[ENR] Energizer Holdings, Inc. 3rd Quarter 2015 Earnings Webcast
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Presentation

Operator: Good morning, my name is Frank and I will be the conference operator for today. At this time I would like to welcome everybody to the Energizer Holdings third-quarter 2015 conference call. After the speaker's remarks there will be a question-and-answer session.

(Operator instructions)

As a reminder, this call will be recorded. I would now like to turn the conference over to Jackie Burwitz. Please go ahead, ma'am.

Jackie Burwitz: Thank you and good morning, everyone. We are excited to have you join us today for our first conference call as an independent company following the completion of our spinoff on July 1. During the call we will discuss our third-quarter fiscal 2015 results and our outlook for the fourth quarter.

With me this morning are Alan Hoskins, Chief Executive Officer, and Brian Hamm, Chief Financial Officer. This call is being recorded and will be available for replay via our website at Energizerholdings.com.

During the call we may make statements about our expectations and future plans and financial and operating performance. Any such statements are forward-looking statements which reflect our current views with respect to future events. Investors should review our SEC filings for a description of the risk factors affecting our business. These risks may cause our actual results to be different from our forward-looking statements. We do not undertake to update these forward-looking statements.

During this call we will also refer to non-GAAP financial measures. All discussions will exclude the impact of unfavorable currency impacts, the Venezuela deconsolidation and go-to-market changes. A reconciliation of the non-GAAP financial measures to the comparable GAAP measures is shown in the press release issued earlier today, which is available in the Investor Relations section of our website, Energizer holdings.com.

With that, I'd like to turn the call over to Alan.

Alan Hoskins: Thanks, Jackie. Good morning, everyone. Thanks for joining us for our first earnings call here at the new Energizer. Let me start by providing an update of our spinoff. As many of you know, we've completed the separation of Energizer from Edgewell Personal Care on July 1, and began trading as an independent company on the New York Stock Exchange under the ticker symbol ENR.

The organization did a terrific job in planning and executing a very complex, transaction. This is an exciting time for the new Energizer, and I'd sincerely like to thank all the Energizer and Edgewell colleagues around the globe for their efforts related to a successful separation. Now we are reenergized and focused on being the best battery and lighting company in the world.

Turning to our financial and operational results for the quarter, and, as we discussed during our Investor Day presentation, we are managing the business around three key strategic priorities: Leading with innovation, operating with excellence, and driving productivity gains.

Now, I'd like to touch bases on each of these this morning. First, leading with innovation. In the quarter, the third quarter specifically, we continue to rollout our innovative EcoAdvanced product. The world's first AA battery made from 4% recycled batteries.

EcoAdvanced is performing well and we now have launched in the US and select European and Asian markets. Year-to-date sales have totalled nearly $30 million and we have plans to continue our launch activity in key markets across the globe over the next several quarters.

Our total value share grew behind this latest innovation, up 1.1% on a global basis driven by gains in the US and key markets across Europe and Asia. We also continued to invest behind our leading brands and in support of our EcoAdvanced product launch, A&P as a percent of sales increased 270 basis points versus the prior year quarter.

Another strategic priority is to operate with excellence. The organization did this extremely well as we successfully completed the spinoff while maintaining focus on the business. In regards to the spin, customer service and supply chain continue to operate efficiently without disruption to our customers. Strategic market exits and shifts to distributors continue as planned. Shared service centers are up and running, and outsourcing plans are on schedule.

Additionally, in a quarter when we dedicated tremendous resources to effectively execute our spinoff, our organic sales were up 1/10 of a percent versus a year ago. During the quarter, our global value market share also continued to increase, up 1.1% while the category continued to show signs of stabilization, as value was down 1/2% and volume was up 1/10 of a percent in the latest 12-week data, both of which are improvements versus the 52-week trend.

Looking at our organic sales performance across the four segments, North America organic sales were down 2.8% as incremental sales from the EcoAdvanced product launch were offset by prior year fill volume activity and a temporary promotional shelf gain that resulted in inflated prior year comps.

Organic sales in Asia were up 5.3% due to expanded distribution. These gains were achieved despite heightened competitive activities in certain markets. Our Europe, Middle East and Africa organic sales increased 1.7% due to space, distribution and share gains in Germany, France and the UK. In Latin America, organic sales decreased 1.1% as pricing gains were offset by modest volume softness.

Our final strategic priority is to drive productivity gains across the business. We continue to execute well against our cost savings initiatives as gross margin increased 200 basis points and SG&A as a percent of sales improved 280 basis points. We have now realized the full run rate savings impact from the 2013 restructuring project. Total project savings exceeded $218 million.

This is a tremendous accomplishment for our organization, one that I'm very proud of, but we are not done. We will continue to challenge cost and identify additional savings opportunities and, as we discussed during our Investor Day presentation, we've launched five new productivity initiatives, including trade investment optimization, SG&A improvement, working capital improvement, procurement savings, and integrated supply chain optimization.

Now, again, as I referenced, there is still more work to be done regarding these initiatives. Brian will now update you in his prepared remarks on those initiatives, along with our third quarter financial results and our outlook for the fourth quarter. Brian?

Brian Hamm: Thanks, Alan, and good morning everyone. I'll begin by discussing the financial overview of the quarter and provide some insight into our fourth quarter outlook. As a reminder, our third quarter and year-to-date financial information are based upon carve-out financial data and accounting principles.

As a result, our net sales and gross margin, A&P and R&D spending are items which are directly attributable to our business. However, certain SG&A costs, interest expense and spend and restructuring charges are allocated from the parent company and are not necessarily representative of our standalone results.

In addition, the balance sheet is based upon carve-out methodology and is not necessarily representative of our independent financial position. Our fourth fiscal quarter will be our first quarter with standalone financial data. As a result, most of what we talk about today will focus on net sales, gross margin and A&P spending.

As Alan mentioned, third-quarter results met our expectations as organic revenue was slightly better than the overall category value performance. A&P spending increased in support of our EcoAdvanced product launch, and we continued to reduce SG&A spending.

In addition, we continue to experience significant currency headwinds that impacted our top line by $28 million and segment profit by approximately $16 million. I'll provide a deeper dive into each of these items.

First, total net sales declined 9.1%, driven primarily by currency, the impact of the Venezuela deconsolidation, and the initial impact of the go-to-market changes. To break this down further, organic net sales were up 0.1%. Incremental sales generated by new advanced product and space and distribution gains in Europe were partially offset by year-over-year declines due to temporary prior year promotional shelf gains.

As I mentioned earlier, foreign currency headwinds impacted our top line by nearly $28 million resulting in a 6.7% decline. Venezuela deconsolidation reduced sales by approximately $7 million or 1.7%. The impact of our go-to-market changes, including the exit and shift to distributors in certain markets, resulted in a 0.8% decline. As a reminder, we are executing several go-to-market changes to adjust our new scale and to allow us to focus on our key markets and customers.

As a result, we are exiting China, Sri Lanka, and Ukraine, which have historically operated at a loss or a low level of profit contribution. In addition, we're transitioning to distributors and in other subscale markets. Revenue and gross margins are respected to decline as a result of these changes. But the overall profit impact is expected to be accretive, as we are able to offset loss margin with overhead reductions.

We expect to realize a majority of this impact in the upcoming four quarters. The market exit should be fully realized in the earlier part of that timeframe, while the distributor transition maybe more protracted.

Furthermore, the level of sales and the impact to markets over the next four quarters could be somewhat variable as we transition from a direct sales model to our new in-market partners and supplier distributers with sufficient pipeline fill inventory.

Now onto gross margin. The gross margin rate for the quarter was 45.6%, or 111 basis points below prior year. The decline was primarily driven by the impact of currency, as most of our finished good inventory is denominated in US dollars, which unfavorably impacts the gross margin rate as foreign currencies weaken. Gross margin was also negatively impacted by the removal of Venezuela from our consolidated results as a result of their previously announced deconsolidation.

Excluding the impact of currencies, go-to-market changes and Venezuela, our gross margin rate increased nearly 200 basis points driven by continued cost reductions and modest commodity price favorability. A couple of other items to note. A&P spending as a percent of sales increased 270 basis points in support our brands and the EcoAdvanced launch. SG&A as a percentage of sales on an ex. unusual improved 280 basis points as we executed on several initiatives in an effort to right size our cost structure and offset the synergies resulting from the separation.

EBITDA on an ex. unusual basis was approximately $79 million and EPS on an ex unusual basis was $0.64. There were also several one-time or unusual costs which impacted the quarter, including costs associated with the spin and the 2013 restructuring initiative.

Spin related charges in the third quarter were $76 million. This represents an allocation for carve-out purposes from the parent company. Costs from the 2013 restructuring project in the quarter $19 million. These charges were primarily related to the closure of our Tianjin manufacturing facility which we announced during the third quarter.

Costs related to the 2013 restructuring were nearly complete with thousand $5 million in additional costs estimated for the remainder of the program. In total, restructuring costs for the entire project related to our business are estimated to be $205 million, while savings have totaled more than $218 million.

That wraps up our commentary on the quarter results. I'd now like to turn our attention to the future outlook. As we discussed during our Investor Day presentation, expanding margins and continuing to take out costs are critical to our future success.

In support of these goals we're making excellent progress against the five productivity improvement initiatives we previously shared with you. First, trade investment. This is a multi-your process and we are the beginning of the journey.

We've installed a dedicated revenue management team with accountability for pricing and pricing architecture. We believe this will help drive profitable share growth by helping us analyze and more effectively invest our trade investment dollars.

Second, SG&A. Shared service centers are up and running, go-to-market changes are nearly complete, and we are finalizing our zero-based budgeting efforts for the upcoming fiscal year.

Third, working capital. We're continuing to review areas of improved overall working capital and beginning to execute our SKU management project in an effort to improve days in inventory.

Fourth, procurement. Our team is in place and we're continuing to execute against the targets and initiatives for the upcoming year.

And finally, we continue to optimize our integrated supply chain structure. As I mentioned earlier, we recently announced the closure of our Tianjin manufacturing facility as we continue to move production into our most high-tech and cost-efficient facilities, simplify our supply chain and balance internal manufacturing with third-party sourcing.

As we discussed on Investor Day, it is important that we successfully execute against these initiatives as we expect there will be a period of transition over the upcoming few quarters as we execute our go-to-market changes, including market exits and shift to distributors in certain subscale markets, lap the impacts of Venezuela deconsolidation through the second quarter of fiscal 2016, and finalize tasks related to the separation from Edgewell.

We began to realize the impact of these items in the third quarter and our results will continue to be impacted over the next 3 to 4 quarters. In addition, we have been expressing significant currency headwinds which we anticipate continuing over the same time period.

As it specifically relates to the upcoming fourth quarter, as you can imagine, there are several moving parts within our cost structure and overall P&L as we recently completed the spin. Historical cost information is based on carve-out data and we are finalizing our zero-based budgeting efforts for the upcoming fiscal year.

As a result, we will not be providing fourth-quarter EBITDA and EPS guidance. However, we did want to provide visibility into some of the key drivers for the upcoming quarter. First, international go-to-market changes are estimated to have an unfavorable impact on net sales in the mid-single digits due to the exit from China, Sri Lanka, and Ukraine, and shift the distributors in certain subscale markets. However, the bottom line impact from these changes is expected to be minimal as overhead reductions are expected to offset a significant portion of the gross profit decline.

Next, the deconsolidation of Venezuela will reduce that net sales by $5.6 million and segment profit by $2.7 million. Based upon recent exchange rate versus the prior year, we expect net sales to be unfavorably impacted by $25 million to $30 million and pre-tax earnings net of the hedge impact are estimated to be reduced by $12 million to $15 million.

In addition, organic revenue is expected to decline in the mid to high single digits due to a difficult prior year comparison. As you may recall, last year's fourth quarter organic net sales were up 4% despite a 3% decline in the category driven by the timing of early holiday deliveries and a temporary prior year promotional shelf space gain that will not be repeated this year.

Gross margin rate is expected to decline by up to 300 basis points, driven primarily by currency, Venezuela deconsolidation, and the go-to-market changes. As previously discussed, most of our finished goods are denominated in US dollars which unfavorably impacts the gross margin rate as foreign currencies weaken. In addition, removing high-margin Venezuela results due to the deconsolidation negatively impacts our overall gross margin rate.

Finally, we expect to incur approximately $25 million to $35 million of one-time spend costs including international tax charges through the end of fiscal 2016 as we finalize separation activities. The majority of these charges are expected to be incurred in the fourth quarter.

It's important to highlight that the outlook related to these items is consistent with what we shared during Investor Day. Our future adjusted base EBITDA outlook for fiscal 2016 of $310 million to $325 million remains unchanged.

We recognize that it will be challenging to understand our results as we go through this period of transition. We're committed to providing the visibility, clarity and understanding on the underlying health of the business and its key business drivers.

In order to help with comparability of our financial results, and to assist in the communication of the expected impacts from some of these items, we provided supplemental schedules within our press release which sets forth our historical quarterly financial information based upon the Form 10 filings and the impact for the next three quarters as it relates to the Venezuela deconsolidation. We are finalizing our plans for fiscal 2016 and we'll share our financial outlook for the upcoming fiscal year during the November earnings call.

Now I'd like to turn the call back over to Alan for closing remarks.

Alan Hoskins: Thanks, Brian. As we have stated, the fourth quarter will be transitional as the new Energizer begins to execute our plans as a standalone company. We will continue tight cost controls and optimized trade spending while identifying new profitable distribution opportunities to strengthen our business. Now, despite the top challenges we have remained confident in our strategies and believe that we are well poised for a successful fiscal 2010 and beyond.

For our audience today this completes our prepared remarks and we'd be happy to take your questions. I'll turn it back over to the operator.

Questions and Answers

Operator: Thank you, sir. We will now begin the question-and-answer session. (Operator instructions). Bill Chappell; Suntrust Robinson Humphrey.

Bill Chappell: Starting off, as we look into the upcoming holiday season, maybe you can give us an idea of market share gains, losses, whether Eco is having a meaningful impact in giving back some of the -- or get some incremental shelf space as we go into the holidays and, and just your initial take. I know we're still four months away, but probably two months away from shipments.

Alan Hoskins: Yes, so we're going to be lapping share gains from the prior year. I think that would be your starting headline as you think about heading into the first quarter, fourth quarter, first quarter. As you know, we lay our plans out with the retailers roughly 52 weeks in advance of execution, so a lot of what has been committed is now being planned for execution in the stores.

We feel good about the plans that we have with our retail partners, particularly in developed markets where that has the most impact. Right now, Bill, heading into that period, we do have good share momentum again, but we've got some pretty big things that we're going to be lapping coming up that will impact share as we head into that fourth quarter.

Brian Hamm: Bill, it's Brian, just to build on that a bit. As we stated in our prepared remarks, we're expecting a mid to high single digit organic decline. It's really based upon what we're lapping from the prior year. There was a temporary shelf space gain, promotional shelf space gain, that we had last year the drove a plus 4% organic growth and a down 3% category in the fourth quarter of last year. We chose not to repeat that. We do expect some share decline in the fourth quarter, but share is going to ebb and flow. What we're focused on is continuing to run the business the right way, invest wisely and share will take care of itself.

Bill Chappell: Then just on uses of cash, I think you laid out at the Analyst Day, but any updates -- I don't even know if you've been allowed to do share repurchases since the split -- your thought process going forward, and will you be maybe more aggressively bringing cash over from international to do that in the near-term?

Brian Hamm: The uses of cash or the priorities of uses of cash remain consistent with what we shared on Investor Day. It's reinvest in the business, it's return capital via a meaningful competitive dividend opportunistic share repurchase, and selective, disciplined M&A.

Specifically as it relates to your question, the company formed on July 1, we were definitely in a blackout period until we released our results. So we have been out of the market. But our thought on share repurchase is consistent with what we shared on Investor Day. We'll look opportunistically, weighing short, mid-, and long-term cash needs to determine how best to drive long-term value to shareholders.

As far as bringing international cash back, it's something we continue to look at all the time as to what's the best use of that cash. Obviously, if you were to bring it back you would pay a tax hit on it but it's something that we continue to look at and discuss very frequently with our board as to how best to put the cash to use.

Bill Chappell: I'll turn it over, thanks so much.

Operator: Steve Powers; UBS.

Steve Powers: I want to make sure I understand the revenue guidance for the fourth quarter correctly. I think those items that you walked through are, if I'm not mistaken, effectively additive. It appears you may be guiding roughly down as much as like 20%? Is that a correct read?

Brian Hamm: Yes, those four moving parts are additive. We said currencies will continue to be at a headwind of about 5 1/2%, go-to-market changes will be down about 5%, Venezuela will be down at 1%. The organic will be mid to high single digits. As all these play out, you're looking at range of total revenue down 17% to 20%.

All these are consistent with what we shared during investor day. There will be a period of transition as we finalize the separation and adjust to our new scale and focus on the key markets and the customers.

Steve Powers: Okay. As you look forward to 2006, especially on the go-to-market and the organic, any early indicators of the cadence of growth as you look across to 2016?

Alan Hoskins: Steve, it's Alan. Just to chime in on that, we had on Investor Day provided our outlook that we anticipate the category would continue to decline low single-digit. We have seen some stabilization in the category starting in January 2015. That has held pretty steady from that point, quarter to quarter all through the May reporting period. We do anticipate, though, as we think about our long-range planning, we are anticipating to build into our model that low single digit decline even though we are seeing some stabilization in the category right now.

Steve Powers: Okay. Fair. I know there are lots of moving parts, but is there any help you can provide us in terms of what the go forward SG&A run rate is likely to be either as it relates to Q4 or next year as you finalize the P&L? I think that would be helpful as we try to validate our estimates. Then as you go back to the top line, any color you might be able to provide in terms of the regional details, pockets of strength, pockets of relative weakness, versus your base case? Thanks.

Alan Hoskins: Steve, let me answer the latter question and then I'll turn it over to Brian on SG&A. As we look at the market, right now as I indicated, we are seeing some stabilization in both category, volume and value, since the January period. That has been pretty consistent up through the May reporting period. We do anticipate that will continue in some markets, but not all.

At this point, we are seeing some shifts in category performance. As an example, global volume right now is up 1/10 of a percent and that is the latest, 12-week total household battery value is down one half of percent. When you look at the US, just to pick the largest battery market in the world, US volume is down 1.6%, value down 1.3%. We don't anticipate that trend to shift too much, and given the scale of that market, you would anticipate the current trends we're seeing to hold or move more toward that low single-digit that we are projecting.

As you look at the breakout of markets, developed markets are actually down 1.14% in value in the latest 12 weeks and that's a pretty similar trend to what we've seen in previous reporting periods. However, in developing markets in the latest 12 they're up 4.7%. We anticipate going forward as the new Energizer, we put a lot of emphasis in our go-to-market model in defining where we want to play to win.

That really, that meant leveraging our global footprint and where we knew we could build our two brands and do it in a very effective way. This will entail continuing to really drive profit out of our developed markets. And where we have opportunities to expand in certain developing markets, we will pursue those opportunities.

We still believe there's growth opportunities to offset some of the decline we are seeing in developed, and developing will do that. It just takes a while. Those are typically slow builds when you invest in those types of markets.

On the SG&A, I'll turn it over to Brian but I can tell you, as we said on Investor Day, when you think about the shape of the P&L going forward, our objective is to maintain or improve SG&A as a percent of sales, but I'll let Brian provide a little more color on that.

Brian Hamm: Yes, as you can imagine, there are several moving parts as we separate the global organization from Edgewell. At this time we are not able to provide more detail on SG&A than what we provided during Investor Day, however, during the November earnings call, we will provide that detail.

Just a couple of other comments on sales by area to build on some of Alan's comments. In North America in quarter three, organic sales were down 2.8%. We had the benefit of EcoAdvanced but also lapping some prior fill activity and also that promotional shelf space gain that we talked about earlier.

In Latin America, sales were down about 1%. We've seen pricing but also some modest volume declines within Amaya. Some really nice distribution and shelf space gains in key markets across Amaya for us. In Asia, despite heightened competitive activity that we see in some of those markets, specifically Australia, really, we have nice revenue growth within the quarter.

Operator: Chris Ferrara; Wells Fargo Securities, LLC.

Chris Ferrara: I just want to go to A&P for a little bit. $35 million spent in A&P, obviously, that's a really big number, 9.4% of sales. Bigger than Q1 even. I get EcoAdvance's need of support but is this indicative of what the run rate would be when you adjust it seasonally or do you think this is a particularly large spend number for the quarter?

Alan Hoskins: Chris, it's Alan. Great question. It's actually large for the quarter because of our expansion of EcoAdvanced into new markets. That is going to require A&P support to drive both awareness and build trial with consumers.

You would expect, as we announced on Investor Day, I'm planning on A&P as a percentage of sales to be at a run rate around 6% to 7%. Keep in mind, that will ebb and flow, and it ebbs and flows with competitive activity and is continued on any new innovative launches that we have in our cycle plan that will be forthcoming.

So you can see that A&P move out of the range higher if we're launching new products, and it could potentially move lower if we choose to reinvest that money to something different, perhaps driving awareness in-store on path to purchase as opposed to the line with [TDC].

As you think about the EcoAdvanced launch, and really back to Steve's question as well, we're actually really pleased with the launch to date, we've got roughly $30 million in shipments year-to-date through June. We have over 1 billion impressions in the market.

At this point, what we are very pleased with is the A&P investments that we've made have given us strong consumer repeat purchase rates. And well above new product launch norms which we are pleased with, the same with brand awareness tracking, it's ahead of new product norms.

We are seeing a key boost in key brand metrics, such as long-lasting and innovative. At this point, we are really pleased with the launch. We're seeing right around a 1% value share in both the US and Canada, that's actually higher in other markets where we have launched such as Australia and the Nordics. Really, going forward we plan now to move toward tactical elements of the plan with our trade partners as we increase both the level of visibility and merchandising in store.

As you go forward, the way to think about A&P is this. In our category, brands really do matter. It is important that you support them with A&P investment for a couple of reasons. First, you want to be able to maintain the healthy margins that we realize in the category.

Second, you've got to be able to bring, at least from my experience, both brand news and innovation to both trade and the consumers so that you can avoid just a discussion around price and product only. We think that's important.

Going forward, we will continue to invest heavily in our new innovation, and we believe it is the right thing to do and, candidly, we're pleased with results that we seeing, both in improvements in our brand equity measures and are measured market share at this point.

Chris Ferrara: Okay, that's really helpful. I guess as a quick follow up, I mean, back to the A&P, does 2016, because you will still be supporting EcoAdvanced, does that look to be an above trend year or high trend year? More specifically on EcoAdvanced, can you just talk a little bit about maybe the performance profile, the margin of that brand, once you get past initial heavy spending and what it looks like? Obviously, it's focused for an Eco-focused customer, right? How mainstream can it be, how big can again? That would be great, thank you.

Alan Hoskins: Let me start with the latter part. I may even ask Brian to chime in on a couple of questions you had there. With EcoAdvanced, the way to think about it is when we approached the category we used consumer insights, and I won't belabor it too much, but what those insights let us do is really leverage and capitalize on the consumer's expanded definition of performance, which includes long-lasting performance, plus quality, reliability and responsibility. That is what the EcoAdvanced brings us, all four of those consumer needs.

We plan to continue to launch EcoAdvanced in select markets around the world. I wouldn't anticipate you see this everywhere, as you would imagine, there's some developing markets where that particular price point just doesn't make sense.

One of the things we do like about EcoAdvanced is it has actually contributed to accretive value growth in the category as a launch, and it's allowed us to really expand our brand in-store, both in distribution and in visibility to both consumers with our customers.

We're really pleased with what we've done with it to that point. Going forward, we will continue to develop that product and there's a number of things that we're working with, both in our procurement and marketing teams, to continue to drive down the cost of the product from the initial launch that is in our current plan. Those plans will be executed over the course of the next 12 to 24 months.

I don't want to get too much into the margin, as you would imagine, from a competitive standpoint, but what I can tell you is we are pleased with the margins that we are generating from his particular launch. As we continue to drive down our product cost, we anticipate that that margin will be able to hold or improve over time. I will turn it back over to Brian for a little more color on the other questions.

Brian Hamm: Yes, and, just to build on Alan's comment really quick, EcoAdvanced is our entry into the performance alkaline segment of the category. That performance alkaline segment of the category is up 20%, north of 20% over the latest 12 weeks.

And it's helping the overall category because it's providing solutions to consumers and news to the category that's good for us and also good for the retailers as well. As far as the level of A&P support to expect for 2016, I'm going to defer that until the November call. We'll provide our financial outlook on some of the P&L drivers and lines and elements of the 2015 outlook at that time.

Alan Hoskins: Chris, the reason for that delay in part is we have other things in our cycle plan of innovation that will require A&P investments, so there's some moving parts to that that we are going to have to spread differently.

Chris Ferrara: Thanks a lot, I appreciate it, guys.

Operator: Bill Schmitz; Deutsche Bank Research.

Bill Schmitz: Can you just talk about what your views are on channel inventory right now, and then one of your competitors had some pretty promising comments on that category saying that aggressive [promotional] spending doesn't really drive consumption. So it sounds like at least one competitor thinks it's rational, and I know it's probably too early -- and you're probably sick of the question -- but can I get any read on how the new Duracell is going to behave? And I have a follow-up, if I can.

Alan Hoskins: Okay. I'm going to take a pass and ask Brian to chime in, Bill. First, the views on the channel inventory, inventories right now, depending on the channel, some channels can be a little high, other channels are actually appropriately inventoried. A lot of that, believe it or not, has to do with storm builds and how storms come into play as well as the timing in which shipments went in for holiday and how that inventory flowed through. Again, it's different channel to channel. Overall, we feel that inventories with the retail trade will continue to normalize over the next two quarters. I think that's the best way to summarize it for you.

On promotional spending, let me address it for you this way. As we think about promotional spending at Energizer, we partner with our retailers. As I said, for larger retailers, at least a year in advance in setting their promotional and merchandising plans. We typically, in our joint business planning sessions with them, try to align to their strategies. But as a part of that strategy, our revenue management team that Brian alluded to earlier, really evaluate and assess our choice to participate in some of those promotional activities contingent on the ROI that they generate.

Promotion will be, has been, and will be a part of this category going forward. It's part of the mix that all high-low and [hybrid] retailers, as you know, across consumer packaged goods, we don't anticipate the competitive activity changing.

But I will tell you this, Energizer from a category view will really continue to focus back on those three specific priorities. The simplest way I can say that is leading with innovation will be that top priority. We believe that is important because, again, as I mentioned earlier, it allows us to talk about just more than just product and price. It brings very well needed and appreciated news, both marketing and innovation, to the category for both our customers and consumers.

You'll see us continue to focus our efforts as an organization on that particular tenant within our strategic plan. Certainly driving productivity and operating with excellence will be critical to the success in launching all that new innovation, but again, our focus is going to be primarily on what we call quality share, base building share, and we do that along the path to purchase. Think about that as high return [TDC], we generate our best returns in [TDC]. We'll continue to focus on that.

Path to purchase is really increasing both the visibility and availability of our products in-store to consumers and shoppers, which are quite different. Finally, we'll recap that with very strong execution programs with feet on the floor in stores around the globe, depending on the customer and the channel, but that will be a key focus for us going forward.

Then, finally, in terms of the new Duracell, Duracell has been and will continue to be an aggressive competitor regardless of the ownership. Again, I think as you see the new Energizer going forward, we remain focused and dedicated to the three strategies that we put in play, we plan to play by our rules, our way, and believe and are confident in doing so we'll be able to continue to build share and do it in a very profitable way in our business by expanding distribution and increasing the visibility and availability of our products.

Bill Schmitz: Okay, great, thanks so much for that. Then, I think Chappell asked the question, but I just wanted to chime in also, when do you guys think you're going to start using the balance sheet more aggressively? How long do you think the transition period is going to take? I know M&A was one of the uses of cash in the Investor Day presentation, and I am curious if you guys are actively looking at acquisitions now or do you think you're going to take a breather for a while as you get the spin completed?

Brian Hamm: Bill, it's Brian. Just as we stated at Investor Day, it's a balance between all three. It's investing in the business, returning capital with dividends and share [repo], if the right M&A opportunity comes about, then we'll definitely take a look at it.

We're 36 days post spin, but we hit the ground running. How best to utilize cash is something we talk about every single day and also we talk about it very closely with our board. It's definitely top of mind.

We recognize that we returning capital to shareholders via the dividend and share repo are critical ways that we deliver value. But it's going to be a balanced approach.

Alan Hoskins: If you don't mind, just to chime in on M&A real quick, you asked the question about potential prospects. Let me just talk briefly about the way we're thinking about M&A. It is really about the right business at the right time, the right price, and the right place. Let me just clarify what we mean by that. The right business is, again, within the household space, looking for strong brands in household categories that have a really good track record of innovation and good channel overlap with our core business, which is batteries and portable lights.

The right time is really about making sure that we balance M&A with the other priorities that we have in our business and target businesses with the profiles, and the cash profile and the CapEx profile, as an example, that allow us to quickly capitalize on the cost and revenue opportunities.

Third, around right price, we certainly have a disciplined M&A team in place that has done this before and they are going to be very focused on acquiring to good businesses at fair prices, but also consider our desire to make sure we maintain a healthy balance sheet.

Finally, from a placing standpoint, think about this in the context of the fact that our organization just did a significant amount of work around go-to-market changes. That included the decision to exit certain markets and move to distributors in others.

We believe this will allow us to better focus on our top markets and key customers, but as a result of that we see an opportunity where we can leverage new businesses with geographic overlap, to potentially expand into new opportunities that we believe will be important going forward to the expansion of our brands around the world.

Operator: Olivia Tong; BOFA Merrill Lynch.

Olivia Tong: Appreciate the detail on the international markets. The organic sales, they are really lumpy by quarter. Has that always been the case or is there something specific going on this year? Then how do think about the category growth rates by region going forward?

Brian Hamm: I will take it first and then pass it over to Alan for outlook going forward. A couple of things at play. In Latin America, obviously, there's a lot of volatility within many of the markets in which we operate. Also, the overall small-scale within Latin America is small numbers can drive a big percent change on a year-over-year basis. What we have consistently seen within Latin America is the ability to continue to take price, but volume has declined because of some of the economic challenges within many of those markets.

Within Amaya, we've made good inroads in gaining profitable share and good distribution and shelf space gains within the key markets that we are focusing in on. For the last three quarters we are very happy with our performance within Amaya,

Within Asia, it's a very competitive environment, especially within Australia. We've seen competition really heat things up and that is really the reason for some of that quarter in, quarter out volatility.

Alan Hoskins: Olivia, just to expand on the second part of your question, in terms of anticipated -- it's really hard to project what the trends will be going forward in each of the key regions. But here is the way you may want to think about it. If you look at the trends in North America, both volume and value have been down low single digit; I would anticipate that likely would continue.

Europe, we have seen, if you look at the latest 52-week, you've seen both volume and value relatively steady. Units up higher than valued, driven predominantly by certainly private label in certain markets, but also because of some of the promotional activity that had occurred there.

In Latin America, you're certainly seeing value up, a lot of that is attributed to hyper inflationary and pricing action that are taken in those markets by different brands with volumes down. I think, as Brian alluded to, the big surprise, and having run this region, I think it's finally catching up to Asia similar to what's happened in the category around the world, we're seeing both volume and value down. I would anticipate that low single digit decline to continue as well but I think a lot of that on the value front is really driven by the competitive activity we're seeing among new trade entrants into that market. That is a new challenge for the existing type retailers like the Woolworths or Kohls.

Brian Hamm: Really quickly, Olivia, on North America, I forgot to mention. We have seen year-over-year results bouncer and quite a bit. In quarter one, organic sales were down about 14%. Quarter two up 2% and then quarter three down 2.8%.

There's a story behind each quarter. In quarter one, we were down as holiday deliveries shifted to quarter four of 2014. Those holiday deliveries that in prior years were in quarter one and quarter four of 2014, shifted. Then also we had some retail inventory reductions.

In quarter two in North America, we were helped with the launch of EcoAdvanced and then we talked about quarter three and then our outlook for quarter four is that we are lapping some aggressive prior year comps in plus 4%, when the category at that time was down 3%.

Olivia Tong: Got it. That's very helpful. Then with the incremental or the gains that you've gotten from EcoAdvanced, have they come from your existing products or do you think you got some more shelf space with that? Then earlier you had mentioned that you think there's probably a bit more inventory the retail channel. Going forward, at least for the next few quarters, would you expect at least for next year to ship below consumption?

Alan Hoskins: Yes, it's a great question. First, on EcoAdvanced, anytime you launch a new product you are going to see some sourcing of volume from your own existing brands and competitive brands, that has happened as you would imagine. But what we are pleased with we are actually seeing some incremental from that launch of EcoAdvanced, which is important.

When we did a lot of our bases work we actually found that this would be incremental to the category, and in a lot of the markets that franchise effect is playing out the way we had hoped. A little less so in North America because we're introducing a new segment, if you will, in performance alkaline. And there has been some catch up in terms of the space that should be allocated to that brand which we expect to see occur over the next several quarters.

EcoAdvanced will certainly hold its own. What we are pleased with this when we look at the launch of the product versus new product industry norms or competitive launches that would've been similar, not only is it holding its own, it's actually exceeding in some of the key measures. So we are pleased with that.

In terms of inventory, you can expect that to ebb and flow over the next couple of quarters. Certainly, as we head into holiday, there's usually a build that will occur as retailers get ready to execute against that. In terms of EcoAdvanced itself, we do have some inventory we will be flushing through over the next several quarters, but we expect that to normalize. Personally, I don't have a concern about the inventory levels on EcoAdvanced and the impact it may have on future sales.

Olivia Tong: Thanks. Just one last thing for modeling purposes, the corporate expenses that come from legacy ENR to you guys, is that about $15 million a quarter?

Brian Hamm: What we said on Investor Day is that the parent company had corporate expenses of around $135 million to $140 million, a reasonable estimate is about half of that. But again, we are still finalizing our budgeting efforts for 2016. I will be able to give you a lot better numbers during the November earnings call.

Operator: Kevin Grundy; Jefferies & Co.

Kevin Grundy: My first question is on margins by segment. So the margin gap in LatAm and Amaya versus some of your developed market segments, how much of that gap can you close, and over what period of time?

Brian Hamm: It's definitely a focus for us. When you look at a LatAm, decent gross margins, however, the high inflationary environment within several of those markets our SG&A spend is pretty high within Latin America.

What we are doing as far some of the go to market changes and also it's part of moving to shared services and then also moving to outsourcing and certain transactional functions, hopefully should help that. Right? Because it allows us to deliver those services to that market from other markets, hopefully, at a more favorable cost. It's plans we have in place now and it's going to continue to be an area of focus for us going forward.

Same with Amaya. Amaya, it's complex to do business, multiple currencies. Just a complex overall business market within some of those geographies across Amaya. It is a focus for us. Again, the go-to-market changes and also moving to shared services and also outsourcing should help that, but it's something that is a priority of ours now and we'll continue to attack into the future.

As far as a specific time frame and a specific amount as to how much of that gap we'll be able to close, again, we're still going through our [APB] process and then we'll be going to our long-term [strap] planning process in the coming months. I'm going to hold off on getting into specifics until we complete both of those exercises.

Kevin Grundy: Okay. Fair enough. Then, Alan, things for the M&A commentary earlier. That was helpful. Are there any categories I guess within household, most notably in batteries, as an example, are you philosophically opposed to increasing your battery exposure through M&A, or should we think about this -- you're going to be looking for higher growth, higher margin, sort of accretive categories if you were to pursue M&A?

Alan Hoskins: M&A is going to be, whatever we do, it needs to be margin accretive. Think about the profile as being similar cash profiles, you want that stable cash flow coming in. We do want businesses that have similar CapEx profiles. The ability to leverage our global footprint. The ability to be able to build brands in the markets that we enter that are either new markets or existing markets.

One of the things I talked about during the road show that I think is important to call out in M&A, we really want to look at M&A across the value stream to make sure that we can truly benefit from both the synergy, the cost and revenue opportunities that might exist in whatever company we choose to pursue.

It's really hard to comment on a hypothetical acquisition in terms of what that would look like, so I'd have to default now until we took a decision to do that. But I will tell you we were very close with our Board of Directors in terms of assessing opportunities as they come up and we will continue to do that as well into the future.

In terms of giving you specific categories, I hate to throw a wide net to you the way I have, but just think household space. We believe that that is where the potential opportunities are for us to capture true synergy as well as to maximize, again, our global footprint in the way we go to market.

Operator: Nik Modi; RBC Capital Markets.

Nik Modi: I have a question, I just want to touch on the trade space. You talked about promotional efficiency as part of this potential savings opportunity. Can you just help us quantify just the overall bucket in that spend pool?

The other question I had just quickly on the licensing business. The brand obviously has been invested in a lot, I'm sure there will be other companies that would love the Energizer brand name on their products, just to show the credibility. Can you just give us some thoughts on that part of the business?

Alan Hoskins: Brian and I will tag team for you on this one, Nik, if you don't mind. Let me provide some color and then Brian may have a little more detail for you.

As you think about trade investment, it's certainly a big investment bucket for new Energizer. One of the things, and having spent a lot of time in this area myself over the years, what we really are going to look at is the combination of both the pricing architecture as well as trade promotion efficiency.

Really, what we have done with the revenue management team is we put a group in place and they are charged globally to look not just at system and process, but overall strategy and approach that we think about trade investment going forward.

We did do some initial work during our previous restructuring that was able to drive out some inefficiencies in the way we spend money. In this last go round, we took it a step further and identified just trade promotion, and think about this as non-invoice spending, and really understand where we are getting the best lifts and the best returns on those investments. We've been able to really quantify that and qualify it and take those best practices out to other markets around the world.

That is the point we are at right now. Think about this on trade investment because we are considering both architecture and post promotional analysis. This is more than a one-year journey, and as a courtesy to Brian and the team I'm really giving them a little bit of wiggle room to step back and define what we think the quantification would be of that initiative.

It's a little hard to put your arms around right now. We've brought a partner in to work with our revenue management team. They're sitting down right now and going both through clarity and scope of work to define exactly, not just the scope of work but putting numbers against that in terms of targets we believe we can aspire to over time. But again, this will be a multiyear journey in terms of trade investment. Brian, I don't know if you have anything you'd like to add on that.

Brian Hamm: Yes, just a couple of things, Nik, is that I'm going to be very close to this one. In my previous company, it's an area and a re-look and a revamp that I led in my previous company. This is a big opportunity for us. The team has just been put in place and it is definitely a multiyear journey. We're going to do this the right way and for the benefit over the long-term.

It's going to be very difficult to quantify exactly the size of the opportunity because a lot of it depends, and I know you know this, is how company's set their list pricing. That is going to determine how much is your on invoice and post invoice spend. We're looking at this thing, we are starting with list price strategy and architecture, going to pricing architecture and pricing tiers, folding into how we're going to invest with our key customers.

We are taking a close look at this. We will continue to provide more insight and details as to how we are progressing with this journey, but it is definitely a top priority for the organization.

Alan Hoskins: We understand that there is a desire to understand that and we empathize with our audience on that. Keep in mind, though, that we are truly global, selling into 140 markets around the world. It is not as simple as a one US-based list price structure that we can go in and modify. We actually have to literally go in market to market and assess and understand how the pricing is set up, not only to direct retail but through our distributed network as well.

It takes a little bit of time, to Brian's point, we want to do this once and do it right. That is why we are not able to quantify today. We really want to give the team the proper time to put the scope of work documents together.

Nik, to your second question, just real quick on the licensing business, today it's roughly $10 million in revenue for us. But as I mentioned at both Investor Day and the road show, we actually see this as an opportunity. I think you are spot on. You would be amazed at how many requests we get each week on, can we use the Energizer or Eveready name on our products. But we do want to make sure that we are selected. There's a pretty rigorous qualification process we go through internally.

We have actually been able to set up a best practice that the industry is using now in assessing partners in licensing. But think about it primarily in the space of power and light. We may expand that, depending on what our future portfolio looks like, but today we're really going to say that space of power and light. We believe that the Energizer and Eveready names lend themselves well to the particular segment of categories.

Nik Modi: Great, thanks, guys.

Operator: This concludes our question-and-answer session. I would now like to turn the conference over to Alan Hoskins for any closing remarks.

Alan Hoskins: Thank you, operator. On behalf of the new Energizer, we would like to thank you for joining us on our first earnings call. As Brian has alluded to a number of occasions, you can anticipate this to be the norm where we are providing as much transparency as we can to you on the business, with some foresight in terms of where we will be taking the business.

But all in, we do appreciate your time this morning and calling in to listen, and thank you for your questions and your interest. We look forward to communicating with you in the future as well. Thanks.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.