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Earnings Call

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company's First Quarter Fiscal Year 2024 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-Q for the period ending November 30, 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 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 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 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, January 9, 2024. 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. Today, I'll begin by discussing our sales results for the first fiscal quarter of 2024, and also provide you with an update on our Must-Win-Battles and some of our strategic enablers. Sara will provide further details on our first quarter results, an update on our business model and our outlook for fiscal year 2024 and then we will take your questions.

I'm happy to share with you that today, we reported net sales of $140.4 million for the first quarter, which was an increase of 12% from the first quarter of last fiscal year. Excluding the favorable impact of currency, revenue grew 9%, which is in line with both our FY '24 guidance and our long-term growth projections. We're encouraged that the improvement in trends we experienced in the second half of fiscal year 2023 have carried into fiscal year '24. This is the first time since fiscal year 2021 that our business has been firing on all cylinders. We saw volume-related sales growth this quarter in all 3 trade blocks. In fact, approximately 65% of our constant currency sales increase this quarter was volume related.

We estimate that increases in volumes favorably impacted sales by approximately $7.6 million from period-to-period or only about $4.1 million was attributed to increases in average selling price primarily due to the price increases we implemented last year in certain regions. We are also pleased to see that this top line growth is dropping down to the bottom line. Net income for the first quarter was $17.5 million compared to $14 million in the first quarter of last fiscal year, an increase of 25% year-over-year. For those of you who have reviewed the press release we issued earlier today, you may have noticed that we have made some changes to the way we report our net sales by product group.

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We have disaggregated Maintenance product sales so that investors have additional transparency into the primary growth focus for the company. In addition to reporting net sales by product group, we continue to report net sales by segment. Now let's talk about first quarter sales results by segment, starting with the Americas. Sales in the Americas, which includes the United States, Latin America and Canada, were up 10% in the first quarter to $64.1 million. The bulk of this growth was driven by higher sales of WD-40 Multi-Use product, which increased 12% compared to the prior year quarter. The vast majority of this growth came from strong sales of WD-40 Multi-Use product in the United States and Latin America, which increased 8% and 29%, respectively.

In the United States, the increase was due to higher sales volume linked to successful promotional activities. In our Latin America distributor markets, sales were favorably impacted due to the timing of customer orders associated with price increases put in place last fiscal year. Sales of Maintenance products in Canada were also up by 30%. Both Latin America and Canada was favorably impacted by higher sales of premiumized products and successful promotional programs. In total, our Americas segment made up 45% of our global business in the first quarter. Now let's 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 we began to experience in EMEA, the second half of last year continued into the first quarter. Sales in EMEA were up 20% to $48.8 million. A vast majority of this growth was driven by higher sales of WD-40 Multi-Use product, which increased 23% compared to the prior year quarter. In the comparable period of last year, volumes were down in Europe as customers adjusted to the price increases we had implemented. We are pleased that we're emerging from the period of price increase related disruption we experienced last fiscal year in the region.

Currency fluctuations positively impacted our sales in EMEA. And on a constant currency basis, sales would have increased 11% compared to the first quarter of last year, marking this as the third consecutive quarter of double-digit sales growth in constant currency.

We have historically reported on EMEA results by discussing our direct operation sales as well as those made to our marketing distributors. Our goal is to provide investors with increased visibility into our growing EMEA business segment. And so going forward, we'll begin discussing our EMEA results at the regional level rather than by distribution type.

In the first quarter, sales of WD-40 Multi-Use product increased significantly in France, the Middle East and the DACH region and were up $1.9 million, $1.6 million and $1.5 million, respectively. The DACH region includes Germany, Austria and Switzerland. The increase in sales in these regions was primarily due to improved sales volume as many of our customers have adjusted to the impact of price increases implemented over the last 2 fiscal years.

These increases were partially offset by a decrease in EUR 0.9 million linked to the timing of customer orders. We expect the Indian market to recover in the second half of the year. In addition to the strong performance of our WD-40 Multi-Use product, EMEA also saw strong growth of 11% to WD-40 Specialist during the quarter, with France leading the way. In total, our EMEA segment made up 35% of our global business in the first quarter. Now on to Asia Pacific.

Sales in Asia Pacific, which includes Australia, China and other countries in the Asia region were up 6% in the first quarter to $27.6 million. Once again, much of that growth was driven by higher sales of WD-40 Multi-Use product, which increased 4% compared to the prior year quarter. WD-40 Specialist sales also contributed to growth in this segment and increased 19% in the first quarter, primarily due to successful promotional programs and marketing activities in China. In China, sales of Maintenance products were up 15% in the first quarter primarily due to successful promotional programs and marketing activities that led to increased sales volume.

On a constant currency basis, sales for China would have increased by 18%. In our Asia Pacific distributor market, sales of Maintenance products were up 4% in the first quarter, primarily due to price increases in these markets from period-to-period and successful promotional programs in certain regions. In Australia, sales in Maintenance products were up 2% in the first quarter. On a constant currency basis, sales in Maintenance products for Australia would have increased by 5% compared to the first quarter of last year.

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primarily due to higher sales of 3-IN-ONE. In total, our Asia Pacific segment made up 20% of our global business in the first quarter.

Now a quick update on the homecare and cleaning business. Sales of our homecare and cleaning products were down 4% in the first quarter compared to the prior year. We continue to explore options to further deemphasize our homecare and cleaning brands. De-emphasizing these brands over time will create headspace for our people to bring an even greater focus to our higher-margin maintenance products. Our homecare and cleaning brands are marketed in a few different geographies around the world. We are currently in active discussions with third parties on some of our homecare brands in certain geographies. We look forward to updating investors on this matter in the future.

Now let's talk about our growth aspirations. Last quarter, we introduced our new Four-by-Four Strategic Framework, which was developed to drive profitable growth and sustainable value creation. The framework is designed to deliver on our long-term growth targets, which are to drive Maintenance product revenue growth in the mid- to high single digits on a non-GAAP constant currency basis. This is supported by our growth outlook for each trade block, and we anticipate the Americas to grow between 5% to 8%, EMEA to grow 8% to 11% and Asia Pacific to grow 10% to 13%. In addition, we believe our Four-by-Four Strategic Framework will drive adjusted EBITDA margin expansion as we improve our gross margins and invest across the business to gain efficiencies and productivity improvements.

I will not be going into the entire strategic framework today. However, if you are new to our story, we have made a succinct overview of our strategic framework available to stockholders in the overview section of our Investor Relations website. Today, I will review the progress we've made against our Must-Win-Battles in the first quarter and provide you with an update on a couple of our strategic enablers. Starting with Must-Win-Battle #1, leading geographic expansion in the first quarter of 2024. Global sales of the WD-40 Multi-Use product grew $13.1 million or 14% over the prior year. We experienced strong sales of our signature brand in all 3 trade blocks with 12% growth in the Americas, 23% growth in EMEA and 4% growth in Asia Pacific.

We never stopped investing in the blue and yellow can with a little red top throughout the pandemic and subsequent inflationary and volatile times. We've continually made investments focused on building brand awareness and market penetration in identified key markets. As a result, we made excellent progress and have seen volume recovery in several key markets. With strong sales growth of 49% in the DACH region; 23% in Mexico; 42% in France; and 59% in Iberia, which includes Spain and Portugal.

In fiscal year 2024, we will continue to invest in building our flagship brand with end users around the world. Next is Must-Win-Battle #2, accelerating premiumization. For us, premiumization is a major contributor to our revenue growth as well as gross margin expansion. And our premiumized products are loved by end users around the world. In the first quarter, sales of W40 Smart Straw and EZ-REACH, when combined, were $47.6 million, up 16% compared to the prior year period.

We have fully implemented WD-40 Smart Straw next generation capacity within the Americas and at multiple packages in our EMEA, which we expect will help us to accelerate the sales of premiumized products in these segments going forward.

On a go-forward basis, we will be targeting a compound annual growth rate for net sales of premiumized products of greater than 10% in reported currency. Our third Must-Win-Battle is to drive WD-40 Specialist growth. In the first quarter, sales of WD-40 Specialist products were $16.8 million, up 9%. We saw growth of WD-40 Specialist products across all 3 trade blocks with particularly strong growth in EMEA and China, where sales grew 11% and 70%, respectively.

In the Americas, sales of WD-40 Specialist grew just 4% compared to the first quarter of last year. In the comparable period of last year, sales of WD-40 Specialist were very high in the Americas due to increased production capacity and improved availability associated with our post-pandemic recovery.

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 turbocharge Digital commerce. Digital commerce is an accelerator for all of our other Must-Win-Battles. In the first quarter,

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e-commerce sales were up 10%, primarily due to strong growth in EMEA. 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.

And now I turn to the second element of our strategic framework, our strategic enablers, which collectively underpin our Must-Win-Battles. Rather than providing an update on all our strategic enablers today, I'll update you on some recent progress made on enablers 3 and 4. Strategic Enabler 3 achieving operational excellence in supply chain. This strategic enabler is meant to continue our quest for operational excellence. To support this strategic enabler, we've established a set of global supply chain KPIs that are being utilized by all 3 trade blocks.

This allows us to understand our operational performance at a deeper level in all regions. And through external benchmarking, we'll be able to understand the areas, where we can focus our attention and efforts to improve our operational performance.

One important KPI is achieving on-time and in-full delivery also referred to as OTIF. And I'm happy to share with you that customer OTIF scores were over 95% in aggregate in the first quarter. We also carried out our first assessment of environmental sustainability awareness and maturity amongst our largest suppliers. This will help us develop our approach for how we engage with our supply chain partners over the coming years to address changing regulatory requirements, our ESG program and stakeholder expectations as they evolve. Finally, we are working to improve our forecasting and planning processes, which will help us to make better informed decisions about future demand and supply availability.

Next is strategic enabler #4 which is to drive productivity via our enhanced systems. We are very close to going live with a new cloud-based enterprise resource planning system for our U.S. and Latin American businesses, which is a big step for our organization. I want to personally thank the team that has been working on this project. As a small company with an employee base of only 600 people, we need to strive to provide the best IT systems to allow them to do their jobs more efficiently and effectively. To that extent, we've increased our investment in the past few years on new systems and system enhancements. And continued investment will be needed to support this important enabler in the future.

We recently created a new global role to oversee our IT strategy with a focus on identifying opportunities to streamline our tools and processes across our regions. This role will also drive our strategic investments in IT in partnership with global stakeholders to support the growth of the organization. With that, I will now turn the call over to Sara.

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

Thanks, Steve. I'll begin today with a discussion about our business model. Then I will walk you through some of our first quarter results and provide an update on our capital deployment. While our full year top and bottom line guidance remains unchanged, I will provide some additional color on our outlook.

Before we begin today, I wanted to point out to investors that we have modified how we calculate some of the non-GAAP performance measures related to our 55/30/25 business model. Beginning this quarter and going forward, amortization of implementation costs associated with cloud computing arrangements will be included in our cost of doing business and EBITDA calculations. Accordingly, we will now refer to our EBITDA target included in our 55/30/25 business model as adjusted EBITDA. As Steve mentioned, we are in the process of implementing a new cloud-based enterprise resource planning system, which we will begin to amortize once the system is placed into service.

Implementation of systems like this one are related to our strategic framework and are intended to achieve greater operational efficiencies for our organization. We consider these noncash charges to be like depreciation of fixed assets and, therefore, believe they should be treated as such. WD-40 Company's asset-light and dynamic business model has helped the company maintain a healthy financial position for years and continues to be our guiding light. Our 55/30/25 business model is 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.

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Let's start with our first quarter gross margin performance. We target a range of 50% to 55% for gross margin, and we have made significant progress to perform well within this range. Once again, we experienced strong gross margin improvement over the first quarter of the prior year. In the first quarter, our gross margin was 53.8%, compared to 51.4% last year. This represents an improvement of 240 basis points and is the highest quarterly margin we have reported since the second quarter of fiscal year 2021. The improvement from prior year was driven by several factors, including positive results from continued actions we have taken to strengthen our supply chain.

First, lower costs associated with warehousing distribution and freight, primarily in the U.S., benefited our margin by 150 basis points. We continue to make 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 $37.5 million or 31%. We will continue to make more progress on our inventory levels in conjunction with our strategic enabler #3.

Also benefiting margins were favorable sales mix and other miscellaneous mix impacts, which positively impacted our gross margin by 130 basis points year-over-year. Sales mix can positively or negatively impact our gross margin due to various factors, including geography, distribution channels and product characteristics like premiumized formats. This quarter, we saw a benefit from sales mix due to the strong recovery we are experiencing in EMEA. Margins were also positively impacted by 120 basis points due to tactical price increases. Currently, we are not planning any additional tactical price increases in any of our larger markets in the near term. As always, we will continue to monitor the inflationary environment in our various markets.

Finally, we recognized benefits from lower costs associated with specialty chemicals, which positively impacted our margin by 60 basis points. These positive impacts to margin were partially offset by higher costs associated with aerosol cans, changes in miscellaneous other input costs and higher filling fees primarily in the Americas, which, when combined, negatively impacted our margin by 200 basis points. Now let's take a deeper dive into gross margin by trade block as we continue to focus on our margin improvement plans. Each trade block continues to be at different stage in recovery in their gross margins.

Within the Americas, gross margin was 50.7% in the first quarter. While this is relatively constant compared to the prior year first quarter, we have seen sequential improvement of 170 basis points from the fourth quarter of fiscal year 2023. EMEA's gross margin was 54.9%, an improvement of 430 basis points compared to the prior year first quarter and 130 basis points sequentially. Finally, Asia Pacific's gross margin was 59.2%, an improvement of 480 basis points compared to the prior year first quarter and 350 basis points sequentially. We are incredibly pleased with the improvements we have made to gross margins over the last few quarters.

This progress has positioned us to likely deliver above the midpoint of our fiscal year 2024 gross margin guidance range. However, we continue to believe returning our gross margin to our 55% target will be a multiyear task.

Now turning to our cost of doing business, which we define as total operating expenses less adjustments for certain noncash expenses. Cost of doing business is how we measure how efficient we are at operating our business and is primarily comprised of 3 areas: investments in our employees, investments in building our brand and freight expense to get our products to our customers.

We target a range of 30% to 35% as a percentage of revenue for cost of doing business. As a percentage of revenue, our cost of doing business remained constant at 36% compared to the first quarter of last year. However, on an absolute dollar basis, our cost of doing business increased by $5.7 million or 13% due to higher employee-related expenses, higher travel and meeting-related expenses and increased professional services fees. In addition, the investments we make in advertising and promotional activities increased period-over-period. As a percentage of sales, our A&P investment was 5% compared to 4.3% in the first quarter of the prior year, but is in line with our fiscal year guidance.

We are making deliberate investments to support our Four-by-Four Strategic Framework to accelerate growth for our future. We expect to see improvements in the cost of doing business over time as sales grow, which is the most important factor in managing our cost of business towards our long-term target

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of 30%. Turning now to adjusted EBITDA. We target an adjusted EBITDA margin range of 20% to 25%. Adjusted EBITDA margins have been under pressure the last couple of years due to the inflationary environment we have been operating in, and those intentional investments we have made to support our Four-by-Four Strategic Framework.

Before fiscal year 2022, we consistently delivered EBITDA margins of between 20% and 22%. Getting adjusted EBITDA margins back above 20% remains a top priority for us. And so beginning this fiscal year, certain key senior leaders, including myself and Steve, we'll have a portion of our incentive compensation tied to making progress to recovering our adjusted EBITDA margins back to the 20%, 22% range over the midterm. Once we are consistently back at our historic 20% to 22% levels, then we will look to leverage scale and returns on our investments across the business as we target 25% adjusted EBITDA margins over the longer term.

For the first quarter, adjusted EBITDA margin was 19%, which improved from 17% in the comparable quarter of the previous year. This is the result of the improvement in net sales as volumes have continued to recover in the first quarter and stronger gross margin performance. Now let me discuss some items that fall below the adjusted EBITDA line. Net income improved to $17.5 million in the first quarter, which was an increase of $3.5 million or 25% over the previous year's first quarter.

On a constant currency basis, net income would have improved 21% compared to the first quarter of last year. Our net income reflects the provision for income tax rate of 24.2%. Diluted earnings per common share for the quarter were $1.28 compared to $1.02 for the first quarter last year, which reflects an increase of 25%. 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 remains a priority for us. For the foreseeable future, we expect maintenance CapEx of between 1% and 2% of sales per fiscal year, which is in line with our asset-light strategy.

One of our more significant non-CapEx investments recently has been our new enterprise resource planning system. Our investments through November 30 include approximately $10 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 do not qualify for capitalization. And we expect to incur these costs through the multiple ways of implementation over fiscal year 2024. In addition, we continue to return capital to our shareholders through regular dividends and buybacks. Annual dividends will continue to be targeted at greater than 50% of earnings.

On December 12, our Board of Directors approved a quarterly cash dividend of $0.88 per share, reflecting an increase of 6% over the previous quarter's dividend of $0.83 per share. During the first quarter, we repurchased approximately 11,500 shares of our stock at a total cost of approximately $2.4 million under our current share repurchase plan. We will continue to be active in the market, and we expect to repurchase at least enough shares to offset shares issued for equity compensation. Going forward, our objective is to return cash to investors in the most accretive manner. Higher interest rates may mean share buybacks are not as accretive as they were in the past.

Our cash flow from operations this quarter was $26.9 million, and we elected to use $10 million of that cash to pay down a portion of our short-term higher interest rate borrowings. Our intent is to continue to pay down higher interest borrowings under the current interest rate environment. With that end in mind, we recently reclassified approximately $23 million in borrowings from long term to short term on our balance sheet since we plan to pay down that debt within 12 months. That concludes my discussion on our reported results.

So let's turn to guidance. We're off to a very solid start in fiscal year 2024, and we are pleased to see volumes continue to recover, and improvement in our gross margin. However, we know our results can vary quarter-to-quarter based on the timing of promotional activity and market mix and the impacts of a world which is filled with volatility, uncertainty, complexity and ambiguity. We continue to believe our

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current guidance is our best estimate. And for that reason, we are reiterating our outlook for fiscal year 2024 today.

Net sales growth is projected to be between 6% and 12%, with net sales between $570 million and $600 million in constant currency. Gross margin is expected to be between 51% and 53%, however, we believe we are positioned to likely deliver above the midpoint of our guidance range based on our current performance, recent mix trends and the current cost trends we are experiencing. Advertising and promotion investment is projected to be between 5% and 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 the call back to Steve.

Steven A. Brass
CEO, President & Director

Thank you, Sara. In closing, we're proud of the progress we've made this quarter, which is a great start to our fiscal year, aligns with our longer-term goals. In summary, what did you hear from us on this call?

You heard that this is the first time since fiscal year 2021 that our business has been firing on all cylinders, and we saw top line growth in all 3 trade blocks. You heard that we saw volume-related sales growth in all 3 trade blocks and that approximately 65% of our constant currency sales increase this quarter was volume-related. You heard that sales of WD-40 Multi-Use product were up 14% in the first quarter. You heard that sales of WD-40 Specialist were up 9% in the first quarter. You heard that our inventory levels peaked in the first quarter of fiscal year 2023. And since then, we have reduced inventory by $37.5 million or 31%.

You heard that we're incredibly pleased with the improvements we've made to gross margin and that this progress has positioned us to likely deliver above the midpoint of our fiscal year 2024 gross margin guidance range. You heard at the beginning, this year, certain key senior leaders will have a portion of our incentive compensation tied to making progress to recovering our adjusted EBITDA margins initially back to 20% to 22% over the midterm. You heard that we continue to return capital to investors through regular dividends and that we raised our dividend last month. And you heard that we reiterated our full fiscal year 2024 guidance and are proud of the progress we've made this quarter.
Thank you for joining our call today. We'd now be pleased to answer your questions.

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Question and Answer

Operator

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

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Congratulations on this quarter. So I was wondering if you could comment on what the environment is regarding pricing because we're actually starting to hear, in certain areas, of deflationary developments. Are you getting any pressure to actually roll back any prices? I know historically, that wasn't really the practice. But can you just sort of give a little bit more on the pricing front?

Steven A. Brass
CEO, President & Director

Linda, it's Steve. So on the pricing front, yes, I mean, of course, with major retailers, as always, they are excellent negotiators. And of course, we're having conversations about pricing going forward.

I mean I think the bottom line is it's hardly a situation where we're profiteering. We are simply recovering our historic gross margin levels, and we're very pleased with the progress we're making there. So in summary, yes, we are beginning to have conversations with retailers. We train our people very, very well to hold those conversations with our retail partners. But yes, those conversations are.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Okay. And then I know when you took the price increases in Europe that there was some loss of distribution. Can you just update us on have you fully regained back that distribution? And kind of what's the status there?

Steven A. Brass
CEO, President & Director

So in terms of Europe and the minor distribution losses we have, we have pretty well recovered most all of those distribution losses. Some of those, however, will run into next fiscal year in terms of the full recovery of the volume concern. So yes, we have recovered just about all of the volume we lost from kind of delists but some of that recovery will still play out in fiscal year 2025 in Europe.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Okay. And then can you give some -- well, I can't remember, I don't think you've exactly quantified the income statement effect of your ERP implementation costs. But can you give some idea of the cadence of when those will hit the income statement? Is it more in the first half or second half or just evenly across the quarters? Any color on that?

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

Yes, Linda, I can take that one. So we are still on track to go live with the new system in Q2. So we will expect some of that amortization begin to impact us in the next quarter and then going forward. So the amortization, I think we disclosed that we have about $10 million on the books at the end of November, and we will start to amortize that through the P&L starting in Q2 as soon as the system goes live. And we will -- there'll be some more transparency on the amount of that as we get into the second and third and fourth quarter of the year.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

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Okay. And then finally, I guess I just was interested in your commentary on India. I didn't catch exactly what you said, but it sounded like something and then growth would resume more in the second half of the year. Can you give a little more on that issue?

Steven A. Brass
CEO, President & Director

Sure. So Linda, as you're aware, I mean, our long-term growth trajectory on India has been very, very positive over recent years. We have a wonderful partner and have a great long-term track record. We've suffered the same kind of disruption that we've suffered pretty well everywhere else in India in terms of these pricing changes over the past 18 months, and we're still kind of going through that. We do expect to emerge from that in the second half of this fiscal year.

There was also some -- just some shipments deferred between Q1 and Q2 as well. So you should start to see the Indian situation improving. We were disappointed, we were negative about $0.9 million, I believe, in the first quarter. But you should see that over between Q2 begin to improve and then as head back into growth in India in Q3 and Q4.

Operator

Our next question comes from the line of Daniel Rizzo from Jefferies.

Daniel Rizzo
Jefferies LLC, Research Division

Just given the strong performance in the first quarter in sales, I mean, you're up over 12%. But the outlook for the year is largely unchanged. I was wondering if there's order timing that's involved that would suggest a slowdown in the second quarter or the back half of the year. Or how should we think about it, again, given everything is still intact, but you had a fairly strong first quarter?

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

I'll take that one. Daniel, this is Sara. So yes, we are very pleased with the results for the first quarter, but it is just 1 quarter. And there is still a lot of uncertainty as we look out for the back half of the year. And so at this point in time, we felt that it was appropriate. It's still our best estimate that we believe will still be within the guidance for the rest of the year. We do obviously see fluctuations quarter-to-quarter.

If you go back and look at our business, the business can fluctuate quarter-to-quarter, and we have the ERP system going live in Q2. So we're just -- we're wanting to wait 1 more quarter to see how the first half of the year shapes up before taking another look at guidance.

Daniel Rizzo
Jefferies LLC, Research Division

Was there any pull forward in the quarter from the second quarter? I know in the past, particularly sales in Asia have been kind of lumpy just because of order timing. I was wondering if we saw that at all here in the first quarter.

Steven A. Brass
CEO, President & Director

Not really pull forward, Daniel, but there is. Asia Pacific seems to have just entered this cadence of kind of a front-loaded fiscal year. And part of that is really a cultural, down to the way that kind of orders happen and particularly in the Chinese market and Asian distributor markets. And so I think that, that cadence of a stronger Q1, I mean if you look at the overall Asia Pac business, we're up 6%, 7% of constant currency.

China is doing very well. Local currency up 18%. It's just this front-loaded piece that just seems to become the way we do business there increasingly, yes.

Daniel Rizzo

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Jefferies LLC, Research Division

Okay. And then this may be a dumb question. But given your asset-light business model, is there any benefit from improved cost absorption with higher production volumes? I mean volumes are going to be fairly strong. I was wondering if that will have meaningful impact on gross and EBIT margins.

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

So yes, we do, volume does help us, right? The more that we can push into our filler network, the better pricing we can get. So as volumes continue to recover, right, we will be able to see improved filling fees, although fill fees for us have been one of those costs that have been stickier than others. So if you look at the comparison quarter-over-quarter, fill fees are still higher today than they were this time last year. And a lot of that is around the labor and inflationary environment that our third-party manufacturers incurred. A lot of those increases have just stuck.

So in general, to answer your question, Daniel, yes, the more volume, the better pricing we get. But we have seen higher fill fees as we sit here today than we were a year ago.

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

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