2 December 2013 | 48 pages

Global

Head-to-Head: PG vs. Unilever

Lafley 2.0 Drives Our Preference for PG as Unilever Wobbles

- **Head-to-Head: PG vs. Unilever** — This is the latest report in a series from Citi Research comparing major sector players. Herein, we provide a Head-to-Head analysis of PG and Unilever, on the basis of positioning, execution, prospects and valuation.

- **And the Winner Is...** — On the face of it, regional, category and valuation metrics identify Unilever as the better-placed company today. We attribute Unilever's strength to its significant structural and operational changes over the past five years. However, looking forward, given the current resurgence we perceive to be underway at PG, combined with Unilever's recent execution wobbles (following a very significant re-rating), we prefer PG to Unilever in this Head-to-Head.

- **PG Investment Case** — We have a Buy rating on PG on the basis that EPS growth should accelerate in coming years, owing to (i) a robust innovation pipeline across multiple categories and multiple price points, (ii) a far-reaching restructuring / cost savings program and (iii) a nearing inflection point in emerging markets, as investments made over the last few years, coupled with growing volume leverage, should lead to stronger profit contribution.

- **Unilever Investment Case** — We have a Neutral rating on Unilever on the basis that growth in its HPC business is likely to moderate as its (EM-oriented) end markets slow and its "white space" opportunities diminish and we think it is unlikely that its Food business, which we view as structurally challenged, can rally to fill the growth gap.

Wendy Nicholson
+1-212-816-8216
wendy.nicholson@citi.com

Toby McCullagh
+44-20-7986-4125
toby.mccullagh@citi.com

Robert Dickinson, CA
+44-20-7986-4431
robert.dickinson@citi.com

Beth N Kite
beth.n.kite@citi.com

Ravi Sharma
ravi3.sharma@citi.com

Tuknekah Noble
tuknekah.noble@citi.com

Other Head-to-Head Reports

Head-to-Head: Transocean vs. Seadrill
Head-to-Head: POSCO vs NSSM
Head-to-Head: Kingfisher vs Home Depot
Head-to-Head: Toyota vs. Volkswagen

PG vs. Unilever: Executive Summary

PG and Unilever are two of the world's largest and best known consumer products companies and their brands are found in most of the world's households. Whilst the evidence suggests that Unilever should be the winner in a straight head-to-head, we contend that PG has the greater unrealized potential, especially as it is reinvigorated under the return of A.G. Lafley for a second term. Indeed, we believe Unilever's strengths are well recognized and we fear that three consecutive misses and a warning in 2013 show that the company isn't nearly the finished article that bulls would believe.

In this report, we take a look at the following key differentiators, and derive the following conclusions:

- **Evolution of Strategy (page 4):** Over the past decade or so, both PG and Unilever have undertaken some very significant strategic overhauls as they have both variously struggled to deliver strong and consistent profitable growth.
- **Category Exposure (page 9):** PG is a pure HPC player, while Unilever derives ~53% of its revenues from HPC. Interestingly, however, our analysis suggest that in terms of direct "head-to-head" competition, there are fewer than 10 material country/category combinations where PG and Unilever both strive to succeed (we identify these in Figure 25 on page 17 of this report).
- **Regional Exposure (page 10):** While PG derives nearly 40% of its revenues from emerging markets (EMs), Unilever is far more exposed to the faster-growth EMs, with ~65% of its HPC business in EMs. That said, in dollar terms, PG generates ~$33 billion in EM revenues, while Unilever's HPC business generates ~$23 billion in EM revenues. However, given that PG has only in recent years truly focused on growth in EMs, coupled with Unilever benefitting from the scale that its Foods business brings to the company in some EMs, we believe Unilever's EM business is far more profitable than PG's is today.
- **Organic Growth Rates (page 25):** Over the last five years, Unilever has posted a CAGR of 5.7% organic sales growth (7.4% for its HPC business), far better than the 3.2% seen for PG over this time period.
- **Investment Spending (page 28):** Interestingly, despite Unilever's large Foods business, where advertising spending is generally less as a percentage of sales when compared to the HPC categories, Unilever has consistently spent ~200+ bps more on advertising than PG.
- **Margins (page 30):** PG bests Unilever in this regard, likely owing to its business mix and scale, and its mix towards more developed markets where premium-priced products fare well. Specifically, PG operates with a ~19% Core operating margin, while Unilever operates in its HPC segment with a ~13% operating margin (~16% in Personal Care but only ~6% in Home Care).
- **Uses of Cash (page 34):** While both companies pay a dividend, only PG also returns capital to shareholders via a share repurchase program. Unilever has allocated a lot more of its cash flow to M&A activity when compared to PG over the last decade.
- **Valuation (page 40):** Today, on a year-forward calendar EPS basis, PG trades at ~19.0x while Unilever trades at ~17.5x. Given our belief that accelerating growth stories can command expanding multiples, we believe that PG's valuation multiple has room to shift upwards (to 21x, where several of PG's peers are already trading). On the other hand, with further downside risk to Unilever's near-term earnings estimates, we see no basis for further multiple expansion and see the shares as fully valued.

Figure 1. Financial Summary Head-to-Head

Historical (last 5 years)	PG			Unilever		
Total Sales (most recent FY)			**$84.2 billion**			**$51.3 billion**
Organic Volume Growth (Average) *PG FY08-FY13; UNA-2007-2012*		**1.8%**	Organic volume growth of 1.8% includes rather varied data, from -2% in 2009 to +5% in 2011.	✓	**2.6%**	Organic volume average growth of 2.6% driven primarily by HPC (CAGR >5%) and higher growth from emerging markets (~6% in last five years).
Organic Sales Growth (Average) *PG FY08-FY13; UNA-2007-2012*		**3.2%**	Organic sales growth of 3.2% includes a low single-digit contribution from price, though mix has primarily been a drag to sales.	✓	**5.7%**	Sales growth driven by HPC businesses (Personal Care +9% and Home Care +7%) and higher growth from EMs (~10% in last five years).
Reported Sales Growth CAGR *PG FY08-FY13; UNA-2007-2012*		**1.2%**	Sales growth has been relatively flat, as organic sales growth has been relatively muted, PG's sold a few businesses and f/x has been volatile.	✓	**5.0%**	Average organic volume growth of 2.6% and pricing of 2.9%.
Adjusted EBIT Margin *PG FY13; UNA 2012*	✓	**18.9%**	Greater exposure vs. Unilever to more "growthy" categories, as well as PG's more premium-priced portfolio, results in a higher operating margin.		**13.8%**	Higher Foods and Personal Care margins held back by Refreshment and, in particular, very low margins in Home Care. DM 14.3% / EM 13.3%.
Adjusted EBIT Margin Change (bps) *PG FY08-FY13; UNA-2007-2012*		**-130 bps**	Margin contraction of 130 bps in last five years is in large part a function of aggressive global expansion.	✓	**70 bps**	Overhead reduction of ~420bps and slightly lower A&P as % of sales (~30bps) undermined by gross margin reduction of ~400bps.
EPS CAGR *PG FY08-FY13; UNA-2007-2012*		**3.6%**	Global expansion and weaker results of late in the U.S. have pressured EPS.	✓	**6.2%**	Good organic growth and margin expansion offset by various non-operating items.
DPS CAGR *PG FY08-FY13; UNA-2007-2012*	✓	**9.5%**	PG has maintained a strong dividend despite EPS pressure.		**5.3%**	Unilever has shifted to a quarterly dividend and has one of the higher payout ratios in the sector.
Annual Buyback as % of Market Cap	✓	**3.5%**	Buybacks are an important way for PG to return cash to shareholders.		**0.0%**	Unilever has not had a buyback program in place since 2008.
Total Annual Shareholder Return		**8.9%**	Weaker-than-expected EPS growth has pressured TSR, despite healthy dividend levels.	✓	**13.8%**	Double-digit shareholder return on re-rating driven by improved top-line execution and greater focus on HPC / EM attributes.
Forecasts (next 3 years)						
Organic Sales Growth CAGR *PG FY13-FY16: UNA-2012-2015*		**3.4%**	PG generally expects to grow its top line in line with category growth rates of 3%-4%.	✓	**4.8%**	UVG of 2.5%pa, in line with 2007-12 and pricing +2.1% per yearon lower Food contribution to the mix and more benign commodities.
Adjusted Annual EBIT Margin Change (bps) *PG FY13-FY16: UNA-2012-2015*	✓	**50 bps**	Gains from $10 billion restructuring program.		**20 bps**	Focus on sustainable (gradual) margin expansion.
EPS CAGR *PG FY13-FY16: UNA-2012-2015*	✓	**7.3%**	PG intends to deliver HSD% EPS growth, owing to LSD% sales growth, margin expansion and non-operating benefits. Stronger global category growth could lead to upside to our estimates.		**4.6%**	Absent more aggressive use of the balance sheet, we expect Unilever to deliver MSD% EPS growth.
DPS CAGR *PG FY13-FY16: UNA-2012-2015*	✓	**7.0%**	DPS should grow in line with long-term EPS growth target of HSD.		**5.7%**	As its sole means of returning cash to sharholders, we expect a progressive dividend policy.
Geographic Sales						
Emerging Market Exposure *PG FY13 / UNA FY13*		**39%**	Greater China is PG's largest EM, accounting for 8% of sales.	✓	**55%**	Brazil is Unilever's largest EM, accounting for 7% of group sales, with India at ~6% of group sales.
Developed Market Exposure *PG FY13 / UNA FY13*	✓	**61%**	PG's biggest DM business is in the U.S., which represents ~36% of sales.		**45%**	Unilever's biggest DM business is in the U.S., which represents ~15% of sales.
Valuation						
Current PE *1 Yr Forward Consensus*		**18.9**	Stock is roughly in line with the average of the U.S. peer group.	✓	**17.5**	Stock is trading broadly in line with primary EU Food peers, but at a discount to EU HPC peers.
Current to Average *Current PE*	✓	**8%**	PG is trading moderately above its long-term average forward P/E ratio.		**21%**	Unilever is trading more than 1STD above its long-term average forward P/E ratio.
EV/EBITDA *2014 calendaried (Citi)*		**12.6**	Stock is trading above its U.S. HPC peers.	✓	**11.5**	Stock is trading broadly in line with primary EU Food peers, but at a discount to EU HPC peers.
Dividend Yield *2014 calendaried (Citi)*		**2.8%**	One of the higher dividend yields in the U.S. HPC peer group.	✓	**3.6%**	One of the higher dividend yields in the EU Food peer group and well above most EU HPC companies.
Free Cash Flow Yield *2014 calendaried (Citi)*		**4.6%**	One of the lower free cash flow yields in the U.S. HPC peer group.	✓	**5.6%**	One of the highest free cash flow yields in the EU Food / HPC peer group.

Source: Company Reports and Citi Research

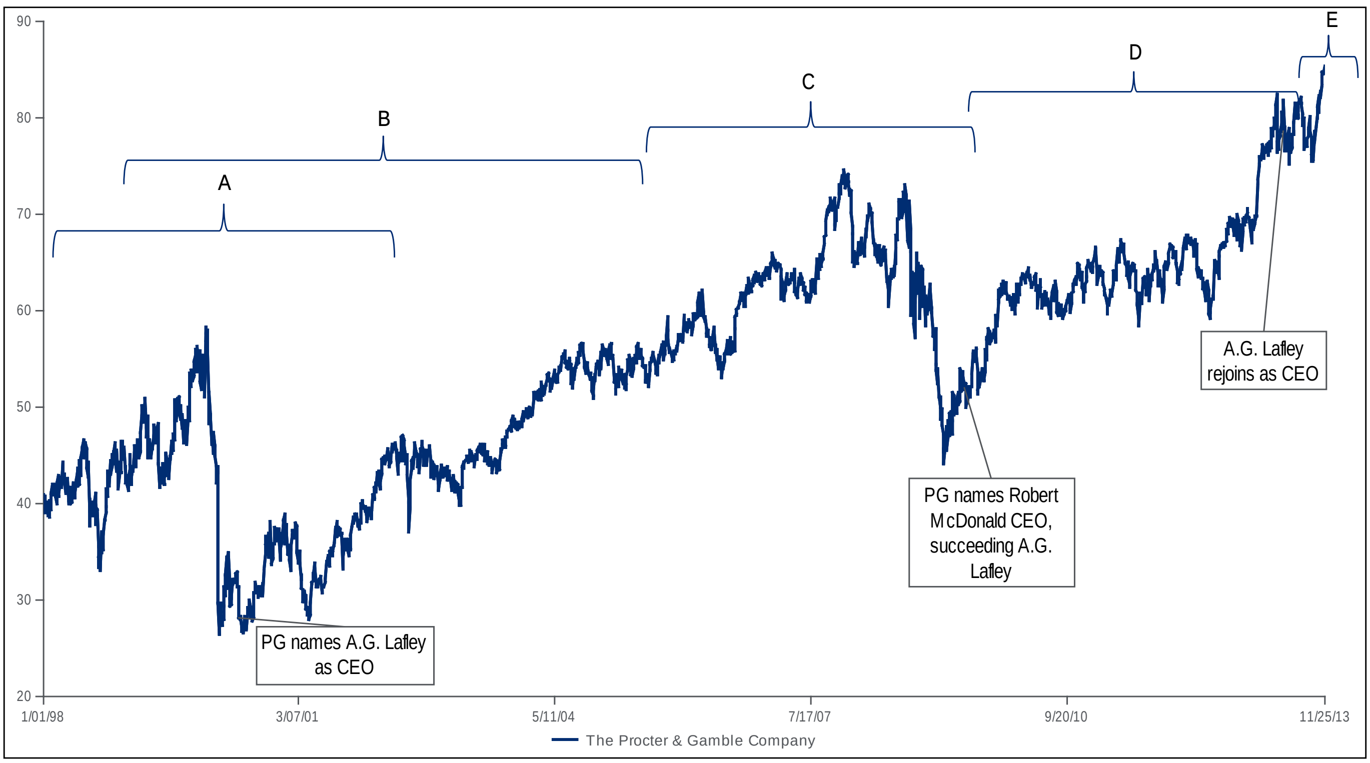
In the following figures of this note, the data is fiscal year data for each of PG and Unilever, unless specified otherwise.

Head-to-Head: In Terms of Strategy, Both Companies Have Similar Long-Term Goals

PG – The Evolution Continues

Since 1998 (when we initiated coverage of the stock), PG has changed a lot as a company—in terms of both size (revenues and earnings) and breadth (product categories and geographic footprint). And, while we can't say that PG's underlying strategy has changed all that much—it's always been to serve more consumers more completely in more parts of the world—the specific tactics which the company has employed to execute against that strategy have evolved. We attribute part of this evolution of the company to the CEO changes that we have seen at PG over the last 15 years.

Figure 2. While There Have Been a Few (Big) Bumps in the Road, We Believe PG's Evolution Has Generally Been a Successful One



Source: FactSet and Citi Research

Our take on the various "life stages" of PG from 1998-2013 is as follows:

A. **The "Organization 2005" Years:** In 1998, PG embarked upon its "Organization 2005" program, which was designed principally to reorient the company from a regional market focus to a more globally managed enterprise. By doing this, PG hoped to accelerate its rate of top line growth. As the underpinning of this strategy, PG established the GBU/MDO structure (global business unit/market development organization) and in doing so, the company shifted considerable resources to new positions. While this period of transition led to significant internal upheaval (which contributed to the surprise replacement of Durk Jager with A.G. Lafley as PG's CEO in mid-2000), we think the structural framework of Organization 2005 has been a key pillar to

PG's success over the last decade. We note that this period was also one of generally strong innovation for PG—marked by the launches of Swiffer and Febreze, both of which have grown to be large global brands for PG.

B. **The "Acquire and Price to Grow" Years:** During the years 1999-2005, PG embarked upon an aggressive acquisition strategy, as it bought: Iams in 1999 for $2.3 billion, Clairol in 2001 for $4.9 billion, Wella in 2003 for $5.3 billion, and Gillette in 2005 for $53.8 billion. While in hindsight, it seems that PG paid a full price for each of these businesses, and in some cases we argue that perhaps PG overpaid, nonetheless, we believe that each of these acquisitions has generally been successful for PG in terms of expanding the company's reach into new product or new market segments. Indeed, even while we'd consider Iams to be potentially strategically non-core to PG's business today, we believe that given the significant distribution expansion for the brand that PG was able to effect soon after it acquired the business, this transaction has likely nonetheless been a successful one from a financial perspective. We note that in addition to sizeable M&A activity during these years, then-CEO A.G. Lafley drove strong organic growth at PG, most notably in the Beauty segment, most notably owing to the globally-successful restage of the Olay brand. Of note, during this period, most of PG's successful innovations came at premium-price points. Indeed, while PG has long been good at "tiering" its prices in emerging markets to appeal to different consumers, in developed markets, PG evolved during these years to sell a substantially higher-end portfolio of products. While this strategy boosted both PG's top line (through positive price/mix) and its profit margins, we think it ended up leaving PG in a somewhat vulnerable position as the developed market economies of the U.S. and Western Europe began to slow later in the decade and consumers sought more value for their dollars.

C. **The "PG Catches a Breath (and Maybe Falls Asleep?)" Years:** Post the acquisition of Gillette in 2005, it seemed to us as if PG entered into a period of consolidation of sorts—where it paused to digest its recent big acquisitions, its major cost cutting efforts were behind the company and its pipeline of new product innovations seemed a bit dry. While there were considerable successes during these years (notably, PG's investment spending and subsequent growth in China far outpaced its peers), we still characterize these years as ones where PG lost momentum and, in some respects, let its competitors catch up (especially in skin care and hair care, in developed markets). Of note, one targeted area for improvement during these years was gross margin, which Lafley cited as a specific priority for the company in 2007, though which failed to improve much under his tenure. In general, it has oft been said that post the transformational acquisition of Gillette, PG underwent a period of insufficient focus from top management and indeed, when PG announced in Spring 2009 that Bob McDonald would replace A.G. Lafley as CEO, we think many investors were eager for a fresh face and fresh energy that could perhaps reinvigorate the PG growth story.

D. **The "Bite Off More Than You Can Chew" Years:** While investors seemed excited at first for a new CEO at PG, we think that in many respects, Bob McDonald assumed the leadership spot at the company at the worst possible time. Quite simply, while A.G. Lafley had "delivered the decade" in effect by buying companies and generating cost savings through the integration of acquired assets, Bob McDonald was left to forge a new growth path for the company that would not center on M&A. Indeed, with PG's global portfolio of brands and businesses now far larger than any of its peers, such that anti-trust concerns would likely prevent any further larger scale M&A, we think

McDonald was left to find new paths to grow. And, given that emerging markets represented only 30% of PG sales in FY09 (far lower than the % of sales generated in EMs at many of PG's largest and best competitors), it made sense to us that McDonald would set as his priority outsized growth for PG in EMs. As a result, PG embarked upon an aggressive story of investment in EMs (both cap ex and new brands in new markets, e.g., oral care in Brazil, some of which in the past had been termed "walled cities" that PG pledged to never enter). While we think McDonald was dead right in his assessment that PG was under-indexed in EMs, and we laud his bold moves to expand PG's footprint in those markets, it nonetheless ended up being terrible timing for such a strategy. Not only were EM stalwarts of Unilever and CL operating at a very strong level such that they mounted perhaps more successful defense strategies than PG had anticipated, but in addition, PG's home market of the U.S. slowed significantly given the deteriorating macro backdrop. Poor volume growth drove negative operating leverage, which led to fewer funds available to invest both in the U.S. and overseas, which led to a sharp deterioration in PG's market share momentum. During this time, the level of management turnover at PG (mostly at the GBU-head or MDO-head levels) was as disturbing as we've ever seen at any company we've covered (McDonald told us that for one reason or another, more than two-thirds of his senior management had turned over in the first three years of his being CEO; we did not consider this to be a good thing). PG announced a major new restructuring program in early calendar 2012 that was designed to free up costs such that PG could maintain its high level of investment spending in EMs, while at the same time improving overall profit margins and in turn, shareholder returns. However, in some respects, perhaps this was too little, too late, and, overall, McDonald's tenure as CEO of PG became marked by too many moments of "over-promising and under-delivering."

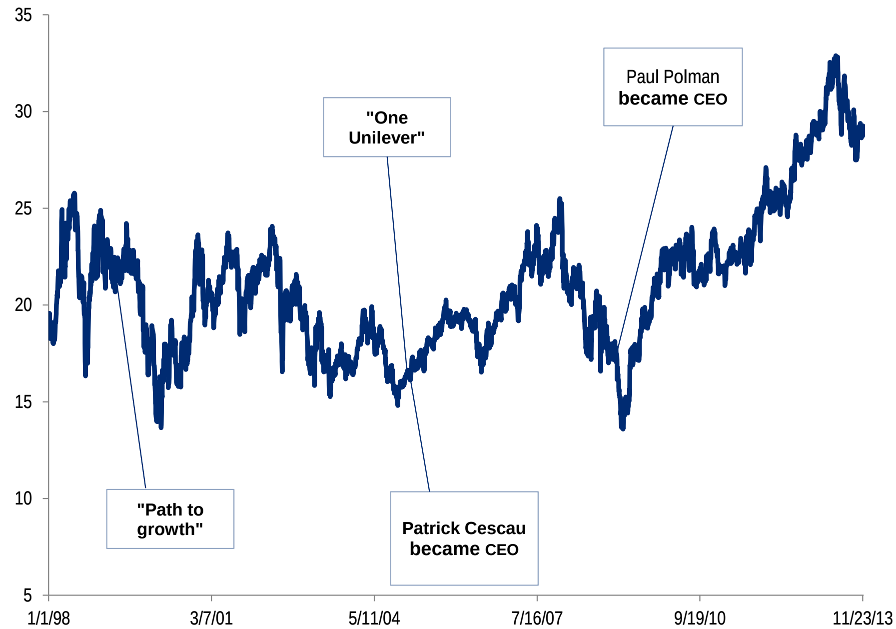
E. **The "Lafley 2.0" Years:** A.G. Lafley came back to PG in May 2013 to re-assume the position of CEO, which position we expect him to keep for a period of 3-5 years. We think this is a great time for Lafley to return—as we believe he is exactly what the company needs right now. He represents a stable cultural influence (which PG lacked during the years of heavy senior executive turnover under McDonald) and he instills confidence among many constituents in PG's execution-ability. We think the years of big M&A are behind PG, such that major acquisitions should not serve as a distraction to the company, and if anything, we think PG may move to shed some businesses that are dragging down its overall growth rates. We think the company's cost savings program is in full swing (perhaps with more supply chain refinements to come) and we think the focus on free cash flow productivity is as sharp as it's ever been. The innovation pipeline seems to be relatively full (though we await some more news from the Beauty segment here) and the EM expansion strategy seems to be past the worst of its period of profit margin dilution (as markets such as Brazil are bringing lower-cost local manufacturing on-line and as overall volume levels generated in certain markets should start to yield favorable operating leverage).

Overall, we believe that PG is in as good a shape right now from a strategic, management and cost structure perspective as we have seen in a long time.

Unilever – Creating "The Unilever Model"?

Over the past fifteen years, the change at Unilever has been equally dramatic in terms of the development of its product portfolio, although, similar to PG, the core of the strategy arguably hasn't changed that much. However, in pursuit of growth, there have been plenty of "initiatives" put in place.

Figure 3. After a Decade Going Sideways, Unilever Rallied Hard, Until the Recent Wobble



Source: DataStream and Citi Research

We view some of the key "life stages" of Unilever since the turn of the century as follows:

A. **The "Path to Growth" Years:** In 1999, Unilever launched its "Path to Growth" strategy, with the aim of driving a step-change in volume growth, which had averaged ~2.5% per year for most of the previous two decades. According to former CEO Patrick Cescau, Path to Growth delivered many things, including better brand focus, improved global buying practices, margin improvement and better capital efficiency, but "it failed to transform our growth performance" and group revenues in 2004 of €40.3 billion compared with €40.6 billion in 1998, just before the launch of Path to Growth, reflecting ~2.5% annual organic sales growth over the period.

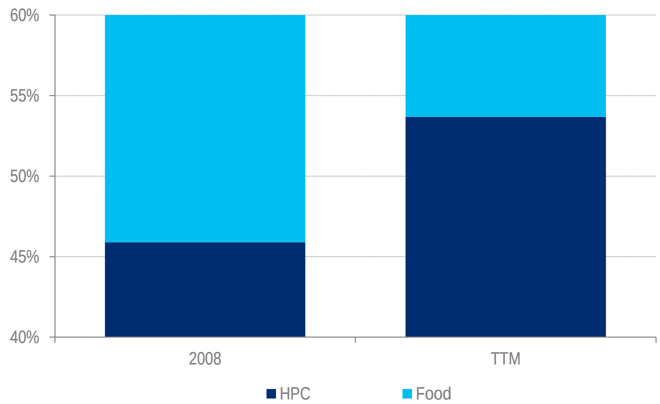
B. **The "One Unilever" Years:** Following his appointment as CEO, Patrick Cescau noted that although Unilever's highly de-centralized, highly distributed, highly autonomous had been the appropriate structure in the company's formative years, it was much less suited to the highly connected, truly global competitive landscape of the 2000s and a period of far greater centralization followed, during which the distributed businesses developed a much more centralized and consistent innovation and product development process and go to market approach.

C. **Polman, The Compass and Even "The Unilever Model"?:** Paul Polman joined Unilever as CEO on 1 January 2009 and, as such, he is approaching his fifth anniversary with the company. Under Polman, Unilever launched "The Compass" strategy, which encompasses a grand ambition to double the size of

the business (HPC from €20 billion to €50 billion and Foods from €20 billion to €30 billion), whilst reducing its environmental impact, essentially combining the growth ambitions of the "Winning with…" strategies with the ethical ambitions of the Unilever Sustainable Living Plan (USLP).

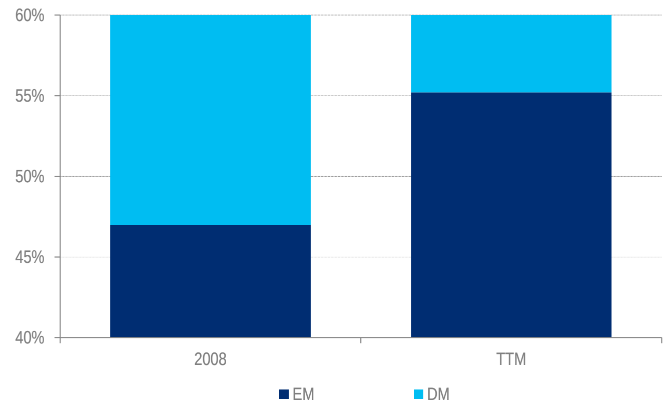
So far, under his leadership the company has made significant steps towards becoming a more HPC-focused, (even) more EM-oriented business.

Figure 4. Unilever Revenue by Category



Source: Company Reports and Citi Research

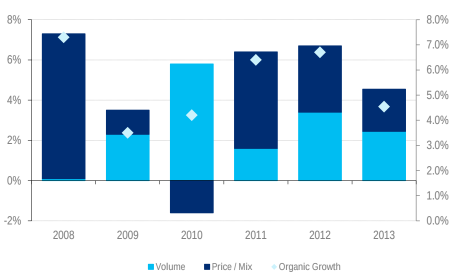
Figure 5. Unilever Revenue by Region



Source: Company Reports and Citi Research

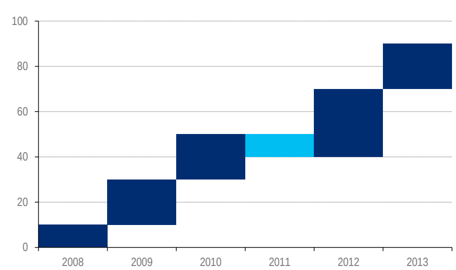
Furthermore, although the environmental "sustainability" KPI embedded in the USLP, will take years to evaluate, the sustainable, consistent, predictable ambition implicit in annual guidance has been increasingly apparent over the past 4-5 years – "The Unilever Model"? – and the market has become increasingly accustomed to Unilever reliably delivering or even exceeding expectations.

Figure 6. Organic Growth (%)



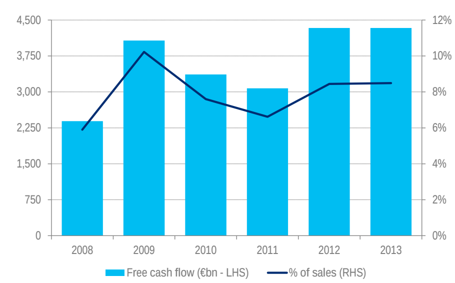
Source: Company Reports and Citi Research Estimates

Figure 7. Underlying Margin Expansion (bps)



Source: Company Reports and Citi Research Estimates

Figure 8. Free Cash Flow Generation



Source: Company Reports and Citi Research Estimates

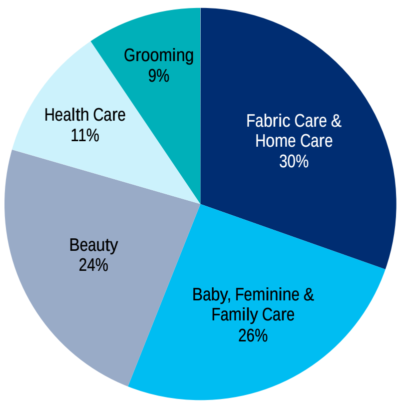
However, that consistency—and, more importantly, market perceptions about the reliability of delivery—has suffered a series of setbacks so far in 2013, culminating in the third quarter warning and subsequent disappointing results.

Although the company maintained its guidance for "another year of profitable volume growth ahead of our markets, steady and sustainable core operating margin improvement and strong cash flow," consensus earnings estimates have declined around quarterly results in every quarter so far this year.

Head-to-Head: In Terms of Category Exposure, Both Are Broad and Balanced (but in Some Different Ways)

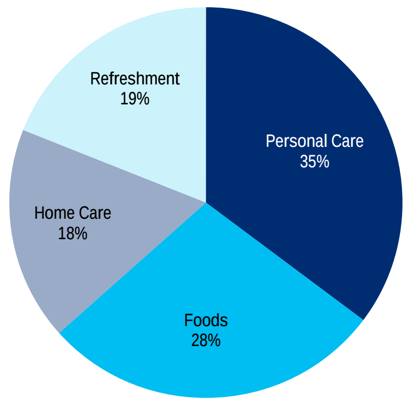
Category exposure is probably the key differentiator between the two companies' businesses, with PG being a pure HPC (including consumer health) company and Unilever being a mixed Food and HPC player.

Figure 9. PG Sales by Category (FY13)



Source: Company Reports and Citi Research

Figure 10. Unilever Sales by Category (2012)



Source: Company Reports and Citi Research

Generally, since its acquisition of Gillette in 2005, PG's business mix has not changed all that much. Indeed, while the company has become a bit more focused in recent years on its core HPC business through the divestiture of its coffee, pharma and snacks brands, the financial impact of these disposals has been relatively small. Looking ahead, we believe PG will continue to operate principally in the same segments, although the company has stated that it may seek to "shrink to grow" through the divestiture of a handful of other non-core businesses. In terms of potential areas for divestment, we continue to see pet food (Iams and Natura), batteries (Duracell) and household appliances (Braun) as perhaps non-core to PG. Alternatively, we suspect PG may move to pull some brands from certain geographic markets where it sees less encouraging opportunities for profitable growth ahead (e.g., in 2007, PG decided to sell its Western European tissue/towel business, though it continues to operate in this product segment in other geographies). All in, we view PG's business mix to be relatively well-balanced at present, and we view the scale of the company as a distinct positive, as the breadth of the business offers the company considerable benefits of scale, especially in emerging markets, where distribution costs are relatively high.

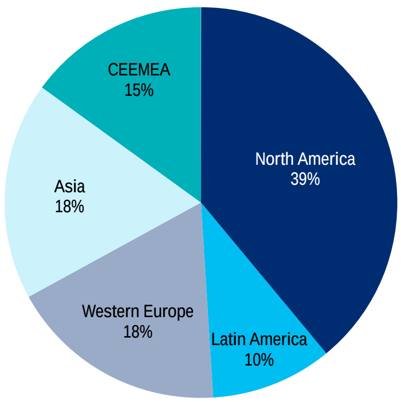
Unilever's category mix also continues to evolve towards HPC, through a combination of stronger organic growth in its HPC businesses than in its Foods operations and net M&A in which the company has been a seller of Developed Markets and Foods businesses (such as the Wish-Bone and Western dressings businesses, Skippy and its North American frozen meals activities) and a buyer of Emerging Markets and HPC activities (such as Alberto Culver and Kalina and even the recently increased stake in Hindustan Unilever).

Over the past five years, Unilever's broad Food / HPC split has flipped from 54%/46% in favor of Foods to the same 54%/46% in favor of HPC, clearly in line with the company's strategy.

Head-to-Head: In Terms of Geographic Exposure, Unilever Has the Bigger EM Footprint

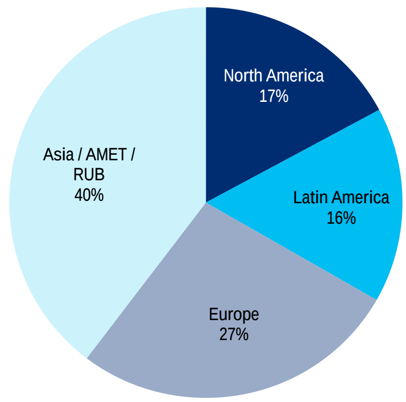
Although both PG and Unilever are truly global companies (PG claims to sell products in >180 countries and territories vs. Unilever in >190), the companies have very different regional exposures, with Unilever being significantly more EM-focused.

Figure 11. PG Sales by Geography (FY13)



Source: Company Reports and Citi Research

Figure 12. Unilever Sales by Geography (2012)

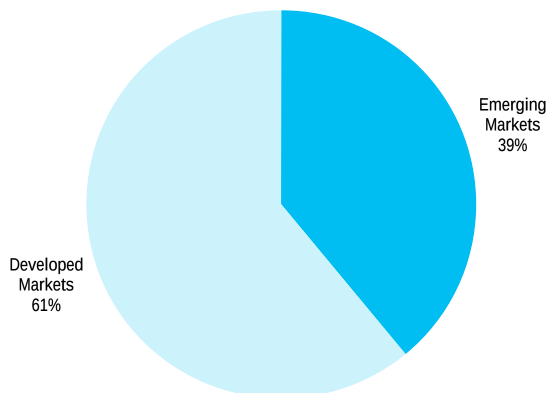


Source: Company Reports and Citi Research

In FY13, PG's ~36% of sales from the U.S. showed further diversification away from its "home" market, which accounted for more than 50% of total net sales just a decade ago. No other individual country exceeds 10% of total net sales, although among its next largest markets are Greater China (~8% of sales), Japan (~4% of sales), the U.K. (~4% of sales), Canada (~3% of sales), and Russia (~3% of sales).

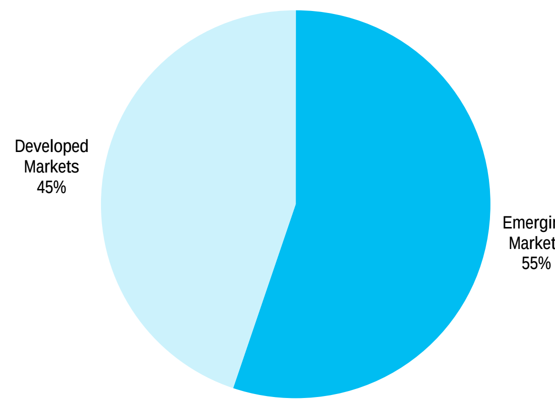
In 2012, Unilever's "home" markets of the UK and the Netherlands generated ~8% of sales, which is down from more than 11% a decade ago. Like PG, the company's largest market is the U.S., which accounted for >15% of sales in 2012, although this is well down on its nearly 25% contribution a decade ago, reflecting divestments and far faster growth from EMs. Brazil is the next largest market, at ~7% of sales, followed by India, at ~6%.

Figure 13. PG EM / DM Sales Split (FY13)



Source: Company Reports and Citi Research

Figure 14. Unilever EM / DM Sales Split (2012)



Source: Company Reports and Citi Research

Unilever's aggregate EM exposure is far greater than PG's, with more than 55% of sales from EMs, compared with 39% of sales for PG.

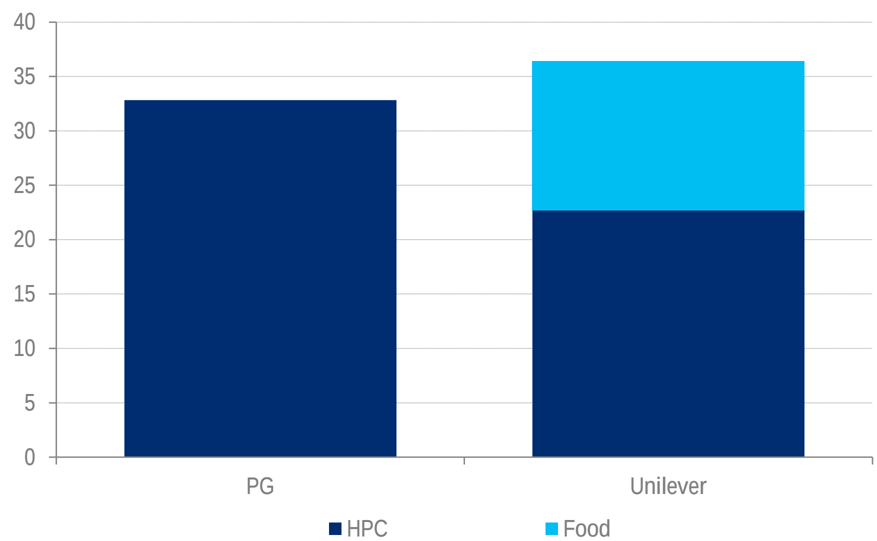
That said, we note that PG's exposure to EMs has increased considerably in recent years (in 2009, when Bob McDonald assumed the CEO post and stated that growth in EMs was his No. 1 priority as CEO, EMs represented only ~30% of sales). Today, PG anticipates that EMs will represent ~50% of sales by 2020.

Interestingly though, while PG has had a stated goal to grow its EM business, we note that the sales contribution from EMs has increased by ~800-900 bps for ***both*** companies over the past five years, implying perhaps that this shift in revenue mix from DMs to EMs is really more a function more of outsized category growth in EMs, as opposed to any specific PG (or Unilever) initiatives.

In addition to having the greater relative exposure to EMs, Unilever also has the larger EM business in absolute terms, at ~$36 billion of sales in 2012 vs. PG's ~$33 billion in FY13.

However, Unilever's business units have a variability of EM exposure—we estimate that 65% of Unilever's HPC business is in EMs (~75% of its Home Care business and ~60% of its Personal Care business), compared to only 40% of its Foods business.

Figure 15. Estimated EM Scale (in U.S.$ bn) by Category



Source: Company Reports and Citi Research Estimates

As such, if we look at just Unilever's HPC business, we estimate that this business represents ~$22.5 billion in sales, which is considerably smaller than PG's EM HPC revenue base.

Head-to-Head: Brand Portfolios Are Terrifically Strong for Both

Both PG and Unilever have extremely strong brand portfolios, each containing a wide range of household names.

PG identifies 50 "Leadership Brands," which represent more than 90% of the company's sales and profits, within which there are 25 "Billion-Dollar" brands and about 15 more with annual sales of $0.5-$1.0 billion.

Unilever has 14 "Billionaire Brands" (euros, rather than U.S. dollars), which collectively generate more than 50% of group turnover. The company identifies a further seven Billionaires in the making, which we assume to have sales greater than U.S.$1 billion, which we include in italics in the table below, making ~21 Billion-Dollar brands.

Figure 16. PG Has 25 Billion-Dollar Brands, the Biggest of Which is Pampers with Annual Sales Over $10 Billion

SEGMENT	#	BRAND
Beauty	1	Head & Shoulders
	2	Olay
	3	Pantene
	4	SK-II
	5	Wella
Grooming	6	Fusion
	7	Gillette
	8	Mach3
	9	Prestobarba
Health Care	10	Crest
	11	Iams
	12	Oral-B
	13	Vicks
Fabric Care & Home Care	14	Ace
	15	Ariel
	16	Dawn
	17	Downy
	18	Duracell
	19	Febreze
	20	Gain
	21	Tide
Baby, Feminine & Family Care	22	Always
	23	Bounty
	24	Charmin
	25	Pampers

Source: Company Reports and Citi Research

Figure 17. Unilever Has 14 Billion Euro Brands (and 7 near €1bn, which we assume are >$1bn)

SEGMENT	#	BRAND
Personal Care	1	Dove
	2	Rexona
	3	Lux
	4	Axe
	5	Sunsilk
		TRESemme
		POND's
		Signal
		Clear
		Lifebuoy
Foods	6	Knorr
	7	Hellmann's
	8	Flora
	9	Rama
Refreshment	10	Magnum
	11	Heart brands
	12	Lipton
Home Care	13	Surf
	14	dirt is good
		Comfort
		Sunlight

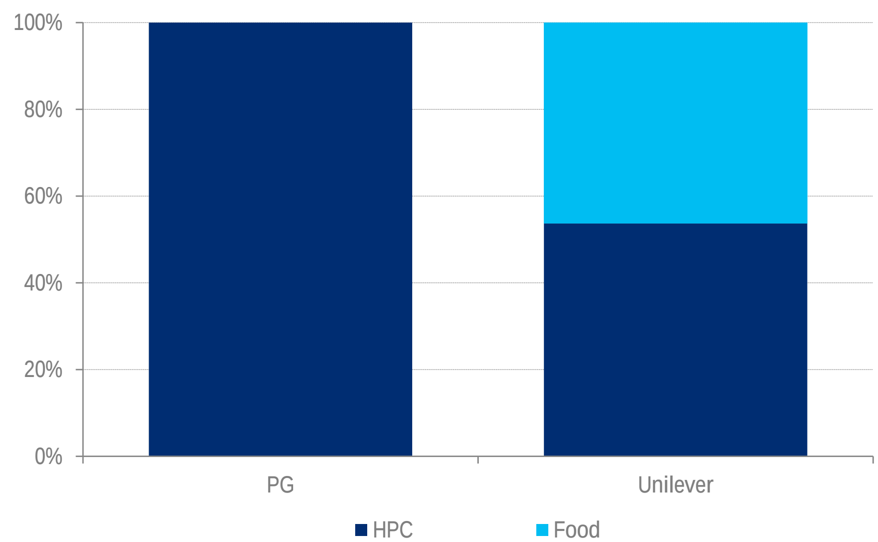
Source: Company Reports and Citi Research

Head-to-Head: There Is Surprisingly Limited Overlap in Many Key Category / Country Combinations

Despite some obvious headline differences in PG and Unilever's regional and product / category exposures, it is still slightly surprising just how little direct overlap there is between the two companies.

PG is a pure-play HPC company (we consider consumer health as a personal care business), whilst Unilever still generates more than 45% of sales (and ~50% of operating profit) from Foods.

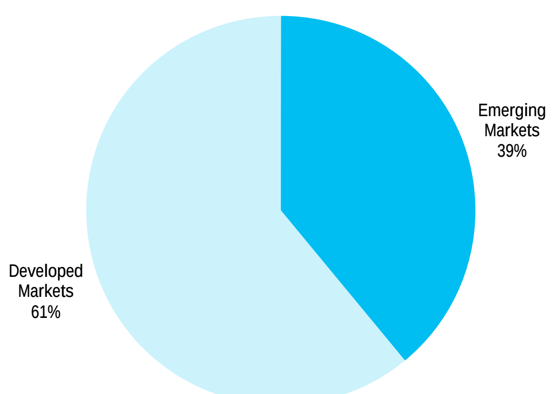
Figure 18. PG / Unilever's HPC / Food Sales Split



Note: TTM to June 2013 for both companies
Source: Company Reports and Citi Research

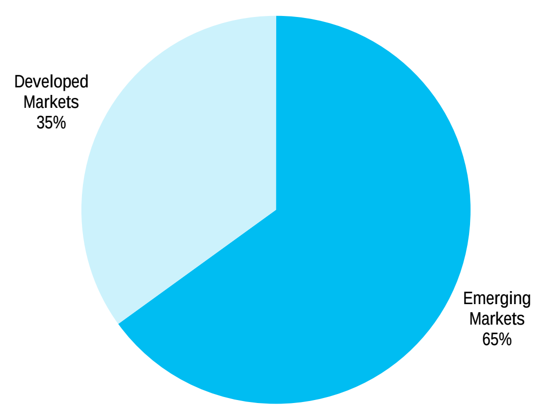
Even within HPC, PG is primarily a U.S. / Western European business, with DMs contributing more than 60% of sales, whilst Unilever's HPC business is even more EM-skewed than the total, with more than 65% of sales coming from EMs.

Figure 19. PG's HPC Sales by Region



Note: FY13
Source: Citi Research

Figure 20. Unilever's HPC Sales by Region



Note: Estimated TTM sales split to 30 June 2013
Source: Company Reports and Citi Research Estimates

At its 2012 CAGNY presentation, PG identified its 40 "Focus Markets" by broad region and category. While PG's focus is no longer based on the 40-20-10 strategy (of the 40 biggest category/country combinations, 20 innovations and 10 most important emerging markets), we used the concept of category and country combinations as the basis of our category comparison with Unilever, in part because while PG has hundreds of category and country combinations, the original 40 represented about 50% of PG's sales and roughly 70% of profits.

We have attempted first to recreate the list and further to update it, to reflect not only the big category and country combinations, but also category and country combinations where we think PG is focused based on perceived strength of opportunity.

Figure 21. Citi's Take on PG's Top Category / Country Combinations

Country	Baby, Feminine & Family Care	Laundry Care	Hair Care	Men's Grooming	Oral Care	Skin Care	Home Care	Color Cosmetics	Deo	Fragrances	Bath & Shower
U.S.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
China	✓	✓	✓		✓	✓					
Brazil	✓		✓	✓	✓						
United Kingdom	✓	✓	✓	✓							
Japan		✓	✓			✓					
Germany	✓		✓		✓						
Russia	✓	✓									
Italy	✓										
France	✓										
Mexico	✓	✓									
India	✓	✓	✓	✓							

Source: Company Reports, Euromonitor and Citi Research

Similarly, we have analyzed Euromonitor data to try to identify Unilever's 40 most important category / country combinations, shown in Figure 22.

Figure 22. Citi's View of Unilever's Most Material Category / Country Combinations

Country	Laundry	Hair Care	Bath & Shower	Deo	Skin Care	Ice cream	Dressings	Oils and Fats	Soup	Dried Food	Ready Meals
U.S.		✓	✓	✓		✓	✓	✓			✓
Brazil	✓	✓	✓	✓		✓	✓	✓			
India	✓		✓		✓						
United Kingdom	✓			✓		✓					
Japan		✓							✓	✓	
Germany						✓	✓	✓			
France	✓					✓	✓				
Turkey	✓					✓					
China	✓	✓									
Argentina	✓						✓				
Italy						✓					
Australia						✓					
South Africa	✓										
Spain						✓					
Russia							✓				

Source: Company Reports, Euromonitor and Citi Research

Figure 23 shows our estimate of the relative importance of PG's most material markets to PG, alongside our estimate of the importance of those markets to Unilever.

Figure 23. PG & Unilever – Most Material Category / Country Combination Overlaps

Household Care and Baby, Feminine & Family Care

	Country	Sub Categories	PG	UNA
1	U.S.	Baby, Feminine & Family Care	>7.5%	<0.5%
2	U.S.	Laundry Care	5.0-7.0%	-
3	U.S.	Home Care	2.0-3.0%	-
1	China	Baby, Feminine & Family Care	1.0-2.0%	-
2	China	Laundry Care	0.5-1.0%	1.0-2.0%
Other Developed				
1	Japan	Laundry Care	1.0-2.0%	-
2	UK	Laundry Care	1.0-2.0%	1.0-2.0%
3	Italy	Baby, Feminine & Family Care	1.0-2.0%	-
4	UK	Baby, Feminine & Family Care	0.5-1.0%	-
5	Germany	Baby, Feminine & Family Care	0.5-1.0%	-
6	France	Baby, Feminine & Family Care	0.5-1.0%	-
Other Developing				
1	Russia	Laundry Care	0.5-1.0%	-
2	Russia	Baby, Feminine & Family Care	0.5-1.0%	-
3	Mexico	Laundry Care	0.5-1.0%	-
4	Brazil	Baby, Feminine & Family Care	0.5-1.0%	-
5	Mexico	Baby, Feminine & Family Care	<0.5%	-
6	India	Laundry Care	<0.5%	1.0-1.5%
7	India	Baby, Feminine & Family Care	<0.5%	-
		Developing	~5%	~2-3%
		Developed	~25%	~1-2%
18		Total	~30%	~3-4%

Beauty & Grooming

	Country	Sub Categories	PG	UNA
1	U.S.	Hair Care	2.0-3.0%	1.5-2.0%
2	U.S.	Men's Grooming	2.0-3.0%	0.5-1.0%
3	U.S.	Oral Care	2.0-3.0%	-
4	U.S.	Color Cosmetics	0.5-1.0%	-
5	U.S.	Deodorants	0.5-1.0%	1.0-1.5%
6	U.S.	Skin Care	0.5-1.0%	<0.5%
7	U.S.A	Fragrances	0.5-1.0%	-
8	U.S.	Bath and Shower	0.5-1.0%	1.0-2.0%
1	China	Hair Care	1.0-2.0%	0.5-1.0%
2	China	Skin Care	1.0-2.0%	<0.5%
3	China	Oral Care	0.5-1.0%	<0.5%
Other Developed				
1	Japan	Hair Care	0.5-1.0%	1.0-1.5%
2	UK	Hair Care	0.5-1.0%	<0.5%
3	Japan	Skin Care	0.5-1.0%	<0.5%
4	UK	Men's Shaving	0.5-1.0%	<0.5%
5	Germany	Hair Care	0.5-1.0%	<0.5%
6	Germany	Oral Care	0.5-1.0%	-
Other Developing				
1	Brazil	Men's Shaving	1.5-2.0%	1.0-1.5%
2	Brazil	Hair Care	0.5-1.0%	2.0-3.0%
3	Brazil	Oral Care	0.5-1.0%	<0.5%
4	India	Men's Shaving	<0.5%	-
5	India	Hair Care	<0.5%	0.5-1.0%
		Developing	~6%	~4-5%
		Developed	~13%	~8-9%
22		Total	~20%	~13-14%

Source: Company Reports, Euromonitor and Citi Research

Figure 23 shows that, based on our estimates, PG generates ~50% of sales from its forty or so most significant category / country combinations, with ~30% (of the 50%) in Household Care and Baby, Feminine and Family Care and ~20% (of the 50%) in Personal Care, or Beauty and Grooming.

We estimate that Unilever generates ~16%-20% of its sales from PG's most important markets.

Given Unilever's effective absence from PG's Baby, Feminine and Family Care categories, Laundry is obviously the key overlap in the left hand columns, which show a surprising lack of head-to-head confrontation in many of PG's core category strongholds. By contrast, the friction areas are much more widespread in PG's core Personal Care markets.

Figure 24 show our estimate of the relative importance of our estimate of Unilever's most material category / country combinations to Unilever, alongside our estimate of the importance of those markets to PG.

Figure 24. Unilever & P&G – Most Material Category / Country Combination Overlaps

Packaged Food

	Country	Sub Categories	UNA	PG
1	U.S.	Ice cream	3.0-3.5%	-
2	U.S.	Sauces, Dressings and Condiments	2.5-3.0%	-
3	U.S.	Oils and Fats	1.0-1.5%	-
4	U.S.	Ready Meals	0.5-1.0%	-
1	Brazil	Ice cream	1.0-1.5%	-
2	Brazil	Sauces, Dressings and Condiments	0.5-1.0%	-
3	Brazil	Oils and Fats	0.5-1.0%	-
	Other Developed			
1	UK	Ice cream	1.0-1.5%	-
2	Italy	Ice cream	1.0-1.5%	-
3	Germany	Ice cream	1.0-1.5%	-
4	France	Ice cream	0.5-1.0%	-
5	Germany	Oils and Fats	0.5-1.0%	-
6	Australia	Ice cream	0.5-1.0%	-
7	Japan	Soup	0.5-1.0%	-
8	France	Sauces, Dressings and Condiments	0.5-1.0%	-
9	Spain	Ice cream	0.5-1.0%	-
10	Japan	Dried Processed Food	0.5-1.0%	-
11	Germany	Sauces, Dressings and Condiments	0.5-1.0%	-
	Other Developing			
1	Turkey	Ice cream	1.5-2.0%	-
2	Argentina	Sauces, Dressings and Condiments	0.5-1.0%	-
3	Russia	Sauces, Dressings and Condiments	0.5-1.0%	-
		Developing	~6%	0%
		Developed	~17%	0%
21		Total	~23%	0%

Home Care and Beauty & Grooming

	Country	Sub Categories	UNA	PG
1	U.S.	Bath and Shower	1.5-2.0%	<0.5%
2	U.S.	Hair Care	1.5-2.0%	2.0-2.5%
3	U.S.	Deodorants	1.0-1.5%	0.5-1.0%
1	Brazil	Laundry care	2.0-3.0%	0.5-1.0%
2	Brazil	Hair Care	2.0-3.0%	0.5-1.0%
3	Brazil	Deodorants	2.0-3.0%	<0.5%
4	Brazil	Bath and Shower	1.0-1.5%	-
	Other Developed			
1	Japan	Hair Care	1.0-1.5%	0.5-1.0%
2	UK	Laundry care	1.0-1.5%	1.0-1.5%
3	France	Laundry care	0.5-1.0%	<0.5%
4	UK	Deodorants	0.5-1.0%	<0.5%
	Other Developing			
1	India	Bath and Shower	1.5-2.0%	
2	India	Laundry care	1.0-1.5%	<0.5%
3	China	Laundry care	1.0-1.5%	0.5-1.0%
4	South Africa	Laundry care	0.5-1.0%	
5	China	Hair Care	0.5-1.0%	1.5-2.0%
6	Argentina	Laundry care	0.5-1.0%	<0.5%
7	India	Skin Care	0.5-1.0%	<0.5%
8	Turkey	Laundry care	0.5-1.0%	<0.5%
		Developing	~15%	~11-12%
		Developed	~8%	~5-6%
19		Total	~23%	~16-17%

Source: Company Reports, Euromonitor and Citi Research

Figure 24 shows that on our estimates, Unilever generates ~45% of sales from its top forty or so category / country combinations, with the contribution split relatively evenly between its Foods and HPC businesses.

We estimate that PG generates ~16%-17% of its sales from Unilever's key category / country combination markets. Since PG does not operate in the Foods categories, all of the overlap is in Household Care, Beauty and Grooming.

Our Take of Key Overlap Markets…Unilever Bests PG 2:1

Given our estimate of each company's key category / country combinations, we have identified the following (very short) list of businesses which we believe the companies have the greatest / most material operational overlap.

Figure 25. Critical Overlaps in PG and Unilever's Key Category / Country Combinations

Country	Category	Winner	Market Share winner over 3 years
U.S.	Bath and Shower	UNA	PG -70bps / Unilever +270bps
U.S.	Deodorants	UNA	PG +70bps / Unilever +470bps
U.S.	Hair Care	UNA	PG -230bps / Unilever +110bps
Brazil	Hair Care	PG	PG +290bps / Unilever +220bps
Japan	Hair Care	UNA	PG -10bps / Unilever +70bps
China	Hair Care	UNA	PG +100bps / Unilever +340bps
China	Laundry Care	UNA	PG +30bps / Unilever +100bps
India	Laundry Care	PG	PG +170bps / Unilever -210bps
United Kingdom	Laundry Care	PG	PG +660bps / Unilever +220bps

Source: Company Reports, Euromonitor and Citi Research

Below, we take a deeper look into the specific categories that we have identified that represent true "head-to-head" battles between PG and Unilever. **Interestingly, we note that PG and Unilever have the upper hand in about half each.** Also of interest, we note that in almost every key market, "Other," which consists of smaller (often local) brands, has been a material or the main share donor to the market leaders.

U.S. – Bath & Shower

Unilever is the market leader in the U.S. bath and shower market and has been the main share gainer over the past decade (along with Private Label), with Dove and Axe's success more than offsetting share losses in Suave and Lux.

Figure 26. U.S. Bath & Shower Market Share Evolution since 2004

Company	2004	2005	2006	2007	2008	2009	2010	2011	2012	Chg 2004-12
Unilever	19.7%	21.0%	21.7%	22.0%	22.5%	22.4%	22.7%	24.9%	25.1%	540 bps
Henkel	10.0%	9.5%	9.6%	9.7%	10.4%	10.8%	10.1%	9.6%	9.3%	-70 bps
Colgate-Palmolive	8.1%	8.5%	8.5%	9.0%	9.3%	9.5%	8.9%	8.7%	8.8%	70 bps
Procter & Gamble	9.9%	9.5%	9.9%	9.9%	10.2%	9.5%	9.9%	8.7%	8.4%	-160 bps
Limited Brand	8.5%	8.6%	8.6%	8.1%	7.6%	7.5%	7.5%	7.5%	7.5%	-100 bps
Private Label	3.2%	3.6%	4.2%	4.8%	6.6%	7.4%	7.6%	7.6%	7.7%	460 bps
Other	40.6%	39.3%	37.4%	36%	33%	33%	33%	33%	33%	-740 bps
Total	100.0%	100.0%	100.0%	100%	100%	100%	100%	100%	100%	

Source: Citi Research, Euromonitor

PG has been a major share donor over the past 3, 5 and 10 years. Although Olay has broadly held share, Old Spice and a series of tail brands have consistently lost share.

Henkel has also lost share. However, the main aggregate loser in the past decade has been the list of tail brands (largely to private label), although this has moderated more recently.

U.S. – Deodorants

Unilever is the global leader in deodorants and took leadership of the category in the U.S. from PG in 2010. Although both companies have gained share over the past decade, Unilever has been the more successful, with its Rexona, Axe and Dove brands all enjoying significant share gains.

Figure 27. U.S. Deodorant Market Share Evolution since 2004

Company	2004	2005	2006	2007	2008	2009	2010	2011	2012	Chg 2004-12
Unilever	20.1%	22.9%	24.9%	25.7%	27.5%	29.7%	30.4%	32.2%	34.4%	1,430 bps
Procter & Gamble	23.7%	27.4%	25.8%	28.5%	29.4%	30.1%	30.4%	31.0%	30.8%	710 bps
Colgate-Palmolive	8.9%	8.5%	9.0%	8.8%	8.7%	8.1%	7.9%	7.5%	7.2%	-170 bps
Henkel	12.6%	10.6%	9.1%	8.6%	7.5%	6.5%	6.1%	5.3%	4.8%	-780 bps
Limited Brands	5.7%	5.5%	5.5%	5.0%	4.6%	4.4%	4.5%	4.5%	4.6%	-110 bps
Private Label	1.0%	1.3%	1.3%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	10 bps
Other	28.0%	23.8%	24.3%	22.1%	21.2%	20.0%	19.5%	18.3%	17.1%	-1,090 bps
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	10.0%	100.0%	100.0%	

Source: Citi Research, Euromonitor

Most of Unilever and PG's share gains have been at the expense of small brands, but the key mega-cap share donor in the category has been Henkel, which has serially lost share in Right Guard since its acquisition.

Colgate has also been a gradual share donor, largely through its Mennen brand.

U.S. – Hair Care

Although L'Oréal has been having the most aggressive push in the U.S. hair care market in the past twelve months, we argue that Unilever has been the most successful of the mega-cap companies in this market over the past decade, despite still only having the Number 3 position. Although PG is still (just) the market leader, it has also been the primary share donor over the past ten years.

Figure 28. U.S. Hair Care Market Share Evolution since 2004

Company	2004	2005	2006	2007	2008	2009	2010	2011	2012	Chg 2004-12
Procter & Gamble	27.2%	27.1%	26.8%	26.7%	26.4%	26.0%	25.7%	24.5%	23.7%	-350 bps
L'Oréal	23.6%	24.3%	24.5%	24.7%	24.7%	23.6%	23.6%	23.5%	23.3%	-30 bps
Unilever	13.9%	13.8%	14.4%	14.6%	14.0%	14.6%	15.0%	15.0%	15.7%	180 bps
John Paul Mitchell Systems	4.5%	4.8%	4.8%	5.0%	5.1%	5.2%	5.2%	5.6%	5.6%	110 bps
Estée Lauder	1.8%	2.0%	2.3%	2.7%	3.0%	3.0%	3.0%	3.0%	2.8%	90 bps
Private Label	1.4%	1.3%	1.3%	1.4%	1.6%	1.7%	1.8%	1.7%	1.7%	40 bps
Other	27.5%	26.8%	26.0%	25.0%	25.2%	26.0%	25.7%	26.8%	27.2%	-40 bps
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: Citi Research, Euromonitor

PG has lost share in Pantene (which remains the market leading shampoo) and Clairol, which it has not managed to make up through Head & Shoulders. Unilever, by contrast, has enjoyed significant share gains (through acquisition and then organically) with the TRESemmé and Nexxus bands.

L'Oréal has been making a renewed push with L'Oréal Paris in an attempt to emulate Garnier's success.

Brazil – Hair Care

Unilever is the clear market leader in the Brazilian hair care market and it has also been the primary share gainer, although all of the major multinationals present in Brazil have successfully gained share from smaller local players.

Figure 29. Brazil Hair Care Market Share Evolution since 2004

Company	2004	2005	2006	2007	2008	2009	2010	2011	2012	Chg 2004-12
Unilever	16.2%	16.3%	16.1%	16.8%	19.0%	18.7%	18.1%	17.6%	20.9%	470 bps
L'Oréal	12.6%	13.0%	14.0%	15.6%	15.2%	14.7%	14.6%	14.9%	15.0%	240 bps
Procter & Gamble	9.4%	9.4%	9.0%	9.1%	8.5%	8.2%	9.2%	10.1%	11.1%	170 bps
Niely do Brasil Industrial	4.8%	5.0%	5.5%	5.9%	7.0%	6.6%	6.6%	6.6%	6.2%	130 bps
Private Label	0.2%	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	-10 bps
Other	56.8%	56.0%	55.2%	51.9%	51.2%	51.7%	51.3%	50.7%	46.3%	-1,020 bps
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: Citi Research, Euromonitor

Unilever has the market leading brand, with Sunsilk, but the company has also enjoyed success in launching Clear, Dove and, most recently, TRESemmé. PG's Wella (including Wella Professional) is its main brand in Brazil, but the company has delivered very strongly with Pantene gaining more than 200bps since 2008.

L'Oréal has also been a big share gainer over the years, largely with the L'Oréal Paris brand, although it is recently only somewhat recovering ground lost in the late-2000s.

Japan – Hair Care

Although it is only the Number 3 player, PG has been the main share gainer over the past decade, largely at the expense of Unilever, although share trends between the two companies has been more balanced in the past couple of years.

Figure 30. Japan Hair Care Market Share Evolution since 2004

Company	2004	2005	2006	2007	2008	2009	2010	2011	2012	Chg 2004-12
Kao	14.5%	14.4%	16.3%	15.9%	16.3%	16.5%	16.7%	16.5%	17.1%	260 bps
Shiseido	11.4%	11.3%	14.1%	14.6%	14.5%	14.6%	14.4%	14.1%	14.2%	280 bps
Procter & Gamble	7.5%	8.0%	8.1%	8.2%	8.6%	11.3%	11.4%	11.3%	11.2%	370 bps
Unilever	12.4%	12.2%	11.8%	11.0%	10.8%	9.6%	9.5%	10.4%	10.3%	-210 bps
Hoyu	6.3%	6.3%	6.2%	6.2%	6.2%	6.3%	6.6%	6.8%	7.2%	90 bps
Private Label	1.6%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	-20 bps
Other	46.3%	46.2%	42.2%	43.7%	42.2%	40.3%	39.8%	39.4%	38.6%	-780 bps
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: Citi Research, Euromonitor

Pantene has been the primary share driver for PG, whilst Unilever has lost share in Dove and Mod's which has not recovered by an improvement from its Lux brand.

In addition to the tail brands which have been a common share donor in many of the large category / country combinations that we have considered, the domestic Japanese players have had mixed fortunes, with Kao continuing to gain share at the expense of Shiseido, although Shiseido continues to have the market leading brand, albeit with more than 300bps lower share than a decade ago.

China – Hair Care

PG, led by Pantene and Head & Shoulders, is the clear market leader in the China hair care market, which is dominated by the multi-national players, although its most significant gains of the last decade were achieved in the mid- to late-2000s and have flattened off somewhat since. Unilever is a strong market Number 2 and has also gained share.

Figure 31. China Hair Care Market Share Evolution since 2004

Company	2004	2005	2006	2007	2008	2009	2010	2011	2012	Chg 2004-12
Procter & Gamble	31.4%	35.3%	35.3%	35.4%	35.2%	35.7%	36.1%	36.5%	36.7%	520 bps
Unilever	9.3%	9.0%	9.2%	8.4%	10.5%	10.8%	11.3%	13.3%	14.2%	500 bps
Beiersdorf	9.9%	9.4%	8.3%	9.1%	8.6%	8.8%	8.9%	8.0%	7.4%	-250 bps
Henkel	2.2%	2.3%	3.1%	2.7%	2.3%	2.5%	3.3%	5.5%	5.8%	350 bps
L'Oréal	1.6%	1.4%	1.5%	1.5%	1.5%	1.9%	2.6%	2.9%	3.1%	160 bps
Private Label	-	-	-	-	-	-	-	-	-	
Other	45.6%	42.5%	42.8%	42.9%	41.9%	40.4%	37.8%	33.8%	32.8%	-1,280 bps
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: Citi Research, Euromonitor

For PG, Pantene and Head & Shoulders have been the main share gainers, whilst Rejoice and Clairol have lost share. For Unilever, Lux, its biggest brand, has maintained relatively flat share, whilst Clear and Dove have more than made up for share losses in Sunsilk.

Smaller local brands have been the principal share donors, although this includes SLEK, since its acquisition by Beiersdorf.

China – Laundry Care

Both PG and Unilever have gained share in the Chinese laundry market over the past decade and the two companies have gained broadly similar amounts of share, largely through Tide and Omo, respectively.

Figure 32. China Laundry Care Market Share Evolution since 2004

Company	2004	2005	2006	2007	2008	2009	2010	2011	2012	Chg 2004-12
Guangzhou Liby	10.2%	11.2%	12.6%	13.6%	14.8%	15.7%	16.3%	16.5%	16.2%	600 bps
Nice Group	19.3%	17.1%	16.1%	15.7%	16.9%	17.2%	16.6%	16.3%	15.8%	-350 bps
Procter & Gamble	8.6%	8.7%	8.7%	9.0%	9.3%	10.4%	11.3%	10.8%	10.7%	200 bps
Unilever	8.3%	8.4%	8.7%	8.8%	9.1%	9.5%	10.2%	10.4%	10.5%	220 bps
Guangzhou Blue Moon	0.7%	0.7%	0.7%	0.8%	1.1%	3.3%	3.9%	4.6%	5.5%	480 bps
Private Label										
Other	52.8%	53.9%	53.2%	52.0%	48.8%	43.9%	41.8%	41.4%	41.3%	-1,150 bps
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: Citi Research, Euromonitor

PG and Unilever's share gains, along with those of local players Liby (the clear market leader) and Blue Moon, have been from Nice Group's Diao brand and a long tail of smaller brands.

India – Laundry Care

Although Unilever is the clear market leader in the India laundry market, it has been consistently losing share for much of the last decade, along with local player Nirma. The primary share gainers have been PG, which rose to the Number 3 market position in 2010 and another local player, Ghari.

Figure 33. India Laundry Care Market Share Evolution since 2004

Company	2004	2005	2006	2007	2008	2009	2010	2011	2012	Chg 2004-12
Unilever	42.7%	42.1%	42.4%	42.2%	41.7%	40.4%	39.4%	38.7%	38.3%	-440 bps
Ghari Industries	11.2%	11.6%	11.9%	12.3%	12.8%	13.4%	13.6%	14.7%	16.6%	540 bps
Procter & Gamble	6.0%	6.3%	6.6%	7.0%	7.9%	9.7%	11.4%	11.7%	11.4%	540 bps
Nirma	16.4%	16.5%	16.4%	15.8%	15.8%	13.0%	10.6%	8.0%	8.4%	-800 bps
Jyothy Laboratories	3.2%	3.3%	3.4%	3.5%	3.1%	3.2%	3.3%	3.3%	3.3%	10 bps
Private Label	1.0%	1.1%	1.2%	1.3%	1.3%	1.3%	1.2%	1.1%	1.1%	10 bps
Other	19.5%	19.1%	18.1%	17.9%	17.4%	19.0%	20.5%	22.5%	20.9%	140 bps
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: Citi Research, Euromonitor

PG's share gains have primarily been driven by Ariel, which has nearly doubled its share in the past five years. Unilever still claims the market leading brand, with Active Wheel, where share has been only moderately down in recent years, but that, and the success of Surf, has been insufficient to offset sustained share loss from its Rin brand.

UK – Laundry Care

PG's strong market leadership in the UK has continued to grow over the past decade, with more than 1,500bps of share won over the past decade. Unilever has remained a strong Number 2 over the period as the two companies dominate the UK laundry market.

Figure 34. UK Laundry Care Market Share Evolution since 2004

Company	2004	2005	2006	2007	2008	2009	2010	2011	2012	Chg 2004-12
Procter & Gamble	33.5%	36.1%	37.8%	39.0%	39.6%	42.3%	45.9%	47.5%	48.9%	1,540 bps
Unilever	25.2%	23.5%	22.5%	20.6%	26.8%	26.4%	26.5%	27.9%	28.6%	340 bps
Reckitt Benckiser	5.1%	5.3%	5.7%	5.7%	5.6%	5.4%	4.9%	4.5%	4.5%	-50 bps
Ecover	0.1%	0.1%	0.2%	0.2%	0.2%	0.3%	0.3%	0.8%	1.0%	80 bps
Dr Krauss & Dr Beckmann Co		1.4%	1.5%	1.6%	1.1%	1.1%	1.0%	1.0%	0.9%	-30 bps
Private Label	18.0%	17.9%	17.8%	18.9%	14.3%	13.7%	12.7%	11.2%	9.4%	-860 bps
Other	16.9%	15.7%	14.6%	14.0%	12.5%	10.9%	8.7%	7.2%	6.7%	-1,020 bps
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: Citi Research, Euromonitor

The primary share donors over the period have been smaller independent brands and, more surprisingly, Private Label. Ecover's strong environmental credentials have helped it gain share, although it remains a niche brand.

Considering broader category / country combinations

In the following charts, we look at a broader selection of key (overlapping) category country combinations and make the following observations:

By key category:

- In **Laundry**, we think that PG can claim the upper hand. In the three markets with maximum overlap discussed previously (China, India and the UK), PG is gaining share from Unilever in two of them (UK and India) and the two companies have broadly similar positions and progressions in China.

  In PG's other core laundry strongholds (U.S., Japan, Russia and Mexico), Unilever is effectively not present in the market. By contrast, PG is extremely active in many of Unilever's other core laundry markets, notably in Brazil and throughout Western Europe.

- **Shampoo** is another key head-to-head battleground and the companies' fortunes are relatively balanced between various markets and time periods. In the key markets of the U.S., China, Brazil and Japan, PG has a market share advantage in three (not Brazil), but Unilever has the greater relative momentum in the past three years (balanced over ten).

  In the other most important markets, recent relative momentum is balanced, with no clear pattern in DMs or EMs of which company has leadership or whether the leader is gaining further share or ceding to the other.

- In **Deodorant**, Unilever is the global market leader and it tends to be the leader in each of the main territories in which it operates, with few obvious exceptions. The U.S. is the primary source of material competitive overlap between the companies in deodorants and Unilever continues to gain share from PG, from whom it took the market leadership position in 2010.

- In **Oral Care**, the companies rarely compete head-to-head in any material markets and both appear to be losing share in more markets than they are gaining share, with key exceptions for PG being Brazil and the UK (and possibly India following the recent launch) and for Unilever being France and Italy.

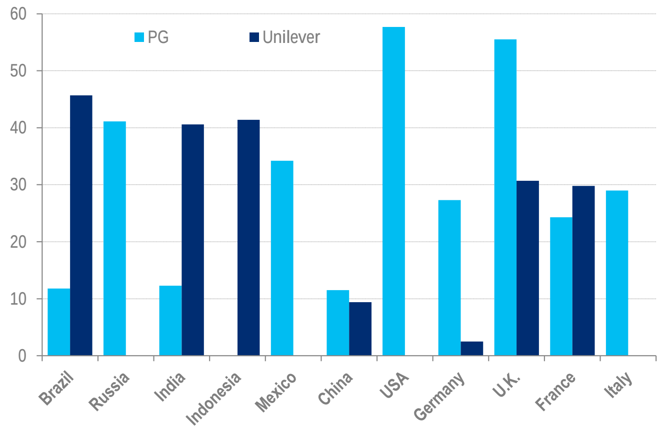
- In **Bath & Shower**, Unilever appears to have the advantage. The companies do not appear to compete directly very much, although in the U.S., Unilever has been gaining share in recent years. Beyond that, Unilever tends to be strong in markets in which PG is not present in the category (such as in Brazil and India) and PG tends to be strong in markets in which Unilever has limited presence in the category (such as in Mexico).

By key country:

- In the critical Emerging Markets of Brazil, Russia, India, Indonesia, Mexico and China, where one company has materially larger shares across a broad range of categories (China and Mexico for PG vs. Brazil, India and Indonesia for Unilever), the larger company is tending to lose share, often to the smaller.

- In the key Developed Markets businesses of the U.S. and much of Western Europe, it is difficult to draw broad conclusions, beyond a relatively broad transfer of market share from PG to Unilever and others in the U.S. market.

Figure 35. Laundry Detergents Market Shares, Key Markets



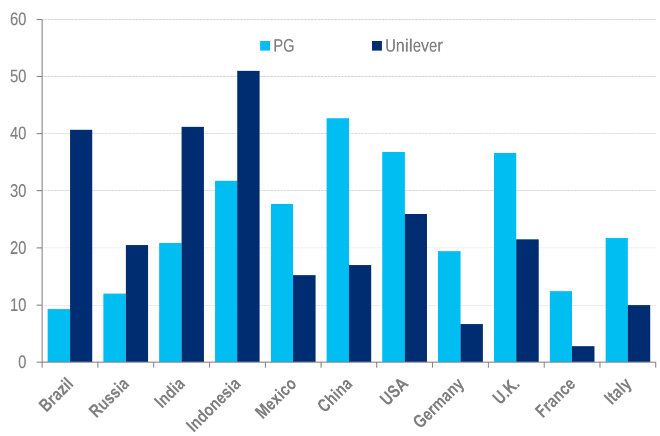
Source: Euromonitor data (2012), Citi Research

Figure 36. Laundry Detergents Share Trends, Key Markets

		2007	2008	2009	2010	2011	2012	5-Year Change	3-Year Change	1-Year Change
Brazil	PG	7.5	7.4	8.4	9.7	10.9	11.8	4.3	3.4	0.9
	UNA	48.6	47.3	47.2	48.7	47.5	45.7	(2.9)	(1.5)	(1.8)
Russia	PG	41.9	42.7	41.9	41.6	40.9	41.1	(0.8)	(0.8)	0.2
	UNA	-	-	-	-	-	-	N/A	N/A	N/A
India	PG	7.5	8.4	10.4	12.2	12.6	12.3	4.8	1.9	(0.3)
	UNA	44.9	44.1	42.8	41.8	41.0	40.6	(4.3)	(2.2)	(0.4)
Indonesia	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	42.3	42.2	41.5	41.8	41.6	41.4	(0.9)	(0.1)	(0.2)
Mexico	PG	35.4	34.8	34.5	34.4	34.2	34.2	(1.2)	(0.3)	0.0
	UNA	-	-	-	-	-	-	N/A	N/A	N/A
China	PG	9.7	9.9	11.1	12.1	11.6	11.5	1.8	0.4	(0.1)
	UNA	8.1	8.4	8.8	9.3	9.5	9.4	1.3	0.6	(0.1)
USA	PG	60.8	60.3	58.5	58.9	57.5	57.7	(3.1)	(0.8)	0.2
	UNA	14.4	-	-	-	-	-	N/A	N/A	N/A
Germany	PG	22.8	23.2	23.5	24.5	25.2	27.3	4.5	3.8	2.1
	UNA	8.9	8.4	8.1	7.4	2.9	2.5	(6.4)	(5.6)	(0.4)
U.K.	PG	44.8	45.7	48.8	52.6	54.2	55.5	10.7	6.7	1.3
	UNA	20.4	28.5	28.3	28.3	30.2	30.7	10.3	2.4	0.5
France	PG	26.9	26.7	26.3	24.7	24.6	24.3	(2.6)	(2.0)	(0.3)
	UNA	23.4	23.0	23.4	25.0	27.5	29.8	6.4	6.4	2.3
Italy	PG	30.5	30.0	29.4	29.6	29.6	29.0	(1.5)	(0.4)	(0.6)
	UNA	-	-	-	-	-	-	N/A	N/A	N/A

Source: Euromonitor data (2012), Citi Research

Figure 37. Shampoo Market Shares, Key Markets



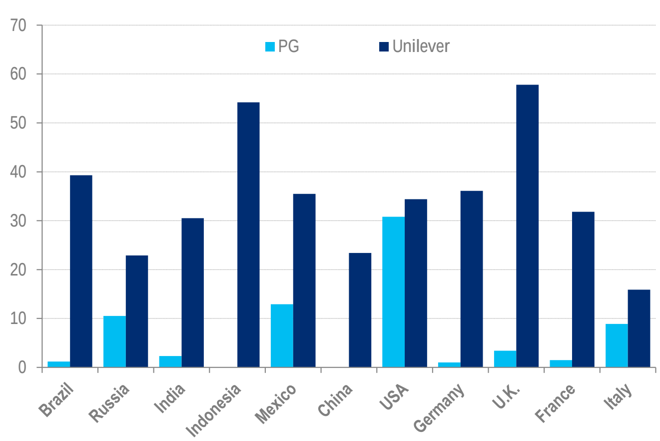
Source: Euromonitor data (2012), Citi Research

Figure 38. Shampoo Share Trends, Key Markets

		2007	2008	2009	2010	2011	2012	5-Year Change	3-Year Change	1-Year Change
Brazil	PG	5.1	5.7	5.9	7.0	7.8	9.3	4.2	3.4	1.5
	UNA	28.5	32.7	37.1	37.2	37.1	40.7	12.2	3.6	3.6
Russia	PG	14.3	13.4	13.2	13.5	12.2	12.0	(2.3)	(1.2)	(0.2)
	UNA	12.9	14.9	17.2	19.0	19.3	20.5	7.6	3.3	1.2
India	PG	18.0	18.9	20.0	20.2	20.6	20.9	2.9	0.9	0.3
	UNA	43.1	41.5	42.2	44.0	42.5	41.2	(1.9)	(1.0)	(1.3)
Indonesia	PG	23.4	26.5	27.5	30.8	31.3	31.8	8.4	4.3	0.5
	UNA	59.7	54.9	53.7	50.9	50.9	51.0	(8.7)	(2.7)	0.1
Mexico	PG	30.6	30.3	29.9	30.0	30.1	27.7	(2.9)	(2.2)	(2.4)
	UNA	13.0	13.3	14.4	14.2	14.6	15.2	2.2	0.8	0.6
China	PG	44.6	42.6	42.1	42.1	42.6	42.7	(1.9)	0.6	0.1
	UNA	9.9	12.7	13.0	13.5	15.9	17.0	7.1	4.0	1.1
USA	PG	38.9	38.8	38.8	38.9	37.7	36.8	(2.1)	(2.0)	(0.9)
	UNA	23.9	22.9	22.8	24.6	25.1	25.9	2.0	3.1	0.8
Germany	PG	18.6	19.9	19.6	19.1	19.1	19.4	0.8	(0.2)	0.3
	UNA	8.5	6.4	6.4	6.7	6.6	6.7	(1.8)	0.3	0.1
U.K.	PG	34.3	35.9	37.0	37.5	37.5	36.6	2.3	(0.4)	(0.9)
	UNA	17.6	17.5	18.1	18.6	18.6	21.5	3.9	3.4	2.9
France	PG	8.0	8.3	9.6	10.5	11.7	12.4	4.4	2.8	0.7
	UNA	6.1	5.6	5.2	4.5	3.2	2.8	(3.3)	(2.4)	(0.4)
Italy	PG	19.8	20.0	21.6	22.4	21.9	21.7	1.9	0.1	(0.2)
	UNA	12.2	11.4	10.7	10.2	10.0	10.0	(2.2)	(0.7)	0.0

Source: Euromonitor data (2012), Citi Research

Figure 39. Deodorant Market Shares, Key Markets



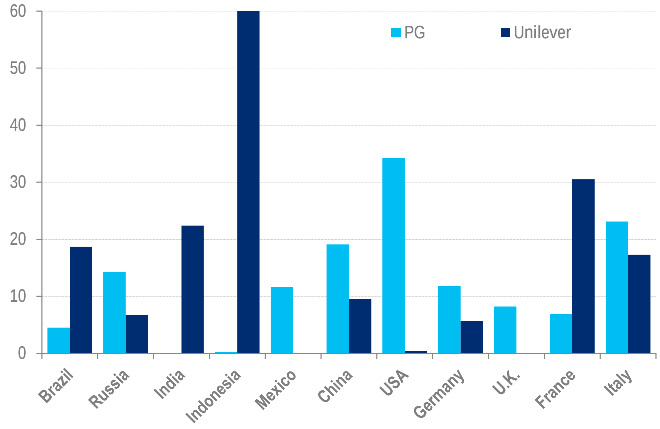
Source: Euromonitor data (2012), Citi Research

Figure 40. Deodorant Share Trends, Key Markets

		2007	2008	2009	2010	2011	2012	5-Year Change	3-Year Change	1-Year Change
Brazil	PG	0.9	0.8	0.7	0.6	1.0	1.2	0.3	0.5	0.2
	UNA	29.5	28.9	28.8	32.1	36.7	39.3	9.8	10.5	2.6
Russia	PG	14.2	13.3	11.9	11.8	11.2	10.5	(3.7)	(1.4)	(0.7)
	UNA	23.8	23.1	22.7	22.6	22.7	22.9	(0.9)	0.2	0.2
India	PG	2.7	3.1	3.2	2.7	2.4	2.3	(0.4)	(0.9)	(0.1)
	UNA	38.9	39.3	31.7	29.5	29.3	30.5	(8.4)	(1.2)	1.2
Indonesia	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	45.0	44.3	47.0	52.9	52.0	54.2	9.2	7.2	2.2
Mexico	PG	13.6	12.9	12.9	12.9	12.9	12.9	(0.7)	0.0	0.0
	UNA	32.1	33.6	33.8	33.7	33.2	35.5	3.4	1.7	2.3
China	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	-	10.7	14.1	16.7	20.2	23.4	N/A	9.3	3.2
USA	PG	28.5	29.4	30.1	30.4	31.0	30.8	2.3	0.7	(0.2)
	UNA	25.7	27.5	29.7	30.4	32.2	34.4	8.7	4.7	2.2
Germany	PG	1.0	1.0	0.9	0.9	0.9	1.0	0.0	0.1	0.1
	UNA	34.0	34.5	36.3	36.2	35.9	36.1	2.1	(0.2)	0.2
U.K.	PG	4.7	4.9	4.6	4.2	3.7	3.4	(1.3)	(1.2)	(0.3)
	UNA	54.0	54.2	54.9	59.1	57.0	57.8	3.8	2.9	0.8
France	PG	1.6	1.5	1.4	1.5	1.5	1.5	(0.1)	0.1	0.0
	UNA	26.3	26.3	26.1	35.4	30.1	31.8	5.5	5.7	1.7
Italy	PG	10.0	9.8	9.5	9.3	9.1	8.9	(1.1)	(0.6)	(0.2)
	UNA	15.2	15.4	15.9	16.0	15.9	15.9	0.7	0.0	0.0

Source: Euromonitor data (2012), Citi Research

Figure 41. Toothpaste Market Shares, Key Markets



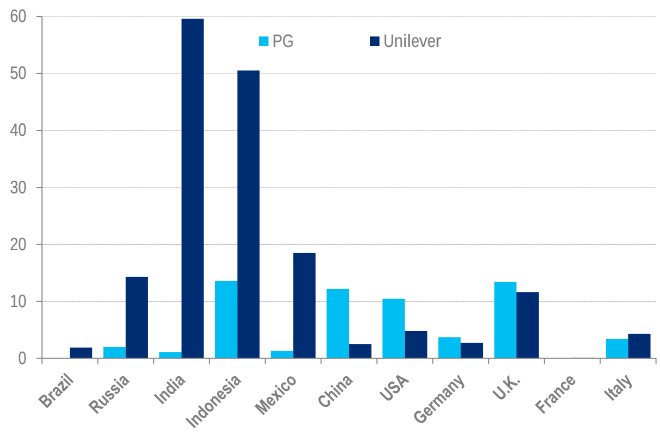
Source: Euromonitor data (2012), Citi Research

Figure 42. Toothpaste Share Trends, Key Markets

		2007	2008	2009	2010	2011	2012	5-Year Change	3-Year Change	1-Year Change
Brazil	PG	0.9	2.6	2.8	5.3	4.1	4.5	3.6	1.7	0.4
	UNA	21.0	21.0	20.0	18.9	18.9	18.7	(2.3)	(1.3)	(0.2)
Russia	PG	17.2	16.3	15.3	15.6	14.6	14.3	(2.9)	(1.0)	(0.3)
	UNA	4.9	5.3	5.6	6.1	6.2	6.7	1.8	1.1	0.5
India	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	23.7	22.7	22.3	21.8	21.5	22.4	(1.3)	0.1	0.9
Indonesia	PG	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0
	UNA	68.0	68.0	67.5	65.9	64.3	63.5	(4.5)	(4.0)	(0.8)
Mexico	PG	11.4	11.3	11.2	11.5	11.5	11.6	0.2	0.4	0.1
	UNA	-	-	-	-	-	-	N/A	N/A	N/A
China	PG	20.9	20.9	20.4	19.8	19.7	19.1	(1.8)	(1.3)	(0.6)
	UNA	11.9	11.3	11.4	10.9	9.9	9.5	(2.4)	(1.9)	(0.4)
USA	PG	34.6	35.9	34.7	36.5	36.4	34.2	(0.4)	(0.5)	(2.2)
	UNA	0.6	0.6	0.5	0.5	0.4	0.4	(0.2)	(0.1)	0.0
Germany	PG	13.5	13.0	13.2	13.0	12.5	11.8	(1.7)	(1.4)	(0.7)
	UNA	6.9	6.7	6.1	6.0	5.7	5.7	(1.2)	(0.4)	0.0
U.K.	PG	0.8	0.7	0.7	0.6	4.5	8.2	7.4	7.5	3.7
	UNA	-	-	-	-	-	-	N/A	N/A	N/A
France	PG	7.4	7.5	7.6	7.6	6.9	6.9	(0.5)	(0.7)	0.0
	UNA	25.3	25.3	26.7	28.7	30.5	30.5	5.2	3.8	0.0
Italy	PG	24.1	24.2	24.2	24.3	23.6	23.1	(1.0)	(1.1)	(0.5)
	UNA	24.1	15.6	15.1	14.7	15.8	17.3	(6.8)	2.2	1.5

Source: Euromonitor data (2012), Citi Research

Figure 43. Mass Skin Care Market Shares, Key Markets



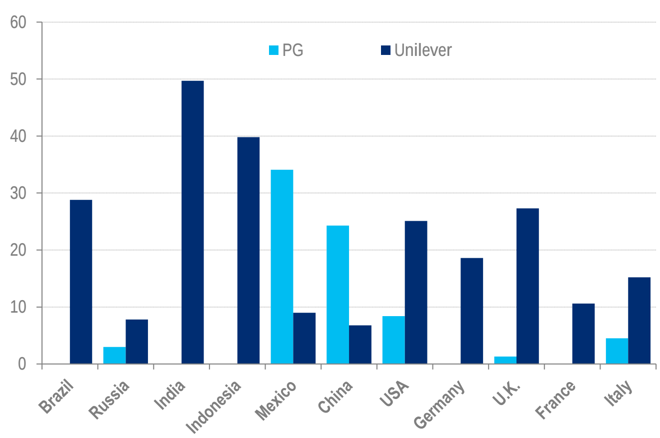
Source: Euromonitor data (2012), Citi Research

Figure 44. Mass Skin Care Share Trends, Key Markets

		2007	2008	2009	2010	2011	2012	5-Year Change	3-Year Change	1-Year Change
Brazil	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	2.8	2.4	2.1	2.0	2.0	1.9	(0.9)	(0.2)	(0.1)
Russia	PG	1.1	2.1	1.9	2.0	2.1	2.0	0.9	0.1	(0.1)
	UNA	8.4	9.6	10.7	11.7	13.1	14.3	5.9	3.6	1.2
India	PG	0.3	0.5	0.7	0.7	0.9	1.1	0.8	0.4	0.2
	UNA	62.6	62.2	61.2	59.8	60.2	59.6	(3.0)	(1.6)	(0.6)
Indonesia	PG	10.1	12.1	12.2	12.5	12.9	13.6	3.5	1.4	0.7
	UNA	34.3	43.9	46.6	48.1	49.3	50.5	16.2	3.9	1.2
Mexico	PG	-	-	-	0.9	1.4	1.3	N/A	N/A	(0.1)
	UNA	14.3	14.6	15.6	15.6	18.1	18.5	4.2	2.9	0.4
China	PG	17.8	15.7	14.5	13.8	12.9	12.2	(5.6)	(2.3)	(0.7)
	UNA	2.8	2.9	2.7	2.6	2.5	2.5	(0.3)	(0.2)	0.0
USA	PG	10.7	10.4	10.8	11.3	11.3	10.5	(0.2)	(0.3)	(0.8)
	UNA	6.8	5.6	5.0	4.2	4.8	4.8	(2.0)	(0.2)	0.0
Germany	PG	3.8	3.5	3.5	3.5	3.6	3.7	(0.1)	0.2	0.1
	UNA	3.2	3.0	2.9	2.9	2.6	2.7	(0.5)	(0.2)	0.1
U.K.	PG	11.4	11.7	12.0	12.8	13.3	13.4	2.0	1.4	0.1
	UNA	4.5	5.0	5.4	5.7	11.5	11.6	7.1	6.2	0.1
France	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Italy	PG	3.0	3.1	3.2	3.3	3.3	3.4	0.4	0.2	0.1
	UNA	2.2	2.2	3.9	4.5	4.3	4.3	2.1	0.4	0.0

Source: Euromonitor data (2012), Citi Research

Figure 45. Bath & Shower Market Shares, Key Markets



Source: Euromonitor data (2012), Citi Research

Figure 46. Bath & Shower Share Trends, Key Markets

		2007	2008	2009	2010	2011	2012	5-Year Change	3-Year Change	1-Year Change
Brazil	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	27.6	23.8	23.8	25.3	25.4	28.8	1.2	5.0	3.4
Russia	PG	3.3	3.0	2.9	3.3	3.3	3.0	(0.3)	0.1	(0.3)
	UNA	7.5	7.1	7.0	7.6	7.5	7.8	0.3	0.8	0.3
India	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	53.5	54.3	51.8	51.0	49.8	49.7	(3.8)	(2.1)	(0.1)
Indonesia	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	41.2	40.8	39.3	39.7	39.0	39.8	(1.4)	0.5	0.8
Mexico	PG	36.8	36.6	35.6	34.8	34.9	34.1	(2.7)	(1.5)	(0.8)
	UNA	8.7	8.6	8.5	9.4	9.5	9.0	0.3	0.5	(0.5)
China	PG	25.1	24.7	24.8	25.1	24.6	24.3	(0.8)	(0.5)	(0.3)
	UNA	6.8	6.5	6.4	6.4	6.6	6.8	0.0	0.4	0.2
USA	PG	9.9	10.2	9.5	9.9	8.7	8.4	(1.5)	(1.1)	(0.3)
	UNA	22.0	22.5	22.4	22.7	24.9	25.1	3.1	2.7	0.2
Germany	PG	-	-	-	-	-	-	N/A	N/A	N/A
	UNA	9.0	9.4	10.1	18.8	18.8	18.6	9.6	8.5	(0.2)
U.K.	PG	1.6	1.7	1.3	1.3	1.3	1.3	(0.3)	0.0	0.0
	UNA	12.7	12.3	12.9	28.0	26.9	27.3	14.6	14.4	0.4
France	PG	0.5	0.4	0.4	0.4	0.2	-	N/A	N/A	N/A
	UNA	10.8	10.1	10.2	14.5	11.1	10.6	(0.2)	0.4	(0.5)
Italy	PG	5.2	5.1	4.6	4.6	4.5	4.5	(0.7)	(0.1)	0.0
	UNA	8.7	8.7	9.5	15.3	15.1	15.2	6.5	5.7	0.1

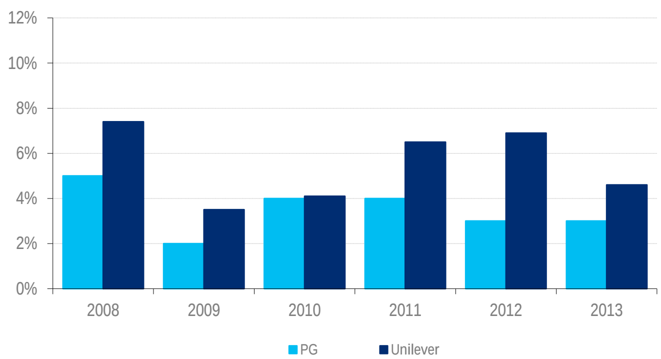
Source: Euromonitor data (2012), Citi Research

Head-to-Head: In Terms of Sales Growth, Unilever Comes Out Ahead

In the charts below, we compare PG and Unilever's organic sales growth performance relative to each other and in the context of the broader peer group, although we focus on the HPC group, since this is the core overlap between the companies.

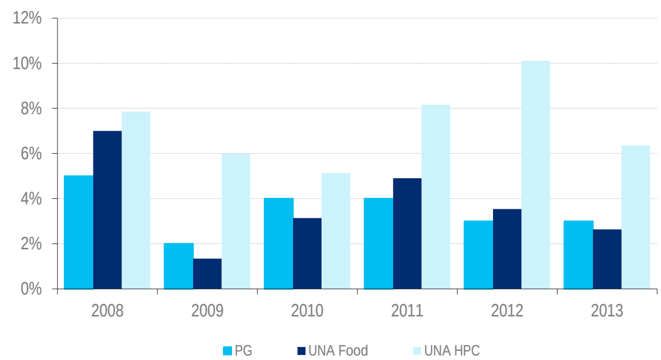
Figure 47 shows PG and Unilever's organic sales growth rates since 2008, with Unilever outpacing PG in each year. Figure 48 break's Unilever's performance down into Food and HPC. Interestingly, the 5-year growth CAGR for Unilever's Food business of 3.1% (vs. 7.1% for the HPC businesses) is comparable to PG's total growth CAGR of 3.2% over the past five years.

Figure 47. PG vs. Unilever Organic Sales since FY08



Note: Fiscal years / Unilever 2013 is Citi Estimate.
Source: Citi Research

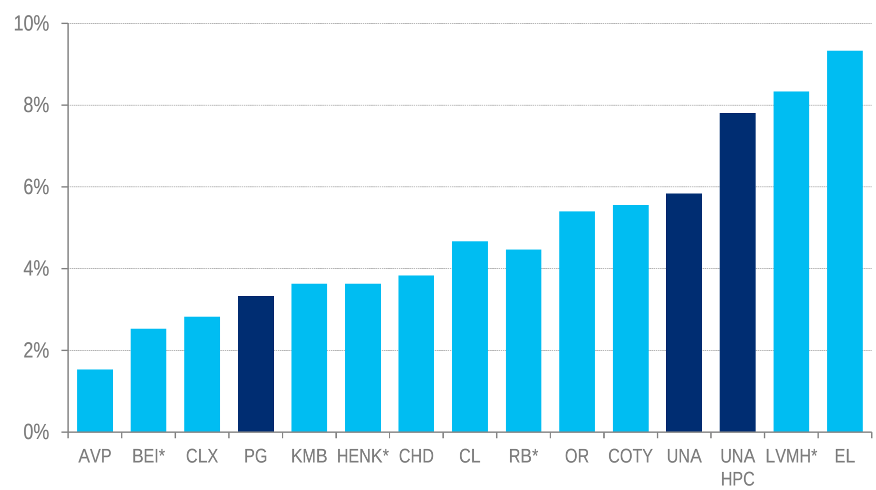
Figure 48. PG vs. Unilever Food / HPC Organic Sales since FY08



Note: Fiscal years / Unilever 2013 is Citi Estimate.
Source: Citi Research

As shown in Figure 49, PG's average organic sales growth in the past **three** years, at ~3.3%, has been towards the lower end of the major multi-national HPC companies, whilst Unilever, at ~5.8%, specifically its HPC business, at ~7.8%, has been close to best-in-class amongst the major multi-national peer group.

Figure 49. PG and Unilever's 3-Yr Average Organic Sales Growth vs. Primary HPC Peers



Note: * BEI is Consumer, HENK is HPC, RB is ex-Pharma, LVMH is Perfumes & Cosmetics
Source: Company Reports and Citi Research

By category, the fastest growing companies in the past three years have been the pure-play Beauty companies, with Estée Lauder, LVMH (P&C), COTY and L'Oréal occupying four of the top five positions. Avon and Beiersdorf have had company-specific issues which see them in the lower places. By contrast, companies more heavily exposed to household products have tended to deliver more moderate organic growth.

However, Figure 50 shows the main category drivers of group organic growth for both PG and Unilever over the past three years.

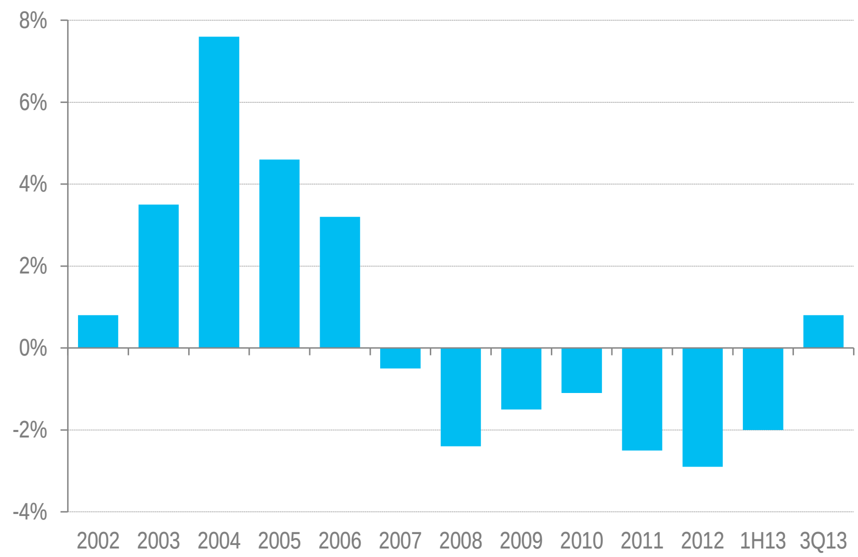
Figure 50. 3-Year Organic Sales Growth Average Drivers by Category

P&G	FY10-FY13	Unilever	2009-12
Baby and Family Care	5.7%	Personal Care	8.2%
Health Care	4.3%	Home Care	7.1%
Procter & Gamble	3.3%	Refreshment	5.8%
Fabric and Home Care	3.0%	Unilever	5.8%
Grooming	2.3%	Foods	2.7%
Beauty	1.3%		

Source: Company Reports and Citi Research

Whilst Personal Care has been a key growth driver for Unilever, Home Care has also been very accretive to growth, whilst the Foods businesses have held back the overall performance. By contrast, Beauty has been the single biggest drag on PG's business, with three of its five (old definition) businesses being dilutive to the overall growth rate and just Baby & Family Care and Health Care being accretive to the company's growth. Figure 51 shows PG's organic growth premium (based on the portfolio at the time) relative to Unilever (total group – Food and HPC) over the past decade.

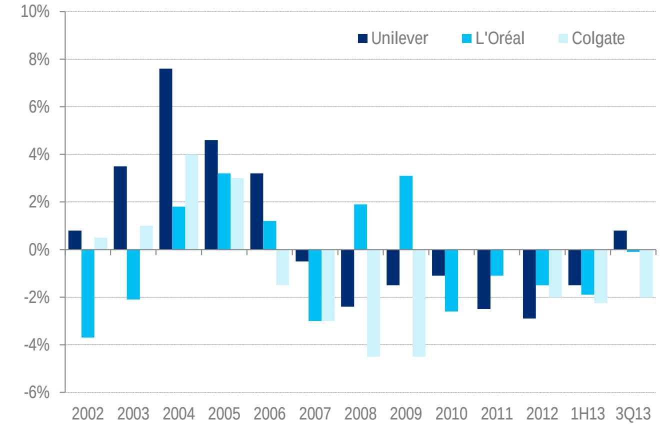
Figure 51. PG's Organic Sales Growth Premium / Discount vs. Unilever



Source: Company Reports and Citi Research

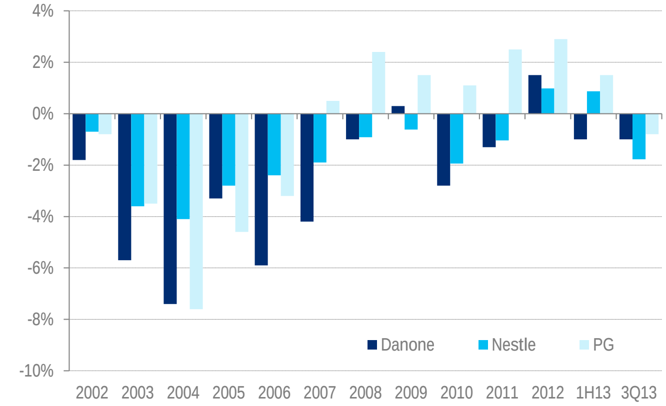
PG's peak (and Unilever's trough) was in 2004, towards the end of Unilever's ultimately unsuccessful (for growth) Path to Growth strategy, when PG delivered 8% organic growth and Unilever managed only 0.4% organic growth.

Figure 52. PG's Organic Sales Growth Relative to Key Staples Peers



Source: Company Reports and Citi Research

Figure 53. Unilever's Organic Sales Growth Relative to Key Peers



Source: Company Reports and Citi Research

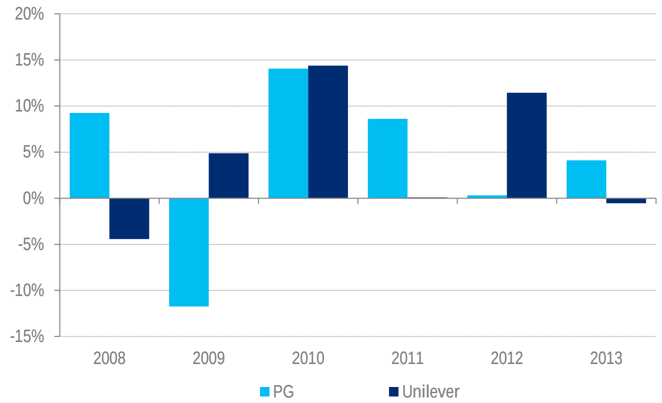
Figure 52 illustrates that PG's growth premium eroded not only to Unilever, but also to other global Staples bellwethers, such as Colgate and L'Oréal, whilst Figure 53 shows that Unilever's organic growth shortfall closed not only to PG, but also to other important relevant peers, such as Nestlé and Danone.

As discussed previously, Unilever emerged bruised from the Path to Growth and set upon a series of new strategies, including the One Unilever program, culminating in the current Compass strategy under CEO Paul Polman.

Head-to-Head: In Terms of Investment Spending, We See Different Priorities

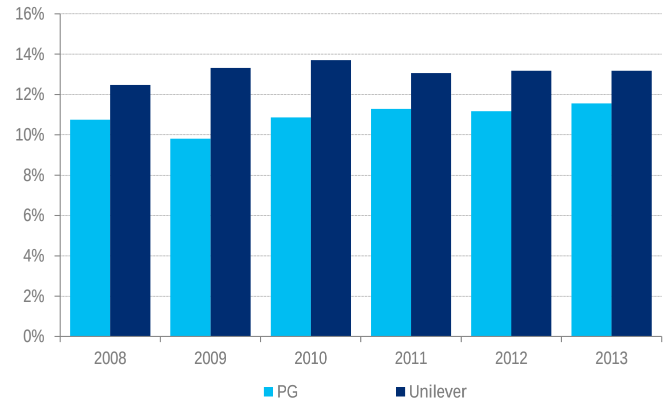
When looking at the extent of advertising spending by each company, Unilever consistently outspends PG as a percentage of sales. We note that this surprises us a bit, given that generally, advertising spending as a % of sales tends to be greater for HPC industries when compared to food.

Figure 54. Advertising Spending on an Absolute Basis Has Been Lumpy for Both Companies Over the Last Few Years (Chart Depicts YoY Change in Reported Terms)



Note: For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research

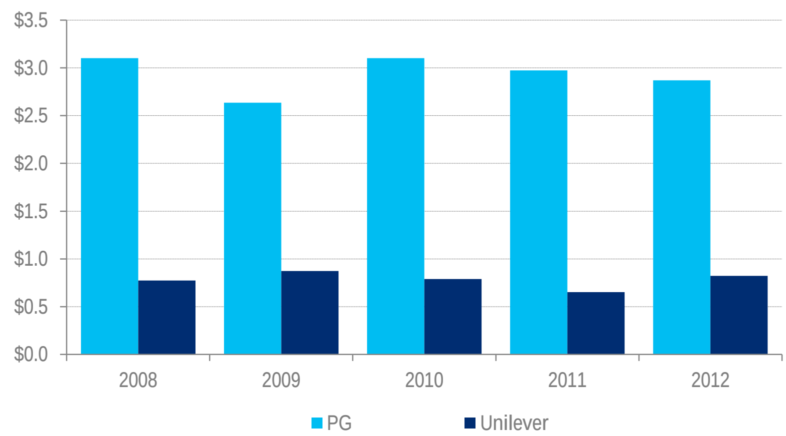
Figure 55. Unilever Consistently Spends a Greater Percentage of Sales on Advertising Than PG



Note: For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research

That said, looking at the U.S., the largest market for both companies, which represented 35% of PG's sales in FY12 (or $29.5 billion, ex Pringles) and 15% of Unilever's sales (or $10.1 billion), PG spends considerably more than Unilever on both an absolute and a relative basis, based on data from Kantar Media. While we recognize that Kantar Media data does not paint a perfect picture, and excludes promotional spending (as does the data above), in the most recent year, PG's advertising spending in the U.S. as a percentage of sales was roughly 10%, while Unilever's was roughly 8%.

Figure 56. Both Companies' Advertising Spending in the U.S. Has Been Relatively Steady Over the Last Few Years



Note: Dollars in billions, calendar years.
Source: Kantar Media and Citi Research

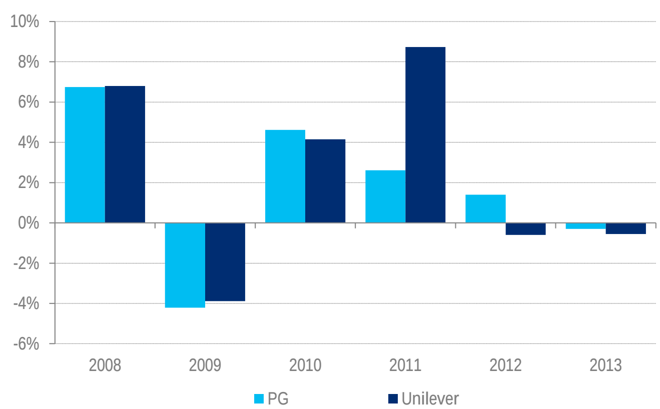
Figure 57. Among the Top 10 Categories Where Each Company Spends the Most in the U.S. for Advertising, Two Categories Overlap—With PG Spending More in Both Cases

PG			UNILEVER		
1	Laundry Soaps & Preparations	$224	1	Shampoos, Conditioners & Rinses	$185
2	Dental Supplies	222	2	Skin Care Products	118
3	Skin Care Products	221	3	Deodorants & Anti-Perspirants	112
4	Shampoos, Conditioners & Rinses	194	4	Bath Soaps & Toiletries	85
5	Household Paper Products	191	5	Dairy Products & Substitutes	70
6	Shaving Equip & Supplies-Unisex & Men	129	6	Salad Dressing & Mayonnaise	45
7	Digestive Aids, Antacids & Laxatives	110	7	Toiletries,Hygnc Goods & Skin Cr-Men	33
8	Insecticides,Disinfectants & Deodorizers	100	8	Hair Styling & Holding Products	30
9	Scents, Fragrances & Perfumes	94	9	Coffee, Tea, Cocoa & Milk Additives	24
10	Dishwashing Soaps & Preparations	87	10	Shortening, Oil, Margarine & No-Stick Pdts	23

Note: $ in millions. 2013 calendar year.
Source: Kantar Media and Citi Research

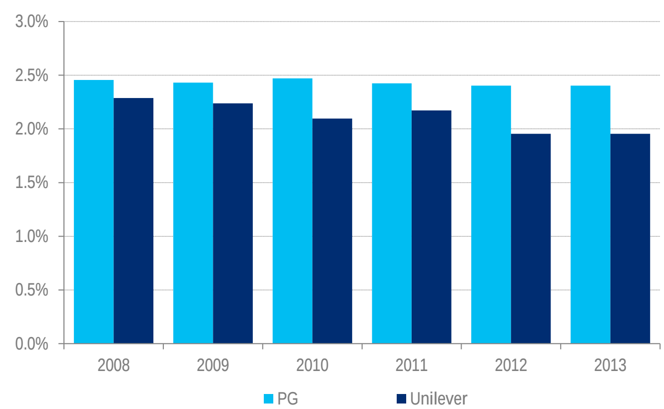
When looking at the extent of R&D investment by each company, PG consistently outspends Unilever as a percentage of sales. PG's former CEO Bob McDonald often touted the company's R&D spending as a point of strength. While we don't necessarily look for the spending to drop materially, we are watchful as to how much emphasis newly-reappointed CEO A.G. Lafley places on R&D spending as a percentage of sales (as perhaps this is another area for PG to improve its productivity).

Figure 58. Changes in Spending on R&D on an Absolute Basis Have Primarily Been Similar for Both Companies Over the Last Few Years



Note: For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research

Figure 59. Different from Advertising Spending, PG Consistently Outspends Unilever on R&D Spending as a Percentage of Sales



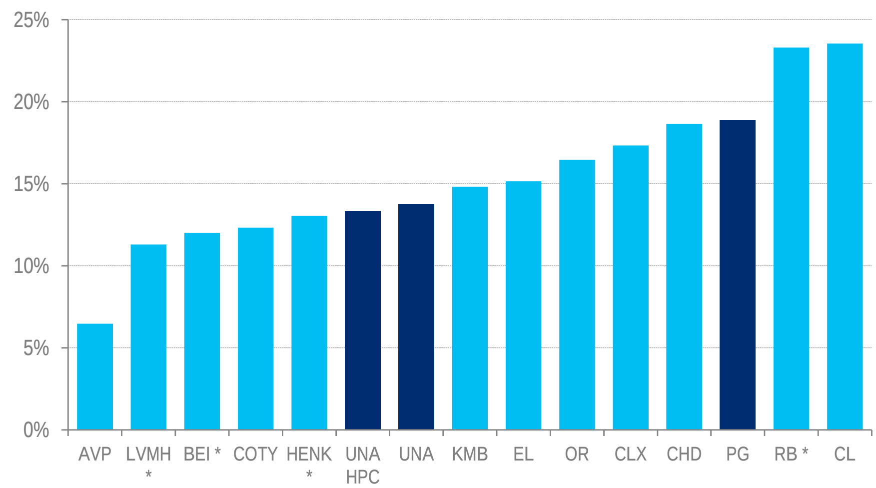
Note: For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research

Head-to-Head: In Terms of Profit Margins, There Is a Gap between Returns vs. Potential

Both PG and Unilever have frequently changed their definitions of "core" operating margins. This makes comparison between companies somewhat difficult and comparison between the companies over time almost impossible.

However, as shown in Figure 60, PG achieves amongst the highest margins in the peer group, largely due to its absolute scale and out-sized representation in the profitable U.S. market, whilst Unilever's divisional and aggregate margins are more modest, when benchmarked against appropriate peers.

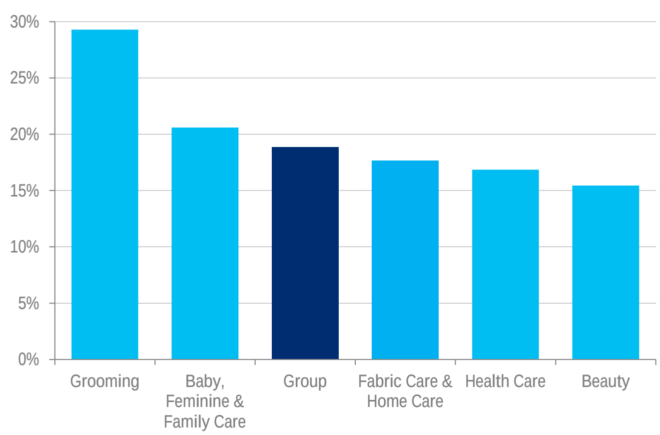
Figure 60. PG and Unilever's Adjusted Operating Margin Relative to Peers



Note: * LVMH P&C, BEI Consumer, HENK HPC, RB ex-pharma. Most recent reported years.
Source: Company Reports and Citi Research

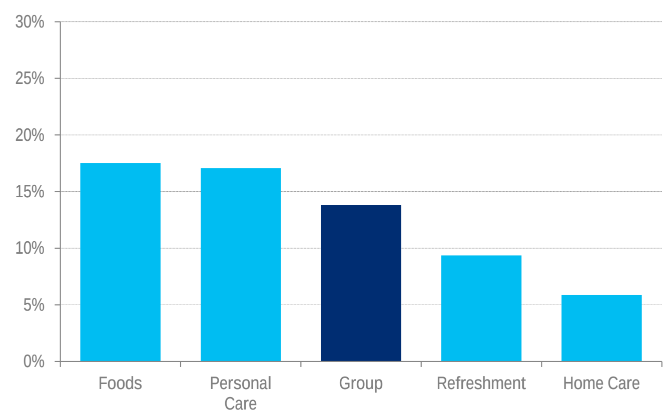
In addition to PG benefitting from its significant U.S. exposure, its high margins are also supported by the very high profitability that it achieves in its Grooming business. Unilever, by contrast, suffers a significant drag on its profitability from its Refreshment business (ice-cream and tea) and its Home Care activities, which have suffered persistently low profitability over many years.

Figure 61. PG's Estimated Core Operating Margin by Division (FY13)



Note: "Core" pre-tax margins adjusted for (i) Corporate Expense and (ii) Net Interest and Other Expenses; allocated to the divisions based on contribution to pre-tax profit.
Source: Company Reports and Citi Research Estimates

Figure 62. Unilever's Core Operating Margin by Division (2012)

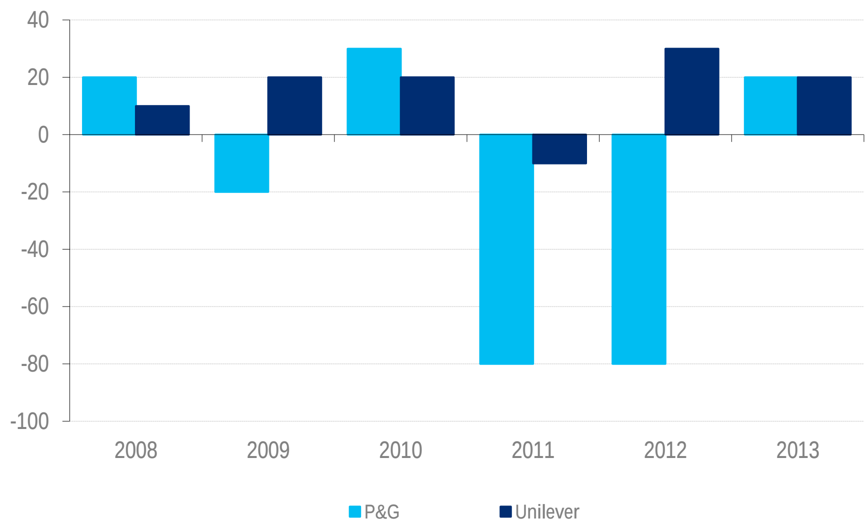


Note: Adjusted "core" operating margin according to Unilever's definition
Source: Citi Research

Unilever's core operating margin is relatively consistent between regions, with Europe and The Americas both achieving margins of 14.2% and Asia / AMET / RUB of 13.1% (itself up 110bps in 2011). In aggregate, Unilever's EM / DM core operating margins are not hugely dissimilar, with EMs' core operating margin at 13.3% and DMs' at 14.3%.

However, as shown in Figure 63, Unilever's margin delivery has been much more consistent in recent years.

Figure 63. Annual Change in "Underlying" Operating Margin (in bps) since FY08

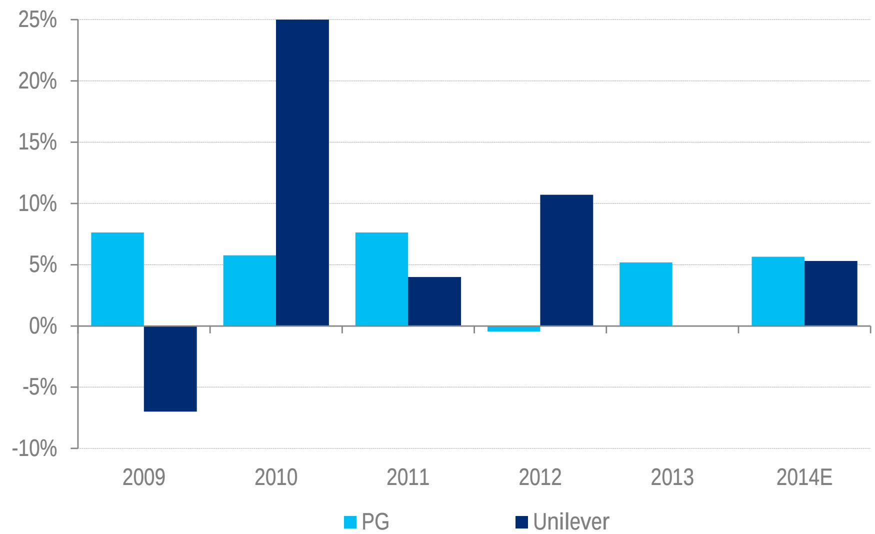


Note: For PG, beginning in 2011 is Core. For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research

Head-to-Head: In Terms of Earnings, Neither Shines Bright

The hallmark of consumer staples companies generally is consistency, although in the cases of both PG and Unilever, their reported Core EPS growth has been anything but steady and strong in recent years. While some of the lumpiness in the reported EPS figures can be explained by currency movements, generally, the overall trend of EPS growth has been what we consider to be disappointing in recent years.

Figure 64. EPS Growth Has Been Lumpy for the Companies for the Last Few Years

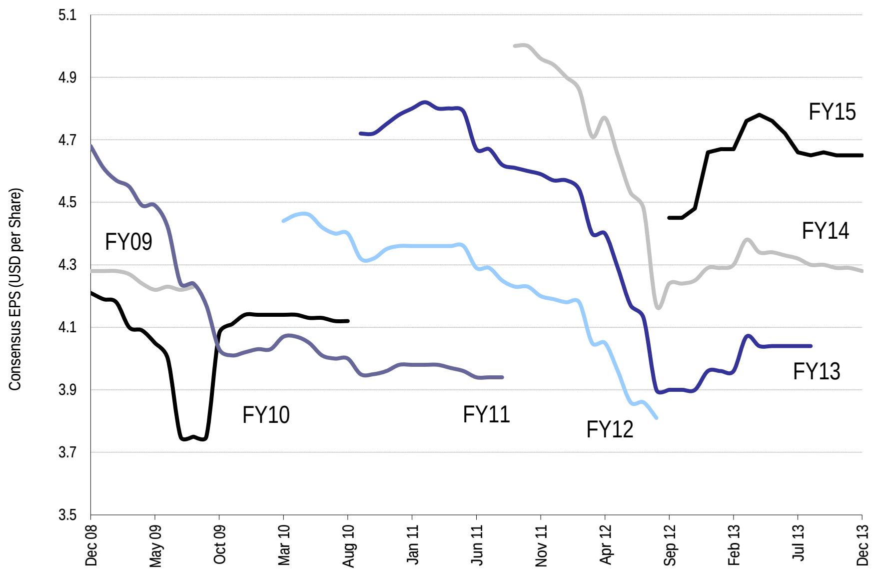


Note: For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research

The "Wiggly Worms" charts for both companies do not, on the face of it, display particularly "staples-like" profiles. However, in the case of both companies, the headline consensus earnings number contains various distortions. In particular:

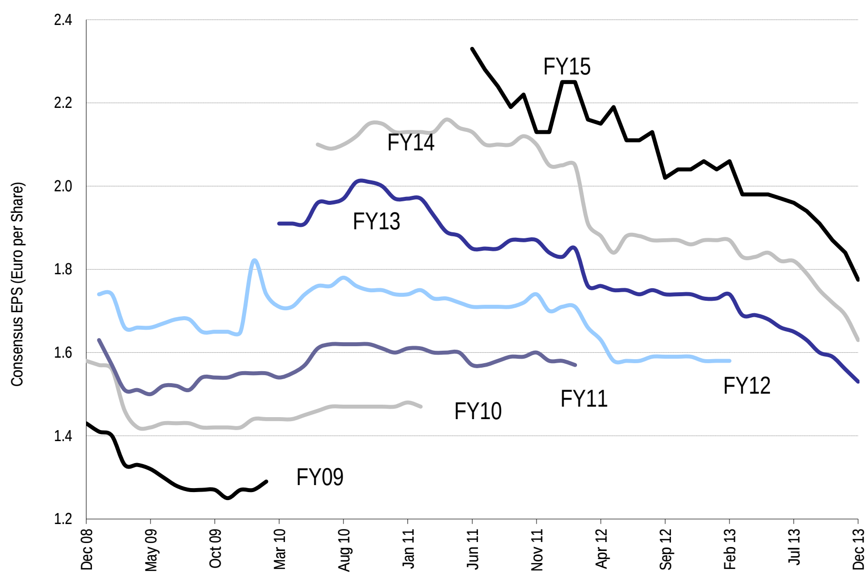
- For **PG**, the downward pressure on EPS forecasts have come from (i) F/X headwinds, (ii) higher commodity prices in some years, (iii) generally slower category growth in both DMs and EMs, (iv) weaker market shares in more recent years, and (v) other macro issues, e.g. Venezuela devaluation, import restrictions and price controls in Argentina, and unrest in Egypt.
- For **Unilever**, the downward pressure (despite upside to organic sales growth and underlying margin expansion) has been from (i) FX, (ii) adoption of IAS19, (iii) shift to "core" from "underlying" earnings, and (iv) various non-operating items.

Figure 65. PG – Consensus Forward EPS



Source: Citi Research and DataStream

Figure 66. Unilever – Consensus Forward EPS

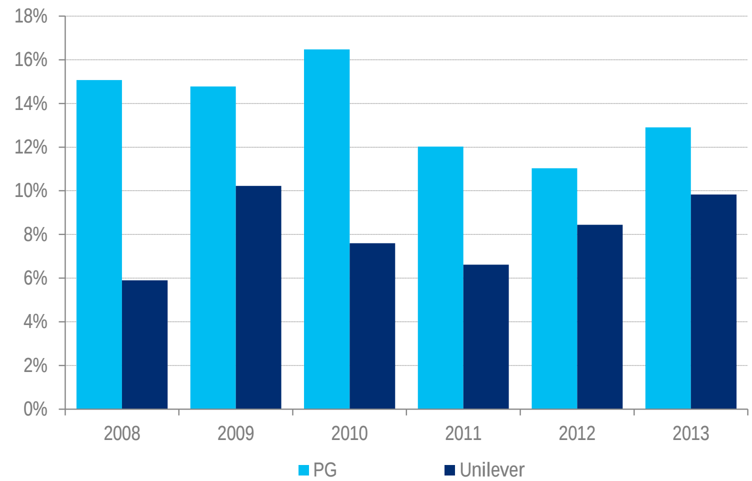


Source: Citi Research and DataStream

Head-to-Head: In Terms of Cash Flow, PG Seems More Productive

Both PG and Unilever are highly cash generative companies, although PG has consistently delivered higher free cash flow as a percentage of sales (averaging ~13.5% over the past five years vs. Unilever at ~8.5% of sales), largely driven by its higher operating margins, since the companies' capex (gradually higher) and NWC trends (lower for both companies and negative for Unilever) are not much different.

Figure 67. PG's Free Cash Flow as a Percentage of Sales Is Consistently Stronger Than Unilever's



Note: For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research Estimates

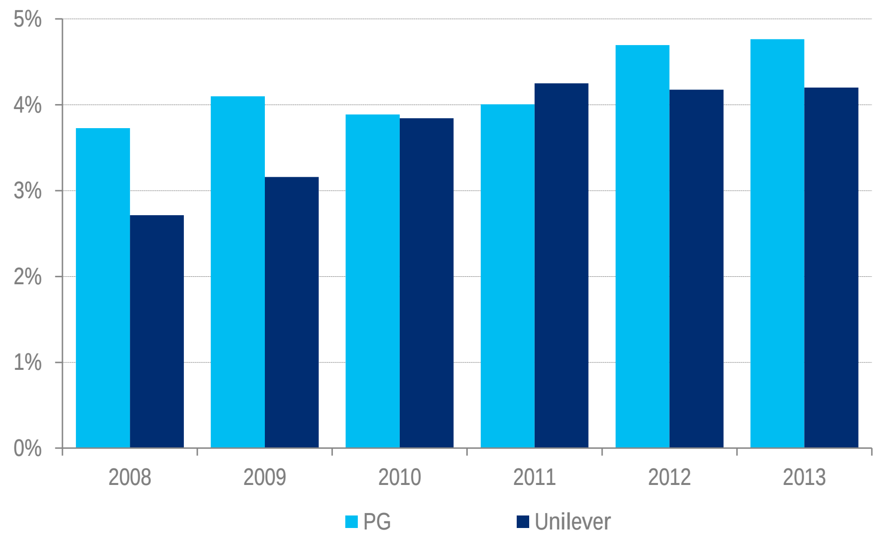
On the following pages, we review the various uses of cash for each company. In summary, our findings are as follows:

- **Investment**
  - **Capex:** PG's capex spending as a percentage of sales has ticked up recently, to 4.8% of sales in the most recent fiscal year, owing to aggressive capital investments in EMs. Unilever has also stepped up capex, also above 4.0% of sales, and it is likely to stay at elevated levels for the foreseeable future.
  - **Mergers & Acquisitions:** PG has been relatively passive on the M&A front over the last few years. By contrast, over the same period, Unilever has been far more active in the M&A markets to shape its portfolio, being a net buyer of EMs and HPC assets and a net seller of DMs and Food businesses.
- **Returns to Shareholders**
  - **Dividends:** Dividends are very important for both companies and both maintain payout ratios above 50%.
  - **Share Repurchases:** Over the last several years, PG has spent an average of ~$5 billion on share repurchases annually (reducing its share count by ~2% on average annually). However, Unilever has not bought back shares since 2008 and it remains an unlikely use of cash for the foreseeable future.
- **Other:** Also worth noting, a significant portion of Unilever's FCF is used to fund pension deficit contributions. We expect this to remain high in 2013, at ~€900mm.

Both Companies Have Hiked Capital Expenditures

Figure 68 illustrates the rising level of capital expenditures for both PG and Unilever in recent years.

Figure 68. Capex Spending as a Percentage of Sales Has Increased More So for PG Than for Unilever



Note: For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research

PG's capex as a percentage of sales has ticked up recently, reaching 4.7% and 4.8% of sales in the most recent fiscal years, above the roughly 4.0% seen in the preceding few years. We attribute this spending to PG's aggressive manufacturing facility expansion worldwide, where for the last couple of years the company has been engaged in early-to-late stage building of ~20 plants. Looking ahead to its new fiscal year of 2014, PG offered it expects to spend 4%-5% of sales on capex.

Unilever's capex as a percentage of sales has also increased in recent years, up from less than 3.0% in 2008 to 4.2% in 2012. This reflects a deliberate step-up in investment, as management acknowledged that through much of the 2000's the company was under-investing in its production facilities. The increased investment is being directed towards factory expansion and improvement and IT infrastructure to support the more globally integrated business. New factory investment has been overwhelmingly focused in EMs, due to the need for local production. Longer-term guidance is for capex to remain at an elevated 4.0%-4.5% of sales.

Unilever Has Been Much More Active in M&A…

Unilever has been active in portfolio management through M&A in recent years as it strives towards its (undated) €80 billion sales target (vs. ~€40 billion in 2009).

The company has been a net buyer of EM and HPC assets (including Kalina and Alberto Culver) and a net seller of DM and Foods businesses (such as Skippy, Wishbone and its North American frozen meals business), which is consistent with its strategy of driving the HPC business towards €50 billion in sales from less than €20 billion in 2009, when the €50 billion goal was first introduced.

Although Unilever has the capacity for large-scale, transformational deals, we expect its near-term focus will be on bolt-on deals – in the €1-€2 billion range.

Whilst the Foods business is a drag on growth and Refreshments is dilutive to group margins, we think the overall Foods business is in the best shape it has been in for years, given much focus of categories and brands. That said, we think the categories have structural growth challenges, but we do not expect any large-scale disposals, given the negative implications on scale in Europe should this happen.

We think the company would be much more amenable to larger deals in HPC, particularly in Personal Care, but there is a lack of obvious materially sized targets. Indeed, we think the recent stake increase in Hindustan Unilever highlighted the company's preference to invest in EM HPC rather than to return cash to shareholders, but given that we thought it was a rather dull way to spend ~€2.5 billion it rather reflected an absence of better alternatives.

Figure 69. Unilever – Summary Details of Key M&A Activity Since 2008

Date	B/S	Target	Value	Sales	Profit	Rationale
12-Aug-13	Sell	Wish-Bone and Western dressings	$580m	$190m		U.S. Foods disposal to Pinnacle Foods
04-Jul-13	Sell	Unipro bakery & industrial oils business	Undisclosed	€ 75m		Non-core business exit
11-Jul-13	Buy	Increase HUL stake by 14.78%	€ 2,490m	€ 3,800m	€ 500m	Increasing investment in EM HPC
03-Jan-08	Sell	Global Skippy business ex-China	$700m	$370		Largely DM Foods disposal to Hormel Foods
30-Dec-12	Buy	Remaining 18% of Kalina				
30-Jul-12	Sell	North America frozen meals business	$265m	$300m		U.S. frozen meals disposal in line with strategy to exit the frozen foods business
20-Dec-11	Buy	Ingman Ice Cream	Undisclosed	€ 70m		Refreshment (ice-cream) is strategically significant
06-Dec-11	Buy	82% of Concern Kalina	€ 604m	€ 303m		Increasing exposure to HPC in EMs (Russia)
01-Dec-11	Sell	Culver Specialty Brands	€ 240m	€ 64m		Tidy-up post Alberto Culver acquisition
24-Aug-11	Sell	Alberto VO5 (U.S.) and Rave (globally)	Undisclosed			Required by the DOJ in the Alberto Culver acquisition
30-Jun-11	Sell	Simple Soap in the UK and RoI	Undisclosed			Required by competition authorities in the Alberto Culver acquisition
23-Mar-11	Sell	Sanex (largely in Western Europe)	€ 672m	€ 187m		Required by the European Commission in the Alberto Culver acquisition
23-Mar-11	Buy	Colombian Laundry business	$215m			
01-Oct-10	Sell	Frozen foods business in Italy	€ 805m	€ 462m		Part of (DM) frozen foods exit
28-Sep-10	Buy	EVGA ice cream brands in Greece	Undisclosed	€ 32m		Refreshment (ice-cream) is strategically significant for Unilever
27-Sep-10	Buy	Alberto Culver	$3,700m	$1,600m	$250m	Strong brands (including TRESemmé, VO5, Nexxus, St. Ives and Simple) in attractive HPC categories
24-Sep-10	Sell	Tomato products business in Brazil	R$600m			Non-core Foods exit
25-Sep-09	Buy	Sara Lee Personal Care business	€ 1,275m	€ 750m	€ 128m	Personal Care brands in Western Europe
24-Nov-09	Sell	Sell down Johnson Diversey	$390m			Further reduction in holding in non-core legacy industrial cleaning business
03-Sep-09	Sell	Oil palm plantation business in the DRC	Undisclosed			
03-Jul-09	Buy	ZAO's sauces business in Russia	Undisclosed	€ 70m		EM Foods (Russian ketchup and dressings)
23-Jun-09	Buy	Increased stake in Vietnam biz to 100%,	Undisclosed			Further investment in EM business
02-Apr-09	Buy	TIGI hair products and education	$412m	$250m		Personal Care business, with market-leading R&D capabilities
23-Dec-08	Sell	Bertolli olive oil and vinegar business	€ 630m	€ 380m		DM Foods disposals
04-Dec-08	Sell	Edible oil business in Côte d'Ivoire	Undisclosed			
04-Dec-08	Buy	Soap business of Côte d'Ivoire	Undisclosed			
05-Sep-08	Sell	North American laundry business	$1,450m	$1,000m		Disposal of non-strategic brands (and reducing DM exposure)
05-Sep-08	Sell	Komili, our olive oil brand in Turkey		€ 26m		Disposal of non-strategic brands (and reducing DM exposure)
31-Jul-08	Sell	Lawry's and Adolph's seasoning	€410m	€100m		Disposal of non-core DM (US and Canada) Foods businesses
02-Apr-08	Buy	Inmarko	Undisclosed	€ 115m		Refreshment (ice-cream) is strategically significant for Unilever and Inmarko a leading brand in Russia
03-Jan-08	Sell	Boursin brand	€400m	€100m		
01-Jan-08	Buy	Partnership with PepsiCo of RTD tea products under the Lipton brand				Refreshment (tea) is strategically significant

Source: Company Reports and Citi Research

…Though We Suspect PG May Soon Become More Active

PG has been far less active than Unilever on the M&A front over the last five years, with the bulk of PG's big acquisitions having taken place between 1999 and 2005 (Iams in 1999, Clairol in 2001, Wella in 2003, and Gillette in 2005).

At this point, we think PG's business mix and brand/product portfolio is largely complete, and indeed we'd suspect that anti-trust concerns might prevent PG from making any further sizeable acquisitions in its core categories.

One exception to this might be prestige beauty, as while PG operates a very large and global mass beauty business, its presence in the prestige channel is very small at present. With this limited scope for sizeable future acquisitions in mind, we expect PG's strategy instead will be to look for smaller tuck-in acquisitions that might complement its existing business in certain markets.

One other relevant consideration we believe is that PG may opt to "shrink to grow" in certain markets or categories. Indeed, since his arrival back at PG in Summer 2013, A.G. Lafley has mentioned several times that the company would consider divesting businesses or exiting certain markets that aren't meeting internal expectations for growth and/or profitability. We think there are a handful of brands (e.g., Braun, Duracell and Iams) that might fall into this category. Alternatively, PG could decide simply to exit certain country/category combinations, as it did in 2007 when the company announced that it would exit the Western European tissue/towel market by selling its business to SCA (though PG continues to operate a sizeable tissue/towel business in other large markets, including the U.S.). All in, we believe that perhaps ~5% of PG's current revenues could be at risk as PG moves to exit underperforming businesses.

Figure 70. PG – Summary Details of Key M&A Activity Since 2008

Date	B/S	Target	Value	Sales	Profit	Rationale
Late 2012	Sell	Bleach in Italy	$250m			Divest non-core holding.
22-Oct-12	Buy	JV in Iberia	$1.1bn			Acquire partner's interest.
17-Mar-12	Buy	New Chapter	$130m			Expand in vitamins.
15-Feb-12	Sell	Pringles	$2.7 bn	$1.4 bn		Exit food business.
06-Dec-11	Sell	PUR	$130m			Divest non-core holding.
05-May-10	Buy	Natura	Undisclosed			Expand pet food business, to enhance Iams.
11-Dec-09	Buy	Ambi Pur	$470m			Fill in geographic white space in air care category.
24-Aug-09	Sell	Pharma business	$3.1 bn	$3.0 bn		Highly competitive business, with PG experiencing market share losses.
16-Jun-09	Buy	Zirh	Undisclosed			Expand into high-end grooming.
03-Jun-09	Buy	The Art of Shaving	Undisclosed			Expand into high-end grooming.
09-Sep-08	Sell	Noxzema	$84m			
04-Jun-08	Sell	Folgers	$3.3 bn	$2.0 bn		Exit lower growth and lower margin businesses.
26-Mar-08	Buy	Frederic Fekkai	$400m			"Learn from and build this unique business model."

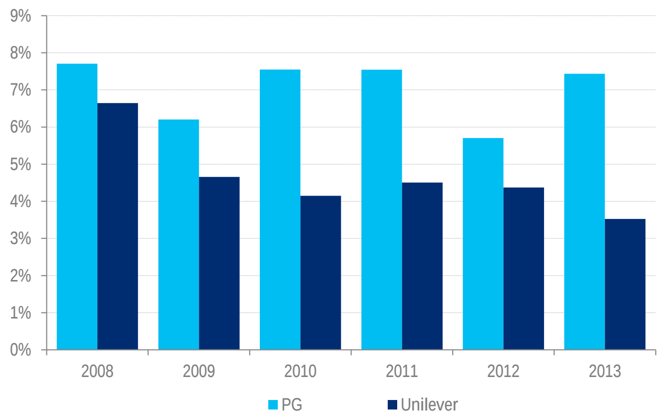
Source: Company Reports, FactSet, The Wall Street Journal, and Citi Research

Returning Cash to Shareholders

PG uses a combination of dividends and buybacks to return cash to shareholders, whereas Unilever pays dividends, but has not had an active share buyback since 2008.

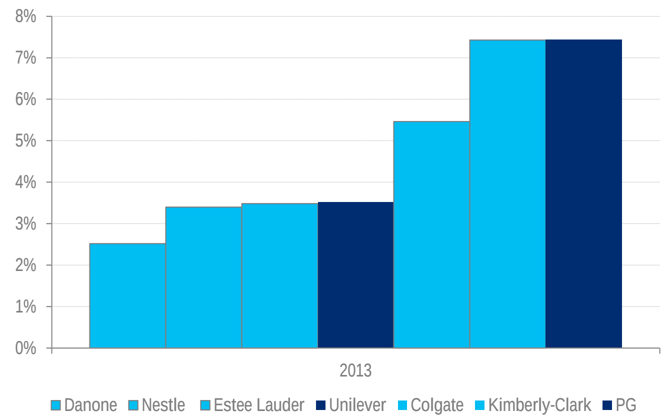
Figure 71 shows that PG has consistently returned more cash to shareholders than Unilever, whilst Figure 72 shows PG to be returning more cash than all of its main U.S. HPC (and Unilever's European Food) peers.

Figure 71. PG's Total Cash Yield Is Consistently Above Unilever's



Note: For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research

Figure 72. PG's Cash Returns Top the Peer Group in 2013



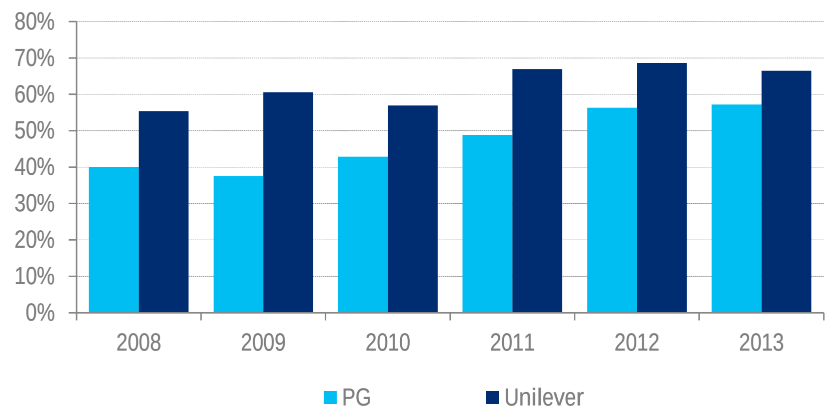
Note: Fiscal years.
Source: Company Reports and Citi Research

Dividends

PG considers its dividend sacred, and the company prides itself on not only its uninterrupted 123-year track record of paying dividends, but also on its steady increases (57 consecutive years and counting). As a long term goal, PG intends to increase its dividend in line with EPS growth. As seen in Figure 73 below, PG's dividend payout ratio is considerable, at over 50%.

Unilever plans for its dividend payout ratio to remain competitive and we assume a broadly flat payout ratio (at a very high level, more than 65%) in future years.

Figure 73. Unilever's Dividend Payout Ratio Is Consistently Higher Than PG's



Note: For Unilever, 2013 is Citi Research Estimate.
Source: Company Reports and Citi Research

Share Repurchases

For the last couple of years, PG has committed several billion dollars annually to share repurchases. In FY11, PG repurchased $7 billion of shares (in line with the original guidance for $6-$8 billion). In FY12, PG repurchased $4 billion of shares (lower than the original target for $6 billion). Interestingly, PG stated in June 2012 that it did not intend to repurchase shares in FY13, which news was received as sharply negatively by investors. However, PG ultimately did repurchase $6 billion of shares in FY13. Looking ahead, PG expects to spend $5-$7 billion on share repurchases in FY14.

We do not think that share buybacks are very likely in the near term for Unilever. The company is committed to retaining its A+ credit rating and we think that targeted acquisitions and a rich dividend payout are far more likely uses of cash.

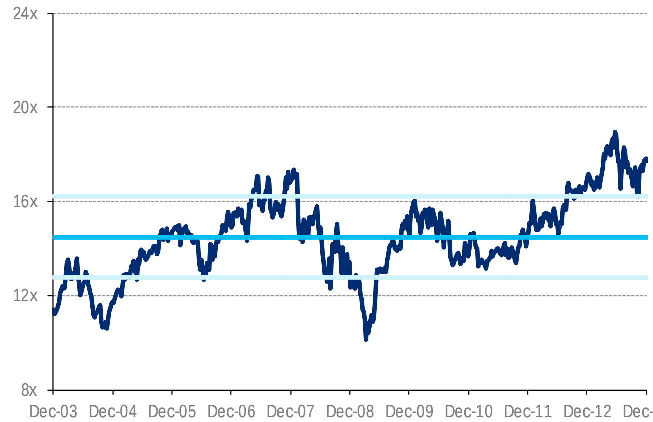
Head-to-Head: PG's Valuation Premium Has (Deservedly) Disappeared

Both PG and Unilever are trading on ~17.5x-19.0x current consensus 12-month forward EPS expectations although for PG, its forward multiple is just 8% (and less than one standard deviation) above its 10-year average forward trading multiple, whereas Unilever is trading 21% (more than one standard deviation) higher than its 10-year average forward multiple. We note that this rich premium valuation to its long-term history for Unilever is despite the pull-back in the shares since its 3Q13 warning.

Figure 74. PG 12-Month Fwd. P/E Multiple – 10 Years

Source: DataStream

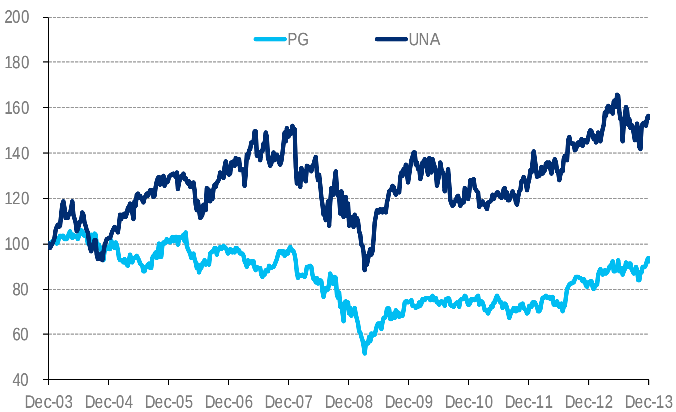
Figure 75. Unilever 12-Month Fwd. P/E Multiple – 10 Years



Source: DataStream

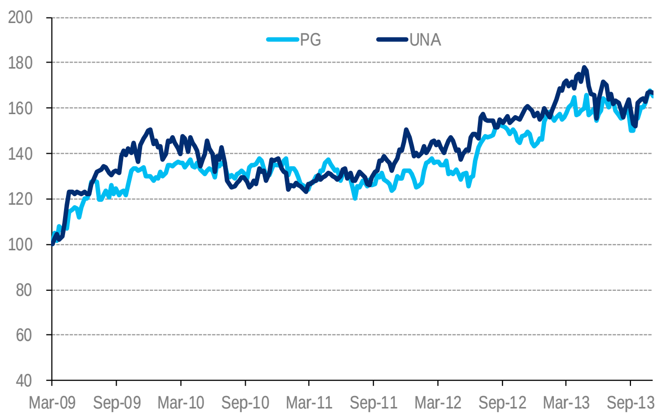
Figure 76 shows just how significantly Unilever has outperformed relative to PG over the past decade, although Figure 77 shows that essentially all of this re-rating occurred in the five years to the March 2009 trough, since then the two companies' relative valuations (with PG retaining a slight premium to Unilever) has been extremely close.

Figure 76. PG vs. Unilever – 10-Year Fwd. P/E (Rebased)



Source: DataStream

Figure 77. PG vs. Unilever – Fwd. P/E (Rebased) Since Mar-09 Trough

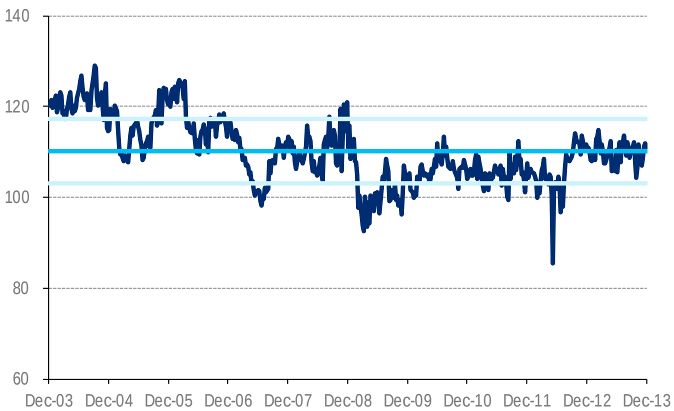


Source: DataStream

Interestingly, the convergence in the relative valuations of the two companies' stocks corresponds quite neatly with the end of significant periods in each company's history, namely (i) passing the peak of PG's relative organic sales growth superiority against a broad peer group and (ii) the end of Unilever's Path to Growth, after which its organic growth has accelerated.

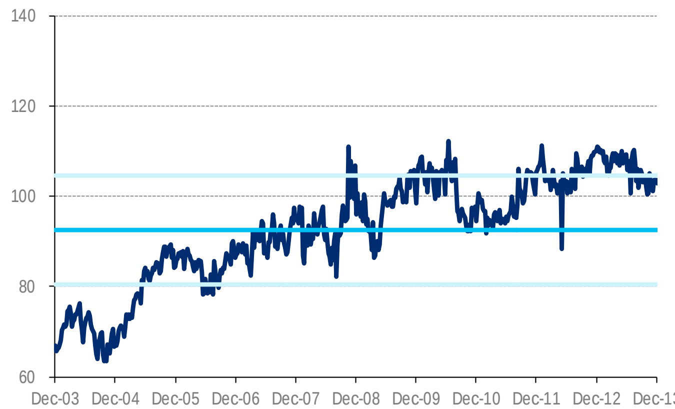
Figure 78 and Figure 79 show each of the two companies' P/E valuations relative to the MSCI Global Consumer Staples universe. Although PG's relative re-rating over the past twelve months and Unilever's relative de-rating in the past six months reflect recent changes in momentum, it is interesting to note the longer-term relative de-rating of PG and the longer-term re-rating of Unilever against the broad peer group, such that the two companies' broadly similar absolute forward P/E multiples put PG broadly in line with its long-term average P/E Relative against the peer group and Unilever about one standard deviation above its long-term average relative rating.

Figure 78. PG Fwd. P/E Rel. to MSCI Global Staples



Source: DataStream

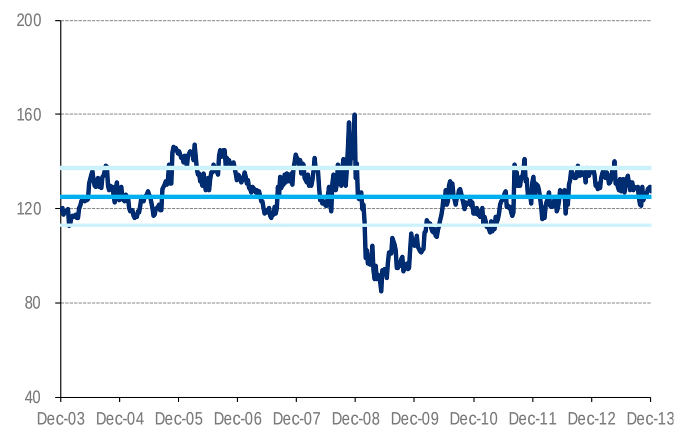
Figure 79. Unilever Fwd. P/E Rel. to MSCI Global Staples



Source: DataStream

In the context of their local markets, Figure 80 and Figure 81 show that both companies are currently trading broadly in line with their long-term P/E Relatives against the broad market, at a bit more than a 20% premium.

Figure 80. PG Fwd. P/E Rel. to S&P 500



Source: DataStream

Figure 81. Unilever Fwd. P/E Rel. to EuroStoxx

Source: DataStream

Both have seen their respective P/E Relatives against the local broad market index compress over the past twelve months, which clearly reflects sector rotation out of Staples that we have seen since the beginning of the year.

Procter & Gamble Co

(PG.N; US$83.34; 1)

Valuation

PG has traded at an average 20% premium to the S&P 500 over the last ten years, which has ranged from a 15% discount to a 45% premium historically. Given our confidence in PG's ability to meet its healthy FY14 EPS growth targets, we argue that PG should trade at a 40% premium to the market (down from 45%, previously, as we expect the Staples sector may continue to lag the overall market). Based on our CY14 EPS estimate of $4.45 and Citi's roughly 15x multiple on the S&P 500, our target price is $95.

Risks

Key risks to our PG investment thesis and target price include the possibility that the competitive environment in many of PG's categories (including baby care, feminine care, oral care, beauty care, and grooming) may intensify such that PG may need to invest more aggressively behind its businesses in order to meaningfully expand its market shares and drive sales growth. As well, a stronger U.S. dollar could adversely impact sales and profits. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Unilever NV

(UNc.AS; €28.71; 2)

Valuation

Our valuation methodology for Unilever is P/E, with its blue chip global consumer staples peers as a reference point. We assume that in 12 months' time the stock will trade at 17x forward P/E, which represents a modest discount due to an inferior track record in delivering consistent revenue growth and margin improvement. This is then applied to our 2015E EPS estimate of €1.75 and implies a rounded fair value of €30 or £25.

Risks

The risks to achievement of our price target are a consumer slowdown in developing markets or a deterioration in emerging markets economies, volatility of developing market currencies, increased competition in the developing markets and spikes in commodity prices. Finally, the stock is vulnerable to an asset allocation shift out of defensive names.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Procter & Gamble Co (PG)

Ratings and Target Price History
Fundamental Research

Analyst: Wendy Nicholson

	Date	Rating	Target Price	Closing Price
1	27-Jan-11	1L	*70.00	64.18
2	13-Mar-11	1L	*69.00	61.49
3	5-Aug-11	1L	*67.00	60.59
4	28-Sep-11	1L	*74.00	62.71
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	74.00	63.91
7	17-Jan-12	1	*76.00	66.26
8	27-Apr-12	1	*74.00	64.44
9	31-May-12	1	*70.00	62.29
10	3-Aug-12	1	*75.00	65.50
11	25-Oct-12	1	*80.00	70.07
12	25-Jan-13	1	*83.00	73.25
13	24-Feb-13	1	*87.00	76.99
14	24-Apr-13	1	*88.00	77.12
15	1-Aug-13	1	*95.00	81.64

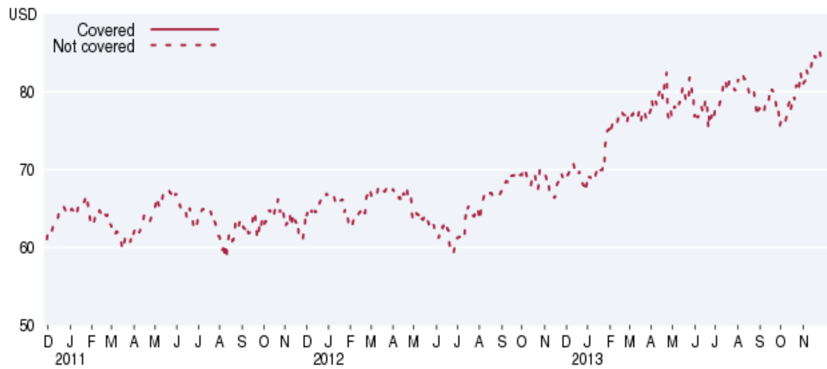
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Procter & Gamble Co (PG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Wendy Nicholson



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Unilever PLC (ULVR.L)

Ratings and Target Price History
Fundamental Research

Analyst: Toby McCullagh
Covered since June 25 2013

	Date	Rating	Target Price	Closing Price
1	5-Jan-11	1L	*24.00	19.55
2	7-Oct-11	Stock rating system changed		
3	7-Oct-11	*1	24.00	20.20
4	24-Jan-12	*2	*22.00	20.45
5	8-Aug-12	2	*24.00	22.78
6	21-Mar-13	2	*29.00	27.34
7	11-Oct-13	2	*25.00	23.76

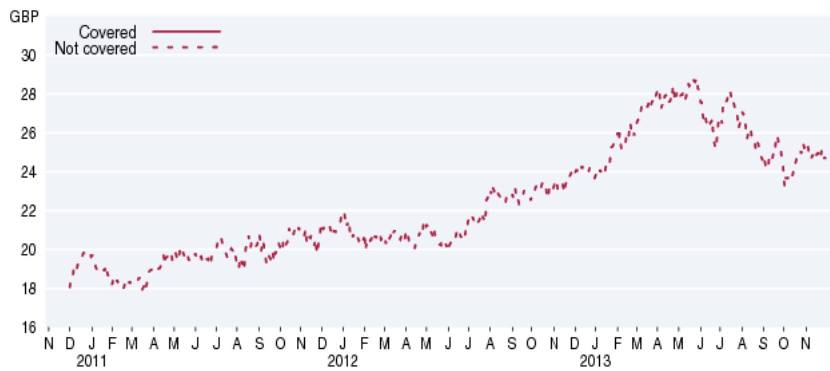
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Unilever PLC (ULVR.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Toby McCullagh
Covered since June 25 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

---

A director of Citi serves on the board of Procter & Gamble Company. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Procter & Gamble Co

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Procter & Gamble Co, Unilever PLC.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Procter & Gamble Co, Unilever PLC.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Procter & Gamble Co, Unilever PLC in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Procter & Gamble Co, Unilever PLC.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Procter & Gamble Co, Unilever PLC.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Procter & Gamble Co, Unilever PLC.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Equity Ratings Distribution

	12 Month Rating			*Relative Rating*		
Data current as of 30 Sep 2013	Buy	Hold	Sell	Buy	Hold	Sell

Citi Research Global Fundamental Coverage	48%	40%	12%	6%	87%	6%
% of companies in each rating category that are investment banking clients	55%	50%	43%	64%	51%	48%

Guide to Citi Research Fundamental Research Investment Ratings:
Citi Research stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.
Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.
Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.
Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. Risk ratings, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). Investment Ratings of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES
Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Inc	Wendy Nicholson; Beth N Kite; Tuknekah Noble
Citigroup Global Markets Ltd	Toby McCullagh; Robert Dickinson, CA
Citigroup Global Markets India Private Limited	Ravi Sharma

OTHER DISCLOSURES

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Procter & Gamble Co. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citiVelocity.com.)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its

accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in Chile through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in France by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in Israel through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in Italy by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in Japan by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd (Company No.

460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Pakistan by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the Philippines through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Spain by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the Republic of China through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in Turkey through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the U.A.E, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

Citi Research generally disseminates its research to the Firm's global institutional and retail clients via both proprietary (e.g., Citi Velocity and Citi Personal Wealth Management) and non-proprietary electronic distribution platforms. Certain research may be disseminated only via Citi's proprietary distribution platforms; however such research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the author's previously published research. Certain research is made available only to institutional investors to satisfy regulatory requirements. Individual Citi Research analysts may also opt to circulate published research to one or more clients by email; such email distribution is discretionary and is done only after the research has been disseminated.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST