



## **Q1 and FY23 Prepared Management Remarks November 1, 2022**

**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 2023 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. 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**

In a challenging operating environment, we delivered first-quarter results ahead of expectations, reflecting the strength of our brands, ongoing consumer loyalty and solid execution.

While organic sales in the first quarter declined 2%, relative to pre-pandemic levels in the first quarter of fiscal 2020 our three-year average net sales growth of 5% is in line with our long-term goal. As expected, gross margin and earnings growth were negatively impacted by persistently high input-cost inflation, which we are working hard to offset.

We continued to proactively advance a broad set of actions to mitigate these macro pressures and rebuild margin. These include executing additional inflation-driven pricing, driving our hallmark cost-savings program, optimizing our supply chain and implementing our new streamlined operating model. At the same time, we are keeping our eye on the long term, prioritizing investment in innovation, our brands and capabilities, and strengthening our relationships with customers to maintain top-line momentum and drive the future success of our business.

Demand for our cleaning and disinfecting products in the first quarter was better than expected as the business benefited from very strong performance around incremental back-to-school merchandising activities. As a result, we are seeing market share growth in cleaning categories where we've restored supply and can activate strong merchandising plans.

Select portions of our household essentials portfolio continued to experience supply chain disruptions in the quarter, resulting in mixed market share performance. We remain focused on growing share in aggregate in our categories over the long term, and believe we're well positioned to do so through the investments we are making in innovation and brand-building. Over the near term, however, we expect share data to remain noisy.

Our innovation plans are delivering and resonating with consumers, with strong momentum in key products including Fresh Step Outstretch Cat Litter, Glad with Clorox Trash Bags and Burt's Bees Rapid Rescue Cold Sore Treatment. Our focus on driving bigger, stickier innovation platforms that give consumers higher value experiences and command a premium has enabled us to generate more value to sales compared to our pre-IGNITE strategy period.

We continue to prioritize making the right investments to ensure we have a robust multiyear innovation pipeline to fuel growth and have strong brands that resonate with consumers through high-ROI advertising and sales promotion. We recently launched our Clorox EcoClean innovation platform, a new line of eco-conscious disinfectants and cleaners, supporting our environmental sustainability goals.

As we continue to invest in the business, we've maintained an unrelenting focus on rebuilding margin. During the quarter, we took additional inflation-driven pricing actions, and our pricing to date has been in line with our expectations. We are executing another round of inflation-driven pricing next month and will continue to closely monitor consumer behavior and the implications of high inflation on demand.

While inflation concerns are leading to changes in consumer shopping behavior with value in mind, so far the consumer has proved to be resilient, and overall our household penetration and consumer loyalty remain strong. As we take additional pricing, we continue to work with our retail partners to keep our categories healthy and growing and to ensure consumers remain closely connected with our brands. We believe we are well positioned to navigate changing consumer behavior given our focus on meeting consumers where they are across channels and providing value superiority and accessible products at all price points. As indicated by our strong back-to-school performance, our plans in the marketplace are working, and our fundamentals are moving in the right direction. We grew all-outlet share in the company's four largest businesses. Our service levels are the highest since the pandemic, despite ongoing supply chain disruptions. And we've delivered eight consecutive quarters of total distribution point share growth. I am encouraged by our progress, and we have more work to do.

In addition to pricing, we continue to operate with discipline and delivered our best quarter of cost savings in three years. The opening last month of our second cat litter manufacturing plant, which will ramp up to full capacity by early 2023, will enable us to generate meaningful cost savings over time and meet higher demand in this business.

Our new streamlined operating model, which we started implementing last month, will also support our margin rebuilding efforts, and we remain on track to generate approximately \$75 million to \$100 million in ongoing annual savings, with benefits beginning this fiscal year.

As discussed previously, the new operating model reimagines how we work at Clorox to create a consumer-obsessed, faster and leaner company to support our objectives of driving productivity and growth. At the heart of our new structure is our business units. We have moved away from our previous matrix structure and shifted more reporting lines into our business units, which will be responsible and accountable for driving growth, improving margin, meeting the needs of our consumers and customers, and creating value. In addition to creating a more rewarding work experience for our teams, these changes will drive a more empowered working environment as we remove layers and bureaucracy to drive faster, more integrated decision-making and reduce costs. Coupled with the investments we're making in our digital transformation, I'm confident these actions will help us achieve our IGNITE ambitions of accelerating the performance of the company.

Lastly, we are making progress advancing our ESG commitments, which are focused on three pillars: Healthy Lives, Clean World and Thriving Communities. We recently launched a data hub that provides greater visibility into our ESG performance data and progress over time as well as ESG frameworks and reports. This includes a climate action plan that outlines our approach to achieving our 2030 science-based targets and 2050 net-zero emissions goal. We've made strides in our focus on living our purpose to champion people to be well and thrive every single day, and I encourage you to read about our progress toward achieving our ESG goals in our latest integrated annual report.

Looking to the remainder of the year, we expect the environment to remain difficult, with additional cost pressures and volatility. We continue to experience demand normalization in certain categories as we lap COVID impacts on our business, input costs remain high, currency headwinds are increasing, and supply chain disruptions are ongoing. In addition, consumers' wallets are coming under greater stress from record inflation. And while we haven't seen a material increase in the promotional environment to date, it's something we're watching closely.

Given these challenges, we are focused on controlling what we can and are taking additional actions to mitigate these pressures while making the necessary adjustments as the environment evolves. As a result, we are reiterating our full-year outlook.

I remain confident that our IGNITE strategy positions us well to navigate through this period and believe we are taking the right actions to deliver consistent and profitable growth over time; build a stronger, more resilient company; and create long-term value for stakeholders. Our brands are strong, our partnership with customers is valued, we play in essential categories and our business is well positioned to benefit from long-term demand tailwinds. I continue to have high conviction in our ability to deliver on our 3% to 5% long-term sales growth because of the actions we're taking and the investments we're making to position ourselves for success over the long run.

In closing, I'd like to extend my heartfelt appreciation to my Clorox teammates around the globe, who continue to manage through these circumstances with agility and perseverance. Thank you for your ongoing hard work and commitment to deliver for our stakeholders.

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## **Kevin Jacobsen, Executive Vice President and CFO**

First-quarter results came in ahead of our expectations on both the top and bottom line. Demand normalization was partially offset by stronger-than-anticipated wipes consumption behind our successful back-to-school merchandising program. As we look beyond this quarter, we expect continued challenges and volatility in our operating environment, driven by persistent cost inflation and supply chain disruptions, evolving consumer dynamics and a strengthening dollar. Amid these uncertainties, what remains unchanged is our commitment to invest behind our brands and capabilities to build long-term advantage while taking the necessary actions to rebuild margins, including our plans to implement an additional round of pricing in our second quarter.

### **First-Quarter Fiscal Year 2023 Results**

First-quarter net sales declined 4%, driven mainly by demand normalization in parts of our portfolio that saw the most significant surge during the peak of the pandemic, including our global cleaning and disinfecting portfolio and our grilling business. Net sales were also negatively impacted by supply constraints on a few of our brands. Our net sales results reflect 13 points of favorable price mix, offset by a 15-point decline in volume and 2 points of unfavorable foreign exchange impact. On an organic basis, sales declined 2%.

Gross margin for the quarter was 36%, down 110 basis points versus the prior year. The year-over-year change in gross margin benefited from 530 basis points of pricing and 180 basis points of cost savings. This was offset by 330 basis points of higher commodity costs and 350 basis points of higher manufacturing and logistics costs. Gross margin includes the negative impact from a voluntary recall of certain Pine-Sol scented products by approximately 90 basis points.

Selling and administrative expenses as a percentage of net sales came in at 15% compared to 13.1% in the year-ago quarter. This included \$20 million, or about 110 basis points, of strategic investments to enhance our digital capabilities.

Advertising as a percentage of net sales came in at about 9%, with investments in our U.S. Retail business coming in at about 11% of sales.

Our first-quarter effective tax rate was 25%.

Net of all these factors, adjusted earnings per share for the first quarter came in at 93 cents versus \$1.21 in the year-ago quarter, reflecting a 23% decline. Adjusted earnings per share also includes a 12-cent charge related to our voluntary recall of certain Pine-Sol scented products.

As you also saw in our press release, Q1 net cash provided by operations was \$178 million versus \$41 million in the year-ago quarter, an increase of 334%. The increase was primarily driven by lower working capital and lower employee incentive compensation paid in the current period, partially offset by lower cash earnings in the current period.

### **Fiscal Year 2023 Outlook**

We are maintaining our outlook for sales, gross margin, and reported and adjusted EPS. Our solid start to the year is partially impacted by a deteriorating FX environment. As a result of the strengthening U.S. dollar, we are now projecting about a 2-point hit to net sales. This higher impact from foreign currency headwinds represents an additional 17-cent impact on both reported and adjusted EPS. Additionally, as we look forward to the remainder of the fiscal year, we continue to expect a volatile and challenging environment. We are watching consumer health and the competitive landscape closely as we implement our fourth round of cost-justified pricing in December. On the cost side, we continue to project strong inflationary headwinds across our supply chain as well as intermittent supply disruptions. As we have

been doing throughout the pandemic, we will continue to adjust our plans as necessary to address these ongoing challenges.

While we expect uncertainties and challenges to persist, we are making progress in our efforts to rebuild margin, including implementing multiple rounds of cost-justified price increases, generating savings from our long-standing cost savings program, optimizing our supply chain and implementing our streamlined operating model.

- We continue to expect net sales to be down 4% to up 2%, now reflecting about 2 points of unfavorable impact from foreign exchange. Organic sales are expected to be down 3% to up 3%. Our full-year outlook continues to assume moderating demand in our cleaning and disinfecting portfolio. Our sales outlook also assumes further pricing actions and a return to more normalized elasticity levels as consumers adjust to persistent inflationary pressure. For additional perspective, we expect Q2 sales to be down low single digits, driven primarily by ongoing demand moderation in our cleaning and disinfecting portfolio and foreign currency headwinds. We also expect supply disruptions on our Burt's Bees business and the voluntary recall of certain Pine-Sol scented products to negatively impact our second quarter.
- We continue to anticipate gross margin to be up about 200 basis points this fiscal year, with expansion starting in the second quarter and reaching nearly 40% by the fourth quarter. This assumes the combined benefit of our pricing actions and cost savings as well as supply chain optimization will more than offset persistent cost inflation, which we are still expecting to represent approximately \$400 million on a year-over-year basis. Our gross margin outlook also continues to assume inflation across our aggregate commodity basket to more than offset a decline in resin prices. We expect to return to gross margin expansion in Q2, targeting about 100 to 200 basis points of expansion, as the benefit of our pricing and cost savings efforts more than offset the impacts from cost inflation and supply chain disruptions.
- We continue to 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.
- Additionally, we continue to anticipate advertising spending to be about 10% of net sales, reflecting our ongoing commitment to invest in our brands to support category and share growth.
- We continue to expect our fiscal year tax rate to be about 24%. The year-over-year increase primarily reflects projected lower excess tax benefits from equity compensation.
- Net of these factors, we continue to anticipate fiscal year diluted EPS to be between \$3.10 and \$3.47, a decrease of 17% to 7%. We also continue to project adjusted EPS to be between \$3.85 and \$4.22, a decrease of 6% to an increase of 3%. Adjusted EPS excludes the long-term strategic investments in digital capabilities and productivity enhancements, which we continue to estimate to be about 55 cents, and the charge related to our streamlined operating model of about 20 cents. This EPS outlook also reflects strong progress in rebuilding gross margin. Finally, it reflects our long-standing commitment to continue investing in our brands, a more normalized level of incentive compensation and a higher tax rate.

As we continue to navigate through this volatile and challenging environment, we remain committed to our strategy and are actively investing in our brands and capabilities to build a stronger, more resilient company. We believe the actions we are taking keep us on track to deliver our fiscal year outlook, focused on rebuilding margin and returning to more consistent, profitable growth over time.

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

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