Procter & Gamble's CEO Discusses F4Q 2013 Results - Earnings Call Transcript

Executives

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Jon Moeller - Chief Financial Officer

Teri List-Stoll - Senior Vice President and Treasurer

Analysts

John Faucher – JPMorgan

Bill Schmitz – Deutsche Bank Securities

Lauren Lieberman – Barclays

Dara Mohsenian – Morgan Stanley

Wendy Nicholson – Citi

Jason English - Goldman Sachs

Ali Dibadj - Bernstein

Joe Altobello - Oppenheimer

Connie Maneaty – BMO Capital Markets

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Olivia Tong – Bank of America - Merrill Lynch

Michael Stieb – Credit Suisse

The Procter & Gamble Company (PG) F4Q 2013 Earnings Conference Call August 1, 2013 8:30 AM ET

Operator

Good morning and welcome to Procter & Gamble's Quarter End Conference Call. 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. As required by Regulation G, P&G needs to make you aware that during the call the company will make a number of references to non-GAAP and other financial measures. Management believes these measures provide investors valuable information on the underlying growth trends of the business.

Organic refers to reported results excluding the impacts of acquisitions and divestitures and foreign exchange, where applicable. Adjusted free cash flow represents operating cash flow less capital expenditures and adjusted for after tax impact of major divestitures. Adjusted free cash flow productivity is the ratio of adjusted free cash flow to net earnings, excluding divestiture gains. Any measure described as core refers to the equivalent GAAP measure adjusted for certain items. P&G has posted on its website, www.pg.com, a full reconciliation of non-GAAP and other financial measures.

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

Jon Moeller

Thanks, and good morning everyone. I am joined this morning by A.G. Lafley and Teri List-Stoll. I will start our discussion with a review of our fourth quarter and fiscal 2013 results. A.G. will discuss our key strategies and focus areas going forward and I will then wrap up with guidance for fiscal 2014.

Fourth quarter organic sales results were at the high end of our forecast range with core earnings per share slightly ahead of plan. Organic sales were up 4%. Importantly, this sales growth was underpinned by strong organic volume growth of 5% and was achieved during a period in which underlying market growth rates were decelerating. Pricing was neutral to organic sales growth and mix reduced sales growth by 1 point. Foreign exchange lowered sales growth by 2 points resulting in all-in sales growth of 2%.

P&G global value share was around 20% for the March to May period, roughly in line with the prior year. Market share improved sequentially throughout the quarter. In May, the last period for which we currently have global share data, volume share increased 0.4 points versus prior year with growth in all regions except Central and Eastern Europe, Middle East and Africa. On a mixed adjusted basis, May global value share was up 0.2 points. In the U.S where we have data through June, mix adjusted value share was up 0.3 points. We held or grew global market share in businesses representing nearly 60% of sales in the March to May period. In the U.S, we held or grew value share in businesses representing over 70% of sales.

Moving to the bottom line, core earnings per share were $0.79, $0.02 above the high end of our guidance range due to cost savings and a $0.01 help in tax. Core earnings per share was down 4% versus the prior year as the benefits from top of range organic sales growth and strong cost savings were more than offset by mix, higher marketing spending and a $0.06 per share or roughly 7 percentage points earnings per share growth headwind from foreign exchange rate. All-in earnings per share were $0.64. This includes a $0.02 non-core impact from restructuring costs, a $0.04 non-core impact from legal items in Europe and a $0.10 non-core, non-cash impact of a further impairment of intangible assets related to the Brown business, reflecting the 20% devaluation of the currency in Japan where Brown earns the majority of its profits.

Core operating profit margin declined 130 basis points as core gross margin was down 90 basis points and core SG&A cost increased 40 basis points. Operating margin was about 50 basis points less than we had originally anticipated due largely to foreign exchange. The core effective tax rate for the quarter was 22.3%, in line with last year. We generated 2.8 billion of free cash flow in the quarter, repurchased $1 billion in stock and returned $1.7 billion of cash to shareholders in dividends.

Turning to the fiscal year, we met our commitments on each key measure. Organic sales growth was 3%, in the mid-point of our initial guidance range of 2% to 4%. We grew core earnings per share of 5% above our initial minus 1% to plus 4% guidance range. We absorbed the unexpected impact of the Venezuela Bolívar devaluation and significant overall dollar strengthening, while increasing marketing investments as the year progressed. We continued to make good progress on our productivity plans. Through June we reduced non-manufacturing enrollment by 7,000 roles. This is 1,300 role reductions ahead of our initial enrollment reduction target for June 30, 2013. We delivered over $1.2 billion in cost of goods sold savings and approved manufacturing productivity by 7% versus the target of 5%.

Our progress on working capital and capital spending productivity enabled us to deliver 98% adjusted free cash flow productivity, ahead of our 90% target. We returned $12.5 billion to shareholders, 110% of net earnings through a combination of $6.5 billion in dividends and $6 billion in share repurchase. In April we raised the dividend by 7%. We're beginning to restore growth in the core U.S. Market that represents over a third of P&G sales and an even greater percentage of profit. U.S. Fourth quarter organic sales grew at 7% on a volume growth of 5%.

We maintained good developing market momentum. Organic sales growth in our top 10 developing markets was up 8% in the fiscal year. We grew profit meaningfully ahead of sales in developing market while increasing investments in these markets year-on-year. We stabilized global market share and ended the year with modest market share growth. We are moving in the right direction, but there is more work to do.

To talk us through that, I'll turn the call over to A.G.

A.G. Lafley

Thanks, Jon. We've spent a lot of time doing a deep dive over the past two months, making sure we fully understand our reality, ensuring we see things as they are, not as we want them to be. We've gotten grounded in the realities of our consumers and markets. I've personally dialoged with customer, partners and suppliers. We've listened to a range of outside advisors, critics, as well as fans. We've taken a hard look at business strategies, reviewed budgets and business plans and dug deeply into innovation programs and productivity initiatives. We know we are not winning, like we know we can, and we are committed to make the changes we know we need to make to improve P&G's performance significantly. First, we will establish value creation. First and foremost for consumers, but also importantly for share owners as our clear priority. Operating TSR will be our primary business performance measure. Operating TSR is an integrated measure of value creation at the business unit level, requiring sales growth, progress on growth and operating margins and strong cash flow productivity.

We focused on business unit value creation because we are determined to have more P&G business units deliver more operating TSR more consistently. We will we guided by disciplined strategies and operating plans. We will focus strategically on core businesses, our leading, most profitable categories in brands and leading most profitable market channels and customers. Delivering consistently strong results in our core business is the largest contributor to shareholder value creation, an important contributor to growth and an important enabler of investments in developing markets and innovation.

Many of our strongest business units and total company positions are in the U.S. we need to ensure P&G's home market stays strong and growing. We will focus developing market investments on the categories and countries with the largest size of the prize and the highest likelihood of winning. Developing markets driven by demographics and household income growth will continue to be a significant growth driver for the company. We will continue to focus the company's portfolio, allocating resources to businesses where we can create disproportionate value and continuing to exit those where we cannot.

Second, we will strengthen and accelerate productivity and cost savings. Productivity and innovation are the primary drivers of growth in value creation. Productivity is particularly important in a slower growth world and in an environment of increased volatility in foreign exchange, commodity and interest rate markets. And the more productivity means more opportunities to invest in core business in developing markets, expansion and in innovation. Here is what we are doing specifically with P&G's productivity initiative. We will deliver the productivity program we promised, on or ahead of schedule. But that is not an end-point for productivity improvement. It's just the next milestone along our productivity journey. We know we can do more.

We are already mobilized to address the next round of productivity initiatives. We are working these significant opportunities in parallel, not sequentially. They cover a full range of cost and cash opportunities. Projects are being led by business unit and function leaders. They are being worked on short cycles. Some are yielding savings as we speak, others will take years to fully implement. We have opportunities to further localize supply chains in developing markets reducing cost and improving customer service.

In developed markets we are taking a blank sheet of paper look at supply chains, designing from the consumer and customer back. We are studying options that would reduce the number of facilities, build scale across categories and reduce cost and inventory, all while improving customer responsiveness and service. This will require investment but will generate very attractive returns. That's a huge opportunity. We will redesign and strengthen our go-to-market operations in North America and Europe to be more effective and efficient.

In Europe, we will look to scale operations across larger and fewer country clusters. We will evaluate organization design options to improve effectiveness and efficiency in developing markets. We will further reduce the size of support staff and move from fully dedicated functional support organizations to a more productive hybrid of dedicated and (inaudible) work resources and shared services. We will improve marketing ROI, driven by an optimized mix of advertizing media, greater clarity of communication and messaging and greater efficiency in non-advertising marketing spending.

The key point to understand today is that we are committed to making productivity a core strength for P&G, like branding or innovation and with innovation, a second big driver of operating TSR and value creation. It has to for P&G to deliver leading value creation and growth. Productivity will become systemic, not episodic. We will continuously improve our effectiveness and efficiency. We'll measure productivity. We'll recognize it and we'll reward it. Third, we will improve our operating discipline. We simply have to execute better, more consistently and more reliably every day, everywhere to win with consumers and win with customers. Execution is the only strategy they ever see. Winning with consumers and winning with customers day-in and day-out is what it takes to generate leadership returns in our industry and that's what we've committed to do.

Fourth, we will reallocate some of our savings to make strategic investments in a very focused way in innovation and go-to-market capabilities. These are two of the company's core strengths and two important sources of competitive advantage. They are critical to winning the first and second moments of truth with consumers. We will build on the past year, but we will be more focused. We'll commercialize brand and product innovations with excellence. We'll prioritize productivity initiatives, significantly simplifying and streamlining how we work together and we will bring a sense of urgency to realizing hard savings. We'll focus on best in class execution and we'll continue to invest selectively where needed to win.

I'm confident that P&G has what it takes to win with consumers, with customers and for all of our shareholders. We have a strong brand portfolio with 25 category leading billion dollar brands and 15 more between $0.5 billion and $1 billion in annual sales. We have leading brand equities in most of our categories. We have consumer preferred products in a majority of our brand product lines. We have a well-balanced geographic portfolio. We have the leading CPG business from the U.S, the largest and fastest growing developed market and we have the leading household and personal care business in developing market. Both are significant sources of value creation opportunities. We have an innovation portfolio and pipeline that will only get stronger. We have an exciting portfolio of productivity initiatives we're working hard.

We have outstanding people. The productivity and organization design changes we are making are freeing up P&G-ers to fully leverage their creativity and initiative, their skills and capabilities. They are passionate about the consumers they serve and about their businesses. They are committed to win. They are our most important asset, a critical source of strength and ultimately competitive advantage for this company. We've taken a hard look at what we need to do, how we need to change to perform better. More business units have to deliver more consistently. We're committed to do what it takes to get P&G back to balance, consistency, reliability and sustainability in the creation of value for consumers and customers and value for shareholders and employees. It takes time to work out of a tough patch. We take encouragement from the progress we've made in the year just closed, but we are focused on the future and we are determined to deliver industry leading value creation.

Jon Moeller

Thanks A.G. As we said we would at the Deutsche Bank conference in June A.G, Terry, John and I have spent some time reviewing our guidance framework. We've talked to shareholders and analysts as we've done this work and we've looked at a number of benchmarking studies. The preponderance of feedbacks we've received supports the decision we've made to focus our guidance on the fiscal year, which we'll update quarterly. This approach is the norm in our industry. We believe it provides a better match between our guidance timeframe, the long-term view we take while managing the business and the investment time horizon of many of our shareholders.

We've also reviewed long-term guidance targets. We continue to believe that the right organic sales growth target is one that is modestly above the rate of market growth. At current market growth rates we see high single digit bottom-line growth as a right objective. We believe these targets will allow the company to strike the right balance between long-term investments in growth, flexibility to respond to macro and competitive challenges, and delivery of consistent, dependable results in our value creation goals. With that let me move to guidance for the fiscal year.

Fiscal 2014 presents several challenges and opportunities, headwinds include weaker underlying market growth, a much stronger dollar, higher commodity costs and a highly competitive operating environment. Opportunities include positive market share momentum, a number of promising innovations and savings from productivity improvements. We're currently forecasting organic sales growth of 3% to 4% which is better than last year at 3% and compares to expected market growth rates of about 3% to 4%. Foreign exchange is expected to be a sales growth headwind of about 2 points which leads to all-in sales growth in the range of 1% to 2% for fiscal 2014.

Moving to the bottom line, our current forecast is for core earnings per share growth of 5% to 7%. Equal to prior year growth at the low-end of the range and within our long-term annual growth target range at the high-end. This core earnings per share guidance includes a 6 point impact from foreign exchange. We expect the effective tax rate on core earnings to be in line with prior year levels. Our plans include another year of strong productivity improvement. We have line of sight to $1.4 billion in cost of goods sold savings in fiscal 2014, including manufacturing and productivity improvements of around 6%. As I said earlier, we exceeded our overhead enrollment reduction targets by 1,300 roles as of the end of June, giving us a nice head start on the 2% to 4% reduction we were planning for fiscal 2014. We will deliver this and accelerate fiscal '15 reductions in to fiscal '14.

We expect marketing spending to increase in absolute dollars but decrease modestly as a percentage of sales as we continue to drive higher ROI. On an all-in GAAP adjusted basis, we expect earnings per share to grow approximately 7% to 9%. This range reflects somewhat lower non-core restructuring cost in fiscal year 2014 versus the prior year. We continue to operate in a volatile environment with uncertainty in the foreign exchange and commodity markets, decelerated market growth rates and a rapidly developing policy environment. Our guidance is based on mid-July foreign exchange spot rates, further strengthening of the dollar or significant devaluations, for example in Venezuela, are not built into our forecast.

As we described last quarter, one particular risk not included in our all-in earnings guidance is the potential impact from the revaluation of Venezuelan bolivars, earmarked for foreign currency transactions through the new (inaudible) auction rate market. At this time there is no official information available on details or plan frequency of the new auction process or the underlying rates. So far we've measured all our Venezuela exposures at the official exchange rates of 6.3 bolivars to the U.S. dollar. If it becomes clear as the auction rate market forms, that it will operate in a liquid and transparent matter at a different rate, we may need to adjust our balance sheet which will result in additional non-core impact on earnings. We'll keep you updated on this as we learn more.

Major changes in market growth rates or significantly adverse policy changes are also not assumed within our guidance range. Absent these or other unanticipated events, we believe our core earnings per share guidance range is realistic and balanced. It reflects the headwinds we're facing, the investments we'll be making, and the strong cost savings progress we are committed to deliver. If you think about earnings progress throughout the year, there are several headwinds that will impact first half earnings growth that will dissipate or disappear in the second half. For example, foreign exchange will be a significant headwind in the first half but should moderate in the second half.

We'll continue to have relatively high spending and manufacturing startup costs, but this will largely annualize in the second half of fiscal 2014. We will annualize the operating impacts of the Venezuelan bolivar devaluation in the second half. Stepped up marketing support levels will also annualize and productivity savings will build throughout the year. Last, the first half comparison includes the onetime gain from the Western European bleach business in the base period. With all of these factors considered, core earnings per share growth will likely be down modestly in Q1 with slight improvement in Q2. Second half earnings will be much stronger. We expect to deliver another year of about 90% free cash flow productivity. Our plans assume capital spending in the range of 4% to 5% of sale and share repurchase in the range of $5 billion to $7 billion, continuing to deliver on our commitment of cash return to shareholders.

In closing, our primary objective for fiscal 2014 is to continue to build on the momentum we’ve created, making this year another stepping stone back to our long-term growth objectives. Our plans are even more focused and even more balanced. We will make choiceful investments in our core business, most promising developing markets and biggest innovation opportunities and we will aggressively drive productivity and cost savings. Above all we'll remain focused on value creation for consumers, for customers and for our shareholders.

That concludes our prepared remarks. As a remainder, business segment information is provided in our press release and will be available on slides which will be posted on our website www.pg.com following the call. A.G, Terry and I would now be happy to take your questions.

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of with John Faucher JP Morgan. Please proceed

John Faucher – JPMorgan

A quick question for you. Historically you guys have talked about revenue growth 100 basis points I think ahead of the market. So if we look at your organic sales growth guidance this year, it's more of an in line number. Then when you factor in, you're dropping a decent amount of the productivity to the bottom-line. Can you talk about maybe why you're not spending more to maybe get a little bit more market share given the growth of the category? So what's driving the decision in terms of dropping more to the bottom-line versus potentially spending it back? Thanks.

Jon Moeller

John, we'll continue as we have good opportunities to drive return and create value to invest behind innovation, as A.G. mentioned behind go-to-market capability and advertising where we can generate a return. And as I’ve said many times before, cost savings is not the objective. Value creation is the objective and we will not follow cost savings out of the window at the expense of capability and opportunity of which we have many.

A.G. Lafley

Jon, two quick points. The past five years, two, three, three, three, three. Most recent quarter, four. So if you're going to see things as they are, we've got to demonstrate we can grow faster, point number one. We're prepared to invest to grow faster. And with clearer strategies, we'll make investments where the size of the price is attractive and where we think we have the plan to win. Second point, this is our external commitment. We have internal goals.

Operator

Your next question comes from the line of Bill Schmitz with Deutsche Bank. Please proceed.

Bill Schmitz – Deutsche Bank Securities

Hey, you talked about the deep dive that you did. Can you just talk about what you think that P&G was doing wrong during the period? And then maybe what you're going to stop doing? and then maybe empirically, like how you're going to define success going forward mid 30% numbers around it?

A.G. Lafley

I'd like to take a couple minutes here to step back because this is an opportunity to talk about strategy I think at the company level and at the business unit level. The quick answer to your second question or second part of your question, Bill, is it is value creation. And the first place we've got to create value is for more consumers, more consistently with our brands and product offerings. And then the second place we have to do it is for the company for shareholders. And that's a balanced mix of net sales growth, gross and operating margin growth and cash productivity. If I may on the strategy, at the business unit level, we want to be more choiceful, clearer. We want to be more focused and we want to be really clear about our priorities, and we want to be very specific about what is winning for the business unit with consumers to create value. We want to be very specific and prioritize where we're going to play. We're going to be much more specific about our business model, how we're going to win. And we're going to get really clear in our core strength not just how we leverage the core strength that the company has, or what very specific and particular core strengths we need to win in that industry with that market. So that's really the focus at business unit level. Get more focused, get clear, set our priorities and then operate with discipline and execute with excellence.

At the company level, the keyword is balance. And you've followed this company, many of you followed this company and this industry for a long time, and when we have a pretty good decade, three things happen. We grow the value of our core businesses, whatever our core is at that time. We find at least one major new business that we can turn into core. Baby diapers in the 60s, tissue (inaudible), family care in the 70s, care in the 80s, hair care in 90s. Arguably we got home and oral care, and family care back into the core fold, the team did over the last decade. And we made some progress creating cores in skin and Prestige beauty and we bought a shaving business which is core.

So that's the second leg of the stool. The first leg of the stool is you grow the value of your existing core. The second leg of the stool is you find some new core, and the third leg of the stool has been moving into new space. Generally, we talk about geography but it's also included channels, okay. And if you really look at the history of the company, we've found new geography and we've also found new channels, okay. But we need to do all three. We need to grow from the core. We need to accelerate growth into faster growing, higher margin, more structurally attractive. That means less capital intensive, less competitively concentrated industries, and we need to extend into emerging markets.

And we are just trying to get that balance back. And as I said in my prepared remarks, generally winning in the core drives a surprising -- the existing core drives a surprising amount of the value creation and actually a surprising amount of the growth each decade, and here is the key. It's what enables ,okay. It brings us the capabilities, it brings us the cash, it brings us the human resources to extend into new industries and categories that can be core, and to extend in the new geographies and channels. So we're just working hard to get the balance right. And when you've got an $80 billion plus company that's in 15 to 20 different businesses depending on how you count them, and the 100 plus geographies, balance is really important.

The other thing we're doing is, we're taking a hard look at our core strengths. And again, as I said in my prepared remarks, we've got to turn productivity into just as strong of strength as innovation because those are the two biggest drivers of value creation in the P&G business model. We've got to turn operating with discipline and executing with excellence into a core strength just as we turn choice full, sharpened strategies into a core strength. We still have to have deep understanding of consumers, we still have to be able to create brands and build them forever, if we can. We still have to be the innovation leader in the industries and categories we choose to compete in, and we still have to have our go to market capabilities and grow them and we try to create as we go along, some scale.

So that's really where we focused. We focused on balancing, getting crystal clear about what is winning. Balancing with where to play and taking a hard look at the core strength. So, again, we have a balanced set of core strengths to go forward. We are locked on it. I think at the company level all that's left to do is, get the expression in the fewest possible words, which is a burden that Jon and I will predominantly carry in the next couple of days. And at the business unit level, as you might imagine, we're just grinding our way through one business at a time.

We've been through them all once. We've been through their operating plans and budgets for the next year, which is another shot at them. And now we're doubling down and working real hard where we think we have the most opportunity, either the most upside opportunity or the most production opportunity. So I hope that helps, because I think it's really important to understand. Balance at the company level, three legs on the stool, core totally new businesses where we can play to our strengths and hopefully create new core and new space. And right now the biggest opportunity in new space happens to be developing markets, which are demographically and economically advantaged. But it's also e-commerce. So like I said I hope that's helpful. That's what we're trying to do and now of course we've got to execute.

Operator

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

Lauren Lieberman – Barclays

So I guess what I'm really curious about is thinking over the last year review of where things stand and looking over the past few years. The message on productivity couldn't be more clear and is obviously very important to the go-forward capability to operate in a tougher world. But if you look at the last call it two years or so, investment in the business hasn't really been the challenge. There has been money to spend and even when there hasn't been a lot of money to spend, there has been money spent to try to drive topline, yet something's still been missing. And I feel like over the last couple of years, we've seen P&G have more disappointments on what was expected to be a good innovation pipeline, new ideas, things that would change the trajectory of -- and this is the broad statement because it applies across the business unit. So in this deep dive, A.G, what have you seen that says to you maybe we're not as good as we used to be or why are we not as good as we used to be understanding what the consumer wants, what the competitive landscape is, because there has been a lot of shortfalls that aren't about spending. It's about what the company has been spending on. Thanks.

A.G. Lafley

Maybe a bad baseball analogy, but we've got to get our batting average and our OPS up. And as we go through this industry-by-industry, business-by-business, where the strategies are clearer and more choiceful, where we know who the consumers are that matter most, where the brand promise is crystal clear and we execute it in the communication and where our products are preferred by consumers, we get it done. And in any mix of businesses we, in just the past few years and I'll miss a few, we have the family cares and we have the prestige beauties and we have the oral cares. And I don't want to leave out home cares and others that have been consistently performing. But I think if you do your analysis or we do our analysis, it comes back to real clarity around who the consumer is and delivering for that consumer. Ultimately it's a better consumer value equation and a better experience.

Real strategic clarity, a proven business model and by the way it isn't a proven business model that lasts forever. You're continually adjusting your business model. But a business model that's agile and still actionable and still works and frankly the ability to operate with discipline and execute with excellence. This is an industry where execution really, really matters. And like I said, of the handful of businesses that have done it really well, we now have 15 to 20 businesses that are focused like a laser and doing it really well starting July the 1st, 2013.

Operator

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

Dara Mohsenian – Morgan Stanley

A.G, I was hoping for more perspective, specifically on beauty and what strategy tweaks you're making behind that business to improve market share trends. And as you look back over the last few years, what are some of the learnings as you look at the performance there. And then also from a portfolio standpoint, are you comfortable with the current portfolio you have in beauty or there are gaps you would like to fill in overtime?

A.G. Lafley

Okay. On the second one. We are continuing -- we are always reviewing the portfolios at the company level, at the business unit level. And again as I said in my prepared remarks, if they are a strategic fit and they are performing, delivering value, they are in. If they are not, we'll deal with it. On the first one, it's not really different conceptually, okay. It's not really different in getting the consumer focused, right. Getting the brand and the product innovation program right and having the clarity and sharpness and the strategy that translates to operating discipline and executional excellence. That's all we're saying.

I think, again, if you really look at the beauty business, we took a business, we put together this collection of businesses. Mark and I and others know it was a collection in 2000 of businesses that we called beauty. And in six or seven years we tripled that business. We took it to $21 billion. The problem is we are still looking at it, we actually took it to 22 plus. We are still looking at $20 billion business. Now, I view that as opportunity, okay, in seven years, right. Shiseido has been in beauty for 150 years, L'Oreal since 1900, so over a 100 years. Estee Lauder since World War II, so over 60 years. We have been really at it for over 15 years. Fortunately we picked up a couple of decent assets back in 2000. But it's a learning curve and we clearly stalled in a couple of places. But again Prestige Beauty is in very good shape. We went from nothing in arguably one of the toughest segments, two a $3 billion plus business.

We have a very fine, fine fragrance business that makes -- and that's grown at a very consistent rate. From the time we bought the two little pieces back in the yearly 90s, we've grown at a compound annual growth rate on the top line of 11%. It's been volatile through the recession, it's been a pretty consistent value creator. And, hey, let's face it, we're up against some of the best in the world in (inaudible) skin care and fine fragrance, and we've done quite well. And the reason we've done quite well is our strategy is sharp and we know we need a certain sort of core strengths to play in Prestige beauty and we leveraged some of the P&G core strengths to be a little bit different.

We've stayed very steady on some of our hair care brands. We have an issue on Pantene, we're working it. It's primarily but not exclusively, a U.S. and North America issue. We've ground through those plans a few times, we picked the boards room. I have been here like six days, okay. We went through an innovation review, we have been through the strategy. We know what the program should look like over the next six months, to the next 12 months, to the next 18 and 24 months. Hey, businesses stall, but it stalled at $3 billion, okay. I would rather -- one of the things I learned in private equity the last four years, I had rather work -- spend as much time and energy on $1 billion business as you do on $200 million business. And believe me you get better value creation for it if you can get it going.

On the skincare side it's pretty much the same story. We went from, frankly, playing but not winning for the first 15 years after we bought Olay from RBI. To, all of a sudden, we took a business that was several $100 million and we turned it into a $2 billion plus business. It stalled, and again bored through it, been through the strategy, been through the product program. We know what we are going to do over the next 6, 12, 18, and 24 months. But these are assets. They have little connections with consumers. If we get the consumer connections back, if we get the brand promises and architecture collections, whatever you want to call it, right, and if we execute like we think we can with our marketing and product program, there is plenty of room to grow.

And I guess a last point I will make, because I know I am going on a little long here. Remember why we choose to get beauty and personal care in the first place. They are large. They are demographically driven. They grow a little faster. They’re big in the U.S and the developed markets. They’re big in developing markets and only getting bigger. They’re structurally attractive, low capital, high gross margin and they are fragmented. It's not like anybody is dominating these spaces. There is room for a lot of players who can get it done to do well. So long winded way of saying hey we stalled a lot of it with choices we made and maybe things we struggled at, but we know what to do and we’re on it.

Operator

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

Wendy Nicholson – Citi

First thing, I know you had a target of delivering a 50% improvement in your local currency EBIT margins if you will and (inaudible) profits in emerging markets. Can you tell us where you came out for the full year on that? And related to that, I’m having a hard time reconciling the concept of balance and striving for balance when you’re talking about EBIT growth 3 or 4 or 5 times your topline growth. And I’m just wondering how that sets you up. I think A.G your historical strategy was to deliver consistent results. And I have a hard time seeing how that strong double digit EPS growth is going to be sustainable and why you wouldn't, in your first year here coming back to the company, find a bucket to put some pennies to save them for a rainy day because it seems like it's an awfully aggressive goal at this juncture. Thanks

Jon Moeller

So let me provide a little bit of perspective on both of those questions, Wendy. We did grow profit in developing markets meaningful ahead of sales. So we did build margin. I'm not go into the actual number. As you can imagine with all of the currency movements, a number compared today to what we were talking about three or even six months ago is not that relevant. What's relevant is that we continue to grow profit meaningfully ahead of sales. And I can commit that we have done and we'll continue to do that in developing markets. While by the way somewhat an answer to your second question, increasing investments. So this isn't about building profitability by pulling back. It's about increasing profitability through productivity, through localization of supply chain, through increasing scale and through the right choices.

On the second piece, if we grow our topline, let's just be optimistic for a second at the high end of our guidance range at 4%, that translates absent volume leverage to 4% on the bottom-line. And the productivity program, which is about $2 billion of savings per year on its face, is worth another 11 points. So that brings you to 15. We get benefit from share repurchase of 1 to 2 points. So you're at 16 to 17. And we've talked about a non FX impacted number of something like 11 to 13. So there is a significant amount of investment back within that number. And as I said earlier, we're not going to be guided by specific metrics. We're going to be guided, except one which is value creation. And when there is an opportunity to create value through additional investments we will not hesitate.

A.G. Lafley

If I just might add maybe two or three points, Wendy quickly. We have a stronger product and brand innovation pipeline this year going in, but it's not huge yet. So a lot of the pipeline is still in development qualification or early stages of commercialization. So you can't invest in it, in development. Second point is we said we are investing back in core strengths. Without going into the specific number, we have invested back the biggest amount of money in this next year. You have to go back to the middle of the last decade to get that investment. And as we went through the strategies and product programs, it was very clear to me and to others that we needed to make that investment back. And I guess the third thing I would say is we are trying to thread a needle here. And we're trying to look at what we can really do and what we really need to get ready to do. And I think it's going to take a couple of years before we have got everything in place so that we are hitting on enough cylinders to perform to our full potential. So we view this as a transition year, last year was a stepping stone year, and we'll see how it goes. Absolute last point. Jon and I, and the team are totally together. If we are on something that's taking off, we are going to invest in it. And hopefully we've given ourselves enough flexibility and in the end we're going to do what's right for the business over the mid and long-term and we're going to create value as we do it.

Jon Moeller

Just one more point, sorry. I spend a fair amount of time, maybe too much time in our prepared remarks talking about things that weren't in the forecast, in terms of further FX weakening and those type of things. And I've told you before that we're not going to follow FX or commodities out of the window just to deliver a number. We are going to execute the strategy. I would just repeat that in terms of our commitment to do what it takes to get the business growing.

Operator

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

Jason English - Goldman Sachs

A.G., welcome back. I wasn't covering you when you were here before, so I look forward to meeting you. I have reviewed the history and some of the initiatives you spearheaded and how you're operating. In your time apart, kind of reflecting back in, we have private equity experience and we work in academia. I guess my question is, how does it change your perspective and as you come back into the organization, how do you see yourself either managing or operating this business differently?

A.G. Lafley

Well, I think there are probably three things. The first one is the importance ultimately, overriding importance ultimately of value creation in a B2B business for your customers and your shareholders, in a B2C business like ours, for your consumers and your shareholders. If we get just those two pieces right, a lot of this other stuff is going to fall into place. Second thing is sense of urgency. Private equity world you don't have -- you have a certain amount of time to generate the value, and I think bringing a sense of urgency is helpful. Thirdly, you have to be very choice full and you have to be very focused, and you have to be very prioritized with your strategy choices because they drive the operating budget and plan and they drive the execution.

So I think we are tightening them down. And I guess the last one is sort of our culture. We had a great conversation about this as a leadership team and we're going to build on the strengths. But we have just got to, we have got to a much more agile, a much faster, a much more decisive culture. And we've talked a lot about agreeing, disagreeing, committing and going. And we are just trying to -- we are making decisions quickly. We are delegating the the decisions where they should be made. I need to make a few, but most of these decisions are made by the business unit leaders or they are made in the markets where we are closest to the customers and the consumer. So getting clear about who makes the decisions, getting clear about making the decisions, getting on with it and then executing.

And I guess the last thing is, you get on very short learning cycles. And my point is, you learn as much as you can from the past. You learn from your successes and you learn for your missteps and then you get on with it. You get focused in the future and you get out there and you try it the next time. So those are probably some of the things.

Operator

Your next question comes from the line of Ali Dibadj with Bernstein. Please proceed.

Ali Dibadj - Bernstein

Just a quick clarification on 2014 and a real question. Maybe Jon this is for you, want to get a better sense of you're saying that Procter will be accelerated, but you're also saying that the restructuring charges will be lower in 2014. And also, just want to get a sense of how should we think about capital allocation assumptions from buybacks, et cetera that are embedded in your numbers. But the bigger question maybe A.G. For you is the story you paint out is very exciting in terms of fixing some things that were wrong. But I really want to get little more specifics if you can at this stage. So it’s like get that the consumer wasn't read right, but how are you going to fix that as a company? I get that execution wasn't right, but what's going to change on that? I get that choiceful decisions weren't necessarily made perfectly. Why was that case? How you are going to fix that? And I ask on the context of as you look at the company today, you’ve done your deep dive the past two months. What are the big capability gaps that you think exist? And particularly relative to your competitive set that has clearly been progressing during not just the past four, five years, but the past decade on getting some of these core things that a CPG company does right better.

A.G. Lafley

Ali, I feel like I’m repeating myself. So I'll try to get this clearer. In the external world that we've been in, choicefulness and clarity are even more important. And it's not just me. It's as I said the business leaders, market leaders, channel leaders, customer leaders, country leaders. Point number two, I’m not going to -- we have the methodologies. We have the tools and techniques to understand who our best consumer is business-by-business, brand-by-brand and to act on it, but you’ve got to use it and you’ve got to act on it. So we've rededicated ourselves to really understanding the consumer, really winning with the consumer. Everything begins and ends with the consumer. We win a consumer, we get a higher -- our business model is very simple. If we can get a higher trial and purchase rate and we can get better usage and more loyalty, that drives the value creation. But we need to be incredibly disciplined to stay on that business model.

The third thing is operating discipline. The strategic discussion of the business unit level is about discipline, the discipline of choice, the discipline focus, the discipline of prioritization. We need to be more disciplined in our operating plans. We need to be more disciplined in our financial forecast. We just need to be more disciplined. And then the last one is -- and again it's not that we don't know how to do it because we are doing it. We just need to do it more consistently and we need to do it more broadly. We need to be disciplined in our execution. This is a highly executional industry and we have to win one shopper at a time, one consumer at a time, one retail location, whether it's a store or an open market or e-commerce at a time. And we just need to be very executionally focused. And I think those are the key things.

Jon Moeller

And the answer to the first part of your question, Ali, on the relationship between the acceleration of productivity savings and the appearance of lower restructuring next year and all those things reconcile, I’ll just make three points there. First, not every savings opportunity requires a restructuring investment. So for example, improving our marketing ROI does not cost anything in terms of restructuring and that scenario that we’re going to get better at next year than we have been historically. Not all cost of goods sold savings require restructuring investment. And to the extent that we can deliver savings that are at or ahead of plan with even less restructuring investment, that's a good thing.

Second, we've talked about over the period of time enrollment reduction of 16% to 22%. The 7,000 roles we've reduced represents about 13%. So we're going to keep going and it doesn't stop at the end of the five year period. But a big chunk of the role reductions which drive disproportionately restructuring spending, have occurred. So that's kind of how that's happening. As with the prior commentary, we're not fixated on a restructuring budget. If there are good opportunities to drive savings sooner and more, we will fund those. And we'll be sure to update you on that as we progress.

Last, real quick on capital allocation. We will continue to prioritize the dividend. This year was the 57th consecutive year we've increased the dividend, as I said before without the 58th, you will probably be talking to somebody else. And we'll continue to repurchase shares with the balance of cash that's available. Our philosophy on this is very simple. Cash that we have is not ours, that yours. It's our job to deploy it to earn decent returns and then what's left we will distribute. So really, no significant change in capital allocation philosophy going forward.

Operator

Your next question comes from the line of Joe Altobello with Oppenheimer. Please proceed.

Joe Altobello - Oppenheimer

Just two quick, sort of high level questions. I guess first A.G. You have talked about looking at today's reality and seeing things as they are and not how you want them to be. So I just want to clarify what you're speaking to there, not necessarily P&G's capabilities and opportunities versus where they were three, four, five years ago, but more or so what you are seeing in the marketplace and specifically market growth which has obviously slowed in the last two, three, four years. And then sort of related to that, you talk a lot about creating value both for consumers as well for shareholders, and I think part of the consumer value equation clearly is price. And so could you comment on how you see your price levels right now, generally speaking? Are you comfortable with the price levers or does there need to be some strategic change in parts of your business? Thanks.

A.G. Lafley

Okay. Let me talk about market, maybe some first impressions of consumer changes and then talk about value, and I'll let John talk about the pricing situation. First market. I mean obviously developing markets are slowing but they are still projected to grow at 6%. And as I said earlier, all you have to look at are demographics and economics. And I think that's a pretty long arc of growth for our industry and still a pretty big opportunity for this company. We've actually grown since the Berlin Wall came down and Guangzhou City markets opened in 88, 89. We've grown 9% a year compounded annual growth in developing markets. We have grown 14% compounded in the last 10 years. As Jon said in his comments, we've grown 10% in the BRIC markets this last year. And that growth is there for a lot of players in this industry. Because a lot of it is still tailwind, right. It's babies being born, households forming, incomes rising and you just get market growth.

Second point is, how have consumers changed. You don't go through the second biggest financial crisis in recent history and a prolonged global recession without changing some of your habits, practices, attitudes and beliefs. And we of course have been digging into that. I think you could make an argument, I'll use -- you can make an argument that there may three critical moments of truth right now. The consumers, I call it zero, other people call it something else but there is clearly a period driven by the desire to get the best value they can. Not only the best price but the best value. And driven by technology, mobile technology, computer technology, the internet etcetera. And there is this period of information gathering, education, brand and product comparison and that includes price comparison.

So a lot of shoppers are coming to the purchase decision with having done a lot more preparation. Still what matters is, the first one that really matters is the purchase. We've got to win the preliminary. We've got to get into the consideration set. We've really got to win the purchase so we don't have the chance of winning the usage. So I think that's one thing that's changed.

I think the second thing that's changed and you see it in a number of our businesses is, we really have to build a strong vertical and horizontal brand and product line portfolio. And it's not just about developed market and developing markets. It's about giving more consumers more opportunities to try their way in, make that first purchase into your brand and product line. And they're going to make the choice about where based on what they need and want and based on what their value equation is. So if you look at shave care or you look at hair care or you look at fabric and home care, you're looking family care, we've tried to build much more robust vertical offerings. And we're continuing to work hard on that. So the consumer can come in at different points. So think about it as we need to trade them in first and then we can work on trading them up. And I guess the -- so that's the market. That's the consumer. And hey, there's a third thing. No matter -- I didn't want to get into the details here and I'm not going to, but every business that's really delivering and we have at least a handful or more, they really know who their consumers are. They have a very clear consumer segmentation model and we need that. That's the math that we start with.

So here is the key. Regardless of what segment you're in, value is a factor. So if you're buying SK-II at 145 bucks for the opening price point on Essence, billion dollar plus brand and Prestige, Ultra Prestige Skincare, there is still a value equation. And we have to understand what it is for that one (inaudible). If you're buying Charmin Basic at a buck or two a pack, there is a value equation. And we need to understand those value equations. We are never going to compete purely on price. We are a differentiated, branded, innovative product company. But we are going to compete across a broader range of price point and we are going to compete with brand and product line architectures that attract more consumers and give them a chance to try it.

Jon Moeller

And clearly one measure of our success in presenting propositions with appropriate value equations for consumers, is our share of the market. And right now we're modestly building market share growth, which would imply that more times, but not always, but more times than not, we're getting the value equations right. We'll continue to refine that. This is something that requires daily attention, but generally I think we are across the broad portfolio in the right place.

Operator

Your next question comes from the line of Connie Maneaty with BMO Capital Markets. Please proceed.

Connie Maneaty – BMO Capital Markets

In the context of your comments on execution and understanding and creating value, I was hoping to get your perspective on what's been going on Tide PODS. Is this a product that is actually creating value? What went wrong with the execution? We're looking at monthly sales that have been flat since the start of the year or the end of last year, even as the capacity issues were supposedly resolved. So your perspective on that might help give a little bit of context to the things you see as you come back. Thanks so much.

A.G. Lafley

Sure. Connie, I think -- first of all we are committed to Tide PODS. It's a $0.5 billion business with a lot of upside growth. And it clearly -- it's a good value for consumers who want -- don't want to think about the dosage amount and who want the convenience in performance that is delivered in that brand's performance offering and product form. Second thing is -- yeah, we've been struggling to keep up with demand. I don't think we were merchandised until last month. Do I have that right, Jon? I mean the first month we were merchandised, ever merchandised so far, in a U.S. customer was last month. So I would argue we have been out there with one hand behind our back because we can't display it and we can't support it. I think as we've reported, we are moving into Europe. It's a different source of supply. It's not going to impact what we're trying to do here in the U.S. and North America. But I guess the last thing I would say is, hey, in four decades you work on a lot of disruptive new products and product forms, start- ups aren't easy. We don't always get it right the first time. We did an (inaudible) liquid back in the mid 80s, we did untie with bleach, we have it on some others.

But this one is so unique, it's so discontinuous, and for a group of segment of consumers at least so far, early returns, they seem to like it if they try it. And they seem to come back and buy it again. It's clearly creating value for the industry. And this is a category or industry that's hard to create value in, left with own devices. Some would commoditize it. And it's in our interest to keep it differentiated, branded and innovative. So we are taking a mid to long-term point of view on Tide PODS and we are going to stay at it, and we are going to see what it's ultimate potential is with the consumers.

Operator

Your next question comes from the line of Javier Escalante with Consumer Edge Research. Please proceed

Javier Escalante - Consumer Edge Research

Good morning everyone and welcome back A.G. I wonder whether you could, in the context of breaking out fourth quarter organic sales growth between the U.S., Europe and developing and emerging markets, not just BRIC. How this execution that you want to improve, is going to helped by the changes in the go-to-market capabilities? Because one of the things that actually surprised us in the last couple of years is is that the bulk of the weakness of your business was the U.S., was in the backyard. So the inability of the company to adopt to the volatility of the consumer environment was surprising to us. So to what extent does decision making process needs to be reviewed beyond making the go to market capability more efficient in terms of savings? Thank you.

A.G. Lafley

Okay. Two points, that I think are relevant and important to your question. We need to grow in the U.S., even at 2% to 3% estimates for the future, 3% GDP growth, market growth. You know you pick a number but it's still growing and it's definitely growing faster than Europe or Japan. And given our position, we need to grow in the U.S. and we need to get stronger in the U.S. Point number one. I think you see, hopefully you can see, that we reinvested in the U.S. We started to get it going again in the U.S. in this last year and it definitely showed up in the fourth quarter. But as far as I am concerned that's only the beginning, okay. Point number one.

Point number two is, we need to do a better job in all the important channels where consumers shop. I won't go into the details but we're clearly strong in some channels. We play in others, we need to get stronger in those channels and we're even testing coverage in channels that we haven't served in the U.S. and Canada. So I do think there is a distribution opportunity and I have a very simple principle. If a meaningful number of consumers shop in this channel, whether it's ecommerce, whether it's a small urban store or whether it's a drug chain, a club store, whatever, we have got to be there. We have got to be available. We have got to be in distribution and we have to have the right mix of brands and products to meet her or his needs.

So I am totally with you. I think there is an opportunity in the U.S. By the way we also have opportunities in Western Europe along the same lines and that's a huge business for us too. So even though it's not growing, we've got to get our share. Developing markets is still a huge opportunity for the company and part of the opportunity is distribution related. Again I won't go back into the detail, but we've gone back into some big strategically core developing markets and we've taken a hard look at our distribution and coverage position. And we're concluding that we have big opportunities there. So you will see us work hard on making sure we have availability, making sure we're in distribution and make sure we have the right brand and product presence where we need to, which is where consumers shop.

Operator

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

Olivia Tong – Bank of America - Merrill Lynch

Welcome back A.G. Wanted to talk a little bit about the commitment to investment spend. You've talked a lot about it on a high level. Can you talk about what marketing spend you expect going forward? And then obviously the U.S. growth was very solid. Can you provide some colors on the sustainability of that and then the growth drivers behind that? Thank you.

Jon Moeller

So first in terms of advertising spend, we will again increase advertising spending pretty significantly year-on-year, but we'll do it probably 20 basis points lower than the rate of sales growth. That does not mean less advertising. It does not mean less reach, less frequency. it means more effective advertising, the right mix of media and importantly reducing non-advertising costs that the consumers never see. So we feel good about our ability to continue to support growth in the business with a more efficient model. A.G, do you want talk to about the U.S?

A.G. Lafley

Yeah. One more, one very quick comment on the point Jon just made. We're interested in effectiveness. We know brand by brand in the U.S and in a lot of other markets the range of effectiveness we can deliver and it's wide. And so we are holding all of the businesses to a minimum ROI. We're pounding away on communication effectiveness. We're pounding away on best media. Our digital I think is now up to 35% in the U.S. roughly. It goes up and down, 25% to 35%. We have some businesses and brands where digital is incredibly effective, and we're doing more. We have other brands that are on the learning curve. They've got to get up the learning curve faster.

But it's a brand by brand, category by category, consumer segment by consumer segment set of decisions. And basically what we are going to do -- our problem is not the total amount we are spending. Our problem is the mix, our opportunity is the mix and we are going to get the mix better and better and better and there is a lot of opportunity there. On the second question which is the U.S, yeah, we think it's sustainable. We definitely think it's sustainable because if you crawl inside the fourth quarter results, we're doing much better overall but we're still being carried by fewer businesses than we would like to be. And there's an opportunity for all of our businesses to do better in the U.S. and North America.

Operator

Your next question comes from the line of Michael Steib with Credit Suisse. Please proceed.

Michael Stieb – Credit Suisse

My question relates to the portfolio overall. You spoke at length about focusing on the core business. Could you talk a little bit about what criteria you might use to determine what's not core for the longer-term growth prospects of the company since you mentioned I think a couple of times that you might to exit some businesses?

A.G. Lafley

Strategic fit, particularly is a strategic fit with our core strengths and core capabilities, value creation potential and performance and then frankly the ability to deliver. That's it.

Operator

At this time, we've reached the time for questions. I would like to turn the call back over for closing remarks.

Jon Moeller

I'd just like to thank everybody for joining us this morning. We are very excited about the direction that we are on in the path ahead. And we'll continue to keep you abreast of developments in that regard. We're available the balance of the day. Please don't hesitate to reach out if you've got a question. We'll also be reaching out to our shareholder group over the next couple of months, both A.G and myself and look forward to spending time with you. 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.

Executives

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Jon Moeller - Chief Financial Officer

Teri List-Stoll - Senior Vice President and Treasurer

Analysts

John Faucher – JPMorgan

Bill Schmitz – Deutsche Bank Securities

Lauren Lieberman – Barclays

Dara Mohsenian – Morgan Stanley

Wendy Nicholson – Citi

Jason English - Goldman Sachs

Ali Dibadj - Bernstein

Joe Altobello - Oppenheimer

Connie Maneaty – BMO Capital Markets

Javier Escalante - Consumer Edge Research

Olivia Tong – Bank of America - Merrill Lynch

Michael Stieb – Credit Suisse

The Procter & Gamble Company (PG) F4Q 2013 Earnings Conference Call August 1, 2013 8:30 AM ET

Operator

Good morning and welcome to Procter & Gamble's Quarter End Conference Call. 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. As required by Regulation G, P&G needs to make you aware that during the call the company will make a number of references to non-GAAP and other financial measures. Management believes these measures provide investors valuable information on the underlying growth trends of the business.

Organic refers to reported results excluding the impacts of acquisitions and divestitures and foreign exchange, where applicable. Adjusted free cash flow represents operating cash flow less capital expenditures and adjusted for after tax impact of major divestitures. Adjusted free cash flow productivity is the ratio of adjusted free cash flow to net earnings, excluding divestiture gains. Any measure described as core refers to the equivalent GAAP measure adjusted for certain items. P&G has posted on its website, www.pg.com, a full reconciliation of non-GAAP and other financial measures.

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

Jon Moeller - Chief Financial Officer

Thanks, and good morning everyone. I am joined this morning by A.G. Lafley and Teri List-Stoll. I will start our discussion with a review of our fourth quarter and fiscal 2013 results. A.G. will discuss our key strategies and focus areas going forward and I will then wrap up with guidance for fiscal 2014.

Fourth quarter organic sales results were at the high end of our forecast range with core earnings per share slightly ahead of plan. Organic sales were up 4%. Importantly, this sales growth was underpinned by strong organic volume growth of 5% and was achieved during a period in which underlying market growth rates were decelerating. Pricing was neutral to organic sales growth and mix reduced sales growth by 1 point. Foreign exchange lowered sales growth by 2 points resulting in all-in sales growth of 2%.

P&G global value share was around 20% for the March to May period, roughly in line with the prior year. Market share improved sequentially throughout the quarter. In May, the last period for which we currently have global share data, volume share increased 0.4 points versus prior year with growth in all regions except Central and Eastern Europe, Middle East and Africa. On a mixed adjusted basis, May global value share was up 0.2 points. In the U.S where we have data through June, mix adjusted value share was up 0.3 points. We held or grew global market share in businesses representing nearly 60% of sales in the March to May period. In the U.S, we held or grew value share in businesses representing over 70% of sales.

Moving to the bottom line, core earnings per share were $0.79, $0.02 above the high end of our guidance range due to cost savings and a $0.01 help in tax. Core earnings per share was down 4% versus the prior year as the benefits from top of range organic sales growth and strong cost savings were more than offset by mix, higher marketing spending and a $0.06 per share or roughly 7 percentage points earnings per share growth headwind from foreign exchange rate. All-in earnings per share were $0.64. This includes a $0.02 non-core impact from restructuring costs, a $0.04 non-core impact from legal items in Europe and a $0.10 non-core, non-cash impact of a further impairment of intangible assets related to the Brown business, reflecting the 20% devaluation of the currency in Japan where Brown earns the majority of its profits.

Core operating profit margin declined 130 basis points as core gross margin was down 90 basis points and core SG&A cost increased 40 basis points. Operating margin was about 50 basis points less than we had originally anticipated due largely to foreign exchange. The core effective tax rate for the quarter was 22.3%, in line with last year. We generated 2.8 billion of free cash flow in the quarter, repurchased $1 billion in stock and returned $1.7 billion of cash to shareholders in dividends.

Turning to the fiscal year, we met our commitments on each key measure. Organic sales growth was 3%, in the mid-point of our initial guidance range of 2% to 4%. We grew core earnings per share of 5% above our initial minus 1% to plus 4% guidance range. We absorbed the unexpected impact of the Venezuela Bolívar devaluation and significant overall dollar strengthening, while increasing marketing investments as the year progressed. We continued to make good progress on our productivity plans. Through June we reduced non-manufacturing enrollment by 7,000 roles. This is 1,300 role reductions ahead of our initial enrollment reduction target for June 30, 2013. We delivered over $1.2 billion in cost of goods sold savings and approved manufacturing productivity by 7% versus the target of 5%.

Our progress on working capital and capital spending productivity enabled us to deliver 98% adjusted free cash flow productivity, ahead of our 90% target. We returned $12.5 billion to shareholders, 110% of net earnings through a combination of $6.5 billion in dividends and $6 billion in share repurchase. In April we raised the dividend by 7%. We're beginning to restore growth in the core U.S. Market that represents over a third of P&G sales and an even greater percentage of profit. U.S. Fourth quarter organic sales grew at 7% on a volume growth of 5%.

We maintained good developing market momentum. Organic sales growth in our top 10 developing markets was up 8% in the fiscal year. We grew profit meaningfully ahead of sales in developing market while increasing investments in these markets year-on-year. We stabilized global market share and ended the year with modest market share growth. We are moving in the right direction, but there is more work to do.

To talk us through that, I'll turn the call over to A.G.

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Thanks, Jon. We've spent a lot of time doing a deep dive over the past two months, making sure we fully understand our reality, ensuring we see things as they are, not as we want them to be. We've gotten grounded in the realities of our consumers and markets. I've personally dialoged with customer, partners and suppliers. We've listened to a range of outside advisors, critics, as well as fans. We've taken a hard look at business strategies, reviewed budgets and business plans and dug deeply into innovation programs and productivity initiatives. We know we are not winning, like we know we can, and we are committed to make the changes we know we need to make to improve P&G's performance significantly. First, we will establish value creation. First and foremost for consumers, but also importantly for share owners as our clear priority. Operating TSR will be our primary business performance measure. Operating TSR is an integrated measure of value creation at the business unit level, requiring sales growth, progress on growth and operating margins and strong cash flow productivity.

We focused on business unit value creation because we are determined to have more P&G business units deliver more operating TSR more consistently. We will we guided by disciplined strategies and operating plans. We will focus strategically on core businesses, our leading, most profitable categories in brands and leading most profitable market channels and customers. Delivering consistently strong results in our core business is the largest contributor to shareholder value creation, an important contributor to growth and an important enabler of investments in developing markets and innovation.

Many of our strongest business units and total company positions are in the U.S. we need to ensure P&G's home market stays strong and growing. We will focus developing market investments on the categories and countries with the largest size of the prize and the highest likelihood of winning. Developing markets driven by demographics and household income growth will continue to be a significant growth driver for the company. We will continue to focus the company's portfolio, allocating resources to businesses where we can create disproportionate value and continuing to exit those where we cannot.

Second, we will strengthen and accelerate productivity and cost savings. Productivity and innovation are the primary drivers of growth in value creation. Productivity is particularly important in a slower growth world and in an environment of increased volatility in foreign exchange, commodity and interest rate markets. And the more productivity means more opportunities to invest in core business in developing markets, expansion and in innovation. Here is what we are doing specifically with P&G's productivity initiative. We will deliver the productivity program we promised, on or ahead of schedule. But that is not an end-point for productivity improvement. It's just the next milestone along our productivity journey. We know we can do more.

We are already mobilized to address the next round of productivity initiatives. We are working these significant opportunities in parallel, not sequentially. They cover a full range of cost and cash opportunities. Projects are being led by business unit and function leaders. They are being worked on short cycles. Some are yielding savings as we speak, others will take years to fully implement. We have opportunities to further localize supply chains in developing markets reducing cost and improving customer service.

In developed markets we are taking a blank sheet of paper look at supply chains, designing from the consumer and customer back. We are studying options that would reduce the number of facilities, build scale across categories and reduce cost and inventory, all while improving customer responsiveness and service. This will require investment but will generate very attractive returns. That’s a huge opportunity. We will redesign and strengthen our go-to-market operations in North America and Europe to be more effective and efficient.

In Europe, we will look to scale operations across larger and fewer country clusters. We will evaluate organization design options to improve effectiveness and efficiency in developing markets. We will further reduce the size of support staff and move from fully dedicated functional support organizations to a more productive hybrid of dedicated and (inaudible) work resources and shared services. We will improve marketing ROI, driven by an optimized mix of advertizing media, greater clarity of communication and messaging and greater efficiency in non-advertising marketing spending.

The key point to understand today is that we are committed to making productivity a core strength for P&G, like branding or innovation and with innovation, a second big driver of operating TSR and value creation. It has to for P&G to deliver leading value creation and growth. Productivity will become systemic, not episodic. We will continuously improve our effectiveness and efficiency. We'll measure productivity. We'll recognize it and we'll reward it. Third, we will improve our operating discipline. We simply have to execute better, more consistently and more reliably every day, everywhere to win with consumers and win with customers. Execution is the only strategy they ever see. Winning with consumers and winning with customers day-in and day-out is what it takes to generate leadership returns in our industry and that's what we've committed to do.

Fourth, we will reallocate some of our savings to make strategic investments in a very focused way in innovation and go-to-market capabilities. These are two of the company's core strengths and two important sources of competitive advantage. They are critical to winning the first and second moments of truth with consumers. We will build on the past year, but we will be more focused. We’ll commercialize brand and product innovations with excellence. We’ll prioritize productivity initiatives, significantly simplifying and streamlining how we work together and we will bring a sense of urgency to realizing hard savings. We'll focus on best in class execution and we'll continue to invest selectively where needed to win.

I’m confident that P&G has what it takes to win with consumers, with customers and for all of our shareholders. We have a strong brand portfolio with 25 category leading billion dollar brands and 15 more between $0.5 billion and $1 billion in annual sales. We have leading brand equities in most of our categories. We have consumer preferred products in a majority of our brand product lines. We have a well-balanced geographic portfolio. We have the leading CPG business from the U.S, the largest and fastest growing developed market and we have the leading household and personal care business in developing market. Both are significant sources of value creation opportunities. We have an innovation portfolio and pipeline that will only get stronger. We have an exciting portfolio of productivity initiatives we're working hard.

We have outstanding people. The productivity and organization design changes we are making are freeing up P&G-ers to fully leverage their creativity and initiative, their skills and capabilities. They are passionate about the consumers they serve and about their businesses. They are committed to win. They are our most important asset, a critical source of strength and ultimately competitive advantage for this company. We've taken a hard look at what we need to do, how we need to change to perform better. More business units have to deliver more consistently. We're committed to do what it takes to get P&G back to balance, consistency, reliability and sustainability in the creation of value for consumers and customers and value for shareholders and employees. It takes time to work out of a tough patch. We take encouragement from the progress we've made in the year just closed, but we are focused on the future and we are determined to deliver industry leading value creation.

Jon Moeller - Chief Financial Officer

Thanks A.G. As we said we would at the Deutsche Bank conference in June A.G, Terry, John and I have spent some time reviewing our guidance framework. We've talked to shareholders and analysts as we've done this work and we've looked at a number of benchmarking studies. The preponderance of feedbacks we've received supports the decision we've made to focus our guidance on the fiscal year, which we'll update quarterly. This approach is the norm in our industry. We believe it provides a better match between our guidance timeframe, the long-term view we take while managing the business and the investment time horizon of many of our shareholders.

We've also reviewed long-term guidance targets. We continue to believe that the right organic sales growth target is one that is modestly above the rate of market growth. At current market growth rates we see high single digit bottom-line growth as a right objective. We believe these targets will allow the company to strike the right balance between long-term investments in growth, flexibility to respond to macro and competitive challenges, and delivery of consistent, dependable results in our value creation goals. With that let me move to guidance for the fiscal year.

Fiscal 2014 presents several challenges and opportunities, headwinds include weaker underlying market growth, a much stronger dollar, higher commodity costs and a highly competitive operating environment. Opportunities include positive market share momentum, a number of promising innovations and savings from productivity improvements. We're currently forecasting organic sales growth of 3% to 4% which is better than last year at 3% and compares to expected market growth rates of about 3% to 4%. Foreign exchange is expected to be a sales growth headwind of about 2 points which leads to all-in sales growth in the range of 1% to 2% for fiscal 2014.

Moving to the bottom line, our current forecast is for core earnings per share growth of 5% to 7%. Equal to prior year growth at the low-end of the range and within our long-term annual growth target range at the high-end. This core earnings per share guidance includes a 6 point impact from foreign exchange. We expect the effective tax rate on core earnings to be in line with prior year levels. Our plans include another year of strong productivity improvement. We have line of sight to $1.4 billion in cost of goods sold savings in fiscal 2014, including manufacturing and productivity improvements of around 6%. As I said earlier, we exceeded our overhead enrollment reduction targets by 1,300 roles as of the end of June, giving us a nice head start on the 2% to 4% reduction we were planning for fiscal 2014. We will deliver this and accelerate fiscal '15 reductions in to fiscal '14.

We expect marketing spending to increase in absolute dollars but decrease modestly as a percentage of sales as we continue to drive higher ROI. On an all-in GAAP adjusted basis, we expect earnings per share to grow approximately 7% to 9%. This range reflects somewhat lower non-core restructuring cost in fiscal year 2014 versus the prior year. We continue to operate in a volatile environment with uncertainty in the foreign exchange and commodity markets, decelerated market growth rates and a rapidly developing policy environment. Our guidance is based on mid-July foreign exchange spot rates, further strengthening of the dollar or significant devaluations, for example in Venezuela, are not built into our forecast.

As we described last quarter, one particular risk not included in our all-in earnings guidance is the potential impact from the revaluation of Venezuelan bolivars, earmarked for foreign currency transactions through the new (inaudible) auction rate market. At this time there is no official information available on details or plan frequency of the new auction process or the underlying rates. So far we've measured all our Venezuela exposures at the official exchange rates of 6.3 bolivars to the U.S. dollar. If it becomes clear as the auction rate market forms, that it will operate in a liquid and transparent matter at a different rate, we may need to adjust our balance sheet which will result in additional non-core impact on earnings. We'll keep you updated on this as we learn more.

Major changes in market growth rates or significantly adverse policy changes are also not assumed within our guidance range. Absent these or other unanticipated events, we believe our core earnings per share guidance range is realistic and balanced. It reflects the headwinds we're facing, the investments we'll be making, and the strong cost savings progress we are committed to deliver. If you think about earnings progress throughout the year, there are several headwinds that will impact first half earnings growth that will dissipate or disappear in the second half. For example, foreign exchange will be a significant headwind in the first half but should moderate in the second half.

We'll continue to have relatively high spending and manufacturing startup costs, but this will largely annualize in the second half of fiscal 2014. We will annualize the operating impacts of the Venezuelan bolivar devaluation in the second half. Stepped up marketing support levels will also annualize and productivity savings will build throughout the year. Last, the first half comparison includes the onetime gain from the Western European bleach business in the base period. With all of these factors considered, core earnings per share growth will likely be down modestly in Q1 with slight improvement in Q2. Second half earnings will be much stronger. We expect to deliver another year of about 90% free cash flow productivity. Our plans assume capital spending in the range of 4% to 5% of sale and share repurchase in the range of $5 billion to $7 billion, continuing to deliver on our commitment of cash return to shareholders.

In closing, our primary objective for fiscal 2014 is to continue to build on the momentum we've created, making this year another stepping stone back to our long-term growth objectives. Our plans are even more focused and even more balanced. We will make choiceful investments in our core business, most promising developing markets and biggest innovation opportunities and we will aggressively drive productivity and cost savings. Above all we'll remain focused on value creation for consumers, for customers and for our shareholders.

That concludes our prepared remarks. As a remainder, business segment information is provided in our press release and will be available on slides which will be posted on our website www.pg.com following the call. A.G, Terry and I would now be happy to take your questions.

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of with John Faucher JP Morgan. Please proceed

John Faucher - JPMorgan

A quick question for you. Historically you guys have talked about revenue growth 100 basis points I think ahead of the market. So if we look at your organic sales growth guidance this year, it's more of an in line number. Then when you factor in, you're dropping a decent amount of the productivity to the bottom-line. Can you talk about maybe why you're not spending more to maybe get a little bit more market share given the growth of the category? So what's driving the decision in terms of dropping more to the bottom-line versus potentially spending it back? Thanks.

Jon Moeller - Chief Financial Officer

John, we'll continue as we have good opportunities to drive return and create value to invest behind innovation, as A.G. mentioned behind go-to-market capability and advertising where we can generate a return. And as I've said many times before, cost savings is not the objective. Value creation is the objective and we will not follow cost savings out of the window at the expense of capability and opportunity of which we have many.

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Jon, two quick points. The past five years, two, three, three, three, three. Most recent quarter, four. So if you're going to see things as they are, we've got to demonstrate we can grow faster, point number one. We're prepared to invest to grow faster. And with clearer strategies, we'll make investments where the size of the price is attractive and where we think we have the plan to win. Second point, this is our external commitment. We have internal goals.

Operator

Your next question comes from the line of Bill Schmitz with Deutsche Bank. Please proceed.

Bill Schmitz - Deutsche Bank Securities

Hey, you talked about the deep dive that you did. Can you just talk about what you think that P&G was doing wrong during the period? And then maybe what you're going to stop doing? and then maybe empirically, like how you're going to define success going forward mid 30% numbers around it?

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

I'd like to take a couple minutes here to step back because this is an opportunity to talk about strategy I think at the company level and at the business unit level. The quick answer to your second question or second part of your question, Bill, is it is value creation. And the first place we've got to create value is for more consumers, more consistently with our brands and product offerings. And then the second place we have to do it is for the company for shareholders. And that's a balanced mix of net sales growth, gross and operating margin growth and cash productivity. If I may on the strategy, at the business unit level, we want to be more choiceful, clearer. We want to be more focused and we want to be really clear about our priorities, and we want to be very specific about what is winning for the business unit with consumers to create value. We want to be very specific and prioritize where we're going to play. We're going to be much more specific about our business model, how we're going to win. And we're going to get really clear in our core strength not just how we leverage the core strength that the company has, or what very specific and particular core strengths we need to win in that industry with that market. So that's really the focus at business unit level. Get more focused, get clear, set our priorities and then operate with discipline and execute with excellence.

At the company level, the keyword is balance. And you've followed this company, many of you followed this company and this industry for a long time, and when we have a pretty good decade, three things happen. We grow the value of our core businesses, whatever our core is at that time. We find at least one major new business that we can turn into core. Baby diapers in the 60s, tissue (inaudible), family care in the 70s, care in the 80s, hair care in 90s. Arguably we got home and oral care, and family care back into the core fold, the team did over the last decade. And we made some progress creating cores in skin and Prestige beauty and we bought a shaving business which is core.

So that's the second leg of the stool. The first leg of the stool is you grow the value of your existing core. The second leg of the stool is you find some new core, and the third leg of the stool has been moving into new space. Generally, we talk about geography but it's also included channels, okay. And if you really look at the history of the company, we've found new geography and we've also found new channels, okay. But we need to do all three. We need to grow from the core. We need to accelerate growth into faster growing, higher margin, more structurally attractive. That means less capital intensive, less competitively concentrated industries, and we need to extend into emerging markets.

And we are just trying to get that balance back. And as I said in my prepared remarks, generally winning in the core drives a surprising -- the existing core drives a surprising amount of the value creation and actually a surprising amount of the growth each decade, and here is the key. It's what enables ,okay. It brings us the capabilities, it brings us the cash, it brings us the human resources to extend into new industries and categories that can be core, and to extend in the new geographies and channels. So we're just working hard to get the balance right. And when you've got an $80 billion plus company that's in 15 to 20 different businesses depending on how you count them, and the 100 plus geographies, balance is really important.

The other thing we're doing is, we're taking a hard look at our core strengths. And again, as I said in my prepared remarks, we've got to turn productivity into just as strong of strength as innovation because those are the two biggest drivers of value creation in the P&G business model. We've got to turn operating with discipline and executing with excellence into a core strength just as we turn choice full, sharpened strategies into a core strength. We still have to have deep understanding of consumers, we still have to be able to create brands and build them forever, if we can. We still have to be the innovation leader in the industries and categories we choose to compete in, and we still have to have our go to market capabilities and grow them and we try to create as we go along, some scale.

So that's really where we focused. We focused on balancing, getting crystal clear about what is winning. Balancing with where to play and taking a hard look at the core strength. So, again, we have a balanced set of core strengths to go forward. We are locked on it. I think at the company level all that's left to do is, get the expression in the fewest possible words, which is a burden that Jon and I will predominantly carry in the next couple of days. And at the business unit level, as you might imagine, we're just grinding our way through one business at a time.

We've been through them all once. We've been through their operating plans and budgets for the next year, which is another shot at them. And now we're doubling down and working real hard where we think we have the most opportunity, either the most upside opportunity or the most production opportunity. So I hope that helps, because I think it's really important to understand. Balance at the company level, three legs on the stool, core totally new businesses where we can play to our strengths and hopefully create new core and new space. And right now the biggest opportunity in new space happens to be developing markets, which are demographically and economically advantaged. But it's also e-commerce. So like I said I hope that's helpful. That's what we're trying to do and now of course we've got to execute.

Operator

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

Lauren Lieberman - Barclays

So I guess what I'm really curious about is thinking over the last year review of where things stand and looking over the past few years. The message on productivity couldn't be more clear and is obviously very important to the go-forward capability to operate in a tougher world. But if you look at the last call it two years or so, investment in the business hasn't really been the challenge. There has been money to spend and even when there hasn't been a lot of money to spend, there has been money spent to try to drive topline, yet something's still been missing. And I feel like over the last couple of years, we've seen P&G have more disappointments on what was expected to be a good innovation pipeline, new ideas, things that would change the trajectory of -- and this is the broad statement because it applies across the business unit. So in this deep dive, A.G, what have you seen that says to you maybe we're not as good as we used to be or why are we not as good as we used to be understanding what the consumer wants, what the competitive landscape is, because there has been a lot of shortfalls that aren't about spending. It's about what the company has been spending on. Thanks.

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Maybe a bad baseball analogy, but we've got to get our batting average and our OPS up. And as we go through this industry-by-industry, business-by-business, where the strategies are clearer and more choiceful, where we know who the consumers are that matter most, where the brand promise is crystal clear and we execute it in the communication and where our products are preferred by consumers, we get it done. And in any mix of businesses we, in just the past few years and I'll miss a few, we have the family cares and we have the prestige beauties and we have the oral cares. And I don't want to leave out home cares and others that have been consistently performing. But I think if you do your analysis or we do our analysis, it comes back to real clarity around who the consumer is and delivering for that consumer. Ultimately it's a better consumer value equation and a better experience.

Real strategic clarity, a proven business model and by the way it isn't a proven business model that lasts forever. You're continually adjusting your business model. But a business model that's agile and still actionable and still works and frankly the ability to operate with discipline and execute with excellence. This is an industry where execution really, really matters. And like I said, of the handful of businesses that have done it really well, we now have 15 to 20 businesses that are focused like a laser and doing it really well starting July the 1st, 2013.

Operator

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

Dara Mohsenian - Morgan Stanley

A.G, I was hoping for more perspective, specifically on beauty and what strategy tweaks you're making behind that business to improve market share trends. And as you look back over the last few years, what are some of the learnings as you look at the performance there. And then also from a portfolio standpoint, are you comfortable with the current portfolio you have in beauty or there are gaps you would like to fill in overtime?

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Okay. On the second one. We are continuing -- we are always reviewing the portfolios at the company level, at the business unit level. And again as I said in my prepared remarks, if they are a strategic fit and they are performing, delivering value, they are in. If they are not, we'll deal with it. On the first one, it's not really different conceptually, okay. It's not really different in getting the consumer focused, right. Getting the brand and the product innovation program right and having the clarity and sharpness and the strategy that translates to operating discipline and executional excellence. That's all we're saying.

I think, again, if you really look at the beauty business, we took a business, we put together this collection of businesses. Mark and I and others know it was a collection in 2000 of businesses that we called beauty. And in six or seven years we tripled that business. We took it to $21 billion. The problem is we are still looking at it, we actually took it to 22 plus. We are still looking at $20 billion business. Now, I view that as opportunity, okay, in seven years, right. Shiseido has been in beauty for 150 years, L'Oreal since 1900, so over a 100 years. Estee Lauder since World War II, so over 60 years. We have been really at it for over 15 years. Fortunately we picked up a couple of decent assets back in 2000. But it's a learning curve and we clearly stalled in a couple of places. But again Prestige Beauty is in very good shape. We went from nothing in arguably one of the toughest segments, two a $3 billion plus business.

We have a very fine, fine fragrance business that makes -- and that's grown at a very consistent rate. From the time we bought the two little pieces back in the yearly 90s, we've grown at a compound annual growth rate on the top line of 11%. It's been volatile through the recession, it's been a pretty consistent value creator. And, hey, let's face it, we're up against some of the best in the world in (inaudible) skin care and fine fragrance, and we've done quite well. And the reason we've done quite well is our strategy is sharp and we know we need a certain sort of core strengths to play in Prestige beauty and we leveraged some of the P&G core strengths to be a little bit different.

We've stayed very steady on some of our hair care brands. We have an issue on Pantene, we're working it. It's primarily but not exclusively, a U.S. and North America issue. We've ground through those plans a few times, we picked the boards room. I have been here like six days, okay. We went through an innovation review, we have been through the strategy. We know what the program should look like over the next six months, to the next 12 months, to the next 18 and 24 months. Hey, businesses stall, but it stalled at $3 billion, okay. I would rather -- one of the things I learned in private equity the last four years, I had rather work -- spend as much time and energy on $1 billion business as you do on $200 million business. And believe me you get better value creation for it if you can get it going.

On the skincare side it's pretty much the same story. We went from, frankly, playing but not winning for the first 15 years after we bought Olay from RBI. To, all of a sudden, we took a business that was several $100 million and we turned it into a $2 billion plus business. It stalled, and again bored through it, been through the strategy, been through the product program. We know what we are going to do over the next 6, 12, 18, and 24 months. But these are assets. They have little connections with consumers. If we get the consumer connections back, if we get the brand promises and architecture collections, whatever you want to call it, right, and if we execute like we think we can with our marketing and product program, there is plenty of room to grow.

And I guess a last point I will make, because I know I am going on a little long here. Remember why we choose to get beauty and personal care in the first place. They are large. They are demographically driven. They grow a little faster. They're big in the U.S and the developed markets. They're big in developing markets and only getting bigger. They're structurally attractive, low capital, high gross margin and they are fragmented. It's not like anybody is dominating these spaces. There is room for a lot of players who can get it done to do well. So long winded way of saying hey we stalled a lot of it with choices we made and maybe things we struggled at, but we know what to do and we're on it.

Operator

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

Wendy Nicholson - Citi

First thing, I know you had a target of delivering a 50% improvement in your local currency EBIT margins if you will and (inaudible) profits in emerging markets. Can you tell us where you came out for the full year on that? And related to that, I'm having a hard time reconciling the concept of balance and striving for balance when you're talking about EBIT growth 3 or 4 or 5 times your topline growth. And I'm just wondering how that sets you up. I think A.G your historical strategy was to deliver consistent results. And I have a hard time seeing how that strong double digit EPS growth is going to be sustainable and why you wouldn't, in your first year here coming back to the company, find a bucket to put some pennies to save them for a rainy day because it seems like it's an awfully aggressive goal at this juncture. Thanks

Jon Moeller - Chief Financial Officer

So let me provide a little bit of perspective on both of those questions, Wendy. We did grow profit in developing markets meaningful ahead of sales. So we did build margin. I'm not go into the actual number. As you can imagine with all of the currency movements, a number compared today to what we were talking about three or even six months ago is not that relevant. What's relevant is that we continue to grow profit meaningfully ahead of sales. And I can commit that we have done and we'll continue to do that in developing markets. While by the way somewhat an answer to your second question, increasing investments. So this isn't about building profitability by pulling back. It's about increasing profitability through productivity, through localization of supply chain, through increasing scale and through the right choices.

On the second piece, if we grow our topline, let's just be optimistic for a second at the high end of our guidance range at 4%, that translates absent volume leverage to 4% on the bottom-line. And the productivity program, which is about $2 billion of savings per year on its face, is worth another 11 points. So that brings you to 15. We get benefit from share repurchase of 1 to 2 points. So you're at 16 to 17. And we've talked about a non FX impacted number of something like 11 to 13. So there is a significant amount of investment back within that number. And as I said earlier, we're not going to be guided by specific metrics. We're going to be guided, except one which is value creation. And when there is an opportunity to create value through additional investments we will not hesitate.

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

If I just might add maybe two or three points, Wendy quickly. We have a stronger product and brand innovation pipeline this year going in, but it's not huge yet. So a lot of the pipeline is still in development qualification or early stages of commercialization. So you can't invest in it, in development. Second point is we said we are investing back in core strengths. Without going into the specific number, we have invested back the biggest amount of money in this next year. You have to go back to the middle of the last decade to get that investment. And as we went through the strategies and product programs, it was very clear to me and to others that we needed to make that investment back. And I guess the third thing I would say is we are trying to thread a needle here. And we're trying to look at what we can really do and what we really need to get ready to do. And I think it's going to take a couple of years before we have got everything in place so that we are hitting on enough cylinders to perform to our full potential. So we view this as a transition year, last year was a stepping stone year, and we'll see how it goes. Absolute last point. Jon and I, and the team are totally together. If we are on something that's taking off, we are going to invest in it. And hopefully we've given ourselves enough flexibility and in the end we're going to do what's right for the business over the mid and long-term and we're going to create value as we do it.

Jon Moeller - Chief Financial Officer

Just one more point, sorry. I spend a fair amount of time, maybe too much time in our prepared remarks talking about things that weren't in the forecast, in terms of further FX weakening and those type of things. And I've told you before that we're not going to follow FX or commodities out of the window just to deliver a number. We are going to execute the strategy. I would just repeat that in terms of our commitment to do what it takes to get the business growing.

Operator

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

Jason English - Goldman Sachs

A.G., welcome back. I wasn’t covering you when you were here before, so I look forward to meeting you. I have reviewed the history and some of the initiatives you spearheaded and how you're operating. In your time apart, kind of reflecting back in, we have private equity experience and we work in academia. I guess my question is, how does it change your perspective and as you come back into the organization, how do you see yourself either managing or operating this business differently?

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Well, I think there are probably three things. The first one is the importance ultimately, overriding importance ultimately of value creation in a B2B business for your customers and your shareholders, in a B2C business like ours, for your consumers and your shareholders. If we get just those two pieces right, a lot of this other stuff is going to fall into place. Second thing is sense of urgency. Private equity world you don't have -- you have a certain amount of time to generate the value, and I think bringing a sense of urgency is helpful. Thirdly, you have to be very choice full and you have to be very focused, and you have to be very prioritized with your strategy choices because they drive the operating budget and plan and they drive the execution.

So I think we are tightening them down. And I guess the last one is sort of our culture. We had a great conversation about this as a leadership team and we're going to build on the strengths. But we have just got to, we have got to a much more agile, a much faster, a much more decisive culture. And we've talked a lot about agreeing, disagreeing, committing and going. And we are just trying to -- we are making decisions quickly. We are delegating the the decisions where they should be made. I need to make a few, but most of these decisions are made by the business unit leaders or they are made in the markets where we are closest to the customers and the consumer. So getting clear about who makes the decisions, getting clear about making the decisions, getting on with it and then executing.

And I guess the last thing is, you get on very short learning cycles. And my point is, you learn as much as you can from the past. You learn from your successes and you learn for your missteps and then you get on with it. You get focused in the future and you get out there and you try it the next time. So those are probably some of the things.

Operator

Your next question comes from the line of Ali Dibadj with Bernstein. Please proceed.

Ali Dibadj - Bernstein

Just a quick clarification on 2014 and a real question. Maybe Jon this is for you, want to get a better sense of you're saying that Procter will be accelerated, but you're also saying that the restructuring charges will be lower in 2014. And also, just want to get a sense of how should we think about capital allocation assumptions from buybacks, et cetera that are embedded in your numbers. But the bigger question maybe A.G. For you is the story you paint out is very exciting in terms of fixing some things that were wrong. But I really want to get little more specifics if you can at this stage. So it's like get that the consumer wasn't read right, but how are you going to fix that as a company? I get that execution wasn't right, but what's going to change on that? I get that choiceful decisions weren't necessarily made perfectly. Why was that case? How you are going to fix that? And I ask on the context of as you look at the company today, you've done your deep dive the past two months. What are the big capability gaps that you think exist? And particularly relative to your competitive set that has clearly been progressing during not just the past four, five years, but the past decade on getting some of these core things that a CPG company does right better.

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Ali, I feel like I'm repeating myself. So I'll try to get this clearer. In the external world that we've been in, choicefulness and clarity are even more important. And it's not just me. It's as I said the business leaders, market leaders, channel leaders, customer leaders, country leaders. Point number two, I'm not going to -- we have the methodologies. We have the tools and techniques to understand who our best consumer is business-by-business, brand-by-brand and to act on it, but you've got to use it and you've got to act on it. So we've rededicated ourselves to really understanding the consumer, really winning with the consumer. Everything begins and ends with the consumer. We win a consumer, we get a higher -- our business model is very simple. If we can get a higher trial and purchase rate and we can get better usage and more loyalty, that drives the value creation. But we need to be incredibly disciplined to stay on that business model.

The third thing is operating discipline. The strategic discussion of the business unit level is about discipline, the discipline of choice, the discipline focus, the discipline of prioritization. We need to be more disciplined in our operating plans. We need to be more disciplined in our financial forecast. We just need to be more disciplined. And then the last one is -- and again it's not that we don't know how to do it because we are doing it. We just need to do it more consistently and we need to do it more broadly. We need to be disciplined in our execution. This is a highly executional industry and we have to win one shopper at a time, one consumer at a time, one retail location, whether it's a store or an open market or e-commerce at a time. And we just need to be very executionally focused. And I think those are the key things.

Jon Moeller - Chief Financial Officer

And the answer to the first part of your question, Ali, on the relationship between the acceleration of productivity savings and the appearance of lower restructuring next year and all those things reconcile, I'll just make three points there. First, not every savings opportunity requires a restructuring investment. So for example, improving our marketing ROI does not cost anything in terms of restructuring and that scenario that we're going to get better at next year than we have been historically. Not all cost of goods sold savings require restructuring investment. And to the extent that we can deliver savings that are at or ahead of plan with even less restructuring investment, that's a good thing.

Second, we've talked about over the period of time enrollment reduction of 16% to 22%. The 7,000 roles we've reduced represents about 13%. So we're going to keep going and it doesn't stop at the end of the five year period. But a big chunk of the role reductions which drive disproportionately restructuring spending, have occurred. So that's kind of how that's happening. As with the prior commentary, we're not fixated on a restructuring budget. If there are good opportunities to drive savings sooner and more, we will fund those. And we'll be sure to update you on that as we progress.

Last, real quick on capital allocation. We will continue to prioritize the dividend. This year was the 57th consecutive year we've increased the dividend, as I said before without the 58th, you will probably be talking to somebody else. And we'll continue to repurchase shares with the balance of cash that's available. Our philosophy on this is very simple. Cash that we have is not ours, that yours. It's our job to deploy it to earn decent returns and then what's left we will distribute. So really, no significant change in capital allocation philosophy going forward.

Operator

Your next question comes from the line of Joe Altobello with Oppenheimer. Please proceed.

Joe Altobello - Oppenheimer

Just two quick, sort of high level questions. I guess first A.G. You have talked about looking at today's reality and seeing things as they are and not how you want them to be. So I just want to clarify what you're speaking to there, not necessarily P&G's capabilities and opportunities versus where they were three, four, five years ago, but more or so what you are seeing in the marketplace and specifically market growth which has obviously slowed in the last two, three, four years. And then sort of related to that, you talk a lot about creating value both for consumers as well for shareholders, and I think part of the consumer value equation clearly is price. And so could you comment on how you see your price levels right now, generally speaking? Are you comfortable with the price levers or does there need to be some strategic change in parts of your business? Thanks.

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Okay. Let me talk about market, maybe some first impressions of consumer changes and then talk about value, and I'll let John talk about the pricing situation. First market. I mean obviously developing markets are slowing but they are still projected to grow at 6%. And as I said earlier, all you have to look at are demographics and economics. And I think that's a pretty long arc of growth for our industry and still a pretty big opportunity for this company. We've actually grown since the Berlin Wall came down and Guangzhou City markets opened in 88, 89. We've grown 9% a year compounded annual growth in developing markets. We have grown 14% compounded in the last 10 years. As Jon said in his comments, we've grown 10% in the BRIC markets this last year. And that growth is there for a lot of players in this industry. Because a lot of it is still tailwind, right. It's babies being born, households forming, incomes rising and you just get market growth.

Second point is, how have consumers changed. You don't go through the second biggest financial crisis in recent history and a prolonged global recession without changing some of your habits, practices, attitudes and beliefs. And we of course have been digging into that. I think you could make an argument, I'll use -- you can make an argument that there may three critical moments of truth right now. The consumers, I call it zero, other people call it something else but there is clearly a period driven by the desire to get the best value they can. Not only the best price but the best value. And driven by technology, mobile technology, computer technology, the internet etcetera. And there is this period of information gathering, education, brand and product comparison and that includes price comparison.

So a lot of shoppers are coming to the purchase decision with having done a lot more preparation. Still what matters is, the first one that really matters is the purchase. We've got to win the preliminary. We've got to get into the consideration set. We've really got to win the purchase so we don't have the chance of winning the usage. So I think that's one thing that’s changed.

I think the second thing that’s changed and you see it in a number of our businesses is, we really have to build a strong vertical and horizontal brand and product line portfolio. And it's not just about developed market and developing markets. It's about giving more consumers more opportunities to try their way in, make that first purchase into your brand and product line. And they’re going to make the choice about where based on what they need and want and based on what their value equation is. So if you look at shave care or you look at hair care or you look at fabric and home care, you’re looking family care, we’ve tried to build much more robust vertical offerings. And we’re continuing to work hard on that. So the consumer can come in at different points. So think about it as we need to trade them in first and then we can work on trading them up. And I guess the -- so that's the market. That's the consumer. And hey, there’s a third thing. No matter -- I didn't want to get into the details here and I’m not going to, but every business that's really delivering and we have at least a handful or more, they really know who their consumers are. They have a very clear consumer segmentation model and we need that. That's the math that we start with.

So here is the key. Regardless of what segment you’re in, value is a factor. So if you’re buying SK-II at 145 bucks for the opening price point on Essence, billion dollar plus brand and Prestige, Ultra Prestige Skincare, there is still a value equation. And we have to understand what it is for that one (inaudible). If you’re buying Charmin Basic at a buck or two a pack, there is a value equation. And we need to understand those value equations. We are never going to compete purely on price. We are a differentiated, branded, innovative product company. But we are going to compete across a broader range of price point and we are going to compete with brand and product line architectures that attract more consumers and give them a chance to try it.

Jon Moeller - Chief Financial Officer

And clearly one measure of our success in presenting propositions with appropriate value equations for consumers, is our share of the market. And right now we're modestly building market share growth, which would imply that more times, but not always, but more times than not, we’re getting the value equations right. We'll continue to refine that. This is something that requires daily attention, but generally I think we are across the broad portfolio in the right place.

Operator

Your next question comes from the line of Connie Maneaty with BMO Capital Markets. Please proceed.

Connie Maneaty - BMO Capital Markets

In the context of your comments on execution and understanding and creating value, I was hoping to get your perspective on what's been going on Tide PODS. Is this a product that is actually creating value? What went wrong with the execution? We're looking at monthly sales that have been flat since the start of the year or the end of last year, even as the capacity issues were supposedly resolved. So your perspective on that might help give a little bit of context to the things you see as you come back. Thanks so much.

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Sure. Connie, I think -- first of all we are committed to Tide PODS. It's a $0.5 billion business with a lot of upside growth. And it clearly -- it's a good value for consumers who want -- don't want to think about the dosage amount and who want the convenience in performance that is delivered in that brand's performance offering and product form. Second thing is -- yeah, we've been struggling to keep up with demand. I don't think we were merchandised until last month. Do I have that right, Jon? I mean the first month we were merchandised, ever merchandised so far, in a U.S. customer was last month. So I would argue we have been out there with one hand behind our back because we can't display it and we can't support it. I think as we've reported, we are moving into Europe. It's a different source of supply. It's not going to impact what we're trying to do here in the U.S. and North America. But I guess the last thing I would say is, hey, in four decades you work on a lot of disruptive new products and product forms, start- ups aren't easy. We don't always get it right the first time. We did an (inaudible) liquid back in the mid 80s, we did untie with bleach, we have it on some others.

But this one is so unique, it's so discontinuous, and for a group of segment of consumers at least so far, early returns, they seem to like it if they try it. And they seem to come back and buy it again. It's clearly creating value for the industry. And this is a category or industry that's hard to create value in, left with own devices. Some would commoditize it. And it's in our interest to keep it differentiated, branded and innovative. So we are taking a mid to long-term point of view on Tide PODS and we are going to stay at it, and we are going to see what it's ultimate potential is with the consumers.

Operator

Your next question comes from the line of Javier Escalante with Consumer Edge Research. Please proceed

Javier Escalante - Consumer Edge Research

Good morning everyone and welcome back A.G. I wonder whether you could, in the context of breaking out fourth quarter organic sales growth between the U.S., Europe and developing and emerging markets, not just BRIC. How this execution that you want to improve, is going to helped by the changes in the go-to-market capabilities? Because one of the things that actually surprised us in the last couple of years is is that the bulk of the weakness of your business was the U.S., was in the backyard. So the inability of the company to adopt to the volatility of the consumer environment was surprising to us. So to what extent does decision making process needs to be reviewed beyond making the go to market capability more efficient in terms of savings? Thank you.

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Okay. Two points, that I think are relevant and important to your question. We need to grow in the U.S., even at 2% to 3% estimates for the future, 3% GDP growth, market growth. You know you pick a number but it's still growing and it's definitely growing faster than Europe or Japan. And given our position, we need to grow in the U.S. and we need to get stronger in the U.S. Point number one. I think you see, hopefully you can see, that we reinvested in the U.S. We started to get it going again in the U.S. in this last year and it definitely showed up in the fourth quarter. But as far as I am concerned that's only the beginning, okay. Point number one.

Point number two is, we need to do a better job in all the important channels where consumers shop. I won't go into the details but we're clearly strong in some channels. We play in others, we need to get stronger in those channels and we're even testing coverage in channels that we haven't served in the U.S. and Canada. So I do think there is a distribution opportunity and I have a very simple principle. If a meaningful number of consumers shop in this channel, whether it's ecommerce, whether it's a small urban store or whether it's a drug chain, a club store, whatever, we have got to be there. We have got to be available. We have got to be in distribution and we have to have the right mix of brands and products to meet her or his needs.

So I am totally with you. I think there is an opportunity in the U.S. By the way we also have opportunities in Western Europe along the same lines and that's a huge business for us too. So even though it's not growing, we've got to get our share. Developing markets is still a huge opportunity for the company and part of the opportunity is distribution related. Again I won't go back into the detail, but we've gone back into some big strategically core developing markets and we've taken a hard look at our distribution and coverage position. And we're concluding that we have big opportunities there. So you will see us work hard on making sure we have availability, making sure we're in distribution and make sure we have the right brand and product presence where we need to, which is where consumers shop.

Operator

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

Olivia Tong - Bank of America

Welcome back A.G. Wanted to talk a little bit about the commitment to investment spend. You've talked a lot about it on a high level. Can you talk about what marketing spend you expect going forward? And then obviously the U.S. growth was very solid. Can you provide some colors on the sustainability of that and then the growth drivers behind that? Thank you.

Jon Moeller - Chief Financial Officer

So first in terms of advertising spend, we will again increase advertising spending pretty significantly year-on-year, but we'll do it probably 20 basis points lower than the rate of sales growth. That does not mean less advertising. It does not mean less reach, less frequency. it means more effective advertising, the right mix of media and importantly reducing non-advertising costs that the consumers never see. So we feel good about our ability to continue to support growth in the business with a more efficient model. A.G, do you want talk to about the U.S?

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Yeah. One more, one very quick comment on the point Jon just made. We're interested in effectiveness. We know brand by brand in the U.S and in a lot of other markets the range of effectiveness we can deliver and it's wide. And so we are holding all of the businesses to a minimum ROI. We're pounding away on communication effectiveness. We're pounding away on best media. Our digital I think is now up to 35% in the U.S. roughly. It goes up and down, 25% to 35%. We have some businesses and brands where digital is incredibly effective, and we're doing more. We have other brands that are on the learning curve. They've got to get up the learning curve faster.

But it's a brand by brand, category by category, consumer segment by consumer segment set of decisions. And basically what we are going to do -- our problem is not the total amount we are spending. Our problem is the mix, our opportunity is the mix and we are going to get the mix better and better and better and there is a lot of opportunity there. On the second question which is the U.S, yeah, we think it's sustainable. We definitely think it's sustainable because if you crawl inside the fourth quarter results, we're doing much better overall but we're still being carried by fewer businesses than we would like to be. And there's an opportunity for all of our businesses to do better in the U.S. and North America.

Operator

Your next question comes from the line of Michael Steib with Credit Suisse. Please proceed.

Michael Stieb - Credit Suisse

My question relates to the portfolio overall. You spoke at length about focusing on the core business. Could you talk a little bit about what criteria you might use to determine what's not core for the longer-term growth prospects of the company since you mentioned I think a couple of times that you might to exit some businesses?

A.G. Lafley - Chairman of the Board, President and Chief Executive Officer

Strategic fit, particularly is a strategic fit with our core strengths and core capabilities, value creation potential and performance and then frankly the ability to deliver. That's it.

Operator

At this time, we've reached the time for questions. I would like to turn the call back over for closing remarks.

Jon Moeller - Chief Financial Officer

I'd just like to thank everybody for joining us this morning. We are very excited about the direction that we are on in the path ahead. And we'll continue to keep you abreast of developments in that regard. We're available the balance of the day. Please don't hesitate to reach out if you've got a question. We'll also be reaching out to our shareholder group over the next couple of months, both A.G and myself and look forward to spending time with you. 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.