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Jan 20, 2020

Church & Dwight(CHD)

$72.00 (As of 01/17/20)

Price Target (6-12 Months): **$76.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/07/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: B | Momentum: D	**3-Hold** VGM:C

Summary

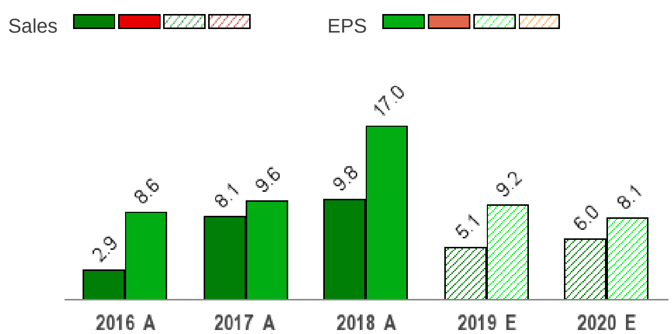
Church & Dwight have increased in the past year. We expect the company to deliver an above-average performance in the near term on solid organic sales, international business strength and prudent efforts to expand portfolio. Such factors drove the company's results in the third quarter of 2019, with the top line benefitting from consistent category growth and healthy market share gains. Also, Church & Dwight has been gaining from the buyout of FLAWLESS, which is likely to boost the top line by 15% annually. Continued rise in gross margin has also been an upside . However, weak sales in the Specialty Products unit have been a headwind for the company. Sales in the segment are being affected by lower volumes caused by receding demand in the dairy industry. This, along with adverse currency impacts and stiff competition are concerns.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$80.99 - $59.64**
20 Day Average Volume (sh)	**1,270,282**
Market Cap	**$17.7 B**
YTD Price Change	**2.4%**
Beta	**0.10**
Dividend / Div Yld	**$0.91 / 1.3%**
Industry	**Soap and Cleaning Materials**
Zacks Industry Rank	**Bottom 9% (232 out of 254)**
Last EPS Surprise	**8.2%**
Last Sales Surprise	**-1.3%**
EPS F1 Est- 4 week change	**-0.1%**
Expected Report Date	**01/31/2020**
Earnings ESP	**0.0%**
P/E TTM	**28.8**
P/E F1	**26.9**
PEG F1	**3.1**
P/S TTM	**4.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	1,122 E	1,141 E	1,157 E	1,197 E	4,616 E
2019	1,045 A	1,079 A	1,089 A	1,142 E	4,356 E
2018	1,006 A	1,028 A	1,038 A	1,074 A	4,146 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.77 E	$0.61 E	$0.72 E	$0.61 E	$2.68 E
2019	$0.70 A	$0.57 A	$0.66 A	$0.55 E	$2.48 E
2018	$0.63 A	$0.49 A	$0.58 A	$0.57 A	$2.27 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 01/17/2020. The reports text is as of 01/20/2020.

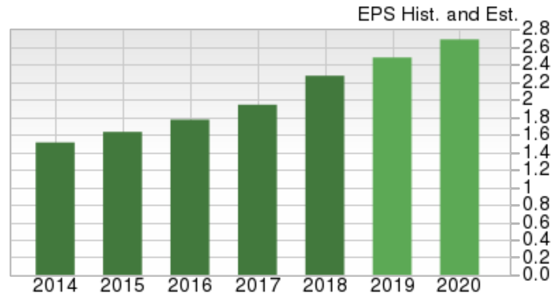
Overview

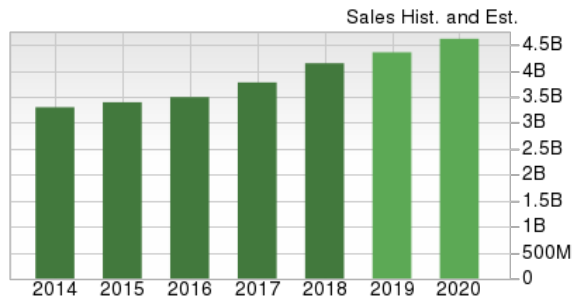
Founded in 1846 and based in Ewing, NJ , Church & Dwight Co., Inc. develops, manufactures and markets a broad range of household, personal care and specialty products. It is the leading U.S. producer of sodium bicarbonate, popularly known as baking soda, a natural product that cleans, deodorized, leavens 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 (75.5% of 2018 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 (17.1% of 2018 sales) sells a variety of household and personal care products in international markets, including Canada, Europe, Australia, Mexico and Brazil.

- The **Specialty Products** segment (7.4%of 2018 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:

▲ **Impressive Organic Sales Trend:** Church & Dwight's sales have been rising year on year for a while, courtesy of consistent category growth and healthy market share gains. In the third quarter, the company's top line improved 5% year over year. Also, the company boasts strong organic sales trend. Evidently, organic sales grew 3.6% in the third quarter, which came ahead of the company's earlier guidance of 3% increase. The uptick can be attributed to positive product mix and pricing to the tune of 4.3%. Prior to this organic sale improved 4.9% in the second quarter and 4.5% growth in the first quarter.

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

Consistent growth in organic sales indicates that the company's core business categories are growing. Further, it is on track with product launches and brand investments to drive market share. Additionally, the company has been depicting solid growth in the online realm. These are likely to boost revenues in the forthcoming periods. The company now anticipates sales growth of 5% in 2019, while organic sales are expected to rise 4%. For the fourth quarter, management anticipates organic sales growth of 3% and reported sales increase of 6%.

Robust top line performance, supported by strong brands and sturdy international business, are fueling investors' optimism. Shares of the company have gained 6.7% in the past year compared with the industry's growth of 25.7%. We expect shares of the company to deliver an above average performance in the forthcoming periods, backed by strong business fundamentals.

▲ **Strong Consumer International Business:** The company's consumer international business has been consistently contributing to organic sales growth of the company. In third-quarter 2019, net sales in the segment rose 7.1% to $186.4 million, backed by broad-based sales growth for household and personal care products as well as improvements in Global Markets Group business. Organic sales increased 8.7% on higher volume of 5.4% as well as favorable price and product mix of 3.3%. Organic sales were mainly driven by BATISTE and VITAFUSION in the Global Markets Group business, BATISTE dry shampoo, STERIMAR, ARM & HAMMER liquid laundry detergent and ARM & HAMMER toothpaste. WATERPIK and FLAWLESS buyouts also contributed to the international business. Well, ARM & HAMMER remains the company's biggest international brand, which is well placed to grow further in emerging markets. From a regional point of view, the segment witnessed improvements across Australia, Mexico, Germany and the Global Markets Group.

Prior to this, organic sales in this segment increased 9.1% in the second quarter and 8.5% in the first quarter. 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. In the first half of 2019, FLAWLESS witnessed sales growth of 38% on a pro-forma basis. Sales in the FLAWLESS brand continued to rise in the third 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.

▲ **Raised Gross Margin Outlook:** Church & Dwight's gross margin has been rising for a while. In third-quarter 2019, Gross margin expanded 230 basis points (bps) to 46.6% on retroactive tariff exemption benefit and gains from the acquisition of FLAWLESS. For 2019, management expects gross margin to increase 100 bps compared with 80 bps growth expected earlier. Excluding the FLAWLESS acquisition accounting, gross margin is anticipated to increase 60 bps.

▲ **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 third quarter of fiscal 2019, the company witnessed growth across nine 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:

> Church & Dwight has been posting soft organic sales at its Specialty Products unit for quite some time now, owing to weak volumes.

- **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 28.8, which is below the median level of 30.26, 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 20.69 and 20.83, respectively.

- **Soft Specialty Products Unit:** Church & Dwight has been posting soft organic sales at its Specialty Products unit for quite some time. During the third quarter, sales in the segment fell 4.1% year on year. Also, organic fell slipped 4.1% due to lower volumes of 3.1% and unfavorable pricing to the tune of 1%. Markedly, volumes in the specialty products unit are being adversely impacted by receding demand in the dairy industry. This, in fact, has compelled the company to reduce its dependence on the dairy space and increase focus on other businesses like poultry.

- **Competitive Pressure:** Church & Dwight faces intense competition from other well-established players in the consumer products industry, such as Colgate-Palmolive, Clorox, and Proctor & 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.

Last Earnings Report

Church & Dwight's Q3 Earnings Beat Estimates, Sales Miss

Quarter Ending	09/2019
Report Date	Oct 31, 2019
Sales Surprise	-1.31%
EPS Surprise	8.20%
Quarterly EPS	0.66
Annual EPS (TTM)	2.50

Church & Dwight reported third-quarter 2019 results, wherein adjusted earnings of 66 cents per share surpassed the Zacks Consensus Estimate of 60 cents and improved 13.8% from the year-ago quarter's level.

Net sales of $1,089.4 million advanced 5% year over year. However, the top line missed the Zacks Consensus Estimate of $1,103 million. Results were backed by consistent category growth and market share gains.

Organic sales rose 3.6% and surpassed management's 3% growth projection. The uptick was fueled by positive product mix and pricing to the tune of 4.3%, partially offset by volume decline of 0.7%.

Gross margin expanded 230 basis points (bps) to 46.6% on retroactive tariff exemption benefit and gains from the acquisition of FLAWLESS.

However, marketing expenses increased 3.9% to $125.2 million. As a percentage of sales, it contracted 10 bps to 11.5%. Adjusted SG&A expenses increased 13.5% to $153.7 million. As a percentage of sales, adjusted SG&A expenses increased 110 bps to 14.1%, owing to intangible amortization costs related to acquisitions.

Adjusted income from operations, as a percentage of sales, rose 130 bps to 21%.

Segment Details

Consumer Domestic: Net sales of the segment rose 5.4% to $827.6 million due to higher household and personal care sales. Organic sales improved 3.3%, driven by positive impact of 5.1% from price and product mix that offset lower volume of 1.8%. The primary growth drivers in the segment were ARM & HAMMER liquid, ARM & HAMMER clumping cat litter, ARM & HAMMER liquid laundry detergent, WATERPIK oral care products, VITAFUSION and L'IL CRITTERS gummy vitamins, ARM & HAMMER scent booster and BATISTE dry shampoo.

Consumer International: Net sales of the segment rose 7.1% to $186.4 million, backed by broad-based sales growth for household and personal care products as well as improvements in Global Markets Group business. Organic sales increased 8.7% on higher volume of 5.4% as well as favorable price and product mix of 3.3%. Organic sales were mainly driven by BATISTE and VITAFUSION in the Global Markets Group business, BATISTE dry shampoo, STERIMAR, ARM & HAMMER liquid laundry detergent and ARM & HAMMER toothpaste. WATERPIK and FLAWLESS buyouts also contributed to the international business.

Specialty Products: Sales in the segment decreased 4.1% to $75.4 million. Also, organic sales slipped 4.1% due to lower volumes of 3.1% and unfavorable pricing in the tune of 1%. Further, management stated that demand for dairy products declined. However, demand for non-dairy products remained strong.

Other Financial Updates

Church & Dwight ended the quarter with cash and cash equivalents of $114.7 million, long-term debt of $1,809.6 million and total shareholders' equity of $2,559.3 million. In the first three quarters of 2019, the company generated cash flow from operations of $617.5 million and incurred capital expenditure of $39.7 million.

In a separate press release, the company announced quarterly dividend of 22.75 cents per share, which is to be paid out on Dec 2, 2019 to shareholders on record as of Nov 15.

Other Developments & Outlook

Management is encouraged with the results delivered so far 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 now anticipates sales growth of 5% for 2019, compared with the earlier projection of 6%. Organic sales are still expected to rise 4%. Gross margin is likely to increase 100 bps. Excluding the FLAWLESS acquisition accounting, gross margin is anticipated to increase 60 bps. Marketing expenses are likely to improve. As a percentage of net sales, marketing expenses are projected to be 11.7%. The company still expects adjusted earnings growth of 9% to $2.47 per share. The Zacks Consensus Estimate for full-year earnings is currently pegged at $2.49.

For the fourth quarter of 2019, management anticipates sales growth of approximately 6% on a reported basis and 3% on an organic basis. The company expects improvement in gross margin, higher marketing expense and increase in SG&A (related to FLAWLESS buyout and reinvestment in the business). Adjusted earnings are projected to be 54 cents per share for the fourth quarter, excluding the FLAWLESS acquisition related adjustment. In the prior-year period, the company posted earnings of 57 cents a share. The Zacks Consensus Estimate for the quarter currently stands at 61 cents.

Valuation

Church & Dwight shares are up 6.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 25.7% and 20.3% over the past year, respectively.

The S&P 500 index is up 26.5% in the past year.

The stock is currently trading at 26.72X forward 12-month earnings, which compares to 22.7X for the Zacks sub-industry, 19.97X for the Zacks sector and 19.2X 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 25.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $76 price target reflects 28.2X forward 12-month earnings.

The table below shows summary valuation data for CHD

Valuation Multiples - CHD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.72	22.7	19.97	19.2
	5-Year High	30.55	23.53	22.38	19.34
	5-Year Low	19.58	17.89	16.66	15.17
	5-Year Median	25.3	21.05	19.76	17.44
P/S F12M	Current	3.82	2.7	10.26	3.57
	5-Year High	4.35	2.72	11.13	3.57
	5-Year Low	2.69	1.94	8.09	2.54
	5-Year Median	3.37	2.3	9.87	3
EV/EBITDA F12M	Current	16.88	11.78	34.37	12.66
	5-Year High	19.25	13.56	37.22	12.66
	5-Year Low	12.16	9.25	29.37	9.08
	5-Year Median	14.88	10.81	33.52	10.78

As of 01/17/2020

Industry Analysis **Zacks Industry Rank:** Bottom 9% (232 out of 254)

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	-	-	C	D	C
Market Cap	17.67 B	58.26 B	24.65 B	61.00 B	19.79 B	315.24 B
# of Analysts	10	7.5	13	8	6	9
Dividend Yield	1.26%	2.20%	1.73%	2.42%	2.69%	2.36%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.04	0.04	0.02	0.01	0.03
EV/EBITDA	20.60	16.76	14.11	16.44	17.08	34.78
PEG Ratio	3.13	3.42	2.08	5.51	5.04	3.42
Price/Book (P/B)	6.90	6.66	3.39	350.61	35.99	6.84
Price/Cash Flow (P/CF)	24.98	15.77	13.81	19.81	19.83	21.57
P/E (F1)	26.87	21.81	19.19	23.95	25.63	25.57
Price/Sales (P/S)	4.12	3.58	2.69	3.94	3.21	4.58
Earnings Yield	3.72%	4.61%	5.21%	4.17%	3.90%	3.91%
Debt/Equity	0.71	0.71	0.72	43.94	4.69	0.44
Cash Flow ($/share)	2.88	3.59	6.94	3.59	7.95	5.86
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	11.23%	6.74%	10.56%	0.50%	7.26%	2.36%
Proj. EPS Growth (F1/F0)	8.33%	6.53%	7.57%	5.04%	-2.64%	9.39%
Curr. Cash Flow Growth	13.93%	7.32%	14.73%	2.68%	1.11%	4.72%
Hist. Cash Flow Growth (3-5 yrs)	7.92%	4.15%	9.00%	-0.02%	5.39%	-0.93%
Current Ratio	0.80	0.84	1.24	1.03	0.87	0.72
Debt/Capital	41.42%	41.42%	42.99%	97.78%	82.41%	30.03%
Net Margin	14.33%	12.09%	11.14%	15.04%	13.20%	6.24%
Return on Equity	24.91%	24.99%	17.16%	6,492.71%	123.56%	25.07%
Sales/Assets	0.68	0.90	0.55	1.16	1.19	0.58
Proj. Sales Growth (F1/F0)	5.91%	3.81%	4.16%	3.53%	-0.73%	4.15%
Momentum Score	D	-	-	B	C	C
Daily Price Chg	0.45%	0.32%	0.27%	0.61%	0.36%	0.27%
1 Week Price Chg	-0.24%	0.50%	0.39%	3.13%	0.50%	1.13%
4 Week Price Chg	3.61%	2.54%	2.95%	4.16%	4.11%	1.19%
12 Week Price Chg	-4.95%	0.85%	7.76%	4.16%	4.60%	1.30%
52 Week Price Chg	6.84%	7.00%	22.29%	14.81%	3.76%	39.46%
20 Day Average Volume	1,270,282	748,046	1,536,375	3,133,814	722,114	5,799,181
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.10%	-0.33%	0.00%	-0.13%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.09%	-1.29%	-0.40%	-1.49%	-0.46%	2.05%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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.

Disclosures

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