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The U.S. Consumer: Consumer Staples

Is It Time to Buy?

Adding Some Staples Exposure to the Consumer Lens

- Consumer staples stocks have been battling market forces and fundamental ones. The combination has yielded (30)% underperformance since the middle of 2016 when average-earners began to participate in the economic recovery more fully. Other bond proxies such as REITs and utilities have befallen a similar fate. The market has wrung out some of the bond-related angst, making us somewhat more comfortable with defensive stocks like pharmaceuticals and consumer staples. We are adding PEP, KR and BUD to our Consumer Lens portfolio that has heretofore had zero exposure to staples. We rank large-capitalization consumer staples stocks on a global basis in Appendix 1 on page 10.

Pricing Power, Margins and Disruption

- In fundamental terms, consumer staples are confronting challenges on three fronts -- pricing power, margins and business model disruption. These concerns prevent us from turning outright bullish. We quantify pricing power at an aggregate level and find that many segments of consumer staples seem to have lost their ability to grow price and volume at the same time. These categories are displaying uncharacteristic elasticity, behaving more like used cars and furniture that have always depended on lower prices to drive volume. Other areas of consumption including entertainment and housing are faring much better in this regard.
- Staples margins have crested in absolute terms and they have begun to fall in relative terms. Less than half of consumer staples are seeing rising pretax margins compared with 58% for the broader market. This means that operating leverage has been better elsewhere. Margins remain high compared to history and compared to others in their supply chain. To us, this means risk to margins is still tilted to the downside.
- The disruptive force in staples is a lot like the one confronting media companies. Both sets of companies create content and in the absence of direct distribution, both distribute their content through "pipes" whether it's Comcast or Wal-Mart. As pipes become transparent in the internet era both media and staples will need to skinny-down their offerings since they have been guilty of over-proliferating. Media companies have been wrestling with disruption for years, but margins and valuations have held up, making us wonder whether content will protect staples in the same way.
- In quantitative terms, consumer staples have been experiencing wider valuation spreads, particularly among the mega-caps. This dispersion is a sign of stress in the system and may mean it is time for stock-pickers to seek out opportunities. Falling correlations is another sign that the stocks are beginning to act more independently of one another and less as a blunt portfolio manager tool. This together with a higher level of dispute that we measure with arbitrage risk indicates it might be time to wade into these troubled waters.

In With Some Staples; Out With Restaurants

- It feels early to turn bullish on staples. We don't see risks of a recession on the horizon and multiples are not attractive enough to invite a surge in M&A activity. For now, adding a modicum of staples feels like buying reasonably priced insurance in case exogenous risk factors intensity. Multiples would need to compress a further (15)% before the stocks hit the value screens.
- We are adding three consumer staples stocks to our Consumer Lens portfolio, bringing us halfway to a market weight. We add PEP and KR at the expense of MCD and DNKN. This adds exposure to staples, and dovetails with our less sanguine outlook for restaurants that now appear to be losing share in real terms. As a result, they could have a hard time holding margins if costs continue to rise. We add BUD to the portfolio at the expense of HOG as a lower risk way to exploit rising middle-income consumers.

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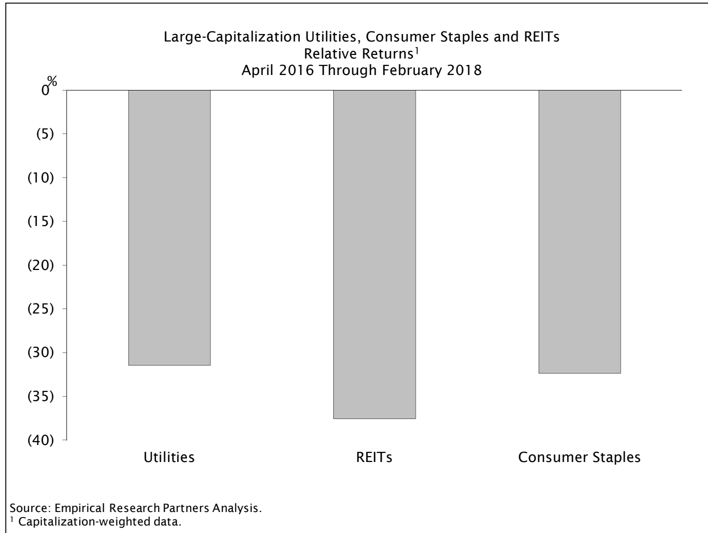
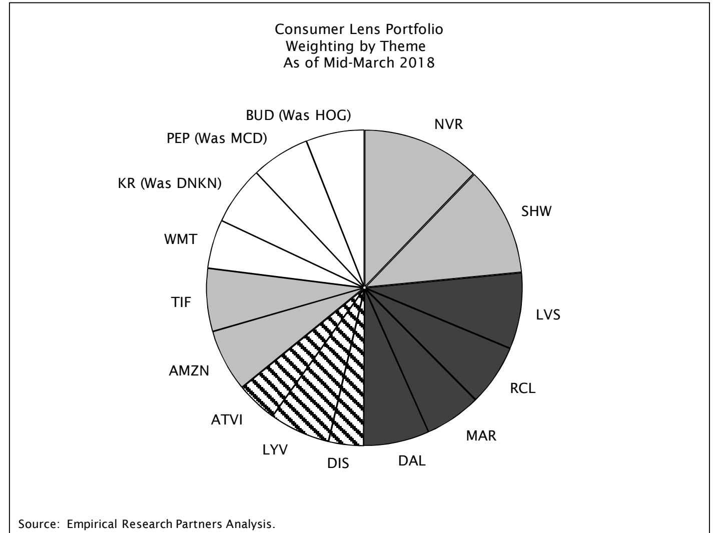
Conclusions in Brief

- Staples and other bond proxies have underperformed…



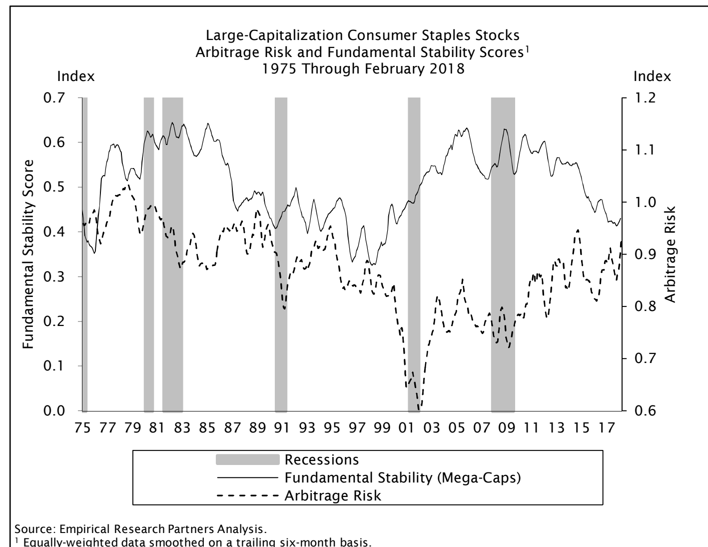
Source: Empirical Research Partners Analysis.
[1] Capitalization-weighted data.

- …But it might be time to wade into these troubled waters:



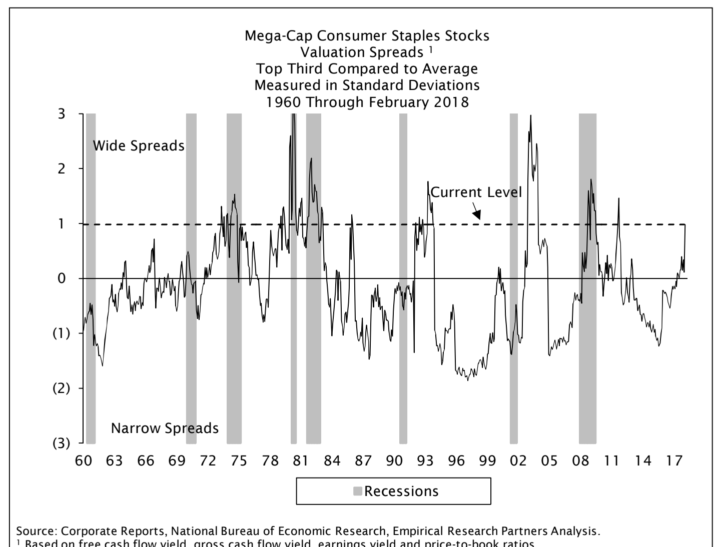
Source: Empirical Research Partners Analysis.

- Lower stability and higher risk are creating stress…



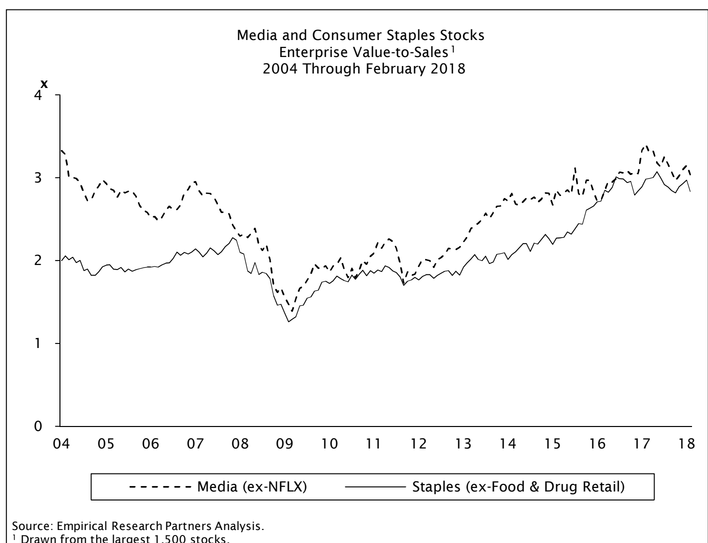
Source: Empirical Research Partners Analysis.
[1] Equally-weighted data smoothed on a trailing six-month basis.

- …Which could signal opportunity:



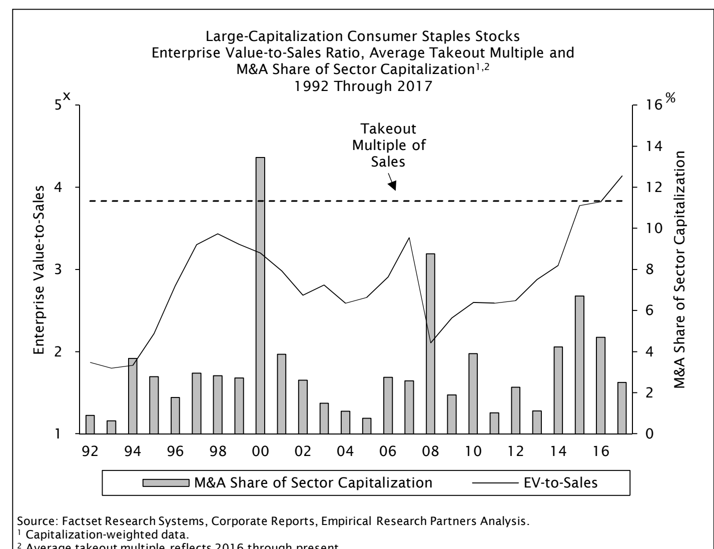
Source: Corporate Reports, National Bureau of Economic Research, Empirical Research Partners Analysis.
[1] Based on free cash flow yield, gross cash flow yield, earnings yield and price-to-book ratios.

- Content has kept media valuations afloat. Will it do the same for staples?



Source: Empirical Research Partners Analysis.
[1] Drawn from the largest 1,500 stocks.

- M&A might do the same if it's viewed as an imperative in staples like it was for media:



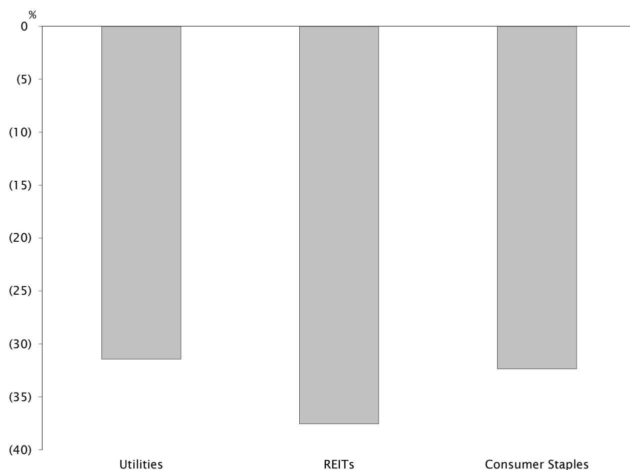
Source: Factset Research Systems, Corporate Reports, Empirical Research Partners Analysis.
[1] Capitalization-weighted data.
[2] Average takeout multiple reflects 2016 through present.

Is It Time to Buy?

Shifting to a More Neutral Stance

Ever since the bottom 80% of the income distribution began to participate in the economic recovery two years ago, the market has favored companies that were more exposed to this cyclical dynamic. Consumer staples were left behind and they have under-performed by (30)% since April 2016 (see Exhibit 1). This performance has looked a lot like REITs and utilities that carry out a similar function in equity portfolios – they are bond proxies. By that we mean their relative returns are most correlated with the performance of ten-year treasury bonds. A positive correlation with the bond market has been a virtue for much of the past 20 years, but it has become more of a vice lately (see Exhibit 2).

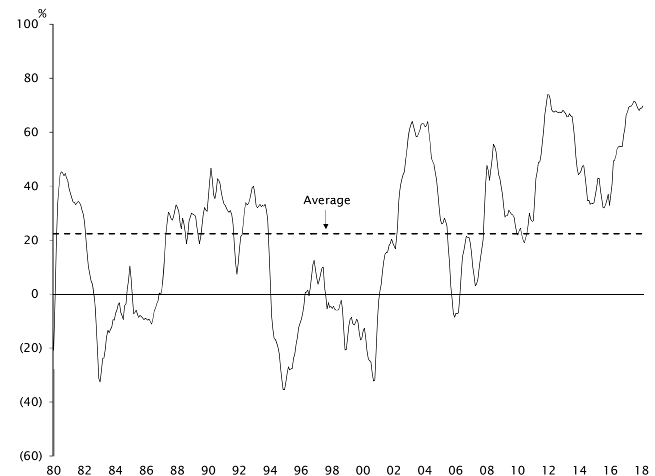
Exhibit 1: Large-Capitalization Utilities, Consumer Staples and REITs Relative Returns[1]
April 2016 Through February 2018



Source: Empirical Research Partners Analysis.

[1] Capitalization-weighted data.

Exhibit 2: Large-Capitalization Consumer Staples Stocks Correlation of Relative Returns with the Total Return of Treasury Bonds[1]
1980 Through February 2018



Source: Ibbotson Associates, Bloomberg L.P., Empirical Research Partners Analysis.

[1] Constructed using trailing two-year data; smoothed on a trailing three-month basis. Returns are capitalization weighted.

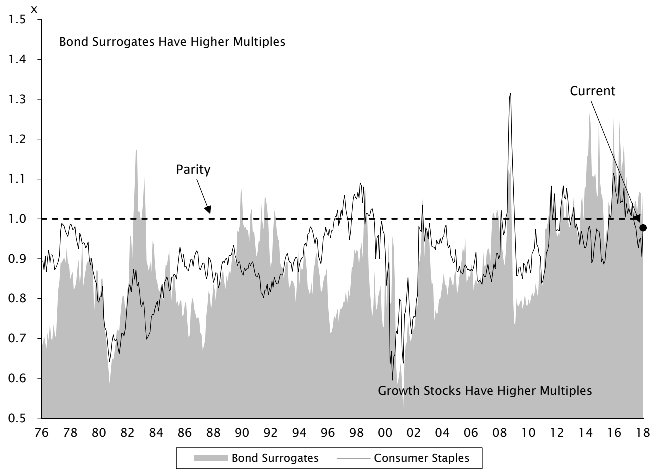
Bond surrogates as a group have seen valuations compress. At their peak, this group was trading at a +20% premium to a universe of growth stocks despite sales and profit growth that was meager by comparison (see Exhibit 3). Bond surrogates no longer trade at a premium to growth stocks and consumer staples now trade at a (5)% discount to them, prompting us to question whether it is time to reverse our cautious view on these stocks.

A modest valuation discount to growthier alternatives does not sound like a call to action, but the revaluation has been significant compared to other points in history and may be enough to alter the risk profile associated with a bearish outlook. Valuation spreads that typically widen when a sector is experiencing strain have begun to rise, indicating it might be time to wade in (see Exhibit 4). We are adopting a more neutral stance to the sector and are adding three consumer staples stocks to our Consumer Lens portfolio that has heretofore had no exposure to the group. We add Pepsi, AB Inbev and Kroger to our portfolio. We remove McDonald's, Harley Davidson and Dunkin Brands (see Exhibit 5). We would look to add more exposure if and when Empirical's core model detects a greater share of winners (see Exhibit 6).

Fundamental Clouds Still Stormy

Market forces might be kinder from this point forward, but consumer staples stocks still need to confront a number of fundamental risks. In quantitative parlance, the stocks are experiencing a confluence of rising arbitrage risk and falling fundamental stability. The former is a measure of idiosyncratic risk and indicates that controversy is becoming more intense. The latter incorporates factors such as ROE, beta, variability of earnings growth and the dispersion of analyst's estimates (see Exhibit 7). These factors, among others, keep the group lowly ranked in Empirical's models and are indicative of issues under the surface. In more traditional parlance, these factors dovetail with our concerns about pricing power, margins and business model disruption.

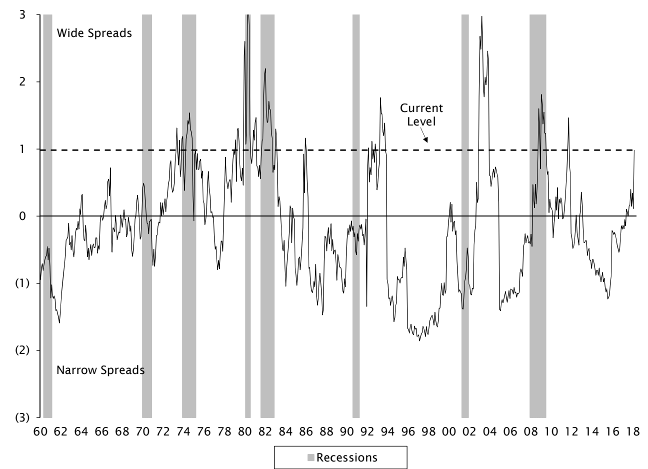
**Exhibit 3: Consumer Staples and Other Large-Cap Bond Surrogates[1]
Compared to Large-Cap Growth Stocks
Ratios of Forward-P/E Ratios
1976 Through February 2018**



Source: Empirical Research Partners Analysis.

[1] The bond surrogates are the 10% of the market with relative returns that are most correlated with the performance of ten-year Treasury bonds.

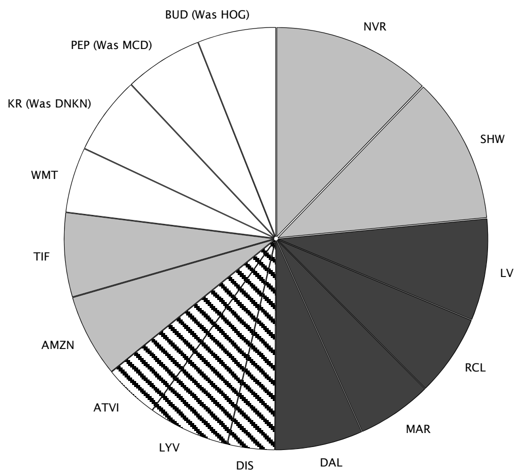
**Exhibit 4: Mega-Cap Consumer Staples Stocks
Valuation Spreads[1]
Top Third Compared to Average
Measured in Standard Deviations
1960 Through February 2018**



Source: Corporate Reports, National Bureau of Economic Research, Empirical Research Partners Analysis.

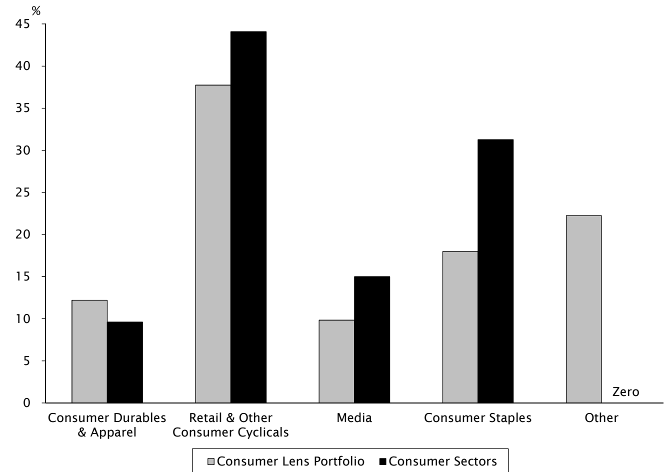
[1] Based on free cash flow yield, gross cash flow yield, earnings yield and price-to-book ratios.

**Exhibit 5: Consumer Lens Portfolio
Weighting by Theme
As of Mid-March 2018**



Source: Empirical Research Partners Analysis.

**Exhibit 6: Consumer Lens Portfolio
Constituent Weights of the Portfolio and the
Underlying Universe by Industry[1]
As of Mid-March 2018**



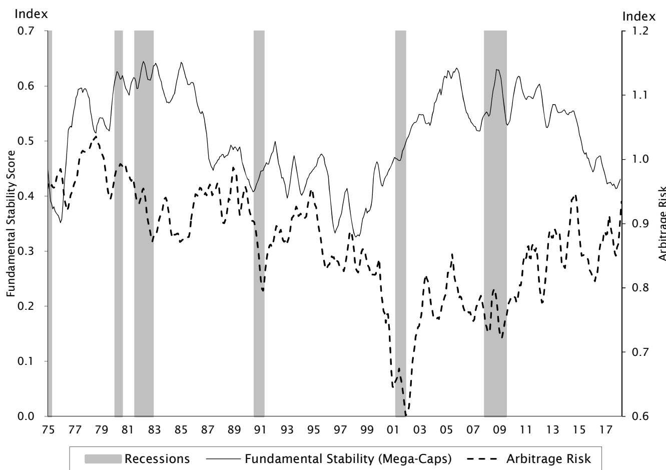
Source: Empirical Research Partners Analysis.

[1] Capitalization-weighted data.

Pricing Power: A Shadow of its Former Self

Consumer staples have historically epitomized pricing power, but they seem to have lost it. In its Q4 2017 results P&G called out a drop in pricing for the first time in 28 quarters. We have noticed the same dynamic more broadly from studying aggregate consumption data. To get a comprehensive picture of pricing power we use PCE data that depicts price and volume trends across hundreds of consumption categories. By measuring the relationship of volume to price, we can assess the elasticity of demand to changes in price for categories including prescription drugs, cleaning supplies, beer, tobacco, cosmetics and cereal. Industries exhibiting pricing power on this basis can be seen at the left-hand side of Exhibit 8. These categories have seen price and volumes rise in tandem over the past two and five years. Health care, alcohol and live experiences including theme parks, casinos and hotels have all seen positive trends in price and volume. At the other end of the spectrum we find TV's, used cars and furniture. These are highly elastic categories meaning that price and volume tend to move in opposite directions. We have been struck by the fact that grocery, cosmetics and household products rank in the same vicinity as used cars and furniture. Volume in these categories is rising, but they have become increasingly sensitive to movements in price.

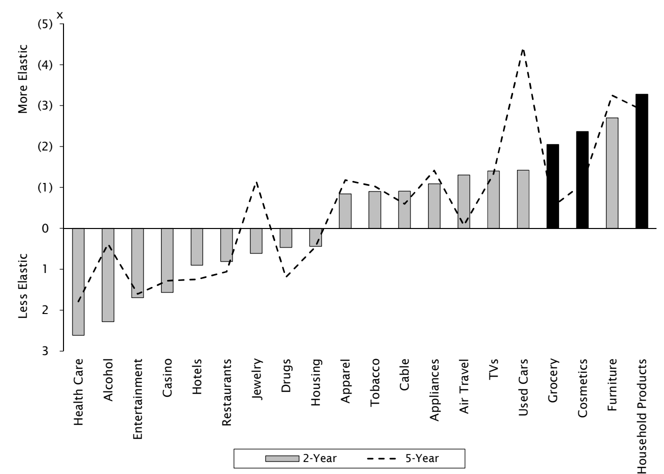
Exhibit 7: Large-Capitalization Consumer Staples Stocks Arbitrage Risk and Fundamental Stability Score[1] 1975 Through February 2018



Source: Empirical Research Partners Analysis.

[1] Equally-weighted data smoothed on a trailing six-month basis.

Exhibit 8: Magnitude of Price Elasticity By Category Change in Volume Relative to Change in Price 2013 Through 2017



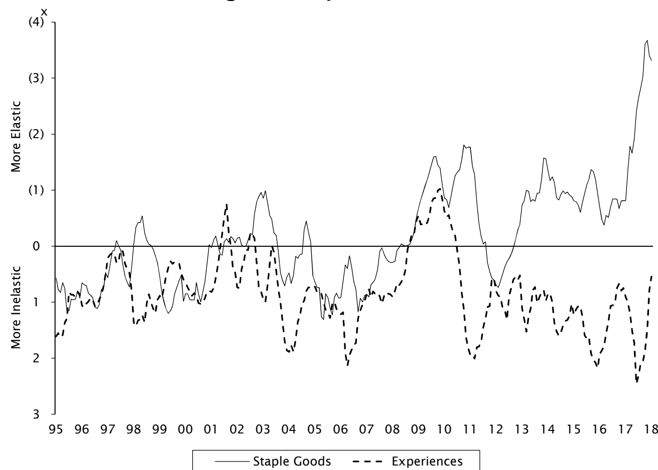
Source: Bureau of Economic Analysis, Empirical Research Partners Analysis.

This high reading on our elasticity framework could be attributable to a number of factors. Retailers after all, are desperate to drive traffic and they often lean on consumables such as Tide, Cheerios and Bounty to get the job done. These are called traffic-drivers for a reason. At the same time retailers are looking to shore up margins by expanding private label goods that satisfy volume at lower price points. Price transparency associated with e-Commerce might also be to blame. The same goes for shifting preferences among an increasingly powerful Millennials cohort.

Margins: Upstream High Relative to Downstream

In Exhibit 9 we compare the elasticity of four staples categories – grocery, personal care, household goods and cleaning products – with four experiences – hotels, restaurants, theme parks and spectator events including concerts. For the better part of 15 years these two groupings fared similarly, but their paths have diverged meaningfully over the past five years. Our work has found a statistically significant (and inverse) relationship between category elasticity and industry margins. We have therefore been concerned that industry margins are making new highs when elasticity is doing the same (see Exhibit 10).

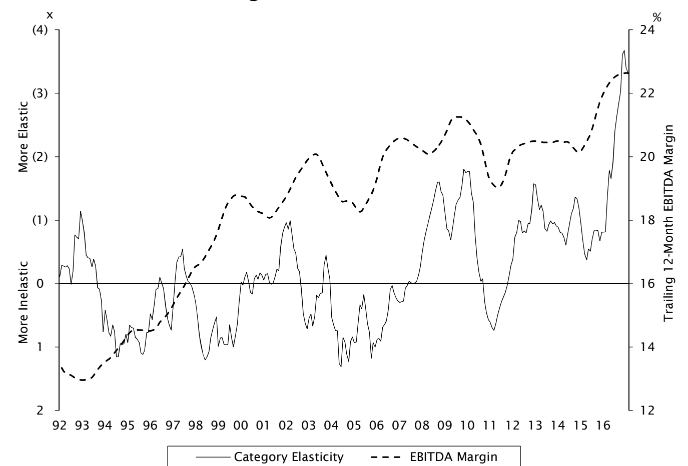
Exhibit 9: Price Elasticity of Experiences and Things[1] Change in Volume Relative to Change in Price[2] 1995 Through January 2018



Source: Bureau of Economic Analysis, Empirical Research Partners Analysis.

[1] Experiences average elasticity for hotels, restaurants, theme parks and spectator events. Things averages elasticity for grocery, personal care, household goods and cleaning products.
[2] Data smoothed six months.

Exhibit 10: Consumer Staples Category Elasticity and EBITDA Margin[1] 1992 Through 2017

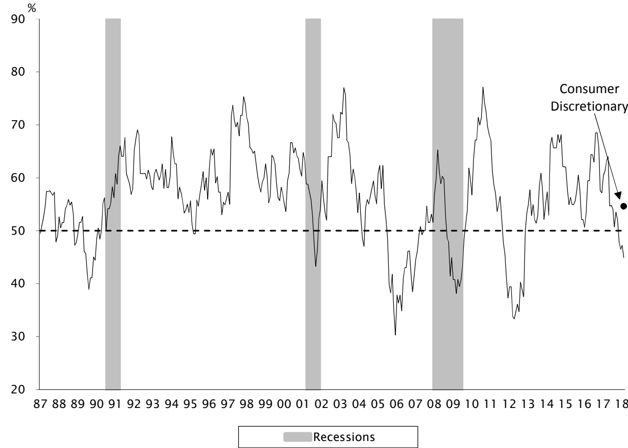


Source: Bureau of Economic Analysis, Empirical Research Partners Analysis.

[1] Elasticity defined as category volume change divided by price change for household products, cereal, personal care and cleaning supplies.

Industry margins are no longer ascending for the majority of consumer staples stocks. Exhibit 11 shows that fewer than half of them are seeing pretax margins expand, an outcome that is rare by historical standards. Discretionary stocks have been faring better on this basis and are performing more consistent with the overall market (see Exhibit 12). Of the ten groups we depict in the chart, staples stocks are faring the worst. Margin pressure is especially noteworthy since they are starting from very high levels.

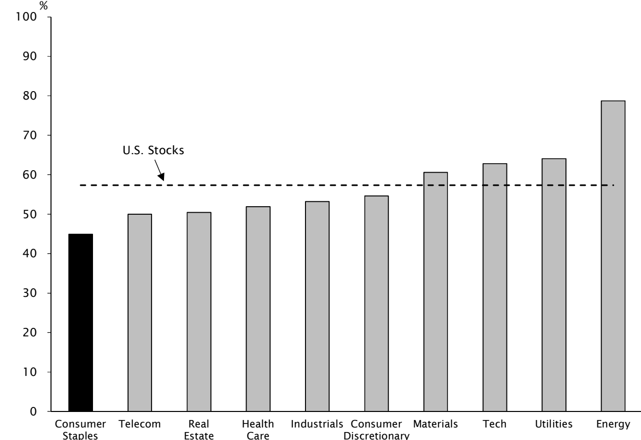
Exhibit 11: Consumer Staples Stocks[1]
Share With Rising Pre-Tax Margins
1987 Through February 2018



Source: Empirical Research Partners Analysis, National Bureau of Economic Research.

[1] Drawn from the largest 1,500 stocks.

Exhibit 12: U.S. Stocks[1]
Share of Industry with Rising Pretax Margins
As of February 2018

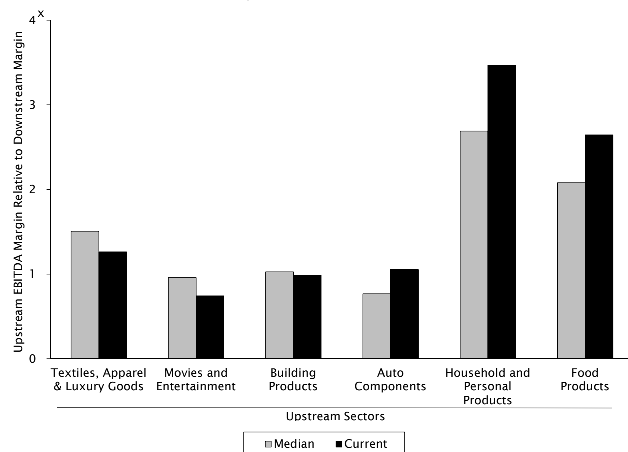


Source: Corporate Reports, Empirical Research Partners Analysis.

[1] Drawn from the largest 1,500 stocks.

Exhibit 13 depicts current and historical margins for upstream and downstream operators across six different consumer verticals. Using the textiles, apparel & luxury goods sector as an example, we can see how EBITDA margins for upstream operators such as Ralph Lauren, VF Corp. and PVH compare to downstream distributors such as Nordstrom, Macy's and Urban Outfitters. The upstream operators have historically earned EBITDA margin that are 1.5x those earned by the downstream operators. The most recent reading is closer to parity. Upstream and downstream margins in other verticals tend to converge at or near parity. That is not the case for consumer staples. Margins for household products companies like P&G and for packaged food businesses like Mondelez are outliers in this analysis having out-earned downstream operators by a factor of 2-3x over time. This spread is wider today than virtually any other time in the past 30 years.

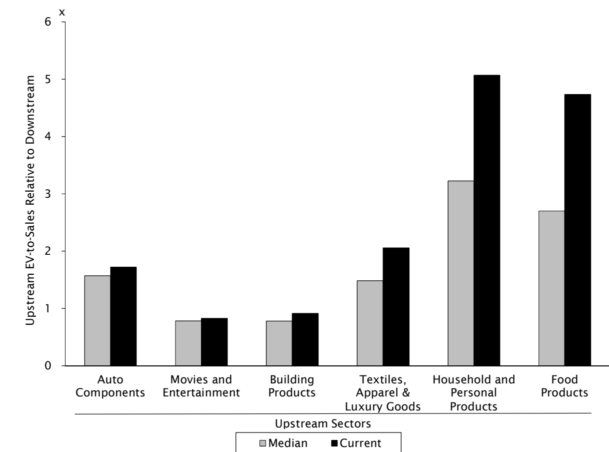
Exhibit 13: Consumer Stocks[1]
EBITDA Margins of Upstream
Relative to Downstream Operators by Sector[2]
Historical Median and Current Level
1987 Through 2017



Source: Corporate Reports, Empirical Research Partners Analysis.

[1] Capitalization-weighted data. Drawn from the largest 1,500 stocks.
[2] Downstream sectors include department stores/apparel retail, cable & satellite, home improvement retail, automobiles, food retail, multiline/general merchandise retail.

Exhibit 14: Consumer Stocks[1]
Enterprise Value-to-Sales of Upstream
Relative to Downstream Operators by Sector[2]
Historical Median and Current Level
1987 Through February 2018

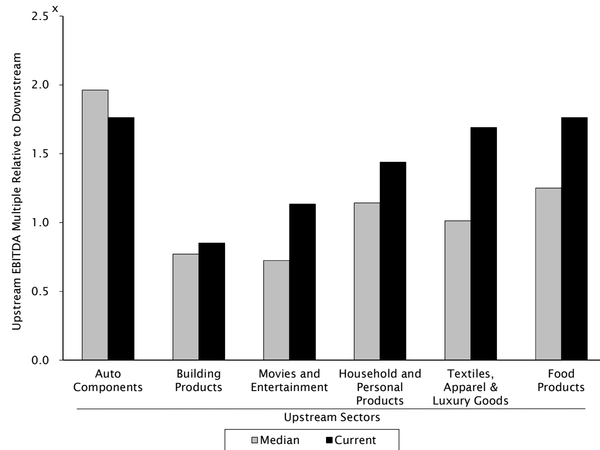


Source: Corporate Reports, Empirical Research Partners Analysis.

[1] Drawn from the largest 1,500 stocks.
[2] Downstream sectors include department stores/apparel retail, cable & satellite, home improvement retail, automobiles, food retail, multiline/general merchandise retail.

Thanks in large part to lofty margins the market currently ascribes five-times the value for sales generated by consumer staples companies as it does for sales made by downstream retailers like Kroger, Costco and Wal-Mart (see Exhibit 14 overleaf). The spread is less pronounced when we look at enterprise value-to-EBITDA multiples in the same way, but it still amounts to a +50% premium (see Exhibit 15). The relationship between valuation and elasticity as seen in Exhibit 16 continues to make us uncomfortable.

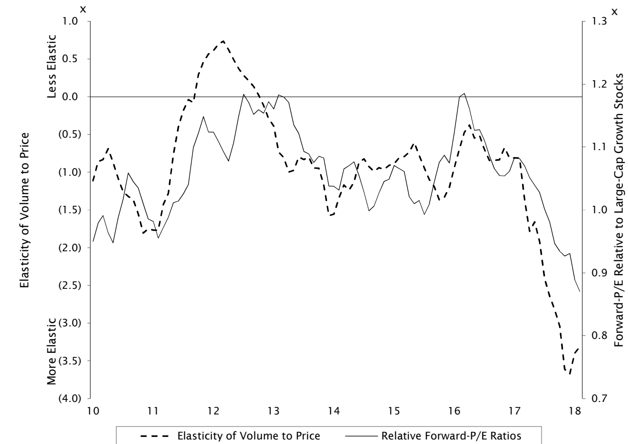
Exhibit 15: Consumer Stocks[1]
Enterprise Value-to-EBITDA of Upstream Relative to Downstream Operators by Sector[2]
Historical Median and Current Level
1987 Through February 2018



Source: Corporate Reports, Empirical Research Partners Analysis.

[1] Drawn from the largest 1,500 stocks.
[2] Downstream sectors include department stores/apparel retail, cable & satellite, home improvement retail, automobiles, food eetail, multiline/general merchandise retail.

Exhibit 16: Mega-Cap Consumer Staples[1]
Price Elasticity and Forward-P/Es
Compared to Those of Large-Cap Growth Stocks[2]
2010 Through February 2018



Source: Bureau of Economic Analysis, Empirical Research Partners Analysis.

[1] Top 13 by market capitalization.
[2] Elasticity data captures: household products, cosmetics, beer and cereal smoothed six months. Valuation data smoothed three months.

Business Model Disruption: Akin to Media

A high degree of elasticity is likely to persist and weigh on margins. To begin with, retailers are fighting for their lives. Odds are that they will keep discounting traffic-drivers and building out private label offerings that compete with national brands. New entrants to the retail channel including hard discounters such as Aldi and Lidl can further deflate pricing patterns. Massive capacity additions from Amazon are also likely to further commoditization, especially for packaged goods that dominate the “center of the store”. These downstream struggles are likely to manifest themselves upstream over time, limiting the upside case for consumer staples. In addition to feeling a by-product of retail disruption, consumer staples must also confront their own disruptive forces that in many ways remind us of media stocks in the dawn of Netflix.

Consumer staples have a lot in common with media businesses. Both create content – MTV in the case of Viacom and Tide in the case of P&G. Neither has historically had a direct relationship with the end-user or consumer. Rather, both have relied on distributors to funnel their product through a “pipe” whether it’s Comcast or Wal-Mart. Both media and staples businesses have been guilty of proliferating content in order to leverage their respective distribution platforms. Some of this content has clearly been marginal. People watch fewer than 20 of the over-200 television channels they are offered. In the same vein Nestle has swelled its portfolio to over 2,000 brands, not to mention the myriad shapes, colors, sizes and flavors associated with each brand. Consumer staples businesses may need to create a skinnier bundle like their media counterparts, focusing on brands and SKUs that are economically viable in their own right. In the past, dominating advertising airwaves and retail shelf space was enough to sustain marginal goods. That is no longer the case. The internet has lowered the competitive barriers for cosmetics and razor blades much like it has for movies and music.

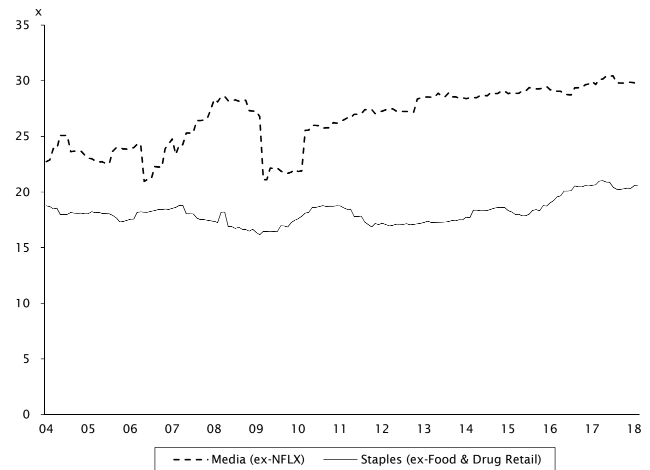
At present the market is ascribing nearly identical values to revenue in the staples and media sectors, adding another interesting commonality (see Exhibit 17). The media sector went through a fairly serious hand-wringing process, but the stocks did not suffer nearly the same backlash from disruption as retailers did. Their margins and multiples have remained buoyant; lending credence to the notion that content is king (see Exhibit 18). If our analogy holds, it might be overly-pessimistic to expect a swoon in margins for consumer staples. They are content creators that – like their peers in media – may just need to up their game by innovating more emphatically. The game is theirs to lose.

Exhibit 17: Media and Consumer Staples Stocks[1]
Enterprise Value-to-Sales
2004 Through February 2018

Source: Empirical Research Partners Analysis.

[1] Drawn from the largest 1,500 stocks.

Exhibit 18: Media and Consumer Staples Stocks[1]
EBITDA Margins
2004 Through February 2018



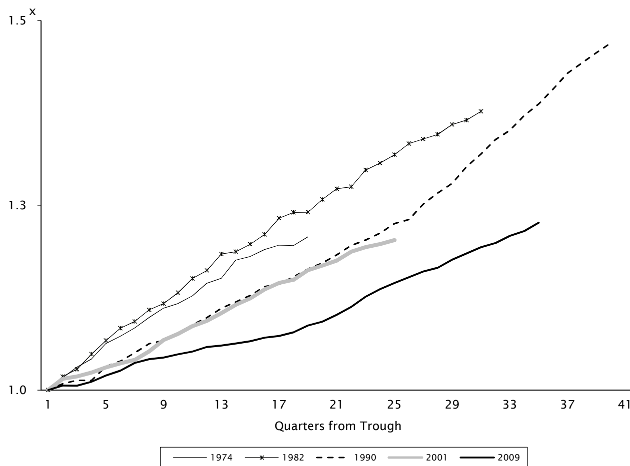
Source: Empirical Research Partners Analysis.

[1] Drawn from the largest 1,500 stocks.

Of Recessions and M&A

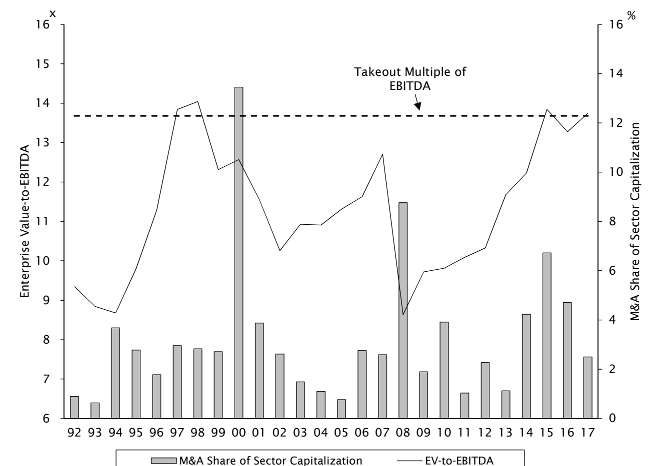
Consumer staples stocks have historically rallied when the likelihood of a recession increases. Our work however, suggests that we are only five years into a nine-year recovery. That is because growth in the early years was unbalanced and narrowly focused on the top 20% of the income distribution. By our count, real consumption has only recovered two-thirds of the growth associated with more typical expansions (see Exhibit 19). There is of course, no guarantee that this cycle will look like others before it, but our view continues to harbor a pro-cyclical view. We are watching for signs of "animal spirits" like aggressive lending or wanton capital spending that could cause the next recession, but so far those risks do not seem big enough to counter the upside that comes with compounding strong cash flows. Risks such as protectionism and other geopolitical forces are notoriously harder to handicap. It makes sense to own a modicum of defensive stocks including pharmaceuticals and consumer staples to hedge against these and other risks, especially now that this insurance has gotten cheaper.

Exhibit 19: Real Personal Consumption
Best Point in Cyclical Recoveries Indexed from Recession Troughs
1974 Through 2017



Source: Bureau of Economic Analysis, Empirical Research Partners Analysis.

Exhibit 20: Large-Capitalization Consumer Staples Stocks
Enterprise Value-to-EBITDA Ratio, Average Takeout Multiple and M&A Share of Sector Capitalization[1,2]
1992 Through 2017

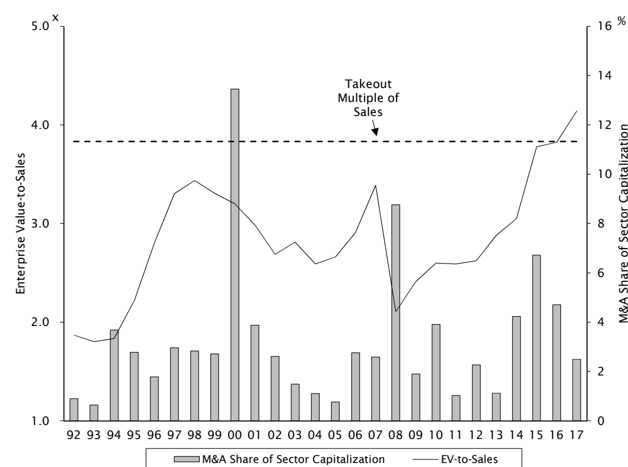


Source: Factset Research Systems, Corporate Reports, Empirical Research Partners Analysis.

[1] Capitalization-weighted data.
[2] Average takeout multiple reflects 2016 through present.

M&A risk is another important catalyst to consider and it is equally hard to predict. On average, the market capitalization of M&A targets in traditional consumer staples (excluding food and drug retail) has amounted to only 2% of the sector's overall capitalization in a given year, but the specter of it looms large in investor's minds. The busiest years of M&A tended to coincide with recessionary periods when valuations were falling. That is not the case today. Relative valuations have compressed significantly, but on an absolute basis consumer staples stocks are trading at or above historical take-out multiples (see Exhibits 20, overleaf, and 21). Current multiples do not look like invitations for stepped-up M&A, but disruption may stir up strategic consolidation out of need, similar to what we have seen in the media realm. A weak dollar could also add firepower to international suitors looking to make an acquisition in the U.S. To this point companies have not been signaling value to the market with buybacks that are small in comparison to other sectors (see Exhibit 22).

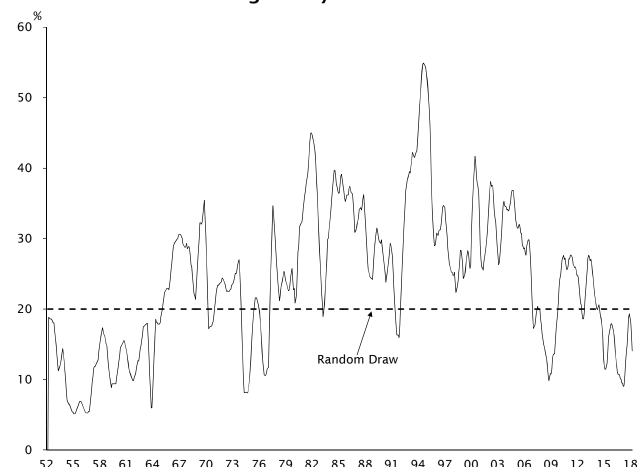
Exhibit 21: Large-Capitalization Consumer Staples Stocks Enterprise Value-to-Sales Ratio, Average Takeout Multiple and M&A Share of Sector Capitalization[1,2] 1992 Through 2017



Source: Factset Research Systems, Corporate Reports, Empirical Research Partners Analysis.

[1] Capitalization-weighted data.
[2] Average takeout multiple reflects 2016 through present.

Exhibit 22: Large-Capitalization Consumer Staples Stocks[1] Share of Stocks in the Best Quintile of Change in Shares Outstanding 1952 Through Early-March 2018



Source: Empirical Research Partners Analysis.

[1] Excludes food and staples retailers. Data smoothed on a trailing six-month basis.

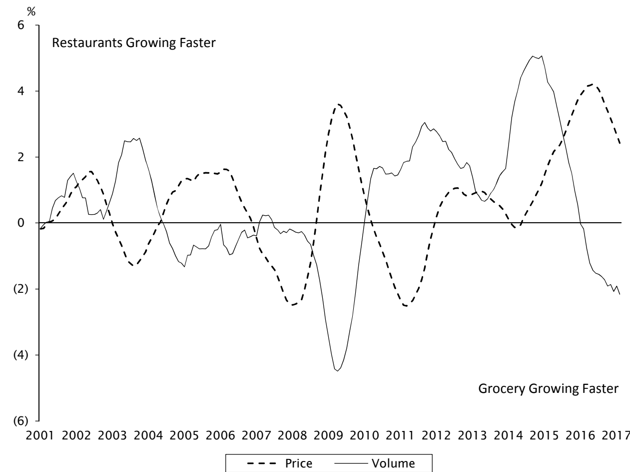
Conclusion: More Staples; Fewer Restaurants

Our cautious outlook for consumer staples has centered on two factors -- market dynamics and fundamentals. The former may begin to ease after a significant spurt of underperformance. However, we do not see an outright catalyst for the stocks on the horizon as the odds of a recession remain low and valuations would need to compress by a further (15)% in order to qualify as inviting. Nonetheless, owning a modicum of defensive stocks makes more sense now that the cost of this insurance has fallen and risk has increased. In a recent report we increased our exposure to pharmaceuticals stocks. With this report we are taking a more constructive stance on consumer staples stocks, adding three to our Consumer Lens portfolio.

To this point we have avoided consumer staples altogether. This has been a key contributor to generating outperformance of +6% since August, 2017. By adding Pepsi, AB Inbev and Kroger, our weighting for the sector moves halfway to normal. Pepsi ranks well in the firm's quantitative models and is a member of the Distrusted Fifty portfolio. AB Inbev is a lower risk play on recovering middle incomes. Kroger is highly controversial, but it is battle-tested. It fought a decades-long battle with Wal-Mart and emerged stronger as a result. We think it will fare better in the future than the market expects.

These three additions replace Harley Davidson, Dunkin Brands and McDonald's. Harley was a relatively new addition, but we suspect that beer might be a lower-risk way to play Middle America. Removing two restaurants and adding a grocer makes sense to us thematically since BEA data suggests eating out has become too high-priced relative to eating in. For the first time in ten years, real spending (a proxy for occasions) is growing faster for grocery than it is for restaurants (see Exhibit 23). Other consumer experiences have not seen the same development, a subject will revisit in an upcoming report (see Exhibit 24). We rank large-capitalization consumer staples stocks on a global basis in Appendix 1 on page 10.

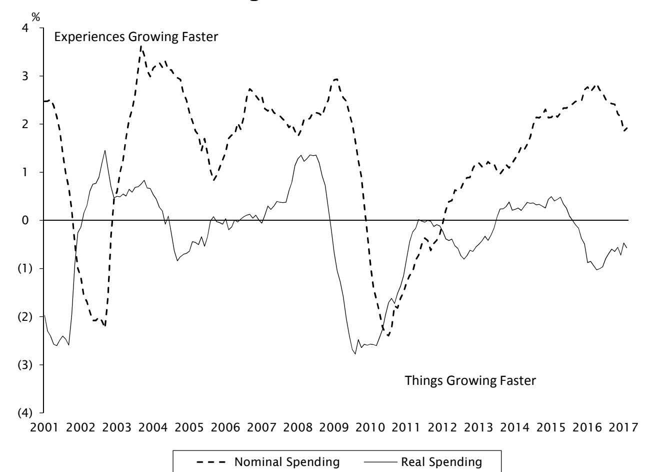
Exhibit 23: Restaurants and Grocery
Price and Volume Growth for Restaurants Less Grocery[1]
2001 Through 2017



Source: Bureau of Economic Analysis, Empirical Research Partners Analysis.

[1] Data smoothed on a trailing twelve-month basis.

Exhibit 24: Experiences and Things[1]
Growth of Spending on Experiences
Less Things in Nominal and Real Terms[1]
2001 Through 2017



Source: Bureau of Economic Analysis, Empirical Research Partners Analysis.

[1] Both categories exclude housing, health care, education and energy.

Appendix 1: Developed Markets: Large-Capitalization Consumer Staples Stocks Excluding Food & Drug Retail
Global Core Model Ranking Report
Sorted by Core Model and Market Capitalization in USD
As of Mid-March 2018

				Quintiles (1=Best; 5=Worst)									
				Super Factors					Memo:				
Bloomberg Ticker	Company	Price (Local)	Local Currency Code	Valuation	Capital Deployment	Earnings Quality and Trend	Market Reaction	**Core Model**	Arbitrage Risk (1=Lowest; 5=Highest)	Forward P/E-Ratio	YTD Return (Local)	YTD Return (USD)	Memo: Market Capitalization (USD Million)
EL US	Estee Lauder Companies Inc. Class A	145.78	USD	5	3	1	1	**1**	1	31.9 x	14.9 %	$14.9	$53,266
IMB LN	Imperial Brands PLC	24.94	GBP	1	1	1	5	**1**	1	9.4	(19.4)	(16.7)	33,072
GIS US	General Mills Inc.	51.99	USD	2	1	1	3	**1**	3	15.7	(11.6)	(11.6)	29,506
MO US	Altria Group Inc	66.13	USD	4	1	1	4	**2**	1	16.5	(7.4)	(7.4)	124,568
TSN US	Tyson Foods Inc. Class A	75.62	USD	2	4	4	1	**2**	2	11.3	(6.3)	(6.3)	29,745
ADM US	Archer-Daniels-Midland Company	44.24	USD	2	2	4	3	**2**	2	15.5	11.2	11.2	24,473
K US	Kellogg Company	69.64	USD	3	2	1	3	**2**	3	15.6	3.3	3.3	24,319
DPS US	Dr Pepper Snapple Group Inc.	117.65	USD	4	1	1	2	**2**	5	22.3	21.2	21.2	21,105
CARLB DC	Carlsberg A/S Class B	733.20	DKK	3	1	1	4	**2**	2	21.0	(1.6)	1.6	18,389
TAP US	Molson Coors Brewing Company Class B	80.46	USD	1	1	4	4	**2**	3	15.5	(1.4)	(1.4)	17,464
PG US	Procter & Gamble Company	79.72	USD	4	4	1	4	**3**	1	18.4	(12.6)	(12.6)	200,360
COST US	Costco Wholesale Corporation	187.46	USD	4	2	2	3	**3**	1	26.9	1.0	1.0	81,096
RI FP	Pernod Ricard SA	134.65	EUR	5	5	1	2	**3**	1	22.8	2.0	5.4	43,699
KMB US	Kimberly-Clark Corporation	112.96	USD	3	2	2	4	**3**	2	16.2	(5.5)	(5.5)	39,691
2502 JP	Asahi Group HoldingsLtd.	5,657.00	JPY	3	4	2	1	**3**	3	17.9	1.2	6.9	25,747
4911 JP	Shiseido CompanyLimited	6,423.00	JPY	5	2	2	1	**3**	5	42.7	17.9	24.6	23,615
HSY US	Hershey Company	101.80	USD	4	3	1	5	**3**	2	19.0	(9.7)	(9.7)	21,242
CLX US	Clorox Company	131.19	USD	4	4	1	3	**3**	3	20.6	(11.3)	(11.3)	17,075
PM US	Philip Morris International Inc.	107.24	USD	5	5	1	5	**4**	2	20.3	1.5	1.5	167,453
PEP US	PepsiCo Inc.	113.60	USD	4	4	2	3	**4**	1	19.9	(4.6)	(4.6)	158,141
UNA NA	Unilever NV Cert. of shs	43.59	EUR	5	3	1	5	**4**	1	19.3	(6.4)	(3.4)	156,569
OR FP	L'Oreal SA	179.85	EUR	5	4	1	5	**4**	1	25.9	(2.8)	0.4	122,330
DGE LN	Diageo plc	24.21	GBP	5	5	1	3	**4**	1	20.3	(10.3)	(7.2)	82,288
HEIA NA	Heineken NV	86.52	EUR	4	5	1	4	**4**	1	20.5	(0.5)	2.8	61,738
CL US	Colgate-Palmolive Company	70.87	USD	5	3	1	4	**4**	2	22.4	(5.6)	(5.6)	61,730
2914 JP	Japan Tobacco Inc.	3,058.00	JPY	2	4	1	5	**4**	3	13.7	(15.8)	(11.0)	56,505
4452 JP	Kao Corp.	7,690.00	JPY	5	4	1	1	**4**	4	24.7	0.9	6.6	35,273
BF/B US	Brown-Forman Corporation Class B	54.55	USD	5	5	1	2	**4**	3	31.7	(0.4)	(0.4)	29,324
MNST US	Monster Beverage Corporation	58.69	USD	5	5	1	3	**4**	5	33.0	(7.3)	(7.3)	28,505
ATD/B CT	Alimentation Couche-Tard Inc. Class B	62.21	CAD	2	3	4	4	**4**	2	16.0	(5.2)	(8.1)	27,405
2503 JP	Kirin Holdings Company Limited	2,937.50	JPY	4	4	3	2	**4**	3	17.3	3.4	9.2	24,819
CCE US	Coca-Cola European Partners Plc	42.05	USD	3	4	4	4	**4**	3	14.8	6.4	6.4	20,131
HRL US	Hormel Foods Corporation	34.03	USD	4	4	2	3	**4**	2	18.3	(6.0)	(6.0)	17,826
NESN SW	Nestle S.A.	76.16	CHF	5	4	4	5	**5**	1	19.8	(9.1)	(6.2)	248,467
ABI BB	Anheuser-Busch InBev SA/NV	92.88	EUR	4	5	3	5	**5**	1	22.4	(0.3)	3.0	237,685
KO US	Coca-Cola Company	44.57	USD	5	5	2	3	**5**	1	21.3	(2.9)	(2.9)	189,233
BATS LN	British American Tobacco p.l.c.	41.66	GBP	3	5	1	5	**5**	2	13.7	(17.0)	(14.2)	132,899
KHC US	Kraft Heinz Company	67.37	USD	4	5	5	5	**5**	1	17.6	(12.6)	(12.6)	81,384
MDLZ US	Mondelez International Inc. Class A	44.04	USD	4	5	4	3	**5**	2	17.9	2.9	2.9	64,592
HEN3 GY	Henkel AG & Co. KGaA Pref	110.40	EUR	4	5	4	5	**5**	1	16.5	0.0	3.3	56,108
BN FP	Danone SA	67.14	EUR	3	5	4	5	**5**	1	18.1	(4.0)	(0.9)	55,393
RB/ LN	Reckitt Benckiser Group plc	56.65	GBP	4	3	1	5	**5**	3	17.1	(18.1)	(15.3)	55,326
STZ US	Constellation Brands Inc. Class A	227.94	USD	5	5	2	2	**5**	1	24.0	(0.0)	(0.0)	44,425
ABF LN	Associated British Foods plc	25.60	GBP	4	4	2	5	**5**	3	19.0	(9.2)	(6.1)	27,851
BEI GY	Beiersdorf AG	87.94	EUR	5	4	3	5	**5**	1	25.3	(10.2)	(7.3)	26,241

Source: Empirical Research Partners Analysis.