09-Jul-2020

WD-40 Co. (WDFC)

Q3 2020 Earnings Call

Copyright © 2001-2020 FactSet CallStreet, LLC

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 Third 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'd now like to turn the conference over to your 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.

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 [audio gap] (00:01:15) 31, 2020. 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

Copyright © 2001-2020 FactSet CallStreet, LLC

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 presented is current only as of today's date, July 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, and thanks for joining us for today's conference call. Jay, Steve, Wendy, and I are, once again, dialing in from our respective homes. We hope you and your families are staying safe and healthy in these unprecedented times.

I am so grateful for the highly engaged tribe we have at WD-40 Company. As a global business that operates in 176 countries around the world, each of our locations has been impacted by COVID-19 in different ways, but one thing is certain, our tribe members everywhere adapted quickly to an unparalleled situation. Through considerable effort and ingenuity, the tribe has demonstrated agility and innovation, quickly making dramatic changes to how we conduct business.

This has enabled us to hold our own this quarter, even when confronted by extremely challenging circumstances. The results our tribe have been able to deliver during this volatile and uncertain time has reinforced to me the importance of a highly engaged workforce.

On a completely different topic, I'd like to take a moment to share something that has been on everyone's minds. WD-40 Company has a long history of doing the right thing as it relates to how we conduct ourselves, but we typically refrain from speaking publicly about social or political issues because we have tribe members in 16 countries which span the range of political structure, ethnicity, language, religions and cultures. However, we want our stakeholders to know that racism runs counter to everything we teach. And the senseless acts of racial injustice that continue to plague our world are both wrong and deeply saddening.

At WD-40 Company we celebrate equality, diversity and inclusion. And while these things are central to our culture and how we operate, there is always room for improvement. To that end, we are listening, learning and reflecting, and evaluating our practices, protocols and initiatives to find ways we can make a meaningful impact. We expect to share our continuing efforts and focus on progress in these areas of diversity and inclusion with our stakeholders in our initial ESG report that we expect to file in October 2020.

Given the disruptions and disturbances that COVID-19 has caused for the past several months, we have a lot to cover today. For most of us, COVID has touched every aspects of our lives and has created challenges beyond anything we've experienced. You've often heard me say that physical awareness and mental awareness, or simply said, making the end user aware of the value our products deliver and making them easy to buy through our multi-country, multi-channel distribution strategy is the core to our success.

Where we have been easy to buy like in e-commerce and certain countries and trade channels that have not been locked down due to COVID-19, we performed very well in this third quarter. To the contrary, in geographies with strict movement restrictions in place or places where our e-commerce business is less developed as sales

Copyright © 2001-2020 FactSet CallStreet, LLC

were challenged. To-date, we reported net sales of $98.2 million for the third quarter of fiscal 2020, down 14% compared to the third quarter of last [audio gap] (00:06:21). This decline was primarily due to disruptions related to the COVID-19 pandemic.

In a few minutes, Steve will discuss in greater detail the impacts that COVID-19 pandemic have had on our individual statements, particularly those with the strictest lockdown measures in place during the third quarter. The translation of our foreign subsidiaries results from their functional currencies to the US dollar had an unfavorable impact on sales this third quarter. On a constant currency basis, sales would have been $100.5 million in the third quarter.

Though the global health crisis is not over yet, I do believe we have maneuvered through the immediate crisis very well. The test has not been to simply get through this period, but to stabilize the business in such a way that we can reset and thrive in the future. We've always had a very clear strategy with very clear targets enabled by culture. What this crisis has required us to do is pause, reset, and become even more laser-focused on how we will achieve our growth aspirations.

As a reminder, our growth aspirations are guideposts, our guidance, and they are probably wrong and roughly right. Our growth aspirations are to drive consolidated net sales to approximately $700 million and to do that while following our 55/30/25 business model. Because of the uncertain global economy ahead, the timing of our growth aspirations are still unclear. We hope to be able to provide an update to investors on our growth aspirations later this time of the year.

So, on to strategic initiative number one, which is to grow WD-40 Multi-Use Product. Our goal under this initiative is to grow WD-40 Multi-Use Product to approximately $530 million in revenue. In the third quarter, sales of WD-40 Multi-Use Product was $71.7 million, down 19% compared to last year. The decline in WD-40 Multi-Use Product was driven primarily by a 30% decline in sales in EMEA due to the significant lockdown measures adopted by many countries in the region in response to the COVID-19 pandemic. This decline was additionally impacted by lower sales of WD-40 Multi-Use Product in both the Americas and Asia-Pacific, which declined 11% and 13% respectively due to the impacts of COVID-19.

As the blue and yellow brand has evolved, we are focused on ways to premiumize our delivery systems. Delivery systems like Smart Straw have been so successful because end users love the convenience and the value they deliver. I'm very excited to share with you that our latest innovation, Smart Straw Next Generation which has the ability to be sold with or without a toolbox-friendly locking capability, has arrived on store shelves in Canada. Smart Straw Next Generation has a more durable, easy to spray actuator and will create a better end user experience.

As we have shared with you in the past, our objective is to grow Smart Straw penetration to 60% of WD-40 Multi-Use Product global sales. Canada is leading the way in launching Smart Straw Next Generation and we will begin to ramp up our conversion efforts globally next fiscal year.

Strategic initiative number two is to grow WD-40 Specialist product line. We remain optimistic about the long-term opportunities for WD-40 Specialist and believe we can grow the product line to approximately $100 million in revenue. In the third quarter, sales of WD-40 Specialist remained relatively constant compared to the third quarter of last year, which we view as a win in these challenging times. The stability is primarily attributed to a 28% increase in WD-40 Specialist sales in Asia Pacific, much of which was driven by strong sales in China. In addition, during the third quarter we experienced strong sales of WD-40 Specialist within the e-commerce channel.

Copyright © 2001-2020 FactSet CallStreet, LLC

We've made significant progress on the global rebrand of WD-40 Specialist, which we shared with you earlier this year. For the first time ever, WD-40 Specialist will fully leverage our most iconic asset, the blue and yellow can with the little red top. We believe the refreshed brand will accelerate awareness and improve findability in-store. I'm happy to share with you that the product wearing the new WD-40 Specialist packaging hit some store shelves in May ahead of schedule, and we are getting very positive feedback from our customers on the refreshed packaging for the product line.

Strategic initiative number three is to broaden product and revenue base. Strategic initiative number three includes [audio gap] (00:11:25-00:11:31) but also includes homecare brands such as Spot Shot and Lava in the Americas, 1001 in EMEA and no vac and Solvol in Asia Pacific. Our goal for the products under these initiatives is to reach combined revenues of approximately $70 million. Global sales of products included in this initiative were $14.1 million in the third quarter, relatively constant compared to last year.

Although sales under this category were flat in the quarter, sales of home care and cleaning and by-products were up 10% and 51%, respectively compared to last year, due to the increased demand as a result of the COVID-19 pandemic. Sales of the WD-40 BIKE were particularly strong in EMEA as people in areas hardest hit by COVID are buying and fixing up bicycles and riding them more than ever before.

Strategic initiative number four is to attract, develop and retain outstanding tribe members. The safety and well-being of our tribe and their families remain our top priority during this whole crisis. Accordingly, the vast majority of our employees have been working from home for the last four months. It seems counterintuitive but I think this prolonged sequestering is actually making us a more connected and collaborative tribe. And as they say, necessity is the mother of invention, and 2020 is the year that our tribe learned to be more technically-savvy and how to work more efficiently as a global team from the comfort of their homes.

That being said, I'm happy to report that some of our offices around the world are either open or in the progress of phased returns to an office environment. We are being thoughtful, deliberate and flexible in how we return our tribe safely to our offices, and there is not one size that fits all in any of these approaches.

Strategic Initiative number five is operational excellence. I believe our commitment to operational excellence has been an enormous asset over the last four months. From a financial perspective, we have always been good stewards of our shareholders' capital, resources and conservative in our financial commitments and this has served us well in times like these. From an operational perspective, our tribe has never been more focused or better equipped to execute and deliver despite these considerable hurdles. They must overcome over the short term due to the impacts of the global health crisis.

I'll now pass the call to Steve who will discuss some of the operational highlights.

Steven A. Brass

President & Chief Operating Officer, WD-40 Co.

Thanks, Garry, and good afternoon. Impact of the global health crisis in our operations presents us with unique challenges that we continue to evaluate and address on a daily basis. When we spoke to you back in March, we didn't know how hard we would be hit as a result of the COVID-19 pandemic. We were optimistic and shared with you that, despite the enormous disruption experienced in many countries March revenue levels were roughly in line with what we've historically seen. Unfortunately, April and May became much more of a challenge for us as more and more countries around the world went into lockdown.

Copyright © 2001-2020 FactSet CallStreet, LLC

Though ourselves held up relatively well compared to some industries, the performance of our individual segments in the third quarter was driven primarily by whether or not distribution channels were open in any particular market. We saw the most significant sales declines in markets that were hardest hit by COVID-19 and which had the most stringent lockdown orders in place.

For example, in the United States and Australia, sales increased 1% and 16%, respectively. This is because in these markets, most of our traditional distribution channels were open. And in the US, we have a developed e-commerce business which helps us to offset the losses we experienced in other trade channels. In markets with very strict lockdowns, for example, many of our emerging markets, distribution was simply shut down and our e-commerce business in those markets is less developed. As a result, sales in these markets were severely restricted in the third quarter.

One thing that's become very clear to us in the last four months is how important it is for us to have a robust e-commerce strategy in place. In 2018, we committed to our global vision of becoming the category leader in digital and e-commerce. Since the pandemic began, the number of consumers who are shopping online has been rapidly increasing. We're fortunate that the investments we've made in this space have positioned us to take advantage of the seismic shift to e-commerce that is currently taking place.

During the third quarter, our global e-commerce sales grew by approximately 125% with strong sales growth across all three trading blocks. Year-to-date, e-commerce sales are up by approximately 77%. And this helped to offset some of the loss we experienced in brick-and-mortar distribution in many markets.

But now let's take a closer look at what's happening in our trade blocks starting with the Americas. Net sales in the Americas, which includes the United States, Latin America and Canada, were down 5% in the third quarter to $50.1 million. Sales of maintenance products decreased nearly 10% in the Americas, primarily due to a 46% decline in sales of WD-40 multi-use product in Latin America. This decline was driven by the decreased availability of our product due to disruptions around the distribution and sale of our products due to the complete lockdown of many markets within the region due to the COVID-19 pandemic.

In addition, sales in Latin America were negatively impacted because, during the third quarter, we recently shifted to a direct distribution model in Mexico. While we anticipate a successful build of our direct customer base in Mexico in future periods, sales in this region were unfavorably impacted by the initial transition.

The good news is that consolidated net sales in the United States held up reasonably well, up a little over 1% in the third quarter to $43.7 million. We consider this a win given the current environment. The sales increase is attributable to higher sales of homecare and cleaning products in the United States, which increased to $5.9 million in the third quarter, up 43% compared to last year.

As Garry mentioned earlier, we're seeing an increased demand for cleaning products as a result of the COVID-19 pandemic. Despite the significant increase in sales of these products in the third quarter, we continue to consider our homecare and cleaning products, except for those tied to our growth aspirations, as harvest brands that continue to generate meaningful contributions and cash flows that are generally expected to become a smaller part of the business over time.

Finally, consolidated net sales decreased 10% in Canada to $2.7 million, primarily due to a 16% decline in sales of maintenance products driven by the negative impacts of the COVID-19 pandemic. In total, our Americas segment made up 51% of our consolidated net sales in the third quarter. While there has been a short-term

Copyright © 2001-2020 FactSet CallStreet, LLC

impact from the Americas segment due to COVID-19, 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, decreased to $32.5 million in the third quarter, down 27% from last year. EMEA's reported results in the third quarter were negatively impacted by foreign currency exchange rates. On a constant currency basis, sales in EMEA would have decreased to $33.8 million, down about 24% compared to last year. As you know, in March through May, Europe was the epicenter of COVID-19 and, therefore, nearly all of our European markets were negatively impacted by the pandemic during the third quarter.

Sales of maintenance products decreased nearly 26% in EMEA, primarily due to lower sales of WD-40 Multi-Use Product throughout both our direct and MD markets as a result of the comprehensive lockdown measures adopted by many countries in the region at brick-and-mortar locations. The lockdowns limited many retailers' ability to participate in promotional activities and sell high volumes of certain products, such as our WD-40 Multi-Use Product.

We've also experienced lower sales of homecare and cleaning products in EMEA, which decreased to $1.7 million in the third quarter, down 45% compared to last year. These declines were driven entirely by lower sales of 1001 Carpet Fresh in the UK. Sales of 1001 Carpet Fresh was significantly higher in the third quarter of last fiscal year due to the favorable impact of digital marketing associated with the brand. Net sales in our EMEA direct market accounted for 67% of the region sales. Wholesales in our EMEA distributor markets accounted for 33%. In total, our EMEA segment made up 33% of our consolidated net sales in the third quarter. While there has been a short-term impact on the EMEA segment due to COVID-19, over the long term, we anticipate sales within this 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 $15.6 million in the third quarter, down 5% 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 $16.4 million in the third quarter, down only 1% from last year.

In Australia, net sales were $4.9 million in the third quarter, up 16% compared to last year, driven by an increased demand for our no vac and Solvol cleaning products as a result of the COVID-19 pandemic. In addition, WD-40 Multi-Use Product and WD-40 Specialist were up 4% and 18%, respectively, from period-to-period.

The impacts of the COVID-19 pandemic were very limited in Australia compared to many other countries since COVID-19 case numbers remained relatively low and the country adopted less severe lockdown requirements. Changes in foreign currency exchange rates had an unfavorable impact on sales in the region. On a constant currency basis, sales in Australia would have increased 28% from last year.

In our Asia distributor markets, net sales were $5.8 million for the quarter, down 30% compared to last year. This decrease in sales was primarily due to the various disruptions in the market related to the COVID-19 pandemic. Similar to what we experienced in many emerging markets in Latin America, we experienced temporary closures, complete lockdowns and restrictions required by local government authorities as a result of the COVID-19 pandemic. Our Asia distributor markets are not impacted by currency, since we sell our products in US dollars in the region.

The good news is that in China, where we experienced significant disruptions from COVID-19 in the second quarter, net sales in the third quarter increased to $4.9 million, up 26% compared to last year. Sales in China

Copyright © 2001-2020 FactSet CallStreet, LLC

during the quarter were strong as they began to resume more normal operations. Also, we had some very sizable orders that we were finally able to ship that had previously been delayed due to COVID-19.

We remain optimistic about the long-term opportunities in China, although we expect a lot of volatility along the way due to the possibility of a further disruption from COVID-19, the timing of promotional programs, the building of distribution, shift in economic patterns and varying industrial activities. In total, our Asia-Pacific segment made up 16% of our consolidated net sales in the third quarter. While there has been a short-term impact on the Asia-Pacific segment due to COVID-19, over the long term, we anticipate sales within this segment will grow between 10% to 13% annually.

Looking forward, given the exceptionally volatile external environment we are experiencing, I want to share some thoughts with you regarding the remainder of the fiscal year. During the third quarter, a large majority of our revenue shortfall came from our EMEA segment. We are pleased to report that our EMEA business saw a very strong rebound in June, particularly in our direct markets as most countries in the region have relaxed the restrictions which have been implemented from March through May. We also saw solid performances from the US, Canada, and Australia in June. These current market conditions suggest that for the full fiscal year, consolidated revenue is likely to be in a range of $395 million to $405 million.

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

Jay W. Rembolt

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

Thank you, Steve. From a financial perspective, we believe we're in an enviable position with a very strong balance sheet, a manageable amount of debt, good cash flow, and historical precedent that indicates our revenue numbers can hold up during an economic recession and rebound fairly quickly thereafter. We believe these factors will help us navigate a world filled with continued uncertainty.

I'll start with a discussion about our 55/30/25 business model, the long-term targets that we use to guide our business.

In the third quarter, our gross margin was 54% compared to the 54.5% last year. This represents a decline of 50 basis points. Higher warehousing and inbound freight primarily at EMEA negatively impacted our gross margin by 120 basis points. In addition, increased promotional activities primarily in the Americas had an unfavorable impact on our gross margin of 70 basis points. The cost of promotional activities such as sales incentives, trade promotions, and cash discounts that we give to our customers are recorded as a reduction to sales, and the timing and magnitude of these activities can cause fluctuations in gross margin from period to period.

Changes in major input costs positively impacted our gross margin in total by 60 basis points. Petroleum-based specialty chemical costs [ph] absolutely (00:26:21) impacted our gross margin by 80 basis points period-over-period. However, increased costs of aerosol cans negatively impacted our gross margin by 20 basis points and offset some of the gains we realized due to the lower petroleum-based costs. Beginning in late February, crude oil reached multi-year lows and we expect falling oil prices will continue to be a net positive to our gross margin, that typically takes between 90 and 120 days before we begin to realize the benefit of lower crude oil prices.

In the third quarter, we began to see some benefit from the steep drop in oil prices experienced earlier this year, and we would expect to see this trend to continue. Also positively impacting our gross margin were foreign currency exchange rates and sales price incentives in EMEA, as well as sales mix changes primarily in the

Copyright © 2001-2020 FactSet CallStreet, LLC

Americas and Asia Pacific segments. When combined, these items positively impacted gross margin by 80 basis points in the third quarter.

Now I'll address the 30 or our cost of doing business. In the third quarter, our cost of doing business was approximately 32% compared to 33% last year. As you know, a majority of our cost of doing business comes from three areas. People costs or the investments we make in our tribe. This also includes the costs associated with any earned incentives or what some other companies called bonuses, investments we make in marketing, advertising, and promotion; and freight, the cost to get our products to our customers.

Despite the reported revenue decline we experienced in the third quarter, we managed to reduce our cost of doing business as a percentage of sales, because we took immediate actions to reduce the spending levels within our business. We've always been good stewards of our resources, frugal in our spending and conservative in our financial commitments. However, the COVID-19 pandemic has required us to become even more prudent in how we invest during these uncertain times.

In 2008, during the last significant economic downturn, we took actions that enabled us to adjust our cost structure, that allowed us to support our business model and keep our tribe intact. We are focused on achieving similar outcomes now in 2020.

This brings us to EBITDA, the last of our 55/30/25 measures. EBITDA was 22% of net sales for the third quarter, which is flat compared to last year. And that wraps up the discussion on our 55/30/25 business model.

Now, I'll discuss a few other items. The provision for income taxes was 23.9% in the third quarter of this year compared to 19.8% last year. And the increase in the tax rate was primarily due to a much lower benefit expected from foreign-derived intangible income.

Net income for the third quarter was $14.5 million versus $18.1 million in the prior year reflecting a decrease of 20%. This resulted in diluted earnings per common share of $1.06 for the third quarter compared to $1.30 for the same period last year. Weighted average diluted shares outstanding decreased to 13.7 million shares from 13.8 million shares a year ago.

Now, a word about working capital and capital allocation. We define working capital as accounts receivable and inventory less accounts payable and accrued liabilities. In the current environment, we're paying particularly close attention to our working capital and using appropriate levels of working capital to manage the profitable growth of our business.

When compared to the second quarter of 2020, inventories have remained relatively constant and accounts receivable has increased only slightly. We are keeping a close eye on accounts receivable but do not expect any material changes as a result of the impacts of COVID-19 pandemic.

We do believe inventory levels may trend up slightly over the next few quarters. This is due to changes we're intentionally making to support the business. First, we have to ensure that we have adequate levels of inventory on hand in this uncertain manufacturing environment. Second, we recently launched direct operations in Mexico, which requires that we build up inventory to keep and meet the requirements of this new market. Finally, the launch of Smart Straw Next Generation may cause inventories to be elevated for a time.

Our capital allocation strategy includes a comprehensive approach to balance investing in long-term growth while providing strong returns to our shareholders. In fiscal 2020, we will invest approximately $25 million in capital

Copyright © 2001-2020 FactSet CallStreet, LLC

projects. The majority of which is being used to procure the proprietary equipment and machinery we will use to manufacture our Smart Straw Next Generation delivery system.

Though we elected in April to suspend the stock repurchases under our current share buyback plan, we continue to return capital to our shareholders through regular dividends. On June 16, our board of directors approved our regular quarterly cash dividend of $0.67 per share, payable to shareholders of record on the close of business on July 17.

So, with that, let's turn to fiscal 2020 guidance. COVID-19 pandemic has continued to inject a measure of uncertainty into our business, which makes it very difficult for us to accurately forecast short-term financial results for the company. Due to these events, in April, we were through our guidance for fiscal 2020 and will not be issuing any financial guidance for the remainder of the year.

Now, that completes the financial overview. I'll turn it back to Garry.

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Thanks, Jay. In summary, what did you hear from us on this call? You heard that global sales declines in the third quarter were primarily due to end users not being able to easily buy our products due to the distractions related to COVID-19. You heard despite these disruptions, sales of WD-40 Specialist remain constant in the third quarter, which we view as a win and a credit to our e-commerce strategy.

You heard that sales of WD-40 BIKE were up 51% in the third quarter, primarily due to strong demand in our EMEA segment and strong sales in e-commerce. You heard the sales of our home care and cleaning products were up 10% due to the strong demand for cleaning products due to COVID-19. You heard that we continue to make outstanding progress in the area of digital and e-commerce. And our e-commerce sales have grown approximately 77% year-to-date. You heard that Smart Straw Next Generation has arrived on some store shelves in Canada.

You heard that the refresh packaging for WD-40 Specialist product line has arrived in some – on some store shelves in the US. You heard that we continue to return capital to investors through regular dividends. And you heard the current market conditions suggest that our full-year fiscal consolidated revenue is likely to be in the range of $395 million to $405 million. And you heard that we remain confident that our growth aspirations remain a realistic future opportunity.

In closing today, I'd like to share a quote from Dr. Martin Luther King Jr. If you can't fly then run, if you can't run then walk, if you can't walk then crawl, but whatever you do you have to keep moving forward.

Thank you for joining us on our call today. We'd be pleased to open the conference call to any questions. Over to the operator.

Copyright © 2001-2020 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question comes from the line of Linda Bolton Weiser with D.A. Davidson. Please proceed with your question.

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

Q

Hi. How are you?

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

A

Good Linda.

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

Q

That's good. So, thank you for the commentary on what you think sales might be for the year. I guess that implies, if I did my math right about down 8% to up 1% for the fourth quarter or something like that. What do you see as being the main factors that determine whether you come in at the lower end of that or the higher end of that?

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

A

I think there's one thing that plays in completely and then I'll ask Steve to give his point of view. It's really what will get shut down that we're not aware of right now. In our – in my comments earlier, the thing that's become very clear to us in this last quarter is that there's high demand for our product particularly given the increased amount of DIY activity that's going on in the United States and Europe and where trade channels are open in our point-of-sales. It was ahead of last year. But when consumers can't or end users can't buy our product, that shuts us down. So, I think the biggest risk factor is the risk of unknown of what's going to happen next. So, Steve, what would you say about that?

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

A

I think that's very true, Garry. So, we've certainly seen a considerable uptick as people has been kind of stuck at home around the world and significant uptick in DIY activity which has been proven certainly across the US and Europe.

And I think, secondly, we're in position to – fortunate position with our e-commerce capability to be able to respond to some of those lockdown conditions that have occurred. And as you've seen, our e-commerce businesses have absolutely boomed in the third quarter and taken up some of the slack of distribution channels that have been closed down elsewhere.

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

Q

Copyright © 2001-2020 FactSet CallStreet, LLC

Great. Thank you. And then can you talk about the new product launch in Canada and can you just mention maybe why you chose Canada first for that launch? And then what do you think the timing of the next market entry might be and will the next market be the US?

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

A

We chose Canada because a number of years ago, we were in Canada with Smart Straw and we'd learned through discussion with regulators there that we would have to have a lockable delivery system to meet the regulations. And that was one of the main reasons behind the development of the Smart Straw Next Generation.

So, Canada was obviously the first place because we've not had Smart Straw there before. And given that we're in early stages of production, volumes are nowhere near where they need to be yet. So, Canada was a great place for us to start.

Smart Straw Next Generation is made up of two different delivery systems: it's what we call 2.0, which has the toolbox-friendly lockable delivery system; and then, it has 1.0 – or 1.5, which is an improvement of the current Smart Straw, but not lockable.

So, we will start to convert a lot of markets to 1.5 as we bring up our production, and that'll happen, start to happen, into the mid-part of next year, which will mean we'll have a better product at a – with capabilities to manufacture quantities at a level that will allow us to now certainly push the conversion of markets that don't have Smart Straw at all. So, it's going to be a year to 18 months program probably, Linda, till we see the original Smart Straw 1.0 gone and it's replaced by 1.5 or 2.0.

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

Q

Okay. Thanks. And then, can you just talk about if you're seeing, I mean, you mentioned some areas where you're actually benefiting, like the BIKE from sort of these stay at home, doing outdoorsy-type stuff. Are you seeing any recessionary-type weakness or signs of it as a result of reduced industrial production or anything of that sort in any of your markets?

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

A

I don't know, Linda, how I would dissect that from this economic ice age that we're going through right now. I mean, I'm not sure who's back, who's not, and why. Now, having said that, we've seen manufacturing start to return in China. But at this time, I think that there's such a disruption in both the market and the distribution channels that it's very difficult to get a clear read on what's moving where. What we have got which we – which is very reliable is point of sale, and where – for example, point of sale is extremely positive for us in areas where we know that artisans and trades people would normally buy. So, that tells us that there was a great study and, Steve, you might want to mention this, there's a great study that came out in Europe just last week around DIY activity. And, Steve, you might want to just touch on the headline of that, if you've got that information handy.

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

A

Yeah. It was just showing a study across multiple countries. I believe seven or eight key countries across Europe that showed DIY activity during the COVID-19 lockdown period. It was up by around 30% across Europe.

Copyright © 2001-2020 FactSet CallStreet, LLC

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

Q

Thank you. That's very interesting. And then, finally, when you report the fourth fiscal quarter in a few months, do you think that you'll have enough visibility to be able to give FY 2021 guidance? Do you have any sense for that right now?

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

A

I don't know.

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

Q

Okay.

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

A

It depends on where we are in the world. I mean, if we got a vaccine and things are starting to normalize, we might be able to. But, I think if we come in at that $395 million to $405 million, we're going to be nearly flat – well, we're going to be nearly flat with the last year in some ways. I think we'll be off between 4% and 8%. And I think that's a pretty good result, given the trauma that the businesses are going through.

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

Q

Thanks. And just one more that I thought of, it seems that the distributor markets are the ones where sometimes these disruptions occur. Can you just remind us what percentage of your revenue is direct versus through distributors?

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

A

I think, Steve, you might have the update, but I think 75% is direct and 25% is through distributors. Is that right, Steve?

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

A

That's correct. Yeah.

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

Q

Okay. Thanks very much. I appreciate it.

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

A

Thanks, Linda. Stay safe and well.

Copyright © 2001-2020 FactSet CallStreet, LLC

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

Q

Thanks.

Operator: Our next question comes from the line Daniel Rizzo with Jefferies. Proceed with your question.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Hi everyone. How are you doing?

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

A

Hi, Daniel.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Hi. You mentioned that, [ph] in May's reopening and (00:44:19) the outlook for sales is dependent upon what shut down or not. I was wondering if your other – the emerging markets like Southeast Asia and Latin America are starting to show signs of reopening too, the distribution channel [indiscernible] (00:44:32).

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

A

Daniel, it varies to week to week. Our leadership team currently meets on a weekly basis and we have our global leaders from Europe and Asia Pacific and the Americas on that call. And I must say, it varies from week to week. Certainly countries like Indonesia, India have been very, very hardly hit – hard hit over time. So, it's uncertain yet which countries are moving faster or not. Just this week, even though Australia was doing very well, they had another flare up in Victoria – in Melbourne. Now, where is this thing going next? We don't know.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. And then with the rollout of the next generation of Smart Straw, have you disclosed if there's a [indiscernible] (00:45:32) price premium on that if you – I don't know if you're raising prices just because [ph] you're doing an (00:45:37) introduction or have you not said that?

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

A

Certainly, the 2.0 version, which is the lockable one, has a premium. The 1.5, at this stage, doesn't have a premium, but because of manufacturing improvements, it's going to be accretive to gross margin.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. And then finally, it was mentioned that one reason why the tax rate jumped is because of less sales offshore, less foreign sales. Now with EMEA rebounding, the world opening up again, I was wondering, is it possible say that that would go back to a more – I mean, [ph] – I hate to use the word – (00:45:59) more normalized rate for fourth quarter and going forward from there?

Copyright © 2001-2020 FactSet CallStreet, LLC

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

A

I'll let Jay answer that question.

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

A

Yeah. Certainly, the rebound in – somewhat, it depends on the rebound in EMEA, but it also depends on the rebound in some of the other markets, like for example Asia and Latin America whereby we achieve the intangible benefit from sales into those markets as well. So some of our foreign markets are more impactful than others. EMEA, Latin America, and the Asian distributors are key to that.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. All right. Thank you very much.

Operator: Our next question comes from the line of Rosemarie Morbelli with G.research. Please proceed with your question.

Rosemarie J. Morbelli
Analyst, G.research, LLC

Q

Thank you. Good afternoon, everyone.

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

A

Hi, Rosemarie.

Rosemarie J. Morbelli
Analyst, G.research, LLC

Q

Glad to see everyone is well. I was wondering if during this pandemic, the different lockdown in the different regions and so on, you have established a new marketing method that you are going to pursue as we come out into what I call the new normal, which may not be normal at all. So, any changes in the way you are operating, in the way the tribe is operating, less – fewer people in offices, which could mean that you don't need as many office facilities. If you could help give us a feel for what you intend to do, or how you will change.

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

A

Yes. So, one of the things that we're taking advantage of at this time is really making sure that we are very conscious of what learnings we've had. So we haven't made any decisions. Already a great number of our people work remotely, but we believe strongly that social interaction is important, our creativity is driven. What has happened though is we've become much better at being virtual. So, I think our overall communication and collaboration will improve than ever before. As far as marketing is concerned, no, we are sticking to deciding through make the end user aware, make it easy to buy.

I think the one area that is [ph] continuing (00:48:51) and Steve mentioned it, was around e-commerce and the way that's changed over time. And Steve, you might want to touch on how e-commerce is really playing into what

Copyright © 2001-2020 FactSet CallStreet, LLC

we do, particularly given the development of the major e-commerce players and how they're now distributed around the world.

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

Sure, Garry. Thank you. So, yeah, I mean, we are absolutely reallocating resources, so following the money, the growth is happening online around the world. And, yeah, there's been certain news out there about our product not being suitable for e-commerce due to transportation reasons. I mean, that's just complete hogwash in terms of the transportability of our product.

The number of the distribution centers that are out there in the e-commerce network today, in the US alone there is over 100 distribution centers for the major US retailer. So, it's just not a barrier to our growth. And that's where we're reallocating resources and [indiscernible] (00:49:41) with very, very positive results around the world.

Rosemarie J. Morbelli
Analyst, G.research, LLC
Q

So you are obviously strong in North America based on what – I mean, if I heard properly. What about Europe, though?

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

E-commerce in Europe?

Rosemarie J. Morbelli
Analyst, G.research, LLC
Q

E-commerce in Europe, yes.

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

Yes, in terms of e-commerce, look, we have a global strength. So – and with the marketplaces, I mean, the same players, they're strong in North America. We have a considerable strength also in the EMEA region across multiple countries, and also China with the largest e-commerce market in the world, we have a very strong e-commerce capability there also.

Rosemarie J. Morbelli
Analyst, G.research, LLC
Q

And of the $25 million of CapEx for this year, how much are you adding to the e-commerce project and taking away from another area, if you are?

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

So, e-commerce is not capital-intensive. It's really people-intensive. That capital this year is really primarily going towards the Smart Straw Next Generation. But what we have done is brought in some very big talent – and Steve, you might want to mention, we brought – about our global digital advisor that we brought in and some of the way we are bringing the e-commerce squad together around the world.

Copyright © 2001-2020 FactSet CallStreet, LLC

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

Sure. Thanks, Garry. So, yeah, so a couple of years ago we put one of our best up and coming global leaders in terms of talented individuals, the head of our global e-commerce squad. They've achieved just wonderful results for us and really doing what we're able to do as a global player. So, taking learnings out of China or EMEA or the USA and spreading them across the world to make great progress on our e-commerce business. So, that's been a big strength. We recently added a chief digital advisor who came in from a major consultancy and is advising the business, Garry and myself in terms of our long-term digital strategy.

So, we are making great progress, not in e-commerce but in the digital strategy that supports e-commerce. Our Internet traffic during this pandemic has just gone through the roof and that's certainly leading to conversion in sales around the world.

Rosemarie J. Morbelli
Analyst, G.research, LLC
Q

All right. Thank you. Yeah. Go ahead.

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

One of the markets that's performed very well with e-commerce is Italy. And I think year-to-date our Italian sales are up over last year. But we've made significant progress against the competitive landscape in Italy, correct?

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

That is correct. It's just one example, and there are many more. So, yeah, we are achieving very, very strong growth in many places like Italy. I mean the US performance -obviously the US market is a very large e-commerce market for us and growing very, very strongly. So, really taking some very nice share in this very fast-growing situation.

Rosemarie J. Morbelli
Analyst, G.research, LLC
Q

All right. Thank you very much. I appreciate the help.

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

Thank you.

Operator: Ladies and gentlemen that concludes our allotted time for the questions. We thank you for your participation in today's conference call and ask that you please disconnect your line.

Copyright © 2001-2020 FactSet CallStreet, LLC

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.

Copyright © 2001-2020 FactSet CallStreet, LLC