Q4 and FY22 Prepared Management Remarks
August 3, 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 fourth-quarter and fiscal year 2022 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 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 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 has been filed with the SEC and identifies various factors that could affect any forward-looking statements. In addition, please refer to the Non-GAAP Financial Information section of our earnings release and the supplemental financial schedule in the Investor Relations section of our website for a reconciliation of 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

Our fiscal year 2022 results reflect a very challenging operating environment, including record-high input cost inflation and ongoing pandemic-driven volatility. We navigated this environment by taking a broad set of actions within our control to rebuild margin while continuing to invest in innovation and our portfolio of trusted brands to position Clorox for long-term success. This allowed us to deliver results in line with our outlook, including another quarter of sequential gross margin improvement.

For the fiscal year, organic sales declined 2%, lapping 9% growth in fiscal year 2021. Gross margin declined 780 basis points to 35.8%, reflecting significantly higher manufacturing and logistics costs and commodity costs. Adjusted EPS was $4.10.

Relative to pre-pandemic levels in fiscal year 2019, our three-year average net sales growth was 5% in fiscal year 2022, in line with our long-term goal of 3% to 5%. This reflects the strength of our diverse portfolio of well-loved brands and the resilience of our categories.

We expect the environment to remain difficult in fiscal year 2023 as demand continues to normalize, particularly in our cleaning and disinfecting portfolio; consumers come under greater pressure from unprecedented inflation; and factors like input cost inflation and supply chain disruptions persist. We are addressing these challenges head-on through our pricing actions, ongoing cost savings program, digital transformation, and the streamlined operating model we announced today. At the same time, we're committed to maintaining our category leadership and delivering superior consumer value. I'm confident these actions will position us well to drive consistent and profitable growth over time; build a stronger, more resilient company; and create long-term value for stakeholders.

Fourth-Quarter Fiscal Year 2022 and Progress on IGNITE

Our business broadly performed well from a top-line perspective in the fourth quarter. Organic sales grew 1%. We saw solid growth in three of four segments, which was offset by declines in our cleaning and disinfecting portfolio, primarily within wipes, as demand continued to normalize and retailers adjusted inventory levels. Importantly, our cleaning and disinfecting portfolio remains healthy, with sales well above pre-pandemic levels. Excluding our health and wellness segment, we delivered organic growth of about 5%.

In terms of market share, it was mixed across our portfolio. We expect share data over the next several quarters to be noisy as pricing settles out across our categories. Over the long term, we don't expect price gaps to be a driver of our performance. We remain focused on growing share in aggregate in our categories and believe we're well positioned to do so through the investments we are making in innovation and brand-building.

Throughout the quarter, we continued to be laser-focused on taking decisive actions to rebuild margins through pricing and cost savings initiatives. Pass through of our inflation-driven pricing to date has been in line with our expectations, and we realized a greater margin benefit from these actions this quarter. Through our April round of pricing, elasticities have been slightly better than historical. We took another round of pricing in July. While it's too early to gauge any impact to consumer behaviors, we continue to closely monitor elasticities and tailor our strategies accordingly.

Aside from pricing, we continued to operate with discipline and delivered $119 million in cost savings for fiscal year 2022 as part of our ongoing productivity program.

Even as we work to rebuild margins, we continued to invest in our business to maintain a healthy portfolio and deliver value over the long term. Our IGNITE strategy continues to serve us well in that regard — strengthening our advantages, accelerating profitable growth and fully integrating ESG into our business to maximize opportunities and impact. Highlights of our progress on IGNITE in fiscal year 2022 include:

- Introducing innovations across 28 categories, including new products in our Clorox, Fresh Step and Glad brands, among others, setting us up well to drive growth in fiscal year 2023 and beyond.
- Continuing to support our brands through high-ROI advertising and sales promotion investment, spending about 10% of net sales in the fiscal year. This keeps our brands strong and healthy in the

categories where we compete, as demonstrated by the fact that 75% of our portfolio was deemed superior by consumers as measured by our consumer value metric.

- Achieving more than three-quarters of our 2025 goal of getting to know 100 million consumers, which we're using to better personalize paid media and owned channel activations, contributing to greater efficiencies and higher engagement with consumers.
- Advancing our sustainability goals, including through the expansion of our Brita partnership program to 25 municipalities, which contributes to the brand's goal of delivering clean water to 1 million households in need by the year 2030 and reduces reliance on single-use plastic bottled water.

In addition to these actions, we're taking further steps to *Reimagine Work* as part of IGNITE, to support our objectives of driving both growth and productivity. The streamlined operating model we announced today to create a simpler, faster company will increase efficiency, move decision-making closer to consumers and customers, and enable us to better anticipate and meet their needs.

We wanted to be a faster and more agile company even before the pandemic. While we've made progress in this area, it's clear that to improve our competitiveness, drive better margins and respond to fast-changing consumer needs in this operating environment, we need to accelerate this work.

We'll begin implementing the new operating model in the first quarter of fiscal year 2023. As we enhance our ability to respond more quickly to changing consumer behaviors and innovate faster, this will support our efforts to build stronger, more relevant brands with purpose and drive bigger, stickier innovation platforms. These changes will also result in meaningful additional annual cost savings of $75 million to $100 million.

These changes will also complement our ongoing digital transformation work, which is foundational for increasing our speed and agility over the long term in supply chain, digital commerce, and innovation, while also driving efficiency benefits.

Overall, we believe the streamlined model will help us achieve our IGNITE ambitions of accelerating the performance of the company and set us up for continued success over the long term.

Fiscal Year 2023 Outlook

Looking ahead to fiscal year 2023, the operating environment remains very challenging, with macro uncertainty continuing. While we look forward to a return to a more normalized environment, we're not quite there yet.

We continue to lap COVID impacts on our business and navigate supply chain disruptions and significant cost inflation. And, while we remain confident that our cleaning business is well- positioned for growth over the long term, we expect to see ongoing demand normalization in wipes over the near term. In addition, as consumers come under more inflationary pressure, we expect their spending patterns and behaviors to change. As a result, we expect elasticities broadly across our portfolio to become slightly worse than what we observed in fiscal year 2022.

Nevertheless, we have strong plans in place to mitigate these pressures, including revenue management initiatives, further inflation-driven pricing, ongoing cost management and supply chain optimization. On top of that, the streamlined operating model will further support our margin rebuilding efforts. We're also working with our retail partners to help them grow their categories through innovation while emphasizing our strong value proposition to give consumers more reasons to choose our brands.

As such, I'm certain that our IGNITE strategy continues to position us well for the future, and we're on the right path to drive profitable growth; build a stronger, more resilient company; and create long-term value for stakeholders. With an advantaged portfolio of strong brands and household essentials poised to benefit from consumer trend tailwinds, we have high conviction in our ability to deliver 3% to 5% long-term sales growth.

Finally, I want to thank my Clorox teammates for their hard work, determination and commitment to delivering against our priorities, especially in the face of uncertainty and change. We wouldn't have these opportunities without you, and I'm excited for the next chapter in our journey.

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<u>Kevin Jacobsen, EVP and CFO</u>

Consistent with our outlook, net sales declined 3% in fiscal year 2022 as demand moderated following two strong years of high single-digit growth. On an organic basis, sales declined 2%. Adjusted earnings per share of $4.10 was in line with our full-year outlook and represented a 43% decline, impacted by an extremely challenging cost environment. We continue to focus on executing well in all areas within our control in managing through these conditions, including implementing pricing actions and driving our cost savings program to rebuild margins. We're pleased to deliver another quarter of sequential gross margin improvement and expect to build on this progress in fiscal year 2023.

Fourth-Quarter Fiscal Year 2022 Results

Fourth-quarter net sales were flat, reflecting continued strong demand across the majority of our portfolio, offset by demand moderation and adjustments to retailer inventory levels in our cleaning and disinfecting portfolio. Our net sales results reflect 10 points of favorable price mix, offset by a 9-point decline in volume and 1 point of unfavorable foreign exchange impact. On an organic basis, sales grew 1%. If you exclude our Health and Wellness segment, we delivered 5 points of organic sales growth, driven by 8 points of favorable price mix, partially offset by a 3- point decline in volume.

Gross margin for the quarter was 37.1%, flat versus the prior year and a sequential improvement of 120 basis points compared to the prior quarter. The year-over-year change in gross margin benefited from 330 basis points of pricing and 160 basis points of cost savings. This was offset by 350 basis points of higher commodity costs and 290 basis points of higher manufacturing and logistics costs.

Selling and administrative expenses as a percentage of net sales came in at 13.5% compared to 14.4% in the year-ago quarter. This included $19 million in strategic investments to enhance our digital capabilities.

Advertising and sales promotion as a percentage of net sales came in at 11.5%.

Our fourth-quarter effective tax rate was 19%.

Net of all these factors, adjusted earnings per share for the fourth quarter came in at 93 cents versus 95 cents in the year-ago quarter, reflecting a 2% decline.

Net cash provided by operations for fiscal 2022 was $786 million versus $1.3 billion in the year-ago period.

Fiscal Year 2023 Outlook

Our fiscal year 2023 outlook assumes we continue to operate in a volatile and challenging environment, with ongoing demand normalization in our cleaning and disinfecting portfolio, persistent cost headwinds, and consumers adjusting to a level of inflation many have never experienced. While our outlook anticipates strong inflation to persist, we expect to continue our progress in rebuilding margin with the actions we started taking in fiscal year 2022, including multiple rounds of price increases, extracting more value out of our well-established cost savings program, and optimizing our supply chain. We continue to monitor the environment closely and are prepared to adjust our plans if conditions dictate. Due to the high level of variability in the macro environment, our outlook reflects a wider-than-normal range of potential outcomes.

Additionally, the streamlined operating model we announced today will support our goal to accelerate top-line growth and rebuild EBIT margins. This multiyear program, which we'll begin implementing in the first quarter, is expected to generate ongoing annual savings of approximately $75 million to $100 million, with benefits beginning in the second half of fiscal year 2023. As a result of this initiative and our ongoing productivity efforts, we expect selling and administrative expenses to be approximately 13% of net sales over time. As we begin to transition to this streamlined operating model, we expect to incur restructuring charges of about $35 million, or about 20 cents, in fiscal year 2023, mostly in other income and expense. We expect the total charges of about $75 million to $100 million over fiscal years 2023 and 2024.

- For 2023, we expect net sales to be down 4% to up 2%. We also anticipate about 1.5 points of unfavorable impact from foreign exchange. Organic sales are expected to be down 3% to up 3%. Our full-year outlook assumes moderating demand in our cleaning and disinfecting portfolio, offset by strong performance across the remainder of our portfolio. Additionally, our sales outlook assumes that demand for our cleaning and disinfecting products will be down double digits in the first quarter as we lap the shipment surge driven by the Delta variant in the prior fiscal year when we saw our wipes business grow more than 50%. As a result, we anticipate total company net sales in the first quarter to be down high single digits. We have implemented multiple rounds of price increases across our portfolio. Overall elasticity on the price increases implemented in fiscal year 2022 has been slightly more favorable than anticipated. Our fiscal year 2023 outlook assumes that we will see elasticities returning to a more normalized level, as consumers adjust to an increasing level of inflation.

- We anticipate fiscal year gross margin to be up about 200 basis points. This assumes the combined benefit of our pricing actions and cost savings as well as supply chain optimization will more than offset continued cost inflation, which we expect to represent nearly $400 million in year-over-year cost increases. Our gross margin outlook assumes a modest reduction in the price of resin, more than offset by continued strong inflation across our commodity basket. From a timing perspective, we expect inflationary pressures to be the highest in the first quarter and moderate as we move through the fiscal year. We also expect the double-digit decline in our cleaning and disinfecting portfolio to have a negative impact on operating leverage in the first quarter. The benefits from our mitigating actions, on the other hand, are expected to build as we progress through the fiscal year. Based on all these factors, we anticipate first-quarter gross margin to be about 35%, improving as we move through the year, and reaching close to 40% by the fourth quarter.
- 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. This also assumes more normalized incentive compensation, as compared to below average incentive compensation in the prior fiscal year, the impact of ongoing wage inflation and the initial benefit from our streamlined operating model.
- Additionally, we anticipate advertising spending to be about 10% of net sales, reflecting our ongoing commitment to invest in our brands and build market share.
- We 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 anticipate fiscal year diluted EPS to be between $3.10 to $3.47, a decrease of 17% to 7%. Adjusted EPS is projected to be between $3.85 and $4.22, a decrease of 6% to an increase of 3%. Adjusted EPS excludes the long-term strategic investment in digital capabilities and productivity enhancements, estimated to be about 55 cents, and the charge related to our streamlined operating model of about 20 cents. This EPS outlook reflects continued demand normalization in parts of our portfolio that saw the most significant demand surge over the last two years. It also reflects strong progress in rebuilding gross margin. Finally, it reflects our long-standing commitment to continue investing in our brands and a more normalized level of incentive compensation and higher tax rate.

As we continue to navigate current challenges, we continue to balance the urgency of rebuilding margins while investing to maintain the health of our brands and the categories we compete in. We’re also investing in programs that will create a simpler, faster and more efficient organization with capabilities that support our goal to return to consistent and profitable growth.

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

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