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CHD - Q3 2015 Church & Dwight Co Inc Earnings Call

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OVERVIEW:

Co. reported 3Q15 reported revenues of $862m and reported EPS of $0.90. Expects 2015 organic sales growth to be 3% and 4Q15 organic sales growth to be approx. 1%.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Church & Dwight third-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, sir.

Jim Craigie - *Church & Dwight Co., Inc. - Chairman, 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 the call by providing you with my perspective on our third-quarter business results, which you read about in our press release this morning.

I'll then turn the call over to Matt Farrell, our Chief Financial Officer and Chief Operating Officer, and soon to replace me as Chief Executive Officer. Matt will provide you with his perspective on the financial details for the quarter. When Matt is finished, I'll return to discuss our earnings guidance for the year, and then we'll open the call to field questions from you. You should also know that Rick Dierker is here with us today, who will replace Matt as CFO in 2016.

Let me start off by saying that I'm very proud of my Company for the third-quarter business results that we achieved. Despite headwinds from continued soft US consumer demand and weakening foreign currency, the Church & Dwight team built upon our momentum in the first half of this year and continued to leverage our innovation-driven strategy to deliver strong business results in the third quarter of 2015. This is exemplified by the fact that our organic revenue growth of 3.2% in Q3 was the sixth consecutive quarter of organic growth above 3%, even though we are now lapping high organic growth levels of 5% achieved in the back half of 2014.

As I have stated on 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 domestic sales so far this year came from new products launched in the past five years.

In 2015 we launched new products in every one of our major categories. Some of these new products, like our new premium-priced cat litter called ARM & HAMMER Clump & Seal, have become a huge hit with our consumers as reflected in both the brand share results and its impact on category growth.

We first launched the new ARM & HAMMER Clump & Seal cat litter product in 2014, which drove a 23.5% increase in our consumption and grew our share by 290 basis points to a record share of 22.9%. In 2015 we built upon this success by launching a new lightweight version of the Clump & Seal cat litter. This product is also off to a great start.

Our total ARM & HAMMER cat litter consumption in the first nine months of 2015 was up 15%, and our share grew to a new record of 24.0%. This share growth in 2014 and 2015 has enabled our cat litter brand to grow from the number 3 brand in the category to a strong and growing number 2 brand; and this growth helped drive the cat litter category up 8.6% in the first nine months of last year on top of the 8% growth in 2014.

This exemplifies our belief that innovation is the key anecdote to driving improved value creation for consumers, customers, and shareholders. Our goal is to continue to launch innovative new products to drive share gains in category growth in all the categories in which we compete.

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

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

Thank you, Jim, and good morning, everybody. I'll start with EPS. Third-quarter reported EPS was $0.90 per share compared with $0.85 in 2014; that's up 5.9%. The $0.90 was better than our $0.87 to $0.88 outlook for the quarter, and netted in our $0.90 is 4.7% drag from FX year-over-year.

Reported revenues were up 2.4% to $862 million. Organic sales were 3.2%, exceeding our Q3 outlook of 2%. The organic sales beat was driven by our Consumer business, both Domestic (technical difficulty) percent is due to volume, with 1% positive product mix and pricing.

Now let's review the segments. The Consumer Domestic business's organic sales increased by 2.8%, driven by the continued success of our ARM & HAMMER Clump & Seal cat litter franchise, including a new lightweight variant. Also, ARM & HAMMER liquid laundry detergent and higher sales of Vitafusion gummy vitamins (technical difficulty).

Of the 2.8% organic sales growth in the Domestic business, volume growth contributed approximately 1.6% plus the 1.2% effect of positive price. We continue to expect the full-year organic sales to be approximately 2.5% for the Consumer Domestic business.

Now let's talk about International. International organic growth was up 7.9%. Volume increased approximately 6.9%, and we had favorable product mix and pricing of 1%.

We have strong growth across Australia, Canada, Mexico, and Europe. In particular, our French team had a spectacular quarter with success with Batiste. We now expect that full-year organic growth to be approximately 7% for the Consumer International business.

Now we'll talk about Specialty Products. For our Specialty Products Division, organic sales was down 2.2%, with volume declining 1.4% and unfavorable product mix and pricing of 80 basis points, driven by a difficult comp of up 22% year-ago.

We said in May that SPD would come back down to earth, and it has. Currently the US dairy industry is still healthy, although milk prices have declined from an average of approximately $23 in Q3 2014 to approximately $16 in Q3 2015, the good news is that corn and soybean are also down and the dairy industry continues to be profitable. Comps are very difficult in the second half of this year; remember, last year, Q3 and Q4 were both 20% up quarters.

We now expect the full year to be approximately flat for the Specialty Products Division. For the total Company we continue to expect organic sales to be approximately 3% for the year.

Now, gross margin. Our reported third-quarter gross margin was 44.8%, a 110 basis points increase from a year ago. The Q3 gross margin benefited from four factors: lower trade spending, as we had a more normalized pricing environment in the laundry category; productivity programs; lower commodities; and higher margin from our acquired businesses. These factors were partially offset by foreign exchange, negative product mix, and incremental costs associated with our new vitamin capacity at our York plant.

For the full year, in August we called 25 to 35 basis points of gross margin expansion. We now expect a range of 35 to 45 basis points on a full-year basis.

Now, marketing. Marketing spend for the third quarter was $92.8 million or 10.8% of revenues, which is 70 basis points lower than the prior-year spend rate, largely driven by shifting some marketing funds to trade and coupons to continue supporting consumer trial-generating activities for the OxiClean megabrand. For Q4, our expectation is for marketing to be flat year-over-year; our full-year expectation is approximately 12.3% of sales, or down 30 basis points, primarily due to the previously mentioned OxiClean megabrand investment shift.

Now, SG&A. SG&A as a percentage of net sales was 11.9%. That's an 80 basis point increase from the prior-year third quarter. This was primarily due to incremental amortization from acquisitions, higher incentive compensation, and research and development spending. Our full-year expectation is for SG&A to be flat as a percentage of sales.

Other income expense was $4.9 million, which is largely interest expense of $7 million. With respect to operating profit, the reported operating margin for the quarter was 22.1%, which was 100 basis points higher than the prior-year third quarter.

Next is income taxes. While the quarters may be uneven, our effective freight for the quarter is 35.2%. That's higher than our full-year expectation of 34.5%. The Q3 rate is higher year-over-year primarily due to the year-ago benefit from an IRS settlement.

Cash flow is next. We generated $408.8 million of net cash for the first nine months of 2015, and that's in line with the prior period. We have invested $44.7 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 $585 million and free cash flow to exceed $515 million.

In conclusion, the third-quarter highlights are 3.2% organic sales growth, 5.9% EPS growth, which equates to 10.6% currency-neutral EPS growth.

Now I'm going to talk about the fourth quarter. Remember our previous outlook was for the second-half top line to grow 2%. We still believe that. With Q3 growth of 3% we expect Q4 organic sales growth of approximately 1%.

For context, if we want to look at this on a two-year stacked basis, Q1 would be 5%; Q2 8%; Q3 8%; and then the coming Q4

6%, as last year we had a 5% organic growth quarter. (technical difficulty) We expect gross margin to expand.

We expect fourth-quarter earnings per share of approximately $0.79 per share to (technical difficulty). Remember we had 20% EPS growth year ago in the quarter.

Now I'm going to wrap and talk about the full year. To summarize our thinking, we continue to expect 3% organic sales growth and full-year gross margin expansion of 35 to 45 basis points. As we work our way down the P&L we now expect marketing at 12.3% of sales and operating margin expansion of 65 to 75 basis points.

As far as other income expense, excluding the impairment from early in the year, other income expense is higher by $6 million, or approximately $23 million expense in 2015.

The full-year adjusted EPS range is now 7% to 8%. That's inclusive of a 4% drag from currency. I want to remind us that we started the year with a 7% to 9% EPS outlook and a 2.5% currency drag.

The currency drag has been growing all year long. In May it grew to 3%; in August when we spoke to you it was 3.5%; and now it's 4%. So that's a total of $0.06 of higher EPS drag than when we started the year.

So we've raised our currency-neutral midpoint to 11.5% in August, and we're affirming that today. Back to you, Jim.

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

Thanks, Matt. Before I open the floor to questions I'd like to provide a few additional highlights on our third-quarter business results and our key categories and business units. As you know, we continue to sharpen our focus on our four megabrands -- ARM & HAMMER, OxiClean, Trojan, and our vitamin business -- which each cover multiple categories. These four brands represent over 60% of our Company's sales and profits and have achieved the most growth over the past five years due to delivering a bigger bang for every dollar of marketing investment than smaller, one-category brands.

In 2015 we plan to spend over 80% of our media investment on the four megabrands. This investment continues to pay off, as we achieved share growth on two of these for megabrands through the first nine months of 2015 despite aggressive competition.

The ARM & HAMMER megabrand had an excellent quarter, with total consumption up 5%, driven by its laundry detergent and cat litter products. I previously mentioned the excellent cat litter share results for the first nine months of 2015. The specific third-quarter results continued the strong momentum of this business, as consumption grew 15% and our share increased 150 basis points to a record 24.0% share behind the new Clump & Seal product line.

ARM & HAMMER laundry detergent also had a solid quarter of growth, driven by its liquid laundry detergent, which achieved its highest-ever quarterly share and its 23rd consecutive quarter of year-on-year share growth. It's important to mention that the total laundry detergent category grew 2.6% versus year-ago in the third quarter, the second consecutive quarter of growth after three years of category decline.

This category growth reflects two factors: first, a return to more normalized pricing environment; and second, that the category has now absorbed most of the unfavorable impact of the launch of the 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 normalized pricing environment.

We do not often talk about other products and all the categories covered by the ARM & HAMMER megabrand, but ARM & HAMMER carpet deodorizers achieved its highest-ever quarterly share of 53.9%, up 420 basis points versus year-ago. All in all, a great quarter for the ARM & HAMMER megabrand, which is our largest megabrand, with over $1 billion in annual sales.

Next, the OxiClean megabrand whose share was up 20 basis points in the first nine months of the year. This megabrand's third-quarter dollar share was down slightly; however, the brand's two biggest forms, OxiClean powder and OxiClean liquid laundry detergent, achieved share gain.

OxiClean's share of the billion-dollar stain-fighters category, its original category, increased 230 basis points to 46.0%, which is greater than the combined share of the next five brands in the category. OxiClean liquid laundry detergent, which was first launched in the first quarter of 2014, grew its sales over 20% versus year-ago and achieved its highest-ever quarterly share.

Our third megabrand, the Trojan brand, had a solid quarter as all three segments of this megabrand group. The Trojan condom business achieved its second-highest quarterly share in the past five years at 76.4%. In the total condom category, the top 12 SKUs all belong to the Trojan brand, and 25 of the top 30 SKUs are also Trojan SKUs.

Other forms of the Trojan megabrand also had a solid quarter. The Trojan Vibrations line of products grew its share by 310 basis points to 58.0%. Our Vibrations line now has the top three SKUs in the category.

And finally, the Trojan Lubricant line, first launched in February 2013, grew its share by 30 basis points to 7.7%, making it the number 3 selling brand in lubricants category. While the condom category is relatively flat, the Vibrations and Lubricant categories are growing at high single digits, far above the average consumer products goods 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: L'il Critters for kids' gummy vitamins and Vitafusion for adult gummy vitamins. Last quarter I reported that despite strong demand for our gummy vitamin business, sales actually declined in the second quarter, primarily due to self-inflicted supply constraints involving a slower than expected startup of a new production line in our York, Pennsylvania, manufacturing facility. I'm pleased to report that our gummy sales grew over 7% in the third quarter as production rates and customer service levels have significantly improved.

In addition to our four megabrands, we had a great third quarter in some of our higher-margin power brands. Our First Response pregnancy kit brand achieved a record quarterly dollar share of 32.9%, up 250 basis points. Church & Dwight has been the number 1 manufacturer of branded pregnancy kits for 43 consecutive quarters.

Our Nair depilatory brand achieved a record quarterly share of 60.9%, up 450 basis points. Nair has been the number 1 depilatory brand for 44 consecutive quarters, with seven of the top 10 SKUs in the category.

I'd also like to highlight some great news on our dry shampoo brand called Batiste. We purchased this brand in the second quarter of 2011, which at that time was the number 1 dry shampoo in the UK. We have now expanded the brand to over 80 countries, and next year it will become our next power brand with projected sales over $100 million.

In the US, Batiste is the fastest growing dry shampoo brand, with sales up over 100% this year, which will propel this from the number 7 ranked dry shampoo to the number 2 ranked in the third quarter. While dry shampoo represents only 3% of the total shampoo category in the US, the dry shampoo subcategory is up 34% year-to-date while the bigger wet shampoo subcategory is up only 2%.

Going forward, we plan to leverage the double-digit growth in the dry shampoo subcategory through new product innovations and increased marketing support, to drive the dry shampoo subcategory to at least where it is in the UK, at 9% of the total shampoo category, 3 times the current market share in the US. This is another great example of Church & Dwight's successful acquisition strategy, in which we can make even a relatively small acquisition with unique consumer benefits and quickly turn it into a strong contributor to the profitable growth of our Company.

Overall, a very solid quarter for our four megabrands and several of our power brands. 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 improving our guidance on gross margin. We are not changing the midpoint of our currency-neutral adjusted EPS growth for 2015 of 11.5%.

You might question why we're not raising our targets in view of the strong results in the first nine months of 2015. We simply do not feel comfortable doing that at this time for several reasons.

First, we had an incredibly strong organic sales growth of over 5% in the fourth quarter of 2014, so we have to comp over those results. Second, if we do have additional earnings upside, we will invest it in incremental marketing to enable us to support stronger share growth in our four megabrands behind our new product innovations as we exit 2015.

In summary, we feel confident in delivering our annual targets, which are in the top quartile of EPS projections in our industry, consistent with our historical performance. The achievement of our targets will be driven by our resilient portfolio of value and premium products, the launch of innovative new products across every one of our major categories, aggressive productivity programs, and tight management of overhead costs.

I also want to assure you that we are aggressively pursuing acquisitions and have significant financial firepower to make them. As you know, we have a great track record of making highly accretive acquisitions because we are very selective on the types of businesses we acquire and very aggressive and how we integrate them into our existing business.

That ends our presentation. I'd now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kevin Grundy, Jefferies.

Kevin Grundy - *Jefferies LLC - Analyst*

Thanks; good morning, guys. I'd like to start -- so you guys put up a slide, I guess, in early September at an investor conference and you took the top-line algorithm down to 3% from 3% to 4%, understanding that you hadn't put that slide up in a while. But can you guys touch a little bit on industry growth? How your view -- I guess three different components really.

Talk about industry growth, ability to gain market share, and then maybe a little bit of a tougher M&A environment with respect to multiples, and given the long discipline the Company has had, the inability to close some of these deals and get accretive organic deals done.

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

Yes, Kevin; this is Jim. I'd answer it as follows. Industry growth, as far as I can talk in category growth, is actually ticking up a little bit with probably one of the best quarters in a long time in the sense of how many categories of the 14 we compete in grow. It's not huge, but it's a nice little incremental growth.

So I feel somewhat positive despite all the somewhat negative signs you read about the economy these days. So I would say at this point in time I would not worry about the industry growth and maybe it's getting a little better.

Share growth? Hey, we always feel good about that. We've got great new product pipelines this year; next year I feel extremely good about our new product pipeline.

Marketing spending, we've shaved it a little bit so far this year, but nothing near what everybody else has shaved. When you've read reports like Colgate has cut 20% of their marketing, our share of voice is still very high and we feel very confident about continuing to grow share out there.

The M&A environment is -- you read a lot of stories; I would just tell you we're very active. I'm not worried about competing on price for the right acquisition out there, but always the story is finding the right acquisition that we believe has all the factors that we want to see in acquisitions as far as having strong growth potential, a higher margin than our corporate margin, asset light, and that. So we are continuing to scour the minefield for those kind of acquisitions, and I don't worry about price.

Kevin Grundy - *Jefferies LLC - Analyst*

Okay. All right; that's helpful. Just one more for me. Maybe touch a little bit on the decision -- so A&M comes down modestly; not a big deal. But I guess a decision has been made to reallocate some of that to trade promotion. Can you talk a little bit about that decision?

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

Yes, Kevin, I would just tell you, A&P spending -- if you adjusted it for FX in Q3 we spent equal to year-ago. Again, that's a hell of a lot better than a lot of our competitors who cut their A&P significantly to cover problems like foreign exchange.

In Q4, the marketing spending will be the highest level as far as marketing spending for the year. So I feel very confident that will propel us to some good strong share gains in the fourth quarter and next year with strong momentum.

We have kept marketing up much better than I believe many of our competitors. That's enabled us to keep our share of voice and should lead to very strong share results going forward.

Kevin Grundy - *Jefferies LLC - Analyst*

Okay. Thank you, guys.

Operator

Jason Geri, KeyBanc.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay, thanks; good morning, guys. Hey, I guess I was just wondering if you can give us maybe a little bit of a sneak peek into next year. I'm sure you're going through all the budgeting now and want to get to the fourth quarter.

But can you talk maybe -- I guess two things in particular: about the core business, if there's anything out there that you think might get a little bit better, worse, versus what you've seen this year; and then maybe tie into currency, how that's positioned into next year. I know this year you are saying a 4% drag to the bottom line, but how we should be thinking about that for next year.

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

Yes, hey, Jason; this is Matt. So, as you know, our model, as Kevin pointed out, is for revenue growth of 3% and 50 basis points of operating margin expansion annually. We're going to keep with our past practice of giving our outlook in February and a line item outlook at that time too.

But as you know, there's always pluses and minuses. So take one of your points, currency: the EPS drag this year was 4%, but that was actually muted by FX hedges that we got out in front of. So actually the FX hurt this past year would have been 6% if not for actions that we took before the year started. If you remember a year ago, things started getting pretty volatile with currencies.

On the plus side, the vitamin business is coming around, and we expect the vitamin production difficulties not to repeat in 2016. So that's a plus and I'm sure that's on some people's minds as well.

But if you wanted to estimate what would the FX drag be for us next year, we'd say probably 2% to 3%.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay. No, no, that's good. Yes, I do know you wait till February, but I just figured this is on the topic of mind.

I guess the other question, maybe we could just talk a little bit about laundry and maybe specifically just about OxiClean at the high end. Certainly we've seen a little bit more -- I mean I know you're saying that the environment is more rational, and I do agree with that. At the high end the bigger player out there I think is doing a little bit more responding to the new guy in town.

So just wondering how that affects OxiClean. Is that where some of that promo spending might be going, on that brand?

And then how does that really affect to the consumer? I know the high end and the low end are different, but usually when there's gaps in terms of the price to the consumer, do customers see that? Or they just mutually exclusive?

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

Yes, hey, Jason; this is Matt. You've probably, if you got the Nielsen data, you know that the Oxi, the laundry detergent was up 8% in consumption in the third quarter. We had lots of successful promotion in Q3; in fact it created some out-of-stock situations with some of our retailers.

Consequently if you're looking at the Nielsens you'd see lower ACV. That's purely because of out-of-stock.

So we made a decision that we wanted to get behind OxiClean. When you enter a new category you're always going to find a lot of competition; and as you know, the OxiClean has been growing its share throughout the year, but it's tough sledding.

With respect to the pricing, it's a 20% discount to Tide, which is top end of the branded tier. So naturally we have somewhat of an advantage there.

When you mention Henkel coming into the category, naturally Persil started out at Walmart and Amazon earlier in the year, and now they're going to be rolling out to other retailers. So this is a good time for us to get behind the brand.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay, great. Thanks a lot, guys; appreciate the color.

Operator

Bill Schmitz, Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

Hey, guys; good morning. Hey, how big is Batiste and how big can it be? Because I've talked to some industry folks, and it seems like it's got like software margins on it.

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

What kind of margins?

Bill Schmitz - *Deutsche Bank - Analyst*

Software.

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

(laughter) We're not going to comment on the margins for Batiste. When we bought that business in 2011, it had $25 million in trailing net sales; and as Jim said, we think that this thing can be $100 million.

That would be not just the -- it's growing significantly outside the US right now. It's very small in the US. We're the number 2 brand, and we started the year out as the number 5 brand, so we been growing like a rocket.

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

Bill, I would just say the gross margin is well above the Company average and we're gaining distribution left and right. So this is a super-hot brand we have, and it's very hot with consumers out there and we feel very positive about the growth of this brand. It's just been -- it's a little monster for us, I would call it.

Bill Schmitz - *Deutsche Bank - Analyst*

Great, awesome. Then I'm sorry to belabor the laundry point, but it seems like there's a huge disconnect now between people's share of shelf and their share of market. How long does it take to make those adjustments if some of the stuff doesn't work as planned?

And then where does XTRA fit in? Because everything else is going great, but it seems like it's been a couple years now where XTRA is just trying to find out where it fits in; and it seems like they'd been like one of the bigger share donors in the category.

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

Yes, Bill, your comment on share of market and share of shelf is very interesting. For example Persil, which launched this year into Walmart, they initially got 19 SKUs. Our analysis would show only two or three of those SKUs should survive long-term; the rest of them all are on the bottom quartile of SKU performance. As they roll out, they're going to have to justify hard why they have any more than two or three SKUs as they go out, based on their performance at Walmart.

XTRA has had a little bit of a hard year. We have plans in place to restore growth in that brand. We still believe it's a very strong part of our franchise; it still hangs in around a 5% share, which is a very meaningful player in the category.

We've got some new product performances -- new products coming out next year I think that will revitalize growth of XTRA.

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

Hey, Bill; it's Rick. The only thing I would add on XTRA is, yes, share is down, but sales and profits are up. So we're not repeating some of those deep trade deals we had a year ago.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay; that's very helpful. Then just one last quick one. Do you know, when will the commodity favorability peak for you guys? I'm trying to figure out like when does all this stuff like flow through the P&L?

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

Yes, it's been flowing through this year. One of the reasons why we're taking gross margin up for the full year from 25% to 35%, to 35% to 45% is because of the commodity favorability.

Bill Schmitz - *Deutsche Bank - Analyst*

Got you.

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

But there aren't going to be four more quarters of that. That's for sure.

Bill Schmitz - *Deutsche Bank - Analyst*

Right. But are we at the top of the bell curve, or are we still on the upward slope?

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

No, I think we're peaking. We're not going to be seeing a whole lot of year-over-year favorability next year.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, great. Thanks, guys.

Operator

Olivia Tong, Bank of America.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great, thanks. First, just on the Q4 organic growth guidance, obviously Q3 came in better than we expected; but you're only looking for a 1% in Q4. I get that the cop gets a bit tougher, but the deceleration in Q4 versus Q3 is a bit more than that. So was there anything that pulled forward from the fourth quarter, or is that potentially just some conservatism?

Then I'm sorry I jumped on late, but on SG&A can you just give a little bit of color on what drove that increase there? Thanks.

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

Yes, Olivia. On the Q4 organic, keep in mind -- as you said and we noted -- we're comping a huge number a year ago of 5%. A fair part of that number was driven by some increased promotion spending on the laundry business; so the whole category has pulled back on that.

Hey, look, if we wanted to beat the 1%, we could easily put more money into the trade line and drive a bigger thing. But we don't want to upset what seems to be a much more normalized pricing environment in the laundry category right now. So we're very happy to deliver the 1% on top of the 5%, which, as Matt said, if you stack it on the two-year basis is a very strong number.

Don't view that at all as a deceleration of our business. It is not. We've got a great new product pipeline for next year, and we're going to be coming out with -- we're not calling a number now, but a very historic type of organic growth rate as we've had in the past. We feel very confident about that.

On SG&A I'll turn it to Matt.

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

Yes. On SG&A, we started the year saying we were going to get 15 basis points of leverage on that line item as a percentage of sales, and now we're saying flat. Two reasons for that: one is R&D spend, and the other is just our incentive comp. So it's pretty simple.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great, thanks.

Operator

Bill Chappell, SunTrust.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Good morning; thanks. Hey, Jim, I know you love these call so much. Is this the last time we're going to hear from you before retirement?

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

Yes, you kind of stole my closing there, but this is my 45th and last quarterly earnings call. As you all know, Matt will be replacing me as the head of the Company, but I'll stay on as the Chairman.

I would just tell everybody it's an honor and a privilege to be the CEO of this great Company, and I've enjoyed -- most of the time -- communicating with you over the past 11 years. I'd also tell you that I strongly recommended Matt as my successor, and I have total faith in his ability to continue with the great results.

And I put my money where my mouth is, because the large portion of my personal wealth is tied up with Church & Dwight stock and I intend to keep it that way.

So I would just say thank you to everybody. I'll be around. You may see me hanging out at some analyst conferences once in a while if they give out any free food. And otherwise I've got a great team here between Matt and Rick taking over the Company. We also appointed a new Chief Marketing Officer last week, so we've got a great team for the future.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

That's great. Enjoyed working with you; and didn't mean to preempt your closing. But it actually ties into my next question of -- in terms of P&G, Jim, you've seen over the years the biggest competitive changes have been -- have occurred when there's been a new CEO at P&G.

What's your initial take, or what are your -- what's the expectations with the CEO change of how the competitive landscape might play out in laundry over the next six months?

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

Yes, it's a fascinating question, Bill. I don't think it will change that much. In fact, just like we referenced a few times already today, it seems like the laundry category is getting back to more of a normalized pricing environment, which we really think is the right way to go, and drive the category through innovation.

That's the way we're going to play the game. We've got great new innovations next year.

I think the CEOs who are all taking over at Procter have taken over. And Matt and gang all have great experience in the laundry category, are smart enough not to do stupid things and start trade wars that nobody benefits from. So I think you've got a bunch of very smart characters who understand the business and understand that innovation is the key to it.

And now we've had two straight quarters of growth in the laundry category, which are very positive. So I certainly hope everybody understands that; and I think certainly we do at Church & Dwight here. Matt and Rick understand that well, and I think it bodes for good things going forward in the laundry category, in my opinion.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Okay, great. Then, Matt, just on the vitamins, is the thought that vitamins are back on growth trend and there are less category issues?

And then can you maybe quantify what the total expense of what the startup costs were to this year, which will be comping through next year?

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

I can help you with some of that, Bill. I don't know about the last one.

Give everybody some context: we had operating difficulties with the new plant, and the contrast is in Q2. Our sales were down for vitamins. We had some retailers on allocation, had some out-of-stocks, and pulled some promotion. So we were pretty much in the penalty box.

Today, I'm happy to report that our fill rates for the last six weeks are over 95%. Production rates are up; our product quality has improved. And importantly we have growing interest on the part of the retailers with respect to our new products, looking ahead.

So things have turned around for us. As far as quantifying, Bill, we wouldn't take a swing at that.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

All right, I've got to ask. All right; well, thanks so much.

And, Jim, congratulations. Enjoyed working with you.

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

Thanks, Bill.

Operator

Joe Altobello, Raymond James.

Joe Altobello - *Raymond James & Associates, Inc. - Analyst*

Hey, guys; good morning, thanks. First, in terms of M&A, you guys have obviously been pretty active over the last few years. But recently some of the others that you have done have been of the smaller variety, which sort of goes away from your megabrand strategy to some extent.

So as you think about M&A going forward, is it still your preference to do bigger acquisitions? Or are you more comfortable with the smaller tuck-in variety?

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

Joe, I would tell you we're ambivalent toward it because it's always just depends on the right deal. As we mentioned today, Batiste was a relatively small acquisition and now it's quadrupling in size. It's growing like crazy, so we don't mind that. And because we're still a relatively small player in this category, a small acquisition like that can have a very meaningful impact on our bottom line.

Hey, if a big one comes along that fits our criteria, we will do that too, and we have the firepower to do it. We can do a billion-dollar-plus acquisition. We have that money in the tank.

So trust me, we have been working hard. We're scouring the landscape for both small and big. But we're not going to just do a big one so we can pound our chests and do what I saw -- Coty today bought a business down in Brazil. I mean sometimes continue not to understand some of the prices my competitors pay and for what I don't consider to be the highest quality stuff.

But we're not going to do that. We're not going to do an acquisition to say we've done an acquisition, or do a big one just to come up with some big numbers.

We'll find -- we've had a great history of finding the right acquisitions, big and small. They've all been winners, and that's the goal. I can only tell you we are working fast and hard on that constantly to find those acquisitions.

Joe Altobello - *Raymond James & Associates, Inc. - Analyst*

Okay, that's helpful. Just one last one on vitamins, and I apologize if I missed it. But in terms of your manufacturing, obviously with the capacity expansion, do you guys have a cost advantage today versus your competitors from a manufacturing standpoint?

And did you guys gain back any shelf space you might have lost with regard to the disruptions from last quarter?

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

Yes, wouldn't say that we have competitive advantage from a cost standpoint, because you remember we expanded capacity 75% and we're still significantly under that. It'll take us years to fill that up.

Obviously we have fixed costs that we're going to have to absorb over time. So I wouldn't go there, Joe, from a cost perspective. What was the second part of your question?

Joe Altobello - *Raymond James & Associates, Inc. - Analyst*

In terms of the shelf space that you guys might've lost with regard to the production issues you had last quarter.

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

Yes, the shelf space that you saw -- if you look at the Nielsens for Q2, the reason why it looks like we lost points of distribution, which Jason pointed out on the last call, is because we had out-of-stocks. Out-of-stocks, when you're sold, out you show up as not having a distribution.

So because we are filling those back up, if you look at the Nielsens now you'll see that our points of distribution have grown.

As far as getting new shelf space, when you're in the penalty box you're not going to get a lot of new shelf space for new products. As I said before, the retailers are showing growing interest now -- because our fill rates are back up and we're a good supplier -- showing growing interest in our products, new products for 2016.

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

Joe, I would just remind you, we have a much bigger vision for the gummy business than just vitamins. We actually hope to take that business into other OTC categories in the future and build that.

We're working on that. It takes a lot more effort because of greater FDA regulations in some of those businesses. But it's not a gummy vitamin business; it's a gummy business, and we hope to take it in a lot different directions in the future, and the capacity we have enables us to do that.

Joe Altobello - *Raymond James & Associates, Inc. - Analyst*

That's very helpful. Thanks, guys; and congrats and good luck, Jim. Take care.

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

Thanks, Joe.

Operator

Joe Lachky, Wells Fargo.

Joe Lachky - *Wells Fargo Securities, LLC - Analyst*

Hi; thanks. Quick one on price mix and Consumer Domestic. It was flattish in the first half of the year, and it jumped up about a point sequentially here in Q3. I thought you mentioned there would be some investment behind OxiClean this quarter, and it sounds like you are now talking about that in fourth quarter.

Did some of that maybe get pushed back? Is that a timing issue?

And how do you see price mix evolving going forward here? Do you see a positive? Thanks.

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

Yes. This is Rick, Joe. Price mix in Q3 was favorable around a point, and that's largely because of those deep trade deals we didn't do as we're comping a highly promotional environment in Q3 and Q4. So I think long term it's still the same algorithm for us: it's largely volume. But this quarter or next quarter, as we're not comping some of those trade deals, we do have some benefit of price.

Joe Lachky - *Wells Fargo Securities, LLC - Analyst*

Cool, thanks.

Operator

Jason English, Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

Hey, guys. Hello, Jim. Wanted to circle back on the questions on top line, many of which have been asked one way or another; so I'll regurgitate. Apologize for some of that.

You mentioned OxiClean laundry momentum growth this quarter. As we look at the track data, the syndicated data, actually the trend line is down and to the right with fairly sharp declines in the last month.

You gave us a little more context. Is it fair to say that's just sort of the hangover impact of more aggressive promotions earlier in the quarter, and that should normalize in a forward?

Secondly, on vitamins, we know you had some out-of-stocks. 7% strong growth, is that reflective of how we should expect to think about that business going forward, or was there some replenishment restocking benefit in the quarter?

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

Jason, I would say yes and yes to your questions. Yes, OxiClean, it was just -- the latest four weeks was just an off-promotion period. We've actually been gaining distribution on OxiClean laundry detergent out there, and the promotions have been helping to drive that. So we feel very confident that that brand is building momentum, doing well.

And the vitamin business I think was your second question. That business too -- well, let me have Matt jump in.

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

Yes, Jim quoted a number, being net sales being up 7.8%. If you look at consumption in the quarter, Jason, it's up 4.9%. So there is a bit of an imbalance in Q3, and it was reversed in Q2.

Jason English - *Goldman Sachs - Analyst*

Thank you for that. One more quick follow-up. We obviously look a lot at the Nielsen data because it's the only data we have. Is there anything unique happening outside of that data in terms of distribution wins, etc., that we should be cognizant of as we think about interpreting the data going forward?

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

The only thing I'd say, since you had an interest in OxiClean, is that we're picking up two new retailers in Q4, and that should start scanning at some point in Q4.

Jason English - *Goldman Sachs - Analyst*

Good stuff. All right. Thanks, guys.

Operator

Jon Andersen, William Blair.

Jon Andersen - *William Blair & Company - Analyst*

Good morning, guys. Jim, congrats and good luck in your next endeavors.

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

I'll see you on the beach.

Jon Andersen - *William Blair & Company - Analyst*

(laughter) Wish I was heading there too. Consumer International, question there. The business has been quite strong, essentially volume driven year to date. I think you've guided to something like 6% growth for the year, but you've been trending quite a bit stronger than that.

Can you talk about, number one, the underlying volume dynamic in that part of the business, and what's driving the upper single-digit growth you've experienced? And then does that -- are we going to see a -- should we expect to see a drop off from here, or is that sustainable as we look out over the next few quarters? Thanks.

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

Yes, the business -- actually in August we called 6% full-year organic growth for International, so we raised to that to 7% today. And, as you know, we have a collection of different businesses: we have a European business, Canadian, Mexico, Brazil, Australia, and a small business in China. They all have very, very different dynamics.

In Mexico we've been doing a terrific job in pushing ARM & HAMMER laundry down there. In Europe we have three brands, Batiste, Sterimar, and femfresh, which have been real horses for us. We've been doing just a terrific job with those PC brands.

So it is somewhat country by country specific. But we've been competing extremely well in difficult markets. As you probably know, there's been consolidation in the retailers in France, which we've been combating and still finding a way to grow.

Are we are going to be calling 7% organic next year for International? Unlikely. But as I said we'll give everybody guidance on that in February.

Jon Andersen - *William Blair & Company - Analyst*

Thanks, guys.

Operator

Thank you. I'm showing no further questions at this time. I would like to turn the compass back over to Mr. Jim Craigie for any closing comment.

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

Okay. Well, again, thank you very much. I'm kind of sentimental; this is my last earnings call and I've got a great team taking over.

At this point forward if you want to go down to the beaches in Florida, you'll see AG, myself and Don Knauss enjoying a group Corona moment. I just hope we drink the bottles instead of hitting each other with them.

Anyway, it's been a pleasure, folks, and great talking to you. Take care. Bye-bye.

Operator

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