

P&G Announces Third Quarter Earnings

Company Release - 4/26/2017 7:00 AM ET

Net Sales -1%; Organic Sales +1%; Diluted Net EPS \$0.93, -4%;

CINCINNATI--(BUSINESS WIRE)-- The Procter & Gamble Company (NYSE:PG) reported third quarter net sales of \$15.6 billion, a decrease of one percent versus the prior year. Organic sales increased one percent. Organic sales increased in all segments. Diluted net earnings per share were \$0.93, a decrease of four percent versus the prior year while core earnings per share increased 15% versus the prior year.

Operating cash flow was \$3.0 billion for the quarter. Adjusted free cash flow productivity was 90%. Total dividends paid and repurchased \$2.0 billion of common stock. Earlier this month, P&G announced an increase in its dividend for the 61st consecutive year the Company has increased its dividend. P&G has been paying a dividend for 113 years. “The third quarter macro environment was characterized by a slowdown in market growth, continued uncertainty in global economies and foreign exchange rates,” said David Taylor, Chairman, President and Chief Executive Officer. “Against this backdrop, we delivered solid organic sales growth, and we increased the quarterly dividend for the 61st consecutive year. Looking forward, we expect continued growth in organic sales, improved operating leverage, and increasing our outlook for adjusted free cash flow productivity.”

January - March Quarter Discussion

Net sales in the third quarter of fiscal year 2017 were \$15.6 billion, a decrease of one percent versus the prior year, primarily due to foreign exchange. Organic sales increased one percent driven by a one percent increase in organic sales for the quarter. All-in volume was unchanged including the impacts of minor brand divestitures.

January - March 2017

Foreign

<u>Net Sales Drivers*</u>	<u>Volume</u>	<u>Exchange</u>	<u>Price</u>	<u>Mix</u>	<u>Other**</u>	<u>Net Sales</u>
Beauty	(2)%	(1)%	1%	—%	—%	(2)%
Grooming	—%	—%	(2)%	(4)%	—%	(6)%
Health Care	4%	(1)%	1%	1%	(1)%	4%
Fabric & Home Care	—%	(2)%	—%	—%	1%	(1)%
Baby, Feminine & Family Care	1%	(1)%	—%	—%	(1)%	(1)%
Total P&G	—%	(2)%	—%	—%	1%	(1)%

* Net sales percentage changes are approximations based on quantitative formulas that are consistent with GAAP.

** Other includes the sales mix impact from acquisitions/divestitures and rounding impacts necessary to reconcile to the total net sales change.

- Beauty segment organic sales increased one percent versus year ago behind growth in Skin & Personal Care as the continued growth of the super-premium SK-II skin care brand offset a decrease in

Reported gross margin was unchanged, including a 40 basis point decrease in non-core restructuring charges and a 40 basis point decrease in non-core restructuring charges, including 20 basis points of negative foreign exchange impacts. On a currency-neutral basis, gross margin increased 210 basis points as 210 basis points of productivity savings were more than offset by 100 basis points of unfavorable foreign exchange impacts, commodity cost increases and 50 basis points of product reinvestments and other impacts.

Selling, general and administrative expense (SG&A) as a percent of sales decreased 40 basis points to 10.1% from 10.5% in the prior quarter, a 40 basis point net benefit from a year-on-year decline in non-core charges. Core SG&A as a percentage of sales decreased 50 basis points to 9.6% from 10.1% in the prior quarter. Savings of 50 basis points from overhead and marketing productivity and a 110 basis point benefit in SG&A as a percent of sales from investments in marketing, sales resources, and research and development.

Reported operating profit margin increased 40 basis points to 18.1% from 17.7% in the prior quarter. Core operating profit margin decreased 40 basis points to 17.7% from 18.1% in the prior quarter, including 40 basis points of foreign exchange impacts. On a currency-neutral basis, core operating profit margin increased 260 basis points for the quarter.

Fiscal Year 2017 Guidance

P&G said it is maintaining its guidance for organic sales growth in the range of two to three percent for fiscal year 2017, with the low end of this range. The Company expects the combined headwinds of foreign exchange and minor restructuring charges to be in the range of one to two percentage points. As a result, P&G estimates all-in sales to be down one percent to in-line with the prior year for fiscal year 2017.

The Company also maintained its expectation for core earnings per share growth of mid-single digits for fiscal year 2017. Core earnings per share are expected to increase 48% to 50% versus fiscal year 2016 GAAP EPS of \$3.60. Non-core restructuring costs and charges related to the divestiture of 41 Beauty Brands to Coty Inc. are expected to be approximately \$0.12 per share of non-core restructuring costs and \$0.13 per share of charges related to the divestiture of 41 Beauty Brands to Coty Inc. Also included in GAAP EPS is the \$1.95 gain from the divestiture of 41 Beauty Brands to Coty Inc. for the quarter.

P&G said it is increasing fiscal year guidance for adjusted free cash flow productivity from 90% or more to 95% or more for fiscal year 2017.

Forward-Looking Statements

Certain statements in this release or presentation, other than purely historical information, including earnings, sales, and operating results, and the assumptions upon which those statements are based, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 27A of the Securities Act of 1934. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements are based on current expectations and assumptions, which are subject to risks and uncertainties that may cause actual results to differ materially from those implied in the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements.

contained therein; (12) the ability to successfully manage regulatory and legal requirements and mat regulations involving product liability, intellectual property, antitrust, privacy, tax, accounting standard current estimates; (13) the ability to manage changes in applicable tax laws and regulations; (14) the strategy, including achieving and maintaining our intended tax treatment of the related transactions, a activities, in each case to achieve the Company's overall business strategy and financial objectives, (15) the ability to successfully achieve productivity improvements and cost savings and manage ong developing and retaining particularly key employees, especially in key growth markets where the ava limited; and (16) the ability to manage the uncertain implications of the United Kingdom's withdrawal concerning factors that could cause actual results and events to differ materially from those projectec K reports.

About Procter & Gamble

P&G serves consumers around the world with one of the strongest portfolios of trusted, quality, leade Bounty®, Charmin®, Crest®, Dawn®, Downy®, Fairy®, Febreze®, Gain®, Gillette®, Head & Should II®, Tide®, Vicks®, and Whisper®. The P&G community includes operations in approximately 70 cou latest news and information about P&G and its brands.

THE PROCTER & GAMBLE COMPANY AND SUBS (Amounts in Millions Except Per Share Amo Consolidated Earnings Information

	Three Months En	
	2017	201
NET SALES	\$ 15,605	\$ 15,7
Cost of products sold	7,836	7,9
GROSS PROFIT	7,769	7,8
Selling, general and administrative expense	4,409	4,5
OPERATING INCOME	3,360	3,3
Interest expense	96	1
Interest income	46	:
Other non-operating income/(loss), net	26	:
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,336	3,2
Income taxes on continuing operations	780	8
NET EARNINGS FROM CONTINUING OPERATIONS	2,556	2,3
NET EARNINGS FROM DISCONTINUED OPERATIONS	—	4
NET EARNINGS	2,556	2,7
Less: Net earnings attributable to noncontrolling interests	34	:

Gross Margin	49.8%	49.8
Selling, general and administrative expense	28.3%	28.7
Operating Margin	21.5%	21.1
Earnings from continuing operations before income taxes	21.4%	20.5
Net earnings from continuing operations	16.4%	14.8
Net earnings attributable to Procter & Gamble	16.2%	17.5

* Basic net earnings per common share and Diluted net earnings per common share are calculated c

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIE

(Amounts in Millions)

Consolidated Earnings Information

	Three Months Ended March 31			
		% Change	Earnings/(Loss) from	% Change
	Net Sales	Versus Year Ago	Continuing Operations Before Income Taxes	Versus Year Ago
Beauty	\$ 2,675	(2)%	\$ 531	(12)%
Grooming	1,525	(6)%	437	(7)%
Health Care	1,841	4 %	470	14 %
Fabric & Home Care	4,957	(1)%	972	(4)%
Baby, Feminine & Family Care	4,471	(1)%	890	(9)%
Corporate	136	28 %	36	N/A
Total Company	\$ 15,605	(1)%	\$ 3,336	3 %

	Three Months Ended March 31, 2017				
	(Percent Change vs. Year Ago)*				
	Volume with Acquisitions & Divestitures	Volume Excluding Acquisitions & Divestitures	Foreign Exchange	Price	Mix
Beauty	(2)%	—%	(1)%	1%	—%
Grooming	—%	—%	—%	(2)%	(4)%
Health Care	4%	4%	(1)%	1%	1%
Fabric & Home Care	—%	1%	(2)%	—%	—%
Baby, Feminine & Family Care	1%	1%	(1)%	—%	—%
Total Company	—%	1%	(2)%	—%	—%

	Nine Months Ended March 31,			
		% Change	Earnings/(Loss) from	% Change
	Net Sales	Versus Year Ago	Continuing Operations Before Income Taxes	Versus Year Ago

Total Company 1% 2% (2)% —% —%

* Net sales percentage changes are approximations based on quantitative formulas that are consistent

** Other includes the sales mix impact from acquisitions/divestitures and rounding impacts necessary

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

(Amounts in Millions Except Per Share Amounts)

Consolidated Statements of Cash Flows

<u>Amounts in millions</u>	<u>Nine Months</u> <u>2017</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 7,102
OPERATING ACTIVITIES	
Net earnings	13,209
Depreciation and amortization	2,100
Loss on early extinguishment of debt	543
Share-based compensation expense	197
Deferred income taxes	(382)
Loss/(gain) on sale of assets	(5,452)
Goodwill and intangible asset impairment charges	—
Changes in:	
Accounts receivable	(159)
Inventories	(145)
Accounts payable, accrued and other liabilities	(1,113)
Other operating assets and liabilities	219
Other	48
TOTAL OPERATING ACTIVITIES	<u>9,065</u>
INVESTING ACTIVITIES	
Capital expenditures	(2,230)
Proceeds from asset sales	411
Acquisitions, net of cash acquired	(16)
Purchases of short-term investments	(3,369)
Proceeds from sales and maturities of short-term investments	834
Pre-divestiture addition of restricted cash related to the Beauty Brands divestiture	(874)
Cash transferred at closing related to the Beauty Brands divestiture	(475)
Release of restricted cash upon closing of the Beauty Brands divestiture	1,870
Cash transferred in Batteries divestiture	—
Change in other investments	26
TOTAL INVESTING ACTIVITIES	<u>(3,823)</u>
FINANCING ACTIVITIES	
Dividends to shareholders	(5,410)
Change in short-term debt	3,556

Cash and cash equivalents	\$ 5,817	\$ 7,102
Available-for-sale investment securities	8,510	6,246
Accounts receivable	4,358	4,373
Inventories	4,754	4,716
Deferred income taxes	—	1,507
Prepaid expenses and other current assets	2,446	2,653
Current assets held for sale	—	7,185
TOTAL CURRENT ASSETS	25,885	33,782
Property, plant and equipment, net	19,219	19,385
Goodwill	43,682	44,350
Trademarks and other intangible assets, net	24,153	24,527
Other noncurrent assets	5,152	5,092
TOTAL ASSETS	\$ 118,091	\$ 127,136
Accounts payable	\$ 8,076	\$ 9,325
Accrued and other liabilities	7,225	7,449
Current liabilities held for sale	—	2,343
Debt due within one year	13,781	11,653
TOTAL CURRENT LIABILITIES	29,082	30,770
Long-term debt	16,633	18,945
Deferred income taxes	8,644	9,113
Other noncurrent liabilities	9,184	10,325
TOTAL LIABILITIES	63,543	69,153
TOTAL SHAREHOLDERS' EQUITY	54,548	57,983
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 118,091	\$ 127,136

The Procter & Gamble Company

Exhibit 1: Non-GAAP Measures

In accordance with the SEC's Regulation G, the following provides definitions of the non-GAAP measures, their calculation, and the reconciliation to the most closely related GAAP measure. We believe that these measures provide a supplemental view of our business performance trends (i.e., trends excluding non-recurring or unusual items) and results and provide a supplemental view of our business performance. These non-GAAP measures described below are used by management in making operating decisions, allocating financial resources, and evaluating management performance. These non-GAAP measures may be useful to investors as they provide supplemental information about business performance trends through the eyes of management. These measures are also used to evaluate senior management compensation. These non-GAAP measures are not intended to be considered by the user in place of or as a substitute for GAAP information to our business results. These non-GAAP measures may not be the same as similar measures used by other companies due to differences in method and in the items or events being adjusted.

The Core earnings measures included in the following reconciliation tables refer to the equivalent GAAP

Organic sales growth: Organic sales growth is a non-GAAP measure of sales growth excluding the impact of acquisitions and divestitures from year-over-year comparisons. Management believes this measure provides investors with a supplemental perspective to the Company's operating efficiency by providing sales growth on a consistent basis.

Core operating profit margin: Core operating profit margin is a measure of the Company's operating profit margin. Management believes this non-GAAP measure provides a supplemental perspective to the Company's operating efficiency over time.

Core gross margin: Core gross margin is a measure of the Company's gross margin adjusted for itemized costs. Management believes this measure provides a supplemental perspective to the Company's operating efficiency over time.

Core EPS and currency-neutral Core EPS: Core earnings per share, or Core EPS, is a measure of the Company's earnings from continuing operations adjusted as indicated. Currency-neutral Core EPS is a measure of the Company's earnings from continuing operations, net of the impact of foreign exchange. Management views these non-GAAP measures as a useful supplement to GAAP measures.

Adjusted free cash flow: Adjusted free cash flow is defined as operating cash flow less capital expenditures and other non-recurring items, such as Brands divestiture, which are non-recurring and not considered indicative of underlying cash flow performance. Management believes that the Company is able to generate after taking into account planned maintenance and asset expansion, a consistent and important measure because it is one factor used in determining the amount of cash available for dividend payments.

Adjusted free cash flow productivity: Adjusted free cash flow productivity is defined as the ratio of adjusted free cash flow to net sales. Management believes adjusted free cash flow productivity as a useful measure to help investors understand P&G's ability to generate cash flow. Management uses this measure used by management in making operating decisions, allocating financial resources and for budget planning. Management's goal is to generate annual adjusted free cash flow productivity at or above 90 percent.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(Amounts in Millions Except Per Share Amounts)
Reconciliation of Non-GAAP Measures

Three Months Ended March 31, 2017

	AS REPORT (GAAP)
COST OF PRODUCTS SOLD	7,836
GROSS PROFIT	7,769
GROSS MARGIN	49.8%
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE	4,409
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE AS A % OF NET SALES	28.3%
OPERATING INCOME	3,360
OPERATING PROFIT MARGIN	21.5%
INCOME TAX ON CONTINUING OPERATIONS	780
NET EARNINGS ATTRIBUTABLE TO P&G	2,522

CURRENCY-NEUTRAL CORE EPS

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(Amounts in Millions Except Per Share Amounts)
Reconciliation of Non-GAAP Measures

Three Months Ended March 31, 2016

	AS REPORTED (GAAP)	DISCONTINUED OPERATIONS	INCREMENTAL RESTRUCTURING
COST OF PRODUCTS SOLD	7,915	—	(174)
GROSS PROFIT	7,840	—	174
GROSS MARGIN	49.8 %	— %	1.1 %
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE	4,522	—	14
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE AS A % OF NET SALES	28.7 %	— %	0.1 %
OPERATING INCOME	3,318	—	160
OPERATING PROFIT MARGIN	21.1 %	— %	1.0 %
INCOME TAX ON CONTINUING OPERATIONS	889	—	33
NET EARNINGS ATTRIBUTABLE TO P&G	2,750	(445)	127
EFFECTIVE TAX RATE	27.6 %	— %	(0.3)%
DILUTED NET EARNINGS PER COMMON SHARE*	0.97	(0.16)	0.04
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	2,835.0		

* Diluted net earnings per share are calculated on Net earnings attributable to Procter & Gamble.

Organic sales growth:

<u>January - March 2017</u>	<u>Net Sales Growth</u>	<u>Foreign Exchange Impact</u>	<u>Acquisition/ Divestiture Impact*</u>	<u>(%)</u>
Beauty	(2)%	1%	2%	
Grooming	(6)%	—%	—%	
Health Care	4%	1%	1%	
Fabric & Home Care	(1)%	2%	—%	
Baby, Feminine & Family Care	(1)%	1%	1%	
Total P&G	(1)%	2%	—%	

* Includes change in discontinued operations (includes gain on sale of Beauty Brands).

Adjusted free cash flow (dollar amounts in millions):

Three Months Ended March 31, 2017				
			<u>Cash Tax Payment -</u>	<u>Adjusted I</u>
<u>Operating Cash Flow</u>	<u>Capital Spending</u>	<u>Free Cash Flow</u>	<u>Beauty Sale</u>	<u>Flc</u>
\$3,040	\$(801)	\$2,239	\$74	\$2,313

Adjusted free cash flow productivity (dollar amounts in millions) :

Three Months Ended March 31, 2017		
<u>Adjusted Free Cash Flow</u>	<u>Net Earnings</u>	<u>Adjusted Free Cash Flow Productivity</u>
\$2,313	\$2,556	90%

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