



**Q2 FY24 Prepared Management Remarks
February 1, 2024**

**Lisah Burhan, Vice President, Investor Relations
Linda Rendle, Chair and Chief Executive Officer
Kevin Jacobsen, Executive Vice President and Chief Financial Officer**

Please review the following prepared management remarks in conjunction with the company's second-quarter fiscal year 2024 earnings release. These materials can be found on [TheCloroxCompany.com](https://www.TheCloroxCompany.com) in the quarterly results section or [directly here](#).

Clorox will also host a live Q&A audio webcast at 5 p.m. ET, today, with Chair and CEO Linda Rendle and Chief Financial Officer Kevin Jacobsen to address the company's results as shared in the earnings release and these management remarks.

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Lisah Burhan, Vice President, Investor Relations

Thank you for your interest in our quarterly earnings results. In conjunction with these comments, please review our earnings release, which can be found on [TheCloroxCompany.com](https://www.TheCloroxCompany.com) in the [investor quarterly results section](#).

The following remarks from Chair and CEO Linda Rendle and CFO Kevin Jacobsen include forward-looking statements that are based on management's current expectations but may differ from actual results or outcomes. In addition, these remarks refer to certain non-GAAP financial measures. Please refer to today's earnings release, which identifies various factors that could affect forward-looking statements and provides information that reconciles non-GAAP financial measures to the most directly comparable GAAP measures. The risk factors section of the company's Form 10-K also includes further discussion of forward-looking statements.

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Linda Rendle, Chair and CEO

We delivered strong financial results in the second quarter thanks to strong progress on our recovery from the August cyberattack, continued advancement on our strategies to drive top-line growth and rebuild margin, as well as the effective management of currency headwinds in Argentina. While there is still more work to do to return our business to the trajectory it was on before the cyberattack, we're confident we're on the right path to generate consistent, profitable growth over time.

We restored the vast majority of retailer inventories ahead of our expectations, enabling us to minimize consumption losses. In addition, we regained the vast majority of distribution we lost during the early quarter out-of-stock period. As a result, we made great strides in rebuilding market shares. We're now working on further restoring and improving distribution points, getting back to full merchandising, and returning to normalized service levels. We have a proven track record of doing this, and we have no doubt we can do it again.

Importantly, throughout our out-of-stock period and recovery we've maintained our strong brand superiority results as measured by our consumer value metric. This speaks to the power of our advantaged portfolio, the superior value of our brands and their role in consumers' daily lives. Our strong brand superiority results, Q2 performance and speed of recovery, together with our proven track record and strong demand creation plans, give us the confidence to raise our back half sales expectations and our full year outlook, which Kevin will cover in more detail.

During the quarter we also adapted with agility to address significant currency headwinds in Argentina. We swiftly and successfully executed pricing in Argentina beginning in Q2, supporting our ability to deliver double-digit organic sales growth in our International segment while maintaining our strong market shares. We expect our ongoing pricing plans in this market to fully offset higher projected inflation for fiscal 2024.

Looking ahead, we expect the operating environment to remain challenging as consumers remain under pressure and their value seeking behaviors continue. Nevertheless, we remain committed to growing the top line and rebuilding margins and expect volume to play a stronger role in our top line performance as we lap pricing. We're well positioned to make further progress in rebuilding distribution and market shares, as well as drive volume and household penetration growth over time, through strong demand creation plans. This includes:

- Ongoing investments in product innovation and brand-building to ensure our brands remain healthy and relevant with consumers.
- Enhancing the value superiority of our brands, supported by strong advertising and sales promotion investment.

- Partnering with retailers to drive category growth.

At the same time, we continue to be purposeful in our transformational efforts to create a more consumer-obsessed, faster and leaner company by making progress on our streamlined operating model and advancing our digital transformation.

In closing, we have made progress on our goals and are clear on our priorities. We have a strong and diverse portfolio of trusted brands, we play in essential categories, and we're making the right investments, guided by our IGNITE strategy, to create long-term value for stakeholders. I'm confident that we're taking the appropriate actions to build a stronger, more resilient company that is positioned to win in the marketplace and deliver consistent, profitable growth over time.

I'd like to recognize my Clorox teammates for their resiliency and dedication and thank them for all they've done and continue to do for our company and our stakeholders. I also want to extend my gratitude to our consumers for their continued loyalty and to our customers for their tremendous patience and partnership.

Kevin Jacobsen, Executive Vice President and CFO

Going into our November earnings call, our top priority was to replenish the vast majority of retailer inventory levels by the end of our second quarter. Our outlook was appropriately cautious given the lingering out-of-stocks at the beginning of the second quarter as well as the degree of variability associated with getting products back on store shelves during the peak holiday season.

Q2 results exceeded our expectations as we made stronger-than-expected progress in replenishing retailer inventory, in a shorter-than-expected time frame. With most of our products back on shelves sooner than expected, we were able to minimize consumption loss during the quarter. We were also able to rebuild retailer inventory in a more efficient manner than we originally expected, resulting in minimal upcharges. The combination of stronger top-line and more efficient order fulfillment contributed to stronger-than-expected gross margin accretion and adjusted earnings per share growth.

Second-Quarter Fiscal Year 2024 Results

Second-quarter net sales increased 16%, driven primarily by higher volume from rebuilding retailer inventory. Our net sales results reflected 13 points of volume growth, 7 points of favorable price mix, partially offset by 4 points of unfavorable foreign exchange impact. On an organic basis, sales increased 20%.

Gross margin for the quarter was 43.5%, up 730 basis points versus the prior year, reflecting 380 basis points of pricing and 170 basis points of cost savings, more than offsetting 170 basis points of unfavorable foreign exchange rates. Gross margin also reflects the benefit of better cost absorption from strong shipment growth.

Selling and administrative expenses as a percentage of net sales came in at 16.2% compared to 16.4% in the year-ago quarter. This included \$32 million, or about 160 basis points, of strategic investments to enhance our digital capabilities, \$16 million, or about 80 basis points, for incremental charges related to the cyberattack and \$3 million, or about 20 basis points on our streamlined operating model efforts.

Advertising as a percentage of net sales came in at 9.3%, with investments in our U.S. Retail business coming in at about 10% of sales.

Our second-quarter effective tax rate was 29.3%. The higher rate was primarily driven by lapping of nonrecurring tax credits in the prior year.

Net of all these factors, adjusted earnings per share for the second quarter came in at \$2.16 versus 98 cents in the year-ago quarter, reflecting a 120% increase.

Fiscal-year-to-date net cash provided by operations was \$173 million versus \$387 million in the year-ago quarter, a decrease of 55%.

Fiscal Year 2024 Outlook

We are updating our full-year 2024 outlook mainly to reflect the progress we've made in the second quarter and the impacts from a higher level of devaluation of the Argentine Peso, which is resulting in incremental supply chain inflation and incremental pricing actions we are executing in the region.

Other key assumptions in our fiscal year 2024 outlook are largely unchanged. We continue to assume a volatile and challenging operating environment. Our previous outlook assumed a mild U.S recession in the back half, which we expected to put more pressure on our consumers. While we no longer assume the U.S. will be in a mild recession in the back half of fiscal year 2024, we are continuing to assume a more financially pressured consumer, stemming from the cumulative effects of ongoing inflationary pressures and a rising interest rate environment. As a result, we continue to believe we will see a modest slowdown in our category growth rates in the back half of this fiscal year.

- We now expect net sales to be down low single digits for the year, versus our previous assumption for net sales to be down mid- to high single digits. This primarily reflects our strong Q2 performance, a raise in expectations for the second half of the fiscal year, increased foreign exchange headwinds and additional international pricing actions. Our sales outlook now assumes about 5 points of headwinds from foreign exchange, primarily driven by the devaluation of the Argentine Peso. Organic sales are now expected to be up low single digits.
- We now anticipate gross margin to be up about 200 basis points for the fiscal year. This assumes the combined benefits of our pricing actions, cost savings and supply chain optimization will more than offset higher cost inflation and the impact of lower shipments as a result of the cyberattack. Our assumptions on cost inflation are largely playing out as expected, with commodities coming in slightly more favorable while labor and other supply chain costs remain inflationary. Additionally, we now expect a higher level of cost inflation in our Argentina business, which we are expecting to fully offset with more pricing actions. As the full benefit of these incremental pricing actions takes hold, we expect to exit Q4 with about a 42% gross margin.

- We now expect selling and administrative expenses to be between 16% to 17% of net sales. This includes about 250 basis points of impact related to our investments to enhance our digital capabilities, our streamlined operating model implementation and incremental expenses related to the cyberattack.
- We continue to anticipate advertising spending to be about 11% of net sales. This continues to reflect our stepped-up effort to emphasize the superior value of our brands at a time when consumers are increasingly becoming more value focused as well as our effort to rebuild market shares.
- We now expect our fiscal year effective tax rate to be 22% to 23%. The modest improvement in our projected tax rate is primarily driven by our tax planning efforts.
- Net of these factors, we now anticipate fiscal year diluted EPS to be between \$3.06 and \$3.26, an increase of 155% to 172% respectively, mainly from lapping a noncash impairment charge in our Vitamins, Minerals and Supplements business. We expect adjusted EPS to be between \$5.30 and \$5.50, an increase of 4% to an increase of 8%. Adjusted EPS excludes the long-term strategic investments in digital capabilities and productivity enhancements, which we continue to estimate to be about 70 cents; the charge related to our streamlined operating model of about 20 cents; and incremental charges related to the cyberattack of about 30 cents. Adjusted EPS also excludes a noncash charge of \$1.04 related to a noncash pension plan settlement charge. Details and reconciliations can be found in our SEC filings and the supplemental financial information section of our website.

We've made strong progress recovering from the cyberattack, supported not only by the strength of our relationships with both our consumers and customers, but also the resiliency of our organization in overcoming this challenge. But our work is not done. We are laser focused on rebuilding the distribution and market shares we lost as a result of the cyberattack.

Additionally, we remain committed to restoring our margin to pre-pandemic levels, and then delivering on our goal of expanding EBIT margin by 25 to 50bps by continuing to pull all the levers within our control. We'll continue to balance our efforts to rebuild margin while investing in our brands, categories and capabilities to deliver consistent and profitable growth over time.

Thank you, and we look forward to the Q&A session later today.

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