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CHD - Q1 2015 Church & Dwight Co Inc Earnings Call

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OVERVIEW:

Co. reported 1Q15 reported revenues of $812m and EPS of $0.80. Expects 2Q15 EPS to be approx. $0.70.

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Steve Powers *UBS - Analyst*

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Church & Dwight first-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 statement 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 is always a pleasure to talk to you, particularly when we have great results to report. I will start off this call by providing you with my perspective on our first-quarter business results, which you read about in our press release this morning.

I will then turn the call over to Matt Farrell, our Chief Financial officer and Chief Operating Officer. Matt will provide you with his perspective on the financial details for the quarter. When that is finished, I will return to discuss our earnings guidance for the year and then we will open the call to field questions from you.

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

As I have stated in our previous earnings release and the CAGNY conference in February, 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 one-third of our sales in 2014 came from new products launched since 2007. 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 products covered every major category.

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 our brand's share results and its impact on category growth. In 2014, our cat litter consumption increased by 23.5% and our share grew by 2.9 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 has been a major contributor to driving an 8% increase in the cat litter 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 anecdote for driving improved value creation for our consumers, our customers, and our shareholders.

In the first quarter of 2015 we built upon this 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 quarter was up 15.5% and our share grew 1.4 points to a new record share of 23.8%. And this growth helped drive the cat litter category up 8.6% in the first quarter over the first quarter of last year.

Our goal is to continue to launch innovative new products to drive share gains and category growth like this in all of our categories in which we compete. Overall, the first-quarter results were excellent on the share front with share growth on three of our four mega brands.

I will now turn the call over to Matt to give you specific details on our first-quarter results.

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

Thank you, Jim. Good morning, everybody. I am going to start with EPS. First-quarter EPS was $0.80 per share. That compares with $0.73 last year in the first quarter, so we are up 9.6%. The $0.80 was better than our $0.78 outlook and netted in our $0.80 is $0.03, or 4%, drag from FX year-over-year. So we're off to a very good start in 2015.

Reported revenues were up 3.9% to $812 million. Organic sales for the quarter was 3.6% and this exceeded our Q1 outlook of 3% organic sales. The organic sales beat was largely driven by the success of our international business and the continued strength of our animal nutrition business. Of the 3.6% organic growth, approximately 3.2% is volume driven, with 40 bps of positive product mix and price.

Now we're going to go through the segments. The consumer domestic business's organic sales increase was 1.6% and that was in line with our expectations and was driven by Arm & Hammer Clump & Seal cat litter, Vitafusion adult vitamins, and Arm & Hammer liquid laundry detergent. Now these increases were partially offset by lower sales of XTRA laundry detergent, Trojan condoms, and Oxi laundry detergent. Remember last year we had the launch of Oxi laundry detergent in the first quarter.

So the 1.6% met our expectations, lapping the new product pipeline from last year. It was our largest year ever of innovation in Q1. The volume growth contributed approximately 1.2% to organic sales, plus 40 bps effect of positive price net of negative mix in the quarter. We expect full-year organic sales to be approximately 2% to 3% for consumer domestic business and notably in the second quarter we expect 3% to 4% organic growth from domestic.

Now we're going to talk about international. International organic growth was up 9.5%. Volume contributed 10.5% with product mix and pricing being a drag of 1%. We had strong growth in France, the UK, Mexico, and our export business, largely driven by two brands, Batiste and Sterimar, which is our nasal hygiene brand. We expect the full year to be approximately 3% to 4% organic for the consumer international business.

And now turning to specialty products, organic sales for the specialty products division increased 10.8%. The animal nutrition business drove a 7.7% volume increase and we also had favorable mix in pricing of 3.1%.

With respect to the animal nutrition business, currently the US dairy industry is still healthy, driven by demand for our products. We expect -- driving demand for our products, I should say. We expect organic sales for this division to come back down to earth for the balance of the year.

We have very difficult comps ahead of us for this division. Remember last year Q2, 3, and 4 we grew 20% year-over-year in each of those three quarters. So for the full year we expect the specialty products business to be up 3% to 4% organically.

Now total company, full year we expect organic sales to be approximately 3% and you saw that in the release.

Gross margin is next. Our reported first-quarter gross margin was 43.8%. That's 40 bps better than last year. If we look at it year-over-year, 20 bps came from volume and price, and the other 20 bps is the net of higher-margin acquired businesses net of FX drag.

The Company's outperformance versus the outlook -- remember our outlook was flat gross margin for the quarter. Our outperformance was due to higher-than-expected volumes, earlier-than-expected benefit from commodities, and some of the start-up costs related to our new vitamin plant have moved to the second quarter. For the full year -- remember in February we called 25 basis points of gross margin expansion. Now we have 40 basis points of beat in Q1, so that is going to live through for the year and that's what's driving the change in our gross margin, the 25 to 35 basis points on a full-year basis.

Now I'm going to talk about marketing. Marketing spend for the first quarter was $88.8 million, or 10.9% of revenues. That's 30 basis points lower than the prior-year spend raid, but it's $1 million higher on a dollar spend. Marketing is a function of the timing of our product launches, as you know, and our full-year expectation is still approximately 12.5% of sales.

Next is SG&A, so SG&A as a percentage of net sales was 11.7% in Q1. That's a 20 basis points increase from the prior-year first quarter. That is primarily driven by incremental amortization of intangibles and higher R&D costs. On a full-year basis we still expect 15 basis points improvement year-over-year in SG&A as a percentage of sales.

Other income is next, so other income was 9.9 -- $9.1 million negative. That is $2.2 million worse than the prior year and that's primarily driven by transaction FX.

Next is operating profit. The reported operating margin for the quarter was 21.2%, which is 50 bps higher than the prior-year first quarter.

With respect income taxes, our effective rate for the quarter is 35.1% and that's higher than our full-year expectation of 34.5%. The tax rates in the quarters can be lumpy, but we continue to expect the full-year 2015 effective tax rate to be approximately 34.5%.

Cash is next. We generated $144 million of net cash from operations in the first three months of the year and we invested approximately $22 million in CapEx year-to-date. That is a big number for a first quarter, but remember we were wrapping up construction of our new vitamin plant in York, Pennsylvania.

We expect to spend approximately $70 million on a full-year basis on CapEx in 2015. Cash from operations is expected to exceed $570 million and free cash flow to exceed $500 million. We bought back $250 million of shares in Q1; that's right on target with what we said in February. And remaining on our share repurchase authorization is approximately $332 million.

Just a word on the new vitamin plant. As you read in the release, we are starting up our new vitamin plant. We have been living hand-to-mouth for a number of months as demand has exceeded our capacity and the new plant is expected to expand our capacity by 75%. The future prospects for this business are very bright as more adults switch to gummy vitamins.

I'm going to wrap it up now. The first-quarter highlights include 3.6% organic sales growth, 9.6% EPS growth, which by the way equates to 13.6% currency-neutral EPS growth. Thinking ahead to Q2, we expect second-quarter earnings per share of approximately $0.70 compared to $0.65 last year, so that's 8% up year-over-year in Q2. And that excludes a pension termination charge of about $0.05 that we expect to occur in the second quarter and we've been talking about that one for a while.

We expect Q2 organic sales growth of approximately 3% to 4% and flat gross margin. With respect to flat gross margin, that reflects our greater vitamin plant startup cost shifting to Q2, as I mentioned earlier, and the negative drag of FX and also further investment in OxiClean in the second quarter. The commodity release is going to be as expected for Q2.

Now the full year. Last year we had all of our EPS growth in the second half of the year, so 2014 was a backend-loaded year from an earnings perspective. This year we have higher organic and EPS growth in the first half due to easier comps. Our most difficult revenue and EPS comps are ahead of us in the third and fourth quarter.

With respect to the full year, just to bomb down the income statement: 3% organic sales, gross margin expansion of 25 bps to 35 bps, marketing at 12.5% of sales, and 15 basis points of leverage on SG&A. So that math gets us to operating margin expansion of 50 to 60 bps in 2015. And to the extent we over perform on gross margin expansion, we intend to invest incrementally in marketing behind our mega brands.

One thing I missed was other income and expense. It's going to be relatively flat year-over-year, about $17 million of net expense. And the full-year range remains at 7% to 9%. That is despite a 3% drag from currency. We used to think it was going to be 2.5% so it was gotten a little bit worse.

Back to you now, Jim.

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

Thanks, Matt. Before I open the floor to questions, I would like to provide a few highlights on our first-quarter business results and our key categories and business units.

As you know, we continue to sharpen our focus on our four mega brands: Arm & Hammer, OxiClean, Trojan, and our vitamin business. These four brands represent over 60% of our company's 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 investment.

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

The Arm & Hammer mega brand had an excellent quarter with total consumption up 4.3%, driven by its laundry detergent and cat litter products. I previously mentioned the cat litter results, in which consumption grew 15.5% in the first quarter and our share increased 1.4 percentage points to a record 23.8% share behind the new Clump & Seal product line.

Arm & Hammer laundry detergent also had a solid quarter of growth. While the total laundry detergent category was down 1.3% versus a year ago, the rate of decline has steadily improved over the past four quarters. Hopefully this category will soon begin to generate positive growth again, driven by innovations and the return to a more historical promotional environment.

In the first quarter, Arm & Hammer liquid laundry detergent achieved a 10.0 share, up 0.5 percentage points versus year ago, the 21st consecutive quarter of year-on-year share growth. As a total company, Church & Dwight achieved a 14.1% dollar share of total detergents in the first quarter, up 0.6 percentage points versus year ago. We have grown share year-on-year in the laundry detergent category in 19 of the past 20 quarters, and we are one of only two manufacturers in the category to post dollar sales growth and share growth in the first quarter.

We do not often talk about other products in all the categories covered by the Arm & Hammer mega brand, but Arm & Hammer Carpet deodorizer achieved its highest ever quarterly share of 50.1%, up 4.2 percentage points versus year ago. And Arm & Hammer baking soda achieved in its highest-ever quarterly net sales in the first quarter. All-in-all a great quarter for the Arm & Hammer mega brand, which is our largest mega brand with over $1 billion in annual sales.

Next the OxiClean mega brand had a strong overall quarter. The brand's total dollar consumption was up over 20%, driven by the new OxiClean liquid laundry detergent line, which was launched in the first quarter of 2014. OxiClean's share of the billion dollar stain fighter category, its original category, declined by 0.2% to 44.9%. But this is still greater than the combined share of the next three brands, which are sold by three companies many times larger than Church & Dwight.

Our third mega brand, the Trojan brand, had a mixed quarter. The Trojan condom business achieved its highest quarterly share in the past five years at 76.6%, up 0.2 percentage points versus year ago. In the total condom category, the top 14 SKUs all belong to the Trojan brand and 26 of the top 30 SKUs are also Trojan SKUs.

Other forms of the Trojan mega brand also had a strong quarter. The Trojan Vibrations line of products achieved in 8.3% increase in dollar consumption and recorded its second-highest dollar sales quarter ever. Our Vibrations line now has the top three SKUs and six of the top 10 SKUs in the category.

The Trojan lubricant line, first launched in February 2013, has now achieved an 8.5% share of the category, making it the number three selling brand in the lubricants category. This new product line continues to show share potential as revealed by the 11.3% dollar share that it achieved during the week of Valentine's Day, an all-time high for the brand.

Last, but not least, is our newest mega brand, 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. Our gummy vitamin business had a solid first quarter, despite supply constraints, which we believe will be shortly resolved by the startup of the new production line in our York Manufacturing facility, which we expect will increase our production capacity by about 75%.

First, there was great news concerning the growth of the total vitamin, mineral, and supplement category. As you may recall, this category has been one of the fastest and most consistently growing categories in all of consumer packaged goods for many years.

Then in the fourth quarter of 2013, a study was released which questioned the positive health benefits of taking vitamins. This negative news led to several quarters of flat to declining consumption of vitamins. However, the category started to rebound in the second quarter of 2014 and now it's starting to demonstrate more robust growth as reflected in the 4.3% growth achieved in the first quarter of 2015.

Second, our branded vitamin business grew its dollar consumption by 7% in the first quarter, driven by a 13% consumption growth of our adult Vitafusion brand. Vitafusion continues to be the number one adult gummy vitamin with more than double the sales of the number two gummy brand.

Third, our L'il Critters kid vitamin business is struggling right now as dollar consumption fell about 10% in the first quarter, driven by some aggressive competitive pricing in new products. We expect to reverse these trends by the end of 2015, driven by some new products that will be launching.

Overall, a very solid quarter for our four mega brands with three of the four achieving share growth and, in some cases, new record shares, driven by our product innovations.

I will finish off our portion of the call today with a few words on our outlook for the year, just to reiterate what Matt just told you. As stated in the press release, as a result of our strong first-quarter results, we are raising our 2015 guidance for organic sales growth from 2% to 3% to 3%. And we are raising our expectations from gross margin improvement from 25 basis points to 25 to 35 basis points. And we are maintaining earnings growth target of 7% to 9% despite an increased drag from currency from 2.5% to 3%.

We feel confident in delivering these targets which are in the top quartile of EPS projections in our industry, consistent with our historical performance. It is just too early in the year to get any more bullish, given the ongoing uncertainty about the worldwide economy, currency rates, and competitive activity.

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 about the types of businesses we acquire and we are very aggressive on how we integrate them into our existing business.

That ends our presentation. I now open the call to questions that you may have, which Matt and I will do our best to answer. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kevin Grundy, Jefferies.

Kevin Grundy - *Jefferies LLC - Analyst*

Good morning, guys. Jim, Matt, congratulations to both of you: Jim on your retirement and Matt on being promoted to CEO.

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

Thank you, Kevin.

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

Thanks, Kevin.

Kevin Grundy - *Jefferies LLC - Analyst*

If I can start with that, and Jim, I appreciate it's a personal decision, but I think investors will be curious with respect to timing because I think it's a little bit earlier than people were expecting, including me. So to the extent you can comment on that.

And then I think what it may or may not suggest with respect to transformative M&A. Then I have a follow-up.

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

Sure, Kevin. What I would tell you is it's the right time for the Company and for me. The Company is in great shape and with great plans in place. We know the new product pipeline for the next two to three years, the acquisition pipeline looks better than it has in some time, and we have strong productivity programs in place.

I strongly believe that Church & Dwight can continue to deliver industry-leading TSR results and I have great skin in the game on this decision, if you want to know. Over 75% of my net worth is in Church & Dwight stock and I intend to keep it that way because I do have great faith in Matt and this company's future.

I've been CEO for over 11 years here, but I'm going to be 62 years old by the end of this year and there's other things I want to do in life and do them before I get too old to do them. So in my mind it's time to turn the reins over to someone younger and have a smooth transition over the next eight months.

And Matt is the perfect choice, guys. He is a great leader. He understands the secret sauce to our success, and he has proven that his skills and business acumen our way bigger than being just a great CFO. Trust me, I am staying on as Chairman to be here for whatever assistance I can to Matt.

That was basically the thinking. It was my decision to do this and I'm very happy with it. I'm so proud of this company and the results we've turned in. And I have great faith, as proven by my financial net worth tied into this company in the future. And I'm sure Matt will protect that or else he will be giving phone calls for me. Okay?

Kevin Grundy - *Jefferies LLC - Analyst*

Thanks for that. Just one more follow-up with respect to the role now. So when the announcement was put out back in November, Jim, your intent was to spend more time on strategy and M&A. Matt, is that going to be your intent also to be devoting more time to that come January of next year, or should we expect the further announcement of a COO?

Then also if you can comment when we will know who the CFO replacing Matt will be, thank you.

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

Yes, with respect to acquisitions, Kevin, acquisitions have always been an activity that the entire management team has engaged in. When I was named COO that was an opportunity for Jim to pull back a little bit and let me take the reins of the Company. But the acquisition effort is always a team effort -- CEO, CFO, and the entire leadership team -- so that is going to be unchanged going forward.

As far as the CFO replacement, no decision has been made with respect to who is going to replace me at this time.

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

And we do not expect to replace -- have a new COO. We will eliminate that job.

Kevin Grundy - *Jefferies LLC - Analyst*

Great. Thanks, guys.

Operator

Bill Schmitz, Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

Good morning, guys. Congratulations, obviously. My first question is how much did Venezuelan pricing impact sales in the quarter? I was just kidding.

Can we talk about just the laundry category broadly? So like are you seeing any reinvestment from some of the Europeans or the currency help? We saw the personal launch; I'm just curious where those spacings came from.

And then did Arm & Hammer brand get some incremental distribution, because the gains have been great? And then, lastly, on the unit dose thing, it doesn't seem like it's a flash in the pan anymore. It continues to grow double digits. I know it has slowed a little bit, but that is only piece of the entire category that is growing.

Then I have a little follow-up if you don't mind.

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

Bill, the laundry category, obviously our biggest category, had good trends in the first quarter. It's still -- like I said in my notes, it's slightly still negative versus year ago, but it has been four steady quarters now of improvement and it's on the verge of going positive. So that's a good sign.

The promotion and pricing environment also tended to get better in the first quarter. The pricing was up a little bit in the overall category, which is good, and the volume done on coupon was also down, which is good. So that was a good result.

We have just seen the April Nielson results that just came in and the category again continues to trend in a good direction on that. We had great share results in the first quarter. We just saw April. We are off to a great start in April, so that looks good.

Unit dose also, I think we promised folks we'd put a bigger effort behind this thing. I just saw April results and I think our consumption on April was up something like 28% on unit dose. That was great. And those programs are kicking in now going forward and we intend to get back to our fair share of that business.

I can't comment on the personal thing yet. I think it's too new to know what happened there and what distribution came from. That's still trying to be figured out, but overall feeling much better. Continued improvement in the category. We continue to do very well in the category.

We are fixing issues we had on things like unit dose. So right now I am kind of going from yellow to green lights on the laundry category and hope it continues that way.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, great. Then just on the vitamin side, or you guys in allocation now? So is there like a scenario where that business sort of snaps back just because you can't fulfill all of people's orders?

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

I wouldn't use the word allocation, but we are -- we cannot supply all the orders right now. We are doing our best job of being fair to all customers, but that problem should be resolved shortly.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, great. Congrats again, guys. I appreciate it.

Operator

Bill Chappell, SunTrust.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Good morning, thanks. First on the commodity front, I understand you saw a nice benefit on gross margin this quarter, but it seems like from what I can tell resin prices have come down even further intra-quarter, so it would seem like some of the bigger benefits are still on the horizon.

How should I look at that gross margin rate of conservative and just what we know now, or do you feel like that is a pretty good number at this point?

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

We think it's a pretty good number, Bill, so what that would mean is, if you do the math, if you are up 40 in the first quarter and you call flat for the second quarter, that means in the second half you're going to have to be up 50 bps in Q3 and Q4. So the commodity help came a little bit sooner than we expected and you're right about resin. There's a lot of help there.

Going the other way are things like diesel. We have some diesel hedges that actually have us higher than spot. We don't always get that right, but that is -- I remember saying in February down at the New York Stock Exchange that those were some hedges that we were sad about.

And transportation is also a bit of the ding for us as well, maybe worse than expected. And that is with respect to lane rates and availability of drivers and things like that. So unbalanced 25 to 30 bps is about right for us right now.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Okay. Then switching back to the detergent, can you give a little color on what's going on with XTRA? I wouldn't think that sees a whole lot of pressure from the P&G brands, so what's going on there? Then also on Oxi, in year two are you net gaining more distribution for the liquid water detergent or are you at least holding the share you got from last year?

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

Bill, on your specific questions, XTRA was kind of hurt by all the competitive activity last year and it also hurt by unit dose a bit. We have put plans in place to fix that.

Again, I just saw the April shares come in and XTRA had a good, solid month there and we have good programs going forward. So I feel like we've got plans in place to put XTRA back in the growth mode.

On Oxi, again we launched last year. It was a tough environment with all the unit dose activity and with the launch of Tide Simply. Brand got a good foothold and we have plans in place to continue to grow that. I think consumption on that was up double digits in the month of April also.

So we feel good momentum now going on XTRA and Oxi and we have always had great, strong growth on Arm & Hammer, the biggest brand of all. So I feel very good about the laundry business right now. I feel it's headed in the right direction and I hope it continues that way.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Great. Thanks for the color and congrats on the changes.

Operator

Lauren Lieberman, Barclays.

Lauren Lieberman - *Barclays Capital - Analyst*

Thanks, good morning. First, I just had a follow-up on unit dose. The product now that and as I've seen it is really kind of like a powder in a pouch. Are you doing any work to have a liquid formulation?

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

I don't project, Lauren, based on what we are doing in the future. When and if we do something, we will let the world know, but not until we launch anything.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay, I was [seeing if I had] missed anything, frankly, okay. Then on the international business, I was wondering if you could comment a little bit. I always have a hard time; it feels to me sometimes when you've got better-than-expected growth I can never really put my finger on why.

If you could talk a little bit like how those businesses are managed? Is there a Mexico country manager? Are there calculated growth plans by quarter? Or is it really kind of managed most of the virtual export business? Thanks.

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

That's a good question. So the way to think about international is as follows. We have an EVP that's in charge of the international division and that EVP has a number of general managers that report to him.

Canada is a subsidiary, so we have a full-on legal entity in Canada, in the UK, in France, in Mexico, Brazil, Australia, and China, so that's around the lease. We have a general manager in every one of those countries and a legal entity, and on top of that we have an export business.

So we export and our export business is not entirely in US dollars. In fact, more of it is not in US dollars. It's in pounds and also in euros, so that's good news for us because we're not as impacted by the strong dollar with respect to our exports.

But you should think of it as you have all those countries and you have full management teams in each of those countries selling brands. And those brands, by and large, are more local brands than are mega brands.

We do have some mega brands that travel. For example, Arm & Hammer detergent in Canada and Mexico, so North America, but that obviously wouldn't travel overwater very efficiently. Outside the US it's more personal care businesses and more local brands.

Then when you say -- you have an eye-popping number in the first quarter you say, wow, 10%, where did that come from? Part of that is because we got easy comps here. Last year the international business rolled a doughnut in the first quarter, so that's number one.

Second thing is it can be somewhat lumpy. If you look at the last two quarters, Q3 was up 1.7%, Q4 was up 7.4% and now we posted 10%, but I wouldn't get used to that because we're expecting a full-year basis 3% to 4%. So I would say easy comps. We have new product performance and export shipments sometimes can be lumpy from quarter to quarter.

And it's the law of small numbers. It's 10%, but you are on a much smaller business so it doesn't take as many sales dollars in order to drive a big percentage growth.

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

Lauren, I would add too that we have some, Matt says local brands. Some of them have traveled in various markets. Two brands in particular: Batiste, which is a dry shampoo business we bought a few years ago and is growing like fire right now, and our Sterimar business, which is a nasal hygiene business, is doing exceptionally well. And this is almost all those countries. Those are both high-margin personal-care type brands.

Our team internationally is incented the same way as the US team: on the measures of revenue, gross margin, cash flow, and their earnings contribution in that. We got great teams, great general managers, great leaders of the organization. They're just kicking butt right now. I'm a little more optimistic than what Matt may say, but I think because again we've got great innovations going into those marketplaces and with great teams going in place there.

In our export business, we are exporting some of these hot products into the countries where we don't have directional managers and they are also doing very well.

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

One last thing on international that I think is also useful to know. The way we manage Europe is not on a legal entity basis. We have France and the UK legal entities, but we have a European team. And Europe actually is now our largest subsidiary and it has eeked out the number one position over Canada.

Lauren Lieberman - *Barclays Capital - Analyst*

Wow, okay. How big is the export piece of the international business? 20% or smaller?

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

I would say it's about $100 million, round numbers.

Lauren Lieberman - *Barclays Capital - Analyst*

Thanks, this is really helpful. Jim, I can't help but ask, are you moving to Cincinnati? (laughter)I feel like I owed you one. You have made fun of all of us for so many years; I had to give you one.

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

We were buying them and moving them here.

Lauren Lieberman - *Barclays Capital - Analyst*

Perfect. New Jersey is a good state. Thank you so much.

Operator

Jason English, Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

Good morning, folks. Thank you for the question. Congratulations to both of you.

One thing that surprised me with the transition, Jim, was your assumption of the role as nonexecutive versus executive Chairman. Can you talk a little bit about what this means to your level of involvement beyond this year?

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

Jason, honestly I'm a big believer, as my predecessor was, there's only one CEO of a Company and you've got to let them run the Company. You don't want two cooks in the kitchen there.

I got a great guy in Matt. We have been attached at the hip for eight years. He knows this company in and out. He knows -- he has been basically running the Company for a while now as COO and we don't need two people running. That's how companies get screwed up, in my mind, when they got two people at the rudder.

We got a great guy taking over at the end of this year. I am fully here until the end of the year. Trust me, I am fully in place and then Matt will take over fully on January 1.

And I will be -- as non-executive Chairman. I will be in charge of the Board. I will be there if he needs me. As my predecessor said, if you need me for something special, I would be glad to step back in on that, but there's only one guy going to drive this company. That's the way it's been, that's the way it works best, and that's going to be Matt Farrell.

Jason English - *Goldman Sachs - Analyst*

Thanks, I agree. Capable hands with Matt.

You mentioned Purcell. You don't want to talk too much about it; it's too early. And you gave a lot of statistics and sort of looking backwards what we see in the data so far, I know you guys are close to the retail trade. Any early indications that P&G may be retaliating to stop Purcell in its tracks?

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

No, not that we see, but that's -- I will call Cincinnati, but no.

Jason English - *Goldman Sachs - Analyst*

Okay, good. Hopefully we don't see it. Thanks a lot, guys. I will pass it on.

Operator

Joe Altobello, Raymond James.

Joe Altobello - *Raymond James & Associates - Analyst*

Thank you. Good morning, guys. I also would like to extend my congratulations. It's going to be said not to see you, Jim, at CAGNY next year but hopefully you can make an appearance for us. So anyway --.

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

Joe, he didn't say he wasn't going to CAGNY.

Joe Altobello - *Raymond James & Associates - Analyst*

That's a very good point. That's a very good point.

In terms of the overall marketplace as you see it today, is there a shift going on within your categories between advertising and promo? Because if your marketing spending is staying the same on a relative basis and laundry is getting better I think from a promotional perspective, what are your other categories doing in terms of that shift from above the line to below the line or vice versa?

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

A good question, Joe. Every category is different, but first I would say there is continued improvement in the category growth rates in the quarter. Not big.

Again, now we're -- I think in past quarters we have had maybe four of our nine key categories growing. Now we're getting slightly -- it's getting better than that so we are seeing slow, but steady progress in the marketplace, which is a good sign.

I would have to go over every category for you, which is different. Again, general trends are good overall. There's a few categories where there is still a little bit of pricing wars going on and things like that, but I'm encouraged. I hope it continues in this world that people are getting back to the game of innovations driving categories and not letting pricing and couponing driving categories. I think we've all learned that is a road to nowhere.

So we are seeing good, slow, very slow, but steady progress in a good direction here. I hope we get back to the days where you get 2% to 3% category growth. Hopefully we will get there, but we're not there yet. But I am very encouraged by what I see out there in the marketplace and I just hope it continues.

Joe Altobello - *Raymond James & Associates - Analyst*

Great. Then in terms of personal care, it seems like that business or that segment was flattish to down on an organic basis. You talked about a few things going on there, but vitamins was still up I think, even though you are constrained a little bit. It sounded like Trojan was down a little bit.

So if you could tell us what's going on there that's sort of keeping you guys from really growing that segment.

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

Vitamins, we have to be careful. When we say vitamin category, we're talking about the whole category, hard pills and gummies, and the whole category was up like 4%. The actual gummy segment is up like 9% to 10%, so that's really encouraging news. That's why we bought into this business because the gummies was the fastest-growing piece of the business.

So gummy is doing very well. Again, we had a decent quarter. It would've been better if we could have supplied everything that we had orders for, but things are very good there.

As I said, the category rebounded from the bad PR news that happened a year ago. It's back in the -- in the good old days this category was growing high single digits. We're now back to about between 4% to 5% growth and I hope it continues growing that way. And the gummy piece is 2 times that as far as growth, where we have the key piece there.

The other one you mentioned, the condoms. Condoms has always been kind of a strange category. It's not that big a category; it's about a $350 million category. We have obviously a very strong share there with about a 75, 76 share.

Been relatively flat and it's just a case of there's a lot of alternatives to birth control out there. There aren't a lot of alternatives to disease control, which upsets us. But we are -- we have great new products out there. Like I told you, we have a strong position as far as the leading SKUs in the category and we're going to keep bringing new innovations in the pipeline, new advertising.

I don't want to tip my hand. We've got some really cool programs happening in the back of this year to help, but in the meantime we are building our Vibrations business and our lubricant business, which are very high-margin businesses there, and we are leveraging the Trojan name into those categories.

So I feel good, I feel good. Especially the new product pipeline looks awesome. I would love to tell you what we have coming, but it's not I guess my policy to tip my hand to competitors in what's going on there. I feel very positive about some new innovations we have coming in the next year or two.

Joe Altobello - *Raymond James & Associates - Analyst*

Got it, okay. Thanks, guys, and good luck to both of you.

Operator

Steve Powers, UBS.

Steve Powers - *UBS - Analyst*

Good morning. Congrats from me as well. I was wondering if you could just talk a little bit more about the gummy capacity and how you plan to use that when it comes online. I understand obviously the near-term capacity constraints, but thinking longer term, will this be used more to increase production and distribution of existing categories or should we now expect a more material acceleration and you moving into new adjacencies?

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

Steve, we wouldn't comment on where we are going to go for the growth. The category is growing at double digits, particularly the adult vitamin category. We expect that to continue to grow in the future. There is enough opportunity today, where we are, to fill up that plan.

Now you're not going to fill it up immediately. That is a tremendous amount of capacity growth. Remember, assuming the business is around $350 million, 75% capacity is over $200 million of sales capacity. So what we are really saying is that we believe in this category. We've made a big investment there and we think it's going to be part of our growth for a long time in the future.

Steve Powers - *UBS - Analyst*

Okay. And then maybe just a quick update on cat litter, which continues to be great. Just any new thinking there given presumed new innovation from competitors.

I'm guessing the answer is yes, but are you comfortable with your plans ahead of that, securing your shelf space across the whole portfolio, that kind of thing? Thanks.

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

Yes, Steve, I maybe talk too much about this, but it's because I love talking about this business, because it's the absolute case -- look, cat litter is one of the simplest products to make in terms of ingredients and yet we have found ways of product innovations to make a better and better and better cat litter. This new Clump & Seal cat little is, by far, the best cat litter in the marketplace. Consumers are reacting to it.

We have had a real challenge to keep up with demand and then on top of that we launched the light weight behind it, which solves a major issue in the category. If you are a cat owner you know lugging home those boxes is like an Arnold Schwarzenegger act sometimes. But we came out with a lightweight at half the weight of the previous product and consumers just love that.

I just love -- this is a case of we have some products which are very complicated to make. And things like this; this is a relatively simple product to make with simple ingredients with some interesting technology and yet we have been able to drive category growth in the high single digits. That is the thing I wave in front of my peoples' faces. If we can do this on cat litter, why can't we do this on everything?

Innovation is the name of the game. You get premium pricing. You put it out there; consumers love it. Even in a tough economy where you hear about value all the time -- and we certainly love that with our value laundry business and that -- people love trying innovative new products and they will pay a premium for them, especially when they deliver premium performance. And the cat litter one has been the best example for us of this.

We're just kicking butt in this category. We have more new innovations coming in and it's just exciting to us. Of course, you know pet is an overall good category. Pets are the new kids. Two-thirds of American households have a pet; only one-third have a kid. So it's a great category for growth and we're taking advantage of that and bringing innovations in the marketplace.

I'm sorry, I have verbal diarrhea symptoms when I talk about this category because it's just a great example of what I want to do in every one of our categories. Our cat litter team is doing it and our other teams are trying to do it, too. It's the name of the game and all competitors should pay attention to this and do it. It's a win-win for all of us.

Steve Powers - *UBS - Analyst*

Cool. I see pet gummies in your future. Thanks.

Operator

Jason Gere, KeyBanc.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Thanks. And, guys, I won't get sentimental on you, especially you, Jim.

Just a couple of things. I guess, one, usually you are pretty good at talking about consumer health and consumer behavior patterns. I was just wondering, since CAGNY have you seen anything over the last couple of months: lower gas prices, maybe some wage increases? Have you seen anything kind of on, I would say, the low end of your portfolio at this point that gets you a little bit more optimistic as the year progresses?

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

It's interesting, Jason. We've all read the reports and the results, studies done by [Bezos] and everything else which said initially about 75% of the savings from the gas were going into either paying down debt or being put in the bank accounts of consumers. My sense is it's starting to ease up a little bit and they are starting to spend a little bit more money out in the marketplace, particularly when they see innovative new products.

I think you are also seeing a little easing by manufacturers in -- of their pricing aggressiveness out there as they feel they don't -- they should focus more on innovation and not focus so much more on pricing. Again, the bottom-line result of that is the categories continue to slowly, very slowly but slowly show improvement versus year ago and it's the trend.

I don't want to say I'm overly optimistic at this point, but I am -- again, I'm still probably in a yellow light, but I see a little bit more green creeping in every month go by. Again, I just saw the April results and they were very encouraging, particularly for our business; very strong. And the categories were also continuing to show improvements.

I got to hope this continues. It will only encourage all the manufacturers to continue to focus more innovation and less on price wars and watch the consumers love that because they want to try the new innovative products and that. So cautious still, but slightly getting greener every day.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay, no, that's good. Then the other question I have is I was wondering if you could kind of -- if you look at the consumer domestic piece for this quarter, in terms of breaking down between -- you talked about the mega brands, but maybe talk -- and then the guess non-mega power brands and then the non-power brands. So the tail brands that you still have in there.

I know we have -- the non-power brands -- I'm getting tongue-tied here -- they still weigh a little bit down on the growth overall; what you are doing in terms of trying to stabilize the growth there. Those are businesses that don't really get much A&P, but I was just wondering can you talk maybe a little bit about the profitability or what those brands are doing that contribute to overall accelerating growth in the portfolio.

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

I will be glad to and, again, you're making a good point. Just because we sole focus on the mega brands does not mean we have really taken focus off the other brands we have. We have four or five what we call power brands.

Just quickly, Nair has had a great year last year and is having a great year this year; off to a very good start. The key season is coming up now for consumption so we've shipped in a bunch of new products. We've gotten great retail distribution for them, but now we will see, with the weather and the consumer, what happens in Q2 when consumption happens.

The pregnancy kit business, that has been one where we have had a little bit of pricing wars going on in the category. But we have some big new product innovation coming in that business and looking forward to getting that category back driven by innovation.

Toothbrush category has been little again. There's been a lot of competition there, a lot of pricing there, so that has been a little bit of a tough category for us. Whereas the toothpaste business has been very -- we have got some good signs there, some good decent growth in that category. That is kind of the recap.

As far as the -- we didn't want to call them the tail brands or whatever that everybody has in their business, that is probably about I'd say 10% of our revenue base. Honest with you, I have taken a personal project -- I have a special team of a bunch of marketing folks who work on that and I have personally gotten involved with that. Meet with them once a month to help to not only slow any decline in those brands but try to drive growth in those brands.

We continue to find every ways to do that kind of thing, so it's kind of a fun project for me personally to get involved with those businesses. And we are finding some really cool stuff. We have had some great successes there. Arm & Hammer Baking Soda, which is one of those smaller brands, is delivering some good growth there.

I mentioned our carpet deodorizer business is actually now over a 50 share of the category, kicking butt of some big competitors out there; doing well. We love to find ways to get out there. Kaboom is a brand that has had a little bit of softness on it, but we've got some new innovations coming.

So trust me, we don't give up on our brands and go sell them like some of our competitors. We believe they are still decent brands, but we are smartly spending most of our money behind the big mega brands. But we are also planning innovations and smartly spending behind some of these smaller brands too. Overall, good.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay, great, and congrats, Dr. Farrell.

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

Thanks, Jason.

Operator

Chris Ferrera, Wells Fargo.

Chris Ferrara - *Wells Fargo Securities - Analyst*

Thanks. Guys, I guess you have probably noticed, but so many of your competitors are talking about taking marketing down. There is a big push on pushing spending out of non-working media into working media. You're one of the only ones where the actual media spending as a percentage of sales isn't really doing much.

So can you talk about what are you doing on the non-working to working side? And what you think your share of voice has done in your categories over the last year or so?

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

Chris, I just want to thank you for bringing this up. I think it's a big charade by our competitors about what they are doing. I think they are cutting their marketing spending or telling you they are shifting it over and saving money, because they can get the same bang for the buck. They are not.

They are either trying to cover, in my mind, their foreign exchange hit or they are trying to cover sales hits there. So I am not a big believer in shifting to digital and getting same bang for less money.

We are increasing our commitment to digital, but we are not using that as an excuse to cut our marketing spending. We're keeping our marketing spending strong; as we told you, about 12.5% of sales. So that is on that issue.

No, we are -- I would just tell you we're keeping our market support strong. I actually hope to take advantage of the fact that our competitors are cutting back on their marketing spending.

And our share of the voice, which you are dead right is the thing to watch, our share of voice is strong to up in most of our categories because we are continuing to spend the same amount of money while our competitors are cutting. I am a big believer in, again, you can't launch innovation, just put it on the shelf and expect people to look at it and understand it. You got to have the market support behind it.

We are going to maintain steady marketing spending at about 12.5% of revenue. The formula has worked. It has delivered the great, steady organic growth we have had and we're going to continue doing that.

And I'm not going to use this -- I'm trying to watch my language here. I'm not going to use this game of telling you I can cut my spending.

By the way, our non-work to working level has always been low. So we don't have a game where we need to cut back and punish our agencies and take money away from them. We have very good agencies. We have had a long-term relationship with the three key agencies we have here and we've always paid them a fair thing, but not some of the outrageous wages some of our competitors do.

They have been great partners for us and know our brands as well as we do and have been a key part of our growth. But it's not a case there we have had bloated non-working costs at all. We have very happy partners who have been with us for a long time.

Chris Ferrara - *Wells Fargo Securities - Analyst*

So you don't see any material decline in non-working media going forward I guess?

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

No, not for us.

Chris Ferrara - *Wells Fargo Securities - Analyst*

Okay. And I guess on a separate note, I think you guys mentioned incremental OxiClean investment as one of the gross margin drivers. Can you talk about that little bit, give a little more detail?

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

Simply that we're in the second year of our quest to drive OxiClean, being our second mega brand. We have a lot of spend ahead of us and that's just one of the year-over-year drags in the second quarter.

Chris Ferrara - *Wells Fargo Securities - Analyst*

Okay, so it doesn't sound like it's a very material piece of the (technical difficulty). Okay, thanks.

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

Chris, let me go back for a second, just let me give another perspective on the non-working to working. It is the same perspective as overhead.

Everybody is all talking about the 3G affect out there and a lot of people cutting overhead. Well, we were there a long time ago. We invented the whole keeping overhead low.

We have the -- I bragged about this constantly. We have the highest revenue per employee in the entire industry and yet we keep getting better and finding ways to do it. But it's not a case like we are waking up like some other guys and trying to cut overhead because they are bloated.

Same thing on non-working. We've always had a very, very leading-edge ratio of non-working to working and so we're not sitting here bloated and looking for opportunity to cut it. So if you look at that is bad news, because I don't of cost savings, well, too bad. We are already aggressive there.

Now, we keep looking for ways to save as we have on the overhead side, especially with the acquisition. We bring them in and leverage our top line and hold the overhead line so our percentage goes down. I just feel we have always had great attention in those areas and it has helped deliver our great results.

Chris Ferrara - *Wells Fargo Securities - Analyst*

Got it, thanks for the perspective.

Operator

Olivia Tong, Bank of America.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great, thank you. Just wanted to touch back on laundry, because it sounds like you feel better about laundry overall. Trade spend is normalizing. Fixes to unit dose, etc., but it did look like, at least from a track channel perspective, that your sales did trail off a little bit towards the end of the quarter and going into April as well. So perhaps can you talk a little bit about that?

Then also, I know it's early on the Purcell launch but how, if at all, have you adjusted your own plans as a result of that launch?

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

Olivia, every quarter has its -- you can't have strong results for all three months of a quarter. We generally -- we had a very strong middle of the quarter and somewhat strong at the end, so you can't look at a four-week period and just say we were weak exiting Q1.

I told you we already saw -- the first four weeks of Q2 just came in. They were very strong, so overall things are tracking. We have had, what'd I say, 19 to 20 quarters. We've grown Arm & Hammer liquid 21 of 22 quarters. We've had overall laundry detergent growth in the past four years. The only guys to have growth every year for the past four or five years, so we're still trending there very well.

Personally, I can't really comment on Purcell. It's way too early. We have not adjusted our spending to deal with them. Don't forget they are premium priced, which is just a small part of our business. The big bulk of our business is value price, so I would expect any pain from that launch to be more focused to the premium end of the market.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it, thanks. Then, Matt, you guys addressed M&A strategy; no change there in terms of your thought process. But what about other parts of the business and just the portfolio overall?

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

That is a very open-ended question. Could you be more specific?

Olivia Tong - *BofA Merrill Lynch - Analyst*

Just thinking about how you -- I know it's still six-plus months before you take the helm, but just thinking about how you think -- your thought process as you address the portfolio, whether you think anything is going to change when you move into the top spot.

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

Look, one thing about Church & Dwight is we are very transparent. We have a known strategy. We have a very explicit business model and we go out of our way to make sure not only the sell side, but all of our investors understand the direction of the Company. And the direction of the Company is set.

We are a company that focuses on innovation, so we are good at innovation. We are terrific at execution and cost control, and we have proven that we are first class when it comes to identifying and integrating acquisitions. None of that is going to change.

We feel good about it. We have four mega brands; they generate a significant amount of our revenues and profits. The last thing we're going to do is take our eye off the ball there. And as Jim said, we have other power brands that also generate a significant amount of cash earnings, which are also important to us.

We trying to grow the whole portfolio and we feel good about our family of brands that we have right now.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great. Thanks, guys. Congrats to both of you and best of luck.

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

Operator, I've got an annual shareholders meeting coming up here in a little bit there, so I'm going to cut it off here.

I want to thank everybody for tuning in today. Just leave you with a thought; we've had a great start to the year. We got a lot of stuff ahead of us here and I think we have great programs over the back half of the year. Again, I am very excited.

I thank you all for your comments today about the transition here. I assure you it's going to be extremely smooth. I assure you it's going to be business as usual at Church & Dwight.

Matt understands the mojo or the secret sauce, if you want to call it, about this place and there's no plan to change any of that. He's got a great team of 4,000 people behind him who understand that.

The Church & Dwight for the past 11 years is going to be the Church & Dwight for the next 11 years. We're going to continue to deliver industry-leading total shareholder return results. That's our goal. We're going to do it. So thank you very much.

Operator

Thank you, sir. Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may disconnect your lines at this time.