



# Procter & Gamble Co. (PG)

Updated November 18<sup>th</sup>, 2022, by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$141	<b>5 Year CAGR Estimate:</b>	3.4%	<b>Market Cap:</b>	\$336 B
<b>Fair Value Price:</b>	\$120	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	1/19/23
<b>% Fair Value:</b>	118%	<b>5 Year Valuation Multiple Estimate:</b>	-3.2%	<b>Dividend Payment Date:</b>	2/14/23
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target:</b>	\$146	<b>Years Of Dividend Growth:</b>	66
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Sell

## Overview & Current Events

Founded in 1837 and headquartered in Cincinnati, Ohio, Procter & Gamble is a consumer products giant that sells its products in over 180 countries. Notable brands include Pampers, Luvs, Tide, Gain, Bounty, Charmin, Puffs, Gillette, Head & Shoulders, Old Spice, Dawn, Febreze, Swiffer, Crest, Oral-B, Scope, Olay and many more. The \$336 billion market capitalization company generated \$80 billion in sales in fiscal 2022. Procter & Gamble has paid a dividend for 131 years and has grown its dividend for 66 consecutive years – one of the longest active streaks of any company.

On April 12<sup>th</sup>, 2022, Procter & Gamble raised its dividend by 5.0%, from \$0.8698 per quarter to \$0.9133.

In mid-October, Procter & Gamble reported (10/19/22) financial results for the first quarter of fiscal 2023 (its fiscal year ends June 30<sup>th</sup>). The company grew its sales and its organic sales 1% and 7%, respectively, over the prior year's quarter. Organic sales growth resulted from 9% price hikes, which were partly offset by a -3% decrease in volumes. Despite the strong headwind from high cost inflation, which reduced gross margin by 160 basis points, adjusted earnings-per-share fell only -2%. The firm sales amid strong price hikes are a testament to the strength of the brands of Procter & Gamble. The company still expects 3%-5% growth of organic sales in fiscal 2023 and 0%-4% growth of earnings-per-share.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.05	\$4.22	\$4.02	\$3.67	\$3.92	\$4.22	\$4.52	\$5.12	\$5.66	\$5.81	<b>\$6.00</b>	<b>\$7.30</b>
<b>DPS</b>	\$2.29	\$2.45	\$2.59	\$2.66	\$2.70	\$2.79	\$2.90	\$3.03	\$3.24	\$3.52	<b>\$3.65</b>	<b>\$4.55</b>
<b>Shares<sup>2</sup></b>	2,742	2,711	2,715	2,668	2,553	2,498	2,505	2,480	2,430	2,523	<b>2,500</b>	<b>2,400</b>

Procter & Gamble has grown its earnings-per-share by 4.1% per year on average over the last decade. Sales have remained flat over this period, but net profit margin has increased. The company has been going through a major transformation in recent years. It has sold a significant number of low-margin, low-growth brands and has reduced its brand count from ~170 to 65. This transformation has weighed on the top line, but it should allow Procter & Gamble to focus on its strongest, most profitable brands moving forward. Indeed, the company has returned to solid growth mode in the last five years. It should be noted that inflationary pressure appears to be picking up, but over time Procter & Gamble has proven capable of sustaining price hikes to offset this headwind thanks to its strong brands.

We expect earnings-per-share of \$6.00 in 2023, 1% above the mid-point of the company's guidance, given its record of beating analysts' estimates in 19 of the last 20 quarters. Thereafter, we expect 4% average annual growth, representing a slowdown compared to recent years, but in line with the last decade.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	17.8	19.0	20.9	21.4	22.3	20.1	20.7	23.3	23.8	25.7	<b>23.5</b>	<b>20.0</b>
<b>Avg. Yld.</b>	3.2%	3.1%	3.1%	3.4%	3.1%	3.3%	3.1%	2.5%	2.4%	2.4%	<b>2.6%</b>	<b>3.1%</b>

<sup>1</sup> Estimated date.

<sup>2</sup> In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Procter & Gamble has traded at an average price-to-earnings ratio of approximately 20.0 over the last decade. We believe this is a fair earnings multiple, taking into consideration the high quality of the company, weighed against modest growth prospects. The stock is currently trading at a price-to-earnings ratio of 23.5. If it reaches our fair valuation level over the next five years, it will incur a -3.2% annualized drag in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	57%	58%	64%	72%	69%	66%	64%	59%	57%	61%	61%	62%

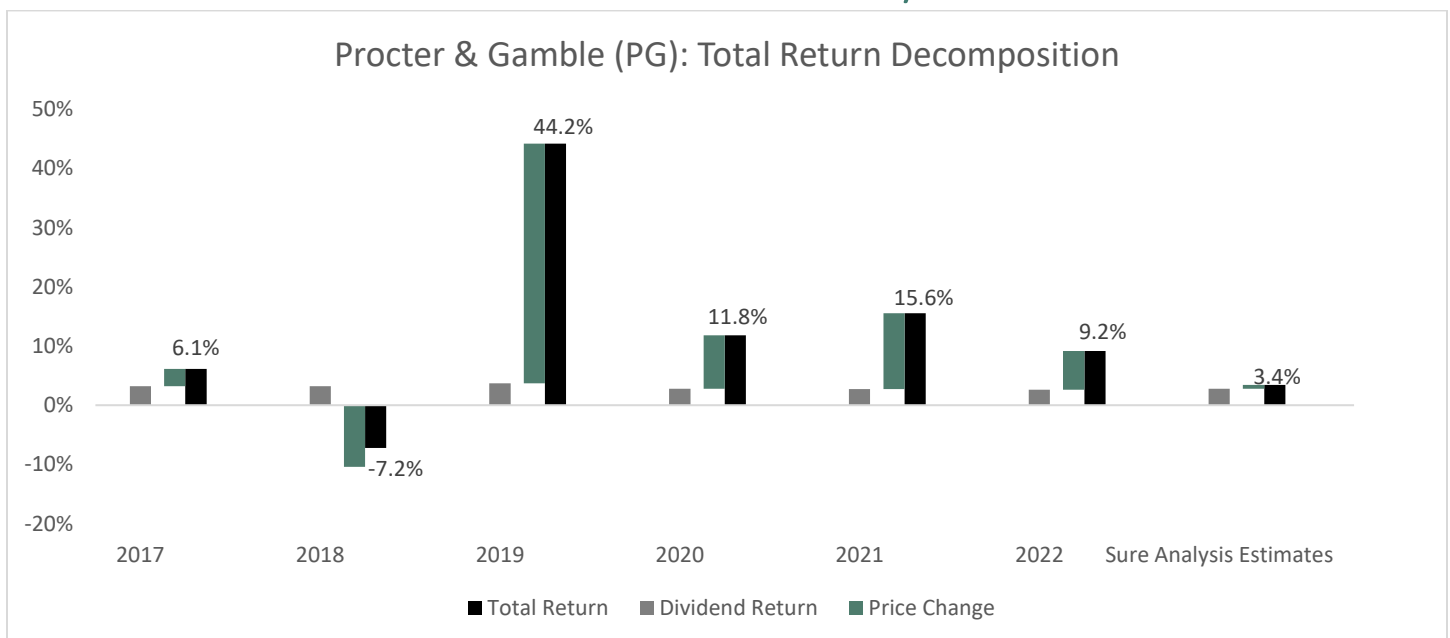
Procter & Gamble's dividend payout ratio has oscillated between 50% and 75% in the last decade, with the current mark at 61%. This is somewhat high for your typical company, but well within a reasonable range for such a high-quality firm. We believe that the company can keep growing its dividend at a rate roughly in line with earnings-per-share growth going forward.

Procter & Gamble has significant competitive advantages thanks to its strong brands. The company has several category-leading brands such as Crest, Tide, Gillette, Bounty, Febreze, Old Spice, Pampers, and many more. These brands provide Procter & Gamble with pricing power and consistent profits, in good times or bad. During the Great Recession, the company posted earnings-per-share of \$3.04, \$3.64, \$3.58, \$3.53, and \$3.93 in the 2007 through 2011 stretch, while the dividend kept on rising. Moreover, during the current COVID-19 pandemic, Procter & Gamble has proven resilient once again, with record earnings in each of the last three years.

## Final Thoughts & Recommendation

Procter & Gamble has demonstrated strong performance in all environments, with an impressive operating history. While its growth rate slowed in the last decade, Procter & Gamble has now completed an important transformation program, which has enhanced growth. However, the stock is trading at a nearly 10-year high valuation level and hence it could offer just a 3.4% average annual return over the next five years, as its 4.0% growth and its 2.6% dividend may be offset by a -3.2% valuation headwind. Procter & Gamble is appealing to risk-averse investors who seek reliable dividend growth. However, due to its rich valuation, the stock receives a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	80116	74401	70749	65299	65058	66832	67684	70950	76120	80187
<b>Gross Profit</b>	40125	35371	33693	32390	32420	32400	32916	35700	39010	38030
<b>Gross Margin</b>	50.1%	47.5%	47.6%	49.6%	49.8%	48.5%	48.6%	50.3%	51.2%	47.4%
<b>SG&amp;A Exp.</b>	26000	21461	20616	18949	18654	19037	19084	19990	21020	20217
<b>D&amp;A Exp.</b>	2982	3141	3134	3078	2820	2834	2824	3013	2735	2807
<b>Operating Profit</b>	14125	13910	13077	13441	13766	13363	13832	15710	17990	17813
<b>Op. Margin</b>	17.6%	18.7%	18.5%	20.6%	21.2%	20.0%	20.4%	22.1%	23.6%	22.2%
<b>Net Profit</b>	11312	11643	7036	10508	15326	9750	3897	13030	14310	14742
<b>Net Margin</b>	14.1%	15.6%	9.9%	16.1%	23.6%	14.6%	5.8%	18.45	18.8%	18.4%
<b>Free Cash Flow</b>	10865	10110	10872	12121	9369	11150	11895	14330	15580	13567
<b>Income Tax</b>	3226	2851	2725	3342	3063	3465	2103	2731	3263	3202

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets (\$B)</b>	139	144	129	127	120	118	115	120.7	119.3	117.2
<b>Cash &amp; Equivalents</b>	5947	8558	6836	7102	5569	2569	4239	16180	10290	7214
<b>Acc. Receivable</b>	6508	6386	4568	4373	4594	4686	4951	4178	4725	5143
<b>Inventories</b>	6909	6759	4979	4716	4624	4738	5017	5498	5983	6924
<b>Goodwill &amp; Int.</b>	86760	84547	69632	68877	68886	69077	64488	63690	64570	63379
<b>Total Liabilities</b>	70554	74290	66445	69153	64628	65427	67516	73820	72650	70354
<b>Accounts Payable</b>	8777	8461	8138	9325	9632	10344	11260	12070	13720	14882
<b>Long-Term Debt</b>	31543	35417	30345	30598	31592	31286	30059	34720	31990	31493
<b>Total Equity</b>	66927	68103	61342	56303	54178	51326	46266	46520	46650	45746
<b>D/E Ratio</b>	0.46	0.51	0.49	0.53	0.57	0.60	0.64	0.75	1.56	0.68

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	8.3%	8.2%	5.1%	8.2%	12.4%	8.2%	3.3%	11.1%	11.9%	12.5%
<b>Return on Equity</b>	17.5%	17.2%	10.9%	17.9%	27.7%	18.5%	8.0%	28.4%	31.0%	32.3%
<b>ROIC</b>	11.7%	11.3%	7.1%	11.5%	17.4%	11.4%	4.8%	16.4%	17.9%	18.8%
<b>Shares Out.</b>	2742	2710	2715	2669	2553	2498	2425	2626	2601	2539
<b>Revenue/Share</b>	27.34	25.61	24.54	22.96	23.74	25.16	26.65	27.02	29.26	31.58
<b>FCF/Share</b>	3.71	3.48	3.77	4.26	3.42	4.20	4.68	5.46	5.99	5.34

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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