Consumer Staples Sector

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Agenda

- Overview
- Business Analysis
- Economic Analysis
- Financial Analysis
- Valuation Analysis
- Recommendations
Consumer Staples: non-cyclical goods that are always in demand regardless of how well the economy is performing.
Sector Overview

• Market Cap: 3.64 Trillion
• Percentage of S&P 500: 10.7%
• Percentage of SIM Portfolio: 11.54%

Based on GICS® sectors
The weightings for each sector of the index are rounded to the nearest tenth of a percent; therefore, the aggregate weights for the index may not equal 100%.
As Of Feb 29, 2016
### Industries in Sector

<table>
<thead>
<tr>
<th>Industry</th>
<th>Last % Change</th>
<th>YTD</th>
<th>1 - Year</th>
<th>3 - Year</th>
<th>5 - Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Staples</td>
<td>-0.26%</td>
<td>+3.50%</td>
<td>+6.63%</td>
<td>+32.15%</td>
<td>+77.13%</td>
</tr>
<tr>
<td>Beverages</td>
<td>-0.58%</td>
<td>+2.31%</td>
<td>+10.44%</td>
<td>+34.11%</td>
<td>+69.53%</td>
</tr>
<tr>
<td>Food &amp; Staples Retailing</td>
<td>+0.10%</td>
<td>+1.24%</td>
<td>-7.94%</td>
<td>+37.49%</td>
<td>+95.60%</td>
</tr>
<tr>
<td>Food Products</td>
<td>+0.12%</td>
<td>+2.47%</td>
<td>+14.90%</td>
<td>+37.54%</td>
<td>+86.42%</td>
</tr>
<tr>
<td>Household Products</td>
<td>-0.15%</td>
<td>+4.42%</td>
<td>+1.89%</td>
<td>+15.48%</td>
<td>+52.36%</td>
</tr>
<tr>
<td>Personal Products</td>
<td>-0.38%</td>
<td>+6.04%</td>
<td>+11.79%</td>
<td>+8.47%</td>
<td>+14.39%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>-0.80%</td>
<td>+8.28%</td>
<td>+24.15%</td>
<td>+41.50%</td>
<td>+97.58%</td>
</tr>
<tr>
<td>S&amp;P 500 © Index</td>
<td>-0.46%</td>
<td>-0.35%</td>
<td>-3.39%</td>
<td>+30.82%</td>
<td>+57.42%</td>
</tr>
</tbody>
</table>
Top Companies in Sector

- Procter & Gamble: $224.0 B
- Walmart: $216.0 B
- Coca-Cola: $196.8 B
- Anheuser-Busch: $196.2 B
- Philip Morris: $150.4 B
- PepsiCo: $147.3 B
- Altria Group: $120.2 B
- CVS: $110.7 B
- British American Tobacco: $105.9 B
- Kraft Heinz: $93.3 B
Companies in SIM Portfolio

Walmart

MOLSON Coors
Consumer Staples vs. S&P 500

03-23-2016  ■ Consumer Staples 3.50%  ■ S&P 500 INDEX -0.35%

Frequency: DAILY
Business Analysis
Business Cycle

![Business Cycle Diagram]

**Sector Performance by Business Cycle Phase**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Early</th>
<th>Mid</th>
<th>Late</th>
<th>Recession</th>
</tr>
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<tbody>
<tr>
<td>Consumer Staples</td>
<td>-</td>
<td>+</td>
<td>++</td>
<td>++</td>
</tr>
</tbody>
</table>

- ++ Consistently Overperform
- ++ Consistently Underperform
- + Overperform
- - Underperform
- - No Clear Pattern
Business Cycle Sensitivity

- Defensive sector
- Constant demand—consumers are unwilling or unable to cut out consumer staples products
- Low Beta
- Steady dividends
Porter’s Five Forces Model

- **Power of Suppliers**: Low
- **Number of Suppliers**: High
- **Price Flexibility**: Low

- **Power of Buyers**: High
- **Switching Costs**: Low
- **Price Sensitivity**: High
- **Brand Loyalty**: Moderate
Porter’s Five Forces Model

- Threat of New Entrants: Low
- Brand Recognition: High
- Economies of Scale: High
- Access to Distribution Channels: Low
- Threat of Substitutes: Low
- Demand: High
- Intensity of Rivalry: High
- Product Differentiation: Low
- Number of Competitors: High
Economic Analysis
Key Drivers

- Consumer Price Index
- Unemployment Rate
- Consumer Sentiment
- Commodity Price
- Exchange Rate
Consumer Sentiment

Normalized As Of 02/28/2006
Last Price
- S5CONS Index 221.54
- CONSENT Index 103.81
Exchange Rate
Consumer Staples VS S&P 500

Normalized As Of 03/17/2006
Last Price
- S5CONS Index 217.01
- SPX Index 155.74
Regression Analysis

Dep | S5CONS Index
---|------------------
Data | Last Price
---|------------------
03/25/2006

Indep | SPX Index
---|------------------
Data | Last Price
---|------------------
03/25/2013

90 Actions | Linear
---|------------------
Lag | 0

7 Edit | Non-Param
---|------------------
Winsorize | 2

Regression Analysis

Y = S&P 500 CONS STAPLES IDX
X = S&P 500 INDEX

Linear Beta
Raw BETA | 0.574
Adjusted BETA | 0.716
ALPHA (Intercept) | 0.100
R^2 (Correlation^2) | 0.679
R (Correlation) | 0.824
Std Dev of Error | 1.020
Std Error of ALPHA | 0.045
Std Error of BETA | 0.017
t-Test | 33.089
Significance | 0.000
Last t-Value | -0.072
Last P-Value | 0.471
Number of Points | 520
Last Spread | 1509.53
Last Ratio | 0.263
Outlook

- **US GDP**
  - Economy recovering to expansion stage
  - Stable and increasing
- **Unemployment Rate**
  - Strengthen purchasing power
- **Consumer Sentiment**
  - Strong consumer confidence
Outlook

• **Commodity Price**
  - Low prices increases profit margins

• **Exchange Rate**
  - Strong US dollar
  - Depreciation offsets international increasing revenue

• **Global Economy**
  - Slowing down emerging countries
Financial Analysis
Sector Sales Average Growth Rate (10 yrs): 5%
Earnings Growth Rate(Yoy): 7%
Average Sales Growth for the Largest Players: 3.7%

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<tbody>
<tr>
<td>Best Sales</td>
<td>212.34</td>
<td>225.71</td>
<td>251.47</td>
<td>290.97</td>
<td>290.37</td>
<td>306.3</td>
<td>350.54</td>
<td>357.35</td>
<td>366.52</td>
<td>388.46</td>
<td>371.73</td>
</tr>
<tr>
<td>% Growth</td>
<td>10%</td>
<td>6%</td>
<td>11%</td>
<td>16%</td>
<td>0%</td>
<td>5%</td>
<td>14%</td>
<td>2%</td>
<td>3%</td>
<td>6%</td>
<td>-4%</td>
</tr>
<tr>
<td>General earnings</td>
<td>12.79</td>
<td>13.22</td>
<td>15.4</td>
<td>17.95</td>
<td>18.46</td>
<td>19.41</td>
<td>20.93</td>
<td>22.18</td>
<td>23.98</td>
<td>24.256</td>
<td>24.7</td>
</tr>
<tr>
<td>% Growth</td>
<td>6%</td>
<td>3%</td>
<td>16%</td>
<td>17%</td>
<td>3%</td>
<td>5%</td>
<td>8%</td>
<td>6%</td>
<td>8%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Gross Margin % of sales</td>
<td>31.05</td>
<td>31.19</td>
<td>30.48</td>
<td>29.76</td>
<td>30.63</td>
<td>30.97</td>
<td>30.09</td>
<td>29.53</td>
<td>29.8</td>
<td>29.19</td>
<td>29.05</td>
</tr>
<tr>
<td>% Growth</td>
<td>-12%</td>
<td>-11%</td>
<td>0%</td>
<td>-8%</td>
<td>14%</td>
<td>0%</td>
<td>-5%</td>
<td>5%</td>
<td>11%</td>
<td>-11%</td>
<td>-2%</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>5.98</td>
<td>6.45</td>
<td>6.35</td>
<td>5.6</td>
<td>6.21</td>
<td>6.5</td>
<td>6.04</td>
<td>6.28</td>
<td>6.82</td>
<td>6.01</td>
<td>6.04</td>
</tr>
<tr>
<td>R&amp;D Expenditure</td>
<td>1.58</td>
<td>1.42</td>
<td>1.49</td>
<td>1.76</td>
<td>1.6</td>
<td>1.55</td>
<td>1.72</td>
<td>1.75</td>
<td>1.93</td>
<td>1.66</td>
<td>1.5</td>
</tr>
<tr>
<td>% Growth</td>
<td>3%</td>
<td>-10%</td>
<td>5%</td>
<td>18%</td>
<td>-9%</td>
<td>-3%</td>
<td>11%</td>
<td>2%</td>
<td>10%</td>
<td>-14%</td>
<td>-10%</td>
</tr>
</tbody>
</table>
Sales Growth Vs Earnings Growth

Sales Growth - Earnings Growth


Sales Growth vs Earnings Growth

-10% -5% 0% 5% 10% 15% 20%
Sector vs. S&P 500

[Graph showing historical performance of Sectors vs. S&P 500 for Profit Margin, Operating Margin, and Gross Margin over the years 2011 to 2016.]
Valuation Analysis
Absolute Data

- Consumer Staples Sector is expensive relative to history
- Current ratios near all time highs

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E</td>
<td>21.02</td>
<td>14.63</td>
<td>18.00</td>
<td>20.12</td>
</tr>
<tr>
<td>P/B</td>
<td>5.61</td>
<td>3.23</td>
<td>4.32</td>
<td>4.87</td>
</tr>
<tr>
<td>P/S</td>
<td>1.42</td>
<td>0.94</td>
<td>1.18</td>
<td>1.36</td>
</tr>
<tr>
<td>P/EBITDA</td>
<td>12.41</td>
<td>7.75</td>
<td>9.97</td>
<td>11.56</td>
</tr>
</tbody>
</table>
Relative to S&P 500

- P/E, P/B, & P/S expensive relative to history
- Historically, Consumer Staples trades at a premium to S&P 500 (Except P/S)

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<th>Low</th>
<th>Median</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E</td>
<td>1.26</td>
<td>0.59</td>
<td>1.06</td>
<td>1.20</td>
</tr>
<tr>
<td>P/B</td>
<td>1.95</td>
<td>1.33</td>
<td>1.66</td>
<td>1.92</td>
</tr>
<tr>
<td>P/S</td>
<td>1.06</td>
<td>0.69</td>
<td>0.79</td>
<td>0.82</td>
</tr>
<tr>
<td>P/EBITDA</td>
<td>1.64</td>
<td>0.98</td>
<td>1.26</td>
<td>0.98</td>
</tr>
</tbody>
</table>
Industry Comparison

- Positive earnings over the three time periods
- Food & Staples Retailing has most attractive P/S ratio but lowest P/E

<table>
<thead>
<tr>
<th></th>
<th>1 Month Return</th>
<th>3 Month Return</th>
<th>YTD Return</th>
<th>P/E</th>
<th>P/S</th>
<th>Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Staples Sector</td>
<td>1.20%</td>
<td>2.41%</td>
<td>3.24%</td>
<td>15.1</td>
<td>1.0</td>
<td>2.86%</td>
</tr>
<tr>
<td>Household &amp; Personal Product</td>
<td>1.32%</td>
<td>3.96%</td>
<td>4.55%</td>
<td>16.3</td>
<td>1.9</td>
<td>2.97%</td>
</tr>
<tr>
<td>Food, Beverage &amp; Tabacco</td>
<td>1.18%</td>
<td>2.57%</td>
<td>3.54%</td>
<td>14.9</td>
<td>1.5</td>
<td>3.11%</td>
</tr>
<tr>
<td>Food &amp; Staples Retailing</td>
<td>1.14%</td>
<td>0.64%</td>
<td>1.34%</td>
<td>14.3</td>
<td>0.4</td>
<td>2.05%</td>
</tr>
</tbody>
</table>
Total Return Relative to S&P 500

- Since the Financial Crisis the Consumer Staples Sector has underperformed
- If S&P 500 enters bear market, Consumer Staples will likely outperform

Source: Yardeni Research, Inc.
Technical Analysis

- A break through resistance
- Since Financial Crisis, Strong uptrend
Recommendation
While the Consumer Staples Sector appears expensive relative to the S&P 500, if the broad market enters a bear market market, the Consumer Staples Sector will likely outperform.

**Risk:** Underperform broad market rallies.

Source: Yardeni Research, Inc.
Industry Recommendations

Overweight: Food & Staples Retailing
• Lowest P/E ratio hint better value

Underweight: Household & Personal Products
• Higher P/E ratio hints less value
Questions?