Two less pronounced themes to this point include margin risk and debt reduction.

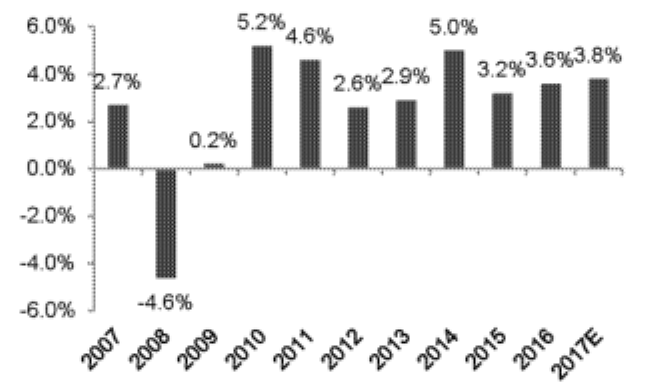
- In light of intense competition amongst food retailers, we are watchful to see what pricing concessions, if any, could be asked of the group. Kroger indicated on its 3Q17 earnings call its gross margin benefited from becoming, "significantly more diligent on lowering [its] cost of goods and negotiations with [its] vendors." Notably, **TreeHouse Foods (THS)** reduced its full year guidance when it reported 3Q17 results, driven in part by retail bid pricing compression in several segments. Packaged foods companies, like **PF**, growing the category and delivering innovation should benefit on a relative basis in terms of pricing negotiations.
- On the debt reduction front, **Alliance One International (AOI)** continues to execute on its F2018 plan to deliver improved EBITDA, which could provide capacity to repurchase an additional $25 million of 9.875% 2025 2nd Lien Notes at some point in the next six months. In light of this, we view a 12.25% YTW as adequate compensation for investors, as there are scarce opportunities to invest in potentially aggressive debt reduction stories.

A cheerful start to the 2017 holiday season

Holiday spending is expected to increase 3.6% to 4.0% YoY

The National Retail Federation expects holiday spending in the November through December period to increase 3.6% to 4.0% compared to the same period in 2016. This would represent the largest YoY improvement in the last three years, and retailers are hopeful more conservative inventory positions will benefit margins during the period.

Figure 2: YoY holiday sales expected to accelerate



Source: Deutsche Bank, National Retail Federation

Figure 3: Nov. Advance Retail Sales show improvement

	2017		2016	
		To Date		
	November	December	November	December
SA Advance Retail Sales				
Department Stores (excl. L.D.)	$12,755		$12,541	$12,507
Y/Y Change (%)	1.7%		-7.4%	-8.4%
Other General Merchandise Stores	$45,571		$43,762	$43,703
Y/Y Change (%)	4.1%		2.0%	0.8%
SpendTrend Dollar Volume				
Department Stores	-6.2%		-5.4%	-6.1%
Discount, Variety and Club Stores	5.1%		2.7%	5.4%
Grocery Stores	3.6%		0.2%	0.5%
Total Retail	3.1%		1.7%	3.6%
Retail Economist GS (formerly ICSC)	2.5%	3.2%	0.8%	1.5%
Redbook Department	1.2%	2.1%	0.8%	1.2%
Redbook Discount	4.9%	4.6%	1.4%	1.7%
Prodco N.A. Retail Traffic	-0.3%	-1.8%	-7.2%	-7.3%

Source: Deutsche Bank, U.S. Department of Commerce, Prodco, Bloomberg Finance LP, Redbook Research, ICSC

Black Friday/Thanksgiving retail sales up 9.3% YoY; online spending up 17.4%

The 2017 holiday shopping season got off to a strong start. First Data indicated retail spending, ex-grocery stores, restaurants, auto parts merchants and gas stations, rose 9.3% YoY for the two-day Black Friday/Thanksgiving period. Adobe reported online retail sales for Black Friday and Thanksgiving were $5.03 billion and $2.87 billion, respectively, up 17.4% YoY over the two day period. Cyber Monday was projected to generate in excess of $6.5 billion in online sales for a 16.8% YoY increase.