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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 Second 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 February 28, 2025. 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 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 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, April 8, 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 thank you all for joining us today. Today, I'll start with an overview of our sales results for the second fiscal quarter of 2025. I'll also provide updates on our Must-Win Battles and key strategic enablers. After that, Sara will go over our second quarter results in more detail, provide a brief update on the anticipated divestiture of our home care and cleaning business review our 55/30/25 business model and share an updated outlook for fiscal year 2025. We'll then open the floor for your questions.

Today, we reported net sales of $146.1 million for the second quarter, which was an increase of 5% from the second quarter of last fiscal year. Changes in foreign currency exchange rates have been a bit of a headwind for us this quarter. Adjusting for estimated translation impact of foreign currency, net sales would have been $150.9 million, reflecting an increase of 9% compared to the prior year fiscal quarter.

Our target sales growth for core maintenance products remains in the mid- to high single digits. In the second quarter, we achieved $139.3 million in net sales for these products, a 6% increase despite currency headwinds. This performance aligns with our long-term growth targets. Much of this growth was driven by strong volume performance. We experienced double-digit volume growth both in the second quarter and year-to-date, with particularly strong volume growth in EIMEA.

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Now let's talk about second quarter sales results in dollars by segment, starting with the Americas. Total sales in the Americas, which includes the United States, Latin America and Canada, increased 3% in the second quarter to $65.5 million compared to the same period last year. Adjusting for estimated translation impact of foreign currency, net sales in the Americas would have increased by 5% compared to the prior year fiscal quarter.

Sales and maintenance products increased 4% in the second quarter to $62.4 million compared to the same period last year. The bulk of this growth was driven by higher sales volume of WD-40 multi-use product in Latin America, which increased 47% compared to prior year quarter. Sales of WD-40 Multi-Use Product in Latin America was favorably impacted by our transition to a direct market model in Brazil. This distribution model shift favorably impacted net sales in Brazil by approximately $3.4 million in the second quarter.

Our newest direct market is celebrating its 1 year anniversary this quarter, and it continues to perform fully in line with our expectations. In addition, sales in other Latin American markets increased $1.3 million due to improved economic conditions in certain regions as well as higher level of brand building activity and expanded distribution. Higher sales in Latin America were partially offset by lower sales of WD-40 multi-use products in the United States which decreased by $2.7 million compared to the prior year quarter due to the timing of customer orders.

I'm happy to share that many of those customer orders have already shifted into March contributing to a strong start we're seeing in the U.S. for our third fiscal quarter. In the Americas, sales of WD-40 Specialist increased 9% compared to the prior year, primarily due to expanded distribution in the United States. Growth in maintenance products was partially offset by a 6% decline in home care and cleaning products. This drop was primarily due to reduced distribution for these brands as we shift our focus to our more profitable maintenance products in line with our Four-by-Four strategic framework. In total, our Americas segment made up 45% of our global business in the second quarter.

Now let's take a look at our sales in EIMEA, which includes Europe, India, the Middle East and Africa. Total sales in EIMEA increased 10% in the second quarter to $59.6 million compared to the same period last year. Adjusting for estimated translation impact of foreign currency, net sales in EMEA would have increased by 15% compared to the prior year fiscal quarter.

Sales and maintenance products increased 11% in the second quarter to $58.1 million compared to the same period last year. The strong growth in EIMEA was driven most significantly by higher sales volumes at WD-40 multi-use product in our direct markets. Sales increased most significantly in Italy, France and the Benelux regions, which were up 28%, 13% and 27%, respectively.

In EIMEA, most regions have seen continued volume growth momentum following a temporary decline in volumes associated with price increases we implemented over 2 years ago. While much of this volume recovery occurred in fiscal year '24, momentum in sales volumes has continued into fiscal year '25, leading to higher sales. Sales of WD-40 Specialist increased 12% compared to the prior year fiscal quarter primarily due to higher sales volume due to increased distribution and stronger levels of demand in various direct markets, most significantly in the DACH, Benelux and Iberia regions.

Growth in maintenance products was partially offset by a 32% or $715,000 decline in home care and cleaning products. This is primarily due to reduced promotional efforts for these brands as we shifted our focus to our more profitable maintenance products, in line with our Four-by-Four strategic framework. In total, EIMEA segment over 41% of our global business in the second quarter.

Now on to Asia Pacific. Sales in Asia Pacific, which includes Australia, China and other countries in the Asia region, decreased 1% in the second quarter to $21 million compared to the same period last year. Adjusting for estimated translation impact of foreign currency, net sales in Asia Pacific would have increased by 1% compared to prior year fiscal quarter. Sales and maintenance products decreased 1% in the second quarter to $18.9 million compared to the same period last year. This decline was driven primarily by lower sales of WD-40 Multi-Use product in our Asia distributor markets, where sales decreased 8% compared to the prior year quarter due to the timing of customer orders.

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Sales volume in our Asia distributor markets declined due to in-market knock-on effects associated with changes in foreign currency exchange rates. Since we sell to these distributors in the U.S. dollar, a stronger dollar makes our products more expensive to buy in market. As a result, our marketing distributor partners may raise prices in the market, leading to temporary market disruption. In March, we began to see recovery in our Asia Pacific distributor markets and anticipate a strong second half of fiscal year '25.

Lower sales in our Asia distributor markets were partially led by higher sales of WD-40 Multi-Use product in China, which increased 5% due to increased sales volume from successful brand building and marketing activities as well as expanded distribution. In Australia, sales were down 5% in the second quarter, primarily due to lower sales of home care and cleaning products in the region, which decreased 7% due to the timing of customer promotions.

In Asia Pacific, sales of WD-40 Specialist were up 10% in the second quarter due to higher sales volume from successful promotions and marketing efforts in our Asia distributor markets, along with expanded distribution in China. In total, our Asia Pacific segment made up 14% of our global business in the second quarter.

Now let's take a look at our Must-Win Battles. Our Must-Win Battles focused on maintenance product revenue growth and improved profitability. Starting with Must-Win Battle #1, lead geographic expansion, year-to-date, global sales of WD-40 Multi-Use Product were $232 million, representing growth of 8% compared to the same period last year. We experienced 16% growth of our Signature brand in EIMEA and 7% growth in the Americas. This growth was partially offset by a 4% sales decline in Asia Pacific.

Every day, we continue to uncover new opportunities to build our flagship brand with end users around the world. The geopolitical fragmentation increases for exploring new go-to-market strategies in specific regions. Over the past 5 years, we've successfully transitioned to markets, Mexico and Brazil to a direct model, gaining valuable insights and driving strong growth. However, going direct is not the only way to accelerate top line growth. We are also exploring alternative go-to-market strategies to improve efficiency. We've started grouping our EIMEA markets into strategic regional hubs with centralized operations and business functions. These homes managed sales, distribution and marketing from multiple nearby markets, helping us reduce costs, accelerate rate of execution and better adapt to regional needs.

In the Asia Pacific region, we're adopting hybrid models in some markets to accelerate learning and growth. We've identified Indonesia, Vietnam and Japan was tough market opportunities within our Asia distributor network. Experience has shown having boots on the ground, benefits both our company and our distributor partners. Currently, we have dedicated WD-40 Company personnel looking alongside our Indonesian and Vietnamese distributors and we're excited to announce the hiring of our first dedicated personnel in Japan, who will work closely with our Japanese distributor. We're confident that the focus and expertise these personnel will bring to their respective markets, will create a significant unlock and contribute further to our success.

Next is Must-Win Battle #2, accelerating premiumization. Our second Must-Win Battle is to accelerate sales of premium formats and WD-40 multi-use product. For us, premiumization is a major contributor to even more profitable growth, and our premiumized products continue to leave our end users of positive lasting memories. Year-to-date sales of WD-40 Smart Straw and EZ Reach when combined were up 11% compared to the prior year period. 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. Year-to-date, sales of WD-40 Specialist products were $38 million, up 12% compared to the same period last year. We continue to see growth of WD-40 Specialist product across all 3 trade blocks and particularly strong growth in EIMEA and the Americas and where sales grew 14% and 12%, respectively.

As we continue to embrace our new mantra, few things, many places, bigger impact, we will review our portfolio to ensure we focus our resources on the products with the greatest growth potential as well as those new or existing that support our sustainability end. On a go-forward basis, we'll be targeting

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a compound annual growth rate for net sales of the WD-40 Specialist of greater than 15% in reported currency.

A final Must-Win Battle #4 is the turbocharge digital commerce, review digital commerce as an accelerator for all our other Must-Win Battles. E-commerce sales were up 9% year-to-date. The digital channel is so much more than just a sales platform. It's a powerful tool for building brand awareness and educating end users about our products. One example is our Training the Trades program, which offers technical training and skill development to aspiring technicians and trades people worldwide. Over the past 7 years, have expanded from training approximately 6,000 trades people in 1 country, the facilitating 200,000 completed trainings each year across more than 20 countries with pro-focused educational content reaching millions more.

In fiscal year '25, we aim to create more than 15 million online impressions and distribute more than 175,000 product samples for skilled trade professionals, effectively putting many can in and around the world. The digital channel has provided us with a tremendous opportunity to train more future trades people globally, faster.

Now let's move to the second element of our Four-by-Four strategic framework, our strategic enablers, which emphasize operational excellence. Today, I'll provide an update on strategic enablers, 1 and 3. At WD-40 Company, we believe our greatest assets cannot be found on a balance sheet, but rather it resides within our talented global team. Therefore, it makes sense that our first strategic initiative is to ensure a people first mindset. For over 20 years, we've measured employee engagement every 2 years, not just to track progress but to drive improvements. However, in today's volatile certain complex ambiguous times, we recognize the need to develop more frequent and effective ways to listen to our employees. This allows us to get a real-time feedback, enhance our culture and shift from employee engagement to true employee inspiration.

Once again, we measure employee engagement, and I'm extremely proud that we've been able to increase our employee engagement index score to 94%. In addition, 94% of our employees agree that they understand the strategy for achieving WD-40 Company's future goals and ambition. This is important because when employees are highly engaged and understand the organization strategy, it creates a more cohesive, motivated and productive workforce to drive the organization towards its goals.

I want to take a moment to say thank you to all of our employees for their dedication, hard work and passion, it's the because of you that our company can achieve great things.

Moving on to strategic enabler #3, achieve operational excellence and supply chain. Through this strategic enabler, we're advancing our global supply chain strategy to both drive economic value and support our sustainability agenda. This fiscal year, we strengthened global partnerships with key suppliers leading to improved efficiencies, supply chain optimization and tangible cost savings. Based on what we know today, we believe these cost savings will largely offset the financial impact of any potential tariffs for the remainder of this fiscal year.

Generally speaking, we expect any potential tariffs from what we know today to have a minimal global impact in our business, thanks to our highly diversified supply chain. By sourcing raw materials and manufacturing products close to our customers and end users, again both economic and environmental advantages while also naturally mitigating most of the impact of tariffs. However, given the dynamic nature of the environment, predicting exact outcomes is challenging, and we do have markets within the Americas, especially in Mexico and Canada, representing around 6% of our global business that may be impacted more significantly.

As a precaution, we've taken steps to build inventory in certain markets to mitigate potential tariff impact in the short term. Beyond FY '25, we do expect to see higher inflation like most businesses, and we will likely need to modestly adjust prices in certain markets to offset that impact.

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

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

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Thanks, Steve. Today, I will share a brief update on the anticipated divestiture of our home care and cleaning business in the Americas and the U.K., provide insight into our business model, and review some highlights from our second quarter results. I will also share an updated outlook for fiscal year 2025.

Last 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 we do not have a detailed update for you today on the anticipated divestiture, I can share with you that the Investment Bank we have engaged continues to have discussions with multiple potential suitors on our behalf. While there are no certainties on closing a deal with potential buyers and going to the market, our expectation is that we will likely complete the divestiture of these brands over the coming months. We will provide further updates on the divestiture process as appropriate.

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.

Let's start with a look at our second quarter gross margin performance. We target a range of 50% to 55% for gross margin, and we have made significant progress improving our gross margin over the last several quarters. In the second quarter, our gross margin was 54.6%, up from 52.4% last year. This represents an improvement of 220 basis points compared to the second quarter of last year. Gross margin benefited 110 basis points from lower cost of our cans and 90 basis points from lower costs associated with specialty chemicals used in the formulation of our products. We are also happy to share with you that gross margin improved in both EIMEA and the Americas this quarter compared to the second quarter of last year.

Within EIMEA, gross margin improved 440 basis points to 58.1%. The Americas improved their gross margin by 70 basis points to 50.1%. In Asia Pacific, gross margins remained steady at 58.4%, which was a slight decline of 10 basis points. As a reminder, gross margin recovery has been a central focus for senior leadership, who are incentivized to recover gross margin to 55% and beyond. Year-to-date, our gross margin was 54.7%, up from 53.1% last year. Excluding the impact of the home care and cleaning businesses we plan to divest, our gross margin is 55.2%, positioning us to exceed 55% by the end of fiscal year 2025.

In fact, we currently believe we will achieve gross margin of between 55% and 56% in fiscal year 2025, 1 year earlier than previously projected. There are things that could knock us off course, and we continue to carefully observe the cost landscape, impact of tariffs, timing of execution of our supply chain cost initiatives and our success in divesting of our assets held for sale. However, we are very happy with the significant improvements we have seen to gross margin over the last several quarters and we believe we will be above our target of 55% for the fiscal year.

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 primarily comprised of 3 areas: investments in our employees, investments in building our brand globally and freight expense to get our products to our customers. Cost of doing business as a percentage of net sales is how we measure how efficient we are at operating our business. We target a range of 30% to 35% as a percentage of net sales for our cost of doing business. This quarter, our cost of doing business as a percentage of net sales was 38% compared to 36% in the same period last year. In dollar terms, our cost of doing business increased $4.7 million or 9%, primarily due to higher employee-related expenses including higher accrued incentive compensation and stock-based compensation expense.

In addition, investments made in brand building activities increased period-over-period. As a percentage of sales, our A&P investment was 5.1% compared to 4.8% in the second quarter of the prior year. Our A&P investment is currently tracking below our full year guidance of 6% due to the timing of promotional programs. However, we have several brand building activities planned for the second half of this fiscal year, which we estimate will bring our A&P investment in line with our projected guidance of approximately 6% of net sales. We expect to see improvements in our cost of doing business metric over time as sales grow. which is the most important factor in managing our cost of doing business towards our long-term target of 30% to 35%.

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Turning now to adjusted EBITDA. We believe looking at adjusted EBITDA as a percentage of sales is beneficial to measure our profitability and to assess operational efficiency. Our 25% target for adjusted EBITDA margin is a long-term aspiration. However, we continue to believe we can move adjusted EBITDA margin back to our midterm target range of 20% to 22%.

In second quarter, our adjusted EBITDA margin improved slightly to 18% compared to 17% in the same period of last year. We believe looking at adjusted EBITDA in dollar terms can also be useful for assessing absolute performance. In the second quarter, our adjusted EBITDA was $25.8 million, up 10% from prior year. As we've mentioned previously, as we successfully divest the brands are held for sale, we will need some time to digest the impacts. Although these home care and cleaning brands produce a lower gross margin than our maintenance products, there is a lower level of operating expenses associated with these brands, primarily because no employees or resources are fully dedicated to them.

If we successfully divest these brands, we will lose approximately $23 million in annual revenue, but with little associated operating expenses. As a result, our cost of doing business and adjusted EBITDA metrics, we'll see a temporary setback on a percentage basis. However, selling these brands will position us as a higher growth, higher gross margin company while also freeing up capacity for employees to focus on higher priority projects that align with our strategic framework.

Now let's discuss operating income and EPS as well as a noncash tax event that impacted our reported results. Operating income improved to $23.3 million in the second quarter, an increase of 11% over the prior quarter. Diluted earnings per common share for the quarter were $2.19 compared to $1.14 for the second quarter last year. This quarter, we recorded a noncash event that materially impacted our 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 the federal statute in December, the company released the unrecognized tax benefit associated with this mandatory onetime toll tax. The release of this tax benefit resulted in a favorable income tax adjustment of $11.9 million this quarter. Given the significance of this tax benefit, which resulted in a favorable impact of $0.87 for the quarter, we have backed this noncash event out of EPS as a non-GAAP adjustment. Diluted earnings per common share on a non-GAAP adjusted basis were $1.32 in the second quarter compared to $1.14 last year, reflecting an increase of 16%. Our diluted EPS reflects 13.6 million weighted average shares outstanding.

Now let's look at our capital allocation strategy, 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 for 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 March 18, our Board of Directors approved a quarterly cash dividend of $0.94 per share. During the second quarter, we repurchased approximately 12,500 shares of our stock at a total cost of approximately $3.1 million under our current share repurchase plan. We will continue to be active in the market and expect to repurchase at least in our shares to offset those issued for equity compensation. Our objective is to return cash to investors in the most accretive manner.

So let's turn to FY '25 guidance, which we have made revisions to reflect our current view of the business. As a reminder, we issued this year's guidance on a pro forma basis, excluding the financial impact of the home care and cleaning brands we have 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. In addition, this guidance excludes the release of a noncash onetime uncertain tax position that generated a favorable income tax adjustment. I encourage investors to review our second quarter fiscal year 2025 earnings presentation, which includes a pro forma view.

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Our updated guidance for fiscal year 2025 is as follows: Net sales growth from the pro forma 2024 results continues to be 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 for the full fiscal year has been increased and is now expected to be between 55% to 56%. Advertising and promotion investment continue to be projected to be around 6% of net sales. Operating income continues to be projected to be between $95 million and $100 million, representing growth of between 6% to 12% over the pro forma 2024 results. While we are raising our guidance from gross margin, our guidance for operating income remains unchanged due to the impacts of foreign currency exchange headwinds. The provision for income tax is now expected to be around 22.5% which is driving an increase to non-GAAP diluted earnings per share, which is now expected to be between $5.25 and $5.55.

Non-GAAP EPS is based on an estimated 13.5 million weighted average shares outstanding. This range represents growth of between 11% and 17% over the pro forma 2024 results. This guidance assumes no major changes to the current economic environment, unanticipated inflationary headwinds, foreign currency exchange fluctuations, changes in trade tariffs and other unforeseen events may further affect the company's financial results. 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 summary, what did you hear from us on this call? You heard that we experienced double-digit volume growth both in the second quarter and year-to-date, with particularly strong volume growth in EIMEA. You heard that after adjusting for estimated translation impact of foreign currency, net sales would have increased 9% compared to the prior year fiscal quarter. You heard the sales of our maintenance products were up 6% in the second quarter despite currency headwinds and at this performance aligns with our long-term growth target.

You heard that sales of WD-40 multi-use product were up 8% year-to-date. You heard that sales of WD-40 Specialist were up 12% year-to-date. You heard that we've been able to increase our employee engagement score to 94%. You heard that we've strengthened global partnerships with key suppliers, leading to improved efficiencies, supply chain optimization. And based on what we know today, we believe these cost savings will largely offset the financial impact of any potential tariffs for the remainder of this fiscal year. You heard that we've made improvements to gross margin over the last several quarters and that we believe will be above our target of 55% by the end of fiscal year 2025. And you heard that we made an upward revision to our full fiscal year '25 gross margin and EPS 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 will come from the line of Daniel Rizzo with Jefferies.

Daniel Rizzo
Jefferies LLC, Research Division

If we can start with just with tariffs, I understand you're making some adjustments, but I was wondering how much you ship across borders, if you produce or produce and sell locally or how much tariffs will have an impact, both the tariffs that's being proposed by the U.S. and I guess the retaliatory tariffs from China. Just any color you can provide on the ongoing volatile environment.

Steven A. Brass
CEO, President & Director

Sure. Dan, it's Steve. So we are centralized supply chain. And so the tariff risk is somewhat mitigated by that. Of course, we're not fully immune. So in the United States, as you perhaps know, we manufacture for the U.S. mostly in the U.S., there are small elements of components that are brought in. But the vast kind of element of the supply chain in the U.S. is reasonably tariff immune. Of course, there are costs such as steel tariffs that will work their way through as we go through, but they're being offset also by other costs.

And so this decentralized nature of our supply chain helps a lot. We've got a lot of supply chain optimization measures happening this fiscal year, and we currently believe as of today, what we see today and what we know today, that our supply chain optimization and cost-saving measures will largely offset any impact of tariffs for the remainder of this fiscal year.

Beyond this fiscal year, we will kind of look at our forward cost base, and we kind of indicated that we will look at small to moderate inflationary plus type increases as we experience potential inflation going forward.

Daniel Rizzo
Jefferies LLC, Research Division

Okay. So China announced retaliatory tariffs. It's very early, but you also announced or alluded to maybe restricting sales within the country and just doing other things that are kind of as a retaliation against U.S. I was wondering if that affects you guys at all that the restricting your product, the restricting what you can do? Or is there any signs of any potential emerging headwinds from that?

Steven A. Brass
CEO, President & Director

So as of today, we see no risk there. So we manufacture in China for China. And as you perhaps know, we export from China to the Asian markets as well as manufacturing in Australia, and we're ramping up manufacturing also in other Asian markets. And so within China at the moment, we are kind of seen as a local brand in many places we operate around the world. And so as of today, we don't see any material risk to our operations in China because of our localized supply chain. And the fact that we have Chinese nationals fully operating our Chinese business we are seeing very much as kind of a local business in many places around the world.

Daniel Rizzo
Jefferies LLC, Research Division

Okay. And then you mentioned optimizing your supply chain. I was wondering if that means you're going from dual sourcing to sole sourcing or vice versa or just a little bit of color on that, if it means you're going to more sources to make it less -- more cost-effective maybe, but -- and a little more stable or if you're going to do one source to make it more optimized or how we should think about it?

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Steven A. Brass
CEO, President & Director

So it's a combination of all those things. So the net result is that we have a a better, more diversified geographic footprint to our supply chain, which is serving the major areas of growth in the business whilst also extracting. So you may be aware that we -- we did invest in a global supply chain leadership position a couple of years ago, and we're starting to bear the fruit in terms of the high-quality analysis that's led to global cost savings and leveraging kind of our global partnerships. And so it's a combination of lots of things. It's leading to a much more kind of derisked localized supply chain but also driving cost savings stores.

Daniel Rizzo
Jefferies LLC, Research Division

Does it take a while to kind of qualify a supplier? I mean is it a multiyear process? Is it a multi-month process? Or how does it work? And how easy is it to shift?

Steven A. Brass
CEO, President & Director

Yes, there's a time lag, right? So bringing on, for example, a new aerosol fill that takes more than a year, you're looking at 18 months to 2 years to fully see that through. But we're well in the process. We have multiple moves around the world where that's already happening, and we're diversifying -- further diversifying our supply chain, whilst also optimizing for the global nature of our business in many areas.

Daniel Rizzo
Jefferies LLC, Research Division

Okay. And just 2 more questions. One, so your gross margins are going -- are expected to be a little bit better than expected, but the operating income is the same. So I assume that's from SG&A or it appears to be from SG&A. And I guess I just want to make sure if that's just coming from higher expected compensation expenses for the rest of the year or for something else that's keeping those SG&A expenses elevated through the end of the year?

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

Daniel, I can take that one. So the guidance -- the SG&A costs for the year are substantially as expected when we look out both in the first half and the back half of the year. The reason the operating income is not shifting with the increase in our margin is strictly from the impact of the foreign currency. So when you look at -- the air conditioner just went on in here. So the impact of foreign currency for the first half of the year has been a headwind.

And when we look at that for the full year, depending on which market you're looking at, the impact of that is now masking. The gross margin is masking the headwind of the foreign currency. So our operating income is expected to be in line with the initial expectations that we had at the beginning of the year.

Daniel Rizzo
Jefferies LLC, Research Division

But FX has fallen recently though. So could that provide some upside that's not currently being expected?

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

Potentially. When we look at the couple of the -- the biggest market that for us is the euro, and I would agree that the euro has trended up in the last month. When we put guidance together, we obviously are looking at more recent rates. And so that could be a tailwind for us if it holds in the back half of the year. .

Daniel Rizzo
Jefferies LLC, Research Division

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Okay. And then last question just on FX. Is there a rule of thumb you guys have like a $0.01 move in the euro translates into excellent number of millions of dollars? Or is it not really that easy?

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

It's not really that easy just because of the dynamics of the costs over in Europe. So we don't necessarily have a rule of thumb that we guide to on that.

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.

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