Q4 2017 Earnings Call

Company Participants

- David S. Taylor, Chairman, CEO and President
- Jon R. Moeller, Vice Chairman & CFO

Other Participants

- Ali Dibadj, SVP and Senior Analyst
- Andrea Faria Teixeira, MD
- Bonnie Lee Herzog, MD and Senior Beverage and Tobacco Analyst
- Dara Warren Mohsenian, MD
- Faiza Alwy, Research Analyst
- Jason English, VP
- Kevin Michael Grundy, SVP and Equity Analyst
- Lauren Rae Lieberman, MD and Senior Research Analyst
- Olivia Tong, Director
- Stephen Robert R. Powers, Executive Director and Equity Research Analyst
- Sunil Harshad Modi, MD of Tobacco, Household Products and Beverages
- Wendy Caroline Nicholson, MD and Head of Global Consumer Staples Research
- William Bates Chappell, MD

Presentation

Operator

Good morning. 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 the underlying growth trends of the business and has posted on its Investor Relations website, www.pginvestor.com, a full reconciliation of non-GAAP and other financial measures.

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

Jon R. Moeller {BIO 16200095 <GO>}

Good morning. I'm joined this morning by our Chairman, President and Chief Executive Officer, David Taylor; and by our Vice President of Investor Relations, John Chevalier.

I'm going to quickly review our fiscal 2017 and Fourth Quarter results, David will discuss our plans and I'll close our remarks with guidance for fiscal 2018. We'll then open the call for your questions.

We met or exceeded each of our going-in fiscal 2017 objectives in what turned out to be a very challenging year. The currency demonetization and goods and services tax implementation; geopolitical uncertainty and economic weakness in Nigeria, Egypt and the Middle East, Argentina, Brazil, Russia and the Ukraine; and also Brexit: each challenged us. Foreign exchange and commodity costs were a combined $600 million after-tax headwind on earnings. And we took a direct hit from a tornado at our Albany, Georgia, Family Care plant.

Underlying market growth decelerated from 4% last fiscal year to about 3% in fiscal '17. Within this, U.S. market growth slowed from over 2% last year to just above 1% this year and barely above flat in the Fourth Quarter. U.K. market growth declined about 1 point in fiscal '16 and nearly 2 points in fiscal '17. Developing market growth slowed from over 6% last fiscal to about 5% this year. And as you know, we took some meaningful price reductions, including on Gillette in the U.S.

Not knowing that most of this would happen, at the start of fiscal 2017, we targeted about 2% organic sales growth, which is ultimately what we delivered. It's a meaningful achievement in the face of the headwinds I just described and it includes 0.5 points of headwind from brand and product form discontinuations that we've discussed throughout the year. Importantly, the growth was 100% volume driven.

We planned, as we went into the year, to reduce the gap between P&G top-line growth and that of the underlying market. We accelerated organic sales growth by more than 1 point from fiscal '16 to fiscal '17 in a market that decelerated by more than 1 point. We held or improved our relative share performance in 35 of our largest 50 category-country combinations, either extending market share gains or narrowing share declines. We said we'd complete the strengthening and streamlining of the category and brand portfolio, building value in the process, which we did.

We expected to make strong cost savings progress in the first year of the next $10 billion productivity program, which we accomplished. We expected a small improvement in core operating margins. We exceeded those expectations. Core operating margin increased 60 basis points, 90 basis points excluding foreign exchange.

We targeted mid-single-digit core earnings-per-share growth. We exceeded this objective, delivering $3.92 per share, up 7% versus last year; on a constant currency basis, up 11%. Net of reinvestments into innovation, sales coverage, media and sampling, productivity savings have enabled us to deliver constant currency core gross and operating profit margin improvement and high single; to double-digit constant currency core earnings-per-share growth in each of the last 5 fiscal years, averaging 11%.

Over the last 4 fiscal years, we've grown core gross margin by 200 basis points, 450 basis points excluding currency impacts. We've grown core operating margin by 270 basis points, 610 points excluding foreign exchange.

Our core after-tax margin now stands at about 17%, second highest in our industry. We'll improve this further as we go forward.

Going into the year, we projected another year of 90% or better free cash flow productivity and delivered 94%. Inventory and payables improved by 1 and four days, respectively. And fiscal 2017 was a year of significant value return to P&G shareowners. We paid $7.2 billion in dividends. We reduced outstanding shares by $9.4 billion with the shares exchanged in the Beauty transaction. And we made over $5 billion of direct share repurchases. In total, nearly $22 billion in dividend payments, share exchange and share repurchase.

A quick summary of the key top and bottom line metrics for the year. Organic sales were up 2% on organic volume growth of 2%. All-in sales were down less than 0.5 points due to headwinds from foreign exchange and minor brand divestitures. Core earnings per share were $3.92, up 7%. All-in earnings per share were $5.59, up 51%, including the significant gain from the Beauty transaction.

Adjusted free cash flow productivity, as I said earlier, was 94%. Details of our Fourth Quarter results are provided in the press release published earlier this morning. So I'm just going to hit a few of the highlights.

Underlying market growth for the quarter was about 2.5%, reflecting many of the market challenges I mentioned earlier. Organic sales increased by more than 2% on organic volume growth of more than 2%. All-in sales were in line with the prior year. Online organic sales were up around 30% for the period, significantly outpacing offline sales. Online sales represented more than 5% of our total business in fiscal 2017.

Core earnings per share in the Fourth Quarter were $0.85, up 8%. All-in earnings per share were $0.82, up 19%. Core gross margin decreased 10 basis points. 270 basis points of productivity savings was largely offset by a 120 basis point headwind from higher commodity costs and 90 basis points of mix impact. Core SG&A cost as a percentage of sales decreased 220 basis points. Excluding foreign exchange, core SG&A costs declined 170 basis points, including 80 basis points of productivity savings from the combination of overhead, agency fee and ad production cost reductions.

The remaining reduction was driven by current period choices to temporarily stop spending with digital media outlets where our ads were not being placed according to our standards and specifications.

Core operating profit improved 210 basis points, including 350 basis points of productivity savings. Adjusted free cash flow productivity was 125%.

So to summarize fiscal 2017, we delivered or overdelivered each of our objectives in what was a very challenging year and made significant progress on key priorities: accelerating organic sales growth, continuing to drive strong productivity improvement and cost savings, strengthening our organization and culture and completing the moves to strengthen and focus our portfolio, significant progress which we're singularly focused on increasing in fiscal 2018.

I'll now hand it over to David to discuss those plans.

David S. Taylor {BIO 15435092 <GO>}

Thanks, Jon. Good morning, everyone. I want to start my comments this morning where I ended them on the call last year. Our standards are high. We aren't satisfied with just being a little bit better than last year. We want to be the best. And we're determined to win. We are making progress. But we know there's more work to do. Our objective is very clear: balanced top and bottom line growth that consistently delivers total shareholder return in the top third of our peer group. The work we've begun and the progress we've made have us building toward this level of results.

Now as an organization, we are accelerating efforts to execute and deliver on the plans we've put into action. Achieving our objectives will not only require continued focus as an organization. But also that we prevent anything from derailing the work that is delivering improvement. We're working to accelerate organic sales growth by strengthening and extending the advantages we've created with our products and packages, improving the execution of our consumer communication in on-shelf and online presence. And ensuring our brands offer superior consumer value in each price tier where we choose to compete.

Now I've had several questions on what is really changing. So I want to add a little bit of perspective. And this is not a marketing pitch but a statement of intent, backed by action of what we've been doing and we will continue to do over the coming quarters and years. The market clearly continues to be challenging, whether it's price transparency, changing retail dynamics or established or new competitors online and offline or slowing market growth.

The best response in this environment is innovation and a greater level of superiority in all elements of the consumer proposition: a higher standard. That is what we're doing, starting with the consumer and shopper. That's where we believe sustained success must start.

Now the superiority of our products, packages, execution and consumer value create impactful, meaningful advantages that will earn trial and repurchase. They grow markets and build market share. It is what will be required to prevent commoditization of our categories and minimize deflationary impacts. It is required to reduce our promotion spending and create strong retail relevance across channels, offline and online.

Now at times, people misunderstand this. Superiority does not mean the most expensive or premium. It means delivering maximum value holistically defined across all price points in which we choose to compete. We need to deliver a big enough advantage to change consumers' affinity for our brands and their expectation of the category. And to assess and deliver superior products, we're moving from a single metric, which is typically used as weighted purchase intent, to a body-of-evidence approach. This approach provides a holistic and transparent evaluation of the product at the second moment of truth. It integrates technical tests and blind tests, context-aided tests, household panel data and in-market product reviews. It adds behavioral data, which is more reliable to the attitudinal data we've historically collected.

Now there's many examples I could give. First, Tide PODS provides a great one. After using PODS for a 4-week test period, consumers consistently lowered their assessment of their previously used detergent by more than 10 points. Using Tide PODS changed consumers' performance expectation of a laundry detergent. Tide PODS and Gain Flings have driven 90% of the U.S. laundry detergent category growth since they were introduced. Today, unit-dose products generate 15% of category sales, with P&G holding nearly an 80% share of the form. We expect this form to continue leading category growth.

In 2016, just 16% of U.S. households had tried unit-dose detergents. 2017's were up to 23% of household penetration, a 40% increase in just one year. Ariel PODS are making a similar impact in developing markets where we've launched. In Poland, unit-dose products account for over 25% of laundry market value, with P&G holding over 60% share of the form. 36% of households in Poland use unit-dose detergents. And remaining unit-dose products account for nearly 20% of the laundry market, with P&G's share of the form reaching almost 80%. Household penetration is nearly 30% in Romania. In both markets, the unit-dose segment is growing. We have plans to expand this superior form in Japan early this fiscal, followed by a few other markets later in the year.

Another example. Always Radiant is a product that's meeting the higher standard of excellence as our best-performing feminine pad. Always Radiant has superior ratings across all the body-of-evidence testing for product and packaging. The technology absorbs 10x its weight with unique proprietary absorbent material and provides up to 100% leak-free protection. The packaging design is eye-catching, innovative and premium, preferred 4.5x over competition in a controlled test. And not surprisingly, business results are very strong. Radiant sales are up mid-teens, driving market growth of the super-premium segment plus 7%. Radiant's share in the U.S. pad market is up nearly 1 point over the past six months. We've launched this superior premium product in China and early results are positive. Always Radiant and Infinity hold the #1 share position of the super-premium segment.

Now packaging is another area where we see great opportunities for innovation, both online and offline. Different distribution channels demand different packaging solutions. One size doesn't fit all. But it may fit for many. We look to reapply packaging success models across the company. A great online package innovation in China may also be great for online businesses in Japan, Korea, Europe or the U.S.. But it may not be good for hypermarkets in any region. Superior packaging attracts the consumer at the first moment of truth, provides integrity and quality protection and delights the consumer during use and in its responsible disposal. Superior packaging creates recognizable brand blocks at shelf, it aids the consumer in selecting the best product for their needs. And it conveys the equity to brand and, importantly, closes the sale.

We're developing a body-of-evidence approach, like I described with products, to test packaging superiority. Some examples here. Scent beads are doing a great job on both the product and the package. It delivers against this new higher standard. When consumers used scent beads for a 4-week test period, they consistently lowered their assessment of their current product by more than 10 points. The packaging shows the product and communicates the scent benefit with the squeezed scent release. It's distinctive, familiar and appealing.

The fabric enhancers are the fastest-growing segment in the overall Fabric Care category, growing mid-single digits; and scent beads, the fastest-growing form, growing at a 20% rate. P&G scent bead offerings have grown over 30%.

Now there's tremendous upside. Scent beads household penetration is only 14% and beads are currently used in only. And importantly, 4% of laundry loads today. We're going to continue driving consumer awareness and trial through advertising campaigns and sampling programs to grow the category and grow our share. And we'll enter new markets this fiscal year.

Superior products and superior packages drive market growth. This prevents commoditization. Market growth has been incredibly important in the journey of our brands. Over the last 40 years, P&G's U.S. Fabric Care business has grown by 5x or 500% in a market that's grown 4x. P&G's share has increased only 5 points. Market growth has been the main driver of P&G's growth, which we've driven with leading innovation.

Over the past 40 years, P&G's global diaper business has grown 12x, 1,200%, in a market that's grown 11x. P&G's share has increased only modestly. Market growth has been the main driver of P&G growth. And we've led it with innovation and conversion of cloth diaper uses -- or users.

Product and package benefits need to be communicated with exceptional brand messaging. Advertising makes you think, talk, laugh, cry, smile, act and, of course, buy. Advertising that drives growth for brands and the categories in which they compete. Advertising that clears the highest bar for creative brilliance, sparking conversations, affecting and sometimes changing attitudes, changing behavior and even defining popular culture. We're setting a higher standard of excellence on advertising quality with a focus on brand performance claims that communicate the brand's benefit superiority to create awareness and trial.

We're improving the quality of consumer insights, agency creative talent and production. We're planning a body-of-evidence assessment on advertising quality. For example, the proven effective Always Like A Girl campaign has significant increased Always brand awareness and our equity scores. U.S. category growth rates have accelerated and Always has built nearly 2 points of market share since the campaign began.

Other brands achieving this standard of quality are many: Tide, Dawn, Febreze, Bounty, Head & Shoulders, SK-II and Vicks. External evaluation of our advertising has been strong. P&G received 26 creative excellence awards at Cannes in June. This is more than the next 4 most highly awarded competitors combined.

What's noteworthy is that all of the P&G brand winners are both creative and effective at building business. For example, Tide's Bradshaw "Stain" Super Bowl commercial not only won multiple awards for its creative innovation across digital and live TV, it led the U.S. Tide's highest household penetration in the brand's history and contributed to share growth for the year.

In-store execution is another area where we are redefining excellence to a higher standard, growing categories and our brands. This requires the right trade coverage with the right product forms, sizes and price points and the right in-store shelving and merchandising execution. It requires delivering against key business drivers for each category and brand in every store across all channels every day.

In Brazil, we've revamped trade spending programs to reward the specific activities by brand and by channel now that are proven to drive sales. We've demonstrated the value of long-term displays of our leading brands to top retailers. These displays are high quality and clearly communicate our brand equities and product benefits. They replaced in-and-out promotional displays that were often low quality and inefficient.

We're tracking compliance versus category-specific key business drivers in over 7,000 individual stores. When we get it right, category growth accelerates, our growth accelerates and we deliver trade spending efficiencies that enable us to reinvest and improve sales coverage to achieve excellence in even more stores.

We're piloting new approaches and technologies, including crowdsourcing, image recognition and machine learning, to obtain granular, real-time data on store conditions to optimize our performance and coverage. The execution is working. Brazil trade promotion spending is down over 600 basis points, including the reinvestment into long-term displays in-store. We're delivering these savings while reaching record value share in our largest categories -- Baby Care, Shave Care and Hair Care -- over the past 12 months.

The online shopping experience also demands executional excellence. On Amazon, Tide holds the top 5 search results for laundry detergent. Tide PODS are the #1 bestseller with over 2,000 reviews and an average rating of 4.5 points.

The online execution includes video, strong performance claims and strong value offerings for subscription options. On walmart.com, Bounty is the #1 search result for paper towels and the bestseller behind strong brand content and superior performance communication. P&G e-commerce sales grew at roughly a 30% rate that Jon referred to last fiscal year, significantly outpacing offline sales. Our e-commerce sales now are about -

- or a little over $3 billion, larger than our top 3 peer competitors combined. We're committed to winning in this fast-growing segment.

And the last element of superior execution. But certainly not the least, is winning consumer and customer value equations. Price is one element of winning the consumer value equation. But we're really looking at the superior value of the total proposition: a product that meets a need in a noticeable and superior way with a package that is convenient to use, with compelling communication presented in a clear and shoppable way in-store.

Now margin is one element of the customer value equation. But so is penny profit, trip generation, basket size. And, very importantly, market or category growth. Our best executions generate high returns for our retail partners.

Two great examples of products that are meeting all 5 of our superiority criteria are Dawn and Bounty. These brands delight consumers with their product performance and packaging. Their promises to consumers are clear and compelling. They look great in-store and online and they offer superior value for consumers.

Now I can give you these 2 examples. But these are 2 that many several years ago questioned that were in trouble, that had a high risk of commoditization and a real concern that private label would take over the paper towel and hand dish category. Now I had the opportunity to work on the Dawn business when I was appointed Global Home Care President in 2007. And many think hand dishwashing detergent is a really high risk of commoditization category. 10 years later, if you go from 2007 to today, Dawn's value share in the U.S. has grown from 40% to 50%. And Dawn's sister brand in the U.K., Fairy, has grown from 55% to around 70% value share. Superiority works.

Similarly, I've had the pleasure of leading Family Care in the mid-2000s and working on the Bounty business. Paper towels are another category that people often think of as commoditized. The fact is that Bounty's technological advantages and compelling communication have kept it the market share leader for decades. Over the last 15 years, despite many challenges from branded and private-label competition, Bounty has consistently maintained or grown value share.

Now where do we stand against these new higher standards of noticeably superior product, package and superior execution? While a win on all 5 of these is required for a passing grade, we currently earn a passing grade on some, where we sit in the 30s. But we are making progress, even over the last six months. We've seen meaningful progress in the last six months in many areas, especially the product area.

Two businesses where we're highly focused on improving our competitive position are U.S. male blades and razors and China diapers. As you all know, in April, we took price reductions in the U.S. on male blades and razors to restore a more evenly spaced pricing ladder between our products and to cover key price points where competitors were doing most of the transactions. This was one step of several to improve overall consumer value.

In May, we repositioned and relaunched Gillette Shave Care, the Gillette shave club, with Gillette On Demand, the new online-only service that allows consumers to purchase blades whenever they want with free shipping. And free of commitments or contracts. There are only 2 pieces in the overall plan. While it's only 1 quarter, North America Shave Care grew volume, volume in the April-June quarter for the first time after 8 consecutive quarters of volume declines.

Now one other example I'm going to give is China, China diapers. China is a critical country for us. And China diapers is an important opportunity to restore superiority. This is a fast-growing, highly profitable category where nearly all of the growth is happening at premium price points in both the taped and the pull-on diaper forms.

In January, we launched a significant upgrade to Pampers Premium pull-on diapers. Starting in August, we've talked about this many times, we're launching our new Pampers Premium taped diapers. Both of these products are imported into China from Japan and carry the message of Pampers Ichiban, our #1 choice of Japanese hospitals, specifically designed to protect your newborn baby's delicate skin.

Now to deliver superior in-store execution in the baby store channel, we've established a dedicated sales force to improve the quality of store coverage and quality of execution in these stores. We've improved consumer point-of-market entry awareness, trial and retention with our Pampers Rewards program. And we strengthened our main line of taped and pull-on diaper products and packages to unify and premiumize the total Pampers line. Establishing and extending product, package, execution and value superiority represents a significant opportunity to accelerate top-line growth. This will require investments to realize.

Now some have asked if, given lower market growth rates, category commoditization and retail industry transformation, we should pick a different path. We have made a clear choice. We have prioritized the long-term health of the business as the key priority. In our minds, this would be -- if we did the short-term profit choice, it'd be the wrong choice. In times like this, we need to build advantage, not diminish it. We need to create stronger positions for our brands to drive category growth and capture a disproportionate share of that growth.

To fund the investment necessary to strengthen our position and extend our advantage, we continue raising the bar on productivity. The need for investment, the external realities we face, our historical productivity progress and our line of sight traditional productivity opportunities all have informed our plans to save up to another $10 billion from fiscal '17 through fiscal '21. This will remain a focus area.

An important enabler of both top line growth and productivity improvement is building our digital capabilities. This also requires investment. We're leveraging digital tools to improve the consumer experience with our brands.

SK-II utilizes a proprietary beauty imaging system at its counters to analyze 5 dimensions of skin -- texture, radiance, firmness, wrinkle resilience and evenness of skin tone -- to help women find exactly the right combination of products for them.

Earlier this year, Olay announced the global launch of Olay's Skin Advisor, a new Web-based skin analytics platform utilizing a suite of artificial intelligence technologies. And it provides women with exceptionally precise, personalized skin education and product recommendations on their mobile phones or tablets.

As I mentioned earlier, we're improving in-store execution with new approaches and technologies, like image recognition and machine learning, to obtain real-time data on store conditions to optimize our performance and coverage. Digitization and machine learning are helping us improve the presence of our brand online -- brands online. Understanding consumer behavior in areas such as digital search can help us spot important changes in trends that we can use to modify how we present our brands online. We're using digital tools to synchronize the supply network. We're working toward an ideal world where our supply chain would be fully linked to real-time point of sale data, with consumer purchases triggering updates to our manufacturing schedules and changes to our orders of materials to our suppliers.

Automation and digitization is driving productivity improvement in our manufacturing operations. For example, in our Mariscala, Mexico, plant, we've increased productivity 60% over the past four years. About half of that improvement is driven by digitization programs and work process improvements. And the other half is related to automation projects like palletizing robots, automated guided vehicles and automated bottle sorting.

Digital tools are making our office work more efficient. In our internal audit organization, we're using desktop auditing and data analytics to focus resources on the highest-impact transactions and processes, enabling us to reduce staffing while also reducing risk for our company.

In addition to establishing a new standard of excellence for product performance, packaging and commercial execution. And continuing to drive significant cost savings, we're further strengthening our organization design, culture and accountability. Deeper mastery, closer to consumers and customers, more agile, more accountable, more efficient and more effective.

We discussed many of our ideas at the analyst meeting last fall and at CAGNY. And we've acted on all of them. We continue to move resources out of global or corporate roles into regions and countries, learning from, innovating for and serving local consumers.

Today, a small percentage of commercial function employees, including general management, marketing, sales and finance, occupy global roles. Global category leadership, who own end-to-end global profit-and-loss statements, are geographically dispersed. These few central resources add value by driving scale of manufacturing platforms, ensuring consistency of global brand equities and ensuring pricing strategies work across regions.

Regional commercial resources own regional profit-and-loss statements, coordinating innovation across our pipelines and set the pricing and promotion strategy. The large majority of marketing, sales and finance people reside in local markets, executing innovation, advertising and merchandising programs; leveraging unique local knowledge of consumers, customers and competitors.

In 2013, we worked with an outside consultant on an external benchmarking study to compare P&G by functional spending as a % of sales against a set of peer companies. This informed choices to improve.

Function spending as a % of sales is now, on average, below the median of our benchmark group and is approaching or ahead of the top quartile benchmark in about half the cases. Our target of spending by function in 2020 is well below or below the median in every function, better than the top quartile benchmark 50% of the time with some choices to reinvest in functions like R&D and sales.

One specific target of reduction in the corporate spending area is we continue to redirect resources into the business units to get them closer to the end consumer.

Over the last five years, we've reduced corporate roles by 20% with plans to go further. We've eliminated central resources where they've added complexity but didn't provide a scale benefit overall. We've kept some centralized work where it does provide a scale benefit in areas like corporate accounting, tax, treasury.

In large markets, we're implementing what we call an end-to-end ownership and accountability approach. This new model gives regional category business leaders, who own full profit-and-loss responsibilities, holistic decision-making authority, starting with the front end of innovation all the way through to the consumer. Each category decides the resources they need to win. Category is the point of competition. It's the point at which consumers engage with our brands.

We first implemented this end-to-end approach, giving category leaders full responsibly from the front end of innovation all the way through to the store, in the United States in fiscal 2016. We brought 4 more markets into the model in fiscal '17 and are adding 5 more markets this year. In total, our end-to-end markets will account for around 70% of company sales.

In smaller countries, where we don't have scale to organize in a dedicated end-to-end model, we're implementing a new what we call freedom-within-a-framework approach. The objective is to enable these smaller markets to be faster and more agile. As long as the market is executing within the predefined strategies and is delivering the financial targets set by the region, they have the freedom to make real-time decisions without the need to engage regional or global resources.

In the markets where we've tested this approach, it's enabled us to cut the number of internal review meetings in half, reduce the number of people participating in meetings.

And, importantly, enhance agility and market responsiveness. We're launching the freedom-within-a-framework approach in relevant markets globally right now.

We're challenging talent development and career planning -- or changing talent development and career planning to drive more mastery and depth in each of our product categories. The objective is simple: improve business results by getting and keeping the right people in the right places to develop and apply deep category mastery to win.

Now P&G is fortunate to consistently source and develop very strong talent. But there are times when the best talent for a role may not be within our organization. We are supplementing internal development with hiring from the outside to add the skill and experience needed to win and field the best teams. Our external hiring has roughly quadrupled across 5 different levels of management, including senior line leadership.

Since 2015, we've added external hires to the position of Personal Health Care Vice President, Chief Information Officer, Chief Information Security Officer, Head of Corporate Communications and Global Media Director, with additional searches underway. We are actively working to create a culture of appropriate risk-taking and are aligning incentives at a lower level of granularity to better match responsibilities and to increase accountability. We're quadrupling the number of bonus units from 25 to over 100 to more appropriately align compensation to results delivered.

Related to this change, business leaders now have the discretion to adjust awards within their bonus units based on the specific performance versus being paid based on uniform formulas. Sales professionals in our largest markets who are now dedicated to selling one product category have the majority of their incentive comp tied to the performance of that category versus what was previously a region average across all categories. Category leaders for a region now have their incentive compensation tied to the performance of their category in their region versus the global average for that category.

Bottom line: Again, we're committed to getting, keeping and growing the right people in the right places, dedicated to categories to drive better business results. We're putting more granular incentives in place to match the increased end-to-end responsibility we're asking leaders to assume. We're leveraging this talent and mastery in an organization designed to get the best of both: focus and agility at the point of competition in categories and markets, along with the benefits of P&G's scale and cost advantages in areas like global business services, purchasing, tax, treasury and supply network efficiency, advantages that none of our individual businesses or sectors could achieve on their own.

We believe that these 3 areas that I've talked about this morning -- irresistible products and package superiority, coupled with superior commercial execution, fueled by strong productivity improvement and cost savings and supported by an organization that is experienced, agile, accountable and committed to win -- will enable us to continue to make progress and accelerate that progress even in the challenging market conditions we currently face.

Now I want to hand it back to Jon for a few minutes to discuss the fiscal 2018 guidance.

Jon R. Moeller {BIO 16200095 <GO>}

As context for guidance, I think it's helpful to look briefly at the macro environment we currently face as we enter the new fiscal year. The markets in which we compete, as I said earlier, are growing at around 2.5% to 3%, including an estimate for nontracked channels. Currencies and commodities continue to be volatile. Political and economic disruptions continue to have a large impact on markets. Policy changes, such as the goods and services tax implementation in India, will put pressure on sales growth. Many other policy unknowns still exist, such as health care and tax reforms in the U.S. and the execution of Brexit, which could impact consumers and the company.

Net, we continue to face a slow-growth, volatile world. We're also investing, as David discussed, in our future. Each of these is factored into fiscal 2018 guidance ranges. We're currently expecting organic sales growth of 2% to 3%, an incremental improvement versus fiscal '17. This estimate includes about 1/4 point of headwind from the portfolio cleanup in the ongoing businesses. It also includes the headwind from the price adjustment on the U.S. blades and razors business made late last fiscal year. Both of these headwinds will have their biggest impact in the first half of the year and will annualize as the year progresses.

We expect 2018 all-in sales growth of around 3%. This includes a 0 to 0.5 points net benefit from the combination of foreign exchange, acquisitions and divestitures and the impact of the India goods and services tax implementation. Our bottom line guidance is for core earnings-per-share growth of 5% to 7%. Within this. And very importantly, we expect core operating profit growth of 5% to 6%, essentially triple the 2% core operating profit growth result in fiscal 2017.

We expect the net impact of interest expense, interest income and other nonoperating income to be a 1 to 2 point headwind on fiscal '18 core earnings-per-share growth. We estimate the core effective tax rate will be around 24%, roughly in line with the fiscal '17 rate. Share count will be an earnings-per-share benefit of about 2percentage points due to discrete share repurchase and the carryover benefit from the Beauty transaction share exchange executed last October.

We plan to deliver another year of 90% or better free cash flow productivity. This includes CapEx in the range of 5% to 5.5% of sales. We'll continue our strong track record of cash return to shareholders. We increased our dividend, as I said earlier, for the 61st consecutive year in April. We expect to pay nearly $7.5 billion in dividends and repurchase $4 billion to $7 billion of our shares in fiscal 2018.

Foreign exchange and M&A could have a notable impact on the ultimate level of share repurchase. As we manage the balance sheet to full capacity of our AA; credit rating, our share repurchase range is highly sensitive to currency fluctuations, particularly the euro. Given our euro debt balances, every 5% euro appreciation on the dollar reduces share repurchase capacity by about $1 billion. Likewise, if we were to make an acquisition, we would adjust our share repurchase to maintain our credit metrics.

At current rates and prices, FX is a modest help to fiscal '18 earnings. And commodities are about a $200 million after-tax headwind. Significant currency weakness, commodity cost increases or additional geopolitical disruptions are not anticipated within this guidance range.

Finally, as you consider the quarterly profile of your sales and earnings estimate, please note that the July-September period is the most difficult top line comparison of the year. Underlying market growth was notably stronger in the first half of last fiscal year versus the market we're operating in right now.

July shipments have been relatively weak, consistent with the market-level data you've seen and reported. Top line headwinds from the portfolio choices and the Gillette price intervention will be focused on the front half of the year and will annualize as the year progresses.

Also keep in mind that productivity savings will build as we progress through the year. As a result, we expect the First Quarter to be our lowest organic sales and core earnings-per-share growth period of fiscal 2018.

With that, I'll hand it back to David for brief closing comments.

David S. Taylor {BIO 15435092 <GO>}

As we close fiscal 2017 and enter fiscal '18, we are where we expected to be. We're making sequential progress and we're raising the bar in everything we do. We'll measure our progress in years, not quarters. We'll continue to make the needed reinvestment in innovation, brand building and go-to-market to position P&G well over the next 3, 5, seven years and beyond.

We're raising the bar to a higher standard of performance, irresistibly superior products and packaging, coupled with superior commercial execution, fueled by strong cost savings and continued strengthening of our organization and culture. This will lead to balanced growth and value creation and winning the total shareholder return.

The plans we've put in action are delivering improvement. We are accelerating our efforts. And it takes time to do it right. Achieving our objectives will not only require continued focus as an organization. But also that we prevent anything from derailing the work that is delivering improvement. Winning results matter. They matter to our employees, retirees and stakeholders. They matter to you, our shareowners.

Winning results happen because we earn them every day, every week, every month, every quarter and every year in every brand and every country in which we compete. We're committed to win and we'll do it within our purpose, values and principles which have guided P&G for 180 years. We know this is increasingly important to many of our consumers, shareowners and stakeholders who are interested in ensuring our actions and values are worthy of their trust. And as a global corporate citizen, we have a responsibility to ensure that our business operations positively impact consumers in the broader world. We'll always do it the right way, with integrity and with competitive passion.

Jon R. Moeller {BIO 16200095 <GO>}

Before we begin the Q&A portion of the call, I just want to remind you that the purpose of today's call is to discuss Fourth Quarter and fiscal year performance and the progress we're making through the execution of our strategy. And we'd like to, as much as possible, keep our conversation focused on those topics. And with that, we'll open it up.

Questions And Answers

Operator

(Operator Instructions) And your first question comes from the line of Stephen Powers with UBS.

Q - Stephen Robert R. Powers {BIO 20658008 <GO>}

David, from the results this quarter and your outlook, it seems like you feel like you've turned a corner and are starting to build -- rebuild momentum, which is truly great. And it leads to a question, what you think it will take to accelerate that momentum further, which you started to answer with your discussion of the drive toward sustained superiority.

But I was listening to you and thinking, asking this question with 2 thoughts in mind. One is that it feels like more and more superior innovation is occurring on the fringes of the industry as opposed to inside big, incumbent operations. And two, which you started to touch upon, is that it feels like much of that new innovation is truly digitally enabled at its core. And together, those imply that companies like P&G need to rapidly retool to keep pace, either by investing a lot in new training and tool sets, going out and hiring for those capabilities, or else choosing to bolt on the capabilities through M&A or creative licensing, JVs, that kind of thing.

So what's your reaction to those observations? And do you feel like you can truly retool quickly enough on an organic basis? Or is there a case to be made that you should look outside to even a greater degree than you already have been, either in the form of hiring, acquiring new technologies or, to Jon's comments on M&A, bolting on new complementary brands altogether?

A - David S. Taylor {BIO 15435092 <GO>}

I think the answer to that is it's a both/and. And that there's no question in my mind that we can accelerate growth on our core brands. And one of the things I want to address is at times I keep hearing that big brands can't grow. If I look at my top 10 global brands, these billion-dollar brands, 9 of the 10 grew nicely the last year. 8 of the 10 grew faster than the company's average that we just reported, which is nice growth in this environment. So there's no question that strong innovation on existing big brands can grow.

Head & Shoulders has been one of our best successes for years. It had another 5% growth this year. Our Oral-B brand grew at high single digits. We've just got a number of examples.

Having said that, I think you make very good points. And one thing you said, that we need to increase looking outside or considering external hires. I think in many ways people underestimate how much we already do connecting with the outside and the number of conversations we're having and things that we're doing in some of our upstream innovation programs.

The reality is it's going to be both. We can and will innovate on our big brands. They are what drove the strong progress this year. They grew bigger than -- faster than the balance of the company. And at the same time, we are investing and, to use your term, retooling rapidly in terms of making sure we have the right skills, capabilities and people, which is why we have increased the number of external hires.

We're increasing our connections with many entrepreneurs. And I think you're aware and we've talked before, we have both the P&G Ventures group that's looking for both existing and new spaces to play but with new technologies, as well some internal VC capability we've been working to develop.

So I think it's a both/and. And yes, I believe that can be done. And I believe the progress we're making, we just need to stay focused and not get distracted and go hard at this path.

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

And to your point on acquisitions, Steve, I think that, increasingly, the how-to-win aspect of strategy will be part of our lens as we're looking at potential acquisitions, which we'll continue to do. So that is also part of the toolbox.

Operator

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

Q - Dara Warren Mohsenian {BIO 3017577 <GO>}

So Jon, first, a detailed question. Can you give us a bit more clarity on how weak organic sales growth could be in Q1, given your July comments? Is a flat quarter possible? And was there any timing benefiting Q4 that will come out of Q1?

Then the broader question, which is also around top line. Conceptually, you guys have really been pointing to fiscal '18 as the year where you sort of get back on track from an organic sales growth standpoint. Most of the large organizational changes are in place. The SKU discontinuations drop off. You had the outside spending behind the Coty and Duracell share count benefit. And now also you've got the benign comparison with the abnormal external issues you cited around the world today, Jon. And the retail inventory cuts in the U.S. over this last fiscal year.

So given all those factors, why do you only expect 2% to 3% organic sales growth in fiscal '18? And does that really signal that the ultimate payoff from all these areas is unlikely to move P&G above that 2% to 3% range longer term? I guess, to put it simply, are you now a structurally lower top line growth company, more in that 2% to 3% range?

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

So I'll give you a point of view on the second point. But I'm sure David will have some thoughts there as well.

Relative to Q1, I don't expect it -- I expect growth in Q1 but that growth to be very modest, given all the dynamics that we've talked about.

In terms of growth next year, 2% to 3% represents acceleration from the year that we were just in, in a period where market growth, if it stays at today's level, is going to be lower than it was over that whole period. And that 2% to 3% effectively straddles what we expect market growth to be. Our objective is to build market share within that. And to the extent that market growth rebounds or is stronger, I would expect our results to reflect that.

Longer term, my personal view is that there are significant opportunities for growth that remain. We've talked before about increasing populations and increasing income, increase of middle income households. We're going to see a bigger increase in those drivers of consumer products business in the next decade, albeit with some turbulence, than likely we've ever seen before.

We have significant household penetration opportunities, David alluded to in his remarks, on winning products. Only 4% of washers in the U.S. using beads. Only -- household penetration of unit-dose detergents, only 23%.

So I do think that there's a future of growth strongly in front of us. I don't think that it's realistic to expect that we're going to grow orders-of-magnitude faster than the overall market, however.

David?

A - David S. Taylor {BIO 15435092 <GO>}

The only thing I'd add to that is I clearly see the company having the capability to grow ahead of the market over time, (inaudible) ahead of the market, just as Jon said. And no, I do not believe we're structurally a slower-growing company. I think, if anything, the things we've done over the last several years have positioned us to be more agile and more able to take advantage of new opportunities in markets. And the changes we're making in our innovation capability also give me confidence that we can now seize some of those opportunities better than we may have been able to in the past.

The combination of the lean innovation in all 10 categories that is starting to pay off and over time I think will build capability, along with the investments we're making in new jobs to be done, which has opened up some new problem areas -- or places we can play that I think will be additive to what we've been doing over the last several years.

Then this new -- and it's very early, some of the work we're doing with some small problem spaces that have very large addressable markets gives me a lot of belief that there's a bright future. So if anything, I'm more excited. And I think this year was a really challenging year to make the progress we did through the year. And the organization is very quickly learning to get from very structured to a very flexible, agile, accountable organization. Small teams learn, pivot, learn, act. And to me, that just tells me we're actually well positioned. And you've seen. And we've referred to it in our remarks, we're doing very well in the online space, which is rapidly growing, both with pure plays and existing bricks-and-mortar that are really turning into effective omni-retailers. And P&G is working very effectively across all channels. But we've opened up our field division to see to be -- many more opportunities. And we're organizing our company to be able to take advantage of them. So I'm actually quite excited about what the future holds.

Operator

Your next question comes from the line of Wendy Nicholson with Citi Research.

Q - Wendy Caroline Nicholson {BIO 2081269 <GO>}

Two questions, the first one on Grooming, if I may. With the price cut you took, your margins have come way down. And I'm just wondering specifically to the Grooming business, what is going to take those margins back up over time? Because that's been such a margin-accretive segment for you relative to the overall business. I'm just wondering if that's been a permanent reset, if there are specific things you can do outside of taking prices back up that'll make that more profitable. Then second of all, just quickly, David, on your comment about benchmarking. Clearly, you benchmarked yourself relative to peers and other companies with regard to your cost structure. But have you done benchmarking with regard to your speed-to-market or time-to-market? Because when we were in China recently, we were so impressed by what we heard about the diaper launch. It looks like it's set up to be incredibly impactful, fingers crossed. But it also feels like it's taken a really long time to get to market. And listening to you talk about how much work, all the research, all that kind of stuff that you're doing, it feels like there is maybe a risk, that there's sort of paralysis of analysis or something. But maybe that's an unfair characterization. So can you comment on that?

A - David S. Taylor {BIO 15435092 <GO>}

Sure, Wendy. Let me take both of them. First, on Grooming. To me, the path to build the business, both in sales and profits, is to bring users back in and then to have products --

each of the ladders that consumers see as better and so they move up the ladder. The trade-up model works. We've seen it over a long period of time. What we did not do as good a job as we needed to do in the U.S. is bringing new users in. And so we lost a lot of household penetration. We weren't playing to keep price points. And we had reduced our spending on some of the point-of-market entry programs. We made a big investment, some of it in price, some of it in the point-of-market entry programs. And you saw the volume response. And we'll see over the next year as we continue to invest in bringing users in. Then we'll do what we know how to do, which is once one gets into one of the various places you can enter the Gillette franchise, we'll work to them, expose them to better options and higher-performing options. And trade-up is the best way to build margins over time. And frankly, as you move people from disposables into systems and then into cart -- more frequent use of cartridges, good things happen. So yes. And we -- because we're seeing it in other parts of the world. The U.S. is particularly challenged because of a set of dynamics we've talked, where we had missing rungs on our price ladder. You can look to other parts of the world. And it's continuing to perform very well. So again, I see the Grooming business is attractive. We've got work to do. And this year will be challenging year. And we've been very open about it. And we're addressing it. On that speed question, we are actually, in many ways, getting faster. And it depends on what dimension you look at. When you look at things that require capital expenditures and building capacity, it does take time. You're cutting metal and putting equipment in place. In the case of baby care, the design of the product may be done relatively quick. But then having the capacity to make them perfectly a few 100 million times, you have to have equipment. And you have to have a process and you have to have material supply. And that, for us and many, does take time. And if anything, we're getting much more efficient in that as we've done our end-to-end work on synchronizing our supply chain. Where we can and are getting much faster is on things that aren't heavy capital investments, packaging changes and other formulation changes. And some of the new platforms give us much better agility. And when I talk about the number of different research tools. And I'll reference a meeting I'll have later this week, which is we can do research in days and weeks and months, not quarters and years. So many of these tools are ones where you don't have to go out and place a large base research in a mall and bring people back weeks later. We've done online today. And I'll have the read on Monday. And you can act on Tuesday. And that's what we're getting to, is leveraging to be the digital ecosystem, to access large groups of consumers, learn, pivot, learn, pivot and then act. When you get into cutting metal, yes, it takes longer. And we're working on simplifying that part of the system as well. But we clearly have internalized the need to have a flexible, agile and much faster organization and upping the accountability while we do that.

Operator

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

Q - Ali Dibadj {BIO 15328592 <GO>}

So I wanted to test some of your energized and eloquent prepared remarks versus some data from your results. So the first one -- 2 things. The first one is despite you sort of underemphasizing lower price as a tool, if you look at your results on a category-by-category basis, you've decided to either take prices down like Grooming, Oral Care, Baby, or raise prices, now that you've seen some results, less than your key competitors. So for a company like yours that says it's intent on growing the category, certainly, in innovation, I understand it's not always premiumization. But innovation, why that strategy? How do you think your competitors will respond? And is this a good, sustainable strategy going forward? I guess, the underlying question I always have is, how much are you to blame for the category slowdown? Then the second point is, to quote you, David, from your prepared remarks, if your standards are high, if you want to be the best, why is it that you set this target. And I think get paid on the target, of only performing in the top third of peers when you have so many advantages and you're going through this great transformation? And in fact, you've historically done much better than that. You've really historically done much better than your peers. Why is that not the case now? Why this 1/3?

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

Let me just provide some data as it relates to the first question. And then David can talk more about the approach and the thinking. If you look at price as a component of top line growth to this notion that broadly, on aggregate, we're leading prices down, price was neutral as an element of top line growth for both the quarter and the year. It's been neutral to positive for 27 consecutive quarters and 12 consecutive years. So the notion that we're leading pricing down on a broad basis isn't consistent with the data. We will, as we need to, to be competitive and to address the point of winning value equations, make moves as we need to. But generally, the direction again is not student body down.

A - David S. Taylor {BIO 15435092 <GO>}

And just a, I guess, a couple of comments on the top third. I think performing and delivering results in the top third, over time, through ups and downs is a very good place to be for our company. It means you're one of the best amongst the very best in your industry across the world. You're competing with a number of competitors that are domiciled in different countries over time. And at the same time, we've made a commitment. And certainly we've delivered consistent returns to shareholders via dividends. And we've got a pretty good track record of increasing the dividends. So the idea of having a company that you can count on over time. And this is why I think it's a good goal, that delivers very good total shareholder return in the form of appreciation and cash return to shareholders is a very good objective. And I think our shareholders will be rewarded as we deliver that. And that's what we're working very hard to get back to the top third and then stay there over time.

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

One other thing, Ali and the group, on pricing and on understanding what's happening in the marketplace. As we've talked before, we're in a little bit of a difficult environment for you to effectively assess what's really happening. I just want to address that for a second. And that's because we have our pricing strategy. But the ultimate price that consumers pay is at the sole discretion of our retail partners. And that's what you're picking up in the scanner data and the Nielsen data that you see. And so there are instances where, if you look at period-to-period or versus year ago price moves, it would appear that a price reduction had occurred. In many, many cases, that's not us reducing that price. So just a little bit technical. But I wanted to make sure I register that point.

Operator

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

Q - Lauren Rae Lieberman {BIO 4832525 <GO>}

I just wanted to talk a little bit about implementation of end-to-end. I think in North America, we're kind of at a 2-year point for that being put in place. And I understand it was the lead market. There was going to be a lot of learning and adjusting. But it looks like you're still -- share trends are still clearly not where they need to be in the U.S. So two years in, could you maybe talk a little bit about what's worked, what's been tougher than you thought? If there've been sort of impediments? If you've seen changed behavior and people understanding that they've got that autonomy and ability to do things differently? I think just a real-time kind of status report two years in, where numerically it's not clicking. But that doesn't mean it's not the right direction to move in.

A - David S. Taylor {BIO 15435092 <GO>}

Yes. It's a fair question. First, I'm very convinced end-to-end is a much more effective and agile operating model because it has a very clear choice on how you can organize. In the GBU, or the regional business unit that runs in North America today has line of sight and now has -- and it's increasing over time, building the capability to understand the consumer, build the relationship with a customer and building category mastery. And think North America, the U.S. and Canada. And we've had a little more challenges in the U.S. this year because of a lot of well-documented things that are going on in the marketplace. And I think if you see, not only us, many of the competitors, our results still are making progress. The -- what I see -- I just came from Canada yesterday. I spent a day in the market. A year ago or 18 months ago, we had 30% of our brands growing share. Today, we have 60% of our brands growing share. I didn't hear one comment around part of the organization saying you need to help with another part of the organization. There was a very clear focus on addressing either consumer or a customer challenge that is existing in the marketplace, or how to best execute a new initiative coming. The effectiveness of the current organization is meaningfully better. And I do believe it'll show, over time, strong results. We've got a couple of big issues that we're addressing in the U.S. The biggest is probably the Gillette issue. It weighs pretty heavy on the market. We're going to have to work through that and annualize that. And a couple of other categories that we have some long-standing issues that we're working through. We've talked in the past about Skin. We've talked in the past about some of the things on Hair. And one by one, we're addressing those. Head & Shoulders is growing. Herbal Essences is showing progress. We still got work to do on Pantene. So again, making progress. But not yet where we want to be in all the businesses. And the other thing, it's a very competitive market with not only a lot of competitors. But also some pretty dynamic things happening on the retail front. But from an organization standpoint, I clearly see improved operation. And I clearly see the effectiveness we hope to see on the way we work. And now it's got to translate. And I believe it will over time, to more consistent, strong results.

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

And to that point, while there's still more work to do, about 2/3 of our U.S. sales base is holding or growing share currently. That compares to 50% a year ago. So again, continued improvement, pretty strong volume progress in the year we just completed in the U.S. at 2%, 4% in the quarter we just completed. So as David rightly said, work still to do. But we are seeing that sustained improvement.

A - David S. Taylor {BIO 15435092 <GO>}

And the other market just launched, to make a comment that we started a little while back. And it's part way into it, is China. And it's another one where the breadth is a real good indication. We had 2 categories growing share, growing sales even 18 months ago. And now we've got 6 in the last quarter. Another one went. So 7 of the 10. We are minus 5% in '15, '16. We're plus 1% in '16, '17. And other than Baby, that we've been very open about, it was plus 4%. So you've seen a meaningful change. And again, when I'm there, what you see is the category, one, having the decision space to move at the speed of the market; and secondly, you see choices being made that wouldn't have been made several years ago. The Baby Care is a good example. The (MBM) team there on Baby Care said I've got to cover the baby channel. I'm going to need to hire 100 people or get distributors to cover. Decision was made by the category, yes. (Yes mode) has helped to execute it, acquired the people. We developed the capability. And it's happening. So minus 5% to plus 1% in a tough market, plus 4% ex Baby, that's a really good indication. Volume is up in the U.S. In Canada, doubling the % of the business, growing share. Those are indications. And certainly, the behavior I see gives me a lot of confidence. This is one of the parts that really is working. And over time, I think it'll play out in more consistent, strong results.

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

And just for completeness. It was implied in David's comments. But China was 1 of the 4 markets that we went end-to-end in last year. So that -- the result does reflect that choice.

Operator

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

Q - Sunil Harshad Modi {BIO 7557463 <GO>}

David, thanks for providing the color you did on how P&G has enhanced the way that it evaluates new products in the pipeline. But I was hoping you can share some context on if you've made any changes in how you actually source or ideate around those products or around the innovation pipeline. So in terms of how you actually come up with the concepts versus actually evaluating the concepts. If you can provide some context, that would be helpful.

A - David S. Taylor {BIO 15435092 <GO>}

I would just give a couple of comments. And again, there's a pretty wide range by category. But we have certainly all the traditional measures. But we now are accessing many more external ideas than before. And that all of the businesses have been given the latitude to both work with internal stakeholders. But also to look at and engage where they see either technologies or even potentially other opportunities to add that are outside our company. Until something happens, we certainly wouldn't announce it. But as both I've mentioned and Jon's mentioned, we'll be active managers of the portfolio. And so ideas are coming both inside and outside. The ideations, to me, is broad. The spaces that we're innovating are more. Then the path to kind of whittle down lots of ideas to what's right for the market, to me, it's getting faster. All those things, I feel very good about. The part that I think is, though, absolutely important to reinforce is growing the core and building on the core is what will give us the momentum that I think we'll all be pleased with and then adding to that. And that's why both the front-end innovation that we're doing within our categories, where we're using this lean innovation approach, which is generating a lot of ideas -- once you identify a problem, we source a lot of ideas and then can go through them much faster. But then we've added this PGV, P&G Ventures and this additional corporate capability that's looking at new spaces that aren't in the 10 categories that is sourcing ideas that then can be put in the category if it's adjacent or pursued independently. So we're not suffering for lack of ideas. And now the challenge is to process and then learn enough to develop models. The other thing -- the last thing I'll say on this is we have several transaction learning tests going on. Some have been public, many are not, where we're trying new things as well. So again, the number of both ideas and spaces -- (need) spaces that we're playing in is robust.

Operator

You next question comes from the line of Olivia Tong with Bank of America Merrill Lynch.

Q - Olivia Tong {BIO 7481692 <GO>}

Just getting back to the outlook, going from 2% to 2% to 3%, it sounds like macros, market growth, more or less in line with where it's been. So do you have more initiatives hitting the market or an expectation for a better hit rate on the plans that you have? So I guess, a better understanding of the key things embedded in your expectations as you look for that acceleration. Then clearly, this was a better-than-anticipated quarter and quite a bit better than your peers. So I guess, how do you ensure consistency in growth over time so that you don't fall back into this cycle of kind of ups and downs, booms and busts, especially given all the dynamics in the market right now? There's heavier competition. There's retail pressures that you talked about. Still, somewhat shaky macros in emerging markets and things like that.

A - David S. Taylor {BIO 15435092 <GO>}

I guess, a couple of things on why do we think we'll grow from here in shaky macros. And there's no question the environment is difficult right now. But we've got many, many pieces of evidence that when we get the innovation right, it works. One of the areas that's big enough to mention is Baby Care China. Getting that right will make an enormous difference. We had and have had several years of well-below-market growth on a category that's grown above 110. And so when we launch. And certainly we'll work hard to earn share growth in that category, that's going to move several points to China and will be meaningful to the company. We've got a few other areas. When we annualize the Gillette investment, that is meaningful. On the top of that, we've made some choices that are in the base this year, that Jon had referred to in previous remarks, that we will be annualizing. We decided to get out of some pieces of businesses that just did not look profitable and would not create value over time, the powders business, laundry powder business in Brazil. We'll annualize that as we end this calendar year. So it's the absence of some of the negatives. And several of the innovations need to hit. Baby Care is one of them, addressing Gillette. We have some very exciting innovation coming on Skin Care and Hair Care. And one of the encouraging points is some of the early work in China. Olay grew in the back half of our fiscal year for the first time in a long time in China, which is, to me, a nice, leading indicator that the work we're doing both in-store, the way we present the brand, the packaging changes that have been made and some of the new innovation is hitting. So I look at some of the categories that have been drags. And we've got really strong plans, I fully expect can be highly competitive categories in a difficult macro environment. But I think we can earn improved growth from where we are today. And we'll continue to push on making sure that we're agile enough to address whatever happens in the external world. The organization is certainly better prepared to deal with whatever comes at them with the accountability clear and more decision space closer to the consumer. So I think we're well positioned to deal with a pretty volatile world.

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

And just a couple of pieces of mathematical perspective, if you will. I'm encouraged by a couple of things. One is that the 2% growth we delivered in the quarter ends our 2% growth for the year. And so it's not just one quarter we've been growing at that rate. We delivered over 2% growth. And within that, as we talked, there's 0.5 points of portfolio cleanup. And the Gillette pricing that David talked about had about a 30 basis point impact on the total company. You add something like addressing the China diaper situation, which David just talked about. And pretty soon -- and I certainly don't want to talk our numbers up. But pretty soon, you're at 3%, just with that math. Now as David rightly said, as those things go right, we will have some things that will go wrong and we'll be dealing with the challenges that our world faces. But I feel pretty comfortable with the behavioral changes that David talked about, the product strengthening that we spent both last call and this call talking about. And the annualization of some of the headwinds.

Operator

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

Q - William Bates Chappell {BIO 1737315 <GO>}

Just to follow up on the Grooming. I think you'd said, David, that you did see volume growth for the first time in 9 quarters. But I guess, is that -- was the level of growth what you were looking for? And I mean, do you expect it to accelerate as we kind of move through the year? And I'm just trying to understand. So far, I realize it's only 2, three months into it. Have you gotten what you thought out of this? And would you look to do anything like this to any other categories around the world? Or is this really just very, very specific?

A - David S. Taylor {BIO 15435092 <GO>}

Bill, let me just give a couple of quick comments. And then I'll try to address that last one. It's much broader. The answer to, did we get what we expected in AMJ in the U.S., the answer is yes. The volume response was as we modeled, maybe a little bit better, actually. But it's early. And so I'm not going to, for a second, declare victory. We don't even have the full plan in the market. We had part of it executed. Certainly, price change at some of our major customers did drop. But there's additional actions that will take place over the six months to go ahead and get the rest of the plan in the market, the portfolio right, the packaging right and the go-to-market programs. We couldn't effect all of that immediately. The one we can do quickest is the price change to address some of the points on the ladder that we're missing. So we're in early stages of a very important investment in a very important category. And I can't predict what'll happen. But I can tell you that the early indications are positive. The fact that the user growth is back up, the volume is moving up. And we're getting very good support from our retail partners. They see the opportunity. And they also understand Gillette is the only one that can build value in this category. So that's the only one that has a history over time of creating value in this category. So getting it right, getting consumers back in. I won't try to predict societal trends. There's other things that do play in the results in any quarter, six months or even year. But what we want, if we can bring more consumers in and they see and appreciate the superior experience you have with Gillette, no matter where you come in relative to the best alternative in that price tier, then I think we're well positioned to win over time. And we do see consumers trade up because there are meaningful advantages as you move up from a 2-blade disposable to a MACH and a MACH to a Fusion ProGlide and then ProShield. So yes, we're making good progress. And it's very early days. This is going to be better addressed probably in the early part of calendar '18, after we had six months and get the full plan in place. The second question, will we have to do something like this on other brands? We will have to, one, understand where the consumer is going; and secondly, the market will change. What's clear today. And we've now got much better early warning systems out there, is there will be many competitive actions, small -- from small and large companies. And I think we're doing a better job seeing those. And in many times -- and there's many of those. Many will not be big threats. Some will be. But what we need to do is cover spaces where consumers or shoppers go. And that includes channels and benefit areas. Each of the 10 categories now are designing the organization that's better in touch in the big markets with what's going on. I think we'll catch many of them earlier. And if we really do our job right, we create the new trends because our innovation is ahead of where the consumers see the need. We provide an opportunity that they really like. And again, I think the organization design and the agility and accountability I'm now seeing tells me we're at least better positioned to deal with a volatile world.

Operator

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

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

So given your strong performance in the First Quarter, how are you thinking about retailer's willingness to build inventory levels again? Do you think the large destocking that you've seen for fiscal '17 is largely behind you at this point? Then if you -- in your organic growth guidance, you mentioned it back-end loaded given the tough comp in the First Quarter. Is that primarily because you were seeing the international trends getting better, or that comp being tougher in the First Quarter? So if you can break down EM and DM embedded in your guidance. And related to that, in terms of your spending to grow. In terms of thinking -- it's embedded in your guidance also for fiscal '18. It's pretty conservative, in my view, in terms of how you're going to spend -- you're going to have the trade spend funneled into more rational ad spend. So what you saw here in the Fourth

Quarter was like you cut and you quoted as temporary. So can you help us bridge this guidance in terms of SG&A spend as well?

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

Sure. First of all, in terms of retail inventories, I mean, we're working hard with our retail partners to ensure availability on shelf. Within that, we're very supportive of lower inventories systemically across the value chain. And a number of our product supply initiatives are designed to enable both ourselves and our retail partners to carry lower inventories. So we're not expecting a big acceleration in inventories that retailers are currently holding. But we're going to continue to work on availability at shelf. Some of our supply initiatives have enabled us to increase that significantly. In North America, for example, where we've gone to the mixing centers, we now have about 80% of our product line we can get to a store shelf within 24 hours of an order. And as a result, our customer service levels have improved significantly, getting close to 98%, 99% levels of service. On the spending question, we talked about the need to invest in product, package, communication, shelf and, occasionally, in value -- in the value equation. So you should assume that we're going to do that. In the Fourth Quarter, the reduction in marketing that occurred was almost all in the digital space. And what it reflected was a choice to cut spending from a digital standpoint where it was ineffective, where either we were serving bots as opposed to human beings or where the placement of ads was not facilitating the equity of our brands. Importantly, as we made those decisions and put our money where our mouth has been in terms of the need to increase the efficiency of that supply chain, ensure solid and strong placement of individual ads, we didn't see a reduction in the growth rate. So as you know, we've delivered over 2% organic sales growth on 2% volume growth in the quarter. And that -- what that tells me is that, that spending that we cut was largely ineffective. What we'd love to do and what we're working with our media partners to do is create a very efficient supply chain that helps us build our brands. And we'd love to invest more in doing just that.

Operator

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

Q - Bonnie Lee Herzog {BIO 1840179 <GO>}

You guys mentioned some interest in M&A this morning. But this would really be the first time in years that you've purchased something since you've really been in selling and consolidating mode? So I'd love if you could drill down a little further on why now. Then why you would only look to acquire -- or would you only look to acquire something in your existing categories or would you be willing to expand into another category? Then maybe, finally, if you could just remind us of your criteria for acquisitions, that would be helpful.

A - David S. Taylor {BIO 15435092 <GO>}

I'll give a comment or 2. And then Jon will add a comment. First, we went through -- you're absolutely right, we went through a very big process the last several years, going from almost 200 brands down to 65. But what we said. And we really mean it, is when we closed on October 1 the Coty deal, all 10 categories need to be in a position to grow. They need to deliver results and grow. And it starts with very strong organic growth, building from the base. And I think we've got really good evidence that, that is possible when you see the top 10 brands driving your growth and growing above the market, which is good evidence that we're starting to see our innovation programs working. On top of that, I think it makes perfect sense. And we've made the decision to say we'll be active managers. So all 10 of the presidents, as well as the company, looking at spaces outside the 10 core categories that we're active. Now we won't do anything until we see something that we think can create value and leverages the core capabilities of this company. We've learned a lot with the process, the round trip that we went through over the last 15 years on mining a number of brands and companies and selling them. So part of the things -- part of the screen that we use is learning from what worked and didn't work. But clearly, we see the opportunity to acquire potentially new technologies, capabilities or potentially companies in spaces that are in our existing 10 core categories or adjacent or ones that leverage our capabilities. That is active today for the company.

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

And there would be a couple of other screens that would complement that search. And to the extent that we can be in categories. And it can be beyond the 10 categories that we're currently operating in, where daily -- where products are consumed daily or even more than one time per day, those are categories we really like. Categories where a product that is used or consumed once or twice or 3x a year are not as attractive by definition. We want to be in categories where product superiority matters, where purchase motivation is driven by the ability of a product to meet a need in a demonstrable way. It's not that they're bad businesses. But a large part of the choice in businesses we got out of was that purchase intent was driven by something other than that: fashion, flavors, fragrance, self-image. All good things. But not up our power alley. So we're going to stay, as David said, very focused on the kinds of things that we know we can do well in. But there are lots of those.

Operator

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

Q - Jason English {BIO 16418106 <GO>}

I've got 2 questions. And I'm just going to kind of spew them out because I know you don't get a second chance. First, I want to understand guidance and the implicit reinvestment into next year. I think you said around 5 to 7 bottom line, 2 points a share repo, getting us to sort of a 3% to 5% pretax. On 3% growth, that doesn't imply much margin, especially in context of, I think, you said commodities post-tax, only $200 million. That's kind of benign for a company your size. So is it right to assume that this implies a lot of reinvestment in productivity? If so, kind of what shape, what form and where? If you can elaborate on that. And secondly, on business units, you're right, the focus for a long time on underperformance has been sort of Beauty and Grooming. But looking at baby, fem and family, growth has been quite sluggish for a couple of years. Pretax profit, down. And obviously, were fresh off of Kimberly results yesterday. Both of you really seem to be struggling. What does that say about the environment for those businesses, baby, tissue products, et cetera, both in the near term and over the medium to long term?

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

Jason, I'll take the first one of those. As I said in my prepared remarks, we're expecting to increase operating profit growth from 2% this year to 5% to 6% next year. And in terms of all of the pieces and the builds, I'd encourage you to work with John through the course of the day. And he can help you with that. But against a sales growth of 2% to 3%, that obviously implies operating margin progress. And we've been very clear, or tried to be, that the only sustainable model for value creation in this industry is balanced top line and bottom line growth, with margin a part of that.

A - David S. Taylor {BIO 15435092 <GO>}

And let me give you one comment about -- you singled out the paper businesses as particularly challenging. Two of our 3 paper businesses grew ahead of the category, ahead of the company. So Family Care grew share, grew nicely. And that's our tissue and towel business. And Femcare grew ahead of the balance of the company. Baby Care was challenged. And we've been very open about China. We had a very difficult year, growing well below the market. And so that has depressed the Baby Care results. But when we get it right. And the Femcare, I gave you a couple of examples of the super premium innovation that we have and some of the work, frankly, we've done in cotton top sheets around the world, we're seeing Femcare respond nicely. And it's now starting to turn in share growth globally. And Family Care is growing share as well and growing sales and growing profit. And a very strong total shareholder return, if I look at that individual business. So -- and what's interesting about both of those, what's driving them is innovation, well executed in market. Period.

Operator

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

Q - Kevin Michael Grundy {BIO 16423871 <GO>}

David, I wanted to come back to your online strategy. So within the context, there's considerable worry, I would say, in the market about narrowing of competitive moats as consumers migrate online, where the barriers to entry are lower. You have Amazon, which has expressed an appetite and is investing behind its own private-label brands. So -- and then we've also talked about some worry about commoditization of product categories with some of the trade spending that's going on, et cetera. So as you consider these factors and then naturally, the fact that online will become a bigger portion of everyone's channel mix, I have 3 questions. Opportunities and risks, the larger ones, as you see it, would be number one. Number two, do you see any for the opportunities to expand upon direct-to-consumer capabilities, maybe beyond just outside of blades? Then the third piece, sort of notwithstanding blades, where your market share is naturally going to be lower given the success of Harry's and Dollar Shave Club. Maybe you could talk a little bit about market share positioning and trends as you see them relative to what we can observe in brick-and-mortar.

A - David S. Taylor {BIO 15435092 <GO>}

Very good. All good questions. A couple of comments. One, just a broad comment about it, about the space because I've got it many, many times saying the low barrier to entry and the number of brands that come out presents a big threat to P&G and P&G's big brands. And we've talked often about the endless shelf. If anything, online consumers look at less brands than more brands. Walk a store at a big mass merchandiser and some big categories like Hair Care, you may see 30, 40, 50 brands. When you go to any one of the online opportunity sources, you'll probably look at Page 1, maybe Page 2. And as I mentioned, strong brands often occupy the majority of Page one and Page 2. So actually, I think we're well positioned in brands that are meaningfully better and strong, tend to do well. And our online business is actually growing well and growing well in both sales and share. One of the things that I think is going to be critical to win online. And maybe even more so, is the level of superiority because that then drives you to be getting both the discussion in social media as well as the movement that drives you up the various online companies' algorithms. Then the commoditization comment that you make, I give the same response today when people talked about it in tissue/towel in 2006 and in any of a number of categories. Commoditization, in my mind, is -- it occurs when we don't innovate or build brands. And all of the categories we've chosen, there's a real benefit that makes a difference in consumers' lives. If we can provide a differential benefit that's much better than the next best, then I think we're well positioned and maybe even better positioned to online because of the limited selection, because most people do, by habit, go to Page 1, Page 2. Now specifically on some of your questions, one of them that I get asked a lot, should P&G go direct to consumer? And the question is, we are testing and have tested and will continue to test a number of models, including a company store, including working on a variety of things from working with our omni-retailers and pure plays and everything in between. We've got a direct-with-consumer model, which says we will build a relationship with a consumer. We'll do diagnostics. We got a good example with Olay Skin Advisor. We'll gather information about our users so that we can serve them well, communicate and own a relationship that somebody else may fulfill. But certainly, our belief so far is that most consumers do not want to have a lot more accounts for narrow parts of their daily or monthly needs. And so an aggregator probably is better positioned to serve the consumer. What we do want to do is have a superior product and a relationship with the consumer so that we can communicate with them appropriately. And we're doing some very interesting and very promising tests in categories like Baby Care and Skin Care with building very strong relationships and a lot of access to names that I think will serve us very well. So it's more of the relationship with consumer. But we will concern and learn. I don't know if anybody knows the full answer to this question. But right now, I believe that we're best positioned to go through aggregators. Then on market share trends, we're generally doing positive. It's been -- and I'll take the most competitive market in the world in this space, which is China, where our business just passed $1 billion. We grew share online, which is, to me, a very, very positive sign. And in a few of our categories, our online share is now above our offline share. Not true in many categories. But in a few, that's now happened. So that also bodes well for the future.

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

If you look at it in aggregate, our market shares online are about equal into our market shares offline. As David rightly said, that differs by category and channel. And importantly, another topic in the space, our margins on aggregate are about equal online and offline. To the point of the difference in growth rates between the online channels, which are harder for you to see. And the track channels, in both the U.S. and China, which are the fastest-growing or largest online markets, our growth in both of those countries was 40% in the most recent period. So it is driving a meaningful difference between what you're observing in the track channel data and what our all-in sales growth actually is.

Operator

And your final question comes from the line of Faiza Alwy with Deutsche Bank.

Q - Faiza Alwy {BIO 16413618 <GO>}

So I just wanted to expand a little bit more on your comment regarding digital and marketing. It feels like you're rethinking what marketing really means and how to communicate with consumers, especially with the new generation of millennial consumers. So could you -- like, is that the right? And it feels like, overall, the way we think about marketing is advertising is potentially going to be down this year. So could you confirm that? And just elaborate a little bit more about how you think -- what is the best way to communicate with consumers?

A - David S. Taylor {BIO 15435092 <GO>}

A couple of comments. Certainly, we are and have been rethinking marketing in that it's -- it will evolve. But I think the key is building the relationship with the consumer and communicating the full range of benefits of your brand in a way that makes a difference to the consumer. How we do that has changed. What we're trying to do I don't think has changed a lot. We now use a variety of different channels. And certainly, social media has exploded in its importance. There'll be those that talk about not only the 0, first and second moment of truth. But even after, the in-home usage experience. Now there's another moment you have to worry about, which is what consumers say about you in social media on Instagram or Facebook or any variety of different vehicles. And I think that's true, which is all the more reason why you both have to have a superior product. But also communicate it in a way. And the brand has to stand for something. It's one of the reasons why I believe campaigns like the Like A Girl -- some of you may have seen the Ariel Share the Load we ran in India or the SK-II marriage market campaign -- have really resonated with consumers because they've gone beyond just communicating that the brand is superior. But the brand has a point of view. And it's one that sparks conversations about things that matter. And so that's beyond, what I'd say, traditional marketing of communicating the benefit of your brand. It's having an equity and equity that matters. And each of our brands, just thinking through what that looks like. And then finding the smart and appropriate way to communicate that to the consumer, when and where they're receptive to the message so that it's less of an intrusion. It's more of giving them things that help them understand the brand and make informed choices. And that part, I think, is working well. The brands that do it best are the ones that are growing.

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

We need to stop here. We need to get on with delivering another above-objective year. I know we didn't get to everybody. I apologize for that. I also know it's a busy day for you. And I want to thank you for the time with us this morning. I'll just turn it over to David for some quick closing remarks. And then John and I are available the balance of the day.

A - David S. Taylor {BIO 15435092 <GO>}

One, I want to thank everybody for participating today and let you know that we do see opportunities going forward. We had a year where we made progress. We're on plan. And the plan is working. It's innovation-driven growth. It's fueled by productivity across all spend pools in all areas of the business. And it is enabled and sustained by an organization today that is more agile, more focused and accountable.

Today, we have the plan, we have the portfolio. And we have the people to win. And we are extraordinarily focused to make that happen over the next year, three years, five years and beyond.

Thank you, all for participating today.

Operator

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