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CHD - Q1 2016 Church & Dwight Co Inc Earnings Call

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OVERVIEW:

Co. reported 1Q16 reported revenue of $849m and reported EPS of $0.86. Expects 2016 organic sales growth to be 3-4%. Expects 2Q16 organic sales growth to be approx. 2-3% and 2Q16 EPS to be approx. $0.79.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Church & Dwight first-quarter 2016 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 conference, Mr. Matt Farrell, Chief Executive Officer of Church & Dwight. Please go ahead, sir.

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Good morning, everyone. It is always a pleasure to talk to you about our business.

I will start with a brief review of our first-quarter results, which you read about in this morning's press release. I will then direct the rest of my comments towards our categories. Then I'm going to turn the call over to Rick Dierker when I'm done. Rick will comment on each business -- that's domestic, international, and specialty products -- and also review the outlook for Q2 and for the full year. When Rick is finished, I will get back on and we will open the call up to questions.

So, here are the highlights. In short, Q1 was a terrific quarter for Church & Dwight. We delivered organic sales growth of 5.2% and 7.5% EPS growth, which is 10% EPS growth on a currency-neutral basis. Category growth was broad based in that 11 of our 15 categories grew in the quarter. From a market-share perspective, six of our 10 power brands grew share, so all in, these results are top tier in consumer products.

Now I would like to provide you with some color on a few of our categories. That would be laundry, litter, vitamins, and dry shampoo.

The laundry category is strong, growing 6.4% versus year ago. This is the fourth quarter in a row of laundry category growth. The value segment grew 6.1% and this is the sixth consecutive quarter of value segment growth. In fact, for the last four quarters, value has grown on average 4.5% per quarter.

The laundry category growth was driven by growth in both the unit dose and liquid segments. The value liquid segment grew at an 8% clip, driven by ARM & HAMMER liquid, which grew consumption a whopping 11% year over year. With respect to unit dose, this form now represents 15% of the laundry category. Our unit dose consumption grew 15% in the quarter.

More recently, we have launched new two-chamber unit dose products under the OXICLEAN and ARM & HAMMER brands. We expect these new products to contribute to future consumption growth. Most of the resets for these launches happened in late March and early April.

Now I would like to take a few minutes to talk about our three laundry brands. ARM & HAMMER has been our big franchise in laundry for many years and the ARM & HAMMER laundry share continued to grow this quarter, up 30 basis points. To illustrate the strength of the ARM & HAMMER brand, ARM & HAMMER liquid laundry has grown share year over year in 25 consecutive quarters.

Our XTRA brand backed off promotional volume in Q1, which improved our year-over-year profitability, but resulted in our giving up 40 basis points of share. On a full-year basis, we expect XTRA net sales and profits to be up year over year.

OXI laundry share was down 10 basis points year over year as we, like others, felt the effect of Persil's promotional activity. In the most recent four-week period, we are back to a 1 share, so promotional phasing does influence shares.

If we look at how OXICLEAN is doing in the stain fighter additive category, OXICLEAN's share hit an all-time high of [48]% share.

Now I'm going to turn my comments to cat litter. The clumping litter segment continued to show strong growth at 5.3%. ARM & HAMMER litter was one of the winners in the quarter. We continue to grow faster than the segment.

Our consumption grew 6.7%, behind our latest innovation, MICROGUARD CLUMP & SEAL litter. Just a quick commercial, MICROGUARD seals and destroys odors and prevents future bacterial odors from forming. It is an innovative product and we're broadcasting that message on our package, that 98% of consumers who have tried the product would recommend it.

Now let's talk about vitamins. The overall VMS category continues to show steady growth, up 3%. The gummy segment of VMS grew almost 15% in Q1. So let me break down the 15% for you. The adult gummy segment grew 23%, while the kids gummy segment declined 8%.

Adult gummies is where we are putting our focus as it is underdeveloped and it will be the source of future growth for us. Our brand, VITAFUSION, is the largest brand in the adult gummy category and was the biggest driver of the 23% adult segment category growth.

The good news this quarter is that our gummy business is growing again. We have had wide retailer acceptance of our new adult beauty line, which hit store shelves in March, so we're off to a good start this year for vitamins.

The last category I want to address is dry shampoo. This category grew 26% in Q1 year over year. A, the category in the US is nearly $100 million, with the potential to be a $300 million category in the US if we match the historical category growth experienced in the UK.

BATISTE is the number one brand in the US with a 17.2% share. BATISTE global net sales will cross $100 million this year, making it the number one dry shampoo brand globally, so it's no surprise that the BATISTE brand is expected to be one of our fastest-growing brands in the future.

Many new products are shipping right now. I have mentioned dual chamber pods, MICROGUARD litter, and the vitamin beauty line. In addition, we have the new GROOVE condom and RIVIERA lubricant by TROJAN and the new Bluetooth-enabled pregnancy test kit from FIRST RESPONSE. We feel good about our distribution and we look forward to these products contributing to our organic growth in 2016.

Our goal is to continue to focus on consumer insights, leading us to innovative new products to drive share and category growth.

Next up is Rick to give you details on our first-quarter results and the outlook for Q2 and the full year.

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Thank you, Matt, and good morning, everybody.

I will start with EPS. First-quarter reported EPS was $0.86 per share, compared to $0.80 in 2015, up 7.5%. The $0.86 was better than our $0.83 outlook, largely due to our organic revenue beat and gross margin expansion beat. Netted in that $0.86 is $0.02, or a 2.5% drag, from currency year over year.

Reported revenues were up 4.5% to $849 million. Organic sales were 5.2%, exceeding our Q1 outlook of approximately 2% to 3%. The organic sales beat was driven by our consumer business, both domestic and international.

Now let's review the segments. The consumer domestic businesses' organic sales increased by 4.5%, driven by the continued success of our ARM & HAMMER Liquid Laundry Detergent, VITAFUSION gummy vitamins, BATISTE dry shampoo, and ARM & HAMMER CLUMP & SEAL cat litter.

We now expect the full-year organic sales to be approximately 3% for the consumer domestic business.

International organic growth was up an impressive 13.3%. Now some of that was timing, as orders are a little lumpy in the export business, but underlying growth was very strong at approximately 9%.

Here, again, we are raising our expectation for the full year, organic growth from 4% to approximately 5% to 6% for the consumer international business.

For our specialty products division, organic sales was down 2%, driven by further declines in milk pricing and a difficult comp of 11% growth year ago. Milk prices have come down 10% in the last 90 days as there is an oversupply globally, and as a result, US exports, which historically have been 15%-plus of US production, are now around 10%.

We have lowered our expectations for the full year for the SPD division from up 1% to 3% to down 2%. This is a headwind that we expect to overcome for the full year. And we still like this business, but we do experience these cycles from time to time.

Turning now to gross margin, our reported first-quarter gross margin was 44.6%, an 80 basis-point increase from year ago. Q1 gross margin benefited from three factors -- lower commodities, productivity programs, and the higher margin from acquired businesses. These factors were partially offset by foreign exchange, negative product mix, and higher fixed costs associated with our new vitamin capacity in our York facility.

Moving to marketing, we increased marketing spend by 4.2% year over year. Marketing as a percent of revenue was consistent with 2015 at 10.9%. SG&A as a percentage of net sales was 12.6%, a 90 basis-point increase from the prior year. This was primarily due to incremental amortization from acquisitions and the timing of management stock compensation.

Now to operating profit. The reported operating margin for the quarter was 21.1%, which was 10 basis points lower than the prior year. Other income and expense was $6.4 million, largely $7 million of expense related to interest expense.

Next is income taxes. Our effective rate for the quarter is 34.7%. And turning to cash, we had a strong cash flow quarter. We generated $178 million of net cash for the first quarter, a $33 million increase from the same quarter year ago.

So in conclusion, the first-quarter highlights include 5.2% organic, 7.5% EPS growth, which again equates to a 10% currency-neutral EPS growth.

Turning to the second-quarter outlook, we expect Q2 organic sales growth of approximately 2% to 3%, and I know a lot of you guys like to look at growth on a two-year stack basis. Remember, for the total Company, a year-ago Q2 was 5% organic, so on the two-year stack, Q1 and Q2 look pretty similar at approximately 8%. And if we just focus in on the consumer domestic business for a minute, the two-year stack, it is going from 6.1% in Q1 to almost 8% in Q2, so a lot of positive momentum continuing on.

We expect marketing as a percentage of revenue to be flat year over year and gross margin to expand in Q2.

We expect second-quarter earnings per share of approximately $0.79, compared to an adjusted $0.73 per share year ago or an 8% increase year over year.

And now, turning to the full year, to summarize our thinking we are raising our expectations for organic sales growth from 3% to 3% to 4%. In February, we called approximately 40 basis points of gross margin expansion and we are pleased to say that now we are calling 70 basis points of gross margin expansion -- 75. Back in February, this broke out as 70 basis points of help from commodities and productivity, offset by 30 basis points from currency headwinds.

The 75 basis points we expect now is 100 basis points from commodities and productivity programs, offset by a 25 basis-point drag from currency. We are more optimistic about the stability of commodity pricing across the entire commodity basket for the full year than we were a quarter ago.

Our full-year marketing expectation continues to be 12.3% of sales, consistent with 2015 and prior years.

Moving to SG&A, our original expectations were a 10 basis-point reduction. We now expect a 25 basis-point increase, largely behind R&D, IT, and international sales force investments. Let me give you a little color on these investments.

First, investing in R&D projects behind our future product portfolio. Second, investing in our international sales force footprint, specifically in high-growth areas of our business to drive future growth. And third, we expect higher ongoing IT infrastructure costs as we implement two new important systems, our spec management system for R&D and our trade management system for sales.

We are positioning ourselves well for the future. We continue to expect 50 basis points of operating margin expansion.

Next is income tax. We now expect 34.7% for the full year, so it is a little higher than our previous outlook of 34.5%. We continue to expect $630 million of free cash flow, net of approximately $55 million of CapEx for full-year 2016. This represents 125% free cash flow conversion.

So now, Matt and I will open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bill Chappell.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Matt, maybe just a little bit more on the laundry category trend. This is certainly the highest volume, not just for you, but for the whole category, we've seen in a long time. It is tough to say if it is just because of pods coming into the category and bringing [everything]. The question is, how sustainable is this? How much upside is this? And is it category wide or is it also market share related?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, is your question, is the category growth driven solely by pods? Because it clearly is not.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Right, the question is, do you see mid single-digit growth for the category throughout this year?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Look, I don't have the crystal ball to say if we're going to have mid-single digit the whole year. That is going to be a function of year-over-year comps, right? But all I can say is if we look at the trends, the trends have been strong with respect to liquid laundry for the last six quarters and certainly the last four and no reason to expect that won't continue in the future.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Okay. And then, Rick, just on the SG&A guide, it was -- it came in higher than expected in the first quarter. Is it safe to say a lot of the hires are front-end weighted?

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Yes, I want to clarify what -- the only headcount aspect of the incremental SG&A investment is really round -- hasn't been done yet. It is going to happen this year, but it is really more to the international footprint business, for the export business and for our Australian sub, so that's the only headcount aspect of it.

The rest is investments behind incremental projects, new ideas for the future, IT infrastructure costs, not necessarily headcount, and we did have some of that in Q1. We expect those to happen throughout the year.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

And just to clarify, were these things that were always in the plan or just momentum was so strong starting the year we started to bring some of these in?

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Yes, I think that's exactly what it was, is momentum is strong. You heard us raise our outlook for gross margin from 40 bps to 70 bps of expansion, and so we are choosing to make some of these investments now.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Okay, great. I will turn it over.

Operator

Kevin Grundy.

Kevin Grundy - *Jefferies LLC - Analyst*

First question, guys, the organic sales, clearly very strong in the quarter, but even specifically with respect to the domestic business, it is probably about 200 basis points higher than what we are seeing in the Nielsen data. Can you comment on that? Was there any timing benefit? Can you comment at all on retail or inventory levels? And then, I have a follow-up.

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Are you saying is there a big pipe in the first quarter?

Kevin Grundy - *Jefferies LLC - Analyst*

Yes, so it's that, Matt, or are you seeing better growth in non-scan channels, like at Costco, as an example?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, well, obviously, Costco is an important customer for us, both on the vitamin side and also the laundry side. So, it is true the non-measured channels do influence our results.

Kevin Grundy - *Jefferies LLC - Analyst*

Okay. Just two more quickly for Rick or for you, Matt. What gets you to the higher end of the range for the balance of the year as you look out? How much of that is laundry, litter, vitamins? Maybe a little bit of commentary there would help.

And then the other one, you guys generally comment on the M&A pipeline, what you are seeing and efforts there. So those two follow-ups will do it for me. Thanks.

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, one of the reasons I chose to speak about the categories upfront, Kevin, is because laundry, litter, vitamins, and, more recently, the dry shampoo categories are catalysts to the Company, and we started the year with growth in all those categories and consumption growth as well. So, that bodes well for us for the rest of the year, so that definitely influences our thinking on success of the domestic business in 2016.

And the other piece of our full-year raise is obviously international. International had a rocking first quarter and so we're taking up their number on a full-year basis as well.

Kevin Grundy - *Jefferies LLC - Analyst*

The M&A piece, Matt?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Say again?

Kevin Grundy - *Jefferies LLC - Analyst*

The (multiple speakers) M&A, pipeline? Yes.

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

M&A, well, as we have said in the past, there is rarely a week when we are not looking at some transaction, but we don't go any further than that in our commentary. We're always looking, diligencing something, but we're pretty fussy about what we will buy.

Kevin Grundy - *Jefferies LLC - Analyst*

Okay, thank you.

Operator

Bill Schmitz.

Bill Schmitz - *Deutsche Bank - Analyst*

Can you talk about the gross margin progression? Because the natural flow of the business and if you look at what some of the other folks in laundry have done, just given the year-over-year decline in a lot of commodity costs, the gross margin should naturally be a lot higher. And, obviously, you beat your guidance and raised it for the full year, but what is offsetting that natural flowthrough of what you would expect, given this commodity and category growth environment?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, Bill, I think that's a fair question. We talked about it a little bit on our analyst day and we talked through some of the headwinds, like transactional currency.

But I would say, overall, we're really pleased with our gross margin expansion. We just talked about how we're going from 40 basis points to 75, so essentially we are doubling it and that entire doubling of it is largely commodities. I think we feel more comfortable with that full-year outlook of commodities.

So, do we have one-offs every now and then on write-offs and whatnot that burden gross margin? Sure, but overall, in general, we are really happy about doubling our gross margin outlook, pretty much, and if commodities continue to stay where they're at or improve, we will probably be talking about it again.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, and then, I know this is a small one and maybe it is a little nitpicky, but on this Spencer Forrest acquisition, I think you spent $175 million for $30 million of sales. Is there this massive growth trajectory of the business? Is that why you paid such a high multiple of sales?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, I think we probably got similar questions like that when we bought BATISTE back in 2011.

The way to think about that, Bill, is that the hair thinning category is about a $240 million category. That is mostly dominated by topicals, brands like Rogaine. And our point of view is that hair thinning can also be addressed with hair fibers, and we bought a product that we think is going to have significant growth in future because it addresses the problem in a cosmetic fashion and not with chemicals.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, and then maybe just back to that gross margin thing very quickly because on my math, you should do 300 basis points of gross margin expansion this year. But this quarter, was there a purchase accounting step up or anything like that that impacted the gross margin from this TOPPIK deal?

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

No, no, there's not. And we can take it off-line at some point, but there is no way that we had the exposure from the commodities to make it a 300 basis-point move. We just don't have that type of volatility.

Bill Schmitz - *Deutsche Bank - Analyst*

Got you. Okay, thanks so much.

Operator

Caroline Levy.

Caroline Levy - *CLSA Limited - Analyst*

I wanted to talk about your new products. You went through some stuff pretty quickly, but can you elaborate on some of the major ideas and why you think that this is going to keep the momentum strong and if you think your market-share gains can continue?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Well, we have been the leader in the litter category for many years now. If you remember when we spoke downtown in February, we showed a chart that showed our innovations over the past three or four years. So we have clearly been the catalyst for that category, and we have a winner again this year with the MICROGUARD product. So, we are driving growth in the category, which is a big category, and we're taking share.

And we generally have a big new idea every year, so we think we can continue that in the future.

With respect to laundry, as I said earlier, well, ARM & HAMMER has been quite a powerhouse for us for a long time. The new product this year, one of them, is the BioEnzyme product, which has the EPA Safer Choice label, which is becoming more meaningful to all shoppers. So we think that is a nice new variant for us that's going to help us continue to grow the franchise.

Some of the other things I mentioned, vitamins, what we did was we decided to shrinkwrap our products, so we got beautiful new packaging, which obviously speaks out or pops on shelf, and we think that is going to be a winner for us this year as well.

Continuing down the line, in the TROJAN, TROJAN RIVIERA, so this is -- you may recall this is a lubricant that can be used in the shower, so that's another consumer insight that we think is going to help expand the share for TROJAN. And as you know, TROJAN's share continues to grow. We're up slightly year over year, a little over 76% share.

And FIRST RESPONSE, again, is the number one brand in pregnancy test kits, and we are the first people to come out to try a Bluetooth-enabled pregnancy test kit. So that's our -- what we are trying to do there is test and learn in what we call the Internet of Things.

We have a very robust new product development process. We are very focused on consumer insights and that does lead us to really cool ideas with respect to new products, and we have got a nice pipeline for 2017 and 2018. So that gives us confidence that we continue to grow the topline organically.

Caroline Levy - *CLSA Limited - Analyst*

That's great. And if I just may ask how much the TOPPIK should -- TOPPIK acquisition should continue to contribute? Is it about 1 percentage point to growth through the balance of the year?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Well, remember, that's a small business. It is about $30 million in total, right, so --.

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Right, so, yes, about 1% for the full year on a reported basis.

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

On a reported basis, yes.

Caroline Levy - *CLSA Limited - Analyst*

Got it. And then just lastly on buybacks, you actually were well ahead of what we expected in the first quarter, $200 million. The longer it takes for you to find a big acquisition, can we expect a higher run rate on buybacks now, perhaps?

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

So Caroline, I think we were right on our expectations for a buyback. We said we were going to do around $300 million this year of buybacks and we did $100 million in December. We did about $200 million in February, and if you look at our past practice, we typically get ahead of our full-year buyback in Q1.

So $300 million is right on target. We feel good about that number. I think, as you have seen us in the past, if we go many, many, many years without doing an acquisition and we have the cash build up on the balance sheet, then we always look back and say how do we return that to shareholders.

Caroline Levy - *CLSA Limited - Analyst*

So you could step it up in the fourth quarter, but don't expect much for the balance of the year, probably?

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Yes, I would say that $300 million is our sweet spot for this year as of now.

Caroline Levy - *CLSA Limited - Analyst*

Got it. Thank you very much.

Operator

Joe Altobello.

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

First question on the categories, obviously getting better. You did mention back in February that could be potential upside to guidance. Is there any larger takeaway on the broader consumer in the US from the fact that 11 of your 15 categories were up?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, it is a good question, Joe. Everybody has their own crystal ball about the economy and we do look at it the same way. So we always monitor those 15 categories, so having 11 of the 15 up is a very good sign, and the four that weren't up are some of the -- at least three of them are some of the smaller categories.

So I would say yes, that is a good sign. Of course, you have to temper that by if you look at some of the big houses, big banks more recently, have reduced the GDP outlook for the US this year to 1.5%, so obviously there is some pessimism out there. The credit card debt is going up. Some people speculate that fuel savings are going to healthcare costs. So there is definitely a couple different camps out there with respect to the economy.

For our part, we do look at these categories and we see a lot of strength in them, so we don't think that is going to turn around that quickly. We think it should stay strong for the rest of the year.

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

And how are retailers managing inventories? Are they getting a little bit more or actually less conservative, given that?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

No, I wouldn't say that. I think the retailers are no different than any of the CPG companies and everybody looks at working capital very closely. So, no, I wouldn't say there would be any change in practice there.

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

Okay, and then you mentioned that kids gummies, the category, was down 8%. I'm just curious what drove that.

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, the kids gummy section has been trending down for more than just this quarter, for a while. And the speculation around that is that once upon a time, before the advent of adult gummies, that adults took kids gummies. And that with a lot of adult gummies now coming on shelf, adults are using the adult gummies and not the kids.

So that's why I said earlier is that our focus is on adults. Kids is a very mature category. Even when we bought the business, if you looked at vitamins, two-thirds of all the vitamins that children took in the US were gummies. So it was just already saturated and so there is some migration from kids to adults.

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

Got it. Okay. And one last one, I have to ask on OXICLEAN laundry detergent. It looks like the shares were down again a little bit this quarter. What is your thinking there, maybe plans for that brand going forward in that category?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Well, look, it is no secret that you have a new entrant into high-end laundry detergent last year with Henkel's Persil brand, and they went to Walmart and Amazon, and then at the end of the year and now they are expanding and doing a lot of couponing, et cetera. So, there is -- the activity is very fierce right now with respect to couponing from those guys.

So, obviously, we would be a victim of some of that, so we lost some share, but as I said in my earlier remarks, you are right. In the quarter, we did lose 20 basis points of share. If you look the more recent week, we're back to a 1 share, but it is a steady state. 1 share right now and we really trying to crack the code here and figure out how to grow that brand. But we are still committed to it.

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

Okay, great. Thanks, guys.

Operator

Jason Gere.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Two questions. One, I guess, obviously every few years one of your big competitors finds some cost-cutting initiatives in place and everybody fears about what could happen to some of the categories. And laundry, in particular, the category seems to be strong, so you talked a little bit about Persil and a little bit of the couponing there. Is there anything on the front from that big competitor right now that they may go after some of the shares that they have seen either at the high end or even push more behind their value brand just to get greater growth?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

No, Jason, I don't have any intelligence, other than what you see in the marketplace today that there are big pushes in the high end with Persil. Pretty aggressive claims. And there is nothing more to report from that competitor.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay, but how about the other competitor, the bigger one, the big dog? I'm talking about just as they are pushing a little bit more with Simply Clean or even at -- as they have seen that you have made the foray into the pods, just wondering if there is any intel there? It seems like you guys feel pretty comfortable about how this year is playing out, but what does history teach you?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Well, maybe it will help you if I comment just on the amount sold on deal in laundry last year versus this year. So last year first quarter, it was 36% for the category, and this year first quarter, it is 35%, so not much of a change year over year. If you're talking about what new innovations they have, as you all know they have a similar product to our BioEnzyme that they just launched. But I don't have any other color other than that.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay, no, that's good. And then the other question, just going back to some of the investments on the international sales force, and I know you talked a lot more about the export business, but just curious your thoughts. You have been predominantly a domestic business, with some of the categories being able to carry over to your -- more your North American international counterparts, Mexico, Canada, et cetera. But with this expansion in international, does it change your thinking about the portfolio you have getting greater expansion, whether in new markets or even with expanding some of the categories that you are in domestically? So just wondering if we should read into anything there.

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Well, look, when we talk about the international division, we have our countries, so we have six primary countries, and then we have an export business.

And we have found that we've had a lot of success with our products in a lot of countries other than those six countries that I mentioned where we have subsidiaries. And we have got a terrific leadership team in the export business and they've been driving a lot of growth. And when you have people that are successful like that and they have plans to execute to drive that growth, we've said we're going to add the headcount.

And you know how stingy we are around here about adding heads. So we're going to invest behind these guys in export, and we're also doing the same in the specialty products division. We bought a business a year ago, a small business, to add to our animal productivity business, and likewise we have the ability to go international with some of those products as well. This is both in the dairy and in poultry.

So, we're going to invest for the future, and because we had a rocking first quarter and things are looking up for the year, we said, hey, this is a good time to reinvest.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay, got it. Thanks for the color. Thanks, guys.

Operator

Steve Powers.

Steve Powers - *UBS - Analyst*

A follow-up on domestic growth trending above tracked channels. I know it is a small base, but how much of that was from strength in e-commerce? And what, if anything, are you guys doing differently in that area as online demand accelerates?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, that's a good question. Most CPG companies have their online sales between 1% and 3%, and when I say 1% -- that range would include all the usual suspects, the amazon.com, walmart.com, target.com, et cetera, et cetera. So, I would say most CPG companies are in the early innings with respect to selling product online. Now, of course, that can change very quickly.

For our part -- when I say change very quickly, it is not going to go to 5% or 10% in just a couple years, but it will change over time. So we have decided that we want to get really good at that, so it is one of our focuses right now. It did not -- was not a big contributor, I would say, to the first-quarter results, but we are going to have higher online sales this year year over year by a meaningful percentage year over year.

Steve Powers - *UBS - Analyst*

And is -- does it have anything to do -- are any of the investments you're making incrementally this year in SG&A, are any of them related to e-commerce capabilities?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, yes, exactly. We have hired a couple people, and you may have seen recently the Dash Buttons for Amazon. So there are six Dash Buttons out there: TROJAN, BATISTE, VITAFUSION, L'IL CRITTERS, OXICLEAN, and ARM & HAMMER Litter, so I hope everybody on the call is getting a couple of those buttons for their refrigerators.

Steve Powers - *UBS - Analyst*

There you go. Okay, great. Thanks, and I guess -- it is really small, I know, but can you just quantify, Rick, the deal amortization in the quarter and what you just -- the number, incremental amortization year over year for the full year? Thanks.

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Yes, I would say that in Q1 the TOPPIK acquisition had a really high SG&A rate and it was probably around [15]%, and part of that is amortization, part of that is the transition costs. So all in, it was around 40 basis points to the quarter.

Steve Powers - *UBS - Analyst*

Thanks.

Operator

Lauren Lieberman.

Lauren Lieberman - *Barclays Capital - Analyst*

Just first, Rick, to follow up on that, that was the first-quarter impact from the higher SG&A. But going forward, what would be the amortization because the transition cost would obviously go away?

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Yes, it is probably about half of that.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. All right, thanks. And then, also, just in terms of the incremental spending overall, Matt, you said it yourself. You guys are stingy and incredible cost control over the years. So, I just found it striking that you found this much that you want to put money back into. So are these areas that -- I know you said it was -- you had the flex, but why didn't you go after them before? What does it add incrementally to the growth potential that you wouldn't have had without the investment?

I just think it's interesting, given how tight you have been with investments over time, the decision to put so much back in.

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, well, Lauren, we wouldn't quantify our business model with respect to how many people did we or are we adding and what's the sales and profits associated with that.

The point is that has been a focus for us, the export business. Even before we made this decision, we had hired even stronger people there. So, this is just another increment on top of that increment.

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Yes, and let me put a little bit of context behind it, too. We are talking about a move of going from down 10 basis points in SG&A to up 25. That's around $11 million or $12 million, right? We're adding, whatever, $3 million or so from incremental R&D projects, not headcount, just more opportunities for the future, more MPD, more resources to work on different things.

There is a couple million dollars for the headcount for the international business and export business and there is a few million dollars for higher IT infrastructure costs. So it is not like we're taking a huge dollar amount and going and investing in headcount. I just want to be clear on that.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay, that's great. And on the international, what would it be -- what would be the decision point for you guys to move from an export model to being -- establishing local operations and running it like more of an affiliate model?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, that's a really good question, and to do something like that, you would have to have one of your brands really have enough critical mass so that you could enter that market. And there are a couple of countries we're looking at right now, but we wouldn't disclose that.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay, thanks so much.

Operator

Jason English.

Jason English - *Goldman Sachs - Analyst*

Thanks for squeezing me in. Congrats on the solid start to the year. I wanted to come back and rehash some of the questions that have already been asked. First, to Bill Schmitz' question on gross margins, 300 basis points that he gets to mathematically seems pretty optimistic, but I agree with his general premise that mathematically it is not that hard to get well above where you're guiding to.

So a couple of questions, just to help us understand this. First, commodities. Is there something to consider in terms of your hedge positions for last year, this year, et cetera, that may cause your benefit or lack thereof to be greater or worse than what we would see in spot markets?

And then, secondly, the leakage on the fixed-cost absorption for the new vitamin plant, I appreciate that is here to stay for a while, but you're soon going to start to lap the startup expenses. Do those two effectively wash, or our expectation was that you could actually get a surplus, that the startup costs were greater than the fixed-cost deleverage you're getting now?

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Yes, sure. So, I will take the commodity question first. So, we had said previously, and it is still the case, that in general resin was down 10%, surfactants were down 20%, paper was relatively flat. You guys know what oil and diesel are doing and those are favorable year over year as well.

I think in general we do have some hedges out there. We went into the year with about 30% hedged, which is really our lowest level in quite a few years because we had thought we should float most of the market. We do have a couple hedges on surfactants, so maybe we are not getting the entire spot market benefit, but in general 300 basis points is not realistic for us at all.

So, we do have that as a tailwind in general from commodities.

Fixed costs for vitamins, now remember we told you guys this was a 75% increase in capacity, so a $300 million business becomes $525 million. It is going to take some time to really grow into those fixed overheads, and you are right. We had startup costs last year, but those fixed overheads are more in totality than the startup costs were a year ago.

Jason English - *Goldman Sachs - Analyst*

That's helpful. That's helpful. And then, back to the laundry category growth, we see the lower promotional activity. We see some of the mix-up that is happening in the category. But when we do our best to try to get to a load equivalent volume, we are seeing volume on a load equivalized basis growing north of 3%, which is a bit of a head scratcher, right, because it is hard to imagine that people have just decided -- or have more dirty clothes or doing more laundry.

Any views on what is driving that volumetric growth from a load equivalized perspective?

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, I think I have to agree with you. That is a head scratcher. I could say in the past at times we think sometimes the information that we use on volume, you have to take with a grain of salt because of all the different sizes within the category.

If you think about wash loads, so if you are saying there is a lot more wash loads, it is illogical to think that there is 3% or 4% more wash loads being done with population growth only 1.5%.

Jason English - *Goldman Sachs - Analyst*

Yes, so you (multiple speakers).

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Jason, the other thing there is we do see trends. There is a certain percentage of the category that does mix pods and liquid laundry, so that might throw off your wash load metrics as well.

Jason English - *Goldman Sachs - Analyst*

Yes, definitely, definitely. Okay, cool. Well, I will just pass it on. Okay, thank you, guys.

Operator

Olivia Tong.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Just one for me is around a little bit more about gross margin and more the gross to net spend that you guys do, because there has been a lot of talk this quarter amongst other HBC companies about that line item. So, first, how much is your spend in that area and how has that been trending?

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Yes, we don't (technical difficulty) go into the details between gross to net and all of our trade spending, Olivia. I would say we continue to watch the trade spending, just like we do every item in the P&L, and Matt has given you context on laundry. That's a good indicator, right? Amount sold on deal for laundry a year ago was 36%. Now it is 35%. For litter, it was 24% a year ago. Now it is 22%. Vitamins is another big category for us and that was 39% a year ago and it is 39% this year. So there is a little context.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great, thank you.

Operator

Jon Andersen.

Jon Andersen - *William Blair & Company - Analyst*

Just two quick ones for me. I was wondering if you could talk a little bit more about your, I guess, latest power brand, BATISTE, and provide some context around the opportunity in the US. I think dry shampoo is a bigger part of the shampoo category in the UK. But could you give us maybe some metrics there so we can try and understand the opportunity that lies ahead here in the US?

And then, the second question is just an update on the potential for another round of compaction in liquid laundry. Thanks.

THOMSON REUTERS

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Yes, as far as the context for the BATISTE opportunity is look at the UK. The UK, round numbers, has about 60 million people, and it has -- the category there is about $60 million. So you just do the quick math, you have 335 million people in the US. You have five times the population, so you have an opportunity for five times the category size. The $60 million becomes $300 million here.

So that really is the math behind the thinking that this could be a much bigger category.

Jon Andersen - *William Blair & Company - Analyst*

And then on compaction in laundry?

Rick Dierker - *Church & Dwight Co., Inc. - EVP, CFO*

Yes, as far as compaction, yes, there's nothing to report on compaction. I think the last time that anything was said publicly, Walmart was thinking about the end of 2017 or early 2018, but there is no discussion about that right now.

Jon Andersen - *William Blair & Company - Analyst*

Okay, thanks. Good -- congrats on the good start.

Operator

That does conclude our conference for today. Thank you for participating in today's conference. You may now disconnect at this time.

Matt Farrell - *Church & Dwight Co., Inc. - President, CEO*

Okay, thanks to everybody for joining us.
