

Procter & Gamble (PG)

Q3'24 Earnings - April 19, 2024

Overall Sentiment: [Slightly Positive](#) - consistent with last call's [Slightly Positive](#)

Challenges: [Callum Elliott](#) (Sanford C. Bernstein & Co., LLC) - Trade-down dynamics, private-label market share as a metric

Key Call Topics: [Guidance and Outlook](#), [Key Financials](#), [Market Performance](#), [Productivity and Innovation](#), [Operating Environment](#)

Negative Sentiment: [China Performance](#) (Negative)

Guidance and Outlook

- Despite ongoing macroeconomic challenges, Procter & Gamble (P&G) reported strong results for the third quarter of fiscal year 2024. The company's year-to-date performance prompted an upgrade in its outlook for core earnings per share for the fiscal year with a projected rise of 10% to 11%, compared to the earlier range of 8% to 9%.
- P&G anticipates that it will continue to face volatility and challenges, including fluctuating input costs, currencies, consumer dynamics, and geopolitical issues. Despite these headwinds, the company believes it is well-poised to maintain its organic sales growth guidance of 4% to 5% for the fiscal year.
- The company's forecast includes expectations of continued normalization in underlying market growth rates, constant changes in market level, and slow recovery in volumes. This outlook is based on current market growth rate projections, commodity prices, and foreign exchange rates.

Key Financials

- P&G reported organic sales growth of 3% for Q3 2024, with pricing contributing 3 points to this growth. The company stated that 8 out of its 10 product categories either maintained or grew their organic sales in the quarter.
- Core earnings per share stood at \$1.52, marking an 11% increase compared to the same period in the previous year. On a currency-neutral basis, core EPS experienced an uplift of 18%.
- P&G returned \$3.3 billion of cash to shareholders, consisting of approximately \$2.3 billion in dividends and \$1 billion in share repurchase. Over the first three quarters, more than \$10 billion was returned to shareholders through dividends and repurchases.
- The company plans to return \$14 billion to \$15 billion of cash to shareholders for the year, which includes paying more than \$9 billion in dividends and repurchasing \$5 billion to \$6 billion in common stocks.

Market Performance

- P&G's growth was broad-based across geographies, with North America, Europe, and Asia Pacific Focus Markets, and Latin America and Europe Enterprise Markets all reporting growth in organic sales.
- The company encountered notable headwinds from markets like Greater China, where organic sales decreased by 10% versus the prior year, primarily due to weak market conditions and specific issues impacting other markets.

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- Despite these challenges, P&G's global aggregate value share grew compared to the previous year, with 29 of the company's top 50 category-country combinations maintaining or increasing their share.

Productivity and Innovation

- The company emphasized its ongoing commitment to productivity improvements across all operational areas. These improvements aim to enable continued investment in superior products, help offset cost and currency challenges, and facilitate margin expansion and robust cash generation.
- P&G plans to continue its strategy of constructive disruption, showcasing a willingness to adapt and create new trends and technologies that will shape the industry's future.
- Even amid a challenging operating environment, P&G remains dedicated to its integrated strategy, which includes a portfolio of daily-use products and a commitment to delivering irresistibly superior offerings to consumers and retail partners.

Operating Environment

P&G anticipates volatility in consumer and macro dynamics to continue. However, the company remains confident that the most effective path forward is to double down on its integrated strategy and stay focused on delivering balanced top and bottom-line growth for its shareholders.

Q&A Review

PG Executive Background:

| Name | Position | Age | Time In Role |
|-----------------------|------------|-----|--------------|
| Jon R. Moeller | CEO | 59 | 2.5 years |
| Andre Schulten | CFO | 53 | 3.2 years |

| Analyst | Affiliation | Executive | Topics |
|--------------------------------|-------------------|----------------|--|
| <u>Lauren Lieberman</u> | Barclays Bank PLC | Andre Schulten | Market growth, market share trends in North America, Europe, and China excluding SK-II |

Lieberman initiated the Q&A by inquiring about market growth expectations and P&G's market share performance, particularly focusing on China excluding SK-II. Schulten responded by highlighting the overall consumption strength across markets, with specific mentions of growth in North America and Europe. He acknowledged soft market consumption in China but noted sequential progress and investments aimed at driving market growth. The exchange was informative, with Schulten providing detailed insights into P&G's market performance and strategic initiatives.

| | | | |
|------------------------------|------------------|----------------|--|
| <u>Stephen Powers</u> | Deutsche Bank AG | Andre Schulten | Commodity benefits, fiscal '25 planning, productivity pipeline |
|------------------------------|------------------|----------------|--|

Powers questioned the impact of commodity benefits on P&G's fiscal year planning and the company's productivity pipeline. Schulten assured that the commodity benefits have positively impacted the fiscal year-to-date results and expressed confidence in the company's ability to handle future challenges through innovation, pricing, and productivity. He also highlighted a three-year productivity master plan across all businesses, indicating a strong pipeline for future productivity improvements.

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| Analyst | Affiliation | Executive | Topics |
|---|----------------------------------|----------------|---|
| <u>Andrea Teixeira</u> | JPMorgan Chase & Co | Andre Schulten | Flat price/mix in the U.S., volume declines in Baby Care, fiscal '25 commodity impact |
| Teixeira sought clarification on the flat price/mix in the U.S. and volume declines in Baby Care, as well as the potential impact of commodities on fiscal '25. Schulten explained the flat price/mix as an outcome of annualizing previous price increases and noted no significant trade-down within P&G's portfolio. He also discussed the regional performance of the Baby Care segment and anticipated commodity impacts, emphasizing the company's readiness to address these challenges. | | | |
| <u>Dara Mohsenian</u> | Morgan Stanley | Andre Schulten | Volume growth expectations, marketing ROI |
| Mohsenian inquired about expectations for volume growth and the ROI on increased marketing spend. Schulten projected sequential progress on volumes and defended the effectiveness of P&G's marketing investments, citing specific examples of successful product innovations and marketing strategies that have driven growth. | | | |
| Q2'24 Challenging Exchange - Topics included: Fiscal back half outlook, EPS guidance, and volatility in key geographies and volume vs. price/mix [View History] | | | |
| <u>Bryan Spillane</u> | BofA Securities | Andre Schulten | FY '25 organic sales targets, macro environment impact |
| Spillane asked about the confidence in meeting long-term organic sales targets and the potential impact of the macro environment. Schulten reiterated the company's market growth expectations and its strategy to grow slightly ahead of the market by driving market growth and leading the market. He provided a positive outlook for the next fiscal year based on these strategies. | | | |
| <u>Bonnie Herzog</u> | Goldman Sachs Group, Inc. | Andre Schulten | FY '24 organic sales growth guidance, SG&A expense increase |
| Herzog sought clarification on the FY '24 organic sales growth guidance and the reasons behind the SG&A expense increase. Schulten clarified the guidance range and discussed the main driver of the SG&A increase as continued investment in marketing, which is offset by productivity on the SG&A line. | | | |
| <u>Olivia Cheang</u> | Raymond James & Associates, Inc. | Andre Schulten | Mix trends, expectations over the next 12 months |
| Cheang questioned the recent flattening of mix trends and future expectations. Schulten attributed the mix headwind primarily to SK-II's performance and maintained that the fundamental dynamic of consumers trading into and up within the P&G portfolio has not changed. He expressed confidence in continuing to drive mix trends positively through innovation and superior product offerings. | | | |
| <u>Christopher Carey</u> | Wells Fargo Securities, LLC | Andre Schulten | Organic sales range for the full year, elasticity dynamics in Baby and Feminine Care |
| Carey followed up on the organic sales range for the full year and sought comments on elasticity dynamics, especially considering potential incremental pricing next year. Schulten attributed adjustments in the organic sales outlook to specific factors like inventory dynamics in the U.S. and pricing in Argentina. He also addressed elasticity, emphasizing the company's balanced approach to pricing and innovation to maintain a healthy value equation for consumers and retail partners. | | | |
| <u>Callum Elliott</u> | Sanford C. Bernstein & Co., LLC | Andre Schulten | Trade-down dynamics, private-label market share as a metric |
| Challenging Exchange: Elliott challenged the use of private-label market share as a metric for assessing trade-down dynamics, suggesting it might not fully capture the behavior of low-income consumers. Schulten defended the metric's use but acknowledged the company tracks consumption in more detail internally. He remained confident in P&G's volume share growth and market growth despite potential trade-down pressures. | | | |

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| Analyst | Affiliation | Executive | Topics |
|--|--|----------------|--|
| <u>Filippo Falorni</u> | Citigroup Inc. | Andre Schulten | U.S. market expectations, laundry category recall and innovation |
| Falorni inquired about expectations for the U.S. market and specifics on the laundry category, including a recent recall and innovation rollout. Schulten provided an optimistic outlook for the U.S. market and minimized the recall's impact, expressing excitement for the Tide evo innovation but noting it's early in the rollout process. | | | |
| <u>Robert Ottenstein</u> | Evercore ISI Institutional Equities | Andre Schulten | Europe's market strength, channel shifts in China |
| Ottenstein asked for more details on Europe's strong market and market share gains, as well as adaptations to channel shifts in China. Schulten attributed Europe's success to consistent execution and innovation, while in China, he highlighted efforts to balance brand equity and sales in the face of significant online channel shifts, particularly on platforms like Douyin (TikTok). | | | |
| <u>Peter Grom</u> | UBS Investment Bank | Andre Schulten | FX impact on earnings guidance, SK-II improvement in China |
| Grom sought clarification on the FX impact on earnings guidance and updates on SK-II's performance in China. Schulten explained the limited net effect of FX changes on the P&L and shared positive signs of improvement in SK-II's brand sentiment in China, though he cautioned that recovery in shipments would take time. | | | |
| <u>Sunil Modi</u> | RBC Capital Markets | Andre Schulten | U.S. destocking details, Tide evo technology applicability, competitive spend guidance |
| Modi confirmed details about U.S. destocking, asked about the applicability of Tide evo technology, and queried about guidance in light of potential competitive spend increases. Schulten clarified the destocking was mainly in Personal Health Care, highlighted the broader applicability of the evo technology, and expressed no concern over competitive spending, emphasizing P&G's momentum and innovation strategy. | | | |
| <u>Kaamil Gajrawala</u> | Jefferies LLC | Andre Schulten | Reinvestment levels, earnings growth implication |
| Gajrawala questioned the implication of significant reinvestment on earnings growth, especially in the context of less gross margin flexibility next year. Schulten pointed to the macro drivers affecting the earnings profile in Q4 and maintained that spend behavior would not materially change, attributing differences to commodity impacts and foreign exchange rates rather than a significant change in reinvestment strategy. | | | |
| <u>Mark Astrachan</u> | Stifel, Nicolaus & Company, Incorporated | Andre Schulten | SK-II brand sentiment, reinvestment contribution to growth |
| Astrachan followed up on SK-II's brand sentiment and queried about the contribution of reinvestment to growth, given the current gross margin expansion. Schulten confirmed improving brand sentiment for SK-II and discussed the strategic approach to reinvestment, emphasizing the role of innovation and superior product offerings in driving growth. | | | |
| <u>Brett Cooper</u> | Consumer Edge Research, LLC | Andre Schulten | Opportunity for elevated category growth rates, competitive environment impact |
| Cooper explored the potential for elevated category growth rates if competitors adopt a strategy similar to P&G's and asked about the impact of a more competitive environment. Schulten welcomed market-constructive competition and underscored P&G's ongoing focus on innovation and superiority as key to maintaining momentum and addressing competitive challenges. | | | |

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Sentiment

The overall sentiment on the Procter & Gamble Q3 2024 earnings call was predominantly positive. There was strong organic sales growth and earnings, with the company raising its outlook for fiscal '24 earnings per share. Cash returns to shareholders were significant, with more than \$10 billion returned in dividends and share repurchases over three quarters. While global market share increased, growth was impacted by weak underlying market conditions in Greater China. Performance in North America and Europe was positive, with organic sales and market share growth. However, there was a negative sentiment towards the performance in China, with organic sales down 10%. The company demonstrated strong productivity improvement, enabling continued investment in superior products and consumer communication.

● Positive

Organic Sales Growth

Organic sales grew by 3% with the company maintaining its guidance range for organic sales growth of 4% to 5% for the fiscal year. Eight out of ten product categories held or grew organic sales in the quarter, showing broad-based growth.

● Positive

Earnings

Core earnings per share were \$1.52, up 11% versus the prior year. On a currency-neutral basis, core EPS increased 18%. The company is raising its outlook for fiscal '24 core earnings per share from a range of 8% to 9% to a range of 10% to 11%.

● Positive

Cash Returns to Shareholders

The company returned \$3.3 billion of cash to shareholders, with \$2.3 billion in dividends and \$1 billion in share repurchases. Over three quarters, more than \$10 billion was returned to shareholders in dividends and repurchases, reinforcing the company's commitment to return cash to shareholders.

● Slightly Positive

Global Market Share

Global aggregate value share was up versus the prior year with 29 of the company's top 50 category country combinations holding or growing share. However, growth was impacted by weak underlying market conditions and headwinds in Greater China.

● Positive

North America Performance

Organic sales in North America grew 3% with 3 points of volume growth. U.S. volume share was up 40 basis points, reflecting strong volume growth ahead of the underlying market.

● Positive

Europe Performance

Europe Focus Markets were up 7% with 4 points of volume growth. Value share in Europe Focus Markets was up 100 basis points over the past 3 months.

● Negative

China Performance

Greater China organic sales were down 10% versus prior year. SK-II sales in Greater China were down around 30% for the quarter. The company expects it will be another quarter or two until they return to growth in China.

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● **Positive**
Productivity

Strong productivity improvement of 320 basis points enabled continued strong investment in superior products, packaging and consumer communication to drive market growth. The company expects adjusted free cash flow productivity of 90%.

Additional Resources

[Full Transcript](#)

[PG Transcript Navigator](#)

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