

Procter & Gamble Company

US CORE HOLDING*

Recommended since 18.12.15

05.08.2022



Country US	Market capitalization (bn) USD 347.1	Perf. since reco. (%)
Sector Personal & Household Goods	Free float 99.9%	Procter & Gamble Company 85.1
Factset PG-US	Closing price USD 144.65	Sector 60.8
ISIN US7427181091	ESG Risk score* 26.6	Medium risk



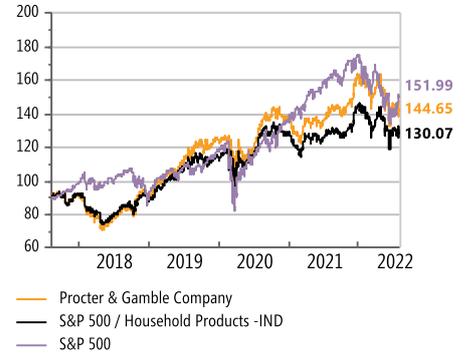
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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

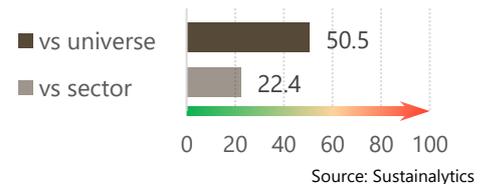
Investment case

- 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 comes from its strong exposure to the US and Europe, 2 regions that have contributed most to market growth. P&G also benefits from the potential of emerging markets: low penetration of cosmetics / strong demographic expansion / wealth creation. The sale of 20% of its Beauty division (perfumery / hair coloring) to Coty enabled it to take a strategic turn. Little progress had been made in Personal Care over the past 10 years and the savings (margin +200bp) generated by this disposal were reinvested to support sales, which took off in 2019 thanks to more than 2 years of efforts in innovation, rationalization of production units, inventory management, logistics and investments (\$10bn cost-cutting plan).
- While the pandemic has affected entire sectors of the economy, it has had less of an impact on purchases of hygiene and personal care products. P&G recorded volumes and a better mix (innovation/premiumization) resulting in organic growth of +6% in FY2020. Fiscal year 2021 continued this momentum (+6.5%) with a positive contribution from all 5 divisions of the group and a solid operational performance. This momentum has been confirmed in 2022 (organic sales growth of +7%) and despite strong cost inflation (Raw material / freight / currencies) and price inflation for the consumer, P&G's performance was reassuring.
- Management is cautious on its 2023 guidance of +3/5% organic sales growth and +0/4% EPS, given unfavorable assumptions on currencies, cost inflation and a future economic slowdown. While P&G estimates these headwinds could weigh on EPS by as much as -\$1.33 in 2023, this scenario provides a significant cushion given the recent turnaround in commodities inflation and currencies that may prove less punitive (weaker \$). Management is used to make conservative assumptions early in the year in order to deliver better later on. We are confident about the future because the P&G model has proven itself. Having emerged from the pandemic as a winner with market share gains in all product categories, productivity gains and pricing power should enable it to maintain its course of solid earnings growth.

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)*



Valuation** in USD

Current price	Value Bordier Scenario
145	162

Our scenario assumes US 10-year yields of 3.5%, sales growth which was strong performance in 2020/2021 (pandemic) is targeting 3% in 2025, and an EBIT margin rising to 23% over this time frame, to normalize at this level over the long term.

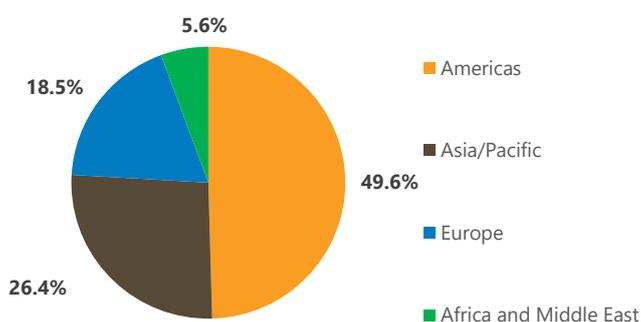
**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2020	2021	2022e	2023e	2024e
Sales revenue	70'950	76'118	80'187	82'000	85'250
Sales growth %	4.8%	7.3%	5.3%	2.3%	4.0%
<i>o/w organic</i>	6.0%	6.5%	4.2%	4.0%	3.8%
<i>o/w perimeter</i>	0.0%	0.5%	0.0%	0.0%	0.0%
<i>o/w forex</i>	-1.2%	0.3%	0.0%	0.0%	0.0%
EBITDA	19'156	20'721	20'620	21'400	22'700
% of sales	27.0%	27.2%	25.7%	26.1%	26.6%
EBIT	16'143	17'986	17'813	18'440	19'600
% of sales	22.8%	23.6%	22.2%	22.5%	23.0%
Adjusted EPS	5.12	5.66	5.81	5.95	6.31
Adjusted EPS growth	13.3%	10.5%	2.7%	2.4%	6.2%
FCF/Sales	18.0%	19.0%	17.7%	17.3%	17.8%
Dividend yield	2.1%	2.2%	2.4%	2.5%	2.7%
ROCE - WACC	19.2%	21.4%	21.0%	21.3%	22.5%
ROE (%)	24.3%	28.3%	25.3%	23.4%	22.5%
Net debt/Ebitda	93.8%	103.6%	76.4%	49.2%	20.4%

Source: Factset, Bordier estimates

Sales breakdown - 06/2021



Ratios

	S&P 500	
	Procter & Gamble Company	Market
PE (x)***	Household Products	S&P 500
2021	25.6	21.2
2022e	24.9	18.5
2023e	24.3	17.1
P/B (x)***		
2021	6.7	4.5
2022e	6.0	4.0
2023e	5.4	3.6
Beta (2Y, daily) vs market:	0.42	

***) 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 premi-ums 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

1Q 2023 results on 10/21/2022.

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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