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Company Ticker: **PG**
Sector: **Consumer Goods**
Industry: **Consumer Non-Durables**

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PROCTER & GAMBLE CO (PG) Earnings Report: Q1 2016 Conference Call Transcript

The following PROCTER & GAMBLE CO conference call took place on April 26, 2016, 08:30 AM ET. This is a transcript of that earnings call:

Company Participants

- Jon Moeller; Procter & Gamble ; CFO

Other Participants

- Olivia Tong; BoA Merrill Lynch; Analyst
- Steve Powers; UBS; Analyst
- Bill Schmitz; Deutsche Bank; Analyst
- Lauren Lieberman; Barclays Capital; Analyst
- John Faucher; JPMorgan; Analyst
- Nik Modi; RBC Capital Markets; Analyst
- Wendy Nicholson; Citi Investment Research; Analyst
- Dara Mohsenian; Morgan Stanley; Analyst
- Bill Chappell; SunTrust Robinson Humphrey; Analyst
- Javier Escalante; Consumer Edge Research; Analyst
- Mark Astrachan; Stifel Nicolaus; Analyst
- Joe Altobello; Raymond James; Analyst
- Jason English; Goldman Sachs; Analyst
- Ali Dibadj; Sanford C. Bernstein; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Good morning, and welcome to Procter & Gamble's quarter-end conference call.

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

Also as required by Regulation G, Proctor & Gamble needs to make you aware that during the discussion, the Company will make a number of references to non-GAAP and other financial measures. Proctor & Gamble believes these measures provide investors with valuable information on the underlying growth trends of the business, and is 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 (CFO):

Thanks, and good morning.

As David Taylor said on the press release we issued earlier this morning, we continue to make progress on the transformation we are making to return P&G's results to a balance of strong top-line growth,

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bottom-line growth and cash generation.

We achieved a significant milestone this quarter in the transformation of the product portfolio with the exit of the batteries business. We delivered another strong quarter of productivity improvement and cost savings, and we increased investments in innovation, advertising and selling capacity to enhance our long-term prospects for faster, sustainable top-line growth and value creation.

We do continue to operate in a challenging and volatile macro environment. Market growth rates on both a volume and value basis have decelerated, due mainly to slower growth in developing markets. We entered the year expecting the market to grow close to 3% to 4% globally; we now expect 3%.

There are more flash points across the globe than at any time in recent memory, with significant economic and political instability impacting incomes and consumption in many large and important markets. Russia, the Ukraine, Egypt, Saudi Arabia and the balance of the Middle East, Turkey, Nigeria, Argentina, Venezuela, Brazil. We generate more than 10% of our annual sales and profit in these markets.

Currencies have weakened across the board since the start of our fiscal year. While the dollar has softened a bit recently, we still face up to $1 billion after tax net earnings impact versus a year ago, a $200 million increase since just the start of December. Across four years FX has reduced net earnings by about $4 billion after tax, nearly 40% of FY12 net earnings.

Against this backdrop we remain focused on large opportunities in our control, executing one of the largest transformation in our Company's history. Step changing cost and cash productivity, transforming our portfolio, strengthening our organization and culture, and reaccelerating top-line growth with strengthened category business models and innovation plans, and where appropriate, improved value equations.

This transformation is aimed at delivering balanced top- and bottom-line growth, and leadership value creation. I'm going to talk briefly about each of the transformation steps: productivity, portfolio, organization and top-line reacceleration before getting into the details of the quarter.

We continue to dramatically improve cost and cash productivity, with significant upside still ahead. Our original five-year cost of goods savings target was $6 billion. We expect to deliver over $7 billion by the end of this year, $1 billion or more above our initial target.

We've reduced manufacturing enrollment by 15% over the last three years. This includes new staffing necessary to support capacity additions. On a same-site basis, manufacturing enrollment is down 20%. We're targeting a 25% to 30% cumulative reduction by the end of FY17.

In February 2012 we announced that we would reduce nonmanufacturing overhead by 10% over five years. As of March 31, we've reduced these rolls by more than 24%, almost 2.5 times the original target. We expect to meet our latest target of 25% to 30% the end of this year, one year ahead of schedule. Including divestitures, we'll reduce non-manufacturing rolls by about 35% by the end of FY17.

We're reducing nonworking marketing expenditures, costs that do not impact reach, frequency or continuity of our advertising and trial generation programs. We were spending $2 billion per year on agency fees. Last we reduced the roughly 6000 agencies we work with by nearly 40% and cut agency and production spending by about $370 million.

We are aiming for an additional $200 million of agency-related savings this year, reinvesting those savings in advertising and sampling of consumer-preferred products.

Net of reinvestments and innovation, selling, media and sampling, productivity has enabled us to deliver

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constant currency gross and operating profit margin improvement in each of the last three fiscal years, driving double-digit constant currency core earnings per share growth in each of those years. We're on track to improve gross and operating margins by triple digit indices, both including and excluding currency impacts again this fiscal year.

We're driving productivity up and down the income statement and across the balance sheet. Inventory days are down. Payable days are up.

Balance sheet productivity has enabled us to extend our long track record of very strong adjusted free cash flow productivity. 102% last fiscal year, 101% in Q1, 117% in Q2 and 105% in the quarter we just completed, even as we spend capital to transform our supply chain.

We continue to maintain our position as one of the strongest cash generators among competitive peers and comparable mega-cap companies. We're among the top companies in returning cash to shareholders. Over the past decade we have returned more than $118 billion in cash to shareholders through a combination of dividends and share repurchase.

We said four years ago that we needed to make cost and cash productivity part of our culture, as integral to our culture as innovation. We've made significant progress and we have significant opportunity. Our strong track record and our line of sight to additional opportunity both inform our intent to save as much as another $10 billion in cost over the next five years.

Our supply chain transformation is in its early stages, first in North America and Europe, then in Latin America and in India, Middle East and Africa. We are in an investment road now, with savings to start in three to four years.

Our new US [mixing] centers are up and running, putting roughly 80% of volume within 24 hours of store shelves. We're constructing multi-category manufacturing sites in geographically strategic locations to replace smaller single category sites in cost effective locations. We're upgrading and standardizing manufacturing platforms to lower cost and facilitate faster innovation. We're employing smart automation and digitization to improve manufacturing productivity [while] material and finished product logistics and demand planning.

We have additional opportunity to optimize working capital and further increase the efficiency of our capital spend. After two strong years of savings we'll enter next year still spending $1.5 billion in agency-related marketing cost, still more room to improve. We'll continue to look for efficiencies in working media with better advertising targeting and earned media campaigns with engaging content.

As we fully operationalize new focused 10-category Company there will undoubtedly be additional opportunities to increase organization efficiency, agility and speed of decision-making. Digitization will continue to enable smart productivity choices.

Finally, we will be working to improve the effectiveness and efficiency of our promotion spending. We currently spent about $18 billion in deductions between gross and net sales. We see clear opportunities to improve the effectiveness of the spend for both us and our retail partners and to improve its efficiency. So we are targeting up to $10 billion of additional savings over the next five years.

We expect to reinvest a significant amount of the savings in R&D and product and packaging approvals, sales capacity and in brand awareness and trial building programs to deliver balanced top- and bottom-line growth, and to create value for shareholders.

In addition to transforming our cost structure, we're transforming our portfolio. Over the past 18 months we have divested, discontinued or consolidated 55 brands, including the completion of the Duracell

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transaction at the end of February. We have 50 more brands in the exit process, including the 41 beauty brands in the transaction with Cody.

The S-4 registration statement for the beauty transaction was filed last week. We are on track to close the deal in the second half of the calendar year. It total we'll exit 105 brands and all the complexity they create. These brands represent only about 6% of FY13 profit.

Going forward we are anchoring our portfolio on 10 category-based business units and about 65 brands. These are categories where P&G has leading market positions and where product technologies deliver performance differences that matter to consumers. These 10 businesses have historically grown faster with higher margins than the balance of the Company.

Within these core businesses we're focusing our offerings, making smart choices for short-, mid- and long-term value creation, foregoing bad businesses, even when these choices create near-term top-line pressure. In Mexico, for example, we made a choice to discontinue low tier, unprofitable and commoditizing toilet paper products in favor of very profitable high tier differentiated products.

Sales are down 75%, but before-tax margins have improved by more than 50 basis points, from very negative to nicely positive. It will take a few more quarters for the top-line drag to dissipate, and we'll have a solidly value accretive business going forward.

In India we've made a choice to de-prioritize several unprofitable lines of business which negatively impact short-term top-line growth rates but will lead longer term to a much more profitable business that will grow strongly. The strategic portion of our India business is growing at a high single digit pace. Sales in the portion we're fixing or exiting have been down more than 30%.

This top-line pain is worth it. We are making significant progress in improving local profit margins, up about 700 basis points. We have gone from losing significant money in India to triple digit profits in just two years.

We're taking a similar approach in our fabric care product portfolio, discontinuing products forms, additives, bars, bleaches and tablets and the value tier detergents that have been a drag on profitability and value creation. These choices are causing a top-line drag of nearly 1 point on the global fabric care business, but profitability and the long-term attractiveness of the business improves.

Combined these choices are causing about a 1 point drag on organic sales growth. We expect this headwind to continue for the balance of the calendar year and then dissipate as we annualize more of the impacts. As we come out of this we'll have stronger top-line growth that is worth something on the bottom line.

We're transforming our organization and culture. We are making many changes that by themselves may seem small and obvious, but together are significant and important. As an example we've made several important changes in how we go to market. We eliminated overlapping resources and duplicative structures and responsibilities of marketing and sales professionals in the global business units and market development organizations, clarifying responsibilities and strengthening accountability. Reflecting this, we changed the name of the market development organizations to selling and market operations. Small, but very important.

We are increasing staff -- we're increasingly staffing leadership roles in the selling and marketing operations with leaders who have significant selling experience. We are changing our talent development and assignment planning to drive more mastery and depth. The objective is simple: improve business results by getting and keeping the right people in the right places to develop and apply deep category mastery to winning.

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Consistent with this, we're dedicating sales resources to categories or sectors. In our larger markets, sales resource a greater accountability back to the categories they serve, which is a change. We're aligning incentives at a lower and more specific level of granularity to better match these responsibilities and to increase accountability.

Another example of the evolution of our thinking on the organization is what David talked about at CAGNY. He said that PG is fortunate to consistently source and develop strong talent, and that we intend to maintain our development approach. But there are times when the best talent for a role may not be inside our organization.

Going forward we're going to look at outside hiring more often when we need it to field the best team possible. The bottom line is that we are committed to getting, keeping and growing the right talent in the right place to better drive business results. Again, each of the changes may seem small and rather obvious but collectively they are big and important changes for our organization and culture.

A very important area of transformation is reacceleration of top-line growth. We expect to make progress in all 10 product categories, but we are putting specific emphasis against the four largest categories: baby care, fabric care, hair care and grooming, and the two largest markets: the US and China. These four categories represent over 60% of sales and profit. These two countries represent nearly 50% of sales and more than 50% of profit.

We are growing our fabric care business with consumer-preferred brands and product offerings, like our premium performance and premium priced unit dose detergents, and our market-leading and market expanding scent fabric enhancers.

We're exiting the slower growing, lower priced, more commoditized product forms where it's more difficult to distinguish our products and create value. Fabric care results in the US demonstrates what's possible when we deliver superior value with best-in-class performance at a modest price premium. The US laundry detergent market is continuing to grow behind these efforts, with the category up more than 4 points on a value basis over the last three-, six- and nine-month periods.

The same is true for fabric enhancers. Spurred by the rapid growth of scent beads, the US fabric enhancers category is growing, up more than 6 points on a value basis over the last three-, six- and nine-month periods.

Our share is growing. P&G's laundry detergent and fabric enhancer value shares were up nearly 1 in the March quarter. We will continue to be the innovation leader in fabric care.

In North America we are introducing a new regiment on Tide and Downy that addresses the odor problems common to athletic wear. 70% of consumers wear athletic gear multiple times each week. The Odor Defense collection anchored by innovation on Tide PODS brings a proprietary formula of enzymes and surfactants that break down and remove stubborn soils and residues for a great clean and fresh scent. Paired with the added cleaning power of Tide Odor Defense Rescue laundry booster and Downy Fresh Protect Odor Defense beads, this regimen promises to eliminate odors from the fast growing market of athleisure clothes people are wearing far beyond the gym.

Next month we start are learning market on Tide Pure Clean liquid detergent in the US. Naturals is a large and growing segment in several categories, but naturals are only about 3% of the laundry category. Unlocking growth in naturals is about solving the tension between green and clean.

People want performance and sustainability. Pure Clean provides the cleaning power of Tide with 65% bio-based ingredients. And it is produced with 100% renewable wind power electricity in a facility operating with zero manufacturing waste to landfill.

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We're launching better performing and more profitable new compact liquid detergents in Russia, Turkey, Mexico, Brazil and China. In Russia and Turkey where we launched superior compact liquid detergents early last calendar year, P&G share of liquid detergents are up 7 points and 14 points respectively.

We've increased sampling and new washing machines, a key point of category entry and change for consumers. Last fiscal year we distributed five million samples and washing machines globally. This fiscal year we'll distribute about 17 million. In calendar year 2016 we'll distribute 30 million samples of our best performing products.

In US baby care strong innovation, consumer communication, trial programs and a robust online presence have led to strong growth for Pampers. Pampers value share of US diapers was up more than 1.5 points last fiscal year, and was up 1 point in the March quarter. Pampers latest Swaddlers and Cruisers innovation extra absorb channels was off to a good start in the new calendar year with Swaddlers and Cruisers shares up more than 1 point in the last quarter.

We strengthened investments in brand awareness, and trial at the point of market entry. 70% of new moms in the US will receive samples of our best products through our prenatal, baby shower and hospital programs.

Last fiscal year marked the seventh consecutive year of sales and value share growth for the Luvs brand in the US. However, results have been down so far this year following a significant price reduction taken by our primary competitor.

We're taking steps to improve the awareness, trial and consumer value of Luvs. We're increasing equity building advertising, strengthening in-store programs, and have product and packaging improvements slated for launch next quarter.

Baby care results have been softer in other markets. To address this we've strengthened our value proposition in several markets and accelerated premium innovation on both taped and pull-on diapers to restore competitiveness at the top end of the market. We're strengthening our selling resources and programs for baby stores. And we are improving our point-of-market entry programs to deliver higher awareness and trial of Pampers among new moms.

In hair care we launched our new (inaudible) innovation on Pantene in the US last quarter. Pantene's new breakthrough conditioner technology delivers weightless conditioning, addressing the most significant consumer trial barrier in the category. The new conditioner innovation is a consumer blind test winner versus our best competition in North America, China and Japan.

We continue to strongly support Head and Shoulders, one of our steadiest and strongest growing brands, delivering over 8% compound average sales growth over the past 10 years, even with significant currency impacts. [NXLs] for Pantene and Head and Shoulders were each up high single digits in the US in the March quarter.

Gillette has delivered steady growth in international markets so far this fiscal year behind strong innovation, advertising and sampling programs. Gillette is holding or growing value share in each region outside the US. The growth in international markets have been offset by soft results in the US. To improve our growth and the growth of the market, we're investing in innovation, new user trial and improved consumer value.

We are expanding our performance advantage at the top end of the market. Our most recent cartridge innovation, Gillette Fusion ProShield, launched last quarter. ProShield with lubrication before and after the blades shields against irritation during every shave. Early consumption results in US have been tracking ahead of plan.

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We are supporting a broader range of our product ladder from our best products, Fusion Flexible ProShield to Mach 3 to premium price and superior performance disposables with stronger consumer value communication. We're facing more aggressive competition at lower price points. And we will respond to ensure our brands remain a superior consumer value.

We've stepped up new trial activities in the US with our 18th birthday sampling program. We've put Fusion ProGlide FlexBall razors in the hands of nearly 80% of young men, over two million samples last year, a 33% increase over the prior-year level. We've now begun sampling the FlexBall razors handle and the ProShield cartridge, our very best combination of shaving technologies.

We are not standing still in the other categories. We delivered solid organic sales growth in US this quarter in the feminine care, family care and home care categories, all being profitable businesses for us. P&G continues to be the innovation leader in our US categories. In the High IRI Innovation Pacesetters Report just published, P&G had 4 of the top 10 innovations and 6 of the top 13.

Top innovations recognize for 2015 sales were Tide Simple Clean and Fresh, Always Discrete, Fusion ProGlide FlexBall, Venus (inaudible), Febreze Unstoppables, and Tide Plus Ultra Stain Release. Overall in the US organic sales were up 2%, in line with underlying market growth of our categories. Organic volume was up 3% for the quarter.

We're making progress in China, but there's still more work to do. We narrowed sales declines by half this quarter, and expect to improve again next quarter.

We recently upgraded our Pampers premium diaper pants to improve fit and softness. And we have new innovations coming soon on mid-tier pants and premium tape diapers.

Oral B super premium toothpaste launched in over 700 stores last quarter, reaching roughly a 5% share in those outlets. We'll triple distribution on this item this quarter.

Ariel is growing in China following the concentrated liquid detergent launch in January. Gillette Fusion FlexBall has driven male razor systems share growth over the past 3-, 6-, and 12-month periods. NSK 2 continues to deliver very strong growth with sales for the quarter up nearly 20%.

So some bright spots are emerging, but it will take time to get fully back to target growth rates. We are realistic that improvements in top-line growth won't happen overnight, and they won't happen in a straight line. But they will continue to improve over time.

Let me move now to the quarter we just completed and to the outlook for the fiscal year. Organic sales were up 1% for the quarter versus the prior year. The impact from the portfolio cleanup efforts I discussed earlier was about a 1 point drag on organic sales growth.

All-in sales were down 7% including a 5-point headwind from foreign exchange, 3 points from the combination of Venezuela deconsolidation and minor brand divestitures. Earnings per share were $0.86, down 3% versus the prior year.

Core gross margin increased 270 basis points. Core operating margin increased 300 basis points. This quarter's core earnings per share results included a net FX headwind of approximately $90 million after-tax, or $0.03 per share, comprised of a negative spot rate impact of about $230 million, which was partially offset by $140 million balance sheet revaluation impact in the base period that did not recur this year.

Venezuela continues to be a difficult market, and was also drag on March quarter results. At the beginning of the fiscal year we announced our decision to deconsolidate Venezuelan operations. We're no longer reporting sales or profits from products locally manufactured and sold in Venezuela.

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We continue to recognize sales and profit on products sold to our Venezuelan subsidiaries from non-Venezuelan P&G entities. We highlighted at CAGNY that a disruption in our Venezuelan subsidiary's abilities to access dollars to pay for these imports of finished products could have a negative impact on our top- and bottom-line results.

We've been unable to access US dollars at any size since November. And as result, reported no sales or profit for Venezuela in the March quarter. This caused a 20 basis point organic sales growth reduction on the quarter. On the bottom line the total impact of Venezuela was $0.05 per share, or 6% in terms of core EPS. Assuming these financing constraints continue, the bottom-line impact on the year will be up to $0.10 per share, or minus 3%.

The core effective tax rate for the quarter was 27.2%, up 800 basis points versus last year, a $0.10 per share impact on core earnings per share, an 11 percentage point impact on core earnings per share growth. The base period tax rate was unusually low due to the geographic mix of earnings due to audit settlements. And the current period rate was inflated by a valuation allowance against net operating loss carry-forwards. These two items account for about 6 points of the 8-point change in the tax rate.

These three impacts, FX, Venezuela and tax, were a combined core earnings per share growth headwind of 20% this quarter. On an all-in GAAP basis our earnings per share were $0.97 for the quarter, up 29% versus the prior year. We generated $2.5 billion in free cash flow, yielding 105% adjusted free cash flow productivity.

We returned approximately $2.9 billion to shareholders this quarter through a combination of $1.9 billion in dividends and $1 billion in share repurchase. In addition we received approximately $4.2 billion of stock through the Duracell transaction.

Earlier this month we increased the dividend 1%, making this the 60th consecutive year the Company increase the dividend. The size of the dividend increase reflects FX headwinds, the cash impacts from streamlining and strengthening the business unit portfolio, and our plans to increase investments in the business to accelerate top-line growth.

Moving to guidance. Our outlook for the fiscal year reflects four large factors driving lower earnings in the fourth quarter. First, lower nonoperating income. We expect about $100 million less in the fourth quarter this year versus last year.

[Back into] tax. The Q4 tax rate will likely be again about 800 basis points higher than last year due to the geographic earnings mix and audit settlement benefits in the base period. Third, investment levels. We'll have a significant increase in advertising expense, coupled with continued reinvestment in R&D and selling capabilities.

Fourth, FX. We'll continue to see significant spot rate impacts on both top and bottom line in Q4. And unlike the last two quarters we'll not have offsets from base period balance sheet revaluation changes. Combined we expect these four factors to lower Q4 net earnings by more than $800 million and reduce core earnings per share by more than 32% versus the prior year.

For the fiscal year we are maintaining our outlook for organic sales growth of in-line to up low single-digits versus FY15. As I mentioned our outlook assumes we'll no longer benefit from sales of finished product to our deconsolidated subsidiaries in Venezuela. This will be roughly a 30 basis point drag on Q4 organic sales growth.

In addition, the roughly 1 point drag from the core portfolio clean-up will continue into Q4. We expect FX will have a 6 to 7 percentage point impact on all-in sales growth for the fiscal year.

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Also the combined impact of the Venezuela deconsolidation and minor brand divestitures will have a 2 to 3 percentage point drag on all-in sales growth. Taken together we expect all-in sales will be down high single digits versus FY15.

We continue to expect constant currency core earnings per share growth in the mid-single digits for the year. Foreign exchange will reduce net earnings by approximately $1 billion versus the prior year, resulting in a 9 percentage point, or $0.35 per share, impact on core earnings per share growth for the year.

With one quarter left in the year we are tightening and improving our core earnings per share guidance range from down 3% to 8% to down 3% to 6%, which puts the midpoint of the range at $3.59 per share versus last year's core earnings per share of $3.76. Fiscal year earnings per share guidance includes headwinds of 10 percentage points from the combined impacts of beauty deal expenses, Venezuela deconsolidation, lower nonoperating income and a higher tax rate.

Adjusting for these items our guidance translates to modest core earnings per share growth with meaningful growth excluding foreign exchange. We expect the core effective tax rate to be 25% or higher for FY16, more than 4 points higher than last year, roughly a 6-point headwind on core earnings per share growth.

We are raising our fiscal year outlook for free cash flow to 100% or more of adjusted net earnings. We expect to reduce outstanding shares at a value over $8 billion through a combination of direct share repurchases and the shares that were exchanged in the Duracell transaction.

In addition we expect dividend payments of more than $7 billion. In total, $15 billion to $16 billion in dividend payments, share exchanges and share repurchases. We expect all-in GAAP earnings per share to be up in the range of 46% to 51%.

Moving briefly to 2017. David is going to join me on our next call, scheduled for Tuesday, August 2, to discuss our plans and outlook for FY17. We're currently in the early planning stages for next year, and will give guidance on the next call. But there are a few things to keep in mind as you review your estimates between now and then.

We expect improvements in organic sales growth, but core portfolio cleanup will still be a headwind. Venezuela will be a drag on the first [two] quarters of the year. If currency exchange rates hold steady through next fiscal year, FX should be much more manageable than it's been for the past few years but we'll still have a headwind on both the top and bottom line, particularly in the first two quarters.

Likewise if commodity costs hold at recent levels we'll continue to see a modest tailwind in the first half or so of next fiscal year. We'll be increasing investment in R&D and product and packaging programs, in sales capacity and in brand awareness and trial building programs to accelerate top-line growth in a responsible and sustainable way.

We'll defend the relative consumer value of our brands, and invest to address value gaps if and when they emerge. We'll do everything we can from a productivity standpoint, and will continue delivering on our commitment of cash return to shareholders. There'll be an EPS benefit from shares eliminated with our category exits, although the exact amount of which will depend on when we close the Cody transaction. Well obviously give more specifics on all of this in our next call, but we thought it might be helpful to offer you these early thoughts.

To sum up, we continue to make progress on returning P&G to balanced top- and bottom-line growth. We're nearing the completion of the portfolio transformation. We have created and are sustaining strong cost savings and cash productivity momentum. We're strengthening the organization

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and culture. And we're investing to accelerate top-line growth.

That concludes our prepared remarks for this morning. As a reminder, business segment information is provided in our press release and will be available in slides which will be posted on our website, www.PG.com, following the call.

Now I'll be happy to take your questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Olivia Tong, Bank of America Merrill Lynch.

Olivia Tong (Analyst - BoA Merrill Lynch):

Good morning. Thanks.

Jon, you mentioned that advertising was up 120 basis points. And it's been a while since we've seen an increase of this magnitude in the ad line. So is this a level we should expect going forward, or does it still move materially from here? And then price overall came in.

So how much of that was incremental promotion step-up in sampling that you are doing and things like that?

Perhaps you can break out what the impact of price was between developed and developing markets was out there?

And lastly, you tightened the core EPS range, as you mentioned. But given that there's just one quarter left in the year. But you the full year organic sales target unchanged, which obviously implies an incredibly wide range for Q4. So maybe can you refine your expectations a bit there in the main factors that impact where you fall within that range? Thanks a bunch.

Jon Moeller (CFO):

Well first of all, congratulations Olivia on the birth of your child and welcome back to work. You are coming back strong with four questions in one. It is great to have you back.

In terms of the advertising rates, we were up about, I think, 130 basis points in the quarter. We expect to be up about 140 basis points on the second half. So there'll be some sequential strengthening of that comparison as we move forward. I try to say 8 or 9 times in our prepared remarks that we will be investing to grow our top line. We'll be funding that with productivity and bringing the bottom line with that.

There has not been a significant increase in the percentage of our business being sold on promotion, nor has there been a significant increase in the depth of those promotions. We have in several markets used sales deducts as a way to adjust pricing back to competitive levels where we've got -- where we took more of a price increase than our competitors ultimately did. So you'll see that impact. And I would just think about price adjustment and value gap closures as being the explanation for the change in the price components of the top line.

And as for fourth-quarter guidance, we just provided it. It is what it is. I think that the range, you rightly point out is a wide one. That's the reality of the world that we are operating in, with very significant volatility, whether it is input costs, FX, geopolitical and geoeconomic dynamics and the consumer impacts

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of things like oil prices. We're going to be living with that volatility for the foreseeable future.

Operator:

Steve Powers, UBS.

Steve Powers (Analyst - UBS):

Great, thanks. Jon, I think you called out $18 billion in gross to net spending, which is close to 27%, [28%] of your expected net revenues this year. And so first, can you confirm that I heard that right? Second, assuming that I did, can you just talk about how that spending rate compares to maybe 5 or 10 years ago, because I think is up significantly? And then third, I'm curious how you assess the ROI in that spending? And as you optimize it going forward, how much opportunity do you see to reduce it? And then of that reduction, how much is likely to get reinvested elsewhere in the P&L, as we think about the next several years? Thanks.

Jon Moeller (CFO):

Yes Steve, you got the number right. It is $18 billion. Yes, it has increased over time, driven in part by expansion of modern retailers on a global basis who've brought that business model with them to other parts of the world that previously were, for example, largely distributor and wholesaler markets.

There is significant opportunity within that bucket of spend to first and foremost increase its effectiveness, ensuring that we're spending it in ways that drive category growth on a sustainable basis as opposed to short-term pantry-loading, for example. Shifting spending to our best product offerings to increase the trial and repurchase rates of those items with consumers, again not driving so much the -- in some cases the lower end of the portfolio. The vehicles that we use to communicate in-store and how those are constructed and utilized in conjunction with our retail partners. So there are just massive opportunities to improve the effectiveness of that spend as we work to reaccelerate the top-line growth.

There also efficiency opportunities. And this one of those unique and wonderful costs, if there is such a thing, where if you are able to reduce it, benefits both the top line and the bottom line. But we will be very judicious as we do that. Again really wanting, where we have opportunities, to shift that from ineffective spend to effective spend as the primary activity in the space. But I'm convinced with an $18 billion spend we have efficiency opportunities.

Operator:

Bill Schmitz, Deutsche Bank.

Bill Schmitz (Analyst - Deutsche Bank):

Hi, Jon. Good morning.

Jon Moeller (CFO):

Good morning, Bill.

Bill Schmitz (Analyst - Deutsche Bank):

Can you give us more color on the reinvestment strategy? So you talk about the increase this quarter and next quarter, but how long will the advertising restoration period last? Where are you going to focus? I think you talked about hair care, laundry in diapers to start. And then what are you trying to achieve, because I think maybe the last two or three years you kind of said market share is not a primary driver of the business, it's really about growing the categories profitably. But does that change as you

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feel more pressure to close the gap in organic growth versus your peers? Frankly, I think the scoreboard you have is organic growth, right? So I think that's obviously really important. And then really quickly, just a housekeeping item. I know you are not -- you don't have the exact numbers, but can you give us a rough cut on what you think the earnings upside is from both the Duracell and the Cody divestitures?

Jon Moeller (CFO):

That's a very important question, Bill. How do we think about the top-line growth and what are we trying to achieve there, and what's the -- how do you think about the different metrics, whether it's category growth, organic sales or market share. First and foremost, we need to accelerate our top-line growth rate, and there's no debate about that. The reason that we've talked a little bit about not following share out the window, we can be gaining shares in categories that are declining, and that's not going to grow our top line.

What we need to be doing as innovation leaders in our categories is getting the market growing through that innovation and gaining a share of that growth. That's exactly what we're doing in fabric care in the US, for example. And it is taken a while, but it's worked extremely well. And the category is growing 4%. We're getting a disproportionate part of that growth. And that's what we are looking to do across our product categories.

So it is bringing innovation to the market which grows categories for the industry, for our retail partners, and allows us to gain a little bit of share in the process. Look, we need to be growing at the rate of the market or better. But market growth is an important element of that in terms of how attractive that growth ultimately ends up being. So it is kind of -- it's all of the above.

In terms of earnings per share upside from Duracell and Cody, I think we've talked before that we plan to be non-dilutive from day one. We've been working for two years on the stranded overheads that are going to be created as a result of this. And we also expect that the portfolio that were we are going to be left with is a healthier, stronger portfolio that will grow and will grow more profitably.

Operator:

Lauren Lieberman, Barclays.

Lauren Lieberman (Analyst - Barclays Capital):

Thanks. Good morning. I'm not sure if you fully answered what Bill had referenced in terms of a reset on advertising spending. So I'm guessing he's still looking for some color on thoughts around reinvestment, and maybe extending beyond just it being about advertising but also the investments in product quality and packaging and timeline for that. I also wanted to get color on your comment on consumer value investments, particularly in Gillette in the US and baby in the US.

I just -- in Luvs, I wonder about how you think about Luvs pricing versus private label and positioning. Then for Gillette, just it seemed like you were talking about the lower end of were you compete in the industry and category, but anything else you can share there would be great. Thank you.

Jon Moeller (CFO):

Thanks for the save it for Bill there, Lauren. Sorry, I did miss that. As I said in the early remarks, we are reinvesting in not just advertising. I went through three examples of sampling to generate trial, getting our best products in the hands of consumers. That's a significant portion of investment. I mentioned as well expanding our sales capacity. That's happening across some of the newer channels, but also in our existing channels. Dedicating sales coverage to individual categories and sectors, which has required and will require some investment. So it is broad-based. You mentioned package. There are core

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opportunities to continue to improve our first moment of truth, which is a lot about the package. And we'll continue to do that as well.

In terms of specific numbers for next year across those buckets, we are in the early stages of putting a plan together for next year. But our intent is clear, I think. And as I said, we will we will continue to work to fund those investments through continued productivity savings as well.

On value equation, there's really no change here in terms of our intent to be competitive across price tiers on big businesses that matter and big markets that matter. And clearly that involves grooming in the US. You mentioned baby in the US. I'm not going to get into specifics about the pricing moves that will be made. I'm not allowed to do that by law. But we will be competitive. I don't think, in fact -- well, I will leave it there.

Operator:

John Faucher, JPMorgan .

John Faucher (Analyst - JPMorgan):

Thanks. Jon, you mentioned improvement in profitability, I think it was in India, over the past several years. It was mostly coming from, I think, improved manufacturing logistics and local markets. Can you talk about the state of that process? And are there still markets in emerging markets where you're losing money where you could benefits from moving that? And then I guess on the flip side of that, volumes have been weak generally. And so how do you deal with some of the stranded manufacturing capacity in some of the major markets where you've been producing this product? And is that piece of the productivity we've been seeing for the past couple of years? And then how long do you think it takes to get to a more sustainable operating margin in some of these emerging markets on a broader basis? Thanks.

Jon Moeller (CFO):

On the broad question of developing market margins and steady-state, I cannot answer that without getting into, unfortunately, FX. The answer to the question involves what happens to foreign exchange rates going forward. For prospective, we've been growing constant currency earnings in developing markets well ahead of constant currency sales. Going back three years ago, 2 times. The year after that, 4 times. Last year, 8 times. This year 8times. And that reflects the things that you are describing in terms of the supply chain.

It also reflects the overall productivity program and its benefits in the developing market. And it reflects a lot of work that we've been doing on our portfolio, as I described in our earlier commentary. The biggest driver of the really nice profit improvement in India has been that portfolio work. So it is all of that.

In terms of volume and the impact it is had on our fixed cost rates, if you will, in the supply chain, it is definitely had an impact. The good news is that we're right in the middle of a supply transformation. That's going to be multi-geography in nature. So that gives us an opportunity where we need to, to rationalize that fixed cost infrastructure. At the same time, hopefully the main benefit going forward in terms of that is reacceleration of volume in sales.

Operator:

Nik Modi, RBC Capital Markets.

Nik Modi (Analyst - RBC Capital Markets):

Yes, thanks. Jon, just can you provide some context on where within the P&G organization are the

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pricing decisions made? And have those decisions changed, or are you planning to change who dictates local market pricing for new innovation and the core portfolio? Any context on that would be helpful.

Jon Moeller (CFO):

There are kind of two forms of pricing decisions, if you think about it. One is what I will call strategic pricing choices. That's the establishment of the pricing strategy, the price corridors you want to hold between markets, the price corridors you want to hold between competitors, whether they be branded or retail competitors. Those choices are made by our global business units who have representation in both regions and countries., More representation in regions and countries then at the global headquarters. These are people who are very close to what's happening in the marketplace in terms of consumption, in terms of trade customers, in terms of competitors and consumers. And then there's tactical adjustments that occur on a routine basis as each day and week unfolds. And we are trying to give more flexibility to resources located closer to the action to move agily there as they need the need to. So we are going hopefully achieve the best of both. And we will see how that works going forward.

Operator:

Wendy Nicholson, Citi Research.

Wendy Nicholson (Analyst - Citi Investment Research):

Hi, good morning. Two questions. First of all, can you talk a little bit more about China? I know you said that your business is showing some signs of improvement, down not as much given some of the premium price innovation you are doing. But how confident are you in the strategy of pursuing what sounds like almost exclusively premium price innovation, because it does sound like from some of the other competitors out there that there's also pricing competition going on in some of your big markets. If you could talk about China more broadly and the strategy there, that'd be great.

Then my second question has to do with your comment that I think we've heard -- I mean, I think we heard from Bob McDonald a few years ago, that P&G was increasingly open to hiring from the outside. And I know we've had certain partnerships in R&D stuff. But in terms of actual physical new hires, outside of legal and tax and HR, I cannot think of anybody on the business side who you actually have bought it from outside. So I know you've been saying that for a long time, are there particular areas where you think that is a priority? Is it marketing? Is it something in specific businesses? And why say it for so many years and then not have it actually happened? Thanks.

Jon Moeller (CFO):

First on China. I'm glad you asked the question you did, Wendy. That bit middle of the portfolio is very important. And we are not losing sight of that. We have fantastic positions in that portion of the market which we intend to maintain and build. But we also want to take advantage of the higher growth portion of the market, which is currently the premium tiers. 50% of consumption is currently in those tiers across our categories. They are growing at high single to double digit rates. And we obviously want to participate in that, not only for the sales and volume benefit but also for the equity halo that it provides to our brands. So it is clearly and strategy, not or strategy.

Your question on our approach to bringing in talent from outside the organization, I think David was very clear about that at CAGNY, that we are going to maintain broadly our promote from within and develop from within, most importantly program. But we are going to put the right people, the best people in jobs across the organization. And when that requires that we go outside, we will do that. We have, for example, hired a number of experienced salespeople. I mentioned building our sales capacity. As we are dedicating selling organizations to categories and sectors, there are cases where we can find more

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experience outside the Company, people who have had 10 years experience in a category where we may be underrepresented. We are bringing those people in. The whole area of digital marketing and media, where we need resources we are either partnering with agencies who have that capability, in some cases we are bringing it in.

I don't think that's limited to any portion of the organization. That includes line management and -- but we're going to approach this deliberately. Having someone come in just for the sake of having them come in and being able to say that we are making progress there is obviously not something that interests us very much. But having the right people in the right jobs, bringing mastery to help us win across the board, we're definitely committed to.

Operator:

Dara Mohsenian, Morgan Stanley .

Dara Mohsenian (Analyst - Morgan Stanley):

Hi, good morning. Jon, as you look out to FY17, are you expecting to be able to recover some of the net negative historical GAAP between FX and pricing from the last couple of years through pricing or with the lower commodities and at least less onerous FX, is pricing not expected to be a large factor next year? Then also was just hoping for some commentary on if you are confident that you will see any an equivalent level of volume rebound going forward as the overall level of pricing decelerates? Thanks.

Jon Moeller (CFO):

Thanks, Dara. I would expect pricing to be less of a dynamic next year than it has been the last two years, simply because at current spot rates FX would be less of a dynamic next year than it has been the last two years. I also mentioned that in some cases where we've had large gaps emerge we'll be working to close those. But we are still seeing significant devaluation in some markets. There's still situations where we're going to be taking additional pricing where we feel that will be matched. So we'll continue to be a dynamic, but a little bit less going forward.

On the volume piece, I certainly don't have a crystal ball but if I look at what's happened historically, that volume has come back over time. And sometimes it depends on the market, volume reacceleration in markets like Latin America has been fairly quick. In other markets, for example Russia, the last crisis it took us three years to get back from a volume standpoint. So we will have to see.

Operator:

Bill Chappell, SunTrust.

Bill Chappell (Analyst - SunTrust Robinson Humphrey):

Thanks, good morning. Just two things. One on the US shaving business, can you give us a little more color? That's a focus area, both the US and shaving. You've had new innovation. But do you see signs that as we move through the quarter, as we move into next year that the growth dynamics can change and maybe follow more like laundry? And then also maybe for a bigger question. I understand that next year's still kind of a transition year and you're stepping up advertising and marketing. How long does it take to get to your growth algorithms, excluding stuff like a Russia or a global crisis, per se?

Jon Moeller (CFO):

In terms of grooming, this is really primarily driven by two things. One is the market, as you rightly point out. And the other is some of the promotion at primarily the lower end of the portfolio. If you look at the

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past three months, market consumption and track channels was down 4%. That's largely due to lower shaving incidences. And also that number, just the math of that number, doesn't pick up the volume from direct sellers. And that's had some impact on that track channel number as well. We estimate that total market growth inclusive of e-commerce sales is slight -- flat to slightly going versus a year ago, and that's an improvement versus where we have been.

The top end of our portfolio is doing very well. ProGlide cartridges sales grew 18% last fiscal compared to a 7% decline in the overall market, and those kinds of trends are continuing. As I mentioned, we need to do more work on the lower end of the portfolio. We also need to be more present, and we are, in the direct-to-consumption e-commerce channels. And we need to bring innovation equally across the portfolio and marketing equally across the portfolio, which we are committed to do.

Operator:

Javier Escalante, Consumer Edge Research.

Javier Escalante (Analyst - Consumer Edge Research):

Good morning, everyone. Jon, I think that it would be helpful if you give us a sense of a very top-line way, volume and pricing between develop and emerging markets. I know that the US was up 3%. But I would like to know what's happening with Europe as well. And how was the aggregate growth in emerging markets?

In emerging markets, how much of that has been -- continues to be destocking in China, or there's any other one-time in terms of wholesalers dynamics that is impacting your growth in developing markets? Again in China, why does destocking is so protracted? Shouldn't you be better off to just purge the wholesalers' inventory and just (inaudible) roll out whatever innovation that you have? Thank you.

Jon Moeller (CFO):

In terms of a breakdown between developed and developing Javier, volume in developing was down 5%. In developed it was up 3%, which is really strong, by the way. Organic sales growth in developing was down 1% and developed it was plus 2%. So obviously price mix then deductively was plus 4% in developing and minus 1% in developed.

In terms of the trade stocking issue in China, we are making progress. As I said, our rate of decline was halved in the quarter, and in many categories we've returned to growth. We are doing everything we can to bring that back in a responsible way and we'll continue to do that.

Operator:

Mark Astrachan, Stifel.

Mark Astrachan (Analyst - Stifel Nicolaus):

Yes. Thanks and good morning, everybody. I know you don't want to give too much detail on FY17. But you talk about expect organic sales growth to improve in the year. I guess given FX headwinds in the first half and your prior commentary about not focusing on market share given FX headwinds, is it fair to say that any share improvement then would be back-half weighted? And then more broadly, how should we all think about reinvestment required to return the business to top-line growth? And you talk about all this reinvestment on a go-forward basis, but is there some way that we can quantify it or measure it, not just in terms of what advertising spend is on a quarter-by-quarter basis? But is there some sort of bogey out there or benchmark that helps us figure out basically where you are headed?

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Jon Moeller (CFO):

Fair question, Mark. Unfortunately I have a difficult time answering that as we sit here today. We're literally just beginning the process of putting our plans together for next year. To give you some insight into that process, though, we're going to go through each of the large category/country combinations and assure that we are efficient in terms of our investment to change the growth profile and ideally to grow at the market. And then as we go through the year, try to improve that.

I'm not going to call a quarter in which that's going to happen. It is going to take time, as I said in the prepared remarks. It's not going to be a straight line. But I think we will see improvement over time. There is no bogey in terms of a number related to investment. This is strategic planning at the category/country/brand level that we are just beginning to do. You have seen the increase investment profile in the back half of this fiscal year. That's the only one I really have real insight into at this point. And I certainly would not expect the investment levels to be lower as we go forward into next year.

Operator:

Joe Altobello, Raymond James.

Joe Altobello (Analyst - Raymond James):

Thanks. Good morning, guys. First question. In terms of the 1% organic growth, can you tell us how that compared to consumption? I know it was a deceleration from last quarter, but last quarter you shifted a little bit ahead of consumption. So I was curious if that evened out in this quarter. And then secondly, just going back to Bill Chappell's question for second. What is P&G's long-term algorithm right now, given the changes in the portfolio? And how quickly can you get there? I imagine 2017 is probably too optimistic, but could we see a return to that by FY18? Thanks.

Jon Moeller (CFO):

In terms of the relationship between consumption and shipments, you are right. We've said in January that for the December quarter there was a little bit more selling than consumption. And you see that reflected in the third quarter. That's where that really reversed itself and evened out. So I think we are in the steady state at this point in the process. I think that's also an important point in understanding the difference between the 2% last quarter and the 1% this quarter in terms of organic sales growth. That and Venezuela really explained all of that change. So thanks for asking that question.

I think it would be -- in terms of the long-term algorithm, that has not changed. We want to be growing with the market to slightly ahead of the market. And we believe that with the continued productivity progress, that should translate into mid to high single digit earnings per share growth. I do think that getting back fully to that algorithm next year would be difficult. But again, we are just beginning to put our plans together.

Operator:

Jason English, Goldman Sachs .

Jason English (Analyst - Goldman Sachs):

Good morning, folks. Thanks for squeezing me in. There we go. Can you hear me?

Jon Moeller (CFO):

Yes, Jason.

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Jason English (Analyst - Goldman Sachs):

All right. I'm going to ask a multi-part question as well. First, coming back to top line, you mentioned category growth slowing from, I think, 3% to 4% to roughly 3%. How much of that is volume related versus price related? And per your comments on the forward with FX, if it holds, commodities, if they hold, potentially price abating, should we expect global category growth to slow even further?

The second question was on the savings target. This could just be matter of semantics, but I heard you say up to $10 billion. So should we consider to $10 billion as the cap, and a bit of a stretch goal that may not be achieved? And also on the supply chain side, you mentioned upfront investment savings will build in 3 to 4 years. Should we be thinking about the delivery against those savings as being further out, so a bit more protracted than what we've seen over the last $10 million?

Jon Moeller (CFO):

Great. So from a -- if I just look at the difference between value growth and volume growth in markets to get at your question of how much of it is pricing. In developed markets, if I just look over the past year basically, volume growth has actually accelerated a little bit, going from 0% to 1%, value growth is unchanged at about 1%. And in developing markets value growth has gone from 9% to 6%. Volume growth has gone from 2% to 1%. So I think with those that set of numbers you can put the picture together that you are looking to put together.

In terms of the savings target and the semantics around up to, that's -- those are the words we've used since we first started talking about this back at CAGNY. And that doesn't imply a cap. There's no reason to cap. But it does imply a range of outcomes. And last time we said $10 billion we over-deliver that. So again, there was no cap. I think $10 billion's a good number to shoot for. And I'm sure we will get somewhere close to that, if not there. You may recall a conversation that some of us were having four years ago on this topic. And there was a lot of concern about whether we would actually get to $10 billion. And I said again, that's the right number to shoot for and if we only get to $9 billion, I'm going to be pretty happy. And I look at it the same way this time around. So really no change there.

On the supply chain transformation, that together portion of the savings will be -- will come later, as we've indicated since we started talking about supply chain transformation. I would not take that as indicative of the entire program. Last time around it was pretty evenly paced across the fiscal years. That's not the design attempt. That's just how it fell. I don't see a reason for it to fall significantly different than that this time. Remember though, and I know you know this. We're going to be reinvesting a lot of these savings, and on a relative basis more of that investment acceleration, if you will, will occur in the early years. And then as that gets fully in place, it'll obviously have less of a year-to-year impact.

Operator:

Ali Dibadj, Bernstein.

Ali Dibadj (Analyst - Sanford C. Bernstein):

Hey, guys. I actually appreciate the tradition of always giving me the last word on the call. It's a sign of respect for our work. So two things. One is, I know you are pretty reluctant to talk about 2017 guidance on this call. But it would seem that analysts and investors have at least been interpreting some sort of message from you guys, given many EPS numbers have come down over the past month or so. And significantly more negatively, it would seem, than Jon, some of the messaging you've talked about, at least on this call.

So I'm trying to get a sense, especially with the Cody benefit, or the share retirement benefit. So I'm

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trying to get a sense of a recap of your thinking on 2017 in terms of reinvestments and returns. Because clearly there some message that's being interpreted out there. And if you can balance the quote, unquote continued progress that your CEO says versus the not straight line that you mentioned and give us a little bit more color, I think it would be appreciated. Because there are some message getting out there clearly.

The second question is, Jon you joked a few years ago that you wouldn't want to be CFO of P&G at a time where the dividend didn't grow. And I think we are all collectively glad that it did grow. But can you give us some more color on the 1% dividend increase? Shareholders have been waiting around for you guys for quite some time. You've had some very challenging times, the macros have been very challenging. Others in your peer group suggest that they increase their dividend a little bit more aggressively than yours. I get your dividend yield and I get you payout ratio. What would, in the end, be the true cost of a slight ratings downgrade here to reward shareholders a little bit more aggressively? Thanks for those two.

Jon Moeller (CFO):

In terms of the message that's being interpreted externally, I personally have a hard time sorting through that, simply because of the very wide range that exists in estimates right now. So I'm not sure what message is being received. In terms of the message we are providing, it is very much the one you describe to David just a minute ago, which is continued progress on both the top and bottom line as well as our cash flow. And obviously we want to accelerate all of that as quickly as we are able, but do it in a sustainable, responsible way. And as I indicated we are just putting our plans together for next year ago and we will see what amount of progress we make.

Our competitors don't sit still. Markets are volatile. And so that's where the not straight line comment comes in. I just think that's a reflection of reality. The Cody benefit in terms of the share retirement will depend on exactly when those shares get retired. But there should definitely be a benefit associated with that. And we view that as is part of the overall equation.

In terms of the dividend increase. As you know, we are very committed to the principle of cash return to shareholders. Over the last 10 years, as I mentioned earlier, we've returned $118 billion. This year between our dividend, share repurchases and share exchange we'll effectively return $15 billion to $16 billion. There is not a lot of juice, if you will, to the amount of cash available from a borrowing standpoint between our current credit rating and one or two notches down. So to do that to the credit rating for a small amount of additional dividend increase is not something that made a lot of sense to us. We are very happy to increase the dividend. We remain committed to cash return to shareholders. But we also need to reflect reality in our dividend planning.

Significant FX headwinds, we are creating a smaller Company. And our earnings per share are below year ago. We have a responsibility there, as you will appreciate as well. So it is a balancing of those two things. I completely get and understand the question and it is a very fair one. But that's where we netted out. I will leave it there.

Thank you everybody for your questions this morning. We'll be available for the balance of the week to talk through any of this with you. We're very happy about the progress that we are making, but we clearly understand we have more to do. Thanks a lot.

Operator:

Ladies and gentlemen, that does conclude today's conference.

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