Q4 and FY23 Prepared Management Remarks
August 2, 2023

Lisah Burhan, Vice President, Investor Relations
Linda Rendle, 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 fourth-quarter and fiscal year 2023 earnings release. These materials can be found on 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 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 in the investor quarterly results section.

The following remarks from 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, CEO

We closed out fiscal year 2023 with strong results, underscoring the significant progress we've made against our strategic priorities over the course of the year.

We entered the year facing macroenvironment volatility and uncertainty, significant inflation and higher costs, ongoing demand normalization, and pockets of supply chain disruptions. Despite these headwinds, we committed to driving top-line growth and rebuilding margins while continuing to invest in the long-term health of our brands, categories and capabilities. Thanks to our team's strong execution across a comprehensive set of actions, we delivered on these commitments.

For fiscal year 2023, we generated net sales growth of 4% — within our long-term target — and organic sales growth of 6%. We expanded gross margin by 360 basis points and grew adjusted EPS by 24%. Our performance reflects our commitment to driving operational excellence and margin improvement, supported by the strength and resilience of our portfolio and the relevance of our IGNITE strategy. Notable accomplishments from the year include:

- **Generating organic sales growth in all four reportable business segments, supported by improved service levels and case-fill rates as well as investments in innovation and brand-building.**

- **Holding market share in aggregate following multiple rounds of cost-justified pricing.** This reflects the superior value of our brands and the role they play in consumers' daily lives. While this performance is encouraging, we're committed to driving market share growth over time.

- **Reducing inventory for the sixth consecutive quarter, demonstrating that our supply chain optimization efforts are working as planned.**

Through these efforts, we improved cash flow from operations by 47% compared to fiscal year 2022, positioning us to invest further in our business, our brands and our people while returning capital to shareholders. Last week we announced an increase in our dividend, furthering our decades-long commitment to increasing our dividend to shareholders.

Fiscal Year 2023 Progress on IGNITE Strategy

While we're focused on delivering results over the short-term, we're also keeping our eye on the long-term and made progress on our IGNITE strategy in fiscal year 2023. The investments we're making to deliver consumer-inspired innovation, strengthen the superior value of our brands and transform our company are reinforcing our competitive moat and positioning us to drive long-term, profitable growth.

Fuel Growth: During the year, we achieved four consecutive quarters of record cost savings, well above our 175 basis-point IGNITE goal. This, coupled with the implementation of record levels of cost-justified pricing actions, contributed to the improvement in margins and supports our ability to reinvest in our business.

Innovate Experiences: Innovation is core to how we deliver superior value experiences through our brands. We're focused on launching bigger, stickier innovation platforms that win in the market and drive multiyear value. Over the last three years, we've generated significant incremental growth from innovation. In fiscal year 2023, we launched innovation across all of our major brands, including Clorox, Fresh Step and Glad, that not only meets consumers' needs but also supports their well-being. These latest launches position us well to sustain our momentum in the years ahead.

Advertising and sales promotion continues to be an important part of how we support the superior value of our brands, and this year we spent about 10% of net sales. Combined with our efforts around personalization, where we've nearly achieved our 2025 goal to know 100 million consumers, this has helped us hit an all-time high ROI on our marketing investment and will support our objective to build back household penetration over time.

Reimagine Work: Since we first outlined our IGNITE strategy, the environment has evolved, and we recognized the need to be more consumer-obsessed, faster and leaner. To get there, we're investing $500 million in a digital transformation and changing our operating model. We completed the second year of our five-year investment in our digital transformation and are on track to roll out a new enterprise resource planning system in our first region this calendar year. This program will maximize our ability to grow and operate more efficiently over the long-term by enabling new ways of working and putting in place capabilities and technology that increase our speed and agility in supply chain, digital commerce and innovation.

We also continued to implement our streamlined operating model, which complements our digital transformation, putting our business units at the center of what we do. We realized about $35 million in administrative cost savings, above our original estimate and contributing to this year's record cost savings. We remain on track to realize approximately $75 million to $100 million in ongoing annual cost savings from this initiative. Together with the work we're doing to transform our company digitally, this will put us on a path to get administrative costs as a percent of sales down to 13% over time.

Evolve Portfolio: We continue to see great opportunities to expand on our core to strengthen our business and our brands, and we have leaned into that through investments. Our superiority rating from a brand perspective remains above pre-pandemic levels, a testament to the value our products deliver despite implementing record levels of cost-justified pricing.

ESG: Our strategy fully integrates environmental, social and governance strategies into the business to maximize opportunities and drive good business results. We advanced our ESG goals in the areas where we can have the biggest impact. This work included introducing new cleaning products with EPA Safer Choice and Design for the Environment certifications and more transparency around our ingredients, building an inclusive and equitable workplace, enhancing our own governance structure and processes, and engaging with our peers on addressing some of the biggest challenges facing our industry, such as reducing plastic and other waste and taking climate action. We'll provide updates on these goals in our integrated annual report in October.

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Fiscal Year 2024 Outlook

We have made strong progress in fiscal year 2023 and are clear on our priorities and the work we need to do going forward.

As we look to fiscal year 2024, we expect the environment to remain volatile with macroeconomic uncertainty persisting. The consumer has been resilient to date and continues to value our categories and brands. Broadly across our categories, we see value-seeking behaviors continuing. As a result, we have plans in place to enhance our value superiority at a time when it matters most to consumers — leaning into innovation, investing in advertising and sales promotion, and partnering with retailers on category growth ideas. We believe these actions will enable us to build on the momentum we delivered over the past year to drive top-line growth and rebuild margins back to pre-pandemic levels, and put us in a position to grow share and household penetration over the long-term.

I'm confident we're taking the appropriate actions to build a stronger, more resilient company that's positioned to win in the marketplace, deliver on our operational and financial goals, and create long-term value for stakeholders. The fundamentals of our business are strong, and our performance this year reinforces that we're on the right path.

In closing, I'd like to thank my Clorox teammates for their contributions throughout the year. Your commitment, hard work and skill make it possible for us to meet the evolving needs of our consumers, customers and communities — all while living our values and fulfilling our purpose of championing people to be well and thrive every single day.

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Kevin Jacobsen, Executive Vice President and Chief Financial Officer

We delivered strong results in the fourth quarter, with sales and earnings coming in ahead of our expectations. From a top-line perspective, our overdelivery was driven mainly by broad-based, stronger consumption supported both by a resilient consumer and improved supply chain performance as well as better performance in our Kingsford business behind enhanced merchandising. At the same time, benefits from our cost-justified pricing actions as well as cost savings and supply chain optimization initiatives enabled us to continue rebuilding gross margin for the third consecutive quarter, up 560 basis points from the year-ago period.

In addition to earnings growth, driven by strong top line and margin recovery, we also made solid progress reducing working capital as part of our supply chain optimization efforts. As a result, we delivered strong free cash flow as a percentage of net sales in fiscal year 2023, achieving 13%. We're continuing to allocate cash with discipline, first and foremost to support long-term growth, including opening our second Litter plant to support demand and investing in our digital transformation. And, lastly, our board of directors recently announced a 2% dividend increase, consistent with our commitment to continue returning cash to shareholders.

Fourth-Quarter Fiscal Year 2023 Results

Fourth-quarter net sales grew 12%, reflecting 16 points of favorable price mix, partially offset by 2 points of volume decline and 2 points of unfavorable foreign exchange impact. On an organic basis, sales grew 14%. Organic sales growth was driven primarily by strong consumption across the majority of our businesses, including in our Kingsford business. While pricing was the key contributor, elasticity also continues to be favorable in aggregate, as our consumers remain resilient and our continued supply chain improvements enabled us to drive stronger demand fulfillment and merchandising. Q4 sales also benefited from strong shipments in Cleaning, as we lapped significant inventory reductions in the year-ago quarter, primarily in our disinfecting wipes business.

Gross margin for the quarter was 42.7%, up 560 basis points versus the prior year. The year-over-year change in gross margin benefited from 670 basis points of pricing and 210 basis points of cost savings. This was partially offset by 230 basis points of higher commodity costs and 140 basis points of higher manufacturing and logistics costs.

Selling and administrative expenses as a percentage of net sales came in at 16.3% compared to 13.5% in the year-ago quarter. This included $27 million, or about 130 basis points, of strategic investments to enhance our digital capabilities and $5 million, or about 20 basis points, for charges related to our streamlined operating model.

Advertising and sales promotion as a percentage of net sales came in at 10.5%, with investments in our U.S. retail businesses totaling about 11% of sales.

Our fourth-quarter effective tax rate was 23.8%.

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Net of all these factors, adjusted earnings per share for the fourth quarter came in at $1.67 versus 93 cents in the year-ago quarter, reflecting an 80% increase.

Net cash provided by operations for fiscal 2023 was $1.2 billion versus $786 million in the year-ago period, an increase of 47%.

Fiscal Year 2024 Outlook

Our fiscal year 2024 outlook assumes we continue to operate in a volatile and challenging environment, with inflation impacting our consumers and input costs. While our consumers and categories have remained resilient to date, our outlook assumes a mild U.S. recession in the back half of our fiscal year. We believe this has the potential to put additional pressure on our consumers and categories. Our outlook also assumes that the promotional environment will return to a more normalized level. Lastly, as we lap our pricing actions from fiscal year 2023, we will see less pricing-related benefit as we move through the year. As a result, while we expect to make meaningful progress in rebuilding EPS for the fiscal year, we expect it to be more front- half-loaded based on the above-mentioned assumptions. That said, it's uncertain how the broader macroeconomic environment will play out and the impact it will have on consumer spending. Importantly, our businesses are fundamentally healthy, and we'll continue to support our brands and categories with innovation and ROI-guided spending to deliver our sales goal, all while making further progress in rebuilding margin.

- We expect net sales to be flat to up 2%. This includes a little over 2 points of unfavorable impact from foreign exchange, primarily driven by the devaluation of the Argentine peso. Organic sales are expected to be up 2% to up 4%, reflecting solid sales growth across the majority of our businesses. Our sales outlook also includes slightly less than 1 point of negative impact from our plans to rightsize our Vitamins, Minerals and Supplements (VMS) business. From a phasing perspective, we expect sales growth to moderate as we move through the year, mainly as we begin lapping the benefit from our year-ago pricing actions, starting in the first quarter. Our outlook assumes sales growth will be the strongest in Q1, with organic sales growth estimated to be up mid-single digits, supported by the highest level of pricing benefit, relative to the rest of the fiscal year.

- We anticipate fiscal year gross margin to be up about 150 to 175 basis points. This assumes the combined benefit of our carryover pricing and cost savings as well as supply chain optimization. It will more than offset persistent cost inflation, which we expect to represent about $200 million in year-over-year cost increases. While inflation is moderating versus fiscal year 2023, we continue to expect to operate in an inflationary environment, with the majority coming from modestly higher commodity costs and wage inflation. From a phasing perspective, we expect another quarter of strong progress in Q1, though moderating relative to Q4 of fiscal year 2023, as we lap the biggest round of pricing actions implemented in July 2022. Similar to sales, lapping pricing through the remainder of the year will also have an impact on gross margin.

- We expect selling and administrative expenses to be between 15% and 16% of net sales, which includes about 1.5 points of impact related to our investments to enhance our digital capabilities and our streamlined operating model implementation.

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- Additionally, we anticipate advertising spending to be about 11% of net sales, reflecting not only our ongoing commitment to invest in our brands but also our goal to grow market share. We have a portfolio of strong brands and will emphasize our superior value at a time when consumers are increasingly becoming more value focused.

- We expect our fiscal year tax rate to be about 24%.

- Net of these factors, we anticipate fiscal year diluted EPS to be between $4.65 to $4.95, an increase of 290% to 316%, respectively, primarily due to the impact of the noncash impairment charge in the VMS business in fiscal year 2023. Additionally, we expect adjusted EPS to be between $5.60 and $5.90, an increase between 10% and 16%. To provide greater visibility into the underlying operating performance of the business, adjusted EPS outlook excludes the long-term strategic investment in digital capabilities and productivity enhancements, estimated to be about 70 cents, and an estimated 25-cent charge related to the streamlined operating model. This EPS outlook reflects another year of progress in rebuilding gross margin while maintaining top-line growth, partially offset by continued inflationary and foreign exchange headwinds as well as impact from our actions to rightsize our VMS business in order to improve profitability. Finally, it reflects our long-standing commitment to continue investing in our brands and capabilities.

Lastly, a few housekeeping items to keep in mind. As a result of the strategy change announced in the third quarter of fiscal year 2023 for VMS and updated financial expectations, the VMS business is no longer included within the Health and Wellness reportable segment. It's now included within Corporate and Other. We have provided recast prior period information for all segments in the supplemental financial schedules on our website as well as in our upcoming SEC Form 10-K filing.

Separately, I also want to remind you that our board of directors approved a resolution to terminate our frozen domestic qualified pension plan in May 2022. As disclosed in our SEC filings, the plan was frozen at the end of calendar year 2011. We expect to finalize termination of the plan, including the transfer of plan assets and related liabilities to a third party, within 18 to 24 months of the date of the approved resolution to terminate the plan. Once finalized, there will be a one-time, noncash charge we expect to book in fiscal year 2024. Our fiscal year 2024 Outlook does not include this charge.

While we expect uncertainties and challenges to persist, we remain committed to our IGNITE strategy. The actions we're taking have resulted in solid progress in rebuilding margin while maintaining top-line growth in fiscal year 2023. But we have more work to do, and we remain committed to getting back to our pre-COVID-19 margin level. Looking forward, we'll continue to balance our efforts to rebuild margin with 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.