CHURCH & DWIGHT CO INC /DE/
Form 10-Q
August 02, 2018

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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, 2018

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 incorporation or organization)	(I.R.S. Employer 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:

Title of each class	Name of each exchange 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, a smaller reporting company, or an emerging growth 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 July 31, 2018, there were 245,407,957 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		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net Sales	$1,027.9	$898.0	$2,033.9	$1,775.2
Cost of sales	573.0	487.6	1,127.5	965.5
Gross Profit	454.9	410.4	906.4	809.7
Marketing expenses	136.4	130.9	236.3	221.7
Selling, general and administrative expenses	144.7	156.3	276.0	268.7
Income from Operations	173.8	123.2	394.1	319.3
Equity in earnings of affiliates	2.4	3.1	4.5	5.2
Investment earnings	0.1	0.3	0.6	0.7
Other income (expense), net	(0.7)	(0.5)	(2.8)	(0.7)
Interest expense	(20.2)	(9.3)	(40.3)	(17.5)
Income before Income Taxes	155.4	116.8	356.1	307.0
Income taxes	33.7	43.9	76.6	102.6
Net Income	$121.7	$72.9	$279.5	$204.4
Weighted average shares outstanding - Basic	244.8	249.8	244.9	252.0
Weighted average shares outstanding - Diluted	249.3	255.6	249.7	257.7
Net income per share - Basic	$0.50	$0.29	$1.14	$0.81
Net income per share - Diluted	$0.49	$0.29	$1.12	$0.79
Cash dividends per share	$0.22	$0.19	$0.43	$0.38

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

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

	2018	2017	2018	2017
Net Income	$121.7	$72.9	$279.5	$204.4
Other comprehensive income, net of tax:				
Foreign exchange translation adjustments	(9.9)	6.7	(6.4)	14.6
Defined benefit plan adjustments gain (loss)	0.0	11.9	0.0	11.9
Income (loss) from derivative agreements	(5.7)	(3.4)	(5.9)	(4.0)
Other comprehensive income (loss)	(15.6)	15.2	(12.3)	22.5
Comprehensive income	$106.1	$88.1	$267.2	$226.9

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)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$89.3	$278.9
Accounts receivable, less allowances of $2.7 and $2.9	348.6	345.9
Inventories	369.2	330.7
Other current assets	63.3	44.7
Total Current Assets	870.4	1,000.2
Property, Plant and Equipment, Net	593.1	607.7
Equity Investment in Affiliates	9.4	9.3
Trade Names and Other Intangibles, Net	2,311.9	2,320.5
Goodwill	1,992.9	1,958.9
Other Assets	121.7	118.2
Total Assets	$5,899.4	$6,014.8
Liabilities and Stockholders' Equity		
Current Liabilities		
Short-term borrowings	$110.8	$270.9
Current portion of long-term debt	299.5	0.0
Accounts payable and accrued expenses	681.8	659.1
Income taxes payable	8.7	5.0
Total Current Liabilities	1,100.8	935.0
Long-term Debt	1,802.6	2,103.4
Deferred Income Taxes	567.2	561.2
Deferred and Other Long-term Liabilities	207.7	197.2
Total Liabilities	3,678.3	3,796.8
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 600,000,000 shares and 292,855,100 shares issued		
as of June 30, 2018	292.8	292.8
Additional paid-in capital	271.8	264.6
Retained earnings	3,650.6	3,479.0
Accumulated other comprehensive loss	(49.3)	(36.4)

Common stock in treasury, at cost: 47,815,947 shares in 2018 and 45,225,202 shares in 2017	(1,944.8)	(1,782.0)
Total Stockholders' Equity	2,221.1	2,218.0
Total Liabilities and Stockholders' Equity	$5,899.4	$6,014.8

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(In millions)

	Six Months Ended June 30, 2018	June 30, 2017
Cash Flow From Operating Activities		
Net Income	$ 279.5	$ 204.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	31.4	29.7
Amortization expense	38.5	29.5
Deferred income taxes	1.2	11.3
Equity in net earnings of affiliates	(4.5)	(5.2)
Distributions from unconsolidated affiliates	4.4	4.3
Non-cash compensation expense	15.9	12.3
Non-cash pension settlement charge	0.0	31.7
Other	(1.3)	(0.4)
Change in assets and liabilities:		
Accounts receivable	(4.8)	(6.8)
Inventories	(39.1)	(30.1)
Other current assets	(5.5)	(10.4)
Accounts payable and accrued expenses	13.9	(14.2)
Income taxes payable	(8.1)	(10.7)
Other operating assets and liabilities, net	1.2	3.9
Net Cash Provided By Operating Activities	322.7	249.3
Cash Flow From Investing Activities		
Additions to property, plant and equipment	(19.6)	(10.4)
Acquisitions	(49.8)	(235.3)
Other	(1.8)	3.4

Net Cash Used In Investing Activities		(71.2	)		(242.3	)
Cash Flow From Financing Activities						
Long-term debt borrowings		0.0			200.0	
Short-term debt (repayments) borrowings		(159.8	)		202.6	
Proceeds from stock options exercised		28.9			27.3	
Payment of cash dividends		(106.2	)		(95.7	)
Purchase of treasury stock		(200.0	)		(300.0	)
Deferred financing and other		(2.4	)		(1.0	)
Net Cash (Used In) Provided By Financing Activities		(439.5	)		33.2	
Effect of exchange rate changes on cash and cash equivalents		(1.6	)		9.6	
Net Change In Cash and Cash Equivalents		(189.6	)		49.8	
Cash and Cash Equivalents at Beginning of Period		278.9			187.8	
Cash and Cash Equivalents at End of Period	$	89.3		$	237.6	

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, 2018	June 30, 2017
Cash paid during the period for:		
Interest (net of amounts capitalized)	$38.1	$16.8
Income taxes	$83.8	$102.0
Supplemental disclosure of non-cash investing activities:		
Property, plant and equipment expenditures included in Accounts Payable	$6.4	$5.3

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

(In millions)

	Number of Shares		Amounts					
	Common Stock	Treasury Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
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
December 31, 2017	292.8	(45.2)	$292.8	$ 264.6	$3,479.0	$ (36.4)	$(1,782.0)	$ 2,218.0
Adoption of new accounting pronouncements (Note 2)	0.0	0.0	0.0	0.0	(1.7)	(0.6)	0.0	(2.3)
Net income	0.0	0.0	0.0	0.0	279.5	0.0	0.0	279.5
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	0.0	(12.3)	0.0	(12.3)
Cash dividends	0.0	0.0	0.0	0.0	(106.2)	0.0	0.0	(106.2)
Stock purchases	0.0	(4.1)	0.0	0.0	0.0	0.0	(200.0)	(200.0)
Stock based compensation expense and	0.0	1.5	0.0	7.2	0.0	0.0	37.2	44.4

stock option plan transactions								
June 30, 2018	292.8	(47.8)	$292.8	$ 271.8	$3,650.6	$ (49.3)	$(1,944.8)	$ 2,221.1

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 June 30, 2018 and December 31, 2017, the condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2018 and June 30, 2017, and the condensed consolidated statements of cash flow and stockholders' equity for the six months ended June 30, 2018 and June 30, 2017 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, 2018 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, 2017 (the "Form 10-K"). The results of operations for the period ended June 30, 2018 are not necessarily indicative of the operating results for the full year.

The Company incurred research and development expenses in the second quarter of 2018 and 2017 of $21.8 and $16.0, respectively. The Company incurred research and development expenses in the first six months of 2018 and 2017 of $41.3 and $30.1, respectively. These expenses are included in selling, general and administrative expenses.

2. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2018, the FASB issued new accounting guidance which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Tax Act") and requires certain disclosures regarding stranded tax effects. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company adopted this change by adjusting certain December 31, 2017 stockholders' equity accounts (see below).

In 2016, the FASB issued 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 new standard was adopted by the Company using the modified retrospective approach in the first quarter of 2018. See Note 3 for the Company's revenue recognition accounting policy.

The effects of the recently adopted accounting pronouncements to the Company’s condensed consolidated balance sheet as of January 1, 2018 is as follows:

	Balance at December 31, 2017	New Revenue Standard Adjustment	New Tax Reform Adjustment	Balance at January 1, 2018
Accounts payable and accrued expenses	$ 659.1	$ 3.0	$ 0.0	$ 662.1
Income taxes payable	5.0	(0.7)	0.0	4.3
Retained earnings	3,479.0	(2.3)	0.6	3,477.3
Accumulated other comprehensive loss	(36.4)	0.0	(0.6)	(37.0)

The adoption had no impact on the Company’s results of operations or cash flow.

Recent Accounting Pronouncements Not Yet Adopted

In August 2017, the FASB issued new accounting guidance, which is intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. These amendments also make targeted improvements to simplify the application of the hedge accounting. The guidance is effective for annual and interim periods beginning after December 15, 2018, 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.

In February 2016 and July 2018, 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 allows companies to apply the requirements retrospectively, either to all prior periods presented or through a cumulative adjustment in the year of adoption, with early adoption permitted. The Company is currently evaluating the impact of adoption, which will consist primarily of a balance sheet gross up of the Company's operating leases to show equal and offsetting lease assets and lease liabilities.

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. Revenue Recognition

Revenue is recognized when control of a promised good is transferred to a customer in an amount that reflects the consideration that the Company expects to be entitled to in exchange for that good. This usually occurs when finished goods are delivered to the Company's customers or when finished goods are picked up by a customer or a customer's carrier.

Adoption of the new pronouncement as discussed in Note 2 did not have a significant impact on the Company's condensed consolidated financial statements. The adoption required the Company to recognize certain costs earlier, primarily due to the timing of coupon expense recognition, which was not material. Refer to the table above in Note 2 for a presentation of the impacts of adoption of the guidance on the Company's January 1, 2018 balance sheet.

Nature of Goods and Services

The Company primarily ships finished goods to its customers and operates in three segments: Consumer Domestic, Consumer International and Specialty Products Division ("SPD"). The segments are based on differences in the nature of products and organizational and ownership structures. The Consumer Domestic and Consumer International segments market a variety of personal care and household products and over-the-counter products, including but not limited to baking soda, cat litter, laundry detergent, condoms, stain removers, hair removal, gummy dietary supplements, dry shampoo, water flossers and showerheads. The SPD segment focuses on sales to businesses and participates in three product areas: Animal Productivity, Specialty Chemicals and Specialty Cleaners. The Company's products are distinct and separately identifiable on customer contracts or invoices, with each product sale representing a separate performance obligation.

The Company sells consumer products under a variety of brands through a broad distribution platform that includes supermarkets, mass merchandisers, wholesale clubs, drugstores, convenience stores, home stores, dollar, pet and other specialty stores and websites and other e-commerce channels, all of which sell our products to consumers. The Company sells its specialty products to industrial customers, livestock producers and through distributors.

Refer to Note 19 for disaggregated revenue information with respect to each of our segments.

When Performance Obligations are Satisfied

For performance obligations related to the shipping and invoicing of products, control transfers at the point in time upon which finished goods are delivered to the Company's customers or when finished goods are picked up by a customer or a customer's carrier. Once a product has been delivered or picked up by the customer, the customer is able to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The Company considers control to have transferred upon delivery or customer receipt because the Company has an enforceable right to payment at that time, the customer has legal title to the asset, the Company has transferred physical possession of the asset, and the customer has significant risk and rewards of ownership of the asset.

Variable Consideration

The Company conducts extensive promotional activities, primarily through the use of off-list discounts, slotting, coupons, cooperative advertising, periodic price reduction arrangements, and end-aisle and other in-store displays. The costs of such activities are netted against sales and are recorded when the related sale takes place. The reserves for sales returns and consumer and trade promotion liabilities are established based on the Company's best estimate of the amounts necessary to settle future and existing obligations for products sold as of the balance sheet date. The Company uses historical trend experience and coupon redemption inputs in arriving at coupon reserve requirements, and uses forecasted appropriations, customer and sales organization inputs, and historical trend analysis in determining the reserves for other promotional activities and sales returns.

Practical Expedients

The Company expenses incremental direct costs of obtaining a contract (broker commissions) when the related sale takes place. These costs are recorded in Selling, General and Administrative expenses in the accompanying condensed consolidated statements of income.

The Company accounts for shipping and handling costs as fulfillment activities and are therefore recognized upon shipment of the goods.

The Company has applied the portfolio approach to all open contracts as they have similar characteristics and can reasonably expect that the effects on the financial statements of applying this new guidance to the portfolio of contracts would not differ materially from applying this guidance to the individual contracts within the portfolio.

The Company excludes from its revenue any amounts collected from customers for sales (and similar) taxes.

4. Income Taxes

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Act. The Tax Act significantly changed the U.S. corporate income tax regime by, among other things, lowering U.S. corporate income tax rates to 21%. However, the Tax Act eliminated the domestic manufacturing deduction and moves toward a territorial system, which also eliminated the ability to credit certain foreign taxes that existed prior to enactment of the Tax Act. As part of the transition to the new territorial tax system, the Tax Act imposed a one-time repatriation tax on a deemed repatriation of historical earnings of foreign subsidiaries. In the first six months of 2018, the Company repatriated approximately $150.0 of its non-U.S. earnings and paid the associated withholding tax. In addition, the reduction of the U.S. corporate tax rate caused the Company to adjust its U.S. deferred tax assets and liabilities to the lower federal base rate of 21%. These provisional impacts resulted in a reduction of tax expense of approximately $273.0 for the quarter and year ended December 31, 2017. This was primarily due to the adjustment to the U.S. deferred tax assets and liabilities.

The changes included in the Tax Act are broad and complex. While the provisional amount was not adjusted in the first six months of 2018, the final provisional impacts of the Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate the provisional impacts. The U.S. Securities and Exchange Commission has issued guidance that allows for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. The Company currently anticipates finalizing and recording any resulting adjustments by the end of the measurement period.

5. Inventories

Inventories consist of the following:

	June 30, 2018	December 31, 2017
Raw materials and supplies	$87.5	$ 85.6
Work in process	32.1	30.8
Finished goods	249.6	214.3
Total	$369.2	$ 330.7

On April 1, 2018, the Company changed its method of accounting for inventories from last-in-first-out (“LIFO”) to first-in-first-out (“FIFO”) for the approximately 17% of consolidated inventory not previously valued using FIFO. Substantially all of the Company’s Specialty Products Division segment inventory as well as domestic inventory sold primarily under the ARM & HAMMER trademark in the Consumer Domestic segment was previously determined using LIFO. After this change, all the Company’s inventory will be determined by the FIFO method. The Company believes this change is preferable as the predominant method to value inventory has been FIFO, which will provide a uniform costing method across all inventory. Prior financial statements have not been retroactively adjusted due to immateriality. The cumulative effect of the change in accounting principle of approximately $4.0 pre-tax was recorded as a decrease to cost of goods sold for the quarter ending June 30, 2018.

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

PP&E consists of the following:

	June 30, 2018	December 31, 2017
Land	$ 27.8	$ 27.9
Buildings and improvements	301.8	300.3
Machinery and equipment	709.0	699.3
Software	95.9	95.8
Office equipment and other assets	69.7	66.7
Construction in progress	36.2	36.4
Gross PP&E	1,240.4	1,226.4
Less accumulated depreciation and amortization	647.3	618.7
Net PP&E	$ 593.1	$ 607.7

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Depreciation and amortization on PP&E	$ 15.0	$ 14.9	$ 31.4	$ 29.7

7. 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		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017

Weighted average common shares outstanding - basic	244.8	249.8	244.9	252.0
Dilutive effect of stock options	4.5	5.8	4.8	5.7
Weighted average common shares outstanding - diluted	249.3	255.6	249.7	257.7
Antidilutive stock options outstanding	5.0	2.5	5.0	3.1

8. Stock Based Compensation Plans

The following table provides a summary of option activity: