

The Procter & Gamble Company

Four-tified sales, margins drive upside

Reiterate Rating: BUY | PO: 175.00 USD | Price: 153.98 USD

PG paints image of spotty macros, pockets of strength

PG delivered 2Q organic sales growth of +4% (refer to [our Jan 23 note here](#) for details) as strong consumption trends in developed markets outshined pockets of weakness. At about 10% of total sales, Greater China's -15% decline stands out as the most significant drag, despite which Focus Markets were still able to grow organic sales +3% thanks to volume-driven growth of +5% in North America and +7% in Europe. Currencies played havoc this quarter across the Middle East and Africa, yet Enterprise Markets grew +7% thanks to Latam and Europe, with volumes expected to normalize once pricing is digested. FX is likely to weigh heavier on 2H24, but with developed markets leading a return to volume, we see a favorable setup to delivering 5% organic growth for FY24 from here.

Plenty of 2H24 cushion to deliver revised earnings guide

Gross margin in 2Q outperformed BofAe by 240bps through a combination of better mix, efficiency, and commodity cost savings than we had expected by this point in FY24. With price expected to moderate to +2-3pts of sales contribution, increasing FX pressure, and less margin benefit to realize from easing commodities, we forecast sequentially lower margin of 49.5% over 2H24, which we still view as more than enough to deliver EPS at the high end of the narrowed +8-9% growth range for the year. Higher advertising as a percent of sales is also baked into our back-half assumptions leaving room for upward revision in our view, especially if volume leverage, pricing, or efficiency gains overdeliver.

Modeling assumptions for 3Q and FY24

We forecast 3Q organic sales of +3% YoY on +3pts price and flat volume with +150bps of YoY gross margin expansion funding +140bps of higher SG&A spend YoY and EPS of \$1.39. For FY24, we expect organic sales to remain stable at about +4% over 2H24 to deliver +5% growth for the full year, increasingly driven by volume instead of price. Our model assumes +310bps of full-year gross margin expansion to 51.0%, funding +160bps of higher SG&A and delivering \$6.46 EPS, revised up from \$6.36 previously.

Reiterate Buy rating and \$175 PO

We reiterate our Buy rating and \$175 which still reflects a 24x target P/E multiple off our CY25e EPS. Our target multiple benefits from earnings leverage potential as costs moderate and volume normalizes in currently distressed markets, warranting a 17% premium vs HPC peers in our view, above PG's 2yr in line historical relative multiple.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.81	5.90	6.43	6.92	7.47
GAAP EPS	5.81	5.90	6.54	6.92	7.47
EPS Change (YoY)	2.7%	1.5%	9.0%	7.6%	7.9%
Consensus EPS (Bloomberg)			6.41	6.89	7.41
DPS	3.52	3.68	3.81	4.00	4.20
Valuation (Jun)					
P/E	26.5x	26.1x	23.9x	22.3x	20.6x
GAAP P/E	26.5x	26.1x	23.5x	22.3x	20.6x
Dividend Yield	2.3%	2.4%	2.5%	2.6%	2.7%
EV / EBITDA*	21.0x	20.8x	18.9x	18.0x	17.0x
Free Cash Flow Yield*	3.4%	3.4%	4.8%	4.4%	4.4%

* For full definitions of *IQmethod*SM measures, see page 5.

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	84,327.9	84,827.8
2025E Rev (m)	88,651.6	88,562.1
2026E Rev (m)	93,100.5	92,352.6
2024E EPS	6.36	6.43
2025E EPS	6.85	6.92
2026E EPS	7.44	7.47

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Stock Data

Price	153.98 USD
Price Objective	175.00 USD
Date Established	31-Jul-2023
Investment Opinion	A-1-7
52-Week Range	135.83 USD - 158.38 USD
Mrkt Val (mn) / Shares Out (mn)	400,506 USD / 2,601.0
Free Float	99.9%
Average Daily Value (mn)	1118.81 USD
BofA Ticker / Exchange	PG / NYS
Bloomberg / Reuters	PG US / PG.N
ROE (2024E)	33.4%
Net Dbt to Eqty (Jun-2023A)	56.0%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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iQprofileSM The Procter & Gamble Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.6%	15.5%	16.7%	17.0%	17.8%
Return on Equity	32.1%	31.8%	33.4%	34.2%	35.0%
Operating Margin	22.2%	22.1%	23.7%	23.8%	24.3%
Free Cash Flow	13,567	13,786	19,417	17,510	17,570

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.1x	1.5x	1.3x	1.2x
Asset Replacement Ratio	1.1x	1.1x	1.3x	1.5x	1.6x
Tax Rate	17.8%	19.7%	19.6%	20.0%	20.0%
Net Debt-to-Equity Ratio	51.8%	56.0%	42.9%	38.1%	33.7%
Interest Cover	45.9x	40.4x	35.1x	31.2x	32.6x

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	80,187	82,006	84,828	88,562	92,353
% Change	5.3%	2.3%	3.4%	4.4%	4.3%
Gross Profit	38,030	39,246	43,212	45,387	47,970
% Change	-2.5%	3.2%	10.1%	5.0%	5.7%
EBITDA	20,620	20,848	22,951	24,003	25,422
% Change	-0.5%	1.1%	10.1%	4.6%	5.9%
Net Interest & Other Income	182	219	91	33	19
Net Income (Adjusted)	14,742	14,653	15,841	16,824	17,902
% Change	0.1%	-0.6%	8.1%	6.2%	6.4%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	14,793	14,738	16,219	16,904	17,982
Depreciation & Amortization	2,807	2,714	2,849	2,906	2,964
Change in Working Capital	(1,147)	(1,220)	(4,066)	1,824	942
Deferred Taxation Charge	(402)	(453)	327	0	0
Other Adjustments, Net	672	1,069	7,907	304	300
Capital Expenditure	(3,156)	(3,062)	(3,818)	(4,428)	(4,618)
Free Cash Flow	13,567	13,786	19,417	17,510	17,570
% Change	-12.9%	1.6%	40.8%	-9.8%	0.3%
Share / Issue Repurchase	(7,998)	(6,084)	(3,856)	(6,000)	(6,000)
Cost of Dividends Paid	(8,770)	(8,999)	(9,318)	(9,730)	(10,066)
Change in Debt	1,892	2,937	(2,505)	(200)	(200)

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	7,214	8,246	11,456	13,036	14,340
Trade Receivables	5,143	5,471	6,507	7,036	6,326
Other Current Assets	9,296	8,931	8,939	8,014	8,180
Property, Plant & Equipment	21,195	21,909	22,832	24,454	26,208
Other Non-Current Assets	74,360	76,272	71,668	71,568	71,468
Total Assets	117,208	120,829	121,402	124,108	126,521
Short-Term Debt	8,645	10,229	9,616	9,616	9,616
Other Current Liabilities	24,436	25,527	22,766	24,195	24,592
Long-Term Debt	22,848	24,378	22,996	22,796	22,596
Other Non-Current Liabilities	14,425	13,630	16,700	16,700	16,700
Total Liabilities	70,354	73,764	72,078	73,307	73,504
Total Equity	46,854	47,065	49,324	50,802	53,017
Total Equity & Liabilities	117,208	120,829	121,402	124,108	126,521

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Household Products

Company Description

Procter & Gamble (PG), one of the world's largest consumer products companies, operates under five segments: Beauty, Grooming, Health Care, Fabric & Home Care, and Baby & Family Care. Brands include Pampers, Tide, Bounty, Charmin, Gillette, Oral B, Crest, Olay, Pantene, Head & Shoulders, Ariel, Gain, Always, Tampax, Downy, and Dawn.

Investment Rationale

P&G is an industry bellwether in the consumer staples industry, owing to a diversified product portfolio of multi-billion brands with leading global share positions. While results were challenged for some time, recent initiatives around the company's more focused portfolio are bearing fruit, and we see the potential for sustainable top-line beats and raises in the quarters ahead.

Stock Data

Average Daily Volume 7,265,927

Quarterly Earnings Estimates

	2023	2024
Q1	1.57A	1.83A
Q2	1.59A	1.84A
Q3	1.37A	1.39E
Q4	1.37A	1.37E

PG 2Q24 earnings summary

Exhibit 1: PG 1Q24 earnings summary vs BofAe and VisibleAlpha estimates

EPS of \$1.84 beat our estimate by 16c on stronger sales and margin

(US\$ Millions)	2Q24A	BofA	% Diff.	2Q23	% Diff.	Consensus	% Diff.
Net Sales	\$21,441	\$21,073	1.7%	\$20,773	3.2%	\$21,546	-0.5%
COGS	\$10,133	\$10,466	-3.2%	\$10,897	-7.0%	\$10,708	-5.4%
Gross Profit	\$11,308	\$10,608	6.6%	\$9,876	14.5%	\$10,838	4.3%
SG&A	\$5,515	\$5,323	3.6%	\$5,091	8.3%	\$5,451	1.2%
Operating Income	\$5,793	\$5,285	9.6%	\$4,785	21.1%	\$5,387	7.5%
Interest Expense	\$115	\$200	-42.5%	\$105	9.5%	\$168	-31.5%
Other Non-Op (Inc.) Exp.	-\$177	-\$175	1.1%	-\$155	14.2%	-\$159	11.2%
Pre-tax Income	\$5,855	\$5,260	11.3%	\$4,835	21.1%	\$5,378	8.9%
Tax Exp.	\$1,299	\$1,105	17.6%	\$876	48.3%	\$1,119	16.1%
Income Before Equity Interests	\$4,556	\$4,155	9.6%	\$3,959	15.1%	\$4,259	7.0%
Less: Income from Noncontrolling Interests	\$25	\$20	25.0%	\$26	-3.8%	\$25	-1.0%
Net Income	\$4,531	\$4,135	9.6%	\$3,933	15.2%	\$4,233	7.0%
EPS	\$1.84	\$1.68	9.5%	\$1.59	15.8%	\$1.71	7.3%
Diluted Shares Out.	2,468	\$2,467	0.1%	2,481.2	-0.5%	\$2,464	0.2%

Income Statement Ratios

	2Q24A	BofA	Bps. Diff.	2Q23	Bps. Diff.	Consensus	Bps. Diff.
Gross Margin	52.7%	50.3%	240 bps.	47.5%	520 bps.	50.3%	240 bps.
SG&A ratio	25.7%	25.3%	40 bps.	24.5%	120 bps.	25.3%	40 bps.
Operating Margin	27.0%	25.1%	190 bps.	23.0%	400 bps.	25.0%	200 bps.
Tax Rate	22.2%	21.0%	120 bps.	18.1%	410 bps.	20.8%	140 bps.
Net Margin	21.1%	19.6%	150 bps.	18.9%	220 bps.	19.6%	150 bps.

Revenue by Segment	2Q24A	BofA	% Diff.	2Q23	% Diff.	Consensus	% Diff.
Beauty	\$3,849	\$3,769	2.1%	\$3,807	1.1%	\$3,888	-1.0%
Grooming	\$1,734	\$1,676	3.5%	\$1,643	5.5%	\$1,722	0.7%
Health Care	\$3,172	\$3,173	0.0%	\$3,051	4.0%	\$3,214	-1.3%
Fabric & Home Care	\$7,415	\$7,313	1.4%	\$7,032	5.4%	\$7,361	0.7%
Baby, Feminine & Family Care	\$5,146	\$4,964	3.7%	\$5,065	1.6%	\$5,198	-1.0%
Corporate	\$125	\$179	-30.0%	\$175	-28.6%	\$163	-23.3%
Total	\$21,441	\$21,073	1.7%	\$20,773	3.2%	\$21,546	-0.5%

Source: Company reports, VisibleAlpha, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 2: PG 1Q24 organic sales summary by segment vs estimates

Organic growth of +7% was +2pts ahead of BofAe

Organic growth	2Q24A	BofA est.	Pts. Diff
Beauty	1%	3%	-2.0 pts.
Grooming	9%	5%	4.0 pts.
Health Care	4%	5%	-1.0 pts.
Fabric & Home Care	6%	5%	1.0 pts.
Baby, Feminine & Family Care	3%	1%	2.0 pts.
Total	4%	4%	0.3 pts.

Organic growth	2Q24A	Consensus	Pts. Diff
Beauty	1%	4%	-2.6 pts.
Grooming	9%	7%	2.4 pts.
Health Care	4%	5%	-1.4 pts.
Fabric & Home Care	6%	6%	0.3 pts.
Baby, Feminine & Family Care	3%	4%	-1.2 pts.
Total	4%	5%	-0.9 pts.

Source: Company reports, VisibleAlpha, BofA Global Research

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Price objective basis & risk

The Procter & Gamble Company (PG)

Our \$175 PO is based on a P/E ratio of 24x our CY25e EPS, unchanged on a 2025 basis and implying a 17% premium compared to HPC (Household and Personal Care) peers, above PG's 2yr historical average multiple of parity the index on a fwd 2yr basis. We think this relative valuation vs historical valuation is reasonable given PG's recent multi-year efforts to reaccelerate the business as the company sheds non-core categories and brands, and successfully drove balanced top- and bottom-line growth which has led to resilient market share gains that have held throughout the pandemic.

Risks to our price objective are a slowing in recent sales momentum, adverse competitive responses namely from private label in the coming months, and a return to "risk-on" which would make PG's defensive qualities less attractive

Analyst Certification

I, Bryan D. Spillane, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEE	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
RSTR				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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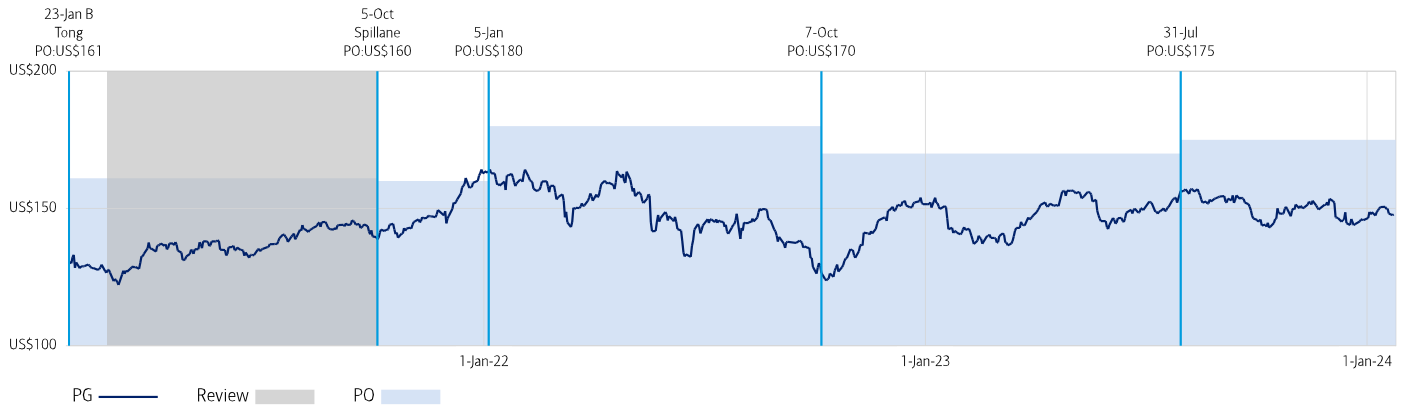
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Disclosures

Important Disclosures

Procter & Gamble (PG) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Procter & Gamble.

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