Q2 and FY23 Prepared Management Remarks
February 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 second-quarter 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 CFO Kevin Jacobsen to address the company's results as shared in the earnings release and these management remarks.

###

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.

###

Linda Rendle, CEO

Despite persistent macroeconomic headwinds, we delivered better-than-expected Q2 results, with organic sales growth in three of four segments, gross margin expansion and double-digit earnings growth. Our results reflect the strength and superior value of our brands, successful execution by our team across a broad set of actions, and the benefit of timing shifts, which Kevin will elaborate on.

During the quarter, we made good progress rebuilding margin and driving top-line momentum while executing against our IGNITE strategy to strengthen our advantages and accelerate profitable growth for the long-term. The three-year average growth rate for net sales was 7% for the second quarter, above our long-term goal, underscoring the health of our business and the resilience of our categories. At the same time, we delivered gross margin improvement of 320 basis points in Q2 and 100 basis points year-to-date, providing momentum for us to build back to pre-pandemic levels over time.

We remain laser focused on controlling what we can while we're driving top-line momentum. We're particularly encouraged by the results of our margin-enhancing initiatives, which include:

- Implementing a fourth round of pricing in December to address higher input costs, while maintaining record-high consumer value superiority across 76% of our portfolio. While it's too early to gauge consumer reaction to this latest round, elasticities from our July pricing have been in line with our expectations.

- Driving our hallmark cost savings program and operational excellence, which enabled us to deliver our highest cost savings in the past 10 years.

- Reducing inventory levels by nearly 10% compared to the year-ago quarter, building on our Q1 progress.

- Improving our service levels with our highest case fill rates in almost 2.5 years, despite certain pockets of supply chain disruption.

Overall, we feel good about this progress, but we're not satisfied. We have more work to do as we focus on growing household penetration and share to drive the top-line, while continuing to rebuild margins.

In terms of share, we're encouraged that we held share in the U.S. in Q2 while continuing to grow share internationally despite ongoing supply disruptions and near-term noise as pricing settles. However, we still need to do more to grow share in aggregate in our categories over time.

As expected, category household penetration is down given the cumulative amount of industry pricing. However, we're still outperforming in most of our categories, and our essential products are in nine out of 10 U.S. homes. We're focused on rebuilding household penetration back to pre-pandemic levels.

1221 Broadway
Oakland, CA 94612
510.271.7000
THECLOROXCOMPANY.COM

We believe we’re well positioned to regain household penetration and make further progress on share over time while contributing to category growth through our ongoing investments in product innovation and brand-building to ensure our brands remain strong and relevant with consumers. This includes enhancing the value superiority of our brands, supported by higher advertising and sales promotion investment in the back half of FY23, in line with our expectation for advertising to be about 10% of net sales for the fiscal year.

Our innovation platforms continue to resonate with consumers, and we’re seeing sustained momentum behind recent launches, many of which we’ve highlighted previously. During the quarter we launched new Clorox Free & Clear refillable, eco-friendly sprayer bottles, supporting consumer well-being and the company’s ESG commitments, which are a core component of how we create value and invest in our future. We look forward to speaking more about our innovation pipeline in late February at the CAGNY conference.

In addition to our multi-year approach to product innovation, we’re continuing to invest in reimagining how we work to be a more consumer-obsessed, faster and leaner company, supporting our objectives of driving greater productivity and growth. After successfully implementing the first phase of our streamlined operating model, we’re proceeding with the next phase of the design. We remain on track to generate approximately $75 million to $100 million in annual cost savings, with benefits beginning this fiscal year.

We’re also making progress on modernizing our digital infrastructure to maximize our ability to grow and operate more efficiently. We’re on track to go live with our new enterprise resource planning (ERP) system in our first region this calendar year. Together with our operating model changes, we’re confident we’re laying the groundwork for Clorox’s long-term success.

Looking ahead, we expect the operating environment to remain volatile and challenging. While input cost pressures and supply chain disruptions have moderated slightly on a sequential basis, they remain higher year-over-year. In addition, we continue to see consumers exhibit value seeking behaviors, and while we’re not seeing any material signs of trade down from our brands, it’s something we’re watching closely. We’ll continue to focus on mitigating the impact of inflation using all the levers under our control while protecting the value proposition of our products across channels and price points to drive long-term growth for our brands and categories.

The fundamentals of our business are strong, and our Q2 performance reinforces that we’re on the right path and taking the appropriate actions to deliver consistent and profitable growth over time; build a stronger, more resilient company; and create long-term value for stakeholders. With an advantaged portfolio of leading brands in essential categories benefiting from consumer trend tailwinds and valued partnerships with retailers, I remain confident in our ability to deliver on our financial commitments.

In closing, I’m tremendously proud of and deeply thankful for the collective efforts of our Clorox teammates who continue to deliver results the right way, with our values always at the center. Thank you for your ongoing hard work and commitment.

###

1221 Broadway
Oakland, CA 94612
510.271.7000
THECLOROXCOMPANY.COM

Kevin Jacobsen, CFO

Our second quarter results came in ahead of our expectations on both the top and bottom line, enabling us to raise our reported and adjusted EPS outlook and update our net sales outlook range.

As we look forward to the remainder of the fiscal year, we continue to expect challenges and ongoing volatility in our operating environment. This is driven by persistent cost inflation, intermittent supply chain disruptions, as well as changing consumer dynamics as the macroeconomic outlook remains uncertain. Despite these uncertainties, we have a portfolio of leading brands in categories that are essential to consumers' daily lives. While we have more work to do, we're encouraged by the progress we made in rebuilding margin, while maintaining topline momentum. We remain committed to investing behind our brands and capabilities to build long-term advantage.

Second-Quarter Fiscal Year 2023 Results

Second-quarter net sales grew 1%, reflecting 14 points of favorable price mix, partially offset by a 10-point decline in volume and 3 points of unfavorable foreign exchange impact. On an organic basis, sales grew 4%. Organic sales growth was primarily driven by strong consumption in the majority of our businesses, partially offset by continued demand normalization in parts of our portfolio that saw the most significant surge during the peak of the pandemic, as well as select supply chain disruptions we spoke about last quarter. Organic sales also benefited from a shift in timing of merchandising activities across a few businesses. Lastly, we saw stronger demand for our cleaning and disinfecting products relative to our original expectation, benefiting from a spike in cases that occurred as a result of an early start to the cold and flu season.

Gross margin for the quarter was 36.2%, up 320 basis points versus the prior year. The year-over-year change in gross margin benefited from 680 basis points of pricing. Gross margin expansion benefited from 170 basis points of cost savings, due partly to timing of projects. On a full year basis, we remain on track to deliver another strong year of cost savings. This was partially offset by 240 basis points of higher commodity costs and 100 basis points of higher manufacturing and logistics costs.

Selling and administrative expenses as a percentage of net sales came in at 16.4% compared to 14.3% in the year-ago quarter. This included $25 million or about 150 basis points of strategic investments to enhance our digital capabilities and $4 million or about 20 basis points for charges related to our streamlined operating model.

Advertising as a percentage of net sales came in at about 9%, with investments in our U.S. retail business coming in at about 10% of sales.

Our second-quarter effective tax rate was 21%.

Net of all these factors, adjusted earnings per share for the second quarter came in at $0.98 versus $0.66 in the year-ago quarter, reflecting a 48% increase.

1221 Broadway
Oakland, CA 94612
510.271.7000
THECLOROXCOMPANY.COM

Net cash provided by operations for the second quarter was $387 million versus $222 million in the year-ago period, an increase of 74%.

Fiscal Year 2023 Outlook

As I mentioned earlier, we're updating our full-year outlook to reflect stronger-than-expected performance in the front half of this fiscal year. Looking forward, the macroeconomic environment continues to be challenging. We're watching consumer and competitive behaviors closely, especially with our fourth round of cost-justified pricing now fully implemented. On the cost side, we continue to project strong inflationary headwinds across our supply chain as well as intermittent supply chain disruptions. As we have been doing throughout the pandemic, we'll continue to adjust our plans as necessary to address these ongoing challenges.

Nevertheless, we're making progress in our efforts to rebuild margins, as reflected in the 320 basis points of gross margin expansion in Q2. We expect to continue to build on this progress in the back-half of our fiscal year as we benefit from our cost-justified pricing actions, extract value from our cost savings program, continue to optimize our supply chain and continue implementing our streamlined operating model.

- We now expect net sales to be down 2% to up 1%, continuing to reflect about 2 points of unfavorable impact from foreign exchange. Organic sales are now expected to be flat to up 3%. Our full-year outlook continues to assume moderating demand in our cleaning and disinfecting portfolio, a return to more normalized elasticity levels on our recent pricing actions, as consumers adjust to persistent inflationary pressure and the impact of intermittent supply chain disruptions. For additional perspective, we expect Q3 net sales to be about flat, reflecting about 2 to 3 points of FX headwinds. On an organic basis, we're projecting 2% to 3% growth, driven by continued strong consumption across the majority of our business, offset by a few factors. First, we continue to expect demand moderation in our cleaning and disinfecting portfolio, as the business laps a shipment surge driven by the Omicron variant in the year ago period. We now also expect Q3 sales to be negatively impacted by the spike in cold and flu cases occurring unseasonably early in Q2. Lastly, Q3 sales will be impacted by shifts in timing of some merchandising activities into Q2.

- We continue to anticipate gross margin to be up about 200 basis points this fiscal year, with sequential improvement in the third quarter and reaching nearly 40% by the fourth quarter. This assumes the combined benefits of our pricing actions, cost savings efforts and supply chain optimization will more than offset persistent cost inflation, which we continue to expect will represent approximately $400 million headwind 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 build on the progress we made in Q2, targeting 200 to 300 basis points of gross margin expansion in Q3, 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.

1221 Broadway
Oakland, CA 94612
510.271.7000
THECLOROXCOMPANY.COM

- 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. This assumes higher investment in the back half of FY23 relative to the front half, with spend being higher in Q3 versus Q4.

- 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 now expect fiscal year diluted EPS to be between $3.20 and $3.45, a decrease of 14% to 8%. Additionally, we now expect adjusted EPS to be between $4.05 and $4.30, a decrease of 1% to an increase of 5%. Adjusted EPS excludes the impact of our 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, which we now estimate to be approximately 30 cents. While our expectations for the program remain unchanged, as we target $75 million to $100 million in annual ongoing savings and $75 million to $100 million in one-time costs over FY23 and FY24, we have adjusted the timing as we refine our plans.

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're taking keep us on track to deliver our updated fiscal year outlook. We remained focused on maintaining top-line momentum while rebuilding margins, and returning to more consistent, profitable growth over time.

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

###

1221 Broadway
Oakland, CA 94612
510.271.7000
THECLOROXCOMPANY.COM