

Consumer Staples II

Equity Analysis

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Recommendation

The APM class portfolio should hold all 720 shares of CVS Caremark. The investment has experienced increasing return since initial purchase in 2003. The 2007 Caremark merger has heightened growth potential and positioned the firm as a first mover in the integrated pharmacy services industry. Compare to other companies analyzed in this report, CVS Caremark possesses the most defensive quality that was previously emphasized in the Consumer Staples sector report.

The Company is undervalued across all valuation measures by a respectable magnitude. The firm's growth will unlikely to be stifled due to current weakening economic conditions. New legislation on Medicare Part D prescription plans will induce further growth for the firm. Should the elected President in 2008 adopt a universal healthcare plan, the implantation will take time to occur, therefore does not pose as a threat for CVS Caremark in the foreseeable future.

Relating to government legislation, CVS Caremark faces risk of further reimbursement rates as healthcare continues to be a burdensome cost on the government. Heightened reimbursement rates will depress profit margin and dampen growth. Competitive threat is yet a significant source of concern, but is worth considering should other major pharmacy services providers attempt to replicate the business model. However, the threat will unlikely to have significant impact in the short run.

The following are the sell criteria for CVS:

- If the stock price reaches \$60, the stock has meet fair valuation and should be sold
- Should a major competitor introduce a similar integrated pharmacy services, or should legislations passed to significantly increase reimbursement fees, the stock should be sold to prevent facing potential long-term losses

Valuation Summary

	P/E	P/B	P/S	Stock Price			EVA	
	Difference	Difference	Difference	Current	Fair Value	Difference	Implied G Difference	Implied N Difference
CVS	-5.65	-2.31	-1.71	\$ 40.93	\$ 60.00	(\$19.07)	-6.87%	-3 to -4
EL	0.33	-1.18	-0.88	\$ 45.65	\$ 74.05	(\$28.40)	-7.53%	-6 to -7
SYN	-8.03	-1.29	-0.61	\$ 28.12	\$ 54.50	(\$26.38)	-13.74%	-4 to -5
WFMI	-6.73	-0.76	-0.89	\$ 31.19	\$ 50.18	(\$18.99)	-6.99%	-3 to -4
WWY	6.57	6.57	0.66	\$ 62.45	\$ 68.55	(\$6.10)	-1.94%	-1 to -2

The valuation result for each company is summarized in the above table. The differences between the price-to-earnings (P/E), price-to-book (P/B) and price-to-sales (P/S) multiple is determined between the actual ratio reported by Yahoo Finance and the expected ratio calculated by the Damodaran analysis where,

$$\text{P/E (ttm)} = 2.74 + 142.63 * \text{growth rate} + 5.67 * \text{payout ratio} + 0.55 * \text{beta}$$

$$\text{P/B} = 18.02 * \text{growth rate} - 2.44 * \text{payout ratio} - 0.110 * \text{beta} + 17.3 * \text{return on equity}$$

$$\text{P/S} = 14.93 * \text{growth rate} - 1.892 * \text{payout ratio} - 0.632 * \text{beta} + 21.83 * \text{net margin}$$

Under this analysis, CVS appears to be most undervalued with the largest magnitude in P/B and P/S. This is significant because P/B and P/S have the largest R-square in the Damodaran regression at 64% and 74.3% respectively, compare to the R-square of 41.8% for P/E. R-square indicates the percentage in which the data in a model explains the variability of each multiple.

The differences between current and fair valuation for each company is compared between current stock price reported on 4/28/08 and fair valuation prices yield from the economic value added model (EVA). Across 5 companies analyzed, Estee Lauder is the most undervalued in

terms of stock prices. However, the fair value price may be overstated due to sharp decrease in shareholders' equity. This is further explained in the Estee Lauder Valuation section.

The EVA model is also used to determine fair valued implied growth rate and growth horizon compare to market consensus and analyst estimate. Among 5 companies, Sysco's implied growth rate differ the most from market consensus with discrepancy of 13.74%. Estee Lauder experiences the most discrepancy between implied high growth period and analyst estimate to 6 to 7 years.

CVS Caremark received a hold recommendation due to its overall valuation. The firm is the most undervalued in P/B and P/S multiple, and respectfully undervalued across stock value comparison and the EVA valuation.

CVS CAREMARK (CVS)

Company Profile

CVS Caremark is currently the largest integrated provider of prescriptions and related health services in the United States. The 2007 Caremark merger has resulted in an intricate network of services including prescriptions, retail clinics, specialty pharmacy, and prescription benefit management (PBM) services. CVS Caremark manages over 1 billion prescriptions annually and is one of the leading providers of Medicare Part D prescription plans. With its mission to “improve the lives of those we serve by making innovate and high-quality health and pharmacy services safe, affordable and easy to access”, CVS Caremark currently employs over 190,000 people in 44 states, including District of Columbia. The Company also operates under a wide scope, including 6,245 CVS/pharmacy® stores, 462 MinuteClinic® locations, 56 retail

specialty pharmacy stores, 20 specialty mail order pharmacies 9 mail service pharmacies, and CVS.com® retail website.

Competitive Resources

Opportunities

U.S. healthcare system continues to struggle managing growing costs and employers are shifting more responsibility of such costs to employees. Demand for prescriptions and pharmacy services are increasing due to an aging population, increase cases of chronic diseases and popularity of the Medicare drug benefit program. The 2007 Caremark merger has allowed the CVS to enjoy the first mover advantage as an integrated pharmacy services provider and deliver low-cost prescription drugs for healthcare plan providers.

Generic versions of bioengineered drugs represent another opportunity for CVS Caremark. The U.S. currently has no procedure for approving generic versions of bioengineered drugs when their patent expires. However, Congress is expected to enact legislation in the future to create biogeneric approval process in the U.S. FDA. CVS Caremark will be well positioned should this legislation occurs.

Threats/Weaknesses

On February 8, 2006, the President signed into law the Deficit Reduction Act of 2005 (the “DRA”). The DRA seeks to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e. generic drugs). The implementation has been delayed indefinitely due to a ruling to purport the reimbursement formula by Centers for Medicare and Medicaid Services in 2007. The impact of the reduction in reimbursement rates is indeterminate at this time. However, the pressure and increase preferences in generic prescriptions, which typically

have a lower selling price, could depress revenue growth. In addition, growth has been adversely affected by mail order channel, a decline in new brand name drugs, increase in consumer co-payments and co-insurance arrangements, and finally, an increase in the number of over-the-counter medication that historically were only available via prescription.

The Democratic candidates during this election year have placed strong emphasis on universal healthcare. Should the next President follows such policy; the Company could face significant revenue reduction. However, major policy implantation require substantial amount of time; thus, the issue is not major on the performance of the Company in the foreseeable future.

Competitive Strategies

- The merger with Caremark has been successful due to the purchasing and operating synergy. Purchasing synergies consist of purchase discounts and/or rebates obtained from generic and brand name drug manufacturers and cost efficiencies obtained from its retail pharmacy network. Operating synergies include increases in productivity and efficiency by eliminating excess capacity, decreases in prescription dispensing costs, decreases in overhead expense, and other additional benefits made possible by combining complementary operations.
- While operational efficiency is not a strategy, CVS Caremark has a running reputation in the field. The firm's 20,000 pharmacists, nurse practitioners and physician assistants provide the level of expertise difficult to replicate by competitors.
- CVS/pharmacy generates nearly 70% of its revenue from its pharmacy business, and only 30% from the front-end business. The distribution allows any impact from the weakening economy limited and manageable. Furthermore, the majority of front-end sales consists

of non-discretionary products such as over-the-counter medicine, which further limits any potential negative impact.

- In addition to adding new stores, CVS/pharmacy continues to adopt organic growth strategy, relocate in-line retail stores to more convenient stand-alone stores with drive-thru service and 24-hour operation.
- Deliver comprehensive prescription benefit management services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing.

Financial Analysis¹

<i>ROE Analysis</i>	2003	2004	2005	2006	2007	Average
Net Margin	3.19%	3.00%	3.28%	3.11%	3.48%	3.21%
Asset Turnover	2.55	2.31	2.47	2.32	1.60	2.25
Financial Leverage	1.77	2.10	1.83	2.09	1.77	1.91
Return on Equity	14.09%	13.37%	14.88%	14.08%	9.53%	13.19%

$$\begin{aligned}
 K_e &= r_f + \beta^*(mrp) \\
 &= 3.69\% + 0.75*(4.25\%) \\
 &= 6.88\%
 \end{aligned}$$

The ROE/DuPont analysis for CVS Caremark is indicated in the above table. The firm's cost of equity is 6.88%, lower than its ROE over the past 5 years. This comparison suggests the firm has a relatively wide moat, capable of abnormal return. However, the pharmacy services industry is relatively similar and competitive. While CVS Caremark currently leads the industry in its integrated services, the ability to prevent competition is yet to be determined.

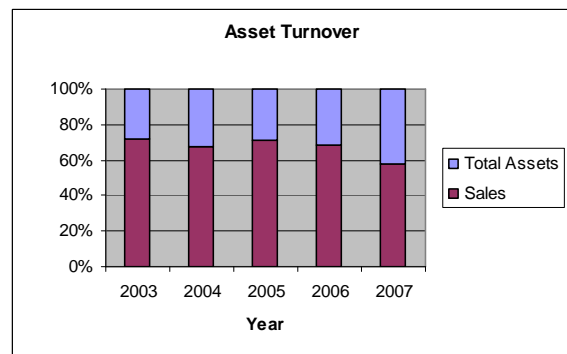
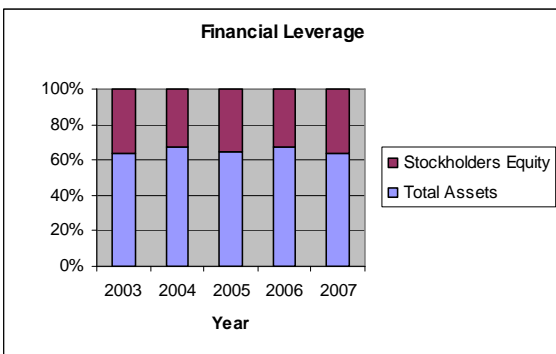
The firm has seen an upward trend in net margin due to recent acquisitions. In 2004, the firm acquired assets and assumed liabilities from J.C. Penny Company, Inc. and certain of its subsidiaries, including Eckerd Corporation ("Eckerd"). The acquisition included 1,200

¹ Please see Appendix A for detailed financial and valuation information.

Eckered retail drugstores, Eckered Health Services, which included Eckered’s mail order and pharmacy benefit management services. As a result, the acquisition increased total revenue by approximately 11.2% in 2005. The acquisition from Albertson’s Inc. in 2006 increased net revenues by approximately 4.9% and 8.7% during 2006 and 2007, respectively. Most notable increase occurred with the Caremark merger in 2007, where gross profit increased \$4.4billion.

The significant ROE decrease in 2007 is related to the Caremark merger. In March 2007, the firm commenced a purchase up to 150 million common shares, approximately 10% of outstanding common shares at the price of \$35 per share. The offer for purchased expired on April 24, 2007, resulting in 10.3million shares being tendered. In May 2005, the Board of Directors authorized a share repurchase program for up to \$5.0 billion of outstanding stock. The stock repurchasing explains the low financial leverage in 2007. The asset turnover rate also decreased substantially due to a sharp increase in sales, but even greater increase in total assets.

The graphs below indicate these relationships:



Valuation Analysis

CVS	Actual	Expected	Difference	Valuation
P/E	21.32	26.97	(5.65)	Undervalued
P/B	1.88	4.19	(2.31)	Undervalued
P/S	0.76	2.47	(1.71)	Undervalued

CVS Caremark is undervalued applying the Damodaran regression analysis in all three multiples.

Growth rate must decrease from 16.20% to 12.24% in order to have fair valuation under the price-to-earnings multiple. CVS Caremark is unlikely to face such sharp decrease in growth since recent acquisitions have significantly increased its growth prospect.

Under the price-to-book multiple, the firm's return-on-equity ratio must decrease from 9.53% to -3.84%. Again, the sharp decline is improbable since the firm will likely to experience increasing net profit margin as the firm integrates new acquisition that will increase bottom-line profit, in turn lead to higher return to equity. Net profit margin is also the main driver for the price-to-sales ratio. The margin must reach -4.34% from its current 3.48% level to reach fair valuation under P/S. Aforementioned reasons suggest the unlikelihood of such occurrence.

EVA Analysis					
	1	3	5	7	10
Fixed N (yrs)	1	3	5	7	10
Implied G	24.75%	11.76%	9.33%	8.30%	7.54%
High Growth Rate	16.20%	16.20%	16.20%	16.20%	16.20%
Difference	8.55%	-4.44%	-6.87%	-7.90%	-8.66%
Valuation	Overvalued	Undervalued	Undervalued	Undervalued	Undervalued
Fixed G	10.20%	13.20%	16.20%	19.20%	21.20%
Implied N (yrs)	4 to 5	2 to 3	1 to 2	1 to 2	1 to 2
Predicted Period	5	5	5	5	5
Difference	-1 to 0	-2 to '3	-3 to -4	-3 to -4	-3 to -4
Valuation	Fairly Valued	Undervalued	Undervalued	Undervalued	Undervalued

CVS Caremark currently has a positive outlook as the premiere fully-integrated pharmacy service provider. The first-mover advantage will allow the firm to grow without major

competition for the next five years. However, the business model could be replicated by other major players such as Walgreens and Wal-Mart, who also possess significant economies of scale and can collaborate with other benefit management service firms to bring about competitive threat. The five-year growth indicates an average moat, and is a conservative estimate since major competitive threats does not currently exist.

The market consensus on the growth rate for CVS Caremark averages to 16.20%. Applying the economic value added model, the Company appears undervalued. The sensitivity analysis above indicates the firm is overvalued given a one-year growth period a fairly valued if the growth rate is only 10.2%. Both conditions are unlikely. The firm's recent merger with Caremark will provide strong growth prospect in the short-run. At the 5-year growth period, the Company's implied growth rate is only 9.23%, 6.87% lower than the market consensus. Conversely, when fixing growth rate at the market consensus of 16.2%, the firm's implied growth period is only 1-2 years, lower than the 5-year predicted period.

Fair-Value Stock Price	\$ 60.00
Cost of equity	6.88%
Current Book value/share (time 0)	\$ 21.66
Current EPS (time 0)	\$ 1.92
Period of high growth	5
Terminal growth rate	2.5%
Implied high growth rate	16.20%

CVS Caremark's current stock price as of 4/26/08 is \$40.93, \$19.07 lower than the fair-value stock price determined by the economic value added model. The Company's operation will unlikely to be affected by major negative movements in the economy due to its defensive nature, making this undervalued stock a good investment in the consumer staples sector given current economic conditions.

THE ESTEE LAUDER COMPANIES INC. (EL)

Company Profile

The Estee Lauder Companies Inc. is one of the world's leading manufacturers and marketers of fragrance, hair care products, makeup and quality skin care. The company currently has 27 labels selling in over 135 countries and territories. In 2007, more than 50% of sales generated from outside of the U.S. International market thus play an indispensable role for the company. The products are primarily sold through limited distribution channels to complement the upscale image. These channels include over 20,000 distribution points primarily consist of upscale department stores and perfumeries, specialty retailers, pharmacies, salon, and spas. Some products are also sold in authorized retail websites, stores on cruise ships, television direct marketing, in-flight and duty free shops.

Portfolio of Brands

Estee Lauder, Aramis, Clinique, Prescriptives, Lab Series Skincare for Men, Origins, Tommy Hilfiger Toiletries, M.A.C., Kiton, La Mer, Bobbi Brown, Donna Karen Cosmetics, Aveda, Jo Malone, Bumble and Bumble, Michael Kors Beauty, Darphin, American Beauty, Flirt!, Good Skin, Grassroots, Sean John Fragrances, Missoni Profumi, Daisy Fuentes, Tom Ford Beauty, Mustang, Coach.

Competitive Resources

Opportunities

The global prestige cosmetics business is a \$37 billion industry; the firm holds 25% of the market share and takes lead in over 18 countries. In 2007, Estee Lauder's sales reached beyond \$7 billion, breaking all previous records. Growth in the U.S. market was respectable despite market condition. International markets, especially China and Russia, can be attributed for spectacular success. Emerging markets are enjoying higher disposable income than ever, thus

pose a great market for prestige beauty care products. China is an especially lucrative market; the firm currently has 8 brands in the country, with the Estee Lauder brand the most widely available in 32 cities.

Consumers in recent years have altered their preference to shop for prestige products; eBay, QVC, and even discount stores are now deemed desirable places for brand name merchandises. Distribution channels are less relative to prestige perception. While Estee Lauder has been slow to adapt to the new trend, the opportunity exists for expansion. Global travel for business and pleasure has also grown in recent years, fueling sales in-flight and duty free stores. In 2007, sales from travel business grew 16% for Estee Lauder Companies.

Threats/Weaknesses

Although Estee Lauder is considered a company in the Consumer Staples sector, the nature of its products is fairly cyclical with economic trends. Unless the global market faces severe recessionary cycle together, the firm is well positioned globally to hedge the economic risk.

While the Company operates within 135 markets around the world, the products are manufactured in only few locations. As a result, the firm carries a large inventory position and has a substantially longer supply chain than other consumer product companies. Internally, the firm is largely owned and operated by the Lauder family, causing outside shareholders to have little influence over management's decisions.

Competitive Strategies

- *Optimize Brand Portfolio*

As an ongoing pattern, each year, more than one-third of revenues come from products that have been launched within the last three years. Estee Lauder Companies continue to introduce new brands each year to reach different segments of the market.

- *Strengthen Product Categories*

- With more than 50% of fragrance sales attribute to core brands, the Company continues to optimize the benefits of a strong, classic line-up while seeking innovative ways to create newness.
- In the makeup category, the makeup artist brands are keeping a younger audience attracted and involved in the playfulness of the category. This year, M.A.C. also teamed up with Barbie to produce the limited edition *Barbie Loves M.A.C.* products. The brand launched the collection with its first micro-site, barbielovesmac.com.
- Developing ultraluxe, high-performance products to cater increasing number of consumers who seek alternative to in-office procedures. The quality skincare category diversifies to men's grooming and makes necessary adaptations to the Asian market.
- Focusing on a high-potential market that target men's concerns by developing products and introducing new curriculum at the brand's Concept Schools. Brands in the category leverages connection with the fashion world and brand loyalty to build continual prestige.

- *Diversify and Strengthen Channels of Distribution*

Seizing opportunity in television shopping network, online distribution and low-cost retailers to reach a different segment of consumer; however, the firm is adopting to the new methods of distribution carefully as not to compromise its prestige status.

- *Achieve Operational and Cost Excellence*

Invest in infrastructure to support concept-to-market product cycles. The firm successfully launched SAP at Aveda in May 2007. The majority of the SAP transformation is anticipated to take place through Fiscal 2010, at which point the firm is expected to benefit from \$80 million of annual savings.

*Financial Analysis*²

<i>ROE Analysis</i>	2003	2004	2005	2006	2007	Average
Net Margin	6.32%	6.22%	6.53%	4.77%	6.39%	6.05%
Asset Turnover	1.51	1.60	1.67	1.70	1.74	1.64
Financial Leverage	2.21	2.13	2.30	2.32	3.43	2.48
Return on Equity	19.27%	21.20%	24.32%	18.86%	36.03%	23.94%

In May 2007, Estee Lauder issued and sold \$300 million of 5.55% Senior notes due May 15, 2017 and \$300 million of 6% Senior Notes due May 15, 2037 in a public offering. The debt issuance was primarily to provide credit support for the firm's commercial paper program, to repurchase shares of common stock and for general corporate purposes. Total debt as a percent of total capitalization increased from 24% on June 30, 2006 to 48% on June 30, 2007. The increase in debt lowered shareholders' equity and contributed to significant increase in financial leverage for 2007; return on equity increased drastically due to this factor.

Estee Lauder Companies has consistently maintained a net profit margin above 6% over the past five years, with the exception in fiscal 2006. In April 2006, the firm completed sales of certain assets and operations of the reporting unit that marketed and sold Stila brand products. The sales depressed net margin significantly and adversely affected return on equity in 2006.

$$\begin{aligned}
 K_e &= r_f + \beta^*(mrp) \\
 &= 3.69\% + 0.80*(4.25\%) \\
 &= 7.09\%
 \end{aligned}$$

² Please see Appendix B for detailed financial and valuation information.

Employing the ValueLine beta of 0.8, Estee Lauder's cost of equity is 7.09%, which is significantly lower than its return on equity figures over the past five-year horizon. Under the comparison, the firm enjoys strong abnormal earnings. Estee Lauder Companies has competitive advantage in its diversified business segments and a spread of brands reaching a wide range of consumers. The firm's continual focus in international market will assure continuous abnormal earnings for the foreseeable future.

Valuation Analysis

<i>EL</i>	Actual	Expected	Difference	Valuation
P/E	20.47	20.14	0.33	Overvalued
P/B	6.35	7.53	(1.18)	Undervalued
P/S	1.17	2.05	(0.88)	Undervalued

Employing the Damodaran analysis, Estee Lauder is slightly overvalued under the price-to-earnings multiple and undervalued in the price-to-book and price-to-sales multiple. In order to reach fair P/E valuation, the firm's growth rate needs to increase from 10.91% to 11.14%. The 10.19% figure derives from an average of three separate data sources: Morningstar, Yahoo Finance and ValueLine. Two of the three sources predicted a growth rate above 12%, indicating positive outlook on the company's growth and a strong probability for firm to fair valuation under the P/E multiple.

Estee Lauder Companies would need to see a drop in return on equity from 36.03% to 29.19% to reach fair valuation under the P/B multiple. The firm's increased in financial leverage led to an abnormal increase of ROE in 2007. The figure is unlikely to increase from its current level in the near future. The five-year ROE average is 23.94%, suggesting the likelihood to reach fair valuation under the P/B multiple.

The firm is also undervalued according to the price-to-sales multiple, and would need to experience a drop in net profit margin from 6.39% to 2.35% to reach fair valuation. This decrease is unlikely to occur due to strong sales in international markets and continual expansion in emerging markets.

EVA Analysis					
	1	3	5	7	10
Fixed N (yrs)					
Implied G	2.89%	3.27%	3.34%	3.38%	3.40%
High Growth Rate	10.91%	10.91%	10.91%	10.91%	10.91%
Difference	-8.02%	-7.64%	-7.57%	-7.53%	-7.51%
Valuation	Undervalued	Undervalued	Undervalued	Undervalued	Undervalued
Fixed G	4.91%	7.91%	10.91%	13.91%	16.91%
Implied N (yrs)	0 to 1	0 to 1	0 to 1	0 to 1	0 to 1
Predicted Period	7	7	7	7	7
Difference	-6 to -7	-6 to -7	-6 to -7	-6 to -7	-6 to -7
Valuation	Undervalued	Undervalued	Undervalued	Undervalued	Undervalued

Estee Lauder’s overall outlook is positive. The firm’s global diversification is beneficial given weakening U.S. economic conditions. Products produced by the company are an anomaly in the consumer staples sector since strong emphasis is placed on its premium quality. However, brand loyalty and the nature of beauty products prevent consumers from “trade down” to less premium brands. Unlike other daily staples, beauty products do not require frequent purchase, thus less likely to pose a burden on consumer spending. Estee Lauder’s aggressive plan to penetrate emerging market in China and Russia earns a 7-year estimated high-growth period, indicating a relatively wide mode. The emerging middle class in international markets presents great potential. Estee Lauder Companies has already set a strong presence in many markets to build lasting brand loyalty.

The economic value added model indicates undervaluation for Estee Lauder. Given the 7-year growth period, the implied growth rate is 3.38%, 7.53% lower than the market consensus of

10.91%. Fixing the growth rate at 10.91% yields an implied growth period of 0 to 1 year, far less than the estimated period. Sensitivity analysis above further indicates undervaluation across different growth rates and growth periods.

Fair-Value Stock Price	\$ 74.05
Cost of equity	7.09%
Current Book value/share (time 0)	\$ 7.10
Current EPS (time 0)	\$ 2.23
Period of high growth	7
Terminal growth rate	2.5%
Implied high growth rate	10.90%

Estee Lauder's stock price, as of 4/26/08, is \$45.65, far below the fair value of \$74.05 determined by the economic valued added model. However, this value is likely to be overstated due to the 2007 stock repurchase, which decreased shareholder equity and increased current book value per share. This factor may skew the Company's stock undervaluation shown in the sensitivity analysis. The stock is therefore unjustly undervalued, and would not serve as a quality investment for the consumer staples sector.

SYSCO CORP. (SYY)

Company Profile

Sysco is the global leader in selling, marketing and distributing food products to restaurants, healthcare and educational facilities, lodging establishments and other customers that prepare meals away from home. The firm has approximately 391,000 customers in the United States and Canada, with 177 distribution facilities and self-service centers. Sysco has aggregated its operating companies into segments comprised of Broadline and SYGMA. Broadline operating companies deliver a full line of food products to a variety of non-food precuts to both traditional and chain restaurants customers, whereas SYGMA primarily distributes products to chain restaurants only. Products distributed by Sysco include a full line of food items from frozen

foods to specialty fresh produce, as well as non-food items ranging from paper products to restaurant and kitchen equipment. The firm distributes both nationally-branded merchandises and products packaged under the company's private brands.

Company Resources

Opportunities

Sysco is the largest food-service distributor in North America, accounting for 15% of the market share. The company manages a wide diversification over many segments of the business, creating impressive economies of scale that reduces any competitive concerns. Sysco faces new areas of growth as consumers prefer healthier eating habits. Organic and locally sourced products have seen increasing demand, particularly among college and university campuses. Meal takeout and at the retail supermarket is growing, with greater variety and more appealing offerings than before. Meal assembly businesses have gained popularity across the country; customers are given ingredients to prepare multiple meals to be taken home, frozen and served later.

Threats/Weaknesses

Food price inflation has increased significantly in recent times, as much as 5.9%. Sysco thus far has managed to pass the cost to customers and maintained profitability. However, high level of inflation is a major concern for the food service industry. Consumers already face squeeze from the housing debacle and credit crisis, further deterioration of the economy will cause consumers to dine in more frequently and curb discretionary spending in restaurants. In addition, Sysco faces the risk of unable passing additional costs to consumer should the inflation rate continues to soar.

Sysco relies heavily on third party suppliers for its foodservice and related products. For the most part, the firm does not have long-term contracts with suppliers. While Sysco enjoys economies of scale and can negotiate lower prices, the firm cannot control actual production of the products. Foodservices products are subject to a host of uncontrollable factors include crop conditions, weather, transportation interruptions, increases in fuel costs, natural disasters and other catastrophic events. These factors provide unmanageable risk for Sysco's profit margin.

Competitive Strategies

A supply chain initiative focuses on the follow three components to maintain sustainable competitive advantage.

- *Sourcing*

Leveraging size and scale to reduce purchase costs and create demand-driven sourcing organization to better serve customers. A network of redistribution centers (RDCs) allows Sysco to better collaborate with both customers and suppliers. This network should dramatically reduce supply chain costs and allow Sysco to improve forecasting, to better control fulfillment and replenishment process, and to effectively manage transportation costs.

- *Integrated Delivery*

Standardizing and simplifying receiving, warehousing and delivery to determine the most efficient way to move products through the supply chain from suppliers to customers. The Transportation Management System (TMS) provides the ability to consolidate all inbound load planning and execution. This allows the company to design better truckloads and significantly leverage freight buying power.

- *Demand*

Better understanding customers’ needs to develop new strategies and services to meet preferences and requirements more efficiently and effectively. The Demand Planning and Replenishment (DPR) system streamlines with the Supply Chain Management Department at the corporate office to analyze and aggregate forecasts. The system evaluates economic variables that affect replenishment activities and synchronizes the forecasting, planning and ordering functions with the RDC, decreasing product lead time.

- *Business Review Service*

Sysco’s Business Review process meets with customers, unrelated to a sales call, to review menus and offer ideas and products that would increase revenues and profits. The opportunity in this segment of the business allows Sysco to build relationship with its customers and provides a competitive advantage to generate additional growth avenues.

*Financial Analysis*³

<i>ROE Analysis</i>	2003	2004	2005	2006	2007	Average
Net Margin	2.99%	3.10%	3.19%	2.60%	2.88%	2.95%
Asset Turnover	3.87	3.90	3.74	3.74	3.72	3.79
Financial Leverage	3.17	3.07	3.00	2.93	2.90	3.02
ROE	35.41%	36.06%	35.18%	28.21%	30.79%	33.13%

Sysco’s return on equity has stayed afloat above 30% over the past five years with the exception of fiscal 2006. Net margin fell to 2.60% from 3.19% in 2005; adaptation to accounting pronouncement EITF 04-13 “Accounting for Purchases and Sales of Inventory with the Same Counterparty” is the catalyst for the decrease. The impact of adopting this standard resulted in sales being reduced by \$99,803,000 for the fourth quarter of fiscal 2006 and \$253,724,000 for

³ Please see Appendix C for detailed financial and valuation information.

the first 39 weeks of fiscal 2007. The decrease in sales led to depressed net profit margins in 2006 and 2007, further explains the decreasing return on equity.

$$\begin{aligned}
 K_e &= r_f + \beta^*(mrp) \\
 &= 3.69\% + 0.80*(4.25\%) \\
 &= 7.09\%
 \end{aligned}$$

Employ the ValueLine beta of 0.80, Sysco's cost of equity is 7.09%, significantly less than its return on equity over the past five years. The firm is generating abnormal earning despite current volatile economic conditions. Sysco maintains a positive financial health. While the total debt of \$2.2 billion is higher than years past, the company is committed to maintain a debt to total capitalization ration between 35 and 40%.

Valuation Analysis

<i>SY</i>	Actual	Expected	Difference	Valuation
P/E	16.54	24.57	(8.03)	Undervalued
P/B	5.07	6.36	(1.29)	Undervalued
P/S	0.46	1.07	(0.61)	Undervalued

The Demodaran analysis indicates undervaluation for all three multiples. Sysco's growth rate must decrease to 7.31% to reach fair valuation under the price-to-earnings multiple. While current economic condition and global food prices raise concern, the likelihood of significant decrease in growth rate is unlikely.

Under the price-to-book multiple, Sysco's return on equity ratio must decreased to 23.55% from 30.79% to reach fair valuation. Unless all of Sysco's suppliers are significantly affected by natural disaster or the food shortage crisis and experiences major fall in net profit margin, the company is unlikely to see its ROE plummet to such degree. The same explanation applies for the price-to-sales multiple, where Sysco's net profit margin needs to fall to 0.06% from 2.88% to reach fair valuation.

EVA Analysis					
Fixed N (yrs)	1	3	5	7	10
Implied G	-15.00%	-3.32%	-0.80%	0.30%	1.12%
High Growth Rate	12.94%	12.94%	12.94%	12.94%	12.94%
Difference	-27.94%	-16.26%	-13.74%	-12.64%	-11.82%
Valuation	Undervalued	Undervalued	Undervalued	Undervalued	Undervalued
Fixed G	6.94%	9.94%	12.94%	15.94%	18.94%
Implied N (yrs)	0 to 1	0 to 1	0 to 1	0 to 1	0 to 1
Predicted Period	5	5	5	5	5
Difference	-4 to -5	-4 to -5	-4 to -5	-4 to -5	-4 to -5
Valuation	Undervalued	Undervalued	Undervalued	Undervalued	Undervalued

Sysco's competitive strategies continue to position the firm as a leading intermediary foodservice distributor. However, the high concentration of operations in North America is a concern during the current economic condition. Consumers will shy away from restaurant dining, which accounts for a large percentage of Sysco's end customer. In addition, the firm may be incapable to continue passing the increased food prices onto its customers, and could face losses in the future. Above factors along with the continual increase in energy costs interfere with the firm's growth prospect; thus, the firm's estimated growth period is 5 years, indicating a narrower moat than otherwise.

The economic value added model indicates the firm's implied growth rate as -0.80, 13.74% lower than the market consensus of 12.94%. When fixing the market consensus growth rate, Sysco's implied growth period is only 0 to 1 year, lower than the given 5-year growth period.

The Company's stock is thus undervalued. Applying the sensitivity analysis, the stock continues to be undervalued across different fixed growth rates and time periods.

Fair-Value Stock Price	\$ 54.50
Cost of equity	7.09%
Current Book value/share (time 0)	\$ 5.50
Current EPS (time 0)	\$ 1.70
Period of high growth	5
Terminal growth rate	2.5%
Implied high growth rate	12.94%

As of 4/26/08, Sysco's stock price is \$28.12, well below the \$54.50 value determined by the economic value added model. The significant undervaluation of the stock suggests a positive investment opportunity. However, the lack of global diversification and concerns with increasing food prices and energy costs indicate a lack of defensive nature. Sysco therefore is a suboptimal investment choice for the consumer staples sector.

WHOLE FOODS MARKET (WFMI)

Company Profile

Whole Foods is the largest natural and organic food grocer in the United States, with 186 stores in operation across 31 states and District of Columbia. In June 2007, Whole Foods opened an 80,000 square-foot flagship store in London, making it the first Whole Foods brand store outside of North America. Stores operate under the banners *Whole Foods Market*, *Bread & Circus*, *Fresh & Wild*, and *Harry's Farmers Market*. The stores sell high-grade conventional and organically grown produce and grocery products; environmentally safe household items; meat, poultry, and seafood free of growth hormones and antibiotics; bakery goods and takeout meals; and vitamins, homeopathic remedies, and body-care products. Most of Whole Foods' products are from organic and natural food vendors; however, the company does sell conventional national brands that meet quality standards.

Company Resources

Opportunities

Consumer desire for a healthier lifestyle and increased preference for natural and organic food continues to be a positive trend for Whole Foods. The firm's strong brand equity is unrivaled by its competitors. Currently, Whole Foods generates \$900 sales per square foot, more than

double the grocery industry average. Presently, store locations are in major metropolitan areas, allowing significant room for growth before reaching saturation. In addition, the remarkable success observed by its first flagship store in London opens a gateway to the European market, where healthy eating has long been a preferred lifestyle.

Threats/Weaknesses

The merger with Wild Oats in August of 2007 was significant, and is a source of concern for the firm's ability to manage this large acquisition in addition to manage a number of new store openings, and still have healthy bottom-line growth. Whole Foods also operates in an intensely competitive environment; the firm's current success largely depends on its brand image. Should the image be affected in any way, sales will tumble significantly. In addition, the brand currently is associated with a high-price image, which deters certain segments of consumers. This could limit long-term growth potential as conventional grocers are adopting the healthy eating trend and providing similar products in the stores.

Whole Foods is extremely sensitive to the overall economic condition, since consumers can easily find less expensive substitutes. Current economic slowdown in the U.S. thus poses as an important risk factor. In addition, current global food shortage and drastic increase in prices of foodstuff could very negatively impact the profitability of the firm.

Competitive Strategies

- *Growth*

Whole Foods Market's growth strategy is to expand through a combination of new store openings and acquisitions of existing stores. The firm employs an opportunistic real estate strategy to open stores in existing trade areas as well as new markets, include

international markets. Approximately 32% of all existing square footage comes from acquisitions. The fragmented nature of natural and organic foods retail industry provides opportunities to acquire many smaller local and regional chains. The firm does not expect acquisitions to impact future store growth or financial results due to the size of the company's existing store base.

- *Whole Food*

The company obtains products locally and from all over the world, often from small, uniquely dedicated food artisans. The *whole food* strategy aligns with its mission to offer top quality, least processed, flavorful and naturally preserved foods. Fresh natural and organic produce is Whole Food's core competency, and sets itself apart from conventional grocers.

- *Whole People*

Whole Foods values its employees and creates an empowering team environment. The firm recruits people who are passionate about food, but also well-rounded individuals who can make many operational decisions. Whole Foods currently caps the CEO's salary at 19 times of the company's average hourly wage. Even accounting for various stock options, the CEO's salary is substantially less than the norm. The firm's dedicated investment in its employees has landed a place on "100 Best Companies to Work For" ranking conducted by Fortune magazine for the 10th straight year.

- *Whole Planet*

The company has actively addressed to various environmental issues by supporting organic farming on a global basis, supporting food banks, sponsoring neighborhood events and contributing at least 5% of its after-tax profits in the form of cash or products

to not-for-profit organizations. The firm also has been given a green power leadership award by the U.S. Environmental Protection Agency (“EPA”) for the 4th consecutive year. The vigorous effort to address environmental issues builds substantial brand equity and lures consumers who value an organic lifestyle.

Financial Analysis⁴

<i>ROE Analysis</i>	2003	2004	2005	2006	2007	Average
Net Margin	3.22%	3.44%	3.05%	3.62%	2.79%	3.22%
Asset Turnover	2.72	2.71	2.68	2.83	2.20	262.76%
Financial Leverage	1.56	1.60	1.39	1.47	2.20	164.36%
ROE	13.28%	14.15%	10.94%	14.56%	12.59%	<i>13.10%</i>

Whole Food’s return on equity has fluctuated over the past 5 years; however, sales have increased at a steady rate. In fiscal 2005, net margin decreased to 3.05% due to an increase in direct store expenses and general and administrative (G&A) expenses; The increase was principally due to share based compensation costs and natural disaster costs totaling \$18.7million and \$14.4 million, respectively. Hurricane Katrina in 2005 attributed to the high level of natural disaster costs. The depressed net margin attributed to the drastic decrease in return on equity.

In fiscal 2007, Whole Foods engaged in a major acquisition with Wild Oats, which cost \$565 million plus the assumption of approximately \$148 million in existing debt. To fund the transaction, the company entered into a five-year \$700 million senior term loan agreement. The acquisition included 109 stores in 23 states and British Columbia, Canada; it provided immediate entry into 5 new states and 15 new markets. As a result, total asset soared to \$3.2 billion compare to \$2 billion in the previous year. This led to the substantial increase in the financial leverage ratio. However, net margin decreased substantially due to various costs related to the Wild Oats

⁴ Please see Appendix D for detailed financial and valuation information.

acquisition. Direct store expenses increased 46 basis points to 8% of sales from 8.4% of sales last year. Across all years, direct store expenses have offset sales since they are higher for new stores and decrease as stores mature, reflecting increasing operational productivity of the store team. G&A expenses increased 41 basis points to 3.4% of sales at \$1.3 million compare to approximately \$2.0 million in the prior year. With 21 stores opened in 2007 compare to 13 stores in 2006, the pre-opening and relocation costs nearly doubled from \$37.4 million to \$70.2 million. The decrease in net margin does not offset the increase in financial leverage, leading to a substantially lower return on equity ratio.

$$\begin{aligned}
 K_e &= r_f + \beta^*(mrp) \\
 &= 3.69\% + 0.85*(4.25\%) \\
 &= 7.30\%
 \end{aligned}$$

Applying the ValueLine beta of 0.85, Whole Foods Market's cost of equity is 7.30%, which is less than its return on equity over the past 5 years. The firm is expected to have lower profit margin in the next few years as the new stores re-brand its image. In fiscal 2008, Whole Foods Market does not expect aforementioned costs to decrease due to temporary expenses still related to the Wild Oats acquisition. This will affect its profit margin in the short run, but the acquisition is expected to create new opportunities and create strong revenue in the long run.

Valuation Analysis

<i>WFMI</i>	Actual	Expected	Difference	Valuation
P/E	26.21	32.94	(6.73)	Undervalued
P/B	3.02	3.78	(0.76)	Undervalued
P/S	0.62	1.51	(0.89)	Undervalued

Valuation by multiple under the Damadaran analysis indicates undervaluation for Whole Foods across all three multiples. Whole Food's growth rate needs to decrease from 18.17% to 13.45% to reach fair valuation under the price-to-earnings multiple. This is highly improbable since

recent acquisitions, notably Wild Oats, will expand growth opportunities once integration reaches completion.

Under the price-to-book multiple, Whole Food's return on equity ratio would need to fall to 8.18% from 12.59% to reach fair valuation. While the chances are slim, the decrease could occur should Whole Foods engage in additional major acquisition that will temporarily depress net profit margin while increase financial leverage.

Whole Foods also needs to experience negative net profit margin of -1.30% in order to reach fair valuation under the price-to-sales multiple. The current profit margin is 2.79%; the figure is relatively low due to significant costs of relating to recent acquisitions. The firm continues to experience positive sales growth, and is unlikely to incur enough costs in the future to result in negative profit margin.

EVA Analysis					
Fixed N (yrs)	1	3	5	7	10
Implied G	50.70%	18.96%	13.46%	11.18%	9.51%
High Growth Rate	18.17%	18.17%	18.17%	18.17%	18.17%
Difference	32.53%	0.79%	-4.71%	-6.99%	-8.66%
Valuation	Overvalued	Overvalued	Undervalued	Undervalued	Undervalued
Fixed G	13.17%	15.17%	18.17%	21.17%	24.17%
Implied N (yrs)	5 to 6	4 to 5	3 to 4	2 to 3	2 to 3
Predicted Period	7	7	7	7	7
Difference	-1 to -2	-2 to -3	-3 to -4	-4 to -5	-4 to -5
Valuation	Fairly Valued	Fairly Valued	Undervalued	Undervalued	Undervalued

Whole Food Market's competitive strategies capture a strong growing trend among U.S. consumers. Given its brand equity, the Company has engaged with a segment of consumers who will unlikely to trade down to conventional grocers even during uncertain economic times. In addition, the Company's successful flagship store in London indicates strong growth potential in

its effort for international expansion. Above factors earned the company a 7-year growth period estimate, denote a relatively wide moat.

Employing the 7-year growth period in the economic value added model, the firm's implied growth rate is 11.18%, 6.99% less than the market consensus of 18.17%. The numbers suggests the firm to be undervalued, but not by a drastic measure. When fixing the growth rate at market consensus for 18.17%, the firm's implied growth period is 3 to 4 years, less than the give 7-year period. The sensitivity analysis above shows overvaluation should the firm's growth rate is only 1 to 3 years, and the firm is only fairly valued if its growth rate is between 13.17 to 15.17%. These scenarios are unlikely to occur given the recent Wild Oats acquisition, which allowed Whole Foods to penetrate new markets and seize growth opportunities.

Fair-Value Stock Price	\$ 50.18
Cost of equity	7.30%
Current Book value/share (time 0)	\$ 10.48
Current EPS (time 0)	\$ 1.19
Period of high growth	7
Terminal growth rate	2.5%
Implied high growth rate	18.17%

Whole Foods' stock price as of 4/26/08 is \$31.19, significantly lower than the fair value price of \$50.18 suggested by the economic value added model. While the firm is undervalued across all valuation measure, the small magnitude of its undervaluation and the possibility for over and fair valuation indicated in the sensitivity analysis raises concerns on its profitability.

WRIGLEY (WWY)

Company Profile

William Wrigley Jr. is the world's leading manufacturer in gum and other confectionary products. The company manufactured a host of different brands including Wrigley's Spearmint, Doublemint, Juicy Fruit, Big Red, Winterfresh, Freedent, Extra, and Eclipse. The wide selection of Wrigley brands is available in international markets over 180 countries, with 22 manufacturing facilities in 14 countries. Wrigley primary markets its products via distributors, wholesalers, corporate chains and cooperative buying groups that distribute the product through retail outlets. Vending distributors, concessionaries and other established customers purchase in wholesale quantities are additional direct customers.

The complete list of brands is as follow:

Wrigley's Spearmint®, Juicy Fruit®, Altoids®, Doublemint®, Life Savers®, Big Red®, Boomer®, Pim Pom®, Winterfresh®, Extra®, Freedent®, Hubba Bubba®, Orbit®, Excel®, Airwaves®, Crème Savers®, Eclipse®, Airwaves®, Alpine®, Solano®, Sugus®, Cool Air®, and P.K.®.

Company Resource

Opportunities

Wrigley will be a primary beneficiary of increasing global gum consumption. Research report from Euromonitor indicates an 8% growth rate in global confectionary sales. The industry has reached almost \$137 million at retail. Among all food categories, confectionary sales have one of the highest projected growth rates going forward. Over the next five years, gum remains the fastest growing subcategory in the confectionary sales. Average income is rising in many parts of less-developed countries, which collectively account for three-quarters of the world's population. The growth translates to promising growth potentials in geographical areas such as Asia and

Eastern Europe. Currently, gum consumption in China averages 22 servings annually, and 94 servings in Russia, compare with 180 in the U.S.

The chewing gum markets are typically comprised of oligopolies, with two or three main competitors in each country that creates significant barriers to entry for smaller firms. Wrigley is the world's largest company and holds significant market share across the globe; its diversification in geographical location and production selection within the gum business set distinct challenges for its competitions.

Threats/Weaknesses

Wrigley has long been a stable in the gum business; however, the firm underestimated the impact from rival Cadbury's reinvigorated gum brands Trident and Dentyne. Since 2004, the firm has lost 500 basis points of market share domestically. Cadbury will continue to pose competitive threat on Wrigley in international markets. In early 2007, Cadbury introduced Trident to the U.K. market and already gained more than 10% of the market share. Wrigley's attempt to expand into other confectionary subcategories has been treacherous. The firm failed to recognize weakness that associated with its acquisition of the Kraft confectionary brands in 2005.

Wrigley currently has more than 70% of sales coming from outside of the United States; the broad international presence increases the likelihood of political and currency risk. Large majority of countries where Wrigley has operations tend to be politically, socially and economically stable. However, in the event there is political or social unrest, particularly in the emerging markets and less-developed countries, the firm's operations would be adversely affected. Current economic condition alongside inflationary pressures, rising costs for energy and various commodities increases costs of ingredients, packaging and transportation, in turn

prevents strong bottom-line profit. The firm is addressing to these pressures with ongoing initiatives in terms of manufacturing improvements, procurement efficiencies and judicious price increases.

Competitive Strategies

- *Geographic Strength – Local Expertise*

Wrigley's remarkable geographic footprint is supported by a robust supply chain and selling infrastructure that ensures optimal worldwide distribution. Recently, the company expanded facility to Shanghai to provide support for the Company's growth in Asia.

China is one of the world's fastest growing marketplaces, and Wrigley is the country's top confectionary company and has 2.2 million points of distribution, greater than any other consumer packaged goods company. Nearly 50% of sales come from EMEAI (Europe, Middle East, Africa and India), and Asia attributes to 13% of the sales.

Recently, Wrigley acquired A. Korkunov, Russian's chocolate brand; the acquisition placed Wrigley as the top player in the Russian confectionary business and well positioned to capture growth opportunities among a growing middle class. 75% of sales in Russia are made through smaller, independent stores and kiosks versus larger, organized retail trade. These smaller styles of outlets only accounts for 10% of retail sales in the U.S. One of Wrigley's key strength is the ability to build distribution across very different retail environments.

- *Excellence in Retail*

An average consumer only spends 16 seconds shopping for confections at the front end. Wrigley partners with retailers to determine product placement for maximum impact and movement. The Company's category management expert identify how best to meet the

needs of shoppers and ensure product availability, placement in store and arrangement on shelf that will drive consumer takeaway and deliver profitability for the retailer. In 2007, Wrigley implemented a new “over the belt” strategy for its retail customers. In testing, the plan drove a 9% increase in total front-end sales and profits for participating grocers without taking up additional space.

- *Building Brands for Generations*

Juicy Fruit and Wrigley’s Spearmint were introduced in 1893. For more than a century, Wrigley has employed a communication strategy with consumers that reflects the wisdom of its founder William Wrigley Jr., “Tell ‘em quick and tell ‘em often.” The company’s investment in brand support has successfully woven Wrigley brands into everyday life around the world. Aside from traditional print and TV ads, Wrigley connects with consumers on an emotional and a practical level. The firm engages in state of the art technology and integrates its brands into computer gaming, social networking and mobile marketing. The branding strategy also aims to engage consumers with relevant experiences, whether it’d be Premiere League fans in the United Kingdom or NASCAR fans in the United States.

- *Creating Portfolio Diversity – Strategically*

In the past 115 years, Wrigley’s strength in gum has been a consistent source of growth and continues to be the main driver of its business. However, the confectionary categories beyond gum present valuable opportunities. Consumer preferences and opportunities for profitable growth in segments outside of gum vary among countries. Wrigley’s strategy for portfolio diversification aims to reflect knowledge of these differences and expand strategically. Innovation and acquisition has created a portfolio that appeals to consumers

of broad ages, cultures and geographies, ranging from gum, mints, hard and chewy candies, gummies, pastilles, lollipops, to chocolate.

- *The Wrigley Team*

In 2006, Wrigley set a challenging goal to meet sales at \$5 billion. To meet the goal, the Company turned to consumers for decision making, improved its ability to innovate, increase efficiency of its supply chain and delivered ideas into the marketplace faster and more efficient. The Company also invested in its employees through training and educational opportunities such as Wrigley’s Leadership Academy, Marketing College and Category Management University.

Financial Analysis⁵

ROE Analysis	2003	2004	2005	2006	2007	Average
Net Margin	14.51%	13.51%	12.59%	11.45%	11.69%	12.75%
Asset Turnover	1.25	1.24	1.04	1.01	1.05	111.99%
Financial Leverage	1.32	1.40	1.71	1.63	1.60	153.38%
ROE	24.49%	23.14%	23.73%	22.68%	23.17%	23.44%

Over the past 5 years, Wrigley has experienced a downward trend in net margin. The company’s sales has been growing steadily and reached a long-term target of 5 billion in 2007. However, various acquisition efforts and increased raw material prices have depressed its bottom line profit. In 2006, the acquisition of Life Savers, Crème Savers, Altoids and Sugus brands decreased profit margin by 1.1 percentage points. Stock options and restructuring expenses decreased profit margin by 0.2 percentage points. In 2007, Wrigley’s operating income increased 17% compared to 2006. However, the acquisition of A. Korkunov, premium chocolate company in Russia increased selling and general administrative expenses (SG&A). In addition, the Company has ramped up brand support expenses over the past few years, which further increased the expenses

⁵ Please see Appendix E for detailed financial and valuation information.

and depressed net profit margin. Worldwide acquisition of new brands leads to increasing investment in net plant and equipment; this in turn increases total assets and attributed to the downward trend in asset turnover.

$$\begin{aligned}
 K_e &= r_f + \beta^*(mrp) \\
 &= 3.69\% + 0.70*(4.25\%) \\
 &= 6.67\%
 \end{aligned}$$

Despite decreasing profit margin, Wrigley achieved strong abnormal earnings over the past five years. Applying the ValueLine beta of 0.7, the firm's cost of equity is 6.67%, far less than its average return on equity of 23.44%. Wrigley's financial health has a positive outlook. Sales have remained strong and expenses have mainly due to new acquisition and investments, which will likely yield greater return in the future.

Valuation Analysis

WWY	Actual	Expected	Difference	Valuation
P/E	27.39	20.82	6.57	Overvalued
P/B	6.07	4.37	1.70	Overvalued
P/S	3.16	2.50	0.66	Overvalued

Wrigley appears overvalued under all three multiples applying the Damodaran analysis. The firm's growth rate would need to reach 14.68% from 10.07% to gain fair valuation. The increase is possible over the span of a few years, but the nature of the APM class portfolio sees high turnover and Wrigley will unlikely to profit in the short-run under this valuation.

The Company is also overvalued under the price-to-book multiple. The firm's return on equity ratio would need to reach 33.01% from its 23.17% level. The increase is nearly 10%; even with major effort to boost sales, Wrigley faces rising costs of ingredient and other threats that prevent such robust growth from realization.

Under the price-to-sales multiple, Wrigley is less overvalued. The net profit margin needs to increase to 14.71% from 11.69% for fair valuation. Wrigley's new acquisitions of brands and continual expansion in emerging markets could allow this increase to be realized.

EVA Analysis					
Fixed N (yrs)	1	3	5	7	10
Implied G	26.60%	11.01%	8.13%	6.92%	6.03%
High Growth Rate	10.07%	10.07%	10.07%	10.07%	10.07%
Difference	16.53%	0.94%	-1.94%	-3.15%	-4.04%
Valuation	Overvalued	Overvalued	Undervalued	Undervalued	Undervalued
Fixed G	5.07%	7.07%	10.07%	13.07%	16.07%
Implied N (yrs)	18 to 19	6 to 7	3 to 4	2 to 3	1 to 2
Predicted Period	5	5	5	5	5
Difference	-13 to -14	1 to 2	-1 to -2	-2 to -3	-3 to -4
Valuation	Overvalued	Overvalued	Undervalued	Undervalued	Undervalued

Wrigley's continual focus on brand expansion and efforts in marketing will allow continual growth in the future. However, the competitive nature of confectionary industry and newly formed competitive forces from Cadbury and other major players will stifle the firm's growth prospect. Among other factors, rising ingredient and energy costs lead to a conservative 5-year growth period estimate for Wrigley.

Applying 10.07% market consensus growth rate, the economic value added model yield an implied growth rate of 8.13%, just slightly under by 1.94%. This difference is easily achieved and suggests fair valuation in the future. When fixing the market consensus growth rate, the Company's implied growth period is 3 to 4 years, also just slightly under the 5-year given rate. The sensitivity analysis suggests the firm is overvalued given a 1 to 3 growth period, and if the growth rate is below 7.07%.

Fair-Value Stock Price	\$	68.55
Cost of equity		6.67%
Current Book value/share (time 0)	\$	10.23
Current EPS (time 0)	\$	2.28
Period of high growth		5
Terminal growth rate		2.5%
Implied high growth rate		10.07%

The economic value added model yields a fair value price of \$68.55, just \$6.10 over the 4/26/08 price of \$62.45. Wrigley's stock is therefore only slightly undervalued under the stock price comparison. However, Damodaran analysis suggested overvaluation across all three multiples. The small magnitude in valuation under the economic value added model also suggests the stock is not an opportune investment for the portfolio.

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Appendix A – CVS Caremark

Net Margin	2003	2004	2005	2006	2007
Calculation	3.19%	3.00%	3.31%	3.12%	3.45%
WRDS	3.19%	3.00%	3.31%	3.12%	3.45%
Valueline	3.20%	3.00%	3.20%	3.10%	3.50%
Morningstar	3.20%	3.00%	3.30%	3.10%	3.50%
<i>Average</i>	3.19%	3.00%	3.28%	3.11%	3.48%
Asset Turnover					
Calculation	2.52	2.10	2.42	2.13	1.39
WRDS	2.63	2.44	2.48	2.44	1.39
Morningstar	2.50	2.40	2.50	2.40	2.00
<i>Average</i>	2.55	2.31	2.47	2.32	1.60
Financial Leverage					
Calculation	1.75	2.08	1.83	2.07	1.75
WRDS	1.77	2.11	1.86	2.10	1.75
Morningstar	1.80	2.10	1.80	2.10	1.80
<i>Average</i>	1.77	2.10	1.83	2.09	1.77
ROE					
Calculation	14.07%	13.15%	14.70%	13.80%	8.42%
WRDS	14.07%	13.15%	14.70%	13.80%	8.42%
Valueline	14.10%	13.10%	14.10%	13.50%	8.40%
Morningstar	14.10%	14.10%	16.00%	15.20%	12.90%
<i>Average</i>	14.09%	13.37%	14.88%	14.08%	9.53%
Cost of Equity $Re = Rf + \beta * MRP$					
Risk Free Rate (Yahoo Finance)	3.69%				
Market Risk Premium (Assumption)	4.25%				
Beta (Valueline)	0.75				
Re	6.88%				
Financial Analysis					
Current Stock Price As of 4/26/08	\$	40.93			
Growth Rate (Morning Star)		16.20%		Growth Rate Estimate	
Dividend		0.24		Morningstar	16.60%
EPS(ttm)		1.92		Valueline	15.00%
Payout Ratio		12.50%		Yahoo Finance	17.00%
Net Margin		3.48%		<i>Average</i>	16.20%
ROE		9.53%			
Current BV/share		21.66			
Beta		0.75			
Free Cash Flow					
Cash flow from ops			3229.7		
Capital expenditures			-1805.3		
Net borrowings			5420.5		
FCF to Equity			6844.9		
Shares outstanding			1430		
FCFE/share		\$	4.79		

Appendix B – Estee Lauder

Net Margin	2003	2004	2005	2006	2007
Calculation	6.25%	5.91%	6.41%	3.78%	6.38%
WRDS	6.25%	6.48%	6.41%	5.02%	6.38%
Valueline	6.50%	6.50%	6.80%	6.50%	6.40%
Morningstar	6.30%	6.00%	6.50%	3.80%	6.40%
Average	6.32%	6.22%	6.53%	4.77%	6.39%
Asset Turnover					
Calculation	1.53	1.56	1.63	1.71	1.71
WRDS	1.51	1.64	1.67	1.69	1.71
Morningstar	1.50	1.60	1.70	1.70	1.80
Average	1.51	1.60	1.67	1.70	1.74
Financial Leverage					
Calculation	1.88	2.14	2.30	2.33	3.44
WRDS	2.35	2.14	2.30	2.33	3.44
Morningstar	2.40	2.10	2.30	2.30	3.40
Average	2.21	2.13	2.30	2.32	3.43
ROE					
Calculation	17.93%	19.73%	23.99%	15.05%	37.46%
WRDS	17.93%	21.66%	23.99%	20.00%	37.46%
Valueline	18.70%	21.70%	25.60%	25.70%	37.40%
Morningstar	22.50%	21.70%	23.70%	14.70%	31.80%
Average	19.27%	21.20%	24.32%	18.86%	36.03%
Cost of Equity $Re = Rf + \beta * MRP$					
Risk Free Rate (Yahoo Finance)	3.69%				
Market Risk Premium (Assumption)	4.25%				
Beta (Valueline)	0.80				
Re	7.09%				
Financial Analysis					
Current Stock Price As of 4/26/08	\$ 45.65				
Growth Rate (Morning Star)	10.91%				
Dividend	0.55				
EPS(ttm)	2.23				
Payout Ratio	24.66%				
Net Margin	6.39%				
ROE	36.03%				
Current BV/share	7.10				
Beta	0.80				
Free Cash Flow					
Cash flow from ops	661.6				
Capital expenditures	-312.1				
Net borrowings	542.3				
FCF to Equity	891.8				
Shares outstanding	193.43				
FCFE/share	\$ 4.61				
				Growth Rate Estimate	
				Morningstar	12.20%
				Valueline	8.50%
				Yahoo	
				Finance	12.03%
				Average	10.91%

Appendix C – Sysco Corporation

	2003	2004	2005	2006	2007
Net Margin					
Calculation	2.98%	3.09%	3.18%	2.62%	2.86%
WRDS	2.98%	3.09%	3.18%	2.59%	2.86%
Valueline	3.00%	3.10%	3.20%	2.60%	2.90%
Morningstar	3.00%	3.10%	3.20%	2.60%	2.90%
Average	2.99%	3.10%	3.19%	2.60%	2.88%
Asset Turnover					
Calculation	3.77	3.74	3.66	3.63	3.68
WRDS	4.04	3.97	3.76	3.78	3.68
Morningstar	3.80	4.00	3.80	3.80	3.80
Average	3.87	3.90	3.74	3.74	3.72
Financial Leverage					
Calculation	3.16	3.06	3.00	2.95	2.90
WRDS	3.16	3.06	3.00	2.95	2.90
Morningstar	3.20	3.10	3.00	2.90	2.90
Average	3.17	3.07	3.00	2.93	2.90
ROE					
Calculation	35.42%	35.38%	34.85%	28.02%	30.54%
WRDS	35.42%	35.38%	34.85%	27.72%	30.54%
Valueline	35.40%	35.40%	34.90%	27.70%	30.50%
Morningstar	35.40%	38.10%	36.10%	29.40%	31.60%
Average	35.41%	36.06%	35.18%	28.21%	30.79%
Cost of Equity $Re = Rf + \beta * MRP$					
Risk Free Rate (Yahoo Finance)	3.69%				
Market Risk Premium (Assumption)	4.25%				
Beta (Valueline)	0.80				
Re	7.09%				
Financial Analysis					
Current Stock Price As of 4/26/08	\$ 28.12				
Growth Rate (Morning Star)	12.94%				
Dividend	0.88				
EPS(ttm)	1.70				
Payout Ratio	51.76%				
Net Margin	2.88%				
ROE	30.79%				
Current BV/share	5.50				
Beta	0.80				
Free Cash Flow					
Cash flow from ops	1402.922				
Capital expenditures	-603.242				
Net borrowings	17.485				
FCF to Equity	817.165				
Shares outstanding	603.58				
FCFE/share	\$ 1.35				
				Growth Rate Estimate	
				Morningstar	12.70%
				Valueline	13.00%
				Yahoo Finance	13.11%
				Average	12.94%

Appendix E – Wrigley

Net Margin	2003	2004	2005	2006	2007
Calculation	14.53%	13.51%	12.44%	11.30%	11.73%
WRDS	14.53%	13.51%	12.44%	11.30%	11.73%
Valueline	14.50%	13.50%	13.10%	11.90%	11.60%
Morningstar	14.50%	13.50%	12.40%	11.30%	11.70%
Average	14.51%	13.51%	12.59%	11.45%	11.69%
Asset Turnover					
Calculation	1.22	1.15	0.93	1.01	1.03
WRDS	1.33	1.28	1.09	1.03	1.03
Morningstar	1.20	1.30	1.10	1.00	1.10
Average	1.25	1.24	1.04	1.01	1.05
Financial Leverage					
Calculation	1.38	1.45	2.01	1.95	1.86
WRDS	1.38	1.45	2.01	1.95	1.86
Morningstar	1.20	1.30	1.10	1.00	1.10
Average	1.32	1.40	1.71	1.63	1.60
ROE					
Calculation	24.49%	22.63%	23.36%	22.17%	22.43%
WRDS	24.49%	22.63%	23.36%	22.17%	22.43%
Valueline	24.50%	22.60%	24.60%	23.40%	23.50%
Morningstar	24.50%	24.70%	23.60%	23.00%	24.30%
Average	24.49%	23.14%	23.73%	22.68%	23.17%
Cost of Equity $Re = Rf + \beta * MRP$					
Risk Free Rate (Yahoo Finance)	3.69%				
Market Risk Premium (Assumption)	4.25%				
Beta (Valueline)	0.70				
Re	6.67%				
Financial Analysis					
Current Stock Price As of 4/26/08	\$	62.45			
Growth Rate (Morning Star)		10.07%			
Dividend		1.34			
EPS(ttm)		2.28			
Payout Ratio		58.77%			
Net Margin		11.69%			
ROE		23.17%			
Current BV/share		10.23			
Beta		0.70			
Free Cash Flow					
Cash flow from ops		1003.98			
Capital expenditures		-251.429			
Net borrowings		0			
FCF to Equity		752.551			
Shares outstanding		273.97			
FCFE/share	\$	2.75			