

Procter & Gamble Company

US CORE HOLDING*

Recommended since 18.12.15

02.02.2023



Country	US	Market capitalization (bn)	USD	337.8	Perf. since reco. (%)	
Sector	Personal & Household Goods	Free float	99.9%	Procter & Gamble Company	83.3	
Factset	PG-US	Closing price	USD	143.19	Sector	57.6
ISIN	US7427181091	ESG Risk score*	26.4	Medium risk		



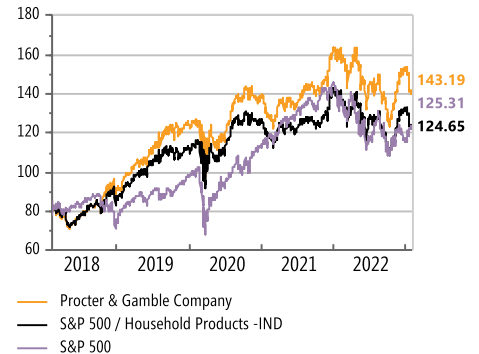
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Procter & Gamble is a US multinational specialising in fast-moving consumer goods (hygiene / beauty products) and one of the industry leaders. Innovative in laboratory research, market research and advertising, P&G acquired Wella in 2003 and Gillette in 2005 before selling 20% of its Beauty business (perfume / hair colouring) to Coty in 2015. In 2018, P&G acquired Merck's dietary supplement business. In 2019, the company sold the Fluocaril and Parongencyl brands to Unilever.

Market - competition - positions - barriers to entry

The world market for Home and Personal Care products is buoyant (up 3-5% a year) and profitable. P&G owns 24 brands with a turnover in excess of USD 1 billion each: Olay, Oil of Olaz, Pantene, Head & Shoulders, Vidal Sassoon, Crest, Fluocaril, Gillette, Oral B, Vicks, Ariel, Tide, Pampers, Always... Its main competitors are L'Oréal, Colgate, Unilever, Beiersdorf.



Source: Factset

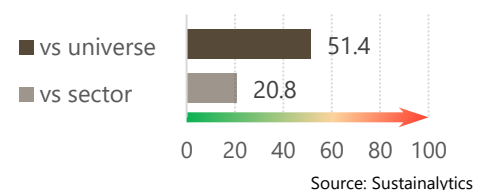
Investment case

- In a global Home and Personal Care market that has been growing at +3.5% per year for more than 20 years, P&G can rely on 24 strong brands. Its pricing power is based on its strong exposure to the USA and Europe, the two regions that have contributed most to market growth. P&G also benefits from the potential of emerging markets: low cosmetics penetration / strong demographic expansion / wealth creation. The sale of 20% of its Beauty division (perfumery/hair coloring) to Coty has enabled it to make a strategic shift. Little progress had been made in Personal Care for 10 years and the savings (+200bp margin) generated by this disposal were reinvested to support sales, which took off in 2019 thanks to more than two years of efforts in terms of innovation, rationalization of production units, logistics and cost-cutting of \$10bn.
- While the pandemic has affected entire sectors of the economy, it has had less of an impact on hygiene and personal care products. P&G has recorded higher volumes and a better mix (innovation/premiumization) resulting in organic growth of +6% in 2020. FY2021 (+6.5%) and FY2022 (+7%) continued this momentum despite cost and consumer price inflation.
- While 2023 has started well (solid Q1 and Q2 publications), P&G is confident and cautious about the future. It targets for 2023 (fiscal year ending June 30) a decline in sales limited to -1/0% vs. -3/-1% previously due to more favorable assumptions on currencies (-5% vs. -6%) and on the organic sales growth target (+4/5% vs. +3/5%). The group is reducing the impact of the headwinds initially expected on its gross margin (currency -\$1.2bn vs. -\$1.3bn / MP cost inflation -\$2.3bn vs. -\$2.4bn / freight -\$200m) which would only weigh by \$3.7bn vs. \$3.9bn before. We can see that this scenario provides a significant safety cushion in view of the reversal of raw material cost inflation and a less penalizing currency effect. Management has accustomed us to making very conservative assumptions at the beginning of the year, only to lighten them and deliver better later on. The P&G model has proven itself. Having emerged from the pandemic as a winner with market share gains in all its product categories, productivity gains and successful price increases (pricing power) should enable it to hold its course in a more uncertain market environment.

ESG - risks and key points

- P&G has an average risk of suffering significant financial impacts related to ESG factors due to its average exposure and management of relevant issues.
- Its reputedly strong corporate governance reduces its overall risk.
- P&G is experiencing controversies over its dominant position (anticompetitive), ethics (animal testing), environmental impacts of products (sustainability / packaging waste / human rights in procurement).

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
143	162

Our scenario assumes US 10-year yields of 3.5%, sales growth which was strong performance in 2021/2022 (pandemic) is targeting 5% in 2026, and an EBIT margin rising to 23.5% over this time frame, to normalize at this level over the long term.

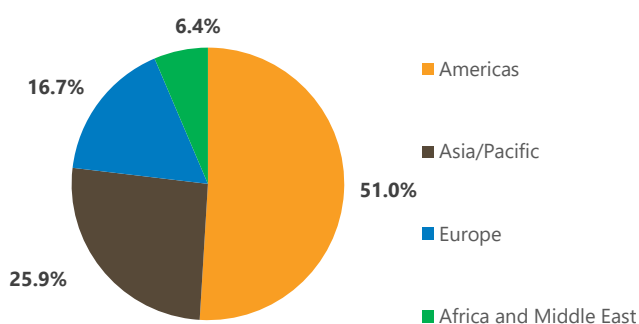
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2021	2022	2023e	2024e	2025e
Sales revenue	76'118	80'187	80'600	83'800	87'600
Sales growth %	7.3%	5.3%	0.5%	4.0%	4.5%
o/w organic	6.5%	7.0%	5.0%	4.0%	4.5%
o/w perimeter	0.5%	0.0%	0.0%	0.0%	0.0%
o/w forex	0.3%	-1.7%	-4.5%	0.0%	0.0%
EBITDA	20'721	20'620	20'860	22'100	23'460
% of sales	27.2%	25.7%	25.9%	26.4%	26.8%
EBIT	17'986	17'813	18'020	19'100	20'300
% of sales	23.6%	22.2%	22.4%	22.8%	23.2%
Adjusted EPS	5.66	5.81	5.84	6.25	6.64
Adjusted EPS growth	10.5%	2.7%	0.5%	7.0%	6.3%
FCF/Sales	19.0%	17.7%	16.6%	17.4%	17.9%
Dividend yield	2.3%	2.5%	2.5%	2.7%	2.8%
ROCE - WACC	9.3%	9.3%	9.0%	9.8%	10.7%
ROE (%)	31.6%	31.5%	27.8%	26.4%	25.1%
Net debt/Ebitda	104.7%	117.7%	95.0%	64.6%	35.1%

Source: Factset, Bordier estimates

Sales breakdown - 06/2022



Ratios

	S&P 500	
	Procter & Gamble Company	Market
PE (x)***	Household Products	S&P 500
2022	24.7	26.1
2023e	24.5	24.9
2024e	22.9	23.8
P/B (x)***		
2022	7.2	10.6
2023e	6.4	9.5
2024e	5.7	9.1
Beta (2Y, daily) vs market:	0.57	

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premiums representing the quality of the company's business model.

Governance and ownership structure

Since 2016 D. Taylor CEO & J. Moeller CFO.

Key shareholders (if any):

Vanguard 8.4%, State Street 4.6%, Blackrock 4.5%.

Agenda

2Q 2023 results on 01/19/2023.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

None

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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