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Earnings Call

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Call Participants

EXECUTIVES

Sara Hyzer

*VP of Finance, Treasurer, CFO &
Principal Accounting Officer*

Steven A. Brass

CEO, President & Director

Wendy D. Kelley

*Director of Investor Relations &
Corporate Communications*

ANALYSTS

Daniel Dalton Rizzo

Jefferies LLC, Research Division

Linda Ann Bolton-Weiser

*D.A. Davidson & Co., Research
Division*

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company Third Quarter 2023 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

I now would like to turn the presentation over to the host for today's call, Ms. Wendy Kelley, Vice President of Stakeholder and Investor Engagement. Please proceed.

Wendy D. Kelley

Director of Investor Relations & Corporate Communications

Thank you. Good afternoon, and thanks to everyone for joining us today. On our call today are WD-40 Company's President and Chief Executive Officer, Steve Brass; and Vice President and Chief Financial Officer, Sara Hyzer. 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, 2023. These documents are available on our Investor Relations website at investor.wd40company.com. A replay and transcript of today's call will also be made available at that location shortly after this call.

On today's call, we will discuss certain non-GAAP measures. The descriptions and reconciliations of these non-GAAP measures are available in our SEC filings as well as our earnings presentation. As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance. Of course, actual results could differ materially. The company's expectations, beliefs and projections are expressed in good faith, but there can be no assurance that they will be achieved or accomplished. Please refer to the risk factors detailed in our SEC filings for further discussion.

Finally, for anyone listening to a webcast replay or reviewing a written transcript of this call, please note that all information presented is current only as of today's date, July 10, 2023. 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 Steve.

Steven A. Brass

CEO, President & Director

Thanks, Wendy, and thanks to all of you for joining us this afternoon. Today, I'll begin by discussing our sales results for the third fiscal quarter of 2023. I will also provide you with an update on Must-Win Battle. Sara will review some financial topics with you, including a review of our FY '23 guidance. I'm happy to share with you that after 2 quarters of [indiscernible] sales, we've returned to solid top line growth in the third fiscal quarter. Today, we reported net sales of \$141.7 million for the third quarter, which is up 15% compared to the same period of last year and a new record for the company. Translation of our subsidiaries results into the U.S. dollar, had an unfavorable impact on our consolidated net sales in the third quarter.

On a constant currency basis, third quarter sales would have increased \$21.9 million or 18% compared to the third quarter of last year. Furthermore, we've seen bottom line growth as well with net income of \$18.9 million compared to \$14.5 million last year, reflecting an increase of 30% year-on-year. While we continue to experience some disruptions linked to the price increases that we've put into place over the last 12 months, the impact is beginning to abate, and we saw volume-related sales growth this quarter at a consolidated level.

We estimate sales volume declined about \$1.5 million in the Americas and \$3.5 million in EMEA in the third quarter, but this was more than offset by sales volume increases in Asia Pacific of \$5.5 million in the quarter. Year-to-date, we reported net sales of \$396.8 million, which is up 2% compared to the same period of last year. Translation of our subsidiaries' results into the U.S. dollar also had an unfavorable impact on our consolidated net sales year-to-date. On a constant currency basis, year-to-date sales would have increased \$27.3 million or 7% compared to the same period of last fiscal year.

Now let's take a closer look at the third quarter results in our trade blocks, starting with the Americas. Sales in the Americas, which includes the United States, Latin America and Canada, were up 16% in the third quarter to \$71.1 million. Maintenance product sales in the United States increased 21% in the third quarter. This increase in sales was driven primarily by strong sales of WD-40 Multi-Use products in the United States, which increased 20% in the quarter, mainly due to the impact of price increases on revenue which was partially offset by slightly lower demand, which resulted in decreased sales volume. Strong sales of 3-IN-ONE and WD-40 Specialist also contributed to the increase in sales and grew 77% and 13%, respectively.

The increased sales of 3-IN-ONE were due to increased production capacity and improved availability due to adjustments we have made in our supply chain. I'm very happy to report that in the Americas, we recently achieved an [indiscernible] service score of 98.6%. After the many hardships brought on by the pandemic, this service score represents great determination, persistence and an incredible effort across numerous functions throughout our Americas trade block. WD-40 Specialist sales increased primarily due to price increases implemented during the last 12 months. Maintenance product sales in Canada decreased 23% in the third quarter, primarily due to lower sales volume. In the corresponding period of last year, we experienced very strong sales of WD-40 Multi-Use products due to high level of demand for our products in the industrial channel.

This level of demand in the channel was not repeated in the third quarter of this year. Maintenance product sales in Latin America were up 18% in the third quarter when compared to last year, primarily due to marketing distributors purchasing a higher level of our product in advance of a price increase that went into effect in June 2023. Sales in our direct market in Mexico also increased because of price increases and the favorable impact of changes in foreign currency exchange rates. These favorable impacts in our direct market in Mexico were partially offset by purchasing activity associated with prior price increases. Sales of our homecare and cleaning products in the Americas were relatively flat in the third quarter compared to the prior year. We consider our homecare and cleaning products as harvest brands have continued to generate consistent contributions and cash flows but are generally expected to become a smaller part of our business over time.

In total, our Americas segment made up 50% 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. As a reminder, the compound annual growth rates associated with our trade blocks reflect our long-term growth expectations and may not always align with short-term trends and results.

Now let's take a look at what happened in EMEA, which includes Europe, the Middle East, Africa and India. Last quarter, I shared that we had gotten off to a rocky start in the first half of fiscal year 2023 in EMEA. Pricing actions we've taken as well as the loss of sales in Russia and Belarus resulted in sales declines over that period. I'm happy to share with you today that we're seeing a strong recovery in EMEA and sales were up 6% in the third quarter to \$52.5 million. Currency fluctuations negatively impacted our sales in EMEA and on a constant currency basis, sales would have increased 13% compared to the third quarter of last year. This growth is in line with our long-term expectations for this segment, which is sales growth of between 8% to 11% annually.

As you know, we sell into EMEA through a combination of direct operations as well as through marketing distributors. Sales in our EMEA direct markets, which accounted for 68% of the region sales in the third quarter increased by 2% compared to last year. This increase in sales was primarily driven by the impact of price increases on revenue. The favorable impacts were significantly offset by unfavorable changes in foreign currency exchange rates. In addition, weaker market and economic conditions as well as a lower level of customer orders and promotional activity have led to reduced volume period-over-period.

Sales in our EMEA distributor markets, which accounted for 32% of the region's sales in the third quarter, increased by 16% compared to last year. This increase in sales was driven primarily by the timing of customer orders as well as the impact of price increases on revenue, particularly in India and Turkey, where sales were up 106% and 103%, respectively.

In addition, this is the first time in 4 quarters that our decision to suspend sales of our products to our marketing distributors [indiscernible] customers in Russia and Belarus towards the end of the second

quarter of fiscal year 2022, has not negatively impacted our sales comparison on a year-over-year basis. In total, our EMEA segment made up 37% of our global business in the third quarter.

Now on to Asia Pacific. Sales in Asia Pacific, which includes Australia, China and other countries in the Asia region, were up 42% in the third quarter to \$18.1 million. In our Asia Pacific distributor markets, sales were up 151% compared to last year. The products we sell in this region are sourced from a third party manufacturer in Shanghai. In the comparable period of last year, we experienced severe supply chain disruptions caused by lockdowns that have been put in place in Shanghai due to the COVID-19 pandemic. All regions in our Asia distributor markets experienced higher sales this quarter because similar disruptions did not take place this year. In addition, sales were positively impacted by sales price increases from period to period.

The same dynamic also impacted China, where sales were up 39% compared to last year. In addition, sales were favorably impacted by price increases. Sales in China were unfavorably impacted by changes in foreign currency exchange rates. On a constant currency basis, sales would have increased by 50% compared to last year. Partially offsetting these sales increase in Asia Pacific was a decline in sales in Australia, where sales declined 14% in the third quarter. This decline was due to a decrease in sales volume of both homecare and cleaning products and maintenance products driven by weaker market and economic conditions as well as unfavorable changes in foreign currency exchange rates and the impact of price increases.

On a constant currency basis, sales for Australia would have decreased by 6% compared to last 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.

Now let's talk about our global growth aspirations and Must-win Battle. One thing I've learned in my years as a business leader is that we have no control of the volatility, uncertainty, complexity and ambiguity around the world. Constant unpredictable change is now the norm. As a global company with more than half of our revenues generated outside the U.S. were exposed to the effect of changing foreign currency exchange rates, geopolitical unrest and other economic fluctuations. Against that backdrop and since we're close to wrapping up fiscal year 2023 and will embark into fiscal year 2024 very soon, we believe it's an appropriate time to review our 2025 revenue targets. Originally set in 2015 as long-term aspirational goals, we're now just a little over 2 years away from the end of fiscal year 2025.

There are several things prompting us to revisit our 2025 growth aspiration, which as a reminder, was to drive net sales of between \$650 million to \$700 million by the end of fiscal year 2025. First, since March of 2022, we've lost a significant amount of revenue due to our suspension of our sales into Russia and Belarus and disruptions in Ukraine due to the military action in that country. Second, we've recently experienced significant headwinds from foreign currency exchange rates. Third, we'll soon be exploring options to further deemphasize our homecare and cleaning brands. Deemphasizing these brands over time will create headspace for our tribe to bring an even greater focus to our higher-margin maintenance products.

We are not establishing a new 2025 revenue target today. Instead, we're committing to target a compound annual growth rate for maintenance product revenue in the mid- to high single digits on a non-GAAP constant currency basis. The bulk of that growth is expected to come from sales of WD-40 Multi-Use product to geographic expansion, increased penetration, premiumization and supported by our continued investment in digital commerce. These Must-Win Battle are the primary areas of action that will enable us to deliver against our revenue growth targets. These hyper-focused actions are the key drivers of revenue growth. Our largest growth opportunity in first Must-Win Battle is a geographic expansion of [indiscernible].

In the third quarter, sales of WD-40 Multi-Use product were up 16%. And I'm also happy to share with you the global sales of WD-40 Multi-Use product have returned to growth year-to-date. We've seen strong year-to-date sales in the United States, China and Mexico. The sales of our flagship product were up 15%, 14% and 14%, respectively. Those increased sales have been almost entirely offset by flat sales in our European direct market and losses in Russia, India, as well as in Latin America. We continue to estimate

the potential global growth opportunity for WD-40 Multi-Use product is greater than \$1 billion, and we have a high level of confidence in WD-40 Multi-Use product to finish this fiscal year in growth.

Our second Must-Win Battle is to grow WD-40 Multi-Use product through premiumization. Premiumization creates opportunities for revenue growth and gross margin expansion. Year-to-date, sales of WD-40 Smart Straw and EZ-REACH when combined were \$142.2 million, up 1% compared to the prior year period. Sales of premiumized products represented 47% of global sales of WD-40 Multi-Use products year-to-date. Sales of premiumized products were up 13% in the Americas and 30% in Asia Pacific. These increased sales were almost entirely offset by lower sales of premiumized products in EMEA. For the first quarter of FY '24, we expect to fully implement WD-40 Smart Store next generation capacity within the Americas and EMEA, and we will be able to expand sales of premiumized products more rapidly.

Our third Must-Win Battle is to grow WD-40 Specialist. Sales of WD-40 Specialist were up 7% in the third quarter and 11% year-to-date. We saw solid growth in WD-40 Specialist across all 3 trade blocks this quarter with the Americas, EMEA and Asia Pacific experienced growth of 6%, 6% and 15%, respectively. We're pleased that WD-40 Specialist is fully leveraging our most iconic asset, the blue and yellow brand with a little red top.

Our final Must-Win Battle is focused on digital commerce. E-commerce sales were up over 35%, both in the third quarter and year-to-date, primarily due to strong growth in the Americas. As I've shared with you in the past, our digital commerce strategy is about more than driving online sales. It's about driving awareness of our brands and teaching end users how to use them. With that end in mind and in support of one of my three strategic priorities, pivoting the company toward a more sustainable future, I'm excited to share with you that we've recently launched our first global online marketing campaign that unites 30-plus markets under one message, repair, don't replace.

The social media campaign is a perfect opportunity for us to inspire millions of doers, makers, fixers and builders to use our products to extend the life span of their tools, [indiscernible] equipment, bicycles, cars are just about anything else and keep them in circulation for longer, thus reducing waste, preserving valuable resources and leaving a positive lasting handprint on the world. You can learn more about this global campaign by visiting our company website.

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

Sara Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

Thanks, Steve. Thank you for that overview of our sales results. I am pleased that we are once again experiencing top line growth. Although currency and pricing-related disruptions continue to be a headwind for us, we believe our top line growth will continue into the fourth quarter and that we will end the fiscal year in growth mode.

Let's start with a discussion about our business model and the long-term targets we use to guide our business. We target our gross margin to be at or above 55% of net sales. Our goal is to drive our cost of doing business, which is our total operating expenses, excluding depreciation and amortization, toward 30% of net sales over time. Finally, we target EBITDA to be at 25% over time. We saw a strong period-over-period gross margin recovery this quarter driven by actions we have taken as part of our margin restoration plan. However, our gross margin has declined slightly sequentially. We know we still have a lot of work to do to return our margins to our targeted levels. Restoring our gross margin requires a systemic approach, and we have focused our efforts on such an approach over the last several quarters. We continue to believe our full year gross margin will be between 51% and 52%.

Let's take a closer look at gross margin this quarter as compared to the third quarter of last year. In the third quarter, our gross margin was 50.6% compared to 47.7% last year. This represents an improvement of 290 basis points year-over-year. Price increases which have been implemented over the last 12 months across all our markets and geographies positively impacted our gross margin by 740 basis points year-over-year. In addition, we experienced decreases in miscellaneous other input costs and changes in foreign currency exchange rates, which positively impacted our margin by 210 and 60 basis points, respectively.

The currency impact is due to fluctuations in the exchange rates for the year out against the pound sterling in our EMEA segment. The euro strengthened against the pound sterling, resulting in a favorable foreign currency transaction impact. These positive impacts to gross margin were partially offset by changes in major input costs. Higher costs associated with specialty chemical costs and aerosol cans, both negatively impacted our margin by 300 basis points each. Gross margin was also negatively impacted by 100 basis points from higher [indiscernible] paid to our third-party contract manufacturers, primarily in the Americas. It can sometimes be helpful to look at our gross margin by trade block as well.

We continue to see sequential improvement in our Asia Pacific trade block, where our gross margin was 56.3% in the third quarter, up 100 basis points compared to the second quarter. While EMEA's gross margin of 52% was down slightly when compared to the second quarter, EMEA's gross margin has improved 700 basis points since the lowest level in the fourth quarter of 2022.

Finally, the Americas' gross margin was 48.2% in the third quarter, relatively constant compared to the second quarter, but has improved 240 basis points since its lowest level in the third quarter of 2022. As sales volumes continually improve and we continue to work our way through the inventory that remains on our balance sheet in the United States, we will realize more benefits of both price increases and slightly lower costs, which we expect will positively impact our gross margin in the Americas as we move into fiscal year 2024. Our gross margin target of 55% is a critical component of our business model, and Steve and I remain committed to restoring gross margin to our target of 55% over the mid to long term.

This completes the gross margin discussion. Now on to [indiscernible] the cost of doing business. In the third quarter, our cost of doing business was 32% compared to 31% last year. Much of our cost of doing business is comprised of 3 areas: investments in the tribe, investments in brand building and freight expense to get our products to our customers. Our cost of doing business increased by \$6.3 million or 16% due to higher employee-related expenses, increased professional services fees and increased costs associated with the implementation and licensing of cloud-based software systems. Travel and meeting expenses were also higher this year due to the reduction in travel restrictions related to the pandemic compared to last year.

The investments we are making in marketing, advertising and promotion increased period-over-period. As a percentage of sales, our A&P investment was 5.4% and in line with our expectations. This brings us to EBITDA, the last of the 55/30/25 measure. EBITDA was 20% of net sales this quarter, which is up from 17% compared to last year. We have sequentially improved EBITDA each quarter this year as our volumes have improved, but EBITDA continues to be under pressure due to the current inflationary environment. Prior to fiscal year 2022, we have consistently delivered EBITDA between 20% and 22%. As I have shared with you in the past, my first priority is to get us back above 20% as we continue to focus on rebuilding our gross margins and look for sales volumes to recover post price increases. Once we are consistently back at our historic 20% to 22% level, then we will look to leverage the business over the long term towards our 25% aspirational target.

That completes the discussion on our business model. Now let's discuss some items that fall below the EBITDA line. Net income for the second quarter was \$18.9 million versus \$14.5 million in the prior year, reflecting an improvement of 30%. Changes in foreign currency exchange rates had an unfavorable impact on net income. On a constant currency basis, net income would have improved 35% compared to the third quarter of last year. Diluted earnings per common share for the quarter were \$1.38 compared to \$1.07 for the same period last year.

Now a word about our balance sheet and capital allocation strategy. The company's financial condition and liquidity are strong, even as we continue to navigate a complex and uncertain global economic environment. Our capital allocation strategy includes a comprehensive approach to balance investing in long-term growth while providing strong returns to our shareholders. I indicated earlier this year that we may elect to slow down our stock purchases under our current share buyback plan and utilize that cash to repay a portion of our current debt during the remainder of this fiscal year. Our cash flow from operations this quarter was \$34.6 million, and we elected to use \$20 million of that cash to pay down a portion of our short-term higher interest rate borrowing.

In addition, we continue to return capital to our shareholders through regular dividends and buybacks. On June 20, our Board of Directors declared a quarterly cash dividend of \$0.83 per share, payable July 31 to stockholders of record at the close of business on July 14, 2023.

During the third quarter, we repurchased approximately 10,000 shares of our stock at a total cost of approximately \$1.8 million under our current \$75 million share repurchase plan. I'm happy to share with you that our Board of Directors recently approved a new share repurchase plan so that we can continue our share repurchase activities over the next 2 fiscal years. Under the new plan, which will become effective September 1, the company is authorized to acquire up to \$50 million of its outstanding share through August 31, 2025. Historically, our business model has been asset-light which has typically required low levels of capital investment, roughly between 1% and 2% of sales. In fiscal year 2023, we expect to invest about \$7 million in capital projects, which is down approximately \$2 million from our prior expectations.

I am also pleased to share with you that our inventory levels continue to improve as expected. Our inventory levels have gone from approximately \$109 million at the end of the second quarter to \$95 million at the end of the third quarter, which is a reduction of over 12%. We anticipate our inventory levels will continue to decline for the rest of this fiscal year. While we don't plan to be at pre-COVID inventory levels anytime soon, I am pleased with our progress and with the flexibility that we have built into our global supply chain. We are now moving into a space where we can focus on optimizing our network instead of rebuilding it.

So with that, let's turn to guidance. As Steve indicated earlier, we are pleased to have returned to solid top line growth in the third fiscal quarter. While we are reiterating our guidance today, we do continue to operate in a volatile environment and we will likely come in at the low end of our guidance range. We expect, assuming foreign currency exchange rates remain close to current levels, net sales growth is projected to be between 3.5% and 7.5%, with net sales between \$535 million and \$560 million. Gross margin for the full year is expected to be between 51% and 52%. Advertising and promotion investment is projected to be between 5% and 5.5% of net sales. The provision for income tax is expected to be around 21%. Net income is projected to be between \$64.5 million and \$68.5 million. And diluted earnings per share is expected to be between \$4.80 and \$5 based on an estimated 13.6 million weighted average shares outstanding.

Our projection for fiscal year 2023 reflects fluctuating foreign currency exchange rates. Without those currency headwinds, our sales growth projection would have been between 6.5% and 11.5% of net sales. We also want to remind everyone that there are dynamics outside our control that may impact our fiscal year 2023 results. This guidance does not include any future acquisitions or divestitures.

That completes the financial overview. Now back to Steve.

Steven A. Brass

CEO, President & Director

Thank you, Sara. In summary, what did you hear from us on this call? You heard that net sales in constant currency were up 18% for the quarter and 7% year-to-date. You heard that we saw volume-related sales growth this quarter at a consolidated level. You heard that sales of WD-40 Multi-Use product were up 16% for the quarter and have returned to growth year-to-date. You heard that sales of WD-40 Specialist were up 7% for the quarter and 11% year-to-date. You heard that we continue to make outstanding progress in digital and e-commerce and that our e-commerce sales have grown 35% in both the quarter and year-to-date. You heard that we recently launched our first ever global online marketing campaign that unites 30-plus markets under one message: repair, don't replace.

You heard that although we continue to experience pressure on gross margin while making progress on our margin restoration plan and remain committed to restoring margins to our target of 55% over the mid- to long term. You heard that we continue to return capital to investors through regular dividends and buybacks that our Board of Directors recently approved a new share repurchase plan.

You heard that inventory levels continue to improve and we anticipate they will continue to decline for the remainder of this fiscal year. You heard that long term, we are targeting a compound annual growth rate for maintenance product revenues in the mid- to high single digits on a non-GAAP constant currency basis. And you heard that while we are reiterating our guidance today, we do continue to operate in a volatile environment and will likely come in at the lower end of our guidance range. Thank you for joining our call today. We'd now be pleased to answer your questions.

Question and Answer

Operator

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

Linda Ann Bolton-Weiser

D.A. Davidson & Co., Research Division

Congratulations on a strong quarter. So I was wondering about how we should think about the next quarter in terms of you're starting to anniversary the first of the big price increases. So we had Americas sales up about 25% due to pricing in last year's fourth quarter. So I'm kind of wondering how we should think about that? Are we still going to be expecting to see strong sales growth overall in the Americas, just for example? Or is that going to really flatten out because of the hard comparison? Any color on that would be very helpful.

Sara Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

Hi, Linda, this is Sara. Can you hear me okay?

Linda Ann Bolton-Weiser

D.A. Davidson & Co., Research Division

Yes, yes.

Sara Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

So yes, we do -- we are lapping the larger price increase in the Americas that started to affect the business in the fourth quarter of last year. But EMEA is a quarter behind. So we actually are anticipating there still to be some impact of price, not at the same levels globally that we've seen through the first 3 quarters. So we will, in the fourth quarter, believe that there will be price increase just not at the same level that we're seeing this quarter, offset by some of the volume declines that we have been guiding to, I think, for the full year, which is in the high single digits, really low double digits is where we think we'll end the year from a volume loss perspective, and that includes Russia.

Linda Ann Bolton-Weiser

D.A. Davidson & Co., Research Division

And -- can you just share -- I don't know if you said in the quarter, what was the core volume, excluding Russia year-over-year? And what was the price overall year-over-year in the quarter?

Sara Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

Sure. So during the quarter, year-over-year price had a 17% impact and volume was actually pretty close to flat. So we had the significant volume growth in our Asia Pac region. And then that was offset by volume losses in both the Americas and EMEA, but again, at much lower levels than what we've seen in the first and second quarter. So the trend kind of on that turnaround, we're really starting to see this quarter.

Linda Ann Bolton-Weiser

D.A. Davidson & Co., Research Division

Okay. So then in fourth quarter, it would seem like the price element will come down and the volumes will be better? Is that the way to think about it?

Sara Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

Yes. I think -- go ahead, sorry.

Steven A. Brass

CEO, President & Director

Yes, Linda, I think -- this is Steve. Yes, I think overall, it's exactly what. So I mean if you look at our U.S. market, which is our furthest market kind of ahead on the price increase gain, our volumes in Q3 at point of sale, so what's actually selling out in the market actually turned neutral. And on multi-use product, they actually turned positive. They're up 3% for the quarter at point-of-sale level. So we did absolutely begin to see a turnaround in our volumes. And so we're cautiously optimistic that, that will be reduced to a volume level loss in the high single digits for the full fiscal year.

Linda Ann Bolton-Weiser

D.A. Davidson & Co., Research Division

Okay. And then just on the cost elements, I think you renegotiate your [indiscernible] toward the beginning of each calendar year. And I just would like to kind of backtrack -- and I mean, I would think the negotiation for early 2023 was favorable. And if that's the case, do we still have a quarter or something before that flows in? I'm just wondering why we're still seeing such an unfavorable [indiscernible] comparison.

Sara Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

So the [indiscernible] that was negotiated for this year on a global basis was actually pretty neutral. So we saw 2 different things happening in 2 different regions. In one region, we had some small decreases in [indiscernible] cost and in the other region, we had small increases, so they are offsetting. So we are really globally seeing that much relief on the cost of the actual [indiscernible] for this fiscal year. And really, we won't see that until we get well into next calendar year, assuming the spot prices stay where they are today, we'll have an opportunity to renegotiate those prices. But even at the spot prices, there are still the increase of the tin plate and the cost to convert that into our can is still running higher with labor and overhead costs.

So it's not a one-for-one decrease when you look at spot on its own. So that's kind of the other piece of this inflationary environment that is hindering us and the recovery is just the overhead and labor costs to convert everything is higher and those are sticking.

Linda Ann Bolton-Weiser

D.A. Davidson & Co., Research Division

Okay. And then I was a little bit interested to hear you say that something about your homecare and cleaning that you're sort of deemphasizing it? Or I mean are you thinking of actually divesting some product lines or something? Or can you give more color on that statement?

Steven A. Brass

CEO, President & Director

Sure. So we have no firm plans to exit any of those brands under the household brand kind of category. What we're saying is that we're going to take a strategic look. And so as we think out long term and to our long-term kind of future, I mean those brands are now a \$33 million revenue stream. They were significantly more than that. And so we've kind of harvested them for the last few years. So I think we're taking a look at the future of those now. And as we think about having to kind of innovate for sustainability in the future. And we need to create more headspace within the organization to achieve that. So no firm plans as of today which are signaling to investors that we are taking a strategic look at those brands.

Linda Ann Bolton-Weiser

D.A. Davidson & Co., Research Division

Okay. And then one last one for me. I mean I was trying to read your comments or your tone about the debt pay-down. Are you kind of signaling that you did some and then -- so for now, that's enough debt pay-down and you're going to switch a little bit more back to share repurchase? Or how should we read into that?

Sara Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

So we were very pleased with the cash flows that came in this quarter and really the \$20 million flow was used to pay down just this quarter. We do anticipate, if you look at where our debt balance is today and compare it to where we were a year ago, we're still running about \$10 million higher as a result of those investments that we made in the supply chain. So I would like to see us pay down a little bit more debt over the next quarter or two and then be able to increase and -- increase our share repurchases, assuming that's what we decide to do with our excess capital.

Operator

Your next question comes from the line of Daniel Rizzo with Jefferies.

Daniel Dalton Rizzo

Jefferies LLC, Research Division

So with all things being equal on the input cost front, if things don't get [indiscernible] worse, I just -- do we have a kind of a general idea when possibly you can get back to 55% gross margins? Is it 2 years, 5 years? I mean is there anything kind of how do you think about that?

Sara Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

So we do believe the price has been the primary driver in the margin recovery to date. And at this point, we are moving into really optimizing our supply chain and those strategic drivers to move from where we are today to get back up to the 55% are going to take some time to execute on and then see results in the business. So we do not believe we'll be at 55% next fiscal year, but I do believe we will be making strides and step changes to get closer to that 55%. So we're not going to -- it's hard to pinpoint a time when we're looking out beyond the year. So I'm not going to commit to a date yet, but we will be making progress next year. And I think you're looking at longer than a year to get there.

Steven A. Brass

CEO, President & Director

And Daniel, if I can just add to that, this is Steve. Yes, if you look at it by trading block, it helps as well, right? So if you look at where our Asia Pacific trading block is, we're at 56% now. So we're already back up above that 55% target. So that's a strong increase of [indiscernible] that they had in Q4 of last year of 500 basis points, I believe. EMEA has recovered very strongly, 700 basis points of [indiscernible] in Q4 as Sara kind of highlighted. And so they're at 52% at the end of Q3. So it's really about the Americas and the real kind of drag in the Americas is the fact that we have these high inventory levels, which were purchased at higher cost prices between 6 and 9 months ago, and so we're waiting for that to flow through. And so that's going to be a big kind of kicker to gross margin as is reverting to our more strategic gross margin strategy of premiumization, international expansion, WD-40 Specialist, et cetera.

Daniel Dalton Rizzo

Jefferies LLC, Research Division

And then -- so Asia was fairly strong. I know in the past, there's been some order timing that kind of made the quarter stand out. I was wondering if there was any benefit in Asia Pacific from order timing in the third quarter.

Steven A. Brass

CEO, President & Director

Well, yes, there was. So we had this strange kind of going on between last year with a lockdown in Shanghai, where we had a very poor third quarter. So the comparable kind of quarter performance this year looks better than it was because of the poor prior year [indiscernible] was a strong performance all the same. So yes, there's -- that factor between Q3 and Q4 in Asia in terms of that whole lockdown dynamic when some of the business last year moved into Q4, right?

Daniel Dalton Rizzo

Jefferies LLC, Research Division

And then I just noticed that there was some inventory -- a little bit of inventory write-down in the quarter. I don't know, is that something that's kind of ongoing or is that just a small thing that's kind of more usual?

Sara Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

So that's just a small thing. I wouldn't expect that to continue as we continue to expand our [indiscernible] network. We do go through testing to bring those [indiscernible] online. And as you can imagine, sometimes you're going through testing and you need to work through the kinks in order to get the product to come out and pass all the quality test. So there was just a little bit of write-down associated with the final tests that we're running through our -- one of our third-party [indiscernible] in the Americas.

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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