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The Best Deal Gillette Could Get? Procter & Gamble's Acquisition of Gillette

January 27, 2005, was an extraordinary day for Gillette's James Kilts, the show-stopping turnaround expert known as the "Razor Boss of Boston." Kilts, along with Procter & Gamble chairman Alan Lafley, had just orchestrated a \$57 billion acquisition of Gillette by P&G. The creation of the world's largest consumer products company would end Kilts's four-year tenure as CEO of Gillette and bring to a close Gillette's 104-year history as an independent corporate titan in the Boston area. The deal also capped a series of courtships between Gillette and other companies that had waxed and waned at various points throughout Kilts's stewardship of Gillette. But almost immediately after the transaction was announced, P&G and Gillette drew criticism from the media and the state of Massachusetts concerning the terms of the sale. Would this merger actually benefit shareholders, or was it principally a wealth creation vehicle for Kilts?

A Dream Deal

Procter & Gamble was known for its consumer products like soap, shampoo, laundry detergent, and food and beverages, as well as products for health and beauty care.¹ The company owned a portfolio of approximately 150 brands—ranging from Ace bleach to Zest soap—including some of the world's most recognizable: Pampers, Tide, Folgers, Charmin, Crest, Olay, and Head & Shoulders.² Gillette was best known for its razor business, but the company controlled two other brands—Oral-B toothbrushes and Duracell batteries—that produced at least \$1 billion in annual revenue (see Exhibit 1). Whereas P&G was particularly skilled in marketing to women,³ Gillette's core customer segment was men (with the memorable marketing tagline "The Best a Man Can Get"). Gillette had expanded into female product lines with its Venus razor, and P&G also had several brands—Head & Shoulders dandruff shampoo among them—that targeted male customers, but the two companies were naturally stronger in distinct gender segments. They also performed better in different regions of the globe. Gillette understood how to operate successfully in India and Brazil, while P&G brought expertise in the Chinese market.⁴

¹ Naomi Aoki and Steve Bailey, "P&G to Buy Gillette for \$55B Latest in String of Deals for Old-Line Hub Firms," *Boston Globe*, January 28, 2005.

² James F. Peltz, "P&G-Gillette Union Could Hit Shoppers in Pocketbook," *Los Angeles Times*, January 29, 2005.

³ Aoki and Bailey, "P&G to Buy Gillette for \$55B."

⁴ Steve Jordon, "Billion-Dollar Brands Buffett Says 'Dream Deal' Should Make the Most of Magic in Household Names of Products Made by P&G and Gillette," *Omaha World-Herald*, January 29, 2005.

Gillette was no stranger to overtures from both strategic and financial investors. The company had successfully defended itself against four takeover attempts in the late 1980s, three from Ronald Perelman and his cosmetics company Revlon, and one from Coniston Partners.⁵ Yet the P&G proposal promised to be different. While some of the same key drivers (including an array of excellent brands) that had interested Perelman and Coniston likely drove P&G's interest in Gillette, the two companies also saw new opportunities that had not previously existed, including the chance to combine complementary business lines and the ability to create an industry leader that could better negotiate with mass merchandisers.

A combined firm would capitalize on the core marketing competencies of both companies and be able to more effectively reach both male and female consumer segments worldwide. The combination would also enable the entities to better negotiate with large retailers like Wal-Mart and Target. Throughout the 1990s, as mass retailing increased in geographic scope and customer base, the retailers' reach had forced more consumer products group (CPG) companies to channel their sales through superstores. In 2003 Wal-Mart accounted for 13 percent of Gillette's sales, enough to be listed in accounting statements filed with the Securities and Exchange Commission (SEC) as a substantial business risk.⁶ Preserving a Wal-Mart relationship was so important that many of the larger and more successful CPG firms had gone so far as to establish permanent offices in what had become known as Vendorville, a community of hundreds of CPG companies near Wal-Mart's headquarters in Arkansas. Wal-Mart's reach and market clout enabled it to negotiate significant pricing concessions from CPG firms. Its buyers were able to say to retailers: "If you'd like to reach our 138 million customers per week, here's the deal."⁷ CPG companies therefore had to bow to ever-mounting price pressure from Wal-Mart and other large retailers. The acquisition of Gillette by P&G could counterbalance this pressure and allow the combined firm to better control pricing and product placement in superstores nationwide.

As early as 2002, Kilts had approached P&G about a possible merger, and he began courting P&G anew in late 2004 (see **Exhibit 2** and **Exhibit 3**). On November 17, 2004, representatives of senior management from Gillette and P&G met with representatives from Merrill Lynch (representing P&G) and UBS and Goldman Sachs (representing Gillette) to discuss a possible merger between the companies. The following day, Lafley met with McKinsey & Company consultants to receive their assessment of a combined firm. After receiving the blessing of both the bankers and the consultants, the two companies appeared close to completing a transaction. However, the deal fell apart in early December 2004, largely because Gillette's leadership believed that the valuation P&G had offered to Gillette shareholders (approximately \$50 per share) was too low.

Yet hope remained that the two companies would be able to bridge the valuation divide. On January 4, 2005, Hank Paulson (board chairman and CEO of Goldman Sachs) called Lafley to remind him of the long-term strategic value of the merger and asked that P&G reconsider its offer. One week later, P&G's board of directors authorized Lafley to resume discussions with Gillette. Lafley then asked Rajat Gupta (former managing director of McKinsey & Company) to phone Kilts. The two met two days later, on January 13, 2005, to explore the possibility of reaching an agreement between the two companies.⁸ Paulson and Gupta successfully bridged the

⁵ Steve Jordon, "Buffett Calls It a 'Dream Deal'," *Omaha World-Herald*, January 28, 2005.

⁶ Mike Hughlett and Becky Yerak, "P&G, Gillette Deal a Matter of Clout; Combined, Firm Can Fight Retail Squeeze," *Chicago Tribune*, January 29, 2005.

⁷ Greg Gatlin, "Deal Is No Blue-Light Special for Wal-Mart," *Boston Herald*, January 29, 2005.

⁸ Proxy Statement filed under Section 14A.

gap between Lafley and Kilts. Instead of the original offer (0.915 P&G shares for every Gillette share), Lafley now offered 0.975 P&G shares for every Gillette share, which was accepted by Kilts and Gillette's board of directors.

Deal Structure: An "All-Stock," 60/40, No-Collar Acquisition

A key concern of any acquisition involves how the consideration paid to complete the transaction will be structured. Acquisitions may be completed using one of three forms: all-cash, all-stock, or a hybrid of the two. Each option provides costs and benefits to both the buyer (acquiring company) and the target (purchased company). In an all-cash deal, the acquiring company typically pays the target company's shareholders a fixed price (per share) in cash. The benefit of this arrangement lies in its efficiency and transparency. Because companies are often acquired for a premium over their current stock price, a cash offer creates an immediately recognizable gain and allows shareholders to easily reallocate their newfound cash.

However, cash transactions have negative consequences as well. First, the target company's shareholders must pay taxes if there is a capital gain. Second, a cash payment requires the acquiring company to dip into its corporate coffers. This can adversely impact a company's bond rating and stock price, since credit rating services are wary of a firm greatly increasing its debt load or significantly reducing its cash resources.

Because of the negative tax and leverage consequences of all-cash deals, acquiring firms often provide the target company's shareholders with shares of the acquiring company instead. Yet all-stock deals also have drawbacks. For one, the target company's shareholders may not wish to hold the stock of the acquiring company. Doing so requires additional time and effort to analyze the financial health and future opportunities of the new firm. Second, the acquiring company may be concerned about diluting the value of its shares in the marketplace. Because both all-cash and all-stock transactions present problems, acquiring firms sometimes create a blended offer that contains elements of both cash and stock.

P&G's offer for Gillette, for example, was a modified all-stock deal (see Exhibit 4 and Exhibit 5). Under the terms of the agreement, P&G would issue 0.975 shares of its stock for each share of Gillette. This would avoid triggering a taxable event for Gillette's shareholders and would allow P&G to retain more of its cash. However, P&G also agreed to begin repurchasing \$18–\$22 billion of P&G stock over an eighteen-month period. This stock repurchase program sweetened the deal for Gillette shareholders. It provided them with a wholly tax-free transaction as well as an opportunity to continue to participate in the combined company if they wished or to sell stock back to P&G for cash.⁹ P&G's share repurchases would result in reduced shareholder dilution. By the end of the eighteen-month buyback period, the transaction would be comprised of about 60 percent stock and 40 percent cash.¹⁰

This buyback, however, could still impact P&G's credit standing with major rating agencies. Shortly after announcing the details of the acquisition and buyback programs, P&G was notified by Standard & Poor's, Moody's, and Fitch Ratings that "borrowings associated with [the] announced stock repurchase program have resulted in the re-examination and possible

⁹ Ibid.

¹⁰ Jordan, "Buffett Calls It a 'Dream Deal'."

downgrading of its credit rating."¹¹ However, when P&G began issuing debt to complete the share buyback program in August 2005, it continued to enjoy the fourth-highest investment-grade credit ratings at both Moody's Investors Service (Aa3) and Standard & Poor's (AA-).¹²

Another notable aspect of the acquisition included the deal protections agreed to by both companies' boards of directors, including a breakup fee of \$1.9 billion, or approximately 3 percent of the value of the transaction. Under this provision, if Gillette's board received and accepted a competing offer, the new acquirer would be required to pay \$1.9 billion to P&G. Although the companies agreed to a breakup fee, they did not employ a collar on the 0.975 P&G shares offered. A collar, common in many mergers and acquisitions, creates a ceiling and a floor on the value of the shares offered to complete the transaction. By creating a definitive price range, the collar assuages shareholders' (from both companies) fears regarding potential fluctuations in the acquiring company's share price while the transaction awaits shareholder approval (a process often three to six months in length). Since both companies would have received protection from a collar, it was surprising that it was not employed.

Valuation of the Deal

Based on P&G's closing price on January 26, 2005, its offer of 0.975 P&G shares for every share of Gillette translated into an implied offer price of \$54.05 per share. This price fell somewhere in the middle of a series of valuations prepared by investment bankers ranging from \$43.25 to \$61.90 (see Exhibit 6). A valuation based on public market reference points, including Gillette's 52-week trading range and a present value of Wall Street price targets, would have priced Gillette's stock at \$43.25 to \$45.00. A valuation analysis based on discounted cash flows was more favorable. One such valuation that incorporated only the cash flows from Gillette in its current form valued the shares at \$47.10. A second valuation that took into account the potential cost savings resulting from the combination of Gillette and P&G valued the stock at \$56.60. Cost savings were expected to be realized in purchasing, manufacturing, logistics, and administrative costs. A third valuation that incorporated total synergies (both cost savings and capitalizing on complementary strengths) valued the stock at \$61.90 per share. This valuation included not only the cost savings, but also potential revenue synergy opportunities that a combined firm might realize, including the increased market power that a combined firm would wield in dealing with large retailing firms such as Wal-Mart. Finally, a sum-of-the-parts valuation established a price of \$52.50 per share (see Exhibit 7).

The valuation of the proposed acquisition was also compared with recent acquisitions, both in the sector and across similarly sized companies, to ensure that the compensation paid to Gillette's shareholders was in line with recent transactions (see Exhibit 8). The total transaction value at the implied offer price of \$54.05 per share was \$57.177 billion (see Exhibit 9).

Key Stakeholders: Beantown, Wall Street, DC, and Main Street

The turbulence associated with an acquisition can cause a host of negative effects, and leaders navigating a company through an acquisition can face opposition from managers, employees,

¹¹ Proxy Statement filed under Section 14A.

¹² Ed Leefeldt, "P&G Leads U.S. Borrowers with \$24 Billion Stock-Buyback Loan," *Bloomberg News*, August 5, 2005.

politicians, shareholders, and regulators. Top management might be forced out as a result of the acquisition or asked to take lower-profile positions. Employees often fear the consequences of consolidation, including work force reductions mandated by cost-saving synergies (see Exhibit 10). Politicians, in turn, are concerned about the long-term social and economic impact that reduced employment can have on a community. Shareholders fear that the price brokered for their shares may not be adequate compensation. Finally, regulators evaluate every aspect of the transaction to determine whether the combined or separate entities have violated applicable state and federal laws, including antitrust laws. The approval of each of these stakeholder groups is essential, and managing the diverse interests of each group can be as challenging as managing the initial financial and strategic interests driving the acquisition.

The Razor Boss of Boston: James Kilts, Gillette CEO

Former Nabisco executive James Kilts was a turnaround expert who had orchestrated the sale of Nabisco to Philip Morris in 2000. He was named CEO of Gillette in January 2001 and immediately set on a course to turn it around. Kilts succeeded in resurrecting the company's stagnant stock price by pursuing a policy of "slash and earn." Under this policy, he reduced overhead expenses and invested the savings in promoting the company's razors, blades, and batteries.¹³ The strategy performed remarkably well, and Gillette's stock rose 50 percent under Kilts's stewardship (see Exhibit 2). In total, it was estimated that he created about \$20 billion in shareholder value.¹⁴

Gillette's board of directors' 2001 executive search effort had yielded a CEO who restored investor confidence in the company and crafted a strategy that would enhance the value of its well-known and respected brands. In its recruiting efforts, Gillette's board had offered Kilts an extensive executive compensation package customary for a capable leader with a "knack for rescuing ailing companies."¹⁵ However, though investors had not balked at the structure of Kilts's package in 2001, interest in his compensation increased after the P&G transaction was announced in 2005.

Kilts's compensation package allowed him to realize impressive financial gains in the event that the company was sold. The package included stock options and rights and a one-time \$12.6 million "change-of-control" payment.¹⁶ Kilts was also compensated by P&G with options and restricted stock valued at \$24 million. His total compensation package amounted to more than \$164 million (see Exhibit 11). To some business leaders, this amount did not seem outlandish.¹⁷ After all, the figure represented less than 1 percent of the total value that he had created during his tenure as Gillette's CEO. Yet Kilts took on fierce criticism from the Boston media and some political leaders, including Secretary of the Commonwealth of Massachusetts William Galvin and U.S. Congressman Barney Frank (D-Mass), when the acquisition was announced. Kilts, expressing frustration over this criticism, would refer to himself as Boston's *pinata*.¹⁸ The moniker reflected his irritation at the negative press attention he received over a deal that he felt would provide many stakeholders with tangible benefits. In a press conference defending the

¹³ Greg Gatlin, "Boston Blockbuster; Hub Icon Gillette Sold in \$56B Deal," *Boston Herald*, January 28, 2005.

¹⁴ Naomi Aoki, "Kilts' Many Options," *Boston Globe*, February 2, 2005.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

¹⁷ *Ibid.*, citing Shawn Kravetz, president of Boston money management firm Esplanade Capital.

¹⁸ Jenn Abelson, "'Boston's Pinata' Slams Media, Politicians for P&G Deal Attacks," *Boston Globe*, September 9, 2005.

acquisition and his compensation, he pointed out that Massachusetts would retain a key manufacturing plant located south of Boston, job losses would be less than 5 percent, and Gillette's razor business would continue to be run from the Boston area.

The Rainmakers: Investment Bankers and Power Brokers

The investment bankers that had assisted in the transaction (Goldman, Merrill, and UBS) equally split a \$90 million acquisition completion fee for their merger advisory services.¹⁹ In addition, each investment bank provided its client a fairness opinion (see **Exhibit 12**). Fairness opinions are drafted by investment banks "to assure the directors of companies involved in a merger, acquisition, or other deal that its terms are fair to shareholders."²⁰ This can be problematic, however, because "the bank affirming the fairness of the transaction is often the same one that proposed the deal—and that stands to reap millions in fees if it goes through."²¹ This was precisely the case in the P&G-Gillette transaction. Hank Paulson of Goldman Sachs had been directly responsible for bringing the two parties back to the negotiating table in January 2005. His firm netted a \$30 million fee for assisting the companies with the transaction after rendering a fairness opinion in support of the transaction. Merrill Lynch and UBS also received fees of \$30 million each after providing fairness opinions, putting them in the same position as Goldman Sachs.

The investment bankers and top management at Gillette and P&G faced substantial criticism for the consideration paid to the firms. However, Gillette spokesperson Eric Kraus advised those investigating the bankers' role in the transaction that "virtually no financial expert thinks the deal is anything but excellent for Gillette shareholders."²² Though Kraus's statement reminded the investment community how much support the transaction enjoyed, it did not appease the investigating appetite of regulators in the United States and abroad.

The Regulators: International, National, and Local

Mergers and acquisitions face scrutiny from regulators at multiple levels of government. For publicly traded companies, the regulatory process begins with the SEC. Each firm is required to disclose its plans to merge (or be acquired) in a series of forms. Form 8-K is filed whenever a publicly traded company has a material event and is often accompanied by Form 425, which is filed whenever a public company makes an important announcement. The net effect of filing both of these forms is that they put investors on notice as to a major decision reached by the board of directors.

Once the information concerning a proposed merger or acquisition is publicly available, regulators begin to scrutinize the transaction to ensure that economic and financial fairness is achieved. Often in a consolidation, two firms with similar business models are forced to divest assets (or entire business lines) in order to satisfy the antitrust and consumer-watchdog concerns voiced by federal regulators in the United States and by regulators at the European Commission

¹⁹ Brett Arends, "Gillette Shareholders OK P&G Takeover," *Boston Herald*, July 13, 2005.

²⁰ Gretchen Morgenson, "Mirror, Mirror, Who Is the Unfairest?" *New York Times*, May 29, 2005.

²¹ *Ibid.*

²² *Ibid.*

(EC). In Europe, the EC is responsible for approving transactions between public companies and is charged with investigating the impact that a merger or acquisition would likely have on consumers and employees in Europe. As a result of the EC's investigation, "P&G offered to improve the conditions of its proposed disposals" to include not only its electronic toothbrush business in the UK, but also other brands elsewhere in Europe.²³

In the United States, the Federal Trade Commission is responsible for investigating the possible effects of a merger or acquisition. The FTC derives its authority to investigate such transactions from the Clayton Act and the Federal Trade Commission Act. The Hart-Scott-Rodino Act requires prospective acquirers to notify the FTC of a potential transaction and allow thirty days for a review. While investigating P&G's acquisition of Gillette, the FTC found that there might be anticompetition problems within the at-home teeth whitening products, adult battery-powered toothbrushes, and men's antiperspirants/deodorants markets.²⁴ As a result of the FTC's ruling, the two companies began divesting themselves of business lines that might run afoul of anticompetition laws.²⁵ Gillette sold its Rembrandt teeth-whitening products to Johnson & Johnson and its Right Guard, Soft & Dri, and Dry Idea deodorant brands to Dial. P&G, for its part, sold its Crest SpinBrush line to Church & Dwight.

Companies intending to merge can also face scrutiny from state governments. The state of Massachusetts, under Secretary Galvin, attempted to subpoena records and information from Gillette to investigate whether the sale of Gillette ran contrary to Massachusetts laws. Under state law, it is the Secretary's duty to prohibit fraud "in connection with the offer, sale, or purchase of any security [and is] expected to prohibit fraud by any person who is paid for advising [another] as to the value of the securities or their purchase or sale."²⁶ Yet mergers and acquisitions are "expressly removed from the scope of the Uniform Securities Act,"²⁷ the law under which Galvin was attempting to subpoena Gillette. Therefore, a state court in Massachusetts determined that in spite of Galvin's concerns about the impact of the acquisition on employees and shareholders in Massachusetts, the state did not have the authority to further subpoena Gillette regarding its acquisition by P&G. The court left open the possibility that Galvin could subpoena the investment banking firms advising Gillette and P&G during the transaction, as the law did not exempt those firms. Hank Paulson of Goldman Sachs was ultimately subpoenaed by Galvin and gave testimony to state lawyers in June 2005. Though Galvin raised a series of questions about the deal and the fairness opinion, as of April 2006 he had not brought suit against Goldman Sachs or any other investment banks involved in the transaction.

The White Squire from Omaha: Warren Buffett, Gillette Investor

To help deal with the scrutiny caused by the acquisition of Gillette, the company turned to Warren Buffett, one of its most notable brand investors. Buffett's involvement in the P&G-Gillette transaction stemmed from his longstanding investment in Gillette, dating back to the 1980s. Though Gillette had successfully fended off several hostile takeover attempts between 1986 and 1989, the defensive efforts it had employed had placed it in financial peril at the time. The firm was saddled with \$1 billion in debt as a result of measures deployed defending against

²³ Tobias Buck and Jeremy Grant, "EU Officials Back P&G/Gillette Merger," *Financial Times*, July 15, 2005.

²⁴ *In the Matter of the Procter & Gamble Co.*, Federal Trade Commission Docket No. C-4151 (2005).

²⁵ Jenn Abelson, "Gillette Selling Its Deodorants to Dial," *Boston Globe*, February 21, 2006.

²⁶ *Galvin v. Gillette*, 19 Mass. L. Rep. 291 (2005).

²⁷ *Ibid.*

these takeover attempts, and remained a possible acquisition target.²⁸ But the company still had a series of strong brands, which attracted Buffett. In 1989 Buffett agreed to purchase \$600 million of convertible securities that could later be converted into an 11 percent interest in Gillette stock. Buffett's purchase provided the cash infusion Gillette desperately needed to retire debt, and also placed a large number of shares in the hands of an investor friendly to Gillette's board. With such a large concentration of shares controlled by one friendly investor, Gillette was able to ensure that any attempt to take over the company would have to be approved by its new "white squire."²⁹ This became Gillette's "insurance policy" against any future corporate raiders.

Buffett had executed a well-timed entrance into what would become a booming industry. Consumer product firms were favored by investors throughout the 1990s, and Buffett saw his Gillette investment appreciate more than tenfold during that decade. However, the stock languished during the late 1990s, and investors lost patience with former Gillette CEOs Al Zeien and Michael Hawley. Buffett was reportedly instrumental in Hawley's removal and he initiated the search that led to the selection of James Kilts as Gillette's new CEO in 2001.

When Gillette again turned to Buffett for assistance in 2005, instead of asking him to invest additional funds in the company, Gillette sought his blessing of its sale to P&G. So powerful was Buffett's reputation throughout the investment community that Gillette's board of directors felt certain that his approval would assuage investors' fears and pave the way toward a quick approval of the deal. Buffett, who participated (via remote video) in the initial press conference announcing the agreement between P&G and Gillette, declared the transaction a "dream deal" that would "create the greatest consumer products company in the world."³⁰ Although Buffett already held 10 percent of Gillette's stock, he announced his intention to purchase more stock of both P&G and Gillette so that, after the acquisition, he would own 3.9 percent of P&G stock. His comments and commitments on the heels of the announcement seemed to calm investors in both companies.

Conclusion

The complementary strengths of the two firms were clear, as was their motivation for combining. Though management was unable to secure the full cooperation of all stakeholders, it was able to successfully leverage the support of one of the world's most respected investors. Additionally, P&G made overtures to the Massachusetts community to reduce fears that the acquirer would lay off Gillette's employees at the company's state-of-the-art production facility near Boston. However, despite the key synergies, the complementary strengths, and the support of Warren Buffett, the deal still raised questions on Main Street, Wall Street, and in the offices of elected officials.

²⁸ Steven Syre, "As Firm's Chief Shareholder, Buffett Likes What He Sees," *Boston Globe*, January 29, 2005.

²⁹ *Ibid.*

³⁰ *Ibid.*



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Exhibit 1: P&G's and Gillette's Billion Dollar Brands

21 "Billion Dollar Brands"

Baby & Family Care	Bounty, Charmin, Pampers
Beauty Care	Always, Olay, Pantene, Head & Shoulders, Wella
Fabric & Home Care	Ariel, Downy, Tide
Oral Care	Crest, Oral-B
Snacks & Beverages	Folgers, Pringles
Blades & Razors	Gillette, Mach 3
Batteries	Duracell
Small Appliances	Braun
Pet Food	IAMS
Health Care	Actionel

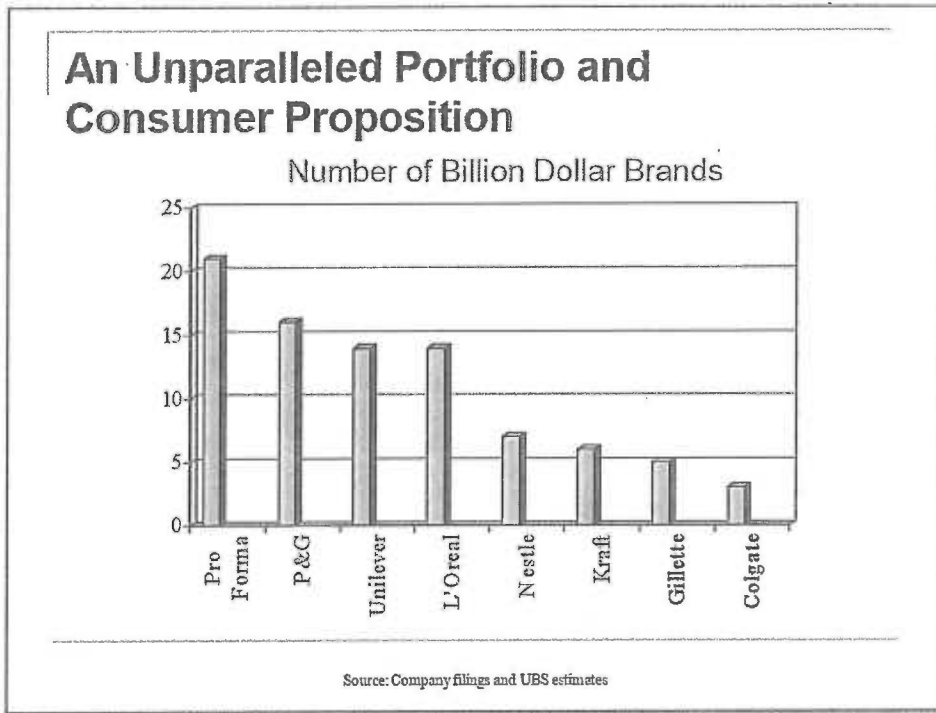


Exhibit 2: Key Deal Dates Compared with Stock Price of P&G and Gillette

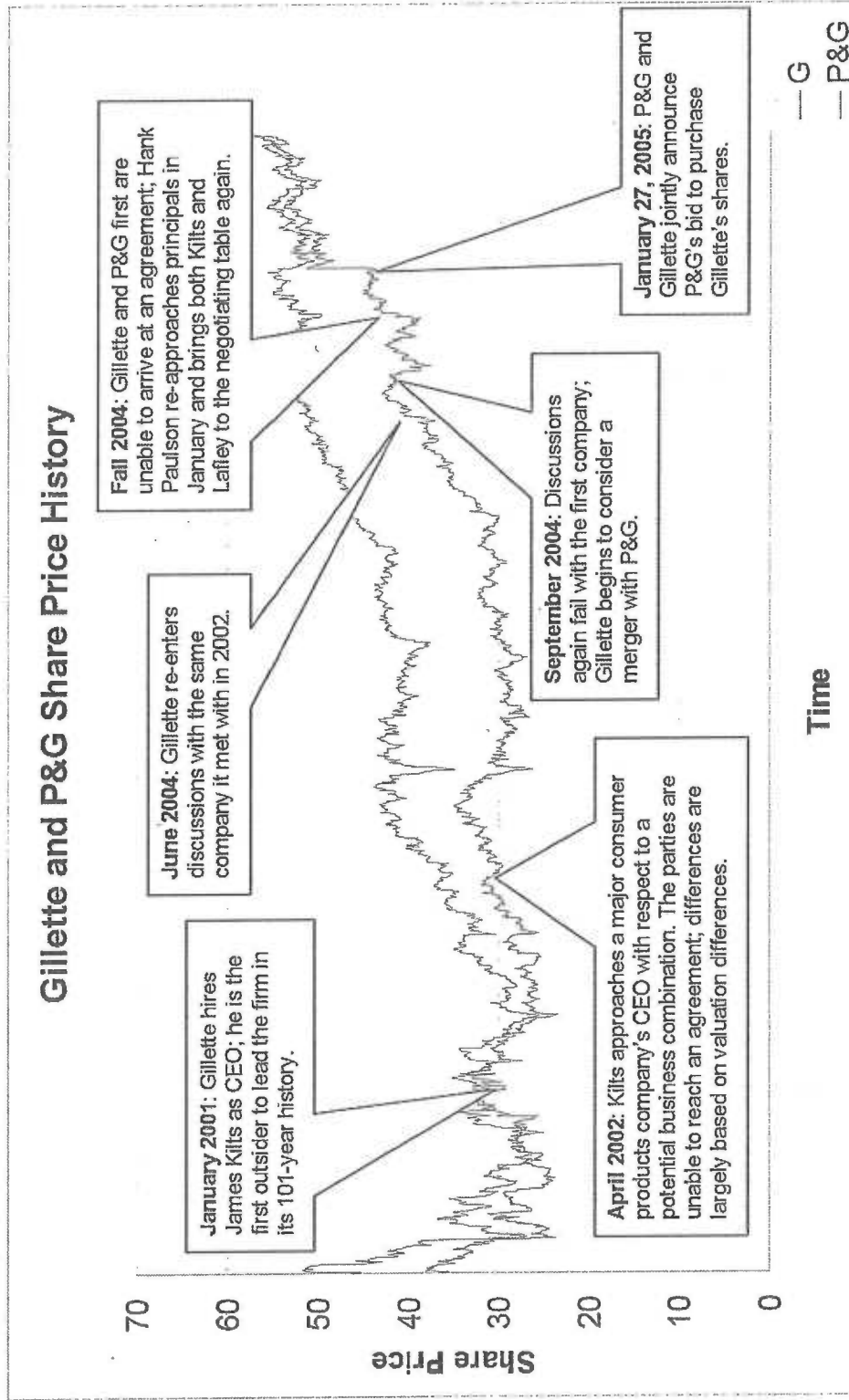


Exhibit 3: Timeline of the Transaction

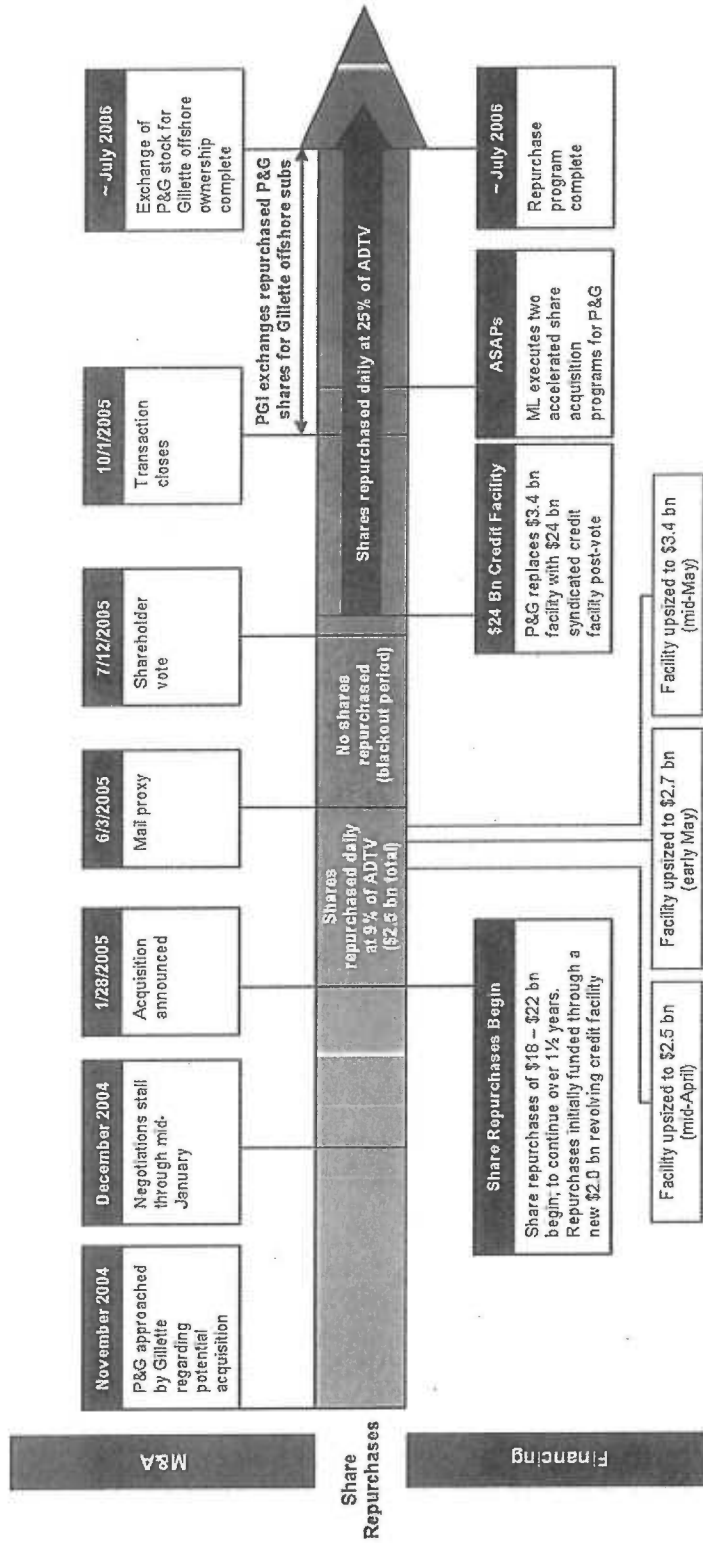


Exhibit 4: Transaction Summary

Structure	0.975 shares of P&G for each share of Gillette
Consideration	100% stock acquisition
Implied offer price	\$54.05, based on P&G closing price of \$55.04 on January 26, 2005 (20.1% premium to Gillette share price of \$45 on that date)
Tax treatment	Tax-free reorganization
Break-up fee	\$1.9 billion
Closing	October 1, 2005
Share repurchase	P&G to repurchase \$18–\$22 billion of P&G shares by June 2006
Dilution	Expected to be dilutive in 2006, break even in 2007, and accretive in 2008
Synergies	More than \$1 billion of cost synergies expected to be achieved over a three-year period
Enterprise value	Approximately \$57.2 billion, including \$2.3 billion of Gillette net debt assumption

Exhibit 5: Terms and Overview of the Deal

Rationale	Process
☐ Merger accomplished via an all-equity deal	☐ PGI borrows and buys P&G shares
☐ Transaction followed by \$18–\$22 bn share repurchase program over 12–18 months <ul style="list-style-type: none"> ○ Equivalent to ~60–65% stock and ~35–40% debt-financed acquisition 	☐ Acquisition Co. (parent subsidiary) exchanges P&G shares for Gillette shares
☐ \$18–\$22 bn of debt in P&G International (PGI), along with all international subsidiaries of P&G and Gillette	☐ Periodically, PGI exchanges repurchased P&G shares for shares of Gillette offshore subsidiaries
☐ Transaction financed with portion of cash	☐ By ~July 2006 PGI will have borrowed \$18–\$22 bn, repurchased \$18–\$22 bn of P&G stock, and exchanged it all for international subsidiaries of Gillette
☐ Simultaneous announcement of buyback to help support P&G stock price	☐ Ongoing PGI debt will be supported by all international cash flows of the combined entities
☐ Offshore entities receive their fair share of the economic cost of the deal <ul style="list-style-type: none"> ○ Future cash flow of PGI used to pay down offshore debt 	
☐ All international business aligned to facilitate business synergies and efficiencies	

Exhibit 6: Valuation of the Deal

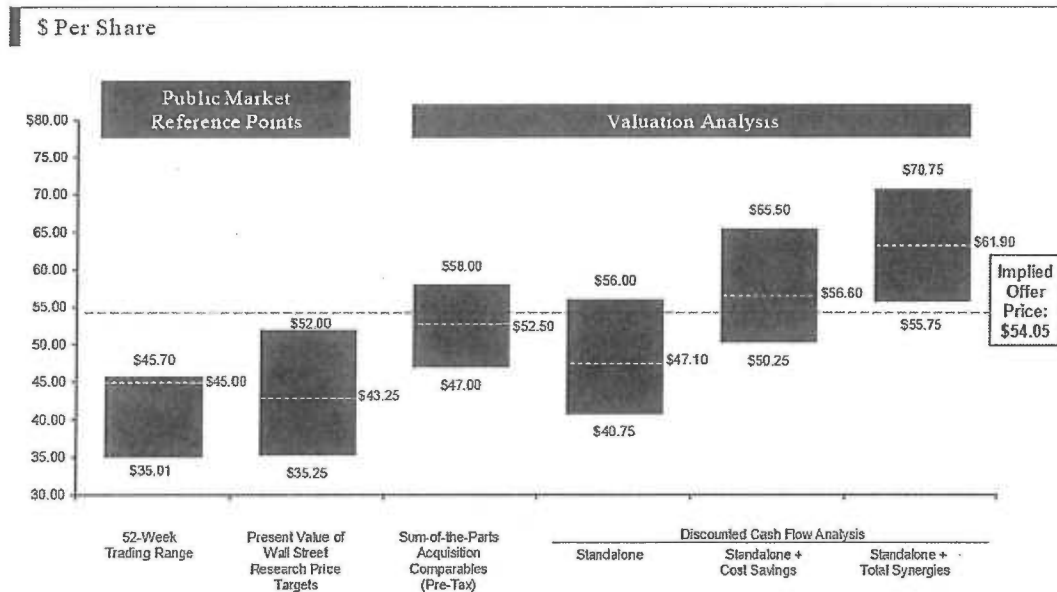
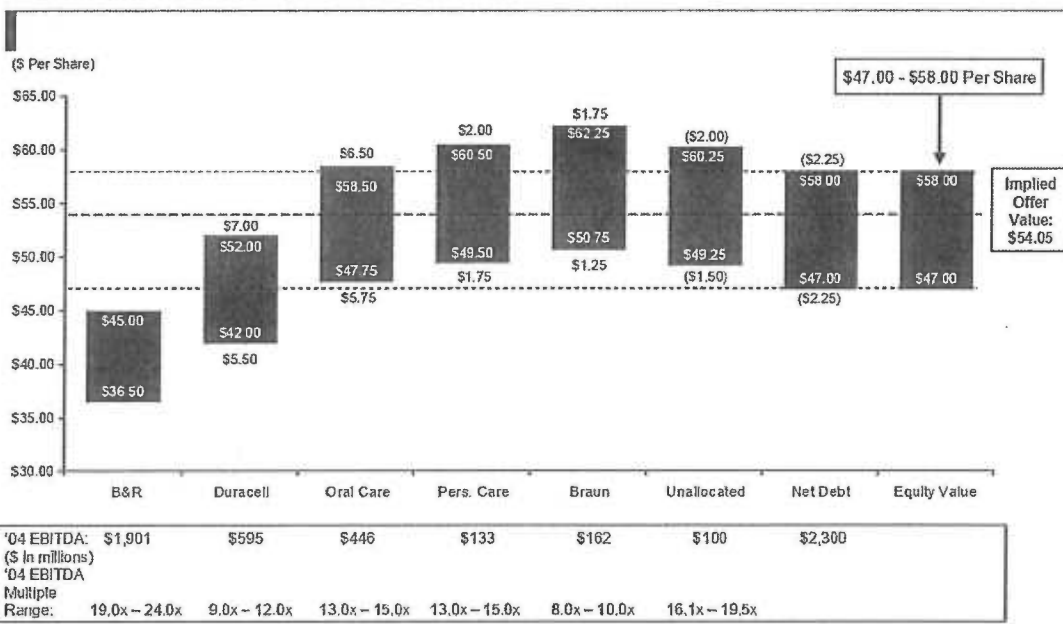


Exhibit 7: Sum-of-the-Parts Valuation



Note: Assumes approximately 1 billion Gillette shares.

Exhibit 8: Comparison with Other Acquisitions

Announcement Date	Acquiror	Target	Transaction Value (\$ in billions)	Premium to Share Price	
				1 Day Prior	1 Week Prior
06/25/2000	Philip Morris	Nabisco	19.2	69.9%	103.2%
08/22/1994	Johnson & Johnson	Neutrogena	1.0	63.0%	76.3%
11/03/2004	Constellation Brands	Robert Mondavi	1.4	49.9%	52.3%
03/18/2003	P&G	Wella	7.0	44.5%	47.3%
10/23/2003	Tchibo	Beiersdorf	13.0	51.2%	45.7%
06/06/2000	Unilever	Bestfoods	23.7	44.4%	39.9%
12/04/2000	PepsiCo	Quaker Oats	15.1	22.2%	24.0%
Average				49.3%	55.5%
At 0.975x exchange ratio:					
01/26/2005	P&G	Gillette	57.2	20.1%	20.1%

Exhibit 9: Transaction Values and Multiples**Offer and Transaction Values**

P&G share price (01/26/2005)	\$55.44
Proposed exchange ratio	0.975x
Implied offer price per share	\$54.05
Total Gillette shares & options outstanding	1,068,379 ^a
Gross offer value	\$57,750 ^a
Less: Option proceeds	(2,893) ^a
Net offer value	\$54,857 ^a
Plus: Net debt assumed	2,321 ^a
Transaction value	\$57,177 ^a

^a In millions.**Offer Premiums**

	Stock Prices	Offer Price \$54.05
Current 01/26/2005	\$45.00	20.1%
30-day average	\$44.58	21.3%
90-day average	\$44.00	22.8%

Transaction Multiples

	Gillette Results	Gillette Multiples		P&G Market Multiples
		Market \$45.00	Offer Price \$54.05	
Revenues				
12/2004A (LTM)	\$10,366 ^a	4.6x	5.5x	3.0x
06/2005E	\$10,581 ^a	4.5	5.4	2.9
EBITDA				
12/2004A (LTM)	\$3,013 ^a	15.8x	19.0x	13.1x
06/2005E	\$3,149 ^a	15.1	18.2	12.4
P/E				
06/2005E	\$1.78	25.2x	30.3x	21.3x
06/2006E	\$2.01	22.4	26.9	19.3

^a In millions.

Exhibit 10: Gillette's Presentation to Its Employees**P&G / Gillette Transition****5 Guiding Principles to the Integration Process**

1. Maintain P&G and Gillette business momentum
2. Field the best team
3. Treat people with dignity/respect
4. Move quickly, making decisions promptly, objectively, and fairly
5. Communicate openly and proactively

4/29/2005

Gillette – Proctor & Gamble

P&G wants to field the best possible team ... with members from BOTH companies

There will be job losses

Losses are estimated at approximately 4% of the combined company's work force of 140,000

Many will occur at the corporate office ... but NO decisions have been made

We've implemented special severance protection

Change of control measures

Fully vested stock option plan

Exhibit 11: Severance and Change in Control Benefits (Gillette's Officers)

Name and Principal Position	Net Equity Award	All Other Payments and Benefits	Estimated Aggregate Dollar Value
James M. Kilts, Chairman, President and CEO	\$125,260,167	\$39,272,025	\$164,532,192
Edward F. DeGraan, Vice Chairman	29,711,715	15,655,483	45,367,198
Charles W. Cramb, Senior VP	16,258,040	10,174,097	26,432,137
Peter K. Hoffman, VP	10,695,578	9,567,625	20,263,203
Mark M. Leckie, VP	9,426,564	7,528,840	16,955,404
All other executive officers as a group (12)	96,073,693	79,795,179	175,868,872

Exhibit 12: Excerpts of Goldman Sachs's Fairness Opinion Sent to Gillette's Board of Directors

Ladies and Gentlemen:

You have requested our opinion as to the fairness from a financial point of view to the holders of the outstanding shares of common stock, par value \$1.00 per share (the "Company Common Stock"), of The Gillette Company (the "Company") of the exchange ratio of 0.975 of a share of common stock, without par value (the "P&G Common Stock"), of The Procter & Gamble Company ("P&G") to be received for each Share (the "Exchange Ratio") pursuant to the Agreement and Plan of Merger, dated as of January 27, 2005 (the "Merger Agreement"), among P&G, Aquarium Acquisition Corp., a wholly owned subsidiary of P&G, and the Company.

We have acted as financial advisor to the Company in connection with, and have participated in certain of the negotiations leading to, the transaction contemplated by the Merger Agreement (the "Transaction"). We expect to receive fees for our services in connection with the Transaction, substantially all of which are contingent upon consummation of the Transaction, and the Company has agreed to reimburse our expenses and indemnify us against certain liabilities arising out of our engagement.

In connection with this opinion, we have reviewed, among other things, the Merger Agreement; certain publicly available business and financial information relating to the Company and P&G; certain financial estimates and forecasts relating to the business and financial prospects of the Company prepared by certain research analysts that were publicly available; certain internal financial information and other data relating to the business and financial prospects of the Company, including financial analyses and forecasts for the Company prepared by its management (the "Company Forecasts"), and certain cost savings and operating synergies projected by the managements of the Company and P&G to result from the Transaction (collectively, the "Synergies"), in each case provided to us by the management of the Company and not publicly available; and certain financial information and other data relating to the business of P&G provided to us by the managements of the Company and P&G and which were not publicly available, which information did not include forecasts for P&G. In such connection, we also have reviewed certain financial estimates and forecasts relating to the business and financial prospects of P&G prepared by certain research analysts that were publicly available, as adjusted and provided to us by the management of the Company following their discussions with the management of P&G as to public guidance expected to be given by P&G contemporaneously with the announcement of the Transaction (the "P&G Adjusted Street Forecasts"). We have held discussions with members of the senior management of the Company and P&G regarding their assessment of the strategic rationale for, and the potential benefits of, the Transaction and the past and current business operations, financial condition and future prospects of the Company and P&G

Exhibit 12 (continued)

(including as a result of the significant stock buyback being announced by P&G contemporaneously with the Transaction). In addition, we have reviewed the reported price and trading activity for the Company Common Stock and the P&G Common Stock, compared certain publicly available financial and stock market information for the Company and P&G with similar financial and stock market information for certain other companies the securities of which are publicly traded, reviewed certain financial terms of certain recent publicly available business combinations in the consumer products industry specifically and in other industries generally, considered certain pro forma effects of the Transaction, and performed such other studies and analyses, and considered such other factors, as we considered appropriate.

* * *

Our opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to us as of, the date hereof.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio pursuant to the Merger Agreement is fair from a financial point of view to the holders of the Company Common Stock.

Very truly yours,

/s/ GOLDMAN, SACHS & CO.