Q1 2024 Earnings Call

Company Participants

- Andre Schulten, Chief Financial Officer

Other Participants

- Andrea Teixeira
- Bryan Spillane
- Chris Carey
- Dara Mohsenian
- Edward Lewis
- Filippo Falorni
- Lauren Lieberman
- Mark Astrachan
- Olivia Tong
- Peter Grom
- Robert 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 is John Chevalier, Senior Vice President, Investor Relations. This fiscal year, Jon Moeller, Chairman, President and CEO will join the mid-year and year-end calls and I'll be leading the Q1 and Q3 calls.

Execution of our integrated strategy drove strong results in the July to September quarter. Broad-based organic sales growth across categories and regions, global aggregate market share growth, strong productivity savings enabling increased investment in superiority of our brands, while also delivering very strong earnings growth. These strong first quarter results put us on track to deliver toward the higher end of our fiscal year guidance ranges for organic sales growth and core earnings per share and continued strong cash productivity and cash return to shareowners.

So moving to first quarter numbers, organic sales grew 7%. Pricing added 7 points to sales growth and mix contributed 1 point. Volume rounded down to a decline of 1 point with overall modest volume growth outside Greater China.

Top line growth was broad based across business units with each of our 10 product categories growing organic sales. Home Care grew low teens. Personal Health Care was up double digits. Feminine Care, Oral Care, Fabric Care, Hair Care and Grooming, each grew high single digits.

Baby Care and Family Care were up mid-singles. Skin and Personal Care grew low singles.

Growth was also broad-based across geographies, with 5 of 7 regions growing organic sales. Focus markets grew 6% for the quarter. Organic sales in the U.S. were up 7%, and Europe focus markets were up 15%.

Greater China organic sales were down 6% versus prior year. Underlying market growth is soft and choppy as consumer confidence remains weak. SK-II was down low teens in Greater China due to soft market conditions and a temporary reduction in social retail merchandising.

Enterprise markets were up 13%, with Latin America up 19%, and Europe enterprise markets up 15%. Shipment volume in the U.S. grew 3% again this quarter, and we returned to volume growth in Europe focus markets. Mexico, Brazil, and India, some of our largest enterprise markets, continue to deliver solid volume growth. These gains largely offset volume declines in the Greater China, Asia-Pacific, and European enterprise regions, primarily driven by underlying market contraction.

Global aggregate value share was up 40 basis points versus prior year, with 32 of our top 50 category country combinations holding or growing share. In the U.S., all outlet value share was up 50 basis points versus prior year, with 7 of 10 categories holding or growing value share in the quarter. U.S. volume share was up 60 basis points, reflecting 3% volume growth.

Value share in European focus markets was up 40 basis points over the past three months. Moving to the bottom line, core earnings per share were $1.83, up 17% versus prior year on a currency neutral basis, core EPS increased 21%.

Core operating margin increased 240 basis points as 460 basis points of gross margin extension were partially offset by increased marketing investments, wage and benefit inflation, and foreign exchange impacts on SG&A.

Currency neutral core operating margin increased 340 basis points. Productivity improvements were 210 basis point help to the quarter. Adjusted free cash flow productivity was 97%. We returned $3.8 billion of cash to shareowners, approximately $2.3 billion in dividends, and $1.5 billion in share repurchase.

In summary, against what continues to be a challenging and volatile operating environment, a very good start to the fiscal year across top line, bottom line, and cash. Our team continues to operate with excellence, executing the integrated strategy that has enabled strong results over the past five years, and that is 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. Ongoing commitment to and investment in irresistible superiority across the five vectors of product, package, brand communication, retail execution and value, across each price tier we compete.

We are again raising the bar on our superiority standards to reflect the dynamic nature of this strategy. Productivity improvement in all areas of our operations to fund investments in superiority, offset cost and currency challenges, expand margins and deliver strong cash generation.

An approach of constructive-disruption, a willingness to change, adapt and create new trends and technologies that will shape our industry for the future, especially important in the volatile environment we're in.

Finally, an organization that is more empowered, agile, and accountable. We continue to improve the execution of the integrated strategy with four focus areas, supply chain 3.0, digital acumen, environmental sustainability, and the 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.

Our strategic choices on portfolio, superiority, productivity, constructive disruption, and organization reinforce and build on each other, when executed well, they grow markets which in turn grow 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 this integrated strategy, starting with a commitment to deliver irresistibly superior propositions to consumers and retail partners, fueled by productivity.

Moving to guidance. As I mentioned, we expect the environment around us to continue to be volatile and challenging from input costs to currencies to consumer and geopolitical dynamics. We attempt to reflect these realities in our guidance ranges.

Based on current spot prices, we estimate commodities will be a tailwind of around $800 million after tax in fiscal '24. This is consistent with the outlook we provided in July. However, within this estimate, there have been several moving parts. We've seen incremental relief on some commodities like pulp, which have been offset by higher costs in other commodities, such as fuel.

Foreign exchange rates have moved sharply against us, and we now expect a headwind of approximately $1 billion after tax, an incremental $600 million impact since our initial guidance for the year.

In addition to these impacts, we are also facing higher inflation in wages and benefits, and we expect higher year-on-year net interest expense of approximately $200 million after tax. As we are just one quarter into the fiscal year, we are maintaining our guidance ranges for organic sales, core EPS growth, cash productivity, and cash return to shareowners, with each solidly on track after a very strong first quarter.

Guidance for organic sales is growth of 4% to 5% for the fiscal year. The range includes a normalization and underlying market growth rate that is likely to occur through calendar year '24 as the market laps the last waves of cost recovery pricing and as market volumes return to growth. For P&G, we expect 3 to 4 points less pricing benefit in each of the next two quarters, compared to our first quarter results.

On the bottom line, our outlook for fiscal '24 core earnings per share is 6% to 9% growth versus last fiscal year. We're holding the range despite the incremental $600 million after-tax headwind from foreign exchange. With now a 7 point EPS impact from FX, this outlook translates to 13% to 16% core EPS growth on a constant currency basis.

We continue to forecast adjusted fee cash flow productivity of 90%. We expect to pay more than $9 billion in dividends and to repurchase $5 billion to $6 billion in common stock, combined a plan to return $14 billion to $15 billion of cash to shareowners this fiscal year.

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

As you consider the cadence of earnings for the year, keep in mind that the back half of the year will see less pricing benefit as we progressively annualize prior year increases. We should also see less commodity benefit as we move through the year.

Labor inflation continues throughout the supply chain and in our costs. FX headwinds will increase versus quarter one. Also, with a strong start to the year, we'll be reinvesting to further strengthen our plans and to maintain strong momentum.

Finally, we'll be closely watching the health of the China market and the balance of regions. Energy costs are rising as we head into fall and winter. Household saving levels have reduced, especially in Europe. Slower economic growth, higher energy costs, and higher interest rates for longer have an impact on consumer confidence.

To conclude, while we expect volatile consumer and macrodynamics to continue, we remain confident in our strategy and the results that it delivers. We are focused on driving growth in our categories and we are committed to delivering balanced top and bottom line growth and value creation for our shareowners.

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

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Your first question comes from Steve Powers of Deutsche Bank. Please go ahead.

Q - Stephen Powers {BIO 20734688 <GO>}

Thanks. Good morning, Andre. I guess just picking up on your comments on organic growth over the balance of the year, maybe you could talk a little bit more about how you're thinking about the progression of price versus volume versus mix over the remainder of the year?

And then I'm curious as to whether your approach to balancing those various drivers differs at all between your focus markets, particularly the U.S., and the enterprise markets where you're experiencing more of the currency headwinds? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Steve. We -- as we said in the prepared remarks, we expect the market to return to a lower, more sustainable growth rate, more in line with historical growth at around 4%. That will have a stronger contribution on the volume side.

We would expect that to be around 2%, 1% to 2% of pricing, and maybe a point of mix impact. That will occur over the next few quarters, and as always, P&G is intending to grow ahead of the market. So really, our expectation for the year is to be slightly ahead of the market in terms of volume, and slightly ahead in terms of price.

We continue to believe that we can price with strong innovation, and we've gained even more confidence over the past two years that our strategy of pricing with innovation to drive superiority and create value for the consumer is working. And so we fully expect to return to that pattern. And again, pricing has been a core component of our growth for 18 out of the last 19 years. So we expect that to continue.

Specifically, I think the pricing will start to lap in quarter two. So you will see probably the price contribution drop to by 3 to 4 points in quarter two, and that was expected. And we then sequentially expect volumes to pick up and offset part of that, but do expect a lower overall market growth rate for the balance of the year.

For your second part of the question, enterprise markets versus focus markets, I think the only differential would be foreign exchange, and we'll continue to price for foreign exchange. We've done that very successfully across the world. Turkey is a major example where we've been able to price for the significant devaluation of the Turkish lira, but we are able to grow share, grow sales, grow profit. We'll continue that model. Outside of that, we'll continue to do and drive the same business model we're driving in focus markets, innovate, drive superiority, price, grow markets, and thereby grow sales, profit, and share.

Operator

Next question comes from Dara Mohsenian of Morgan Stanley. Please go ahead.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hey, good morning, guys. So just to follow up on that, can you characterize what you're seeing competitively in terms of the pricing environment? Obviously, it'll be different by geography and product category, but in general what type of behavior are you seeing from your competitors and any thoughts around retailer pushback as commodities have turned favorable year-over-year.

And just then in terms of volume growth, it sounds like we should expect to return to volume growth, just what you think your level of visibility is around that and how much comfort you have in ultimately returning to volume growth as pricing drops it off? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Dara. When you look at the total market, it's very consistent with previous periods, you still see average market growth of around 6% to 7%, and you see still the pricing component being a significant driver. Volumes are stabilizing at a global level, minus a point to flat depending on the geography you look at the only exception being Greater China.

So the price component and the price rollover is consistent period over period, so no differentiation there from a competitive standpoint, at least not that we see it. Promotion continues to be, promotion levels and other indicator continue to be below pre-COVID levels.

In the U.S., for example, volume sold on deal is now at about 29%, overall promotion level still index 80 versus pre-COVID.

In Europe, we also see promotion still down and actually sequentially decreasing. Now it's a different dynamic by market, obviously, but when we aggregate up, it looks like over the past few quarters promotion activity is actually still decreasing.

And that makes sense if you look at the relatively little or small help to commodity costs, we see about $800 million after-tax help, offset by about $1 billion of foreign exchange. And recall, we're coming from two years which combined have an impact of $7 billion of headwinds. So I think everybody is still recovering, so the current pricing dynamic makes sense.

We have not experienced retailer pushback beyond normal discussions on how to maximize value for their shoppers and for consumers overall. And again, our model of driving innovation and therefore superiority in sales while we price and create value for retailers and shoppers seems to be resonating.

On the volume side, we feel very good about where we are in the trajectory of volume growth. Again, excluding China, we're already seeing volume growth of 20 basis points, sequential improvement in -- versus the prior quarters, which we would have expected.

And again, in the context of 7% pricing still flowing into the market. We expect volumes will continue to grow. U.S. strong, as we said, Europe strong, Latin America, and India strong, so we continue to see us progressing on that trajectory.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Great, thanks.

Operator

The next question comes from Rob Ottenstein of Evercore ISI. Please go ahead.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. I want to drill in on China a little bit. Number one, kind of in the short term, how is the business there progressing? Any visibility or improvement there? And when do you think that may turn positive?

And then, a little bit longer term, or kind of strategically, we are hearing from some of the other companies we talked to that the Chinese market may not be as profitable and attractive as perhaps they may have thought a number of years ago, and that perhaps the nature of competition is changing in China again. So, love to get your thoughts on both China in the short term and the long term. Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Thanks, Rob. Good morning. I think we said all along that we don't expect the China recovery to be quick, extensive, or linear, and I think that's playing out. The business health in China is really all driven by market dynamics right now.

So, total market volume continues to be down, it has been down over the past few quarters between 7% and 9%. Value is down around 5% over the past two quarters, and that's the market I'm describing. So we're operating within a market that is still contracting post-COVID reopening.

That said, we do believe that China continues to be an attractive place for us to do business. We've been there for 30 years. We have a very strong organization on the ground, R&D capability, supply chain capability, and commercial capability.

The Chinese consumer is a demanding consumer. The Chinese retail environment is a demanding retail environment, and that generally plays to our strength. So we believe that, A, we can play a value-creating role in China, and we expect the Chinese market to return to mid-single-digit growth here over the coming periods.

If you just look at the consumer structures, middle-income consumers, we have about 450 million, we estimate in China today, that will grow probably north of 700 million over the next five years. So there is a class of consumers that we believe are attractive for our businesses, and therefore we believe that our business in China can create significant value over the next few years, and we'll continue to remain invested.

Operator

The next question comes from Lauren Lieberman of Barclays. Please go ahead.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Great. Thanks. Good morning. You'd mentioned the return to volume growth in European focus markets, which is great to see. And obviously, market shares have generally held up well, but we've started to see some pickup in private label share trends across Europe.

You mentioned the European consumer being under pressure, so just kind of curious, maybe some more broad thoughts there on Europe, on market share trends that you're seeing more real time versus what's kind of already transpired in the reported results, more the go forward look on European shares and volume trends? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Good morning, Lauren. Thank you. Look, the European -- let me focus here on the Western European side, because I think that's where your question is relevant.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Yes.

A - Andre Schulten {BIO 22079652 <GO>}

Look, we've seen 15% organic sales growth in Europe focus markets, which is incredibly strong, a combination of 2% volume growth and strong price mix. We have 40 basis points of share growth across the same geographies, which is very encouraging. The market is returning to volume growth and that generally are positive signs.

Yes, private label shares in Europe are growing. They continue to grow at about an 80 basis point clip, month over month. But that still enables us to grow share in the same geographies. And I think that share growth is enabled by a strong portfolio across different brand tiers, across different cash outlays.

The fact that we are present in all relevant channels across Europe, and that allows us to effectively compete, even as consumers look at the private label versus branded value equation, the balance seems to be still in our favor.

Operator

The next question comes from Bryan Spillane of Bank of America. Please go ahead.

Q - Bryan Spillane {BIO 2147799 <GO>}

Thanks, operator. Good morning, Andre. I guess, I have two connected questions. One is, if we look at the first quarter and given your commentary about guidance, maybe higher end of the ranges, I know you've talked a lot, you've talked a bit about some of the risks in the market, but just like what's been better so far this year is one question. So just that, and then related to that also, you talked about reinvestment. So if you could just give us some sense of kind of sizing that reinvestment and maybe where those dollars are going?

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Bryan. If you look at the first quarter, I think the, we are encouraged by the combination of factors here on the consumption side. Again, volume, return to volume growth outside of China. We expected China to be choppy, as we said all along, but even with China down, we've been able to grow 7%. And that certainly has been encouraging to us.

And the depth and breadth of that growth, both across value and volume outside of China, is really encouraging us and giving us confidence that the model will continue to drive results that point to the upper end of the guidance ranges.

On the reinvestment side, we will continue to look for opportunities to invest when the return of that investment is attractive. It won't be driven by availability of funds, it will be driven by ability to create an attractive return.

Our first priority, as you can imagine in this current environment, is to invest in ideas that drive market growth. So investing in products, investing in innovation that is driving new jobs to be done, investing in media spending that is driving household penetration, investing in communication to the consumer that drives usage in the right way to drive better delight for the consumer will be key.

A couple of examples, Ninjamas in bed wetters was a sleepy category. We entered a couple of years ago, category is growing 7%. We were able to drive 60% of that growth, which is 6x our fair share. Those are great examples where we can continue to invest, drive growth for the business, drive growth for our retailers, and create value for shareholders.

We continue to see opportunities in media. As we get sharper and sharper on our targeting across media around the world and our capabilities are scaled, the ROI gets better. So we'll continue to drive up reach. We continue to drive up frequency. And again, that is a core driver for us to drive household penetration, drive trial, which will turn into loyalty and repeat.

The last bucket I will give you is investing in supply, resilience, and productivity. Our supply chain resilience, we see as a core competitive advantage for our retail partners and for ourselves. So, we'll continue to ensure that our capacity to demand ratio is where we want it to be.

And investing in productivity, we believe, has a high payout and is critical for us to continue the investment in superiority, which is part of the business model. So, those are the headlines, but be reassured, we'll do it on a very disciplined basis with return on investment as the top priority.

Operator

The next question comes from Andrea Teixeira of JP Morgan. Please go ahead.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you. Good morning. Andre, your comments about volume, I would like to drill down a little bit. You mentioned China. I believe you are still looking to mid single-digit growth and obviously I understand how -- the toughness of the market and you had SK-II down in the low teens. So, I'm assuming for that to happen you're expecting SK-II to gradually improve or lap easier comps as we go through the balance of the year?

And then, when you mentioned like doing the math when you said pricing as we decompose your guidance, right, the 4% to 5% organic total company, you mentioned expect sequential 3% to 4% decline in the benefit of pricing, right, so it was a good 7%, so you'd be implying to us 3% to 4% the next two quarters.

So with that being said, it implies in the next two quarters some sort of improvement in volume right, or at least some sort of inflection. So I was trying to figure that out in the context of what you said about China and what you said about total company, basically what it regresses to, it regresses to an improvement in China. Is that what we should be thinking?

A - Andre Schulten {BIO 22079652 <GO>}

So first part -- good morning, Andrea, first part of your question. We obviously want to see SK-II return to growth, but the volume impact of SK-II is relatively limited, because the volume to organic sales ratio obviously is very high unit sales. So China, we believe, will return to mid-single-digit growth. When exactly that's going to happen is really hard to predict.

And I would say, like we have delivered 7% organic sales growth in the first quarter with China down, I think we'll continue to operate and not counting on China recovery as the core catalyst to growth for the coming quarters.

On your sequential question on volume, you're right. As we said, the pricing contribution to organic sales growth will decrease 3 to 4 points over the coming quarters, and we expect volume to progress sequentially.

The exact trajectory of that progression, I think is questionable, and I won't make a prediction here, but I'll tell you that the progress we're seeing from minus 6 to minus 3 to flat to -- to minus 1 to now flat is pointing in that right direction. So, we see we're on the right path, and we will continue to invest to drive household penetration and create that volume growth in our business.

Operator

The next question comes from Olivia Tong of Raymond James. Please go ahead.

Q - Olivia Tong {BIO 22252574 <GO>}

Great. Thank you, good morning. Andre, you talked about the changes in FX and how you've been able to absorb that into the fiscal year outlook. Can you discuss what's embedded in your outlook in terms of the consumer, the economy? Obviously, increasing risk or concerns around trade downs, lower volumes, and macros in general? So, if you could talk about that. And then also your ability, and quite frankly, your agility to switch between spending that is either net to sales versus operating expense in light of potentially volatile conditions. Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Thanks, Olivia. Good morning. Look, the consumer continues to be remarkably resilient. As we said, in the U.S., the consumption levels are actually stable. Our volume share and our value share are growing. And that's true in Europe and in most parts of the world.

And I interpret that as our portfolio doing exactly the job that it's supposed to do and building a portfolio that is grounded in superiority in daily use categories that are non-discretionary I think is serving us extremely well.

We're able to add value, bring value to the consumer, and we are doing that in every tier, not just in a premium tier, but in the mid tier and in value tiers across the world, which allows us to serve the consumer even as their spending preferences might change.

Now we haven't seen a significant change in their preference yet, if anything consumers that are choosing P&G products continue to trade up within our portfolio, but you can see our ability to grow in markets even when we see private label shares expand. And so, we don't expect a significant change in that profile, and we believe we are well set up to grow even if the consumer feels a bit more of a pinch here going into the fall or winter season.

The main intervention for us continues to be investing in innovation and continue to invest in media support to communicate the strength and the value that our brands can provide. We don't see a significant need to drive price promotion.

Our focus, if we promote, if we look for in-store support, is really to drive regimen. So we view it as a strategic tool to drive either trial or habit formation, i.e. regimen steps added to the laundry regime or the hair care regime, for example, because that drives incremental consumption. It drives growth for our retail partners and for us.

In many cases, our innovation is strong enough to get in-store support, and that's really what we're after when the product in and of itself generates enough traffic and consumption so retailers want to support it, that's the golden grade we're after.

Operator

The next question comes from Chris Carey of Wells Fargo Securities. Please go ahead.

Q - Chris Carey {BIO 21810941 <GO>}

Hi, good morning. I was wondering if you could expand on two categories, which have been important for volume growth and seemingly should be important ahead. Just first on laundry, we've seen an improvement, a re-acceleration in trend. Can you just expand on what's driving that and the durability?

And then second in personal healthcare, I believe that was an important driver of volume growth in the quarter. Can you just expand on what exactly was driving that in the quarter? And if you think those trends are also sustainable, go forward. So I'm just trying to get a sense of some of the volume durability that we saw in the quarter go forward, specifically in the context of potential -- the volatility out of China, likely to persist. Thanks so much.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Thanks, Chris, good morning. The laundry business is very encouraging. Results around the world are very strong. Let me focus on the U.S. market, because it's the biggest market and you have the highest visibility too.

But if you look at the trends, they are very encouraging. We are now growing value and volume share in U.S. fabric care. Value share has been flat over the past three months. Volume share has been up 1.6 points. So we continue to push the laundry business forward. We have record high fabric enhancer shares and we have record high laundry consumption in the U.S.

Most importantly, I think, is the fact that we're driving 70% of the category growth in laundry, and we're driving 100% of the category growth in fabric enhancers. And it's really driven by strong innovation, strong superiority, and doubling down on consumer relevant communication and in-store support. So, I fully believe that this will only accelerate. And to your question, yes, it is sustainable, because it's just in line with the business model.

PHC is doing extremely well around the world. And obviously, the seasonality here plays a key role. Going into the season, we see strong results, which is part of the strength in volumes that you see.

And the last part I'll leave you with is, we've invested significantly and continue to invest in strengthening our supply capability in personal healthcare, which will be needed to support that strong growth going forward. But feel good about both businesses. And yes, I think the trajectory is absolutely sustainable.

Operator

The next question comes from Filippo Falorni of Citi. Please go ahead.

Q - Filippo Falorni {BIO 23293822 <GO>}

Hey. Good morning, Andre. Just a question on gross margin, clearly very strong performance in the quarter, big inflection in terms of the (Inaudible). You seem like you have pretty good visibility in the first half, at least on the commodity front. Can you give us a sense of how you're thinking the second half will play out, especially as price and contribution comes down? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Filippo. Yes, when we talked about the cadence of earnings, I think it's important to understand the drivers of the gross margin expansion we saw in quarter one. And we expect some normalization of gross margin. We were certainly benefiting from a high price contribution in quarter one.

And as we said, that price contribution will ease over the coming quarters. The biggest part of the commodity health, about 33% of the $800 million after-tax commodity health, has materialized in quarter one. So, that's a positive to gross margin, relative to the balance of the year. And the foreign exchange rate headwinds will accelerate over the coming quarters.

On the other hand, we will accelerate and continue to drive strong productivity. We will continue to drive trade-up and innovation. And we continue to drive every other element of productivity, not only gross margins, but across the P&L and the balance sheet. But I want you to take away that the gross margin expansion in quarter one is very strong, but we have headwinds going into the balance of the year.

Operator

The next question comes from Peter Grom of UBS. Please go ahead.

Q - Peter Grom {BIO 16488235 <GO>}

Thanks, operator, and good morning, Andre. I hope you're doing well. So, I wanted to ask specifically on Latin America, 19% growth in the quarter, very strong. And you may have alluded to this, but are you already seeing a return to volume growth in the region?

And then just thinking through the performance in the quarter, can you maybe just unpack what you're seeing in terms of broader category performance versus how much of this growth is a function of share gains? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Morning, Peter. Look, the Latin America business is on fire, and I think it is on fire, because we've chosen maybe opposite to the market to double down on superiority.

When we saw the need to price for foreign exchange and commodity impacts in Latin America, the team made the choice to double down on innovation and price for the innovation and to offset foreign exchange rate, inflation, and commodities and that clearly has played out well.

We are seeing growth in our categories and we are seeing share growth in Latin America. The growth is both on the volume side and on the value side in the biggest markets in Brazil, Mexico, for example. I think the biggest headwind that we have to acknowledge is Argentina, where it's very difficult to make progress at this point in time, given the level of inflation, some restraint -- constraints in terms of ability to price.

So, outside of Argentina, I can only paint a very positive picture of the Latin America growth construction, and again, it's grounded in the superiority of our brands and I feel very strong about the sustainability of that model.

Operator

The next question comes from Mark Astrachan of Stifel. Please go ahead.

Q - Mark Astrachan {BIO 15313233 <GO>}

Thanks and morning, everyone. Two sort of unrelated follow-ups. One, just on China, given your commentary about the middle class, I think everybody's obviously aware that there's growing middle class and that they'll ultimately consume more, but any sort of changes in your view about how quickly the middle class premiumizes its purchases?

Obviously, SK-II may be sort of a one-off, but any changes there in terms of how quickly you think that they can go for more premium-priced products that potentially change how the Procter thinks about its product positioning or portfolio positioning in the market?

And then on the gross margin versus marketing spend sort of decision tree. If gross margin moderates, how do we think about the incremental reinvestment or marketing investment from an SG&A standpoint as we go through the year? Would that inversely kind of move with gross margin, or I should say, would it move with gross margin, meaning less gross margin expansion, less reinvestment? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Morning, Mark. Look, I really don't have any more insights on the China recovery timing. You see the volatility in the market that will directly correlate with consumer confidence, income levels, and therefore recovery timing. I think we're hoping for faster, but we're prepared for longer, would be my answer here.

On the gross margin versus marketing spending side, when I say we're ROI driven, I really mean we're ROI driven. So, there's no direct correlation between availability of funds and investment levels. If we continue to see strong response to the marketing spend increases that we deliver in quarter one, I think there's a strong incentive for us to continue that level of investment.

I also expect that our gross margin expansion and our overall growth contribution availability will continue to enable us to drive strong innovation and drive strong support of those innovations. That's part of the business model. That's why, again, it has to be a combination of driving very strong productivity to reinvest in superiority, to grow markets, and we have to keep that cycle spinning.

Operator

The next question comes from Edward Lewis of Redburn Atlantic. Please go ahead.

Q - Edward Lewis {BIO 5970827 <GO>}

Yes. Thanks very much. Another strong quarter in the U.S., seeing both volume and value growth. I'm just looking back at 2020, when we were dealing with obviously a lot of COVID headwinds, you were talking about growing about 4% to 6% as a sustainable rate of growth in the U.S. In light of all that's gone on in the past few years and seeing where we are in the U.S. at the moment with the consumer, are you still comfortable with that range over the longer term?

A - Andre Schulten {BIO 22079652 <GO>}

Look, I won't give you guidance on a market-by-market basis. I think what is proving out is that the business model we're driving in the U.S. is very successful. If we are successful in continuing to drive market growth that will continue to drive sales ahead of that market growth for us, while being sustainable, because we create business instead of taking business from somebody else.

If that model is successful, which I believe it will, I feel very strongly about the growth prospects of the U.S. And again, we're doubling down in every dimension of superiority. We're doubling down in every dimension of market execution. So, my overall confidence in the U.S. market capability and growth trajectory is very high.

Operator, are there any more questions?

Operator

That concludes -- there are no further questions at this time.

A - Andre Schulten {BIO 22079652 <GO>}

Okay. Thank you very much for joining us today. Again, very strong first quarter of the year, and we'll look forward to speaking with you. If you have any questions, John and I will be available all day, so please feel free to call or email. Thank you very much.

Operator

That concludes today's conference. Thank you for your participation, and you may now disconnect. Have a great day.