

Church & Dwight(CHD)

\$70.74 (As of 03/09/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

Church & Dwight's shares have outpaced the industry in the past three months. The company reported fourth-quarter 2019 results, wherein adjusted earnings came in line with the Zacks Consensus Estimate, while sales beat the same. The company is gaining from solid organic sales, international business strength and prudent efforts to expand portfolio. The top line benefited from consistent category growth and healthy market share gains in the fourth quarter. Continued rise in gross margin has also been an upside. However, rise in marketing and SG&A costs is likely to remain a headwind in 2020. This along with adverse currency impacts and stiff competition is a concern.

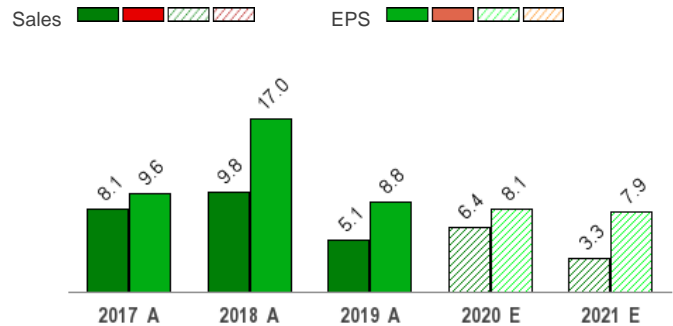
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.99 - \$65.60
20 Day Average Volume (sh)	1,710,712
Market Cap	\$17.4 B
YTD Price Change	0.6%
Beta	0.15
Dividend / Div Yld	\$0.96 / 1.4%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Top 18% (46 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	28.5
P/E F1	26.5
PEG F1	3.1
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,153 E	1,192 E	1,214 E	1,237 E	4,791 E
2020	1,114 E	1,150 E	1,169 E	1,201 E	4,637 E
2019	1,045 A	1,079 A	1,089 A	1,144 A	4,358 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.80 E	\$0.65 E	\$0.80 E	\$0.64 E	\$2.88 E
2020	\$0.74 E	\$0.61 E	\$0.73 E	\$0.60 E	\$2.67 E
2019	\$0.70 A	\$0.57 A	\$0.66 A	\$0.55 A	\$2.47 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

Overview

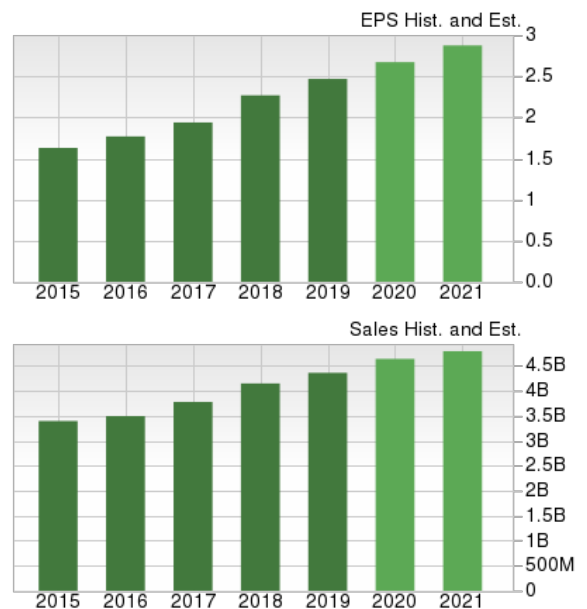
Founded in 1846 and based in Ewing, NJ , Church & Dwight Co., Inc. develops, manufactures and markets a broad range of household, personal care and specialty products. It is the leading U.S. producer of sodium bicarbonate, popularly known as baking soda, a natural product that cleans, deodorized, leavens and buffers.

The company operates in six countries (Canada, Mexico, U.K., France, Australia and Brazil) and exports to over 90 other countries. Approximately 16% of the company's net sales came from outside the U.S. in 2016.

The company has 11 key brands, including ARM & HAMMER, Trojan, OxiClean, Spinbrush, First Response, Nair, Orajel, Xtra, Water Pik, VMS and Batiste. The company's ARM & HAMMER brand is one of the nation's most trusted trademarks for a broad range of consumer and specialty products and its products are sold under ARM & HAMMER liquid and powder laundry detergent, ARM & HAMMER cat litter, ARM & HAMMER dental care and ARM & HAMMER baking soda. The remaining nine power brands were acquired by the company and added to its portfolio in 2001.

The company's business is divided into three primary segments, Consumer Domestic, Consumer International and Specialty Products.

- The **Consumer Domestic** segment (75.9% of 2019 sales) includes eight power brands, ARM & HAMMER, Trojan, First Response, Nair, Spinbrush, OxiClean, Orajel and XTRA and other household and personal care products.
- The **Consumer International** segment (17.4% of 2019 sales) sells a variety of household and personal care products in international markets, including Canada, Europe, Australia, Mexico and Brazil.
- The **Specialty Products** segment (6.9% of 2019 sales) is the largest U.S. producer of sodium bicarbonate, which it sells together with other specialty inorganic chemicals for a variety of industrial, institutional, medical and food applications. This segment also sells a range of animal nutrition and specialty cleaning products.



Reasons To Buy:

- ▲ **Encouraging View Boosts Stock:** Church & Dwight posted fourth-quarter 2019 results, wherein the top line rose 6.5% year over year to \$1,144.2 million. Also, it beat the Zacks Consensus Estimate of \$1,142 million. Results were backed by consistent category growth and market share gains. The company is on track with product launches and brand investments to bolster market share. It also announced launches under the household products and personal care portfolio.

Church & Dwight with a strong brand portfolio and constant innovation is well-positioned for growth. Moreover, the company's strategic buyouts are encouraging.

Encouragingly, management issued a positive outlook for the first quarter and 2020. In this regard, the company anticipates sales growth of 6.5% and adjusted earnings growth of 7-9% to \$2.64-\$2.69 per share for 2020. For the first quarter of 2020, management anticipates sales growth of approximately 6.5% on a reported basis and nearly 3% on an organic basis. Adjusted earnings are projected to be 73 cents per share, up from 70 cents reported in the year-ago quarter. This might have fueled investors sentiments. We note that shares of the company have gained 2% in the past three months compared with the industry's growth of 3.6%.

- ▲ **Impressive Organic Sales Trend:** Church & Dwight's have been witnessing organic sales growth for a while now. In the fourth quarter, organic sales grew 4.4%, coming ahead of the company's guidance of a 3% increase. The uptick was fueled by positive product mix and pricing to the tune of 2%. Prior to this, organic sales improved 3.6%, 4.9% and 4.5% in the third, second and first quarters, respectively. Moving forward, the company anticipates organic sales to rise nearly 3.5% in 2020. For the first quarter of 2020, management anticipates organic sales growth of nearly 3%.

- ▲ **Strong Consumer International Business:** The company's consumer international business has been consistently contributing to organic sales growth of the company. In fourth-quarter 2019, net sales in the segment rose 10.1% to \$196.6 million, backed by broad-based sales growth for household and personal care products along with gains from and Global Markets Group business. Organic sales increased 10.6% on volume growth of 9.9% as well as 0.7% gain from pricing and product mix. Organic sales were mainly driven by BATISTE dry shampoo and STERIMAR in the Global Markets Group business, ARM & HAMMER clumping cat litter and liquid laundry detergent in Canada, BATISTE in Germany, ARM & HAMMER liquid laundry detergent in Mexico and WATERPIK in various countries.

Prior to this, organic sales in this segment increased 7.1%, 9.1% and 8.5% in the third, second and first quarters, respectively. As international arena remains a bright spot for the company, it continues to invest in this segment to sustain its strong sales growth. Management's organic growth target for the international unit is pegged at 6% in the long run.

- ▲ **Robust Acquisitions Strengthen Portfolio:** Church & Dwight had a long history of acquisitions. The company started with only one brand, i.e. ARM & HAMMER and since then it has acquired a number of brands which are generally number-one or number-two brands with high margin and have been contributing significantly toward top-line growth. Progressing along these lines, we note that the buyout of FLAWLESS has been a prudent addition to Church & Dwight's portfolio. Sales in the FLAWLESS brand continued to rise in the fourth quarter as well.

FLAWLESS sales is expected to increase at least 15% on an annual basis, and contribute to the company's domestic and international long-term growth. Some of the previous noteworthy acquisitions of the company include WATERPIK, Agro BioSciences, and VIVISCAL business. Prior to that, the acquisitions of ANUSOL and RECTINOL brands from Johnson & Johnson in December 2016 helped the company boost its business internationally.

- ▲ **Robust Gross Margin:** Church & Dwight's gross margin has been rising for a while. In fourth-quarter 2019, gross margin expanded 170 basis points (bps) to 45.8% on improved pricing, efficiency and benefits from acquisition accounting. For 2020, gross margin is likely to increase 10 bps. Excluding the FLAWLESS acquisition accounting, gross margin is anticipated to increase 50 bps. Also, the company expects improvement in gross margin for first-quarter 2020 as well.

- ▲ **Impressive Brand Portfolio and Product Innovation Helps Boost Market Share:** Church & Dwight develops, manufactures and markets a broad range of household, personal care and specialty products. It is the leading U.S. producer of sodium bicarbonate, popularly known as baking soda. The company, which was started in 1846 with just one brand, is now diversified with dozens of brands. It boasts power brands, including ARM & HAMMER, Trojan, OxiClean, Spinbrush, First Response, Nair, Orajel, Xtra, VMS, Water Pik and Batiste, which represents majority of its consumer sales. Notably, it looks forward to having 20 power brands in its portfolio over time. In fact, Church & Dwight's recent buyout of FLAWLESS will become part of its power brands portfolio. During the fourth quarter of fiscal 2019, the company witnessed growth across ten of its power brands.

Additionally, the company's regular innovation helps in improving brand positions and market share in the consumer categories. Management believes that innovation remains the biggest driver for its top and bottom-line growth in future.

Reasons To Sell:

- ▼ **Stock Appears Overvalued:** Considering price-to-earnings (P/E) ratio, Church & Dwight looks pretty overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/E ratio of 28.52, which is below the median level of 30.45, and the high level of 33.33. The trailing 12-month P/E ratio for the industry and the S&P 500 is pegged at 19.39 and 17.12, respectively.
- ▼ **High Costs a Concern:** The company is grappling with rise in expenses such as SG&A and marketing costs. Notably, marketing expenses increased 28.6% to \$162.6 million in the fourth quarter. As a percentage of sales, the metric expanded 240 bps to 14.2%. SG&A expenses increased 7.6% to \$166.2 million. Adjusted SG&A expenses increased 70 bps due to impacts of acquisitions and increased R&D investments, among other factors. Going ahead, management expects marketing expenses to increase 10 bps in 2020.
- ▼ **Competitive Pressure:** Church & Dwight faces intense competition from other well-established players in the consumer products industry, such as Colgate-Palmolive, Clorox, and Procter & Gamble on the basis of pricing, promotional activities and new product introductions. The failure to offer exclusive high-quality products at competitive prices may hamper the company's market share.
- ▼ **Macroeconomic Headwinds:** Church & Dwight remains vulnerable to global economic challenges, which may impact its revenues, profits and cash flows. A global economic slowdown can reduce the personal disposable income of consumers, which in turn, will decrease the company's sales volumes as consumers move toward cheaper alternatives. Further, it may force the company to shift its product mix to lower margin products, thereby impacting margins.
- ▼ **Currency Headwinds:** Church & Dwight's performance is exposed to volatility in foreign currency translations, as it has a significant presence in international markets and undertakes business expansion efforts frequently. This is a persistent threat to the company's sales and profitability.

Church & Dwight is reeling under increasing marketing and SG&A costs, which are likely to persist in 2020.

Last Earnings Report

Church & Dwight Q4 Earnings & Sales Meet Estimates

Church & Dwight reported fourth-quarter 2019 results, with the top line improving year over year. Earnings were in line with the Zacks Consensus Estimate. However, the bottom line declined year over year.

Quarter in Detail

Church & Dwight posted adjusted earnings of 55 cents per share, in line with the Zacks Consensus Estimate. However, the metric declined 3.5% from the year-ago quarter's level. This downside was caused by increased marketing spending and higher SG&A investment.

Net sales amounted to \$1,144.2 million, up 6.5% year over year. The Zacks Consensus Estimate was pegged at \$1,142 million. Results were backed by consistent category growth and market share gains. Organic sales rose 4.4% and surpassed management's 3% growth projection. The uptick was fueled by positive product mix and pricing to the tune of 2%. Moreover, volume improved 2.4%.

Gross margin expanded 170 basis points (bps) to 45.8% on improved pricing, efficiency and benefits from acquisition accounting.

However, marketing expenses increased 28.6% to \$162.6 million. As a percentage of sales, the metric expanded 240 bps to 14.2%. SG&A expenses increased 7.6% to \$166.2 million. Adjusted SG&A expenses increased 70 bps due to impacts of acquisitions and increased R&D investments among other factors.

Income from operations came in at \$195.2 million which rose 0.9%.

Segment Details

Consumer Domestic: Net sales in the segment rose 6.3% to \$870.8 million owing to higher household and personal care sales as well as acquisitions. Organic sales rose 3.5%, driven by positive impact of 2.6% from price as well as product mix and higher volume of 0.9%. The primary growth drivers in the segment were ARM & HAMMER liquid laundry detergent, WATERPIK oral care products, VITAFUSION gummy vitamins and OXICLEAN stain fighters.

Consumer International: Net sales in the segment increased 10.1% to \$196.6 million, backed by broad-based sales growth for household and personal care products and acquisitions along with improvements in Global Markets Group business. Organic sales increased 10.6% on higher volume of 9.9% as well as favorable price and product mix of 0.7%. Organic sales were mainly driven by BATISTE dry shampoo and STERIMAR in the Global Markets Group business, ARM & HAMMER clumping cat litter and liquid laundry detergent in Canada, BATISTE in Germany, ARM & HAMMER liquid laundry detergent in Mexico and WATERPIK in various countries.

Specialty Products: Sales in the segment inched up 0.7% year over year to \$76.8 million. Also, organic sales moved up 0.7% owing to higher volumes of 1.5% that was offset by unfavorable pricing in the tune of 0.8%. Further, management stated that demand for dairy products increased. Also, demand for products in poultry industry remained strong.

Other Financial Updates

Church & Dwight ended the quarter with cash and cash equivalents of \$155.7 million, long-term debt of \$1,810.2 million and total shareholders' equity of \$2,667.8 million. During 2019, the company generated cash flow from operations of \$864.5 million and incurred capital expenditure of \$73.7 million.

In a separate press release, the company announced quarterly dividend of 24 cents per share, up 5.5% from the dividend of 22.75 cents paid out in the last reported quarter. The dividend will be paid out on Mar 2, 2020 to shareholders on record as of Feb 14.

Other Developments & Outlook

Management is encouraged with the results in 2019. Further, it is on track with product launches and brand investments to bolster market share. It has also announced launches under the household products and personal care portfolio. These are likely to boost revenues in the forthcoming periods.

The company anticipates sales growth of 6.5% for 2020. Organic sales are expected to rise nearly 3.5% in the same period.

For 2020, gross margin is likely to increase 10 bps. Excluding the FLAWLESS acquisition accounting, gross margin is anticipated to increase 50 bps. Marketing expenses are likely to increase 10 bps. The company expects adjusted earnings growth in the range of 7-9% to \$2.64-\$2.69 per share.

For the first quarter of 2020, management anticipates sales growth of approximately 6.5% on a reported basis and nearly 3% on an organic basis. The company expects improvement in gross margin and higher marketing expense. Adjusted earnings are projected to be 73 cents per share for the first quarter, excluding the FLAWLESS acquisition related adjustment, a 4% year over year improvement.

Quarter Ending 12/2019

Report Date	Jan 31, 2020
Sales Surprise	0.21%
EPS Surprise	0.00%
Quarterly EPS	0.55
Annual EPS (TTM)	2.48

Valuation

Church & Dwight shares are up 0.5% year to date period and 6.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 5.2% and 12.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 8.6%, but the sector is down 4.2%.

The S&P 500 index is down 14.8% in the year-to-date period and 2.3% in the past year.

The stock is currently trading at 26.08X forward 12-month earnings, which compares to 21.05X for the Zacks sub-industry, 17.56X for the Zacks sector and 15.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.55X and as low as 19.58X, with a 5-year median of 25.39X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$75 price target reflects 27.65X F12M earnings.

The table below shows summary valuation data for CHD

Valuation Multiples - CHD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.08	21.05	17.56	15.75
	5-Year High	30.55	23.53	22.38	19.34
	5-Year Low	19.58	17.89	16.66	15.18
	5-Year Median	25.39	21.05	19.65	17.42
P/S F12M	Current	3.72	2.5	8.77	2.91
	5-Year High	4.35	2.72	11.13	3.44
	5-Year Low	2.69	1.94	8.09	2.54
	5-Year Median	3.39	2.33	9.87	3
EV/EBITDA F12M	Current	18.28	11.78	33.36	12.34
	5-Year High	20.08	13.56	37.22	14.18
	5-Year Low	13.44	9.25	29.4	9.08
	5-Year Median	15.47	10.82	33.65	10.82

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Top 18% (46 out of 253)



Top Peers

Procter & Gamble Company (The) (PG)	Outperform
Colgate-Palmolive Company (CL)	Neutral
The Clorox Company (CLX)	Neutral
Johnson & Johnson (JNJ)	Neutral
Newell Brands Inc. (NWL)	Neutral
Prestige Consumer Healthcare Inc. (PBH)	Neutral
Unilever PLC (UL)	Neutral
Unilever NV (UN)	Neutral

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers		
	CHD Neutral	X Industry	S&P 500	CL Neutral	CLX Neutral	PG Outperform
VGM Score	C	-	-	D	C	C
Market Cap	17.38 B	53.38 B	19.13 B	59.84 B	21.88 B	286.60 B
# of Analysts	11	7.5	13	8	6	9
Dividend Yield	1.36%	2.33%	2.26%	2.46%	2.42%	2.57%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.04	0.05	0.01	0.01	0.02
EV/EBITDA	18.59	17.66	11.99	16.72	18.66	31.93
PEG Ratio	3.15	3.16	1.68	3.91	5.86	3.16
Price/Book (P/B)	6.51	5.84	2.64	107.50	39.42	6.37
Price/Cash Flow (P/CF)	21.70	14.45	10.70	20.27	21.99	19.80
P/E (F1)	27.03	21.95	15.44	23.47	28.06	23.28
Price/Sales (P/S)	3.99	3.69	2.05	3.81	3.57	4.12
Earnings Yield	3.77%	4.57%	6.47%	4.26%	3.56%	4.29%
Debt/Equity	0.68	0.68	0.70	13.14	4.63	0.42
Cash Flow (\$/share)	3.26	3.45	7.01	3.45	7.95	5.86
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	11.40%	6.48%	10.85%	0.54%	7.40%	3.75%
Proj. EPS Growth (F1/F0)	8.28%	5.18%	6.25%	5.39%	-1.37%	10.27%
Curr. Cash Flow Growth	12.70%	1.11%	6.09%	-4.58%	1.11%	4.72%
Hist. Cash Flow Growth (3-5 yrs)	9.63%	4.28%	8.52%	-1.27%	5.39%	-0.93%
Current Ratio	0.88	0.87	1.24	1.03	0.86	0.63
Debt/Capital	40.42%	40.42%	42.57%	92.93%	82.24%	29.26%
Net Margin	14.13%	11.84%	11.69%	15.08%	13.31%	6.92%
Return on Equity	24.16%	25.65%	16.74%	1,906.25%	133.50%	27.14%
Sales/Assets	0.67	0.89	0.54	1.12	1.16	0.60
Proj. Sales Growth (F1/F0)	6.41%	3.34%	3.76%	4.60%	-0.34%	4.09%
Momentum Score	D	-	-	C	C	F
Daily Price Chg	-5.28%	-5.23%	-7.65%	-3.48%	0.95%	-4.60%
1 Week Price Chg	7.42%	6.82%	-0.67%	7.31%	8.68%	7.45%
4 Week Price Chg	-6.37%	-9.52%	-19.26%	-9.52%	4.32%	-8.01%
12 Week Price Chg	2.64%	-7.57%	-17.26%	1.63%	15.38%	-7.57%
52 Week Price Chg	6.46%	2.39%	-6.83%	6.29%	9.95%	16.55%
20 Day Average Volume	1,710,712	1,495,338	2,684,709	5,212,558	2,061,485	8,879,574
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.70%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.06%	0.04%	0.70%	-0.18%
(F1) EPS Est 12 week change	-0.47%	-0.85%	-0.46%	0.21%	1.22%	0.83%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.40%	0.00%	0.00%	-1.12%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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