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PRESENTATION

Lauren Lieberman - *Barclays - Analyst*

All right. Okay. I was just told he has 150 slides, so I got to kick this off. So, toward the end of a long day of presentations, we know we can count on a high-energy 40 minutes from Church & Dwight. With us from the Company today, we have CEO Jim Craigie and CFO Matt Farrell.

So, a 10-year track record of double-digit EPS growth is one of the hallmarks of Church & Dwight. We appreciate decisions made recently to prioritize brand health over near-term EPS growth. Competition has been intense in a number of the Company's categories, particularly stepping up during the last quarter.

So, we're looking forward to hearing the latest on-the-ground read of the promotional environment in the US and an update on Church & Dwight's business in particular. Jim and Matt, thanks so much for being with us.

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

Thank you, Lauren. It's always a pleasure to come to the Barclays conference. We've had 14 meetings so far today with 28 different investors. I'd like to think we saved the best for last. And I do have 150 slides. That's about 150 more than the Kraft presentation this morning. So, I promise to get you through in 40 minutes.

First of all, safe harbor statement basically says you go ahead and buy my stock based on what we say today, it's your problem.

I like to have opening remarks. I'm going to tell you literally in one slide the key things you're going to hear today. And if you want to leave the room and get a cup of coffee, it'd be fine. Then I'm going to tell you the reasons why you should buy my stock. Matt's going to get up here and summarize for you the first half results and our outlook for the rest of the year. And then we'll be glad to take some questions, do our best to answer them.

Opening remarks slide, what you're going to hear today is the follows, A, Lauren kind of referred to it. We've had 13 consecutive years of double-digit EPS growth. I don't think anybody else at this conference can claim that. Two, we're playing to win in 2014 with a very aggressive, but we believe is an achievable plan. Three, we've launched the largest new pipeline ever because we believe innovation is the key to success, even in this tough market. And so, far, we're off to a great start.

Four, we're evolving our marketing strategy a little bit. We have very much increased focus. Used to talk about eight power brands, and nine, we bought the vitamin business. But, we're increasing our focus starting this year and going forward on our four biggest brands we call our megabrands.

Fifth, the Avid acquisition we made is off to a great start delivering exceptional results. And six, I promise you we are very aggressively pursuing additional acquisitions I'll talk about more later. But, we believe in making the right acquisitions, just no throwing our money out at anything.

Let me talk about TSR. Our company is all about total shareholder return. That is what we are focused on. We love consumers, but we love you more. We love driving our stock price. That's what we're about. We're capitalists. And that's what we focus on.



Those of you who have invested in us, you love us. Those of you who have not, you've watched the ship sail. You missed the boat. You missed the boat. I hear it constantly.

Just to show you what you've missed, those who would've invested, if you invested \$1,000 in Church & Dwight 10 years ago when I took over the Company as CEO, you got over \$5,000 today. Invested \$1,000 10 years ago in the S&P 500, you'd barely have \$2,000. So, we've had a great performance over that point in time.

We looked at actually the stock prices compared to my competitors. Gee, I love to do this. I love my favorite chart here. You'll see the return you got on Church & Dwight stock over that time frame, over 400% return, driven largely by stock price appreciation.

Now, you say that's great, Jim. That's great history. But, we're here today to talk about the future. So, let me tell you the 10 reasons why Church & Dwight can continue to deliver superior total shareholder return results.

First of all, very important, we have probably the most unique product portfolio here. We call it the recession-resistant product portfolio. Why do I bring that up is, hey, folks, consumer confidence out there is not translating into stronger retail sales.

Here's some headlines from just recently, some Wall Street Journal in that. Every retailer out there is hurting. Quite honestly, I'm a simplifier. I look at the world in terms of Walmart and McDonald's, the two biggest and lowest-priced retailers out there in the household and personal care world and the food world. And if their results are hurting, I say it's a tough economy. And you've seen the results for them lately as well as almost every major retailer out there.

An interesting factoid I heard recently from another board I'm on, yes, unemployment's going down. But, on average, the jobs people are finding are at 60% of the salaries or wages they made in their prior job. So, spending power is not there.

So, what's on our portfolio? We have a very unique portfolio I told you. It's both value and premium products. Nobody else has a portfolio like this. 55% of our portfolio is premium, just like the premium brands in Procter and Colgate and Clorox and that. But, 45% of our portfolio is value. And when I say value, I truly mean a value at a better price.

Here's an example of our key value portfolio here. Laundry detergent, our biggest category, our products sold at 50% to 65% lower than Tide. You can see other categories there. We truly provide great products but at a much better value out there in terms of price.

Very important in this recessionary economy, the pressures have shifted consumers from the premium mid-tier segments to the value brands. You can see now more US households now buy a value detergent than the premium or mid-tier products.

You can see here, too, the value segment has now passed in total dollars the mid-price segment and is approaching on the premium segment, showing the shift of consumers down into the value segment.

Why is that important? Because Church & Dwight is the kind of the value segment. We now have almost 50% share of that value segment. We're bigger than number two, three, and four players combined.

Over the last five years, we're the only guys who have share gains every year, gained almost five share points. And you see, while Procter is still the king of this category at 55% of the dollar share, and we only have 16% of dollar share, look in terms of wash loads. After you convert to what that converts to in actual wash loads in machine, you can see we're coming in very closely to actual usage out there in the environment. So, people love our brands in the laundry category.

Now, you sit back and say I'm just going to sit quiet. It's not all about price, folks. We're very driven by innovation. And we're out there looking to take our great brands and bring innovation to them. We've launched three great new products in the fabric care category this year.



First of all, we looked back and said we're all about consumers, just like everybody else. And what's the consumer driven by in laundry? One of the biggest things is fragrance and freshness. And we realized there really wasn't a strong play in the value segment on those quadrants. We had very good value. We had cleaning, stain removal, and convenience. But, there really wasn't a brand in the value segment that really had a strong focus on freshness and fragrance.

So, we launched it. We launched a new product this year called Arm & Hammer Clean Sensations. It's off to a great start. We've had excellent retail distribution. It's the best new product launch since we launched Arm & Hammer with OxiClean. And it helped us to deliver our 18th consecutive quarter of Arm & Hammer liquid laundry detergent share growth year over year. That's phenomenal.

Second thing I can say, stain removal is the number one consumer complaint. And we said, well, what can we do to address that? And we realized there wasn't a laundry detergent that was really focused on stain removal.

Now, we're the kings of stain removal in the sense of a laundry additive with the OxiClean brand, where you add it to a laundry detergent. But, we realized there wasn't a laundry detergent brand really focused on stain removal.

So, we launched OxiClean as a laundry detergent and launched it at a premium price but at 20% value, lower value than the premium number one brand out there Tide.

So, we have a great brand out there. It's had excellent distribution, achieved over one share. In fact, the latest score we had a 1.2 share. That's bigger than Cheer and the same size as Era and Whisk. So, we're out there off to a great start. And it's resulted in 80% incremental to our laundry franchise, so off to a very strong start.

Third, we looked back and realized another major segment of fabric care is the bleaching side. And 93% of consumers are concerned about the harmful effects of Clorox bleach. And it's a fact. They said they're worried about that. So, we took OxiClean, which is made for all types of fabrics and lots of uses, and said let's [improve] OxiClean that's focused just on whites and came out with great performance at delivering the whitest clothes out there.

And we did a very smart thing. We distributed the product over in the bleach section. So, guess what? It's off to a great start, 2.2 share of market, over 70% incremental to our OxiClean business. So, three great new products that helping us continue to build our fabric care share.

Second factor driving our total shareholder return is we know how to build our brands. As I said, we've had eight power brands in our portfolio. Those eight brands make up over 80% of our sales and profits. Those eight brands are all market leaders in their category.

We added a ninth brand a year and a half ago when we bought into the vitamin business with a brand with two forms, Little Critterz for kids and Vitafusion for adults.

Our brands are very important to retailers. You can see here in terms of how many of the top 10 SKUs in the categories our brands represent. They represent all the way up to all 10 of leading condoms are the Trojan brand.

So, our formula for growing our brands is as old as stone. Everybody talks about it. But, we do it exceptionally well. It consists of innovative new products, increasing your marketing spending, increasing your distribution. And that leads to share growth.

You can see we had a great record doing that since 2007 through 2013. Over 32% of our results, sales results 2013, came from products we've launched since 2007. So, we've flipped a third of our portfolio with new products. That's incredible.

People sometimes think we're a little company. We're only \$3.2 billion, \$3.3 billion in sales compared to like \$80 billion for Procter and whatever. They don't think we spend a lot. We do spend a lot. We're the 13th largest advertiser in the CPG industry, larger than some other companies you might think who are big enough in revenues but don't spend as much on advertising as we do.



And if you look at [debt], we then take those great new products and marketing, and it leaves for distribution. If you look at our distribution results, you take 2009 as a base year. Say that was 100. Look how much extra distribution we've gained on our brands over the last four or five years through launching innovative new products and supporting them with increased advertising.

You take that together, it leaves the share growth. 75% of the time over the past six years, we have grown share on our top nine brands. That's an outstanding batting average in this industry. I doubt anybody else comes close to it. So, we know how to build our shares.

Now, I told you earlier, we decided to take that strategy as great as it is and evolve it. We realize that we can -- we're focusing more of our spending attention on our four biggest brands. We'll get even better results. And those four brands, as I showed a minute there, is Arm & Hammer, OxiClean, Trojan, and our vitamin business.

Those four brands represent 60% of our sales and profits. Those four brands, they've had outstanding results over the past five to six years. You can see they've been our fastest growers. Our formula's the same, innovative new products, increased marketing spending, increased distribution leaves the share growth.

But, the four megabrands have advantages over the other brands we have. One, \$1 spent on the marketing gets a bigger bang for the buck by spending on a megabrand. Two, the megabrands have greater licensing potential. Three, there's a bigger bang for an R&D investment when you invest in those brands. And four, there's lower organizational cost. Let me talk about each one.

First of all, when you have a megabrand and you spend \$1 on that brand name, like Arm & Hammer, it helps all the forms under Arm & Hammer versus having a brand that's just one category, that's all it helps.

So, advertise, they don't give you a break, and the TV networks don't give you a break. You spend \$1 on a brand, they say, well, it's only one category, you get to spend \$0.50. No, they charge you the same thing. So, better to spend your advertising dollars against brands that cover multiple categories. It's called the halo effect. And it works if it's done right.

Secondly, licensing potential, when you have a big brand, you get people who come to you and say, you know what? We'd like to take your brand name into another category. We don't want to do it ourselves. We're not (inaudible). But, we license that brand into it.

We generate over \$185 million in retail sales in the category. Over 400 license products carry the Arm & Hammer logo. We don't make it. We don't ship it. We don't sell it. But, we get licensing revenue that adds up to over \$1 million, \$10 million a year on these brands. That helps expand our brand equity.

Three, when you have some R&D investments behind a brand, again, baking soda's a great one. It has whitening, brightening, cleaning, deodorizing benefits. You can take those benefits and spread it across the entire line to spread your R&D spending investment.

And fourth, when you have a megabrand, you don't need multiple teams on separate little brands. You can have one big team on a megabrand and cut down on the organizational costs.

So, you put that all together, lower R&D investment, the bigger bang for marketing spending, greater licensing revenue potential, and lower organizational costs, you get bigger profits on the bottom line.

Arm & Hammer's a great example of all this. It's our biggest megabrand, over \$1 billion portfolio. We take this brand. It covers over 12 different categories in the stores. You'll find it in more aisles of a grocery store than any other brand in America. And we've done right things for the packaging. So, you know the moment you see an orange-colored package, Arm & Hammer, you got it.

We span both sides of the equation. We have value forms of Arm & Hammer, like laundry detergent, and premium forms, like the toothpaste and the cat litter.

We have -- this is a 160-year-old brand, folks. How many 160-year-old brands you know that are growing high single digits? And we've done that with this great brand.

How? First, innovative new products, you can see a bunch here. I've told you about the America & Hammer Clean Sensations product we launched this past year with great results. Second thing is cat litter. Now, cat litter's a business we did not extend in until 1998. And today, we're the number two player behind the Arm & Hammer equities.

This past year, we sat back and said, what can we do in this category? We know that odor control is the number one consumer concern in this category. So, we sat back and said we've got to develop a product with better odor control. And we came out with a product called Clump & Seal. And what it is, is a form of clumping that's the smallest particle ever. If you know chemistry, the smaller the particle, the more surface area, the more odor absorption.

So, we've had a great result. We've launched this product out there, great incremental distribution. It drove over a 20% increase in our Arm & Hammer cat litter sales. It strengthened our number two position in the category.

And most importantly, and this is very important to the overall situation in the consumer packages industry today, it helped to drive 7% category growth. Now, I'll be honest with you. We have 14 categories we look at. The -- eight of those categories are flat or down this year. It is bad out there, folks.

But, here's a case. Innovation can help drive a category. And this is what we've proven here. So, it's a great example of what we want to do in every category, bring innovation, help drive category growth. And we benefited from it obviously. We're having a great year on the cat litter business.

Oral care, another form of Arm & Hammer out there, here's a case. We look at the toothpaste segment. We realized the consumers want more just in a toothpaste that whitens. So, we came out with a great new product called Arm & Hammer Truly Radiant toothpaste, superb whitening and [excellent] cleaning. It repairs and strengthens enamel and [delights consumers] (inaudible).

We've got great results this year, the best sales growth in this brand since 2010. And we're growing at two times the category rate right now. We took the same name and took it over to the spin brush side and developed an innovative new product called the Truly Radiant toothbrush, innovative bristle design, reaches deeper between teeth. We reduce 100% more plaque than a manual toothbrush.

If you're not using a power toothbrush, you're missing the boat. Power toothbrushes are awesome. We've had great distribution results. And it's helped us maintained our very strong control over the battery-powered toothpaste segment with five of the top 10 adult SKUs and nine of the top 20 kid SKUs.

So, here, you've got a great brand. You've got innovation supported by very powerful holistic marketing campaign, more advertising than many other major brands out there, would surprise you how much we spend on Arm & Hammer.

Let's talk about OxiClean for a second. OxiClean is our new megabrand. Why do I say new? Well, we took an existing form with just a laundry additive, big brand, number one laundry additive out there, bigger than next three brands combined, number two most advertised brand in fabric care, loved by consumers.

I had one of your cohorts today tell me how he and his wife just rave about the power of OxiClean and what it does to help clean clothes brilliantly.

Well, we said, you know what? Here's a great brand in one category, laundry additives, about \$1 billion category, but great stain removal properties. Why can't we take that to a laundry detergent, I mentioned a moment ago, into a bleach alternative out there I told you about in auto dishwashing? \$7 billion category, \$800 million category, \$1 billion category, take this great brand and extend it.

So, we did that. I told you about the OxiClean laundry detergent product, off to a great start. I told you about the White Revive in the bleach category, again off to a great start, 70% incremental.



Last thing I said about with auto dishwashing, we sat back and looked at this huge category. We said we can take it there. Stain removal's big in auto dishwashing. And here's a category that's been impacted by some governmental changes. The government forced the key players out of phosphates a few years ago.

Phosphates are very cheap and effective cleaners. And the government forced them out like they did in laundry detergents 20, 30 years ago because phosphates are bad for the water supply. So, honestly, what's happening, the laundry machine guys are getting lots of calls saying the machine doesn't work anymore. And they'll say it's not our fault. It's the laundry -- it's the auto dish detergent really hurting you.

So, we saw an opportunity to take our great brand in this category and launch the product called OxiClean Auto Dishwashing. It delivers exceptional results. We priced it a little bit below the super-premium brands out there. And it's off to a great start. In fact, we show here a 1.6 share market in Q2. I think the latest weekly results were up in 2.5%, 2.7% range. We will be the number three player in this category by the end of the year.

Again, a very holistic marketing campaign with media, offers, cross public relations, in-store effort, huge effort, Anthony Sullivan's our spokesperson across the whole line, so the holistic advertising campaign.

We jacked up advertising by 53% across the whole business. And guess what? Our consumption of this brand in Q2 was up 35% over year ago. And the Q3 results so far are even better. We're up almost 40% versus year ago on OxiClean, so a great way to build a megabrand.

Our next megabrand's Trojan. Here's a business that's just been -- we're a dominant player in condoms. And we've taken these other categories. We have over 70 market share in the condom business we bought in 2001.

We launched into vibrators in 2005. We launched into lubricants in 2013. And today, we have a megabrand across all those businesses. The business has grown over 20% in the last three or four years, phenomenal.

What have we done? New innovations, new form of condoms that come out in the business, new forms of vibrators we're launching this year, and new forms of lubricant. So, again, strong innovation behind this business, increased advertising spending, and we've had a record quarterly sales in Q2, record quarterly share in the sexual health category overall. And the condoms are having, just in the month of July, another record month on the condom business.

So, it's again, by spending more on the total brand, it helps the core business, the condoms, as well as building the other businesses.

Last but not least, our fourth megabrand is the vitamin business, which we bought into October 2012, great business. Gummies is the fastest-growing segment of the vitamin category. It's a great category, historically has grown between 7% and 9% consistently. We had the -- this company was started by a husband-and-wife team, pioneered the gummy vitamin form for kids called Little Critterz. 60% of all kid vitamins today are gummies. And we are the number one brand in that category.

And then they launched into the gummy form for adults in 2009. Now, here's the benefit. The adult category is \$6.7 billion. The kid category's only \$300 million, so 20 times the size of the kid category, and yet today, gummies are only 7% of the category. It was 3% when we bought the business. We've already doubled that up to 7%. And we're the number one brand for kids and adults.

The growth rate on this one, where do you see a CAGR, a five-year CAGR of 31%? And we promise double-digit results this year growing this business. We've launched new products. We made the packaging more aligned than the past, made the brands to -- Vitafusion and Little Critterz more similar. We've launched a new line of stuff where we found out a lot of consumers like their multivitamin, but they want an additional benefit, whether for the heart or for digestive support, or hair, skin, and nails has been a big winner to add to the multivitamin.

We did it for both the Little Critterz side and the adult side. We're jacking up advertising 37%. And this brand is having great -- we're number one, one of only two vitamin brands that's grown in the second quarter. And we're going to deliver double-digit sales results in 2014, phenomenal business. We love it.

So, you'll see in our 2014 plan, again, reflects greater focus on the four megabrands, major new product launches on every major -- every megabrand, increased percent of our ad spending on the megabrands. And we're entering what we call the white space into adjoining categories.

Those are the major product launches I've talked about. There, you see 60% of our revenue but 74% of our advertising spending behind these brands, we're putting the focus behind these brands so they have the greatest growth potential.

Entering white space, as I talked about, adjoining categories, to continue to grow these brands. Now, we have not forgotten about what the other power brands we've called. And they are First Response and Orajel. For the first time ever in our history, we've launched major product news across every category.

In Nair, we came up with a great line of products using the Moroccan argan oil, off to a great start, had record shares in Q2.

First Response, we are the first player in the pregnancy kit category that tells you if you're pregnant six days before your missed period. The prior standard was five days. And it's gone from three to four to five to six. It took us three years to get this through the FDA. And we have it. And every time it's been out there, whoever gets the first extra day in there, it's been great for sales results.

Orajel, another brand we've had, we've come up with new forms with severe tooth pain medication and cold sores, doing great, [for] consecutive quarters of share growth.

Okay. So, that's big, so innovative portfolio with both value and premium. Secondly, we know how to grow our brands. Now, sometimes, people step back and say, hey, you're little Church & Dwight. You're only \$3 billion. You face guys like Procter at \$80 billion, other guys \$10 billion, \$20 billion, \$30 billion. How can you possibly survive if they attack you?

Let me tell you. We know how to ferociously defend our brands. The greatest example is OxiClean. We bought this business in 2006. Between 2006 and 2009, we increased the share of the category from 27% to 40%. How'd we do that? We launched some very innovative new form, took it from powder into sprays, sticks, liquids.

We increased the marketing spending by 400%, and we're doing great, in fact, doing so great, the big dog said wait a minute. I want a piece of this \$1 billion category. And they launched their great brand name into our category with -- in multiple forms.

What did we do? Did we just roll over and say we quit? How could we possibly defend ourselves against the \$80 billion giant? The heck we did. We launched all new forms of OxiClean out there. We co-branded OxiClean, other forms, like Arm & Hammer, to get greater brand awareness of the brand. And we spent heavily behind this brand, the second most advertised brand in the fabric care category.

And look what's happened. Five years later, have we lost share? Hell no. We've not lost share. We've gained five share points on all the other guys. And by the way, note those names up there please. Those are not little players. Those three other guys, major players, mega times our size, have lost share in this category.

Number four, international, it's not a huge part of our portfolio. It's about 17% of our business. Now, we built that from 2% back in 2001, largely through acquisitions. But, it's done very well. It's basically in six countries, about \$500 million in revenue. Five of those six subsidiaries have had great long-term records. Look at the CAGRs on those businesses.

And we've done it through a combination of things. We do have some brands that are just in those markets, some local brands. We've extended our corporate brands, like Arm & Hammer, into those markets. We've built scale through acquisitions, built -- bought a great business called Batiste out of the UK a year ago. We've already doubled the business by spreading their markets. And we've leveraged our one-company functions across all of those markets so we're not all doing separate R&D or new product development. We do it jointly across the world to save money.



Fifth, and gross margin, we love gross margin. We got hooked on this many years ago. And we're focused big on this. If you can grow your gross margin, it had huge benefit for the company. We've taken ourselves from sub-30 gross margins to mid-40s. You can see, since 2007, nobody's even close to us in gross margin expansion.

How do we do that? Simple, but heavy focused on this, we have what we call -- it's a corny name, I'm sorry, the good, the great cost optimization program, after the famous book about reformulating our products, reducing packaging, reducing SKUs, compacting the laundry, hedging our commodities.

Supply chain restructuring, we've built some new more efficient plants out there. Acquisition synergies, we love to buy businesses with higher gross margin and build them into our business. And price mix, we have a rule you cannot launch a new product unless it has a higher margin than the product it's replacing.

Also, huge factor, there's only two companies in this conference who I'm aware did this, and one only most recently. We're the only guys where gross margin is 25% of our -- every employee's annual bonus. Let me tell you. That's tough because you've got to handle commodities and pricing issues from competitors. But, it's 20 -- we've had this for the past 10 years. It's had a huge impact on the company.

My marketing folks, and I'm an old marketer, used to never give a damn about gross margin. They would tell operations you can't touch my product. You can't cost reduce, can't do anything. My marketing people today spend as much time on gross margin as they spend on their marketing programs because they know it's 25% of their bonus, big impact.

And we've got a great record. Up until the first part of this year, and I'll explain why it happened, we had six straight quarters of gross margin improvement, very significant.

First part of this year, we invested behind the new products. We had significant [slotting] fees, launch fees, and that. That took our gross margin down. But, that's an investment. That's going to pay off as this year goes on and into next year. But, we've had a great track record despite a tough -- the marketplace out there.

Acquisitions, we love acquisitions. We've built our company through acquisitions. We have a great track record here. Now, we have very tight guidelines. And I will not violate them. We want only number one or two share brands. We want higher-margin, higher-growth brands. We want asset-light brands, which means we prefer businesses that don't come with lots of plants and headquarters and that.

We want to leverage our existing capital base in manufacturing, logistics, and purchasing with those businesses. And we want businesses we believe we can grow because they have some sort of sustainable competitive advantage.

You can see our track record. Honestly, I told you before we had eight, now nine power brands. Eight of those we bought. The only brand that's on that portfolio that was existing was Arm & Hammer from 1864. So, everything else we bought. We love buying powerful brands adding to our portfolio.

You can see the brands we've acquired across that list which make up our power brands. You can see what we've done. We buy them, and we build them. We know how to do -- we just don't buy them and milk them. We buy them. We built -- we've built share across all the businesses.

And right now, with Matt's great generation of cash flow, we've got a ton of buying power out there, over \$2 billion out buying power. And I can assure you we are very aggressively and actively looking for the next great acquisition.

Free cash flow, this guy's the king on free cash flow. See free cash flow has quadrupled in this company since he took over as CFO. You can see the chart there. It's been phenomenal. We are best in class, 118% free cash flow conversion against all the giants out there, so again, awesome. And he's still trying to find ways to make it even better.

And we use that for different purposes. We've increased our dividend by over 400% since 2009.

Overhead management, another little trick about Church & Dwight, we have increased our revenues over 100% since 2004. The headcount's only increased 11%. In fact, until we bought the Avid business, we actually had decreased headcount while we doubled the revenues out there.

As a result, we have the highest revenue per employee of any major CPG company. Little guys shouldn't win that. The big guys should win that war. But, I always tell our [troops], we started small, and we're going to stay small.

My Head of HR, who's retiring shortly, wonderful woman, done a fantastic job, responsible for a lot of this, her nickname's the assassin because I dare you to go to her office and ask for more headcount.

And when we buy companies, we like to buy companies, take their brands, and get rid of pretty much all their people and just put that revenue on our backs and make our current people manage those businesses. It works. It works.

You can see a chart here. We have the lowest SG&A as a percent of revenue of any major CPG company. But, we're not satisfied. We're going lower.

Say, watch 3G. Watch 3G (inaudible). We're watching it very closely. They're doing major headcount cutbacks over there. If they can drive that company forward with all those headcount reductions, we're going to watch what they do. Maybe we can learn something.

And on this whole thing of headcount, we don't just talk the talk. We walk the walk. We have no perks in our company. I wish. I have a personal airline. It's called JetBlue up here and was United the other day. But, we don't have corporate jets. We don't have cars. We don't have golf club memberships. We have no perks. We don't believe we should have those. We believe we should put every penny back into the company.

And the other important way is to drive it lower. We just put a new healthcare plan into effect. New information systems help us keep headcount down and looking at every way we can leverage headcount through acquisitions.

Nine, almost done, and I'm going to turn this over to Matt. A little secret about Church & Dwight which I think is unique, I believe in expertise on the management team. I don't move my top people around.

The woman who runs my pregnancy kit business has been running it for 16 years. Now, you'd think she might be bored. But, the truth is, she's not because she knows that business cold. 16 years ago, it took her all day to manage her job. Today, she can do that job in literally less than half the time.

So, they beg me to give me the new acquisitions so I don't have to hire extensive people to manage them. They beg me to give them something additional to do on the business. It's a great benefit to our business. So, they do great results in driving great share results in our business because nobody knows this business better. When you run a business for 16 years, trust me, nobody in a competing brand can outthink and outsmart that person. And my other people have similar types of longevity in their businesses.

So, we're able to minimize headcount. Again, we've got extras in the business. They don't need a staff to teach them the business or know how to run the business. They're the experts.

And then when I get acquisitions come in, I can get rid of a lot of expensive overhead headcount from the company we're buying. And they can absorb it and do it. So, it helps us keep the headcount down.

Last but not least, it's really a summary of all this, we are total shareholder return junkies. Look at the results we've done over the past 10 years over every line of the P&L. It's been truly awesome, 10-year CAGR of 16.3%. So, again, you invested in us 10 years ago, you've more than quadrupled your money. So, we're very proud of that, have a great team.

Part of the reason it keeps my team happy is they become very rich and successful in their businesses. And they love that. They obviously love -- everybody loves the cash reward. But, they also love the fact they're experts. They know their businesses. They grow share. They beat the competition. It all goes together.



And there's my team. We've been ringing the bell at the New York Stock Exchange. There's the assassin right in the middle there. She's retiring. Good thing she's retiring because she'd slap me across the head when I get back to headquarters there. But, she's awesome, the whole team.

And I told you before our bonuses are tied to results that you should be very happy with, the four factors I think will drive every one of your models. 25% of our bonus is based on hitting the net revenue growth target. 25% hitting on the gross margin growth target, 25% EPS, and 25% free cash flow.

And we as managers are required to be heavily invested in the company. And we only get stock options. I really think you've got to look at the other companies. Why should they get restricted stock? Why should they get rewarded if their stock does not go up? You don't get rewarded if our stock doesn't go up.

Only I get rewarded, my entire team and my company, is if the stock goes up. Stock doesn't go up, I don't deserve it. Why should I get a restricted stock, performance shares, or some other kind of crazy formula I hear about in this conference, people getting performance and getting paid when the company puts in poor results and the stock is flat or goes down?

So, we don't believe in that. Believe me, it's a driver. We watch the stock price every freaking day. It's very important to us because that's where our wealth comes from in the end. So, it really is important.

All right. Let me turn the podium over to Matt, take you through the second quarter results and the 2014 outlook.

Matt Farrell - Church & Dwight Co., Inc. - CFO

I rarely have this much time left. I know it was breezy. It was really a breezy presentation I must say. All right. I'm basking in the amount of time I have left there.

Okay. Let's go through some numbers. Obviously, the second quarter's our most recent. So, we had 3% organic revenue growth. Those of you who are shareholders know that our evergreen target is 3% to 4%. So, that's what we focus on constantly.

Jim described what our four megabrands are. So, that's something we watch very closely. So, three of those four megabrands were up market share in the second quarter.

Gross margin contracted 50 basis points. It was actually better than we expected. We expected it to contract about 100. But, because of mix and some timing of some slotting, we're only down 50 basis points in Q2.

And marketing spending was up. So, we had a high-quality quarter. Previous year, our marketing spend was 13.2%. We're at 14% in the second quarter. And the number we're targeting for the full year is about 12.5%, which is the same as 2013. So, we expected our marketing to be flattish year over year. And what we pay attention to is our share of voice versus share of market.

As far as SG&A, SG&A was down 60 basis points. That's really important. Year to date through June, our SG&A was actually down 110 basis points. And we're actually targeting for the year to be down 125 basis points. And that's how we're funding all the investments that we're making in 2014.

Operating margin contracted 40 basis points. You can do the math on that. You can see that we had 50 basis points. That was the gross margin, EPS up 7%, and a good story on the free cash flow.

So, now is -- what do we say in May at the end of the first quarter? And what did we say in August and at the end of the second quarter with respect to the full year? So, you can see in May, we're thinking the low end of 3% to 4%. Now, we're saying it's going to be approximately 3% for the year. And gross margin obviously is going to be a little bit more stressed. So, we said 50 to 75 basis points, now 75.

Why? It's because of the environment. So, there's a lot more promotion that's going to be required in order to hit the numbers for the year. And promotions obviously affects then all your top line because it's netted in our sales number, but also affects the gross margin.

Marketing, as I said, is about flattish for 2014. And SG&A, lots of leverage, so we're thinking 125 basis points on a full-year basis, which would get us to 50 basis points of operating margin expansion. And we still have a range of 7% to 9% EPS growth for the year. And we were 7% in Q2.

So, now, organic sales, just a little bit of history, you hear us always talking about what our evergreen target is, which is 3% to 4%. This is how we've done historically. And you can see what we're doing -- what we're aiming for, for 2014 is 3%.

Lauren made reference to this in her opening remarks. So, we've had 13 years of double-digit EPS growth. You can see this year we're saying 7% to 9%. So, we've come off that 10% number. But, again, that's because the health of the brand is far more important to us on a long-term basis. And I think a lot of our shareholders appreciate that.

Okay. As far as what we did with our cash, we have 40% payout. And we've had that for a few years now. I wouldn't expect that to change. And I'll talk about that a little bit more in a second.

And what a lot of people don't appreciate about Church & Dwight, our shareholders do, is how we're not really capital intensive. So, you can see here we -- in 2013, we spent \$67 million on CapEx. We're targeting about \$70 million this year. So, we're really stingy about CapEx.

And if you noticed some of Jim's slides, we talk about two things. It's productivity of our employees and productivity of assets. So, the productivity of employees is all about, as Jim pointed out with respect to HR, is keeping our headcount under control. And then we have the highest sales per employee of any company in CPG. And that shouldn't happen with a small company, but it has. And the other part of it is the productivity of our assets. So, we're really careful about how we spend the money.

As far as how much firepower we have, our EBITDA is about \$750 million. So, you can look at the slide here. You know our debt is about \$800 million. So, we're only levered a little bit over one time. But, we're real fussy about what we'll buy. The last big acquisition we had was Avid, which was in October of 2012. The previous big one was actually in 2008, which is Orajel. And we sprinkle in some small ones along the way. But, as you heard, we're always looking for acquisitions, but we're very fussy about what we'll buy.

And of course, we're BBB-plus rated. So, we have easy access to the market, should something come along.

So, I'm just going to end on this point. It's obviously a company that generates the amount of cash that we have. We spend a lot of time on capital allocation. Just give you some context, so we started the year with \$500 million of cash. We have \$200 million now. And what we did was we bought back \$430 million of stock this year. So, that was a good use of it. But, we will not lever up the buyback of shares.

And this is in order of importance. This isn't just arbitrary. So, the number one destination for cash is going to be acquisitions. Last year, 2013, our free cash flow was approximately \$470 million. You saw that on an earlier slide. And if you're a shareholder, you know that our dividend's annually about \$170 million. So, that's \$300 million of free cash flow after CapEx, after dividends annually, plus an unlevered balance sheet.

So, there's a lot of opportunity to acquisition. And we're still a small company. We're \$3 billion in top line. So, we can do needle-moving acquisitions. But, again, it's all about what you buy.

So, TSR accretive M&A, we put money behind new products because that's going to drive our top line. CapEx, that's our base CapEx for existing products. And then fourth and fifth is return on cash to shareholders, which is obviously you're buying back shares and debt reduction. So, where we deliver up that reduction would go to the top of the list.

That's it for the numbers. And we're ready for some Q&A.



QUESTIONS AND ANSWERS

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

What you got? Lauren?

Lauren Lieberman - Barclays - Analyst

Okay. All right. Thank you. I think you had three or four slides on the international business. But, that really -- the international business mattered quite a bit this year in terms of contributing to organic growth. So, be great to get a sense around kind of what's the strategy. Like, I feel like I don't have a sense for the method behind good numbers. There's sort of a collection of brands. So, was it just that there are people who have a mandate that says go out and grow? They don't really care too much how it happens, or is there a real strategy behind what you're trying to push on in those markets where you have a presence?

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

No, Lauren. It's pretty similar to our business. They have a mix of both worldwide brands we have, like Arm & -- North America, Canada and Mexico are almost identical to the United States on the brand mix. Europe's a little different than that, and Australia's a little different.

Same strategy, though. They're tasked to deliver at least 3% to 4% organic growth, try to improve the gross margins. They are treated equally as acquisitions. If they can find acquisitions to add to their portfolio, we buy it. We love to build scale in those markets or in new markets out there. So, it's pretty similar, pretty similar thing. I am agnostic as far as acquisitions. I'll buy one internationally in the market, in existing market or new market, if I find the right business to buy.

So, it's -- no, it's really -- they have very similar objective to us. They're not -- they're expected to deliver the same kind of growth as US. They've had very good results. And they keep their overheads low. (inaudible) actually lower their headcount in some of the markets. They've been overscaled in some cases. So, we've done that. We've combined the management team in the UK and France recently because we didn't feel we needed two high-priced management teams.

So, same basic principles apply international. I don't want to subject it. Sometimes we've talked about, should we set objective to be 30% of the business is international by, say, 2020? I don't want to do that because, to do that, that would force me to buy -- make acquisitions that would not be good acquisitions.

We've looked at a few. They were lousy. They would've easily hit that number if I'd bought them. But, I would have a lousy business that was somebody else's lousy business.

So, I've looked at -- little Batiste is a great example. I think it was \$25 million in sales when we bought it. It's a great dry shampoo, they call it. We've taken it. We've more than doubled sales already. We've taken it to four additional markets. It's so hot that our friends in Cincinnati have already adopted the idea into three of their brands launching in the UK right now. It's a very hot segment.

The Batiste brand has a six share of the shampoo market in the UK. And you would think that's not big. Well, the biggest wet shampoo is only a 12 share. And we're doubling the size of the business. So, it's a great hot product. We bought on the private equity team. Like I said, we've taken it to France, Australia, Mexico. And you're going to see a bigger presence in the US next year in the brands.

So, I'll do little stuff. That was little, but great growth on it, and/or I'll do big. But, I really am agnostic on the markets around the world. And I just -- I'm not going to buy into the emerging market story. We've studied them to death. If I can find something in China, I'll do it, but we have a small business there today, but I'm not going to force myself to do something just so I can stand up here and say we've grown international, doubled the size of international. Now, it's 30% of the portfolio.

The bottom line is TSR. If it doesn't drive the bottom-line earnings, I'm not going to go out there and do something for the sake of talking about revenue growth and things like that. So, that's the story of international.

Lauren Lieberman - Barclays - Analyst

Okay. Sorry.

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

One minute and 15 seconds, I've got 50 more slides.

Lauren Lieberman - Barclays - Analyst

I think we'll go to breakout. So, let's move across and go to breakout. But, thank you so much.

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

All right. Thank you very much. Okay.

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