Edgewell Personal Care

First Quarter 2023 Earnings Conference Call

February 8, 2023 at 8:00 a.m. Eastern

CORPORATE PARTICIPANTS

Chris Gough – *Vice President-Investor Relations*

Rod Little – *President and Chief Executive Officer*

Dan Sullivan – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, everyone. Welcome to the Edgewell's First Quarter 2023 Earnings Conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one. To withdraw your question, please press star then two. Please also note today's event is being recorded.

At this time, I would like to turn the floor over to Chris Gough, Vice President of Investor Relations. Sir, you may begin.

Chris Gough
Good morning, everyone. And thank you for joining us this morning for Edgewell's First Quarter Fiscal Year 2023 Earnings call. With me this morning are Rod Little, our President and Chief Executive Officer; and Dan Sullivan, our Chief Financial Officer. Rod will kick off the call then hand it over to Dan to discuss our results and update to the full year 2023 outlook before we transition to Q&A. This call is being recorded and will be available for replay via our website, www.edgewell.com.

During the call, we may make statements about our expectations for future plans and performance. This might include future sales, earnings, advertising and promotional spending, product launches, savings and costs related to restructurings, changes to our working capital metrics, currency fluctuations, commodity costs, category value, future plans for return of capital to shareholders, and more. Any such statements are forward-looking statements for purposes of the Safe Harbor Provisions under the Private Securities Litigation Reform Act of 1995, which reflect our current views with respect to future events, plans or prospects.

These statements are based on assumptions and are subject to various risks and uncertainties, including those described under the caption Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2022, as may be amended in our quarterly reports on Form 10-Q, which is on file with the SEC. These risks may cause our actual results to be materially different from those expressed or implied by our forward-looking statements. We do not assume any obligation to update or revise any of these forward-looking statements to reflect new events or circumstances except as required by law.

During this call, we will refer to certain non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with Generally Accepted Accounting Principles. The reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is shown in our press release issued earlier today, which is available at the Investor Relations section of our website. Management believes these non-GAAP measures provide investors with valuable information on the underlying trends of our business.

With that, I'd like to turn the call over to Rod.

Rod Little
Thanks, Chris. Good morning, everyone. Thank you for joining us on our first quarter earnings call.

This was a good start to the fiscal year with organic growth in line with our expectations and marking our seventh consecutive quarter of year-over-year organic growth. And despite significant currency headwinds and persistent cost inflation, we delivered strong bottom line results that reflected good

commercial execution and highlights the underlying structural improvements we've made across our business.

As we discussed last quarter, there are four key components for success in fiscal 2023. First, delivering continued organic sales growth, enabled by better brand resonance and stronger presence on shelf. Second, strengthening our gross margins leading to rate accretion for the full year. Third, making meaningful investments behind our brands. And finally, continuing to execute on our productivity and efficiency initiatives. We made good progress against each of these elements this quarter, a testament to the hard work and dedication of our teams, all of which reinforces the confidence we have in our business going forward.

Organic net sales growth was broad-based and in line with our expectations. Price execution has been solid across our business and we continue to see elasticities in line with our modeling and below historic levels. Our international market growth was strong and delivered through both volume and price gains, reflecting a strong start to the sun season and continued strength in Women's Shave. And the Billie brand continues to outperform with clear momentum for its national retail launch that is just now beginning. In fact, with three strong brands including Intuition and Hydro Silk, Edgewell is now the market leader in women's systems at Walmart.

Feminine Care grew 12% with both price and volume gains, benefiting from continued heightened demand in the category and our improved in-stock position. These results led to further progress in market shares across our business. In North America, we've broadly held share in aggregate across our portfolio. And in key international markets like Germany, we saw noticeable market share gains, both of which included strong performance in our leading Women's Shave business. This broad-based organic growth across categories and geographies, along with stabilized market share results in key markets, is further evidence of our healthy top line and offers clear proof points of our ability to deliver sustainable growth for this business.

Dan will take you through the details, but I'd like to call out the progress we made on gross margin in the quarter, essentially fully offsetting inflationary headwinds through the realization of price actions and the ongoing execution of our productivity initiatives. So, while the operating environment remains highly challenging, we are on track to deliver margin accretion in the second half and for the full fiscal year.

Importantly, we also remained in investment mode with AMP spend of over 11% of net sales, excluding our custom brand's private label shave business. Our focus was on early season sun execution internationally, strengthening our digital activation and e-commerce presence, and supporting innovation and new products, including our Barber's Style launch across Europe and grooming product expansion in the United States for the Edge and Cremo brands. A growing top line, strengthening gross margin profile and a demonstrated focus on cost reduction all enable a sustained ability to invest in our brands and we are seeing the return from our investments.

Lastly, we continue to simplify our business and deliver meaningful gross cost reduction across both cost of goods sold and G&A, and we expect this will continue as we move through the year.

We are operating in a challenging, volatile and uncertain marketplace. Inflationary and foreign exchange pressures remain significant headwinds to our business. The labor market remains tight with the potential to again complicate manufacturing and distribution efforts. And perhaps most importantly, there are some initial signs of weakening consumer sentiment in the face of likely economic challenges ahead. We therefore need to be cautious as we consider the balance of the year, act with urgency and continue to focus on controlling the controllables.

Our brands are healthier and better represented on shelf than at any point since we began as an independent company, and the early read on distribution outcomes for 2023 is very encouraging. Supply chain service levels improved in the quarter and we've taken the necessary steps to ensure good execution, particularly related to the upcoming U.S. sun season. Consumer centric innovation and new product development is playing an increasingly important role in our portfolio with the acquired brand building capabilities of the Cremo and Billie teams now benefiting our broader portfolio.

With the progress we made this quarter, we are confident that we are taking the right actions to deliver sustained value creation over the long-term and we are well positioned to deliver our previous outlook for the fiscal year.

And now I'd like to ask Dan to take you through our first quarter results and to also provide additional details on our outlook for fiscal 2023. Dan?

Dan Sullivan
Thanks, Rod. Good morning, everyone. As Rod mentioned, operational and commercial execution in the quarter was strong. We delivered organic growth as expected and the quarter provided a solid foundation for fiscal 2023, giving us confidence in our ability to deliver full year results in line with our previous outlook.

For the quarter, organic net sales grew 3% with broad based growth across categories and geographies. International market growth was noteworthy, driven by both price and volume gains and reflective of strong early season Sun Care performance. In this challenging operating environment, we've remained focused on execution.

Commercially, we've now mostly finalized our price and shelf set discussions with our retail partners with strong outcomes on both fronts. In the quarter, price gains contributed approximately 4.5% to organic growth. And price elasticities were in line with our expectations. As Rod alluded to earlier, we're also very pleased with the initial shelf set outcomes across not only the U.S., but key international markets as well, with solid results both in level and quality of distribution for our brands.

Operationally, supply chain performance strengthened as well, delivering both improved service levels and strong productivity savings. In fact, the combination of both our pricing and productivity efforts underpin the structural strengthening of our gross margin profile, delivering about 500 basis points of tailwinds in the quarter and essentially fully mitigating year-over-year inflationary pressures.

And finally, we saw lower G&A costs in the quarter, in part due to our accelerated efforts to simplify ways of working, reduce complexity and drive productivity across the business. As we'll discuss shortly, we anticipate that these heightened savings will help strengthen our operating profit margin and help serve as an important offset to higher than expected below the line costs, enabling us to maintain our constant currency outlook for the year.

Despite the significant inflation and currency headwinds, we delivered adjusted EPS of $0.31 and adjusted EBITDA of $64 million in the quarter, both above expectations.

Now, let me give you some insight into what we saw across our business in the quarter. In North America the consumer remained resilient and we continued to see underlying category growth in Wet Shave, Grooming, Sun Care and FEM Care. Pricing drove organic growth and elasticities were healthy and below historical norms. Promotional levels remained fairly consistent to last quarter and still below a year ago. So overall, we were pleased with the revenue dynamics across categories and we will be vigilant in evaluating this environment as we progress through the year.

In international markets we are seeing improving category health in many markets, especially in key Sun Care markets within Oceana and Latin America as travel and leisure continue to return to pre-pandemic levels. However, in Japan and China Wet Shave consumption trends remain negative reflecting forward related closures.

Finally, while the dollar softened in the quarter providing an immediate boost to our full year net sales outlook due to translational currency gains, the in-year benefit from easing currency headwinds related to transactional FX is less pronounced as these benefits are trapped in inventory until released.

Now, let me turn to the detailed results for the quarter. As mentioned, organic net sales increased 3% as 4.5% price gains were offset by volume declines of approximately 1.5%. International organic net sales increased nearly 6% with price and volume gains. While in North America organic net sales increased 1.2% as almost 5% growth from increased pricing was partially offset by lower volumes.

Wet Shave organic net sales decreased 1.9%, inclusive of an estimated 210 basis point headwind from cycling last year's men's Hydro relaunch in Japan. Wet Shave organic sales in North America declined mid-single digits driven by volume declines, in part a reflection of heightened inventory management across certain U.S. retailers.

Wet Shave organic net sales in international markets were essentially flat despite cycling the aforementioned Hydro relaunch in Japan. We saw a notable performance in Germany with healthy organic growth and market share gains largely as a result of our strong women's portfolio in [indiscernible]. And our branded shave and dispo businesses across LatAm performed well.

In U.S. razors and blades, consumption increased 2% in the quarter, while our market share in aggregate declined 60 basis points, which was in line with 52-week trends. The Billie brand continued to deliver strong results at Walmart and served as the catalyst for our broad market share gains across women's Wet Shave. As Rob mentioned, in the quarter we began to execute the national retail launch for the brand with product now in-store in certain drug and grocery retailers, and the rollout is scaling in the current quarter.

Sun and skincare organic net sales increased 10% driven by strong global Sun Care results. International Sun Care sales increased over 68% as a return to travel and leisure activity drove demand recovery led by key markets in Latin America and Oceana. December marked our strongest Sun Care month in Australia since pre-COVID and the Sun category continued to grow at over 30% in Mexico.

In the U.S. the Sun Care category grew nearly 11% for the quarter. As competitive products returned to shelf following last year's recalls, our Sun Care brands predictably lost share in the quarter.

Men's grooming organic net sales increased just over 4% led by strong Cremo growth.

FEM Care organic net sales increased 12%, driven by higher pricing and improved product availability on shelf. Growth was delivered across Playtex Sport, Carefree and Stayfree brands. Our portfolio saw over 8% consumption growth and our share was effectively flat in both the quarter and latest 52-week period.

Now, moving down the P&L. Gross margin on an adjusted basis decreased 150 basis points or 20 basis points at constant currency as strong price gains and productivity savings essentially offset a 500 basis point headwind from higher commodity, labor and transportation related costs.

A&P expense was 9.8% of net sales. Excluding the favorable impact of currency, A&P would've increased almost $2 million and about 20 basis points in rate of sale compared to the prior year.

Adjusted SG&A increased 90 basis points versus last year as the benefits of operational efficiency programs, good cost discipline, favorable currency and operational leverage were more than offset by higher compensation expense and the impact of the Billie acquisition, including amortization costs.

Adjusted operating income was $36.7 million compared to $46.7 million last year, a decline of 21% or 2% at constant currency.

GAAP diluted net earnings per share were $0.23 compared to $0.20 in the first quarter of fiscal 2022, and adjusted earnings per share were $0.31 compared to $0.42 in the prior year period, including an estimated $0.05 negative impact from currency and $0.02 favorable impact from share repurchases.

Adjusted EBITDA was $63.9 million compared to $69.7 million in the prior year, inclusive of an estimated $3.6 million unfavorable impact from currency.

Net cash used in operating activities for the quarter with $86 million compared to $79 million in the same period last year. We ended the quarter with $184 million in cash on hand, access to the $164 million undrawn portion of our credit facility, and a net debt leverage ratio of about 4 times.

In the quarter, our share repurchases totaled over $15 million. In addition, we continued our quarterly dividend payout and declared another cash dividend of $0.15 per share for the first quarter. In total, we've returned over $23 million to shareholders during the quarter.

Now turning to our outlook for fiscal 2023. As Rod mentioned earlier, the operational fundamentals of our business are strong and we are confident that the strategic choices and actions taken over the past several years have put us in a better position to drive sustained growth. Additionally, we are executing well on the levers that we can control: driving increased productivity and efficiency across the business; thoughtfully executing price increases across the globe; incrementally investing in our brands; and importantly, improving supply chain service levels and on-shelf product availability for our customers.

Before speaking to the specific elements of our outlook, I'd like to offer two broad comments. First, we are operating in a challenging volatile environment. Inflationary and currency pressures remain elevated, the labor market continues to be highly constrained, COVID reopening in APAC remains choppy, and there are meaningful unknowns with respect to the future state and overall sentiment of the consumer.

Second, in the face of this environment, our constant currency outlook for the year is unchanged despite higher than expected below the line costs, most notably interest and pension costs. Good cost control across all aspects of overheads will offset these expected increases and serve as a catalyst for slightly better operating margins than previously contemplated.

For the fiscal year, net sales are now expected to increase between 2% and 4% with the change versus our previous outlook due entirely to lower foreign currency translation headwinds than originally contemplated. We still anticipate organic net sales growth to be 3% to 5%.

Our outlook for gross margin is also unchanged as we continue to anticipate about 30 basis points of year-over-year rate accretion with declines in the first half of the year driven by continued inflation and negative currency, partly mitigated by price realization and productivity savings. There is also no

change to our view on inflationary headwinds and pricing and productivity offsets for the year, and we expect the Q2 gross margin profile to be similar to Q1.

Adjusted operating profit margin is now expected to increase slightly on a full year basis, mostly results of increased realized cost savings across the business. The impact of currency on operating profit is now expected to be an approximate $26 million headwind, an $8 million improvement over our prior outlook. Below OP, interest expense is now anticipated to be approximately $79 million, an increase of $5 million over our previous outlook and Other Income is now expected to show combined income of approximately $1 million as compared to $11 million income in our prior outlook reflecting higher pension costs and lower hedge gains.

Adjusted EBITDA is still expected to be in the range of $320 (million) to $335 million. On a constant currency basis, adjusted EBITDA growth at the midpoint of the range would still be approximately 8%.

Adjusted EPS is still anticipated to be in the range of $2.30 to $2.50 inclusive of approximately $0.45 per share of currency headwinds. Constant currency adjusted EPS growth at the midpoint of the range would still be approximately 12%.

In terms of phasing, we now expect the organic sales rate in half one to be slightly higher than half two as we expect a shift in Sun Care shipments into Q2 and we now expect to generate just over a quarter of our full year EPS in half one.

For more information, related to our fiscal 2023 outlook I would refer you to the press release that we issued earlier this morning.

And now I'd like to return the call to the operator for the Q&A session.

QUESTIONS AND ANSWERS

Operator
Ladies and gentlemen, at this time we will begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, we do ask that you pick up the handset before pressing the keys. To withdraw your question, please press star then two. We'll pause momentarily to assemble the roster.

Our first question today comes from Chris Carey with Wells Fargo Securities. Please go ahead with your question.

Chris Carey
Hi, good morning.

Rod Little
Hey, Chris.

Chris Carey
So a lot of moving parts between bottom line getting worse and some areas perhaps a bit better, top line margins, but do you have a sense perhaps of where you think you're going to be landing within this earnings outlook range for the year?

Dan Sullivan

Hey Chris, good morning. It's Dan. Look, I think you're right, there are some moving parts. OP will get better versus our original outlook and that will help offset some of the below the line challenges that we see around less hedge benefit, higher interest expense, higher pension. So if you put all of that together, not all of those below the line headwinds affect EBITDA.

So I think mathematically you can certainly say that the OP flow through is helpful and mathematically points you towards the higher end of the EBITDA range. I think that's just math. Look, we're one quarter in, a very good quarter lined up the way we thought it would, and so we'll stick to the range right now. But to acknowledge the point, I think mathematically you would point to the high end.

And then on EPS, I think you don't have some of that mathematical challenge. I think you can stick at the midpoint.

Chris Carey
Okay. All right. It sounds good. And just from a phasing standpoint, you talked about some shift of Sun into the front half of the year. Obviously international seems to be delivering on recovery, so how much of that shift is occurring in your international versus your U.S. business?

And then can you perhaps just comment on your market share in the U.S.? We're seeing a lot of noise just with some players recovering and we're hearing headlines around some recalls. Just maybe contextualize how you feel about U.S. share in addition to talking about where this shift seems to be occurring.

Dan Sullivan
Sure. I'll take the first part; I'll hand it to Rod on the share point. In terms of the shift, that's specifically a U.S. comment. We're just seeing order flow on initial Sun Care phasing more into 2Q than we had originally thought, and you're challenged with that every year in terms of when that phasing will happen.

What I would say though, and your point I think underpins this, we saw tremendously strong Sun performance across our international business. We've seen Mexico now growing 30% to 35% as a category, we've seen Oceana now open up and we had our biggest month since pre-COVID in December. So we're quite bullish on Sun outside of the U.S., it's about 25% of our Sun business, but that's not what drove our anticipated shift in Q2. It's purely a U.S. comment. Rod?

Rod Little
And Chris on the second piece on the U.S. Sun question, we're feeling really good about the upcoming season and what we have line of sight to. As you know, we've built share the last couple of years. We've gone to the leadership position with Banana Boat last year as the number one brand in the U.S. and off of that retailers have rewarded us with better distribution outcomes – more distribution, higher quality across the board. And so we feel really good about the season that's set up and to come.

And in terms of recall and safety, what you're calling out, we took another lot, one final lot of Hair & Scalp as a recall. It was actually part of an action last summer in benzene, and the good news is there's nothing to recall. There's no product there. Our products are safe. We're always going to lean in on safety and make sure that people can have confidence when they pick Banana Boat and Hawaiian Tropic.

And on the early season share read that you are seeing, it's more around everyday Sun. If you think about the time of the year we're in, those everyday Sun Care brands are the ones that win and grow share in this period of the year. You'll start to see that moderate as we get into the balance of the year.

And the other thing to just keep in mind, because it is a little complicated, as competitors come back on shelf to a certain extent from supply chain issues of their own that we didn't have in past periods, you'll just naturally see math show that share move a little differently than it has in the past couple of years. But I think we're confident in our business and that we have a good year in front of us.

Chris Carey
Okay, thanks so much.

Chris Gough
Thanks a lot, Chris. Operator, next question please.

Operator
Our next question comes from Susan Anderson from Canaccord Genuity. Please go ahead with your question.

Susan Anderson
Hi. Nice job on the quarter. Thanks for taking my question. I wanted to ask about Billie, I'm just curious if there's any early color on the sell through and the new retail partners? And then I'm curious how much of that already occurred in first quarter and expectations of how much will benefit second quarter? And then last, if you guys have talked about the margin profile of Billie versus the rest of Wet Shave before in the past, or if you could give any color on that? Thanks.

Rod Little
Yes. Susan, good morning. Welcome to coverage. Great to have you on board.

Susan Anderson
Thanks.

Rod Little
I'll just say a couple of things about Billie bigger picture and then let Dan give a little more detail.

We're very, very happy with where Billie the brand is. The team that's built the brand the way it's been built is resonating with consumers and we're off to a very good start with Walmart year one. As you know, when you grow share and you grow the category that becomes a very portable story and so the expansion is underway now. I think we did better than I think we expected in terms of retailers wanting the brand and wanting the brand quickly, so that's happening as we speak.

The DTC portion of Billie performed very well in the first quarter, actually outperformed what we were expecting. And so we continue to believe we've got a very healthy omni channel brand in front of us that has lots of legs to go in many, many more places.

And Dan, I'll let you talk quarter one, quarter two.

Dan Sullivan
So in terms of the phasing of the national retail launch, there was a bit in Q1, but it was quite limited to drug and grocery, and even in grocery small amounts. I think the lion’s share of the launch and, therefore, the pipeline is Q2 and beyond, and you'll see that now as we roll out in broader grocery, broader drug and of course mass, so that's to come.

And then to the question, Susan, on margin profile, I'm comfortable saying largely at Edgewell family levels, but there's a lot beneath that comment, because it will depend on mix, DTC versus retail. And

then within the Billie portfolio will largely depend on which category and which product is driving the growth. But in principle, pretty comparable to Edgewell family margins.

Susan Anderson
Great. Yes, the merchandising looks good in the stores.

I was wondering too just on the men's business, I know you rolled it out further Edge and Cremo in the U.S. curious how that's going and if there's any plans for further expansion in the U.S. because it still looks pretty small out there. And then I'm just curious on the men's grooming if it performed well, both in the U.S. and then North America. I think you said Edge and Cremo did perform well.

Rod Little
Yes, on the men's shave piece of it, we were a flat share in the quarter just finished and that's primarily Schick men's, and so we held share there in what was a growing category. I think we actually felt good about that outcome as there was some destocking that happened in the quarter that we think is more one-time in nature at a couple of retailers.

The Cremo rollout, as you suggested, is just getting started. The product is fantastic. It's a natural extension category-wise to the grooming line and we think sets up to give us a better shave portfolio in Men's for the future. And so it's early days there, but initial read is good.

And then grooming more generally continues to be just a fantastic category. Double-digit growth rates continue in the category. We've got big ambition for our own business in that category this year and I would expect that will be one of our growth leaders as we get throughout the year.

Susan Anderson
Great. Thanks so much. Good luck the rest of the year.

Rod Little
Thank you.

Chris Gough
Thanks, Susan. Operator, next question please.

Operator
Our next question comes from Kevin Grundy from Jefferies. Please go ahead with your question.

Kevin Grundy
Great. Thank you. Good morning, everyone. Two questions, if I could. Just first, pulling on the organic growth guidance for the year in the 3% to 5%, I'm not asking you to be redundant, but it looks like grooming perhaps a bit light, Sun Care off to a really good start, FEM Care was better by geography, International stronger than the U.S. so far. I don't recall if it was Rod or Dan, you mentioned you saw some signs of weaker consumer sentiment, but you sound quite good on the spring shelf space resets. So just reading your tone, it sounds like you're probably a little bit more optimistic within that range versus when you started the year.

Not to put words in your mouth, but as you pull this all together, I'm just kind of curious how the shape of your organic sales growth guidance may or may not have changed since the initial guide. And maybe you could just comment on that and then I have a quick follow up for Dan on FX.

Dan Sullivan

Hey, Kevin. It’s Dan. Good morning. So look, we still feel confident with the range. We did acknowledge given some of the Sun Care pull that you'll probably flight a bit more into half one than we had originally contemplated. But that's really a one half, half two phase.

As we think about the categories, look, they're structurally healthy, they're growing, there is price that's come into the categories, which we've obviously participated in as well. And I think this quarter certainly reinforces our confidence and our confidence to execute as well. You heard Rod talk about distribution outcomes, he specifically mentioned Sun. There is other really good news as well, particularly in Women's Shave here in the U.S. and shave more broadly in certain international markets.

So, I don't know that I would try to quantify where we are in that range. We're confident and as the categories remain healthy, we feel really good about where we are.

I do think back to the point you made though, there is quite a bit of price here hitting the consumer. And while we have not seen elasticities at historical levels, if and when the consumer comes under added pressure, I think you can also expect that to evolve. So, we're going to be thoughtful on that and react accordingly if that's the environment we're in. But as of right now, I think 3% to 5% based on the drivers Rod and I have been talking about feels like the right place to be and I think Q1 reinforces that.

Kevin Grundy
Got it. Dan, the follow-up is just on FX and the impact on operating profit relative to the top line. So sort of said differently, your initial guidance implied a certain FX multiplier, if you will, and with your updated guidance, one would expect more favorability on that flow through to earnings than we saw in your update. I think in your prepared remarks you mentioned some of this was tied up in inventory. Can you just help us understand the profit impact that you are guiding to now from FX relative to the top line update?

Dan Sullivan
Yes, absolutely. It's a good question, Kevin. It's a complicated topic, so happy to unpack it.

I think, first of all, we have to remember there are multiple drivers to this FX equation. You have translational gains and losses. It's felt immediately. The best example of that you can see in our new net sales outlook for the year, I think that's pretty straightforward. Equally, you have hedge gains and losses which sit below the line that are also felt immediately, but tend to work in opposite direction as the benefit of your hedge is somewhat diluted. I think those are pretty straightforward.

I think where it gets a bit more complicated is in the transactional FX, which is capturing all things supply chain. All the moving parts on the cost side where in fact a weaker dollar is hurtful and all the moving parts on inventory in our commercial businesses like Japan where obviously it's helpful.
The challenge here though is timing, and the transactional FX doesn't get released until the product gets sold.

And so, if you take an average of four to five months of inventory, I think it's reasonable to say that we hadn't yet felt all of the pressures of the rising dollar against the yen and, therefore, it's going to take time to realize the benefits as the currency has moved now 8%, 9% since our guide. So there is a lot of moving parts in there with timing being the big piece.

For us, honestly, we know it's difficult to model, we understand that it's difficult on all aspects, but that's why we continue to point to constant currency and that's why we give that outlook as a real clear benchmark of operational performance. And here, as we've mentioned, the constant currency outlook is unchanged.

Kevin Grundy
Very good. I appreciate the comments guys. Good luck.

Dan Sullivan
Thank you.

Rod Little
Thank you.

Chris Gough
Thanks, Kevin. Operator, next question please.

Operator
Our next question comes from Bill Chappell, from Truist Securities. Please go ahead with your question.

Bill Chappell
Thanks. Good morning.

Rod Little
Good morning, Bill.

Bill Chappell
Hey, just follow-up on what's changed since initial guidance in November, primarily on that 500 basis point gross margin headwind from cost, supply chain, other things. Has that seen an ease or do you see some ease in some of those costs and supply chain as we move through the year? I understand you are not changing guidance for that, but if you're seeing any thawing out there or room for optimism as we move into the spring?

Rod Little
Yes, good morning, Bill. Certainly we're seeing easing and I'll talk about it. I think it's important to note that's what was contemplated in our outlook. And so even if you just look at the math, we have 700 basis points of year-over-year inflationary headwinds in Q4; 500 basis points in Q1 and we're modeling 350 for the year. So, yes, there is easing, but that's not incremental to our outlook. That is essentially how we've modeled it and we've been pretty close to the pin now three, four quarters in a row.

Where we're seeing it I think is largely showing up in a couple of ways. One, you're certainly seeing easing in natural gas and oil, which has a downstream effect on many commodity baskets, including resin and we've seen real stability across the baskets which is helpful.

I think two, inland distribution has eased and we've seen that. Now diesel rates are still meaningfully above a year ago, but again, sequentially improving. So I think what all of this tells us is the cost side of our equation is playing out largely as we modeled it so far and certainly for the last two, three quarters, which gives us confidence to the full year margin profile of accretion for the full year.

Dan Sullivan
Bill, I would just build on that. We have a quarter in line of sight to the pricing and cost productivity plans that we had envisioned when we built the plan and put our guidance out there, and we're achieving all of that. And so by nature, I think it builds confidence when things you had projected you

would do, you've now actually done, it makes the outcome more certain. And so I think we feel good on the pricing revenue line as well.

Bill Chappell
Got it. And kind of follow-up to that, what's your anticipation of kind of the promotional environment as we move, probably not this quarter, but into the back half, as costs for everyone start to come down and retailers are looking for more promotions? I know it's different for different categories, but any thoughts there? Are you expecting promos to come back in a big way or in a more normalized way as we enter the back half? Thanks.

Dan Sullivan
It's obviously hard to predict that, Bill, based on where the consumer goes and the overall macro factors, but what we're seeing right now is the consumer has been resilient, the categories are operating very predictably, promotion rates, for example, are lower in many areas than they were a year ago. There is rational behavior happening here. And again, I think there is more certainty today despite it still being a very uncertain environment then there was a year ago. And so we don't expect it to become more promotional. If it does, we are ready for that and we'll adjust accordingly. And I would say that's contemplated within the guide.

Bill Chappell
Great. Thanks so much.

Dan Sullivan
Thank you.

Chris Gough
Thanks Bill. Operator, next question please.

Operator
Our next question comes from Olivia Tong from Raymond James. Please go ahead with your question.

Devin Weinstein
Hi, this is Devin Weinstein on for Olivia. I appreciate you taking our questions. Wanted to ask a little bit more about Billie, if we could. First, I guess another way to ask about the current quarter, the actual performance versus your outlook implies around additional $1 million or so in organic revenue versus what you guys were expecting. So I was curious what specifically drove that surprise versus your initial outlook?

And then also want to ask a little bit about the shift in your reporting now including Billie sales in Sun and Skin. To us that would suggest that there's either an acceleration in the ex-razors business or perhaps you guys are focusing more so there, so I just want to ask about your plans around the business ex-razors. And then longer term, if you could give us an idea of how you're thinking about the organic sales algo for Billie and what gives you confidence around that kind of number?

Dan Sullivan
Yes, good morning. It’s Dan. On the first question around organics in the quarter versus inorganics, there has been no change in our thinking in what we built when we developed the outlook. Quite honestly, it's a bit clunky. You've got two months of inorganic and one month of organic, and depending what shift when, it's being recognized as one or the other. I wouldn't view that as any fundamental shift in the business.

I think the broader point you're making though on Billie is exactly how we see the brand and what made it so attractive when we bought it a little over a year ago, which is it's clear right to move into adjacent categories. And that which started as a shave brand absolutely has the right and the runway to become a women's lifestyle brand. That's what we saw when we looked at buying it, and that's absolutely what the team is committed to building at Billie.

So you're starting to see that migration. Now, it's not as pronounced in 2023 because we're more focused on the pure retail expansion, but you will absolutely see a slightly broader assortment in 2023, which lends your point on skincare like products and then much bigger gains, much broader offering as we look to 2024 and beyond.

Devin Weinstein
Thank you, I appreciate that. And if I could just follow-up with one more quick one. Just in regards to your guys' increased outlook on the operating margin, I just wanted to get an idea if you continue to recognize improved productivity versus outlook today, or perhaps cost alleviate versus where you're seeing them today? How do you balance further investment into your brands versus more direct flow through on EPS? Thank you.

Dan Sullivan
Yes, sure. Good question. Look, we saw overhead favorability in the quarter. And as we said in the prepared remarks, most of the A&P favorability was simply phasing and probably half of the G&A was phasing. The other half is structural. And I think what it points to is we've been pretty intentional in our focus around driving costs out of the business. Obviously, majority of it done in COGS, but G&A has always been a portion of that. And in fact, in our original outlook, we'd estimated about $13 million of cost takeout in G&A.

We're going to beat that. And again, some of that came from Q1, but it also comes from line of sight to pulling forward a lot of the work the teams have been doing here around productivity and efficiency of spend.

And I would say A&P falls under this as well. We're always going to look at the quality of the spend, at the efficiency of the execution, how is non-working dollars playing for us versus working. So nothing is off the table, but it's just really good cost hygiene that this business has done for quite some time and will continue to do. And you pull all that together, it gives us more confidence towards a bigger delivery in 2023, which helps offset the below line noise.

Devin Weinstein
I understood. Thank you so much.

Chris Gough
Thank you, operator. Next question, please.

Operator
Once again, if you would like to ask a question, please press star and one.

And at this time I'm showing no additional questions. I'd like to turn the floor back over to Rod Little for any closing remarks.

CONCLUSION

Rod Little

Thank you all for your time and interest. Good quarter and we'll see you in three months.

Operator
And ladies and gentlemen, with that we'll end today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.