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Church & Dwight Co., Inc. (CHD) CEO Matt Farrell on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release *10-Q*

EPS of $0.66 beats by $0.05 | Revenue of $1.09B (4.99% Y/Y) misses by $-12.46M

Earning Call Audio

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Church & Dwight Co., Inc. (NYSE:CHD) Q3 2019 Earnings Conference Call October 31, 2019 10:00 AM ET

Company Participants

Matt Farrell - Chief Executive Officer

Rick Dierker - Chief Financial Officer

Conference Call Participants

Olivia Tong - Bank of America

Kevin Grundy - Jefferies

Cody Ross - Goldman Sachs

Rupesh Parikh - Oppenheimer

Nik Modi - RBC Capital Markets

Steve Powers - Deutsche Bank

Kaumil Gajrawala - Crédit Suisse

Lauren Lieberman - Barclays

Adam Kozek - Raymond James

Jonathan Feeney - Consumer Edge

Steve Strycula - UBS

Operator

Good morning, ladies and gentlemen, and welcome to the Church & Dwight Third Quarter 2019 Earnings Conference Call.

Before we begin, I have been asked to remind you that on this call the company's management may make forward-looking statements regarding, among other things, the company's financial objectives and forecasts. These statements are subject to risk and uncertainties and other factors that are described in detail in the company's SEC filings.

I would now like to introduce your host for today's call Mr. Matt Farrell, Chief Executive Officer of Church & Dwight. Please go ahead sir.

Matt Farrell

Okay. Thank you. Good morning, everyone. Thanks for joining us today. I'll provide a few comments on the quarter and then I'll turn the call over to Rick, our CFO, when Rick is finished, we'll open up the call for questions.

Q3 was an outstanding quarter for our company. We delivered higher than expected 3.6% organic sales growth. We had gross margin expansion from the base business and 13.8% adjusted EPS growth. And as you saw in the release, we exceeded our outlook by $0.06, partially due to a $0.03 retroactive tariff exemption.

In the U.S., organic sales grew 3.3%. Our categories are growing. Our market shares were healthy as evidenced by nine of our 12 power brands grew or held share and majority of our power brands grew market share. And in most cases this was achieved while reducing our promotional activity.

We continue to have success in the online class of trade. Online sales grew 30% this quarter. We expect 2019 full year online sales to exceed 8% compared to 7% in 2018. And many of our power brands continued to be number one on Amazon.

Our international consumer business turned in another excellent quarter with 8.7% organic growth. The standouts in Q3 were Australia, Mexico, Germany and our Global Markets Group, which we formerly referred to as our export business.

The Global Markets Group grew 13.7% in Q3 and has been an outstanding contributor to our international growth. And it is noteworthy that approximately 90% of the GMG growth over the past three years is driven by sales growth of existing distributors that balances new international markets that we have been entering.

International is a perennial bright spot for Church & Dwight. Our long-term organic growth target for international is 6%. This business has averaged 8% organic growth from 2015 to 2018 and 2019 is shaping up to be another exceptional year.

Now turning to Specialty Products. Q3 was another challenging quarter as organic sales declined 4.1%. Throughout 2019, we have seen lower demand for animal productivity products from our dairy customers. Milk prices have been increasing for the past six months, which should bolster future demand for our products.

We continue to be optimistic about our long-term 5% organic sales growth algorithm as a result of our acquisitions of businesses serving other species like poultry, cattle and swine.

Let's go back to the U.S. consumer business for a minute and call out a couple of highlights in the quarter, laundry and dry shampoo. In the laundry category, which grew 2.2%, ARM & HAMMER laundry consumption was up 6.6% and gained 40 share points. XTRA liquid detergent consumption was up 2.9% and gained 10 share points.

As anticipated the promotional environment in laundry continued to abate. We significantly reduced ARM & HAMMER laundry percentage sold on promotion by 580 basis points while maintaining growth. Our new laundry product, ARM & HAMMER FADE DEFENSE is doing well and continues to meet our expectations.

In dry shampoo, BATISTE continues to gain share with 26% consumption growth more than double the category growth of 12.6%. BATISTE is the number one dry shampoo for the 15th consecutive quarter.

Now I'll make a few comments on our more recent acquisitions. Globally WATERPIK continues to show growth and it's the number one leader in the category with market shares in the high 90s. WATERPIK's year-to-date sales growth is 9%. The business is on track to deliver high single-digits growth. Internationally WATERPIK grew 35% in the quarter.

We are replicating the launch-and-learn professional marketing program, which is used in the U.S. Big international opportunity is increasing household penetration. We estimate that roughly 22% of U.S. households use WATERPIK compared to 3% to 5% in Europe. We are also seeing growing demand for water flossers in Asia.

Next is FLAWLESS. This is a business that we acquired in May of this year. In the first half of the year, FLAWLESS saw strong sales growth up 38% on a pro forma basis. In order to get to our 15% growth full year estimate, in the second half, we expected pro forma sales to be up slightly. This deceleration was expected because we were lapping the 2018 launch of the FLAWLESS brow product. Q3 was the second highest quarter ever for FLAWLESS. However, pro forma second half sales are down 10%, resulting in 6% full year pro forma sales growth.

A couple of things happened. One important retail customer has been experiencing operating difficulties with a 7% lower same-store sales, which affected orders for our product. In addition, sales are lower because we decided to delay a new product launch until February 2020 to better coincide with planogram resets at several important retailers where we have had significant distribution wins. It's very important to our growth plans as we transition this business from being display-driven to an in-aisle brand.

So based on distribution wins so far, we expect a 10% increase in our ACV in 2020 and we are very excited about the future of this brand and expect 2020 sales growth to exceed 15%.

Regarding Q4, our year-to-date performance and the tariff exemption have afforded us the opportunity to reinvest in the business. We always manage Church & Dwight for the long run and it has been our long-standing practice to invest over-delivery of earnings back into the business. As you saw in the release, in Q4, we plan to invest in our Asia Pacific partnerships and are accelerating investments in R&D, predictive analytics supply chain and sustainability.

So in conclusion, we had an excellent quarter. Organic sales growth is solid. Base gross margin is expanding and we're on track to exceed our evergreen business model in 2019.

I'm going to turn it over to Rick right now for his comments on third quarter, fourth quarter and full year.

Rick Dierker

Thank you, Matt, and good morning everybody. We'll start with EPS. Third quarter adjusted EPS was $0.66 per share, compared to $0.58 in 2018, up 13.8%. The $0.66 exceeded our outlook of $0.60. That is a $0.06 beat. We had a favorable ruling on the company's appeal of Tier two tariffs, which helped the quarter by $0.03. And the other $0.03 was $0.02 from business performance and $0.01 of marketing timing.

Q3 reported EPS was $0.62. Adjusted EPS excludes the earnout adjustment for the FLAWLESS business. And as we discussed in previous calls, this quarterly adjustment will continue until the conclusion of the earnout period. Reported revenue was up 5%, short of our approximately 6% outlook, largely due to the lower FLAWLESS sales and a currency drag. Organic sales were up 3.6% exceeding our Q3 outlook of approximately 3%.

As Matt already covered the divisional performance, I'll spend a few moments on price mix and volume for the company. Organic sales increased by 3.6% as positive price and mix drove a 4.3% increase. This was slightly offset by a negative volume of 0.7%. Lower volumes resulted from lower promotional spending and the impact on volume from price increases.

Historically, organic sales growth has been volume-driven. And while volumes have performed in line with or better than our expectations in response to the recent price increases, it has contributed less to growth over the last several quarters. In 2020 and beyond, we expect volume to be the primary driver of our growth.

I'll now move to gross margin. Our third quarter gross margin was 46.6%, a 230 basis point increase from a year ago. This is 100 basis points better than our outlook, which is due to the tariff exception benefit. The full year net impact on gross margin related to tariffs in '19 is neutral.

Moving now to marketing. Marketing was up $4.7 million year-over-year. Marketing expense as a percentage of net sales, decreased by 10 basis points to 11.5%. We continue to expect full year marketing as a percentage of net sales to be 11.7% or flat to 2018.

For SG&A, Q3 reported SG&A increased 220 basis points year-over-year. Excluding the FLAWLESS earnout adjustment, SG&A increased 110 basis points, primarily due to intangible amortization, related to acquisitions. R&D spending, which is included in SG&A was up 7% in the quarter, as we continue to invest behind innovation. Adjusted net operating margin for the quarter was 21% or 130 basis points higher. Other expense was $16.2 million. And for income tax, our effective rate for the quarter was 21.6%, compared to 21.9% in 2018, a slight decrease of 30 basis points, primarily driven by a higher number of stock options exercised.

And now to cash. For the first nine months of 2019, net cash from operating activities was $617 million, a $49.4 million increase from the prior year. And this higher cash earnings were partially offset by an increase in working capital. Our cash earnings are up 13% year-to-date versus a year ago. And through the first nine months of the year, our AR-factoring program is flat to prior year. We expect to see an increase in the program in Q4. During Q3, we repurchased 150 million shares to get ahead of our 2020 share creep and what we considered an attractive share price. For Q4, we expect adjusted EPS to be $0.54 as a result of our investments and higher tax rate.

And now for the full year. We continue to expect organic sales growth to be approximately 4%. We now expect reported sales growth of approximately 5%, previously 6%, partially due to the FLAWLESS integration starting November 1 versus October 1 as well as foreign currency. We're timing a system cutover until after peak seasonal orders and display building is finished.

We now expect full year gross margin to expand 100 basis points or 60 basis points excluding the FLAWLESS acquisition accounting, which is an improvement. As I said earlier, the full year impact of tariffs on gross margin is neutral. We continue to expect full year adjusted operating margin to increase 50 basis points and we continue to expect 2019 adjusted EPS of $2.47 per share or adjusted EPS growth of 9%.

As mentioned in the release, and as Matt commented, similar to prior years, we will be reinvesting the Q3 beat back into the business to continue our momentum. We listed the areas of investment in the release and as one example we're excited about how well Asia Pacific is doing. Remember that business was less than $10 million just a few years ago and now it's approaching $50 million. We will continue to invest incrementally where it makes sense.

Lastly, I'd like to provide some additional details around the FLAWLESS accounting treatment during the transition period, May 1 to October 31. We decided to wait until November 1 to purchase FLAWLESS inventory in order to minimize any business disruption risk during peak seasonal shipment. During the transition period, net marketing profit received from Ideavillage is accounted for as other revenue as a component of net sales. So, for Q4, we'll have a month of October, reflecting marketing profit and the month of November and December reflecting net sales. And just a housekeeping note, when we provide our 2020 organic outlook, we will proforma 2019 results for FLAWLESS for the 7 months of ownership to enable investors the ability to assess on a consistent basis, our like-for-like revenue growth.

And with that Matt and I would be happy to take any questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Olivia Tong from Bank of America, your question please.

Olivia Tong

Great. Good morning. Thank you. Wanted to talk a little bit about the balance between volume and price mix as we start to lap some of these initial pricing gains because your price is clearly holding up nicely, but the volume seems to be suffering a little bit. So does that concern you? And what does that look like going forward? And any change in your view on the makeup of organic sales growth as we go forward particularly in Consumer Domestic? Thanks.

Matt Farrell

Okay. Good question. So we raised prices in eight categories, let's say five in household and three in personal care. So litter, stain fighters, carpet deodorizer, baking soda and also WATERPIK. I guess WATERPIK we throw over on the personal care side. Then dry shampoo, condoms and ORAJEL. So volumes have been better than expected for us throughout the year.

Logical question is, okay when is the price mix going to turn positive for volume? And from our point of view, generally you have to wait a year for that to happen. For most categories -- most of our categories are need based and generally volume growth will return about one year after price increases.

Rick Dierker

Yes. And I would just add Olivia. I think you heard in my comments in 2020 and beyond, we think we're going to be largely volume driven. As an example the domestic business in Q2 was minus 0.9% on volume. And in Q3 it was minus 1.8%. So it was sequentially worse.

Now that's largely a cat litter story. And remember in Q2 on the call we said we expected our litter business to slow down a bit in the second half. We -- competition raised price earlier than we did so we got a little bit of a volume benefit in the second half. And so on a stack basis, we don't usually do this. But on a stack basis for sales litter in Q1 was 16. In

Q2 it was closer to 12 so the first half averaged 13 and the stack basis for Q3 and Q4 is going to average actually 14. So the litter business is very strong, but that show up a little bit in volume in Q3.

Olivia Tong

Got it. That's helpful. And then Nielsen, our scanner data has looked a little softer recently particularly as time has progressed. So laundry is still doing well, but many of your other categories like you mentioned litter are starting to see some softening. And I know you said, the second half/first half pricing phenomena. But can you talk about the major variations that you're seeing relative to scanner beyond that?

Rick Dierker

Yes sure. Our bridge from our organic number to Nielsen, Nielsen was around 1.7%. So that would be tracked channels. We were at 3.3%. That's a delta of 1.6. 2/3 of that is just on tracked channels.

I think you read in the release or in Matt's comments online sales are up 30%, right? So that business continues to do really well. And then maybe 1/3 of that is lower coupons as we pull back on trade and laundry as an example we're also pulling back on couponing. So by and large, it's really just a comp issue for litter and then it's pull back for everything like laundry.

Olivia Tong

Thank you.

Operator

Thank you. Our next question comes from the line of Kevin Grundy from Jefferies. Your question please.

Kevin Grundy

I wanted to pick up on FLAWLESS. So Matt I guess what have been the learnings so far? The commentary was that it's going to come in a bit below expectations on the back half of the year due to some softer comps from a key customer and just some timing around innovation.

But it sounds like you're still confident in the 15% sales growth for next year. But I guess the context is this asset is a little bit different and it's been passed along with WATERPIK.

And it's less common as I can recall for an acquired business to miss plan at this early stage after an acquisition. So the questions would be do you think you have a full visibility on the reasons the business is underperforming at this point? How is it performing outside of that key customer? And then what gives you confidence that you can deliver 15% sales growth for the business looking out to next year?

Matt Farrell

Yes. The - look the second half one thing is out of our control, one thing is in our control. So it's out of our control. If you have an important retailer, historically the largest account having some operating difficulties in cutting orders that's just -- those things happen.

What was in our control is, do we go forward with a new product launch broadly? And obviously making that decision to defer to next year was an obvious hit to our reported numbers, as well as the perception of investors with respect to the acquisition.

So we deferred that until February 2020. The good news is that, we've been getting a lot of distribution wins that we know are coming. And when we see that the ACV is going to be up 10% next year and we're calling a 15% growth, we think it's on sound ground.

Now the thing to keep in mind here too is that, this is a brand that's in transition. If you were a -- the brand is largely driven by displays and it's moving to be an in-aisle brand so that's a big transition. And remember that business wasn't set-up to manage a business that was an in-aisle brand. This -- and the other thing we're doing is we're building a brand. We start with a product and we're building a brand. And the way you build a brand is with marketing and with new product innovation and the business has a really good pipeline of innovation. So those are reasons why we say, hey we got a bit of a bump here going sideways in the second half but we feel good about the future.

Rick Dierker

And I just want to give context to the bump right? We're bringing the full year reported number down from 6% to 5%. Only one-third of that is -- so it's maybe 30 basis is because of this FLAWLESS miss in Q3. Then the one-third is just integration transition timing as we move it out a month. We didn't want to do all the inventory activity right when they're trying to ship out so we move that a month. That was worth one-third of it. And then one-third of it is FX. So it's one-third of 1% to give you context.

Kevin Grundy

Thanks, Rick. Just one follow-up on this and I'll pass it on. A bunch of question, but I'll pass it on. As the product does move from display to in aisle and then given, sort of, the newness of the brand to the company what, sort of, visibility do you have on velocity as you do that? So what gives you the confidence then as you make a shift which would be an important one given where this business is and how young it is and how young the brand is?

Matt Farrell

Yes. Well we can tell from the previous launches and the excitement on the part of the consumer for the brand and the retailers recognize it as well. This brand does get younger consumers into the stores, which is definitely what many retailers are looking for. So we're not worried about velocity. We think that once we get really good placement distribution in aisle it's going to help the brand. It's going to be a big positive.

Kevin Grundy

Okay, I'll leave it there. I'll pass it on. Thank you, guys.

Matt Farrell

Okay.

Operator

Our next question comes from the line of Jason English from Goldman Sachs. Your question please.

Cody Ross

Good morning, everyone. This is actually Cody on for Jason. Just wanted to dig into your gross margin guidance a little bit. You've guided gross margins to increase 100 bps or 60 six bps, excluding FLAWLESS. I believe your previous guide of 80 bps expansion included FLAWLESS suggesting you're increasing your gross margin expansion by about 20 basis points this quarter. Can you just provide the puts and takes of a higher GM outlook? Thank you.

Rick Dierker

Yes, sure. No problem Cody. You're right. When we provided the 40 -- the 80 basis points for the full year last quarter about half of that was the base business and half of that was FLAWLESS. So 40 and 40. The FLAWLESS number is unchanged. It's still a 40. And then the 60 is the base business. So that's 100 for the full year now. If you just start with the 40 basis point outlook and then we add back the benefit of tariffs that's 25 basis points. I could see a 65. And then you subtract out Tier 4 tariffs right? We got hit by a little bit Tier 4 stuff like SPINBRUSH and water showerheads and FLAWLESS. That's about 10 bps.

And then some of the investments that Matt alluded to that we're going to spend back that's another 10 basis points so that gets you to 45. And then we're actually having a little better productivity by and large. So that's how you get to plus 15. So it's largely productivity driven. That's the reason we're doing better on the base business.

Cody Ross

Great. That's helpful. Thank you very much. And then just in regards to the retroactive tariff exemption, can you just specifically spell out for us what that is in relation to? And is this a onetime benefit? Are there any residual impacts into the fourth quarter into next year? Thank you.

Rick Dierker

Yes, no problem. It's largely related to our WATERPIK, Water Flosser business, which got caught up in Tier 2. It was about $11 million in the quarter. We expect to get another $1 million or $2 million in the fourth quarter as some of that went to inventory and gets flushed through. On a margin basis it's neutral because we had a drag of 25 basis points in our outlook and then this comes back around. So now it's neutral in gross margin. So the dollars -- so in 2020 then it will be neutral on margin. But the dollars will still be there just like they are right now in 2019.

Cody Ross

Thank you very much.

Operator

Thank you. Our next question comes from the line of Rupesh Parikh from Oppenheimer. Your question please.

Rupesh Parikh

Good morning and thanks for taking my question. So I also had a question just on FLAWLESS. So as you look out the earnout that you expect to pay out in December 2021 given the shortfall that you expect this year do you still believe you're on track to be able to I guess get towards the high end of that payout on the earnout?

Matt Farrell

Yes, we do. We do Rupesh. There's a lot of opportunity internationally that and combined with the success we're having with new distribution wins we think we're still on track.

Rick Dierker

Yes. And it really comes down to what Matt said in his earlier comments. We still believe that business is going to grow plus 15% for the foreseeable future.

Rupesh Parikh

Okay, so essentially this year you have a headwind and you expect to make it up over the next two years?

Rick Dierker

Yes.

Matt Farrell

Yes. Yes. Well only owned the business since May. I mean it's early days but a lot of good things are happening.

Rupesh Parikh

Okay. Great. And then on the tariff front just curious on your thoughts regarding Tier 4 whether there's anything that you built in for this and how you're thinking about it going forward?

Rick Dierker

Yes. I mean I just alluded to Cody that we got hit -- we will be getting hit with Tier four just like anybody else. And it's really three product lines for us SPINBRUSH, FLAWLESS and WATERPIK shower heads. And there's a few million bucks of a headwind in Q4. Remember some of the tariffs start September 1. Some of them start December 15. And we'll do what we do with WATERPIK, right? We go back to our suppliers and negotiate on sharing some of the tariff burden and we'll also look at pricing. And so we'll update you in February on what the net impact of any of that noise would be.

Rupesh Parikh

Okay. Great. Thank you.

Operator

Thank you. Our next question comes from the line of Nik Modi from RBC Capital Markets. Your question please.

Nik Modi

Yes, thanks, good morning, everyone. Matt, maybe you can just talk a little bit about the input and cost environment has obviously been favorable. And do you expect for the next couple of months and even heading into 2020 that we'll see just more promotional and competitive spend, particularly as retailers look to push all their private label agendas? Any thoughts around that would be helpful.

Matt Farrell

Well, if you're saying that people are going to be spending things back, the trend would suggest no, so far. If you look at what's going on in laundry for example over the -- this year and the most recent quarter the laundry categories sold on deal was down 180 basis points.

And so the laundry sold on deal was down 300 basis points. And I think, if you look at categories where there were price increases, I don't think it's logical for people to say well that was fun. We had the price increase for a year and now we're going to start dealing it all back. I mean, these are all public companies trying to increase their earnings year-over-year, so I don't think that would be illogical to think that those things would be dealt back.

Rick Dierker

And I would just add on the commodity side, Nik. You'll see in our Q but commodities and transportation for us we're still 110 basis point drag in the quarter. And if you parse out just commodities they were still a headwind for us around 70 basis points.

Now part of that is because we have some hedges in place. And so those hedges in place roll off, that won't be a headwind. But we do have mid-single-digit increases for like litter raw materials as an example or high single-digit for sugar.

So there's still inflation. There's not free fall deflation out there. I think it's improving no doubt. Some of our major commodities are actually down like ethylene and HDPE but not all of them are.

Nik Modi

Great. Super, helpful. Thank you.

Operator

Thank you. Our next question comes from the line of Steve Powers from Deutsche Bank. Your question please.

Steve Powers

Yes. Thanks, guys. So operating conditions, it looks to me they seem more or less stable quarter-to-quarter, 3Q versus 2Q. And you're not really calling out anything going forward even related to the scanner data that Olivia referenced or the promotional environment in relation to Nik's question. So if that's the case, I guess why the implied deceleration in 4Q? Is there anything notable to call out?

Matt Farrell

Yes. Nothing different from what we called out last time, Steve. It's largely because we're pulling back from promotional spending. And the kind of same commentary we gave last call as we pull back on laundry, it may also sold on deal and on couponing. As we lap -- the example, I gave earlier in the call, as we lap a high volume number for litter, which is still really strong on a stack basis, all those things contribute to just the deceleration over the year.

Steve Powers

Okay. Okay. And then just kind of an accounting clarification. So when you lap the unique accounting treatment of FLAWLESS next year with fully consolidated revenue in that basis in the P&L 2020 versus 2019, can just talk about how you're going to treat that? Will you call out the delta as a unique M&A impact? Or will you treat that as accretive to organic growth or some kind of price mix? Just I need some verification of that...

Rick Dierker

Right. I'll try to put that in my upfront comments, but we will definitely just -- we'll pro forma what -- so for example in Q3 this year within the P&L, $20 million was there for FLAWLESS net sales and that represents a marketing profit. What the real net sales were they were around $60 million. So in Q3 next year, we'll do all of our organic growth off of $60 million.

Steve Powers

Okay. That's perfect. Thanks so much.

Operator

Thank you. Our next question comes from the line of Kaumil Gajrawala from Crédit Suisse. Your question please.

Kaumil Gajrawala

Hey, good morning, everybody. First maybe a quicker one on FLAWLESS and the retailer issue. Was it a temporary almost an inventory timing sort of thing? Or is this something more structural such as store closings something like that?

Matt Farrell

Well it's -- like I said, it's the most important retailer and they did curtail orders. We do see that in the fourth quarter. That seems to be coming back a little bit. But we don't expect to be as dependent upon that one retailer going forward considering the number of distribution wins that we have coming in February.

Kaumil Gajrawala

Okay got it. And are you able to provide some context on maybe the current channel mix and the channel mix you're looking to achieve as you own the business for longer for FLAWLESS?

Matt Farrell

Yes. Well, FLAWLESS there's a big opportunity in food. Very low ACV in food, so we expect to increase that dramatically. So when I say we have 55% ACV, there's still a lot of runway. And I would say that's a class of trade that we have the biggest opportunity.

Rick Dierker

Yes. On the second one, not really class of trade but only 17% of their sales is currently international. And that business is just going to grow as we plug that into our international footprint.

Kaumil Gajrawala

Okay. Got it. Thank you.

Operator

Thank you. Our next question comes from the line of Lauren Lieberman from Barclays. Your question please.

Lauren Lieberman

Hi. Thanks. Good morning. I was just hoping if you guys could talk a little bit about the 4Q marketing spend fully understanding it's about tying to a full year number but it's an enormous amount of spend in one quarter. So, I just love any color on the balance between Q3, Q4 kind of what shifted and why in terms of timing? Because I can't find a quarter where you've spent the level implied in 4Q previously. So just it's interesting to see where that's going. Thanks.

Matt Farrell

Yeah. Yeah. Okay. Good question. If you look at Q2 and Q3 and you look at marketing as a percentage of sales you'd see Q2 is 12%; Q3 11.5%. So it's sort of in the sweet spot of trying to hit 11.7% on a full year basis. So Q1 was lower. We did shift a few million dollars out of Q3 into Q4. There are some things happening in Q4 such as the OXICLEAN DARK PROTECT. It's a new product launch that is a second half launch so we got some money behind that. We also have a couple of 2020 launches that are being pulled forward. One for BATISTE and we have a TROJAN G q condom that's shipping early so we're moving up some support. So on a full year basis, we'll hit 11.7%. We have had quarters in the past that have been in excess of 13%. If you went back to last year 2018 I think it was a second quarter. It was over 13%. So it has happened in the past.

Rick Dierker

Yeah. And you're right Lauren it's up -- it's going to be up in the $25 million $30 million year-over-year. Some of that is some of the acquisitions right? WATERPIK has some spending in Q4 FLAWLESS has some spending in Q4. It will be the a normal kind of P&L marketing spend for November/December. So some of that is just – like Matt said some of the shifts because of the resets, but also higher numbers for the acquisition.

Lauren Lieberman

Okay. Great. Thank you.

Operator

Thank you. Our next question comes from the line of Joe Altobello from Raymond James. Your question please.

Adam Kozek

Hi, guys. This is actually Adam on for Joe. I know you guys touched on a bunch of my questions but I was just curious a little more specifically being underpenetrated in China today, I guess, how quickly do you think maybe you can get perhaps a mid-single digits as a percent of sales?

Matt Farrell

Well, Broad question. International we just a year ago 1.5 years ago we started up with Shanghai Jahwa and have baking soda, toothpaste, dry shampoo and some high there. We're having a lot of success with water flossers and vitamins. The business has been growing at 25% annually. It's likely going to be the fastest-growing part of Church & Dwight going forward. But I wouldn't speculate just yet as to how fast we're going to get to your target.

Adam Kozek

Okay. That's helpful. color.

Operator

Thank you. Our next question comes from the line of Jonathan Feeney from Consumer Edge. Your question please.

Jonathan Feeney

Good morning. Thanks. Just a couple of detailed questions. First, Rick you commented on club and on – sorry on couponing and on online. Can you comment on that bridge between track channels and your report? Can you comment is club still a positive relative to that? Any comments you can give around that first of all? Secondly, is there anything structural going in couponing? I mean you're pulling back a little bit on the promo overall leaning a little more on price versus volume. But are coupons getting less effective? Or is there anything like insight you have as far as maybe there's a little bit of a different approach there structurally so we'll see less of that in the future? And third just to be -- it's not the most important thing in a world but just curious little detail like with this tariff relief how does that actually work mechanically? So the government collects a tariff from you because of something you bought. Is – was any of that relief that you recognize this quarter ever relate to products that were sold and where your costed them in a prior quarter? I know that's super technical but I've dealt with these situations before actually a long time ago and I just want to make sure I understand it. Thanks so much.

Rich Dierker

Yes. Okay. Well those are three questions. First one on club. Club is growing. It's doing well. The bulk of the growth though difference between tracked and untracked channels is online and that's really to Matt's comments about 30% growth. Amazon is doing great. She's always doing great. So club's a positive tailwind but it's not a huge driver.

Number two coupons. Coupons it's just part of the price/mix equation and price value equation. And we've – as we pull back from laundry promotion or other promotion Matt alluded to almost 600 basis points of pullback on amounts sold on deal for laundry. Coupon follows that trend. Coupons are really meant for new product introductions and I think you'll see more of that over time and less on fixing price value differences. And the third one was on technically on the tariff.

You're right. When you get a tariff rebate it doesn't really follow the P&L per se. It follows when that – they give you a credit back for all the imported product that you have. It's up to us to figure out what goes to P&L what goes to inventory. But for us we did get some tariff relief all the way back to – when we started importing the product with the new tariff which have been like July August of last year. So it's about 12 months of relief we got. And it just so happened that this year, we had forecasted 12 months' worth of occurrence, so that's why there's no impact to the full year gross margin.

Jonathan Feeney

Super helpful and thank you.

Operator

Thank you. Our next question comes from -- our final question comes from the line of Steve Strycula from UBS. Your question, please.

Steve Strycula

Yes. Hi. Good morning. First, I have a question on laundry and then a quick follow-up question on FLAWLESS. For the laundry piece, can you help us think through the different market shares trends in the quarter that you saw from both, liquid laundry which seemed quite strong and then the share gains were a little bit more muted for the pods business. Anything to read in or think of that happened this quarter? And how do we think about that forward?

Matt Farrell

Yes. That's a good question. If you look at the shares for the quarter, I mentioned that ARM & HAMMER was up 40 bps and XTRA was up 10 bps. Going the other way for us was OXICLEAN. OXICLEAN was down 40 bps, which is now 0.7% share. But the two big brands that we have ARM & HAMMER and XTRA, certainly, they're very healthy.

If you look at the suppliers and you look at all the brands for the three suppliers, P&G, Church & Dwight Henkel, I just gave you the math for Church & Dwight being up 10 bps. P&G was up a full share point and Henkel was down 140 bps in share. And that was across all and Purex. So I hope that gives you a perspective on what's going on.

As far as unit dose goes, unit dose for us, Purex has reentered after a three-year absence in the pods category. And they entered with a very low price point and they have gained 130 basis points of share. At the same time, Simply Tide pods were heavily promoted this quarter. Actually, they're up 1,000 basis points as far as percentage sold on deal year-over-year, which is kind of massive.

And at the same time, we had pulled back 900 basis points year-over-year for a percentage sold on deals. So combination of all that we -- our ARM & HAMMER pods actually lost 30 bps of share in the quarter, so we only grew a little over 1%, 1%, 1.5%. So for our part, we'll be focused on having the right value proposition for the consumer which is a combination of quality and the right price. But that'll give you a sense for what's going on dynamic-wise.

Steve Strycula

That's really helpful. And then, as a follow-up to Kaumil's question on the key retailer, I might be a little dense this morning, I just didn't get what happened there. Did they trial the product and it just didn't really resonate for that customer base specifically? Or do you have to do it like cleaner aisle impact? Can you help us understand that a little bit better?

Matt Farrell

No, that's purely a decision on the part of the retailer. It has nothing to do with velocity.

Steve Strycula

Okay. And what are the trade-offs as we think about transitioning to on-shelf versus in-aisle display? Is it higher in slotting fees? Where would you be receiving product placement next to how -- what are the cost implications?

Matt Farrell

Yes. No, you'll have to stay tuned on a product placement. We're pretty excited about where we're going to be placing some major retailers in February. As far as the dynamics goes, replenishment is different for in-aisle than if you have displays and that's our sweet spot. We're not a display-driven business. Obviously, we use displays from time to time as promotions, but that's not central to our go-to-market strategy. So in-aisle is where we're going to be able to help the FLAWLESS business.

Steve Strycula

All right. Thank you.

Operator

Thank you. This does….

Matt Farrell

All right. I think we're going to wrap it up right now. We'll see everybody at the exchange in February. I mean, final note, we had a super quarter. We're going to have a good fourth quarter and we're looking forward to 2020. So we'll talk to you later.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.