

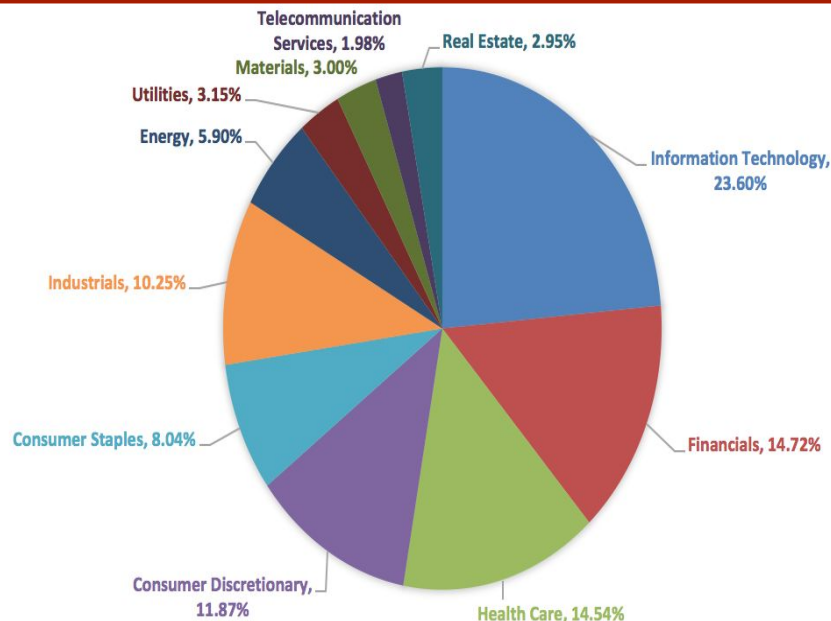
# CONSUMER DISCRETIONARY STOCK PRESENTATIONS

**Presentations and Recommendations given by Devara  
Aryasta and Ashley Faulkner**

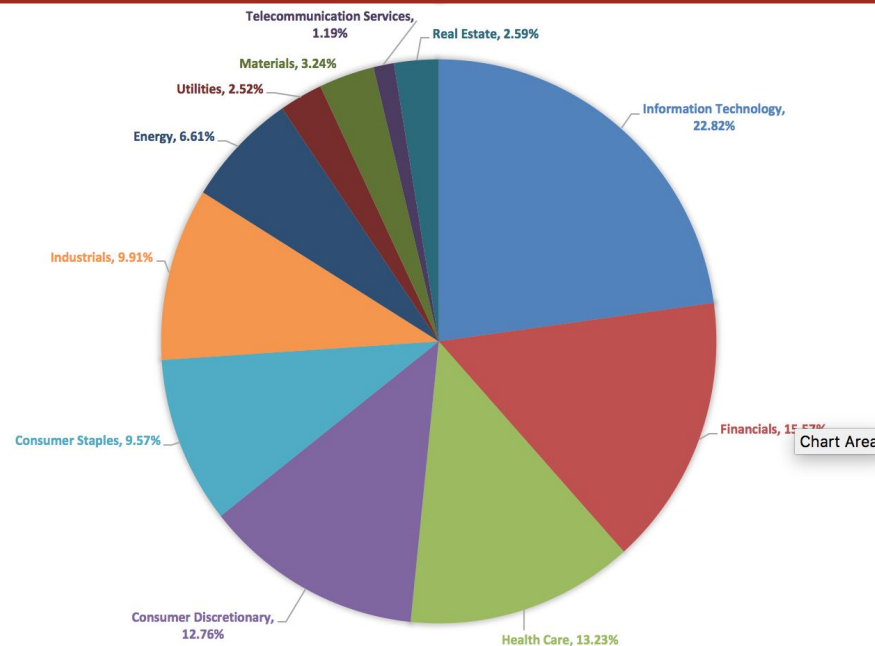
# AGENDA

- Overview of the Consumer Discretionary sector
- Recommendation: Buy or Sell?
- Analysis of Stocks :
  - SCI
  - GM
  - Amazon
  - Starbucks
  - L Brands
- Price Target
- Conclusion
- Questions

# SECTOR INFORMATION - CONSUMER DISCRETIONARY



Securities Allocation: Versus the S&P500



Securities Allocation: Versus the SIM Portfolio

As of October, SIM's consumer discretionary overweight the S&P500 by 0.89%

# OVERVIEW OF SECTOR - CONSUMER DISCRETIONARY

## Sector Performance by Business Cycle Phase

Sector	Early	Mid	Late	Recession
Consumer Discretionary	++		--	
++ Consistently Overperform	-- Consistently Underperform	□ No Clear Pattern		
+ Overperform	- Underperform			

- Market Cap is \$5,100 Billion
- Has 83 constituents

- Consumer Discretionary is a highly cyclical sector. Its business cycle closely matches the economy.
- We see the sector over perform the S&P500 in an economic expansion and underperform in a recession

We are holding three stocks from the Consumer Discretionary sector in our SIM portfolio:

1. Amazon (with 4.89% OR 489 bps of total assets)
2. General Motors (with 5.63% OR 563 bps of total assets)
3. SCI (with 2.23% OR 223 bps of total assets)

# RECOMMENDATION: BUY OR SELL?

	Current Basis	Proposed Basis	Current Price	Target Price	Upside /Downside	Buy, Sell, Hold?
Service Corporation International (SCI)	223	248	\$35.98	\$40.00	+11.17%	BUY
General Motors (GM)	563	450	\$42.66	\$59.99	+40.62%	SELL (in portfolio) BUY (otherwise)
Amazon (AMZN)	489	489	\$1,129.22	\$1,250	+10.70%	HOLD (in portfolio) BUY (otherwise)
L Brands (LB)	0	100	\$49.99	\$66.33	+32.68%	BUY
Starbucks (SBUX)	0	0	\$56.93	\$62.00	+8.91%	NO ACTION



# SERVICE CORPORATION INTERNATIONAL (SCI)

# COMPANY DESCRIPTION

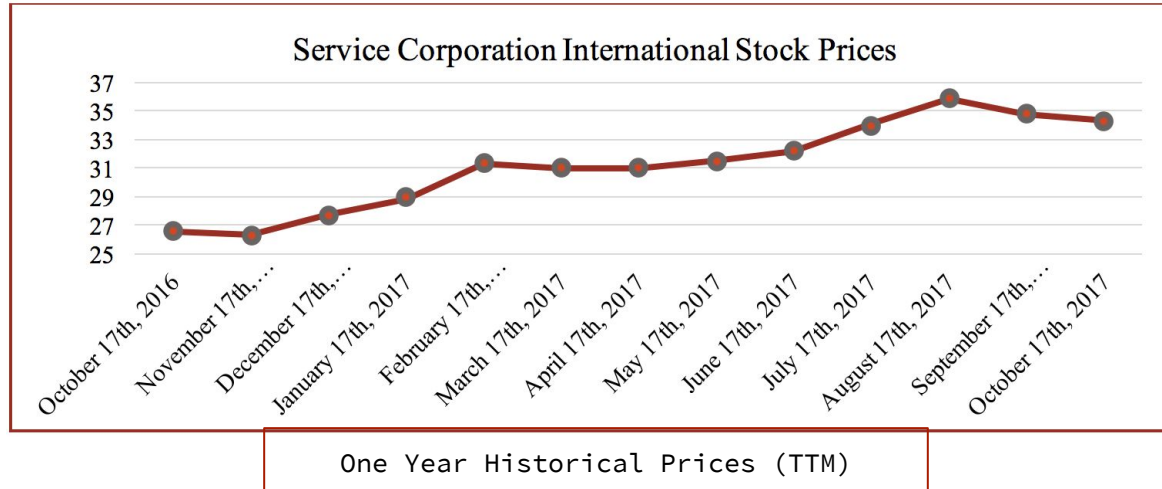
The United States' largest provider of funeral and cemetery services.

Founded in 1962, the company's original strategy was to obtain efficiency of business and to reduce overhead by sharing resources.

Partnering with other firms led to numerous mergers and acquisitions. Their business strategy became extremely popular in the industry and SCI grew at an incredible rate.

What began with a single funeral home, is now, 55 years later, a company that owns 2,000 funeral service locations and cemeteries in the United States and 20 countries worldwide.

# DISCUSSION OF STOCK - BUSINESS ANALYSIS



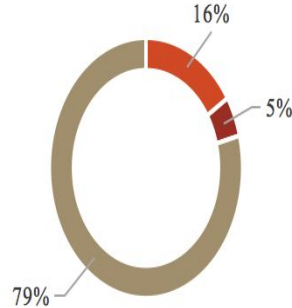
Market Capitalization	Diluted Shares Outstanding	Dividend Yield	52 Wk Price Range
\$6.36B	187.47M	+1.65%	\$25.23-\$36.56



# DISCUSSION OF STOCK - BUSINESS ANALYSIS

## MARKET SHARE INFORMATION

### PERCENT OF MARKET SHARE IN THE DEATH-CARE INDUSTRY



▪ **SERVICE CORPORATION INTERNATIONAL**

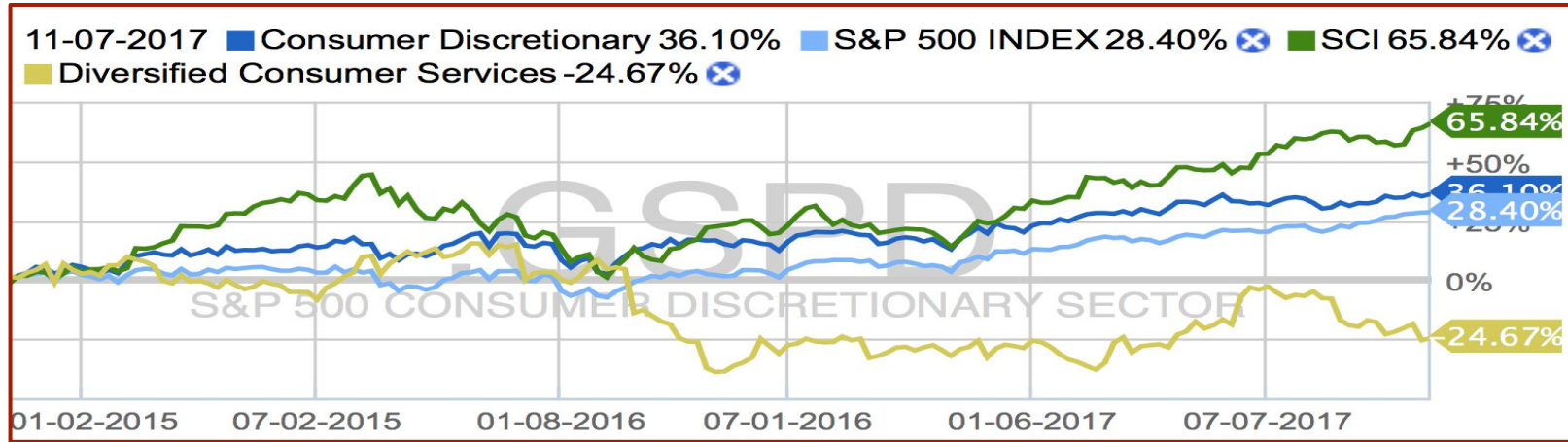
▪ **OTHER LARGE CONSOLIDATORS (STONEMOR, CARRIAGE SERVICES, ARBOR, ECT.)**

▪ **INDEPENDENT FUNERAL HOMES**

## KEY BUSINESS DRIVERS

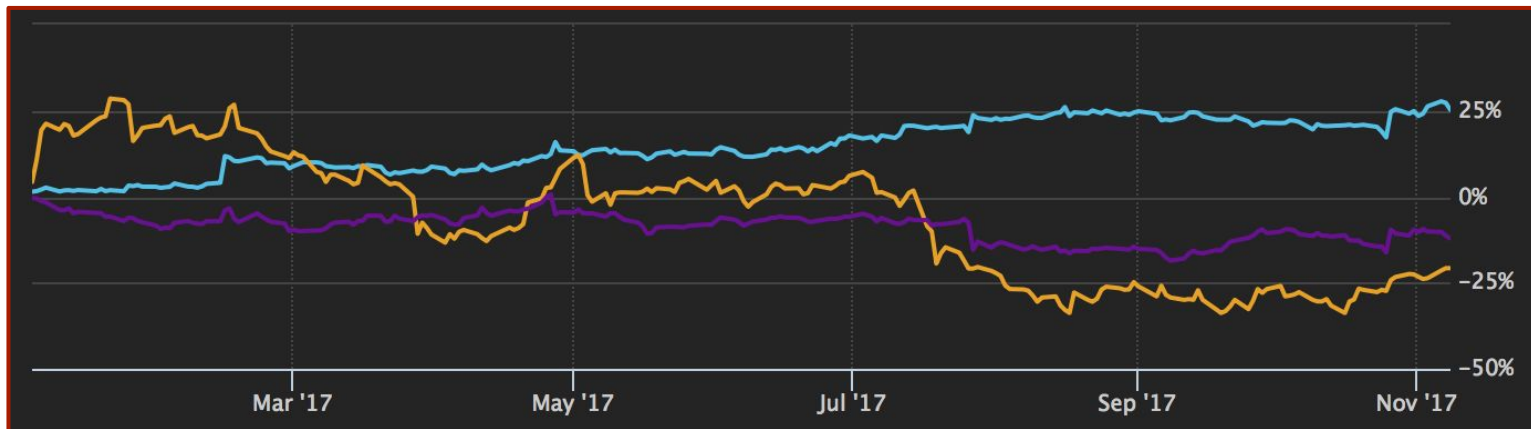
- SCI's addressable market is expected to grow exponentially with the amount of baby boomers aging over 60
  - 14.9% increase from 2016-2020
- Growth drivers include new corporate governance, enhanced internal controls, and a new training program for all employees
- Low inflation, interest rates, and President Trump's pending tax cuts are great for SCI

# 3-YEAR RETURNS FOR SECTOR, INDUSTRY, INDEX, AND SCI



- **65.84%** → Service Corporation International (SCI)
- **36.10%** → Sector - Consumer Discretionary
- **28.40%** → Index - S&P500
- **-24.67%** → Industry - Diversified Consumer Services

# YTD GROWTH PERFORMANCE COMPARED TO COMPETITORS



- Service Corporation International (SCI) → Blue
- Carriage Services (CSV) → Purple
- Stonemor Partners (STON) → Yellow

# BUSINESS/FINANCIAL COMPARISON TO COMPETITORS

	Service Corporation International (SCI)	Carriage Services (CSV)	Stonemor (STON)
Share Price (\$)	\$35.98	\$25.98	\$7.39
Price Performance Over the Past 52 Weeks (% change)	+43.19%	+7.08%	-14.84%
EPS (\$)	\$1.90	\$1.03	-\$1.00
Revenue (TTM)	\$3.1 Billion	\$255.9 Million	\$331.0 Million
Number of Employees	23,463	2,509	3,220
ROE (% change from 2007-2017)	+95.89%	-750.66%	+31.29%
ROIC (% change from 2007-2017)	+19.58%	-51.20%	-19.74%

# FINANCIALS FOR SCI IN THE PAST AND CURRENTLY

	10-Year Historical Data (2007)	Current Data (TTM)
Net Income (\$)	248M	366M
EPS (\$)	0.85	1.90
Free Cash Flow (\$)	199M	291M
Operating Margin (%)	15.1	18.5
Gross Margin (%)	20.5	23.3

Current data shows that the company is doing much better than it was 10 years ago. When looking to the future, with the immense growth in the industry and other positive macroeconomic factors, we would expect these financials to increase.

# VALUATION MULTIPLES COMPARED TO INDUSTRY AND INDEX

	Service Corporation International (SCI)	Industry	S&P500 (SPX)
Price to Earnings	18.7	23.5	22.3
Price to Book	5.4	10.2	3.1
Price to Sales	2.2	1.8	2.2
Price to Cash Flow	13.8	12.8	13.8

- SCI performs equally, if not better than the industry or index in P/B, P/S, and P/CF
- SCI underperformed in comparison to the industry and index for P/E but the other multiples show that the company isn't suffering

# DISCOUNTED CASH FLOW STATEMENT (DCF)

Service Corporation International (SCI)

Ashley Faulkner  
9/19/17

Terminal Discount Rate = 9.5%  
Terminal FCF Growth = 5.0%

(Values in the Thousands)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Revenue</b>	2,404,430	2,550,466	2,994,011	2,986,041	3,031,137	3,076,914	3,123,382	3,170,553	3,218,435	3,267,041	3,316,381	3,366,465	3,417,307	3,468,916	3,521,304	3,574,484
% Growth	3.82%	6.1%	17.4%	-0.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
<b>Operating Income</b>	399,370	387,656	607,549	550,298	511,885	519,616	527,463	535,429	543,515	551,723	560,056	568,514	577,100	585,815	594,662	603,643
Operating Margin	16.6%	15.2%	20.3%	18.4%	16.9%	16.9%	16.9%	16.9%	16.9%	16.9%	16.9%	16.9%	16.9%	16.9%	16.9%	16.9%
<b>Income from Cont. Operations (Before Tax)</b>	245,283	245,206	402,600	370,351	326,658	331,591	336,599	341,682	346,843	352,081	357,398	362,796	368,275	373,836	379,482	385,213
Interest % of Revenue	10.2%	9.6%	13.4%	12.4%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
<b>Taxes</b>	56,608	52,333	75,293	66,108	68,048	69,076	70,119	71,178	72,253	73,344	74,451	75,576	76,717	77,876	79,052	80,246
Tax Rate %	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%
<b>Net Income from Discontinued Operations</b>	262.00	406.00	2,186.00	(390.00)	0.00	69.58	104.37	156.55	158.917372	161.317385	163.753644	166.226696	168.737096	171.285410	173.872208	176.498073
% of Revenue	0.0109%	0.0159%	0.0730%	-0.0131%	0.0000%	0.0023%	0.0033%	0.0049%	0.0049%	0.0049%	0.0049%	0.0049%	0.0049%	0.0049%	0.0049%	0.0049%
<b>Net Income</b>	<b>302,153</b>	<b>297,945</b>	<b>480,079</b>	<b>436,069</b>	<b>394,706</b>	<b>400,736</b>	<b>406,822</b>	<b>413,017</b>	<b>419,254</b>	<b>425,586</b>	<b>432,013</b>	<b>438,538</b>	<b>445,161</b>	<b>451,883</b>	<b>458,708</b>	<b>465,635</b>
% Growth		-1.4%	61.1%	-9.2%	-9.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
<b>Add Depreciation/Amort</b>	119,862	122,235	140,002	141,456	147,233	149,457	151,714	154,005	154,005	156,331	156,331	156,331	156,331	156,331	156,331	156,331
% of Revenue	5.0%	4.8%	4.7%	4.7%	4.9%	4.9%	4.9%	4.9%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
<b>Plus/(minus) Changes WC</b>	16,203	104,972	(34,393)	(9,762)	10,531	10,690	10,851	11,015	11,182	11,351	11,522	11,696	11,873	12,052	12,234	12,419
% of Revenue	0.7%	4.1%	-1.1%	-0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
<b>Subtract Cap Ex</b>	(115,322)	(112,939)	(144,499)	(150,986)	(193,446)	(196,367)	(199,333)	(202,343)	(200,320)	(200,320)	(200,320)	(200,320)	(200,320)	(200,320)	(200,320)	(200,320)
Capex % of Revenue	-4.8%	-4.4%	-4.8%	-5.1%	-6.4%	-6.4%	-6.4%	-6.4%	-6.4%	-6.1%	-6.0%	-6.0%	-5.9%	-5.8%	-5.7%	-5.6%
<b>Free Cash Flow</b>	<b>\$ 322,896</b>	<b>\$ 412,213</b>	<b>\$ 441,189</b>	<b>\$ 416,777</b>	<b>\$ 359,024</b>	<b>\$ 364,516</b>	<b>\$ 370,054</b>	<b>\$ 375,694</b>	<b>\$ 384,121</b>	<b>\$ 392,947</b>	<b>\$ 399,546</b>	<b>\$ 406,244</b>	<b>\$ 413,044</b>	<b>\$ 419,946</b>	<b>\$ 426,953</b>	<b>\$ 434,065</b>
% Growth		27.7%	7.0%	-5.5%	-13.9%	2%	1.5%	1.5%	2.2%	2.3%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%

NPV of Cash Flows	2,609,100	39%
NPV of Terminal Value	4,086,865	61%
Projected Equity Value	6,695,965	100%
Free Cash Flow Yield	5.44%	

Current P/E	22.2	22.5	14.0
Projected P/E	22.2	22.5	13.9
Current EV/EBITDA	18.7	19.0	13.0
Projected EV/EBITDA	18.7	19.0	13.0

Shares Outstanding	193,042
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Current Price	\$ 34.70
Implied equity value/share	\$ 34.69
Upside/(Downside) to DCF	0.0%

Debt	\$ 3,196,616.0
Cash	\$ 194,986.0
Cash/share	1.01

Terminal Value	10,128,181
Free Cash Yield	4.29%
Terminal P/E	21.8
Terminal EV/EBITDA	3.9

# DISCOUNTED CASH FLOW OVERVIEW

- The company is looking at a growth rate of +1.5% for Revenues each year
- Growth in the Operating Income (about 16.9% every year), increases in Working Capital (4.5% a year) and Amortization (.03% per year), are offset by the decrease in CapEx of -6.9% per year.
- Even with the large decline in CapEx, resulting Free Cash Flow still is positive and growing at about +1.7% every year.

DCF Modeling: Implied P/E

	Discount Rate												
	9.00%	9.25%	9.50%	9.75%	10.00%	10.25%	10.50%	10.75%	11.00%	11.25%	11.50%	11.75%	12.00%
Terminal Growth Rate	0.00%	11.1	10.8	10.5	10.3	10.0	9.8	9.5	9.3	9.1	8.9	8.7	8.5
	0.25%	11.5	11.1	10.8	10.6	10.3	10.0	9.8	9.5	9.3	9.1	8.9	8.7
	0.50%	11.8	11.5	11.2	10.9	10.6	10.3	10.1	9.8	9.6	9.3	9.1	8.9
	0.75%	12.2	11.9	11.5	11.2	10.9	10.6	10.3	10.1	9.8	9.6	9.4	9.2
	1.00%	12.6	12.2	11.9	11.5	11.2	10.9	10.6	10.4	10.1	9.9	9.6	9.4
	1.25%	13.1	12.7	12.3	11.9	11.6	11.3	10.9	10.7	10.4	10.1	9.9	9.6
	1.50%	13.5	13.1	12.7	12.3	11.9	11.6	11.3	11.0	10.7	10.4	10.2	9.9
	1.75%	14.0	13.6	13.1	12.7	12.3	12.0	11.6	11.3	11.0	10.7	10.4	10.2
	2.00%	14.6	14.1	13.6	13.2	12.8	12.4	12.0	11.7	11.3	11.0	10.7	10.5
	2.25%	15.1	14.6	14.1	13.6	13.2	12.8	12.4	12.0	11.7	11.4	11.1	10.8
	2.50%	15.8	15.2	14.6	14.1	13.7	13.2	12.8	12.4	12.1	11.7	11.4	11.1
	2.75%	16.4	15.8	15.2	14.7	14.2	13.7	13.3	12.8	12.5	12.1	11.7	11.4
	3.00%	17.2	16.5	15.8	15.3	14.7	14.2	13.7	13.3	12.9	12.5	12.1	11.8
	3.25%	18.0	17.2	16.5	15.9	15.3	14.8	14.2	13.8	13.3	12.9	12.5	12.1
	3.50%	18.8	18.0	17.3	16.6	15.9	15.3	14.8	14.3	13.8	13.4	12.9	12.5
	3.75%	19.8	18.9	18.0	17.3	16.6	16.0	15.4	14.8	14.3	13.8	13.4	13.0
	4.00%	20.8	19.8	18.9	18.1	17.3	16.6	16.0	15.4	14.9	14.3	13.9	13.4
	4.25%	21.9	20.9	19.9	19.0	18.1	17.4	16.7	16.0	15.4	14.9	14.4	13.9
	4.50%	23.2	22.0	20.9	19.9	19.0	18.2	17.4	16.7	16.1	15.5	14.9	14.4
	4.75%	24.6	23.3	22.1	21.0	20.0	19.0	18.2	17.5	16.8	16.1	15.5	15.0
	5.00%	26.3	24.7	23.3	22.1	21.0	20.0	19.1	18.3	17.5	16.8	16.2	15.6
	5.25%	28.1	26.3	24.8	23.4	22.2	21.1	20.0	19.1	18.3	17.5	16.8	16.2
	5.50%	30.1	28.1	26.4	24.8	23.4	22.2	21.1	20.1	19.2	18.3	17.6	16.9
	5.75%	32.5	30.2	28.2	26.4	24.9	23.5	22.3	21.2	20.1	19.2	18.4	17.6
	6.00%	35.3	32.6	30.3	28.3	26.5	24.9	23.6	22.3	21.2	20.2	19.3	18.4

The Implied P/E is 23.3, which results in a Discount Rate of 9.5% and a Terminal Growth Rate of 5.0%



## RECOMMENDATION FOR SCI

**BUY**

- $(\text{Target Price} \div \text{Current Price}) - 1$
- $(\$40.00 \div \$35.98) - 1 = 11.17\%$
- $223 \text{ current basis points} \times 11.17\%$   
 $= 247.916 \text{ total basis points}$
- BUY ~25 basis points

- Future addressable market, numerous growth drivers within the company/industry, huge market share over competitors
- Superior performance and resources in comparison to competitors, industry, index, and sector
- Macroeconomic factors that will help the company do well now and in the future
- Financial data that has shows tremendous growth in the past 10 years
- Valuation Multiples that are better or the same as index/industry standards
- Increased revenue for the coming years, operating income, working capital, amortization, and FCF projected for the next decade

# RISKS TO RECOMMENDATION FOR SCI

1. Economic downturn (recession) would lead to less disposable income for consumers to spend in consumer discretionary and Service Corp Intl.
2. Increased inflation and/or interest rates will again lead to decreased disposable income spent in the sector/in the firm
3. Possibility of tax changes leading to increased payments for the US citizens → less disposable income (not likely with what's proposed but always possible)

# GENERAL MOTORS (GM)

# COMPANY DESCRIPTION

Founded in 1908, GM designs builds, and sells cars, trucks, crossovers, and automobile parts. In addition, GM offers vehicle protection, parts, accessories, maintenance, and auto financing. The four major brands include Buick, Chevrolet, Cadillac, and GMC. GM manufactures in over 30 countries, with sales in over 120 nations. The company is headquartered in Detroit, MI and has about 225,000 employees worldwide.

Industry:  
Automobiles & Components

Primary competitors:  
FCAU, F, Toyota, TSLA

## MARKET DATA

Market Cap. (B USD)	60.594
Shares Out. (B)	1.420
52 Wk. Price Range	31.92-46.76
Fwd Dividend (Yld)	1.52 (3.65%)

## FINANCIAL DATA (FY2016)

Revenue (B USD)	166.380
Rev. Growth (YoY)	9.20%
Op. Income (B USD)	9.545



# BUSINESS SEGMENTS

	Three Months Ended				Nine Months Ended			
	30-Sep-17		30-Sep-16		30-Sep-17		30-Sep-16	
GMNA	762	70%	1,030	77%	2,596	73%	2,908	76%
GMIO(a)	136	13%	160	12%	452	13%	500	13%
GMSA	185	17%	153	11%	487	14%	400	11%
Total	1,083	100%	1,343	100%	3,535	100%	3,808	100%

(a) Wholesale vehicle sales include 37 and 24 vehicles related to transactions with the European Business for the three months ended September 30, 2017 and 131 and 94 vehicles for the nine months ended September 30, 2017 and 2016.

Table 1: Total wholesale vehicle sales of new vehicles by automotive segment (Source: 10-Q)

- Majority of GM's revenue comes from its North America operation. However, this year revenue has **declined** for North America operation compared to last year as the Company chose to dial back production due to decrease in demand for cars in the U.S.
- GM Auto accounts for 92% of total revenue where GM Finance accounts for 8% of total revenue.

# GM GROWTH DRIVERS

- Electrification, autonomous vehicles, and car- and ride-sharing initiatives.
- Improved global economic growth.
- Shift in auto industry due to technological advances and change in customer preferences.
- Cost restructuring initiatives.
- Acquisitions to accelerate innovation.
- Cheap oil prices.

# GM GROWTH INHIBITORS

- Excess inventory problem
- Protectionist policies by the foreign government
- Sluggish economic growth
- Ongoing and pending litigation cases that costs billions of dollars.

# ACQUISITIONS

- On May 2016, GM acquired Cruise Automation Inc., an autonomous vehicle technology company, to further accelerate its development on self-driving vehicles.
- On October 2017, GM acquired Strobe, a company who invented the latest laser/radar technology that will drastically improve the cost and capabilities of GM's self driving vehicles.
- In 2016, GM invested \$500 million and owns 9% stake of ride hailing company, Lyft Inc. The value of Lyft has doubled since.

# FINANCIAL ANALYSIS

## Income Statement Projections

Year	2014	2015	2016
<b>Sales Growth (%)</b>			
General Motors Company	0.3	-2.3	9.2
Ford Motor Co	-1.9	3.8	1.5
Fiat Chrysler Automobiles	8.1	18.2	0.3
Tesla	58	26.5	73
<b>Median Industry Growth</b>	<b>4.2</b>	<b>11</b>	<b>5.35</b>
<b>Median Industry Growth Ex-Tesla</b>	<b>0.3</b>	<b>3.8</b>	<b>1.5</b>
<b>GM over the Median</b>	<b>-3.9</b>	<b>-13.3</b>	<b>3.85</b>
<b>GM over the Median Ex-Tesla</b>	<b>0</b>	<b>-6.1</b>	<b>7.7</b>

Table 5: Median Revenue Growth of US Auto Industry  
(Source: Bloomberg)

## Key Financial Ratios and Metrics

Ratios	2012	2013	2014	2015	2016	2017P	2018P	2019P
<b>EPS</b>								
My Projection	2.9	2.25	1.66	5.91	6.00	4.92	5.95	8.01
Consensus	2.9	2.25	1.66	5.91	6.00	5.25	5.90	5.63

Table 6: Projected EPS (Source: Bloomberg)

- My projected EPS estimates are more aggressive than the consensus, mainly driven by higher projection for growth EVs in China, share buybacks, investments in urban mobility, and GM's leaner approach on production.

- GM sales growth is improving within the last three years. Last year, GM's sales grew 7.7% faster over the median industry.
- I expect GM's revenue growth to slow to be -11%, 0.5%, and 1% for 2017, 2018, and 2019.



# RELATIVE VALUATION

	GM	Consumer Discretionary Sector	S&P500 (SPX)
Price to Earnings	6.86	22.09	21.81
Price to Book	1.52	5.00	3.07
Price to Sales	0.42	1.60	2.09
Price to Ebitda	3.12	10.33	11.33

GM is currently undervalued and I believe GM should trade at a premium multiple to the sector and market as a whole. The company has convincing prospects with EVs, autonomous vehicles, and vehicle sharing businesses. The U.S. and global economy are also getting better, so I expect GM to trade at a higher multiple.

# RELATIVE VALUATION

	GM	Ford	FCAU	Average
Price to Earnings	6.97	7.33	6.90	7.07
Price to Sales	0.42	0.31	0.20	0.31
Price to Book	1.44	1.45	1.45	1.45
Price to CF	4.50	2.89	2.16	3.18
EV/EBITDA TTM	2.51	2.78	1.80	2.36

GM is relatively in line with its competitors. I think this is a fair figure as the company has exceptionally performed YTD and it has more potential upside than its competitors.

# RELATIVE VALUATION

Absolute Basis	Current Multiple	#My Target Multiple	Target/Current (% of Current)	Target Price (\$)
P/E	6.86	10.00	1.46	62.19
P/B	1.52	1.80	1.18	50.52
P/S	0.42	0.45	1.07	45.71
P/EBITDA	3.13	5.00	1.60	68.15
			<b>Average:</b>	<b>56.64</b>

Table 11: Target Price Based on Multiple (Source: Author's Analysis)

Based on my assumption that GM is currently undervalued, I came up with a target price of \$56.64/share. However, to better capture GM's potential growth and future cash flows, my estimate on GM's valuation will be based on DCF method listed below.

# DCF

General Motors (GM)

Analyst: Devara Aryasta

Discount  
Rate =  
Terminal  
FCF  
Growth  
=

Date: 11/10/2017

Figures in \$ millions, except per share

Year	2016A	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
<b>Revenue</b>	166,380	147,978	148,718	150,205	152,008	153,832	155,524	157,235	158,807	160,395	161,999
% Growth		-11.06%	0.50%	1.00%	1.20%	1.20%	1.10%	1.10%	1.00%	1.00%	1.00%
<b>Operating Income</b>	9,545	7,843	9,667	12,617	12,161	12,307	10,887	11,006	11,117	11,228	11,340
Operating Margin	5.74%	5.30%	6.50%	8.40%	8.00%	8.00%	7.00%	7.00%	7.00%	7.00%	7.00%
<b>Interest and Other</b>	(143)	15	142	240	1,824	1,846	1,866	1,887	1,906	1,925	1,944
Interest % of Sales	-0.09%	0.01%	0.10%	0.16%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
<b>Other Income</b>	2,282	1,879	1,963	3,004	1,520	1,538	1,555	1,572	1,588	1,604	1,620
Other Income % of sales	1.37%	1.27%	1.32%	2.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
<b>Taxes</b>	(2,416)	2,014	2,354	3,172	3,101	3,138	2,862	2,893	2,922	2,951	2,981
Tax Rate	20.68%	20.68%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
<b>Net Income</b>	9,268	7,723	9,417	12,689	12,404	12,453	11,447	11,572	11,688	11,805	11,923
% Growth		-16.67%	21.93%	34.74%	-2.25%	1.20%	-8.81%	1.10%	1.00%	1.00%	1.00%
<b>Net Income Attributable to stockholders</b>	9427	7723	9417	12689	12404	12553	11447	11572	11688	11805	11923
% Growth		-18.07%	21.93%	34.74%	-2.25%	1.20%	-8.81%	1.10%	1.00%	1.00%	1.00%
<b>Add Depreciation/Amort</b>	10,408	8,879	8,923	9,012	9,120	6,153	6,221	6,289	3,176	3,208	3,240
% of Sales	6.26%	6.00%	6.00%	6.00%	6.00%	4.00%	4.00%	4.00%	2.00%	2.00%	2.00%
<b>Add Non-Cash Item</b>	(2,852)	(740)	(744)	(751)	(760)	(769)	(778)	(786)	(794)	(802)	(810)
% of Sales	-1.71%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%
<b>Plus(minus) Changes WC</b>	(438)	(2,055)	7	15	15	15	16	16	16	16	16
% of Sales	-0.26%	-1.39%	0.00%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
<b>Subtract Cap Ex</b>	9,542	8,879	8,923	9,012	9,120	6,153	6,221	6,289	4,764	3,208	6,480
Capex % of sales	5.74%	6.00%	6.00%	6.00%	6.00%	4.00%	4.00%	4.00%	3.00%	2.00%	4.00%
<b>Free Cash Flow</b>	7,003	4,928	8,681	11,953	11,659	11,799	10,685	10,802	9,322	11,019	7,889
% Growth		-29.63%	76.15%	37.69%	-2.46%	1.20%	-9.44%	1.10%	-13.70%	18.21%	-28.40%
<b>NPV of Cash Flows</b>	61,515			70,366							
NPV of terminal value	25,910			29,646						Terminal Value	80,472
Projected Equity Value	87,424			100.00%							
Free Cash Flow Yield	11.27%									Free Cash Yield	9.80%
<b>Current Price</b>	42.66									Terminal P/E	6.75
Implied equity value/share	59.99										
Upside(Downside) to DCF	41%									Terminal EV/EBITDA	9.86

# DCF OVERVIEW

Terminal Discount Rate

	9.0%		10.0%		11.0%		12.00%		13.0%		14.0%		15.0%	
1.0%	\$	76.47	\$	69.11	\$	63.15	\$	58.22	\$	54.07	\$	50.51	\$	47.44
1.5%	\$	78.54	\$	70.61	\$	64.26	\$	59.06	\$	54.72	\$	51.03	\$	47.84
2.0%	\$	80.92	\$	72.29	\$	65.50	\$	59.99	\$	55.43	\$	51.58	\$	48.28
2.5%	\$	83.66	\$	74.21	\$	66.88	\$	61.02	\$	56.21	\$	52.18	\$	48.75
3.0%	\$	85.85	\$	76.39	\$	68.44	\$	62.16	\$	57.07	\$	52.84	\$	49.27
3.5%	\$	90.63	\$	78.92	\$	70.20	\$	63.44	\$	58.02	\$	53.56	\$	49.83
4.0%	\$	95.16	\$	81.86	\$	72.22	\$	64.88	\$	59.07	\$	54.36	\$	50.43
4.5%	\$	100.70	\$	85.34	\$	74.55	\$	66.50	\$	60.25	\$	55.23	\$	51.10
5.0%	\$	107.63	\$	89.52	\$	77.26	\$	68.36	\$	61.58	\$	56.21	\$	51.83

Given GM's strong leadership in electric and self-driving vehicles, combined with aggressive cost-savings initiatives, I project the value to be \$59.99, **implying 41% upside** from its current price of \$42.26. I chose discount rate of 12% to factor in risks associated with ongoing lawsuits against the Company, potential increase in the price of oil, and aggressive competition in China, among other things. I chose terminal rate of 2% to account for GM's growth prospects in technology and innovation, such as electrification, autonomous vehicles, OnStar 4G LTE and connected car, as well as investments in urban mobility.

## RECOMMENDATION FOR GM

# SELL

Although we really like to buy some more GM, its current weight in our SIM portfolio has exceeded the 500 bps limit. So we decided to sell the GM, reducing its weight from 562 bps to 450 bps due to risk constraints

- Unclear strategy as to capitalize on self-driving cars, EVs and ride sharing.
- GM's increased reliance on sales incentives as it cleared excess inventory.
- Protectionist policies by the Chinese government that blatantly favor domestic companies for EVs market, coupled with aggressive competition from foreign competitors.
- Sluggish economic growth and lack of consumer confidence in countries where GM markets its products.
- Ongoing and pending litigation cases that could cost GM billions of dollars.
- Rumor on an immediate repeal of \$7,500 EVs tax credit in the U.S.

# RISKS TO RECOMMENDATION FOR GM

1. GM success in electrification, autonomous vehicles, and car- and ride-sharing initiatives.
2. GM success in launching and selling new products next year.
3. Stronger than expected U.S. and global economy.
4. Substantial decrease in oil prices.

# AMAZON (AMZN) RECOMMENDATION

**Description:** Amazon is an online retailer that sells its products through a website. AMZN provides services, such as co-branded credit card agreements and advertising.

# HOLD

## Why Hold:

- We are choosing to hold Amazon because the portfolio has almost 500 bps of weight, it's currently at 489 bps.
- If we weren't part of the portfolio, We'd BUY:
  - Amazon is the leader of the American retail business with \$136bn in net sales and \$245bn in estimated GMV in 2016.
  - The Company has an exceptional operational efficiency, network effect, and great focus on customer service: this should translates to even bigger market share in the future
  - Substantial growth opportunities in international markets.
  - Target price is \$1,250, yielding 10.69% total projected return

## ● Risks:

- Unique challenges in international market such as local commerce regulations, infrastructure investments and incumbent competition.
- Strong competition from well-capitalized competitors that could lead to even more aggressive price competition and longer-term margin pressures.



# STARBUCKS CORPORATION (SBUX) RECOMMENDATION

**Description:** Starbucks is a roaster, marketer, and retailer of specialty coffee and tea worldwide

# NO ACTION

- **Why No Action:**

- *Our price target is at \$62.00 which puts it at an 8.91% upside, which is lower in comparison to the other stocks in the sector - don't buy or sell*
- If you want to buy:
  - Macroeconomic factors that contribute to the positive spending of disposable income on expensive coffees - so could buy if need be
  - Competitive advantages in the industry - resources and locations

- **Risks:**

- Economic downturn will lead to less people buying coffee every morning
  - Negative change in economic factors leading customers to pursue their caffeine fix at cheaper competitors: Dunkin' and McDonalds

# STARBUCKS DISCOUNTED CASH FLOW STATEMENT

Starbucks Corporation (SBUX)

Analyst: Ashley Faulkner  
9/25/17

Terminal Discount Rate = 9.3%  
Terminal FCF Growth = 5.5%  
\*Assuming a PE of 28.5

(Values in the Millions)

Year	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	13,276.8	14,866.8	16,447.8	19,162.7	21,315.9	35,096.0	37,552.7	40,181.4	42,994.1	46,003.7	49,224.0	52,669.7	56,356.5	60,301.5	64,522.6	69,039.2
% Growth	N/A	12.0%	10.6%	16.5%	11.2%	64.6%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Operating Income	1,997.4	(325.4)	3,081.1	3,601.0	4,171.9	12,606.2	13,300.0	14,015.8	14,752.2	15,507.8	16,280.5	17,068.0	17,867.3	18,674.7	19,486.0	20,296.2
Operating Margin	15.0%	-2.2%	18.7%	18.8%	19.6%	35.9%	35.4%	34.9%	34.3%	33.7%	33.1%	32.4%	31.7%	31.0%	30.2%	29.4%
Interest Income	94.4	123.6	142.7	43.0	108.0	109.6	111.2	112.9	114.6	116.3	118.0	119.8	121.6	123.4	125.2	127.1
Interest % of Sales	0.7%	0.8%	0.9%	0.2%	0.5%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Taxes	674.4	(238.7)	1,092.0	1,143.7	1,379.7	1,462.0	1,556.7	1,649.6	1,756.4	1,861.2	1,981.7	2,099.9	2,235.8	2,369.3	2,522.6	2,673.2
Tax Rate	32.8%	103.8%	34.6%	29.3%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%
Net Income	1,383.8	8.3	2,068.1	2,757.4	2,817.7	11,171.8	11,772.9	12,397.7	13,029.4	13,682.1	14,336.5	15,007.7	15,673.2	16,349.3	17,009.4	17,671.1
% Growth	8.4%	-99.4%	24816.9%	33.3%	2.2%	298.5%	5.4%	5.3%	5.1%	5.0%	4.8%	4.7%	4.4%	4.3%	4.0%	3.9%
Add Depreciation/Amort	550	621	710	894	981	981	981	981	981	981	981	981	981	981	981	981
% of Sales	4.1%	4.2%	4.3%	4.7%	4.6%	2.8%	2.6%	2.4%	2.3%	2.1%	2.0%	1.9%	1.7%	1.6%	1.5%	1.4%
Plus/(minus) Changes WC	251	39	(404)	950	168	179	190	202	215	228	243	258	274	292	310	330
% of Sales	1.9%	0.3%	-2.5%	5.0%	0.8%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Subtract Cap Ex	856	1,151	1,161	1,304	1,440	2,371	2,371	2,371	2,371	2,371	2,371	2,371	2,371	2,371	2,371	2,371
Capex % of sales	6.4%	7.7%	7.1%	6.8%	6.8%	6.8%	6.3%	5.9%	5.5%	5.2%	4.8%	4.5%	4.2%	3.9%	3.7%	3.4%
Free Cash Flow	1,329.1	(483)	1,213	3,297	2,527	9,960	10,572	11,209	11,854	12,520	13,189	13,875	14,557	15,250	15,929	16,610
% Growth	N/A	-136.3%	-351.2%	171.9%	-23.4%	294.2%	6.1%	6.0%	5.7%	5.6%	5.3%	5.2%	4.9%	4.8%	4.4%	4.3%

NPV of Cash Flows	85,066	31%
NPV of terminal value	192,922	69%
Projected Equity Value	277,989	100%
Free Cash Flow Yield	-0.61%	

Terminal Value	467,302
Free Cash Yield	3.55%
Terminal P/E	26.4
Terminal EV/EBITDA	21.9

	2014	2015	2016
Current P/E	38.5	28.8	28.2
Projected P/E	134.4	100.8	98.7
Current EV/EBITDA	20.7	17.5	15.3
Projected EV/EBITDA	73.1	61.6	53.8

Shares Outstanding	1,443.9
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Current Price	\$ 55.09
Implied equity value/share	\$ 192.53
Upside/(Downside) to DCF	249.5%

Debt	2,263.2
Cash	3,202.2
Cash/share	2.22

# L. BRANDS (LB) RECOMMENDATION

**Description:** L Brands Inc. is a women's intimate, personal care, and beauty retailer. The Company through its retail outlets sells products under various brands such as Victoria's secret, Pink, Bath & Body Works, La Senza, and Henri Bendel Brands.

# BUY

- **Why Buy:**

- Currently undervalued with huge upside potential: (PE 14.8 VS Ind. Avg. 24.1) (3YR Revenue growth 5.3 VS Ind. Avg. 4.1)
- High levels of consumers brand loyalty and prioritization of quality + fit over price.
- Limited amount of direct competition in women's lingerie retailing, with GAP in lower price point and La Perla at higher price point.
- Healthy long-run growth opportunity in China and improved global macroeconomic conditions.
- My price target is \$66.33 USD, yielding 32.68% total projected return.

- **Risks:**

- Sluggish wage growth, potential increase in labor costs, and low barriers to entry in the industry.
- Premium price targeted at young demographic, yielding risk of losing customers in economic downturn.

# L BRANDS DISCOUNTED CASH FLOW STATEMENT

Analyst: Devara Aryasta											
					Discount Rate =	10.00%					
					Terminal FCF						
11/20/17					Growth =	4.00%					
Year	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	12,574.0	12,449.5	12,823.0	13,720.6	14,543.8	15,416.5	16,187.3	16,996.7	17,846.5	18,738.8	19,675.8
% Growth		-0.99%	3.00%	7.00%	6.00%	6.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Operating Income	2,037.5	1,618.4	1,795.2	1,989.5	1,890.7	2,004.1	1,942.5	2,039.6	2,141.6	2,248.7	2,361.1
Operating Margin	16.20%	13.00%	14.00%	14.50%	13.00%	13.00%	12.00%	12.00%	12.00%	12.00%	12.00%
Interest Expense	(394.0)	(373.5)	(410.3)	(466.5)	(436.3)	(462.5)	(485.6)	(509.9)	(535.4)	(562.2)	(590.3)
Interest % of Sales	3.13%	3.00%	3.20%	3.40%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Other Non-Operating Income	10.5	12.4	12.8	13.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Income % of sales	0.08%	0.10%	0.10%	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Taxes	(538.0)	(251.5)	(279.5)	(307.3)	(290.9)	(308.3)	(291.4)	(305.9)	(321.2)	(337.3)	(354.2)
Tax Rate		20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Net Income	1,157.9	1,005.9	1,118.2	1,229.4	1,163.5	1,233.3	1,165.5	1,223.8	1,284.9	1,349.2	1,416.7
% of sales	9.21%	8.08%	8.72%	8.96%	8.00%	8.00%	7.20%	7.20%	7.20%	7.20%	7.20%
Add Depreciation/Amort	518.0	516.7	534.7	573.5	581.8	616.7	647.5	509.9	535.4	374.8	393.5
% of Sales	4.12%	4.15%	4.17%	4.18%	4.00%	4.00%	4.00%	3.00%	3.00%	2.00%	2.00%
Add Non-Cash Item	138.0	124.5	128.2	137.2	145.4	154.2	161.9	170.0	178.5	187.4	196.8
% of Sales	1.10%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Plus/(minus) Changes WC	8.0	22.3	17.9	49.4	52.4	55.5	58.3	34.0	35.7	37.5	39.4
% of Sales	0.06%	0.18%	0.14%	0.36%	0.36%	0.36%	0.36%	0.20%	0.20%	0.20%	0.20%
Subtract Cap Ex	990.0	996.0	1,038.7	1,125.1	727.2	770.8	809.4	509.9	535.4	374.8	393.5
Capex % of sales	7.87%	8.00%	8.10%	8.20%	5.00%	5.00%	5.00%	3.00%	3.00%	2.00%	2.00%
Free Cash Flow	831.9	673.4	760.4	864.4	1,215.9	1,288.8	1,223.8	1,427.7	1,499.1	1,574.1	1,652.8
% of Sales	6.62%	5.41%	5.93%	6.30%	8.36%	8.36%	7.56%	8.40%	8.40%	8.40%	8.40%
NPV of Cash Flows	7,780	41.33%									
NPV of terminal value	11,045	58.67%									
Projected Equity Value	18,825	100.00%									
Free Cash Flow Yield	7.04%										
Current Price	41.61										
Implied equity value/share	66.33										
Upside/(Downside) to DCF	0.59										
									Terminal Value	28,648	
									Free Cash Yield	5.77%	
									Terminal P/E	20.22	
									Terminal EV/EBITDA	33.40	

# CONCLUSION

**BUY:**

1. Service Corporation International (SCI)
2. L. Brands (LB)

**HOLD:**

1. Amazon (AMZN)– hold for portfolio, BUY otherwise!

**SELL:**

1. General Motors (GM)– For our portfolio, sell the stock since it is over the 5% mark, but otherwise BUY!

**NO ACTION:**

1. Starbucks (SBUX)

# RECOMMENDATION

	Current Basis	Proposed Basis	Current Price	Target Price	Upside /Downside	Buy, Sell, Hold?
Service Corporation International (SCI)	223	248	\$35.98	\$40.00	+11.17%	BUY
General Motors (GM)	563	450	\$42.66	\$59.99	+40.62%	SELL (in portfolio) BUY (otherwise)
Amazon (AMZN)	489	489	\$1,129.22	\$1,250	+10.70%	HOLD (in portfolio) BUY (otherwise)
L Brands (LB)	0	100	\$49.99	\$66.33	+32.68%	BUY
Starbucks (SBUX)	0	0	\$56.93	\$62.00	+8.91%	NO ACTION

# SECTOR WEIGHTING RECOMMENDATION

	Current Weight	Projected Weight
AMAZON	4.89%	4.89%
GM	5.63%	4.50%
SCI	2.23%	2.48%
L Brands	0%	1.00%
Starbucks	0%	0.00%
Total Sector Weight	12.76%	12.87%

# OVERWEIGHT

Current SIM Weight: 12.76%  
 Current Sector Weight: 11.87%  
 Recommendation: 12.87%  
 Increase of +1.00% compared to the benchmark

QUESTIONS?



# REFERENCES



Slide 3: SIM Portfolio Appraisal – October 2017 Excel Spreadsheet

Slide 4: [https://eresearch.fidelity.com/eresearch/markets\\_sectors/sectors/sectors\\_in\\_market.ihtml?tab=sdbusiness&sector=25](https://eresearch.fidelity.com/eresearch/markets_sectors/sectors/sectors_in_market.ihtml?tab=sdbusiness&sector=25)

Slide 8: <https://finance.google.com/finance?q=NYSE%3ASCI&ei=qOYBWn7MoGGmwGt4q6QAw>

Slide 9: <https://seekingalpha.com/article/4052823-service-corporation-sci-presents-raymond-james-38th-annual-institutional-investors-conference> ,  
<https://www.cnn.com/2017/06/30/heres-how-millennials-spend-their-money-compared-to-their-parents.html>

Slide 10: <https://research2.fidelity.com/fidelity/screeners/commonstock/comparison.asp?symbols=SCI>

Slide 11: <http://quotes.wsj.com/SCI>

Slide 12: SCI Gross Margin Data: <http://financials.morningstar.com/ratios/r.html?t=SCI>, Carriage Services Gross Margin Data: <http://financials.morningstar.com/ratios/r.html?t=CSV>  
Stonemor Gross Margin Data: <http://financials.morningstar.com/ratios/r.html?t=STON>

Slide 14: <http://financials.morningstar.com/valuation/price-ratio.html?t=SCI&region=usa&culture=en-US>

Slide 16: SIM Website (Implied P/E) [https://fisher.osu.edu/sites/default/files/implied\\_pe-3.xls](https://fisher.osu.edu/sites/default/files/implied_pe-3.xls)

Slide 8-18: Author's (Ashley's) stock report analysis

Slide 20-31: Author's (Devara's) stock report analysis.

Slide 32-34: Morningstar