Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Ali Dibadj, Analyst
- Andrea Teixeira, Analyst
- Bonnie Herzog, Analyst
- Caroline Levy, Analyst
- Dara Mohsenian, Beverages and Household Products Analyst
- Jason English, Analyst
- Jon Andersen, Analyst
- Kevin Grundy, Analyst
- Lauren Lieberman, Analyst
- Mark Astrachan, Analyst
- Nik Modi, Analyst
- Olivia Tong, Analyst
- Robert Ottenstein, Analyst
- Steve Powers, Analyst
- Steve Strycula, Analyst
- Unidentified Participant
- Wendy Nicholson, Analyst

Presentation

Operator

Good morning and welcome to Procter & Gamble's Quarter End Conference Call. P&G would like to remind you that today's discussion will include a number of forward-looking statements. If you will refer to P&G's most recent 10-K, 10-Q, and 8-K reports; you will see a discussion of factors that could cause the Company's actual results to differ materially from these projections. Also as required by Regulation G, Procter & Gamble needs to make you aware that during the discussion, the Company will make a number of references to non-GAAP and other financial measures. Procter & Gamble believes these measures provide investors with useful perspective on underlying business trends and has posted on its Investor Relations website www.pginvestor.com a full reconciliation of non-GAAP financial measures.

Now I will turn the call over to P&G's Vice Chairman, Chief Operating Officer, and Chief Financial Officer; Jon Moeller.

Jon Moeller {BIO 16200095 <GO>}

Good morning. I know you're very busy this morning so I'm going to make this very brief about 10 minutes and then turn straight to your questions. Another strong quarter; topline, bottom line and cash driven by our portfolio superiority, productivity, constructive disruption, and organization strategies. Organic sales up 7%; 4 points of volume growth, 3 points of price mix. Two-year stack growth strengthening to an average of 5.5%. Over the last five quarters, two-year average growth has accelerated 2.5%, 3%, 3%, 4%, now 5.5%. Growth continues to be broad based. Each global category grew organic sales. Personal Care, up mid-teens; Personal Health Care grew double-digits; Fabric Care, Home Care, Feminine Care, Family Care, and Oral Care, each grew high singles; Hair Care grew mid-singles. Each geographic region grew organic sales 4% or more. Focus markets and enterprise markets each up high singles. Our two largest markets, the US up 6%, China up 13%.

Japan, another large market, was up double digits due in part to the timing benefit of VAT changes that went into effect on October 1st. eCommerce sales grew over 30%. All channel consumption remained ahead of underlying markets, driving aggregate market share growth. Moving to the bottom line, core earnings per share was $1.37, up 22% versus the prior year. Foreign exchange was a $50 million after-tax headwind, about $0.02 per share. On a constant currency basis, core earnings per share was up 24%. Very strong underlying earnings progress. Core gross margin up 190 basis points. Core operating margin up 260 basis points. Continued strong cash flow with adjusted free cash flow productivity of 91%. $1.9 billion of dividends paid, $3 billion of P&G stock repurchased. In summary, a very strong quarter; solid volume, sales, and market share trends across categories and geographies; strong operating earnings, margins advancing, strong core earnings per share growth, and continued high levels of cash return to shareowners.

We continue to face challenges from a very volatile macro and geopolitical landscape and from competitive response to our faster growth, but we're making progress behind integrated and mutually reinforcing strategies. We focused and strengthened our portfolio in daily use categories where performance drives brand choice, in categories where we occupy a Number 1 or Number 2 position which have historically grown faster than the balance of the Company and are more profitable. If you're in categories where performance drives brand choice, you better perform. We made a deliberate choice to invest in the superiority of our products and packages, retail execution, marketing, and value in all price tiers where we compete, strengthening the short and long-term health and competitiveness of our brands. We're extending our margin of advantage and increasing the quality of execution.

Additional investment will be needed to sustain this progress. The need for this investment, the need to offset macro cost headwinds, and the need to drive balanced top and bottom line growth including margin expansion, underscore the continued importance of productivity. Cost out, cash in. Driving cost savings and efficiency improvements in all facets of our business in our second five-year $10 billion productivity program. Expecting strong free cash flow productivity from working capital and CapEx efficiency. Superiority and productivity are critical, but insufficient to keep us ahead in a world with a rapidly changing retail environment, quickly evolving consumer needs, media transformation, revolutionary changes in technology. We must and are leading the constructive disruption of our industry across all areas of the value chain. We're disrupting the way we innovate by accelerating the speed and quality of our learning through lean innovation.

We're monetizing innovation across industries to accelerate investment in R&D and broaden societal impact. We're disrupting in retail execution. We're reinventing brand building from wasteful mass marketing to mass one-to-one brand building fueled by data and technology. We continue to disrupt our supply chain with transformation across the globe. Finally, we're making organization structure and culture changes to better position us to win. We're taking steps to simplify the organization; focusing effort, clarifying responsibility, increasing accountability, and structuring compensation and incentive programs to better align with these objectives. On July 1st, we officially moved to a new organization structure designed to de-matrix the Company and provide even greater clarity on responsibilities and reporting lines to focus and strengthen leadership accountability.

We're operating in six industry based sector business units or SBUs. The SBUs have profit and loss responsibility for the largest markets, what we call the focus markets, which represent about 80% of sales and 90% of the Company's profit. The SBU CEOs are focused on winning and driving value creation opportunities in these important markets. We continue to invest in enterprise markets, which have very attractive market growth rates. Our organizational structure there is being optimized to accelerate growth top and bottom line in the dynamic macro environments that those markets present. The benefit of this design is the creation of a more focused, agile, accountable organization. Operating at a lower cost, focused on winning through superiority, fueled by productivity, moving at the speed of the market. I hope it continues to be evident that we've been successfully disrupting P&G.

The choices we've made to focus and strengthen our portfolio and daily use categories where performance drives brand choice, to establish and extend superiority of our brands, to make productivity as integral to our culture as innovation, to lead constructive disruption across the value chain, and to improve organization focus, agility, and accountability are not independent strategies. They reinforce and build on each other. They position us well within our industry to deal with near-term macro and competitive challenges. They are the foundation for stronger balanced growth and value creation over the short, mid, and long term. Moving now to guidance. We're raising our outlook on each key metric; organic sales growth, core earnings per share growth, and free cash flow productivity. We're increasing our outlook for organic sales growth from a range of 3% to 4% to a range of 3% to 5%.

The markets in which we compete are growing at a 3% to 3.5% pace so the midpoint of the higher organic sales range implies continued market share growth. On the bottom line, we're raising our core earnings per share growth guidance from a range of 4% to 9% to a range of 5% to 10%. This reflects very strong first quarter results and our expectation of solid margin expansion for the year. We're raising our outlook for free cash flow productivity from 90% to 95% for the fiscal year. The year will continue a long track record of significant cash generation and cash return to shareowners. We expect to pay over $7.5 billion in dividends and repurchase $6 to $8 billion of P&G shares in fiscal 2020. While our first quarter results enable us to raise fiscal year targets, please keep in mind that the comps get more difficult as we move through the year both on the topline and the bottom line.

Quarter year ago topline; 4%, 4%, 5%, 7% as we progressed through last fiscal year; bottom line, 3%, 5%, 6%, 17%. Japan VAT related timing impacts benefited Q1 Company sales results by 30 basis points to 40 basis points, but will cause a headwind in Q2. Pricing annualizes as we move through the year affecting both top and bottom line trends. We'll comp the earnings gains from the Boston land sale and the Oral Care brand divestitures in Q4. Competitors will likely respond to our outperformance, which underscores the need for continued investment and superiority. Brexit uncertainty and volatility in foreign exchange, Argentina and Turkey for example will be impacting balance of year results. Our revised guidance is based on current market growth rates, commodity prices, and foreign exchange rates. Significant currency weakness, commodity cost increases, or additional geopolitical disruptions are not anticipated within the new and improved guidance ranges.

With that, I'm happy to take your questions.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions). Your first question comes from the line of Lauren Lieberman with Barclays.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Great. Thanks, good morning. I wanted to ask a little bit about the build for profitability and in particular, you will know an area I have been really focused on is operating leverage, as you're showing this really as you put it -- new and improved top line growth performance. So, this quarter much of the upside was driven by, in fact positive operating leverage, and yet productivity despite you calling out the importance of it ongoing in your script, was quite low relative to historical quarterly performance. So can you just talk a little bit I guess about the outlook for productivity this year and how we should think about operating leverage because it accelerated sequentially even with a comparable revenue performance sequentially. So just how to work through the math on operating leverage on the stronger topline? Thanks.

A - Jon Moeller {BIO 16200095 <GO>}

A stronger topline definitely provides greater operating leverage as you rightly point out, we had about 50 basis points of leverage within the gross margin improvement of 190 basis points. We had an additional 180 basis points of sales leverage between gross and operating, so 230 basis points overall against a margin improvement on an operating level of 260 basis points. And I think that's generally if we grow, the rule of thumb is if we grow 4%, we should have 50 to 75 basis points of leverage that increases pretty significantly as we move up the curve beyond 4% and you saw that in the quarter we just completed.

Productivity continues to be a significant focus area, some of our savings are back-loaded as we go through this year, but again, there will be comping significantly higher earnings numbers in the base periods. There are still very large opportunities in front of us, efficiencies in media, efficiencies in the organization design, significant savings as we bring on fully the product supply transformation and the big opportunities top and bottom line from an increase in digitization of our efforts, all around.

Operator

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

Q - Jason English {BIO 16418106 <GO>}

Hey, good morning folks, and congratulations on a strong start to the year. Lots of questions still on the table. Let me start with growth, I guess my one question I'll throw out there in terms of market growth. John, you mentioned in your script that you expect price contribution to wane, as the year progresses and you comp last year's price gains, which I think is intuitively understandable for all of us, but you're pegging your full-year guidance to a market growth rate of 3% to 3.5%, which presumably that market growth is going to experience the same phenomenon of waning price growth. So my question is, is it reasonable to assume that market growth also slows with price moderation or are you seeing and do you expect to see a pick up in terms of volume mix contribution, both for your firm in aggregate, like we saw this quarter, and the market overall?

A - Jon Moeller {BIO 16200095 <GO>}

Thanks, Jason. We do expect and we've seen in the underlying market growth rates, there has been a price component as you rightly point out. That should annualize itself, as you rightly point out. But there has also been an increase in the volume component of market growth. So we're seeing an increase on the margin on market growth in units, and that should continue as we progress forward. In terms of our own topline algorithm price was 1 point in the 7 in the quarter. So if you assume that completely annualizes, that's a point impact.

Operator

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

Q - Steve Powers {BIO 20734688 <GO>}

Yes. Hey, thanks, good morning, Jon. I was hoping you could take a step back and talk a little bit more broadly about what you're seeing with regard to consumer demand and competition in three markets, if I could, China, Russia and Brazil. Is there anything you're seeing now that concerns you in terms of competitive activity or waning demand in any of your key categories in those markets? Thanks.

A - Jon Moeller {BIO 16200095 <GO>}

That was, Russia, Brazil, China. Generally, Steve across the board, we're seeing continued consumer strength and generally across the board, we're seeing the levels of healthy competition that you would generally expect. If I take the markets in question, China, we were up 13% in the quarter. Market growth rates continue to be strong. It's a very competitive environment, always has been, likely will be for the foreseeable future just given the opportunity and the size of prize. And that's both local competition and multinational competition, but we haven't seen any significant uptick in the level of competition.

It's always on, always strong in a market like China. The consumer in China continues to respond to premium innovation that performs in categories where performance drives brand choice, and we see that time and time again on both sides of the ledger. In terms of the other markets that you mentioned, consumer demand and Brazil continues to be strong and respond to strong innovation, but I would describe it as more volatile and more fickle than, for example, China. Our growth rates in Brazil, vary pretty dramatically by quarter, but generally continue to be strong. In the quarter we just completed, we grew 2% in Brazil, but prior to that, we were growing at significantly higher rates. I don't view that 2% as a slowdown in consumer as much as I do just the inherent variability and volatility of that business.

And Russia, continues to perform as well. We grew the business 5% in the quarter in Russia from a competitive standpoint. Again, those markets are very strong. As relates to competition, nothing specific to note.

Operator

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

Q - Ali Dibadj {BIO 15328592 <GO>}

Hey, guys. So I just had a couple of questions if I could, one is just, I see the broader question here, just on the sustainability of such strong results. And I guess you're guiding to obviously a little bit of a slowdown, lapping tough numbers, et cetera, but I was hoping you could give some more color, a little bit about two pieces in particular, and you touched on in a moment ago. But just more around pricing, particularly pricing as commodities perhaps are rolling over here, and you have less of a cost-justified reason to take the pricing up. And secondly in terms of the volumes you mentioned some of the growth in the category from a units perspective, but your unit growth is outsized, and I just wonder how much of that is from what we're actually seeing on-shelf, which is more shelf space growth. So how just kind of same-store sales versus the same square foot sales versus growth from a shelf space perspective. That's the sustainability question.

And a sub-question to that is, you obviously, like everybody else had some really good categories more than were really good right now, really good businesses and some that aren't doing so well. I see Grooming you could argue some pieces, Baby Care, et cetera. I'm trying to figure out whether you're seeing different retailer reactions or interactions with you, given your haves and have-nots types of categories, understanding that you have fewer categories, than perhaps most that aren't firing on all cylinders, or are you seeing the retailers pull different levers when things aren't growing the way they would like it to be? Thanks very much.

A - Jon Moeller {BIO 16200095 <GO>}

First, as relates to the sustainability of the results. Comp issues aside, and the comp issues are dynamic and is obviously real and prevalent and increasingly prevalent as we progress through the fiscal year. We've really tried to ensure two things are an inherent part of how we think about the business and operate the business, and both lend themselves to sustainability of results over the long term.

The first is balance across the top- and bottom-line. I think you saw in the quarter that we just reported, it's a very balanced quarter in terms of strong growth on both, and to the extent that we can continue to deliver both which we're committed to do, the overall value creation results becomes much more sustainable. We've witnessed periods of time in our company, and certainly within the industry and adjacent industries, where the focus is disproportionately shifted for example to the bottom-line. That is not a sustainable strategy in our view, and we've seen instances, certainly in our own experience where focus has shifted disproportionately to the topline. That's also is not a sustainable strategy in our view.

So the balancing of the top- and bottom-line does lead to an expectation of more sustainable value creation delivery. The second piece is probably even more important, and that is how we're thinking about sources of growth. We're really try and as part of our superiority strategy to source growth through creation of business in the marketplace by driving market growth, that is a much more sustainable and generally more profitable way to drive our business. We're creating business, not taking business from others and when you are the driver of market growth, you will mathematically build share. So those two concepts are not incongruent, they're in complete congruence.

The question is how do you most sustainably and profitably build share? We are now contributing to market growth at weights above our market shares, which is exactly where we want to be. That's important to the dynamics that I just described. It's also much more meaningful and relevant to our retail partners. They frankly could care less about P&G market share gains, what they care about is the overall market basket and the margins that they earn on that basket. So both of those focuses from a business model standpoint should conceptually increase the sustainability of our results.

We'll have to demonstrate that in the marketplace, but certainly over the last five quarters, if you look at the topline, 4%, 4%, 5%, 7%, 7%, it doesn't guarantee anything in the future, but it's been sustainable progress at least for a period of time. Relative to pricing, I want to be careful on commenting on future pricing activities, what I would say is that to date, we feel good about the pricing that we've taken, both as relates to commodities and as relates to foreign exchange and some of the developing markets, but that's something we look at on a category-country basis every morning when we wake up, and we'll adjust as we need to.

Relative to the source of volume growth, I mentioned a significant portion of our growth is coming through creation of new business. There is as well, and you're right to point out, increase in distribution, as you would expect, given the demonstrated ability to grow markets for our retail partners.

Those two things are not separable and we've talked previously about the retail view of P&G which has improved significantly, earning top consumer products manufacturer at Walmart, really across the board and increasing. We saw the Advantage Monitor survey where we're number one in our industry across all metrics that are measured and number one by a significant margin. We need to keep improving that, that's not any guarantee for success tomorrow, but it is one of the reasons coupled with demonstrated ability to grow markets and many categories, that we are increasing the level of the distribution and I don't see that as a step function curve. I think it has room to continue to grow. Obviously to the extent that we demonstrate the same dynamic across more categories that's another driver of future growth.

Operator

All right. And your next question comes from the line of Dara Mohsenian with Morgan Stanley.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Good morning, guys. So just sticking to the subject of top line growth sustainability. I was hoping you could give us an update on what you saw in fiscal Q1 in terms of a competitive response, both on the pricing front, as well as in terms of marketing spend from your key competitors, given your market share gains and give us a sense of what you're assuming in guidance in the balance of the year from a competitive environment standpoint if the environment heats up as you cycle some of these price increases and theoretically competitors look to regain some share momentum?

A - Jon Moeller {BIO 16200095 <GO>}

Thanks Dara, you've certainly heard and not surprisingly, competition talking about reinvesting in their businesses. I think that's driven by two things, one is the turnover of a generation of leadership and many of our competitive set. And two, is the result situation that we've been talking about together here this morning. We have not seen anything destructive in a mass aggregate scale in the marketplace from a competitive standpoint, we operate in very competitive industries. So that doesn't change, but there hasn't been a step function increase for example in the level of volume that's being sold on promotion. There has been increased initiative activity, innovation-driven. That's generally constructive for market growth. So, we support that and we'll see.

I do expect generally competition to increase as we continue going through the fiscal year. And remember, the time that exists between when you state an intent and when you can actually execute in the market is not short, it's relatively long. Just given shelf set dynamics at retail, execution dynamics associated with for example innovation. So I wouldn't say that we've seen everything that we're going to see. We're in a better position to deal with that and we've been in a long time, given increasing percentage of our sales that are superior from a product packaged communication go-to-market standpoint, we still have work to do, which is why we're going to continue to invest and fund that through productivity, and that's our best defense.

Operator

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

Q - Mark Astrachan {BIO 15313233 <GO>}

Yes, thanks and good morning everybody. I guess I wanted to dig a bit deeper in some category specifics there. Curious your thoughts about what you're seeing in kind of real-time in Paper Goods and competitive dynamics in Laundry. It seems like you've had kind of the strongest volume growth on very strong comparisons there pricing maybe dipped a little bit sequentially, underlying. I'm just curious if that's a competitive response, if that's proactive? Is there something in the market that's kind of changed? Just any color there would be helpful on those categories? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

Laundry had a very strong quarter up 8%, driven by momentum really across the globe. We continue to advance the premium segments of both Laundry and Fabric Enhancers. Global value share was up about half a point. Our growth on those premium segments which include Single Unit Dose and Scent Beads, it was high teens. eCommerce sales up almost 50%. So really what we're seeing there is innovation-driven, superiority driven market growth, accretive growth which to the point of the earlier question, I expect would be sustainable at some level. And that's what I think about when I think about the laundry and fabric enhancers category, not a specific competitive dynamic.

We continue to grow the Paper businesses at very high levels in aggregate, and those segments because of their capital intensity, are a little bit more responsive from a competitive dynamic standpoint to a variety of factors, but again, I would characterize the landscape as innovation-driven, superiority driven market accretive growth -- think about let's take one of those businesses Feminine Care as an example. Feminine Care in the quarter, we grew 7% and that's composed of both strong growth on our base Feminine protection business. and high teens level growth on our Adult Incontinence business and we had an objective as we entered that that category to source our growth through increased market growth and we essentially double the rate of market growth for the Adult Incontinence category across the geographies where we've entered.

So again, that is the predominance or the character of the landscape in the growth drivers, as I see it.

Operator

And next we'll go to Wendy Nicholson with Citi.

Q - Wendy Nicholson {BIO 2081269 <GO>}

Hi, good morning. My question has to do with the US market in the US consumer and it's less about pricing than it is maybe the mix of your businesses and brands and if the US consumer is going to slow number one, do you think you see that coming early enough on to react and to make sure that the fact that so many of your brands are relatively premium price in our categories don't see the share. So I guess the question is on brands like laws or gain are you thinking about doing more innovation there more promotion there, more feature displays? Or is it a pack size issue in other words, if the economy slows how do you make sure the people don't feel pinched and trade down from some of your more premium price brands? Thanks.

A - Jon Moeller {BIO 16200095 <GO>}

In terms of predicting any kind of consumer acceleration or consumer slowdown. We aren't in that business. There are many things that can affect consumer confidence that are things we wouldn't even have the ability to anticipate today, certain geopolitical events, certain political developments within the country et cetera. So, your guess is as good as ours in terms of what market growth does going forward. We have seen no signs of weakness we've seen continued sequential improvement on the margin, but that can change pretty quickly as we've all witnessed during our lifetimes. We are better positioned today for several reasons to deal with a downturn than we were, for example, in 2007, 2008. Number one, we are largely out of highly discretionary categories. This was part and parcel of our thinking as we move to daily use categories, categories that consumers are much less likely to go without on a daily basis. Generally, we don't see consumers stopping Laundry or Shampooing or Conditioning or Feminine Protection. During a recession to your point, they may trade down, and I'll come to that in the second, but from a category standpoint and a portfolio composition standpoint, we're much better positioned than we were previously.

That's number one. Number two, is we've been talking about throughout this call we're much better positioned from and brand advantage standpoint, the products are performing at noticeable levels of superiority in terms of meeting very important consumer needs and desires. And that is a major contributor to the overall value equation that consumers use as they assess their brand choice. Unit two, portfolio matters. So we've moved not only into daily use categories, but in the categories where performance drives brand choice and we're continuing to invest to build that advantage, which is no guarantee but does increase the resilience of the portfolio to headwinds from a consumer standpoint. Third, we've worked to improve the pricing ladders, the availability of products at different price points, different pack sizes. That also is not a guarantee, but you put all of that together, again no guarantees, but we're in a, we're in a much better place. We will use tools like value messaging, like pack sizes, like performance messaging to ensure that if there is a downturn, we're best positioned for consumers who are in a pinch.

Operator

And next we'll go to Steve Strycula with UBS.

Q - Steve Strycula {BIO 18357963 <GO>}

Hi, good morning and congratulations on a good quarter. So have a question on the supply chain and Click and Collect and the rise of online, how that impacts your business. Specifically wanted to understand as we're seeing stores require more and more inventory, for the stuff going out the side of the door, how do we think about that impacting your categories? Are you reducing your SKU counts at all, how does that impact that we've to supply and stock throughout the supply chain because we've noticed over, let's call it the last few years most P&G companies have been reporting the national retailers are bringing down their weeks of supply, would you say that we're kind of like near bottom especially in a portfolio like Procter where you're seeing the sales productivity lift much higher. Should we expect you to operate a little bit differently than the peer set? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

We want to be SKU efficient, and have the right assortment at the shelf, both in terms of serving the consumer and in terms of the right turnover for our retail partners. Nothing has really changed in that context. Relative to the trade inventory situation, I think we mentioned on the last call a slight increase in inventories across the retail channel, not consistently but in aggregate, to support the things that you're describing as well as a commitment from a delivery standpoint to have product available for consumers on shorter and shorter notice, which requires higher inventories.

In the quarter that we just that we saw that dynamic in the fourth quarter of last year, those inventory levels have generally remained but we haven't seen any significant change.

Operator

Your next question comes from the line of Olivia Tong with Bank of America.

Q - Olivia Tong {BIO 7481692 <GO>}

Great, thanks. I just wanted to follow up on your comment your discussion about driving growth creating businesses new categories, and you've obviously shown your ability across your portfolio with that. So can you talk a little bit about what's changed in terms of R&D, your market research processes, your marketing process, the change in your reporting structure that's driven that change are there more people external partnerships. How does the reporting structure potentially change? How does that structure change help a that if you could just dive into that a little bit more, that'd be great? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

That's a big question, Olivia. I'll do my best. First every category needs to be working to create additional sources of market growth within the definitions of their existing category, and in adjacencies relative to their existing category. And that's going to be the predominant source of our growth and whether that's Fabric Enhancer Bead execution, whether that's a Laundry Single Unit Dose execution, both of which have significantly inflected market growth rates, just as two examples.

Some of the initiatives in our beauty business are doing the same efforts in Power Oral Care as a way to grow markets really across the world, so that is a continuation of what we've been trying to do and then we've added to that, what we call P&G Ventures, which is a innovation effort outside of existing categories and we've brought products to market like Zibo which is a natural insecticide we're working across five or six pretty exciting opportunities that have come out of P&G Ventures that reports to Mary Lynn Ferguson, so it doesn't report into each and every category, but she coordinates those efforts for us along with our, I would say, Venture Partners.

From a overall standpoint, whether it's internal innovation to drive superiority to drive market growth or Innovation and P&G Ventures. We're operating much more through the lens of lean innovation which simplistically, we could spend a day on that, but simplistically is designed to deliver faster, better learning more shots on goal to increase the chance of breaking through and really have some having something meaningful to bring to market.

Operator

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

Q - Kevin Grundy {BIO 16423871 <GO>}

Thanks, good morning and congratulations on the strong results. Jon, I wanted to come back to the US and maybe drill down a little bit on some of the channel dynamics. So obviously another really strong result, organic sales growth of 6% in the US, but probably like three times roughly the market growth rate, which I would estimate is probably closer to 2%. And looking at the scanner data that's probably about 300 basis points higher.

So it looks like that gap is widening and understanding obviously online is growing quite rapidly. I think it was up mid-20s I missed it this quarter. I apologize for that maybe you could provide us that number, but the questions would be number one, any timing benefit that will potentially reverse out in the upcoming quarter and then maybe spend a little bit of time on discussing some of the channel dynamics between tracked versus non-tracked, that would be helpful? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

Thanks, Kevin. The tracked number as you know it was effectively 3% in the US for the quarter, and as you cited the overall number was about 6% that delta is almost entirely due to faster growth rates and non-tracked channels. I mentioned global growth from a eCommerce standpoint at 30%. So customers like Amazon are growing at higher rates than some others, but also, for example, the Club channel is growing at rates that are above the rate of market growth. There are not significant one timer's within the quarter in the US but one significant one-time or that is in our aggregate results is the sell-in ahead of the VAT increase in Japan, which went into effect on October, now had about a 30 to 40 basis point impact on our numbers.

Operator

And next we'll go to Andrea Teixeira with JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, good morning. And just echoing the congrats. So was hoping Jon if you can comment a bit more on China where you grew 13% you accelerated from 12% in the last quarter, but you face tough comps ahead So do you think is the growth is still driven by SKUs analysis, or is it more broad based now into Hair and other categories. So are you worried about your comp is getting tougher, starting this quarter or related to that comment on pricing being deflationary so when do you think you can cycle that process and offset with more premium packaged goods? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

All of us are concerned about comps getting tougher, always working to run harder that's a part of the world that we live in, generally it is not just for example SK-II and Olay which are growing at fantastic rates in China, but our growth profile across the categories has broadened significantly. You mentioned Baby Care, we were up high single digits in Baby Care in the quarter, a very strong response to the innovation that we've brought to market. We're growing generally across the board the one exception, which has improved significantly is Hair Care and Hair Care, we had very modest growth, but that's an improvement versus where we've been in the last couple of quarters.

So everything is on the rise in China. I feel, we feel good about our prospects there for perspective, if you look at China ex-Olay and SK-II, we grew 9% in the quarter. So there is much more to the story than just those two businesses, though we're very happy with the story on those two businesses.

Operator

Alright. Your next question comes from the line of Bill Chappell with SunTrust.

Q - Unidentified Participant

This is actually Grant on for Bill. Thanks for taking the question. Just had a quick one on Latin America in particular in Mexico we've heard from some other companies that the consumer has slowed, maybe a little bit there? Was wondering if you were seeing the same thing, or any other changes in that market in particular? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

We had been seeing something similar but frankly consumption in the month of September was very strong and we ended up with top line growth rates at a very attractive level in Mexico for the last quarter at 10%.

Operator

Alright. Your next question comes from the line of Bonnie Herzog with Wells Fargo.

Q - Bonnie Herzog {BIO 1840179 <GO>}

All right, thank you. Good morning. And Jon, I wanted to circle back on your Beauty business and just really understand how sustainable the strong growth that you're seeing out of that business, how confident you are that this can continue, especially as the comps get tougher, maybe you could help us understand what it will be driven by. Is it better and stronger innovation if so, can you give us some examples maybe of what's been working and then give us a sense of the level of innovation in your pipeline this year versus last year. And then finally, maybe help us understand why some of your innovation seems to be better resonating with the consumer ultimately driving what I assume to be share gains? Thanks.

A - Jon Moeller {BIO 16200095 <GO>}

One thing, one thing that gives us confidence about continued success and Beauty or the sustainability of the results we've been delivering is the breadth of those results. And it, I think as I reflect on several of the conversations that we've had together there's a bit of a misunderstanding that it's all driven by SK-II, and that just isn't the case. So we grew Hair, our Hair Care business, mid-single digits in the last quarter, we grew that business at 6% in the US. All aspects of our Skin and Personal Care business are growing our Personal Care business which is deodorants and body washes and those kind of products grew at 10% in the quarter, obviously skincare and SK-II grew at even higher rates than that.

If I look just at SK-II is, one is the fastest growing parts of the portfolio, our new user attraction continues to be our focus and as long as we keep that door open, we should continue to grow and that's been happening but again, breadth of success across beauty.

Operator

Alright. Your next question comes from the line of Nik Modi with RBC.

Q - Nik Modi {BIO 7351672 <GO>}

Yeah, thanks, good morning everyone. Jon, I was hoping you can talk about the big dialog has been over the last few years big brands versus small brands and I was wondering if you could just kind of give us your perspective on the whole next day same-day delivery battle between Amazon and Walmart and other retailers kind of getting into the fray now and how that impacts big brands versus small brands in the sense of supply chain integrity and things like that. So maybe you could just give us some thoughts around that site and dynamic?

A - Jon Moeller {BIO 16200095 <GO>}

I'm not sure I know Nick exactly what the impact is going to be on those two subsets of businesses, small brands versus large brands directly as a result of what you just described. What I have felt for a long time what we have felt for a long time, and have been talking about for a long time is the relevance, the continued relevance of large brands as well as the relevance of small brands in certain instances across our ecosystem.

Our large brands historically have grown about four points faster than our small brands and then when you look at the absolute growth that comes from that it's significantly higher, but large every large brands started off as a small brand, and so we can't ignore that dynamic either. As you know we've been buying and building some smaller brands to serve some rapidly growing consumer segments, particularly in the natural space but not confined to that.

I generally think we generally think that the ecosystem as we move forward at minimum does not disadvantage big brands and I can make a pretty strong arguments for why it should advantage big brands when you think about eCommerce as the fastest growing channel in many will certainly in our two largest markets in the US and China and the dynamic of big brands versus small brands in that environment at disproportionately favors a big brands not at the exclusion of small brands by any means, but certainly doesn't disadvantage big brands and I are happy to talk for hours about that but I'll spare the group that diatribe right here.

But generally, we feel that both large brands and small brands will have relevance moving forward. There is nothing structurally or society, from a society standpoint that disadvantages big brands particularly, and this is important, when you focus your portfolio in categories where performance drives brand choice there are very few consumers that certain proud of a physical or virtual shelf and ask how large a brand is they're wondering how well it will do the job they're buying it to do, and will it meet their needs and solve their problems.

Operator

Next question comes from the line of Caroline Levy with Macquarie.

Q - Caroline Levy {BIO 1494597 <GO>}

Good morning and thank you very much. Jon, I wonder if you could dive in a little deeper into Grooming and talk about what you've found is working which regions, it's working in and how you think about the future. I mean it's and is there, the opportunity to return to growth in this business for you and what's the plan?

A - Jon Moeller {BIO 16200095 <GO>}

Definitely opportunities to return to growth, in fact we've been growing, albeit modestly. Each of the last two quarters, we grew on a global basis. There are a number of reasons to be positive going forward. One is the growth potential that exists in developing markets and the mix potential that exists in those markets as people move up potentially from double-edge or disposables into systems use.

Strong opportunity to further penetrate though, the double-edge and disposable businesses particularly and some of the developing markets where for example, a lot of the shaves are executed in the context of a barber. So significant opportunities for growth we're also seeing a very strong response to our newest innovation, which is designed to address one of the major barriers to shave, and that's skin irritation and for many men this is a significant issue this is not a minor issue. It literally prevents them from shaving more frequently, so Skin Guard is designed to address that need and increase as a result, the frequency of shave and the number of people who do shave. And we've doubled the rate of rate our growth with that entry and Europe, if you look at consumer ratings on that product in the US, they are very strong I think there are 4.5%, 4.6% and the retailer reaction in terms of space allocation has been very favorable. There are also significant opportunities to address the needs of men who choose not to shave and that's why we're also spending a lot of incremental effort to make sure that we're meeting his needs, and if we do that in a superior way for both shavers and non-shavers this category will grow and it with its extraordinarily profitable.

Operator

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

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much. Jon, earlier on, I think you mentioned that in aggregate, you had seen some pickup in demand I think maybe from roughly 3% to 3.5%. Could you perhaps be give us a little bit more detail in terms of which countries you see somewhat better demand than then over let's say the last 12 months and in which categories? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

The US is front and center and that's generally across categories, with Grooming being an exception.

Operator

Your next question comes from the line of Jon Andersen with William Blair.

Q - Jon Andersen {BIO 15033263 <GO>}

Hey, thanks. Just a quick one, personal Health Care was up double digits in the quarter. You did mention that there was some benefit from precepts by retailers, during the cough-cold season. How much of a benefit was that just kind of a comp issue relative to last year the planning for a stronger season this year and then if you could talk briefly about the integration of the Merck business? Thank you.

A - Jon Moeller {BIO 16200095 <GO>}

Acquisition of the integration of the Merck business is going very well. And a quick thank you to all those who are involved in that effort. We continue to grow that business at very attractive rates and continue to grow our heritage P&G versatile Health Care business at very attractive rates as you said, the total grew double-digits in the quarter. If anything, if my knowledge is correct it may not be, but if anything we saw a slower buying ahead of the season this year as compared to, for example, last year, but certainly not a significant impact either way.

Operator

And your final question comes from the line of Edward Lewis [ph] with Atlantic Equities.

Q - Unidentified Participant

Yes, thanks very much. I just wanted to drill down into Europe, because I guess your comments the at the start when you suggested all geographic regions are growing as occurring at 4% or more. I guess you're it's included with that and I guess, things they haven't been that great of that so I was just wondering, and it's a tougher operating environment you've got lots of regions to survey I would execute against, and you've rolled out the your focus on superiority and end-to-end SBU strategy a bit later, but it does seem as though the market share trends and the underlying growth rate seem to be improving over here as well?

A - Jon Moeller {BIO 16200095 <GO>}

Europe is definitely included in the characterization of all regions growing at 4% or more. Our big focus markets in Europe grew at 4% during the quarter, the more developing parts of Europe grew at 5% during the quarter really broad growth across countries within Europe, Germany for example up 6%. Russia, up 5%. The combination of France and the UK up 2% to 3%. So we're seeing certainly growth ahead of the market in Europe, we've built share our share position very nicely over the past 12, six, three and one month periods. So we're very happy with our performance there.

I want to thank everybody. I know this is a busy morning with a number of companies reporting, so thank you for your time. Jon, Katy and I are available the balance of the day to answer any questions that you have to the best of our ability. Thanks a lot.

Operator

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