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WD-40 Co. (WDFC)

Q1 2020 Earnings Call

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CORPORATE PARTICIPANTS

Wendy Kelley
Director-Investor Relations and Corporate Communications, WD-40 Co.

Garry O. Ridge
Chairman & Chief Executive Officer, WD-40 Co.

Steven A. Brass
President & Chief Operating Officer, WD-40 Co.

Jay W. Rembolt
Vice President-Finance, Treasurer & Chief Financial Officer, WD-40 Co.

OTHER PARTICIPANTS

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Daniel Rizzo
Analyst, Jefferies LLC

Rosemarie J. Morbelli
Analyst, G.research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Good day and welcome to the WD-40 Company First Quarter Fiscal Year 2020 Earnings Conference Call. Today's call is being recorded. At this time, all participants are in a listen-only mode. At the end of the prepared remarks, we will conduct a question-and-answer session. [Operator Instructions]

I would now like to turn the presentation over to the host for today's call, Ms. Wendy Kelley, Director of Investor Relations and Corporate Communications. Please proceed.

Wendy Kelley

Director-Investor Relations and Corporate Communications, WD-40 Co.

Thank you. Good afternoon and thanks to everyone for joining us today. On our call today are WD-40 Company's Chairman and Chief Executive Officer, Garry Ridge; Vice President and Chief Financial Officer, Jay Rembolt; and President and Chief Operating Officer, Steve Brass.

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In addition to the financial information presented on today's call, we encourage investors to review our earnings presentation, earnings press release and Form 10-Q for the period ending November 30, 2019. These documents are available on our Investor Relations website at investor.wd40company.com. A replay and transcript of today's call will also be made available at that location shortly after this call.

On today's call, we will discuss certain non-GAAP measures. The descriptions and reconciliations of these non-GAAP measures are available in our SEC filings as well as our earnings presentation.

As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance. Of course, actual results could differ materially. The company's expectations, beliefs and projections are expressed in good faith, but there can be no assurance that they will be achieved or accomplished. Please refer to the risk factors detailed in our SEC filings for further discussion.

Finally, for anyone listening to a webcast replay or reviewing a written transcript of this call, please note that all information is presented and is current only as of today's date, January 9, 2020. The company disclaims any duty or obligation to update any forward-looking information whether as a result of new information, future events or otherwise.

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

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Thanks, Wendy. Good day, everyone. Happy New Year, and thanks for joining us for today's conference call.

Today, we reported net sales of $98.6 million for the first quarter of fiscal year 2020, down 3% compared to the first quarter of last year. Translation of our foreign subsidiaries' results from their functional currencies to the US dollar had an unfavorable impact on sales in the first quarter. On a constant currency basis, sales would have been relatively flat compared to the first quarter of last year. Net income for the first quarter was $12.2 million, compared to $13.3 million last year. Diluted earnings per share for the first quarter was $0.88, compared to $0.95 for the same period last year.

If you follow us quarter-to-quarter, you may not like the results this quarter. Our business is one which fluctuations in performance of our markets from quarter-to-quarter are not unusual, that's why we don't issue quarterly guidance and why I frequently caution investors not to follow us too closely quarter-to-quarter. What's more important is that our long-term strategic drivers continue to perform well and are in line with our expectations.

As you know, we aspire to drive consolidated net sales to approximately $700 million in revenue by the end of fiscal year 2025 and to do so while following our 55/30/25 business model. We'd like to remind investors that these long-term targets are probably wrong and roughly right. And though we acknowledge our 2025 targets are aspirational, we believe we can successfully bring those targets within reach.

As a reminder, we refer to the brands that are going to get us out there to our 2025 brands. They are, WD-40 Multi-Use Product, WD-40 Specialist, 3-IN-ONE, WD-40 BIKE, GT85, 1001, Spot Shot, Solvol, Lava, and no vac. Our 2025 brands are our core strategic focus and the primary growth engine for our company.

The strategic driver number one is to grow the WD-40 Multi-Use Product. Our goal under this initiative is to make the blue and yellow can with a little red top available to more people in more places who will find more uses more often. In the first quarter, sales of WD-40 Multi-Use Product were $75.8 million, down 3% compared to last year.

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The decline was driven primarily by lower sales in Asia-Pacific due to the timing of customer orders in our Asian distributor markets and in China.

Though these results may look disappointing, they in no way reflect the trend. In fact, we see lots of opportunities for growth as we continue to maximize the product line through geographic expansion, increased market penetration, and premiumization of the blue and yellow can with little red top. Premiumization creates opportunities for revenue growth as well as for growth margin expansion. We see a significant opportunity to increase penetration of our most successful innovation Smart Straw.

Currently, 41% of WD-40 Multi-Use products cans we sell are sold with the Smart Straw delivery system. Our objective is to grow that number to 60% over the next five years. We believe this initiative represents approximately $50 million in incremental revenue opportunity. Increased Smart Straw penetration is expected to drive accelerated revenue growth, which we'll begin to realize as we roll out Smart Straw next-generation over about an 18-month period beginning in July 2020. This innovation supports our objective to grow WD-40 Multi-Use Product to approximately $530 million in revenue by the end of fiscal year 2025.

Strategic driver number two is to grow the WD-40 Specialist product line. In the first quarter, sales of WD-40 Specialist remained constant at $8.4 million compared to the first quarter of last year. However, we remain optimistic about the long-term opportunity for WD-40 Specialist, and continue to believe we can grow the product line to approximately $100 million in revenue by the end of fiscal 2025. Our tribe has delivered some best-in-class WD-40 Specialist products over the last several years. As a result, we now have an exceptional portfolio of products that we are proud to have wear the WD-40 shield.

The blue and yellow can with a little red top and that famous shield that it wears has been creating positive lasting memories for over 66 years. We know our end users around the world trust the shield, and they are making buying decisions based on that brand loyalty. As Steve shared with investors in October last year, we've been evaluating the brand architecture associated with our WD-40 branded products. That is, the products in our line that wear the famous shield. We needed to be certain that our primary packaging, that is to say the color and the words on our WD-40 Specialist cans, was correctly communicating the product line's connection to its famous parent and helping our end users quickly find the solution they are looking for. After a lot of research and hard work by the tribe, we decided on a new way forward for our WD-40 Specialist product line.

If you turn to page 8 in today's earnings presentation available on our website, you'll see a sneak peak of the new packaging we've designed for our WD-40 Specialist product line. The new packaging will be comprised of a metal blue can and distinctive red top. We believe the new packaging drives major benefits. The new design leverages the famous blue and yellow can. It is simple and uncluttered. It clearly communicates the product's purpose and it improves our end users' ability to find the solution they are looking for both at the store shelf and online.

Ultimately, we believe the new packaging will give us stronger brand presence for both the WD-40 Multi-Use Product and the WD-40 Specialist, and aligning them as now the blue and yellow brand with the little red top. We expect to see these new improved versions of WD-40 Specialist packaging on shelves in select markets by mid2020, then available progressively around the world.

Strategic initiative number 3 is to broaden the product and revenue base. Strategic initiative number 3 includes maintenance products like 3-IN-ONE, WD-40 BIKE, and GT85, but it also includes home care brands such as Spot Shot and Lava in the Americas, 1001 in EMEA , and no vac and Solvol in Asia Pacific. Global sales of these products included under the initiative were $11.8 million in the first quarter, down a little more than 1% compared to last year.

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As part of our brand architecture initiative, WD-40 BIKE is going to get a makeover this year as well. It will be moved out of the Specialist product line and wear the new packaging I just outlined for WD-40 Specialist. However, for external reporting purposes, we'll continue to keep the WD-40 BIKE separate from the WD-40 Specialist. But overall, we believe we're on track to reach a combined revenue for the products under this strategic initiative number 3 of approximately $70 million by 2025.

Strategic initiative number 4 is to attract, develop and retain outstanding tribe members. Our goal under this initiative is to attract, develop and retain talented tribe members to grow, and then grow our tribe member engagement to greater than 95%. As you may have read about in our recent annual report titled A Culture That Can, our unique culture is very, very important to us and something that we covered.

Capturing culture in brick and mortar is not easy. I'm happy to report we did just that when we officially opened our new Milton Keynes offices in November. MK Hall, as it's called, houses approximately 90 tribe members and was specifically designed to reflect our unique culture, increased engagement, improved collaboration. The tribe, no doubt, are thrilled to be in their new work home.

I firmly believe that our company's long-term success is directly linked to the outstanding tribe members and their exceptional motivation and dedication to WD-40 Company and its products. In fiscal year 2020, we will once again measure the engagement of our tribe, and we look forward to sharing the results of that engagement survey with you later this year.

Strategic initiative number five is operational excellence. At WD-40 Company, our cornerstone to operational excellence ties closer to one of our core values to make it better than it is today. With this, our guiding mantra, we continually focus on optimizing resources, systems and processes while applying rigorous commitment to quality assurance, regulatory compliance, and intellectual property protection. Using our 55/30/25 business model as a framework, we measure ourselves against this operational excellence initiative.

That completes the update of our strategic drivers. Now, pleased to pass the call to Steve, who'll discuss in more detail our first quarter sales results.

Steven A. Brass

President & Chief Operating Officer, WD-40 Co.

Thanks, Garry, and good afternoon.

As Garry mentioned earlier, consolidated net sales were $98.6 million in the first quarter, down 3% year-over-year. On a constant currency basis, net sales would have been $100.8 million in the first quarter, relatively constant compared to last fiscal year. Before I discuss what's happening in individual segments, I'd like to remind investors about something Garry has shared with you many times, that we don't consider our business to be seasonal. It is quite common for our sales results to fluctuate from one period to another. These fluctuations can be driven by a myriad of things, including the level of promotional activities, specific programs being run at customer locations, the timing of customer orders, or the impact of new product launches. This is all a normal part of our business, and we are accustomed to these types of fluctuations and manage them as part of our regular business activities.

So, now let's start with the Americas. Net sales in the Americas, which includes the United States, Latin America or in Canada were down 2% in the first quarter to $46.7 million. Sales of maintenance products decreased nearly 2% in the Americas, primarily due to lower sales of WD-40 Specialist in the United States. Sales of WD-40

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Specialist in the US were down 19% due to the timing of promotional activities. We were up against a very tough comparable period in the United States due to a successful WD-40 Specialist holiday gift pack promotion we ran in the first quarter of last fiscal year. Maintenance product sales in the first quarter remained relatively constant in Canada and Latin America.

As a reminder, our maintenance products exclude our homecare and cleaning products. Sales of our homecare and cleaning products in the Americas decreased 6% in the first quarter compared to the prior year, largely due to lower sales of Spot Shot and Lava which declined 14% and 8%, respectively.

We continue to consider our homecare and cleaning products, except for those listed as 2025 brands, as harvest brands that continue to generate meaningful contributions in cash flows, but are generally expected to become a smaller part of our business over time.

In total, our Americas segment made up 47% of our global business at the end of the first quarter. Over the long term, we anticipate sales within this segment will grow between 3% to 6% annually.

Now, on to EMEA. Net sales in EMEA, which includes Europe, the Middle East, Africa, and India increased to $39.2 million in the first quarter, up about 1% from last year. EMEA's reported results in the first quarter were negatively impacted by foreign currency exchange rates. On a constant currency basis, sales in EMEA would have increased to $41.1 million, up about 6% compared to last year. As you know, we sell into EMEA through a combination of direct operations and marketing distributors.

Net sales in our EMEA direct markets, which accounted for 63% of the region's sales in the first quarter, remained flat during the first quarter compared to last year. Although overall sales in the direct markets remained constant for the quarter, sales of 1001 Carpet Fresh in the UK increased by 30% during the quarter. 1001 continues to benefit from favorable impacts of digital marketing associated with the brand.

Net sales in our EMEA distributor markets, which accounted for 37% of the region's sales in the first quarter, increased 3% during the quarter. This increase is primarily due to increased sales of WD-40 Multi-Use Product in the Middle East due to the timing of customer orders.

In total, our EMEA segment made up 40% of our global business at the end of the first quarter. Over the long-term, we anticipate sales within the EMEA segment will grow between 8% to 11% annually.

Now, on to Asia-Pacific. Consolidated net sales in Asia-Pacific, which includes Australia, China and other countries in the Asia region, decreased to $12.6 million in the first quarter, down 15% from last year. Changes in foreign currency exchange rates had an unfavorable impact on sales in the region. On a constant currency basis, sales in Asia-Pacific would have decreased to $12.9 million in the first quarter, down 13% from last year. In Australia, net sales were $4.1 million in the first quarter, up 5% compared to last year, driven by a higher level of promotional activities and continued growth of the base business. Changes in foreign currency exchange rate had an unfavorable impact on sales in the region. On a constant currency basis, sales in Australia would have increased 11% from last year.

In our Asia distributor markets, net sales were $6.2 million for the quarter, down 21% compared to last year. The significant decrease in sales is primarily attributable to the timing of customer orders in the region. We had significant fourth quarter sales in our Asia MD markets, which has resulted in a lighter first quarter. Our Asia distributor markets are not impacted by currency since we sell our product in US dollars in this region.

In China, net sales in US dollars decreased to $2.3 million in the first quarter, down 23% compared to last year, due to the timing of customer orders. Sales in China during the quarter were also negatively impacted by activities

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associated with the 70th anniversary of the founding of the People's Republic of China, which resulted in slowed market conditions in certain geographies. In constant currency, sales in China were down 21% for the quarter. We remain optimistic about the long-term opportunities in China, although we expect a lot of volatility along the way due to the timing of promotional programs, the building of distribution, shifting economic patterns, and varying industrial activities.

In total, our Asia-Pacific segment made up 13% of our global business in the first quarter. But in the long-term, we expect sales within this segment will grow between 10% to 13% annually.

Now, I'll turn over the call to Jay for an update on the financials.

Jay W. Rembolt

Vice President-Finance, Treasurer & Chief Financial Officer, WD-40 Co.

Thank you, Steve.

Let's start with a discussion about our 55/30/25 business model, the long-term targets we use to guide our business. As you may recall, the 55 represents gross margin, which we target to be at 55% of net sales. The 30 represents our cost of doing business, which is our total operating expenses excluding depreciation and amortization. Our goal is to drive our cost of doing business over time toward 30% of net sales. Finally, the 25 represents our long-term target for EBITDA.

First, the 55 or our gross margin. In the first quarter, our gross margin was 54.3%, compared to 55.1% last year. This represents a decline of 80 basis points. Impacts from sales mix changes and other miscellaneous costs, primarily in EMEA, negatively impacted our margin by 70 basis points in the quarter. In addition, higher warehousing and freight costs, also primarily in EMEA, negatively impacted our gross margin by 70 basis points. Higher advertising, promotional and other discounts that we give our customers negatively impacted gross margin by 40 basis points during the quarter. These negative impacts to gross margin were partially offset by the favorable effects of price increases which we've implemented in EMEA over the last 12 months, and which positively impacted gross margin by 80 basis points in the first quarter.

Changes in major input costs positively impacted our margin by 10 basis points. Petroleum-based specialty chemical costs positively impacted our gross margin by 30 basis points period-over-period. However, increased costs of aerosol cans negatively impacted our margin by 20 basis points, and significantly offset the gains we realized due to the lower petroleum-based costs. Finally, changes in foreign currencies also had a positive impact, and impacted our gross margin by 10 basis points.

Now, I'll address the 30 or our cost of doing business. In the first quarter, our cost of doing business was approximately 38%, compared to 37% last year. While both SG&A expense and advertising and promotion investment decreased period-to-period, our cost of doing business increased as a percentage due to the reported revenue decline in the first quarter.

For the first quarter, 75% of our total cost of doing business came from three key areas. People costs or the investments we make in our tribe, the investments we make in marketing, advertising and promotion. As a percentage of sales, our A&P investment was 5.7% in the first quarter. And finally, freight costs, the cost to get our products to our customers. Over time, we expect our cost of doing business will move towards our long-term target of 30% as revenues increase.

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This brings us to EBITDA, the last of our 55/30/25 measures. EBITDA was 17% of net sales for the first quarter of this year, compared to 18% last year.

That completes the discussion of our business model.

Now, let's discuss some of the items that fall below the EBITDA line. Provision for income taxes was 14.7% in the first quarter, compared to 17.6% last year. The decrease in the effective income tax rate was primarily due to an increase in excess tax benefits from settlements of stock-based equity awards. Despite the lower tax rate in the first quarter, we expect that our effective tax rate for the full fiscal year will be in the 20% to 22% range. And net income for the first quarter was $12.2 million versus $13.3 million in the prior year, reflecting a decrease of 8%. Changes in foreign currency exchange rates negatively impacted our net income by about $500,000 in the first quarter. On a constant currency basis, net income would have been $12.7 million in the first quarter.

Diluted earnings per common share were $0.88 for the first quarter, compared to $0.95 for the same period last year. On a constant currency basis, diluted earnings per share would have been $0.92 for the quarter. Diluted weighted average shares outstanding decreased to 13.7 million shares from 13.9 million shares a year ago.

And now, a word about capital allocation. Our capital allocation strategy includes a comprehensive approach to balance investing and long-term growth while providing strong returns to our shareholders. In fiscal year 2020, we expect to invest approximately $31 million in capital projects. This estimate is up from the $25 million we shared last quarter. Much of this capital will be used to procure the proprietary machinery and equipment needed to manufacture our next-generation Smart Straw delivery system. We expect to return to our historic capital-light business model over the next two years.

We continue to return capital to our shareholders through regular dividends and share repurchases. On December 10, our board of directors approved a quarterly cash dividend of $0.67 per share, reflecting an increase of 10% over the previous quarter's dividend. This increase represents the 10th consecutive year the company has raised its annual dividend. And based on today's closing price of $191.81, the annualized dividend yield is 1.4%.

During the first quarter, we repurchased just under 27,000 shares of our stock at a total cost of approximately $5 million under our current $75 million share repurchase plan. As of November 30, we had approximately $40 million remaining under the current plan.

Now, I'll turn to guidance. Today, we are reiterating the guidance we gave on October 17, 2019. With that, net sales is projected to be between 3% and 7%, with net sales expected to be between $436 million and $453 million. Gross margin for the full year is expected to be between 54% and 55%. Advertising and promotion investment is projected to be between 5.5% and 6% of net sales. The provision for income tax is expected to be between 20% and 22%. And net income is projected to be between $65 million and $66.2 million. Diluted earnings per share is expected to be between $4.74 and $4.83, based on an estimated 13.7 million weighted average shares outstanding.

This guidance is expressed in good faith and is believed by the company to have a reasonable basis. However, it is not possible for us to predict any reasonable degree of certainty the actual impact that fluctuating crude oil prices or foreign currency exchange rates can have. These fluctuations could potentially have a significant impact on our 2020 guidance. This guidance does not include any future acquisitions or divestitures.

And that completes our financial overview, and now I'll turn it back to Garry.

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Garry O. Ridge
Chairman & Chief Executive Officer, WD-40 Co.

Thanks, Jay.

In summary, what did you hear from us on this call today? You heard that our business is one in which fluctuations in the performance of our markets from quarter-to-quarter are not unusual. You heard that foreign currency exchange rates continue to be a headwind on our consolidated global sales results, particularly in EMEA. You heard that our long-range, long-term strategic drivers continue to perform well, in line with our expectations, and that we remain committed to our probably wrong and roughly right long-term goal to drive consolidated net sales to approximately $700 million by the end of fiscal 2025.

You heard that we see a significant opportunity to increase the penetration of Smart Straw from 41% to 60% globally over the next five years, and that growth is expected to lead to approximately $50 million in incremental revenue. You heard that we're launching a new packaging for our WD-40 Specialist line, which we believe will deliver major benefits as it becomes the blue and yellow brand with the little red top. You heard that our board of directors increased our dividend by 10% last month, and you heard that we reiterated our fiscal year guidance today.

In closing, I'd like to share a quote from my friend, Simon Sinek. Nothing and no one can perform at a 100% forever. If we cannot be honest with one another and rely on one another to help during the challenging parts of the journey, we won't get very far.

Thank you for joining us today. We would be pleased to now open the conference call to your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Linda Bolton Weiser from D.A. Davidson. Your line is open.

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Q

Hi. Happy New Year.

Garry O. Ridge
Chairman & Chief Executive Officer, WD-40 Co.

A

Hey. Happy New Year.

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A

Hi, Linda.

Q

Linda Bolton Weiser

Analyst, D.A. Davidson & Co.

So, I just wanted to ask first about the new Smart Straw technology product that's coming out this year. I think before you had been talking about June, and now it seems like you said July. I know it's not a big deal, but is there any sort of delay that you're experiencing in getting the product ready for market?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Nothing material. It's just a matter of timing of the launch. We'll launch in July, and then over the next 18 months or so we'll progressively move Smart Straw next-generation, which is both Smart Straw 1.5 and Smart Straw 2, around the world. And as we shared, Linda, as we now have, [ph] with (00:32:57) all of the investments we've made, the production capacity, we're now aggressively going to be moving our penetration from 41% to 60%, and that will deliver approximately $50 million in incremental revenue over the next few years. So, we're excited about being in the position now and we're ready to go.

Q

Linda Bolton Weiser

Analyst, D.A. Davidson & Co.

Okay. And then, can you just talk about, I guess on the cost side, your can costs, you've talked about some of the impacts on your can costs. And it's my understanding that in the past, sometimes you would redo some of these medium-term contracts in the beginning part of the year. Is there any news on that front in terms of what you expect on can costs in the next 12 months?

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A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

We've built that into our fiscal year guidance, so we think the price increase is already built-in.

Q

Linda Bolton Weiser

Analyst, D.A. Davidson & Co.

Okay. And can you just give me – I'm sorry if I missed it – can you just give me what the WD-40 Specialist sales were in the quarter? I missed that number.

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Yeah, we can. Wendy is looking them up right now. $8.4 million.

Q

Linda Bolton Weiser

Analyst, D.A. Davidson & Co.

$8.4 million. Thank you. And just in terms of the packaging change for Specialist, are the costs related to that somewhat material? And I assume you have it figured into your guidance. But is there any way that you can quantify or put some – give us some color on how much those costs are for the year?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

They're not material. This is going to be a phased launch. So, what will happen is the product that's on the shelf will be replaced with new packaging as we roll it out. The first one, we think – Steve, when do we think the first one will be?

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Steven A. Brass

A

President & Chief Operating Officer, WD-40 Co.

Will be June or July.

Garry O. Ridge

A

Chairman & Chief Executive Officer, WD-40 Co.

June or July, you'll see the first one on the shelf, but all of the cost in developing the new packaging have already been absorbed, all of the research. This project has been going on for nearly two years. And so we're really excited about it. We really believe that taking Specialist to the blue and yellow brand with little red top will give us a much better communication on the shelf. We've simplified some of the communication, so it's going to be a great rollout, and we're pretty excited about it.

Linda Bolton Weiser

Q

Analyst, D.A. Davidson & Co.

Okay. And then can I just ask – I guess, with regard to some of the issues on your sales line in the quarter, you mentioned it was timing of orders, and we've seen that before.

Garry O. Ridge

A

Chairman & Chief Executive Officer, WD-40 Co.

Yeah.

Linda Bolton Weiser

Q

Analyst, D.A. Davidson & Co.

Are you pretty confident that some of those orders are going to come back? And can you be more specific and give us some confidence on the next quarter? And also, the slowdown in China, have you seen that kind of alleviated once we're past that time period now?

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Garry O. Ridge

A

Chairman & Chief Executive Officer, WD-40 Co.

Yeah. Sure. China. There was a couple of things that happened. Number one was it was there was the celebration of the 70th year of the Republic of China. During that period of time, things slowed up, transportation changed, the positioning of Chinese New Year. So, we would expect to see a healthy second quarter in China. If you look at our Asian market, in the last quarter had a very robust quarter in Asia. Our distributors' businesses was up 27%. China was up 22%. So, the first quarter is always a little softer in that region. The other thing too is that there's a larger percentage of distributor business in China, so it tends to be a little more lumpy than anywhere else because it's a smaller number of distributor customers buying large volumes, excluding China and Australia, of course. So, there's nothing here that we are concerned about. We've reiterated our annual guidance, and I think we'll be talking to you in three months' time, and you probably will see a different picture. And if we thought it was going to be any different to that, we would tell you.

Linda Bolton Weiser

Q

Analyst, D.A. Davidson & Co.

Okay. That sounds good. Thank you very much. I appreciate it.

Garry O. Ridge

A

Chairman & Chief Executive Officer, WD-40 Co.

Okay take care.

Operator: Your next question comes from the line of Daniel Rizzo from Jefferies. Your line is open.

Daniel Rizzo

Q

Analyst, Jefferies LLC

Hi, everyone. How are you doing?

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A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Good, Daniel.

Q

Daniel Rizzo

Analyst, Jefferies LLC

Will you be changing the packaging on other products? I mean, are you considering like looking at like WD-40 BIKE or other things like that to maybe, I don't know, kind of tweak the packaging, so to speak?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Yes. Yes. As I mentioned on the call, Daniel, we're going to be moving WD-40 BIKE under the Specialist packaging, so it will end up looking like the blue and yellow can with little red top. So, you'll see that start to roll out too progressively over the year.

Q

Daniel Rizzo

Analyst, Jefferies LLC

Okay. I'm sorry, I missed that. And then, you mentioned what you're doing with Smart Straw and how important that is. I think you said you're spending $31 million. Did I get it correctly that that's $31 million over two years that you'll be spending to kind of – to change -tweak some of the machinery?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Yeah. That's our estimate for this year's overall total CapEx budget.

Q

Daniel Rizzo

Analyst, Jefferies LLC

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Okay.

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

So, that's just this year's, right. The majority of the Smart Straw investment, some of it has already happened. This second tranche, if you will, is buying the machines that go on the line. So, there's two parts to Smart Straw. There's one, is the machinery and the dyes to make it. The second part is the machinery that we actually put on the production lines to make sure that we efficiently apply it to the can. And so, all of that will be done as we start to roll it out by the end of this year.

Q

Daniel Rizzo

Analyst, Jefferies LLC

[indiscernible] (00:39:16) will there be some like trickling into 2021 potentially?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Yeah, a little bit should trickle into 2021.

Q

Daniel Rizzo

Analyst, Jefferies LLC

Okay. And then, you mentioned mixed headwind in EMEA. I was just wondering if you could provide color on that. Is it from increased distributor sales or just, I mean, less Specialist sales? I was just wondering what the mix you're talking about was.

A

Yeah. We had a larger percentage of our sales to our distributor markets. So that's one. We also had some higher percentage with a couple of products that have...

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Garry O. Ridge

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Chairman & Chief Executive Officer, WD-40 Co.

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1,001, which has slightly lower margin.

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

The 1,001 sales in EMEA were up 30%, and that margin on 1,001 is lower than our core product.

Q

Daniel Rizzo

Analyst, Jefferies LLC

And then finally, you mentioned the – I was wondering how EZ-REACH Straw was going? That seems to be a fairly robust product too, I mean, is it taking share and how's the growth trajectory on that?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

I'll let Steve answer that.

A

Steven A. Brass

President & Chief Operating Officer, WD-40 Co.

EZ-REACH is growing very, very nicely around the world. And so, as we expand distribution now into more markets, particularly within the EMEA segment, we are very satisfied with growth and mix [indiscernible] (00:40:31) continue to be a major growth driver going forward.

Q

Daniel Rizzo

Analyst, Jefferies LLC

Okay. Thank you. That's it.

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Garry O. Ridge

A

Chairman & Chief Executive Officer, WD-40 Co.

Thank you, Daniel.

Operator: Your next question comes from the line of Rosemarie Morbelli from G.research. Your line is open.

Rosemarie J. Morbelli

Q

Analyst, G.research LLC

Thank you. Good afternoon, everyone, and Happy New Year.

Garry O. Ridge

A

Chairman & Chief Executive Officer, WD-40 Co.

Hi, Rosemarie. Happy New Year to you.

Rosemarie J. Morbelli

Q

Analyst, G.research LLC

Thank you. So, I was wondering, what is your assumption for oil prices in your guidance?

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

It's in the current range, I know that we've had some fluctuations recently. But within the $60 to $70 range is really the place where we've pegged our plan.

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Q

Rosemarie J. Morbelli

Analyst, G.research LLC

Okay. And whether it is $60 or $70, does essentially change your bottom line or your top line?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

There will be movement with both, but they are captured within our range of guidance.

Q

Rosemarie J. Morbelli

Analyst, G.research LLC

Okay. And then I missed, and I apologize. When you were at – and I believe I understood what you said probably. You reported $0.88, and I think that you said that excluding some items, it would have been $0.92. First of all, did I hear that properly? And if yes, what are those items I missed that [indiscernible] (00:42:00)?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Yeah. I think that the reference was that we reported $0.88 had we been reporting under what constant currency that we had – the currency rates that were in effect last year, it would have been the $0.92.

Q

Rosemarie J. Morbelli

Analyst, G.research LLC

Okay.

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Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

[indiscernible] (00:42:20) a constant currency measure rather than other item.

Q

Rosemarie J. Morbelli

Analyst, G.research LLC

All right. I don't know. That is helpful. Thank you. So, now, the new packaging on the Specialist side, this is going to cannibalize revenues. So, if I heard properly, you are going to take the old cans from the shelves and then replace them with the new ones, and so this is one thing. How much cannibalization do you expect?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Oh, no.

Q

Rosemarie J. Morbelli

Analyst, G.research LLC

And – no?

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

No, no, no. There will be no – it's just a straight replacement, so there's no cannibalization at all.

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Q

Rosemarie J. Morbelli

Analyst, G.research LLC

Okay. And when you take back that old can or old packaging, can you reuse the products that is in there in order to refill a new one, the new format?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

We won't be taking any back, Rosemarie. This is a pure replenishment. As the old sells out, we will sell in the new. So, it's what we call a soft conversion. So, there's no product coming back. And there's no disruption in the flow of sales. What we will see for a little time is both packaging on the shelf, but over time that will evaporate. So, this has no revenue negative, cost negative impact at all.

Q

Rosemarie J. Morbelli

Analyst, G.research LLC

Okay. Thanks. I totally misunderstood that. And then you said that you are putting the WD-40 BIKE under the new Specialist packaging or I am assuming also managed under the Specialist group. Why keep the financial data where it is and not included going forward in the Specialist group?

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Well, because we report it now in the other group and wouldn't be a comparable because it wasn't in there before. So, we've decided at this time to leave it out as a line on its own. And when you think about it in the big scheme of things, it's a couple of million dollars, I guess, so it's not significant. But we'll look at it again at the end of next fiscal years once we've done the conversion to see if it makes sense.

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Q

Rosemarie J. Morbelli

Analyst, G.research LLC

Okay. Thank you. This is all very helpful. And good luck for the full year results, never mind next three quarters.

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Well, the full year is what we're about. We're playing the infinite game.

Q

Rosemarie J. Morbelli

Analyst, G.research LLC

All right. Thank you.

A

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Thank you.

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Operator: Ladies and gentlemen, that does conclude our allotted time for questions. We thank you for your participation on today's conference call, and ask that you please disconnect your line.

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