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Earnings Call

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Call Participants

EXECUTIVES

Sara K. 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

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company First Quarter Fiscal Year 2025 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, Wendy Kelley, Vice President, 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, 2024. These documents will be made 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 that are 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 10, 2025. 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 2025. I will also provide you with an update on our Must-Win Battles and one of our strategic enablers. Following that, Sara will share additional details on our first quarter results, provide updates on the anticipated divestiture of our home care and cleaning business and our 55/30/25 business model and review our outlook for fiscal year 2025.

We'll then take your questions. I'm happy to share with you that today, we reported net sales of $153.5 million for the first quarter, which was an increase of 9% from the first quarter of last fiscal year. Furthermore, we reported net sales of maintenance products, our core strategic focus, of $145.5 million for the first quarter, which was an increase of 10% from the first quarter of last fiscal year, marking the third consecutive quarter of double-digit growth in this category. Gross margin continues to improve and is moving closer to our target of 55%.

In the first quarter, we reported gross margin of 54.8%, which is an improvement of 70 basis points sequentially from the fourth quarter and 100 basis points compared to the first quarter of last fiscal year. Gross margin, excluding the impacts of the assets we currently have held for sale was 55.4%. This improvement of our gross margin is driving increased profitability at the bottom line. Net income for the first quarter was $18.9 million, an increase of 8% over prior year. We are pleased with the strong volume performance the business is currently experiencing in the first quarter, excluding the impact of currency, nearly 90% of our growth was driven by increased sales volume.

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Global sales volume showed strong progress in 2 of our larger trading blocks, driving 10% sales growth over prior year within the Americas and 13% within EIMEA. Asia-Pacific is lapping a strong prior year quarter and was down 8% in the first quarter.

Now let's talk about first quarter sales results in dollars by segment, starting with the Americas. Sales in the Americas, which includes the United States, Latin America and Canada, increased 8% in the first quarter to $69.4 million compared to the same period last year. Sales of maintenance products increased 9% in the first quarter to $65.4 million compared to the same period last year. The bulk of this growth was driven by higher sales of WD-40 Multi-Use Product, which increased 9% compared to the prior year quarter. A significant portion of this growth resulted from strong sales in the U.S. and Latin America which increased $2.4 million and $2.3 million, respectively.

In the United States, the increase was due to higher sales volume linked to successful promotional activities. Sales of WD-40 Multi-Use product in Latin America were favorably impacted by our transition to a direct market model in Brazil. This distribution model shift favorably impacted net sales in Brazil by approximately $3.1 million in the first quarter. These increases were partially offset by lower sales volumes in Mexico due to the timing of customer orders as well as the unfavorable impacts of foreign currency exchange rates.

Higher sales in the U.S. and Latin America were partially offset by lower sales of WD-40 Multi-Use Product in Canada, which decreased slightly by $200,000 compared to the prior year quarter due to the timing of customer orders. In the Americas, sales of WD-40 Specialist increased by $1.1 million or 16% compared to the prior year period, primarily due to new distribution and successful promotional programs in the United States.

Growth in maintenance products was partially offset by a 7% decline in homecare and cleaning products. This drop was due to reduced advertising and promotional efforts for these brands as we shift our focus to boosting maintenance product sales in line with our Four-by-Four Strategic Framework. In total, our Americas segment made up 45% of our global business in the first quarter.

Now let's take a look at ourselves in EIMEA, which includes Europe, India, the Middle East and Africa. Net sales in EIMEA increased 18% in the first quarter to $57.5 million compared to the same period last year. Sales and maintenance products increased 19% in EIMEA in the first quarter. The strong growth in EIMEA was driven primarily by higher sales of WD-40 Multi-Use Product, which increased 21% due to higher sales volume across almost all regions compared to the prior year quarter.

Sales increased most significantly in India, France, Benelux and Iberia, which were up $1.9 million, $1 million, $900,000, and $900,000 respectively. In addition to the strong performance of our Multi-Use Product, EIMEA also saw strong growth of $1.2 million or 17% for WD-40 Specialist during the quarter, primarily due to higher sales volume because of increased distribution and higher levels of demand, most significantly in Italy, U.K. and Iberia. The growth in maintenance products was partly offset by a decline of 19% in homecare and cleaning product brands sold in the U.K. In total, our EIMEA segment made up 38% 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, decreased 4% in the first quarter to $26.6 million compared to the same period last year. Despite a year-over-year decline in sales, the first quarter of fiscal year 2025 marked the second highest sales quarter in the segment's history. Year-over-year decline was driven by lower sales of WD-40 Multi-Use Product in our Asia distributor markets, whose sales decreased $2.6 million compared to the prior year quarter.

In the first quarter, our Asia distributor markets experienced a decrease in sales volume due to timing of customer orders. You may recall our Asia distributor markets had a very strong fourth quarter and sales of WD-40 Multi-Use Product in Q4 were up 51%. Marketing distributor customers, particularly in Indonesia, South Korea and Philippines who placed large orders in the fourth quarter did not repeat those orders in the first quarter. This is timing related, and we expect activity will pick up in the second half of the year.

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In China, sales of our WD-40 Multi-Use Product were up 13% or $1 million in the first quarter, primarily due to successful promotional programs and marketing activities that led to increased sales volume. In Asia-Pacific, sales of WD-40 Specialist were up 2% in the first quarter. In China, sales of WD-40 Specialist increased 24% compared to the prior year due primarily to new distribution. The decline in maintenance products was partly offset by an increase of $400,000 in sales of homecare and cleaning product brands sold in Australia.

In Australia, our homecare portfolio posted a robust brand presence, a solid competitive edge and significant growth opportunities and [indiscernible] sale. In total, our Asia-Pacific segment made up 17% of our global business in the first quarter.

Now let's talk about our Must-Win Battles. Our Must-Win Battles focused on what we do to increase sales and profitability. Starting with Must-Win Battle #1, lead geographic expansion. In the first quarter of 2025, global sales of WD-40 Multi-Use Product were approximately $119 million, representing growth of 10% compared to the same period last year. We experienced 21% growth of our signature brand in EIMEA and 9% growth in the Americas. This growth was partially offset by lower sales in Asia-Pacific.

It's amazing to me that even after 71 years, the growth opportunity for WD-40 Multi-Use Product remains so significant. Using a proprietary algorithm, we've identified the global benchmark sales opportunity for WD-40 Multi-Use Product to be approximately $1.6 billion. Therefore, there remains approximately $1.2 billion of land and expand growth opportunity across the globe. This is where my management team and I primarily focus our efforts. Our job is to unlock opportunities to drive substantial value to stockholders. A WD-40 Company will do that by accelerating our global expansion.

Today, I'd like to spotlight a few of our priority markets, beginning with markets that are driving our growth in the Americas segment. In 2020, we took the Mexico market direct. And since doing so, we've virtually quadrupled our Mexico business from $6.8 million to nearly $26 million in FY '24, and we're not done as we see Mexico as a $30 million to $40 million market over the longer term. Despite short-term fluctuations, our long-term success in Mexico have us confidence to convert Brazil to a direct market in March of 2024.

So far, we're extremely pleased with the progress we've made in Brazil. In FY '24, we grew Brazil by $7 million and expect a further $7 million to $9 million of growth in FY '25. We expect Brazil to be a $20 million-plus market within 3 to 5 years and ultimately to grow to be as large as Mexico over the coming 10 years or so.

Moving over to Asia-Pacific. We've identified several high potential markets in Asia-Pacific, including China, Japan and Indonesia. Indonesia is a fast-growing market for us with a compound annual growth rate of over 7% over the past 5 years. Indonesia is now also one of our largest marketing distributor markets in the world. It's also unique because it's one of our first hybrid markets. This means we have both an outstanding local marketing distributor partner, but also a small team of WD-40 company personnel in market, a formula that's proven to be highly effective for us.

Also in Asia-Pacific, China has consistently delivered strong growth in recent years. We've been direct in China since 2006 and have a highly capable team of approximately 60 employees there. We use a simple but effective strategy in China. We expand distribution, targeting double-digit growth in points of distribution while sampling 20,000-plus factories each and every year. This strategy continues to deliver strong results for us.

And finally, in EIMEA, we've identified several high potential markets in the region, including India. India is one of, if not the most attractive growth markets in the world right now. Since entering our strategic partnership with our local partner, 6 or so years ago, we've more than doubled our sales in India, making it our second largest market in terms of unit sales, and we see huge potential for further growth ahead. This increased focus on our key growth markets around the world continues to yield success in fiscal year 2025. We'll continue to invest in building our flagship brand with end users around the world.

Next is Must-Win Battle #2, accelerating premiumization. Our second Must-Win Battle is to accelerate sales of premium formats of WD-40 Multi-Use Product. For us, premiumization is a major contributor to

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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 WD-40 Smart Straw and EZ-REACH when combined were up 17% compared to the prior year period, with premium formats representing only approximately 40% of global unit sales of WD-40 Multi-Use Product, there is significant upside for growth. On a go-forward basis, we'll be targeting a compound annual growth rate for net sales of premiumized products of greater than 10%.

Our third Must-Win Battle is to drive WD-40 Specialist growth. In the first quarter, sales of WD-40 Specialist products were $19 million, up 14% compared to the same period last year. We saw growth of WD-40 Specialist products across all 3 trade blocks with particularly strong growth in the Americas and EIMEA where sales grew 16% and 17%, respectively. We use a similar algorithm for WD-40 Specialist to the one we use for WD-40 Multi-Use Product. We've identified the global benchmark sales opportunity for WD-40 Specialist to be approximately $605 million. Therefore, there remains approximately $530 million of land and expand growth opportunity across the globe for WD-40 Specialist. 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 is to turbo-charge digital commerce. We view digital commerce as an accelerator for all our other Must-Win Battles. In the first quarter, e-commerce sales were up 22%, primarily due to strong growth in EIMEA. 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 turning to the second element of our Four-by-Four Strategic Framework, our Strategic Enablers, which focus on operational excellence and collectively underpin our Must-Win Battles. I will not review all our strategic enablers today because we just shared a robust update with investors at our year-end. However, we just published our 2024 ESG report at the end of November, so I want to provide an update on Strategic Enabler number two, which is to build an enduring business for the future. WD-40 company has long been committed to purpose-driven growth. We're committed to operating our business in a manner, which ensures a balance between economic growth, environmental impact and social well-being, which will help create and protect long-term stakeholder value.

I'm very proud that we've now gone public with our sustainability targets after a very in-depth process, putting together our science-based road map for achieving carbon reduction. In our November ESG report, we pledged to achieve a 50% absolute reduction in Scope 1 and Scope 2 emissions, along with a 10% to 20% absolute reduction in Scope 3 emissions by 2030. We've also disclosed details about the science-based environmental impact road map we will use to meet these targets. Many of our employees are passionate about pivoting our organization to a more sustainable future, and I strongly believe that setting external targets will galvanize the organization to make significant progress in future-proofing the organization.

With that, I'll now turn the call over to Sara.

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

Thanks Steve. Today, I will share an update on the anticipated divestiture of our homecare and cleaning business in the Americas and the U.K., provide insights into our business model and review some highlights from our first quarter results. While our full year 2025 guidance remains unchanged, I will provide some additional color on our outlook. But first, I want to talk about a new mantra that you are hearing in the halls here at WD-40 Company. Few things, many places, bigger impact. This mantra has been borne out of the company's long-standing strength, focus. Few things, many places to drive a bigger impact has historically been an approach central to our product strategy.

In fiscal year 2024, almost 90% of our revenue and growth came from sales of WD-40 Multi-Use Product and WD-40 Specialist. We see significant growth opportunities for those product lines. With approximately 650 employees, we want each one to wake up every morning thinking about how to grow the blue and yellow brand with a little red top. That kind of focus is hard to find and incredibly valuable and was the

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driving factor for us when we made the decision to pursue divesting our homecare and cleaning brands in the Americas and the U.K.

This quarter, we met all the criteria to classify the assets we intend to sell as held for sale on our balance sheet, indicating progress on this journey. While I do not have a detailed update for you today on the anticipated divestiture, I can share with you that we continue to make progress on the transaction. The investment bank we have engaged continue to have discussions with potential suitors on our behalf. While there are no certainties on identifying a buyer when going to the market, our expectation is that we will likely complete the divestiture of these brands over the upcoming months. We will provide further updates on the divestiture process as appropriate.

Few things, many places to drive a bigger impact is now being applied beyond our product strategy and is driving operational efficiencies throughout our business. We lean into this mantra by streamlining our systems and processes and fostering greater, global collaboration. Later this year, we will be working towards bringing 2 more locations onto our new ERP system. We are focused on standardization and processes like project and portfolio management, along with streamlined approaches to solution-driven decision-making.

Lastly, we've established the foundation to move with more intent toward productivity improvements by establishing global centers of excellence along key areas of IT. We are working on bringing once disparate teams together to harness their collective skills and capacity to focus on our long-term growth objectives.

Few things, many places, bigger impact can also have a tangible impact on our business model, and we continue to make significant strides in our gross margin recovery. Our 55/30/25 business model continues to be a long-term beacon that we will move toward and align with over time. In the short to midterm, we continue to think about each critical component of the model in a range.

To begin, let's look at first quarter gross margin performance. We target a range of 50% to 55% for gross margin, and we have made significant progress to perform at the top end of this range. In the first quarter, our gross margin was 54.8% compared to 53.8% last year. This represents an improvement of 100 basis points, driven primarily by the impact of favorable sales mix and other miscellaneous mix impacts, which positively impacted our gross margin by 140 basis points year-over-year.

Lower costs associated with specialty chemicals also positively impacted gross margin by 60 basis points. These positive impacts to margin were partially offset by higher costs associated with warehousing, distribution and freight costs, primarily in the Americas, which negatively impacted our margin by 100 basis points. We're also happy to share with you that this quarter gross margin continued to improve in both EIMEA and Asia-Pacific trading blocks.

Within EIMEA, gross margin improved 290 basis points compared to the same period last year to 57.8%. Asia-Pacific also improved gross margin 130 basis points over the same period last year to 57.6%. In the Americas, gross margin declined slightly by 30 basis points to 50.4%. Considering our current trajectory, the current cost environment and macroeconomic factors, we continue to target achieving a gross margin of 55% by the end of fiscal year 2026 at the latest.

However, depending on the cost landscape, timing of execution of supply chain cost initiatives, and if we are successful in divesting of those homecare and cleaning brands, we may achieve this goal even sooner potentially by the end of fiscal year 2025 following the divestiture. New this fiscal year, gross margin recovery is a central focus for senior leadership who will be incentivized to recover gross margin to 55% and beyond, excluding the impact of the assets held for sale.

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. It 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. This quarter, our cost of doing business was 37% compared to 36% in the same period last year. On an absolute dollar basis, our cost of doing business

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increased by $7.5 million or 15% due to higher employee-related expenses, increased professional service costs, higher credit losses due to a customer bankruptcy and increased freight costs.

In addition, the investments we make in brand-building activities increased period-over-period. As a percentage of sales, our A&P investment was 5.5% compared to 5% in the first quarter of the prior year, but is well in line with our fiscal year guidance. 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 of 30% to 35%.

Turning now to adjusted EBITDA. In the first quarter, our adjusted EBITDA margin was 18% compared to 19% in the same period of last year. However, EBITDA grew by nearly 4% over the prior year, even after absorbing increased costs. As we've mentioned previously, if we successfully divest the homecare and cleaning brands that we are actively marketing, we know that we will need some time to digest the impacts. However, we continue to believe we can move adjusted EBITDA margin back to our midterm target range of 20% to 22% over the medium term.

Now let us discuss operating income and EPS as well as a subsequent event that will impact our reported results beginning next quarter. Operating income improved to $25.1 million in the first quarter, which was an increase of 4% over the previous year's first quarter. Excluding the impacts of the assets currently held for sale, operating income would have been reduced by $1.5 million.

Diluted earnings per common share for the quarter were $1.39 compared to $1.28 for the first quarter last year, which was an increase of 9% over the previous year's first quarter. Excluding the impacts of the assets held for sale, diluted EPS would have been reduced by $0.08 per share. Our diluted EPS reflects 13.6 million weighted average shares outstanding.

Now I'd like to update you on a noncash subsequent event that will materially impact both our second quarter and fiscal year 2025 net income and EPS. In fiscal year 2019, we took an uncertain tax position related to the Tax Cuts and Jobs Act, specifically for calculating the onetime toll tax on unremitted foreign earnings. This resulted in a reduction in earnings in 2019.

With the recent expiration of federal statutes in December, subsequent to our first quarter, the company released the unrecognized tax benefit associated with this mandatory onetime toll tax. The release of this tax benefit will result in a favorable income tax adjustment of $11.9 million, net of the federal benefit for fiscal year 2025. We will back this out as a non-GAAP adjustment in the second quarter.

Now a brief reminder on changes we've made that will affect foreign currency impacts this year. The functional currency for our U.K. subsidiary, which consolidates the results for the EIMEA trade bloc has long been the pound sterling. We reassess this on an annual basis. As we look out this year and beyond, the shift in the operating landscape within our EIMEA region along with certain strategic actions we are taking required a change in our functional currency.

A few key factors influenced our decision, including a growing dependence on euro-denominated inventory within our supply chain and an increase in sales and operational expenses tied to the euro. As a result, beginning this year, we changed the functional currency of our U.K. subsidiary from pound sterling to euro, with the change being applied prospectively.

As a result of this change, we are utilizing a methodology that is distinct from constant currency during fiscal year 2025 to estimate the translation impact of foreign currency exchange rates on current period U.S. dollar net sales, specifically for our EIMEA segment. The Americas and Asia-Pac segments were not impacted by this. Beginning fiscal year 2026, we expect to revert to our customary estimation methodology using constant currency figures.

Now let's look at our 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.

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For the foreseeable future, we expect maintenance CapEx between 1% and 2% of sales per fiscal year which is in line with our asset-light strategy. We continue to return capital to our stockholders through regular dividends and buybacks. Annual dividends will continue to be our priority and are targeted at greater than 50% of earnings.

On December 11, our Board of Directors approved a quarterly cash dividend of $0.94 per share, reflecting an increase of 7% over the previous quarter's dividend of $0.88 per share. During the first quarter, we repurchased approximately 13,750 shares of our stock at a total cost of approximately $3.6 million under our current share repurchase plan. In total, we returned approximately $16 million to our stockholders in the first quarter of fiscal 2025 through share repurchases and dividends.

Now let's turn to FY '25 guidance. As a reminder, we issued this year's guidance on a pro forma basis, excluding the financial impact of the homecare and cleaning brands currently classified as assets held for sale. While the exact timing of the transaction remains uncertain, we believe this approach will provide investors with clarity on the direction of the core business and help minimize the noise surrounding the transaction.

I encourage investors to review our first quarter fiscal year 2025 earnings presentation, which concludes a pro forma view. Therefore, our guidance for fiscal year 2025 is unchanged, and we are estimating net sales growth for the pro forma 2024 results is projected to be between 6% and 11%, with net sales between $600 million and $630 million after adjusting for translation impacts of foreign currency.

Gross margin is expected to be between 54% and 55%. Advertising and promotion investment is projected to be around 6% of net sales. Operating income is expected to be between $95 million and $100 million, representing growth of between 6% to 12% over the pro forma 2024 results. The provision for income tax is expected to be around 24%, and diluted earnings per share is expected to be between $5.20 and $5.45, which is based on an estimated 13.5 million weighted average shares outstanding. This range represents growth of between 9% and 14% over the pro forma 2024 results.

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 2025. In the event, we are unsuccessful in divesting the assets currently held for sale, our guidance would be positively impacted by approximately $23 million in net sales, $6 million in operating income and $0.33 in diluted EPS on a full year basis.

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 and aligns with our longer-term goals. In summary, what did you hear from us on this call? You heard that sales of maintenance products were up 10% in the first quarter, marking the third consecutive quarter of double-digit growth in this category. You heard that sales of WD-40 Multi-Use Product were up 10% in the first quarter. You heard that sales of WD-40 Specialist were up 14% in the first quarter.

You heard that we are pleased with the strong volume performance the business is experiencing and that in the first quarter, nearly 90% of our growth was driven by increased volume. You heard that management's job is to unlock opportunities to drive substantial value to stockholders, and that includes increased focus on our key growth markets around the globe. You heard that we've now gone public with our sustainability targets after a very in-depth process, putting together our science-based road map for achieving carbon reduction.

You heard about our company's new mantra, a few things, many places, bigger impact which is intended to result in operational efficiencies as we grow. You heard that we're incredibly pleased with the improvements we've made to gross margin, but it continues to move closer to our target of 55%. You heard that we continue to make progress on the sale of our homecare and cleaning business, currently held for sale and expect to complete the divestiture in the coming months.

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You heard that we raised our dividend last month and have returned approximately $16 million to our stockholders in the first quarter. And you heard that we reiterated our full fiscal year 2025 guidance. 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] Our first question comes from the line of Daniel Rizzo with Jefferies.

Daniel Rizzo
Jefferies LLC, Research Division

I was just looking at kind of through the [Q] and stuff like that. I was looking at operating income. I noticed that the Americas was down 11% year-over-year and is partially due, I guess, to EBITDA margin kind of contraction. I was wondering what that's attributed to if there was something special there? Or just any color you can provide.

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

Daniel, this is Sara. So yes, there's a couple of things that are impacting that. First is the timing, if you look at the timing of the A&P spend in Q1 this year compared to last year, we are ahead of our pace in the Americas for Q1. In addition, I mentioned on my -- on the call that there was a bankruptcy with one of our customers and 100% of that which was about $800,000 hit the Americas trading bloc. So those 2 are the bigger items, and then we also have a timing of our growth reward program accruing at a higher rate in Q1 compared to the prior year.

Daniel Rizzo
Jefferies LLC, Research Division

Okay. That's helpful. And then -- so you mentioned, I think, if I got that right, 55% gross margin by 2026, but you're already at 54.8%. And I understand we said it could come faster, but I was wondering if your base case is suggesting that there will be some giveback maybe because of higher logistical costs or warehousing costs? Or how should we think about it? Because I mean, it still seems that the end of '26 is still far away.

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

Yes. If we -- even just going back a year, our margin can fluctuate pretty dramatically quarter-to-quarter depending on our sales mix and our product mix. So even if going back to Q1 of last year, we had a really strong quarter -- margin coming out of q1, drop down a little bit and then ticked our way back up. So it is a very good start.

We are obviously seeing a little bit of higher cost on the freight and logistics side in the U.S., but we're cautiously optimistic on holding margin through the rest of this year. So that's why we're saying definitely by the end of next year, we're feeling confident on that, but we think we have a chance to get there before the end of this year.

Operator

Your next question comes from the line of Linda Bolton-Weiser from WD-40 (sic) [D.A. Davidson].

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

So I was wondering -- sorry if -- you gave some of the details about your year-over-year increase in SG&A expense. I'm not sure I caught all the details, but it did seem like a big increase of 14% year-over-year. So I'm curious, is that the run rate to expect for the whole year? Or was there something in the quarter that's going to change and go away or something remaining quarters of the year?

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

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Linda. So there was the bankruptcy that we had with one of our customers in the Americas. So that is a onetime that's hitting the Q1. We are also accruing at a higher growth reward program going into this year than we were going into last year. So there is expected increased expenses in that, but that is built into our guidance for this year.

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

Can you quantify the onetime effect in millions of dollars that, that bankruptcy had on the quarter?

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

The bankruptcy for the quarter was approximately $800,000.

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

Okay. And then I believe you said that FX had a little bit of a positive effect on top line in the quarter. Can you update what your thoughts are for that? I guess, how does it work out in the remaining part of the year? Does it become negative? Like how has it changed in terms of your projection for that aspect of the sales line.

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

Yes. When we look at the Q1 rates right now compared to the Q1 rates last year, globally, it was trending positively for us. Although if you look at the individual trade blocs, specifically in the Americas with the Mexican peso and the Brazil real, it is negatively impacting us. So that was offset by a positive impact on the currencies elsewhere.

If you were to look at the rates today and kind of take a dramatic look at the rates today and forecast that out for the rest of the year, we do anticipate that it would take a turn globally that it would then have a negative impact if we forecast it out for the remainder of the year at today's rates when you compare them to the full year rates from prior year.

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

And then I think there was some mention in your 10-Q of U.S. promotion in the quarter. It sounded like maybe that benefited the Multi-Use Product sales in the quarter. Can you give more color on that? And that would you regard that as a shifting of some sales from the second quarter into the first quarter?

Steven A. Brass
CEO, President & Director

Linda, it's Steve. So no, I don't think there's anything particular in terms of large volume promotions that have really boosted sales. It's really generally, I think, particularly the home center channel in the U.S. has gone very, very strong. Our retail sales generally have picked up. Our unit sales at POS level were up around 4%, 5% in the first quarter. And so yes, we're very encouraged by the kind of switch in kind of retail foot traffic and DIY activity looks to be improving. And so we see that as a positive beyond the first quarter.

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

Okay. And then, just in terms of the cadence, I know you don't want to get into quarterly type guidance at all, but the cadence -- I mean, you actually have an easy seeming -- easier comparison prior year comparison in the second quarter. And I can't quite remember what that was because of -- was that when you have the little bubble related to SAP implementation? I can't quite remember, but it does seem like

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there's an easier kind of comparison, both on sales and a little bit on profit growth. Can you just remind us what that was?

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

Yes, Linda, very good memory. So yes, it was the quarter that we went live with our ERP and we disclosed about a $2.5 million impact that we experienced in that quarter alone for -- with disruption at the top line. So that's the majority of it.

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

So then theoretically, you would have like a higher kind of -- so if you're your U.S. growth rate or I don't know, your overall sales growth was -- what was in the quarter, 9%. So theoretically, it would be higher even in the second quarter because you have that easy comparison, all else being equal. Is that the way to think about it?

Steven A. Brass
CEO, President & Director

I think you have a couple of caveats. One is that we kind of disclosed last quarter, the Asia distributor markets are off to a slow start. That was expected. And so we expect that to pick up in the back half of the year. Europe is out of the gate very strong, we expect that to continue. Although we do get up in the last half of the year in some quite tough comparables versus prior year.

And then obviously, the Brazil impact. And so we have -- we just had a very strong start in Brazil with over $3 million of growth in Q1. We should get that versus prior year, again, something similar or better in Q2. And then obviously, that begins to taper off then in Q3 and Q4 as we lap our taking Brazil directly in Q3 and Q4.

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

That's very helpful. And then just to clarify, if you do not sell the cleaning business by the end of the second quarter, will it be removed because you're restating to have it discontinued ops? Or is it going to be in there if you don't sell it?

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

No. It will still be in there if we don't sell it. So it's not a big enough of a strategic shift for us to qualify for discontinued ops. So if it's still not sold by the end of the second quarter, it will still be in our reported results. And we'll have -- we would have a similar reporting mechanism, and we'll try to be very transparent with so you can do it with and without [deal].

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

And then I think, yes, you did say strong demand in U.K., Italy, you named a few regions there. Is that -- is there anything particular driving that market in Europe in terms of the strength that you're seeing there?

Steven A. Brass
CEO, President & Director

So Europe, just about everywhere was strong in performance all across Europe. I can't really think of anything that didn't really perform. The U.K. was a little flat compared to some of the other markets, but -- yes, excellent performance and all of our Must-Win Battles being executed very strongly.

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There is in the first part of the year, just a little bit of distribution where we had kind of distribution losses that are still coming back in the first half of the year, 1 client in perhaps, which may be positively impacted the first quarter by just under $1 million maybe, and we'll continue to add that kind of small impact in terms of a boost in the first half of the year. But beyond that, EIMEA is back in growth mode just as it was -- back to where it was before the kind of loss of the Russian business and the inflation. So we see very, very strong growth out of Europe.

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

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