Q2 2020 Earnings Call

Company Participants

- Jon Moeller, Vice Chairman, Chief Operating Officer & Chief Financial Officer

Other Participants

- Ali Dibadj, Analyst
- Andrea Teixeira, Analyst
- Bill Chappell, Analyst
- Dara Mohsenian, Analyst
- Jason English, Analyst
- Jonathan Feeney, Analyst
- Kaumil Gajrawala, Analyst
- Kevin Grundy, Analyst
- Lauren Lieberman, Analyst
- Mark Astrachan, Analyst
- Nik Modi, Analyst
- Olivia Tong, Analyst
- Robert Ottenstein, Analyst
- Steve Strycula, Analyst
- Wendy Nicholson, Analyst

Presentation

Operator

Good morning, and welcome to Procter & Gamble's Quarter End Conference Call. P&G would like to remind you that today's 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.

Also 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 Vice Chairman, Chief Operating Officer and Chief Financial Officer, Jon Moeller.

Jon Moeller {BIO 16200095 <GO>}

Good morning. As this was another relatively straightforward quarter, and as David Taylor will be with us to provide additional depth at CAGNY in just a few weeks, I'm going to keep prepared remarks this morning brief turning fairly quickly to your questions.

This was another very solid quarter. Top line, bottom line and cash driven by our portfolio, superiority, productivity, constructive disruption, and organization strategies. Organic sales up 5%, 3-points of volume growth, 2-points of price mix. Two-year stacked average growth of 4.5%, fiscal year-to-date organic sales growth of 6%, calendar year 2019 organic growth of 6%. This growth continues to be broad based.

Nine of ten global categories grew organic sales. Skin and Personal Care up double-digits. Personal Health Care and Home Care grew high-singles. Fabric Care, Feminine Care, Hair Care, Oral Care and Grooming grew mid single-digits. Family Care grew low-singles. Focus markets and enterprise markets each grew mid-singles.

We continue to perform very well in our two largest markets: the US up 4%; and China up 13% for the quarter. Aggregate market share continuing to grow. These results required us to overcome several challenges. While we're seeing real signs of progress with grooming organic sales up 4% this quarter, we're still working to sustainably improve results in this business and in baby care.

Sales results in Japan, our third largest market graded nearly a 0.5-point drag on total company organic sales growth due to timing of VAT changes that went into effect on October 1. The timing as we highlighted last quarter led to higher shipments last quarter and lower shipments in the quarter we just completed.

We faced market level challenges in an increasing number of markets, India, the UK, Australia, Turkey, Iraq, Nigeria, Kenya, Lebanon, Argentina, Chile, Mexico and the Hong Kong market. Through all of this, we grew organic sales 5% in the quarter and 6% over the first half.

Moving to the bottom line, core earnings per share were up 14% versus the prior year. Foreign exchange was a 1-point earnings growth headwind, so on a constant currency basis, core earnings per share increased 15%. Fiscal year-to-date core earnings per share are up 18%, up 19% on a constant currency basis.

Gross margin up 200 basis points in the second quarter. Core operating margin up a 190 basis points. Continued strong cash generation with operating cash flow of $4.4 billion and free cash flow productivity of a 100%. $1.9 billion of dividends paid. $3.5 billion of P&G stock repurchased. $5.4 billion of cash returned to shareowners.

Now, [ph] another strong quarter, solid volume, sales and market share trends across both categories and geographies, strong operating earnings, margins advancing, strong core earnings per share growth and continued high levels of cash generated and returned to shareowners.

We continue to face the challenges of a very volatile macro and geopolitical landscape and of competitive response to our growth. But all in, we are continuing to make progress behind a set of integrated and mutually reinforcing strategies. The strategic choices we've made to focus and strengthen our portfolio in daily-use categories where performance drives brand choice. We established and extended the superiority of our brands to make productivity as integral to our culture as innovation, to lead constructive disruption across the value chain, and to improve organization focus, agility and accountability, reinforce and build on each other. They position us well within our industry to deal with near term macro and competitive challenges. They are the foundation for stronger, balanced growth and value creation over the short, mid and long-term.

Moving to guidance, we are again increasing our fiscal year outlook for organic sales growth, for core earnings per share growth, and for free cash flow productivity as well as cash return. We started the year with organic sales growth guidance of 3% to 4%. We increased the range to 3% to 5% last quarter and are now increasing the range to 4% to 5%. This 4% to 5% range compares with underlying market growth of 3% to 4%, implying continued market share growth.

On the bottom line, our core earnings per share growth guidance started the year at a range of 4% to 9%. We raised the range to 5% to 10% last quarter and we're now increasing the range again to 8% to 11% for the year.

We're increasing our outlook for adjusted free cash flow productivity from 90% going into the year to 95% last quarter, and now to a 100%. We'll extend our long track record of significant cash generation and cash return, expecting to pay over $7.5 billion in dividends and now increasing our outlook for share repurchase from a range of $6 billion to $8 billion to a range of $7 billion to $8 billion in fiscal 2020.

While we delivered strong first half results, please keep in mind that comps get more difficult as we move through the year, both top line and bottom line. Pricing annualizes as we move through the back half of the year affecting both top and bottom line trends. We'll comp the earnings gains from the Boston land sale and oral care brand divestitures in Q4.

Competitors are responding to our outperformance, which will require continued innovation and equity-building investments on our part. And the market level challenges, I mentioned earlier, will be top and bottom line headlines -- headwinds for the balance of the year.

Our guidance is based on current market growth rates. Commodity prices and foreign exchange rates, significant currency weakness, commodity cost increases or additional geopolitical disruptions are not included within the new and improved guidance ranges.

We look forward to seeing many of you at the CAGNY conference in just a few weeks. As I mentioned, David Taylor will join us and will provide further perspective on forward-looking strategies and plans. We look forward to engaging with you and to benefiting from your thoughts and reactions.

With that, I'm happy to take questions.

Questions And Answers

Operator

(Operating Instructions) Your first question comes from the line of Dara Mohsenian with Morgan Stanley.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hey, Jon. I wanted to focus on organic sales growth. Obviously, the 5% result, still very healthy this quarter, but it is below 7% in each of the prior two quarters. It sounds like some of that's Japan timing based on the prepared remarks, I'm assuming, perhaps some US inventory reductions as the retailers approach fiscal year-end. So just wanted to get your read on an underlying basis looking at retail sales growth, ex-shipment timing, ex-inventory changes, has anything changed in terms of the underlying momentum as you look at fiscal Q2 results versus the last couple of quarters?

And then within that answer, perhaps you can just touch briefly on the competitive environment, have you seen incremental promotion with the recent commodity pull back? And also give us an update on China performance in the quarter and any impact so far from the virus that we're seeing over there? Thanks.

A - Jon Moeller {BIO 16200095 <GO>}

That could complete the whole call there. On the first part of your question, we're very pleased with the top line growth in the quarter that we just completed. As you all know, we delivered 7%, as you mentioned, Dara, in the prior quarter. Our guidance was 3% to 5% for the full fiscal year, implying something below that beyond the first quarter and we delivered at the high-end of that range. As I mentioned in my prepared remarks that growth was broad based, both across categories and regions, and we built market share.

From an underlying consumption standpoint, you've seen the offtake numbers at least through December, which continue to be very strong and we really haven't seen anything that would cause us to change that outlook in the first part of the current quarter. So all the fundamentals are there. Our superiority levels continue to increase. We're investing behind that while building margins. We're building market share and increasingly the growth is broader as you look at both categories and geographies.

We did have some headwinds in the quarter from two items. You mentioned -- or really three. You mentioned one, which is Japan and that had a 0.5-point impact, which benefited the prior quarter. The other dynamic has been a series, and I mentioned this also in my prepared remarks of geopolitical, economics, societal and other impacts in individual markets. I mean, think about what's happened in the last -- well since we last gathered even, the situation in the Hong Kong market has continued to be difficult, which had a real impact on the quarter and had an impact on the travel retail business. Some of the market level events in South America, whether that's Argentina or Chile where stores were burnt, and are not yet back in place. Some of the events that you're very familiar with in our headline items in the Middle East impacted our business as well. And those items will impact us going forward for the balance of the year. I'm very -- we're very pleased that we were able to overcome all of that and still deliver very strong numbers that build share and build household penetration and allow us to deliver significant bottom line benefits.

From a competitive environment standpoint, which is the second part of your question, promotion levels, percentage of sales and our categories sold on promotion are actually down. They index at 98 for the last quarter. That's all I have visibility to. I don't have visibility to the future. And where individual competitors are up versus year ago, they're up typically 1-point. So very simply, and we can get into this later with others, if you want more detail, we're not seeing competitive activity that's indicative of downward price spirals by any means. That can change tomorrow, but what we have in front of us today continues to look very healthy.

China, we are very optimistic about our prospects in China. It's a difficult market. It moves at a very fast pace, both from a consumer and trade channel standpoint. But we continue to increase the rate of growth in that market. You'll recall, four years ago, we were at minus 1, the following year, we were at plus 7 -- excuse me, plus -- minus 5, plus 1, plus 7, last year at plus 10, and fiscal year-to-date at plus 13. So that continues to be a very attractive market. Within that, some really strong growth rates in some categories. I'm talking in the high-20% in categories like skin care, feminine care over 20%, fabric care double-digits. So, generally a very strong market.

I have no idea what the developments are going to be relative to the new virus. We're obviously monitoring that closely as it relates both to the health of our employees and broader community, and we'll have to see what impact that has if any on the business going forward. But it's one of those things, and I do think it's important to mention because it can have broad impacts well beyond China. It can also affect consumer confidence in large parts of the market. It can affect travel, which does affect our business and so it's one of the many pieces of volatility that's just important we keep in front of us as we think about the prospects for the future, which I view as generally extremely positive, but not without risk and without challenge.

Operator

And your next question will come from the line of Steve Strycula with UBS.

Q - Steve Strycula {BIO 18357963 <GO>}

Hi, good morning. So, Jon, I'll stick to one topic here, just to clarify one of your responses. Is the slowdown you're seeing in travel retail, is that specific to Hong Kong or is it a little bit broader based in China? That would be the quick clarification.

And the broader question would be, can you talk to just what we're seeing across the global beauty spectrum in your portfolio right now? How is China performing with SK-II versus Olay? And then what is the opportunity to extend SK-II to broader markets looking forward? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

Another three-parter. I'll try to get to each of the pieces efficiently. Travel retail, concentrated in Hong Kong. Beauty broadly continues to do extremely well. This is our 17th consecutive quarter of growth with Q2 up 8%. That growth is broad-based. Hair Care grew 6% in the quarter. Our Skin and Personal business grew 10%. It was actually a relatively slow quarter for SK-II given both the VAT dynamic in Japan where SK-II is a big business and the Hong Kong dynamics.

Skin care broadly in China, as I mentioned, is doing extraordinarily well. Olay was up strong, strong double-digits. And -- but the balance of the business as well, our Safeguard business, which is part of our Beauty segment grew double-digits, again strong double-digits, over 20%. So the growth in Beauty both on a global basis and within the China market is broad based.

I think you asked another question, but I don't -- oh, SK-II expansion. Yeah. There are -- first of all, there are significant opportunities in the markets that we're in, as evidenced by the current growth rates, they are also at the right time and in the right way, expansion opportunities available.

Are there other questions or not?

Operator

Your next question will come from the line of Andrea Teixeira with JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, good morning everyone. Thank you. I just want to double-click on what you just said, Jon, on the China, how it evolved for the quarter. And if you're baking any more level of conservatism into the back end of the year, given what happened recently? So I think what you also discussed is hair care coming back. So is there a mitigating effect from what could be expected in consideration of deceleration for SK-II? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

Let me first talk about hair care. I'm assuming the question is in the China context. We grew hair care in the mid-to -high single-digits in China, which is the fastest growth rate in a period of time. And so yes, that can offer some offsets, if you will, to other businesses that may soften due to competitive activity or other things. On the other hand, the hair care business is a highly, highly competitive business as are many of our categories. So the dynamics can change there quite rapidly. Our job is to continue to steadily increase our margin of superiority. And if we do that over time, if not quarter-to-quarter, we'll continue to have a strong business.

In terms of the conservatism on -- in the back half of the year, I'll answer this question both relative to China, which obviously we don't provide specific guidance for, and the balance of the company. One thing to keep in mind with China is the timing of Chinese New Year, which as you know from all the press on China recently, is happening, is beginning as we speak. And that is earlier in the calendar year than it typically occurs. And so it's likely, there were some sell-in in the O&D period that wouldn't have been there in the prior-year period. But on a global P&G basis, that doesn't move the needle significantly, but something just to be aware of as it relates to the China specific situation.

I talked in my prepared remarks about some of the headwinds that exist that increased during the quarter and will impact us in the back half of the year or could impact us in the back half of the year. We talked about the market level dynamics. So if you take a market -- it may not be that large, but take a market like Chile, that impact happened at the very end of the quarter and will exist through the balance of the year. The same with, for example, the situation in Lebanon, the same for the situation in Iraq. The India market, the growth rates have slowed, still growing and we're doing very well and building share. But the challenges there have increased and will likely remain for the balance of the year. So that's one reason, one thing that needs to be netted against the strong progress that we hope to continue to make.

The other is the annualization of price increases. So for example, in February, we annualize both a dish care price increase from year ago and a family care price increase from year ago. And I don't want to talk about how we're going to handle pricing going forward. That's kind of off limits. But irregardless, those annualization impacts as well as some of the price increases we've taken for devaluation over the last year, will annualize.

And third is the competitive environment, and I don't know what that's going to hold. I've described what has held so far. But most of our calendars -- most of our competitors are calendar year based. They start their new fiscal years as we speak, and many of them have talked understandably about increasing investments for growth. That can be a very healthy thing. They can grow categories. We can all benefit from that, but certain implementations of that obviously are less healthy.

Now, against all of that backdrop, we continue to make progress on the things that we control, we're making very strong progress. Our margin superiority is increasing across the board. It's dynamic, it's not static. So we have moves forward and moves back, but the net move is a forward move. We're in a position, because of our productivity programs to invest to support communication of that superiority. And that's really driving some outsized growth in many of our categories. And over time, and it will take some time, I expect we'll deliver higher growth rates on businesses like baby care.

So overall, we're very optimistic about where we stand today and what the future holds, at least in the near term, but it would be irresponsible not to acknowledge the challenges that exist.

Operator

And your next question will come from the line of Lauren Lieberman with Barclays.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Great, thanks. Good morning. I'm going to ask one question. And I just wanted to talk a little bit about grooming, and particularly shaving. You mentioned there were still some devaluation driven pricing and I just was curious if you could talk about performance of the business just specific to developed market, how things are trending, the impacts of Gillette Sensitive. You've made some portfolio moves, right. There has been several that's already been acquired. You've just acquired Billie. So if you can maybe give us a little bit of a lay of the land on how you're chipping away and making progress, or not so much in Shave Care, would be great.

A - Jon Moeller {BIO 16200095 <GO>}

Thanks, Lauren. And within that one question, you've managed to ask three, which is very well done. On -- our grooming business strengthened in the quarter. Overall, we were up 4% and that's the third consecutive quarter of growth. Importantly, we grew global market share 0.3-points, which is very encouraging. Shaving within that was up versus year ago, not as much as -- I mean, not as much as the dry shave business, but the wet shave business did grow. And we've seen pretty strong response to our investments, both in product and in communication. Encouragingly, we've added 18 million new users to our brands over the last 12 months. Skin Guard is contributing to category growth, it's doing well and continues to expand. In the US, for example, razor value share on Skin Guard is now 9%, which is the third largest for a P&G sub-brand. And we're building unlike most of our competitors, our shave business online.

We're pretty excited about the Billie acquisition. That's something that obviously needs to pass regulatory clearance and we need to remain separate from that business until that happens. But there is a real unique set of skills experiences and knowledge between Billie and P&G that we think has the potential to create some real magic. Clearly they've created very effectively a fresh new brand that extends across several categories, and they've done it and we can benefit from their experience on this in a digital fashion with one-to-one mass marketing, which is something we're continuing to increase our focus and -- focus on and capabilities related to.

We have innovation capability across the majority of their categories. We have best-in-class manufacturing across the majority of their categories, and we have a go-to-market presence, both online and bricks-and-mortar certainly in omnichannel that can accelerate the growth in that business. So we're very excited about the potential and are working through the clearance process.

Operator

And your next question will come from the line of Ali Dibadj with Bernstein.

Q - Ali Dibadj {BIO 15328592 <GO>}

Hey guys, thanks. I wanted to ask in more detail your view about the future on pricing, so kind of the future solidness of some of the recent price increases globally, given there is starting to be, to your point, Jon, competitive murmurs of more investments coming like most recently, Essity in Europe yesterday, really talking about pricing and commodities clearly continuing to fall. So I get, you're not seeing anything yet. But within that context, two questions. One is, what kind of lead time notice you get in terms of price competition? So can you feel comfortable saying, it's all clear for a quarter, it's all clear for two quarters or is it just like, literally, this may change tomorrow?

And then the second thing is part of our job is pattern recognition. And so historically, we have seen net prices, which include trade ben and promo on everything down in categories, especially baby and family, with these types of commodity decline. Do you think this time is different, and if so, kind of why? So there is a technical question on timing and there is more of a -- how do you see the go forward given the patterns we've seen historically? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

Thanks, Ali. Obviously just related to Essity first, they're talking about a market that we're not competing in. I know that, you know that and it's a very different market. It's much more of a commodity market than our primary market from a tissue/towel standpoint, which is what I believe they were talking about, which is North America. In general, we see commodity prices as supportive of the current prices in the market. So while they're down some versus kind of historical levels and where we were before the price increases went into effect, we feel the current prices are justified. That does not speak to an indication of future activity. I won't go there.

And our outlook for those commodities continues to be relatively flat to slight increases, particularly in the pulp space. So I don't see the kind of sea change environment that would necessitate activity. Having said that, each competitor will do what they choose to do and we need to be responsive to that, which gets to your second question. And candidly, we do not have advanced notice of the implementation of price increases and so we -- decreases, sorry, either one, and so we react as we see those in the marketplace. And that reaction time typically is anywhere from a quarter to six months. So if we think along reasonable periods of time, I don't expect this to be a crippling dynamic or anything resembling that going forward. It may cause a quarter or two of our benefit or hurt, but not a big thing to worry about.

Operator

And your next question will come from the line of Wendy Nicholson with Citi.

Q - Wendy Nicholson {BIO 2081269 <GO>}

Hi. Unlike some of your peers who have had less margin expansion, your margin trends have been terrific, and a lot of that things have been driven by the productivity initiatives. I know you're kind of coming -- are you in your four maybe of your five-year program? And I'm just wondering what's your outlook, not for the next quarter, but sort of for the next two to three years? Is there another $10 billion restructuring program coming? Or how do you keep this productivity benefits accruing when you come into the end of the program? Thanks.

A - Jon Moeller {BIO 16200095 <GO>}

Thanks, Wendy. I mentioned as one of our strategic choices, the desire to make productivity as integral to our nature as innovation and be leaders in productivity just as we are in innovation. And I think we've made a lot of progress on that journey, as you rightly point out, which is reflected in our margins certainly this quarter. My hope is that, as we move forward, this is simply an integral part of our operating strategy and it needs to be, because we will need to continue to invest in both holding and advancing our margin of superiority. Some of the continuous disruption we're talking about will also require some investment, that's in human resources, capital et cetera. And I feel very good about each of the business units' understanding and commitment to continue delivering productivity.

So that brings us to another part of the question, which is, are there degrees of freedom that enable that to occur? Will [ph] is one thing. Delivery is another. And I don't think we've ever been in a place where there are more degrees of freedom or more opportunities to improve productivity. The tools that we have available to us now across the digital spectrum, and that's everywhere from marketing to the manufacturing floor to the office environment, have never offered more opportunity than they do today. And we have significant opportunities still in terms of how we think about our new organization structure. And are there opportunities within that, as we learn more about it to become even more efficient and effective? And I certainly believe, they are -- there are.

I just attended along with David, a review of our product supply innovation program last week, and there are big opportunities relative to robotics, relative to a tighter sequencing of the entire supply chain from order signal, all the way back to delivery. We're in the middle of the -- still the product supply transformation across markets and geographies. So I continue to believe that productivity will be an inherent part of our operating strategy and we have the tools and opportunities to continue to deliver that.

Operator

And your next question will come from the line of Olivia Tong with Bank of America.

Q - Olivia Tong {BIO 22252574 <GO>}

Hi. Thanks. Good morning. I want to talk a little bit about advertising because that continues to move up to -- up 150 basis points this quarter. And at this point, I think there is a fair bit of investment already in the base. So was that always a plan to continue to increase? Or is this more opportunistic than you expected? Was it -- is there anything that you need to defend? Because obviously, you said that, we haven't seen that much of a change in percent of sales goals on promos. Just wondering where that advertising dollar is going towards? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

A couple of things there, Olivia. We've been very clear, I think that while we need to be competitive from a trade spending standpoint and need to offer attractive margins to our retail partners where we have a degree of flexibility, we would prefer to spend that incremental dollar on advertising or innovation every day of the week. The reason is very simple. There's nothing proprietary in pricing. We can build proprietary advantage with both advertising and innovation.

So again, on the margin where we have the opportunity to make those shifts, we're doing it and we're doing it in a way that is attractive to our retail partners as well because it drives business and grows categories. The second piece we've talked a lot about, and Marc Pritchard, our Chief Marketing Officer has talked a lot about externally, is the opportunity to move what were historically a significant amount of non-working dollars into working advertising and that's been about a $1 billion shift and it continues.

And the third piece of this is, when you have innovation that's noticeably superior, you need to and want to and should be communicating that superiority and those performance benefits and the value that comes with them to consumers. And the good news is we have a lot of very strong innovation in the marketplace that has a lot of legs left in terms of either it's just launched or something like pods or beads, which have been in the market for a number of years, but have significant household penetration opportunities, and are pure delighters from a consumption standpoint, we want to be supporting those. I mentioned both as it relates to competitive activity, but also in general that we will continue to invest in both equity and innovation as we move forward.

Operator

And your next question will come from the line of Kevin Grundy with Jefferies.

Q - Kevin Grundy {BIO 16423871 <GO>}

Thanks, good morning, Jonathan. Congratulations on a strong quarter. Can we come back to China, which was particularly strong in the quarter against a notably difficult comparison? Can you delineate a bit the company's progress in that market between category strength and superior Procter market share performance, and maybe how that's changed? You talked about skin care, obviously very strong, up 20%, fem care I think was up double-digits. Maybe just talk a little bit about how much of this is category versus strategic execution by Procter in certain categories. And then your expectations here for the balance of the year. Thanks.

A - Jon Moeller {BIO 16200095 <GO>}

Thanks, Kevin. It's honestly hard to separate those because if we do our job right from an execution standpoint and an innovation standpoint, we grow markets. So we don't view market growth as something that is separate from our efforts. It's in many cases, obviously not 100%, but it's caused by our efforts. I realize that's not that helpful to use, but it's an important point.

As we back up from that, and I look at category growth in China, it continues to be strong in our categories. The one area that's under a little bit of pressure from a category growth standpoint is baby care and that relates to the birth rates, which have gone from about 15 million babies a year down to 10 million, which is a significant impact. On the other hand, within that category, there are significant premiumization opportunities. And the premium part of our business is growing 20% or 30% depending on whether that's premium tape diapers or pant style diapers. But in general, in China, the answer on category growth is -- remains very strong.

The answer on, if you will, P&G-specific efforts, if you pretend for a second that they're not impacting category growth, that also is abundant and real. I mean, we've gone -- it's not the inflection in category growth rate that has changed the results on skin care, it's our share progress within the category, albeit in a very growthful [ph] category. So we've gone from declines, perennial declines on that business to perennial gains and strong double-digit gains.

Our -- the improvement in our hair care topline, still not what we'd like it to be, but definitely improved from where we've been, is a result of much stronger branding and innovation efforts as well as go-to-market strengthening. So it's hard for me to tease those apart. The simple answer is, it's both, and that's a good thing.

Operator

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

Q - Jason English {BIO 16418106 <GO>}

Hey, good morning folks and happy belated New Year. Two questions from me. First on US growth, you mentioned 4%, obviously solid in context of the US, but it is a decel from last quarter and it comes despite an easier comp. Is there anything worth calling out, any nuance to take note of there on that growth?

And then secondly on the baby, fem and family care segment, growth was a little weaker than we expected this quarter. It's kind of the weakest we've seen in a while, and I know, this has been one business that's been a little harder for you to kind of get it going like everything else. Can you walk us through what the game plan is and what our expectation should be for that business as we think about the next 12 months? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

To start, where you started, US growth of 4% is indeed very strong and it's building market share. We've built market share in the US over the past three, six and 12 months periods. Nine of our 10 categories grew in the US in the last quarter. The one that didn't was either at 98.5 or 99.5 index. The difference between the quarters reflects a number of things. Part of it is trade inventory, which was reduced as we went through the second quarter. There is initiative timing that impacts this pretty significantly as well. I would expect going forward, we're going to continue to see some chop if we look at it on a quarter-to-quarter basis. But across a slightly longer period of time, we remain very, very happy with the way the business is progressing. And if we look at underlying consumption going back to a discussion earlier in this call, that continues to be, as you've seen, at least the scanner data, very, very strong.

From a baby care standpoint, if we look at the first half of the year, baby care was flat to up slightly, which is a better position than we've been in, and it ranges from -- if we look at our two largest markets, China and the US, those are relatively -- again on a relative basis, healthy. China, the first half, we grew at 5%. That's the fastest growth we've had from -- on a semester basis in about six years. We regained market share leadership about two years ago and have continued to hold that, and as I mentioned in the last answer, we're growing our premium business and our pant business, very, very strongly.

The US were about flat versus year ago, which again is an improvement on a relative basis. And what should take both of those businesses as well as the broader baby care business to a stronger position is innovation, which builds superiority. We have across parts of the portfolio, not been offering a superior product. It's largely been, in some of those cases, a parity product. We have strong innovation plans in place, not only in terms of incrementality, but we've really increased the pace of innovation and the amount that's coming to market, a lot of which has driven the China results that I talked about. But innovation, whether it's on baby care or beauty care, it's not an overnight endeavor and we'll continue to hopefully improve sequentially as we go forward.

Operator

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

Q - Mark Astrachan {BIO 15313233 <GO>}

Thanks and good morning everybody. I guess, maybe just a quick question for you, Jon. The enterprise versus rest of the business seems to have slowed a little bit. You guys don't really talk about EM versus DM kind of anymore. But maybe talk a bit about what has driven the slowdown you touched on Chile, Hong Kong et cetera. How much is that in terms of country-specific issues versus lapping the pricing and kind of how should we be thinking about that dynamic on a go forward basis?

A - Jon Moeller {BIO 16200095 <GO>}

We're pretty pleased with the growth rates in the enterprise markets currently. We mentioned mid-single digits, it's really at the border of mid-single digits and high-single digits, I'll leave you to interpret that, and that's despite this pretty significant impact. So if you think about, two of the largest markets in the enterprise environment are India and Mexico. And I talked about the slowing growth rates in India largely as a result of some of the monetary policies, which has created a bit of a liquidity squeeze, which is drying up inventory through the system. But we continue to grow well in India and are building share.

Mexico is, technically from an economic growth standpoint, in a recession. We continue to grow reasonably well there, mid-single digits and are growing share there as well. So broadly, we continue to be pretty pleased with our progress. And just briefly, even though it wasn't part of your question, on the bottom line, we're creating more value in these markets currently than we ever have. So our bottom line progress was strong double-digits, well ahead of the company average. We need to be focused on value creation in these markets that includes growth where we can generate a meaningful return and that's what we're focused on doing and there's tons of opportunity.

Operator

And your next question will come from the line of Robert Ottenstein with Evercore ISI.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you, Jon. I'd like to kind of focus on e-commerce. I think in the past you've said that it's about 8% of sales. Has that moved up maybe closer to 10%? And globally, how fast is it growing on a global basis? Then specifically, how fast in China, how fast in the US? And are you gaining share in e-commerce in China and in the US? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

There continues to be a significant opportunity for growth. It's currently growing at about 30%. And in the big e-commerce markets, while that growth differs across categories, it's pretty much at that level across markets. It is now about 10% of our total business, and when I -- just for clarity, when I mentioned e-commerce, I'm talking obviously the totality of e-commerce, which includes omnichannel. And our market share, in general, has been increasing. Of course, there's some volatility to that, but particularly in the China context, and again it differs by category. We've been making significant progress in that space. So I see us as very well positioned to exceed -- to succeed in that space, though that's something that requires eternal efforts, flexibility, and the constructive disruption of ourselves, which we're committed to, to ensure that we offer a competitive and relevant offering wherever consumers want to shop, whether that's e-commerce, whether that's large format, whether that's small format, and generally, we're progressing well in each of those.

Operator

And your next question will come from the line of Nik Modi with RBC.

Q - Nik Modi {BIO 7351672 <GO>}

Yes, good morning. Thanks everyone. Jon, maybe you can talk a little bit about the Merck OTC business. I mean, healthcare was a pretty nice contributor to the top line. So just wanted to understand what's driving that business, kind of what's the strategy there, any context would be helpful? Thanks.

A - Jon Moeller {BIO 16200095 <GO>}

As you probably recall, Merck offers a very complementary portfolio to our legacy Personal Health Care P&G business. It has a strong presence in the developing world, complementary categories across geographies, and there were significant, we felt, cost synergies in addition to revenue synergies by bringing the best of both companies together and driving growth. It's early days. We're still in the middle of integrating. We just closed 18 months ago. But we're very pleased with the results so far. This is the first quarter in which Merck is reported as part of our organic sales growth rates. It contributed positively to that. It's a real asset to our overall Personal Health Care business, and it's playing out that way. The revenue synergies are on track. The cost synergies are on track. It was some real exciting examples of the possibility of driving both of those ahead of what our initial plans had been. The organization is a strong organization and they're doing a great job. So, so far really, really good.

Operator

And your next question will come from the line of Bill Chappell with SunTrust Robinson Humphrey.

Q - Bill Chappell {BIO 1737315 <GO>}

Thanks, good morning. Jon, just circling back to the Billie acquisition, just a little surprised that, I guess, P&G thinks that can pass with the FTC. And just with your market share, and also with kind of FTC cracking down on a lot of even recent small acquisitions historically. So kind of any thoughts there on why you're moving forward with that, especially on the US positioning? And then if that's part of a plan? And do you think there is more opportunities to do tuck-ins to where you have 40, 50 share of a market?

A - Jon Moeller {BIO 16200095 <GO>}

In general, just starting from the strategic level, we want to ensure that we are serving consumers in all relevant segments of the categories that we've chosen to play in. Sometimes that's easier and more straightforward from an organic standpoint. So if you think about the natural segment, for example, something like Pampers Pure. On the other hand, getting a quick presence in some of these high-growth segments or with different groups of consumers, is sometimes easier to do via acquisition. So if I just -- a good example is, This is L., feminine care, which is now the number one natural products from a market share standpoint. Obviously very early, but so far has proven to be a very strong idea to expand in a very relevant consumer segment very quickly.

That's the motivation here. I'm obviously not going to speak to regulatory dynamics or anything related to that. But we're excited about this and we're hopeful, we have the opportunity to really work to grow this combined set of categories, grow the market and create value.

Operator

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

Q - Kaumil Gajrawala {BIO 20703548 <GO>}

Hi, good morning. Jon, can you talk a little bit about how you and the Board think about valuation in the context of share buybacks? Your results are obviously the best they've been probably in a decade, so is the -- perhaps appropriately, so is the value of your shares. So if you can just talk a little bit about valuation and buyback context?

A - Jon Moeller {BIO 16200095 <GO>}

Sure. Obviously over the last decade, buybacks have created extraordinary value, but that's been on the back, which is implicit in your question, on over time a significant increase in the stock price. If I look at it today, first of all, we don't try to forecast where the market is going to go. We don't pretend that we know that. And so, in general, we feel very strong about our prospects as a company. There's no reason at present not to feel reasonably good about the market itself. And so we're kind of, if you will, dollar cost averaging over time.

The other thing that's important though is to think about the context of our dividend yield relative to financing rates that are available because at some level, what you're dealing with is, can I retire a dividend rate with an incremental financing cost that's lower than that rate. And with negative interest rates in many parts of the world, this is a very attractive time to be, if you will, financing share repurchase. We're going to stay within our credit limits as we do that. That's another constraint, if you will, or another rail. And we'll continually look at this. Obviously, capital allocation is a broad topic, inclusive of share repurchase is something that is reviewed regularly with the Board and we value their input to that. But the current plan obviously reflects that. And as we sit here today, I don't have a reason to suggest a change in that plan.

Operator

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

Q - Jonathan Feeney {BIO 2268157 <GO>}

Hey, Jon. Thank you. Just are you concerned at all that your business has become much more macro-sensitive in the past five to 10 years? Some segments of outsized growth would seem to indicate that. But any historical context or consumer data you have that could affirm or dispel that, I'd appreciate.

A - Jon Moeller {BIO 16200095 <GO>}

I think Jon, we're actually less sensitive to the macro environment, and that's been a very deliberate choice we've made. Let me explain that. We were in, as we went into the last recession, as an example, a lot of -- for a number of relatively to highly discretionary product categories, things like salon hair color, high-end premium fragrance, just two examples. And our intentional and strategic part of our portfolio focus was to be instead in daily-use categories that are used in good times and bad times, because they're just important to get through the day. Sometimes multiple-use is important to get through the day. So if you look at the total portfolio through that lens, we're more macro resilient, I would argue today, than we were some years ago.

The second reason, I say that, is the efforts that we've made and we'll continue to make and the investment we've put behind it on product superiority, product package the whole set of drivers, that inherently increases consumer value. So, the value of each purchase is higher than it would have been even inclusive of small price increases. And that too puts us in a better position relative to things like trade down that can happen as a result of macro dynamics and more difficult economic times, not immune, but in a better position today.

The third thing I would argue is, to the extent that we've been successful and creating a culture where productivity is as integral to our being as innovation, we have more financial flexibility, and therefore more degrees of freedom for how we manage the difficulties that the macroeconomic situation can present.

So for those three reasons, Jon, I think we're in a much better place today. We will be impacted if there are negative developments in any part of the world. It does create challenge. It's the right question to continue to ask. And I'm not talking in absolutes, but on a relative basis, we're much more macro-resilient than I think we were historically.

Great, well thanks everybody. Again, just a quick summary. We really view this quarter as another step in our journey forward. Strong top-line progress, building market share, strong operating earnings growth, building margins, strong core earnings per share, generating cash, returning that cash to shareholders, all behind an integrated strategy that's working and we will continue to execute. We look forward to seeing many of you, as I said earlier, at CAGNY. And I look forward to our conversations. Thanks.

Operator

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