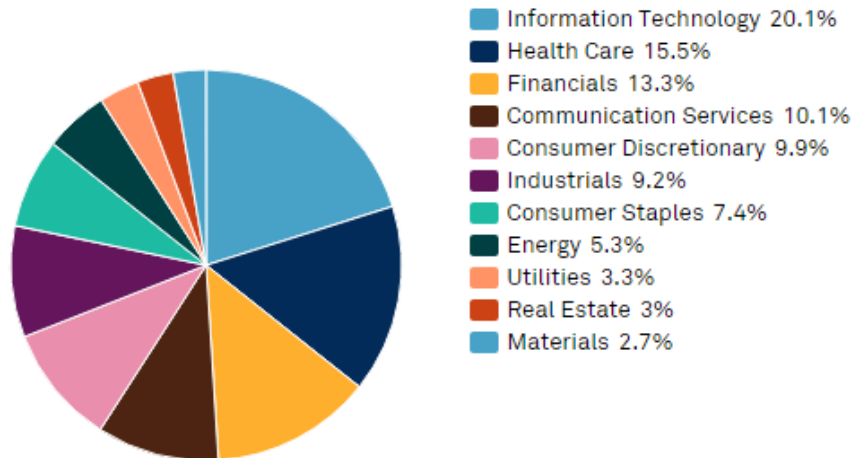




# Consumer Sectors Review

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# S&P 500 Sector Breakdown



Wgt Diff	
4.53	Health Care
3.04	Industrials
1.93	Financials
1.72	Consumer Staples
1.16	Funds
0.38	Information Technology
-0.09	Cash
-0.54	Materials
-0.69	Real Estate
-1.15	Energy
-1.49	Consumer Discretionary
-3.26	Utilities
-5.56	Communication Services

## Consumer Discretionary

### Retailing - 61%

- Distributors
- Internet
- Multiline
- Specialty

### Consumer Services - 20%

- Hotels, Restaurants, Gaming, Leisure
- Diversified Consumer Services

### Durables & Apparel - 12%

- Household Durables
- Leisure Products
- Textiles, Apparel, Luxury

### Automobiles & Components - 6%

- Auto Parts & Equipment
- Tires & Rubber

## Consumer Staples

### Beverages - 26%

- Brewers
- Distillers & Vintners
- Soft Drinks

### Household Products - 24%

### Food & Staples Retailing - 21%

- Drug Retail
- Food Distributors
- Food Retail
- Hypermarkets & Super Centers

### Food Products- 18%

- Agricultural Products
- Packaged Foods & Meats

### Tobacco- 8%

### Personal Products- 2%

# Largest Sector Constituents

The top 10 stocks in each sector drive a substantial part of sector performance.

## Consumer Discretionary

Top 10		
AMZN	Amazon.com Inc	23.35%
HD	Home Depot Inc	10.09%
MCD	Mcdonald's Corp	6.98%
NKE	Nike Inc	4.85%
SBUX	Starbucks Corp	3.97%
BKNG	Booking Holdings Inc	3.88%
LOW	Lowe's Companies Inc	3.85%
TJX	TJX Companies Inc	2.91%
GM	General Motors Co	2.27%
TGT	Target Corp	1.78%

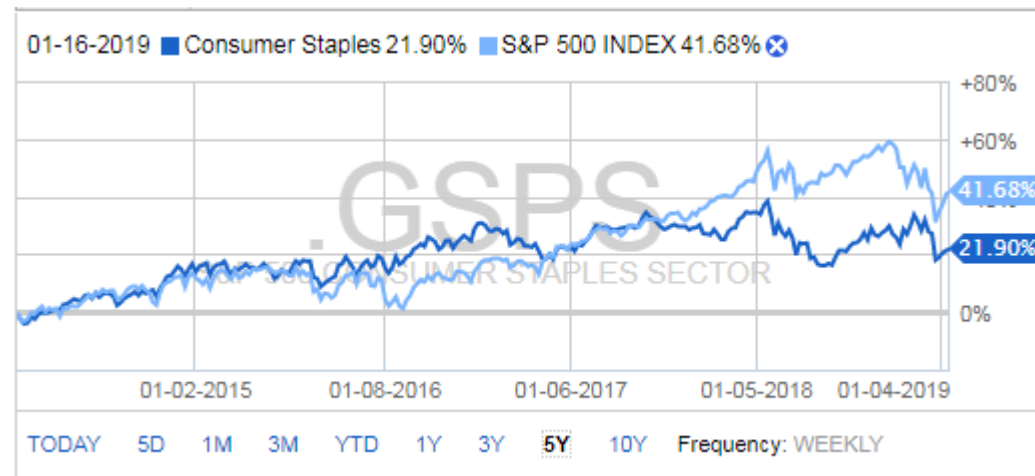
Top 10			
	Market Cap	FCF	
Amazon.com Inc	\$ 811,404	\$ 26,514	
Home Depot Inc/The	\$ 203,010	\$ 11,374	
McDonald's Corp	\$ 138,987	\$ 5,555	
NIKE Inc	\$ 120,537	\$ 3,994	
Starbucks Corp	\$ 79,250	\$ 2,786	
Lowe's Cos Inc	\$ 77,911	\$ 5,541	
Booking Holdings Inc	\$ 76,420	\$ 5,067	
TJX Cos Inc/The	\$ 58,498	\$ 2,663	
Tesla Inc	\$ 58,137	\$ 837	
General Motors Co	\$ 49,653	\$ 2,831	
	\$ 1,673,807	\$ 67,163	
	55%	43%	

## Consumer Staples

Top 10		
PG	Procter & Gamble Co	14.32%
KO	Coca-Cola Co	11.37%
PEP	PepsiCo Inc	9.63%
WMT	Walmart Inc	8.52%
COST	Costco Wholesale Corp	4.78%
MDLZ	Mondelez International Inc	4.47%
MO	Altria Group Inc	4.36%
WBA	Walgreens Boots Alliance Inc	4.23%
CL	Colgate-Palmolive Co	3.90%
PM	Philip Morris International Inc	3.89%

Top 10			
	Market Cap	FCF 2019e	
Walmart inc	\$ 279,631	\$ 15,933	
Procter & Gamble	\$ 229,234	\$ 11,195	
Coca-Cola Co	\$ 202,482	\$ 7,645	
PepsiCo Inc	\$ 153,846	\$ 7,670	
Philip Morris International Inc	\$ 109,594	\$ 8,098	
Costco Wholesale Corp	\$ 92,956	\$ 2,610	
Altria Group Inc	\$ 90,025	\$ 2,731	
Walgreens Boots Alliance Inc	\$ 67,729	\$ 7,212	
Mondelez International Inc	\$ 62,427	\$ 2,727	
Colgate-Palmolive Co	\$ 53,964	\$ 2,647	
	\$ 1,341,888	\$ 68,468	
	64%	65%	

# Historical Performance



The consumer staples sector has outperformed the S&P 500 during the last three recessionary periods

## Macro Drivers

- ✓ Employment
- ✓ Inflation
- ✓ Credit cycles
- ✓ Income
- ✓ Household net worth
- ✓ Consumer sentiment

## Themes

### **Consumer Discretionary:**

- › E-commerce gaining share
- › Experiences over goods
- › Changing demographics
- › Shift to subscribing vs. buying

### **Consumer Staples:**

- › Aggressive cost-cutting
- › M&A activity
- › Emerging markets
- › Rising competition from private labels and local companies

# How the business cycle impacts sector performance

ECONOMIC GROWTH	EARLY: Rebounds	MID: Peaks	LATE: Moderates	RECESSION: Contracts
OUTPERFORM THE U.S. EQUITY MARKET	<ul style="list-style-type: none"> <li>CONSUMER DISCRETIONARY</li> <li>FINANCIALS</li> <li>INDUSTRIALS</li> <li>INFORMATION TECHNOLOGY</li> </ul>	<ul style="list-style-type: none"> <li>INDUSTRIALS</li> <li>INFORMATION TECHNOLOGY</li> </ul>	<ul style="list-style-type: none"> <li>CONSUMER STAPLES</li> <li>ENERGY</li> <li>HEALTH CARE</li> <li>MATERIALS</li> <li>UTILITIES</li> </ul>	<ul style="list-style-type: none"> <li>CONSUMER STAPLES</li> <li>HEALTH CARE</li> <li>TELECOMMUNICATIONS</li> <li>UTILITIES</li> </ul>
UNDERPERFORM THE U.S. EQUITY MARKET	<ul style="list-style-type: none"> <li>ENERGY</li> <li>TELECOMMUNICATIONS</li> <li>UTILITIES</li> <li>HEALTH CARE</li> <li>CONSUMER STAPLES</li> </ul>	<ul style="list-style-type: none"> <li>MATERIALS</li> <li>UTILITIES</li> </ul>	<ul style="list-style-type: none"> <li>CONSUMER DISCRETIONARY</li> <li>INFORMATION TECHNOLOGY</li> </ul>	<ul style="list-style-type: none"> <li>INDUSTRIALS</li> <li>INFORMATION TECHNOLOGY</li> <li>FINANCIALS</li> <li>MATERIALS</li> </ul>

## Early Cycle

Economically sensitive sectors may tend to outperform, while more defensive sectors have tended to underperform.

## Mid Cycle

Making marginal portfolio allocation changes to manage drawdown risk with sectors may enhance risk-adjusted returns during this cycle.

## Late Cycle

Defensive and inflation-resistant sectors tend to perform better, while more cyclical sectors underperform.

## Recession

Since performance is generally negative in recessions, investors should focus on the most defensive, historically stable sectors.

# Where are we in the business cycle?

## The economy is strong...

- **Improving job market:** unemployment is at a 49-year low
- **Wage growth:** tight labor market should support continued increase (largest nominal wage increase in a decade)
- **Consumer confidence** is at the highest level since 2000
- **Monetary policy:** future increases are expected to be slow
- **Lower energy prices:** less money being spent on energy costs and more available for other spending
- **Individual tax cuts:** enacted in 2018

## ... but we seem to be late cycle:

- **Rising interest rates**
- **Trade disputes:** if conflicts continue to escalate, it could result in inflation to the US consumers



# How does the cycle impact how we invest?

We don't invest based on where we are in the cycle, but it may create opportunities to buy high quality companies at a reasonable price.

## **What we look for:**

- ✓ Not highly cyclical, positive secular drivers
- ✓ Industry with favorable competitive dynamics
- ✓ Moat
- ✓ Pricing power
- ✓ Consistently high margins
- ✓ Consistently high ROIC
- ✓ Strong balance sheet
- ✓ Reasonable valuation



# Consumer Discretionary - Characteristics

- > Volatile demand & mature market
- > Highly sensitive to economic cycles – demand is more elastic than staples
- > Tends to outperform early cycle
- > Retail – cyclical with some secular challenges
- > Auto & Durables – the most cyclical, interest rate sensitive, lowest margin, highest leverage ratios
- > Consumer Services – can be less cyclical with some positive secular drivers

	FCF Yield	Dividend Yield	Forward P/E	ROIC	Leverage Ratio	Gross Margin	Avg FCF Margin
Specialty Retail	6%	0%	15x	10%	0.6x	35%	4%
Multiline Retail	7%	1%	16x	9%	1.4x	35%	5%
Internet & Direct Mkting Retail	4%	0%	18x	5%	0.0x	55%	5%
Distributors	7%	1%	20x	8%	3.1x	30%	4%
Diversified Services	5%	0%	18x	8%	0.7x	46%	9%
Hotels & Restaurants	6%	1%	23x	10%	2.8x	42%	5%
Apparel and Luxury	6%	1%	19x	7%	-0.1x	49%	7%
Leisure Products	6%	0%	16x	11%	1.1x	32%	7%
Auto	6%	2%	9x	10%	1.1x	19%	4%
Durables	7%	0%	8x	7%	2.0x	23%	2%
<b>Sector Average</b>	<b>6%</b>	<b>1%</b>	<b>16x</b>	<b>8%</b>	<b>1.3x</b>	<b>37%</b>	<b>5%</b>
<b>BKNG</b> Internet & Direct Mkting Retail	7%	0%	18x	23%	-1.3x	98%	34%
<b>TJX</b> Specialty Retail	5%	2%	24x	35%	-0.1x	29%	7%
<b>HLT</b> Hotels, Restaurants & Leisure	7%	1%	26x	16%	4.0x	86%	32%

# Consumer Staples - Characteristics

- › Companies whose businesses are less sensitive to economic cycles: staples businesses typically sees persistent demand for its products
- › Consumer-staples stocks tend to be low-innovation, mature companies that rely on big brands and timeless products, and pay regular dividends
- › To stimulate sales growth, companies enter new markets, create new product categories, add distribution channels and acquire/divest businesses

		FCF Yield	Dividend Yield	Forward P/E	ROIC	Leverage Ratio	Gross Margin	Avg FCF Margin
	Beverages	2%	1%	27x	11%	1.9x	47%	11%
	Food & Staples Retailing	4%	1%	19x	8%	1.9x	21%	1%
	Food Products	3%	2%	4x	8%	3.3x	26%	7%
	Household Products	5%	2%	20x	18%	1.4x	44%	12%
	Personal Products	4%	2%	15x	12%	0.3x	75%	7%
	Tobacco	3%	6%	13x	17%	2.0x	43%	8%
	<b>Sector Average</b>	<b>4%</b>	<b>2%</b>	<b>16x</b>	<b>12%</b>	<b>1.8x</b>	<b>42%</b>	<b>8%</b>
CL	Personal Products	5%	3%	21x	32%	1.4x	60%	16%
MKC	Food Products	4%	2%	28x	10%	4.8x	42%	11%
PEP	Beverages	4%	3%	19x	11%	1.7x	55%	11%
STZ	Beverages	3%	2%	19x	11%	4.8x	50%	11%

# Questions?

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# Constellation Brands (STZ)

## Leading producer of imported beer, wine, and spirits

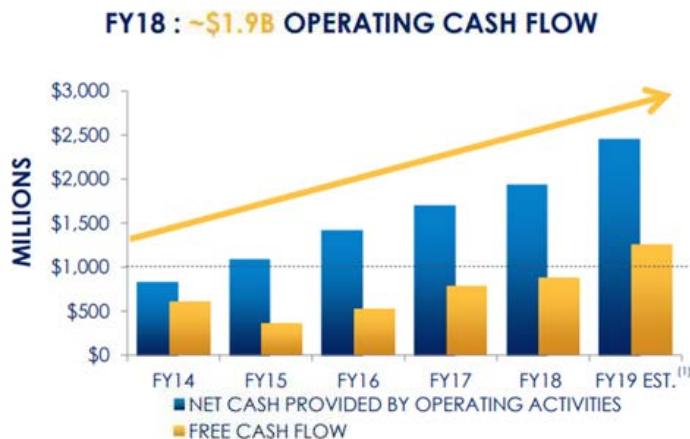


### The Company

- > **About** – STZ produces beer, wine, and spirits and is one of the largest multi-category alcoholic beverage suppliers in the U.S. with 97% of revenues generated in the U.S.
- > **Strong brands** – US leader in imported beers: Corona, Modelo, Pacifico, but also craft beer (Ballast point), wine (Mondavi, Meiomi, Black Box) and Spirits (Svedka)
- > **Fastest growing beer portfolio** in the US that is consistently gaining market share, and is #1 multi-category alcoholic beverages supplier in the US

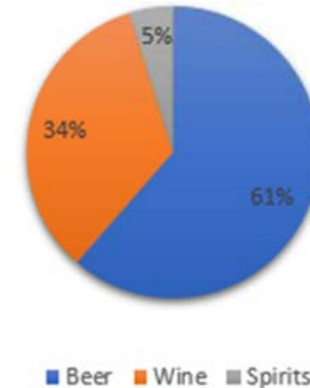
### Attractive Valuation

- > Supported by Free Cash Flow growth. STZ is ending a heavy investment cycle to support its future growth



Source: Constellation Brands Investor Presentation

### Constellation Brands by Segment



Source: Constellation Brands Financial Statements

### The Opportunity

- > **Defensive company:** this sector is resilient to economic cycles and shows little correlation to GDP growth
- > **Continued volume growth** from entrenched relationships with distributors and a leading portfolio of brands
- > **Pricing power:** brands favored by US consumers
- > **Consumption growth:** Hispanics are a rising share of the US legal drinking age group and prefer drinking beer
- > **Cannabis equity stake:** 37% equity stake in Canopy Growth, a Canadian cannabis firm. Possibilities around cannabis innovations are seen as once in a century disruptive market transition



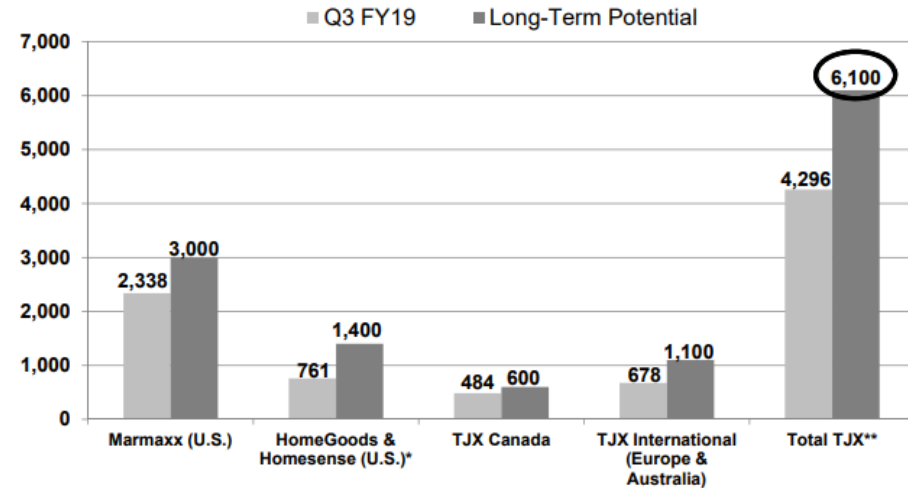
# The TJX Companies (TJX) – Leading off-price retailer



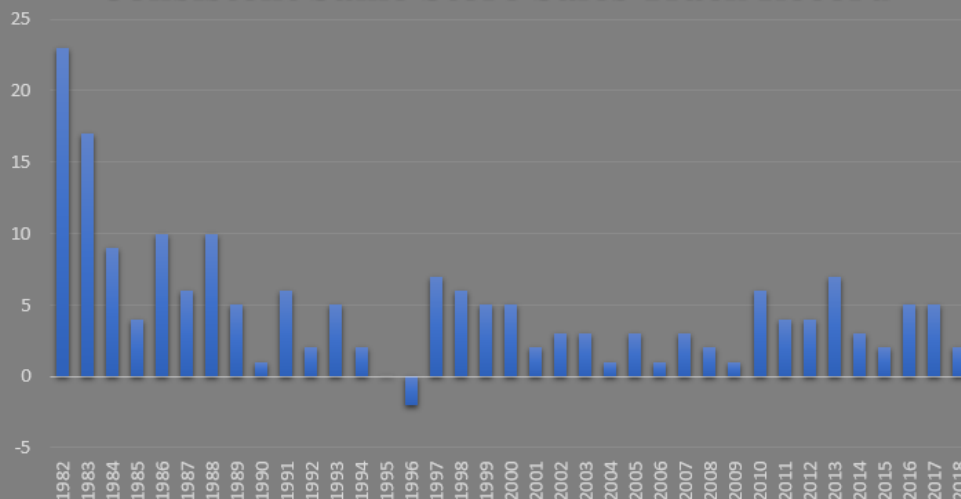
## The Company:

- › TJX is the world's largest off-price retailer with over 4,000 stores. They deliver a combination of brand, fashion, price and quality with a differentiated treasure-hunt shopping experience.
- › **Scale Advantage**– ability to leverage global supply chain and distribution network for favorable pricing on quality, branded merchandise.
- › **Flexible sourcing model** – global buying organization and industry leading inventory turnover allows for flexible and opportunistic buying.
- › **Ability to withstand economic cycles** –In over 41 years they have had only 1 year with negative same store sales. Same store sales measure sales at stores open for at least 1 year.

## Global #of Stores and Growth Potential



## Consistent Same Store Sales Track Record



## The Opportunity:

- › **Nascent digital platform** – their rapidly growing e-commerce is only 2% of revenue.
- › **Opportunity to gain share** – As the retail environment evolves, e-commerce and off-price channels are gaining share.
- › **International growth**– At only 27% of sales, they have an opportunity to considerably grow their international store base.
- › **Growth opportunity with new concepts** – Potential to scale newer concepts, such as HomeSense and Sierra Trading Post.