

# Consumer Staples



Chris Ensign  
July 15, 2015



THE OHIO STATE UNIVERSITY  
FISHER COLLEGE OF BUSINESS

# SIM Portfolio Holdings

- Whole Foods Market
- 3.86% in Portfolio

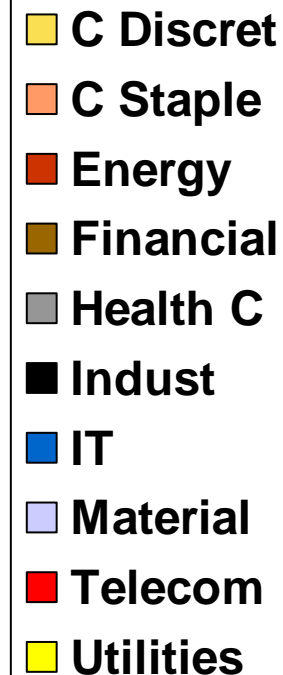
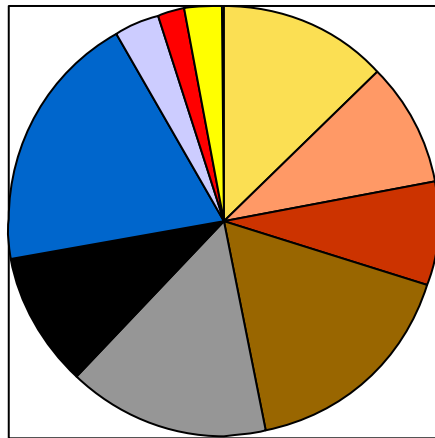


- Molson Coors
- 4.53% in Portfolio

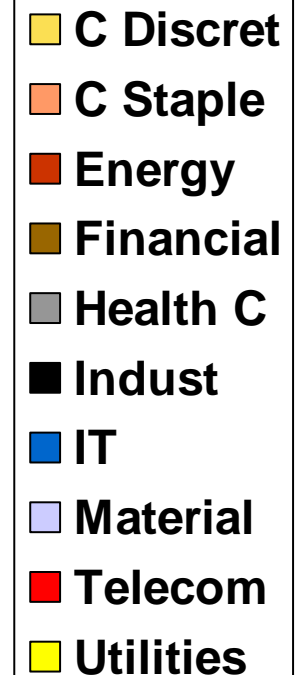
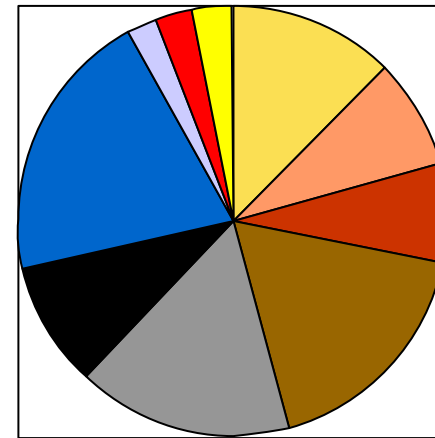


# Sector Weight Comparison

S&P 500  
9.43%



SIM Portfolio  
8.39%



# Sector Overview

- Defensive / Non Cyclical
- Demand remains constant through good and bad economies
- Consumers are unwilling or unable to cut consumer staple products from shopping
- Part of routine buying
- Modest but consistent returns
- Mature products offer little growth opportunities
- Growth is often expansion in to new geographic territories or consolidation



# Sector Components



Walmart 

*Coca-Cola*

*P&G*

*Walgreens*

**CVS**  
pharmacy



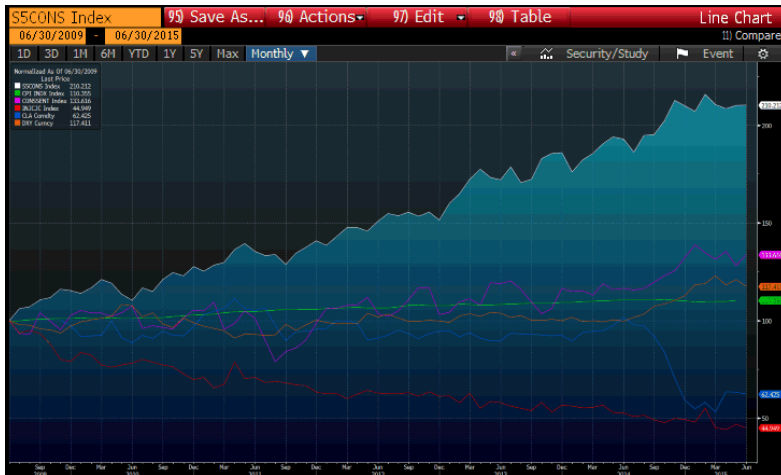
**COSTCO**  
WHOLESALE

**Mondelēz**  
International



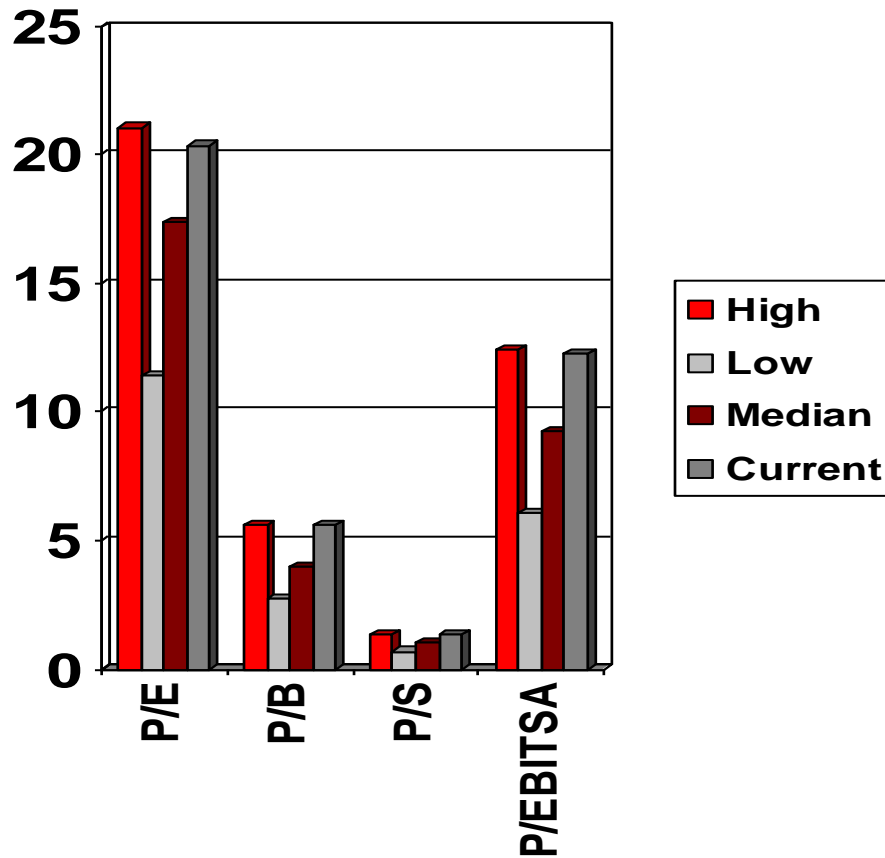
# Economic Factors & Industry Outlook

- Little relative economic exposure because of the nature of the products
  - Consumer Price Index
  - Consumer Confidence
  - Unemployment
  - Commodity Prices
  - Dollar Value
- High Intensity of Rivalry
  - Little differentiation
- High Buyer Power
  - Low switching costs
- Low Supplier Power
  - Many suppliers for few large retailers
- Low Threat of New Entrants
  - High brand recognition
  - Economies of scale
  - Incumbent advantages
- Low Threat of Substitutes
  - Many brands are ingrained in our culture

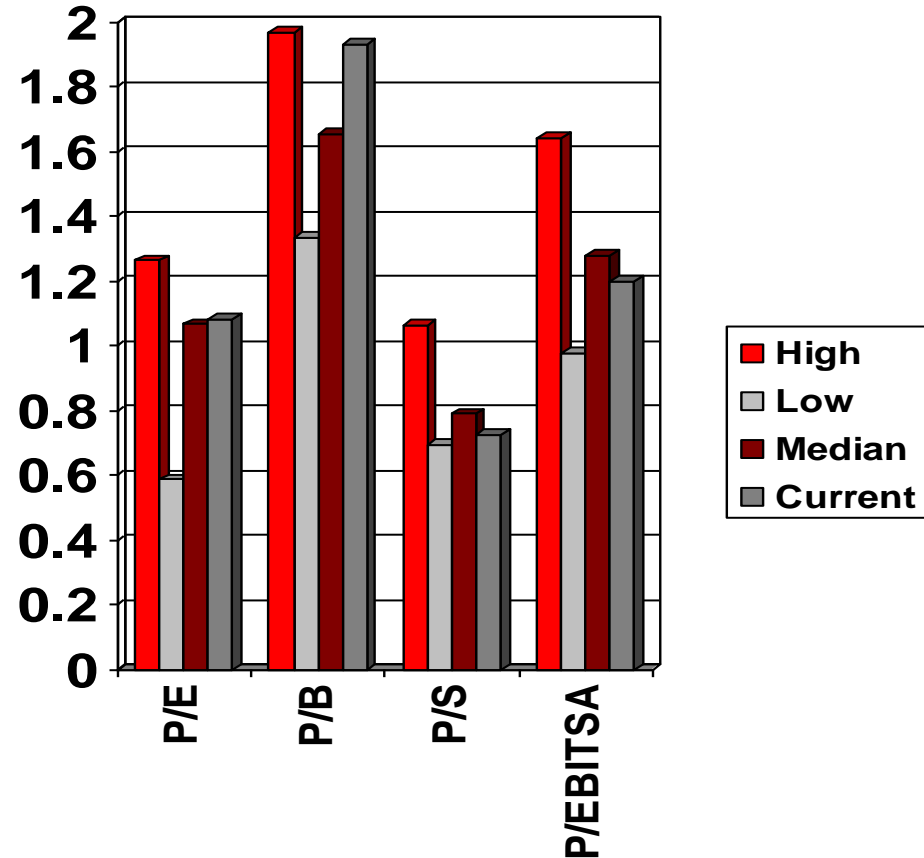


# Valuation Metrics

Absolute



Relative to S&P



# Summary of Recommendations

-  – Hold
-  – Sell
-  – Buy

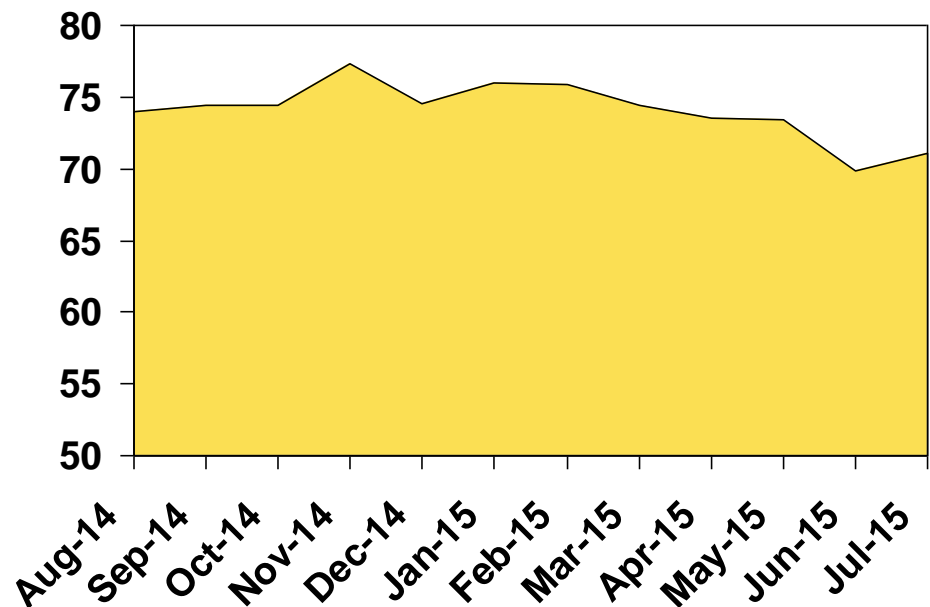






One of the world's largest beer producers, with brands such as Coors Light, Molson Canadian, Carling, Blue Moon, Keystone Light and Cobra as well as distributing other brands such as Miller and Heineken under license

- Current Price = \$71.09
- 52 week High = 79.18
- 52 week Low = 66.17
- Beta = 1.00
- Market Cap = 11,366.4
- Div Yield = 2.30%





## Opportunities

- Improve efficiency to lower costs
- Create or acquire new brands to evolve with preferences

## Risks




- Fierce competition
- Evolving consumer preferences

## Competitive Advantage

- Provide a diverse product set that uniquely caters to premium and economy, traditional and changing customer preferences and hold strong positions in all major beer segments



# MOLSON *Coors*

	Market Cap	Revenue	Gross Margin	Net Income	EPS	P/E	P/S
	11.4	4.03	40%	0.427	2.31	30.73	3.28
	203.51	46.91	60%	10.52	6.32	20.05	4.13
	45.47	21.3	39%	1.68	2.91	27.19	2.05



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# Molson Coors Brewing Company (TAP)

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July 12, 2015

(Millions)	2015 E	2016 E	2017 E	2018 E	2019 E	2020 E	2021 E	2022 E	2023 E	2024 E	2025 E
<b>Revenue</b>	4,437	4,747	5,079	5,384	5,707	5,993	6,232	6,482	6,725	6,960	7,186
% Growth		7.0%	7.0%	6.0%	6.0%	3.0%	4.0%	4.0%	3.8%	3.5%	3.3%
<b>Operating Income</b>	836	895	957	1,018	1,079	1,133	1,178	1,225	1,271	1,315	1,358
Operating Margin	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%
<b>Interest Income</b>	(164)	(176)	(188)	(199)	(192)	(185)	(178)	(171)	(165)	(159)	(153)
Interest % of Sales	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%
<b>Taxes</b>	101	108	115	123	133	142	150	158	166	173	181
Tax Rate	15.00%	15.00%	15.00%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
<b>Net Income</b>	571	611	654	696	754	806	850	896	940	983	1,024
% Growth		7.0%	7.0%	6.3%	8.4%	6.9%	5.5%	5.4%	5.0%	4.6%	4.2%
<b>Add Depreciation/Amort</b>	333	356	381	398	417	431	442	454	464	473	481
% of Sales	7.5%	7.5%	7.5%	7.4%	7.3%	7.2%	7.1%	7.0%	6.9%	6.8%	6.7%
<b>Plus/(minus) Changes WC</b>	57	47	50	54	57	60	62	65	67	70	72
% of Sales	1.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
<b>Subtract Cap Ex</b>	280	299	320	339	360	378	393	415	437	459	481
Capex % of sales	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.4%	6.5%	6.6%	6.7%
<b>Free Cash Flow</b>	681	715	765	809	868	920	962	999	1,034	1,067	1,096
% Growth		5.0%	7.0%	5.7%	7.3%	5.9%	4.6%	3.9%	3.5%	3.1%	2.8%
<b>NPV of Cash Flows</b>	5,663	42%									
<b>NPV of terminal value</b>	7,788	58%									
<b>Projected Equity Value</b>	13,452	100%									
<b>Free Cash Flow Yield</b>	5.18%										
<b>Current P/E</b>	23.0	21.5	20.1								
<i>Projected P/E</i>	23.5	22.0	20.6								
<b>Current EV/EBITDA</b>	11.3	10.5	9.8								
<i>Projected EV/EBITDA</i>	11.5	10.8	10.1								
<b>Shares Outstanding</b>	185										
<b>Terminal Discount Rate =</b>							9.25%				
<b>Terminal FCF Growth =</b>							3.25%				
<b>Terminal Value</b>										18,865	
<b>Free Cash Yield</b>											5.81%
<b>Terminal P/E</b>											18.4
<b>Terminal EV/EBITDA</b>											10.3
<b>Current Price</b>							\$ 71.09				
<b>Implied equity value/share</b>							\$ 72.71				
<b>Upside/(Downside) to DCF</b>							2.3%				



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Current Price = \$71.09

Target Price = \$72.71

Potential Upside = 2.3%

Recommendation

Hold at 4.58%



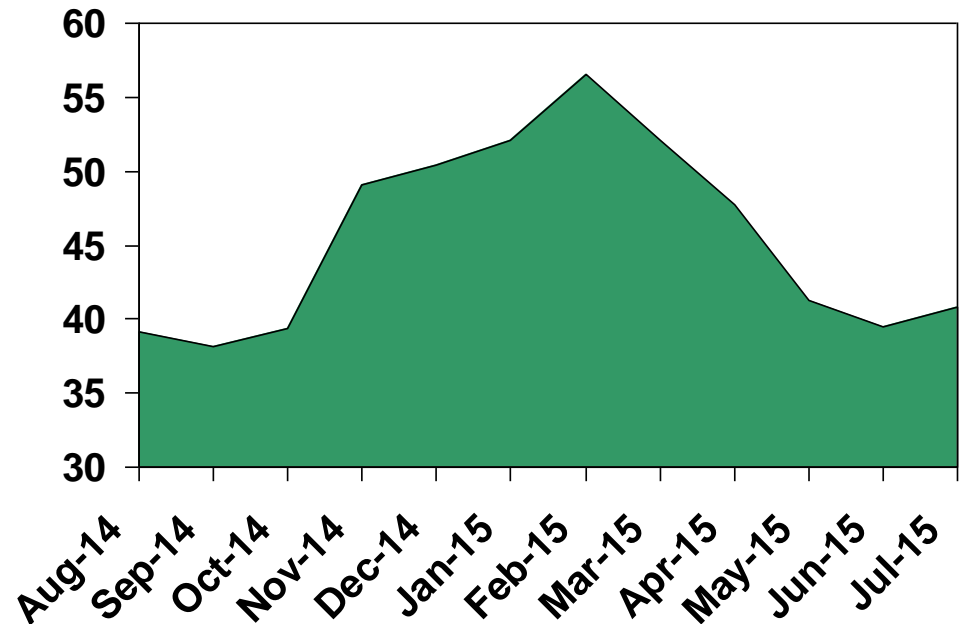
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The leading retailer of natural and organic foods, the first “Nationally Certified” organic grocer, and uniquely positioned as “America’s Healthiest Grocery Store.”

- Current Price = \$40.80
- 52 week High = \$57.57
- 52 week Low = \$36.08
- Beta = 0.81
- Market Cap = 14,130.6
- Div Yield = 1.30%





## Opportunities

- Inceasable Footprint
- Loyal customer base that is willing to pay more for premium products

## Risks




- Increasing competition from powerful retail giants
- Aggressive growth strategy with unproven new chain concept

## Competitive Advantage

- Offer a rare set of premium health conscious consumer products that are naturally, organically and locally sourced with a unique shopping experience



# WHOLE FOODS MARKET

	Market Cap	Revenue	Gross Margin	Net Income	EPS	P/E	P/S
	14.1	14.95	35%	0.605	1.66	24.59	0.98
	37.08	108.56	22%	1.83	3.71	20.60	0.34
	4.07	3.1	30%	0.111	0.72	36.78	1.32



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Current Price = 40.80

Target Price = \$38.62

Potential Downside = 5.3%

Recommendation

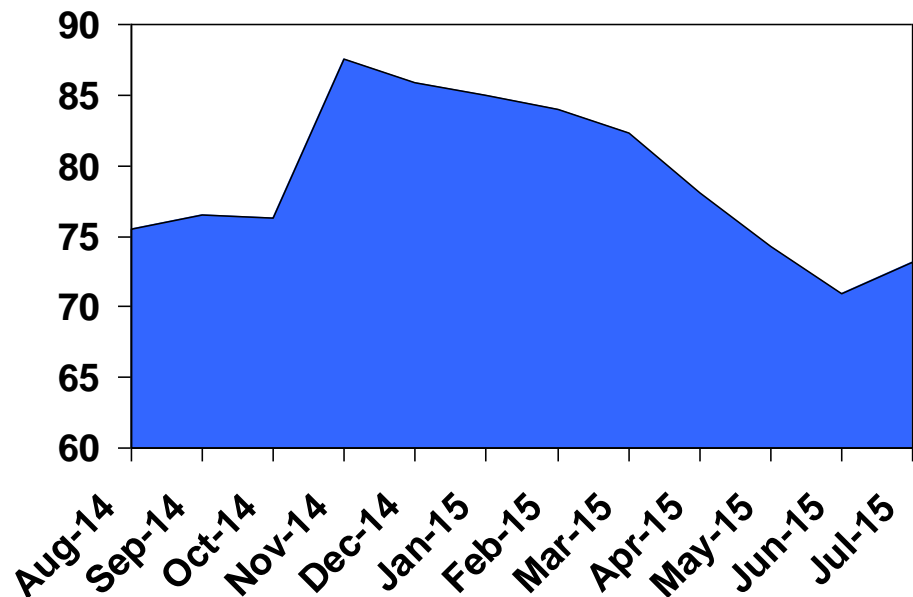
Sell all from 3.86% to 0%





The world's largest company by revenue, Walmart is a general merchandise retailer and wholesaler with operations in 27 countries and in all 50 states, famously boasting "Everyday Low Prices."

- Current Price = \$73.12
- 52 week High = \$90.97
- 52 week Low = \$70.36
- Beta = 0.75
- Market Cap = 235,490
- Div Yield = 2.70%





## Opportunities

- Internet retailing
- Entering natural food grocery market
- Incredible strength among suppliers and superior logistics

## Risks




- Fierce competition among peers
- Increased pressure to raise wages

## Competitive Advantage

- Offer everyday low prices, invest to differentiate on access, be competitive on assortment and deliver a great experience



# Walmart

	Market Cap	Revenue	Gross Margin	Net Income	EPS	P/E	P/S
 Walmart Save money. Live better.	235.49	485.52	25%	15.84	4.98	14.69	0.48
 COSTCO WHOLESALE	65.72	115.94	13%	2.31	5.22	27.34	0.53
 TARGET	53.58	73.08	30%	2.53	3.92	21.39	0.73



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Current Price = \$73.12

Target Price = \$84.09

Potential Upside = 15.0%

Recommendation

Buy – 4.5%



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# Conclusion



- Hold at 4.53 %



- Sell and decrease from 3.86% to 0%



- Buy and increase from 0% to 4.5%







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