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ENR - Q1 2015 Energizer Holdings Inc Earnings Call

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OVERVIEW:

ENR reported 1Q15 adjusted EPS of \$2.07.



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PRESENTATION

Operator

Good morning. My name is Danielle and I will be your conference operator today. At this time I would like to welcome everyone to Energizer Holdings first quarter FY15 results conference call.

(Operator Instructions).

As a reminder, this call is being recorded. I would now like to turn the conference over to Jackie Burwitz, Vice President, Investor Relations. You may begin your conference.

Jackie Burwitz - Energizer Holdings Inc - VP of IR

Thank you, Danielle and good morning, everyone. Thanks for joining us on Energizer's conference call to discuss our first quarter FY15 results. With me this morning are Ward Klein, Chief Executive Officer and Dan Sescleifer, our Chief Financial Officer. This call is being recorded and will be available for replay via our website, energizerholdings.com.

During our prepared comments and the question-and-answer session that follows, we may make statements about our expectations for future plans and performance including future sales, earnings, capital expenditures, advertising and promotional spending, product launches, the amount and timing of savings and costs related to restructuring, amount and timing of changes to our working capital metrics, currency fluctuations, tax rates, raw materials and commodity costs, category values, acquisition or integration plans, future plans for return of capital to shareholders,



whether the spinoff of the household products business is completed or expected, as expected or at all, the timing, costs and terms of any such spinoff, whether the expected operational marketing and strategic benefits of the spinoff can be achieved.

Any such statements are forward-looking statements, which reflect our current views with respect to future events. These statements are based on assumptions and are subject to risks including those described under the caption risk factors in our annual report on form 10-K filed November 18, 2014. These risks may cause our actual results to be materially different from those expressed or implied by our forward-looking statements. We do not undertake to update these forward-looking statements even though our situation may change and these forward-looking statements represent our views as of today only.

During this call we will refer to non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is shown in the press release issued earlier today, which is available in the investor relations section of our website, energizerholdings.com. Management believes these non-GAAP measures provide investors valuable information on the underlying trends of the business. With that, I'd like to turn the call over to Dan.

Dan Sescleifer - Energizer, Inc. - CFO

Thanks, Jackie and good morning, everyone. I would like to start with a financial overview of the quarter and then turn the call over to Ward to comment on the businesses and progress of the planned separation of the Personal Care and Household Products divisions. Adjusted earnings per share for the quarter of \$2.07, a decline of 1.4% versus the prior year, were in line with our expectations despite significant currency headwinds. Net sales declined 6.8% including approximately \$45 million of unfavorable currency impacts.

Organic top line declined 4.7%. Margins improved as a result of our restructuring program with incremental savings of \$26 million in the quarter. Accretion from the Feminine Care brand acquisition was \$0.05 per diluted share. A&P spending increased \$4 million or 90 basis points on a percent of sales basis versus prior year. SG&A as a percent of sales, excluding unusual items, improved 60 basis points versus prior year and the effective tax rate was favorable versus the prior-year first quarter as restructuring and spinoff costs were incurred in higher tax rate jurisdictions, resulting in a lower overall tax rate for the company.

Organic sales declined 4.7% as both businesses experienced softness. Our Personal Care organic sales declined 2.5%, driven by decline in feminine care, wet shave and infant care. While volumes are down across the portfolio, we did have favorable pricing within wet shave. In wet shave, growth in the Hydro franchise was offset by decline in our legacy brands and shave products. In Household Products, organic sales declined 6.9% due to the timing of holiday shipments that occurred in the fourth quarter of FY14 combined with retail inventory reductions late in the quarter.

In addition, Household Products had higher promotional spending that negatively impacted net sales. We continued to see strong margin expansion of 120 basis points to 47.1% as we continue to make excellent progress with our restructuring initiative. During the quarter we realized \$26 million in incremental savings, bringing the project to date savings to \$282 million. We estimate that the total project gross savings will exceed \$330 million and expect to exceed \$300 million in savings through June 30, 2015.

Since we closed on the feminine care acquisition on October 23, 2013 there is an incremental \$0.05 of earnings per diluted share in the quarter representing the operating profit from October 1 to October 23 last year. We also increased A&P investment \$3 million during this time period. We continue to be very pleased with how this acquisition is performing and the potential for growth going forward now that it is fully integrated with our feminine care portfolio.

During the quarter A&P spending increased \$4.1 million to 8.2% of net sales. The 90 basis point increase is due to increased spending behind the Hydro franchise and feminine care business. SG&A, excluding restructuring and acquisition related costs and costs related to the spinoff, increased 60 basis points versus prior-year levels due to restructuring savings and continued tight spending controls. Rounding out the P&L, our effective tax rate excluding unusual items was 28%, reflecting a favorable mix of foreign earnings.



Moving to our balance sheet, our working capital as a percent of net sales has remained stable at 15.2%. We continue to realize improvements within days payable outstanding across both operating segments. However, days in inventory have increased versus recent trends due to the [close] restructuring changes in the household products manufacturing footprint and inventory builds related to upcoming new product launches.

Finally, in terms of capital allocation, dividend payments in the quarter were \$31 million, equal to the prior-year quarter. No shares were repurchased during the quarter. Now moving to our financial outlook, as we indicated last quarter, due to the July 1 expected separation date, a full-year earnings per share estimate is not applicable. However, we did provide an outlook on metrics related to operational performance and brand investment activities.

With the exception of unfavorable currency impacts, not much has changed since we provided that outlook in November. We are still anticipating flat organic net sales as a total company with the Personal Care organic sales expected to increase low single digits and Household Products organic sales expected to be down low single digits versus the prior year, in line with the category. We expect the gross margin rate to increase slightly due to increased restructuring savings and A&P investment as a percent of sales is expected to increase over 100 basis points as we continue to invest behind innovation across both businesses.

Restructuring savings are expected to exceed \$300 million by the third quarter of FY15. Project to date we have recognized \$282 million in savings through the first quarter of 2015 and finally, we are net estimating that organic pre-tax profit growth will be negatively impacted \$60 million to \$65 million due to unfavorable currency movements. This is an increase of \$25 million versus the estimate we provided in November. Our nine-month financial forecast has earnings per share below the prior year nine-month period in the low- to mid-single digits.

Excluding the negative impact of currencies, forecasted earnings per share is above prior-year for the nine-month period. Our focus for the next two quarters is delivering topline growth, enhancing margins and investing behind our brands and the new innovations that will come to market over the next couple of quarters. I also want to highlight that we continue to translate our Venezuela results as a 6.3 official exchange rate.

We are aware of recent changes announced by other companies, including the recent move to de-consolidate and translating at the higher SICAD II rate. We continue to evaluate the most appropriate accounting treatment and translation rate for Energizer and we may elect an alternative treatment in the future. Now I'd like to turn the call over to Ward, for a review the businesses and an update on the progress of our proposed separation of the businesses.

Ward Klein - Energizer, Inc. - CEO

Thanks, Dan. As Dan stated, first-quarter results were pretty much in line with our expectations, despite significant currency headwinds. Looking at the US Personal Care business, all categories exhibited growth in the December quarter for the first time in two years. However, our aggregate share did not improve sequentially as we had hoped. We ended the quarter in the US down 1.4% on our aggregate share basis, as losses were driven primarily by infant and men's and women's legacy systems.

In wet shave, the US category was up nearly 1% in the quarter as growth in women's systems and disposables was partially offset by a decline in men's systems. Our share in the US was down nearly 2% due to the highest levels of promotional activity in the past three years from our major competitor. As a result, gainings in the Hydro franchise were offset by declines in legacy brands. Globally, our share of men [all-shave] is basically flat.

Our total global Hydro franchise sales were up 11% from the quarter, the 7th consecutive quarter of double-digit growth. The Feminine Care category grew approximately 1 point, with our share being relatively stable. Market share in the Carefree and Stayfree brands are improving behind our continued increased investment support. In the second quarter we are launching several new products including Hydro Silk [crimp] style, a trade up from existing Quattro for women crimp style.

It started shipping in January and is an extension of our growing Hydro franchise. And sport pads, liners and combo packs to leverage our sport brand name into the complimenting pads and liners categories. In February we will be leveraging the Playtex sport brand equity and our acquired

technology with a launch of pads and liners under the sport brand. In addition to the increased A&P support of our existing brands, we will have increased media and promotions behind these new products.

Turning to Household Products, although the battery category value continued to decline 2.6%, consistent with recent trends, our value share of the US battery category increased 3.2 points. The global battery category value share increased 2.1 points through our successful efforts to gain new distribution and our strong focus on category fundamentals. In addition, we improved profitability, excluding currency impacts in the first quarter, driven partly by our ability to continually drive out costs, which led to continued margin expansion.

We believe we still have room to grow our share and profits through investing in our brands and introducing innovation. As a matter fact, next week we will see another world's first from the iconic Energizer brand. This new product launches in five days and we will provide additional details regarding our upcoming innovation launch at CAGNY.

Now turning to the separation. We are now a little over five months away from the July 1 targeted separation date. We are continuing to make progress on the various work streams.

The form 10 will be filed in early February as planned and will provide historical standalone financials for the SpinCo business, Household Products. Our colleagues have done an excellent job of doing their day jobs while also working on this complex transaction. I remain confident in both teams' abilities to drive growth and generate significant value for shareholders. As a part of the separation process, we are also executing a restructuring initiative in order to position both businesses for success as standalone entities.

These initiatives include adapting the global go-to-market footprints to reflect the future strategies of scale of each company, centralizing certain back-office functions and outsourcing certain non-core transactional activities both in an effort to increase efficiencies and reduce headcount to optimize the cost of each business. These restructuring savings of targeted offset incremental SG&A costs, which are normally expected to be incurred when developing two standalone businesses.

Based on the decisions made today, we are estimating the total spinoff and restructuring related costs to the close of the spinoff will be approximately \$350 million to \$425 million with \$200 million to \$225 million relating to the transaction evaluation planning and execution and \$150 million to \$200 million related to the downsizing and restructuring initiatives. These estimates do not include costs related to potential debt breakage and tax related charges for potential CapEx which may be incurred in the transaction and may be significant.

We look forward to providing more information on February 20 when both management teams will be presenting at CAGNY and will provide more insight into their businesses. In addition, both businesses will be providing more information in the weeks preceding the targeted spin date of July 1 to discuss their strategies, capital structure and return of capital plans.

This is an exciting time for all involved at Energizer. We strive to continue delivering value for our shareholders by both investing in our brands and innovation and creating two separate companies with distinct operating models. This completes our prepared remarks for this first quarter earnings call and Dan and I will be happy to take your questions. Danielle?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Chris Ferrara from Wells Fargo.

Chris Ferrara - Wells Fargo - Analyst

Thanks. Good morning, guys.

Wondering on topline, I know you guys had some timing issues in household around timing of shipments in holiday and inventory changes. Can you quantify that on household and then talk about anything else unusual that would've driven organic this low this quarter, particularly in light of the fact that you are maintaining the organic guidance for the rest of the year? I was wondering if you could talk about the confidence level in that and why it gets better.

Ward Klein - Energizer, Inc. - CEO

Sure. On the household side, the quarter had, as we described, some unusual movements of inventory in and out. There was also a couple of customer-specific situations. There was a load last year related to those favorable for us that we didn't annualize through this year. But really nothing material. And I think, again, as we look at planogram sets both on the household side and personal care side, they are pretty much locked in at this point in time. We're feeling pretty confident, of the topline estimates anyway, for the balance of our year, the balance of the nine months.

I don't know, Dan, if you have anything you want to add.

Dan Sescleifer - Energizer, Inc. - CFO

I think that pretty much covers it. We did have significant promotion in a few accounts as well, which had a negative impact on sales.

Chris Ferrara - Wells Fargo - Analyst

Okay. So following up, does that suggest the planograms have a lot of incremental shelf space in them, and that's what is going to get you the year-on-year gains? Or maybe -- I know you're going to announce some innovation at CAGNY, probably in both businesses. Is some of this contingent upon the success in the selling of those innovations?

Ward Klein - Energizer, Inc. - CEO

As far as planograms that we've seen set -- as I said, we feel pretty comfortable with as we go into 2015. The innovation that we are launching both on battery side as well as on the personal care side is material, and will be a contributor as well. And then I think finally, especially in the personal care side, again, the categories that we complete in we're actually starting to see a little bit of growth out of these categories, really for the first time in two years. I would say those are the three main factors that we are basing our more positive view on the topline here for the next couple quarters.

Operator

Our next question comes from Wendy Nicholson from Citi.

Wendy Nicholson - Citigroup - Analyst

My question has to do with the promotional or the choice of where you are spending advertising versus promotion. If you can update on us the promotional environment as you expect it? I know you've talked about it being very promotional in both razors and blades and batteries. But going forward with the expected 100 basis point increase in your advertising spending, do you expect that to come out of promotional spending? In other words, are you excited about the environment getting easier? Or is that a specific choice you are making? Thank you.

Ward Klein - *Energizer, Inc. - CEO*

Sure. On the promotional environment, it's a little bit different between the two businesses. Household promotional environment -- I don't think there's anything extraordinary to comment on in a macro sense. On the personal care side, we saw some extraordinary promotional spend by our major competitor in shave. In fact, really harking back to previous management of our major competitor, at levels we haven't seen in a couple of years. I think as we go into the January through June timeframe you will see increased A&P behind the innovation that we are talking about in some of the different areas and on existing systems.

On the promotional spend, in some of our categories, not across the board, we may be doing some readjustments, given what we've seen from our competition. But I think overall, back to Dan's comment, you can expect to see topline that's kind of the brand building, equity building innovation focused A&P up around 100 basis points.

Wendy Nicholson - *Citigroup - Analyst*

Got it. Okay.

On the household side, with the change in ownership at Duracell happening, is there anything you can comment on in terms of maybe how the competitive environment is evolving in terms of the intensity of winning new distribution? I know that's been a big driver of your business; you are either in or you are out at various retailers. Now that a lot of planograms have been reset, is there any commentary you can make about their competitive approach to the category at this point?

Ward Klein - *Energizer, Inc. - CEO*

Wendy, I really can't. You would have to ask them. I don't think they quite know, as they have changed management again on the battery business and it's not quite clear who is running it during their transition. I think they are better able to speak to it than we are.

The beauty for us, as we make our transition, as you know, is the management team we have running this business going forward after July 1 has been running batteries for 30 years and has unmatched experience in the category.

Operator

Thank you. Our next question comes from Dara Mohsenian for Morgan Stanley.

Dara Mohsenian - *Morgan Stanley - Analyst*

Hey, good morning.

I was hoping on the innovation front, can you give us a sense of how much contribution you are expecting from your products this fiscal year versus a typical year? And how game-changing the innovations might be?

And then, secondly, on the commodities front, can you talk about your commodity cost expectations the next couple of quarters? And even post the split -- obviously you're not going to go into the individual businesses -- but can you give us a general sense of commodities looking out beyond the split in terms of the impact it could have on your business, based on current spot rates?



Ward Klein - *Energizer, Inc. - CEO*

Let me talk on the innovation side and then turn the commodity discussion over to Dan.

On the innovation, we don't give out the information as to what these new products, what percent of total volume they will make up. The innovations, though, are noteworthy. Especially, I think the one on the household side is something the household battery category has never seen. So we consider that noteworthy and material.

And of course materiality in both the personal care side and the household side coming from innovation will certainly be material as it relates to this quarter and next. And then it starts to blend in with total business as you annualize through that.

Dan? Commodities?

Dan Sescleifer - *Energizer, Inc. - CFO*

If you think about total product costs, we have a lot of benefit from continued savings from the restructuring project, a lot of which is manufacturing footprint changes, which is cost of goods sold. On the materials side we are expecting some slight favorability the remainder of the year. Clearly, oil is a benefit for us and we are going to see significant benefits within the transportation line of the P&L. Overall, materials and (inaudible) themselves are relatively flat, slightly favorable; but the big benefit for us is going to the restructuring savings.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay. On the restructuring savings, the higher cost savings that you guys have outlined, is that a significant revision there, given you are not quantifying your new numbers? Just a more modest change? Or could it be more significant? Can you give us some type of help in terms of quantification there?

Dan Sescleifer - *Energizer, Inc. - CFO*

I wouldn't characterize it as a very significant. The fact that we now are seeing it [seed] simply shows the savings are coming in faster and we are more confident at achieving those savings at July 1. So our total savings we have not updated. We will continue to update you next quarter, and if we are closer, there's a possibility we could be higher. But at this point in time, we are a lot more confident, given that we are already at \$282 million in savings with two quarters to go, that we're going to hit the \$300 million number.

Operator

Our next question comes from Bill Chappell from SunTrust.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

I may have missed this, but on the battery side, can you give us an idea where you are gaining some of this share? Is this just at existing customers you are getting better placement? Or are you getting into new distribution? It looks like Eveready's popped up at Home Depot and some other non-FDM channels. Could you give a little more color there?

Ward Klein - *Energizer, Inc. - CEO*

Sure; actually a little context as well. If you recall, we've been talking about growing our market share in batteries outside of those two customers that we lost over a year ago now. And with us annualizing through those customer losses last fall, anyway, that growth is just now evident. It's not

being masked by the two distribution losses we've been referring to over the past year and a half. And in fact it's broad-based. It's all channels. It's across a mix of customers. And again it's a result of our ability to focus on the fundamentals -- focus on helping our customers for all their categories, their battery categories.

To that point, it's just a fact that our battery sales force, especially in the US, is 100% focused on batteries and flashlights and none of our competitors can say that. I think you are seeing that in terms of the fundamentals really across the board.

Bill Chappell - *SunTrust Robinson Humphrey - Analyst*

Okay. Switching to wet shave -- I know this question comes up on a regular basis, but if you look at the Dollar Shave and some of these more alternative channels, they do seem to have stepped up advertising national and promotion. Is the real competitive pressure just from P&G? Or are you seeing other channels? Or is it even just P&G's new product where you don't have a new product right now to tout?

Ward Klein - *Energizer, Inc. - CEO*

On the Internet versions, we see that as a different channel of distribution, actually, whether it's some of the different players there, we participate to that. Our private brands group actually sells some product through some of those Internet-based channels. That's not necessarily competing with us as much as an opportunity for our private brands group. The real competitive comment goes back to the level of promotional spend we saw this past quarter from the main competitor who basically drives the category.

We saw an unprecedented amount of promotion. I'll give you an example in men's: we saw, when you look at a percent of volume on deal for the past quarter, our competitor increased the percent of volume on deal by 1,000 basis points. Not 100 basis points -- 1,000 basis points. Our percent of volume on deal actually was down. It's kind of unusual to see that we weren't, honestly, anticipating these hyper levels of promotional spend out of a major competitor of ours in wet shave. I think that's probably the main contributor to a little bit of share loss.

Operator

Thank you. Our next question comes from Bill Schmitz from Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

Hey, guys. Good morning. I have a couple of questions.

Can you give us a little bit of a sneak preview of the Form 10? The two big questions, and I think you probably are better apt to answer now are: have you taken a stab at what the standard overheads are going to be, the two businesses?

And then, is there any reason to believe that the separation financials are going to be materially different than the current segment numbers allocating the corporate? And I have a follow-up, please.

Dan Sescleifer - *Energizer, Inc. - CFO*

This is Dan. You are not going to get standard overheads out of the Form 10. The Form 10 actually will be issued in the very near future.

We believe at this point -- and we are still putting together these post-separation financials for the two businesses -- we believe that we will, or we are targeting to eliminate or overcome all the synergies. So we've come up with a rough estimate of what we think the synergies are. Obviously, you can see the restructuring expenses that we've highlighted, those of a fairly significant magnitude. A lot of those restructuring efforts are targeted to reduce costs going forward for the two businesses. So that's kind of the color commentary on that and we'll certainly have more going forward.



In terms of the shape of the P&L, we don't have that at this point in time. I don't even think we'll have that at CAGNY, but certainly by the road shows in June, we will have a much clearer picture what this whole financial outlook is for each business.

Bill Schmitz - *Deutsche Bank - Analyst*

Great, thanks.

If I look back historically -- and I'm backing into the numbers for the organic growth for the year -- it's been since 2007 where you've had two consecutive quarters of greater than 1% organic growth. You've had quarters of good organic growth in a given quarter, but to do two in a row, which it seems like you're guiding to -- is that really a change in the environment? We're clearly seeing an uptick in the Nielsen data? Or is it stuff you are doing? Because every year you have pretty decent innovation and it sounds like this one might be a step change difference. But I just want to try to figure out what's different this time to get to those levels of organic growth.

Ward Klein - *Energizer, Inc. - CEO*

I think the main thing that's different this time is we are seeing the actual categories in which we compete, grow. The negative trends we've seen, especially on wet shave -- I'm talking value growth -- but the negative trends we've seen in categories like wet shave and most all the others, really seem to have been abating. Activity has been consistent with that observation the past couple of quarters and we are actually now seeing them go into positive territory. I think that is certainly a fundamental positive as we look into the next two quarters on our own businesses. I think you then layer on top of that category growth, what we do have in terms of the innovation pipeline coming out, and these are really two primary reasons, I think, for our view.

Operator

Thank you. Our next question comes from Ali Dibadj from Bernstein.

Ali Dibadj - *Sanford C. Bernstein & Company, Inc. - Analyst*

Hey, guys. Thanks. I have one question about currency and one question about the transaction.

On the currency front, can you please, maybe Dan, quantify the benefit you got from FX hedging in the quarter? We see the net number, but what's the gross number benefit you are getting? And how that rolls through the rest of the year given the hedges you have in place? And perhaps even to the split? And within that, talk about your decision around Venezuela -- timing of that and what would change things. And then I'll come back on the transaction question.

Dan Sescleifer - *Energizer, Inc. - CFO*

On the off-sell, it was about \$5.5 million, so the net impact was \$20 million. In general it's about a 20% to 25% offset. It varies by quarter, but that's really what we use as a benchmark based on our hedging program.

Ali Dibadj - *Sanford C. Bernstein & Company, Inc. - Analyst*

Sorry, on that one still, how does that flow-through going forward? But on the transaction, for fear of being cut off, you guys have bought companies, many companies, before; and I'd just love your opinion on this, because you have spoken about, in the past, your two future Companies being potential acquisition targets. And it's possible somebody could look at these and be interested in them. I think a lot of us on the analyst investor front are thinking that way as well.



A little bit to the previous question, but also even to this quarter -- you've had some really tough topline and tough bottom line results. And as acquirers in the past, do you think that influences your potential future acquirers of your two businesses? So they look at these results and say, these are better or worse businesses that we thought? Or do you think this is all within the realm of reasonable volatility in numbers and so it doesn't really change what a potential acquirer could think about.

Ward Klein - *Energizer, Inc. - CEO*

You know, let me take a stab at all those questions.

We are approaching the July 1 split and thinking post-July 1 split as two strong, independent Companies going forward; and hence the investment in the brands, the investment innovation, the optimization of the footprints of two Companies as we get through this final part of the split to set up these two as viable, ongoing concerns. And so that's really the context we're thinking and acting in; and the proof's in that pudding. We think these are both good businesses to be in.

We think that our cash flows on batteries are very strong and provides them a great deal of flexibility as they look at growth post July 1. We think, especially as the categories of personal care get back to some growth parameters that those are looking quite strong. So that's honestly how we are dealing with it as we go forward.

And I don't know if, Dan, if you have anything you want to add.

Dan Sescleifer - *Energizer, Inc. - CFO*

Ali, I don't have they hedge offset in front of me at this point. The \$65 million that we talked about is actually the net number net of the translation, net of the hedge game.

Operator

Thank you. Our next question comes from John Faucher from JPMorgan.

John Faucher - *JPMorgan - Analyst*

Thanks. If I could follow up a little bit on Bill's questions, you highlighted in both the press release and the prepared remarks that the estimates for the cost could go up from here. Given the fact that you mentioned it on the call, is that something we should expect that it could go up? Or is that just a general warning? And then, can you explain the \$200 million to \$225 million related to evaluation planning and execution -- what goes into that?

And then, the third piece of this -- sorry to make it so complicated -- is, if it goes up, I assume that would be related to the restructuring piece. It seems like that would be where you would see the incremental increase. So if we do hear you taking that up, again, that would be a sign that you can attack more of the fixed costs. Is that the right way to interpret that? Sorry for the complicated question.

Dan Sescleifer - *Energizer, Inc. - CFO*

John, this is Dan.

I think that's fair to assume that if there's a change, we would anticipate it more on the restructuring side. In terms of the separation costs, and I'll go through those, that is our best estimate at this point in time; but we certainly have to caveat that with they certainly can go up as we proceed going forward.



To talk about the separation costs, I guess maybe step back. If you think about how our organization is structured. It's a global enterprise. We have combined entities from back-office through commercial in almost 50 markets around the globe. The separation is clearly, it's a split into two; it's not a small spinoff, and so there's a lot of complexity. What adds to the need for resources is the restructuring project that we've undertaken over the last couple of years. We gotten rid of a lot of resources that otherwise might be able to work on this project. So we've had to rely a lot on external resources.

There's really two major buckets under separation costs. The first one I would call affecting the transaction. So think of all the accounting work, and that would apply to the Form 10 preparation. Clearly, since it's a tax-free spinoff, there's a lot of tax experts involved -- legal, financing, et cetera. So those individuals are working in all of these affiliates around the globe to basically make sure that we effect the transaction appropriately.

In addition to getting the deal done, as we separate the business we are looking at go-to-market strategies in every market around the globe. And that's, in some cases, splitting affiliates into two. In some cases it's going to distributors. That analysis does take a lot of effort. We, of course, are separating the two corporate entities and there's a lot of corporate functions that have to be established. And we have, with our combined commercial organizations, we have combined IT platforms, so there's a lot of effort that's going into basically cloning the existing IT platforms and separating into two.

So there's a lot going on and that's also one of the reasons why, when we announced last April the deal, it's a 14-month timetable to get it done. That's why July 1 is our targeted date.

Ward Klein - Energizer, Inc. - CEO

If I could just build on Dan's answer as well. I think part of what we're saying is that the costs we've given you are our best estimates on the costs as to that part of the project. But those costs don't include some of the debt breakage and tax leakage and CapEx associated with this project, which I think we called out specifically. But I'm not sure those are added costs per se; just those aren't costs in the numbers you're seeing.

John Faucher - JPMorgan - Analyst

Okay, great. Thank you.

Operator

Thank you. Our next question comes from Nik Modi from RBC Capital Markets.

Nik Modi - RBC Capital Markets - Analyst

Thanks. So three quick ones from me.

Ward, can you give a little more clarity on what was going on promotionally in blade and razors in the US? Was it ProGlide? Or was it more on the legacy stuff that Proctor was focusing on?

Dan, two questions for you. Restructuring charges have gone up. Is that including any thoughts around trade spending, ROI, and then battery manufacturing outsourcing? Any thoughts on those two components of cost saves?

Ward Klein - Energizer, Inc. - CEO

Yes, Nik, on the promotional side, certainly a lot was, I think, based on our competitor's launch last year of some innovation. Again, the level of promotion behind that was that and elsewhere, frankly. It wasn't just that, is what we noted. The levels of promotion for some volume on deals



[compared to what] I'm looking at is the highest in at least two years. Up substantially as you get 1,000 basis points in men's; but even in women's their spending as promotion as a percent of volume was up 600 basis points -- 36% of volume out the door on a deal versus 30% a year ago.

These are levels much higher than ours. And like I say, levels much higher than they have spent in not just last year comparable quarter, but two years ago comparable quarter. So it's an extraordinary promotional environment in that sense. I think, as we focus on our own innovation going forward, and as we've talked about all along, we prefer to compete through innovation.

In Hydro, the Hydro platform continues to be the prime example of that. And even in light of that kind of a promotional environment, as we have announced in this release, Hydro is still growing at a double-digit; has been for probably 17 out of the past 18 quarters. We will continue to focus on bringing innovation and competing in that fashion rather than renting temporary share.

Dan Sescleifer - *Energizer, Inc. - CFO*

Nik, I want to make sure I understood your question. I think you are asking if trade promotion and battery outsourcing were part of the initiatives. And the answer really is no. We are focused on how to separate these two entities and right-size the cost structures, and so we were really laser-focused on that which trade promotion and battery outsourcing would not fall into.

Nik Modi - *RBC Capital Markets - Analyst*

And just to be clear, Dan -- those are two things that you are looking into?

Dan Sescleifer - *Energizer, Inc. - CFO*

Yes. We are outsourcing batteries at this point in time. We've been doing that for a while. And trade promotion is a continued focus. It's just not part of these numbers related to the separation expense.

Operator

Thank you. Our next question comes from Steve Powers from UBS.

Steve Powers - *UBS - Analyst*

Thanks. A couple things; the first one on personal care.

I know you've got the innovation planned and the categories look a bit healthier; but as you just said, Ward, there's clearly ongoing competitive challenges and share loss. So how confident are you that you can accelerate the momentum as planned without even further ramping up brand support spending? I ask because you have got personal care sales that have shown negative year-over-year organic trends, on average at least dating back to at least the middle of the calendar 2012. And the competitive climate certainly seems, appears intense. Do you think you may need to spend even more than planned to get the growth that you're looking for? Or is the coming innovation that good that we can really have confidence in this positive inflection beyond an initial sell-in?

Ward Klein - *Energizer, Inc. - CEO*

Yes. I've been maybe repeating myself and I apologize if I am. I think the categories in the US, getting back to growth trajectories is an important component of our outlook over this coming year. The innovation that we are introducing on top of that is another contributor to our outlook. And

the increase in spend as indicated in the A&P spend as a percent of sales shows that we are increasing our level of support both on existing brands and innovation.

So all three of those I think are fairly positive factors that go into our plans. I don't want to overplay what share trends we've seen in the quarter, because those are US share trends. But as you know, our personal care business is global, and basically our share of wet shave globally is pretty stable.

Steve Powers - UBS - Analyst

Is there an assumption that the competitive condition -- I mean, maybe the December quarter was somewhat of an anomaly, but it's been intense. Are you assuming that it gets less intense?

Ward Klein - Energizer, Inc. - CEO

Well, I think we're assuming as you look backwards that the level of spend in the category promotional environment would have been a little more rational than it was a couple years ago under their predecessor management. So I think that was a little bit of a surprise.

I think we are prepared for anything. And as we move forward, I can't really comment on promotional pricing going forward. But we are very confident with our plans; happy to see category value growth back, happy with the innovation we are bringing out, and it's full speed ahead.

Operator

Our next question comes from Olivia Tong from Bank of America.

Olivia Tong - Bank of America - Analyst

Thanks. Following up on the wet shave question, can you talk a little bit more about combating the competitive challenges there? Are you planning to match some of the promotional spend? Or is the expectation that you will still have to deal with this as the year progresses?

And then, in batteries, you mentioned in your prepared remarks that you saw some de-stocking at retail. Is the de-stocking done at this point, in your view?

Ward Klein - Energizer, Inc. - CEO

On the personal care side, I won't comment or speculate on what our competition is going to do promotion-wise and how we will respond. That will play out in the marketplace. I think that we really do prefer to compete on innovation. So we're focused on getting our innovation launched and are supporting it in a very healthy manner. So that's the game plan on the personal care side the next couple of quarters.

On the household side, I would say yes, the de-stocking is pretty much behind us. The changes we've seen in some of our retail inventories -- we don't see anything extraordinary at this point going forward.

Olivia Tong - Bank of America - Analyst

Got it. Thank you.



Operator

Our next question comes from Kevin Grundy from Jefferies.

Kevin Grundy - *Jefferies - Analyst*

Good morning, guys. Thanks for taking my question.

Ward, I wanted to follow up on batteries, and understanding that the industry is in a unique period right now. Looking beyond the spend and looking beyond the close of the Duracell deal, are you in the camp that there is the potential for pricing rationality to emerge? Less promotion of focus on profit and cash flow?

If that's the case, do you think it's reasonable that this business is capable of more consistently delivering even low single-digit profit and free cash flow growth if this pricing rationality does emerge, if you guys continue to cut costs, which you've done a great job over the past couple of years? It would be great to get your thoughts on that front.

Ward Klein - *Energizer, Inc. - CEO*

I really hesitate to speculate on a go-forward basis how the categories will welcome a pricing dynamic. But having been in the business since 1986, I can tell you there have been times in the past where there's been a great deal of price rationality. There has also been times where the strategy was price wars. I think if you look in the past, the price war strategy never really played out well for the retailers, customers, and players in the category. But what happens going forward I can't speculate on.

Kevin Grundy - *Jefferies - Analyst*

Okay. Thank you.

Operator

Our next question comes from Connie Maneaty from BMO.

Connie Maneaty - *BMO - Analyst*

Good morning. I have a couple of questions on the split.

The first goes back to, I think, one of your comments in the prepared remarks, and I wanted to make sure I understood it. Did you say that you expected that there would be no spend at overhead on the split companies starting in July? And that it would all be absorbed before then?

Dan Sescleifer - *Energizer, Inc. - CFO*

No. We think longer term, once the companies have right-sized cost structures, that will be the case. But there is going to be a transition period probably all the way through the next fiscal year before that is achieved.

Connie Maneaty - *BMO - Analyst*

Okay, great. Secondly, as you consider what to do with the exchange rate in Venezuela, are you also suggesting that maybe the Energizer Company right now would absorb whatever change there might be instead of having the split units make that adjustment?



Dan Sescleifer - *Energizer, Inc. - CFO*

Connie, that's a possibility. As we highlighted in the remarks, we are looking very closely at this. If you look at what's going on in the industry, we're translating at the 6.3 rate, but we're also transacting at that rate, so that makes sense for us now. But there's SICAD 1, there's SICAD 2 and recently there is a business that's actually consolidated in Venezuela. So there's really four options available, and we are in constant contact with our external auditors and we're monitoring it very closely. But that is a possibility.

Connie Maneaty - *BMO - Analyst*

Do you suspect or have any indication if the split Companies would enjoy the same rates as Energizer does now?

Dan Sescleifer - *Energizer, Inc. - CFO*

I would assume so. I don't know why the two businesses would have different rates. Basically we have both businesses selling product in there at this point in time and I don't think the split would impact that.

Connie Maneaty - *BMO - Analyst*

Okay and one final one.

The dollar growth you are starting to see in some of your categories -- do you attribute it to better consumer health in the US? Lower gas prices? And do you think it's sustainable?

Dan Sescleifer - *Energizer, Inc. - CFO*

I would say that it is certainly helpful. And it's also, in some of our categories like wet shave, allowing price increases in the conventional trade-up strategy to play out a little bit stronger. Even on batteries I would say the premium batteries tend to do better than value battery trends right now. I would say consumer disposable income is part of that.

Operator

Thank you. Our next question comes from Jason English from Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

Good morning, folks. Thanks for the question.

I wanted to circle back to the very first question, and that was the attempt to quantify some of the puts and takes and transitory headwinds that impacted household. Can you give us a better sense of some of the quantification, or more specifically, give us a sense of an underlying basis, absent all that noise, where that business is running right now? And whether or not some of these transitory impacts actually can reverse on a go-forward? Or is it just simply the factor of lapping over-shipments in the prior year?



Ward Klein - *Energizer, Inc. - CEO*

You know the details on the puts and takes on batteries for the past quarter versus year ago really are kind of customer-specific, so I hesitate to get any more granular on that. We had some customers, big benefits last year that were due to one-time situations I don't want to get into that weren't repeated. So I think that's part of it along with some general shifts in volume at the beginning of the quarter and the end of the quarter.

I would say, on a long-term basis I would view the battery business -- again, we called out global batteries as a category down 2% to 4%. We were the first ones to call that out. We called that out a few years ago. We've been proven right on that; that's still the case. In the most recent quarter I think it was down 3%, right in the middle of that range. So it's within that slowly declining overall global category that I think our household battery business has the potential to offset some of that decline through distribution gains and our laser-like focus on category, unlike our competitors; and pricing, especially international markets.

So think of, on the battery side, taking out, frankly, some shareholder time mitigating that 2% to 4% decline. How much you get back to zero or a little bit of growth -- I think that's to be seen. But again, given that organization's focus on batteries, the innovations it's bringing to market, I think it's reasonable to expect for them to actually build a little bit of share in the declining category.

Jason English - *Goldman Sachs - Analyst*

Okay. Switching gears to personal care, quickly.

I can appreciate some of the competitive dynamics as a bit of a near-term headwind for you. But as we look at the data, personal care also appears to be suffering -- at least here in the US where we've got the good data -- suffering from quite a bit of distribution losses. I think your aggregate personal care portfolio has total distribution points tracking down 8% or so with wet shave and infant care leading those declines and they are mounting. Can you give us a sense of where these distribution losses are coming from -- I imagine it's some SKUs being cut out; if they are material in nature, and how that may impact a go-forward growth rate?

Ward Klein - *Energizer, Inc. - CEO*

Yes, I'm not looking at the exact data you have, so I can't speak to the numbers you are putting up. But I would say in a general context we saw some [facing] and distribution losses in fem care on the brands acquired, I think as related to the transition from JJ to our ownership. That was the last share number. We had a few facings and a few SKUs here and there across wet shave as well as fem care, but we were down during 2014. Frankly, I've seen the results for the resets that we had for 2015, and we are up either in terms of SKUs or facings or both in most of our personal care categories as we go into 2015.

I think that speaks to our confidence in terms of turning some of those negative topline trends, organic trends in personal care, to more positive trends, again, for that in addition to the other reasons I cited earlier.

Operator

Thank you. We have a follow-up from Bill Schmitz from Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

I meant to ask this before and I got cut off.

How hard is it to switch a business from a company-owned subsidiary to a distributor? Because I was wondering in Venezuela if one of the options would be to take the business or to take the write-down on the cash on the balance sheet and then ship it off to a distributor? So maybe broadly



speaking, because I know that's a big chunk of the [standard] overhead cost elimination. So logistics around switching from an owned sub to distributor; and then if you could possibly do that in Venezuela as well?

Dan Sescleifer - *Energizer, Inc. - CFO*

They are really two separate buckets. The overall winding down an affiliate, turning the business over to a distributor is happening in some of our affiliates as we focus our footprint. It's pretty straightforward how you do that. We sell through third-party distributors in over probably 100 countries outside of our affiliate footprint already, so this is certainly not anything new to us.

And even in markets where we may be transitioning from affiliate structure to distributors, oftentimes it can be with distributors we already do business with. So it's really more a matter of when you close down an affiliate, obviously there is headcount reductions and legal work around that. But I wouldn't say anything extraordinary -- it's difficult from a headcount reduction, always to do those, but it's straightforward how to do it in a constructive manner. And from a legal point of view, it's generally not all that complicated.

So we are doing a fair amount of that. That's a fair amount of the costs that Dan talked about. It's also a fair amount of the cost offset that we are anticipating with these two Companies going forward.

Venezuela is really a totally different animal. I wouldn't assume it's going to a distributors model or not. It's a unique set of circumstances, as Dan did a good job of laying out. We have a number of options before us. I think there probably is a feeling that we'd like to get that resolved prior to spin versus post-spin. We are already in the middle of, do you go to two companies in Venezuela or whatever. So it's a one-time event we need to consider coming from the split as it relates to our options in Venezuela.

The issue in Venezuela is just transacting dollars, and if there's a distributor who can freely exchange dollars, that would be great, but we haven't found it to this point.

Bill Schmitz - *Deutsche Bank - Analyst*

Got you. Thank you.

Operator

I'm not showing any further questions at this time. I would like to turn the call back to Ward Klein and Dan Sescleifer for any further remarks.

Ward Klein - *Energizer, Inc. - CEO*

Operator, thank you. That concludes the call. Thank you to everybody for your interest in Energizer. Have a good day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone have a great day.



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