



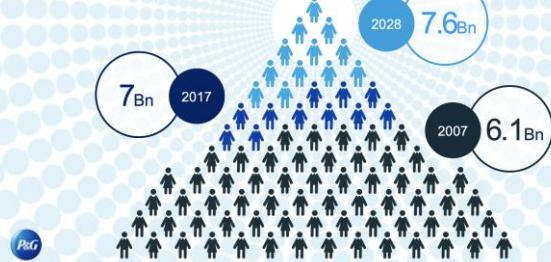
Ariwoola Abdulroqeeb  
Pranay Lingayat  
Shivank Saxena

# “ Persistent Market Opportunity

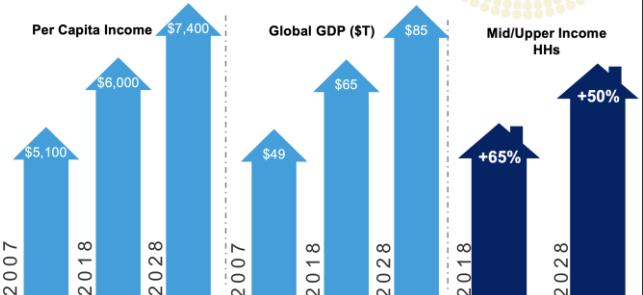
## MARKET GROWTH Market Size (Bn)



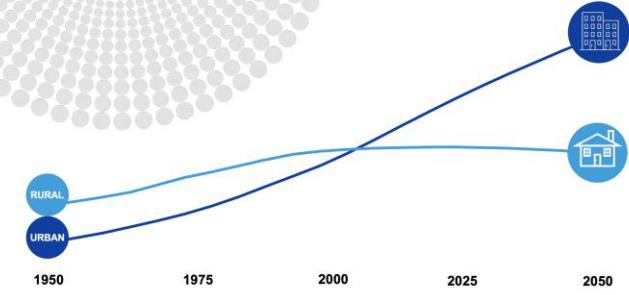
## POPULATION GROWTH

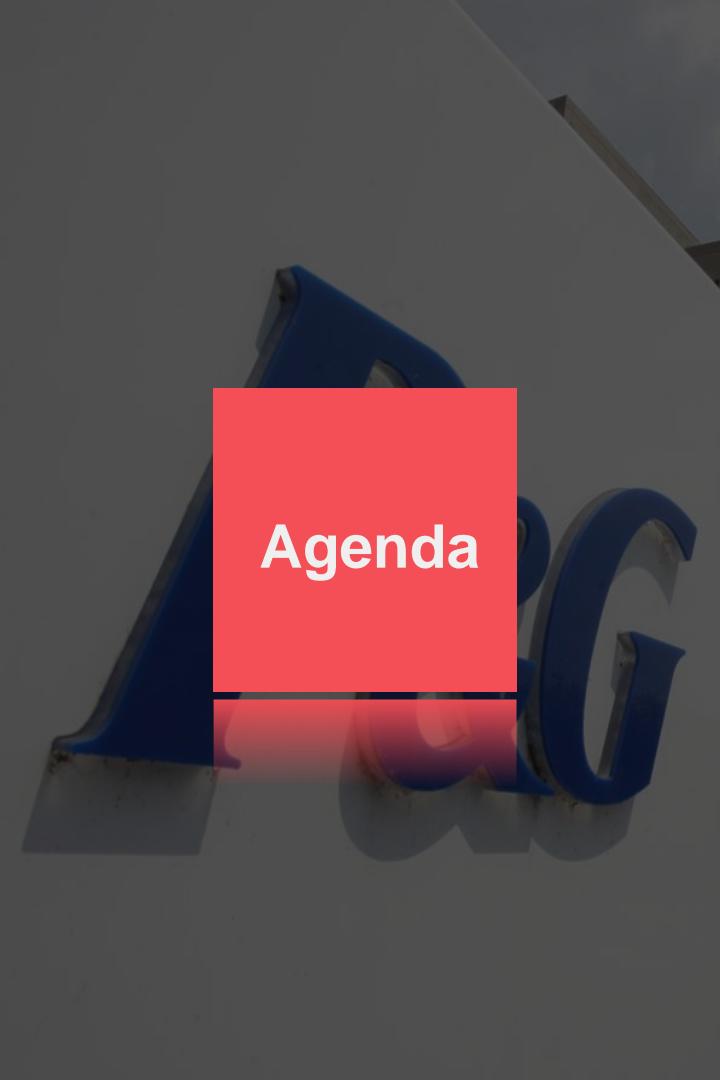


## INCOME GROWTH



## URBANIZATION





# Agenda

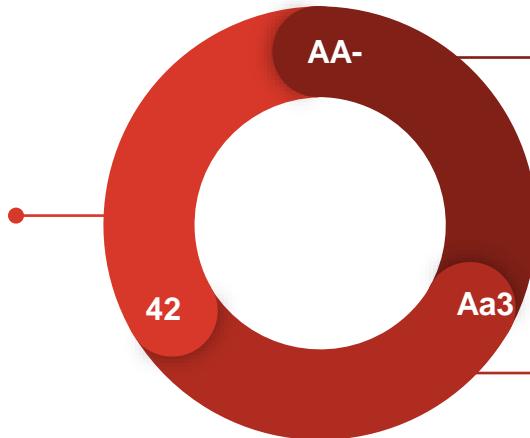
- 01 Company Overview**
- 02 Industry Overview**
- 03 Multiples & Ratios**
- 04 Risk assessment**
- 05 Valuation**



## 01 Company Overview

# “ HIGH Investment Grade - STABLE

Fortune 500 ranking for  
2017. Since 24 years on  
the list of Fortune 500



## S&P Global Ratings

High quality and are  
subject to very low  
credit risk.

## Moody's

High Quality and subject  
to low credit risk

# ” Company Overview



- HQ: Cincinnati, Ohio. USA
- Over 92000 employees Worldwide
- Operates in 180+ countries
- Manages over 2 dozen of \$1 Billion brands known worldwide
- P&G today is the biggest company in the consumer packaged goods globally and holds one of the most powerful portfolio of trusted brands
- Share price- 91.54(current price)
- Total shares outstanding were 2.657B, a 3.05% decline from 2017

# Share Performance – 5Y



# “ Share Performance – 1Y



# “Brands



Fabric & Home Care



Baby & Feminine Care



Family Care & Ventures



Beauty



Grooming



Health Care

# “Brands

P&G Brand	Rank	U.S. Market Share <sup>(1)</sup>	P&G Share vs. #2 Competitor
<i>always</i>	#1	54%	3.0x
	#1	44%	5.5x
	#1	64%	3.0x
	#1	28%	2.0x
	#1	36%	1.0x
	#1	50%	2.5x

P&G Brand	Rank	U.S. Market Share <sup>(1)</sup>	P&G Share vs. #2 Competitor
	#1	40%	3.0x
	#1	66%	5.0x
	#1	34%	2.0x
	#1	49%	2.5x
	#1	41%	4.0x
	#1	47%	3.0x

# “ Operations

2018 NET SALES BY BUSINESS SEGMENT<sup>2</sup>



2018 NET SALES BY GEOGRAPHIC REGION



2018 NET SALES BY MARKET MATURITY



Beauty	19%
Grooming	10%
Health Care	12%
Fabric and Home Care	32%
Baby, Feminine, and Family Care	27%

North America <sup>3</sup>	44%
Europe	24%
Asia Pacific	9%
Greater China	9%
Latin America	7%
India, Middle East, and Africa (IMEA)	7%

Developed Markets	65%
Developing Markets	35%

# “Earnings

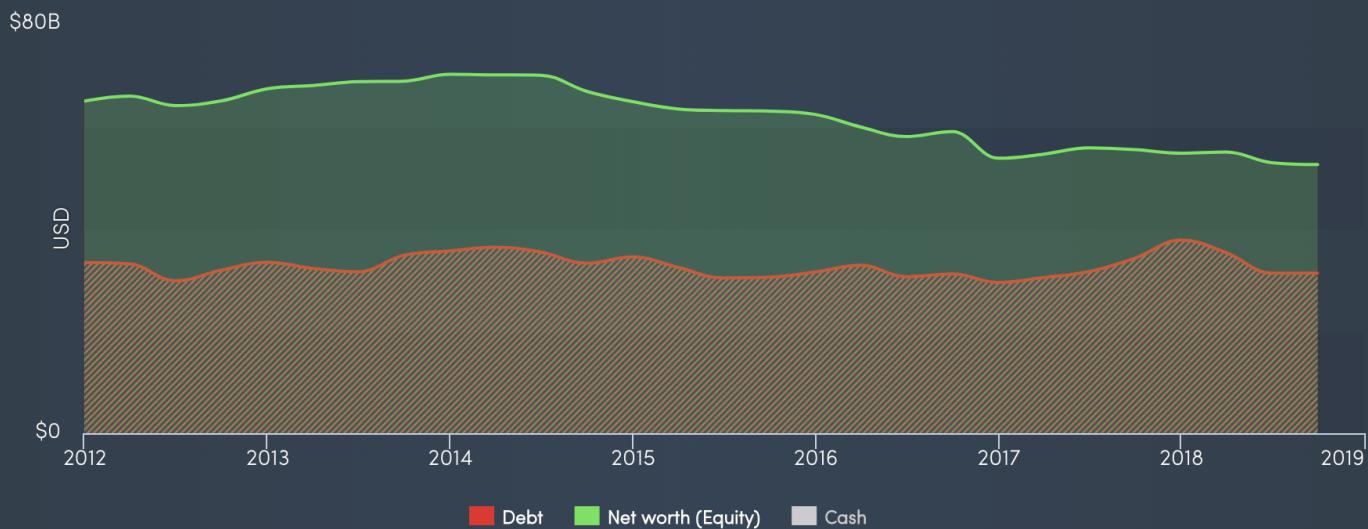
Revenue:	\$66.8 Billion
Net Income:	\$9.8 Billion
Net Profit Margin:	14.8%

Amounts in billions, except per share amounts

	2018	2017	2016
Net Sales	\$66.8	\$65.1	\$65.3
Operating Income	\$13.7	\$14.0	\$13.4
Net Earnings Attributable to P&G	\$9.8	\$15.3	\$10.5
Net Earnings Margin from Continuing Operations	14.8%	15.7%	15.4%
Diluted Net Earnings per Common Share from Continuing Operations <sup>1</sup>	\$3.67	\$3.69	\$3.49
Diluted Net Earnings per Common Share <sup>1</sup>	\$3.67	\$5.59	\$3.69
Operating Cash Flow	\$14.9	\$12.8	\$15.4
Dividends per Common Share	\$2.79	\$2.70	\$2.66

# • “ Capital Structure

Total debt was \$31.3 billion as of June 30, 2018  
Total share repurchases were \$7.0 billion in 2018  
Net investing activities consumed \$3.5 billion in cash in 2018  
Total dividend payments was \$7.3 billion in 2018



# • “ Capital Structure – Equity



■ Private Companies ■ Public Companies ■ Individual Insiders ■ General Public ■ Institutions

## Top Institutional Holders

Holder	Shares	Date Reported	% Out	Value
Vanguard Group, Inc. (The)	187,548,377	Jun 29, 2018	7.54%	14,570,633,867
Blackrock Inc.	166,150,277	Jun 29, 2018	6.68%	12,908,215,425
State Street Corporation	108,470,260	Jun 29, 2018	4.36%	8,427,054,764
Trian Fund Management, LP	37,908,621	Jun 29, 2018	1.52%	2,945,120,858
Bank of America Corporation	32,090,567	Jun 29, 2018	1.29%	2,493,116,228
Northern Trust Corporation	32,034,055	Jun 29, 2018	1.29%	2,488,725,811
Geode Capital Management, LLC	31,299,541	Jun 29, 2018	1.26%	2,431,661,416
Bank Of New York Mellon Corporation	25,102,743	Jun 29, 2018	1.01%	1,950,232,164
Norges Bank Investment Management	23,491,282	Dec 30, 2017	0.94%	2,162,842,326
Wells Fargo & Company	21,126,694	Jun 29, 2018	0.85%	1,641,332,908

A woman with long dark hair, wearing a light blue long-sleeved shirt, is standing in a grocery store aisle. She is holding a red plastic shopping basket filled with groceries in one hand and a smartphone to her ear with the other. She appears to be looking at a product on a shelf. The shelves are stocked with various packaged goods, though they are slightly blurred. A large, solid red rectangular overlay covers the left side of the image, containing the section title.

## 02 Industry Overview

# “ US consumer Industry – Future

- **Changing Face of consumer**
- **Evolving geopolitical dynamics**
- **New patterns of personal consumption**
- **Structural industry shifts**
- **Ecommerce**

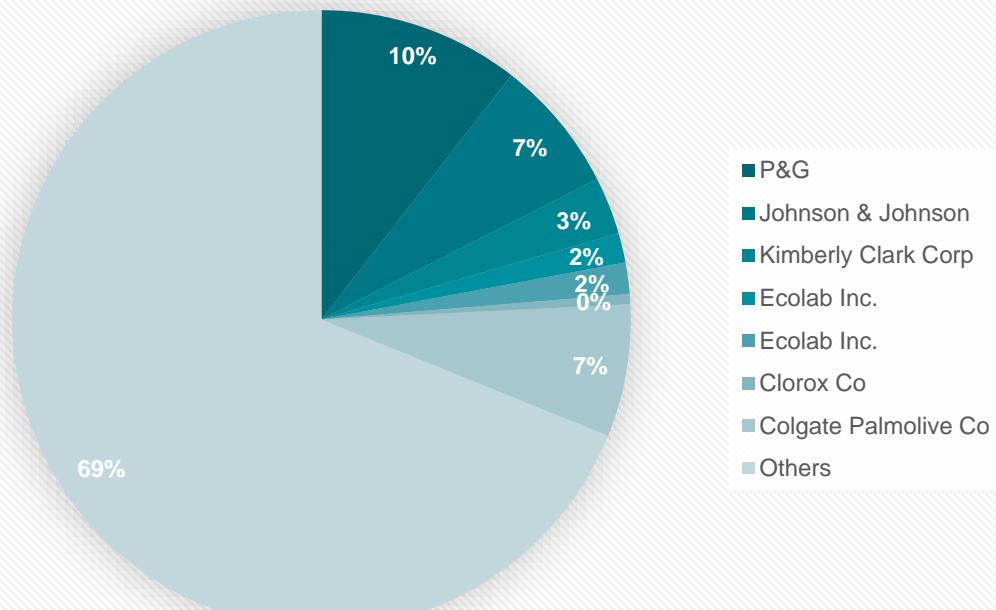
# “ Performance vs. Peers

Performance is below industry and some peers

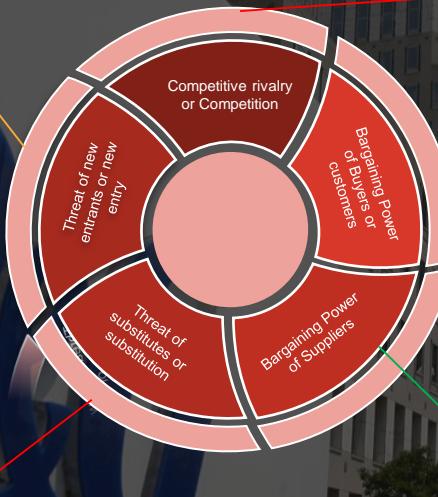


# " P&G vs Competitors

## MARKET SHARE



# “ PORTER’s 5 Forces Analysis



These external factors lead to threat of new entrants

- Low switching costs
- Moderate capital costs
- Moderate economies of scale

The following factors contribute to the competition on Procter & Gamble

- Large number of firms
- High variety of firms
- Low switching costs

These factors needs to be addressed to cater bargaining power of customers

- Low availability of substitutes
- High overall market demand

These factors are responsible for threat of substitutes

- High availability of substitutes - Ecommerce
- Low switching costs
- Low variety of substitutes

These factors are determinants of the bargaining power of supplier

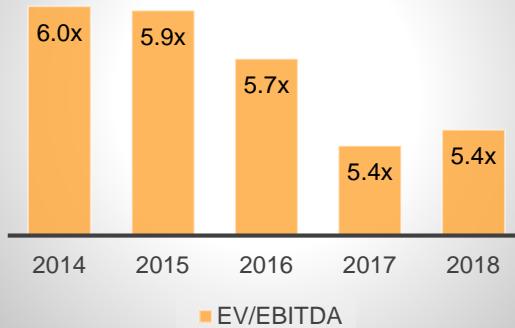
- High overall level of supply
- High population of suppliers



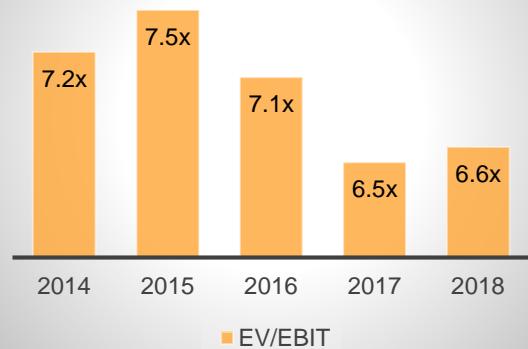
## 03 Multiples & Ratios

# EV Multiples\*

## EV/EBITDA



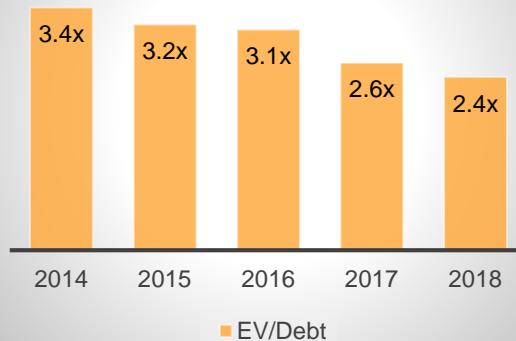
## EV/EBIT



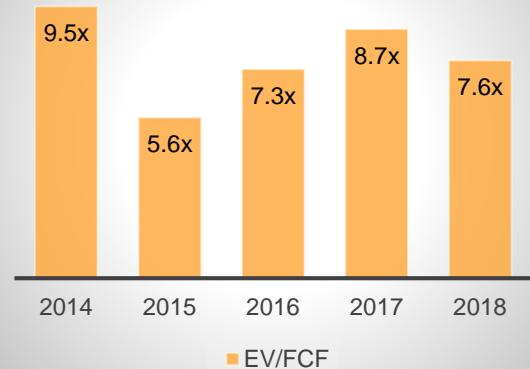
\*Using accounting approach

# EV Multiples\*

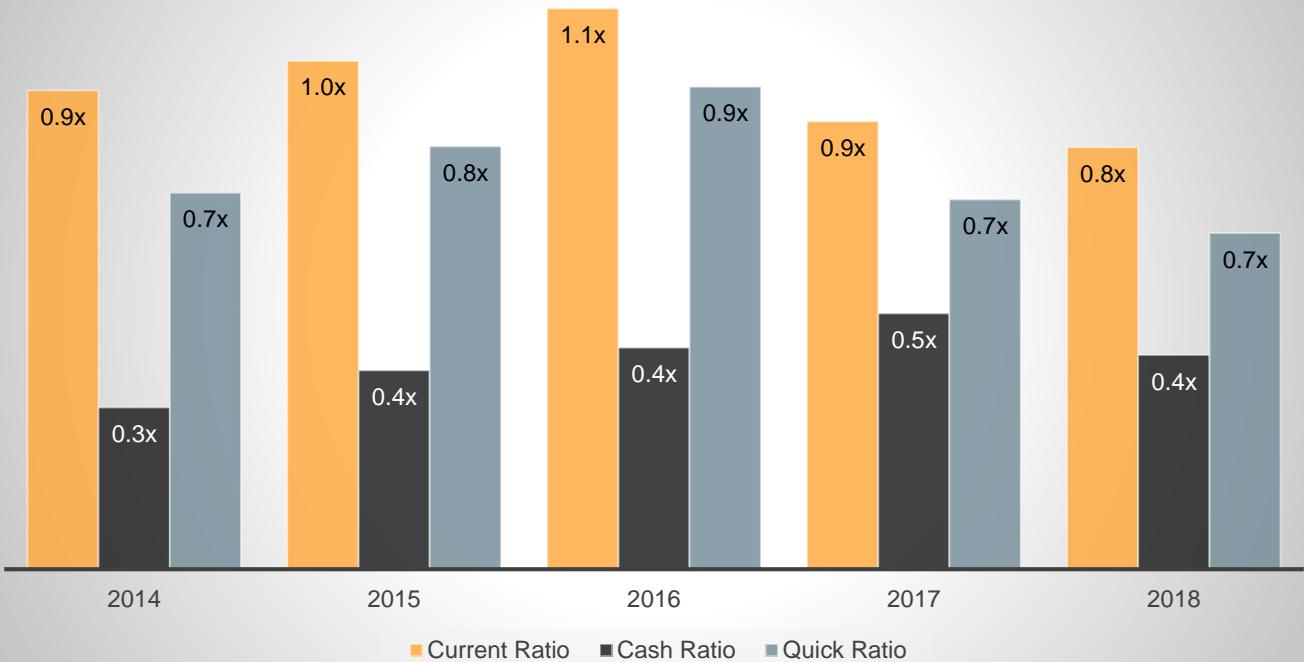
EV/Debt



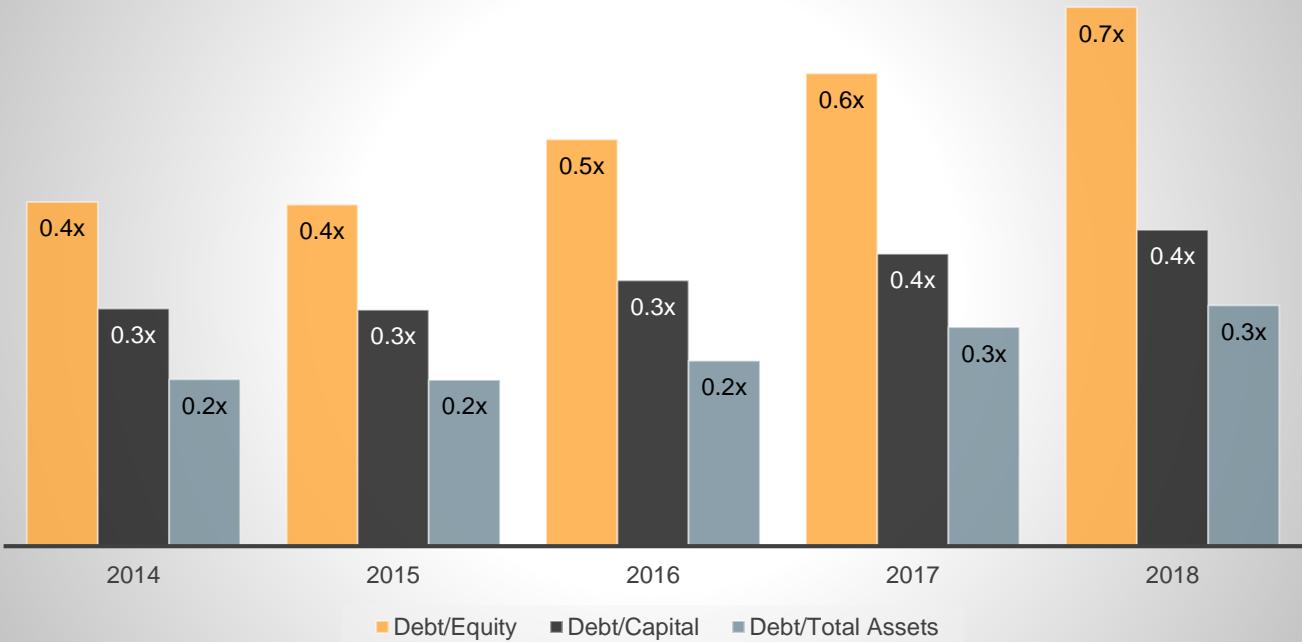
EV/FCF



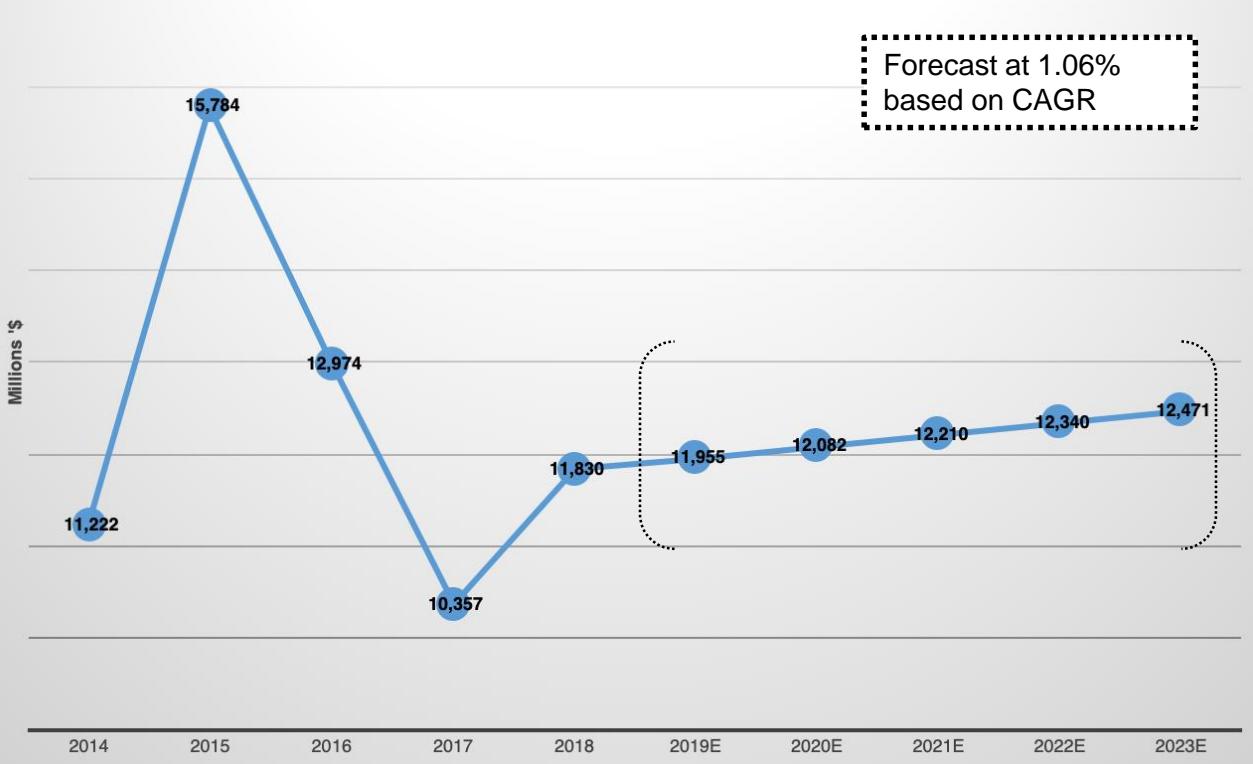
# ” Liquidity Ratio

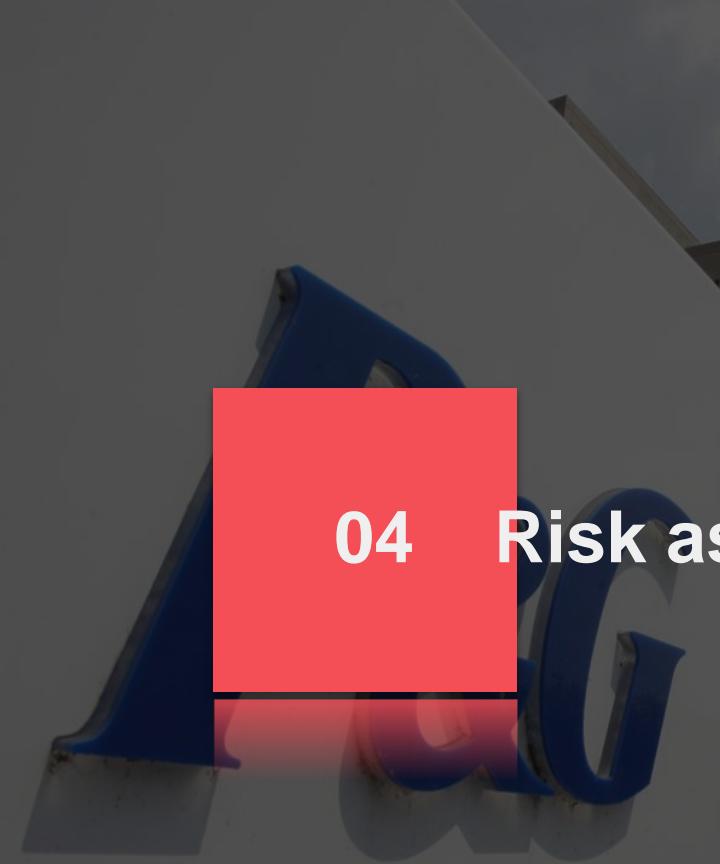


# “ Solvency Ratio



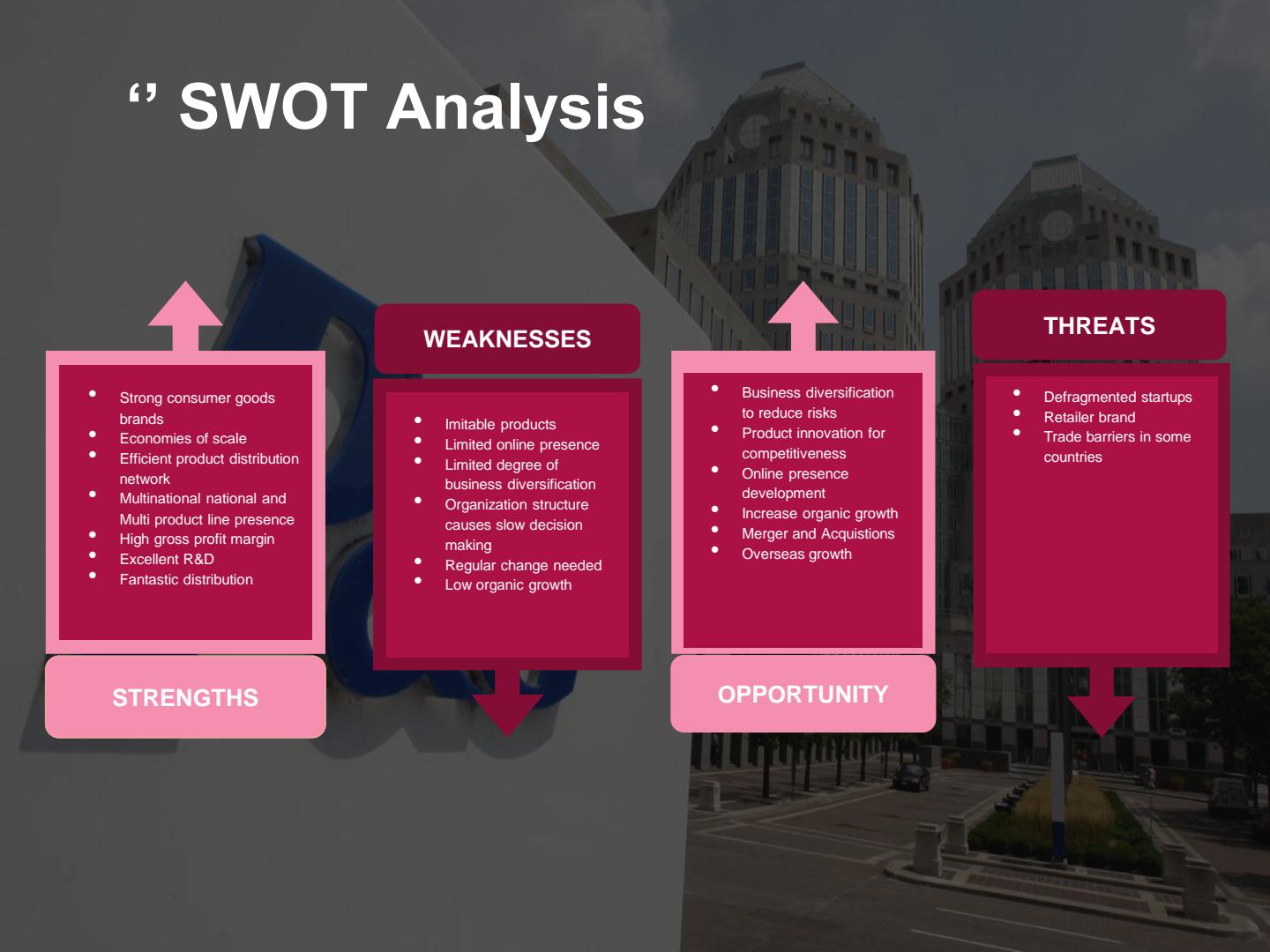
# “ FCF



The background of the slide features a large, stylized blue and white logo for 'IAG' (Insurance Australia Group) mounted on the side of a modern building. The sky is overcast.

## 04 Risk assessment

# “ SWOT Analysis

- 
- STRENGTHS**
- Strong consumer goods brands
  - Economies of scale
  - Efficient product distribution network
  - Multinational national and Multi product line presence
  - High gross profit margin
  - Excellent R&D
  - Fantastic distribution

## WEAKNESSES

- Imitable products
- Limited online presence
- Limited degree of business diversification
- Organization structure causes slow decision making
- Regular change needed
- Low organic growth

## THREATS

- Defragmented startups
- Retailer brand
- Trade barriers in some countries

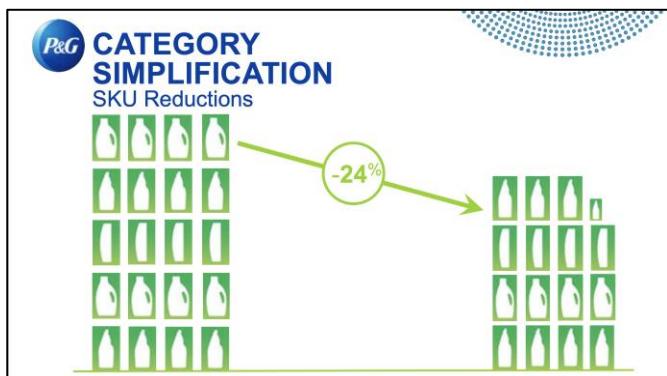
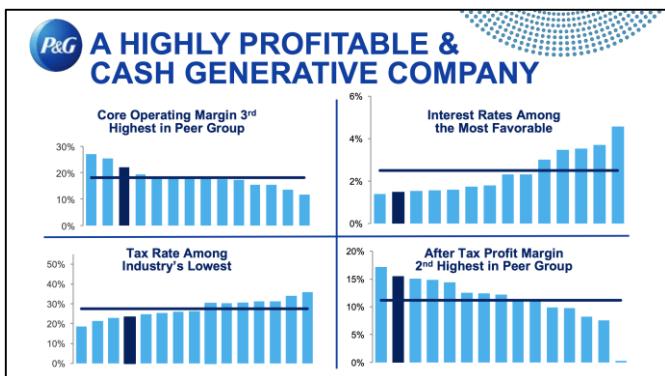
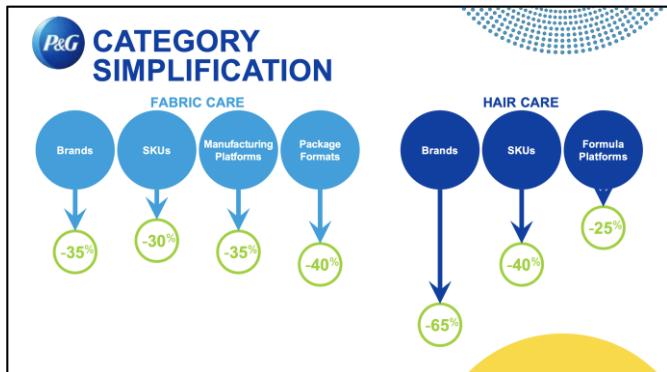
## OPPORTUNITY

- Business diversification to reduce risks
- Product innovation for competitiveness
- Online presence development
- Increase organic growth
- Merger and Acquisitions
- Overseas growth

A black and white photograph showing several hands of different people pointing at and writing on a document. The document contains various charts and graphs, including a pie chart and several bar charts. The scene suggests a professional setting like a business meeting or a financial analysis session.

## 05 Valuation

# “ A Brief Discussion of Strategy



# “ A Brief Discussion of Strategy



Impact on Long Term growth  
Assumption



# ” Valuation Methods

DCF

DDM

Multiples

- Past performance can predict future performance
- P&G is a matured company, modeling cashflow is easy
- Cost of debt can be easily estimated
- Market performance can predict stock performance
- Stock exposure to risk can be quantified
- Long term growth rate adjusted for focus markets

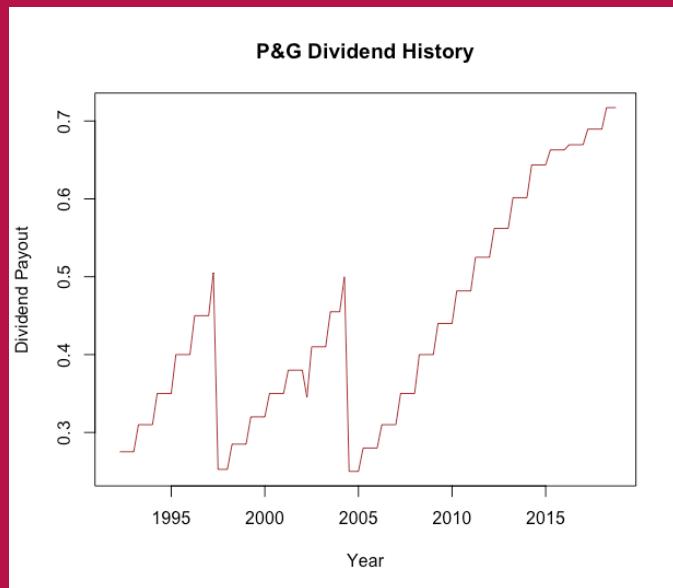
# ” Valuation Methods

DCF

DDM

Multiples

- P&G consistently pays dividends
- Payout to shareholders can be modeled



# ” Valuation Methods

DCF

DDM

**Multiples**

- P&G operates in a competitive landscape
- Opinions can be formed on stock performance based on peers

# ” DCF – Estimating beta

```
Call:  
lm(formula = pg_snp$`P&G - Returns` ~ pg_snp$`S&P 500 Returns`)  
  
Residuals:  
    Min      1Q  Median      3Q     Max  
-0.040801 -0.004042  0.000000  0.003953  0.084633  
  
Coefficients:  
              Estimate Std. Error t value Pr(>|t|)  
(Intercept) -0.0001037  0.0002275 -0.456   0.648  
pg_snp$`S&P 500 Returns` 0.5559197  0.0283889 19.582 <2e-16 ***  
---  
Signif. codes:  0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1  
  
Residual standard error: 0.008062 on 1256 degrees of freedom  
Multiple R-squared:  0.2339,    Adjusted R-squared:  0.2333  
F-statistic: 383.5 on 1 and 1256 DF,  p-value: < 2.2e-16
```

5 Year Beta = 0.5559

# ” DCF – Estimating E ( $r_m$ ) - PRAT

$$SGR = \frac{(net\ income - dividends)}{Net\ income} \times \frac{(net\ income)}{Sales} \times \frac{(Sales)}{Total\ Assets} \times \frac{(Total\ assets)}{Equity}$$

$$E (r_m) = SGR + \text{Market Portfolio Dividend Yield}$$

	Average	2017	2016	2015	2014	2013
<b>Ratios</b>						
Retention rate	0.55	0.51	0.51	0.50	0.58	0.64
Profit margin	0.10	9.51%	9.48%	9.06%	9.33%	10.14%
Asset turnover	0.72	0.67	0.68	0.70	0.77	0.77
Financial leverage	2.75	2.84	2.84	2.78	2.70	2.57

## Averages

## Estimates

Market portfolio dividend growth rate

Add: Market portfolio dividend yield

**Expected rate of return on market portfolio**

Less: Risk-free rate of return

**Market portfolio risk premium**

10.27%  
2.20%  
**12.47%**  
3.06%  
9.41%

= Retention rate X Profit margin X Asset turnover X Financial leverage

**E ( $r_m$ ) = 12.47%**

# ” DCF – Estimating $g_L$ - OECD FF

$$g_l = 1.728\%$$

# “ DCF – Valuation (CAPM WACC)

(in million)	2014	2015	Actual 2016	2017	2018	CAGR (14 - 18)	2019E	2020E	Forecast period 2021E	2022E	2023E
Unlevered FCF	11,222	15,784	12,974	10,357	11,830	1.1%	11,955	12,082	12,210	12,340	12,471
% growth			40.6%	-17.8%	-20.2%	14.2%			1.1%	1.1%	1.1%
WACC			6.3%								
Discount Period							1	2	3	4	5
Discount Factor							0.94	0.88	0.83	0.78	0.74
Present value of free cash flow							11,246	10,691	10,163	9,662	9,185

Terminal Value	WACC Calculation		Enterprise value
Terminal Year Free Cash Flow	12,471		
Perpetuity Growth Rate	1.7%		
Terminal Value	277,034		
Discount Period	5		
Discount Factor	0.7		
<b>Present Value of Terminal Value</b>	<b>204,037</b>		
% of Enterprise Value	80%		
Cost of Equity - CAPM	WACC Calculation		Enterprise value
Risk-free rate (2)		3.1%	
Market Return (3)		12.5%	
Unlevered Beta		0.56	
<b>Cost of Equity</b>		<b>8.3%</b>	
Cost of Debt	WACC Calculation		Enterprise value
Cost of Debt		1.7%	
Taxes		22.3%	
<b>After Tax Cost of Debt</b>		<b>1.3%</b>	
<b>WACC (4)</b>		<b>6.3%</b>	
(2) Yield on 10-year Treasury bond			254,984
(3) Estimated using the PRAT Model			37,190
			2,569
			34,621
			220,363
			2,400
			<b>88.50</b>
Implied Equity Value	WACC Calculation		Enterprise value
Outstanding shares			
<b>Implied Fair Value</b>			
Implied multiples	WACC Calculation		Enterprise value
Enterprise Value			254,984
Sales			66,832
			16,545
			3.8x
			15.4x

# “ DCF – Valuation (DDM WACC)

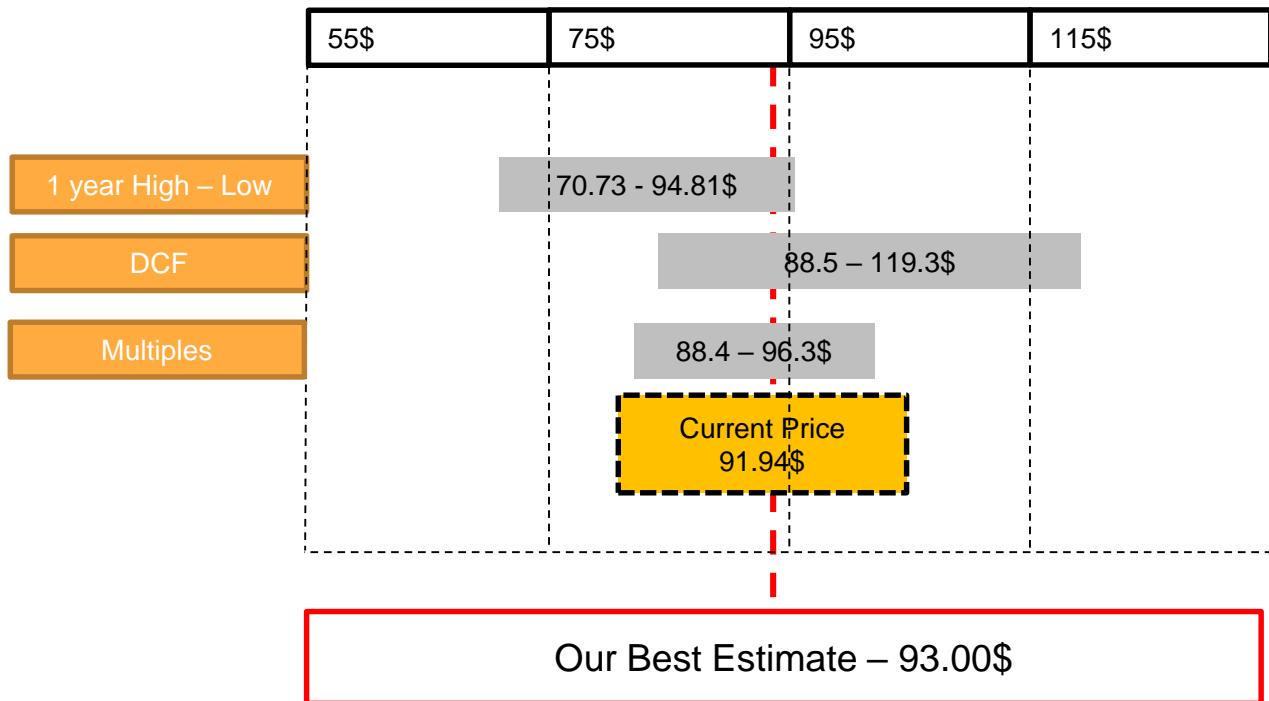
(in million)	2014	2015	Actual 2016	2017	2018	CAGR (14 - 18)	2019E	2020E	Forecast period 2021E	2022E	2023E
Unlevered FCF	11,222	15,784	12,974	10,357	11,830	1.06%	11,955	12,082	12,210	12,340	12,471
% growth		40.6%	-17.8%	-20.2%	14.2%		1.1%	1.1%	1.1%	1.1%	1.1%
WACC		5.2%									
Discount Period							1	2	3	4	5
Discount Factor							0.95	0.90	0.86	0.82	0.77
<b>Present value of free cash flow</b>							<b>11,359</b>	<b>10,908</b>	<b>10,474</b>	<b>10,057</b>	<b>9,657</b>

Terminal Value		WACC Calculation			Enterprise value		
Terminal Year Free Cash Flow	12,471						
Perpetuity Growth Rate	1.7%						
Terminal Value	360,563	<b>WACC Calculation</b>			<b>DDM</b>		
Discount Period	5	<b>Target Capital Structure</b>			Present value of Free Cash Flow		
Discount Factor	0.8	Market Value of Debt:	20,863		52,455		
<b>Present Value of Terminal Value</b>	<b>279,212</b>	Market Value of Equity:	52,883				
% of Enterprise Value	84%	Total Financing:	73,746				
		Debt to Total Capitalization	28.3%				
		Equity to Total Capitalization	71.7%				
		<b>Cost of Equity - DDM</b>			<b>Terminal Value</b>		
		Dividend per share (2018)	2.84		360,563		
		Dividend growth rate (Annualized)	3.6%				
		Share Price	91.41				
		<b>Implied Cost of Equity</b>	0.07				
		<b>Cost of Debt</b>			<b>Present Value of Terminal Value</b>		
		Cost of Debt	1.7%		279,212		
		Taxes	22.3%				
		<b>After Tax Cost of Debt</b>			% of Enterprise Value		
			1.3%		84%		
		<b>WACC (4)</b>			<b>Enterprise value</b>		
			5.247%		331,668		
		(2) Yield on 10-year Treasury bond					
		(3) Estimated using the PRAT Model					
					Less: Total debt	37,190	
					Plus: Cash and Cash Equi.	2,569	
					Net Debt	34,621	
					<b>Implied Equity Value</b>		
					Outstanding shares	2,490	
					<b>Implied Fair Value</b>	<b>119.30</b>	
					<b>Implied multiples</b>		
					Enterprise Value	331,668	
					Sales	66,832	
					EBITDA	16,545	
					<b>Implied EV/SALES</b>	5.0x	
					<b>Implied EV/EBITDA</b>	20.0x	

# Valuation Multiples

	PG	Unilever	Colgate	J&J	Comp Avg
Market Cap	227,611	148,810	53,580	381,460	202,865
Price	91.41	55.41	61.78	142.23	87.71
Forward EPS	3.67	2.54	2.91	0.49	2.40
Total Assets	118,310	75,351	12,676	130,358	84,174
Fixed Assets	94,990	11,767	4,080	16,126	31,741
Net Income	9,861	6,841	2,520	1,300	5,131
Shareholder's Equity	52,883	14,670	(60)	60,160	31,913
Shares Outstanding	2,490	2,690	867	2,680	2,182
FCF (per share)	\$ 4.52	\$ 2.37	\$ 2.81	\$ 6.76	\$ 4.11
EV/EBITDA	13.6x	10.9x	14.5x	16.3x	13.8x
PE	24.9x	21.8x	22.1x	22.1x	22.9x
ROA	8.33%	9.08%	19.88%	1.00%	12.43%
ROFA	10.38%	58.14%	61.76%	8.06%	
ROE	18.65%	46.63%	-4200.00%	2.16%	-1378.24%
Debt/Equity	39%	235%	-11033%	11%	-3586%
P/FCF	20.2x	23.4x	22.0x	21.0x	21.3x
Yield					
Implied 2019 Value		EPS	FCF/Share	EV/EBITDA	
P&G		\$ 3.67	\$ 4.52	16,545	
Multiple		22.0x	21.2x	12.8x	
1 Year price target:		\$ 84.10	\$ 96.28	\$ 93.30	

# “ Valuation Football Field



# ” Recommendations

Entity	Recommendation
Manager of existing portfolio of highly volatile stock	BUY
Risk seeking	ABSTAIN

Portfolios	E(Return)	Volatility
S&P 500	0.00031	0.00801
P&G	0.00007	0.00921
P&G + S&P 500	0.00019	0.00742

	P&G	S&P 500
Variance	0.00008	0.00006
Cov		0.00004

We composed a portfolio comprising P&G and S&P 500 with weights 1:1

The portfolio delivered lower returns vs. S&P 500. However, it was also less **volatile**. This is the role we expect P&G's stock to play in a portfolio and is line with our recommendation



Thank You

