

**S&P Global**

Market Intelligence

# **WD-40 Company** NasdaqGS:WDFC

## *Earnings Call*

*Thursday, October 19, 2023 10:00 PM GMT*

|                   |   |
|-------------------|---|
| CALL PARTICIPANTS | 2 |
|-------------------|---|

|              |   |
|--------------|---|
| PRESENTATION | 3 |
|--------------|---|

|                     |    |
|---------------------|----|
| QUESTION AND ANSWER | 11 |
|---------------------|----|

# 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 Rizzo**

*Jefferies LLC, Research Division*

**Linda Ann Bolton-Weiser**

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

**Rosemarie Morbelli**

# Presentation

---

## Operator

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

I would now 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-K for the period ending August 31, 2023. These documents are available on our Investor Relations website at [investor.wd40company.com](http://investor.wd40company.com). A replay and transcript of today's call will also be made available 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 the earnings documents posted on our Investor Relations website. As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance. 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 discussions.

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, 2023. The company disclaims any duty or obligation to update any forward-looking information 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. It's been a privilege and honor to lead our great company over the last year and even more special as my first year as CEO coincide with our 70-year anniversary. I have taken time over the last year to meet with our employees across the business and around the world, and it was truly a pleasure to have the chance to listen to their personal stories. While it was not surprising to me, has been exceptional to see and feel the depth of engagement and commitment across the organization. Witness in their inspired energy to reinforce my own commitment and responsibility to nurture and build on our unique culture. I want to thank each of them for their dedication to drive superior results and the execution of our strategy.

Looking at fiscal year 2023, for us, it was essentially a tale of two halves. Our first half saw disruption in from general economic uncertainty, higher costs, the loss of our Russian business and price increases that were implemented. In the second half of the year, we saw volumes recover, and we were also pleased with the recovery we experienced in EMEA where we delivered double-digit constant currency growth for the last 2 quarters. Despite a difficult first half and the negative impact of currency of nearly \$18 million, we still grew revenue by 4% over prior year. Excluding the impact of currency, revenue grew 7% and which is in line with our long-term growth projections. We are encouraged by the improvement in trends we experienced through the second half of the fiscal year as we enter fiscal year 2024.

Now turning to our fourth quarter 2023 results. Today, I'll begin by discussing our sales results. I'll then walk you through our new Four-by-Four strategic framework including an update on our full year results and the progress we've made as it relates to our Must-Win battles. Sara will provide further details on our fourth quarter results and update on our business model and our outlook for fiscal year 2024, and then we'll take your questions.

Turning to our fourth quarter sales results. Today, I'm happy to share with you that we reported net sales of GBP 140.5 million, up nearly 8% over the fourth quarter of last fiscal year. Translation of our subsidiaries results into the U.S. dollar had a favorable impact on our consolidated net sales in the fourth quarter on a non-GAAP constant currency basis, fourth quarter sales would have been \$139.2 million, up 7% compared to the fourth quarter of last year.

Now let's take a closer look at the fourth quarter sales results in our trade blocks, starting with the Americas. Sales in the Americas, which includes the United States, Latin America and Canada, were up 10% in the fourth quarter to \$74.7 million. Maintenance product sales in the United States increased 18% and driven by double-digit growth of both WD-40 multiuse product and WD-40 specialists. We're seeing solid improvements in volume now that we've lapped the impact of the price increases that we put into place last fiscal year. In the fourth quarter, we experienced double-digit volume and sales increases in the U.S. As a reminder, the U.S. was the first region to implement price increases and therefore, have been the first region to recover from the related disruptions. Maintenance product sales in Latin America were down 12% against a strong comparative period in the prior year. As you may recall, the fourth quarter of last fiscal year was the strongest sales quarter in the region's history, where sales grew 80%, largely as a result of many of our marketing distributor customers purchasing product in advance of price increases that went into effect near that time.

Sales in maintenance products in Canada decreased slightly down 3% period-over-period, that the favorable impact of sales price increases was completely offset by lower sales volumes due to weaker economic conditions in the region. We continue to experience positive momentum in our direct market in Mexico from the shift we made in 2020 from a distributor model. Maintenance product sales in our direct marketing Mexico decreased 19% in the fourth quarter as we continue to add new points of distribution, making our maintenance products available in more places for more people who find more uses more frequently.

Sales of our homecare and cleaning products in the Americas were down 4% in the fourth quarter compared to the fourth quarter of last year. We consider our home care and cleaning products as harvest brands continue to generate consistent contributions and cash flows but are generally expected to become a smaller part of the business over time. We shared with investors last quarter that we're currently exploring options to further deemphasize our homecare and cleaning brands. We are currently conducting a global strategic review about the future of our homecare and cleaning brands. The result of this strategic review could mean many things, but no decision has yet been made. We look forward to providing an update in the future. In total, our Americas segment made up 53% of our global business in the fourth quarter.

Now let's take a look at our sales results in EMEA, which includes Europe, India, the Middle East and Africa. I'm happy to share with you that the recovery will begin to experience in EMEA last quarter continued into the fourth quarter. Sales in EMEA were up 16% to \$50.7 million. We saw strong sales in the U.K., Italy and Benelux, which all turned in their best quarters performance for the year. Currency fluctuations positively impacted our sales in EMEA and on a constant currency basis, sales would have increased 13% compared to the fourth quarter of last year. Marking the second consecutive quarter of double-digit sales growth in constant currency. 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 73% of the region sales in the fourth quarter increased by 19% compared to last year.

Maintenance product sales in the EMEA direct markets increased in the fourth quarter, driven primarily by double-digit growth of both WD-40 multiuse product and WD-40 specialists in the United Kingdom, Italy and Spain, mainly due to the impact of price increases, which is partially offset by slightly lower demand, which resulted in decreased sales volume. The increase in sales is also driven by the timing of promotional

programs, particularly in the wholesale and trade channels. Sales in our EMEA distributor markets, which accounted for 27% of the regional sales in the fourth quarter increased by 9% compared to last year. This increase in sales was primarily driven by higher sales of maintenance products in many distributor markets. In total, our EMEA segment made up 36% of our global business in the fourth quarter.

Now on to Asia Pacific. Sales in Asia Pacific, which includes Australia, China and other countries in the Asia region were down 20% in the fourth quarter to \$15 million. In Australia, sales were down 1% in the fourth quarter, primarily due to the impact of foreign currency exchange rates. On a constant currency basis, sales for Australia would have increased by 5% compared to last year, primarily due to higher sales of the homecare and cleaning products as a result of successful promotional programs. In our Asia Pacific distributor markets, sales were down 38% in the fourth quarter against a tough prior year comparison. As you may recall from last year, severe lockdown restrictions from earlier in the year were lifted, and we resumed shipping product to the area, resulting in strong sales during the fourth quarter.

In China, sales were down 4% in the fourth quarter, primarily due to the impact of foreign currency exchange rates. On a constant currency basis, sales for China would have increased by 2%. In total, our Asia Pacific segment made up 11% of our global business in the fourth quarter.

Now let's talk about our long-term growth aspirations. The WD-40 company, we're privileged to have one of the world's best known and most iconic brands. We have a strong competitive moat that allows us to capture the tremendous runway of opportunity before us. As we enter fiscal year 2024, I'm proud to introduce you to our new Four-by-Four strategic framework which we tie to our purpose and values and will guide our future performance. Our Four-by-Four strategic framework has developed to drive profitable growth for sustainable value creation.

There are two main elements of our strategic framework. The first element, which we refer to as our Must-Win battles, focuses on what we do to increase sales of our maintenance products. This is an area of focus we discuss investors for several years. Our Must-Win Battles include growing WD-40 product sales through geographic expansion, growing sales and gross margin through the premiumization of WD-40 multiuse product, growing WD-40 Specialist product line through category leadership, and accelerating our capabilities in building our brand digitally and maximizing our global digital commerce presence. Today, we're also introducing the second element of our strategic framework, which we refer to as our strategic enablers. These four strategic enablers focus on operational excellence and support how we will achieve our Must-Win Battles and include ensuring a people-first mindset where we can attract, develop and engage outstanding employees. Building a sustainable business for the future, achieving operational excellence in supply chain and driving productivity by our [ enhance ] systems. These are the primary areas that make up our Four-by-Four strategic framework and where we will continue to focus our time, talent and treasure to be successful in achieving our long-term financial and operational goals.

Let's reflect on the progress we made against our Must-Win Battles for fiscal year 2023. Starting with Must-Win Battle #1, lead geographic expansion. Our largest growth opportunity in first Must-Win Battle is a geographic expansion of the blue and yellow [indiscernible] top. We estimate the potential global growth opportunity for WD-40 multi-use product to be approximately \$1 billion, and we're laser-focused on covering long-term growth in our top 20 growth markets around the world. In fiscal year 2023, global sales of WD-40 multi-use product grew 2% over prior year. Though this growth is not in line with our long-term expectations we ended the year strong and expect to see growth return to historic levels. For the year, we made good progress in several key markets on this Must-Win Battle with strong sales growth of 14% in the U.K. 14% in Mexico, 10% in China and 17% in the U.S.

Next is Must-Win Battle #2, accelerating premiumization. Our smart store delivery system has been our most successful innovation in the company's 70-year history and is loved by end users around the world. Our EZ-REACH delivery system provides our end users but even more options to solve problems in factories, workshops and homes. For us, premiumization is a major contributor to our revenue growth as well as gross margin expansion and also delights our end users. Over the last 5 years, we've achieved a compound annual growth rate for net sales of premiumized products of 7.3% in reported currency and 8.2% on a constant currency basis. We are on track to fully implement the WD-40 Smart Straw next generation capacity for the new Americas in the first quarter of fiscal year 2024, which we expect to

accelerate the sales of WD-40 multi-use premiumized products. On a go-forward basis, we'll be targeting a compound annual growth rate for net sales of premiumized products at greater than 10% in reported currency.

Our third Must-Win Battle is to drive WD-40 specialist growth. However, we see this as much more than an incremental revenue opportunity, driving WD-40 Specialist growth focuses on achieving category leadership by leveraging our core brand equity and taking advantage of our strong moat. It's about taking competitors off the shelf and increasing our market share. I'm happy to report that our efforts to drive brand awareness, maximize store placement and increased shelf space or paying off for fiscal year 2023 sales of WD-40 Specialist products were just under \$67 million, up 11%. We saw growth in WD-40 Specialist products across all three trade blocks with a growth of 18% in the Americas, 7% in EMEA and 3% in Asia Pacific. Over the last 5 years, we've achieved a compound annual growth rate for net sales of WD-40 specialists of 14.4% in reported currency and 15.4% on a constant currency basis. On a go-forward basis, we'll be targeting a compound annual growth rate for net sales of WD-40 Specialist of greater than 15% in reported currency.

Our final Must-Win Battle #4 is to Turbo-Charge Digital Commerce. Our ambition here is to engage with end users at scale and become the global leader in our category within the digital commerce platform. Must-Win Battle #4 is that much more than selling products online, we view it as the accelerator for all our other Must-Win Battles. Digital commerce is about brand building. It drives awareness of our brands by leveraging digital media to teach end users how to use our solutions in addition to driving online sales. For fiscal year 2023, e-commerce sales were up over 35% for the year, largely due to strong growth in the Americas. We believe the greatest benefit of this Must-Win Battle is to increase brand awareness and engagement online which will lead to an improved shopping experience and higher sales across all channels, both in-store and online.

As part of our digital commerce strategy in 2023, we launched our first global online marketing campaign, Repair, Don't Replace. This campaign further expands our opportunity to inspire millions of doers, makers, fixes and builders to use our solutions not only to extend the lifespan of their tools or equipment but to support global efforts to reduce waste, reserve resources and leave a positive handprint for future generations.

And now turning to the second element of our strategic framework, our four strategic enablers, which collectively underpin our Must-Win battles. We view these as the how we will achieve our drivers for success.

Starting with Strategic Enabler #1, ensuring a people first mindset, at WD-40 company, we know our people make us great. You will not find the greatest asset we have on our balance sheet because it's comprised of our 613 employees. We strive to be an employer of choice where all employees can bring their best and genuine self to work. We're committed to fostering a culture of belonging, recognition rewards and resiliency while attracting, developing and engaging talent, which will drive our sustainable forward momentum. We will measure ourselves against this enabler at three quantitative metrics: employee engagement, our Better Together scores and our employee retention rates.

Next is strategic enabler #2, building a business for the future. Simply put, we are committed to operating our business in a manner that will have a positive environmental and societal impact and one that will continue to create and protect long-term stakeholder value. We've shared with you in the past that we are philosophically aligned with the vision to reach net zero greenhouse gas emissions by 2050. The term sustainability is increasingly perceived as a climate-related matter, but we see it as more than that. We define sustainability as the ability of a business to exist for a long period of time, perhaps indefinitely. A sustainable enterprise should ensure a balance between economic growth, environmental care and social well-being. We believe that taking an integrated approach to environmental, social and governance issues enhances our long-term sustainability and resilience of our business and protects the long-term interest of our stakeholders. We're in the process of setting further targets to reduce greenhouse gas emissions, which we will share in our 2024 ESG report.

Strategic enabler #3, achieving operational excellence in supply chain. Operational excellence has always been an important part of our strategy at WD-40 company. Our supply chain was tested during the

pandemic, and we learned a lot. The advances made by our own employees to production capacity and product availability only helped to recover our supply chain, but also uncover a myriad of ways to make it better than it is today. This strategic enabler is meant to continue that quest for operational excellence. We believe that a resilient and high-performing supply chain enabled by people, capacity and capabilities will secure the long-term success of our company. I'll go under this enabler to achieve on-time delivery of greater than 95%, and manage our inventory on hand to less than 90 days.

Finally, strategic enabler #4, driving productivity via enhanced systems. We will identify and implement productivity solutions by using secure technologies to improve processes, provide effective access to critical analytics and deliver the highest value investments through effective project and program management. This will drive profitability improvements to enhance productivity, controlled IT spending, increased employee satisfaction as well as access to timely and accurate data that drives better decision-making. The first project identified under the strategic enabler is our new cloud-based enterprise resource planning system, which the company is in the process of implementing and Sara will discuss with you in a moment.

To summarize our Four-by-Four strategic framework is designed to help us deliver on our long-term revenue compound annual growth rate for maintenance products in the mid- to high single digits on a non-GAAP constant currency basis. This is supported by the growth outlook for each trade block, we anticipate the real Americas to grow between 5% to 8%, EMEA to grow 8% to 11% and Asia Pacific to grow 10% to 13%. In addition, our Four-by-Four strategic framework will drive EBITDA margin expansion as we improve our gross margins and invest across the business to gain efficiencies and productivity improvements.

With that, I will now turn it over to Sara.

### **Sara Hyzer**

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

Thank you, Steve, and thank you for the overview of our sales results. As I approach my 1-year anniversary as CFO for WD-40 Company, I reflect on the strong bench of leaders across this organization that have supported me in my transition, as well as all our global employees that I've had the pleasure of working with for the past 2 years. This past year has been a year of transition, not just for me but for the company. And as Steve noted, fiscal year 2023 has been somewhat a tale of two halves, where the first half was met with volatility and uncertainty especially as we work through implementing price changes across markets, currency fluctuations and cycled the exit of our Russia business. However, we started to see signs of recovery and demand and volumes in the second half of fiscal year 2023, giving us conviction as we head into fiscal year 2024. We turned in a strong performance in the quarter, resulting in a solid fiscal year 2023. I'm happy to report that we grew our top line for the year despite the headwinds we face due to currency. Furthermore, each of our financial results performed within the targeted guidance ranges that we guided midyear even as we continue to invest across the business.

Now let me walk you through our fourth quarter results and provide an update on our capital deployment. I will close by providing an updated view on our 55/30/25 business model and providing fiscal year 2024 guidance. Turning first to our fourth quarter gross margin performance. Once again, we experience strong gross margin growth over the prior year fourth quarter. Our fourth quarter gross margin of 51.4% performed within the expected range we communicated. This margin performance reflects a 400 basis point improvement compared to the prior year fourth quarter and a sequential improvement of 80 basis points compared to the third quarter of this fiscal year. The 400 basis point improvement from prior year fourth quarter was driven by continued actions we have taken throughout the course of the year including price increases across all our markets and geographies, which positively impacted gross margin by 460 basis points. These positive impacts were partially offset by changes in major input costs. Higher costs associated with specialty chemical costs and aerosol cans when combined, negatively impacted our margin by 90 basis points. Finally, we recognized marginal benefit from lower costs associated with warehousing, distribution, freight and other miscellaneous input costs, which were offset by higher filling fees.

Now let's take a deeper dive in the margin for the fourth quarter by trade bloc as we continue to focus on our margin improvement plan. Each trading bloc is at a different stage in recovery in their gross margin

and I'm happy to see improvements in all three trading blocs this quarter over the prior year fourth quarter. Within the Americas, gross margin was 49%, an improvement of 110 basis points. EMEA's gross margin was 53.6%, an improvement of 860 basis points. Finally, Asia Pac's gross margin was 55.7%, an improvement of 460 basis points. We are incredibly pleased with the improvements we have made to gross margin over our fiscal year 2023. Recovering our margin continues to be a priority for us but we continue to believe returning our gross margin to our 55% target will be a multiyear task.

Turning to our cost of doing business which we define as total operating expenses, excluding depreciation and amortization and measure as a percentage of net sales. A WD-40 company, cost of doing business is primarily comprised of three areas: investments in our employees, investments in building our brand and freight expense to get our products to our customers. For the fourth quarter, our cost of doing business was 34%, and which increased from 31% in the comparable quarter of last year. This increase was largely due to higher employee-related expenses associated with our earned incentive compensation. Increased professional service fees and higher travel and meeting expenses as we continue to get back to our normal travel schedule in a post-pandemic world. We also continue to incur higher costs associated with the implementation and licensing of our new cloud-based enterprise resource planning software system. Net sales growth is the most important factor in managing our cost of business towards our long-term target of 30%. We are making deliberate investments in the business to support growth. So we expect to see improvements in the cost of doing business over time as net sales grow.

Turning now to EBITDA. For the fourth quarter, EBITDA margin, which we measure as a percentage of net sales was 18% and which improved from 16% in the comparable quarter of the previous year. This is the result of the improvement in net sales as volumes recovered in the back half of the fiscal year and stronger gross margin performance partially offset by an increase in our cost of doing business, as I previously noted. Before fiscal year 2022, we consistently delivered EBITDA margins of between 20% and 22%. However, EBITDA margins continue to be under pressure due to the current inflationary environment and intentional investments we have made to support our new four-by-four strategic framework. These investments are important growth accelerators for our future. Getting EBITDA above 20% remains a priority as we are laser-focused on improving sales volumes, rebuilding gross margins and disciplined cost management. Once we are consistently back at a historic 20% to 22% level, then we will look to leverage scale and returns on our investments across the business as we target 25% EBITDA margins over the longer term.

Now let me discuss some items that fall below the EBITDA line. Net income improved to \$16.6 million in the fourth quarter, which was an increase of 12% over the previous year's fourth quarter. On a constant currency basis, net income would have improved 10% compared to the fourth quarter last year. Our net income reflects a rate of 25.4% for the provision of income taxes. Diluted earnings per common share for the quarter were \$1.21 compared to \$1.08 for the fourth quarter last year, which reflects an increase of 12%. Our diluted EPS reflects 13.6 million weighted average shares outstanding.

Now let's look at our balance sheet and capital allocation strategy. Our resilient and asset-light business model, coupled with actions we have taken to grow our top line while improving gross margin are all contributors to maintaining a strong balance sheet and liquidity position. Maintaining a disciplined and balanced capital allocation approach is a priority for us. We will make the necessary near-term investments to drive long-term profitable growth while also providing strong returns to our shareholders. This year, we saw liquidity from operations improve as we made considerable progress in lowering our inventory levels, which we had invested in to stabilize our U.S. supply chain in prior years. Our inventory levels peaked in the first quarter of fiscal year 2023. And since then, we have reduced inventory by \$32.5 million or 27%. We will continue to make progress on our inventory levels in conjunction with our strategic enabler #3 that Steve shared with you earlier. Our cash flow from operations in fiscal year 2023 was \$98.4 million, and we elected to use \$28.4 million of that cash to pay down a portion of our short-term higher interest rate borrowings.

During the fiscal year, we invested \$6.6 million in capital projects, which is in line with our asset-light strategy of investing between 1% and 2% of sales. In addition to investments made in capital projects, since fiscal year 2021, we have been investing in a new cloud-based enterprise resource planning system, which is expected to go live in the first half of fiscal year 2024. Our investments to date include

approximately \$9 million in costs, which have been capitalized and will begin to amortize once we go live with the new system. As part of this project, we have incurred and will continue to incur costs that need not qualify for capitalization. We expect to incur these costs through the first and second ways of implementation over the upcoming year. This is a significant project for the company that is necessary as we continue to grow and support our business.

For the foreseeable future, we expect maintenance CapEx of between 1% and 2% of net sales per fiscal year, which is in line with our asset-light strategy. In addition, we continue to return capital to our shareholders through regular dividends and buybacks. On October 6, our Board of Directors declared a quarterly cash dividend of \$0.83 per share. Payable on October 31 to stockholders of record at the close of business on October 20. During the fourth quarter, we repurchased approximately 14,000 shares of our stock at a total cost of approximately \$3 million under our current share repurchase plan.

This concludes my discussion on our reported results. Before I share fiscal year 2024 guidance with you, I would like to discuss an updated view on our 55/30/25 business model. As Steve shared earlier, today, we introduced our new Four-by-Four strategic framework, which is designed to help us achieve our expected long-term revenue and profitability objectives. We see significant opportunities for sustainable growth, which, over time, will align with our 55/30/25 business model objectives. Steve and I think about our 55/30/25 business model, as a long-term beacon that we will move toward and align with over time. In the short to midterm, we think about each critical component of the model in a range. Near term, we're targeting a range of 50% to 55% for gross margin, 30% to 35% for cost of doing business and 20% to 25% for EBITDA. We believe these ranges represent a more realistic short-term view of the business in the current economic environment, and they will also allow us to make the necessary investments to support our new Four-by-Four strategic framework. Strategic investments remained this year around ESG, information technology, innovation and organizational design. These investments were significant year-over-year but are not anticipated to grow at the same level going forward now that we have the right people in the right roles to drive our strategy forward. We believe these investments were necessary to jump-start our Four-by-Four strategy. As we move forward, we will use the myriad of strategic levers at our disposal to move each component in the correct direction over time.

Ultimately, we are focused on long-term value creation. We know that when we consistently grow our top line, manage our 55/30/25 business model for EBITDA growth and leverage our asset-light model, we can continue to drive an ROIC of greater than 25%. That will generate continued strong and stable free cash flow, which we will continue to optimize for our best returns on investment and to our stockholders. Looking more closely at our outlook for fiscal year 2024. Net sales growth is projected to be between 6% and 12% and with net sales between \$570 million and \$600 million in constant currency. We also expect gross margin to be between 51% and 53%. Advertising and promotion investment is projected to be between 5% to 6% of net sales. The provision for income tax is expected to be between 24% and 25%. Net income is expected to be between \$65 million and \$70 million. And diluted earnings per share is expected to be between \$4.78 and \$5.15, which is based on an estimated 13.6 million weighted average shares outstanding. Also, as a reminder, this guidance assumes no major changes to the current economic environment. Unanticipated inflationary headwinds and other unforeseen events may affect our view of fiscal year 2024.

That completes the financial overview. Now I would like to turn it back to Steve.

**Steven A. Brass**  
CEO, President & Director

Thank you, Sara. If we've learned anything over the last 70 years, it's WD-40 Company is a resilient business. I'm proud of what we've accomplished over the last year. Once again, I want to thank our employees as they are our most powerful assets and continue to be the real magic formula that drives our company forward.

In summary, what did you hear from us on this call? You heard that despite a difficult first half and a negative impact from currency of nearly \$18 million, we grew revenue 4% over prior year. Excluding the impact of currency, revenue grew 7% and which is in line with our long-term revenue growth target. You heard that we saw improvements in volumes and sales in the second half of fiscal year 2023 and

are encouraged by these trends as we enter fiscal year 2024. You heard that we've introduced our new Four-by-Four strategic framework, which is tied to our purpose and values and will guide our future performance, investments and drive long-term value creation. You heard that we're making investments across our organization, in our people, products, processes, productivity and the planet and that we will continue to make the necessary investments to capture the tremendous runway for revenue growth and margin expansion in front of us. You heard that we saw liquidity from operations return as we made considerable progress in lowering our inventory levels over the fiscal year. You heard that our asset-light model provides a cash flow for us to invest in the business whilst also providing returns to our stockholders. You heard that we consider our 55/30/25 business model, a long-term beacon, but we will move toward and align with over time but that our short-, medium-term focus is on driving EBITDA margins back above 20%. As you heard that we issued guidance for fiscal year 2024 and that we expect revenue growth of 6% to 12% on a constant currency basis which equates to net sales of \$570 million to \$600 million.

Thank you for joining our call today. We'd now be pleased to answer your questions.

## Question and Answer

---

### Operator

[Operator Instructions]. Our first question comes from the line of Daniel Rizzo with Jefferies.

### Daniel Rizzo

*Jefferies LLC, Research Division*

If we look out into 2024 with what you're expecting, are you assuming input and filling costs decrease or kind of flatten out from here? Just given kind of the different dynamics within the environment.

### Sara Hyzer

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

Daniel. This is Sara. So from an input cost standpoint, when we're looking at the guidance that we put out there, we're not seeing significant pullback in the input costs or the filling fees. So They are -- the filling fees are slightly up over prior year, and I got trend. It's not substantial, but we are forecasting those to be a little higher going into next fiscal year than what we're sitting at right now.

### Daniel Rizzo

*Jefferies LLC, Research Division*

Okay. And then I think you mentioned the 55/30/25 framework. That's not changed, right? I mean I'm just misremembering I think, but I think that's kind of what you guys are always kind of pushing towards, correct?

### Sara Hyzer

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

Yes, the 55/30/25 framework has not changed, and it continues to be our longer-term beacon as to what we're striving for long term.

### Daniel Rizzo

*Jefferies LLC, Research Division*

Okay. And then just in terms of revenue, I think for geographic expansion, you said, I think, \$1 billion in sales opportunity. I think that's -- I assume that the addressable market. But that's -- or -- and maybe I missed it -- don't remember the number, but that's like double what you're roughly double what your sales are now. I was just wondering how you're going to attack that and I mean how viable that is kind of.

### Steven A. Brass

*CEO, President & Director*

Yes. Thanks, Daniel. This is Steve. So the \$1 billion growth opportunities are long-term growth aspiration based upon our internal benchmark in terms of what's possible. So yes, it's not a number we're going to put out there in terms of achieving within 3 or 5 years. It's a long-term growth opportunity. It's based on a benchmark opportunity for all countries we're operating at a similar level to the U.S. So it is aspirational, but what it does do is give us a prioritized list of geographies for us to target and where to invest in.

### Daniel Rizzo

*Jefferies LLC, Research Division*

Okay. And a final question. You mentioned getting inventories on hand, I think, below -- I think the goal is below 90 days. I was just wondering where we are now and where we were historically speaking?

### Sara Hyzer

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

So we currently are a little over just shy of 4 months actually globally. So the trading bloc, it does differ by trading bloc when you look at between the Americas, EMEA and Asia Pacific. The place that we've had, the biggest headwinds from our inventory levels has been in the Americas, and we are still just shy of about 6 months of inventory there. So that's really where our opportunity is, is to continue to pull back our inventory levels and get that below. Get that closer to our 3-month target.

### **Operator**

Our next question comes from Linda Bolton-Weiser with D.A. Davidson.

### **Linda Ann Bolton-Weiser**

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

So sorry if I missed this, but did you say what the volume and price change was, respectively, in the quarter for sales?

### **Sara Hyzer**

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

Hi, Linda, this is Sara. So I can go through that. So in our deck, you will see it at the consolidated level. So from a fourth quarter perspective, the impact of price had an 8% impact globally. And the volume was slightly down just about 1%.

### **Linda Ann Bolton-Weiser**

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

Okay. Great. And then I'm just curious a little bit about the sales guidance for the next fiscal year. It's a pretty wide range I'm just wondering what represents the situation at the low and the high ends of the range? Like what are the variables there that are making that range be that wide?

### **Steven A. Brass**

*CEO, President & Director*

Thank you, Linda. So we're still facing as we recover our volumes. So you've seen -- we're just chasing back the U.S. being the first market to execute the price increases. We saw the same kind of 6 months. So this was back in May of the prior year. We saw 6 months of disruption, then we saw a recovery, and now we're seeing double-digit volume growth in the U.S. market. In terms of our POS sales for the fourth quarter, we were up 13% in units and up 19% in dollars in the U.S. market. So we take a great deal of encouragement from the U.S. market, which went first with the price increases. And the strong volume recovery we've now got into double digits. So the next biggest piece of our business, the recovery is EMEA. You saw some recovery in the second half in terms of volumes. But we now expect those in FY '24 to become positive, maybe not out of the gate, but over time, they will build, and we're already seeing patches in our September results from the new fiscal year where we have pockets of really outstanding volume recovery in Europe as well. So we as expected, the guidance range is really between the low end and the high end, Europe is quite a factor in terms of how strongly Europe can recover the other region being Latin America, we expect a strong recovery in Latin America as well in volumes.

### **Linda Ann Bolton-Weiser**

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

Okay. And then I think, well, let's see. Sara talked about these different factors that increased your SG&A expense, the different investment areas in FY '23. And I think, Sara, you said that it would be less growth of SG&A. Maybe you could just clarify, do you mean like in dollar growth, the SG&A will grow less as a percentage growth rate? Or is the ratio expected to come down or be flat? Or I mean, can you just give a little more color on the quantification of that?

### **Sara Hyzer**

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

Sure, Linda. So yes, we have been investing in those areas that I mentioned. And a lot of the investment outside of the IT investments relate to people, right? When we look at ESG, and we look at innovation. A lot of those investments over FY '23, we're hiring. We have an ESG team that's now fully dedicated to looking at sustainable products, looking at different ways for us to ship our products holistically. So there is investments that began in FY '22. And now we're going to have a full year essentially of a lot of those individuals from an SG&A perspective. So my comment on it not continuing at the same pace is really around, once we get through this fiscal year, I don't expect the percentage increase of our SG&A to be at the same pace that we've seen in the last 2 years, if that makes sense.

**Linda Ann Bolton-Weiser**

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

Okay. And I was just wondering about your -- well, I mean, Sara, you usually have some quantification of like maybe the FX effect on the top line growth. Do you have a rough projection for that for FY '24?

**Sara Hyzer**

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

So for FY '24, we are viewing the average rate that we had in FY '23. And so right now, it's apples-to-apples. When we start to get out into the Q1, Q2, and we have currency that starts to impact the comparable period. This year, we are going to guide. Our revenue guidance is going to stick with a constant currency guidance. So we'll probably -- starting in Q1, we will give both actuals and then at constant currency. So that number right now is apples-to-apples on an average FX rate and then going into the year, we will be updating that and guiding to a constant currency revenue number.

**Linda Ann Bolton-Weiser**

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

So you mean your 6% to 12% growth, that's in constant currency?

**Sara Hyzer**

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

Yes. Yes.

**Linda Ann Bolton-Weiser**

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

Okay. And maybe also you -- do you have an oil price assumption that is kind of built in for FY '24?

**Sara Hyzer**

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

We do. And as you are aware, oil has been bouncing all over the place the last month or so, but we have an estimate in the plan of between \$80 and \$100.

**Linda Ann Bolton-Weiser**

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

Okay. And I guess this is more of a longer-term question, a big picture question. It seems like for all the years I've been following you that the cost of doing business ratio has always been the struggle for you guys. I mean your gross margin has progressed upward and you've had sales growth and everything else. But it seems to be stubbornly high, and you do need to invest. There's all these areas that you need investment to continue to grow. So that's understandable. But I just kind of wonder, is it as a small company with relatively small size that you're just -- it's more of a struggle to gain like scale economies or I just -- I guess I'm wondering like where is the beef, so to speak, in terms of that ratio ever coming down. Do you have thoughts on that?

**Steven A. Brass**

*CEO, President & Director*

So I think the -- I mean, Sara, you can add to this. But from my point of view, it's all about -- we are laser-focused on these Must-Win Battles like never before. And I think we put out our historic rates in terms of what we've achieved. We put out our forward rates by each of the battles in terms of what we want to achieve with the big ones being geographic expansion, premiumization and WD-40 specialist. And so it's really about accelerating revenue growth to gain scale having a higher sales base to leverage the cost base over. So if you take things like our ESG investments, that's a team of 3 people in 5 years' time, that team will still be a team of 3 people, but we had to put it in place for various reasons. So I think that going forward, it's about driving faster revenue growth via laser-focused execution on those battles and just accelerating the pace at which we execute our strategy.

**Linda Ann Bolton-Weiser**

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

Okay. Sounds good. Thank you very much.

**Operator**

Our next question comes from Rosemarie Morbelli with Gabelli Funds.

**Rosemarie Morbelli**

I think that you and Sara, you've kind of talked about what you are expecting for 2024. But I was wondering if you could give us a little more detail. You are expecting top line growth of 6% to 12%. You're expecting a higher gross margin advertising and sales seems to be similar to what you have been experiencing on a percentage of sales. So -- but we are looking at the low end at potentially lower EPS year-over-year. So I understand that you are spending more on that operating -- the cost of operation. But what will go wrong for you to have actually a down year? That is the part that I am struggling with. Why [ \$4.78 ], why not a flat year? What is the main factor that would create that?

**Sara Hyzer**

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

So there are a couple of things happening below the operating line. So we've talked already about the increase in the SG&A cost. So yes, there is less leverage being dropped to the bottom line this year versus prior year. But below the operations line when we do go live in our new ERP system, we are going to have additional noncash amortization expenses hitting. So that is going to be increasing. And then in addition, our tax rate is going up. So it is going up 200 basis points as a result of increased statutory rates in the U.K. essentially increased foreign taxes year-over-year with statutory increases along with increased interest rates on to our uncertain tax positions in the U.S. So the impact on our tax line is not inconsequential. And obviously, that's having a pretty decent impact on our EPS number.

**Steven A. Brass**

*CEO, President & Director*

And if I can just add, in terms of the kind of the drivers of the business in terms of revenue, so this volume recovery, particularly in Europe, right? So for the fiscal year, \$37 million of volume loss this year. The big question is how much of that can we recover? We think we're likely to recover somewhere between 50% and 80% for the year of that, but that's dependent largely upon Europe and Latin America recovery. And then on the gross margin, as Europe becomes a bigger part of our business, the -- there are mix benefits, right? Our gross margin in [ many of our continental ] European businesses, in particular, which suffered last year is very, very strong. And so as we do more business in Europe and Asia Pacific, that country mix on gross margin is positive. Just simply from a gross margin point of view, selling more products, more of our highest gross margin products. So Smart Straw, EZ-REACH, [ Smart ] Premium format, WD-40 Specialist and selling less of our lowest gross margin products, household products is a big driver of our gross margin going forward as well.

**Rosemarie Morbelli**

So there is -- I'm still confused about one thing. Wouldn't the cost of the ERP system that will now be expensed instead of capitalized. Wouldn't that be part of the SG&A? Why is it below the line? I am confused about that.

**Sara Hyzer**

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

So I look at -- sorry, when I say below the line, I meant below our EBITDA margin. But yes, amortization is sitting up in SG&A. So apologies for that comment.

**Rosemarie Morbelli**

No, it's okay. I enlist all of the business. Okay. Then you are working on supply chain changes. What do you think you need to improve there? I mean everyone was hit with an increasing inventory level after the pandemic and difficulties in getting raw materials than it was destocking. So what do you see need to change for you to do better to these circumstances, which I hope is not the case, but come back.

**Sara Hyzer**

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

So we've spent a tremendous amount of time in the last year to half stabilizing our supply chain, particularly in the U.S. And we are actually pretty much done at this point with expanding our filler network in the U.S. We've also expanded our filler network in Europe. We also have expanded our suppliers. So we have multiple suppliers now for our cans and have continued to expand our supplier base as well. So we're feeling very good about where we're at from a supply chain standpoint. So from here, it's really about optimizing. And volume solves a lot of those problems, right? As we start to have volume continues to come back, we're able to push more volume across a broader filler base and when we can push more volume into our filler network, we get better unit pricing. We're able to turn inventory quicker. So there's a lot of things that we're looking at from an optimization standpoint. But at this point, we don't see any full-scale changes to our supplier network. We're always looking at kind of what the next year longer-term change for us. But in the near term, we feel very good about where we're at with our overall network on the supply chain side. Steve, anything to add?

**Steven A. Brass**

*CEO, President & Director*

No, I think that's it. Optimizing the next stage, particularly within the Americas, right? And when you look at our gross margin by trading bloc, you can see that. So the Americas having reestablished their supply chain, there are optimization opportunities there. You look at our gross margin within the Asia Pacific region, we're already backed up at 55%, Europe is heading that way in terms of 52%, 53%. It's really the Americas where we need to extract those optimizations now.

**Rosemarie Morbelli**

Isn't the reason for the lower margin, the lower gross margin in the Americas. Well, no, I guess I am wrong. I was going to ask if it is because you have your headquarters here, but I guess that would affect the SG&A. It would not affect the gross margin, correct?

**Steven A. Brass**

*CEO, President & Director*

No. And our U.S. gross margins are pretty healthy. It's really been about Latin America gross margins and getting those back on track.

**Rosemarie Morbelli**

Okay. And if I may ask one last question. Any potential acquisitions you are looking at of a new product line which would fit with your existing product lines?

**Steven A. Brass**

*CEO, President & Director*

So we spoke in terms of kind of M&A in terms of last quarter, we spoke about the strategic review of the household brands. That's ongoing. We have had no further kind of decisions being made there. So what's this space for more information in future quarters. In terms of acquisitions, I mean, we say that we're in the business of acquiring new points of distribution and new users every day, and that's where our focus needs to be going forward. Having said that, there may be ways for us in future to accelerate the growth, particularly in geographic expansion by different ways of partnering or making moves that would accelerate geographic expansion. So that would be where, if anywhere, we might do something in the future, but nothing in the plans to report as of this quarter.

**Rosemarie Morbelli**

Thank you very much. I really appreciate all the help. Good luck next quarter.

**Operator**

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

Copyright © 2023 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

© 2023 S&P Global Market Intelligence.