Q1 2023 Earnings Call

Company Participants

- Andre Schulten, Chief Financial Officer
- Jon R. Moeller, Chairman of the Board, President and Chief Executive Officer

Other Participants

- Andrea Teixeira
- Bill Chappell
- Bryan Spillane
- Christopher Carey
- Dara Mohsenian
- Jason English
- Jonathan Feeney
- Kaumil Gajrawala
- Kevin Grundy
- Lauren Lieberman
- Mark Astrachan
- Nik Modi
- Olivia Tong
- Rob Ottenstein
- Stephen Powers

Presentation

Operator

Good morning, and welcome to Procter & Gamble's Quarter End Conference Call. Today's event is being recorded for replay. This discussion will include a number of forward-looking statements. If you will refer to P&G's most recent 10-K, 10-Q, and 8-K reports, you will see a discussion of factors that could cause the company's actual results to differ materially from these projections.

As required by Regulation G, Procter & Gamble needs to make you aware that during the discussion, the company will make a number of references to non-GAAP and other financial measures. Procter & Gamble believes these measures provide investors with useful perspective on underlying business trends and has posted on its Investor Relations website www.pginvestor.com, a full reconciliation of non-GAAP financial measures.

Now I will turn the call over to P&G's Chief Financial Officer, Andre Schulten.

Andre Schulten {BIO 22079652 <GO>}

Good morning, everyone. Joining me on the call today are Jon Moeller, Chairman of the Board, President, and Chief Executive Officer; and John Chevalier, Senior Vice President, Investor Relations. We're going to keep our prepared remarks brief and then turn straight to your questions.

Execution of our integrated strategies continued to yield good results in the July to September quarter and provides a solid start to the fiscal year. We're growing organic sales in all 10 categories, holding global aggregate market share, accelerating productivity savings, and improving supplies sufficiency. Together, this progress enables us to maintain guidance ranges for organic sales growth, for EPS growth, free cash flow productivity, and cash returned to shareholders.

Despite continued high commodity and transportation costs, inflation in the upstream supply chain and in our own operation, accelerating headwinds from foreign exchange, geopolitical issues, COVID disruptions impacting consumer confidence and historically high inflation impacting consumer budgets.

Moving to the first quarter numbers. Organic sales grew 7%, pricing added 9 points to sales growth and mix was up one point, volume declined three points primarily due to lower shipments in Russia. Growth was broad-based across business units with each of our 10 product categories growing organic sales. Personal Health Care grew high-teens, Feminine Care was up double-digits, Fabric Care and Home Care were up high single-digits. Baby Care, Grooming, Hair Care and Skin and Personal Care were each up mid-single, Family Care, and Oral Care grew low-single digits.

Focus markets grew 4% for the quarter with the U.S. up 5%. Greater China organic sales were down 4% versus the prior year, modest sequential improvement in a market still affected by COVID lockdowns, and weak consumer confidence. Longer term, we expect China to return to strong underlying growth rates.

Enterprise markets were up 16% with each of the three regions up 13% or more. Global aggregate market share was in-line with prior year with 26 of our top 50 category country combinations holding or growing share. In the U.S., all outlet value share was in-line with prior year with six of 10 categories holding or growing share.

On the bottom line, core earnings per share were $1.57 down 2% versus prior year on a currency-neutral basis core EPS increased 7%. Core margin decreased 160 basis points and currency-neutral core margin was down 130 basis points. Higher commodity, materials, and freight cost impacts combined with a 550 basis point hit to gross margins. Mix was a 120 point headwind, productivity savings, and pricing provided 580 basis points of offset.

SG&A cost as a percentage of sales were lower by 90 basis points as sales leveraged and productivity improvements more than offset inflation and foreign exchange impacts. Core operating margin decreased 70 basis points, currency-neutral core operating margin increased 10 basis points. Productivity improvements were a 230 basis point help to the quarter. Adjusted free cash flow productivity was 86%.

We've returned nearly $6.3 billion of cash to share owners approximately $2.3 billion in dividends, and $4 billion in share repurchase. In summary, considering the backdrop of a very challenging cost and operating environment, good results across top line, bottom line, and cash to start the fiscal year.

Our team continues to operate with excellence, executing the integrating strategies that have enabled strong results over the past four years, which are the foundation for balanced growth and value creation. A portfolio of daily use products, many providing cleaning, health, and hygiene benefits in categories, where performance plays a significant role in brand choice. So priority across the five vectors of products, packaged, brand communication, retail execution, and value.

Productivity improvement in all areas of our operation to fund investments, it's a priority offset cost and currency challenges, expand margins, and deliver strong cash generation. An approach of constructive disruption of willingness to change, adapt, and create new trends, and technologies that will shape our industry for the future, especially important in this volatile environment.

Finally, an organization that is increasingly more empowered, agile, and accountable with little overlap or redundancy, flowing through new demands, seamlessly supporting each other to deliver against our priorities around the world.

Going forward, there are four areas, we are driving to improve the execution of integrated strategies, supply chain 3.0, digital acumen, environmental sustainability, and employee value equation. These are not new or separate strategies, they are necessary elements in continuing to build superiority, reduce costs to enable investment and value creation, and to further strengthen our organization.

Jon touched on each of these in our July earnings call, and they will be a central part of our discussion at Investor Day in November. Our strategic choices on portfolios, priority, productivity, constructive disruption, and organization are not independent strategies. They reinforce and build on each other, when executed well they grow markets, which in turn grow the share, sales, and profit.

We continue to believe that the best path forward to deliver sustainable top and bottom line growth is to double down on these integrated strategies, starting with a commitment to deliver irresistibly superior propositions to consumers and retail partners.

Now, moving on to guidance. We fully expect more volatility in costs, currencies, and consumer dynamics as we move through the fiscal year. However, we think the strategies we've chosen, the investments we've made, and the focus on executional excellence have positioned us well, to manage through this volatility over time.

Raw and packaging material costs inclusive of commodities and supply inflation have remained high, since we gave our initial outlook for the year in late July. Based on current spot prices at latest contracts, we now estimate a $2.4 billion after-tax headwind in fiscal '23. Freight costs have also remained high. Though, we have seen some easing in spot prices, we've made a modest downward adjustment in our outlook and now expect a $200 million after-tax headwind from freight and transportation costs in fiscal '23.

Foreign exchange has continued its strong move against us as the U.S. dollar has strengthened significantly against essentially all major currencies around the world. Based on current exchange rates, we forecast a $1.3 billion after-tax impact, an incremental hit of $400 million versus our initial outlook for the year.

Combined headwinds from these items are now estimated at approximately $3.9 billion dollars after-tax or $1.57 a share, a 27 percentage points headwind to EPS growth for the year. We will offset a portion of these cost headwinds with price increases and productivity savings. We will continue to invest in irresistible superiority, which is even more important as we compete in some markets with local or non U.S. based competitors that don't see the same foreign exchange rate impacts.

As we've said before, we believe this is a rough patch to grow through, not a reason to reduce investment in the business. As I noted at the outset, our good first quarter results enable us to confirm our guidance ranges for the fiscal year across all key metrics. We continue to expect organic sales growth in the range of 3% to 5%.

On the bottom line, we're maintaining our outlook of core earnings per share growth in a range of in-line to plus 4% versus prior year. However, the steep increase in foreign exchange impacts pushes our current expectations towards the lower end of the range.

We continue to forecast adjusted free cash flow productivity of 90%. We expect to pay around $9 billion in dividends and to repurchase $6 billion to $8 billion in common stock. Combined a plan to return $15 billion to $17 billion of cash to share owners this fiscal year.

The outlook is based on current market growth rate estimates, commodity prices, and foreign exchange rates. Significant additional currency weakness, commodity cost increases, geopolitical disruption, major production stoppages or store closures are not anticipated within these guidance ranges.

To conclude, the macro economic and market level consumer challenges we're facing are not unique to P&G, and we weren't immune to the impact. We've attempted to be realistic about these impacts in our guidance and transparent in our commentary. As we've said before, we believe this is a rough patch to grow through, not a reason to reduce investment in the long-term health of the business. We're doubling down on the strategy that has been working well and delivering strong results.

We'll continue to step forward towards the opportunities and remain fully invested in our business. We remain committed to driving productivity improvements to fund growth investments, mitigate input cost challenges, and to maintain balanced top and bottom line growth.

With that, we'll be happy to take your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) And your first question comes from the line of Steve Powers with Deutsche Bank.

Q - Stephen Powers {BIO 20734688 <GO>}

Yes. Hey, good morning. Thanks for the question. Andre, I kind of wanted to pick-up where you left off about your P&G's commitment to remaining fully invested even in this environment. I think the one of the biggest questions and points of push back that I've received around P&G in recent months is just the -- this idea that given all the headwinds that you've talked about and quantified today, and given the accelerated push on productivity that you've emphasized coming into the year and again underscored today, that there isn't enough left over to keep those investments going, investments that have been I think pretty critical in investor lives to enabling the growth that we've experienced over recent years. So, maybe if you can just step back and reassure investors and give some perspective on how much room there is to invest even as you push for productivity and work to offset these headwinds and kind of counter the idea that you're going too far and curtailing investments that's necessary for future growth?

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Good morning, Steve. Let me maybe start with productivity to reassure you on the ability to deliver significant productivity and then I turn it into the discussion on investments. We have increased our productivity numbers for the year back to pre-COVID levels. So, we have good visibility to a significant step up versus what we were able to do during COVID, where we had to limit our productivity efforts to some degree to benefit innovation and shipping cases. With line time being available, we have now full ability to qualify those cost savings on the line. We have built digital capabilities to increase the speed of reformulation to drive superiority at lower cost.

We have increased our ability to qualify new supply chains, if necessary, in order to reduce cost. We're improving the capability of our working teams in the plans to drive more efficient operations there. And we are constantly looking at our end-to-end supply chain including logistics to drive costs out. And we feel very good about our continued efforts to drive significant cost of goods productivity. We'll talk more about that as we discuss Supply Chain 3.0. But the runway is there, the capabilities are there, we're seeing the visibility on the fiscal year results.

On the media side, we also feel very good about our ability to drive continued investment in reach and quality of reach and better targeting, while being able to flow productivity dollars to the bottom line, to help offset some of the headwinds that we're seeing. We now have more than 50% of our media spend in digital, we are increasing our first party data and our digital capabilities to increase precision of reach, not only in the U.S. or in Europe, but around the world and that is allowing us to drive significant productivity, while increasing reach, while increasing quality of reach, and while more precisely targeting our consumers.

Over the past three years, we have significantly increased spend in media by more than $1.2 billion, that's on top of the productivity we have generated over those years and on top of sales leverage. So we're also starting, I would argue from a very rich support plan for our brand. In terms of reinvestment of both -- of those savings and reinvestment capability within the P&L construct, we are not de-prioritizing innovation, we will not de-prioritize innovation. Every innovation that we've delivered in the market has created value and has continued to create value and contribute to our results.

And in the overall results, we see that our approach of driving superiority is actually the strongest driver of our ability to limit volume impact of our pricing moves, enable us to continue to price and deliver value to the consumer. So, in aggregate, I think the team has full confidence that we can balance what we see, but it will require careful balance and doubling down on productivity to sustain innovation and investment.

A - Jon R. Moeller {BIO 16200095 <GO>}

Hey Steve, this is Jon. Going with everything that Andre said, just one additional short comment. If we find ourselves which we don't currently in a position where we have to choose between investing in the business and delivering a bottom-line target, we will invest in the business.

Operator

And we'll take our next question from Lauren Lieberman with Barclays.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Great. Thanks. Good morning, everyone. Thought it might be timely to get sort of an update on what you're seeing in terms of consumer behavior in the U.S. You did comment on all outlet market share being flat in the U.S., as you know, it's hard for us to see that via Nielsen. But also just the absolute sales growth that we see in tracked and untracked data does look like there's category contraction that's going on. So, I guess commentary on what you're seeing maybe we could just hit on say laundry and whatever, pick another category, well, to talk a bit about consumer trade down and dynamics that you're seeing in the market would be great. Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Lauren. Yes. As you stated in your question, we're seeing global value share and value share in the U.S. holding, which is a great signal to our strategies working of providing value to consumers via innovation as we price. Price contribution of 9% on the quarter with volume being down three, but the majority of that volume, saw more than two points actually driven by Russia, also is a good indication that the strategy of irresistible superiority works even in an inflationary environment, where we need to take pricing.

The U.S. specifically as you mentioned, all, our all outlet share is flat, we've seen strong growth in the U.S. of 5%. There is some volume reduction as you would expect with the price increase and inflationary pressures. We see volume contracting by about a point or two and that is consumer behavior around entry inventory reduction, stretching purchasing cycles, and maybe being a bit more careful in terms of dosing. But overall, we're still able to grow sales within the market and hold share within the market at this point.

To specifically talk to some of the categories you mentioned and maybe consumer behavior there, we talked about our Fabric Care situation in the last earnings call, where we were supply constrained on some of the portfolio in quarter three and quarter four of last fiscal year. We had reduced media spending and have reduced merchandising support stretching into quarter one of this fiscal year, and that certainly has resulted in some share pressure, which you would have seen in the ex-sales fee shares. We feel very good about the team being able to reinstate supply to full sufficiency. They have also reinstated media, they have reinstated merge support, and strengthened merge support, and we're seeing our Fabric Care business coming back. Our volume share in the most recent read is actually up. We see continued strong growth on single unit dose, where the majority of the market growth is and we're driving that market growth.

In terms of consumer sentiment, in general, we see part of the consumer base in Fabric Care, for example, trending up. As I mentioned into single unit dose, we see some growth also in our mid-tier brands, as consumers are looking for value within our portfolio, they're trading in to gain or into Simply Tide for example, where we see some level of share growth and that's the intent of our vertical portfolio and our strategy to provide different value tiers to consumers. We are also seeing consumers moving two different price points. So, a group of consumers is looking for value by trading into higher transaction sizes, to find lower cost per use or lower cost per unit. And we see other consumers who are more cash conscious and they are very focused on cash outlay.

So again, the other part of the strategy to provide exercises that stretch from below $10 for some channels and consumers to above $30 or $40 for others, seems to be meeting consumers' needs. So broadly, we feel good about the position we're in. There are some dynamics in terms of supply and base period that will be with us for a period of time. We remain supply constrained on a few categories where we will see share pressure. Tampons for example, the premium tier of our Femcare Pads business and on some health, some side of the healthcare business, but overall, we don't see any negative reaction and we feel reconfirmed in our strategy by what we see in consumers' behavior.

Operator

And next, we'll hear from Dara Mohsenian with Morgan Stanley.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hey, guys. So, a strong organic sales growth result in the quarter at 7%, especially given the COVID drag in China and Russia impact. But you kept the full-year org sales guidance, is that just conservatism, given it's early in the year and some of the external challenges, are you feeling any more confident around that full year range? And perhaps within that answer given the pricing has been so strong, you can just touch on the volume demand and elasticity you're seeing with that higher pricing, any changes at all towards quarter-end or in October and how you're thinking about that front specifically? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Good morning, Dara. The guidance of 3% to 5% is really grounded in what we believe the market will be. We see some softening in the market as we have communicated about 3% to 4% value growth is what we're expecting the market to be. We want to grow slightly ahead of that. As you say, the first quarter gives us a good level of confidence that we're within the right range, but we're also very early in the year. So, we believe the -- confirming the range is prudent.

In terms of volume elasticity, in my earlier remarks, as I said we feel very encouraged by the fact that we were able to realize 9% of pricing inorganic sales growth and effectively only see about a point of reduction in volume, which speaks to favorable elasticities, speaks to our superiority strategy working and providing consumers value with innovation even as we take pricing. As we always do, we assume that these elasticities return to historical levels over time, but certainly, the first quarter is a good indication, it gives us confidence with the approach we've taken around the world in terms of combining pricing with innovation and productivity in order to offset the cost is the right approach.

Operator

And your next question comes from the line of Bryan Spillane with Bank of America.

Q - Bryan Spillane {BIO 2147799 <GO>}

Thank you, operator. Good morning, everyone. I guess, two questions from me just related to kind of how we should be thinking about phasing in the back part of the year. One is, just in terms of price increases from here going forward, are you -- are there more incremental price increases that will flow through the balance of the year or has most of the pricing that you need in terms of what's in your plans been implemented? And I guess what I'm really driving at is, are we going to start to see -- would we expect to see more of a shift to volume contributing more to the organic sales growth as we move through the back half of the year and less of incremental pricing?

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Good morning, Bryan. I can't speculate or give you an answer on the future pricing. We are just in the execution of the second pricing round for many of our brands. We took pricing on all our categories in the last fiscal year, covering about 80% of sales. We're now in the second round covering about 85% of sales. And that's what we see flowing through in the first quarter. Many of these price increases in the second round are being executed in September and October. For the future, we will continue to observe where our cost headwinds go, where foreign exchange rate goes, it's a very dynamic environment, we will continue to carefully balance, innovation, pricing, and productivity.

Q - Bryan Spillane {BIO 2147799 <GO>}

Okay. Thank you.

Operator

And your next question comes from the line of Kaumil Gajrawala with Credit Suisse.

Q - Kaumil Gajrawala {BIO 20703548 <GO>}

Everybody, good morning. Can you talk a bit more maybe, just give us more details on what's driving some of these cost increases, especially as we're starting to see a lot of commodity costs start to roll over, doesn't feel like you're discussing it, kind of impacting your P&L yet. So, can you just give us some more details there?

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Good morning, Kaumil. Look, the commodity cost increases are broad-based and different by commodity class. So, for example, we continue to see part increase, there is some relief on propylene and ethylene, but in aggregate, we are not seeing broad enough relief on the inputs side to offset some of the inflation that is also coming from our suppliers. We don't buy propylene, we don't buy ethylene, we buy packaging materials, we buy super absorbers and materials that are secondary to that direct commodity impact. And that inflation is included in our $2.4 billion commodity headwind. So, relatively stable on the commodity side.

On the freight side transportation and warehousing, as mentioned in the opening comments, we see some easing, and we expect about a $100 million less in headwinds, so $200 million after-tax down from $300 million. You see that market getting more back to (Technical Difficulty) contract prices as well, so that has been reflected. And then foreign exchange rate obviously is broadly across all currencies, as the U.S. dollars, that's really around every currency in the world, and that's where we have the biggest increase versus our initial guidance range, about $400 million due to the ForEx effects that we've described.

Operator

Your next question comes from the line of Rob Ottenstein with Evercore.

Q - Rob Ottenstein {BIO 1498660 <GO>}

Hey, thank you very much. First, a quick follow-up, and then my main questions, just so unclear. In terms of post-COVID consumer behavior, I mean, obviously, we've got some tightening that's going on and consumers searching for value you mentioned. But do you see any changes in consumer behavior in terms of those categories that increased demand due to COVID in terms of home and personal care? Are we going to be at elevated level there or is it kind of just go back to normal? And then, my main question is, can you give us a sense of how your business is progressing in China kind of sequentially through the quarter into October? And what your plans are for 11/11? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Rob. Yes, post-COVID behavior, what I would point to obviously is, we see market contraction versus the pandemic phase in terms of anti-bacterial, surface cleaning products, which is a small part of our total portfolio. Other than that, I wouldn't point to any major deviation from what we expected, consumers still spend more time at home. I think generally, the focus on our categories which are cleaning, hygiene, health based continues to be high which is, I think playing back in our investment in superiority being meaningful to consumers in order to provide value even in an inflationary environment.

The other element that is positive is some of the volatility might be disappearing. So, when you think about categories like bath tissue or paper towels, where we had very volatile base periods with suppliers being in and out of supply over quarter three, quarter one and quarter two of last fiscal year, that is stabilizing. So, those are the post-COVID dynamics, that obviously doesn't play for China to transition to your second part of the question. We continue to see the lockdowns in China. Specifically with Hainan being locked down for the last two months to impact consumption significantly, volumes in China are down 5% to 6% on the quarter. We had certainly hoped for that to ease, but we still see significant negative impact on consumer mobility from the continued strict COVID policies.

We don't -- going forward, we make no assumption on that changing, so, we'll have to observe where the market is going. We feel well positioned. Once we see consumer mobility return, we feel very strongly about our ability to grow in the market. We have a strong team on the ground waiting to get going once the market fully reopens. And as we said before, we expect China to be a long-term growth driver and returning to mid-single digit growth here in the near future.

Operator, do have the next question?

Operator

At next, from the line of Nik Modi with RBC Capital Markets.

Q - Nik Modi {BIO 7351672 <GO>}

Thanks. Good morning, everyone. Andre, I was looking if you could provide some macro context in terms of what's being embedded in guidance? I mean, there's so much going on across the world. You addressed China to some degree, but perhaps you can just give us a little bit more context, as it relates to Europe, especially as we head into the winter, you ask maybe some of the developing markets, it's kind of how you're thinking about how the macro dynamics would play out over the next, roughly, the fiscal year? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Good morning, Nick. As you know, we generally orient our outlook on what we know today in terms of foreign exchange rate dynamics, in terms of commodity costs, in terms of energy costs. So, that's what is built into our reconfirmed guidance range. When you look at the consumer side and the market side, obviously, we see high pressure on the European consumer with high inflation and certainly as the energy costs will hit the consumer over the winter period depending on how much support from the European government is provided and when, we need to be extra careful in terms of ensuring that consumers have appropriate access to our portfolio, making sure that we give the right value to them via superiority, strong innovation, the right price letter and the right value to your offerings. So, we expect Europe to be tough from a consumer environment standpoint, but well-positioned from our portfolio standpoint in order to be able to compete in that market.

The same is true for the U.S., we continue to focus with our retail partners to have broad access across our portfolio for consumers, so they can make the right choices. As we said before, price ladder is increasingly important, cash outlay choices are increasingly important and that's what we'll continue to focus on. Enterprise markets are holding up well and that's a key growth driver also. In the quarter, you've seen all enterprise markets grow mid-teens and even LA growing at 23%. So, we'll continue to drive the same strategy in enterprise markets of providing superiority, pricing and productivity.

Operator

The next question comes from Kevin Grundy with Jefferies.

Q - Kevin Grundy {BIO 16423871 <GO>}

Great. Thanks. Good morning, everyone. Andre, just to follow-up on that last question. Maybe you could just put some parameters around that specifically around category growth rates, I think coming into the year, the guidance was underpinned on a 3% to 4% category growth rate. I think investors were a little bit surprised by the degree of slowdown at that point, just given the strength of the business performance in recent years. First quarter I think was better than the market expected, certainly, from a demand elasticity perspective. Maybe just comment now again building on Nik's question, is 3% to 4% still what's underpinning your outlook and maybe you can share for key regions U.S. enterprise markets, et cetera, what you observe for category growth rates in the first quarter as we think about the balance of the year? So, thanks for that.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Kevin, we expect a slowdown down from the growth rate we've seen over the past years which was 5% to a more modest 3% to 4%. That is still the case. We continue to believe that the majority of that growth will be price-driven with a negative volume component, as we would expect given the inflationary pressure. We don't have more detail by region at this point in time and it's really not -- it's really not a constructive forecast exercise to try to bring this down into lower level of detail. So, 3% to 4% still underlying our forecast, we want to grow slightly ahead of that, which is reflected in our guidance range.

Operator

The next question comes from the line of Christopher Carey with Wells Fargo.

Q - Christopher Carey {BIO 21810941 <GO>}

Hi. Good morning. So, just two connected questions on focus and enterprise markets, first, just on -- on the U.S., you noted that growth was 5%, which is several points ahead of what we can see in the U.S. scanner data. Are there any timing differences with inventory or non-track performance that you would highlight there? And then just connected on the enterprise markets in general, can you just expand a bit on the acceleration we've seen in these markets? What's driving that uptick in growth? And maybe importantly, how you see relative performance versus local competitors in these markets, mainly if that growth is being driven by pricing and certainly some of the local competition has different inflation exposure versus that of P&G. So, thanks on the U.S. and the overall enterprise markets.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. And to start with the U.S., we see strong growth in non-covered markets that's explaining the overall stronger growth. So, just looking at the covered markets here is maybe not reflecting the full reality that we've seen in the first quarter. So, broader growth in the U.S. higher than what we've seen in just the covered markets. On the enterprise market side, same dynamic as in the rest of the world, we continue to see strong contribution from pricing obviously, and the combination of us taking pricing, but driving innovation and superiority at the same time allows us to drive strong organic sales growth.

Operator

Your next question comes from the line of Olivia Tong with Raymond James.

Q - Olivia Tong {BIO 22252574 <GO>}

Great. Thanks. Good morning. My question is twofold. First, just kind of, if you could give a little bit more detail on what needs to happen to get China to -- to get back to mid-single digit growth beyond obviously, COVID going away. But my broader question is around competition, your ability to sustain the spending behind brands. Given still very tough input costs, and obviously, the move in U.S. dollar, just kind of curious, if you've seen any difference from what competition is doing? Since at the very least international competition, since they at the very least don't have the same FX dynamics that you have. Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Good morning, Olivia. China, I think you've answered the question, so, I will leave it there. We will continue to invest, I think, our teams are very well set up, but we need consumer mobility to return in order for China to return to mid-single digit growth. So, I leave it at that. In terms of competitive spending, I won't speculate. I think the fact is, obviously local competitors as you mentioned and non-U.S. dollar denominated competitors, multinational competitors have -- don't see the same headwinds in terms of foreign exchange.

Our strategy continues to double down on our own superiority, continue to double down on our own investment. And as Jon said, our commitment to continue to drive irresistible superiority is relentless, and that is going to be even more important in some of those market category combinations where we see local or non-U.S. dollar-based competition play.

Operator

We'll take our next question from Bill Chappell with Truist Securities.

Q - Bill Chappell {BIO 1737315 <GO>}

Thanks. Good morning. Just wanted to follow-up a little bit on Lauren's question a while back on trade down and you said, certainly, you're seeing some trade down within your categories within your brands. And I guess two questions. One, are you surprised that there isn't more at this stage even within your brands with inflation and with potential recessions? And then two, maybe could you talk about, is there any differences in terms of trade down and what you're seeing in the U.S. versus say Europe, Latin America or is it all fairly, fairly similar? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Look, maybe the macro indication of trade down is twofold. Our value shares and aggregate are holding as we said, and private label shares which is the other indicator for trade down in the market are growing modestly both in the U.S., and in Europe. When you look at the U.S., we see that your share for private label increasing 30 basis points over the past three and six months in Europe, we're looking at about 20 basis points of growth.

Some of that is simply driven by supply dynamics. So, where -- in the U.S., for example, where we see private label growth and all categories would be in bath tissue or in paper towels, where private label in the base period was not supplying well and we kind of picked up that supply over quarter one and quarter two of last fiscal year. Now, as private label is in supply and merchandising is reinstated, we see some growth. Encouragingly, when you then look at our family care business, sequential share is holding. So, there is no direct link of private label growth and us not being able to continue to hold our share position or even expand our share position.

Overall, trade down within our portfolio is designed. That's why we have created different value tiers, that's why we have created different exercises. So, some level of consumer shifting is expected. We are very encouraged by many of our consumers actually continuing to look for the upper end of our portfolio. And I mentioned the Fabric Care example, our biggest growth in the Fabric Care share is in the single unit dose segment in the total market and we're driving that growth. So, we're encouraged there. So, we see trends in both directions part of the consumers continuing to look for the upper end of the portfolio. Some consumers who are more exposed from a cash outlay or value standpoint find a solution within our more value focused tiers.

A - Jon R. Moeller {BIO 16200095 <GO>}

I think some of the -- I mean, the clearest explanation of all of this if there is such a thing in a very complex world is that value is found at the intersection of price, product performance as Andre has said and usage experience. It's not just price, price is an important component, but those other components are equally important. And as Andre has said several times during the call, we continue to invest heavily in performance and in the usage experience and are hopeful that we can maintain a value proposition for most consumers. Some will out of necessity trade down and as Andre said, we have offerings to meet them where they are as well. But I think again to cut through this, you have to think about the totality of the value proposition to make sense of what's happening.

Operator

And your next question will come from the line of Mark Astrachan with Stifel.

Q - Mark Astrachan {BIO 15313233 <GO>}

Thanks, and good morning, everyone. I guess, I want to ask about market dynamics for lack of better terms. Maybe start with reconciling global share being in-line in terms of what you said on the call, with the 7% growth that you reported organically and your 3% to 4% expectations for category growth, right, obviously, that implies a bit of a deceleration. And then, specifically, what's happening in segments that you talked about where there's market contractions, I think you mentioned at the press release Hair Care, Oral Care, Fabric Care specifically anything, sort of takeaways from there and your expectations and what's driving that going forward?

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Good morning, Mark. Look, the outlook for the year is still 3% to 4%. This won't be a straight line. The best visibility we have is on the total of the year at the global level. Trying to break this down into quarters, or try to break this down with geographies is not helpful in our mind. So, we go quarter by quarter. The market growth dynamic by category are not fundamentally different from what we're observing. As I said, the only driver that is visible from a COVID to post-COVID world is in the surface cleaning and hygiene space where we see slowdown in the category growth.

But other than that, the core drivers that we had predicted to help us deliver market growth is a focus on health and hygiene, more time at home and more focus from consumers on our categories. Our main job here is to drive category growth. And that's what we're really focused on, drive new jobs to be done, drive household penetration, where there is potential drive usage of patients via regimen use, and that's what we're focused on in our innovation and in our communication and in the market execution.

A - Jon R. Moeller {BIO 16200095 <GO>}

And as you think about market and market growth, at some point, the whole market has priced. At some point, that annualizes and it's less of a contributor to top-line growth. Yes, volume will hopefully be a partial offset to that, but I think it's normal to expect kind of a reversion to the mean as we get through the pricing cycle.

Operator

Thank you. Next, we'll hear from Andrea Teixeira with JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Good morning. And Jon, on your last point, I think just to follow-up on your comments on revenue growth management, I just want to confirm on the timing on this entry-level products hitting the shelves. I know you've done some of it and which categories you're finding the need to offer that, I'm assuming to hold the volume share. I'm assuming Family Care, Baby Care and Laundry Care and I just want to clarify. And my main question is on what you're embedding in terms of additional pricing in Europe into the second half of fiscal '23, which I believe is usually when the retailers accept new pricing negotiation. So, what is embedded in your guidance for the back end of the year or the fiscal year at this point? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yes, Andrea, let me take us the value tier and the price point portfolio that we were describing has been implemented over the past years. So, this is not something that we're doing ad hoc in reaction to market dynamics we are observing. This is something that has been part of the strategy for many years. So, the introduction of Simply Tide or Tide Simply, the introduction of and strengthening of Luvs for example, so that has been there for a number of years.

Also, the strategy of having different opening price points from -- under $10 to a higher transaction size, this has been part of our portfolio for many years. What we're doing carefully as we said all along is, when we price, our price execution is really tailored by SKU, by category, by brand, by market. So, that's where we pay attention to ensure that as we price, we maintain the right structure on-shelf be that virtual or physical self. Again, I can't comment on additional pricing in the second half. As Jon indicated, you would from a market perspective expect that some pricing annualizes here during the next two quarters, but the situation is still volatile. So, we will continue to look at what we're facing and employ a combination of innovation, pricing and productivity.

Operator

Your next question comes from the line of Jason English with Goldman Sachs.

Q - Jason English {BIO 16418106 <GO>}

Hey folks. Thanks for slotting me in. I guess, coming full circle to the top of the queue and on investment posture, I know that you raised media spend by $1.2 billion from fiscal '19 to fiscal '22, as you mentioned early on the call. But you just start to get leverage on the last year, I think it'll be roughly 90 basis points of leverage, you mentioned more leverage today. So, question one is, how do we think about the right investor posture when it comes to advertising and media?

And then, secondly, Jon mentioned that we're going to see price subside as we anniversary upon, which obviously will. In some instances, we'll probably see a subside too because of promotional intensity and it looks like promotions are building and laundry sequentially, diapers sequentially. And as you mentioned, private labels re-engaged in tissue and that may require some promotional get back. So, how do you balance being competitive in market, matching promotional intensity where needed, but yet still getting the price realization, you need to cover cost. Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. On the media investment, I think we really need to shift focus. It is it is difficult to describe media sufficiency and dollars. Especially when we are actively shifting our spending from linear non-targeted TV into programmatic and into digital spend, that is a lot more targeted, a lot more precise in terms of delivering reach and quality of reach where we need it. So, a spending reduction might not necessarily correlate with disinvestment, so we continue to, as Jon said, be committed to drive superiority of our brands. We would not step back from that and that for us means higher reach, higher quality of reach, higher targeting capability, which we built around the world and that's the measure of success for us. If we deliver that, the dollars are an outcome, not the determining factor of sufficiency of investment.

On the price and promotion side, Jason, we've seen promotion levels come down during COVID as you know from above 30% pre-COVID to I think 16% was the low during the COVID period. We now see in our categories' promotion, coming back up somewhere between 27% to 30%, which is to be expected. For us, the most important element is to use promotions in the right way. If we are able to drive regimen, for example, by co-promoting, co-merchandising, laundry detergent and fabric enhancers, where we have significant penetration opportunities and fabric enhancers, it grows the category. It drives incremental purchase and it drives repeat, after trial, if we do it, right. Same is true in Baby Care. When we co-promote wipes with diapers, it drives higher usage in a relatively more underdeveloped category, which is wipes. So, in that sense, promotion can be a driver of growth, market growth and profit growth, and that's how we want to use it.

A - Jon R. Moeller {BIO 16200095 <GO>}

Just to build on a point that Andre made, because the question keeps being raised, which is perfectly fine. But it means we're maybe not being as clear as we can. I'll just give you the example of North America to hopefully give you confidence in our investment posture. We had a discussion with North American team a couple weeks ago. Andre was there, I was there, Shailesh was there. And they had prepared perspective by category on dollar spend versus year ago. And I walked into the room and said, this isn't helpful. What we need to understand is what are our reach objectives, and are we sufficient in spending to achieve those reach objectives. What are our objectives in terms of number of weeks on air achieving that reach, and that's how we'll measure sufficiency.

Now, I want to do that, we want to do that as cost effectively as possible, but that's the plan and we went through and assured that category by category, we had sufficient reach and we had sufficient weeks of media. And where we determine that we might not, then there was a discussion with the business leaders on what we could do to ensure that that happened. So, we're spending a fair amount of time on this. We're very committed to it and it's -- I'm sure it's frustrating because you don't have visibility to all of that, you just have visibility to the dollars which I completely understand. As Andre also said, one other dynamic is, we're moving a lot of the marketing activity set in-house. And so, it -- the cost for that in terms of, for example, purchase in media moves out of the advertising budget and into the overhead budget. So, that also affects, basically the spend period to period. Hopefully, that helps.

Operator

And your final question comes from the line of Jonathan Feeney with Consumer Edge.

Q - Jonathan Feeney {BIO 2268157 <GO>}

Good morning. Thanks very much. Two easy ones, I think. First, I want to understand the bridge between the global pricing impact as cited at 470 basis points and global pricing of 9%, I'm sure it's easy, I'm missing that. I just wanted to understand how that math works as we go forward. And secondly, you mentioned pantry inventories. I wonder, is there any data you have specifically about monitoring that in a granular way on global basis or at least maybe some anecdotes about how that's worked in the past when we've seen periods so far rising pricing and a little bit of elasticity? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

On the pricing to gross margin reconciliation, I suggest you go back to our IR team for them to give you the math offline. On the pantry inventory, we do have some data. We have in-home consumer data specifically in the U.S., and many other markets that allows us to see their relative pantry inventory. So, it's based on that observation in the market, but it's not logical to assume that high inventories that were built during the COVID phase for example in bath tissue and paper towels are slowly drawing down. I would tell you that we're still seeing somewhat higher levels than we see in pre-COVID, but none of this is material, there's more an element of consumer behavior we're observing. So, it's not nothing that would stand out in terms of the construct of the market growth or forecast.

A - Jon R. Moeller {BIO 16200095 <GO>}

Hey, just one thing as we wrap this up, and I'll turn it back to Andre. If you step back from all of this, as I step back from all of this, I am just incredibly pleased with our team and what they've accomplished. 7% organic sales growth against the context of Russia, Ukraine, what's happened in China, where the market is down mid singles, that is truly fantastic work. Communicating the value of our offerings and proving the value of our offerings as we take necessary pricing, maintaining top-line momentum of the business. Great work.

The other piece that I -- that I think portends a strong future is the work as Andre mentioned at the onset of the call, that's happening on productivity. Between commodities, FX and warehousing and transportation, we had a 32 point, negative AT impact on the quarter. And this team was able to offset 30 points of that 32 through the combination of pricing and productivity. So, that's the big picture in my view, and I couldn't be happier.

A - Andre Schulten {BIO 22079652 <GO>}

Yes, only point to add is and the combination of value shareholding globally and in the U.S., is a strong indication in our minds, that's the strategy of driving superiority even in inflationary environments, is the right strategy for P&G. So, we'll continue to double down as we said in our opening remarks.

With that, I just want to remind you quickly that we'll be hosting an Investor Day here in Cincinnati on the afternoon and the evening of Thursday, November 17. You should have received the registration email in early September. If you didn't receive it and would like to attend, please get in touch with John and our IR team. Thank you for your time and have a great week.

Operator

Ladies and gentlemen, that concludes today's conference.