Q1 2022 Earnings Call

Company Participants

- Andre Schulten, Chief Financial Officer
- Jon R. Moeller, Vice Chairman Of The Board, Chief Operating Officer

Other Participants

- Andrea Teixeira, Analyst
- Chris Carey, Analyst
- Dara Mohsenian, Analyst
- Jason English, Analyst
- Kaumil Gajrawala, Analyst
- Kevin Grundy, Analyst
- Lauren Lieberman, Analyst
- Mark Astrachan, Analyst
- Nik Modi, Analyst
- Peter Grom, Analyst
- Robert Ottenstein, Analyst
- Steve Powers, Analyst
- Wendy Nicholson, 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 and 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 and Gamble believes these measures provide investors with useful perspective on underlying business trends and has posted on its Investor Relations website www.pginvestor.com, a full reconciliation of non-GAAP financial measures.

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

Andre Schulten {BIO 22079652 <GO>}

Thank you, operator. Good morning, everyone. Joining me on the call today are Jon Moeller, currently Vice-Chair and incoming President and Chief Executive Officer as of November 1 and John Chevalier, Senior Vice President, Investor Relations.

We're going to keep our prepared remarks brief and then turn straight to your questions. The July to September quarter provides a good start to the fiscal year, putting us on track to deliver our guidance for organic sales growth, core EPS growth, free cash flow productivity and cash return to share owners.

We experienced the full impact of rising commodity and transportation cost this quarter but healthy top line growth and strong cost savings kept EPS growth nearly in line with prior year. Earnings growth should improve sequentially through the balance of the fiscal year as price increases go into effect and productivity programs ramp up.

So moving to first quarter results, organic sales grew 4%, volume contributed 2 points of sales growth, pricing and mix each added one point. Growth was broad-based across business units with 9 out of 10 product categories growing organic sales, Personal Health Care up double digits; Fabric Care grew high singles, Baby care, Feminine Care and Grooming up mid singles; Home Care, Oral Care, Hair Care and Skin and Personal Care organic sales each up low-single digits. Family Care declined mid singles comping very strong growth in the base period.

Organic sales were up 4% in the U.S. despite 60% growth in the base period. On a two-year stack basis, U.S. organic sales are up 20%. Greater China organic sales were in line with prior year due to strong growth in the base period comp and due to intra-quarter softness in beauty market growth.

On a two-year stack basis organic China -- China organic sales are up 12% in line to slightly ahead of underlying market growth. Focus markets grew 4% for the quarter and enterprise markets were up 5%. E-commerce sales grew 60% versus prior year. Global aggregate market share increased 50 basis points, 36 of our top 50 category country combinations held or grew share for the quarter.

Our superiority strategy continues to drive strong market growth and in turn share growth for P&G. All channel market value sales in the U.S. categories, in which we compete, grew mid single digits this quarter and P&G value share continue to grow to over 34%. We are up more than a 1.5 half versus first quarter last year. Importantly, the share growth is broad based. 9 of 10 product categories grew share over the past three months, with the 10th improving to flat versus year ago over the past one month.

Consumers are continuing to prefer P&G brands. On the bottom line, core earnings per share were $1.61, down 1% versus the prior year. On a currency neutral basis, core EPS declined 3% mainly due to gross margin pressure from higher input costs which we highlighted in our initial outlook for the year. Core gross margin decreased 370 basis points and currency neutral core gross margin was down 390 basis points.

Higher commodity and freight cost impact combined were 400 basis point hit to gross margins, mix was an 80 basis points headwind primarily due to geographic impacts. Productivity savings, pricing and foreign exchange provided a partial offset to the gross margin headwinds. Within SG&A, marketing expense as a percentage of sales was in line with prior year level for the quarter increasing more than 5% in absolute dollars consistent with all-in sales growth.

Core operating margin decreased 260 basis points, currency neutral core operating margin declined 270 basis points. Productivity improvements were 180 basis points helped to the quarter. Adjusted free cash flow productivity was 92%. We returned nearly $5 billion of cash to shareowners, $2.2 billion in dividends and approximately $2.8 billion in share repurchase. In summary, in the context of a very challenging cost environment, good results across top line, bottom line and cash to start the fiscal year.

Our team continues to operate with excellence and stay focused on the near-term priorities and long-term strategies that enabled us to create strong momentum prior to the COVID crisis and to make our business even stronger since the crisis began. We continue to step forward into these challenges and to double down our efforts to delight consumers. As we continue to manage through this crisis, we remain focused on the three priorities that have been guiding our near-term actions and choices. First is ensuring the health and safety of our P&G colleagues around the world. Second, maximizing the availability of our products to help people and their families with their cleaning health and hygiene needs. Third priority is supporting the communities, relief agencies and people who are on the front lines of this global pandemic.

The strategic choices, we've made are the foundation for balanced top and bottom line growth and value creation, a portfolio of daily use products, many providing cleaning health and hygiene benefits and categories where performance plays a significant role in brand choice. In these performance-driven categories, we've raised the bar on all aspects of superiority, product, package, brand communication, retail execution and value. Superior offerings delivered with superior execution drive market growth. In our categories, this drives value creation for our retail partners and builds market share for P&G brands.

We've made investments to strengthen the health and competitiveness of our brands and we'll continue to invest to extend our margin of advantage and quality of execution improving solutions for consumers around the world. The strategic need for investment to continue to strengthen the superiority of our brands, the short-term need to manage through this challenging cost environment and the ongoing need to drive balanced top and bottom line growth including margin expansion, underscore the importance of ongoing productivity.

We're driving cost savings and cash productivity in all facets of our business. No area of cost is left untouched. Each business is driving productivity within their P&L and balance sheet to support balanced top and bottom line growth and strong cash generation. Success in our highly competitive industry requires agility that comes with the mindset of constructive disruption, a willingness to change, adapt and to create new trends and technology that will shape the industry for the future. In the current environment that agility and constructive disruption mindset are even more important.

Our organization structure yields a more empowered, agile and accountable organization with little overlap or redundancy, flowing to new demands, seamlessly supporting each other to deliver against our priorities around the world. These strategic choices on portfolio, superiority, productivity, constructive disruption and organization structure and culture are not independent strategies, they reinforce and build on each other. When executed well, they grow markets, which in turn grow share, sales and profit. These strategies will deliver -- were delivering strong results before the crisis and have served us well during the volatile times. We're confident they remain the right strategy framework as we move through and beyond the crisis.

Moving on to guidance, we will undoubtedly experience more volatility as we move through this fiscal year. As we saw this quarter growth results going forward will be heavily influenced by base period effect along with the realities of current year cost pressures and continued effects of the global pandemic.

Supply chains are under pressure from tight labor markets, tight transportation markets and overall capacity constraints. Inflationary pressures are broad based and sustained, foreign exchange rates add more volatility to this mix. We have also experienced some short-term disruptions in materials availability in several regions around the world. Our purchasing, R&D and logistics experts have done a great job managing these challenges.

These cost and operational challenges are not unique to P&G and we won't be immune to the impacts. However, we think the strategy -- strategies we've chosen, the investments we've made and the focus on executional excellence have positioned us well to manage through this volatile -- volatility over time. Input costs have continued to rise since we gave our initial outlook for the year in late July, based on current spot prices, we now estimate a $2.1 billion after-tax commodity cost headwind in fiscal 2022.

Fiscal cost -- freight costs have also continue to increase, we now expect freight and transportation cost to be an incremental $200 million after-tax headwind in fiscal '22. We will offset a portion of these higher cost with price increases and with productivity savings. As discussed last quarter, and in the more recent investor conferences, we've announced price increases in the U.S. on portions of our baby care, feminine care, adult incontinence, family care, home care and fabric care businesses.

In the last few weeks, we've also announced to retailers in the U.S. that we will increase prices on segment of our grooming skin care and oral care businesses. The degree and timing of these moves are very specific to the category, brand and sometimes the product form within a brand, this is not a one-size-fits-all approach. We are also taking pricing in many markets outside the U.S. to offset commodity, freight and foreign exchange impacts.

As always, we will look to close couple of price increases with new product innovations, adding value for consumers along the way. As we've said before, we believe this is a temporary bottom line rough patch to grow through, not a reason to reduce investment in the business. We're sticking with the strategy that has been working well before and during the COVID crisis.

Our good first quarter results confirm our guidance ranges for the fiscal year across all key metrics. We continue to expect organic sales growth in the range of 2 to 4%. Our solid start to the fiscal year, increases our confidence in the upper half of this range. We expect pricing to be a larger contributor to sales growth in coming quarters as more of our price increases become effective in the market.

As this pricing reaches store shelves, we'll be closely monitoring consumption trends. While it's still early in the pricing cycle, we haven't seen notable changes in consumer behavior. On the bottom line, we're maintaining our outlook of core earnings per share growth in the range of 3% to 6% despite the increased cost challenges we're facing. Foreign exchange is now expected to be neutral to after-tax earnings compared to the modest tailwind, we estimated at the start of the year. Considering FX was a modest help to first quarter earnings, we're projecting it to be a headwind for the balance of the year.

In total, our revised outlook for the impact of materials, freight and foreign exchange is now a $2.3 billion after-tax headwind for fiscal '22 earnings or roughly $0.90 per share, a 16 percentage point headwind to core EPS growth. This is $500 million after tax of incremental cost pressure versus our initial outlook for the year. Despite these cost challenges, we are committed to maintaining strong investment in our brands. So, while we are not changing our core EPS guidance range, please take note of these dynamics if you update your outlook for the year.

We'll face the most significant cost impacts in the first half of the fiscal year, as pricing goes into effect, as savings programs ramp up and as we begin to annualize the initial spike in input costs, earnings growth should be sequentially stronger in the third and fourth quarters of the year. We are targeting adjusted free cash flow productivity of 90%. We expect to pay over $8 billion in dividends and to repurchase $7 billion to $9 billion of common stock.

Combined, the plan to return $15 billion to $17 billion of cash to share owners this fiscal[ph]. This outlook is based on current market growth rate estimates, commodity prices and foreign exchange rates. Significant currency weakness, commodity cost increases, additional geopolitical disruptions, major production stoppages or store closures are not anticipated within the guidance ranges.

To conclude, our business exhibited strong momentum well before the COVID crisis. We strengthened our position further during the crisis, and we believe P&G is well positioned to grow beyond the crisis. We will manage through the near-term cost pressures and continued market level volatility with the strategy we've outlined many times and against the immediate priorities of ensuring employee health and safety, maximizing availability of our products, and helping society overcome the COVID challenges that still exist in many parts of the world.

We'll continue to step forward toward our opportunities and remain fully invested in our business. We remain committed to driving productivity improvements to fund growth investments, mitigate input cost challenges and to maintain balanced top and bottom line growth. With that, we'd be happy to take your questions.

Questions And Answers

Operator

(Operator instructions) Your first question comes from the line of Steve Powers with Deutsche Bank.

Q - Steve Powers {BIO 20734688 <GO>}

Yes. Hey guys, good morning everybody. Maybe we can start just on the organic growth this quarter and how you view it relative to underlying consumption trends, specifically how much of the 4% you think might have been aided by any timing, whether shipment timing or any temporary surges in demand against the backdrop of COVID. I guess it feels to me like maybe the U.S. benefited from some of those dynamics and maybe China on the other side of that, but I'd love your perspective and just whether we should be thinking about any adverse correction against the 4% in subsequent quarters? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah. Thank you, Steve. I'll start by saying that overall consumption trends remain strong globally, particularly as you said in the U.S. Markets continue to grow within our categories of daily use, health and hygiene in the range of mid singles. So, from a consumption standpoint, consumer behavior continues to elevate the importance of health, hygiene and clean home. More time at home certainly is also a factor. We continue to see elevated consumption on Bounty paper towels for example by 10%, Charmin bath tissue is still elevated consuming about 5% with more time at home. So, overall consumption trends remain strong and fuel most of the growth. We also have been able to grow share, as we've outlined in our prepared remarks, both on a global basis, we're up 50 basis points over the past three months and 70 basis points over the past six months.

So, that's certainly contributing to a stronger position to benefit from that growth. In the U.S., we've reached record share of 34.4% of value share, up more than a point. Inventory effects, I would tell you certainly play a role in some geographies, mainly in China, we saw -- we saw some inventory build in the base period, which the reverse is obviously happening in this period but in the grand scheme of things, they don't really impact our consumption trends and our shipment trends in the quarter.

Operator

Your next question comes from the line of Kevin Grundy with Jefferies.

Q - Kevin Grundy {BIO 16423871 <GO>}

Great, thanks. Good morning, everyone. Why don't we pick up I guess on gross margin, which is obviously really challenged in the quarter for reasons that we know around commodities, freight, broader supply chain issues. So maybe you could just start with your hedge position for commodities, the visibility that you have at this point on the guidance, which is more dire on that front. And then just broader views as best you can share, I don't know, around the supply chain issues, overall expectation in terms of how long these challenges are going to remain a headwind and just how you're thinking about the cadence of gross margin restoration as you sort of try to get back to low 50% gross margin, I think that would be helpful? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah. Thanks, Kevin. So maybe let me start with the current outlook for commodities, the increases that we are seeing are broad based across commodity classes. Our forecast is based on spot rates. We are assuming that the spot rates sustain for all of our productivity programs, all of our pricing programs, all of our innovation programs are based on the assumption that current spot rates as reflected in the current guidance will sustain.

We do not hedge commodities per se. So the position that you see here is the position as it impacts our P&L. We offset within our natural hedging position within foreign exchange rate commodity basket and interest rates. That's the best way for us to protect against volatility and the most cost-effective way to protect against volatility.

In terms of supply chain dynamics, certainly demand and supply have not balanced globally as we can see. We continue to see pressure on transportation and warehousing. We continue to see driver shortages, diesel increases and, as I mentioned before, across our commodity classes, whether it's chemicals, resins, packaging or pulp, these increases that we've seen as reflected in the current guidance, reflects the existing market dynamics. So the best forecast we have is current spot and that's what we're going to continue to operate against.

We will, as we articulated, I think before and want to re-emphasize in this call as well, we will recover these costs over time. We will not -- we will not sacrifice investment in the business as we do so. So strong productivity programs that are ramping up throughout the fiscal year, pricing with innovation that we are bringing into the market if we can to improve value at the same time as we take pricing, all straight commodity pricing throughout the year will ease the margin pressures over time. But it will take time to recover the cost and we will intentionally take our time to recover the cost to protect investment in our superiority strategy, which is working well to drive our top line growth and overall balanced growth model.

Operator

Your next question will come from the line of Dara Mohsenian with Morgan Stanley.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hey, guys. So, just was looking for a bit more detail on pricing. Can you help us dimensionalize what percent of the portfolio will have pricing plans in place post the planned pricing you mentioned earlier in a few categories, some sense for the magnitude of pricing, and then I know you're probably not going to be -- want to be too specific on the go forward, but just any insight on conceptually how you think about implementing pricing offset cost pressures. Is there some point this fiscal year when you think you'll catch up with the dollar cost pressure you're seeing year-over-year with dollar pricing, whether it be Q3 or Q4, is that unrealistic just given the magnitude of cost pressures?

And then the last point, just where you've taken pricing so far, it sounds like you haven't seen much demand impact. Maybe you can elaborate on that a bit and talk about the risk to market share momentum as you take pricing and how you guys think about that? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah, look, we're taking pricing around the globe and it's really a decision that is taken market by market, category by category; in many cases, SKU by SKU depending on the situation in the market. So broad based statements are difficult. So let me try to maybe focus on the U.S. here as an -- as a good example and our biggest market. We have now announced pricing in nine out of ten categories, so very broad based. Many of these price increases are being implemented -- have been implemented in September, are being implemented over the next, call it 90 days. You've seen the price increases we've announced across baby, feminine care, family care, they are mid singles. I would expect, even though the price increases on grooming, skin care have just been out and they are different by SKU about the same range. Mid singles is about the range that I would expect, again out on the majority of our portfolio at this point, I cannot comment on future price increases but will continue to evolve as the situation evolves in terms of cost and in terms of ability to take more pricing.

In terms of recovery of cost, we expect, as we said in our prepared remarks, that the margin situation and the comp situation on core EPS will sequentially improve throughout the fiscal year. We will annualize part of the commodity cost increase starting with Q3. Most of the pricing will also take effect and actually flow through to the bottom line as of Q3 and our productivity programs will significantly ramp up throughout the fiscal year. All of that said, hard to predict exactly where we're going to land but sequential progress is certainly what we are striving for. Most important point, as I said before, we will not reduce investment in the business. We continue to drive marketing spend, we continue to drive investment in superiority to sustain our balanced growth strategy for the mid and long term.

Very early to read anything in terms of price elasticity. I will tell you for those price increases that have gone into the market in the U.S., most of them became effective middle of September and we have not seen any material reaction from consumers in terms of volume offtake. So that makes us feel good about our relative position and obviously, we feel that we should be in a favorable position given the strength of our portfolio. We're going into this pricing round with 75% of our portfolio truly superior, probably 80% by the time most of these price increases hit and that should give us a relatively strong position with consumers to deliver value in their mind, even as we take pricing.

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

Let me just build on Andre's comments with a couple kind of big picture thoughts. Given the inflationary cycle that we're in, how do you want to be positioned? You want to have -- first of all being in categories that are daily use that are focused -- where performance drives brand choice is a good place to be. Consumers through the pandemic have shifted their consumption in those categories towards trusted, performing brands and you see that even in what's happening with private label market shares, as an example, down in the U.S. over the past 3, 6, 12 months, down in Europe over the same periods of time. None of that's a guarantee for the future. But you start in a very good position with a strong superiority profile, as Andre said, and a strong innovation program and investment program to continue that work.

Number two, you want to be (inaudible) Just one more thing to add to number one. This is essentially part and parcel of our business model. Sometimes the reaction is this -- with this, pricing is a new dynamic. Pricing has been a positive contributor to our top line for 44 out of 47 for the last quarters and 16 out of the last 17 years. Again, no guarantee for the future, but we start with a business model that fundamentally supports pricing in a way that's value accretive to consumers.

Second, you want to be in a position to minimize the need for pricing through productivity. We're in a better position on that regard than we've ever been. This organization has done a tremendous job reducing costs, and we'll continue to do so. We want to be in a position where you have product available at different price points, to appeal to consumers for whom price is a bigger part of their personal value equation. We're in much better position there than we were in the last -- in the last cycle. So again, none of that is any guarantee for the future, but all of that positions us much better than we've been historically.

Operator

Your next question comes from the line of Lauren Lieberman with Barclays.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Thanks and good morning. I wanted to talk a little bit about how scale may or may not be benefiting P&G at this time, versus what you see from peers and competitors around the world. So just thinking about access to raw materials to packaging inputs, ability to get energy and power in some countries, but I was just curious if you could talk a little bit again about availability access to key inputs in energy and how you think P&G is managing through this or will manage through this versus what you see from some other companies out there? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah, thanks, Lauren. Look we are, we are certainly not immune to the stress that is put on the supply chains globally and we are very thankful to our supply chain teams who have done a tremendous job in developing business continuity plans and executing against those business continuity plans over the past 18 months, 24 months as supply chains were stressed throughout the COVID pandemic.

The strength of our supply chains is mainly driven by the flexibility that we can create within those supply chains. So strong supplier partnerships around the globe allow us to shift sourcing if we need to, from one supplier to another, either because of supply not being available or freight lanes not being available to get material from point A to B. It also allows us to optimize cost to a degree and we've been doing that over the past few months and we'll continue to do so. We have an ability to reformulate some of our products, which we're doing actively without impacting the superiority of the product or any noticeable impact to the consumer and that gives us flexibility to adjust again to material availability or cost.

We also have an organization that looks around the corner, anticipates potential bottlenecks and then chooses to build inventories either on materials and intermediates or on finished products to then be able to withdraw from those inventories on a global basis. So it doesn't mean that we build inventory in the same region where we consume, but we have the ability to do that on a global basis.

So in that sense, the global footprint is an advantage to us. As I've said, we're not immune to any impact here, but if history is any indication of the future, we feel relatively well positioned because of the strength of our organization here. Of course, if there are any major disruptions to supply chains, we would be exposed just like everyone else.

In terms of energy availability, we'll acknowledge that we've obviously been part of some of those curtailments that we've seen in China for example, but they've not had a materially affect of our supply chains. Again, when you think about our ability to potentially source from other regions for a period of time, most of our factories are able to run formula carts and run product for other regions, which gives us flexibility on our footprint to overcome short-term challenges.

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

One other dynamic that feeds into this is the confidence of our suppliers in our business, both in terms of our business momentum, so if they need to make investments to increase their capacity and material availability, the momentum of our business factors directly into that decision.

Second and related, the increments of capacity that we can offtake, generate economics at a supplier level that make investments viable. If we were just adding to demand on the margin, it would be a very different equation. So we become a very attractive customer for our suppliers because of both the size and importantly, the momentum of our business.

Operator

All right. Your next question comes from the line of Nik Modi with RBC Capital Markets.

Q - Nik Modi {BIO 7351672 <GO>}

Yeah. Thank you. Good morning, everyone. So just a quick follow-up on the materials question, then I have a broader question. Which materials are you having the most issues with in terms of sourcing? Perhaps just a follow-up and then the broader question is -- again, Jon, congrats for being appointed to CEO of Procter & Gamble and I wanted to follow up on the comments you made regarding continuing to invest and that is a priority, but what if the cost situation gets worse, what if competitors don't act rationally on pricing, it looks like they will, but what if they don't, like -- as a CEO of Procter & Gamble, what trade-offs are you willing to make. Is there a threshold where you say, hey, look, we have to cut back on investments, because[ph] we have to protect margins, we can re-invest down the road.

Any clarity around that would be -- would be very helpful?

A - Andre Schulten {BIO 22079652 <GO>}

Okay, thanks, Nick. On the materials question, look, I think the -- both the run-up in cost is very broad-based across all material classes and that's the indication of the demand to supply situation. So it's really different week by week. I wouldn't point to any specific material that is structurally more exposed than another. It really is across the input basket and again the dynamics I was describing within our supply chain, is how we're dealing with it and it changes really period by period.

On the overall cost trade off versus strategy, I will start, and then I'm sure Jon has a lot to add here. I would say that sticking to our strategy is core and the commitment is relentless. We have, over many periods, tried to do it in a different way and that is not a good outcome. So, our ability to continue to invest in superiority, drive innovation, grow markets and thereby build our share and improve our retailers business is core to the business model of balanced growth.

Balanced growth across the top line with moderate margin expansion to drive the bottom line and cash productivity is the only way forward for the industry and is the way forward for P&G. We will continue to be on this path even if in the short-term and mid term, that means margin pressure will continue to rise. We will do everything possible within our P&L, within the balance sheet to optimize for productivity and we continue to have significant opportunities and productivity that do not impact our ability to run the business model.

When you think about our marketing spend, we estimate there is still significant opportunity to optimize in the ability to reach consumers more broadly and more effectively at significantly lower cost as our digital reach increases. We have significant opportunity still in our supply chain to optimize, leverage the digitization we've been investing in our supply chain over the past years, better synchronized demand from suppliers all the way to retail partners and there is certainly still opportunities within our overhead structure, where we can optimize work processes, leverage innovation, leverage automation to focus employees on higher order tasks. So, Jon, I'm sure you have a point of view here.

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

I might. Just a couple of pieces of perspective. First, this is a time to step forward, not back. Second, Andre, in his prepared remarks, articulated again the three priorities and the integrated set of strategies. Nowhere in there, at least to my ears, is pulling back on investment. The third and last piece of perspective I'd offer, the productivity muscle that we've built and Andre was just describing the opportunities that remain there which are significant, will or should build margin over time. If we look at the last 12 years, our operating margin in all-in basis has increased 300 -- 320 basis points from 20.4% to 23.6% last year. On a constant currency basis, that's an increase of a 1,020 basis points. So the game here is stay on course, continue to drive productivity to fuel investment in superiority and daily use categories, where performance drives brand choice. We do all of that over time. As Andre said, that is the recipe for balanced growth, growing the top line and the bottom line. We're in an environment where there will be volatility across quarters, that's not our concern. We're concerned about the execution of the holistic strategy and the value that it creates over time.

Operator

Okay. And your next question comes from the line of Wendy Nicholson with Citi.

Q - Wendy Nicholson {BIO 2081269 <GO>}

Hi, just following up on that, Jon, I know the enterprise markets have been an area of focus for you over the last couple of years and my understanding is that as some of those enterprise markets go from either operating at a loss or breakeven to becoming more profitable, that could serve as an incremental margin driver, it doesn't all have to be productivity. It can be mix some of those lower margin regions become more profitable. Can you give us an update on those enterprise markets, have some swung to be -- whatever, hold back from a margin perspective and what's the outlook there?

And then Andre you talked so fast at the beginning, I didn't get the number for the growth in the enterprise market, if you could give us that, again that would be great? Thank you.

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

If I reflect just back on last fiscal year, Enterprise markets grew top line at 5%, built share, grew bottom line ahead of the rest of the company at 11%. We executed -- sorry, we exited the year with only one of those 80 plus markets losing money, and that was Argentina where we have a plan to address that over time this fiscal year. So we're in a very good position in enterprise markets. As we look at the quarter we just completed, focus markets grew 4%, enterprise markets grew 5%. Having said all of that, a part of a responsible answer has to address the volatility that exists in these markets from a geopolitical standpoint and unfortunately, from a health and COVID standpoint. So it's not a straight line, in all likelihood, from here to there, but we're much, much better positioned and I give all the credit to the teams on the ground in these markets we are operating in -- in very difficult, but as you rightly indicated, promising environments.

Thanks for the feedback on the speed, Wendy, I will adjust.

Operator

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

Q - Jason English {BIO 16418106 <GO>}

Hey, good morning folks. Thanks for slotting me in. And congrats on a decent start to the year. A couple of quick questions, first can you expand more on what's happening in China, particularly on the beauty business? So I think there are some references in the press release around mix and some slowing growth in skincare, I suspect is tethered to China.

And secondly, more high level, it will be interesting how the earning season plays out, but I'm guessing when we look back in the rear-view mirror, you'll have recorded one of the weakest price lines in the Group, and perhaps be the only one to not show sequential acceleration. And I guess my question is why are we not seeing more, is this a competitive strategy and if so, how much of your market share momentum would you attribute to your, what seems to be an approach to dragging your feet on price and should we be concerned that once you catch up, that some of those market share momentum could stall?

A - Andre Schulten {BIO 22079652 <GO>}

Okay. There is a lot in there, so let me start with China. We continue to believe that China is a very attractive and important growth market for us. As we said, quarter one was flat in terms of organic sales growth. But on a two-year stack basis, we are up 12%, which is ahead of the market. We would have expected some quarter-to-quarter volatility due to base period dynamics and also some continued effects of COVID shutdowns on a regional level.

Overall, we feel well positioned with our portfolio within China and expect the market to return to mid-single digit growth going forward. Again, we take some comfort in the retail sales coming up to about 4% again in the past quarter. On beauty specifically, we've seen our strongest results in hair care in fiscal '21 - '22 in China with strong top line growth and strong bottom line growth. SK-II sales were flat in China for the quarter, but again on a 13% increase last fiscal year, we see travel retail coming up in SK-II. So that's also needs to be considered as we think about the total market of SK-II consumption. So, certainly a slowdown in the market in the first quarter specifically, as you point out on skincare and in the beauty sector overall, we feel still confident in our ability to win in the market and in the market's ability to sustain that single-digit market growth.

Q - Jason English {BIO 16418106 <GO>}

Thank you. On the price side of dynamics?

A - Andre Schulten {BIO 22079652 <GO>}

Yeah, sorry. So, on the pricing side, the reason why we're not seeing the pricing come through at this point in time is a couple of dynamics. Number one, most of the pricing went into effect in September. So you only have less than a month really of pricing in the first quarter. We're also annualizing the base period, where we had lower promotion in the market as you recall. We are now seeing a normalization of promotion levels back to around 30% volume sold on deal.

So that's certainly offsetting some of the pricing that you otherwise would see flow through. I -- we certainly expect pricing to become a bigger part of the top line and the bottom line construct going forward as the pricing again materializes in the markets and as we said before, we are not lagging pricing, we are driving pricing by category, ideally in line with innovation to ensure that we have the best possible value equation for consumers. We're executing SKU by SKU, market by market in what is right for that market in that particular scenario and that's driving the pricing and we expect pricing to be a net positive to the top line into the share position.

Operator

And next question comes from the line of Robert Ottenstein with Evercore.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much. Based on some of the analysis that we've done, it looks like e-commerce in the U.S. continues to be very strong against pretty tough comps and that you guys are well into double-digits. Can you, number one, confirm that? Maybe give us a sense of what percentage of your business is e-commerce now in the U.S. and globally? And then going into it a little bit more, how do you see e-commerce driving your overall categories now, is it driving premiumization, are you continuing to gain or hold share in e-commerce? Just kind of any thoughts and whether you're surprised that e-commerce has been so strong against such difficult comps? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah. So e-commerce growth, at a global level, continues to be very strong. We're up 60% in our e-com business at a global level, that's a 66% two-year stack. Our e-com business represents, at this point in time, about 14% of our total sales. And that's really across all e-com channels. So it's not just pure plays, it's specifically in the U.S. is obviously a pure play, but many of our omni partners, so when you think about target.com, walmart.com et cetera, where you have fulfillment from store, pickup at store play a significant role in that growth trajectory. The business in the U.S. specifically we see about 11% growth in our e-com business. So again, continued strong momentum across all of these formats. We are well positioned in e-com for multiple reasons.

As we explained before, we believe that a focus on strong brands, as driven by COVID, is benefiting us specifically also in an e-com environment, where we show up in search on the first page and we are generally able to explain our benefit, our superiority, we are more detailed e-content than we would be at a shelf for example. We have strong relationships with our partners as it comes to developing propositions and ensuring that our positions are fit for use in either e-com channel or omnichannels. And when you think about an omni environment, being the leading brand generally results in more shelf space, more inventory on the shelf. So as consumers order, we can make sure that we are in stock that as we're being picked up, we have product on shelf and therefore can be found and can be fulfilled in store.

So generally e-com, we believe plays to our strength and we can support our e-com business with strong marketing and brand building to sustain that level of growth.

Operator

Next question will come from the line of Andrea Teixeira with J.P. Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, good morning. I have a follow-up on Andre's comments on the anniversary of the promotional normalization. If I understood it correctly, you had 60 basis points headwind in gross margin in, what you call, product and packaging investment and also a 90 basis points investment in marketing on the SG&A line. So correct me if I am wrong, I think you were saying you continue to invest to keep your superiority, of course, you are going to lean in and it's the time to lean in but perhaps, how should we be thinking on your ability to flex once pricing is implemented and I'm assuming most of your competitors will follow or actually had led before even, so how we should be thinking on A&P investments going forward? Thank you.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah, I mean, as you've seen in this quarter, we continue to invest in line with our all-in growth. So our marketing spend, our ad spend is up $130 million and that's what you should expect going forward. So as long as we can create good return of investment with our incremental spend, we will continue to do so. At the same time, as I mentioned before, there is still significant opportunity to increase the efficiency of our marketing spend. So, as we increased digital reach, as we are getting better at targeting, we can both increased reach and quality of reach and therefore offset some of that incremental investment by pure efficiency within the -- within the marketing spend. In terms of promotional dynamics, as I mentioned, we are -- the market is coming back up to more normal levels, pre-COVID period promotion volumes were running at about 33%. Currently, we're back up about 30%. So we expect it to remain around that level.

Operator

Our next question comes from the line of Mark Astrachan with Stifel.

Q - Mark Astrachan {BIO 15313233 <GO>}

Thanks and good morning everyone. I wanted to ask one follow-up and one other question. So just on China. I thought you had mentioned in your prepared remarks that you had seen some of the weakness, intra-quarter, I guess, implying that it's gotten better. So perhaps you could just talk about that dynamic as you exited the quarter there in terms of just your total business SK-II, however you want to think about it?

And then on the marketing investment, it's interesting that you continue to have efficiencies there to offset increased investment, I guess the question is how sustainable is that? And then are we to think that you take the efficiencies and invest it all kind of back in marketing, so that you remain fully funded or even increase off of current levels?

A - Andre Schulten {BIO 22079652 <GO>}

Yeah, on the first part of the question on China Beauty, we certainly saw some decrease in market size in the earlier part of the quarter, sequentially we see that recovering. We also expect, as I mentioned before, a return to mid-single digit growth across categories. So, really not much more to add there. From a marketing efficiency standpoint, I think you'll see a combination of both. We, as I've said, I think we'll continue to drive efficiency as we bring more media spend into our optimized targeting pool, as we increase the percentage of digital media around the world as we continue to optimize our own algorithms to target messaging to consumers, there continues to be significant opportunity. And you see a combination of reinvestment in marketing programs and flowing those productivity effect into the P&L to offset some of the cost pressures and it will vary quarter by quarter depending on the situation.

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

It might seem, kind of, an odd dynamic. But the more efficient and effective, we can make our marketing spend be and, as Andre indicated just now, there's lots of opportunity to continue to do that, the more attractive it comes -- becomes to make those investments. So maybe what -- in somewhat of an odd way, efficiency breeds effectiveness, effectiveness breeds spending and that all drives the market and the business.

Operator

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

Q - Kaumil Gajrawala {BIO 20703548 <GO>}

Good morning. I'd like to talk maybe a little bit more about the consumer condition. Obviously, the market seems -- obviously your business has a lot of momentum but it feels like the consumers are in a notably strong position at the moment. So, I'm curious if you agree with that. If you do what precisely maybe that you're seeing is behind some of the strong demand and then if I could layer on top of that question, we're just observing your numbers coming in better than expected, pricing is still yet to become a larger contributor, your comps are getting easier. Some of the conversations we've had this morning was -- is around why not bring up your organic revenue guidance for the year? So if you just add some color on that, it would be helpful?

A - Andre Schulten {BIO 22079652 <GO>}

Yeah, okay. So I think the strength of consumption in our categories is really driven by the choice of categories that we operate in. We've chosen to be not in discretionary but in daily use essential categories for the consumer; again health, hygiene, focused and a clean home.

The consumer continues to elevate the importance of these jobs coming out of COVID as we've seen in COVID and I think that continues to drive the importance of these categories and our ability to win in these categories because consumers return or turn to trusted brands because they know that they can deliver on the promise and the job to be done. We see that in our share results and, as Jon mentioned, we see it in the reverse share results of private label for example declining both in the U.S. and Europe over time.

We also benefit and the consumer spending shows it from more time at home, which we will believe is an ongoing phenomena, more time at home means more meals at home, more dishwashing at home, more laundry at home and again those elements benefit our brands and our -- our categories in terms of growth. We will continue to focus on superiority as we said before, to ensure that we have the strongest solutions for our consumers at any price point, at any price ladder, but really we benefit I think from overall more time at home and an elevated focus on our categories.

On the -- on the organic price mix and guidance, you're right. And we are expecting pricing to become a bigger part of the top line construct as we said throughout the year. We are one quarter in, there is a lot of volatility in the market and so we believe that it's prudent to maintain the guidance range of 2% to 4% on the top line. But as we said in our prepared remarks, quarter one results give us confidence to the upper half of that guidance range.

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

I would just make one additional comment which relates to the consumer and their behavior in these categories. Again, daily use, where performance drives brand choice often providing health hygiene or clean home benefit. And let me just give you an example of what's possible. One of our more recent innovations in oral care for example, the iO power brush, premium-priced product. We have -- since introduction of that about a year ago, we've built over 2 points of share, which has come by driving the market. The market is up 14% over that period of time. We've driven over 50% of that. So what you see is a consumer who is responsive to performance-based innovation. We can utilize that responsiveness to grow markets in a constructive way, which, as Andre has mentioned many times, is beneficial to our retail partners and is constructive from a market dynamic standpoint.

So, there are many categories where through performance-based innovation, we can provide more delight through regimen solutions, we can provide more delight to consumer generally is responsive to performance in these categories and consumption is expandable.

Operator

All right. Your next question will come from the line of Chris Carey with Wells Fargo Securities.

Q - Chris Carey {BIO 21810941 <GO>}

Hi, good morning. Thanks so much. Just to confirm an answer to the prior question in a category specific question. Just around the organic sales guidance for the year, you made some statements around material supply, supply chain constraints. How much of that is factored into how you're thinking about the full-year organic sales outlook?

And then just from a category perspective, Fabric Care has been a good story, volumes were particularly strong again on difficult comp. Just in general, what do you think is driving the share gains that you've seen in the category, we've heard about some material constraints for some of your competitors. Do you think that's a factor or just more about innovation, just in general, some perspective on what you think is driving this particularly strong delivery on the Fabric Care side of the business? Thanks.

A - Andre Schulten {BIO 22079652 <GO>}

Yeah. Thank you. So on organic sales guidance, as we said, I think the -- the supply chain pressures that we see today and our ability to deal with those pressures as we have been over the past 18 to 24 months is anticipated to continue in the organic sales guidance that we've given and any unforeseen major disruptions obviously, we will have to reassess and see where we are. But we feel good about our ability to deal with the ongoing supply chain pressures and that's reflected in the organic sales guidance. Look, I think the story behind Fabric Care is really bringing to life the strategy. This is a category where performance drives brand choice where daily use is essential to the consumer and performance is very visible and the category has done a phenomenal job in driving superiority with new forms or by creating new jobs to be done that are relevant for the consumer.

If you think about single unit dose for example, very superior proposition, very insight -- very intuitive to the consumer in terms of use, a premiumization of the category in trading up dollars per wash with superior cleaning properties and penetration outside of the U.S. still is a significant growth opportunity. In Germany and Canada, we only had 20% household penetration on single unit dose and in Japan we're only at 11%.

So there continues to be significant runway with a truly superior product form. We also, in Fabric Care, have done -- the team has done a phenomenal job in looking into fast growing new segments. When you think about fabric enhancers, 14% growth in the quarter, beads, for example, right now is a $1 billion brand and continues to grow significantly, household penetration in the U.S. on beads only 20%, low penetration only about 30%. So there continues to be significant runway with superior innovation and superior products. So we continue to drive that and that's what you see in the results.

Operator

All right. And your final question comes from the line of Peter Grom with UBS.

Q - Peter Grom {BIO 16488235 <GO>}

Hey, good morning everyone. So I would love to just get your view on kind of what you're seeing in emerging markets around the world, particularly in Latin America? And have you seen any changes in terms of category growth or the health of the broader consumer in that region? And I know you previous -- previously discussed a prolonged recovery in a number of these markets. Is that still the right thinking as we look out to the balance of the year? Thanks.

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

Latin America, I'll speak to that just because it's the business side I'm supporting over the last period of time here, overall continues to deliver very solid growth and that's broad based. In the last quarter, Mexico up I think about 8%, Argentina -- sorry, Brazil up double digits. And now, Latin America comes with its inherent challenges and one of those currently is a -- is the health challenge that exists in many markets what you, I'm sure, are familiar with. But generally the consumption is strong and our business is very strong in Latin America.

I think that concludes the call. Again, thank you for joining us and again if you have any questions, John Chevalier or I available all day. So if you want to give us a call, please feel free to. And thanks again for joining us for our quarter one call. Have a great day.

Operator

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