



YCG,LLC

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Any reference to any security shown in this presentation should not be construed to be a recommendation to buy or sell such security. Valuations are computed and performance is reported in U.S. Dollars. Performance results reflect all income, gains and losses and the reinvestment of interest and other income. All rates of return are reported “NET” of fees.

YCG Background



- **Established 2007**
- **Employee Owned**
 - ✦ Brian Yacktman, President and Chief Investment Officer
 - ✦ Will Kruger, Senior Vice President and Chief Executive Officer
 - ✦ Elliott Savage, Senior Vice President and Portfolio Manager
- **Location and Size**
 - ✦ Based in Austin, Texas
 - ✦ Approximately \$450 million in assets under management
- **Separate Account Management**
 - ✦ High net worth individuals and families and other registered advisory firms.
- **Mutual Fund**



Professional Biographies



- **Brian Yacktman (President & Chief Investment Officer / Portfolio Manager)**
 - ✦ Brian has a B.A. in Economics (cum laude) and MBA with an emphasis in Finance from Brigham Young University. Brian has managed separate accounts for over 10 years and has expertise in stock selection within the universe of domestic and foreign equities across all market capitalizations. Prior to the inception of YCG, Brian worked for Yacktman Asset Management Company (founded by his father Donald Yacktman).
- **Will Kruger (Senior Vice President & Chief Executive Officer)**
 - ✦ Will has a B.A. in Accounting from Brigham Young University. Prior to joining YCG in April 2008, Will worked as a senior financial analyst at Merrill Lynch, Pierce, Fenner & Smith Inc. for one of the largest Private Banking teams at the firm. During his time at Merrill Lynch, Will co-managed \$1.3 billion in discretionary assets for high net worth individuals, endowments, and private foundations.
- **Elliott Savage (Senior Vice President & Portfolio Manager)**
 - ✦ Elliott has a B.A. in both Economics and Cognitive Science and a minor in Biology from the University of Virginia where he was an Echols Scholar and graduated with distinction. Elliott has managed money for over a decade. Prior to YCG, Elliott was a Senior Analyst who worked directly with the founding partner at Highside Capital Management, a multi-billion dollar long/short equity hedge fund located in Dallas, Texas. Prior to joining Highside in 2003, Elliott worked as an investment banker in the Global Chemicals Group at Salomon Smith Barney in New York.
- **Michael Yacktman (Senior Analyst & Trader)**
 - ✦ Michael graduated magna cum laude from Brigham Young University with a B.S. in Economics and a double minor in Business and Mathematics in April 2010. Michael joined YCG as a securities analyst in August 2010. Mike is currently pursuing his Masters of Business Administration at the University of Texas in Austin, Texas and is a graduate candidate for the class of 2014.

Overview



- 1) **Why Equities**
- 2) **Why High Quality Equities**
- 3) **Case Study: CL vs. F**
- 4) **Future Prospects of CL**



Why Equities

Defining Investing and Risk



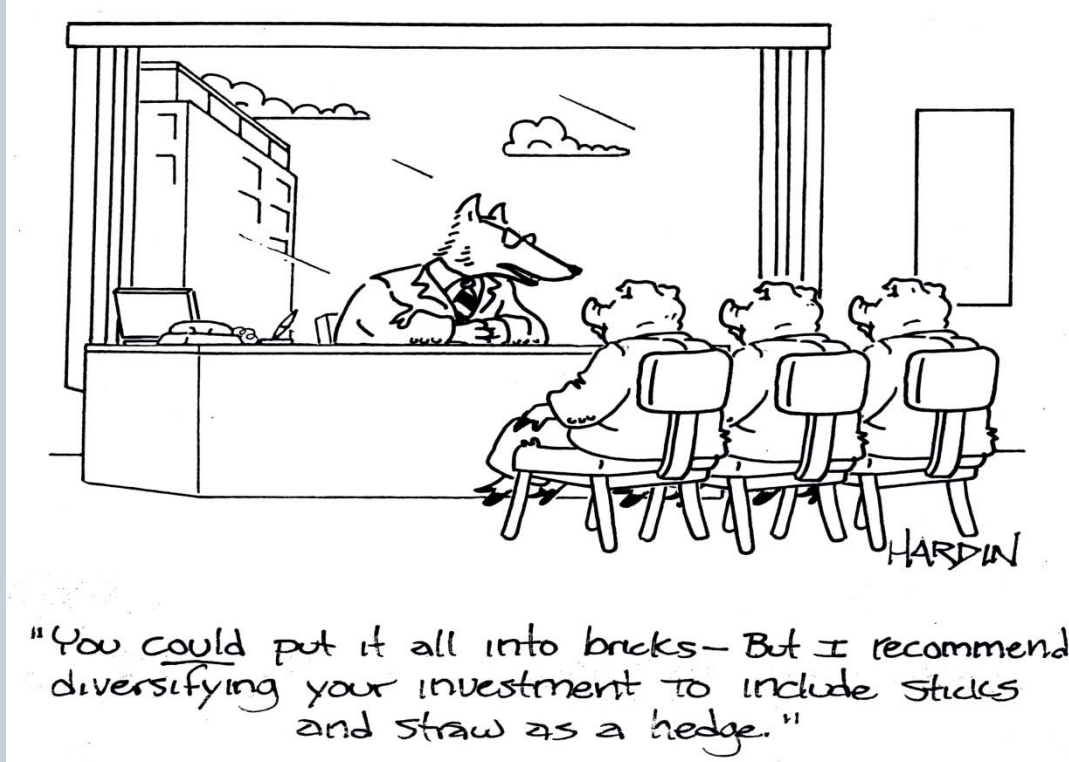
Investing is foregoing consumption now to consume more later

Risk of an investment is not measured by price volatility (commonly used on Wall Street), but by the probability of that investment causing a loss of purchasing power over your holding period

Assets can fluctuate greatly in price and not be risky if reasonably certain to deliver increased purchasing power

Whereas a non-fluctuating asset can be laden with risk

Over diversification is “deworsification”



“Diversification is protection against ignorance. It makes little sense if you know what you are doing.” – Warren Buffett

Where can we find bricks?



Investment alternatives include:

1. Currency Based

- Cash & other currencies
- Bonds

2. Non-productive Assets

- Raw land
- Commodities
- Jewelry, art, stamps, cards, etc.

3. Productive Assets

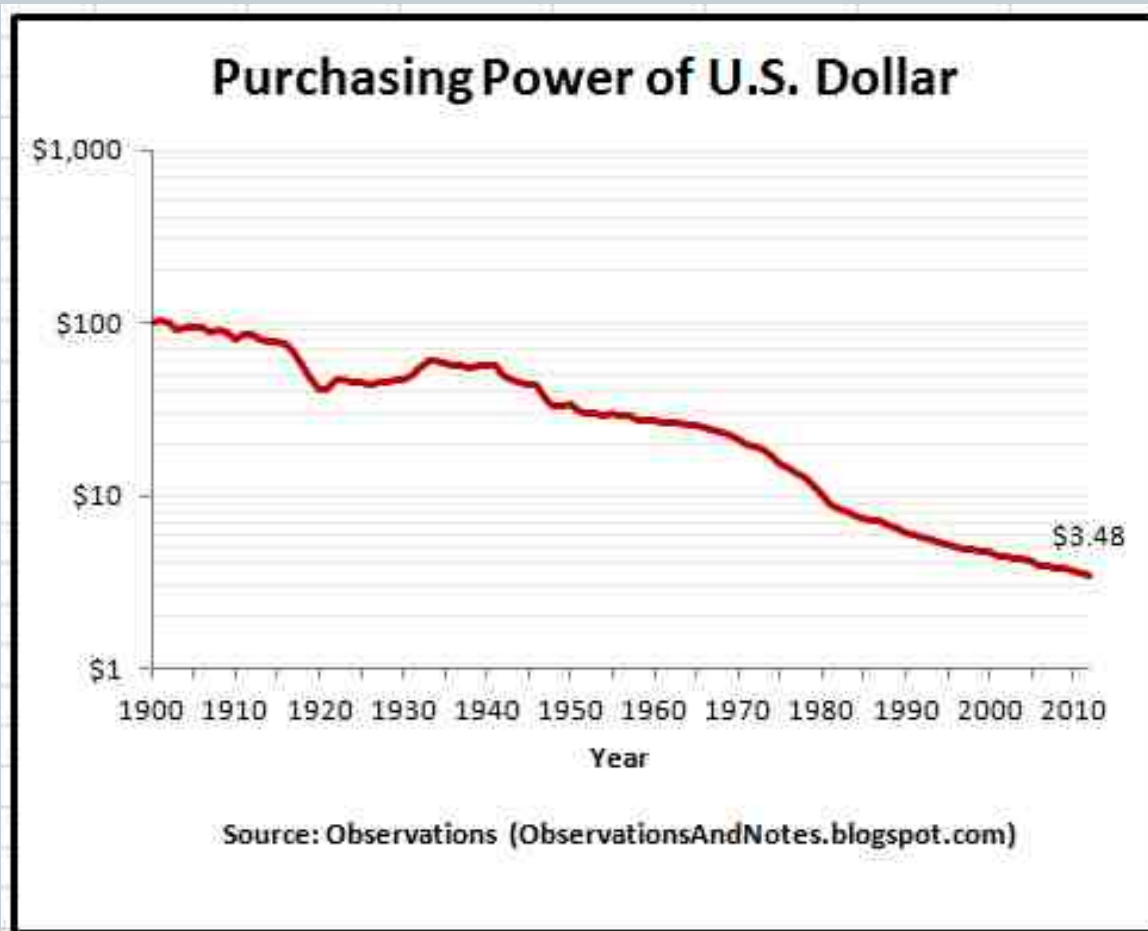
- Cash producing real estate such as farms & buildings
- Business ownership such as private and public equities

What makes up return?



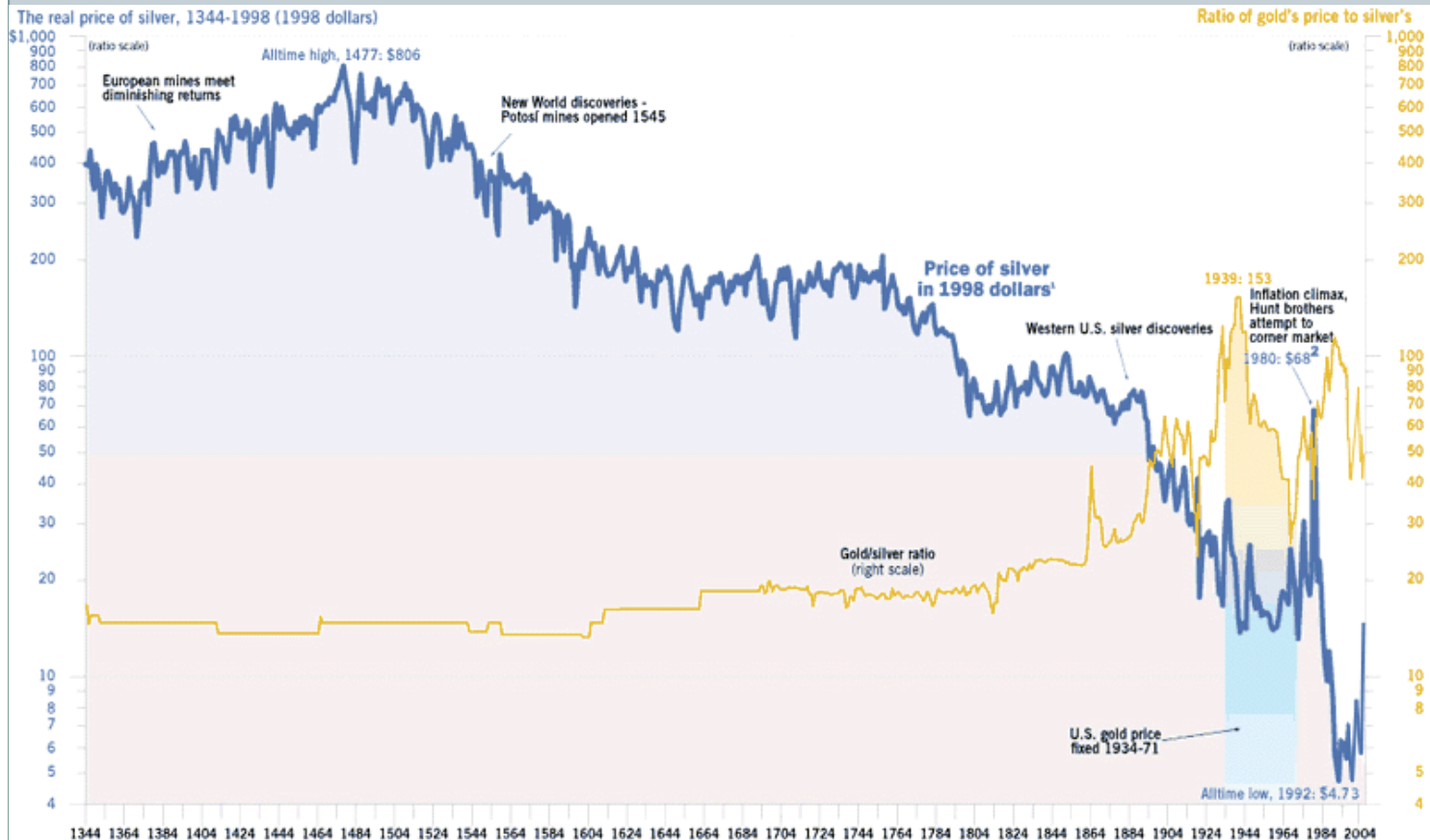
Return = Income + Inflation + Real Growth

Cash Not Bricks



**No Income,
No Inflation
Protection,
No Growth**

Industrial Commodities Not Bricks



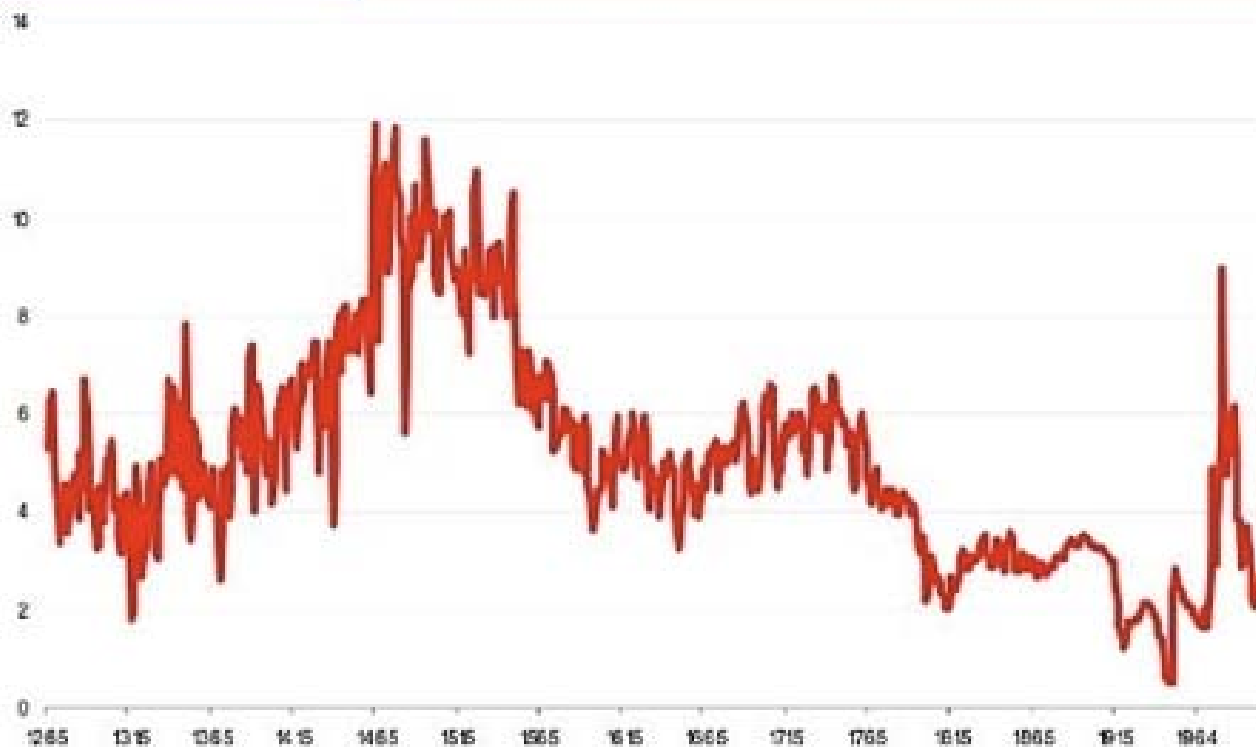
**Partial
Inflation
Protection,
but No
Income &
No Growth**

Source: gold-speculator.com

Gold/Alternative Currencies Not Bricks



Seven and a half centuries of real gold prices



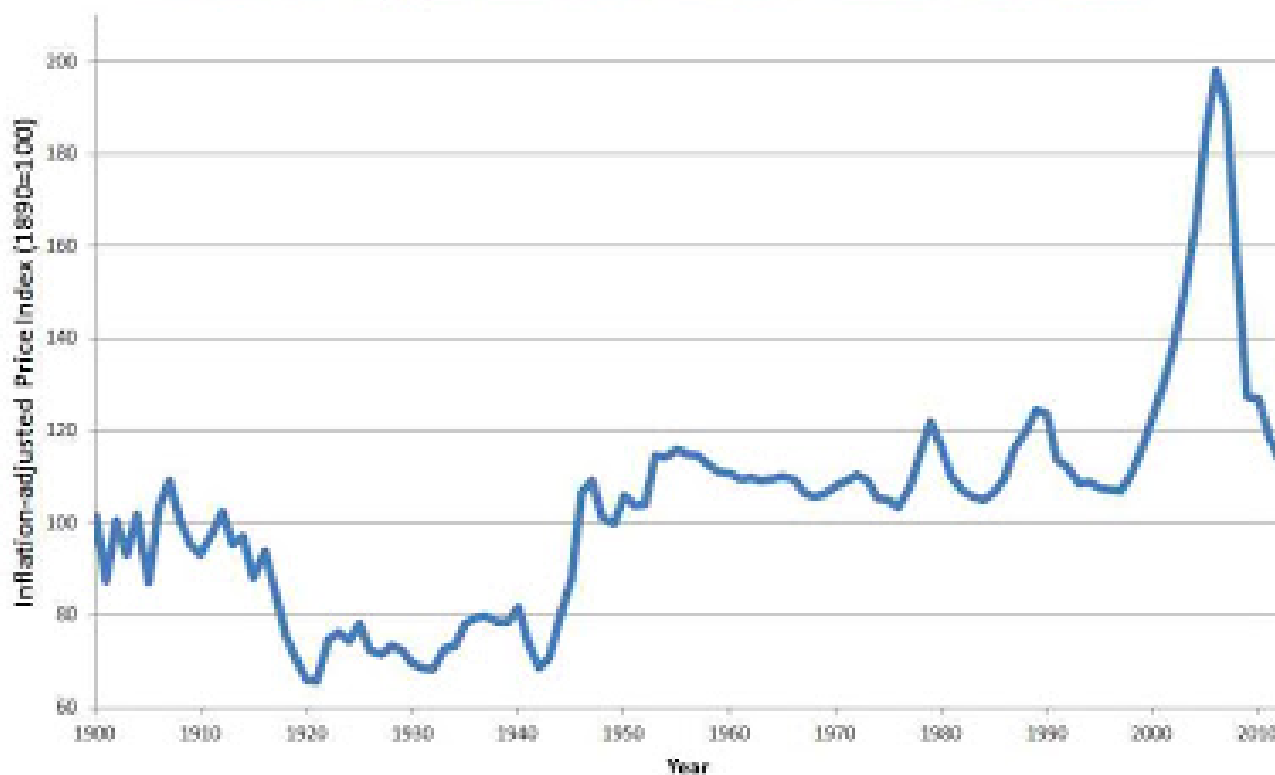
Source: SG Cross Asset Research, www.measuringworth.org

**Inflation
Protection,
but No
Income &
No Growth**

Non cash producing real estate not bricks



Inflation-Adjusted U.S. Home Prices Since 1900



Source: Observations (ObservationsAndNotes.blogspot.com)

**Inflation
Protection,
but No
Income &
No Growth**

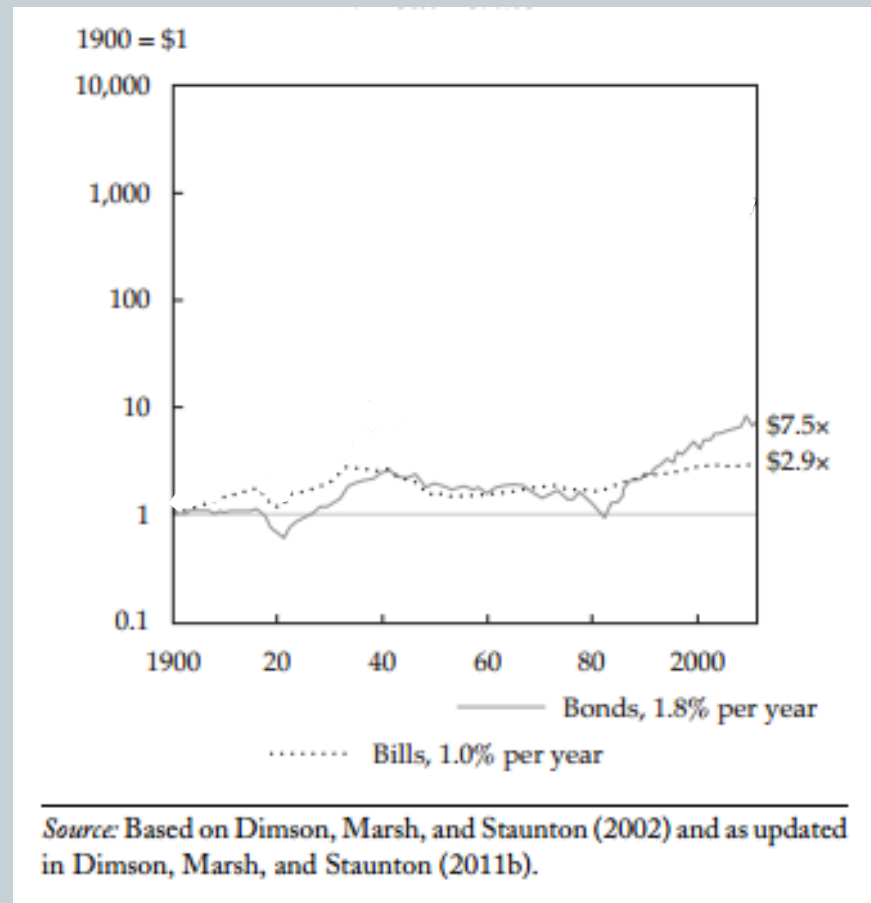
Bonds Not Bricks



Real returns of U.S. Bonds



BONDS

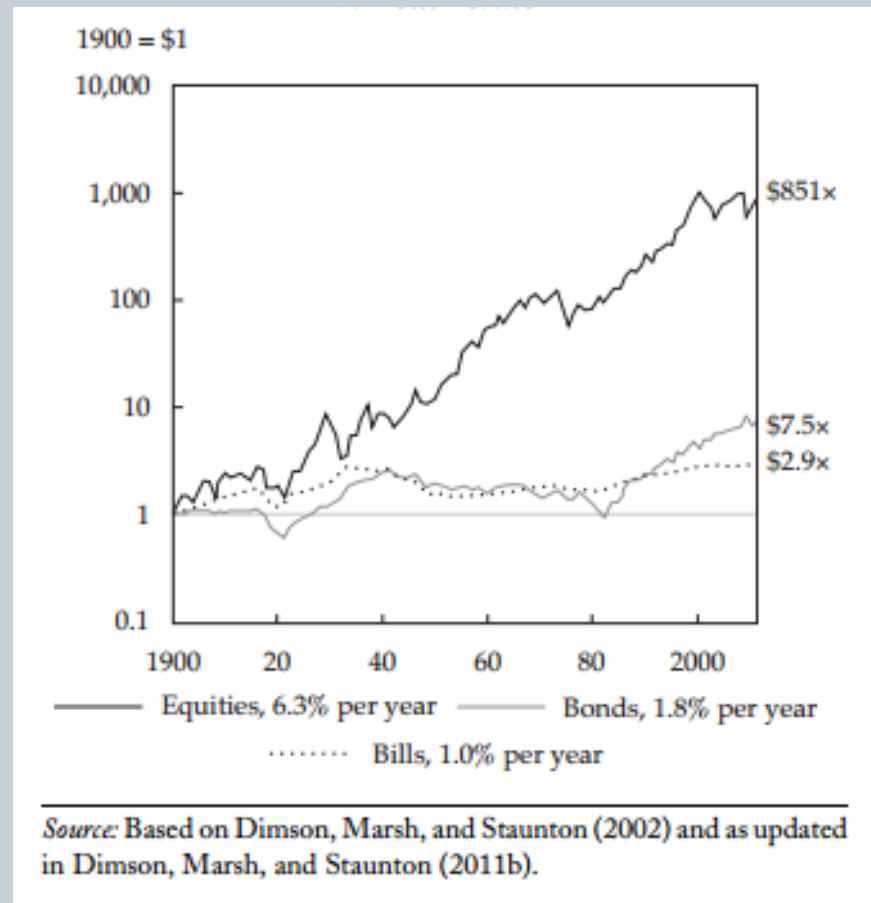


Income,
but No
Inflation
Protection &
No Growth

Equities/Stocks are Bricks!



Real returns of U.S. Equities vs. U.S. Bonds

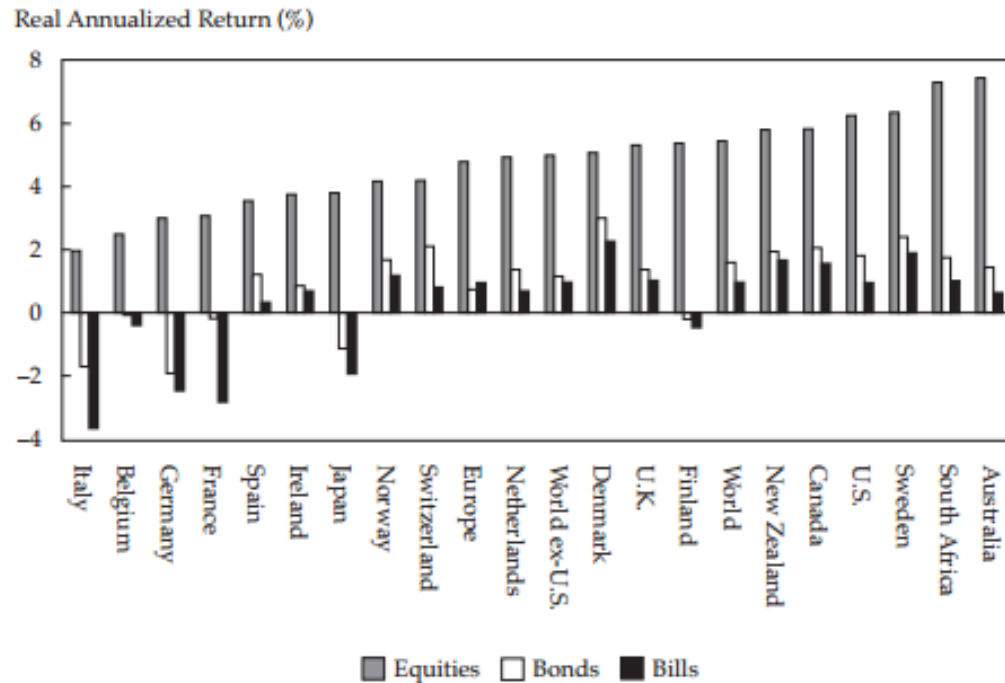


Why?
Income,
Inflation
Protection,
and Growth!

Globally, Stocks are Bricks!



Figure 2. Real Annualized Returns on Equities vs. Bonds and Bills Internationally, 1900–2010



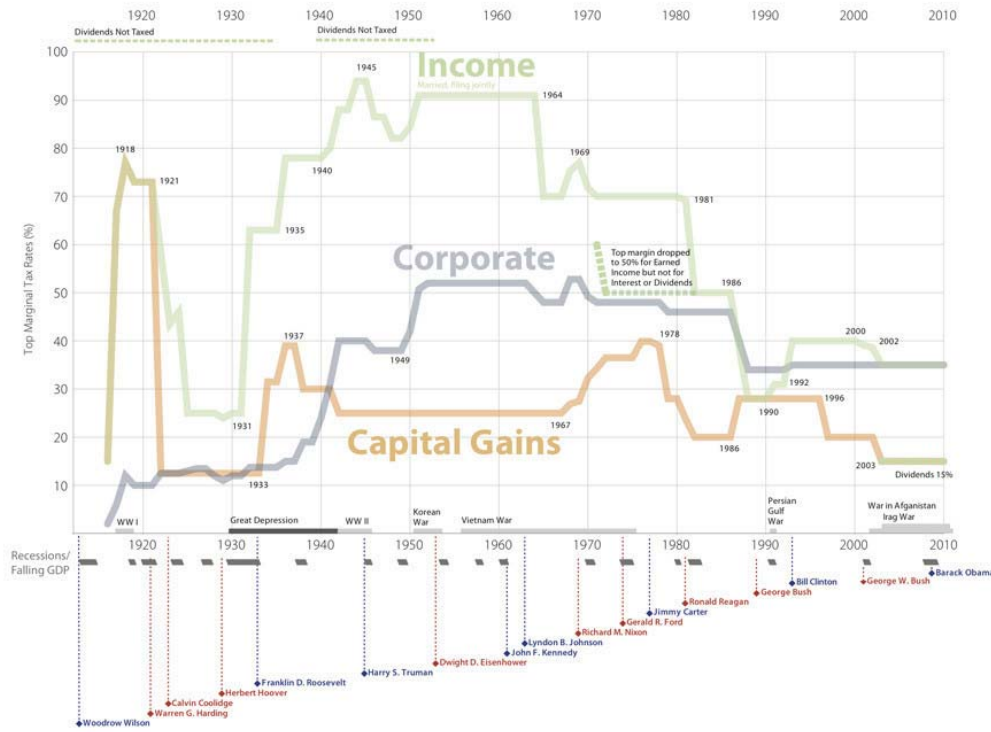
Source: Based on Dimson, Marsh, and Staunton (2002) and as updated in Dimson, Marsh, and Staunton (2011b).

Added bonus - stocks are taxed favorably!



Top Marginal Tax Rates: 1916-2010

Personal Income, Capital Gains and Corporate Tax Rates



Tax Data Tables: TaxPolicyCenter.org, TruthandPolitics.org and Citizens for Tax Justice (ctj.org)

VisualizingEconomics.com

Stocks produced results through economic crises



20th Century

Panic of 1907
Wall Street Crash of 1929
Great Depression (1929–1939)
OPEC oil price shock
UK banking crisis 1973–1975,
Japanese asset price bubble (1986–2003)
Bank stock crisis (Israel 1983)
Black Monday (1987)
U.S. savings and loan crisis (1980s-1990s)
1991 India economic crisis
Finnish banking crisis (1990s)
Swedish banking crisis (1990s)
1994 Mexico economic crisis
1997 Asian financial crisis
1998 Russian financial crisis
Argentine economic crisis (1999–2002)

21st Century

Tech bubble burst
2000s energy crisis
Subprime mortgage crisis
U.S. housing bubble and market correction
2008–2012 Icelandic financial crisis
2008–2010 Irish banking crisis
Russian financial crisis of 2008–2009
Automotive industry crisis of 2008–2010
European sovereign debt crisis



Where can we find bricks?



Investment alternatives include:

1. Currency Based

- Cash & other currencies **No Income, Infl Prot, Growth**
- Bonds **Yes Income, but No Inflation Prot, No Growth**

2. Non-productive Assets

- Raw land **Potentially Inflation Protection,**
- Commodities **but No Income & No Growth**
- Jewelry, art, stamps, cards, etc.

3. Productive Assets **Yes Income, Inflation Prot, Growth**

- Cash producing real estate such as farms & buildings
- Business ownership such as private and public equities

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But leveraged and illiquid

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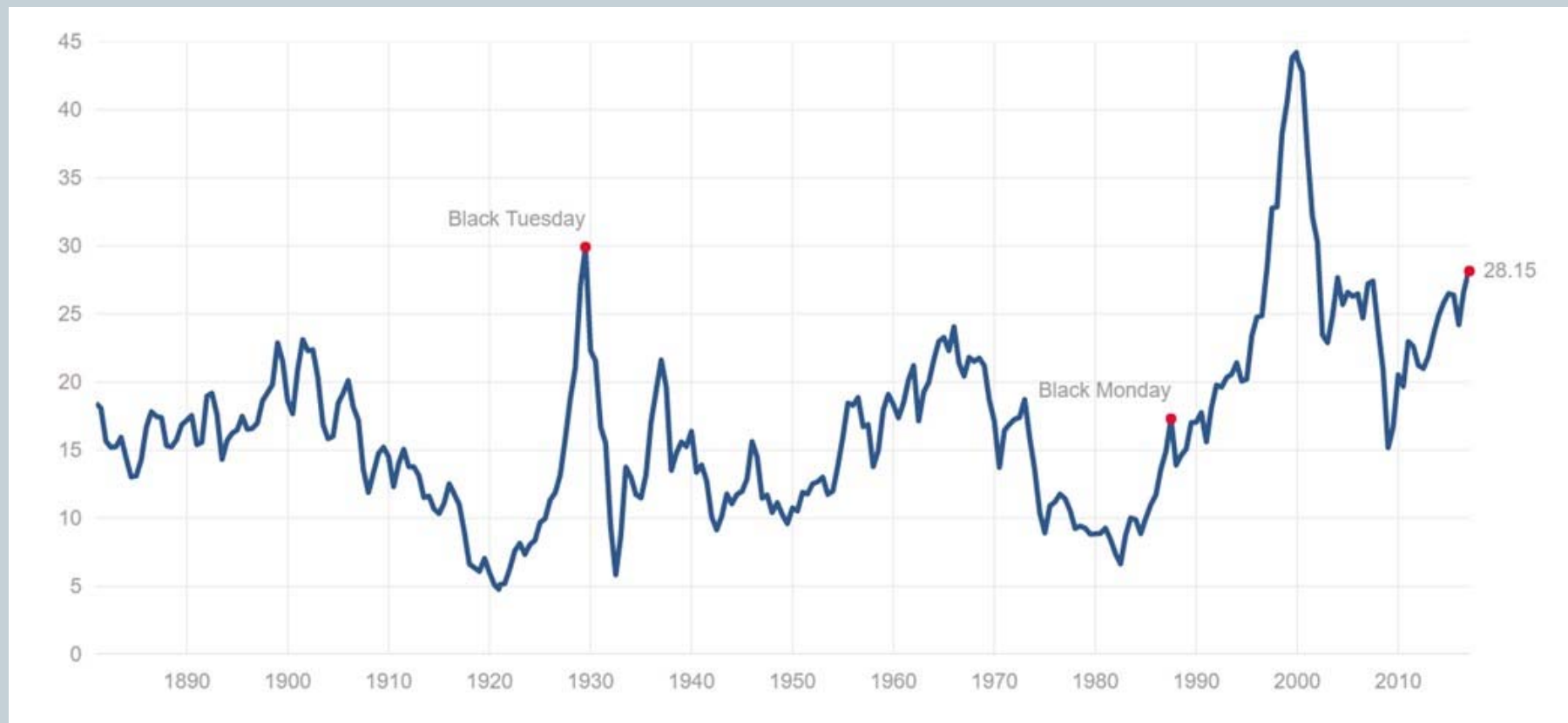
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If spending less than 4%, may as well focus in on best asset class

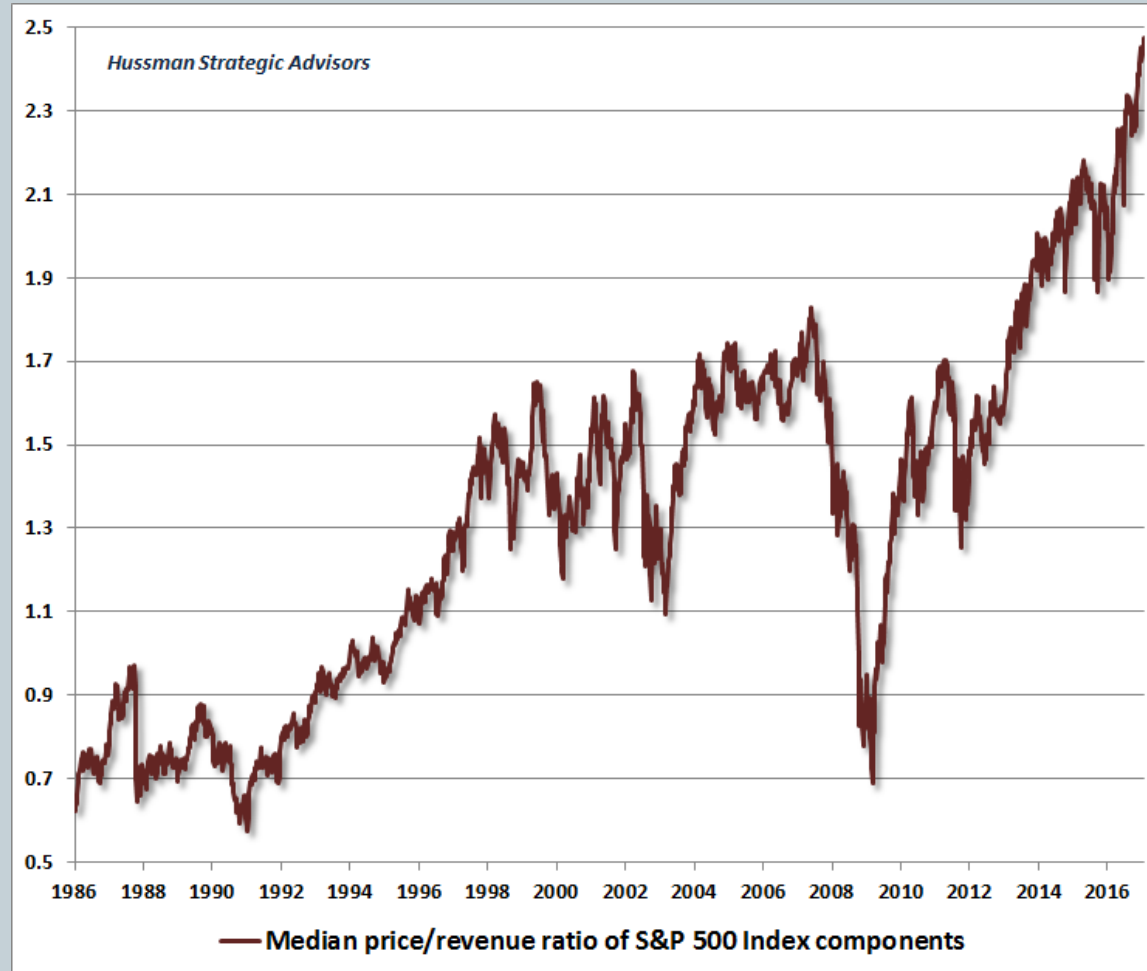
3. Productive Assets

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But isn't the market expensive?



But isn't the market expensive?



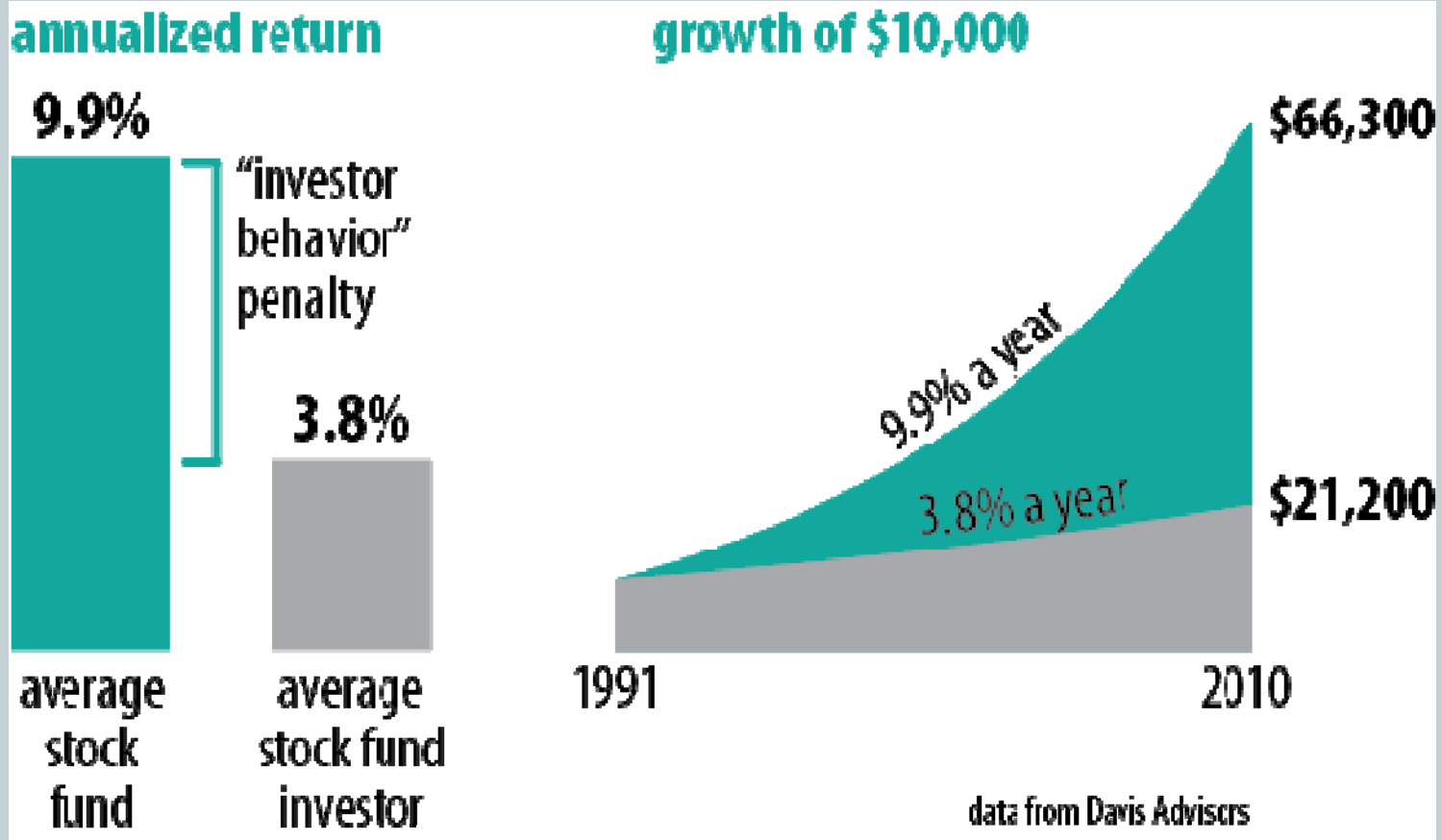
Should we time the market?



Economists Can't Forecast for Toffee (GDP % YoY, 4q ma)



Should we time the market?



Key to Investing Success: Avoid Permanent Losses



Longboard study from 1989 to 2015 says:
“Defense Wins Championships”

- Top 20% performing stocks explain stock market returns
- I.e., bottom performing 80% of stocks net to zero returns
- Approximately 45% negative returns were offset by next 35%
- You don't need top 20%, just avoid losses!

How Avoid Permanent Losses?



- 1) Don't overpay
- 2) Identify High Quality Businesses
- 3) Wait

“Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily-understandable business whose *earnings are virtually certain to be materially higher five, ten and twenty years from now...*If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes.”

– Warren Buffett, 1996 Berkshire Hathaway Annual Letter



Why High Quality Equities

High Quality Equity Outperformance



Safer Characteristics Tend to Outperform: The Relative Performance of Low-Risk Stocks vs. High-Risk Stocks

U.S. Large Cap		Leverage	Profitability	Profit Volatility	Combined Quality	Beta
Low Risk Stocks	High	Low 0.8%	High 0.4%	Low 0.4%	High 0.7%	Low 0.5%
Large Cap	Low	-1.7%	-0.7%	-0.7%	-1.7%	-2.2%
High Risk Stocks	High	High	Low	High	Low	High

EAFE		Leverage	Profitability	Profit Volatility	Combined Quality	Beta
Low Risk Stocks	High	Low 0.7%	High 1.2%	Low 1.8%	High 2.2%	Low 2.4%
MSCI EAFE	Low	-1.6%	-1.1%	-1.7%	-2.4%	-2.8%
High Risk Stocks	High	High	Low	High	Low	High

For the table above, U.S. Large Cap Stocks (the largest 1000 companies in the U.S.) and all companies within the EAFE index were sorted into approximate quartiles based on the factors above. The low and high bars represent the relative returns of those companies in the quartiles with the lowest and highest scores in each factor.

Source: GMO. GMO annualized data from 1/65 – 12/11 (U.S.) and 1/85 – 12/11 (EAFE)

High Quality Equity Outperformance



Quality: Finally, a Free Lunch – High Quality Stocks Win Over the Long Term



Note: GMO defines quality companies as those with high profitability, low profit volatility, and minimal use of leverage.

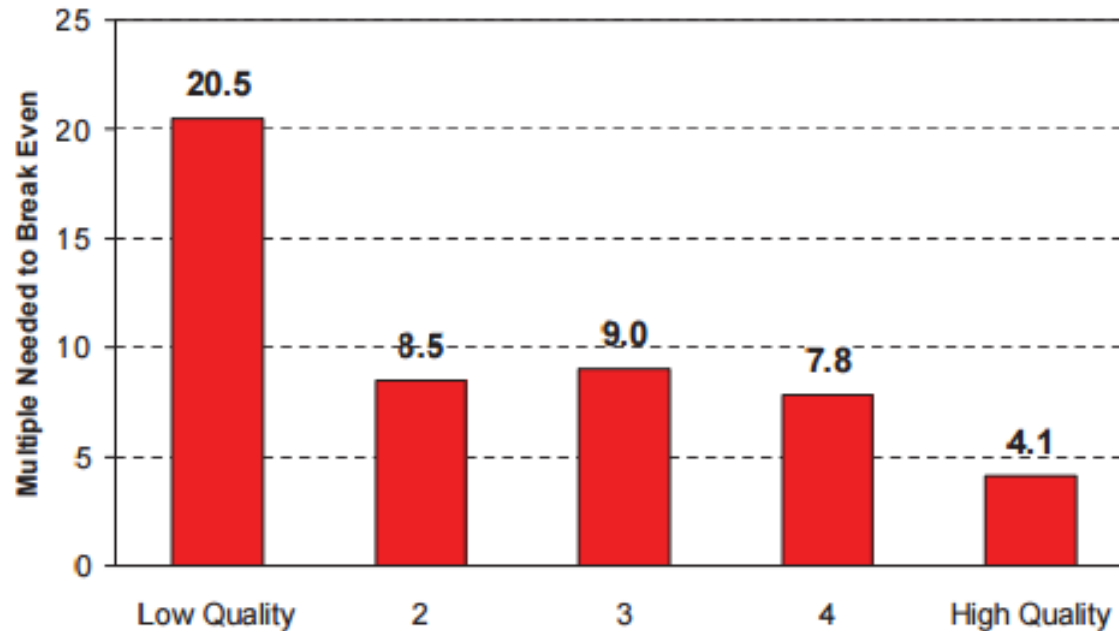
The historical valuation is determined by our proprietary intrinsic valuation measure.

Source: GMO As of 9/30/09

High Quality Equity Downside Protection



Quality as Armor Plating Is Free and When You Really Need It – Quality in the Great Depression



Outperformance needed for Low Quality to catch up to High Quality

404%

Number of years required if Low Quality outperformed by 1% per year

163

Source: GMO

Why is High Quality Outperformance Enduring?



- Stock market = efficient if all investors were:
 - a) rational or
 - b) irrational but randomly or independently of each other
- Humans = *systematically, non-independently* irrational
- Avaricious + Impatient = Interest in wider bell curve, riskier stocks
- Overconfidence = Belief one can pick the risky stocks with the higher likelihood of positive outcomes
- Avaricious + Impatient + Overconfidence = Systematic Overpricing of Risky Stocks and Systematic Underpricing of High Quality Stocks

Caveat: Loss Aversion and Return Enhancement



PG vs. S&P 500 vs. AXP during Great Financial Crisis of 2008



You can actually enhance returns by going down in quality to still great but more cyclical businesses because loss aversion actually trumps the above characteristics in certain rare environments of rapid or prolonged loss.

Characteristics of High Quality Equities



- 1) **High return on tangible assets (ROTA), High Returns on Incremental Invested Capital (ROIIC), i.e. low capital intensity**

Return on Tangible Assets



DuPont Analysis

$$\frac{\text{PROFIT}}{\text{EQUITY}} = \frac{\text{PROFIT}}{\text{SALES}} \times \frac{\text{SALES}}{\text{ASSETS}} \times \frac{\text{ASSETS}}{\text{EQUITY}}$$

$$\text{ROE} = \text{MARGIN} \times \text{PRODUCTIVITY} \times \text{LEVERAGE}$$

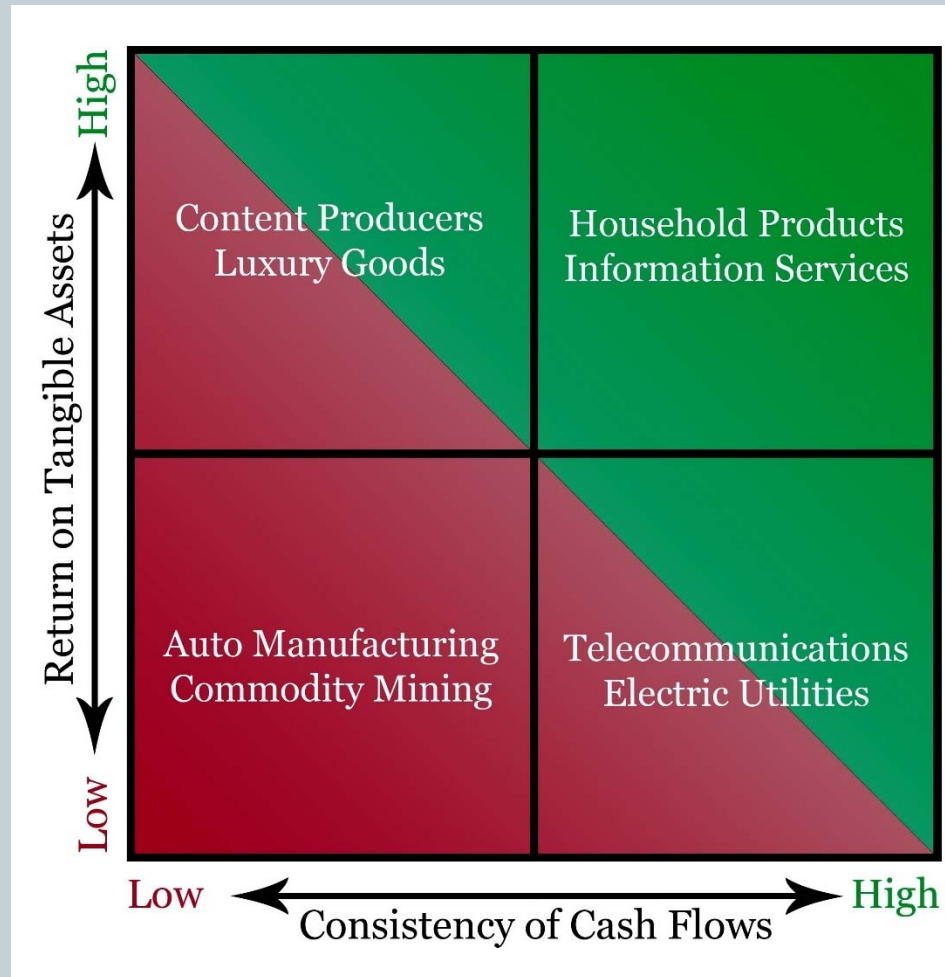
$$\text{ROTA} = \frac{\text{EBITA}}{(\text{PP\&E} + \text{Inventory} + \text{A/R} - \text{A/P})}$$

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Plotting ROTA and Cyclicality



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- 4) Pricing power - resistant to the deflationary impact of innovation
Example: social status
- 5) Low product penetration worldwide
- 6) Wide & Stable Profit Margins
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Invest in predictable growth



Remember Buffett said to buy “...easily-understandable business whose *earnings are virtually certain to be materially higher years from now...*”

– Warren Buffett, 1996 Berkshire Hathaway Annual Letter

Creative destruction is only increasing
90% of all scientists that ever lived are alive today,
and they are all sharing ideas

<http://futureoflife.org/2015/11/05/90-of-all-the-scientists-that-ever-lived-are-alive-today/>

Invest in businesses whose economics are least likely to change for the worse in the face of rapid technological progress

Case Study



versus



Characteristics of High Quality Equities

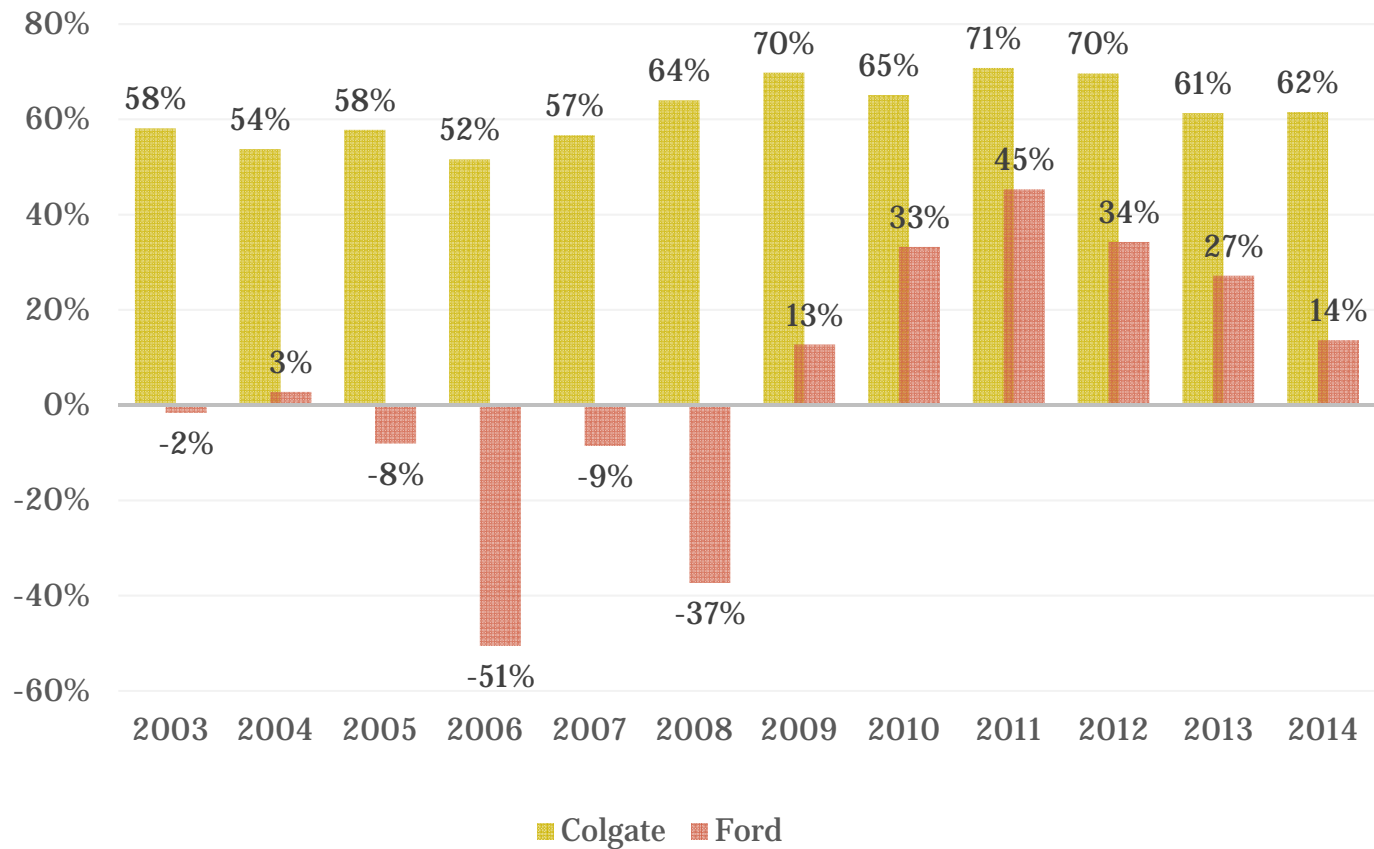


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Return on Tangible Assets



ROTA



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ROIIC



FORD MOTOR	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EPS	4.97	3.58	3.58	5.62	5.28	5.86	3.22	(3.02)	0.15	0.50	2.13	1.25	(1.50)	(0.19)	(3.13)	-	1.91	1.95	1.40	1.62	1.16
Dividends	0.91	1.23	1.47	1.65	1.72	1.88	1.80	1.05	0.40	0.40	0.40	0.40	0.25	-	-	-	-	-	0.20	0.40	
Reinvested	4.06	2.35	2.11	3.97	3.56	3.98	1.42	(4.07)	(0.25)	0.10	1.73	0.85	(1.75)	(0.19)	(3.13)	-	1.91	1.95	1.20	1.22	
Cumulative Reinvested	4.06	6.41	8.52	12.49	16.05	20.03	21.45	17.38	17.13	17.23	18.96	19.81	18.06	17.87	14.74	14.74	16.65	18.60	19.80	21.02	
EPS Gain	(1.39)	(1.39)	0.65	0.31	0.89	(1.75)	(7.99)	(4.82)	(4.47)	(2.84)	(3.72)	(6.47)	(5.16)	(8.10)	(4.97)	(3.06)	(3.02)	(3.57)	(3.35)	(3.81)	
ROIIC	-34%	-22%	8%	2%	6%	-9%	-37%	-28%	-26%	-16%	-20%	-33%	-29%	-45%	-34%	-21%	-18%	-19%	-17%	-18%	
COLGATE	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EPS	0.48	0.45	0.53	0.61	0.66	0.74	0.85	0.96	1.10	1.23	1.21	1.32	1.46	1.69	1.83	2.19	2.16	2.47	2.58	2.38	2.36
Dividends	0.20	0.22	0.24	0.27	0.28	0.30	0.32	0.34	0.36	0.45	0.48	0.56	0.63	0.70	0.78	0.86	1.02	1.14	1.22	1.33	
Reinvested	0.29	0.23	0.29	0.35	0.38	0.44	0.53	0.62	0.74	0.78	0.73	0.76	0.83	0.99	1.05	1.33	1.14	1.33	1.36	1.05	
Cumulative Reinvested	0.29	0.52	0.81	1.15	1.53	1.97	2.50	3.12	3.86	4.64	5.37	6.13	6.96	7.95	9.00	10.33	11.47	12.80	14.16	15.21	
EPS Gain	(0.03)	0.05	0.13	0.18	0.26	0.37	0.48	0.62	0.75	0.73	0.84	0.98	1.21	1.35	1.71	1.68	1.99	2.10	1.90	1.88	
ROIIC	-11%	9%	16%	15%	17%	19%	19%	20%	19%	16%	16%	16%	17%	17%	19%	16%	17%	16%	13%	12%	

Characteristics of High Quality Equities

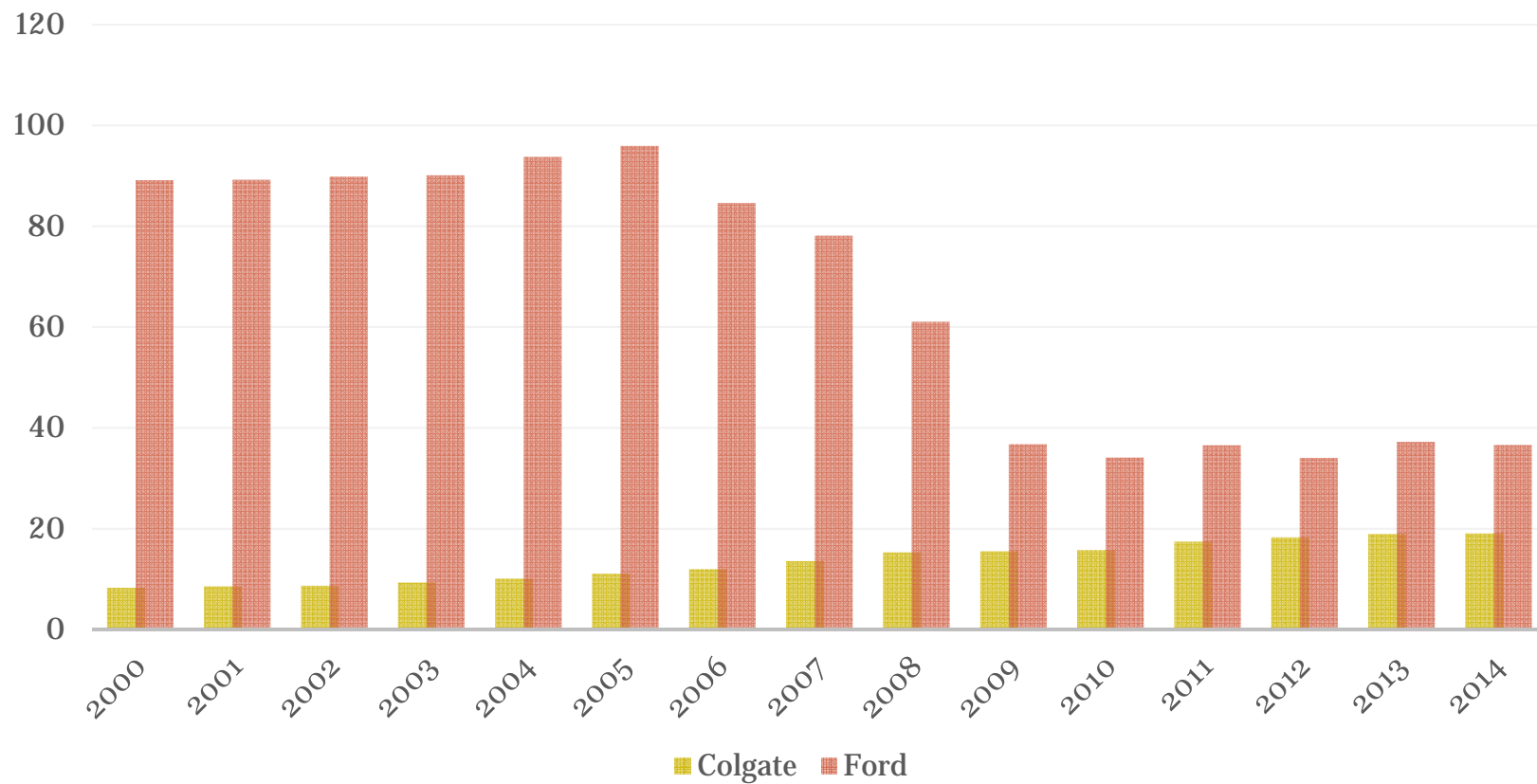


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Cyclicality



Sales per Share



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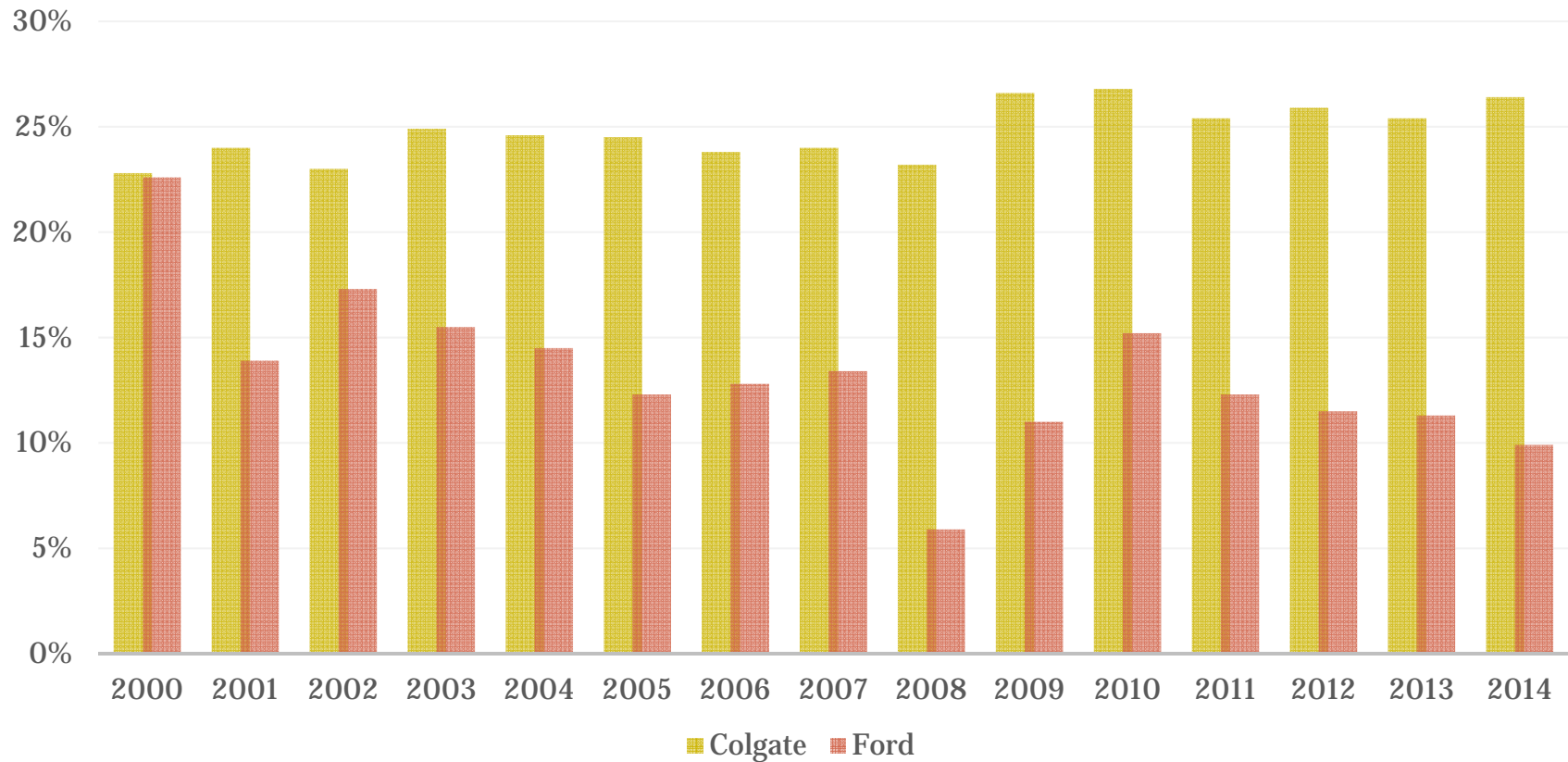


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Margins



Operating Margins



Characteristics of High Quality Equities

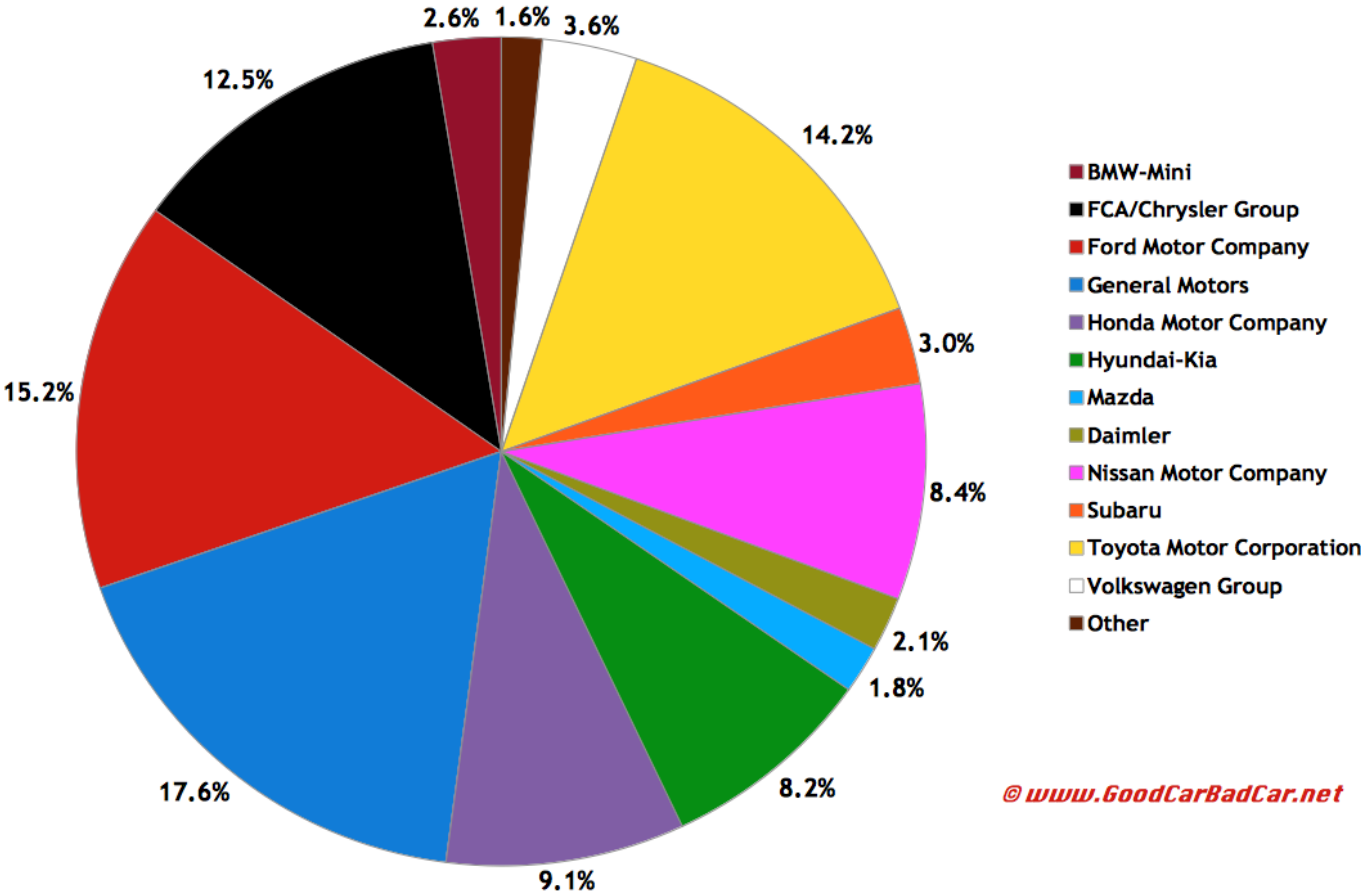


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Ford Market Share



**Auto Manufacturer Market Share In America
June 2015**

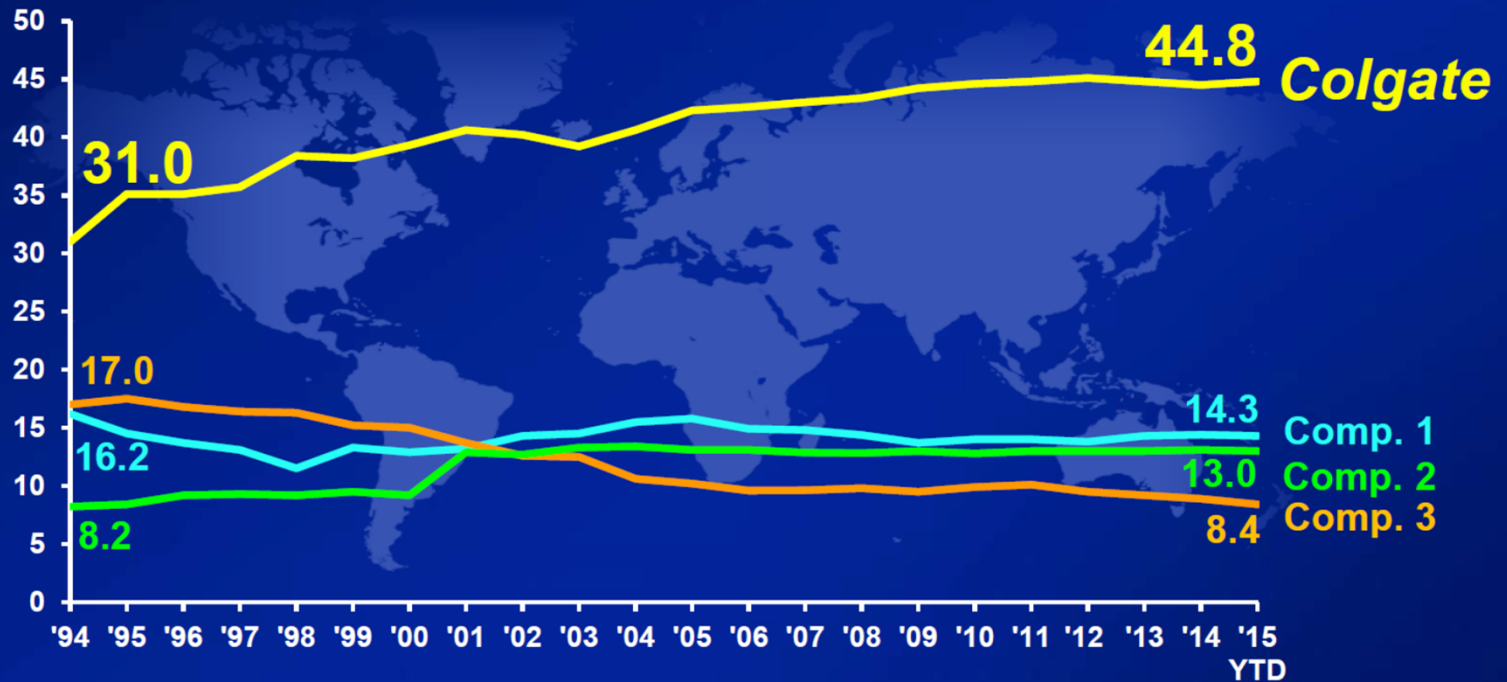


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Colgate Market Share



Worldwide Toothpaste Shares



Worldview 360°

Conservative Use of Leverage



EBIT
Interest Expense

$$\text{CL} = \frac{5,059}{3,999} = 1.27$$

$$\text{F} = \frac{9,257}{6,275} = 1.48$$

$$\text{CL} = \frac{3,557}{24} = 148$$

$$\text{F} = \frac{2,023}{721} = 2.81$$

Net Debt
EBITDA

Case Study



versus



Since 1977

CL compounded at 13.2%
Profitable 79% of years

F compounded at 9.2%
Profitable 58% of years

\$10,000 grew to \$1,216,000

\$10,000 grew to \$302,000

Future Prospects of CL



Calculating Expected Returns



$$\begin{aligned} &\text{Expected Return} \\ &= \\ &\text{Shareholder Yield} \\ &+ \\ &\text{Growth} \end{aligned}$$

Calculating Shareholder Yield



$$\begin{aligned} &\text{Shareholder Yield} \\ &= \\ &\text{Earnings Yield} \\ &\times \\ &\text{FCF Multiplier} \\ &\times \\ &\text{Margin Multiplier} \\ &\times \\ &\text{Leverage Multiplier} \end{aligned}$$

CL Shareholder Yield



Shareholder Yield =

Earnings Yield	\$2.91 / \$73	=	4.0%
	x		
FCF Multiplier	? %	=	?
	x		
Margin Multiplier	? %	=	?
	x		
Leverage Multiplier	? %	=	?



True Free Cash to Shareholders



Colgate	2006	2007	2008	2009	2010	2011	2012	2013	2014	TOTAL
Net Share Repurchase	\$ 0.47	\$ 0.72	\$ 0.78	\$ 0.73	\$ 1.74	\$ 1.48	\$ 1.53	\$ 1.26	\$ 1.25	
Dividends	\$ 0.66	\$ 0.78	\$ 0.88	\$ 0.98	\$ 1.17	\$ 1.23	\$ 1.34	\$ 1.48	\$ 1.58	
Total Cash to Shareholders	\$ 1.13	\$ 1.50	\$ 1.66	\$ 1.71	\$ 2.91	\$ 2.71	\$ 2.87	\$ 2.74	\$ 2.83	\$ 20.06
Net Income	\$ 1.23	\$ 1.60	\$ 1.83	\$ 2.18	\$ 2.16	\$ 2.47	\$ 2.57	\$ 2.38	\$ 2.36	\$ 18.78
										107%
Net Debt/share	\$ 3.74	\$ 3.63	\$ 3.87	\$ 3.80	\$ 4.42	\$ 5.62	\$ 6.41	\$ 6.46	\$ 7.52	
Total Assets/share	\$ 8.30	\$ 9.30	\$ 9.33	\$ 10.61	\$ 10.93	\$ 12.93	\$ 13.95	\$ 14.88	\$ 14.56	\$ 0.96
	45%	39%	42%	36%	40%	43%	46%	43%	52%	7%
Debt Adjusted CF	\$ 1.13	\$ 3.19	\$ 4.62	\$ 6.98	\$ 9.41	\$ 11.82	\$ 14.36	\$ 17.47	\$ 19.10	\$ 19.10
Net Income	\$ 1.23	\$ 2.83	\$ 4.66	\$ 6.84	\$ 9.00	\$ 11.47	\$ 14.04	\$ 16.42	\$ 18.78	\$ 18.78
	92%	113%	99%	102%	105%	103%	102%	106%	102%	102%

True Free Cash to Shareholders



	2006	2007	2008	2009	2010	2011	2012	2013	2014	N.I. =	19,839
FCF: CF - CAPX - Net Acquisitions	1,205	1,752	1,676	2,719	2,703	1,656	2,674	2,546	2,478		19,409
FCF/N.I.	89%	97%	82%	113%	117%	65%	102%	106%	106%		98%

	2006	2007	2008	2009	2010	2011	2012	2013	2014	N.I. =	19,839
FCF: N.I. + D&A - CAPX - Net Acquisitions	1,066	1,638	1,759	2,190	2,181	1,735	2,534	2,191	1,961		17,255
FCF/N.I.	79%	91%	86%	91%	94%	68%	96%	91%	84%		87%

CL Shareholder Yield



Shareholder Yield =

Earnings Yield	$\$2.86 / \62	=	4.0%
	x		
FCF Multiplier	90%	=	3.6%
	x		
Margin Multiplier	100%	=	3.6%
	x		
Leverage Multiplier	100%	=	3.6%

Calculating Expected Returns

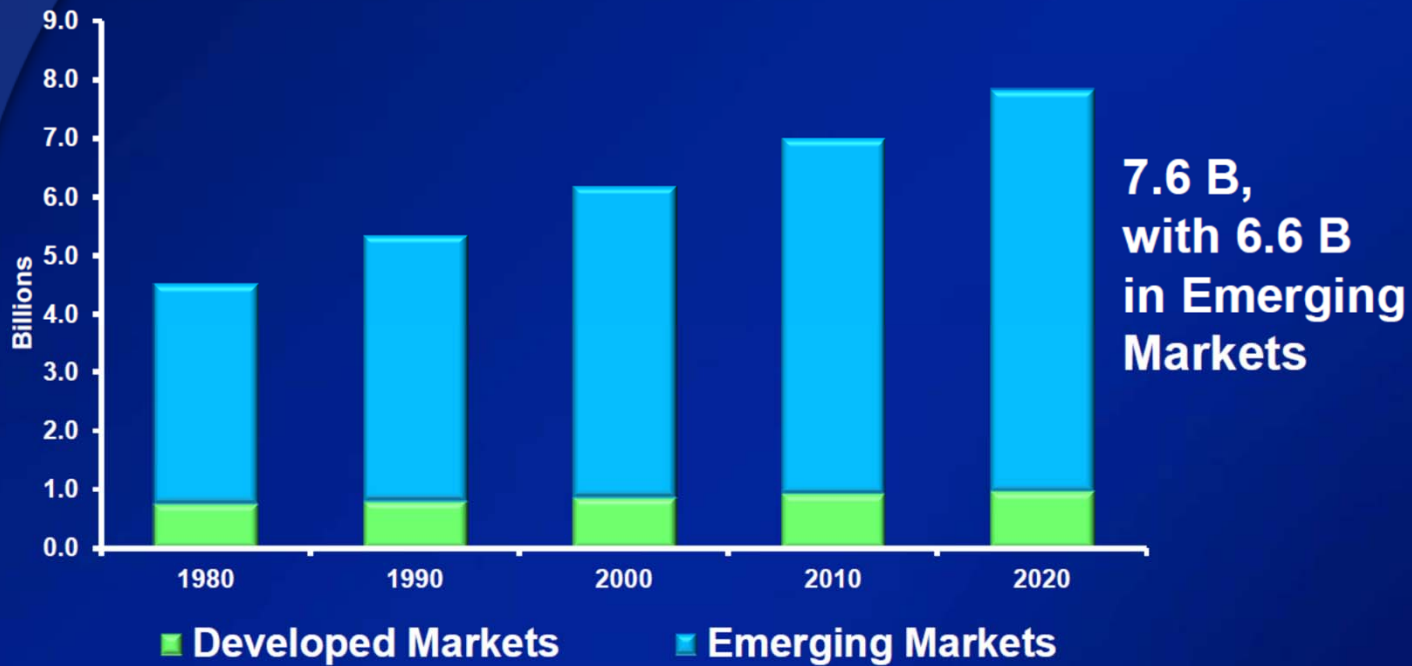


$$\begin{aligned} &\text{Expected Return} \\ &= \\ &\text{Shareholder Yield (3.6\%)} \\ &+ \\ &\textbf{Growth} \end{aligned}$$

Growth



Significant Population Growth



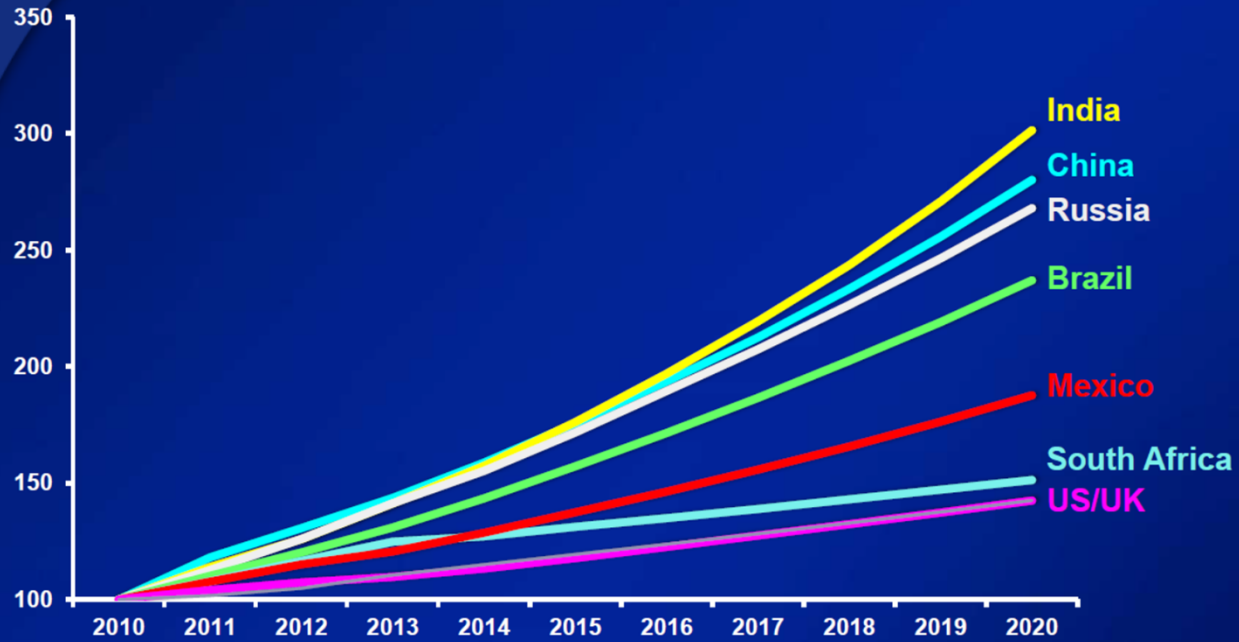
95% of growth from Emerging Markets

Source: Euromonitor 2013

Growth



Rising Per Capita Income



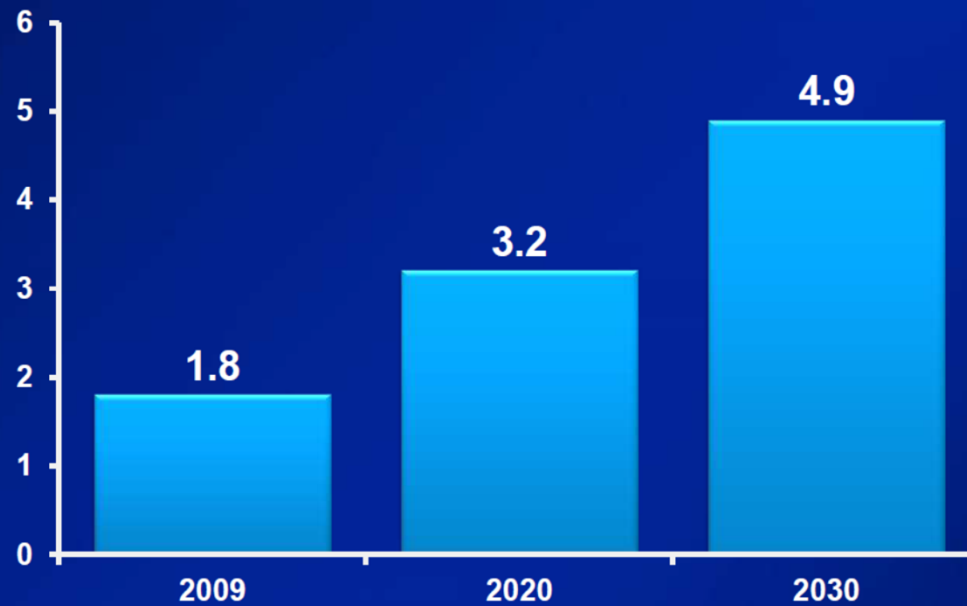
China and India: three-fold growth 2010-2020

Source: Euromonitor 2013

Growth



Emerging Middle Class Billions of People Globally



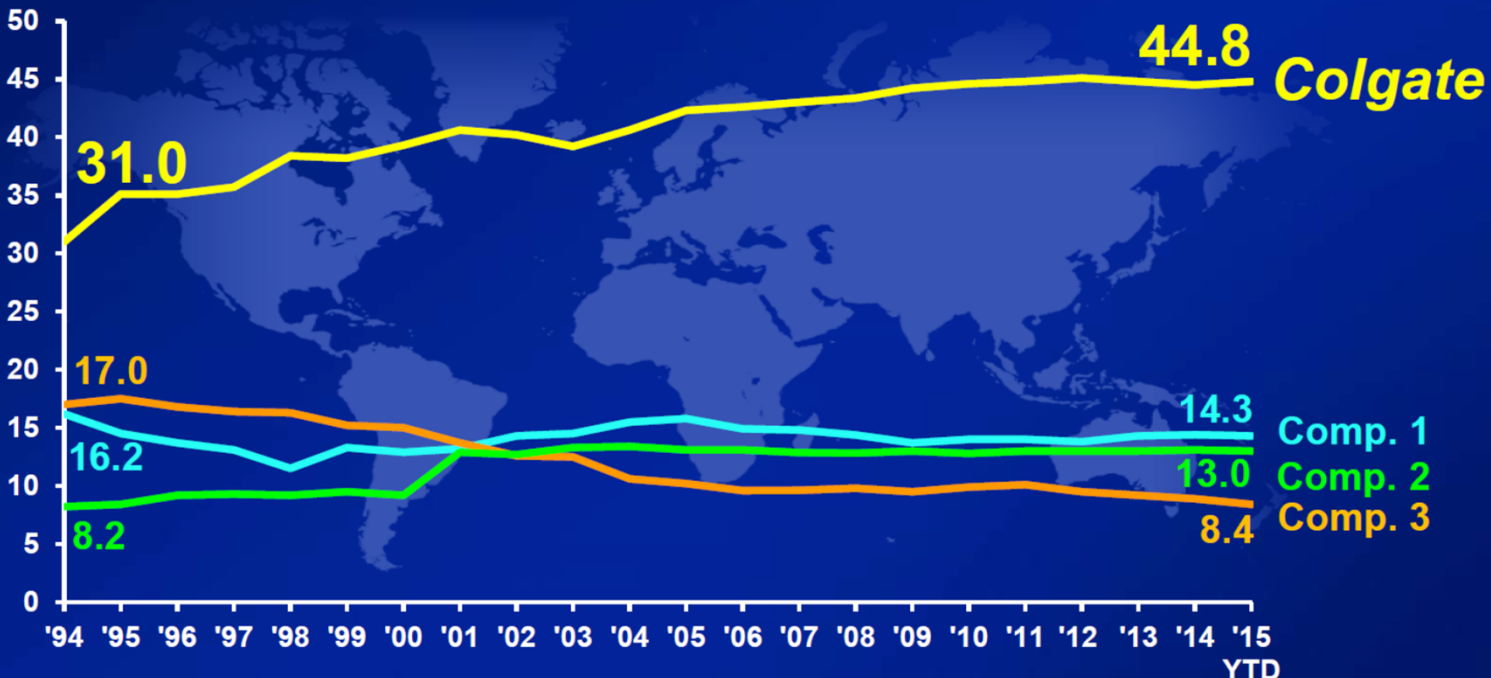
Over 700 million out of poverty in China and India

Source: Euromonitor 2013

Market Share



Worldwide Toothpaste Shares

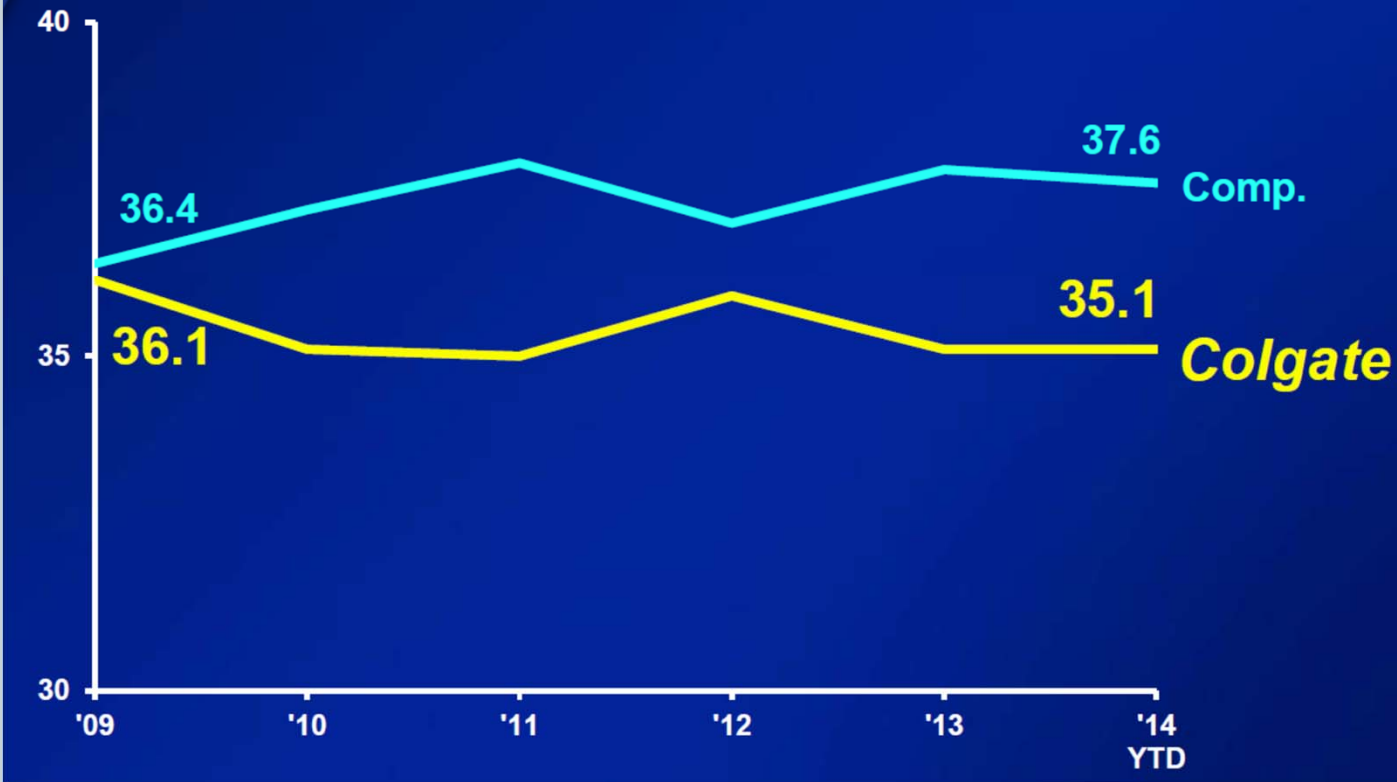


Worldview 360°

Market Share



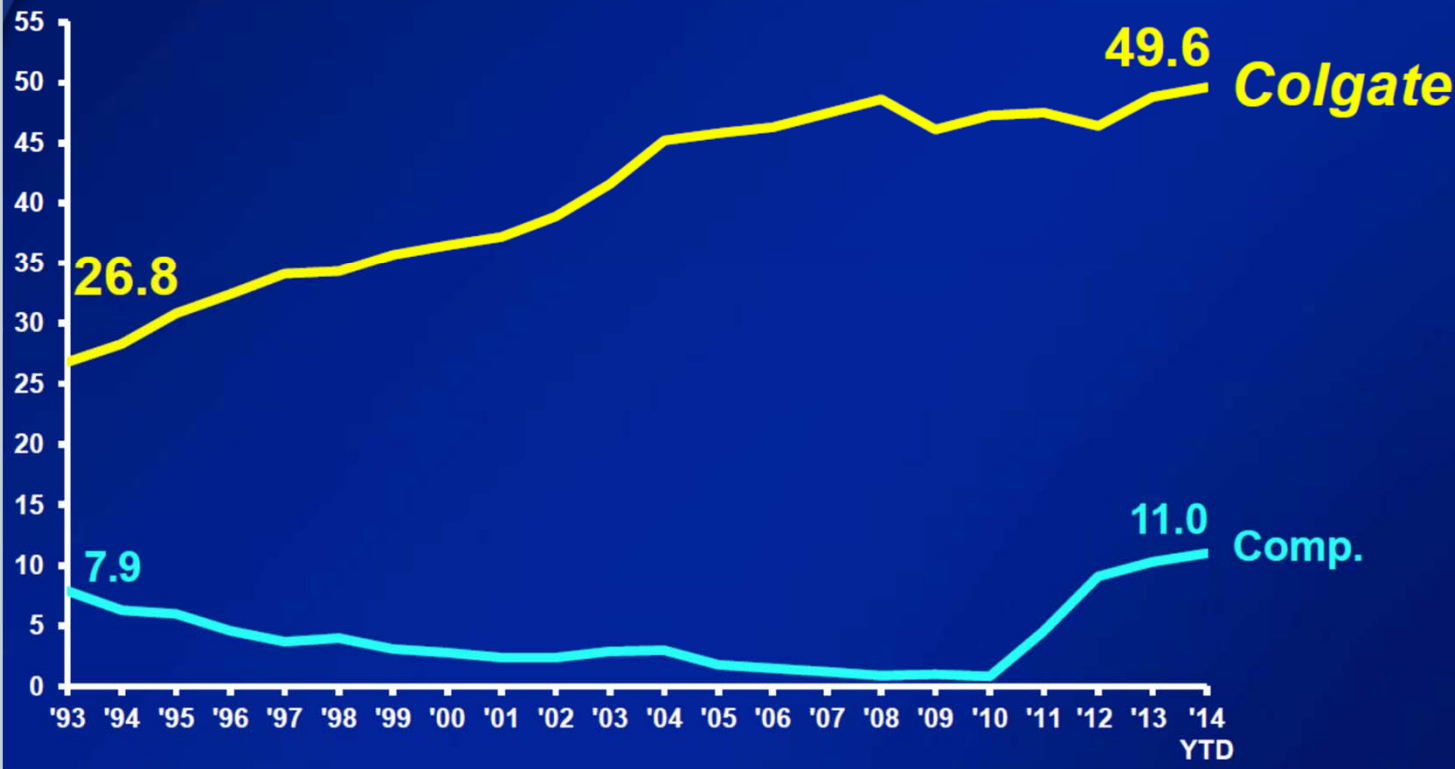
U.S. Toothpaste Market Shares **(Expanded All-Outlet Combined)**



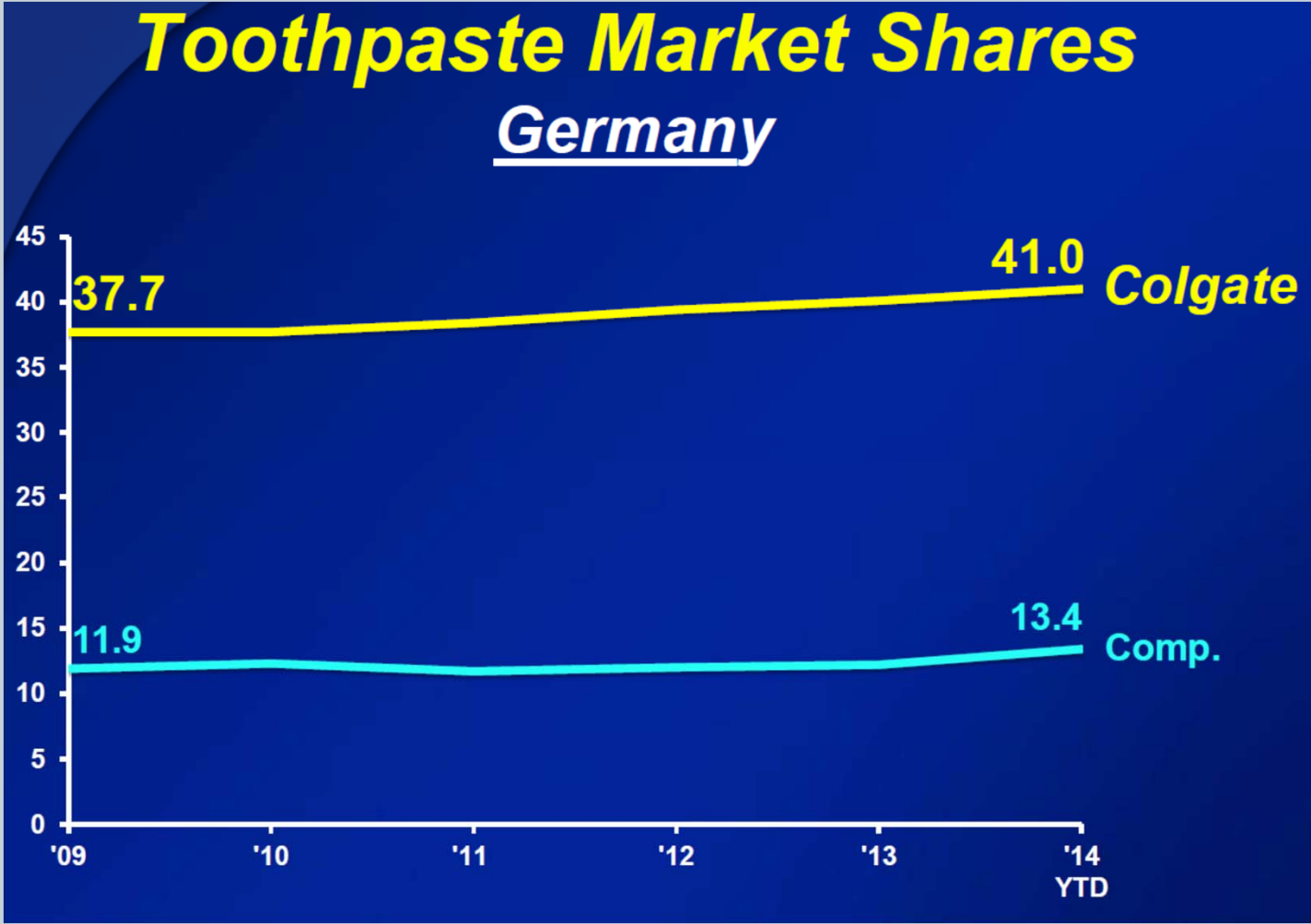
Market Share



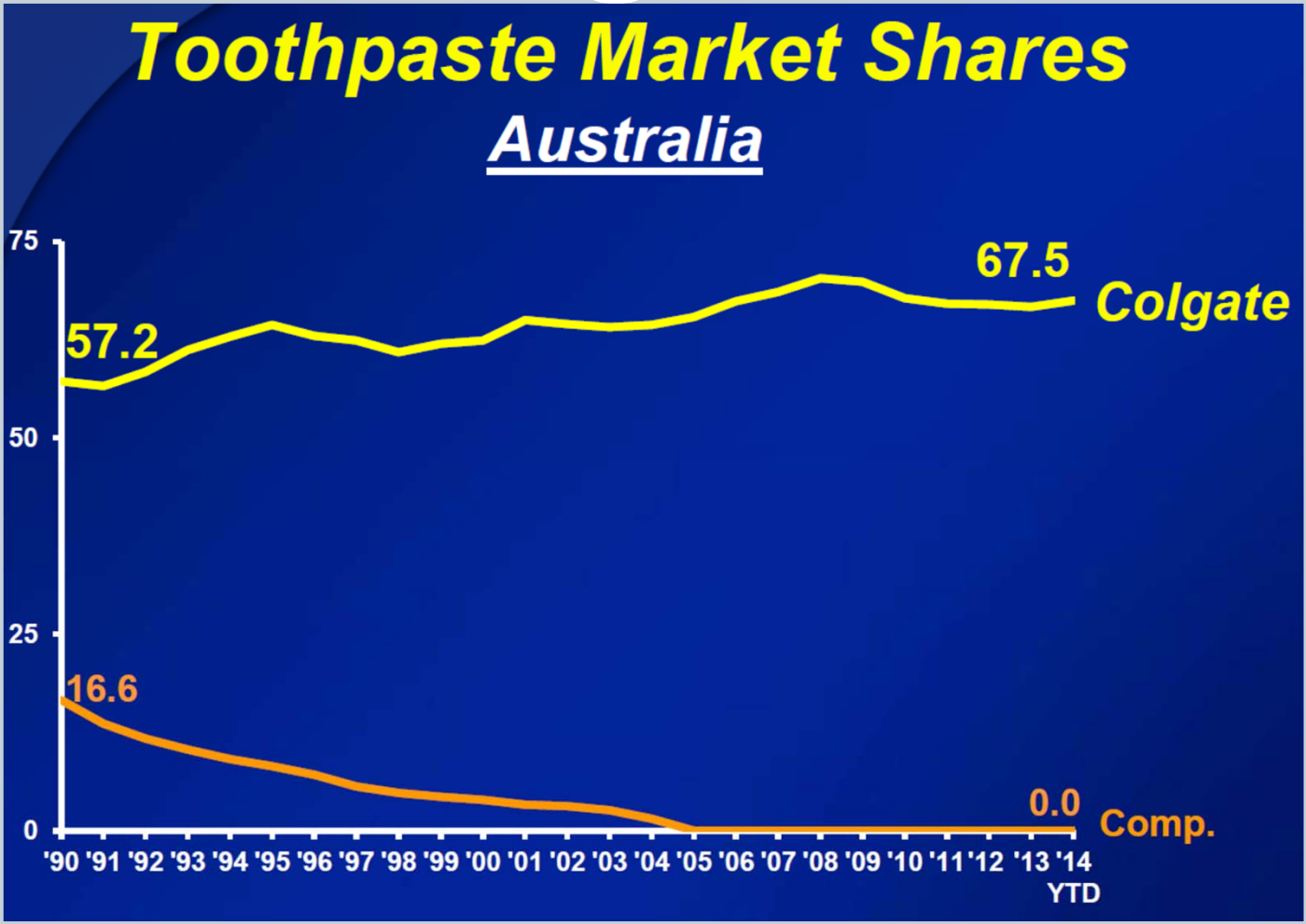
Toothpaste Market Shares **U.K.**



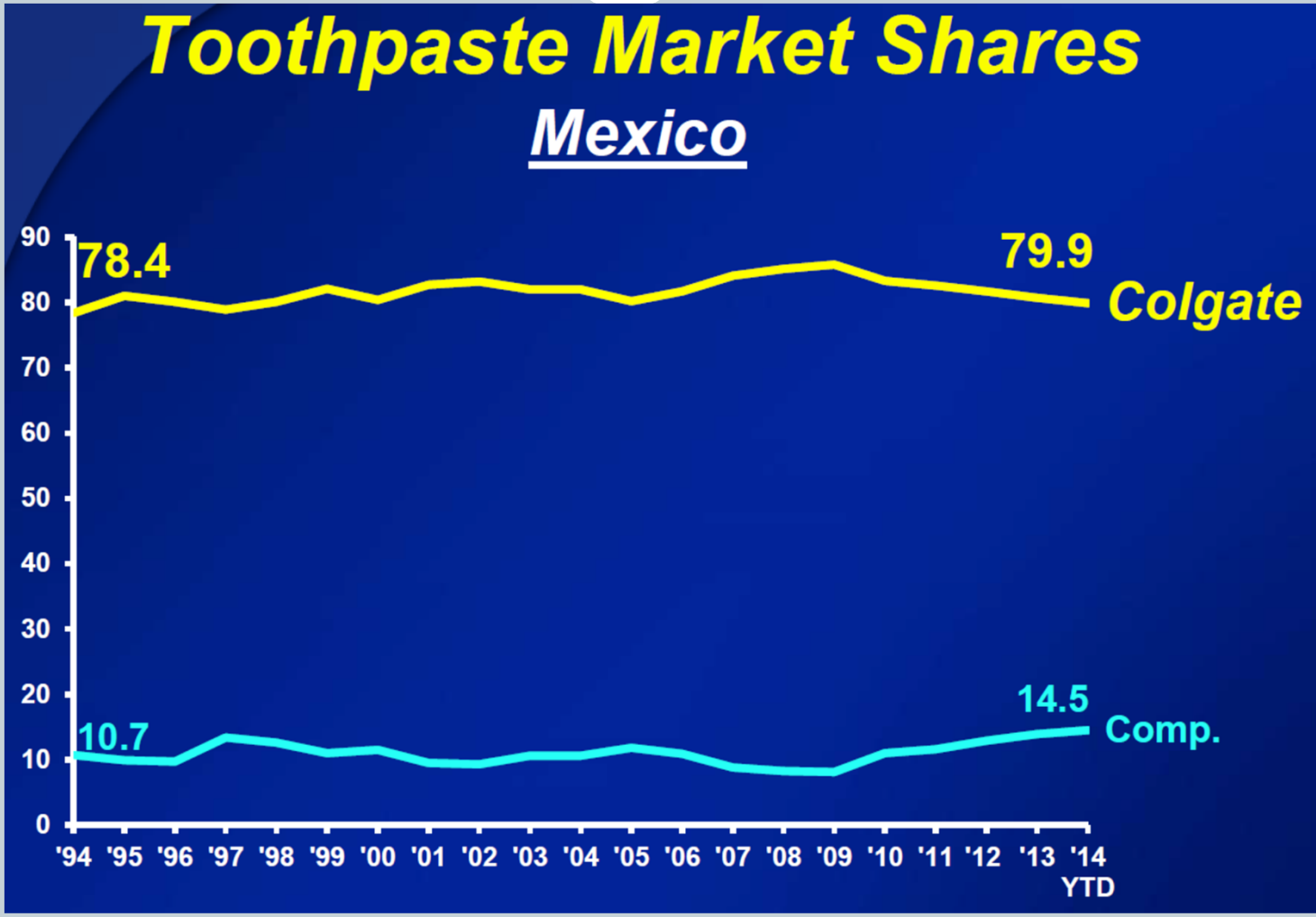
Market Share



Market Share



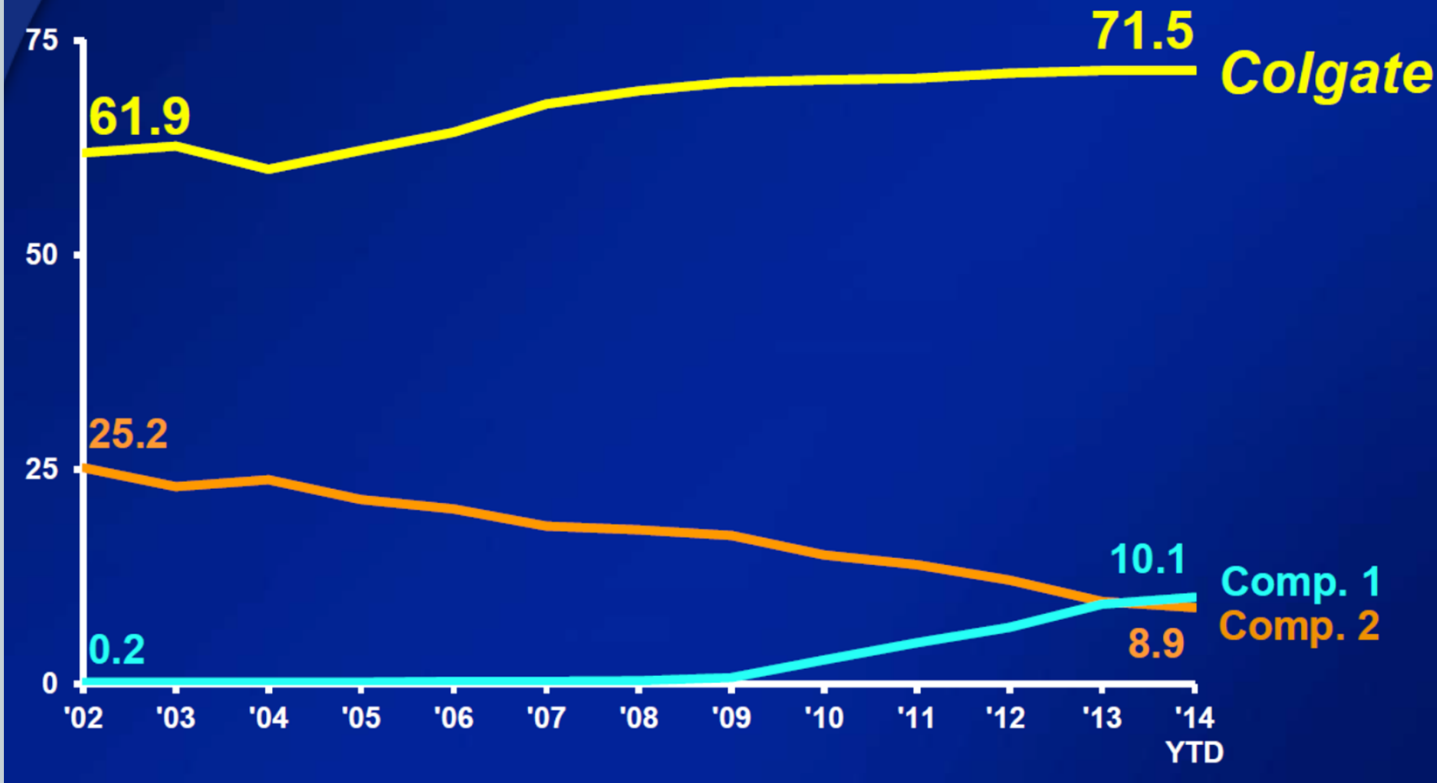
Market Share



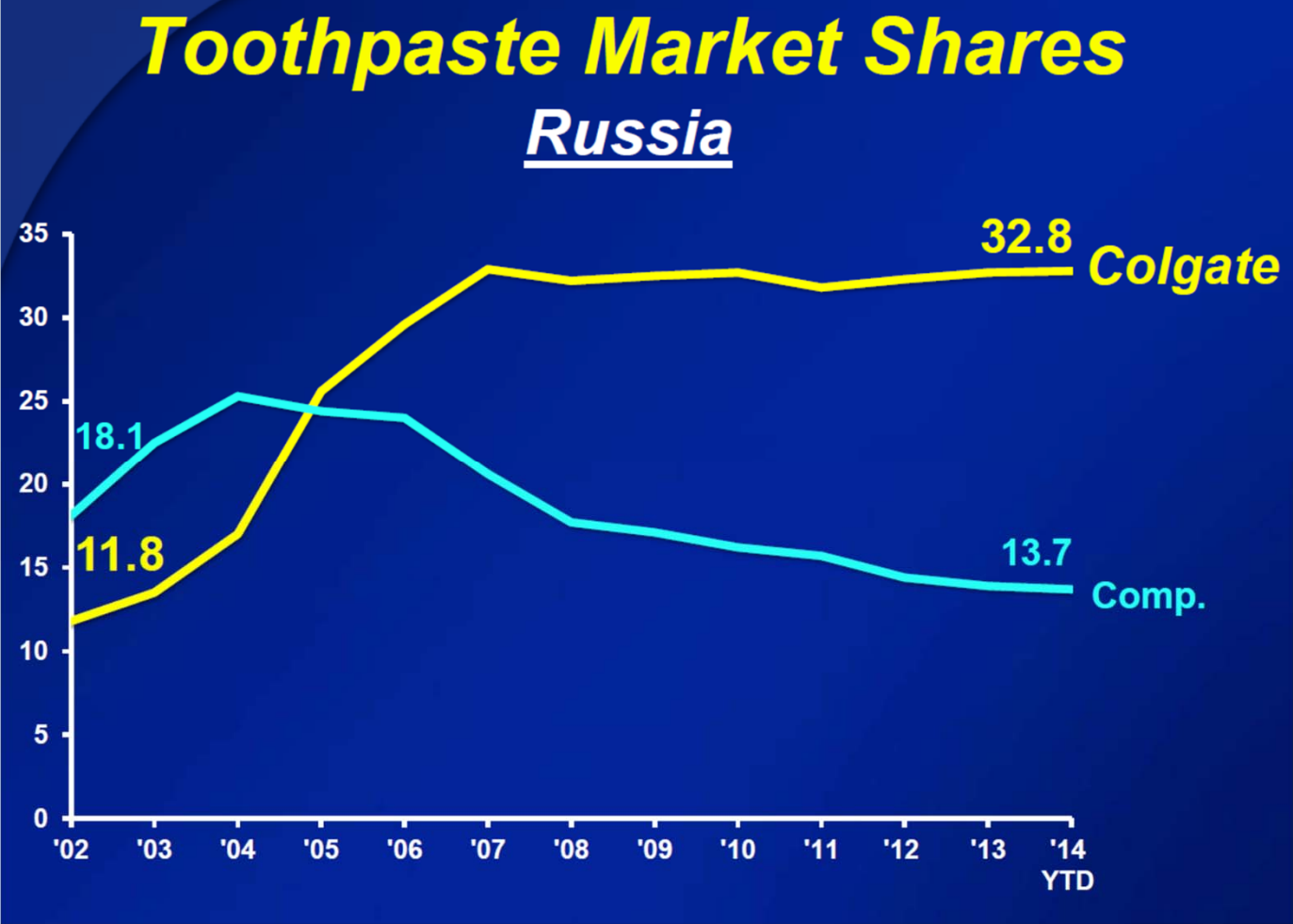
Market Share



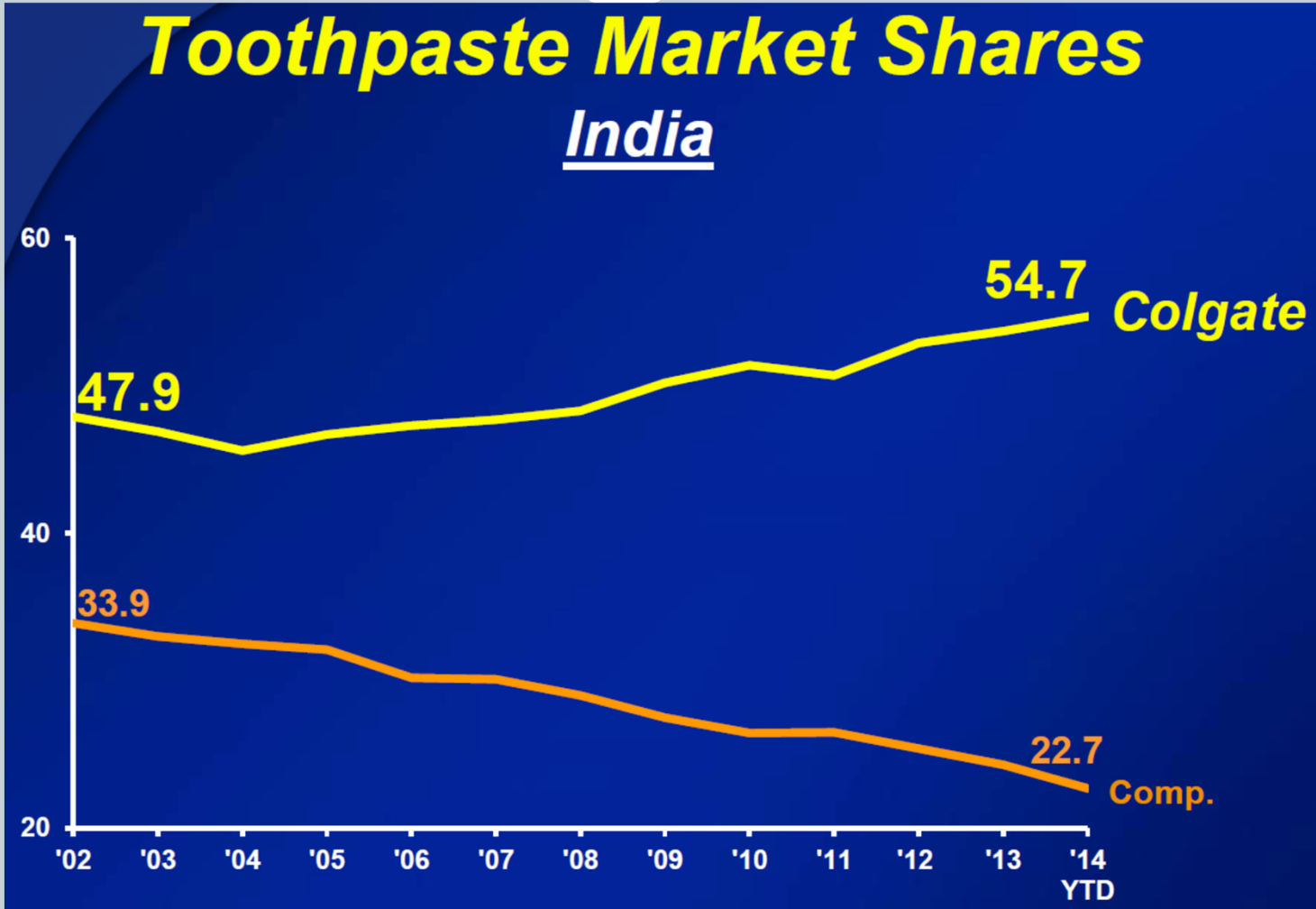
Toothpaste Market Shares Brazil



Market Share



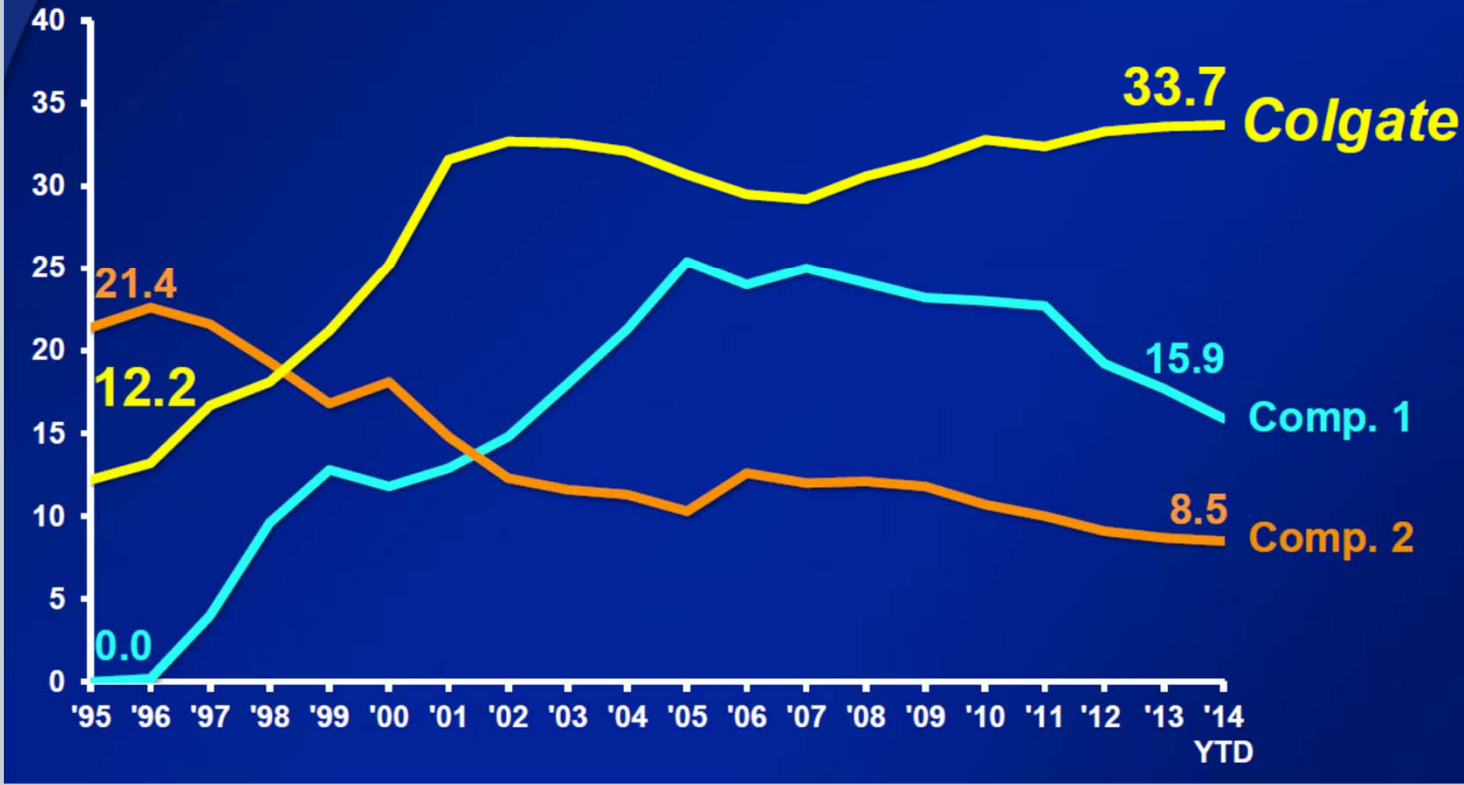
Market Share



Market Share



Toothpaste Market Shares China



Growth



Toothpaste Annual Per Capita Consumption Grams per Person

Nigeria	68
India	137
China	277
Russia	362
South Africa	499
U.K.	543
Mexico	520
U.S.	561
Brazil	622

Average Selling Price (\$US)

	<u>U.S.</u>	<u>Brazil</u>	<u>China</u>	<u>India</u>
Toothpaste*	\$0.69	\$0.53	\$0.41	\$0.16
Toothbrush	\$2.59	\$1.72	\$0.59	\$0.21

Growth



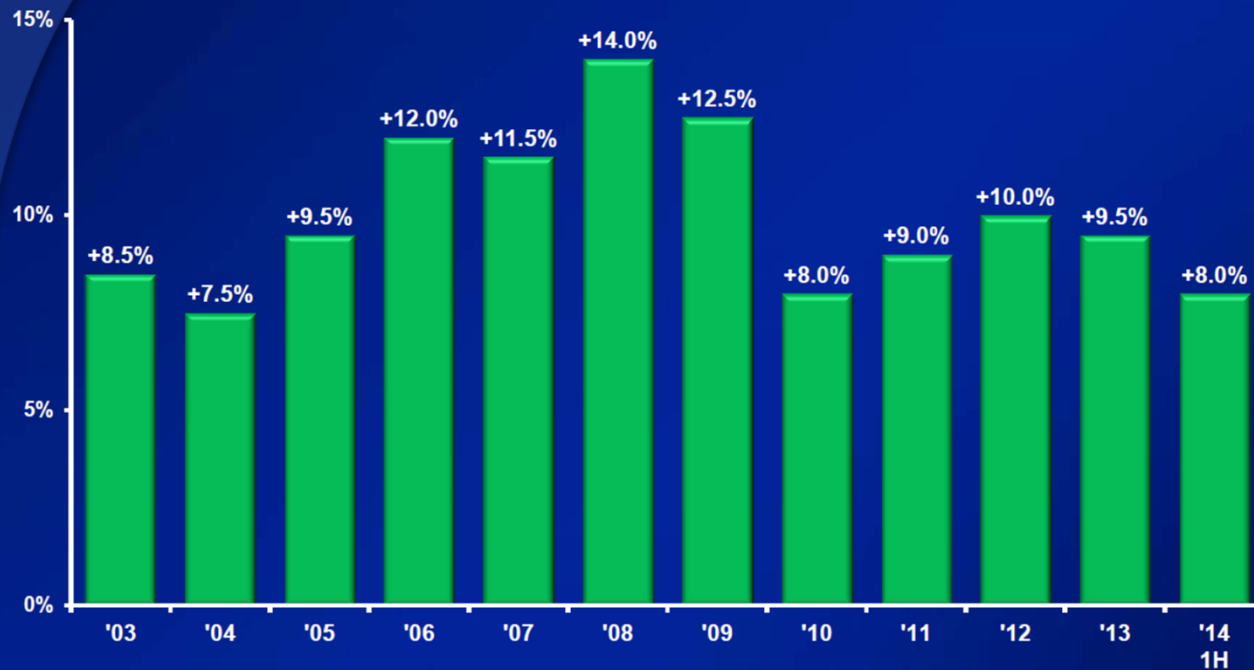
Topline Growth

	<u>2003-08 CAGR</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Q1 2015</u>
Volume (excluding divestitures)	+6.2%	+0.5%	+3.0%	+4.0%	+3.5%	+5.0%	+3.0%	+1.5%
Organic Sales Growth	+6.9%	+6.5%	+3.0%	+4.0%	+6.0%	+6.0%	+5.0%	+4.0%

Growth



Colgate's Emerging Market Organic Sales Growth

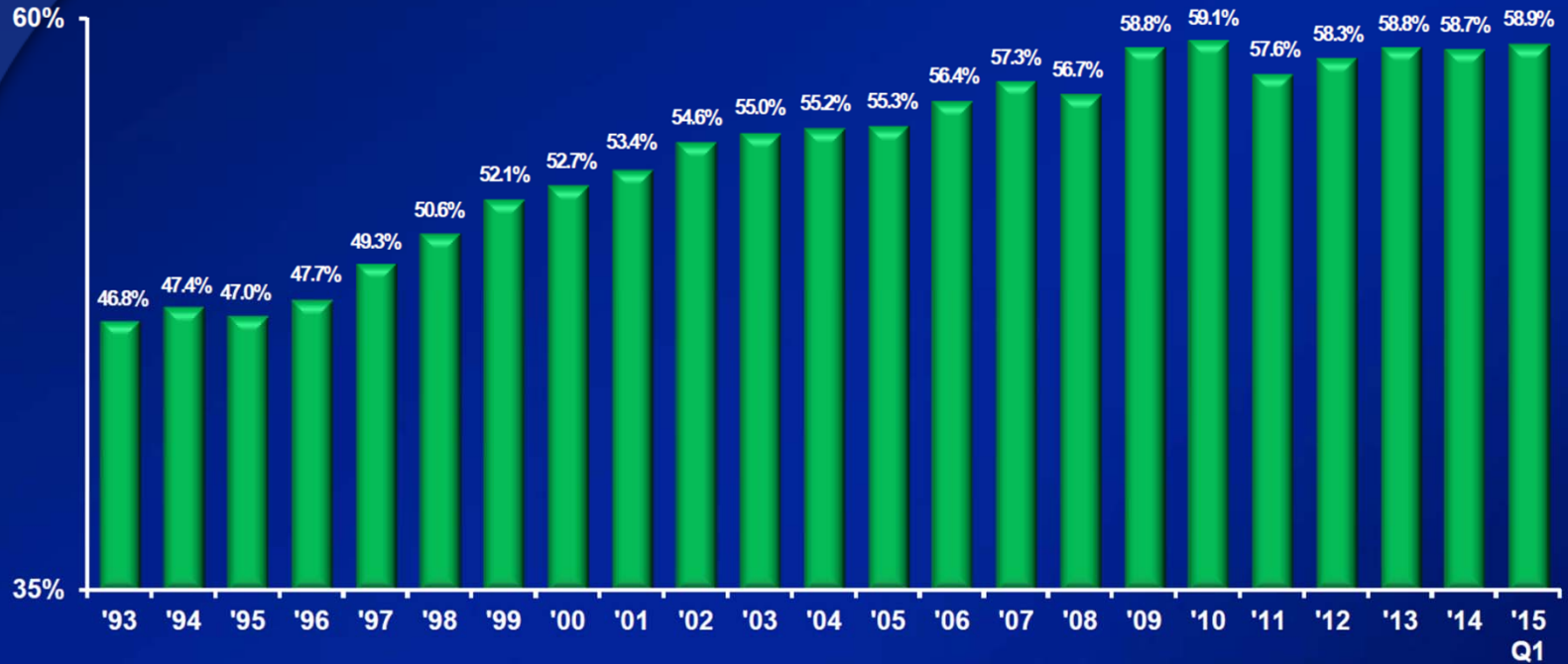


Includes Latin America, Asia (ex. Japan) and Africa/Eurasia

Growth

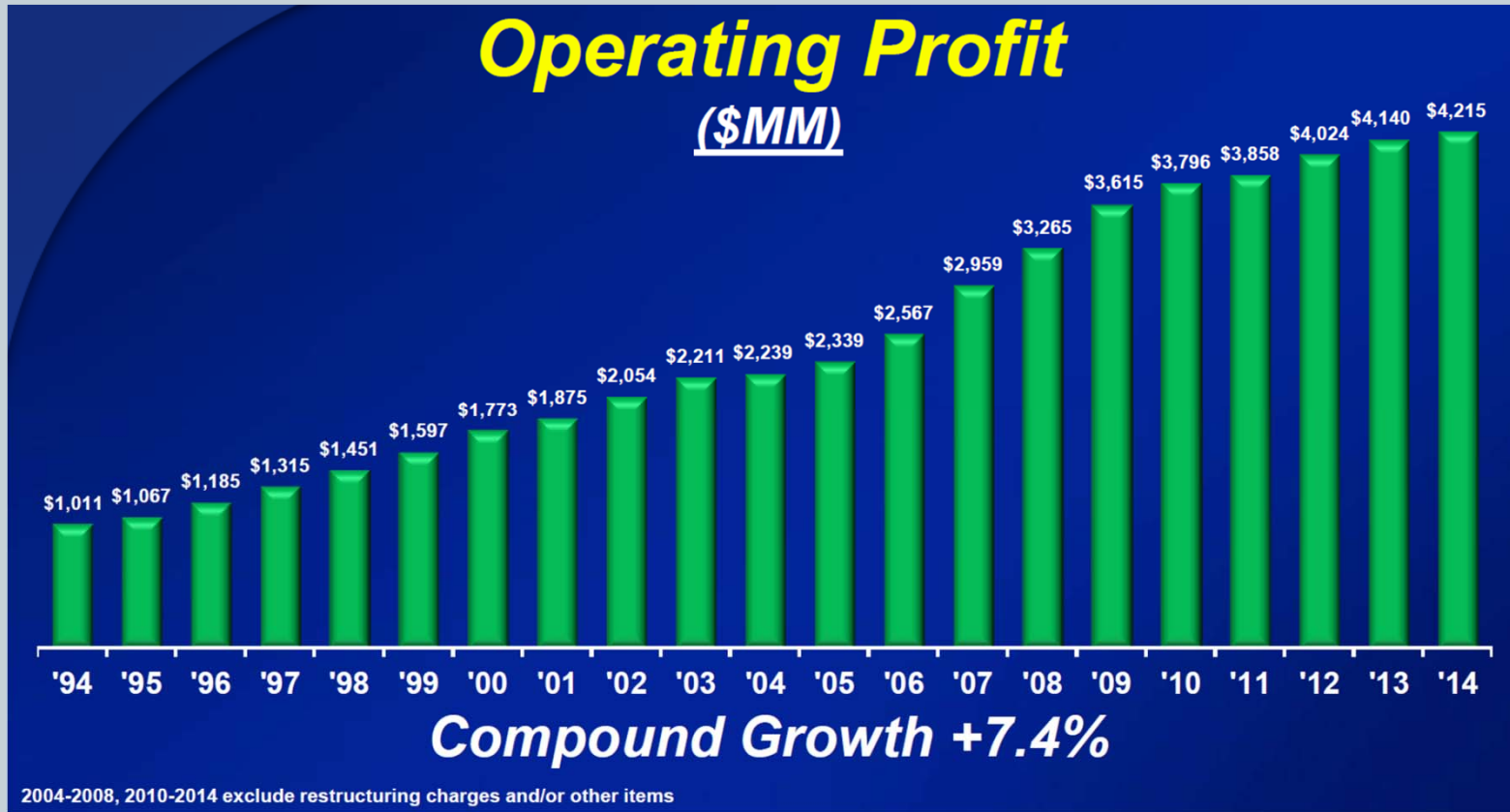


Gross Margin



2004-2008, 2010-2014 exclude restructuring charges and/or other items

Growth



Calculating Expected Returns



Expected Return

=

Shareholder Yield 3.6%

+

Growth 6.0%

=

9.6%

Conclusion



- **Equities are the bricks**
- **High Quality Equities are the best bricks**
- **Hopefully, you understand tools to help you identify these High Quality Equities**

Any questions?