


September 21, 2017

## Trian's Response to P&G's September 19, 2017 Presentation

We are disappointed in the quality of the presentation that the Board and Management of Procter & Gamble released on September 19, 2017 which is filled with a significant number of material data errors, calculation errors and misrepresentations of Trian's and Nelson Peltz's track records (we have identified more than 50 errors and misrepresentations to date). P&G has apparently tasked its army of advisors with discrediting Nelson Peltz and Trian in order to redirect the conversation away from the real issues at hand – in particular P&G's ongoing market share losses and bottom quartile shareholder returns. We feel it is necessary to "set the record straight" as shareholders and other constituencies deserve to understand the level of P&G's intellectual dishonesty we believe underlies this presentation. We would like P&G to correct these errors, but ultimately it is shareholders who must hold the Company accountable.

Our goal from now until the shareholder vote on October 10 is to focus on the critical issues facing P&G and the eight strategic initiatives detailed in our White Paper<sup>1</sup> that we believe can help P&G regain lost market share and once again achieve best-in-class performance. We respect the Company's right to debate our points of view on these critical issues, but find these misrepresentations of Nelson Peltz unacceptable. The reality is, Nelson Peltz's track record speaks for itself – every Trian investment on whose board Nelson Peltz has served has outperformed P&G during Trian's involvement:

### ALL Trian Investments with Nelson Peltz on the Board<sup>(2)</sup>

	Trian's Holding Period	TSR During Trian's Investment	 TSR: Same Time Frame	Trian TSR vs. PG TSR	S&P 500 TSR Same Time Frame
<b>Sysco</b>	2 yrs (ongoing)	<b>58%</b>	<b>22%</b>	<b>+36%</b>	<b>21%</b>
<b>Mondelez</b>	9 yrs (ongoing)	<b>241%</b>	<b>93%</b>	<b>+148%</b>	<b>111%</b>
<b>Wendy's</b>	12 yrs (ongoing)	<b>465%</b>	<b>125%</b>	<b>+341%</b>	<b>155%</b>
<b>Heinz</b>	7 yrs	<b>177%</b>	<b>61%</b>	<b>+117%</b>	<b>53%</b>
<b>Ingersoll Rand</b>	4 yrs	<b>121%</b>	<b>35%</b>	<b>+86%</b>	<b>72%</b>
<b>Legg Mason</b>	7 yrs	<b>98%</b>	<b>78%</b>	<b>+20%</b>	<b>175%</b>

Management would like shareholders to believe that P&G has a "strategy that is working" and that performance has improved meaningfully under David Taylor. This is not true. The facts are that since David Taylor took over as CEO, the Company has continued to lose market share in every reportable segment, in both FY 2016 and FY 2017, as reported in P&G's Annual Reports filed with the SEC. In addition, since David Taylor took over as CEO, P&G has seen core earnings per share decline from \$4.02 to \$3.92 (as reported each fiscal year). While P&G would like you to believe that its strategy drove 7% earnings per share growth last year, the reality is that 5 percentage points of the 7% came from share buybacks using proceeds from divestitures, and from cutting advertising spend by \$125mm.

The attached Appendix lays out many of the errors, manipulations and misrepresentations that we have found to date in P&G's presentation. We encourage P&G's leadership, its advisors, or other P&G shareholders, to reach out to us if they are interested in further information regarding our analysis.

<sup>1</sup> Filed with the SEC on September 6, 2017, and is available at [www.RevitalizePG.com](http://www.RevitalizePG.com)

<sup>2</sup> Source: Bloomberg. All total shareholder returns ("TSRs") are measured from the date of Trian's initial investment in the applicable company until the earlier of (i) the date that Trian was no longer invested in the company and (ii) June 15, 2017, one day before rumors surfaced of Trian seeking P&G Board representation.

## APPENDIX: Material Data Errors and Misrepresentations in P&G's Presentation

Unless otherwise noted, all information is sourced from Bloomberg, Capital IQ, and applicable SEC filings or company reports

### I. Data Errors

Pages 76 – 78 of P&G's presentation (Trian's Investments' Equity Return Performance)

**Trian's median performance across all of the listed investments *beat the S&P 500 by +490bps annually* – more than triple the +140bps the Company erroneously reported on page 78. As noted in our White Paper, Trian's consumer investments where Nelson Peltz's served on the board have outperformed the S&P 500 by +880bps annually.**

- DuPont equity returns were calculated incorrectly, apparently due to exclusion of the Chemours spin and incorrect "announcement" date used. Calculated correctly, page 78 should report that **DuPont's annual outperformance vs. the S&P 500 was 5%, not 1%**
- Ingersoll Rand equity returns were calculated incorrectly, apparently due to exclusion of the Allegion spin, and further miscalculations which we are unable to reconcile. Calculated correctly, page 78 should report that **Ingersoll Rand's annual outperformance vs. the S&P 500 was 7%, not -5%**
- Mondelēz (2<sup>nd</sup> Investment) equity returns were calculated incorrectly due to exclusion of the special dividend received in the Kraft-Heinz transaction (which accounted for a material portion of the transaction value). Calculated correctly, page 78 should report that **Mondelēz's annual outperformance vs. the S&P 500 was 3%, not -1%**
- State Street equity returns were calculated incorrectly due to miscalculations which we are unable to reconcile. Calculated correctly, page 78 should report that **State Street's annual outperformance vs. the S&P 500 was 7%, not 2%** (our figure verified on Bloomberg and Capital IQ)
- Tiffany & Co. equity returns were calculated incorrectly due to miscalculations which we are unable to reconcile. Calculated correctly, page 78 should report that **Tiffany's annual outperformance vs. the S&P 500 was 7%, not 0%** (our figure verified on Bloomberg and Capital IQ)
- Wendy's (Post Merger) equity returns were calculated incorrectly due to miscalculations which we are unable to reconcile. Calculated correctly, page 78 should report that **Wendy's annual outperformance vs. the S&P 500 was 4%, not 2%** (our figure verified on Bloomberg and Capital IQ)
- Wendy's (Pre-Merger) equity returns were calculated incorrectly due to exclusion of the Tim Horton's spin. Calculated correctly, page 78 should report that **Wendy's annual outperformance vs. the S&P 500 was 10%, not -3%**

Page 83 (Mondelēz Operating Performance vs. Peers)

**Significant data errors allowed P&G to grossly overstate both the peer median and the expansion of peer margins. The reality is that Mondelēz had best-in-class margin expansion from 2013 to 2016.**

P&G states that peers on average have achieved greater margin improvement than Mondelēz. However,

- The 2013 figures for Mondelez, Hershey and Nestle are EBIT margins. The 2016 figures for Hershey and Nestle are EBITDA margins, while Mondelez's is EBIT. Comparing EBIT margins in one period to EBITDA margins in another period,

given EBITDA will always be higher than EBIT, shows either incompetency or intellectual dishonesty

- Hershey's 2013 margin presented by P&G is actually its 2012 EBIT margin, which was 70bps lower than in 2013

The correct numbers, after fixing the mistakes above, show that:

- Mondelez EBIT margins improved +470bps from 2013 – 2016
- Hershey EBIT margins improved +110bps from 2013 – 2016 (NOT +590bps)
- Nestle EBIT margins improved +10bps from 2013 – 2016 (NOT +440bps)

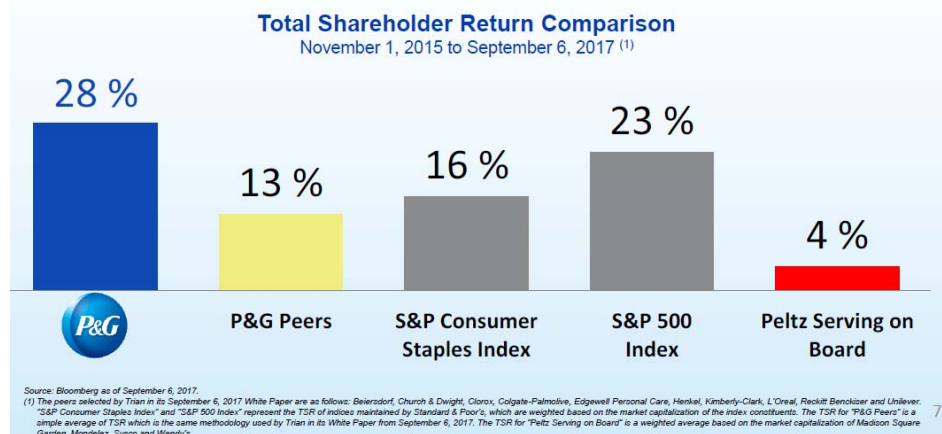
P&G incorrectly states that Mondelez margins are lower than peers:

- Mondelez peer EBIT margin in 2016 is 17.8% after fixing the mistakes above, NOT 22.0%
- Nestle's margins are reported for the entire company, even though its confectionery business only comprises 10% of the sales mix. However, Nestle's reported "Confectionery" margin was 13.7% in 2016 and has declined by 210bps since 2013
- Mondelez has publicly committed to a 17-18% EBIT margin goal by 2018<sup>3</sup>

## II. Data Manipulation / Misrepresentations

**Page 7** (P&G's Returns Compared to Companies Where Nelson Has Served As a Director)

### P&G's Strategy Is Producing Results and Creating Shareholder Value



**Inconsistent Methodologies Used:** The column titled "P&G Peers" uses a **Simple Average**, while column titled "Peltz Serving on the Board" uses a **Market Cap Weighted Average** (Mondelez performance weighted at ~30x that of Wendy's and ~3x that of Sysco's).

If P&G used a simple average on the column titled "Peltz Serving on the Board," the bar would have read 28%. In addition, P&G gives no credit to the fact that half of their own TSR has been since Triun invested.

<sup>3</sup> Source: Mondelez Investor Presentations.

We note that the detail behind the varying methodologies was not disclosed to shareholders until after we pointed out the misleading claims made by P&G concerning the TSR of companies where Nelson has served on the boards.

**Arbitrary Time Frame:** Why would David Taylor's tenure at P&G be the right time frame for evaluating TSR at companies where Nelson Peltz has served as a director?

- The chart on page 1 of this presentation shows that **every single company on which Nelson Peltz has served as a director has dramatically outperformed P&G** during the period of Trian's involvement

**Ignores P&G's Stock Price Performance the Year Prior to David Taylor**

In the year prior to David Taylor becoming CEO, P&G's stock price underperformed peers by 31%, as shareholders were disappointed with performance and guidance at the tail-end of A.G. Lafley's tenure. During this prior year, David Taylor was managing ~44% of the business as Group President – Global Beauty, Grooming and Healthcare. Since David Taylor became CEO, P&G has only recaptured a small amount of this relative underperformance.

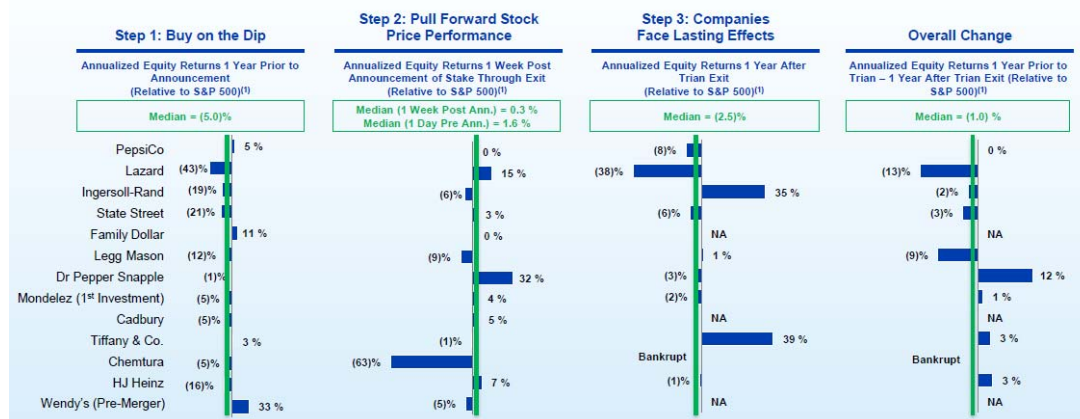
**Ignores P&G's Poor Shareholder Returns Under Its Directors' Oversight:** We have stated several times that we are not looking to replace David Taylor. We are looking to become 1 of 12 directors on P&G's board. The reality is that 9 out of 10 of P&G's independent directors have seen the Company underperform peers since they were appointed. P&G continues to ignore this fact, instead touting its "world-class board."

P&G Director	Tenure (yrs)	P&G TSR During Tenure	Peers TSR During Tenure <sup>(2)</sup>	Difference
Scott Cook	17	342%	689%	(346%)
Ernesto Zedillo	16	305%	586%	(281%)
James McNerney	14	192%	495%	(303%)
Patricia Woertz	9	65%	191%	(126%)
Kenneth Chenault	9	75%	220%	(145%)
Angela Braly	8	83%	192%	(108%)
Meg Whitman	6	69%	160%	(91%)
Terry Lundgren	4	50%	91%	(41%)
Francis Blake	2	13%	29%	(16%)
Amy Chang <sup>(1)</sup>	0	1%	0%	1%

*(Please see slide 9 of "Trian's White Paper on P&G", which was filed with the SEC on September 6, 2017, and is available at [www.RevitalizePG.com](http://www.RevitalizePG.com))*

## Life Cycle of Selected Exited Trian Investments

Based on public information, we reviewed all exited Trian investments greater than \$25mm that were held for more than 2 years



### Without Evidence, P&G Claims that “Companies face lasting effects [after Trian exits]”:

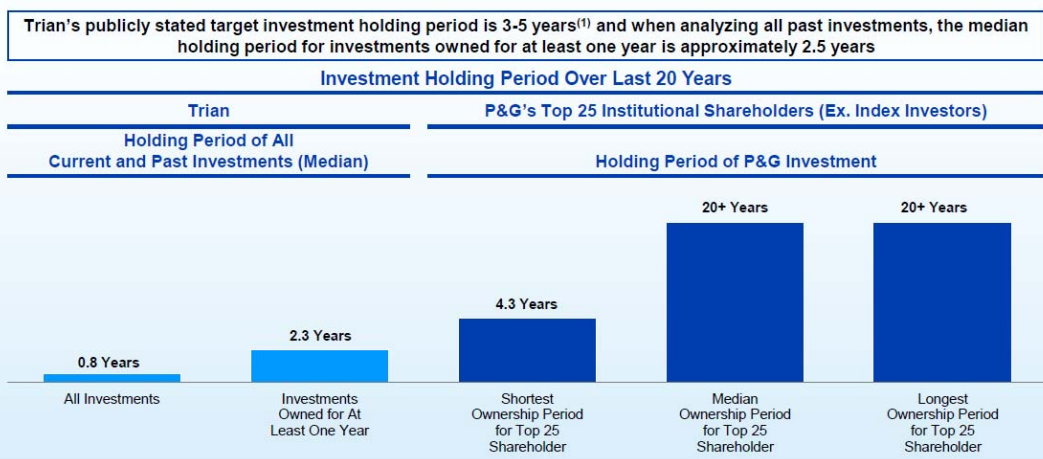
- 1) We have no idea how one can honestly draw this conclusion from the chart above. The amount of selective data contained in the chart renders it meaningless, in our opinion (e.g. only choosing certain Trian investments, use of arbitrary and ambiguous time frames, arbitrary exit date for Heinz to exclude the sale transaction, etc.). As an example, the chart suggests PepsiCo, which Trian sold in 2016, has “faced lasting effects” – a claim that we expect would be summarily dismissed by any knowledgeable shareholder of PepsiCo.
- 2) Moreover, all companies on which Nelson Peltz previously served as a director have continued to perform well after Trian exited:
  - a. **Ingersoll Rand** has outperformed meaningfully (exited 12/1/2015):
    - i. Ingersoll Rand achieved 58% TSR vs. S&P’s 20% TSR
    - ii. Allegion (spun from IR) achieved 20.3% TSR vs. S&P’s 19.6% TSR
  - b. **Legg Mason** has outperformed (exited 4/12/2016):
    - i. Achieved +26% TSR vs. S&P’s +21% TSR
  - c. Note: Heinz not included as it was acquired shortly after Trian exited, and thus no longer traded publicly

### P&G Selectively Chooses Time Frame of “1-Week Post Announcement”

- 1) P&G has selectively chosen to measure returns starting 1-week after Trian announced its investments in order to avoid giving credit for the initial share price improvement. This initial share price improvement is driven by shareholder expectations for improved execution and long-term operating performance at the applicable company. Given the track record of such improvements after Trian invests in a company or joins the board, we find this methodology disingenuous.



## Holding Periods of P&G's Top Shareholders Far Exceed Those of Trian



- P&G's calculation of Trian's holding period includes several investments for which we never even engaged with management or the Board of Directors, and/or only held a very small investment. We find these data points to be irrelevant to the situation at hand – one where Nelson Peltz is seeking a board seat.
- The page ignores the fact that for companies on which Nelson Peltz has served on the board, Trian's average holding period is 7 years and growing!

(see chart on page 1 for backup data)

## Mondelēz

It is important to note that Trian first invested in Kraft Foods (predecessor to Mondelēz) in 2007 and has been invested in either Kraft Foods or Mondelēz for almost all of the time since then. Since we made our first investment in 2007, total shareholder return in Kraft/Mondelez has been +241% vs. P&G's TSR of +93%, and the S&P's TSR of 111% over the same time frame.

Since Nelson joined the Board in January 2014, Mondelēz has:

- Increased operating margin by +470bps from 2013 to 2016 and nearly 600bps when measured through 2017 YTD. P&G has increased its operating margin by 240bps over the same time period despite P&G facing less foreign exchange headwinds than Mondelēz
- Grown EPS in real dollar terms at +8.7% per year (since 2013) versus P&G which has seen EPS decline by -2.4% per year over the same time period (core EPS as reported each year). This is despite Mondelēz facing 9 percentage points of greater negative foreign exchange impact on sales over the last 3 years
- Increased advertising and R&D expense as a percentage of sales

**Trian is very proud of the significant transformation that Kraft and Mondelēz have achieved, which is reflected in their strong EPS growth and strong shareholder returns.**

### "Price-Led" Organic Sales Growth While Nelson Peltz was on the Board

P&G misrepresents Mondelēz's organic sales growth performance by ignoring that:

- Pricing in 2014 and 2015 largely offset rising cocoa prices, one of Mondelēz's most significant ingredients, which increased +42% between December 2013 and December 2015<sup>4</sup>
- Volumes have also been impacted by SKU reduction. Since Nelson joined the Board, Mondelēz has decreased its SKU count from ~70,000 to ~45,000 as part of its productivity efforts.<sup>5</sup> Had Mondelēz sold many of these small brands instead of discontinuing them, it would not have reported these losses in organic volume growth during the period

### **P&G's Misrepresentation of Quote by Mondelēz Chairman and CEO Irene Rosenfeld in P&G's Letter to Shareholders, dated September 20, 2017**

The day after this presentation was filed, P&G published a letter to shareholders that stated the following:

*"One CEO whose board includes Mr. Peltz has publicly disclosed what it's like to deal with activists such as Mr. Peltz: 'I think the single biggest disconnect that I found is that many activists simply sit in conference rooms and do calculations and analysis, independent of the reality of the fact that we are dealing with human beings and people's lives.'" – P&G Shareholder Letter, September 20<sup>th</sup>, 2017(Footnote omitted)*

The quote was a reference to a prior statement by Mondelēz CEO Irene Rosenfeld that was materially taken out of context. That same day, Irene Rosenfeld clarified what her statement meant:

*"My quote was taken out of context. My statement was referring to the many activists who have not run businesses or are not close enough to the realities of operating a business. I was not referring to Nelson Peltz, who is a knowledgeable director, an experienced operator and, as a member of our board, is fully informed about our business. Since joining our Board in January 2014, Nelson has been a constructive participant in Mondelēz International's board processes. My management team and I have engaged often and productively with the Trian team and appreciate their insights on strategy, operations and investor reactions to various issues. They do their homework and, along with the other members of our board, ask the tough questions to understand our company, and develop ideas to help grow the business and create sustainable long-term value." – Irene Rosenfeld, September 20<sup>th</sup>, 2017*

**Pages 84 – 88**  
(Deep Dive into  
Performance at  
Heinz)

## **Heinz**

During Trian's involvement at Heinz, the Company achieved a +177% total shareholder return vs. P&G's TSR of +61%, and the S&P's TSR of 53% over the same time frame. Nelson Peltz was a director at Heinz until June 2013. P&G misrepresents Trian's investment in Heinz by ignoring significant stock price performance after June 30, 2011. Once again P&G has selectively chosen a time frame, rather than honestly evaluating Nelson Peltz's performance as a director.

From 2006 to 2012 while Nelson served on the Board:

<sup>4</sup> Source: Bloomberg.

<sup>5</sup> Source: Mondelez Investor Transcripts.

- Organic sales growth averaged 3.9% after Nelson joined the board (which includes performance during the recession of 2008-2010) vs. 3.1% in the two years prior. In fact, Heinz reported 32 consecutive quarters of organic sales growth during Nelson's tenure as a director
- EPS grew at an 8.5% CAGR vs. flat growth in the eight years prior to 2006
- Return on invested capital increased 440bps from 14.8% to 19.2%
- Advertising spend increased 96% and increased as a percentage of sales, despite P&G's claims that there was "no major increase in ad spending"
- Deals & allowances decreased as a percentage of sales and were redeployed into advertising

The following image is directly from a 2012 Heinz Investor presentation:<sup>6</sup>



#### Tax rate:

- P&G claims that a reduction in tax rate drove EPS growth at Heinz from '06 - '11
- While the effective tax rate did decrease over that time frame due to higher earnings from international businesses, it did not decrease by 1,000bps as P&G incorrectly suggested
- P&G's comparison is based off of reported tax rates, which include one-time items. In fact, Heinz disclosed an adjusted effective tax rate in 2006 (excluding one-time items) that was ~500bps lower than the figure P&G uses.
- We would note that P&G's effective tax rate declined by 770bps from '06 - '11

P&G has used the "tax rate" argument to adjust Heinz EPS figures downwards so that they look unfavorable vs. peers. The calculation behind its adjustment is based on the following footnote, located on page 87 of its presentation. Once again, this is a level of data manipulation that we find highly disingenuous, and hard to justify:

*"Heinz (Normalizing for Change in Tax Rate):*

<sup>6</sup> Source: Heinz Investor Presentation, December 4, 2012 titled "Driving Global Growth."



*Average impact of normalized taxes on bottom line calculated as difference between 2006 – 2011 net income CAGR and profit before tax CAGR for all peers. Tax impact on Heinz's bottom line calculated as difference between 2006 – 2011 net income CAGR and profit before tax CAGR. Excess impact of taxes in Heinz's case quantified as difference between tax impact on Heinz's bottom line less average tax impact on peers' bottom line. Normalized EPS CAGR for Heinz calculated by subtracting this excess impact of taxes on Heinz's bottom line from actual 2006 – 2011 Heinz EPS CAGR."*

**Pages 89 – 91**  
(Deep Dive into  
Performance at  
Wendy's)

## Wendy's

Since Trian's original investment in 2005, Wendy's has achieved a total shareholder return of +465%, versus P&G's TSR of +125%, and the S&P 500's TSR of +155% over the same time frame. Since the merger in 2008, Wendy's has achieved a total shareholder return of +232%, versus P&G's TSR of +71%, and the S&P 500's TSR of +142% over the same time frame. Trian has been a shareholder of Wendy's for nearly 12 years, a testament to the long-term nature of our strategy.

Since Nelson became Chairman of Wendy's in 2008, the company has reinvested substantially in its stores, has adapted its product offering for today's consumer (fresh, natural), restored the brand's "cut-above" positioning, invested in digital and social media, and developed a very strong management team.

All of these initiatives have been critical in driving Wendy's outperformance. We view Wendy's as a prime example of a small brand outgrowing large incumbents, as same-store-sales at Wendy's outperformed McDonalds and Burger King by 280bps since 2011 in North America.

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