Q4 2018 Earnings Call

Company Participants

- David S. Taylor, Chairman, President & Chief Executive Officer
- Jon R. Moeller, Vice Chairman & Chief Financial Officer

Other Participants

- Ali Dibadj, Analyst
- Andrea F. Teixeira, Analyst
- Bonnie L. Herzog, Analyst
- Dara W. Mohsenian, Analyst
- Jason English, Analyst
- Jon R. Andersen, Analyst
- Jonathan Feeney, Analyst
- Joseph N. Altobello, Analyst
- Kevin Grundy, Analyst
- Lauren R. Lieberman, Analyst
- Mark S. Astrachan, Analyst
- Nik Modi, Analyst
- Olivia Tong, Analyst
- Stephen Powers, Analyst
- Steven Strycula, Analyst
- Wendy C. Nicholson, Analyst
- William B. Chappell, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to Procter & Gamble's quarter-end conference call. P&G would like to remind you that today's discussion will include a number of forward-looking statements. If you will refer to P&G's most recent 10-K, 10-Q, and 8-K reports, you will see a discussion of factors that could cause the company's actual results to differ materially from these projections. Additionally, the company 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>}

- joining me this morning. I'm going to provide an update on company results. David will update us on key strategy and focus areas. We'll close with guidance and then turn to your questions.

We continue to make important progress: strong volume and consumption growth, earnings per share at or above target, cash above target, market share is improving. Progress, though room for improvement on all metrics, most notably the top line. Organic volume grew 2% for the year, 3% in Q4. Organic sales growth fell just shy of rounding up to 2%. Eight of 10 global categories grew organic sales. In aggregate, these categories grew at over a 3% pace.

Online sales grew 30% for the year to nearly $4.5 billion in sales, approaching 7% of our total business, roughly the size of the next two largest consumer e-commerce businesses combined. We added nearly $1.2 billion of e-commerce sales in fiscal 2018 after adding about $1 billion in sales in fiscal 2017.

All-channel consumption grew at a faster rate than sales, between 2% and 3%. As a result, our share positions improved. Fiscal 2018 market share trends improved in eight of the 15 largest countries versus the prior year, with fourth quarter trends better than fiscal year average in 10 of 15. Market share trends advanced in seven of 10 global product categories, with improvement as the year progressed. We held or built e-commerce value share in eight of 10 product categories.

We made good progress in our two largest markets. U.S. all-outlet value share improved from a 30 basis point decline in fiscal 2017 to flat for fiscal 2018 to 30 basis points share growth in April-June. Seven of 10 product categories grew all-outlet value share in Q4. Seven of 10 categories improved their share trends on a past-six-months versus 12-month basis, and on a past-three-month versus six-month basis.

All-outlet unit consumption grew 2.5% for the full year in the U.S. and was up more than 3% in the fourth quarter. We continued the strong turnaround in China, improving from a 5% sales decline in fiscal 2016 to 1% growth in 2017 to 7% organic sales growth last year. Sales growth accelerated as the year progressed, growing 6% in the first half and 8% in the second half, including 10% organic sales growth in Q4. Six of seven categories are holding or growing sales, up from one of seven categories two years ago.

We generated about $1.6 billion in e-commerce sales, nearly 30% of the China business. Our global top line was challenged by several unexpected disruptions. In Brazil the worst transportation strike in more than 20 years, virtually shutting down shipments for two weeks; Saudi Arabia and the Gulf markets contracted significantly due to sharp increases in utility and gas prices, higher taxes, and an exodus of foreign workers; renewed trade restrictions with Iran; Algerian bans on imported products; severe consumption contraction in Egypt and Nigeria due to high inflation; and decreasing affordability following more than 100% currency devaluation.

Organic sales in these markets declined 13%, off a $2.2 billion base, a 40 basis points drag on companywide organic sales growth. Global retail inventory reductions took an additional 30 to 40 basis points out of sales as customers managed cash and purchases shifted to e-commerce.

As you know, we've been pointing to challenges in two categories: Grooming and Baby Care. While there's still more work to do, we've made significant progress on both. Global Shave Care share was in line with prior year, with Braun share up 0.5 point. We improved U.S. male blades and razors value share from a 4-point decline in fiscal 2017 to nearly flat for fiscal 2018, to over a 1-point increase in the fourth quarter.

We launched Gillette 3 and Gillette 5 razors in the U.S. last quarter to strengthen our position at opening price points for male shaving systems. We've revamped and strengthened our online program, Gillette On Demand, increasing the rate of new user recruitment and retention. We're currently growing volume share and value share on a past three- and six-month basis. U.S. Male Shave Care delivered 3% volume growth last fiscal year with male shaving systems up 5%.

Venus all-outlet share of female blades and razors in the U.S. grew 0.5 point last year and 1.5 points in the fourth quarter. We face new challenges on Gillette, as a value-share competitor is expanding in-store distribution in the U.S., and its competitors are expanding their direct-to-consumer propositions in Europe. We're funding strong plans to protect the business, but competitive actions are likely to have at least some impact.

Baby Care had a challenging year, but we significantly strengthened our long-term position. China sales and share trends improved sequentially through the year. In the fourth quarter, the business grew organic sales mid-single digits, and share progress accelerated, returning Pampers to overall share leadership in Mainland China. Pampers more than doubled its share of premium-tier diapers last year, extended its share lead on pants, and took value share leadership in e-commerce.

Baby Care sales in India, an important growth market for the future, grew 34%. U.S. Baby Care was challenged by aggressive private-label pricing that primarily impacted the Luvs brand, retail inventory adjustments, smaller retail-funded promotions, and a comparison against a base period that included the successful relaunch of Pampers Easy Ups Training Pants.

We've strengthened our consumer value proposition on Luvs, with value share starting to stabilize. We introduced Pampers Pure Protection, diapers and Aqua Pure Wipes in April. In just a few weeks, we achieved share leadership in the naturals segment and tracked channels. Consumer reviews of Pampers Pure have been very strong, and we expect momentum to grow as we drive awareness and trial.

We continue to build on the success of our diaper pant products. Pampers is the global share leader in pant-style diapers, with nearly a 30% share of a form growing at a double-digit rate, positioning us well as the market continues to shift towards pants. New premium-tier innovation and new pack sizes are launching this quarter that include a price increase on most items, equivalent to a 4% increase across the North America Pampers diaper business.

Challenges remain on both Grooming and Baby Care and competition's strong, but we're much better positioned as we enter fiscal 2019 than we were heading into 2018.

Moving to the bottom line, our going-in fiscal year guidance called for core earnings per share growth of 5% to 7%. Despite significant cost challenges nearly double what we expected at the start of the year, increased transportation costs, and increased investments in consumer and customer value, core earnings per share was $4.22 for the fiscal year, up 8% above the high end of the going-in guidance range and at the high end of our mid-year revised range. Commodities and transportation costs were a $500 million after-tax headwind, a 5-point drag on core earnings per share growth. Foreign exchange was a modest earnings help for the year. Tax reform was around a $150 million benefit.

Core operating margin contracted 50 basis points as pricing lagged commodity cost increases. We've grown core operating margin 270 basis points over the preceding four fiscal years, 610 points excluding foreign exchange, and expect to resume margin growth as pricing is implemented to offset commodity costs and as more productivity savings come online. Productivity improvements generated 260 basis points of savings for the year that we just completed.

Our current 21.6% core operating profit margin is among the highest in the industry, and we continue to hold advantages in below-the-line costs. We borrow at some of the most favorable rates in the industry. We have a tax rate that is among the industry's lowest. All of this leaves us with a core after-tax profit margin of nearly 17%, one of the highest after-tax margins in the industry, with three years of the current productivity program still ahead of us.

Cash flow remains dependably strong, with adjusted free cash flow productivity of 104%, well above our going-in target of 90%. We raised the dividend 4%, growing it for the 62nd consecutive year. We paid out more than $7 billion in dividends and repurchased $7 billion of stock, returning more than $14 billion in value to shareowners. Over the last 10 years, we've returned more than $120 billion in dividends and share repurchase, greater than 100% of adjusted net earnings. Our current dividend yield of 3.6% is nearly a full point higher than the Consumer Staples SPDR Fund average.

Detailed fourth quarter results are provided in our press release, so I'll just hit a few of the highlights. Organic volume up 3%. Organic sales were up over 1%. Core earnings per share were $0.94, up 11% for the quarter. All-in earnings per share was $0.72, including $0.14 per share of non-core restructuring charges and $0.09 per share of early debt retirement costs. Adjusted free cash flow productivity was 158%.

In summary, core earnings per share growth above the going-in guidance range and at the high end of the revised range despite significant commodity and transportation cost increases; cash ahead of target; strong consumption with improving share trends; sales growing but modestly below our target range; progress in many areas, but again importantly room to improve on all metrics, particularly organic sales growth. David?

David S. Taylor {BIO 15435092 <GO>}

I'd like to add some perspective on our results, especially the top line sales and share growth, as sales growth was softer than we want but share is showing why I am confident the interventions are working and moving us forward in a sustainable way.

We have more brands, categories, and countries growing than we did last year or the year before. The trends over time are very clear. Importantly, the improvements are driven by the strategic interventions and plans, starting with interventions to improve the superiority of our products, packages, communications, go-to-market, and value, both consumer and customer.

I'd like to provide some highlights on the progress on brands and markets, and then go into more detail on the actions and the impact of our choices. First some quick highlights. As Jon, said eight of 10 product categories in 18 of our top 25 brands held or grew organic sales in fiscal 2018. SK-II grew more than 30%. Downy grew sales double digits, driving mid-single digit growth on the fabric enhancer category and over a point of value share growth over the past three, six, and 12 months. Eight brands grew organic sales mid to high single digits, including Ariel, Always, Olay, Oral-B, Old Spice, Braun, Febreze, and Swiffer.

Twelve of our top 15 countries held or grew organic sales in fiscal 2018, with six of those growing mid-single digits or faster. Turkey and India each delivered strong double-digit growth, with all categories in each country growing sales. Japan grew mid-single digits, with value share up over 0.5 point for the year and up more than a point the past six and three months. Mexico grew organic sales in mid-single digits. Twenty-six of our largest category-country combinations held or grew market share, up from 21 of 50 last year.

As Jon has said, we have more work to do to accelerate results. We clearly are operating in a very dynamic environment. Changing government policies including tax, trade, and privacy; retail transformation; disruption of the media ecosystem; rising input and transportation costs; and foreign exchange headwinds; with highly capable multinational and local competitors determined to win. We are accelerating changes to meet these challenges and further improve results. This will enable us to spot and capitalize on opportunities, and identify and fix issues faster than we ever had in the past. We will be the disruptors in our industry.

We're investing to improve superiority, our margin of advantage. We're making P&G ever more productive. We are structuring an organization and building a culture that continues to put us in front of change, riding the wave of this dynamic environment versus being hit by it. We're leading disruption across the value chain, innovation, supply systems, consumer communication, retail execution, customer and consumer value, to consistently and sustainably grow sales, margins, and cash.

And next I'd like to offer a few points on superiority, which is really our basis to win. We've made a deliberate choice to invest in the superiority of our products and packages, retail execution, marketing, and value, and not just in the premium tier, but in each price tier where we compete. We need to strengthen the long-term health and competitiveness of our brands. To do this, we've raised our standards for each of these superiority drivers. In brand-country combinations where we judge ourself to be noticeably superior in at least four of the five elements, we deliver meaningful improvement in key business success measures, including household penetration, which is the number of people that buy our brands each year; market growth, critical to us and our retailers; value share growth; sales growth; and profit – all 80% of the time. When we are superior in just three or fewer of the superiority elements, we grow all of the business success measures 0% of the time.

A few examples of where superiority is driving growth include our Fabric Care business, where in the U.S. we grew organic volumes 6% behind superior innovations like Tide PODS, Gain Flings, and fabric enhancer scent beads. These innovations have been the driving force of Fabric Care market growth. Unit-dose detergents and scent beads have driven Japan Fabric Care to a record organic sales growth of 9%. In Europe, Fabric Care organic sales grew 5% for the second consecutive year, driving category growth and delivering 27 consecutive months of share growth.

Feminine Care has delivered 11 consecutive quarters of organic sales growth, with the combination of outstanding product innovations and packaging on Always pads and Always Discreet in adult incontinence. They've developed compelling marketing campaigns that are building brand equity and driving trial. They're growing the category, earning strong distribution and display of new items. They're driving trade-up to premium variants that consumers view as an excellent value for the product performance they receive.

Turning to Skin Care, Olay and SK-II are serving different segments of the skin care markets, and both are delivering strong results by improving superiority. SK-II sales have grown for 15 consecutive quarters at an average rate of over 20%, including 30% last fiscal year. SK-II's superior product is based on a proprietary formula that works to dramatically rejuvenate the skin's appearance. It's a product that solves problems for consumers in a noticeable way. It's presented in prestige packaging that builds brand equity and consumer confidence in the product.

SK-II's marketing campaign has accelerated growth of new users by connecting to them on a more emotional level while reinforcing product benefits. Excellent retail execution, in stores and online, leverage a rich consumer database in technology like our state-of-the-art skin analysis tool, which we call the Beauty Imaging System, to make a personal connection with consumers. The combination of these support SK-II's premium price and value for the consumer.

Olay in China has delivered five consecutive quarters of double-digit organic sales growth behind superiority across all touch points. We launched Olay Cell Science last year, Olay's first-ever super peptide formula, delivering visible skin transformation in 28 days. We've upgraded Olay packaging to prestige-like quality and attractiveness. We've completely revamped our Olay beauty counselor program. We've reduced the number of beauty counters and upgraded the remaining counters with higher and tighter standards. Our "Fearless of Age" campaign, with an empowering message for consumers, has driven consumption and has contributed to strong e-commerce sales that are up 80% fiscal year to date and has grown Olay's market share.

And we've talked about the work we're doing to respond to a changing world and changing consumer needs, including increased demand for natural and sustainable products. We've now introduced products in nearly every category that address these emerging consumer needs. Tide purclean, Gain Botanicals, Dreft purtouch, ZzzQuil PURE Zzzs, Febreze ONE, Whisper Pure Cotton, and more recently we just launched Pampers Pure Protection diapers and Aqua Pure Wipes. Our naturals segment offerings quadrupled sales in fiscal 2018. We expect to more than double sales again in 2019. We're in this game and in this important segment to win.

We're augmenting organic innovations with acquisitions: Native, a natural deodorant, and Snowberry skin care, a naturals brand based in New Zealand. We recently announced our agreement to acquire First Aid Beauty, a full line of prestige-quality skin care products that deliver superior skin health solutions specifically designed for sensitive skin and skin conditions like redness, irritation, and eczema.

We are leveraging lean innovation practices to create and extend product and packaging superiority faster and more cost-effectively than ever before. And Pampers Pure is a good example. It reached the market in half the time of a typical product innovation in a very capital-intensive diaper category. We're using the lean approach to explore how we can solve new problems for consumers, addressing new jobs to be done. We have several new products in various stages of market testing right now and we've brought them to that point at a fraction of the time and investment it would have taken us without this lean approach.

We're making a big move to more deliberately consider and pursue external monetization of P&G innovation in noncompeting industries. And occasionally where we think the benefit of sharing the innovation will enhance value creation and the societal benefit can be meaningful, we may make the technology available within our competitive set. I'll give you an example: Air Assist packaging that we invented for e-commerce shipping of liquids that delivers significantly better visual impression and end use experience, and it reduces plastic usage by 50%. We just started licensing this technology broadly.

We're doing the same with other P&G innovations that provide significant sustainability benefits. We invented a breakthrough technology to revolutionize the plastic recycling industry. It separates color, odor, and other contaminants from recycled polypropylene plastic to purify it into a nearly new-quality resin. By allowing others to utilize and commercialize this technology, we'll lower the cost, unlock value, and improve environmental sustainability of entire industries.

In addition to products and packages, we're improving the superiority of consumer communication and retail execution, as well as consumer and customer value. At this year's Cannes Lions International Festival of Creativity, P&G and our agencies won 26 Lions for the outstanding work on P&G brand campaigns, including two of the Grand Prix honors for the "It's a Tide Ad" campaign, which launched during the Super Bowl, and "The Talk," which started an important conversation about racial bias. We used the forum to announce further commitments to advancing diversity and gender equality in our advertising.

Now, an external measure of our improved retail execution is the global Advantage Monitor Report, an independent retailer assessment of manufacturers across seven key focus areas. Our objective is to be ranked number one overall and the top third versus competition in all areas. For the third straight year, we were number one ranked globally, with the highest number of countries ranking P&G as the number one manufacturer. We also ranked number one in all seven practice areas for the second year in a row, with noticeable improvements in the categories of Business Relationship and Support, importantly Category Development, Supply Chain, and Customer Service.

We've done this by improving our capability to take faster action with customers and align our people with the categories they sell. We've increased investments to improve retail execution, distribution assortment and display, and consumer and customer value, all important elements of our superiority strategy.

We're making good progress on extending our margin of advantage and increasing the quality of execution, but we face highly capable competitors who continue to innovate their products and business models. Addressing these challenges and extending our product and package advantages, superior execution, and consumer and customer value will require continued investment. The need for this investment and the need to drive balanced top and bottom line growth, including margin expansion, underscores the importance of productivity.

We are driving cost savings and efficiency improvement in all facets of our business, approaching the midpoint of our second five-year, $10 billion productivity program. We've consistently delivered $1.2 billion to $1.6 billion in annual cost of goods sold savings. I expect we'll be at the high end of the range again this fiscal year.

Another area of savings is the elimination of substantial waste in the media supply chain. A year ago, we highlighted the need for media transparency, with five calls to action; one viewability standard; third-party measurement verification; transparent agency contracts; fraud elimination; and brand safety. The entire industry stepped up, including strong partnerships with Google and Facebook to take action on their platforms. The progress has been impressive, about 90% complete on delivering the appropriate standards and measurements. These efforts enabled us to cut waste and reduce media cost by 20%.

In addition, we have eliminated waste related to excessive frequency. A deeper look at third-party data indicated that some consumers were being reached by our ads 10 to 20 times in a month, significantly higher than our suggested average of three. We reduced excess frequency and reinvested these savings to increase media reach, the number of consumers seeing our ads, by about 10% and trial building activities by 50%.

We see further opportunity moving from wasteful mass marketing to mass one-to-one brand-building enabled by data and technology. In China, where 70% of our media is digital and 30% of our sales are in e-commerce, we have one of the largest data management platforms in the country, which we use for consumer analytics. We can effectively manage frequency and engage people when and where it matters. We saved 30% on digital spending in China while increasing digital reach by 60%.

We're reinventing advertising from mass clutter to less doing more. For example, Olay China was running up to six different ads at a time and changing ads every two months. We now focus on one highly effective ad and stick with it over time. With fewer ads and lower frequency, we focus on creating deeper one-to-one engagement by improving in-store presence. With these interventions, Olay China has delivered its fifth consecutive quarter of double-digit growth, with media spending down 50% over the past two years.

With our access to data and analytics and experienced purchasing professionals, we can bring more media buys in house. We're returning to one-stop shops where it makes sense, reuniting media and creative. We're implementing a fixed and flow model, reducing the number of agencies on fixed retainers, while flowing creative resources in and out on an as-needed basis.

These changes not only reduce the number of agencies and save money, but lead to better quality, greater creativity, and faster ad development cycle times. We've delivered nearly $1 billion of savings in advertising agency fees and production costs over the last four years. We see more savings potential in these areas, along with more efficiency in media delivery. We expect the majority of these savings to be reinvested in more effective delivery of ads to more consumers.

We're continuing to drive savings in the organization, redeploying resources closer to customers and customers, improving the efficiency and effectiveness of our business to operate at the speed of the market. We're focused on cost productivity and cash. We've made great progress on working capital. Over the past five years, we've improved receivables by three days, inventory by 10 days, and payables by more than 30 days.

We're driving out cost in inventory with our supply network transformation. We're making progress toward our vision of synchronizing the supply chain with real-time, point-of-sales data with the consumer purchase triggering updates to our manufacturing schedules and orders of materials to suppliers.

Our six new mixing centers in North America are enabling faster customer response times and optimize mixed product loads to improve customer service levels. P&G consistently holds best-in-class receivables positions. We're making further improvements by leveraging technology, using robotic process automation to digitize key elements of our work process. Over the last three years in North America, we've delivered $100 million in savings and improved cash flow by reducing days outstanding by more than a day while simultaneously improving productivity, reducing roll-off (29:19) by 30% and organizational cost by 50%.

An important cash productivity project has been supply chain financing, which we continue to expand. This program, which is a win for suppliers and for P&G, has yielded nearly $5 billion in cash in the five years we've been driving it. We improved payables by five full days last year on a constant currency basis.

Now, alongside the productivity work, we're making needed organization structure and culture changes to position us to win in the changing retail and competitive landscape. We're moving more resources into the businesses and closer to the consumers we serve with higher accountability, more agility, and greater speed.

We're simplifying organization structure and clarifying responsibility and accountability. We're tailoring the organization to win by category and by market. One great example is Greater China, moving from minus 5% sales in fiscal 2016, all the way to plus 7% in fiscal 2018, behind China-specific innovations, more on-the-ground resources, and better execution across all trade channels at the speed of China.

We can't afford this level of on-the-ground resources by category in all markets. The direction in smaller markets has changed from every category managing low-level activities in each country, to each category building a framework at the start of the year and enabling the local market experts to run the business consistent with those plans. The Malaysia, Singapore, Vietnam, and distributor markets group is a great example. The group has accelerated organic sales growth from double-digit declines to strong growth over the last year.

We're supplementing our internal talent with skilled, experienced external hiring to improve category mastery. We're strengthening compensation and incentive programs. A year ago, we increased the granularity of annual bonus awards, moving from about 20 bonus pools to over 100, tying incentives closer to results individuals deliver.

Last December, we announced that the board's Compensation & Leadership Development Committee modified the performance stock program available to our top 200 or so leaders to include relative sales growth metrics and a total shareholder return modifier to ensure awards reflect performance versus external competitive benchmarks. These changes go into effect this fiscal year.

Last month we announced further adjustments to the annual bonus program, increasing the percentage of total compensation at risk, increasing the weighting of business unit results versus company results, now weighted 70% business and 30% company versus 50%-50% in the past. We've widened the payout factors for the business unit and the company components to 0% to 200% of target and increased the number of people participating in the program.

Each of these organization and culture changes are aimed at creating a company designed to win in today's market, with today's consumer, at the speed of the market: more agile, more accountable, more efficient, more productive. Our focus on superiority, enabled by a strong productivity cost savings program and supported by an improved organization and culture, will yield faster growth, higher margins, and strong cash generation.

I'll turn it back to Jon to cover the outlook for fiscal 2019.

Jon R. Moeller {BIO 16200095 <GO>}

The dynamic macro environment from this past fiscal year – geopolitical impacts on markets, tariffs, intense competition, rising input costs, headwinds from FX – will continue to confront us in fiscal 2019. We've attempted to construct guidance ranges that reflect this reality at their midpoints and through the range.

We expect to make further progress on market share, but there will widely continue to be a gap between retail sales and P&G sales as trade inventories continue to contract, until we annualize more of the investments we've made over the last year and until new price increases are reflected on our results.

We're taking a price increase of around 4% on Pampers diapers in North America. Just yesterday, we began notifying customers across North America that we're taking a list price increase on Bounty, Charmin, and Puffs brands, which averages around 5% across the category on an annual basis. Bounty and Charmin pricing will be effective October 31, and Puffs in February.

As commodity prices and foreign exchange rates continue to move, we'll take pricing when the degree of cost impact warrants it and competitive realities allow it. There is uncertainty and will be volatility with these pricing moves. They will negatively impact consumption. We'll have to adjust as we go and as we learn.

Against this backdrop, we're currently expecting organic sales growth in the range of 2% to 3% for fiscal 2019. We expect organic sales growth to be driven by organic volume growth. Pricing will start the year as a drag on sales growth but should turn positive by the end of the fiscal year.

All-in sales growth is forecast in the range of in line to up 1% versus last year. This includes a headwind of about 2 points from the combination of foreign exchange and acquisitions and divestitures. The all-in outlook also includes the impact of lost sales from the dissolution of the personal healthcare joint venture with Teva at the start of the fiscal year and the assumption that we'll close the acquisition of Merck's OTC business at the end of the calendar year.

Our bottom line guidance is for core earnings per share growth of 3% to 8%. This range includes a $900 million after-tax headwind from the combination of foreign exchange rates and commodity costs, $0.5 billion from FX, and the balance from commodities. At the midpoint of the range, fiscal year core earnings per share guidance is $4.45 per share. Excluding the macro impacts, the low, mid, and top of the core earnings per share range each reflect double-digit earnings per share growth. Interest expense, interest income, and non-operating income will be a net drag of about 2.5 points on core earnings per share growth.

We estimate the core effective tax rate will be in the range of 19% to 20% for the year, adding about 2.5 points to core earnings per share growth. This tax rate is just 2 points lower than we first projected when we discussed the impacts of U.S. tax reform, given we have now had the time to fully assess the nuances of the new laws.

We expect diluted share count to be at 2 percentage points lower in fiscal 2019. We plan to deliver another year of 90% or better adjusted free cash flow productivity. This includes CapEx in a range of 5% to 5.5%. We'll continue our strong track record of cash return to shareholders. We increased our dividend in April, as I said earlier, for the 62nd consecutive year. We expect to pay over $7 billion in dividends and repurchase up to $5 billion of stock in fiscal 2019.

The shares repurchase range factors in the cash required to complete the acquisition of Merck's OTC business during the year and cash spent on other deals. Our guidance is based on current market growth rates, commodity prices, and foreign exchange rates. Significant currency weakness, commodity cost increases, or additional geopolitical disruptions are not anticipated within this guidance range. As you consider the quarterly profile of your sales and earnings estimates, please keep in mind the pricing dynamics I described earlier.

We'll mitigate more of the commodity and FX headwind in the second half of the year. Productivity savings should build as the year progresses. As a result we expect somewhat stronger organic sales growth in the second half. Bottom line results will be pressured most in Q1 and improve throughout the year.

Now I'll hand it back to David for some quick closing comments.

David S. Taylor {BIO 15435092 <GO>}

While the external environment presents many challenges, we're making important progress, and we're accelerating the pace of change. Our efforts to extend our margin of competitive superiority, to drive productivity savings to fund investments for growth and enhance our industry-leading margins, to simplify our organization structure and increase accountability are all aimed at one thing: delivering balanced top and bottom line growth that creates value of the short, mid, and long term. We know we have more work to do, but we're up to the challenge, and we're committed to take the actions needed to win.

And with that, Jon and I are happy to take your questions.

Q&A

Operator

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

Q - Lauren R. Lieberman {BIO 4832525 <GO>}

Thanks very much. Good morning.

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

Good morning.

Q - Lauren R. Lieberman {BIO 4832525 <GO>}

I just want to talk a little bit about pricing overall, at least pricing as it flows through on the P&L being down call it roughly 2% this quarter. In the release and in the commentary today, you talked about a couple of different things. So investments made in consumer and customer value, retail execution, of course driving trial as you've talked about. So if you could maybe parse a little bit for us some of the investments you're making, what's showing up in store, the couponing element, because obviously it was a very big spread between what happened with the U.S. Nielsen data through the quarter and what the reported U.S. organic felt like. And then what your visibility is or confidence is that volume will continue to respond, that this shouldn't be placed in the bucket of they're buying volume and this too shall pass if you pull back on some of these investments that you've mentioned. Thanks.

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

Okay. I'll make some comments, and then certainly Jon can jump in on a couple more thoughts.

First, the interventions that we've made to date have made sure that we got back in pricing corridors that we know position our brands to win over time. And then the superiority then kicks in when you're in a reasonable range. We've made those across the business, and frankly I'm encouraged by the share results we're seeing. And I feel we've gotten to a very good place now.

We'll have to see what happens going forward with competitive pricing and the pricing we're taking. But right now the trends to me are very positive, indicating the interventions on both customer and consumer product are making a big difference. We announced – or Jon mentioned a little bit about two of the categories that had been under the most pressure because of rising commodity cost, pricing is going into the market, one now on Pampers in Baby Care, and secondly later this fall on Family Care.

These are aimed to address commodity costs the entire industry is experiencing. So I believe that the interventions that we've made, and the investments we've made, are showing up, whether it's the U.S. or China or across the world, the trends of share growth are indicating that P&G is getting more competitive on the key brands and key categories that really matter to the company's growth.

Operator

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

Q - Wendy C. Nicholson {BIO 2081269 <GO>}

Hi. Could you talk a little bit more about China, because those numbers sounded actually terrific to me? 10% growth in the fourth quarter is great. So, number one, what was the cost of that growth? Did your margins go up or down, maybe for all of fiscal 2018 relative to 2017? What's your outlook for growth in China for fiscal 2019? And I know you said that Baby turned positive in the fourth quarter. But how much of that growth was driven just by SK-II and Olay? Are other categories like Oral Care or whatever else kicking in to the China growth? Just more color on that market would be great. Thanks.

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

Sure. I'll make some comments on that. And we're very pleased with China. You know the trends. We talk to this at probably every investor conference, the minus 5% to plus 1% to plus 7%. We've improved across the majority of brands, and frankly the fourth quarter was very encouraging at plus 10%. And we've got six or seven categories that are growing or holding share. Baby's been the one exclusion, and it's turned in the fourth quarter to growing sales. And Baby in China started growing share in the hyper and online channels, which is critically important. And to me the breadth is strong. The fact that e-commerce, most of our brands now are holding or growing share, and in the hyper are growing share, is very encouraging to me.

Yes, SK-II and Olay were very important, and they grew. But again, it's broad-based. Fem Care grew 18%. We've had very strong growth now for two years on power Oral Care, and that's turning. Fabric Care was, I think, mid to high single digits recently. So businesses that have struggled in the past, the superiority investments and importantly the organizational change that puts on the ground capability is now getting this operating at a speed that is showing tremendous progress. I think we mentioned earlier, front half 6%, back half 8%, all trending in the direction we want. So I'm very encouraged by it. Jon?

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

And with that, just briefly, both before-tax and after-tax margins increasing year on year. So it's been a productive investment, and we expect that to continue.

Operator

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

Q - William B. Chappell {BIO 1737315 <GO>}

Thanks. Good morning. Can you just, I guess, delve a little bit further into Grooming in terms of, I guess, what you were talking about on Harry's and what you're seeing? It did seem like there were some positive data points, or I guess you had talked about some positive data points, that maybe it had bottomed out intra-quarter. So have we seen the bottom? Are you seeing kind of increased competition as we move into the back half, and kind of how should we look at that over the next year?

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

A couple comments. The interventions we made last year clearly have made a difference, and you've seen that in the U.S. share results. The fact that they turned positive over the last three and six months is a strong indication. We've got our eyes, though, very wide open. Harry's is expanding distribution in Walmart. We expect continued competition online, both in the U.S. and now in several markets in Europe. However, this time we're being much more attentive to making sure we support the business online and offline, both in the U.S. and in Europe, and frankly across the world. And it's reflected at the total positive trends on Grooming share if you look globally and in the U.S.

I do, though, want to be very open about we expect the competitive environment to stay very heavy for a while, and the right actions would be get within pricing corridor, superior products, improve your in-store execution, and then we've stepped up our investment and capability online, both in U.S. and Europe. And most recently, we've been gaining new users at a faster rate than our competition the last couple months, even in the U.S.

So we understand and see the opportunity, and we're going to address in each market, online or offline, what it takes to grow, because we clearly have the superior products, we clearly have the ladder that gives us the tools to win. And now that we're putting innovation in disposables mid-tier in the premium tier, I think we're well-positioned now to grow this business.

Operator

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

Q - Jason English {BIO 16418106 <GO>}

Hey, good morning, folks. Thank you for letting me ask a question. I wanted to stick on the topic of diving a little bit deeper into just some of the segments. Profitability or margins were particularly soft in Baby and in Fem. I presume that's predominantly the input cost environment, hence the pricing. Can you confirm that? And then can you go a little deeper in Fabric and Home? I was surprised to see the margin degradation there, and I was also surprised to see the reference to investments in consumer and customer value, given the strong innovation you've had in that segment.

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

Thanks, Jason. You've just mentioned the three categories where the commodity cost impacts are the most significant, from both a pulp and energy basis on the paper businesses, and clearly from a petro-complex standpoint on the Fabric Care business. Those are also businesses where freight costs and delivery is a relatively high aspect of the cost structure, and as you know, the transportation market, particularly in the U.S., has presented us with some challenges as the year progressed.

So that is indeed – you rightly cite the reason why margins are compressed in those businesses. As we make moves, both from an innovation standpoint and a pricing standpoint, we expect to recover that margin. We did make some investments in Fabric

Care in the U.S. in both customer value and consumer value, and that's really just designed to continue the momentum in that business and continue pushing that market. And business has responded very well, with volume up 6%, value also increasing, and so we're reasonably happy with those choices.

Operator

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

Q - Nik Modi {BIO 7351672 <GO>}

Yeah, thanks. Good morning, everyone. I was hoping you guys could reconcile this dynamic of – Jon, to your point, P&G has very good margins, industry-leading margins. But at the same time you have a lot of competitors that are money-losing, and it almost seems like capital is unlimited out there right now for startups. So I'm just wondering how you guys internally think about that dynamic because it doesn't look like – or it doesn't feel like that trend is going to slow down anytime soon.

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

Well, I think, Nik – and Dave can comment on this as well – we've talked about the need to offer competitive value propositions across all price tiers that we choose to compete in, and that's versus multinational competitors. It's also versus local and regional competitors and startups. And we need to be more productive from a cost structure standpoint to do that and still generate the margins that we feel we need to earn. And so that's why we keep talking about the combination of three things. One is increasing advantage, which does allow us to price above the market at times; productivity, which funds the investments in advantage and also provides margin; and also consumer and customer value competitiveness. All three of those have to go together for us to win, whether that's versus a startup or an established multinational competitor.

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

The only thing I'd add to that is what you say is very real. I mean, you face reality, there are some people coming into categories that are aggressively spending. What we're choosing to do is make sure we're being more competitive in protecting our businesses. And to me when we do that and leverage the tools that we have, I think we're in a good place to be able to sustain the appropriate support to build the brand over time. And that may call for us at some times, in some countries, and some brands to be more aggressive to make sure that we don't cede a good bit of market share when we truly have a better proposition for consumers and a sustainable proposition.

And I think that's one of the opportunities, if I look back over the last couple of years, is when the first (49:24) is a very substantive competitive threat, to make sure each category and each country addresses the appropriate action. And that'll look very different depending on the category, the country, and the competitor. But clearly we believe that the combination of these five elements of superiority positions us well to be able to sustain both share and margin growth over time.

Operator

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

Q - Dara W. Mohsenian {BIO 3017577 <GO>}

Hey, good morning, guys. So I hate to belabor the pricing point. You guys mentioned progress in a number of areas in the last fiscal year ex organic sales, but margins and profit ended up being disappointing. I think you were only up 1% year over year. You'd originally expected 5% to 6%. I get that commodities ran up, so I'm not necessarily looking to go back through that. But what's surprising is when there is large commodity pressure you're also seeing negative pricing, and the pricing decelerated throughout the year. It doesn't sound like we should expect much recovery of that in fiscal 2019, and perhaps even commodity pressures above pricing yet again.

So I'm just trying to understand the forward-looking strategy at a very high level, perhaps taking advantage of your presence on the call, David. Is this lack of pricing power just sort of more the reality of the marketplace now with the retailer pushback, a competitive branded competitor environment, private label pressure, et cetera? Is it more of a purposeful choice in your minds to drive P&G market share, as you articulated, and hopefully reinvigorate organic sales growth? I'm just sort of wondering, is this a new normal going forward where we shouldn't expect much pricing from P&G, and how you think about that at a very high level.

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

Yeah. First, no, I do not think that the new normal is we don't have pricing power, at all. What I do believe is it varies by category when you take pricing and how much you take pricing. It is not unusual in several categories – so if I take the one that we announced yesterday on tissue-towel. It's not unusual for the industry to wait until the commodity costs build up to a certain level to be able to take pricing; then there's a threshold, you take it, and you do recover.

If you look over time, over three, five years in many of these industries – and I've got a lot of familiarity with the tissue-towel industry – we've been able to recover those costs. And do I see anything fundamentally changing that tells me we could not recover those costs well? Not at all. I believe superior products at competitive prices will win, and I believe in time the industry has to address input costs. And it just sometimes doesn't happen in the first three to six months that you see those.

The other thing that I very much believe is, when executed well, superior products command premium pricing. And we've got excellent examples of that, whether that's China or the U.S. And, again, it just causes us to have to up our game on the level of superiority, and it has to up our game on the productivity in the periods of time we have to bridge costs going up before we're able to address that, either with innovation or with pricing.

But we do not accept that we've lost pricing power. We do not accept that any category doesn't have the responsibility over time to grow. But it's the over time, and there'll be smart times to do it. And we learned a lot from two or three years ago when we may have been too aggressive trying to recover and got ahead of the market. But over time, very committed to deliver the sustainable margin growth and sales and share growth that I think our investors expect of us.

Operator

Next question comes from the line of Ali Dibadj with Bernstein.

Q - Ali Dibadj {BIO 15328592 <GO>}

Hey, guys. Just to – David – follow up on that. And you mentioned over time want to focus on 2019 as time and get a sense of your confidence in the guidance. First, in terms of the acceleration in top line of 2% to 3% organic sales, what does that assume in terms of price/mix versus volume? Is it more kind of "Marlboro Friday," "Tide Thursday" type pricing and couponing, so price/mix there? And then the 2% to 3% top line turns into a pretty wide range of EPS at the 3% to 8%. That suggests, obviously, a large range on margins.

I understand all the uncertainties, but want to understand how much those uncertainties are macro uncertainties versus competitive or consumer uncertainties. So to understand the flexibility you need there. And then lastly – and don't take this the wrong way, but do you consider – did you consider – not giving guidance at all, particularly given some of the transformation you're going through, the fact that it's back-half weighted again, and what you've admitted to be a lot of uncertainties in the marketplace?

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

So let me take that one, and David can jump in. First of all, the relationship between volume and price and the top line guidance estimate, Ali, as I mentioned, we expect over the total fiscal year basis, the organic sales growth to be volume driven. So volume will drive most of that. I also mentioned in the prepared remarks that pricing will be a negative impact on the top line for the first half or so, and then become positive in the second half. So the relationship between volume and price will evolve as the year progresses.

Even the price increases that we've talked today don't become effective until close to the end of the calendar year – actually one of them in October, and I think the other in February. So we're going to continue to see for the next couple quarters some price degradation. But as pricing is implemented in the marketplace, we should see that situation reverse itself.

Relative to the bottom line guidance, I think you said it very well. And David talked about it in his remarks. We're operating in a very dynamic environment. We try to reflect that reality in terms of the width of the range. The combination of foreign exchange, currency, the real uncertainty associated with trade and the political environment, and even the potential spillover into consumer purchase choices, it's just a very dynamic time. And I think there are opportunities within that, which is why the high end of the guidance range reflects a meaningful progress, but there are also challenges within that. So we're just trying to be representative of the reality that we see as we sit here today.

And generally we feel we have a responsibility to give investors an indication of in fact what we see in front of us and what we're working towards. And as you know we've moved away from two things relative to guidance over time. One is quarterly guidance, which we don't provide. So this is just a fiscal year slice. And we've also moved away from a lot of guidance on the internals in terms of individual margin components, for example, because with currency and commodities, those move all over the place. I will manage that but we don't need to distract you with that. So that's kind of how we're thinking about the guidance.

Operator

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

Q - Olivia Tong {BIO 7481692 <GO>}

Thanks. Good morning. Just wanted to focus again on price. I mean, the environment, whether it's macro, retail, has changed pretty considerably since the last time you guys needed to push through price. So it would be great if you could talk about the different ways you can try and realize price this time around, beyond just the diapers and tissue-towel that you mentioned. Are there other categories you're looking at? Have the levers changed? Do you think about not only straight list, but also reducing ounces in the tube or bottle or package count, which I assume was what you're doing in diapers and tissue-towel? And are there other areas, whether it be concessions for fuller truck loads, the focus on premium end? Just am trying to understand the potential leverage you may have to push through top line improvement and how that compares in developed versus emerging markets and how much volume you'd be willing to sacrifice in order to get price? Thanks.

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

Sure. Let me make just a few comments on that, because we absolutely have many tools to address price. Certainly there's straight list prices, and we've got some that we just announced. The majority of times we do pricing, it's coupled with innovations. So the consumer value can actually improve, but the higher price, you can recover cost to commodities. We've done that for years in many of our businesses and done it successfully. Again, the timing may not line up perfectly with the input cost increase.

We've done a lot of resizing when we think that works well and helps keep a critical price point. We've done a number with new pack sizes. We certainly can use innovations with new forms to create new price points and price expectations. There's also the tool of promotional spending, and again that varies widely by country, where it can often be a de-escalation of promotional spending is a way to get average price up, and again depending on the market dynamics can be a smart choice.

One of the reasons we're trying to put more decision space into markets where appropriate is that they can be a little more agile. And if you take U.S. and China as the two probably best illustrations, what we want is each category to understand exactly what's required to grow both their sales, their top line, and their bottom line over time, and they'll have the appropriate strategy then to address what tool in the pricing toolbox to address that over time.

And again I think that China is probably the most successful. The last two years we've seen sales growth, share trends moving very much in the right direction, and at the same time, as Jon mentioned, the structural financials have improved, and it's largely been superiority driven, supported by a lot of cost savings that allowed us to invest in the demand creation, as well as a lot of productivity to make sure the money we spent is very efficiently spent.

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

Yeah, I would just add one tool to the arsenal, which will be familiar to you, and that's just being as – and David referred to this – as productive as we can across the cost structure so that we have the flexibility to adjust when competitive realities dictate that we do that.

Operator

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

Q - Stephen Powers {BIO 20734688 <GO>}

Hey, thanks. Good morning. So, David, last quarter you described things as not business as usual at P&G, underscoring the need to deliver more balanced top and bottom line progress and really issuing at least what I heard as an incremental call to action. But this quarter, on what seemed like pretty similar results to me at least, you seem a lot more upbeat. So I guess my question is what's driven the change in tone?

And I definitely see that the market share trends at retail have improved, but it's obviously still coming at a cost. So just a little bit more expansion on why you believe future results will be more balanced. And I agree the volume and the market share trends are impressive. But to Lauren's initial question, as you pull back on the promotions and the couponing over the course of fiscal 2019, what gives you confidence that the volume and share momentum can be sustained?

And if I could tack on a related point, maybe, just with regards to your SG&A efficiency this quarter, if you annualize the lower SG&A versus consensus expectations, it's like a $1 billion positive GAAP on a full year, and that's an amazing run rate if it's sustainable. But I guess the risk that I'm grappling with is, in pulling back so dramatically, is there a risk that you're jeopardizing long-term business health by cutting back on important investment? And I know you've said you're not, but the gap is just so sizable, I feel compelled to ask the question. So thanks a lot.

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

All right. Steve, let me take the first part of that question and then ask Jon to cover some of the specifics on the SG&A efficiency and the annualization question that you have.

Again, my comments and certainly the optimistic view going forward, it is underpinned heavily by the share growth and the fact that many of the things we've been working on over time to get the proposition – the total proposition – we talked of five elements. Those don't happen immediately, and they don't happen on every brand in every country. As more are falling in place, we're seeing things to me that are very positive. The global value share trends over the last two years are getting better and better, and just recently turned positive. It's the first time this year, last year, where the total company in June was positive, driven by strong North America growth.

Go back two years ago, we said we had to fix U.S. and China. We had to address a number of key categories. Each of those sequentially is getting better. U.S. share meaningfully better, from losing 0.3 [percentage points] to losing 0.1 to flat, to past three months plus 0.3, past month plus 0.6, and it's driven by the right things. It's driven by products and packages and better and more efficient communication. That I think is sustainable. And what is happening now, and the phasing does affect certainly quarters, is recovering a lot of the input cost and T&W cost, transportation and warehousing cost, has taken time. And, yes, the competitive environment is very difficult, which is why we've said we're not business as usual. We know we have to take more cost out, and that's why we're doubling down and looking to accelerate many of the cost savings that we've planned over several years into tighter time frames. That's being worked.

We don't disclose everything, but clearly accelerating productivity, put smart investments in the right area of the superiority, and recovering cost when it makes sense with the right tool and pricing does give me confidence. And the fact that the consumers are voting for us more and more often, volume growth is strong, we're seeing many of the brands' household penetration start to move, and then you see China, India – we didn't talk a lot about – double digit, and the outlook is very strong. And if you're starting to get the U.S. growing, you get China growing, India, Europe has had solid growth, you start to feel you've got more and more of the key countries that drive profit and share and volume positive. And for that reason I think we can double down, but we need to do it faster. And we need an organization that owns outcomes in each market, and that's what we're building.

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

And relative to SG&A, going back to the importance of balanced top and bottom line growth, which we feel very strongly about, it wouldn't make sense to dial back on support for brand creation and the spending behind that, and we haven't done that. So media, for example, was up 4% in the quarter, even as we faced a very difficult year with lots of cost increases in the balance of the business. You wouldn't see the volume and consumption trends that you're seeing if we weren't continuing to support the business at relatively high levels. So the commitment to grow that top line and through the productivity efforts that David mentioned and the innovation efforts, which build margin, continue to build the bottom line, it remains fully present.

Operator

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

Q - Bonnie L. Herzog {BIO 1840179 <GO>}

Thank you; good morning. I just had a quick follow-on question regarding the pricing. Just hoping to hear more from you on what the retailers' response has been to the price increases that you've announced, and how have these increases possibly changed your different price gaps? And then a question on innovation. If you look back at your fiscal 2018, how would you characterize your pace of innovation and how successful it was, especially in the context of the organic sales growth? Did it meet your expectations? And then as you look forward into fiscal 2019, could you touch on your innovation pipeline and how different it may be from last year? Will there be more and/or will the innovation be more breakthrough type of innovation? Thanks.

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

Okay. There's many questions in there. The first one is difficult to answer in that we don't talk specific retailer reactions other than if you step back and look at the industry, we're all pressed to recover cost. Transportation and warehousing costs are experienced not only by manufacturers but by retailers. And so I believe broadly, as long as it is cost-justified and/or innovation provides meaningfully new benefits, I believe retailers will work with us. And I think generally the industry has to recover a rising input cost. All participants are experiencing this all over the world. So that's all I really can say. I won't talk about individual retailers, and the one we've just announced today we're just announcing today, so I don't have any data there. And generally if I look around the world, not just the U.S., generally I believe when you have innovation and/or there's an environment that it's justified, we've been able to get pricing. And so that's all I'll comment on that.

In terms of the pace of innovation, it has increased in terms of the impact, and that's what we really want is this magnitude of superiority. And if I take just the one example that we've talked many times, but it matters, is things like the scent beads. Growing that faster, moving it from a $250 million business to a $500 million business, adds real, profitable sales to the company. And we are driving those faster and harder, and driving things like household penetration, which is more users. Those are the most profitable additional cases you can get, because you've already got a sizable business, and you're leveraging the assets you've employed.

We want more innovations, and what we're working on is more meaningful innovations. We learned a lot, if I go back several years ago, with over-proliferating very minor extensions. What we want is meaningful, consumer-significant innovations, and where smart, differentiated solutions that help our retailers. And we'll work with them as well. And that's an area I expect we'll do more going forward, because the combination of those two addresses the consumer and customer value, and that's a key part of our superiority strategy.

Pipeline, I believe, is very strong. And the fact that we put additional effort into our upstream innovation several years ago, those will come out over time. And both Jon and I have mentioned that we have many tests going on to continue to make sure that we learn fast and then bring to the market consumer-meaningful innovation that will grow category size, which helps both us and our retailers.

Operator

Next we'll go to Joe Altobello with Raymond James.

Q - Joseph N. Altobello {BIO 5113646 <GO>}

Hey, guys. Good morning. Thanks for squeezing me in here. I guess I just wanted to dig in a little more into your 2% to 3% organic sales growth outlook and from a different direction. What are you guys assuming in terms of the overall market growth rate for this year? And I assume, if it's still in that similar 2% to 3% range, with trade inventory reduction reductions still a modest headwind likely, I'm trying to understand how much in the way of market share gains you're assuming, or does that imply, in terms of your organic growth rate for this year. Thanks.

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

Okay. Just a comment on the 2% to 3%, and I may need to get last part of your question – I wasn't sure I got it. The 2% to 3%, as far as market growth, it is in the, still the 2% to 3%. And understand, we have to grow a little faster because consumption tends to be ahead of what we experience because there have been inventories that have come down across the world as e-commerce grows, especially in the big, major markets. And I'm not seeing anything dramatically different. We'll see what happens in places where there's pricing, the benefit of pricing versus the impact on the consumer with volume. But right now to me the market is pretty steady.

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

So we should – with the dynamics that David mentioned, if we grow organic sales 2% to 3%, we should be building share against our current assumption of market growth, because consumption will be slightly higher than that.

Operator

Next we'll go to Jon Feeney with Consumer Edge.

Q - Jonathan Feeney {BIO 2268157 <GO>}

Good morning. Thanks very much. You cited – real quick one – you cited 120 basis points of mix factors within your gross margin buildup, mix and other factors. I'm assuming, the way you wrote that, that's mostly mix. And could you – I know you're not going to guide on that, but could you give us a sense what the single largest buckets are of negative gross margin mix and maybe if there's a big positive one in there that's offsetting and what you're thinking about for 2019 as far as gross margin mix as a contributor based on current trends? Thanks.

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

So I'll give you two examples of what are driving mix, one of which will hopefully reverse itself, the other will hopefully not, and I'll explain that. One example of negative mix is the decline year on year in sales in blades and razors, which is one of our most profitable businesses. So as that business grows at a lower rate or declines – or grows at lower rate than the balance of the business, that generates a negative gross margin mix hurt. That, I hope, resolves itself as we continue to strengthen results in that business.

Another example that might be somewhat counterintuitive – and tongue in cheek, I hope it doesn't resolve itself – is when you grow a premium-priced item – David mentioned beads, for example – at a rate that's faster than the balance of the business, those items – and both Tide PODS unit dose and fabric enhancer beads are examples of this – have a higher price. They have a significantly higher penny profit, typically dollars higher than comparable items, but the combination of those yields mathematically a lower margin, meaning that when you sell more of those products, your gross margin declines. But it's a very good day, and we want to sell as many of those items as we can. So John can help you offline kind of tease out those components, but those are two of the largest drivers in the quarter that we've just completed, for example.

Operator

And next we'll go to Mark Astrachan with Stifel.

Q - Mark S. Astrachan {BIO 15313233 <GO>}

Yeah. Thanks and good morning, everybody. Wanted to ask about where retailers are in increasing focus on private label. Less so as it kind of your relates to your ability to price and more to do with how brand-new companies compete when retailers seem to want to put more private label on shelves. An example of this would be your reductions in shaving and razor prices a year ago with a large wholesale club coming out with its own private label about a year after those reductions. And just sort of related to that, where do you believe your current shelf space is a year from now or so relative to current levels?

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

Just a couple of comments on that. First, we've experienced retailers putting varying levels of focus on their retailer brand, private label. And we understand for most retailers it's an important part of their strategy, both from an equity standpoint and a margin revenue standpoint. We've also shown over time – and probably Europe is the best illustration, because it's most advanced there – the ability to win in that environment, where the leading brand and the retailer brand can mutually be successful.

And it comes back to the same point. What you have to have is the brand consumers prefer, because then retailers want to carry it, because it builds the basket. And, yes, they will continue to put emphasis and at times add shelf space. And if we're doing our job and have the innovation, it comes at the expense of somebody else. It's one of the reasons you have to watch in the middle without a distinctive positioning in a brand that's meaningfully different to consumers. It is the reason why we believe that I think retailers will continue to put more emphasis, in many of the cases, on the retailer brands and we can accelerate our growth. But it means the advantages has to be enough that the consumer that's interested in the retailer brand is not the consumer that typically buys our brands. And when we really do our job, we're able to source from a variety of sources, but frankly usually it's the brands and the weaker businesses in the middle. So that part I think is still true.

I don't believe the – you'll see a spike when a retailer makes a new push in either a category or broadly into retailer brands. But, again, we've seen this over time – Europe is the best illustration, but the same is true in the U.S., where there may be a spike and then it steadies out with what the consumer wants. And they will follow the shopper just as we do. And our job is to make sure more shoppers pick our brands.

I believe we can earn shelf space over time with innovation, and that's certainly been our experience. You better be enough different. And, again, it's especially, to me, successful when you bring meaningful difference or a new form to the consumer or a new benefit area. It's one of the reasons PODS and beads have been able to grow both share, sales, profit, and space in most cases, because the retailer wants to feature it for the reason Jon mentioned, for us and for them, because the penny profit's higher for them, and to me, the absolute sales and total profit for us. And the consumer gets a product that's meaningfully better.

And that's a good example of superiority in place, and shelf space can be earned. And frankly the expectation I'd have for each of our businesses is they need to have propositions that are able to earn shelf space from the retail partners because it's in their best interest.

Operator

The next question comes from the line of Andrea Teixeira with JPMorgan.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

So following up on pricing, are you going to continue to increase the gap between your own price points? And you just positioned Luvs diapers cheaper before, and now with the announced price increase in Pampers, should we expect the price realization gaps in between those two brands to continue to widen? And the same for Bounty and Charmin brands, I guess these brands own (1:17:04) basic and essential value extensions, basically going back to the point about private label as you mentioned in the last few quarters. And in the long run, should we continue to see P&G use high-low strategies with the premium products funding price reductions in the key categories, as happened in Grooming and now in diapers? Thank you.

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

Okay. Just a couple comments on the pricing. Bounty and Charmin are pricing to recover the cost increases we and rest of the industry participants are experiencing. We have, for each of our brands and for each of our tiers, desired pricing corridors that we know the consumers believe provides good value. Over time, we'll take the actions that make sure we address that.

I believe in many of the categories where we're taking pricing on our premium brands, there is pressure for all participants to understand what they think is right to deal with the rise in input costs. We'll have to respond to whatever each of the competitors choose, and we'll do so. And, again, we've learned very clearly what is the pricing corridor where we can grow share over time. We also know that we increase the margin of superiority, we often can grow that price point. And that, again, is one of the reasons why we're doubling down on the superiority.

I believe, and again, we've gone through times where input costs went up significantly, where we've priced and we were able to build our business. And if something happens with another retailer that causes an issue – or rather another competitor – we'll have to be agile in each market, and we'll do so.

Operator

And next we'll go to the line of Jon Andersen with William Blair.

Q - Jon R. Andersen {BIO 15033263 <GO>}

Good morning. Thank you for the question. I want to ask about e-commerce. Sorry if I missed it, but what percent of the total company sales were e-commerce related in fiscal 2018? How would you characterize your major brand market shares online versus offline at present? And also if you could talk briefly about margins, offline, online, where you stand today, and what some of the opportunities are ahead to improve that. Thank you.

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

Sure. First, we're very pleased with the progress we've made in our total e-commerce business, led primarily by the two biggest, been U.S. and China, but also Europe as well and in other markets, Korea very strong. We're winning online with 30% growth this year. We're up to $4.5 billion (1:19:20) and in total, to answer specifically your question, it's about 7% of our global sales.

And the other point I'd make generally, it varies widely by country and category, but our market shares and our margins online are roughly equal to offline. And for that reason we – and we want to keep it that way as best we can, because we're channel agnostic. We can go wherever the shopper wants to go and have our brands available. And then we work the cost structure and certainly our productivity programs to ensure we can do that. But again, that varies widely by category and country because we have to deal with whatever the competitive set is in that category and country. But broadly, 7% global sales and markets, shares, and margins roughly equal.

Operator

And next we'll go to Kevin Grundy with Jefferies.

Q - Kevin Grundy {BIO 16423871 <GO>}

Thanks; good morning. First a housekeeping question if I can. Jon, so the tax rate guidance for fiscal 2019 at 19% to 20%. Is that permanently lower, and if so what's driving it? Is that also reflective of the cash tax rate?

And then, David, the broader question on the Beauty and natural space. And you touched on the three tuck-in deals that you've transacted on so far this year, small but add to brands like Olay and SK-II. Can you compare and contrast the approach here, maybe versus past mistakes that Procter has made in the beauty space? Maybe how you'll integrate these differently, maybe let them sort of operate on a standalone basis? Views of managing the number of brands in the portfolio? The company obviously went through a period of rationalizing the portfolio and reducing the number of brands. Maybe talk about that now as you sort of enter back into more active M&A. And maybe touch on the pipeline a bit and broadly what can we expect going forward. Thank you.

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

Okay. First on the taxes. Based on everything we know today, which will change tomorrow, we'd expect 19% to 20% to be a good estimate of a going tax rate, probably closer to 20% than 19%, Kevin. The cash tax rates, if you consider the cash that we're paying on the repatriation tax, which has already been recognized as a one-time charge to earnings, inclusive of that would be a little bit higher, but not significantly.

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

I'll give just some comments on naturals. First, we're quite committed to winning there. And while, yes, I will talk a minute bit about the acquisitions, to me the biggest part of the growth is coming from organic innovation from our existing brands. I mentioned almost every brand now has deeply understood that consumer. And what they've been working – and the reason it's taken time in some of the cases is we want to solve the trade-off between often the – either free-of or full-of, depending on how it's expressed in each market benefit, as well as with the core functional benefit of the category. And the ones I mentioned at least, whether it's Tide purclean or Gain, Febreze ONE, Whisper Pure Cotton, and recently Pampers Pure Protection, all of these are showing very good growth in the market because they're addressing the consumer need.

And, yes, we will supplement when we see an opportunity that gives us either people capabilities or a key brand that we think we can turn from a small brand into a bigger brand and grow over time. How I'd contrast this with potentially the past is we're not looking to proliferate a ton of brands and we want a huge number of small brands. What we want to do is grow our big brands, and we believe it's very important that we plant seeds in high-growth areas, either organically or through acquisition, and make them bigger brands by bringing our capability be it product, package technology, communication, and/or supply chain, which often is what enables you to turn these brands from small, unprofitable brands to mid-sized to bigger profitable businesses. And that's exciting, because almost every category, there is a meaningful consumer segment, and it is growing fast. And now we've got our organic innovation coming in the market and supplements.

And then the last thing, you asked what are we doing on the ones that we have purchased, is at this time we are leaving them where they are right down and giving them time. We want to learn from them and then make available the capabilities that P&G has without imposing anything that would slow down the rate of growth or our rate of learning. And to me, I'm quite excited about what we're learning from Native and Snowberry, and what we will learn from First Aid Beauty, and frankly what we'll learn from our healthcare acquisition, because we have talent coming in, and we have products and brands that we think are catalysts for accelerated growth.

Operator

Our last question comes from the line of Steve Strycula with UBS.

Q - Steven Strycula {BIO 18357963 <GO>}

Hi. Good morning. Two quick questions on the portfolio. First with Fabric Care. Can you speak, Jon, a little bit more about the acuteness of where we saw the price/mix investments and what catalyzed the behavior? And should this be a trend that was contained to the fourth quarter, or should we expect it to linger on through fiscal 2019? And then for the second part, I can appreciate that there's a number of different items happening in Grooming right now competitively. But all in, should we expect revenues for that business segment to be down in fiscal 2019? Thank you.

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

So on laundry in the U.S., we made several investments to deliver price competitiveness consistent with the comment David made earlier about maintaining pricing within proven quarters for growth. And you saw that generate some solid growth. Where we go from here will depend a lot on the competitive environment. We want to drive as much top line revenue as possible, but we know we need to be price competitive to do that sustainably.

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

And the other, we don't give guidance by business, but no, I have not accepted and we have not accepted that any of our core categories are not going to grow in fiscal 2019. We'll have to deal with what happens in each market, and for Grooming, our aspiration is to grow that business. And we're putting the innovation and plans in place just to do just that.

I think that wraps up the call. Thank you very much. We appreciate the questions. And again, I'd just close with we're quite committed to making the changes, and the strategy to me is showing the right signs in terms of positive share trends, and we're quite committed to delivering balanced top and bottom line growth. Thank you all.

Operator

That does conclude today's conference. We thank everyone again for their participation.