Q4 2023 Earnings Call

Company Participants

- Andre Schulten, Chief Financial Officer
- John Chevalier, Senior Vice President, Investor Relations
- Jon R. Moeller, Chief Executive Officer

Other Participants

- Andrea Teixeira, Analyst
- Bill Chappell, Analyst
- Bryan Spillane, Analyst
- Callum Elliott, Analyst
- Chris Carey, Analyst
- Dara Mohsenian, Analyst
- Filippo Falorni, Analyst
- Lauren Lieberman, Analyst
- Mark Astrachan, Analyst
- Nik Modi, Analyst
- Olivia Tong, Analyst
- Peter Grom, Analyst
- Robert Ottenstein, Analyst
- Steve Powers, Analyst

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.investor.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>}

...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 '23 and the fourth quarter. Jon will add perspective on our strategic focus areas and capabilities and we'll close with guidance for fiscal '24 and then take your questions.

Fiscal '23 was another very strong year. Execution of our integrated strategy continues to yield broad-based strong sales growth across categories and regions, strong earnings in the face of significant cost headwinds and continued strong return of cash to P&G shareholders. Organic sales for the fiscal year grew 7%. Our second consecutive year of 7% organic sales growth and fifth consecutive year of 5% or better organic growth. Starting fiscal 2019, 5%, 6%, 6%, 7%, and 7%.

Growth was broad-based across business units, with all 10 of our product categories growing organic sales. Personal Health Care grew mid-teens. Feminine Care grew double-digits. Fabric Care, Home Care, and Hair Care up high single-digits. Skin and Personal Care, Baby Care, Family Care, and Grooming each grew mid single. Oral Care grew low single digits. Focus markets were up 5% for the year. And we delivered strong results in our largest and most profitable market, the United States, with organic sales growing 6% on top of a strong 8% growth comp in the base period. Greater China organic sales were down low single digits versus the prior year, with trends improving in the back half as the market continues to slowly recover. Enterprise markets were up 15% led by Latin America, with 24% organic sales growth. E-commerce sales increased 7%, now representing 17% of total company.

Our strategy focused on driving market growth is in turn driving share growth for P&G. All channel market value sales in the US categories in which we compete grew approximately 7% in fiscal '23. P&G consumption grew ahead of fair share of category growth, driving modest value share growth and volume share, up 50 basis points for the year. We held global aggregate market share. 29 of our top 50 category country combinations held or grew share for the year. Importantly, the share growth is broad-based. 7 of 10 product categories grew share globally over the past year.

Core earnings per share were $5.90, up 2% for the year, despite a 24 percentage point earnings growth headwind, or $1.38 per share from higher material costs and foreign exchange. On a currency neutral basis, core EPS were up 11%. Adjusted free cash flow productivity was 95%. We increased our dividend by 3% and returned over $16 billion of value to shareowners, $9 billion in dividends, and $7.4 billion in share repurchase.

Moving to the April through June quarter, organic sales grew 8%. We've now delivered seven consecutive quarters with 5% or better organic sales growth. Pricing contributed 7 points to organic sales growth. Mix was up 2 points. Volume declined 1 point, improving sequentially versus the March quarter as expected.

The strong company results are grounded in broad-based category and geographic strength. Each of our 10 product categories grew organic sales in the quarter. Skin and Personal Care, Personal Health Care, Home Care, Feminine Care, and Family Care, 5 of our 10 categories each grew double-digits. Baby Care, Hair Care and Grooming grew high singles, Fabric Care grew mid singles, and Oral Care was up low single digits.

Each of our seven regions grew organic sales with focus markets up 7% and enterprise market up 13% for the quarter. Organic sales in the US grew 6%. Importantly, this includes 3 points of volume growth, a return to positive volume in our largest market for the first time in five quarters. Greater China organic sales grew 4%. We continue to see sequential market recovery, but as expected, at a slow pace. European focus market organic sales were up 12% despite volume pressure from wider pricing gaps. In enterprise markets, Latin America led the growth with organic sales up 22%. Global aggregate market share increased 10 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 $1.37, up 13% versus the prior year. On a currency-neutral basis, core EPS increased 22%. Core operating margin increased 190 basis points as benefits from strong sales growth and productivity improvements more than offset higher material costs, foreign exchange headwinds, wage and benefit inflation, and reinvestment in higher media reach and frequency. Currency-neutral operating margin increased 310 basis points. Adjusted free cash flow productivity was 136%. We returned approximately $2.3 billion of cash to shareowners in the quarter.

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 again this year in a very difficult operating environment.

Now, I'll pass it over to Jon.

Jon R. Moeller {BIO 16200095 <GO>}

Thanks, Andre. I want to talk briefly about this company, its strategy, and our organization, both as a step-back reflection on what's been accomplished and as a glimpse forward into what's possible. Three quick reflections looking back. First, pre-COVID, during COVID, and since COVID, pre-inflation and since inflation, consistent strong top line growth across categories and geographies. Core earnings per share growth each of the last five fiscal years. Consistent cash return to shareowners. Our strategy has sustained us through all of this.

Second look-back, in the past two years, nearly half of our earnings wiped out by commodities, transportation and foreign exchange headwinds. Yet, we still grew earnings per share in each of those years while delivering 7% organic sales growth each year, increasing investment in innovation, brand-building, and growing markets and growing market share in aggregate in the process.

As I said last quarter, if you told me four years ago that we would grow top line, bottom line, and deliver strong cash return to shareowners through a global pandemic, with employees challenged to get to the workplace and the context of a war in Europe, major disruption in global supply chains, rapidly escalating costs, the highest consumer inflation in 40 years and fundamental shifts in consumer behavior and channel relevance, it would have been hard to agree. But that's exactly what this team has done. Over the last five years, they've added over $15 billion in incremental sales, growing our share of the global market, growing core earnings per share by 40%, and returned over $80 billion of cash to shareowners.

Two more granular examples testing both strategy and execution in some of the harshest conditions. Latin America. Significant devaluation across all major currencies, inflation in Brazil peaking above 12%, 9% in Mexico, over 70% in Argentina. Despite this, our team has delivered three consecutive years of US dollar sales growth. Mid-teens in fiscal '22 and mid 20s this year. Market share growth on both the value -- excuse me, volume and value basis. Nearly 30% profit growth this year in dollars, over 50% on a local currency basis.

One more test, Turkey. Over the past two years, the lira has devalued more than 300%. We've had to take multiple ways of significant pricing. Still, the strength of our strategy and its execution by the organization has enabled us to grow dollar sales, grow volume, sequentially improve market share and maintain dollar profitability in the market. As you well know, past performance is no guarantee of future results and certainly no excuse to stand still; quite the opposite. There will be bumps in the road ahead. We are still navigating through plenty of challenges right now. Each of these look-backs, though, gives us confidence in the effectiveness of the strategy grounded in and focused on consumers and an appreciation for the capability of our talented, creative, agile, and committed organization.

Our integrated strategy, a focused portfolio of products and daily use categories where performance drives brand choice, superiority through innovation across the five vectors of product, package brand communication, retail execution, and value holistically defined. Leveraging that superiority to grow markets and our share in them to jointly create value with our retail partners. Productivity to offset cost challenges, while funding investments in innovation and brand-building and market growth. We re-accelerated productivity back to pre-COVID levels with an objective for gross savings and cost of goods sold of up to $1.5 billion before tax.

We have line of sight to savings from improved marketing productivity, more efficiency and greater effectiveness, avoiding excess frequency and reducing waste. Constructive disruption of ourselves and our industry to adapt and create new trends, technologies and capabilities that often extend our competitive advantage, and an organization structure that's increasingly more empowered, agile, and accountable. And increasingly diversed organization, now with 50% female representation in manager roles across the world.

We're strengthening the execution of our strategy and four focus areas. First, with Supply Chain 3.0, we're driving improved capacity, greater agility, flexibility, scalability, transparency, and resilience along with greater productivity. We recently launched a platform of supply chain services to enable best-in-class service and streamline the end-to-end supply chain. These initiatives have been very well received by retailers. Our next step to drive joint value-creation with retailers is to simplify our SKU portfolio to improve the shopping experience, increase on-shelf availability, and further streamline supply for the entire ecosystem. Higher quality, more transparency, increased supply assurance, and higher on-shelf availability of our products. Each improves superiority with consumers and improves what is already the top ranked supply chain by our retail partners and third-party industry surveys. All of this has a huge value-creation opportunity for P&G and our retail partners.

Next focus area, environmental sustainability, to create superior propositions for consumers, customers, and shareholders, while improving our environmental impact. Reducing the footprint of our operations, enabling consumers to reduce their footprint, and innovating to deliver cross-industry solutions for some of our most pressing challenges.

Third, digital acumen, leveraging data and digitization to delight consumers, streamline the supply chain, increase quality, drive productivity, all driving shareholder value.

And fourth, a superior employee value equation for all genders, identities, races, ethnicities, sexual orientation, ages and abilities for all roles to ensure we continue to attract, retain and develop the best talent. At the end of the day, P&G serves people, with a strong desire to improve their lives and the lives of their families. We stand by people and support them in small but meaningful ways every day with superior performing products and superior value. We strive to do this in the most responsible way, consistent with P&G's values and principles. This approach with consumers at the center and an organization built to serve them has served us and our many stakeholders well. It will guide our actions as we move forward. If we do this effectively, consumers will benefit, customers will grow their businesses, employees will develop and thrive, society will benefit and shareholders will continue to be rewarded for their investment, not measured by a quarter or even a year but over time.

I believe in this company, in our organization, its capabilities and in the commitment of P&G people to serve consumers. I'm excited about what lays ahead. Of course, I have my worries and concerns and we'll continue to face challenges and some dark days and nights. But the future in general holds great promise. We'll continue to be guided by our purpose, values, and principles and relentless execution of our strategy to move forward to an ever brighter dawn. P&G celebrates its 186 anniversary this year. I believe we have an even stronger hand to play today than we've had historically.

With that, I'll hand it back to Andre to outline our guidance for the new year.

Andre Schulten {BIO 22079652 <GO>}

Thank you, Jon. As we've said in each guidance outlook for the past three years and as John indicated, we will undoubtedly experience more volatility in the fiscal year ahead. And while supply chains and input costs have become more stable as we enter fiscal '24, the challenges we face are multifaceted. Economic, geopolitical, and societal putting pressure on consumer confidence and household budgets. We will navigate these challenges with our dynamic, integrated strategy, guided by consumers with every step.

Based on current spot prices, we estimate commodities will be a tailwind of around $800 million after tax in fiscal '24. Foreign exchange rates continue to be a headwind. And based on current rates, we now expect a $400 million after-tax impact. We still face above-normal levels of wage and benefit cost inflation in our cost structure and higher costs for third-party services. In addition, we expect the below-the-line impact from higher net interest expense to be roughly $200 million after tax earnings headwind.

With this context, I'll move to the key guidance metrics. We expect global market value growth in our categories to moderate back towards the range of around 4% with the drivers of market growth normalizing as we move through the year, pricing becoming less of a driver, and volume returning to modest growth. With the strength of our brands and commitment to keep investing in the business, we continue to expect to grow above underlying market levels, building aggregate market share globally. This leads to guidance for organic sales growth in the range of 4% to 5% for fiscal '24.

On the bottom line, we expect EPS growth in the range of 6% to 9% versus fiscal year '23 EPS of $5.90. This guidance equates to a range of $6.25 to $6.43 per share, $6.34 or up 7.5% at the center of the range. With a 3 point headwind from foreign exchange, this outlook translates to 9% to 12% EPS growth on a constant currency basis. We expect adjusted free cash flow productivity of 90% for the year. This includes an increase in capital spending as we add capacity in several categories. We expect to pay more than $9 billion in dividends and to repurchase $5 billion to $6 billion in common stock, combined a plan to return $14 billion to $15 billion of cash to shareowners this fiscal year.

So top line, bottom line and cash guidance for fiscal '24, all consistent with our long-term algorithm. This outlook is based on current market growth 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 the guidance ranges. These guidance ranges also do not assume a further reduction in commodity and material costs versus current levels. If this should occur, it will generate greater flexibility to invest more in value-accretive innovation and marketing opportunities.

With that, I'll hand it back to Jon for his closing thoughts.

John Chevalier {BIO 17647621 <GO>}

We're very pleased with the strong results P&G people have delivered in a very challenging operating cost and competitive environment over the last five years. Excellent execution of an integrated set of market constructive strategies, delivered with a focus on balanced top and bottom line growth and value creation. We continue to believe that the best path forward to deliver a sustainable balanced growth is to double down on the strategy, starting with a commitment to deliver irresistibly superior propositions to consumers and retail partners.

With that, Andre and I will be happy to take your questions.

Questions And Answers

Operator

(Operator Instructions) And our first question will come from Bryan Spillane of Bank of America. Please go ahead.

Q - Bryan Spillane {BIO 2147799 <GO>}

Hey, thanks, operator. Good morning, everyone. So my question is, revenue rebalancing is a real focus for retailers and I guess for you all as well as we kind of look into '24. So maybe can you provide some color on how Procter approach this in its '24 operating plan? Any comment on -- I know we're getting questions. Comment maybe on level of investment, up or down, the mix between spending at the top of the P&L versus the middle of the P&L and maybe if there are any segments, geographies that require more attention than others. But again this is a -- it's a big issue and just kind of really want to get some color in terms of how you all approached it as you went into '24. Yeah. Good morning, Brian. I'll start. Look, our strategy is to grow categories. And that is the same strategy we will execute in fiscal '24, and that means growing categories across volume and value. I think we take great comfort in the US results where we already see volume growth in quarter four of 3%, which is half of the growth we saw in the quarter of 6% in terms of sales. Driving volume and value category growth in our mind is best done via innovation and by driving superiority across the five vectors that we have defined, product, package, communication, go-to-market, and value. And we see plenty of opportunity across all categories to drive household penetration, drive usage occasions, drive new jobs to be done with all physical and mental levers that are available to us. So we'll continue to invest in that direction. We have plenty of innovation that is doing just that. Just to give you a few examples. If you look at China, Safeguard China is the number-one PCC brand and detox body wash, which is two times the market average price has almost doubled in fiscal '23 and we'll continue to build on that strength by driving better awareness and even more awareness on that brand. In Europe, Ariel four chamber uni dose and the ECOCLIC packaging, very strong results contributed to more than 20% sales growth in quarter four. And again, we're just starting. That provides plenty of opportunity to continue to drive market growth. We just launched Cascade Platinum Plus, no pre-wash, no re-wash. And again it's contributing to category growth and category share growth for us. So plenty of opportunity to drive. As to the balance between above-the-line, below-the-line, it's hard to grow categories and volume and value with promotion. So we tend to focus on innovation, so priority and communication investments. When we promote, we would like to do it in a strategic way. So that means, driving regimen, for example, combining laundry detergent and fabric enhancers. So a high penetration, low penetration category so that we overall build business for our retail partners and for ourselves. Generally, the promo environment continues to be relatively stable and we have no interest in changing that current dynamic.

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

Yeah. I would just offer a couple of thoughts, Brian, in addition to what Andre said. Pricing isn't going away and the absolute. It is linked to innovation and we have a very strong innovation pipeline as Andre partially described. If you look back historically, pricing has been a positive contributor to our top line growth for something like 48 out of 51 of the last quarters. And again, as we strengthen our innovation program even further, that will provide opportunities to continue to benefit from modest pricing.

The second thing just to be aware of, and Andre mentioned it, when you have a strong innovation program, it compels consumers to try even better-performing products, which typically involves a mix benefit. So you're going to have some amount of pricing going forward, you're going to have some amount of mix which you saw, for instance, in the last quarter. Volume, the trend is very encouraging, as Andre said, both on a global aggregate basis. Two quarters ago, volume was minus six, last quarter minus three, this quarter minus one. And as Andre said, we've fully turned the corner and are growing volume at very healthy levels in our largest market.

We also have -- we will benefit from capacity investments that we're making currently. We have several categories in the US, for example, where we are currently on allocation on certain forms. And freeing up that capacity to fully serve demand at both retailers and consumers will help as well. So those are just some additional points to consider as you think about this question.

Operator

The next question comes from Steve Powers of Deutsche Bank. Please go ahead.

Q - Steve Powers {BIO 20734688 <GO>}

Hey, thanks and good morning, Andre, good morning, Jon. I guess it seems we've resolved the debate as to when you think you can return to on-algorithm growth. As you said, Andre, the '24 outlook implies that time is now, which is great. I guess the question I'm grappling with is, if you are fortunate to see upside as the year progresses, whether from further cost relief, productivity benefits, top line strength, et cetera, how do you think -- how you think about using that additional flexibility? I'm sure, to some extent, the answer is you will reinvest to stay within the algorithm range and preserve longer-term momentum, but I guess, is there a point or a framework you use to assess flowing through some of those benefits to upside versus the current guide? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Steve. Yeah. We're very pleased that we were able to guide back to algorithm for fiscal '24. And as it comes to incremental investment, should we see more momentum or more help from a commodity perspective, the principle we will apply is return on investment. It's a very simple principle. We're not guided by money being available, we're guided by what is the best path forward to create sustainable value for our shareholders. We have plenty of opportunity to invest partially in the direction that we mentioned before.

You saw media spending, for example, ticking up in quarter four, partially because that profiles with innovation and retail events. But as we further develop our ability to target more effectively and efficiently in the media space, we generally see a higher return on investment, on every incremental dollar that we spend. So we will carefully push in that direction, because we believe that more awareness on stronger innovation and superior products will drive the market and therefore will drive our growth in a constructive way. We also have plenty of opportunity to improve our service levels. As Jon said, we're adding capacity and we'll invest and continue to invest in our ability to serve our retail partners even more effectively than we have done in the past. And then, we have plenty of opportunity to invest in future productivity, Supply Chain 3.0, our digital capabilities. All of those follow the same principle. Are they returning reasonable -- are they giving us a reasonable return on investment. If they do, we will try to invest, if they don't, we let the money flow through to earnings.

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

And just emphasizing the point of ROI-based decision-making, I don't -- when we're discussing an opportunity in the market, whether that's advertising, product supply, building capability, I don't think I ever asked a question, where are we versus our guidance range in terms of the bottom line. That's just not how we think about things. We've reflected a significant amount of investment that we're very excited about within the guidance range and we're continually looking for opportunities to build return. But that will be the focus.

Operator

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

A - Andre Schulten {BIO 22079652 <GO>}

Hey, good morning.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Good morning, Dara. So just wanted to tangent a bit off Brian's question more towards the payback from ad spend and P&G market share performance, then the promotion and pricing side of things, which you covered. Obviously another quarter of strong organic sales growth. I know driving category growth is job one, but P&G's share gains were a bit more modest in the quarter and the fiscal year. So just wanted to get an update on your view of market share performance, how you are positioned going forward on that front, particularly given the recent reinvestment into marketing and the levels of payback you think you're getting from that. Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Let me start, I'm sure Jon will add. I'll start by saying, we're very pleased with our market share performance. We are holding global aggregate volume share and value share in the light of very strong pricing contribution to the P&L, which is a great outcome. As John mentioned, we see sequential progress in terms of volumes in the market and in our performance, which is a critical outcome as we enter fiscal '24. When you look at the US, we continue to drive value share growth of 20 basis points and volume share growth of 50 basis points in the most recent reading. And when you look at our European shares, our focus market shares, they've turned positive in the past one and two months in European focus markets.

So, all of those things give us great confidence that the strategy of driving superiority and providing value to consumers via innovation at the time when we price is working. Our vertical portfolio across value tiers and across price points in the markets is working. So we will continue to double down in that direction.

From a US share perspective, we see some trading into private label. Private label shares in aggregate are actually flat in the US, at about 16%, so not really growing sequentially. But if you compare versus previous quarter, as we have mentioned before, there is some volatility, especially in Family Care, some in Baby Care, where we would expect as private label and smaller brands return to the shelf, some of those record shares will decrease and that's partially what we're seeing. But structurally the business is in a very good place and we think we are well positioned to continue our journey on driving market growth and thereby extending our share premium, which is by the way included in our guidance where we said the market is going to grow 4% and we're going to grow ahead of the market.

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

And only one point to add to that. I agree with everything Andre just said. As you're looking to see a correlation, Steve, between increased marketing and investment in Q4 and market share, as I know you know, it's not instantaneous. If you just think about purchase cycles as one of the dynamics, we have categories where the purchase cycle is once every six months or once every year, even. And so we looked at it, obviously, over longer periods of time.

Operator

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

Q - Lauren Lieberman {BIO 4832525 <GO>}

Great. Thanks. Good morning. I was hoping to hear a little bit more about the SKU simplification program because that was new, and I know you guys have spent a good amount of time talking about Supply Chain 3.0, but I was intrigued by this kind of new initiatives. So I was curious, I guess, first, geographically, are there particular markets where it's more pertinent? How far along are you in this process in terms of identifying where the opportunities are? And should we think about that as contributing to existing productivity programs? How does this interact with kind of discussion with retailers and bringing innovation in the market? Is it like a one in, one out? But just some more nuance around this program would be interesting. Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Lauren. Look, SKU simplification is a category opportunity. If you look -- and it's a category opportunity globally across the categories that we operate in. It's the reality that a very small -- that the bottom 25% of SKUs in the categories we operate in, deliver a very small contribution to absolute retail sales. So as we think about even better serving our consumers and even better serving our retail partners, it is a logical part of an optimization program to find a better, more efficient shelf.

The appealing part for us is the data that we have based on images of all customer shelves in terms of POS data and the algorithms we have developed to analyze the combination of those to give us great insight on what the right shelf set up should be and which SKUs we should really focus on with our retail partners to maximize overall sales throughput. And that's the opportunity we're going after. It is a program that runs across all categories. And it's a program that runs across all regions. It will be ongoing. As we reset shelves and discuss future innovation with our retail partners and it is part of our program with our retail partners to drive efficiency and part of our own productivity efforts, because as you could imagine, reducing SKUs in a very complex manufacturing environment frees up capacity and frees up cost. So it's a multi-benefited space. But we'll take our time to ensure that we do it the right way. There is no standard simple way to do this. So it requires a lot of analysis and a lot of planning with our retail partners to do it right.

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

They are very excited about this opportunity. As I meet with our retail partner CEOs and the key managers and those accounts, they're very anxious to work together on this. And a very important emphasis point is that this is sometimes looked at primarily through a bottom line, cost saving efficiency lens. That's not how we're approaching this. So that will be a benefit. We're really focusing on the opportunity, as Andre said, with a more powerful shelf to grow categories faster and therefore, it's a top line opportunity for us and our retail partners and we believe that if we do this well, what would normally be considered as some shelf distribution risk through a smaller lineup that we can actually convey that into a stronger overall shelf. So it's multifaceted, as Andre said. It's early days working through this. And it will be a category-by-category, account-by-account effort, but I think it holds significant opportunity. This is -- you asked the question, Lauren, whether this was kind of incremental to the previously communicated productivity numbers. This part of that and part of how we deliver that. And again, has top line benefit as well.

Operator

The next question comes from Nik Modi of RBC Capital Markets. Please go ahead.

Q - Nik Modi {BIO 7351672 <GO>}

Thank you. Good morning, everyone. So actually I had just two quick ones, Jon. On China, can you just provide any kind of on-the-ground color on what's going on with the consumer? I mean, is this still about them feeling comfortable getting out and about in a more normalized routine or is there something more economic going on? And then the bigger question is just, obviously, supply chain have been disrupted for the past few years. I'm suspecting innovation was disrupted as a result. But things are getting back to normal. I'm just curious like, how do you -- how would you frame P&G's innovation pipeline for fiscal '24 relative to a normal year? I mean, is this going to be kind of a bigger year than normal? And then, how do you think about getting the space given that, what I understand is, most companies are going to have a pretty heavy innovation here over the next 12 months. I'm just curious how you think about spending needs and the ability to get everything you want onto the shelf. Thanks.

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

China, As Andre said in our prepared remarks, continues to recover. Not at a significantly rapid pace, but steadily. So our business in that country was up 4% in the last quarter. And that's a big improvement from where it was in the first half of the year. There are -- there continue to be consumer confidence challenges driven by many factors in China. But again, improving month on month. There are some fundamental underlying economic challenges. If you look, for example, at the employment rates of people in their 20s, it's very low. Right now the -- sorry, the unemployment rate is high, the employment rate is low. Unemployment of as much as 20%. So there's a combination of things, but as always, I hold out great hope for China and our business in it. As I said, we're beginning to recover nicely as we speak.

On the supply chain, several things happen as we rebalance the supply and demand. One is, and we've talked about this before, we're able to focus more energy and effort -- refocus more energy and effort on productivity. So that's a significant benefit and that's included in our assumptions on the guidance. It also makes it easier to get line time to innovate. We have very strong innovation program that we're executing currently. And obviously, expect -- it's part of our model. We expect to do that going forward. And our track record to the point of how do you get things on shelf, our track record speaks for itself.

So one of the innovations that Andre was talking about earlier, if you just look at hand dishwashing in the United States and Europe, Dawn Powerwash and Dawn EZ-Squeeze bottle, those two innovations together drove 17% growth in that business last year, up 1.5 share points in the US, up -- I think the number is 1.1 share points in Europe. And we're just getting started with the potential there, but that kind of track record behind innovation makes us a very compelling partner to our retail partners. And that specific example, as you would expect with those kind of numbers, had a significant impact on market growth, which is also a primary importance to them. They don't really -- as you know, don't really care or aren't benefited by our share growth unless it is driven by market growth, which they benefit from. So, I think we're in good shape. When we have great ideas, when we can increase consumer and shopper delight, we will be fully present.

Operator

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

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. Thank you very much. Jon, you mentioned I think in your introductory remarks that your e-commerce business is now about 17% of total, which has probably doubled in three or four years. Can you maybe kind of stand back and reflect on what that means for your business overall and maybe concentrating on the US, how does that change your relationship with brick-and-mortar? Does it -- has it had an impact on your shelf space in brick-and-mortar? How has it changed your supply chains, what added complexity it's given to you and how has it changed your overall discussion with retailers? I know there's a lot there, but what are the key things and takeaways that we should get about what's been a pretty big transformation in terms of channels over the last three or four years? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Thanks, Robert. It's getting harder and harder to distinguish between e-commerce and traditional commerce, if you will, even in our conversations with our retail partners. Most of the large brick-and-mortar retailers are emphasizing the development of e-commerce in different forms themselves and have had significant growth behind those efforts. So, honestly, I have not been in a conversation that is zero-sum in nature or that is in any way combative in nature. More of the conversation is, how can we work together to fully satisfy our shoppers, many of whom prefer an e-commerce experience.

From a pure business standpoint, we aim to be indifferent between channels. We want to have an equally attractive margin which we generally do, at least in aggregate. And we want a share profile in the different channels that allows us to be indifferent and allows us to support consumers and shoppers and whatever their choice is, wherever they want to go. That's always work to do, but we stand today in a very good place.

And last comment I'd make is just when you think about the growth of e-commerce in the year that we just completed, as Andre said, it was 7%. That's the same rate of growth for the total business. So there's not a tipping exercise that's going on here. It's really working to raise all boats.

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

And the only thing I'd add is, many of the initiatives we talked about are designed to benefit and on the environment. So both online as well as physical store. When you think about SKU productivity, absolutely critical when you try to fulfill an online business from shelf, because you need the holding power. When you think about supply chain services, our ability to fulfill on behalf of our retail partners directly from our ODC is significant advantage if you're in an online environment, but also an opportunity for any brick-and-mortar retailer. So all of those programs are basically channel-agnostic. They serve any format within our market.

Operator

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

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you. Good morning. I have one for Jon and one for Andrea. Jon, on the US volume recovery, are you seeing more of a need to defend the entry-level pricing with promo? I know, I don't want to sound as if I don't appreciate all that you said about several initiatives done or not only initiatives, I mean, real market share gains in innovation, but I'm just thinking of the private label and value brands you discussed. Do you feel comfortable with your price pack architecture as it stands now and do you think that also related to the Fabric and in Fem Care, basically capacity increase? So you are now on-shelf and you can be more tactical in some price points.

And then, Andre, on the cost side for fiscal '24, it seems that you're calling a net benefit of $400 million in your net commodities plus FX and plus logistics. I understand that you use the spot prices and to the extent numbers come in better than that would you see more of a need to reinvest or potentially flow-through some of the savings into the bottom line? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

I'll start with the commodity question, commodity FX question. You're right, $800 million, $80 million [ph] help on commodities, offset by $400 million in FX and $200 million in interest expense. Couple of points. One, as we've talked before, it takes time for these effects to flow through the P&L, so generally expect them to be more back-half weighted versus front-half weighted. And the same is true with any incremental help. So if we see incremental help, it can take up to six to nine months for it to flow through the P&L. So we need to keep that in mind.

But I'll give you the same answer I think we've given before, Andrea. We're ROI driven and it's really less defined by, do we get more commodity help or less commodity help, are we within guidance range, without -- or outside of guidance range. The discussion is, is this the right investment to drive the strategy and create sustainable value. And if it is, we'll do everything possible to make the investment work. Obviously, if commodity help us coming, that's an easier decision. But it will be 100% ROI-driven, both in the short-term and the long-term investments.

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

And as it relates to opening price point, it's a very fair question. And something that we're always evaluating as you would expect. But there are several tools that we have available to us to ensure that we're providing good value to consumers for whom price becomes a challenge. We have pack size, ensuring that we have pack sizes that are accommodated within their cash outlay capacity, making sure that we have offerings that are right for the channels that consumers typically go to when they come under economic pressure. Ensuring that whether it's on the package, whether it's on the shelf, whether it's in advertising, we're clearly communicating the value that those offerings provide. And I think you'll see us going into the utilization of those tools much more frequently to fully delight and satisfy that shopper than we will simply price.

Operator

The next question comes from Callum Elliott of Bernstein. Please go ahead.

Q - Callum Elliott {BIO 20826092 <GO>}

Hi, thanks for the question. I wanted to drill a little bit more into reinvestment, please, and from a different angle. So my question really is about retail and media spend. We've seen a lot of hype if I can put it that way about the potential of retail media from the retailers themselves and in particular, the potential for CPG retail media spend to be incremental for the retailers. So my question is, can you talk a bit about retail media spend from your perspective? Who is responsible for it within your business? Is it the brand teams, or your customer teams? And is there a risk that this really will need to be incremental spend or is it just shifting from shopper marketing dollars and legacy media channels? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah. I can start and then, Jon, if you want to add. For us, any type of media spend, whether it's digital, online, OTT, TV, print or as you say customer media is part of the total mix. So what we're looking to do is optimize our reach effectively with the target and the frequency across all of those different touch points. And just like any other channel, retail and media needs to earn its place in our marketing mix model based on the relative returns that it can provide. Are we working with our retail partners to maximize that return? Absolutely. There are plenty opportunities in data sharing, combining transaction data with media data to optimize and that is a strong reason why retailer-based marketing spending can make sense. But it is part of the overall marketing mix and it's managed in that way. So really, it's the brand teams that are managing their overall mix. And they are collaborating closely with the customer teams because, in many cases, a well-timed investment in retail and media, in line with merchandising plans on the floor or online can provide superior return on investment.

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

And I like generally the concept of retailer media managed and just the way that Andre described because I just generally believe that the majority of brand choice is made in a retail environment. And so if we can bring that all together, it offers significant opportunity. I think less brand choice has made sitting on a couch or even driving in a car on a way to a retail establishment. Same is true for online. So we are very carefully evaluating this opportunity, but it will be done in the context that Andre described.

Operator

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

Q - Olivia Tong {BIO 22252574 <GO>}

Great. Thank you very much. Two questions. First, on cost savings. That obviously improved materially as the year progressed. So do you feel like this is a sustainable improvement from here or to what extent does it perhaps reflect an elevated level after last year was a little bit depressed?

And then second question is just realizing you obviously said strong innovation and that's led to a greater consumer willingness to stay with premium brands. You alluded -- you talked about Dawn, for example, and it's obviously driven your ability to grow the category even when consumers are trading down to private label in certain instances. So perhaps can you talk about your innovation plans for fiscal '24, how that compares to years' past? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Good morning, Olivia. On the cost-saving side, we are very confident in our previous statements that we will return to pre-COVID level across cost of goods, media savings, and general productivity on the overhead side. And I think you saw that play out in quarter four as line time becomes available, as we have more time with our suppliers, for example, as we start to implement Supply Chain 3.0, we're very confident in our ability to create up to $1.5 billion of net savings within the supply chain. We continue to generate significant amount of savings via our media programs and every business is looking at productivity opportunities to balance labor and wage cost inflation within the overhead structure. So I think quarter four is a good indication that we are able to do just that, get back to pre-COVID levels of productivity within those buckets that I described.

In terms of innovation, what I'd tell you is, number one, we never stopped innovation. So we prioritize strong innovation throughout COVID and supply chain struggles, because we knew that was the only way to create value for our retail partners and for our consumers as we had to take significant pricing in addition to productivity to offset the commodity cost increases that we saw. It's also important to register that our innovation is not just premium innovation. We are innovating across all value tiers, because the concept of superiority requires us to be competitive or superior at every price tier. So on a brand like gloves, for example, which is a value brand and diapers in the US, we're competing against private label offerings. So we need to be able to superior and have the right innovation to do just that.

I continue to feel very strong about on innovation capability. We gave you a list of examples. There are plenty more and I think the (inaudible) strength we have is the hit rate that we've been able to demonstrate is very good. And as Jon mentioned, that gives confidence to retailers to support our innovation, which is the biggest help that we can get in addition to just truly consumer-based innovation, having the support of our retail partners to bring it on and drive category growth. And that allows us to create sustainable share growth for us.

Operator

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

Q - Peter Grom {BIO 16488235 <GO>}

Thanks, operator, and good morning everyone. So I was hoping to get some color in terms of how to think about the gross margin progression. You mentioned in response to Andrea's question that the $800 million of deflation will be more back-half weighted, but it still seems you will have some healthy tailwinds from productivity and price. So just any thoughts in terms of how to think about the pacing of gross margin, commodity cost pricing, and productivity evolves just in the context of such strong momentum exiting this year? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah, morning, Peter. Look, I'll leave it at, we're starting -- just starting to recover a lot of the gross margin that was impacted by the commodity cost inflation. Obviously, our objective is to continue to recover and get back to pre-COVID levels and then grow from there. Our algorithm requires with mid single digit top line growth, mid to high single digit EPS growth require somewhere between 20 and 60 basis points of operating margin expansion. And a part of that will have to come from gross margin expansion, because, as we said, we strive to continue to invest in the business across innovation, across communication, to drive superiority. I won't give you detailed guidance, but we're still on the path to recovering back to pre-COVID levels.

Operator

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

Q - Filippo Falorni {BIO 21259123 <GO>}

Hey, good morning, everyone. Just a clarification on your organic sales growth guidance. You mentioned global -- you expect the global markets to grow 4% with modest growth in volume. Can you break down like what your expectation for your volume assumption are for '24 and even just in terms of cadence, could we see, given the strong improvement that you saw in Q4, some volume growth at a total company-level, even in the first half of the year or do you think it's more of a second half in terms of volume growth for P&G? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah, maybe starting by deconstructing the global market growth number, we expect 1.2, 1.5 of that over our fiscal year to come from volume. So these are global market growth numbers, 1.2 to 1.5 in volume. Same amount from mix, same amount from price. We strive to grow ahead of that. What exactly the composition of our growth is? I think it will depend and we'll see. So if I had to give you a number, I don't think I could at this point in time. We expect sequential progress on the volume line, let's put it that way. And we will do everything possible to make that progress happen by driving market growth, specifically on the volume side, that will be the most constructive way to drive our growth in '24.

Operator

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

Q - Chris Carey {BIO 21810941 <GO>}

Hey, good morning. So just two quick questions from me. First, with leverage where it's trending, free cash flow generation strong, why not buy back more stock or do you guys have more buybacks for the year? And second, good progress on SKII in the quarter. Can we just get any context on where you think the brand sits today, some of the channel health and it seems to be quite an important driver of growth and just trying to get some context on whether we can get back to those sorts of -- that sort of contribution on a more durable basis going forward? So, thanks so much.

A - Andre Schulten {BIO 22079652 <GO>}

Got it. Yeah, Chris, free cash flow, I'll just tell you, our capital allocation priorities haven't changed. We'll fully fund the business, we will pay the dividend, we will do M&A where it makes sense and then we will return cash via share repurchase. Just keep in mind, we had two years where operating income was severely limited because of the recovery of commodity cost increases, foreign exchange. So that explains I think a little bit of that share repurchase number being a little bit lower. If you look at the average, we're still returning $14 billion to $15 billion to shareowners, which is right in line with what we've been doing over previous years.

On SKII, 20% growth in the quarter looks great on the headline. Just keep in mind, we're building that off of a very weak base period with Shanghai lockdowns. So I wouldn't want you to extrapolate that straight into fiscal '24. I think most importantly, the team is doing a great job in putting SKII on a solid footing, both from a channel perspective, making sure that the pricing across different channels, travel retail, domestic travel retail, and domestic markets is in a sustainable place. They are investing in the core equity of the brand with a new campaign. And they are building retail support and trial. All of those things I believe are a good indicator of where we're headed. And early signs within China, for example, are very strong positive consumer reviews and initially the positive share growth. So we're headed in the right direction, but probably not quite at the clip you saw in quarter four.

Operator

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

Q - Mark Astrachan {BIO 15313233 <GO>}

Yeah, thanks, and good morning, everyone. Actually, ironically, I wanted to ask about SKII but more on a portfolio construct view. So how do you think about prestige beauty fitting into your portfolio? I think it's been a question for three years in terms of go-to-market and sort of synergies with the rest of the beauty business. You've obviously done some selective M&A, not necessarily co-selling that with SKII in certain businesses and markets. So, I guess, if you take a step back and look at the volatility, obviously, partly COVID-related over the last three to four years, there's been volatility there, markets improving, but some signs that the go-to-market that existed three years ago, four years ago pre-COVID is shifting in terms of how you sell those products. So are the same synergies in going to market there today versus where you were a few years ago? Are you still getting the same synergies in terms of flow-through to technology to using it in a way? And then related to all of that, how do you think about that current portfolio today, it doesn't need to be bigger, it doesn't need to be shifted a bit in categories, you're content with where you are? So, long-winded question, but also related to SKII. Thanks.

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

As you know, we want to be present in daily use categories where performance drives brand choice. We love SKII in that context and it's performed very well over the years. As you indicated, the more recent volatility is due to channel dynamics and COVID dynamics, all of which are beginning to turn more favorable. That will take a little bit of time, but this is a brand that we like. We have said that, from a portfolio standpoint, there are two categories that we're most interested in from an acquisition standpoint, albeit in a very disciplined way. And those are the same two categories where we've been making smaller acquisitions. Those two categories are Personal Health Care and Skin Care.

Operator

The final question comes from Bill Chappell of Truist Securities. Please go ahead.

Q - Bill Chappell {BIO 1737315 <GO>}

Thanks so much for squeezing me in. Just a question on Grooming. One, I might have missed what was going on in Europe. So if you can kind of clarify that in the disruption. But, two, this seems to be kind of the best category to gauge pandemic behavior and pull back meaningfully during the pandemic. Obviously, we've had a reopening in the past two years. So can you maybe give us the state of the state of that industry as we go into what looks like a normalized next 12 months or are we getting normalized or I don't know if we're even back to where we were in 2019? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah. Look, if you look at the Grooming business, I would first tell you, the last two quarters have been very strong quarters. The Braun business, so the more appliance side of the business had been annualizing a very strong base period during the pandemic as more and more folks have brought some of these jobs in-house versus going to barbershops or beauty salons. And obviously, that had a very high base. So we are annualizing that base.

On the core Grooming side, when you think about male blades and razors, female hair removal, or beard care, I think the business has done a fantastic job in expanding the jobs to be done that we cover and driving, honestly, market growth across each of those segments. And that will continue. So in terms of future outlook, we feel very good about the business recovering already in the second half, mainly from the Braun strong base period. And I think the plans for current fiscal year are strong.

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

Wanted to thank everybody for your time this morning. We appreciate it. We know this is a busy morning for you. We'll let you get on to other things. I just want to provide one last recognition of the team here at P&G who is working hard to serve consumers, customers, each other, society and of course, our shareowners. Thank you for your interest.

A - Andre Schulten {BIO 22079652 <GO>}

Thanks, everyone.

Operator

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