The Clorox Company (CLX) CEO Benno Dorer on Q1 2020 Results - Earnings Call Transcript

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FQ1: 10-31-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.59 beats by $0.05 | Revenue of $1.51B (-3.65% Y/Y) misses by $-5.28M

Earning Call Audio

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The Clorox Company (NYSE:CLX) Q1 2020 Earnings Conference Call October 31, 2019 1:30 PM ET

Company Participants

Lisah Burhan - Vice President of Investor Relations

Benno Dorer - Chairman & Chief Executive Officer

Kevin Jacobsen - Chief Financial Officer

Conference Call Participants

Olivia Tong - Bank of America

Kaumil Gajrawala - Credit Suisse

Jason English - Goldman Sachs

Wendy Nicholson - Citi

Lauren Lieberman - Barclays

Kevin Grundy - Jefferies

Ali Dibadj - Bernstein

Steve Strycula - UBS

Operator

Good day, ladies and gentlemen, and welcome to The Clorox Company First Quarter Fiscal Year 2020 Earnings Release Conference Call. At this time, all participants are in a listen-only mode. At the conclusion of our prepared remarks, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference call. Ms. Lisah Burhan, Vice President of Investor Relations for The Clorox Company. Ms. Burhan, you may begin your conference.

Lisah Burhan

Thanks, Sharon. Welcome, everyone, and thanks for joining us today. Happy Halloween. On the call with me today are Benno Dorer, our Chairman and CEO; and Kevin Jacobsen, our CFO. We're broadcasting this call over the Internet. And a replay of the call will be available for seven days on our website thecloroxcompany.com.

On today's call, we may refer to certain non-GAAP financial measures, including but not limited to, free cash flow, EBIT margin, debt to EBITDA, organic sales growth and economic profit. Management believes that providing insights on these measures enable investors to better understand and analyze our ongoing results of operations.

Reconciliations with the most directly comparable financial measures determined in accordance with GAAP can be found in today's press release, this webcast's prepared remarks or supplemental information available on our website as well as in our SEC filings. In particular, it may be helpful to refer to tables located at the end of today's earnings release. Please also recognize that today's discussion contains forward-looking statements. Actual results or outcome could differ materially from management's expectations and plans.

I would also direct you to read the forward-looking disclaimers in our quarterly earnings release. Please review our most recent 10-K filing with the SEC and our other SEC filings for a description of important factors that could cause results or outcomes to differ materially from management's expectations and plans. The company undertakes no obligation to publicly update or revise any forward-looking statements.

I'll start by covering our top line commentary, discussing highlights in each of our segments. Kevin will then address our financial results as well as our outlook for the fiscal year 2020. Finally, Benno will offer his perspective and we'll close with Q&A.

For the total company, Q1 sales decreased 4%. The results are on top of solid sales growth in the year ago period. Organic sales were down 2%. I'll now go through our results by segment. In our Cleaning segment, sales decreased 2% for the quarter. Our Professional Products business delivered strong sales growth, driven by a successful back-to-school campaign particularly in the e-commerce channel. We also continue to see strength and longevity of our innovation in this business, with platforms such as Clorox Hydrogen Peroxide and Clorox Fuzion, both disinfectants used in health care setting, delivering double-digit growth even four years after their initial launch.

In Home Care, sales were down slightly with volume growth offset by unfavorable mix and increased performance bifurcation between tracked and non-tracked channels. Shipments of Clorox Disinfecting Wipes grew solidly for the quarter with growth in non-tracked channels, outpacing tracked channels by a wide margin. Our investments were fully implemented are working and helping grow the category.

Our near-term focus is to strengthen our results consistently across all channels. Additionally, as highlighted in our IGNITE Strategy launch, we have a strong innovation plan based on bigger, stickier platforms, with Clorox Compostable Cleaning Wipes launching in late Q2.

Our Scentiva platform continues to perform well with high single digit volume growth three years after its initial launch. Lastly, within the Cleaning segment, our Laundry business sales were down for the quarter, driven primarily by distribution losses of Clorox liquid bleach in select retailers coupled with increased competitive promotion. We're addressing this with innovation on multiple fronts, including launch of a full line of compacted bleach product in spring 2020.

During the same period, we're also launching a sanitizing innovation platform, including a trigger, spray aerosol spray and a liquid laundry additive product, bringing the strong Clorox equity to the fast-growing sanitization segment.

Turning to the Household segment, Q1 sales were down 14%, driven mainly by declines in Bags and Wraps and Charcoal. In Bags and Wraps, Q1 sales were down double digits, driven by the same factors we discussed previously, wider price gaps as well as distribution losses in select portions of the portfolio. Higher trade investments on Glad trash bags are now in place. We're seeing sequential improvements in volume as well as market share and we're focused on building on this momentum.

As expected, Charcoal sales were down double digits this quarter, driven by lower shipments. The sales decline also reflected higher trade spending, part of an ongoing effort to reduce market inventory from a weak 2019 grilling season and to gear up a stronger 2020 grilling season. Building on a strong grilling category consumption and a normalized inventory level going into the upcoming grilling season, we'll be focused on executing our plan to turn this business around.

In RenewLife, sales declined double digits due to category slowdown and persisting consumption headwinds. As part of our effort to return this business to growth, we're continuing to focus on engaging retailers in support of our category growth plans, supported by a full brand relaunch next calendar year.

Finally, our Cat Litter business was down slightly, lapping strong double-digit sales growth in the year ago quarter. Similar to the other businesses, we're seeing much stronger sales and share performance in non-tracked channels than in tracked channels. Our Fresh Step Clean Paws innovation platform continues to grow strongly beyond its first year. So, we'll lean in further with dedicated advertising and continued trial-building activities.

In our Lifestyle segment, sales grew 4%, reflecting growth in three of our four businesses. Burt's Bees delivered double-digit sales growth, fueled by strength in its core categories of Lip Care and Face Care. Successful innovation in Lip Care including the new watermelon lip balm that was the number one overall flavor at a key retailer and mass channel drove share growth for a 19th consecutive quarter and reinforced the brand's position as the number one overall lip balm in the category.

In Face Care, there were record shipments of products such as face masks and pore cleansers as well as relaunched sensitive skin care line. The business also has a strong pipeline of innovation including a hemp line as well as men's line launching in Q3. For Burt's Bees, a combination of pricing and innovation has been a successful formula in driving strong category growth.

Food sales were up for the quarter as well, reflecting higher shipments of dry Hidden Valley seasonings and dressings. The results were on top of strong sales growth in the year ago quarter. The Ready-to-Eat Dips innovation remained on track with plans to increase demand-building investments to expand usage occasion. The brand also extended its streak of share growth to 19 quarters.

Brita sales were up slightly for the quarter behind higher shipments of our new Brita bottles and Brita Longlast water filtration systems, which performed strongly in the e-commerce and mass channels. The Brita business continued the streak of solid consistent volume growth dating back a year.

Finally, sales for Nutranext were down this quarter, reflecting growth in our strategic brands and a double-digit decrease in our nonstrategic brands. Our strategic brands grew behind strong shipments of Neocell and Natural Vitality. The decrease in the nonstrategic part of this portfolio is mainly driven by our decision to exit the private label business that came with the acquisition.

Moving up the initial integration phase of Nutranext, we're now working on optimizing the portfolio, focusing on a few strategic brands, representing more than 80% of the portfolio. We continue to be excited about the growth prospects of this business.

Lastly, turning to international. Sales were flat for the quarter with volume growth, innovation and the benefit of price increases, offset by about eight points of unfavorable foreign currency impact. Despite the strong headwinds, we grew sales in Latin America and the International segment grew sales 8% on an organic basis. Consistent with our IGNITE Strategy that aims to improve profitability in international we continue to invest selectively in profitable platforms and see the returns on businesses like Burt's Bees and Cat Litter.

Now, I'll turn it over to Kevin, who will discuss our Q1 financial performance and our outlook for FY '20.

Kevin Jacobsen

Thank you, Lisah, and thank you everyone for joining us today. First quarter results came in generally as expected, as we continue to work through the challenges in our Bags and Wraps and Charcoal businesses. Importantly as we noted in our press release, we remain on track for fiscal year 2020 and confirmed our outlook.

Turning to our first quarter results, sales decreased 4% reflecting about 3 points of higher trade spending about 2 points of unfavorable mix and about 2 points of foreign currency headwinds. These factors were partially offset by about 3 points of pricing benefit. On an organic sales basis, first quarter sales decreased 2%, primarily driven by our Bags and Wraps and Charcoal businesses.

Gross margin for the quarter increased 60 basis points to 44% compared to 43.4% for the year ago quarter. First quarter gross margin included 180 basis points of benefit from cost savings and a 120 basis point benefit from pricing partially offset by 180 basis points of higher trade spending.

I'd like to note that a portion of the benefits to gross margin was related to timing. First quarter gross margin also reflected favorability in commodity and logistics costs. And while it's still early in the fiscal year, we're encouraged by the cost favorability we're seeing in these markets.

Selling and administrative expenses as a percent of sales came in at 14% compared to 13.6% due to reduced operating leverage. Importantly year-over-year selling and administrative spending for the quarter declined. Advertising and sales promotion investment levels as a percentage of sales were about flat with spending for our U.S. retail business coming in at about 10% of sales.

Our first quarter effective tax rate was about 22% equal to the year ago quarter. Net of all these factors, we delivered diluted net earnings per share of $1.59 versus $1.62 in the year ago quarter, a decrease of 2%. Turning to year-to-date cash flow, net cash provided by operations in the first quarter came in at $271 million versus $259 million in the prior quarter, an increase of 5%.

Now I'll turn to our fiscal year 2020 outlook. As we communicated in our October 2, press release we expect this year's sales to be down low single digits to up 1% reflecting our recently updated assumption of about 2 points of impact from unfavorable foreign currencies, primarily from Argentina.

As I mentioned at our Analyst Day, we previously assumed devaluation of the Argentine peso at about 25%. And now our expectations are closer to 50%. Importantly, our fiscal year organic sales outlook remains unchanged reflecting 1% to 3% organic sales growth driven by innovation and our expectation for stronger business performance on Bags and Wraps and Charcoal in the back half of the fiscal year.

Turning to gross margin, we continue to expect fiscal year margin to be down slightly reflecting our recently updated assumption on foreign currencies. Our fiscal year gross margin outlook continues to reflect our expectation for additional supply chain investments to support long-term value creation including our investment in the rollout of Clorox Liquid Bleach compaction in the spring of 2020.

We continue to expect fiscal year advertising and sales promotion investment levels to be at about 10% of sales. We also continue to expect selling and administrative expenses to come in at about 14% of sales.

Consistent with our fiscal year gross margin assumptions, we expect fiscal year EBIT margin to be down slightly. Our fiscal year 2020 outlook continues to anticipate our fiscal year effective tax rate to be in the range of 22% to 23%.

Net of all these factors, we continue to expect fiscal year 2020 diluted EPS to be in the range of $6.05 to $6.25. In closing, first quarter results came in generally as anticipated. We continue to work through the short-term challenges, we're facing in Bags and Wraps and Charcoal and continue to expect improvement in our overall results in the back half of the fiscal year.

We're certainly pleased that our cost savings program is off to a good start contributing significantly to our fourth consecutive quarter of year-over-year gross margin expansion.

Looking ahead, we'll continue to address short-term challenges while executing against the strategic choices we have made under our IGNITE Strategy. As we said at the Analyst Day, our focus with IGNITE is to create a virtuous cycle of generating fuel to continue investing to drive superior consumer value. We have a long track record of doing this successfully. And I continue to believe that once we work through the challenges we're facing in Bags and Wraps and Charcoal, Clorox will be in a position to deliver results that are more in line with our long-term financial goals.

And with that, I'll turn it over to Benno.

Benno Dorer

Hello everyone, and thank you Kevin. Here are my three key messages. First, Q1 results came in generally as expected. As we discussed last quarter, we anticipate fiscal year 2020 first half sales to be lower than the second half, as we continue working through the persistent challenges in Bags and Wraps and Charcoal.

I am pleased we delivered volume growth and gross margin expansion in three out of four segments. And notwithstanding a tougher foreign currency environment, which drove flat sales in our international business for the quarter, our international team continues to make strong progress, delivering 8% organic sales growth and the seventh consecutive quarter of profit growth.

Now clearly, we are not satisfied with our top line results. I do want to reinforce that improving Bags and Wraps and Charcoal is a top priority for us. We are actively working with customers to significantly strengthen our business plans with a keen eye on sustainable long-term improvement.

This includes innovation that we believe will deliver meaningful value to our consumers and categories. Importantly, I'm pleased about the green shoots we're starting to see on these businesses. And I continue to anticipate improvement on Bags and Wraps and Charcoal in the second half of the fiscal year.

My second message is that we're on track to deliver our outlook for the fiscal year 2020. This fiscal year brings another robust pipeline of innovation, led by the Compaction of Clorox Liquid Bleach as well as the launch of Clorox Compostable Cleaning Wipes, Clorox Fabric Sanitizer, Kingsford Pellets and several innovations in Bags and Wraps and Natural Personal Care.

We will drive awareness and trial of these new products, while continuing to invest behind significant upside opportunity in ongoing innovation platforms, such as Clorox Scentiva, Fresh Step Clean Paws, Brita Filtering Water Bottles and Hidden Valley Ready-to-Eat Dips.

I believe that consumer and retailer engagement in the strength of our innovation program along with stronger business plans for Bags and Wraps and Charcoal, supported by our commitment to excellent execution will contribute to improved overall results in the back half of the fiscal year. As I also mentioned previously, our fiscal year 2020 outlook continues to reflect our commitment to balancing our shorter-term focus on addressing the challenges on Bags and Wraps and Charcoal with strategic plans aimed at driving long-term profitable growth.

Finally, my third message is this. I'm confident our new IGNITE Strategy will guide us in our ongoing pursuit of delivering long-term shareholder value. As we discussed at Analyst Day earlier this month, innovation to strengthen and extend our competitive advantage is front and center in our IGNITE Strategy. The integrated choices we've established for IGNITE create a virtuous circle of fueling growth and investing behind innovation to deliver superior value.

By the end of fiscal year 2020, we expect to have begun activating brand purpose on all major brands, laying the groundwork to drive significant marketing ROI in the future. We expect to have engaged all major customers in new ways to create frictionless shopping experiences in-store and online leading to meaningful opportunities to drive category growth.

We also expect to have surpassed 150 basis points of annual cost savings, supported by meaningful productivity improvements, moving steadily towards our new annual cost savings target of about 175 basis points. And finally, we expect to have made significant investments to drive stickier multi-year innovation platforms that differentiate our products and brands with a robust innovation pipeline in the back half of fiscal 2020.

Everything we do is in service of superior value, because we know it's the key to winning with consumers. And of course, we'll continue our focus on growing the right way with ESG integrated into our business, so that we're also creating value for society.

A recent announcement to join the Ellen MacArthur Foundation's New Plastics Economy Global Commitment is an example of this. As we reinforced at Analyst Day, IGNITE innovates for good growth, growth that's profitable, sustainable and responsible.

Operator, you may now open up the line for questions.

Question-and-Answer Session

Operator

Thank you, Mr. Dorer. [Operator Instructions] First question comes from Olivia Tong with Bank of America.

Olivia Tong

Good morning -- good afternoon. In terms of just near-term trajectory, I know you have quite a few initiatives like for second half across several businesses, but what about Q2? You talked a little bit about green shoots. Do any of those help already, or are those all sort of second half weighted?

Kevin Jacobsen

Hey, Olivia, it's Kevin. Good morning. Let me see if I can take that one. What I expect in Q2, is you'll see improved organic sales growth. Now having said that, I expect our Q2 results to look similar to Q1, with a worsening FX environment, but improving organic sales growth and really because we're going to see improvements on both Glad and Charcoal. As you know, those are the two challenged businesses that we're working to turn around and I expect to see improvements next quarter.

Benno Dorer

And then Olivia, of course, that means the growth will come in the back half. First of all, they'll have easier comps. I think everybody is aware of that. But we're also beginning to anniversary distribution losses in Q3. And as you know, we're very focused on strengthening distribution now. Two things are most important. We need Glad and Kingsford to improve and we expect improvement on both. And we're seeing green shoots I've mentioned that. Kingsford is growing mid-single digits in consumption lately.

And Glad is starting to grow share where our plans are implemented by end quarter. So we feel good about that. Then, of course, we have a robust innovation program in the back half as stated. So the back half is where improvements are expected. We realize we have work to do this, but there's enough there to give us confidence.

Olivia Tong

Got it. That's helpful. If I could ask a question about tracked versus non-tracked? I mean the spread between the two seems to be increasing. Obviously online continues to be a big driver. But is it growing even faster than it had been? Is that accelerating, or are there more efforts or just more opportunity across a broad spectrum of non-tracked channels whether it's club online or other retailers?

Benno Dorer

Yes. What we've commented on is that the spread between tracked and non-tracked is indeed widening, right? And I think that's for two reasons. First -- and it was probably most evident in Home Care where we've seen the business down slightly but growing double digits in non-tracked channels. First of all, I would say, the consumer in part in our categories is migrating towards non-tracked channels. That's where a lot of the category growth is. We do know that our performance also market share-wise is better in non-tracked channels. And perhaps at this point, as we think about the post-pricing bumpiness that we talked about you'll find more of that which relates to distribution losses and perhaps less merchandising in tracked channels than in non-tracked channels. And what that gives us is confidence in the expected back half turnaround because we know that where our brands are able to perform, they do. And that's why the gap between track and untracked has been widening of late.

Olivia Tong

Got it. Thank you.

Operator

Next question comes from Kaumil Gajrawala with Credit Suisse.

Kaumil Gajrawala

Hi, everybody. A couple of questions. I think first on the issues over the recent period has been in trash bags and in wipes and such but now we're -- you mentioned distribution losses and in bleach as well some tough comps I suppose on litter. But it looks like some of the issues are expanding beyond some of the categories that were kind of initially in the area of focus. Can you talk about what's going on there if there's something connected between the various categories that we should be aware of?

Benno Dorer

Thanks Kaumil. No, the issue remains Glad and Kingsford. If you think about the rest of the portfolio, there's actually quite a bit of strength. Burt's grew double-digits. Food, 19 quarters of share growth. The Professional business growing high single digits. Brita is now our fastest-growing business in terms of share. Parts of Home Care are seeing strength. Toilets, which is a strategic segment, has an all-time high in shipments. International performing well. So it's really Glad and Kingsford. If you take out Glad and Kingsford actually we grew organic sales for the quarter.

Now I will tell you that if you just look at share, of course, there's always ups and downs, right? But what I'd tell you is, if you look at it over the longer term, which I think is perhaps helpful, we tracked eight businesses in terms of share. And six out of those eight if you compare the last quarter against three years ago are in line or higher.

Home Care is in line coming off of 14 quarters of share growth. Bleach is higher than three years ago. Hidden Valley is higher than three years ago. Brita is doing well. Litter is about in line. Burt's is higher. It's really coal and trash.

So, no news on the portfolio front. Clearly, not everything is performing as well as we want to, but much of the short-term noise can be attributed to the well-illustrated issues around lower merchandising and distribution losses post pricing. And as such we believe that they will be temporary.

Kaumil Gajrawala

Okay. Understood. And then just finally on the expectations for the back half. It seems to be rooted in the return of distribution from some of the losses from last year. At what point -- do you know now if you're going to be put back in? Or at what point will you have a good sense on if we're going to be going into a period where there's distribution gains as opposed to distribution losses?

Benno Dorer

Yeah. Back half clearly does assume that some of the distribution losses, which we're anniversarying in Q3 will be mitigated and that will start to make progress there along with easier comps and a strong innovation program. Categories generally are healthy.

On the distribution side, we've commented that we're not -- we haven't been where we want to be in the last 12 months post pricing. And our focus is to make those temporary. Discussions are happening this quarter, so that's all work in progress at this point. Reasons that give us optimism as we're focused on achieving these improvements starting in 2020 is that we do have a long track record of partnering with retailers. It's obviously a very strong organizational focus area right now.

I'm looking at our business plans for 2020 in particular on Glad and Kingsford. They need to be better and they will be better including robust innovation. And then our new IGNITE Strategy of course gives us plenty of partnership opportunities around creating categories for the future to drive profitable growth for retailers. So, work in progress. Many of them are happening as we speak, but a big area of organizational focus now.

Kaumil Gajrawala

Okay. Got it. Thank you.

Operator

Next question comes from Jason English with Goldman Sachs.

Jason English

Hey, good morning folks. Good afternoon I should say, by this point, the day is all blended together now. A quick housekeeping question. The logistics and manufacturing line in your gross margin bridge, it's been sort of a persistent drag for quite some time. But it's now moderated for two consecutive quarters to be reasonably marginal now in the first quarter. Is that a trend line we can expect to continue?

Kevin Jacobsen

Yeah, Jason. I would say, I'd separate transportation from manufacturing. On the transportation side, as you mentioned, we're pleased to see favorable transportation rates for the first time and probably the better part of two years. We have about 20 bps of favorability, as we're seeing a decline in the spot carrier market.

We talked about this before, but just as a reminder. About 85% of our transportation is contracted with our eight carriers and those rates are set. But we are seeing a reduction in the spot market that I believe will continue. It also bodes well that as we renegotiate rates in the future that that may generate ongoing benefit as we look out to fiscal year 2021 and beyond.

So I started the year thinking transportation would be up low single-digits. And what I'm seeing right now, I suspect it will be flat to down low single-digits, so a nice improvement there.

And then manufacturing, a little favorable this time. We had some delays in some of our investments for our new litter plant. You'll see that play out later on in the year. As I mentioned, we're going to have about 20 bps to 25 bps of investment in the supply chain. It was pretty light in Q1, but I still expect to spend that money in the year. So, we'll pick that up later in the year.

Jason English

All right. That's helpful. And I guess I want to come back to the question. Everything excluding Charcoal and wipes, which don't seem to be really a whole lot worse than I was expecting. But your Cleaning segment, it's one of the weakest quarters in a very, very long time. And if Professional is growing high singles, it implies that the consumer-facing side of that business is now contracting somewhere in the 3% to 4% range.

I'd love some context and color on what's causing that business to kind of get derailed. And as we look at the data, I think your biggest innovation platform in recent years has been Scentiva. And in Nielsen, if Scentiva is now declining high singles even with sort of a 14-point benefit coming from the Swiffer refills it begs the question of whether or not the issue there is just a lack of innovation effectiveness. I'd love your opinion on all those fronts. Thank you.

Benno Dorer

Yes. First of all, Jason I'll strongly disagree with the statement that the business is derailed. I'm actually okay with where the business is at this point. And let me maybe take the two in turn.

First of all laundry additives. The sales was down behind post-pricing distribution losses. We have anticipated those. We have commented on those several times and talked about them consistently. If you look at the bleach share for instance, I quoted shares versus three years ago because sometimes it helps to look at the forest but not look at trees.

Bleach share is up 1.5 points versus three years ago. I hope that provides perspective. And now we're gearing up for a significant innovation in the spring, which includes bleach compaction and a new platform in the fast-growing laundry sanitizer segment behind us, an equity that is particularly well fitting there.

Home Care, if you just look at shares, it's coming off of 3.5 years of share growth. It's normal to have some up and down, especially post pricing. Again loss in distribution well documented. At the same time volume grew in Q1.

Sales is down due to non-tracked channels. They outgrew tracked channels by a wide margin. Out – non-tracked channels grew double-digits in absolute. So that's a negative mix effect. Wipes is growing mid-single-digits. Scentiva for the record is growing, which perhaps helps you understand the strength in non-tracked channels.

And if you look at the past 13 weeks tracked channel share is lower than a year ago but it's higher than past 52 weeks. So we're making progress. I'll focus on this category.

Obviously, an important category for us is on profitable growth. We will continue to activate the Clorox brand purpose, which has been working so well. And of course, we have a lot of innovation that I know you're well aware of lined up in the back half including our Compostable Cleaning Wipes launch, which is starting to go out in Q2 and then widely available in Q3. So, ups and downs, but I feel solid about where Cleaning is and optimistic about the back half with all the innovation coming in.

Jason English

Okay, thanks a lot. I'll pass it on.

Operator

Next question comes from Wendy Nicholson with Citi.

Wendy Nicholson

Hi, good afternoon. My first question just housekeeping. How much longer do we think the private label exit in the Nutranext business is going to continue to be a headwind? I know you said like 80% of the business is healthy and good. But just when should we expect that headwind to go away?

And then my second question is just taking a step back on the fixed initiatives you're undertaking for Glad and Charcoal, are obviously huge and important. And between the two of them those are I think what 15%, 20% of your revenues. And so I'm just surprised that your guidance both for the S&A line on the P&L and advertising isn't higher than normal.

I know 10% for advertising and 14% for S&A are kind of your long-term objectives. But I'm kind of questioning why in this year where it's so important to get those two big businesses really back on track you wouldn't sort of take a holiday from your long-term targets and just say "This year we're going to spend more and absolutely make sure we get those businesses righted." Thanks.

Kevin Jacobsen

Hey, Wendy, maybe I'll take the first question you had on RenewLife and how long as we exit some of that businesses both private label and contract manufacturing. I would expect to see that a drag for the balance of this year. We will continue to step out of that business over the next several quarters. And that's a pretty natural sort of transition out as we use that capacity for our own needs. And so you should expect to see that drag for the next several quarters.

Benno Dorer

And then the second part Wendy, more money is not the option here certainly on the people and on the advertising side. If you think about Glad, what we're trying to do is fix the widened price gaps. And we feel good about the progress that we're making. And towards the end of the quarter and also in October where the plans are now fully implemented, which they are we're seeing a return to share growth. But the increased spending there is going into trade where we are spending more, but we feel good about advertising and certainly people.

On Kingsford, it's all about better plans. As we've commented at Analyst Day, it's less of a money issue. And again, we've certainly spent quite a bit of trade money this last quarter to get rid of excess inventory. But we're pleased with the amount of money that we're spending behind those two businesses. As we've commented in the past, we're always willing to look at spending. We're also willing to lean into spending where that's indicated important and necessary. But we don't think that more advertising or people is the solution here. We're certainly spending more trade. But, the progress starts to be evident and we expect more progress to be had in the back half.

Wendy Nicholson

And I'm just surprised. I guess the feedback from the retailers. I mean there's always -- the hope I know is to regain some lost share. But there's also a hope, I assume, of growing the category particularly in Charcoal. And I'm surprised that part of the conversation with the retailers isn't, hey, Clorox, you've got the biggest and most well-known brand. Please spend more money on advertising to get people to stop ordering their ribs from Grubhub and cook them at home. Is that not part of the conversation?

Benno Dorer

So part of the conversation certainly is engaging the consumer. And like I said, Wendy, we spent quite a bit against the consumer. And we're making sure that the money counts with retailers as well. But if you think about the Charcoal category, the Charcoal category past 13 weeks, I believe, is up double-digits. And our business while it's still a little softer in shares is growing mid-single digits. So the conversations that we have are starting to bear fruit.

And we're certainly seeing in this category as well as in other categories like Glad and in wipes, the strong correlation between the health of our categories and the health of our brands. If our brands are doing well, the categories generally tend to perform better. If our brands are not doing well, the categories are performing worse. And that very part certainly, is a key component of our discussions with retailers.

Wendy Nicholson

Got it. Thank you.

Kevin Jacobsen

If I just broaden that a little bit from just Kingsford and Glad. The other perspective, I'd offer is if you think about our IGNITE Strategy, we want to create fuel and we want to reinvest that back in the business. And I feel really good. If you look at our gross margin performance now, we've expanded gross margins for each of the last four quarters.

And at the same time, we've increased advertising levels for each of the last three quarters. So, very consistent with our long-term strategic intent is we're going to drive waste out, and we're going to reinvest that in the brands to drive superior consumer value. And I think you're really seeing that over the last several quarters.

Wendy Nicholson

Got it. Thanks so much.

Operator

Next question comes from Lauren Lieberman with Barclays.

Lauren Lieberman

Great. Thanks. First I had two clarifying questions. First is just a follow-up. Wendy, I think had asked about Nutranext. But I believe Kevin you responded to that talking about RenewLife. So, I just want to go back. And even when you acquired Nutranext, I mean to what degree did you have an understanding of the portfolio and that there'd be this decision to cut so much of the business, because some of the brands that were held up, I think they're described as kind of core seems to be what you're deemphasizing. So just sort of almost like a post-mortem on Nutranext would be great. That's the first follow-up. Thanks.

Kevin Jacobsen

Yeah. It was Nutranext. I apologize, Lauren. That was a Nutranext answer. So when we acquired the business -- and this is typical. When we acquire businesses in many cases, it comes along with pieces of the portfolio that we don't have any interest in strategically. In this case, they had done a number of acquisitions. And so they picked up private label. They had some contract manufacturing. They have a number of minor brands in DTC that don't -- we don't see it having long-term value.

And so, pretty typical for the first year or two we will clean that up and get the portfolio focused on what we think has long-term value for our shareholders. And that's certainly what we're doing. So, we're stepping out of the private label. We're stepping out of the contract manufacturing certain aspects of DTC as well and really getting this to the core portfolio that we believe has long-term value.

Lauren Lieberman

Okay, great. And then the second thing was just about the second quarter. We've talked about things will improve. But then you also said the growth will come in the back half. So, I just want to be clear if second quarter sales expected to be down, albeit, a bit better than what we saw in Q1.

Kevin Jacobsen

Yes Lauren, that's correct. I expect second quarter to look fairly similar to the first quarter in terms of sales, but the drivers will be different. The FX environment is getting worse.

Keep in mind the bulk of our FX exposure is in Argentina probably 70% 75%. The big step-down in the peso happened late in August and so you have a partial impact in Q1. You'll get a bigger impact going forward and then that will be offset by improving organic sales.

Lauren Lieberman

Okay. All right, great. And then the other thing I was curious. Sort of post-Analyst Day, I sort of look back and was then thinking back a few years prior to -- I guess it was maybe four years prior to Analyst Day where you'd introduced the concept of fuel versus grow brands. I'm sort of thinking about the degree to which that approach kind of got you to where you are now on some of these big more challenged businesses.

So, I just want to talk about sort of -- there's these steps to improve the short-term challenges, but also maybe a structural change in how you address businesses across the portfolio. Is that sort of a fair thought process? Because it feels like maybe these businesses are to start for like good four, five years and that's sort of how we got here. And also what maybe led to some of the pricing decisions being as I'll call it stubborn as they sort of proved to be?

Benno Dorer

Lauren not really. So, if I think about Glad trash, that's a growth business and Kingsford is a fuel business. So, there's no correlation there as I look at those two businesses. I think it makes perfect sense for us to disproportionately invest in businesses that are faster-growing and that are more profitable. And I feel good about that.

Brita is returning to grow. Burt's Bees has had a strong run. The Food business has had a strong run. And many of those businesses are performing better than they did before we started the concept of fuel versus growth.

I would point to post-pricing issues on those two businesses. We feel good about pricing. We have always said that this is a short-term versus long-term trade-off. It's absolutely necessary for us to offset cost increases through pricing to be able to ensure that we're able to drive long-term shareholder value. We continue to manage our business with an eye on the long-term.

And as difficult as these -- some of these distribution losses and certainly challenges on Glad and Kingsford are, the reality is that we must power through them as part of our focus on long-term profitable growth.

So, I feel good about the fact that we're offsetting pricing aggressively. I feel good about how we're managing the portfolio as a whole and see none of this is related to the choice that we made four years ago.

Lauren Lieberman

Okay, great. Thank you so much.

Operator

Next question comes from Kevin Grundy with Jefferies.

Kevin Grundy

Hey, good afternoon guys.

Benno Dorer

Hey Kevin.

Kevin Grundy

First a housekeeping question for Kevin. So, first quarter, obviously, a bit soft. It sounds like second quarter challenged as well although contemplated in your guidance to some degree.

Kevin I apologize if I missed this. Is it your preference to kind of level set expectations towards the lower end of the 1% to 3% organic sales guidance for the year? Or you still see it's possible to do the higher end which would imply something like 5% organic sales growth for the balance of the year which feels a little bit ambitious?

Kevin Jacobsen

Yes, Kevin. Thanks for the question. What I would say is I am comfortable with our 1% to 3% organic sales. I don't plan to provide any more insight in terms of high-low. I think that's a good solid range for us and feel comfortable with where we're at this point.

Kevin Grundy

Okay. All right. And then a follow-up question on the margin structure in the Household business understanding the significant price investment in advertising and marketing going on there. But the margin in the quarter about 6.5% I call it for operating margin was one of the lowest that we see in that segment in a very long time. This had been a low 20% operating margin business not going back to too far. How do you see the margin structure for that business now going forward? How much of this is, sort of, a permanent impairment, higher cost of business, higher advertising and marketing, trade promotion levels with some of your big important businesses; charcoal, trash bags, litter et cetera? Do you see this as more, sort of, a permanent impairment? Or you think that, kind of, out of the woods after a challenging year this year? Then I'll pass it on. Thank you.

Kevin Jacobsen

Yeah. Thanks Kevin. When I think about it in terms of margin in Household, one thing to keep in mind. The two businesses that are challenged Glad and Charcoal, they're our most capital intensive businesses. And so when you lose volume in those two businesses, you've got a lot of fixed costs that get spread over a lot of fewer units and have an outsized impact on margin. So my expectation is as we get those businesses back on track and growing, you'll see that reflected more positively in the margin line.

Kevin Grundy

Okay. Thank you guys. I’ll pass it on.

Kevin Jacobsen

Thanks, Kevin.

Operator

Next question comes from Ali Dibadj with Bernstein.

Ali Dibadj

Hi, guys. So I have a few questions. But one Benno, I just want to take a step back around the pricing strategy. So look I get the bumpiness commentary. I get we've seen this before commentary. But honestly, I guess, I would have thought that bumpiness is going to be more from the consumer elasticity’s, which has certainly been the case historically. But they're just -- there are many perhaps too many instances of the retailers reacting badly to the price increases. And I guess, I just want to ask a very simple question and I apologize if it's naïve. But why do you think the retailers are kicking you off the shelf now when you're taking the price increases?

Benno Dorer

Yes. So as you -- so consumer elasticity are good, right? So we have commented that they're largely unchanged versus before price increases. We've also commented on the fact that the consumer value measure actually is really positive with 54% of our portfolio being seen as superior, which compares to 53% before price increases. So pricing generally is performing as expected.

Why do -- why are we experiencing these distribution issues? We certainly went out early and confidently. So I would perhaps point to that. Other than that you'd have to ask retailers. But clearly what we're seeing in some categories is that some competitors didn't follow where we might have expected them to follow. And as a result we get an outside reaction.

But look I understand this. In many cases categories where we've lost distribution are softer too. I commented on the correlation between our performance and category performance. And that's really what we're focused on right now. Losing distribution as hard as it was is water under the bridge. We're focused on getting distribution back. And we're working with retailers now to make progress in 2020.

Ali Dibadj

So I guess it's still helpful. But I guess because I just -- I'm sorry. I just don’t -- I don't understand. So if elasticity’s are good, the consumer doesn't respond poorly to this and that's all great. I mean their brands are good. So why are the retailers making -- it sounds like a mistake. What's going on? Is it that they disagree or…?

Benno Dorer

I'm sorry?

Ali Dibadj

Is it that they disagree and that they view elasticity’s as worse? Or they don't think your brands are good enough? Or why do they kick you guys off shelf in many instances now when you're taking prices up, if elasticity’s are good and consumers are okay with it? It helps our costs, so I just don't get it.

Benno Dorer

Let's take Glad as the best example perhaps. We took pricing before, resin flipped. And then there were questions about the cost justification of pricing. To be clear pricing continues to be justified but that doesn't mean that retailers like it. So that part while it isn't something that is up in the category, it's also pretty consistent with what we've seen in the past with the one exception that resin flied after we took pricing. But this is not uncommon Ali. It's worse but in part it is that we took pricing early and perhaps very confidently, whereas, some of our peers did not.

Ali Dibadj

Okay, okay. And then -- so on the confidence going forward, confidence in the second half. Is lapping distribution losses in your second half guidance Kevin? Or is it actual kind of new distribution gains which is in your guidance?

Kevin Jacobsen

Yes. I'd say it's a combination of both. Certainly lapping distribution losses is a big element, when you look at our comps, we'll be lapping in the back half of the year particularly Q4. And then as Benno commented to a certain extent, we're actually working on rebuilding distribution and have some expectation in terms of how that will play out.

But as we said earlier, those decisions are being made right now over the next quarter or so. So we'll have to see how that goes. It's still fairly early but there's certainly an expectation that we make progress there as well.

Ali Dibadj

Okay. And just my last question around Cleaning, you went through it in detail, thank you Benno for doing that. Are laundry shelf space losses or laundry issues -- is that anything in anticipation of the compaction of the product? Or was it just an isolated and different incident?

Benno Dorer

No. I wouldn't call that related to compaction Ali. It's a loss of distribution post pricing as we commented, but nothing related to compaction. No.

Ali Dibadj

Okay, all right. Thanks very much for your help.

Operator

[Operator Instructions] And we have a question from Steve Strycula with UBS.

Steve Strycula

Hi good afternoon. So Kevin quick question for you on the gross margin, you talked about timing and cadence a little bit saying the first quarter was a little bit better. Can you walk us through some of the puts and takes for the gross margin? Should we expect it down for the next several quarters of the year for the balance of the year? That would be my first question.

Kevin Jacobsen

Sure Steve. As you think about gross margin phasing, as you know for the full year our outlook is it will be down slightly. This was the easiest comp we had. We were down 150 basis points in Q1 last year. So we had a pretty easy comp.

The other item to think about though is on cost savings, we had a very strong quarter. We delivered 180 basis points of benefit to margin. That was the strongest quarter we've had in five years. I am pleased with the performance. But we have a big number we're trying to hit this year and quite a bit of work ahead of us.

So while I'm pleased with Q1, I don't expect to be taking the number up at this point. As I said previously our expectation on cost savings to be close to last year maybe a little bit better. That's 150 basis points, so you kind of phase that through the year.

Also if you think about pricing the bulk of the pricing we took last year was front-loaded. And so in Q1 with 120 basis points of benefit, I'd expect to see that decline as we move through the year. Same with FX, we have a partial impact this year -- or excuse me this quarter.

So as you get the full impact from Argentina, plus the ongoing devaluation, I'd expect FX impact to be more negative going forward. And then finally, as I mentioned earlier, the supply chain events we're making fairly light in Q1.

We will make those investments over the balance of the year. So you'll see that pick up in the manufacturing line over the course of the year. So when I play all that out, I still think, it's a balanced view about down slightly for the year.

And that would suggest you'll see negative gross margins going forward, with our plus 60 to begin the year.

Steve Strycula

Okay. And then, Benno a quick question. As we lap last year's, weaker flu season. Have you seen retailers start to build back up for the Cleaning and the wipes business, as they think about arguably an easy flu season compare?

And then, can you remind us -- it's been a few years since we've had a compaction cycle. Just to think about, the various -- whether it's volume or margin implications that investors should think about as we move through that period in the spring. Thank you.

Benno Dorer

Thanks, Steve. On the flu season, we're always working with retailers to prepare for flu season, no matter whether flu season is good or bad. So, we will be prepared to serve consumers, as they are looking for more disinfecting products.

And on compaction, typically what you see, if we can repeat what happened in the last few times the way we did compaction is one the gross margin expansion. So we would expect that. I think that's pretty obvious as logistics and packaging material costs are lower predominantly.

And then, what you often see is consumers migrate to larger sizes. And with that usually comes and expansion of consumption which in the previous two times also had a positive top line effect.

So the primary benefit is on gross margin. But it does have a top line effect that can be persistent for the first 12 to 24 months post launch.

Steve Strycula

Thank you.

Operator

This concludes the question-and-answer session. Mr. Dorer, I would now like to turn the program, back over to you.

Benno Dorer

Yeah. Thank you. And thank you for joining everyone. I wish all of you, a happy Halloween. And we look forward to talking with you again in February, when we report on our Q2.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.