

THE PROCTER & GAMBLE COMPANY (NYSE: PG)



(as at May 31, 2020)

Business Description:

The Procter & Gamble Company (“P&G”) engages in the provision of branded consumer packaged goods. It operates through the following segments: Beauty; Grooming; Health Care; Fabric & Home Care; and Baby, Feminine & Family Care. The company was founded by William Procter and James Gamble in 1837 and is headquartered in Cincinnati, OH.

Investment Thesis:

- **P&G has demonstrated outstanding organic growth in all existing markets.** The company has shown organic growth in all business segments of mid-single digits to low double digits. In addition, all geographic markets have seen organic growth as well. We believe this growth should be seen as sustainable and will continue into the future.
- **The company has shown excellent commitment to returning value to shareholders.** At of 2020, P&G has had 64 years of dividends increases with 130 years total of annual dividend payments. The company has returned over \$135 billion of capital to shareholders through dividends, share repurchases and exchanges.
- **The company has restructured its portfolio to focus on products that are used daily and solve problems.** P&G has decreased from 170 brands across 16 segments to focus on 65 brands across 10 segments. This allows the company to focus on daily use products that have shown more attractive financial returns that add value to consumers.

Industry Drivers/Trends

Consumer Packaged Products:

- Businesses are growing increasingly conscious of the need to cut down the amount of non-biodegradable waste put into landfills, and plastic bottles, cloths and hygiene equipment are going to be some of the predominant targets of these campaigns.
- Population demographics have shifted dramatically with increasing millennial populations. This demographic place more emphasis on ethically sourced and organic products that will both solve a problem and help the planet.
- A key development in the consumer packaged products industry is that media outreach becomes increasingly important. Advertising has shifted away from maximum volume to content that connects the brand with consumer sentiment.

Competitive Advantages:

- Market leader in the consumer-packaged goods industry
- Globally recognized brands
- Size advantage leading to reduced costs
- Industry leading supply chain and distribution networks

Competitors:

- Colgate-Palmolive Company, Johnson & Johnson, Kimberly-Clark Corporation, Reckitt Benckiser Group PLC, The Clorox Company

Customers:

- Grocery stores, mass merchandise, warehouse clubs, discount and drug stores and e-commerce

Barriers to Entry:

- **Branded Portfolio:** Existing brands have a distinct advantage as branded products are sold and recognized worldwide. A new entrant would not be able gain enough market share from brand-loyal consumers to compete and survive.
- **Asset Heavy Industry** – Producing consumer packaged products at scale requires a large amount of plant and equipment which will be difficult for new entrants to establish.
- **Established Distribution Network** – P&G has one of the best distribution networks in the world and is a key part of its success. New entrants within this industry will find it almost impossible to replicate this network and thus find limited success in the space.

Officers and Directors:

David Taylor, Chairman, President & Chief Executive Officer; **Jon Moeller**, Vice Chairman, Chief Operating Officer & Chief Financial Officer; **Kathleen Fisher**, Chief Research, Development, & Innovation Officer; **Marc Pritchard**, Chief Brand Officer.

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	70,749.0	65,299.0	65,058.0	66,832.0	67,684.0
Operating Costs	(36,442.0)	(32,191.0)	(32,638.0)	(34,432.0)	(34,768.0)
Operating Profit (EBIT)	11,056.0	13,258.0	13,766.0	13,363.0	5,487.0
Profit before Tax	11,012.0	13,369.0	13,257.0	13,326.0	6,609.0
Net Profit	8,189.0	9,931.0	10,194.0	9,861.0	6,069.0
EPS (Diluted)	2.44	3.69	5.59	3.67	1.43
Dividends per Share	2.59	2.66	2.70	2.79	2.90

Balance Sheet

Total Assets	129,495.0	127,136.0	120,406.0	118,310.0	115,095.0
Long-Term Debt	18,327.0	18,945.0	18,038.0	20,863.0	20,395.0
Total Equity	63,050.0	57,983.0	55,778.0	52,883.0	47,579.0

Statement of Cash Flow

Cash Flows from Operations	14,608.0	15,435.0	12,753.0	14,867.0	15,242.0
Cash Flows from Investing	(2,890.0)	(4,579.0)	(6,685.0)	(3,511.0)	(3,490.0)
Cash Flows from Financing	(13,019.0)	(9,213.0)	(8,568.0)	(14,375.0)	(9,994.0)

Key Ratios and Figures (%)

EBIT Margin	15.6%	20.3%	21.2%	20.0%	8.1%
Return on Equity	13.0%	17.1%	18.3%	18.6%	12.8%

Source: The Procter & Gamble Company 2019 Annual Report; Wall Street Journal



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