Consumer Staples

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Agenda

- Overview
- Business Analysis
- Economic Analysis
- Financial Analysis
- Valuation Analysis
- Recommendations
Overview

- Companies that provide a product or service that is essential
  - Food, Beverages, pharmacies, hygiene
  - Non-durable Household items and Consumer Supercenters

- Consumer staples tend to be less sensitive to economic cycles
Con Staples in S&P 500

- Number of Companies: 40
- Mean of Companies Market Cap: 42687.55M
- S&P 500 Weight: 10.09%

Performance

<table>
<thead>
<tr>
<th>Total Returns</th>
<th>QTD</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Staples</td>
<td>3.98%</td>
<td>20.70%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>3.17%</td>
<td>23.60%</td>
</tr>
</tbody>
</table>
Big Names In Consumer Staples

- P&G Procter & Gamble
- Coca-Cola
- Anheuser-Busch
- Phillip Morris
- HERSHEY'S
- Walmart
- CVS/pharmacy
Consumer Staples Sector weight: 8.47%

Two Companies in Portfolio

Wal-Mart Stores Inc. and CVS Caremark Corp.

<table>
<thead>
<tr>
<th></th>
<th>weight (%)</th>
</tr>
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<tbody>
<tr>
<td>CVS</td>
<td>4.58</td>
</tr>
<tr>
<td>WMT</td>
<td>3.91</td>
</tr>
</tbody>
</table>
Cons Staples is underweight. (-1.62%)
Business Analysis
Domestically, it is in the mature stage of the life cycle

- Slow growth, high dividend, stable return
Business Cycle Sensitivity

- Consumer Staples is a defensive and non-cyclical sector, demand is not dependent upon economic conditions

- Demand for their goods remains relatively constant even during the recession period
## Sector Performance By Business Cycle Phase

<table>
<thead>
<tr>
<th>Sector</th>
<th>Early</th>
<th>Mid</th>
<th>Late</th>
<th>Recession</th>
<th>Sector</th>
<th>Early</th>
<th>Mid</th>
<th>Late</th>
<th>Recession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>+</td>
<td></td>
<td></td>
<td></td>
<td>Cons Staples</td>
<td></td>
<td></td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Cons Disc</td>
<td>+</td>
<td></td>
<td>-</td>
<td>-</td>
<td>Health Care</td>
<td></td>
<td></td>
<td>+</td>
<td>+</td>
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<tr>
<td>Technology</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>-</td>
<td>Energy</td>
<td></td>
<td></td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td></td>
<td>Telecom</td>
<td></td>
<td></td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>Materials</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td></td>
<td>Utilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>+</td>
</tr>
</tbody>
</table>

The table indicates the performance of different sectors across various business cycle phases, with positive (+) and negative (-) signs indicating performance levels.
Trade Strategy

- A defensive sector will outperform when equity markets are more bearish and underperform when bullish.

- The best timing is to buy during the transition from a bull to a bear market.
Economic Analysis
Relative real GDP

REAL GROSS DOMESTIC PRODUCT and CONSUMER STAPLES

% Chg, Q/Q, SAAR

Lag: 0 Months  r = -0.06

Oct 17, 2013

SPCNS

425.8  426

382  337  293  249  205

03  04  05  06  07  08  09  10  11  12  13

-15 -10 -5  0  5  10
Relative Disposable Income

DISPOSABLE INCOME and CONSUMER STAPLES

% Chg. Yr Ago  Lag: 0 Months  r = -0.18

Oct 17, 2013

SPCNS

425.8

426

382

337

293

249

205

03 04 05 06 07 08 09 10 11 12 13

0 5 10 15 20 25 30 35 40 45
Relative Consumer Confidence

CONSUMER CONFIDENCE and CONSUMER STAPLES

Chg. Yr. Ago

Lag: 0 Months  r = .13

Oct 17, 2013

SPCNS

425.8

426

395

364

332

301

270

239

208
10 yrs Treasure

10 YEAR TREASURY YIELD and CONSUMER STAPLES

Percent

Lag: 0 Months r = -0.73

Oct 17, 2013

SPCNS

425.8

426

382

339

295

252

208

03 04 05 06 07 08 09 10 11 12 13
Financial Analysis
Earnings Growth

**Sector**

Earnings - 4 Quarter Moving Average

5 Yr Hist Growth Rate: 6%
Long Term Future Growth Rate: 9%

**Industry**

Earnings - 4 Quarter Moving Average

5 Yr Hist Growth Rate: 10%
Long Term Future Growth Rate: 10%
Earnings Relative to S&P
Revenue Growth

**Sector**

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: 5%

(Per Share Data)

**Industry**

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: 6%

(Per Share Data)
EBITDA Margin
Sector Net Margin

Net Profit Margin
- high: 6.3
- low: 5.1
- median: 5.4
- current: 5.5

Net Profit Margin Relative to S&P 500
- high: .8
- low: .6
- median: .6
- current: .6
Sector ROE
High dividend paying stocks
Indicates steady growth in free cash flow
Free Cash Flow (WMT & TAP)

Wal-Mart

Coors
Valuation Analysis
Industry P/E’s

**Brewers**

- **Forward P/E Range**
  - S&P 500 Forward P/E 15

**Retail Drugs**

- **Forward P/E Range**
  - S&P 500 Forward P/E 15

**Soft Drinks**

- **Forward P/E Range**
  - S&P 500 Forward P/E 15

**Supermarkets**

- **Forward P/E Range**
  - S&P 500 Forward P/E 15
Analysis of Ratios

- **Price to Earnings**
  - Expect to realign with S&P
  - Sector has very established earnings and pricing history
  - Investors will not further inflate the price of such a stock

- **Price to Sales**
  - Expect to stay relatively the same
  - Margins are very thin for sector
  - High amount of sales is expected and generally does not yield a higher price

- **Dividend Yield**
  - Expect dividends to remain above S&P
  - Dividends are a main reason investors are attracted to the sector
Recommendations

- Add weight to get back inline with the S&P
  - Defensive stocks
  - Beta .52 relative to S&P
- Healthcare retailer’s sales are greatly increasing
  - CVS 15% in 2012
- Dividend payers
  - Sector has high cash flow to investors
  - Margins are thin, therefore, earnings have little effect on investor behavior
- True long-term growth opportunity
  - Important to have stocks that will continue to add safe returns
Questions ?