

EXECUTIVE SUMMARY

Earnings Report and Stock Price Reaction

January 28, 2020

P&G delivered another solid quarter with 5% organic sales growth and better than expected profitability. The stock finished down -0.45%, while the S&P 500 closed up +0.11% after the report. We attribute the muted reaction to elevated expectations coming into the report.

What We Liked

P&G showed portfolio wide strength with all five segments growing organic sales. We have been keenly focused on P&G's margins and this quarter did not disappoint, with gross margins up 200 basis points in the second quarter and core operating margin improving by 190 basis points. In addition, management indicated there continues to be plenty of opportunity to improve productivity. This is the second consecutive quarter where P&G increased guidance for Fiscal 2020.

What Bears Watching

Not a lot of negative items to point out other than beauty and baby/family care losing share during the quarter. The second half of the year does bump up against difficult comparisons and laps some prior pricing actions, which management has frequently reminded investors about. P&G's continued success is likely to invoke a competitive response, but at this point the competitive environment has been rational.



P&G noted it is too soon to know the impacts from the coronavirus in China and cautioned that it has the potential to impact the businesses beyond China as it can affect consumer confidence and global travel.

Bottom Line

Another good quarter of balanced growth and continued market share improvement. The healthy topline growth is fueling operating leverage which enables P&G to reinvest to continue to drive more topline growth. This formula continues to drive strong results at Procter. We look forward to hearing from CEO David Taylor at CAGNY in mid-February.

Sources: P&G earnings [press release](#) and [conference call](#).

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