

CHURCH & DWIGHT CO INC /DE/  
Form 10-Q  
August 03, 2017

\

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 June 30, 2017

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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 1, 2017, there were 249,509,049 shares of Common Stock outstanding.

TABLE OF CONTENTS

PART I

Item		Page
1.	<u>Financial Statements</u>	3
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	27
4.	<u>Controls and Procedures</u>	27

PART II

1.	<u>Legal Proceedings</u>	28
1A.	<u>Risk Factors</u>	28
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
6.	<u>Exhibits</u>	30

## PART I – FINANCIAL INFORMATION

## ITEM 1: FINANCIAL STATEMENTS

## CHURCH &amp; DWIGHT CO., INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In millions, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net Sales	\$898.0	\$877.4	\$1,775.2	\$1,726.4
Cost of sales	487.6	469.4	965.5	939.4
Gross Profit	410.4	408.0	809.7	787.0
Marketing expenses	130.9	120.2	221.7	212.7
Selling, general and administrative expenses	156.3	112.5	268.7	219.5
Income from Operations	123.2	175.3	319.3	354.8
Equity in earnings of affiliates	3.1	2.5	5.2	4.2
Investment earnings	0.3	0.4	0.7	0.7
Other income (expense), net	(0.5 )	(0.1 )	(0.7 )	(1.8 )
Interest expense	(9.3 )	(7.1 )	(17.5 )	(13.9 )
Income before Income Taxes	116.8	171.0	307.0	344.0
Income taxes	43.9	59.4	102.6	119.4
Net Income	\$72.9	\$111.6	\$204.4	\$224.6
Weighted average shares outstanding - Basic	249.8	257.0	252.0	258.0
Weighted average shares outstanding - Diluted	255.6	261.9	257.7	262.8
Net income per share - Basic	\$0.29	\$0.43	\$0.81	\$0.87
Net income per share - Diluted	\$0.29	\$0.43	\$0.79	\$0.85
Cash dividends per share	\$0.19	\$0.18	\$0.38	\$0.355

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-Q

	2017	2016	2017	2016
Net Income	\$72.9	\$111.6	\$204.4	\$224.6
Other comprehensive income, net of tax:				
Foreign exchange translation adjustments	6.7	(6.5 )	14.6	3.4
Defined benefit plan adjustments gain (loss)	11.9	0.0	11.9	0.0
Income (loss) from derivative agreements	(3.4 )	(0.8 )	(4.0 )	(7.5 )
Other comprehensive income (loss)	15.2	(7.3 )	22.5	(4.1 )
Comprehensive income	\$88.1	\$104.3	\$226.9	\$220.5

See Notes to Condensed Consolidated Financial Statements (Unaudited).

## CHURCH &amp; DWIGHT CO., INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share and per share data)

	June 30, 2017	December 31, 2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$237.6	\$187.8
Accounts receivable, less allowances of \$1.9 and \$2.1	303.8	287.0
Inventories	292.3	258.2
Other current assets	43.5	23.8
<b>Total Current Assets</b>	<b>877.2</b>	<b>756.8</b>
Property, Plant and Equipment, Net	573.2	588.6
Equity Investment in Affiliates	9.5	8.5
Trade Names and Other Intangibles, Net	1,561.8	1,431.8
Goodwill	1,534.7	1,444.1
Other Assets	110.6	124.3
<b>Total Assets</b>	<b>\$4,667.0</b>	<b>\$4,354.1</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Short-term borrowings	\$629.3	\$426.8
Accounts payable and accrued expenses	581.6	568.9
Income taxes payable	0.8	6.2
<b>Total Current Liabilities</b>	<b>1,211.7</b>	<b>1,001.9</b>
Long-term Debt	894.1	693.4
Deferred Income Taxes	524.7	512.2
Deferred and Other Long-term Liabilities	188.2	168.7
<b>Total Liabilities</b>	<b>2,818.7</b>	<b>2,376.2</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred Stock, \$1.00 par value, Authorized 2,500,000 shares; none issued	0.0	0.0
Common Stock, \$1.00 par value, Authorized 600,000,000 shares and 292,855,100 shares issued		
as of June 30, 2017	292.8	292.8
Additional paid-in capital	258.1	251.4
Retained earnings	3,034.7	2,926.0
Accumulated other comprehensive loss	(41.3 )	(63.8 )
Common stock in treasury, at cost: 43,571,217 shares in 2017 and 38,892,165 shares in 2016	(1,696.0)	(1,428.5)

Total Stockholders' Equity	1,848.3	1,977.9
Total Liabilities and Stockholders' Equity	\$4,667.0	\$4,354.1

See Notes to Condensed Consolidated Financial Statements (Unaudited).

## CHURCH &amp; DWIGHT CO., INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(In millions)

	Six Months Ended June 30, 2017	June 30, 2016
Cash Flow From Operating Activities		
Net Income	\$ 204.4	\$ 224.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	29.7	30.7
Amortization expense	29.5	23.7
Deferred income taxes	11.3	14.2
Equity in net earnings of affiliates	(5.2 )	(4.2 )
Distributions from unconsolidated affiliates	4.3	3.4
Non-cash compensation expense	12.3	12.3
Non-cash pension settlement charge	31.7	0.0
Other	(0.4 )	1.2
Change in assets and liabilities:		
Accounts receivable	(6.8 )	0.3
Inventories	(30.1 )	(9.3 )
Other current assets	(10.4 )	(1.9 )
Accounts payable and accrued expenses	(14.2 )	20.1
Income taxes payable	(10.7 )	0.2
Excess tax benefit on stock options exercised	0.0	(18.2 )
Other operating assets and liabilities, net	3.9	(0.6 )
Net Cash Provided By Operating Activities	249.3	296.5
Cash Flow From Investing Activities		
Additions to property, plant and equipment	(10.4 )	(17.8 )



Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-Q

Acquisitions	(235.3 )	(175.5 )
Other	3.4	(0.3 )
Net Cash Used In Investing Activities	(242.3 )	(193.6 )
Cash Flow From Financing Activities		
Long-term debt borrowings	200.0	0.0
Short-term debt borrowings (repayments)	202.6	23.8
Proceeds from stock options exercised	27.3	29.4
Excess tax benefit on stock options exercised	0.0	18.2
Payment of cash dividends	(95.7 )	(91.7 )
Purchase of treasury stock	(300.0 )	(200.0 )
Other	(1.0 )	(5.3 )
Net Cash Provided By (Used In) Financing Activities	33.2	(225.6 )
Effect of exchange rate changes on cash and cash equivalents	9.6	3.5
Net Change In Cash and Cash Equivalents	49.8	(119.2 )
Cash and Cash Equivalents at Beginning of Period	187.8	330.0
Cash and Cash Equivalents at End of Period	\$ 237.6	\$ 210.8

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW-CONTINUED

(Unaudited)

(In millions)

	Six Months Ended	
	June 30, 2017	June 30, 2016
Cash paid during the year for:		
Interest (net of amounts capitalized)	\$ 16.8	\$ 13.0
Income taxes	\$ 102.0	\$ 104.8
Supplemental disclosure of non-cash investing activities:		
Property, plant and equipment expenditures included in Accounts Payable	\$ 5.3	\$ 4.5

See Notes to Condensed Consolidated Financial Statements (Unaudited).

## CHURCH &amp; DWIGHT CO., INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2017 and 2016

(Unaudited)

(In millions)

	Number of Shares		Amounts			Accumulated			Total Stockholders' Equity
	Common Stock	Treasury Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock		
December 31, 2015	292.8	(32.8 )	\$292.8	\$ 230.0	\$2,650.0	\$ (45.9 )	\$(1,103.7)	\$ 2,023.2	
Net income	0.0	0.0	0.0	0.0	224.6	0.0	0.0	224.6	
Other comprehensive									
income (loss)	0.0	0.0	0.0	0.0	0.0	(4.1 )	0.0	(4.1 )	
Cash dividends	0.0	0.0	0.0	0.0	(91.7 )	0.0	0.0	(91.7 )	
Stock purchases	0.0	(4.4 )	0.0	0.0	0.0	0.0	(200.0 )	(200.0 )	
Stock based compensation expense and  stock option plan transactions, including  related income tax benefits of \$18.2	0.0	1.6	0.0	13.4	0.0	0.0	46.5	59.9	
June 30, 2016	292.8	(35.6 )	\$292.8	\$ 243.4	\$2,782.9	\$ (50.0 )	\$(1,257.2)	\$ 2,011.9	
December 31, 2016	292.8	(38.9 )	\$292.8	\$ 251.4	\$2,926.0	\$ (63.8 )	\$(1,428.5)	\$ 1,977.9	
Net income	0.0	0.0	0.0	0.0	204.4	0.0	0.0	204.4	
Other comprehensive									
income (loss)	0.0	0.0	0.0	0.0	0.0	22.5	0.0	22.5	
Cash dividends	0.0	0.0	0.0	0.0	(95.7 )	0.0	0.0	(95.7 )	
Stock purchases	0.0	(6.0 )	0.0	0.0	0.0	0.0	(300.0 )	(300.0 )	
Stock based compensation expense and  stock option plan transactions	0.0	1.3	0.0	6.7	0.0	0.0	32.5	39.2	

June 30, 2017                      292.8   (43.6 ) \$292.8   \$ 258.1   \$3,034.7   \$ (41.3   ) \$(1,696.0) \$ 1,848.3

See Notes to Condensed Consolidated Financial Statements (Unaudited).

7

---

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 June 30, 2017 and December 31, 2016, the condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2017 and June 30, 2016, and the condensed consolidated statements of cash flow and stockholders' equity for the six months ended June 30, 2017 and June 30, 2016 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 June 30, 2017 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, 2016 (the "Form 10-K"). The results of operations for the period ended June 30, 2017 are not necessarily indicative of the operating results for the full year.

On August 4, 2016, the Company announced a two-for-one stock split of the Company's common stock ("Common Stock"). The stock split was structured in the form of a 100% stock dividend, payable on September 1, 2016 to stockholders of record as of August 15, 2016. All applicable amounts in the condensed consolidated financial statements and related disclosures have been retroactively adjusted to reflect the stock split. On May 8, 2017, the Company amended its Restated Certificate of Incorporation to increase its authorized shares of common stock to 600,000,000 from 300,000,000 at December 31, 2016.

In March 2016, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that makes modifications to how companies account for certain aspects of share-based payment awards to employees, including accounting for income taxes, forfeitures, and statutory withholding requirements, as well as the classification of excess tax benefits in the statement of cash flows. The Company prospectively adopted the standard in the first quarter of 2017. The adoption resulted in excess tax benefits of \$11.1 or \$0.04 per share recorded in the provision for income taxes rather than in the Company's Stockholders' Equity Section of the Balance Sheet and an increase to both net cash provided by operating activities and net cash used in financing activities of \$11.1 million for the six months ended June 30, 2017. The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of diluted earnings per share, which did not have a material impact on our diluted earnings per share for the three and six months ended June 30, 2017. The Company has also elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

The Company incurred research and development expenses in the second quarter of 2017 and 2016 of \$16.0 and \$16.1, respectively. The Company incurred research and development expenses in the first six months of 2017 and 2016 of \$30.1 and \$30.5, respectively. These expenses are included in selling, general and administrative expenses.

## 2. New Accounting Pronouncements

In March 2017, the FASB issued new accounting guidance that requires employers to report the service cost component separate from the other components of net benefit pension and postretirement costs. The employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations. Only the service cost component is eligible for capitalization. The guidance is effective for annual and interim periods beginning after December 15, 2017, and requires retrospective adoption, with early adoption permitted. The guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In March, April, and May of 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 amendments additionally provide clarification on how to assess collectability, present sales tax, treat noncash consideration, and account for completed and modified contracts at the time of transition. The guidance is effective for annual periods, including interim reporting periods within those 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. The

new standard will be effective for the Company at the beginning of its first quarter of fiscal year 2018. The guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2016, 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 the Company's consolidated financial position, results of operations and 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:

	June 30, 2017	December 31, 2016
Raw materials and supplies	\$74.9	\$ 69.8
Work in process	32.9	28.8
Finished goods	184.5	159.6
Total	\$292.3	\$ 258.2

### 4. Property, Plant and Equipment, Net ("PP&E")

PP&E consists of the following:

	June 30, 2017	December 31, 2016
Land	\$25.1	\$ 25.1
Buildings and improvements	290.1	284.7
Machinery and equipment	693.0	680.1
Software	91.0	90.4
Office equipment and other assets	63.3	60.8
Construction in progress	18.2	24.2
Gross PP&E	1,180.7	1,165.3
Less accumulated depreciation and amortization	607.5	576.7
Net PP&E	\$573.2	\$ 588.6

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Depreciation and amortization on PP&E	\$ 14.9	\$ 14.7	\$ 29.7	\$ 30.7



### 5. Earnings Per Share (“EPS”)

Basic EPS is calculated based on income available to holders of 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		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Weighted average common shares outstanding - basic	249.8	257.0	252.0	258.0
Dilutive effect of stock options	5.8	4.9	5.7	4.8
Weighted average common shares outstanding - diluted	255.6	261.9	257.7	262.8
Antidilutive stock options outstanding	2.5	1.3	3.1	2.1

### 6. Stock Based Compensation Plans

The following table provides a summary of option activity:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2016	16.0	\$ 30.06		
Granted	1.8	53.57		
Exercised	(1.3 )	21.64		
Cancelled	(0.1 )	42.59		
Outstanding at June 30, 2017	16.4	\$ 33.17	6.1	\$ 310.2
Exercisable at June 30, 2017	10.5	\$ 25.35	4.6	\$ 278.1

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		Six Months Ended	
June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-Q

Intrinsic Value of Stock Options Exercised	\$7.5	\$31.1	\$34.7	\$55.3
Stock Compensation Expense Related to Stock Option Awards	\$9.0	\$5.7	\$10.7	\$11.2
Issued Stock Options	1.8	1.3	1.8	2.0
Weighted Average Fair Value of Stock Options issued (per share)	\$9.70	\$8.06	\$9.67	\$7.58
Fair Value of Stock Options Issued	\$17.1	\$10.2	\$17.5	\$15.2

The following table provides a summary of the assumptions used in the valuation of issued stock options:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Risk-free interest rate	2.1 %	1.5 %	2.1 %	1.7 %
Expected life in years	7.2	7.0	7.2	6.8
Expected volatility	16.9%	17.1%	16.9%	17.0%
Dividend yield	1.4 %	1.4 %	1.4 %	1.5 %

#### 7. Share Repurchases

On November 2, 2016, the Board authorized a new share repurchase program, under which the Company may repurchase up to \$500.0 million in shares of Common Stock (the “2016 Share Repurchase Program”). The 2016 Share Repurchase Program does not have an expiration and replaced the 2015 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 the six months ended June 30, 2017, the Company purchased approximately 6.0 million shares of Common Stock for \$300.0, of which approximately \$125.0 was purchased under the evergreen share repurchase program and \$175.0 was purchased under the 2016 Share Repurchase Program. As a result of the Company’s purchases, there remained \$125.0 of share repurchase availability under the 2016 Share Repurchase Program as of June 30, 2017.

#### 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 June 30, 2017 and December 31, 2016:

&nbs