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The Procter & Gamble Company (PG) Q1 2020 Results - Earnings Call Transcript

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FQ1: 10-22-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.37 beats by $0.13 | Revenue of $17.8B (6.64% Y/Y) beats by $369.29M

Earning Call Audio

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The Procter & Gamble Company (NYSE:PG) Q1 2020 Earnings Conference Call October 22, 2019 8:30 AM ET

Company Participants

Jon Moeller - Vice Chairman, Chief Operating Officer & Chief Financial Officer

Conference Call Participants

Lauren Lieberman - Barclays

Jason English - Goldman Sachs

Steve Powers - Deutsche Bank

Ali Dibadj - Bernstein

Dara Mohsenian - Morgan Stanley

Mark Astrachan - Stifel

Wendy Nicholson - Citi

Steve Strycula - UBS

Olivia Tong - Bank of America

Kevin Grundy - Jefferies

Andrea Teixeira - JPMorgan

Grant O'Brien - SunTrust Robinson Humphrey

Bonnie Herzog - Wells Fargo

Nik Modi - RBC

Caroline Levy - Macquarie

Robert Ottenstein - Evercore ISI

Jon Andersen - William Blair

Edward Lewis - Atlantic Equities

Operator

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

Also as required by Regulation G, Procter & Gamble needs to make you aware that during the discussion, the company will make a number of references to non-GAAP and other financial measures. Procter & Gamble believes these measures provide investors with useful perspective on 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 Moeller

Good morning. I know you're very busy this morning, so I'm going to make this very brief, about 10 minutes, and then turn straight to your questions. It's another strong quarter topline, bottom-line, and cash driven by our portfolio superiority, productivity, constructive disruption, and organization strategies.

Organic sales up 7%, four points of volume growth, three points of price mix. Two-year stack growth strengthened into an average of 5.5%. Over the last five quarters, two-year average growth has accelerated 2.5%, 3%, 3%, 4%, now 5.5%. Growth continues to be broad-based.

Each global category grew organic sales. Personal Care up mid-teens, Personal Health Care grew double-digits, Fabric Care, Home Care, Feminine Care, Family Care, and Oral Care each grew high singles, Hair Care grew mid-singles.

Each geographic region grew organic sales 4% or more. Focus markets and enterprise markets each up high singles. Our two largest markets the U.S., up 6%; China, up 13%. Japan another large market was up double-digits due in part to the timing benefit of VAT changes that went into effect on October 1st. E-commerce sales grew over 30%. All channel consumption remained ahead of underlying markets driving aggregate market share growth.

Moving to the bottom-line, core earnings per share was $1.37, up 22% versus the prior year. Foreign exchange was a $50 million after-tax headwind about $0.02 per share. On a constant currency basis, core earnings per share was up 24%.

Very strong underlying earnings progress; core gross margin, up 190 basis points; core operating margin, up 260 basis points; continued strong cash flow with adjusted free cash flow productivity of 91%; $1.9 billion of dividends paid; $3 billion of P&G stock repurchased.

In summary, a very strong quarter, solid volume, sales, and market share trends across categories and geographies. Strong operating earnings, margins advancing, strong core earnings per share growth, and continued high levels of cash returned to shareowners.

We continue to face challenges from a very volatile macro and geopolitical landscape and from competitive response to our faster growth, but we're making progress behind integrated and mutually reinforcing strategies. We focused and strengthened our portfolio in daily-use categories where performance drives brand choice, in categories where we occupy a number one or number two position which have historically grown faster than the balance of the company and are more profitable.

If you're in categories where performance drives brand choice, you better perform. We made a deliberate choice to invest in the superiority of our products and packages, retail execution, marketing, and value in all price tiers where we compete, strengthening the short- and long-term health and competitiveness of our brands. We are extending our margin of advantage and increasing the quality of execution.

Additional investment will be needed to sustain 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 continued importance of productivity; cost out cash in; driving cost savings and efficiency improvements in all facets of our business in our second five-year $10 billion productivity program; expecting strong free cash flow productivity from working capital and CapEx efficiency.

Superiority and productivity are critical, but insufficient to keep us ahead in a world with a rapidly changing retail environment, quickly evolving consumer needs, media transformation, revolutionary changes in technology. We must and are leading the constructive disruption of our industry across all areas of the value chain.

We're disrupting the way we innovate by accelerating the speed and quality of our learning through lean innovation. We're monetizing innovation across industries to accelerate investment in R&D and broaden societal impact. We are disrupting in retail execution. We're reinventing brand building from wasteful mass marketing to mass one-to-one brand building fueled by data and technology. We continue to disrupt our supply chain with transformation across the globe.

Finally, we're making organization structure and culture changes to better position us to win. We're taking steps to simplify the organization focusing effort, clarifying responsibility, increasing accountability, and structuring compensation and incentive programs to better align with these objectives.

On July 1st, we officially moved to a new organization structure designed to de-matrix the company and provide even greater clarity on responsibilities and reporting lines to focus and strengthen leadership accountability. We're operating in six industry-based sector business units or SBUs. The SBUs have profit and loss responsibility for the largest markets what we call the focus markets which represent about 80% of sales and 90% of the company's profit. The SBUs CEOs are focused on winning and driving value creation opportunities in these important markets.

We continue to invest in enterprise markets which have very attractive market growth rates. Our organizational structure there is being optimized to accelerate growth top and bottom-line in the dynamic macro environments that those markets present. The benefit of this design is the creation of a more focused, agile, accountable organization, operating at a lower cost, focused on winning through superiority, fueled by productivity, moving at the speed of the market.

I hope it continues to be evident that we've been successfully disrupting P&G. The choices we've made to focus and strengthen our portfolio in daily-use categories where performance drives brand choice, to establish and extend superiority of our brands, to make productivity as integral to our culture as innovation, to lead constructive disruption across the value chain, and to improve organization focus, agility, and accountability are not independent strategies.

They reinforce and build on each other. They position us well within our industry to deal with near-term macro and competitive challenges. They are the foundation for stronger balanced growth and value creation over the short, mid, and long-term.

Moving now to guidance. We're raising our outlook on each key metric: organic sales growth, core earnings per share growth and free cash flow productivity. We're increasing our outlook for organic sales growth from a range of 3% to 4% to a range of 3% to 5%.

The markets in which we compete are growing at a 3% to 3.5% pace, so the midpoint of the higher organic sales range implies continued market share growth.

On the bottom line, we're raising our core earnings per share growth guidance from a range of 4% to 9% to a range of 5% to 10%. This reflects very strong first quarter results and our expectation of solid margin expansion for the year. We're raising our outlook for free cash flow productivity from 90% to 95% for the fiscal year.

The year will continue along track record of significant cash generation and cash return to shareowners. We expect to pay over $7.5 billion in dividends and repurchase $6 billion to $8 billion of P&G shares in fiscal 2020. While our first quarter results enable us to raise fiscal year targets, please keep in mind that the comps get more difficult as we move through the year, both on the top line and the bottom line.

Quarter year-ago top line 4%, 4%, 5%, 7% as we progress through last fiscal year; bottom line 3%, 5%, 6%, 17%. Japan VAT-related timing impacts benefited Q1 company sales results by 30 basis points to 40 basis points but will cause a headwind in Q2.

Pricing annualizes as we move through the year affecting both top and bottom line trends. We'll comp the earnings gains from the loss of land sale and the Oral Care brand divestitures in Q4. Competitors will likely respond to our outperformance, which underscores the need for continued investment and superiority. Brexit uncertainty and volatility in foreign exchange Argentina and Turkey for example will be impacting the balance of year results.

Our revised guidance is based on current market growth rates, commodity prices and foreign exchange rates. Significant currency weakness, commodity cost increases or additional geopolitical disruptions are not anticipated within the new and improved guidance ranges.

With that, I'm happy to take your questions.

Question-and-Answer Session

Operator

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

Lauren Lieberman

Great. Thanks. Good morning. I just want to ask a little bit about the build for profitability. And in particular, you know an area I've been really focused on is operating leverage and as you're showing this really as you put it new and improved top line growth performance. So this quarter much of the upside was driven by in fact positive operating leverage.

And yet productivity despite you calling out the importance of it ongoing in your script was quite, quite low relative to historical quarterly performance. So can you just talk a little bit, I guess, about the outlook for productivity this year? And how we should think about operating leverage? Because it accelerated sequentially even with kind of a comparable revenue performance sequentially. So, just how to kind of work through the math on operating leverage on the stronger top line. Thanks.

Jon Moeller

A stronger top line definitely provides greater operating leverage, as you rightly point out. We had about 50 points of -- 50 basis points of leverage within the gross margin improvement of 190 basis points. And we had an additional 180 basis points of sales leverage between gross and operating. So, 230 basis points overall against a margin improvement on an operating level of 260 basis points.

And I think that's – generally, if we grow the rule of thumb is if we grow 4%, we should have 50 basis points to 75 basis points of leverage. That increases pretty significantly as we move up the curve beyond 4% and you saw that in the quarter we just completed.

Productivity continues to be a significant focus area. Some of our savings are backloaded as we go through this year. But again, they'll be comping significantly higher earnings numbers in the base periods.

There are still very large opportunities in front of us: efficiencies in media, efficiencies in organization design, significant savings as we bring on fully the product supply transformation and big opportunities top and bottom line from increasing digitization of our efforts all around.

Operator

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

Jason English

Hey, good morning folks and congratulations on a strong start to the year. Geez lots of questions still on the table. Let me start with growth. I guess, my one question with you out there in terms of market growth. Jon you mentioned in your script that you expect price contribution to wane as the year progresses and you comped last year's price gains which I think is intuitively understandable for all of us. But you're pegging your full year guidance to a market growth rate of just 3% to 3.5%, which presumably that market growth is going to experience that same phenomenon of waning price growth.

So my question is, is it reasonable to assume that market growth also slows with price moderation? Or are you seeing and do you expect to see a pickup in terms of volume mix contribution both for your firm in aggregate like we saw this quarter and the market overall?

Jon Moeller

Thanks Jason. We do expect to -- we've seen -- the underlying market growth rates there has been a price component as you rightly point out that should annualize itself as you rightly point out. But there's also been an increase in the volume component of market growth. So we are seeing an increase on the margin and market growth in the units. And that should continue as we progress forward.

In terms of our own top line algorithm, price was one point of the seven in the quarter. So if you assume that completely annualizes that's one point impact.

Operator

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

Steve Powers

Yes. Hey, thanks. Good morning. Jon I was hoping you could take a step back and talk a little bit more broadly about what you're seeing with regard to consumer demand and competition in three markets if I could: Russia, China and Brazil? Is there anything you're seeing now that concerns you in terms of competitive activity or waning demand in any of those -- in any of your key categories in those markets? Thanks.

Jon Moeller

That was Russia, Brazil, China. Generally, Steve across the board, we are seeing continued consumer strength. And generally across the board, we are seeing the levels of healthy competition that you would generally expect.

If I take the markets in question. China we were up 13% in the quarter. Market growth rates continued to be strong. It's a very competitive environment always has been, likely will be for the foreseeable future just given the opportunity and the size of price. And that's both local competition and multinational competition. But we haven't seen any significant uptick in the levels of competition. It's always on always strong in a market like China.

The consumer in China continues to respond to premium innovation that performs in categories where performance drives brand choice and we see that time and time again on both sides of the ledger.

In terms of the other markets that you mentioned, consumer demand in Brazil continues to be strong and respond to strong innovation. But it's -- I would describe it as more volatile and more fickle than for example China.

Our growth rates in Brazil vary pretty dramatically by quarter but generally continue to be strong. In the quarter we just completed we grew 2% in Brazil. But prior to that we were growing at significantly higher rates; I don't view that 2% as a slowdown in consumer as much as I do just inherent variability and volatility of that business.

And Russia continues to perform as well. We grew the business 5% in the quarter in Russia. From a competitive standpoint, again those markets are very strong as it relates to competition, nothing specific to note.

Operator

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

Ali Dibadj

Hi, guys. So I just had a couple of questions if I could. One is just actually the broader question here is on sustainability of such strong results. And I guess you're guiding throughout to a little bit of slowdown lapping tough numbers et cetera. So I was hoping you could give some more color, a little bit about two pieces in particular and you touched on it a moment ago. But just more around pricing, particularly pricing as commodities perhaps are rolling over here and you have less of a cost justified reason to take the pricing up.

And secondly in terms of the volumes you mentioned certainly growth in the category from unit’s perspective, but your unit growth is outsized. And I just wonder how much of that is from what we're actually seeing on shelf, which is more shelf space growth. So how just kind of same-store sales same square foot sales versus growth from a shelf space perspective? That's a sustainability question.

And a sub-question to that is you, obviously, like everybody else have some really good categories more than really good right now, really good businesses and some that aren't doing so well, obviously, Grooming regarding some pieces of Baby Care et cetera. I'm trying to figure out whether you're seeing different retailer reactions or interactions with you given your haves and have not-type categories. I understand you have fewer categories than perhaps most that aren’t firing on all cylinders, but are you seeing that retailers pull different levers when things aren't growing the way they'd like to be? Thanks very much.

Jon Moeller

First, as it relates to sustainability of the results. Comp issues aside and the comp issues are -- or the comp dynamic is obviously real and prevalent and increasingly prevalent as we progress through the fiscal year.

We've really tried to ensure two things are an inherent part of how we think about the business and operate the business and both lend themselves to sustainability of results over the long-term.

The first is balance across the top and bottom line. I think you saw in the quarter that we just reported, it's a very balanced quarter in terms of strong growth on both. And to the extent that we can continue to deliver both, which we're committed to do the overall value creation result becomes much more sustainable.

We've witnessed periods of time in our company and certainly within the industry and adjacent industries where the focus has disproportionately shifted, for example, to the bottom line. That is not a sustainable strategy in our view. And we've seen instances certainly in our own experience where focus has shifted disproportionately to the top line, which also is not a sustainable strategy in our view. So the balancing of the top and bottom line does lead to an expectation of more sustainable value creation delivery.

The second piece is probably even more important and that is how we’re thinking about sources of growth. And we're really trying as part of our superiority strategy to source growth through creation of business in the marketplace by driving market growth. That is a much more sustainable and generally more profitable way to drive our business.

We’re creating business not taking business from others. And when you are the driver of market growth, you will mathematically build share. So those two concepts are not incongruent. They're in complete congruence. And the question is how do you most sustainably and profitably build share? And we're now contributing to market growth at rates above our market share, which is exactly where we want to be, but that's important to the dynamics that I just described. It's also much more meaningful and relevant to our retail partners. They frankly could care less about P&G market share gains. What they care about is the overall market basket and the margins that they earn on that basket. So both of those focuses from a business model standpoint should conceptually increase the sustainability of our results.

We'll have to demonstrate that in the marketplace. But certainly over the last five quarters if you look at the top line 4%, 4%, 5%, 7%, 7% doesn't guarantee anything in the future but it's been sustainable progress at least for a period of time.

Relative to pricing, we -- I want to be careful on commenting on future pricing activities. What I would say is that to date, we feel good about the pricing that we've taken both as it relates to commodities and as it relates to foreign exchange and some of the developing markets. But that's something we look at on a category country basis every morning when we make up, and we'll adjust as we need to.

Relative to the source of volume growth, I mentioned a significant portion of our growth is coming through creation of new business. There is as well and you're right to point out increase in distribution as you would expect given the demonstrated ability to grow markets for our retail partners. But those two things are not separable. And we've talked previously about the retail view of P&G, which has improved significantly, earning top consumer, products manufacturer at Walmart, really across the board and increasing – you saw the Advantage Monitor, survey where we're number one in our industry across all metrics that are measured and number one by a significant margin. We need to keep improving that. That's not any guarantee for success tomorrow but it is one of the reasons coupled with demonstrated ability to grow markets in many categories that we are increasing the level of distribution. And I don't see that as a step-function curve. I think it has room to continue to grow. Obviously to the extent that we demonstrate the same dynamic across more categories that's another driver of future growth.

Operator

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

Dara Mohsenian

Good morning, guys. So sticking to the subject of top line growth and sustainability, I was hoping you'd give us an update on what you saw in fiscal Q1 in terms of a competitive response both on the pricing front as well as in terms of marketing spend from your key competitors given your market share gains. And give us a sense of what you're assuming in guidance in the balance of the year from a competitive environment standpoint, if the environment heats up as you cycle some of these price increases and theoretically competitors look to regain some share momentum.

Jon Moeller

Thanks, Dara. You've certainly heard and not surprisingly competition talking about reinvesting in their businesses. I think that's driven by two things. One is the turnover of a generation of leadership in many of our competitive set. And two is the result situation that, we've been talking about together here this morning. We have not seen anything destructive in a mass aggregate scale in the market place from a competitive standpoint. We operate in very competitive industries so that doesn't change. But there hasn't been a step-function increase for example in the level of volume that's being sold on promotion. There has been increased initiative activity innovation driven. That's generally constructive for market growth.

So we support that and we'll see. I do expect generally competition to increase as we continue going through the fiscal year. And remember, the time that exist between when you state an intent and when you can actually execute in the market is not short. It's relatively long, just given shelf set dynamics at retail, execution dynamics associated with for example innovation. So I wouldn't say that, we've seen everything that we're going to see.

We're in a better position to deal with that than we've been in a long time given increasing percentage of our sales that are superior from a product package communication go-to-market standpoint. We still have work to do, which is why we're going to continue to invest and fund that through productivity. And that's our best defense.

Operator

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

Mark Astrachan

Yeah. Thanks and good morning, everybody. I just wanted to dig a bit deeper in some category specifics there. So, curious your thoughts about, what you're seeing in kind of real time in paper goods and competitive dynamics in laundry. It seems like you've had kind of the strongest volume growth on very strong comparisons there. Pricing maybe dipped a little bit sequentially underlying. I'm just curious, if that's a competitive response if that's proactive. Is there something in the market that's kind of changed? Just sort of there any color there will be helpful on those categories. Thank you.

Jon Moeller

Laundry had a very strong quarter, up 8% driven by momentum really across the globe. We continue to advance the premium segment both laundry and fabric enhancers. Global value share was up about 0.5 point. Our growth on those premium segments, which include single-unit dose and scent beads, was high-teens and that's – that's really e-commerce sales up almost 50%. So, really what we're seeing there is innovation-driven, superiority-driven, market-growth-accretive growth, which to the point of the earlier question I expect would be sustainable at some level. And that's what I think about when I think about the laundry and fabric enhancer's category not a specific competitive dynamic.

We continue to grow the paper businesses at very high levels in aggregate. And that segment, because of its – those segments because of their capital intensity are a little bit more responsive from a competitive dynamic standpoint to a variety of factors. But again, I would characterize the landscape as innovation-driven superiority-driven market-accretive growth.

Think about – let's take one of those businesses Feminine Care as an example. Feminine Care in a quarter we grew 7% and that's composed of both strong growth on our base feminine protection business and high-teens level growth on our adult incontinence business. And we had an objective as we entered that category to source our growth through increased market growth. And we essentially doubled the rate of market growth for the adult incontinence category across the geographies where we've entered. So, again that is the predominance or the character of the landscape and the growth drivers as I see it.

Operator

And next we'll go to Wendy Nicholson with Citi.

Wendy Nicholson

Hi. Good morning. My question has to do with the U.S. market the U.S. consumer and it's less about pricing than it is maybe the mix of your businesses and brands. If the U.S. consumer is going to slow number one, do you think you see that coming early enough to react and to make sure that the fact that so many of your brands are relatively premium priced in your categories don't cede share? So, I guess the question is on brands, like Luvs or Gain, are you thinking about doing more innovation there more, promotion there, more feature displays? Or is it a pack size issue? In other words, if the economy slows how do you make sure that people don't feel pinched and trade down from some of your more premium-priced brands? Thanks.

Jon Moeller

In terms of predicting any kind of consumer acceleration or consumer slowdown, we really – we aren't in that business. There are many things that can affect consumer confidence that are things we wouldn't even have the ability to anticipate today, certain geopolitical events, certain political developments within a country, et cetera.

So your guess is as good as ours in terms of what market growth does going forward. We have seen no signs of weakness. We have seen continued sequential improvement on the margin. But that can change pretty quickly as we've all witnessed during our lifetimes.

We are better positioned today for several reasons to deal with a downturn than we were for example in 2007, 2008. Number one, we are largely out of highly discretionary categories. This was part and parcel of our thinking as we moved to daily-use categories, categories that consumers are much less likely to go without on a daily basis.

Generally, we don't see consumers stopping laundry or shampooing or conditioning or feminine protection during a recession. To your point, they may trade down and I'll come to that in a second. But from a category standpoint and a portfolio composition standpoint, we are much better positioned than we were previously. That's number one.

Number two, as we've been talking about throughout this call, we are much better positioned from a brand advantage standpoint. The products performing at noticeable levels of superiority in terms of meeting very important consumer needs and desires. And that is a major contributor to the overall value equation that consumers use as they assess their brand choice.

There are two portfolio matters: So we've moved not only into daily-use categories but into categories where performance drives brand choice. And we're continuing to invest to build that advantage which is no guarantee but does increase the resilience of the portfolio to headwinds from a consumer standpoint.

Third, we've worked to improve the pricing ladders, the availability of product at different price points, different pack sizes. That also is not a guarantee. But you put all of that together, again no guarantees but we're in a much better place. We will use tools like value messaging, like pack sizes, like performance messaging to ensure that if there is a downturn, we're as best positioned for consumers who are in a pinch.

Operator

And next we'll go to Steve Strycula with UBS.

Steve Strycula

Hi, good morning and congratulations on a good quarter. So I have a question on supply chain in click and collect and the rise of online with that – how that impacts your business. Specifically, wanted to understand, as you see in stores require more and more inventory for stuff going out the side of the door, how do we think about that impacting your categories? Are you reducing your SKU count at all? How does that impact the weeks of supply in stock throughout the supply chain?

Because we've noticed over, let's call it the last two years, most CPG companies have been reporting the national retailers are bringing down these weeks of supply. Would you say they were kind of like near a bottom, especially in a portfolio like Proctor, where you're seeing the sales productivity lift much higher? Should we expect a – you talk rate a little bit differently than the peer set? Thank you.

Jon Moeller

We want to be SKU efficient and have the right assortment at the shelf both in terms of serving the consumer and in terms of the right turnover for our retail partners. Nothing has really changed in that context. Relative to the trade inventory situation, I think we mentioned on the last call, a slight increase in inventories across the retail channel not consistently but in aggregate to support the things that you are describing as well as a commitment from a delivery standpoint to have product available for consumers on shorter and shorter notice, which requires higher inventories.

In the quarter that we just – that – we saw that dynamic in the fourth quarter of last year. Those inventory levels have generally remained but we haven't seen any significant change.

Operator

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

Olivia Tong

Great. Thanks. Just want to follow up on your comp – you were discussing about driving growth or creating businesses new categories. And you've obviously shown your ability across your portfolio with that. So can you talk a little bit about what's changed in terms of R&D, your market research processes, your marketing processes, the change in your reporting structure that's driven that change? Are there more people external partnerships? How does the reporting structure potentially change? How does that restructure change help aid that? If you could just dive into that a little bit more that would be great. Thank you.

Jon Moeller

That's a big question, Olivia. I'll do my best. First, every category needs to be working to create additional sources of market growth within their – within the definitions of their existing category and in adjacencies relative to their existing category and that's going to be the predominant source of our growth.

And whether that's a fabric enhancer, bead execution, whether that's a laundry single-unit dose execution both of which have significantly inflected market growth rates just as two examples. Some of the initiatives in our Beauty business are doing the same efforts in Power Oral Care as a way to grow markets really across the world.

So that is a continuation of what we've been trying to do. And then we've added to that what we call PG Ventures, which is a innovation effort outside of existing categories and we brought products to market like Zevo, which is a natural insecticide.

We're working across five or six pretty exciting opportunities that have come out of PG Ventures. That reports to Mary Lynn Ferguson. So it doesn't report into each and every category like she coordinates those efforts for us along with our outside venture partners.

From a overall standpoint, whether it's internal innovation to drive superiority to drive market growth or innovation in P&G Ventures, we're operating much more through the lens of lean innovation which simplistically we could spend a day on that. But simplistically is designed to deliver faster, better learning, more shots on goal to increase the chance of breaking through and really having something meaningful to bring to market.

Operator

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

Kevin Grundy

Thanks, good morning, and congratulations on the strong result. Jon, I want to come back to the U.S. and maybe drill down a little bit on some of the channel dynamics. So obviously another really strong result: organic sales growth up 6% in the U.S. but probably like 3x roughly the market growth rate, which I would estimate is probably closer to 2. And looking at the scanner data that's probably about 300 basis points higher, so it looks like that gap is widening and understanding obviously online is growing quite rapidly. I think it was up mid-20s. I missed it this quarter. I apologize for that. Maybe you could provide us that number. But the questions would be number one any timing benefit that will potentially reverse out in the upcoming quarter? And then maybe spend a little bit of time on discussing some of the channel dynamics between tracked versus non-tracked that would be helpful. Thank you.

Jon Moeller

Thanks, Kevin. The tracked number as you know was effectively 3% in the U.S. for the quarter. And as you cited, the overall number was about 6%. That delta is almost entirely due to faster growth rates in non-tracked channels. I mentioned global growth from a e-commerce standpoint at 30%. So customers like Amazon are growing at higher rates than some others. But also for example the club channel is growing at rates that are above the rate of market growth. There are not significant one-timers within the quarter in the U.S. The one significant one-timer that is in our aggregate results is the sell in ahead of the VAT increase, which went into effect on October 1 in Japan. That had about a 30 or 40 basis point impact on our numbers.

Operator

And next we'll go to Andrea Teixeira with JPMorgan.

Andrea Teixeira

Hi, good morning. Just echoing the congrats. So I was hoping Jon if you can comment a bit more on China where you grew 13%, you accelerated from 12% in the last quarter. But you faced tough comps ahead. So do you think it's -- growth is still driven by SK-II and Olay or is it more broad-based now into hair and other categories? So are you worried about your comps is getting tougher starting in this quarter or -- and related to that you comment on price in baby is still being deflationary. So when do you think you can cycle that process and offset with more premium diapers growth? Thank you.

Jon Moeller

We're always concerned about comps getting tougher, always working to run harder. That's a part of the world that we live in. Generally, it is not just for example SK-II and Olay which are growing at fantastic rates in China, but our growth profile across the categories has broadened significantly. You mentioned Baby Care. We were up high single-digits in Baby Care in the quarter very strong response to the innovation that we've brought to market. We are growing generally across the board. The one exception which has improved significantly is Hair Care. In Hair Care, we had very modest growth, but that's an improvement versus where we've been the last couple of quarters. So everything's on the rise in China. I feel -- we feel good about our prospects there. For perspective, if you look at China ex Olay and SK-II, we grew 9% in the quarter. So there is much more to the story than just those two businesses though we're very happy with the story on those two businesses.

Operator

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

Grant O'Brien

Hi. This is actually Grant on for Bill. Thanks for taking the question. Just had a quick one on Latin America and in particular Mexico. We've heard from some other companies that the consumer has slowed maybe a little bit there. I was wondering if you were seeing the same thing or any other changes in that market in particular? Thank you.

Jon Moeller

We have been seeing something similar. But frankly consumption in the month of September was very strong and we ended up with top line growth rates at very attractive level in Mexico for the last quarter at 10%.

Operator

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

Bonnie Herzog

All right. Thank you, good morning. Jon I wanted to circle back on your Beauty business and just really understand how sustainable the strong growth that you're seeing out of that business. How confident you are that this can continue especially as the comps get tougher? Maybe you could help us understand what it will be driven by. Is it better and stronger innovation? If so can you give us some examples maybe of what's been working. And then give us a sense of the levels of innovation in your pipeline this year versus last year. And then finally maybe help us understand why some of your innovation seem to be better resonating with the consumer ultimately driving what I assume to be share gains? Thanks.

Jon Moeller

One thing that gives us confidence about continued success in Beauty are the sustainability of the results we've been delivering is the breadth of those results. And I think as I reflect on several of the conversations that we've had together there's a bit of a misunderstanding that it's all driven by SK-II and that just isn't the case. So we grew hair, our Hair Care business mid single-digits in the last quarter. We grew that business at 6% in the U.S. All aspects of our Skin and Personal Care business are growing. Our Personal Care business which is deodorants and body washes and those kinds of products grew at 10% in the quarter. Obviously, Skin Care and SK-II grew at even higher rates than that. If I looked just at SK-II it's one -- it's the fastest-growing part of the portfolio. Our new user attraction continues to be our focus. And as long as we keep that door open, we should continue to grow and that's been happening. But again breadth of success across Beauty.

Operator

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

Nik Modi

Yeah. Thanks, good morning everyone. Jon I was hoping you can talk about the big dialogue that's been over the last few years, big brands versus small brands. And I was wondering if you could just kind of give us your perspective on this whole next-day same-day delivery battle between Amazon and Walmart and other retailers kind of getting into the fray now. And how that impacts big brands versus small brands in the sense of supply chain integrity and things like that? So maybe you could just give us some thoughts around that dynamic?

Jon Moeller

I'm not sure I know Nik exactly what the impact is going to be on those two subsets of businesses, small brands versus large brands directly as a result of what you just described.

What I have felt for a long time, what we have felt for a long time and have been talking about for a long time is the relevance -- the continued relevance of large brands, as well as the relevance of small brands in certain instances across our ecosystem.

Our large brands historically have grown about 4 points faster than our small brands. And when you look at the absolute growth that comes from that, it's significantly higher. But large -- every large brand started off as a small brand and so we can't ignore that dynamic either.

As you know, we've been buying and building some smaller brands to serve some rapidly growing consumer segments particularly in the natural space, but not confined to that. I generally think -- we generally think that the ecosystem as we move forward at minimum does not disadvantage big brands. And I can make pretty strong arguments for why it should advantage big brands.

When you think about e-commerce as the fastest growing channel in many -- well certainly in our two largest markets in the U.S. and China and the dynamic of big brands versus small brands in that environment. It disproportionately favors big brands, not at the exclusion of small brands by any means, but certainly doesn't disadvantage big brands.

And I'd be happy to talk for hours about that, but I will spare the group that diatribe right here. But generally, we feel that both large brands and small brands will have relevance moving forward. There is nothing structurally or a from a society standpoint that disadvantages big brands particularly and this important when you focus your portfolio on categories where performance drives brand choice.

There are very few consumers that sit in front of a physical or virtual shelf and how ask how large a brand is? They're wondering, how well it will to do the job they're buying it to do and will it meet their needs and solve their problems?

Operator

Next question comes from the line of Caroline Levy with Macquarie.

Caroline Levy

Good morning and thank you very much. Jon I wonder, if you could dive in a little deeper into Grooming and talk about what you found is working, which regions it's working in? And how you think about the future? I mean it's -- is there any opportunity to return to growth in this business for you and what's the plan?

Jon Moeller

Definitely, opportunities to return to growth, in fact, we've been growing albeit modestly. Each of the last two quarters we grew on a global basis. If you think about -- I mean, there are number of reasons to be positive going forward. One is, the growth potential that exists in developing markets and the mix potential that exists in those markets as people move up potentially from a double edge or disposables use into systems use.

Strong opportunity to further penetrate, though, the double-edge and disposable businesses, particularly in some of the developing markets where for example a lot of the shaves are executed in the context of a barber.

So significant opportunities for growth, we're also seeing a very strong response to our newest innovation which is designed to address one of the major barriers to shave and that's skin irritation. And for many men this is a significant issue. This isn't a minor issue. And it literally prevents them from shaving more frequently.

So SkinGuard is designed to address that need and increase as a result the frequency of shave and the number of people who do shave. And we've doubled the rate of razor growth with that entry in Europe.

If you look at consumer ratings on that product in the U.S., they're very strong. I think they're 4.5, 4.6. And the retailer reaction in terms of space allocation has been very favorable.

There are also significant opportunities to address the needs of men who choose not to shave and that's where we're also spending a lot of incremental effort to make sure that we're meeting his needs. And if we do that in a superior way, for both shavers and non-shavers, this category will grow and it's extraordinarily profitable.

Operator

Next question comes from the line of Robert Ottenstein with Evercore ISI.

Robert Ottenstein

Great. Thank you very much. Jon, earlier on I think you mentioned that in aggregate you had seen some pickup in demand, I think, maybe from roughly 3% to 3% to 3.5%. Could you perhaps be -- give us a little bit more detail in terms of which countries you see somewhat better demand than over, let's say, the last 12 months and which categories? Thank you.

Jon Moeller

The U.S. is front and center and that's generally across categories, with Grooming being an exception.

Operator

Your next question comes from the line of Jon Andersen with William Blair.

Jon Andersen

Hey, thanks. Just a quick one. Personal Healthcare was up double digits in the quarter. You did mention that there was some benefit from presets by retailers about the cough-cold season. How much of a benefit was that? I mean, was that just kind of a comp issue relative to last year? Are they planning for a stronger season this year? And then if you could talk briefly about the integration of the Merck business.

Jon Moeller

Acquisition of -- or integration of the Merck business is going very well and a quick thank you to all those who are involved in that effort. We continue to grow that business at very attractive rates and continue to grow our heritage P&G Personal Healthcare business at very attractive rates.

As you said, the total grew double digits in the quarter. If anything, if my knowledge is correct, it may not be, but if anything we saw, a slower buy in ahead of the season of this year as compared to, for example, last year, but certainly not a significant impact either way.

Operator

And your final question comes from the line of Edward Lewis with Atlantic Equities.

Edward Lewis

Yes. Thanks very much. I just wanted to drill down into Europe, because I guess you're close to start where you suggests all geographic regions are growing at 4% or more. I guess, Europe's included with that. And, I guess, things really haven't been that great of late.

So I was just wondering, it's a tougher operating environment. You've got lots of regions to survey or to execute against. And you've rolled out the -- your focus on superiority and end-to-end SBU strategy a bit later. But it does seems as though the market share trends and the underlying growth rate seems to be improving over here as well.

Jon Moeller

Europe is definitely included in the characterization of all regions growing at 4% or more. Our big focus markets in Europe grew at 4% during the quarter. The more developing parts of Europe grew at 5% during the quarter. Really broad growth across countries within Europe: Germany, for example, up 6%; Russia up 5%; the combination of France and the U.K. up 2% to 3%.

So we're seeing certainly growth ahead of the market in Europe. We built share -- our share position very nicely over the past 12, six, three and one-month period. So we're very happy with our performance there.

Jon Moeller

I want to thank everybody. I know this is a busy morning with a number of companies reporting, so thank you for your time. John, Katie and I are available the balance of the day to answer any questions that you have to the best of our ability. Thanks a lot.

Operator

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