Procter & Gamble Co PG (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
90.38 USD	94.00 USD	75.20 USD	117.50 USD	Low	Wide	Stable	Standard	AA	Consumer Packaged Goods

Despite shrinking its brand mix, P&G stands to maintain its competitive edge.

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The primary analyst covering this company does not own its stock.

Research as of 18 Nov 2014
Estimates as of 18 Nov 2014
Pricing data through 05 Dec 2014
Rating updated as of 05 Dec 2014

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 18 Nov 2014

Procter & Gamble is working to right its ship. The firm previously entered too many new markets (particularly emerging markets, where competitors already have a leg up) too quickly, and new products failed to resonate with consumers, as evidenced by its languishing market share position. However, P&G's announcement that it intends to shed 90-100 brands--more than half of its existing brand portfolio, which in aggregate posted a 3% sales decline and a 16% profit reduction the past three years--indicates it is parting ways with its former self, looking to become a more nimble and responsive player in the global consumer products arena. We view this as a particularly important trait given the stagnant growth emanating from developed markets and the slowing prospects from emerging regions.

Even a slimmed-down version of the leading global household and personal care firm will still carry significant clout with retailers, and we think these actions will only enhance P&G's brand intangible asset and its cost advantage, which together form the basis for our wide moat. The 70-80 brands it will keep (including 23 that generate $1 billion-$10 billion in annual sales, and another 14 that account for $500 million-$1 billion in sales each year) already account for 90% of the firm's top line and 95% of its profits. As such, we don't anticipate P&G will sacrifice its scale edge but will be able to better focus its resources (both personnel and financial) on its highest-return opportunities.

These actions build on the firm's $10 billion cost-saving initiative designed to lower costs through reduced overhead, lower material costs from product design and formulation efficiencies, and increased manufacturing and marketing productivity. Overall, we think the combination of these efforts will enable P&G to up its core brand spending (behind product innovation and marketing support), which is critical given the ultra-competitive landscape in which it plays, while at the same time driving improved profitability. We forecast margin expansion at the gross (up around 200 basis points to 51%) and operating income line (up 350 basis points to 23%) over our 10-year explicit forecast.

Vital Statistics

Market Cap (USD Mil)	244,217
52-Week High (USD)	91.17
52-Week Low (USD)	75.26
52-Week Total Return %	12.4
YTD Total Return %	14.1
Last Fiscal Year End	30 Jun 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	7.9
Price/Fair Value	0.96

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	18.2	18.4	*20.3*	*18.6*
EV/EBITDA	12.7	12.4	*13.4*	*12.8*
EV/EBIT	15.1	14.8	*15.8*	*14.9*
Free Cash Flow Yield %	5.2	4.8	*4.5*	*5.0*
Dividend Yield %	3.1	3.2	*3.0*	*3.1*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	84,167	83,062	*84,438*	*87,117*
Revenue YoY %	0.6	-1.3	*1.7*	*3.2*
EBIT	15,745	16,094	*16,962*	*17,945*
EBIT YoY %	-1.1	2.2	*5.4*	*5.8*
Net Income, Adjusted	12,373	12,419	*12,806*	*13,589*
Net Income YoY %	10.2	0.4	*3.1*	*6.1*
Diluted EPS	4.22	4.28	*4.46*	*4.87*
Diluted EPS YoY %	10.6	1.3	*4.4*	*9.0*
Free Cash Flow	9,475	10,282	*10,878*	*14,796*
Free Cash Flow YoY %	-19.9	8.5	*5.8*	*36.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since its founding in 1837, Procter & Gamble has become the world's largest consumer product manufacturer. It operates with a lineup of leading brands, including 23 that generate more than $1 billion in annual global sales such as Tide laundry detergent, Charmin toilet paper, Pantene shampoo, and Cover Girl cosmetics. P&G sold its last remaining food brand, Pringles, to Kellogg in 2012. Sales outside the U.S. represent more than 60% of the firm's consolidated total, including nearly 40% of which derive from emerging markets.

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Morningstar Analysis

P&G Poised to Recharge Its Competitive Edge; Shares Modestly Undervalued 18 Nov 2014

We think P&G's reignited focus on winning with innovation may be gaining traction, and we now perceive the firm's moat trend as stable. We aren't changing our wide moat, but we're raising our fair value estimate to $94 from $93 to account for the sale of Duracell. We think the shares are worth a look, trading at a discount to our valuation.

P&G is making strides to enhance its share position, particularly in two of its largest categories, diapers and laundry. For one, despite operating as the number-two player in the U.S. diaper market for the past 20 years, after new product launches and efforts to get in front of new moms early on with increased sampling in hospitals, Pampers (P&G's largest brand with $10 billion in annual sales) has overtaken Huggies (a Kimberly-Clark brand) and now controls around 38% share of the market, about 300 basis points above its leading competitor. Further, in U.S. laundry, P&G now controls about 62% of the market, up from less than 60% the last several years, partly reflecting the success of its single-dose laundry pod launch. While it sells at a 20% premium to base Tide, this offering is even winning with dollar-store customers because of the convenience it affords (it is easier to take a pod or two to the laundromat than a jug of liquid detergent). We think this shows consumers will pay up for a product when they perceive added value.

Efforts to remove costs from its operations and leverage its scale are also stabilizing its competitive position. For one, the extension of common manufacturing platforms globally is proving advantageous for its diaper business, a product that had been manufactured in a disparate form (using different materials around the world), which inherently limited the negotiating leverage it could garner over suppliers. However, by streamlining its manufacturing and using the same inputs on a global basis, we expect it to exploit its purchasing leverage and ultimately enhance its cost edge.

Valuation, Growth and Profitability 18 Nov 2014

After incorporating the impact of the Duracell sale to wide-moat Berkshire Hathaway for its $4.7 billion in P&G shares (52.8 million shares, a transaction that is slated to take place in the second half of calendar 2015), we're taking fair value up by $1, to $94 per share. P&G expects to incur $0.28 per share in a goodwill impairment charge and is set to inject $1.8 billion of cash into the battery business before the close, which lowers the deal value to $2.9 billion or 1.3 times fiscal 2014 sales and 7 times fiscal 2014 adjusted EBITDA. Our long-term expectations for P&G's consolidated operations (annual top-line growth above 4% and nearly 23% operating margins) remain in place. This implies forward fiscal 2015 price/adjusted earnings of 21 times, enterprise value/adjusted EBITDA of 15 times, and a free cash flow yield of 4%.

We contend that the decision to shed more than half of its brands over the next two years stands to enhance the firm's focus ion the highest-return opportunities. Deteriorating economic conditions in the U.S. and Europe combined with moderating growth in emerging markets like China will constrain P&G's growth prospects over the near term, which is reflected in our sales growth of less than 2% in fiscal 2015 and just north of 3% in fiscal 2016. Over the long term, we continue to expect top-line growth above 4% on average annually. Globally, P&G's categories grow roughly 3% annually, so to reach the 4% annual sales growth pace we've modeled, the company would have to be growing 1%-2% faster than the markets and categories in which it competes, which we think is achievable, particularly in light of recent strategic efforts. While sales growth in the U.S. and Europe may be flat or up only 1%, the company's sales in developing markets are growing at 6%-8% annually. The firm has growth opportunities for its brands in many overseas markets, and in developed markets it remains the share

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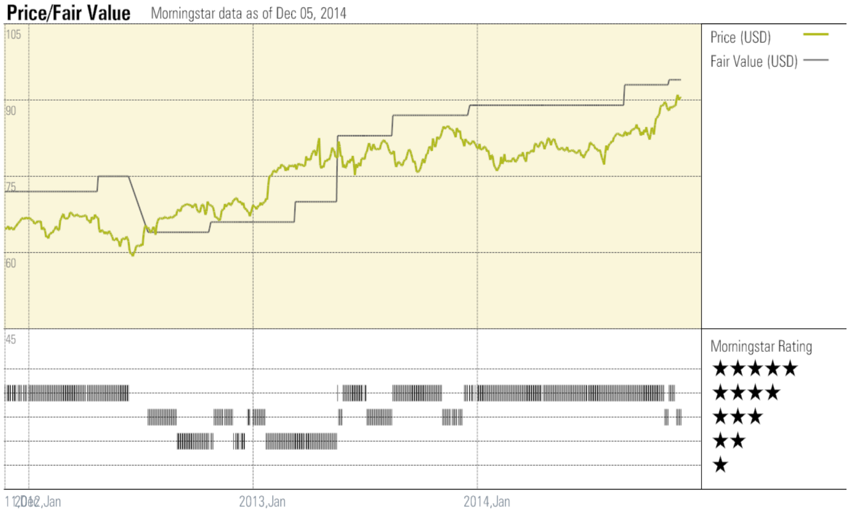
Price/Fair Value Morningstar data as of Dec 05, 2014



leader in many of its categories.

Even though we're encouraged P&G is realizing some margin improvement from its ambitious initiative to shave $10 billion from its cost structure, we ultimately think the firm will need to reinvest a portion of these savings to maintain its competitive positioning. Our forecast calls for operating margins of 20.1% in fiscal 2015 (compared with 19.4% in fiscal 2014), and we expect operating margins to improve to nearly 23%% by the end of our 10-year explicit forecast.

Scenario Analysis

Given the stability of its profitability and cash flows, we assign P&G a low uncertainty rating. However, the biggest risk to our valuation is whether the firm can offset intense competitive pressures and generate significant cost savings to enhance its competitive positioning. If new product launches win at the shelf with consumers, commodity costs abate, and cost savings come in quicker than we expect, our base-case forecast could prove too conservative. Under this scenario, sales would increase 5% on average over the next 10 years (compared with 4% in our base case) and operating margins would expand to 24.6% by fiscal 2024 (compared with 22.9% in our base case). This outlook results in about 20% upside to our fair value estimate, or roughly $112 per share.

On the other hand, if investments behind research and development as well as marketing support fail to resonate with consumers, sales growth could lag our base forecast. Further, if commodity cost pressures accelerate and competitive pressures intensify, P&G could be forced to invest even more resources behind its brands. Cost savings would fall short of management's--and our--expectations, and profitability could be constrained. Taking into account this set of assumptions, sales growth would amount to just 3% on average through fiscal 2024 while operating margins would approximate 21.2% at the end of our 10-year explicit forecast. The valuation for this downside scenario is $79.

Economic Moat

P&G is the leading consumer product manufacturer in the world, with more than $80 billion in annual sales. Its wide moat derives from the economies of scale that result from its portfolio of leading brands, 23 of which generate more than $1 billion in revenue per year and another 14 of which generate between $500 million and $1 billion in sales annually. Given the dominant market positions P&G maintains in its categories (over 30% of baby care, 70% of blades and razors, more than 30% of feminine protection, and in excess of 25% of fabric care), we contend that retailers rely on P&G's products to drive traffic in their stores. Further, the size and scale P&G has amassed over many years enable the firm to realize a lower unit cost than its smaller peers, resulting in a cost advantage. From our perspective, P&G supports its competitive advantages by investing in research and development ($2 billion annually or 2.5% of sales) and marketing ($9 billion each year or 11% of sales) for core brands (which is comparable to the approximately 2% and 11%-13% of sales spent on research and development and marketing, respectively, by wide-moat

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peers Colgate and Unilever).

P&G's recent announcement that it intends to shed 90-100 brands--more than half of its existing brand portfolio, which in aggregate posted a 3% sales decline and a 16% profit reduction the past three years--indicates it is parting ways with its former self, looking to become a more nimble and responsive player in the global consumer products arena. Even a slimmed-down version of the leading global household and personal care firm will still carry significant clout with retailers, and we think these actions will support P&G's brand intangible asset and its cost advantage. The 70-80 brands it will keep already account for 90% of the firm's top line and 95% of its profits. As such, we don't anticipate P&G to sacrifice its scale edge but will be able to better focus its resources (both personnel and financial) on its highest-return opportunities. Overall, we forecast returns on invested capital (including goodwill but excluding excess cash) to average 16% over our 10-year explicit forecast, well in excess of our 7.4% cost of capital, solidifying our take that P&G maintains a wide economic moat.

Moat Trend

We believe recent investments are working to stabilize P&G's moat, and we now view its moat trend as stable. While we've been of the opinion that the firm's pricing and brand power has come under pressure following a stream of lackluster innovation, we think the firm's reignited focus on winning with innovation could be gaining some traction. For instance, P&G has operated as the number-two player in the U.S. diaper market for the past 20 years. However, as a result of new product launches and efforts to get in front of new moms early on with increased sampling in hospitals, Pampers (P&G's largest brand with $10 billion in annual sales) has overtaken Huggies (a Kimberly-Clark brand) and now controls around 38% share of the U.S. diaper market, about 300 basis points above the level held by its leading competitor. The success of its recent innovation has been particularly evident in its Swaddlers' product line (which now is sold in sizes 1 through 6, up from just 1 through 3 previously), accounting for more than $600 million in annual sales (up from less than $200 million 10 years ago), equating to a 10% value share of the category.

The firm is also realizing an improved share position in the U.S. laundry category, now controlling about 62% of the market, up from less than 60% the last several years. Tide, P&G's second-largest brand, has been a beneficiary garnering 42% of the market, up from less than 40% over the last few years. We think this reflects the success of its single-dose laundry pod launch. As a segment, single-dose laundry now makes about 12% of the overall U.S. laundry space, with P&G maintaining 75% of this niche (accounting for $750 million in annual sales). Management has called attention to the fact that single-dose laundry is even winning with dollar store consumers, despite the fact it sells at a 20% premium to base Tide, given the convenience it affords (it is easier to take a pod or two to the laundromat than a jug of liquid detergent). We think this showcases that consumers are willing to pay up for a product when they perceive there to be added value.

In addition, management's laser focus on removing excess costs from its operations and enhancing its cost advantage is also stabilizing its competitive positioning. For one, CFO Jon Moeller recently expressed how the extension of common manufacturing platforms around the world is proving particularly advantageous for its diaper business, a product that had been manufactured in a disparate form but is a sizable opportunity. More specifically, the company was manufacturing diapers with different materials in multiple geographies around the world, which inherently limited the negotiating leverage it could garner over suppliers. However, as the firm has worked to streamline its manufacturing and production of diapers (using the same inputs on a global basis), we expect it to exploit its purchasing leverage and ultimately enhance its cost edge. Partly as a result of these efforts, we forecast gross margins will expand by around 200 basis points over the next ten years to 51%, about 100 basis points above its average gross margin over the past five years. While we ultimately think the firm will need to reinvest a portion of these savings to maintain its competitive positioning, we still expect operating margins to improve to nearly 23%% by the end of our 10-year explicit forecast (about 300 basis points above the average margin between fiscal 2005 and fiscal 2014).

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Bulls Say/Bears Say

Bulls Say

- Even efforts to rightsize its brand mix won't change the fact that P&G operates with a portfolio of leading brands across the household and personal-care arena, making its products essential for retailers to drive traffic in their stores.
- The firm's $10 billion cost-cutting efforts look to trim the size of its workforce, localize the sourcing of its raw materials and the development of its products, and reduce its manufacturing platforms.
- With a greater percentage of sales coming from international markets, P&G has been able to reduce its ongoing long-term tax rate.

Bears Say

- Global market growth for P&G's categories is roughly 3% on a dollar basis, and we think it would be tough for the firm to sustain a top line that's more than 1%-2% faster than this, given the large base of sales it already commands.
- P&G needs to improve its go-to-market execution. Some of its new product launches resulted in supply constraints and out-of-stock situations.
- Management has recently noted that its most significant competitors in emerging markets are local players rather than other multinationals, highlighting the importance of understanding each region on a detailed level.

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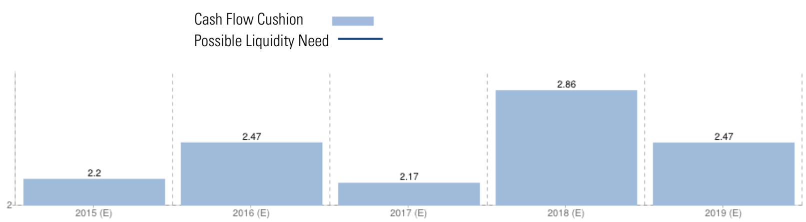
Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	8,558	1,631	1,297	1,720	1,858
Adjusted Available Cash Flow	4,445	8,021	6,683	7,331	7,811
Total Cash Available before Debt Service	13,003	9,651	7,980	9,051	9,668
Principal Payments	-4,307	-2,356	-2,123	-1,605	-2,357
Interest Payments	-731	-698	-713	-729	-744
Other Cash Obligations and Commitments	-872	-851	-840	-830	-812
Total Cash Obligations and Commitments	-5,910	-3,905	-3,676	-3,164	-3,913

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	8,558	41.6
Sum of 5-Year Adjusted Free Cash Flow	34,290	166.7
Sum of Cash and 5-Year Cash Generation	42,848	208.3
Revolver Availability	11,000	53.5
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	53,848	261.8
Sum of 5-Year Cash Commitments	-20,567	—

Credit Rating Pillars–Peer Group Comparison

	PG	Sector	Universe
Business Risk	1	4.5	5.1
Cash Flow Cushion	5	6.5	6.1
Solvency Score	3	4.7	4.7
Distance to Default	2	3.0	3.7
Credit Rating	AA	A	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health & Capital Structure

P&G takes a fairly conservative approach to its capital structure, keeping its focus on maintaining investment-grade credit to be able to cost-effectively deploy capital as it sees fit. We currently assign the company an issuer credit rating of AA, implying low default risk. Total debt/capital averaged 0.3 during the past five years, and debt/adjusted EBITDA averaged 1.7. We expect that upholding these levels or better will remain a priority for P&G. Free cash flow has averaged around 13% of sales over the past five years, and we anticipate the firm will generate a slightly higher amount (about 16% of sales) through fiscal 2024. Further, we don't think P&G will struggle to service its debt maturities, which average about $2.5 billion annually between fiscal 2015 and fiscal 2019.

The firm maintains a healthy amount of cash on its balance sheet, but given management's commitment to step up investment in the business during the next several years, we doubt there is much appetite to raid the piggy bank for a large acquisition. Beyond reinvesting in the business, we expect that dividend payments will remain a top priority of cash (as the firm has paid a dividend to its shareholders consistently for more than 120 years), and we forecast mid- to high-single-digit dividend increases during the next 10 years. P&G's dividend yields around 3% annually. On average, we also forecast that the company will buy back around 2% of shares each year over our 10-year explicit forecast.

Enterprise Risk

Like others, P&G has fallen victim to weak and volatile consumer spending combined with persistent cost inflation that has yet to fully abate. At the same time, promotional spending over the past several years has conditioned consumers to expect lower prices, and lackluster innovation has, in some instances, failed to prompt consumers to pay up for its new products. Further, with more than 60% of its

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Credit Analysis

sales derived outside the U.S., P&G is exposed to foreign exchange rate fluctuations, which could have a negative impact on sales and profitability.Slowing growth rates around the world, competitive pricing, and unfavorable foreign exchange trends have played a part in Procter & Gamble's woes, but we think the problems run deeper, as the firm might have overextended itself in its endeavors to build out its product portfolio and geographic footprint. While P&G was slow to react, management has responded with a massive $10 billion cost-saving initiative to dramatically reduce head count and ultimately free up funds to reinvest in its business. More recently, the firm has followed these cost cuts with plans to halve its brand portfolio to better focus its resources, which we view positively.From a category perspective, despite some of the gains the firm is realizing within the U.S. diaper and laundry categories, beauty remains a challenge, as organic sales remain at the level of a year ago. Management has noted that Olay in particular continues to struggle, although Pantene appears to be gaining some traction, posting mid-single-digit organic sales in the first three months of its fiscal year. Despite this, we suspect the performance in this category could prove lumpy given the fierce competitive dynamics of the U.S. hair care space, and it will take a few more quarters until we can get a sense whether this improvement is sustainable.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
ALAN G LAFLEY	CEO/Chairman of the Board/ Director/President,Director	518,784	30 Sep 2014	—
WERNER GEISSLER	Vice Chairman	221,230	29 May 2014	—
DEBORAH A. HENRETTA	President, Divisional	186,103	30 Sep 2014	—
MARC S. PRITCHARD	Other Corporate Officer	107,016	30 Sep 2014	—
FILIPPO PASSERINI	Chief Information Officer/ President, Divisional	99,941	17 Nov 2014	41,323
MARTIN RIANT	President, Divisional	82,224	30 Sep 2014	—
JON R. MOELLER	CFO	73,691	17 Nov 2014	59,596
W JAMES MCNERNEY JR	Director	55,479	03 Nov 2014	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	1.66	1.06	609	31 Oct 2014
SPDR® S&P 500 ETF	1.11	1.34	454	02 Dec 2014
Vanguard Five Hundred Index Fund	1.06	1.31	460	31 Oct 2014
Vanguard Institutional Index Fund	1.02	1.31	1	31 Oct 2014
VA CollegeAmerica Washington Mutual	0.67	2.10	701	30 Sep 2014
Concentrated Holders				
Pozotoro Inversiones SICAV	—	88.18	48	30 Jun 2014
Trevegil Inversiones SICAV	—	49.60	31	30 Jun 2014
Faro Vidio Inversiones SICAV	—	44.56	25	30 Jun 2014
Prior Capital SICAV	—	38.81	21	30 Jun 2014
Privilege Inversiones SICAV	—	37.57	18	30 Jun 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Procter & Gamble Company Profit Sharing Trust and Employee Stock Ownershi	3.09	37.12	94,377	30 Jun 2008
New Jersey Division of Pensions and Benefits	0.14	0.38	3,930	30 Jun 2010
Vanguard Group, Inc.	5.27	0.93	3,718	30 Sep 2014
Federated Investment Management Company	0.22	2.91	3,639	30 Sep 2014
STRS OHIO	0.23	1.24	3,187	30 Sep 2014
Top 5 Sellers				
Voya Investments, LLC	0.11	1.40	-5,649	30 Sep 2014
T. Rowe Price Associates, Inc.	0.62	0.30	-2,811	30 Sep 2014
Grantham, Mayo, Van Otterloo & Co., LLC	0.47	2.79	-2,588	30 Sep 2014
Goldman, Sachs & Co.	0.15	0.17	-2,152	30 Sep 2014
Neuberger Berman LLC	0.19	0.44	-2,044	30 Sep 2014

Management 18 Nov 2014

After more than a year back at the helm, CEO A.G. Lafley, 67, appears determined to improve the execution at the world's largest household and personal care firm. We still believe his appointment (following the abrupt resignation of former CEO Bob McDonald in May 2013) and subsequent tenure gives credence to our prior concerns that P&G (which tends to promote from within) may not have anyone ready to fill the top spot, since several senior executives headed for the exits during McDonald's time at the helm. And while we expect that Lafley will continue to lead the organization until a permanent successor--possibly from outside the organization--is named, we anticipate that this time he will stay on (possibly in the chairman role) to ensure a smooth transition (unlike when he handed over the reins in July 2009). P&G tends to be an organization in which individuals move up from within the ranks, but we were encouraged by Lafley's recent reference regarding the importance of bringing in outside talent to the organization, as we think fresh perspectives can prove highly valuable. Ultimately, we think the person who will be named to the CEO role will have a good grasp of P&G's vast product and geographic footprint, and maybe more important, will be someone who is able to rally the troops around the world (which has been lacking over the past several years).

From our view, the recent strategic decision to shed 90-100 of brands will quell calls to split up the company (given past challenges to respond in a timely fashion to changing market dynamics) at least over the short term. However, we think that if results remain lackluster, calls for the firm to break up into its individual segments (likely beauty and home care) could increase, although we view such actions as a lower-probability event at this point.

Overall, we view P&G's stewardship of shareholder capital as standard. We've been encouraged by the renewed emphasis on driving productivity while also reinvesting behind core brands. From our view, these initiatives are likely to play out over the next few years rather than a couple of months. Returns on invested capital (including goodwill) have historically exceeded our cost of capital estimate, and we expect this will remain the case going forward. In addition, we are encouraged by the stock-ownership requirements for senior management, which range from four to eight times base salary, as this tends to align management's interests with those of shareholders. In fiscal 2014, Lafley earned nearly $19 million in salary, bonus, and stock awards (including a $12 million stock award).

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Analyst Notes

P&G Poised to Recharge Its Competitive Edge; Shares Modestly Undervalued 18 Nov 2014

We think P&G's reignited focus on winning with innovation may be gaining traction, and we now perceive the firm's moat trend as stable. We aren't changing our wide moat, but we're raising our fair value estimate to $94 from $93 to account for the sale of Duracell. We think the shares are worth a look, trading at a discount to our valuation.

P&G is making strides to enhance its share position, particularly in two of its largest categories, diapers and laundry. For one, despite operating as the number-two player in the U.S. diaper market for the past 20 years, after new product launches and efforts to get in front of new moms early on with increased sampling in hospitals, Pampers (P&G's largest brand with $10 billion in annual sales) has overtaken Huggies (a Kimberly-Clark brand) and now controls around 38% share of the market, about 300 basis points above its leading competitor. Further, in U.S. laundry, P&G now controls about 62% of the market, up from less than 60% the last several years, partly reflecting the success of its single-dose laundry pod launch. While it sells at a 20% premium to base Tide, this offering is even winning with dollar-store customers because of the convenience it affords (it is easier to take a pod or two to the laundromat than a jug of liquid detergent). We think this shows consumers will pay up for a product when they perceive added value.

Efforts to remove costs from its operations and leverage its scale are also stabilizing its competitive position. For one, the extension of common manufacturing platforms globally is proving advantageous for its diaper business, a product that had been manufactured in a disparate form (using different materials around the world), which inherently limited the negotiating leverage it could garner over suppliers. However, by streamlining its manufacturing and using the same inputs on a global basis, we expect it to exploit its purchasing leverage and ultimately enhance its cost edge.

Brand Reinvestments, Cost Savings Recharging P&G's Competitive Edge; Shares Worth a Look 14 Nov 2014

We walked away from Procter & Gamble's analyst day, held in Cincinnati on Nov. 12-13, with a more comprehensive take regarding the firm's pipeline for product innovation, which we view as a crucial intangible asset in light of the competitive environment in which it competes, as well as its prospects for growth at home and abroad. We continue to regard P&G as a wide-moat giant that enjoys the benefits of scale with an extensive global manufacturing and distribution network and unprecedented brand reach.

After incorporating the impact of the Duracell sale to wide-moat Berkshire Hathaway for its $4.7 billion in P&G shares (52.8 million shares, a transaction that is slated to take place in the second half of calendar 2015), we plan to take our P&G fair value estimate up by $1, to $94 per share. P&G expects to incur $0.28 per share in a goodwill impairment charge and is set to inject $1.8 billion of cash into the battery business before the close, which lowers the deal value to $2.9 billion or 1.3 times fiscal 2014 sales and 7 times fiscal 2014 adjusted EBITDA. Despite the lower valuation relative to other deals in the consumer product space (which tend to approximate high-single- to low-double-digit EBITDA multiples), we think the price paid seems fair, as price is more important to consumers than brands in batteries, with research and development spending critical just to stay ahead of the competition. In addition, the growth prospects for Duracell's core battery business are limited longer term, given the growth of electronic devices with their own rechargeable batteries. Our long-term discounted cash flow expectations for P&G's consolidated operations (annual top-line growth above 4% and nearly 23% operating margins) remain in place.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
90.38 USD	94.00 USD	75.20 USD	117.50 USD	Low	Wide	Stable	Standard	AA	Consumer Packaged Goods

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Beyond the sale of the battery business, P&G also disclosed that to date, 28 brands (including the pet-care business earlier this year and Duracell) have been sold, discontinued, or will be consolidated, out of the 90-100 it plans to shed. Prospective buyers are conducting due diligence on another 10 brands; however, management refrained from offering any other specifics regarding the brands that have been cut or any price received for the assets. When asked, CEO A.G. Lafley called out the fragrance space as one that had gotten too broad, saying, "We were performing better in the fragrance business when we were very focused on three or four, Hugo Boss and Lacoste, Dolce & Gabbana and Gucci, than when we ended up with an assortment of 20-plus." As such, we won't be surprised to see additional pruning of the firm's mix in this category.

While we've been of the opinion that P&G's pricing and brand power have come under pressure following a stream of lackluster innovation, we now think the reignited focus on winning with innovation could be gaining some traction. For instance, P&G has operated as the number-two player in the U.S. diaper market for the past 20 years. However, as a result of new product launches and efforts to get in front of new moms early on with increased sampling in hospitals, Pampers (P&G's largest brand with $10 billion in annual sales) has overtaken Huggies (a Kimberly-Clark brand) and now controls around 38% share of the U.S. diaper market, about 300 basis points above the level held by its leading competitor. The success of its recent innovation has been particularly evident in its Swaddlers product line (which now is sold in sizes 1-6, up from just 1-3 previously), accounting for more than $600 million in annual sales, up from less than $200 million 10 years ago and equating to a 10% value share of the category.

The firm is also realizing an improved share position in the U.S. laundry category; it now controls about 62% of the market, up from less than 60% the past several years. Tide, P&G's second-largest brand, has been a beneficiary, garnering 42% of the market, up from less than 40% over the past few years. We think this reflects the success of its single-dose laundry pod launch. As a segment, single-dose laundry now makes up about 12% of the overall U.S. laundry space, with P&G maintaining 75% of this niche (accounting for $750 million in annual sales). Management has called attention to the fact that single-dose laundry is even winning with dollar store consumers, despite the fact it sells at a 20% premium to base Tide, given the convenience it affords (it is easier to take a pod or two to the laundromat than a jug of liquid detergent). We think this showcases that consumers are willing to pay up for a product when they perceive added value.

We walked away from the meeting with the sense that management remains laser focused on removing excess costs from its operations and enhancing its cost advantage. For one, CFO Jon Moeller told us how the extension of common manufacturing platforms around the world is proving particularly advantageous for its diaper business, a product that had been manufactured in disparate forms but is a sizable opportunity. The company was manufacturing diapers with different materials in multiple geographies around the world, which inherently limited the negotiating leverage it could garner over suppliers. However, as the firm has worked to streamline its manufacturing and production of diapers (using the same inputs on a global basis now), we expect it to exploit its purchasing leverage and ultimately enhance its cost edge. Partly as a result of these efforts, we forecast gross margins will expand by around 200 basis points over the next 10 years to 51%, about 100 basis points above its average gross margin over the past five years.

With regards to the firm's management structure, we still believe Lafley's appointment following the abrupt resignation of former CEO Bob McDonald in May 2013 and

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subsequent tenure gives credence to our prior concerns that P&G, which tends to promote from within, may not have anyone ready to fill the top spot, since several senior executives headed for the exits during McDonald's time at the helm. While we expect that Lafley will continue to lead the organization until a permanent successor--possibly from outside the organization--is named, we anticipate that this time he will stay on (possibly in the chairman role) to ensure a smooth transition, unlike when he handed over the reins in July 2009. P&G tends to be an organization in which individuals move up from within the ranks, but we were encouraged by Lafley's reference in response to a question the importance of bringing in outside talent to the organization, as we think fresh perspectives can prove highly valuable.

Berkshire Uses Tax-Efficient Exchange of P&G Shares to Buy Duracell; No Change to FVE 13 Nov 2014

We're not sure what to make of wide-moat Berkshire Hathaway's $4.7 billion purchase of the Duracell battery business from Procter & Gamble, another wide-moat firm. While one would have expected to see Warren Buffett use some of the more than $40 billion in excess cash on Berkshire's books at the end of the third quarter to finance a deal of this size, the transaction has actually been structured as a tax-exempt transfers of assets, with P&G accepting Berkshire's 52.8 million share equity stake in the consumer products firm (worth $4.7 billion at yesterday's market close) for Duracell. That said, it remains to be seen whether P&G's $1.8 billion pre-transaction recapitalization of the battery business will be viewed as a taxable event for Berkshire. We are leaving our fair value estimate in place.

While Duracell is at first glance a classic Buffett type of name, with the Oracle of Omaha even referring to it as a "leading global brand with top quality products," our general take on the battery business has been that it is a commodity business where price tends to be more important to consumers than brands, with the major players having to invest heavily in research and development just to stay one step ahead of the competition. Although the price that is being paid by Berkshire--of 7 times fiscal year 2014 adjusted EBITDA (and 9 times adjusted EBITDA on a cash sale basis)--is well below the 12 times EBITDA that Buffett paid for Heinz, we think the growth prospects for Duracell's core battery business are limited longer-term, given the growth of electronic devices with their own rechargeable batteries.

Ultimately, we see Buffett as basically helping P&G offload a noncore business in a deal that allows Berkshire to eliminate a large investment stake with an extremely low cost basis (of $336 million) without taking too meaningful of a tax hit, and eliminating at least one legacy holding that his two lieutenants would have had to deal with longer-term.

Lukewarm Sales, but P&G’s Competitive Edge Holds; Battery Exit Slated for 2015; Shares Undervalued 24 Oct 2014

Even though competitive pressures around the globe persist, wide-moat Procter & Gamble’s first-quarter results offered the first signs that broad-based promotional spending may be subsiding, and new products could be gaining some traction at the shelf. Sales rose a modest 2%, entirely reflecting higher prices and favorable mix. We think this performance provides evidence of the firm’s brand strength, but it will take a few more quarters, and a positive volume contribution, before we can view this as sustainable. Management held the line on its full-year forecast--which calls for low-to-mid single digit organic sales growth and mid-single-digit underlying earnings per share growth--and we don’t anticipate making any changes to our $93 fair value. At nearly a 10% discount to our fair value and 19 times our fiscal 2015 earnings estimate, we contend P&G is attractively valued.

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We continue to believe that efforts to focus on its core brands will aid financial performance without sacrificing scale and negotiating leverage with retailers. As such, we welcomed P&G's also decision to exit the battery business, likely in a split of Duracell which was acquired as part of the Gillette deal in 2005. We previously surmised could be in the cards, given the highly competitive nature of the category; however, until the exact form of the separation is determined, we will refrain from adjusting our valuation.

P&G's commitment to shedding costs should enable the firm to further invest behind its brands. And in that light, profitability in the quarter was modest, with adjusted gross margins up 20 basis points to 49.7% and adjusted operating margins down 20 basis points to 19.9%. Our forecast calls for operating margins of 20.1% in fiscal 2015 (compared with 19.4% in fiscal 2014), and we expect operating margins to improve to nearly 23% by the end of our 10-year explicit forecast.

From a category perspective, health care (with 6% underlying sales growth) and the baby, feminine, and family care businesses (up 4%) were the highlights. However, its other segments were more of a mixed bag. Beauty remains a challenge, with flat organic sales relative to a year ago. Management noted that Olay struggled, although Pantene generated mid-single-digit organic sales in the quarter. Despite this, we suspect the performance in this category could prove lumpy given the fierce competitive dynamics of the U.S. hair care space.

We are attending the firm's analyst day in Cincinnati next month and hope to get additional details on P&G's product rationalization plans, as well as its cost-cutting efforts. In addition, we will be looking to get a better sense of the depth of the firm's management bench. We still believe CEO A.G. Lafley's appointment and subsequent tenure give credence to our prior concerns that P&G (which tends to promote from within) may not have anyone ready to fill the top spot, since several senior executives headed for the exits during McDonald's time at the helm. Ultimately, we think the person who will be named to the CEO role will have a good grasp of P&G's vast product and geographic footprint, and maybe more important, will be someone who is able to rally the troops around the world, which has been lacking over the past several years.

Competitive Pressures Persist, but Wide-moat P&G Is Poised to Drive Excess Shareholder Returns 01 Oct 2014
Lackluster innovation has plagued Procter & Gamble's financial results, and its shares now trade at an attractive discount to our $93 fair value--at a price/fair value of 0.90 and 19 times our fiscal 2015 earnings estimate--particularly given its dividend yields more than 3%. Thus, we contend P&G offers a decent margin of safety for investors.

Despite past challenges, P&G intends to shed 90-100 brands--more than half of its existing brand portfolio, which in aggregate posted a 3% sales decline and a 16% profit reduction the past three years. This move indicates P&G is parting ways with its former self, looking to become a more nimble and responsive player in the global consumer products arena. We view this as a particularly important trait given the stagnant growth emanating from developed markets and the slowing prospects from emerging regions. Even a slimmed-down version of the leading global household and personal care firm will still carry significant clout with retailers, and we think these actions will only enhance P&G's brand intangible asset and its cost advantage, which form the basis for our wide moat. The 70-80 brands it will keep (including 23 that generate $1 billion-$10 billion in annual sales, and another 14 that account for $500 million-$1 billion in sales each year) already account for 90% of its top line and 95% of profits. As such, we don't anticipate P&G will sacrifice its scale edge but will be able to better focus its resources (both

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personnel and financial) on its highest-return opportunities.

These actions build on the firm's $10 billion cost-saving initiative, which aims to lower costs through reduced overhead, lower material costs from product design and formulation efficiencies, and increased manufacturing and marketing productivity. Overall, we think these efforts will enable P&G to up its core brand spending (behind product innovation and marketing support), which is critical given the ultra-competitive landscape in which it plays.

While we believe the shares look attractive at current levels (and our fair value reflects the impact to sales and profits from the disposal of its noncore brands), we think further upside could be realized if P&G can wring out favorable prices for the brands it intends to sell. However, since it is unclear whether the firm will ultimately find buyers for these assets and what prices any potential purchaser may be willing to pay, we will hold off incorporating this into our valuation until more details come to light.

Over the long term, we continue to expect top-line growth above 4% on average annually. Globally, P&G's categories grow roughly 3% annually, so to reach the 4% annual sales growth pace we've modeled, the company would have to be growing 1-2 percentage points faster than the markets and categories in which it competes, which we think is achievable, particularly in light of recent strategic efforts. Our forecast calls for operating margins of 20.1% in fiscal 2015 (compared with 19.4% in fiscal 2014), and we expect operating margins to improve to nearly 23% by the end of our 10-year explicit forecast.

Beyond reinvesting in the business, we expect that dividend payments will remain a top priority of cash (as the firm has paid a dividend to its shareholders consistently for more than 120 years), and we forecast mid- to high-single-digit dividend increases during the next 10 years. P&G's dividend yields around 3% annually. On average, we also forecast that the company will buy back around 2% of shares each year over our 10-year explicit forecast.

P&G Sheds the Rest of Its Pet-Care Business; Shares Mildly Undervalued 23 Sep 2014
Procter & Gamble on Sept. 23 announced the sale of its European pet-care business, which it has been looking to shed since Mars acquired the bulk of its pet-care operations earlier this year, to Spectrum Brands. Annual sales amount to just $200 million, and although financial terms of the deal weren't disclosed, we aren't making any changes to our $93 per share fair value estimate because of this news given the relatively small size of the business within P&G's portfolio.

This news follows P&G's announcement last month that it intends to shed 90-100 brands--more than half of its existing brand portfolio--to become more nimble and responsive in the global consumer products arena. We view this as particularly important given the stagnant growth in developed markets and the slowing prospects from emerging regions. Even a slimmed-down version of the leading global household and personal-care firm will still carry significant clout with retailers, and we think these actions will only enhance P&G's brand intangible asset and its cost advantage, which form the basis for our wide moat rating.

In-line 4Q Takes Backseat to News P&G Will Shed More Than Half its Brands; Shares Still Attractive 01 Aug 2014
A 2% fourth-quarter sales increase, a 50-basis-point reduction in the adjusted gross margin to 47.7%, and a 170-basis-point jump in the adjusted operating margin to 17.1% were all an afterthought when compared with the announcement Procter & Gamble will undergo a strategic initiative to shed 90-100 brands.

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This represents more than half of its existing brand portfolio, which in aggregate posted a 3% sales decline and a 16% profit reduction over the past three years. The 70-80 brands it will keep (which include 23 that generate $1 billion-$10 billion in annual sales, as well as another 14 that account for $500 million to $1 billion in sales each year), already account for 90% of the firm's top line and 95% of its profits. As such, we don't anticipate a material change to our $89 fair value estimate.

However, we found this announcement striking from a strategic perspective. We think this shows P&G is breaking ties with its former self, looking to become a more nimble and responsive player in the global consumer products arena--a particularly important trait given the stagnant growth emanating from developed markets and the slowing prospects from emerging regions. Even a slimmed-down version of the leading global household and personal care firm will still carry significant clout with retailers, and we think these actions will only enhance P&Gs brand intangible asset and its cost advantage, which in combination form the basis for our wide moat.

Management stressed its decision was based on customer preference rather than along geographic lines. In our opinion, these efforts will quell calls to split up the company (given past challenges to respond in a timely fashion to changing market dynamics) at least over the short term. In addition, we don't believe this signals any shift in how the company intends to position its products, as management was blunt in stating that some of its products do better (namely Oral B and SK-II with their premium price point) than others.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in June

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	*Forecast* 2015	*Forecast* 2016	5-Year Proj. CAGR
Revenue	*0.2*	1.4	0.6	-1.3	*1.7*	*3.2*	*3.5*
EBIT	*0.6*	0.6	-1.1	2.2	*5.4*	*5.8*	*6.1*
EBITDA	*1.0*	2.5	-2.1	2.7	*3.6*	*5.1*	*5.3*
Net Income	*1.7*	-4.8	10.2	0.4	*3.1*	*6.1*	*5.7*
Diluted EPS	*2.9*	-2.8	10.6	1.3	*4.4*	*9.0*	*7.9*
Earnings Before Interest, after Tax	*-2.0*	-15.4	-2.2	13.8	*-0.1*	*12.9*	*6.5*
Free Cash Flow	*0.4*	16.5	-19.9	8.5	*5.8*	*36.0*	*9.1*

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	*19.0*	19.0	18.7	19.4	*20.1*	*20.6*	*21.1*
EBITDA Margin %	*22.8*	22.9	22.3	23.2	*23.6*	*24.1*	*24.5*
Net Margin %	*14.4*	13.4	14.7	15.0	*15.2*	*15.6*	*15.9*
Free Cash Flow Margin %	*12.6*	14.1	11.3	12.4	*12.9*	*17.0*	*15.4*
ROIC %	*10.8*	10.9	10.2	11.3	*11.9*	*13.6*	*14.3*
Adjusted ROIC %	*11.4*	11.4	10.7	12.1	*11.8*	*13.5*	*14.2*
Return on Assets %	*8.2*	8.0	8.3	8.2	*8.3*	*9.7*	*10.2*
Return on Equity %	*17.2*	16.7	17.5	17.3	*17.4*	*20.3*	*21.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	*0.32*	0.32	0.32	0.34	*0.31*	*0.32*	*0.31*
Total Debt/EBITDA	*1.69*	1.56	1.68	1.84	*1.56*	*1.48*	*1.40*
EBITDA/Interest Expense	*26.69*	24.87	28.08	27.13	*27.28*	*30.04*	*30.82*

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.93	0.88	—	—
Price/Earnings	18.2	18.4	*20.3*	*18.6*
EV/EBITDA	12.7	12.4	*13.4*	*12.8*
EV/EBIT	15.1	14.8	*15.8*	*14.9*
Free Cash Flow Yield %	5.2	4.8	*4.5*	*5.0*
Dividend Yield %	3.1	3.2	*3.0*	*3.1*

Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	2.3
Weighted Average Cost of Capital %	7.4
Long-Run Tax Rate %	23.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	10.0
Perpetuity Year	20

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	108,876	36.3	38.44
Present Value Stage II	81,076	27.0	28.63
Present Value Stage III	109,875	36.7	38.80
Total Firm Value	**299,827**	**100.0**	**105.87**
Cash and Equivalents	10,686	—	3.77
Debt	-35,417	—	-12.51
Preferred Stock	-1,111	—	-0.39
Other Adjustments	-11,803	—	-4.17
Equity Value	**262,183**	**—**	**92.58**
Projected Diluted Shares	2,832		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in June

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**83,680**	**84,167**	**83,062**	***84,438***	***87,117***
Cost of Goods Sold	42,391	42,428	42,460	*42,641*	*43,776*
Gross Profit	**41,289**	**41,739**	**40,602**	***41,797***	***43,341***
Selling, General & Administrative Expenses	10,791	11,260	10,167	*10,555*	*10,802*
Research & Development	2,029	2,023	2,000	*2,027*	*2,091*
Advertising & Marketing	9,345	9,729	9,200	*9,288*	*9,496*
Depreciation & Amortization (if reported separately)	3,204	2,982	3,141	*2,965*	*3,007*
Operating Income (ex charges)	**15,920**	**15,745**	**16,094**	***16,962***	***17,945***
Restructuring & Other Cash Charges	1,052	956	806	*400*	*300*
Impairment Charges (if reported separately)	1,576	308	—	*1,050*	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**13,292**	**14,481**	**15,288**	***15,512***	***17,645***
Interest Expense	769	667	709	*731*	*698*
Interest Income	262	1,029	306	*400*	*400*
Pre-Tax Income	**12,785**	**14,843**	**14,885**	***15,182***	***17,348***
Income Tax Expense	3,468	3,441	3,178	*3,492*	*3,990*
Other After-Tax Cash Gains (Losses)	—	—	78	—	—
Other After-Tax Non-Cash Gains (Losses)	1,439	-90	-142	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**10,756**	**11,312**	**11,643**	***11,690***	***13,358***
Weighted Average Diluted Shares Outstanding	2,941	2,931	2,905	*2,868*	*2,792*
Diluted Earnings Per Share	**3.66**	**3.86**	**4.01**	***4.08***	***4.78***
Adjusted Net Income	11,232	12,373	12,419	*12,806*	*13,589*
Diluted Earnings Per Share (Adjusted)	**3.82**	**4.22**	**4.28**	***4.46***	***4.87***
Dividends Per Common Share	2.09	2.22	2.38	*2.56*	*2.75*
EBITDA	**16,496**	**17,463**	**18,429**	***18,477***	***20,652***
Adjusted EBITDA	**19,124**	**18,727**	**19,235**	***19,927***	***20,952***

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Balance Sheet (USD Mil)

Fiscal Year Ends in June	2012	2013	2014	*Forecast* *2015*	*2016*
Cash and Equivalents	4,436	5,947	8,558	*1,631*	*1,297*
Investments	—	—	2,128	*2,128*	*2,128*
Accounts Receivable	6,068	6,508	6,386	*6,457*	*6,626*
Inventory	6,721	6,909	6,759	*6,800*	*6,993*
Deferred Tax Assets (Current)	1,001	948	1,092	*1,059*	*1,027*
Other Short Term Assets	3,684	3,678	3,845	*3,909*	*4,033*
Current Assets	**21,910**	**23,990**	**28,768**	***21,983***	***22,104***
Net Property Plant, and Equipment	20,377	21,666	22,304	*23,782*	*25,088*
Goodwill	53,773	55,188	53,704	*53,704*	*51,529*
Other Intangibles	30,988	31,572	30,843	*30,411*	*30,018*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	5,196	6,847	5,798	*5,894*	*6,081*
Long-Term Non-Operating Assets	—	—	2,849	*2,849*	*2,849*
Total Assets	**132,244**	**139,263**	**144,266**	***138,623***	***137,670***
Accounts Payable	7,920	8,777	8,461	*8,485*	*8,699*
Short-Term Debt	8,698	12,432	15,606	*12,000*	*12,000*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	8,289	8,828	8,999	*9,148*	*9,438*
Current Liabilities	**24,907**	**30,037**	**33,066**	***29,634***	***30,138***
Long-Term Debt	21,080	19,111	19,811	*19,000*	*19,000*
Deferred Tax Liabilities (Long-Term)	10,132	10,827	10,218	*10,218*	*10,218*
Other Long-Term Operating Liabilities	3,136	2,839	2,645	*2,689*	*2,774*
Long-Term Non-Operating Liabilities	8,954	7,740	8,550	*8,550*	*8,550*
Total Liabilities	**68,209**	**70,554**	**74,290**	***70,090***	***70,680***
Preferred Stock	1,195	1,137	1,111	*1,111*	*1,111*
Common Stock	4,008	4,009	4,009	*4,009*	*4,009*
Additional Paid-in Capital	63,181	63,538	63,911	*63,911*	*63,911*
Retained Earnings (Deficit)	75,349	80,197	84,990	*89,343*	*95,025*
(Treasury Stock)	-69,604	-71,966	-75,805	*-81,614*	*-88,863*
Other Equity	-10,690	-8,851	-9,002	*-9,002*	*-9,002*
Shareholder's Equity	**63,439**	**68,064**	**69,214**	***67,758***	***66,191***
Minority Interest	596	645	762	*775*	*799*
Total Equity	**64,035**	**68,709**	**69,976**	***68,533***	***66,990***

Procter & Gamble Co PG (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
90.38 USD	94.00 USD	75.20 USD	117.50 USD	Low	Wide	Stable	Standard	AA	Consumer Packaged Goods

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in June

	2012	2013	2014	*Forecast 2015*	*Forecast 2016*
Net Income	10,904	11,402	11,785	*11,690*	*13,358*
Depreciation	2,704	2,454	2,627	*2,533*	*2,614*
Amortization	500	528	514	*432*	*393*
Stock-Based Compensation	377	346	360	*374*	*383*
Impairment of Goodwill	1,576	308	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-65	-307	-44	*33*	*32*
Other Non-Cash Adjustments	-1,896	-539	177	—	—
(Increase) Decrease in Accounts Receivable	-427	-415	87	*-71*	*-169*
(Increase) Decrease in Inventory	77	-225	8	*-41*	*-193*
Change in Other Short-Term Assets	—	—	—	*-64*	*-849*
Increase (Decrease) in Accounts Payable	-22	1,253	1	*24*	*214*
Change in Other Short-Term Liabilities	-444	68	-1,557	*149*	*290*
Cash From Operations	**13,284**	**14,873**	**13,958**	***15,060***	***16,071***
(Capital Expenditures)	-3,964	-4,008	-3,848	*-4,011*	*-3,920*
Net (Acquisitions), Asset Sales, and Disposals	2,759	-561	546	—	*2,900*
Net Sales (Purchases) of Investments	112	-1,726	-805	—	—
Other Investing Cash Flows	—	—	—	*-52*	*-102*
Cash From Investing	**-1,093**	**-6,295**	**-4,107**	***-4,063***	***-1,122***
Common Stock Issuance (or Repurchase)	-2,295	-2,537	-3,911	*-5,809*	*-7,249*
Common Stock (Dividends)	-6,139	-6,519	-6,911	*-7,336*	*-7,676*
Short-Term Debt Issuance (or Retirement)	-3,412	3,406	3,304	*-3,606*	—
Long-Term Debt Issuance (or Retirement)	1,436	-1,421	239	*-811*	—
Other Financing Cash Flows	—	—	—	*-361*	*-358*
Cash From Financing	**-10,410**	**-7,071**	**-7,279**	***-17,924***	***-15,283***
Exchange Rates, Discontinued Ops, etc. (net)	-113	4	39	—	—
Net Change in Cash	**1,668**	**1,511**	**2,611**	***-6,927***	***-333***

Procter & Gamble Co PG (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
90.38 USD	94.00 USD	75.20 USD	117.50 USD	Low	Wide	Stable	Standard	AA	Consumer Packaged Goods

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Unilever NV UN USA	0.93	19.3	18.2	16.6	13.3	12.6	11.8	22.6	20.3	18.1	6.0	5.2	4.6	2.0	2.0	1.9
L'Oreal SA OR FRA	1.16	26.0	23.2	21.8	16.9	16.0	15.1	25.4	25.4	23.5	4.1	3.8	3.5	3.6	3.5	3.3
Colgate-Palmolive Co CL USA	1.10	23.4	21.0	19.0	14.3	13.1	12.1	25.1	22.3	19.7	29.8	29.9	28.5	3.5	3.4	3.3
Kimberly-Clark Corp KMB USA	1.28	20.8	19.3	18.0	12.1	11.7	11.2	25.0	23.5	21.8	25.5	21.7	19.7	2.1	2.1	2.0
Average		22.4	20.4	18.9	14.2	13.4	12.6	24.5	22.9	20.8	16.4	15.2	14.1	2.8	2.8	2.6
Procter & Gamble Co PG US	**0.96**	**18.4**	**20.3**	**18.6**	**12.4**	**13.4**	**12.8**	**21.1**	**22.1**	**20.1**	**3.1**	**3.6**	**3.7**	**2.6**	**2.9**	**2.8**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Unilever NV UN USA	— EUR	17.5	16.9	16.7	18.3	19.0	20.0	29.7	27.3	26.2	9.9	9.9	10.2	2.3	2.5	2.7
L'Oreal SA OR FRA	— EUR	15.2	14.7	14.3	14.3	15.3	15.7	24.6	15.4	15.1	17.5	10.9	10.8	1.7	1.8	1.9
Colgate-Palmolive Co CL USA	— USD	28.0	30.9	33.9	23.7	26.6	30.1	115.1	133.2	145.0	18.3	20.0	21.9	2.4	2.5	2.7
Kimberly-Clark Corp KMB USA	— USD	22.7	23.4	24.5	20.6	21.7	23.0	89.8	114.9	108.5	12.4	13.0	13.6	2.7	2.8	2.9
Average		20.9	21.5	22.4	19.2	20.7	22.2	64.8	72.7	73.7	14.5	13.5	14.1	2.3	2.4	2.6
Procter & Gamble Co PG US	**144,266** USD	**11.3**	**11.9**	**13.6**	**12.1**	**11.8**	**13.5**	**17.3**	**17.4**	**20.3**	**8.2**	**8.3**	**9.7**	**3.2**	**3.0**	**3.1**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Unilever NV UN USA	48,963 EUR	-1.7	3.3	4.9	0.7	5.6	7.2	3.0	6.0	9.5	-41.5	11.5	11.7	-23.0	6.0	9.5
L'Oreal SA OR FRA	23,112 EUR	0.6	4.5	5.1	3.8	6.3	6.3	10.0	11.9	6.4	169.8	-54.7	6.7	6.6	7.8	6.4
Colgate-Palmolive Co CL USA	17,833 USD	2.4	3.9	5.0	9.5	9.5	8.1	10.8	12.1	10.5	4.6	13.0	13.2	9.0	9.0	9.0
Kimberly-Clark Corp KMB USA	19,918 USD	2.3	2.3	3.3	5.5	3.7	4.5	8.8	8.0	6.9	-0.9	6.1	6.9	-4.6	8.0	6.9
Average		0.9	3.5	4.6	4.9	6.3	6.5	8.2	9.5	8.3	33.0	-6.0	9.6	-3.0	7.7	8.0
Procter & Gamble Co PG US	**83,062** USD	**-1.3**	**1.7**	**3.2**	**2.2**	**5.4**	**5.8**	**1.3**	**4.4**	**9.0**	**8.5**	**5.8**	**36.0**	**7.0**	**7.5**	**7.5**

Procter & Gamble Co PG (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
90.38 USD	94.00 USD	75.20 USD	117.50 USD	Low	Wide	Stable	Standard	AA	Consumer Packaged Goods

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2014	2015(E)	2016(E)	EBITDA Margin % 2014	2015(E)	2016(E)	Operating Margin % 2014	2015(E)	2016(E)	Net Margin % 2014	2015(E)	2016(E)	Free Cash Flow Margin % 2014	2015(E)	2016(E)
Unilever NV UN USA	4,608 EUR	41.5	41.6	41.7	16.8	17.1	17.4	14.4	14.7	15.1	9.4	9.7	10.1	9.0	9.7	10.4
L'Oreal SA OR FRA	3,101 EUR	71.3	71.4	71.5	21.2	21.5	21.7	17.4	17.7	17.9	13.4	13.7	13.8	14.3	13.6	14.1
Colgate-Palmolive Co CL USA	2,752 USD	59.0	59.5	60.0	26.7	28.0	28.8	24.3	25.6	26.3	15.4	16.3	16.8	14.1	15.3	16.5
Kimberly-Clark Corp KMB USA	2,058 USD	33.9	34.3	34.4	19.7	19.9	20.1	15.6	15.8	16.0	10.3	10.5	10.6	8.5	8.9	9.3
Average		51.4	51.7	51.9	21.1	21.6	22.0	17.9	18.5	18.8	12.1	12.6	12.8	11.5	11.9	12.6
Procter & Gamble Co PG US	**12,419** USD	**48.9**	**49.5**	**49.8**	**23.2**	**23.6**	**24.1**	**19.4**	**20.1**	**20.6**	**15.0**	**15.2**	**15.6**	**12.2**	**13.1**	**14.0**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2014	2015(E)	2016(E)	Debt/Total Cap % 2014	2015(E)	2016(E)	EBITDA/Interest Exp. 2014	2015(E)	2016(E)	Total Debt/EBITDA 2014	2015(E)	2016(E)	Assets/Equity 2014	2015(E)	2016(E)
Unilever NV UN USA	11,500 EUR	69.1	60.2	52.8	40.9	37.6	34.6	15.9	16.7	17.8	1.4	1.3	1.2	2.9	2.7	2.5
L'Oreal SA OR FRA	560 EUR	2.7	2.5	2.3	2.7	2.5	2.3	256.6	231.2	245.3	0.1	0.1	0.1	1.4	1.4	1.4
Colgate-Palmolive Co CL USA	5,900 USD	278.2	279.3	266.1	73.6	73.6	72.7	39.2	41.9	45.1	1.2	1.1	1.1	6.6	6.7	6.5
Kimberly-Clark Corp KMB USA	6,600 USD	396.3	335.1	303.3	79.9	77.0	75.2	13.1	12.6	12.9	1.7	1.6	1.6	9.5	8.3	7.7
Average		186.6	169.3	156.1	49.3	47.7	46.2	81.2	75.6	80.3	1.1	1.0	1.0	5.1	4.8	4.5
Procter & Gamble Co PG US	**35,417** USD	**51.2**	**45.8**	**46.8**	**33.9**	**31.4**	**31.9**	**27.1**	**27.3**	**30.0**	**1.8**	**1.6**	**1.5**	**2.1**	**2.0**	**2.1**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2014	2015(E)	2016(E)	Current Ratio 2014	2015(E)	2016(E)	Quick Ratio 2014	2015(E)	2016(E)	Cash/Short-Term Debt 2014	2015(E)	2016(E)	Payout Ratio % 2014	2015(E)	2016(E)
Unilever NV UN USA	124,081 USD	1.28	1.93	2.70	0.78	0.88	1.00	0.55	0.65	0.77	0.94	1.41	1.97	50.0	50.0	50.0
L'Oreal SA OR FRA	83,637 EUR	2.18	4.68	7.24	1.14	1.32	1.50	0.83	1.01	1.18	2.53	5.15	7.96	27.3	45.0	45.0
Colgate-Palmolive Co CL USA	63,224 USD	0.86	0.66	0.62	1.04	0.99	0.98	0.72	0.68	0.67	0.89	0.67	0.62	58.5	56.5	54.2
Kimberly-Clark Corp KMB USA	42,475 USD	0.24	0.27	0.17	0.90	0.91	0.91	0.55	0.56	0.56	0.09	0.10	0.06	56.7	56.4	55.0
Average		1.14	1.89	2.68	0.97	1.03	1.10	0.66	0.73	0.80	1.11	1.83	2.65	48.1	52.0	51.1
Procter & Gamble Co PG US	**244,217** USD	**2.95**	**0.57**	**0.46**	**0.87**	**0.74**	**0.73**	**0.67**	**0.51**	**0.50**	**0.55**	**0.14**	**0.11**	**59.4**	**62.8**	**57.5**

Research Methodology for Valuing Companies

Components of Our Methodology
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies

Analyst conducts company and industry research:
- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs
(Microsoft)

Cost advantage
(Wal-Mart)

Intangible assets
(Johnson & Johnson)

Network Effect
(Mastercard)

Efficient Scale
(Lockheed Martin)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

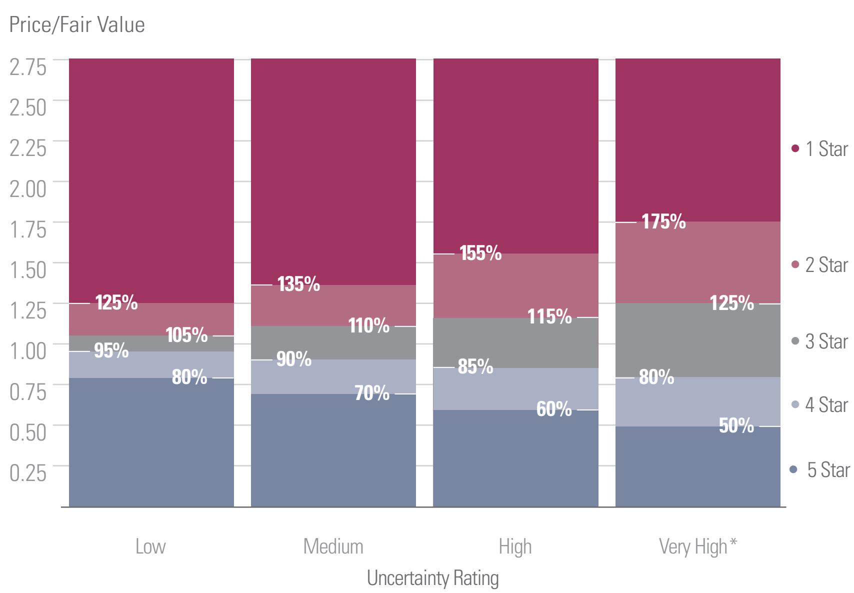
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

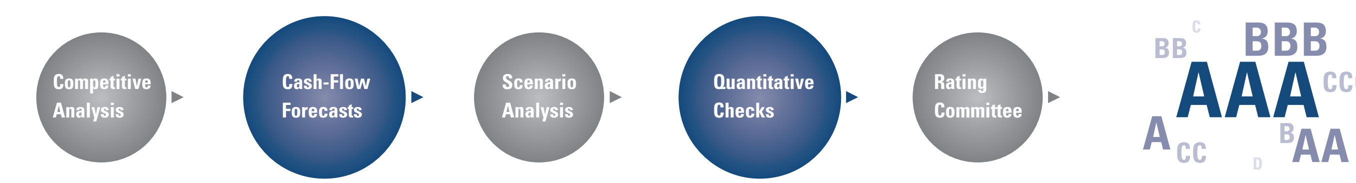
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Competitive Analysis: Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Cash-Flow Forecasts: Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Scenario Analysis: Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

Quantitative Checks: We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Rating Committee: Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

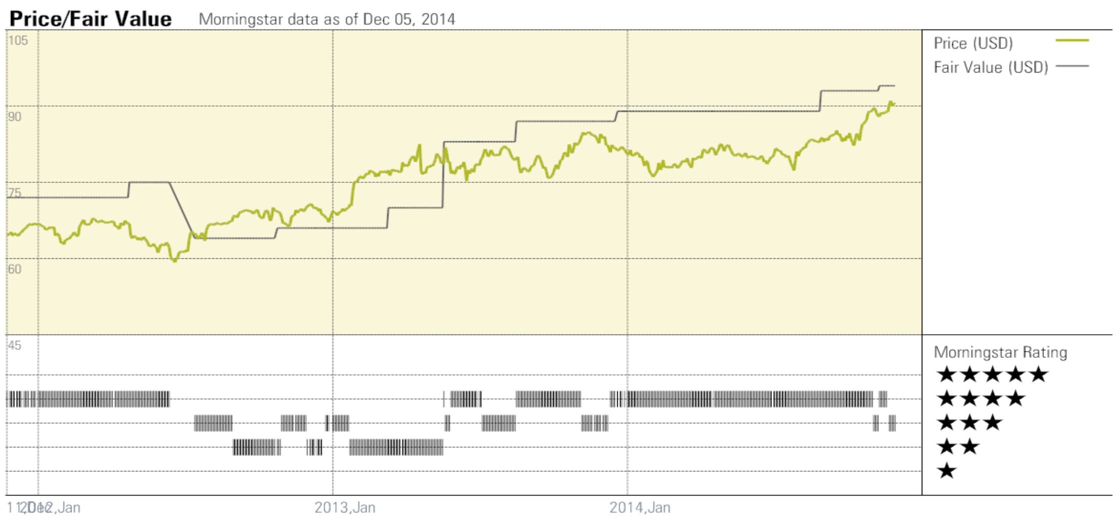
We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Procter & Gamble Co PG (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
90.38 USD	94.00 USD	75.20 USD	117.50 USD	Low	Wide	Stable	Standard	AA	Consumer Packaged Goods



The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value.

Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from http://global.morningstar.com/equitydisclosures.

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