Q1 2021 Earnings Call

Company Participants

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

Other Participants

- Andrea Teixeira, Analyst
- Bill Chappell, Analyst
- Dara Mohsenian, Analyst
- Jason English, Analyst
- Jon Andersen, Analyst
- Kaumil Gajrawala, Analyst
- Kevin Grundy, Analyst
- Lauren Lieberman, Analyst
- Mark Astrachan, Analyst
- Nik Modi, Analyst
- Olivia Tong, Analyst
- Robert Ottenstein, Analyst
- Steve Powers, Analyst
- Wendy Nicholson, Analyst

Presentation

Operator

Good morning and welcome to Procter & Gamble's Quarter End Conference Call. Today's event is being recorded for replay.

This discussion will include a number of forward-looking statements, if you will refer to P&G's most recent 10-K, 10-Q and 8-K reports, you will see a discussion of factors that could cause the company's actual results to differ materially from these projections. As required by Regulation G, Procter & Gamble needs to make you aware that during the discussion, the company will make a number of references to non-GAAP and other financial measures.

Procter & Gamble believes these measures provide investors with useful perspective on underlying business trends and has posted on its Investor Relations website www.pginvestor.com a full reconciliation of non-GAAP financial measures.

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

Jon R. Moeller {BIO 16200095 <GO>}

Good morning. We'd like to start by expressing our sincere hope that you and your families remain safe and are well. A good quarter isn't difficult to explain. So we're going to keep our prepared remarks brief with just a little over 10 minutes and then turn straight to your questions.

The July to September quarter provides a very strong start to the fiscal year enabling us to increase guidance for organic sales growth, raise guidance for core earnings per share growth, increase guidance for adjusted free cash flow productivity and raise our commitment for cash returned to shareowners. Organic sales up more than 9%, 7 points of volume growth, 1 point of positive mix and one point of price. We built strong momentum leading up to the crisis with 6% organic sales growth in calendar year 2019. We maintained 6% growth in the first half of calendar 2020 overcoming significant challenges, including the lockdown in China, closure of the travel retail, electro specialty beauty and away from home channels.

Operational challenges, safely staffing our facilities and sourcing materials necessary to maintain and in some categories, significantly increase production to serve heightened consumer cleaning health and hygiene needs. And we accelerated to 9% this quarter against a strong 7% base period comparison. Strong momentum reflecting the underlying strength of our brands and the appropriateness of the strategy, which is driving our business pre-during and at some point post COVID.

Broad-based growth, US organic sales up 16%, Greater China up 12%, focus markets up 11% and enterprise markets which are significantly impacted by the COVID pandemic up 5%. 9 of 10 product categories grew organic sales. Homecourt [ph] -- Home Care up more than 30%, oral care up mid-teens, family care up double-digits, personal health care, fabric care, feminine care, hair care and skin and personal care up high singles. Grooming up mid singles, baby care down low singles.

Aggregate market share growth of 30 basis points with 30 of our top 50 country category combinations holding our growing share. E-commerce sales up approximately 50% for the quarter. Turning to earnings. Core earnings per share up 19%, currency-neutral core earnings per share up 22%.

Within this, core gross margin expansion of 140 basis points up 170 basis points ex-FX. Core operating margin up 300 basis points, up 350 basis points, excluding FX. Adjusted free cash flow productivity of 95%. We returned $4 billion of value to shareowners, $2 billion of dividends paid and $2 billion of P&G stock repurchased.

In summary, a very strong start to the fiscal year. Strong volume, sales and market share trends. Strong operating earnings. Margins advancing strong core earnings per share growth. We've built strong momentum heading into the COVID crisis and have been able to maintain this through the most recent quarter, supporting the guidance increase for all key financial metrics, organic sales, core earnings per share, cash productivity and cash return.

As we outlined each of the last two quarters, we've established three priorities that have been guiding our actions and our choices in this crisis period. First is ensuring the health and safety of our P&G colleagues around the world. Second, maximizing the availability of the products we produce to help people and their families with their cleaning health and hygiene needs. These products are more important than ever given the needs created by the current crisis, increased awareness of health and hygiene and the additional time we're all spending at home.

Third, supporting communities, relief agencies and people who are on the front lines of this global pandemic with product donations, PPE production, financial support and using our marketing and communications expertise to encourage consumer to support public health measures to slow the spread of the virus.

These priorities are completely congruent with our strategic choices which remain the right ones. These strategic choices are the foundation for balanced top and bottom line growth and long-term value creation. As we've focused our portfolio on daily use products and categories where performance plays a significant role in brand choice.

In these performance-driven categories, we've raised the bar on all aspects of superiority; product package, consumer communication, retail execution and value. Superior offerings delivered with superior execution drive market growth. Leading category growth with superior offerings mathematically builds market share and builds business for our retail partners.

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

We're driving cost savings and cash productivity in all facets of our business, up and down the income statement and across the balance sheet.

Next, success in our highly competitive industry requires agility that comes with the mindset of constructive disruption. A willingness to change, adapt and create new trends and technologies that will shape our industry for the future. In our current environment that agility and constructive disruption mindset are even more important.

Last, our new organization structure yields a more empowered, agile and accountable organization with little overlap or redundancy. Growing to new demands, seamlessly supporting each other to deliver against our priorities around the world. These strategic choices, we've made, portfolio, superiority, productivity, constructive disruption and organization structure and culture are not independent strategies. They reinforce and build on each other. When executed well, they grow markets, which in turn grow share sales and profit.

We believe our strategies, the success we've had behind them and an increase of silo focused on health, hygiene and a clean home all bode well for the future. We believe P&G is well positioned to serve consumers' heightened needs and their changing behaviors and to serve the changing needs of our retail and distributor partners, all of which are critical to long-term value creation. We like our long-term prospects. Though the near-term will continue to be challenging, and it's a little more difficult to predict.

Our near-term outlook begins with an assumption of how underlying consumer markets will develop. This by itself is highly uncertain. The reality is that COVID cases are increasing in many parts of the world without the resources, infrastructure or in some cases, the will to effectively manage it. We're likely -- we will likely be operating without a broadly available vaccine or advanced therapeutic through fiscal '21. This could prompt tighter containment policies and dramatically reduce mobility, which would affect employment and overall incomes potentially leading to a deeper and longer recession across large parts of the world.

In the US, it's unclear, how long we will be operating at high unemployment levels and when and how much mitigating economic stimulus will be available.

There continues to be social unrest and economic distress in many parts of the world, it also affect the prospects for category growth. These same dynamics can result in an increased cost to operate and there is an ongoing risk of supply chain disruption, our operations or those of our suppliers.

Against this challenging backdrop, we're still holding ourselves to an expectation of meaningful growth, top line and bottom line and expect to be highly cash generative. With a strong first quarter as a base, we're increasing our fiscal year guidance. We're raising our organic sales growth guidance from a range of 2% to 4% to a range of 4% to 5%, which includes some quarter-to-quarter ramp down from Q1, as retail inventories are fully replenished and as promotions are partially reestablished.

We expect to grow market share an aggregate for the year. We're increasing our core earnings per share growth guidance from a range of 3% to 7% to a range of 5% to 8% versus prior year core earnings per share of $5.12. This bottom line outlooks includes headwinds of approximately $325 million after tax of foreign exchange, $150 million from the combination of higher interest expense and lower interest income and $50 million of after-tax of higher freight costs.

These headwinds should be partially offset by $175 million after tax of commodity cost tailwinds. Fiscal 2021, we'll continue our long track record of significant cash generation and cash returned to shareowners. We're raising our target for adjusted free cash flow productivity from 90% to around 95%. We continue to expect to pay approximately $8 billion in dividends and are increasing our outlook for share repurchase from a range of

$6 billion to $8 billion to a range of $7 billion to $9 billion, combined, dividends and share repurchase, a plan to return $15 billion to $17 billion of cash to shareowners this fiscal year.

This outlook is based on current market growth rate estimates, current commodity prices and current foreign exchange rates. Significant currency weakness, commodity cost increases, additional geopolitical disruption, major production stoppages or store closures are not anticipated within these guidance ranges.

Wrapping up, we continue to execute winning strategies, a portfolio in daily use categories, where performance drives brand choice, superiority in products, packages, consumer communication, retail execution and value. Productivity in all areas of cost and cash. Constructive disruption in all facets of the operation and improved organization focus, agility and accountability.

We feel, we continue to have the right priorities to deal with the immediate challenges the company is facing, ensuring employee health and safety, maximizing product availability and helping society overcome the challenges of the crisis. We're stepping forward, not back. We're doubling down to serve consumers and our communities. We're investing in the superiority of our brands and the capabilities of our organization.

Always with our eyes fixed on long-term balanced growth and value creation.

With that, I'd be happy to take your questions.

Questions And Answers

Operator

(Operator Instructions) We take our first question coming from the line of Jason English with Goldman Sachs.

Q - Jason English {BIO 16418106 <GO>}

Hey, good morning, folks. Thanks for sliding [ph] me in. First question, so many years to go. I guess, I wanted to jump off a product with a higher order questions. Jon, you mentioned you're excited, enthused about the consumers increased focused on health hygiene at home. What's your view on the durability of those related behavioral changes that we've seen over the last 6, 8, 9 months, do you expect and to mean [ph] revert to pre-COVD levels. If so, what's the duration and if not, why not?

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

We do expect that there is some stickiness to new habits that are being formed and new awareness that's been raised. It's hard for us to see in our interactions with consumers that we're going to snap back and revert to the same attitudes and the same behaviors that we had collectively pre-COVID.

Even things like the amount of inventory -- pantry inventory I keep, and in some way, it's an analogous to some of us remember our grandparents. For example, having survived The Great Depression. And they continued to hold on to more brewed [ph] and canned items that I could never understand.

But it was because of what they've been through. Consumer habits once they're established in our categories are rarely reversed, on occasion under duress, they will be, but generally once people start using a category, once they form a habit, if stays. I'm sure, there'll be some level of reversion. But we do expect a permanent change at some level as well. Duration, your calls as good as mine. I have no ability to predict what's going to happen here from a viral standpoint or from a medical solution standpoint.

Q - Jason English {BIO 16418106 <GO>}

I appreciate the perspective. In that context, as you think about your portfolio construct. Does it change the way you think about where you want to play?

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

On the margin, it can have an impact on what [ph] we want to play. We are happy with each of our current categories. The question is, are there additional opportunities that we want to be able to access. So for example, we've launched a hand sanitizer in the US under the Safeguard brand name. You're aware of the Microban 24 surface disinfected, which we're working hard to increase capacity on, so we can meet very high demands for that product.

So generally, again our portfolio is going to daily use categories, performance drives brand choice, heavily centered on health hygiene and a clean home, as they're [ph] going to serve us very well on the situation just as it did prior. But the situation does present additional opportunities to step up and serve and help consumers with their health hygiene and P&L [ph] needs.

Q - Jason English {BIO 16418106 <GO>}

Thanks a lot. I'll pass it on. And congrats again on your continued success.

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

Thanks.

Operator

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

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much and congratulations on a terrific quarter. So 7% volume growth, 1% price, 1% mix, very balanced. Kind of a two -part question, how are you thinking about market share? How much of a priority is that in this environment? And then looking at e-commerce, we've done a lot of work on the US e-commerce business and did a deep dive on that using numerator data and what came out of that was a little mix, certain categories doing extremely well like Crest just killing it in e-Commerce, but look, based on the numbers and data, we saw diapers, bath tissue, paper towels appear to be losing share in e-commerce. So love to kind of get a sense of how you're thinking about market share and then particularly market share in e-commerce and where -- whether in terms of e-commerce, whether you are hitting kind of the notes of superiority that you're looking for with the rest of your business. Thank you.

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

Thanks, Robert. I want to start in a slightly different place, but I'm going to bring it right around to the core of your question. So be patient with me. We are maniacally focused on increasing and leading market growth and when we do that -- when we do that with superior products continuously increasing our margin of advantage, meeting additional needs, solve intention points across the portfolio.

When we disproportionately are able to drive market growth, mathematically, we build share. And that share growth is much more sustainable achieved that way and is much generally much more profitable than if we were sourcing market share by taking business from other companies. So we'd rather create then take and in the process more sustainably build market share, which is very important as well as sales and profit. In terms of e-Commerce, it's a very competitive marketplace, just like other channels that we compete in. So there are always ups and downs across categories, but we find that the same general strategy that I articulated in our prepared remarks and that I just described parts of it and what I just provided is highly relevant in e-Commerce just like it is in brick and mortar.

And we don't see a lot of -- there is some, but we don't see a ton of differentiation between our ability to succeed in an e-Commerce format and a offline format, when we execute our strategies and when our products in categories where performance drives brand choice are truly superior. So that's our focus. We look carefully at overall share progress online versus offline and margin progress online versus offline. In an aggregate, which is always dangerous of course operationally, we move to lower levels of aggregation, we're indifferent between online and offline shopping, which is exactly where we want to be.

I mentioned we grew e-Commerce sales 50% in the quarter that we just completed, e-Commerce sales are now probably 11% to 12% of our total. So they are important and we're just as focused on being successful in that channel as we are the others.

Operator

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

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hey, good morning. So Jon, just wanted to better understand the implied balance of the year organic sales growth guidance for the fiscal year after Q1 straight. It's only about 3% at the midpoint of your full year range versus 9% this quarter, doesn't seem to really moved up the Q2 through Q4 implied forecast despite the Q1 upside. So just trying to understand is that more just related to an uncertain environment here post COVID or are there other specific factors driving that forward sequential caution you had mentioned a couple in your prepared remarks.

So a bit more detail would be helpful there. And just on promotion, given that did come up in your prepared remarks, is the US promotional environment, is that returning to more of a normalized level and how do you think about calendar 2021 versus 2020 on that front, just given it was in a normally depressed promotional base. Thanks.

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

No surprise to you or anyone on this call, we continue to operate in a highly uncertain environment with many more drivers of that uncertainty, than we're historically accustomed to. And that certainly helps frame guidance -- if not guidance ranges. Second, we've got a long way to go. So we're through one quarter, we've got three more quarters to execute on in this very dynamic environment.

Third, market growth, which is where we start in our outlook process. It looks to be 2% to 4% on a normalized basis. That's Global. And so, 4% to 5% as our new fiscal year guidance range is consistent with our desire to build market share, but I think realistic in its approach. Also the quarter we just completed has two elements and you mentioned one of them, but will drive a higher topline result.

The first is, there has been -- there was inventory replenishment to the trade during the quarter, that was probably worth a point or two and you mentioned as well, lower levels of promotion. We still have categories where we have replenishment work to do. So some of that benefit will carry forward into subsequent quarters, but many of our categories are now replenished. And from a promotion standpoint, we've returned to somewhat normal levels of promotion in most categories in the US, except those where we still have work to catch up on replenishment where demand exceeds our ability -- our current ability to supply.

And that would be our home care business, our tissue towel business and parts of our healthcare business. We do expect some normalization of promotion rates in the back half of the year. So as we get into 2021, exactly what the cadence is of that and exactly what level things return to is not entirely clear. We're going to continue, where we have the opportunity to prioritize spend on innovation and equity. There is nothing proprietary in promotion, but we will be competitive from a promotion standpoint.

I know that answer lacks the specificity you're looking for. The best I can do with the current state of knowledge and the current state of volatility. I think, Dara, the question behind the question is, is there a possible upside to the guidance range? I think the answer is yes. But I would also hasten to add that there's also downside. There's just a lot of moving pieces right now.

Operator

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

Q - Lauren Lieberman {BIO 4832525 <GO>}

Thanks, good morning. I wanted to ask a little bit about fields of play, as you had mentioned kind of new opportunities out there and you in the release also had specifically mentioned. You mentioned the Safeguard launch. I was curious, so also about the Personal Health Care business, because that's another area where just like home care, you've been investing in sort of building up a greater presence, pre-COVID, and it would seem that this new environment would also open up some interesting incremental opportunities in personal health care.

So could you talk a little bit about that business kind of where, if you are spending differently, focusing on new areas. What the more international footprint of that business opens up for you versus where you were several years ago. I think that could be really helpful. Thanks.

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

Sure, Lauren. As the personal health care is a very attractive field of play to use your description. It's one that you're right. We've been investing behind. We purchased the German Merck OTC portfolio which we're still in the middle of integrating but very successfully. Our topline growth on that business and our heritage P&G personal health care business outside the United States. To your question of international is growing at growth rates, very attractive growth rates, high singles, double digits in some cases ahead of the plan when we purchase those assets.

And the good news is cost synergies are also coming in nicely. So that does give us confidence to continue looking for smart ideas to expand the current portfolio and to look for additional opportunities to create value with. And we'll be doing that. The German Merck OTC assets gave us about a $1 billion sales International business, again, combined with things like Vicks in the heritage P&G portfolio. So we now have a meaningful presence in many parts of the world that puts us and we've secured capabilities, that put us in a position to drive this business and do it profitably.

And that will be one of our focus areas going forward. So I don't want to overemphasize that opportunity. We have as you know, spent a lot of time and a lot of effort to land in the 10 categories that we've landed in and our intention is to grow and to win and to seize opportunities and to do it profitably in each of them, but clearly, we see those same opportunities in the over-the-counter medicines business.

Operator

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

Q - Steve Powers {BIO 20734688 <GO>}

Sorry about that. I was muted. So thank you. And Jon, you've had a couple of tremendous growth quarters in the US as well as China in the past 6 months and you've hinted at it a little bit this morning already, but I was just hoping, you could talk a little bit more explicitly around your expectations for those markets over the remainder of the year, both in terms of consumer takeaway, as well as your own selling patterns, if they're likely to differ.

And I guess, I don't know if you consider this a second -- a separate question, but I guess, I'm curious as to what you attribute that outstanding growth to in those markets versus what I think equates to more like low to mid single digit growth across the rest of the portfolio.

And I'm wondering, if it's just a focus of -- which is a function of your particular focus or if there are underlying differences that are more structural in those focus of your focus markets versus the rest of world. As we think about the go forward. Thank you.

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

Thanks, Steve. We've talked for some time. David began talking about this at CAGNY, several years ago about the importance of winning in the US and China and we've been very intentional in establishing superior positions across our categories in those two markets.

Even our organization design is structured to allow our -- the leadership of our company to focus their time and effort on the focus markets with as you say China and US being the most focus of the focus markets and that's -- the combination of that organization choice, that prioritization choice and the execution of the holistic strategy are what are making the difference in the US and in China.

The US and China from a category growth standpoint do have category growth rates that are higher on average than some other parts of the world. Take Europe, as an example. Currently, Southeast Asia, Middle East and Africa as an example.

But I don't think that that is -- I mean there is significant opportunity across the geographic portfolio witnessed in the quarter we just completed. We grew organic sales and we grew earnings in every geographic segment. So as we fully and holistically execute the strategy on a global basis, there should be opportunity to improve growth rates in the non-US and non-China business and we're going to have to work really hard to maintain strong growth rates in the US and China, where we have very strong enable competition.

The growth rate that we delivered most recently are very strong, very attractive. They were pre-COVID. They were certainly in the US during COVID not so much in China and the rebound in China has been encouraging to see. But I think from a sustainable standpoint and we've talked about this at (inaudible) conference in the fall, earlier in the fall.

You need to really start with what you expect market growth to be and assume we can build a couple of share points or a little bit of share on top of that to really ground yourself in what's reasonable to deliver over longer periods of time. Now, as I said earlier in this conversation, we have a responsibility to impact that market growth and we believe, we've done that certainly in the US and we need to continue doing that. Very long-winded question, but the disproportionate growth in the US and China is partly a function of those markets. It's partly a function of priority. It's partly a function of the execution of the strategy and I think it has -- it's already had application elsewhere, and will continue to even more so as we move forward.

Operator

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

Q - Kevin Grundy {BIO 16423871 <GO>}

Hey, good morning, Jon, and congrats again on another great quarter. First, a housekeeping question, I apologize if I missed this, do you have a global retail takeaway number relative to the 9% organic sales growth in the quarter? That would be helpful. But my broader question Jon is on the US men's grooming category. I was hoping if you could give an update there. And I asked of course in the context some of the challenges, some of the demand challenges that business has faced for a while, which have been compounded a bit by the pandemic and work from home trends.

And now, I also think, it's notable that the Dollar Shave is rolling out at Walmart just this week. It probably suggest further risk to shave, it may slow some (inaudible) momentum, but can you comment a bit on the potential risk to Gillette's market share position, spending plans that are in place, you talked about promotion earlier, I suspect this will likely be a category or destination for some of that higher promotions, particularly in the competitive environment and some of the demand challenges and maybe just comment on your level of comfort around pricing ladders and price positions in the category, which I know has been an area of emphasis here in recent years. So thanks for all that, Jon.

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

Thanks, Kevin. I'm going to suggest, you get with John Chevalier after the call. He will give you a more specific number on retail offtake during the quarter. Going out kind of from the top of my head, I would guess it's probably 7 or 8. But John can help you with that. In terms of grooming. Grooming continues to be a very attractive business. We grew the top line on our grooming business globally 2 years ago. We grew it last year. So 2 years in a row of growth and we grew at 6% in the quarter that we just completed. Part of that -- part of the pickup in the business is a result of more holistic -- more holistically serving all consumers. So we've talked about skin guard as an example that was designed to meet the needs of the high percentage of men who had sensitive skin for whom shaving was painful and reduce that barrier to shave frequency and shaving in general.

We launched -- we've launched now in some channels and in some parts of the world a whole lineup of products under the brand of King C. Gillette that are designed to serve men who choose to maintain facial hair. So everything from trimmers to beard wax to conditioners et cetera and that has been going very, very well. And the third thing, I would point to is very strong innovation on our dry shave business, which grew -- has been growing very attractively as well. This will continue to be a competitive category because of the attractiveness of the category. You should assume that that is built into our thinking and built into our plans. And I want to avoid any specific reference to pricing or promotion in a specific category of business. But we are -- we like this business. It's growing. It's very profitable, highly cash generative and it's something we'll be investing behind.

Operator

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

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, good morning. Congrats on your results. Jon, if you could break down your 7% volume growth in additional distribution in innovation against just the last year of the legacy franchises. So just to get an idea of the duration of this momentum? And conversely, perhaps if the only area that you may need to improve are the mid-tier diapers. So can you give us your view on this segment globally? Thank you.

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

I really don't know how to break volume down with any confidence along the lines that you are requesting. So I apologize for that. We have some great positions in diapers around the world, particularly in the pant style form, where we're market leaders and that is the fastest growing segment of the diaper market on a global basis. We're also doing very well in the premium portion of the business. As you rightly point out, we have not been superior in the middle of the market, what we call mainline. And we have, as you would expect been working hard on that and has innovation coming to market across the world beginning this quarter and next and carrying on through 2021, which we expect to address that situation.

Operator

Next question comes from the line of Mark Astrachan with Stifel.

Q - Mark Astrachan {BIO 15313233 <GO>}

Yeah, thanks and good morning, everyone. Jon, I wanted to go back to e-Commerce. So 11%, 12% of sales. I'm getting at somewhere kind of double where it was pre-COVID, so maybe touch on how much of that increase is sustainable? You mean, how much of those consumers are going to continue to purchase in that medium and what drives the adoption of those consumers to maintain that presence on a go-forward basis? And I think, that you've seen, maybe you all has been around, working kind of see that that will continue, I'm curious, how you all thinking about it?

And sort of related to that under any circumstances would you pursue more DTC things like SK-II even broadly. Anything there would be helpful. Thanks.

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

We want to serve consumers in a superior fashion wherever they choose to shop. And that's really our focus. So we're not focused on one channel versus another. We prefer to be channel agnostic and let the consumer make that choice. And as long as we're very well positioned with a superior product, a superior package that's relevant for the channel, communication that's relevant to the channel and have the right value. If they choose to shop in e-Commerce, we will win. If they choose to shop in brick and mortar, we will win. If they choose a hybrid shopping experience like click and collect, if we're appropriately positioned, we should do very well.

So that's our focus vis-a-vis any specific channel focus. Within that DTC clearly can play a role. As we mentioned in some of our businesses, it's already a significant part of the operating model. It's -- it allows us to get closer to consumers. To understand -- we have an even better understanding of their needs and their habits including their purchase habits and that all can be very complementary and important in the broader context.

So you will see us continue to increase our DTC presence. But again not at the preference of or the de-prioritization of any other channel trade.

Operator

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

Q - Olivia Tong {BIO 7481692 <GO>}

Thanks, good morning and congrats on the quarter. I want to talk about the competitive dynamics, because clearly we're innovating Dean [ph] share, new plans from earlier this year to double down on investment is working, still. What's your view on competition at this point because they've also talked about picking up the pace in their activity, have you seen it and it's perhaps just not quite landing how they had anticipate, or is there more to come from competition that's factored into the full-year sales expectations. And maybe where are you most concerned because you talked about still catching up to demand in a couple of categories, feminine care, home care, some health care. Any more growth in the non-grooming [ph] categories like beauty, grooming and health care have really started to accelerate. So if you could provide [ph] more color on that. Thank you.

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

I'm going to start where you ended, Olivia, and then I'll come back to competition. The strong quarters that we've been putting together are a reflection of our brand portfolio and our strategies, which built momentum for the business prior to COVID have maintained momentum through COVID and allowed us to accelerate in the quarter that we just completed.

These are a set of strategies in an activity system that are well suited to the pre-COVID environment as we saw reflected in our results are very well suited to the COVID environment, as you see reflected on our results, and we expect will be very well suited to some day a post COVID environment. And that set of strategies and importantly the execution behind them on the part of 99,000 P&G men and women around the world is what's driving as you rightly point to growth on the topline and the bottom-line across each of our franchises.

We talked about the challenge we still have in baby care and how we're going to address that. But, nine out of 10 categories grew topline in the quarter. Each of our geographic regions grew topline in the quarter. And that's really reflective of the execution of this integrated set of strategies that we've been working on for some time. We feel that is the best insulation against what is certainly a competitive marketplace across the board.

I want to be careful, though, that we don't react necessarily to competitive statements about spending as inherently inducing risk. Competitive spending that's constructively structured and that grows -- increases consumer awareness and participation in categories is not a bad thing. So what's more important is the how or the -- so what. And we're early in the execution of some of those competitive agendas and we'll see, but I know for sure that our best chance of continuing our momentum and doing it profitably is to continue to execute the strategy that's been working for us so well.

Operator

We'll next go to Wendy Nicholson with Citi.

Q - Wendy Nicholson {BIO 2081269 <GO>}

Hi, good morning. Could you talk about your margins both gross and operating have just exploded and that's awesome. But I'm wondering, how much of that is structural improvements you've made to your organizational structure and all that kind of stuff. And how much of it is just the benefit of favorable operating leverage. So as we think longer term, two years, three years, four years out on. Have you permanently reset the margin structure for the company or do we think those are going to trickle back when topline growth normalizes a bit. Thanks.

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

So within the 300 basis points of operating margin improvement, about two-thirds is attributable to sales leverage, which still leaves a healthy third around a 100 basis points. That's due to the net of savings and productivity and our reinvestment in superiority. So that's the breakdown that you've asked for. We are very clear in our own minds that on a going basis, we need to grow the topline and we need to grow larger [ph]. So everything we're executing is designed to do both now and moving forward.

Operator

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

Q - Nik Modi {BIO 7351672 <GO>}

Good morning, everyone. Jon, I was wondering if you could just speak about [ph] based off on the economy and I ask this really because obviously there is concern that if we do kind of hit some tougher times at to be a lot of trade down pressure not just the profit, but for a lot of CPG companies that tend to play in the more premium end of your categories. But I was just wondering, what you thought about this whole future set [ph], incomes bifurcating or the consumer goods bifurcating because the lower income demographic is getting much more impact due to furloughs and job losses at the kind of lower end of the range spectrum. Yet, middle-income and higher income consumers are still doing fairly well. So I was just hoping, if you could just add some thought to that whole thought process?

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

Thanks, Nik. I'm not smart enough to know where this all lands. What I can do are -- is look at the data that are available to date. And that's a fairly encouraging set of data. If we look at private label shares as a proxy for trade down, US private label shares in the last three month period are down the full point, which is an acceleration in the decline versus the prior three-month period and the same dynamic generally holds true in Europe.

There's just a heightened need for products that deliver against health hygiene and clean home concerns and a willingness to spend just a little bit more to ensure that I'm using a product that I know and trust and believe will work for me and for my family.

So, and most of our categories that's the dynamic that's playing. Supporting that direction unlike the prior crisis, are very different from prior crisis is a whole reconfiguration of the consumer budget. They're not spending money generally on travel, on entertainment, at a meal at a restaurant, on apparel.

So they do have some flexibility that it's more prevalent now than has been the case historically, which they can redirect and many are redirecting if they choose to do so. Now I want to be careful here. I'm not suggesting that there isn't greater economic stress ahead of us or that it won't have more of an impact than we've seen thus far.

I just don't have the ability to predict where that goes or lands. I can only really reflect on what we've seen thus far, which is in total encouraging.

Operator

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

Q - Kaumil Gajrawala {BIO 20703548 <GO>}

Hi, thank you, good morning, everybody. Jon, I know this is going to -- it's a hard question to answer. And you don't have a specific details but we're getting a lot of questions from investors on. How you might be thinking a scenario planning around any changes or really increases in the tax structure if there is a change in administration?

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

First of all, any meaningful change in the tax structure at the corporate level. In all probability, it requires a change in the executive branch and then control of the Senate.

So that's the first handicap and then anybody has to do in order to understand whether it was likely to be changed.

The second point I would make is, there's a lot of conversation and rhetoric at the surface of this issue. So if we go back to why did so many of us push so hard for so long on corporate tax reform, and again I'm dealing with the corporate piece of this. And why was it eventually enacted. There were some very powerful and important motivators that I don't think have diminished in their importance.

The first was we wanted American companies to be fully competitive in non-American markets, which would give American companies every opportunity to attract capital, to grow, to create jobs, to increase America standard of living. The second motivation was to prevent capital flight. To make it attractive to be domiciled and headquartered here in America as opposed to moving operations to other parts of the world.

And the third, which is closely related to the second is we wanted to incent capital formation onshore versus offshore. Those are very strong motivators and very important dynamics that I don't think anyone is going to casualty walk past. So I just offer that in terms of the amount of thought deliberation and consideration that I expect will go in to any recommended change that to-date collectively hasn't been applied most recently to this question.

So I'm stopping short of any specific answer on the numerex [ph] that's going to be highly dependent on the details of what if anything happens and that answer is going to be driven by, I think a lot more reflection on the three questions that I just mentioned, as well as some others.

Operator

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

Q - Bill Chappell {BIO 1737315 <GO>}

Thanks, good morning. Hey, two quick ones. One, Jon, just remind us what -- how big dry shave is of total shave, just I was a little surprised that it could offset the whole business, I mean even the 30% growth. And then on the commodity front, can you maybe talk a little bit about what's changed and what you see on the horizon distant? You gave guidance, I guess 2.5 months ago, to have a little more of a headwind. Thanks.

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

I understand the question on the breakdown of drivers is what shave. I don't have the data, but if you call John, he can certainly get that for you. The commodity environments and my way of thinking hasn't changed dramatically (technical difficulty) we provided guidance for the year, there has been an increase in pulp as an example, an increase in some of the other items we purchased, but overall, it's a relatively, on a historical basis, benign environment at the moment.

Oil and the petro complex is generally somewhat range bound, I'll leave it there.

Operator

We'll take our next question from Jon Andersen with William Blair.

Q - Jon Andersen {BIO 15033263 <GO>}

Thanks, good morning. I have two quick questions on mix. First one being, if you could describe the impact of mix on the P&L, whereby adds to sales, organic sales growth but detracts from gross margin in the quarter. And the second question is the mix benefit you experienced in the quarter on the top line looks to be driven essentially by fabric and home care, and to a lesser extent health care, it's a balance of the divisions neutral.

What's happening within those segments that's driving favorable mix? Thank you.

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

Mix is a very complicated animal because there is not just category mix but there is geographic mix. And so for example, when the US grows faster than almost any other market both with its sales rate or revenue per case and its profitability that has significant impact as do the category differences that you referenced.

To get to the conundrum of gross margin going one-way as relates to mix and P&L going other way, I've talked about this quite a bit. And it's a reason that I really don't -- I'm not focused on margins. We're not focused on margins. I don't want that to scare anybody becasue I didn't say, we weren't focused on profit and cash.

But margins are an interesting animal. They -- I can't put margins in a bank. I can't return margins to shareowners. I can't really invest margins in innovation. What I can do, what we can do is invest profit and cash in each of those things. We can put that in the bank. We can redistribute that to shareholders or we can invest it in increasing our margin of superiority.

We have many of our premium offerings carry a lower gross margin but a higher penny profit. Laundry Unit Dose is an example of that dynamic. I'll take that higher penny profit every day of the week, even though it may degrade our gross margin to some degree. But that's the dynamic, the delta between a margin and penny profit that's driving the math that you're seeing. And that's why, we can't get hung up in margins per se, but we should be very hung up on profit and cash.

Operator

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

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

Just one bit of summary, for those of you who are still on the line. Again, as we reflect on this quarter, the point that I think is most important to take away is the momentum of the business and the robustness of the strategy and the brand portfolio that are driving that momentum, pre COVID, during COVID, now post COVID. And I'm happy to talk at greater length about that with any of you as the day and the week progresses.

But that is the takeaway here, and I really appreciate your time and your questions. Have a great day.