Company Name: P&G	Market Cap: 216,701.97	Bloomberg Estimates - EPS
Company Ticker: PG US	Current PX: 86.98	Current Quarter: 1.195
Date: 2018-10-19	YTD Change($): -4.90	Current Year: 4.372
Event Description: Q1 2019 Earnings Call	YTD Change(%): -5.333	Bloomberg Estimates - Sales
		Current Quarter: 17141.667
		Current Year: 66640.524

Q1 2019 Earnings Call

Company Participants

- Jon R. Moeller

Other Participants

- Dara W. Mohsenian
- Olivia Tong
- Ali Dibadj
- Wendy C. Nicholson
- Nik Modi
- Stephen Powers
- Lauren R. Lieberman
- Joseph Nicholas Altobello
- Bonnie L. Herzog
- Andrea F. Teixeira
- Mark Stiefel Astrachan
- Kevin Grundy
- Steven Strycula
- Jason English
- Jonathan Feeney

MANAGEMENT DISCUSSION SECTION

GAAP and Non-GAAP Financial Measures

Additionally, the company has posted on its Investor Relations website, www.pginvestor.com, a full reconciliation of non-GAAP and other financial measures

Jon R. Moeller

Financial Highlights

We're going to keep prepared remarks brief, reflecting a fairly straightforward quarter, and Investor Day right around the corner

I'll provide headlines on the quarter's results, just a few comments on strategic focus areas and update FY guidance before turning the call to your questions

Organic Sales Growth

- We continue enabled by superiority, productivity, and creating a more focused, agile and accountable organization and culture to make important progress towards our objective of delivering balanced growth, p line, bottom line and cash

- We're accelerating organic sales growth driven by strong volume and consumption growth with market shares improving, and now growing on an aggregate basis

Volume Growth, Pricing and Skin and Personal Care

- Organic sales grew 4%, driven by strong organic volume growth of over 3%
- Pricing was neutral to the quarter
- With mix a positive 1 point impact to top line growth; 9 of 10 global categories grew organic sales
- Skin and Personal Care grew in the teens, Personal Health Care, double digits, Fabric Care, Home Care, Feminine Care, Family Care and Grooming, each grew organic sales mid-single-digits

All-Channel Consumption and Category-Country Combinations

- All-channel consumption, very strong, up in line with organic sales and ahead of the underlying market, driving as I said, a return to aggregate market share growth. 33 of our top 50 category-country combinations held or grew value share, up from 26 last FY, 23 the year of before that, and 17 in the year before that
  - To reversing that progression, 17, 23, 26, 33 of our category-country combinations holding or growing value share
- Similar progress in our largest market, the U.S.
- In September of 2016, one category growing share over the past 12 months
- September of 2017, three categories
- Currently, eight categories. 40BPS of share growth overall in Q1

Market-Level Issues

- While making good sequential and absolute progress, we do continue to face several top line challenges
- We've previously highlighted market-level issues in Saudi Arabia and the Gulf markets, Iran, Algeria, Egypt and Nigeria
- We have large businesses in the Middle East and Africa, nearly $3B in sales
- Organic sales in the region were down nearly 10% for the quarter, about a half-point drag on company organic sales growth

U.S. Male Blades and Razors

- We had a very good quarter in Grooming with organic sales up 4%
- But we're going to continue to face challenges on this business
- As I said, we're making good progress, look at the U.S. for example
- U.S. male blades and razors value share up from a 4-point decline in FY2017 to down 30BPS in FY2018 to nearly a full point increase over the last six months; which includes the impact of a major competitive launch during the period

All-Outlet Volume Share

- We're growing all-outlet volume share on a past 1, 3, 6 and 12-month basis
- But we are going to continue to face challenges from value tier competition in-store and online in several markets

Baby Care Sales

Diaper Pant Products

- While we expect trends to improve, Baby Care sales were down for the quarter
- We continue to build on the success of our diaper pant products
  - Pampers is the global share leader in pant-style diapers, with nearly a 30% share of the form which is growing at a double-digit rate
- Tape diapers have been the soft spot, mainly in the mid and value tiers
- So top line challenges remain, and improvement won't come in the form of a straight line
  - But consumption, volume, sales, and share are each progressing nicely

Core EPS and Foreign Exchange

- Moving to the bottom line, core EPS were $1.12, up 3% vs. the prior year
- Foreign exchange was $260mm earnings headwind, about $0.10 per share
- On a constant currency basis, core EPS up 11%
  - This against the backdrop of significant commodity and transportation cost challenges, about an additional 5 points, net strong underlying earnings progress

Gross Margins and SG&A Costs

- Core gross margin contracted 150BPS, as 170BPS of productivity improvement were offset by 100 points of commodity cost increases, 60 points of foreign exchange headwinds, and 160 points from mix, innovation investments, and other impacts
- Adjusting for currency and commodities, underlying gross margin was up slightly
- Core SG&A costs decreased 80BPS as a percentage of sales, down 150BPS excluding FX impacts, driven by sales leverage and strong productivity improvement

Operating Margins

- As a result, core operating margin decreased 80BPS, including 250BPS of productivity savings
- Constant currency core operating margin increased 50BPS.
  - Excluding currency and commodities, core operating margin was up 150BPS.

Cash Flow, Share Repurchasing and Dividends

- Cash flow remains dependably strong with adjusted FCF productivity of 95%
- We returned over $3.1B of cash to shareowners, nearly $1.3B in share repurchase and $1.9B of dividends

Summary

- In summary, a very strong quarter, solid consumption, volume, and organic sales growth driving positive market share trends across categories and geographies
- Strong constant currency core EPS growth and continued high levels of cash generated in return to shareowners, all in the most dynamic and challenging environment we faced in a very long time

Investments and Cost Savings

- We're accelerating change to meet these increasing challenges and to further improve results
- As you know, we've made a deliberate choice to invest in the superiority of products, packages, retail execution, marketing, and value, not just in the premium tier, but in each price tier where we compete, strengthening the long-term health and competitiveness of our brands
  - We're making solid progress on extending our margin of advantage and increasing the quality of our execution, which shows in these results
- Additional investment will be needed to continue this progress
- The need for this investment, the need to offset macro cost headwinds, and the need to drive balanced top and bottom line growth, including margin expansion, underscore the importance of productivity
- We're driving cost savings and efficiency improvements in all facets of our business, approaching the midpoint of our second five-year, $10B productivity program

Cost and Savings

- We've consistently delivered $1.2B to $1.6B in annual cost of goods sold savings
- We expect to be towards the high end of that range again this FY.
- We're eliminating substantial waste in the media supply chain, delivering nearly $1B of savings in agency fees and ad production costs over the last four years
  - We see more savings potential in these areas along with more efficiency in media delivery
- We're continuing to drive savings in organization cost, total enrollment now down nearly 30% since the start of our first productivity program, closer to 35% when including contractor roles

Working Capital, Receivables, FCF and Earnings

- We're focused on cost productivity and cash
- We've made significant progress in all areas of working capital
- Over the past five years, we've improved receivables by three days, inventory by 10 days, and payables by more than 30 days, enabling us to fund capital spending needed to transform our supply chain
- Over the last seven FYs, we've averaged nearly 100% adjusted FCF productivity, returning an average of over 110% of reported net earnings to shareowners through dividends and share repurchase

Organization Structure and Culture Changes

- We're making needed organization structure and culture changes to position us to win
- We're taking steps to simplify the organization structure, clarify responsibility, increase accountability
- We're supplementing internal talent with skilled, experienced external hires and improving category dedication and mastery
  - We're strengthening compensation and incentive programs, increasing the granularity of annual bonus awards, expanding participation in both the annual and three-year bonus programs, changing evaluation metrics to focus more on performance relative to competition, and performance of local teams
- We're increasing the amount of total compensation at risk and widening the payout range to deliver greater upside reward and downside consequence from over or underperformance
- Each of these organization and culture changes are aimed at creating a company designed to win in today's market with today's consumer at the speed of the market, more agile, more accountable, more efficient, more productive

Constructive Disruption

- We're committed to lead constructive disruption in our industry across all areas of the value chain, innovation, supply systems, consumer communication and brand building, retail execution, sustainability
  - Constructive disruption will be the central theme of our discussion on Investor Day

Guidance

Sales Growth and Pricing

- Moving to guidance, with one quarter of the year complete, we are maintaining organic sales growth guidance of 2% to 3%
- Pricing should turn progressively more positive as we go through the year, but this will increase volume uncertainty and volatility
- We now expect all-in sales growth in the range of down 2% to in line vs. last year, reflecting 3 to 4 negative points of foreign exchange

EPS and FX

- We're maintaining core EPS guidance of 3% to 8%
- Where we land in this range will be significantly impacted by FX, by commodity costs, by the competitive and consumer response to planned pricing, and by our own productivity efforts
  - We're not currently at the high end of this range
- In less than the three months since our last earnings release, the foreign exchange headwind on earnings increased by $400mm after-tax, $900mm in total for the FY.
- The Turkish lira devalued 25%, the Argentine peso more than 40%, the Indian rupee nearly 10%

Commodity Costs

- Commodity costs are expected to be $400mm headwind
- Crude oil, a key feedstock for many raw materials, is up more than 50% from this time last year
- Trucking costs will likely be up 25% or more vs. last year's inflated levels
- Combined FX and commodities are now $1.3B after-tax or $0.50 per share headwind vs. last fiscal
  - This excludes elevated transportation costs

Commodity Prices and Foreign Exchange Rates

- As commodity prices and foreign exchange rates move, we will take pricing when the degree of cost impact warrants it, and competitive realities allow it
- We've already announced pricing in U.S. Baby Care and Family Care
- We've also informed retailers that we will increase prices on several products in Home Care, Oral Care and Personal Care; coupled with innovation launches early next CY.

Pricing

- We've announced pricing in several developing markets, including Argentina, Turkey and Russia to offset at least a portion of the FX impacts
- There will be volatility with these pricing moves
- Competition may attempt to take advantage of our moves for short-term market share gains
- Overall category consumption may be negatively impacted
  - We'll simply have to adjust as we go and as we learn

Investments

- Importantly, excluding the macro impacts, every point of our core EPS guidance range reflects strong double-digit constant currency EPS growth
- Our priority going forward will remain protecting superiority building, value accretive investments in the business
  - We won't allow short-term pressures to derail the progress we're making towards sustained, profitable top line growth

FCF Productivity, Dividends and Share Repurchasing

- We continue to expect another year of 90% or better adjusted FCF productivity and another year of strong cash return to shareholders
- We expect to pay over $7B in dividends and repurchase shares worth up to $5B.
- This factors in the cash required to complete the acquisition of Merck's OTC business during the year and cash spent on other deals

Market Growth Rates and Pricing

- Our guidance is based on current market growth rates, commodity prices, and foreign exchange rates
  - Significant additional currency weakness, commodity cost increases or additional geopolitical disruptions are not anticipated within this guidance
- As you consider your quarterly estimates, keep in mind that pricing to offset FX and commodity pressures will begin to go into effect only later in Q2, and accelerate in the back half of the year
- So cost and FX challenges will persist and likely worsen as we move into Q2
- While we expect to continue making progress on consumption and share, the top line organic sales comp in Q2 is more difficult than we faced in Q1, which will have an impact on reported growth rates

Summary

To sum up, while the external environment presents many challenges, we're making important progress and are accelerating the pace of change

Efforts to extend our margin of competitive superiority, to drive productivity savings to fund investments for growth and enhance our industry-leading margins, to simplify our organization structure and increase accountability are and will continue driving improved results

We're leading disruption across the value chain to consistently and sustainably grow sales, margins and cash

QUESTION AND ANSWER SECTION

<Q - Dara W. Mohsenian>: This is the best organic sales growth you guys have had in five years. Clearly, it's probably better than you originally expected, and perhaps even in early September at the conference circuit. But at the same time, it's only one quarter, the comp was easier. You mentioned some caveats.

So just taking a step back at a high level, as you look at the underlying drivers behind this quarter's top line results, how confident are you that you've regained some top line and market share momentum here and the drivers in the quarter are more sustainable and the culmination of your efforts over the last few years as opposed to – specific to this quarter?

And also, within that answer, the sequential progress you made in the quarter on the organic sales front, can you talk about what geographies drove that? And how much of that you think is more P&G market share improvement as opposed to improved category growth? Thanks.

<A - Jon R. Moeller>: I feel very good, we feel very good about the quality of the top line growth in the quarter, and the quality of the number that we're reporting. And we feel good about that for several reasons.

As I mentioned, consumption is up in line with our top line progress, which is very encouraging. That's reflected in improvements in market share, which I talked about both in the U.S. and globally. The breadth of the growth is encouraging, with 9 of 10 categories growing sales in the quarter; I mentioned some of the growth rates in our prepared remarks.

Importantly, also just the early read in October, roughly 55% of the way through that month – a month means even less than a quarter, but we haven't seen a drop-off that you'd expect to see in terms of shipments or consumption if the quality of Q1 number was lacking.

Also important is the growth in our largest market, largest and most profitable market, the U.S., where we were up 4% on volume growth of 5%. Also, the impact of pricing, both in the U.S. and broadly, now neutral vs. negative. So all of that leads to our confidence in the numbers for the quarter and the results that we're seeing.

There are, though, some things that are very important to note as we try to project that forward. One, we face very strong competition, both multinational and local, who are very active in the marketplace. Two, the pricing that we need to implement to offset commodity and foreign exchange costs is largely not in the marketplace today. There's very little of it that's actually on the shelf.

As I mentioned, that'll come into play later in Q2, and as we go through Q3 and Q4, and we know that, that will introduce volume volatility and uncertainty. So we're happy with the numbers. I don't think there's anything that's suspect within those results, but we still have a lot of work to do as we go through the balance of the FY.

<Q - Olivia Tong>: Following on my question, I mean, maybe we can turn a little to the emerging markets, because clearly you saw a strong acceleration of organic sales. I imagine in emerging markets too, which sort of contracts with the fears in the market over GDP growth slowing, and the impacts of FX depreciation.

So can you walk through what you think drove the improvement in that particular area? Are you mixing upwards? Have you started to take price in some cases, where inflation has warranted it? And are there particular markets or categories that have surprised for the better, and what are you doing to keep that momentum going? Thanks.

<A - Jon R. Moeller>: Against the backdrop of the broad question on the strength of emerging markets, as always, those markets are extraordinarily dynamic. I mentioned some of the challenges we're facing, for instance, in the Middle East and Africa, and I would be not serving you well to overlook those.

Having said that, the large developing markets where significant future growth should present itself continued to perform fairly well; double-digit growth, high-double-digit growth in a market like India, Brazil doing well in the quarter.

China, if you still consider that a developing market, up 7% the past 12 months, which is a significant acceleration from where we were at negative 5% just two years ago. Encouragingly, that progress in those markets reflects the company progress across the breadth of the portfolio. So, it's not just one category driving sales.

I get the question quite frequently, what if we excluded SK-II and what impact would that have? There isn't a piece of our Beauty business that isn't growing; right now most of it growing at very attractive rates.

Several of our categories in China are growing at double-digit rates and a couple at high-singles. So I continue to believe that – and this could change tomorrow, but as we sit here today, the setup in developing markets is relatively strong, absent those markets with significant geopolitical disruption, and absent the markets, where we've seen significant devaluation and their pricing will be obviously required.

<Q - Ali Dibadj>: How should investors think about the profit pool of your whole HPC sector right now? So pricing, it's not keeping up with inflation and even going forward with the incremental pricing, it sounds like you want to take – you won't keep up with inflation, so gross margins will be down.

But gladly for you guys, you have fat to cut, you're doing well on productivity, you can deliver on the bottom line pretty well. But how do you foresee that looking for kind of the HPC category overall, your competitors in terms of the profit pool? I guess, many of us are trying to figure out if you're, again, kind of this nicest house on a deteriorating HPC neighborhood, and would just love to hear your perspective on that.

<A - Jon R. Moeller>: As I think about it in aggregate, I'm not in a terribly different position looking forward now than I would have been this time last year or this time three or four years ago. In terms of pricing relative to inflation, that's just beginning to be brought into the marketplace, not just by us, but you've heard most of our competitors, both multinational and local, talk about the same thing.

And that will work its way through the income statement as we go through the balance of the next CY, and the end of this CY. I don't know how that's going to play out, but I don't have any definitive indication that it's going to play out negatively.

Innovation continues to be a significant source of margin and profit expansion within the industry. That is alive and well, and you see it in items like unit-dose detergents, in fabric enhancer beads, you see it in adult incontinence, you see it in some of the naturals launches; Pure Pampers as an example. So I continue to believe that that is a significant source, an important source of both category growth for us and retailers and margin opportunity for both us and our retail partners.

You mentioned productivity. There are additional tools available today to us and others that offer unprecedented opportunities in terms of automation and digitization to improve cost both on the manufacturing floor and on the office floor.

Tax rates for U.S. companies, the tax outlook is significantly better than it's ever been, with lower rates than have been the case. We are seeing – and this is important, I think – modest increases in market growth rates, including and most importantly in the U.S. And that has a big impact on behavior both across the manufacturing environment and the retail environment, as you would expect.

There are definitely headwinds. Interest rates are a headwind for U.S. borrowers. That differential in interest rates between the U.S. and other countries is leading, as we all know, to significant strengthening of the dollar, which is a real challenge that we've talked about. And commodity costs and transportation costs are up significantly.

But if I look back over the past decade, in different years, all of those factors have been present. So there's nothing unique other than perhaps the very significant macro impacts, which hopefully will be short-term in nature, that preclude HPC companies from building value for shareholders as we go forward.

All of the long-term fundamentals that you'd have to believe in that support market growth, which is the most critical driver of growth, top line and bottom line, are in place: population growth; income growth; and an industry that largely continues to focus on innovation as a way to grow its business. And it's early in the earnings cycle, but if I just look at other competitors that have reported, J&J and Unilever as two examples, I'm very happy to see significant progress on the top line in those companies as well. That is not indicative of an environment that is problematic for any of us.

<Q - Wendy C. Nicholson>: Just first, a housekeeping question on Gillette. Those numbers, the Grooming segment was a lot stronger than I anticipated based on the tracked channel data in the U.S. So can you talk about the Gillette performance in the U.S. specifically, and how much is the Gillette Shave Club growing vs. what we're seeing in tracked channels?

And then another question, if I can. It's just the pricing conversations you're having with retailers, there's been a lot of skepticism I guess among investors I talk to about whether you're going to be able to get those prices through, whether retailers are going to push back, whether you're going to have to do more promotion to offset that, et cetera, et cetera. But if you're taking more pricing in Home Care, in Personal Care, maybe the conversations you're having with retailers are more productive. So can you comment on that just at a high level? How easy is it going to be for you to realize that pricing in the market? Thank you.

<A - Jon R. Moeller>: The Grooming business in the U.S., let me just – well, it continues to – it is very strong, plus 10% sales growth in the quarter on volume growth that's higher than that in the face of the competitive expansion. As I was very careful and hopefully clear to describe in our prepared remarks, there will be challenges ahead, but it gives us a lot of confidence of the strategies we're putting into marketplace are in fact working as we expected them to.

As it relates to offline vs. online, that's much more than a Gillette Shave Club dynamic. That's a broader channel-switching dynamic. And we continue to do reasonably well, but we have more work to do online in that business vs. offline. We believe based on the data that we have, we're seeing significant growth in Gillette Shave Club users and believe based on the data that we have that we're the only one growing users in the U.S. That's not a global comment.

So generally, we're very cautious. We have a lot more work to do. The competitive activity in the space is very strong and early in its lifecycle, but we take a lot of encouragement from the progress we saw in the quarter.

<Q - Nik Modi>: I was hoping you can talk about just the Skin Care business in general. That's an area that outside of China and SK-II has struggled for a number of years. And I was hoping you could just touch on it in the context of, A) what's going on with the Skin Care category in China, because it's not just you guys. It seems to be a lot of the beauty players are having some pretty nice success there right now. So just curious about what you're seeing from the consumer standpoint. And then, maybe you can touch on Olay Whips and what that has meant to the overall Olay franchise?

<A - Jon R. Moeller>: I'm going to come to that. I'm actually going to step back. I apologize. I'm not good at keeping track in my head of multi-part questions. It isn't your fault, this is my fault. And so I neglected to answer Wendy's question on pricing, and I want to come back to that. And then I'll come to Skin Care and Olay, Nik. Sorry about that, Wendy.

In terms of support for pricing, the commodity cost impacts we're talking about are significant. So I talked about oil as an important feedstock for many of our raw materials being up 50% year on year. Transportation costs being up 25% after a year where they were up significantly before that, and those are all costs that retailers see and understand, in large part because they face the same cost increases in their private label brands. And certainly from a transportation standpoint, they're seeing all the impacts that we are and more.

The questions that investors are raising relative – all the questions that you mentioned relative to pricing are the right ones to raise, and I wouldn't dismiss any of them, but the conversations to date have been encouraging. What we don't have visibility on to date are the whole array of competitive activities. So I'm certainly not sitting here today declaring victory. There's a lot of work and volatility ahead of us. But so far, nothing, as I said earlier, that's definitive that has me overly concerned.

Now, Nik, going back to your questions, the Skin Care – if you look at Skin and Personal Care, which is how we look at the business, organic sales increased in the quarter double digits, about 13%. And very, very encouragingly that growth is broad-based. So SK-II, up over 20%, the balance of the Skin Care portfolio up close to 20%, Personal Care up mid to high single digits. Deodorant is growing as well.

If you take the 7% Beauty segment growth and exclude SK-II, you would have seen growth of 5% in Q1. So, again, that's reflective of very broad growth in the Beauty portfolio. We're growing share across that total business with all segments either growing or holding share.

In terms of China, we delivered across the Skin and Personal Care portfolio 22% growth in Q1. SK-II did lead that, as you would expect, but Olay was close to 20% growth. Olay Skin has now delivered six quarters of double-digit growth in China, led by both innovation, things like Olay Whips, but also the revitalization of the in-store experience and the Olay beauty counters.

So we also are seeing good growth not just offline, but online in the Skin business, where e-commerce sales if we look at the past 12 months in Skin Care, up 60%. They're up 50% CY-to-date, ahead of the market. So it's a broad success story, not simply SK-II.

<Q - Stephen Powers>: Maybe just to build on, Jon, on your response to Wendy's question on pricing, I want to drill down a little as it relates to Baby & Family, if I could, just because that's been where I think the pricing discussion's been most in focus given your pricing announcements last quarter. And on the one hand, I think we're all expecting some improvement there, which is obviously constructive. But on the other hand, as you've called out there continues to be investment in value tier products, and in particular Luvs for you.

So I was hoping you can address any potential tension that you're seeing there? And how you see aggregate net pricing trends unfolding as a result both in Baby & Family and in other categories as you take incremental pricing? I'm just curious if this is something specific to Baby that we should think about? Or if this sort of tug of war, if that's the right label, is something we should extrapolate to other categories? Thanks.

<A - Jon R. Moeller>: My answer will likely frustrate, and I apologize for that in advance, but it's really too early to sort this out in a meaningful way for you. All signs, early signs are positive, both in terms of retailer acceptance of the price increases, and importantly of competitive announcements both branded and private label manufacturers of their intent to take pricing.

But it's not in the marketplace broadly. There are some – some of the Baby Care pricing is in the market, but it's really, really early. We'll know a little bit more by Analyst Day, but not a lot, given that's only three or four weeks away. So this is a conversation we're going to continue to want to have as we go through the end of the CY, and the beginning of next CY. I apologize for what may rightly appear like a non-answer, but it's just because I don't have one yet.

<Q - Lauren R. Lieberman>: I wanted to just ask again about the U.S., because at our conference in September, Jon, I feel like you really went out of your way in several forums to discuss a disconnect between the strength that we were seeing in Nielsen, and what you expected to see in terms of reported results.

So mentioning things like long-term inventory destocking in the retail trade, dynamics in y-over-y kind of couponing, cost to implement some of the in-store activity that you're doing, and the improved display, and support for your innovation.

So if you can just talk about what changed, frankly, between early September where again you really made a point of saying don't look at the scanner, and how things shaped up? And as we look forward, those three – really the two dynamics, the long-term inventory destocking at retail and cost to have a better presence in-store to support your innovation, how you expect had that to impact U.S. trends going forward? Thank you.

<A - Jon R. Moeller>: Part of the discussion that we had on retail inventory destocking you'll recall was, and frankly the largest part of the question had to do with channel mix, and the relative mix of online vs. offline with online being generally lower inventory carrying channel. And one of the things that occurred as we went through the quarter is that, some of the significant investment that online retailers were making in consumer acquisition decreased relatively significantly.

So while still growing ahead of offline, the growth rates in online at a market level as the quarter worked its way through ended up being significantly less than had been the case, for instance, the quarter before or the quarter before that, and that's one of the drivers of the impact. There was also a fair amount of channel mix beyond just the offline/online dynamic that changed as we went through the quarter, which had an impact on where we actually came out.

We tried to be very clear that the investments we were making with retailers were in assets, not just additional trade spending, and that we hoped that those investments in assets, whether that was displays, whether that's placement, would earn the return that we expected it to, and that has largely occurred. And we had even greater strength than we expected on some of our innovation launches. Pampers Pure for example, which now leads the natural segment in diapers in tracked channels.

So a number of relatively favorable things came into play. Can those reverse themselves over time? Certainly. But I also look at the progress that we made in market share as indicative of relative strength that should continue working for us as we go forward.

<Q - Joseph Nicholas Altobello>: Earlier you did allude to a modest acceleration in market growth both here as well as internationally. I was curious what was driving that. Is it more volume driven? Are you seeing more trade-up? Or is this more reflective of less promotional activity?

And then maybe secondly, on Grooming, obviously that stood out. And I know it's one quarter; I know you've gone to great pains this morning to say it's one quarter, but what would we need to see for you guys to declare that that business is fixed? Thanks.

<A - Jon R. Moeller>: Drivers of the increase in market growth are all of the above, Joe. So if you just look at our business as representative, the 4% sales growth in the U.S. was on the back of 5% volume growth. So there is some acceleration in unit consumption.

We continue to see the premium parts of the portfolio in many cases growing at a faster rate than the balance of the portfolio, so it's innovation and mix up that's occurring. The promotion levels aren't significantly different quarter-to-quarter or year-on-year. I mean, you have the Nielsen data. The percentage of our volume that moved on promotion is not significantly different from either the prior quarter or the year-ago quarter.

And fundamentally, we have, as we all know, a very low unemployment rates, some increases in wage rates, generally strong consumer confidence, and it's playing through across all the drivers at a very modest level of acceleration and market growth that you'd expect to see.

On Gillette, I'd like to see four to six to eight quarters of continued progress, and that's certainly what we're working to achieve.

<Q - Bonnie L. Herzog>: I wanted to circle back to China with a couple of quick questions. What was your total organic sales growth in the quarter? And then, how did that compare to category growth? And then as you look out, how sustainable do you think category growth in China is, and wondering if you guys have any concerns about consumer pushback on U.S. brands and manufacturers due to tariffs? Thanks.

<A - Jon R. Moeller>: We haven't seen any appreciable impact of the tariff situation on consumer attitudes towards brands. We certainly didn't see that in the quarter, again, with very strong growth rates across several of our brands. There's nothing that we've seen that would indicate a significant drop in the market growth rate across categories, either consumption levels or appetite for premium products. In fact, the categories, again, that we continue to do best on are the categories that were best positioned from a premium offering standpoint, and the categories that we're struggling more with, that's less the case.

The organic sales growth in China for the quarter was 4%. Again, if you flashback to minus 5% couple years ago to plus 1%, plus 7% last year, there's a fair amount of volatility within the quarters as if we look at underlying consumption and market share growth, market share actually improved quarter-to-quarter in China, so I expect over a couple of quarter period, we're still solidly in the mid-singles to high-single-digit growth rate there.

I know there's a lot of concern that's been expressed, not just with regard to our categories, but more broadly. I understand the GDP figures were down that were released today, but GDP at 6.5% still offers significant opportunity. So there's nothing that we are aware of today that has significantly changed our outlook for our business in China.

<Q - Andrea F. Teixeira>: Just following up on pricing and couponing, so you spoke about the plans to increase pricing before on a few more categories, but you were also planning on reducing couponing in the U.S. going forward, as you probably got more of a conversion ratio than I think you probably expected. And so how are you thinking of net pricing premium, I guess, your branded competitors and private label going forward?

And related to that, are you concerned on pantry stocking, because of couponing, in particular in the Costco couponing in the month of September and also on SK-II in Asia? Thank you.

<A - Jon R. Moeller>: I don't want to get into a lot of details. The business in October and the momentum that it continues to indicate is not indicative of a situation where that would lead you to the belief that the July-September results were driven by a lot of pantry stocking, either here or in China, across the brand portfolio, so I don't think that that is the case.

In terms of our spread vs. others on price, net price, I don't expect a significant change. You're right, we have reduced couponing in a couple categories, and you're right that was because those coupons over-redeemed, and we wanted to dial that back a little bit.

We're also – we go through cycles, and it's different by category, by market, where we're introducing new products, for example, and you'll see an increase in the rate of couponing and promotion to drive trial. But there's nothing that is systemic, either up or down, that I see relative to our desired net price premiums vis-à-vis our competitive set.

<Q - Mark Stiefel Astrachan>: I wanted to ask about private label or retailer brands, however you want to think about that. It seems like 12 months ago or more, there was certainly a lot of talk, increasing amounts of shelf space, emphasis being put on the category, partly just because it under-indexed especially in the U.S., and partly because it could put pressure on pricing.

Fast forward to today, it seems like it's far less pronounced. So I guess, one, do you see that from a retailer standpoint in your conversations? And two, if yes, what do you think has driven that? And do you believe that that can ultimately result or should ultimately result in A&P spend in more of a traditional sense continuing or ultimately increasing off of current levels to sustain what seems like some momentum against that shift?

<A - Jon R. Moeller>: Private label, as you know, is primarily a European and U.S. dynamic, not entirely but primarily. In Europe, private label market shares are down slightly after three years of basically flat performance. In the U.S., in a couple categories in the U.S., the percentage of private label that is sold in a given category varies dramatically from almost nothing to 20% to 30% of business that's moved in the category. So as a result of that, and you would expect this, that the dynamics are very, very different by category.

There are categories where we see continued retailer interest in increasing their private label presence. Private label market share in the quarter we just completed in aggregate was up about 40BPS. Our share was also up about 40BPS in aggregate. The category that's seen the most increase in private label sales is the Family Care business. Our market shares are also doing very well and are increasing in that business.

So I hesitate to tell an overarching private label story because I don't think there is one, but it is definitely something that continues to be of interest to retailers across channels. That's been the case for many, many years. And oftentimes, the increase in private label, which leads to a reduction in branded assortment, it's very rare that that comes out of the number one or number two positioned brand in the market. That doesn't mean we're immune. Private label manufacturers are doing an increasingly good job at delivering quality products to consumers, so I'm not dismissive of it in any way. But also, I think we're well-positioned to deal with it.

<Q - Kevin Grundy>: I wanted to come back to the pricing discussion. And I apologize if I missed this part; it's a two-part question. What specifically came in better in Q1? You had been guiding to declines in Q1 and then gradually getting better. But what very specifically by region, by category came in better? That's the first part of the question.

And then the second part is, there still seems like there's a little bit of a wait and see from your perspective on where you can take pricing, what categories, et cetera. So specifically in the U.S., do you view this as a retailer receptivity issue? Walmart recently speaking, unsurprisingly so, about maintaining its lowest price positioning in the marketplace. Or do you more see this as a competitive dynamic, whether this is what's going on in North American Fabric Care with Persil, et cetera? So any commentary there would be helpful. Thanks for both of those.

<A - Jon R. Moeller>: The first question, what changed in terms of our pricing outlook, frankly, not a lot. So when we were talking about negative pricing in Q1, in our own minds that was a minus 1 point impact where we ended up, rounded to neutral. So there wasn't a massive change that occurred as we went through the quarter.

We did take some additional steps to reduce both inefficient trade spending and couponing. That improved things a little bit. And then there were price increases that we took in different parts of the world, particularly the developing markets. As the quarter progressed, the FX situation deteriorated rapidly, and that caused us to make moves that we wouldn't have anticipated at the beginning of the quarter.

In terms of the uncertainty looking forward, that is much more in my mind a competitive-related concern than it is a customer-related concern. And it's not – concern is probably not even the right semantic to use, it's just the reality. When prices start moving in the marketplace, not everybody moves in lockstep, and there are different dynamics that are introduced and capitalized on differently by different manufacturers. So it's just very hard to look forward with a pure, clean, crystal ball and say, here's what's going to happen. That would be disingenuous.

<Q - Steven Strycula>: So really quick question on the sales inflection that we saw from this quarter vs. the fiscal fourth quarter, a nice step up. The way we cut the numbers, it seems like price/mix was a key contributor in the inflection, and also Grooming and Fabric Care. So my question is, what in your mind really drove the price/mix inflection that we saw quarter on quarter? And then at a segment level, what drove the improvement, in your view, in

Fabric Care, and any update on China diapers? Thank you.

<A - Jon R. Moeller>: Price/mix continues to benefit from our innovation efforts and our efforts to increase our level of superiority and advantage in solving fundamental consumer problems. So the fastest-growing parts of our portfolio, as I've indicated before, are some of the premium-priced, more innovative segments, where we've brought real performance difference into the marketplace, whether that's unit-dose detergents, whether that's fabric enhancer beads, whether that's adult incontinence products, whether it's some of the natural products with an and-benefit efficacy and natural. So all of that reflective of the strategy that we've described and we'll talk about more on Analyst Day are playing themselves out in the marketplace.

The other difference that I just mentioned in response to the last question is that we are starting to put price in the market as it relates to both commodities and foreign exchange. And I apologize, I once again, failed to remember parts of the question, but that's the answer to the first part, at least.

<Q - Jason English>: I'll keep this simple for you and stay focused. I want to delve into the mix drag on gross margin. It was a lot bigger than we've seen in the last couple years and it's certainly a lot bigger than we expected. I know you mentioned in prepared remarks a couple of things around it, but I was hoping you could give us a little more detail. Unpack the components of it, and it's especially surprising to see in context of the U.S. strength. I guess I've always assumed that, part of that mix drag was U.S. weakness. Why are we seeing the acceleration? It sounds like there's maybe some transitory stuff in there. Can you unpack it and give us the magnitudes and expected duration? Thank you.

<A - Jon R. Moeller>: It's wonderful to hear from you without your barking dog, just kidding. In terms of gross margin, I want to make a couple things clear both here and going forward. When you're in these – and this isn't addressing your mix question, I'll come to that in a second, but I just want to take advantage of your question to make this point.

When you're in an environment of increasing commodity cost and foreign exchange hurts, it's almost inevitable that you're going to see margin compression, both on the gross and operating line. And that results from the simple fact that even if you're 100% successful with your pricing plans, you're typically taking pricing to recover cost. You're not taking pricing to recover margin. It's not that you wouldn't like to take pricing to recover margins, but that's not typically what you can accomplish. So I do expect that as we go through this cycle, we're going to continue to see some pressure. We'll see if productivity cost overcomes it, but we'll continue to see some pressure on margins.

Relative to mix, I mentioned earlier that some of the fastest-growing portions of our portfolio are the premium-priced segments. There's a very understandable belief, though it's not accurate, that those higher-priced segments are higher margin. In fact, what's true about that belief is that generally they are higher penny profit per unit. So, we want to sell as many of them as we can, but they often come at a lower margin.

So the math of a shift in the business to unit-dose detergents to adult incontinence products, to pure and natural products is a positive one from a value-creation standpoint, but it leads to negative margin mix. And I expect that to be with us as well as we continue to implement our superiority strategy, again, with productivity there too will offset a significant portion of that, and then a benign commodity and FX environment I would expect us to continue to grow, to grow margin, but that doesn't mean that, that negative mix component would go away.

<Q - Jonathan Feeney>: What portion of your total global volume will see a price increase planned as of right now by the end of this FY? A rough number would be fine. And more broadly, could you comment about how the pricing process has changed over the past 5 or 10 years with maybe more data-driven and sometimes more adversarial or in some cases maybe better relations or more transparent relations with retailers? How that game has changed and what it means for us as we look at the revenue impact of these price increases. Thank you.

<A - Jon R. Moeller>: I don't think anything significant has changed in terms of how we think about pricing. And some of the important components of that are we want to whenever possible link pricing to innovation moves so that the total value that we're offering consumers is accretive, not dilutive. And that will cause – that has a significant impact on the timing in which pricing is taken.

I mentioned that the categories in the U.S. we've announced additional pricing, we'll be linking that to innovation which will come in H2. And generally, that's a much more successful way to think about this. Short of that and a continued emphasis on that dynamic, no significant changes going forward.

In terms of the percentage of – for very understandable reasons, probably 80% of this conversation has been about pricing and ability to take pricing and ability to keep pricing. Again, I understand that. I'm in no way frustrated or surprised by that. But if I think about the percentage of volume of our internal conversations and planning and what I really think is driving our business, pricing is a relatively small percent of that dialog. We need to take pricing in some markets and in some categories. We'll do that behind innovation when we can.

But the much bigger driver of success both in the quarter we just completed and going forward is the execution of the broad strategy. Products – first of all, the category choices that we're playing in where performance determines brand choice, commitment to deliver superior performance in a superior package communicated in a superior way, executed with excellence in-store at a good value for both consumers and our retail partners, all underpinned by productivity and significant changes in the way that we're organizing ourselves and strengthening our culture to be more responsive to emerging consumer needs, more efficient in those responses, more accountable in those responses.

Those by far are the much more important things to think about as we think about both the quarter and the year going forward. We'll continue talking about pricing as we should at Investor Day, but you'll see the focus much more on that strategy, which again, I think is much, much more fundamental in terms of what actually happened in the quarter that we just concluded and what the outlook is going forward.