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EDITED TRANSCRIPT

CHD - Q3 2014 Church & Dwight Co Inc Earnings Call

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OVERVIEW:

CHD reported 3Q14 reported revenues of $842m and EPS of $0.85. Expects 4Q14 EPS to be approx. $0.78.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. And welcome to the Church & Dwight third quarter 2014 earnings conference call. Before we begin, I've 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 the detail in the Company's SEC filings. I would now like to introduce your host for today's conference, Mr. Jim Craigie, Chairman and Chief Executive Officer of Church & Dwight. Please go ahead, sir.

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

Good morning, everyone. It's always a pleasure to talk to you, particularly when we have great results to report. I'll start off this call by providing you with my overview of our third quarter business results, which you read about in our press release this morning.

I'll then turn the call over to Matt Farrell who will provide you with his perspective on the financial details for the quarter. When Matt is finished I'll return to provide some more detailed information on the performance of our key brands and discuss our earnings guidance for the year.

We'll then open the call to field questions from you. Let me start off by saying that I'm very proud of my team for delivering excellent third quarter business results in such a difficult business environment.

Despite continuing headwinds from weak consumer demand and increased competitive pressures, Church & Dwight achieved 4.7% organic sales growth in Q3, driven by record share results on all four of our mega brands. In combination with continued tight control of overhead costs, the Company delivered a 30 basis point increase in operating margin and a 12% increase in earnings per share.

On a year-to-date basis, our organic sales growth is right in line with our annual target of 3%. So the excellent results in the first three quarters of 2014 makes us feel confident in achieving our aggressive annual EPS growth target of 8%, which would place us in the top quartile of EPS growth for the entire CPG industry.

I'm also pleased to report that we've completed the acquisition of several leading women's healthcare brands from the L'il Drug Store Products Company. This acquisition meets the Company's acquisition criteria which have been a key driver of our consistently strong EPS growth.

We expect the acquisition to be earnings neutral in 2014, and accretive to earnings per share in 2015. Let me assure you that we are continuing to aggressively pursue acquisitions. I'll now turn the call over to Matt to give you some specific details on our third quarter results, and then I'll return to give you some further insights on the results of our key brands and provide additional details on my outlook for the year.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

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

Third quarter EPS was $0.85 per share; that compares with $0.76 in 2013. That's up 12% from a year ago.

And the $0.85 was better than our $0.80 to $0.82 outlook. And netted in our $0.85 is a $0.01 drag from FX year over year. We also got a $0.01 of help versus our 34% targeted tax rate.

As far as revenues go, reported revenues were up 4.6% to $842 million. Organic sales were 4.7%, exceeding our Q3 outlook of 3% organic sales.

And the organic sales beat was largely driven by the success of new products and continued strength in our animal nutrition business. Of the 4.7% organic growth, approximately 5.2% is due to volume with 50 basis points of negative product mix and pricing.

Now let's review the segments. The consumer domestic business's organic sales increased 3.5%. Volume growth contributed the 4.3% to organic sales.

That was partially offset by 80 basis points of negative effect to product mix and price. Our personal care brands had a really good quarter, up 4.9% in total.

TROJAN, Nair, Spinbrush, and Vitafusion vitamins all had good quarters. Household was up 2.8% driven by Arm & Hammer Clump & Seal cat litter and OxiClean liquid laundry detergent.

These increases were partially offset by lower sales of XTRA laundry detergent, L'il CRITTERS vitamins, and Arm & Hammer unit dose laundry detergent. Going out to international, international organic growth was up 1.7%. Volume increased approximately 3.1%, and unfavorable product mix and pricing was a drag of 1.4%.

We had strong growth in the UK and Mexico, but that was largely offset by a weakness in Canada. Turning now to our specialty products division.

Organic sales increased by 22.1%. The animal nutrition business drove an 18.2% volume increase, with favorable mix and pricing contributing 3.9%.

With respect to that favorable price, and remember that the favorable pricing is attributable to passing through raw material price increases to our customers. Currently, the US dairy industry is very healthy and is experiencing near high milk prices and low input costs which are driving demand for our products.

We expect total Company organic sales to be approximately 3% now for the year. Turning now to gross margin.

Our reported third quarter gross margin was 43.7%. That's a 170 basis point contraction from year ago which is slightly more than the 150 basis points contraction that we expected.

This was driven primarily by higher trade spending and higher commodity costs. For the full year we still expect gross margins to contract approximately 75 basis points. And with respect to commodities, our year over year input cost trended up in Q3 year over year, particularly due to resins.

Now let's talk about marketing. Our marketing spend was front-end loaded this year to support all the great new products during the launch.

As we said in August, the second half spend is as expected lower versus the year ago. We continue to monitor our marketing spending on the basis of our share of voice versus our share of market.

So we watched that very closely and we are comfortable with those ratios. With respect to quarterly marketing spend for the third quarter, it was at $96.6 million, or 11.5% of revenues. And that's a 90 basis point decline from the prior year spend rate and $3.1 million lower on a dollar spend rate.

We funded some of the Q3 promotional actions that we talked about in August with lower marketing in Q3. SG&A. SG&A was lower year over year by $4 million.

As a percentage of net sales it was 11.1%, which is a 110 basis point decrease from the prior year third quarter. And as a result, our reported operating margin for the quarter was 21.1%, which was 30 basis points higher than the prior year third quarter.

Next is income taxes. Our effective rate for the quarter was 33.1%. That compares to last year's 33.9%.

And we continue to expect the full year 2014 effective tax rate to be approximately 34%. Cash flow is next.

We generated $408.7 million of net cash from operations for the first nine months of 2014, and we invested $36 million year to date in CapEx. And we expect to spend approximately $70 million on CapEx for full year 2014.

Cash from operations is expected to exceed $525 million, and free cash flow is expected to exceed $450 million. Regarding buybacks.

We have approximately $140 million remaining on our authorization, and we may decide to get ahead of 2015 share creep in December of this year. Now I want to talk about the acquisition that Jim mentioned in his opening remarks.

The Company completed the acquisition of RepHresh, Replens, and other brands from L'il Drug Stores on September 19. We met all of our previously stated acquisition criteria.

The brands are number one in their niche categories. They're asset light. And what that means is the products are co-packed and we believe it has growth potential, and the gross margin is accretive to the Company's gross margin.

Annual trailing sales of these brands are $46 million, and the $216 million acquisition was initially financed with commercial paper. A little more color on this.

RepHresh is the number one gel for pH balance and vaginal health, and Replens is the number one gel to address vaginal dryness, which is a common issue for menopausal age women. We expect them to grow at or above our 3% to 4% growth target, and these brands fit nicely into our global women's health portfolio.

And many of you may not know that in our international division we have a vaginal care brand called FemFresh, which is about a $20 million brand. Now into some numbers.

Trailing EBITDA was approximately $17 million. So if you do the math on that, this is an EBITDA margin of 37%.

That would also equate to an EBITDA multiple that we paid of 12 times. So since this is an asset deal, as many of you know, there's a tax shield. So after taking into account a $55 million tax shield and a minor amount of cost synergies, the multiple is actually less than 9%; 8.9%.

Which coincidentally is the same fully synergized multiple that we paid for the Avid business in 2012. So once these brands are fully integrated, the Company expects to leverage distribution network and support functions to generate some additional cost savings.

The acquisition is expected to be earnings neutral to 2014 EPS, and approximately $0.02 accretive to earnings per share in 2015. That's inclusive of two things, financing costs and amortization of intangibles.

If we add back the amortization of intangibles, that's about $8 million, the acquisition is expected to be approximately $0.06 accretive through cash earnings per share. And with respect to the financing that's netted in there, although there are no guarantees, we expect to refinance the commercial paper borrowings with a [longer term] instrument at market rates sometime in the future.

I'm going to wrap it up now. The third quarter highlights include 4.7% organic sales and a 12% EPS growth.

We expect fourth quarter earnings per share of approximately $0.78, compared to $0.65 per share last year, which is a 20% increase. As Jim has said and will say, we had an impairment charge and litigation costs in Q4 2013 that aren't expected to repeat.

And this year we have lower shares. And combined that makes up 10% of the 20% increase in the fourth quarter.

We expect Q4 organic sales growth of approximately 3%, and marketing as a percentage of sales goes to approximately 12.2% for Q4. 12.2% is also our full year marketing target right now.

As we mentioned in the release, we're tightening our full year EPS range from 7% to 9% to 8% growth. One last thing, for those of you who are working on your models, on a full year basis we expect 3% organic sales growth, gross margin contraction of 75 basis points, obviously influenced by slotting and couponing behind new products.

As we work our way down the P&L we now expect marketing at 12.2% of sales for the full year. That's given our Q3 actions. And expect SG&A to be down 100 basis points to 12%.

That will get you to 50 basis points if operating margin expansion for full year 2014. And now back to you, Jim.

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

Thanks, Matt. I'll finish off our call today by adding a little color to the third quarter results, which Matt just took you through, and my outlook for the year.

At the beginning of this year I told you that Church & Dwight's plan for 2014 was based on the belief that innovation was the key to driving our organic sales growth and reviving category growth in this challenging global economy. To back up this belief, we launched a record number of new products in every one of our major categories and three new categories.

These new product launches were focused on our four mega brands and five other power brands. These nine brands in total represent over 80% of our sales and profits.

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In the first quarter of 2014 our sales force did an incredible job in gaining incremental distribution from retailers in every category. Gaining incremental distribution is the key first step for driving future sales and profit growth, so we got off to a great start.

In the second quarter, our goal was to initiate consumer demand for the new products via increased marketing support. We also met this goal, as we achieved record quarterly share results on three of our four mega brands and share gains on three of our five other power brands.

In the current third quarter, our innovation-driven strategy continued to gain momentum, driven by record share results on all four of our mega brands and three of our five other power brands. And as we had hoped, our innovations have had a positive effect on category growth as well.

The weighted average of all of our categories has gone from minus 0.8% versus year ago in the first quarter to flat versus year ago in the second quarter, and to plus 0.8% in the third quarter. While this weighted average is still below pre-recession levels of 2% to 4%, it is headed in the right direction.

I would now like to share some of the specific third quarter results on our key brands. Among our nine key brands, our biggest focus in 2014 was on turning the OxiClean brand into a mega brand by extending it into three new categories; premium laundry detergent, bleach alternatives, and automatic dish washing detergents.

Overall this strategy is off to a great start, as consumption of the total OxiClean brand in the third quarter was up 35% versus year ago. This included strong results on every form of the brand.

The OxiClean laundry additive products achieved a record third quarter share of 43.8%, which is more than the next three competitors combined. This represents the 12th consecutive quarter of year on year share growth for our core OxiClean laundry additive brand.

The new OxiClean premium liquid laundry detergent achieved a 1.2% dollar share in the third quarter in the $5 billion liquid laundry category after just seven months of distribution. This represents a 20% increase in sales versus the prior quarter.

Most importantly, our consumer research revealed that the sales of our new OxiClean premium liquid laundry detergent brands are over 80% incremental to our other liquid laundry detergents. Our new OxiClean auto dish detergent achieved a 2.4% dollar share in the third quarter and has surpassed Colgate's Palmolive brand to become the number three player in the auto dish category.

And our new OxiClean bleach alternative called White Revive achieved a 2.4% dollar share in the third quarter. Distribution of White Revive was almost entirely incremental as we were able to get it placed in the bleach section rather than the laundry detergent section where the core OxiClean laundry additive product is located.

As a result sales of White Revive are over 70% incremental to the core OxiClean laundry additive franchise. The strong sales incrementality of our new products is critical to achieving sales growth.

Our other mega brands also achieved strong results in the third quarter. Our newest mega brand, the Vitafusion and L'il Critters gummy vitamin business, delivered high single digit consumption growth in the third quarter behind expanded distribution, new products, and increased marketing support.

We achieved this high single digit consumption growth despite only 1% overall category growth as a result of unfavorable publicity late last year about the benefits of taking multivitamins. The 1% overall category growth for vitamins is actually encouraging news, as it represents steady improvement from a negative 2.2% category decline in the first quarter and a flat category in the second quarter.

We are optimistic that the vitamin category will soon return to its historic mid single digit growth levels driven by new products and solid marketing spending by all competitors that reinforce the proven benefits from taking vitamins. Notably Church & Dwight's vitamin business plays in the fast growing gummy form of vitamins, which now represent 7% of the total vitamin category.

That is more than double what it was when we bought the business in 2012. And that still leaves 93% of the $7 billion vitamin category to be conquered by encouraging consumers to switch from swallowing tasteless, hard pills to enjoying delicious tasting gummy vitamins.

We have the number one gummy brand for both kids and adults, and Church & Dwight was one of only two vitamin brands to show share growth in the third quarter. These strong results to date in our gummy vitamin business [have helped us] to put us on track to deliver our strong sales growth outlook on the year, despite lower than expected category growth and increased [competition].

On our TROJAN mega brand we achieved a record third quarter share in the total sexual health category, driven by record quarterly sales of condoms and continued growth of our new lubricant line that was launched in 2013. On the largest part of our sexual health business, our TROJAN condom business, we achieved a record quarterly share of 76.6%.

Our steady stream of new condom products and strong marketing programs has led to the TROJAN brand representing 26 of the top 30 SKUs in the category. Our biggest mega brand, Arm & Hammer, grew its share in the third quarter despite significant price competition.

In the laundry detergent category Arm & Hammer liquid laundry detergent achieved a record quarterly share of 10.3%. This share growth represents the 19th consecutive quarter that the Arm & Hammer liquid laundry detergent brand has posted year on year share growth.

This share growth has also strengthened the brand's number one position in the value segment and it's enabled the Arm & Hammer brand to pass the All brand to become the number three brand in the total laundry detergent category. While these were very positive results for the Arm & Hammer brand, the real star of the Arm & Hammer mega brand portfolio was our cat litter business.

Our new premium priced cat litter, called Arm & Hammer Clump & Seal, has been a huge hit with consumers as reflected in both our brand share results and its positive impact on category growth. Our third quarter consumption for our Arm & Hammer cat litter business increased by over 20% for the second consecutive quarter, and our share grew 2.5 points to a record third quarter share of 22.5%.

These great share results strengthen our position as the number two brand the in the category. Just as important, our new Clump & Seal product has been a major contributor to driving cat litter category sales growth up over 8%, the strongest growth in any of our 13 categories and excellent growth for any CPG category.

This exemplifies our belief that innovation is the key to driving improved value creation for our consumers, our customers, and our shareholders. Unfortunately, some of our competitors have not invested in developing new products.

And instead, have increased their trade and coupon spending to defend their brands. This has been happening in several categories, particularly the laundry detergent category.

As you know, Church & Dwight is the only competitor to grow shares in the laundry detergent category for every year for the past five years. We are now the number two player in the category, and one of out of every four wash loads is done with a Church & Dwight laundry detergent.

The growth of our laundry detergent business has been driven by value pricing, great new products, increased distribution, and higher marketing spending. As I stated earlier, our largest liquid laundry detergent brand, Arm & Hammer, has posted year on year share growth for 19 consecutive quarters, including share growth in the first three quarters of 2014.

Our OxiClean laundry additives brand has posted year on year share growth for 12 consecutive quarters, and achieved a record quarterly share in the third quarter. In 2014 we launched innovative new products on our Arm & Hammer laundry detergent brand and to continue our remarkable record of share growth, we also extended the OxiClean brand into the laundry detergent category with solid results as I mentioned earlier.

Overall, Church & Dwight's total laundry detergent business achieved a record quarterly dollar share of 14.7% in the third quarter. In the liquid detergent category, which represents over 70% of total laundry detergent sales, Church & Dwight achieved an all time record quarterly share of

17.5%, driven by record quarterly share on the Arm & Hammer brand, and the incremental share delivered by our new OxiClean liquid laundry detergent products.

Hopefully our laundry detergent competitors will come to share our belief that launching innovative new products is the preferred method of competition for both our consumers and retailers. We are anticipating a more normalized promotional environment starting in this quarter.

I will finish off our portion of the call today with a few words on our outlook for the year. As stated in the press release, we are reaffirming our 2014 guidance of organic sales growth of approximately 3%, and we are tightening our annual earnings growth target to 8%.

This will be driven by our balanced portfolio of value and premium products, the launch of innovative new products, aggressive productivity programs, and tight management of overhead costs. Our 8% earnings growth target is in the upper quartile of EPS growth targets ranges in the CPG industry, consistent with our historical performance, and we are highly confident that we can deliver this aggressive target given the strong momentum exiting Q3.

I also want to once again assure you that we are actively pursuing additional acquisitions and have over $2 billion of financial fire power to make them. As you know, we have a great track record of making highly accretive acquisitions because we are very selective about the type of businesses we acquire.

At the same time we are also fiscally responsible to our shareholders, so we will continue to be patient until we find the right deals that will pay dividends for many years to come. Now before I open the call to questions, I'd like to mention an organizational announcement that we made this morning.

I'm pleased to announce that Matt Farrell will be assuming a broader leadership role within the company. In addition to his current role as the Church & Dwight's Chief Financial Officer, in which he has a superb track record, Matt will also become our Chief Operating Officer with all line functions reporting to him.

This expanded role will enable Matt to leverage his terrific depth and knowledge of our organization and the CPG industry to continue to build on the company's outstanding track record of results. This organizational change will also allow me to focus more time on long-term corporate strategy and finding accretive acquisitions.

In conclusion, 2014 is shaping up to be a another very challenging year. But when things get tough you should place your bets on the Company with the product portfolio and new product pipeline that can thrive in such an environment and the management team that has the track record of knowing how to successfully leverage that portfolio to deliver consistently strong EPS growth.

That ends our presentation. I'll 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)

Our first question comes from the line of Bill Schmitz of Deutsche Bank. Your line is open.

Bill Schmitz - *Deutsche Bank - Analyst*

Hey, just want to look at the organic growth guidance. Obviously it came in better this quarter, but you only kept it 3% for the year.

So is there anything that was pulled forward from the fourth quarter? Do you think you're being conservative in the fourth quarter? Kind of what's changed relative to when we spoke last in.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Bill, it's Matt. As you know the specialty products business has been flying pretty high. In Q4 they're going to be coming down to earth. So that's one of the reasons why it's going to be lower sequentially.

In Q3 as you know we took actions to -- particularly in the laundry category, which we talked about on the last call. Those actions we decided upon in May, June got a lot better year over year, followed by July, August, and September.

So that consequently Q3 was influenced by those, but as Jim said we expect a relatively normalized promotional environment in Q4. So that's also reflected in our top line.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay. Great. And then it seems like you're a lot more sanguine about the laundry category and the price wars and everything else that happened earlier last year.

Do you have a sense for kind of like what the planograms look like for next year and what some of the pricing conversations have been? Is that why you're a little more optimistic?

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

No, I think, Bill, we don't have any information to share on that. Just, we're trying to provide context on our expectations but based on what we are seeing right now I would just tell you two facts kind of support that context.

One, there's been improvement in the overall laundry detergent category. The category's still down.

It was down 2.3% in Q3, but that's better than the 3.8% decline in Q1 versus year ago and the 3.5% decline in Q2. So we're seeing improvement in the category.

And also the promoted price per wash load for liquid laundry detergent was higher in Q3. Keep in mind, liquid is still 70% of the business. So we're seeing some trends which we like.

Bill Schmitz - *Deutsche Bank - Analyst*

Just a follow-up on that. Does XTRA have to work for laundry to really be humming?

That's the only brand if you wanted to really pick at things a little bit that hasn't done its job recently. I guess is there a plan there, and do you need that brand to work for the broader laundry business to work?

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

We have a portfolio now, Bill, of three laundry detergent brands and every one of them is important. And we have plans in place to make XTRA do better going forward.

And I'm not going to reveal those, but yes, it's a part of our portfolio but it's -- but we're working on it. Overall, the portfolio is doing great, record share results. And XTRA's down a little bit but we have plans going forward to make that better.

Bill Schmitz - *Deutsche Bank - Analyst*

Great. And congrats, Matt, it's a long time coming. It's well deserved. Thank you guys.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Thanks Bill.

Operator

Next question comes from the line of Bill Chappell of SunTrust.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Good morning. Actually going off that last one, Matt, congratulations as well. But can you tell us kind of what the difference is of what you're doing day to day, Jim, other than Matt obviously getting a longer business card?

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

Bill, all I would tell you is two key drivers of our past success are that we have a very experienced management team and I carefully leveraged that team over time to meet the changing needs of our customers and consumers and to meet the competitive environment that we face in order to deliver our great business results. Right now, I want to devote more time to three things.

One, long-term corporate strategy. Two, acquisitions, and three, developing the organization's capabilities. I need more time to do that, and to enable me to do that I've asked Matt to step up and handle the additional duties of COO.

He'll be overseeing and coordinating the day-to-day execution of our business. That leverages his last eight years of experience as our CFO in which he's been involved in all aspects of the business.

Matt as you guys know, and I appreciate, has done an incredible job as our CFO and he's in the position to take on additional responsibilities because he's developed a world class financial team. So in my mind this evolution of our management structure is what the Company needs right now.

Going forward I'll continue to make changes in the future as needed to continue to deliver outstanding business results. So that's what's going on.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

And then switching to the operations, on the laundry you said you're anticipating the promotional environment getting better this quarter. Are you already seeing that in October, or did you already see that in October?

Or kind of what gives you comfort? Assuming most of these plans were put in place months ago, should we expect it to get better sequentially?

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

I don't want to go into detail, Bill, but yes, we're continuing to see some positive things happening. It's still early in the fourth quarter.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Okay. And then Matt, just as we look out to 2015, I know it's not big, but based on spot rates today what's kind of the currency headwind on your EPS guidance?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Thanks for throwing me that beach ball, Bill. (laughter)

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

You're still the CFO. (laughter)

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Yes, current spot rates we calculate to be almost 1.5% drag on EPS. And that's baked into our thinking still of high-single digits. So where it is true that we have an acquisition and yes, it's going to help us by $0.02 next year, we've got more than $0.02 going the other way at current spot rates for FX.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Got it. Thanks so much.

Operator

Our next question comes from the line of Michael Steib of Credit Suisse. Your line is open.

Michael Steib - *Credit Suisse - Analyst*

Good morning. Just a question on the operating margin improvement. SG&A productivity seems to have been driving a lot of the improvement in the quarter.

I was wondering what's behind that? Is that just your general productivity program? And what is the sustainability of that progress?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Hi, Michael, this is Matt. Well, we expect to sustain the year-over-year dollar save. It's a combination of a lot of things.

You may recall back at the -- in February when we called the year that we expected 100 basis points of help year over year from SG&A, and that's because of our vigilance with respect to headcount, the fact that we had put in an SAP system two years ago now that we continue to try to leverage. We're far more progressive than any other CPG company with respect to how we manage medical and dental costs.

In fact our medical and dental costs are down year over year as a result of us going to a private exchange. You won't find many companies that did that as of 1/1/2014.

When I think about 2015, you're trying to get at the sustainability of the SG&A improvement, so we expect to sustain the dollar save. And if you think about our algorithm, you can grow this company 3% top line.

So if you reported numbers 3% top line growth and you can keep a lid on SG&A, so if SG&A can grow 1% or less you're going to get 25 basis points of leverage. So that's half of the 50 basis points of operating margin leverage that we'd be looking for. That's a simple way to think about it.

Michael Steib - *Credit Suisse - Analyst*

Very helpful. Thank you.

Operator

Our next question comes from the line of Alice Longley of Buckingham Research. Your line is open.

Alice Longley - *Buckingham Research Group - Analyst*

Hi, good morning. My question is a follow-up to the fourth-quarter guidance. So 3% organic sales growth, we understand specialty is coming down.

Can you tell us more about the domestic consumer business? We just had 3.5%, but we're going into the toughest comp of the year for domestic consumer and there's less promotional support. So I'm just wondering if that domestic consumer goes down to 2% or something like that?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

The way I think about it, Alice, is the last couple of quarters the specialty products business has generated more than 1% of our growth. So if you went back to Q3, for example, of that 4.7% the specialty products business was round numbers around 1.5% of that.

That's not going to repeat in the fourth quarter. When you think about 3% fourth-quarter organic growth, the simple way to explain it is that SBD is going to grow, specialty products will be less than 1% of Q4 year-over-year.

Which means the consumer business is going to be higher than 2%. But as far as my ability to tell you exactly what it's going to be, I've whiffed on that the of last couple quarters so that's as close as I can get right now.

Alice Longley - *Buckingham Research Group - Analyst*

You don't mean that specialty is going to be up 1%? You just mean that it's adding less than 1%.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Weighted average, how much do they contribute to the growth.

Alice Longley - *Buckingham Research Group - Analyst*

Okay. And then another follow-up. How much were your detergents overall up or not in the third quarter? And that includes all the brands and all the forms including powders. Thanks.

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

Alice, our share was up 0.1%, which was the same as Procter and the other two competitors were down on a share basis.

Alice Longley - *Buckingham Research Group - Analyst*

So that means your detergents were down a little bit because the category was down?

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

We're roughly plus or minus. We'll have to give you an exact number later on.

I can't give you an exact number, I want to go check with the gang on that one. You're asking for specific numbers on specific category. I'd have to double check.

Alice Longley - *Buckingham Research Group - Analyst*

Okay. I guess one final. You haven't talked about the JV and equity income.

That was better than I thought. Could you bring us up to date on what's happening there and what the outlook is maybe for next year?

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

I couldn't tell you what it's going to be for next year. As far as the full year this year, we expect it to land around $16 million. If that helps you. Full year 2014.

Alice Longley - *Buckingham Research Group - Analyst*

What's going on there? Why is it growing?

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

It's cyclical. These are businesses that go up and down. If you looked at our Ks for the last few years you're going to see that it's driven by the end markets and their input costs.

Some of our end markets are positive right now at JV. But I wouldn't say that I would count on that for next year just yet. We'll update you in February.

Alice Longley - *Buckingham Research Group - Analyst*

Okay. Good. Thank you.

Operator

Thank you. Our next question comes from the line of Connie Maneaty of BMO Capital Markets. Your line is open.

Connie Maneaty - *BMO Capital Markets - Analyst*

Good morning. It looks as though the litter market is going towards lightweight litters. And I'm wondering where you are in the development of such a product?

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

I don't want to announce anything, Connie, before we do it. I would just say we continue to rock and roll on cat litter.

I think the month of October's just rolled in and we're up actually 34% over a year ago. So we continue to do very well.

And again, I just have a policy of not announcing new product launches until actually they hit the market. Our competitors like to tip us off, but we don't do that.

Connie Maneaty - *BMO Capital Markets - Analyst*

Okay. Can you give us your outlook for resin? I think you noted it as a negative contributor to the gross margin.

A lot of people are expecting resin costs to go down and to follow oil. But what's your opinion?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

What's happened for resin, Connie, is that there's less of a correlation with oil than there used to be historically. So it seems to be more related to capacity of suppliers and outages, both planned and unplanned.

So resin is still super high. I know somebody wrote a note about resin coming down.

We would love to see that happen because we'd certainly benefit from that next year. But we're taking a wait and see right now.

Connie Maneaty - *BMO Capital Markets - Analyst*

Just one final thing. On gross margin expansion for next year, what would be the contributors to it?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Well, remember we've heard Jim talk about new products this year was our biggest year in years as far as the number of new products that we launched. And along with that came lots of slotting and couponings to stimulate trial.

So next year will be -- although we always have great years, and next year will be a good year, but we won't have as many launches next year in 2015 as 2014. So consequently we'll have what we're slotting and couponing. Obviously that gives you a bit of a tailwind for gross margin.

Connie Maneaty - *BMO Capital Markets - Analyst*

Okay. Thanks.

Operator

Our next question comes from the line of Jason English of Goldman Sachs. Your line is open.

Jason English - *Goldman Sachs - Analyst*

Hey, good morning, folks. Sorry, kind of fell off the call there for a bit of time so I may ask a redundant question. If so, I apologize in advance.

I want to pick up that last line of questioning just on cost in margins. Good organic sales growth this quarter, bad gross margin performance.

You're calling for an inflection to gross margin expansion next quarter. Do you think that can be sustained as you go through next year? And if so what are some of the puts and takes?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Well, we just talked about the gross margin for next year being influenced by lower slotting and couponing. I don't know if you heard that or not, Jason.

We have so many new product launches this year, in particular OXICLEAN, but that's going to peel back a bit next year. That's a natural lift to gross margin in 2015 versus 2014.

As far as gross margin goes, Q3 to Q4, it's sequentially better. You probably saw in the release, and Jim has made some remarks about that, we expect a more normalized promotional environment.

That comment is with respect to Q4. So we're not necessarily commenting on 2015 or 2016 there. But that seems to be the trend right now.

Jason English - *Goldman Sachs - Analyst*

Okay. Thanks, that's helpful. And Jim, real quick.

Usually when we see a COO named it precedes a CEO succession. What's the likelihood of that happening here?

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

Well, I'm a young 61. Some day I will retire.

That's all I'll say right now. You're getting ahead of your ski tips here as far as I'm concerned. (laughter)

Jason English - *Goldman Sachs - Analyst*

Thanks a lot. I'll pass it on.

Operator

Our next question comes from the line of Kevin Grundy of Jefferies. Your line is open.

Kevin Grundy - *Jefferies & Company - Analyst*

Good morning, guys. And Matt, I wanted to extend my congratulations to you as well.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Thanks, Kevin.

Kevin Grundy - *Jefferies & Company - Analyst*

From a capital allocation perspective, Jim, maybe you can touch on this. With respect to M&A, is it that you're seeing assets out there you that think make strategic sense and the multiples are just too high?

And then alternatively how should we be thinking about buyback with respect to 2015 and sort of going forward, understanding what you said about share creep here in the remainder of the year. Should we be anticipating something similar, perhaps a front end weighted sort of buyback in 2015, understanding that it's a Board decision.

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

Kevin, I'll address the acquisition environment and let Matt take the share buyback. I would just say it's a very active environment out there and it's more a case of we're just looking for as I said in my comments for acquisitions that fit our criteria.

We're being selective as we've always been. And when we make deals they have long-term benefit in terms of being accretive.

So there's a lot. And that's actually, again, one of the reasons I want to spend more time to be able to pursue these and chase them down because it's a very active environment.

But an environment which we want to be very careful in. We don't want to overpay and we want to make the right long-term deals and it takes a lot of focus to do that.

That's one of the reasons for giving Matt the additional duty of COO. I'll let Matt address the share buyback.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

On buybacks, Kevin, remember when we started the year we had $500 million of cash on the balance sheet, Jan 1, 2014, and you know we're a big cash flow generator. So we were somewhat opportunistic this year and be able to deploy that cash, not having found large enough acquisitions that we thought met our criteria.

So we bought back $430 million of stock this year. So I wouldn't expect that to repeat because the highest and best use of our cash flow is acquisitions. So the only thing we would commit to is that we would try to address share creep for 2015 and round numbers that's around $85 million of buybacks.

Kevin Grundy - *Jefferies & Company - Analyst*

Okay. And then if I may just one more. Without asking you guys, this is with respect to the product pipeline for 2015 and understanding you're not going to front run any new innovation, I get that.

But maybe you could just sort of help us prioritize where you think the greatest opportunity is. You called out OXI.

Where are we? What inning would you say with OXI in terms of looking at categories that could extend to TROJAN and also the gummy vitamin business and brand extensions there?

That's it from me. Thank you.

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

I would just tell you two things. One, our focus going forward will always be to give the strongest support to our four mega brands. And two, we're going to continue to strongly support the major new product launches we made this year.

But as Matt referred to, we won't have to pay slotting fees and we won't be at introductory coupon levels next year, we'll just be more of ongoing levels. So we're going to continue to drive the growth.

We're happy with the start. It's going very well. But we know we need to continue that next year. And we'll be launching other new products, especially on our mega brands next year.

Kevin Grundy - *Jefferies & Company - Analyst*

Okay. Thank you.

Operator

Our next question comes from the line of Wendy Nicholson of Citi. Your line is open.

Wendy Nicholson - *Citigroup - Analyst*

Hi. Just a couple follow-ups. The guidance for the fourth quarter includes a little bit of the incremental share repurchases pulling forward from next year. Is that clear, or would that be on top of what you've already guided us for?

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

That's not baked in right now.

Wendy Nicholson - *Citigroup - Analyst*

Okay. Fine.

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

Wendy, but the way we manage the place is we're always looking for ways to spend back more on media with our brands. To the extent that we did buyback, we probably spend back any of that incremental profits in marketing.

Wendy Nicholson - *Citigroup - Analyst*

Got it. Okay. Fantastic.

Can you quantify -- I know there have been a couple questions about the gross margin. In the guidance for 75 bps contraction in 2014, how much of that is the slotting fees?

Is it 50 bps? 100 bps? Just to try to in our own minds add that back and think about where the gross margin is going to go next year.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Let's wait until we get to the end of the year. We're going to call that. In February we'll give you the detail on how much of that was in 2014 and what the tailwind is for 2015.

Wendy Nicholson - *Citigroup - Analyst*

Okay, terrific. That's all I had. Thanks so much.

Operator

Our next question comes from the line of Chris Ferrara of Wells Fargo. Your line is open.

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

Thanks, guys. I guess the message changed a little on the buyback. I know last quarter you said don't expect us to buy any more stock back.

Now you're say you'll pull some forward for share creep. So I'm just curious is that because of what had happened in the M&A environment relative to what you had expected?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

No. (laughter) It's not because of the M&A market at all. It's a question of do you do it in December, do you do it in January, February?

Typically do it, if we're going to do it, we front end load it. We could do that in December.

But like I said, it's not going to have an impact on our full-year 2014 and a month isn't going to change, make a difference with respect to 2015. But we haven't made that call yet.

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

Okay. And then on guidance, I know Matt you guys always do a good job of managing the next quarter out guidance pretty carefully. But when I run the numbers that you're looking for through, there seems to be more flexibility in that Q4 EPS number than I'm used to. I'm wondering if there's anything maybe I'm not thinking about that will be an incremental drag the next quarter that would cause you to only earn what your guidance is relative to the individual components you guys gave out?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Could you be more specific?

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

Yes. So I mean, when you run marketing being a 12.2% for the year and SG&A being at 12% and organic at 3%, you get to an EPS number that's bigger than what you're guiding to and by a little bit more of a margin than normally.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Well, we always have puts and takes in a quarter of lots of variables, none of which we will go into today on the call. But as you correctly point out the quarter ahead, and for the full year, we're always pretty care careful about what our expectations are so we can help people see their way through the numbers.

The big variable is always going to be the top line too. That's the one that's hardest to call.

Marketing and SG&A is within our control, but certainly promotional environment and the top line are not. And although we might say we expect a relatively normalized promotional environment, it's still early.

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

Thank you.

Operator

Next question comes from the line of Caroline Levy of CLSA. Your line is open.

Caroline Levy - *CLSA Limited - Analyst*

Good morning and congratulations, Matt. My questions are number one, if you could say what's going on in Canada and whether you expect that to reverse?

And number two, on fem care are there other areas that you can expand into? Can you tell us a little bit about that category and how we should think about growth rates for the category?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Canada is an extremely competitive promotional environment right now. There's some retailers up there that are very aggressive with respect to promotions and who will remain nameless.

It's more or less a microcosm of the US. It's only 10% of the US sales, Canada versus US. It's our most important subsidiary. We've had struggles up there with respect to competition this year.

Caroline Levy - *CLSA Limited - Analyst*

Okay. The retailers rather than the manufacturers?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

No, with the retailers we have to compete. You've got to compete with your competitors as well.

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

Caroline, there's been some retail consolidation up there. There's been some new competitors. It's just a very volatile market.

We are showing some improvement in the beginning of Q4, so we're optimistic there. It's just something we've been dealing with, with the environment up there.

I think everybody's been dealing with it. And again, we've had a good month of October overall, especially in Canada.

Caroline Levy - *CLSA Limited - Analyst*

That's good. On fem care?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

What was the second one, Caroline?

Caroline Levy - *CLSA Limited - Analyst*

Just you made these acquisitions in feminine care. I'm just wondering if you could talk a little bit about that market and whether you see other opportunities to expand there?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Oh, you mean in the women's health?

Caroline Levy - *CLSA Limited - Analyst*

Yes, with your acquisitions.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Look, our women's health business in the US is essentially a pregnancy kit business. We certainly have an opportunity using our gummies to expand the first response into another area.

This is complementary, because we're already in the business in Europe, so it's not -- we're not strangers to this particular category. These are small categories but growing.

So I wouldn't say that we were going to go on a roll-up here with respect to vaginal -- women's vaginal products. It is a subsection of lubricants. Lubricants is not growing as a total category, but the sub categories within those are growing far more rapidly and that was what the attraction was for us of each of these brands.

Caroline Levy - *CLSA Limited - Analyst*

Thank you. Then finally just on vitamins. You said the category's gone back to 1% growth.

From past experience where the category's had bad press, does it then resume within sort of 6 to 12 months? Do you think you'll be back to that mid-single digit?

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

Yes, it usually does, Caroline. It's something when we bought this business we studied it and the category goes up and down based on news in the marketplace.

We were told about that. That's exactly what we're seeing right now. I can't predict exactly what number it will go to, but it's definitely headed back in the positive direction right now.

Caroline Levy - *CLSA Limited - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Nik Modi of RBC Capital Markets. Your line is open.

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

Hello. Good morning.

Nik Modi - *RBC Capital Markets - Analyst*

Sorry about that. It was on mute. Good morning.

Congrats, Matt. Two questions from my side.

Jim, general environment I guess as we've been hearing other companies reporting have indicated the US is kind of improved. I know you've had a pretty good handle on the economy going back several years.

Wanted to get your updated thoughts on the state of the union here in the US. The second question is on the vitamin business.

I know one of the big initiatives you had was sampling. I'm just curious if now maybe you have some statistics around conversion around those sampling efforts? Thanks.

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

The economy -- all I can say is I can go back to what I repeated in my call. For the categories that we're in we're seeing good, steady improvement from minus 0.8% to plus or minus in the second quarter to plus 0.8% in the third quarter.

I can't predict it going forward. You read the papers every day. Some days it's headwinds, some days it's tailwind.

I'm maybe a smidge more optimistic right now that this will continue going forward. I will tell you every day I read the negative news.

I know if you haven't seen it, there's concerns about the Port of Long Beach out in California with two to three week delays on products coming into the country. Luckily, we have very small part of our product line as imports.

I don't see any impact on us. I fear an impact on retailers being able to merchandise stuff in Q4.

Overall, I think the category's we're in again, driven by innovation are starting to show some improvement. The BMS, sampling is a key part of that program. We continue to spend more money on that.

I don't have any statistics to give you, honestly. Good news, our business continues to grow.

We continue to be number one share position and we've got lots of new products in the pipeline coming along. I think we also told you we're right now putting in a new capacity in the plant that will increase our capacity by about 75%.

That new production lines will be up and running soon. So we have lots of very aggressive plans for vitamins going forward.

Nik Modi - *RBC Capital Markets - Analyst*

Great. Just one quick one on the acquisition announcement.

Can you provide any context on maybe distribution gaps? What is the real opportunity in terms of low hanging fruit with some of these brands?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

I wouldn't say that at all. Lil' Drug Stores is a really good operator and they had really good ACV for these. There's some voids there, but I wouldn't be looking at these brands as having big voids to fill.

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

I think, Nik, we kind of -- Matt kind of alluded we have another business sort of like this called Femfresh over in Europe. It has products within its line which may be applicable to this business, and with that we'd be launching additional products into these two brands.

Nik Modi - *RBC Capital Markets - Analyst*

Got you. Thank you.

Operator

Thank you. Our next question comes from the line of Jason Gere of KeyBanc. Your line is open.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay, thanks. Good morning and Matt, echoing the congratulations. Just actually most of the questions have been asked, just two kind of follow-ups.

One I think Matt you mentioned about operating margin up 50 basis points. I just want to make sure that was for the full year, not for the fourth quarter. And I have just a second question as a follow-up.

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

That's full year, full year 2014.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay. Great. And then I guess the last question is just on the vitamin.

In the third quarter I think you said consumption for you guys was up high-single digit. Did you say what your actual shipment growth was as a part of that whole personal care?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

No. We don't do that for any brand.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Is it in line with what personal care is? Or can you say a little bit higher, a little bit lower?

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

We don't do this for any brands. (laughter) We always get asked but we don't go into sales or margins by brand or SPU or any of that thing.

Jason Gere - *KeyBanc Capital Markets - Analyst*

All right. I'll leave it at that. Thanks a lot.

Operator

And our final question comes from the line of Olivia Tong of Bank of America. Your line is open.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Thanks for fitting me in. Matt, first congrats on your expanded role.

As far as my question, can we talk a little bit about the key drivers of the 3% organic sales growth for FY15? Because specialty obviously grew much faster this year.

And then you mentioned earlier that you're not going to see as many new products in 2015 as 2014. Perhaps can you talk a little bit about the split between consumer versus specialty growth going forward? And perhaps some specific on what's going to drive consumer to health offset the difficult comps in specialty?

Matt Farrell - *Church & Dwight Co Inc - EVP & CFO*

Just to be clear, it's not in the release and it's not in the script. So we haven't called the top line for next year. We're not ready to call any lines.

The only things we've really said is that we expect gross margin expansion. And the reasons for that were going to be the fact that we had such a huge number of new products launched this year and we allot to slotting and couponing to generate trial in 2014 that we don't expect to repeat as much next year.

I gave an example with respect to the sustainability of SG&A cuts, and in my example I said that if you assumed 3% top line growth and you kept a lid on SG&A at only 1% or less, that you could generate 25 of your 50 basis points of operating margin expansion. But we're not ready right now to be calling the three pieces, domestic, international, and specialty products.

Although I will say that you're right with respect to lightning striking twice. When you look at the kind of year that specialty products had this year it's certainly not obvious to us either that that will repeat next year.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it. Thank you.

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

Okay. I want to thank everybody for taking the time to meet with us this morning. Again, very proud of the results this quarter and just hope things keep going well, which I think they will.

I said earlier we had a good October and we got a couple more months to go to finish the year. So thanks again for taking the time. Bye-bye.

Operator

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