

Church & Dwight

Q4 results in-line; Evergreen model raised and 2024 guidance introduced

Reiterate Rating: NEUTRAL | PO: 100.00 USD | Price: 99.55 USD

Organic sales +5.3% YoY vs. BofAe 4.2%; Adj. EPS \$0.65

CHD reported 4Q23 earnings this morning with organic sales +5.3% YoY vs. our estimate of +4.2% and guidance of +4%, including +4% of price/mix, and volume growth of +1.3%. Q4 represents the second consecutive quarter of total company volume growth, and volume is expected to drive organic sales growth in 2024. CHD saw consumption growth in 10 of 17 categories in 2023 and grew share on brands representing 60% of sales. Acquisitions Hero and Therabreath saw strong consumption and distribution growth, expected to continue in 2024.

Organic sales growth increased +5.3% YoY vs. BofAe +4.2% and consensus +4.1%. By segment, organic sales for Consumer Domestic were +5.7% (vs. BofAe +5.1%), Consumer International +9% (vs. BofAe +2%), and Specialty Products -9.2% (vs. BofAe -1%).

Gross margin of 44.6% (+260bps YoY) was slightly ahead of our estimate of 44.2%. Margins were helped by better pricing, volume productivity, and lifted by the HERO acquisition, while modestly offset by higher manufacturing costs.

Operating profit & margin of \$223m in the quarter was in-line with our \$223m estimate, and margins of 14.6% (-60bps YoY), were slightly below our estimate of 14.8% (-40bps YoY). Marketing expense was 14.3% of sales (+110bps YoY) and CHD expects to shift some marketing spend to Q1'24 (+100bps YoY vs. flat prior).

Adj. EPS of \$0.65 was ahead of our \$0.64 estimate and in line with the Street at \$0.65.

CHD raises Evergreen model; 2024 guidance introduced

CHD updated its long-standing Evergreen model (last revised 2018) with organic net sales +4% (vs. 3% prior), +25-50bps gross margin expansion (vs. +25bps prior), marketing 11% of sales (no change) and SG&A leverage 0-25bps (+25bps prior) and maintains 8% annual EPS growth. CHD expects 2024 reported and organic sales +4-5% (organic ex. Megalac), with gross margin +50-75bps, and adj. EPS growth +7-9% incl. 1% drag from Megalac. The 2024 guide appears conservative on EPS growth for the year, while Q1 organic sales is guided to +4% and Q1 EPS guide of \$0.85 (flat y/y) is lower due to an increase in marketing support (+100bps). Overall for investors, we expect the better long-term algorithm growth will offset in-line results for Q4'23 and a weaker guide for Q1'24 sets up another beat and raise year. We maintain our Neutral rating following our upgrade ([see report](#)) in mid-December 2023.

Key considerations into the analyst day today

CHD is hosting its analyst day at the NYSE this afternoon at 12pm ET. At the presentation, we look for commentary on: 1) cadence of volume growth moving through the year, 2) mix benefits as unprofitable promotional activities ease, 3) cadence of gross margin expansion due to moderating commodity and manufacturing costs in 2024, 4) balance of increased marketing spend to support market share vs. promotional activity, 5) M&A potential in 2024 after a muted 2023.

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Equity

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Stock Data

Price	99.55 USD
Price Objective	100.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-2-7
52-Week Range	79.34 USD - 101.79 USD
Mrkt Val (mn) / Shares Out (mn)	24,758 USD / 248.7
Free Float	99.8%
Average Daily Value (mn)	126.23 USD
BofA Ticker / Exchange	CHD / NYS
Bloomberg / Reuters	CHD US / CHD.N
ROE (2023E)	20.6%
Net Dbt to Eqty (Dec-2022A)	69.4%
ESGMeter™	High

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Price objective basis & risk

Church & Dwight (CHD)

Our \$100 PO for CHD shares is based on a CY25e P/E ratio of 26x, a premium to the company's 10-year average P/E multiple of 24x. We believe this multiple appropriately balances organic sales growth, partially offset by investment spending to aid distribution growth and volume recovery.

Upside risks to our price objective are: 1) greater capture of value sales supported by investment spend, 2) little or no market share gains by private label exposure (only 5 of CHD's 18 categories), 3) e-commerce as a percent of sales continues to grow, helping to diversify distribution outlets, 4) strong free cash flow conversion, enabling CHD to return capital to shareholders or pursue M&A.

Downside risks to our price objective are: 1) a weakening consumer environment leading to lower volume demand elasticities, 2) increased cost inflation and limited pricing power near-term, 3) supply chain issues leading to lower fill rates and an inability to change mix/packaging sizes, 4) retailer inventory reductions amid a shift in demand to lower cost products, 5) a pullback in marketing spend leading to market share declines.

Analyst Certification

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Church & Dwight (CHD) Price Chart



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Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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