



Consumer Discretionary Sector Analysis

2/17/2021

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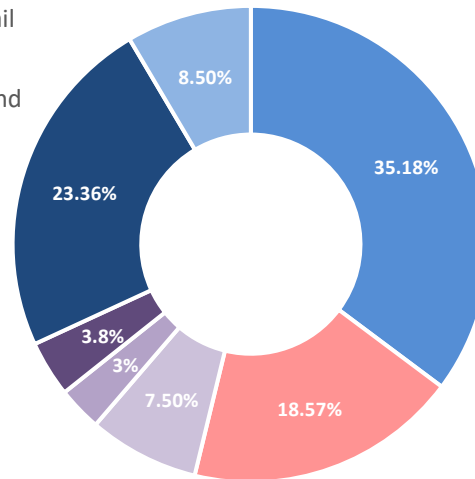
Sector Overview

Consumer Discretionary Overview

The consumer discretionary sector comprises businesses that sell nonessential products and services that consumers may avoid without any major consequences to their well-being. Consumer confidence plays a central role in the consumer discretionary sector.

With the economic circumstances and the idea of the changing consumer in mind, discretionary consumer product and service companies recognize the value in having a strong ecommerce and global presence.

- Internet & Direct Retail
- Hotels, Restaurants and Leisure
- Textiles, Apparel & Luxury Goods
- Household Durables
- Automobiles
- Specialty Retail
- Other



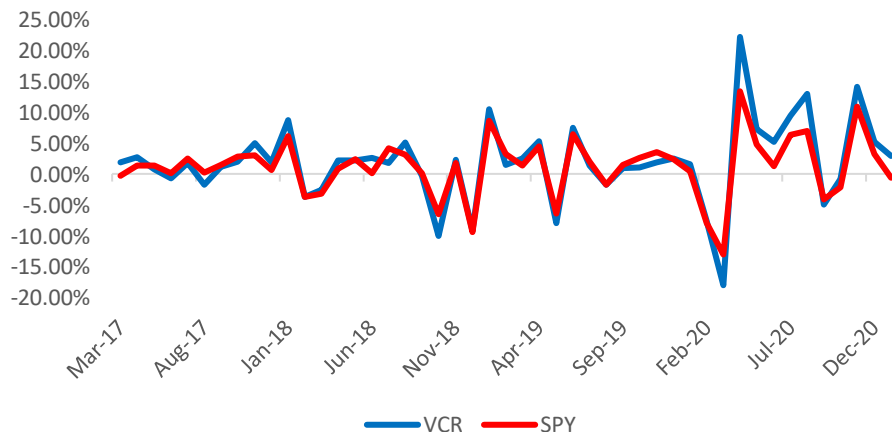
Industry Snapshot

Market Cap: **\$9.04 Trillion**
Market Weight: **13.02%**

Life Cycle Classification:

- Mature depending on various subsectors
- Extremely Cyclical
- Overperforms when the economy is in a bull market and **consumer confidence is high**
- Underperforms when the economy is in a bear market and **consumer confidence is low**

Industry Performance



Industry Trends

- Building Supply Chain Resilience
- Acceleration of the shift to online retail
- Vertical integration through M&A
- Consumers have turned to higher end products with added benefits
- Concerns about carbon footprints are causing manufactures to explore new resources
- New entrants innovate by targeting niche markets to compete
- Large operators have the financial means to increase sales volumes

Sector Overview

Fundamental Performance

P/E 2020 Actuals	-----	92.87
P/E 2021 Estimate	-----	42.72
Enterprise Value	-----	\$519.92B
EPS (TTM)	-----	\$10.98
EPS Growth (vs prior TTM)	-----	25.70%
Revenue Growth (vs prior TTM)	-----	17.76%
Total Debt/ Equity (TTM)	-----	-20.41
Dividend Yield	-----	1.45%

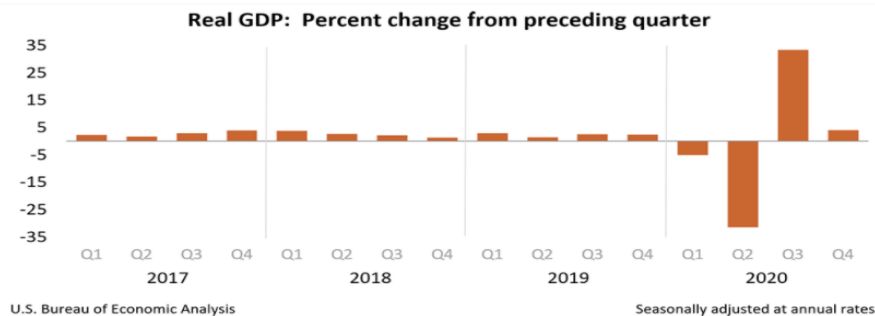
➤ The Consumer Discretionary sector has historically carried higher price-to earnings (P/E) and price-to-book-value (P/BV) ratios than the broader market

Business Model

- Produce nonessential items and automobiles. Also provide entertainment and leisure activities
- Numerous companies operating in various industries, including retail, media, restaurants, consumer durables and apparel.
- Contingent upon technological advancements - current shortage in micro chips
- Average gross margin in 2020 was 26.26%

Consumer Demand Analysis

- GDP shows growing economy
- Disposable income amongst consumers will start to revitalize
- Demand is most high in bull markets
- Very dependent on consumer confidence

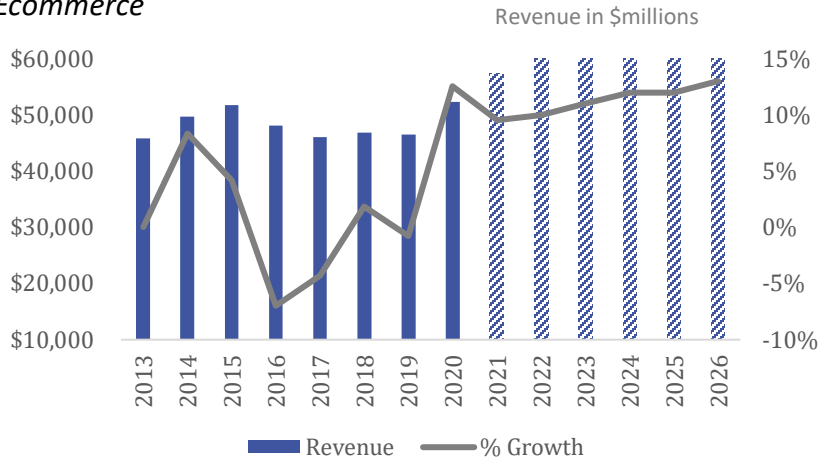


Key Players

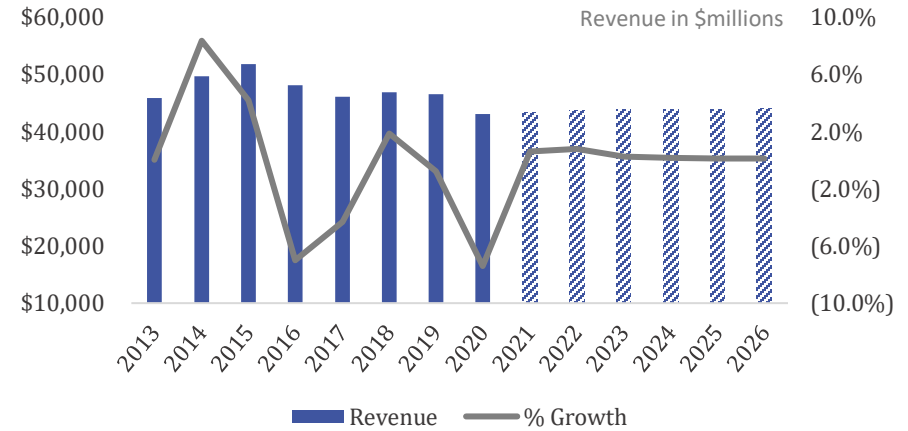
Internet Retail	ebay wayfair.com amazon Alibaba.com
Hotels, Restaurants, Leisure	McDonald's Hilton Starbucks Marriott
Textiles, Apparel	macy's NORDSTROM JCPenney LV
Auto	TOYOTA Tesla Ford GM
Specialty Retail	IKEA VICTORIA'S SECRET SEPHORA Coca-Cola store

Sub Sectors Outlook

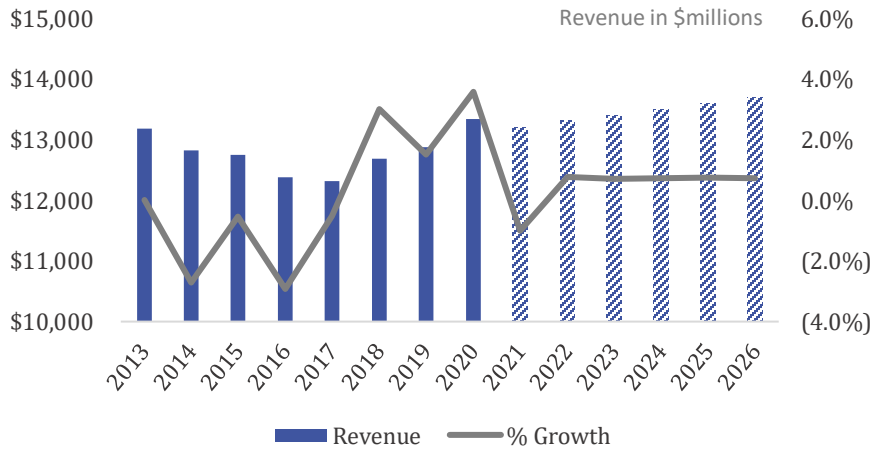
Ecommerce



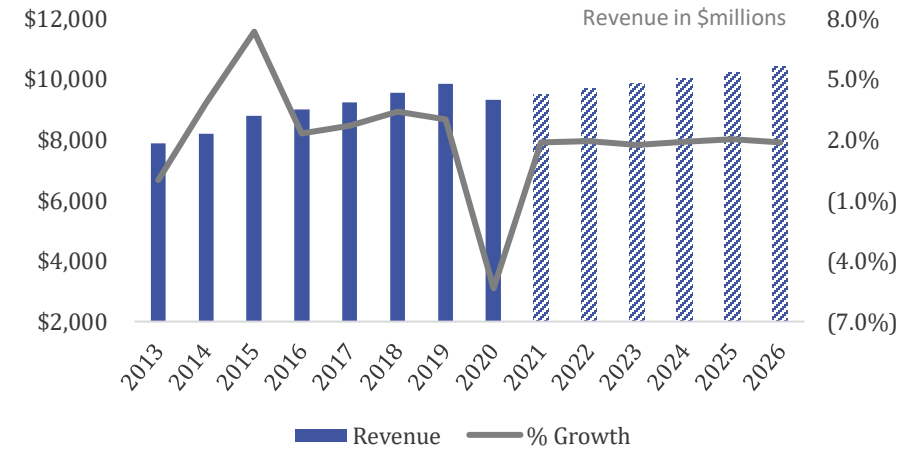
Household Durables



Automobiles



Hotels, Restaurants and Leisure



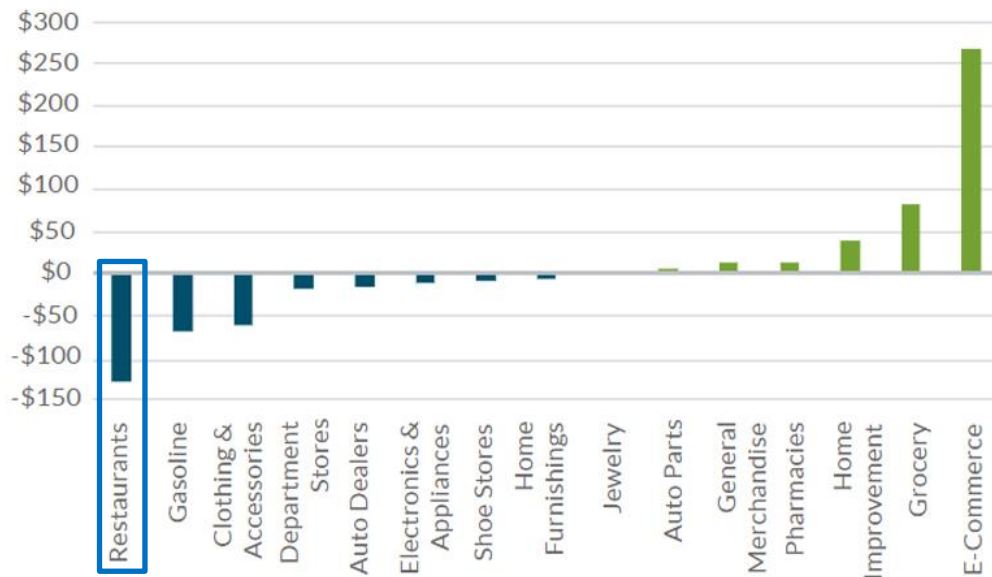
Sector Outlook

Forecasts

Over the next five years to 2026, the consumer retail sales are forecast to return to growth, growing at a faster pace than just prior to the COVID-19 pandemic. As domestic economic conditions improve and consumers begin to feel comfortable leaving home and reducing social distancing, retail sales will likely benefit. Additionally, the labor market will likely improve and reach full employment during the next five-years which will enable more consumers to engage in discretionary spending. Total consumer retail sales are projected to surpass pre-pandemic highs by the end of 2021. Over the five-year outlook period, total retail sales are forecast to increase an annualized 2.6%, slowing to pre-pandemic levels of growth by the end of the period.

*IBISworld

Change in Retail Sales by Consumer Category 2020



Largest Firms (10)



Subsector Opportunities

- Restaurants utilizing digital technologies before the pandemic were rewarded with strong digital sales growth as indoor dining areas were shuttered to prevent the spread of COVID-19.
- Digital customers visit restaurants more frequently than non-digital customers, and with these technologies restaurants are better able to understand customer behavior and target promotional offers.
- Pent-up demand for dining out should also benefit restaurants following the distribution of an effective COVID-19 vaccine.

*Fidelity.com

Industry Competition Analysis

S

- Many non-essential products fall in this industry: cars, food, entertainment, online shopping etc.
- Geographically diversified locations
- Strong E-Commerce presence
- E-Commerce, Home Improvement, & Grocery sales have spiked during pandemic

W

- Success within sector relies highly on economic phases
- A poor economy results in a heavy decline in consumption of non-essential products
- Prices are less volatile with rivalries across sector

O

- As economy grows and the pandemic slows, more disposable income is present for consumers to spend
- Pandemic has created a higher demand of services within sector due to lockdown

T

- Relatively high threat of substitutes within sector
- Global supply chain shock as a result of COVID-19
- Global shutdowns can create havoc throughout a large part of sector
- Shift in ever-changing consumer preferences

Industry Competition Analysis



New Entry

- Depending on subsector, threat of new entry is mainly low
- While restaurant chains can easily enter the sector, car companies, E-Commerce businesses and many others are hard to form
- Sector already contains highly reputable companies



Substitution

- Many rivalries makes it very easy for willing consumers to change products
- Low switching costs between products for the consumers
- Some products within subsectors contain a higher level of reliability



Competitor Rivalry

- Fast food, Automobile, & E-Commerce companies have had ongoing competition
- Levels of varying product quality present
- Competition for the same customers is high



Supplier Power

- Depends heavily on subsector
- Subsectors such as the automobile industry face limited suppliers
- Beauty, fashion, & clothing companies experience many suppliers



Buyer Power

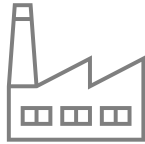
- Consumer preference is highly reliant on economic cycle
- Better economic times result in more consumers with disposable income
- High buyer power when dealing with larger and higher priced entities
- Lower buyer power present when dealing with fast food chains, home improvement companies, etc.

Factors Affecting Pricing Power



Barriers to Entry

- Low threat of entry
- Brand loyalty is present amongst the many competing companies
- Costly to start a new business in many of the subsectors



Industry Concentration

- Consumer Discretionary makes up 13.02% of S&P 500
- Highly saturated



Price Competition

- Income
- Consumer confidence
- Economic Status



Market Share Stability

- Very dependent on economic growth (very cyclical)
- COVID-19 pandemic has greatly fluctuated this stability
- E-Commerce has greatly benefited

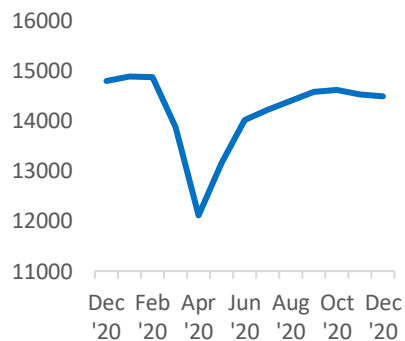
External Factors

Macroeconomic

Consumer Confidence



Consumer Spending



Technological

- There is currently a shortage of microchips causing issues within the car market in this sector – All relating to the new EV and self-driving cars
- Amazon continues to innovate in tech as Jeff Bezos will take on a new role within Amazon to become part of the innovation team
- Retailers continue to innovate with online retailing to better serve the customer
- MGM recently started an online sports betting website/app which will pave the way for casinos in the future

➤ Also correlated with avg wage rate, inflation, unemp, GDP growth, US Exports, Oil






Demographic

- Almost all ages and all classes utilize different sectors within consumer discretionary
- Some areas require more dispensable income to create strong revenue streams such as vacations and some leisure activities
- There is a constant demand for many of the businesses within the consumer discretionary sector creating one of the top performing sectors year in and year out
- Advances in technology have made this sector more reachable for the sector


Government / Social


- Stiffer Government regulations on car emissions have caused car companies to join the EV race
- Big tobacco continues to see more regulation from the government for their products
- Consumer Discretionary sector has seen both sides of the Covid-19 pandemic with companies like Amazon benefitting from the stimulus while hotels and leisure activities have suffered
- This sector may see a dip once there is less expendable income from the stimulus

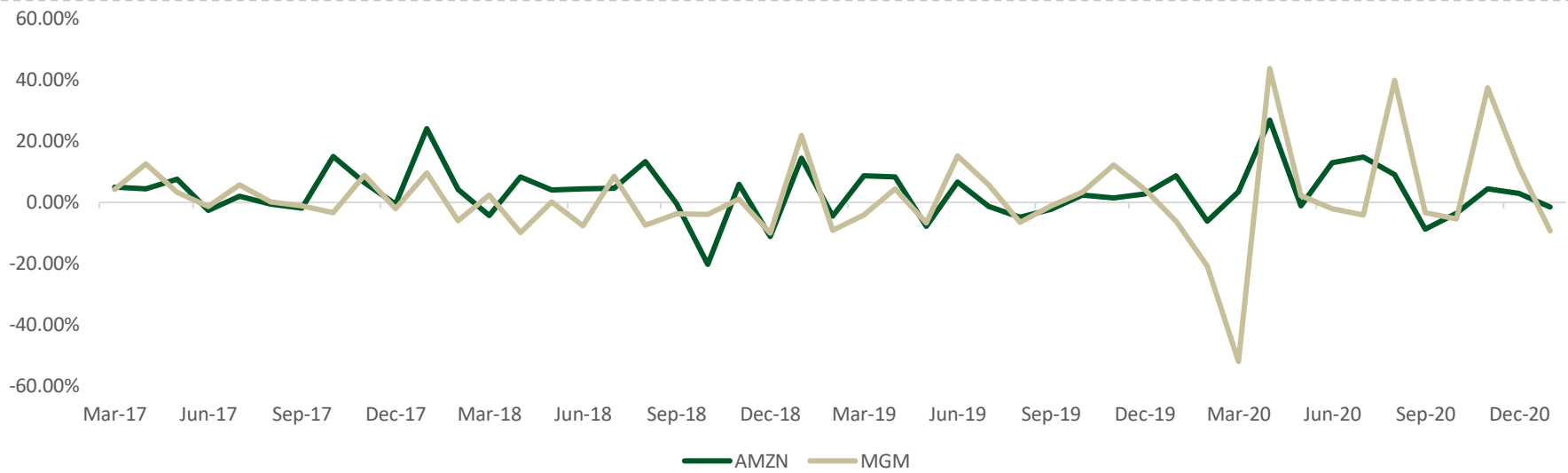
Major Companies

Firm	Overview	Size & Position	Competitive Advantage	YTD Performance
	<p>Home Depot was founded in 1976 and operates a home improvement retailer. Home Depot generated over \$110B in 2020 and operates in all 50 states and other countries in North America.</p>	<p>Enterprise Value: \$325.16B Market Cap: \$298.77B P/E Ratio: 23.98x</p>	<p>Home Depot focuses on what they call “product authority”. This means they source the best brands and innovative products for their customer. Also, Home Depot has made it an effort to integrate their brick-and-mortar stores with their online platform</p>	<p>Home depot has seen an increase in stock price from \$263.92 to \$277.70 YTD. A 5.2% increase</p>
	<p>McDonald's is a restaurant franchise that operates internationally. McDonald's is the second largest fast-food chain in the world and had revenue of \$19.21B</p>	<p>Enterprise Value: \$204.45B Market Cap: \$159.23B P/E Ratio: 33.89x</p>	<p>McDonald's offers has many competitive advantages including innovation (order kiosks if the lines are busy), convenience, and affordability. McDonalds also offers some of the best quality/nutritious fast food compared to their competitors</p>	<p>McDonald's has seen an increase in stock price from \$210.22 to \$213.90 YTD. A 1.76% increase</p>
	<p>Starbucks was founded in 1971. operates as a roaster, marketer, and retailer of specialty coffee worldwide. Starbucks had revenue of \$125.94B in 2020</p>	<p>Enterprise Value: \$143.64B Market Cap: \$123.97B P/E Ratio: 185.39x</p>	<p>Starbucks provides their customers with the “Starbucks Experience” which attempts to make customers feel at home. Starbucks also offers the highest quality coffee beans to their customers putting them above the competition</p>	<p>Starbucks has seen an increase in stock price from \$103.10 to \$105.30 YTD. A 2.13% increase</p>
	<p>Nike was founded in 1964. Nike designs, develops, markets, and sells athletic footwear, apparel, equipment, and accessories worldwide. Nike had revenue of 37,420B in 2020</p>	<p>Enterprise Value: \$225.04B Market Cap: \$224.21B P/E Ratio: 80.17x</p>	<p>Nike has a willingness to outspend its competitors in order to gain the advantage. Nike reinvests its money at a rate that competitors can not keep up with in terms of advertising and innovation</p>	<p>Nike has seen an increase in stock price from \$140.1 to \$142.12 YTD. A 1.44% increase</p>
	<p>General Motors was founded in 1906. GM designs, builds, and sells cars, trucks, crossovers, and automobile parts worldwide. GM had revenue in 2020 of \$122.49B</p>	<p>Enterprise Value: \$159.06B Market Cap: \$77.23B P/E Ratio: 12.38x</p>	<p>General Motors has a strong balance sheet that allows it to survive economic dips. GM is also able to reinvest in a way that makes then about to work on driverless and EV tech. Lastly, GM has higher profitability than its competitors</p>	<p>GM has seen an increase in stock price from \$40.51 to \$53.60 YTD. A 33.2% increase</p>

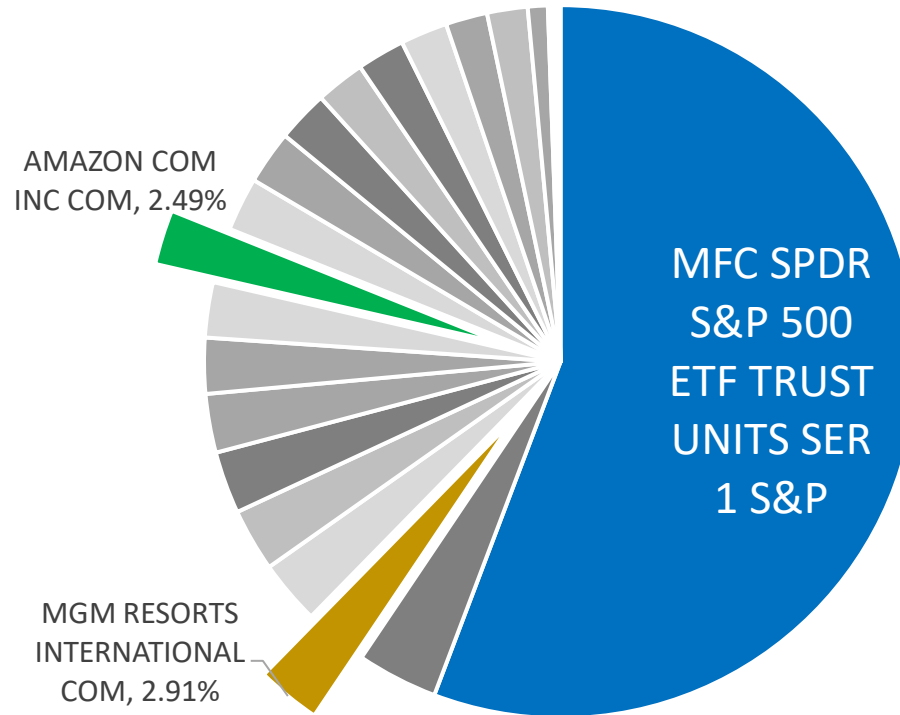
Holding Companies

Firm	Overview	Size & Position	Competitive Advantage	YTD Performance
	<p>Amazon was founded in 1994. Amazon operates in the retail sale of consumer products and subscriptions in North America and internationally Amazon's 2020 revenue was \$386.1B</p>	<p>Enterprise Value: \$1.65T Market Cap: \$1.65T P/E Ratio: 78.36x</p>	<p>Amazon offers free one day shipping with the purchase of Amazon Prime. Amazon also extends this offer for free to college students in order to make them into loyal customers for the future. Amazon also has a vast collection of products for sale.</p>	<p>Amazon has seen an increase in stock price from \$3186.63 to \$3277.71 YTD. A 2.86% increase</p>

	<p>MGM was founded in 1986. MGM owns and operates integrated casino, hotel, and entertainment resorts in the United States and Macau. MGM had a revenue of \$5.16B in 2020</p>	<p>Enterprise Value: \$33.22B Market Cap: \$18.01B P/E Ratio: 9.45x</p>	<p>MGM Created a new online sports gambling platform in 2020 to get the edge on other casinos and take control of the online gambling market. MGM also partnered with Delos to create wellness features in their meeting and sleeping rooms</p>	<p>MGM has seen an increase in stock price from \$29.70 to \$35.93 YTD. A 20.98% increase</p>
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Q&A



Consumer Staples Sector Analysis



Agenda

- ❖ Sector Performance
- ❖ Industry Overview
- ❖ Business Model Analysis
- ❖ Industry Competition Analysis
- ❖ Drivers
- ❖ External Factors
- ❖ Industry Outlook
- ❖ Weekly Updates

Sector Performance

Industries in This Sector

Industry ▲	Last % Change 05:51 PM ET 02/12/2021	% CHANGE			
		YTD	1 - Year 02/12/2021	3 - Year	5 - Year
Consumer Staples	+0.16%	-3.03%	+2.29%	+22.16%	+33.48%
Beverages	+0.31%	-6.49%	-7.20%	+18.98%	+35.31%
Food & Staples Retailing	+0.33%	+0.02%	+16.55%	+44.85%	+60.16%
Food Products	+0.05%	-1.83%	-0.33%	+7.26%	+13.53%
Household Products	-0.30%	-7.56%	+2.32%	+45.71%	+46.14%
Personal Products	+0.17%	+9.04%	+31.06%	+76.28%	+129.25%
Tobacco	+0.63%	+4.70%	-4.09%	-21.79%	-13.08%
S&P 500® Index	+0.47%	+4.76%	+17.19%	+50.21%	+115.13%

Key Players

Beverage



Household



Kimberly-Clark



Packaged



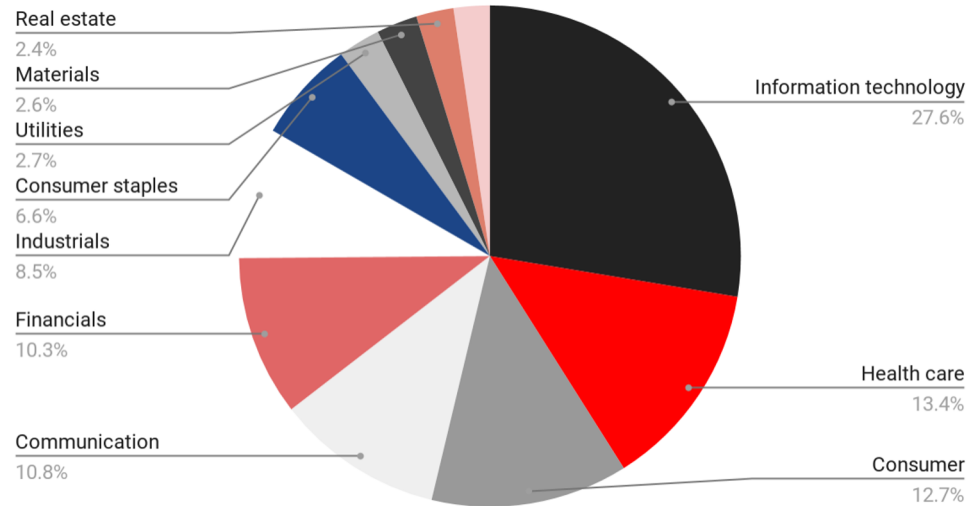
Tobacco

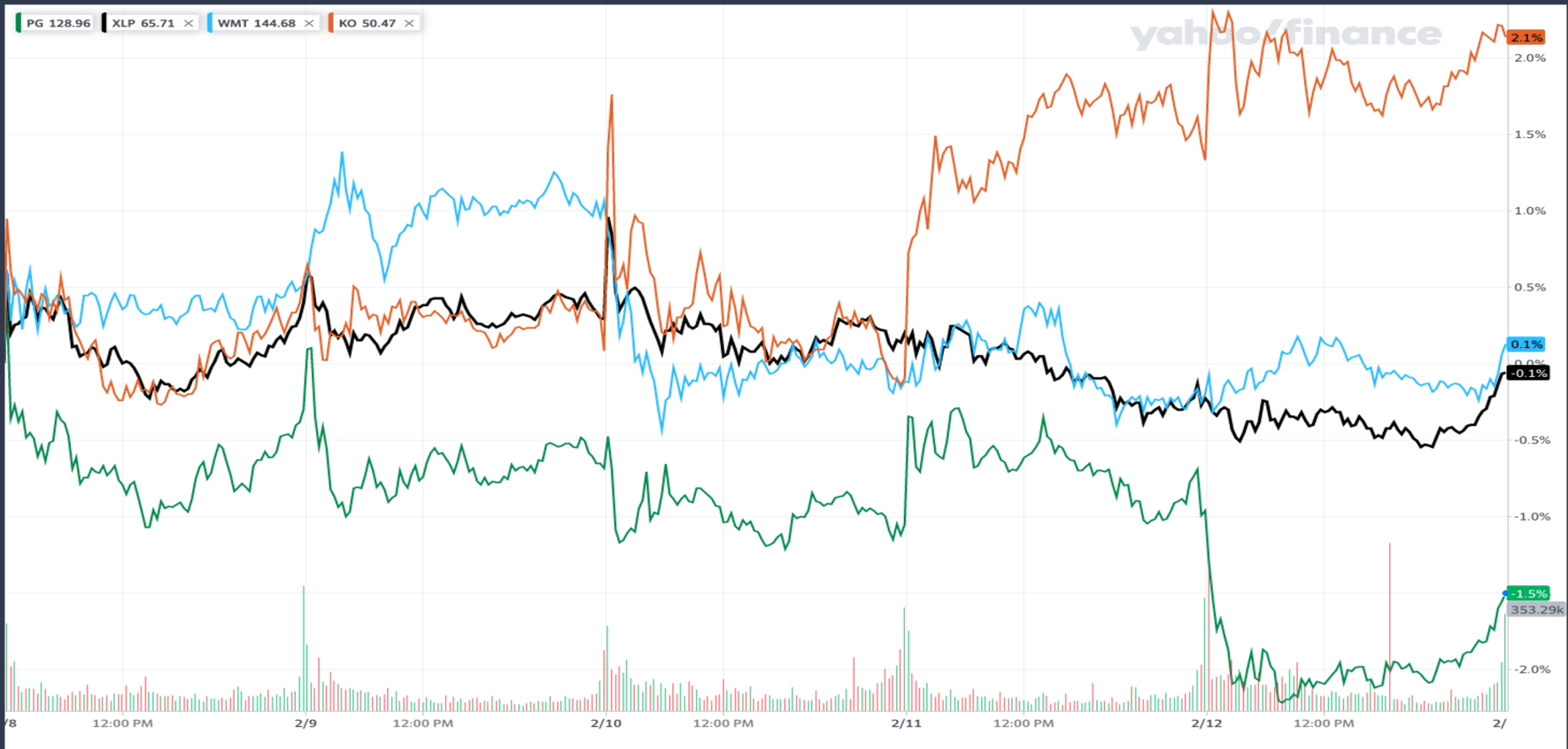


Consumer Staples Overview

Sector Fundamentals AS OF 02/12/2021

P/E (Last Year GAAP Actual)	27.31
P/E (This Year's Estimate)	25.30
Enterprise Value	\$179.44B
EPS (TTM)	\$3.75
EPS Growth (TTM vs. Prior TTM)	41.85%
Revenue Growth (TTM vs. Prior TTM)	3.49%
Return on Equity (TTM)	50.30%
Return on Investment (TTM)	13.02%
Total Debt/Equity (TTM)	235.25
Dividend Yield	2.68%





PG 127.62 | XLP 66.53 | WMT 144.69 | KO 49.03

Feb 08, 2021 - Feb 12, 2021

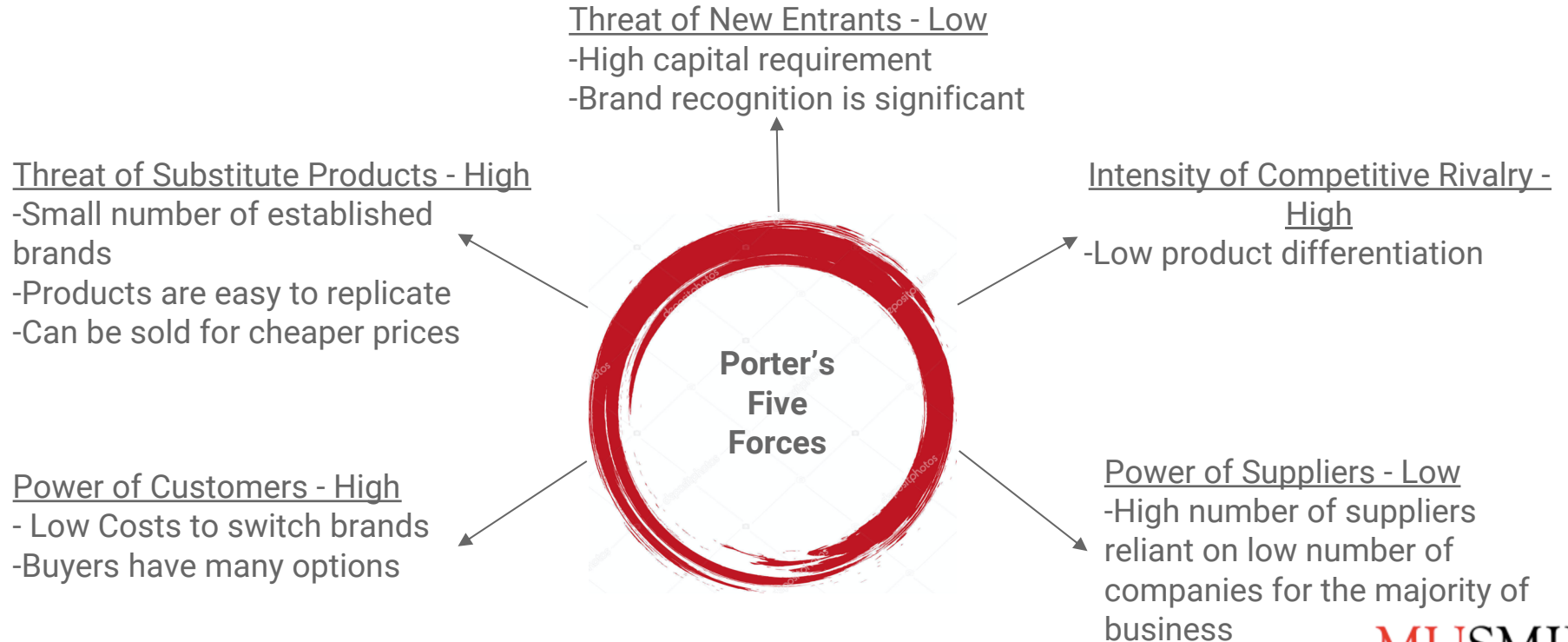
Weekly Performance



Business Model Analysis

- ❖ Principal business activity
 - Providing food and staples retailing, food/beverage/tobacco, household and personal products to customers
- ❖ Product/service provided
 - Hypermarkets, supercenters and pharmacies, food, beverage and tobacco products
 - Detergents, soaps, diapers, cosmetics and perfumes
- ❖ Consumer demand analysis
 - Non-cyclical, defensive sector, low-growth YOY
 - Inelastic demand as these goods are bought during recessions and booms
 - Low beta value
- ❖ Raw material/Supplier analysis
 - High number of suppliers
 - Predictable demand gives suppliers confidence
- ❖ Profitability analysis
 - Good dividends, solid profit margins, low volatility mostly because there are many industry giants
 - Often price wars between companies, could lead to lower margins in the future
 - Inflation resistant with predictable growth

Industry Competition Analysis



Drivers

- ❖ Consumer Staples are in constant demand, regardless of economic health
- ❖ Demand is stable for a defensive sector
- ❖ It is not sensitive to inflation or interest rates
- ❖ GDP is an important macroeconomic driver
- ❖ Price competition is also key in this sector

Sector Sensitivity Breakdown:

Beverages: **low**
Food & Staples Retailing: **low**
Household Products: **low**
Tobacco: **low**
Food Products: **low/moderate**
Personal Products: **moderate**

Factors of Pricing Power:

Barriers to entry: **low**
Industry concentration: **low**
Industry capacity : **high**
Market share stability: **high**
Price competition: **high**

Life Cycle Classification:

Beverages: **mature**
Food & Staples Retailing: **mature**
Household Products: **mature**
Tobacco: **growth**
Food Products: **mature**
Personal Products: **mature**

Key External Factors

Customer Loyalty

- ❖ Marketing of differentiated products
- ❖ Establishment of brand names
- ❖ Effective quality control

Operational Efficiencies

- ❖ Economies of scale / scope
- ❖ Control of distribution arrangements

Strategic Decisions

- ❖ Ability to manage external contracts
- ❖ Proximity to key markets
- ❖ Close monitoring of competition
- ❖ Access to the latest available technology and techniques

Industry Outlook

Beverage

- ❖ Global beverage-producer sales could strengthen in 2021
- ❖ If covid-19 vaccine response leads to broad re-openings
- ❖ Expect sales to benefit from an improvement in economic conditions in key beverage markets
- ❖ Manufacturing operating leverage varies, with beer and soft-drink manufacturers particularly vulnerable to a resumption to shutdowns, given their capital-intensive cost structures

Packaged Foods

- ❖ Could benefit from shifts that favor at-home meals and a reliance on e-commerce
- ❖ Food producers may have a difficult time sustaining pandemic-driven high demand, primarily in retail channels
- ❖ Supply-chain challenges from Covid-19 have weighed on protein producers

Household Products

- ❖ Expected 2021 recovery in demand and travel retail gradually
- ❖ Global beauty, home and personal-care could get a boost, with beauty's larger revenue mix, higher growth rates, wider margins
- ❖ Cleaning and disinfectants still topping shopping lists
- ❖ Premium-beauty prospects could brighten as lockdown restrictions ease, department stores and hair and beauty salons reopen and air-travel rules relax

Tobacco

- ❖ Lackluster global tobacco-industry performance may extend into 2021
- ❖ Weak cigarette sales and high regulatory scrutiny of noncombustible products
- ❖ Improved industry performance hinges on economic recovery and smoker mobility
- ❖ Investor sentiment toward the cannabis group

Weekly News

Kraft Heinz agreed to sell Planters and its other nut brands to Hormel for \$3.35 billion. (CNBC)

Mitake Food Manufacturing Co., Ltd. Launches Karaage Fried Chicken Flour Made from Rice in the United States. (GLOBENEWSWIRE)

References

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