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CHD - Q2 2015 Church & Dwight Co Inc Earnings Call

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OVERVIEW:

Co. reported 2Q15 reported revenues of $847.1m and reported EPS of $0.55. Expects 2015 organic sales growth to be 3%. Expects 3Q15 organic sales growth to be approx. 2% and EPS to be approx. $0.87-0.88.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Church & Dwight second-quarter 2015 earnings conference call. Before we begin, I have been asked to remind you that on this call the Company's management may make forward-looking statements regarding, among other things, the Company's financial objectives and forecasts. These statements are subject to risks and uncertainties and other factors that are described in detail in the Company's SEC filings.

I would now like to introduce your host for today's call, Mr. Jim Craigie, Chairman and Chief Executive Officer of Church & Dwight. Please go ahead.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Good morning, everyone. It's always a pleasure to talk to you, especially when we have great results to report. I'll start off this call by providing you with my perspective on our second-quarter business results which you read about in our press release this morning. I'll then turn the call over to Matt Farrell, our current Chief Financial Officer and Chief Operating Officer, and, soon to be my replacement as Chief Executive Officer. Rick Dierker is also with us today who we announced this morning as Matt's replacement as CFO.

When Matt is finished, I'll return to discuss our earnings guidance for the year and then we'll open the call and field questions from you.

Let me start off by saying that I'm very proud of my Company for the second-quarter business results that we achieved. Despite headwinds from continued soft US consumer demand and foreign currency, the Church & Dwight team built upon a momentum exiting 2014 and continued to leverage our innovation-driven strategy to deliver strong business results in the second quarter and first half of 2015.

This is exemplified by the fact that our organic revenue growth has averaged above 4.5% for three of the past four quarters. As I stated in our previous earnings calls, we believe that innovation is the key to delivering strong sales and earnings growth in any economic and competitive environment. Innovation has been a key driver of our past success as shown by the fact that over 25% of our sales so far this year came from new products launched since 2008.

In 2014, we launched a record number of innovative new products across every one of our major categories and three new categories. In 2015 we launched fewer new products but our new launches covered every major category.

Some of these new products like our new premium price cat litter called ARM & HAMMER CLUMP & SEAL have become a huge hit with our consumers as reflected both in our brand share results and its impact on category growth. In 2014, our cat litter consumption increased by 23.5% and our share grew by 290 basis points to a record share of 22.9%.

This enabled our brand to move from the number three brand in the category to a strong and growing number two brand.

Just as important, our new product was a major contributor to driving an 8% increase in the calendar category in 2014. The strongest annual growth in any of our categories and excellent growth for any CPG category. This exemplifies our belief that innovation is the key antidote driving improved value creation for consumers, our customers and our shareholders.

In the first half of 2015, we build upon the success by launching a new lightweight version of the CLUMP & SEAL cat litter. This new product is also off to a great start.

Our total ARM & HAMMER cat litter consumption in the first half of 2015 was up double digits almost 15% and our share grew 130 basis points to a new record share of 24.1%. And this growth helped drive the cat litter category up 8.8% in the first half over last year.

Our goal is to continue to launch innovative new products to drive share gains in category growth like this in all the categories in which we compete. Overall, the second-quarter results were excellent (technical difficulty) with share growth on two of our four megabrands and flat shares on the third megabrand.

I'll now turn the call over to Matt to give you specific results on our second-quarter results.

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Thank you, Jim. Good morning, everybody. I'm going to start with EPS.

Second-quarter reported EPS was $0.55 per share and that compares with $0.65 in 2014. The reported results include a couple of charges, a pension settlement charge of $0.05 that we discussed during our Q1 call and an impairment charge of $0.13 associated with the Company's investment in NatronX, which is a joint venture we entered in 2011 related to the specialty chemicals business. The details related to these charges are in the press release.

So adjusted for these one-time charges, EPS would have been $0.73 or a 12% increase over prior year, driven by strong organic sales. The $0.73 was better than our $0.70 outlook and of course netted in the adjusted $0.73 is a year-over-year drag of $0.03 from FX. That would be 4.6%. So if you add those together, it equates to a 16.9% currency neutral EPS quarter. It's a good story.

Our reported revenues were up 4.8% to $847.1 million. Organic sales were 5.1%, which exceeded our Q2 outlook of 3% to 4%. And the organic sales [beat] was driven by our consumer business, both domestic and international. And of the 5.1% organic growth, approximately 4.5% is due to volume with 0.6% positive product mix and pricing.

Now I'm going to go to through the segments, first the US business. The consumer domestic businesses organic sales increased by 4.7% driven by the continued success of our ARM & HAMMER CLUMP & SEAL cat litter which includes a new lightweight variant. Second would be ARM & HAMMER liquid laundry detergent, which is up significantly in the quarter. And finally OXICLEAN laundry detergent.

Going the other way, we had lower year-over-year sales of vitamins in the quarter. We have been living hand to mouth in 2015 as demand has exceeded capacity and retailers have been put on allocation. We've experienced untimely reduction difficulties at our existing vitamin plant and lengthy startup difficulties at our new plant.

On a positive note, in recent weeks the new plant is coming online and the new plant is expected to expand our capacity by 75% once fully ramped up.

Back to the macro story. Of the 4.7% organic sales growth in the domestic business, volume growth contributed approximately 4.5% plus 0.20 basis points effective positive price, net of negative mix. We continue to expect full-year organic sales to be approximately 2% to 3% for the consumer domestic business.

Now I'm turning to international. International organic growth was up 9.6%. Volume increased approximately 7.3% with favorable product mix and pricing of 2.3%. We had strong growth in Europe, Mexico, and our export business, largely driven by the success of our Batiste and STERIMAR brand. We now expect the full-year organic growth to be approximately 6% for the consumer international business.

Turning now to specialty products, organic sales was virtually flat down 10 basis points but in line with our expectations, driven by a difficult comp of 22.9% a year ago. I said in May that SPD, the Specialty Products Division, would come back down to Earth in Q2 after four consecutive quarters of double-digit growth.

Volume decreased 80 basis points was largely offset by favorable product mix and pricing of positive 70 basis points.

The US dairy industry is still healthy although milk prices have declined year over year from an average of approximately $23 in Q2 2014 to approximately $16 in Q2 2015. The input costs, corn and soybean, are lower as well so the dairy industry continues to be profitable. Comps are very difficult the rest of the way this year for this business. Remember last year Q3 and Q4 were both 20% plus growth quarters, and we now expect the full year to be approximately flat for the SPD division.

For the total Company, we continue to expect organic sales to be approximately 3% for the year.

Now we'll turn to gross margin. Our reported second-quarter gross margin was 44%, 10 basis points decrease from a year ago but largely in line with our flat expectations for the quarter. Q2 gross margin benefited from four factors, our higher-margin acquired businesses, productivity programs, lower couponing and lower commodities.

These factors were more than offset by foreign exchange, negative product mix and incremental costs associated with the new vitamin capacity in our York manufacturing facility as the start-up phase has lasted longer than anticipated.

The full year, in May, we called 25 to 35 basis points of gross margin expansion. We continue to expect that range in 2015.

Now, marketing. Marketing spend for the second quarter was $115.8 million or 13.7% of revenues which is a 30 basis point decline from the prior-year spend rate but a $2.4 million increase on a dollar basis. Our full-year expectation is still approximately 12.5% of sales.

Now, SG&A. SG&A as a percentage of net sales was 13.5% of 50 basis points increase from the prior-year second quarter, which includes an $8.9 million pension settlement charge. Adjusted SG&A as a percentage of net sales was 12.5%, a 50 basis point decrease from prior-year second quarter as we held SG&A dollars flat while growing the top line. Our full-year expectations continues to be 15 basis points improvement in SG&A year over year.

Our other income and expense was $22.8 million negative for the quarter which includes a pre- and post-tax impairment charge of $17 million associated with our investment in NatronX. 4

As mentioned in the Q2 earnings release, NatronX is a joint venture that is engaged in the marketing and distribution of sodium-based dry sorbents for air pollution control and coal-fired electric utility and industrial boiler operations. The charge is worth $0.13 of Q2 EPS and primarily the result of lower-than-expected demand for dry sorbents as a result of continued delay in implementation of federal regulations.

Adjusted other income and expense was $5.8 million negative for Q2. That's a $2.5 million year-over-year hurt.

Now we'll turn to operating margins. The reported operating margins for the quarter was 16.8% which was a 30 basis points decline from the prior-year second quarter. Adjusted for the pension settlement charge, operating margin was 17.8% which is 70 basis points higher than the prior year's second quarter.

Next is income taxes. Our effective rate for the quarter is 38.3%, which again includes a previously discussed one-time item. Adjusted effective tax rate was 33.1% which is lower than our full-year expectation of 34.5%. While the quarters can be uneven, we continue to expect the full-year 2015 effective tax rate to be approximately 34.5%.

Now we'll discuss cash. We generated $248.4 million of net cash for the first half of 2015. This is a $42 million increase over the prior period. We have invested $34 million year to date in CapEx and continue to expect to spend approximately $70 million for full-year 2015. Cash from operations is expected to exceed $570 million and free-cash flow to exceed $500 million in 2015.

Before I get to the second half comments, I'd like to make a few remarks.

Last year we posted 5% organic growth in the second half and 100% of our year-over-year EPS growth. So it was a backend-loaded year in 2014. This year we have more of the reverse, with higher organic in the first half and 60% of our full-year EPS in the first half, obviously due to easier comps. Our most difficult revenue in EPS comps are in the third and fourth quarter.

Now I'd like to comment on the third quarter. We expect Q3 EPS of approximately $0.87 to $0.88 per share compared to $0.85 per share last year. That's a 2% to 4% increase, which includes a 3% drag from FX. We expect Q3 organic sales growth of approximately 2% on a tough comp of 4.7% growth in Q3 2014.

Last year in the third quarter, third quarter was a highly promotional quarter. As a result, our share of laundry peaked at 14.7% but our year ago gross margins were depressed. We expect the continuation of a more normalized promotional environment, which we've seen in the first half of 2015, to continue for the rest of the year. We expect higher gross margins as a result but potentially slightly lower market shares in Q3.

With respect to the full year, to summarize our thinking, we continue to expect 3% organic sales and full-year gross margin expansion of 25 to 35 basis points. As we work our way down the P&L we continue to expect marketing at 12.5% of sales and expect SG&A leverage of 15 basis points, resulting in operating margin expansion of 50 to 60 basis points.

And finally, other income and expense line excluding the impairment will be approximately $20 million expense for the full year. The full-year adjusted EPS range remains at 7.9%, inclusive of a 3.5% drag from currency, and the midpoint of our range would deliver 11.5% currency neutral adjusted EPS growth [which is] 2015.

Just to wrap up on the second quarter, the highlights for the second quarter are as follows. 5.1% organic sales growth, 8% EBIT growth excluding charges and 12.3% adjusted EPS growth.

Back to you, Jim.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Thanks, Matt. Before we open the floor to questions, I'd like to provide a few additional highlights on our second-quarter results and our key categories and business units.

As you know, we continue to sharpen our focus on our four core mega brands: ARM & HAMMER, OXICLEAN, Trojan and our vitamin business, which each cover multiple categories. These four brands represent over 60% of our Company sales, and profits and we've achieved the most growth over the past five years, due to delivering a bigger bang for every dollar of marketing investments band smaller one category brands.

In 2015, we plan to spend over 80% of our media investment on these four megabrands. This investment continues to pay off as reflected in my earlier statement that we achieved share growth on two of these four megabrands in the second quarter.

The ARM & HAMMER megabrand had an excellent quarter with total consumption of 7% driven by its laundry detergent and cat litter products. I mentioned the excellent cat litter share results earlier for the total first half.

The specific second-quarter results continued strong momentum on this business as consumption grew double-digit and our share increased 110 basis points to a record 24.3% record share behind the new CLUMP & SEAL product line. ARM & HAMMER laundry detergent also had a solid quarter of growth.

But before I talk about the growth of our laundry business, it's important to mention that the total laundry detergent category grew 1.4% versus year ago, the first quarter of growth in over three years.

This category of growth reflects both a return to a more historical promotional environment and, second, that the category has now fully absorbed the unfavorable impact of the launch of the new unit dose form by all competitors. Hopefully, the laundry category will continue to grow in future quarters as it historically did, driven by category building innovations and a more normalized promotional environment.

In terms of our specific laundry business, ARM & HAMMER liquid laundry detergent achieved a 10.4% share in the second quarter, up 60 basis points versus a year ago, the 22nd consecutive quarter of year-on-year share growth.

As a total company, our three laundry brands achieved a 14.5% dollar share of total laundry detergent in the second quarter, up 40 basis points versus a year ago.

As a total company, we have grown share year on year in the laundry detergent category in 20 of the last 21 quarters. We do not have to talk but other products in all the categories covered by the ARM & HAMMER megabrands but ARM & HAMMER carpet deodorizers achieved its highest ever quarterly share of 53.8%, up 570 basis points versus a year ago.

All in all, a great quarter for the ARM & HAMMER megabrand, which is our largest megabrand with over $1 billion in the annual sales.

Next, the OXICLEAN megabrand had a solid overall quarter. The brand's total dollar consumption was up, driven by a 20% gain in consumption of the new OXICLEAN laundry detergent line, which was launched in the first quarter of 2014. OXICLEAN's share of the $1 billion stain [spotter's] category, its original category, increased by 80 basis points to 46.8%, which is greater than the combined share of the next three brands in the category.

Our third megabrand, the Trojan brand, had a solid quarter as all three segments of this megabrand grew. The Trojan condom business achieved its second highest quarterly share in the past five years at 76.4%, up 40 basis points versus year ago.

In the total condom category, the top 13 SKUs all belong to the Trojan brand and 26 of the top 30 SKUs are also Trojan SKUs.

Other forms of the Trojan brand also had a strong quarter. The Trojan Vibrations line of products grew its share by 160 basis points to 55.3%. Our Vibrations line now has the top three SKUs and five of the top 10 SKUs in the category.

And finally, the Trojan Lubricant line, first launched in February of 2013, grew its share by 40 basis points to 7.5%, making it the number three selling brand in the lubricants category. While the condom category is relatively flat, the Vibrations and Lubricants categories are growing at high single digits, far above the average [CPG] category growth rate.

Last but not least is our newest megabrand, the Gummy Vitamin business which we bought in October 2012. This business consists of two brands: Little Critters for kids Gummy Vitamins and Vitafusion for adult Gummy Vitamins. Despite strong demand for our Gummy Vitamin business, sales declined in the quarter due to self-inflicted supply constraints primarily involving the slower-than-expected startup of a new production line in our York, Pennsylvania manufacturing facility.

These supply issues have now largely been resolved and we expect stronger vitamin sales in the back half of this year.

Despite the production constraints, our branded Gummy Vitamin business grew its dollar consumption by 4% in the second quarter driven by a 9% consumption growth of our adult Vitafusion brand. Vitafusion continues to be the number one adult gummy with more than double the sales of the number two gummy brand. Overall, a very solid quarter for our four megabrands.

I'll finish off our portion of the call today with a few words on our outlook for the year. As I stated in the press release, we are maintaining our 2015 guidance on organic sales growth and gross margin improvement. We also are maintaining our adjusted earnings growth target despite incremental foreign exchange headwinds.

You might question why we're not raising our targets in view of our strong first episodes. We just don't feel comfortable doing this at the time for several reasons.

First, we had an incredibly strong second half of 2014, as Matt mentioned earlier, so we have to comp over those strong results. Second, we expect category groceries to continue to slowly improve but still be below our Company's revenue growth target of 3%. Third, we intend to continue to invest marketing dollars to grow our four megabrands, and secondarily, our five other power brands behind our new product innovation to drive strong future growth. And fourth, we expect continued fluctuation in currency rates and need reserves to handle those fluctuations.

In summary, we feel confident delivering our annual targets which are in the top quartile of EPS projections in our industry, consistent with our historical performance. We still have six months to go and in our opinion it's just too early to get more bullish, given the ongoing uncertainty about the worldwide economy, currency rates and competitive activity.

The achievement of our targets will be driven by a resilient portfolio of value in premium products, the launch of innovative new products across every one of our major categories, aggressive productivity programs and tight management overhead costs.

I also want to assure you that we are aggressively pursuing acquisitions and have the significant financial firepower to make them.

As you know, we of the great track record of making highly accretive acquisitions because we are very selective about the types of businesses we acquire and we're very aggressive on how we integrate them into our existing business.

That ends our presentation. I'll now open the call to questions that you may have, which I, Matt and Rick will do our best to answer.

Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bill Schmitz, Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

Couple of housekeeping items and then a laundry question. So when you said specialty sales were going to be flat for the year is that organic or is that with the acquisitions?

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

That's organic.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, good. And then, why isn't the gross margin target a little more aggressive in the back half of the year? Because it seems like if you look at the currency spot rates like the incremental impact kind of lessens but the commodity flow-through should be a little bit better on the pullback. Am I wrong in that calculus?

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Yes, that could happen, Bill. But as Jim said, to the extent that we beat our gross margin target, we're going to spend it back on marketing.

Bill Schmitz - *Deutsche Bank - Analyst*

That's fair. And on the laundry side it looks like OXICLEAN now is kind of line price with ARM & HAMMER. Is that like a permanent price reduction? Is it going to be the new price point for the product?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

No, Bill. OXICLEAN is not line priced with ARM & HAMMER. OXICLEAN is priced about 20% below where Tide is. So, it's up in the high end of the middle category or low end of the premium category.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, I was just looking at the Nielsen data and it looks like the average price per unit is identical now. But maybe that's just promotional activity or something.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

It probably is just the short-term promotional activity.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay and then one quick last one. On Little Critters, do you guys think you need to find a licensing partner? Only because if you look where all the growth is coming in on that Gummy thing, it looks like it's coming from guys who are licensing kids stuff.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

We do and we are.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, I'll stay tuned, thank you.

Operator

Bill Chappell, SunTrust.

Bill Chappell - *SunTrust Robinsonb Humphrey - Analyst*

I'll just follow up on Bill Schmitz's question. I mean, in terms of the gross margin benefit and reinvesting it all in marketing, at some point doesn't some of that need to fall to the bottom line? And, are you out marketing your competitors by 3X or 4X? At what point is too much?

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Bill, the way you should think about it is we said that, unlike many of our competitors, we're keeping marketing at 12.5% of sales. And obviously the underlying metrics that you want to look at there is what's the share of voice versus the share of market. So we are always pretty vigilant about that.

We have found historically that, to the extent that we significantly overindex there, that we're able to drive growth. So we're not focused simply on what number are we going to have this year, we're trying to build the brand equity for next year.

And as you know, OXICLEAN is the brand that we are trying to establish in new categories. And we launched in 2014, this is our second year. So that's an area of one brand and we would certainly pour on the marketing were it to become available.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Yes, Bill, let me build upon that too. You know, some of our key competitors are cutting marketing spending right now. We are not.

We also, as last year, we invested going into the second half of the year and we exited with very strong momentum and that carried over into the great results in the first half of this year. So yes, if we wanted to just worry about 2015, we probably could drop some upside opportunity that might happen into the EPS.

But we're worried about 2015 and the future. And we want to exit this year with momentum and enter next year with momentum.

So we're going to keep that marketing spending up and if we have additional dollars, we're going to pour it into it so we get off to a great start next year.

Bill Chappell - *SunTrust Robinsonb Humphrey - Analyst*

Okay and then just switching to the plant expansion for vitamins.

I might've missed it -- did you quantify kind of what the top and bottom line hit was in the second quarter from that? And then will there be any incremental hit in the third quarter, I guess, through July?

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Yes, we don't ever get into the weeks of sales for gross margins or operating income by product or segment, Bill. So I wouldn't go into that kind of detail.

But, with respect to the third quarter, yes there's definitely some overhang into Q3 for its charges that we're going to be taking into gross margin.

Bill Chappell - *SunTrust Robinsonb Humphrey - Analyst*

But was it meaningful or is it just a couple of cents of EPS or was it bigger than that?

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Yes, it's bigger than a breadbox.

Bill Chappell - *SunTrust Robinsonb Humphrey - Analyst*

Thanks (laughter).

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

(multiple speakers) we still delivered great results.

Bill Chappell - *SunTrust Robinsonb Humphrey - Analyst*

Perfect, thank you.

Operator

Caroline Levy, CLSA.

Caroline Levy - *CLSA Limited - Analyst*

Good morning and congrats to Rick on his promotion.

Rick Dierker - *Church & Dwight Co. Inc. - VP, Corporate Finance*

Thanks, Caroline.

Caroline Levy - *CLSA Limited - Analyst*

Thank you, I just want to ask you about vitamins. It's feeling a little bit like the one acquisition that hasn't done exactly what you hoped. (technical difficulty) generally, you want to be able to fold -- I'm sorry, I don't know what that noise is -- you want to be able to fold in production into your own plants. Generally, there's some good margin leverage and this just feels like a very, very competitive segment.

Can you tell us what you feel great about, about the vitamin transaction and what the next year or two or three might look like to you?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Yes, Caroline, that's a pretty fair assessment. What we feel great about is this has been and will continue to be one of the fastest-growing categories out there.

And keep in mind that the adult vitamin category, which is about 90% of the total business with about, I think it is $3 billion of sales only about 8% of that category is gummy today. So there's huge upside to converting the adult vitamin world into gummies. So that's what we see.

And honestly in this case, we outsmarted ourselves. We tried to do a good thing, improving the quality of our gummies and at the same time we tried to build a real state-of-the-art production facility inside of our plant in York, Pennsylvania. And we ended up screwing up both. And it was the biggest self-inflicted wound in my 11 plus year history as CEO and because of that, we had some supply issues and loss of sales.

But the good news is the worst is behind us. We are digging out of this very quickly.

We've got to deal with some upset customers in that but we are dealing with that well. And this business still has tremendous, tremendous upside and we still are number one out there in that.

But it was just a case of -- we tried to do too much too quickly and, again, I'll say we outsmarted ourselves, but we fixed it. We fixed it and the problems are largely behind us going forward and we have a great brand and a great upside opportunity in this business.

Caroline Levy - *CLSA Limited - Analyst*

So thank you for your frankness there, but do you think the next couple of quarters we'll still see a drag from gummies then?

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Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Yes, when you say drag, are you talking about sales?

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Caroline Levy - *CLSA Limited - Analyst*

Sales, margins, everything. I mean, everything.

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Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Yes, look, on the sales line the way you should think about it is, as Jim said, the gummy category -- so if you look at gummies within vitamins -- grew 14% in the second quarter. So that is a very healthy place to be.

We are capacity constrained and we're coming out of that right now. So obviously when you have retailers on allocation, they are very anxious for you to survive that and start increasing your sales.

So we've got plenty of new items coming. Obviously, we've been restricted with our ability to launch them but we do think that it's going to take another quarter or two for sales to accelerate for vitamins.

Caroline Levy - *CLSA Limited - Analyst*

Okay, that makes sense, thank you. And then just looking at international, can you talk about what drove the strength a little more specifically? I think you mentioned that Batiste.

And then, do you see any more likelihood of being able to find an international acquisition maybe even just a tuck-in than you're seeing (multiple speakers) with?

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Yes, the way you should think about international is that that's somewhat front end loaded. They had two terrific quarters, Q1 and Q2, and they're going to be more of a 2% grower in the second half. There were a lot of distribution gains that we got for Batiste. You hear us talking about Batiste quite frequently, not just in the UK but other countries as well.

So Batiste is a big puller there. And then our export business is that can be lumpy and sometimes your export businesses can be front-end loaded. So you saw some of that in the second quarter.

We got some orders that won't repeat in the third and fourth quarter. So I would say with Batiste distribution gains, the export business and timing there, and of course, we did have some strength in Europe and Mexico.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

And Caroline, I would add too, we've made some organizational changes over the past two years in the international organization. And now we just have a rock star organization out there that's delivering great results in both launching new products and execution at retail.

So I mean the results speak for [themselves](technical difficulty) percent -- almost 10% organic growth in some very tough markets like Europe where the guys are having a hard time. So great organization, great new products, great execution; it's all adding up to some terrific results.

Caroline Levy - *CLSA Limited - Analyst*

Thank you. My last question is on laundry and just you touched on -- you said something very interesting. You think the negative volume impact of positives is largely over.

I don't know how the Purcell launch is affecting the category overall but any more detail you can give would be really helpful.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Yes, Caroline, the laundry category, you know it was by the PODS launch. It's a great innovative new product but it did lead people to using less laundry detergent. It's now stabilized at about 13% of the laundry category. Every competitor has launched their POD. So there's no more upside from new launches out there as far as new brands going out there.

You do know there was a very negative report that came out on July 16 from Consumer Reports where they recommended that households with kids less than six years old refrain from purchasing the product. That's very, very recent news. We have not yet seen share results to show whether

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or not that's going to actually hurt the PODS business but we'll be watching that very closely as that was a very strong statement by the Consumer Reports organization, which has a very powerful impact to consumers.

We honestly are the only -- or we don't have a liquid laundry detergent pod out there, which is what's causing this issue. I will take the blame. I've held the organization back on that because I was very concerned about the consumer issues going on out there.

We do have less than our fair share of the category but we have plans in place to get up to our fair share of that category. But right now the PODS as a percent of laundry has stabilized.

We have focused much more up to now on the liquid part of the category, liquid laundry detergent, which is over 70% of the category and I've told you we've had great results. I think we've had share gains in over 21 of the past 22 quarters and by far the biggest segment. So that's kind of the story on laundry.

And we mentioned earlier, too, the promotional environment has kind of normalized to that historical standard for the past several quarters. So now you're getting up into the positive zone after several years of negative declines in the category driven by the POD and by some overly aggressive promotional activities going on in the category.

I would say the future is looking much better out there. There are -- there's rumors out there that Purcell is going national some time maybe as early as the fourth quarter this year. We don't know anything more than that at this point about what its impact will be in the category but, overall, I think the future is looking brighter for the category going ahead.

Caroline Levy - *CLSA Limited - Analyst*

Thanks so much.

Operator

Joe Altobello, Raymond James.

Joe Altobello - *Oppenheimer & Co. - Analyst*

First, again, I want to congratulate Rick as well, well deserved on that promotion.

Rick Dierker - *Church & Dwight Co. Inc. - VP, Corporate Finance*

Thanks, Joe.

Joe Altobello - *Oppenheimer & Co. - Analyst*

Not to throw salt in any self-inflicted wound, but I'm not sure you guys gave the consumption number for Little Critters in the quarter. I may have missed it.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

It was down, Joe. It was down. We got attacked by, as mentioned earlier, some competitive products on licensed stuff and we took a step back on it but, overall, our total gross consumption wises up in the vitamin category.

Joe Altobello - *Oppenheimer & Co. - Analyst*

Okay and how long do you think that will last for? Is that still some of that you see bouncing back by year end?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

I don't want to make a prediction on quarters but we have plans in place to launch new products from that to restore growth in our share on that business going forward.

Joe Altobello - *Oppenheimer & Co. - Analyst*

Okay and then switching gears to marketing you mentioned you're keeping it flat at 12.5% of sales. What's going on in the gross to net line? Are you seeing increased or decreased trade promotion activity within your categories?

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

As I said before, Joe, we said that we have a more normalized promotional environment that we saw in the first half of 2015 as compared to the second half of 2014. Q3 last year was particularly rugged.

So the transition going forward is one of the reasons why we expect to get some gross margin expansion this year was because of more normalized promotional environment.

And specifically what you see the last of is couponing. There is less couponing this year than last year in the gross-to-net line.

Joe Altobello - *Oppenheimer & Co. - Analyst*

Got you, okay, and then just one last one in terms of cat litter, obviously, it's been a star for you guys. When do we start to lap the tough base periods in terms of category growth or have we started to lap that category growth?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

We have, Joe. We were lapping it -- we started lapping it in the second quarter of this year so we are already doing double-digit growth on top of double-digit growth and our product is just on fire.

So we've had two years in a row now of great product innovations, both the base CLUMP & SEAL and now CLUMP & SEAL lightweight. And it's just been awesome. And we've gone as I've said from a number three player to a number two, passing the number two player who has two brands in the category. Our one brand is now bigger than their two brands.

So again it's innovation, innovation, innovation drive the category, drive your brand. That's the most shining example we have out there of awesome growth in a very tough category. So it's just -- we are very proud of that and we're trying to put that magic on all of our businesses.

Joe Altobello - *Oppenheimer & Co. - Analyst*

That's very helpful. Thanks, guys.

Operator

Jason English, Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

Hey, good morning, folks, thanks for the question. Let me echo the sentiment congratulations, Rick, well-deserved.

Rick Dierker - *Church & Dwight Co. Inc. - VP, Corporate Finance*

Thanks, Jason.

Jason English - *Goldman Sachs - Analyst*

I hate to beat a dead horse but I want to come back to vitamins.

sounds like a really unfortunate time to have some supply disruptions. You mentioned competitive activity heating up, service level dropping and we're looking at some of the scanner data. Your distribution points have fallen 13% from the end of the last quarter.

So it looks like you're losing shelf space at the same time the competition is heating up. What are the plans to get it back? And why -- should we be concerned that you're going to have some consumption weakness that's going to bleed for a more protracted period in the wake of this?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Jason, I would just tell you, yes, we've had some hits to the business because of our supply issues but we have some great new products going out. We've got strong marketing programs going out behind all that and our customers have largely very much hung with us. We just had the wounds and we dealt with it.

Again, there's so much upside in this category, there's going to be growth. There's going to be growth and now you have almost every major player in the category launching gummies. It's all they're talking about is gummies.

So, again you've got over 90% of the adult category out there to be taken, that's hard pills today over the gummies. And everybody has validated that gummies are as great as the hard pills. So I think we're going to get our fair share or more than our fair share with the new product launches we are bringing out and the brand support we have.

So again, yes, I would totally admit we had a short-term hit from this that was self-inflicted but we have all the plans in place to get back on a growth trajectory for this business.

Jason English - *Goldman Sachs - Analyst*

Okay, good luck on that. And let me switch gears quickly to laundry. It's been a while since we talked about this but compaction and the next wave was certainly a buzz over a year ago. It's died away.

Can you bring us up to speed on where we stand in terms of compaction? And if we were to advance what you think the impact would be?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

I'll answer part of that. Right now the tentative plans in the industry, there will be about a 25% reduction in water in the product in the next wave. There will be a test nationally in starting in Q4 of 2016 and there will be national launches by 2018.

Those are the tentative plans right now and as we've never had and never will validate the exact financial impact of that, honestly, it's even too early to fully estimate that as we're all now in the phases of trying to finalize what I just told you means. And we honestly just don't know yet.

It will not be as much as it was last time and I won't tell you what it was last time but it won't be as much as it was last time.

Jason English - *Goldman Sachs - Analyst*

Very good, thanks a lot, guys.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

But it will be big. It will still be meaningful because it's our biggest business.

Jason English - *Goldman Sachs - Analyst*

Sure, sure. Okay, thanks a lot. I'll pass it on.

Operator

Chris Ferrara, Wells Fargo.

Chris Ferrara - *Wells Fargo Securities, LLC - Analyst*

Thanks, guys. I guess going back to international for a second. Was the distribution gain that you had in the first half -- was a lot of that pipeline fill? And I guess, I'm trying to understand the fact that the growth was obviously very healthy, very volume-driven but you also haven't really been pricing a heck of a lot given the currency environment. So are there plans to price more and was that pipeline filled that's going to bleed off in the back half of the year?

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Yes, you're right in that there is some pipeline fill, obviously, any time we're going to be entering new markets. But it still -- we still do have same-store significant growth overseas. So I wouldn't throw a bucket of water on that. That thing is a [rocket] here. It's going to continue to grow.

As far as price goes, we actually did get some price in the second quarter. So we have done some selective pricing around the international business. If you go back to the release, you'll see that.

And I wouldn't expect, like you say, for Batiste suddenly to plateau. On the other hand, we expect that to continue to grow in 2016 and 2017.

Chris Ferrara - *Wells Fargo Securities, LLC - Analyst*

That's great. Okay and I guess so how -- getting back to pods, how high a priority will liquid pods eventually be? I know, Jim, you mentioned a Consumer Reports article that's going to hit. I mean are kids eating them enough of an issue to limit your investment in that category? Is that really what's setting the strategy?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

No, I would say we're watching this current -- yet again brand-new news of several weeks ago as impacting the category, but I fully believe pods will be here to stay. The industry is taking actions to deal with these issues and we fully expect to be a full-time player in the category.

And again we're safe from any legal issues right now with the liquid pods situation because we are not in liquid pods. But we have plans in place to build our business going forward and I just don't want for competitive reasons get into what those details are.

Chris Ferrara - *Wells Fargo Securities, LLC - Analyst*

Got it, got it, thanks. Look, I guess one last thing, just on gross margin bigger picture. Obviously, you guys have generated a huge amount of gross margin over time from high 20s to mid 40s. Given it's a very competitive, it has been for the last few years but it's kind of flattened out.

So as you think forward the next one, three, five years, can this Company be a 50% gross margin business? And if so how do you get there? Does it have to be more of a product mix issue? I mean, will we see you guys premiumizing it more? Does it have to be more of an M&A story? But I'd be curious for your longer-term thoughts on that. Thank you.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Yes, I would tell you, yes. We have flattened out in the last year or two but that was a pretty -- a lot of our competitors went backwards. So actually we have absorbed a lot of hits out there from a time period of higher commodities and foreign exchange, everything else going on. So while our performance and flat, that's actually been better than competitors. And I do believe we can get up to a 50 gross margin in this business, it'll be a combination of launching new products with higher margin, continued productivity gains and acquisitions.

And it is our goal to get up to that point time and I'm not going to give you the timeframe we believe in that. But I do believe that is very doable.

Chris Ferrara - *Wells Fargo Securities, LLC - Analyst*

Okay, thanks a lot.

Operator

Kevin Grundy, Jefferies.

Kevin Grundy - *Jefferies LLC - Analyst*

So, first question on M&A. Anything that you guys can share in terms of what you're seeing, valuation in the pipeline activity within certain categories?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Are you kidding?

Kevin Grundy - *Jefferies LLC - Analyst*

I mean just some incremental color, Jim. I'm not asking for too much (laughter).

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

It's a very active marketplace out there. We are incredibly actively engaged in that marketplace. But as you know, we are very picky and that begin pickiness has paid off huge dividends in the past in terms of the accretive value that we drive through acquisitions.

So I assure you that I'm probably spending major part of my time going out and looking for the right acquisitions right now. And again, nothing big has happened so far.

We picked up some wonderful small acquisitions that have been nicely accretive to our women's health business to our SPD business and that. So I can just guarantee you we continue to be hot and heavy looking for the right deals out there. And when they happen, you'll be the first to know.

Kevin Grundy - *Jefferies LLC - Analyst*

Okay, thanks for that, Jim. Matt, on the guidance for the year now sort of tying in laundry and some of the discussion earlier on Purcell. Do you feel confident there's sort of enough cushion in the guidance? There would certainly seem to be given the commodity favorability and strong first half of the year. Should pricing get worse in the laundry category, we've often sort of seen this but its new product sort of introductions. And particularly given that Purcell seems to be aimed at Tide it could be a potential for some promotion here in the back half of the year.

For the first question, do you feel comfortable you have enough cushion there should you guys need to respond?

And second, sort of unrelated to the Purcell dynamic is XTRA which hasn't gotten a lot of discussion, I guess, on the call but has really struggled. And I know you guys are well aware of that and there's been discussion in the past about stemming some of the losses there, but it just hasn't happened yet.

So maybe you can talk a little bit about that as well, sort of returning to growth in XTRA. Thanks.

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

With respect to the full year, Kevin, you know that it's always pluses and minuses that go into any of our forecasts. So when we scorecard the rest of the year, all the things that you cited are on the page. So the answer is yes, we obviously always forecast in leaving ourselves some flexibility to react to market conditions.

As far as your observation about XTRA, your assertion is what? That XTRA is declining?

Kevin Grundy - *Jefferies LLC - Analyst*

Yes, based on the scanner data that I'm seeing it looks like it's declining significantly, at least in liquid, yes.

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

So our 13-week data would say that XTRA is flat. It is true that it had been on the downswing over many quarter basis but we've corrected that. We put a lot of promotion behind XTRA this year in order to deal with some of the competitor actions. So we expected that's going to be stabilized and it's going to return to growth.

Kevin Grundy - *Jefferies LLC - Analyst*

Okay and then, Matt, quickly on Oxy. Are you guys pleased? It looks like you did promote -- I know Bill Schmitz asked the question earlier about pricing and parity but it looks like that was driven by promotion, which you guys have ramped here over the past four, eight, 12 weeks. Are you guys pleased with where you are with the entry there into liquid at this point, based on repeat purchase rates?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Yes, Kevin. This is Jim. I would say are we pleased where we are? No. We want to be higher. We are very pleased with the progress. We had a big 20% gain and consumption in the second quarter so we got good momentum behind the business right now and we feel good. But we want to continue to grow the business. It's a great product, there's great performance out there. We're very, very happy with the progress we've made in the beginning of this year. So we're in the right direction.

And I would say within the cusp where Purcell is, OXICLEAN is performing very well versus the majority of the Purcell SKUs. In fact the majority of the Purcell SKUs don't deserve to be expanded. And so, we're not that fearful of Purcell at this point in time.

Kevin Grundy - *Jefferies LLC - Analyst*

Okay, great. Thank you.

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Something else that might be helpful to you is that OXICLEAN's share is 1.2% in laundry but where we have distribution, we are over a [2%] share. So remember, we're still trying to get trial and distribution 2015.

Kevin Grundy - *Jefferies LLC - Analyst*

Great, that is helpful. Thanks for the time and congrats, Rick.

Rick Dierker - *Church & Dwight Co. Inc. - VP, Corporate Finance*

Thanks, Kevin.

Operator

Steve Powers, UBS.

Steve Powers - *UBS - Analyst*

Just a follow-up on the OXICLEAN line of questioning. Where does laundry share for that brand need to be? You mentioned kind of that 1.2%, 2% in the outlets you're in. But where does it need to be before you're comfortable about just the sustainability of shelf space?

It's obviously done well but you're spending still a lot on trade spending to secure that positioning. I'm just trying to figure out how long that needs to go on especially where you've got Purcell and others entering new products in the category.

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Yes, well, you've got to appreciate -- this is a -- we have not been in the upper end of laundry. That was our entry in 2014. So we priced this product 20% below Tide. So now we're up against Tide and Gain and more recently Purcell comes in.

So it's a crowded area and this crowd is not going to roll over and play dead. So it does require a significant amount of promotion and advertising in order to get trial.

So as Jim said, yes, we are okay where we are but as far as how are you going to hold shelf long-term, the significant -- you've got to be below 2% -- above 2% share and we're at 1.2% today, we are 2%, we are in distribution. We've got to get over 2% to hold share long term and then grow from there.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

You know, Steve, keep in mind this is a laundry detergent is a $6 billion category. So 2% share is very meaningful revenue results and we are, again as Matt said, where we have good distribution we are over that already and were building distribution in other places. So it's a challenge.

We believe it is very doable. We have the plans in place, we have new product launches coming to support that and we will achieve that in my mind. And again, if we had created and launched the Steve Powers brand and we were spending all this money, I would say it was big mistake. But we spent all the money behind the OXICLEAN brand very smartly from a marketing standpoint and that's why we continue to do well on the original OXICLEAN additive brand is doing very well on the marketplace, benefiting from all the advertising we are spending on the laundry detergent version of it, so --.

And also the bleach version, we didn't even mention today, the launch in the bleach last year of the OXICLEAN brand has done extremely well. So very incremental to the business.

Again, this is why we believe in megabrands. Because when you spend behind a megabrand and expand it to a new category, you get a lot of benefit on the prior parts of the brand that are out there from the Halo to the advertising bag. So we're very much going to continue the strong support behind Oxy laundry detergent and we believe that will benefit the whole OXICLEAN megabrand.

Steve Powers - *UBS - Analyst*

All right, I'll look for the Steve Powers brand expansion next year.

Just on the guidance for the second half where you've guided to a deceleration and I'm talking about from the top line perspective. I'm not surprised by the slowdown just acknowledging the tougher comps. But it feels a little bit more stark then you'd previously anticipated.

Is that the vitamin issue? Is it changing assumptions and specialty? Is there something else in the margin creating that incremental caution or is it just conservativism?

Rick Dierker - *Church & Dwight Co. Inc. - VP, Corporate Finance*

Hey, Steve, it's Rick. Let's talk about it from the total Company perspective first.

So in Q2 on a stack bar basis, a year ago we were at 3% and we're 5.1% so that's an 8%. If you do the same thing for Q3, it's around a 7%. And if you peel that back and you take the specialty product business out and the international timing out and you just look at the domestic business, the stack bar for Q2 is around 5.5%, and for Q3 it's a 6%.

So we think it's actually a pretty decent quarter when you look at it like that.

Steve Powers - *UBS - Analyst*

Okay, thanks.

Operator

Olivia Tong, Bank of America.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great, thanks. First on vitamins. Have you brought in outside help to help you work through some of your production difficulties? And if not, is there a need to?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

That is quite an open-ended broad question because you're assuming that these are what the issues are. Our issues are simply that in our Vancouver plant we had some equipment that went down and that was just one of those things.

Now so, we had to repair the equipment in our existing plant. In our new plant the startup was expected to be completed in March. This is very sophisticated equipment, it has to -- it won't work in a synchronized fashion and once you get it rolling, it rolls.

And it's producing now the way we want it to produce. But it's taken us three or four months to get there.

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

I would say, Olivia, too, we've had some customers command to see our new facility in York and they've been blown away by the sophistication of it and its potential. So again we did the right thing building a real state-of-the-art spaceship type plant that will produce -- increase our capacity by 75% and it was just a little bit more difficult than we estimated.

We are very aggressive and we had a very aggressive timeline and it was a little more difficult than we estimated to get this state-of-the-art facility going.

But we are very impressed by its potential. Our customers who have been able to look at it are blown away by its potential and it's just we've had the short-term hiccup and we'll get it behind us but it's been fixed.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it, thanks. So it sounds like September quarter you'll still have some impact, but by December quarter you should -- you think you probably be sort of on the path to where you had hoped to be earlier this year?

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

That's right, that's good. Yes.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Perfect, thanks. And then just following up on international. I mean I know it's small for you but the price mix contribution was only 2% versus the FX hit of 15%.

So is there opportunity or plans for incremental pricing and it just hasn't hit yet? Or is there something else that impedes the ability to price up to where the FX hits are?

Rick Dierker - *Church & Dwight Co. Inc. - VP, Corporate Finance*

It's a decent question, Olivia. You've got to remember most of the categories we play in, in these countries, we're relatively small players. So we don't have the pricing power to really take FX impacts.

So the 2% is largely Brazil where there is currency impacts, and I would say the whole country price is up. But in general, no, we don't think we can price up all the way to cover currency.

Olivia Tong - *BofA Merrill Lynch - Analyst*

More incremental opportunity than the plus 2% or if competition is not moving then obviously it's tough for you to push that?

Rick Dierker - *Church & Dwight Co. Inc. - VP, Corporate Finance*

Right but I would say plus 2% is a reasonable number.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it, thanks. And then just lastly on personal care. You did discuss Trojan but can you talk about trends in your other personal care categories as well and just the competitive challenges in those categories? Thanks so much.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Yes, the (inaudible) personal care category -- they've actually performed better over time than some of the household categories and household again was dragged down by the laundry category which was a big part of it. And we've had good results. Our shares have been strong in those categories. There have been some pricing competition in things like pregnancy kits which has caused a bit of a war out there.

But no, we've got a lot of new products in those categories and we are very happy with those products in that. And if I had one wish in life, I'd wish I get the Trojan category growing. The condom category has been relatively flat now for quite some time but we're working on some major new product launches in that category and some great new marketing programs to help to get that going forward. Because that's the case with a 76.4% share, it's really incumbent upon us to drive the category more than share grows.

But we have some plans in place over the next two years, which I find very promising, to rejuvenate that category and get it growing again.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Understood. Thanks a bunch and congrats, Rick.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

One more question, guys, and then we're going -- we have to get off to back to building this business.

Operator

Jon Andersen, William Blair.

Jon Andersen - *William Blair & Company - Analyst*

Two quick ones. Do you have a timeframe that you can share for how you're thinking about growing into the new capacity, the new vitamin capacity? I know you said it increases your capacity 75%. So just a reasonable guidepost there would be helpful.

And then on -- in terms of margins the business, you're committed to maintaining marketing ratio I think in the kind of range we are running out today 12.5%. You've seen quite a bit of SG&A leverage in 2013 and 2014, not so much in 2015. But is it reasonable to think going forward as we look out to 2016 and beyond that more of the margin expansions to the degree that there is going to be driven by gross margin ,just given kind of the dynamics this year? Thanks.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Yes, John, on the vitamins side we would not have built a plant with 75% volume upside if we didn't think we would use it. We're just not in a position right now for reasons to expand upon that how we plan to get there and when. So good question but sort of like laundry [compacts], we're not going to answer it.

And then on the gross margin side, I'll turn it over to Matt and Rick.

Matt Farrell - *Church & Dwight Co. Inc. - CFO and COO*

Yes, with respect to SG&A, you're right. We've had a lot of SG&A leverage over the past few years. But part of our long-term model is, we tried to grow [to] our operating margins 50 basis points annually. And the way you're going to get that is the lion's share of it from gross margin will be 25 to 35 basis points and the rest is going to come from SG&A.

And as we saw this quarter, if you hold SG&A dollars flat you're going to get leverage. You have 15 basis points of leverage in the quarter. So, yes, you have to be vigilant about how you manage SG&A. We're not going to get the 50 or 60 basis points a year from that line item.

Acquisitions obviously can help because you know our acquisition model is essentially we buy marketing contribution which is gross profit minus marketing. So that gives you instant leverage on your SG&A. And that has been part of our story historically.

So there's lots of leverage to go in there. I hope that's helpful to you.

Jon Andersen - *William Blair & Company - Analyst*

Yes, it is. Thanks guys.

Jim Craigie - *Church & Dwight Co. Inc. - Chairman and CEO*

Thank you all -- good, thank you. I'd like to thank you all for tuning in today. Another great quarter from Church & Dwight. A great first half of the year despite the problems we had on vitamins and a lot of great things coming in the future. So thank you all for your great questions and give any more questions, give Rick or Matt or me a call and we'll do our best to answer them. So thanks, everyone.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.
