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Earnings Call

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Presentation

Operator

Good day, and welcome to WD-40 Company's Fourth Quarter and Full Fiscal Year 2026 Earnings Conference Call. Today's call is being recorded. [Operator Instructions].

I will now turn the call over to Wendy Kelley, Vice President, Stakeholder and Investor Engagement. Please go ahead.

Wendy D. Kelley

Director of Investor Relations & Corporate Communications

Thank you. Good afternoon, and thank you for joining us today. On our call today are WD-40 Company's President and Chief Executive Officer, Steve Brass; Vice President and Chief Financial Officer, Sara Hyzer; and Vice President, Global Finance and Incoming Chief Financial Officer, Keith Stauffer.

In addition to today's discussion, we encourage investors to review our earnings presentation, press release and Form 10-K for the period ending August 31, 2026, available on our Investor Relations website at investor.wd40company.com. A replay and transcript of today's call will also be posted shortly. We will discuss certain non-GAAP measures today. Reconciliations to GAAP results are available in our SEC filings and earnings materials.

Today's call also includes forward-looking statements. Actual results may differ materially. Please refer to the risk factors in our SEC filings for more information. Finally, please note that all information presented is current as of October 21, 2026, and we undertake no obligation to update forward-looking statements.

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

Steven A. Brass

CEO, President & Director

Thanks, Wendy, and thanks to everyone for joining us today. I'd like to welcome Keith Stauffer to his first WD-40 Company earnings call. As previously announced, Keith joined the company in September and will assume the role of Chief Financial Officer on November 2. At that time, Sara will transition to her new role as Division President of the Americas. Sara is joining us today for her final earnings call as CFO as we close out fiscal year '26.

I'd like to thank Sara for her outstanding leadership as Chief Financial Officer and for her partnership in supporting this transition. I'll begin with an overview of our fourth quarter and fiscal year results, including progress against our Four-by-Four Strategic Framework. Sara will then review our financial performance. Keith will discuss our outlook for fiscal year '27, and we'll conclude with your questions.

At WD-40 Company, resilience is rooted in the strength of our business model. Our iconic global brand, disciplined execution, flexible global supply chain and strong financial foundation provide the durability to navigate changing market conditions while continuing to deliver growth. Throughout fiscal year '26, we maintained a strong focus on executing our strategy and advancing our priorities even amid geopolitical and economic uncertainty.

Today, we reported consolidated net sales of \$176.8 million for the fourth quarter and \$688 million for the full fiscal year, up 8% and 11%, respectively, versus the prior year. As a long-term value creator, we focus less on any single quarter and more on our ability to deliver durable compounding growth over time. That's why we measure our performance against our long-term maintenance product sales target of 5% to 9% growth in constant currency.

In the fourth quarter, maintenance product sales increased 9% to \$170.5 million, bringing full year maintenance product sales to \$665.9 million, up 13% versus the prior year. On a constant currency basis, maintenance product sales increased 8% to \$168.8 million in the fourth quarter and 9% to \$644.7 million for the full year, in line with our long-term growth expectations.

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Let's turn to gross margin. Our fourth quarter gross margin of 52.8% reflects the temporary cost pressure we discussed last quarter. Full year gross margin remained resilient at 55.3%, an increase of 20 basis points versus fiscal '25 and in line with our guidance. Protecting gross margin remains a key priority, and we continue to take pricing and cost actions to offset cost inflation and preserve the strength of our business model. Based on what we know today, we believe the fourth quarter marked the low point for gross margin, and we expect sequential improvement starting in the first quarter of fiscal 2027.

For the full fiscal year 2027, we're targeting gross margin of 54% to 55.5%, generally in line with our enduring business model. Now let's review fourth quarter sales results by trade bloc. Unless otherwise noted, I'll discuss net sales on a reported basis compared to the fourth quarter of fiscal '25. Sales in the Americas increased 5% year-over-year to \$81.3 million, driven by a 5% increase in maintenance products to \$77.8 million. This growth was driven primarily by increased sales of WD-40 Multi-Use Product in Latin America, where sales increased by \$2.7 million, reflecting strong performance across distributor markets, including Argentina and Ecuador, supported by enhanced inventory sourcing and distribution capabilities.

In the Americas, WD-40 Specialist sales increased 7%, driven primarily by higher U.S. volumes, reflecting new distribution gains, strong placement with large retailers and growth in online sales. For the full fiscal year, maintenance product sales in the Americas increased 13% to \$313.7 million or 12% in constant currency, exceeding our long-term growth target for the segment.

Turning to EIMEA. Sales in the fourth quarter increased 10% year-over-year to \$69.2 million, driven by a 14% increase in maintenance products. Growth was supported by higher sales volumes across both direct and distributor markets, while foreign currency had no meaningful impact on results. In our EIMEA direct markets, maintenance product sales increased \$2.3 million, driven primarily by strong sales of WD-40 Specialist.

Growth was led by Southern Europe, where WD-40 brand sales increased by \$3.9 million, supported by strong commercial execution, promotional activity and merchandising. In our EIMEA distributor markets, sales increased \$6.2 million, driven by strong WD-40 Multi-Use Product sales and higher volumes across key markets. India and the Middle East contributed the strongest growth with \$2.4 million and \$1.2 million of growth, respectively.

Across EIMEA, WD-40 Specialist sales increased 27%, driven by strong growth in France, Italy and Iberia, supported by effective marketing programs, successful new product introductions and strong commercial execution. As a reminder, fourth quarter sales comparisons were impacted by the divestiture of the U.K. home care and cleaning portfolio in fiscal '25, which reduced reported sales by \$2 million.

We believe this strategic decision enhances the quality of our revenue base by increasing our focus on faster-growing, higher-margin maintenance products. For the full fiscal year, maintenance product sales in EIMEA increased 13% to \$259.3 million. On a constant currency basis, sales grew 6% despite a dynamic geopolitical and economic environment, reflecting the resilience of our business model and the strength of our global supply chain.

In Asia Pacific, sales in the fourth quarter increased 13% year-over-year to \$26.3 million and were up 9% on a constant currency basis, reflecting broad-based growth across the region, led by China, where sales increased by \$1.8 million. In China, growth was driven by higher sales volumes, reflecting the successful execution of promotional marketing programs and expanded distribution across traditional and e-commerce channels. Growth also benefited from some customer purchases ahead of a planned price increase.

Australia also delivered a strong quarter with sales increasing just under \$1 million year-over-year. In Asia Pacific, WD-40 Specialist sales increased 23%, driven primarily by strong growth in China. Higher sales volumes reflected the successful execution of promotional and marketing programs, expanded distribution and continued growth across e-commerce channels. For the full fiscal year, maintenance product sales in Asia Pacific increased 11% to \$92.9 million or 8% in constant currency.

Now let's turn to the strategic progress we made in fiscal year '26 against our Four-by-Four Strategic Framework. Designed to drive profitable growth and long-term value creation, the framework is built

around 4 Must-Win Battles and 4 strategic enablers. Our Must-Win Battles focus on the initiatives that drive sales growth and profitability. Given their long-term nature, I'll focus on full year results.

Starting with Must Win Battle #1, lead geographic expansion. Global sales of our flagship product in fiscal year '26 were \$533 million, representing growth of 11% over prior year and 8% on a constant currency basis. Sales of WD-40 Multi-Use Product increased across all 3 trade blocs, growing 13% in the Americas, 10% in EIMEA and 8% in Asia Pacific. On a constant currency basis, growth was 11%, 4% and 6%, respectively.

We made significant progress across many of our key priority markets this year, with sales increasing \$21.6 million in the United States, \$5.3 million in China, \$5.2 million in India, \$3.1 million in France and \$2.5 million in Mexico. What's most important to emphasize is that we still have significant room to grow. Building on the success of our direct market transitions in Mexico and Brazil, we recently made Japan our newest direct market, expanding our presence in one of the world's largest economies.

Japan is a compelling long-term growth opportunity. It's a mature, highly competitive market where building scale takes time and competing there will make us stronger. The capabilities we build in Japan will support our long-term growth strategy. WD-40 Multi-Use Product remains the foundation of our growth strategy. Our path forward is clear, expand availability across more channels and geographies, build brand awareness and put more cans into the hands of targeted end users.

Benchmarked against France, our highest penetration market, we estimate the global attainable market at approximately \$2.2 billion. Having achieved only 24% of that potential, we see a remaining growth opportunity of about \$1.7 billion and a long runway for durable growth. The updated benchmark reflects higher penetration in France and a modest foreign currency impact. Next is Must-Win Battle #2, accelerating premiumization. Premiumization remains an important driver of our growth strategy.

Products such as Smart Straw and EZ Reach reflect our focus on developing differentiated solutions that address end-user needs. This approach strengthens brand loyalty, supports premium pricing and contributes to gross margin expansion. Combined global sales of Smart Straw and EZ Reach in fiscal year '26 were \$277.1 million, an increase of 17% over the prior year. With premiumized products representing 52% of WD-40 Multi-Use Product sales and 41% of units sold, we believe significant opportunity remains to further increase penetration.

Over the last 5 years, we've achieved a compound annual growth rate for net sales of premiumized products of 8.9%. Supported by continued innovation, increased consumer adoption and expanded manufacturing capacity, we are targeting a compound annual growth rate for premiumized product sales of greater than 10% over the long term. Our third Must-Win Battle is driving WD-40 Specialist growth.

WD-40 Specialist extends our iconic brand into adjacent categories, serving professional and industrial end users and opening new avenues for profitable growth. In fiscal '26, global sales grew 21% to \$99 million or 17% in constant currency. Growth was double digit in all 3 trade blocs. The Americas were up 15%, EIMEA 25% and Asia Pacific 26%. Innovation remains a key driver. In fiscal '26, we launched WD-40 Specialist Bio Lubricant Multi-Use, our first bio-based lubricant across 8 European markets.

Early results met our expectations and the product earned the 2026 Glee New Product Award in the U.K. We plan to launch it in the Americas in fiscal '27. France is also our benchmark market on WD-40 Specialist. There, Specialist sales reached 43% of Multi-Use product sales and several other markets are getting close, including Australia at 38% and Italy at 34%. We estimate the global attainable market for WD-40 Specialist at approximately \$962 million.

With only 10% realized to date, we see a remaining opportunity of about \$863 million. Over the last 5 years, we've achieved a compound annual growth rate for net sales of WD-40 Specialist of 18.4% and gives us confidence we can grow WD-40 Specialist at a compound annual growth rate of more than 10% over the long term.

Our fourth Must-Win Battle is to turbocharge digital commerce. In fiscal '26, global pure-play e-commerce sales increased 19% to \$66.7 million with double-digit growth in all 3 trade blocs. Pure-play e-commerce now accounts for 13% of global direct market maintenance product sales. While we are pleased with this

growth, we view digital commerce as more than a sales channel. It is a strategic capability that enables us to reach consumers wherever they choose to shop, strengthen engagement with end users and accelerate the execution of our must-win battles around the world.

Looking ahead, we believe artificial intelligence will play an increasingly important role in how consumers discover, evaluate and purchase brands. As AI-powered search and recommendation tools continue to evolve, one of our key priorities in fiscal '27 will be ensuring our brands are easy to find. They remain trusted and relevant across digital commerce, search and AI-driven platforms.

Over the last 5 years, we've achieved a compound annual growth rate for net sales in the pure-play e-commerce channel of 13.1%. We expect e-commerce to remain one of our fastest-growing channels in fiscal '27 and beyond, and we're targeting long-term compound annual growth rate of more than 10%. More broadly, we view digital commerce as a strategic capability that drives engagement with end users online and accelerates progress across each of our Must-Win Battles.

Turning to our strategic enablers. While our Must-Win Battles drive top line growth, our strategic enablers strengthen the capabilities that make that growth more durable over time. They support operational excellence, enhance the resilience of our business and provide the foundation for long-term value creation.

Strategic enabler #1 is ensuring a people-first mindset. Our 753 employees across 19 countries are one of our most durable competitive advantages. Their ability to learn, adapt and innovate drives our strategy. This year, despite a dynamic operating environment, our team strengthened cost discipline and used our decentralized supply chain to navigate disruption, serve customers and support profitable growth.

Earlier this year, we announced several leadership transitions designed to build on our strong foundation and support continued growth. In addition to the CFO transition I mentioned earlier, Patricia Olsem will become Chief Strategy and Innovation Officer; and Claudia Fenske will take on the newly created role of Chief Brand and Marketing Officer. These changes reflect our commitment to developing talent from within. They also strengthen alignment, accelerate innovation and expand our ability to leverage AI and digital technologies.

Strategic enabler #2 is to build an enduring business for the future. For more than 7 decades, we created value through strong relationships with employees, end users, customers, suppliers, stockholders and our communities. Sustainability is an increasingly important part of that work. Consumers want safe, sustainable products and many of our largest customers have environmental goals they expect suppliers to support. As a category leader, we believe meeting these needs strengthens our competitive position.

In fiscal '26, we earned a bronze medal in our first company-wide EcoVadis assessment. We scored 65 out of 100, which ranked us in the top 35% of companies assessed over the prior 12 months. In the near term, we will publish our 2026 ESG report From Purpose to Progress: Actions delivering results, which highlights 2 years of progress in our future objectives.

Strategic enabler #3 is operational excellence in the supply chain, a critical competitive advantage and driver of predictable profitable growth. In fiscal '26, global on-time delivery exceeded our target at more than 96%. Inventory fell to 95 days on hand, moving closer to our 90-day goal. The supply chain also helped protect gross margin, delivering more than \$7 million in cost reductions through packaging enhancements, logistic efficiencies and strategic sourcing. We achieved these results despite growing global volatility.

Our decentralized supply chain gives us the agility to navigate economic and geopolitical uncertainty while serving customers reliably. During the year, we added a new manufacturing partner in Europe. Together with strategic inventory investments, this reduced risks, support service levels and gives us more flexibility to manage cost volatility. Thanks to our global sourcing and supply chain team, our supply chain is stronger than ever.

Strategic enabler #4 is to drive productivity through enhanced systems. Technology strengthens the durability, scalability and resilience of our business model. We are transforming WD-40 Company from a collection of decentralized systems into a connected global enterprise on shared digital platforms. In fiscal

'26, we expanded our ERP platform into 2 more direct markets and advanced the adoption of shared AI-enabled systems.

These investments improve visibility, decision-making and collaboration across markets. Common systems, data and processes create a scalable foundation that lets us leverage AI more effectively, accelerate execution and support profitable growth. That is an increasingly important competitive advantage as we execute our Four-by-Four Strategic Framework.

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

Sara K. Hyzer

CFO, VP of Finance & Treasurer

Thanks, Steve. It's hard for me to believe that today is my final earnings call as CFO. However, I remain in my current role through November 1, when I will pass the baton to Keith. He and I have worked closely together over the last several weeks to ensure a seamless transition.

His financial expertise, growth mindset and leadership style make him an excellent fit for our company and culture. He also has a deep appreciation for the qualities that make WD-40 Company special, a resilient business model, durable competitive advantages, strong cash flow generation and disciplined capital allocation. I am confident that he will help build on that foundation in the years ahead.

Now let's start with a discussion about how we performed against our fiscal year 2026 guidance. Overall, we delivered results that were in line with our guidance ranges across key financial metrics. Constant currency net sales increased 8% to \$666 million, near the high end of our guidance range and in line with our long-term growth objectives. Reported net sales increased 11% to \$688 million, also near the high end of guidance. Gross margin was 55.3%, within our guidance range, while advertising and promotion investment was 6.5% of net sales as we continued to invest behind our brands and growth initiatives.

Non-GAAP operating income increased 6% to \$110.3 million, while non-GAAP diluted EPS rose 6% to \$6.18, both within our guidance range. Our effective tax rate was 22.7%. These results demonstrate the resilience of our business model, the strength of our execution and our continued investment in the strategic capabilities that will drive future growth.

Turning to our business model. Last quarter, we announced our decision to sunset our longstanding 55/30/25 business model and introduced our new enduring business model. Our enduring business model provides a disciplined framework for how we manage the business and create values for stockholders, it is anchored in 4 key drivers: maintenance product sales targeted at 5% to 9% growth, gross margin targeted at 55% or above, adjusted EBITDA growth that exceeds maintenance product sales growth and an asset-light operating model requiring minimal capital investment.

This framework better reflects the characteristics that have long defined WD-40 Company as a high-quality business, durable growth, strong profitability, disciplined capital allocation and long-term value creation. Collectively, these qualities position WD-40 Company to continue creating value as a perpetual compounder for years to come.

Let's take a closer look at gross margin. Fourth quarter gross margin was 52.8%, down 190 basis points from the prior year. The decline was primarily driven by approximately 370 basis points of higher specialty chemical and raw material costs. These pressures were partially offset by approximately 170 basis points of benefit from lower aerosol can costs and lower fill fees resulting from supply chain enhancements implemented primarily in EIMEA.

While fourth quarter gross margin reflected the temporary cost pressures we are currently experiencing, full year gross margin remained resilient at 55.3%, above our long-term target. We expect these pressures to persist in the near term. However, based upon what we know today, we believe fourth quarter gross margin is likely to represent the low point of the cycle. As pricing actions and ongoing cost optimization initiatives begin to take effect over the next 1 to 2 quarters, we expect gross margin to improve sequentially throughout fiscal year 2027 with recovery accelerating in the second half of the year.

While the pace of improvement may vary quarter-to-quarter, our objective remains unchanged, protecting gross margin and returning to our long-term target range of greater than 55%. Now let's turn to adjusted EBITDA in the fourth quarter. As a reminder, our objective is to grow adjusted EBITDA at a rate that exceeds maintenance product sales growth over time. Fourth quarter adjusted EBITDA reflected the temporary cost pressures impacting gross margin as well as continued investments in our people, brands and strategic capabilities that we believe will support durable growth over the long term.

Selling, general and administrative expenses increased \$9.4 million to \$58.2 million or \$8.7 million in constant currency. This quarter, we were impacted by the timing of accruing for our incentive compensation program, which increased by approximately \$3.8 million on a constant currency basis compared to prior year. Because our incentive plan is directly linked to business performance and applies to every employee across the organization, we are pleased to recognize the contributions that helped drive our fiscal year 2026 results.

We also incurred higher freight costs of approximately \$1.5 million on a constant currency basis, particularly in EIMEA as we navigated Middle East-related supply chain disruptions to maintain product availability for customers. Investment in talent to advance our Must-Win Battles and strategic enablers contributed to a \$1.2 million increase in employee costs on a constant currency basis.

In addition, SG&A expenses increased by approximately \$800,000 from higher software license and fees and bad debt expense. Investments in advertising and promotion, or A&P, were \$15.8 million, up 26% compared to the prior year. The increase reflects our continued investment in promotional activities to support brand growth, primarily in the U.S. As a percentage of sales, A&P investment was 8.9% compared to 7.6% in the prior year period.

Higher A&P spending in the fourth quarter is consistent with our historical spending patterns. A&P investment for the full year was 6.5% compared to 6% in the prior year. The increase was driven by both foreign currency headwinds and higher level of promotional programs, particularly in the U.S. While these investments pressured fourth quarter results, full year adjusted EBITDA increased 6% to \$120.8 million, reflecting the underlying resilience of our business model and progress against our long-term growth strategy.

Free cash flow for the year was \$97.6 million, resulting in free cash flow conversion of 117% of non-GAAP adjusted net income. This strong cash generation reflects the strength of our asset-light business model and disciplined working capital management. That completes the financial overview.

Before I hand over the call, I would like to express my sincere gratitude for the opportunity to serve as WD-40 Company's CFO. While this is my final earnings call as CFO, I remain deeply committed to the company's future, and I'm energized by the opportunity to help drive our next chapter of growth as Division President of the Americas. I want to thank everyone who has been a part of this journey with me.

With that, I would like to now turn the call over to Keith for a review of our fiscal year 2027 outlook.

Keith Stauffer

Thanks, Sara, and thank you for the warm introduction. I'm excited to officially begin my role on November 2. I'm honored to join WD-40 Company. This is a high-quality business and its consistency and resilience have created significant value for stockholders over time. I look forward to helping compound that value in the years ahead. In my first few weeks, I visited each of our trading blocs and met our key leaders around the world.

I've also gotten a strong sense of the culture and operating discipline behind the company's success. I'm excited about the opportunities ahead. Our Four-by-Four Strategic Framework gives us a clear road map for sustainable growth. Our enduring business model guides how we allocate capital, balancing strong performance today with investments that build value over time. Maintaining a disciplined and balanced approach to capital allocation will remain a priority for me as CFO.

This strategy has served the company well for many years. We will maintain a strong balance sheet, invest behind our strategic priorities and deploy capital with discipline to drive long-term returns for

stockholders. Consistent with our asset-light business model, we expect capital expenditures to remain between 1% and 2% of net sales annually. We also remain committed to returning capital to stockholders through a combination of dividends and share repurchases.

Dividends continue to be our first priority with annual dividend payments targeted at approximately 50% of earnings. In addition, under our new share repurchase program, which became effective on September 1, 2026, we are authorized to repurchase up to \$100 million of our outstanding shares. We will continue to allocate capital in a disciplined manner, focusing on opportunities that are accretive and reflect our confidence in the long-term value creation potential of WD-40 Company.

In fiscal year 2026, our return on invested capital was 28.6%, improving from 26.9% in fiscal year '25 and well ahead of our target of 25%. Following exceptional top line growth in fiscal year '26, we are targeting net sales growth in line with our long-term goals. The timing of activities will be a little different this year, which will affect how growth unfolds quarter-to-quarter.

Similar to recent prior years, we expect net sales to be higher in the second half than in the first half. But because we're comparing against a very strong second half of fiscal '26, we expect more of our year-over-year growth to occur in the first half of the year. We are encouraged by the start of this new fiscal year and have seen strong revenue and sequential gross margin improvements thus far.

For fiscal year '27, we expect the following: number one, net sales growth of 4% to 7% with net sales of \$715 million to \$735 million on a constant currency basis. Number two, gross margin of 54% to 55.5%, generally in line with our long-term target of 55%, but also reflecting caution given the current geopolitical and economic uncertainty. Number three, advertising and promotion investment of approximately 6% of net sales, in line with historical performance.

Number four, operating income of \$114 million to \$120 million, representing an increase of 5% to 10% compared to fiscal year '26. At the midpoint, operating income is expected to increase at a faster rate than net sales, consistent with our enduring business model. Number five, an effective tax rate of 22.5% to 23.5%; and number six, diluted earnings per share of \$6.40 to \$6.70, representing year-over-year growth of approximately 5% to 10%.

Our outlook assumes no material changes in the current economic environment. It also assumes crude oil prices remain near current levels through the first half of fiscal '27 before moderating in the second half. Unanticipated inflationary pressures or other unforeseen events could impact our results. Again, I'm very excited to be a part of this great company, and I look forward to providing an update on our progress during our first quarter call in January.

Now back to Steve.

Steven A. Brass
CEO, President & Director

Thank you, Sara and Keith. In summary, what did you hear from us today? You heard that fiscal 2026 sales grew 11% to \$688 million and maintenance product sales grew 9% in constant currency at the top of our long-term target range. You heard that we see a long runway for durable growth with only 24% of its benchmark potential realized. WD-40 Multi-Use Product still has about \$1.7 billion of opportunity ahead and WD-40 Specialist adds another \$863 million.

You heard that full year gross margin remained resilient at 55.3% above our long-term target and that we believe the fourth quarter marked the low point. For fiscal '27, we're targeting gross margin of 54% to 55.5%, even in the current cost environment. You heard that our globally decentralized supply chain continues to be a competitive advantage, especially in challenging times. It helped us navigate volatility, keep on-time delivery above 96% and deliver more than \$7 million in cost savings.

You heard that we remain confident in our ability to deliver durable growth. Our resilient business model, strong cash flow and disciplined capital allocation make WD-40 Company a high-quality business built to compound value for stockholders over time. And you heard that we are encouraged by the start of this new fiscal year and have seen strong revenue growth and sequential gross margin improvements.

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

Question and Answer

Operator

[Operator Instructions]. Your first question comes from the line of Mike Baker from E.A Davidson (sic) [D.A. Davidson].

Michael Allen Baker

D.A. Davidson & Co., Research Division

Yes. I wanted to ask you about the Japan move to the direct market. I don't -- I think that's a new call out, correct me if I'm wrong. And so can you remind us what typically happens, how that plays out in other markets and what the expectation could be for what happens in Japan?

Steven A. Brass

CEO, President & Director

Mike, it's Steve. And so yes, I mean, you're familiar with our moves we've made over the past 5 or 6 years with Mexico and Brazil, where we've achieved, I mean, a game-changing growth in Mexico and then Brazil more recently also. And so Japan will probably be a bit more of a slow build. It's a more conservative, kind of, market.

And so you should expect, kind of, more steady pace growth as we build in a longer-term, kind of, development over 5 to 10 years. Having said that, in our first year, we do expect to somewhere between 2x and 4x what were quite moderate sales in our FY '26. And so it's our first direct market move in Asia Pacific for 20 years since we took China direct in 2006.

And so we're very excited. We have a team of 5 now based out of Tokyo who are already in the business of writing orders and shipping. And so yes, very excited about the future in the world's fourth largest economy.

Michael Allen Baker

D.A. Davidson & Co., Research Division

Excellent. Two more quick questions. One, did I hear you say right that -- so your CAGR over the last 5 years for the premium products has been 9%, but you're targeting 10%. So you're actually, at this point, targeting an acceleration. Did I hear that right? And if so, what gives you that confidence?

Steven A. Brass

CEO, President & Director

Yes, correct. And so continued -- yes, 8.9%, I believe, was the exact number. And so one of the changes we've made over the past year is in implementing Smart Straw capacity and manufacturing capacity in Asia Pacific. And so you're already beginning to see an acceleration in Asia Pacific. And I believe over the next 4, 5 years, Asia have very, very ambitious plans for really driving premiumization across Asia.

And so if you look at today, premiumization, kind of, penetration numbers across the Americas are around 60%. In Europe, it's more like 50-some percent. But in Asia, I believe we're down at mid-double digits, 15% or 16%. And so considerable upside, which we're very excited about on premiumization in Asia Pacific.

Michael Allen Baker

D.A. Davidson & Co., Research Division

Got it. Awesome. Makes sense. If I could just squeeze in one more. I understand you don't give quarterly guidance, but you did give some parameters in terms of year-over-year sales growth higher in the first half versus the second half.

Should each quarter be within the long term -- or the full year range of, I think, 5% to 9%? Or is it possible that especially as you cycle up, I guess, that massive third quarter, should we expect some of the quarters to be outside of that range, either above or below?

Steven A. Brass

CEO, President & Director

Yes. We try not to wander too far into quarterly prognosis because you can go wrong, right? But we already, kind of, talked about September being a very strong start. We're in the double digits already in September out of the gate with good growth across all 3 trading blocs. And so we're very encouraged by that.

And so high single digits into double digits for Q1, continued growth in Q2. Q3 is obviously the big one to lap, but we do see growth there, albeit maybe modest growth. And so hopefully, that gives you enough of a picture of -- for the year.

Operator

Your next question comes from the line of Jon Andersen from William Blair.

Jon Robert Andersen

William Blair & Company L.L.C., Research Division

Congratulations, Sara and Keith, on the new roles. I have a 3 questions, one on sales, one on margin and one on macro. With respect to sales, I'm trying to understand a little bit the composition, how much price and how much, kind of, volume you expect to, kind of, contribute in 2027? And if there's any help you can give us on growth expectations by trade bloc in '27. Is it consistent with your long-term algo?

Are there some variances that we need to consider by trade bloc? And then on margin, I think Keith might have said that you're assuming that crude remains near current levels through the first half of fiscal '27 and then moderates in the second half. And I'm just wondering if there's a little bit more detail you can provide on what's baked in, in terms of oil prices first half versus second half?

And then last, just a bigger picture question on the consumer. Trying to understand the, maybe economic sensitivity if the consumer is softer in the year ahead, does that work in your favor in terms of maybe more repair versus replace activity going on, more use cases, I guess, for your products? Just trying to, kind of, understand what you've seen historically and how you think about that internally.

Sara K. Hyzer

CFO, VP of Finance & Treasurer

Jon, maybe I'll jump in really quick first and just do a little bit of a rundown of the Q4 price volume, appreciating that you all don't have the details in the 10-K yet. So from -- in the fourth quarter, volume was still a strong lever from a growth standpoint. It was the predominant one. After you adjust out adjust for currency and the divestiture of the home care and cleaning products from the prior year, roughly 75% of our growth in the quarter still came from volume.

Price is starting to make a larger contribution in the fourth quarter, and we do expect that to continue into the first few quarters or really into FY '27 as we -- as those price actions begin to take effect.

And then maybe I'll let Steve, kind of, jump in on the future.

Steven A. Brass

CEO, President & Director

If we talk about, kind of, like just going around the trading blocs, kind of, expectations. And so obviously, starting with the Americas, the U.S. had such a strong year in FY '26. Lapping that is obviously a challenge, right, but one that we're up for. But for the U.S., you should expect, kind of, modest single-digit growth for the year as we lap that very high level of activity we had in FY '26. That will be accompanied by very strong growth we see in Latin America and in Canada as well.

And so overall, the Americas, yes, we'll probably be heading for, kind of, the lower range of our typical guidance range. And then the slack will be picked up largely, we believe, by Europe and Asia Pacific. And so we've already seen a very strong start to the year in the early part of the year in both of those regions, actually quite spectacular in Asia Pacific.

China just keeps on doing its thing on the back of a 26% growth number in FY '26. We expect continued double-digit growth in China, which drove a large part of the growth in Asia Pacific in FY '26. Japan is new to the game, and so that's going to drive incremental growth for Asia Pacific as well. And so yes, stronger growth across Europe and Asia Pacific, you will see -- well, you should see. It's hard to guarantee the Middle East, but the Middle East bouncing back somewhat in FY '27.

We did have a decline in U.S. dollars of around 10% in FY '26. And already, we're seeing a bounce back. You saw it in Q4, we reported on that, but also in the early part of FY '27, that we're seeing a bounce back in the Middle East. And we have found workarounds for logistics to get product to our customers across the Middle East. And then your final, kind of, point about consumers and economic sensitivity. I mean I think that's true, right? And so in more difficult times, people do -- they're repairing old machinery or tools or equipment as opposed to buying new tools, machinery and equipment.

And so that does favor us. I think another trend around the world is aging infrastructure, right? I mean you've got -- the car fleet is aging. I think we're at 13 years now, 12.8 years or so in the U.S., and that's a trend that's playing out around the world. And so lots of older equipment does need more maintenance around the world.

Keith Stauffer

And Jon, this is Keith. I look forward to meeting you. I think you had a second part of your question related to the oil price assumptions. And I would just say there are a lot of variables that impact the final input -- our final input costs. And so our working assumption is that the currently prevailing cost of the various oil prices and inputs is what we -- that's what we are assuming for the first half that they continue and then that they decline gradually over the course of the rest of the year.

So that's as much as we're providing right now. Again, it's quite complex in terms of crude oil and various other oil prices, but currently prevailing is, kind of, the way we're characterizing that.

Steven A. Brass

CEO, President & Director

And just to add to that, if things weren't to change or were to change, sorry, significantly in the second half of the year, we would take further action to support gross margins.

Operator

Your next question comes from the line of Aaron Reed from Northcoast Research.

Aaron Bruce Reed

Northcoast Research Partners, LLC

I, kind of, just wanted to follow up on that question about the elevated fuel prices. So is my understanding and if we're expecting fuel prices to remain elevated for the first half of the year and starting to decline in the second half, the inputs that you use typically are pretty quick to increase in price and very slower to come down in price. Does that mean that you don't expect margin recovery to maybe not materialize until maybe the tail end of the third quarter and into the fourth? Or how should I think about that in terms of the margin recovery?

Keith Stauffer

Aaron, this is Keith. Look forward to meeting you as well. And so there are various headwinds and tailwinds in our margin assumptions for the year. So I think you generally have it right in terms of how you're thinking about the oil prices, but we obviously do have our pricing actions that we are undertaking

that are -- that Steve noted are already starting to have an impact and will continue to have more of an impact as we move through this new year.

Steve also noted in his prepared remarks that last year, we had quite an achievement in terms of cost savings. The \$7 million was the number. We have a equally robust pipeline of cost savings initiatives underway that will have a similar impact to FY '27. And then we also have our typical trends in terms of premiumization and our Must-Win Battles that will be accretive to the margin as we move forward.

And then finally, the trading bloc mix, given Steve's earlier answer around the Americas being relatively less of the growth in FY '27 and EIMEA and Asia Pacific being more, that margin structure is also favorable. So those are some of the moving parts within our guidance as we move through the year.

Aaron Bruce Reed

Northcoast Research Partners, LLC

Super helpful. And I guess one other point to that is, so then -- how should I think about the cadence of that margin recovery? Is that something to where you expect it to be fairly evenly distributed then throughout the year? Or is this something where it's going to be accelerated and, kind of, peter out? How should I think about that margin recovery if this is, kind of, the trough right now?

Keith Stauffer

Yes, I'll take that one as well. It will be gradual throughout the year. So the 52.8% in Q4, we mentioned was the -- we believe is the low point. We also mentioned that we've already seen the rebound in September. That will continue, [what] we believe, in Q1 and then progressively get better as we move through the year, where in the back half of the year, again, assuming the oil price assumption that we talked about first half, second half, then we should be approaching above our target of the 55%, if those assumptions hold true.

Aaron Bruce Reed

Northcoast Research Partners, LLC

Okay. Great. And then just one last question here. I'm getting a fair amount of any time anybody brings up France. I know that was a pretty good market for you right now. Any meaningful concerns about the disruption in France? Or is that, kind of, just smoke and it will just dissipate and really won't impact you, you think?

Steven A. Brass

CEO, President & Director

Well, let's hope that, that situation resolves itself quickly. I mean you've got these protests -- hopefully, it's a short-lived event. And yes, France is an important market for us. And so there's been no disruption to our business so far or no material disruption to our business so far. So let's hope the situation gets resolved.

Operator

Your next question comes from the line of Linda Bolton-Weiser from Water Tower Research.

Linda Ann Bolton-Weiser

Water Tower Research LLC

Well, nice to meet you, Keith and Sara, we will certainly miss you as you move on to your next role. So I was wondering about this announcement you made with a marketing partnership with Duluth Trading. It looked like there's like 9 or 10 apparel type items. Will you be getting a licensing fee for this for the use of your brand? Or how is that going to work?

And it seems like you're getting more active with these partnerships or promotions or whatever following the King of the Hill and now the Duluth. Can you talk about how that's -- like if you're doing something

different or thinking of things differently like in the U.S. market, maybe some of the new executives you have in sales and marketing, maybe they're driving some of these ideas. Maybe you could just comment on that.

Steven A. Brass

CEO, President & Director

Thank you, Linda. What I would say is that we're at the stage of experimenting. We have an extremely powerful brand. And so we are -- we have a partnership that we're exploring. And so leveraging key players like Duluth Trading to experiment with licensing in a couple of agreed areas. But it's small. It's not overly material. And so we're learning as we, kind of, progress. And so we'll keep investors updated as we progress on that.

Linda Ann Bolton-Weiser

Water Tower Research LLC

Okay. And then can you just, kind of, update us? I think you mentioned in your commentary a little bit about ERP implementation. Can you just remind us where we are? Like what still needs to be done and, kind of, what actions, if any, are occurring in FY '27?

Sara K. Hyzer

CFO, VP of Finance & Treasurer

Yes, Linda, I can take that one. So we successfully went live with 2 new locations this year, one of which was supporting the geographic expansion with the go direct move in Japan. So I was really excited to be able to support that effort with a system implementation. We do have a couple more in the pipeline in FY '27. The big area that's going to take us a few years to work through is really bringing EIMEA online. And so that is a sizable implementation.

And so that's one that the team will be working on along with a number of the smaller locations that we still need to bring on. So we still need to bring on Mexico and China are of the -- are 2 of the other locations beyond this year, we have Brazil, and we have another small location in the pipeline. So the team is making progress. But we are -- so we are, I would say, about halfway through where we need to be when we get to the end game.

Linda Ann Bolton-Weiser

Water Tower Research LLC

Okay. And then just finally, I'm just curious, again, on the marketing front, you did spend a lot relatively on A&P in the fourth quarter. Is there any way to explain to us like was it a particular promotion that drove that or just, kind of, catching up to the budget you planned for the year? Like was -- can you just give us a little more color on that spending level that occurred in the fourth quarter?

Steven A. Brass

CEO, President & Director

Sure. So a big part of it was actually activating the King of the Hill promotion in the U.S. And so that partnership, we had a lot of activity, and we actually created something like 1.2 billion impressions through that campaign. And so for us, that is more than we typically create in the whole fiscal year. And so that was a very concentrated effort against quite a sizable promotion in the U.S.

And so that was a big part of it, plus some genuine catch-up. You've seen over the past few years, I think that, kind of, trend as we activate our global, kind of, campaigns, things like repair, replace and the sampling programs we put out globally, it has tended to be, kind of, like, back half focused.

And so you do see A&P, kind of, phasing higher in the back half of the year. And there's also some caution always for our general managers. We hit the year seeing how things are going. And so people are very cautious to phase, kind of, A&P spending in line with our business performance.

Sara K. Hyzer

CFO, VP of Finance & Treasurer

I might just add, Linda, just for context, that back half weighting that Steve mentioned is fairly consistent with our historical investment patterns. This quarter, it was 35% of our total spend was in the fourth quarter. You compare that to last year, it was actually 33%. So it's pretty consistent with some of the phasing of those promotional activities and the spending patterns as in prior years.

Linda Ann Bolton-Weiser
Water Tower Research LLC

Okay. And then just finally, I guess this is a bigger picture question. In, sort of, the construction, industrial infrastructure area, the building of data centers is a huge driver, huge in the attention span of investors. So I'm, kind of, curious if you guys are doing anything in particular to target those types of customers, those construction areas, those particular channels that are doing a lot of work on that infrastructure. Is there anything that you're doing specifically in that area?

Steven A. Brass
CEO, President & Director

Sure, yes. And so it's a key growth area, obviously, within the -- I believe it's growing at like 15% a year already off of a very large number. And so that is absolutely a very strong growing use case. Most of those facilities are, kind of, brand new, right? And so as they age, they will need more maintenance, that's for sure.

But yes, many of our products -- several of our products we manufacture, things like WD-40 Multi-Use Product, but also contact cleaners, white lithium greases, et cetera, have significant use in those, kind of, areas. And so yes, they're growth areas for the category. And yes, we're on it in terms of developing the business.

Operator

Your final question comes from the line of Daniel Rizzo from Jefferies.

Unknown Analyst

This is Alfonso on for Dan. Just wanted to get more color on -- if there's any other input costs that might present a significant headwind or would prompt pricing actions. For example, have you shared before how much freight costs are as a percentage of COGS? So just maybe any color on any other input costs aside from the oil-related ones, which would -- which might be a significant headwind or would prompt you guys to do pricing to defend the gross margin?

Keith Stauffer

Alfonso, this is Keith. Yes. So great question, and you hit on it, and it's really has to do with freight. So -- and we did explain that, that's already impacted us in our fourth quarter, and that is expected to continue forward as well. So really, just it's the oil inputs and it's the freight that are the main elevated costs, and we're, kind of, taking the same assumptions for both that we outlined earlier around first half and second half assumptions this year.

Operator

At this time, there are no further questions. We have -- this concludes today's call. Thank you for attending. You may now disconnect.

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