07-Jul-2021

WD-40 Co. (WDFC)

Q3 2021 Earnings Call

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CORPORATE PARTICIPANTS

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Linda Bolton Weiser
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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the WD-40 Company Third Quarter Fiscal Year 2021 Earnings Conference Call. Today's call is being recorded. At this time, all participants are in a listen-only mode. At the end of the prepared remarks, we will conduct a question-and-answer session. [Operator Instructions] I would now like to turn the presentation over to the host for today's call Ms. Wendy Kelley, Director of Investor Relations and Corporate Communications. Please proceed.

Wendy Kelley
Director-Investor Relations & 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 for the period ending May 31, 2021. These documents are available on our Investor Relations website at investor.wd40company.com. A replay and transcript of today's call will also be made available at that location shortly after this call.

On today's call, we will discuss certain non-GAAP measures. The descriptions and reconciliations of these non-GAAP measures are available in our SEC filings, as well as our earnings presentation. As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance.

Of course, actual results could differ materially. The company's expectations, beliefs and projections are expressed in good faith, but there can be no assurance that they will be achieved or accomplished. Please refer to the risk factors detailed in our SEC filings for further discussion.

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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, July 7, 2021. 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 Owen Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Thank you, Wendy. Good day, and thanks for joining us for today's conference call. We hope that you and your families are staying safe and healthy. Our tribe continues to work together through the challenges and opportunities associated with the COVID-19 pandemic.

In the third quarter, we experienced unprecedented demand for our maintenance products. And today, we reported net sales of $136.4 million for the third quarter of fiscal year 2021, up 39% compared to the third quarter of last year and a new all-time record quarter. The pandemic has created those headwinds and tailwinds for our business.

In the third quarter of last fiscal year, we experienced a strong headwind and our sales results were negatively impacted by disruptions related to COVID-19 pandemic. Over the last year, we have experienced a myriad of lockdown measures, various disruptions in our US supply chain and increasingly higher costs. However, these challenges have been more than offset by significant tailwinds due to the shift in consumer spending and the isolation renovation trends that we have [indiscernible] (03:49) with the pandemic, millions of end users have been introduced to our brands for the very first time.

In addition, our robust travel culture and increased focus on our must-win battles have enabled us to mitigate many of the adverse impacts COVID-19 has had on our business. The tribe's efforts have enabled us to meet most of the very high demands we experienced for our maintenance products. As a result, we experienced a 45% increase in sales of maintenance products during the third quarter compared to the same period last year. In addition, translation of our foreign subsidiaries results from their functional currencies to the US dollar had a favorable impact on sales in the third quarter. On a constant currency basis, sales would have been $128.7 million, up 31% compared to the third quarter of last year.

Steve will talk to you in a few minutes about the sales trends we experienced in the quarter in each of our trading blocks. But first, I'm going to share an update with you on our strategic initiatives. When the pandemic began, like many other companies, we were uncertain what impacts it would have on our business. We knew that we were going to face some challenging times. However, we also knew that we had a strong tribe who was dedicated to our brands and to our end users.

And we had a famous brand that people trust which could bring certainty to both our customers and our end users in uncertain times. We had a strategy with supporting tactics also known as our must-win battles. That focused us on driving long-term, sustainable growth. We knew that there would be some choppy waters ahead, but we were well-positioned to navigate them. I always say a smooth sea never made a skilled sailor. Our tribe has learned a tremendous amount from operating under this environment.

We have been trusting to in the last year and a half. We know that the consumer spending patterns or what we refer to as isolation renovation will not last forever. As things get back to normal from the post-pandemic, consumer spending patterns will change and our sales volumes will mostly likely return to more normal growth

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patterns. However, we do believe that the shift in consumer spending patterns associated with the pandemic will benefit us over the long term.

We know that new end users have been introduced to our variants for the very first time and history tells us that our brand is a sticky brand. This means a high possibility that the buying behaviors we have been experiencing during the pandemic have created permanent uses of our maintenance products. Having said all that, we continue to think that our 2025 targets are just as probably wrong and just as roughly right as before we went into the pandemic.

However, we will be up against sizable, comparable periods in the next few quarters. In addition, the currency tailwinds we are currently experiencing will likely turn into headwinds at some point in the future. Taking those additional factors into consideration, we are adjusting our 2025 revenue targets today to a range of between $650 million and $700 million. We believe we can successfully bring these targets within the reach by the end of fiscal year 2025, and we will strive to do so while following our 55/30/25 business model.

Now, I'd like to turn to an update on our strategic initiatives. The strategic initiative number one is to grow WD-40 Multi-Use Product. Our goal under this initiative is to make the blue and yellow can with little red top available to more people in more places who will find more uses more often. In the third quarter, sales of WD-40 Multi-Use Product increased 45% globally to $104.1 million compared to the third quarter of last year. Strategic initiative number two is to grow the WD-40 Specialist product line. Our goal under this initiative is to leverage our most iconic asset, the blue and yellow can with little red top and grow the WD-40 Specialist product line through continued geographic expansion, as well as by developing new products and product categories. In the third quarter, sales of WD-40 Specialist increased 24% globally to $11.2 million compared to the third quarter of last year.

Strategic initiative number three is to broaden product and revenue base. Our goal under this initiative is to leverage the recognized strengths of WD 40 Company, derive revenue from existing brands, as well as from new sources and products. Strategic initiative number three includes well-known brands such as 3-IN-ONE, WD-40 BIKE, GT85, 1001, Spot Shot, Solvol, Lava, and no vac. In the third quarter, sales of products included under this initiative increased 32% globally to $18.6 million compared to the third quarter of last year.

Strategic initiative number four, attract, develop and retain outstanding tribe members. Our goal under this initiative is to attract, develop, and retain talented tribe members and to grow our tribe member engagement to greater than 95%. I'm often asked why we call our company employees tribe members at WD-40 Company. We define tribe as a community with a shared purpose that help feed and defend each other. This definition has remained consistently true for us throughout the duration of the pandemic. It is our culture that empowered our tribe to successfully navigate some extremely challenging times. We cultivate a culture at WD-40 Company that has been the cornerstone to our success for decades. In good times, that culture gives us a tribal family to celebrate with. In not so good times, that tribal culture gives us a global tribal family to fight for and support.

And strategic initiative number five is operational excellence. Our goal under this initiative is to strive for continuous improvement by optimizing resources, systems, and processes. Operational excellence also means making sustainable business decisions that create and protect long-term stakeholder value. We consider our stakeholders to be any group without [ph] full (10:31) support the business would not exist. Our commitment to operational excellence continues to be an enormous asset for us as we navigate the challenges associated with the pandemic. Using our 55/30/25 business model as a framework, we measure ourselves against this operational excellence initiative.

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I'll now pass the call to Steve who will share an overview of our sales and an update on our must-win battles.

Steven A. Brass

President & Chief Operating Officer, WD-40 Co.

Thanks, Garry. Good afternoon. When we last spoke, I shared with you that we believed there was a tailwind for us coming out of the COVID-19 pandemic. In reality, the pandemic has created both headwinds and tailwinds for our tribe. Jay will talk in greater detail in a few moments about the headwinds we're experiencing and the business decisions we're making to combat them.

I will focus on the tailwinds. Today, we're reporting sales that are up 39% compared to the third quarter of last year. We continue to experience very high demand from maintenance products due to the shift in consumer spending patterns associated with pandemic. So we do not expect to see sales growth of this magnitude over the long term. We do know that due to the shift in consumer spending patterns we experienced during the duration of the pandemic, we believe we have acquired millions of new end users around the world. The post-pandemic era is coming and we're confident that many of the new end users who have interacted with our products during the pandemic will become permanent users of our maintenance products.

Let's take a closer look at what's happening in our trade blocks starting with the Americas. Net sales in the Americas, which include the United States, Latin America and Canada, were up 20% in the third quarter to $60 million, a new record for the trading block. Sales of maintenance products increased 28% in the Americas due to increased sales of WD-40 Multi-Use Product in the US, Latin America, and Canada which increased 24%, 138%, and 74% respectively. These strong sales trends are driven by several factors.

In the United States, we experienced strong sales of WD-40 Multi-Use Product due to the isolation renovation phenomenon. In addition, sales in the corresponding period of the prior fiscal year were negatively impacted by disruptions and lockdowns related to the early stages of the COVID-19 pandemic. Partially offsetting these strong sales were lower sales of WD-40 Specialist, which decreased 33% in the US during the quarter.

The good news is that consumer demand for WD-40 Specialist continues to be strong. Sales of WD-40 Specialist increased 85% in Canada and 253% in Latin America. WD-40 Specialist sales in the United States were negatively impacted by supply chain disruptions and constraints which we shared with investors last quarter. In the US, we continue to experience some issues [ph] making (13:25) a very high level of demand from maintenance products particularly for WD-40 Specialist, which are sourced at certain third-party manufacturers that were heavily impacted by the recent global supply chain constraints.

The availability and costs of raw materials, components, labor and freight continue to impact our supply chain in North America. However, the tribe is making good progress towards resolving the issues, and we expect we will see resolution of most of the issues impacting WD-40 Specialist by the first half of 2022. Our tribe has gained many learning moments operating our supply chain in the current environment. We will apply those learnings to make future improvements to our supply chain in North America.

In Latin America, we experienced strong sales for all our maintenance products during the third quarter which increased 151% in the quarter. This growth was primarily due to strong sales in our newest direct market, Mexico. In addition, sales in Latin America in the corresponding period of the prior fiscal year were negatively impacted by disruptions and lockdowns related to the early stages of the COVID-19 pandemic. As conditions continue to improve and restrictions in the region decrease, we continue to see increased end user demand in Latin America.

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In Canada, we experienced strong sales of all our maintenance products during the third quarter which increased 87% driven by the isolation renovation phenomenon and increased sales through the e-commerce channel. In addition, sales in the corresponding period of the prior fiscal year were negatively impacted by disruptions and lockdowns related to the early stages of the COVID-19 pandemic.

Sales of our homecare and cleaning products in the Americas decreased 37% in the third quarter compared to the prior year. In the comparable period of the prior year, we experienced a significant increase in sales of many of our homecare and cleaning products in the United States and Canada due to increased demand for such products due to the pandemic.

We have now seen demand for these products return to more normal levels due to improvements in public health and safety restrictions related to the pandemic in many regions within the Americas. However, we continue to consider our homecare and cleaning products, except for those listed as strategic brands, as harvest brands continue to generate meaningful contributions in cash flows but are generally expected to become a smaller part of the business over time.

In total, our Americas segment made up 44% of our global business in the third quarter. Over the long-term, we anticipate sales within this segment will grow between 5% to 8% annually. This revision from 2% to 5% reflects the new growth opportunities we've identified within the trade block.

Now on to EMEA. Net sales in EMEA which includes Europe, the Middle East, Africa and India were up 80% in the third quarter to $58.6 million. Changes in foreign currency exchange rate had a favorable impact on sales for the EMEA segment from period to period. On a constant currency basis, sales would have increased by 63% compared to last year. Sales of maintenance products increased by 82% in EMEA due to increased sales in both our EMEA direct and our EMEA distributor markets, which increased 88% and 70% respectively.

In our EMEA direct markets, we experienced an 81% increase in sales of WD-40 Multi-Use Product and a 95% increase in sales of WD-40 Specialist due to the isolation renovation phenomenon, increased sales through the e-commerce channel and increased promotional activities. In addition, sales levels were much higher in the third quarter of this year due to severe lockdown measures that occurred during the third quarter of fiscal year 2020. In the third quarter, net sales in our EMEA direct markets accounted to 69% of the region's sales.

In our EMEA distributor markets, we experienced a 68% increase in sales of WD-40 Multi-Use Product and 151% increase in WD-40 Specialist sales, primarily due to the continued recoveries in the EMEA distributor markets, which had previous experienced severe lockdowns during the second half of fiscal year 2020 due to the COVID-19 pandemic. In the third quarter, net sales in our EMEA distributor markets accounted for 31% of the region's sales. In total, our EMEA segment made up 43% of our global business in the third quarter. Over the long-term, we anticipate sales within this segment will grow between 8% to 11% annually.

Now on to Asia-Pacific. Net sales in Asia-Pacific which includes Australia, China and other countries in the Asia region were up 14% in the third quarter to $17.8 million. Changes in foreign currency exchange rates had a favorable impact on sales for the Asia-Pacific segment from period-to-period. On a constant currency basis, sales would have increased by 5% compared to last year.

In Australia, net sales were $6 million in the third quarter, up 22% compared to last year. Changes in foreign currency exchange rates had a favorable impact on sales in Australia from period to period. On a constant currency basis, sales would have remained relatively constant compared to last year. In local currency, sales and

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maintenance products were up 9% in Australia driven primarily by strong sales of 3-IN-ONE and WD-40 Specialist which were up 114% and 24% respectively due to the isolation renovation phenomenon.

Partially offsetting these sales increases were lower sales of our homecare and cleaning products which were down 9% in the quarter as we had seen demand for these products return to [ph] more (19:01) levels due to improvements in public health and safety restrictions related to the pandemic.

In our Asia distributor market, net sales were $7.3 million in the third quarter, up 26% compared to last year, primarily due to a 22% increase in sales of WD-40 Multi-Use Product in the region. These sales increases were primarily driven by the easing of COVID-19 lockdown measures and restrictions. And these reduced lockdown measures positively impacted economic conditions during the third quarter and resulted in increased demand and higher sales particularly in the Philippines, South Korea, and Indonesia.

In China, net sales were $4.5 million in the third quarter down 9% compared to last year. As I shared with you last quarter in the third quarter of 2020, we experienced a significant increase in sales in China because COVID-19 lockdown measures were reduced considerably. That resulted in very strong sales in the third quarter as we began to resume normal operations and shipped some sizeable orders that had been delayed due to the COVID-19 pandemic. Since there was no comparable event occurring this fiscal year, our third quarter sales with China were lower. Overall, we expect strong sales growth for China for the full fiscal year.

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

As we set our sights on emerging from the pandemic and seek to execute and deliver against our probably wrong and roughly right 2025 targets to drive consolidated net sales of between $650 million and $700 million, we continue to remain focused on our key drivers of revenue growth which we call our must-win battles.

Our largest growth opportunity and first must-win battle is the geographic expansion of the blue and yellow can with the little red top. Significant growth opportunities exist within this must-win battle. Year-to-date sales of WD-40 Multi-Use Product were $284.7 million, up 27% compared to last year. This impressive growth reflects our increased focus on our top 20 global growth opportunity markets. We've increased our marketing investment in these top priority markets by over $2 million this year with a focus on winning the hearts and minds of end users in these markets.

For example, in China, we've made a significant investment in industrial sampling, and that has contributed to an increase of net sales of WD-40 Multi-Use Product at 48% year-to-date. In addition, we continue to make A&P investments in India and Mexico which are driving very strong sales growth in those regions. We will continue to invest in building our flagship brand with end users around the world.

Our second must-win battle is to grow WD-40 Multi-Use Product through premiumization. Premiumization creates opportunities for revenue growth as well as gross margin expansion. Year-to-date sales of WD-40 Smart Straw and EZ-Reach when combined were $135.8 million, representing nearly 48% of total global sales of WD-40 Multi-Use Product. As we continue to rollout next generation Smart Straw, our objective is to grow Smart Straw global penetration to greater than 60%.

Our third must-win battle is to grow WD-40 Specialist. The product line has enabled us to deliver solutions that reached new end user needs and to remove competitors from store shelves around the world. WD-40 Specialist

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is driving physical availability through brand stretch, but also enabling us to grow our core product, WD-40 Multi-Use Product.

As we add distribution for WD-40 Specialist to remove competitors from shelves around the world, we often gain shelf space for the blue and yellow can with a little red as well top. Year-to-date, sales of WD-40 Specialist were $32 million, up 21% compared to last year. As Garry mentioned earlier, we believe sales of WD-40 Specialist will reach approximately $100 million in revenue by the end of fiscal year 2025.

Our final must-win battle is focused on driving digital commerce. Our ambition for this battle is to engage with end users at scale and create positive lasting memories online, making it easy for end users to educate themselves and find and purchase our brands. Global e-commerce sales have grown 25% year-to-date. And we believe we are well-positioned to benefit from the significant shift to online behaviors in the post-pandemic world. We certainly see digital and e-commerce as a strong accelerator of our future growth.

In closing, I want to share a few thoughts with you about the future, reflecting on the outstanding results this quarter, demand has been exceptionally strong. However, beginning next quarter, we will be up against very strong sales comparisons, and investors should take that into consideration. Market conditions suggest that for the full fiscal year, net sales are likely to be in a range of between $475 million to $490 million which reflects year-over-year growth of between 16% and 20%. This upward revision to net sales is primarily driven by the strong sales results we experience in the third quarter.

Over the longer term, we are optimistic that many of the new end users who have interacted with our product during the pandemic will become permanent users of our maintenance solutions. In a post-pandemic world, we would expect consolidated net sales to grow in the mid- to high-single digits.

Now, I'll turn the call over to Jay, who will provide you with a financial update on the business.

Jay W. Rembolt

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

Thanks, Steve. Our record third quarter was driven by robust demand across all maintenance products, coupled with strong operating performance. In the third quarter, we grew consolidated net sales by 39% to $136.4 million. Net income for the third quarter was $21 million, compared to $14.5 million last year. Diluted earnings per share for the third quarter was $1.52, compared to $1.06 of the same period last year.

Now, let's begin our review of 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 or above 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 to around 30% of net sales. And finally, the 25 represents our long-term target for EBITDA.

First, we'll look at the 55 or gross margin. In the third quarter, our gross margin was 53.1% compared to 54% last year. This represents a decline of 90 basis points year-over-year. Gross margin was negatively impacted by 180 basis points due to increases in manufacturing costs, changes in sales mix, and higher miscellaneous costs. These increased manufacturing costs were primarily driven by higher labor and overhead costs at our third party manufacturers caused by the global supply chain constraints linked to the pandemic. Also negative impacting our gross margin were changes in foreign currency exchange rates, which adversely affected our gross margin by 50 basis points. This was due to the fluctuations in exchange rates for the euro and US dollar against the pound sterling in our EMEA segment from period to period. This is because in EMEA, the majority of our cost of goods

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are sourced in pound sterling, [ph] while (27:13) approximately 70% of our revenues are generated in currencies other than the pound sterling.

Finally, negatively impacting our gross margin were petroleum-based specialty chemical costs, which decreased our gross margin by 10 basis points in the third quarter. Crude oil is one of the primary feedstocks of our petroleum-based specialty chemicals. The price of crude oil has risen significantly over the past several months as compared to the prior year. Our cost of goods sold is now just beginning to see the impact of these increases. There is often a delay of one quarter or more before changes in raw material costs impact our cost of goods sold due to production and inventory life cycle. Therefore, the recent increase in these costs are expected to continue to unfavorably impact our cost of goods sold as long as crude oil remains at these higher levels.

These negative impacts to gross margin were partially offset by lower aerosol can costs which positively impacted our gross margin by 80 basis points. In the third quarter, we achieved favorability in the cost of aerosol cans and other components due to higher purchase volume incentives in our EMEA segment. However, we've recently seen costs for aerosol cans and other components increase and are expected more cost pressure in the future.

Warehousing, distribution, and freight costs positively impacted our gross margin by 30 basis points in the quarter, primarily in our EMEA segment. Gross margin benefited from fixed warehousing costs as these fixed costs had a smaller impact due to higher sales we experienced in the quarter. In addition, the prior-year quarter had higher inbound freight costs associated with the movement of raw materials and finished goods in preparation for Brexit.

Finally, positively impacting our gross margin were lower discount charges and price increases which when combined positively impacted our gross margin by 40 basis points.

Now, let's talk about our gross margin expectations. Like many other companies, we're operating in a challenging supply chain and inflationary environment. We're experiencing rises in raw material, freight, and wage costs which are all driving higher input costs. We continue to adapt to these dynamic times. However, over the short to medium term, we expect to see continued pressure on gross margin.

Despite the inflationary pressures we're experiencing, our gross margin target of 55% remains unchanged. In order to combat the economic factors we have been experiencing, we have begun implementing price increases in many of our markets. We continue to be focused and deliberate in managing our business so that we can maintain gross margin at or above our target of 55% over the long-term.

Now, I'll address the 30 or our cost of doing business. In the third quarter, our cost of doing business was approximately 32% of net sales, which as a percent of sales was flat compared to the last year. As you know, a majority of our cost of business comes 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, our A&P investment was 4.9% in the third quarter. And finally, freight costs, the cost to get our products to our customers.

On a dollar basis, our cost of business was up 39% compared to the same period last year. The increase was driven by both higher SG&A and A&P investments period over period. SG&A expense increased by $10.2 million compared to the third quarter of last year, primarily due to higher employee-related costs associated with incentive compensation accruals due to the stronger financial results. A&P investment increased by $1.9 million compared to the third quarter of last year, primarily due to a higher level of promotional programs and marketing support in all three [indiscernible] (32:06).

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This brings us to EBITDA, the last of our 55/30/25 measures. EBITDA was 21% net sales for the third quarter, unchanged from the comparable period last year.

And that will complete our discussion on our business model. Now, let's discuss some of the items that fall below that EBITDA line. The provision for income taxes was 21.9% in the third quarter compared to 23.9% last year. The decrease in our effective income tax rate was primarily due to tax benefits resulting from higher earnings from foreign operations, coupled with a one-time investment tax credit in fiscal 2021. We expect that our effective tax rate will be approximately 18% to 19% for the full year of 2021 compared to an effective tax rate of 19.6% in fiscal year 2020.

Now, a word about our balance sheet and capital allocation strategy. The company's financial condition and liquidity remains strong. The capital strategy includes a comprehensive approach to balance investing long-term growth while providing strong returns to our shareholders. We continue to return capital to our shareholders through regular dividends. On June 15, our board of directors approved the quarterly cash dividend of $0.72 per share payable July 30, 2021 to stockholders of record at the close of business on July 16, 2021.

So far in fiscal 2021, we have invested approximately $12 million in capital projects. The majority of which have been used to complete the procurement our proprietary machinery and equipment that we're using to manufacture our next generation Smart Straw delivery system. We expect by the end of this fiscal year we'll have invested a total of $16 million in capital projects. This is down from our prior expectations due primarily to $2 million to $3 million of the next generation Smart Straw equipment investment being delayed until next year.

So, with that, let's turn to fiscal 2021 guidance. Due to the uncertainty regarding the pandemic's near-term impact on our business, we have not issued comprehensive financial guidance for fiscal year 2021. However, we have provided revenue guidance. And as Steve mentioned earlier, we are increasing our revenue expectations for the full year due to the strong sales results we experienced in the third quarter.

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

Garry Owen Ridge

Chairman & Chief Executive Officer, WD-40 Co.

Thanks, Jay. In summary, what did you hear from us on this call? You heard that consolidated net sales were up 39% in the third quarter to $136.4 million, a new quarterly record for the company. You heard that sales of WD-40 Multi-Use Product were up 45% in the third quarter. You heard that sales of WD-40 Specialist were up 24% in the third quarter. You heard that year-to-date global e-commerce sales grew by over 25%. You heard that we have increased our marketing investment by over $2 million this year with a focus on winning the hearts and minds of end users in some of our top priority markets.

You heard [ph] the way (36:02) are being impacted by inflationary pressure and that in order to combat these rising costs, we've recently begun to implement price increases in many of our markets because we are committed to our 55/30/25 business model. You heard that we have increased our revenue expectations for the full fiscal year and believe that net sales will be between $475 million and $490 million, and that upward revision is driven by strong sales we experienced in the third quarter. You heard that we are adjusting our 2025 revenue targets today to a range of between $650 million and $700 million which reflects a compounded annual growth rate in the mid- to high-single digits and we believe we can successfully bring these targets within reach by the end of fiscal year 2025.

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In closing today, I'd like to share with you a quote from Albert Einstein, in the middle of every difficulty lies opportunity. Thank you for joining us today. We'd now be pleased to take your questions.

QUESTION AND ANSWER SECTION

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

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

Q

Yes, hi. Congratulations on a strong quarter, really impressive top line growth there. So, if we look at your revised revenue guidance for the year, it does sort of imply a deceleration of growth in the fiscal fourth quarter, which I guess I would have expected. I'm just kind of wondering EMEA and the Americas in particular have really hard comparisons. I mean, do you think – like what are you seeing in June so far? And do you think you can actually grow those regions a little bit even though the comparisons are hard? And then, secondly, can you remind us why Asia was down so much in the prior year? Was that something COVID-related?

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

A

Yeah. Thanks, Linda. It's Garry. Yeah. The sales revenue guidance that we've given shows Q4 somewhere between approximately $105 million and $120 million. The top end of that would be growth year-over-year, that's why we give a range. So we increased the year-end target because of the strong results in the third quarter. And we feel fairly comfortable with the range that we've given for the full year, which will probably show modest growth quarter-over-quarter versus last year.

As far as Asia is concerned, Steve, do you want to comment on the shift there?

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

A

Thanks, Garry, and hi, Linda. Yeah, really, it's just a comparable versus prior year. So, if you look at China, in particular, we had a very strong Q3 prior year and the Q2. So it's just – the mix between Q2 and Q3 overall for China, we're tracking very well year-to-date. And for the year-end, we expect very strong growth, and that's true for the whole of Asia as well. So, it's just [ph] broadly phasing (39:36).

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

Q

Okay. And, I mean, can you give us any color about what you're seeing in June? I mean, is that a month where you're facing the hard comparisons and so you see a little bit slower growth already in June?

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

A

Again, Linda, I'll just refer back to our full-year guidance. And we've given that out there, and that guidance will show some growth in the quarter year-over-year if we – if you took the medium of that. So, it's a hard comparison. But we don't see that the fourth quarter is going to be necessarily anything different than what we've now shared in the full-year number which would be revenue somewhere between $100 million and something and $120 million for the quarter.

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

Q

Okay. You mentioned you're already starting to take some price increases in your various regions, is that kind of across the board or is there any emphasis on any particular product lines? And can you give us some idea on the percent of magnitude of price increases being taken?

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

A

Yeah. It's across our major product lines in most major countries around the world. And it's mid- to high-single digits depending on what country and what impact we've had on our cost of goods, so WD-40 Multi-Use Product, WD-40 Specialist. This is really passing on the real price increases we're seeing due to increased manufacturing costs and increased raw material costs, some of which are coming from oil. But most of componentries across the world, we're seeing inflationary pressure. So, across all product and mid- to high-single-digits depending on which country and what impact those costs are having.

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

Q

Okay. And then on the last call, I believe Jay had said like a little bit of a quantification would be gross margin in second half would be down 200 basis points to 300 basis points versus the second quarter. And quite frankly, in the third quarter, it came in pretty close to my estimate. So I'm just wondering with now the price increases and maybe materials cost going up even more, I mean is that still an accurate statement or do you want to modify the magnitude of what you were saying previously about the gross margin?

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

A

I'll punch that over to Jay. He's the gross margin man.

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

A

Yeah. Thanks, Garry. And Linda, thank you. I think what – we did not see the kind of the full brunt of some of the costs we were expecting in the third quarter even though our margin was down. We still see and expect some continued margin pressure on the short term. The one thing to note is that many of the price increases that we are talking about will not make their way into the market by the time we go through the fourth quarter. So, they're primarily slated for earlier in the – or after the end of the year. So that'll kind of mitigate some of that – or it'll delay the benefit from price increase a little bit.

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

Q

Okay. Thank you. That's helpful. And then, can you talk about – I think you had talked about launching the new next gen Smart Straw in the US in this quarter – in the fourth quarter, but then you said you had some push out of the CapEx. So, are there delays or anything that's changing that timeline or are you still expecting to launch that in the US here in this quarter?

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

A

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Thanks, Linda. No, you won't see the appearance of Smart Straw next generation 1.5 on the shelves in the United States as we start to move through the fourth quarter.

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

Q

Okay. Great. And then I guess just a question on your – I mean, clearly, your cash flows are very strong [indiscernible] (44:22) your strong earnings but you didn't – you have not resumed share repurchase. Are you like – kind of what are your plans and what are you thinking in terms of timing for maybe resuming some share repurchase?

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

A

Jay, do you want to address that?

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

A

Yes. We haven't – we don't have an authorization although we would expect to be looking for an authorization as we move into the new year.

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

Q

Okay. Well, I guess I'll leave it at that and pass it on to the next person. Thank you.

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

A

Thank you very much, Linda.

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

Daniel Rizzo
Analyst, Jefferies LLC

Q

Hi, guys. Thank you for taking my question.

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

A

Hi.

Daniel Rizzo
Analyst, Jefferies LLC

Q

I was just wondering, you increased the outlook for the Americas, I think, to 5% to 8% from 2% to 5%, I mean the long-term sales growth. I was just looking for more color on where exactly you expect that to come from the elevated increase or the [indiscernible] (45:24) growth?

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

A

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Sure. Steve, would you like to cover that, please?

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

A

Sure. Thanks, Garry. Hey, Daniel. Yeah. So it's really, we see – you see – you've heard about the fantastic growth we've had as we've taken the market – Mexico direct that's driven significantly faster growth and has really helped the overall Americas grow quicker. So, Mexico is a part of it. Latin America, we see strong growth, geographic growth opportunities for the whole of Latin America, higher than we saw before. Also now, it's [indiscernible] (45:57) next-generation. Canadian growth prospects are transformed so we see strong growth out of Canada for premiumization.

E-commerce [ph] acceleration (46:07) growth across the whole of the Americas, so the fastest growing channel, we're doing very well there broadly. And then also since the re-launch of the refreshed WD-40 Specialist packaging despite our short-term issues in the United States, we see that as being a stronger driver of growth going forward. So they'd be the main reasons behind the increase in our confidence in the future of the Americas region.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. And then given what you saw in the third quarter in sales in the different regions and what's expected for the rest of the year, I know in the past sometimes – or timing has played kind of – it has moved things around. Specifically, last year, I think in Asia, there was a delay which caused a decline. I was wondering if there's any pull forward or delays in this third quarter that will be more evident in the fourth quarter.

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

A

Nothing significant that we would be concerned about or we'd be happy about. I think we've – the delays that we saw last year were really due to shutdowns of COVID and the major ones were in the beginning of the year basically when China around Chinese New Year 2020 shut down completely. We all have the scar tissue and memories of what was happening back then. So, no, I think – again, it's how normalized things become. And although we are seeing things improving in the US, Australia is in lockdown again now, we see different countries dropping in and out depending on the rate of vaccinations et cetera but it seem – the waters seem somewhat calmer than they did a year ago obviously. And there's certainly a lot of hope on the horizon given the way that the vaccines are helping to control the spread of COVID.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. And then final question, so the third-party issues that you kind of highlighted last quarter and then we kind of correlated, I think they still exist but it seems like you just completely offset them or [ph] mess (48:16) them. I was wondering why it's different because it was such a strong quarter this time and why it's – I don't know, I just – was unclear on why it's different, say, Q3 here versus Q2.

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

A

Because of the actions we took. We were able to redirect some of our manufacturing across different areas. There was – so we didn't have the impact that the big freeze in Texas which certainly impacted supply chain particularly around aerosol cans, some of our major suppliers of cans were shut down for weeks. So, a few things

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have happened. The flow of inward goods has freed up a little and we've been working to redirect and place manufacturing in different areas where we had some of our packages that had to bring on second ships, labor is now becoming available although it's still tight. So, there's a number of steps that were taken that told us that we were going to get through this, that we were in a pretty critical time at that time.

And hats off to our tribe and hats off to our supply chain leaders. They have just done an amazing job and it just shows the resilience of our culture. And we're so fortunate and grateful for the hard work and the sweat and tears they have done to really hold up our supply chain during this period of time.

Daniel Rizzo
Analyst, Jefferies LLC

Q

All right. All right, guys. Thanks. Thanks for the color.

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

A

You're welcome.

Operator: And that does conclude today's conference. Thank you for participating. You may now disconnect. Have a great day.

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