Consumer Discretionary

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Agenda

• Overview
• Business Analysis
• Economic Analysis
• Financial Analysis
• Valuation Analysis
• Recommendation
Overview

Industries | Size | Key Companies | Performance
Industries

- Total sector market cap: 9.05T

- Industries:
  - Retailing (S&P500 4.72%)
  - Media (S&P500 3.62%)
  - Consumer services (S&P500 1.76%)
  - Consumer durables and apparel (S&P500 1.36%)
  - Automobiles and components (S&P500 1.10%)
S&P 500
12.55%

SIM
8.40%
Underweight 4.15%

Size
<table>
<thead>
<tr>
<th>Public Member Companies</th>
<th>Mkt Cap</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>WALT DISNEY CO</td>
<td>180.90B</td>
<td>48.81B</td>
</tr>
<tr>
<td>AMAZON.COM INC</td>
<td>172.09B</td>
<td>88.99B</td>
</tr>
<tr>
<td>HOME DEPOT INC</td>
<td>151.31B</td>
<td>83.18B</td>
</tr>
<tr>
<td>COMCAST CORP-A</td>
<td>149.90B</td>
<td>68.78B</td>
</tr>
<tr>
<td>MCDONALDS CORP</td>
<td>92.60B</td>
<td>27.44B</td>
</tr>
<tr>
<td>NIKE INC -CL B</td>
<td>82.77B</td>
<td>27.80B</td>
</tr>
<tr>
<td>LOWE'S COS INC</td>
<td>72.15B</td>
<td>56.22B</td>
</tr>
<tr>
<td>TWENTY-FIRST C-A</td>
<td>71.50B</td>
<td>31.87B</td>
</tr>
<tr>
<td>STARBUCKS CORP</td>
<td>69.95B</td>
<td>16.45B</td>
</tr>
<tr>
<td>TIME WARNER INC</td>
<td>69.84B</td>
<td>27.36B</td>
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</tbody>
</table>
Performance (Quarterly 10Y)
Performance (YTD)
Business Analysis

Sector Fluctuations | Demand | Porter’s Five Forces
Sector Fluctuations vs. S&P 500

• Over performs: During expansion and recovery
• Underperforms: During contraction or recession
Business Analysis: Demand

• Consists of businesses that sell nonessential goods and services.
  • Retailers, media companies, consumer services companies, consumer durables and apparel companies, and automobiles and components companies.
  • Highly cyclical – Very Sensitive
Porter’s Five Forces

• **Barriers to Entry – Medium**
  • Much advantage for established companies
  • New competition can enter on smaller level and more niche areas.
  • Use preexisting networks for better deals.
  • Large overhead costs in some industries.

• **Buyer Power – Strong**
  • Consumer has many options, companies must compete with each other and leisure activities.

• **Supplier Power – Weak**
  • Manufacturing and auto industries may have increasing production costs.
  • Weaker for industries with a strong union presence, ex. Auto and Movie.

• **Substitutes – High**
  • Industries can easily be substituted based on consumer preference
  • Many alternatives with similar products.

• **Competition – Medium / High**
  • Very high for retail, restaurant, and apparel companies.
  • Oligopoly competition in industries dominated by fewer firms (Automobile industry).
Economic Analysis

Retail Sales | Personal Income | CPI | Nominal GDP | Unemployment | Underemployment | UM Consumer Sentiment
Retail Sales
Personal Income
CPI YoY
Nominal GDP US Vs. Europe
Unemployment Rate
Underemployment
UM Consumer Sentiment
Financial Analysis

Sales Growth Rate | Net Profit Margin | ROE | FCF
Sales Growth Rate (Sector)

- Plummeted in 2009 and leapt in 2013
• Auto & Compo industry had plummeted in sales since 2007, and rebounded in 2013
• Media industry remained relatively high growth rate in the sector
• Retailing industry remained stable in sales growth rate
Net Profit Margin

• Underperformed the market
ROE

- Has outperformed the market since 2009 and remain a slightly increasing trend
FCF

<table>
<thead>
<tr>
<th>Year</th>
<th>S5COND</th>
<th>S5RETL</th>
<th>S5MEDA</th>
<th>S5CODU</th>
<th>S5HOTR</th>
<th>S5AUCO</th>
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<td>2007</td>
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<td>2008</td>
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<td>2016</td>
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<td>Current</td>
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<td>Est</td>
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%
Valuation Analysis

Multiple Valuation | Sector Relative to S&P 500 | Industry Multiples
# Multiple Valuation (10Y)

<table>
<thead>
<tr>
<th>Absolute Basis</th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
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<tbody>
<tr>
<td>P/E</td>
<td>436.1344</td>
<td>13.2769</td>
<td>23.1095</td>
<td>22.1629</td>
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<tr>
<td>P/B</td>
<td>4.9983</td>
<td>1.4222</td>
<td>2.9722</td>
<td>4.9983</td>
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<tr>
<td>P/S</td>
<td>1.5487</td>
<td>0.3805</td>
<td>1.0070</td>
<td>1.5477</td>
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<tr>
<td>P/EBITDA</td>
<td>11.1036</td>
<td>3.6741</td>
<td>7.5266</td>
<td>10.6440</td>
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<table>
<thead>
<tr>
<th>Relative to S&amp;P 500</th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E</td>
<td>26.3133</td>
<td>0.9494</td>
<td>1.551</td>
<td>1.1798</td>
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<tr>
<td>P/B</td>
<td>1.7271</td>
<td>0.7699</td>
<td>1.243</td>
<td>1.7211</td>
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<tr>
<td>P/S</td>
<td>0.9066</td>
<td>0.4903</td>
<td>0.7109</td>
<td>0.8426</td>
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<tr>
<td>P/EBITDA</td>
<td>1.2434</td>
<td>0.8763</td>
<td>1.047</td>
<td>1.0707</td>
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<td>P/CF</td>
<td>2.6695</td>
<td>0.4277</td>
<td>1.134</td>
<td>1.2201</td>
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</tbody>
</table>
Sector relative to S&P 500

P/E

P/B

P/S

P/CF

COND  S&P 500

COND  S&P 500

COND  S&P 500

COND  S&P 500
Industry Multiples

P/E

P/B

P/S

P/CF
Recommendation

Underweight
Thank You!