

CHURCH & DWIGHT CO INC /DE/

Form 10-Q

May 02, 2019

false Q1 CHURCH & DWIGHT CO INC /DE/ 0000313927 --12-31 Large Accelerated Filer false false P12M P3Y P5Y4M24D P4Y1M6D P3Y P15Y P4Y P5Y P20Y P20Y P20Y P10Y us-gaap:OtherAssetsNoncurrent us-gaap:AccountsPayableAndAccruedLiabilitiesCurrent us-gaap:OtherLiabilitiesNoncurrent P9Y8M12D 0000313927 2019-01-01 2019-03-31 xbrli:shares 0000313927 2019-04-30 iso4217:USD 0000313927 2018-01-01 2018-03-31 iso4217:USD xbrli:shares 0000313927 2019-03-31 0000313927 2018-12-31 0000313927 2017-12-31 0000313927 2018-03-31 0000313927 us-gaap:CommonStockMember 2017-12-31 0000313927 us-gaap:TreasuryStockMember 2017-12-31 0000313927 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000313927 us-gaap:RetainedEarningsMember 2017-12-31 0000313927 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0000313927 us-gaap:CommonStockMember 2018-01-01 2018-03-31 0000313927 us-gaap:TreasuryStockMember 2018-01-01 2018-03-31 0000313927 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-03-31 0000313927 us-gaap:RetainedEarningsMember 2018-01-01 2018-03-31 0000313927 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-03-31 0000313927 us-gaap:CommonStockMember 2018-03-31 0000313927 us-gaap:TreasuryStockMember 2018-03-31 0000313927 us-gaap:AdditionalPaidInCapitalMember 2018-03-31 0000313927 us-gaap:RetainedEarningsMember 2018-03-31 0000313927 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-03-31 0000313927 us-gaap:CommonStockMember 2018-12-31 0000313927 us-gaap:TreasuryStockMember 2018-12-31 0000313927 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0000313927 us-gaap:RetainedEarningsMember 2018-12-31 0000313927 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0000313927 us-gaap:CommonStockMember 2019-01-01 2019-03-31 0000313927 us-gaap:TreasuryStockMember 2019-01-01 2019-03-31 0000313927 us-gaap:AdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0000313927 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0000313927 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-01-01 2019-03-31 0000313927 us-gaap:CommonStockMember 2019-03-31 0000313927 us-gaap:TreasuryStockMember 2019-03-31 0000313927 us-gaap:AdditionalPaidInCapitalMember 2019-03-31 0000313927 us-gaap:RetainedEarningsMember 2019-03-31 0000313927 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-03-31 0000313927 chd:PassportFoodSafetySolutionsIncMember 2019-01-01 2019-03-31 0000313927 chd:FlawlessAcquisitionMember 2019-01-01 2019-03-31 0000313927 us-gaap:AccountingStandardsUpdate201602Member 2018-12-31 0000313927 2019-01-01 0000313927 us-gaap:AccountingStandardsUpdate201602Member 2019-01-01 0000313927 us-gaap:LandMember 2019-03-31 0000313927 us-gaap:LandMember 2018-12-31 0000313927 us-gaap:BuildingAndBuildingImprovementsMember 2019-03-31 0000313927 us-gaap:BuildingAndBuildingImprovementsMember 2018-12-31 0000313927 us-gaap:MachineryAndEquipmentMember 2019-03-31 0000313927 us-gaap:MachineryAndEquipmentMember 2018-12-31 0000313927 us-gaap:SoftwareDevelopmentMember 2019-03-31 0000313927 us-gaap:SoftwareDevelopmentMember 2018-12-31 0000313927 us-gaap:OtherCapitalizedPropertyPlantAndEquipmentMember 2019-03-31 0000313927 us-gaap:OtherCapitalizedPropertyPlantAndEquipmentMember 2018-12-31 0000313927 us-gaap:ConstructionInProgressMember 2019-03-31 0000313927 us-gaap:ConstructionInProgressMember 2018-12-31 0000313927 2017-11-01 0000313927 2019-01-01 2019-01-31 0000313927 us-gaap:CarryingReportedAmountFairValueDisclosureMember 2019-03-31 0000313927 us-gaap:CarryingReportedAmountFairValueDisclosureMember 2018-12-31 0000313927 us-gaap:CarryingReportedAmountFairValueDisclosureMember chd:FloatingRateSeniorNotesDueJanuaryTwentyFiveTwoThousandAndNineteenMember 2019-03-31 0000313927 us-gaap:CarryingReportedAmountFairValueDisclosureMember chd:FloatingRateSeniorNotesDueJanuaryTwentyFiveTwoThousandAndNineteenMember 2018-12-31 0000313927 us-gaap:CarryingReportedAmountFairValueDisclosureMember chd:TwoPointFourFivePercentSeniorNotesDueDecemberFifteenTwoThousandAndNineteenMember 2019-03-31 0000313927 us-gaap:CarryingReportedAmountFairValueDisclosureMember

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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 March 31, 2019

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 April 30, 2019, there were 246,219,083 shares of Common Stock outstanding.

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

| <u>Title of each class</u>                                       | Trading Symbol(s) | Name of each exchange<br><u>on which registered</u> |
|--|-------------------|---|
| Common Stock, \$1 par value                                      | CHD               | New York Stock Exchange                             |
| Securities registered pursuant to Section 12(g) of the Act: None |                   |   |

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**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> | 20   |
| 3.   | <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | 26   |
| 4.   | <u>Controls and Procedures</u>   | 26   |

**PART II**

|     |  |    |
|-----|--|----|
| 1.  | <u>Legal Proceedings</u>   | 27 |
| 1A. | <u>Risk Factors</u>  | 27 |
| 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 28 |
| 6.  | <u>Exhibits</u>  | 29 |

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<br>Ended |                      |
|---|-----------------------|----------------------|
|   | March<br>31,<br>2019  | March<br>31,<br>2018 |
| Net Sales                                     | \$1,044.7             | \$1,006.0            |
| Cost of sales                                 | 573.9                 | 554.5                |
| Gross Profit                                  | 470.8                 | 451.5                |
| Marketing expenses                            | 98.1                  | 99.9                 |
| Selling, general and administrative expenses  | 131.9                 | 131.3                |
| Income from Operations                        | 240.8                 | 220.3                |
| Equity in earnings of affiliates              | 1.7                   | 2.1                  |
| Investment earnings                           | 0.5                   | 0.5                  |
| Other income (expense), net                   | (0.1 )                | (2.1 )               |
| Interest expense                              | (17.8 )               | (20.1 )              |
| Income before Income Taxes                    | 225.1                 | 200.7                |
| Income taxes                                  | 49.4                  | 42.9                 |
| Net Income                                    | \$175.7               | \$157.8              |
| Weighted average shares outstanding - Basic   | 246.1                 | 244.9                |
| Weighted average shares outstanding - Diluted | 251.9                 | 250.0                |
| Net income per share - Basic                  | \$0.71                | \$0.64               |
| Net income per share - Diluted                | \$0.70                | \$0.63               |
| Cash dividends per share                      | \$0.23                | \$0.22               |

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

|  | Three Months<br>Ended |              |
|--|-----------------------|--------------|
|  | March<br>31,          | March<br>31, |

|  | 2019    | 2018    |
|--|---------|---------|
| Net Income                               | \$175.7 | \$157.8 |
| Other comprehensive income, net of tax:  |         |         |
| Foreign exchange translation adjustments | 1.8     | 3.5     |
| Income (loss) from derivative agreements | (7.7 )  | (0.2 )  |
| Other comprehensive income (loss)        | (5.9 )  | 3.3     |
| Comprehensive income                     | \$169.8 | 161.1   |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share and per share data)

|   | March<br>31,<br>2019 | December<br>31,<br>2018 |
|---|----------------------|-------------------------|
| Assets  |                      |                         |
| Current Assets  |                      |                         |
| Cash and cash equivalents   | \$97.9               | \$316.7                 |
| Accounts receivable, less allowances of \$2.9 and \$3.1                                     | 384.6                | 345.3                   |
| Inventories   | 399.5                | 382.8                   |
| Other current assets  | 31.7                 | 33.4                    |
| Total Current Assets  | 913.7                | 1,078.2                 |
| Property, Plant and Equipment, Net  | 558.8                | 598.2                   |
| Equity Investment in Affiliates   | 9.4                  | 8.5                     |
| Trade Names and Other Intangibles, Net  | 2,256.3              | 2,274.0                 |
| Goodwill  | 1,992.9              | 1,992.9                 |
| Other Assets  | 229.5                | 117.4                   |
| Total Assets  | \$5,960.6            | \$6,069.2               |
| Liabilities and Stockholders' Equity  |                      |                         |
| Current Liabilities   |                      |                         |
| Short-term borrowings   | \$99.8               | \$1.8                   |
| Current portion of long-term debt   | 297.7                | 596.5                   |
| Accounts payable and accrued expenses   | 699.1                | 725.1                   |
| Income taxes payable  | 36.7                 | 2.9                     |
| Total Current Liabilities   | 1,133.3              | 1,326.3                 |
| Long-term Debt  | 1,509.4              | 1,508.8                 |
| Deferred Income Taxes   | 580.5                | 576.4                   |
| Deferred and Other Long-term Liabilities  | 238.1                | 203.9                   |
| Total Liabilities   | 3,461.3              | 3,615.4                 |
| 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 March 31, 2019 and December 31, 2018  | 292.8                | 292.8                   |
| Additional paid-in capital  | 281.3                | 280.8                   |
| Retained earnings   | 3,965.4              | 3,832.6                 |
| Accumulated other comprehensive loss  | (59.5 )              | (53.6 )                 |

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|   |           |           |
|---|-----------|-----------|
| Common stock in treasury, at cost: 46,789,017 shares as of March 31, 2019 and 45,969,515 shares as of December 31, 2018 | (1,980.7) | (1,898.8) |
| Total Stockholders' Equity  | 2,499.3   | 2,453.8   |
| Total Liabilities and Stockholders' Equity  | \$5,960.6 | \$6,069.2 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**

(Unaudited)

(In millions)

|  | Three Months Ended<br>March 31,<br>2019 |  | March 31,<br>2018 |
|--|---|--|-------------------|
| Cash Flow From<br>Operating Activities   |   |  |                   |
| Net Income   | \$ 175.7                                |  | \$ 157.8          |
| Adjustments to<br>reconcile net income to<br>net cash provided by<br>operating activities: |   |  |                   |
| Depreciation expense   | 15.8                                    |  | 16.4              |
| Amortization expense   | 22.8                                    |  | 19.3              |
| Deferred income taxes  | 2.8                                     |  | (2.5 )            |
| Equity in net earnings<br>of affiliates  | (1.7 )                                  |  | (2.1 )            |
| Distributions from<br>unconsolidated<br>affiliates   | 0.7                                     |  | 2.1               |
| Non-cash compensation<br>expense   | 2.4                                     |  | 3.1               |
| Other  | (0.7 )                                  |  | (1.0 )            |
| Change in assets and<br>liabilities:   |   |  |                   |
| Accounts receivable  | (36.0 )                                 |  | (11.3 )           |
| Inventories  | (15.9 )                                 |  | (23.5 )           |
| Other current assets   | 0.5                                     |  | (4.7 )            |
| Accounts payable and<br>accrued expenses   | (59.2 )                                 |  | (32.6 )           |
| Income taxes payable   | 34.3                                    |  | 34.5              |
| Other operating assets<br>and liabilities, net   | (3.6 )                                  |  | 0.0               |
| Net Cash Provided By<br>Operating Activities   | 137.9                                   |  | 155.5             |
| Cash Flow From<br>Investing Activities   |   |  |                   |
| Additions to property,<br>plant and equipment  | (11.7 )                                 |  | (9.9 )            |
| Acquisitions   | 0.0                                     |  | (49.9 )           |
| Other  | (0.7 )                                  |  | (0.2 )            |
| Net Cash Used In<br>Investing Activities   | (12.4 )                                 |  | (60.0 )           |

|  |         |   |          |
|--|---------|---|----------|
| Cash Flow From Financing Activities                          |         |   |          |
| Long-term debt (repayments)                                  | (300.0  | ) | 0.0      |
| Short-term debt (repayments), net of borrowings              | 98.0    |   | (17.4 )  |
| Proceeds from stock options exercised                        | 15.1    |   | 16.4     |
| Payment of cash dividends                                    | (55.9   | ) | (53.0 )  |
| Purchase of treasury stock                                   | (100.0  | ) | (200.0 ) |
| Deferred financing and other                                 | (1.5    | ) | (1.6 )   |
| Net Cash Used In Financing Activities                        | (344.3  | ) | (255.6 ) |
| Effect of exchange rate changes on cash and cash equivalents | 0.0     |   | 1.0      |
| Net Change In Cash and Cash Equivalents                      | (218.8  | ) | (159.1 ) |
| Cash and Cash Equivalents at Beginning of Period             | 316.7   |   | 278.9    |
| Cash and Cash Equivalents at End of Period                   | \$ 97.9 |   | \$ 119.8 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW-CONTINUED

(Unaudited)

(In millions)

|   | Three Months<br>Ended |                      |
|---|-----------------------|----------------------|
|   | March<br>31,<br>2019  | March<br>31,<br>2018 |
| Cash paid during the period for:  |                       |                      |
| Interest (net of amounts capitalized)                                   | \$21.8                | \$23.9               |
| Income taxes  | \$12.3                | \$11.0               |
| Supplemental disclosure of non-cash investing activities:               |                       |                      |
| Property, plant and equipment expenditures included in Accounts Payable | \$6.0                 | \$6.3                |

See Notes to Condensed Consolidated Financial Statements (Unaudited).



**CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2019 and 2018

(Unaudited)

(In millions)

|   | Number of<br>Shares |                   | Amounts         |                    |                      | Accumulated                                |                   |                                  |
|---|---------------------|-------------------|-----------------|--------------------|----------------------|--|-------------------|----------------------------------|
|   | Common<br>Stock     | Treasury<br>Stock | Common<br>Stock | Paid-In<br>Capital | Retained<br>Earnings | Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
| 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 | 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                | 157.8                | 0.0  | 0.0               | 157.8                            |
| Other comprehensive                       |                     |                   |                 |                    |                      |  |                   |                                  |
| income (loss)                             | 0.0                 | 0.0               | 0.0             | 0.0                | 0.0                  | 3.3  | 0.0               | 3.3                              |
| Cash dividends                            | 0.0                 | 0.0               | 0.0             | 0.0                | (53.0 )              | 0.0  | 0.0               | (53.0 )                          |
| Stock purchases                           | 0.0                 | (4.1 )            | 0.0             | 0.0                | 0.0                  | 0.0  | (200.0 )          | (200.0 )                         |
| Stock based compensation                  |                     |                   |                 |                    |                      |  |                   |                                  |
| expense and stock option plan             |                     |                   |                 |                    |                      |  |                   |                                  |
| transactions                              | 0.0                 | 0.9               | 0.0             | (4.2 )             | 0.0                  | 0.0  | 23.7              | 19.5                             |
| March 31, 2018                            | 292.8               | (48.4 )           | \$292.8         | \$ 260.4           | \$3,582.1            | \$ (33.7 )                                 | \$(1,958.3)       | \$ 2,143.3                       |
| December 31, 2018                         | 292.8               | (46.0 )           | \$292.8         | \$ 280.8           | \$3,832.6            | \$ (53.6 )                                 | \$(1,898.8)       | \$ 2,453.8                       |
| Adoption of new accounting pronouncements |                     |                   |                 |                    |                      |  |                   |                                  |
| (Note 2)                                  | 0.0                 | 0.0               | 0.0             | 0.0                | 13.0                 | 0.0  | 0.0               | 13.0                             |
| Net income                                | 0.0                 | 0.0               | 0.0             | 0.0                | 175.7                | 0.0  | 0.0               | 175.7                            |
| Other comprehensive                       |                     |                   |                 |                    |                      |  |                   |                                  |
| income (loss)                             | 0.0                 | 0.0               | 0.0             | 0.0                | 0.0                  | (5.9 )                                     | 0.0               | (5.9 )                           |
| Cash dividends                            | 0.0                 | 0.0               | 0.0             | 0.0                | (55.9 )              | 0.0  | 0.0               | (55.9 )                          |
| Stock purchases                           | 0.0                 | (1.5 )            | 0.0             | 0.0                | 0.0                  | 0.0  | (100.0 )          | (100.0 )                         |
| Stock based compensation                  | 0.0                 | 0.7               | 0.0             | 0.5                | 0.0                  | 0.0  | 18.1              | 18.6                             |

expense and stock option  
plan

transactions  
March 31, 2019                      292.8    (46.8 ) \$292.8    \$ 281.3    \$3,965.4    \$ (59.5    ) \$(1,980.7) \$ 2,499.3

See Notes to Condensed Consolidated Financial Statements (Unaudited).

7

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## **CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES**

### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(In millions, except per share data)

#### **1. Basis of Presentation**

The condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018, the condensed consolidated statements of income and comprehensive income, cash flow and stockholders' equity for the three months ended March 31, 2019 and March 31, 2018 have been prepared by Church & Dwight Co., Inc. (the "Company"). In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at March 31, 2019 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, 2018 (the "Form 10-K"). The results of operations for the period ended March 31, 2019 are not necessarily indicative of the operating results for the full year.

The Company incurred research and development expenses in the first quarter of 2019 and 2018 of \$20.7 and \$19.5, respectively. These expenses are included in selling, general and administrative ("SG&A") expenses.

#### **2. New Accounting Pronouncements**

##### **Recently Adopted Accounting Pronouncements**

In August 2017 and October 2018, 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 was effective for annual and interim periods beginning after December 15, 2018, and was adopted by the Company in the first quarter of 2019. The standard's adoption did not have a material impact on the Company's consolidated financial position, results of operations or 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 was effective for annual and interim periods beginning after December 15, 2018, and allowed companies to apply the requirements retrospectively, either to all prior periods presented or through a cumulative adjustment in the year of adoption. The Company adopted the new standard on January 1, 2019

on a modified retrospective basis and elected the package of practical expedients permitted under the transition guidance, which eliminates the reassessment of past leases, classification, and initial direct costs. The Company has implemented the appropriate internal controls and tools to monitor and record historical and future lease arrangements and required disclosures.

For all existing operating leases as of December 31, 2018, the Company recorded Right of Use Assets of approximately \$55.0 and corresponding lease liabilities of approximately \$57.0 with an offset to Deferred and Other Long-term Liabilities of approximately \$2.0 to eliminate deferred rent on the consolidated balance sheet.

In addition, based on the transition guidance surrounding failed sale-and-leaseback transactions, the Company re-evaluated the lease for its corporate headquarters in Ewing, New Jersey. This lease was previously considered a failed sale-and-leaseback transaction under Accounting Standards Codification (“ASC”) 840 because of continuing involvement. The re-evaluation resulted in a change in classification from a finance transaction to an operating lease. The corporate headquarters building, which had a net book value of approximately \$35.0 recorded in Property, Plant and Equipment as of December 31, 2018, was derecognized on January 1, 2019 and a Right of Use Asset of approximately \$52.0 was recorded with an offset to Deferred Income Taxes of \$4.0 and Retained Earnings of \$13.0. The Lease Liability pertaining to this asset of \$52.0 remained unchanged.

In total, at the adoption of the new accounting guidance there will be a Right of Use Asset of approximately \$107.0 and a corresponding Lease Liability of \$109.0. This does not include an existing cease-use liability of approximately \$7.0 pertaining to one

of the Company's previous corporate offices that remained unchanged as a result of the transition. Refer to Note 12 for the Company's lease disclosures.

The effects of the recently adopted lease accounting standard to the Company's condensed consolidated balance sheet as of January 1, 2019 is as follows:

|  | Balance<br>at<br>December<br>31,<br>2018 | New Lease<br>Standard<br>Adjustment | Balance<br>at<br>January<br>1,<br>2019 |
|--|--|-------------------------------------|--|
| Property, plant and equipment, net       | \$ 598.2                                 | \$ (35.2 )                          | \$ 563.0                               |
| Other assets                             | 117.4                                    | 107.5                               | 224.9                                  |
| Accounts payable and accrued expenses    | 725.1                                    | 13.6                                | 738.7                                  |
| Deferred and other long-term liabilities | 203.9                                    | 41.3                                | 245.2                                  |
| Deferred income taxes                    | 576.4                                    | 4.4                                 | 580.8                                  |
| Retained earnings                        | 3,832.6                                  | 13.0                                | 3,845.6                                |

The adoption of the new lease accounting standard did not have a material impact on the Company's results of operations or cash flows.

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

### 3. Inventories

Inventories consist of the following:

|                            | March<br>31,<br>2019 | December<br>31,<br>2018 |
|----------------------------|----------------------|-------------------------|
| Raw materials and supplies | \$ 81.7              | \$ 84.4                 |
| Work in process            | 36.1                 | 34.1                    |
| Finished goods             | 281.7                | 264.3                   |
| Total                      | \$ 399.5             | \$ 382.8                |

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

PP&E consists of the following:

|  | March<br>31,<br>2019 | December<br>31,<br>2018 |
|--|----------------------|-------------------------|
| Land   | \$27.8               | \$ 27.8                 |
| Buildings and improvements                     | 250.8                | 301.3                   |
| Machinery and equipment                        | 726.9                | 716.7                   |
| Software                                       | 99.0                 | 97.9                    |
| Office equipment and other assets              | 75.6                 | 73.8                    |
| Construction in progress                       | 46.8                 | 49.7                    |
| Gross PP&E                                     | 1,226.9              | 1,267.2                 |
| Less accumulated depreciation and amortization | 668.1                | 669.0                   |
| Net PP&E                                       | \$558.8              | \$ 598.2                |

|                                       | Three Months<br>Ended |                      |
|---------------------------------------|-----------------------|----------------------|
|                                       | March<br>31,<br>2019  | March<br>31,<br>2018 |
| Depreciation and amortization on PP&E | \$ 15.8               | \$ 16.4              |

**5. Earnings Per Share (“EPS”)**

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

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

|  | Three Months<br>Ended |                      |
|--|-----------------------|----------------------|
|  | March<br>31,<br>2019  | March<br>31,<br>2018 |
| Weighted average common shares outstanding - basic   | 246.1                 | 244.9                |
| Dilutive effect of stock options                     | 5.8                   | 5.1                  |
| Weighted average common shares outstanding - diluted | 251.9                 | 250.0                |
| Antidilutive stock options outstanding               | 0.1                   | 3.1                  |

**6. Stock Based Compensation Plans**

The following table provides a summary of option activity:

|                                  | Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|---------|--|---|---------------------------------|
| Outstanding at December 31, 2018 | 14.7    | \$ 37.63                                 |   |                                 |
| Exercised                        | (0.7 )  | 28.49                                    |   |                                 |
| Outstanding at March 31, 2019    | 14.0    | \$ 38.00                                 | 5.4   | \$ 465.4                        |
| Exercisable at March 31, 2019    | 8.9     | \$ 30.90                                 | 4.1   | \$ 357.6                        |

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

|   | Three Months<br>Ended |                      |
|---|-----------------------|----------------------|
|   | March<br>31,<br>2019  | March<br>31,<br>2018 |
| Intrinsic Value of Stock Options Exercised                | \$24.1                | \$30.0               |
| Stock Compensation Expense Related to Stock Option Awards | \$2.3                 | \$2.7                |

7. Share Repurchases

On November 1, 2017, the Company's Board of Directors (the "Board") authorized a share repurchase program, under which the Company may repurchase up to \$500.0 in shares of Common Stock (the "2017 Share Repurchase Program"). The 2017 Share Repurchase Program does not have an expiration. The Company also continued its evergreen share repurchase program, authorized by the Board on January 29, 2014, under which the Company may repurchase, from time to time, Common Stock to reduce or eliminate dilution associated with issuances of Common Stock under the Company's incentive plans.

In connection with the evergreen repurchase program, in January 2019, the Company executed open market purchases of \$100.0 of its Common Stock.



**8. Fair Value Measurements**

The following table presents the carrying amounts and estimated fair values of the Company's other financial instruments at March 31, 2019 and December 31, 2018:

|  |             | March 31, 2019  |            | December 31, 2018 |            |
|--|-------------|-----------------|------------|-------------------|------------|
|  | Input Level | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| <b>Financial Assets:</b>   |             |                 |            |                   |            |
| Cash equivalents   | Level 1     | \$52.9          | \$52.9     | \$234.6           | \$234.6    |
| <b>Financial Liabilities:</b>  |             |                 |            |                   |            |
| Short-term borrowings  | Level 2     | 99.8            | 99.8       | 1.8               | 1.8        |
| Floating Rate Senior notes due January 25, 2019                                      | Level 2     | 0.0             | 0.0        | 300.0             | 299.9      |
| 2.45% Senior notes due December 15, 2019   | Level 2     | 300.0           | 298.7      | 300.0             | 297.4      |
| 2.45% Senior notes due August 1, 2022  | Level 2     | 299.8           | 293.8      | 299.7             | 289.7      |
| 2.875% Senior notes due October 1, 2022  | Level 2     | 399.9           | 397.1      | 399.9             | 393.0      |
| 3.15% Senior notes due August 1, 2027  | Level 2     | 424.6           | 408.9      | 424.6             | 400.0      |
| 3.95% Senior notes due August 1, 2047  | Level 2     | 397.2           | 379.7      | 397.2             | 363.7      |
| Contingent consideration   | Level 3     | 23.0            | 23.0       | 23.0              | 23.0       |
| Fair value adjustment asset (liability) related to hedged fixed rate debt instrument | Level 2     | (1.9 )          | (1.9 )     | (3.0 )            | (3.0 )     |
| Interest Rate Swap Lock Agreement  | Level 2     | (14.5 )         | (14.5 )    | (7.0 )            | (7.0 )     |

The Company recognizes transfers between input levels as of the actual date of the event. There were no transfers between input levels during the three months ended March 31, 2019.

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

The carrying amounts of accounts receivable, and accounts payable and accrued expenses, approximated estimated fair values as of March 31, 2019 and December 31, 2018.

**9. Derivative Instruments and Risk Management**

Changes in interest rates, foreign exchange rates, the price of the Common Stock and commodity prices expose the Company to market risk. The Company manages these risks by the use of derivative instruments, such as cash flow and fair value hedges, diesel and commodity hedge contracts, equity derivatives and foreign exchange forward contracts. The Company does not use derivatives for trading or speculative purposes. Refer to Note 3 in the Form 10-K for a discussion of each of the Company's derivative instruments in effect as of December 31, 2018.

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

| Notional Amount | Notional Amount |
|-----------------|-----------------|
|-----------------|-----------------|

|   | March<br>31, 2019 | December<br>31, 2018 |
|---|-------------------|----------------------|
| Derivatives designated as hedging instruments     |                   |                      |
| Foreign exchange contracts                        | \$ 215.8          | \$ 146.6             |
| Interest rate swap                                | \$ 300.0          | \$ 300.0             |
| Interest rate swap lock                           | \$ 300.0          | \$ 250.0             |
|   | 7.0               | 8.2                  |
| Diesel fuel contracts                             | gallons           | gallons              |
|   | 79.5              | 94.7                 |
| Commodities contracts                             | pounds            | pounds               |
| Derivatives not designated as hedging instruments |                   |                      |
| Equity derivatives                                | \$ 21.7           | \$ 21.0              |

The fair values and amount of gain (loss) recognized in income and Other Comprehensive Income (“OCI”) associated with the derivative instruments disclosed above did not have a material impact on the Company’s condensed consolidated financial statements.

**10. Acquisitions**

On March 8, 2018, the Company purchased Passport Food Safety Solutions, Inc. (“Passport”). Passport sells products for pre- and post-harvest treatment in the poultry, swine, and beef production markets (the “Passport Acquisition”). The total purchase price was approximately \$50.0, which is subject to an additional payment of up to \$25.0 based on sales performance through 2020. Passport’s annual sales were approximately \$21.0 in 2017. The Passport Acquisition was funded with short-term borrowings and is managed in the SPD segment.

The fair values of the net assets acquired are set forth as follows:

|  | Passport<br>Acquisition<br>Date<br>Fair Value |
|--|---|
| Inventory and other working capital        | \$ 3.3  |
| Long-term assets                           | 1.0   |
| Trade names and other intangibles          | 28.5  |
| Goodwill                                   | 32.5  |
| Current liabilities                        | (1.1 )  |
| Long-term liabilities                      | (7.1 )  |
| Contingent consideration                   | (7.3 )  |
| Cash purchase price (net of cash acquired) | \$ 49.8                                       |

The life of the amortizable intangible assets recognized from the Passport Acquisition ranges from 10 - 15 years. The goodwill is a result of expected synergies from combined operations of the acquisition and the Company. Pro forma results are not presented because the impact is not material to the Company’s consolidated financial results.

The goodwill and other intangible assets associated with the Passport Acquisition are not deductible for U.S. tax purposes.



**11. Goodwill and Other Intangibles, Net**

The following table provides information related to the carrying value of all intangible assets, other than goodwill:

|                                       | March 31, 2019              |                             |          | Amortization<br>Period<br>(Years) | December 31, 2018           |                             |          |
|---------------------------------------|-----------------------------|-----------------------------|----------|-----------------------------------|-----------------------------|-----------------------------|----------|
|                                       | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net      |                                   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net      |
| <u>Amortizable intangible assets:</u> |                             |                             |          |                                   |                             |                             |          |
| Trade Names                           | \$ 578.4                    | \$ (182.6 )                 | \$ 395.8 | 3-20                              | \$ 578.6                    | \$ (175.2 )                 | \$ 403.4 |
| Customer Relationships                | 506.3                       | (228.5 )                    | 277.8    | 15-20                             | 506.3                       | (220.8 )                    | 285.5    |
| Patents/Formulas                      | 165.4                       | (63.9 )                     | 101.5    | 4-20                              | 165.4                       | (61.5 )                     | 103.9    |
| Non-Compete Agreement                 | 0.4                         | (0.3 )                      | 0.1      | 5-10                              | 0.4                         | (0.3 )                      | 0.1      |
| Total                                 | \$ 1,250.5                  | \$ (475.3 )                 | \$ 775.2 |                                   | \$ 1,250.7                  | \$ (457.8 )                 | \$ 792.9 |

Indefinite Lived Intangible Assets - Gross Carrying Amount

|             | March<br>31,<br>2019 | December<br>31,<br>2018 |
|-------------|----------------------|-------------------------|
| Trade Names | \$ 1,481.1           | \$ 1,481.1              |

Intangible amortization expense amounted to \$17.6 and \$18.0 for the first three months of 2019 and 2018, respectively. The Company estimates that intangible amortization expense will be approximately \$70.0 in 2019 and approximately \$68.0 to \$59.0 annually over the next five years.

The Company determined that the carrying value of its trade names as of December 31, 2018 and 2017, was recoverable based upon the forecasted cash flows and profitability of the brands. In 2017 there was a personal care trade name that, based on performance, had experienced sales and profit declines that had eroded a significant portion of the excess between fair and carrying value, which could potentially result in an impairment of the asset. In 2017, this excess had been reduced due in large part to an increased competitive market environment therefore resulting in reduced cash flow projections. The performance of the tradename improved in 2018, thereby increasing the excess between fair value and carrying value. The Company continues to monitor performance and should there be any significant change in forecasted assumptions or estimates, including sales, profitability and discount rate, the Company may be required to recognize an impairment charge.

The carrying amount of goodwill is as follows:

|                              | Consumer<br>Domestic | Consumer<br>International | Specialty<br>Products | Total      |
|------------------------------|----------------------|---------------------------|-----------------------|------------|
| Balance at December 31, 2018 | \$ 1,633.2           | \$ 223.7                  | \$ 136.0              | \$ 1,992.9 |
| Balance at March 31, 2019    | \$ 1,633.2           | \$ 223.7                  | \$ 136.0              | \$ 1,992.9 |

**12. Leases**

The Company leases certain manufacturing facilities, warehouses, office space, railcars and equipment. Leases with an initial term of twelve months or less are not recorded on the Condensed Consolidated Balance Sheet. All recorded leases are classified as operating leases and lease expense is recognized on a straight-line basis over the lease term. For leases beginning in 2019, lease components (base rental costs) are accounted for separately from the nonlease components (e.g., common-area maintenance costs). For leases that do not provide an implicit rate, the Company uses its estimated secured incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

A summary of the Company's lease information is as follows:

|   | Classification                           | March<br>31,<br>2019 |
|---|--|----------------------|
| <b>Assets</b>                                 |  |                      |
| Right of use assets                           | Other Assets                             | \$ 104.7             |
| <b>Liabilities</b>                            |  |                      |
| Current lease liabilities                     | Accounts Payable and Accrued Expenses    | \$ 17.3              |
| Long-term lease liabilities                   | Deferred and Other Long-term Liabilities | 96.4                 |
| Total lease liabilities                       |  | \$ 113.7             |
| <b>Other information</b>                      |  |                      |
| Weighted-average remaining lease term (years) |  | 9.7                  |
| Weighted-average discount rate                |  | 5.7 %                |

|                           | Three<br>Months<br>Ended<br>March 31,<br>2019 |
|---------------------------|---|
| Statement of<br>Income    |   |
| Lease cost <sup>(1)</sup> | \$ 5.6  |

|  |        |
|--|--------|
| Other<br>information   |        |
| Leased assets<br>obtained in<br>exchange for<br>new lease<br>liabilities                 | \$ 1.3 |
| Cash paid for<br>amounts<br>included in<br>the<br>measurement<br>of lease<br>liabilities | \$ 6.0 |

<sup>(1)</sup>Lease expense is included in cost of sales or selling, general and administrative expenses based on the nature of the lease. Short term lease expense is excluded from this amount and is not material. The Company also has certain variable leases which are not material. The noncash component of lease expense is included in the Amortization caption in the Statement of Cash Flows.

The Company's minimum annual rentals including reasonably assured renewal options under lease agreements are as follows:

|  | Operating<br>Leases |
|--|---------------------|
| 2019                                   | \$ 17.3             |
| 2020                                   | 21.0                |
| 2021                                   | 18.5                |
| 2022                                   | 17.2                |
| 2023                                   | 11.1                |
| 2024 and thereafter                    | 65.7                |
| Total future minimum lease commitments | 150.8               |
| Less: Imputed Interest                 | (37.1 )             |
| Present value of lease liabilities     | \$ 113.7            |

### 13. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

|   | March<br>31,<br>2019 | December<br>31,<br>2018 |
|---|----------------------|-------------------------|
| Trade accounts payable                  | \$434.8              | \$ 430.2                |
| Accrued marketing and promotion costs   | 110.1                | 116.2                   |
| Accrued wages and related benefit costs | 34.6                 | 84.2                    |
| Other accrued current liabilities       | 119.6                | 94.5                    |
| Total                                   | \$699.1              | \$ 725.1                |

### 14. Short-Term Borrowings and Long-Term Debt

Short-term borrowings and long-term debt consist of the following:

|   | March 31,<br>2019 | December 31,<br>2018 |
|---|-------------------|----------------------|
| Short-term borrowings                   |                   |                      |
| Commercial paper issuances              | \$ 98.0           | \$ 0.0               |
| Various debt due to international banks | 1.8               | 1.8                  |
| Total short-term borrowings             | \$ 99.8           | \$ 1.8               |



|  |    |         |    |         |
|--|----|---------|----|---------|
| Long-term debt   |    |         |    |         |
| Floating Rate Senior notes due January 25, 2019                                      | \$ | 0.0     | \$ | 300.0   |
| 2.45% Senior notes due December 15, 2019   |    | 300.0   |    | 300.0   |
| 2.45% Senior notes due August 1, 2022  |    | 300.0   |    | 300.0   |
| Less: Discount   |    | (0.2)   |    | (0.3)   |
| 2.875% Senior notes due October 1, 2022  |    | 400.0   |    | 400.0   |
| Less: Discount   |    | (0.1)   |    | (0.1)   |
| 3.15% Senior notes due August 1, 2027  |    | 425.0   |    | 425.0   |
| Less: Discount   |    | (0.4)   |    | (0.4)   |
| 3.95% Senior notes due August 1, 2047  |    | 400.0   |    | 400.0   |
| Less: Discount   |    | (2.8)   |    | (2.8)   |
| Debt issuance costs, net   |    | (12.5)  |    | (13.1)  |
| Fair value adjustment asset (liability) related to hedged fixed rate debt instrument |    | (1.9)   |    | (3.0)   |
| Total long-term debt   |    | 1,807.1 |    | 2,105.3 |
| Less: current maturities   |    | (297.7) |    | (596.5) |
| Net long-term debt   | \$ | 1,509.4 | \$ | 1,508.8 |

15

**15. Accumulated Other Comprehensive Income (Loss)**

The components of changes in accumulated other comprehensive income (loss) are as follows:

|  | Foreign<br>Currency<br>Adjustments | Defined<br>Benefit<br>Plans | Derivative<br>Agreements | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|------------------------------------|-----------------------------|--------------------------|--|
| Balance at December 31, 2017                               | \$ (31.6 )                         | \$ (0.6 )                   | \$ (4.2 )                | \$ (36.4 )   |
| Adoption of new accounting pronouncement                   | (0.3 )                             | 0.1                         | (0.4 )                   | (0.6 )   |
| Other comprehensive income (loss) before reclassifications | 3.5                                | 0.0                         | 0.1                      | 3.6  |
| Amounts reclassified to consolidated statement of          |                                    |                             |                          |  |
| income <sup>(a)</sup>                                      | 0.0                                | 0.0                         | (0.1 )                   | (0.1 )   |
| Tax benefit (expense)                                      | 0.0                                | 0.0                         | (0.2 )                   | (0.2 )   |
| Other comprehensive income (loss)                          | 3.5                                | 0.0                         | (0.2 )                   | 3.3  |
| Balance at March 31, 2018                                  | \$ (28.4 )                         | \$ (0.5 )                   | \$ (4.8 )                | \$ (33.7 )   |
| Balance at December 31, 2018                               | \$ (42.5 )                         | \$ 0.9                      | \$ (12.0 )               | \$ (53.6 )   |
| Other comprehensive income (loss) before reclassifications | 1.8                                | 0.0                         | (10.4 )                  | (8.6 )   |
| Amounts reclassified to consolidated statement of          |                                    |                             |                          |  |
| income <sup>(a)</sup>                                      | 0.0                                | 0.0                         | 0.0                      | 0.0  |
| Tax benefit (expense)                                      | 0.0                                | 0.0                         | 2.7                      | 2.7  |
| Other comprehensive income (loss)                          | 1.8                                | 0.0                         | (7.7 )                   | (5.9 )   |
| Balance at March 31, 2019                                  | \$ (40.7 )                         | \$ 0.9                      | \$ (19.7 )               | \$ (59.5 )   |

(a) Amounts reclassified to cost of sales or interest expense.

**16. Commitments, Contingencies and Guarantees****Commitments**

a. The Company has a partnership with a supplier of raw materials that mines and processes sodium-based mineral deposits. The Company purchases the majority of its sodium-based raw material requirements from the partnership. The partnership agreement terminates upon two years' written notice by either partner. Under the partnership agreement, the Company has an annual commitment to purchase 240,000 tons of sodium-based raw materials at the prevailing market price. The Company is not engaged in any other material transactions with the partnership or the partner supplier.

b. As of March 31, 2019, the Company had commitments of approximately \$240.1. These commitments include the purchase of raw materials, packaging supplies and services from its vendors at market prices to enable the Company to respond quickly to changes in customer orders or requirements, as well as costs associated with licensing and promotion agreements.

c. As of March 31, 2019, the Company had various guarantees and letters of credit totaling \$5.2.

d. In connection with the Company's acquisition of Agro BioSciences, Inc. (the "Agro Acquisition") on January 17, 2017, the Company is obligated to pay an additional amount of up to \$25.0 based on sales performance in 2019. The initial fair value of this contingent liability was \$17.8, which was established in the purchase price allocation. Subsequent to the Agro Acquisition, the Company increased the estimate of the contingent consideration liability \$5.4 in the fourth quarter of 2017 from \$17.8 to \$23.2 based on updated sales forecasts. However in 2018, the Company lowered its estimate by \$7.5 to \$15.7 based on updated sales forecasts. The reduction was recorded in SG&A in the SPD segment. There were no changes to the liability during the first quarter of 2019 and the liability will be assessed for re-measurement at each balance sheet date leading up to December 31, 2019.

In connection with the Passport Acquisition, the Company is obligated to pay an additional amount of up to \$25.0 based on sales performance through 2020. The initial fair value of this contingent liability was \$7.3, which was established in the purchase price allocation. There were no changes to the liability during the first quarter of 2019 and the liability will be assessed for re-measurement at each balance sheet date leading up to December 31, 2020.

*Legal proceedings*

e. The Company has been named as a defendant in a breach of contract action filed by Scantibodies Laboratory, Inc. (the “Plaintiff”) on April 1, 2014, in the U.S. District Court for the Southern District of New York.

The complaint alleges, among other things, that the Company (i) breached two agreements for the manufacture and supply of pregnancy and ovulation test kits by switching suppliers, (ii) failed to give Plaintiff the proper notice, (iii) failed to reimburse Plaintiff for costs and expenses under the agreements and (iv) misrepresented its future requirements. The complaint seeks compensatory and punitive damages in an amount in excess of \$20.0, as well as declaratory relief, statutory prejudgment interest and attorneys’ fees and costs.

The Company is vigorously defending itself in this matter. On September 19, 2018, the court granted the Company’s motion for summary judgment, dismissing all claims brought by the Plaintiff. The Plaintiff has filed an appeal.

In connection with this matter, the Company has reserved an amount that is immaterial. However, it is reasonably possible that the Company may ultimately be required to pay all or substantially all of the damages and other amounts sought by Plaintiff in the event the summary judgment entered in favor of the Company is reversed.

f. In addition, in conjunction with the Company’s acquisition and divestiture activities, the Company entered into select guarantees and indemnifications of performance with respect to the fulfillment of the Company’s commitments under applicable purchase and sale agreements. The arrangements generally indemnify the buyer or seller for damages associated with breach of contract, inaccuracies in representations and warranties surviving the closing date and satisfaction of liabilities and commitments retained under the applicable contract. Representations and warranties that survive the closing date generally survive for periods up to five years or the expiration of the applicable statutes of limitations. Potential losses under the indemnifications are generally limited to a portion of the original transaction price, or to other lesser specific dollar amounts for select provisions. With respect to sale transactions, the Company also routinely enters into non-competition agreements for varying periods of time. Guarantees and indemnifications with respect to acquisition and divestiture activities, if triggered, could have a materially adverse impact on the Company’s financial condition, results of operations and cash flows.

g. In addition to the matters described above, from time to time in the ordinary course of its business the Company is the subject of, or party to, various pending or threatened legal, regulatory or governmental actions or other proceedings without limitation, those relating to, intellectual property, commercial transactions, product liability, purported consumer class actions,

Such proceedings are generally subject to considerable uncertainty and their outcomes, and any related damages, may not be reasonably predictable or estimable. While any such proceedings could result in an adverse outcome for the Company, any such adverse outcome is not expected to have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows.

**17. Related Party Transactions**

The following summarizes the balances and transactions between the Company and Armand Products Company (“Armand”) and The ArmaKleen Company (“ArmaKleen”), in each of which the Company holds a 50% ownership interest:

|   | Armand |        | ArmaKleen |        |
|---|--------|--------|-----------|--------|
|   | Three  |        | Three     |        |
|   | Months |        | Months    |        |
|   | Ended  |        | Ended     |        |
|   | March  | March  | March     | March  |
|   | 31,    | 31,    | 31,       | 31,    |
|   | 2019   | 2018   | 2019      | 2018   |
| Purchases by Company  | \$2.8  | \$ 3.5 | \$0.0     | \$ 0.0 |
| Sales by Company  | \$0.0  | \$ 0.0 | \$0.3     | \$ 0.3 |
| Outstanding Accounts Receivable                               | \$0.5  | \$ 0.3 | \$0.8     | \$ 0.7 |
| Outstanding Accounts Payable                                  | \$1.0  | \$ 1.2 | \$0.0     | \$ 0.0 |
| Administration & Management Oversight Services <sup>(1)</sup> | \$0.6  | \$ 0.6 | \$0.5     | \$ 0.5 |

<sup>(1)</sup> Billed by the Company and recorded as a reduction of SG&A expenses.

**18. Segments****Segment Information**

The Company operates three reportable segments: Consumer Domestic, Consumer International and SPD. These segments are determined based on differences in the nature of products and organizational and ownership structures. The Company also has a Corporate segment.

Segment revenues are derived from the sale of the following products:

|                           |  |
|---------------------------|--|
| Segment                   | Products   |
|                           | Household<br>and<br>personal<br>care<br>products |
| Consumer<br>Domestic      | Primarily<br>personal<br>care<br>products        |
| Consumer<br>International | Specialty<br>chemical<br>products                |
| SPD                       |  |

The Corporate segment income consists of equity in earnings of affiliates. As of March 31, 2019, the Company held 50% ownership interests in each of Armand and ArmaKleen, respectively. The Company's equity in earnings of Armand and ArmaKleen for the three months ended March 31, 2019 and 2018 are included in the Corporate segment.

Certain subsidiaries that are included in the Consumer International segment manufacture and sell personal care products to the Consumer Domestic segment. These sales are eliminated from the Consumer International segment results set forth in the table below.

Segment Net Sales and Income before Income Taxes are as follows:

|                          | Consumer<br>Domestic | Consumer<br>International | SPD    | Corporate | Total     |
|--------------------------|----------------------|---------------------------|--------|-----------|-----------|
| Net Sales <sup>(1)</sup> |                      |                           |        |           |           |
| First Quarter 2019       | \$ 784.9             | \$ 186.7                  | \$73.1 | \$ 0.0    | \$1,044.7 |
| First Quarter 2018       | 751.4                | 180.7                     | 73.9   | 0.0       | 1,006.0   |

Income before Income Taxes<sup>(2)</sup>

|                    |          |         |        |        |         |
|--------------------|----------|---------|--------|--------|---------|
| First Quarter 2019 | \$ 182.7 | \$ 28.4 | \$12.3 | \$ 1.7 | \$225.1 |
| First Quarter 2018 | 159.3    | 27.7    | 11.6   | 2.1    | 200.7   |

<sup>(1)</sup> Intersegment sales from Consumer International to Consumer Domestic, which are not reflected in the table, were \$2.3 and \$0.9 for the three months ended March 31, 2019 and March 31, 2018, respectively

<sup>(2)</sup> In determining Income before Income Taxes, interest expense, investment earnings and certain aspects of other income and expense were allocated among segments based upon each segment's relative Income from Operations.

Product line revenues from external customers are as follows:

|                              | Three Months<br>Ended |                      |
|------------------------------|-----------------------|----------------------|
|                              | March<br>31,<br>2019  | March<br>31,<br>2018 |
| Household Products           | \$443.3               | \$413.0              |
| Personal Care Products       | 341.6                 | 338.4                |
| Total Consumer Domestic      | 784.9                 | 751.4                |
| Total Consumer International | 186.7                 | 180.7                |
| Total SPD                    | 73.1                  | 73.9                 |
| Total Consolidated Net Sales | \$1,044.7             | \$1,006.0            |

Household Products include laundry, deodorizing and cleaning products. Personal Care Products include condoms, pregnancy kits, oral care products, skin care and hair care products and gummy dietary supplements.

## 19. Subsequent Event

### Flawless Acquisition

On May 1, 2019, the Company closed on its previously announced acquisition of the FLAWLESS™ and FINISHING TOUCH™ hair removal business (the “Flawless Acquisition”) from Ideavillage Products Corporation. The Company paid \$475.0 at closing and will make an additional earn-out payment up to a maximum of \$425.0 in cash, based on a trailing twelve-month net sales target ending no later than December 31, 2021. The transaction was funded with a three-year term loan and commercial paper borrowings. The Company anticipates there will be a four-month integration transition period in which the net cash received from Ideavillage will be accounted for as other revenue as a component of net sales. The Company will purchase the inventory following the transition period. FLAWLESS will be accounted for in the Consumer Domestic and Consumer International segments and represents an addition to our specialty haircare portfolio which includes BATISTE dry shampoo, VIVISCAL hair thinning supplements, and TOPPIK hair fibers.

The preliminary fair values of the net assets acquired are set forth as follows:

Flawless  
Acquisition  
Date  
Preliminary



|                                   | Fair Value |
|-----------------------------------|------------|
| Trade names and other intangibles | \$ 559.0   |
| Goodwill                          | 98.0       |
| Contingent consideration          | (182.0 )   |
| Cash purchase price               | \$ 475.0   |

The goodwill and other intangible assets associated with the Flawless Acquisition is deductible for U.S. tax purposes. Pro forma results are not presented because the impact of the acquisition is not material to the Company's consolidated financial results.

#### Amended Credit Agreement

On May 1, 2019, the Company amended its \$1,000.0 unsecured revolving credit facility (the "Credit Agreement") to extend the term of the Credit Agreement from March 29, 2023 to March 29, 2024. Under the Credit Agreement, the Company continues to have the ability to increase its borrowing up to an additional \$600.0, subject to lender commitments and certain conditions as described in the Credit Agreement. Borrowings under the Credit Agreement are available for general corporate purposes and are used to support the Company's \$1,000.0 commercial paper program.

#### New Term Loan

On May 1, 2019, the Company entered into a new \$300.0 unsecured term loan credit facility with various banks, the proceeds of which were used to partially fund the Flawless Acquisition. Unless prepaid, the loan is due on May 1, 2022. The interest rate is LIBOR plus an applicable margin based on the Company's credit rating, which can range from 60 bps to 113 bps.

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

(In millions, except per share data)

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Recent Developments

##### Flawless Acquisition

On May 1, 2019, we closed on our previously announced acquisition of the FLAWLESS™ and FINISHING TOUCH™ hair removal business (the “Flawless Acquisition”) from Ideavillage Products Corporation. We paid \$475.0 at closing and will make an additional earn-out payment up to a maximum of \$425.0 in cash, based on a trailing twelve-month net sales target ending no later than December 31, 2021. The transaction was funded with a three-year term loan and commercial paper borrowings. We anticipate there will be a four-month integration transition period in which the net cash received from Ideavillage will be accounted for as other revenue as a component of net sales. We will purchase the inventory following the transition period. FLAWLESS will be accounted for in the Consumer Domestic and Consumer International segments and represents an addition to our specialty haircare portfolio which includes BATISTE dry shampoo, VIVISCAL hair thinning supplements, and TOPPIK hair fibers.

##### Amended Credit Agreement

On May 1, 2019, we amended our \$1,000.0 unsecured revolving credit facility (the “Credit Agreement”) to extend the term of the Credit Agreement from March 29, 2023 to March 29, 2024. Under the Credit Agreement, we continue to have the ability to increase our borrowing up to an additional \$600.0, subject to lender commitments and certain conditions as described in the Credit Agreement. Borrowings under the Credit Agreement are available for general corporate purposes and are used to support our \$1,000.0 commercial paper program.

##### New Term Loan

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Results of OperationsConsolidated results

|  | Three<br>Months<br>Ended<br>March<br>31, 2019 | Change vs.<br>Prior Year | Three<br>Months<br>Ended<br>March<br>31, 2018 |   |
|--|---|--------------------------|---|---|
| Net Sales                                  | \$1,044.7                                     | 3.8%                     | \$1,006.0                                     |   |
| Gross Profit                               | \$470.8                                       | 4.3%                     | \$451.5                                       |   |
| Gross Margin                               | 45.1  | % +20 basis points       | 44.9  | % |
| Marketing Expenses                         | \$98.1  | -1.8%                    | \$99.9  |   |
| Percent of Net Sales                       | 9.4   | % -50 basis points       | 9.9   | % |
| Selling, General & Administrative Expenses | \$131.9                                       | 0.5%                     | \$131.3                                       |   |
| Percent of Net Sales                       | 12.6  | % -50 basis points       | 13.1  | % |
| Income from Operations                     | \$240.8                                       | 9.3%                     | \$220.3                                       |   |
| Operating Margin                           | 23.1  | % +120 basis points      | 21.9  | % |
| Net income per share - Diluted             | \$0.70  | 11.1%                    | \$0.63  |   |

*Net Sales*

Net sales for the quarter ended March 31, 2019 were \$1,044.7, an increase of \$38.7 or 3.8% as compared to the same period in 2018. The components of the net sales increase are as follows:

|   | Three<br>Months<br>Ended<br>March<br>31,<br>2019 |   |
|---|--|---|
| Net Sales - Consolidated                          |  |   |
| Product volumes sold                              | 2.2  | % |
| Pricing/Product mix                               | 2.3  | % |
| Foreign exchange rate fluctuations                | (1.0)  | % |
| Volume from acquired product lines <sup>(1)</sup> | 0.3  | % |
| Net Sales increase                                | 3.8  | % |

<sup>(1)</sup>On March 8, 2018, we acquired Passport Food Safety Solutions, Inc. (“Passport”).

For the three months ended March 31, 2019, the volume change primarily reflects increased product sales in both the Consumer Domestic and Consumer International segments, with volume declines in Specialty Products. For the three months ended March 31, 2019, favorable price/mix in the Consumer Domestic and SPD segments were partially offset by unfavorable price/mix in the Consumer International segment.

*Gross Profit / Gross Margin*

Our gross profit was \$470.8 for the three months ended March 31, 2019, a \$19.3 increase as compared to the same period in 2018. Gross margin increased 20 basis points (“bps”) in the first quarter of 2019 compared to the same period in 2018, primarily due to productivity programs of 130 bps, and favorable price/volume mix of 70 bps, partially offset by higher commodity and transportation costs of 100 bps, and other manufacturing cost increases of 80 bps.

*Operating Expenses*

Marketing expenses for the three months ended March 31, 2019 were \$98.1, a decrease of \$1.8 or 1.8% as compared to the same period in 2018. Marketing expenses as a percentage of net sales in the first quarter of 2019 decreased by 50 bps to 9.4% as compared to 9.9% in the same period in 2018 due to 30 bps of leverage on higher net sales and 20 bps on lower expenses.

Selling, general and administrative (“SG&A”) expenses were \$131.9 in the first quarter of 2019, an increase of \$0.6 or 0.5% as compared to the same period in 2018. SG&A as a percentage of net sales decreased 50 bps to 12.6% in the first quarter of 2019 as compared to 13.1% in the same period in 2018. The decrease is due to 50 bps of leverage associated with higher sales.

*Other Income and Expenses*

Other expense, net for the three months ended March 31, 2019 decreased \$2.0 compared to the same period in 2018 primarily due to the effect of changes in foreign exchange rates.

Interest expense for the three months ended March 31, 2019 decreased \$2.3 as compared to the same period in 2018 primarily due to a lower amount of average debt outstanding primarily associated with repayment of the \$300.0 Floating Rate Senior Notes that matured on January 25, 2019 and lower commercial paper borrowings in 2019 as compared to the same period in 2018.

#### Income Taxes

The effective tax rate for the three months ended March 31, 2019 was 21.9% compared to 21.4% in the same period in 2018. The increase in the tax rate is primarily due to a lower tax benefit on a lower amount of stock option exercises.

## Segment results

We operate three reportable segments: Consumer Domestic, Consumer International and SPD. These segments are determined based on differences in the nature of products and organizational and ownership structures. We also have a Corporate segment.

|               |           |
|---------------|-----------|
| Segment       | Products  |
|               | Household |
|               | and       |
|               | personal  |
| Consumer      | care      |
| Domestic      | products  |
|               | Primarily |
|               | personal  |
| Consumer      | care      |
| International | products  |
|               | Specialty |
|               | chemical  |
| SPD           | products  |

The Corporate segment income consists of equity in earnings of affiliates. As of March 31, 2019, we held 50% ownership interests in each of Armand Products Company (“Armand”) and The ArmaKleen Company (“ArmaKleen”), respectively. Our equity in earnings of Armand and ArmaKleen for the three months ended March 31, 2019 and 2018 are included in the Corporate segment. Certain subsidiaries that are included in the Consumer International segment manufacture and sell personal care products to the Consumer Domestic segment. These sales are eliminated from the Consumer International segment results set forth below.

Segment net sales and income before income taxes for the months ended March 31, 2019 and March 31, 2018 are as follows:

|   | Consumer<br>Domestic | Consumer<br>International | SPD    | Corporate | Total     |
|---|----------------------|---------------------------|--------|-----------|-----------|
| Net Sales <sup>(1)</sup>                  |                      |                           |        |           |           |
| First Quarter 2019                        | \$ 784.9             | \$ 186.7                  | \$73.1 | \$ 0.0    | \$1,044.7 |
| First Quarter 2018                        | 751.4                | 180.7                     | 73.9   | 0.0       | 1,006.0   |
| Income before Income Taxes <sup>(2)</sup> |                      |                           |        |           |           |
| First Quarter 2019                        | \$ 182.7             | \$ 28.4                   | \$12.3 | \$ 1.7    | \$225.1   |
| First Quarter 2018                        | 159.3                | 27.7                      | 11.6   | 2.1       | 200.7     |

<sup>(1)</sup> Intersegment sales from Consumer International to Consumer Domestic, which are not reflected in the table, were \$2.3 and \$0.9 for the three months ended March 31, 2019 and March 31, 2018, respectively.

<sup>(2)</sup> In determining Income before Income Taxes, interest expense, investment earnings and certain aspects of other income and expense were allocated among the segments based upon each segment's relative Income from Operations.

Product line revenues from external customers are as follows:

|                              | Three Months |           |
|------------------------------|--------------|-----------|
|                              | Ended        |           |
|                              | March        | March     |
|                              | 31,          | 31,       |
|                              | 2019         | 2018      |
| Household Products           | \$443.3      | \$413.0   |
| Personal Care Products       | 341.6        | 338.4     |
| Total Consumer Domestic      | 784.9        | 751.4     |
| Total Consumer International | 186.7        | 180.7     |
| Total SPD                    | 73.1         | 73.9      |
| Total Consolidated Net Sales | \$1,044.7    | \$1,006.0 |

Household Products include laundry, deodorizing, and cleaning products. Personal Care Products include condoms, pregnancy kits, oral care products, skin care and hair care products and gummy dietary supplements.

**Consumer Domestic**

Consumer Domestic net sales in the first quarter of 2019 were \$784.9, an increase of \$33.5 or 4.5% as compared to the same period in 2018. The components of the net sales change are the following:

|                               |  |   |
|-------------------------------|--|---|
|                               | Three<br>Months<br>Ended<br>March<br>31,<br>2019 |   |
| Net Sales - Consumer Domestic |  |   |
| Product volumes sold          | 1.0  | % |
| Pricing/Product mix           | 3.5  | % |
| Net Sales increase            | 4.5  | % |

The increase in net sales for the three months ended March 31, 2019, reflects higher sales of ARM & HAMMER liquid and unit dose laundry detergent, ARM & HAMMER clumping cat litter, TROJAN condoms, XTRA liquid laundry detergent, L'IL CRITTERS gummy vitamins, and BATISTE dry shampoo.

There continues to be significant product competition in the gummy vitamin category. The category has grown from eight competitors to 30 in the last five years. We continue to evaluate and vigorously combat these pressures through, among other things, new product introductions and increased marketing and trade spending. However, there is no assurance this category will not decline in the future and that we will be able to offset any such decline.

Consumer Domestic income before income taxes for the first quarter of 2019 was \$182.7, a \$23.4 increase as compared to the first quarter of 2018. The increase is due primarily to favorable price/mix of \$18.9, lower marketing expenses of \$4.2, lower interest and other expenses of \$3.4, higher sales volumes of \$1.4, lower SG&A costs of \$1.0, partially offset by unfavorable manufacturing and distribution costs of \$5.5.

**Consumer International**

Consumer International net sales were \$186.7 in the first quarter of 2019, an increase of \$6.0 or 3.3% as compared to the same period in 2018. The components of the net sales change are the following:

|  |  |   |
|--|--|---|
|  | Three<br>Months<br>Ended<br>March<br>31,<br>2019 |   |
| Net Sales - Consumer International         |  |   |
| Product volumes sold                       | 10.2   | % |
| Pricing/Product mix                        | (1.7)  | % |
| Foreign exchange rate fluctuations / Other | (5.2)  | % |
| Net Sales increase                         | 3.3  | % |



Excluding the impact of foreign exchange rates, higher sales in the first quarter ended March 31, 2019 were primarily due to FEMFRESH, BATISTE, STERIMAR, and ARM & HAMMER liquid laundry detergent in the Global Market Group (formerly Export) business, ARM & HAMMER clumping cat litter and liquid laundry detergent in Canada, BATISTE in Germany, and WATERPIK in several countries.

23

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Consumer International income before income taxes was \$28.4 in the first quarter 2019, an increase of \$0.7 compared to the same period in 2018 due primarily to higher sales volumes of \$10.5, partially offset by higher costs as a result of the higher marketing expenses of \$3.8, unfavorable manufacturing costs of \$2.6, unfavorable price/mix of \$1.6, unfavorable foreign exchange rates of \$1.5, and higher SG&A costs of \$1.1.

#### Specialty Products (“SPD”)

SPD net sales were \$73.1 in the first quarter of 2019, a decrease of \$0.8 or 1.1% as compared to the same period in 2018. The components of the net sales change are the following:

|   | Three<br>Months<br>Ended<br>March<br>31,<br>2019 |    |
|---|--|----|
| Net Sales - SPD                                   |  |    |
| Product volumes sold                              | (4.5   | %) |
| Pricing/Product mix                               | 0.3  | %  |
| Volume from acquired product lines <sup>(1)</sup> | 3.1  | %  |
| Net Sales increase                                | (1.1   | %) |

<sup>(1)</sup> Includes net sales of Passport since the date of acquisition.

Excluding the impact of the acquisitions, the net sales decrease in the first quarter of 2019 was driven by lower volumes in the animal and food production business, partially offset by higher broad-based pricing. Demand in the dairy industry is significantly reduced due to low milk prices.

SPD income before income taxes was \$12.3 in the first quarter of 2019, an increase of \$0.7 as compared to the same period in 2018 due to favorable manufacturing costs of \$1.6, favorable price/product mix of \$0.2 and lower marketing costs of \$0.2, partially offset by higher SG&A costs of \$1.1 and lower sales volumes of \$0.4.

#### Corporate

The Corporate segment includes equity in earnings of affiliates from Armand and ArmaKleen in the first quarter of 2019 and 2018. The Corporate segment income before income taxes was \$1.7 in the first quarter of 2019, as compared to \$2.1 in the same period in 2018.

#### Liquidity and Capital Resources

On May 1, 2019, we amended our \$1,000.0 unsecured revolving credit facility (the “Credit Agreement”) to extend the term of the Credit Agreement from March 29, 2023 to March 29, 2024. Under the Credit Agreement, we continue to have the ability to increase our borrowing up to an additional \$600.0, subject to lender commitments and certain conditions as described in the Credit Agreement. Borrowings under the Credit Agreement are available for general corporate purposes and are used to support our \$1,000.0 commercial paper program.

On May 1, 2019, we entered into a new \$300.0 unsecured term loan credit facility with various banks, the proceeds of which were used to partially fund the Flawless Acquisition. Unless prepaid, the loan is due on May 1, 2022. The

interest rate is LIBOR plus an applicable margin based on our credit rating, which can range from 60 bps to 113 bps.

As of March 31, 2019, we had \$97.9 in cash and cash equivalents, and approximately \$899.0 available through the revolving facility under our Credit Agreement and our commercial paper program. To preserve our liquidity, we invest cash primarily in government money market funds, prime money market funds, short-term commercial paper and short-term bank deposits.

We repatriate excess cash held at our foreign subsidiaries. We repatriated approximately \$16.0 million during the first quarter of 2019 and anticipate an additional \$20.0 million during the balance of 2019. As of March 31, 2019, there is \$45.0 million of cash and cash equivalents held at foreign subsidiaries.

The current economic environment presents risks that could have adverse consequences for our liquidity. See “Unfavorable economic conditions could adversely affect demand for our products” under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the “Form 10-K”). We do not anticipate that current economic conditions will adversely affect our ability to comply with the financial covenant in the Credit Agreement because we currently are, and anticipate that we will continue to be, in compliance with the maximum leverage ratio requirement under the Credit Agreement.

On February 5, 2019, the Board declared a 5% increase in the regular quarterly dividend from \$0.2175 to \$0.2275 per share, equivalent to an annual dividend of \$0.91 per share. The increase raises the annual dividend payout from \$213.3 to approximately \$225.0.

In connection with the evergreen repurchase program, in January 2019, we executed open market purchases of \$100.0 of our Common Stock. See Part II – Item 2 of this Form 10Q for further details.

We anticipate that our cash from operations, together with our current borrowing capacity, will be sufficient to meet our capital expenditure program costs, which are expected to be approximately \$85.0 in 2019, fund our share repurchase programs to the extent implemented by management, pay the upcoming maturing notes and pay dividends at the latest approved rate. Cash, together with our current borrowing capacity, may be used for acquisitions that would complement our existing product lines or geographic markets. We did not have any mandatory fixed rate debt principal payments in 2018. We paid the \$300.0 Floating Rate Senior Notes that matured on January 25, 2019 with cash on hand and commercial paper. The \$300.0 Senior Notes (2.45%) will mature on December 15, 2019 and we currently intend to repay these notes with cash on hand and commercial paper borrowing if necessary.

#### Cash Flow Analysis

|   | Three Months<br>Ended |                      |
|---|-----------------------|----------------------|
|   | March<br>31,<br>2019  | March<br>31,<br>2018 |
| Net cash provided by operating activities | \$137.9               | \$155.5              |
| Net cash used in investing activities     | \$(12.4 )             | \$(60.0 )            |
| Net cash used in financing activities     | \$(344.3)             | \$(255.6)            |

Net Cash Provided by Operating Activities – Our primary source of liquidity is the cash flow provided by operating activities, which is dependent on net income and changes in working capital. Our net cash provided by operating activities in the three months ended March 31, 2019 decreased by \$17.6 to \$137.9 as compared to \$155.5 in the same period in 2018 due to higher cash earnings (net income plus non-cash expenses such as depreciation, amortization, and non-cash compensation) more than offset by an increase in working capital. The change in working capital is primarily due to an increase in accounts receivable due to the timing of sales and a decrease in accounts payable and accrued expenses due to higher incentive compensation and profit sharing payments partially offset by our continued program to extend payment terms with our suppliers. However, we measure working capital effectiveness based on our cash conversion cycle. The following table presents our cash conversion cycle information for the quarters ended March 31, 2019 and 2018:

|  | As of                |                      |        |
|--|----------------------|----------------------|--------|
|  | March<br>31,<br>2019 | March<br>31,<br>2018 | Change |
| Days of sales outstanding in accounts receivable ("DSO") | 31                   | 31                   | 0      |
| Days of inventory outstanding ("DIO")                    | 61                   | 56                   | 5      |
| Days of accounts payable outstanding ("DPO")             | 67                   | 65                   | (2 )   |

Cash conversion cycle 25 22 3

Our cash conversion cycle (defined as the sum of DSO and DIO less DPO) which is calculated using a two period average method, increased three days from the prior year amount of 22 days to 25 days at March 31, 2019 due primarily to an increase in DIO of 5 days. DPO increased two days from 65 to 67 days and DSO remained consistent compared to the same period in 2018. The increase in the cash conversion cycle is primarily due to certain acquisitions, which currently require a higher level of working capital. We continue to focus on reducing our working capital requirements.

Net Cash Used in Investing Activities – Net cash used in investing activities during the first three months of 2019 was \$12.4, primarily reflecting \$11.7 for property, plant and equipment additions. Net cash used in investing activities during the first three months of 2018 was 60.0, primarily reflecting \$49.9 for the Passport Acquisition, and \$9.9 for property, plant and equipment additions.

Net Cash Used in Financing Activities – Net cash used in financing activities during the first three months of 2019 was \$344.3, reflecting \$202.0 of net debt payments, \$100.0 of repurchases of our common stock (“Common Stock”), \$55.9 of cash dividend payments, partially offset by \$15.1 of proceeds from stock option exercises. Net cash used in financing activities during the first three months of 2018 was \$255.6, reflecting \$200.0 of repurchases of our Common Stock, \$53.0 of cash dividend payments, \$17.4 of debt payments, partially offset by \$16.4 of proceeds from stock option exercises.

25

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### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

#### Market risk

For quantitative and qualitative disclosures about market risk affecting the Company, see “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A of Part II the Form 10-K. Our exposure to market risk has not changed materially since December 31, 2018.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### a) Evaluation of Disclosure Controls and Procedures

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) at the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures, as of the end of the period covered by this report, are effective to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the United States Securities and Exchange Commission (the “Commission”), and (ii) accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding the disclosure.

#### b) Change in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurring during the Company’s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

### **CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION**

This report contains forward-looking statements, including, among others, statements relating to net sales and earnings growth; gross margin changes; trade and marketing spending; marketing expense as a percentage of net sales; sufficiency of cash flows from operations; earnings per share; the impact of new accounting pronouncements; cost savings programs; consumer demand and spending; the effects of competition; the effect of product mix; volume growth, including the effects of new product launches into new and existing categories; the increase in the number of gummy dietary supplement competitors; the Company’s hedge programs; the impact of foreign exchange, tariffs, and commodity price fluctuations; impairments and other charges; the Company’s investments in joint ventures; the impact of acquisitions and divestitures; capital expenditures; the Company’s effective tax rate; the impact of the Tax Cuts and Jobs Act; the impact of tax audits; tax changes and the lapse of applicable statutes of limitations; the effect of the credit environment on the Company’s liquidity and capital resources; the Company’s fixed rate debt; compliance with covenants under the Company’s debt instruments; the Company’s commercial paper program; the Company’s current and anticipated future borrowing capacity to meet capital expenditure program costs; and the Company’s share repurchase programs; payment of dividends; environmental and regulatory matters; the availability and adequacy of raw materials, including trona reserves and the conversion of such reserves; and the customers and consumer acceptance of certain ingredients in our products. These statements represent the intentions, plans, expectations and beliefs of the Company, and are based on assumptions that the Company believes are reasonable but may prove to be

incorrect. In addition, these statements are subject to risks, uncertainties and other factors, many of which are outside the Company's control and could cause actual results to differ materially from such forward-looking statements. Factors that could cause such differences include a decline in market growth, retailer distribution and consumer demand (as a result of, among other things, political, economic and marketplace conditions and events); unanticipated increases in raw material and energy prices; delays or other problems in manufacturing or distribution; adverse developments affecting the financial condition of major customers and suppliers; competition; changes in marketing and promotional spending; growth or declines in various product categories and the impact of customer actions in response to changes in consumer demand and the economy, including increasing shelf space of private label products; consumer and competitor reaction to, and customer acceptance of, new product introductions and features; the Company's ability to maintain product quality and characteristics at a level acceptable to our customers and consumers; disruptions in the banking system and financial markets; foreign currency exchange rate fluctuations; implications of the United Kingdom's withdrawal from the European Union; shifting economic policies in the United States; potential changes in export/import and trade laws, regulations and policies of the United States and other countries, including any increased trade restrictions or tariffs, including the actual and potential effect of tariffs on Chinese goods imposed by the United States; issues relating to the Company's information technology and controls; the impact of natural disasters on the Company and its customers and suppliers, including third party

information technology service providers; the acquisition or divestiture of assets; the outcome of contingencies, including litigation, pending regulatory proceedings and environmental matters; and changes in the regulatory environment.

The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by the United States federal securities laws. You are advised, however, to consult any further disclosures the Company makes on related subjects in its filings with the United States Securities and Exchange Commission (the “Commission”).

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

#### **General**

The Company, in the ordinary course of its business, is subject of, or party to, various pending or threatened legal actions, government investigations and proceedings from time to time, including, without limitation, those relating to commercial transactions, product liability, purported consumer class actions, employment matters, antitrust, environmental, health, safety and other compliance related matters. Such proceedings are subject to many uncertainties and the outcome of certain pending or threatened legal actions may not be reasonably predictable and any related damages may not be estimable. Certain legal actions, including the one described below, could result in an adverse outcome for us, and any such adverse outcome could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Scantibodies Laboratory, Inc.

The Company has been named as a defendant in a breach of contract action filed by Scantibodies Laboratory, Inc. (the “Plaintiff”) on April 1, 2014, in the U.S. District Court for the Southern District of New York.

The complaint alleges, among other things, that the Company (i) breached two agreements for the manufacture and supply of pregnancy and ovulation test kits by switching suppliers, (ii) failed to give Plaintiff the proper notice, (iii) failed to reimburse Plaintiff for costs and expenses under the agreements and (iv) misrepresented its future requirements. The complaint seeks compensatory and punitive damages in an amount in excess of \$20.0 million, as well as declaratory relief, statutory prejudgment interest and attorneys’ fees and costs.

The Company is vigorously defending itself in this matter. On September 19, 2018, the court granted the Company’s motion for summary judgment, dismissing all claims brought by the Plaintiff. The Plaintiff has filed an appeal.

In connection with this matter, the Company has reserved an amount that is immaterial. However, it is reasonably possible that the Company may ultimately be required to pay all or substantially all of the damages and other amounts sought by Plaintiff in the event the summary judgment entered in favor of the Company is reversed.

### **ITEM 1A. RISK FACTORS**



In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A, "Risk Factors" in the Form 10-K, which could materially affect the Company's business, financial condition or future results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The Company repurchases shares of its Common Stock from time to time pursuant to its publicly announced share repurchase programs. The following table contains information for shares repurchased during the first quarter of 2019.

| Period                | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid<br>per<br>Share <sup>(2)</sup> | Total   | Approximate  |
|-----------------------|---|---|---|--|
|                       |   |   | as Part of<br>Publicly<br>Announced<br>Plans<br>or<br>Programs <sup>(3)</sup> | Value of<br>Shares that<br>May Yet Be<br>Purchased<br>Under All<br>Programs <sup>(3)</sup> |
| 1/1/2019 to 1/31/2019 | 1,534,676                                 | \$ 66.04  | 1,534,676   | \$ 310,000,000   |
| 2/1/2019 to 2/28/2019 | 0   | 0   | 0   | \$ 310,000,000   |
| 3/1/2019 to 3/31/2019 | 0   | 0   | 0   | \$ 310,000,000   |
| <b>Total</b>          | <b>1,534,676</b>                          | <b>\$ 66.04</b>   | <b>1,534,676</b>  |  |

<sup>(1)</sup>Includes shares of Common Stock withheld by the Company to satisfy tax withholding obligations in connection with the vesting of shares of restricted stock.

<sup>(2)</sup>Average price paid per share in the period includes commission.

<sup>(3)</sup> In the first quarter of 2019, the Company purchased approximately 1.5 million shares for \$100.0 under its evergreen share repurchase program. The evergreen share repurchase program has no specified cap and therefore no cap amount is reflected in this column.

**ITEM 6. EXHIBITS**

Exhibit Index

- (3.1) Amended and Restated Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 4, 2018.
- (3.2) By-laws of the Company, amended and restated as of May 2, 2018, incorporated by reference to Exhibit 3.2 to the Company's current report on Form 8-K filed on May 4, 2018.
- (31.1) Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act.
- (31.2) Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act.
- (32.1) Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350.
- (32.2) Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350.
  
- (101.INS) XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- (101.SCH) XBRL Taxonomy Extension Schema Document.
  
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document.
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document.
  
- (101.LAB) XBRL Taxonomy Extension Label Linkbase Document.
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document.

†Indicates documents filed herewith.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHURCH & DWIGHT CO., INC.  
(REGISTRANT)

DATE: May 2, 2019 /s/ Richard A. Dierker  
RICHARD A. DIERKER  
Executive Vice President  
and Chief Financial Officer  
(Principal Financial Officer)

DATE: May 2, 2019 /s/ Steven J. Katz  
STEVEN J. KATZ  
VICE PRESIDENT AND  
CONTROLLER  
(PRINCIPAL ACCOUNTING OFFICER)