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WD-40 Co. (WDFC)

Q4 2021 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 Fiscal Year 2021 Earnings Conference Call. The 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, Vice President, Stakeholder and Investor Engagement. Please proceed.

Wendy Kelley

Vice President, Stakeholder & Investor Engagement, 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, 2021. 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, 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, October 19, 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. And thank you for everyone joining us on today's call. Today, I'm happy to share with you that we reported record net sales of $488.1 million for the full fiscal year 2021, up 19% over last fiscal year. Changes in foreign currency exchange rates had a favorable impact of $19.7 million on net sales for the fiscal year 2021. On a constant currency basis, net sales would have been up 15%. Net income was $70.2 million [audio gap] (00:03:26) fiscal year 2021, reflecting an increase of 16%. Diluted earnings per share in 2021 were $5.09 compared to $4.40 last year.

For the fourth quarter, we reported net sales of $115.2 million, which reflects an increase of 3% from the fourth quarter of last year. Changes in foreign currency exchange rates had a favorable impact of $6.5 million on net sales for the fourth quarter. On a constant currency basis, net sales would have decreased 3% compared to last year.

Net income was $8.4 million compared to $19.7 million in the fourth quarter of last fiscal year reflecting a decrease of 57%. Diluted earnings per share in the fourth quarter was $0.61 compared to $1.42 in the fourth quarter of last year.

If you follow our business closely, you'll know where fluctuations in performance quarter-to-quarter are not unusual. This has been especially true since COVID-19 pandemic began. Fiscal year 2021 was a lumpy year with abnormal swings in net sales from period to period. We've seen more variability between quarters than we experienced before the pandemic.

We know this quarter looks different. However, we're going to share with you today why our results are actually an exciting step forward in our infinite game. In the fourth quarter, we made a thoughtful and deliberate decision to invest significantly in sales momentum we have been experiencing and increase sale investments in brand awareness and market penetration. Though these decisions negatively impacted our net income in the fourth quarter, we believe the investments in these key strategic areas will drive strong top line growth in the future.

If you follow us with an infinite mindset, you'll be pleased with our results this year. Our infinite-minded decisions have delivered a compounded annual growth rate of total shareholder return of 14% since 1998. This unprecedented year brought many unexpected opportunities and challenges. I am so proud of our tribe and what they have been able to accomplish during these extraordinary times. In many ways, the challenges we've experienced since the pandemic began has brought out the best in our tribe and has enabled us to learn together and pivot through some very challenging times.

Steve will talk with you in a few minutes about the specific sales trends we experienced in the fourth quarter in each of our trading blocs. But, first, I'm going to share an update with you on our strategic initiatives. Our strategic initiatives are the continuing plan we have in place to achieve the company's long-term aspirations. As most of you will recall, we recently adjusted our long-term revenue aspirations to drive net sales to a range of between

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$650 million and $700 million by the end of fiscal year 2025. We strive to do this while following our 55/30/25 business model.

While these financial objectives remain, we recently decided to refresh our strategic initiatives so they more accurately and holistically reflect the top priorities of our organization. Before I share with you our refreshed strategic [audio gap] (00:06:55), I will first share with you the progress we've made against our current strategic initiatives during fiscal year 2021. Strategic initiative number one is to grow WD-40 Multi-Use Product. In fiscal year 2021, sales of WD-40 Multi-Use Product increased 22% globally to $371 million. Strategic initiative number two is to grow the WD-40 Specialist Product line. In fiscal year 2021, sales of WD-40 Specialist increased 16% globally to $42.5 million.

Strategic initiative number three is to broaden product and revenue base. In fiscal year 2021, sales of products included under this initiative increased 13% globally to $63.2 million. Strategic initiative number four attract, develop and maintain outstanding tribe members. When we last measured in January 2022, our overall global employee engagement score was 93%. Our tribe has continued to adapt during the pandemic. And we have made every effort to make our tribe members' well-being a top priority. In January 2021, we did a check-in survey with the tribe, which reconfirmed engagement continues to be at this level. 98% of our tribe shared they were excited about the company's future.

Strategic initiative number five, operational excellence. Our goal under this initiative is to strive for continuous improvement. And we measure ourselves against this initiative following the 55/30/25 business model. In fiscal year 2021, we reported gross margin of 54%, cost of doing business of 35%, and EBITDA of 20%.

Now, our strategic refresh. We decided to refresh our strategic initiatives so they more accurately and holistically reflect the top priorities of our organization moving forward. We believe our long-term financial objectives can only be achieved if we make infinite-minded decisions that create and protect long-term shareholder value. We have always considered ourselves a purpose-driven organization, which puts its people first. Our philosophy has always been if we take care of our employees, our employees will take care of our customers. Our philosophy has not changed. However, we wanted our strategic drivers to better reflect this ideology.

So with that, I'm pleased to share with you our refreshed strategic drivers, which can also be found within our quarterly earnings presentation. Strategic initiative number one, build a business for the future. Our goal under this initiative to build an enduring business that we will be proud to pass on to the next generation. By using our purpose and values as a decision-making filter, we will make infinite-minded decisions that create and protect long-term stakeholder value.

As mentioned in our fourth quarter, we significantly increased investment in our brand building to support our must-win battles because we are playing the infinite game. The desired outcome for this strategic initiative is to further embed infinite-minded decisions into our business and to fully integrate our ESG initiatives into the heart of our strategic planning process.

Strategic initiative number two, attract, develop and engage outstanding tribe members. We know our people make us great. By building and nurturing an inclusive and diverse, purpose-driven, learning and teaching an organization, our tribe members will succeed together while excelling as individuals. This [ph] initiative (00:10:35) has always been important to our organization's long-term success. We believe in the will of our people. Will is not tangible; you won't find it on our balance sheet. It encompasses morale, motivation, collaboration, inspiration, commitment and the desire to offer discretionary effort. Some see human capital as expense. We see our people, our tribe, as a invaluable asset because we know that our success is the result of the engagement and the

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commitment of our people. The desired outcome of this strategic initiative is to grow employee engagement to greater than 95%.

Strategic initiative number three is to strive for operational excellence. Our goal under this initiative is to foster a culture of continuous improvement in which operational excellence is the responsibility of [audio gap] (11:33) tribe member. Operational excellence means optimizing collaboration, resources, systems and processes, as well as prioritizing the use of our time, talent and treasure and technology. Using our 55/30/25 business model as a framework, we measure ourselves against this operational excellence initiative.

Strategic initiative number four is to grow WD-40 Multi-Use Product. Our goal under this initiative is to make the blue and yellow can with the little red top available in more places to more people who will find more uses more often. We will grow the WD-40 Multi-Use Product line through continued geographic and digital expansion, increased market penetration, educating end-users about new uses, and through the development of new and unique delivery systems that make the product easier to use. The desired outcome for this strategic initiative is to grow sales of WD-40 Multi-Use Product to approximately $525 million by 2025.

Strategic initiative number five is to grow the WD-40 Specialist Product line. Our goal under this initiative is to leverage the WD-40 brand by developing new products and categories which build and reinforce the core brand positioning and create growth through continued geographic and digital expansion. As part of the brand architecture project we completed in fiscal year 2020, WD-40 BIKE was absorbed into the WD-40 Specialist line of products. Accordingly, we will begin to report WD-40 BIKE as part of our Specialist results beginning the first quarter of fiscal year 2022. The desired outcome for this strategic initiative is to grow sales of WD-40 Specialist to approximately $125 million by 2025.

Strategic initiative number six is to expand and support portfolio opportunities that help us grow. Our goal under this initiative is to expand and support brands that [audio gap] (13:25) protection. Our focus will be to expand 3-IN-ONE and GT85 or future maintenance brands with portfolio opportunities that fit well within our unique multi-channel distribution network.

In addition, we will support homecare and cleaning product brands that provide healthy profit returns, including well-known brands such as 1001, Spot Shot, Solvol, 2000 Flushes, Carpet Fresh, X-14, Lava, and no vac. The desired outcome for this strategic initiative is to grow sales in this category to approximately $50 million by 2025. Our decision to report WD-40 BIKE as part of the WD-40 Specialist results going forward has lowered the desired outcome for this initiative as compared to the prior corresponding initiative.

Supporting our strategic initiatives are our must-win battles. These are focused action plans that support our strategic needs. I will now pass the call to Steve, who will share an overview of our sales results and update you on our must-win battles.

Steven A. Brass

President & Chief Operating Officer, WD-40 Co.

Thanks, Garry, and good afternoon. Today we closed out a spectacular year of incredible growth for our company. Globally, sales of WD-40 brand products grew 22% in fiscal year 2021 compared to last year. We experienced very high end-user demand for our maintenance products due to the higher level of renovation and maintenance activities driven by the pandemic. In addition, we continue to recoveries in many markets due to improvements in public health and safe standards, as well as an expanded brick and mortar distribution and continued success within the e-commerce channel.

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As Garry mentioned earlier, the pandemic continues to create abnormal swings in our net sales results from period to period, which is evidenced in our fourth quarter net sales results. Let's take a closer look at what happened in our trade blocs in the fourth quarter starting with the Americas. Net sales in the Americas, which include the United States, Latin America and Canada, were down 5% in the fourth quarter to $54.2 million. Sales and maintenance products decreased 5% in the Americas due to decreased sales of WD-40 products in the US and Canada which declined 5% and 17%, respectively. These declines were driven by several factors.

In the United States, we're up against a very strong comparable period. While we continue to experience very strong end-user demand for our maintenance products, we were unable to fully meet those demands due to the current state of the global supply chain, the implications of which were felt most significantly in the United States. The biggest challenge facing many consumer product companies today is a continued [ph] impact (16:04) that global supply chain is experiencing. These supply chain issues are contributing to rising input costs, manufacturing fees and higher warehousing and distribution expenses, which Jay will discuss in greater detail shortly.

In Canada, net sales of maintenance products declined because of the timing of customer orders. In addition, we were up against a very strong year-over-year comparable period in Canada. In Latin America, we experienced strong sales of all our maintenance products during the fourth quarter, which increased 24% compared to the prior year. 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.

Sales of our homecare and cleaning products in the Americas decreased 2% in the fourth quarter compared to the prior year. We continue to consider our homecare and cleaning products 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.

For the full fiscal year, net sales in the Americas were up 7% to $214.6 million. In total, our Americas segment made up 47% of our global business in the fourth quarter. Over the long-term, we anticipate sales in this segment will grow between 5% to 8% annually.

Now on to EMEA. Net sales in EMEA which include Europe to Middle East, Africa and India were up 6% in the fourth quarter to $45.1 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 decreased by 6% compared to last year, primarily due to transactional impacts caused by unfavorable changes between the pound sterling and the US dollar.

However, and also considering transactional impacts caused by changes between the euro and pound sterling, sales were relatively constant, only down 1% compared to the prior year period. The 1% decrease in EMEA sales after all currency impacts removed was primarily caused by decreased sales in the EMEA direct markets which were mostly offset by increased sales in maintenance products in the EMEA distributor markets.

Sales levels were higher in the fourth quarter of this year in the EMEA distributor market due to the severe lockdown measures that occurred during the fourth quarter of fiscal year 2020 as compared to relatively open conditions in the fourth quarter of this year. In the fourth quarter, net sales in our EMEA distributor markets accounted for 26% of the region sales. In our EMEA direct markets, we are experiencing a sales decline from

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period to period because sales levels are much higher in the fourth quarter of last year due to the lifting of severe lockdown measures in the region. In the fourth quarter, net sales in our EMEA direct markets accounted for 74% of the region sales. For the full fiscal year, net sales in EMEA were up 33% to $208.3 million resulting in the most successful year in the history of the trade bloc.

In total, our EMEA segment made up 39% 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. Net sales in Asia-Pacific which includes Australia, China and other countries in the region were up 32% in the fourth quarter to $15.9 million. Changes in foreign currency exchange rates had a favorable impact for the Asia-Pacific segment from period to period. On a constant currency basis, sales would have increased by 24% compared to last year.

In Australia, net sales of $5.3 million in the fourth quarter up 2% compared to last year. Changes in foreign currency exchange rates had a favorable impact on sales in Australia from period to period. In local currency, net sales in Australia declined 7% compared to last year. Australia was up against a very strong year-over-year comparable to sales. In addition, some regions in Australia were under severe lockdown measures during the fourth quarter of 2021. These have been much more severe than what the country had experienced in the past, and is contributed to the decline in sales.

In our Asia distributor market, net sales of $5.8 million in the fourth quarter up 172% compared to last year, primarily due to a nearly 200% 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. These reduced lockdown measures positively impacted economic conditions during the fourth quarter for this year and resulted in increased demand and higher sales particularly in South Korea and Indonesia.

In China, net sales of $4.8 million in the fourth quarter up 2% compared to last year. Changes in foreign currency exchange rate had a favorable impact on sales in China from period to period. The local currency net sales in China declined 7% compared to last year. Overall, China is currently doing well and experiencing no major impacts from the pandemic. The decline in sales in the fourth quarter was primarily driven by the timing of customer orders and promotional activities. For the full fiscal year, net sales in Asia-Pacific were up 26% to $65.3 million.

In total, our Asia-Pacific segment made up 14% of our global business in the fourth quarter. Over the long-term, we anticipate sales within this segment will grow between 10% to 13% annually.

As we begin our journey into fiscal year 2022 and seek to execute and deliver against our 2025 revenue growth aspirations to drive net sales to between $650 million and $700 million, we are more focused than ever before on our must-win battles. These hyper-focused actions support our overall strategy and other key drivers of revenue growth.

Our largest growth opportunity in first must-win battle is the geographic expansion of the blue and yellow can with a little red top. As Garry shared with you earlier, sales of WD-40 Multi-Use Product for the full fiscal year were $371 million, up 22% compared to last year. We have focused like never before on our top 20 global growth markets. We never stopped investing during the pandemic. We increased our marketing investments by over $6 million this year, including nearly $4 million in the fourth quarter alone. The investments are focused on building brand awareness and market penetration in identified markets. We're doubling down on the future because of the

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tremendous growth we've seen in markets like France, the United Kingdom, and Russia. During fiscal year 2021, we saw growth of 36%, 28%, and 43%, respectively.

In addition, we've seen tremendous growth in Mexico, which has been the fastest-growing direct market we've ever launched in the history of the company. In fiscal year 2022, 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, gross margin expansion, and most importantly, it delights our end-users. For the full fiscal year, sales of WD-40 Smart Straw and EZ-Reach when combined were $180.7 million or nearly 19% compared to last year and representing nearly 49% of total global sales of WD-40 Multi-Use Product.

Our Smart Straw Next-Generation delivery system is currently available in Canada and has been rolled out in the United States. That will be available later in fiscal year 2022 in Europe. Smart Straw Next Generation supports our objective to grow premium delivery system penetration to greater than 60% of our WD-40 Multi-Use Product sales by 2025.

Our third must-win battle is to grow the WD-40 Specialist product line. For the full fiscal year, sales of WD-40 Specialist were up 16% compared to last year and up 21% if you include sales of WD-40 BIKE as we will be doing going forward. Absent a supply chain disruptions and constraints we experienced in the United States, WD-40 Specialist would have grown even more.

We recently completed some very interesting research, which suggests the end users of WD-40 Specialist as some of our most loyal WD-40 Multi-Use Product fans. As you might recall in early fiscal year 2020, we debuted new packaging for WD-40 Specialist which gave us stronger brand presence for both WD-40 Multi-Use Product and WD-40 Specialist, aligning them as a blue and yellow brand with a little red top. We believe we have yet to see the full benefit of this brand architecture project because of the pandemic and associated supply chain issues.

A final must-win battle is focused on driving digital commerce. For the full fiscal year, global e-commerce sales are up 25% compared to last year, and we believe we are well-positioned to benefit from the significant shift to online behaviors in the post-pandemic world. The focus on developing a data-driven marketing strategy could empower us to engage directly with end users in meaningful ways online. That strategy has already delivered a year-over-year increase of nearly 80% in website that has doubled the views of our digital content globally and has accelerated and deepened our engagement with end users on many digital platforms around the world.

In closing, I want to share a few thoughts with you about the future. Fiscal year 2021 was an exceptional year for the blue and yellow brand with the little red top with increased end user demand across all our trade blocs. We remain optimistic that many of the new end [ph] users (00:26:14) who interacted with our brands during the pandemic will become permanent users of our maintenance solutions. However, it's also important to note we haven't spent the last 18 months twiddling our thumbs and naively thinking that pandemic-related windfalls will last forever.

Rather, we spent the time becoming laser-focused on the areas where we believe future revenue growth will come from. We are investing our time, talent, treasure and technology to support specific growth objectives because we believe investments in these areas will drive our growth in the future. So, how do you top your best year ever with a great start to the new year? I'm pleased to report that demand continues to be exceptionally strong and September was the second largest sales month in the company's history.

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

Jay W. Rembolt

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

Thanks, Steve. We're pleased that in fiscal 2021, we saw robust demand across our maintenance products coupled with strong operating performance. In the fourth quarter, we were up against some very strong sales comparisons as well as some gross margin headwinds which I'll speak about in a minute. But, first, let's start with the discussion about how we performed against the limited fiscal year 2021 guidance we shared with you last quarter. Due to the uncertainty regarding the pandemic's near-term impact on our business, we did not issue comprehensive financial guidance for fiscal 2021. However, we did share that we thought market conditions suggested that for the full fiscal year, net sales would fall in the range of between $475 million to $490 million. Today, we reported fiscal year revenue of $488.1 million, up 19% compared to fiscal 2020, and coming in at the top end of our projected range.

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 for 30% of net sales. And finally, the 25 represents our target for EBITDA. [indiscernible] (00:29:05)

In the fourth quarter, our gross margin was 51.2% compared to 56.3% last year. This represents a decline of 510 basis points year-over-year. This large decrease in gross margin was primarily due to the inflationary headwinds and the current state of the global supply chain. Like others, we're experiencing significant increases in the input and transportation costs, as well as increased fees from our third-party manufacturers. In order to combat these macroeconomic factors, we began implementing price increases, but they'll take time to implement and to make their way into our reported results. Changes in major input costs, which include specialty chemicals and aerosol cans, were the primary driver of this decline and negatively impacted our margin by 300 basis points.

Specialty chemical costs negatively impacted our margin by 240 basis points period-over-period, with the remaining 60 basis points driven by the increased cost of aerosol cans. Also, [ph] negatively (00:30:14) impacting gross margin were higher warehousing and inbound freight, along with higher discount charges, primarily in the Americas, which negatively impacted our gross margin by 180 basis points when combined. These increased costs reflect the current state of the supply chain environment we've been operating in. These cost increases have been further complicated by labor and truck driver shortages, primarily in the US, but we've seen it elsewhere.

Changes in foreign currency exchange rates, primarily in EMEA, also negatively impacted margin by 70 basis points due to the fluctuations in exchange rates for the euro and US dollar against the pound sterling. This is because in EMEA, most of our cost of goods sold are sourced in pound sterling, while approximately 65% of our revenues are generated in currencies other than the pound sterling. These negative impacts to gross margin were partially offset by miscellaneous impacts and price increases, which combined positively impacted gross margin by 40 basis points.

Now, let's talk about gross margin expectations. Environment remains dynamic with significant inflationary pressures, increased cost of goods and continued uncertainty around logistics. We expect to begin to recover gross margin with tactical moves over the short term with price increases. While it may take a few quarters, our intention is to build gross margin back to our guided range by the end of the fiscal year. I have every confidence

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that over the long term, we will be able to strategically expand gross margin above our target of 55% through premiumization, product mix, and continued geographic expansion.

Now I'll address the 30 or our cost of doing business. In the fourth quarter, our cost of doing business increased to 39%, up from the 33% last year. Period versus period, our sales increased by 3%, while our operating expenses increased by 22%, causing an increase in our cost of doing business percentage. Our long-term goal is to drive our cost of doing business percentage or 30% of net sales. For the fourth quarter, 79% of our cost of doing business came from three areas: people costs or the investments we make in our tribe. This includes the impact of paying higher earned incentive compensation. Our incentive plan applies to every member of our tribe at every level of the organization, and we couldn't be more pleased to reward their outstanding individual and collective efforts.

The investments we make in marketing, advertising and promotion. As a percentage of sales, our A&P investment was 8.9% in the fourth quarter. This quarter, we made the deliberate decision to significantly increase our A&P investment, which increased by 61% compared to the fourth quarter of last year as we chose to accelerate our efforts in building long-term brand awareness and market penetration. This investment represents over half of the increase in the cost of doing business in the fourth quarter.

And finally, the freight costs to get our products to our customers. Higher freight costs continue to impact our cost of doing business due to constraints and limited capacity in global distribution markets.

This brings us to EBITDA, the last of our 55/30/25 measures. EBITDA was 12% of net sales for the fourth quarter, which is down significantly compared to the fourth quarter of last fiscal year, primarily due to our increased A&P investments and the lower gross margin we reported in the fourth quarter. We've always been good stewards of our resources, frugal in our spending, and conservative on our financial commitments. We expect to move closer to our historic EBITDA levels in the future.

So that completes the discussion on our business model. Now, let's discuss some items that fall below the EBITDA line. The provision for income taxes was 25.9% in the fourth quarter compared to 20.5% last year. The increase in our effective tax rate was primarily due to fluctuations in book income from quarter-to-quarter and the effect of a corporate tax rate change in the UK. We expect that our effective tax rate will be approximately 21% to 22% for the full fiscal 2022 compared to an effective rate of 18.8% in fiscal year 2021. The higher rate for fiscal 2022 is mostly related to non-repeatable and expiring tax benefits realized in fiscal 2021 that are not expected to reoccur in 2022.

Net income for the fourth quarter was $8.4 million compared to $19.7 million last year. Diluted earnings per common share for the fourth quarter were $0.61 compared to $1.42 for the same period last year. Our net income and diluted earnings per share were unfavorably impacted in the fourth quarter compared to last year due to all the reasons outlined above. However, net income and diluted earnings per share were very strong for the full fiscal year, with a great year with earnings growth of 16%.

And now a word about our balance sheet and our capital allocation strategy. Company's financial condition and liquidity remains strong. Our capital allocation strategy includes a comprehensive approach to balance investing in long-term growth while rewarding strong returns to our shareholders. We continue to return capital to our shareholders through regular dividends. On October 4, our board of directors declared a quarterly cash dividend of $0.72 per share, payable October 29 to stockholders of record at the close of business on October 15, 2021.

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In addition, I'm happy to share with you that our board of directors recently approved a new share repurchase plan. When the pandemic began, we elected to suspend stock repurchases under our previous purchase plan in order to conserve cash, while we monitor the long-term impacts of the pandemic. The newly authorized share repurchase plan reflects our confidence in our long-term growth outlook, our commitment to our capital allocation strategy and our capacity to return capital to our stockholders under the new plan, which will be effective November 1, the company is authorized to acquire up to $75 million of its pending shares through August 31, 2023.

In fiscal year 2022, we expect to invest approximately $14 million in capital projects, a majority of which will be used to complete the procurement of the proprietary machinery and equipment that we're using to manufacture our Next Generation Smart Straw delivery systems. We had originally expected this project would be completed by fiscal 2021. However, due to the impacts of the pandemic, this investment will continue into FY 2022.

We've historically had a very asset-light business model which has typically required very low levels of capital investment roughly between 1% and 2% of sales. And we believe beginning in fiscal 2023 we will see CapEx return to these levels.

Now, let's turn to fiscal 2022 guidance. We want to remind everyone that there are dynamics outside of our control that may impact our fiscal 2022 results, including the impact of fluctuating foreign currency exchange rates, continued inflationary headwinds, and other unforeseen events. This guidance does not include any future acquisitions or divestitures. And with that, we expect net sales growth projected to be between 7% and 11% with net sales between $522 million and $542 million.

Gross margin for the full fiscal year is expected to be between 53% and 54%. Advertising and promotion investment is projected to be between 5.5% and 6% of net sales. The provision for income tax is expected to be between 21% and 22%. Net income is projected to be between $71.7 million and $73.6 million. And diluted earnings per share is expected to be between $5.24 and $5.38 based on an estimated 13.7 million weighted average shares outstanding.

Well, that completes the financial overview. Now 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 we have delivered a compound annual growth rate of total shareholder return of 14% since 1998. You heard that net sales were $488.1 million, up 19% compared to last fiscal year and a new record for the company. You heard that global sales of WD-40 brand products were up 22% compared to last fiscal year. You heard that we have refreshed our strategic initiatives to more accurately and holistically reflect the top priorities of our organization. You heard that for the full year global e-commerce sales grew by 25%.

You heard that we increased our A&P investment in the fourth quarter to support specific growth objectives because we believe these investments will drive our future growth. You heard that we expect we will continue to see pressure on gross margin due to inflationary headwinds and a challenging supply chain environment. You head that we have issued guidance for fiscal year 2022 and believe that net sales will grow between 7% and 11% and that we're off to a very strong start in the new fiscal year.

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Finally, I'd like to share with you the biggest learning I have taken away from this fiscal year. One thing the pandemic has proven to me is that the diversification across geographies and trade channels, which we built into our business, creates a protective moat which allows us to succeed even in the most abnormal times.

In closing, I'd like to share with you a quote from my friend Simon Sinek. Courage as it relates to leading with the infinite mindset is the willingness to completely change [ph] our (00:42:21) perception of how the world works. It is the courage to reject Milton Friedman's stated purpose of business and embrace an alternative definition. Thank you for joining us today. And we will now be pleased to take your question.

QUESTION AND ANSWER SECTION

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

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

Q

Great. Thank you. Hi. How are you doing?

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

A

Hi, Linda.

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

Q

So I guess I'll just start with your update of the long-term strategy and some of the targets. If you could just remind me, I don't have the previous target rates in front of me, but it does seem like growing the WD-40 core product line, the goal for 2025, it does strike me that that's lower than it was. Can you just remind us what it was previously relative to the new goal of $525 million? And then talk about what has made that change, because even though you had some disruption during the pandemic, you also had isolation renovation benefits. So what is the change in thinking that is changing some of these long-term targets? Thanks.

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

A

Thanks, Linda. They're substantially the same to be honest. The $530 million is substantially the same figure we had when we had our $700 million goal. We did put that range in of $650 million to $700 million. But the only real change to the long-term goal was moving WD-40 BIKE out of the strategic drop that it was in and including it with Specialist. And in fact, the Specialist aspirational goal went up by $25 million from $100 million to $125 million. So, the bottom line is things have remained and our aspirations are pretty much in line with what they were before.

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

Q

Okay. So then what's the takeaway then on the strategic refresh on that, maybe I'm missing or are things pretty much in line across the board?

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

A

Basically, what we did is we wanted to kind of force-rank them a little bit. So as you can see, our attention to ESG and collaboration has moved to the top because it's become a big part of our strategic planning process. But as far as the aspirations for revenue growth are concerned, they basically stayed the same. We've added in the focus that we've now brought on digital and e-commerce. As you know, that's been a big push for us and it's been very successful. So in most cases, they were really bringing them up to date with holistically what we are thinking these days and including things that have come into our business and into our thinking that we wanted to make sure, well, headlines not only to the outside world but headlines to the leadership team internally as well.

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

Q

Okay, great. So it sounds like it's that order in which you talk about the goals that is the real difference as you said, right?

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

A

And some words that now bring out and put into play, our intention around things like, the future of the company in relation to ESG, DE&I, all of those things that have become importantly and rightly so, headlines for most companies and, to be honest with you, things that have been present in our company for a long, long time, yet we haven't really put them in print.

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

Q

Great, thank you. So can I just ask you about – I mean, in the quarter, you alluded to some conscious investment to support the business and the brands. And the A&P ratio indeed was quite, quite high. I mean there was a lot of spending. Can you talk about what you spent on and how much of that is like digital-type spending and how much is to support near-term growth versus long-term brand building? And then if you spend so much, when will we see – will we see an immediate effect, a positive effect on sales growth like in the next couple of quarters or is it more a longer-term thing that will benefit from all this spending? Thank you.

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

A

Thanks, Linda. I'm going to answer the back end of that question. I'm going to punt over to Steve and he's going to talk what we specifically invested in. But as you can see, we see next year our revenue growth of between 7% and 11%, so obviously some of what we're doing we're expecting to have some short-term impact as we enter the new fiscal year.

And as Steve shared with you, our September was the second largest revenue month we've had in the company's history, so we're off to a good start. But, specifically, I'll ask Steve to talk about the substantial investments we made, which was pretty out of character for us but we wanted to be deliberate. We said now is the time. We're not afraid to invest when we see the opportunities are there. And some of the work we did during the year really highlighted areas where we felt we could really strengthen our growth going forward by bringing forward and investing into new areas. So I'm going to [audio gap] (00:48:25) Steve to talk about that.

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

A

Thank you, Garry. Hi. Hi, Linda. Three real areas of focus were kind of where the investments are. The first one was in sampling so particularly with professional end users around the world which drives faster end user penetration, especially with professional users. So that has the double whammy effect of driving both short-term penetration and consumption and also long-term because once we win new users, we tend to keep them.

And the second area has been digital investments. We've expanded our digital asset base globally, particularly a lot of video work, how to do videos around the world, and also a global digital tracking system to track the – in real time, to track the effectiveness of our digital marketing and efforts around the world.

And then finally, investing in our top 20 markets in terms of major research projects in places such as China and Brazil, and they will help us form our long-term future strategy for those key markets, but also just investments in places like India and Russia, also that we believe we have strong both short-term and long-term growth opportunities so really investing in line with those top 20 opportunities around the world.

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

Q

Okay. And then longer term, [indiscernible] (00:50:02-00:50:16)?

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

A

No. Linda, in our current guidance that we just issued, we shared that we think that total A&P investment for this fiscal year will be between 5% and 6%, which is in the range. Normally, it's been about 5.6% to 5.7%.

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

Q

Okay. And then on the gross margin, can you just repeat what you said? Did you say that you hope that by the fourth quarter, fiscal fourth quarter, you can get to the long-term goal which is the 55%? Am I understanding that correctly?

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

A

I'll let Jay talk about gross margin. Jay?

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

A

Yes. Thank you, Garry. Yeah, well, this is going to take a few quarters to build our gross margin back to kind of the guided range between 53% and 54% for the year. We do expect over time build to a greater than 55% margin over the long term. So, that still remains our target and our intention. We're just in a period where we're really having a number of unknowns and, at the moment, it's impossible to really be exact at what point we'd get there. But we feel that we will recover a significant portion of the lost margin and we'll be set to recover and drive north of that 55% beyond the year.

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

Q

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Okay. Thank you. I'll pass it on. Thank you very much.

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

A

Thank you, Linda.

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

Daniel Rizzo
Analyst, Jefferies LLC

Q

Well, good afternoon, everyone. Thanks for taking my question. Just to get back where we were just talking about what the A&P cost. So they were up a bit in the fourth quarter but the guidance is in line with historical averages. Was there some pull forward here that's not going to repeat? I was just wondering given what your outlook is or what you want to achieve over the next five years, why it wouldn't be possibly a little bit higher for a longer period of time as opposed to the 5.5% to 6% that you usually guide to?

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

A

Because we made specific investments in some areas that were one-time investments; for example, the research that Steve mentioned, the production of a large library of video assets and our normal A&P investment also has a lot of sampling embedded in it anyhow. So, yeah, that's why we will be back to the normal range going forward.

Daniel Rizzo
Analyst, Jefferies LLC

Q

All right. Thank you. And then you mentioned ESG as a key part of this strategy going forward. I was just wondering what specifically you're doing or how specifically ESG fits into what we see [indiscernible] (00:53:30) I mean, is there some sort of steps you're taking or just any color would be great?

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

A

Well, as you know, Daniel, we've released and published our first ESG report last year. We currently have a large working group working on a lifecycle analysis in a number of different areas, so that we can really level set where we are which will allow us in our next ESG report which will be published next October to set out targets around particularly the E. The S and G, as you know, we've got measurable targets and have had really great results around those over the years. So, yeah, we'll be [indiscernible] (00:54:18) is heading up that program with a group of people from all over the company and will be ready in our next CHG report the sets and targets that we feel comfortable around.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. And then one final question is just with the strategic initiatives. It's a little different now and then number six in particular, you mentioned expanding and supporting portfolio opportunities. I think I know what the answer is here, but would that mean that you're looking at I guess more organic opportunities where you might be shifting focus or divesting something or possibly seeing something out there that is actually possible to fit into the portfolio that wasn't there before?

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

A

I'll give you an example of that internally. Last year or over the last year and a bit, we've taken the 3-IN-ONE brand and extended the portfolio of the 3-IN-ONE brand to include a impressive range of recreational vehicle maintenance products that now weigh the 3-IN-ONE brand and are in wide distribution. So with the GT85 brand in the UK, we've done the same thing, expanding that in some areas that we see opportunities in, there's not a lot of other activity in the other brands with the exception, I guess, of Carpet Fresh or no vac in Australia, which is a very strong brand and we continue to [audio gap] (00:55:35) in those areas, but there's nothing really magical or mystique in that area.

Daniel Rizzo
Analyst, Jefferies LLC

Q

All right. All right. Thank you very much.

Operator: We have a follow-up question coming from Linda Bolton Weiser. Please proceed with your question.

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

Q

Tell us what your oil price planning assumption is, price per barrel for the fiscal year?

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

A

We have a range. Jay, do you have a range that we've disclosed?

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

A

Oh, sorry. Yeah. We're – at the moment, we're in the high end of the range, we usually plan with about a $10 range. So, yeah, we're comfortable with, I wouldn't say we're comfortable with the price of oil that we see today, but it is reflected in our forecast and our outlook.

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

Q

So you're planning $70 to $80 or $80 to $90.

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

A

It's closer to the $70 to $80.

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

Q

Okay. And then can I just ask you too we've been hearing from so many companies about the supply chain challenges, and I know you had some disruptions earlier in the pandemic, is there anything right now that you're seeing that would cause you some problems? Are you able to handle the various challenges? What are you kind of anticipating that you need to look out for the next year?

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

A

Linda, it's whack-a-mole basically. I think, and that's not trying to be funny either. But every day there's something that shows its head to us that we hadn't anticipated that caused us to have to pivot in one way or do something differently. For the most though, if you look at how the year that just went and the volume increases we had in a supply chain situation that was extremely stressed, our supply chain team did a remarkable job. And each day we think we're getting better in areas of weakness.

So I would say that, there's not a huge threat today at this minute that we see. However, it's a challenging situation that continues to be managed day-to-day, not only because of the supply chain issues that are happening in the US and other parts of the world, but also because of the increased volume where in some places around the world, some countries were approaching the volumes we thought we would have achieved in 2023, 2024 or 2025. So, substantial increases for the most of them.

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

Q

Okay. Thank you. Good luck with everything.

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

A

Thanks, Linda.

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

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