

# Lazard Insights Conference Call Series

## How Stable Are Consumer Staples? (in a global economic downturn)

Nina Saglimbeni, Managing Director  
March 18, 2008

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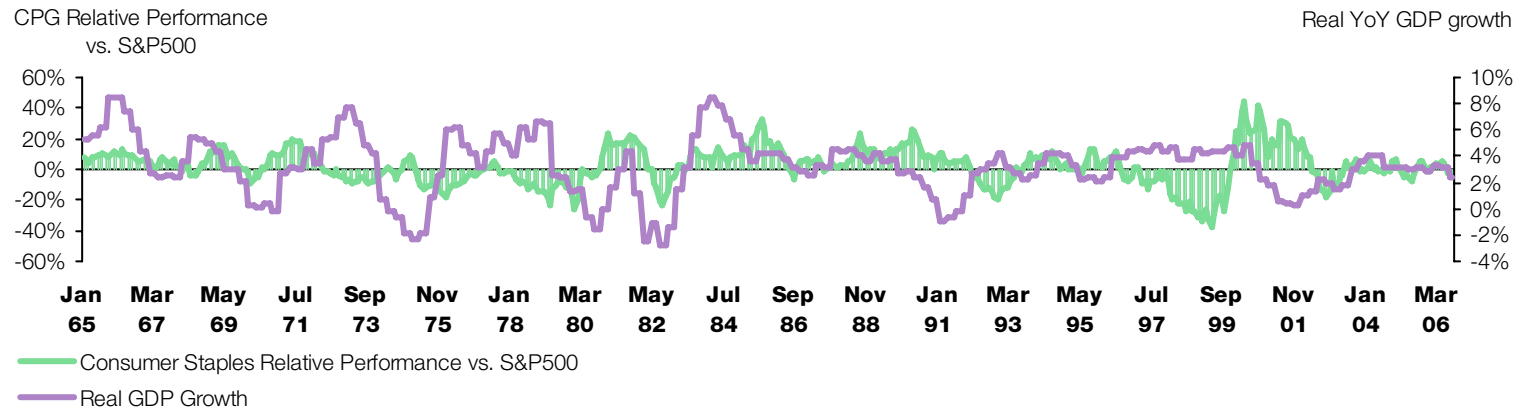
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# U.S. Consumer Staples Performance vs. U.S. Real GDP Growth

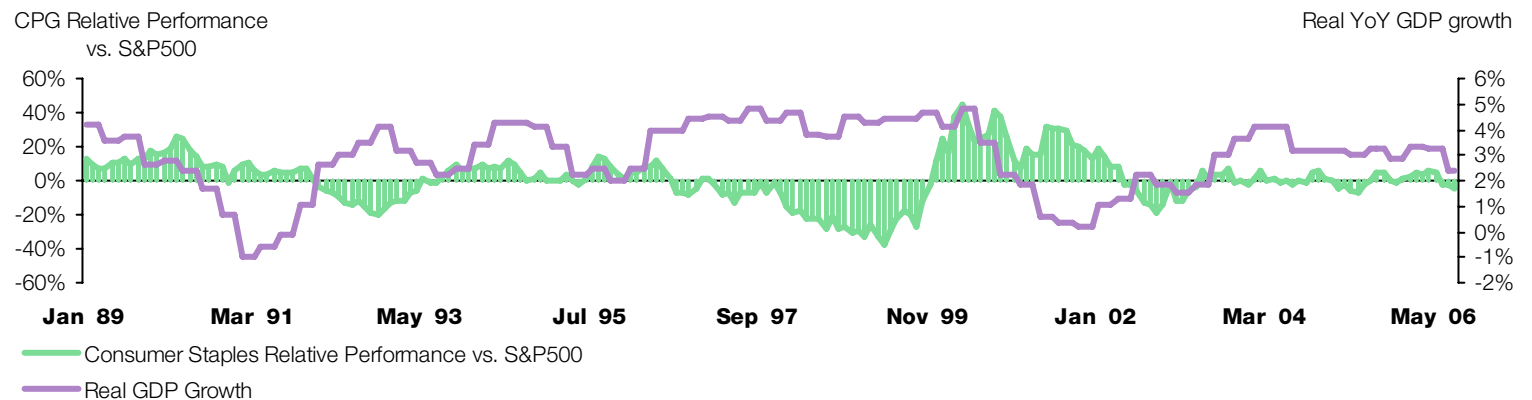
In the 1960 – 1980's, U.S. consumer staples stocks tended to perform in line with the direction of GDP growth – positive correlation.

## Jan '65 – Mar '06



Since the early 90's, they have clearly outperformed during periods of recession – negative correlation.

## Jan '89 – May '06



Source: SCB Strategy Group, Bureau of Economic Analysis

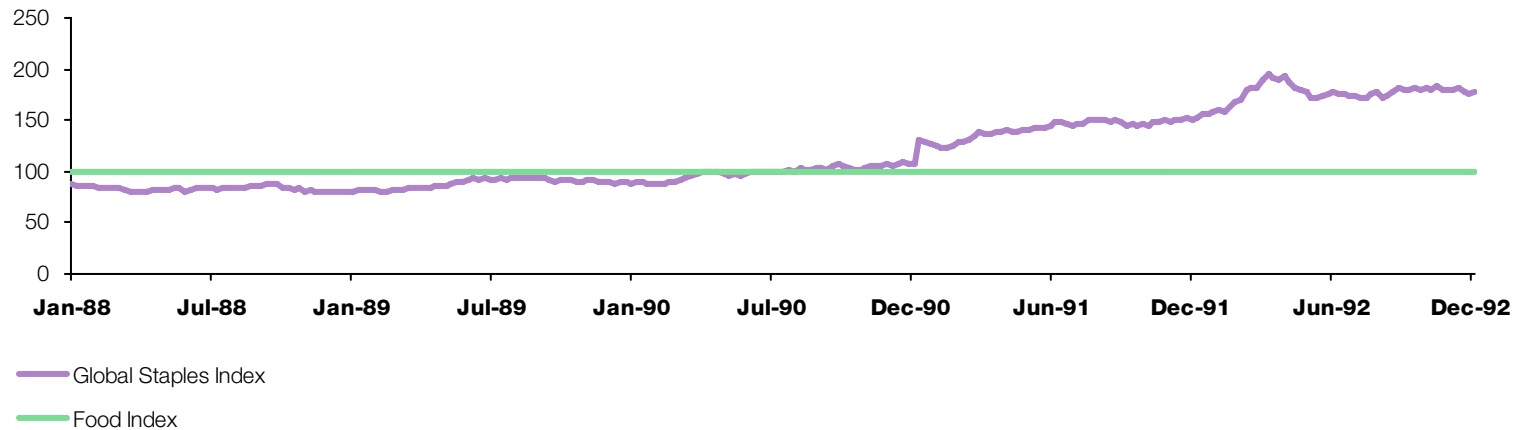
# Global Consumer Staples Outperformed in Recent Recessions

## Global Staples Index vs. MSCI World

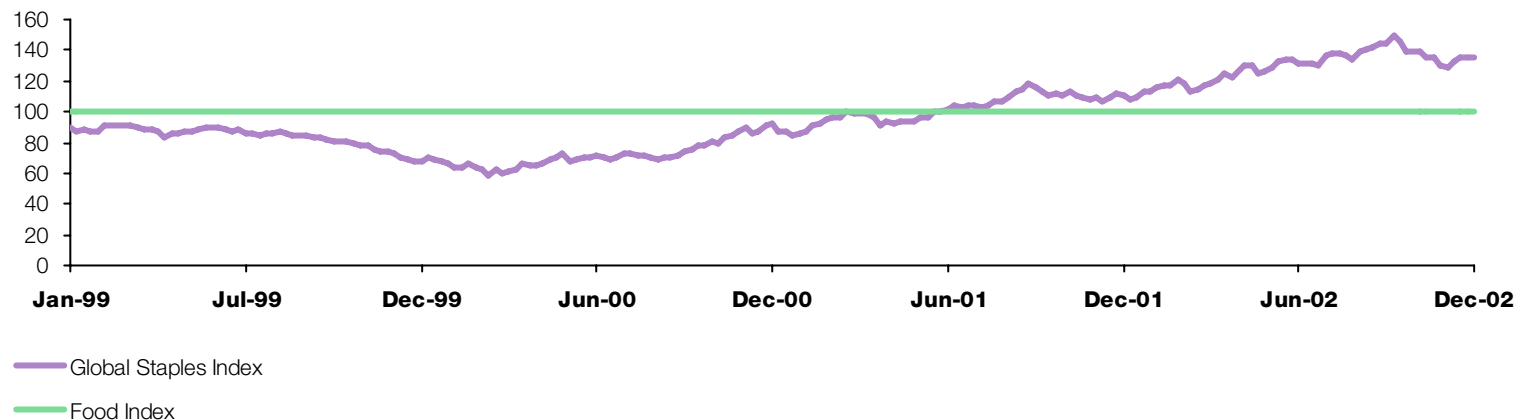
The global pattern is very similar to the United States... mild underperformance when world GDP looks robust, and strong outperformance when doubts about growth take over

In '99-'00, global staples significantly underperformed during the "tech bubble", then massively outperformed when the bubble burst.

**Recession Jan '89 – June '92**



**Recession July '99 – July '01**



Source: Morgan Stanley Research, Factset

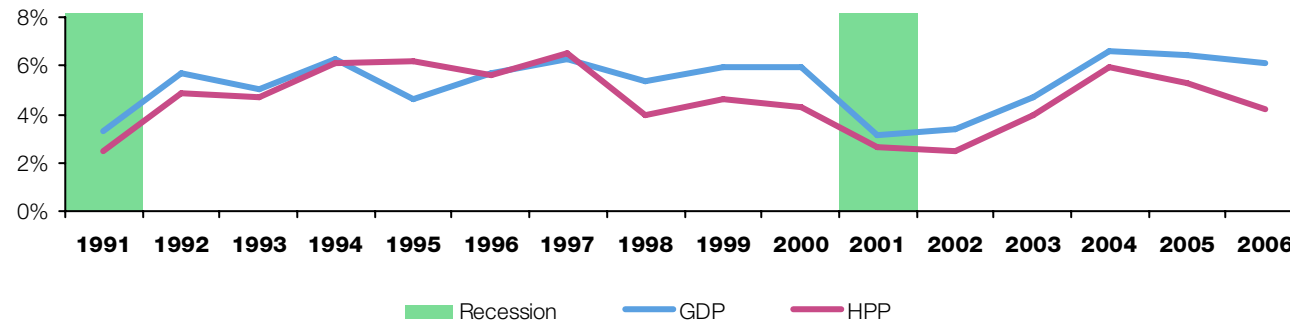
# Consumption Trends of U.S. Staples vs. U.S. GDP

In a mature economy like the United States, consumption of both Household and Personal Care (HPC) and Food/Beverages tends to track the direction of GDP...

...although Food/Beverage is definitely more resilient.

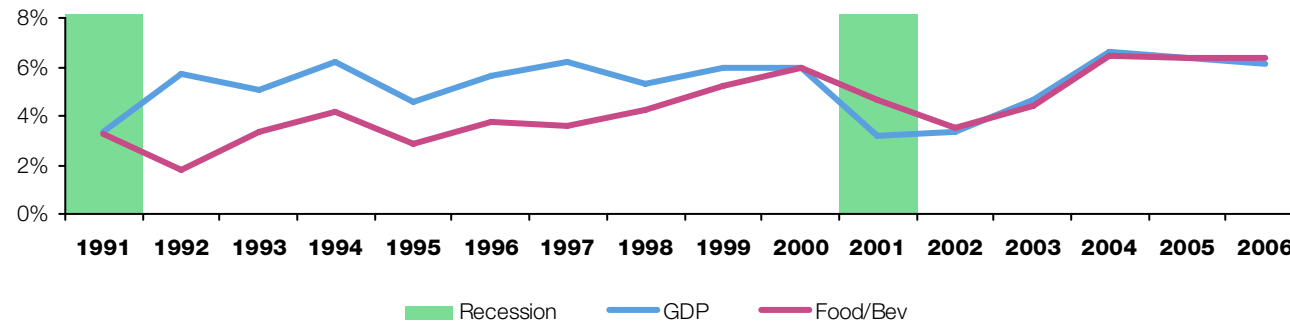
## U.S. GDP Growth vs. HPC Consumption Growth, 1991-2006

(Note: All GDP and Consumption Data Stated in Nominal Terms)



## U.S. GDP Growth vs. Food/Bev Consumption Growth, 1991-2006

(Note: All GDP and Consumption Data Stated in Nominal Terms)



Source: Bureau of Economic Analysis, National Bureau of Economic Research, Bernstein estimates and analysis

# Staples Consumption Growth in '00 – '02 Recession

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Only 31% of categories showed high deceleration, i.e. they were largely resilient in a recession...

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...but about 50% of HPC spend is “discretionary”, so it is inherently more vulnerable in a recession.

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## U.S. Food categories

### No/low deceleration

Breakfast Cereals  
Dairy Products  
Frozen Vegetables  
Spreads  
Ready Meals  
Frozen Pizzas  
Cooking Sauces

### High deceleration

Processed Meats  
Coffee  
Ketchup  
Gum

## U.S. HPC categories

### No/low deceleration

Toothpaste  
Toothbrushes  
Hand Dishwash  
Blades and Razors  
Toilet Care  
Cough/Cold Remedies  
Lipsticks

### High deceleration

Fragrances  
Kitchen Towels  
Deodorants  
Shampoo  
Wipes  
Mouthwash

Source: Lazard Asset Management

# Stability in Margin Has Been a Major Attraction of the Sector

The relative resilience of Food, Beverage and HPC consumption shows up in their margins.

## Operating Margin %

<b>United States</b>	<b>'89-'92 Peak/Trough</b>	<b>'99-'02 Peak/Trough</b>	<b>February '08</b>
<b>Beverage</b>	19.1/13.3	19.1/16.2	20.0
<b>Food</b>	9.7/8.8	12.8/11.4	15.1
<b>Household &amp; Personal Care (HPC)</b>	10.7/10.1	19.2/17.0	20.2

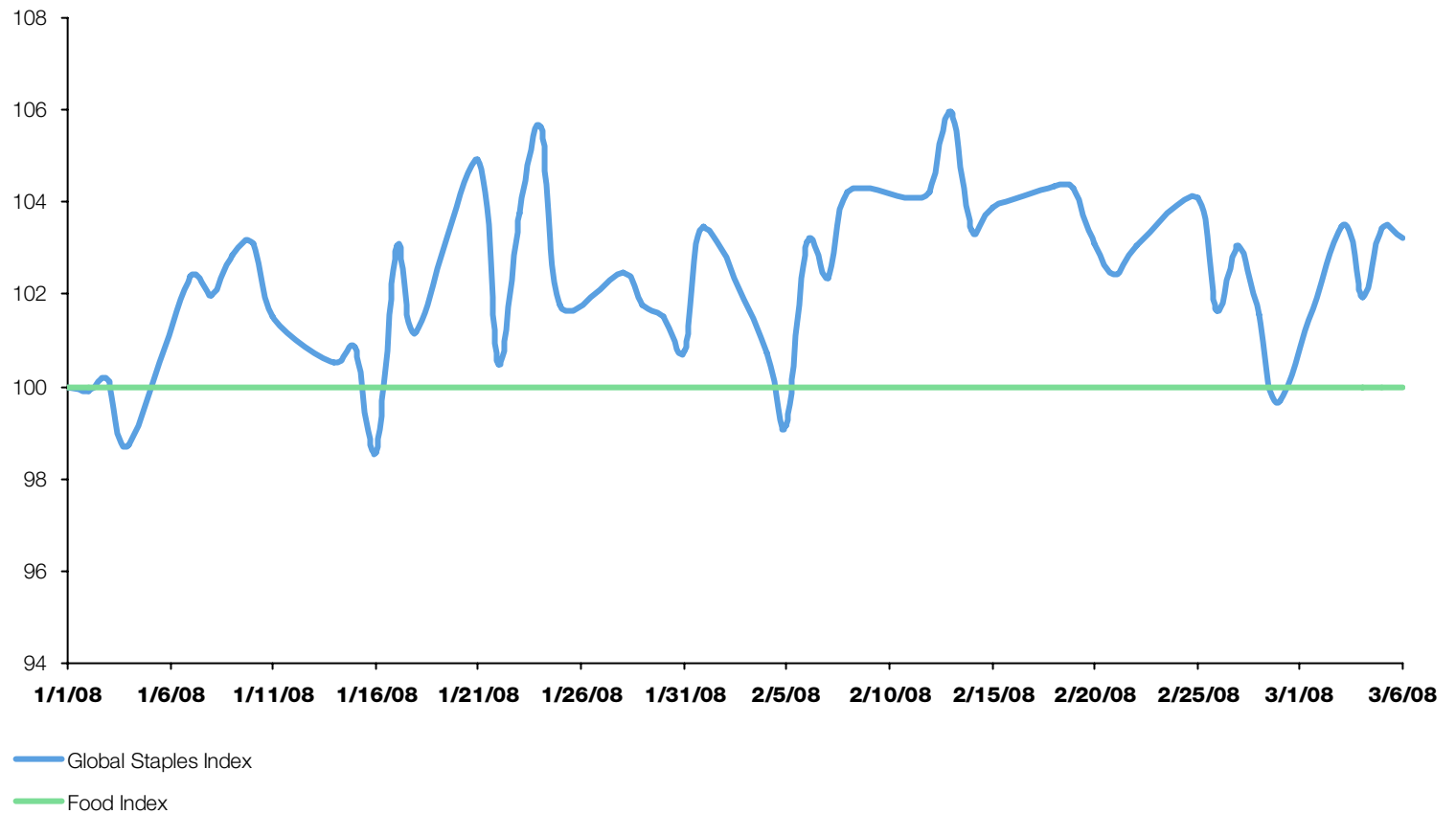
<b>Europe</b>	<b>'89-'92 Peak/Trough</b>	<b>'99-'02 Peak/Trough</b>	<b>February '08</b>
<b>Beverage</b>	18.1/16.5	16.6/14.8	18.3
<b>Food</b>	9.5/8.0	11.5/9.0	18.1
<b>Household &amp; Personal Care (HPC)</b>	11.5/10.1	12.0/11.1	16.2

As of February 29, 2008  
Source: Lazard Asset Management

# How Have Staples Performed Thus Far in 2008?

Fears that the United States could drag the rest of the world into recession are behind global staples' recent outperformance.

## Global Staples Index Vs. MSCI World



As of 6 March 2008  
Source: Morgan Stanley Research, Factset

But is there the same safety in this sector as there has been for the past two decades?

# Many Staples Companies Have Become More Cyclical

Since the 90's, two new sources of growth have provided more than 50% of incremental sales

- Emerging Markets
- Premiumization/Personal indulgence

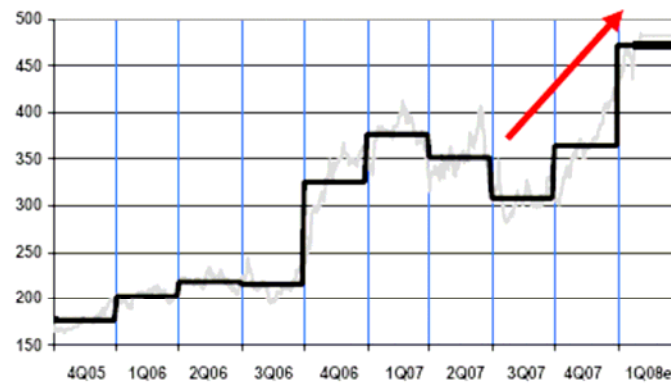
... these trends make sales growth inherently less stable

# Inflation in Raw Material Inputs Threatens Staples Companies' Margins

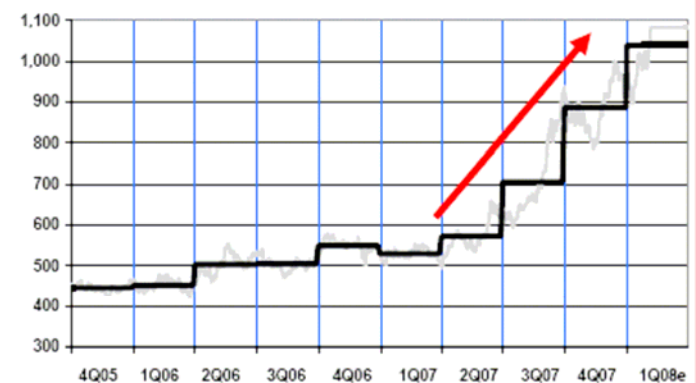
Many crucial  
agricultural input prices  
are at all-time highs

## Commodities prices

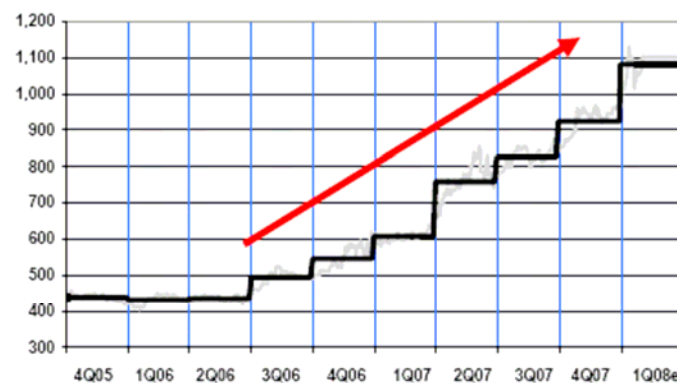
**Corn: U.S. Cents per Bushel**



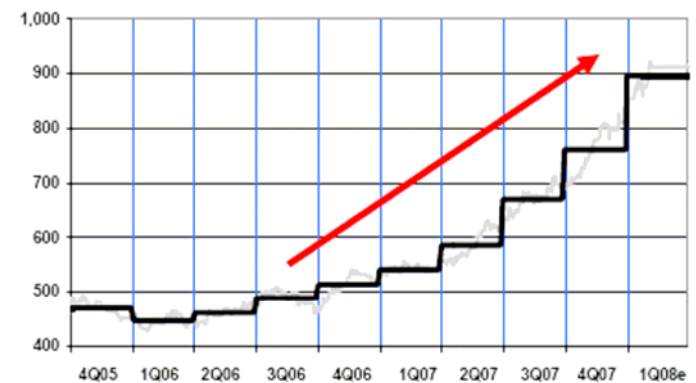
**Wheat: U.S. Cents per Bushel**



**Palm Oil: US\$ per Tonne**



**Soyabean Oil: € per Tonne**



As of February 8, 2008

Source: Datastream, Morgan Stanley Research

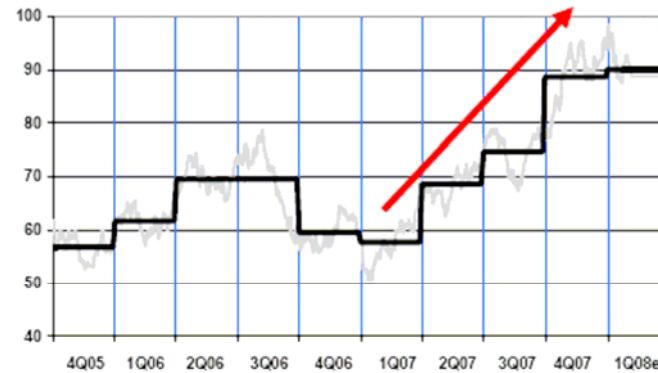
e = Morgan Stanley Research estimates

# Inflation in Raw Material Inputs Threatens Staples Companies' Margins

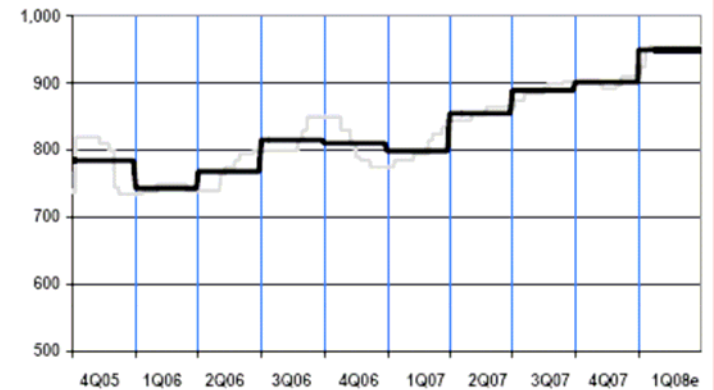
Energy-related input costs are also breaking records

## Commodities prices

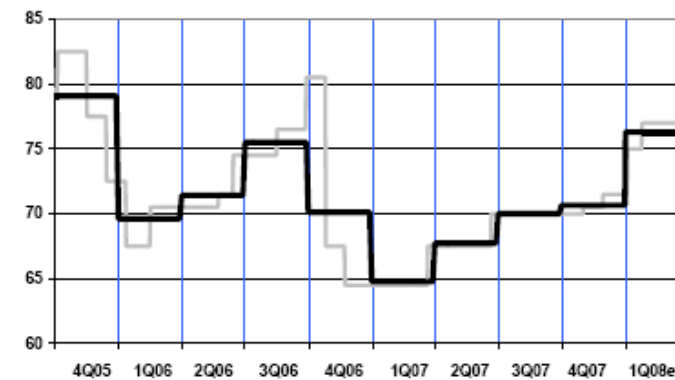
**Crude Oil: US\$ per Barrel**



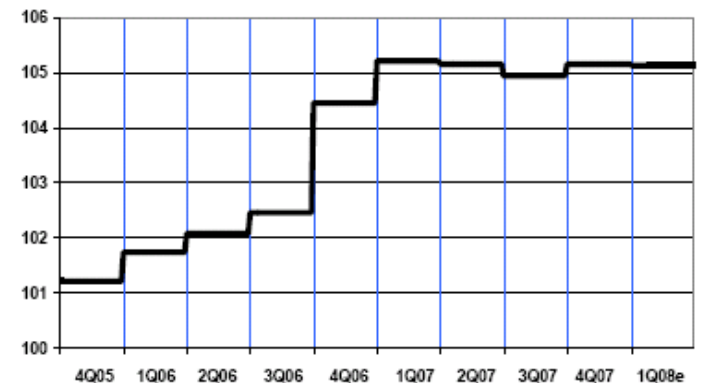
**High Density Polyethylene: £ per Tonne**



**PET: U.S. Cents per Pound**



**EU PPI Index for Glass**



As of February 8, 2008

Source: Datastream, Morgan Stanley Research

e = Morgan Stanley Research estimates

# The Best Staples Companies May Deliver Some Growth Even in a Recession

Here are the characteristics investors should look for:

- Strong brands in everyday consumption categories
  - Relative absence of private label
  - Ability to source inputs globally and pass on inflation with pricing
  - Management with strong cost controls and experience with volatile currencies
  - Robust balance sheets and cash flows
  - Management incentivized to deliver long-term shareholder value
- ... detailed industry analysis and stock-picking is key

# Conclusion

Not all Staples stocks are created equal...

... thorough fundamental analysis can help to  
pick the best.

# Important Information

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