COVER PAGE AND DECLARATION

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P&G Financial Analysis

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Subject Financial Managment

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P&G Financial Analysis

Introduction

American company Procter and Gamble has its corporate headquarters in Cincinnati. William Procter and James Procter formed it in 1837. Since its founding, the business has produced and sold consumer goods while growing its global presence. The business currently operates in around 180 nations under about 80 brands. The company employed 95 thousand people worldwide, according to Statista. With structural changes to suit the market's shifting demands, the company has kept its position in the consumer market (Ohio History Central, 2020).

The Procter & Gamble Organizational Structure

The company's organizational structure has undergone numerous changes over the years. To maximize growth and guarantee customer satisfaction, the structure considers international operations. As a result, their organizational design facilitates interactions between the business and its customers, allowing them to develop a customer-centric business model. This interaction is further enabled by their leadership corporation and communication channels, which enhances the flow of information throughout the organizational structure (Procter & Gamble, 2022).

The company began work on restructuring the previous organizational structure they were using in 2000. This comes after the management was forced to restructure the business due to stock and profit losses. Finally, the restructuring resulted in adopting a structure based on a four-dimensional structure with four pillars rather than the matrix organizational structure the company had previously adopted. The structure allows the business to communicate more effectively and quickly with local and foreign customers. Global Business Units, Global Business Services, Lean Corporate Functions and Market Development Organizations form the foundation of the organizational structure.

The consumers, the company's brands, like Always menstrual hygiene products, as well as its rivals like Unilever, are all targeted by Procter and Gamble's global business units, the company claims. These divisions are also in charge of the innovations that the business adopts, as well as the strategies for maximizing profits and protecting the company's stockholders. The operations of the company within particular country markets are the focus of the market development organizations. They are tasked with identifying the consumers and retailers in particular nations, as well as creating models that incorporate the innovation plans from the global units of business into business plans that are appropriate for the relevant markets. Lean corporate functions oversee continuing innovation development initiatives and strengthening the company's capabilities. At the same time, global business services are focused on merging the company's knowledge and partners to offer support for businesses at competitive pricing. This organizational structure enables the business to expand its innovations, reduce costs, and boost profits.

The company bases its growth on its capacity for innovation and the creation of goods that are useful to customers. This may help explain why the company dropped about 100 of its brands a few years ago to concentrate on a smaller number of brands and raise the calibre of its services. The business adopts a bottom-up culture in which even the lowest-ranking employees are taken into account when making important decisions. To foster a strong sense of mutual trust among the staff, the company takes on young employees and continues to advance them over time. The staff members are expected to manage their operations as if they were the owners of the buildings in which they work. This enables the business to take advantage of the employees' skills and use them to advance the enterprise.

Organizationally, Procter & Gamble adopts a decentralized model. In such a situation, the power of the company is shared among the management tiers, leaving senior management only responsible for major choices. With the old organizational structure revamped, senior and junior employees were more involved in company decision-making. For instance, the junior employees now had the opportunity to submit ideas to the business and watch as those ideas were put into practice. The vice chairman, chief financial officer, and CEO are in charge of the company's global operations, and the top four executives comprise the top executive team. The fact that the company is organized into teams designed to collaborate across units is another factor supporting the multidimensional structure. To create a career-wide system, the company leaders accept the responsibility of gathering knowledge about the business. This is then used to create lateral integrations between the employees and their teams. These systems work together in a planned way to improve communication and efficiency between the independent parts (Agafitei & Avasilcai, 2015).

Introduction to Ratio Analysis

The ratio analysis is not simply a comprehensive review of the financial statements key components. Its primary function is to analyze as well as understand the essential areas, like activity ratios, debt ratios, liquidity ratios, and profitability ratios, to comprehend how the business operates within a company and how it behaves and performs across all its global branches. With the assistance of the financial statements, the company may determine the important financial ratios and afterwards analyze them to gain the most beneficial insights that can be used for future growth and assist in identifying the key issues and coping with them immediately.

Simply put, the ratio analysis inspects the major elements of the corporation's financial statements. The company's managerial staff will compute the ratios, analyze the circumstance, and study the precise ratio to determine whether a given area is beneficial to the business or detrimental. They will then take appropriate corrective action to improve over time (Sekhar, 2018).

Proctor and Gamble financial data analysis:

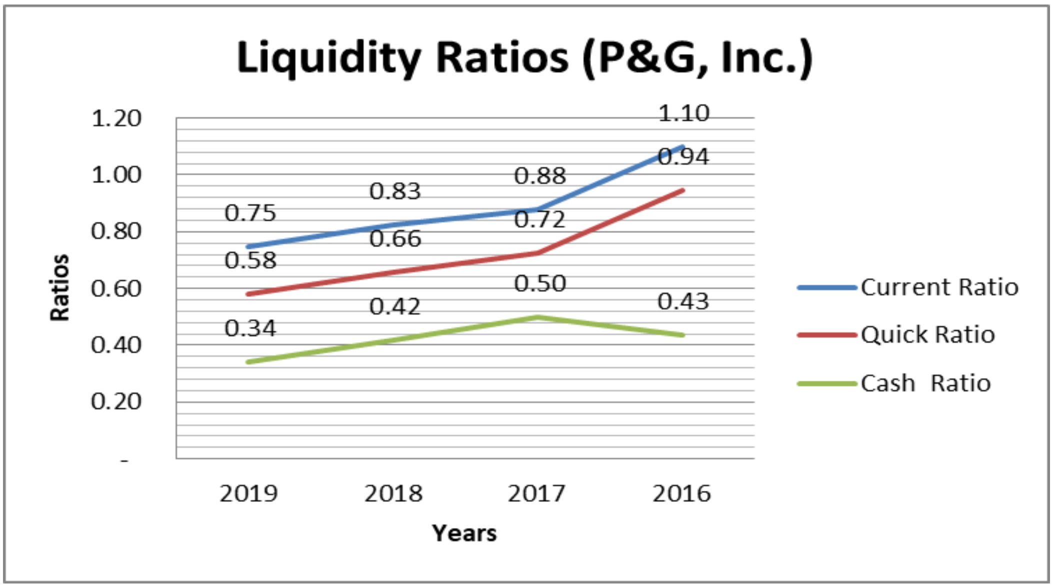
Item/Year	2019	2018	2017	2016
Current Assets	22,473,000	23,320,000	26,494,000	33,782,000
Current Liabilities	30,011,000	28,237,000	30,210,000	30,770,000
Inventories	5,017,000	4,738,000	4,624,000	4,716,000
Cash	10,287,000	11,850,000	15,137,000	13,348,000
Receivables	4,951,000	4,686,000	4,594,000	4,373,000
Total Assets	115,095,000	118,310,000	120,406,000	127,136,000
Total Liabilities	67,516,000	65,427,000	64,628,000	69,153,000
Total Equity	47,194,000	52,293,000	55,184,000	57,341,000
Sales	67,684,000	66,832,000	65,058,000	65,299,000
Cost of Goods Sold	34,768,000	34,268,000	32,535,000	32,909,000
EBIT	32,916,000	32,564,000	32,523,000	32,390,000
Interest	509,000	506,000	465,000	579,000
Net Income	3,897,000	9,750,000	15,326,000	10,508,000

P&G announced astonishing sales of $67,684,000 for 2019, the highest in the preceding four years. At the end of the company's 2019 financial year, its current assets totalled $2,473,000, which was the lowest amount over the previous four years of 2016, 2017, 2018, and 2019. (P&G, 2019). In 2019, the firm's inventories were valued at $5,017,000, more than P&G's total for the preceding four years. The company's current net income, recorded at the fiscal year end in 2019, is $3,897,000. Interest, which was recorded at the same time, is currently $509,000. P&G has $115,095,000 in total assets as of 2019, the least overall assets in the previous four years. The data is recorded and displayed over graphs for easy comprehension of the achievement of the P&G company, but the numbers given below will demonstrate the ratios analysis to describe more about the performance of the key area from 2016 to 2019.

Results & Discussion

Results of P&G company Liquidity Ratios

Ratio/Year	2019	2018	2017	2016
Current Ratio	0.75	0.83	0.88	1.10
Quick Ratio	0.58	0.66	0.72	0.94
Cash Ratio	0.34	0.42	0.50	0.43



Discussion

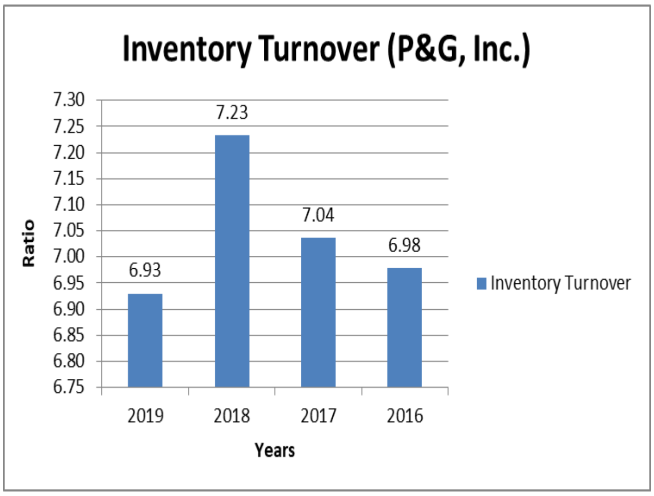
Liquidity ratios measure a firm's capacity to convert its assets into cash. The current ratio demonstrates a company's capacity to meet long-term and short-term obligations. From 2016 to 2019 in these four years, P&G's current ratio was 1.10, 0.88, 0.83, and 0.75, respectively. The company's performance in terms of the current ratio over the past four years has been quite poor because the ratio is slightly declining, which means it could not fulfil nearly all of its obligations.

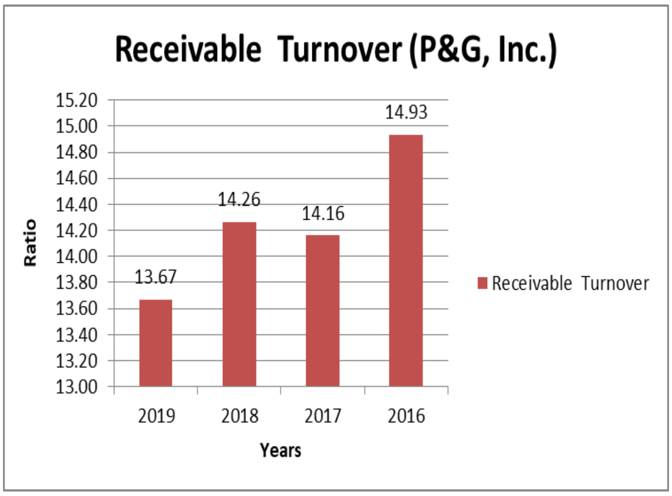
The quick ratio measures the company's ability to meet its short-term commitments with its most liquid assets. The P&G company's Quick Ratio was 0.94, 0.72, 0.66, and 0.58 in 2016, 2017, 2018, and 2019, respectively. This indicates that the company's performance is declining and has not yet fulfilled any short-term or long-term obligations. On the other hand, the cash ratio measures how much cash & cash equivalents a company has compared to its current liabilities.

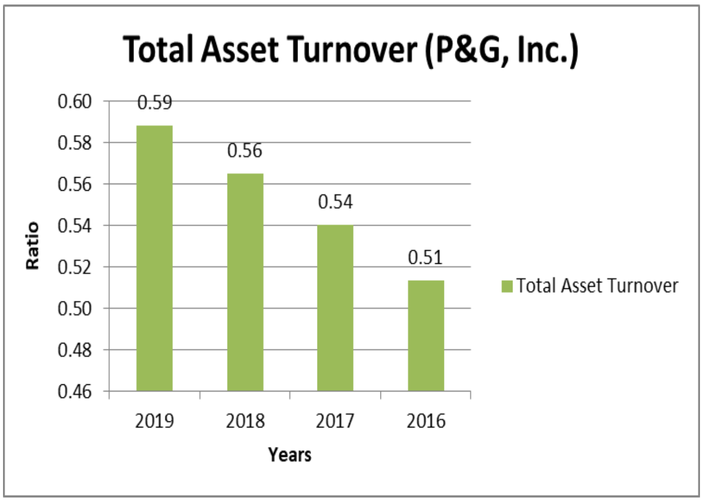
Over the last four years, the firm's cash ratio has been 0.43, 0.50, 0.42, and 0.34. Because of the large current liabilities that needed to be settled, the company had fewer cash and cash equivalents at the close of 2019. As a result of the significant current obligations for P&G Company that needed to be settled, the cash ratio slop was lowering. In terms of liquidity ratios, P&G has usually done worse.

Results of P&G Company Activity Ratios

Ratio/Year	2019	2018	2017	2016
Receivable Turnover	13.67	14.26	14.16	14.93
Inventory Turnover	6.93	7.23	7.04	6.98
Total Asset Turnover	0.59	0.56	0.54	0.51







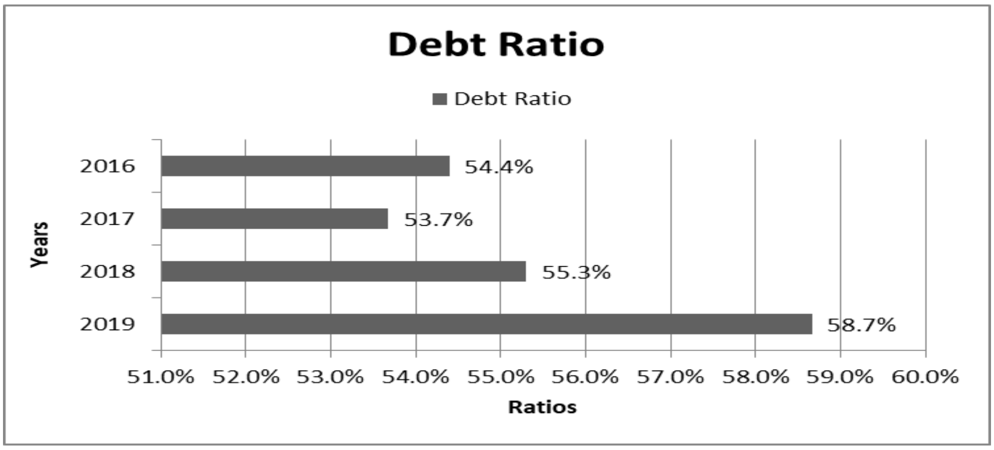
Discussion

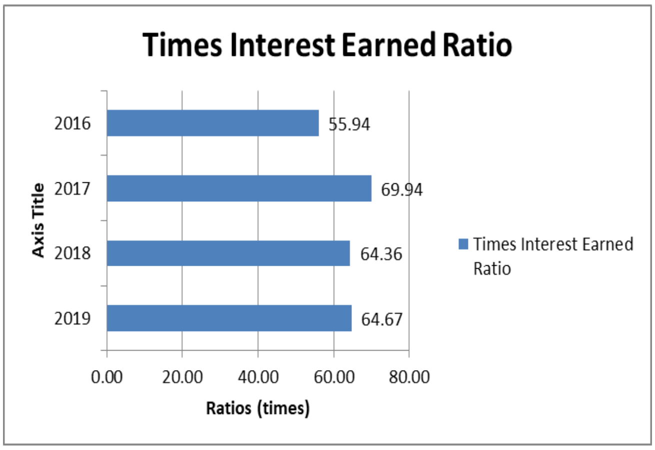
The ability of a corporation to convert its balance sheet balances into cash and sales is measured by activity ratios. It measures how well a corporation can regulate its supply of commodities (Kenton, 2019). In this specific company, P&G, the inventory turnover ratios increased significantly in the first 3 years, going to rise from 6.98 times in 2016 to 7.23 times in 2018, however in the last year of 2019, the P&G company's inventory turnover lowered to 6.93 times, demonstrating that the company did not manage its stock of goods effectively or proficiently. The receivable turnover rate measures a corporation's ability to collect receivables or money that customers owe.

The P&G company has seen a decline in the turnover of its receivables. Whereas in 2016, they were able to collect 14.93 times, in 2019, they were only able to do so 13.67 times, demonstrating the low amount of money they're bringing in from their receivables relative to their performance. In contrast, the asset turnover ratio compares the value of a company's sales or revenues to the assets it owns. P&G has performed well enough in asset turnover since the slope of its overall asset turnover is growing rapidly. They generated 0.51 times the revenue in 2016 as they achieved in 2019, which is a good performance.

Results of P&G Company Debt Ratios

Ratio/Year	**2016**	**2017**	**2018**	**2019**
Debt Ratio	54%	54%	55%	59%
Times Interest Earned Ratio	55.94	69.94	64.36	64.67



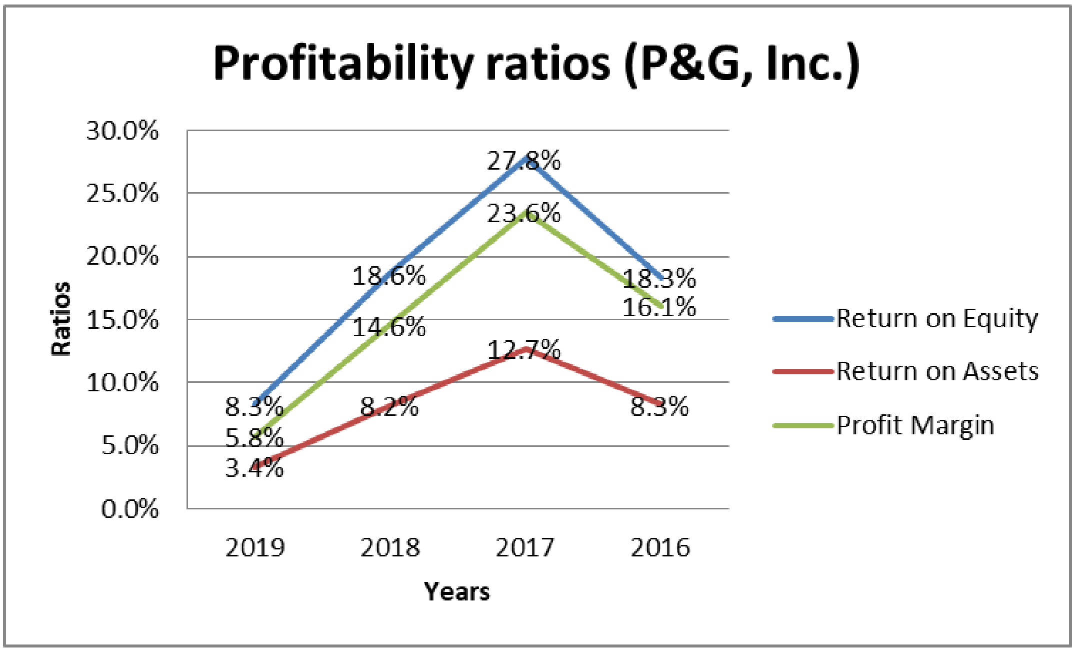

Times Interest Earned Ratio
2016
2017
2018
2019
55.94
69.94
64.36
64.67
Axis Title
0.00
20.00
40.00
60.00
80.00
Ratios (times)
Times Interest Earned Ratio

Discussion

A financial ratio, called the debt ratio, assesses a company's level of leverage. P&G has a good debt-to-equity ratio; in the years 2019, 2018, 2017, 2016, the firm's debt-to-equity ratio was 58.7%, 55.3%, 53.7%, and 54.4%, correspondingly. The corporation has experienced positive growth, encouraging the expansion of the company's operations and the share price in addition to the company's reputation. The company has noticed a better ratio rise since 2016 than earlier.

Results of P&G Company Profitability Ratios

Ratio/Year	**2016**	**2017**	**2018**	**2019**
Return on Equity (ROE)	18.3%	27.8%	18.6%	8.3%
Return on Assets (ROA)	8.3%	12.7%	8.2%	3.4%
Profit Margin	16.1%	23.6%	14.6%	5.8%



Discussion

The P&G company's profitability ratio is poorly managed, and the ratios are too low, given the current level of competition. In other words, The ROE metric assists investors in determining how their investments generate revenue. ROA, on the other hand, assists investors in determining how management utilizes its funds or resources to generate greater revenue. Return on equity and asset are two of the most critical indicators of a company's management effectiveness. By the end of 2019, P&G's ROE ratio will be 8.3%, down from

27.8% in 2017, and its ROA ratio will be 3.4%, up from 12.7% in 2017. In the last year of 2019, the profit margin will be 5.8%, down from 23.6% in 2017. It is unnecessary to be concerned because the organization is one of the largest and most dependable with factual data. Graphs are used to show all of these ratios. The visual graphs illustrate that the three ratios increased slightly from 2016 to 2017, followed abruptly by a significant decrease in the three ratios.

Recommendations For Investment

Dividends-Based Valuation Model

Marketbeat provided the following information on Procter & Gamble Company (2021).

The dividend yield is 2.62%

P& G yearly Dividend per share is $3.48.

The company's average annual dividend growth rate is 4.42%.

The total dividends paid out by P&G Company amount to 67.97% of total earnings.

Procter and Gamble's 3 years growth rate is 13.87%.

The current return on investment is 14.81%.

With the values above, calculating the company value using the dividend-based valuation model covered in chapter 8 is the value with constant growth. For Procter & Gamble Company, the following figures should be available: the required rate of return, Dividend per share, and the cumulative rate of dividend growth.

The dividends value per share will be divided by the discrepancy between the required rate of return and the growth rate of dividends to determine the company's stock value.

P&G's Dividend per share is $3.48

The required rate of return is 6.59%

The company dividends growth rate= is 5.39%

The stock value = $\$3.48/\ (6.59\% - 5.39\%)$ = $290

Therefore, according to the Dividends-Based Valuation Model, $290 is the firm's value. Procter and Gamble are currently valued at $133.07 on the stock market. This indicates that the stock has been under-priced and that easy access to securities for profit is possible. In accounting, if a company's calculated value is less than the stock price, the stock is overpriced, and the only way to profit is through short selling. On the other hand, the converse is also true: a company is under-priced if the stock market value is less than the value determined by the Dividends-Based Valuation Model for that company. An undervalued stock is simpler to profit from than an overvalued one.

Beta Theory

Beta measures the firm volatility.

The P&G Company price per ratio is $133.07

The price per ratio = $24.47

The beta value is calculated in the following manner:

According to the P&G company's official report, P&G is exposed to several market risks as part of its regular business operations. The main risks that the company faces are as follows: A few examples of risks include: Exchange rate risk, Credit risk, Interest rate risk, Net investment risk, and commodity price risk. Hedging is the process of identifying strategies for reducing the aforementioned risks. Any serious business will put forth great effort to reduce risks to protect its financial well-being. The business has developed clear credit guidelines that specify whether a person is qualified or not to manage credit risk.

Interest rate risk management is done by identifying variable-rate and fixed-rate debt. The business now enters marshes with its counterparty, where contracts are made. Due to its international operations, the company may suffer unintended losses as a result of changes in the value of some currencies. The business uses forward contracts and introduces options with time-based maturities to reduce this risk. Procter and Gamble Company is hedging the net investment risk by borrowing foreign currencies. However, the company can manage the risk associated with commodity price changes perfectly by using futures and options with maturities within a given time frame. Every business should be aware of this, and it's crucial to do so (Banerjee, 2015).

It is crucial to realize that every company needs to be situated so that it can mitigate the risks involved. No company can survive without taking market risks and hoping for rewards, although these can vary. A company manages risks by minimizing their likelihood of happening, mitigating those that cannot be avoided or do not guarantee any positive economic returns to the firm. The Procter & Gamble Company illustrates how businesses should manage the risks involved. The company improves economically and financially the more associated risks are reduced.

The company hasn't been afraid to spend a lot of money recently on aggressive brand marketing, ongoing product portfolio innovation, and the acquisition of smaller rival companies to strengthen its offering and keep the top spot on the market. We advise the company to stick with this successful investment strategy; P&G did not experience any losses even during the COVID-19 pandemic crisis; its revenue increased significantly during these times.

Conclusion

The P&G company enjoys enormous popularity for its skincare, personal care, daily care, baby care, beauty & grooming products, and personal hygiene; the P&G company enjoys enormous popularity. The firm has also expanded its market into the Middle East, Asia, Latin America, Europe, and North America. According to Forbes, P&G is the most prestigious and reputable company for the 2016–17 fiscal year. Because of its top-notch goods and services, the business has received praise for many reasons. Customer satisfaction is also the company's top priority and is reflected in the high quality of its products. The company, founded in 1837 and the oldest company in the world that is product-based, has outdone many rivals and shown up in various products to attain this global position. The corporation has so far experienced significant growth positively and has attained numerous businesses, including Chairman and Thomson Hedley paper mills. The corporation's financial statements display highly detailed data, and all financial ratios have seen positive changes yearly. The graphs also demonstrate the company's linear business expansion. The four years of data from 2016 to 2019 are analyzed and evaluated in the previous sections; the outcomes are also plotted as attractive graphs. One of the world's most reputable, well-known, and prestigious companies today is P&G.

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