A Rising Tide is a Good Gamble

Ira Sohn Conference

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Pershing Square Capital Management, L.P.

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Procter & Gamble

P&G

Ticker: "PG"

Recent stock price: $78 (1)

Dividend yield: 3%

- **Leading global personal and household care company**
  - $84bn in revenues and $16bn in operating profit
- **Equity market capitalization of ~$230bn**
- **Enterprise valuation of ~$265bn**
- **Currently earns ~$4/share**

Pershing Square owns approximately 29 million shares

(1) Based on stock price as of May 7, 2013.

Investment Thesis

One of the great businesses of the world

Vastly under-earning relative to its intrinsic earnings power

Company taking steps to improve performance

- Stakeholders are monitoring situation closely
- Expectation, by all stakeholders, of a sustainable turnaround in the near-term

Valuation represents a very attractive risk-reward

P&G is a Great Business

P&G Operates in Highly Attractive Categories

P&G participates in very high quality consumer categories that have strong profitability, high barriers to entry, excellent global growth opportunities, and limited private label exposure

Business Quality	Category	Products	Est. Gross Margins	Private Label Exposure (US)	Commentary Growth Opportunity	
Very high	Beauty	Hair Care, Skin Care, Cosmetics, Deodorants, Personal Cleaning, Prestige Fragrance	~65%	Very Limited	Strong Emerging Markets ("EM") presence. Cosmetics category more discretionary	Personal Care
Very high	Grooming	Blades and Razors, Face and Shave Products, Electric Shavers	~60% - 65%	Very Limited	Good EM presence. Opportunity to grow Gillette "Male" category	Personal Care
Very high	Healthcare	Oral Care, Health Care, Feminine Care	55%	Limited in Oral Care, moderate in Fem Care	EM presence below company average	Personal Care
High	Fabric / Home Care	Fabric Care, Dish Care, Surface Care, Air Care, Batteries, Pet Care (1)	~47.5%	Limited to moderate	EM presence is moderate and growing	Household Care
Moderate (paper) to High (diapers)	Baby / Family Care	Baby wipes, Bath Tissue, Diapers, Facial Tissue	~40%	Moderate with highest exposure in paper products	Strong EM presence in Diapers. No presence in paper products	Household Care

(1) Pet care included in Fabric/Home Care.
Based on company reports and industry research.

...With Leading Global Consumer Brands

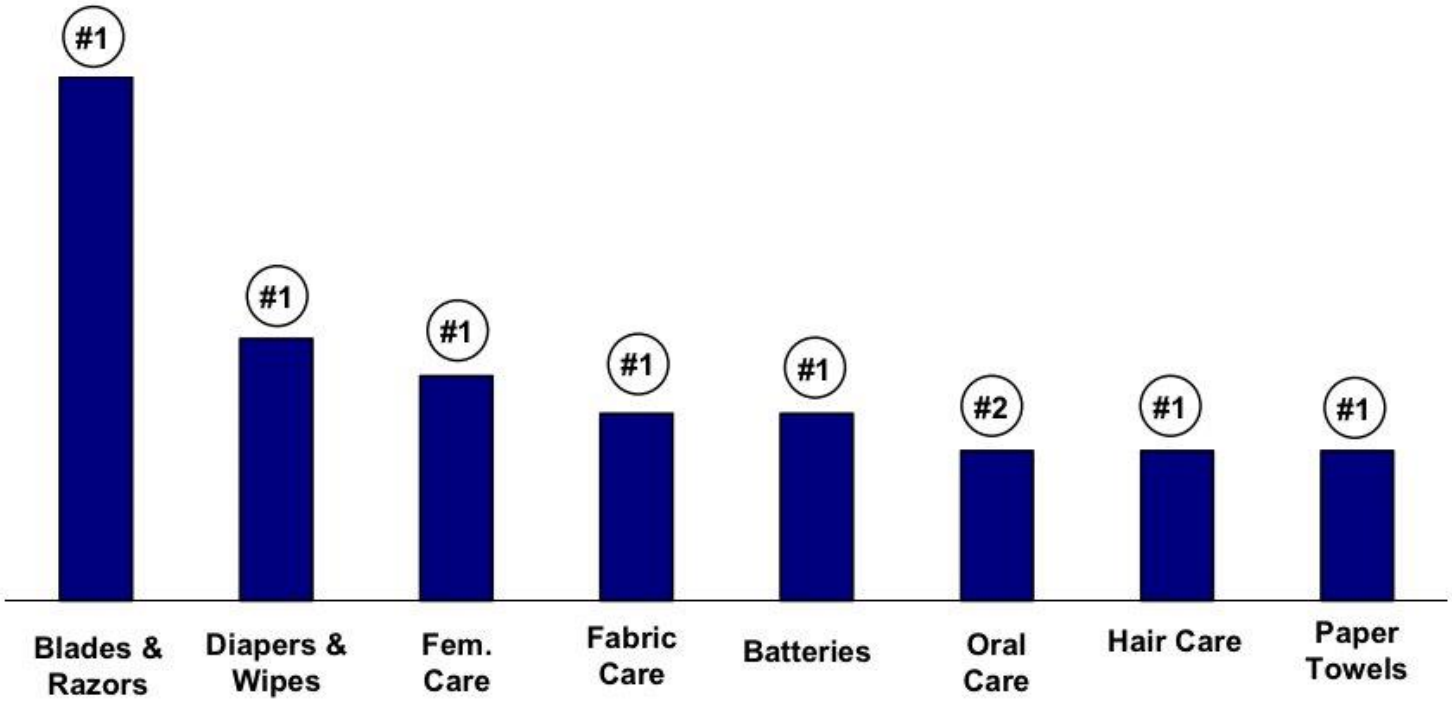
We believe P&G is uniquely positioned with 25 "billion dollar" brands. The strength, consumer appeal, and size of these brands demonstrate the scalability and growth opportunities of P&G's innovative products

<u>"Brands that win at the two moments of consumer truth"</u>

Strong Global Market Share

P&G ranks highly in global market share in most of its categories, which reflects the company's historically strong execution

Representative Market Share and Global Ranking by Category

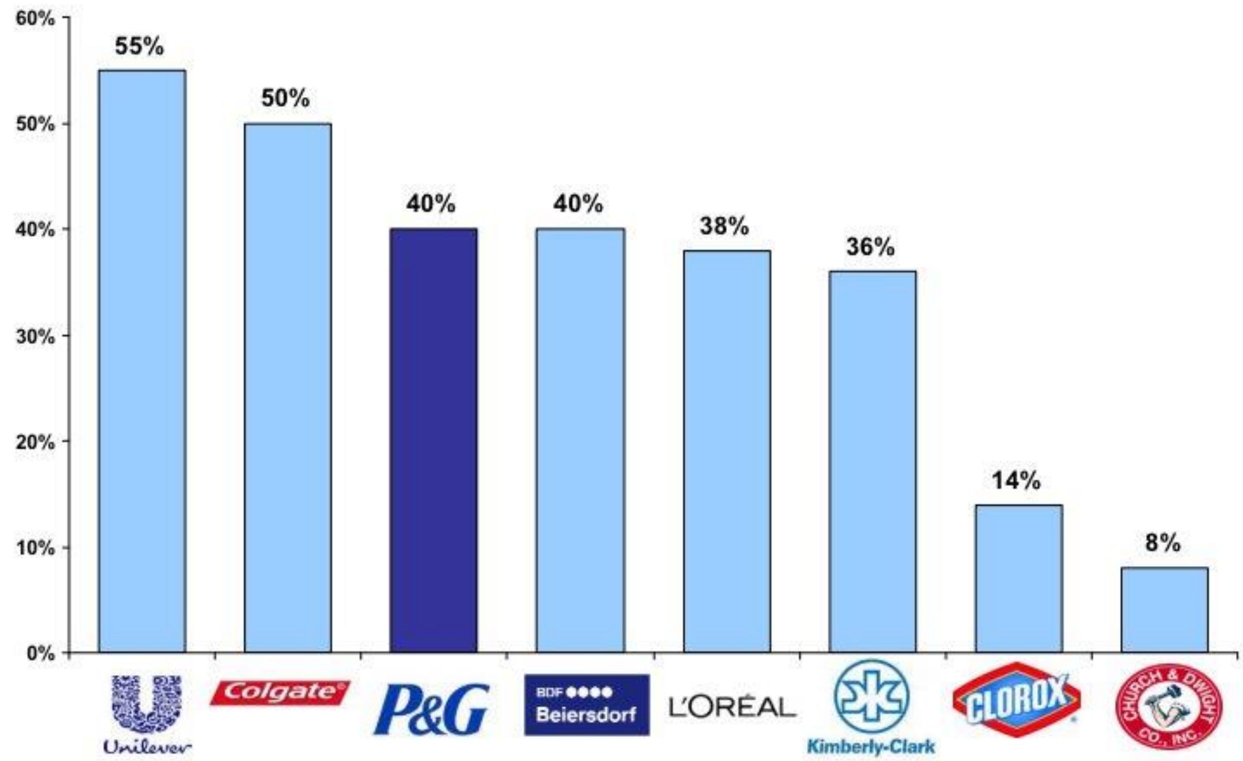


Note: Categories presented above are illustrative examples of P&G's category leadership and do not include all of P&G's categories with leading market share. Based on P&G annual reports and Wall Street research.

Attractive Emerging Markets Presence

Approximately 40% of P&G's sales are from fast growing emerging markets. In the HPC industry, only Colgate and Unilever have a materially more attractive emerging markets sales mix than P&G

Estimated Percentage of Sales from Emerging Markets [1]



(1) Source: Wall Street research and company reports. L'Oreal based on Cosmetics division.

High Caliber Talent Force

P&G's people have historically been a source of significant competitive advantage

- **Talented work force**
  - Marketing and sales
  - R&D and supply chain
- **Talent development program focused on building leaders**
  - Ex-P&G'ers are running some of the largest consumer companies in the world
- **Culture of "winning wherever it plays"**
  - By reputation, "Proctoids" are trained to win and are feared by competitors

Innovation Culture

P&G's heritage of innovation is inherent to the company's culture

- **Innovation is part of the DNA of the company**

Under-Earning Relative to Earnings Power

Why is P&G Under-Earning?

- **Bloated overhead cost structure**
  - P&G never fully integrated massive Gillette acquisition of 2005
- **Suboptimal manufacturing productivity levels**
- **Inefficient organizational design**
  - Convoluted org structure limiting company's execution and productivity
- **Emerging market regions are still building scale and require investment**
- **Marketing investments are not achieving appropriate returns**
- **Pricing in certain categories not optimized**

The good news is that most of these issues are readily fixable and that P&G's brands and products are generally in a strong position

Company Recognizes Enormous Cost Opportunity

In Feb. 2012, P&G announced a $10bn cost reduction plan to be completed fully by FYE June 2016. This plan consisted of:

- **$6bn of Productivity Savings through COGS reduction**
- **$1bn of Overhead Savings**
- **$1bn of Marketing Efficiencies**
- **$2bn Operating leverage, assuming ~5% organic growth**

What Should P&G be Earning?

Based on our view of appropriate revenue growth and operating profit margins, we believe that P&G should be earning closer to $6/share by FY June 2016 – a level more indicative of the company's true earnings power

	Current FYE June 30, 2013	FY 2016 Earnings Power Pershing Square View
(1) Organic revenue growth	3%	5%
(2) EBIT Margin	19%	~24%
(3) Earnings per share	~$4.00	~$6.00

Note: FYE June 2013 Organic revenue growth, EBIT margin and EPS is based on company guidance.

1. Organic Revenue Growth

P&G Should Generate Consistent 5% Organic Growth

Based on its (1) mix of emerging and developed market, (2) global scale and (3) significant marketing investments, we believe P&G should grow organic sales consistently at a 5% level on a long-term basis

	% of sales	Estimated Growth Low	Estimated Growth High
Developed Markets	60%	1.5%	3.5%
Emerging Markets	40%	7.5%	10%
Total Growth		~4%	~6%

Midpoint:
5% long-term organic sales growth

Our estimate of 5% organic revenue growth is consistent with P&G's longer-term historical levels and long-term targets

Comparison of Peer Company Growth Rates

Many peer companies with lower emerging markets exposure, weaker brands and/or less advantaged categories are achieving 4% - 7% organic growth rates

	Emerging Markets Mix	Brand Strength	Advantaged Categories	CY'12 Organic Sales Growth
Unilever	55%	▲▲▲▲	✓✓✓+	7%
Colgate	50%	▲▲▲▲	✓✓✓✓	6%
Beiersdorf	40%	▲▲▲▲	✓✓✓✓	5%
L'Oreal	38%	▲▲▲▲	✓✓✓✓	6%
Kimberly Clark	36%	▲▲▲	✓✓✓-	5%
Clorox	14%	▲▲▲▲	✓✓✓	4%
Church and Dwight	8%	▲▲▲	✓✓✓✓	5%
P&G	40%	▲▲▲▲	✓✓✓✓	3%

Note: Emerging markets mix is based on Wall Street research and company reports.

2. EBIT Margin

EBIT Margin Opportunity

We believe P&G should earn a 24% EBIT margin – a substantial increase in profitability from its current EBIT margin of ~19%

% of Revenue	FY 2012		Pershing View
Gross Margin	49.6 %	→	51.5 %
Less: Advertising & Other Marketing Expense	(16.5)%		(16.5)%
Less: Core SG&A Expense (ex Advertising)	(14.4)%	→	(11.0)%
EBIT Margin	18.8 %	→	24.0 %

P&G's biggest opportunities:

- ✓ Gross margin improvements
- ✓ Core SG&A efficiencies

Gross Margins – Big Structural Opportunity

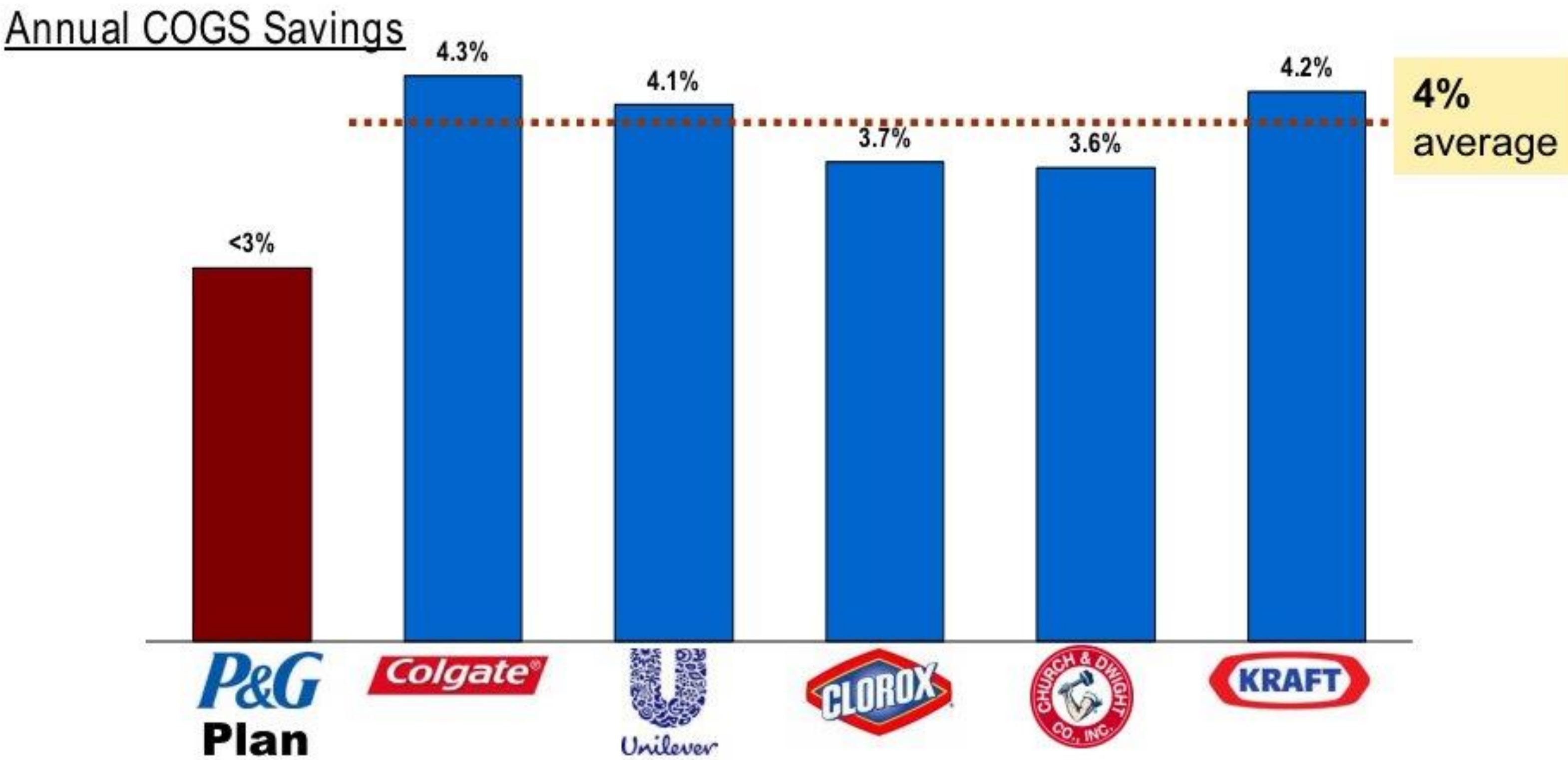
Our due diligence suggests that the underlying gross margins of P&G's categories could be as high as 54%. This analysis takes into account P&G's scale as well the premium pricing of its leading brands

P&G Segment	% of P&G Rev.	Pershing View Appropriate Gross Margin
Beauty	24%	~65%
Grooming	10%	~60% - 65%
Fabric & Home Care	32%	~47.5%
Baby & Family Care	19%	~40%
Health Care	15%	~55%
Total P&G		52% - 54%

This category-level analysis suggests that our 51.5% gross margin estimate for P&G is conservative

Gross Margins: COGS Productivity Benchmarking

P&G's $6bn of COGS reduction target from FY 2011 to 2016 translates into less than 3% annual COGS efficiency. Many CPG peers undertaking productivity initiatives have demonstrated significantly higher annual COGS productivity in the range of 3.5% to 4% (1)



Note: Based on company reports and earnings calls. Defined as annual COGS cost savings as a percentage of COGS. For CPG peers, reflects the average COGS savings achieved in 2010 and 2011.

Gross Margins – COGS Productivity at 3.5%

If P&G could achieve 3.5% annual COGS productivity over the course of its restructuring program from FY 2011 to 2016, we believe the Company would easily generate 51.5% gross margins

	Pershing View
FY 2011 Gross Margin (Start of Restructuring)	50.9 %
Plus: 3.5% Annual COGS Productivity	~750bps
Less: Reinvestment, Inflation, Negative Mix Shift	~(690)bps
FY 2016E Gross Margin	51.5 %

We estimate that P&G can utilize more than 90% of its COGS savings to reinvest in pricing, offset commodity inflation, counterbalance negative product and geographic mix and still achieve our gross margin estimate

Note: FY 2011 gross margin of 50.9% represents the fiscal year prior to P&G's restructuring program. FY 2012 gross margin of 49.6% declined 130bps from FY 2011 as the negative impact of reinvestment more than offset the positive impact of COGS productivity. Estimate of 750bps of total COGS productivity based on a 5-year total of COGS savings of more than $7.2bn and FY 2016E Revenue of $97bn.

Gross Margins – Untapped Opportunity

Previous P&G leadership believed a 52% gross margin was only the starting point for a company that had not yet reached peer levels

"We'll also continue to improve gross margins. The Company's current gross margin is about 52%. We can earn a higher total company margin by achieving best-in-class margins in more categories and business units. Based on industry benchmarking, we believe that only about half of P&G businesses have gross margins better than their competitive peer set. As we get more of our businesses to best-in-class levels, we'll increase our total company margin."

- ***A.G. Lafley,*** Former CEO
2007 Annual Report

Core SG&A Opportunity

P&G's Core SG&A Ratio (ex-Advertising and Marketing) is currently 14.4%. The company believes its Core SG&A ratio at peer levels on a category-adjusted basis would be ~14.1%

P&G's Benchmarking Analysis of Core SG&A (ex Advertising)

P&G Segment	FY 2012	% Mix	Core SG&A Benchmark	Companies
Beauty	$20bn	24 %	20 %	Beiersdorf, L'Oreal, Unilever
Grooming	$8bn	10 %	19 %	Energizer, Beiersdorf
Fabric & Home Care	$27bn	32 %	10 %	CHD, CLX, Henkel, Reckitt, Unilever
Baby & Family Care	$16bn	19 %	10 %	Kimberly-Clark, SCA
Health Care	$12bn	15 %	15 %	Colgate, Kimberly-Clark, J&J
PG Core SGA	14.4%		14.1 %	

However, this benchmarking analysis does not take into account P&G's massive scale advantage

Note: Data from P&G provided at Back to School Conference presentation, 9/6/12

Benefits of Scale to P&G's SG&A Ratios

P&G's revenue base is more than four times the size of its peer benchmark average, which should allow P&G to operate at a significantly lower Core SG&A Ratio than its peers benchmark

	Peer Benchmark Average	Pershing View Peer Benchmark at P&G's Revenue Base
FY 2012 Revenue	**$20,000**	**$84,000**
Core SG&A Expense	**$2,820**	**$9,140**
% Fixed	*30%*	
% Variable	*70%*	
Core SG&A Ratio	**14.1 %**	**~11%**

Assumes 30% of Core SG&A expense is fixed

We believe P&G's scale advantage should allow it to achieve our estimate of an 11% Core SG&A ratio

<u>Add it Up:</u> EBIT Margins Should be 24%

We believe our 24% EBIT margin estimate for P&G is very achievable

<u>% of Revenue</u>	FY 2012	Pershing View FY 2016E
Gross Margin	49.6 %	51.5 %
Less: **Advertising & Other Marketing Expense**	(16.5)%	(16.5)%
Less: **Core SG&A Expense (ex Advertising)**	(14.4)%	(11.0)%
EBIT Margin	18.8 %	24.0 %

Our EBIT margin estimate allows for:

- ✓ Substantial reinvestment opportunities (pricing, promotions, geographic expansion)
- ✓ Cushion to offset negative mix shift and commodities
- ✓ Advertising and marketing spend at the high end of category-adjusted peer average

Comparison to Colgate

We believe Colgate is the most comparable competitor to P&G based on gross margin profile, leading market share, HPC category overlap, and emerging markets mix. Given P&G's massive scale advantage, we believe P&G should at least approach Colgate's EBIT margin

	Colgate	Pershing View P&G
Gross Margin	51%	51.5%
Category Leader	✓	✓
Emerging Markets Presence	✓+	✓
EBIT Margin	~24%	~24%
Current Revenue Base	$17bn	$84bn

Note: Colgate's reported gross margin includes shipping and handling in SG&A. We have deducted shipping and handling expenses from Colgate's gross margin to conform to P&G's methodology.

Comments by Past Leadership

When P&G acquired Gillette in 2005, previous leadership believed P&G could achieve a 24% EBIT margin. We still believe P&G can approach that profitability level under strong leadership

"Based on the synergy plan, we are confident that the combined entity will generate about a 24% operating margin by the end of this decade versus the 18.5% P&G delivered in fiscal 2004-5."

A.G. Lafley, CEO
Gillette M&A Presentation
10/3/05

3. True Earnings Power

True Earnings Power

If P&G can grow its top-line annually by 5% and achieve a 24% EBIT margin by FY 2016, it can generate $6 of earnings per share

$ in Billions, except per share data	June 30 FY 2013E	June 30 FY 2016E
Revenue	**$83.9**	**$97.2**
'13E-'16E CAGR		*5 %*
EBIT	**$15.9**	**$23.3**
Margin	*18.9 %*	*24.0 %*
EPS	**$4.00**	**$6.00**

Note: FY ends June 30. EPS is based on P&G's definition of Core EPS, which excludes certain non-recurring items. Assumes share repurchases reduce diluted share count by 2% annually.

Our Engagement with P&G

Pershing Square's Engagement with P&G

Since our investment became public in July 2012, we have shared our perspectives with P&G's management and board on:

- P&G's underwhelming performance under current leadership
- Increasing overhead cost savings goals above 2012 plan
- Increasing productivity goals above 2012 plan
- Organizational design and alignment
- Succession and accountability
- Share repurchase activity
- Separation of Chairman/CEO roles

CEO McDonald Has Been Distracted by Outside Interests

Prior to our discussions with P&G, Mr. McDonald was a member of at least 21 outside organizations, which we believe required him to commit 50 or more business days per year

#	Organization	Role(s)	Location	# of Meetings / Year (1)
1	**Xerox Corporation**			
	Board of Directors	Member	Norwalk, CT	7 (2)
	Audit Committee	Member	Norwalk, CT	12
	Compensation Committee	Member	Norwalk, CT	4
2	**US-China Business Council**	Chair	Washington, DC / China	7 (8 days)
3	**Business Roundtable**	Vice Chair / Chair	Washington, DC	4
	Executive Committee	Vice Chair	Washington, DC	?
	Tax and Fiscal Policy Committee	Chair	Washington, DC	?
4	**Consumer Goods Forum**	Member / Committee Co-Sponsor	Tokyo, Paris, Washington, DC	3 (8 days)
5	**Fuqua School of Business**	Exec Committee Member / Chair of Board of Visitors	Durham, NC	At least 2
6	**China-US Exchange Foundation's Research Project**	Steering Committee Member	Beijing, China / Washington, DC	2
7	**Catalyst Board of Directors**	Member	New York, NY	1 (2 days)
8	**Foreign Investment Advisory Council in Russia**	Member	Moscow, Russia	1
9	**International Business Leaders Advisory Council of Beijing**	Member	Beijing, China	1
10	**Singapore Economic Development Board, International Advisory Council**	Member	Singapore	1 (3 days)
11	**United Negro College Fund Board of Directors**	Member	New York, NY	?
12	**US Advisory Committee for Trade Policy and Negotiations (ACTPN)**	Member	Washington, DC	1
13	**US Council for International Business Board of Trustees**	Member	New York, NY	1
14	**Advanced Manufacturing Partnership**	Steering Committee Member	Washington, DC	?
15	**Cincinnati Business Committee (Executive Committee / Innovation Task Force)**	Member / Co-Chair	Cincinnati, OH	?
16	**McKinsey Advisory Council**	Member	New York, NY	?
17	**Northwestern University – Journal of Integrated Marketing Communications**	Advisory Board Member	Evanston, IL	?
18	**Ohio Business Roundtable**	Member	Columbus, OH	?
19	**The University of Utah Eccles School of Business**	Advisory Board Member	Salt Lake City, UT	?
20	**US-Philippines Society Board**	Member	Washington, DC	?
21	**West Point Military Academy**	Member	West Point, NY & New York, NY	?

(1) "?" indicates number of meetings per year not available
(2) Includes 6 Board of Director Meetings per year and the Annual Meeting of Shareholders
Note: Obligations per year refer to # of meetings; 48 obligations per year. For obligations where # of meetings is unknown, the organization's headquarters is listed for location
Source: Bob McDonald's biography per Procter & Gamble website, Organization websites

P&G Has Recently Taken Encouraging Steps

Issue	P&G's Positive Steps
Bloated overhead costs	■ Feb. 2012: Announces a 5-year restructuring program that included ~$1bn of overhead savings ■ Jan. 2013: Announces an effective $1bn of incremental overhead savings
Low gross margins	■ Feb. 2012: Announces $6bn of gross margin saving ■ April 2013: Reveals higher GM savings targets for 2014
Organizational structure	■ Nov. 2012: Appoints an executive to oversee the Transformation of Organization ■ Creates a council of senior leaders to help execute productivity and organizational changes
Innovation (Beauty category in particular)	■ Fall 2012: Reveals strong pipeline of innovation particularly in ailing Beauty category

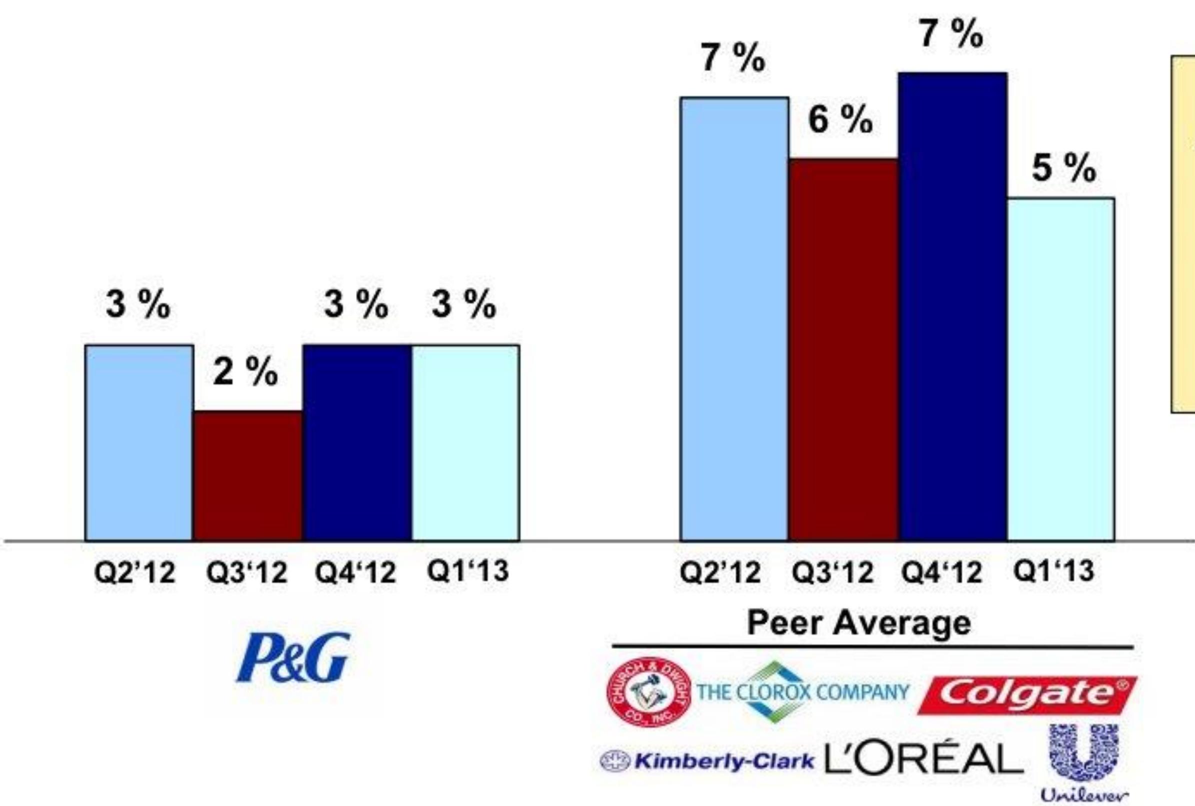
P&G is Showing Some Initial Progress...

- **Improved U.S. market performance after very weak results last year**
  - Currently ~65% of U.S. portfolio is gaining or holding share, up from 15% in June 2012
  - Strong pricing interventions and improving innovation helping U.S. share position
- **Good execution of cost savings program**
  - COGS productivity and SGA savings being achieved ahead of plan
  - However, reinvestment and the cost of geographic expansion has not allowed for material margin improvement
- **Strong capital allocation and good free cash flow productivity**
  - Repurchasing approximately $6 billion of stock this year
  - Converting ~90% of net earnings to free cash flow

...But Results Are Still Lagging Peers

P&G's organic growth has consistently underperformed its peers' growth rates in each of the last four quarters

CY Quarterly Organic Revenue Growth for the Prior 4 Quarters



P&G Performance Gap	
Q2 '12:	(4)%
Q3 '12:	(4)%
Q4 '12:	(4)%
Q1 '13:	(2)%

Note: Quarters based on calendar year. Kimberly-Clark based on Personal Care segment, and Unilever based on Personal Care and Home Care segments.

Shareholders Are Monitoring the Situation Closely

- **All stakeholders (Management, Board, and Shareholders) are expecting improved results over the course of the current year**
- **The <u>next two - three quarters</u> are critical to demonstrate current leadership has the abilities to turn the company around**
- **We believe key milestones to demonstrate a sustainable turnaround are:**
  - ✓ Approaching 5% top line growth
  - ✓ Improvement in Global Market Share (trends still remain negative)
  - ✓ Margin improvement through productivity, levering strong EPS growth
  - ✓ Improved organizational design

Management is Confident in Improving Results

"I'm very confident in our sequential improvement in market share driven by innovation. I would differ with your characterization [of P&G not achieving material market share improvement]. I think we've made substantial progress in increasing the percent of our business growing market share. And I think that ties pretty directly to the innovations you've seen....We are continuing to invest in innovation. We've increased the spending on research and development the past three years and we're going to continue to make sure that we're building the capability to keep that innovation going. And the results in the marketplace are demonstrating that we're executing with excellence today, more so perhaps than the previous period you were talking about. So I'm confident we're going to continue this sequential improvement and you'll see it in the [market] sharing, you'll see it in the top line."

Bob McDonald, CEO
Earnings conference call, **4/24/13**

Leadership Must Be Held Accountable

"As we get larger and larger, and as we work to make the company operate like it's smaller, developing a culture of taking personal responsibility for the execution that occurs is critically important. And that's what we're doing right now. We're emphasizing that culture. I won't say it didn't exist before. But we're emphasizing that as we get smaller, and as we behave like a smaller company, taking that personal responsibility and having that personal accountability for excellence and execution becomes absolutely critical."

Bob McDonald, CEO
2/18/2012

Highly Attractive Risk / Reward

Intrinsic Value is $125/share in Two Years

If P&G can achieve its underlying earnings potential of $6/share by FY 2016, P&G would be worth $125 per share in approximately two years, including dividends

FY 2016E EPS	**$6.00**
P/E Multiple	20.0 x
June 2015 Value per Share	**$120**
Plus: FY 2014 to 2015 Dividends	5
June 2015 Total Value per Share	**$125**
Premium to Current Stock Price	**60 %**

At a $125 value per share in two years, P&G's stock price would generate a 26% compound annual return for shareholders

Note: FY ends June 30. Assumes $2.40 of annual dividends for two years. Based on recent stock price of $78.

Valuation: Limited Downside

At the current price of $78/share, we believe P&G's stock has very limited downside as it trades at only 18.8x its current level of <u>depressed</u> earnings and has a dividend yield of 3%

CY 2013 P/E:
18.8x

P&G

$78/share

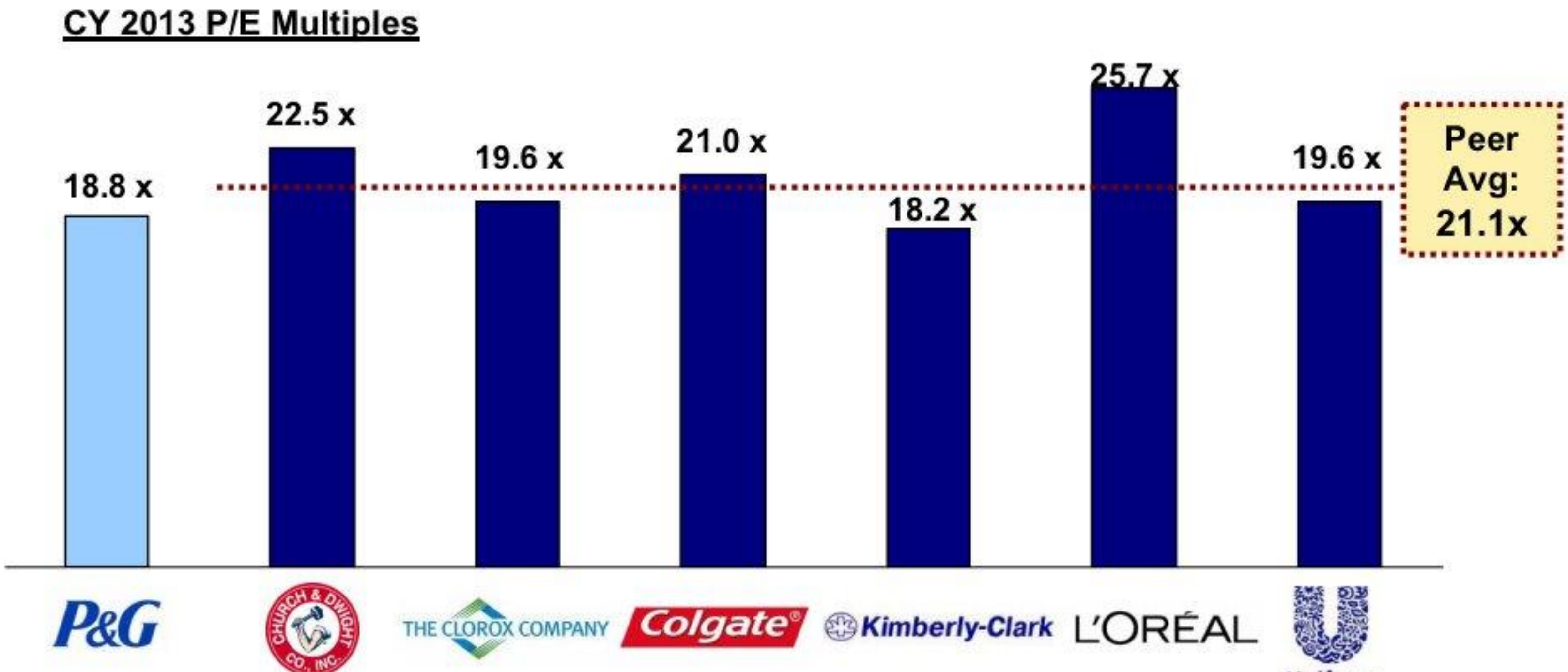
Div yield: 3%

- **P&G's current valuation does not fully reflect its:**
  - ✓ **Ownership of many of the best brands in the industry**
  - ✓ **Portfolio of highly attractive categories**
  - ✓ **Leading market shares**
  - ✓ **Strong footprint in emerging markets**
  - ✓ **Strong level of advertising spend**
  - ✓ **Shareholder-friendly capital allocation**
  - ✓ **<u>Strongest margin opportunity in the industry</u>**
    (excluding public, family-controlled HPC companies)

Note: CY 2013E EPS per CapIQ.

Valuation: Limited Downside

Even if P&G is unable to achieve its underlying earnings potential, we believe there is little downside in the stock as it trades at a discount to peers, despite having the largest cost opportunity in the sector



Note: CY 2013E EPS per CapIQ.

Further Downside Protection in Board's Posture

- **P&G's board of directors' public statements suggest that they are watching the situation closely**
- **If P&G's leadership executes, all key constituents will be rewarded immensely**
- **If P&G's current CEO cannot demonstrate a sustainable turnaround in the near term, we believe the Board will do the right thing and put in place new leadership**
  - Would mark more than four years of continuous underperformance relative to peers
  - Several outstanding CEO candidates inside P&G
  - Several exceptional external CEO candidates as well