Q1 2018 Earnings Call

Company Participants

- Jasmine Xu, Head of Greater China eBusiness & Brand Operation
- Jon R. Moeller, Vice Chairman & Chief Financial Officer
- Matthew S. Price, President, Greater China Selling & Market Operations
- Sumeet Vohra, Vice President-Hair Care-Greater China

Other Participants

- Ali Dibadj, Analyst
- Andrea F. Teixeira, Analyst
- Bonnie L. Herzog, Analyst
- Caroline Levy, Analyst
- Dara W. Mohsenian, Analyst
- Jason English, Analyst
- Jon R. Andersen, Analyst
- Jonathan Feeney, Analyst
- Joseph Nicholas Altobello, Analyst
- Kevin Grundy, Analyst
- Lauren Rae Lieberman, Analyst
- Mark Stiefel Astrachan, 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.

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 Chief Financial Officer, Jon Moeller.

Jon R. Moeller {BIO 16200095 <GO>}

I'm coming to you this morning, actually this evening, our time, from P&G's offices in Guangzhou, China. China, as you know, is P&G's second largest market, both in terms of sales and profit. Given its importance, I'm in the market two or three times each year, and this time, we just thought we'd taken advantage of the resources here to give you deeper perspective on its important business and the progress we're making.

China and Guangzhou are special places for me. My wife Liz and I lived and worked here in the 90s, we hired and developed much of the finance talent that helps lead P&G's China business today. It's always very good to be back.

I'm joined here this morning by Sumeet Vohra the end-to-end category General Manager for China Hair Care. I'm also joined by Matthew Price, President of China's Selling and & Market Operations. Matthew reports to David Taylor, our CEO. And we're joined by Jasmine Xu who works with the end-to-end categories in China on building our omni-channel e-commerce capability. With Double 11 right around the corner here in China, I'm sure Jasmine will have some interesting perspective to share.

Let me turn first though to the company's results for the July-September quarter. As we said on our last earnings call, this quarter presented our most difficult top line comparison of the year. Underlying market growth was notably stronger in the base period than it is now.

As you've no doubt heard from others, market growth continues to be sluggish. We estimate global category growth below 2.5% for the quarter, a modest deceleration versus the April-June period. P&G organic sales grew 1% on 1% volume growth, fully in line with our internal estimates going into the quarter. These results include about a 30 basis point impact from the earthquake in Mexico and hurricanes in Texas to Gulf Coast and Puerto Rico, each of which causes to hold operations in these geographies during the quarter. They also include a 40 basis point impact from the combination of U.S. Gillette pricing investments and discontinued brands and product forms, all of these impacts will dissipate as the year progresses.

Market share trends continue to improve with 13 of the top 20 countries and 14 of the top 20 brands, 65% of the top 20 countries, 70% of top 20 brands growing or holding share. E-commerce growth continues to be very strong, up 40% with 7 out of 10 categories growing share and two others holding share, 90% of categories growing or holding e-commerce share.

On the bottom line, all-in earnings per share were $1.06, up 10% versus the prior year. Core earnings per share were $1.09, up 6%. This includes a $0.03 headwind from higher commodity costs and $0.01 from the natural disasters, I mentioned earlier. These impacts, negative mix and increased investments more than offset triple-digit productivity savings, contributing to a modest core operating profit decline of 40 basis points versus a year ago.

The core effective tax rate was 23.4%, about 0.5 point above last year. Free cash flow productivity was 87%. We repurchased $2.5 billion in shares and distributed $1.8 billion in dividends this quarter. In total, $4.3 billion of value returned to shareowners.

Net results that were in line with our going-in expectations despite some unanticipated negative impacts and slowing market growth: Continued to increase the number of brands and markets that are holding and growing share, both offline and online; continuing to deliver productivity savings with strong cash flow. As a result, we're maintaining fiscal year guidance across all elements, top line, bottom line and cash.

We expect organic sales growth of 2% to 3%, despite the continued deceleration of market growth rates. This estimate includes about 0.25 point of headwind from portfolio cleanup in the ongoing business. It also includes the headwind from the price adjustment on the U.S. Blades & Razors business made late last fiscal year. Again, 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 fiscal 2018 all-in sales growth of around 3%. This includes 0 to 0.5 point 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 for core earnings per share growth of 5% to 7%. We expect core operating profit growth to be the primary driver of core earnings per share growth this fiscal year. We expect the combined impact of interest expense, interest income and other non-operating income to be a net headwind on fiscal 2018 core earnings per share growth. The core effective tax rate should be around 24%, roughly in line with fiscal 2017.

Share count will be an EPS benefit of about two percentage points due to discrete share repurchase and the carryover benefit from the Beauty transaction share exchange that benefited July-September results but is now fully in the base period comparisons going forward.

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 expect to pay nearly $7.5 billion in dividends and repurchase $4 billion to $7 billion of our shares in fiscal 2018.

At current rates and prices, FX was a help of about $150 million after-tax versus year ago. Following the natural disasters, we're now estimating about a $300 million profit hit from higher commodity costs. We knew we'd see higher pulp costs going into the year. These costs have continued to increase beyond initial forecast ranges.

Ethylene, propylene, kerosene and the polyethylene and polypropylene resins have increased recently, primarily as a result of the hurricanes in the Gulf. Significant strengthening of the U.S. dollar, further commodity cost increases or additional geopolitical disruptions are not anticipated within this guidance range.

Turning now to China. We're making significant progress in this very important market. In fiscal 2016, two years ago, organic sales declined 5%. Last fiscal year, we grew 1%. We're projecting mid-single digit growth this year. In the quarter we just completed, China organic sales grew 8%, including about two points of pre-shipments for Double 11 day. So far, October is trending fully in line with expectations, so we have a very good start toward our mid-single digit objective for the fiscal year.

Two years ago, again in fiscal 2016, two of seven product categories grew organic sales in China. Last fiscal year, we grew sales on five of seven categories. This quarter, we grew in six of seven, and we expect organic sales growth in all seven categories over the course of the fiscal year.

Of the 10 subcategories, in which we compete in China, four grew share off-line and seven grew share online over the last three-month period, up from two and five respectively over the last 12 months.

A few highlights, SK-II organic sales grew more than 40% this quarter, driven by the successful digital campaign #INeverExpire and the addition of new users in department stores and online. Olay organic sales were up mid-teens, driven by the launch of the premium Olay (09:02) boutique in September and strong growth of e-commerce and counter (9:08) businesses. Hair Care has made sequential market share progress over the past few quarters, driven by new premium innovation on Head & Shoulders, Pantene and Rejoice. Sumeet will share more detail on these innovations in just a few minutes.

Feminine Care organic sales grew mid-teens, driven by continued growth of premium innovations like: Whisper Infinity and Radiant, our best performing thin pads; Whisper Pink, our mid-tier cotton-like top sheet innovation; and the launch of Whisper Pure Cotton, our new premium pad with 100% natural cotton top sheet.

Oral care grew 7%. Pampers launched its new premium tier taped diaper, Pampers Ichiban, in August, along with a re-launch of the premium pants style diaper. Both forms are produced in Japan and imported into China. Pampers Ichiban is already available in more than 10,000 baby stores and nearly 4,800 hyper and superstores.

Consumer awareness continues to build. Consumer comments and product ratings are very good, and consumer conversion from competitive premium tiers is strong. In August, Pampers grew share in the premium segment for the first time in many years.

We're also making significant progress in the overall pants segment. This is the fastest-growing form in the market, growing at a 40% clip. Pampers is now the market leader in the pants form in China, up from number five just two years ago. Pampers Pants sales in July-September grew 200% versus the prior year.

China Pampers overall sales and share for the quarter were much improved versus prior quarters, but were still below year-ago levels in total due to soft shipments on mid-tier taped diapers, which account for about 75% of base period shipments, as wholesale inventories were drawn down ahead of new innovation and pack size shipments and as we work through an innovation-related price increase. We expect to grow China Baby Care sales this fiscal year and return Pampers to share growth, which would mark a significant turnaround.

We continue to build share in e-commerce in China. We grew e-commerce sales approximately 60% this quarter in a market growing around 50% with 7 out of 10 categories and subcategories holding or growing online market share.

Accelerating growth in China is important to both the top and bottom lines of our company. After-tax profit margins in China remain very strong, despite significant investments over the last few years in product and package innovation, additional sales resources and targeted value corrections. It's our second largest profit contributor after the U.S., with one of our highest after-tax margins. So, growth here matters.

I now want to turn to Matthew, Sumeet and Jasmine to give you a deeper view into the progress we're making in China. Sumeet, our largest China businesses Hair Care, which you run, can you start by just giving us an overview of the hair care market in China and P&G's position in it?

Sumeet Vohra

Thank you, Jon. I'm going to focus my remarks on Mainland China. China is the biggest hair care market in the world, with retail sales of $8 billion. P&G is the market leader in China by a distance. We are nearly three times as big as the number two player and four of the top five hair care brands are from P& G. The hair care market is growing mid-single digits. P&G's portfolio of brands, strong brand equities, our technologies, favorable cost structure and the innovation program puts us in a strong position to create value in China hair care.

Jon R. Moeller {BIO 16200095 <GO>}

You know, Sumeet there have been, it seems to me, a couple of important organization changes in Hair Care in China. One, of course, is going end-to-end. Another is having sufficient resources on the ground in China. And the third is probably the priority the global category has placed on the China Hair Care business. Do you agree with that observation and how do you see those changes making a difference?

Sumeet Vohra

Yeah, I agree with that observation. These organization changes and the priority from the global category have made a big difference to our business. Category dedication is helping build hair care expertise in our sales teams and partner more effectively with our retail partners. With sufficient resources in China, decisions are being made closer to the ground, and hence, the quality of decisions and speed has improved.

One example of speed, we finalized the packaging design for Rejoice Micellar water (13:47) in mid-December, and we shipped in May, that is within 18 weeks. These interventions are helping us deliver sequential improvement in Hair Care sales and market share.

Jon R. Moeller {BIO 16200095 <GO>}

Tell us about innovation in Hair Care and why it matters.

Sumeet Vohra

Innovation in Hair Care is key to delighting consumers, keeping our brands relevant and growing the category. As you know, our recent premium price innovations, such as Rejoice Micellar water, Pantene 3 Minute Miracle, Pantene hair energy water, (14:14) and Head & Shoulders Supreme are great examples of this. These are very good products and consumers and customers are happy with them. We are also innovating in marketing and media. Our recent Break the Rules program on Vidal Sassoon has helped us grow the brand nicely. Our innovation program, together with the go-to-market interventions has helped grew China Hair Care business 2% in fiscal 2017 and 5% in the quarter just concluded. Our market share trends are improving, and we grew off-line retail share in the last reported period.

Jon R. Moeller {BIO 16200095 <GO>}

And very importantly, how do you feel about the future of Hair Care in China?

Sumeet Vohra

We have a strong portfolio of brands that caters to the most important needs in the category. We are bringing irresistible products, packages and innovations to the market. We have now gone end-to-end and have sufficient resources on the ground, who we're empowered to make decisions. We have significantly increased speed to market and are now working to bring innovation from idea to market in less than six months. And we have attractive margin structure. These interventions set us up as a top leader (15:24) in the industry and in a very strong position in China Hair Care.

Jon R. Moeller {BIO 16200095 <GO>}

And Matthew, where do you think we are in the overall China turnaround? What are the opportunities and challenges that lay ahead of us?

Matthew S. Price {BIO 19665846 <GO>}

Thank you, Jon. To execute the turnaround, we needed to bring more premium innovation and better cover the growing channels. All of the categories support premium innovation in the last six months. Also, we are strengthening our coverage of key channels, including dedicated coverage of baby and cosmetics source. Hence, I'm pleased to report we grew sales 8% this quarter, which puts us on track to deliver mid-single digit for the fiscal year. This is in line with market growth.

You asked me about key challenges. I think one is to deal with what we call here moving at China speed. We believe with the end-to-end organization decision-making with the GBUs having more decision making on the ground and the scaled SMO organization will increasingly well set up to achieve this.

Jon R. Moeller {BIO 16200095 <GO>}

And as President of the Selling and Market Operations organization here in China, what are your priorities?

Matthew S. Price {BIO 19665846 <GO>}

My priority is to amplify the innovation and brand plans that the GBUs develop and enable them to benefit from our scale. I'd like to give you some examples.

Innovation. As you know, China has very distinct channels, such as e-com, cosmetic stores, hyper stores, baby stores and multiple small store formats. The SMO makes sure that the plans are tailored by channel and can be executed with excellence.

Media. We are one of the largest advertisers is in China; therefore, it makes perfect sense to use our corporate scale to create winning partnerships with all media companies. Sumeet has brands that has mass market, TV buyers and other brands that require much more targeting and are more digital. The SMO ensures he gets the best deal that the performance can be measured and we provide a menu of media options.

Customer Support. At buyer level, we've already discussed we have category focus through the end-to-end dealing with the buyer direct. But customers and us want joint business plans and strategic partnerships at corporate level that build value for both sides. The SMO leads this.

Distributor Management. A very large part of our business goes through distributors to small stores. Our scale enables us to have industry-leading distribution. We ensure our programs are appropriate and sequenced to enable each brand to maximize in-store presence and trial. It also enables us to have industry beating receivables.

Logistics. China is big. We have over 1,000 ship-to-locations. To deliver industry-leading logistics costs and customer service, we deliver on a multi-category basis, which is what our customers want. Our logistics operation is a cost GBU scale play, again, run by the SMO.

Government Relations. It's critical in China maintaining and building national and provincial government relations to ensure strong support to the GBUs to pursue their business.

Organization. Building a winning organization, so that the GBUs and SMO have a strong talent supply, again, led by the SMO.

Lastly, Digital. We are building corporate digital capabilities that are critical for the GBUs to develop consumer shopper and business insights, so the data is managed by the SMO consisted clearly of scale play. These are just some examples of how the SMO and GBU end-to-end model work, and we are pleased to see the results coming through with 8% growth this quarter.

Jon R. Moeller {BIO 16200095 <GO>}

Just picking up on your comment on Digital. Maybe you can give us a few examples?

Matthew S. Price {BIO 19665846 <GO>}

So, we are developing suppliers who can install data digitally to provide insights for our salespeople and track our progress, also having digitized media tracking, so we can measure/reach across platforms and multiple devices. We work with key digital players, such as Tencent, Baidu, Weibo, Alibaba, (20:28) and the Omni-channels. We are building g big data analytics that enabled targeted and measurable marketing. We're using digital tools to increase stewardship and compliance, all of these leads to better consumer insights, better shopping insight, and better business understanding for the business units.

Jon R. Moeller {BIO 16200095 <GO>}

And Jasmine, maybe you can share with us what your role is and how it supports the category organizations.

Jasmine Xu {BIO 20138854 <GO>}

Thank you, Jon. I lead the China e-com business, which is the fastest-growing China with more than $1 billion in sales. Our team has two missions. Grow online penetration for each category. We have marketing and sales teams dedicated for each category who report to the regional business units. At the same time, we increase scale capabilities at competitive advantage such as big data, e-commerce supply chain, media-targeting capability. These scale capabilities actually enable each of the category to grow their brands.

Jon R. Moeller {BIO 16200095 <GO>}

And what are the biggest challenges and opportunities you see in e-commerce and how are we addressing them?

Jasmine Xu {BIO 20138854 <GO>}

I will summarize the e-com challenges in two ways. One is speed of change. Innovations and changes happen at a faster pace online. The second one is really trading up, 45% of the China e-com market in all relevant categories are already in premium tiers. These challenges actually are equally opportunities for P&G. We are focused on a few things.

Operating our marketing model to be more digitally driven and socially focused. We work with e-com player to leverage big data to reach the relevant shoppers when they're ready to buy. We're also fully leveraged to the broad portfolio to win. More than half of our online business is premium tiers and new forms. Our fastest-growing brands are premium brand, such as SK-II, Oral-B power brush, Whisper Infinity. We build a strong team. The local e-com team has deep insight and with the end-to-end structure that enables fast decision-making. Our skilled capability creates a match able competitive advantage. For instance, we have leading programmatic media capability and we cannot really do a lot of e-market test to make sure that we stay ahead.

Jon R. Moeller {BIO 16200095 <GO>}

And I'm sure, everybody wants to know, how are we doing with millennial consumers online?

Jasmine Xu {BIO 20138854 <GO>}

First of all, Jon, our team is full of passionate Chinese millennials. And in fact, 80% of my team is millennials. From a shopper standpoint, the average profile of P&G online shopper is a 28-year-old female living in one of the top cities in China. Over the last two years, our online shopper profile has gotten younger. To delight millennials, we're doing more authentic storytelling instead of traditional advertising. We understand millennials prefer a more personalized experience. For example, consumers can buy the Oral-B power brush, which comes with their names and horoscope printed on the handles. We launched technology innovation, such as virtual reality and augmented reality to invite consumer to interact with their favorite brand ambassadors.

Jon R. Moeller {BIO 16200095 <GO>}

And very importantly, are we prepared for Double 11 day?

Jasmine Xu {BIO 20138854 <GO>}

Yeah, we very much look forward to another successful Double 11. We will leverage this window to create trial on our latest and best innovations. We'll work with customers to accelerate CAGR growth. Our logistic network, supply chain and online consultant teams are fully ready to buy – provide consumers a delightful Double 11 experience. And I'm also ready to buy a lot by myself.

Jon R. Moeller {BIO 16200095 <GO>}

Thank you, each, for your perspective. What I've experienced in the last three days working with you in China is a ton of energy, a passionate organization that is moving much more quickly and effectively to delight an increasingly premium and increasingly digital consumer at his or her speed, enabled by an end-to-end category structure, working with an SMO that's building world-class platforms and capabilities.

I felt in the last week the same palpable excitement I felt back in 1996, when we were just embarking on this journey. And my expectations are accordingly high. Hopefully, this brief discussion has been insightful for investors. I'm going to wrap up, and then, we'll head to Q&A.

Our results for the first quarter were in line with our expectations and keep us fully on track for the fiscal year. We continue to make progress growing market share and more businesses and narrowing share gaps in many others. We're showing strong progress in China, which as I said, is a very important market for P&G.

There are sure to be speed bumps and even a few hairpin turns ahead, but our new operating approach, end-to-end and freedom within the framework, will enable us to be more agile as we now get through these challenges. Productivity gains will provide fuel for investment and the ability to offset negative surprises just as we saw in the last quarter and grow margin as the year progresses.

Before we begin the Q&A portion of the call, I'd like to remind you that the purpose of today's call is to provide perspective on the business. At this point, we have no further comments regarding the pending certification of the proxy contest results. And with that, I'd be happy to take your questions.

Q&A

Operator

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

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

Great, thank you. I, actually, wanted to talk a little bit about Gillette. In total, the grooming business is a bit weaker than we'd expected. So, I was hoping we could kind of dig in on two fronts. One is just what you're seeing in the U.S. market in terms of the result and responsiveness of the markets, the price cuts you've made, how that's kind of impacting overall portfolio performance? And then results, I'm guessing in emerging market maybe were a little bit better because I was just surprised by how negative mix was, I didn't know if that was geographical product? Thanks.

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

Great. In terms of the U. S. innovation, it's generally working. As I think, you know, the first part of that has been brought to market is pricing with product and communication to follow across the price tiers. Over the last six months, we have the highest volume shipment we've had in 11 years. And if we look at the most recent share period, past one month share was up 1.4 points in terms of volume, which is the first share growth in 2.5 years.

So, again, it's early. This is a business with a long purchase cycle. And we're still bringing the balance of the program to market. But generally, that is operating as we expected it would. The pricing reduction, as you know, is averaged about 12%. So, the impact on total segment organic sales is not insignificant. There was another big impact in the quarter in Grooming, which was the market of Brazil.

And there, there's – we're going through a pricing cycle, and we're experiencing the inventory dynamics that typically come with that cycle. If you take out North America and Brazil, you get to positive growth on the balance of the segment globally.

I apologize, Lauren. I think you asked another part of the question, but maybe someone else remind me of it. I've forgotten it, but that's essentially how the Grooming business is shaping up.

Operator

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

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

Hey, good morning or good night, I guess, to you. So, if I look at the divisional profit results, ex-corporate expense, you were down 3.5% year-over-year in the quarter. I get results can bounce around quarter-to-quarter, but it's also down 3% on average in the last three quarters, despite ad spending down in that timeframe. So, we've been hearing from you guys that the turnaround is progressing. Why aren't we seeing more underlying profit progress? And is the more difficult external environment in terms of slower category growth and an increased cost of doing business, is that more than offsetting any internal improvements and can that change going forward? Thanks.

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

So, we're still expecting that the majority of EPS growth for the year is driven by operating earnings growth, as I said in the prepared remarks, and we're right where we expected to be in terms of that progression. The quarter was a little bit more challenging, as I also indicated in the prepared remarks, than we would have expected going in, with the run up of commodity costs and the impact of the natural disasters, things like very expensive freight lanes and shipping lanes in many of the impacted geographies. Also, as you know, the productivity savings will build as we go through the fiscal year. And we'll also begin annualizing the significant investment associated with the pricing reductions in Gillette.

Operator

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

Q - Kevin Grundy {BIO 16423871 <GO>}

Thanks. Hello, guys. Thanks for the question. So, Jon, question on industry growth that you're speaking to the 2.5% or actually sub 2.5%, excuse me. I'm just trying to reconcile that with some of the positive emerging markets commentary that we're hearing from other CPG companies, and you guys, of course, sounded very good on China today and still are looking for mid-single-digit growth.

So, can we get an update on where you're seeing the slowing? Presumably, this is U.S. and other developed markets, but maybe just comment specifically on what you're seeing from a growth rate in those regions and how that's potentially changed, would be the first question. And then, number two, is there any large change in view with respect to where you think you'll come in on the 2% to 3% core sales for the year? Thank you for those.

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

Sure, Kevin. So, in the quarter, if we just split developed and developing markets from a market standpoint, growth was about 0.5 point in developed markets and about 5 points in developing markets. So, if you look at that sequentially, it's really an aggregate, a continued mid-single-digit level of growth in developing. Where the slowdown has been has been in developed and that is primarily the U.S.

And in terms of how that shapes our view on the range of 2% to 3%, we, as you know, are maintaining that range. I mean, obviously, the rate of market growth through the balance of the year will have an impact on where we end up within that range, but we're shooting for as much as we can get.

Operator

And next we'll go to Bonnie Herzog with Wells Fargo.

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

Thank you. Hi, Jon. Curious to hear how you view the current promotional environment in the U.S. right now. And then, in looking at your activity, it does still appear to be pretty high versus historical levels, but maybe that's leveled off on a year-over-year basis recently. So, I guess in looking back, do you think the greater promo push you made over the last couple of years has really been successful or do you think it ultimately just resulted in taking dollars out of the categories? And then, as you think about your share figures, which have started to stabilize a bit after I guess what appears to be a slight pullback of promos, do you think being more rational has contributed to some slight share improvement in the last few months?

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

We probably see this slightly differently. Let me just step back and kind of walk you through how I see it. As you know, we'd rather spend a dollar on innovation or equity everyday of the week before we spend money on promotion. We need to be competitive on promotion. But it's not high on our list of priorities in terms of spend. And the reason is very simple, it's because there's nothing proprietary in promotion, whereas we can build proprietary advantage with both innovation and equity investments.

If you look at the – for the quarter, price, inclusive of promotion, had no impact to top-line growth. It was neutral. Pricing has been neutral to positive for 28 consecutive quarters and for 13 consecutive years. Again, backing up my statement that that's not typically the first card that we like to play.

If I look at the U.S., P&G percentage of dollars sold on promotion was essentially flat. It was a 101 index versus a year ago. It's obviously different by category, but, again, not indicative of a strategy that involves heavy promotion increases. What is happening and what's very confusing, is that retailers, particularly in the U.S., are choosing to make investments in price, as they compete with each other. And that shows up in the scanner data as a promotion, but it's not one that's being funded by the manufacturer, in that case, it's being funded by the retailer.

And with generally category-leading brands and the strategy being to drive shoppers into store on the part of the retailer, our brands often disproportionately benefit "from those kinds of investments." So, long-winded, but generally, I don't see significant changes in promotion. We would – going forward, we'd rather spend money on innovation and equity building, but we do need to be and we'll be competitive in the promotion arena. I hope that helps. I'm happy to talk more about it later.

Operator

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

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

Hi. Good evening, there, and good morning, everyone else. Could you elaborate on the bridge offset the commodities cost increase and particularly pulp and resin? And is it like you're expecting the product mix to get better because of the lap of Gillette or your re-launch in China? And also, if I understood you correctly, you may sound that the new diaper conversion in China has been strong. But, can you please explain on the diaper re-launch just in China? And how the initial performance has been?

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

Yeah, so, we're generally answering one question here. So, I'm going to take what I think is probably the most important one, which is diapers and turn that over to Matthew Price and ask him to provide some perspective.

A - Matthew S. Price {BIO 19665846 <GO>}

Okay. So we launched in August with growing share in the premium tier, which we launched Ichiban. And as Jon also mentioned, we grew pants share as well from being number five, two years ago. So, we're very happy with the progress. We're also seeing that the ratings and reviews are inline with competition; we believe it is on track.

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

And from a commodity standpoint, I mentioned the increases versus our going-in forecast are primarily due to increases in the Petro complex coming out of the Gulf as a result of the hurricanes.

Operator

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

Q - Mark Stiefel Astrachan {BIO 15313233 <GO>}

Yeah. Thanks. And good afternoon guys or good evening. My math suggest SK-II accounted for large majority of growth in China in the quarter. I guess is that a fair characterization? And then, broadly looking at SK-II contribution to overall Beauty segment sales, assuming it was a contributing factor to the 4% mix growth. What does that imply about sort of the rest of the Beauty business, in particular, I think, considering you lost share across most categories last year. So, what do you have to do to start seeing material improvement across the whole portfolio going forward, I guess, and how do you think about and where is it going to start? Where do you find the most difficulty so forth and so on? Thank you.

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

Look, as we look at China, I wouldn't necessarily agree with the statements that SK-II drove all the growth. It certainly was very growth full at 40%, but as I mentioned earlier, Olay grew in the mid-teens, Feminine Care business grew in the mid-teens, Oral Care grew 7%. Hair Care, as Sumeet mentioned, grew 5%. So, the breadth of growth in China extends well beyond SK-II. As I mentioned, six of seven categories grew sales in the quarter, and we expect that to be seven of seven over the course of the fiscal year.

Beauty, in general, is doing very well. SK-II is part of that success, but it's much broader than that. Beauty, on a global basis, delivered its eighth consecutive quarter of organic sales growth. We're seeing good growth in the Hair Care portion of the business, as well as in the Skin & Personal Care side of the business. That's actually a bright point for us at the moment.

Operator

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

Q - Ali Dibadj {BIO 15328592 <GO>}

Hi, guys. So, over that past few weeks, you guys have been crisscrossing pretty much the globe, meeting with investors; sometimes with board members, sometimes without. Given those discussions, and there are plenty of them, which is good and the kind of 0.3% lead you have so far in the proxy vote, can you give us a sense of some of the key messages the management team and the board has taken away from all these? What were the messages you actually heard from your institutional investors?

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

I will be happy to comment on the messages that I've heard. I obviously won't speak for others who aren't in the room. It's been a great opportunity to engage with investors, both at the management level and the board level, as you indicated. Clearly, what's been driven home to me is the passion that our investors have, both large and small, and that's a great asset and their interest in the company and their ideas relative to its success are also an incredible asset.

I received very strong support for the plan that we've embarked on with the clear desire to see it sooner. So, clear; the message to me is to be even more deliberate, more quick in making the changes that we've been talking about, and certainly, as I've been here in China this week, I see the team doing the same.

And I would say, the third thing is a desire that is broadly expressed to increase the connection between the investor base, the management team and the board; and make sure that we are fully benefiting from perspective that they have. So, those are my three takeaways. Again, I think, that it's been a very useful and beneficial experience.

Operator

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

Q - Jason English {BIO 16418106 <GO>}

Hey, guys, thank you for squeezing me in. I really appreciate it. Congratulations on some of the momentum in China. It's very encouraging to hear. I wanted to come back to your comments on the U.S., both in terms of deceleration. I was particularly intrigued by your comments of some degree of U.S. retail price subsidization. So, first, can you give us sort of your thoughts on what you think has driven the deceleration in the U. S.? Why do you think it's proved to be so persistent throughout the year? Any sort of indication you have of what's driving the underlying softness there?

And then, secondly, the comment that retailers may be subsidizing some of the prices is a little bit concerning because they don't seem to have a whole lot of margin flexed to sustain that. How does it sustain? You were hearing comments from various other competitors talking about eroding price environment. Why shouldn't we think that this either translates down the road to a removal at subsidization; therefore, a volume impact to you or a need for you to help fund some of that?

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

Thanks, Jason. In terms of – let me just start with the market growth, and the simple answer isn't very fulfilling, which is that I really – we've been unable to put our finger on why this has been. If we look at consumption, for instance, from our household panel data, there really is no change in consumption level across categories with one exception, which is Grooming, which is driven by the style preference.

If we look at trade up or trade down within the market, which also could have an impact on the dollar growth rate, we also see very little change. Over the last three years, private label is one measure of this, shares are essentially flat in the U.S. They're also essentially flat in Europe.

There's been some uptick in the last quarter, call it 30 basis points of share. It's concentrated in two categories though, it's not broad-based. Those two categories are tissue towel and Grooming. And tissue towel we're building share, so that isn't impacting our business. We are familiar with the – some of the private label launches in the Grooming segment.

But there's nothing there that really explains the broad category slowdown. I've heard theories, none of which I can really get comfortable with that attempt to explain the slowdown. One is that post the election, the Hispanic consumer has withdrawn more from the market and is concerned about – is both concerned about their future and they're sending more money home, and as a result, they're spending less.

But as we look across the data that we can see, across cities and geographies that have higher percent of Hispanic consumers, there isn't a difference in market growth in those areas versus others.

The other theory that's been positive is that consumers are spending an increasing portion of their wallet on services, health care, entertainment, data and mobile phone; and therefore, are spending less on staples, which doesn't make sense to me either because I mean, I don't get it. I want a cell phone, so I'm not going to wash my hair. It doesn't make a lot of sense to me.

So, unfortunately, as I said, my answer would be somewhat frustrating there. We're still searching. In terms of the retail dynamics, it's not across all categories. It's in a few categories that's probably most pronounced in the Baby Care category because of the value of that shopper, the perceived value of that shopper to either Amazon, Walmart, Target, Costco, you name it.

And what we're trying to do to prevent the outcome that you described is to help retailers with differentiated offerings for their shoppers, so that there is less direct comparison, and therefore, less need to compete on that basis. But this is obviously something that is a challenge and does affect the market numbers, as I've said, earlier. But we're making good progress in avoiding the negative impacts of that, as I mentioned. Price continues to be neutral as a contributor to top line.

Operator

Your next question comes from the line of Jonathan Feeney with Consumer Edge Research.

Q - Jonathan Feeney {BIO 2268157 <GO>}

Good morning. Thanks very much. I really enjoyed the presentation on China. And I should say, good evening; good morning for everyone else. I wanted to ask about from the presentation; first, how does your premium share of purchasing in China on e-commerce compare with offline? Is that difference presumably higher more because of e-commerce capabilities you have or more because of the kind of people who were shopping online? Is there just something to a more premium shopper likely to do that? And what learnings are there in planning? Because why can't that model be exported readily to North America and other developed markets, where presumably there's a lot of premium shopping going on and a ton of opportunity to grab that high-end consumer, where not just Procter, but other CPG companies are just getting a lot smaller share of the pie over the past decade? Thank you.

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

Maybe I'll ask Jasmine to comment on that across categories within China, and then, ask Sumeet to comment on that from what he sees from his Hair Care perspective. Jasmine?

A - Jasmine Xu {BIO 20138854 <GO>}

Sure. For China e-com business, we actually have more than 60% of the business in the premium tiers and new forms. It is driven by two factors. The first one is we certainly amplify all this product innovations brought by the categories, and to support that innovations, we also try to adopt a new business model, which is much more digital-focused, and also leverage the social commerce, the word of mouth to make sure that we drive authentic storytelling among the premium users. We also use big data to make sure that we understand the shopper inside out and to target them at a time when they are willing to buy our product.

So end-to-end, from product innovation all the way about how we drive marketing and social with excellence online was one of the key drivers why our premium business proportion is much bigger online, compared to other places maybe.

A - Sumeet Vohra

And from a hair care lens, what I'm seeing is that consumer is really attracted to a lot of the premium propositions in Hair Care and they're also buying the basket size is bigger and they tend to buy more items like shampoos, conditioners and treatments. And what we're seeing is they're also very responsive to the innovation that we are bringing. So, combination of the hunger for the consumer to shop for multiple items and the innovation that we are bringing is really helping us build business for the e-com space in China.

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

And what do you see in terms of difference between e-com and offline in terms of the percentage of your business that is premium?

A - Sumeet Vohra

So, in terms of the percentage of business that is premium, e-com tends to be significantly higher. So, in fact, some of the new premium brands that we have launched or the proposition that we have launched, they tend to sell a lot more on e-com and consumers tend to try them a lot faster than we see in offline.

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

And relative to the question on, is there reapplication potential here, I think, definitely, the answer is yes. There's a lot of what I've seen here and previously. What Matthew was talking about earlier, some of the digital capability has clear replication potential. Our experiences with marketing and moving more to a pull versus a push model, certainly has reapplication. There's a lot of exciting learning here that we will be reapplying globally.

Q - Jonathan Feeney {BIO 2268157 <GO>}

Thank you.

Operator

Your next question comes from the line of Caroline Levy with Macquarie.

Q - Caroline Levy {BIO 1494597 <GO>}

Hi, there. Thank you so much. I'd love to just dig a little deeper into the China diaper situation because I know a lot is riding on the Japanese import. But I think, you said 75% of your business is still in non-premium – well, not the super premium diaper. Couple of things, can you just explain a little bit what the strategy is to grow the other parts of the business? Can you talk about whether there's been any competitive response? Just any detail on the growth and your strategy going forward. I was hoping to see or hear a little more detail on the success of the launch, but it sounds to me like you really don't know yet.

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

A couple of things there. One, I mean, we just launched in August. So, relative to July, August and September results, there's a very short period of time that that product was actually in market. And, as I indicated earlier, it's the first time we built share in the premium tier for a long period of time. So while it's still very early, it certainly is working. Matthew mentioned the ratings and reviews, which are parity with top competitors, which is also encouraging and very important in a China context.

And the mainline diaper or the mid-tier, which, as you rightly said, was 75% of the year ago business, as I mentioned in the prepared remarks, the decline there is largely an inventory-related dynamic going all the way through the wholesale channels related to the timing of innovation and pricing. I think, Matthew, we saw relatively flat consumption across that part of the business during the quarter. Is that right?

A - Matthew S. Price {BIO 19665846 <GO>}

We've seen actually our total consumption picked up a little bit, and we've just got our latest hyper share, (52:50) which shows that for the first time we're building total (52:52) share. So, very early days, but looks like the consumption is picking up. And we believe from all the consumer ratings and reviews, that we have a win on our hand. We also are betting big on pants, where we have made great progress from number five to number one. We think we can really drive big growth in pants, both on high and mid-tier.

Operator

Your next question comes from the line of Joe Altobello with Raymond James.

Q - Joseph Nicholas Altobello {BIO 5113646 <GO>}

Thank you. Good evening, guys. Most of my questions have been asked and answered here, I guess, but did want to shift back to e-commerce for a second. I think it's about 5% of your sales and growing 40%, so the math there is pretty straightforward, and I think you've also said that you're offline and online shares are pretty similar. But first, which of your businesses do you over-index and under-index in terms of online versus offline shares? And then, secondly, what is the impact on margins, given how quickly this channel shift is happening? Thanks.

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

So, online versus offline shares is different by category by market. So, within the same category, it can be very different by market. Within the same market, it can be very different by category. So, I don't have a universal answer for you there. It's also impacted pretty dramatically by the structure of the market in terms of, for example, whether people have – whether people are using public transportation or private transportation, whether they can handle bulky products or not. It has to do with the relevance of categories in different markets. But maybe to shine some light on this, let's just talk China. I think Jasmine, probably the e-com market index is more to Skin Care than any other categories, is that right?

A - Jasmine Xu {BIO 20138854 <GO>}

Yeah. Actually, e-com is very much glued to Skin Care, the Beauty Care, as well as the high-end of Personal Care, including razors, power brush, as well as the premium Hair Care brand, et cetera. So, it is a very much Beauty and high-end product oriented.

< : Whereas, for example, going back to my comments, if you look at the U.S. market, it tends to be overdeveloped in products that are bulky. So, diapers, paper towels, liquid detergents, tend to be overdeveloped, but it's very different by market. And our strategy, as you know, is to be fully relevant in any channel that a consumer wants to shop, and therefore, be well-positioned to win regardless of the habits within the individual market.

Operator

And your final question comes from the line of Jon Andersen with William Blair.

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

Good evening, everybody. Jon, you mentioned earlier that one of the feedback points from investors that you've met with recently is the desire for perhaps some faster progression along certain elements of the change program, support for the change program, but looking to accelerate some things. Could you share your perspective on perhaps which elements of the change program, and I know there are many of them from portfolio or structure to cost efficiencies, but which element of the change program, in your perspective, are most conducive or likely to be accelerated as you look forward over the next 12 to 24 months? Thank you.

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

That's a very good question. As you know, in our first productivity program, we were able to exceed and accelerate the cost savings significantly versus our going-in assumption. That's going to be less easy to do this time because more of the savings are coming from very capital intensive redesign of our supply chain. But still, there's work we're working to do there. We have the leadership team discussion on that just this week on how we can accelerate some of the productivity savings and we'll work to do that. We'll update you as we have more perspective.

Also, I think, there's a strong desire on the part of both the management team and the organization itself to continue advancing some of the changes that we've made in the organization structure and beginning to think as we actively all here talk this week about, if you will, version 2.0, and what are the next steps in that journey. So, I think there's a lot we can do.

When Sumeet was talking about accelerating the pace to market with innovation as a result of the new organizational structure, I think that's something we also have a massive opportunity to be more deliberate about; faster time-to-market, but also faster globalization of great ideas and smart ideas which has historically taken us some time.

So, we're going to – and look, there's nobody who wants these – nobody who wants the results faster and better than us, and I know the team here. So, we'll be working hard on that.

Listen, thank you, everybody. I hope our experiment here was useful to you. If you have any feedback, I'd love to get it, both positive and negative. And I know I speak for the China team when I say that we really appreciate the opportunity to engage with you. So, thank you very much.

Operator

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