

# Consumer Staples Sector

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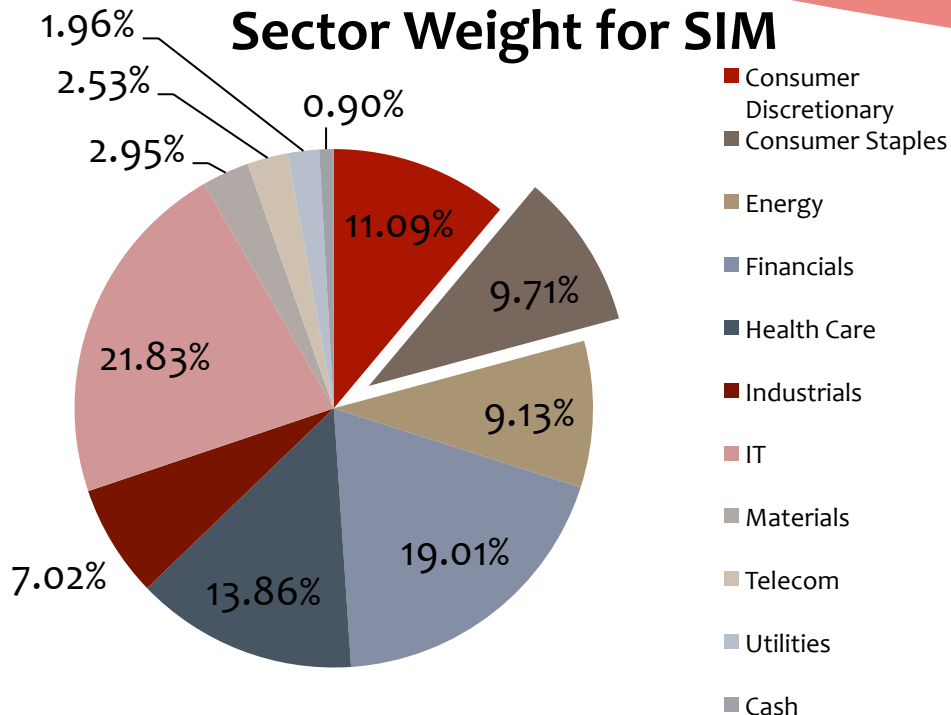
# Sector Overview



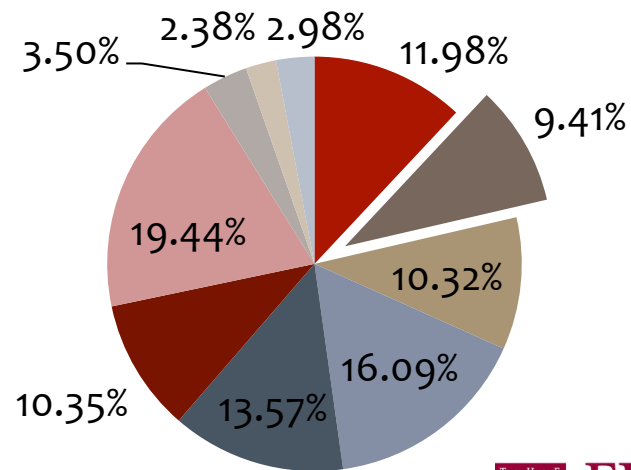
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# Sector Size

## Sector Weight for SIM



## Sector Weight for S&P



# Industry Overview

Size of the sector: \$1.84 T

Industries Within Staples:

- \* Household & Personal Products
- \* Food, Beverage, and Tobacco
- \* Food & Staples Retailing

S5CONS intraday return by GICS sector

Name	Weighted Return	Min	Max	Impact (bp)	Count	% Up	% Down	Weight
1) All Securities	0.23%	-1.64%	1.99%	23.17	40	65.0%	35.0%	100.00%
2) > Food Beverage & Toba	0.24%	-1.61%	1.99%	13.38	26	65.4%	34.6%	54.97%
3) > Household & Personal	0.29%	-1.64%	1.28%	6.29	6	50.0%	50.0%	21.45%
4) > Food & Staples Retailin	0.15%	-0.76%	0.75%	3.50	8	75.0%	25.0%	23.58%

# The Key Players

- \* Walmart (WMT)
- \* Proctor and Gamble (PG)
- \* Coca-Cola (KO)
- \* PepsiCo (PEP)
- \* Philip Morris (PM)



# Industry Overview cont.

S5CONS Index				
S&P 500 CONS STAPLES IDX				
40 Members				
Members   Historical Summary				
Search				
As of 10/28/2014				
<Add Column, e.g. P/E>				
Ticker	Name	Price	Market Cap	
11) WMT	UN Wal-Mart Stores Inc	76.2050	246.81B	
12) PG	UN Procter & Gamble Co/The	86.4500	232.25B	
13) KO	UN Coca-Cola Co/The	40.6000	178.77B	
14) PEP	UN PepsiCo Inc	94.9800	141.61B	
15) PM	UN Philip Morris International Inc	88.2300	137.53B	
16) CVS	UN CVS Health Corp	84.9200	98.26B	
17) MO	UN Altria Group Inc	47.3500	94.49B	
18) CL	UN Colgate-Palmolive Co	65.8500	60.25B	
19) WAG	UN Walgreen Co	63.4900	59.98B	
20) MDLZ	Uw Mondelez International Inc	35.0700	58.55B	
21) COST	Uw Costco Wholesale Corp	130.4200	57.31B	
22) KMB	UN Kimberly-Clark Corp	113.1100	42.20B	
23) KRFT	Uw Kraft Foods Group Inc	57.0700	33.81B	
24) RAI	UN Reynolds American Inc	61.6700	32.97B	
25) GIS	UN General Mills Inc	51.1300	30.89B	
26) ADM	UN Archer-Daniels-Midland Co	45.4200	28.80B	
27) EL	UN Estee Lauder Cos Inc/The	74.7300	28.41B	
28) KR	UN Kroger Co/The	54.5400	26.80B	
29) GMCR	Uw Keurig Green Mountain Inc	146.1000	23.27B	
30) SYY	UN Sysco Corp	38.1300	22.46B	
31) K	UN Kellogg Co	62.6900	22.36B	
32) LO	UN Lorillard Inc	60.9200	21.94B	

- \* Top 5 Companies = roughly 50% of total weight
- \* 40 Total Members
- \* All 3 sub-industries represented within top 5 companies

# Performance



- \* Year to Date
  - +5.29%, (10/20/14)
- \* Quarter to Date
  - +0.21%, (10/20/14)



# Business Analysis

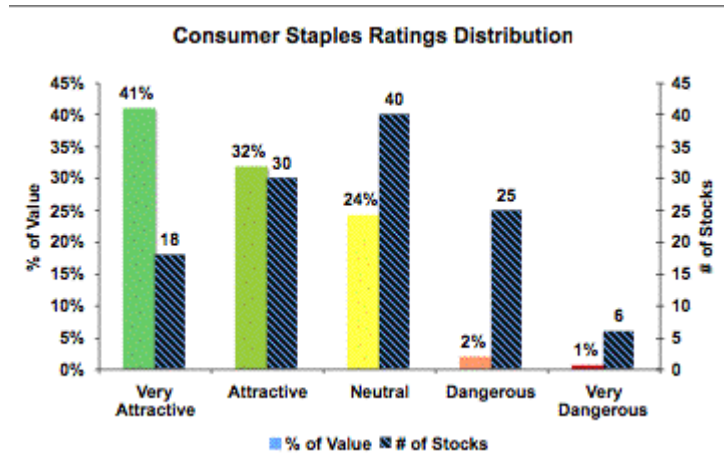


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# Demand and Life Cycle

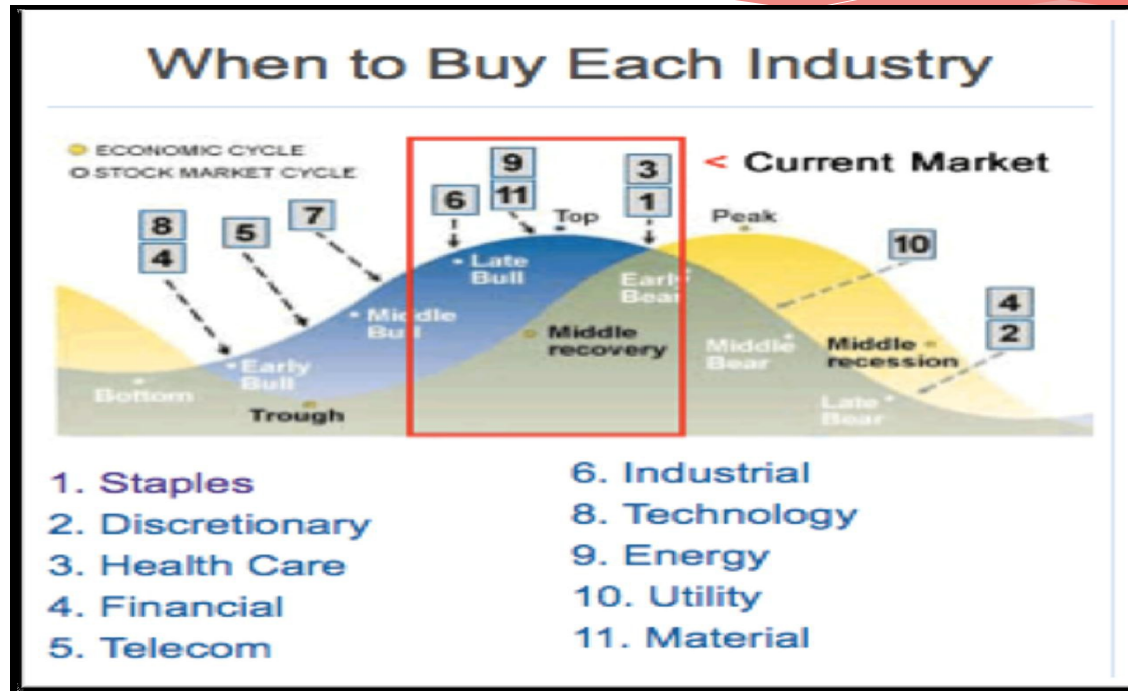
- \* Demand for this sector remains constant throughout good and bad economic times
- \* Relatively predictable demand leads to ease of supply matching for producers
- \* Many suppliers offer high-end and low-end product offerings
- \* Consumer staples are non-cyclical (defensive) due to their strong demand in each season/ economic condition
- \* Steady dividends and low beta offer investors protection against riskier assets

# Investor's Assessment

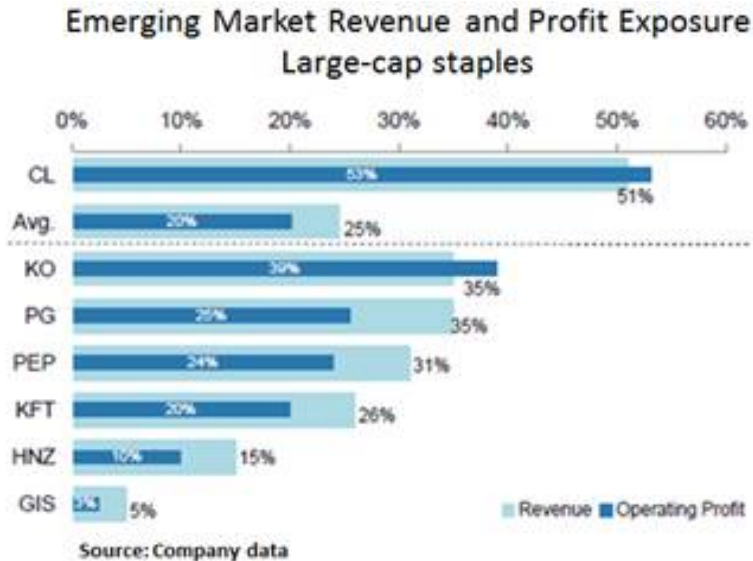


- \* Number of quality assets to serve as insurance for investors
- \* The large sector offers diversification
- \* Consistent dividends and predictable earnings
- \* Consumers are unwilling or unable to cut these items out of their budget, regardless of financial situation

# Market Timing



# User Geography



- \* Staples are consumer necessities throughout the US, supplied on a constant basis
- \* Revenue growth in emerging markets becoming key for mature companies
- \* Brand recognition important amongst foreign competition

# Competitive Analysis

## Porters Five Forces Model for Competition

	Level	Analysis
<b>Threat of New Entrants</b>	Low	Extremely capital intensive to run an adequate operation
		Must achieve economies of scale to compete on price
<b>Determinants of Supplier Power</b>	Low	Many Suppliers in this space
		Abundance of materials gives low price negotiation
<b>Determinants of Buyer Power</b>	High	Highly price sensitive customers will buy based on cost
		Seek best value and have low brand loyalty
<b>Threat of Substitutes</b>	Moderate	Most products compete using same price & quality, free-riders achieve sales
		New product development sees growth then steady decline as competitors match product
<b>Rivalry Amongst Existing Firms</b>	High	The big players move to other industries and countries in lock-step with each other
		Compete using low price & standardized product offerings

# Industry Adjustments

- \* Tobacco Industry
  - \* Products now require warning labels
  - \* Experts expect drop in usage amongst teens
- \* Soft Drink Industry
  - \* Offering lower calorie products
  - \* Focusing in foreign markets
- \* Toiletries and Cleaning Products
  - \* Lower prices due to financial crisis
  - \* Substitute products took market share

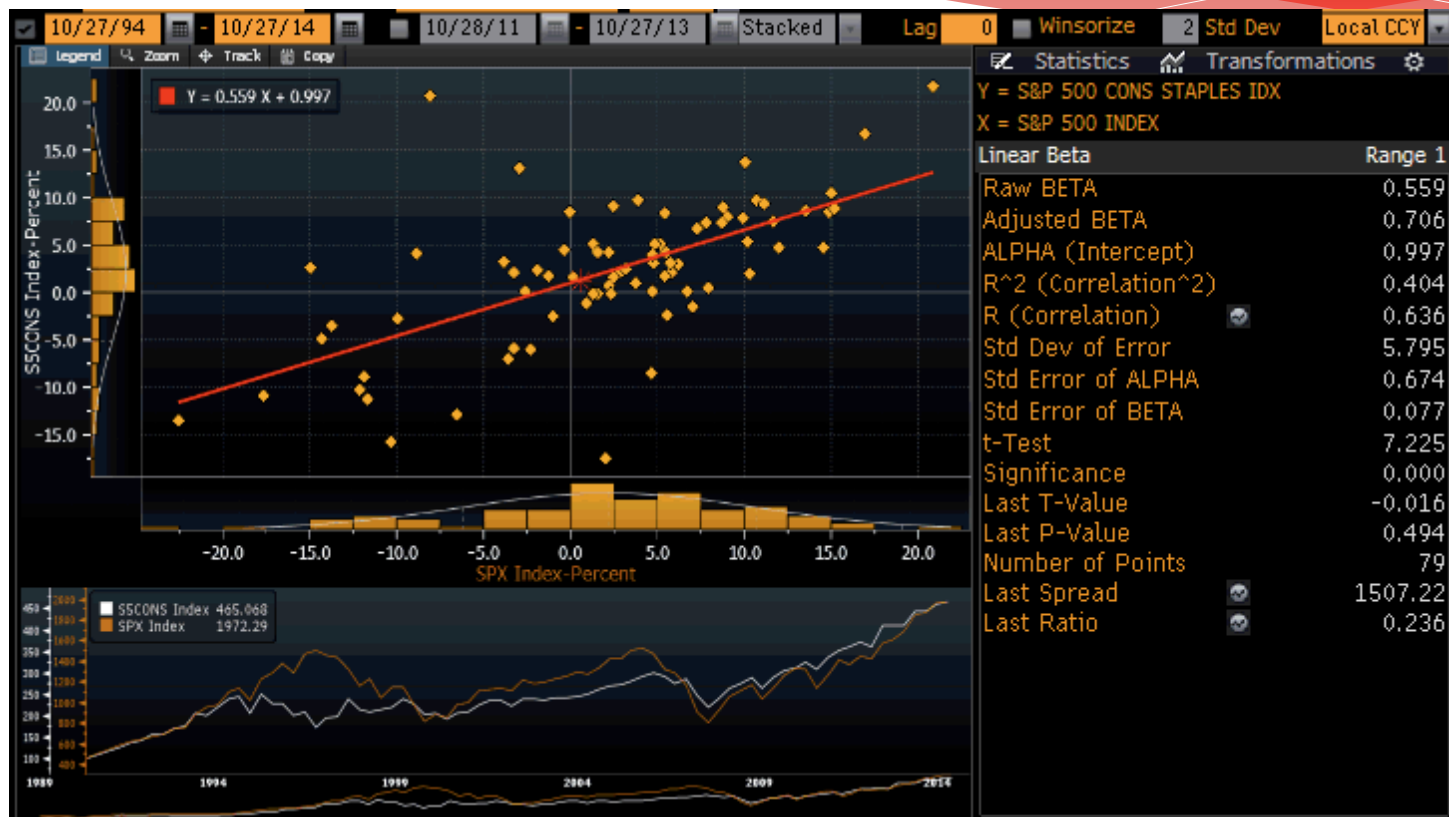
# Economic Analysis



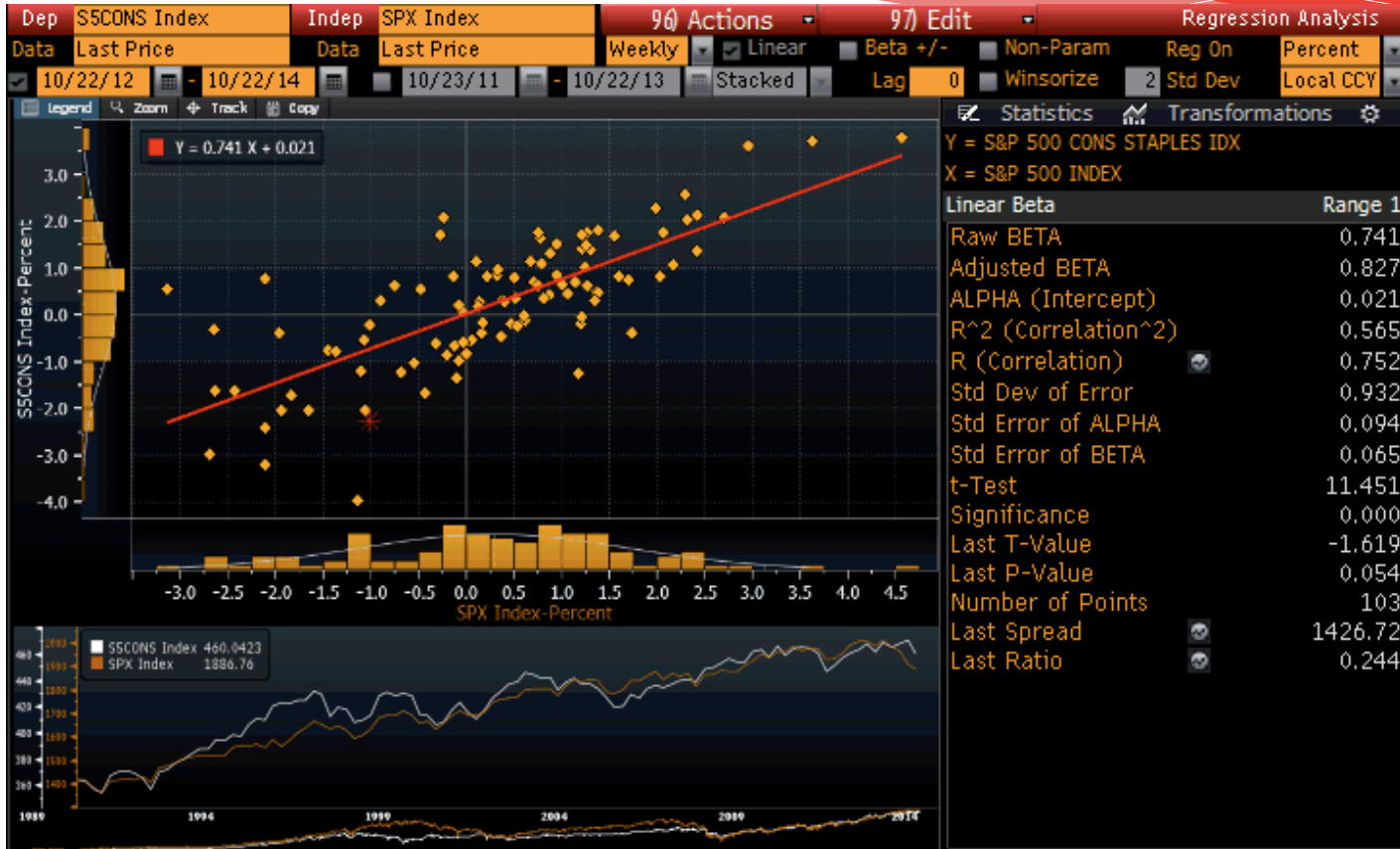
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# CONS VS. S&P



# CONS VS. S&P



# Driving Factors

- \* Business conditions in the consumer staples sector have remained relatively steady over recent quarter
  - Stable commodity pricing
  - Solid global economic backdrop

- \* **Factors**

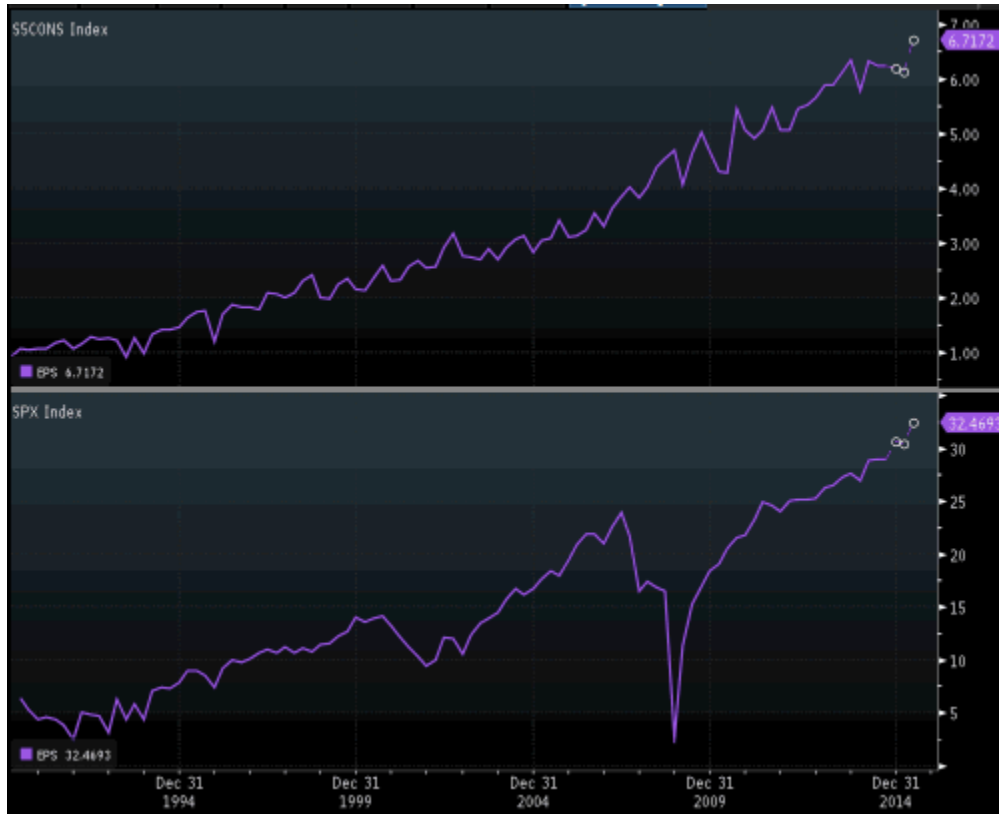
- Overall Economic
  - Consumer Price Index
  - Consumer Confidence
  - Unemployment
- Commodity Price
- Dollar Value

# Financial Analysis



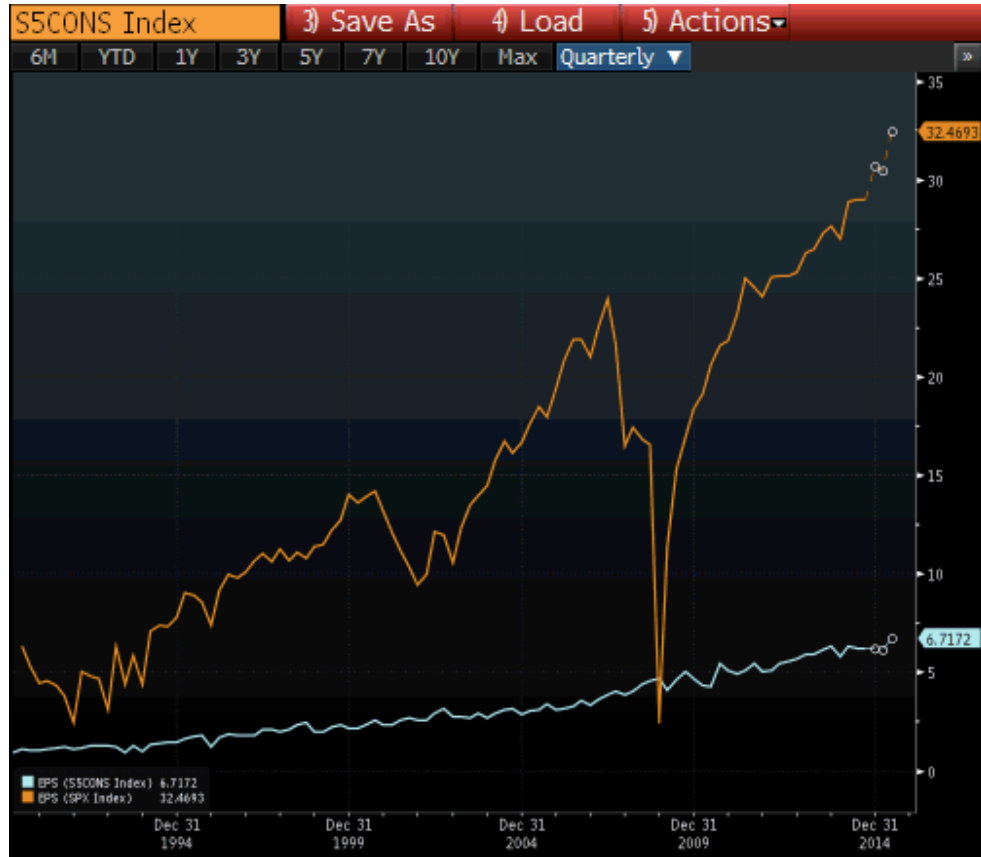
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# EPS of CONS VS. S&P

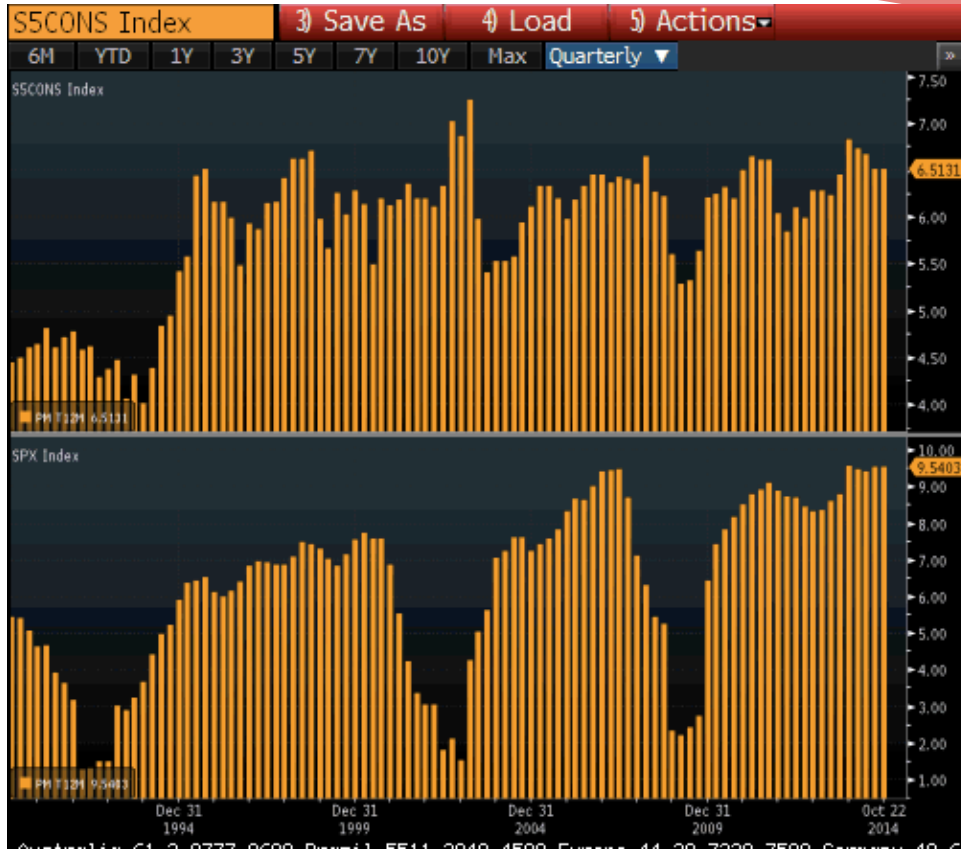


- \* **EPS of CONS vs. S&P**
  - Over last 25+ years
  - EPS lower, but much steadier
  - Not as susceptible to larger pullbacks

# EPS of CONS VS. S&P

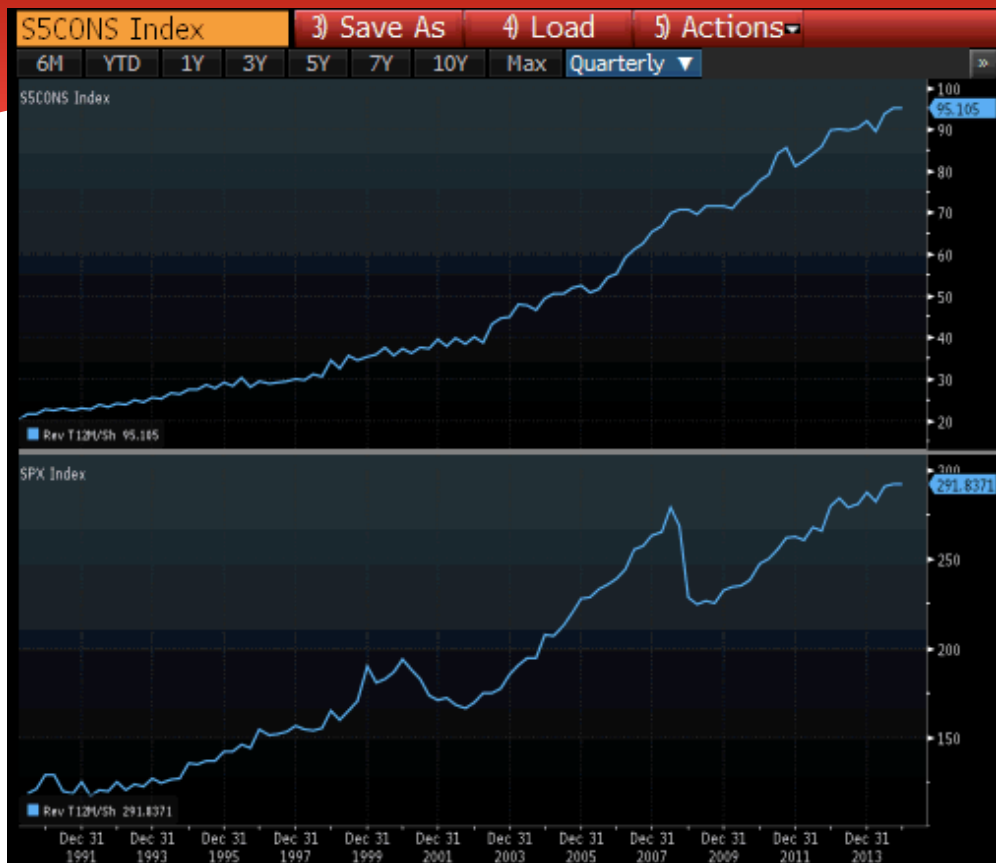


# PM of CONS VS. S&P



- \* **Profit Margin of CONSvs. S&P**
  - Over last 25+ years
  - Margin lower, but much more consistent
  - Trending up last few years
  - Down recently vs. flat S&P

# CONS VS. S&P



- \* **Revenue per Share of CONS vs. S&P**
  - Over last 25+ years
  - RPS lower, but much more consistent
  - Trending up last few years
  - Again, no huge fluctuations



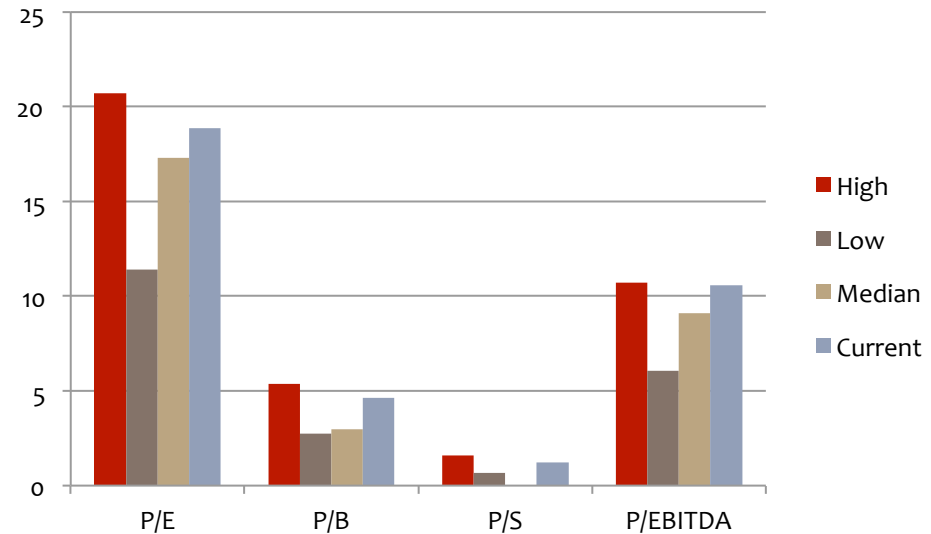
# Valuation Analysis



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# Absolute Basis

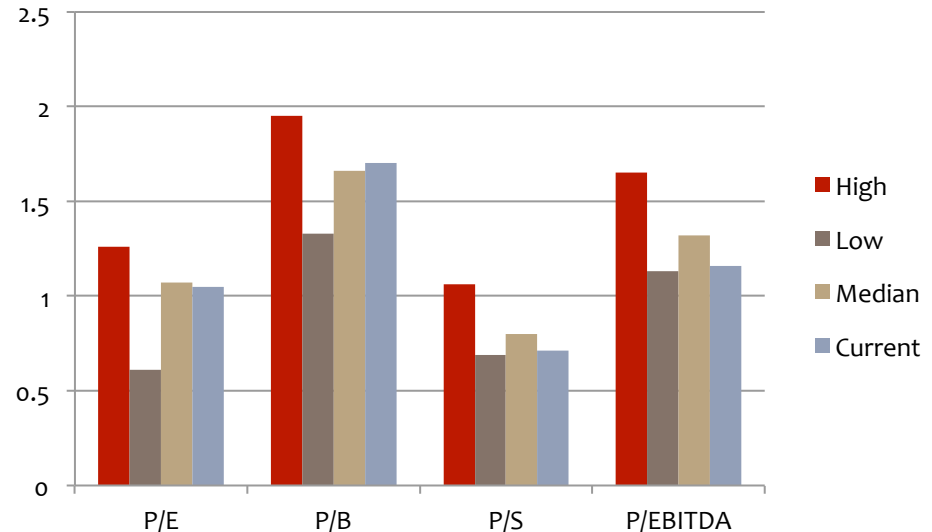
Absolute Basis	High	Low	Median	Current
P/E	20.71	11.4	17.31	<b>18.84</b>
P/B	5.36	2.75	2.98	<b>4.62</b>
P/S	1.58	0.69	1.06	<b>1.22</b>
P/EBITDA	10.73	6.06	9.10	<b>10.57</b>



- Sector is expensive relative to history

# Relative to S&P500

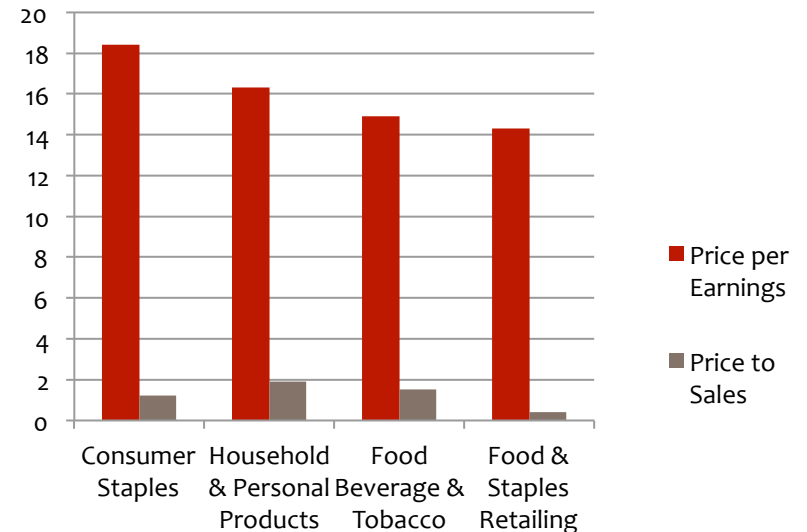
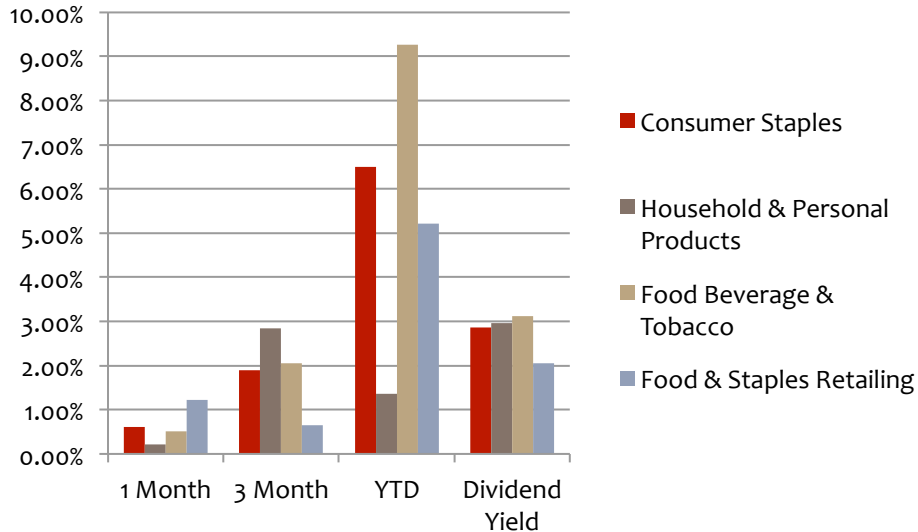
Relative to SP500	High	Low	Median	Current
P/E	1.26	0.61	1.07	<b>1.05</b>
P/B	1.95	1.33	1.66	<b>1.70</b>
P/S	1.06	0.69	0.80	<b>0.71</b>
P/EBITDA	1.65	1.13	1.32	<b>1.16</b>



- Sector is close to historical average relative to S&P 500

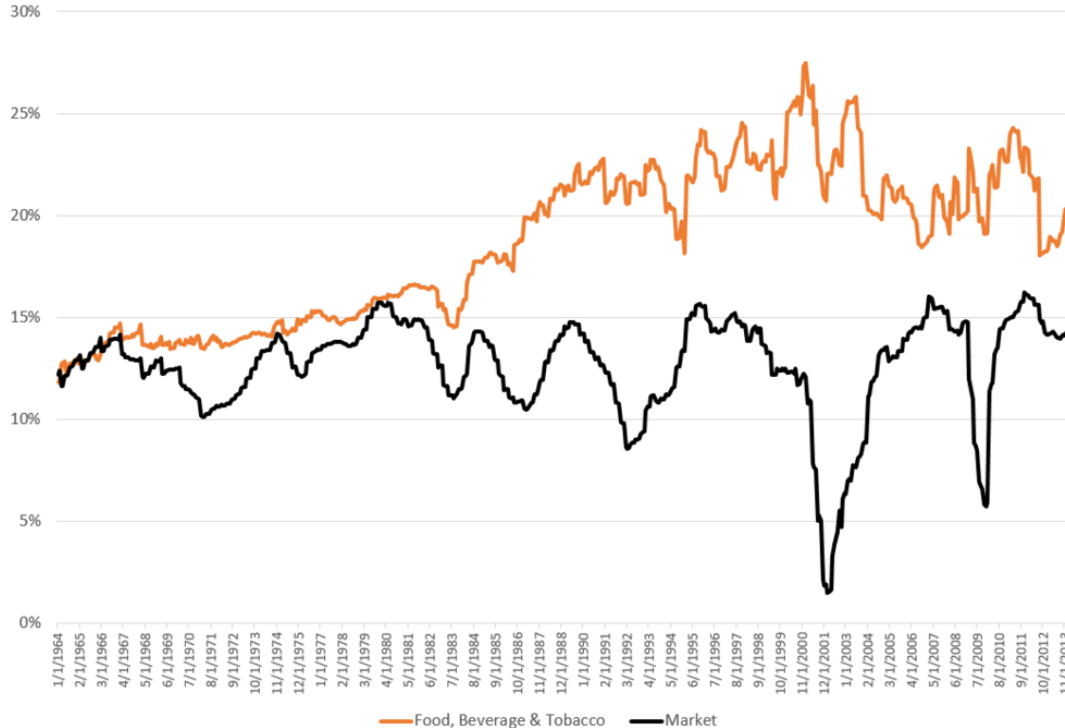
# Industry comparison

	1 Month	3 Month	YTD	Price per Earnings	Price to Sales	Dividend Yield
Consumer Staples	0.61%	1.89%	6.50%	18.4	1.22	2.86%
Household & Personal Products	0.21%	2.84%	1.37%	16.3	1.9	2.97%
Food Beverage & Tobacco	0.51%	2.05%	9.26%	14.9	1.5	3.11%
Food & Staples Retailing	1.22%	0.64%	5.21%	14.3	0.4	2.05%



# Food, Beverage & Tobacco

Returns on Equity--Market vs. Food, Beverage & Tobacco



- \* The largest industry group in sector
- \* Success comes from the fact that as a group they've earned exceptional returns on their equity across history

# Recommendations



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# Increase Holdings

- \* Food & Beverage Industry
  - \* Soft Drinks & Juices
  - \* Alcohol
- \* Child Care and Feminine Products
  - \* High birth rates internationally
  - \* Stronger focus on women in Brazil, China, & Russia

# Decrease Holdings

- \* More volatile industries with uncertain future
- \* Companies focused primarily in US exports
  - \* Stronger dollar makes exporting tough



# Q&A



Thanks!