The class will offer perspectives on:

1) techniques for managing investments for mutual funds, institutional funds and not-for-profits, as well as
2) the current economic and market environment.

Each session will have one or more guest speakers.

Each class will begin with the speaker making a presentation, during which active class interaction is encouraged. Students will be expected to have read materials provided by speakers in advance as well as other relevant materials obtained on your own. Active class participation is encouraged.

Course Grading

The class grades will be based upon three written assignments and class participation.

1) Class Participation

Take advantage of the unique talents that will be addressing the class each week. Read the materials that will be provided to us before the class. Do your own research on them, their organizations, their funds, their management style, etc. Be prepared to pose challenging questions.

2) Discussion Paper

If you ask a question you will then have the option to write up both the question and the speaker’s response and then to expand on the issue beyond what was covered in class. The paper should be no longer than two double spaced pages (plus any supporting charts, graphs or tables in addition.) On the paper, clearly note that it was you who asked the question in class. If you hear a question asked and want to do the same write-up that too is encouraged. In that case, on the paper clearly note that it was not you who asked the question in class. Each of you should do a minimum of one of these discussion papers, and no more than three.

3) Investment Issue

I will suggest a topic that I am currently researching some time within the first three sessions. If you feel you can provide some original analysis that can help with that issue you should submit a paper again no longer than two double spaced pages (plus any supporting charts, graphs or tables in addition.)
Course Grading

4) Final Paper
The traditional “compare and contrast” paper: Compare and contrast the styles, commentaries and remarks of two or more of the guest speakers and support your comments with other references and/or your own original analysis. The paper should be no longer than three double spaced pages (plus any supporting charts, graphs or tables in addition.)

Thematic Investing
Edward M. Kerschner, CFA
Chief Investment Officer
Citigroup Investment Research

Manias
Thematics
Minutia

Manias

Mania (n)
excessive or unreasonable enthusiasm
Merriam-Webster Dictionary

“Without due recognition of crowd-thinking (which often seems crowd madness) our theories of economies leave much to be desired.”
Bernard Baruch, 1932

Manias
Dot Com – 1998-2000
In the minds of many investors, because they were prized for their potential earnings power five or ten years hence, these stocks could not be valued by traditional metrics such as price-to-earnings multiples. Instead, many turned to new metrics: price-to-sales, revenues per customer, gross profit per customer, etc.

Jeffrey P. Bezos
Person of the Year
Time Magazine
December, 1999
**Manias**

**Dot Com – 1998-2000**

NASDAQ fell 78% from its peak

-78%

**Manias**

**LBOs – US 1989**

Deals were being done not because they made economic and financial sense, but because investors, bankers and others were hungry for fees. Inappropriate companies were being taken private in leveraged transactions—one-product companies, companies subject to commodity price swings, technology companies with volatile markets and high R&D spending, among others.


“Leveraged to the Hilt — Violating Our Rules of Prudence,” 1989

**Manias**

**LBOs – US 1989**

UAL fell 70% over the next year

-70%

**Manias**

**Conglomerates – US 1968-70**

ITT Acquired:
- Sheraton Hotels
- Avis
- Hartford Insurance
- Continental Baking
- ...

By 1970, ITT owned over 400 separate companies in 70 countries.

**Manias**

**Conglomerates – US 1968-70**

The business schools are creating a generation of managers who believe that effective management techniques transcend industrial categories. . . . [Diversification] liberates management’s thinking about expansion: Uncommitted to any individual industry, management can swing capital quickly into any business field that looks profitable enough.

*Business Week, 1968*
“Now maybe this is one of those situations in which the solution lies in integrating the problem and raising it to a higher level. . . . There’s no reason why you can’t take 200 square miles some place that has the natural resources, which means primarily water—and even the water problem can be solved separately if it has to be—and create an ideal city with solutions for all these urban problems before it’s even built.”

Roy Ash, CEO of Litton Industries, told Fortune in 1966 how his company was thinking of addressing the problem—with a "de novo city".

Those who bought these conglomerates at the 1968 peak lost 56% by 1974 even though the market was up 10%:

\[
\text{Manias} \quad \text{Conglomerates – US 1968-70}
\]

In six weeks tulip prices fell by 90%:

\[
\text{Manías} \quad \text{Tulip Mania – Holland 1635}
\]

Does anyone really know what time it is?

\[
\text{Minutia} \quad \text{Minutia (n)}
\]

trifles, details, smallness; a minute or minor detail

Merriam-Webster Dictionary

Chicago Transit Authority, 1969
Does Anyone Really Know What Time It Is?
Economic data is revised and revised and ... 

<table>
<thead>
<tr>
<th>GDP Revisions</th>
<th>Flash Adv Prelim Final</th>
<th>1st 2nd 3rd 4th 5th 6th 7th 8th</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985 Q1</td>
<td>2.1%</td>
<td>1.3% 0.7% 3.7% 3.6% 3.8%</td>
</tr>
<tr>
<td>1995 Q4</td>
<td>0.9%</td>
<td>0.3% 0.8% 1.3% 3.2% 3.6%</td>
</tr>
</tbody>
</table>

The Stock Market is Not the Economy
S&P 500 is very different composition than GDP

<table>
<thead>
<tr>
<th>Sales of U.S. Foreign Affiliates</th>
<th>Non-US 22%</th>
<th>USA 78%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.0 tr.</td>
<td>$1.2 tr.</td>
<td>$10.8 tr.</td>
</tr>
</tbody>
</table>

The Stock Market is Not the Economy
S&P 500 Sales by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>S&amp;P 500 Sales by Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>GDP</td>
</tr>
<tr>
<td>Energy</td>
<td>Consumer Discretionary</td>
</tr>
<tr>
<td></td>
<td>Healthcare</td>
</tr>
<tr>
<td></td>
<td>Industrials</td>
</tr>
<tr>
<td></td>
<td>Information Technology</td>
</tr>
<tr>
<td></td>
<td>Materials</td>
</tr>
<tr>
<td></td>
<td>Telecom Services</td>
</tr>
<tr>
<td></td>
<td>Utilities</td>
</tr>
<tr>
<td></td>
<td>Services</td>
</tr>
<tr>
<td></td>
<td>Retail trade</td>
</tr>
<tr>
<td></td>
<td>Finance</td>
</tr>
<tr>
<td></td>
<td>Consumer Durables</td>
</tr>
<tr>
<td></td>
<td>Wholesale trade</td>
</tr>
<tr>
<td></td>
<td>Nondurables</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
</tr>
<tr>
<td></td>
<td>Transportation</td>
</tr>
<tr>
<td></td>
<td>Agriculture</td>
</tr>
<tr>
<td></td>
<td>Mining</td>
</tr>
</tbody>
</table>

Thematic Investing

Determining how: Demographic, Technological, Political, Structural trends will affect financial markets, and identifying market sectors and individual securities that will benefit.
Brand Behemoths

There are projected to be 1.2 billion more consumers able to buy packaged goods by 2010 than there were in 2000.

Sources: Nestlé

In the U.S. alone, an estimated 30,000 new consumer products are launched each year – 90% fail!


Ten “Brand Behemoths,” we estimate, will be leaders in about 50% of the consumer nondurable “brands space” by 2010, with the remaining 50% dispersed amongst 88 other companies.

Sources: Professors Peter N. Golder and Joel H. Steckeland, Citigroup Investment Research

Who are these Brand Behemoths and how do they execute brand leadership on a global basis?

The Origin of Brands
Origin of Brands
The evolution of the word “brand”

<table>
<thead>
<tr>
<th>Recorded Use</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>c. 950</td>
<td>A piece of wood that is, or has been, burning on the hearth.</td>
</tr>
<tr>
<td>1552</td>
<td>The mark made by burning with a hot iron.</td>
</tr>
<tr>
<td>1827</td>
<td>A trade-mark, whether made by burning or otherwise.</td>
</tr>
<tr>
<td>1854</td>
<td>A particular sort or class of goods, as indicated by the trade-marks on them.</td>
</tr>
<tr>
<td>1958</td>
<td>The impression of a product in the minds of potential users or consumers.</td>
</tr>
</tbody>
</table>

April 2006  Source: Oxford English Dictionary

Origin of Brands
Factors limiting the development of brands

- The absence of mass-production techniques.
- Inadequate transportation systems.
- The lack of printing technologies.
- Widespread illiteracy.

April 2006  Source: Citigroup Investment Research

Origin of Brands
Wedgwood - One of the first consumer brands

Page from the Wedgwood Useful Ware Catalogue, 1774

April 2006  Source: Image by courtesy of the Wedgwood Museum Trust, Barlaston, Staffordshire (England)

Origin of Brands
Nineteenth century U.S.

Illiterate Americans as a Percentage of Total Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1870</td>
<td>20%</td>
</tr>
<tr>
<td>1900</td>
<td>10%</td>
</tr>
</tbody>
</table>

April 2006  Source: Historical Statistics of the United States

Origin of Brands
Best known consumer brands began in 19th century

Procter and Gamble’s Moon and Stars Trademark

April 2006  Source: Used with permission by Procter & Gamble
Origin of Brands
Establishing the quality and reliability of brands

Quaker Oats, 1896  Heinz, 1902  Pillsbury’s, 1908

Heinz, 1902
Pillsbury’s, 1908
Quaker Oats, 1896

Origin of Brands
1st stage of brands: Owner-Entrepreneurs

Coca-Cola  Asa G. Candler
Gillette  King C. Gillette
Heinz  H.J. Heinz
Procter & Gamble  Harley Procter

Origin of Brands
2nd stage of brands: Specialized managers

20 Largest Advertisers in National Magazines in 1915

1  Quaker Oats  11  R.J. Reynolds Tobacco.
2  Willys-Overland  12  Colgate
3  Procter & Gamble  13  Cream of Wheat
4  American Tobacco  14  Postum Cereal
5  Victor Talking Machine  15  Maxwell-Chalmers Motor Car
6  Liggett & Myers Tobacco  16  Kellogg Toasted Corn Flakes
7  Goodyear Tire & Rubber  17  Hudson Motor Car
8  Eastman Kodak  18  Shell Oil
9  Joseph Campbell  19  U.S. Rubber
10  Old Dutch Cleanser  20  Columbia Graphophone

Origin of Brands
Depression and war

Volume of Advertising per Capita

Origin of Brands
3rd stage: Focus on market segmentation

Segmentation of Procter & Gamble Laundry Detergent

Ivy Snow  Mild, Gentle soap for diapers and baby clothes
Tide  For extra-tough family laundry jobs
Cheer  Works in cold, warm, or hot water
Gain  Originally an “enzyme” detergent but now a detergent with a fragrance
Bold  Includes fabric softener
Dash  Concentrated power, less suds to avoid clogging washing machines
Drift  With “Borax, nature’s natural sweetener” for baby’s clothes
Dazzle  Contains bleach - for “Sparkling whites - with color-safe bleach”
Era  Concentrated liquid detergent - with proteins to clean stains
Solo  Heavy-duty, with a fabric softener

Origin of Brands
Market segmentation facilitated by T.V.

“Come Alive! You’re in the Pepsi Generation!”
Origin of Brands
Importance of intangibles

- Quality
- Brand Identity
- Innovation
- Aspirations

Importance of Intangibles
Quality

- Perrier
- Poland Spring

Importance of Intangibles
Brand identity

- Schlitz
- Miller
- Smirnoff
- Absolut

Importance of Intangibles
Brand identity

- IBM PC
- Dell

Importance of Intangibles
Innovation

- CompuServe
- Prodigy
- AOL
Importance of Intangibles

Aspirations

Importance of Intangibles

Source: Citigroup Investment Research

Importance of Intangibles

Source: Citigroup Investment Research

Origin of Brands

Number of brands is proliferating

New Consumer Products Introduced in One Year

Fall 27,000

3,000

Origin of Brands

Branding was never easy!

Long-Term Success Rate of 1923 Market Leaders
(Market Rank in 1997)

Identifying Brand Behemoths

Brands! Brands! Brands!

We built a data base of over 3,500 brands globally

Importance of Intangibles

Aspirations

Weight Watchers

Healthy Choice

Importance of Intangibles

Source: Citigroup Investment Research

Origin of Brands

Source: Clayton M. Christensen, Scott Cook, and Taddy Hall, Marketing Malpractice, Harvard Business Review, December 2005

Number of brands is proliferating

New Consumer Products Introduced in One Year

3,000

Fail

27,000

Identifying Brand Behemoths

Brands! Brands! Brands!

Source: Citigroup Investment Research

Identifying Brand Behemoths

Source: Citigroup Investment Research

Identifying Brand Behemoths

Source: Citigroup Investment Research

Origin of Brands


Branding was never easy!

23%

8% 9% 8% 7%

16%

28%

0%

10%

20%

30%

Number 1 Number 2 Number 3 Top 5 Top 10 Below 10 Failed

Long -Term Success Rate of 1923 Market Leaders (Market Rank in 1997)
### Identifying Brand Behemoths

#### 30 Consumer nondurable product categories

<table>
<thead>
<tr>
<th>Food, Beverage, and Tobacco</th>
<th>Household Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby Food</td>
<td>Functional Drinks</td>
</tr>
<tr>
<td>Beer</td>
<td>Gum</td>
</tr>
<tr>
<td>Biscuits</td>
<td>Ice Cream</td>
</tr>
<tr>
<td>Bottled Water</td>
<td>Ready Meals</td>
</tr>
<tr>
<td>Breakfast Cereals</td>
<td>Sauces &amp; Dressings</td>
</tr>
<tr>
<td>Carbonates</td>
<td>Soups</td>
</tr>
<tr>
<td>Chocolate Confectionery</td>
<td>Spirits</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>Sweet &amp; Savory Snacks</td>
</tr>
<tr>
<td>Coffee</td>
<td>Tea</td>
</tr>
<tr>
<td>Fast Food</td>
<td>Yogurt</td>
</tr>
<tr>
<td>Fruit/vegetable juice</td>
<td>Surface Care</td>
</tr>
</tbody>
</table>

#### 30 Categories x 8 regions/countries

- 240 category / region combinations

#### 2004 Brand leaders by category/region

- **China**: Nestlé, Unilever, Kraft Foods, Nestlé, Nestlé
- **Eastern Europe**: Unilever, Nestlé, Kraft Foods, Nestlé, Kraft Foods
- **US**: Unilever, Nestlé, Kraft Foods, Nestlé, Kraft Foods

### Identifying Brand Behemoths

#### 8 Region/Country categories

1. China
2. East Asia
3. Eastern Europe
4. India
5. Japan
6. Latin and South America
7. U.S.
8. Western Europe

### 2010 Forecasts based on four primary factors

- **Current market share, plus market share advantage over closest competitors.**
- **Global and regional market shares.**
- **Leadership position in more than one category.**
- **Market share stability over time.**

### 2010 Forecasted market leader by region/category

- **China**: Unilever, Nestlé, Kraft Foods, Nestlé, Nestlé
- **Eastern Europe**: Unilever, Nestlé, Kraft Foods, Nestlé, Kraft Foods
- **US**: Unilever, Nestlé, Kraft Foods, Nestlé, Kraft Foods
Identifying Brand Behemoths
2010(f) Brand leaders: Total number of #1 positions

<table>
<thead>
<tr>
<th>Company</th>
<th>Positions</th>
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<tbody>
<tr>
<td>Unilever</td>
<td>38</td>
</tr>
<tr>
<td>Nestlé</td>
<td>17</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>14</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>11</td>
</tr>
<tr>
<td>PepsiCo</td>
<td>10</td>
</tr>
<tr>
<td>Kimberly-Clark</td>
<td>9</td>
</tr>
<tr>
<td>Danone</td>
<td>9</td>
</tr>
<tr>
<td>Kellogg</td>
<td>6</td>
</tr>
<tr>
<td>Colgate-Palmolive</td>
<td>5</td>
</tr>
<tr>
<td>Kraft Foods</td>
<td>5</td>
</tr>
<tr>
<td>Little Group</td>
<td>5</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>5</td>
</tr>
<tr>
<td>L’Oréal</td>
<td>4</td>
</tr>
<tr>
<td>Wrigley</td>
<td>4</td>
</tr>
</tbody>
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Source: Professors Peter N. Golder and Joel H. Steckeland Citigroup Investment Research

Identifying Brand Behemoths
2010(f) Brand leaders: Total number of #1 positions

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<td>9</td>
</tr>
<tr>
<td>Kellogg</td>
<td>6</td>
</tr>
<tr>
<td>Colgate-Palmolive</td>
<td>5</td>
</tr>
<tr>
<td>L’Oréal</td>
<td>4</td>
</tr>
<tr>
<td>Wrigley</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Professors Peter N. Golder and Joel H. Steckeland Citigroup Investment Research

Identifying Brand Behemoths
10 Brand Behemoths

- Colgate-Palmolive
- Nestlé
- Danone
- PepsiCo
- Kellogg
- Procter & Gamble
- Kimberly-Clark
- Unilever
- L’Oréal
- Wrigley

Source: Citigroup Investment Research

Identifying Brand Behemoths
Brand behemoths are far from mature

Number of #1 Ranks held by 10 Brand Behemoths in 240 Category/Region Combinations (2010 Forecast)

Source: Professors Peter N. Golder and Joel H. Steckeland Citigroup Investment Research

Brand Behemoths
Four primary factors drive brand dominance

1. Distinct Competitive Advantage
2. Regional Growth Opportunities
3. “Stretching” Across Categories
4. Prolonged Period of Share Stability

Source: Professors Peter N. Golder and Joel H. Steckeland Citigroup Investment Research
Distinct Competitive Advantage

Market share advantage of behemoth over #2 company

<table>
<thead>
<tr>
<th>Number of #1 Regional Categories</th>
<th>Mean Advantage</th>
<th>Max Share Advantage</th>
<th>Min Share Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colgate-Palmolive</td>
<td>6</td>
<td>13%</td>
<td>45%</td>
</tr>
<tr>
<td>Danone</td>
<td>9</td>
<td>11%</td>
<td>26%</td>
</tr>
<tr>
<td>Kellogg</td>
<td>6</td>
<td>16%</td>
<td>30%</td>
</tr>
<tr>
<td>Kimberly-Clark</td>
<td>9</td>
<td>29%</td>
<td>55%</td>
</tr>
<tr>
<td>L’Oréal</td>
<td>3</td>
<td>19%</td>
<td>23%</td>
</tr>
<tr>
<td>Nestlé</td>
<td>2</td>
<td>14%</td>
<td>72%</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>16</td>
<td>10%</td>
<td>39%</td>
</tr>
<tr>
<td>Unilever</td>
<td>34</td>
<td>13%</td>
<td>52%</td>
</tr>
<tr>
<td>Wrigley</td>
<td>4</td>
<td>46%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Average: 18% 45% 5%

Source: Citigroup Investment Research and Euromonitor International, 2004

Distinct Competitive Advantage

Strengths of brand behemoths

- Branding the Basics
- Globally Local
- Behavior Modification
- New and Improved
- Economies of Skill

Distinct Competitive Advantage

Branding the basics

Distinct Competitive Advantage

Branding the basics: Consumers “trade up”

GDP per Capita and Food Expenditures per Capita


Distinct Competitive Advantage

Branding the basics: Water

Bottled Water Markets (Billions of Liters) and Annual per Capita Consumption (Liters)


Distinct Competitive Advantage

Branding the basics: Higher income/more products

Number of Global Consumers Who Can and Cannot Afford Packaged Goods

Source: Nestlé

April 2006

NYU Kerschner Presentation 2006
Distinct Competitive Advantage
Branding the basics: Water

Danone Water Sales

- Latin America 6%
- Asia/Oceania 45%
- Europe 41%
- North America 5%

April 2006

Source: Citigroup Investment Research estimates, 2004

Distinct Competitive Advantage
Branding the basics: Biscuits

Danone’s Market Share of Asian Biscuit Markets

- India 80%
- Malaysia 28%
- China (East & North) 60%
- Indonesia 15%

Priced @ 1 yuan, 500 rupiah or 30 ringgit cents

April 2006

Source: Danone

Distinct Competitive Advantage
Branding the basics: Milk

Nestlé Global Market Share by Category

- Condensed & Evaporated Milk 80%
- Powdered Milk 60%
- Dried & Dehydrated Beverages & Seasonings 38%
- Infant Nutrition 28%
- Mineral Water 18%

April 2006

Source: Citigroup Investment Research estimates, 2004

Globally local

Distinct Competitive Advantage
Globally local: Acquire local presence

Average Number of Years in Emerging Markets (China, East Asia, India)

- Colgate-Palmolive 22
- Danone 14
- Kellogg 12
- L’Oréal 10
- Nestlé 9
- PepsiCo 7
- Procter & Gamble 6
- Unilever 3
- Wrigley 1

25 years on average

April 2006

Source: Unilever, 2004

Globally local: Traditional retailers still significant

Retail Trade Development in Asia/Africa

How do you deliver to retailers without addresses?

April 2006

Source: Unilever, 2004

NYU Kerschner Presentation 2006
Distinct Competitive Advantage
Globally local: Emerging market opportunity

Unilever Sales Growth by Region
(Regional Sales as a Percent of Total)

-1%
0%
2%
4%
6%
8%
10%

Europe (41%)
Americas (33%)
Asia / Africa (26%)

Distinct Competitive Advantage
Globally local: Expertise in assimilation

Unilever Global and Regional Category Market Share Positions

Ice Cream

Savory & Dressing

Spreads

Tea

Africa / Middle East

Global

South America

North America

Europe

Asia-Pac

Global

Source: Unilever, 2005

Globally local: Expertise in assimilation

Unilever

Source: Citigroup Investment Research estimates, 2004

Global and Regional Category Market Share Positions

Savory & Dressings

Spreads

Tea

Africa / Middle East

Global

South America

North America

Europe

Asia-Pac

Global

Distinct Competitive Advantage
Globally local: Changing consumer preferences

Kellogg’s Total Blended Price for Cereal

Source: A.C. Nielsen and Citigroup Investment Research

Distinct Competitive Advantage
Globally local: Constant innovation


Source: Company reports and Citigroup Investment Research

Distinct Competitive Advantage
Globally local: Behavior modification

Source: Company reports and Citigroup Investment Research
Distinct Competitive Advantage

Behavior modification: Start using the product

Potential Number of Consumers at Various Levels of GDP per Capita

Potential Number of Consumers at Various Levels of GDP per Capita

Behavior modification: Use more of the product

Gum
Annual per Capita Consumption

Potential Number of Consumers at Various Levels of GDP per Capita

Behavior modification: Use more of the product

Toothpaste per Capita Consumption

Distinct Competitive Advantage

Behavior modification: Use more of the product

Tissue & Detergent
Russia per Capita Consumption compared to Western European per Capita Consumption

Distinct Competitive Advantage

Behavior modification: Moving up the value chain

P&G Opportunity: Russian Shampoo Usage (% of Population)

Distinct Competitive Advantage

Behavior modification: Moving up the value chain

New and improved

Distinct Competitive Advantage

Source: Procter & Gamble

Source: Euromonitor International, U.S. Census Bureau, AC Nielsen, and Citigroup Investment Research

Source: Citigroup Investment Research


Source: Citigroup Investment Research, 2004

Source: Citigroup Investment Research, 2005
Distinct Competitive Advantage

New and improved: "Innovation critical"

L’Oréal

R&D as a Percentage of Sales

Distinct Competitive Advantage

New and improved: Effectiveness & innovation

Output Relative to R&D Spending

Distinct Competitive Advantage

New and improved: Effectiveness & innovation

L’Oréal New Product Innovation

Steel Colour – Strengthening Nail Color

Economies of skill

Distinct Competitive Advantage

Economies of skill: Pioneer new technologies

Kimberly Clark

Value-Added in the Facial Tissue Production Process

Distinct Competitive Advantage

Economies of skill: Building the patent estate

Kimberly-Clark vs. Georgia Pacific

Annual Number of Patents Issued
Regional Growth Opportunities

No local or global behemoths in emerging markets

"Local Brand Dispersion Index"
Percentage of Companies by Region that are Leaders in Just One Category (2004)

- Dominated by global behemoths
- Many different companies

Women's skin care: A major area of growth

L’Oreal’s Annual Sales Growth in China and India

Rapidly growing “Beauty” markets

Regional Growth Opportunities

Still relatively low global market share

Source: Professors Peter N. Golder and Joel H. Steckland Citigroup Investment Research

No local or global behemoths in emerging markets

Source: Citigroup Investment Research and Euromonitor International, 2004

Women Aged 15-75 Years by Region

Source: United Nations Population Division, 2005

Rapidly growing “Beauty” markets

Source: Company Reports and Citigroup Investment Research

Regional Growth Opportunities

Women’s skin care: A major area of growth

Source: United Nations Population Division, 2005

Regional Growth Opportunities

Global Share

Source: United Nations Population Division, 2005

Regional Growth Opportunities

Women’s skin care: A major area of growth

Source: United Nations Population Division, 2005

Regional Growth Opportunities

Women’s skin care: A major area of growth

Source: United Nations Population Division, 2005
Regional Growth Opportunities
Diapers: Opportunity in emerging markets

Projected Population of 0-4 Year-Olds in 2010

Source: United Nations Populations Division

“Stretching” Across Categories

Regional Growth Opportunities
Projected Population of 0-4 Year-Olds in 2010

Source: United Nations Populations Division

“Stretching” Across Categories
Brand behemoth leadership positions by category

<table>
<thead>
<tr>
<th>Brand Behemoth</th>
<th># of Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unilever</td>
<td>10</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>7</td>
</tr>
<tr>
<td>Nestlé</td>
<td>5</td>
</tr>
<tr>
<td>P&amp;G</td>
<td>4</td>
</tr>
<tr>
<td>Danone</td>
<td>3</td>
</tr>
<tr>
<td>Kimberly-Clark</td>
<td>2</td>
</tr>
<tr>
<td>L’Oreal</td>
<td>2</td>
</tr>
<tr>
<td>Colgate-Palmolive</td>
<td>1</td>
</tr>
<tr>
<td>Kellogg</td>
<td>1</td>
</tr>
<tr>
<td>Wrigley</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Citigroup Investment Research and Euromonitor International

“Stretching” Across Categories
From cereal to breakfast bars

Kellogg’s New Breakfast Bar Volume Trends

Source: A.C. Nielsen

From cereal to breakfast bars

“Stretching” Across Categories
Increasing number of male oriented skincare products

Men in U.S. and Europe Using Skincare Products (Percentage)

Half are “borrowed” from their partners

Source: Citigroup Investment Research

“Stretching” Across Categories
From gum to mints

Wrigley’s New Products

Acquired Allsorts and Life Savers

Source: Company reports and Citigroup Investment Research
“Stretching” Across Categories
From babies to adult incontinence segment

Persons with Urinary Incontinence by Age

Source: Tri-State Incontinence Support Group, 2001

19 million North American adults have some form of incontinence

Prolonged Share Stability

Prolonged Period of Share Stability
Year of first entry into region

<table>
<thead>
<tr>
<th>Brand</th>
<th>Region</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colgate-Palmolive</td>
<td>U.S.</td>
<td>1919</td>
</tr>
<tr>
<td>Danone</td>
<td>Western Europe</td>
<td>1929</td>
</tr>
<tr>
<td>Kellogg</td>
<td>Latin America</td>
<td>1937</td>
</tr>
<tr>
<td>Kimberly-Clark</td>
<td>East Asia</td>
<td>1940</td>
</tr>
<tr>
<td>L’Oréal</td>
<td>East Asia</td>
<td>1953</td>
</tr>
<tr>
<td>Nestlé</td>
<td>China</td>
<td>1965</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>China</td>
<td>1973</td>
</tr>
<tr>
<td>Unilever</td>
<td>China</td>
<td>1982</td>
</tr>
<tr>
<td>Wrigley</td>
<td>China</td>
<td>1990</td>
</tr>
</tbody>
</table>

Source: Citigroup Investment Research and company reports

Continue to slowly gain market share

Brand Behemoth’s #1 Ranks
in 240 Category/Region Combinations

<table>
<thead>
<tr>
<th>Brand</th>
<th>Trendline Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>L’Oréal</td>
<td>46.7%</td>
</tr>
<tr>
<td>Kimberly-Clark</td>
<td>47.1%</td>
</tr>
<tr>
<td>Nestlé</td>
<td>48.3%</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>45%</td>
</tr>
<tr>
<td>Unilever</td>
<td>46%</td>
</tr>
<tr>
<td>Wrigley</td>
<td>47%</td>
</tr>
</tbody>
</table>

Brand Behemoths

- Colgate-Palmolive
- Danone
- Kellogg
- Kimberly-Clark
- L’Oréal
- Nestlé
- PepsiCo
- Procter & Gamble
- Unilever
- Wrigley

Source: Citigroup Investment Research
Brand Behemoths

Determining how
- Demographic
- Technological
- Political
- Structural
trends will affect financial markets, and identifying
market sectors and individual securities that will
benefit.

Techno Savvy

Techno Savvy Adapters
Electricity: Electric Lighting System

Inventor/Discoverer: Michael Faraday and others
For: Lighthouse Illumination

Techno Savvy Adapters
Interchangeable Parts: Mass-Produced Cars

Inventor/Discoverer: Eli Whitney
For: Rifle Production

Techno Savvy Adapters
Wireless Broadcasting: Radio

Inventor/Discoverer: Guglielmo Marconi
For: Ship to Shore Messages
Techno Savvy
Adapters

A significant competitive advantage can be gained by adapting existing technologies.
- Ford: mass production
- Edison: electrical lighting system

Techno Savvy Exploiter
Phonograph: Music Reproduction

Inventor/Discoverer: Thomas Edison
For: Dictation

Techno Savvy Exploiter
Transistor: Transistor Radio

Inventor/Discoverer: Bell Labs
For: Long Distance Calling

Techno Savvy Exploiter
Television System: Broadcast Television

Inventor/Discoverer: Philo T. Farnsworth
For: Laboratory

Techno Savvy Innovator
Electronic Calculator: Business Computer

Inventor/Discoverer: Mauchly & Eckert
For: Gun Firing Tables

Identifying the optimal application of a relatively new technology is often as important as the technology itself.
- Phonograph for music not dictation
- Transistors for radios not hearing aids
Techno Savvy Innovators

Innovators actually create something new, often by taking science from the laboratory to the market place.

– Microsoft: PC software
– Genentech: human insulin

Profiting from Adapting, Exploiting and Innovating Technologies

Sources: Gartner Consulting, Citigroup Investment Research

50+ Candidates

- ZigBee (802.15.4)
- Web services - enabled business models
- Voice over Internet Protocol
- Virtual Prototyping
- Video Telephony
- Video on Demand
- RFID payments: Worldwide
- RFID (case/pallet)
- Retinal Displays
- Reference Data Standards
- Real-time Patient Remote Monitoring
- Product content/ data management
- Power Line Broadband
- PHR
- P2P Networks
- Oil & Gas Drilling / Completion Technology
- Natural Language Processing
- Natural language Processing
- Mining
- Microfuel Cells
- Middleware
- Multimedia
- Micropayments
- Memristors
- Mesh Networks
- Location Aware Services
- Location
- Link State Routing
- Life Cycle Management
- Life Cycle Management
- High Performance Computing
- Hadoop
- Holographic Technology
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Techno Savvy Adapters
The Evolution of the Automobile Transmission

- **Ford Model – T**
- **Automatic Transmission**
- **Dual Clutch Transmission**

**Sources:** Ford Motor Company, Citigroup Investment Research and Volkswagen

- **Ford Model – T**
  - Automatic Transmission
  - Dual Clutch Transmission

**Techno Savvy Adapters**
Dual Clutch Transmission

**Performance Improvements of DCT Transmission versus 6-Speed Manual**

- **DCT**
  - Accelerates faster
- **Manual**
  - Uses less fuel

**Origin/Source:** Germany, 1940
**Adapter:** BorgWarner
**Product/Competitive Advantage:** Mass-produced dual clutch transmission

- Technology is particularly attractive in Europe, with highly taxed gasoline; China, India & S. Korea

- **Top Speed:**
  - Manual: 247 km/h / 154 mph
  - DCT: 247 km/h / 154 mph

- **Accelerates faster**
  - Manual: 10.3 liters/100 km
  - DCT: 11.5 liters/100 km

- **Fuel Efficiency**
  - Uses less fuel

**Techno Savvy Adapters**
The Evolution of Energy Production

**Do-It-Yourself Energy**
- Early Vertical Oil Rigs
- Horizontal wells, 3-D seismic, Fracturing

**Land Acquisition Price/Acre**

- **Early 2004**
  - 3-Mar-04: $172
  - 23-Nov-04: $11,500
  - 30-Nov-04: $17,000
  - 11-Jan-05: $11,200

**Sources:** Citigroup Investment Research, Environmental Protection Agency and EOG
Techno Savvy Exploiters

**RFID**

- **Distribution Centers**
- **Earnings Accretion with RFID**

**Sources:** Citigroup Investment Research

**Techno Savvy Exploiters**

**RFID**

- **Origin/Source:** WW II Aircraft Identification
- **Exploiter:** BJs Wholesale Club
- **Product/Competitive Advantage:** Reduced store labor and distribution costs

*Only 3 distribution centers; easier to go RFID. Then, easier to track BJ’s large number of SKUs.*

**Techno Savvy Exploiters**

**The Evolution of Enterprise Communications**

- **The Early Switchboard**
- **The Button Switchboard**
- **VoIP**

**Sources:** The Jimmie Dodd Photograph Collection (JD2287a/12), The Center for American History, The University of Texas at Austin and Citigroup Investment Research

**Techno Savvy Exploiters**

**VOIP**

- **Origin/Source:** Vocaltec (Israel)
- **Exploiter:** Cisco Systems
- **Product/Competitive Advantage:** Significant incremental spending on security & network switching.

*3-5x as much spend in security & networking equipment as VoIP; CSCO 80% mkt share*

**Techno Savvy Exploiters**

**The Evolution of Human Organ Support**

- **The Human Pancreas**
- **Test strip and insulin injection**
- **External Artificial Pancreas**

**Sources:** Citigroup Investment Research and Medtronic

---

**NYU Kerschner Presentation 2006**

26
**Techno Savvy Exploiters**

Real Time Patient Monitoring

The Evolution of CHF Monitoring Technology

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>FY03</th>
<th>FY04</th>
<th>FY05</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>2000</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>14</td>
<td>15</td>
<td>16</td>
</tr>
</tbody>
</table>

Medtronic CareLink Adoption

- In Sync
- Sentry
- OptiVol
- Chronicle
- CareLink

Sources: Medtronic

- Microprocessor
- Memory
- Sensor
- Wireless
- Telemetry

In 2007 MDT is expected to combine the glucose sensor with an insulin pump to create one device.

**Techno Savvy Innovators**

The Evolution of Backup Power Generation

<table>
<thead>
<tr>
<th>Telecom Backup System</th>
<th>Original Cost</th>
<th>Useful Life (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GenCore</td>
<td>$15,000</td>
<td>10</td>
</tr>
<tr>
<td>Lead Acid Battery</td>
<td>$14,000</td>
<td>3 - 5</td>
</tr>
<tr>
<td>Plug Power’s PEM</td>
<td>$12,000</td>
<td>+ $12,000 to replace each time</td>
</tr>
</tbody>
</table>

Sources: Plug Power

Dependent on the Power Grid

- Diesel Generator
- Lead Acid Batteries
- Plug Power’s PEM system
**Techno Savvy Innovators**

**Fuel Cells**

- **Origin/Source**: 19th Century England
- **Innovator**: Plug Power
- **Product/Competitive Advantage**: Commercial Fuel Cells

*First to bring to market a reliable, economically viable fuel cell for on-site power generation*

---

**Techno Savvy Innovators**

**The Evolution of Portable Power Sources**

- **"Wet" Cell Battery**
- **Lithium Ion Battery**
- **Direct Methanol Fuel Cell**

---

**Techno Savvy Innovators**

**Fuel Cells**

- **Origin/Source**: 19th Century England
- **Innovator**: Mechanical Technology
- **Product/Competitive Advantage**: Commercial fuel cells

*Entered into alliance with Gillette’s Duracell to develop and commercialize MTI’s micro fuel cell*

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**Techno Savvy Innovators**

**The Evolution of Local Day-to-Day Payment Methods**

- **Barter**
- **Cash**
- **e-money**

---

**Techno Savvy Innovators**

**e-Money**

- **Credit Card Penetration Per Person (2002)**
- **Debit Card Penetration Per Person (2002)**

---
Techno Savvy Innovators

e-Money

Origin/Source: Late 1990s
Innovator: Euronet Worldwide
Product/Competitive Advantage: eTopUp

Euronet Worldwide is the world’s largest processor of prepaid transactions.

Techno Savvy Innovators

The Evolution of Peer-to-Peer Payment Methods

Checks

Wire

PayPal

How to Wire Funds:
Transfer funds to your bank accounts by issuing a wire transfer request.
All incoming wires to your bank accounts are $10.
All incoming wires received by 4:30 P.M. (ET) will be posted same business day.

Outgoing international wire transfers are $40.
We must receive requests for international wire transfers by 2:00 P.M. (ET) and for domestic wires by 2:30 P.M. to be sent that business day.

Techno Savvy Innovators

e-Money

Global User Accounts at Leading Transaction Processing Firms

Techno Savvy Innovators

The Evolution of Flavor Enhancers

Herbs and Spices

MSG

Taste-receptor-based technology

Market Opportunities for Senomyx and Collaborators

Collaborator

Product Category

Annual Sales for Product Category ($ billions)

Campbell

Wet soup & savory beverages

$7.8

The Coca-Cola Company

Non-alcoholic beverage

$15.2

Powdered beverages

$0.5

KRAFT

Dehydrated, culinary, frozen food & wet soup

$12.7

Nestle

$31 billion market; royalty payments = 1-4%
Techno Savvy Innovators
Phood

Origin/Source  Ancient China
Innovator  Senomyx
Product/Competitive Advantage  Flavor Enhancers

'05 designated “Generally Recognized As Safe” — Nestle to begin consumer acceptance testing

Techno Savvy Innovators
The Evolution of Food Additives

Vitamin C  Calcium  DHA

Techno Savvy Innovators
Phood

Martek’s Estimated Food Market Opportunity Utilizing DHA

Kellogg launches initial DHA product in '06

Techno Savvy Innovators
Phood

Origin/Source  Ancient China
Innovator  Martek Bioscience
Product/Competitive Advantage  Food Additives

QHC “for reduced risk of coronary heart disease.” May also decrease risk of Alzheimer’s

Techno Savvy

Determining how
- Demographic
- Technological
- Political
- Structural
trends will affect financial markets, and identifying market sectors and individual securities that will benefit.

Thematic Investing
Riding the Wave

An Elongated M&A Cycle

Sources: Citigroup Investment Research

Riding the Wave

U.S. merger activity typically occurs in waves

- 1898-1903 “Trustification” of Industrial America
- 1923-1929 Emergence of the assembly line
- 1960s Conglomerates
- 1980s LBOs & Private Market Value
- 1990s Deregulation-driven consolidation
- 2004-???? Internet and Info Technologies

Each wave ended around the time of a recession

Riding the Wave

Merger activity typically “clusters” in a few areas

U.S. M&A Transactions:
Deals Completed by Target Macro Industry 2004

Financials 31%
Telecom, Media and Entertainment 19%
Healthcare 15%
Other 35%

Risky Business

A Less Volatile Economy, but More Volatile Stocks
**Investment Policy**

"The Great Moderation"—a less volatile economy

**Real GDP Growth**

Sources: Bureau of Economic Analysis and Citigroup Investment Research

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**Risky Business**

Declining Aggregate Economic Volatility

**GDP Growth**

(10-Yr Rolling Standard Deviation)

Sources: Bureau of Economic Analysis, Campbell, Lettau, Malkiel and Xu; Comin and Mulani

---

**Risky Business**

A Less Volatile Economy, But More Volatile Stocks

**Aggregate and Firm-Level Sales Growth**

(10-Yr Rolling Standard Deviation)

Sources: Bureau of Economic Analysis, Campbell, Lettau, Malkiel and Xu; Comin and Mulani

---

**Risky Business**

Is Stock Volatility at a Cyclical Trough?

**Volatility of a "Typical Stock"**

(12 Mo. & 10-Yr Standard Deviation)

Sources: Bureau of Economic Analysis, Campbell, Lettau, Malkiel and Xu; Comin and Mulani

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**Risky Business**

1) Improved inventory management

**Non-Farm Inventories to Final Sales Ratio**

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics

---

**Risky Business**

2) Shift to a service economy

**Employment by Service Industries**

(% of Total Nonagricultural Employment)

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics
3) **Globalization**

Exports and Imports of Goods (Percent of GDP)

Source: Bureau of Economic Analysis, Bureau of Labor Statistics

4) **Flexible labor markets**

Median Number of Years of Tenure with Current Employer

Source: Bureau of Economic Analysis, Bureau of Labor Statistics

5) **“Smoother” consumer spending**

Residential and Nonresidential Construction Growth (10-Yr Rolling Standard Deviation)

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, National Science Foundation, Comin and Mulani

6) **Improved financial markets**

Bank Loans (Percent of Credit Market Instruments)

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, National Science Foundation, Comin and Mulani

7) **Improved monetary policy**

GDP and Inflation (CPI) Growth (10-Yr Rolling Standard Deviation)

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, National Science Foundation, Comin and Mulani

8) **Innovation-driven competition**

R&D and Firm-Level Volatility

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, National Science Foundation, Comin and Mulani
Risky Business
Relationship Between Five-Year Future Volatility of Stock Returns and Financial Statement Items

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient (T-Statistic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales/GDP</td>
<td>0.019 (1.25)</td>
</tr>
<tr>
<td>Sales/GDP Squared</td>
<td>0.005 (5.72)</td>
</tr>
<tr>
<td>Capital Expenditures/Sales</td>
<td>0.005 (24.37)</td>
</tr>
<tr>
<td>Book to Market Ratio</td>
<td>0.0282 (4.3)</td>
</tr>
<tr>
<td>5 Year Past-Volatility</td>
<td>0.0004 (-1.77)</td>
</tr>
<tr>
<td>Age</td>
<td>-0.0239 (-12.96)</td>
</tr>
<tr>
<td>Age Squared</td>
<td>-0.2781 (14.07)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.04058 (9.58)</td>
</tr>
</tbody>
</table>

Risky Business
Firm Specific Factors Assoc. with Future Volatility

- **Age**: Older firms tend to be less volatile. The likely explanation of this is that, as firms age, they become more stable and volatility declines. But this effect does diminish eventually, as evidenced by the age-squared relationship.
- **Size**: Larger firms tend to be less volatile than smaller firms: are likely more diversified and are in a better position to cope with product-specific shocks.

Risky Business
An Econometric Model: Char. of Low Volatility Firms

- **Old Age**
- **High Price-to-Book**
- **High Net Margins**
- **High Levels of Capital Expenditures**
- **Large Size**
- **High Levels of Advertising**
- **Low Levels of R&D Spending**
### Risky Business

**Average stock return volatility attributable to...**

- Market Factors
- Industry-Specific Factors
- Firm-Specific Factors

**Source:** Campbell, Lettau, Malkiel, and Xu

### Thematic Investing

**Determining how**
- Demographic
- Technological
- Political
- Structural
trends will affect financial markets, and identifying market sectors and individual securities that will benefit.

### The Aging Baby Boomer: The Key Demographic

**Source:** U.S. Bureau of the Census

### The Aging Baby Boomer: Living Longer

**Source:** U.S. Department of Health and Human Services

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**April 2006**

**Risky Business**

**Risky Business**

**April 2006**

**Thematic Investing**

**April 2006**

**The Aging Baby Boomer: The Key Demographic**

**The Aging Baby Boomer: Living Longer**

**April 2006**

**NYU Kerschner Presentation 2006**
The Aging Baby Boomer: Working Longer

55-64 Year Old Labor Participation Rate

April 2006

Source: Bureau of Labor Statistics

The Aging Baby Boomer: Plans to Keep Working Longer

Plans for Retirement

April 2006

Source: Pulte Homes Baby Boomer Study

The Aging Baby Boomer: . . . And Most Not for the Money

Why keep working?

April 2006

Source: Staying Ahead of the Curve 2003: The AARP Working in Retirement Study

The Next American Dream: Healthy

But living an unhealthy lifestyle

April 2006

Source: Yankelovich Partners Inc.

The Next American Dream: Healthy

But living an unhealthy lifestyle

April 2006

Source: Yankelovich Partners Inc.
The Next American Dream: Wealthy

Confused about investing / need financial advice

Median Net Worth

Source: Federal Reserve

The Next American Dream: Active

Actively Working / Actively relaxing

Source: Yankelovich Partners Inc.

The Next American Dream: Healthy

Care About” Versus “Currently Doing”

Source: Yankelovich Partners Inc.
The Next American Dream: Healthy
50-59: the most obese segment of the population

Obesity by age group

Source: Centers for Disease Control

The Next American Dream: Healthy
Own admission: Most overweight age group

“I am overweight.”

Source: Yankelovich Partners, Inc.

The Next American Dream: Healthy
No wrinkles

Nonsurgical Cosmetic Proc. (Millions)

Age Distribution for Botox Procedures

Source: The American Society for Aesthetic Plastic Surgery

The Next American Dream: Healthy
No fast food; but eat out more

“T end Fast Food A Few Times a Week”

Spending on Food Away from Home


The Next American Dream: Healthy
More fish; Less bread

Spending on Fish and Seafood

Spending on Bread

Source: Bureau of Labor Statistics, Consumer Expenditure Survey

The Next American Dream: Healthy
Stressed

“I care about reducing my stress levels.”

Spending on Alcoholic Beverages

Source: Yankelovich Partners, Inc. and BLS, Consumer Expenditure Survey 2003
The Next American Dream: Healthy
Indulgence, despite small steps to improve health

The Next American Dream: Healthy
Boomers are exercising less

The Next American Dream: Healthy
Boomers don’t diet

The Next American Dream: Healthy
HSAs grow; pharma loses

Health Expenditures by Public, Private and Out-of-Pocket Payors

Average Prescription Drug Use after Doubling of Co-Payments

HSA Adoption Level

Wealthy
The Next American Dream: Wealthy
Boomers are at their peak income levels

Household Income Level

Source: Bureau of Labor Statistics, Consumer Expenditure Survey

The Next American Dream: Wealthy
Boomers save more; Equity inflows returned

Savings Rate

Net New Flow: Stock Mutual Funds

Source: Bureau of Labor Statistics, Consumer Expenditure Survey; Stockval

The Next American Dream: Wealthy
Investment Advice

Amount of Influence on Boomers Decisions in money Matters or Investing

Source: Yankelovichpartners, Inc.

The Next American Dream
Active

The Next American Dream: Active
Boomers are lazily active and spend on their homes

Spending on Leisure

Spending on Housing

Source: Bureau of Labor Statistics, Consumer Expenditure Survey

The Next American Dream: Active
Boomers like “safe excitement”

Active Cruisers

Las Vegas Visitor Demographics

Source: Abercrombie & Kent; Las Vegas Convention and Visitors Authority
The Next American Dream: Active
More on home improvement; DIFM yes / DIY no

Planned Spending on Home Improvement

Ways in which you Express Yourself: Making Home Improvement

More on home improvement; DIFM yes / DIY no

The Next American Dream: Active

Ways in which you Express Yourself: Making Home Improvement

The Next American Dream: Active

“Jewel Boxes”

“Desired Number of Square Feet in Your New Home?”

“I prefer spending my leisure time around the house rather than out and about.”

The Next American Dream: Active

Community

Re-Urbanization

Important Characteristic: A Good Neighbor

Signs of Success and Accomplishment

The Next American Dream: Active

Bigger cars; No tinkering

Spending on Vehicle Purchases

Enjoy Working on Their Car

Projects include “Hudson Tea” (conversion to condos of former tea factory and “Maxwell Place” (condo building on former Maxwell House Coffee plan)

Source: Bureau of Labor Statistics, Consumer Expenditure Survey; Yankelovich Partners Inc
The Next American Dream: Active

Much less spending on apparel and jewelry

Spending on Apparel

Source: Bureau of Labor Statistics, Consumer Expenditure Survey

Spending on Jewelry

Source: American Express Platinum Luxury Survey, July 2004

A quick escape ride / Experience

The Next American Dream: Active

The Next American Dream

Transforming “things” into “experiences”

Company

Product

Experience

Key: Advisory Brokers
Carmen’s
Carnival Corp./Royal Caribbean Cruises

“Treasure Hunt”

Gourmet Cooking
Williams-Sonoma

“Jewel Boxes”

Housing
Toll Brothers

“Unique / Customized Luxury”

Lodging
Four Seasons Hotels / Starwood Hotels

“Better Than Home”

Coffee
Starbucks

“My Third Place”

Consumables
BJ’s Wholesale / Costco

“Treasure Hunt”

Motorcycle Owners
Source: Citigroup Investment Research

The Next American Dream

Well Positioned

Healthy: Managed health care, generic pharmaceuticals, and biotech companies.

Wealthy: Advisory based brokers, asset managers, selected insurance companies.

Active: Homebuilders and home improvement, high-end hotels, casinos, and cruise lines.

The Next American Dream

Poorly Positioned

Healthy: Bread, Large-cap Drugs, Fast-food restaurants, Tobacco, Beer, Carbonated drink makers.

Wealthy: Consumer banks, Traditional mortality protection life insurers.

Active: Auto parts retailers, Theme-parks, Jewelry retailers, Department stores, Bookstores.