Industry Outlook

Consumer Staples: Distribution & Retail

2023/2024

ITIC

The Industry Outlook Team

Consumer Staples Distribution & Retail

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ABOUT THE REPORT

From this present report, the ITIC-ISCTE Trading & Investment Club and the research team are committed to enhancing the knowledge and improving the capacity of both the financial and non-financial sectors to make more informed decision-making. Aligned with the SDG's sustainability goals, the report aims to deliver on several key objectives:

- Quality Education: The report strives to provide "Quality Education" by offering free and high-quality materials in English. The goal is to promote inclusive and equitable education through simple and straightforward analyses, helping foster life-long learning.

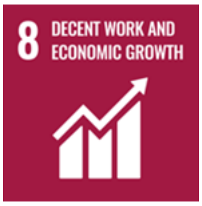
- Decent Work and Economic Growth: The team highlights the economic impact of the Consumer Staples industry in the report. This industry is crucial in providing essential products and services to households, contributing significantly to global retail sales and employment.

- Responsible Consumption and Production: Emphasising the importance of sustainability and environmental responsibility in the Consumer Staples industry, the report addresses the growing demand for eco-friendly products and practices from consumers and regulators.

- Climate Action: The report discusses the challenges and opportunities faced by the Consumer Staples industry due to climate change. It addresses rising commodity prices, supply chain disruptions, and carbon-neutral commitments.

- Partnerships for the Goals: Through distributing reports to financial and governmental partners, the ITIC-ISCTE Trading & Investment Club aims to catalyse and amplify its commitments, like those outlined in the SDGs.

In conclusion, the ITIC-ISCTE Trading & Investment Club is deeply committed to delivering meaningful insights that empower society. Networking with our partners, the club seeks to provide in-depth and insightful analyses of the international financial and economic landscape, contributing to broader societal understanding, progress, and cohesion.



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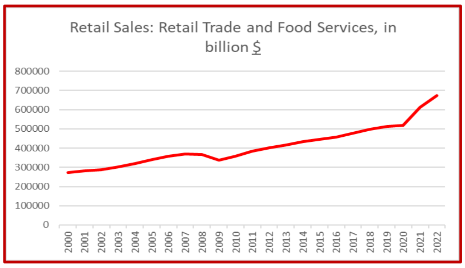
KEY INSIGHTS

The Consumer Staples sector refers to businesses that create products considered essential by consumers. This category includes products like foods and beverages, household goods, and hygiene products, as well as alcohol and tobacco. Due to the huge importance of the health and well-being of consumers regarding consumer staples products, the sector is under heavy legislation and regulations.

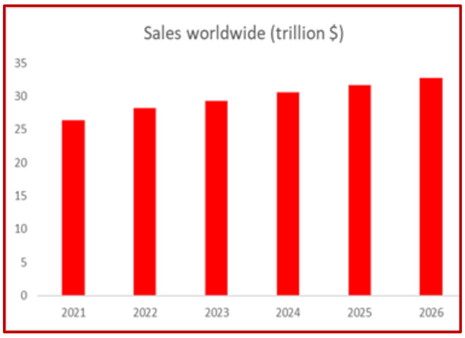
In an overall overview, the research team notes resilient consumption despite high inflation rates. However, the consumption of food, beverages, and fuel has decreased for the third consecutive trimester.



Source: FRED, Economic Data St. Louis FED

Supply Chain Pressure

Supply Chain Logistics are paramount, efficient and timely distribution is at the heart of this industry. With the recent global supply chain challenges, both during the covid 19 pandemic, the war in Ukraine and the Israel-Palestine conflict, escalating transportation and warehousing costs, exacerbated by issues like port congestion, fuel price hikes, and product shortage directly affected profit margins. An example of it is the increase of nearly 60% in the transport prices of goods such as grain and the 64% increase in the fuel oil VLSFO oil. Since worldwide populations depend on the sector to satisfy their basic needs, the Main Players were forced to absorb the impact of inflation side by side with the consumers, since their Revenues increased while at the same time, Profit Margins were negatively affected.

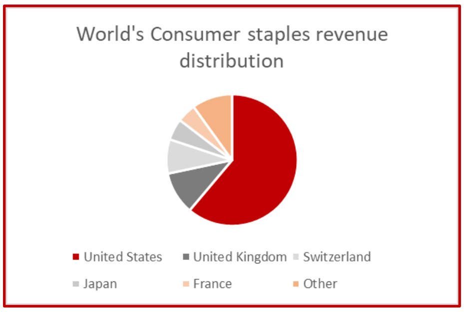


Total retail sales worldwide from 2021 to 2026 (in trillion U.S. dollars), Statista

Highly Competitive Industry

The consumer products industry is characterised by intense competition, which can be observed by reduced gross margins compared to the market average, necessitating a robust ability to compete with local and global rivals. The Main Players compete mostly under price, consumer trust and quality.

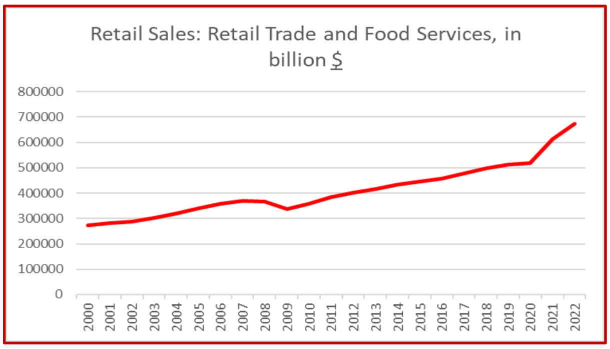
The most recent data shows that the United States is the country that collects the largest share of global revenue in the Consumer Staples sector.



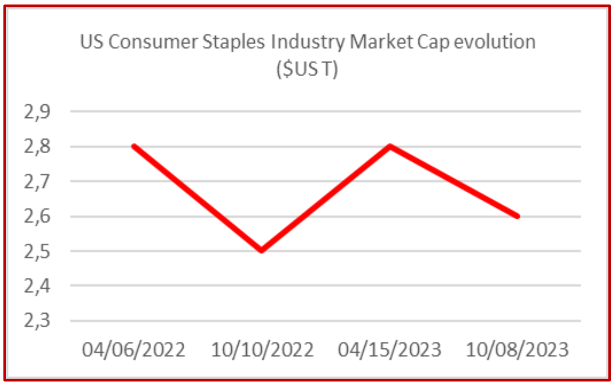
Source: MSCI World Consumer Staples Index

INDUSTRY

Industry Revenue Evolution



Source: FRED, Economic Data St. Louis FED



Source: Simplewalletst

The Consumer Staples Industry refers to businesses that create products considered essential by consumers. This category includes products like foods and beverages, household goods, and hygiene products, as well as alcohol and tobacco.

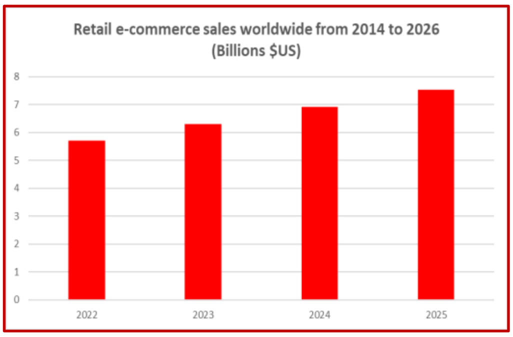
In the last three years, the consumer staples industry has suffered from major shocks in the economy, the first one being the Covid-19 pandemic, where the change in prices was caused by a disruption of the supply chain, since many countries stopped their production due to the lockdowns, which helped in shifting the mindset of private agents, causing a big development for e-commerce which altered the industry composition.

In 2022, the war in Ukraine caused the second shock, mainly because commodity and energy prices took a hit. The most recent conflict in the Middle East has enhanced the geopolitical instability in the region and further supply chain constraints, especially in the Red Sea. Regardless of these events, the consumer staples industry has outperformed the S&P 500 during this period since it's an industry that is indispensable to households. The US GDP has increased at 5.2% annualised pace in Q3 while inflation was at 3.4% in December of 2023, which benefits the industry revenues due to the importance it has for households.

Key players

Key Players	Revenue (in $BN 2022)	Market Cap (in $BN 2022)	Description
Walmart INC	572.8	339.6	Walmart is one of the world's largest companies by revenue with facilities spread across America, Asia, and Africa. Walmart operates discount stores, supercenters, and neighbourhood markets.
Procter & Gamble	80.2	421	The Procter & Gamble company provides products in the laundry and cleaning, paper, beauty care, food and beverage and health care segments. It's a global leader in the fast-moving consumer goods industry with 35 different brands of its own.
Nestlé	102.59	295.9	Nestlé, a globally recognized Swiss consumer staples company, is a dynamic conglomerate with a diversified portfolio encompassing sectors such as Powdered and Liquid Beverages, PetCare, Nutrition and Health.

Main Suppliers



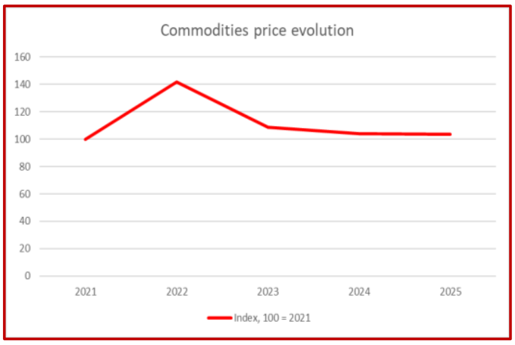
Source: Simplewalletst

Walmart maintains an extensive supply chain comprising over 100,000 suppliers worldwide, with a sizable portion inside the United States. This strategic distribution not only serves the proximity of sourcing goods to its customers but contributes to a reduced carbon footprint. The company actively engages in direct and close collaboration with its suppliers to drive cost efficiency and enhance the effectiveness of its supply chain management. Walmart's massive purchasing power, derived from its scale, allows it to negotiate prices and buy in vast quantities. This bulk purchasing capability enables them to offer products at unmatched competitive rates.

Nestlé, on the other hand, relies on a vast network of over 700,000 farmers worldwide. This extensive network is crucial in providing the raw materials required for Nestlé's diverse global portfolio. Nestlé's direct engagement with farmers not only ensures a consistent supply of high-quality agricultural raw materials but also empowers farmers to meet stringent environmental, ethical, and social standards.

P&G operates a worldwide supply chain comprising numerous manufacturing facilities around the globe. The company has adopted an end-to-end supply chain integration approach aimed at reducing costs, enhancing product quality, and fostering innovation. Notably, P&G usually recognizes its suppliers for their outstanding commitment to environmental sustainability as part of the P&G Ambition 2030 plan.

Main cost drivers



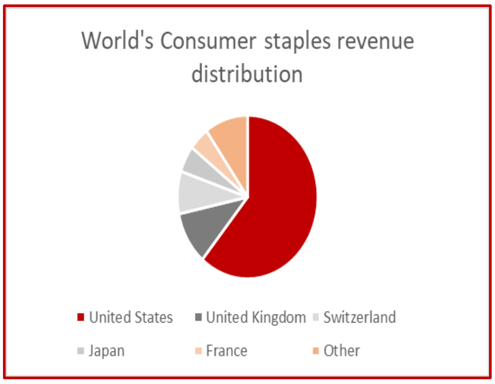
Source: World Bank

Commodity Prices play a pivotal role, given the heavy reliance on raw materials, particularly in food and personal care segments. Fluctuations in global commodity markets can drastically affect production costs, such as the rise in oil prices from $72 to 90$ in the third quarter of 2023. This is especially true when external factors, such as climate anomalies or geopolitical tensions, impact the prices of essential ingredients.

Supply Chain Logistics are paramount, and efficient, and timely distribution is at the heart of this industry. With the recent global supply chain challenges, escalating transportation and warehousing costs, exacerbated by port congestion and fuel price hikes, directly affect profit margins.

Regulatory Compliance costs have surged. As consumer goods are subject to stringent regulations, especially food and personal care products, the expenses associated with adhering to evolving health, safety, and environmental standards can be considerable.

Revenue by Geographical Location



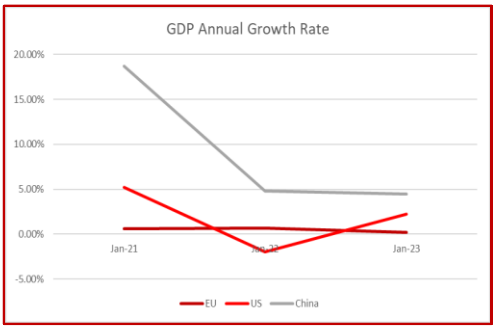
Source: MSCI World Consumer Staples Index

The most recent data shows that the United States (GDP is the country that collects the largest share of global revenue in the Consumer Staples industry (2022 data).

Next is Europe, specifically the United Kingdom, Switzerland, and France. This is a region that benefits from numerous factors, including the ease of business relocation and business expansion.

Turning our gaze to the Asia-Pacific (APAC) region, it overshadows others in its dynamism, accounting for a dominant 35% of global retail. It's a region in transformation: burgeoning middle classes, rapid urbanisation, and a pivot towards consumer-centric economies. China and India are two of the main catalysts due to their vast populations and swelling disposable incomes. 15 years ago, the European economy was the largest in the world, showing an impressive 10% surplus when compared with the US. When compared with the current reality the European economy is already 23% smaller than the US and its GDP has grown in this period by 21%, compared to 72% for the US and 290% for China. According to this data, we can forecast that in the following years the weight of revenue in the Consumer Staples Industry will tend to grow in Asia-Pacific and the US, while Europe will tend to lose relevance in this metric.

Risk Factors



Source: Trading Economics

Cost management and customer satisfaction: Failing to manage cost fluctuations and pressures can have severe repercussions on the operational results and cash flows of businesses. Ultimately, this can lead to client attrition as prices rise.

Competitive landscape and innovation: The consumer products industry is characterised by intense competition, necessitating a robust ability to compete with local and global rivals. However, this competitive pressure can catalyse innovation.

Supplier reliability and quality assurance: The financial stability of suppliers and their commitment to industry terms, conditions, and standards are crucial factors influencing the industry's overall financial performance.

Credit market disruptions and liquidity concerns: These disruptions can significantly impact the financial stability and wealth of the industry.

PESTEL Analysis

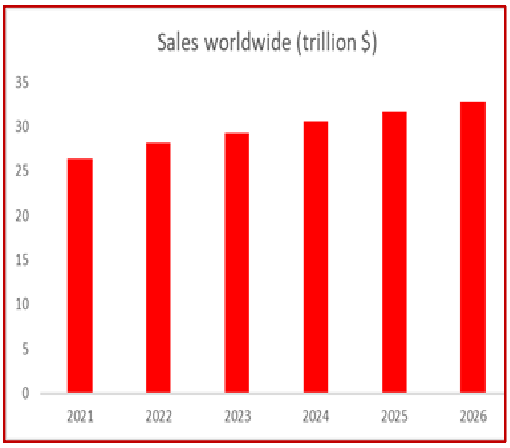
Political	• **Implications of the U.S.-China trade war regarding the industry's financial stability.**
Economical	• **High inflation.** • **Reduced Disposable Income.**
Social	• **Rise of conscious consumerism.** • **Community Engagement:** Retailers are focusing on building stronger connections with local communities. This involves participating in community events, supporting local causes, and creating a sense of belonging among customers.
Technological	• **Data Analytics**: Distributors increasingly leverage big data analytics to gain insights into consumer behaviour. This helps in tailoring marketing strategies, optimising inventory management, and improving overall operational efficiency.
Environmental	• **Carbon-neutral commitments.** • **Plastic usage reduction.**
Legal	• **Consumer privacy rights:** Retailers are required to ensure compliance with data protection laws and prioritise safeguarding customer information. This has an impact on data collection and marketing practices.

SWOT Analysis

Strengths	Extensive product assortment. Big brands benefit from consumers' loyalty. E-commerce upsurge allows an increase in efficiency in the supply chains.
Weakness	High competition. Labour shortage. Rising operating costs.
Opportunities	Youth fuels social commerce. Growth of emergent economies. Tech adaptation for positive impact.
Threats	High interest rates. Global conflicts and trade wars impact. Cybersecurity and retail theft concerns.

FUTURE OF THE INDUSTRY

Figure 1-Total retail sales worldwide from 2021 to 2026 (in trillion U.S. dollars)

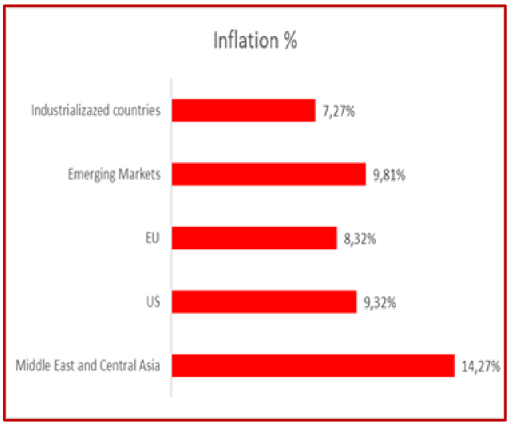


Source: Statista

Figure 2 - Estimated value of the in-store and e-commerce retail sales worldwide

Source: Statista

Figure 3 - Inflation rate in selected global regions in 2022



Source: Statista

Industry Growth

In the current landscape of the global retail market, we observe a comprehensive range of products and services catering to a broad consumer base. This market, encompassing everything from small-scale independent ventures to expansive multinational corporations, spans a variety of formats including traditional brick-and-mortar establishments, e-commerce platforms, and increasingly prevalent omnichannel operations. As per the latest projections by eMarketer, a notable trend is the anticipated escalation of global retail sales, expected to reach an impressive milestone of approximately $27 trillion by 2022.

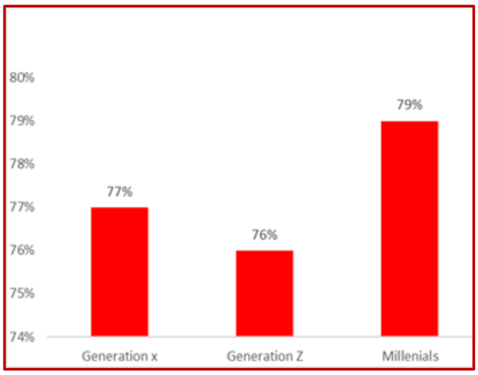
This upward trajectory, however, is not uniformly distributed across the globe. In regions such as North America and Europe, the retail sector is distinguished by a high degree of market maturity and an advanced level of digital integration. Conversely, the Asia-Pacific region, especially in emerging economies like China and India, is experiencing a rapid surge in growth. This is primarily fueled by an increase in consumer spending coupled with a swift adoption of digital technologies.

A pivotal factor in the evolution of the retail sector is the ascension of e-commerce. Online sales have been expanding at a significantly faster pace compared to traditional retail models. This shift, which has been further accelerated by the COVID-19 pandemic, compels consumers towards an increased reliance on online shopping.

However, the industry faces a considerable challenge in the form of inflation such as the almost 12% rise in food prices and the historic price of $1.3 per litre of gasoline in the US. Distributors are then confronted with a critical decision: whether to absorb these increased costs, potentially eroding profit margins, or to transfer them to consumers through heightened pricing. Elevated inflation can also impact consumer spending power, particularly as the cost of essential items like food and energy rises, consequently diminishing disposable income for other retail purchases. This situation can lead to a downturn in sales for specific sectors within the retail industry. It is imperative for retailers to adeptly navigate these inflationary pressures, striking a balance between managing increased operational costs and maintaining affordability for consumers.

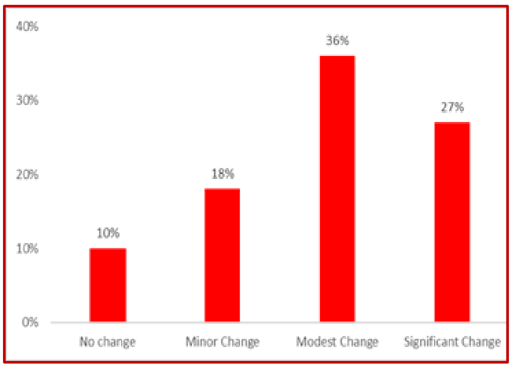
In summary, the global retail market is on a trajectory of growth, propelled by technological advancements and shifts in consumer behaviour. However, the landscape has challenges, such as inflation, which necessitates continual adaptation and innovation from retailers. Those capable of effectively navigating these complexities.

Figure 4-Consumers expecting retailers and brands to become more sustainable in the United States in 2022, by generation



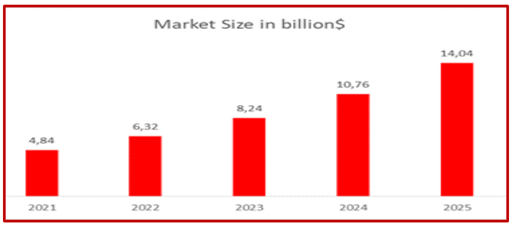
Source: Statista

Figure 5 - Degree to which consumers' purchasing behaviour and choices shifted towards buying more sustainable products over the past five years worldwide in 2022



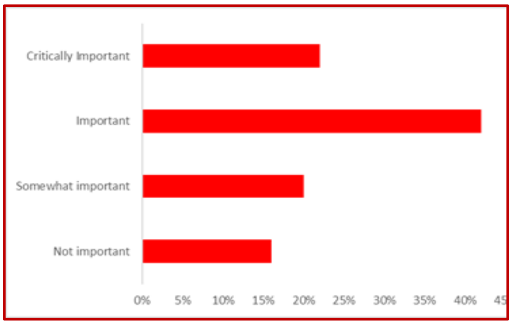
Source: Statista

Figure 6-Size of the global Artificial Intelligence (AI) market in the retail industry



Source: Statista

Figure 7-Importance of AI use in optimizing store operations according to retailers



Source: Statista

A trend towards sustainability

Sustainable Practices in the retail industry have become essential due to increasing consumer demand for environmentally responsible products. A Nielsen report indicates that 73% of global consumers would change their habits to reduce environmental impact. This shift is influencing retailers to adopt sustainable operations.

Financially, sustainable products are showing significant market growth. The New York University Stern Center for Sustainable Business found that such products grew 5.6 times faster than non-sustainable ones, with over 50% of market growth in some categories attributed to sustainably marketed goods.

Furthermore, 93% of global retail CEOs are focusing on sustainability, as per the Retail Industry Leaders Association (RILA), with efforts to reduce waste, energy efficiency, and sustainable sourcing. Additionally, 74% of consumers are willing to pay more for sustainable packaging, as reported by Trivium Packaging.

However, integrating sustainable practices remains challenging. McKinsey & Company reports that while 70% of companies have sustainability commitments, only 30% have successfully implemented these practices across their business.

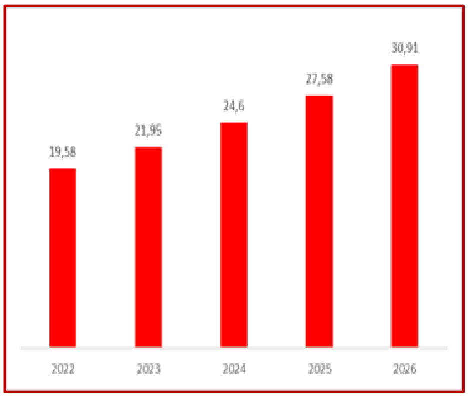
AI in the retail market

In the retail industry, the integration of Artificial Intelligence (AI) is creating substantial improvements across various facets of business operations. One of the most significant impacts of AI is seen in enhancing customer experiences. For instance, AI-driven personalization strategies are not just a hit with customers but also immensely profitable, delivering five to eight times the ROI on marketing spend and boosting sales by over 10%, as reported by McKinsey & Company. Additionally, the use of chatbots and virtual assistants, which are projected to save businesses more than $8 billion annually by 2022 according to Juniper Research, is revolutionising customer service in retail.

Another critical area where AI is making waves is in operational efficiency. AI's prowess in inventory management can slash costs by up to 50%, as found by IBM. This efficiency extends to supply chain optimization, where AI can reduce logistics costs by 15%. Moreover, the growing market for AI-powered automated checkouts, expected to expand at a CAGR of 10.3% from 2021 to 2026 (Mordor Intelligence), is a testament to AI's role in enhancing the shopping experience and operational speed.

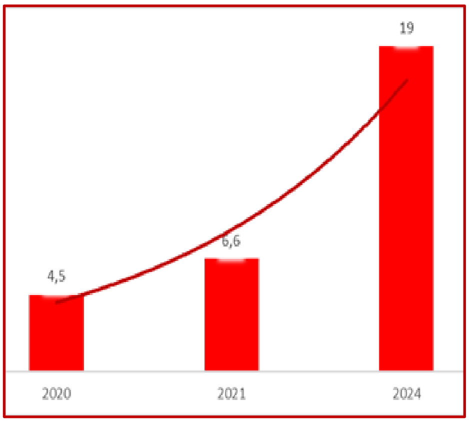
When it comes to marketing and sales, AI's impact is equally impressive. Predictive analytics, a cornerstone of AI in retail, has been a game-changer. A survey by Forbes Insights and Quantcast revealed that 83% of successful marketers who surpassed their revenue goals employed AI in their strategies. Dynamic pricing models powered by AI are also contributing to revenue growth, potentially increasing revenues by up to 5% as per McKinsey's findings. Furthermore, AI's ability to enable precise customer segmentation has been shown to boost sales for marketing campaigns by 10-30%, according to Accenture.

Figure 8 - Size of the global supply chain Market in $Billion



Source: Statista

Figure 9-Worldwide spending on blockchain solutions



Source: Statista

Blockchain for Transparency and Traceability

The application of blockchain in supply chains is increasingly popular due to its ability to ensure transparency and traceability. A prominent example of this technology in action is Walmart's use of blockchain to efficiently trace the origin of over 25 products from 5 different suppliers. The implementation of blockchain in such scenarios is revolutionary, as it can drastically reduce the time required to trace a product's origin from days to mere seconds. This rapid traceability is particularly crucial in urgent situations, such as product recalls, where identifying the source of a problem quickly can significantly mitigate risks to consumer safety and the company's reputation.

Reflecting the growing importance and potential of this technology in the retail sector, the global blockchain in the supply chain market size is experiencing rapid growth. It is projected to expand from $253 million in 2020 to an impressive USD 3,272 million by 2026. This growth represents a Compound Annual Growth Rate (CAGR) of 53.2%, as reported by MarketsandMarkets. This substantial increase underscores the industry's recognition of blockchain as a key tool in enhancing supply chain management, offering unparalleled improvements in terms of efficiency, security, and transparency. The adoption of blockchain is set to redefine supply chain processes, making them more resilient and responsive to the dynamic demands of the modern market.

INDUSTRY PERFORMANCE

	Retail (Distributors) Industry	Total Market	Premium
ROE	27.37%	16.47%	166.18%
ROIC	21.36%	9.61%	222.27%
P/E	57	109.25	52.17%
Forward P/E	15.54	30.7	50.63%
Trailing P/E	27.14	82.09	33.06%
PEG Ratio	0.84	1.3	64.62%
EV/EBITDA	9.,43	14,23	66,27%
Dividend Payout	21.65%	34.69%	62.41%
CAGR in net income (past 5 years)	30,97%	17%	182.18%

	Retail (Distributors) Industry	Total Market	Premium
Expected Growth in Revenues (2Y)	10.14%	31.78%	31.91%
EPS Growth (5Y)	16.13%	13.05%	123.60%
Aggregate Mkt cap/net income	18.74	19.86	94.36%
Std. Deviation in stock prices	37.08%	13.14%	282.19%
Cost of Equity	11.45%	10.75%	106.51%
Capital Spending/Total Assets	9.38%	8.44%	111.14%
Net PP&E/Total Assets	11.14%	NA	NA
Cost of Capital	9,38%	8,44%	111.14%
Beta	1.28	1.16	110.34%
Unlevered Beta	0.98	0.83	118.07%
Cash/Firm Value	2.25%	6.66%	33.78%
Dividend Yield	1.49%	1.58%	94.30%

	Retail (Distributors) Industry	Total Market	Premium
D/E Ratio	39.57%	53.53%	73.93%
E/(E+D)	71.65%	65.14%	109.99%
D/(D+E)	28.35%	34.86%	81.33%
Effective Tax Rate	13.59%	7.52%	180.72%
Gross Margin	31.3%	36.28%	86.27%
Net Margin	7.3%	8.89%	82.11%
Pre-Tax Operating Margin	11.9%	11.6%	102.59%
COGS/Sales	68.7%	63.72%	107.82%

Source: Damodaran

When evaluating the industry, we can see that it presents a higher Risk and Volatility when compared with the market due to a higher Beta value and a higher Unlevered Beta.

Regarding the Capital Structure, the Industry Equity has a much higher weight in the Equity composition than Debt, when compared with the market. The cash/firm value is lower than the market average indicating lower liquidity. The weight in Equity can be justified by the high demand from investors in this industry, due to its contra-cycling nature, since households are unwilling to cut off their budgets regardless of their financial situation. High dividend yields are also an advantage of investing in this sector.

The Cost of Capital is superior to the market average due to the higher return investors demand when investing in the Retail industry.

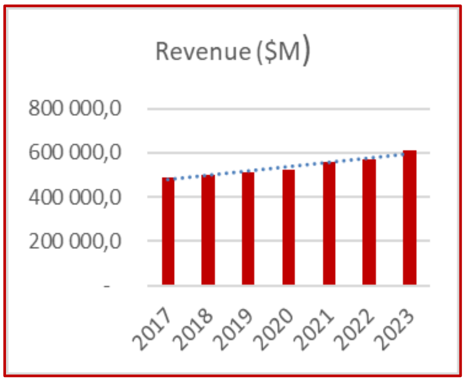
The Profitability, ROE, and ROIC indicators present higher values when compared with the Total Market, meaning that Equity and Debt are being used with more efficiency than in most industries.

The industry presents a higher weight in the COGS/Sales than the market, which can be justified by the enormous impact that the current conflicts had on the overall prices, specifically in food and other essential products that play a crucial role in the consumer staples sector. It is forecasted that the industry Growth will be lower than the market average. Since consumer staples are characterised by supplying essential products to households, normally, the revenue growth is smaller than the market average due to its stability and the quick development of other disruptive technologies such as AI, which tend to have a growth superior to traditional sectors.

In summary, this Industry fits the profile of an investor who is looking for stable constant growth and high dividend yields. In the last three recession periods, the consumer staples sector has outperformed the S&P 500, making it a strategic investment to diversify the portfolio and reduce the overall investment risk.

MAIN PLAYERS

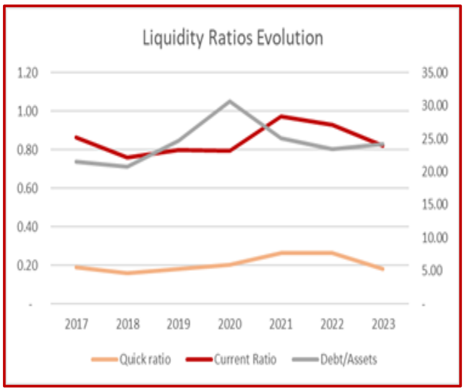
Figure 10: Walmart Revenue Evolution



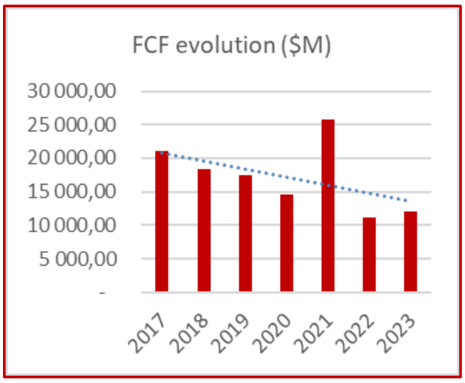
Source: Bloomberg

Valuation	2023
P/E	29.8
P/S	0.7
P/B	5.51
EV/EBITDA	14.9
Beta vs SPX	0.75
Market Cap ($M)	438,078.90

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Walmart

Walmart's operations are organised into three segments: Walmart U.S., Walmart International, and Sam's Club.

In the fiscal year 2023, Walmart U.S. contributed to nearly 70% of the total net sales, making it the primary revenue driver. Moreover, in the same year, the United States accounted for over 80% of the company's overall revenues, with the region of Mexico and Central America emerging as the highest-generating international location. In the product categories, groceries held a significant share of the net sales, constituting 60% of all revenues within the Walmart U.S. segment.

Strategy

Walmart's strategic approach is centred mainly on simplifying the lives of families, maintaining operational discipline, and cultivating trust as a distinctive competitive advantage.

In addition to these core pillars, Walmart's strategy hinges on two fundamental principles: price leadership and offering an extensive array of top-notch products and services, all anchored in the ethos of everyday low prices. Furthermore, their unwavering commitment to cost management ensures that the savings can be seamlessly transferred to their valued customers.

Financial Analysis

Walmart's revenue has displayed consistent but modest growth over the past six years, with a CAGR of 3.90%. Notably, the years 2021 and 2023 witnessed around 7% growth.

Walmart's Net Income has been marked by significant fluctuations. It experienced a substantial increase in 2020, followed by a decrease until 2023. These fluctuations reflect rising costs of goods and services, potentially linked to the broader inflation crisis affecting production costs.

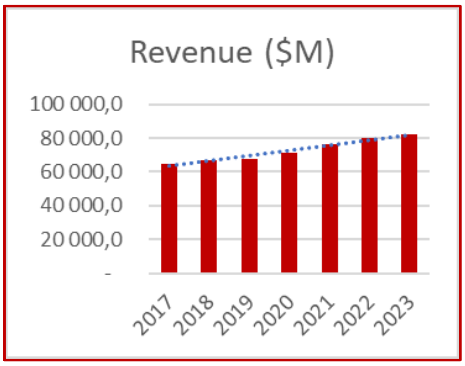
FCF displayed a negative overall trend, with a surprising peak in 2021.

In terms of liquidity and solvency, Walmart's debt levels reached a peak in 2020, followed by a subsequent decrease, but remained higher than the period before 2020. The Debt/Equity ratio reached its highest point at 88.82 in 2021, indicating a period of high leverage.

To summarise, Walmart has exhibited strong revenue growth, stable profitability, and some notable fluctuations in insolvency and debt levels, influenced by changing economic conditions.

Key Financial Analysis

Key Financials	2017	2018	2019	2020	2021	2022	2023
Revenue ($M)	485,873.0	500,343.0	514,405.0	523,964.0	559,151.0	572,754.0	611,289.0
Growth (YoY)	-	2.98%	2.81%	1.86%	6.72%	2.43%	6.73%
Gross Profit ($M)	124,617.00	126,947.00	129,104.00	129,359.00	138,836.00	143,754.00	147,568.00
EBITDA ($M)	32,844.00	30,966.00	32,635.00	34,225.00	36,326.00	38,874.00	33,679.00
Net Income ($M)	13,643.00	9,862.00	6,670.00	14,881.00	13,510.00	13,673.00	11,680.00
EPS	4.40	3.29	2.28	5.22	4.77	4.90	4.29
DPS	2.00	2.04	2.08	2.21	2.16	2.20	2.24
FCF ($M)	21,054.00	18,286.00	17,409.00	14,550.00	25,810.00	11,075.00	11,984.00
Profitability							
Gross Margin (%)	25.65%	25.37%	25.10%	24.69%	24.83%	25.10%	24.14%
EBITDA Margin (%)	6.76%	6.19%	6.34%	6.53%	6.50%	6.79%	5.51%
Net Income Margin (%)	2.81%	1.97%	1.30%	2.84%	2.42%	2.39%	1.91%
ROA (%)	6.85%	4.89%	3.15%	6.53%	5.53%	5.50%	4.79%
ROE (%)	17.23%	12.67%	8.87%	20.22%	17.64%	16.66%	14.60%
Liquidity and Solvency							
Total Debt ($M)	42,729.00	42,446.00	54,170.00	72,433.00	63,246.00	57,323.00	58,923.00
Debt/Equity (%)	53.06	52.52	68.02	88.82	72.26	62.38	70.15
Quick ratio	0.19	0.16	0.18	0.20	0.26	0.26	0.18
Current Ratio	0.86	0.76	0.80	0.79	0.97	0.93	0.82
Debt/Assets (%)	21.49	20.75	24.70	30.63	25.05	23.41	24.23



Source: Bloomberg

Procter & Gamble (P&G)

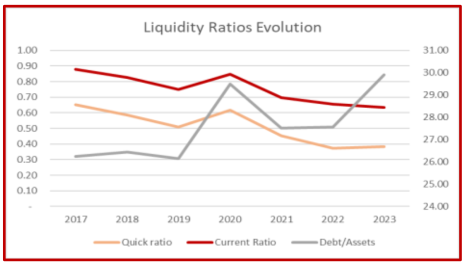
P&G operates its business globally through five segments: Fabric & Home Care (almost 35%); Baby, Feminine & Family Care (some 25%); Beauty (nearly 20%); Health Care (about 15%); and Grooming (roughly 10%). P&G sells its products worldwide through mass merchandisers, e-commerce channels, grocery stores, distributors and wholesalers, and speciality beauty stores. These customers sell their products to individual consumers, but the company also sells directly to consumers. Sales to Walmart and its affiliates account for approximately 15% of total sales.

Valuation	2023
P/E	24,5
P/S	4,3
P/B	7,57
EV/EBITDA	17,6
Beta vs SPX	0,74
Market Cap ($M)	354 947,10

Source: Bloomberg

Strategy

The main goal of Procter & Gamble is to improve productivity so that investments continue to increase the superiority of its brands. Productivity improvements enable innovation in the product and packaging process, more efficient and effective supply chains, expansion of sales coverage, more R&D programs and, more importantly, to mitigate rises in commodities. The company's objective is to drive productivity improvements across all elements of the statement of earnings and balance sheet, including cost of goods sold, marketing and promotional spending, overhead costs, and capital spending.

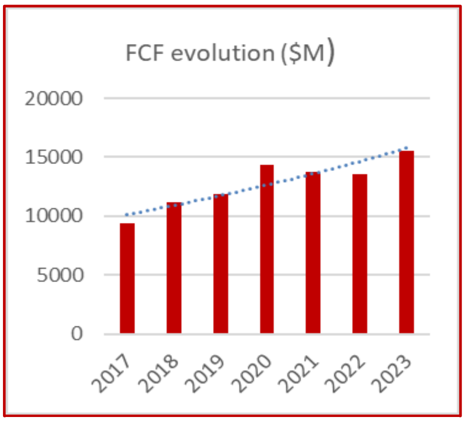


Source: Bloomberg

Financial Analysis

Since 2017, the company revenues have been increasing with 2021 registering the highest growth rate (7,3%) versus the previous year. Overall, P&G's revenue CAGR of 3,63% (2017-2022) is in line with other companies in the industry.

One of the most successful financial indicators of P&G is the 2% increase in net sales in 2023. This change was driven by a mid-single-digit increase in Health Care, and low single-digit increases in Fabric & Home Care, Baby, Feminine & Family Care and Beauty, partially offset by a low single-digit decrease in Grooming.



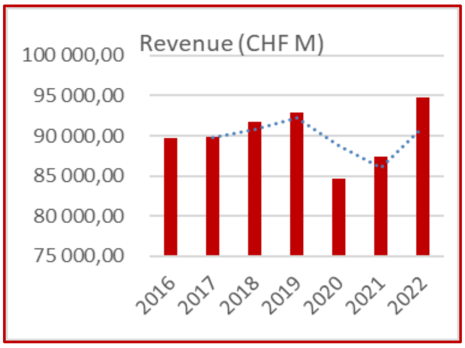
Source: Bloomberg

Like Walmart, Procter & Gamble's net income has registered several variations. In 2017 net income was 15,3M$ and suffered a decrease until 2020. Since then, the company has been able to gradually increase the data with the rise in inflation being the main reason for this accomplishment. FCF has been trying to pick up pace after the decrease in the pandemic year.

Regarding liquidity and solvency, P&G's debt levels are like the previous company analysed with 2020 being an unusual year. The liquidity ratios trend of P&G has had a negative scope except for Debt to Assets which since 2017 increased an average amount of four percentage points.

Key Financial Analysis

Key Financials	2017	2018	2019	2020	2021	2022	2023
Revenue ($M)	65,058.0	66,832.0	67,684.0	70,950.0	76,118.0	80,187.0	82,006.0
Growth (YoY)	-	2.73%	1.27%	4.83%	7.28%	5.35%	2.27%
Gross Profit ($M)	32,523.00	32,400.00	32,916.00	35,700.00	39,010.00	38,030.00	39,246.00
EBITDA ($M)	16,775.00	16,197.00	8,311.00	18,990.00	20,966.00	20,840.00	21,077.00
Net Income ($M)	15,326.00	9,750.00	3,897.00	13,027.00	14,306.00	14,742.00	14,653.00
EPS	5.80	3.75	1.45	5.13	5.69	6.00	6.07
DPS	2.70	2.79	2.90	3.03	3.68	3.52	3.24
FCF ($M)	9,369.00	11,150.00	11,895.00	14,330.00	13,786.00	13,567.00	15,584.00
Profitability							
Gross Margin (%)	49.99%	48.48%	48.63%	50.32%	51.25%	47.43%	47.86%
EBITDA Margin (%)	25.78%	24.24%	12.28%	26.77%	27.54%	25.99%	25.70%
Net Income Margin (%)	23.56%	14.59%	5.76%	18.36%	18.79%	18.38%	17.87%
ROA (%)	12.38%	8.17%	3.34%	11.05%	11.92%	12.47%	12.31%
ROE (%)	27.77%	18.14%	7.45%	27.78%	30.80%	32.37%	32.07%
Liquidity and Solvency							
Total Debt ($M)	31,592.00	31,286.00	30,092.00	65,611.00	32,838.00	32,293.00	36,124.00
Debt/Equity (%)	56.64	59.16	63.25	75.97	70.39	68.92	76.75
Quick ratio	0.65	0.59	0.51	0.62	0.45	0.37	0.38
Current Ratio	0.88	0.83	0.75	0.85	0.70	0.65	0.63
Debt/Assets (%)	26.24	26.44	26.15	29.50	27.52	27.55	29.90



Source: Bloomberg

Valuation	2022
P/E	27,1
P/S	2,8
P/B	7,27
EV/EBITDA	-
Beta vs SMI	0,83
Market Cap (CHF M)	262 781,40

Source: Bloomberg

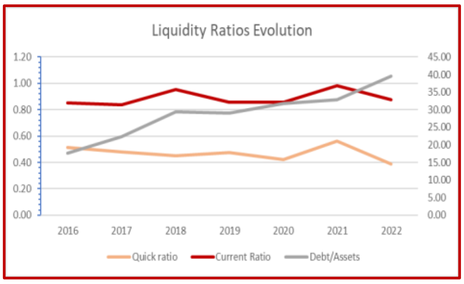
Nestlé

Nestlé is a multinational food and beverage company headquartered in Switzerland. It is one of the world's largest and most well-known consumer goods companies and is recognized for its commitment to nutrition, health, and wellness, and its brands are found in households worldwide. The company has a long history dating back to the 19th century and continues to be a major player in the global food industry, focusing on quality, innovation, and sustainability. In 2022, approximately 28% of Nestlé's revenues are generated in the United States, with the Eurozone following at a weight of 20%.

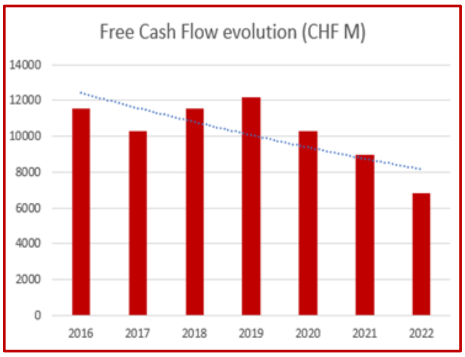
Strategy

Nestle continued its portfolio transformation in 2021, investing in high-growth categories that contribute to its Nutrition, Health, and Wellness strategy.

The company continues the strategic transformation of its global water business, completing the divestment of its North American Water brands. The focus is on its iconic international and premium mineral water brands



Source: Bloomberg



Source: Bloomberg

as well as healthy hydration products. The acquisition of Essentia Premium Water expands its functional hydration offerings.

Beyond portfolio transformation, Nestlé is investing in research and development (R&D) to make its portfolio more nutritious, delicious, and sustainable. The company has increased capital expenditure to support its fast-growing categories, particularly coffee and pet care, to meet future demand.

Financial Analysis

Nestlé's revenues in the analysed period showed an average annual growth of 0.91%, consistently hovering around 90 million CHF. As for net income, in 2022, there was a negative variation due to the challenges caused by rising living costs and geopolitical tensions influencing consumer decisions. These difficulties faced by the company led to a reduction in the gross profit margin to 45.4% in 2022 compared to the previous year. Similarly, the net profit margin and earnings per share followed the same trend and experienced a significant decrease.

Both the quick and current ratios have remained stable over time, unlike the Debt to Assets ratio, which has been increasing since 2017.

For 2023, the projections aim to restore the gross margin through marketing strategies to increase free cash flows. The company remains committed to achieving its goals by 2025 and creating reliable and sustainable returns.

Key Financial Analysis

Key Financials	2016	2017	2018	2019	2020	2021	2022
Revenue (CHF M)	89,786.00	89,922.00	91,750.00	92,865.00	84,681.00	87,470.00	94,780.00
Growth (YoY)	-	0.15%	2.03%	1.22%	-8.81%	3.29%	8.36%
Gross Profit (CHF M)	45,587.00	44,351.00	45,680.00	46,218.00	41,710.00	42,002.00	43,035.00
EBITDA (CHF M)	18,148.70	15,669.10	19,265.40	21,311.60	21,564.50	17,284.80	16,740.90
Net Income (CHF M)	8,531.00	7,156.00	10,135.00	12,609.00	12,232.00	16,905.00	9,270.00
EPS	2.76	2.31	3.36	4.3	4.30	6.06	3.42
DPS	2.30	2.35	2.45	2.7	2.75	2.80	2.95
FCF (CHF M)	11,572.00	10,261.00	11,529.00	12,155.00	10,301.00	8,984.00	6,812.00
Profitability							
Gross Margin (%)	50.77%	49.32%	49.79%	49.77%	49.26%	48.02%	45.41%
EBITDA Margin (%)	20.21%	17.43%	21.00%	22.95%	25.47%	19.76%	17.66%
Net Income Margin (%)	9.50%	7.96%	11.05%	13.58%	14.44%	19.33%	9.78%
ROA (%)	6.67%	5.40%	7.50%	9.52%	9.71%	12.85%	6.76%
ROE (%)	13.44%	11.40%	17.13%	23.05%	25.03%	34.21%	19.49%
Liquidity and Solvency							
Total Debt (CHF M)	23,209.00	29,777.00	40,394.00	37,164.00	39,339.00	45,816.00	53,501.00
Debt/Equity (%)	35.18	47.85	69.16	70.30	84.57	85.28	125.03
Quick ratio	0.51	0.48	0.45	0.47	0.42	0.56	0.39
Current Ratio	0.85	0.83	0.95	0.86	0.86	0.98	0.88
Debt/Assets (%)	17.60	22.35	29.48	29.05	31.72	32.93	39.58

ESG ANALYSIS

Figure 11- ESG scores for the main players

	Walmart	P&G	Nestlé
Environmental	2.9	6.5	4.9
Social	2.4	2.3	3.7
Governance	8.5	7.9	7.6
Overall	3.9	5.3	5.3

Source: Bloomberg

A distinguishing factor in this industry is that profitable growers invest in enhancing their ESG reporting, which tends to result in outperformance in making progress towards sustainability. Moreover, booming growers exhibit a greater commitment to ESG practices compared to other companies. However, the economic downturn has made it more challenging for companies to prioritise ESG practices and is indicating a potential decline in consumers' willingness to pay a premium for sustainable products, despite their appreciation for them.

Figure 12- Percentage of executives responding affirmatively to each ESG priority

Prioritising ESG	Profitable growers	All others
Agree becoming more environmentally sustainable is a priority	97%	58%
Investing in increasing ESG reporting	83%	50%
Plan to participate in the circular economy	68%	44%

Source: Deloitte

Environmental

Industry Overview

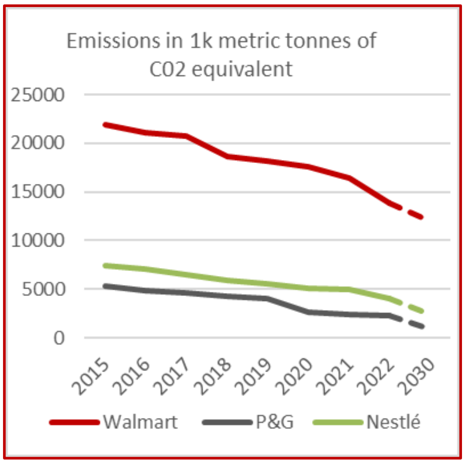
How the industry prioritises the "Environmental" component of ESG varies significantly based on a company's profitability, despite the universal importance of this subject to all companies. However, the significance of this topic is notably higher among profitable growers, as they tend to be more initiative-taking in acting. For instance, as illustrated in Figure 12, executives of profitable companies exhibit almost 100% prioritisation in steering their enterprises towards greater environmental sustainability, in contrast to 58% of executives from other companies.

Figure 13- Key Players' Environmental Rating

	SUSTAINALYTICS Risk	REFINITIV Performance
Walmart	4.4 (Negligible)	86 (excellent)
P&G	8.6 (Negligible)	67 (good)
Nestlé	9.5 (Negligible)	90 (excellent)

Source: Sustainalytics and Refinitiv

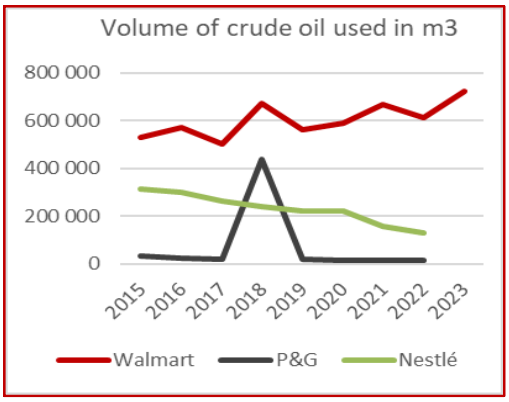
To enhance eco-friendliness and overcome supply chain constraints, companies such as Walmart are leveraging AI for simulations to predict consumer behaviour during sales events like Black Friday. Additionally, Walmart has updated its sustainable seafood policies, aiming for increased transparency and monitoring of fishing activities within its supply chain. In similar efforts, Nestlé is innovating its beef supply chains by breeding cows that emit less methane. Moreover, Walmart and PepsiCo have jointly undertaken a seven-year regenerative agriculture initiative to reduce carbon emissions by 4 million metric tons by 2030.



Source: Bloomberg

Comparative Environmental Performance

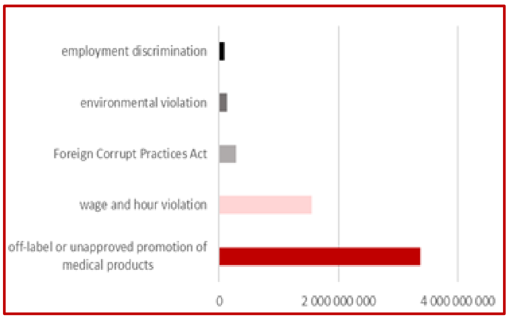
Concerning the Environmental ratings of the key players, it can be deduced that all three are well-classified, with Nestlé standing out as the most prominent. According to the metrics employed (Figure 13), Nestlé demonstrates the lowest financial material impact regarding ESG factors, excels in Environmental performance, and exhibits the highest level of transparency by publicly disclosing all ESG-related data.



Source: Bloomberg

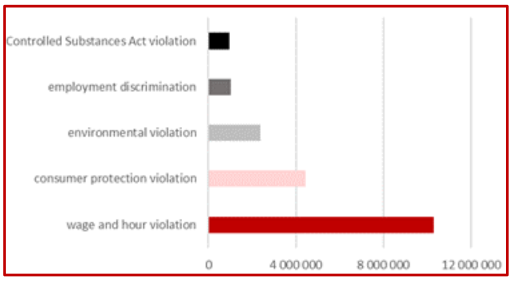
However, P&G takes the lead in the lowest CO2 emissions and volume of crude oil used. P&G's achievements in these areas align with their long-term objectives of achieving net zero emissions, increasing the use of renewable electricity in their operations, and reducing the use of virgin petroleum-based plastic in packaging – a notable illustration of P&G's commitment to the environment.

Figure 14: Walmart penalty by offense type



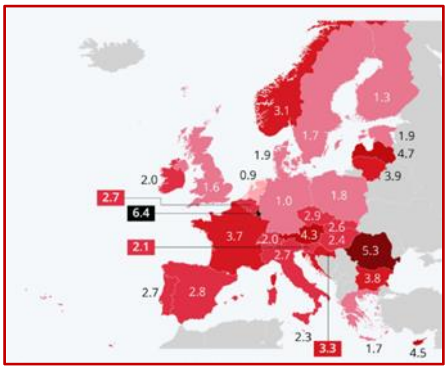
Source: Bloomberg

Figure 15: Nestle penalty by offense type



Source: Bloomberg

Figure 16: Number of fatal workplace accidents per 10,000 workers in 2018



Source: Eurostat

Social

Consumer Privacy

The focus on consumer privacy is increasingly crucial. As of 2023, around 75% of consumers worldwide are protected by modern privacy laws, signalling a significant global move towards safeguarding consumer data. Additionally, with the introduction of Google Analytics 4, there's a shift towards less reliance on personal data and cookies, reflecting a broader commitment to enhancing online privacy. The e-commerce sector itself is vast and growing, with 2.14 billion people globally, or 27% of the world population, shopping online. This includes about 65% of the U.S. population. Importantly, digital wallets are now used in 49% of global e-commerce transactions, indicating a preference shift towards these payment methods. These trends highlight the need for e-commerce businesses to prioritise user privacy while adapting to changing consumer habits and preferences.

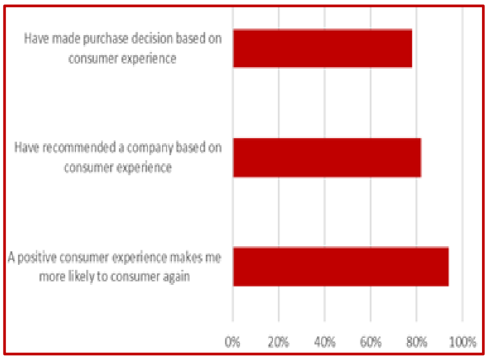
Labour Conditions

Labour rights and working conditions are seeing significant changes, driven by increased union activity and evolving employee expectations. The number of union petitions in the retail sector rose sharply in 2022, with 223 petitions filed, compared to 135 in 2021. This reflects a growing demand from employees, particularly younger workers, for better working conditions and rights. Additionally, there has been a notable increase in strikes, with 13 strikes in 2022 involving over 10,000 workers, and this trend continued into 2023. This rise in unionisation efforts indicates a shift in the labour landscape, where employees are increasingly seeking greater purpose, safety, and development opportunities in their work. Retailers are now challenged to adapt their workforce management strategies, focusing more on employee well-being, community engagement, and transparent communication to address these changing dynamics.

Consumer Behaviour

2023, consumer behaviour in the retail market is characterised by a blend of cost-consciousness and a preference for quality and sustainability.

Figure 17: Consumer attitudes and behaviours based on their customer service experience worldwide as of May 2022



Approximately two-thirds of global consumers are trading down to cheaper brands, while 44% plan to selectively splurge on premium products, especially in categories offering immediate gratification like restaurants or travel. Sustainability remains a key factor, with 84% of consumers considering it vital in their purchase decisions, yet 50% are hesitant to pay a premium for sustainable products in times of inflation. Technologically, consumers are embracing multi-channel shopping experiences, with a significant majority now using at least three channels for each purchase. However, satisfaction with omnichannel experiences is low, presenting an opportunity for retailers to enhance these platforms. Amidst these trends, there is an emerging expectation for companies to support consumers during tough economic times, rewarding considerate brands with long-term loyalty.

Governance

Governance Challenges

The Consumer Goods and Staples industry in the United States faced in the recent past some governance challenges that have impacted their operations and reputation. This industry controls substantial influence over the global economy and the well-being of the societies, operating under strong regulatory rules.

Instances of inadequate governance and compliance have historically affected companies within this industry. High-profile cases have shown some deficiencies in oversight, transparency, and effective stakeholder engagement. Ethical dilemmas such as blackmail scandals, have ruined the industry's image, showing lapses in ethical standards when securing lucrative contracts.

	Walmart	P&G	Nestlé
Total Penalty in $	5 549 592 823	89 602 932	20 207 974
Nº of Records	524	47	109

	Walmart	P&G	Nestlé
Risk	25.3 (medium)	28.6 (medium)	27.2 (medium)

Source: Sustainalytics

Subsequently, there has been an effort between the players towards greater transparency and ethical conduct. Companies are now making efforts to implement rigorous compliance programs and to do transparent communication with their stakeholders. The goal of that program is to rebuild trust, restore integrity, and promote responsible business practices within the sector.

Progress and Outlook for Governance

Assessments from Sustainalytics and governance ratings indicate that major industry players demonstrate a decreased risk profile and exhibit good to excellent performance concerning governance standards.

Efforts to enhance governance practices within the industry have brought positive outcomes. Companies are gradually strengthening their governance structures, by fixing ethical principles into their operations and reinforcing compliance measures. These attempts are aimed at boosting oversight, transparency, and accountability, essential factors in preserving the industry's credibility on a global scale.

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