P&G Drops as Forecast Trails Estimates on Currency Impact (2)
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(Updates with closing share price in second paragraph.)

By Lauren Coleman-Lochner

April 24 (Bloomberg) -- Procter & Gamble Co. declined the most in more than four years after projecting fiscal fourth-quarter earnings that trailed analysts' estimates because of currency fluctuations and marketing costs.

P&G, the maker of Gillette razors and Tide detergent, fell 5.9 percent to $77.12 at the close in New York, the biggest one-day drop since Jan. 30, 2009. The shares have advanced 14 percent this year compared with an 11 percent gain for the Standard & Poor's 500 Index.

Earnings per share in the quarter ending June will be 69 cents a share to 77 cents a share, the Cincinnati-based company said in a statement today. Analysts projected 81 cents, the average of estimates compiled by Bloomberg.

Chief Executive Officer Bob McDonald last year embarked on a turnaround plan to cut $10 billion in costs through 2016 and renew focus on the company's leading businesses after market share shrank. McDonald has been under pressure from activist investor Bill Ackman, who bought a $1.8 billion stake last year and pushed to replace him.

"It's going to be important that they throw out some pretty aggressive targets for fiscal '14," Jack Russo, an analyst at Edward Jones & Co. in St. Louis, said in an interview. "There's so many elements that should provide tailwinds for them." He recommends buying the shares.

Marketing Expenses

Results in the current quarter will be affected by increased marketing expenses for new product introductions, Chief Financial Officer Jon Moeller said on a conference call today. Foreign currency exchange is also expected to reduce net sales by 2 percent in the period, P&G said.

New product introductions and expansion in developing markets will boost sales, along with market share gains in categories such as laundry, executives said on the conference call. P&G held or increased market share in categories accounting for more than half of its total sales in the fiscal third quarter, up from 30 percent overall as of June 2012, and boosted share in the U.S. to two-thirds from 15 percent.

Sales growth excluding currency fluctuations will be toward the lower end of the company's forecast range of 3 percent to 4 percent this year, Moeller said on the call.

'Frustrating'

"It's frustrating," Ali Dibadj, an analyst at Sanford C. Bernstein & Co. in New York, said today in a telephone interview. "They're investing in the business, and they're not getting a great rate of return. We want to know what's wrong, because clearly something is wrong."

During the conference call, Dibadj asked about the "dichotomy" between what he called management's upbeat tone versus "disappointing top-line results, at least from investors' and analysts' views."

"If everything is going to plan, why is it impossible to get to the high end of your top-line growth range for the year?" he said. He has an outperform rating on the shares, the equivalent of a buy.

Net sales in the fiscal third-quarter ended March 31 rose 2 percent to $20.6 billion, P&G said today. That trailed the $20.7 billion average of analysts' estimates.

Net income rose 6.4 percent to $2.56 billion, or 88 cents a share, from $2.41 billion, or 82 cents, a year earlier, the company said. Excluding some items, profit was 99 cents. Analysts projected 96 cents, the average of 23 estimates compiled by Bloomberg.

Pension Costs

"Why do they have such a high p/e ratio when they are such a single-digit grower?" Laurence Balter, chief market strategist for Oracle Investment Research in Fox Island, Washington, said today in a telephone interview. He is one of two analysts to recommend selling selling P&G shares among 33 ratings compiled by Bloomberg.

Balter said he's concerned about rising debt and "ballooning" pension costs.

P&G will assess various factors including pension costs before issuing its forecast for next year, Paul Fox, a spokesman, said in an e-mail.

"We remain confident in our growth strategy," Fox said. "We are making steady progress and know where we need to focus."

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