

Date: November 6, 2012

Analyst: Alyssa Wood

## CIF Sector Recommendation Report (Fall 2012)

Sector: Consumer Staples (XLP)

Review Period: October 17-31, 2012

### Section (A) Sector Performance Review

#### Cougar Investment Fund Sector Review Spreadsheet Template

Please download and save this template to your own storage device  
You only need to input values to cells highlighted in "yellow"  
The rest of the spreadsheet is calculated automatically  
Please read "Sector Review Guidelines" document carefully

CNS

	Ticker	Current Price	Beg. Price	Stop-loss Price	Target Price	% Cap Gain	# Shares	Current Value	vs. Sector	vs. S&P 500
S&P 500	\$INX	1412.16	1454.92			-2.94%				
Sector ETF	XLP	\$35.39	\$36.18			-2.18%	3690	\$130,589.10		0.76%
Current Holdings										
PepsiCo	PEP	\$69.24	\$70.30	\$62.00	\$75.69	-1.51%	640	\$44,313.60	0.68%	1.43%



For the majority of the review period, the sector has been outperforming the index, with an exception to this being in the beginning of the period. Between October 17 and 19, the market took a steeper decline than the sector, demonstrating its defensive capabilities. The sector has also managed to recover from this decrease faster than the market overall.

Many companies have reported quarterly earnings in recent weeks. Estee Lauder's first fiscal quarter for 2013 was strong, but results in the current quarter have been adjusted downward, whereas Avon's Q3 earnings were down 55% from last year. Costco also had a successful Q4, beating estimates, and therefore resulting in an increase in price per share after the release. Proctor and Gamble reported better than expected results for their first quarter of fiscal year 2013, but Warren Buffett has sold off some of his holdings in the company. It is expected that Q1 results could be an indication of positive changes for the value of Proctor and Gamble. On the other hand, Philip Morris' earnings per share were down 2.2% from last year. The strengthening of the dollar is partly to blame, but regulations and health concerns are also issues the company has faced.

PepsiCo, Inc. is the only current holding within the sector. The company made the decision to close the bottling operations of its facility in Fargo, North Dakota, but this decision only eliminated 16 jobs and did not appear to significantly impact price per share of the stock. Since

the purchase of this holding, price had a slight decline, but it has appeared to slowly recover since the last sector report.

As the Consumer Staples Sector maintains relative stability over time, I do not expect much other than this in the near future. I expect that in general, the sector will perform in relation to the S&P 500's performance. With the holiday season approaching, I also estimate that companies like Kraft and Kellogg and other food and/or beverage companies will see increased revenues for their current quarters, which could positively impact the sector as a whole, but not necessarily as much as sectors like Consumer Discretionary will see in the current quarter.

## **Section (B) Sector Holding Updates**

<b>Company #1: <u>PepsiCo, Inc. (PEP)</u></b>
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**Date Recommended: 10/16/2012**

**Date Re-evaluated: 10/31/2012**

### **Company Update**

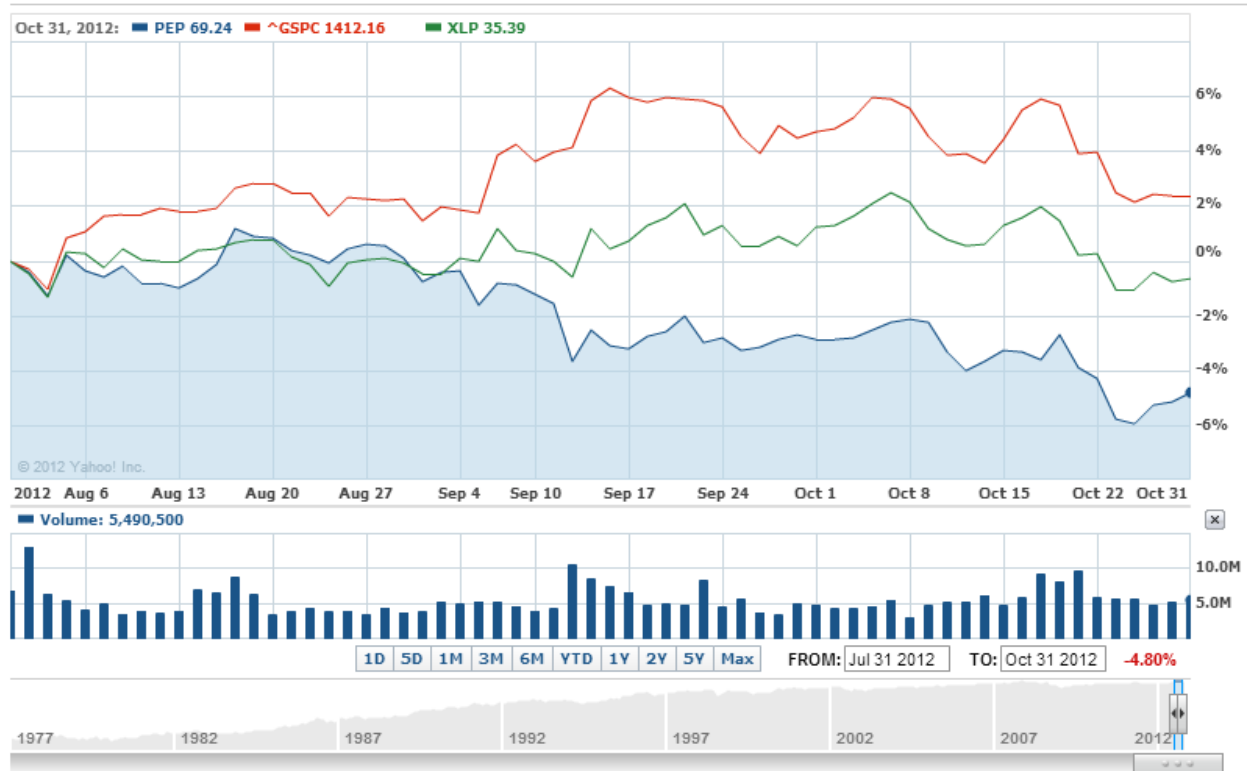
After quarterly results were released on October 17<sup>th</sup>, PepsiCo revealed that they had slightly missed estimates for revenues, but exceeded earnings estimates. The company has been focused on expansion into Asia, but also in the strengthening of their current brands that have recently lagged behind direct competitors at Coca-Cola. It is expected that investment into such activities that are strengthening the value of the company are partially to blame for the decrease in revenues and subsequently in net income. With high expectations of recent investments into advertising and expansion, PepsiCo does not plan to change their own estimates for the overall fiscal year, despite the Q3 miss. During the review period, PepsiCo also sold 51% stake in their Vietnamese business to Suntory Holdings Ltd. Surprisingly, Hurricane Sandy has not appeared to impact PepsiCo, and the stock has actually seen increases since the market reopened. One explanation for this is the defensive nature of the stock, and also any increases in the need for bottled water in affected areas that could impact the company.

### **Relative Performance**

Though PepsiCo, Inc. had slight misses in revenues for their most recent quarter, the stock has outperformed the XLP ETF and the S&P 500 during the entirety of the review period. I think this is a strong indicator of the confidence investors hold in PepsiCo. Though it likely was a factor that played into the drop in price after the quarter report was released, PepsiCo's price decreased in relation to fluctuations in the sector and market overall. The company itself is also

confident that they will recover misses in Q3 during Q4 in order to still meet fiscal year estimates.

## Price Charts



Over the last three months, PepsiCo Inc. has underperformed both its sector and the market.



Though the stock has underperformed both its sector and the market over the last three months, we are able to see over the past year that approximately every other quarter has a fluctuation that brings the stock's performance to the opposite spectrum of its current performance in relation to the sector and market. It is apparent that during summer months and during the holiday season, the stock seems to perform better than in the spring and fall months. This is not terribly surprising as these months reflect months that you would expect increases in beverages and snack products that PepsiCo sells to increase.

### Valuations Analysis

#### Original Analysis

Ratio Analysis	Company	Industry	Sector
P/E (TTM)	18.51	27.35	40.39
P/S (TTM)	1.64	1.38	3.66
P/B (MRQ)	5.32	3.05	2.05
P/CF (TTM)	12.44	22.23	23.11

## Re-evaluation Analysis

Ratio Analysis	Company	Industry	Sector
P/E (TTM)	18.40	31.98	32.12
P/S (TTM)	1.63	1.29	3.72
P/B (MRQ)	4.97	2.90	2.23
P/CF (TTM)	12.36	11.60	21.14

PepsiCo, Inc. has seen slight decreases in each of their ratios since the original recommendation of the stock, but none of the decreases have been drastic. Most of the ratios among the Industry and Sector have also decreased slightly, with the exception of the increase in the P/E Ratio for the Industry, and an increase in the P/B Ratio for the Sector. Similarly to the company, these increases were very slight. The only ratio that has had a significant change is the P/CF Ratio for the Industry, which shows that within the Food and Beverage Industry, there has been either an increase in cash flows, or a decrease in price. It is clear that the change has been in cash flows, because a decrease in price would have significantly impacted the other three ratios as well.

## Historical Surprises

### Original Analysis

#### HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
<b>SALES (in millions)</b>				
Quarter Ending Jun-12	16,502.10	16,458.00	44.11	0.27
Quarter Ending Mar-12	12,339.70	12,428.00	88.26	0.72
Quarter Ending Dec-11	19,913.20	19,535.00	378.22	1.90
Quarter Ending Sep-11	17,178.60	17,582.00	403.36	2.35
Quarter Ending Jun-11	16,400.20	16,827.00	426.82	2.60
<b>Earnings (per share)</b>				
Quarter Ending Jun-12	1.09	1.12	0.03	2.41
Quarter Ending Mar-12	0.67	0.69	0.02	3.20
Quarter Ending Dec-11	1.12	1.15	0.02	2.22
Quarter Ending Sep-11	1.30	1.31	0.01	1.05
Quarter Ending Jun-11	1.21	1.21	0.00	0.22

## Re-evaluation Analysis

Sales and Profit Figures in US Dollar (USD)  
Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
<b>SALES (in millions)</b>				
Quarter Ending Sep-12	16,901.90	16,652.00	249.89	1.48
Quarter Ending Jun-12	16,502.10	16,458.00	44.11	0.27
Quarter Ending Mar-12	12,339.70	12,428.00	88.26	0.72
Quarter Ending Dec-11	19,913.20	19,535.00	378.22	1.90
Quarter Ending Sep-11	17,178.60	17,582.00	403.36	2.35
<b>Earnings (per share)</b>				
Quarter Ending Sep-12	1.16	1.20	0.04	3.51
Quarter Ending Jun-12	1.09	1.12	0.03	2.41
Quarter Ending Mar-12	0.67	0.69	0.02	3.20
Quarter Ending Dec-11	1.12	1.15	0.02	2.22
Quarter Ending Sep-11	1.30	1.31	0.01	1.05

Since the original recommendation, the third quarter results were added. As previously discussed, the release of the third quarter reports showed that the company's actual revenues were \$44.11 million less than expected, but actual earnings were \$0.03, or 2.41% higher than estimates predicted.

## Consensus Estimates

### Original Analysis

Sales (in millions)	# analysts	mean	high	Diff. mean & high	low	Diff. mean & low	1-year ago
Quarter Ending Dec-12	11	19,729.50	20,456.00	3.55%	18,990.00	-3.89%	21,078.40
Quarter Ending Mar-13	6	12,692.80	12,854.10	1.25%	12,529.00	-1.31%	13,094.10
Year Ending Dec-12	15	65,679.20	66,513.00	1.25%	64,464.00	-1.89%	68,602.70
Year Ending Dec-13	15	68,385.80	69,956.50	2.25%	67,366.70	-1.51%	71,955.90
<b>Earnings (per share)</b>							
Quarter Ending Dec-12	13	1.09	1.13	3.54%	1.05	-3.81%	1.22
Quarter Ending Mar-13	8	0.72	0.75	4.00%	0.7	-2.86%	0.81
Year Ending Dec-12	17	4.06	4.09	0.73%	4.05	-0.25%	4.71
Year Ending Dec-13	18	4.41	4.48	1.56%	4.32	-2.08%	5.11
LT Growth Rate (%)	7	6.21	10.1	38.51%	2.4	-158.75%	9.18

## Re-Evaluation Analysis

### CONSENSUS ESTIMATES ANALYSIS

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

	# of Estimates	Mean	High	Low	1 Year Ago
<b>SALES (in millions)</b>					
Quarter Ending Dec-12	11	19,612.60	20,025.20	18,575.00	20,751.50
Quarter Ending Mar-13	6	12,746.70	12,854.10	12,560.90	13,005.70
Year Ending Dec-12	16	65,319.00	65,706.00	64,605.00	68,580.40
Year Ending Dec-13	16	68,283.80	69,328.50	67,747.00	72,054.30
<b>Earnings (per share)</b>					
Quarter Ending Dec-12	14	1.06	1.09	1.04	1.22
Quarter Ending Mar-13	8	0.73	0.75	0.69	0.80
Year Ending Dec-12	17	4.06	4.09	4.05	4.65
Year Ending Dec-13	18	4.41	4.50	4.31	5.06
LT Growth Rate (%)	6	6.18	10.10	2.40	9.18

Sales estimates for both the Quarter Ending Dec-12 and Year Ending Dec-12 have decreased slightly, likely due to the recent miss PepsiCo had in Q3. Interestingly, sales estimates for Quarter Ending Mar-13 have increased slightly, but Year Ending Dec-13 is also down for sales. Concerning earnings, estimates for Quarter Ending Dec-12 are also down, while estimates for Quarter Ending Mar-13 increased. Other earnings estimates remained the same, but the long term growth rate decreased slightly. None of the fluctuations are very drastic, therefore leading me to believe that they are in direct relation to results from the third quarter.



## Estimate Revision Analysis

### Original Analysis (10/16/2012)

ESTIMATES REVISIONS SUMMARY	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
Revenue				
Quarter Ending Dec-12	1	2	1	3
Quarter Ending Mar-13	1	0	1	2
Year Ending Dec-12	1	2	2	3
Year Ending Dec-13	1	2	2	3
Earnings				
Quarter Ending Dec-12	1	0	3	0
Quarter Ending Mar-13	0	0	0	0
Year Ending Dec-12	1	1	1	2
Year Ending Dec-13	0	2	3	2

## Re-Evaluation Analysis

### ESTIMATES REVISIONS SUMMARY

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Dec-12	0	0	5	6
Quarter Ending Mar-13	0	0	4	1
Year Ending Dec-12	0	0	5	10
Year Ending Dec-13	0	0	5	9
<b>Earnings</b>				
Quarter Ending Dec-12	0	0	1	13
Quarter Ending Mar-13	0	0	3	1
Year Ending Dec-12	0	0	6	1
Year Ending Dec-13	0	0	3	5

There have been no revisions in the past week, so I would assume the influx of changes over the last four weeks compared to what was seen in the original analysis is in relation to the release of the quarterly report on October 17<sup>th</sup>. There were more down revisions for quarters and years ending Dec-12. This is not surprising as it would make sense for the fiscal year overall to be affected by lower than expected third quarter earnings, despite the confidence PepsiCo has expressed in their ability to make up for the third quarter revenues.

## Analysts' Recommendations

### Original Analysis

#### ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	5	5	5	5
(2) OUTPERFORM	6	6	6	7
(3) HOLD	7	7	7	6
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.11	2.11	2.11	2.06

### Re-Evaluation Analysis

#### ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	5	5	5	5
(2) OUTPERFORM	6	6	6	6
(3) HOLD	7	7	7	7
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.11	2.11	2.11	2.11

There have been no changes over the last three months regarding Analyst Recommendations and Revisions. As the Mean Rating was different in the “3 Months Ago” column in the original analysis, we can assume that the last revision was just over three months ago. Since, the Mean Rating has stayed at 2.11.

## **Section (C) Sector Recommendations**

I recommend that the Cougar Investment Fund continue to own the 640 holdings in PepsiCo, Inc. Though the company had a slight miss in the third quarter revenue, the stock has been recovering from its initial drop, and has not appeared to have been affected by Hurricane Sandy. This miss in revenues also did not affect analysts' views on the stock.

I tend to be on the more bullish side of neutral when it comes to the XLP. Though there is not a terribly large amount of room to see growth in such stocks, I feel that the Consumer Staples Sector provides a certain amount of stability that can diversify out risk that the CIF could encounter with stocks in some of the more risky sectors. The dividend payouts for stocks within this sector also could decrease how hard a loss of a more volatile stock could be on the overall fund. For these reasons I also suggest that we keep our current holdings as they are until a promising stock within the sector is recommended.

## **Section (D) Sector Holding Recommendations**

Based on your analysis, are there stocks CIF currently owns from your sector you would recommend to:

### **1. Sell and why?**

I do not recommend that the Cougar Investment Fund sell their current holdings of PepsiCo, Inc., because historically the stock has shown to perform well during the fourth quarter. Though the stock is down slightly from when we originally purchased shares, it has shown improvement and at this point in time I have not seen any reason to think that the stock will perform outside our original expectations.

### **2. Adjust "target price" and why? If you recommend an adjustment, you must suggest a new "target price"**

I do not recommend that we adjust the target price because nothing has happened in the two weeks since the purchase of the stock to signal a need to change target price. Keeping the current target price at \$75.69 would account for just under 8% growth from purchase price. For a stock with such low volatility, I would find such growth to be impressive and would expect the stock to begin a decline again after reaching such a price.

### **3. Adjust "stop-loss price" and why? If you recommend an adjustment, you must suggest a new "stop-loss price"**

I do not recommend that we adjust the stop-loss price because even though the current stop-loss price is only set at about 12% lower than price paid, it is slightly above the 52-week low. I do not see the stock falling that close to the 52-week low, but if it does fall that close, I think it would be in the best interest of the CIF to sell its shares.

Company Name	Ticker Symbol	Date Recommended	Date Re-evaluated	Recommendation (Explain Why)		
				Sell	Adjust "Target Price"	Adjust "Stop-loss Price"
PepsiCo, Inc.	PEP	(10/16/12)	(10/31/12)	NO	NO CHANGE	NO CHANGE