

Sec 3025 to 257 for Analyst Certification and Important Disclosures

NYU B40.3124

# INVESTMENT PHILOSOPHIES

**Edward M. Kerschner, CFA**  
Chief Investment Officer  
Citigroup Investment Research

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April 2006

## Course Description

- 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.**

April 2006

## Course Schedule

- **April 3, 2005**  
Ed Kerschner – Citigroup Investment Research
- **April 10, 2005**  
Thomas Luddy – J.P. Morgan Chase
- **April 17, 2005**  
Charles Boorady & Deborah Weinswig – Citigroup
- **April 24, 2005**  
Jack Laporte -- T Rowe Price
- **May 1, 2005**  
Richard Hoey – Dreyfus Funds
- **May 8, 2005**  
Bill Miller – Legg Mason

April 2006

## 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.

April 2006

## Course Grading

**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.

April 2006

## Course Grading

**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.)

April 2006

## 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.)

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See slides 248 to 251 for Analyst Certification and Important Disclosures

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## Thematic Investing

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April 2006

## Manias

*Thematics*

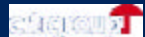
*Minutia*

April 2006



## Manias

April 2006



## 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*

April 2006



## Manias

**Dot Com – 1998-2000**



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

April 2006




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.

**Manias**  
Dot Com – 1998-2000

*NASDAQ fell 78% from its peak*

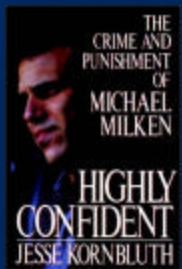
**-78%**



April 2006

**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.”



Theodore J. Forstmann, *The Wall Street Journal*  
“Leveraged to the Hilt—Violating Our Rules of Prudence,” 1989

April 2006

**Manias**  
LBOs – US 1989




April 2006

**Manias**  
LBOs – US 1989

*UAL fell 70% over the next year*

**-70%**




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**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.

Harold Geneen

April 2006

**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

April 2006

## Manias

### Conglomerates – US 1968-70

*“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”


April 2006

## Manias

### Conglomerates – US 1968-70

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


**-56%**




April 2006

## Manias

### Tulip Mania – Holland 1635



- four tons of wheat*
- + eight tons of rye*
- + one bed*
- + four oxen*
- + eight pigs*
- + 12 sheep*
- =**
- + one suit of clothes*
- + two casks of wine*
- + four tons of beer*
- + two tons of butter*
- + 1,000 pounds of cheese*
- + one silver drinking cup*




April 2006 Source: How Much is A Tulip Worth, Mark Hirschey, AMR, July/August 1998

## Manias

### Tulip Mania – Holland 1635

*In six weeks tulip prices fell by 90%*

**-90%**



April 2006

## Minutia

April 2006

## Minutia

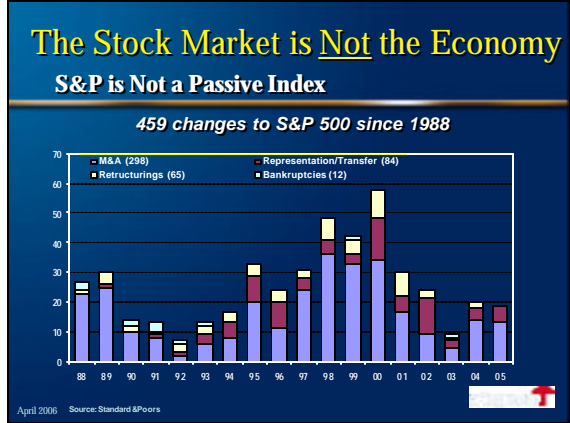
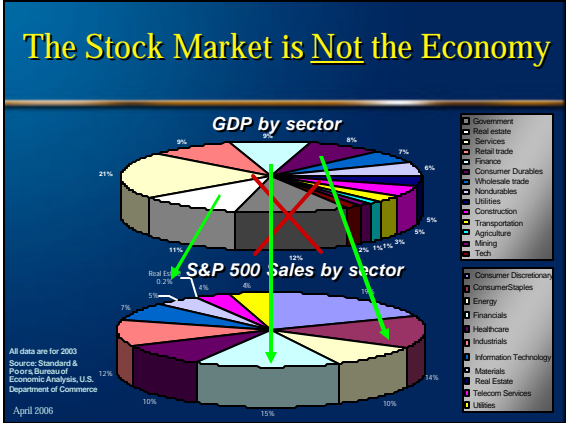
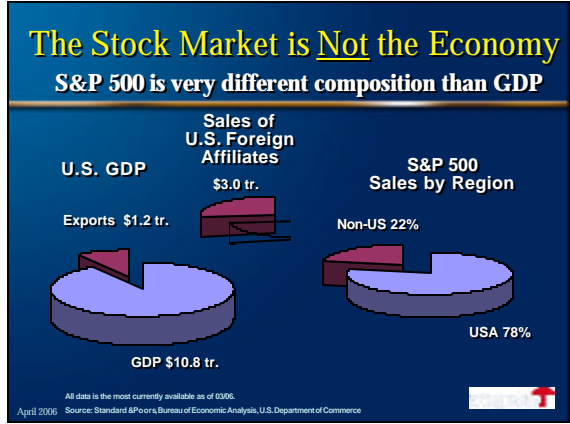
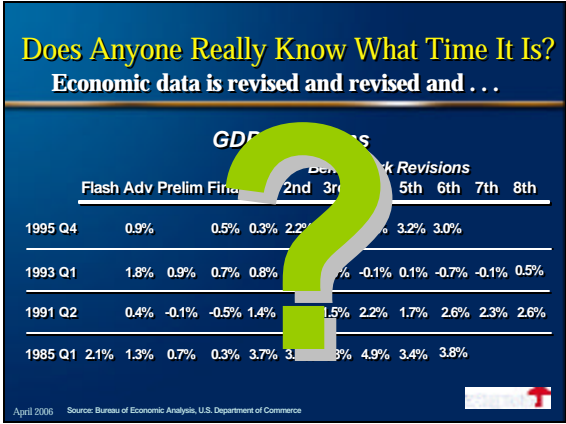
**Minutia (n)**  
*trifles, details, smallness; a minute or minor detail*

Merriam-Webster Dictionary

*Does anyone really know what time it is?*

Chicago Transit Authority, 1969

April 2006



## Thematic Investing

April 2006

## Thematic Investing

**Determining how**

- Demographic
- Technological
- Political
- Structural ✓

trends will affect financial markets, and identifying market sectors and individual securities that will benefit.

April 2006

## Brand Behemoths

April 2006



## Brand Behemoths

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

April 2006 Sources:Nestle



## Brand Behemoths

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

April 2006

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



## Brand Behemoths

- *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.*

April 2006

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



## Brand Behemoths

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

April 2006

Sources: Citigroup Investment Research



## The Origin of Brands

April 2006



## Origin of Brands

### The evolution of the word "brand"

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

April 2006 Source: Oxford English Dictionary

## Origin of Brands

### Early branding

*Roman Bronze Stamp*  
2nd – 4th Century AD  
*Used as A Pottery Workshop Trademark*



April 2006 Source: Hixenbaugh Ancient Art

## 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*

Year	Percentage of Total Population
1870	20%
1900	10%

April 2006 Source: Historical Statistics of the United States

## Origin of Brands

### Best known consumer brands began in 19<sup>th</sup> 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*



April 2006 Source: Quaker Oats: Reprinted permission of the Quaker Oats Company; Heinz: H.J. Heinz Company, L.P., owner of the copyright to the advertisement (used with permission); Pillsbury's: Courtesy of The J.M. Smucker Company.

## Origin of Brands

### 1<sup>st</sup> stage of brands: Owner-Entrepreneurs

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

April 2006 Source: Citigroup Investment Research

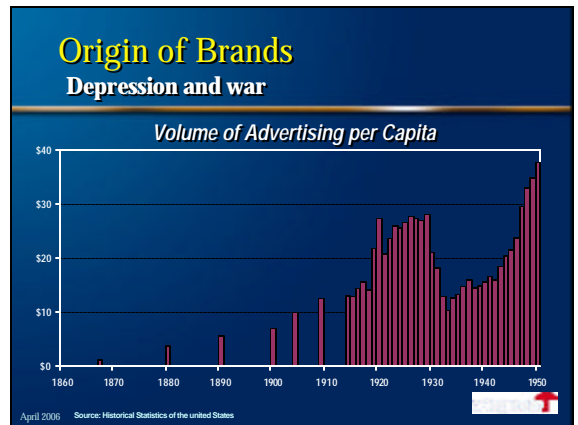
## Origin of Brands

### 2<sup>nd</sup> 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 Flake
7 Goodyear Tire & Rubber	17 Hudson Motor Car
8 Eastman Kodak	18 Studebaker
9 Joseph Campbell	19 U.S. Rubber
10 Old Dutch Cleanser	20 Columbia Graphophone

April 2006 Source: Daniel Popo, The Making of Modern Advertising (New York: Basic Books, 1983)



## Origin of Brands

### 3<sup>rd</sup> Stage: Focus on market segmentation

#### Segmentation of Procter & Gamble Laundry Detergent

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

April 2006 Source: David A. Aaker, Managing Brands/Equity (New York: The Free Press, 1991)

## Origin of Brands

### Market segmentation facilitated by T.V.

*"Come Alive! You're in the Pepsi Generation!"*



April 2006 Source: PEPSI and PEPSICOLA are registered trademarks of PepsiCo, Inc. Used with permission.

**Origin of Brands**  
**Importance of intangibles**

- **Quality**
- **Brand Identity**
- **Innovation**
- **Aspirations**

April 2006 Source: Citigroup Investment Research

**Importance of Intangibles**  
**Quality**

~~Pepper~~

**Poland Spring**

April 2006 Source: Citigroup Investment Research

**Importance of Intangibles**  
**Quality**

~~Schlitz~~

**Miller**

April 2006 Source: Citigroup Investment Research

**Importance of Intangibles**  
**Brand identity**

~~Smirnoff~~

**Absolut**

April 2006 Source: Citigroup Investment Research

**Importance of Intangibles**  
**Brand identity**

~~IBM PC~~

**Dell**

April 2006 Source: Citigroup Investment Research

**Importance of Intangibles**  
**Innovation**

~~CompuServe~~

~~Prodigy~~

**AOL**

April 2006 Source: Citigroup Investment Research

Importance of Intangibles Aspirations

~~Weight Watchers~~

Healthy Choice

April 2006 Source: Citigroup Investment Research

Importance of Intangibles Aspirations

~~Kentucky Fried Chicken~~

Boston Market

April 2006 Source: Citigroup Investment Research

Origin of Brands  
Number of brands is proliferating

New Consumer Products Introduced in One Year

Fail 27,000

3,000

April 2006 Source: Clayton M. Christensen, Scott Cook, and Taddy Hall, Marketing Mypractice, Harvard Business Review, December 2005

Origin of Brands  
Branding was never easy!

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

Market Rank	Success Rate
Number 1	23%
Number 2	8%
Number 3	9%
Top 5	8%
Top 10	7%
Below 10	16%
Failed	28%

April 2006 Source: Peter N. Golder, Historical method in marketing Research with New Evidence on Long-Term Market Share Stability, Journal of Marketing Research, May 2000

Identifying Brand Behemoths

April 2006

Identifying Brand Behemoths  
Brands! Brands! Brands!

Perrier Hersheys Chips Ahoy Kleenex Swiffer Britannia  
Tide Maxwell House Suntory Coke Lever 2000 Old Spice  
Pine Sol Tostitos Evian Ferrero  
Kentucky Fried Chicken Taster's Choice  
Nirula's Clairol  
Gatorade Dove  
Doritos Poupon  
McDonald's Campbell's  
Head & Shoulders Ivory Mr. Clean Dannon Avon Ben & Jerry's  
Revlon Lipton Tostitos Crest Pepsi Tropicana  
Pampers Huggies Cadbury Nescafé Maybeline Febreze  
A1 Colgate Aquafresh

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

April 2006 Source: Citigroup Investment Research

### Identifying Brand Behemoths

#### 30 Consumer nondurable product categories

Food, Beverage, and Tobacco		Household Products
Baby Food	Functional Drinks	Bath & Shower
Beer	Gum	Color Cosmetics
Biscuits	Ice Cream	Deodorant
Bottled Water	Ready Meals	Diapers
Breakfast Cereals	Sauces & Dressings	Facial Tissues
Carbonates	Soups	Hair Care
Chocolate Confectionery	Spirits	Laundry Care
Cigarettes	Sweet & Savory Snacks	Oral Hygiene
Coffee	Tea	Surface Care
Fast Food	Yogurt	
Fruit/Vegetable Juice		

April 2006 Source: Citigroup Investment Research

### Identifying Brand Behemoths

#### 8 Region/Country categories

- China
- East Asia
- Eastern Europe
- India
- Japan
- Latin and South America
- U.S.
- Western Europe

April 2006 Source: Citigroup Investment Research

### Identifying Brand Behemoths

#### 30 Categories x 8 regions/countries

C A T E G O R Y	R E G I O N							
	240 category / region combinations							

April 2006 Source: Citigroup Investment Research

### Identifying Brand Behemoths

#### 2004 Brand leaders by category/region

	China	Eastern Europe	US
Bath & Shower	Unilever - Dove, Lux, Pears, Sunsilk Procter & Gamble - Olay, Rejoice, Safeguard, Zest Zhongshan Meiri - Enear, Pnlss, Vinic, Zici	Unilever - Axe, Lynx, Ego, Denim, Dove, Lifebuoy, Lotos, Lux, Nelly, Timotel Procter & Gamble - Camay, Safeguard	Unilever - Caress, De Lever 2000, Suave, Vaseline Intensive Ca Limited Brands - Batf Body Works, Victoria Secret
Baby Food	East Asiatic Co. - Dumex, Future Nestlé - Lactogen, Nan, Nestlac, Nestle Bristol-Myers Squibb - Alacta, Enfagrow, Enfakid, Enfamil, Enfapro, O-Lac	Royal Numico - Bebelac, Bebiko, Bebilon, Ben, Bobo-Vita, bubu, Deva, Hami, Hamilton, Malishka, Malutka, Malysh, Milumul, Milupa, Nutricia, Nutrilon, Top-Top	Bristol-Myers Squibb - Enfamil Abbott Laboratories - Isomil, PediaSure, Si Novartis - Gerber

April 2006 Source: Citigroup Investment Research

### Identifying Brand Behemoths

#### 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.**

April 2006 Source: Professors Peter N. Golder and Joel H. Steckel and Citigroup Investment Research

### Identifying Brand Behemoths

#### 2010 Forecasted market leader by region/category

Category	China	East Asia	Eastern Europe	India	Japan	Latin America
Baby Food	East Asiatic	Nestlé	Royal Nu.	Nestlé	Meiji	Ni
Bath & Shower	Unilever	Unilever	Unilever	Unilever	Kao Corp	Un
Beer	Tsingtao	Hite Brew.	BBH	UB Group	Asahi	As
Biscuits/Cookies	Kraft Foods I	Lotte Grp	Danone	Britannia In	Ezaki	Pr
Bottled Water	Danone	Danone	Nestlé	Coca-Cola	Suntory	Da
Breakfast Cer.	Cereal Par.	Kellogg	Cereal Par.	Kellogg	Kellogg	Ki
Carbonates	Coca-Cola	Coca-Cola	Coca-Cola	Coca-Cola	Coca-Cola	Ca
Chocolate Conf.	Mars	Cadbury	Nestlé	Cadbury	Meiji Seika	Ni
Cigarettes	China Nat To	KT&G	Phillip Mor.	ITC Group	Japan Tob	B.
Coffee	Nestle	Nestlé	Kraft Foods	Unilever	Nestlé	Ni
Color Cosmetics	L'Oréal	Amore Pac	Avon Prod.	Unilever	Shiseido	Av
Deodorant	Henkel	Unilever	Unilever	Unilever	Lion	Un
Diapers	P&G	Kim-Clark	P&G	Kim-Clark	Kim-Clark	Kim
Fast Food	McDonald's	McDonald's	McDonald's	McDonald's	McDonald's	McDonald's

April 2006 Source: Professors Peter N. Golder and Joel H. Steckel and Citigroup Investment Research

### Identifying Brand Behemoths

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

Company	Positions
Unilever	38
Nestlé	17
Procter & Gamble	14
Coca-Cola	11
PepsiCo	10
Kimberly-Clark	9
Danone	9
Kellogg	6
Colgate -Palmolive	5
Kraft Foods	5
Lotte Group	5
McDonald's	5
L'Oréal	4
Wrigley	4

April 2006 Source: Professors Peter N. Golder and Joel H. Steckel and Citigroup Investment Research

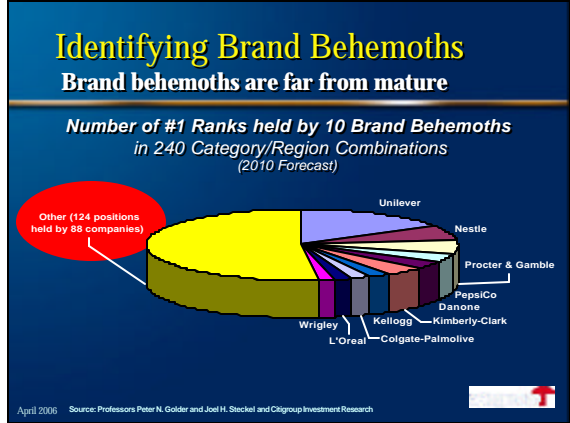
### Identifying Brand Behemoths

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

Company	Positions
Unilever	38
Nestlé	17
Procter & Gamble	14
PepsiCo	10
Kimberly-Clark	9
Danone	9
Kellogg	6
Colgate -Palmolive	5
L'Oréal	4
Wrigley	4

April 2006 Source: Professors Peter N. Golder and Joel H. Steckel and Citigroup Investment Research

- ### Identifying Brand Behemoths
- 10 Brand Behemoths
- Colgate-Palmolive
  - Danone
  - Kellogg
  - Kimberly-Clark
  - L'Oréal
  - Nestlé
  - PepsiCo
  - Procter & Gamble
  - Unilever
  - Wrigley
- April 2006 Source: 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*
- April 2006 Source: Professors Peter N. Golder and Joel H. Steckel and Citigroup Investment Research

### Distinct Competitive Advantage

April 2006

### Distinct Competitive Advantage

Market share advantage of behemoth over #2 company

	Number of #1 Regional Categories	Mean Advantage	Max Share Advantage	Min Share Advantage
Colgate -Palmolive	6	13%	43%	1%
Danone	9	11	25	2
Kellogg	6	16	30	3
Kimberly-Clark	9	29	55	5
L'Oréal	3	19	23	15
Nestlé	16	14	72	0
PepsiCo	10	26	67	3
Procter & Gamble	16	10	39	0
Unilever	34	13	52	0
Wrigley	4	33	46	25
Average		18%	45%	5%

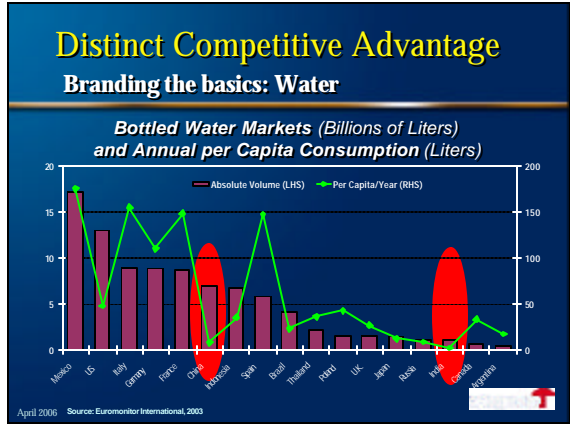
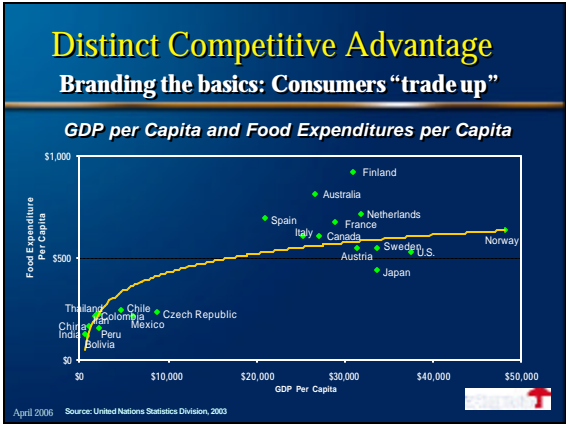
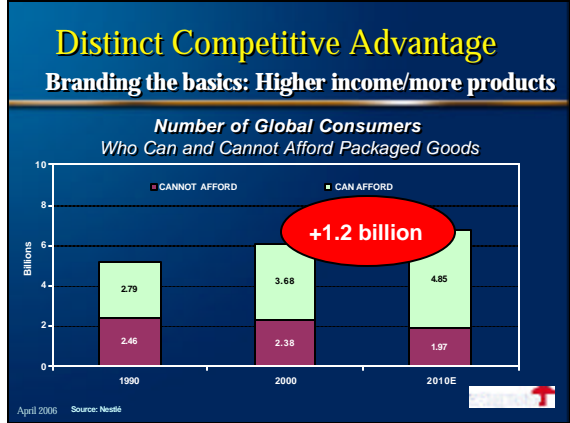
April 2006 Source: Citigroup Investment Research and Euromonitor International, 2004

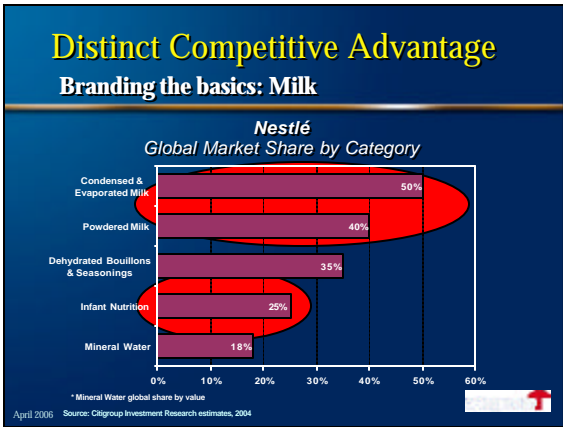
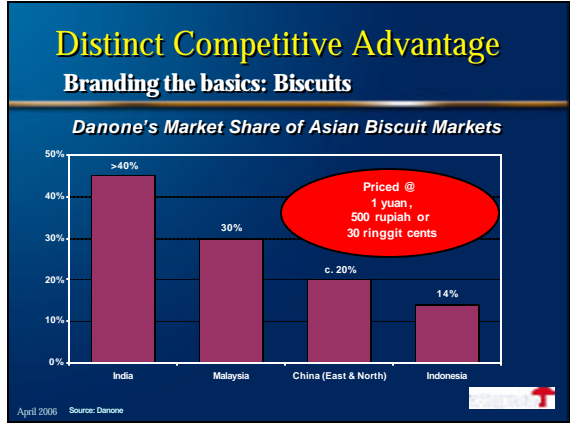
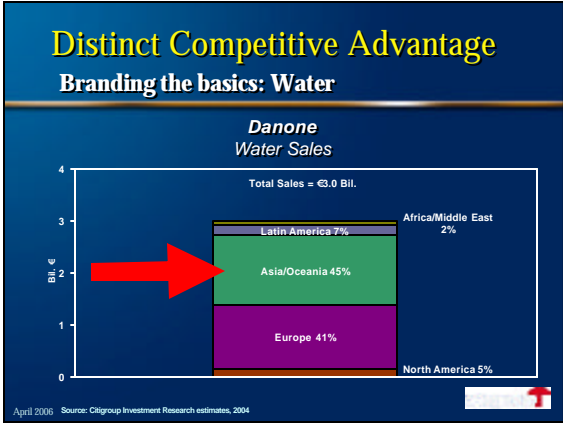
- ### Distinct Competitive Advantage
- Strengths of brand behemoths
- Branding the Basics
  - Globally Local
  - Behavior Modification
  - New and Improved
  - Economies of Skill
- April 2006 Source: Citigroup Investment Research

### Distinct Competitive Advantage

Branding the basics

April 2006

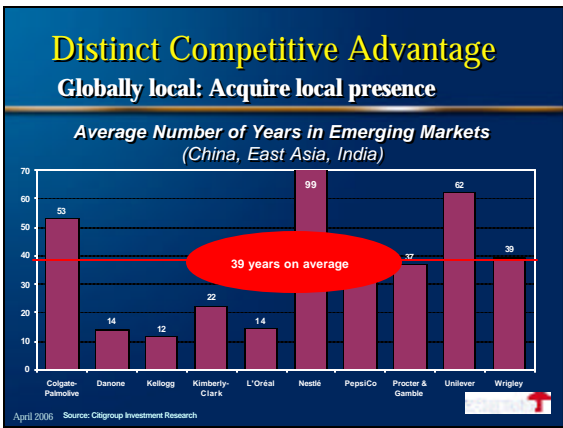


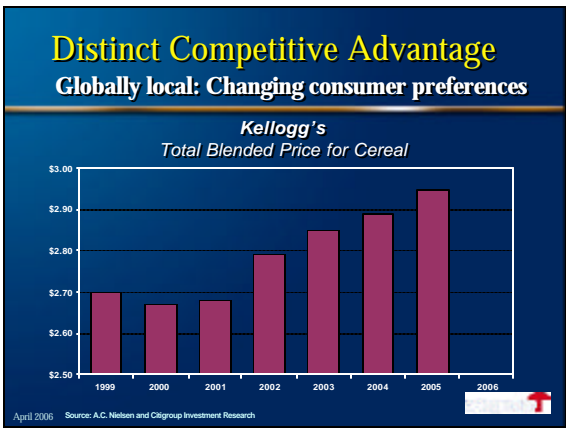
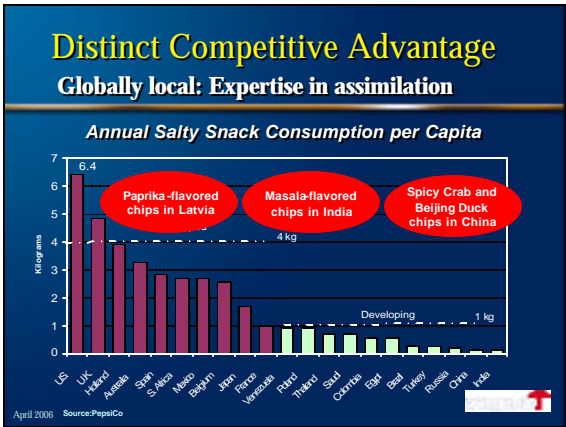
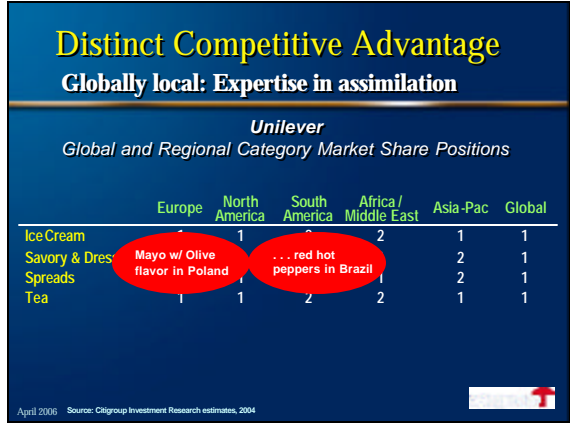
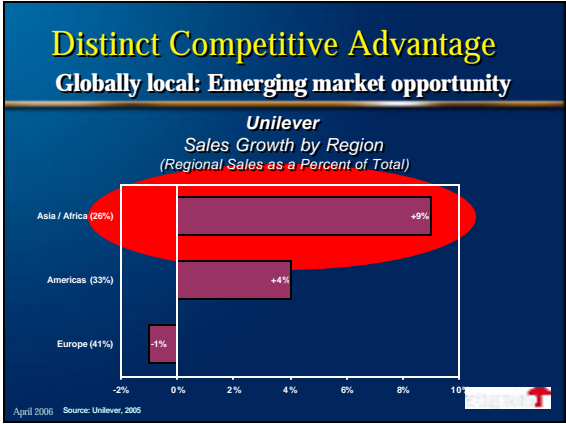


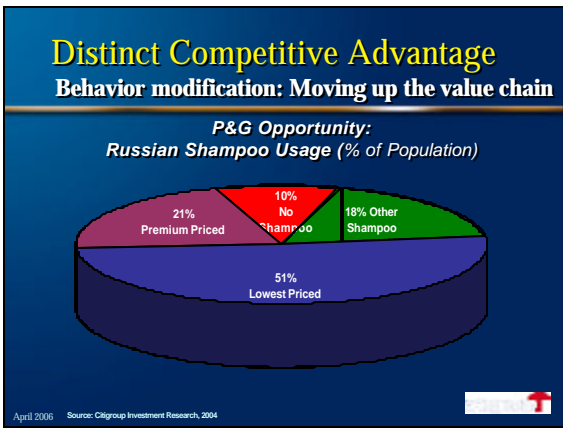
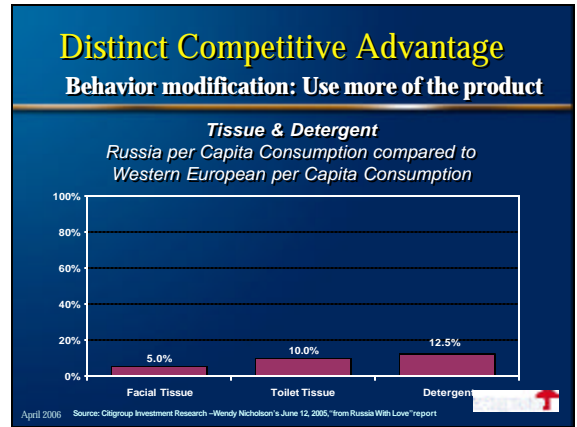
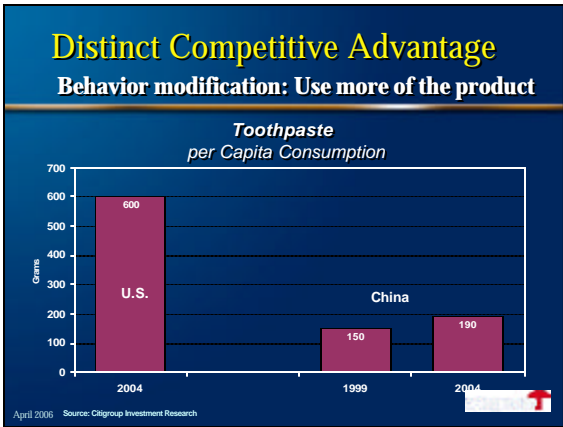
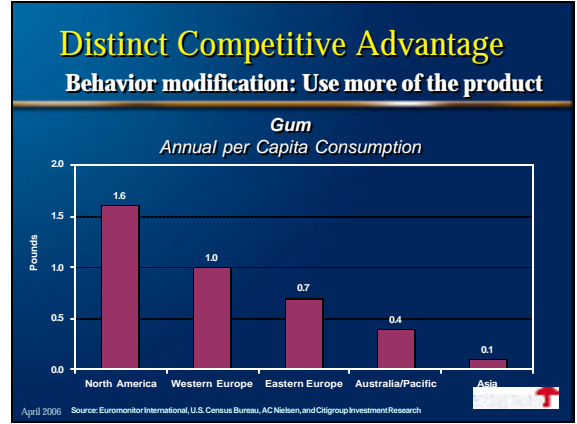
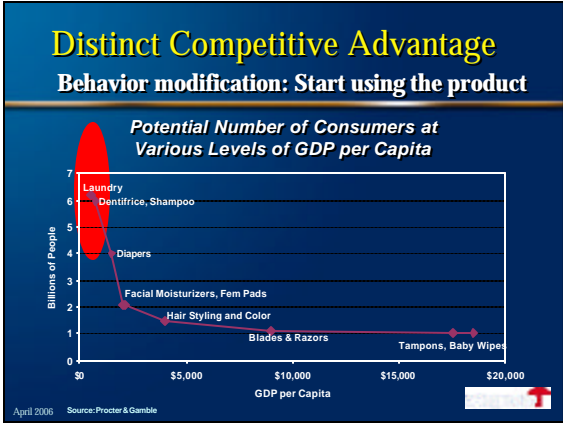
### Distinct Competitive Advantage

#### Globally local

April 2006



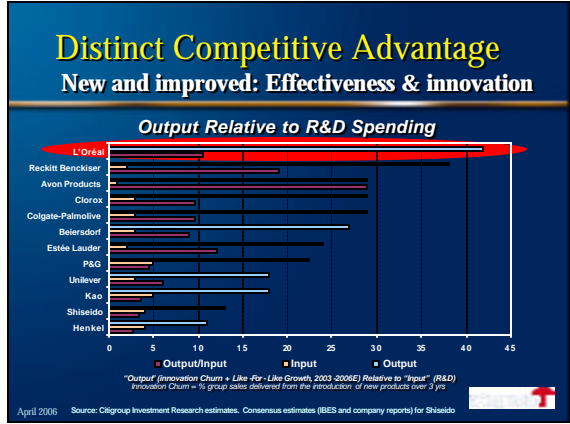
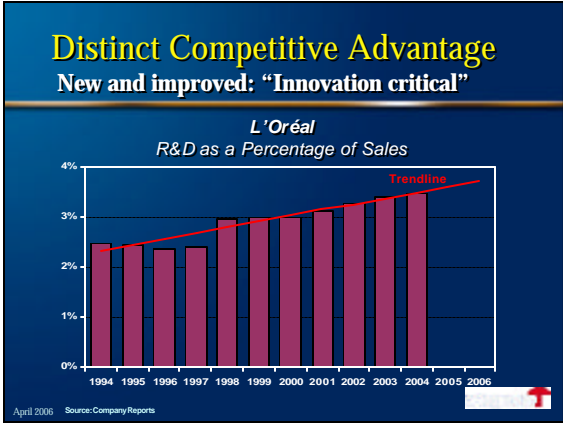




### Distinct Competitive Advantage

New and improved

April 2006



### Distinct Competitive Advantage

New and improved: Effectiveness & innovation

*L'Oréal New Product Innovation*  
Steel Colour – Strengthening Nail Color

Strong as nails

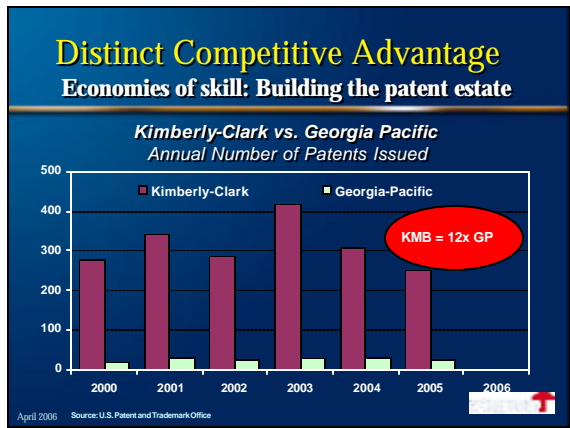
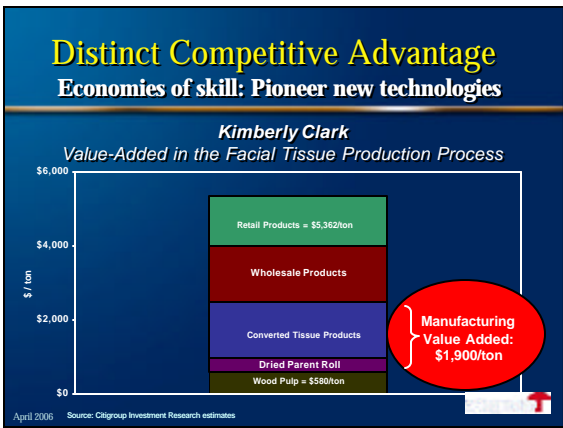
Want long-lasting color and steel-strong nails? Discover Steel Colour, L'Oréal's newest innovation in nail enamel. This nail strengthener is specially formulated with steel elements to strengthen, harden, and protect nails while delivering stunning color that lasts! With 23 chic new shades, this nonsense polish helps nails resist breaking and splitting without compromising on incredible color.

April 2006 Source: L'Oréal

### Distinct Competitive Advantage

Economies of skill

April 2006



# Regional Growth Opportunities



April 2006

## Regional Growth Opportunities

### Still relatively low global market share

Category	Brand Behemoth	Global Share	Category	Brand Behemoth	Global Share
Oral Hygiene	Colgate-Palmolive	24%	Functional Dr. S & S Snacks	PepsiCo	34%
Yogurt	Danone	24	Diapers	Procter & Gamble	39
Breakfast Cereals	Kellogg	34	Laundry Care	Procter & Gamble	27
Facial Tissues	Kimberly-Clark	38	Surface Care		13
Color Cosmetics	L'Oréal	20	Bath & Shower Deodorant		21
Hair Care	L'Oréal	22	Ice Cream	Unilever	31
Baby Food		18	Sauces & Dressings		19
Bottled Water	Nestlé	15	Tea		10
Coffee	Nestlé	21	Gum	Wrigley	16
Ready Meals		7			38

Average 24%

April 2006 Source: Professors Peter N. Golder and Joël H. Steckel and CitiGroup Investment Research



## 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)

Region	Percentage of Companies
Japan	~65%
China	~65%
India	~45%
East Asia	~45%
Eastern Europe	~35%
Latin/South America	~30%
U.S.	~25%
Western Europe	~20%

? Dominated by global behemoths      Many different companies?

April 2006 Source: CitiGroup Investment Research and Euromonitor International




## Regional Growth Opportunities

### No local or global behemoths in emerging markets

**China Brand Leaders**

Brand	Market Share
Unilever	16%
P&G	10%
Other	2%

April 2006 Source: CitiGroup Investment Research and Euromonitor International, 2004




## Regional Growth Opportunities

### Women's skin care: A major area of growth

**Women Aged 15-75 Years by Region**

Region	Millions
Asia-Pacific	499
China	487
India	356
Africa	263
LatAm	194
E. Europe	124
N. America	122
W. Europe	71

April 2006 Source: United Nations Population Division, 2005




## Regional Growth Opportunities

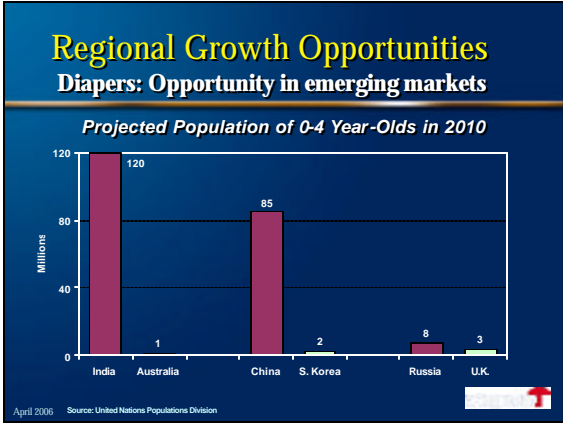
### Rapidly growing "Beauty" markets

**L'Oréal's Annual Sales Growth in China and India**

Year	China (%)	India (%)
1998	400	~100
1999	~70	~100
2000	~10	~30
2001	~30	~20
2002	~50	~50
2003	~80	~20
2004	~130	~80
2005	~20	~50
2006	~10	~50

April 2006 Source: Company Reports and CitiGroup Investment Research





### “Stretching” Across Categories

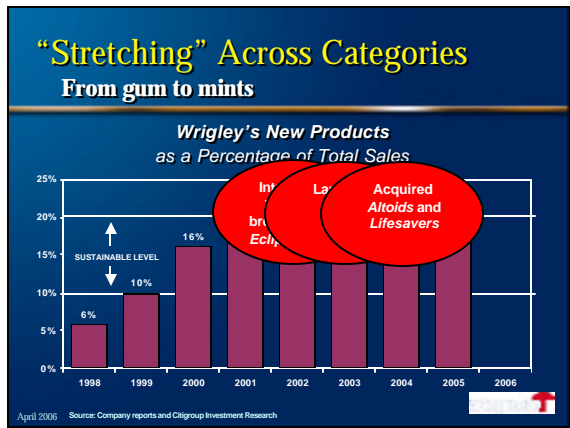
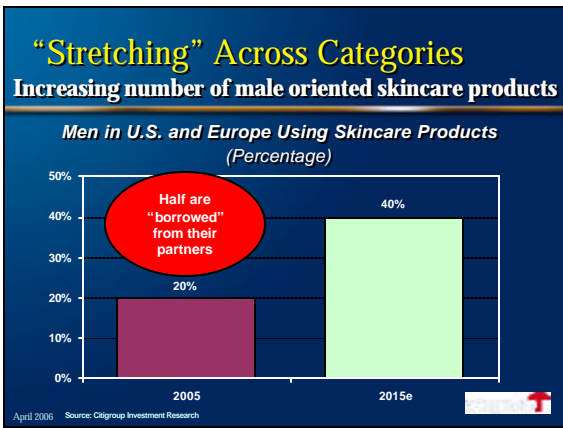
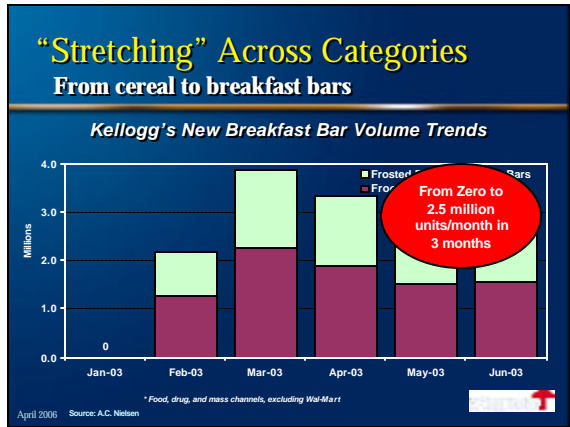
April 2006

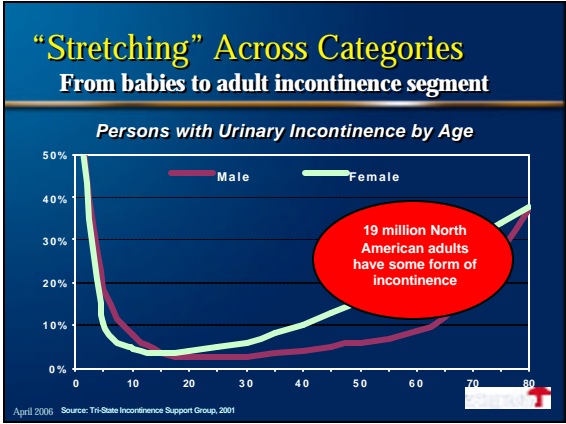
### “Stretching” Across Categories

#### Brand behemoth leadership positions by category

Brand Behemoth	# of Categories	Categories
Unilever	10	Bath & Shower, Color Cosmetics, Deodorant, Hair Care, Ice Cream, Laundry Care, Sauces & Dressings, Soups, Surface Care, Tea
Procter & Gamble	7	Coffee, Deodorant, Diapers, Hair Care, Laundry Care, Oral Hygiene, Surface Care
Nestlé	5	Baby Food, Bottled Water, Chocolate Confectionery, Coffee, Ready Meals
PepsiCo	4	Biscuits, Fruit/Vegetable Juice, Functional Drinks, Sweet & Savory Snacks
Danone	3	Biscuits, Bottled Water, Yogurt
Kimberly-Clark	2	Diapers, Facial Tissues
L'Oréal	2	Color Cosmetics, Hair Care
Colgate-Palmolive	1	Oral Hygiene
Kellogg	1	Breakfast Cereals
Wrigley	1	Gum

April 2006 Source: Cilgroup Investment Research and Euromonitor International





### Prolonged Share Stability

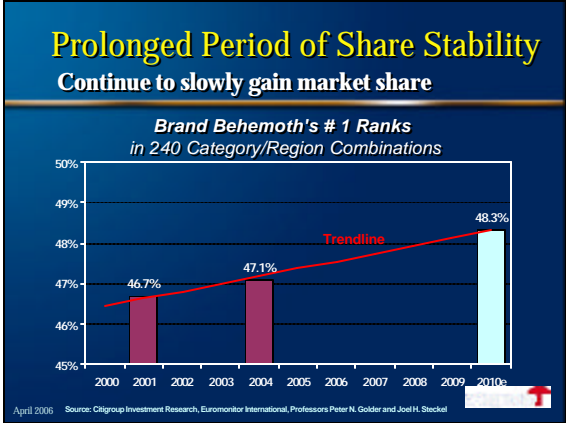
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### Prolonged Period of Share Stability

Year of first entry into region

	U.S.	Western Europe	Japan	Latin/S. America	East Asia	Eastern Europe	China	India
Colgate-Palmolive	1806	1920	1978	1927	1930	1992	1992	1937
Danone	1942	1919	1980	1970	1999	1989	1987	1990
Kellogg	1906	1922	1963	1951	NMF	1993	1995	1994
Kimberly-Clark	1872	1955	NMF	1955	1963	1995	1994	1994
L'Oréal	1953	1907	1963	1939	1993	1991	1997	1985
Nestlé	1900	1867	1913	1921	1905	1991	1908	1912
PepsiCo	1902	1936	1966	1907	1947	1966	1982	1988
Procter & Gamble	1837	1930	1973	1948	1935	1991	1988	1985
Unilever	1906	1872	1930	1926	1933	1992	2003	1913
Wrigley	1891	1927	NMF	NMF	1915	1990	1981	2004

April 2006 Source: Cligroup Investment Research and company reports



- ### Brand Behemoths
- Colgate-Palmolive
  - Danone
  - Kellogg
  - Kimberly-Clark
  - L'Oréal
  - Nestlé
  - PepsiCo
  - Procter & Gamble
  - Unilever
  - Wrigley
- April 2006 Source: Citigroup Investment Research

### Brand Behemoths



April 2006



### Thematic Investing

#### Determining how

- Demographic
- Technological
- Political
- Structural



trends will affect financial markets, and identifying market sectors and individual securities that will benefit.

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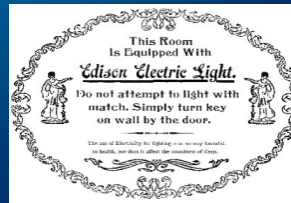


### Techno Savvy



April 2006

### Techno Savvy Adapters Electricity: Electric Lighting System



c. 1880

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

c. 1750

April 2006

Sources: National Science Foundation



### Techno Savvy Adapters Interchangeable Parts: Mass-Produced Cars



c. 1900

Inventor/Discoverer:  
Eli Whitney

For:  
Rifle Production

c. 1800

April 2006 Sources: Courtesy of Ford Motor Company



### Techno Savvy Adapters Wireless Broadcasting: Radio



c. 1920

Inventor/Discoverer:  
Guglielmo Marconi

For:  
Ship to Shore  
Messages

c. 1890

April 2006

Sources: Courtesy of Thomson



## Techno Savvy Adapters

A significant competitive advantage can be gained by adapting existing technologies.

- Ford: mass production
- Edison: electrical lighting system

April 2006

## Techno Savvy Exploiter

### Phonograph: Music Reproduction

c. 1890

Inventor/Discoverer: Thomas Edison

For: Dictation

1877

April 2006 Sources: Scientific American, 1896

## Techno Savvy Exploiter

### Transistor: Transistor Radio

1955

Inventor/Discoverer: Bell Labs

For: Long Distance Calling

1947

April 2006 Sources: Courtesy of Sony Electronics, Inc.

## Techno Savvy Exploiter

### Television System: Broadcast Television

1939

Inventor/Discoverer: Philo T. Farnsworth

For: Laboratory

1921

April 2006 Sources: Courtesy of Thomson

## Techno Savvy Exploiters

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

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## Techno Savvy Innovator

### Electronic Calculator: Business Computer

1952

Inventor/Discoverer: Mauchly & Eckert

For: Gun Firing Tables

1944

April 2006 Sources: Courtesy of IBM

### Techno Savvy Innovator

**BASIC: PC Software**

**Inventor/Discoverer:**  
Dartmouth Professors

**For:**  
College Computing

1975                      1963

April 2006      Sources: Used with Permission from Microsoft Corporation

### Techno Savvy Innovator

**DNA: Human Insulin**

**Genentech Sees Insulin Marketing**

**Inventor/Discoverer:**  
Watson & Crick

**For:**  
Cancer Research

1977                      1953

April 2006      Sources: The New York Times, December 2, 1981

### 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

April 2006

### Techno Savvy

Profiting from Adapting, Exploiting and Innovating Technologies

April 2006

### Techno Savvy 50+ Candidates

Artificial Intelligence	Audio Mining	Augmented Reality
Bioinformatics	Biometrics	Biometry
Computer-brain interface	Contextual Personalization	Controlled Medical Vocabulary
Digital Rights Mgmt Technologies	Driver Load Matching	Dual Clutch Transmission
e-Forms	Electronic Ink	Electronic shelf Labels
Embedded Diagnostic Tools	Emotion Detection	EMPT
eSignatures	HSA "Smart Card"	Idea Management
Infrastructure Virtualization	Inkjet processes	Interactive TV
LEP/OLED	Lifetime Value	Location "Aware" Services
Mesh Networks Sensor	Micro fuel cells	Microelectromechanical Systems
Micropayments	MRAM	Nanotech based Manufacturing
Natural Language Processing	Oil & Gas Drilling / Completion Tech	P2P Networks
Phoed	PIR	Power Line Broadband
Product content/ data management	Real-time Patient Remote Monitoring	Reference Data Standards
Retinal Displays	RFID (caso/pallet)	RFID payments: Worldwide
Telematics	Truth Verification	Video on Demand
Video Telephony	Virtual Prototyping	Voice over Internet Protocol
Web services-enabled business model	ZigBee (802.15.4)	

April 2006      Sources: Garner Consulting, Citigroup Investment Research

### Techno Savvy Nine Technologies

Adapter	Dual Clutch Transmission	Drilling and Completion	HSA "Smart Card"
Exploiter	RFID	VoIP	Real Time Patient Monitoring
Inovator	Fuel Cells	e-money	Phoed

April 2006      Sources: CitigroupInvestmentResearch


# Techno Savvy Adapters




April 2006

## Techno Savvy Adapters The Evolution of the Automobile Transmission


*Ford Model - T*




*Automatic Transmission*



*Dual Clutch Transmission*

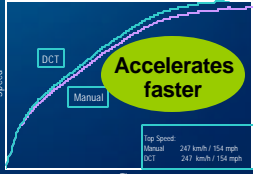




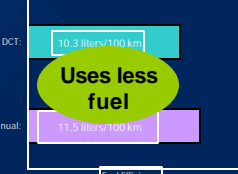
April 2006 Sources: Ford Motor Company, Citigroup Investment Research and Volkswagen

## Techno Savvy Adapters Dual Clutch Transmission

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




**Accelerates faster**



**Uses less fuel**

Top Speed Manual	247 km/h / 154 mph
Top Speed DCT	247 km/h / 154 mph
DCT Fuel Efficiency	10.3 liters/100 km
Manual Fuel Efficiency	11.5 liters/100 km




April 2006 Source: Volkswagen

## Techno Savvy Adapters Dual Clutch Transmission

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**




April 2006

## Techno Savvy Adapters The Evolution of Energy Production

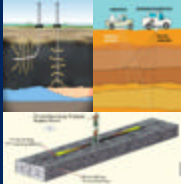
*Do-It-Yourself Energy*




*Early Vertical Oil Rigs*



*Horizontal wells, 3-D seismic, Fracturing*

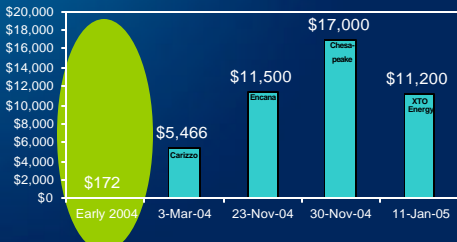





April 2006 Sources: Citigroup Investment Research, Environmental protection Agency and EOG

## Techno Savvy Adapters Drilling and Completion Technology

*Land Acquisition Price/Acre*



Date	Price/Acre
Early 2004	\$172
3-Mar-04	\$5,466
23-Nov-04	\$11,500
30-Nov-04	\$17,000
11-Jan-05	\$11,200



April 2006 Sources: Citigroup Investment Research and EOG

## Techno Savvy Adapters

### Drilling and Completion Technology

---

Origin/Source	<b>Oilfield Equipment &amp; Services</b>
Adapter	<b>EOG Resources</b>
Product/ Competitive Advantage	<b>More productive wells</b>


**EOG's has 321,000 acres in Barnett Shale at cost of \$172/acre; recent deals \$11,000-\$17,000/acre.**

April 2006 Citigroup

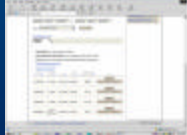
## Techno Savvy Adapters

### The Evolution of Medical Payment Processes


*Forms*



*The Web*



*The Smart Card*



April 2006 Sources: Citigroup Investment Research Citigroup

## Techno Savvy Adapters

### HSA Smart Card Technology

#### Comparative Analysis of Health Plans

Health plan	CIDHP platform	HSA administrator	HSA custodian	HSA debit card vendor
Anthem	NASCO	FlexBen	JPMorgan Chase	
Assurant Health		MSAver	HSA Bank	
BCBS of Arizona			HSA Bank	
BCBS of Michigan		Menu of local and national banks		
Blue Shield of California			Wells Fargo	Evolution Benefits
Definity Health			US Bank, Wells Fargo	
Humana			JPMorgan Chase	
Independence Blue Cross			The Bancorp Bank	
Lumenos Employer Products Division			Mellon Bank	
UnitedHealthCare				

**Cost per payment drops from \$3.00 in 2000 to \$0.95 in 2008; per customer contact \$6.50 to \$0.75**

April 2006 Sources: Forrester Research, Inc. Citigroup

## Techno Savvy Adapters

### HSA Smart Card Technology

---

Origin/Source	<b>Card &amp; ATM Technology</b>
Adapter	<b>UnitedHealth Group</b>
Product/ Competitive Advantage	<b>Combo medical, drug benefit, HSA, debit/credit card</b>

**Cost per payment drops from \$3.00 in 2000 to \$0.95 in 2008; per customer contact \$6.50 to \$0.75**

April 2006 Citigroup

## Techno Savvy

### Exploiters



April 2006

## Techno Savvy Exploiters

### The Evolution of Inventory Management

*"What you see is what you have"*



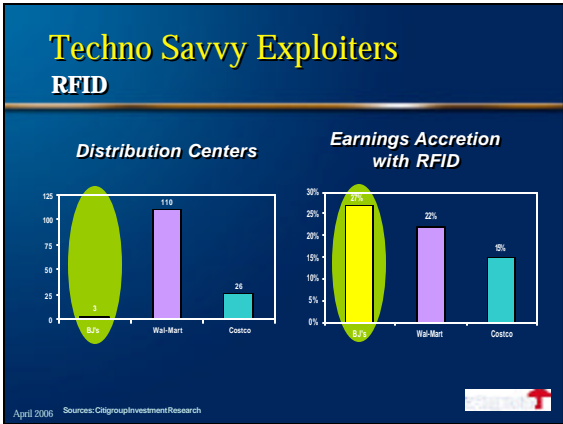
*Closing for inventory*



*RFID*



April 2006 Sources: Citigroup Investment Research and Manhattan Associates Citigroup

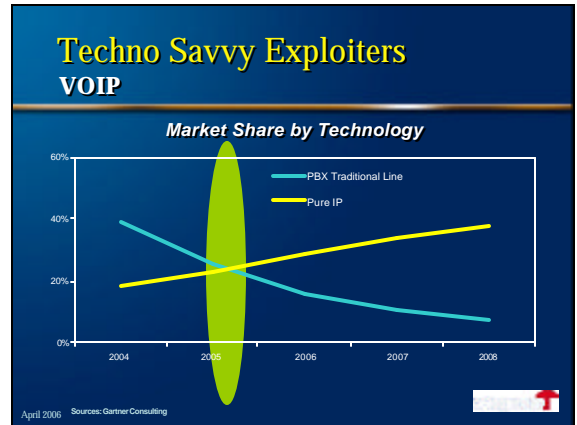


### Techno Savvy Exploiters RFID

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.**

April 2006

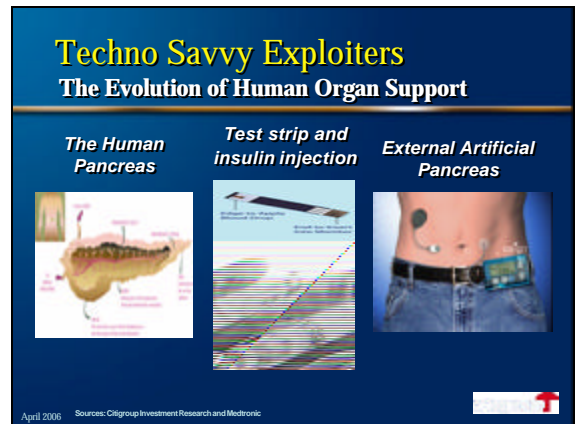


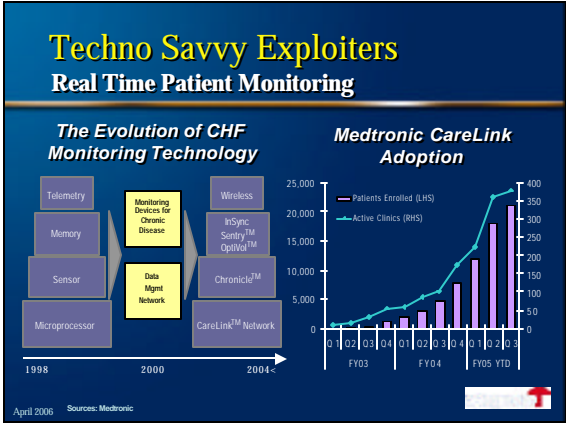
### Techno Savvy Exploiters VOIP

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**

April 2006





### Techno Savvy Exploiters Real Time Patient Monitoring

Origin/Source	Internet
Exploiter	Medtronic
Product/Competitive Advantage	Monitoring for congestive heart failure, low blood sugar levels

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

April 2006

### Techno Savvy Adaptors & Exploiters

April 2006

### Techno Savvy Innovators

April 2006

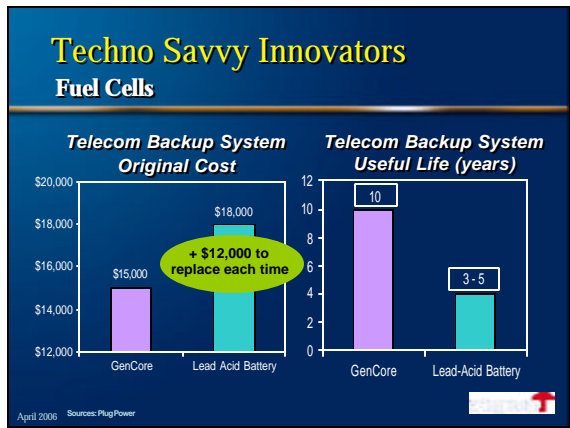
### Techno Savvy Innovators The Evolution of Backup Power Generation

**Dependent on the Power Grid**

**Diesel Generator Lead Acid Batteries**

**Plug Power's PEM system**

April 2006 Sources: CitigroupInvestmentResearchandPlugPower



## Techno Savvy Innovators

### Fuel Cells

Origin/Source	19 <sup>th</sup> 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**

April 2006


## Techno Savvy Innovators

### The Evolution of Portable Power Sources


**"Wet" Cell Battery**



**Lithium Ion Battery**



**Direct Methanol Fuel Cell**

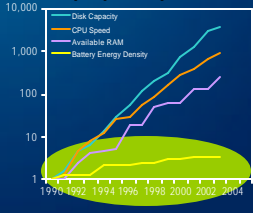


April 2006 Sources: Citigroup Investment Research and Mechanical Technology

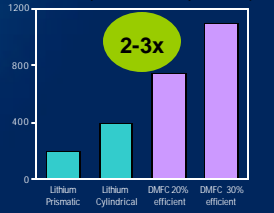
## Techno Savvy Innovators

### Fuel Cells

**Improvements in Laptop Components**



**Lithium Ion Batteries vs DMFCs (Watt hours per liter)**



**2-3x**

April 2006 Sources: Thad Starner, assistant professor of computing at the Georgia Institute of Technology College of Computing

## Techno Savvy Innovators

### Fuel Cells

Origin/Source	19 <sup>th</sup> Century England
Innovator	Mechanical Technology
Product/ Competitive Advantage	Commercial fuel cells


**Entered into alliance with Gillette's Duracell to develop and commercialize MT's micro fuel cell**

April 2006


## Techno Savvy Innovators

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


**Barter**



**Cash**



**e-money**

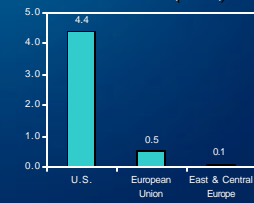


April 2006 Sources: British Library, Citigroup Investment Research, MasterCard, and Visa

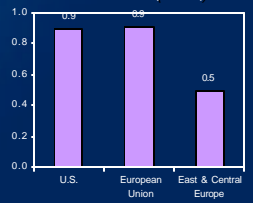
## Techno Savvy Innovators

### e-Money

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



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



April 2006 Sources: European Central Bank and Bank for International Settlements

## Techno Savvy Innovators

### e-Money

---

Origin/Source      **Late 1990s**

---

Innovator            **EuroNet Worldwide**

---

Product/  
Competitive  
Advantage            **eTop Up**

---


**EuroNet Worldwide is the world's largest processor of prepaid transactions**

April 2006

## Techno Savvy Innovators

### The Evolution of Peer-to-Peer Payment Methods


**Checks**



**Wire**

**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.  
 \*Incoming wires received by 4:30 P.M. (ET) will be posted same business day.  
 \*Wires should be directed to:  
 Account Name Bank, ABA: 999999999  
 Beneficiary: Customer Name and Account SWIFT Code (required only for international transfers): BBBB9999  
 \*Outgoing domestic wire transfers are \$30  
 \*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.

**PayPal**

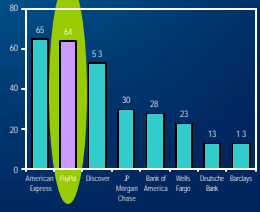


April 2006      Source: Citigroup Investment Research and eBay

## Techno Savvy Innovators

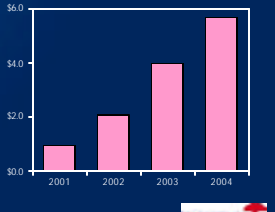
### e-Money

**Global User Accounts at Leading Transaction Processing Firms**



Firm	Accounts
American Express	65
PayPal	66
Discover	53
J.P. Morgan Chase	30
Bank of America	28
Wells Fargo	23
Deutsche Bank	13
Barclays	13

**PayPal "Off eBay" Total Payment Volume (\$ billions)**



Year	Volume (\$ billions)
2001	~\$8.0
2002	~\$20.0
2003	~\$40.0
2004	~\$58.0

April 2006      Sources: Citigroup Investment Research and eBay

## Techno Savvy Innovators

### e-Money

---

Origin/Source      **Late 1990s**

---

Innovator            **eBay**

---

Product/  
Competitive  
Advantage            **PayPal**

---

**"Off-eBay" (25% of PayPal's TPV), 80% CAGR over 3 years; still only 0.5% of total global eCommerce**

April 2006

## Techno Savvy Innovators

### The Evolution of Flavor Enhancers

**Herbs and Spices**



**MSG**



**Taste-receptor-based technology**




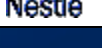


April 2006      Sources: Citigroup Investment Research

## Techno Savvy Innovators

### Food

**Market Opportunities for Senomyx and Collaborators**

Collaborator	Product Category	Annual Sales for Product Category \$(BB)
	Wet soup & savory beverages	\$2.8
	Non-alcoholic beverage	\$15.2
	Powdered beverages	\$0.5
	Dehydrated, culinary, frozen food & wet soup	\$12.7

**\$31 bn market; royalty payments = 1-4%**

April 2006      Sources: Citigroup Investment Research and Company Reports

### 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

April 2006

### Techno Savvy Innovators

#### The Evolution of Food Additives

Vitamin C	Calcium	DHA
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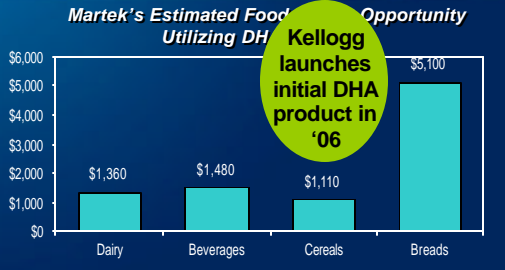


April 2006 Sources: CitigroupInvestmentResearch

### Techno Savvy Innovators

#### Phood

Martek's Estimated Food Opportunity Utilizing DHA



April 2006 Sources: Martek Biosciences

### 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

April 2006

### Techno Savvy



April 2006

### Thematic Investing

Determining how


- Demographic
- Technological
- Political
- Structural

trends will affect financial markets, and identifying market sectors and individual securities that will benefit.

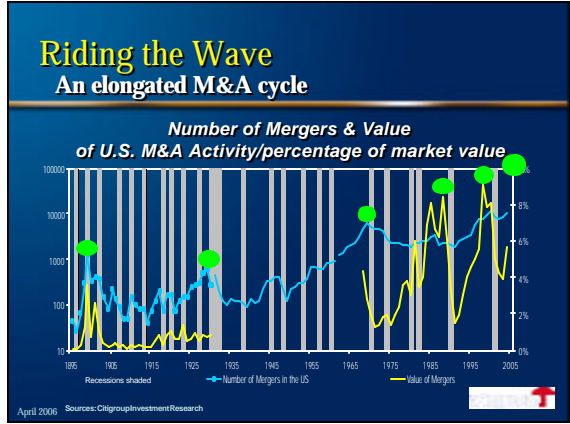
April 2006


# Riding the Wave

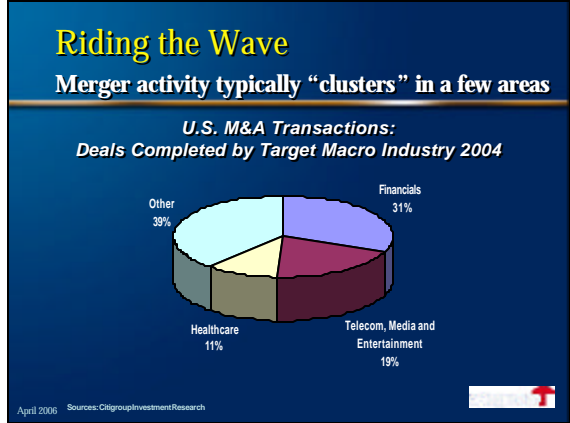
## An Elongated M&A Cycle





April 2006



- # 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*
- 
- April 2006 Source: Citigroup Investment Research



# Riding the Wave

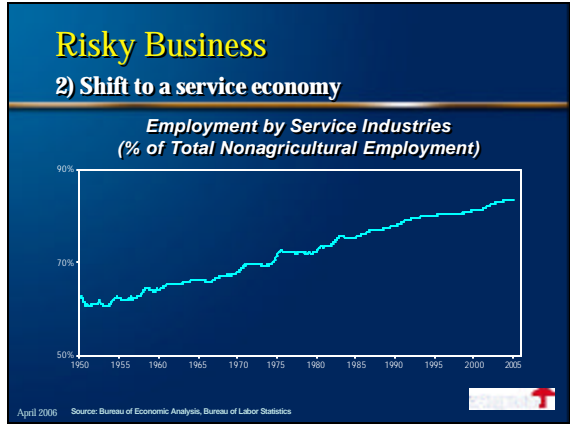
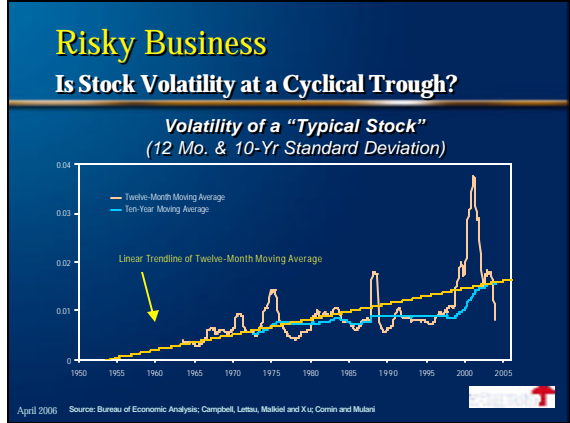
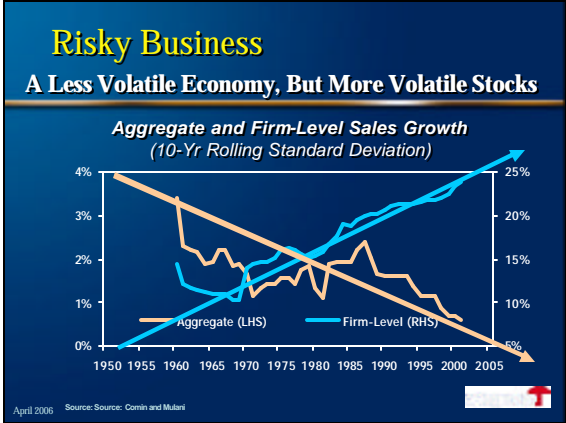
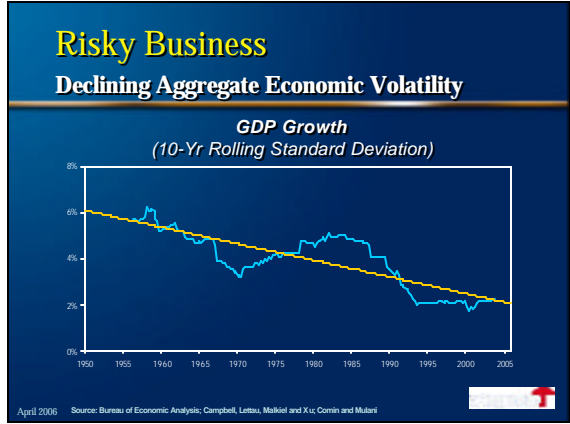
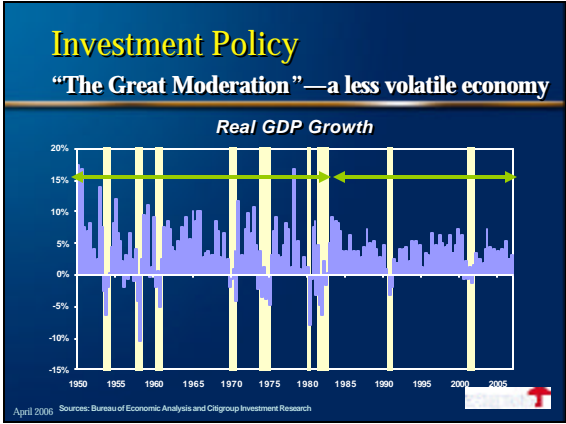
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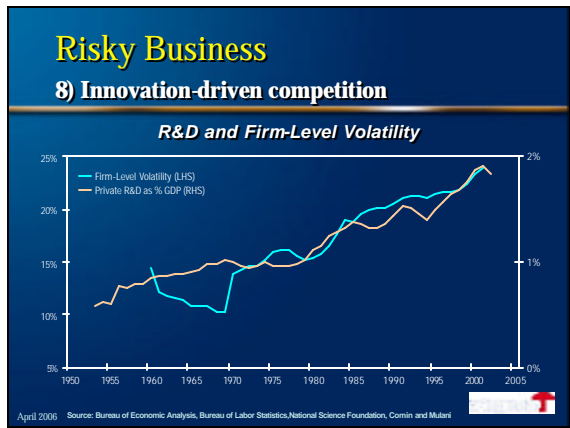
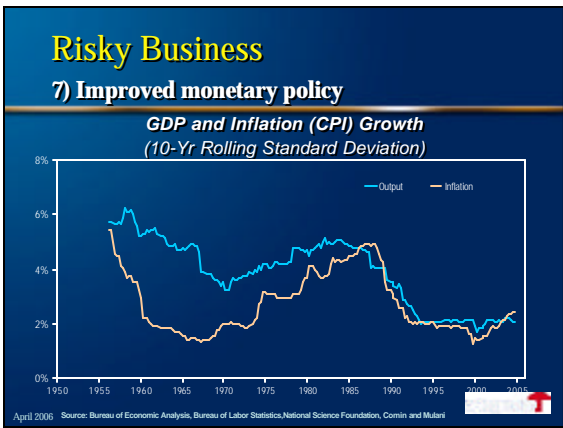
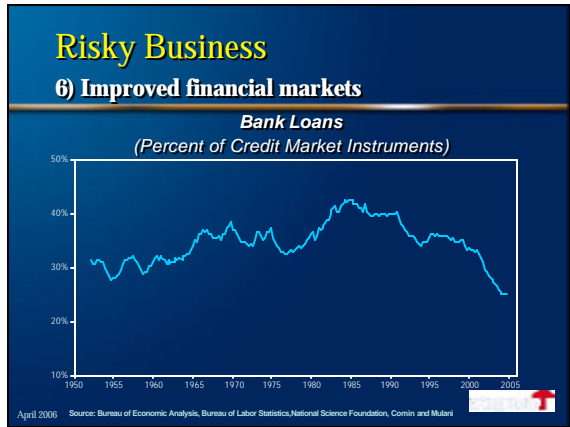
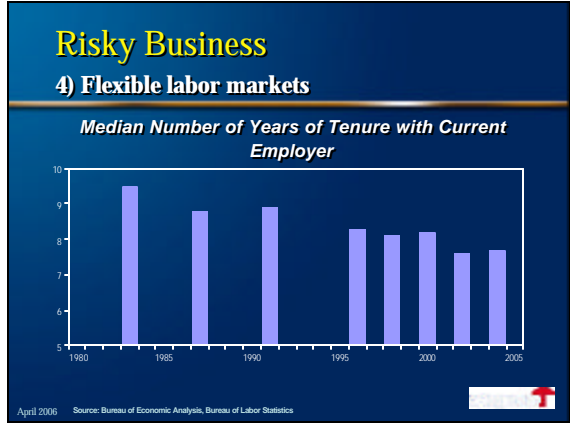
# Risky Business

A Less Volatile Economy, but More Volatile Stocks



April 2006





## Risky Business

### Relationship Between Five-Year Future Volatility of Stock Returns and Financial Statement Items

Independent Variable	Coefficient	(T-Stat)
Constant	0.4652	(46.69)
5 Year Past Volatility	-0.1256	(-12.49)
Age	-0.0066	(-9.38)
Age Squared	0.0001	(7.46)
Book to Market Ratio	0.0175	(7.59)
Profit/Sales	-0.1038	(-5.12)
Capital Expenditures/Sales	-0.0995	(-5.37)
Sales/GDP Squared	0.0001	(1.06)
Sales/GDP	-0.0018	(-0.53)
Observations	8,520	
R-Squared	0.87	

April 2006 Source: CitigroupInvestmentResearch

## Risky Business

### Firm Specific Factors Assoc. with Future Volatility

- **Profit to Sales Ratio:** Firms with higher net margins experience lower volatility levels. Profits enable firms to maintain liquidity, the lack of which may result in higher volatility.
- **Capital Expenditures:** Firms with high levels of capital expenditures relative to sales experience lower volatility in the future.
- **Book Value to Stock Market Price:** The ratio has a positive effect on future volatility, so that high Price-to-Book (the reciprocal) is associated with lower volatility in the future, to the extent that a high Price-to-Book ratio is indicative of a market perception of a "growth stock."

April 2006 Source: Comin and Mulani

## 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.

April 2006 Source: Comin and Mulani

## Risky Business

### Relationship Between Future Volatility of Stock Returns and Financial Statement Items

#### Division by Participation in R&D and Advertising

(t-Statistic)	None	R&D	Advertising	Both
Constant	0.4626	0.5011	0.4817	0.79
	(41.37)	(22.96)	(14.07)	(60.26)
5 Year Past Volatility	-0.118	-0.1743	-0.2217	-0.2781
	(6.99)	(8.40)	(7.50)	(12.96)
Age	-0.0062	-0.0066	-0.0087	-0.0029
	(5.17)	(4.59)	(5.44)	(10.25)
Age Squared	0.0001	0.0001	0.0002	0.0004
	(5.72)	(3.65)	(6.3)	(9.58)
Book to Market Ratio	0.005	0.032	0.0282	0.0384
	(1.39)	(4.39)	(2.88)	(7.88)
Profit/Sales	-0.0866	-0.0325	-0.3979	-0.2255
	(1.7)	(1.23)	(4.85)	(2.22)
Cap. Exp./Sales	-0.0361	-0.2846	0.0513	-0.2059
	(1.37)	(3.01)	0.3	(1.77)
Sales/GDP Squared	0.0004	-0.0002	0.0003	0.0002
	(1.25)	(1.04)	(1.65)	(0.38)
Sales/GDP	-0.019	0.007	-0.0568	0.0002
	(2.25)	(1.67)	(2.09)	(0.83)
Advertising/Sales			0.5767	-1.0137
			(1.29)	(4.32)
R&D/Sales		0.0738		0.3421
		(0.71)		(1.57)
Observations	2,938	2,426	979	1,791
R-Squared			0.9	

April 2006 Sources: Citigroup Investment Research

## Risky Business

### Firm Specific Factors Assoc. with Future Volatility

- **R&D** has a positive effect on future volatility. Other things remaining the same, firms engaging in R&D—and subject to the windfall gains from the success of their innovations and losses from the innovations of their competitors—are expected to have a higher level of volatility than firms who do not engage in R&D.
- **Advertising** is associated with lower future volatility. Advertising helps firms create a brand image and generate a relatively steady stream of sales.

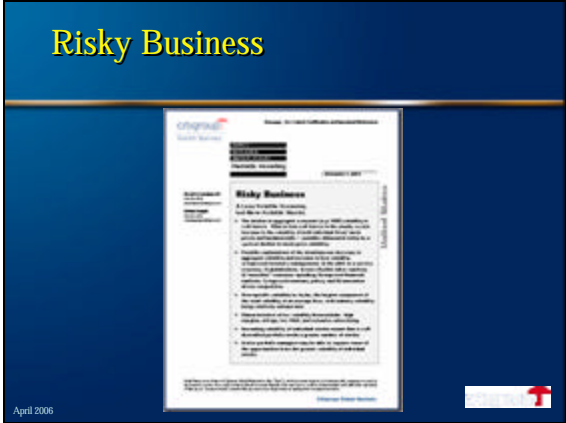
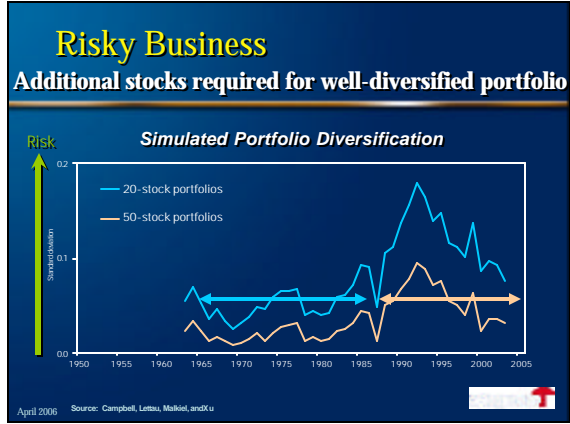
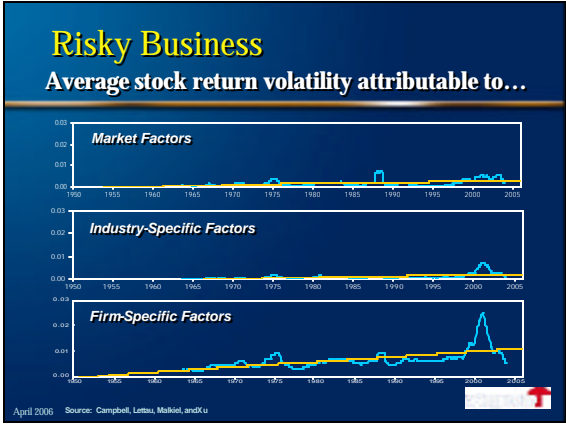
April 2006 Source: Comin and Mulani

## Risky Business

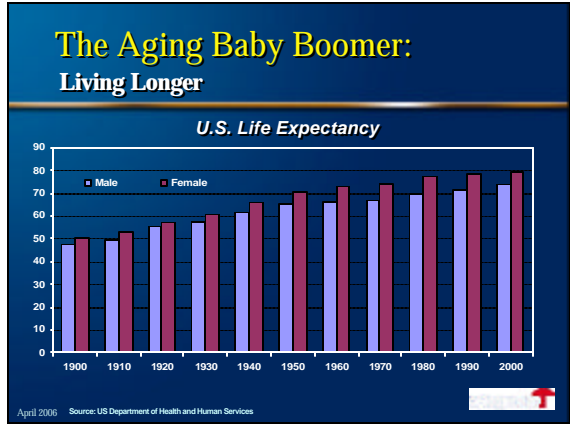
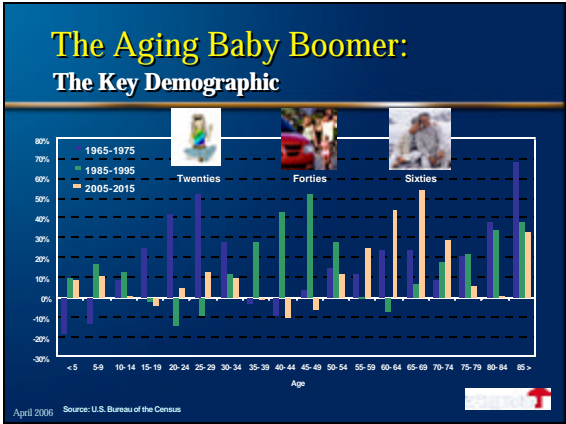
### An Econometric Model: Char. of Low Volatility Firms

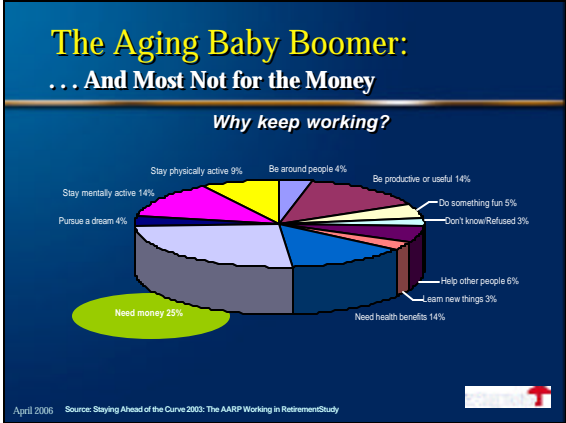
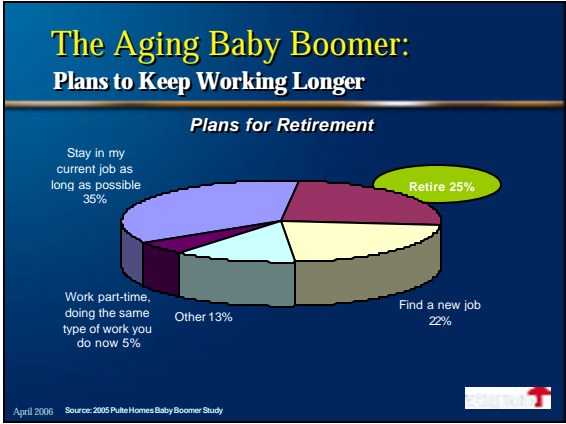
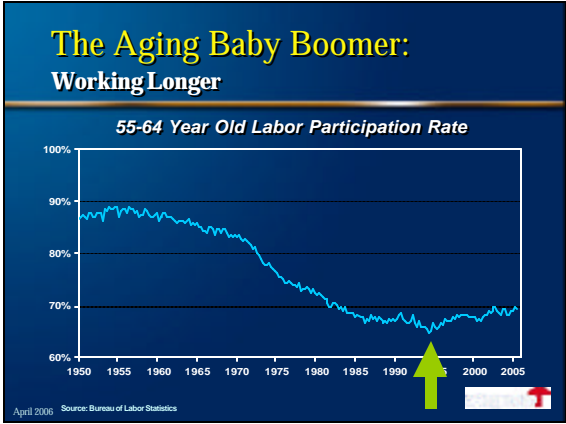
- **Old Age**
- **High Price-to-Book**
- **High Net Margins**
- **High Levels of Capital Expenditures**
- **Large Size**
- **High Levels of Advertising**
- **Low Levels of R&D Spending**

April 2006 Sources: CitigroupInvestmentResearch



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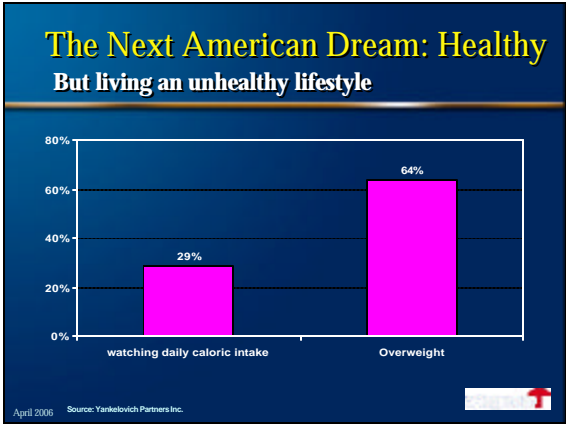
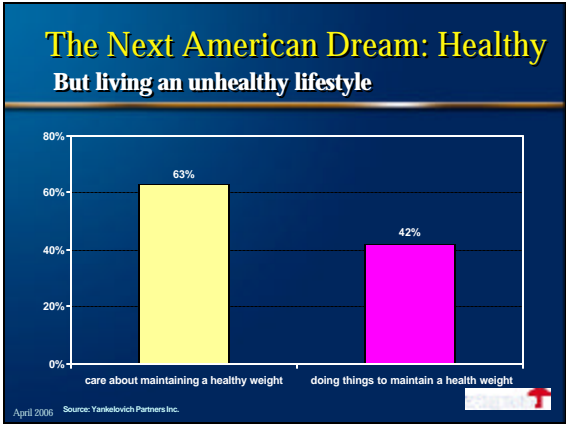


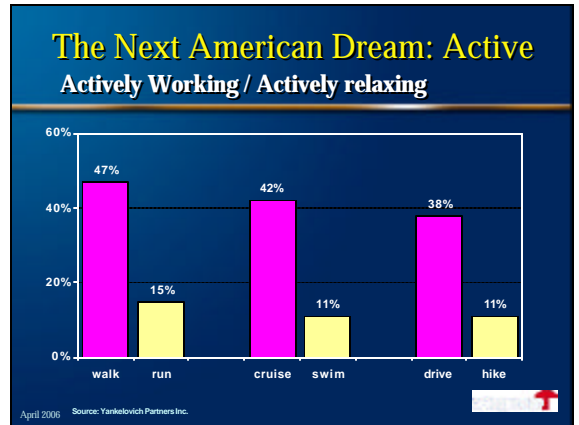
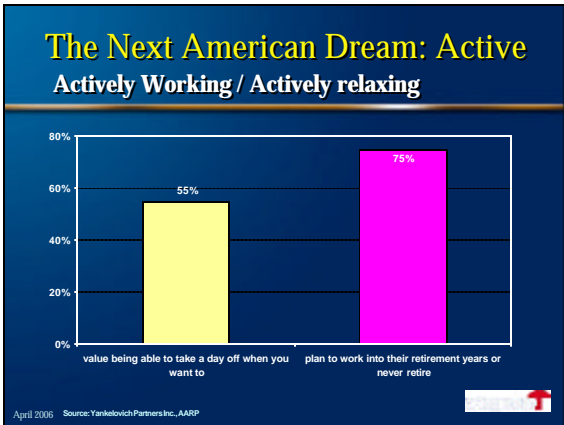
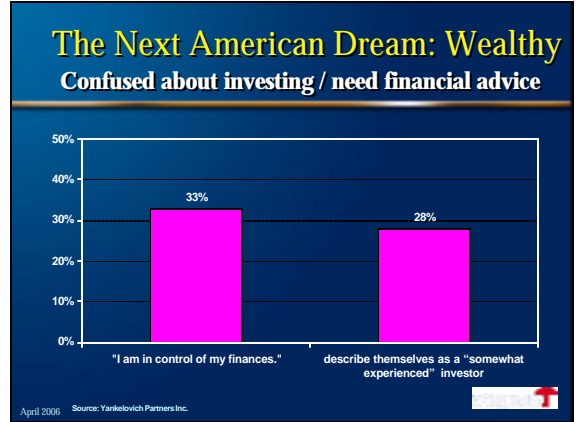
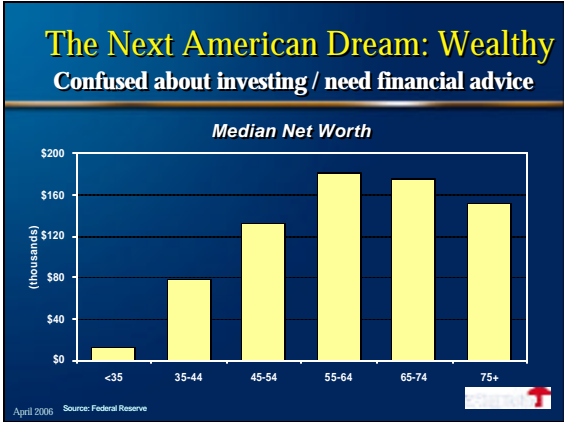


### The Next American Dream

Healthy, Wealthy and Active:  
The Baby Boomer in 2010

April 2006

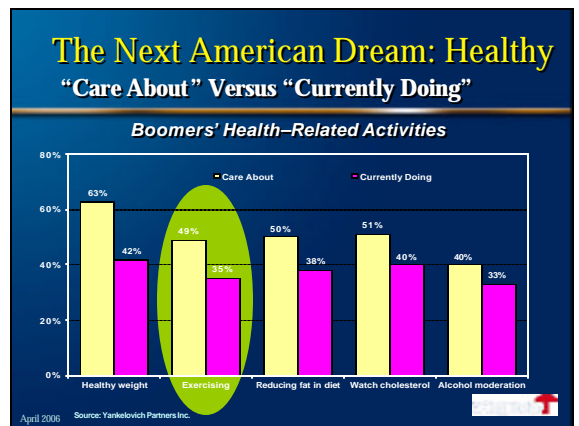


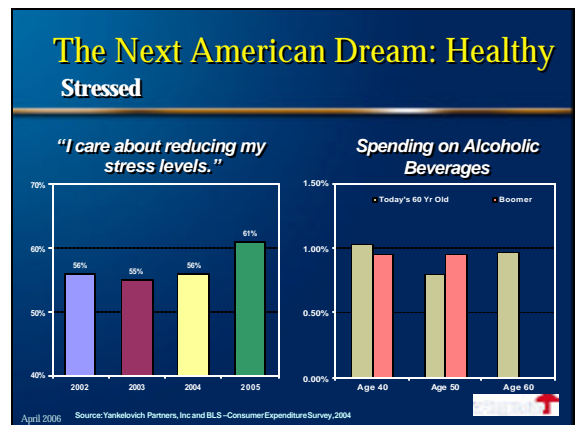
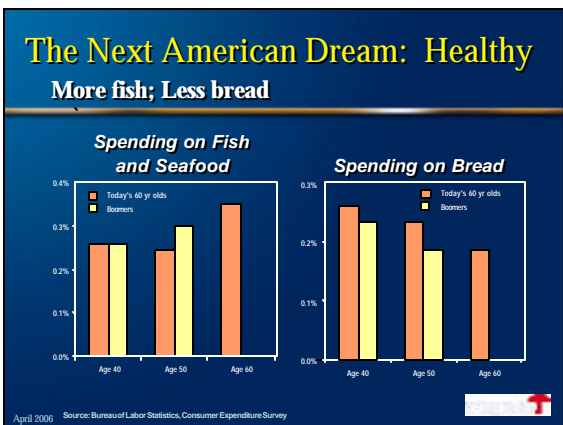
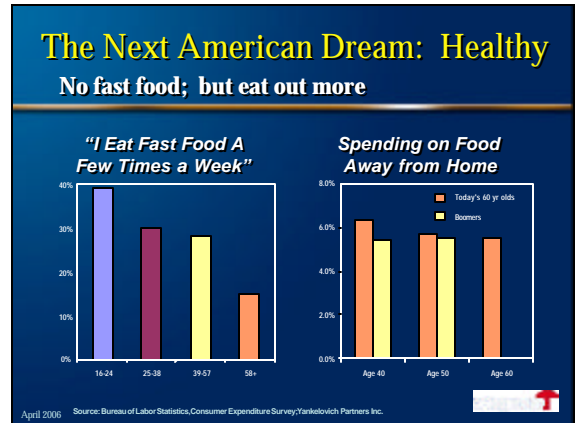
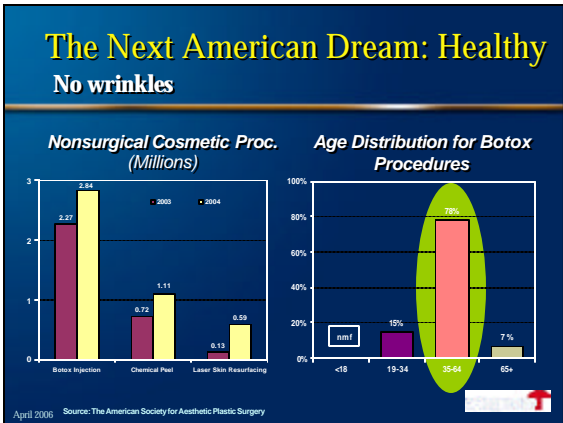
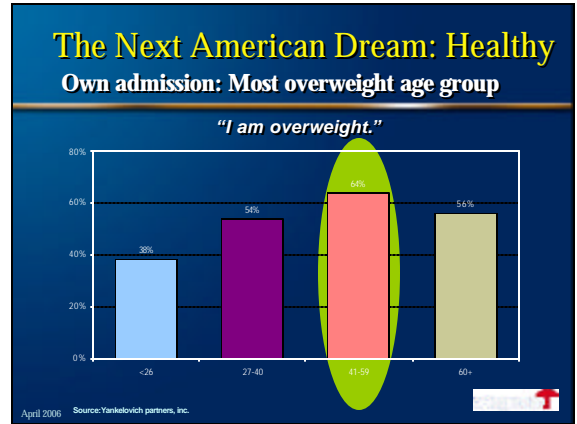
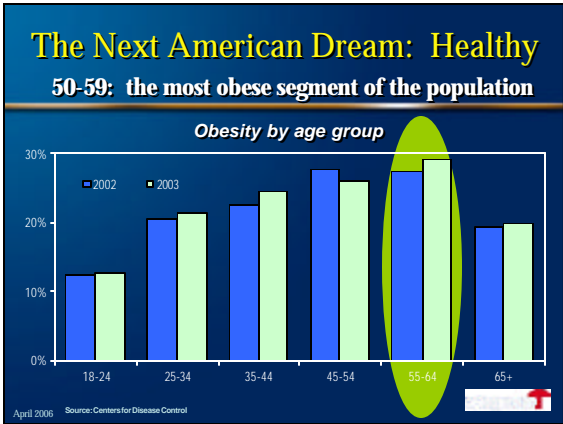


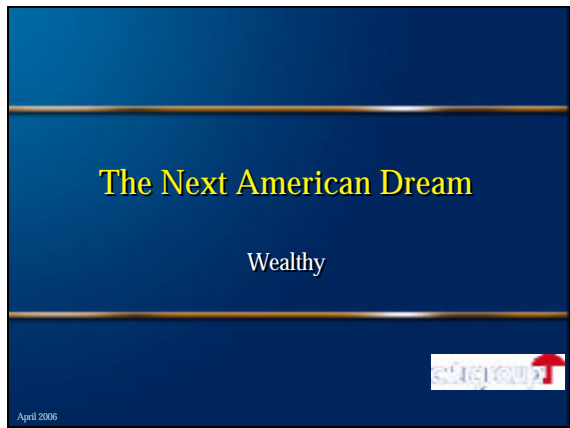
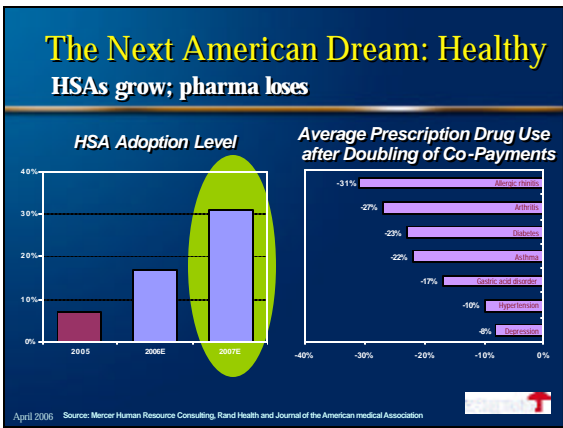
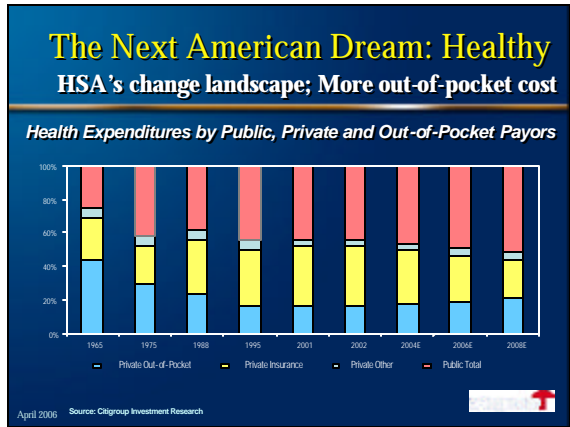
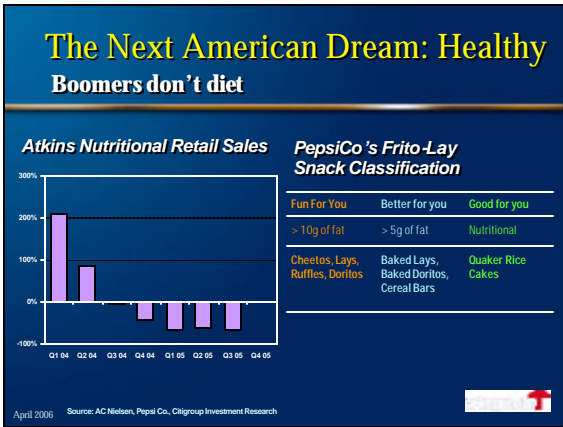
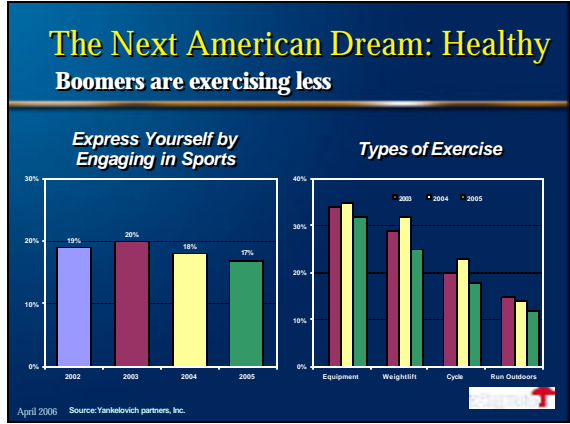
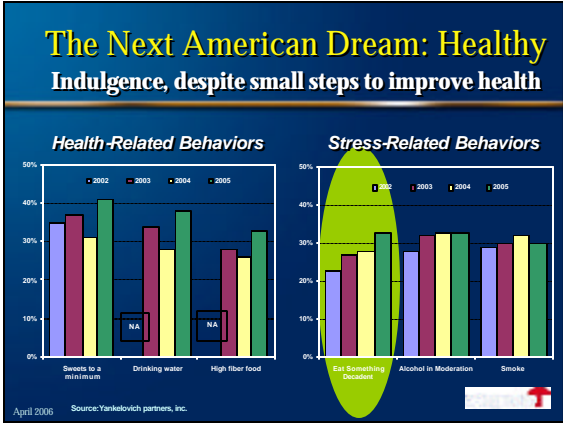
## The Next American Dream

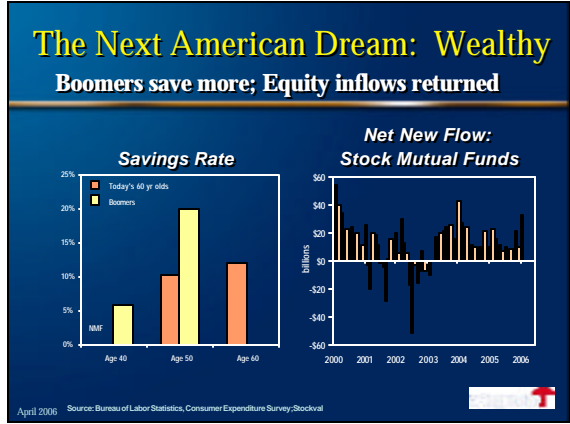
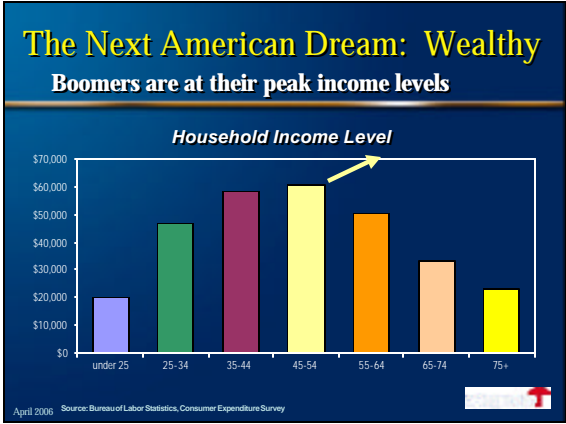
Healthy

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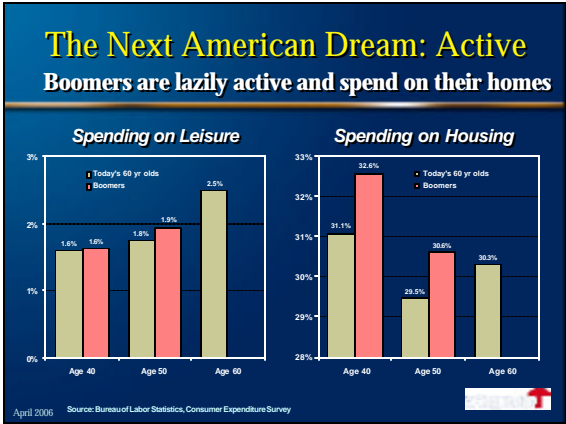


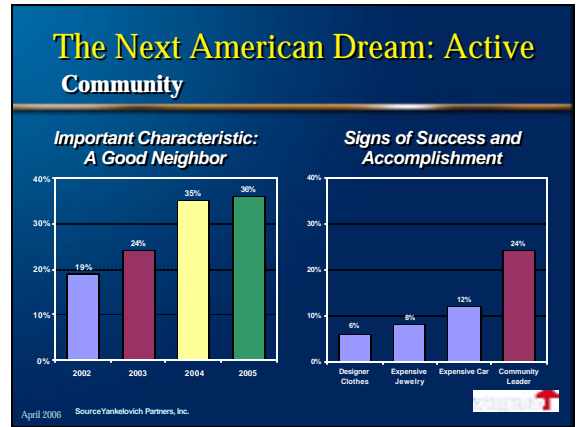
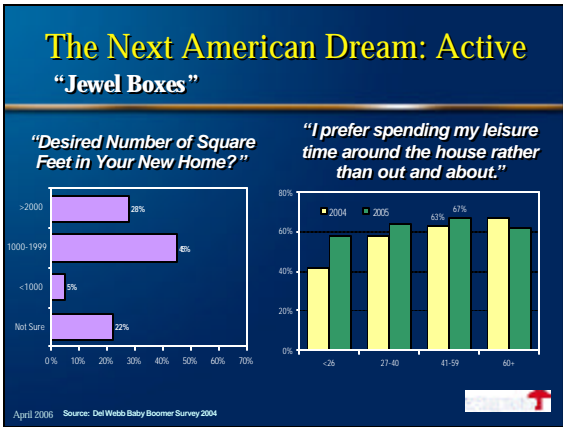
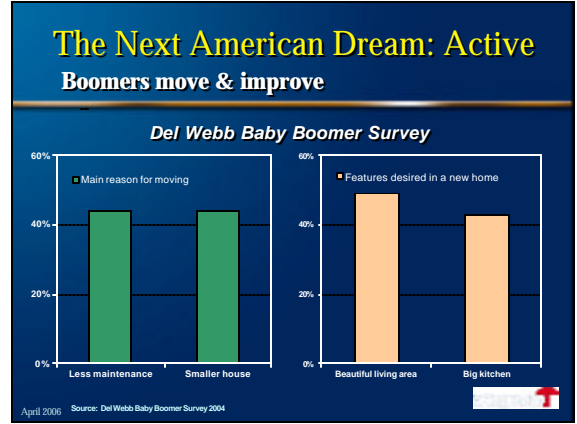
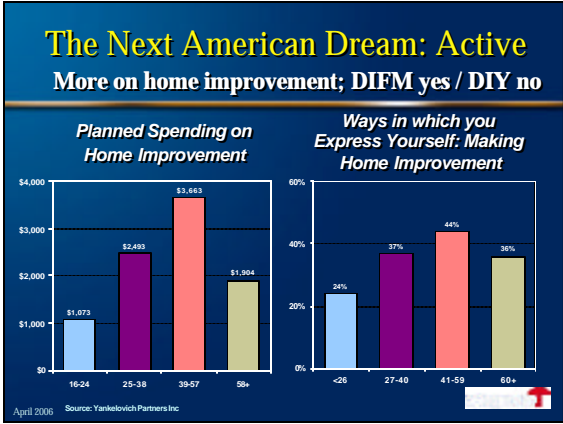


### The Next American Dream

Active

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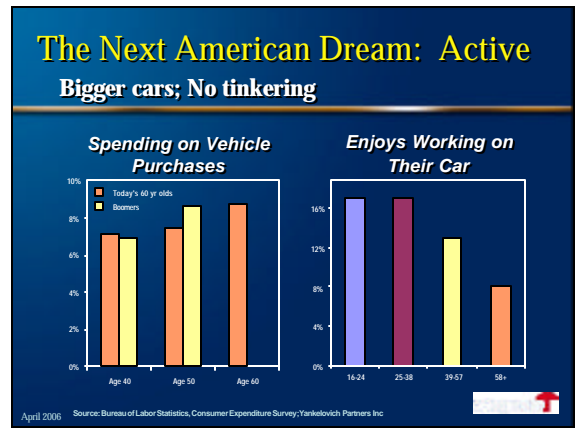
### The Next American Dream: Active

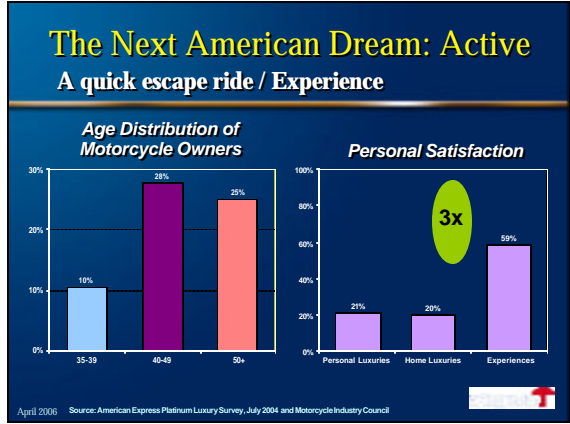
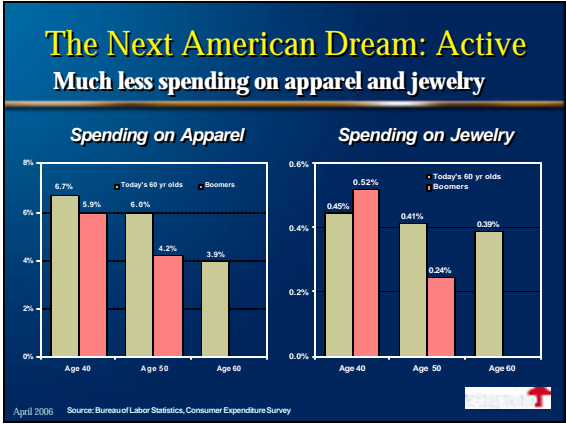
Community

**Re-Urbanization**

Company	Location	Comment
Lennar Corp	Hunters point, San Francisco	Waterfront homes on former naval base
Pulte Corp	San Jose, California	"Mariani Square" community on site of former Del Monte fruit processing plant
Toll Brothers	Hoboken, New Jersey	Projects include "Hudson Tea" (conversion to condos of former tea factory) and "Maxwell Place" (condo building on former Maxwell House Coffee plant)

April 2006 Source: CitiGroup Investment Research





### The Next American Dream

#### Transforming "things" into "experiences"

Company	Product	Experience
BJ's Wholesale / Costco	Consumables	"Treasure Hunt"
Carnival Corp / Royal Caribbean Cruises	Cruises	"Safe Excitement"
Chico's	"Forgiving Fit" Apparel	"Club Membership"
Four Seasons Hotels / Starwood Hotels	Lodging	"Better Than Home"
Neiman Marcus / Saks	Luxury Apparel & Accessories	Unique / Customized Luxury
Starbucks	Coffee	"My Third Place"
Target	Mass Market Consumables	Luxury for the Masses
Toll Brothers	Housing	"Jewel Boxes"
Williams-Sonoma	Pots and Pans	Gourmet Cooking

April 2006 Source: Citigroup Investment Research

- ### The Next American Dream
- #### Misconceptions
- Four "obvious" hypotheses about consumer behavior, which proved to be invalid
- ~~Large drug companies benefit~~
  - ~~Life insurers benefit~~
  - ~~"Equity Culture" is dead~~
  - ~~Boomers are "couch potatoes"~~
- April 2006

- ### 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.
- April 2006 Source: Citigroup Investment Research

- ### 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.
- April 2006 Source: Citigroup Investment Research

