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WD-40 Co. (WDFC)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Good day and welcome to the WD-40 Company Fourth Quarter and Full 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 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-K for the period ending August 31, 2020. These documents are or will be 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 that there can be no assurance that they will be achieved or accomplished. Please refer to the risk factors details in our SEC filings for further discussion.

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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, October 20, 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.

Thank you, 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 that you and your families are staying safe and healthy in these challenging times.

Today, we reported net sales of $111.6 million for the fourth quarter of fiscal year 2020, up 5% compared to the fourth quarter of last year. Translation of our foreign subsidiary results from their functional currencies to the US dollar did not have a meaningful impact on the sales in the fourth quarter. For the full fiscal year, net sales were $408.5 million, down 4% compared to fiscal year 2019. Translation of our foreign subsidiaries results from their functional currencies to the US dollar had an unfavorable impact on sales in the full fiscal year.

On a constant currency basis, net sales would have only declined 2% for the full year. In a few moments, Steve will share with you the drivers of the revenue growth we experienced in the fourth quarter as well as some of the challenges we encountered. But first I want to take a moment to thank our tribe for their resilience and determination during these unprecedented times. The results we are reporting today are a testimonial to the wonderful work our tribe is doing. Thank you for working hard to ensure that customer orders are obtained, production lines are functioning, orders are fulfilled and customers and end-users are getting the products they need.

I think it's remarkable that with 90% of our tribe working from home, we were still able to deliver these results. For the purpose of this call after discussing our strategic initiatives, we will focus primarily on the financial and operating results for the fourth quarter, fiscal year 2020. For a complete description of our full year results for 2020, please refer to the press release we issued earlier today and our annual report on Form 10-K which we expect to file on Wednesday October 21.

Now let's start with the discussion about our strategic initiatives and the brands that support them. In March 2020, we were travelling down a highway on our way to a destination. That destination was to drive consolidated net sales to approximately $700 million. At that time, we had a reasonable understanding regarding when we might arrive at the destination and had shared our probably wrong and roughly right target of the end of 2025 investors on several occasions. However, when the pandemic hit, we were diverted off the highway and put into a parking lot.

In the fourth quarter of fiscal 2020, things seemed to start moving again and we're able to make our way out of the parking lot and back on to that highway. The destination is still very clear to us. Unfortunately, the GPS is telling us there may be some traffic jams in between us and our destination, is the good news. While we've been parked, we've taken considerable time to stabilize, secure and reset our business, so that we can thrive in the future. Our growth aspirations, to drive consolidated net sales to approximately $700 million, and now we have become even more laser focused on how we will achieve that target.

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However, because of the uncertain global economy and the traffic jams we expect to encounter due to the pandemic, the timing as to when we will arrive at our destination is still unclear. What is not unclear is our confidence in our tribe and the brands that are going to get us there. They are WD-40 Multi-Use Product, WD-40 Specialist, 3-IN-ONE, [ph] GT45 (00:07:03), GT85, 1001, Spot Shot, Solvol , Lava and no vac. These brands are our core strategic focus and the primary growth engine for our company.

Now strategic initiative number one, grow 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. We aspire to grow WD-40 Multi-Use Product to approximately $530 million. In the fourth quarter, sales of WD-40 Multi-Use Product were $81.2 million, up nearly 1% compared to last year. Despite the appearance of this top line number, we had very strong growth of WD-40 Multi-Use Product in many regions, including the United States where we saw a 16% growth, the United Kingdom where we saw a 21% growth, our European direct markets where we saw a 36% growth, and Canada where we saw a 20% growth. All this growth was driven by demand linked to renovation trends associated with the pandemic or what we are calling isolation renovation.

It seems that the more time people spend isolated in their homes, the more time and money they spend making their home improvements. Research suggests that they are both making these improvements themselves and hiring tradesmen. Additionally, in all the markets where we've seen strong growth in the fourth quarter, we have been easy to buy like in e-commerce and in certain countries in trade channels that have been fully operational since the pandemic closures earlier this year came to an end.

To the country in less developed markets and geographies with strict movement restrictions in place and with the e-commerce platforms are generally less developed, our sales were challenged in the fourth quarter. Largely offsetting these increased sales were declines in sales of WD-40 Multi-Use Product through our marketing distributor markets in Latin America, in Europe and in Asia where we experienced double-digit declines due to the disruptions related to the global pandemic. We also experienced a significant decline in sales of WD-40 Multi-Use Product in China where the hardware and industrial channels continued to be significantly impacted by the pandemic through the fourth quarter.

I'm also happy to share with you that we continue to make great progress with our latest innovation Smart Straw Next Generation. Five years ago, when we started working on Smart Straw Next Generation, we did so in response to regulatory requirements from the Canadian government, which require aerosol products such as ours to be lockable. At about the same time, the demand for our first generation Smart Straw delivery system was continuing to grow, and we recognized the need to renovate that delivery system and its sourcing strategy to make it better.

Smart Straw Next Generation was born in response to those needs. Smart Straw Next Generation is two delivery systems in one. It is a first of its kind lockable delivery system, which can be sold in Canada and a traditional, yet highly improved delivery system which we will begin to sell in other markets globally in fiscal 2021. Canada is leading the way in launching Smart Straw Next Generation. And though we are still in early stages of release, preliminary data suggests that Smart Straw Next Generation is being well-received by both consumers and end users in Canada. For the full fiscal year, global net sales of WD-40 Multi-Use Product were $304.5 million, down nearly 7% from last year.

Strategic initiative number two is to grow the WD-40 Specialist line. We are more excited than ever before for the future of WD-40 Specialist. In the fourth quarter, sales of WD-40 Specialist, $10.4 million, up 7% compared to the fourth quarter of last year. This growth was driven primarily by strong sales in our European direct markets where

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we saw a growth of nearly 30%. Fiscal year 2020 was also the year we decided to global rebrand the WD-40 Specialist.

Now for the first time ever, WD-40 specialist is fully leveraged with our most iconic asset, the blue and yellow can with a little red top. Believe this refreshed brand will accelerate awareness and improve findability in stores. We've developed over 20 unique WD-40 Specialist formulas since the product line's inception in 2011, and these equate to over 30 uniquely label products available around the world. WD-40 Specialist contributed $36.8 million in sales during fiscal year 2020, up nearly 4% from last year. This continues to move the company towards its goal for this initiative growing the product line to approximately $100 million in revenue.

Strategic initiative number three, broaden product and revenue base. Strategic initiative number three includes maintenance products like 3-IN-ONE, WD-40 BIKE and GT85, 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. We believe we are on track to reach a combined revenue for these products of approximately $70 million. Global sales of the products included under this initiative was $17 million in the fourth quarter, up 24% compared to last year. For the full fiscal year, net sales of products included under this initiative were $55.8 million, up 6% from last year.

Our homecare and cleaning products continue to benefit from increased demand as a result of the pandemic. Global sales of our home care and cleaning products were $10.9 million in the fourth quarter, up 15% compared to last year. Global sales of WD-40 BIKE were also particularly strong in the quarter, up over 160% compared to last year as people are buying and fixing up bicycles and riding them more often as a result of the pandemic.

Strategic initiative number four is to attract, develop and then retain outstanding tribe members. Our goal under this initiative is to attract, develop and retain talented tribe members and to grow tribe member engagement to greater than 95%. I have never been more grateful for the highly engaged tribe that we have at WD-40 Company. We define tribe as a community of people with a shared purpose that help feed and defend each other.

During this pandemic, we have stress-tested this meaning. Most of our tribe members have spent the last seven months working from the safety of their homes that our tribal culture has never felt more secure. The safety and the well-being of our tribe and their families will remain our top priority throughout the duration of this health crisis.

Strategic initiative number five is operational excellence. As reflected in our company's values, our tribe never stops trying to make it better than it is today and 2020 was no exception. Guided by our 55/30/25 business model, we found new ways to optimize resources, systems and processes while applying rigorous commitment to quality assurance, regulatory compliance, and intellectual property protection. One of the most exciting initiatives the tribe worked on this fiscal year is related to ESG. ESG topics have been top of mind here at WD-40 Company for far longer than yet the acronym has existed. For decades, we have been focused on doing the right thing. In the context of ESG, doing the right thing means prioritizing the well-being of employees, ensuring our products, safe in the hands of our end users and minimizing our impacts on the natural environment.

Later this month, we will publish our inaugural ESG report. Investors will be able to download this report from our company website beginning October 29. Also falling under this strategic initiative, we have recently started a project to implement a new enterprise resource planning system, which will be used by our Americas trading block, as well as certain offices in our Asia-Pacific trading block. We will share more with this – on this with you as the project falls in upcoming quarters.

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

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Steven A. Brass

President & Chief Operating Officer, WD-40 Co.

Thanks, Garry, and good afternoon. The impact of the pandemic on our operations over these last seven months has presented us with both opportunities and challenges. When we last spoke, I shared with you in our EMEA direct markets, the US, Canada and Australia, we saw a very strong rebound in June. I'm pleased to share with you that the trends we saw in June continued throughout July and August. In fact, in all these markets, we experienced double-digit sales growth in local currencies for the fourth quarter, driven primarily by the isolation renovation trend that Garry mentioned earlier.

However, what the pandemic give us, the pandemic take it away. And offsetting those sizable gains were significant sales declines in our distributor markets and in China. I will talk more about the drivers of those disruptions in a few moments. In 2018, when we made the decision to fast track our global digital presence, we had no way of knowing that 2020 would be the year a global health crisis will transform how people shop.

One thing that's become very clear to us in the last seven months is how important it is to have a robust digital and e-commerce strategy in place. During fiscal year 2020, we continued our heightened focus in the areas of digital and e-commerce. We expanded our low cost, high performing website model to more than 90 countries around the world and our global web traffic has increased by 81%. Our social media and other digital marketing efforts put our brands in front of more people online than ever before during fiscal year 2020. This helped drive year-over-year global e-commerce sales growth of approximately 58% in fiscal year 2020 with strong growth across all three trading blocks.

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 up 15% in the fourth quarter to $56.8 million. Sales and maintenance products increased nearly 17% in the Americas due to increased sales in the US, Canada and certain regions within Latin America.

In the US, we experienced a 16% increase in sales of WD-40 Multi-Use Product due to the isolation renovation phenomenon, new distribution, successful promotional programs and increased sales through the e-commerce channel during the pandemic. Isolation renovation reached Canada as well. In the fourth quarter, they experienced a 33% increase in sales and maintenance products. In fact, in the fourth quarter, Canada experienced double-digit sales growth of every product line they sell.

In addition, sales of our lockable version of Smart Straw next generation are off to a solid start and contributed to the increase in sales in Canada during the quarter. Although the impacts of the pandemic weakened sale levels throughout many regions of Latin America during the fourth quarter, these sales declines were more than offset by strong sales in our newest direct market, Mexico. This resulted in a 38% increase in maintenance product sales in Latin America in the fourth quarter of this year compared to last year. The 10 tribe members now headquartered in Monterrey, Nuevo Leon have been working nonstop to put the foundation of our newest direct market in place. Their hard work is paying off and for the full fiscal year, net sales in Mexico increased 10% compared to sales in the country last fiscal year. While we anticipate a continued successful build of our direct customer base in Mexico, we expect there may be a bit of volatility along the way as we continue to develop the market. However, we are very excited for the future of our newest direct market.

As a reminder, our maintenance products exclude our homecare and cleaning products. Sales of our homecare and cleaning products in the Americas increased 3% in the fourth quarter compared to the prior year, largely due to higher sales of 2,000 Flushes, which increased 26%. We continue to consider our homecare and cleaning products except for those listed as 2025 brands, as harvest brands continue to generate meaningful contributions

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and cash flows, but are generally expected to become a smaller part of the business over time. In total, our Americas segment made up 51% of our global business in the fourth quarter. Over the long-term, we anticipate sales in this segment will grow between 2% to 5% annually.

Now, on to EMEA. Net sales in EMEA, which includes Europe, the Middle East, Africa and India, increased to $42.7 million in the fourth quarter, up 18% from last year. Sales and maintenance products increased almost 17% in EMEA, primarily due to a 26% and 38% increase in sales and maintenance products in the United Kingdom and in our European direct markets on the continent, respectively. Increased sales and maintenance products in our EMEA direct markets were due to increased sales of WD-40 Multi-Use Product and WD-40 Specialist, which increased 33% and 37%, respectively. These increases were driven by several factors. First, there was some pent-up demand in the channels because Europe was essentially closed down in our third fiscal quarter due to the pandemic. Second, the isolation renovation we experienced in the United States and Canada reached Europe as well. Also, contributing to the strong sales this quarter were higher sales of WD-40 Specialist in our EMEA direct markets which were up 37% in the fourth quarter, primarily due to increased distribution across all direct markets and a higher level of sales in the e-commerce channel.

Finally, sales of WD-40 BIKE in EMEA were up over 208% in the quarter as consumers saw new ways to and exercise outdoors in socially distant settings due to the COVID-19 pandemic. Also contributing to the growth in our EMEA segment this quarter was higher sales of 1001 Carpet Fresh in the United Kingdom. In the fourth quarter, net sales of 1001 Carpet Fresh grew 36% year-over-year. In the fourth quarter, net sales in our EMEA direct markets accounted for 80% of the region's sales. The increase in sales in our EMEA direct markets was partially offset by decreased sales in our EMEA distributor markets. Year-over-year sales in our EMEA distributor markets were down 22% in the fourth quarter.

The decline in sales is primarily due to continued disruptions in the market related to COVID-19 pandemic. We continue to experience comprehensive lockdowns in many of the distributor market countries, particularly in Russia and India, which negatively impacted our ability to distribute and sell our products. In the fourth quarter, net sales in our EMEA distributor markets accounted for 20% of the region's sales. EMEA's reported results in the fourth quarter were not significantly impacted by foreign currency exchange rates. In total, our EMEA segment made up to 38% of our global business in the fourth quarter. 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 $12.1 million in the fourth quarter, down 43% from last year. Asia-Pacific's reported results in the fourth quarter were not significantly impacted by foreign currency exchange rates.

In Australia, net sales were $5.2 million in the fourth quarter, up 9% compared to last year, driven primarily by increased demand for our homecare and cleaning products as a result of the COVID-19 pandemic. WD-40 Multi-Use Product and WD-40 Specialist were up 3% and 23%, respectively, from period-to-period. 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 10% from last year. Unfortunately, our Asia distributor in China market did not experience isolation renovation phenomenon we experienced in other parts of the world. The DIY culture is far less prevalent in these markets. Therefore, these markets did not benefit from the home renovation and DIY explosion we experienced in other places in the world in the fourth quarter.

In our Asia distributor markets, net sales were $2.1 million in the fourth quarter, down 76% compared to last year. This decrease in sales is due to disruptions in the market related to the COVID-19 pandemic. Throughout Asia,

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we experienced temporary closures, complete lockdowns and restrictions required by local governmental authorities as a result of the global pandemic. There is one product that experienced tremendous success in the Asia region, though it's a lower volume product for us. The WD-40 BIKE grew by 235% in the fourth quarter compared to the last year.

Cycling has experienced a boom amid COVID-19 with increased ridership and the associated maintenance of bicycles throughout the region. This trend in Asia has attributed mostly to a shift in preference in mode of transport as people are practicing social distancing by avoiding crowded public transport. Our Asia distributor markets are not impacted by currency since we sell our products in US dollars in this region.

In China, net sales in US dollars decreased to $4.8 million in the fourth quarter, down 35% from last year. For the purpose of this discussion, I think it's better to review our quarterly sales results in China on a sequential basis. China has experienced quite a bit of volatility this fiscal year. They were the first to be hit by the pandemic and experienced a strong decline in sales beginning in the second fiscal quarter. Second quarter sales were $1.4 million. Sales in the third fiscal quarter appear to be resuming to normal operations and we shipped various sizable orders due to pent-up demand in the channels.

Third quarter sales were $4.9 million. Sales in the fourth quarter were $4.8 million, down 36% compared to the pre-COVID fourth quarter of last year, but essentially flat compared to the third quarter of this year. Looking at the numbers this way shows progress, but not necessary recovery. Although the health concerns associated with the pandemic lessened and the resulting movement restrictions were mostly lifted in China beginning in our third fiscal quarter. China's hardware and industrial channels continue be impacted by the macroeconomic effects of the global pandemic.

We remain optimistic about the long-term opportunities in China. However, we expect volatility along way due to the economic and health-related impacts of COVID-19, the timing of promotional programs, the building of distribution, shifting economic patterns and varying industrial activities. In total, our Asia-Pacific segment made up 11% of our global business in the fourth quarter. While there has been a short-term impact in 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.

I'm sure you're keen to understand the trends we're seeing in our markets currently. We are encouraged by what we are seeing. The growth trends we experienced in our direct markets in the fourth quarter have carried through into September and early October. We are also seeing some recovery in our distributor markets, many of which had been severely impacted by the pandemic in FY 2020. So, we are very encouraged to see these positive sales trends we know all too well the volatility the global health crisis can create and therefore we remain cautiously optimistic.

Now, I'll 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.

Thanks, Steve. In a typical year, I'd begin our discussion today with an update on how we performed against our most recent issued 2020 guidance, but 2020 is not a typical year. As you all know, we withdrew our guidance in April when the pandemic began. Last quarter, we did share with you that we saw solid performance from the US, our European direct markets, Canada and Australia in the final weeks of the third quarter. These market conditions suggested to us that for the full fiscal year, net sales would be in the range of $395 million to $405

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million. Today, we reported full-year revenue of $408.5 million, down just 4% compared to fiscal year 2019 and coming in above our projected expectations.

Now, let's review 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. And finally, the 25 represents our target for EBITDA.

First, I'll look at the 55 or our gross margin. In the fourth quarter, our gross margin was 56.3% compared to 54.6% last year. This represents an improvement of a 170 basis points year-over-year. Changes in major input costs, which include petroleum-based specialty chemicals and aerosol cans positively impacted our margin by 270 basis points. Petroleum-based specialty chemicals positively impacted our gross margin by 180 basis points and the remaining 90 basis points came from lower cost associated with aerosol cans.

Beginning in late February, crude oil reached multi-year lows and though it did rebound slightly, this consistently remained lower on a year-over-year basis since then. It historically has taken between 90 and 120 days before we began to realize the benefit of crude oil prices.

In the fourth quarter, we began to experience the fuller benefit of the steep decline in oil prices the market experienced earlier this calendar year. Also impacting our gross margin or sales price increases, the impact of changes in foreign currency exchange rates, primarily in the EMEA. In addition, reduced discounts given to our customers in Americas and EMEA favorably impacted our gross margin.

When combined, these items positively impacted gross margin by 60 basis points in the fourth quarter. These positive impacts to gross margin were partially offset by the negative effects of some miscellaneous costs and unfavorable sales mix changes, primarily in the Americas and Asia-Pacific, which negatively impacted our gross margin by 130 basis points. The unfavorable impacts in the Americas were primarily due to our miscellaneous charges related to inventory during the fourth quarter of fiscal year 2020. The unfavorable impacts in the Asia-Pacific segment were primarily due to the unfavorable market mix changes, resulting from lower sales in China as a result of the pandemic.

Finally, higher warehousing and inbound freight costs, primarily in EMEA, negatively impacted our gross margin by 30 basis points. So, we cannot control market dynamics like foreign currency exchange rates or commodity-based input costs. We continue to be focused and deliberate in managing the rest of our business, so that we can maintain our gross margin at or above the target of 55% over the long-term.

Now, I'll address the 30 or our cost of doing business. In the fourth quarter, our cost of doing business increased to 33%, up from 31% last year. This increase is primarily due to increased employee-related costs and higher professional service fees during the period. In the fourth quarter, 79% of our cost of doing business came from three 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 are and key investment was 5.7% in the fourth quarter; and finally, the freight cost to get our products to our customers.

We have always been good stewards of our resources frugal in our spending and conservative in our financial commitments, as we have stabilized, secured and reset our business in the months since the pandemic began. We have become even more prudent in how we manage our investments during these uncertain times. Well, this brings us to EBITDA, the last of our 55/30/25 measures. EBITDA was 23% of net sales for the fourth quarter,

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which is flat compared to the prior year. Now, that completes the discussion of our business model. Now, let's discuss some other items that fall below the EBITDA line.

Net income for the fourth quarter was $19.7 million compared to $8.6 million last year. Diluted earnings per common share for the fourth quarter were $1.42 compared to $0.63 for the same period last year. Our net income and diluted earnings per share were unfavorably impacted in the comparable period of last year due to a reserve for an uncertain tax position we recorded in the fourth quarter of fiscal 2019 in the amount of $8.7 million. In the fourth quarter of fiscal year 2020, the company's tax rate was 21% compared to 62% in the fourth quarter of the prior year. We expect our effective tax rate will be in the range of 20% to 21% for the full fiscal year 2021.

Now, we're worried about our balance sheet and capital allocation strategy. The company's financial condition and liquidity remained strong. In the second half of fiscal year 2020, we took numerous steps to further strengthen our balance sheet as we move through the stages required to stabilize, secure and reset our business as a result of the pandemic. When the pandemic began, we amended our line of credit agreement and borrowed an additional $80 million of rainy day money. Fortunately, that liquidity sat unused on our balance sheet.

As we saw some stabilization in our business, we felt comfortable to pay back a significant portion of these borrowings. Recently, we've made some changes to our debt structure including amending our line of credit agreement and our Shelf Note Purchase Agreement to allow us additional access to fixed debt and to revise covenants and the interest rates associated with our borrowings.

In addition, we borrowed an additional $52 million in senior unsecured notes under our existing Shelf Note Purchase Agreement at the end of September. We used these proceeds to pay down $50 million of our line of credit.

When the pandemic began, we elected to suspend stock purchases we were making under our share buyback plan in order to conserve our cash, while we monitor the long term impacts of the pandemic. That share buyback plan has expired at the end of August. And we don't anticipate seeking board approval for additional share repurchases until we begin to see a reduced level of uncertainty regarding the pandemic's impact. We'll continue to remain vigilant in managing our cash and liquidity during these unprecedented times.

However, we continue to return capital to shareholders through regular dividends. And on October 5, our board of directors approved a quarterly cash dividend of $0.67 per share payable October 30 to shareholders of record on the close of business October 16. Our capital allocation strategy includes a comprehensive approach to balance investing in long-term growth, while providing strong returns to our shareholders.

In fiscal year 2020, we invested approximately $19 million in capital expenditures, approximately $6 million less than we had originally forecasted. In fiscal year 2021, we will invest approximately $20 million in capital projects, the majority of which will be used to complete the procurement of proprietary machinery and equipment we are using to manufacture our next-generation Smart Straw delivery system. We began the global cross-functional effort to develop Smart Straw next generation five years ago. The team of tribe members who has been working on this project have created a product and process that increases our manufacturing line speed, reduces our cost and waste, and reduces plastics. We expect to complete our capital investment in this project in fiscal year 2021. The Smart Straw next generation will create value for many years to come. We have historically had an asset-light business model which has required very low levels of capital investment, roughly between 1% and 2% of sales. We believe that beginning in 2022, we'll begin to see our CapEx return to these levels.

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So, with that, let's turn to fiscal year 2021 guidance. The 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. As a result, we will be not be issuing any guidance for fiscal 2021 at this time.

Now, that completes the financial review. Now, back to Garry.

Garry O. Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Hey, thanks, Jay. In summary, what did you hear from us on this call? You heard the global sales increased in the fourth quarter by 5%, primarily due to isolation renovation, which resulted in double-digit sales growth of WD-40 Multi-Use Product in many of our largest markets. You heard that sales of WD-40 Specialist were up 7% in the fourth quarter. You heard that sales of WD-40 BIKE were up 160% in the fourth quarter, primarily due to strong demand around the world. You've heard that sales of our homecare and cleaning products were up 15% in the fourth quarter due to the strong demand for cleaning products due to the pandemic. You heard that global e-commerce sales grew by approximately 58% this fiscal year with strong sales across all three trading blocks.

You heard that we continue to return capital to investors through regular dividends. You heard that our tribe rallied to the challenge truly uniting us as one world, one company, one tribe. You heard that we are cautiously optimistic about the sales growth trends we have seen in September and October and are hopeful that these trends will continue. And you heard that while we are not issuing guidance, we remain confident that our revenue growth aspirations remain a realistic opportunity for the future.

In closing, today, I'd like to share with you a quote from Dr. Rebecca Homkes; one of the essential distinguishes of a high-growth company is learning velocity. Companies that learn faster, grow faster. Thank you for joining us for today's call. We'll now return for questions.

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QUESTION AND ANSWER SECTION

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

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

Q

Thank you. Congratulations on a great quarter. I hope you're all doing well.

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

A

Thank you, Linda. We are. Thank you.

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

Q

So I guess, I'd just like to start out with this idea of the isolation renovation. I think you mentioned that individual users are increasing their purchasing of WD-40, and you said that in many cases they're hiring contractors to do work. But I guess, when you still think about it, individual users are a small percentage of your overall consumption if you look at the big picture. So, can you give us some color maybe on other sectors – other users like I don't know like one area I'm thinking about is like auto garages, that there's been increased auto usage, maybe there is more going towards that area in terms of auto fix it. Can you just comment on some of the other areas too in addition to the isolation renovation?

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

A

Yeah, sure. Thanks, Linda. And when we talk about isolation renovation, we're also referring to artisans and tradesmen who are performing more work across the globe. We saw some data that came out of Europe that said that that activity was probably up between 17% and 24%. I don't know if anybody's tried to hire a tradesman lately, but they're certainly very busy as people are working. So although at-home use when I call at-home use, I refer to someone stopping a squeak, but there's those passionate DIYers, the auto repair people, the car enthusiasts, the passionate hobbyists that are in that area of high use than just the normal household that we've seen. We've also seen some evidence where millennials and I'll ask Steve to talk about this, where millennials have actually entered the DIY or the – that area a little quickly. And Steve, do you want to just touch on that briefly?

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

A

Certainly. Thank you, Garry. Hi, Linda. And yeah, that certainly is a trend we've seen across both North America and Europe as well, which is for the first time millennial – new millennial users coming into our brand to complete home improvement projects which is certainly linked to this isolation renovation kind of activity.

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

Q

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Okay. Can you also talk a little bit about margins? I mean, your gross margin, as you discussed, was benefited in the quarter from lower major input costs. I mean, when we're talking about a 56% gross margin, should we consider that not normal or is that a new normal for you or should we expect something to trend back down to 54%, 55%?

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

A

Linda, as you know, we've had a goal to continue to increase gross margin, particularly as our percentage of specialist business increases, as a percentage of the total. One of the things that's been really encouraging for us as we've learned more coming through COVID, particularly with our success in e-commerce, is that end users are searching for solutions on e-com. And because of the brand – a brand presence of WD-40, our Specialist sales have really benefited particularly on e-com. So that's a benefit.

Going forward, we would like to continue to increase – work on increasing our gross margin. I think that the levels that we're at now are probably somewhat realistic. However, I will caution that we are seeing some pressure and some extra costs coming through the supply chain because of the COVID pandemic. For example, distancing on production lines is very important for the safety of those working in our third-party fillers, some slowing of lines. So we are seeing some cost pressures yet to be totally identified. But we're certainly totally committed to our gross margin, certainly north of 55%, now at 56%. And hopefully, as this thing passes us, Smart Straw next generation gets into play and Specialist continues to grow, we'll see our margins even move further in a positive direction.

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

Thank you. That's very helpful. And I guess just on the topic of guidance, I guess it's not too surprising, there are still so many companies not issuing guidance, but you did see your trends clear enough to be able to give guidance at least on sales for this past quarter and it sounds like trends are continuing generally in a cautiously optimistic way. So I'm curious as to why you maybe couldn't adopt some approach of giving some guidance for the quarter or is there something that you're seeing that is just making you really unsure even about the quarter coming up?

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

A

Well, Linda, I always said we don't guide quarter to quarter. And as Steve mentioned, we are encouraged that we've seen trends that came into play in the latter part of last fiscal year carried through September and into October. But this COVID situation is so dynamic. We see markets opening and closing every day and we don't know what could close us down tomorrow. Why we've had some successes this past year is that when we are easy to buy, either through trade channels that have remained open or countries that are remained open or because of the wonderful work that the tribe has done over the last three to four years building up our e-commerce capacity, we've done very well. Where countries are shut down and people can't buy us, obviously we've not done as well.

So I think it would be foolish for us to try and predict the future. We're not very good clairvoyants and – but we are watching this on an ongoing basis. And as I said, we're quite – we're confident about the fact that these trends carry through. Let's hope that it continues and there is not an enormous shutdown of something that's going to derail the ability for people to buy our product. As soon as we feel more comfortable, we'll be sharing that out.

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

Q

Okay. And just one final one for me. In terms of the next fiscal year and I know you don't want to give guidance, you just said that. But to the extent that you have some unusual comparisons, so and the net effect of COVID, it was negative for the year full fiscal 2020, it wasn't positive, it was a negative net effect and there is – particularly the third quarter was very weak. So, is it fair to say that your growth comparison is so easy that we may have some quarters in the next fiscal where you'll see a higher than normal growth, because you're against those unusual comparisons? Just that concept, am I thinking correctly about that?

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

A

Well, we did have some pressure coming through the second quarter. So, if these trends continue, then we may see a more unusual comparison going into this year. But again, it really gets down to the point of we can't predict the future. And however, we do feel comfortable and we're confident that if markets are available and operating that we will be very much available to our end users and our consumption will be there and we will continue to service our customers and hopefully deliver reasonable results as we go through the rest of this year.

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

Q

Okay. Thank you so much I really appreciate it.

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

A

Thank you, Linda. Stay safe and well.

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

Q

Thanks.

Operator: Our next question comes from the line of Daniel Rizzo with Jefferies. Please proceed with your question.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Hey. Hi, everyone. How is everybody doing?

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

A

Hey, Daniel.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Could you just provide more color on industrial sales in China? I think you indicated that it was pretty soft because of shutdowns. It's just that other chemical companies, particularly industrial chemical companies that I cover, have kind of indicated that the [ph] change is (00:52:26) up to pre-pandemic levels, this is mostly with the heavy

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industry in auto. Now, I was just wondering where the difference lies. I mean, is it just distributor channel or is just a different the market?

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

A

Yeah, sure. I'll let Steve talk about some of the differences in China.

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

A

Thank you Garry and hi, Daniel. Yeah. So, what you're really going to do is [indiscernible] (00:52:49) China is look sequentially at the quarters throughout the year. So, we went into the first quarter with a very strong Q4 in FY 2019, I believe over $7 million in our Q4 net sales in China. Q1 was much lower sales at $2.3 million. We went into the pandemic in our Q2 of FY 2020, and only achieved $1.44 million. When you look at the front half of our FY 2020, we achieved $3.8 million in the first half. And then you look at the Q3 and Q4, so Q3, it's $4.93 million and Q4 of $4.76 million. So whereas Q4 is up against a strong comparable from FY 2019, it was actually fully in line with Q3. So, you've seen levels of Q3 and Q4 sales in China which are pretty well in line with historic [ph] precedence (00:53:46). So it has recovered, it just didn't look that way on Q4 because of the comparable to the prior year.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. That actually makes a lot of sense. So, if we think about it going forward, then should we think, I don't know, just the run rate that we've seen over the last couple quarters at least for the near-term is what we should kind of expect in China?

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

A

I think to take Garry's point, I don't think we're predicting the future and we have seen a good September in many of our markets as they continue to rebound. So, we've seen recovery – we've seen progress, but not necessarily complete recovery. We still have some suppressed activity due to factories and with lower export orders than they would normally have. And we continue to get great growth in China out of our e-commerce business, was up substantially and WD-40 Specialist continues to grow and hopefully be some rebound impact in FY 2021.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay.

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

A

So I'll just add a little bit more to that, Daniel. Some of the larger chemical companies that you're probably referring to have direct sales into industry, I would assume. We have a bit of a buffer in between, because we sell into hardware and industrial distribution, who then sell into industry. So, when the pandemic hit and some of those huge hardware and industrial markets shut down, they had inventory on hand. So, as these are opening up now and some of them are becoming more active, they had inventories moving through. So, we probably feel it a little later than others, because we're not shipping tanker loads of some chemical directly into a factory. We're selling

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cases and drums of product into industrial distribution, into hardware distribution who are then selling it into the maintenance, repair and overhaul facilities of factories.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. That's very helpful. And then, I guess just [Technical Difficulty] (00:55:46) EMEA and the Americas be attributed to a restock cycle because of low inventories. I mean, I guess, we kind of pointed to direct sales marketing to be more of the reason. But I was wondering if there was any restock cycle that you kind of attribute to such a strong fourth quarter.

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

A

I would say there was a little bit of a restock in EMEA. But what we're encouraged about is that point-of-sale trends and we've been seeing some really encouraging point-of-sale trends. So the inventory is actually moving through the system. We don't think there's a material amount of restocking going on. And if there was, we wouldn't have seen the trend also continue out of August and into September as we've indicated it mostly did.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. Thank you. And then, finally, I think you – I saw in the deck or maybe mentioned that there was a slight mix headwind in 2020. I was just wondering what the – the rollout of the next generation of Smart Straw and the increase in Specialist sales, should we expect it to reverse, whereas mix should be kind of a tailwind for the next couple of years?

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

A

You mean, impacting our gross margin?

Daniel Rizzo
Analyst, Jefferies LLC

Q

Yes.

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

A

I'll leave that to Jay. Jay, would you like to address that question, please?

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

A

Yes, Daniel. If I get your question right, you're really just wanting to see if we're going to get a mix benefit as we go forward. Overall, long-term, we will definitely get a mix benefit as we go forward. The challenge that we would have with anything in kind of what I would call the near term of anticipating that bounce back in any particular quarter is a little bit more difficult. But as we move forward, as Garry talked about earlier, the transitions to some of our more premiumized products, which carry a higher margin, will gradually see accretion to gross margin.

Daniel Rizzo
Analyst, Jefferies LLC

Q

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Okay. All right. Thank you very much, guys.

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

A

Thanks very much, Daniel.

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 lines.

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