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CHD - Q2 2014 Church & Dwight Co Inc Earnings Call

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OVERVIEW:

Co. reported 2Q14 reported revenues of $808m and EPS of $0.65. Expects 3Q14 EPS to be approx. $0.80-0.82.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Church & Dwight second-quarter 2014 earnings conference call. Before I begin I have been asked to remind you that on this call the Company's management may make forward-looking statements regarding among other things the Company's financial objectives and forecasts. These statements are subject to risks and uncertainties and other factors that are described in detail in the Company's SEC filings. I would now like to introduce your host for today's call, Mr. Jim Craigie, Chairman and Chief Executive Officer of Church & Dwight. Please go ahead, sir.

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

Good morning, everyone. It's always a pleasure to talk to you, particularly when we have good results to report. I will start off this call by providing you with my perspective on our second-quarter business results, which you read about in our press release this morning. I will then turn the call over to Matt Farrell, our Chief Financial Officer. Matt will provide you with his perspective on the financial details for the quarter. When Matt is finished I will return to provide some more detailed information on the performance of our key brands and discuss our earnings guidance for the year. We will then open the call to field questions from you.

Let me start off by saying that I'm very proud of my company for the second quarter business results that we achieved. Despite headwinds from continued weak US consumer demand in a highly competitive environment, the Church & Dwight team delivered solid business results in line with our 2014 plan. As you know are 2014 plan is driven by our balanced portfolio of value and premium products, the launch of innovative new products, aggressive productivity programs, and best-in-class management of overhead costs and cash flow.

As you've heard from many of our CPG competitors, consumer demand is very weak. We are facing the same tough business environment as consumption was flat or down in eight of our 13 categories. While we have taken actions to remain price competitive, we believe innovation is key to delivering strong sales and earnings growth in the long-term. Despite the tough business environment our goal in 2014 is to not only deliver our aggressive business targets but to drive share growth across all major categories via innovative new products.

Innovation has been the key to our past success, as shown by the fact that over 32% of our sales in 2013 came from new products launched since 2007. As promised, we launched a record number of innovative new products in 2014 across every one of our major categories and three new categories. This represents the first time in our Company's history that we launched a great product in every one of our major categories in the same year and the first time that we launched into more than one new category in one year.

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

In the second quarter our goal was to initiate strong consumer demand for the new products, via increased marketing support. We also met this goal as we achieved record quarterly share results on three of our four megabrands and share gains on three of our five major other brands. These nine brands represent over 80% of our sales and profit.

While there is still a half-year to go, we are right on track to deliver our aggressive EPS target of 7% to 9% growth, despite the difficult headwinds which are driving many of our competitors the forecast lower earnings growth. I will now turn the call over to Matt to give you some specific details on our second-quarter business results.

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

Thank you, Jim. Good morning, everybody. Second quarter EPS was $0.65 per share. That compares with $0.61 in 2013, so up 7% from a year ago and of course the $0.65 was better than our $0.61 outlook. With respect to FX, netted in our $.65 is a $0.01 drag from FX year-over-year. Our reported revenues were up 2.6% to $808 million. Organic sales of 3% was in line with our Q2 outlook of 3% organic sales. Of the 3% organic growth, approximately 3.6% was due to volume with 60 basis points of negative product mix and pricing. Price makes it was less of a story in Q2 versus Q1 -- remember in Q1 we had a high level of slotting to drive distribution of our new products and that was less so in the second quarter.

Now, let's review the segments. The consumer domestics business' organic sales increased by 0.7%, primarily due to sales of our recently introduced ARM & HAMMER Clump & Seal cat litter, OxiClean liquid laundry detergent, and higher sales of ARM & HAMMER liquid laundry detergent and VITAFUSION vitamins. These increases were partially offset by lower sales of XTRA laundry detergent and lower sales of ARM & HAMMER unit dose laundry detergent. The volume growth contributed approximately 1.5% to organic sales offset by 80 basis points negative effect of product mix and price.

The volume growth deceleration in Q2 was in large part due to slower share growth of ARM & HAMMER liquid laundry which was 0.2% in the quarter and share declines on the XTRA brand. So the consumer business wasn't as strong as we expected in the quarter. However, the actions we took starting in June resulted in a strong end to the quarter and an even better July. So for example for the four weeks ended July 19, ARM & HAMMER liquid laundry share is up 0.8 points year-over-year, and we expect the consumer business to be stronger in Q3 than in Q2 as our actions drive stronger volumes.

International business is next. The organic growth was up 3.9%. Volume increased approximately 4.7%, offset by 80 basis points of unfavorable product mix and pricing. We had strong growth across all the countries within that division. For our specialty products division organic sales increased by 22.9%. The animal nutrition business drove a 20.9% volume increase with favorable mix and pricing contributing another 2%.

Remember that last year, Q2 2013, was a very difficult quarter for this business and currently the US dairy industry is extremely healthy, experiencing record high milk prices and low input costs which are driving demand for our products. So we expect on the full-year basis total Company organic sales to be approximately 3%.

Now, going to discuss gross margin. Our reported second-quarter gross margin was 44.6%, a 50 basis points contraction year over year but better than the hundred basis points contraction we expected. The decrease in gross margin year over year is primarily due to increased coupon redemption, trade spending, and higher commodity costs offset by positive product and business mix and of course our productivity programs. For the full-year we now expect gross margin to contract 75 basis points, which is at the high end of our previous 50 to 75 basis points range that we discussed in May. And this is largely due to the price competition in the laundry category.

Regarding commodities, our year-over-year input costs have trended up in Q2 in particular due to resin which is at a three-year high.

Next is marketing. The marketing spend for the second quarter was $113.4 million or 14% of revenues, which is an 80 basis point increase over the prior year's spend and $10 million higher on a dollars spend. If you are a historian, it's been five years since marketing as a percent of sales has hit 14% or higher in the second quarter. And our marketing spend of course was timed to support new products, and we reached record shares of three of our four megabrands in the quarter.

We expected our marketing spend to be front-end loaded this year to support all of the great new products during the launch. The second half is expect to be lower versus a year ago, but of course you have always heard us talk about share of voice versus share of market. Looking at that ratio, we are very satisfied. Also a flat marketing spend for the year is relatively stronger than quite a bit of our peers who are cutting marketing to fund trade programs. And this is also evident in some of the news you've probably been watching with respect to the upfront buys which has been weaker this year.

SG&A is next. SG&A year over year was lower by $2 million and the quarter. SG&A as a percentage of net sales was 13%, a 60 basis point decrease from the prior-year second quarter. So, so far in the first half we've averaged a 110 basis points decrease versus the prior year and we expect that trend to continue in the second half and for the year.

Next is operating profits. Reported operating margin for the quarter was 17.1% which was a 70 basis point contraction versus year ago but keep in mind this is largely due to the 80 basis point increase in marketing year over year. With respect to income taxes, our affected rate for the quarter is 34.2%, slightly less than last year which was 34.5%, and we expect the full-year rate to be 34%. With respect to cash flow, we generated $207 million of net cash from operations for the first half of 2014, and we invested $17 million year to date in CapEx. We now expect to spend approximately $70 million on CapEx for the full-year 2014. Cash from operations full year is expected to exceed $525 million and free cash flow to exceed $455 million.

Regarding stock buybacks, the Company has purchased $435 million of shares through ASRs year to date. $260 million in Q1 and $175 million in Q2. You may recall that during our May call I said that we would likely spend more and about half of the remaining authorization and that's what we did. We have approximately $140 million remaining under our authorization, and we do not anticipate making additional share purchases in 2014.

I'm going to wrap it up now. So looking ahead, we feel good about the second half. We expect third-quarter earnings per share of approximately $0.80 to $0.82, compared to $0.76 per share last year. And as we mentioned in the release, we expect 3% organic sales growth in Q3 and gross margin to contract by 150 basis points.

We began 2014 expecting a back-end loaded year. Q1 EPS was down 4% as it was a big investment quarter behind new products. Q2 that we just ended, up 7% EPS despite a significant increase in marketing. In Q3 using the midpoint of our $0.80 to $0.82 range that I just mentioned is also up 7%. So that implies Q4 would deliver your dollars $0.19 of earnings improvement year-over-year if you wanted to reach the midpoint of our 7% to 9% range. So almost half of the Q4 earnings improvement come from three things: an impairment charge that you read about in last year's 10-K that we don't expect to repeat; we had some litigation costs in the prior year quarter that we don't also don't expect repeat; and, of course, lower shares.

The balance of the year over year EPS increase in Q4, about 10% growth comes from the base business and greater traction for new products that we launched earlier in the year. So to summarize the full year for those of you who are working on your models, we are expecting 3% organic sales; gross margin contraction is 75 basis points, obviously influenced by slotting and couponing behind the new products. And if you work your way down the P&L, we expect marketing as a percentage of sales to be flat year over year, be around 12.5%; and now expect SG&A to be down 125 basis points. And all that would get us to the midpoint of the 7% to 9% EPS range and the 50 basis point expansion of operating margin.

Back to you, Jim.

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

Thanks, Matt. I'll finish off our portion of the call today by adding a little color to the second-quarter results that Matt just took you through and then provide my outlook on the year. As I mentioned earlier, our new product innovations played a key role in driving share gains in the second quarter across six of our nine biggest brands, including share gains on three of our four megabrands. Among those nine brands, our biggest focus was on turning the OxiClean brand into a megabrand in 2014 by extending it into three new categories -- premium laundry detergent, bleach alternative, and automatic dishwashing detergents.

Overall, this strategy is off to a great start as consumption of the total OxiClean brand in the second quarter was up 35% versus year ago. This included strong results on every form of the brand. The core OxiClean laundry additive product achieved a record quarterly share of 45.5%, which is bigger than the next four competitors combined. The new OxiClean premium laundry detergent achieved a 1.0 dollar share in the liquid laundry detergent category after just four months of distribution. A 1.0 dollar share might not be much you, but keep in mind that the liquid laundry category is a $6 billion category and P&G's famous Cheer brand is only a 1.0 share after 768 months in market. Most importantly, our consumer research reveals that the sales of our new OxiClean premium liquid laundry detergent brand is over 80% incremental to our other liquid laundry detergents.

Our new OxiClean although dish detergent achieved a 1.6% dollar share in the second quarter; is on track to become the number three player in this category by your end. And our new OxiClean bleach alternative called White Revive achieved a 2.2 dollar share in the second quarter. Distribution of this product was almost entirely incremental as we were able to get it placed in the bleach section versus the laundry detergent section with where the core OxiClean laundry additive product is located. As a result, sales of this product are over 70% incremental to the core OxiClean laundry additive franchise. The strong sales incrementality as new products is critical to achieving sales growth.

Our other megabrands also achieved strong results for the second quarter. Our newest megabrand, the Avid gummy vitamin business, delivered double-digit consumption growth the second quarter, behind expanded distribution, new products, and increased marketing support. This double-digit growth occurred despite flat category growth as a result of unfavorable publicity last year about the benefits of taking multivitamins. The category trends are now headed in positive direction and, most importantly, the fast-growing gummy form of vitamins now represents 7% of the total vitamin category. That's more than twice what it was when we bought the business in 2012.

This still leaves over 93% of the $7 billion vitamin category to be conquered by encouraging consumers to switch from swaddling tasteless hard pills to enjoying our delicious-tasting gummy vitamins. We have the number one gummy brand for both kids and adults, and Church & Dwight was one of only two vitamin brands to grow share in the second quarter. These strong results to date put us on track to deliver our double-digit sales growth outlook on the year, despite lower-than-expected category growth and increased gummy competition.

On our Trojan megabrand we achieved a record quarterly share in the sexual health category driven by record quarterly sales of condoms and continued growth of our new lubricant line that was launched in 2013. On the largest part of our sexual health business, our Trojan condom business we matched its highest ever quarterly market share at 76.0%, and this momentum has continued in the third quarter as I just learned yesterday that the Trojan condom business achieved an all-time record monthly share of 76.8% in the month of July.

Our biggest megabrand, ARM & HAMMER, held its share in the second quarter despite some fierce price competition. In the laundry category, the ARM & HAMMER liquid laundry detergent brand grew its share. This share growth represented the 18th consecutive quarter that the ARM & HAMMER liquid laundry detergent brand has posted year-on-year share growth. It strengthened the brand's number one position on the value segment, and it enabled the ARM & HAMMER brand to pass the All brand to become the number three brand the total liquid laundry detergent category.

While these are very positive results for the ARM & HAMMER brand, the real star of the ARM & HAMMER megabrand portfolio was our cat litter business. Our premium priced cat litter called ARM & HAMMER Clump & Seal has been a huge hit with the consumer, as reflected in both our brand share results and its positive impact on category growth. Our second-quarter consumption for our ARM & HAMMER cat litter business increased by over 20% and our share grew 2.8 points to a record quarterly share of 23.3%. These great share results strengthen our position as the number two brand in the category.

Just as important, our new Clump & Seal product has been a major contributor to driving cat litter category sales growth of over 7% in the second quarter, the strongest growth in any of our 13 categories and excellent growth for any CPG category. This exemplifies our belief that innovation is the key antidote driving improved value creation for our consumers, our customers, and our shareholders. Unfortunately, some of our competitors have not invested in developing new products and instead have increased their trade and coupon spending to defend their brand.

This happened particularly in the laundry detergent category. In case you did not know, Church & Dwight is the only competitor to grow share in the laundry detergent category every year for the past five years. We are now the number two player in this category and one out of every four wash loads is done with a Church & Dwight laundry detergent. The growth of our laundry detergent business has been driven by our value pricing, great new products, increased distribution, and higher marketing spending.

As I stated earlier, our largest laundry detergent brand ARM & HAMMER has posted year-on-year share growth for 18 consecutive quarters including share growth in the first and second quarters of 2014. Our OxiClean laundry additives brand has posted year-on-year share growth for 11 consecutive quarters and achieved a record quarterly share of 45.5% in the second quarter.

In 2014 we launched innovative new products in our ARM & HAMMER laundry detergent brand and to continue our remarkable record share growth we extended the OxiClean brand into the laundry detergent category with solid initial results, as I mentioned earlier. Unfortunately, several competitors who have not invested in innovative new products began lowering their prices starting the third quarter of 2013. We held off on responding in the back half of 2013 because our laundry brands continue to do deliver sales and share growth driven by our product innovations. In the first quarter of 2014 the competitors added unprecedented levels of coupon support on top of the lower price points. Again, we held our ground in the hopes that our new product innovations, which are being launched at the end of the first quarter, would offset these pricing actions.

The competitors kept up their higher trade spending and coupon support in the second quarter, and it began to clearly impact the sales of our laundry brands despite the launch of our new products. So starting in the month of June we took actions designed to restore our price competitiveness and drive increased trial beyond our great new laundry detergent products. I will not divulge or answer any questions concerning the specifics of what we have done for competitive reasons. I will just tell you that these actions drove a significant improvement in our sales and our share results starting in June and we have seen continue sales and share momentum in July. In fact, our laundry detergent business achieved a record high share in the month of July. So, I am confident that our actions should enable us to deliver the laundry business results that we need to deliver our 2014 annual sales and EPS commitments.

I'll finish off our portion of the call today with a few words on our outlook for the year. As I stated in the press release, we are reaffirming our 2014 guidance of organic sales growth of approximately 3% and earnings growth target of 7% to 9%. This will be driven by our balanced portfolio of value and premium products, the launch of innovative new products across every one of our major categories and three new categories, aggressive productivity programs, and tight management of overhead costs.

Our 7% to 9% earnings growth target is in the upper quartile of EPS growth target ranges in the CPG industry, consistent with our historical performance, and we believe that we can deliver that within that aggressive range despite the highly competitive environment and weak US consumer demand. The majority of our annual earnings growth is planned to occur in the second half since the first half includes a significant increase in slotting, couponing, trade promotions, and incremental advertising support for our new product launches versus what we spent last year.

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

Last but not least, I want to assure you that we are pursuing acquisitions and we have over $2 billion of financial firepower to make them. As you know, we have a great track record of making highly accretive acquisitions because we are very selective about the types of businesses we acquire.

At the same time we are also fiscally responsible to our shareholders so we will continue to be patient until we find the right deal that will pay dividends for many years to come.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jason English, Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

A few questions -- first on the SG&A efficiency. It's certainly driving a fair amount of growth this year -- the question is sustainability of that. How much of the SG&A cuts are sort of transitory where there would be instances compensation, et cetera, that may need to be reloaded next year versus how much of it is enduring?

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

Jason, it's too early to comment on incentive compensation as far as saying how much of a benefit there may or may not be year over year, [both] function of our four metrics for the full year.

Jason English - *Goldman Sachs - Analyst*

Can you comment on how much of this may be enduring?

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

Are you saying that next year if we have a blowout year, will incentive comp be higher? Yes, it will be.

Jason English - *Goldman Sachs - Analyst*

No. Not incentive comp, just the rest of SG&A. It's tracking down year on year, should we expect -- forget about incentive compensation, just the underlying components, does it bounce back? I know you mentioned the first quarter you were lapping some acquisition-related expenditures, which presumably they have gone away and unless there's been another deal they are not going to come back. (multiple speakers)

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

Right. Exact -- that's right. So in the first quarter SG&A was down 160 basis points, 40 basis points came from the fact that we didn't have the average transition cost year-over-year. So, they are not going to be reloaded next year.

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

But Jason, we've done a lot in terms of IT systems to be able to keep overhead down and you look at some organizational design things, so I would tell the vast majority of SG&A savings is enduring.

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

Jason, the way the model works for us is that SG&A needs to grow at a much slower rate than our top-line growth rate. That way we can get leverage on that line. And that combined with acquisitions has enabled us to drive that number down 300 basis points over a number of years.

Jason English - *Goldman Sachs - Analyst*

Great. Thank you. That's helpful. I'll pass it on.

Operator

Steve Powers, UBS.

Steve Powers - *UBS - Analyst*

Yes. Hi, thanks. I guess, can you guys just maybe expand a little bit further on what you saw in laundry during the course of Q2 and how it differed from your expectations coming into the quarter? And as you look forward over the course of Q3 and Q4 -- more details on what you expect -- what kind of [sensitivity] you have around competitive dynamics, retailer responses over the balance of the year in that specific category.

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

Yes, Steve. I mean I can't speak for competition -- I can just tell you what happened is -- as I said we didn't start it. We don't like it. We prefer to grow through innovation. We've taken appropriate actions to deal with it and I'm confident we'll deliver our 2014 EPS commitments despite it and exit the year with momentum.

Steve Powers - *UBS - Analyst*

Okay. As you think about -- this is shifting gears kind of entirely but if you think about your M&A activity, can you talk about where you are just seeing the most flow of potential deals, setting aside the quality of those opportunities? I guess are there certain categories where there's more flow, whether personal care, or household, or consumer health. Are the opportunities you see smaller stand-alone companies or --?

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

Steve, let me save you a minute -- the answer is no.

Steve Powers - *UBS - Analyst*

You're not going to do that? Okay. Fine. I guess lastly on megabrand growth, looking into the out years, from here how much do you expect, roughly, growth to be driven by your base products, your base category presences today versus further horizontal expansion into new adjacencies? Just kind of give us a rough feel of the balance that you have as a base case?

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

It's a great question, Steve. Honestly, we don't have as fine a measure on that because we launch new products in the base as well as launching into the new categories. The real key there is the efficiency of marketing spending. We just saw on OxiClean this year because we launched into three new categories plus we had innovation on the base. The whole business is up 35% -- count all the sales against it. It's just an efficient way to go the market because if we spend money on OxiClean laundry detergent or OxiClean dishwashing, it halos for the whole business.

So at this point in time I can't honestly give you an answer to the fact of the difference between the new categories versus the base because it really depends on what we do in each of those categories going forward in that, but it's just the core is that the four megabrands we have right now are about 60% of our revenue and we are spending about 75% of our marketing money against those four because you get the biggest bang for the buck. So you are going to see that overall the four megabrands are going to be the biggest drivers of our future growth. I just can't tell you within the categories they cover what that will be.

Steve Powers - *UBS - Analyst*

Okay. And is it just there to say though that your R&D focus is spread -- is balanced between your extension of the core versus exploration of new categories?

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

Absolutely, because the core by -- still the vast majority of those businesses is still the core.

Steve Powers - *UBS - Analyst*

Great. Thanks.

Operator

Nik Modi, RBC Capital Markets.

Nik Modi - *RBC Capital Markets - Analyst*

Thanks. I wanted to get your thoughts -- you've been kind of ahead of the curve and very accurate on your assessment of just generally what's going on in the US economy. And it just seems like the second quarter things really took a turn for the worse. Just wondering your thoughts -- are you seeing something in times terms of trips, because all center store items are really starting to suffer some? I'm wondering if this reduced trip levels or impacting consumption. Any perspective you might have on what could explain to step down from where we were even three and six months ago.

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

Yes, Nik, I wish I knew more. All I can tell you -- top line, as I have said, eight of our 13 categories were flat or down in the second quarter. That's honestly only a little worse than it's been in prior years. It's not like a major falling off the cliff. You know, I don't have anything specific. I have my own personal thoughts that is just that people have less disposable income out there and they are having to make hard choices and having to stretch their product uses over time in that.

I just don't -- I don't see any improvement. We're not counting on any improvement going forward. That's why it's very important to us to put out products that offer a great product but also a great value and that's what we're particularly known at -- known for. But I wish things were going to get better. I don't believe the headlines in USA Today talking about things looking brighter out there. We're going to continue to operate on -- plan for the worst and hope for the best.

Nik Modi - *RBC Capital Markets - Analyst*

And then the last question is on the July figures that you provided in the laundry category. Have you seen any response from the competition in that regard? I mean should we just expect this to kind of them to kind of stay where they are or have you seen some response?

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

Well, I will say Procter has stepped up the game out there in terms of trading coupon support. I mean, just walk into a Walmart and look at their displays on that. So Procter has absolutely stepped up support. The good news is the category actually shows some improvement because I think between us and Procter stepping up support people are trading back up to the better brands, and it will be a better ring in the stores. So despite the increased intensity out there, particularly from us and Procter, categories starting to move in a positive direction.

Nik Modi - *RBC Capital Markets - Analyst*

Thanks, Jim.

Operator

Kevin Grundy, Jefferies.

Kevin Grundy - *Jefferies & Company - Analyst*

Matt, I thought your commentary that you don't plan on buying that any further shares for the balance of the year was curious given your cash position. Can you reconcile that a bit for us particularly given the pullback in the stock and near-term M&A intentions?

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

Well I wouldn't comment on what our prospects are or events that might take place in M&A in the short-term. This company has always been thoughtful about how it deploys its cash, so we don't necessarily go and take every dime and plow it into share purchases in order to get an EPS benefit. Many have been in the camp of saying the Company is under levered and has a great ability to buy back shares to increase EPS, but of course the highest and best use of the balance sheet is acquisitions. So this is something we visit every quarter as management and as a Board and concluded that where we are we are pretty happy with what we've done year to date. Obviously, it supports our ability to hit our 7% to 9% EPS growth number. So, consequently, we're done for the year.

Kevin Grundy - *Jefferies & Company - Analyst*

Okay. And Jim, can you give us a little bit more detail -- this is with respect to unit dose and specifically what impediments you guys are facing there? Because we are, what, low double digits, I think, as a percent of the category now for unit dose as a percent of laundry and likely moving higher. And you guys really aren't participating in a meaningful way. So what are the impediments that you guys are facing? And do you plan on participating in a more meaningful way?

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

Well, Kevin, I mean unit dose is a great product, great innovation. Kudos to Procter -- that's innovation driving the category. We have participated. We had a product out there before Procter got out there. They have obviously been putting a lot of their marketing support behind it. We decided to focus more on the liquid business, which is over 70% of the category. So, we are out there. We've got a great product out there. We have more innovations coming along that product line. It's now about 11% to 12%, the total laundry business. So, again, we look at priorities and we put more of our energy behind the liquids side of the business -- 70%. And we put a lot of energy behind launching OxiClean liquid laundry detergent. We also launched that by the way in a pod form. But the liquids to us remains the key focus right now.

But I totally applaud Procter on the unit dose product -- great new product. They are there -- they have gotten higher than their fair share of it because they put the majority of their support behind it. But we are there, and we are going to be there, and we hope to grow that business in the future.

Kevin Grundy - *Jefferies & Company - Analyst*

Just one more for me, if I may. Jim, this is for you. Just with respect to the 3% or 4% -- and this is longer-term algorithm and I'm not asking you guys to guide for next year. But last year you fell a little bit short. This year you will be stretching to probably get to the lower end. And you have specialty and cat litter and a big contribution from Avid which are driving most of it. In the absence of buying an asset that's accretive to your growth, does the long-term algorithm feel like it is more of a stretch in this environment?

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

No, no, not at all. I mean honestly -- 2014 is really a year of investing for the future for us. But still, unlike other companies -- they say invest and they pull down their EPS. We are going to invest and still deliver a top-quartile EPS growth. Don't forget, we put a lot of energy and a lot of cost into launching the record number of new products this year across all of our nine brands. We spent the marketing support behind it, so we expect it to pay off in the future on the -- a lot investment there.

And then we had the pricing situation break out in the laundry category. That has probably has partly dented it this year. I can't project what the future of that to be, but I don't believe that's going to continue forever. So I definitely feel the investment we have made in new products this year -- the marketing -- but we have held our marketing; other guys are cutting their marketing. That's going to pay off.

So at the end of the day, you guys always pay us to find the levers to drive the bottom-line earnings growth. We have the revenue levers, one. We've got gross margin; we've got marketing; we've got SG&A; we've got cash flow; we've got acquisitions. And you pay us to figure out what combination of those delivers, in our eyes, top-quartile growth. And we've always found a way to do that.

We've quadrupled our share over the past the 10 years. Nobody gave us a pass last year when our specialty products division tanked, but we covered that and still delivered double the EPS growth and this year we having a little bit of problems with the domestic side with the pricing of laundry, but we are taking care of that and going forward. So just trust us that we'll always going to find a way to deliver top-quartile EPS growth. We've done it in the past. We're going to do it in the future.

Kevin Grundy - *Jefferies & Company - Analyst*

Thank you very much. Good luck with the quarter, guys.

Operator

Jon Andersen, William Blair.

Jon Andersen - *William Blair & Company - Analyst*

I just wanted to ask about your newest megabrand, Avid. You mentioned, Jim, double-digit consumption growth in a flat category. Can you talk a little bit more about what's driving that and where you stand in terms of distribution expansion on the base business? And then kind of where you are in terms of ACVM, the new enhanced offerings. I think you also said that you had seen some improvement in the underlying category. What are you seeing there and what's driving that?

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

It was late last year a report came out that kind of dinged the benefits deemed the benefits of taking multivitamins and it actually drove a category that had consistently grown high-single digits or low-double digits -- set it back it and it actually declined for a quarter or two. Now it's coming back. Second quarter it was flat; we expect the category to start growing again in the third and fourth quarters.

So, we talked to many people been in the vitamin business when we bought this business, and they said to expect these things to happen as reports come out, as they do in many, many food categories. So that was unfortunate but it wasn't a surprise and it doesn't worry us at all. Like I said, it's gone from being negative in the first quarter to neutral the second quarter, and we see every sign it'll go positive in third and fourth quarters.

Distribution, we gained a lot since we bought this business because quite honestly we have a much bigger salesforce than the prior owner did and our salesforce is doing a terrific job in getting distribution of the current products out there. We still have room to grow on that, and we are still cracking distribution [voids] everyday.

I don't have an exact number on the ACV, but we still have many opportunities. Just to clarify, too, the real growth opportunity is in adult vitamins. We bought the business that already in the kids' side of the business over 50% of the category was already gummies. So we'd love to grow that even more but it was already high.

When we bought the business the adult side was only about 3% of the total adult business. Now the great news is the adult business is about a $6.5 billion category, versus kids is like $300 million. So that's great. With $6.5 billion, only 3% is adult gummies. It's already more than doubled that but still over 90% of the adult vitamins to capture as we treat people up. And I have yet to find one person -- one adult who I've got to try the gummy vitamins who isn't blown away by how great it tastes and wants to convert right away.

And we are just doing a great job of launching all sorts of new vitamins and there's lots of opportunities for new types of vitamins going forward that our team is working hard on. So if I sound excited about this business, I am. This -- it's already a great acquisition for us and it's got such massive potential going forward that we just salivate in looking at the opportunities on the vitamin business.

Jon Andersen - *William Blair & Company - Analyst*

Great. Thank you.

Operator

Joseph Altobello, Oppenheimer.

Joseph Altobello - *Oppenheimer & Co. - Analyst*

I just wanted to start out with the share buyback discussion. If you look at 2Q, I guess your stock was somewhere between $68 and $70 and you bought back $175 million like you said you would. And with the stock here at $64 and change, I was curious what your thought process is to buying back more stock? Why stop at $435 million? Why not, given the pullback, be more aggressive here?

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

Joe, this is Matt. So, we don't conduct ourselves as opportunistic buyers, moving in and out of the market depending on what the share price is. We are more deliberate about if we want to deploy a certain amount of cash and buy back shares. And that's why we avail ourselves on an accelerated stock repurchase, which as you know, once you make the decision you get 90% of the shares up front and you're done. So, we don't look at it as we are running a trading desk. As I said, we are far more interested in deploying the cash for acquisitions. That's the highest and best use of the capital.

Joseph Altobello - *Oppenheimer & Co. - Analyst*

Okay. So since you are not buying back more stock should the we read into that in terms of the health of the M&A market?

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

Joe, your weight still down?

Joseph Altobello - *Oppenheimer & Co. - Analyst*

Yes, it is.

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

Go out for a run, please.

Joseph Altobello - *Oppenheimer & Co. - Analyst*

All right last question for you -- the guidance for this year, Matt, you did a good job of explaining to us the drivers in 4Q on the bottom line. But if you look at the top line, your organic growth numbers for 4Q -- if you do 3% in the third quarter -- is going to be somewhere north of 4%. So can you help us understand why you are going to see that step up in the fourth quarter on the organic growth side?

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

Well as far as the fourth quarter those as we move through the year there's less and less slotting, less and less couponing to stimulate trial. You know the trial -- pardon me, the coupons are netted in the net sales number. We are expecting the traction of our new products to really accelerate as we move up from the Q3 into Q4.

Joseph Altobello - *Oppenheimer & Co. - Analyst*

Okay. Got it. Thanks, guys.

Operator

Olivia Tong, Bank of America.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Thanks. Just following up on a previous question. Jim, you guys have had a really good history of delivering on EPS goals. But when all your competitors are spending more, macros are worse and your peers are targeting lower outlooks as you mentioned, why is 7% to 9% still the right target range? And are you leaving yourself enough flexibility to respond in case stuff happened?

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

Well I will first answer that, because we are better managers of the business that they are. But stepping beyond that, hey, look, if I felt we couldn't get there in a quality way I would lower my call, but I feel we can get there in a quality way. Again, Matt mentioned earlier, our marketing spending is going to be flat on the year. I think that's going to be better than other folks. We already saw the upfront buy in the TV industry, announcement that some of our major players have cut back on their TV spending going forward next year. We are at least keeping it flat.

So again we looked at share of voice which is how much of the advertising spending in a category you have, and we see us as having our fair share or more to help grow our shares. And second quarter was great -- and I think for the rest of the year I feel pretty confident that we are well-positioned on a marketing spending basis to drive our brand. If I didn't, I would think about cutting back the EPS, but I really feel the combination of our programs, our new products and everything will deliver our numbers. The June/July numbers were extremely encouraging to us. We banged record shares on three of our four megabrands in Q2. July is off to a great start. So I really feel good at this point.

But it is unlikely to just hold to a number, but I always want to do it the quality way. And I think right now we'll deliver those results with 7% to 9% earnings growth and exit the year with momentum. We've had consistent growth. I will never overdeliver a year and then put the next year at risk. So always want year-to-year-to-year growth. We've had that. We've had 10 great years.

You should know it pained me to not do a double-digit earnings EPS growth this year. I've had 10 straight years of running this Company with double-digit EPS growth, so I had a cathartic experience only calling 7% to 9% growth. So already in Jim Craigie's world I pulled down the call from the past 10 years of history, but I still feel we can do that result, which is better than almost all my competitors; do it in a quality way; and exit the year with momentum.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it. And then just follow up on the top line, Matt, you mentioned that couponing should decline as the year progresses and traction of new products should accelerate. So is this just a function of the fact that the comps are really particularly easy in the back half, with price mix down pretty dramatically in the second half of 2013. I guess what gives you confidence that the couponing is going to decelerate as the year progresses or by Q4?

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

Well the couponing -- remember we have so many new products that are launching this year and with new products you are going to use coupons to stimulate trial. You want people to try your new products. So once you start getting trial and you get repeat purchases the coupon [teams] start peeling back. That's why as you move through the year we are expecting to have less in the fourth quarter, certainly in the third, and then the second. So -- and we expect volumes to be better as we move through the year for consumer. We are better in Q2 than Q1. Q3 will be better than Q2, et cetera.

Olivia Tong - *BofA Merrill Lynch - Analyst*

So even with competition getting quite a bit more difficult you still feel pretty confident about your ability to accelerate the volume expansion in the back half of this year?

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

Yes, as Jim said, we think the combination of the media spend and the trade programs that we have in place are going to drive volumes in the second half.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great. Thank you.

Operator

Alice Longley, Buckingham Research.

Alice Longley - *Buckingham Research Group - Analyst*

Hi. My question is really a follow-up to a couple of the others, including that one. I think to get to your guidance of gross margins being down 75 basis points for the year they have to be down a lot less in the third quarter and the fourth quarter. So I mean you have now guided to gross margins down 150 basis points in the third quarter. Why don't you have to keep up the pressure on gross margins? You just explained less slotting, but there's other promotions that hurt gross margins. Why does that 150 basis point gross margin hit in the third quarter not have to be the same in the fourth quarter?

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

Well part of it is going to be mix, year-over-year, Alice. So it's product mix and business mix. The specialty products business continues to perform year over year and their gross margins have been up quite a bit, actually in the second quarter year-over-year and expect that to continue as we get into the fourth quarter. And you know volumes drive a lot of variable margin, right? So if you have high variable margin on your volumes it is going to have -- variable margins of course are higher than your gross margins is going to influence the fourth quarter. And again as I said before, the trial couponing is also part of the gross margin drag and there will be less of that in the fourth quarter.

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

Alice, to Matt's point, we have some businesses like Nair that are very seasonal in the summer and there's quite a bit of spending behind them. They are very off-season in the fourth quarter.

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

Also true for Spinbrush, is also (multiple speakers) --

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

Spinbrush. Conversely, we have very high-margin businesses like Trojan, which has a big fourth quarter around the holidays in that. So it is a good case a product mix helping to drive that with some higher-margin products having a very strong -- traditionally strong fourth quarter and some of the higher trade businesses don't.

Alice Longley - *Buckingham Research Group - Analyst*

Okay. And here you had this huge hike in marketing in the second quarter and yet your sales were disappointing, so you don't think the category is becoming commoditized more than before?

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

No. Alice, again, we would've had a much stronger organic growth in the second quarter if we have addressed the trade issue earlier. Because once we then had the marketing and we took care of the trade issue on the laundry business, month of June was excellent and now month of July is even better. So, I think you've got to understand that the marketing spending was worthwhile in creating awareness out there. Most of our other businesses was fine. The laundry business dragged us down a little bit in Q2 in the first two months because we had the pricing issues on the laundry business which we fixed, starting in June.

Alice Longley - *Buckingham Research Group - Analyst*

All right. Thank you.

Operator

Bill Chappell, SunTrust.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Good morning, thanks. Just going back to the laundry segment, can you maybe help us understand was going on with XTRA because I guess it seems like most of the price wars have been sort of the mid-tier and even with simply coming down in the mid-tiers I would think that XTRA is so far down on the price chain that it wouldn't been as effective. Are you seeing consumers kind of trade up with the other discounts? Or is there something else going on and is that continuing into this quarter?

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

No, Bill, I wish what you said was true. XTRA has been hurt the most of our two brands because we don't advertise it and some of the competitors have been so aggressive on their pricing. One in particular has been doing buy one, get two frees that has actually had more impact on XTRA than it had ARM & HAMMER. So it's been just mainly dealing with the fact that some of the competition at the lower end, as XTRA doesn't have as many protections to it that the ARM & HAMMER brand does. But there's more advertising, more new product news on ARM & HAMMER and XTRA took some of the brunt. But we've taken actions to fix that, and I think you will see improvement in the XTRA results in the back half of the year.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Okay. And then switching to gross margin, if you take out kind of the price war on liquid laundry would you have seen gross margin improvement this year? I guess I'm looking that in kind of the long-term algorithm of gross margin improvement every year and part of management's compensation. Are there plans in place or projects in place where we can get back on track assuming that the price war subsides at some point?

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

Bill, when you think about new products there's so much couponing and slotting associated with that year over year for trial that that depresses the gross margin of the new products significantly. So -- in a year where you have lots of new products launching, it is going to create pressure on gross margin. So what happens is -- you get to next year, right? So now you are established -- let's say OxiClean. So OxiClean is going into three new categories, right? High-end laundry detergent, dish, and bleach. So next year they are all established in those three categories. Slotting goes away. The couponing to stimulate trial peels off. Now the margins associated with that those three products improve, year over year.

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

Bill, we are always got a year -- always going to launch of new products. 2014 was just an impressive unprecedented number of new products. We will still have a great year of new products next year (technical difficulty). So as Matt is saying, the spending against those will peel back in that will really help the gross margin in 2015 versus 2014.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Okay. And then last one for me, Matt, just as I am not as up to speed as you are on the cattle industry, but would you expect specialty to be up double digits in terms of the top line?

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

Yes. By the way, it's dairy, Bill.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Sorry. I thought it was all connected, but yes. On the dairy industry would you expect -- is 10% plus, is that the right kind of number for this year?

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

Yes, it is, because in the first half alone we are up double digit. First quarter we are up 12% and second quarter, up 22%.

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

Bill, the milk farmers love it when they have a situation where there is high milk prices that are still high, and commodity costs -- it looks like there's going to be a record corn crop this year in the US which should drive prices down. So it's an ideal environment for milk out there because the farmers are getting a great price for there their product, and the input costs going in -- the feed -- is going to be low.

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

And Bill, just with respect to the specialty products business -- to remind everybody it's sort of feast or famine with specialty products. As Jim said, the last two years, 2012 and 2013, it's been a drag on our organic sales growth. 2011 if you go back a few years it actually was a help to our total company organic sales growth. So, I know everybody would like it always to be tracking the same way as consumer. It doesn't. This year it's a help. Is going to be double digits top line.

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

Yes, and the early outlook on the milk prices for 2015 is still very good.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Got it. Thank you.

Operator

Chris Ferrara, Wells Fargo.

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

Thanks. Guys, I wanted to go back to vitamins for a second. Look, 10% growth is 10% growth. But with the gummy category I think you said doubling its share of total vitamins, are you getting as much of that incremental gummy piece that's growing as you would like and if not, why? What has to change, if anything?

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

Good question, Chris. I mean there's definitely more gummy competition out there. We are getting what we getting what we expected to -- double-digit growth I think it's fantastic. Actually the competition to me is very good because some of the bigger brands like Centrum and One A Day have moved into the category, but that's great to me because, again, it's just telling consumers that gummy vitamins are just as good as hard pills. It's verifying the category and, again, it's still -- gummies are still less than 10% of the adult side. So, I will be very happy to take my fair share going forward of the 90% of the over $6 billion category that isn't gummy yet. And now when you've got the biggest guys in the space telling everybody they are just as good, go buy them -- and I will bring you in one day and I will sit you side by side and have you taste them. And ours by far taste better than any of theirs because we own our own plant and we have some unique proprietary technology in doing that thing. So it's just an advantage for us.

But yes we've got new competition, but I look at it as a plus because, again, the biggest names in the industry have now verified that gummy vitamins are great and just as good as hard pills. I can't imagine anybody who would still want to take a hard pill after eating a gummy vitamin.

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

Got it. Thank you.

Operator

Jason Gere, KeyBanc Capital Markets.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Thanks. Good morning, guys. Two questions -- I guess the first one, if we could talk about the personal care business outside of Avid. I know some of the innovation sounds pretty strong, but if you strip out the Avid piece that grew, it looks like the sales were weaker there. So can you talk about the innovation, and I know you are talking about June and July being a little stronger. Can you talk about maybe some of the promotional spending there and the results you are seeing, because I know you kind of laid out laundry a little bit and the re-acceleration that you've seen? But could you talk maybe about the personal care outside of Avid? That's the first question.

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

Yes, Jason, sure. No, it's actually a very good portfolio. I just got results in for the month of July and the Nair brand hit an all-time record high. I told you Trojan brand is hitting all-time record highs out there. So it's very good. The one business -- kits -- the pregnancy kits has great innovations on it. We are the first guys with a six-day. There's been a bit of price competition there that's caused us to deal with on that side. But overall it's good.

We have brand called Batiste, which is largely an international business that's just rocking out there -- is doing fantastic. We are expanding it to other countries around the world. No, overall the personal care business has actually been quite strong for us for the last couple of quarters out there.

And actually, our toothpaste business is also very strong. We started a campaign this year with a great new product with Alison Sweeney from The Biggest Loser TV show. And actually I can show you statistics that we are the fastest-growing brand in the toothpaste category for the first six months of this year based on our results. Again, we are small. Percentagewise it's a number, but we are doing great. So, I am very happy with personal care and again I go back to what I said to Alice before, if it wasn't for some pricing issues in the laundry business which we have now fixed our organic growth would have been stronger in Q2. But now we've fixed that, so a good portfolio going into the back half of the year which makes us be so confident about delivering the numbers that, again, an EPS number that most guys aren't even near calling. But we feel confident doing it next in the year with momentum.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay. So we should see those sales numbers, as you report them, sequentially improve?

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

Especially in the laundry category, and the other categories should stay strong.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay. Fine. And I guess the last question and I'm not sure if you were listening to the P&G call before yours.

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

Who?

Jason Gere - *KeyBanc Capital Markets - Analyst*

Exactly. Well, it's interesting now because as they talk about focusing on the 70 or 80 core brands out there. Obviously, there is both an opportunity and a threat I guess to you guys -- a little bit more than before. The threat, obviously, there is a greater focus on the laundry as one of the brands within that portfolio. And then the opportunity is past you are looking at M&A here is like a new kind of source for maybe you to tap into. So I was just wondering if I could get your initial reaction or thoughts without making your blood boil.

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

I didn't hear their exact comments. I can just tell you, I have the highest respect for Procter & Gamble, and I do that because they to focus on driving their businesses through innovation. And I 100% agree with that. So I don't think P&G could be any more of a threat to us than they are today. They are already our biggest competitor in many categories, but I like the way they compete. And I applaud that and I want the competition to be the same way.

As far as opportunity, hey, we always look at stuff. We bought the Spinbrush brand from them when they had to divest it with the Gillette acquisition. It's a great brand for us and we always look at everything. So if there was something in their portfolio they were divesting that was of it interest, we would take a look. But again it has to be a strong brand. We have to believe it is something we can grow going forward and we would have to see.

Again, I don't know what they are talking about exactly. I don't worry about them focusing more of their core business. I don't think they have had a lack of focus on their core businesses. So, I don't worry about increased threat from them. They are always number one on my list when I think about who I need to worry about every day. I'm sure -- I might be 20 on there their list, but I think we are growing.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay. Thanks for the color.

Operator

Bill Schmitz, Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

What do you think the hangover is from all of this laundry activity because if you look at the Nielsen data, like the baseline sales are way down. So clearly people are just buying because it's cheap. So [if you use consumer services and stuff], you see this massive amount of pantry loathing as well. So I'm just wondering what you guys think about kind of what happens six months down the road when people have 47 years of laundry detergent in their pantry? (laughter)

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

That would be bad news if that happened, Bill. I haven't seen any evidence of the pantry loading. As I said before, I just saw the month of July results come in, and I was actually quite happy. The category is going back north again, toward the positive direction, so despite the increased price competition out there. So that was good to me. I hear the issue. We think about it. I haven't seen it yet and I hope the category sooner rather than later gets back to being driven by innovation. So, we'll see. Consumers are getting a great deal right now with laundry detergent. But we will see going forward.

I have not seen evidence of pantry loading. We watch our inventory situation versus consumption very carefully, and it is not showing any evidence of people loading up at this point.

Bill Schmitz - *Deutsche Bank - Analyst*

Good. Okay. And then has there been a change broadly across the industry to couponing? Because if I wanted to I could go on the Internet right now and get a free bottle of detergent. I can get free Tide. I mean I have never seen it like this -- just the pace of some of the coupon activity. I was always under the assumption that couponing is dead, and I know it's not great for brand equity over time. So how do you guys think about that and how long do you think is going to last?

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

Yes, I tend to agree with you, Bill. I mean couponing has been up for a couple of years now. It's been up -- we mentioned in laundry it just seemed to pick up, especially earlier this year from some of our competitors in those categories. I'm a big believer with you -- we have a philosophy, we largely like to use couponing just for trial of new products and then not after that. However, we have seen our competitors now start to subsidize price which to me -- and then you put that on top of hot trade deals, it's just ridiculous to us. But I can't control what they do.

So we are making sure we are competitive out there. I think some of them, someday they are going to study what's happening to them and they are going to realize they are over subsidizing consumers, and to your point, I think destroying brand equity when they start to get people thinking of only buying on deals. Again, I can only take care of Church & Dwight here. We are being prudent in what we do to drive our business. And the results in the last two months especially in laundry are very encouraging to us.

Bill Schmitz - *Deutsche Bank - Analyst*

Got you. And then just lastly, is there any update on the whole next wave of compaction thing that Walmart has mandated for 2018, I guess?

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

Bill, I'll just say it's on the table for discussion. And beyond that as far as timetables of what it is, I can't comment any more at this point in time.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay. All right. Thanks, guys.

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

Okay, everybody. You have exhausted us. It's been a great morning. Very happy with our call today. I appreciate the time. I know you've got a very busy day today between -- most of you probably were on the phone with Procter this morning; you've got us; and there's one other competitor following us here.

So, anyway, I'm thrilled with our second-quarter results. Very optimistic about the back half of the year and I just appreciate the time you took today. If you have any questions or follow-ups, please give us a call. We'll do our best to answer them. Otherwise, thank you very much. Bye-bye.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may now disconnect. Everyone, have a good day.
