

Procter & Gamble Co. (PG)

\$138.51 (As of 08/24/20)

Price Target (6-12 Months): **\$145.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/19/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: C

Summary

Shares of Procter & Gamble have outpaced the industry in the past year given its positive surprise trend, which continued in fourth-quarter fiscal 2020. Earnings and sales grew year over year in the reported quarter backed by rising demand for household cleaning, personal health and cleansing products stemming from the COVID-19 pandemic. Top line gained from organic sales growth, driven by rise in organic shipment volume and better pricing. Encouragingly, it issued an upbeat fiscal 2021 view. Further, cost savings aided core currency-neutral gross and operating margin by 250 bps and 190 bps, respectively. Also, it delivered adjusted free cash flow productivity of 114% in the fiscal fourth quarter. However, currency fluctuations have weighed on margins and is likely to affect fiscal 2021 results. Additionally, stiff competition remains a woe.

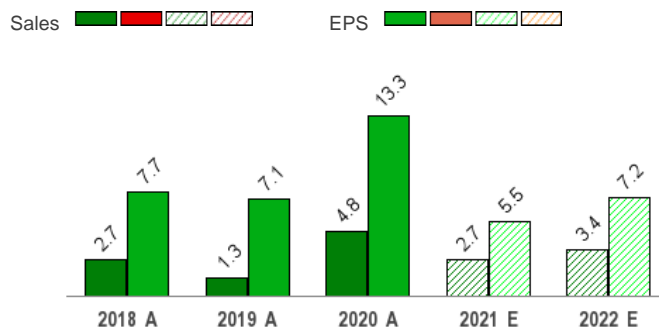
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$138.78 - \$94.34
20 Day Average Volume (sh)	6,490,570
Market Cap	\$344.3 B
YTD Price Change	10.9%
Beta	0.46
Dividend / Div Yld	\$3.16 / 2.3%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Top 29% (73 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.9%
Last Sales Surprise	4.4%
EPS F1 Est- 4 week change	3.2%
Expected Report Date	10/27/2020
Earnings ESP	0.0%
P/E TTM	27.1
P/E F1	25.7
PEG F1	3.5
P/S TTM	4.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	18,927 E	19,587 E	18,192 E	18,811 E	75,345 E
2021	18,210 E	18,859 E	17,450 E	18,242 E	72,845 E
2020	17,798 A	18,240 A	17,214 A	17,698 A	70,950 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.54 E	\$1.63 E	\$1.30 E	\$1.39 E	\$5.79 E
2021	\$1.41 E	\$1.49 E	\$1.21 E	\$1.28 E	\$5.40 E
2020	\$1.37 A	\$1.42 A	\$1.17 A	\$1.16 A	\$5.12 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/24/2020. The reports text is as of 08/25/2020.

Overview

Headquartered in Cincinnati, OH, The Procter & Gamble Company, also referred to as Procter & Gamble or P&G, is a branded consumer products company which markets its products in more than 180 countries primarily through mass merchandisers, grocery stores, membership club stores, drug stores, department stores, distributors, baby stores, specialty beauty stores, e-commerce, high frequency stores and pharmacies. It has operations in approximately 70 countries. The company has five reportable segments:

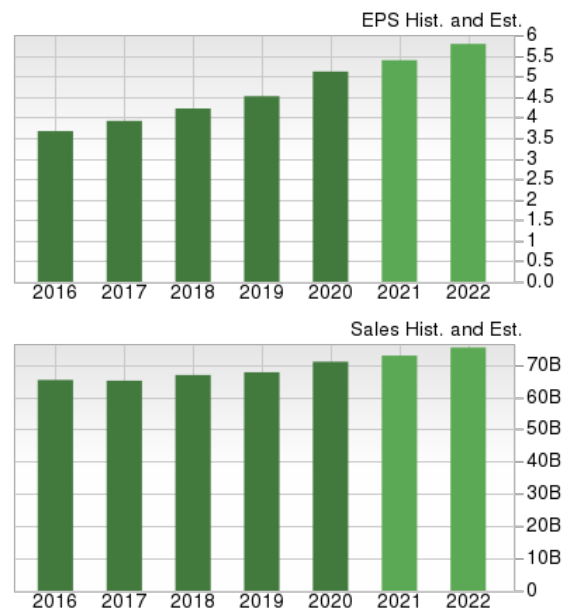
Beauty (18.8% of fiscal 2020 revenues): The segment includes hair care products (conditioner, shampoo, styling aids treatments) antiperspirants and deodorants as well as products for personal cleansing and skin care. Billion Dollar Brands include Head & Shoulders, Olay, Pantene, Old Spice, Safeguard, and SK-II. In Oct 2016, P&G completed its last major step in portfolio transformation with the Beauty Brands divestiture to Coty Inc.

Grooming (8.5%): The segment includes Shave Care products like female and male blades & razors and pre- and post-shave products as well as appliances. Billion Dollar Brands under this segment include Fusion, Gillette, Prestobarba and Mach3.

Health Care (12.7%): The segment includes gastrointestinal, rapid diagnostics, respiratory, vitamins/minerals/supplements and other personal health care product categories along with toothbrush, toothpaste and other oral care, product categories. Billion Dollar Brands include Crest, Oral-B and Vicks.

Fabric and Home Care (33.4%): The segment includes air care, dish care, fabric enhancers, laundry additives and detergents, P&G Professional and surface care product categories. Billion Dollar Brands under this segment are Ariel, Dawn, Downy, Febreze, Gain and Tide. P&G completed sale of its Duracell (Batteries) business to Berkshire Hathaway in exchange for Berkshire's equity stake in P&G in Feb 2016.

Baby, Feminine and Family Care (25.8%): The segment includes baby wipes, diapers and pants, paper towels, tissues, toilet paper, adult incontinence and feminine care products. Billion Dollar Brands include Always, Bounty, Charmin and Pampers.



Reasons To Buy:

- ▲ **Q4 Performance Strong:** Shares of Procter & Gamble have gained 16.1% in the past year compared with the industry's growth of 10.5%. The outperformance is mainly attributed to the company's robust earnings trend, which continued in fourth-quarter fiscal 2020. Its bottom-line beat in fiscal fourth quarter marked the continuation of its positive surprise trend for more than a couple of years. Also, sales surpassed the consensus mark. Moreover, earnings and sales improved on a year-over-year basis driven by a sudden spike in demand for household cleaning, personal health and cleansing products due to the pandemic. This was partly offset by currency headwinds. Organic sales increased 6% driven by rise in organic shipment volume and better pricing. Strong consumer demand for the company's products in North America and China due to the pandemic led to the rise in organic shipment volume. This was partly negated by volume decline in some markets and regions due to temporary disruption of consumer access to retail markets. Moreover, all of its business segments, except Grooming, reported growth in organic sales. For fiscal 2021, the company anticipates sales growth of 1-3%, with organic sales growth of 2-4%. Earnings, on a reported basis, are likely to rise 6-10%, with core earnings growth of 3-7%.
- ▲ **Coronavirus-Related Gains:** Procter & Gamble's products play a key role in meeting the daily health, hygiene and cleaning needs of consumers around the world. This led to increased consumer demand for its products during the coronavirus pandemic, when consumers are essentially at home to curb the spread of the virus. The company's efforts to make its cleaning and personal care products available during this crisis have helped bolster sales. It has witnessed an increased demand for hand soaps, detergents and surface cleaning products, in particular. The company has been operating its 108 manufacturing plants for undisrupted supplies of essentials amid the coronavirus. Further, the company's product supply planning and logistics organization played an essential role in supplying goods. These efforts primarily resulted in the robust top and bottom line performance in the fiscal fourth quarter.
- ▲ **Cost Savings and Productivity Program Aid Margins:** Procter & Gamble remains focused on productivity and cost-saving plans to boost margins. The company's continued investment in business alongside efforts to offset macro cost headwinds and balance top and bottom-line growth underscores its productivity efforts. The company is witnessing cost savings and efficiency improvements across all facets of business in the second five-year (fiscal 2017-2021) \$10 billion productivity program. The second five-year restructuring plan targets cutting costs in areas including supply chain and cost of goods sold (COGS), marketing and digitization and promotional spend effectiveness. This plan comprises \$7 billion in COGS savings (\$4.5 billion from raw and packaging materials, \$1.5 billion in manufacturing savings and \$1 billion from transportation/warehousing/other); \$2 billion of marketing cost reductions; \$1.5 billion of trade spending savings (10% efficiency); and \$1-\$2 billion of additional overhead reductions. This brings the total potential savings to \$12-\$13 billion. However, P&G adjusted the level down to up to \$10 billion to take into account the uncertainty associated with operations, especially when projecting out several years.
- Notably, the company's core currency-neutral gross and operating margins reflected significant gains from productivity savings and pricing in fourth-quarter fiscal 2020. Core gross margin (on a currency-neutral basis) expanded 250 basis points (bps) owing to benefits from gross productivity savings, higher pricing and commodity cost declines. Core currency-neutral operating margin expanded 190 bps in the quarter, including 440 bps of total productivity cost savings.
- ▲ **Strong Free Cash Flows & Shareholder Returns:** Procter & Gamble generates strong free cash flow annually. Cash flow provides management the opportunity to invest in product innovations, acquisitions and brand development in addition to regularly paying dividends and repurchasing shares. Notably, the company generated operating cash flow of \$4.8 billion in the fiscal fourth quarter and \$17,403 million for fiscal 2020. Moreover, adjusted free cash flow productivity was 114% for the fiscal fourth quarter. Furthermore, the company returned nearly \$15.2 billion of cash to its shareholders in the fiscal 2020. This included dividend payments worth \$7.8 billion and share buybacks of \$7.4 billion.

The company ended the quarter with long-term debt of \$23.5 billion, up 0.9% year over year. Although its debt to capitalization ratio stands at 0.43, reflecting a sequential rise from 0.38, its times interest earned ratio is at a respectable 35.1 as compared to 16.6 reported in the prior quarter. For fiscal 2021, the company expects adjusted free cash flow productivity is estimated to be 90%. Additionally, it anticipates dividend payments of \$8 billion and share repurchases of \$6-\$8 billion.

Procter & Gamble's Q4 results gained from rising demand for household cleaning, personal health and cleansing products due to the pandemic. Rise in shipment volume and better pricing aided sales.

Reasons To Sell:

- ▼ **Valuation Looks Stretched:** Considering price-to-earnings (P/E) ratio, Procter & Gamble looks overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 27.05x, which is above the median level of 25.06x and below the high level of 27.5x scaled in the past year. On the contrary, the trailing 12-month P/E ratio for the industry is 21.23x and the S&P 500 is 24.31x. Given these factors, we believe that the stock is stretched from the P/E aspect.
- ▼ **Currency Headwinds:** Procter & Gamble's significant international presence exposes it to foreign currency risks, which have been weighing on the company's performance. Apparently, currency fluctuations hurt core gross margin by 40 bps in fourth-quarter fiscal 2020. Although unfavorable currency movement did not affect sales in the fiscal fourth quarter, it is expected to hurt sales by 1% in fiscal 2021. Also, the fiscal earnings view takes into account an after-tax headwind of \$300 million due to currency woes, which are likely to be more than offset by a \$275-million after-tax benefit related to reduced commodity costs.
- ▼ **Slowdown of Global Economies:** Procter & Gamble remains vulnerable to global economic challenges, which may impact its revenues, profits and cash flows. A global economic slowdown can reduce the personal disposable income of consumers, which in turn, will decrease the company's sales volumes as consumers move toward cheaper alternatives. Further, it may force the company to shift its product mix to lower-margin products, thereby impacting margins. Management stated that it is likely to continue facing challenges from a volatile macro and geopolitical environment.
- ▼ **Competitive Pressure:** Procter & Gamble faces intense competition from other well-established players in the consumer products industry, such as Colgate-Palmolive, Clorox, and Church & Dwight on the basis of pricing, promotional activities and new product introductions. The failure to offer exclusive high-quality products at competitive prices may hamper the company's market share.

Headwinds from foreign exchange rates is likely to adversely impact Procter & Gamble sales and earnings in fiscal 2020.

Last Earnings Report

Procter & Gamble Q4 Earnings & Sales Beat Estimates

The Procter & Gamble's, popularly known as P&G, reported impressive fourth-quarter fiscal 2020 results. Further, both top and bottom lines improved year over year. Results gained from a sudden spike in demand for household cleaning, personal health and cleansing products, mostly in North America and China, stemming from the ongoing COVID-19 pandemic.

Procter & Gamble's core earnings of \$1.16 per share rose 5% year over year and outpaced the Zacks Consensus Estimate of \$1.01 on the back of sturdy sales growth and improved operating margin. Meanwhile, currency-neutral core earnings per share (EPS) increased 11%.

The company reported net sales of \$17,698 million, increasing 4% year over year and surpassing the Zacks Consensus Estimate of \$16,952 million. The company mix to net sales growth was 1% year over year.

Sales in Detail

On an organic basis (excluding the impact of acquisitions, divestitures and foreign exchange), revenues moved up 6% based on a 3% rise in organic shipment volume. Further, sales inched up 2% owing to higher pricing.

Moreover, all of the company's business segments, except Grooming, reported growth in organic sales. Organic sales moved up 3% in the Beauty segment, 2% in Health Care, 14% in Fabric & Home Care and 5% in the Baby, Feminine and Family Care segment. However, the metric declined 1% in the Grooming division.

Net sales in the Fabric & Home Care, and Baby, Feminine and Family Care segments rose 11% and 3%, respectively. However, net sales in the Health Care and Grooming segments declined 1% and 5%, respectively. For the Beauty segment, sales remained flat year over year.

Margins

In the reported quarter, core gross margin expanded 210 basis points (bps) year over year to 49.5%, including 40 bps of adverse impacts of foreign currency. On a currency-neutral basis, core gross margin expanded 250 bps owing to benefits from gross productivity savings, higher pricing and commodity cost declines. The uptick was partly offset by unfavorable product mix, manufacturing and logistics expenses and other headwinds.

Core selling, general and administrative expenses (SG&A), as a percentage of sales, increased 70 bps to 29.8%. The metric expanded 50 bps on a currency-neutral basis. This can be attributable to gains from the sale of real estate, increased marketing investments, rise in costs related to wage inflation and incentive compensation. These factors were more than offset by savings related to overhead and marketing expenses.

Moreover, core operating margin expanded 140 bps. On a currency-neutral basis, the metric improved 190 bps, driven by 440 bps of total productivity cost savings.

Financials

Procter & Gamble ended the reported quarter with cash and cash equivalents of \$16,181 million, long-term debt of \$23,537 million and total shareholders' equity of \$46,878 million.

Cash flow from operating activities amounted to \$17,403 million for fiscal 2020, with operating cash flow of \$4.8 billion in the fiscal fourth quarter. Moreover, free cash flow productivity was 114%.

Furthermore, the company returned \$15.2 billion of cash to its shareholders in fiscal 2020. This included dividend payouts worth \$7.8 billion and share buybacks of \$7.4 billion.

Fiscal 2021 Guidance

Management issued fiscal 2021 guidance. Notably, the company anticipates sales growth of 1-3%, with organic sales growth of 2-4%. Unfavorable currency is expected to affect sales by 1% in fiscal 2021. Apart from these, capital expenditure is envisioned to be 4-5% of fiscal 2021 sales.

Further, earnings on a reported basis are likely to witness growth of 6-10%. Core earnings for fiscal 2021 are projected to grow 3-7%. This view takes into account an after-tax headwind of \$300 million due to currency woes, which are likely to be more than offset by a \$275-million after-tax benefit related to reduced commodity costs. Also, elevated interest costs and soft interest income to the tune of \$150 million are expected to hurt fiscal 2021 results.

Adjusted free cash flow productivity is estimated to be 90%. In addition to this, the company anticipates dividend payments of \$8 billion and share repurchases of \$6-\$8 billion in fiscal 2021.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	4.40%
EPS Surprise	14.85%
Quarterly EPS	1.16
Annual EPS (TTM)	5.12

Recent News

Procter & Gamble Approves Dividend – Jul 14, 2020

Procter & Gamble's board has approved a quarterly dividend of \$79.07 per share to be payable on Aug 17, 2020 as of shareholders record as of Jul 24.

Valuation

Procter & Gamble shares are up 10.9% in the year-to-date period but up nearly 16.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 11.2% but the Zacks Consumer Staples sector is down 6% in the year-to-date period. Over the past year, the Zacks sub-industry is up 10.5% and the sector is down 4%.

The S&P 500 index is up 6.5% in the year-to-date period and 19.5% in the past year.

The stock is currently trading at 25.38X forward 12-month earnings, which compares to 24.26X for the Zacks sub-industry, 20.29X for the Zacks sector and 23.05X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.46X and as low as 16.02X, with a 5-year median of 21.34X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$145 price target reflects 26.57X forward 12-month earnings.

The table below shows summary valuation data for PG

Valuation Multiples - PG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.38	24.26	20.29	23.05
	5-Year High	25.46	24.26	22.37	23.05
	5-Year Low	16.02	17.89	16.63	15.25
	5-Year Median	21.34	21.26	19.58	17.58
P/S F12M	Current	4.7	2.9	9.61	3.76
	5-Year High	4.7	2.9	11.15	3.76
	5-Year Low	2.6	2.02	8.1	2.53
	5-Year Median	3.43	2.34	9.89	3.05
EV/EBITDA TTM	Current	19.01	13.31	38.08	13.03
	5-Year High	20.54	14.72	45.11	13.03
	5-Year Low	11.36	9.26	27.25	8.25
	5-Year Median	14.62	11.15	38.42	10.92

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Unilever NV (UN)	Outperform	2
ChurchDwight Co., Inc. (CHD)	Neutral	3
ColgatePalmolive Company (CL)	Neutral	3
The Clorox Company (CLX)	Neutral	3
The Estee Lauder Companies Inc. (EL)	Neutral	4
Henkel AGCo. (HENKY)	Neutral	3
Reckitt Benckiser Group PLC (RBGLY)	Neutral	3
Unilever PLC (UL)	Neutral	2

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers		
	PG	X Industry	S&P 500	HENKY	UL	UN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	2	2
VGM Score	B	-	-	C	B	A
Market Cap	344.35 B	67.85 B	23.81 B	39.26 B	70.44 B	100.77 B
# of Analysts	9	7.5	14	2	2	2
Dividend Yield	2.28%	1.87%	1.64%	1.48%	3.08%	3.13%
Value Score	D	-	-	C	B	B
Cash/Price	0.05	0.04	0.07	0.08	0.09	0.07
EV/EBITDA	18.26	18.26	13.37	9.35	5.14	9.71
PEG Ratio	3.51	3.98	3.02	NA	NA	NA
Price/Book (P/B)	7.46	5.91	3.17	1.88	3.51	5.02
Price/Cash Flow (P/CF)	20.84	20.84	12.77	11.27	7.25	10.38
P/E (F1)	25.65	25.19	21.72	18.67	21.72	20.88
Price/Sales (P/S)	4.85	4.23	2.48	1.74	NA	NA
Earnings Yield	3.90%	3.97%	4.44%	5.35%	4.61%	4.80%
Debt/Equity	0.51	0.60	0.76	0.10	0.00	1.32
Cash Flow (\$/share)	6.65	3.45	6.93	1.99	8.31	5.66
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	6.31%	8.08%	10.41%	NA	NA	NA
Proj. EPS Growth (F1/F0)	5.43%	3.43%	-5.05%	-20.53%	-2.97%	-1.57%
Curr. Cash Flow Growth	11.93%	11.90%	5.20%	-7.30%	1.99%	1.99%
Hist. Cash Flow Growth (3-5 yrs)	2.25%	5.95%	8.50%	5.53%	5.95%	5.95%
Current Ratio	0.85	0.92	1.33	1.07	0.86	0.86
Debt/Capital	33.43%	37.66%	44.50%	9.40%	0.00%	56.85%
Net Margin	18.36%	14.84%	10.13%	10.37%	NA	NA
Return on Equity	29.53%	27.56%	14.66%	12.99%	NA	NA
Sales/Assets	0.61	0.86	0.51	0.63	NA	NA
Proj. Sales Growth (F1/F0)	2.67%	1.84%	-1.45%	-3.73%	-0.23%	1.13%
Momentum Score	C	-	-	F	F	C
Daily Price Chg	0.78%	0.67%	1.32%	2.42%	1.21%	1.12%
1 Week Price Chg	1.73%	0.56%	-1.45%	-0.64%	0.20%	-0.15%
4 Week Price Chg	9.65%	0.86%	3.38%	1.72%	-1.25%	-1.29%
12 Week Price Chg	18.13%	11.78%	7.69%	10.45%	10.83%	13.06%
52 Week Price Chg	16.08%	16.08%	3.85%	0.58%	-1.98%	-2.88%
20 Day Average Volume	6,490,570	1,045,747	1,873,293	32,935	778,561	1,312,933
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	3.21%	3.02%	1.00%	2.13%	2.97%	2.55%
(F1) EPS Est 12 week change	3.60%	4.06%	3.40%	-1.64%	4.52%	7.65%
(Q1) EPS Est Mthly Chg	-0.09%	0.86%	0.00%	NA	NA	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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