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EDITED TRANSCRIPT

CHD - Church & Dwight Co Inc at Oppenheimer Consumer Conference

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PRESENTATION

Joe Altobello - *Oppenheimer & Co. - Analyst*

(audio in progress) presentation will be Church & Dwight, which is a leading consumer package goods company with a nicely balanced portfolio across both household and personal care products, as well as premium and value brands. The Company is perhaps best known for its Arm & Hammer brand, which employs across a number of categories, including laundry detergent, baking soda, toothpaste and cat litter that would also boast a number of other well-known consumer brands like XTRA, OxiClean, Nair, Trojan and L'il Critters, just to name a few.

Like many CPG companies, Church & Dwight has had to combat sluggish category growth, as well as heightened competitive activity, particularly in the laundry category. However, it hopes to offset this through a robust new product pipeline for 2014, as well as increased distribution while still on the prowl for more acquisitions. Here to tell us more about this strategy is the Company's Chairman and CEO, Mr. Jim Craigie, as well as the CFO, Matt Farrell. And with that, I will hand it over to Jim.

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

Thank you, Joe. Enough of this fireside chat crap, this is 140 slides in 30 minutes, strap on your seatbelts, put away your computers, put away your NoDoz, are you ready? All right, we are going to say a few things about forward-looking statements today. If you believe what we say and buy the stock, that is your problem, okay?

Opening remarks, I've got a few opening remarks. I'm going to do a top 10 things that drive our total shareholder return. Matt is going to get up and talk to you about the first quarter and results and our outlook for 2014 and then we will answer questions in the last 10 seconds. Okay.

Why are you here today? What you are going to hear. One, we just delivered our 13th consecutive year of double-digit EPS growth. I don't know anybody else in the CPG industry who has done that. Two, we exited the year with great momentum with share growth in over three-quarters of our brand. Three, we made an acquisition at the end of 2012, which had great results last year, the Avid acquisition we will talk about delivering super results. Four, we are taking the attitude of playing to win in 2014. We have a very aggressive but achievable plan we will talk about today. Five, we've got the largest new pipeline ever in our history. We've got new product news across every one of our major brands this year. We have never had it across every one of them and we have increased focus on four what we call now mega brands out of our portfolio. And six, we are off to a really great start. Retailer acceptance of new products has been outstanding. And seven, we are aggressively, and I emphasize that, pursuing additional acquisitions. It has been a great part of our history. We are out there looking very hard and we just haven't landed one yet to follow up on the Avid acquisition.

All right, so let me talk to you about total shareholder return. That is what my Company is all about. See this chart, this is why you are here. The bottom line there is the S&P 500 over the last 10 years. By the way, as of this week, I just finished my 10th year as CEO. The top line is my ten years as CEO of this Company. So if you invested in Church & Dwight, if you can read those little numbers, 10 years ago, I will read them for you, if you invested $1000 ten years ago, you have $4960 as of today. If you invested $1000 in the S&P 500 10 years ago, you have a total of $1662. If you are a Church & Dwight investor, you win; if you are not, you lose. So get smart and invest in Church & Dwight.

Here is a chart against some pretty interesting other companies over the past 10 years. You see the total shareholder return of almost 400% at Church & Dwight. That is 100 basis points better than anybody else on that chart. The blue on the chart is the stock price appreciation; the gold is the dividends. You can see we have driven most of our appreciation to the stock price and far exceeded anybody else on the chart. So again, if you bought them, you lose; you bought Church & Dwight, you win.

Okay, now you say, that is great, Jim; that is the past. How about the future? I'm going to tell you 10 reasons why I believe we continue to deliver outstanding total shareholder return results. Reason number one is we have a very unique portfolio as Joe kind of got in. I call it a recession-resistant product portfolio. What I mean by that is we have about 55% of our brands are premium-priced brands. The other 45% are value-priced brands. When I say value-priced, sometimes Proctor says we have value brands. What they mean is they have premium-priced brands that have more benefits than other premium-priced brands. When I say value brands, I am talking about brands that are truly a lower price, offer great benefits at a lower price.

Here are some of the major categories in which we have our value brands in. You can see our laundry detergents are a half to two-thirds the price of the leading brand, Tide, as you looked on the chart there. So we offer great product at a significantly lower price. In this kind of economy, that is great. There has been a household shift from buying premium and mid-priced brands to value -- extreme value brands with the recession we have had going on since 2008.

In the laundry category you can see today, almost half of all households buy a value brand more than buy mid or premium-priced brands. Very important now, the value category of laundry -- laundry is a $6 billion category, liquid laundry. You can see the value category has now shot up almost 500 basis points there. That is passed the mid-priced category in laundry brands. Now why is that important? Because Church & Dwight is the king of the value category. We have grown 7 share points in the category in the last couple years. We are now bigger than the number two, three and four brands combined.

You can see we are the only guys in the liquid laundry detergent category who has grown share since 2009 picking up almost 4 points; everybody else has lost. You can see here now -- that is dollars. In terms of wash loads, actual use of the product in a washing machine, you can see we are way closer to Procter & Gamble than you would believe. We are less than 9 points away from them, passing them in actual wash load uses of our product, showing how much people love our product.

Now we didn't sit back. We have this great record. We have had a great run in laundry. We went into this year thinking, you know what, we want to keep moving forward and doing great. So we are looking at fulfilling unmet consumer needs. We are a consumer packaged goods company. So first of all, we look at laundry detergent and said, you know what, fragrance and freshness is a big play in the category. There wasn't really a brand on the value side that was [playing] fragrance. So we launched a new form of Arm & Hammer called Clean Scentsations out there to take advantage of that.

We looked at -- the other thing was stain removal. Stain removal is the number one consumer complaint in the category beating all other things. We said, you know what, we think our competitors have lost focus on that. So we took OxiClean, which is our laundry additive, and brought it into the laundry detergent category. Now you just needed to use [your last] OxiClean to take out the toughest stains.

We sat back too and said bleach is a great category; Clorox dominates it, but there is a lot of problems with bleach. Bleach is harmful to fabrics and people don't like the smell of it. So we took OxiClean into the bleach category offering a version of it just for whites called White Revive. That is number one.

Number two, building mega brands share. You say sometimes people think, well, Church & Dwight is all about value, value, value brands. No, I told you 55% of the portfolio is premium-priced brands. We know how to build those brands. We have over 80 brands in the Company, eight of them we call our power brands and I will shortly tell you now four of them are going to be categorized as mega brands. So those eight power brands do 80% of our revenues and profits. You can see the brands there; they are all number one or number two in their categories. They are very important to retailers. Some of them, like Trojan, are all 10 of the top 10 selling SKUs. In fact, Trojan is all 13 of the top 13 selling SKUs in the category. And you can see our brands are very big players in their categories.

Share growth formula as old as stone. Everybody does this; we just do it exceptionally well. You get innovative new products, you increase the marketing spending, you increase the distribution, you get share growth. We've had a great track record on this. A third of all of our revenues last year came from products launched since 2007. This might surprise you. Church & Dwight, little Church & Dwight, a $3 billion company, is the 13th biggest US advertiser, bigger than some of the other big CPG companies you see below us there who are bigger than us in revenue. We spend a lot on advertising.

If you take those new products, you take that increased margin support and our salesforce goes to the retailers and demands increased distribution. And I won't give you numbers to help competitors, but if you set 2009 at an index of 100, you can see how much we have grown our distribution to retailers of the United States out there across the categories. Massively in some cases, a 70% increase on liquid laundry detergents.

You put that altogether, the share growth is phenomenal. This is a chart since 2008. The green says it is the year we grew share on some on those power brands. Red we lost, yellow neutral. You can see if you added them all up, 75% of the time we have grown share in our brand, our power brands there. I don't think anybody else in the CPG industry came close to that. Proctor oftentimes talks about well we held or grew share half the time. Ask them next time how much they actually grew share? This is growth, okay.

All right, so now going forward again, we are always trying to evolve and keep doing better. We are going to focus more and more on four of our top brands -- Arm & Hammer, Trojan, OxiClean and our vitamin business. Why? Because those four make up 60% of revenues and profits. And you can see we have had tremendously strong growth over those four brands over the past few years. What's the formula? Same old formula, folks. Innovative new products, increased marketing spending, increased distribution, get share growth.

Now but why you say, why more focus on mega brands? Well, there are four big reasons. With mega brands, you get a bigger bang for your marketing investment, you get greater licensing potential, a bigger bang for your R&D investment and lower organizational costs. Let me explain real quickly. Marketingwise, when you spend a dollar on any brand, it helps the whole brand if you do it smartly. And we have a great head of marketing who knows how to do the commercials with Arm & Hammer, even though it may be Arm & Hammer liquid laundry detergent, they hear the Arm & Hammer message applies to cat litter, underarm deodorant, toothpaste, whatever. So it is marketingwise very efficient to spend money against your big brands.

Licensing potential. We have a lot of areas where we have great properties about Arm & Hammer, it is whitening, deodorizing, but there are some categories we don't want to get into. We have gone out and people have approached us in those categories and said can we use your name? And if we like what they do and they do it the right way, we license our name. Arm & Hammer alone has over 400 licensed products out there. We get a licensing fee for it, there are retail sales of it. We don't (inaudible) but other guys do, almost $200 million and it spreads the brand name. Go into a Walmart, go into the vacuum cleaning section and look at the vacuum cleaning replacement bags in there; they are all branded Arm & Hammer. We don't make them, we don't sell them, but we get a very fat licensing fee for it and it is great for our brand equity.

R&D investment. Hey, when you find a property in your brand you want to spread, well, if you have only got a one category brand, that is all you can do. When you find something that is spread across multiple categories, it helps spread your R&D investment, so it is very efficient again. And organizationally, hey, a mega brand, you can have one leader and the four functions below it. If you have separate brands, you have separate leaders, separate teams in that, it is very much more expensive to have a lot of little brands versus some big brands.

So you put that altogether and you get a very much more bang for your buck out there. So we are going to focus more and more on our four biggest brands going forward. Arm & Hammer is a great story; it is our biggest mega brand, it is over $1 billion in sales. It covers over 12 categories in the grocery store. If you walk in a store, you will see Arm & Hammer in more aisles of a retail grocery store in America than any other brand in America. We are covering both the premium categories and value categories; it goes both ways.

Tremendous share growth. Here is our brand, invented in 1846, and we have got high single digit share growth over the past five years. Name me another 160-year-old brand that is growing like that. We have had great new products behind the brand. I told you about the Clean Scentsations a moment ago, a new fragrance form of liquid laundry detergent in Arm & Hammer. Cat litter has been a fun one for us. Cat litter, folks, is dirt in a box, okay. (inaudible) business, how can you enhance that dirt to odor control? We found out odor control is the number one thing. Like toothpaste, whitening, if you don't do whitening, forget about the toothpaste.

Odor control is key in cat litter. We found a whole new way to do it. We made smaller granules, more granules, more surface area, more surface area absorbs odors. We launched this new premium for it called Clump & Seal this year. Unbelievable. That brand's sales this year to date are up 20%. If you listen to Clorox present right now, they will tell you we have kicked their butt. Okay? So we are now the number two brand in the category. By the way, we didn't launch into the cat litter category until 1998 with the Arm & Hammer name. And now 16 years later we have the number two brand in the category, pretty cool.

Oral care, we looked at it and said whitening is number one in the category. But there are other benefits you want besides whitening, which you see on the chart there. We came out with our best form of toothpaste in over a decade called Truly Radiant, superb whitening, excellent cleaning, repairs and (inaudible) the enamel as you go along. So a great things and we said, hey, we also own SpinBrush, brought in a great new toothbrush with innovative bristle design, reaches deeper for cleaning, removes 100% more plaque than a manual toothbrush, so really cool. Brought those out, doing very well. And behind this all, we have a very holistic marketing campaign from all angles -- print, radio, TV, in-store, digital, online, everything behind it.

And here is another chart that may fascinate you. Arm & Hammer, you may not think it is too big, but we are the 24th biggest brand advertiser out of the top 100 brands in America. And look at some of the brands below us who are pretty damn big names in the chart, but we do spend a lot of money on the total Arm & Hammer brand.

OxiClean is our next mega brand, this one has had a lot of things going on this year. OxiClean has been the dominant form in the laundry additive category. It is the number one brand, bigger than the next three brands combined. Number two most advertised brand in fabric care and loved by consumers. Actually, I would say in my entire portfolio, there is greater love for this brand than any other brand in our portfolio. People love OxiClean; it is crazy. Made a big bold move this year. Laundry -- OxiClean was just a laundry additive, you added it to your laundry detergent. We went three ways this year. We took it in the laundry category, I told you a moment ago. We took it into bleach, we took it into auto dishwashing and I will tell you why.

I told you about this one, the new laundry detergent, doing very well. In four months, it is now bigger than P&G's Cheer brand, which has been around for 60 years, doing well. The bleach one goes in the bleach category, doing very well. We actually got a (inaudible) in the bleach category, really pissed off Clorox. And number three, auto dishwashing. Here was a fascinating one. About four years ago, the US government mandated that all dishwashing brands take phosphates out of their formulas. Phosphates were ordered out of laundry detergents back in the 1970s. Phosphates get in the water system and they pollute the water system. Finally, they were mandated out of dishwashing products.

The problem there was phosphates were very cheap, they are very efficient, good cleaner of dishes. The replacements are very expensive. So the two big guys, Cascade and Finish, P&G and Reckitt, had no easy alternative to replace it in their everyday product. What they did is they came out with premium forms of the brands with (inaudible) replacements to do the same thing, but at like 20%, 30% premium price. Left their core 78% space exposed.

You talk to the dishwashing machine companies, they will tell you they have had more complaints the past two years people calling up saying the dishwashers are not working well anymore. They are like it is not us, it is the dishwashing liquid. So we saw this opportunity for all of these complaints going on in the dishwashing category and we launched OxiClean dishwashing detergent because we found a way to launch it out there, give you a premium performance and we offered it at a 20% discount from the premium brands and off to a decent start in that category. Again, a very holistic marketing campaign behind it.

OxiClean, we have increased the advertising by 53%. Let me go back a second. And this one -- I'll just tell you a fact. We haven't released too many facts on it. Year to date -- I shouldn't say that. The last four weeks of OxiClean, sales in total are up 35% from a year ago. So we are very happy how we are growing this brand; we are off to a great start.

Trojan, Trojan, a very interesting mega brand. We acquired this brand in 2000. At that time, it was the number one brand in condoms, about a 70% marketshare. Today, it is about a 76% marketshare. In 2005, we launched into vibrators. 2013, we launched into lubricants. So today, we have a mega brand covering all the sexual health categories tied to the condom business. Increased the advertising spend there. This year came out with new condoms. Are we offering goody bags today? I'm sorry. Leave us your name and address and we will send you everything. Anyway, so I will leave this to your imagination. They are very popular. The ecstasy brand is now the number one condom in America. Came out with new vibrators. Fascinating, 40% of women have a vibrator, look to your left, look to your right, one of you is hot. And lubricants, came out last year with lubricants. We came out with a premium tier. We have also brought more premium tier ones out and one in the value tiered, great category, almost as big as the condom category, believe it or not. Great margins. So we are off to a great start there.

The fourth new mega brand for us is our vitamin business. Again, we bought into this business October 2012. The gummy side is the fastest-growing segment in the vitamin category. The company we bought pioneered that in the category for kids. 60% of all kids' vitamins are gummies, (inaudible) brand. Our company, the prior owners, also launched in the adult form in 2009 and here is the big win. When we bought in a year and a half ago, only 3% of adult vitamins were gummy; today, it has doubled to 6% And the adult business -- adult vitamins is a $6.7 billion size category, 20 times the size of the kids category. So if we can get the adult business from 6% to where it is in kids, 60%, we will be the dominant player, that is our dream. And we have the number one brand for both kids and adults today.

I challenge you, I wish we had taste tests here, I challenge you if you are not taking a gummy for a vitamin, I'd challenge you to eat a gummy vitamin and go back to your hard vitamin. You never will. The gummies are outstanding. Same benefits, great taste, a winner. But here is a case, this business starting in 2008 before we bought it until now has grown phenomenal rate, 31% CAGR. We have done things to tie the brands together between the kids and the adults, which we make nutrition taste good. The L'il Critters name is very popular. We couldn't do that on the adult side. We thought about calling it Big Critters, but people would mess it up with a pet brand, but it is called Vitafusion on the adult side. So it works good.

This year, we launched some new products. We found that 84% of people who use a multivitamin also took another vitamin or a supplement. So we came out with a line that added the most popular other supplements in there, whether it is heart support, immune support, digestive support or hair, skin and nails, believe it or not, very popular. I did the same thing on the kids side of the world with some of those benefits. Increased the advertising 37% and we are promising this brand, as it has been in the past, double-digit sales growth annually.

So there you go. We are focusing more on mega brands, launching new products every year in the mega brands, increasing percent of the ad spend. Those brands are 60% of our revenue. We are spending 75% of our advertising on those four brands. So focusing more and more on them and taking them into -- [adjoining] we call white space categories to grow the brand.

So those are all the brand launches and the four mega brands. Now, we haven't forgotten about the other brands, just the fact that it is 74% of the advertising. There is the white space entries we have had. Now the other power brands we call them, we haven't forgotten about them, we are launching new products in Nair this year with argon oil, which is really hot out there in the cosmetics world. FIRST RESPONSE, we are the first and only pregnancy kit out there promising you results six days before your missed period. That sounds funny, but as the world went from three, four, five, six, the first one (inaudible) things and very [hardy]. It took three years to go to the FDA on this one. The first one who gets it wins because it is a funny situation. Women who think they might be pregnant and don't want to be pregnant, they can't sleep until they find out whether they or pregnant or not. The brand that will tell them first is the brand that is going to win against the premium price. So we are now the first one with six days before your missed period and over a 30% share and doing phenomenal.

Orajel, we brought out some new formulas for both severe pain and a new Orajel into the cold sore category challenging Abreva out there with a great new technology we have. So people who suffer from cold sores, trust me, try this product, it is awesome.

Trade acceptance, all I will tell you right now is trade acceptance has been outstanding. I gave you a few factoids on some of the brands, OxiClean's consumption where we took 35% on that. But we will give more when we give our Q2 sales results end of July.

Number three reason, sometimes people think Church & Dwight, little Church & Dwight $3 billion, how can you possibly withstand and then tackle some of the big monsters in our category? Well, let me tell you, we can withstand them, we know how. A great example is OxiClean again. (inaudible) in 2006 with 27% share brand. We grew it by 2009 to a 40% share of that category. How did we do that? Great new products we launched on the OxiClean name, increased the marketing spending 400%. But then the big dog, (inaudible) Cincinnati, you know what, that is too much fun. That category is big; it is a $1 billion category. They weren't playing on it. They took their big name and came into the category to attack us. Everybody thought OxiClean is dead. How can OxiClean possibly sustain an attack from this guy?

What did we do? We didn't go to sleep. We launched a whole bunch of great new products. We cobranded it on other forms to bring more awareness of the brand to consumers, increased the advertising again to make it the second most advertised brand in the category. This is my favorite chart. Not only didn't we lose share, but, by the way, you notice those guys below us, P&G, Reckitt, SC Johnson, some pretty big monstrous companies, we grew share, we grew share against those guys, most of them lost including the number three guy on the chart there who is a pretty big player out there, highly respected, but we kicked their butt. So we know how to defend our businesses.

International growth, big new strategy for us. We are taking all of our marketing money, all of our organizational support and we are launching into Venezuela next year. Pass the NoDoz out please. Joke, okay? All of our competitors, we just came back from a conference in Paris and I swear two days with Venezuela is killing us, Venezuela is killing us. And (inaudible) taking down our earnings call and that, so we thought it was kind of funny. I guess we had a chart saying we are launching into Venezuela. But you guys are sleeping, so to hell with you.

International has been a big change for us, (inaudible) acquisitions than that. We have grown from 2% of our business in 2001 to 17% today. We are focused on six countries, about $500 million of business in those countries, pretty stable countries, not big currency issues going on and stuff like that. Great track record there, mid to high single digit growth in most of the countries, so we are doing great. A combination of our power brands we have in the US, but they have some local brands out there that are number one in their categories and they have some interesting brand names. I will spare you the (inaudible), but do very well in the marketplaces.

So big four, international is nice to us. We love growing there, we have been doing very good. Gross margin, gross margin is king to us. Gross margin is extremely important to grow. We have had an incredible track record. From 2001 to 2013, we grew by 1600 basis points there. You see in the past seven years, we have grown far more than anybody else in our category in gross margin. How do we do that? Four key factors. We have a whole cost optimization program in house. We focus on reformulating products, reducing packaging, reducing SKUs, compaction of laundry and making it smaller has been huge.

Two, supply chain restructuring. We have built new plants, modernized our plants, done a good job of that. Acquisitions are big, we love to acquire companies with higher gross margin, then squeeze more cost out to make them even higher gross margin. And we demand -- when we launch new product, they have a higher margin than the products they are going to replace. So four key factors, very big. 25% of all employees, all employees in our Company, bonuses are based on delivering the gross margin goals. I dare you to find one other company in the industry that does that. I understand Newell Rubbermaid, under Mike Polk, who I hired 25 years ago, just switched their strategy to put gross margin in their bonus structure. Nobody else does it; it is a big mistake on their part. Gross margin is king. If you don't have your people focused on it, it is not going to happen. You can't leave operations to figure it out. You need your marketing, your sales folks focused on gross margin. So it is very important to my employees to get there.

Track record on acquisitions has been great. We have a very tight formula for this; we will not just buy anything. We want brands that are number one or two in their category. We want higher growth, higher margin brands. But for asset light brands, we don't like to buy businesses that have 20 factories, we don't like factories at all. We like to bring the product into our factories. We want to leverage our capital base, leverage our manufacturing, logistics and purchasing base. And we want brands that we believe long term have a sustainable competitive advantage that we can leverage and grow.

Here is our track record. You can see we have been very acquisitive over the past 13 years. Seven of our eight power brands were acquired. The only brand that is big in our category that was before is Arm & Hammer from 1846. Now you can see we have acquired a lot of leading brands out there. Our track record is great. We buy them; we grow them. We have grown the share on every one of them since we bought them. And right now, we are sitting on a ton of dry powder. Matt will tell you more in a minute, but we have got over $2 billion of dry powder to make more acquisitions. We are on the hunt right now; we've just got to find the one that is right. I don't want to buy one that I'm going to be writing off in two years and overpay on that; I don't want to buy one that is a loser. We have found them in the past; we will find them again and we're actively on the search.

Seven, free cash flow. This is the king of free cash flow over here. We are best in class in the industry. He has massively increased it by 500% over the past decade. Here is a chart that shows you why we are number one, 118% of free cash flow conversion beats all the other big players in the category. That is over the past five or six years. We have increased dividends for those of you who care about dividends over 400%.

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Overhead management, number eight. Here is the case. We have doubled the revenue in our Company since 2004 and barely increased headcount. That is a pretty magical thing to double revenue and only have a -- we actually didn't increase the headcount team, we bought Avid. Until then, we actually had taken headcount down. We picked up a factory in the process because it was a competitive advantage to do that. As a result, we have the highest revenue per employee of any major CPG company. Little Church & Dwight should not win that. We shouldn't win that against $80 billion companies. They should win the highest revenue per employee; we beat them all. And we walk the talk on this one or walk the walk. I don't have a company car, I don't have a company plane, I don't have golf club memberships. I wish I did, but we are all about total shareholder return. We worry about putting all the money toward that basis and we are not sitting here with all sorts of perks and things like that. However, if you have a corporate plane going back to Newark tonight, I would like to talk, okay?

And people say how can you go lower? We keep going lower. We have the lowest ratio in the industry. We have got a new healthcare plan out there this year. Going forward, we have a new information system to help us and we are leveraging headcount through acquisitions and that. So we are going to keep driving headcount lower and lower, SG&A lower and lower in the organization.

Management team, this may be the one that maybe is somewhat unique to Church & Dwight. I don't believe in moving people around at the top level. I tell my people at the top level you are lifers, you are going to be in that job for the rest of your life in Church & Dwight. So they -- I call them lifers. Now the junior people we move around, but the senior top people, my top 40 people, they are there for life. And with that leads to great benefit is that expertise really pays off; that is how you get share growth. You have people who know their businesses cold. They are not going to come into a business -- I mean I grew up in Kraft Foods. Every two to three years, they would move me, new business, new competition. It took me 18 months to figure out how the business worked. And by the time I started putting that to good work, I got moved again.

We don't do that. Our people are great in their categories. That is why we have had 75% of the time we grow our share, we know the businesses. Able to keep headcount down. You don't need a whole staff to support them to teach them the business, they know the business. Execution is great; you know who you are talking to. It is the same people in the jobs all day long, so as you execute and -- we have one Vendor of the Year from Walmart, Target, Kmart. Little Church & Dwight shouldn't win those; the big guys used to. We do because we are great at it.

And the last one is really unique. I was talking to a woman this morning who was asking me, when we acquire companies, we like to bring them all in-house. Now other guys acquire them and they bring all those people into the organization. We don't; we get rid of them all. And I actually have my top people beg me to be given the additional work from the acquisitions. That is the new thing, that is the new thing. They got their core business they know they could practically do in their sleep. They beg me for something new to additionally work on. So that is how we are able to keep headcount down. We don't bring in new chief marketing officers and add it onto the headcount. We get rid of all that, we give it to our people and they can do it because they know their other job cold, they can do it in half the time.

All of that adds up to what I call total shareholder return junkies. I showed you these great results, look at it across the board, every line on the P&L has had outstanding delivery over the timeframe. 10-year CAGR over 16%, show me somebody else who has done that, I dare you. There is my team recently at the New York Stock Exchange celebrating a good day for us there. We presented some of our earnings results that day. That is Anthony Sullivan standing next to me on the side, he is our spokesman for OxiClean. We coated the New York Stock Exchange that date with a big OxiClean flag and said we were cleaning up Wall Street.

And this is another fairly unique thing. Our bonuses are tied 100% to what I believe are the four factors that drive any of your models (inaudible) company. 25% of our bonuses hit the net revenue target. As I said before, 25% is hitting the gross margin target, 25% is hitting the EPS target and 25% free cash flow. Those are four hard targets. A lot of guys don't look at (inaudible), especially the gross margin side.

Number two, 100% of our equity compensation is stock options. You don't win, we don't win. We don't have performance stock, we don't have restricted stock, we don't have this economic value added crap. I have no idea what that stands for. I mean why do you buy into a company that the management team gets rewarded when you don't? I mean really, folks, look into it, look how the management team is rewarded. We get only rewarded on our equity if the stock price goes up. I mean you ought to want companies like that. I don't get rewarded and I don't get restricted stock that is worth a lot of money if the stock does nothing. Stock options, that is it. We watch that (expletive) stock price 10 times a day. I am here to tell you we are here to win. Again, stock doesn't go up, we don't win, you don't win. That is the way it should be. And we are required to be heavily invested in company stock.

All right, I am going to take a NoDoz. I am going to give this over to Matt to talk about the financial results.

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

Okay, some numbers. So we started the year in February with our outlook and we said we were going to grow top line 3% to 4%, which is our evergreen target typically annually. And we said EPS was going to be pretty wide growth, 6% to 10%. Then May came around after the first quarter and we tightened that to 7% to 9% and off of the low end of the 3% to 4% range. So why? It is because the laundry (inaudible) [affecting] the pricing. Three things that we were concerned about as we moved into the year was retailer acceptance of our new products and how is the customer going to react and thirdly how is the competitor going to react. Competitor reaction has been all about pricing.

As far as our organic sales historically, we talked about 3% to 4% organic growth, how have we done historically. You can see it right here. Again, low end of the range for 2014. And Jim mentioned that we have had 13 years in a row of 10% EPS growth. So this is the look back and in 2014, you can see $2.99 to $3.04.

As far as dividends go, we target a 40% payout. Many of our competitors target 60% or higher. We think that 40% is about right for us simply because if we take the highest and best uses of cash is for acquisitions. And minimal capital investment, this is something that a lot of people miss. I think it's a two centuries old principle that Church & Dwight follows the way we manage the business. One is to leverage employees. As Jim talked about how we had the same number of employees and we added $1 billion in sales. We can do that through organic growth and through acquisitions. We acquire businesses and we don't add people.

The same thing is true for assets. So we look at employee productivity and asset productivity. The way you do that is be very stingy with respect to CapEx. So we target about 2.5% of sales as CapEx. You can see that here in the yellow. You are going to see in 2009 we built a new laundry plant and met tremendous margin expansion as a result of that. 2013 we are expanding our vitamin capacity; you probably read about that. So we have -- we have grown that -- expanded our vitamin capacity by 75%. I would suggest to you that we see a lot of runway for that business for many years to come.

And as far as financial capacity goes, this is how much dough we had on hand at the end of the first quarter, $300 million in cash, and we have a lot of borrowing capacity. You see up to $2.3 billion. And we are BBB+ rated. So we can handle a very large acquisition. The largest we have done is Avid, $650 million. And we would certainly like to do something for twice that, but only if it is going to meet our criteria. We are very fussy about what we will buy.

And this is in very deliberate order, prioritized uses of free cash flow. Number one is going to be M&A every time. Number two is CapEx for new products and of course, CapEx for existing products. And then number four and five, returning cash to shareholders, which of course is dividends and buybacks and debt reduction, number five. Were we to lever up significantly, debt reduction would become number one until we have returned our ratios back to comfortable levels.

And as far as the first quarter goes, let's run through that for a second. We are 1% organic growth in the first quarter. You might wonder why is that not 3% to 4%. Simple answer to that is we had a 2% drag from slotting and couponing year over year increase as a result of all of the new products that Jim talked about. Second thing is we grew marketshare for three of the four mega brands. Gross margin was down 150 basis points. Remember that is also driven by slotting and couponing year over year for the new products. But our marketing was up quite a bit in the first quarter and SG&A was down. And part of our plan for the full year was for SG&A to be down at least 100 basis points year over year. Operating margin down and EPS was down 4% in the first quarter, again investing behind our new products. And now we are going to take Q&A.

QUESTIONS AND ANSWERS

Joe Altobello - *Oppenheimer & Co. - Analyst*

Thank you, Jim. Thank you, Matt. We have got time for about two questions. So if anybody has a question in the audience.

Unidentified Audience Member

You spoke about vitamins a little over a year ago, and it is clearly a wonderful opportunity for you. In terms of the ability to move that top line significantly, spend a few minutes on the vitamins opportunity over the next three years and then what other categories may be there for you to pursue.

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

Yes. No, vitamins, again, if you looked in the top 10 growing categories of all CPG, vitamins has been there for the past decade. And then within that, we are the fastest-growing segment, which is the gummy side. And particularly within that on the adult side as I said. So the kids side is going to grow probably mid-single digit. It is the adult side, as we convert people from hard pills to gummies, has tremendous upside opportunity and it's happening now and we see that (inaudible). Right now, only 6% of adult vitamins are gummies. Again, we see that going 16%, 26%, 36%, growing. I can't give you the exact number, but we are pressing hard. Doing everything from sampling and trial and couponing and new products out there in that. So that has just got a long runway. As Matt just said, we just expanded our capacity 75% --.

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

75%.

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

We actually (inaudible) Church & Dwight, we put it into our laundry plant in Pennsylvania. So no new brick-and-mortar. We built that plant with excess room as we are going to put the new vitamin line there. So the other plant is on the West Coast. Now we have an East Coast plant saving logistics and everything else. So tremendous upside. And we have been doing things to increase the gross margin of that business. Won't give you exact numbers, but we have steadily increased the gross margin since we bought the business through better management of the plant and things like that. So that is just a winner.

I would tell you we are in other categories. We are in the pregnancy category, think about prenatal. We have the number one brand in pregnancy kits. Don't be surprised if sometime in the future you find gummy vitamins under that brand name. Check out the sexual enhancement category out there. You wouldn't believe how big men by goat weed and all this crazy ass stuff. Someday, we can give them a gummy for their gummy. So working all that kind of stuff. I can't give you a year on that one, but we are looking at businesses like that out there besides just keep growing the existing business as it is. It just tremendous conversion from hard pill to gummy.

So we love the business. One of our key competitors bought into it months after we did and paid twice the multiple that we did for the category. So we caught a hot one. Also, I have tasted all of the gummy vitamins out there. Nobody is as sweet and chewy as our product. We have a proprietary technology, it's not patented, but proprietary as we own the plant. Like I said, our competitors, Pfizer and Wyeth just didn't want to invest in the category. It is not (inaudible) margin as the main part of their businesses. They don't love the vitamin business, besides having the top two leading brands in One A Day and Centrum. They go through a copacker to get their gummy vitamins, which isn't the easiest way to deal with it when you have rush orders and things like that.

So that is why we were happy to buy and to keep a plant, which I don't usually like. And now we are adding another big line with new technology to put into our plant in York, Pennsylvania. So it is a real winner. We are thrilled to be in the business. And like I said, we believe double-digit revenue growth for some time to come.

Unidentified Audience Member

(inaudible - microphone inaccessible)

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

Businesses like that? Yes, they are out there. I don't want to get into acquisition stuff. But we are -- I always tell people, the beauty of my Company is we produce almost anything. We have got liquids, powders, aerosols, rubbers, gummy. Anything you want to store is almost one of those forms. So as we look at businesses to buy, if we were looking at an aerosol-driven business tomorrow, we can put it into our plant we make aerosols, we fill tubes with toothpaste. So as we look at -- we are very agnostic looking at categories. But we want the number one or two share brand, we want a brand we believe we can grow. We want a brand we can believe we can get rid of their assets and bring it into our plants and our headquarters and that.

So -- but it is the beauty. I am not just a liquid company and to get somebody else I'd have to buy a plant in that. I have plants that make almost everything today spread around North America and Europe. So it gives me a lot of synergies when we buy a company. I can get rid of their plants, get rid of their headquarters and that. I can take their gross margins up 500 to 1000 points (inaudible) in a year. We have a general rule within 90 days we get rid of the people and within 12 months, we bring the plant -- the product into our plants. Therefore, within one year, we'd have all the synergies from both the manufacturing line and the overhead line.

Joe Altobello - *Oppenheimer & Co. - Analyst*

(inaudible - microphone inaccessible)

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

Thank you.