

The Procter & Gamble Company Regulation G Reconciliation of Non-GAAP Measures

The following provides definitions of the non-GAAP measures used in Procter & Gamble's April 17, 2020 earnings call, associated slides, and other materials and the reconciliation to the most closely related GAAP measure. We believe that these measures provide useful perspective on underlying business trends (i.e. trends excluding non-recurring or unusual items) and results and provide a supplemental measure of year-on-year results. The non-GAAP measures described below are used by Management in making operating decisions, allocating financial resources and for business strategy purposes. These measures may be useful to investors as they provide supplemental information about business performance and provide investors a view of our business results through the eyes of management. Certain of these measures are also used to evaluate senior management and are a factor in determining their at-risk compensation. These non-GAAP measures are not intended to be considered by the user in place of the related GAAP measure, but rather as supplemental information to our business results. These non-GAAP measures may not be the same as similar measures used by other companies due to possible differences in method and in the items or events being adjusted. The Company is not able to reconcile its forward-looking non-GAAP adjusted cash flow productivity and effective tax rate measures because the Company cannot predict the timing and amounts of discrete items such as acquisition and divestitures, which could significantly impact GAAP results.

The measures provided are as follows:

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Organic sales growth*: Organic sales growth is a non-GAAP measure of sales growth excluding the impacts of acquisitions and divestitures, the impact from the July 1, 2018 adoption of new accounting standards for “Revenue from Contracts with Customers”, and foreign exchange from year-over-year comparisons. Management believes this measure provides investors with a supplemental understanding of underlying sales trends by providing sales growth on a consistent basis.

The Core earnings measures included in the following reconciliation tables refer to the equivalent GAAP measures adjusted as applicable for the following items:

- Incremental restructuring: The Company has had and continues to have an ongoing level of restructuring activities. Such activities have resulted in ongoing annual restructuring related charges of approximately \$250 - \$500 million before tax. In 2012 the Company began a \$10 billion strategic productivity and cost savings initiative that included incremental restructuring activities. In 2017, the Company communicated details of an additional multi-year productivity and cost savings plan. This results in incremental restructuring charges to accelerate productivity efforts and cost savings. The adjustment to Core earnings includes only the restructuring costs above what we believe are the normal recurring level of restructuring costs.
- Early debt extinguishment charges: In fiscal 2018, the Company recorded after-tax charges of \$243 million, due to the early extinguishment of certain long-term debt. These charges represent the difference between the reacquisition price and the par value of the debt extinguished.
- Transitional Impact of U.S. Tax Act: In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "U.S. Tax Act"). This resulted in a net charge of \$602 million for the fiscal year 2018. The adjustment to Core earnings only includes this transitional impact. It does not include the ongoing impacts of the lower U.S. statutory rate on the respective years' earnings.
- Gain on Dissolution of the PGT Healthcare Partnership: The Company finalized the dissolution of our PGT Healthcare partnership, a venture between the Company and Teva Pharmaceuticals Industries, Ltd (Teva) in the OTC consumer healthcare business, in the quarter ended September 30, 2018. The transaction was accounted for as a sale of the Teva portion of the PGT business; the Company recognized an after-tax gain on the dissolution of \$353 million.
- Shave Care Impairment: In the fourth quarter of fiscal 2019, the company recognized a one-time, non-cash, after-tax charge of \$8.0 billion (\$8.3 billion before tax) to adjust the carrying values of the Shave Care reporting unit. This was comprised of a before and after-tax impairment charge of \$6.8 billion related to goodwill and an after-tax impairment charge of \$1.2 billion (\$1.6 billion before tax) to reduce the carrying value of the Gillette indefinite-lived intangible assets.

- Anti-dilutive Impacts: The Shave Care impairment charges caused certain equity instruments that are normally dilutive (and hence normally assumed converted or exercised for the purposes of determining diluted net earnings per share) to be anti-dilutive. Accordingly, for U.S. GAAP diluted earnings per share, these instruments were not assumed to be converted or exercised. Specifically, in the fourth quarter and total fiscal 2019, the weighted average outstanding preferred shares were not included in the diluted weighted average common shares outstanding. Additionally, in the fourth quarter of fiscal 2019, none of our outstanding share-based equity awards were included in the diluted weighted average common shares outstanding. As a result of the non-GAAP Shave Care impairment adjustment, these instruments are dilutive for non-GAAP earnings per share.

We do not view the above items to be part of our sustainable results, and their exclusion from core earnings measures provides a more comparable measure of year-on-year results. These items are also excluded when evaluating senior management in determining their at-risk compensation. Management views the following non-GAAP measures as useful supplemental measures of Company performance and operating efficiency over time.

Core EPS and currency-neutral Core EPS*: Core earnings per share, or Core EPS, is a measure of the Company's diluted net earnings per share from continuing operations adjusted as indicated. Currency-neutral Core EPS is a measure of the Company's Core EPS excluding the incremental current year impact of foreign exchange.

Core gross margin: Core gross margin is a measure of the Company's gross margin adjusted for items as indicated.

Currency-neutral Core gross margin: Currency-neutral Core gross margin is a measure of the Company's Core gross margin excluding the incremental current year impact of foreign exchange.

Core operating profit margin*: Core operating profit margin is a measure of the Company's operating margin adjusted for items as indicated.

Currency-neutral Core operating profit margin*: Currency-neutral Core operating profit margin is a measure of the Company's Core operating profit margin excluding the incremental current year impact of foreign exchange.

Free cash flow: Free cash flow is defined as operating cash flow less capital spending. Free cash flow represents the cash that the Company is able to generate after taking into account planned maintenance and asset expansion. Management views free cash flow as an important measure because it is one factor used in determining the amount of cash available for dividends, share repurchases, acquisitions and other discretionary investment.

Free cash flow productivity*: Free cash flow productivity is defined as the ratio of free cash flow to net earnings. Management views free cash flow productivity as a useful measure to help investors understand P&G's ability to generate cash. Free cash flow productivity is used by management in making operating decisions, allocating financial resources and for budget planning purposes. The Company's long-term target is to generate annual free cash flow productivity at or above 90 percent.

Adjusted free cash flow: Adjusted free cash flow is defined as operating cash flow less capital spending and adjustments for items as indicated. Adjusted free cash flow represents the cash that the Company is able to generate after taking into account planned maintenance and asset expansion. Management views adjusted free cash flow as an important measure because it is one factor used in determining the amount of cash available for dividends, share repurchases, acquisitions and other discretionary investment.

Adjusted free cash flow productivity*: Adjusted free cash flow productivity is defined as the ratio of adjusted free cash flow to net earnings adjusted for items as indicated. Management views adjusted free cash flow productivity as a useful measure to help investors understand P&G's ability to generate cash. Adjusted free cash flow productivity is used by management in making operating decisions, allocating financial resources and for budget planning purposes. The Company's long-term target is to generate annual free cash flow productivity at or above 90 percent.

* Measure is used to evaluate senior management and is a factor in determining their at-risk compensation.

1. Organic sales growth:

Three Months Ended March 31, 2020	Net Sales Growth	Foreign Exchange Impact	Acquisition & Divestiture Impact/Other*	Organic Sales Growth
Beauty	(1)%	2%	-%	1%
Grooming	(3)%	3%	(1)%	(1)%
Health Care	7%	2%	-%	9%
Fabric Care & Home Care	8%	1%	1%	10%
Baby, Feminine & Family Care	6%	1%	-%	7%
Total P&G	5%	2%	(1)%	6%

* Acquisition & Divestiture Impact/Other includes the volume and mix impact of acquisitions and divestitures and rounding impacts necessary to reconcile net sales to organic sales.

Nine Months Ended March 31, 2020	Net Sales Growth	Foreign Exchange Impact	Acquisition & Divestiture Impact/Other*	Organic Sales Growth
Total P&G	5%	2%	(1)%	6%

* Acquisition & Divestiture Impact/Other includes the volume and mix impact of acquisitions and divestitures and rounding impacts necessary to reconcile net sales to organic sales.

Organic Sales
Prior Quarters

Total Company	Net Sales Growth	Foreign Exchange Impact	Acquisition/ Divestiture Impact/Other*	Organic Sales Growth
JAS 2018	-%	3%	1%	4%
OND 2018	-%	4%	-%	4%
JFM 2019	1%	5%	(1)%	5%
AMJ 2019	4%	4%	(1)%	7%
JAS 2019	7%	2%	(2)%	7%
OND 2019	5%	1%	(1)%	5%

* Acquisition & Divestiture Impact/Other includes the volume and mix impact of acquisitions and divestitures for all periods, the impact from the July 1, 2018 adoption of new accounting standards for "Revenue from Contracts with Customers" and rounding impacts necessary to reconcile net sales to organic sales.

Organic Sales
Guidance

Total Company	Net Sales Growth	Combined Foreign Exchange & Acquisition/Divestiture Impact/Other*	Organic Sales Growth
FY 2020 (Estimate)	3% to 4%	1%	+4% to +5%

* Acquisition & Divestiture Impact/Other includes the volume and mix impact of acquisitions and divestitures and rounding impacts necessary to reconcile net sales to organic sales.

2. Core EPS and currency-neutral Core EPS:

	Three Months Ended March 31	
	2020	2019
Diluted Net Earnings Per Share	\$1.12	\$1.04
Incremental Restructuring	0.05	0.02
Core EPS	\$1.17	\$1.06
<i>Percentage change vs. prior period</i>	<i>10%</i>	
Currency Impact to Earnings	0.05	
Currency-Neutral Core EPS	\$1.22	
<i>Percentage change vs. prior period Core EPS</i>	<i>15%</i>	

Note – All reconciling items are presented net of tax. Tax effects are calculated consistent with the nature of the underlying transaction.

	Nine Months Ended March 31	
	2020	2019
Diluted Net Earnings Per Share	\$3.89	\$3.48
Incremental Restructuring	0.07	0.07
Gain on Dissolution of PGT Partnership		(0.13)
Core EPS	\$3.96	\$3.42
<i>Percentage change vs. prior period</i>	<i>16%</i>	
Currency Impact to Earnings	0.09	
Currency-Neutral Core EPS	\$4.05	
<i>Percentage change vs. prior period Core EPS</i>	<i>18%</i>	

Note – All reconciling items are presented net of tax. Tax effects are calculated consistent with the nature of the underlying transaction.

Core EPS
Prior Quarters

	JAS 18	JAS 17	OND 18	OND 17	JFM 19	JFM 18	AMJ 19	AMJ 18	JAS 19	JAS 18	OND 19	OND 18
Diluted Net Earnings Per Share from Continuing Operations, attributable to P&G	\$ 1.22	\$ 1.06	\$ 1.22	\$ 0.93	\$ 1.04	\$ 0.95	\$ (2.12)	\$ 0.72	\$ 1.36	\$ 1.22	\$ 1.41	\$ 1.22
Incremental Restructuring	0.03	0.03	0.03	0.02	0.02	0.04	0.06	0.14	0.01	0.03	0.01	0.03
Early Debt Extinguishment Charges				-				0.09				
Transitional Impact of U.S. Tax Act				0.24		0.01		(0.02)				
Gain on Dissolution of PGT Partnership	(0.14)									(0.14)		
Shave Care Impairment							3.02					
Anti-dilutive Impacts							0.14					
Rounding	0.01							0.01		0.01		
Core EPS	\$ 1.12	\$ 1.09	\$ 1.25	\$ 1.19	\$ 1.06	\$ 1.00	\$ 1.10	\$ 0.94	\$ 1.37	\$ 1.12	\$ 1.42	\$ 1.25
<i>Percentage change vs. prior period</i>	<i>3%</i>		<i>5%</i>		<i>6%</i>		<i>17%</i>		<i>22%</i>		<i>14%</i>	
Currency Impact to Earnings	0.09		0.09		0.09		0.08		0.02		0.02	
Currency-Neutral Core EPS	\$ 1.21		\$ 1.34		\$ 1.15		\$ 1.18		\$ 1.39		\$ 1.44	
<i>Percentage change vs. prior period</i>	<i>11%</i>		<i>13%</i>		<i>15%</i>		<i>26%</i>		<i>24%</i>		<i>15%</i>	
<i>Core EPS</i>												

Core EPS
Guidance

Total Company	Diluted EPS Growth	Impact of Incremental Non-Core Items*	Core EPS Growth
FY 2020 (Estimate)	+235% to +245%	(227)% to (234)%	+8% to +11%

* Includes the gain on the dissolution of the PGT Healthcare partnership and Shave Care impairment in fiscal 2019 and year-over-year changes in incremental non-core restructuring charges.

3. Core gross margin:

	Three Months Ended March 31	
	2020	2019
Gross Margin	49.4%	48.8%
Incremental Restructuring	1.0%	0.4%
Core Gross Margin	50.4%	49.2%
<i>Basis point change vs. prior year Core margin</i>	120	
Currency Impact to Margin	0.1%	
Currency-Neutral Core Gross Margin	50.5%	
<i>Basis point change vs prior year Core margin</i>	130	

4. Core operating profit margin:

	Three Months Ended March 31	
	2020	2019
Operating Profit Margin	20.1%	19.6%
Incremental Restructuring	0.9%	0.3%
Rounding	(0.1)%	
Core Operating Profit Margin	20.9%	19.9%
<i>Basis point change vs. prior year Core margin</i>	100	
Currency Impact Margin	0.8%	
Currency-Neutral Core Operating Profit Margin	21.7%	
<i>Basis point change vs. prior year Core Margin</i>	180	

5. Free cash flow productivity (dollar amounts in millions):

Three Months Ended March 31, 2020				
Operating Cash Flow	Capital Spending	Free Cash Flow	Net Earnings	Free Cash Flow Productivity
\$4,064	\$(731)	\$3,333	\$2,957	113%

6. Adjusted free cash flow productivity (dollar amounts in millions):

Nine Months Ended March 31, 2020					
Operating Cash Flow	Capital Spending	U.S. Tax Act Payments	Adjusted Free Cash Flow	Net Earnings	Adjusted Free Cash Flow Productivity
\$12,597	\$(2,415)	\$215	\$10,397	\$10,317	101%