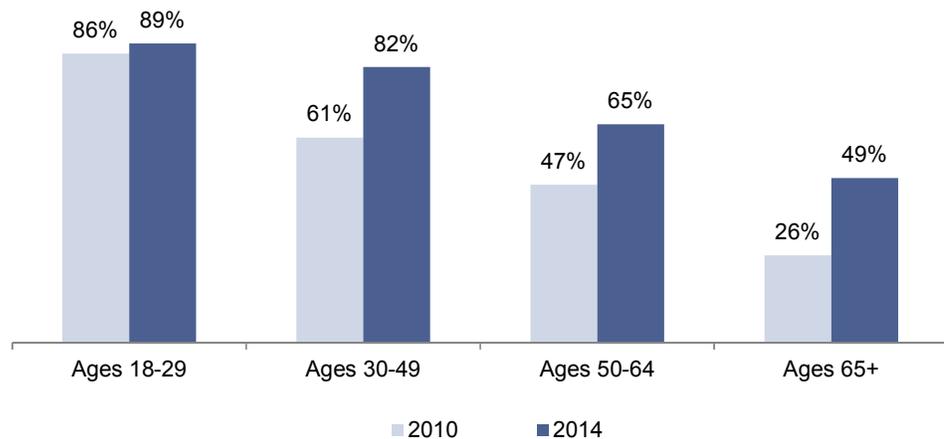
### Technology has advanced with each new generation

New media and technologically-enabled conveniences are an important factor, in our view, of how Millennial parents will consume differently from past generations. Specifically, their use of smartphones, receptivity to digital advertising, social media engagement and e-commerce tendencies may lead them to new sources of inspiration, new sets of brands and different ways of shopping.

While technology is obviously more advanced for Millennials today than for Gen-X and Boomers during their early parenting years, we believe the rate of technological change was just as relevant and impactful on their spending. For example, Gen-X parents' access to television in the 1990's was more ubiquitous than that of the Boomer generation in the 1970's.

Taking a snapshot of the different age cohorts today, the data suggest that older generations are closing in on Millennials when it comes to tech savviness and social media use. Exhibit 4 below, for example, shows people age 30+ (most of whom are non-Millennials) as closing the gap on social media use versus people age 29 and under.

**Exhibit 4: Older generations are closing the social media use gap on Millennials**  
percentage of adults who use social media



Source: Pew Research Center; Goldman Sachs Global Investment Research

# Then versus Now: Comparing Generations

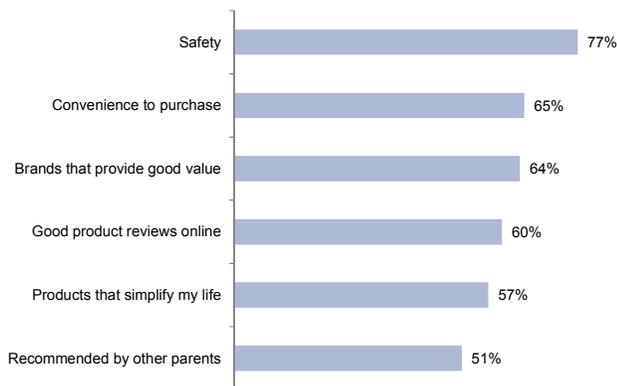
GENERATION X			MILLENNIALS	
1995		<b>Year</b>	2015	
<b>23</b>		<b>Average age (in year equivalent)</b>	<b>25</b>	↑
<b>In 1995</b>	←	<b>VITAL STATS</b>	→	<b>Today</b>
24.5		Average age of <b>first time mom</b>	26.2	↑
75.8		<b>Life expectancy</b>	78.8	↑
14.6		<b>Birth rate</b>	12.4	↓
49%		% of Families with <b>kids under 18</b>	43%	↓
3.89		# of <b>Babies born</b> , millions	3.93	↑
17%		Cost to <b>raise baby, year 1</b> (% of pretax income)	16%	↓
\$10,535		<b>4 year public college, tuition/room/board</b> (current dollars)	\$18,943	↑
<b>In 1995</b>	←	<b>MACRO STATS</b>	→	<b>Today</b>
5.6%		<b>Unemployment rate</b>	6.1%	↑
\$1.07		<b>Gas prices</b>	\$2.23	↑
5.8%		<b>Fed Funds rate</b>	0.1%	↓
8.0%		30 year <b>mortgage rate</b>	3.7%	↓
126.4		<b>Housing affordability index</b>	170.3	↑
6.4%		<b>Savings rate</b>	5.5%	↓
14.8		<b>SAAR</b>	16.6	↑
<b>In 1995</b>	←	<b>MEDIA SATS</b>	→	<b>Today</b>
14%		% of American adults who <b>use the internet</b>	87%	↑
28:10		<b>TV viewing per household</b> (hours per week)	34:13	↑
<1%		% of online adults with a <b>Social Media</b> account	74%	↑
1,124,500		<b>New York Times</b> weekday circulation	648,900	↓
<b>In 1995</b>	←	<b>POP CULTURE</b>	→	<b>Today</b>
<i>Michael / Jessica</i>		Most popular <b>boy/girl baby names</b>	<i>Noah / Emma</i>	
" <i>Fantasy</i> " by Mariah Carey		Longest #1 <b>Single</b>	" <i>Uptown Funk</i> " by Mark Ronson	
<i>Braveheart</i>		<b>Oscar Winner for Best Picture</b>	<i>Birdman</i>	
<i>E.R.</i>		Most popular <b>show on TV</b>	<i>The Walking Dead</i>	
<i>Power Macintosh</i>		<b>Apple's key product</b>	<i>iPhone 6</i>	
AOL		<b>Social network</b> of choice	Facebook	
<i>Ford Taurus</i>		Best selling <b>car</b>	<i>Toyota Camry</i>	
1,044		Number of <b>shopping malls</b>	1,240	

Source: CDC, USDA, College Board, BLS, US Energy Information Administration, Federal Reserve, National association of Realtors, Pew, Nielsen, Billboard, Autodata, CoStar Realty Information, Inc. and ICSC Research

Exhibits 5-8 below provide insights on Millennial Moms' values, social media habits, media consumption trends, and views regarding important brand characteristics.

**Exhibit 5: Millennial Moms' core values**

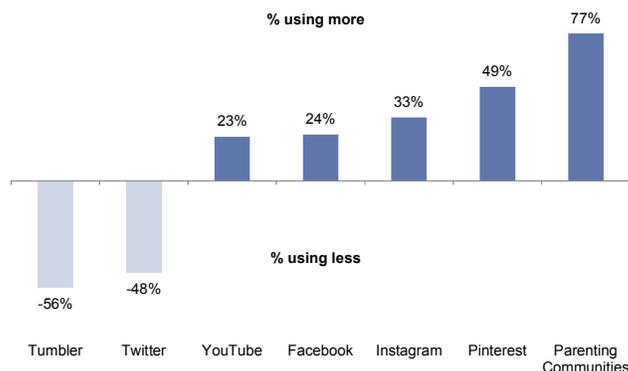
Criteria considered important by Millennial Moms when making everyday purchases



Source: BabyCenter 21<sup>st</sup> Century Mom Insight Series ; 2015 State of Modern Motherhood: Mobile and Media in the Lives of Moms, Goldman Sachs Global Investment Research

**Exhibit 6: Social media habits**

How Millennials change their social media consumption after becoming pregnant or becoming a mom

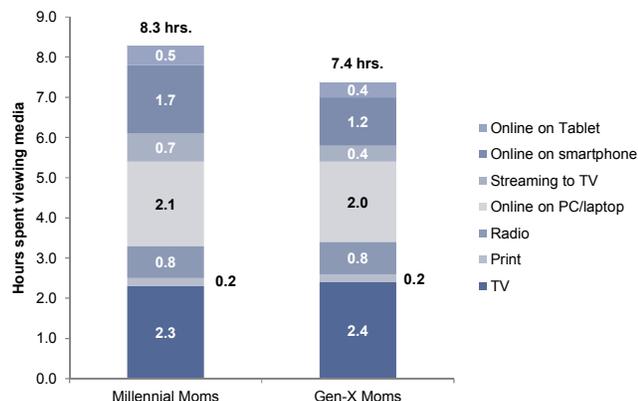


Source: BabyCenter 21<sup>st</sup> Century Mom Insight Series ; 2015 State of Modern Motherhood: Mobile and Media in the Lives of Moms, Goldman Sachs Global Investment Research

The conclusion in Exhibit 7 is particularly salient, in our view, as it illustrates time spent on smartphone as a key point of distinction between Millennial and Gen-X moms today. The data shows that Millennial Moms spend 30 minutes more per day (a 42% increase) on their smartphones than Gen-X Moms. We consider smartphone ubiquity as a key enabler of Millennials' value system, making this a key data point worth monitoring closely over time.

**Exhibit 7: Media consumption habits**

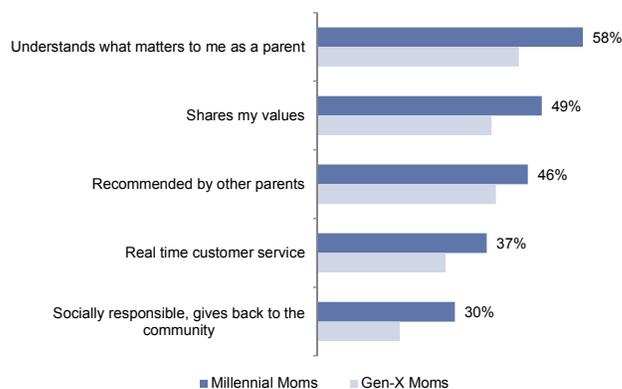
Number of hours spent on media in a typical day



Source: BabyCenter; 21<sup>st</sup> Century Mom Insight Series; 2014 Millennial Mom Report, Goldman Sachs Global Investment Research

**Exhibit 8: Important brand characteristics**

Brand characteristics mothers consider to be very important



Source: BabyCenter; 21<sup>st</sup> Century Mom Insight Series; 2014 Millennial Mom Report, Goldman Sachs Global Investment Research

## Framing the Millennial Value System

Our work on the disruptive history of Millennials provides a foundation into their value system as parents. Below is a list of values that we think resonate among Millennial parents. Importantly, we believe this set of values is different from prior generations at a similar stage in life due to their unique sensibilities but also the ubiquity of smartphones and social media that enable constant sharing and reinforcement of these values.

- **Tech-enabled innovation.** As digital natives, Millennials' appear to be highly receptive to technology-enabled innovation. Some of the most disruptive companies are simply integrating mobility and digitization into everyday tasks like exercise (wearable technology), dry cleaning (San Francisco-based **Washio**) and taking a cab (**Uber / Lyft**), resulting in a more efficient use of time. As start-ups, they are also branding themselves as tech savvy thought leaders, adding to their allure. Demands for greater convenience will only increase as Millennials become parents, in our view.
- **Frictionless execution across multiple distribution channels and media.** Millennials have come to expect a seamless experience from brands they do business with. The logistical challenge of distributing content and merchandise across multiple channels remains high and under-appreciated by this generation. A high bar, especially for legacy business models, has opened the door for new online entrants. As parents, Millennials are likely to rely even more on online channels as a preferred mode of commerce.
- **Instant gratification.** Immediate access to information (through smart mobile devices) has empowered Millennials to expect instant gratification. Free shipping is becoming the standard and same-day delivery is not far behind.
- **Sharable moments and resources.** Millennials are documenting their lives on social media platforms like **Facebook**. They are posting their thoughts and images, mostly in real time. Increasingly, they are tracking (and sharing) their fitness accomplishments through **Runtastic** and caloric intake with **MyFitnessPal** (recently acquired by **Under Armour**). Moreover, the growing "sharing economy" movement leads us to believe that Millennials are a more trusting generation, not only willing to publish their daily journals to the internet but also willing to get into a stranger's car.
- **Healthy lifestyles.** We believe Millennials aspire to live healthier lifestyles for a number of reasons. They are more informed about nutrition and exercise and better equipped to track their goals. Many industries have embraced this theme, ranging from food (**Whole Foods, organic brands**) to apparel (**Nike, Under Armour, Lululemon**), to exercise companies like **Beach Body** and **SoulCycle**.
- **Authentic narratives.** Brands like **TOMs, Warby Parker** and many others have appealed to Millennials through their unique "stories" and in many cases, a social cause. This type of strategy has also been adopted by large companies marketing their social responsibility and embracing social media.
- **Room for both high price and low.** Technology is proving to be a deflationary force across many consumer verticals. In the post financial-crisis era, Millennials have voted clearly in favor of discounts on merchandise and free content. Companies – vendors, retailers, **RetailMeNot**, social media – have obliged. Meanwhile, there has also been a premiumization in certain categories/brands of high value including smart phones (**Apple**), headphones (**Beats**), athletic apparel & footwear (**Nike, Under Armour, Lululemon**), and media (**HBO, IMAX**).

# Did you know?

## AGE OF A FIRST TIME MOM

**26** The average age of a first time mother was 26 in 2013, nearly two years higher than in the mid-90's. However, women are having babies earlier in life when adjusted for longer life expectancy (now 79 years, three years longer). (Page 7)

## COST TO RAISE A CHILD

**\$304k**

The average family is expected to spend \$304k to raise a child from birth to age 17. That excludes the cost of college tuition of \$205k. (Page 19)

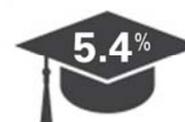
## AGE OF A MILLENNIAL

In 2015, the **average age of a Millennial will be 25**, 1-2 years shy of the average age of a first time mother. (Page 15)



## COST OF COLLEGE TUITION INFLATION

The cost of college tuition has risen 5.4% per year over the past 20 years, more than double the rate of inflation. (Page 19)



## GEN X AT THIS STAGE IN LIFE

**X**  
**1995**

Gen X'ers were in a similar life stage in 1995, 20 years ago. (Page 7)

## WHAT'S IN A NAME?

My name is:

**NOAH / LIAM  
JACOB**

Baby names are becoming more diverse. Michael was the top boys name in 1980 (3.6%), but today, the top 3 names (Noah, Liam and Jacob) combine to make up the same percentage. (Page 32)

## BABIES BORN TO MILLENNIAL PARENTS



85% of babies were born to Millennial parents in 2014. (Page 18)

## ANNUAL SPENDING AT STAKE

**\$1 TRILLION**

We estimate that approximately \$1 trillion is spent on children age 0 – 17 in the US per year across housing, transportation, food, apparel, healthcare, childcare and education. (Page 19)

## A NEW SET OF INFLUENCERS

**29**  
**MILLION**

The number of followers of the two most followed Instagram users – Beyonce and Kim Kardashian – are Millennial Moms. (Page 23)

## WHERE ARE WE IN THE CYCLE?

Percentage of children age 0-17 who had Millennial parents in 2014. (Page 4)

**43%**

## How to invest behind this theme today

Exhibit 9 outlines a number of industries that we expect to be impacted by Millennials' transition into parenthood. Certain categories like kids apparel, and toys & crafts stand to benefit from a rising tide to the extent that the cyclical recovery in births persists.

We expect all industries listed below to see secular market share shifts from the influence that this rising group of consumers will have on not only their kids, but their entire families.

The table below categorizes a select group of public and private companies as advantaged or at risk. These descriptions consider the unique competitive dynamics within each industry, recent performance and forward strategies. However, as we state later in this report, we believe companies at risk have the opportunity to adapt by investing more resources behind this theme or becoming more acquisitive.

**We categorize select companies as either advantaged or at risk based on 1) what we know about Millennial Moms, 2) what we think we know about Millennial Moms and 3) competitive dynamics and forward strategies within each company's respective industry.**

### Exhibit 9: Categories and stocks we see as exposed to the rise of Millennial Moms

A select list of companies we believe are advantaged or at risk

Industry	Drivers of Innovation	Advantaged Companies	Companies at Risk
Kids Apparel	Affordable fashion Low price / discounting Multi-functionality	Carter's Target aiden + anais**	The Children's Place Gymboree**
Toys & Crafts	Child development Imaginative / creative play Media / entertainment	Hasbro Michaels LEGO** Crayola**	Mattel
Media + Electronics	Age appropriate content Parental controls Screen management Mobility	Disney Netflix	Dreamworks Animation LeapFrog*
Consumer Staples	Ingredient transparency Organic Convenience/packaging	Mead Johnson White Wave Hain Celestial* KIND**	Kellogg Campbell's Coca Cola
Retail + Supermarkets	Relevant merchandise Customer service In store experience Online execution Competitive pricing	Target Whole Foods Kroger	Kohl's JC Penney Toys R Us** The Fresh Market
Restaurants	Menu Food quality Customer service Convenience	Starbucks Chipotle Wendy's	McDonald's YUM Brands
E-commerce	Relevant merchandise Customer service Delivery fulfillment Competitive pricing	Amazon Zuily Wayfair Etsy*	
Services	Convenience Safety Reliability Trust	GrubHub Bright Horizons* TaskRabbit** Blue Apron** Sittercity**	
Home	Relevant merchandise Customer service Online execution Logistical excellence	Williams Sonoma Wayfair Etsy*	

\* Not Covered | \*\* Private

Source: Goldman Sachs Global Investment Research

## Buy-rated ideas levered to Millennial Moms

**We consider CRI as a secular winner given its outsized revenue and EBITDA growth during the most recent cyclical downturn in births.**

### **Carters | CRI (CL-Buy) | Kids Apparel**

**Investment thesis:** Our Buy thesis is based on a combination of 1) multi-faceted revenue growth across e-commerce, wholesale, retail, and international channels, 2) gross margin expansion driven by channel mix and lower product costs, and 3) more modest SG&A spend following a multi-year period of elevated investments. We believe the aforementioned factors, along with an under-levered balance sheet and improving US macro tailwinds, justify a premium valuation multiple for this stock. At 21x P/E and 1.2x the S&P 500, we believe there is still room for multiple expansion given a high quality bias and upside risks to earnings estimates.

**Relevance among Millennial parents:** As a US apparel brand/retailer with a dominant market share (25%+) within newborn apparel, Carter's has posted strong EBITDA growth rates over the past five years in the face of declining US birth rates. We believe this performance, which far exceeds peers that report public financial data (e.g., PLCE and Gymboree), speaks to the brand's ability to take mindshare among new Millennial parents (who represent the overwhelming majority of new parents). Among other factors, we believe CRI's consistent presence across multiple channels (mass, department stores, specialty retail, e-commerce) has contributed to the company's success with this new generation of parents.

**SBUX offers Millennial parents a combination of "real food" with the added convenience of drive-thrus and mobile ordering.**

### **Starbucks | SBUX (CL-Buy) | Restaurants**

**Investment thesis:** We believe SBUX is uniquely positioned for long-term AUV growth as a restaurant that we expect can address a growing preference for "real food" options with the ubiquity and convenience associated with a QSR. With the continued expansion of the lunch platform and investments in both drive-thru and in-store throughput (e.g., mobile ordering), its advantages in these areas appear set to expand.

**Relevance among Millennial parents:** In our view, SBUX is virtually the only large incumbent that can offer Millennial parents the convenience of a QSR and food they would not feel guilty/embarrassed to feed to their kids. Drive-thrus, which are in 45% of US company-owned units, are key to this – the advantage of not having to wake up a car seat sleeper or get kids in/out of a car to get a snack (or even meal) is significant, in our opinion. At the same time, SBUX has been steadily expanding kid-friendly snack options, such as organic fruit squeezes, organic food snacks, and organic Greek yogurt (among other options) and is rolling out mobile ordering, another convenience enhancing innovation.

**WSM has a unique opportunity to attract new customers into its portfolio on the back of a cyclical birth recovery vis-à-vis its PB Kids brand.**

### **Williams Sonoma | WSM (CL-Buy) | Home**

**Investment thesis:** Our conviction behind WSM stems from our expectation of improving incremental margins as the firm moves away from international investments, its strong positioning in the omnichannel environment, with 50% of sales through its direct channel, and its good brand vitality from the recovery in the Williams-Sonoma chain, the emerging brands Mark & Graham and Rejuvenation, and the continued strength from West Elm.

**Relevance among Millennial parents:** WSM caters to customers throughout their life cycle, with special appeal to parents and exposure to birth rates through PB Kids / Teen, with a prodigious database increasing the probability that the company can maintain connectivity to consumers across brands. Its strong direct business (including white-glove delivery and installation options) provides the convenience that Millennial parents seek

**Hasbro stands to benefit from a favorable cyclical backdrop as well as a strategy that aligns its portfolio with disproportionate growth in entertainment-backed toys.**

### **Hasbro | HAS (Buy) | Toys**

**Investment thesis:** We recommend buying HAS for a well executed strategy that capitalizes on the convergence of content and consumer products. As a toy company, HAS offers investors exposure to a balanced portfolio of owned and licensed properties levered to a rich entertainment pipeline. A strong balance sheet and generous capital return policy complement the earnings growth trajectory.

**Relevance amongst Millennial parents:** We believe HAS has adapted to the changing media landscape by building strong owned IP in Transformers and My Little Pony and further developing Millennial parent-friendly properties like Play-Doh. Its growing licensed partnership with Disney sets the stage for a strong pipeline of premium content that is relevant to Millennials and their kids, which this new generation has proven eager to consume through both digital and analog (i.e., toys) media.

### **Mead Johnson | MJN (Buy) | Consumer Staples**

**Investment thesis:** We believe MJN is approaching a beat-and-raise cycle and that investors can benefit from both above-consensus earnings delivery and positive rerating for a stock that is trading at one of its lowest relative premiums since going public. Our fundamental view is based on three core tenants: (1) sustained acceleration in the US as Millennials enter motherhood; (2) imminent inflection in China as MJN evolves to an import model and opens more online access, aligning its portfolio and availability with shifting preferences of Chinese moms; (3) margin upside as it benefits from a collapse in global dairy prices in a category with superior pricing power.

**Relevance among Millennial parents:** Mead is the leading infant formula company in the US with the leading global infant formula brand, Enfamil. Given its market leadership, it stands to benefit disproportionately from a rising infant population as Millennials enter motherhood.

### **Zulily | ZU (Buy) | e-commerce**

**Investment thesis:** We believe Zulily benefits from the long-term opportunity in online and mobile growth of moms and kids' retailing. Zulily is a curated marketplace that creates demand for a fragmented supplier base of small brands by aggregating supply at compelling prices for a brief window of time. Its inventory-less model enables both attractive cash flow and growth opportunities. We expect Zulily's ability to maintain its rapid growth and share gains will likely be determined by brand strength, mobile adoption, customer service, and merchandising.

**Relevance amongst Millennial parents:** Zulily is representative of two significant trends emerging with the Millennial shopper – shopping as entertainment and uniqueness of merchandising. Zulily has invested significantly in its mobile experience to enable moms to fill white spaces of time with a mobile-friendly user interface in a highly personalized experience with 1-click checkout. The company also merchandises the site in a “flash-sale” model, enabling a fresh, new experience daily.

## Neutral-rated stocks that may also benefit

### Target | TGT (Neutral) | Retailing

**Investment thesis:** Our Neutral view on TGT is based on our belief that a number of favorable drivers are offset by challenged strategic positioning. The ongoing emergence of ecommerce is devaluing the impact of breadth of assortment in-store for general merchandise retailers. Meanwhile narrow-assortment retailers, including dollar stores, drug stores, and warehouse clubs, are also taking share from broad-assortment retailers like TGT. We are encouraged by the \$2bn in cost cuts expected over the next two years, the firm's earlier-than-expected exit from Canada, and the resumption of buybacks this year.

**Relevance amongst Millennial parents:** The Target brand already carries strong affinity with Millennials, TGT has specifically identified Millennials as a key demographic, and the firm aims to highlight its baby, health & wellness, and style offerings as it repositions the business.

### WhiteWave Foods Company | WWAV (Neutral) | Consumer Staples

**Investment Thesis:** We are Neutral-rated on WWAV as valuation appears full at current levels and we look for better entry points, but we are positive on the company's underlying fundamentals and above-peer growth profile. We view a path to high-teens earnings growth as achievable in out-years as the company capitalizes on its on-trend product portfolio, new product adjacencies, and international expansion opportunities.

**Relevance among Millennial parents:** Out of the beverage & tobacco coverage universe, WWAV's product portfolio aligns most strongly with Millennial parents, given parent-friendly health & wellness-focused brands such as Horizon organic milk and Earthbound Farms salad. Furthermore, we believe the WWAV's strategy to leverage its brands beyond plant-based beverages towards new kid-friendly products, such as mac & cheese, yogurt, and single-serve salad, should broaden the company's appeal among Millennial families.

## Who are the Millennials?

### Defining Millennials

We define Millennials as the generation born between 1980 and 2000. Today, this demographic group comprises people age 15 to 35 with an average age of 25 as of 2015. In many ways, this cohort's characteristics resemble those of prior generations, but with greater extremes. They are *more* educated, *more* ethnically diverse, *more* politically liberal, *more* tech savvy, and *less* religious than Gen Xers and Boomers.

A host of factors like the 2008 financial crisis and longer life expectancy have led Millennials to postpone life events like marriage and parenthood. Home ownership and independent living rates are also the lowest they've been in decades.

Below, we frame Millennials relative to other generations. We estimate that the prior generation – Gen-X – was in a similar life stage (i.e., embarking upon parenthood) in 1995 when the average age of a first time mother was 23.

### Framing Millennials among other generational cohorts

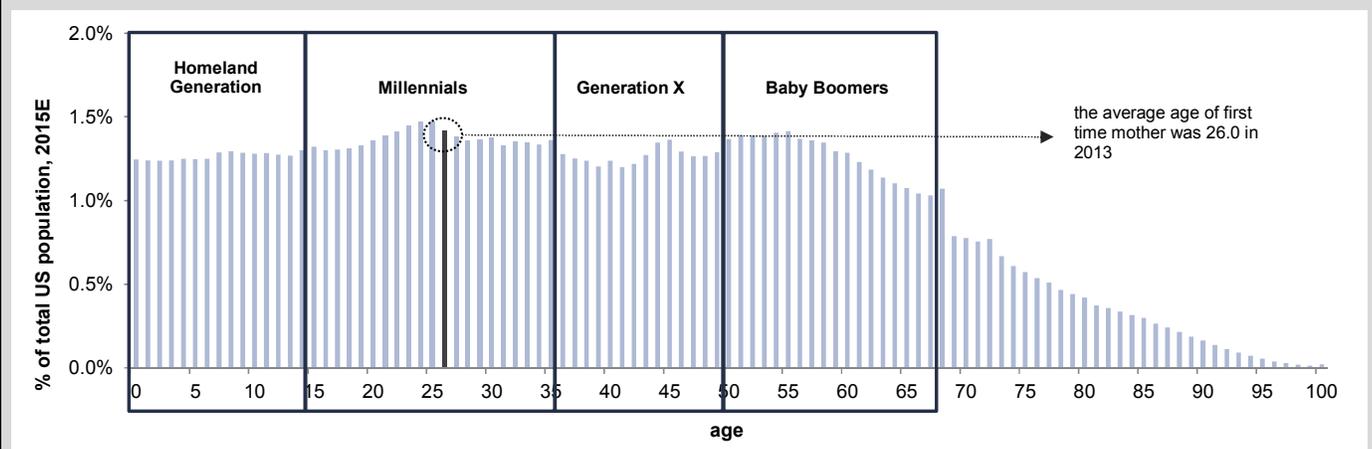
Based on 2015E Census Bureau estimates

Homeland Generation	Millennials	Generation X	Baby Boomers
<b>born</b> 2001 - present	<b>born</b> 1980 - 2000	<b>born</b> 1965 - 1979	<b>born</b> 1946 - 1964
<b>current age range</b> 0 - 14	<b>current age range</b> 15 - 35	<b>current age range</b> 36 - 50	<b>current age range</b> 51 - 69
<b>average age</b> 7	<b>average age</b> 25	<b>average age</b> 43	<b>average age</b> 60
<b>% of US population</b> 19%	<b>% of US population</b> 29%	<b>% of US population</b> 19%	<b>% of US population</b> 23%

Source: Goldman Sachs Global Investment Research; US Census Bureau

### The largest segment of the Millennial cohort is approaching age 26, the average age of first time mothers

Over a quarter of Millennial women will turn 26 over the next five years



Note: generational age ranges as defined by Pew Research

Source: Goldman Sachs Global Investment Research; CDC

## What the companies are saying about Millennial Moms

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**Both public and private companies are keenly focused on better understanding the unique values and needs of Millennial Moms.**

**Carter's CEO Mike Casey:** *"More so than the previous generation, Millennial Moms say that good value is the most important characteristic when shopping for brands. In a recent Consumer Reports survey of nearly 16,000 subscribers, Carter's and OshKosh ranked in the top 5 of 53 major outlet chains for value, quality and selection and were the best rated brands in young children's apparel. We believe we continue to outperform our competitors and gain share because our brands have a well-earned reputation for quality and value with multiple generations of consumers."*

**Hasbro Brands President John Frascotti:** *"Over the past couple of years, we have invested extensive research to better understand the Millennial parent and what product she is looking for. We know that **today's parents are busier than ever, constantly on the go** and they are looking for toys that address those traditional pain points during the day and they are also looking for toys that are more compact and we know that people are living in smaller spaces so storage space is critical. So this year we are launching an ecosystem of brand-new Playskool Play, Stow and Go developmental toys. Every new item encourages milestone development and has fully expanded play but each toy also collapses down to a nice compact size for easy storage or to fit in a diaper bag."*

**Mattel President and COO Richard Dickson:** *"In February, we shared highlights from comprehensive research we did with Millennial Moms that underscored the value and the brand and the fact that Fisher-Price is Mattel's first handshake with mom. This handshake is more than the transaction; it is the beginning of an emotional partnership for not just the brand but for the entire Mattel portfolio. Being the brand moms want and expect to be integral in the development of their children is an opportunity the brand must strategically set up to do."*

**BabyGanics CEO Kevin Schwartz:** *"It's all about giving parents the ability to create a baby-safe world, so babies can explore and thrive and grow; and you don't have to worry about what they touch and wear and eat. **The Millennial parent is a really empowered parent.**"*

**The Honest Company co-founder Jessica Alba:** *"A few years ago, I had an idea for a company that would be **the trusted lifestyle brand for millennial families, like mine**. I wanted effective, safe, beautifully designed products that are convenient to get. I mean, who wouldn't want that?, I thought."*

**Target Chief Marketing Officer Jeff Jones:** *"Let me shift back to one of our signature business, which is baby. As Kathee mentioned, we've taken many steps to grow the baby business, including reinventing the registry. Our number one job in marketing with baby is to compel people to register. **Our creative muse for the baby campaign is the Hispanic Millennial Mom**. You just have to look online to see that today's expectant mom shares every single stage of her journey, and some of you might say she over shares every single stage of her journey. But the reality is she's connected to her mobile device."*

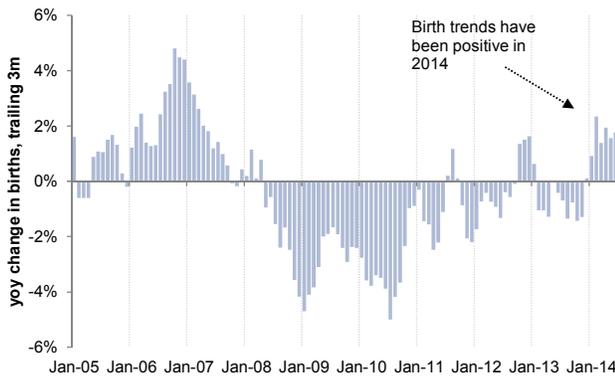
**Hain Celestial Founder Irwin Simon:** *"Millennials are not buying brands our parents had. Millennials are very educated about ingredients. Millennials today go back and check what the product is made from, where it came from, how the animal has been treated and that's something that Hain is focused on. And if you go back and look at where we were in 2012, 40% trusted organic. 38% thought it was safer. If you come back now, and consumer purchasing powers, and this is 2014, two years later, 75% of US consumers today purchase organic and 36 – 36% use organic on a monthly basis. Look what's happened just in two years."*

# Trend #1: A cyclical recovery in US births

The number of births is increasing in the US for the first time in seven years, giving rise to a new generation of parents with a unique set of values. A historically significant (negative) correlation between births and unemployment leads us to see this trend continuing, driven by an increase in women age 25 – 39 (through 2020), where discretionary income is higher and birth rates are most stable.

Indeed, a recovery is already underway with the number of births growing 1-2% through the last reading (1H2014). While the number of births is increasing, the annualized rate of new births is still 8% below the 2007 peak and at the lowest level in 15 years.

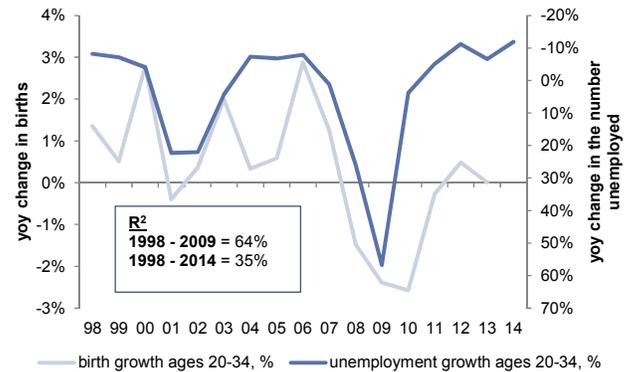
**Exhibit 10: Birth trends inflected positively in 2014**  
US births by month 2005-1H14



Source: CDC, Goldman Sachs Global Investment Research

**Exhibit 11: A historically strong (negative) relationship between births and unemployment**

The relationship has broken down somewhat post crisis

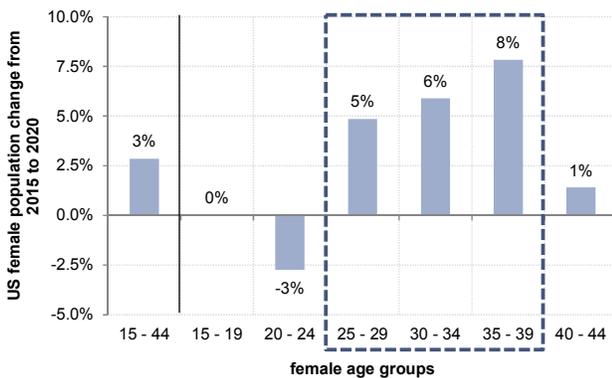


Source: CDC, BLS, Haver Analytics, Goldman Sachs Global Investment Research

Population projections point to a disproportionate rate of growth in women age 25-39 over the next five years. As illustrated in Exhibits 12 and 13, this group represents both the absolute highest birth rates as well as the most stable/growing birth rate trends.

**Exhibit 12: US female population growth is concentrated in age groups whose birth rates are rising**

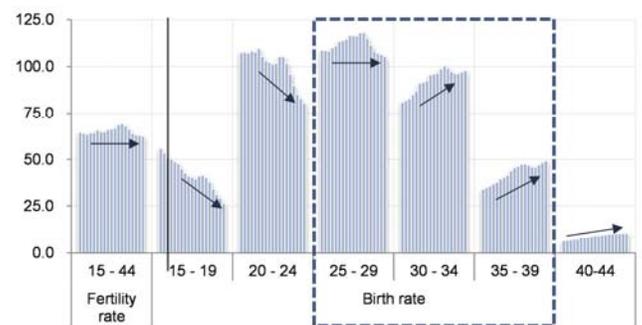
US female population growth estimates, 2020E vs. 2015E



Source: Goldman Sachs Global Investment Research; US Census

**Exhibit 13: Birth rates have been stable/growing in 25+ age cohorts**

1995 – 2013, annual data (by age of mother)



Note: Fertility rate = births per 1,000 women aged 15-44; Birth rate = births per 1,000 population

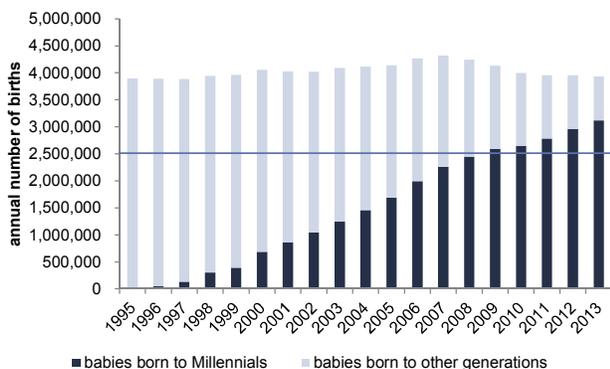
Source: Goldman Sachs Global Investment Research; CDC

## Trend #2: Almost all new moms are now Millennial Moms

**We believe we are still in the early innings of Millennials entering parenthood, making this likely an important investment theme for decades to come.** While the first Millennials began having children in the mid-1990's, their influence only became material around 2008 (the first year where more than 20% of children had Millennial parents).

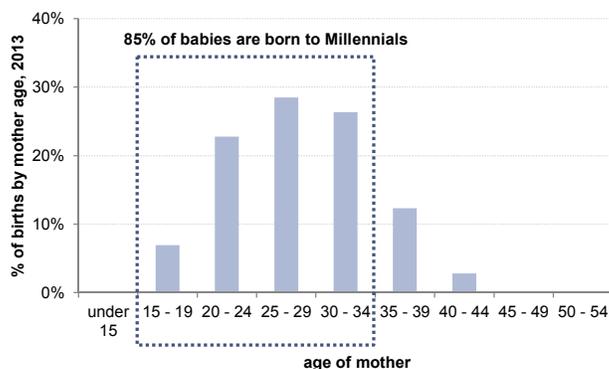
Today, nearly all new moms are Millennials, making this generation of new parents particularly influential among industries catering to newborns and their parents. We expect Millennials to account for the majority of births throughout the next decade.

**Exhibit 14: Composition of new parents by generation**  
Over 50% of babies have been born to Millennials since 2007



Source: Goldman Sachs Global Investment Research; CDC

**Exhibit 15: Total births by age of mother, 2013**  
85% of babies were born to Millennials in 2013 (last reading)

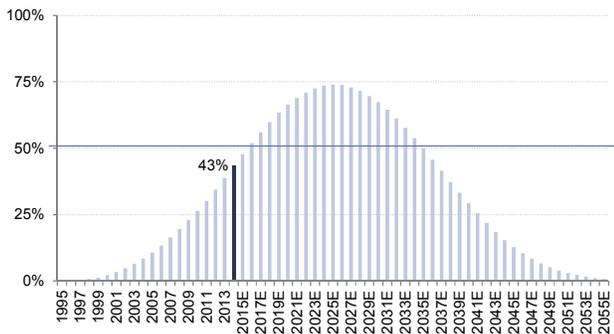


Source: Goldman Sachs Global Investment Research; CDC

Exhibit 16 illustrates the number of children age 0-17 whose parents are Millennials. In 2014, we estimate this figure was 43%, suggesting that Millennial parents still account for the minority of all parents. Based on our projections, this new generation of parents is expected to represent the majority of all parents from 2017 through 2036. Exhibit 17 suggests that Millennials' have had the greatest impact among infant and toddler children.

**Exhibit 16: Percent of children age 0-17 whose parents are Millennials**

We estimate that Millennials only recently reached critical mass, with a long runway to go

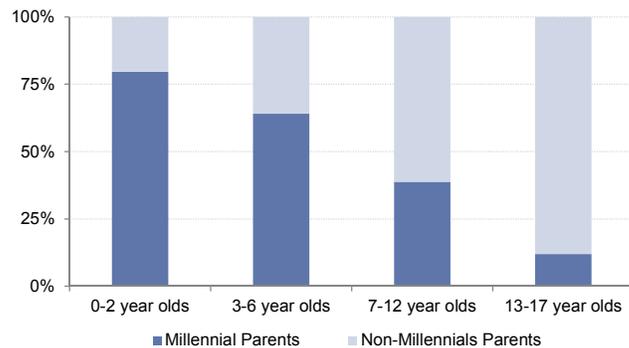


Note: Based on annual births. Does not account for immigration or adolescent mortality.

Source: US Department of Health and Human Services, Goldman Sachs Global Investment Research

**Exhibit 17: Children with Millennial parents by age cohort**

We believe Millennial parents have had the greatest impact among infants (0-2 yrs old) and toddlers (3-6 yrs old).



Source: US Department of Health and Human Services, Goldman Sachs Global Investment Research

## Trend #3: Parenthood is a catalyst for new spending patterns

We believe Millennials' ascent into parenthood triggers: 1) a shift toward child-related expenditures 2) a greater affinity for brands that resonate with the new generation of parents, and 3) a potential spillover effect on spending for the entire the family.

### The cost of raising a child

**We estimate \$1 tn is spent per year on raising children in the US. This spending is across categories like housing, food, transportation, child care, apparel, etc.**

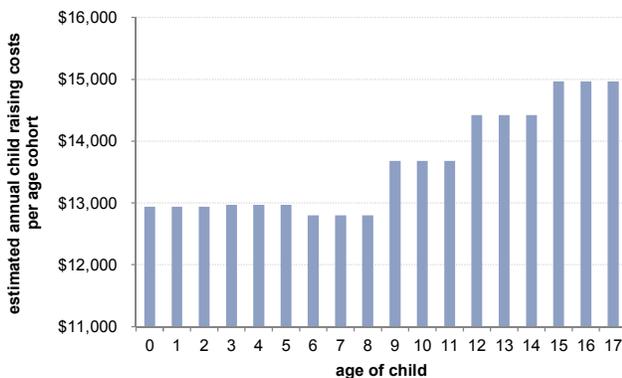
The number of US births is increasing for the first time in seven years (up 1-2% through 1H14, the last reading) and looks likely to stay positive based on aforementioned cyclical and demographic observations. At a minimum, we expect this shift will lead to a new set of spending priorities and better growth in baby clothes, infant formula, diapers, etc.

In 2013, the annual cost of raising a newborn was approximately \$13k for married families in the middle income bracket. On a cumulative basis through age 17, families having babies will have to commit to \$245k in total spending per child (\$304k accounting for inflation).

Exhibit 18 illustrates the annual cost of raising a child while Exhibit 19 shows the composition of total expenses spent on a child through age 17.

**Exhibit 18: Annual cost of raising a child through age 17**

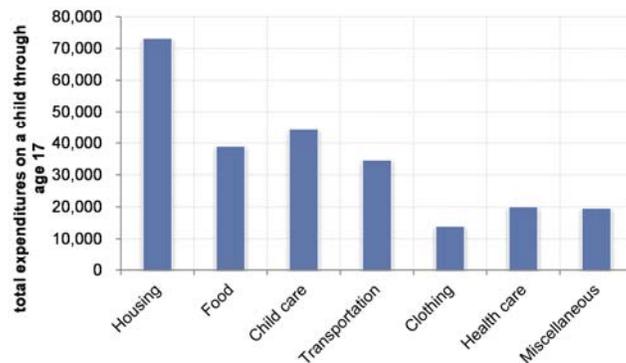
The average family spends 16% of pretax income on a baby



Source: USDA, Goldman Sachs Global Investment Research

**Exhibit 19: Where does the money go?**

Child-related spending from age 0 to age 17, in 2013 dollars



Source: USDA, Goldman Sachs Global Investment Research

### Costs rise over 50% when including college tuition, room and board

The prior section excludes the cost of a college education, which was \$19k (4-year public school tuition, room and board) for enrollment in the 2014-2015 academic year. Inflation adjusted, this cost is up 80% over the past 20 years (when Gen Xers were in a similar life stage), growing at real and nominal CAGRs of 2.9% and 5.4%, respectively, over that period.

Assuming that the rate of college education continues at its current pace, Millennial parents can expect their newborn's college education to be \$205k in future dollars, or a near 70% increase to the \$304k figure mentioned above. **Combined, we estimate the future cumulative cost to raise a child through college is just north of \$500k.**

**How having children changes the composition of a Millennial’s expenses**

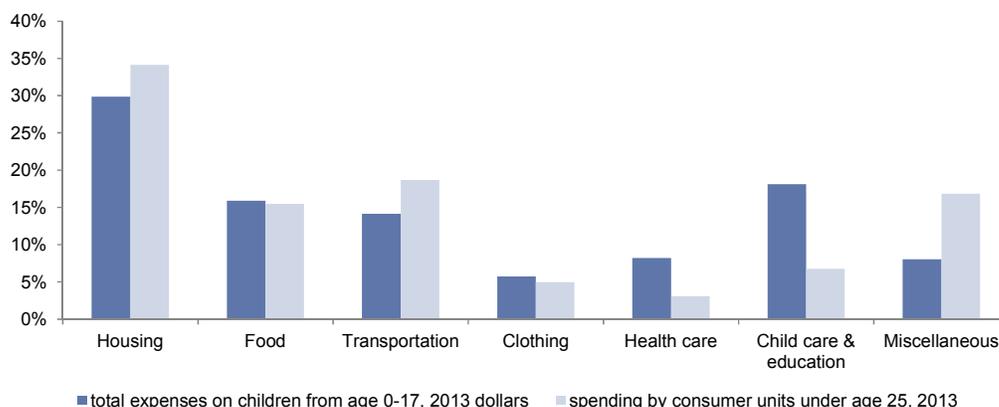
Exhibit 20 compares two distinct sets of data. The dark bars represent the total costs that parents can expect to spend on kids through age 17 (excluding college education). In comparison, the light bars show the composition of spending among households under the age of 25, representing a segment of the Millennial population that has few children. (Note: We assume most households under 25 do not have children; in 2013, 30% of births were to women under 25).

**Key takeaways include:**

- **Housing and transportation**, two of the larger areas of spending, appear most leverageable, as the incremental cost of another family member is not as high.
- **Food and clothing costs are roughly the same** as for consumer units under 25 and children age 0-17.
- **The greatest spending shocks** (relative to total) come from child care & education and healthcare.

**Exhibit 20: Housing and transportation are leverageable expenses**

Percentage of expenditures by major category



Source: BLS; Department of Agriculture; Goldman Sachs Global Investment Research

### Having a child may lead to new spending choices

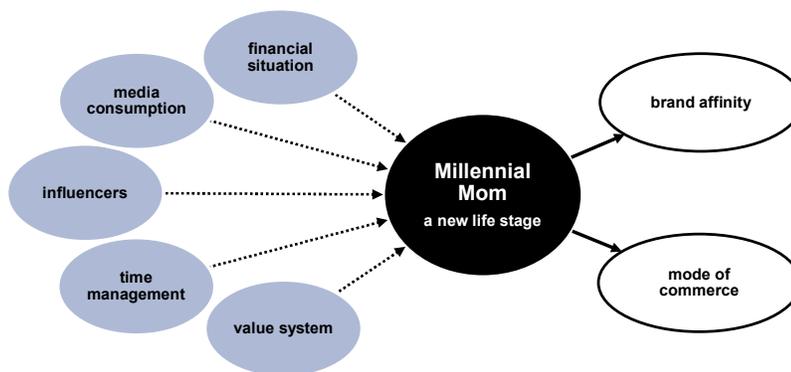
**We believe the more profound effect of Millennials entering parenthood is the fact that a new generation with a history of disruption is entering a new stage in life which in itself creates an occasion to make new spending choices for the entire family.**

Exhibit 21 introduces a variety of inputs – most of which are dynamic – that we believe drive Millennials’ attitudes towards brands as well as their preferred modes of commerce.

**We believe Millennials’ maturation into parenthood, a life-changing event, complicates a set of purchasing inputs that are already fairly dynamic on their own.**

#### Exhibit 21: A framework for understanding the Millennial Mom mindset

We believe a set of dynamic inputs is leading to the way Millennials spend. We believe this generation’s graduation into a new life stage (parenthood) further complicates matters

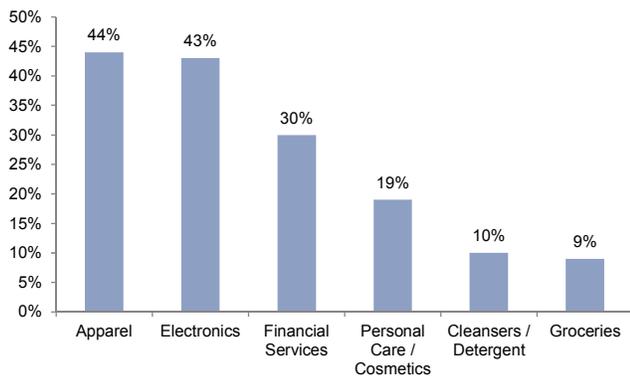


Source: Goldman Sachs Global Investment Research

Exhibits 22 and 23 below illustrate a few results from a recent survey by Interactive Advertising Bureau and BabyCenter, which asked a sample of Millennial mothers how their spending behavior has changed since becoming a mother. We believe these findings support the premise that parenthood creates a new way of spending among Millennials.

#### Exhibit 22: Motherhood as a catalyst for transacting certain categories more online

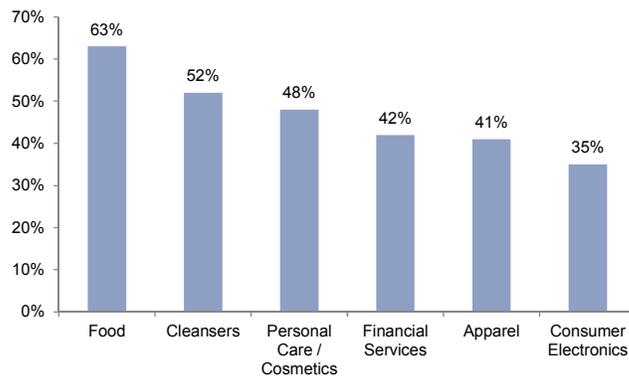
Responses to a recent survey asking “since becoming a mom, are you more likely to purchase these online?”



Source: BabyCenter 21<sup>st</sup> Century Mom Insight Series ; 2015 State of Modern Motherhood: Mobile and Media in the Lives of Moms

#### Exhibit 23: Motherhood as a catalyst for spending differently on categories

Responses to a recent survey asking “since becoming a mom, have you changed your purchase criteria across these categories?”



Source: BabyCenter 21<sup>st</sup> Century Mom Insight Series ; 2015 State of Modern Motherhood: Mobile and Media in the Lives of Moms

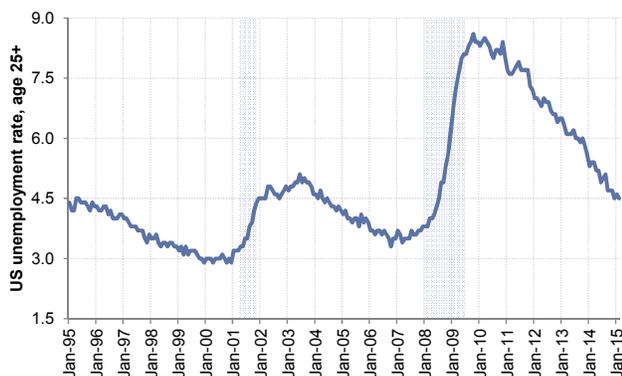
## The drivers influencing Millennial Mom spending habits

### Financial situation – improving

Although they came of age at a time of financial crisis, Millennials appear to have the benefit of lower unemployment and a generally healthier economic backdrop today. This is leading to accelerating household formation. In 2014, this generation accounted for the majority of home buyers for the first time ever.

**Exhibit 24: Unemployment is improving**

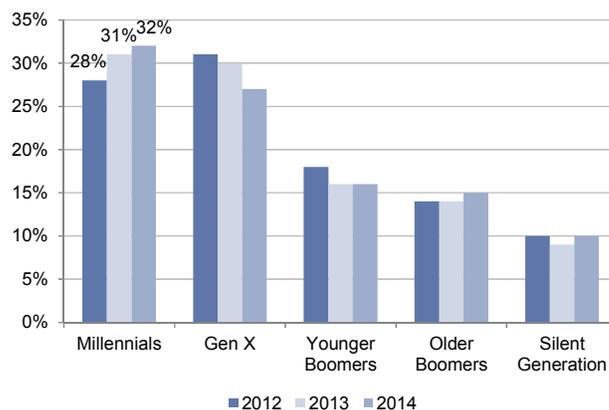
US unemployment rate, age 25+



Source: BLS, Goldman Sachs Global Investment Research

**Exhibit 25: Millennials are now the largest group of home buyers**

Home purchasing by age group



Source: Census Bureau, Goldman Sachs Global Investment Research

### Media consumption – more digital, more user generated, more complex

Consumers, and Millennials in particular, are changing the way they consume media. The ubiquity of smart phones and high speed data is leading to traditional channels (TV, print, radio) to be replaced by a variety of new digital and social media channels like **Facebook, Twitter, Instagram, Pinterest, Tumblr, YouTube**, blogs, parenting websites, lifestyle websites and brand websites.

Millennial Moms appear to be a growth opportunity for media companies like AwesomenessTV (owned by DreamWorks Animation), which plans to launch **Awestruck** later this year specifically intended for this demographic. Meanwhile, YouTube recently launched a kids’ app, creating a safer interface for content consumption.

We believe the rise of e-commerce, lifestyle blogs, and social media is leading to more competition for viewership while creating new sources of purchasing inspiration and marketing campaigns. Further, as this growing set of companies targets consumers through unique content, we see the lines between media and e-commerce business models becoming blurrier. **Zulily**, an e-commerce company, has seen very high revenue growth since being founded in 2010, as a result of it treating shopping as entertainment and regularly offering users a tailored and fresh offering.

Exhibit 26 illustrates a group of select website targeting moms across media and e-commerce. Many companies at the top of the list that rank higher on traffic were founded within the past decade, suggesting this new generation of consumers has new sources of content.

**Exhibit 26: Retailers’ websites are competing for eyeballs with media companies**

Unique visitor data for select websites whose target customer is a Millennial parent

Site	Business Model	Year Founded	Content Description	Unique Visitors (000's)
				LTM Average
BabyCenter	media	1997	parenting lifestyle	16,419
CafeMom	media	2006	parenting lifestyle	14,431
Zulily	e-commerce	2010	multi-category merchandise	12,858
ScaryMommy	media	2008	parenting lifestyle	3,029
TheBump	media	2008	parenting lifestyle	3,008
The Children's Place	e-commerce	1989	kids apparel	2,723
Parenting	media	1987	parenting lifestyle	2,629
The Honest Company	e-commerce	2011	kids & family personal care	1,448
Carter's	e-commerce	1865	kids apparel	1,411
Diapers	e-commerce	2005	kids general merchandise	1,045
Gymboree	e-commerce	1976	kids apparel	1,008
Justice	e-commerce	2006	kids apparel	976

Source: comScore (multi-platform); Goldman Sachs Global Investment Research

**Influencers– more authentic, less conventional**

The widespread adoption of social media has introduced Millennials to a new set of influencers, including actors, athletes, reality TV stars, stylists, socialites, chefs, social media celebrities, and random strangers (in addition to friends and family). Product reviews and search appearance now appear to be a critical part of the purchase process, just as physical presence and shelf-space do within retail stores.

We believe the perception of these influencers as being authentic is changing the way Millennials react to traditional brands and marketing tactics. As Millennials become parents, they will likely turn to this group of online influencers for guidance and recommendations across a host of categories, ranging from fashionable apparel to developmental toys to strollers with the most utility.

We believe **The Honest Company** is an example of a brand that arose through a powerful digital strategy led by co-founder **Jessica Alba**, an aspirational Millennial Mom in her own right with a large fan base (4.7mn Instagram followers). Other examples of brands leveraging celebrity parents include **Fisher-Price’s** partnership with **Shakira** and **Thomas & Friends’** recent collaboration with **Neil Patrick Harris** for a video that was viewed 5.7mn times on YouTube within a month of release.

**Exhibit 27: Instagram provides a bigger window into the lives of celebrities and parents**

Number of followers in millions, as of April 2015

10 Most Followed Instagram Users			10 Notable Parents on Instagram		
Rank	Account Holder	Followers	Rank	Account Holder	Followers
1	Beyonce	29.0	1	Beyonce	29.0
2	Kim Kardashian	29.0	2	Kim Kardashian	29.0
3	Ariana Grande	27.8	3	Kourtney Kardashian	15.3
4	Selena Gomez	26.4	4	Shakira	7.0
5	Taylor Swift	25.8	5	Jessica Alba	4.7
6	Justin Bieber	24.6	6	Gisele Bundchen	4.5
7	Kendall Jenner	22.4	7	Britney Spears	4.3
8	Kylie Jenner	19.7	8	Victoria Beckham	3.5
9	Khloe Kardashian	19.2	9	Hilary Duff	3.2
10	Nicki Minaj	18.3	10	Jimmy Fallon	3.1

Source: Socialblade.com; Goldman Sachs Global Investment Research

We believe online product reviews and search appearance are also important drivers for family consumption. We use **Carter's**, an infant apparel brand, to illustrate our point. In addition to its own distribution through physical stores and e-commerce site, the brand also has strong placement online across its retail partners (including e-commerce). We searched for baby apparel selections at four online retailers – Babies R Us, Target, Diapers.com, and Walmart. Carter's was a "featured brand" at each of these sites and represented anywhere from 21% to 43% of the SKUs available online.

### **Time management – balancing work, life, and family**

We expect Millennials with kids will be increasingly strapped for time and will embrace technology-enabled convenience. Further, while Millennials are maturing into parenthood, we believe their attitude towards parenthood is more aspirational than prior generations. We believe all of this ultimately could lead to greater demand for services like daycare, grocery delivery, meal preparation, and lifestyle concierges, as well as even greater reliance on e-commerce as a preferred channel.

**Grocery delivery appears an industry primed for disruption, once logistics are smoothed.**

Many new service concepts are gaining popularity behind this premise. Meal delivery companies like **Plated** and **Blue Apron** are appealing to Millennials' value for health & wellness (through ingredient and cooking process transparency) as well time. Grocery delivery appears an industry primed for disruption, once logistics are smoothed. The space is rapidly evolving through various "omnichannel" offerings such as retailers offering buy online pick-up in-store, third party delivery services, and traditional direct-to-consumer groceries. **Kroger** has been at the forefront as it acquired Vitacost.com and has been testing buy online pick-up in-store following its acquisition of Harris Teeter. Pure play online grocers are also sprouting up across the country, including **GoodEggs, Relay Foods, Door-to-Door Organics, and Greenling**, but these more regional players also must contend with expansion by **AmazonFresh and Peapod**, as well as logistics providers for traditional brick and mortar retailers, **Instacart and GoogleExpress**.

### **Value system – affinity for those that meet a unique (and changing) set of needs**

We believe at the heart of Millennials' decision tree lies a unique set of values that distinguishes them from Gen X'ers at a similar life stage. It's this set of values that we believe led Millennials to disrupt several industries along their way to parenthood, including teen retail, restaurants, and packaged food. While we believe many of these values are well documented (we outline them in our detail in the following section), they seem likely to remain dynamic along with the other drivers mentioned in this section.

## Trend #4: Millennials have proven to be highly disruptive so far

We believe this generation’s attitude towards brands is being shaped by a unique set of values, chief among them a more idealistic and aspirational lifestyle than prior generations. Technology is providing Millennial parents with a greater abundance of (instantly accessible) information, leading to changing consumption across many categories. We provide case studies below of Millennials disrupting the status quo.

### Examples of direct disruption in child-related categories

Millennials have been having kids for years, but only began to reach critical mass as parents a decade ago. Over that time, we have seen many examples of disruption directly in kids’ categories and across the family. We provide examples below.

#### Case Study #1: Toys – child development and entertainment

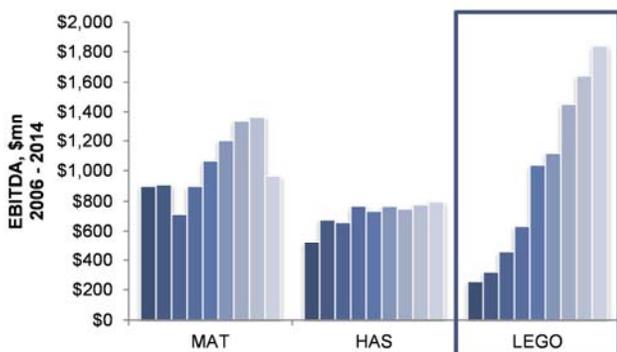
The \$22bn US toy industry is undergoing a dynamic period of change as technology, media, and retail disrupt the status quo. The category is growing (+4% in 2014) in the face of these headwinds and the composition of market share remains fluid. Our work shows Millennial parents placing a higher value on toys that are 1) geared towards child development and 2) are levered to entertainment.

We consider **LEGO** as an example of a company appealing to Millennials’ value for child development and creative play. Struggling a decade ago, LEGO now generates more EBITDA than Mattel and Hasbro combined (as of 2014). While improved execution played a part, we believe the appeal of LEGO’s open-ended play pattern and emphasis on learning and development have made it a top choice for Millennial parents. More recently, the company has embraced the industry’s movement towards entertainment properties with the 2014 release of *The LEGO Movie*, which grossed nearly \$500mn at the box office worldwide.

As outlined in Exhibit 29, entertainment properties have grown faster than non-entertainment in recent years. We view **Hasbro** as a leader in this strategy, with its multi-year content pipeline built on owned properties like Transformers, G.I. Joe, and My Little Pony and licensed properties, namely Star Wars, Marvel and, beginning in 2016, Frozen (all Disney properties).

**Exhibit 28: LEGO EBITDA vs. peers (2006 – 2014, \$mn)**

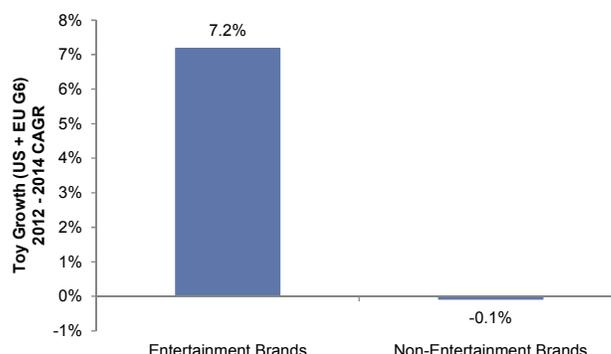
In 2014, LEGO’s EBITDA of \$1.8bn was greater than MAT and HAS combined



Source: Company filings

**Exhibit 29: Entertainment toy brands are gaining share**

Industry data suggests entertainment toys are driving industry growth



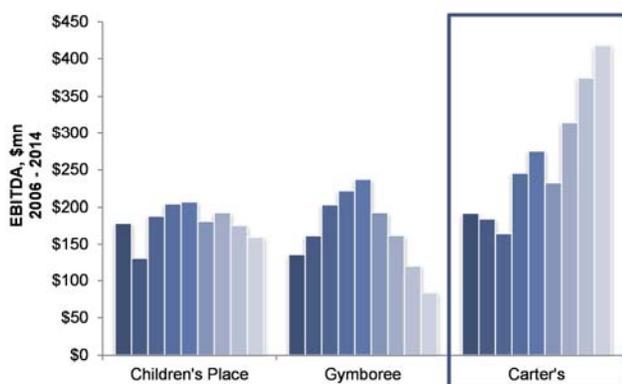
Source: NPD; Hasbro presentation

**Case study #2: Apparel – prioritizing value and convenience**

Within kids’ apparel, we believe value and convenience have emerged as attributes that appeal to Millennial parents. Exhibit 30 illustrates the EBITDA trajectories for **Children’s Place**, **Gymboree** and **Carter’s**, kids’ apparel brands that operate vertical distribution models (owned retail and e-commerce). Carter’s, where EBITDA has grown 22% per year since 2011 (versus -4% at Children’s Place and -21% at Gymboree), stands out as the disruptor within a mature and cyclically challenged category. We attribute the company’s outperformance to its expanded off-mall store footprint, large wholesale presence, and growing e-commerce channel (in addition to strong execution). Others in the industry, meanwhile, appear saddled with poor real estate exposure (i.e., on the mall) as Millennials become increasingly channel agnostic.

**Exhibit 30: Carter’s EBITDA vs. peers (2006 – 2014, \$mn)**

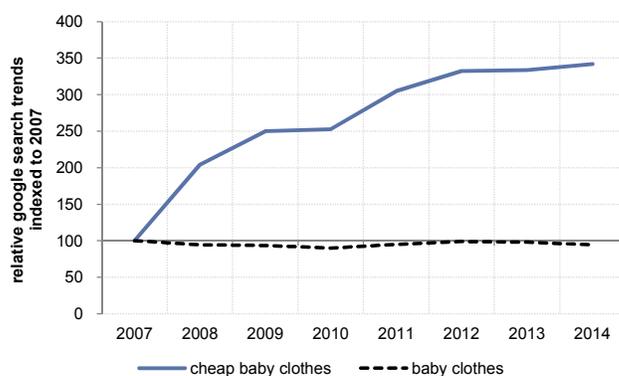
We attribute part of Carter’s outperformance to its lack of mall exposure and multi-channel distribution model



Source: Company filings; Goldman Sachs Global Investment Research

**Exhibit 31: Google search trends for baby clothes**

Outsized growth for “cheap baby clothes”, relative to “baby clothes”, points to Millennials’ appetite for value



Source: Google Trends; Goldman Sachs Global Investment Research

**Case Study #3: Durables – active lifestyle and technology**

Millennials have adopted innovation across a number of categories within durables which include premium strollers, baby carriers, and consumer electronics. We believe these success stories symbolize this generation’s new set of values.

- **Premium strollers.** A new category of premium strollers like **UPPABaby**, **Bugaboo**, and **Baby Jogger** (acquired by NewellRubbermaid in 2014) has spawned since Millennials entered parenthood a decade ago. Many of these brands have benefited from celebrity endorsements.
- **Baby carriers.** Companies like **BabyBjorn** and **Ergobaby** have been at the forefront of the rise of this category, allowing active Millennial parents to operate hands-free and without bulky equipment.
- **Consumer electronics.** Technology enabled devices like nanny cameras, baby monitors, and bottle warmers are examples of innovation new to this generation of parents. More recently, companies like **Sproutling** have joined the wearable technology movement through baby applications.

**Case Study #4: Mobile devices – age appropriate content, screen management**

We believe one of the outcomes of the changing media landscape is Millennial parents’ need to control, limit, and censor digital content being consumed by their families. Companies like **Fuhu** (owner of the **Nabi** tablet) have emerged with a unique point of view catered to families, while larger companies like **Amazon** and **Samsung** have introduced tailored products like the Fire HD Kids Edition and the Galaxy Tab 3, Kids Edition, respectively.

## Examples of disruption across the family

This new generation of parents and their unique set of values is leading to consumption disruption beyond businesses specifically catering to kids. Below are examples where Millennials' maturation into parenthood is coinciding with a new way of shopping for the entire family.

### **Case Study #5: Household & Personal Care – safer, less toxic**

Companies like **Seventh Generation** and **Mrs. Meyer's** have capitalized on growing demand for non-toxic and environmentally friendly household products. As Millennials form families, a subset of baby-oriented brands like **Babyganics** and **The Honest Company** is emerging with a unique narrative and point of view.

### **Case Study #6: Food – more transparent, more organic, more value conscious**

Millennials' value for wellness, organic, and authentic branding is affecting the entire food chain. Fast-casual restaurants like **Chipotle** and **Starbucks** are resonating with Millennials more than traditional fast-food chains like **McDonalds**.

In packaged food, while legacy brands have a sizeable installed base, their core portfolios require food quality upgrades to cater to Millennial preferences, increasing cost and investment. Legacy brands will likely also need to continue to invest in M&A as they seek access to growth and rebalance their portfolios. Companies such as **Campbell Soup** face uphill challenges as meals from a can fade in relevance and **Hershey** may prove vulnerable to a fading sweet tooth.

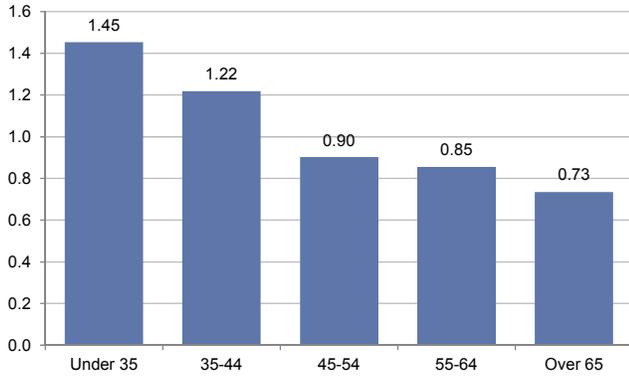
Millennials exhibit unique behavioral tendencies when it comes to consuming food compared to prior generations. Health is becoming increasingly important; however, Millennials tend to pursue an overall healthy lifestyle rather than dieting. To achieve that goal, they prefer natural and organic products and basic "real"/fresh food; they also seek transparency from food manufacturers and tend to avoid ingredients perceived to be artificial or unnatural. Simple ingredients and clear, easy to read labels are a couple of ways for food manufacturers to win with Millennials.

Millennials also have changing taste palates, with a greater willingness to seek variety and try ethnic foods. Also tied into increased willingness to experiment, Millennials have less of a reluctance to purchase private label products as they are a generation that has grown up in an environment where private label means more than cheapened versions of national brands and they seek value. We believe this will make it difficult for legacy food manufacturers to raise prices in conjunction with the requisite product quality upgrades.

**For information on Millennials' impact on the food vertical, see our research report titled "Millennial Munching" published on April 19, 2015. Exhibits 32-35 provide some insights gleaned from this report.**

**Exhibit 32: Millennials over-index in natural and organic purchases by 45%**

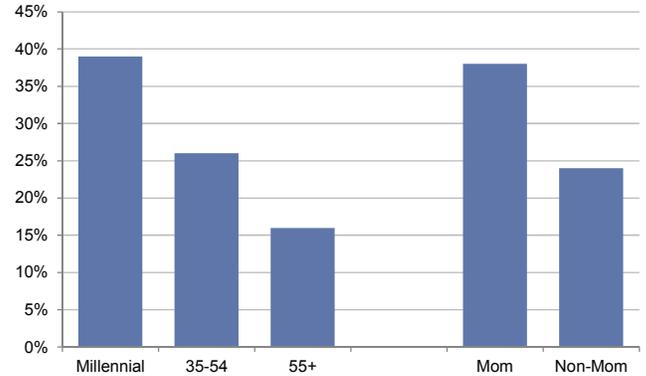
Index of natural and organic to total food by age cohort



Source: The Nielsen Company, Goldman Sachs Global Investment Research.

**Exhibit 33: Millennials seek transparency and want more information on food labels**

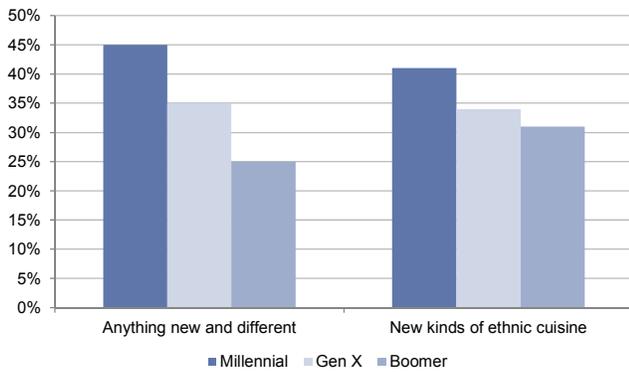
Percentage of consumers who want more information on food labels by age group



Source: International Food Information Council, Goldman Sachs Global Investment Research.

**Exhibit 34: Millennials are variety seekers and more willing to try new flavors and types of cuisine**

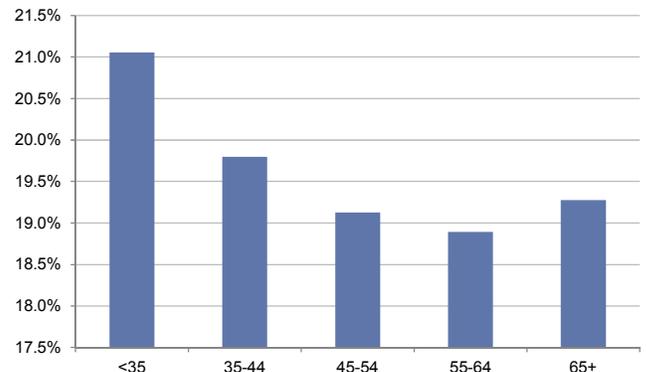
Taste preferences by generation



Source: The Hartman Group, Goldman Sachs Global Investment Research.

**Exhibit 35: Value matters to Millennials and they are more willing to buy private label than other generations**

Percentage of spend on PL by cohort



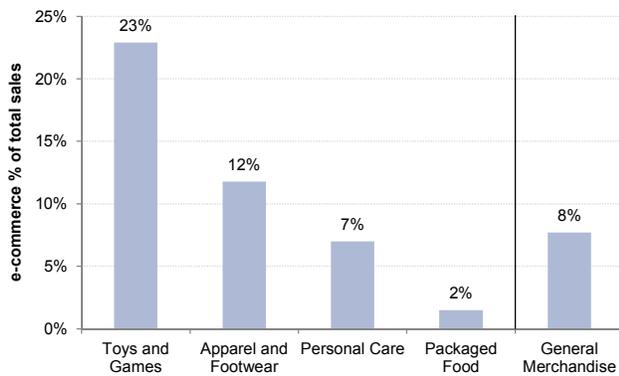
Source: The Nielsen Company, Goldman Sachs Global Investment Research.

**Case Study #7: Retail – convenience trumps physical boundaries**

E-commerce has proven to be one of the most disruptive forces across the consumer landscape over the past decade as all generations have embraced this channel’s growing benefits of convenience and price transparency. We believe Millennials, more so than other generations, are channel agnostic when it comes to commerce as they have grown up with mobile technology and use the internet more than older generations. We believe this is particularly true for categories most exposed to new parents, who are particularly time-starved. As illustrated in Exhibit 36, toys & games and apparel & footwear over-index relative to broader retail categories. However, online penetration is growing rapidly for most categories in retail..

**Exhibit 36: Online as a percent of select categories**

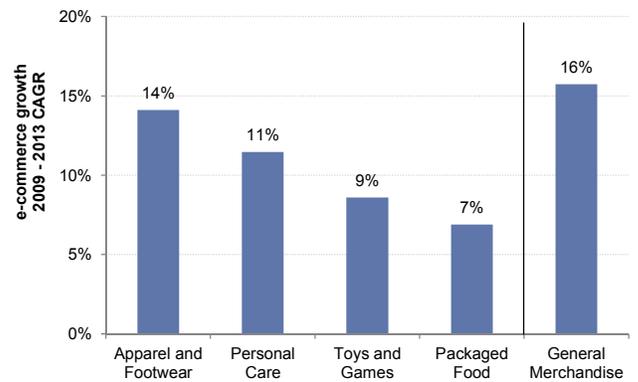
Based on 2013 data



Source: Euromonitor; Goldman Sachs Global Investment Research

**Exhibit 37: Online growth rates of select categories**

2009 – 2013 CAGR



Source: Euromonitor; Goldman Sachs Global Investment Research

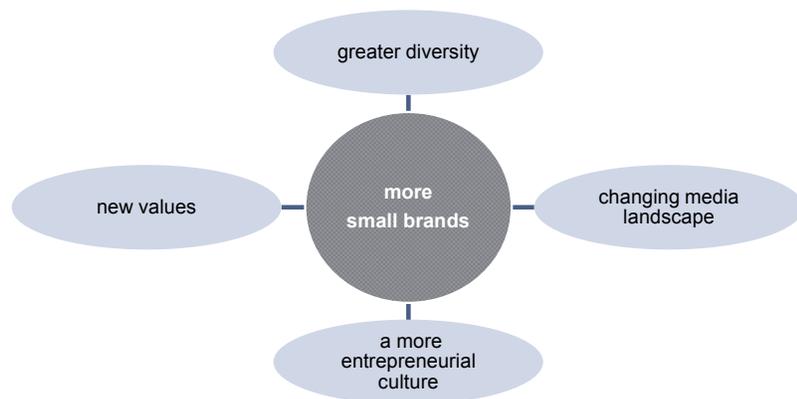
## Trend #5: Expect to see a continued rise of small brands

**Our work on Millennials leads us to expect a continued rise of smaller brands, many which are private, addressing the unique needs of Millennial parents through a more tailored approach than larger corporate incumbents.**

We see a growing culture of entrepreneurship, enabled by the likes of **Kickstarter**, **Shark Tank**, and **WeWork** and empowered by a growing number of success stories by fellow Millennials. Technology has also lowered the cost of entry, cultivating a new wave of small businesses that are directly engaging with consumers through digital, e-commerce, and social media channels. One of the greatest advantages for small brands, in our opinion, is their fresh starting point versus larger incumbents, which could face the challenges of inertia, corporate culture, and established brand DNA.

We believe we are still in the infant stages of this narrative. Exhibit 38 illustrates the drivers behind our view on the (continued) rise of small brands.

**Exhibit 38: Drivers of the rise of small brands**



Source: Goldman Sachs Global Investment Research

Evidence of this shift is already apparent in categories like food and personal care through the likes of **Annie's**, **Amy's Kitchen**, **KIND**, **Earth's Best**, **Ella's Kitchen**, **Seventh Generation**, **Plum Organics**, **BabyGanics**, **Tom's of Maine**, **Stonyfield Farm**, and **Burt's Bees** among others.

Within the toy sector, smaller brands like **Melissa & Doug**, **Magna Tiles**, **KidKraft**, and **Rainbow Loom** have gained momentum, while **Mattel**, a leading toy company of several brands including **Barbie**, has struggled. In restaurants, new fast casual concepts like **Pot Belly**, **Shake Shack** and **Noodles & Co** have tried to replicate the success of **Chipotle**, with fresh food served quickly as they chip away share from established players like **McDonald's**.

## Large brands can still thrive – Apple, Disney, Nike, and LEGO

As the number of small competitors grows, we expect large incumbents will have to adapt, acquire or lose market share.

We believe **Mattel**, cited above, is a prime example of a company in this situation. Its earnings and share price are much lower than just a few years ago due, in our view, to a combination of strategic complacency, overly bureaucratic corporate culture, rising competition, and changing consumer preferences. The company has, however, been financially disciplined, which puts it in a position to innovate out of its problems under new management. Incumbent brands with cash flow also have the ability to acquire startups and leverage their scale and distribution to accelerate growth.

While there are likely more cases that resemble the one at **Mattel**, we are not declaring the end of the mega brand. There are many powerful mega brands that continue to grow. Examples include **Apple** (\$735bn market cap), **Disney** (\$187bn market cap), **Nike** (\$88bn market cap) and **LEGO** (privately owned). All but Disney, which owns ESPN, Pixar, Marvel, and Lucasfilm, are effectively mono-branded operators that have managed not only to sustain but also grow their industry leading brands.

While we believe their success is a product of innovation, execution, and a culture that breeds success, we also believe these companies have also successfully segmented their brands in a way that markets them as smaller than they are. **Nike**, for example, has developed sub-brands like Jordan and Nike SB. **LEGO** has leveraged its brand halo across a series of products like LEGO City, Ninjago, *The LEGO Movie*, and several licensed properties.

## The rise of small brands could reprise retail's role as curator

We see an opportunity for retailers (and e-commerce companies) to evolve beyond the traditional role of merchandise purveyor.

Just as the abundance of digital content has required filtering mechanisms like a Twitter feed, we believe the potential proliferation of smaller brands will create a need for greater curation, inspiration, discovery, and personalization. Many of these roles have traditionally been managed by media companies, but the lines are becoming increasingly blurred between brands, retailers, e-commerce, and media.

A number of retailers are now specializing in small brand niches. **Zulily**, a flash site model, serves as a platform for brands that would otherwise be largely unknown to the Millennial Mom. **Diapers.com**, acquired by Amazon in 2010, offers parents a curated assortment of kids' brands with the convenience and pricing of its parent company. Millennials are also using **Pinterest**, an imaged-based social media platform, as inspiration across categories like fashion, home décor, and food.

## The potential for more industry consolidation

The combination of large legacy brands, slow economic growth, rise of small brands and low rates creates a scenario ripe for consolidation, in our view. We believe this is already under way in the food vertical, where market leading portfolio companies are acquiring brands that better align with Millennials through attributes like organic and non-GMO.

### What baby name trends tell us about Millennial views on branding

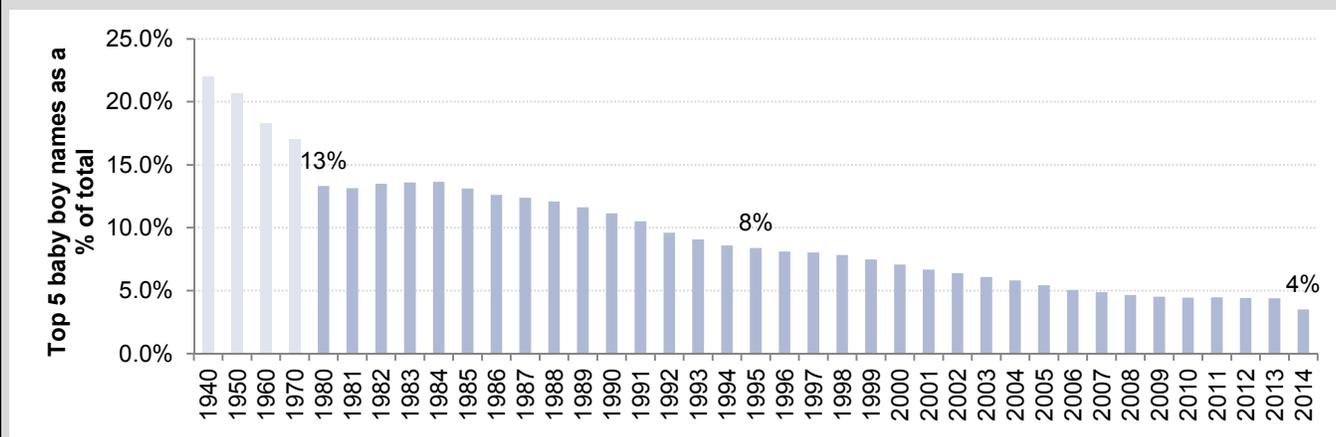
We see a set of parallel shifts, likely related, towards a more unique and personalized set of brand values. We turn to the history of baby names to possibly provide a window into evaluating parents' expression towards brands. For simplicity, we focus on baby boy names in the exercise below.

The first exhibit below illustrates the concentration of the top five baby boy names from 1940 through 2014, while the second lists the "market share" of the top baby boy name over the same period (it was "Michael" for 45 years until being displaced by "Jacob" in 1999).

The conclusion: new parents are choosing from a wider pool of baby names today, a change from the fairly uniform attitude observed during prior generations. We attribute this to a few things, including 1) greater diversity among parents and 2) an appetite for more differentiated and unique brands (which we believe names are).

#### Top five baby boy names as a % of all baby boys born in a given year

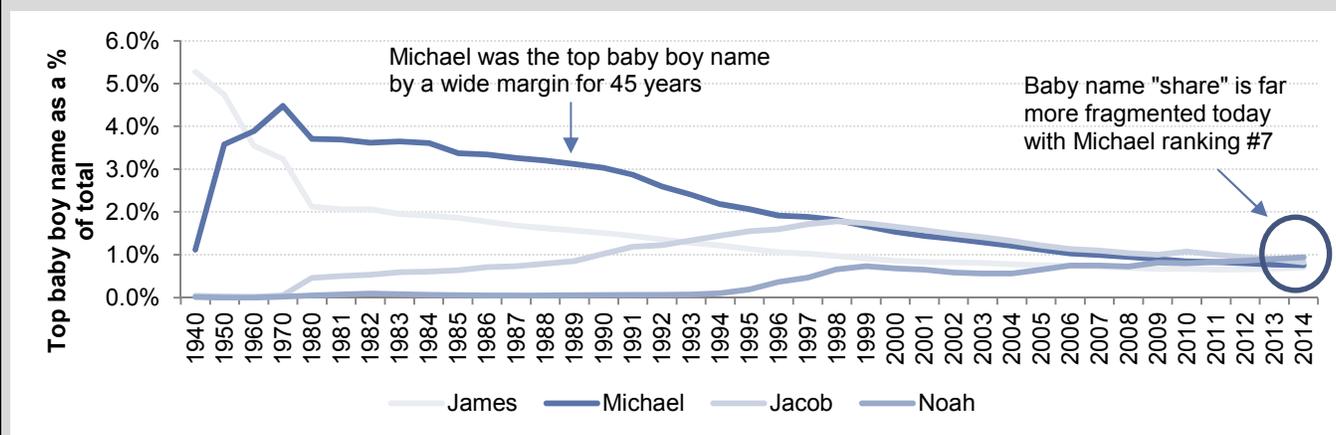
The odds of a baby boy being named Noah, Liam, Jacob or Mason in 2014 were the same as being named Michael in 1980



Source: Social Security Administration; Goldman Sachs Global Investment Research

#### History of the top baby boy name as a percentage of all baby boys born in a given year

Michael was the top name for baby boys for 45 years (1954-1998); it ranked #7 in 2014



Source: Social Security Administration; Goldman Sachs Global Investment Research

**Exhibit 39: 12-month price targets and key risks for covered stocks mentioned in this report**

Ticker	Current Rating	Price Target	Price 5/8/2015	Upside Potential	Time frame	Methodology	Key Risks
CRI	Buy	\$115	99.80	15%	12-months	FQ 5-8 P/E multiple	Competition, promotions, execution, retail traffic, price resistance.
HAS	Buy	\$86	71.22	21%	12-months	FQ 5-8 P/E multiple	Management turnover, Europe, FX, success of Marvel, Star Wars and Transformers franchises.
SBUX	Buy	\$57	49.78	15%	12-months	50-50 blend of DCF and a P/E multiple on our NTM, EPS	Evolution in the business model negatively impacting throughput, coffee or dairy re-inflation.
WEN	Neutral	\$11	11.08	-1%	12-months	50-50 blend of DCF and a EV/EBITDA multiple on our NTM, EBITC	Greater/(lower) than expected refranchising proceeds, above/(below) comps.
CMG	Buy	\$775	633.82	22%	12-months	50-50 blend of DCF and a P/E multiple on our NTM, EPS	Marketing spend increase reversed, survey data or traffic showed a delayed reaction to price.
MJN	Buy	\$128	96.00	33%	12-months	EV/EBITDA and M&A (30%)	Product quality issues, market share losses, or rising dairy prices.
ZU	Buy	\$16	13.30	20%	12-months	EV/EBITDA and EV/Sales M&A (15%)	Sustainability of customer growth, vendor acquisition and retention, rising customer acquisition costs.
WSM	Buy	\$89	77.01	16%	12-months	EV/EBITDA	Housing, global investments, shipping price pressure.
TGT	Neutral	\$81	80.74	0%	12-months	Relative P/E	Upside: Impact of cost cuts. Downside: lofty valuation, impact on investments in online.
WWAV	Neutral	\$42	46.10	-9%	12-months	EV/EBITDA and M&A (30%)	Better/worse volume or price, cost inflation, and M&A.

Source: CapIQ, Goldman Sachs Global Investment Research (Note: CRI, SBUX, and WSM are on the Americas Conviction List)

# Disclosure Appendix

## Reg AC

We, Taposh Bari, CFA, Matthew J. Fassler, Drew Borst, Lindsay Drucker Mann, CFA, Jason English, Karen Holthouse, Judy E. Hong, Stephen Grambling, CFA, Debra Schwartz, Heath P. Terry, CFA, Chad H. Sutherland, Rosalie Staes, Heather Bellini, CFA, Stephen Tanal, CFA, Gregory Lum, Sean King, Bill Schultz, Christopher Prykull, CFA, Katie Price, Chandni Luthra, Harsh Aneja, Jason Plawner, Edward McLaughlin, Alison Levens, Jayati Khurana, Freda Zhuo and Tina Sun, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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## Disclosures

### Coverage group(s) of stocks by primary analyst(s)

Taposh Bari, CFA: America - Footwear, America-SMID Apparel, America-SMID Consumer Discretionary, America-Toys. Matthew J. Fassler: America-Retail: Specialty Hardlines. Drew Borst: America-Media and Entertainment. Lindsay Drucker Mann, CFA: America-Athletic Apparel, America-Domestic Apparel, America-Global Apparel and Accessories. Jason English: America-Food: Packaged & Manufacturing, America-Household Products/Personal Care. Karen Holthouse: America-Restaurants. Judy E. Hong: America-Beverages US, America-Tobacco US. Stephen Grambling, CFA: America- Off-the-Mall Broadline Retailers, America-On-the-Mall Broadlines Retail, America-Retail Supermarkets. Debra Schwartz: America-Internet. Heath P. Terry, CFA: America-Internet. Heather Bellini, CFA: America-Software. Stephen Tanal, CFA: America-Retail: Specialty Hardlines.

America - Footwear: Crocs Inc., Deckers Outdoor Corp., Finish Line Inc., Foot Locker Inc., Steven Madden Ltd., Wolverine World Wide Inc..

America- Off-the-Mall Broadline Retailers: Burlington Stores Inc., Dollar General Corp., Dollar Tree Stores Inc., Family Dollar Stores Inc., Five Below Inc., Kohl's Corp., Ross Stores Inc., TJX Cos..

America-Athletic Apparel: Columbia Sportswear Co., lululemon athletica inc., Nike Inc., Under Armour Inc., VF Corp..

America-Beverages US: Boston Beer Co., Brown-Forman Corp., Coca-Cola Co., Coca-Cola Enterprises Inc., Constellation Brands, Cott Corp., Dean Foods Co., Dr Pepper Snapple Group, Keurig Green Mountain Inc., Molson Coors Brewing Co., Monster Beverage Corp., PepsiCo Inc., WhiteWave Foods Co..

America-Domestic Apparel: Abercrombie & Fitch, Aeropostale, American Eagle Outfitters Inc., ANN Inc., Chico's FAS Inc., Express Inc., Francesca's Holdings, Gap Inc., Urban Outfitters Inc., Vince Holding.

America-Food: Packaged & Manufacturing: Campbell Soup Co., ConAgra Inc., General Mills Inc., Hershey Co., J. M. Smucker Co., Kellogg Co., Kraft Foods Group, Mead Johnson Nutrition Co., Mondelez International Inc., Pinnacle Foods Inc., Post Holdings.

America-Global Apparel and Accessories: Coach Inc., Fossil Group Inc., L Brands Inc., Michael Kors Holdings, PVH Corp., Ralph Lauren Corp., Tiffany & Co., Tumi Holdings.

America-Household Products/Personal Care: Church & Dwight Co., Clorox Co., Colgate-Palmolive Co., Energizer Holdings, Estee Lauder Cos. Inc., Freshpet Inc., Kimberly-Clark Corp., Procter & Gamble Co..

America-Internet: Amazon.com Inc., AOL Inc., Bankrate Inc., Coupons Inc., Criteo SA, eBay Inc., Endurance International Group, Etsy Inc., Expedia Inc., Groupon Inc., GrubHub Inc., HomeAway Inc., IAC/InterActiveCorp, LendingClub Corp., LinkedIn Corp., MaxPoint Interactive Inc., Netflix Inc., Orbitz Worldwide Inc., Pandora Media Inc., Priceline.com Inc., RetailMeNot Inc., Rocket Fuel Inc., Rubicon Project Inc., Shutterfly Inc., TripAdvisor Inc., TrueCar, Twitter Inc., Wayfair Inc., WebMD Health Corp., Yahoo! Inc., Yelp Inc., Zillow Group, Zulily Inc., Zynga Inc..

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America-On-the-Mall Broadlines Retail: J.C. Penney Co., Macy's Inc., Nordstrom Inc..

America-Restaurants: Chipotle Mexican Grill Inc., Domino's Pizza Inc., Dunkin' Brands Group, McDonald's Corp., Panera Bread Co., Potbelly Corp., Restaurant Brands International Inc., Restaurant Brands International Inc., Shake Shack Inc., Starbucks Corp., The Wendy's Co., Yum! Brands Inc..

America-Retail Supermarkets: Aramark Holdings, Casey's General Stores Inc., Fresh Market Inc., Kroger Co., Sprouts Farmers Market Inc., Sunoco LP, SUPERVALU Inc., United Natural Foods Inc., Whole Foods Market Inc..

America-Retail: Specialty Hardlines: Advance Auto Parts Inc., AutoZone Inc., Bed Bath & Beyond Inc., Best Buy Co., Cabela's Inc., CarMax Inc., Costco Wholesale, Dick's Sporting Goods, Genuine Parts Co., GNC Holdings, Hibbett Sports Inc., Home Depot Inc., KAR Auction Services Inc., Lowe's Cos., Lumber Liquidators Holdings, Michaels Cos., O'Reilly Automotive Inc., Office Depot, Restoration Hardware Holdings, Sportsman's Warehouse Holdings, Staples Inc., Target Corp., Tractor Supply Co., Ulta Salon Cosmetics & Fragrance Inc., Vitamin Shoppe Inc., Wal-Mart Stores Inc., Williams-Sonoma Inc..

America-SMID Apparel: Ascena Retail Group, Carter's Inc., Children's Place Retail Stores Inc., Gildan Activewear Inc., Gildan Activewear Inc., Hanesbrands Inc..

America-SMID Consumer Discretionary: DSW Inc., Genesco Inc., Men's Wearhouse Inc., Sally Beauty Holdings, Sotheby's.

America-Software: Adobe Systems Inc., Akamai Technologies Inc., Autodesk Inc., Citrix Systems Inc., Facebook Inc., Google Inc., Jive Software Inc., Microsoft Corp., MobileIron Inc., Oracle Corp., Red Hat Inc., RingCentral, Salesforce.com Inc., VMware Inc., Workday Inc..

America-Tobacco US: Altria Group, Lorillard Inc., Philip Morris International Inc., Reynolds American Inc..

America-Toys: Hasbro Inc., Mattel Inc..

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