The Clorox Company

Prepared management remarks
Second quarter fiscal year 2022
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Lisah Burhan, Vice President – Investor Relations
Linda Rendle, Chief Executive Officer
Kevin Jacobsen, Chief Financial Officer

Please review the following prepared management remarks (and pre-recorded audio versions) in conjunction with the company's second-quarter 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

Hello, everyone. This is Lisah Burhan, Clorox's vice president of Investor Relations. Thank you for your interest in our quarterly earnings results.

In conjunction with this recording, please review our earnings release, which can be found on TheCloroxCompany.com in the investor quarterly results section.

The following pre-recorded 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.

Thank you, and I will now turn it over to CEO Linda Rendle.

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Linda Rendle, CEO

Hello, everyone. Thank you for taking the time to listen to our update on Clorox's Q2 results, our revised outlook for fiscal 2022, and our priorities in 2022 and beyond.

Our second-quarter performance was impacted by rising inflation and other significant cost headwinds as we continue to operate in a volatile environment. Despite these challenging conditions, we executed well on those factors under our control. This includes taking strategic pricing actions and driving cost savings while restoring supply, serving our customers, and advancing our consumer-centric innovation pipeline and digitalization initiatives. Demand remains robust across our portfolio, and our brand superiority results are better than during the height of the pandemic.

While we expect this highly dynamic and challenging environment to persist over the near term and have adjusted our fiscal 2022 outlook as a result, we are confident that we are taking the appropriate actions to manage through this period, deliver profitable growth over time and build a stronger, more resilient company.

With that as a backdrop, let me briefly summarize our results for the quarter before discussing the progress we're making on key priorities for the year.

Net sales in the second quarter decreased 8% against 27% growth in the year-ago quarter. On a two-year stack basis, sales increased 19%.

Gross margin came in at 33%, and adjusted EPS decreased 67% to $0.66, driven by higher than anticipated manufacturing, logistics and commodity costs, partially offset by our pricing and productivity actions.

Demand for our products continued to be strong across our portfolio even as consumption moderated from the pandemic high. This underscores the strength of our brands and our demand-building investments to drive category and market-share growth by making the most of structural changes in consumer behavior. These include a heightened focus on health and hygiene, spending more time at home, digital adoption and increased pet ownership.

As we've continued to make progress on supply, we are growing market shares across the majority of our businesses, including double-digit share growth in Clorox® Disinfecting Wipes for the second consecutive quarter. We also continue to see very strong household penetration for our brands. Hidden Valley® achieved an all-time high in household penetration, and Brita saw its highest household penetration number in the past eight years.

Importantly, as I mentioned, our brands are stronger today than during the height of the pandemic: 75% of our brands are a superior value as measured by our Consumer Value Metric, a record high. This demonstrates that the continued strong investments in engaging consumers in our brands through advertising and sales promotion are paying off. It also tells us that our focus on delivering consumer-centric innovation, the cornerstone of our IGNITE strategy, is resonating.

The lasting shifts in consumer behavior that I mentioned have given rise to many consumer-need spaces that have inspired our innovation platforms and guided our investment choices. This has been serving us very well in broadening where our brands can go and the impact they have. We're creating platform-based innovation that is faster to market and gives consumers better solutions for which they are willing to pay a premium, generating multi-year value. This gives us conviction in our ability to deliver our higher sales goal over time.

We have a robust multi-year innovation pipeline, and early results on our most recent innovations are encouraging. During Q2, we launched three new products that support consumer well-being and the company's ESG commitments:

- First, our Clorox® Disinfecting Mists with reusable sprayer and refills, which we think could be a category-disrupting platform that we can build on for years;
- Second, Clorox® Multi-Purpose Cleaner in a concentrated form with a refillable container that uses 80% less plastic than a typical 16-ounce bottle and;
- Third, Glad® ForceFlexPlus Bags with Cherry Blossom scent, which leverage sensorial trends with consumers.

In addition to advancing ESG progress on innovation, we continue to make progress on eliminating waste from our packaging. For example, as a U.S. Plastics Pact Activator, we proactively collaborated across the industry and identified 11 plastic resins, components, and formats to be eliminated by 2025, accelerating progress toward a circular economy for plastic packaging.

As we continue to invest in the business to drive market share and category growth, we are laser-focused on successfully managing through this inflationary environment and rebuilding margins — this is one of my top priorities. We are implementing additional pricing, driving cost savings, and optimizing our supply chain.

We believe that we are well-positioned, based on the superior value of our brands, to execute additional pricing across our portfolio. We began to take pricing as soon as we restored supply on most of our brands. While it is still early, we're experiencing lower elasticities than we have historically seen. We are taking additional rounds of pricing on many brands, which we have already announced to our customers. They will go into effect in the back half of fiscal 2022, which will result in the vast majority of our portfolio seeing at least one or two rounds of pricing.

We're also using other net revenue management tools to aggressively improve margin over time, including price-pack architecture changes, mix management, and trade funds optimization. All our business units plan to use these as more significant levers moving forward.

In addition, we are driving cost savings across the enterprise, which is a hallmark of our company. We have widened the funnel of cost-savings opportunities as part of our IGNITE strategy and are on track to achieve another strong year in spite of the challenging environment.

Lastly, we are optimizing our supply chain by working to remove many of the costs that were incurred as we increased supply chain resiliency during the pandemic.

At the same time, we continue to invest in the business for the long term. As we have previously discussed, this includes accelerating our digital transformation, which will strengthen our core capabilities around supply chain, digital commerce, innovation and brand-building. Our digital transformation efforts are on track, and we have begun the work on our new ERP.

In summary, the fundamentals of our business are strong. We have a portfolio of strong brands exposed to demand-driven tailwinds, which we expect will create long-term opportunities for our business, such as heightened focus on health and wellness, spending more time at home, digital adoption, and increased pet ownership. And we have a strategy that is as relevant as ever in the current environment, which will continue to fuel our growth.

We are navigating this volatile environment by focusing on what we can control to drive profitable growth and rebuild margin. This includes investing in the long-term health of our business to keep our iconic and trusted brands strong and relevant, and digitally transforming our company to position us well for the future. We are confident that our efforts will strengthen our competitive position, build a stronger, more resilient company and generate long-term shareholder value.

Before I close, I'd like to thank our Clorox teammates worldwide for their continued resilience and dedication to living our purpose and serving our consumers, customers and communities throughout this pandemic.

Thank you for your time today. I invite you to listen to our live question-and-answer webcast, which will begin at 5 p.m. Eastern Time today and be available for replay on our website.

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Kevin Jacobsen, CFO

Hello everyone. Today, I will be reviewing our second quarter results and updated fiscal year 22 outlook.

Our second quarter results are down versus the prior year as we lap record sales growth during the height of the pandemic and continue to manage through a challenging cost and supply chain environment. While consumer demand continues to be healthy, the cost environment has become more challenging than we previously expected. As a result, we've taken pricing actions on the vast majority of our portfolio, which I'll talk more about in a moment.

We've also continued to make strong progress on improving product availability and growing market share across the majority of our portfolio. We believe our actions will keep us on track to return to our 3% to 5% sales target and begin rebuilding gross margins by the fourth quarter of this fiscal year.

Second Quarter Fiscal Year 22 Results

Now, turning to our second quarter results. Second quarter net sales decreased 8%, compared to 27% growth in the year-ago quarter, delivering a two-year stack of 19%. Our net sales results reflect a 10-point decline in volume and 2 points of favorable price mix, as the benefit of pricing started to flow through our income statement. Second quarter organic sales also declined 8%.

Gross margin for the quarter declined 1240 basis points to 33%, compared to gross margins of 45% in the year-ago quarter, when we benefited from favorable operating leverage driven by 24% volume growth. The decline in gross margin reflects significantly higher input costs, including 640 basis points of higher manufacturing and logistics costs and 510 basis points of higher commodity costs. Gross margin was also impacted by unfavorable operating leverage as our shipments were down 10 points for the quarter. These factors were partially offset by 100 basis points of benefit from our pricing actions and 80 basis points of benefit from cost savings.

Selling and Administrative expenses as a percentage of net sales came in a 14.3%, compared to 14.6% in the year-ago quarter, primarily due to lower incentive compensation expense and the benefit of productivity initiatives, partially offset by $15 million of investments to enhance our digital capabilities.

Advertising and sales promotion investment levels as a percentage of net sales came in at about 10%, compared to about 10% in the year-ago quarter, with U.S. retail spending also at about 10%.

Our second-quarter effective tax rate was 23% versus 21% in the year-ago quarter.

Net of these factors, adjusted earnings per share for the second quarter came in at $0.66 versus $2.03 in the year-ago quarter, a decline of 67%. As we noted in the press release, adjusted EPS excludes 10 cents of impact related to our strategic investments to enhance our digital capabilities.

Year-to-date net cash provided by operations was $222 million versus $629 million in the previous period, a decrease of 65%. The decline was primarily driven by lower cash earnings and higher working capital, partially offset by lower tax payments in the current six-month period.

Fiscal Year 2022 Outlook

Now, turning to our updated fiscal year 2022 outlook, we have updated our fiscal year outlook. Our updated outlook anticipates improved sales performance, driven by continued strong consumer demand and a robust innovation line-up, which keeps us on track to return to our 3 to 5% long-term net sales growth target in the fourth quarter.

We now expect fiscal year net sales to be down 1% to 4%, mainly reflecting demand moderation in the front half of the year as we lap record 27% growth during the height of the pandemic. We expect organic sales to also be down 1% to 4%.

As I referenced earlier, the cost environment has become significantly more challenging than we had previously anticipated. We now expect gross margins to decline about 750 basis points versus year-ago. While we are expecting higher costs across virtually every aspect of our supply chain, the biggest incremental headwinds will be in higher commodity and transportation expenses, which we now anticipate will be about $500 million higher than the last fiscal year. Our previous guidance was a $350 million increase.

To mitigate these headwinds, we're executing well on the factors we control. As soon as we restored supply in the majority of our portfolio, we began to take pricing action on many of our brands. As we've seen the cost environment continue to worsen, we've leaned in even more aggressively and are now taking pricing on about 85% of our portfolio, including multiple rounds of pricing on a significant number of brands. We're already seeing the benefit of pricing flow through our P&L and expect this will increase through the remainder of the fiscal year. We'll continue to closely monitor the cost environment, and we stand ready to take more pricing, as needed, to recover cost inflation and rebuild gross margin over time.

We're also leaning into our hallmark cost-savings program, and we're on track to achieve another strong year. While these actions keep us on track to begin rebuilding gross margin in the fourth quarter, we anticipate earnings down due to significantly higher cost inputs.

Turning to the rest of the outlook, we continue to expect fiscal year selling and administrative expenses to be about 15% of net sales, which includes about 1 point of impact related to investments in our digital capabilities.

We continue to anticipate fiscal year advertising spending to be about 10% of net sales, reflecting our ongoing commitment to invest in our brands to build market share.

We continue to expect our fiscal year tax rate to be about 22% to 23%. This year-over-year increase primarily reflects lapping several one-time benefits in the prior fiscal year.

Net of these factors, we now anticipate fiscal year adjusted EPS to be between $4.25 and $4.50.

As we continue to manage through these near-term challenges, we're keeping our eye on the long term. We've built strong brands that enable us to take the necessary pricing actions to rebuild gross margin while also maintaining our topline momentum. We're leaning into our well-established cost-savings program, and we're optimizing our supply chain. At the same time, we're also investing in our strategic digital capabilities. I'm confident that these short and long-term actions, taken together, will help us mitigate these near-term challenges, strengthen our brands and ensure we're building a stronger, more resilient Clorox.

Thank you.

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