Q4 2022 Earnings Call

Company Participants

- Andre Schulten, Chief Financial Officer
- Jon R. Moeller, President and Chief Executive Officer

Other Participants

- Andrea Teixeira
- Bill Chappell
- Bryan Spillane
- Chris Carey
- Dara Mohsenian
- Jason English
- Kaumil Gajrawala
- Kevin Grundy
- Lauren Lieberman
- Mark Astrachan
- Olivia Tom
- Robert Ottenstein
- Stephen R. 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.

I'll start with an overview of results for fiscal year '22 and the fourth quarter. Jon will add perspective on our strategic focus areas. We'll close with guidance for fiscal '23 and then take your questions.

Fiscal 2022 was another very strong year. Execution of our integrated strategies continues to yield strong sales, earnings and cash results in an incredibly difficult operating environment. We delivered broad-based strong top line growth across categories and regions, earnings growth in the face of significant cost headwinds, continued strong return of cash to P&G shareowners.

Organic sales for the fiscal grew 7%, up 13% on a two-year stack, up 19% on a three-year stack. Growth was broad-based across business units with all 10 of our product categories growing organic sales. Personal Health Care grew 20%. Fabric Care and Feminine Care grew double digits; Baby Care, up high single digits; Oral Care and Grooming, up mid-single digits; Hair Care, Home Care, Skin and Personal Care and Family Care each grew low singles; Focus Markets were up 5% for the year; Enterprise Markets, 10%.

We delivered strong results in our largest and most profitable market, the United States, with organic sales growing 8%, up 16% on a two-year stack. E-commerce sales increased 11%, now representing 14% of company total. Our integrated strategies continue to drive strong market growth, and in turn, share growth for P&G. All channel market value in the U.S. categories in which we compete grew approximately 6% in fiscal '22. P&G value share continued to grow, up 90 basis points for the year.

Global aggregate market share increased 50 basis points. 36 of our top 50 category country combinations held or grew share for the year. Importantly, this share growth is broad-based. 9 of 10 product categories grew share globally over the past year. Core earnings per share grew 3% for the year despite a 22 percentage point headwind to earnings from commodities, freight and foreign exchange. Our initial outlook predicted $1.8 billion after tax of headwinds. We ended up at $3.2 billion. So, despite an incremental $1.4 billion of earnings pressure versus ingoing plan, we delivered core EPS growth within our initial guidance range for the year.

On a currency-neutral basis, core EPS was up 5%. Adjusted free cash flow productivity was 93%. We increased our dividend by 5% and returned nearly $19 billion of value to shareowners, $8.8 billion in dividends and $10 billion in share repurchase.

Moving to the April-June quarter. Organic sales grew 7%. Pricing contributed 8 points to organic sales growth as additional price increases reached the market. Mix was flat and volume declined 1 point, which is due to reduced operations in Russia. Volume for the balance of the business, excluding Russia was up 1 point. These strong company results are grounded in broad-based category and geographic strength.

9 of the 10 product categories grew organic sales in the quarter. Personal Health Care grew mid-teens; Fem Care was up low teens; Fabric Care grew double digits; Oral Care, up high singles; Baby Care and Family Care, up mid-single digits; Hair Care, Home Care and Grooming, each grew low singles. 5 of 7 regions grew organic sales with Focus Markets up 3% and Enterprise Markets up 18% for the quarter.

Organic sales in the U.S. grew 6%, up 24% on a three-year stack. European Focus Markets were up 3%. Excluding Russia, Europe Focus Markets were up 7%. Greater China organic sales were down 11%, mainly due to COVID-driven lockdowns in major regions of the market. Since lockdowns have eased, we've seen sequential market recovery but somewhat slower than expected when we gave guidance last quarter.

In Enterprise Markets, each of the three regions grew organic sales 14% or more. Global aggregate market share increased 50 basis points. 29 of our top 50 category country combinations held or grew share for the quarter. On the bottom line, core earnings per share were $1.21, up 7% versus prior year. On a currency-neutral basis, core EPS increased 12%.

Core operating margin decreased 30 basis points as gross margin pressure were largely offset by sales leverage and productivity improvements in SG&A. Currency-neutral operating margin increased 20 basis points. Free cash flow productivity was 99%. We returned $3.5 billion of cash to shareowners this quarter, nearly $2.3 billion in dividends and nearly $1.3 billion in share repurchase.

In summary, we met or exceeded each of our going-in target ranges for the year, organic sales growth, core EPS growth, free cash flow productivity and cash return to shareowners, strong performance in very difficult operating conditions.

Now I'll pass it over to Jon.

Jon R. Moeller {BIO 16200095 <GO>}

Thanks, Andre. P&G employees have delivered great results over the past four years in a very challenging macro environment against very capable competition. In those four years, P&G people have added more than $13 billion in annual sales and roughly $5 billion in after-tax profit, executing our integrated strategies with excellence.

I want to publicly thank our colleagues in product supply and R&D, who have enabled this progress with formulation, sourcing, manufacturing and logistics agility and extraordinary commitment to serve consumers, customers and each other through walk-downs, inbound supply shortages, outbound truck shortages, port blockages, natural disasters and geopolitical tensions.

What P&G's people have accomplished together is truly extraordinary. Still, we're very clear-eyed about the trials ahead. The list of challenges we face heading into our new fiscal year is longer than any I can recall. The progress we've made and our collective commitment to our strategies give me confidence we can manage through these challenges. We've never been better positioned.

A portfolio that's focused on daily-use categories where performance drives brand choice; superiority across product, package, brand communication, in-store execution and value; leveraging that superiority to grow markets and our share in them; creating business versus taking business; powerful with our retail partners as we work to jointly create value.

We've developed a productivity muscle that helps address some of the challenges we face. We remain fully committed to cost and cash productivity in all facets of our business, up and down the income statement and across the balance sheet in each business and corporately. Productivity improvement is a necessity to drive balanced top and bottom line growth and strong cash generation.

Success in our highly competitive industry and in this dynamic and challenging environment requires agility that comes with a mindset of constructive disruption, a willingness to change, adapt and create new trends and technologies that will shape our industry for the future. In the current environment, that agility and constructive disruption mindset are even more important.

Our organization structure is yielding what we intended: a more empowered, agile and accountable organization with little overlap or redundancy, flowing to new demands, seamlessly supporting each other. This improved agility and accountability have been important enablers of our strong results in the dynamic environment we faced.

Going forward, there are four areas in which we need to be even more deliberate and intentional to strengthen the execution of the strategy. The first is supply, improved capacity, agility, cost efficiency and resilience for a new reality and a new age. The capability investments we made prior to COVID to improve our manufacturing and distribution networks have helped us to manage through the last few years with relatively few prolonged issues.

We're already making the next round of investments needed to ensure we have multiple qualified suppliers for key inputs, sufficient manufacturing capacity to satisfy growing demand and flexibility to meet the changing needs of all types of retailers.

The second area is environmental sustainability, integrated into our product packaging and supply chain innovation work, irresistibly superior offerings that are sustainable. New cardboard packaging on Gillette razors is an improvement for the environment and a noticeably superior experience for consumers at the first and second moments of truth. New fully recyclable paper packaging on our premium Always cotton protection pads recently launched in Germany. Laundry detergent formulations that deliver superior cleaning in cold water, reducing energy usage, saving money and extending garment lifespans for consumers.

Third, increasing our digital acumen to drive consumer and customer preference, reduce cost and enable rapid and efficient decision-making. Increased digitization on manufacturing lines, more use of AI, more use of blockchain are not ends in to themselves. There are tools we can use to delight consumers and customers at the most reasonable cost possible.

Fourth, our employee value equation for all gender identities, races, ethnicities, sexual orientations, ages and abilities for all roles to ensure we continue to attract, retain and develop the best talent. By definition, this must include equality. To deliver a superior employee value equation, there must be something in it for everyone.

These are not new or separate strategies. They are necessary elements in continuing to build superiority and reducing cost to enable investment to value creation and strengthening our organization. They are part of the constructive disruption we must continue to lead.

The operational costs and currency challenges we faced over the last two years will continue in fiscal '23. We began the new fiscal year with consumers facing inflation levels not seen in the last 40 years. We know one of the most pressing questions out there is how we plan to deal with the severe cost and currency impacts we're facing: $6.5 billion after tax in just two years, nearly an $8 billion hit to operating profit.

I'll repeat what I said on our April 2020 earnings call: the best response to uncertainties and challenges we face is to double down on the integrated set of strategies that are delivering very strong results. It won't be easy. There will be bumps along the road, but we have the portfolio, superiority, productivity and in my not-so-humble opinion, the best organization in the world. We have everything we need. So again, I think we are very well positioned.

We're committed to keep investing to strengthen the superiority of our brands across innovation, supply chains and brand equity to deliver superior value for consumers in every price tier in which we compete. Alongside our productivity work, we'll continue to offset a portion of the cost impacts with price increases. Whenever possible, we'll close a couple of those price increases with innovation. Those moves will be tailored to the market, category and brand.

As consumers face increased pressure on nearly every aspect of their household budgets, we invest to deliver truly superior value in combination of price and product performance to earn their loyalty every day. So far, elasticities in most categories where we've taken price increases have been better than our historical experience.

Our strategic choices on portfolio, superiority, productivity, constructive disruption and organization are not independent strategies. They reinforce and build on each other, and the four focus areas that I mentioned strengthen the execution of that strategy. When all of this is executed well, we grow markets, which in turn grow share, sales and profit. These integrated strategies are a pathway to delivering balanced growth.

We've been talking about the importance of balance for a long time in the context of needing both top line and bottom line growth to deliver value for shareowners. We're in a world that needs more from us now. We need to expand that concept to serve and delight consumers, customers, employees, society and our shareowners. And I firmly believe that if we fail to do any of those, we will fail to do all of them.

Our consumers increasingly rely on us to deliver superior solutions that are sustainable. Our world requires that we do our part in this regard. This challenge is also a wonderful opportunity to extend our margin of superiority, further grow our categories and create more value, all while positively impacting the environment and society. These strategies were delivering strong results before the pandemic and have served us well during these volatile times. We're confident they remain at the right strategic framework as we move forward.

With that, I'll hand it back to Andre to outline our guidance for fiscal 2023.

Andre Schulten {BIO 22079652 <GO>}

Thank you, Jon. As we've said in each guidance outlook for the past two years, we will undoubtedly experience more volatility in the fiscal year ahead. This rings true again as we enter fiscal 2023.

The combined year-on-year profit headwinds from foreign exchange rates, freight costs, materials, fuel, energy and wage inflation are an even greater challenge in fiscal '23 than they were in fiscal '22. Based on current spot prices and supply contracts, we estimate commodities, raw materials and packaging material costs to be a $2.1 billion after-tax headwind in fiscal 2023.

Freight costs are expected to be higher in fiscal '23 compared to the average cost paid in fiscal '22 by roughly $300 million after tax. Foreign exchange rates have moved sharply against us even since our presentation at the Deutsche Bank Conference in June. We now expect foreign exchange to be a $900 million after-tax headwind in fiscal '23. Combined headwinds from these items are now estimated at $3.3 billion after tax, roughly equal to the challenge we faced in fiscal '22, a 23 percentage point headwind to EPS growth or roughly $1.33 per share as we start the year.

As Jon said in his review of our strategies, we're working to mitigate the impact of these cost headwinds through a combination of innovation to create and extend the superiority of our brands, productivity in all aspects of our work, and pricing. With this context, I'll move to the key guidance metrics.

We expect global market value growth in our categories to moderate back towards a range of around 3% to 4% with strong price contribution offset by modest decreases in unit volume. With the strength of our brands and commitment to keep investing in the business, we continue to expect to grow at or above underlying market levels, building aggregate market share globally. This leads to guidance for organic sales growth in the range of 3% to 5% for the fiscal '23.

On the bottom line, we expect EPS growth in the range of in line to plus 4% versus fiscal '22 EPS of $5.81. This guidance equates to a range of $5.81 to $6.05 per share, $5.93 or up 2% at the center of the range. Considering a 6-point headwind from foreign exchange, this outlook translates to 6% to 10% EPS growth on a constant currency basis.

There are many possible scenarios that could cause us to be outside of this range to either side, high or low. While it's relatively easy to envision many possible scenarios, steeper inflation, deep recession, further geopolitical disruption or commodity cost reversion, easing inflation, peaceful conflict resolution, it's very difficult to assign probability to any single scenario. As a result, we set the range we feel is most probable based on market conditions as we see them today.

We expect adjusted free cash flow productivity of 90% for the year. This includes a step-up in capital spending as we begin to add capacity in several categories. We expect to pay more than $9 billion in dividends and to repurchase $6 billion to $8 billion of common stock. Combined, a plan to return $15 billion to $17 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, major supply chain disruptions or store closures are not anticipated within this guidance range.

Now I'll hand it back to Jon for his closing thoughts.

Jon R. Moeller {BIO 16200095 <GO>}

The macroeconomic and market-level consumer challenges we're facing are not unique to P&G, and we won't be immune to the impacts. 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 toward our 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)

(Operator Instructions) First 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 just had a couple of clarification questions related to the guidance. And I guess the first one is -- just want to make sure I'm looking at this correctly. If I look at the implied step-up in the tax rate and then the share repurchases, they sort of offset each other. So seems like the underlying guide assumes that profit growth will equal whatever revenue growth is. Just want to make sure I'm understanding that correctly.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Our core EPS guidance, as I said, in the range of flat to plus 4% with a tax rate slightly higher than what we've seen in the previous fiscal year. This is driven by geographic mix changes, and it's also driven by reduced benefit from stock option redemption. From an operating profit standpoint, you're in the right ballpark. And I would leave it at that.

Operator

Your next question comes from the line of Steve Powers with Deutsche Bank.

Q - Stephen R. Powers {BIO 20734688 <GO>}

Yes. Hey. Thank you. Good morning. You both spoke a number of times, I think Jon reinforced it at the end of the prepared remarks, about the need to drive continued cost and cash productivity. As I reflect on fiscal '22, I think it's fair to say that the expense productivity was an area that came in a bit light of going in expectations, at least external expectations.

As you turn the page to fiscal '23, and maybe this is embedded in the answer to help drive that operating profit growth you just talked about, Andre. What's your confidence, your line of sight to be able to accelerate productivity in the year ahead? That's my main question. If you could also comment on just the -- mix has been a very material driver of margin for a while now. And I'm just curious to see your base case of how mix impacts your margin outlook in '23 as well.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Steve. On productivity, you're right, it has to be a significant contributor to how we offset the inflationary cost impacts and enable reinvestment in the business in combination with pricing and innovation, as we said before.

In fiscal '22, maybe let's go by area. From a cost of goods productivity standpoint, we've talked about us prioritizing production of cases to ship them and innovation as we were capacity-constrained. That has limited our ability to get cost savings qualified and through the P&L.

That is changing in this current fiscal year. As the capacity situation eases, as we add more capacity and catch up with demand, we are able to get more cost savings qualified, catch up on some of the cost savings we delayed in fiscal '22. So, we are expecting growth savings in the COGS area to get back to pre-COVID levels in this fiscal year.

We are very confident in our teams. They are -- have an unlimited number of creative ideas to drive further productivity. That still, obviously, is needed to offset inflation, which is equally strong in the fiscal year.

From a media standpoint, we have delivered significant productivity over the past years, but we have reinvested all of that productivity and incremental media spend ahead of sales leverage, ahead of the productivity numbers even that we generated. And that productivity continues to strengthen.

We have developed strong capability to target better both on TV as well as in digital. Our ability to improve effectiveness of reach and quality of reach is allowing us to drive cost per effective reach down both in digital and in TV. We've shifted more and more spend into digital. Now more than 50% of our advertising is in digital.

And with that, we are rolling out these capabilities to more and more businesses and more and more regions. That allows us to increase productivity on media spend in the current fiscal year to the point where we believe we will use some of that productivity not to reinvest fully, but to actually flow through and help offset inflation. And some of that you saw in Q4 combined with other effects.

General sales leverage and productivity on SG&A driven by sales leverage is well intact. You saw it flow through in quarter 4. That was 180 basis points helped to operating margin, and that should continue. So in summary, I feel good about our productivity muscle. It continues to strengthen, and it will be needed to help offset some of the inflationary pressures we see.

On product mix, we continue to see the same effect that we've seen in previous quarters, which is a negative impact to gross margin, roughly 130 basis points on the quarter, positive impact when you think about our portfolio. What we see is that consumers that come into the P&G portfolio and we had big success in driving trial over the past two years. Those consumers, if they try P&G products, they tend to trade up. And that trade-up comes with increased unit sales. It comes with increased penny profit, but the gross margin is slightly dilutive.

The example we use generally is Tide pods, about a 50% premium in unit sales versus liquid detergent per load, significantly higher unit profit, but from a gross margin percentage standpoint, slightly lower. So that same effect continues, and we expect that trade-up, hopefully, to continue in this fiscal.

Operator

Our next question from Dara Mohsenian with Morgan Stanley.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hi guys. I just wanted to discuss your level of visibility on the 3% to 5% organic sales growth guidance for fiscal '23. Obviously, there's a lot that builds into that, but I was curious for your perspective in a couple of areas. First, just the competitive environment. What are you seeing in your categories with a strong 8% pricing this quarter? Are competitors generally matching pricing in your categories?

And then, B, you're only assuming modest P&G market share gains for fiscal '23 with the 3% to 5% corporate organic sales growth and 3% to 4% category growth. So can you discuss what's driving the moderation in P&G market share gains and how potential pickup in private label share might play into that and the fiscal Q4 results? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Thanks, Dara. You're right. Our top line guidance is, as always, grounded in what we expect in the marketplace. We see moderation -- or we expect moderation in the overall value growth in the market from the 5% we had over the past 12 months back to 3% to 4%. And we expect pricing to be the main driver in that market growth with volumes slightly down. That is a logical consequence of the broad-based pricing that we are seeing in the market, assuming there will be elasticity. We've seen elasticity, albeit better than expected based on historical levels, but we're seeing elasticity in the market, and that's reflected in our market growth assumption.

We have full confidence in our ability to compete in this environment. Our categories being daily-use categories that consumers don't deselect even when they see high levels of inflation, our focus on irresistible superiority, our ability to make strong value claims based on that superiority, the breadth of our portfolio across the price letter and value tiers and across channels positions us well to compete in the environment. And most importantly, the strength in our innovation portfolio and the runway we have in driving household penetration and trade-up within the portfolio has us focused really on driving market growth. And that inherently drives share growth for us. That's part of our assumption to market size and relative share growth.

As to the private label point, we see private label reemergence in some categories, mainly in the paper categories in some regions. Broadly, what I would tell you at this point, while we acknowledge private label coming back, partly due to supply dynamics in the base, we are still able to grow share in those markets where we see private label coming back. In the U.S. in the recent period, private label coming up a little bit in Family Care. But overall, we've been able to drive share growth on an all-outlet basis.

In Europe, private label shares are stronger. Private labels are reemerging in some of the markets. But for example, in the UK and France and Germany, we all have positive share reads in the most recent period. So, we're keeping a close eye on it. But again, I want to bring it back to the strategy, the portfolio, the superiority, the innovation, and we believe we are well positioned and continue to be well positioned to serve the consumer in this environment.

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

I just want to add one thing to that. Agree with everything that Andre said. Both due to base period dynamics across ourselves and our competitive set and, as you said, Dara, due to many dynamics that are impacting both top and bottom line as we move forward. There will likely be more volatility in the numbers. There will be some bumps along the road. And you'll have to be careful how much you read into any one-week or four-week period. We've got our eyes focused on a longer time period than that, and we'll be managing accordingly.

Operator

We'll go to our next question from Lauren Lieberman with Barclays.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Great. Thanks. Good morning. Two things, I guess, first is notwithstanding, Jon, your comments just now on scanner -- implied on scanner data. In the U.S., the market share performance has changed course. It's down slightly. It looks like a mix of things in terms of competitor supply perhaps coming back. But I was just curious if you could comment on U.S. market share performance in general was number one.

And then number two was China, which I believe is 9% or 10% of your sales, down 11% is significant. I know that you've signaled previously that China was challenged because of the COVID lockdowns, but it does seem like it's disproportionate rate of decline versus what others are talking about. So, if you could just talk to us a little bit about why your performance in China looks to be different than what we're hearing from some other multinationals. If it's specific to market share, if it's specific to mechanics of your operations? Just curious on some insights there. Thank you.

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

Let me just start in response to that question, Lauren, and then kick it over to Andre. We need to keep coming back to the strength of the top line. So, in the U.S., for example, we grew 6% in the quarter, 8% over the course of the year. As you know, 7% total company, both on the year and the quarter. And that strength is broad-based. That's important. And we continue to protect project top line growth as well as modest share growth going forward.

I'll ask Andre to provide specific commentary on China.

A - Andre Schulten {BIO 22079652 <GO>}

Very good. Hey, Lauren, on the -- maybe I'll start quickly with the U.S. share, if you let me. You're right. If you look at the past one week and past four weeks, we see a kind of 10 basis point, 20 basis point decline. And that's -- as Jon said, there will be wobbles along the way. The base period is extremely volatile. If you look at absolute shares in the U.S., we're up over the last 52 weeks, last 13 weeks to the last one week, we continue to increase absolute shares.

If you look at the periods that you're reading at the moment, just to give a bit more color, the two businesses that are down over this period are Fabric Care and Family Care. Just to give color on the period effects here and the wobbles. Fabric Care had an amazing run in the U.S., 11% up on the quarter, 12% up for the year and high tier -- low teens up over the past two years. And we haven't kept up with capacity and that came to a head in March. Just as we are installing and starting up new capacity, we were supply-constrained over the AMJ quarter. So, we reduced merch investment, we reduced media investment because we just didn't have the cases.

That is fixed in July. We're back in full supply as we started up new capacity, merchants reinstated, media reinstated. Family Care-based period, you know the situation in Family Care on supply has been very constrained. And again, you're reading mainly base period effects, not sequential share effects. All-outlet share in the U.S. continues to be up. So, we feel very confident in our U.S. business overall.

China, you're right. We have been significantly impacted by the COVID lockdowns. The read for us across our category footprint and regional footprint in China is that the market contracted double digits over the quarter periods that we're reading, and that is reflected in the results.

More importantly, since consumer mobility started to resume, the COVID lockdowns are easing. We're seeing a return to growth in our categories. Our shares are responding favorably. So, we're hopeful that we return to mid-single-digit growth in China over the next few quarters. Certainly, the team on the ground is excited, capable and has everything ready to go, but we need to see that consumer mobility come back.

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

And Lauren, relative to your question on the relative share performance, where you happen to have manufacturing operations located has a big impact on your ability to supply the market. And we had -- we were pretty significantly impacted by the location of some of the shutdowns, namely Shanghai, where we have manufacturing centers and important contract manufacturer supply. So, that's one of the reasons for some of the noise within the share comparison.

Operator

We'll go to our next question from Jason English with Goldman Sachs.

Q - Jason English {BIO 16418106 <GO>}

Hey, folks. Thanks for slotting [ph] me in. Two questions. I guess kind of coming back to some of the topics that have already been raised. First on market growth assumptions, the anticipated deceleration, is this coming from an anticipation that consumers are going to use less so as volume comes in, trade down so mix comes in? Or maybe we lap some pricing and bring some more promotions back so pricing comes in? Which of those 3 components do you expect to be the bigger driver of category to sell?

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Jason. It's a combination of what you described. As we said, pricing generally comes with a level of elasticity. Consumers don't leave the category, but they might look at their dosing behaviors. They might look a little bit closer at their inventories and draw that down over a period of time, specifically as they are more exposed to inflation broadly in the marketplace with the highest inflation in 40 years, it'd be naive to assume the consumer is not looking at their cash outlay and their spending even in our categories.

Though we see the elasticities be more favorable than historical norms to date, we continue our assumption that they return to historical elasticities going forward. We hope that's not the case, but our assumption is that, that returns to what we've seen in the past.

The other element I would point to is just normalization of consumption patterns. As we saw very elevated consumption growth over the last two years, some of that will, at a total market level, probably return to more normal levels. Our job within that is for our brands and our categories to drive the household penetration opportunities, which we have. They are huge even in the most developed markets, even in the most developed categories, and that's what we're going to focus on.

Operator

We'll go to our next question from Kevin Grundy with Jefferies.

Q - Kevin Grundy {BIO 16423871 <GO>}

Great. Thanks. Good morning, everyone. My question is on potential implications from the fallout with Walmart and your bigger retailers more broadly feeling margin pressure. From a category perspective, it's sort of well understood the issues are more general merchandise and not consumer staples. But we have seen some ripple effects, right? They've announced freight fuel charges, which we have seen. So, my question is really around any implications that you may be concerned about, whether more difficulty taking price, greater request for trade promotion. So, any comments you have there in terms of what's going on with large retail customers would be helpful. Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yes. Kevin, I'll start, and then Jon might want to add here. In general, we acknowledge -- as you said, Walmart indicated that the pressure they are seeing is in general merchandise and apparel. Our categories, when you think about the HPC categories broadly in Walmart and across all retailers in the U.S., really are still growing at a good clip. Our interests are generally aligned with retailers' interest as our job is to provide the best possible value to consumers as defined by price and performance of the product.

We both want to drive footfall to the store. We both want to drive traffic to the shelf. We both want to drive consumption of our propositions. In that sense, we continue to work constructively with Walmart and with all retailers to do that in the best possible way. Our strategy, grounded in the categories we play in, that are generally not categories that consumers deselect even in difficult times, our superiority, our investment in innovation, our intention to drive category growth and to win with our retailers versus purely focusing on share growth, all of those are good things. In our mind, all of those are good things in the minds of retailers. The dialogue generally remains constructive, but focused on providing the best possible value to the consumer.

Operator

We'll go next to Rob Ottenstein with Evercore.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. Thank you very much. Was wondering if you could talk a little bit about your price increases in July, maybe give a sense of order of magnitude and breadth, early reception. And then assuming the sort of elasticities that you expect, how far can those increases go to offsetting the $3.2 billion or $3.3 billion of headwinds that you outlined earlier? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Rob. The increases we're taking, and we've announced in June, July, are going into effect broadly in this quarter, July, August, September, towards the latter half of it. They are across most categories in the U.S. And we also announced pricing globally in the same ballpark, mid-single digits, but very differentiated.

So, in general, I would tell you, mid-singles -- probably mid to high singles, but really tailored by country, by brand, by SKU to ensure that we do what I just described retailers are looking for, provide the best value for their relevant shoppers in terms of absolute price point, product performance and value tier.

The reaction to those price increases from a retailer environment is what you would expect. Nobody is pleased about the continued inflationary trends that we're seeing, but it remains a constructive discussion on how to best execute what we need both from a retailer standpoint and from a manufacturer standpoint, which is recovery of inflationary cost measures to the extent that cannot be covered by productivity.

In terms of our ability to offset the latest inflationary trends across commodities and transportation, pricing is part of that. But the pricing we're taking is not covering the entire breadth of increases that we're seeing that needs to be a combined effort between pricing, innovation and driving trade-up via innovation and productivity. But we feel good about every part of that equation. Our innovation portfolio is stronger than ever. Our productivity muscle is strong, and pricing dynamics and conversations remain productive.

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

Just one additional point, Rob, the -- relative to the competitive environment. We're seeing price increases on private label brands and on mid-tier offerings that are even higher in some cases than our own price increases. I just offer that perspective as it relates to the ability to hold pricing and what it might mean for market share. As Andre said, it's a fairly constructive environment.

Operator

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

Q - Kaumil Gajrawala {BIO 20703548 <GO>}

Hey guys. Good morning. I'd like to talk a little bit more about the $1.33. It's such a substantial amount of money between commodities and FX and what's incorporated in there, particularly, whether it's forward purchasing agreements, hedges, any of those sorts of things. And I'm asking for, I guess, an obvious reason, which is commodity costs very recently have come down. And I'm sure you don't feel the benefit immediately, but how should -- if this is to continue, which is possible, how should we think about the impact that's going to have on the estimates you've given us so far? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Kaumil. Yes. If you break it down, the $1.33, $2.1 billion of the $3.3 billion is driven by commodities, $900 million by FX and $300 million by transportation. On the commodity side -- so let me take each bucket here.

On the commodity side, we've seen some of our commodities annualized, as you said, and maybe even decrease. But we've seen the majority of our commodity basket still increase week-over-week month-over-month. So when you look at our overall commodity exposure, it is at this point in time stable to increasing. And our assumption going forward is at spot rates. So, we assume stability within the commodity price environment versus current spot.

We do not hedge our commodities. We are counting on our offsets within our total exposure between commodity FX and interest rates. So, spot is the assumption we are using. And we still see slight increases week-over-week, month-over-month, certainly not to the tune that we saw at the beginning of '22.

On the foreign exchange rate, that is the fastest-increasing headwind, also a big headwind in quarter 4 that we had to overcome. The interest rate differentials keep widening versus the U.S. So we anticipate that headwind could further expand. But our forecast is based on current spot rate, so the same methodology as on commodities.

Transportation is a rollover versus the average price that we have paid in '21, '22. We see a little bit of easing here on the rate side. If you look at the load-to-driver ratio in the U.S., for example, that's down from a peak of 12 to now 4, which is more normalized. And some of the spot rates are coming down. That hasn't rolled over into contract rates at this point in time. If that happens, that could be a tailwind.

Ocean freight, you see the number of ships waiting to get unloaded is decreasing. So, that's normalizing. What I'll offer as the offset obviously is energy prices, fuel prices. So, this one might offer some relief. But again, so far, we see this offset by fuel cost.

Operator

Your next question comes from the line of Chris Carey with Wells Fargo.

Q - Chris Carey {BIO 21810941 <GO>}

Hi. Good morning. So you noted that trade promotion was expected to be about $300 million after tax. I think you're referring to promotional spending, which is not an item, I think, typically, you call out specifically.

So, it does seem like you're indicating a more intentional desire to pick up promotional spending in order to help the consumer weather some of these cost increases. Is that a fair characterization? And then obviously, your price increases across much of your portfolio ahead. But are there specific categories or geographies where you specifically intend to lean in or where you think the consumer or the retailers need the most help? So thanks for that.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Chris. On the promo side, I'm not sure we intended to mention any number. But let me describe where we are. But John Chevalier can certainly clarify afterwards, if that question remains open.

Our promotion strategy remains the same. If you look at promotion levels, they are relatively stable. I take the U.S. as the market where we have the best visibility and you have the best visibility. We're running at about 27% of merch, so that's volume sold on deal, and depth combined. That compares to a pre-COVID level slightly above 30% to a COVID low at 16%. But that 27% has been relatively stable over the past few quarters. So there's no significant increase in what we're observing.

We are not planning to increase significantly. But that, again, is a very tactical decision that is being made at the market level at the category level. But our intention to win is via innovation via clarity of value offer, via our superiority, not via price promotion.

Operator

Your next question comes from the line of Andrea Teixeira with JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you. Good morning. So, my question is on RGM. I guess I'm not missing if you're prospectively or more reactively introducing new price points, perhaps type simply pulling some of these levers to help the consumer or if you're seeing basically the retailers, your customers requesting more of that help or that's too early to say. And if you can walk through what has happened with Beauty in China on new exits of the quarter. I guess that's one area that you could potentially see improvement there. If you can help us kind of like bridge that gap? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Andrea. On revenue growth management, that has been a priority for us, not only in the recent quarter, but really over the past two to three years. So, what we're benefiting from now was very intentional design of our revenue growth strategies over that period of time, including portfolio choices to have brand offerings available that cover different value tiers.

When you think about diapers, for example, we have the premium-tier Pampers Pure at $0.38 per diaper, Swaddlers at about $0.35 a diaper, Baby Dry at $0.30 and Luvs at $0.20 a diaper. So that's one example. And this exists across really all brands. And we've been very intentional in building our presence in these different value tiers in the market, so we can serve consumers with different preferences between performance and price.

We have also spent a lot of time and design effort in creating the right price points. And those price points relevant on everyday price but also providing the right merch price points for different channels. So, that's work that's been going on in every category.

And then lastly, we've expanded our distribution across channels that consumers would go to in a more value-driven environment, think about hard discounters or dollar channel, to ensure that we have strong relationships with our retail partners there, strong distribution and offerings. So that work, yes, is indeed very important, but it has been ongoing over a longer period of time. As we take pricing, we ensure that we protect that strategy very carefully. And that's why pricing is so differentiated between markets, brands, channels as we execute.

On Beauty China, what I'll tell you is that we remain very confident that the Chinese market offers very attractive growth rates and very attractive value-creation opportunities for us. As mobility returns, as department stores reopen, as we develop stronger capability in digital channels, as we refocus our business on the core brand equities, we see progress. The progress is still relatively slow because mobility is only just reopening. But we remain very confident that, that business offers a lot of opportunity, and we are well positioned with our brands to play.

Operator

Your next question comes from the line of Bill Chappell with Truist Securities.

Q - Bill Chappell {BIO 1737315 <GO>}

Thanks. Good morning. Hey, Jon, this may be a little bit of a softball question, but I think we've run out of ways to ask about pricing in the consumer. But in your prepared remarks and then also I heard you on CNBC this morning say, P&G is the best organization in the world. And I'm struck by that. In the 15 years I've known you, you've never been a cheerleader or someone to throw out superlatives. And coming on a quarter when technically, stock is down and you've missed, just why you feel that way now? Is the kind of turnaround or the catching of breath complete? You seem to want to get that message out there. So just anything more color you could give would be interesting and helpful. Thanks.

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

There's clearly a desire to recognize extraordinary effort and results on the part of our organization broadly defined. The challenges that have been overcome while maintaining or improving service to consumers, customer and delivering both strong top and bottom line results, that's just not an accident. And we've been trying to become even more intentional about the importance of our organization, of our employee value proposition and delivering and sustaining superiority over time. So it's just, Bill, a reflection of that reality and my confidence in this organization to continue to step up and step forward into the challenges we face and continue to deliver strong progress from a business standpoint.

Operator

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

Q - Olivia Tom {BIO 18053280 <GO>}

Great. Thanks. Good morning. I'll be quick, but just two quick questions. First, are there more price actions planned versus what's already been announced? Is there anything being contemplated or everything that's been announced has been announced? And then secondly, just if you could give some color on your innovation pipeline and how it skews this year versus previous years potentially. Is there more premium versus more value and how you think about it in terms of contribution to price and mix? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Hey, Olivia. On pricing, my answer is going to be quick. What's announced is announced, and everything else we can't talk about. But it's going to be a combination of pricing, productivity and innovation. That's as much as I can tell you. And we're always evaluating pricing and the necessity for pricing in every market every day. So that's an ongoing discussion.

In terms of innovation, fundamentally, our innovation pipeline looks out five years, 10 years. The innovation pipeline continues to be strong. It continues to drive superiority across the full portfolio because that's the definition of superiority. It's not just the premium end, and that doesn't really change.

So when we talk Irresistible Superiority, we mean Irresistible Superiority at every price point for every product, for every consumer that we choose to compete for versus the relevant competitive offering. And that drives the innovation strategy and the strength of the innovation. I see it only improving and being broad-based.

Operator

Your final question comes from the line of Mark Astrachan with Stifel.

Q - Mark Astrachan {BIO 15313233 <GO>}

Yeah. Thanks and good morning everyone. One question and just a clarification or a reminder. How -- can you help us on just the leverage that you get from an SG&A standpoint given the volumes that we've seen over the last couple of years and then put that in the context of the slight volume decline in the June quarter just as a reminder there? That would be helpful. And then more broadly, how do you think about the ability to sustainably invest given the exchange rates? And specifically, I'm talking about obviously dollar strength versus a lot of other currencies, especially given some of your overseas current -- overseas competitors who don't obviously have the translational impact. So how does that influence, if it does, your ability to sustainably invest and maintain those levels of investment going forward if the dollar remains where it is?

A - Andre Schulten {BIO 22079652 <GO>}

Thanks, Mark. On SG&A leverage, so from a -- let me maybe start with the broader leverage point. So, we generally see sales leverage when we see growth in the range of 3% to 4%, roughly. When we go north of 4%, the leverage becomes relevant and material, and that's SG&A leverage. So if we grow in line with our guidance range, that will provide a level of sales leverage similar to what we would typically and historically have expected.

On the COGS side, you're right, the volume is the key driver for the leverage. With flat volumes, as we've seen in the fourth quarter, there obviously is no leverage. But that's where our productivity efforts are even more important. And that's why we're doubling down on our acceleration of productivity improvements. We'll talk about this more, I think, in our Investor Day, where we'll give you a bit more insight on Supply Chain 3.0 just to put more substance around the runway that we still have in driving productivity.

That also is the answer to your second question because you're right, foreign exchange rate represents a significant headwind for us, might not represent that much of a headwind for some of our international competitors. We're well aware of that. We've been to this movie a few times. The answer to our question is strong growth, serving the consumer better than everybody else, delivering top line growth. That fuels our ability to invest in combination with strong productivity. So it reinforces our growth model. It reinforces the need for all components of the strategy to work. But I acknowledge foreign exchange rate is one of the more discriminating headwinds we have to deal with.

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

Great. Thanks for joining us this morning. Just one item to note before we sign off. We will be hosting an Investor Day here in Cincinnati on the afternoon and evening of Thursday, November 17. We'll be sending out another save-the-date reminder in the next week. But if you like more details, please get in touch with the IR team. Thanks and have a great day and weekend.

Operator

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