

EXECUTIVE SUMMARY

Earnings Report and Stock Price Reaction

April 23, 2020

P&G reported earnings Friday morning and the stock finished the day up 2.63% on the back of solid 6% organic sales growth, 100 basis points operating margin expansion, and 11% EPS growth. P&G also recently announced a 6% increase to their quarterly dividend. Management maintained their outlook for FY20 organic sales growth of 4-5% and EPS growth of 8-11%.

Much of the earnings call was focused on the short term and long-term implications of COVID-19 to P&G's business which we will highlight below.

P&G outlined three near-term priorities, 1) ensuring employee health and safety 2) maximizing availability of their products to serve health, hygiene, and cleaning needs, and 3) helping society overcome the challenges of this crisis.

What We Liked

Market share trends looked great and the only areas of share degradation appeared to be largely driven by out of stock items, not lack of demand. The quarter saw an element of demand pulled forward due to "pantry loading" (they estimate 200 basis points) but management highlighted a few reasons why this disruption could be a long term positive for P&G. Some examples include increased consumer reliance on reputable brands known for their performance and less consumer experimentation, an increased shift toward ecommerce, and the potential for retailers to reduce SKU counts in lesser known brands.

What Bears Watching

Procter has expressed they are operating under the assumption that we are currently in a recession. With a recession comes the risk that consumers trade down to private label or lower price tier products which could hinder future results. Procter's management thinks they are better positioned to weather a recession than prior periods due to an improved portfolio mix focused on daily use items, and an improved offering across multiple pricing tiers.

Bottom Line

Procter acknowledged the heightened level of uncertainty during this difficult time, but it's believed that P&G stands to be a beneficiary in the near term and potentially the long-term as the world adapts to the virus. We applaud P&G for being good corporate citizens and focusing much of their efforts to support their community in addition to their employees and customers during this difficult time. We hope to bring you a more uplifting outlook in the coming quarters.

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

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