Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics

Bachelor Thesis – Abstract

Financial analysis of the Procter and Gamble company

Author: Daria Kalugina

Supervisor: Ing. Pavel Srbek

Abstract

The thesis considers the application of financial analysis in corporate practice for identifying the advantages and weaknesses of particular directions of commercial activities and for revealing how they can be improved. The case study of Procter & Gamble carried out within the framework of the thesis illustrates that the company is able to perform well in its business activities. The entity has positive dynamics across most groups of financial ratios, and its only issue is the declining accounts receivable turnover. The comparison held with Unilever shows great similarities in the two corporations' financial performance. The slight differences are that Procter & Gamble performs better in terms of liquidity and indebtedness, while Unilever has better ratios of the net profit margin, ROA, ROE, DPS, and the payout ratio. By focusing on improving these aspects of its business activities, Procter & Gamble will have better chances to effectively compete with Unilever.

Keywords: financial analysis, financial ratios, financial statements, horizontal analysis, indebtedness, liquidity, Procter & Gamble, profitability, Unilever, vertical analysis.

Objectives and Methodology:

The **aim** of the thesis is to reveal the main strengths and weaknesses of Procter & Gamble's business through financial analysis. The **goals** of the thesis are the following:

- to provide a general theoretical overview of financial analysis;
- to reveal the goals of financial analysis, the main users of the data obtained through financial analysis and their practical interest in such data;
- to analyze how particular financial statements can be used for financial analysis;
- to investigate the different types of financial analysis and their specific features;
- to run a case study of Procter & Gamble and to provide calculations of the company's financial condition using the methods of financial analysis;
- to compare these findings with the financial analysis of Unilever;

- to reveal both companies' similarities and differences in terms of their financial condition; and
- to draw conclusions in line with the aim of the thesis.

The **research questions** of the thesis are the following:

- RQ1: What are the main advantages and shortcomings of Procter & Gamble's business condition according to the findings of financial analysis?
- RQ2: How does the corporation compare to Unilever and what aspects do both companies share in similar?

The following methods will be used for financial analysis and elaboration of this thesis. First of all, it is necessary to explain the theoretical bases that are necessary for understanding financial analysis. Theoretical background will be introduced after research of literature and articles.

Furthermore, the annual reports of Procter & Gamble will be analyzed. The company is an international public limited company with a public offer of shares and publishes all information about business results on its website. From the annual reports it is possible to learn about operating activities in the company and events that had an impact on the company's financial results.

Financial analysis is not possible without the use of financial analysis methods. The formulas for the calculation of individual financial indicators, which are analyzed in the practical part of the thesis, are presented in the theoretical part. It is a horizontal, vertical analysis, analysis of ratios and benchmarking. Two case studies were run, namely the cases of two large multinational corporations Procter & Gamble and Unilever. Both companies were researched with the use of financial analysis and its components: horizontal analysis, vertical analysis, and the analysis of financial ratios. Thereafter, the results of the financial analysis of both companies were compared. Then, the median value was calculated.

Benchmarking was performed in comparison with Unilever. As Unilever reports the financial results of the various consolidated and sub-units in its annual reports, it was decided to choose the entire Unilever Group for comparison purposes. The financial statements are published on the company's official website, in the annual reports and also on the financial market where The Unilever Group offers its shares (ex. Yahoo Finance).

The financial analysis data were taken from the Procter and Gamble financial statements: balance sheet, profit and loss statement and cash flow statement.

A period of 4 years, from 2015 to 2018, was chosen for the financial analysis, because in 2015 P&G began negotiating the sale of one of its business units - the manufacture of cosmetic products under the name Beauty Brands. This negotiation on the purchase of the company lasted until 2017, when the sale was realized. This resulted in fluctuations in the company's financial data and other processes that could affect P&G's financial stability and individual indicators. Therefore, the financial analysis covers a period of 4 years, ie from 2015 to 2018, in order to analyze changes in the financial statements, inter alia, related to the sale of one product part of the company.

Selected calculations of financial ratios and well as benchmarking data are shown in the appendix to the thesis.

Achieved results:

The findings of this research allow stating unequivocally that financial analysis is indispensable for managers to understand well the nature of their companies' activities and financial performance from different respects. By effectively applying the tools of financial analysis, companies can reveal both the strong and the weak aspects of their business performance, thus understanding where they should seek improvements and how they can use their reserves to drive greater financial performance. Financial analysis is inherently complex and makes it possible to focus on particular directions of corporate business and their individual performance. At the same time, it should be stated that financial analysis of financial reports should go hand in hand with analysis of annual reports and note to the annual reports of the companies to understands the fluctuations of financial indicators and ratios. Without notes and annual reports explaining business strategical decisions of top management there can be misunderstanding of the financial results of the companies, which can lead investors or third parties to misunderstanding of the overall results.

The research questions of the thesis were the following:

- RQ1: What are the main advantages and shortcomings of Procter & Gamble's business condition according to the findings of financial analysis?
- RQ2: How does the corporation compare to Unilever and what aspects do both companies share in similar?

Answering RQ1, it can be stated that the financial analysis revealed Procter & Gamble's overall strong and balanced business performance, with most ratios being sufficient for guaranteeing a high level of financial stability and the opportunities of subsequent business growth. Namely, Procter & Gamble has maintained steady results in terms of its liquidity and indebtedness ratios, which means that the corporation can repaid its debts to third-party creditors effectively in both the short-term and the long-term perspectives. The company's profitability has remained positive in recent years, and the steadiness of the gross profit margin suggests that Procter & Gamble has stable financial results in the long-term perspective. In terms of activity ratios, the company maintains a negative cash conversions cycle thanks to its long periods of repayment to suppliers, and this is positive in terms of the opportunities of financial maneuver. Also, the entity has maintained steadiness in terms of its capital market ratios. . While analyzing annual reports and notes it was evident that particular fluctuations of the ratios and financial indicators were caused by the ongoing business processes and financial decisions of P&G resulting into the sale of one of the department (Bauty Brands) to Coty, which led to the increase of liabilities of the company towards investors and restricted capital in the company that could not be invested into ongoing processes.

The only drawback identified through financial analysis is the company's declining accounts receivable turnover, which means that the company needs more time to return its funds from debtors. In order to have greater funds at hand, Procter & Gamble should improve its cooperation with debtors and to incite them to repay earlier. But also financial indicators show that one year after the sale of Beauty Brands the company increased its profit and started to generate more profit from business activities.

Answering RQ2, it can be stated that both Procter & Gamble and Unilever are able to perform well on their target markets, and therefore the results of the financial analysis are largely similar for the two companies. Similarly to P&G, Unilever performs well across all financial ratios, with the only negative aspect being the negative dynamics of the accounts receivable turnover. In this regards, it can be explained that The Unilever group also challenged business opportunities as entering new markets and scaling its manufacturing to other European countries.

Conclusions:

The closer comparison of the financial ratios of Procter & Gamble and Unilever revealed that P&G has higher values of liquidity ratios and indebtedness ratios, which means that the company has greater independence from third-party funding and at the same time can raise more such funding. At the same time, Unilever performs better in terms of the net profit margin, ROA, ROE, and capital market ratios such as DPS and the payout ratio. For Procter & Gamble to remain equally effective with Unilever in their business competition in the long-term perspective, the corporation should focus on improving the aspects of its financial activities outlined above.

Also, it is necessary to mention that global companies as The Unilever Group and P&G face external factors which are less probably to affect, but which are managed in terms of risk management of the companies. Those external factors are primarily foreign trade restrictions (customs fees and quotas) in many countries where both companies operate, the fluctuations of the exchange rate and tax obligations. All of these external factors influence financial indicators and financial statements of both companies.

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