
Consumers Discretionary

Sector Analysis

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Overview

What is the consumer discretionary?:

“The term given to goods and services that are considered non-essential by consumers, but desirable if their available income is sufficient to purchase them. Consumer discretionary goods include durable goods, apparel, entertainment and leisure, and automobiles”

Source: Investopedia



Economic Implications?

Overview

Market Capitalization: \$4.82 Trillion

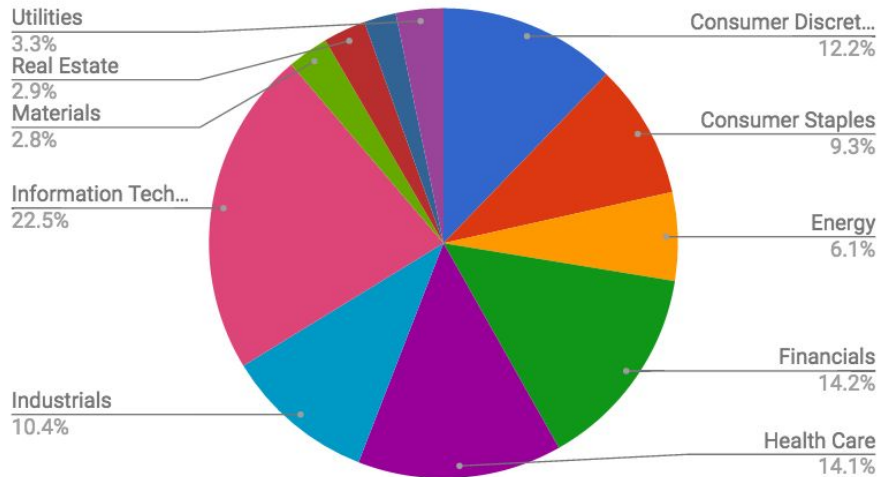
Market Weight: 12.23%

Various Industries: Automobile, Hotel, Restaurant, Internet, and Media companies

Best Performing Industry: Consumer Durables and Apparel

Year to Date Performance: +10.33%

Sectors by Percentage



Business Analysis

Business Cycle

Extremely cyclical

Overperforms when: the economy is in a bull market and consumer confidence is high

- Expansions and booms

Underperforms when: the economy is in a bear market and consumer confidence is low

- Recessions and depressions

Question

Consumer Discretionary sector is currently outperforming the SP500, why?



Business Analysis

What Affects Supply and Demand?

Positive Influences

1. Improving job market
2. Wage growth
3. Economic position
4. High consumer confidence

Negative Influences

1. Federal Reserve raising interest rates
2. Different consumer spending habits after recession
3. Retail competition with shift to eCommerce

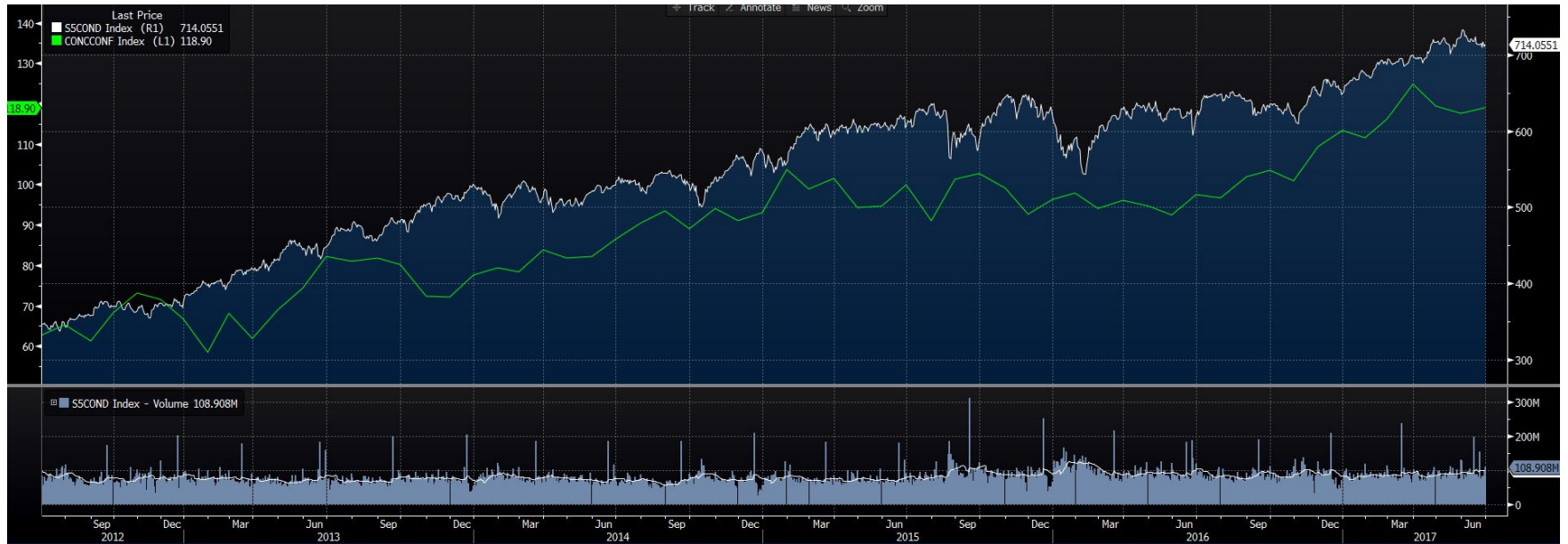
Economic Analysis

Main economic factors affecting consumer discretionary sector:

- Consumer confidence
- Consumer sentiment
- Average Wage Rate
- Inflation
- Consumer price index (CPI)
- Unemployment rates
- Interest rates
- GDP growth
- US export
- Oil price

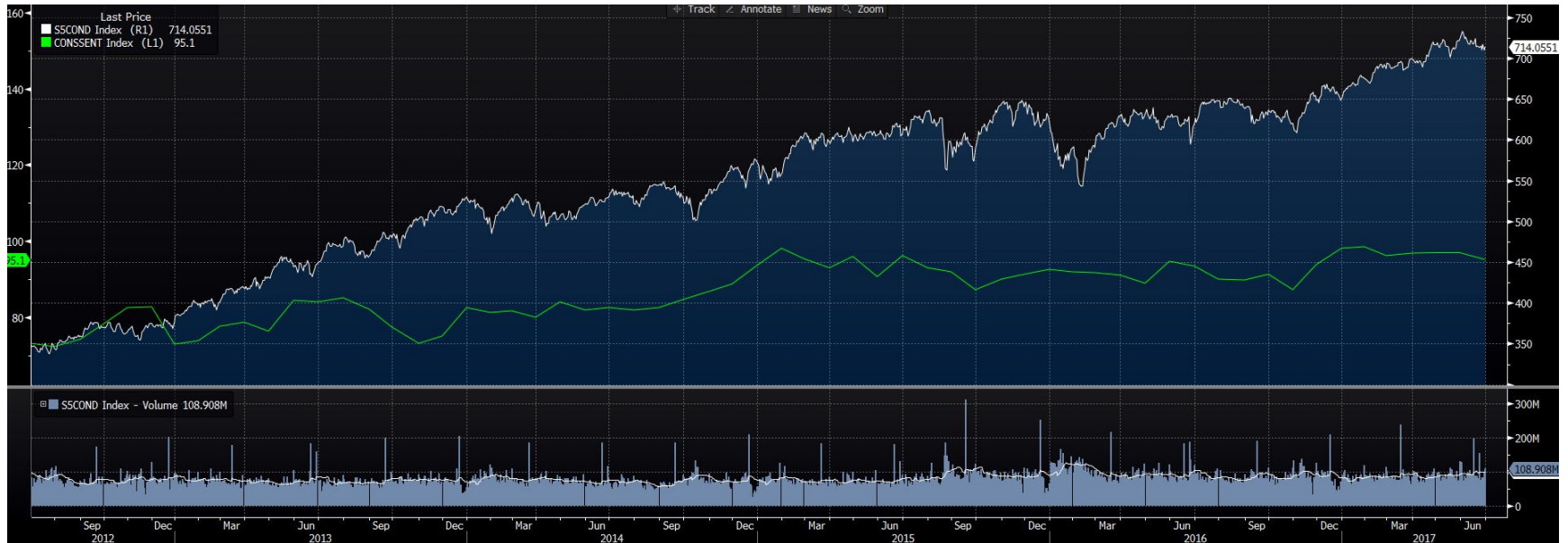
Economic analysis

Consumer Confidence (Bloomberg chart)



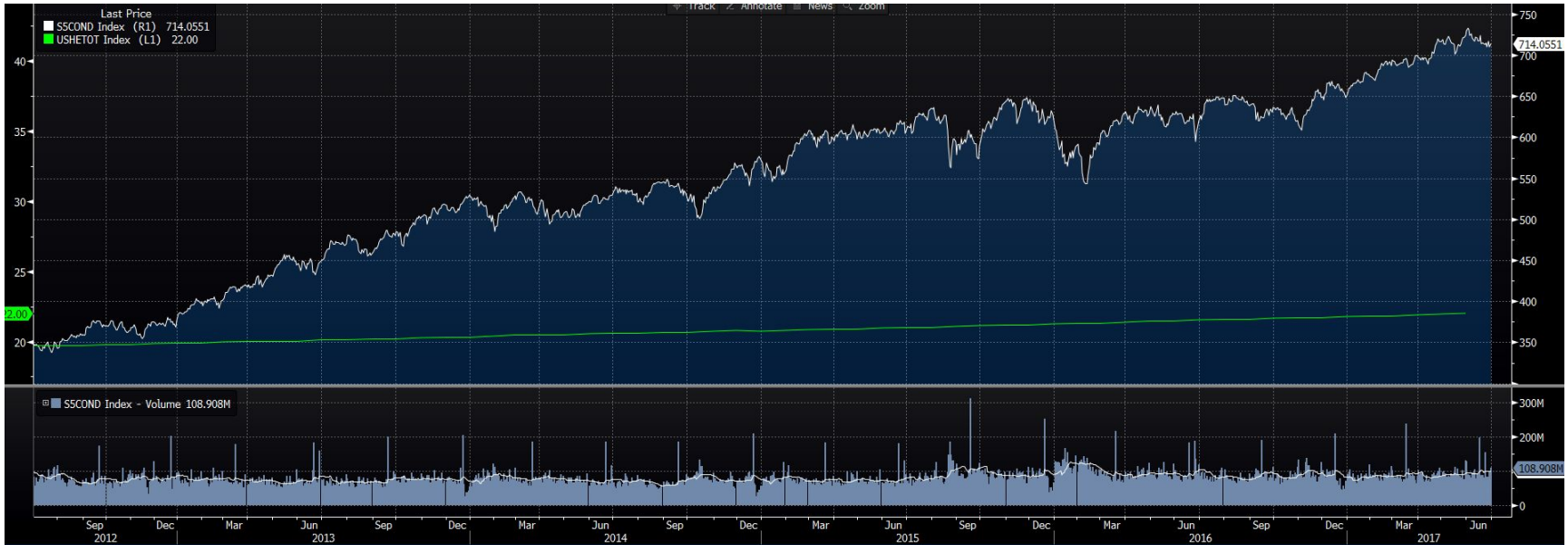
Economic Analysis

Consumer Sentiment (Bloomberg chart)



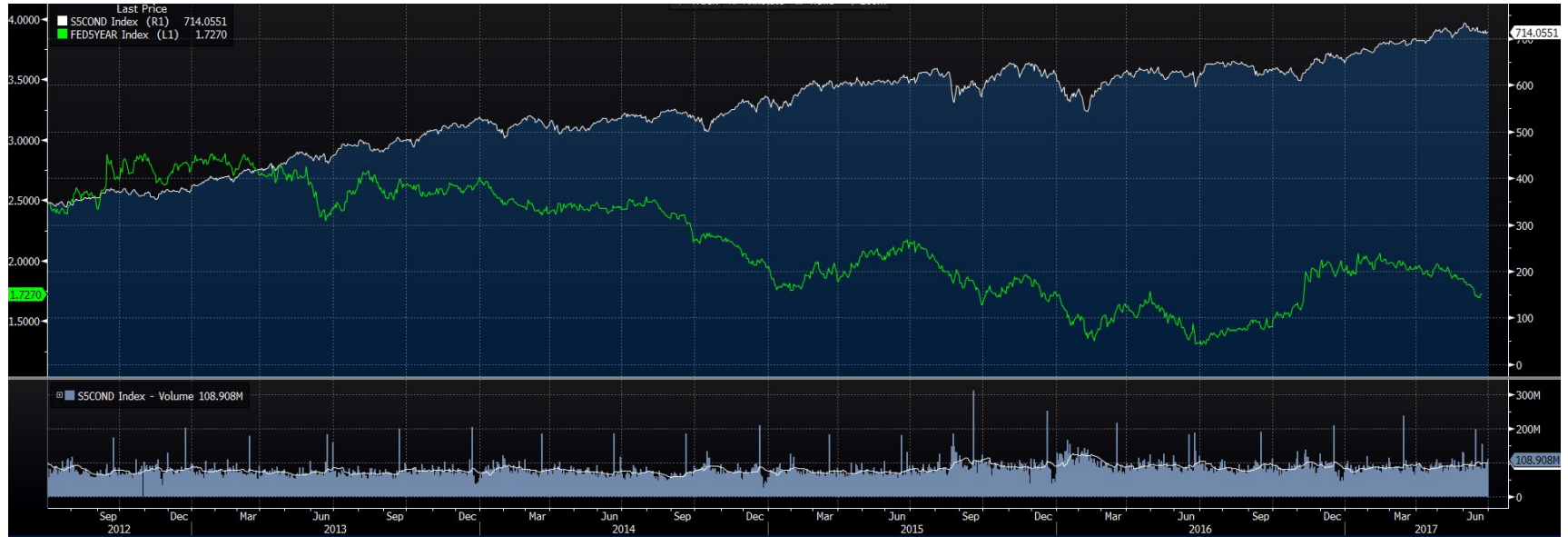
Economic Analysis

Average Wage Rate



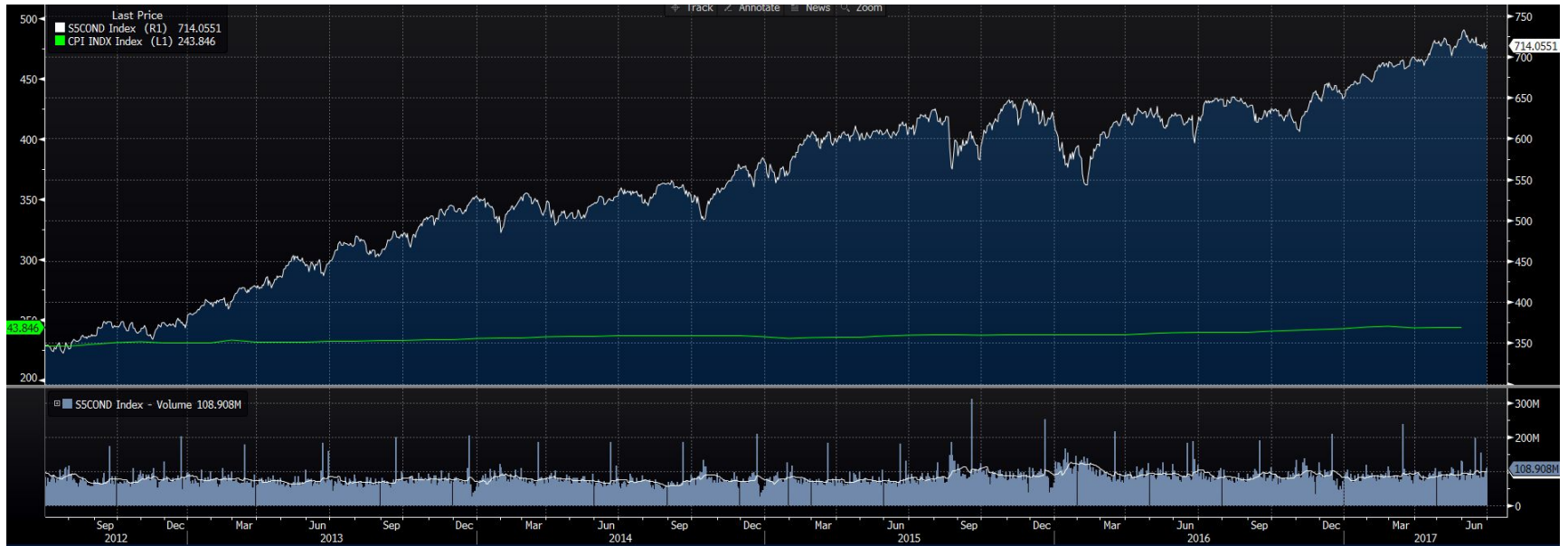
Economic Analysis

Inflation



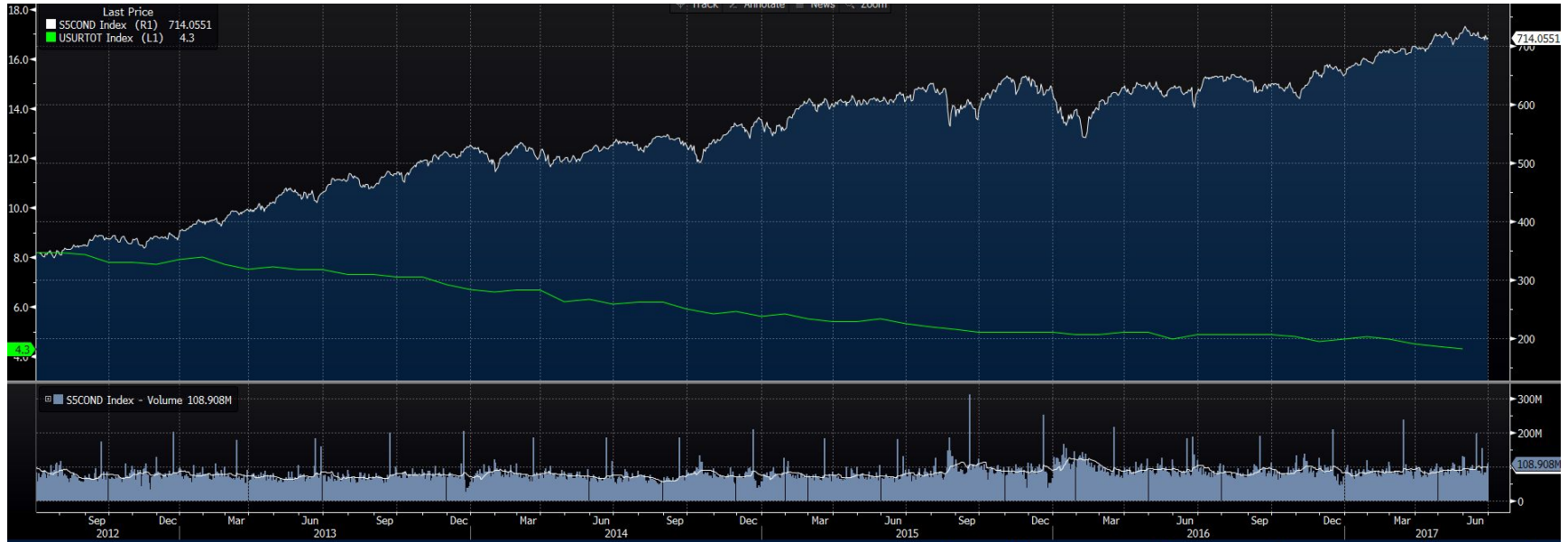
Economic Analysis

CPI



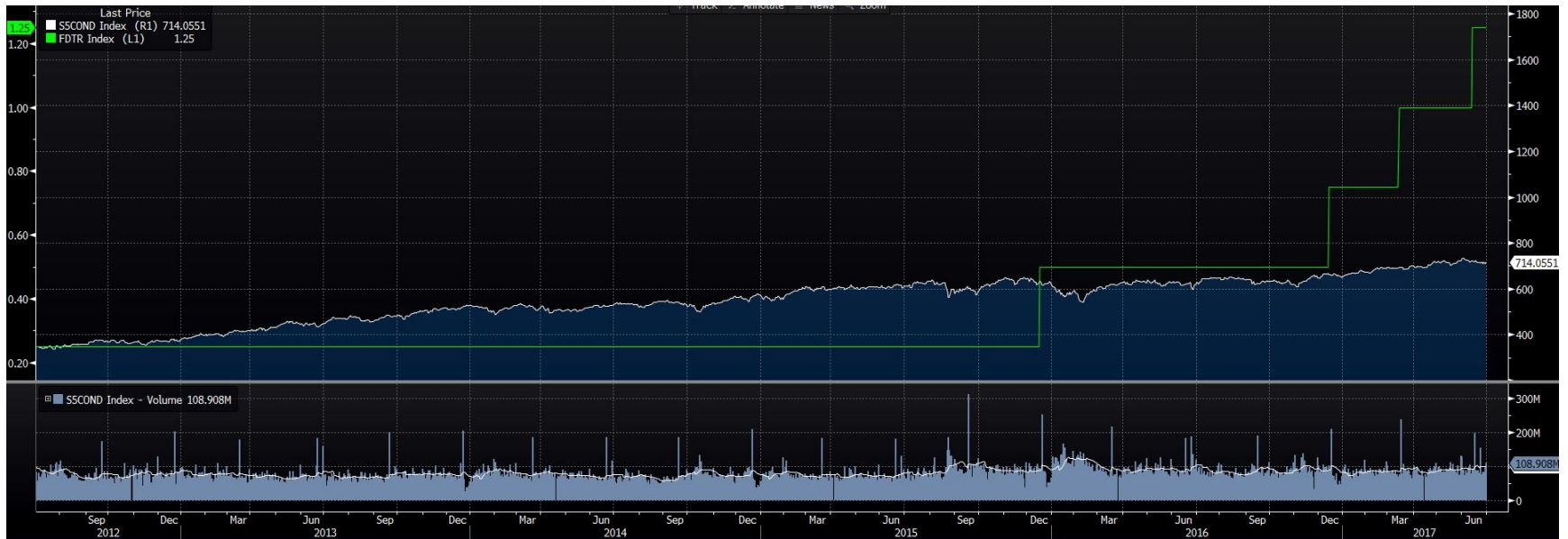
Economic Analysis

Unemployment Rate



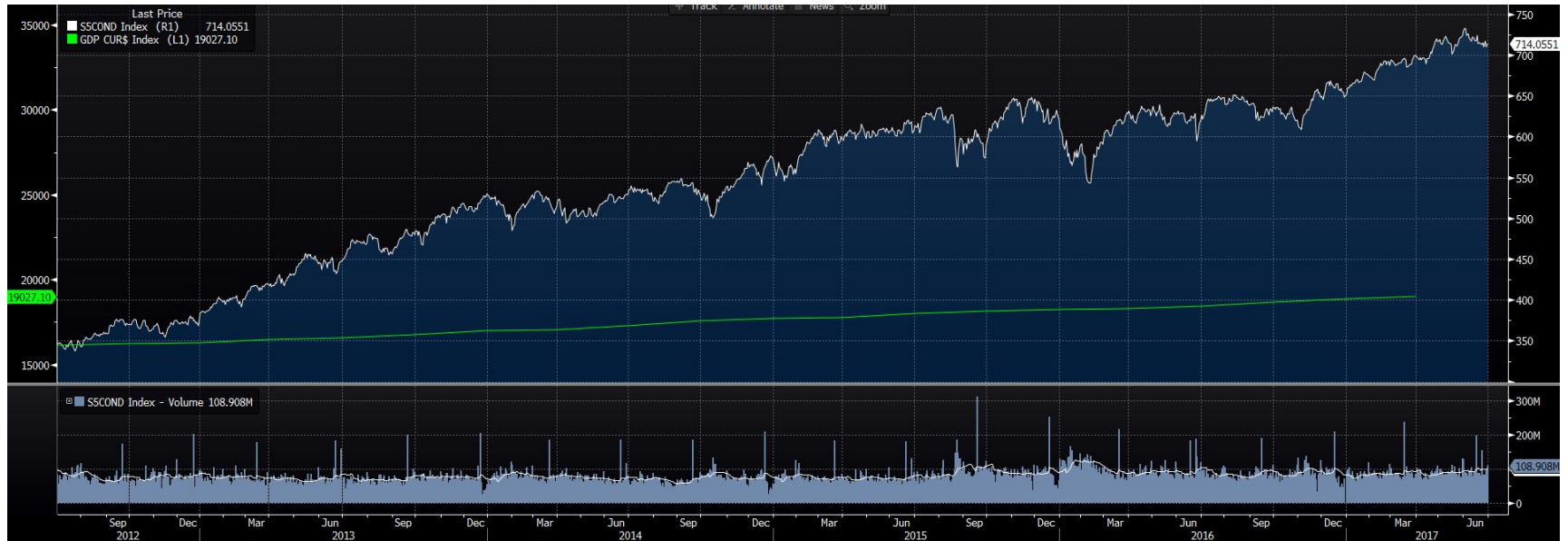
Economic Analysis

Interest Rates



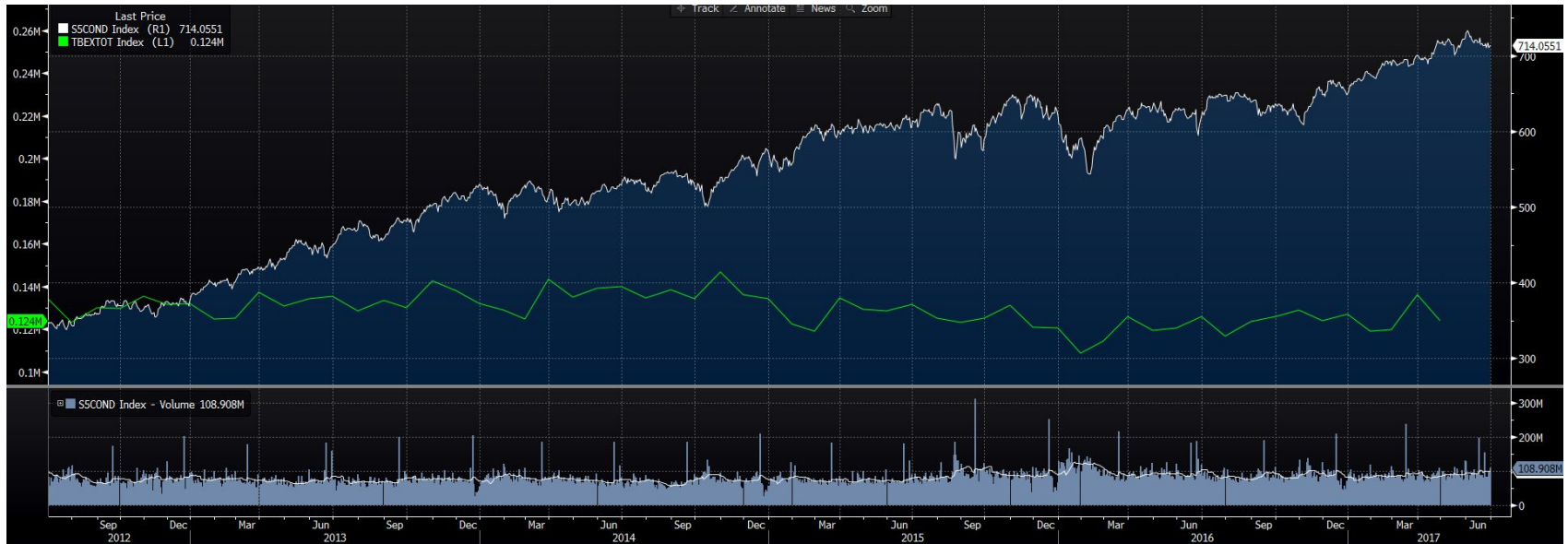
Economic Analysis

GDP Growth



Economic Analysis

US Export



Economic Analysis

Oil Price



Financial Analysis

12 Months Ending	12/31/2010	12/30/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/30/2016	07/01/2017
Income & Expenses per Share								
Sales	270.98	298.62	316.34	367.02	387.90	409.51	443.66	454.14
Gross Margin %	33.20	33.21	33.22	31.81	32.86	33.47	33.59	33.62
EBIT	29.21	33.73	35.67	38.63	41.12	45.46	48.18	48.79
Margin %	10.73	11.08	11.14	10.46	10.50	10.98	10.82	10.68
EBITDA	40.85	44.89	47.71	53.36	56.93	62.20	68.13	69.48
Margin %	15.08	15.03	15.08	14.54	14.68	15.19	15.36	15.30
R&D Expense	2.49	3.18	3.88	5.46	6.45	7.73	9.23	9.54
Earnings	17.35	20.29	21.13	25.12	27.32	29.82	33.36	34.08
Earnings before XO	16.65	23.08	21.33	24.90	27.00	28.74	30.61	31.21
Diluted Earnings from Cont. Ops	17.35	20.29	21.13	25.12	27.32	29.82	33.35	34.08
Earnings, Positive	17.57	20.37	21.35	25.18	29.02	29.82	33.36	34.08

	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	Current
12 Months Ending	12/31/2010	12/30/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/30/2016	07/01/2017
Trailing 12M Profit Margin	6.21	7.68	6.68	6.98	7.14	6.84	6.91	6.72
Trailing 12M Gross Margin	33.20	33.21	33.22	31.81	32.86	33.47	33.59	33.62
Trailing 12M Operating Margin	10.73	11.08	11.14	10.46	10.50	10.98	10.82	10.68
Trailing 12M R & D Expenditures	2.49	3.18	3.88	5.46	6.45	7.73	9.23	9.54
Return on Common Equity	17.23	22.41	20.14	21.69	22.19	22.19	22.87	22.35
Free Cash Flow/Basic Shr	19.58	20.16	20.50	21.56	24.59	28.52	34.80	36.83

Valuation-5Y COND vs S&P500

Security	Currency	Price Change	Total Return	Difference	Annual Eq
1) S5COND Index	USD	104.45%	120.91%	23.09%	17.17%
2) SPX Index	USD	77.90%	97.82%		14.61%
3)					

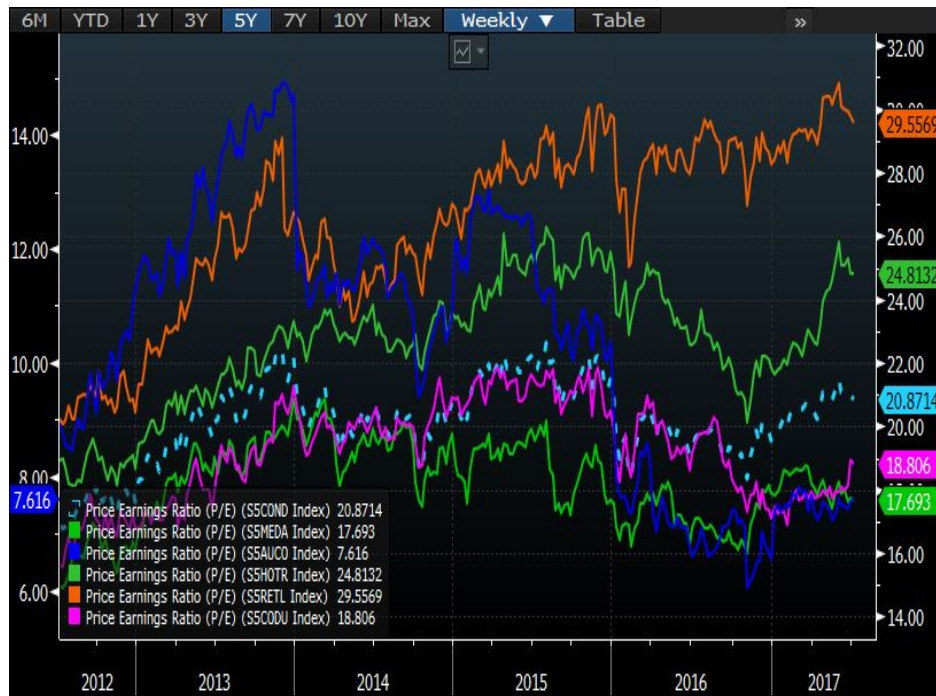


Valuation-Relative Multiples

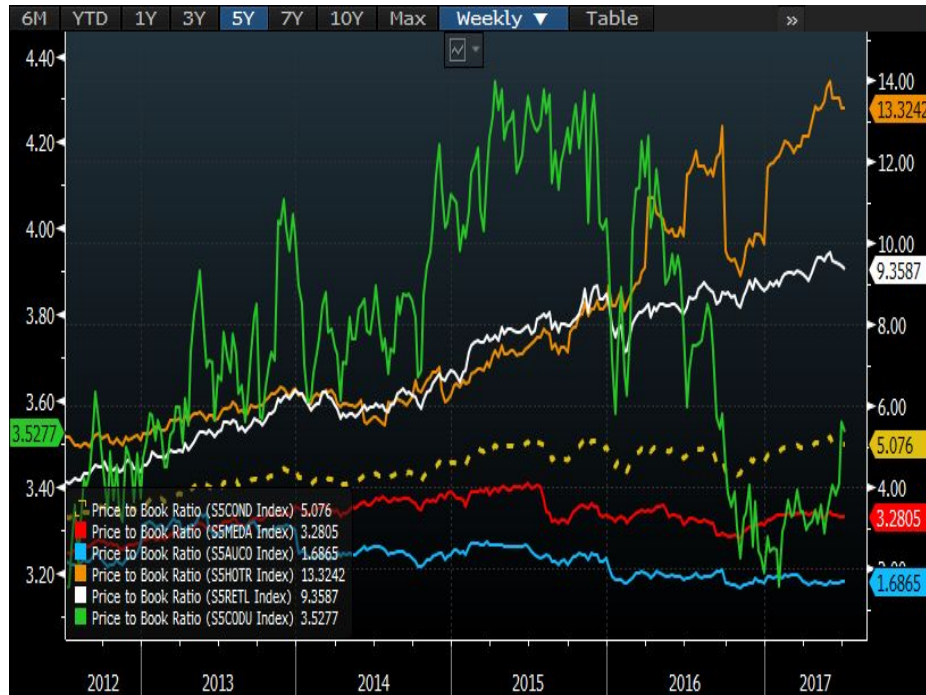
COND	High	Low	Median	Current	S&P 500	High	Low	Median	Current
P/E	556.27	14.07	19.75	20.82	P/E	24.24	12.04	17.37	21.53
P/B	5.14	1.77	3.26	5.06	P/B	3.09	1.64	2.41	3.13
P/S	1.61	0.43	1.15	1.56	P/S	2.08	0.74	1.44	2.09
P/EBITDA	11.04	4.69	7.88	10.23	P/EBITDA	11.27	4.41	7.56	11.15

Relative S&P 500	High	Low	Median	Current
P/E	2.51	0.37	1.15	1.06
P/B	1.77	0.35	0.88	1.66
P/S	1.24	0.48	0.91	0.97
P/EBITDA	1.24	0.34	0.68	0.72

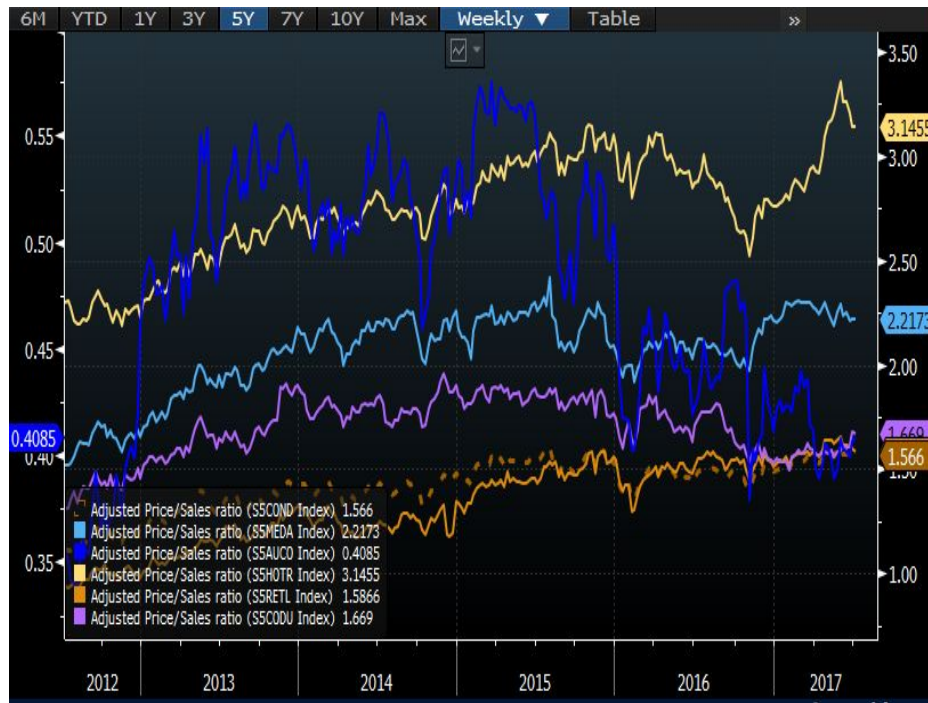
Valuation-Price to Earnings



Valuation-Price to Book



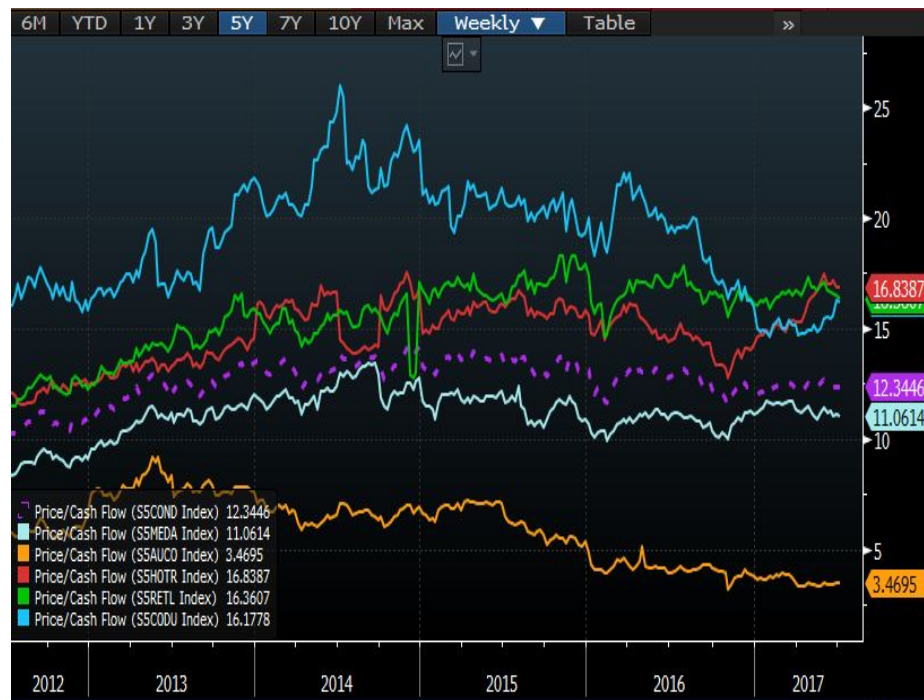
Valuation-Price to Sales



Valuation-Price to EBITDA



Valuation-Price to Cashflow



Valuation-Estimated Growth

S&P 500 Consumer Discretionary Sector GICS Level dex

Periodicity	A	Flavor	F12	View	Growth	Currency	USD		
Measure		Actual	F12 Est	Growth	Y+1 Est	Growth	Y+2 Est	Growth	
1) Earnings Per Share		34.08	37.04	8.68%	39.65	7.04%	44.54	12.32%	
2) EPS Positive		34.08	37.04	8.68%	39.65	7.04%	44.54	12.32%	
3) Cash Flow Per Share		57.64	58.15	0.90%	61.77	6.22%	68.78	11.35%	
4) Dividends Per Share		10.16	11.34	11.66%	11.53	1.65%	11.99	3.98%	
5) Book Value Per Share		140.12	150.74	7.58%	164.46	9.10%	174.11	5.87%	
6) Sales Per Share		454.14	475.61	4.73%	486.39	2.27%	513.02	5.48%	
7) EBITDA Per Share		69.47	79.41	14.30%	82.68	4.12%	89.61	8.38%	
8) Long Term Growth			15.48						
9) Net Debt Per Share		102.92	96.45	-6.29%	88.77	-7.96%	80.50	-9.32%	
10) Enterprise Value Per Share		829.10	822.26	-0.82%	814.58	-0.93%	806.72	-0.97%	

S&P 500 Index

Periodicity	A	Flavor	F12	View	Growth	Currency	USD		
Measure		Actual	F12 Est	Growth	Y+1 Est	Growth	Y+2 Est	Growth	
1) Earnings Per Share		112.94	138.12	22.29%	146.19	5.84%	161.30	10.34%	
2) EPS Positive		116.57	138.79	19.05%	146.54	5.59%	161.50	10.21%	
3) Cash Flow Per Share		182.63	199.11	9.03%	208.14	4.53%	234.98	12.89%	
4) Dividends Per Share		47.81	53.04	10.93%	52.87	-0.31%	55.57	5.10%	
5) Book Value Per Share		776.22	818.75	5.48%	878.15	7.26%	952.35	8.45%	
6) Sales Per Share		1159.73	1249.73	7.76%	1276.72	2.16%	1337.62	4.77%	
7) EBITDA Per Share		218.17	263.03	20.56%	273.50	3.98%	293.84	7.44%	
8) Long Term Growth			8.79						
9) Net Debt Per Share		327.32	284.75	-13.00%	276.90	-2.76%	281.28	1.58%	
10) Enterprise Value Per Share		2818.81	2767.61	-1.82%	2760.04	-0.27%	2697.48	-2.27%	

Recommendation

We recommend the SIM program slightly overweight the Consumer Discretionary Sector based on the following reasons.

- The sector, historically, has yielded a higher return than the S&P 500 and shows continued signs of growth over the next 3 years.
- Current trends indicate a conducive economic environment for sector growth, low unemployment, high consumer confidence, etc.
- Negative growth factors such as raised interest rates and altered spending habits may cause lower returns in the short term but will ultimately not affect sector returns.

Questions?

What questions do you have?