S&P CAPITAL IQ

Solutions Exchange Product Spotlight

Finding Opportunities During A Period Of Improving U.S. Consumer Confidence

Jay Bhankharia
Senior Manager
Application Specialist
212-438-1369
jay.bhankharia@spcapitaliq.com

James Elder
Director
Application Specialist
(1) 212-438-7886
james_elder@spcapitaliq.com

Rick Kanungo, CFA, FRM
Senior Director
Application Specialist
(1) 212-438-4115
rick_kanungo@spcapitaliq.com

Solutions Exchange is developed by S&P Capital IQ's Application Specialists, a separate and independent team at S&P Capital IQ. The objective of this analysis is to gain greater insight into specific events and trends in the market using S&P Capital IQ data and analytics solutions.

Key Findings:

- Companies with a low Log of Market Cap Cubed, favoring relatively smaller firms, performed well in increasing consumer confidence environments over the past ten years
- Dean Foods (DF) and Ryder (R) are in the top 5% of S&P 500 companies, as judged by Log of Market Cap Cubed, and have significant revenue exposure to the U.S., potentially allowing them to capitalize on the U.S. economic climate
- Ryder has favorable trading multiples and forward estimates
- A similar analytic approach yielded favorable results during April

Monitoring U.S. Consumer Confidence

The Conference Board Consumer Confidence Index is commonly viewed as a leading indicator of where the U.S. economy is headed. With consumer expenditures contributing to over 70% of GDP, consumer spending sentiment is very important. The latest April report improved to 68.1, from a revised 61.9 in March. These numbers are improving, but are still under the recent October high of 73.08. The confidence index's increase was led by a gain in the measure of expectations for the next six months, which climbed to a five-month high. Americans are feeling slightly better about the economy, which is further being reinforced by the recovering housing market. Given the recent increase in consumer confidence, we explored ideas that should succeed in such environments.

May 17, 2013

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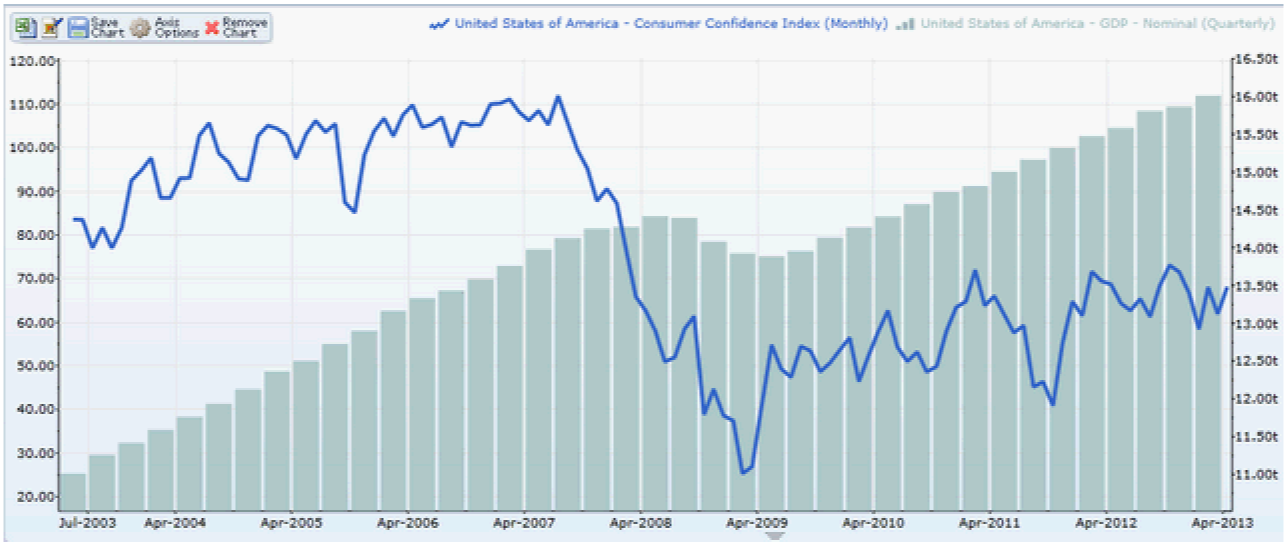
Chart 1: Consumer Confidence And U.S. Real GDP (Quarterly) Over Last 10 Years



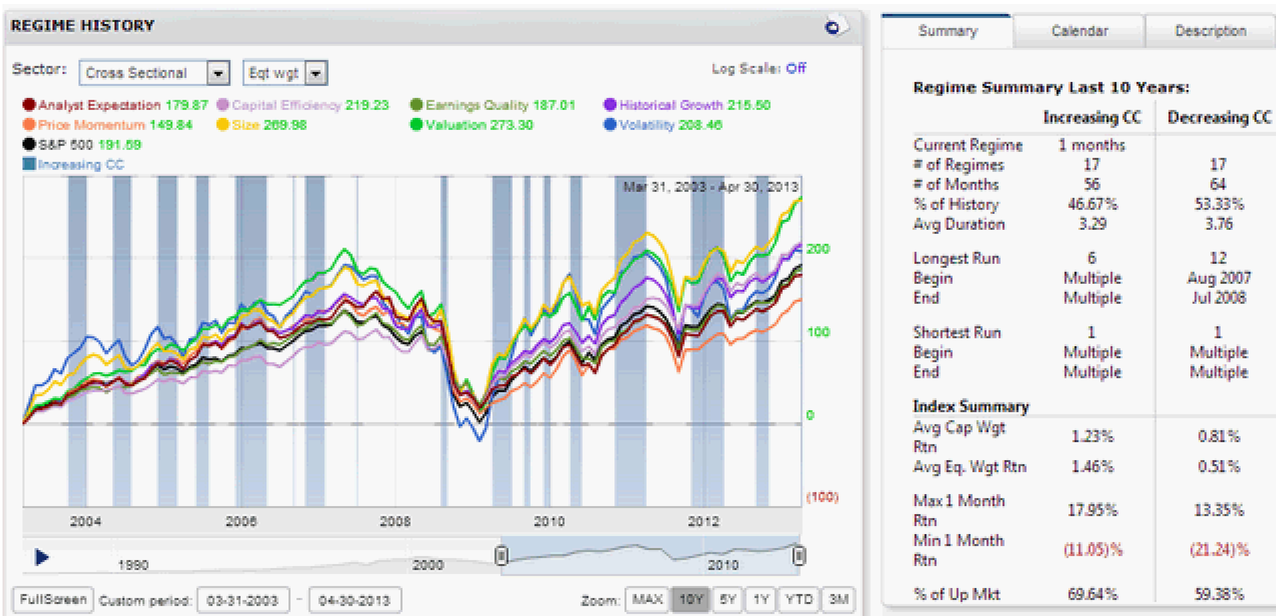
Source: S&P Capital IQ

To investigate these ideas we used S&P Capital IQ's Alpha Factor Library, a research application that allows users to gain insight into different quantitative factors and their performance across different regions and indices. We created a calendar based regime in Alpha Factor Library to better understand consumer confidence trends, and to see which factors outperform in both an increasing and decreasing consumer confidence environment (Chart 1). A calendar based regime allows us to analyze increases and decreases in the Consumer Confidence Index, over a 10 year monthly time-series, to track factor performance against the S&P 500 universe. We then refined this broad analysis by targeting companies with U.S.-centric revenue sources. We further narrowed the universe with market sentiment data to look at the street's opinion on the stocks, and finally, rounded out our views with trading multiples of comparable firms and forward looking estimates.

Factor Analysis

We smoothed out the volatility in the consumer confidence data by creating a regime based on the index's three-month moving average. At this point we force ranked all of the constituents, based on over 400 factors ranging from price momentum to capital efficiency, to see which factors outperform during increasing and decreasing periods of consumer confidence. We judged outperformance by taking the top 20% of stocks, as ranked by this factor (quintile 1), and determining their total returns over the period.

Chart 2: Ten Years Of Alpha Factor Styles Returns During Up/Down Three Month Average Confidence Regimes *



**Time periods with improvements in three-month average consumer confidence are highlighted in blue. Source: S&P Capital IQ*

The 'Log of Market Cap Cubed' (LMCC) and 'Cash Flow Return on Invested Capital' (CFROIC) were the factors that performed the best (t-stats above 95% confidence interval) during periods of increasing and decreasing consumer confidence, respectively.

Since we are in a period of increasing consumer confidence, we will investigate the Log of Market Cap Cubed (LMCC) factor. The LMCC is a descending factor that gives smaller market capitalized stocks a higher ranking. We used this metric to find investable opportunities in the S&P 500. LMCC has a quintile 1 total annualized excess return of 938 basis points (bps) over the S&P 500 when the Consumer Confidence Index is increasing. This factor had an information coefficient t-stat of 2.39, meaning it is a significant predictor of the dependent variable (returns).

Identifying Companies With Revenue Sources Predominantly In The U.S.

Next, we screened for the top 5% of stocks in the S&P 500, as judged by the LMCC factor. In addition, we looked for companies that derive more than 80% of their revenue from the U.S. This focuses on select stocks that will benefit from growing U.S. business due to improving consumer confidence and spending, but doesn't discriminate against companies that have some international reach. We found eight stocks that met the criteria (see table 1).

Table 1

Stocks In Top 5% Of LMCC With More Than 80% Of Revenue In U.S.

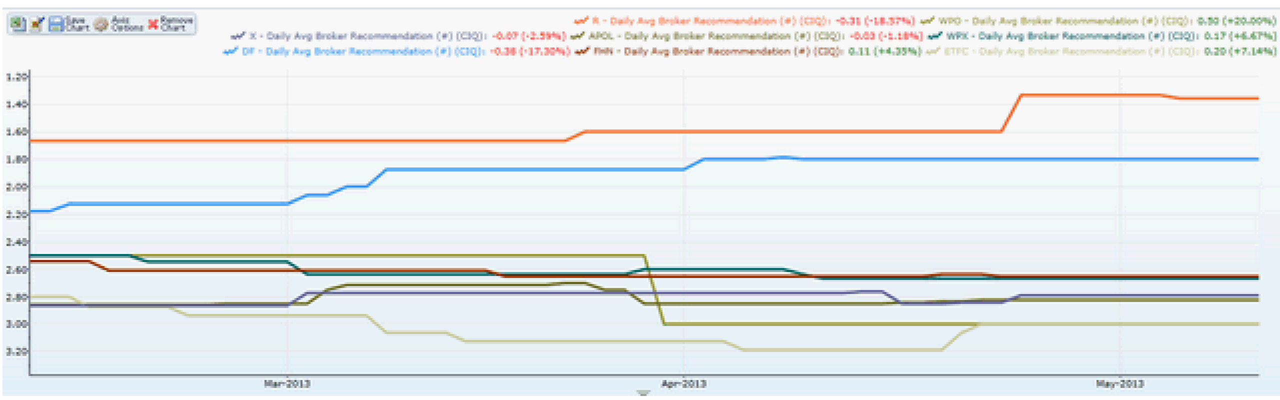
Company	Exchange: ticker	Primary sector	Industry	Headquarters-country
E*TRADE Financial Corp.	NasdaqGS:ETFC	Financials	Investment banking and brokerage	U.S.
First Horizon National Corp.	NYSE:FHN	Financials	Regional banks	U.S.
Dean Foods Co.	NYSE:DF	Consumer staples	Packaged foods and meats	U.S.
WPX Energy Inc.	NYSE:WPX	Energy	Oil and gas exploration and production	U.S.
Apollo Group Inc.	NasdaqGS:APOL	Consumer discretionary	Education services	U.S.
United States Steel Corp.	NYSE:X	Materials	Steel	U.S.
The Washington Post Co.	NYSE:WPO	Consumer discretionary	Publishing	U.S.
Ryder System Inc.	NYSE:R	Industrials	Trucking	U.S.

Source: S&P Capital IQ

Broker Recommendation Trends

After narrowing the universe using broad factors and geographic revenue sources, we analyzed analyst sentiment and relative value through trading multiples, operating statistics, and estimates data.

Chart 3: Broker Recommendation Trends: 1 (Strong Buy) To 5 (Strong Sell)



Source: S&P Capital IQ

Dean Foods Co. (Ticker: DF), a food and beverage company, and Ryder System Inc. (Ticker: R), a transportation and supply chain management company, are the top two stocks as judged by consensus estimates. Over the past three months, we observe that broker recommendations on DF and R are trending significantly upwards. DF and R are the most recommended securities, with recommendation ratings better than 2 (1 = strong buy). In the current market rally, we will narrow our analysis to these two stocks to see how they perform compared with their peers. We can examine some comparables and estimates data to determine if analyst sentiment presents any opportunities in these stocks.

Valuations Lower And Margins Improving

We looked at these two stocks in relation to their peers to see how they compare.

Table 2

Dean Foods Peer Comp Trading Multiples*

Company	TEV/total revenues LTM (x)	TEV/EBITDA LTM (x)	TEV/EBIT LTM (x)	P/diluted EPS before extra LTM (x)	P/TangBV LTM (x)	NTM TEV/forward total revenue (x)	NTM TEV/forward EBITDA (x)	NTM forward P/E (x)
Dean Foods Co. (NYSE:DF)	0.5	8.0	12.8	39.7	NM	0.48	7.1	16.91

Peer comp summary statistics								
High	3.1	16.6	22.6	30.9	62.2	2.91	14.5	23.41
Low	1.7	10.4	13	18.2	62.2	1.32	9.8	14.33
Mean	2.29	13.28	16.33	24.01	62.2	2.165	11.72	18.809
Median	2.3	13.5	16.45	23.1	62.2	2.165	11.45	18.67

Source: S&P Capital IQ

Table 3

Dean Foods Peer Comp Operating Statistics*

Company	LTM gross margin (%)	LTM EBITDA margin (%)	LTM EBIT margin (%)	LTM net income margin (%)	LTM total revenues, one year growth (%)	LTM EBITDA, one year growth (%)	LTM EBIT, one year growth (%)	LTM net income one year growth (%)	LTM total debt/capital (%)	LTM total debt/EBITDA (x)	NTM LT EPS growth rate (%)
Dean Foods Co.	25.20	6.00	3.70	5.35	0.08	18.22	29.14	-	65.73	2.7	11.53

Peer comp summary statistics											
High	44.30	21.30	18.50	10.45	11.14	19.82	23.60	16.14	79.61	7.4	12.22
Low	23.50	10.10	7.40	3.48	(1.45)	(14.34)	(19.98)	(38.80)	28.22	1.3	5.98
Mean	35.97	17.48	14.34	8.38	6.74	7.66	6.88	(1.44)	57.25	3.0	8.57
Median	37.10	18.00	15.25	8.76	7.64	8.95	7.32	3.82	62.40	2.6	8.18

Source: S&P Capital IQ

Dean Foods' peer comps: Campbell Soup Co. (NYSE:CPB), ConAgra Foods Inc. (NYSE:CAG), General Mills Inc. (NYSE:GIS), H. J. Heinz Co. (NYSE:HNZ), Kellogg Co. (NYSE:K), Kraft Foods Group Inc. (NasdaqGS:KRFT), McCormick & Co. Inc. (NYSE:MKC), Mondelez International Inc. (NasdaqGS:MDLZ), The Hershey Co. (NYSE:HSY), The J. M. Smucker Co. (NYSE:SJM)

Dean Foods is trading lower than its peers when looking at its TEV multiples (Table 2). Looking at the company from a capital structure-neutral basis, it does seem undervalued. With the high broker recommendations, the market may be anticipating good results that have not yet been adjusted into the price. Over the last three years, Dean Foods' average forward P/E and price/total revenue were 13.10x and 0.18x, respectively. Dean Foods' current forward P/E is 17.04x, while its price/total revenue stands at 0.31x, showing that it is trading above historical levels.

Looking at Dean Foods' operating statistics, it is underperforming its peers on a margin basis, but is improving its operating statistics on a growth basis (Table 3). Dean Foods' Gross Margin, EBITDA Margin, and EBIT Margins are all lower than its peer averages.

Table 4

Ryder System Peer Comp Trading Multiples*

Company	TEV/total revenues LTM (x)	TEV/EBITDA LTM (x)	TEV/EBIT LTM (x)	P/diluted EPS before extra LTM (x)	P/TangBV LTM (x)	NTM TEV/forward total revenue (x)	NTM TEV/forward EBITDA (x)	NTM forward P/E (x)
Ryder System Inc. (NYSE:R)	1.1	4.9	14.4	15.1	3.1	1.06	4.7	12.23

Peer comp summary statistics								
High	1.7	11.7	21.2	27.3	9.6	1.55	15.3	34.12
Low	0.2	5.5	11.3	13.6	1.5	0.21	4.4	12.41
Mean	1.0	8.4	13.6	19.7	4.5	0.92	7.9	19.05
Median	1.0	7.7	12.3	19.2	3.8	0.91	7.0	16.71

Source: S&P Capital IQ

Table 5

Ryder System Peer Comp Operating Statistics*

Company	LTM gross margin (%)	LTM EBITDA margin (%)	LTM EBIT margin (%)	LTM net income margin (%)	LTM total revenues, one year growth (%)	LTM EBITDA, one year growth (%)	LTM EBIT, one year growth (%)	LTM net income one year growth (%)	LTM total debt/capital (%)	LTM total debt/EBITDA (x)	NTM LT EPS growth rate (%)
Ryder System Inc.	20.30	22.60	7.60	3.43	1.98	7.85	13.79	20.46	72.06	2.7	11.50

Peer comp summary statistics											
High	29.00	19.10	13.80	8.34	18.08	200.54	18.62	40.85	188.38	9.1	22.00
Low	5.60	3.50	(0.70)	(1.65)	(2.46)	(9.12)	(10.45)	(13.31)	5.19	0.1	10.00
Mean	18.52	11.28	7.37	3.69	5.37	23.48	3.71	7.78	58.52	2.6	14.86
Median	19.10	11.95	8.10	4.21	3.07	3.27	4.33	8.79	40.39	1.8	15.40

Source: S&P Capital IQ

**Ryder System peer comps: Arkansas Best Corp. (NasdaqGS:ABFS), Avis Budget Group Inc. (NasdaqGS:CAR), Con-way Inc. (NYSE:CNW), Expeditors International of Washington Inc. (NasdaqGS:EXPD), JB Hunt Transport Services Inc. (NasdaqGS:JBHT), Landstar System Inc. (NasdaqGS:LSTR), Old Dominion Freight Line Inc. (NasdaqGS:ODFL), Swift Transportation Co. (NYSE:SWFT), Werner Enterprises Inc. (NasdaqGS:WERN), YRC Worldwide Inc. (NasdaqGS:YRCW)*

Ryder System's peer comparison shows that it is trading at a discount relative to its peers. This is true of trading multiples for both the last twelve months (LTM) and next twelve months (NTM), as seen in table 4. Looking at the firm's operating statistics, Ryder's margins seem to be in line with its peers', but have seen more growth over the last year than their comparable set. For example, the firm's LTM EBIT one year growth was 13.79%, compared with its peers' median of 4.32%. Over the last three years, Ryder's average forward P/E and price/total revenue ratio were 17.7x and 0.44x, respectively. Ryder's current forward P/E is 15.13x, while its price/total revenue stands at 0.49x. Ryder's P/E is trading below historical levels, while its price to total revenues is above. Revenue only increased marginally last year, while net income grew tremendously. If the stock's top line can grow in line with its peers, while its bottom line maintain growth levels during this period of increasing consumer confidence, then this stock's price has the ability to reach historical trading levels.

Ryder has better margins and operating statistics, and lower valuations, on a relative basis, than Dean Foods. Both companies are trading at a premium to their relative industry indices over the last year (Charts 4 and 5). A premium for growth may already be priced into these companies' share price, but valuations look more attractive for Ryder. For these reasons, we will focus our analysis on Ryder's forward estimates.

Chart 4: Dean Foods' Share Price Versus S&P 500 Consumer Staples Over Last Year

Source: S&P Capital IQ

Chart 5: Ryder's Share Price Versus S&P 500 Industrials Over Last Year

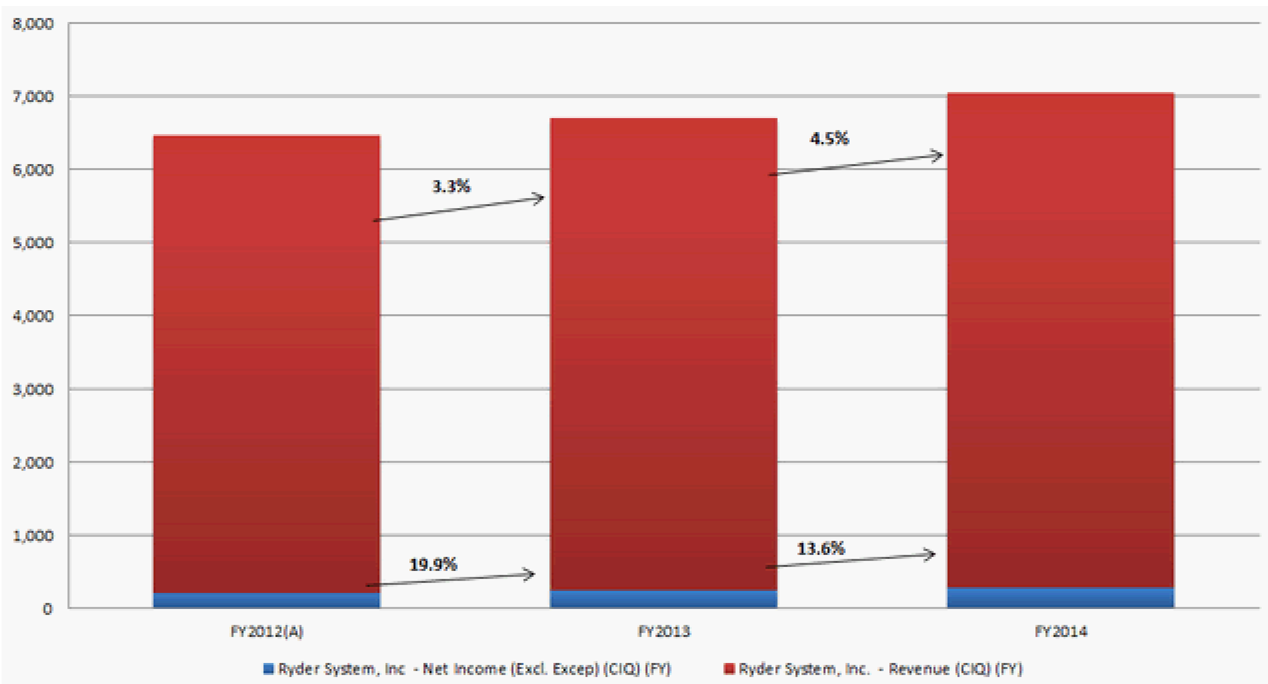
Source: S&P Capital IQ

Analyzing Forward Estimates To Understand Future Outlook

We analyzed consensus estimates for Ryder's average revenues and net income (excluding exceptional items) to gain perspective on the company's direction.

We looked at fiscal year estimates for 2013-2014. Estimates data are compiled from 12 sell-side firms' average estimates for 2013 and 2014. Revenue estimates predict growth of 3.3% in 2013 and 4.5% in 2014. Additionally, net income (excluding exceptional items) is estimated to increase by 19.9% and 13.6% for 2013 and 2014, respectively (Chart 6). The estimated annual net income growth for the S&P 500 Transportation Index is expected to be around 10.65%. With 19.9% net income growth, Ryder has the potential to significantly exceed its benchmark peers. In addition, for the last five consecutive quarters Ryder has beaten its consensus earnings per share (EPS) and net income (excluding exceptional items) estimates. If this positive trend can continue, it may bolster the stock price even more.

Chart 6: Ryder System Revenue And Net Income Estimates (Mil. $)



Source: S&P Capital IQ

Table 6

Ryder System Revenue And Net Income Estimates	FY 2012(A)	FY 2013	FY 2014
Ryder System Inc.-- Revenue (CIQ) (FY) (Mil. $)	6,257	6,464	6,762
Ryder System Inc.-- Net income (excl. excep) (CIQ) (FY) (Mil. $)	207	249	283

A--Adjusted. Souce: S&P Capital IQ

Conclusion

With the current market rally, Ryder's stock may be well positioned for growth. Based on our Alpha Factor Library time series analysis, Ryder's market capitalization makes it a likely candidate to perform well in an increasing consumer confidence environment. With a significant domestic presence, the company can capitalize on a potential increase in U.S.

spending. The stock continues to have favorable market sentiment, as brokers continue to recommend it, and its forward estimates look better than its peers'.

Investment professionals need tools to help them screen for better investment ideas based on different environments, such as increasing/decreasing consumer confidence. When looking at periods of increasing or declining consumer confidence, we are able to take a quantamental approach to our analysis by looking for quantitative factors that perform well under different regimes. We then dive deeper into the stock's fundamental segment data, trading multiples, and forward estimates to parse out and find the best ideas.

Key Findings:

- Companies with a low Log of Market Cap Cubed, favoring relatively smaller firms, performed well in increasing consumer confidence environments over the past ten years
- Dean Foods (DF) and Ryder (R) are in the top 5% of S&P 500 companies, as judged by Log of Market Cap Cubed, and have significant revenue exposure to the U.S., potentially allowing them to capitalize on the U.S. economic climate
- Ryder has favorable trading multiples and forward estimates
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Last Month's Decreasing Consumer Environment

We followed a similar analytic approach following the release of the Consumer Confidence Index in March, with the intent of this being a repeatable idea generation process. March's confidence report moved sharply downward to 59.7 (revised to 61.9), from 68 in February. Anxiety about $85 billion in across-the-board government spending cuts that took effect March 1 caused the decline, the Conference Board said. The moving three month average was trending downwards. In a period of declining consumer confidence, we investigated the CFROIC factor. The CFROIC is a ratio of the trailing four quarters of operating net cash flow to the average invested capital over the same period. We used this metric to find investable opportunities in the S&P 500. CFROIC has a quintile 1 total annualized excess return of 528 bps over the S&P 500 when the Consumer Confidence Index is declining.

Next, we screened for the top quintile of stocks in the S&P 500, as judged by the Operating Cash Flow Ratio factor. In addition, we looked for companies that have less than 40% of their revenue coming from the U.S. This focuses on select stocks that will be somewhat sheltered from declining U.S. business due to lack of consumer confidence and spending. Similarly, we also look to ensure that these companies have less than 40% exposure to Europe, another region with economic troubles. Based on the screen, and choosing the top two stocks with the highest broker recommendations, the results show Estee Lauder and Delphi Automotive as the candidates most likely to perform well in this environment.

In addition, looking at both companies' comps, they were in line with their peers but Estee Lauder had better margins and operating statistics, on a relative basis, compared with Delphi. Diving deeper into the forward estimates of Estee Lauder, its net income and revenue numbers exceeded the average for the S&P 500 Household and Personal Products Index, indicating it may have been well positioned in a declining consumer confidence environment.

Chart 7: EL And DLPH One-Month Performance Versus S&P 500

Source: S&P Capital IQ

Looking at the performance of these two stocks, both outperformed the S&P 500 during this time, with EL performing the best. We observe from our prior month's analysis that combining alpha factors with a fundamental overlay may provide some insight into investment strategies.

Getting Behind The Data

The S&P Capital IQ platform combines deep global company information and market research with powerful tools for fundamental analysis, idea generation, and workflow analysis. This interactive and dynamic web- and Excel-based platform provides easy access to financial data, estimates data, and power analytics. The S&P Capital IQ platform also contains Alpha Factor Library, allowing investment professional access to over 400 quantitative stock selection signals, spanning seminal academic literature, and the latest practitioner expertise. Built from the industry's first Global Point-In-Time database, the Alpha Factor Library is an advanced web-based market analysis and research tool, updated daily to provide statistical profiles, definitions, and ongoing performance for hundreds of quantitative stock selection signals. Our integrated quantitative research products enable portfolio managers, quantitative analysts, and researchers to improve and differentiate their strategies to gain insights into new sources of achievable alpha.

About S&P Capital IQ

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