

Consumer Staples: Good Quality Doesn't Come Cheap

The Consumer Staples sector has the strongest Quality (P-R) relative to other sectors (**Figure 1**) and ranks 4th in our latest PRVit Sector Ranking within the large cap universe, scoring better, at 49, than the global average PRVit of 48. The sector also ranks above its cyclical counterpart, Consumer Discretionary, which has struggled with deteriorating EVA Fundamentals since early 2024.

While EVA Momentum (growth) for Staples (not shown) has seen downward pressure recently, two of the EVA drivers: Sales Growth and EBITDAR Margin, have demonstrated some improvement over the last few months. Valuations remain a concern, however, as many firms in the sector exhibit high Quality (P-R) and strong EVA Fundamentals but come with a premium Valuation, particularly in the large cap space.

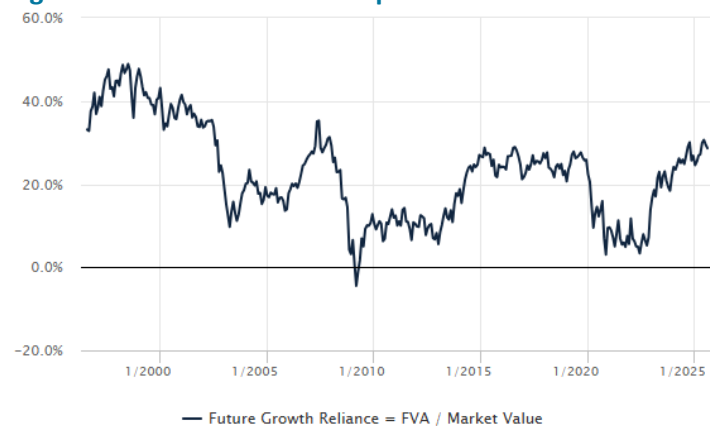
Figure 1: PRVit Sector Ranking – Global Large Cap (Market cap \$10Bn+)

Global \$10B+	PRVit	Quality	Value
Health Care	55	62	64
Financials	51	67	54
Information Technology	50	62	74
Consumer Staples	49	71	60
Communication Services	47	55	58
Consumer Discretionary	46	68	66
Industrials	45	63	65
Materials	45	46	52
Energy	43	38	38
Utilities	40	42	49
Global \$10B+ Average	48	61	60

Amidst the backdrop of a high probability of an expected rate cut by the Fed, we published a report last week, titled [Fed Rate Cuts Provide a Buffer?](#), where we noted that Staples is one of the few sectors to have outperformed during previous rate cuts. The sector has averaged positive returns during past rate cuts, with all PRVit factors generating a positive spread. This could potentially act as a tailwind for the sector that has slightly underperformed the STOXX World AC All Cap Index YTD, at 10.2% for the sector (**Figure 3**) vs 12.5% for the index.

Future Growth Reliance (FGR) for the sector (**Figure 2**) is down slightly since the end of May, but is near the highest levels since the GFC, being at 29% as of July, as investors price in strong expectations for recovery in EVA growth going forward.

Figure 2: Global Consumer Staples – Future Growth Reliance (FGR)



Key Summary

- The Consumer Staples sector has the strongest Quality (P-R) relative to other sectors and ranks 4th in our latest PRVit Sector Ranking within the large cap universe, scoring better, at 49, than the global average PRVit of 48. The sector also ranks above its cyclical counterpart, Consumer Discretionary.
- Amidst the backdrop of an expected rate cut by the Fed, we note that Staples is one of the few sectors to have outperformed during previous rate cuts, with all PRVit factors generating a positive spread.
- We explore EVA trends at the industry level, followed by looking at key EVA trends at the firm level, to build a bottom-up view, for the following names: **COST, PG, KO, PM, NSRGY, ULVR LN.**

EVA Primer

1. EVA measures the true economic profit of a business after compensating shareholders for use of their capital and is therefore superior to standard accounting measures.
2. The value of a company is the capital invested plus the present value of future EVA generation. The math is like a DCF:
Market Value = Capital + PV(EVA).
3. Therefore, more Economic Value Added (EVA) is better.

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About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

Visit our website www.EVAexpress.com

We now explore EVA trends within the sector to get a top-down view at the industry level, followed by exploring key trends at the firm level to build a bottom-up view. We cover the following names: **COST, PG, KO, PM, NSRGY, ULVR LN**. EVA Fundamentals for all the names except **ULVR LN** look decent at this stage. However, all six firms have either high (V > 60) or very high (V > 80) Valuations (higher is less preferable). **COST** and **PG** are the only two firms in the list that look attractive (PRVit > 50) in the framework.

Figure 3: Region-wise EVA and PRVit Metrics (Sales weighted), and YTD Returns (Market cap weighted)

Figure 3 shows the PRVit Score and EVA Fundamentals for Consumer Staples sector by region, on a sales-weighted basis. While global aggregate Quality (P-R) is strong, moderate Valuation levels drag the global PRVit Score to unattractive levels, impacted by a high Valuation score for North America. Asia ex Japan looks the most attractive in PRVit, given strong Quality and relatively favorable Valuations. The region also has the highest EVA Momentum as of the latest reported data. The sector has seen 10.2% returns on a YTD basis (market-cap weighted), with a comparable returns profile across all regions except Middle East and Africa (MEA), which has seen mid-single digit returns of 5.6% for 2025.

Consumer Staples	Global	North America	Europe	Asia ex Japan	Japan	MEA
PRVit Score	48	45	48	62	38	56
Quality (P-R)	64	65	61	64	56	67
Valuation Score (V)	50	57	43	46	36	48
EVA Margin (%)	2.8%	3.0%	3.1%	3.3%	0.1%	3.8%
EVA Momentum (%)	-0.0%	-0.2%	-0.7%	1.3%	-0.5%	1.1%
Returns YTD (%)	10.2%	9.6%	11.2%	10.6%	10.8%	5.6%

Figure 4: Industry-wise EVA and PRVit Metrics (Sales weighted), YTD Returns (Market cap weighted)

In the table below (**Figure 4**), we classify PRVit Score, EVA Fundamentals, and YTD returns for each industry within the Staples sector. While all industries have a positive EVA Margin, only the Food Products industry has positive EVA Momentum (growth) and EVA Shock (1 Qtr), demonstrating a positive and improving incremental EVA creation trend for the industry. Tobacco, one of our most preferred industries back in January ([2025 Consumer Staples Outlook](#)), has seen very strong returns on a YTD basis, at 27.9%. Household Products has very strong Quality, but it also has the highest Valuation levels across the sector (higher is less favorable), at a time when the incremental EVA creation trend (EVA Momentum and EVA Shock) is negative for the industry.

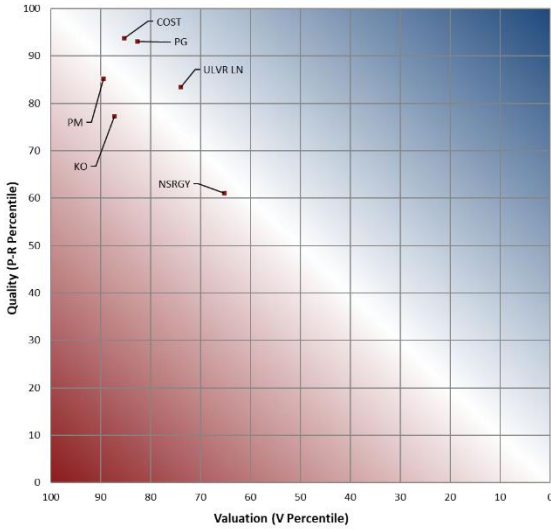
Industry	EVA Margin (%)	EVA Momentum (%)	EVA Shock (1 Qtr.)(%)	PRVit Score	Quality (P-R)	Valuation Score (V)	Returns YTD (%)	ESG Perf Score
Distribution & Retail	0.9%	-0.1%	-0.1%	47	61	51	11.2%	41.89
Household Products	8.2%	-1.1%	-0.2%	59	85	66	-5.2%	55.25
Beverages	7.9%	-0.7%	-0.4%	49	70	55	5.1%	43.65
Tobacco	15.6%	-0.6%	-0.0%	48	79	60	27.9%	44.14
Personal Care Products	4.8%	-1.1%	-1.2%	37	70	64	3.7%	51.91
Food Products	2.3%	0.8%	0.2%	52	59	39	8.4%	37.68

In the next section of the report, we explore EVA trends for each industry in the sector by taking a bottom-up approach and looking at the largest name in every industry for which we have the latest quarterly data. **Figure 5** has the EVA Fundamentals, PRVit scores, ESG Performance scores, and the YTD returns profile for the following firms: **COST, PG, KO, PM, NSRGY, and ULVR LN**. **Figure 6** shows a PRVit HEAT Map where we demonstrate the Quality-Value profiles for the six firms. Finally, we present firm-level write ups for each company.

Figure 5: Firm-Level EVA Data – COST, PG, KO, PM, NSRGY, and ULVR LN

Name	Ticker	Industry	Country	Mkt Cap (\$mm)	EVA Margin (%)	EVA Momentum (%)	EVA Shock (1 Qtr.)(%)	PRVit Score	Quality (P-R)	Valuation Score (V)	Returns YTD (%)	ESG Perf Score
COSTCO WHOLESALE CORP	COST	Distribution & Retail	U.S.	431,118	2.2%	0.2%	-0.1%	55	94	85	6.5%	41.76
PROCTER & GAMBLE CO	PG	Household Products	U.S.	364,391	13.2%	-1.0%	0.1%	54	93	83	-6.1%	58.74
COCA-COLA CO	KO	Beverages	U.S.	301,302	19.7%	-1.5%	0.5%	22	77	87	13.9%	44.27
PHILIP MORRIS INTERNATIONAL	PM	Tobacco	U.S.	258,690	22.0%	3.1%	1.7%	28	85	89	40.3%	51.95
NESTLE SA/AG -ADR	NSRGY	Food Products	Switzerland	231,434	11.8%	0.2%	0.0%	26	61	65	0.7%	55.12
UNILEVER PLC	ULVR LN	Personal Care Products	U.K.	149,168	7.9%	-0.6%	-0.7%	33	83	74	-3.0%	58.30

Figure 6: PRVit HEAT Map – COST, PG, KO, PM, NSRGY, and ULVR LN



COST, PG, and ULVR LN are in the 'Expensive but Worth It' HEAT Map zone, demonstrating very strong Quality (P-R) and high Valuation levels.

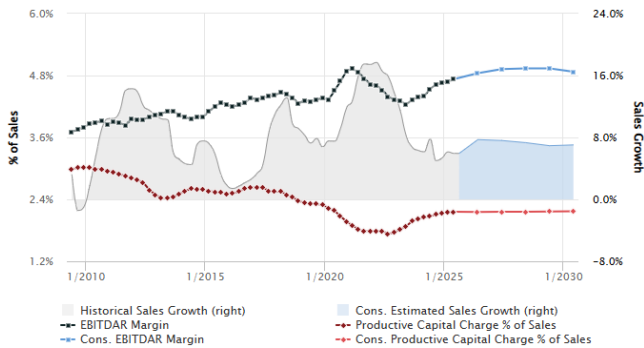
PM, KO, and NSRGY lie in the 'Overly Exp Quality' HEAT Map zone. Firms in this zone have strong Quality but also exhibit expensive Valuations.

Summary Firm-level Commentary

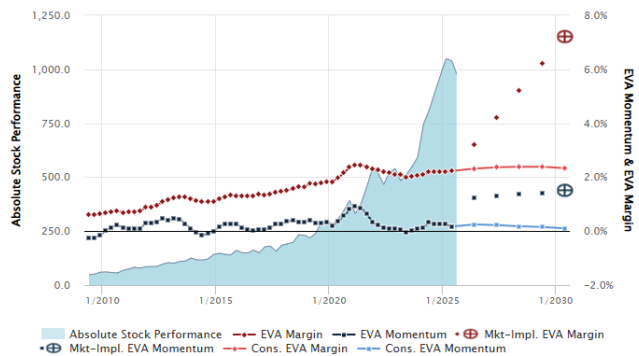
Costco Wholesale Corporation

Costco Wholesale Corporation (COST, rated 'Hold'): EVA Momentum (growth) has been pressured over the last four quarters but has remained positive, reflecting the firm's ability to generate positive incremental EVA. This has been supported by favorable top-line growth, given strong growth in membership income and E-comm comparable sales, and eight sequential quarters of expansion in EBITDAR Margin. EVA Margin has also seen a 20bps expansion over the last eight quarters, currently being at 2.2%, only 30bps away from the record highs of 2021. Embedded expectations for growth (FVA) are at very high levels relative to history, at a time when Current Value Added (CVA) has continued to trend higher since bottoming out in the quarter ending May 2023. Future Growth Reliance (FGR) is currently near record-high levels, with around 70% of the current market value being dependent on EVA growth going forward. **COST** has very strong Quality, but the market has already priced in expectations for very strong EVA growth.

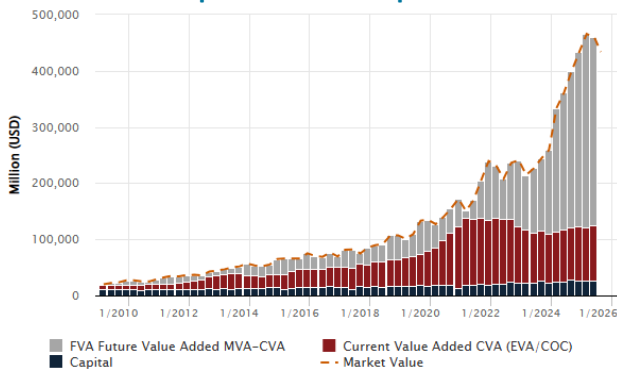
EVA Drivers



EVA Fundamentals



Enterprise Value Components



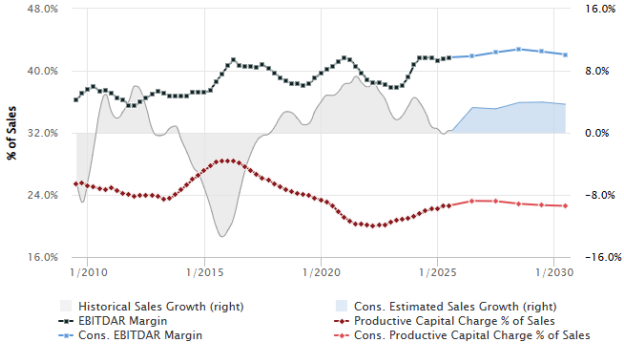
Future Growth Reliance (FGR)



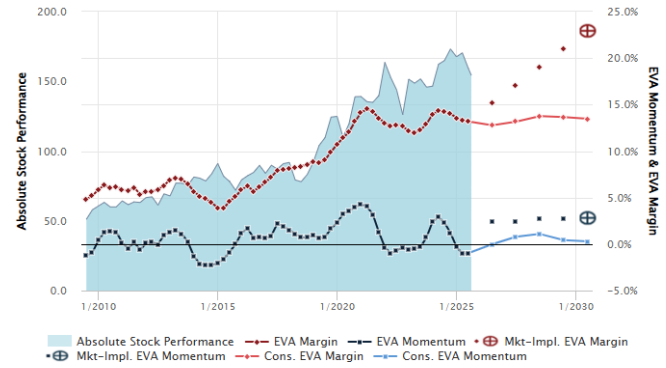
The Procter & Gamble Company

The Procter & Gamble Company (PG, rated 'Hold'): EVA Momentum (growth) has seen early signs of bottoming out after 4 sequential quarters of deceleration, though the metric is still negative at -1% as of the quarter ending June. Sales growth inflected positively in June, driven by favorable Price/Mix growth across most segments, while Volume remained flat, and EBITDAR Margin has expanded to all-time high levels of 41.7%. Asset efficiency, measured by the Productive Capital Charge, has seen a sustained deterioration since Q1 2022. This has contributed to the 120bps contraction in EVA Margin over the last five quarters to 13.2%. Embedded growth expectations (Future Value Added, FVA) continue to remain at historically elevated levels. Future Growth Reliance (FGR) has moved slightly lower, from 40% at the end of March to near 35% as of August 18th. EVA Fundamentals look closer to a bottoming out, but the market has already priced in expectations of a recovery in incremental EVA creation going forward, leaving us with a neutral view.

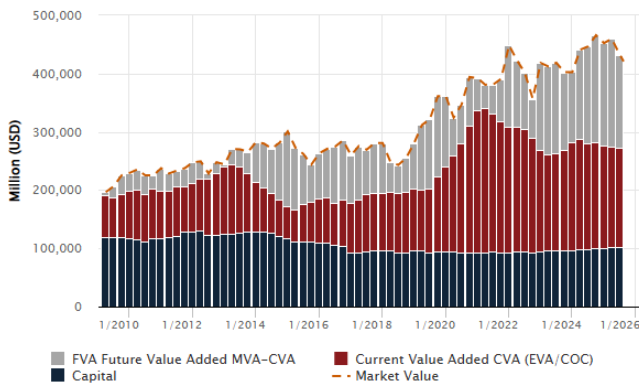
EVA Drivers



EVA Fundamentals



Enterprise Value Components



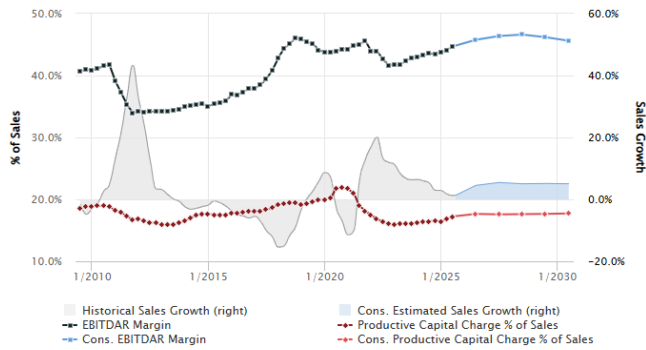
Future Growth Reliance (FGR)



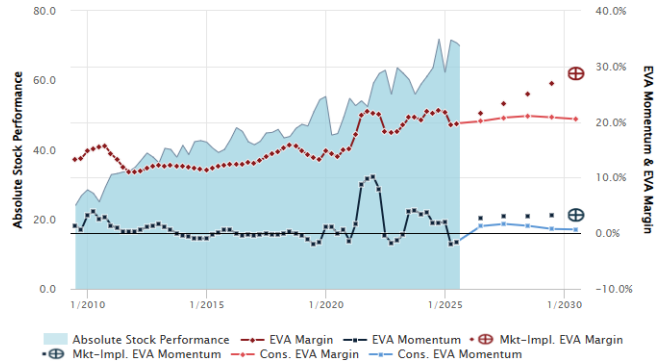
The Coca-Cola Company

The Coca-Cola Company (KO, rated 'Underweight'): Sales growth has continued to slow down, despite favorable price/mix growth, as unit case volume remained negative for the quarter ending June. **KO** has seen a sustained expansion in EBITDAR Margin, which is currently at 44.7%, 140bps away from the record highs of 2018. Consequently, EVA Momentum has trended higher as of the latest quarter, partly offset by a deteriorating Productive Capital Charge (higher is less favorable), which is trending higher on increased PP&E and Ad&Promo charges, relative to sales. While Profitability has seen some pressure through H1 2025, investor expectations for a recovery in incremental EVA creation are very bullish, with FGR near the upper end of its 5-year range, at around 31%.

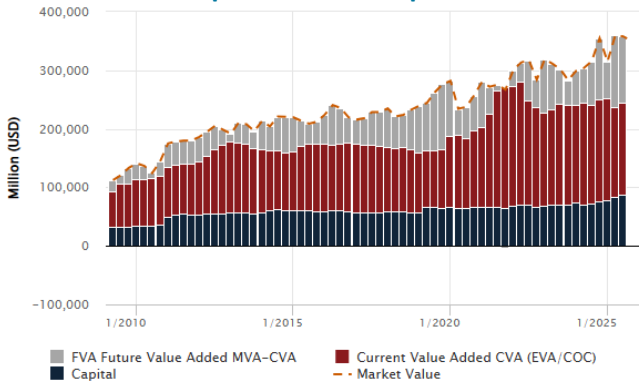
EVA Drivers



EVA Fundamentals



Enterprise Value Components



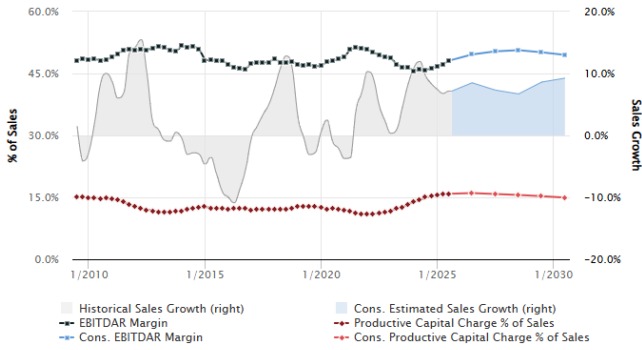
Future Growth Reliance (FGR)



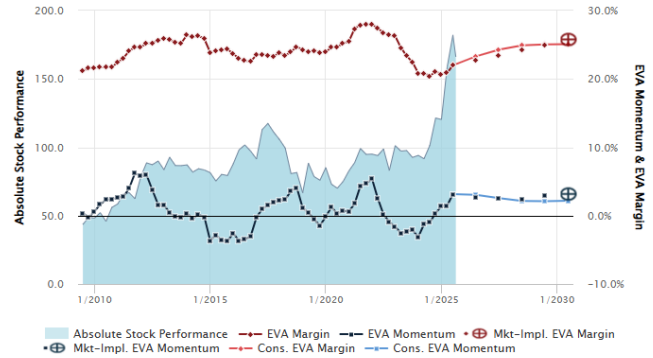
Philip Morris International Inc.

Philip Morris International Inc. (PM, rated 'Underweight'): The firm has seen six sequential quarters of improvement in EVA Momentum, currently being at 3.1%, the highest level in 13 quarters. Sales growth has seen an acceleration in the quarter ending June, and EBITDAR Margin has continued to trend higher over the last four quarters. The company reported modest volume growth, driven by strong growth in the smoke-free product portfolio. EVA Margin has seen a 160bps expansion over the last four quarters, to 22%, and CVA inflected upwards over the same period after a protracted period of contraction since peaking out in Q4 2021. FGR has continued to trend higher since Q3 2022 and is currently near record highs of 31%. The firm has already seen 6 quarters of acceleration in EVA Momentum, combined with very high Valuations at this stage, leaving us with an 'Underweight' outlook.

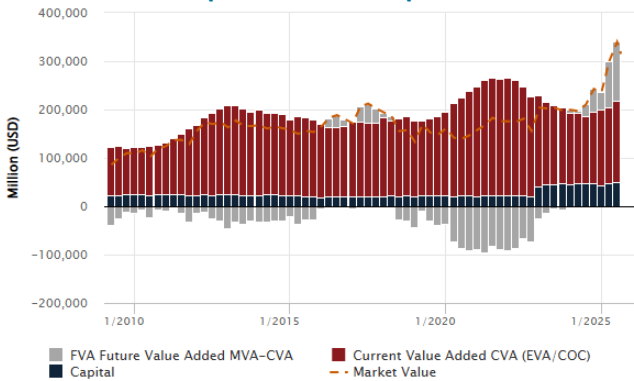
EVA Drivers



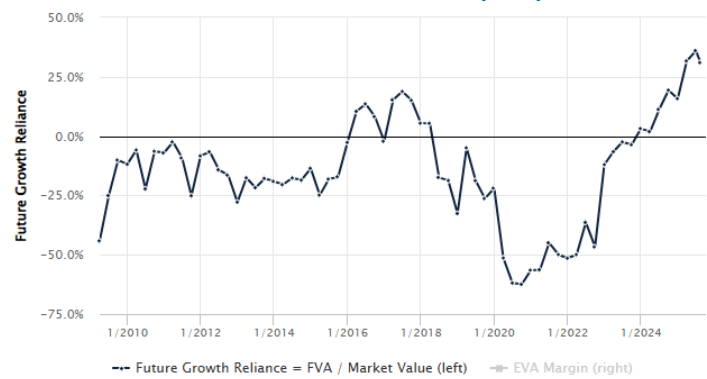
EVA Fundamentals



Enterprise Value Components



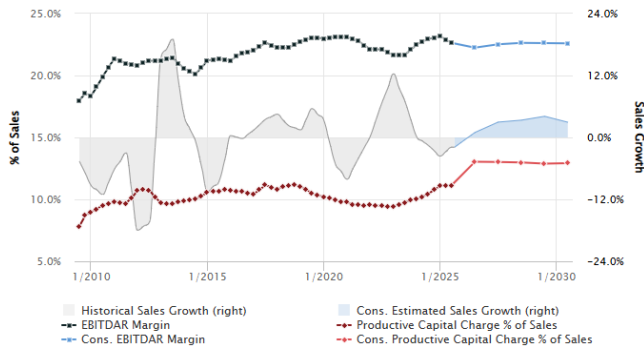
Future Growth Reliance (FGR)



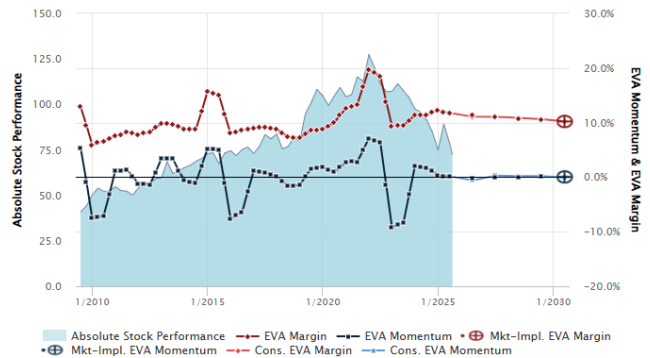
Nestle S.A.

Nestle S.A. (NSRGY, rated 'Underweight'): EVA Momentum has seen downward pressure since peaking out in Q4 2023, moving sideways through the last three quarters near 0.2% levels, but has continued to trend positively. EBITDAR Margin has contracted by 60bps in H1, to 22.6%, from all-time highs in Q4 2024. The company reported positive organic growth in H1, led by strong pricing growth in the confectionary and beverages categories. However, top-line growth has remained negative, despite a slight improvement in the quarter ending June, due to foreign exchange headwinds. FGR is currently near -7%, much below the 30% levels seen in 2023, as investors expect the firm to destroy EVA value going forward at a time when Current Value Added (CVA) has plateaued over the last 6 quarters.

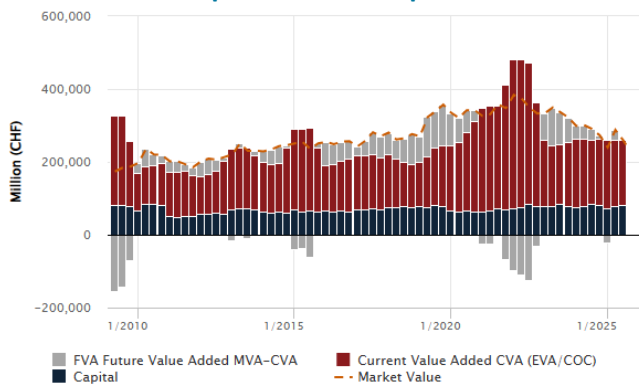
EVA Drivers



EVA Fundamentals



Enterprise Value Components



Future Growth Reliance (FGR)



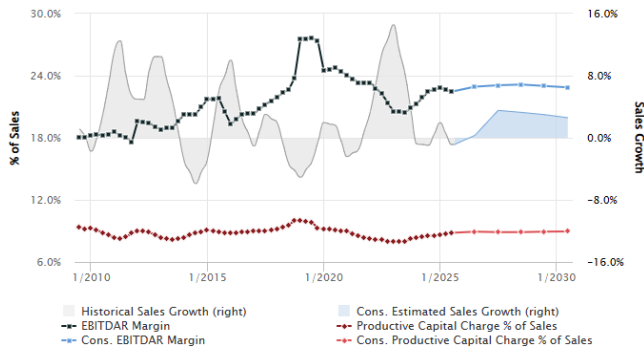
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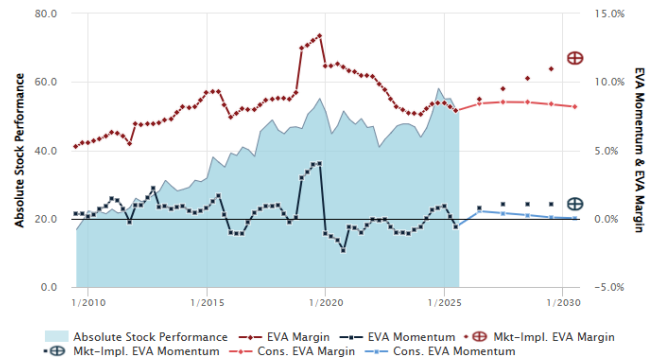
Unilever PLC

Unilever PLC (ULVR LN, rated 'Underweight'): EVA Momentum (growth) rolled over in Q1 and subsequently turned negative as of the quarter ending June, after six sequential quarters of improvement in incremental EVA creation until Q4 last year. This was led by a 30bps contraction in EBITDAR Margin through H1 2025 and top-line growth inflecting negative. The company saw positive price and volume growth in H1 this year, but adverse currency impact resulted in a decline in sales. Economic profitability, measured by EVA Margin, has also seen downward pressure and has contracted closer to 10-year lows. Future Growth Reliance (FGR), our P/E equivalent, is at 21%, near record highs of 24% seen in Q3 2024. The company looks unattractive, given pressured EVA Fundamentals at this stage and very high expectations for incremental EVA growth going forward.

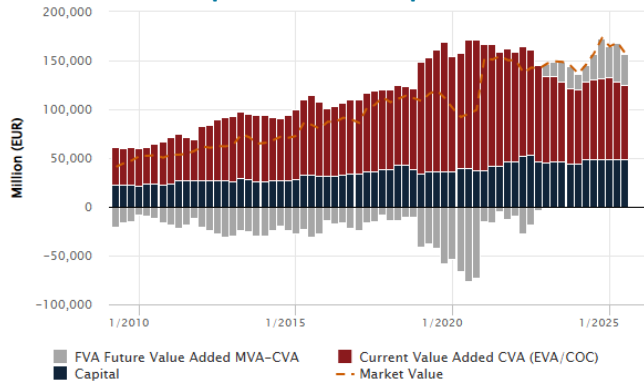
EVA Drivers



EVA Fundamentals



Enterprise Value Components



Future Growth Reliance (FGR)



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Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + PV of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

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