Investors wonder ‘what’s next’ for P&G

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Story Highlights

- By late 2017, P&G will see worldwide employment dip below 100,000 for the first time since 2003
- The company will have 24 factories by late 2017, down from 29 now
- P&G has secured more than $20 billion in deals to sell off non-core brands
- David Taylor, 57, P&G’s head of beauty, health and grooming, is the frontrunner to succeed CEO A.G. Lafley, 68

In 11 days, Procter & Gamble CEO A.G. Lafley will face Wall Street analysts with the company’s annual results and recap his turnaround efforts.

The experts will ask “what’s next?”

After two full years back on the job, Lafley will grilled on how he’s restoring the Cincinnati-based consumer products giant. P&G remains deep in the midst of efforts to re-energize its growth, despite securing deals to shed nearly 100 slow-growing non-core brands and slashing more than 7,000 jobs,

It is also run by a corporate legend who turned 68 in June.

Lafley will provide additional detail on the latest monster $15 billion deal announced earlier this month to carve out 43 beauty brands that will merge by December 2016 with New York-based Coty Inc. He will also repeat he’s making P&G better by making it smaller: cutting brands and workers in non-core businesses that will make the company more focused, faster-growing and easier to run.

Excluding one-time items, P&G is expected to report it turned an $11.4 billion profit on sales of $76.4 billion for the fiscal year that ended June 30, according to Bloomberg. That would compare to an $11.6 billion profit on $83.1 billion in sales in the same period a year ago.

Terry Kelly, a principal with Downtown’s Bartlett & Co., believes Lafley will focus his presentation on updating restructuring efforts and managing expectations. He said the best-case scenario would be Lafley predicting specific stronger results now that the brand sales are in place.

“They’ve got a lot going on – they need to reassure stakeholders and reaffirm the company’s strategy,” Kelly said.

But analysts will listen most closely to hints of the future. Questions they have: How exactly will this Coty deal be structured? Will there be new signs that P&G's remaining business is getting traction? Are there further job cuts? How will P&G share the windfall with shareholders from all the brand-selling? Will there be an update on succession plans?

The analysts also will be listening because Lafley appears on earnings and conference call only for year-end results. His appearance on July 30 is a once a year phenomenon.

Getting back to growing the business after deals, job cuts

Just under a year after first announcing the brand-shedding campaign, Lafley has delivered on his promise to secure deals this summer to exit nearly 100 brands and pave the way for P&G to slim down to 65 core labels with stronger growth prospects.

All told, 93 brands are being sold off or jettisoned. The latest, announced July 9 is a massive carve out of more than a quarter of P&G's beauty business – including Wella and Clairol hair color, CoverGirl and Max Factor cosmetics and Hugo Boss, Gucci and Dolce & Gabbana perfumes.

The Coty deal, plus sale of Duracell and Iams and other pet food businesses alone will remove $10.1 billion in sales, 15 factories and nearly 14,000 jobs from P&G.

What remains to be worked out are the details of the Coty deal to close by December 2016. It will either be structured as a split off or spin off. Either way, P&G shareholders will wind up owners of a super-sized Coty.

Under a split, P&G shareholders would allowed to trade all, some or none of their P&G shares for new Coty shares. Under a spin-off, P&G shareholders would get new Coty shares as a form of dividend. Company executives promised more specifics late this month.

But of even greater concern is execution by P&G brands it plans to keep. Analysts don't want to see P&G's brand-shedding to distract the company from continuing to grow the core businesses.

Analysts will be listening closely for progress by P&G's core brands, such as Tide detergent, Pantene shampoo, Gillette razors and Pampers diapers.

Last year, Lafley said P&G's organic sales would have climbed 4 percent – not the 3 percent reported – had the company already divested the brands it was targeting for exit.

Sharing the wealth from deals with stockholders

All of the P&G brand sales since Lafley returned to the executive suite represent more than $20 billion in transactions. Lafley is expected to update shareholders on how he'll share that windfall with investors.

The beauty divestiture to Coty is worth $15 billion, the pending Duracell sale to Warren Buffett's Berkshire Hathaway was worth $2.9 billion and the sale of Iams and other pet brands to Mars was another $2.9 billion deal.

P&G got $2.9 billion in cash when it sold off pet care last July and has collected another $700 million in cash from other small brand sales. But the company's pending Duracell and Coty tranactions are stock deals that will indirectly enrich shareholders.

Berkshire Hathaway is paying for Duracell by tendering 53 million shares of P&G stock, eliminating 2 percent of the company's float. Removing shares from circulation increases the earning power of remaining stock, which could goose the stock price.

Shareholders may see a similar boost from the Coty deal.

P&G is still deciding how to structure the Coty transaction, but either way shareholders will see more than $10 billion worth of P&G stock retired or new Coty stock issued.

When P&G announced the Coty deal, the company also said it expects to return $70 billion to shareholders over the next four years – a figure that suggests $17.5 billion in annual divedends and stock repurchases, which would be a 35.7 percent increase over the $12.9 billion spent in fiscal year 2014.

Restructuring, production overhaul equals job cuts

Beyond the factories and jobs removed by divestitures, P&G executives have outlined plans to slash another 3,000 to 6,000 office jobs by mid 2017.

That means P&G is in the process removing about 20 percent of its workforce (23,000 to 26,000 jobs) since Lafley returned in mid 2013 and roughly 25 percent of it payroll (31,000 to 34,000 jobs) since mid 2011, just months before the company first announced its latest restructuring.

P&G's worldwide employment – between downsizing and divesting – is poised to dip to between 95,000 and 98,000 by the time the Coty deal closes.

Once the dust settles, P&G will have a head count the smallest its been since at least 2003 and possibly since 1991.

But there's still more to come.

Besides restructuring and brand sales, P&G is overhauling its factory and distribution center footprint in North America and Europe. The company is moving toward larger, more flexible factories that can produce multiple product categories.

Early this year, P&G announced construction of a mega factory that will open in 2017 in West Virginia. In spring, the company announced it would double the size of its Box Elder, Utah plant by 2018.

But P&G is also shuttering factories, too. Late last year, the company announced it would shutter by June 2016 its Augusta, Georgia plant, affecting 190 workers. This spring, P&G also said it would close an Olay plant in Cayey, Puerto Rico by spring of 2016.

P&G currently has 29 U.S. factories, but is poised to shrink that to 24, once the latest closures and the Coty deal is completed. But the factory count could get even smaller as the company adds new capacity to its production pipeline – that can replace outdated facilities that don't mesh with the new flexible plant strategy.

Similarly vulnerable is a network of 40 U.S. distribution centers that may become redundant as P&G brings online six brand-new super distribution centers – including the hulking facility in Dayton that is nearly twice the size of the Kenwood Towne Centre.

P&G has commissioned similar new shipping hubs in Atlanta, Dallas, southern California and southern Pennsylvania, while expanding an existing distribution center in suburban St. Louis.

Timing of leadership transition still murky

After four years of uneven results under Bob McDonald, Lafley was brought back as CEO in 2013 to restore investor confidence – and make tough decisions about the future. His strong tenure running the company from 2000 to 2009 gave him the credibility to formulate a plan and execute it.

But part of Lafley's mandate was also to choose a successor.

Since then, P&G officials have maintained there is no deadline for Lafley to turn over the reins to the next CEO. But in January, P&G appeared to anoint an undeclared heir apparent: David Taylor, 57, who was put in charge of more than half the company's businesses, overseeing beauty, health and grooming.

In April, the Wall Street Journal and some analysts speculated that Taylor would be made CEO as early as this summer with Lafley staying on as chairman of the board for up to two years.

Analysts were sharply divided. Some experts believed with enough brand exits in place, there might be enough turnaround progress for P&G to begin a leadership transition. But skeptics thought P&G needed to resolve more of its issues – closing brand sales and improving financial results – before breaking in a new CEO.

"I don't think they'll announce a change in leadership yet," Kelly said.