



**Q1 FY24 Prepared Management Remarks
November 1, 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 first-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 CEO Linda Rendle and CFO 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 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. All comparisons are with the first quarter of fiscal year 2023 unless otherwise stated. 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 and Form 10-Q for this quarter also include further discussion of forward-looking statements.

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Linda Rendle, CEO

We entered fiscal year 2024 with momentum, supported by strong progress on our priorities over the past several quarters to maintain top-line growth while rebuilding margin. Prior to the cyberattack that we announced in August, our performance was on track with our expectations. We saw solid consumption and market share trends with volume consumption improving as we lapped pricing actions from the year-ago period, which is a testament to the strength and superior value of our brands and the role they play in our consumers' daily lives. In addition, we continued to realize benefits from our margin-enhancing initiatives, including pricing, cost savings and supply chain optimization.

However, as we previously reported, the cyberattack caused wide-scale operational disruptions, which adversely impacted our financial performance in the first quarter. While we're not yet back to normal, we believe we have contained the attack and are now on a solid path to operational recovery, which will take some time.

I would note we do not expect our path to recovery to be linear, and we do anticipate short-term declines in market share, distribution and household penetration, which will vary by customer and category. We're laser focused on our immediate priorities of rebuilding retailer inventories as quickly as possible, preserving merchandising activity and improving our distribution to return to the trajectory we were on prior to the cyberattack.

We have proven that we can execute and rebuild inventories, earn back our shelf space and distribution, and regain and ultimately drive share growth over time just as we did coming out of the pandemic as we restored supply following extraordinary demand for our products. We're confident in our ability to do so again given the strength and superior value of our brands, the relevance of our IGNITE strategy, and the relentless focus of our teams on executing with excellence to win in the marketplace.

As we navigate the near term, we remain committed to our long-term strategies for growing the top line and rebuilding margins, which includes:

- **Product Innovation:** The activation of our plans on consumer-centric innovation remains on track. Investment in bigger, stickier innovation platforms focused on value superiority is core to how we drive growth, and we continue to expect launches across all our major brands this fiscal year.
- **Brand Investments:** We continue to build our brands and execute merchandising plans supported by ongoing investment in advertising and sales promotion to drive consumers to our portfolio of trusted brands.
- **Cost Savings:** We will also continue to lean into our hallmark cost-savings program, building off the record savings achieved last year and the strong performance in this past quarter.
- **Transformation:** We are also advancing our digital transformation and streamlined operating model to create a more consumer-obsessed, faster and leaner company to support our objectives of driving greater productivity and growth.

Looking ahead, the disruption of the last few months does not change the Clorox story. As we execute on our recovery efforts, we are committed to advancing our IGNITE strategy, including

our ESG goals, to build a stronger, more resilient company that delivers consistent, profitable growth over time. We have leading brands consumers love, we play in essential categories and our business is well positioned to benefit from lasting consumer-demand tailwinds. We continue to have high conviction in our ability to deliver on our 3% to 5% long-term sales growth target.

In closing, I want to thank my Clorox teammates, who have been working tirelessly these past few months to drive the recovery. I also want to express my gratitude to our customers and suppliers for their partnership, patience and understanding. We're resolute in continuing to drive the actions that have led to our strong results over the past year, and I'm confident in our ability to deliver long-term value for all our stakeholders.

Kevin Jacobsen, Executive Vice President and CFO

We provided an outlook on Aug. 2 that projected first-quarter sales to be the strongest in the fiscal year, with organic sales up mid-single digits. As Linda mentioned, the impact of wide-scale operational disruptions from the cyberattack resulted in sales and profit declining in the first quarter. While our sales and adjusted EPS declined versus the year-ago period, results came in better than we projected in our October pre-announcement, driven by both higher shipments and better cost absorption. We were able to continue production throughout most of the quarter despite the delay in order fulfillment and finished the quarter with a higher inventory level than we expected at the time of our October pre-announcement. This strong inventory position not only resulted in better-than-expected cost absorption in the first quarter, but it also put us in a good position to ship ahead of consumption as we work to rebuild retailer inventory levels and preserve merchandising.

First-Quarter Fiscal Year 2024 Results

First-quarter net sales declined 20%, driven by lower shipments from the depletion of customer inventory as well as lost consumption resulting from the wide-scale disruption caused by the cyberattack. Our net sales results reflect 8 points of favorable price mix, more than offset by a 26-point decline in volume and 2 points of unfavorable foreign exchange impact. On an organic basis, sales declined 18%.

Gross margin for the quarter was 38.4%, up 240 basis points versus the prior year, reflecting 470 basis points of pricing and 220 basis points of cost savings more than offsetting 100 basis points of unfavorable foreign exchange rates and 20 basis points of higher commodity costs. Gross margin also includes the impact of lower absorption from lower shipments, and a 60-basis point reduction for incremental charges related to the cyberattack.

Selling and administrative expenses as a percentage of net sales came in at 19.9% compared to 15.0% in the year-ago quarter. This included \$27 million, or about 190 basis points, of strategic investments to enhance our digital capabilities and \$13 million, or about 90 basis points, for incremental charges related to the cyberattack.

Advertising as a percentage of net sales came in at 11.9%, with investments in our U.S. Retail business coming in at 14% of sales.

Our first-quarter effective tax rate was 14.6%, driven mainly by a benefit from temporary relief from recently enacted foreign tax credit regulations.

Net of all these factors, adjusted earnings per share for the first quarter came in at 49 cents versus 93 cents in the year-ago quarter, reflecting a 47% decline.

First-quarter net cash provided by operations was \$20 million versus \$178 million in the year-ago quarter, a decrease of 89%.

Fiscal Year 2024 Outlook

We are updating our full-year 2024 outlook to reflect the impact of the cyberattack. As Linda mentioned, our first priority is to rebuild customer inventories and get our products back on shelves as soon as possible to minimize further consumption loss. Our updated outlook assumes that we will rebuild customer inventory levels mostly by the end of the second quarter, though full assortment restoration on shelves for all products will likely take longer. The pace of recovery will vary by business depending on consumption cycles and inventory levels. Once supply and service levels are restored, we are confident we can rebuild distribution and market shares, supported by robust innovation and merchandising plans as well as strong advertising support.

Aside from the impact resulting from the cyberattack, other key assumptions in our fiscal year 2024 outlook are largely unchanged. We continue to assume a volatile and challenging operating environment, with inflation impacting our consumers and input costs. We also continue to assume a mild U.S. recession in the back half of our fiscal year, which we expect will put additional pressures on our consumers and categories. Lastly, we continue to anticipate the promotional environment will return to more normalized levels.

The range in our updated fiscal year 2024 outlook is wider than normal, mainly to reflect the degree of variability related to the pace at which we rebuild customer inventories, distribution and market shares.

- We now expect net sales to be down mid- to high single digits for the year. This continues to reflect about 2 points of unfavorable impact from foreign exchange rates and slightly less than 1 point of negative impact from our plans to rightsize our Vitamins, Minerals and Supplements (VMS) business. The main change to our sales outlook is to reflect the impact resulting from the cyberattack. Our outlook assumes several weeks of lost consumption in the first and second quarters as well as further impact from reduced distribution and lower shares while we work to fully recover. From a phasing perspective, we expect second-quarter organic sales to be up mid-single digits, reflecting the benefit of restocking customer inventory levels more than offsetting lost consumption. We continue to expect price mix to moderate as we move through the year, mainly as we begin lapping the benefit from our year-ago pricing actions.
- We now anticipate gross margin to be about flat for the year. This assumes the combined benefit of our pricing actions, cost savings and supply chain optimization will be offset by cost inflation and the impact of lower volume and margin hit resulting from the cyberattack. We continue to expect about \$200 million in year-over-year cost increases. We also expect gross margin to be up in the second quarter, though not as much as in the first quarter due mainly to higher expenses associated with shipping

above consumption to rebuild customer inventory and moderating benefit from our previously taken pricing actions.

- We now expect selling and administrative expenses to be about 16% of net sales. This includes about 2 points of impact related to our investments to enhance our digital capabilities, our streamlined operating model implementation and incremental expenses related to the cyberattack.
- Additionally, 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 tax rate to be 23% to 24%.
- Net of these factors, we now anticipate fiscal year diluted EPS to be between \$2.10 and \$2.60, an increase of 75% to 117%, respectively. We expect adjusted EPS to be between \$4.30 and \$4.80, a decrease of 16% to 6%. 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 25 cents; and incremental charges related to the cyberattack of about 25 cents. Adjusted EPS also excludes a noncash charge of about \$1.00 related to the termination of our previously frozen pension plan. Details and reconciliations can be found in our SEC filings and the supplemental financial information section of our website.

Looking forward, our priorities are clear. We are laser focused on rebuilding customer inventories, preserving merchandising activities, and ultimately rebuilding distribution and market shares. While the recent cyberattack delayed the timing of our margin recovery, we remain committed to getting back to our pre-pandemic margin levels. As we have done in previous years, we will continue to balance our commitment to rebuilding margins and growing sales with long-term shareholder value creation in mind. We believe the actions we are taking will enable us to return to a strong trajectory and drive consistent, profitable growth over time.

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