

The Procter & Gamble Company

PG 2Q24: margin beat gooses EPS

Reiterate Rating: BUY | PO: 175.00 USD | Price: 147.86 USD

Key takeaways

- PG delivered solid +4% organic growth for 2Q24, with \$1.84 EPS vs \$1.68 BofAe despite 6c of below-the-line drag
- FY24 organic sales guidance is unchanged, with EPS guide now calling for +8-9% growth vs prior +6-9% including \$100mil of...
- ...more favorable interest expense headwinds for the year. Reiterate Buy, \$175 PO.

Organic sales +4% YoY vs BofAe +4%; Adj. EPS \$1.84

PG reported 2Q24 results this morning with +4% YoY organic sales growth in line with BofAe but 1pt below Consensus, including +4pts of pricing (+4%e) and better than modeled segment performance in Grooming, Fabric Care, and Baby/Feminine/Family Care. Gross margin of 52.7% expanded by a whopping +520bps YoY, +240bps above BofAe and Street, partially offset by +40bps of higher SG&A as a percent of sales vs our model. Adj. EPS of \$1.84 vs \$1.68 BofAe (Street: \$1.71e) was clean for the quarter with -2c of drag from higher tax rate and -4c of drag from interest expense. Revised FY24 guidance reiterated FX headwinds of between -1% and -2% for the year, and reiterated \$800mil of YoY commodity tailwinds and \$1Bil of FX drag, but updated interest income drag of only -\$100mil, now a +\$100mil improvement vs prior guide. We view the tradeoff between in line sales and much stronger margin as a net positive, with solid cushion to deliver back-half earnings given the quarter's EPS outperformance and more benign interest expense outlook.

Breaking down 2Q24 actuals vs BofAe and Consensus

Organic Sales growth of +4% was driven by -1pt of volume offset by +4pts of price and flat mix, in line with BofAe. By segment, organic sales performance was mixed vs BofAe as follows: Beauty grew +1% (BofAe +3%) likely signaling greater China overhang on SKII, Grooming was +9% (BofAe +5%), Health Care grew +4% (BofAe +5%), Fabric & Home Care grew +6% (BofAe +5%), and Baby, Feminine & Family Care grew +3% (BofAe +1%).

FY24 Guide: reiterated organic sales, raised EPS

PG reiterated FY24 organic sales growth guidance of +4-5% and raised adjusted EPS guidance from +6-9% to +8-9%, still reflecting FX drag of -1% to -2% and net sales growth of +2-4%. FX after-tax headwind is still expected at \$1bil with unchanged outlook on commodity cost tailwinds of \$800mil. Net interest expense forecast was revised to a \$100mil after-tax headwind, a \$100mil improvement since October guide. Management reiterated outlook for tax rate of 21%, revised capex as a percent of sales to be 4.0%, -50bps below prior guide, and reiterated its outlook for \$5-6bil of share repo, over \$9bil of dividends, and free cash flow productivity above 90%.

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Equity

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Stock Data

Price	147.86 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)	384,588 USD / 2,601.0
Free Float	99.9%
Average Daily Value (mn)	1057.22 USD
BofA Ticker / Exchange	PG / NYS
Bloomberg / Reuters	PG US / PG.N
ROE (2024E)	32.9%
Net Dbt to Eqty (Jun-2023A)	56.0%
ESGMeter™	Medium

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Timestamp: 23 January 2024 07:50AM EST

PG 2Q24 earnings vs BofAe and Street

Exhibit 1: Summary of PG non-GAAP adjusted 2Q24A income statement

PG's 2Q24A adj. EPS of \$1.84 was +\$0.16 above BofAe

	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.

Source: Company reports, 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 but shifted one year out from our 26x CY24e basis previously. Our target multiple still implies a 25% premium compared to HPC (Household and Personal Care) peers, above PG's 2yr historical average multiple in line with 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

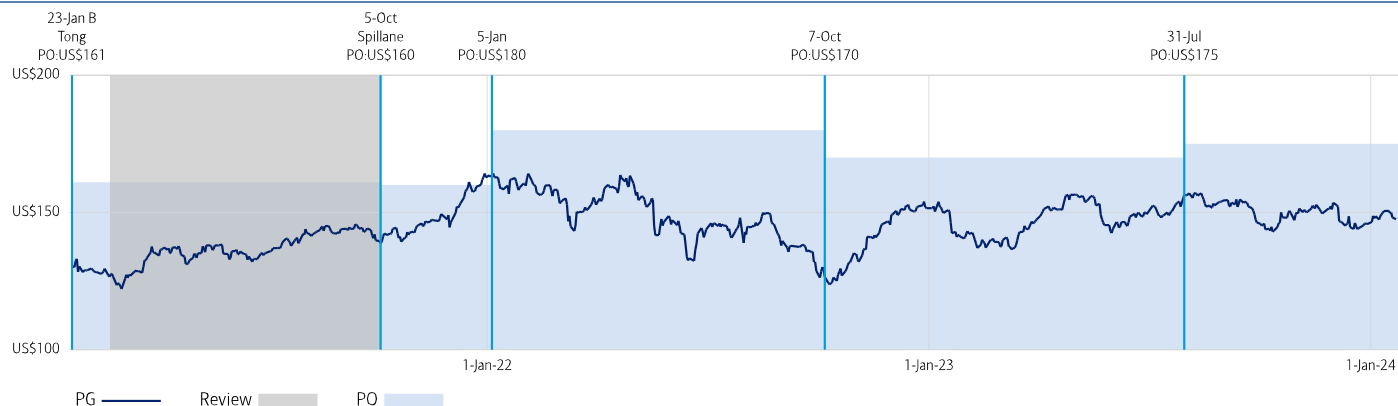
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Procter & Gamble (PG) Price Chart



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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%

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Sell	807	22.84%	Sell	383	47.46%

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