

CHURCH & DWIGHT CO INC /DE/
Form 10-Q
May 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2016

Commission file number 1-10585

CHURCH & DWIGHT CO., INC.

(Exact name of registrant as specified in its charter)

Delaware 13-4996950
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

500 Charles Ewing Boulevard, Ewing, N.J. 08628

(Address of principal executive offices)

Registrant's telephone number, including area code: (609) 806-1200

Securities registered pursuant to Section 12(b) of the Act:

Name of each exchange

Title of each class on which registered
Common Stock, \$1 par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 3, 2016, there were 128,330,073 shares of Common Stock outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In millions, except per share data)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Net Sales	\$849.0	\$812.3
Cost of sales	470.0	456.8
Gross Profit	379.0	355.5
Marketing expenses	92.5	88.8
Selling, general and administrative expenses	107.0	94.6
Income from Operations	179.5	172.1
Equity in earnings of affiliates	1.7	2.3
Investment earnings	0.3	0.5
Other income (expense), net	(1.7)	(2.0)
Interest expense	(6.8)	(7.6)
Income before Income Taxes	173.0	165.3
Income taxes	60.0	58.1
Net Income	\$113.0	\$107.2
Weighted average shares outstanding - Basic	129.4	132.0
Weighted average shares outstanding - Diluted	131.8	134.6
Net income per share - Basic	\$0.87	\$0.81
Net income per share - Diluted	\$0.86	\$0.80
Cash dividends per share	\$0.355	\$0.335

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

Three Months
Ended
March 31, March 31,

	2016	2015
Net Income	\$113.0	\$107.2
Other comprehensive income, net of tax:		
Foreign exchange translation adjustments	9.9	(24.3)
Income (loss) from derivative agreements	(6.7)	2.9
Other comprehensive income (loss)	3.2	(21.4)
Comprehensive income	\$116.2	\$85.8

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share and per share data)

	March 31, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 194.3	\$ 330.0
Accounts receivable, less allowances of \$1.2 and \$1.0	277.0	276.2
Inventories	291.0	274.0
Other current assets	23.2	25.8
Total Current Assets	785.5	906.0
Property, Plant and Equipment, Net	601.1	609.6
Equity Investment in Affiliates	8.0	8.4
Trade Names and Other Intangibles, Net	1,375.8	1,269.5
Goodwill	1,407.1	1,354.9
Other Assets	114.8	108.5
Total Assets	\$ 4,292.3	\$ 4,256.9
Liabilities and Stockholders' Equity		
Current Liabilities		
Short-term borrowings	\$ 451.3	\$ 357.2
Accounts payable and accrued expenses	521.0	508.3
Income taxes payable	40.5	7.2
Total Current Liabilities	1,012.8	872.7
Long-term Debt	699.8	692.8
Deferred Income Taxes	491.4	484.8
Deferred and Other Long-term Liabilities	142.5	158.3
Pension, Postretirement and Postemployment Benefits	25.5	25.1
Total Liabilities	2,372.0	2,233.7
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, \$1.00 par value, Authorized 2,500,000 shares; none issued	0.0	0.0
Common Stock, \$1.00 par value, Authorized 300,000,000 shares; 146,427,550 shares issued	146.4	146.4
Additional paid-in capital	381.0	376.4
Retained earnings	2,716.9	2,650.0
Accumulated other comprehensive loss	(42.7)	(45.9)
Common stock in treasury, at cost: 18,258,130 shares in 2016 and 16,473,506 shares in 2015	(1,281.3)	(1,103.7)
Total Stockholders' Equity	1,920.3	2,023.2
Total Liabilities and Stockholders' Equity	\$ 4,292.3	\$ 4,256.9

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(In millions)

	Three Months Ended March 31, 2016	March 31, 2015
Cash Flow From Operating Activities		
Net Income	\$ 113.0	\$ 107.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	16.0	14.6
Amortization expense	11.9	11.4
Deferred income taxes	7.6	6.0
Equity in net earnings of affiliates	(1.7)	(2.3)
Distributions from unconsolidated affiliates	2.0	2.7
Non-cash compensation expense	5.8	1.7
Other	0.9	3.5
Change in assets and liabilities:		
Accounts receivable	5.2	(22.0)
Inventories	(8.7)	(15.2)
Other current assets	(1.7)	(1.3)
Accounts payable and accrued expenses	(5.5)	(2.5)
Income taxes payable	42.4	48.3
Excess tax benefit on stock options exercised	(7.9)	(8.0)
Other operating assets and liabilities, net	(1.5)	0.1
Net Cash Provided By Operating Activities	177.8	144.2
Cash Flow From Investing Activities		
Additions to property, plant and equipment	(8.5)	(21.9)
Acquisitions	(175.0)	(74.9)
Other	(0.6)	(1.1)

Net Cash Used In Investing Activities	(184.1)	(97.9)
Cash Flow From Financing Activities		
Short-term debt borrowings (repayments)	93.8	127.1
Proceeds from stock options exercised	13.3	11.3
Excess tax benefit on stock options exercised	7.9	8.0
Payment of cash dividends	(46.1)	(43.7)
Purchase of treasury stock	(200.0)	(256.2)
Other	(5.0)	(0.4)
Net Cash Used In Financing Activities	(136.1)	(153.9)
Effect of exchange rate changes on cash and cash equivalents	6.7	(15.7)
Net Change In Cash and Cash Equivalents	(135.7)	(123.3)
Cash and Cash Equivalents at Beginning of Period	330.0	423.0
Cash and Cash Equivalents at End of Period	\$ 194.3	\$ 299.7

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW-CONTINUED

(Unaudited)

(In millions)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Cash paid during the year for:		
Interest (net of amounts capitalized)	\$2.5	\$ 1.4
Income taxes	\$10.0	\$ 3.7
Supplemental disclosure of non-cash investing activities:		
Property, plant and equipment expenditures included in Accounts Payable	\$4.3	\$ 5.3

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2016 and 2015

(Unaudited)

(In millions)

	Number of Shares		Amounts			Accumulated		
			Additional			Other		Total
	Common	Treasury	Common	Paid-In	Retained	Comprehensive	Treasury	Stockholders'
	Stock	Stock	Stock	Capital	Earnings	Income	Stock	Equity
						(Loss)		
December 31, 2014	146.4	(13.1)	\$ 146.4	\$ 364.8	\$ 2,414.9	\$ (34.7)	\$ (789.5)	\$ 2,101.9
Net income	0.0	0.0	0.0	0.0	107.2	0.0	0.0	107.2
Other comprehensive								
income (loss)	0.0	0.0	0.0	0.0	0.0	(21.4)	0.0	(21.4)
Cash dividends	0.0	0.0	0.0	0.0	(43.7)	0.0	0.0	(43.7)
Stock purchases	0.0	(3.1)	0.0	0.0	0.0	0.0	(256.2)	(256.2)
Stock based compensation								
expense and								
stock option plan								
transactions, including								
related income tax benefits								
of \$8.0	0.0	0.4	0.0	0.8	0.0	0.0	20.1	20.9
March 31, 2015	146.4	(15.8)	\$ 146.4	\$ 365.6	\$ 2,478.4	\$ (56.1)	\$ (1,025.6)	\$ 1,908.7
December 31, 2015	146.4	(16.4)	\$ 146.4	\$ 376.4	\$ 2,650.0	\$ (45.9)	\$ (1,103.7)	\$ 2,023.2
Net income	0.0	0.0	0.0	0.0	113.0	0.0	0.0	113.0
Other comprehensive								
income (loss)	0.0	0.0	0.0	0.0	0.0	3.2	0.0	3.2
Cash dividends	0.0	0.0	0.0	0.0	(46.1)	0.0	0.0	(46.1)
Stock purchases	0.0	(2.2)	0.0	0.0	0.0	0.0	(200.0)	(200.0)
Stock based compensation	0.0	0.3	0.0	4.6	0.0	0.0	22.4	27.0
expense and								
stock option plan								
transactions, including								

related income tax benefits of \$7.9									
March 31, 2016	146.4	(18.3)	\$ 146.4	\$ 381.0	\$ 2,716.9	\$ (42.7)	\$ (1,281.3)	\$ 1,920.3	

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In millions, except per share data)

1. Basis of Presentation

The condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015, the condensed consolidated statements of income and comprehensive income, cash flow and stockholders' equity for the three months ended March 31, 2016 and March 31, 2015 have been prepared by Church & Dwight Co., Inc. (the "Company"). In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at March 31, 2016 and results of operations and cash flows for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in the United States have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "Form 10-K"). The results of operations for the period ended March 31, 2016 are not necessarily indicative of the operating results for the full year.

The Company incurred research and development expenses in the first quarter of 2016 and 2015 of \$14.4 and \$13.8, respectively. These expenses are included in selling, general and administrative expenses.

2. New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued new lease accounting guidance, requiring lessees to recognize right-of-use lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases, with a term greater than a year. The new guidance also expands the required quantitative and qualitative disclosures surrounding leases. The guidance is effective for annual and interim periods beginning after December 15, 2018, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact that adoption of the guidance will have on its consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued new accounting guidance that makes several modifications to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. The new guidance also clarifies the statement of cash flows presentation for certain components of share-based awards. The guidance is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact that adoption of the guidance will have on its consolidated financial position, results of operations and cash flows.

In March and in April 2016, the FASB issued amended guidance that clarifies the principles for recognizing revenue. The amendments clarify the guidance for identifying performance obligations, licensing arrangements and principal versus agent considerations. The guidance is effective for annual and interim periods beginning after

December 15, 2017, and allows companies to apply the requirements retrospectively, either to all prior periods presented or through a cumulative adjustment in the year of adoption. Early adoption is allowed for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact, if any, that adoption of the guidance will have on its consolidated financial position, results of operations or cash flows.

There have been no other accounting pronouncements issued but not yet adopted by the Company which are expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

3. Inventories

Inventories consist of the following:

	March 31, 2016	December 31, 2015
Raw materials and supplies	\$79.8	\$ 84.6
Work in process	31.4	33.1
Finished goods	179.8	156.3
Total	\$291.0	\$ 274.0

4. Property, Plant and Equipment, Net (“PP&E”)

PP&E consists of the following:

	March 31, 2016	December 31, 2015
Land	\$25.2	\$ 25.2
Buildings and improvements	279.1	277.3
Machinery and equipment	671.4	665.2
Software	85.1	84.9
Office equipment and other assets	59.7	59.2
Construction in progress	32.8	33.2
Gross PP&E	1,153.3	1,145.0
Less accumulated depreciation and amortization	552.2	535.4
Net PP&E	\$601.1	\$ 609.6

	Three Months Ended March 31, 2016	March 31, 2015
Depreciation and amortization on PP&E	\$ 16.0	\$ 14.6

5. Earnings Per Share (“EPS”)

Basic EPS is calculated based on income available to holders of the Company’s common stock (“Common Stock”) and the weighted average number of shares outstanding during the reported period. Diluted EPS includes additional dilution from potential Common Stock issuable pursuant to the exercise of outstanding stock options.

The following table sets forth a reconciliation of the weighted average number of shares of Common Stock outstanding to the weighted average number of shares outstanding on a diluted basis:

	Three Months Ended March 31, 2016	March 31, 2015
Weighted average common shares outstanding - basic	129.4	132.0

Dilutive effect of stock options	2.4	2.6
Weighted average common shares outstanding - diluted	131.8	134.6
Antidilutive stock options outstanding	0.8	0.0

6. Stock Based Compensation Plans

The following table provides a summary of option activity during the three months ended March 31, 2016:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2015	8.6	\$ 51.77		
Granted	0.4	83.53		
Exercised	(0.4)	31.22		
Cancelled	(0.1)	70.79		
Outstanding at March 31, 2016	8.5	\$ 54.08	5.9	\$ 323.1
Exercisable at March 31, 2016	4.4	\$ 37.64	4.1	\$ 239.8

The following table provides information regarding the intrinsic value of stock options exercised and stock compensation expense related to stock option awards.

	Three Months Ended	
	March 31, 2016	March 31, 2015
Intrinsic Value of Stock Options Exercised	\$24.2	\$23.8
Stock Compensation Expense Related to Stock Option Awards	\$5.5	\$1.7

7. Share Repurchases

On January 28, 2015, the Board authorized a new share repurchase program, under which the Company may repurchase up to \$500 million in shares of Common Stock (the “2015 Share Repurchase Program”). The 2015 Share Repurchase Program replaced the 2014 Share Repurchase Program. The Company also continued its evergreen share repurchase program, authorized by the Board on January 29, 2014, under which the Company may repurchase, from time to time, Common Stock to reduce or eliminate dilution associated with issuances of Common Stock under the Company’s incentive plans.

In connection with the Company’s 2015 Share Repurchase Program and its evergreen repurchase program, the Company repurchased approximately 2.2 million shares in the first quarter of 2016 at a cost of \$200.0, of which approximately \$103.0 was purchased under the evergreen share repurchase program and approximately \$97.0 was purchased under the 2015 Share Repurchase Program.

8. Fair Value Measurements

Fair Value Hierarchy

Accounting guidance on fair value measurements and disclosures establishes a hierarchy that prioritizes the inputs used to measure fair value (generally, assumptions that market participants would use in pricing an asset or liability) based on the quality and reliability of the information provided by the inputs, as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Fair Values of Other Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company’s other financial instruments at March 31, 2016 and December 31, 2015:

		March 31, 2016		December 31, 2015	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:					
Cash equivalents	Level 1	\$ 103.7	\$ 103.7	\$ 89.3	\$ 89.3
Financial Liabilities:					
Short-term borrowings	Level 2	451.3	451.3	357.2	357.2
2.875% Senior notes due October 1, 2022	Level 2	399.8	404.3	399.7	390.5
2.45% Senior notes due December 15, 2019	Level 2	299.9	302.6	299.9	296.0
Fair value adjustment asset (liability) related to hedged fixed rate debt instrument	Level 2	7.8	7.8	1.3	1.3

The Company recognizes transfers between input levels as of the actual date of the event. There were no transfers between input levels during the three months ended March 31, 2016.

Refer to Note 2 in the Form 10-K for a description of the methods and assumptions used to estimate the fair value of each class of financial instruments reflected in the condensed Consolidated Balance Sheets.

The carrying amounts of accounts receivable, and accounts payable and accrued expenses, approximated estimated fair values as of March 31, 2016 and December 31, 2015.

9. Derivative Instruments and Risk Management

Changes in interest rates, foreign exchange rates, the price of Common Stock and commodity prices expose the Company to market risk. The Company manages these risks through the use of derivative instruments, such as cash flow and fair value hedges, diesel hedge contracts, equity derivatives and foreign exchange forward contracts. The Company does not use derivatives for trading or speculative purposes. Refer to Note 3 in the Form 10-K for a discussion of each of the Company's derivative instruments.

The notional amount of a derivative instrument is the nominal or face amount used to calculate payments made on that instrument. Notional amounts are presented in the following table:

	Notional Amount March 31, 2016	Notional Amount December 31, 2015
Derivatives designated as hedging instruments		
Foreign exchange contracts	\$ 128.7	\$ 118.0
Interest rate swap	\$ 300.0	\$ 300.0
	1.5	2.0
Diesel fuel contracts	gallons	gallons
Derivatives not designated as hedging instruments		
Foreign exchange contracts	\$ 25.1	\$ 33.2
Equity derivatives	\$ 32.6	\$ 32.4

The fair values and amount of gain (loss) recognized in income and other comprehensive income associated with the derivative instruments disclosed above did not have a material impact on the Company's condensed consolidated financial statements.

10. Acquisition

On January 4, 2016, the Company acquired Spencer Forrest, Inc., the maker of TOPPIK, (the "Toppik Acquisition"), the leading brand of hair building fibers for people with thinning hair. The total purchase price was approximately \$175.0, which is subject to adjustment based on the closing working capital. The Company financed the acquisition with commercial paper. Toppik's annual sales are approximately \$30.0. This brand will be managed within the Consumer Domestic and Consumer International segments.

The preliminary fair values of net assets acquired are set forth below:

	Acquisition Date Preliminary Fair Value
Toppik Acquisition	
Inventory and other working capital assets	\$ 9.5
Property, plant and equipment and other long-term assets	0.2
Trade names and other intangibles	115.8
Goodwill	52.2
Current liabilities	(2.7)
Cash purchase price as of March 31, 2016 (net of cash acquired)	\$ 175.0

The life of the amortizable intangible assets recognized from the Toppik Acquisition ranges from 10 - 20 years. The goodwill is a result of expected synergies from combined operations of the acquisition and the Company. Pro forma results are not presented because the impact is not material to the Company's consolidated financial results.