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EDITED TRANSCRIPT

ENR - Q1 2020 Energizer Holdings Inc Earnings Call

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PRESENTATION

Operator

Good morning. My name is Kate, and I will be your conference operator today. At this time, I would like to welcome everyone to Energizer's First Quarter Fiscal Year 2020 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 of Investor Relations. You may begin your conference now.

Jacqueline E. Burwitz - *Energizer Holdings, Inc. - VP of IR*

Good morning, and thank you for joining us. During the call, we will make -- we will discuss our results for the first quarter of fiscal year 2020. This call is being recorded and will be available for replay via the Investor Relations section of our website, energizerholdings.com. Also available on our website is a slide presentation providing additional details around our results and outlook for the coming year. With me this morning are Alan Hoskins, Chief Executive Officer; Mark LaVigne, President and Chief Operating Officer; and Tim Gorman, Chief Financial Officer. During the call, we may make statements about our expectations for future plans, including financial and operating performance. Any such statements are forward-looking statements, which reflect our current views with respect to future events. We also refer to non-GAAP financial measures. A reconciliation of non-GAAP financial measures to comparable GAAP measures is shown in the press release issued earlier today, which is available on our website. Information concerning our category and market share discussed on this call relates to markets where we compete and is based on estimates using Energizer's internal data, data from industry analysis and adjustments that we believe to be reasonable. Unless otherwise stated, the information provided pertains to the 13-week period ending in November. References to specific quarters and years pertain to our fiscal years and references to the legacy and our base business relate to the Energizer business, prior to the completion of the battery and auto care acquisition. Investors should review the risk factors in our Form 10-K, 10-Q and other SEC filings for a description of the key factors affecting our business. These

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risks may cause actual results to differ materially from our forward-looking statements. We do not undertake to update these forward-looking statements.

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

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Thanks, Jackie, and good morning, everyone. Before I begin, I'd like to thank those who participated in our Investor Day in November. We appreciate the interest in Energizer and our team value the opportunity to meet with many of you so that we could share our path forward. We are grateful for the opportunity to showcase more of our leadership team and to provide even more insight as to why we are so excited about Energizer's future.

As we outlined during Investor Day, Energizer is well positioned to achieve industry leadership as a diversified global household products company in batteries, lights and auto care and generate significant shareholder value. By the end of 2022, our financial goals are to deliver more than $700 million of adjusted EBITDA and over $400 million in adjusted free cash flow to strategically invest in our business.

To achieve this, we are focused on the same strategies that have served us well since separation. They are to lead with innovation, operate with excellence and drive productivity across all of our businesses. These strategies enable us to deliver consistent organic growth ahead of our categories, invest in innovation and A&P and capture over $100 million in synergies by the third anniversary of our acquisition.

Executing these strategies will advance our goal of creating a strong, integrated company with a leadership position in batteries, lights and auto care. 2020 is the first full year on our path to deliver the financial goals we communicated during Investor Day. Our first quarter results were in line with our expectations, and we are reaffirming our outlook for the full fiscal year.

While Tim will provide more financial detail on the quarter and full year later during the call, I want to provide some high-level commentary. Our battery organic net sales were better-than-expected compared to the guidance of down mid-single digits provided during the fourth quarter call. I commend our colleagues for strong execution during the holiday selling season, including managing the earlier-than-normal phasing of holiday display activity from the first quarter into the prior year fourth quarter.

Looking to the remainder of the year, we have high confidence in our outlook for 1% to 2% organic growth in 2020 as our team secured new distribution and expanded shelf space with existing customers. For our auto care business, first quarter net sales performance was in line with our expectations, which is historically the smallest sales quarter of the year. As we approach the peak selling season, we are well positioned to deliver our organic sales objectives with expanded distribution, new product innovation, increased A&P investment and consistently high customer fill rates from our Dayton facility.

As Mark will discuss in more detail in a moment, we achieved several important integration milestones with minimal disruption. The benefits of these activities will become evident in the remainder of the year. Our formula for success this fiscal year and over the next several years centers on the following: delivering consistent organic growth by being the preferred partner with our customers; investing in a pipeline of innovation in A&P to convert consumers to our brands regardless of where they shop; and realizing the benefit of significant synergies as we create a strong combined company.

Ultimately, this combination will support the delivery of strong EBITDA and free cash flow growth, enabling Energizer to accelerate earnings, reduce debt and continue to pay a meaningful dividend. We are excited about the opportunities ahead of us and remain focused on executing the plans underway to deliver on our commitments in 2020 and drive value for all of our shareholders.

With that, I'd like to turn the call over to Mark for an update on our categories, business trends and integration efforts.

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Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

Thank you, Alan, and good morning, everyone. As I mentioned last quarter, our priorities in fiscal 2020 are to build momentum across our businesses, while also executing our integration plans with excellence.

First, let's cover global battery category trends. Before providing the specific data for the quarter, I want to highlight a number of moving pieces, which are important to keep in mind. These include hurricane activity from the year-ago comparable period, a later Black Friday this year and some pantry loading, which occurred as the result of Hurricane Dorian. All of these play a factor in the current category trends.

In addition to these factors, on the value side, you had the price increases in the U.S. and several international markets, which resulted in some shifting between the premium and value segments of the category. With these factors in mind, during the most recent 13-week period ending November, global battery value was down 1.1%, primarily due to the comping of hurricane volume from the prior year and a later than usual Black Friday. Excluding the impact of these items, global battery category value would have been up nearly 1% due to pricing in the premium segment in both the U.S. and Latin America as well as growth of the price segment. And to further the point, if you look at the 13-week data ending in December. In the U.S. we did see category value growth of 2%.

For the November period, Energizer's value share in measured channels increased 1.8 points, which was driven by several impacts. A competitor's new product launch. A decline in POS trends in the U.S. due to premium price increases and increased private label activity. Each of these trends is reasonably consistent with what we have seen in the past following competitive launches and price increases. As these factors have settled into the marketplace, we have seen the trends begin to stabilize and revert towards historical norms.

In the U.S. e-commerce channel, which grew 9% for the period ending November, both Energizer and Rayovac brands outpaced the category and gained share, standing at a combined 32 share. Rayovac continues to be the fastest-growing brand online as we apply the same expertise that grew the Energizer brand. Overall, the commercial environment in the U.S. remained stable, with the category experiencing a reduction in promotional activity and an increase in average unit price during the quarter.

Now moving on to our battery results. As you recall, in the fourth quarter of fiscal 2019, certain large customers pulled holiday shipments forward, which resulted in higher growth in the fourth quarter. Therefore, we had anticipated first quarter net sales would be down mid-single digits. However, net sales were better than anticipated to low single digits as we continue to have strong performance in non-measured channels in the U.S.

We continued the global rollout of the new Energizer visual identity that prominently displays our iconic brand characters, the Energizer Bunny and Mr. Energizer. This new packaging is now available globally at retail and consumers continue to respond favorably, which drives growth for our brands and customers. As we look to the remainder of the year, our teams continue to focus on distribution gains. In fact, we have recently been awarded significant distribution in several U.S. retailers, which should begin to show up in our third and fourth quarters. These wins solidify our confidence in the outlook for 1% to 2% organic growth in 2020.

Turning to the auto category. Overall, category value continues to grow across all 4 of our subsegments, with value growth of 4.5% through the November reporting period, led by Appearance Chemicals and Refrigerants, which were each up 10%. Performance Chemicals and air fresheners each grew 2%.

During this period, the Armor All and A/C Pro brands experienced improved consumer takeaway due to strong execution and the benefit of favorable weather in September. The acquired auto business was down slightly in the quarter on a year-over-year basis, but this was the result of timing of shipments between the first and second quarters. The consolidated auto business is poised to deliver a strong peak season, in the second and third quarters.

This confidence stems from our expanded distribution, increased A&P investments and new innovative products, including Armor All Extreme Shield Protectant & Wipes, A/C Pro, Extreme Digital Gauge and STP Intake Valve Cleaner. These investments, in combination with fill rates near 100% at our Dayton facility give us the confidence that we will provide our customers and consumers with superior products and service and deliver net sales growth of approximately 3.5%.

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We are also finalizing plans to expand auto care internationally with the goal of doubling net sales in the next 3 years, beginning in fiscal year 2021. And finally, let's cover the status of our integration. We continue to make significant progress against our integration plans. Project synergies in the quarter were $9 million, and we expect to realize the remainder of the $45 million to $50 million target by the end of this fiscal year. We are well on our way to achieving our total synergy target of over $100 million by the end of the third full year of ownership.

During the quarter, our teams completed several significant IT implementations across multiple locations, with minimal disruption to the business. This initiative will allow us to further consolidate, streamline our operations and support functions. As a result of these implementations and the hard work of teams around the world, we have now exited 90% of the transition services with Spectrum brand, with plans to exit the remaining agreements by the end of this year. We have closed the VARTA divestiture and the remaining businesses we acquired from Spectrum in Europe have been fully integrated onto our platform. We are also on schedule with our multiyear plan to optimize and streamline our integrated supply chain footprint. This project will reduce complexity and create greater efficiencies in manufacturing, packaging and distribution, enabling us to better serve our customers across all of our categories.

Specifically, in batteries, we are in the process of consolidating our North American battery and lights distribution into a single facility in Indiana. We are also combining specialty battery production in our Portage, Wisconsin facility. For Auto Care, we continued with a phased approach to combine manufacturing into the Dayton, Ohio facility as well as to create a consolidated distribution center. To date, these efforts have been executed with excellence and put us in a strong position entering the season. Once again, I want to acknowledge our colleagues across the business who are working as a unified team and have done a terrific job creating a strong and combined company.

As we've mentioned before, we will invest synergies in excess of our $100 million target to build the capabilities and add resources to create a multiyear innovation portfolio that we compare with our leading brands. In closing, we are focused on gaining distribution and visibility for our brands, investing in our brands and innovation and executing the integration plan. We believe that this combination positions us very well to create significant long-term shareholder value. For more details on the financial results for the quarter. I'll turn it over to Tim.

Timothy W. Gorman - *Energizer Holdings, Inc. - Executive VP & CFO*

Thanks, Mark, and good morning, everyone. You've seen our results in the press release, and you can track my comments in the slide presentation on our website. I will focus my remarks on the drivers of our net sales and gross margin performance. We expect to complete several important steps in 2020 to realize our long-term financial objectives. Those efforts outlined by Alan and Mark are well underway and the progress to date gives us the confidence to reiterate our previously stated full year outlook, including global net sales growth of 9% to 10%, including organic growth and combined battery of 1% to 2%, and combined auto care, growing 3.5%. Adjusted EBITDA in the range of $610 million to $640 million; adjusted free cash flow of $310 million to $340 million and adjusted earnings per share of $3 to $3.20.

Net sales in the quarter increased 29% to $737 million due to the incremental net sales of the acquired businesses. Global organic net sales declined 3.4%, ahead of the mid-single-digit decline we guided on the fourth quarter call. Compared to the prior year, organic net sales were impacted by the factors we discussed last quarter. A decline in point-of-sale trends, driven by pricing actions, a competitive product launch in batteries and lower replenishment volumes associated with Hurricane Dorian, all of which contributed 280 basis points to the decline.

Phasing of holiday shipments from the first quarter into the fourth quarter resulted in a negative impact of 240 basis points and improved pricing, partially offset the organic sales decrease by 180 basis points. Organic net sales in the Americas declined 5%, while international net sales were essentially in line with the prior year. Here are the sales components that build to our full year net sales outlook from the 2019 net sales base of $2.49 billion. Incremental net sales from the acquired businesses will add $205 million to $210 million of net sales.

We have essentially lapped the year-over-year comparability issues created by the acquisitions, except the second quarter will contain one more month of incremental acquired auto care sales.

Auto care is expected to grow about $15 million, in line with our expected organic growth of 3.5%. This includes our assumption for a normalized weather pattern during peak season, international distributor sales returning to normal order patterns and the benefit of approximately 2% category growth. Finally, the expected growth from battery and lights will contribute to incremental net sales due to the outlook of 1% to 2% organic growth.

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Turning to gross profit. Gross margin rate in the first quarter was 41.8%, which was primarily driven by the inclusion of the acquired businesses, which had lower margins than our legacy business as well as additional impacts from incremental tariffs, channel mix, and unfavorable overhead absorption because of lower production volume. There was a modest unfavorable impact from foreign currency, which was better than expected.

In addition, the negative impacts were partially offset by the benefit of price increases in battery and synergies. As you will recall, we exited last year with a gross margin rate of 42.1% in the fourth quarter. Bridging from the fourth quarter to this quarter, we see the benefits of pricing about 70 basis points and synergies being offset by the negative impacts of unfavorable fixed overhead absorption, incremental tariffs and channel mix. The expected synergies that Mark discussed will be an important component to the gross margin outlook as well as improved fixed cost absorption as we ramp up production to support growth in batteries, driven by distribution gains and a strong peak selling season in auto care.

Our full year out -- our full year gross margin outlook calls for a 10- to 40 basis point improvement year-over-year. Based on our gross margin performance in the first quarter, we expect a 210 to 240 basis point improvement in our gross margin over the balance of the year. Here are the components driving the improvement: synergies contributed 140 to 160 basis points; favorable commodity cost at 40 to 50 basis points; and favorable fixed cost absorption adds 80 to 100 basis points. Offsetting these expected favorable impacts to our gross margin rate, are incremental tariffs and foreign currency headwinds.

On the fourth quarter call, we discussed the possible impact on our business from currencies, tariffs and Brexit. Given the subsequent events that occurred in the U.K. in the Phase 1 trade deal with China, we have revised the expected impact of tariffs and Brexit on our 2020 results. We now estimate an approximate $8 million incremental impact from tariffs in 2020. And no impact from Brexit in this fiscal year. The effects of currency movements are harder to predict. During the quarter, the U.S. dollar weakened against a number of our main currency exposures, while the negative impact on our first quarter results was less-than-expected, we still experienced a headwind on net sales of $2.5 million as well as an unfavorable impact on net operating profit.

Based on current rates, including our hedge positions, we have included in our outlook a negative full year impact of about $10 million. We will consider adjusting this outlook when we have better visibility on the stability of recent trends. The improved outlook for currency, tariffs and the timing of the impact of Brexit gives us the opportunity to increase our investment in A&P by $5 million to support our brands and innovation.

As a result, we now anticipate a full year 15% to 20% increase in dollar terms above 2019. Our plan phases in the investments throughout the year based upon the seasonality of batteries and auto care. Turning to capital allocation. During the quarter, we utilized free cash flow to pay down approximately $40 million in debt. We also refinanced $365 million of our term Loan B, into a newly established term Loan A. Favorable rates on the new term Loan A will save about $2 million in annual interest.

Subsequent to the quarter, we completed the sale of the VARTA consumer business. The initial proceeds received from VARTA AG and Spectrum were about $345 million. These proceeds are being used to pay down term loan debt. There will be a true-up to the initial proceeds based upon the final closing balance sheet, and we expect the final settlement to occur within the next 6 months. After factoring and paying down the term loan debt in early January, our net debt-to-EBITDA multiple currently stands at about 4.7x. The remaining components of our guidance are reconfirmed and are included in the appendix to our slide presentation.

Before turning the call back over to Alan, I want to reiterate our confidence in the full year outlook, including top line organic growth, margin expansion, increased investments in our brands and innovation, and finally, the delivery of integration synergies by optimizing our manufacturing and distribution network.

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

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Thanks, Tim. As you've heard from all 3 of us, our accomplishments in the first quarter support the outlook we expect in 2020. We have now passed the 1-year mark since closing the acquisitions. Energizer is a stronger company today, with the added experience and skills from the colleagues we gained, new markets to invest for growth and a broader portfolio of leading brands and categories where brands matter. We are excited by

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what's ahead in the remainder of this year and the years to come, as we take steps in creating a more capable company, able to deliver on long-term strategic and financial objectives.

With that, I'll now turn it over to the operator, who will open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Wendy Nicholson from Citi.

Wendy Caroline Nicholson - *Citigroup Inc, Research Division - MD and Head of Global Consumer Staples Research*

Actually, 2 questions. First, in terms of the new distribution. Can you just clarify whether that is all secured and kind of a sure thing? Because I know that's supposed to be what's driving the acceleration in growth as we go through the course of the year. So is there any risk to that? Or is all -- is it all kind of locked and loaded? And then the second question is on the pricing environment. Can you talk about your confidence sort of with the price increases you took, obviously, commodities are more favorable, do you think there's any risk to that pricing? Do you need to increase promotional activity, et cetera, et cetera.

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

Wendy, it's Mark. I'll cover the first one. I'll let Alan cover the pricing question, second. In terms of the distribution, the distribution wins that we referenced are locked and loaded, and it's included in our plans. We're in the planning phase with customers now. So the phasing and timing of when those roll out and when the loads will hit, well it's still a little bit in flux, but in terms of the space and the distribution, that's all locked in.

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

And then, Wendy, on the pricing, you can expect that, that's going to hold. We don't anticipate that changing. I think what you'll see is there's been a gap between the premium and the value price outcome brands, we would expect that to be temporary in line with what we've seen historically that will moderate, revert back over time.

In terms of the promotional environment, we focus on the U.S. in particular. The promotional environment continues to be very stable. As a matter of fact, average unit prices to consumers have been up again in the most current quarter.

Wendy Caroline Nicholson - *Citigroup Inc, Research Division - MD and Head of Global Consumer Staples Research*

Got it. That's helpful. And then just one last one. Just on the second quarter just to help everyone from a modeling perspective. I know you talked about big gross margin expansion in the second half. But second quarter, can you give us any sense for the direction of gross margins still under pressure? When should we start to see the benefits, et cetera, et cetera?

Timothy W. Gorman - *Energizer Holdings, Inc. - Executive VP & CFO*

Yes, Wendy, you'll start to see the improvement in gross margin beginning in the second quarter. Again, what's going to drive that is synergies, gross margin expansion as the absorption improves.

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Operator

Our next question is from Bill Chappell from SunTrust.

William Bates Chappell - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

First one, just again on the kind of battery growth -- organic growth through this year. Just do you expect to have organic growth in each of the next 3 quarters? And to focus mainly on the fourth quarter, trying to understand whether you expect the kind of pull forward from retailers to happen again this year? Whether that's a tough comp, obviously, hurricane is a tough comp. Or whether the shelf space gains will more than offset both of those things?

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Well, it's embedded in the 1% to 2% organic growth for the battery business for this year. It likely will result in organic growth, Q2 through Q4. Now the phasing amount of that organic growth can shift depending upon timing month-to-month. But overall, I guess, we expect to see organic growth Q2 through Q4.

William Bates Chappell - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. And then just a follow-up. I think I remember that there was a $20 million, $30 million impact expected from tariffs, but I thought that a majority of the tariffs were on auto care, and that was with the December tariffs that were never actually executed. So can you maybe give us an update on what the tariff impact will be this year?

Timothy W. Gorman - *Energizer Holdings, Inc. - Executive VP & CFO*

Yes. So Bill, last quarter, we had indicated that the tariff impacts would be $12 million incremental and that the Brexit cost would be $2 million. I just indicated that you're right, the December came off, the Phase 1 deal didn't impact any of the previous tariffs that existed. And so that impact of the December was roughly $4 million.

William Bates Chappell - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

So I mean, is there a new total for the full year? Sorry.

Timothy W. Gorman - *Energizer Holdings, Inc. - Executive VP & CFO*

And what we had called out last quarter as well as if you took tariffs, Brexit and currency impacts, it would have been roughly $0.25. That's now down to roughly $0.18, and the differential is the increased investment in A&P that we're making.

Operator

(Operator Instructions)

Our next question is from Jason English from Goldman Sachs.

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Jason M. English - *Goldman Sachs Group Inc., Research Division - VP*

I wanted to come back to gross margins because it was a big surprise for me to see the sequential movement on GMC. You gave us a little bit of a walk from 4Q to 1Q, and I appreciate that. That's helpful. But historically, when we walk from 4Q to 1Q, we had to step up quite a bit. We usually get a pretty big lift sequentially into the first quarter. It sounds like that we may -- it was perhaps due to the cadence of production and the slack capacity or lack of utilization, that was the drag, but can you clarify that? And also, can you give us some color on was this anomalous? Or is this going to be the new norm in terms of seasonality and shape your gross margins throughout the year? Or should we expect a reversion back to the historical peaks and valleys?

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

Yes. So Jason, part of what the driver was -- is, obviously, had the phasing of the holiday shipments that we called out in the fourth quarter. So that did impact production volumes as we were entering the first quarter, and that was expected that we would have pressure on the margins given that shift as well as the additional impacts of channel mix as well as incremental tariffs. So as we move forward, I would expect that it'll improve as the volumes -- the organic growth improves. As you look forward to future years, you obviously have to layer in the impact of the acquired businesses on our business. So I would expect, as we would move forward, assuming how the phasing of holiday shipments lays out that we wouldn't be back to the -- what was the legacy gross margin rates, but you'd see a relatively normal pattern to our business. Again, you have to take into account auto care and the seasonality of that business as well.

Jason M. English - *Goldman Sachs Group Inc., Research Division - VP*

Yes, totally. I know it's changed both the level of your margins as well as change the shape a little bit. So to Billy on that point, if part of the weakness here is a pull forward of both the sales and the leverage into the fourth quarter, should we be braced for a pretty tough fourth quarter? I mean, we're going to lap both the pull forward on sales and that margin leverage than in the fourth quarter?

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Jason, we just -- with Bill's question, we expect organic growth in Q4. Now part of that is going -- is we're assuming that the timing shifting that occurred this past year will continue this year. And so if there's any shifting there. But overall, it's also the new distribution, which is going to drive the organic growth as well, which we expect to hit in a meaningful way in sort of the August, September time period as well.

Operator

Our next question is from Kevin Grundy from Jefferies.

Kevin Michael Grundy - *Jefferies LLC, Research Division - Senior VP & Equity Analyst*

Question on synergies. So it seems like you have good visibility on the $65 million that you guided to for fiscal '20. Can you talk about the key areas of the synergy capture? How you manage business risk as you go about capturing these synergies? And then as you work through them and what's still a volatile environment, commodities and FX, et cetera, what's the flexibility that the company may have to accelerate the pace of synergy capture beyond that $65 million this year?

Timothy W. Gorman - *Energizer Holdings, Inc. - Executive VP & CFO*

Yes. So Kevin, we have a good line of sight to the cumulative $65 million. So it's $45 million to $50 million incremental in '20 lapping the $18 million that we realized last year. So we have a pretty strong governance process in place to manage those risks that you were outlining, and we're confident in our ability as we move forward and move through the integration. I think we called out one big factor in terms of getting the European business

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onto our IT platform occurred in the first quarter. And so we're removed from the divested VARTA business. And so we have many milestones coming up this year. And again, we're extremely confident in our ability to deliver.

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Yes, Kevin, on the business risk, we manage that very tightly, and that's actually at the forefront of every discussion we have is what's happening with the business as we're implementing these changes to capture these synergies. So we're going to minimize business risk first. The second priority is to get the synergies. And the third priority is the timing of those synergies. We feel like we have a good cadence down. But when -- if business risk were to surface, we'll shift it around to make sure that we don't create any business risk because that's, first and foremost, the most important thing.

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

And as we shared at Investor Day, we've got a really good handle on how to phase these activities as we demonstrated both in '13 and separation of '15. We're very confident in that.

Kevin Michael Grundy - *Jefferies LLC, Research Division - Senior VP & Equity Analyst*

Okay. That's helpful. The quick follow-up is just on the auto care business, where you expect that business to return to growth this year. Can you give us an update on the relationship with retailers there, where there's obviously been some strain in the past under different ownership? And then second, just the visibility on the distribution that you expect to pick up as we head into the important March and June quarters. And I'll pass it on.

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Yes, Kevin, we have, obviously, visibility to assess what you're going to be going in place here in the next 30, 45 days with retailers. So we have very good visibility to that. We do have some expanded space. Now the task at hand is to make sure that space works for us. The relationship with retailers is very good. I think that relationships that the team had that we acquired in the Global Auto Care business were really strong. We've only worked to solidify those and show what Energizer can bring to this business as well. We've had a number of top-to-top innovation summits, where we've shared our plans for the business, both from an innovation standpoint as well as a branding standpoint. And they're excited by what they're hearing and what they're seeing from us. But at the end of the day, we have to prove it to them, and we're going to prove it to them in this Q2 and Q3, and then we're going to build on that going forward. But the relationships are solid. And as a result, we would expect that to continue the upward trajectory of that business.

Operator

Our next question is from Steve Strycula from UBS.

Steven A. Strycula - *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

So first, on the operational assortment question, and then I have a quick follow-up on the finances. So Alan, on the assortment piece, it's been 6 to 7 months since we've seen a national rollout of private label and a key competitor launch a premium product. Wanted to get a little bit more texture as to some of the new distribution wins that you're getting in line of sight to for calendar 2020. Is that really coming from the branded piece? Is it coming from the premium end? Is it all over? Can you give us a little bit more color and feel as to where the new distribution wins are coming from? And then I have a follow-up.

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Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

So we're leveraging the full portfolio. So what I would tell you in battery, it's leveraging the portfolio for distribution in new customers with the portfolio. And then expanded space and customers that we may have today. Obviously, at this stage, given where we are in the planning process, our policy is not to talk about specific customers. But these are already committed to, and we're in the process of working through what the sets look like and the phasing of product flowing into their DCs and stores. Mark?

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

Yes. When we talked in November and December, with some of you. We talked about that we expect it to be able to regain some of the space that we lost based on the competitive launch. And the teams have successfully done that. So that was built into our aspiration and plans for 2020. The timing is still shifting around a little bit. But you're going to start to see some of this new distribution hit in the March, April time frame, and then again later in the year.

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

And it's all branded, to answer the first part of your question.

Steven A. Strycula - *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

Okay, very helpful. And then the math question, from endpoint to midpoint of EBITDA guidance for '19 to '20. That's about an $80 million step-up in -- or increase on a year-over-year basis. I realize about $50 million of that's incremental from synergies. But can you give us a little bit more feel for how much of that's maybe contribution from the acquisitions for the 4 months, you didn't even own it last year? How much is E&R base business? That would be helpful.

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Yes. So the acquisitions contributed about $40 million of incremental EBITDA. As you pointed out, synergies are a big contributor and then the balance is coming from the legacy business and layered in that is the distribution that we talked about and regaining space as well as new space.

Operator

Our next question is from Laura Lieberman from Barclays.

Lauren Rae Lieberman - *Barclays Bank PLC, Research Division - MD & Senior Research Analyst*

Just to follow-up on the question about distribution on batteries. I was curious as you're kind of coming to retailers and talking about your fuller portfolio now, how is private label playing into that in terms of shelf that's obviously not you producing it. But are you finding that retailers are open to kind of swapping out private label to have Rayovac play that role on opening price point? And maybe that's not even part of the approach. But I was curious if you could sort of opine on that.

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

I think that's the broad strategic question that it was the benefit of this acquisition. As we go in, we've obviously had long-standing conversations around Energizer and the premium end of the category. But the acquisition of the Rayovac brand allows us to extend the reach in the U.S. in a

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particular way. Certainly, we've had it with Eveready as well. But Rayovac is a much stronger brand in certain markets. It allows us to begin the conversation at the opening price point as well as take it all the way up to the premium end of the category. And so there is an openness to this. I think it's going to be a long-term discussion. Retailers have their own strategies. They have their own strategies around private label and what they will or won't do. But as you start to get some wins and maybe you convert private label into the Rayovac brand, and then retailers see the data on what it does for their category, it's a really compelling story for them. But it all has to fit within their strategy with their stores and their shopper, which is what our teams are doing on a daily basis.

Lauren Rae Lieberman - *Barclays Bank PLC, Research Division - MD & Senior Research Analyst*

Okay, great. And then the follow-up would be just sort of at the other end of the spectrum at the premium end. I was just curious on things you may be doing to increase education around lithium and things that you can do at the shelf? Because obviously, with the optimum launch, the idea is bringing price points up, but that's an outgoing product. So yes, anything that -- is there anything in part of your conversations with retailers in shelf that is also how the shelf is presented itself? And education in the store as the differences within the premium end of the category?

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Our teams are absolutely working on that. And that's presenting these shopper-based solutions is something that our teams do very well. It's really a question of communicating the benefits of lithium, not only to the customer but also then to the consumer as well. And there are unique benefits to lithium product. It is the best battery on the market today and making sure that we connect with consumers to convey that benefit as well as conveying the benefits of specific usage is important, and it's one that we do, and we're working on, on a daily basis to communicate it both in store, but then also communicate it from a digital advertising standpoint as well.

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

It's a combination of above the line and below the line support. So it's TV, it's digital. It's the pricing move that we made on shelf, its visibility in the store, and it's benefiting. Globally, we're seeing lithium up in the latest 13 weeks, 7%, almost 8%.

Operator

Our next question is from Faiza Alwy from Deutsche Bank.

Faiza Alwy - *Deutsche Bank AG, Research Division - Research Analyst*

So my first question is just, again, on the distribution. And I was wondering if you could give us a little bit more color around the channels where you're gaining distribution? And I guess, specifically, I'm wondering if it's something that we'll see in the scanned data that we get every 2 weeks. And then my second question is, it seems like you have some flexibility as it relates to EBITDA and EPS. And this quarter, you've chosen to increase reinvestments and spend on A&P as it relates to the guidance. So I'm curious how are you thinking about sort of optimal A&P spending? And so to the extent that you have further upside from things like FX, et cetera, should we expect that those will continue to get reinvested?

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

Faiza, it's Mark. I'll start, and I'll turn it over to Tim for the second part of those questions. As much as we would love to get into the specifics of the distribution gains and I recognize it's frustrating for us to not provide that detail. It's one that we really we're working on with our customers. It's -- we do have a standard policy of not talking about customers. And we really want the reveal of this distribution to be with our customers in the store as well as with their shoppers. And so we don't want to front run that process. The distribution gains are obviously built into the reaffirmation of the guidance that we've provided today. And so what I would say is you're going to start to see that distribution gains really occur in the March,

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April time period in certain retailers, and then you're going to see it over the summer and certain other ones. As that rolls out, you're going to begin to see it. We're still working through the phasing and planning. But it is built in there to sort of our reaffirmation today. We're excited about it. And we're excited for what it's going to do for our business.

Timothy W. Gorman - *Energizer Holdings, Inc. - Executive VP & CFO*

And Mark it's in measured and non-measured, and it's both in the -- it's primarily U.S., but also international.

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

Correct.

Timothy W. Gorman - *Energizer Holdings, Inc. - Executive VP & CFO*

Yes. And Faiza, on the A&P question, we did have the opportunity to increase investment in A&P, specifically increasing investment in the auto care business. And so we've talked about the need to invest behind those brands, bring forward innovation and so we are taking the opportunity to do that. And we'll continue as we move forward to evaluate the right level of A&P. But there's going to be some initial upfront investment required to get the auto care business back to where it was.

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

And any surplus, Tim, we have beyond the synergy number, we're going to put back into the business.

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Correct.

Operator

Our next question is from Robert Ottenstein from Evercore ISI.

Robert Edward Ottenstein - *Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Beverages Research & Fundamental Research Analyst*

You touched on some of this in some of the comments, but I was just wondering if we could go into a little bit more detail in terms of what's happening with mix, product mix and channel mix? So maybe a little color on the relative growth of your business between the Energizer brand, Rayovac and private label and the outlook for those? And then a little bit of discussion in terms of channel mix and the impact that is having on your margin structure. Obviously, the e-commerce channel is growing faster. What is the margin profile of that? And what is the margin profile on international?

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Yes. So the reference to channel mix was, as you've seen in the POS trends in measured channels, we've been experiencing declines. That's being offset by growth in unmeasured channels. So you are seeing a bit of mix related to the growth in unmeasured channels versus measured. So we did see that play out in -- towards the tail end of Q4 and then carrying over into Q1, along with the absorption impact that we referenced in the

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prepared remarks. As we move forward through the balance of the year, you're going to start to see that mix reverse related to some of the distribution gains that we've referenced earlier.

Robert Edward Ottenstein - *Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Beverages Research & Fundamental Research Analyst*

And what is the margin impact? Or how would you compare the margin profile between your measured business and your unmeasured business?

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Yes, we don't get into specific channel discussion of margins. Particularly, you asked a question about Amazon. We just -- we don't go into specific customer margin profiles or channel margin profiles.

Operator

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

Unidentified Analyst

This is John (inaudible) on for Olivia. I just had a really quick one about your exposure to China, given the coronavirus in terms of manufacturing and sales. And if you could sort of elaborate on maybe whether or not there'll be any impact to the supply chain or your capacity in any way? And then a follow-up would just be, I'm not sure about the rest of the country, but the Northeast has seen some very mild weather this winter so far, and I'm wondering if you've seen that flow through into the auto care line.

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Yes. Well, it's Alan. I'll take the first one, John, and then Mark will address the second one. So our first priority was the health and well-being of our colleagues, and we're happy to report in Asia all are doing okay. From a business perspective, we have no major issues to report now. I think it all depends on how things materialize over the next 2 to 3 weeks, that could possibly change. But right now, we don't anticipate any major issues. I will tell you that our global supply chain has been doing a lot of work over the last 2 weeks around contingency planning in the event any action is warranted. But right now, we're in a good position.

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

And on the auto care question, what you saw over the last 13 weeks ending November, you did see a fairly robust category growth in the September month, in particular, because of the weather. The weather that's really going to matter is over Q2 and Q3 for our business. And if you recall last year, the weather was cold and rainy through much of the spring and early summer season. And what we're expecting is a return to more normalized weather patterns. Obviously, if it gets particularly hot early, it's better for our business. You may see some shifting in -- between Q2 and Q3, depending upon when that weather hits. But of much of our auto care business does -- is weather dependent. And as a result, when spring hits, that's when the peak season starts.

Operator

Our next question is from William Reuter from Bank of America.

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William Michael Reuter - *BofA Merrill Lynch, Research Division - MD*

I just have one. I guess, as we think about your deleveraging path, you've laid out a target for the end of 2020. Can you remind us where you expect to be at the end of FY '21? And I guess, whether you are seeing any M&A targets that could change the path towards deleveraging?

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Yes. So we had called out that we would expect to be in the range of (inaudible) [4 2] to [4 4] in '20 and then roughly 0.5 turn as you move forward to '21.

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

On the M&A front, I mean, we'll continue to look at bolt-on acquisitions. It's something that we obviously keep leverage levels in mind, particularly with where leverage levels are now. But in terms of -- it's difficult to provide forward-looking view on M&A. We continue to look at it. But our focus right now is is paying down debt. And in the event that an opportunity comes up, we'll obviously take that into account our analysis.

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

We're going to continue to take a balanced approach to capital allocation.

Operator

As our next question is from Carla Casella from JP Morgan Security.

Carla Casella - *JP Morgan Chase & Co, Research Division - MD & Senior Analyst*

You talked about a couple of key wins in the battery space. Are there any offsets in terms of any business or shelf space losses? And can you talk about it from the perspective of the legacy portfolio versus the spectrum portfolio that you acquired?

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

What we've done is, we want to talk about the battery portfolio holistically, and our growth rate was 1% to 2% on the entire battery business because it really depends on the given retail and given customer, how that -- where the brands resonate. And what we want to do is look at it as a complete business and a complete portfolio. Obviously, the year plays out differently than you expect every year. There's puts and takes throughout the year. We expected distribution wins heading into this year that we were going to regain the space and the competitive launch because we saw the story in terms of the category trends. And we had a very compelling story to tell the retailers. In terms of overall, we feel really confident in our 1% to 2% organic growth. All of the current information we have is built into the guidance that we've provided today, which is -- which basically reflects organic growth from Q2 through Q4.

Operator

Our next question is from Karru Martinson from Jefferies.

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Karru Martinson - *Jefferies LLC, Research Division - Analyst*

I just wanted to drill down a little bit on the mix shift in batteries. I was wondering specifically, how the hearing aid business performing for you? Since that had been a big part of Spectrum's battery business in terms of their margin contributor.

Mark S. LaVigne - *Energizer Holdings, Inc. - President & COO*

You have seen a little bit of conversion in the hearing aid' segment. Right now, what you're seeing is more hearing aid devices are taking rechargeable batteries. There also with some loss distribution, which occurred before we acquired the business, we're still cycling through that. It was a healthy margin business. It is a smaller piece of our business. But then it was for the Spectrum business. But you're still seeing extremely healthy trends in the specialty segment overall, hearing aid is a part of that. But what you're seeing is on the lithium point side, nice growth rates, where we're able to capitalize nicely with our expanded portfolio.

Timothy W. Gorman - *Energizer Holdings, Inc. - Executive VP & CFO*

Yes, the specialty segment is one of the more profitable for the retailers. It's Energizer today sits at a 55 share globally on a value basis in at least 13 weeks. We dominate there. And to Mark's point, if you think about it, hearing aid is actually a relatively smaller part of total specialty at 17%. The watch electronic where we dominate is roughly 3/4 of total sales globally, in brick-and-mortar.

Operator

Our next question is from Andrea Teixeira from JP Morgan.

Andrea Faria Teixeira - *JP Morgan Chase & Co, Research Division - MD*

So can you help me on the synergies in the first quarter, you quoted $9 million, but that is -- is that mostly related to gross margin? And if we assume it's about $7 million, so gross margin. So the synergy helped you around 120 basis points on the gross margin. So I was trying to bridge the gap and try to understand what was the core business margin of the legacy business for Energizer and compare it to acquired batteries and autos. And just a clarification, the follow-up question on the prepared remarks, you mentioned competitive activity, if I understood it correctly, among private-label players as well. So is that happening on discounters or again on the drug channel, as we continue to see on the track channels? And are you embedding a normalization on this trend and guidance?

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Yes. So I'll take the last one, while Tim formulates the perspective on the first question. So for private label, no, there has not been any significant change as we reported last quarter. And as we expected in the current quarter, there's activity in one large U.S. retailer, where there was some promotional and distribution activity around private label, but that was expected outside of that. We're not seeing anything different. It does vary by channel, market and category. It's more developed, obviously, in lights, less so in battery, even less so in auto care. But around the globe, we're not seeing big shifts in current private label value shares. It still sits at roughly 18.8%. And the bump up it got in the most recent 13 weeks, again, was that one U.S. retailer. Tim?

Timothy W. Gorman - *Energizer Holdings, Inc. - Executive VP & CFO*

Yes. And the synergies, we called out the $9 million. And as we said at Investor Day, you're going to see the mix of those synergies, about 65% is going to be COGS and the balance is going to be SG&A and R&D. So it is embedded in the results for the first quarter. Again, the items impacted are the ones that we've called out. You've got the impact of absorption. You've got the impact of the mix that occurred during the first quarter.

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We're not breaking out legacy business versus -- it's one combined business now as we move forward. As this will be the last quarter that we lap the acquisition impact.

Operator

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

Alan R. Hoskins - *Energizer Holdings, Inc. - CEO & Director*

Thank you for joining us on our call today and your continued interest in Energizer. Thank you, operator.

Operator

This -- the conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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