

Procter & Gamble
2015 Undergraduate Report
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Business Summary

Procter & Gamble is a global consumer goods company which manufactures and markets products in countries throughout the world. P&G provides products in the laundry and cleaning, health care, paper, and beauty care segments. These products are sold primarily through mass merchandisers, grocery stores, membership club stores, drug stores, and neighborhood stores. Founded in 1837, Procter & Gamble is a multinational corporation based in Cincinnati, Ohio. The company employs 118,000 people, and is headed by President/CEO AG Lafley.

Major Brands

- Gillette
- Tide
- Charmin
- Crest
- Ariel
- Head & Shoulders
- Pantene
- Bounty
- Pampers
- Gain
- Dawn
- Oral-B
- Always
- Vicks
- Olay



Investment Thesis

Procter & Gamble has a long history of success and is cutting down product lines to have only their core 80 most profitable brands and eliminating approximately 100 underperforming brands. This restructuring will allow P&G to reduce costs while expanding their top line brands.

Procter & Gamble Stock Performance vs. S&P 500, Past 5 Years



(via yahoo finance)

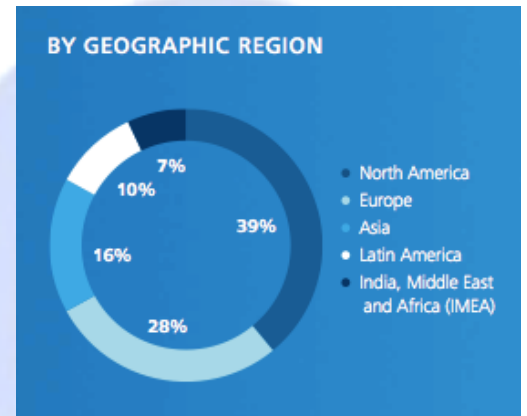
Key Financials

Current Price/Share: \$83.05
Market Cap: 224.3 billion
Dividend Yield: 3.10%
P/E Ratio: 20.30
P/B Ratio: 3.56
Trailing 12M EPS: 4.09
ROE: 14.2%
EBITDA: 18.4 billion
EBIT: 15.3 billion
Current Ratio: 0.9
Debt/Common Equity: 52%
Beta: .72



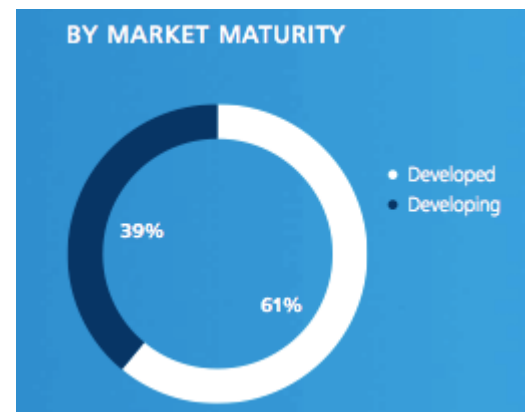
Sales by Geographic Region

Procter & Gamble is a multinational corporation, whose products are sold all across the globe. The majority of P&G's sales still come from North America, which accounts for 39% of sales, but they are extremely prevalent in international markets as well. Procter & Gamble's leading international market is Europe, which accounts for 28% of the company's total sales. The remaining 33% of sales come from Asia, Latin America, and India, Middle East & Africa (EMEA).



Sales by Market Maturity

Penetrating emerging markets has been extremely important for multinational corporations as of late, and Procter & Gamble is making sure that they are entering these potentially lucrative markets. Currently, approximately 61% of Procter & Gamble's sales come from developed markets, with the remaining 39% coming from developing markets. P&G has recognized the potential of developing markets, and is tailoring products to fit the needs of these areas.



Business Model

Procter & Gamble's business model can most simply be described through the graph below:



Consumer Understanding: Procter & Gamble is one of the world's leaders in market research. They interact with millions of customers every year in close to 100 countries, ensuring that they are delivering an appropriate product to that market. Every year, P&G invests hundreds of millions of dollars into consumer understanding to better serve their customers.

Innovation: Procter & Gamble is known for being one of the most innovative companies in the consumer goods sector. P&G works with external companies to successfully innovate their products. Through these partnerships, P&G has been able to consistently get recognized by the IRI New Product Pacesetters Report, which is an annual list of the biggest innovations in this industry. In 2013 alone, Procter & Gamble had 7 products place in the top 10 of this list.

Brand-Building: One of the keys to Procter & Gamble's success has been their ability to create and grow brands. P&G has 22 brands with over \$1 billion in annual sales, and this number should continue to rise in the future. The majority of their \$500 million+ brands hold either the number 1 or number 2 position in their segment.

Go-to-Market Capabilities: The majority of leading retailers refer to Procter & Gamble as a "preferred supplier." This allows for Procter & Gamble to easily receive shelf space in retailers around the globe. P&G's products are also ranked as some of the world's most important to retailers, meaning that retailers need to have Procter & Gamble's products on their shelves.

Scale: Procter & Gamble is a global company, as they are one of the world's largest consumer goods companies. This not only helps to increase the scale of their products, but also the scale of their businesses, operations, and people. Because of this, Procter & Gamble is able to better serve their customers while continuously improving their operations.

Company Breakdown

Procter & Gamble classifies their products into four distinct categories:

Beauty, Hair and Personal Care

The Beauty, Hair, and Personal Care section of P&G accounts for 24% of net sales. This area of the company also accounts for 23% of net earnings. Beauty, Hair, and Personal Care has 5 billion dollar brands: Head & Shoulders, Olay, Pantene, SK-II, and Wella.

Fabric and Home Care

The Fabric and Home Care section of P&G is its largest from a revenue perspective, as it accounts for 32% of net sales. However, this portion only accounts for 26% of earnings, as it does not bring in high margins. Fabric and Home Care has 6 billion dollar brands: Ariel, Dawn, Downy, Febreze, Gain, and Tide. Duracell was also a billion dollar brand, but Berkshire Hathaway has recently purchased it for \$4.7 billion.

In total, Procter & Gamble has about 180 brands. Amongst these 180 brands, 22 have annual sales of over \$1 billion. 14 brands have sales between \$0.5 and \$1 billion, and 30 to 40 brands have annual sales ranging from \$100 - \$500 million. These brands represent approximately 90% of revenues and over 95% of profits. The remaining brands have annual sales that are less than \$100 million, and typically have smaller margins than the bigger brands.

Baby, Feminine and Family Care

The Baby, Feminine, and Family Care section of P&G accounts for 25% of net sales. Net earnings for this sector are on par with this amount, as it also accounts for 25% of net earnings. This portion of the business has 4 billion dollar brands: Always, Bounty, Charmin, and Pampers.

Health and Grooming

The Health and Grooming section of P&G is its smallest from a revenue perspective, as it accounts for 19% of net sales. With that being said, it is a very profitable sector, as it accounts for 26% of net earnings. The majority of this profitability comes from the "Grooming" portion of this sector. Health and Grooming has 7 billion dollar brands: Fusion, Gillette, Mach3, Prestobarba, Crest, Oral-B, and Vicks.



Corporate Social Responsibility

At the heart of Procter & Gamble's core values is this idea of social responsibility. P&G improves the lives of 50 million people every year. They do this by focusing their social responsibility on two core areas:

Comforts of Home

Through Comforts of Home, P&G is providing everyday essentials that help create the experience of home for families who can't afford them or who have been displaced. Procter & Gamble helps to do this through:

Disaster Relief - Disaster Relief supports victims following widespread disasters. P&G visits the disaster sites, and delivers everyday essentials to them that they may have lost access to.

Habitat for Humanity International - P&G has partnered with Habitat for Humanity to provide affordable housing for families in need all around the world.

Downy Touch of Comfort - Downy has partnered with Quilts for Kids to make and deliver homemade quilts to hospitalized children. These children are usually restricted from bringing their favorite stuffed animal to the hospital, so the quilts add a level of comfort to the children.

Health and Hygiene

Through Health Hygiene, P&G is supporting hygiene education and everyday healthy behavior changes that prevent illness and improve confidence.

P&G Children's Safe Drinking Water Program (CSDW) - CSDW turns dirty, potentially deadly water into clean, drinkable water. This program has reached more than 70 countries and saved tens of thousands of lives.

Pampers Vaccination Program - This program vaccinates women and children from maternal neonatal tetanus (MNT). It has eliminated MNT from 15 countries through the donation of more than 300 million vaccines.

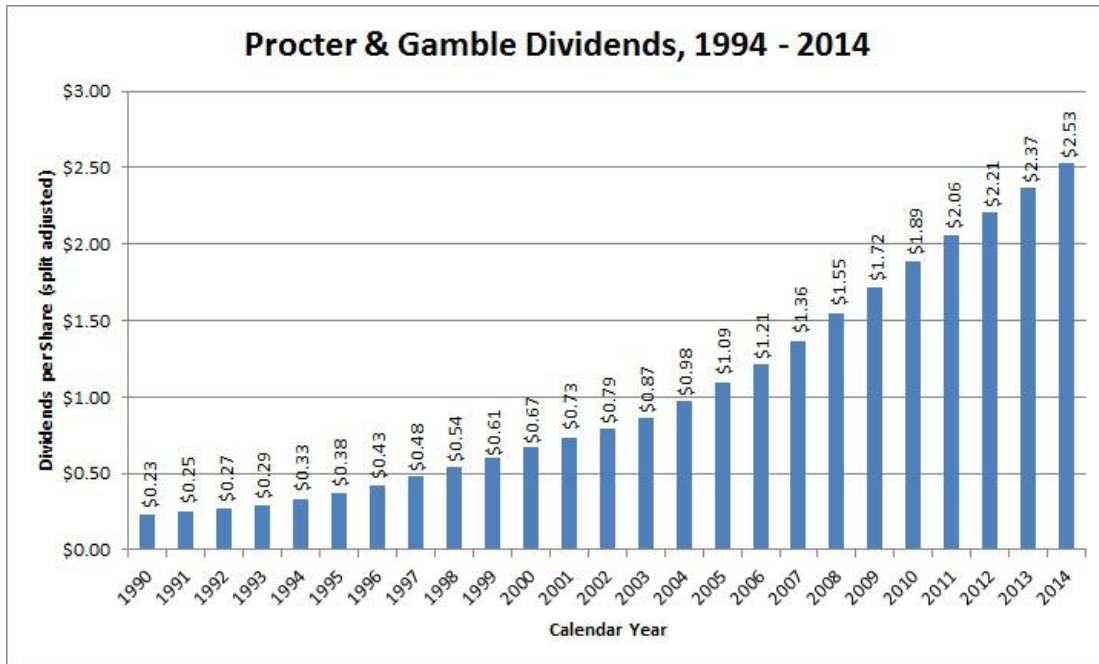
Save the Children - P&G has provided health and hygiene products through Save the Children since 1995. These products include Crest, Oral-B, and Vicks.

Pantene Beautiful Lengths - Pantene Beautiful Lengths is a program in which women grow and donate their hair to female cancer patients. More than 34,000 real hair wigs have been provided through this program.



Dividend Yield

Procter & Gamble has been returning value to its shareholders through dividends for 125 years. P&G has increased this dividend for 58 consecutive years, at an annual compound average rate of over 9%. Currently, Procter & Gamble's annual dividend is at 3.10%.



Risks

Like every company, Procter & Gamble faces a number of risks in their day-to-day operations. Some of the major risks that they face are highlighted below:

Exchange Rate Fluctuations

This is an issue that Procter & Gamble has run into as of late. For the quarter ended December 31st, P&G posted a profit of \$2.4 billion, which was down 31% from the \$3.4 billion earned in the same quarter last year. P&G reported that the core reason for this dip was “unprecedented currency devaluations,” stating that core earnings would have increased by 6 percent if it weren't for the impact of foreign exchange. In total, foreign exchange cost P&G \$450 million, with most of these losses coming from Russia, Ukraine, Venezuela, Argentina, Japan, and Switzerland.

Change in Consumer Demand

Procter & Gamble deals in an industry where consumer tastes are constantly changing. Because of this, demand for their products can fluctuate with consumer tastes. For this reason, P&G focuses on consumer understanding and innovation, to ensure that their products keep up with changes in consumer demand.

Looking Forward

Brand Consolidation

Procter & Gamble announced that they are creating a faster growing, more profitable company that is easier to manage. In order to do this, they are reducing their product lines and brands from 180 down to 70 to 80. These core 70 to 80 are the most profitable and structurally attractive to P&G, representing approximately 90% of revenues and 95% of profit. Margins from all of these brands have exceeded P&G's average margin, and the company will be discontinuing or selling off the remaining brands that do not fit this criteria.

Supply/Distribution Chain

Procter & Gamble has planned to reduce costs by \$10 billion by the year 2016, and \$6 billion of this is coming out of the supply chain. They are centralizing warehousing and distribution facilities in key location, and by doing so are eliminating more than 4000 jobs. They are focusing on having facilities in Ohio, Georgia, California, Texas, Pennsylvania, Illinois, and Washington.

Developing Countries

P&G has seen the recent growth in developing markets and is building more facilities internationally. To keep up with their global scale, they have regional headquarters all across the world to keep up with the demands of each region. Regional headquarters for Asia are located in Singapore, where consumer demand is rapidly growing with over three billion people living there and a growing middle class. Central & Eastern Europe, Middle East, and Africa's headquarters are in Geneva, Switzerland, which is the largest geographic region for the P&G. North America's region is headquartered in Cincinnati, Ohio, where 40% of the company's total sales come from this region. Latin America's headquarters is in Panama City covering 14 countries with 12 distribution centers, and Western Europe's regional headquarters is also located in Geneva, Switzerland.



Appendix A: Valuation

Procter & Gamble											
Discounted Cash Flow Analysis											
(\$ in millions, except share data, fiscal year ending December 31)											
	Historical Period			CAGR ('2011-'2013)	2014	Projection Period					CAGR ('2014-'2018)
	2011	2012	2013			2015E	2016E	2017E	2018E	2019E	
Revenue	\$ 79,385.0	\$ 82,006.0	\$ 82,581.0	1.3%	\$ 83,062.0	\$ 85,553.9	\$ 88,120.5	\$ 90,764.1	\$ 93,487.0	\$ 96,291.6	2.4%
% growth	0.0%	3.3%	0.7%		0.6%	3.0%	3.0%	3.0%	3.0%	3.0%	
EBITDA	\$ 18,071.0	\$ 16,257.0	\$ 17,312.0	-1.4%	\$ 18,429.0	\$ 20,375.3	\$ 22,294.3	\$ 24,280.2	\$ 26,335.1	\$ 28,461.2	6.9%
% margin	22.8%	19.8%	21.0%		22.2%	23.8%	25.3%	26.8%	28.2%	29.6%	
Depreciation & Amortization	2,838.0	3,204.0	2,982.0		3,141.0	3,181.4	3,276.9	3,375.2	3,476.4	3,580.7	
EBIT	\$ 15,233.0	\$ 13,053.0	\$ 14,330.0	-2.0%	\$ 15,288.0	\$ 17,193.9	\$ 19,017.4	\$ 20,905.0	\$ 22,858.6	\$ 24,880.5	7.7%
% margin	19.2%	15.9%	17.4%		18.4%	20.1%	21.6%	23.0%	24.5%	25.8%	
Taxes	3,259.9	2,793.3	3,066.6		3,271.6	3,679.5	4,069.7	4,473.7	4,891.7	5,324.4	
EBIAT	\$ 11,973.1	\$ 10,259.7	\$ 11,263.4	-2.0%	\$ 12,016.4	\$ 13,514.4	\$ 14,947.7	\$ 16,431.3	\$ 17,966.9	\$ 19,556.1	7.7%
Plus: Depreciation & Amortization	2,838.0	3,204.0	2,982.0		3,141.0	3,181.4	3,276.9	3,375.2	3,476.4	3,580.7	
Less: Capital Expenditures	(3,306.0)	(3,964.0)	(4,008.0)		3,848.0	(3,953.5)	(4,072.1)	(4,194.3)	(4,320.1)	(4,449.7)	
Less: Increase in Net Working Capital						(3,885.4)	(3,72.2)	(3,81.5)	(3,991.0)	(4,00.8)	
Unlevered Free Cash Flow						\$ 16,627.7	\$ 14,524.6	\$ 15,993.7	\$ 17,514.2	\$ 19,087.3	
WACC	9.5%										
Discount Period						0.5	1.5	2.5	3.5	4.5	
Discount Factor						0.96	0.88	0.80	0.73	0.67	
Present Value of Free Cash Flow						\$ 15,962.3	\$ 12,733.7	\$ 12,805.1	\$ 12,805.9	\$ 12,745.7	

Implied Perpetuity Growth Rate	
Terminal Year Free Cash Flow	\$ 19,087.9
WACC	9.5%
Terminal Value	\$ 201,970.7
Implied Perpetuity Growth Rate	5.5%
Implied EV/EBITDA	
Enterprise Value	\$ 279,543.2
LTM EBITDA	18,429.0
Implied EV/EBITDA	15.2x

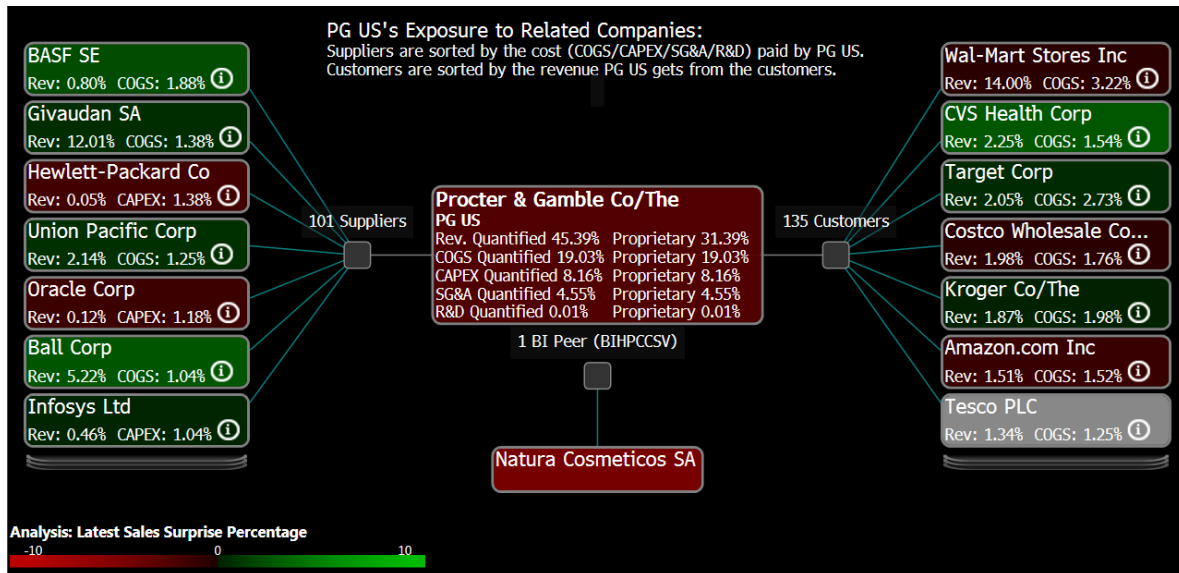
Enterprise Value	
Cumulative Present Value of FC	\$ 67,052.8
Terminal Value	
Terminal Year EBITDA (FY5E)	\$ 28,461.2
Exit Multiple	11.7x
Terminal Value	\$ 332,996.3
Discount Factor	0.64
Present Value of Terminal Value	\$ 212,490.5
% of Enterprise Value	76.0%
Enterprise Value	\$ 279,543.2

Implied Equity Value and Share Price	
Enterprise Value	\$ 279,543.2
Less: Total Debt	48,024
Less: Preferred Securities	-
Less: Noncontrolling Interest	762
Plus: Cash and Cash Equivalents	8,558
Implied Equity Value	\$ 239,315.2
Shares Repurchased	0
Shares Outstanding	2719.8
Implied Share Price	87.99

Valuation

We valued Procter & Gamble at \$87.99 per share. We used the industry average weighted-average cost of capital of 9.5% and an implied perpetuity growth rate of 5.5%. The present value of our cumulative free cash flow, after growing it out until 2019, was \$67,052.8. We purchased 1200 shares of PG when it was trading at \$83.10.

Appendix B: Suppliers and Customers



Suppliers and Customers:

This chart displays P&G's largest suppliers on the left and the largest customers on the right, making up their supply and distribution chain. Ball Corp and Union Pacific Corp are examples of large suppliers, with P&G making up 5.22% and 2.14% of revenue respectively, and Walmart Stores is a large customer accounting for 14% of revenue. *Source: Bloomberg*

Appendix C: Competitors

Name	Mkt Cap (USD)	Last Px (USD)	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr	P/E	ROE	Dvd Yld
Average	48.21B	76.73	1.02%	2.19%	2.21%	-613.91%	25.57	34.45%	1.90%
100) PROCTER & GAMBLE CO/...	224.25B	83.04	0.74%	0.46%	0.58%	4.00%	20.29	14.15%	3.05%
101) KIMBERLY-CLARK CORP	39.24B	107.46	0.41%	0.60%	0.83%	-21.98%	18.86	54.65%	3.13%
102) COLGATE-PALMOLIVE CO	63.43B	69.95	0.89%	1.01%	-0.82%	-1.24%	24.43	126.38%	2.03%
103) CLOROX COMPANY	14.61B	111.37	1.06%	2.47%	-0.57%	-0.91%	25.14	238.90%	2.60%
104) AVON PRODUCTS INC	3.66B	8.43	5.77%	-5.28%	-11.09%	-8700.00%	--	-55.52%	2.85%
105) ESTEE LAUDER COMPANIE...	32.12B	84.97	1.03%	3.33%	7.73%	18.63%	28.14	29.52%	0.99%
106) CHURCH & DWIGHT CO INC	11.27B	86.24	0.55%	2.95%	3.23%	7.37%	28.43	18.81%	1.44%
107) ENERGIZER HOLDINGS INC	8.60B	138.34	-0.25%	1.60%	-0.41%	-12.37%	18.63	13.93%	1.45%
108) REVLOIN INC-CLASS A	2.14B	40.81	0.12%	21.03%	29.86%	61.70%	35.90	--	0.00%
109) UNILEVER NV-CVA	129.09B	43.06	1.14%	-0.61%	-2.73%	6.43%	21.63	36.94%	2.84%
110) L'OREAL	106.56B	188.87	0.82%	4.29%	1.84%	4.06%	36.30	22.93%	--

Main Competitors:

Some of Procter & Gamble's most direct competitors are Energizer Holdings, Inc and Kimberly-Clark Corporation. Energizer has products in power, light, shaving, sun care, feminine care, infant care, and skin care, directly competing with P&G's products. Kimberly-Clark Corporation has products also in feminine care, adult care, family care, and baby and child care in addition to health care. P&G has the highest market capitalization of \$224.25 billion out of their closest competitors, with Kimberly-Clarke with \$39.24 billion and Energizer Holdings with \$8.6 billion.