Presentation Agenda

- Overview
- Business Analysis
- Economic Analysis
- Valuation Analysis
- Financial Analysis
- Recommendation
Overview
S&P 500 Sector Breakdown

- Consumer Discretionary: 15.29%
- Consumer Staples: 11.09%
- Energy: 3.64%
- Financials: 3.13%
- Health Care: 11.19%
- Industrials: 10.60%
- IT: 3.53%
- Materials: 19.40%
- Telecommunication: 10.67%
- Utilities: 11.47%

- Consumer Staples: the 5th largest sector
Size of the Sector (Market Cap.)

(as of Nov 2, 2010)

• S&P 500 = $10,819 billion
• Consumer Staples = $1,200 billion
• CS Sector accounts for 11.09% of S&P 500
• CS Sector accounts for 9.98% of SIM portfolio

➢ SIM currently under-weigh 111 basis points.
Consumer Staples:
- S&P 500: the 5th largest sector
- SIM: the 7th largest sector
List of Sector Industries

Industries segments in the sector:
- Agricultural Products
- Brewers
- Distiller & Vintners
- Food Distributors
- Household Products
- Hypermarkets & Supercenters – Walmart
- Packaged Foods/Meats
- Personal Products - P&G
- Retail Drugs - CVS
- Retail Food
- Soft Drinks
- Tobacco

- 12 industries => very diversified
- SIM Portfolio: CVS, P&G & Walmart
The Largest Companies in the Sector
(Market Cap as at Nov 3, 2010)

- **Wal-Mart:**
  - Market Cap: $200.16 billion
  - Stock Price: $54.91

- **Procter & Gamble:**
  - Market Cap: $180.41 billion
  - Stock Price: $64.75

- **CVS Caremark:**
  - Market Cap: $42.25 billion
  - Stock Price: $31.23
# Performance of Consumer Staples vs S&P 500

<table>
<thead>
<tr>
<th>Index Name</th>
<th>MTD</th>
<th>QTD</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>0.87%</td>
<td>4.59%</td>
<td>7.04%</td>
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<tr>
<td>Cons Disc</td>
<td>1.03%</td>
<td>6.38%</td>
<td>19.26%</td>
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<tr>
<td>Cons Staples</td>
<td>0.35%</td>
<td>3.17%</td>
<td>8.43%</td>
</tr>
<tr>
<td>Energy</td>
<td>1.40%</td>
<td>7.04%</td>
<td>4.38%</td>
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<tr>
<td>Financials</td>
<td>0.25%</td>
<td>1.62%</td>
<td>1.31%</td>
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<tr>
<td>Health Care</td>
<td>0.95%</td>
<td>3.02%</td>
<td>0.61%</td>
</tr>
<tr>
<td>Industrials</td>
<td>0.88%</td>
<td>3.48%</td>
<td>15.33%</td>
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<tr>
<td>Info Tech</td>
<td>1.27%</td>
<td>7.80%</td>
<td>6.97%</td>
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<tr>
<td>Materials</td>
<td>0.91%</td>
<td>7.54%</td>
<td>8.83%</td>
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<tr>
<td>Telecom Svc</td>
<td>1.20%</td>
<td>1.08%</td>
<td>7.17%</td>
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<tr>
<td>Utilities</td>
<td>0.32%</td>
<td>1.26%</td>
<td>2.14%</td>
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</tbody>
</table>

- Outperform S&P 500 on YTD basis; but
- Underperform S&P 500 on MTD & QTD basis
Business Analysis
Life Cycle

- Domestic: Mature
- International: Growth
Sector Traits

• Defensive Sector
  • Consumer Staples consists of primarily of nondurable goods
  • Tend to have stable results
  • Relatively recession resistant based on stable inelastic demand

• Domestic Market
  • Sector dominated by large, established companies

• International Market
  • Emerging markets have increasing need
Sector Traits

- High Consumer Power
  - Many choices and price points from main players
  - Items tend to be low margin
  - Aggressive competition from private labels
  - Many substitutes with low differentiation
  - Compete based on price and selection

- High Barriers to Entry
  - Established domestic market with mature companies
  - New entrant would face high capital requirements and would not be able to obtain lowest pricing from vendors to compete with major players
Sector Traits

- Intense Competition
  - Driven by price sensitive consumers (especially in recessionary times)
- Growth Opportunities
  - Increase brand awareness to create loyalty.
  - Show value brand names provide which outweigh price premiums
  - Emerging markets are greatest source of potential growth
    - United States based companies will have to deal with regulations, foreign exchange fluctuations, and politics
    - Emerging markets tend to be more cyclical
Money Talks
Economic Analysis
Economic Factors

- Consumer Staples less sensitive to economic cycles
- As emerging market grows and competition strengthens, consumer become more price sensitive
- Leads to stalled revenue growth and lower product margin
  - When commodity prices increase quickly, difficult to pass expense increase to consumer; erodes margin
- Branded goods are continuing to globalize and brands are consolidating
- Foreign exchange rate fluctuations cannot be predicted; create risk exposure for companies’ trying to manage P&L expectations
- Low interest rates are enticing companies to obtain debt for international expansions
- Other factors to consider:
  - GDP
  - Unemployment
  - Trade balances with major countries
Financial Analysis
The consumer staples sector has experienced an average growth rate of 8.6% since 2005.

Unlike the S & P 500, consumer staples has not experienced a single year-to-year decrease in earnings for the past 5 years.
From 2005 to 2009, consumer staples has experienced an average growth rate of 8.2% while the S & P 500 has experienced a 1.6%.

The difference in revenue between consumer staples and SPX has recently began to contract.
Revenue Trends - Industry Breakup

- Personal products experienced the fastest growth rate among all of the industries with an annual average increase of 17% in revenues per share.
- Tobacco was the laggard with revenues decreasing at an average annual rate of 4.4%.
Dividend Payout

CONSUMER STAPLES (SPCNS) 11/05/10
Dividend Yield .......... 2.8%

S&P 500 (SPX) 11/05/10
Dividend Yield .......... 1.8%

Dividends - 4 Quarter Moving Average
5 Year Growth Rate: 12%

Per Share

05 06 07 08 09 10

0.10 1.10 1.30 1.50 1.70 1.90 2.10

05 06 07 08 09 10

5.10 6.10 7.10 8.10 9.10 10.10
Margins and ROE

Consumer Staples

SPX

Net Profit Margin
EBITDA Margin
ROE
Valuation Analysis
<table>
<thead>
<tr>
<th>Name</th>
<th>Trailing P/E</th>
<th>Forward P/E</th>
<th>Price to Book</th>
<th>Price to EBITDA</th>
<th>Price to Sales</th>
<th>Price to CF</th>
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<tr>
<td>Agricultural Products</td>
<td>10.2</td>
<td>10.1</td>
<td>1.4</td>
<td>5.02</td>
<td>0.3</td>
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<td>Archer Daniels Midland Co. (ADM)</td>
<td>10.3</td>
<td>10.1</td>
<td>1.3</td>
<td>5.08</td>
<td>0.3</td>
<td>7</td>
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<td>Brewers</td>
<td>13.3</td>
<td>13.8</td>
<td>1.3</td>
<td>8.01</td>
<td>2.5</td>
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<td>Molson Coors Brewing Co. (TAP)</td>
<td>12.8</td>
<td>13.4</td>
<td>1.3</td>
<td>9.2</td>
<td>2.9</td>
<td>10.2</td>
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<td>Distillers and Vintners</td>
<td>18</td>
<td>15.6</td>
<td>3.8</td>
<td>6.28</td>
<td>1.9</td>
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<tr>
<td>Brown-Forman Corp (BFB)</td>
<td>20.7</td>
<td>19</td>
<td>4.7</td>
<td>12.11</td>
<td>2.8</td>
<td>18.3</td>
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<td>Food Distributors</td>
<td>16</td>
<td>15</td>
<td>4.4</td>
<td>7.95</td>
<td>0.5</td>
<td>11.8</td>
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<td>Sysco Corp (SYY)</td>
<td>16</td>
<td>15.2</td>
<td>4.4</td>
<td>7.88</td>
<td>0.5</td>
<td>11.8</td>
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<td>Household Products</td>
<td>15.6</td>
<td>15.8</td>
<td>3.6</td>
<td>9.12</td>
<td>2.2</td>
<td>12.3</td>
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<td>Proctor &amp; Gamble (PG)</td>
<td>16</td>
<td>15.9</td>
<td>3</td>
<td>9.32</td>
<td>2.3</td>
<td>12.7</td>
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<tr>
<td>Kimberly-Clark Corp. (KMB)</td>
<td>13.6</td>
<td>13</td>
<td>4.8</td>
<td>6.99</td>
<td>1.3</td>
<td>9.5</td>
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<tr>
<td>Hypermarkets and Supercenters</td>
<td>15.5</td>
<td>14.2</td>
<td>2.8</td>
<td>4.63</td>
<td>0.3</td>
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<tr>
<td>Wal-Mart Stores Inc (WMT)</td>
<td>14.3</td>
<td>13.1</td>
<td>2.9</td>
<td>6.61</td>
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<td>Costco Wholesale Corp. (COST)</td>
<td>22.3</td>
<td>19.9</td>
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<td>10.18</td>
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<td>Packaged Foods/Meats</td>
<td>15.4</td>
<td>14.8</td>
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<td>General Mills Inc (GIS)</td>
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<td>3.7</td>
<td>8.76</td>
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<tr>
<td>Personal products</td>
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<td>Avon Products (AVP)</td>
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<td>8.33</td>
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<td>Retail-Drug</td>
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<td>12.5</td>
<td>1.5</td>
<td>6.33</td>
<td>0.5</td>
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<td>CVS Caremark Corp (CVS)</td>
<td>11.4</td>
<td>11</td>
<td>1.2</td>
<td>5.4</td>
<td>0.4</td>
<td>8.3</td>
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<td>Walgreen Co (WAG)</td>
<td>15.3</td>
<td>14</td>
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<td>7.3</td>
<td>0.5</td>
<td>10.6</td>
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<td>Retail-Food</td>
<td>17.9</td>
<td>14</td>
<td>2.2</td>
<td>0.47</td>
<td>0.2</td>
<td>5.4</td>
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<td>Kroger Co. (KR)</td>
<td>14</td>
<td>2.9</td>
<td>12.4</td>
<td>0.19</td>
<td>0.2</td>
<td>5.6</td>
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<td>Soft Drinks</td>
<td>17.9</td>
<td>16.1</td>
<td>5.3</td>
<td>10.03</td>
<td>2.4</td>
<td>13.4</td>
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<td>Coca-Cola Co. (KO)</td>
<td>18.2</td>
<td>16.7</td>
<td>5.8</td>
<td>12.14</td>
<td>4.5</td>
<td>15.7</td>
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<td>Tobacco</td>
<td>15.3</td>
<td>14</td>
<td>14.9</td>
<td>8.63</td>
<td>3</td>
<td>13.8</td>
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<td>Altria Group Inc. (MO)</td>
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<td>13.1</td>
<td>12.8</td>
<td>7.74</td>
<td>2.2</td>
<td>13.2</td>
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</table>
Trailing P/E – Industry Breakup

- Most industries are trading at lower than their historical 10-year median.
- Personal products industry currently has the highest trailing P/E at 20.0x while the agricultural products industry has the lowest at 10.2x.
Technical Analysis
Recommendation

We recommend to “MAINTAIN” the current 10% weighing of Consumer Staples in the portfolio.

Negative:
- Sector stock performance lagged behind S&P 500 for the last quarter
- Lingering Economic Uncertainty => affect consumer confidence:
  - Double-dip
  - Unemployment rate
  - Property price

Positive:
- Relatively defensive & noncyclical
- Stable growth rate

Others:
- Forthcoming holiday season (may already reflected in the stock price)
Q&A
Thanks you!!!