The Clorox Company

Prepared management remarks

Third-quarter fiscal year 2022

May 2, 2022

Lisah Burhan, Vice President, Investor Relations
Linda Rendle, Chief Executive Officer
Kevin Jacobsen, Chief Financial Officer

Please review the following prepared management remarks in conjunction with the company's third-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

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.

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Linda Rendle, CEO

I'm encouraged that we continued to see strong consumer demand for our brands and made progress on our near-term and long-term strategic plans in the third quarter amid a highly dynamic and challenging environment. Importantly, we delivered on our commitment to drive sequential gross margin improvement.

We executed well on the factors under our control, leveraging the strength and resiliency of our brands to sustain top-line momentum and begin to rebuild margin. We continued to drive our innovation pipeline, deliver our cost-savings program, generate operational improvements across our supply chain, and take additional inflation-driven pricing actions while keeping our eye on the long-term.

There is no question that it is a volatile operating environment. The war in Ukraine is adding greater uncertainty as we experience rising cost inflation, which is reflected in our updated fiscal 2022 outlook. That said, I am confident that our strategy is driving the right outcomes. We are navigating through the current conditions and taking the necessary actions to drive long-term profitable growth, build a stronger, more resilient Clorox and create shareholder value.

Let me briefly summarize some key financials before providing an update on our strategic progress and my perspective on the balance of fiscal 2022.

- Net sales in the third quarter increased 2% compared to flat sales in the year-ago quarter, with growth in three out of four segments.
- Gross margin was 35.9%, reflecting significant cost inflation, partially offset by our pricing and cost-savings actions. While this was down compared to the year-ago quarter, it was an improvement sequentially as we realized a full quarter of benefit from inflation-driven pricing in the first half of the fiscal year.
- Adjusted EPS decreased 19% to $1.31.

Category momentum is strong compared to pre-pandemic levels, bolstered by consumer-trend tailwinds, with demand remaining robust in the third quarter. While the consumer is under pressure as broad-based inflation persists, demand remains resilient, and they have responded well to our pricing actions. We're not seeing signs of stress in our categories, which have remained healthy in the third quarter. That said, we continue to closely watch consumer behavior trends and the impact on our categories and market share.

As discussed previously, shifts in consumer behavior – a greater focus on health and wellness, spending more time at home, reinforced by enduring hybrid work, digital adoption acceleration, and increased pet ownership – are creating long-term growth platforms for our brands and have resulted in Clorox having a significantly bigger business today and stronger brand loyalty versus pre-pandemic. We have invested in our iconic brands and innovation, which has led to overall market share growth in the quarter. This reflects the power of our brands, the output of our investments, and continued progress in restoring supply across the portfolio.

A great example of this is our disinfecting wipes business, which reported record-high share in the third quarter and its third straight quarter of double-digit share increases.

As we see our category growth strategies come to life in the market, we would like to thank our retailer partners for their collaboration as we put the consumer at the center of our joint plans while navigating a challenging environment.

Our innovation platforms continue to resonate in the market and we're seeing strong results behind recent launches, including Fresh Step Outstretch, Clorox Disinfecting Mist, and Glad with Clorox, to name a few. During the quarter, we launched new products that support consumer well-being and the company's ESG commitments. New product launches included our Glad ocean plastic-recycled trash bags, Glad ForceFlex Plus with Clorox trash bags in Eucalyptus and Peppermint fragrance, and a line of flavor boosters for charcoal and pellet grills, building on our Kingsford Signature Flavors platform.

As you know, the cost environment has gotten even more challenging since the second quarter. As mentioned above, this has necessitated more inflation-driven pricing across the portfolio. We feel confident in our ability to execute pricing while continuing to grow share for three primary reasons:

1) The strength and superior value of our brands. For example, according to a Harris Poll, sentiment toward the Clorox brand increased dramatically from Q1 2020 to Q1 2022, with brand equity measures "brand momentum" and "product quality" increasing significantly.
2) Our portfolio consists of essential household products.
3) Our ability to execute against category fundamentals with retailers.

Looking ahead, we have announced another round of broad-based pricing, which we expect to be in market this summer, building on our actions in April. Our execution is on track and elasticities have remained better than what we have experienced historically.

We remain intensely focused on driving cost savings across the business and have made progress in optimizing our supply chain. We've transitioned external manufacturing from the large group of pandemic-necessitated co-manufacturers to just a few strategic suppliers with whom we will benefit from a long-term relationship.

Further, we continue to make progress in advancing our IGNITE ESG goals. In addition to the innovations noted above, we've signed a second renewable energy agreement for 12 years, strengthening our commitment to 100% renewable electricity in our U.S. and Canada operations.

We continue to see volatility and uncertainty in the macro-environment. While we are carefully monitoring for any signs of change in broader consumer behavior and consumption trends, we will remain intentional as we adapt. We are driving continued topline progress in the fourth quarter as well as sequential margin improvement as pricing continues to build in the balance of fiscal 2022 and into fiscal 2023.

In summary, we believe Clorox is well-positioned to enhance profitability and create long-term shareholder value by leveraging our competitive strengths as we execute our IGNITE strategy. This includes:

- Remaining disciplined in our approach to innovation by focusing on bigger, stickier innovation platforms that win in the market and deliver multi-year value.
- Investing in our category-leading brands through high-ROI advertising and sales promotion to engender consumer loyalty and maintain brand strength and relevancy.
- Driving operational excellence and our hallmark cost-savings program that, in conjunction with pricing, supports our commitment to rebuild margins.
- Accelerating our digital transformation, to better position us for the long-term in supply chain, digital commerce, and innovation while also driving efficiency benefits.

I am confident that our fundamentals are strong, and the actions we are taking along with the progress we have made put us on the right trajectory. We believe we are poised to successfully navigate the headwinds we're facing and deliver higher levels of consistent and profitable growth over time.

Lastly, to my Clorox teammates around the globe, I want to express my heartfelt gratitude for your perseverance and hard work. You continue to rise to the occasion every single day to deliver for our customers, consumers and communities.

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Kevin Jacobsen, CFO

We are pleased with our continued top-line momentum, as reflected in solid volume and sales growth across our portfolio. Demand for our products continues to be strong and execution of our pricing actions is on track, with elasticities continuing to be slightly lower than what we've seen historically. The challenging cost environment, however, persists, with additional pressures resulting from the war in Ukraine. We are focused on what we can control to address these unprecedented cost pressures, including executing another round of pricing actions across the bulk of our global portfolio and continuing to aggressively manage all aspects of our cost structure. As a result, we delivered sequential gross margin improvement this quarter and expect to build on this progress in Q4 and as we move into fiscal 2023.

Third-Quarter Fiscal Year Results

Third-quarter net sales increased 2%, compared to flat sales growth in the year-ago quarter. Our net sales results reflect 2 points of volume growth and flat price mix, which reflects 4 points of benefit from our pricing actions, offset by unfavorable mix, mainly in our Health & Wellness segment as continued supply improvements resulted in a return to more normalized product assortment and a return to merchandising. Third-quarter organic sales also grew 2%.

Gross margin for the quarter was down 760 basis points to 35.9%, compared to gross margin of 43.5% in the year-ago quarter. On a sequential basis, gross margin increased 290 basis points, as the benefit of pricing continued to build. Third-quarter gross margin was significantly impacted by higher input costs, including 410 basis points of higher commodity costs and 570 basis points of higher manufacturing and logistics costs. These factors were partially offset by 170 basis points of benefit from our pricing actions and 100 basis points of benefit from our cost-savings efforts.

Selling and Administrative expenses, as a percentage of net sales, were 13%, which was flat year over year, including $15 million in strategic investments to enhance our digital capabilities. Advertising and sales promotion investment levels as a percentage of sales came in at about 9%.

Our third-quarter effective tax rate was 23.9%, compared to -1.4% in the year-ago quarter. The increase in our tax rate was primarily driven by lapping the tax impact generated by the partial non-cash impairment on our vitamins minerals and supplements business in the prior fiscal year.

Net of all these factors, adjusted earnings per share for the third quarter, was $1.31 versus $1.62 in the year-ago quarter, a decline of 19%.

Year-to-date net cash provided by operations was $451 million versus $893 million in the year-ago period.

Fiscal Year 2022 Outlook

We have updated our outlook to reflect higher cost headwinds resulting from the war in Ukraine, with most of the impact expected to be in Q4. While we have announced another round of pricing actions to help mitigate incremental cost pressures, the benefit of these actions will flow through next fiscal year. Our updated outlook continues to anticipate sequential improvements in both sales and gross margin.

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

- We now expect gross margin to decline up to 800 basis points versus year-ago. This reflects about $530 million in commodity and logistics cost inflation over the course of our fiscal year, up from our prior expectation of about $500 million.

- We now expect fiscal year selling and administrative expenses to be between 14% and 15% of net sales, which continues to include about 1 point of impact related to our digital investments.

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

- We continue to expect our fiscal year tax rate to be between 22% and 23%. The 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 $4.05 and $4.30.

Lastly, one housekeeping item to keep in mind. As you know, we have a long track record of increasing our dividend and have historically announced the dividend in May. Going forward, we will be shifting the dividend announcement to July to shorten the time between the declaration and record dates, and to coincide with the Board's meeting schedule. The payment date, which typically occurs in August, remains unchanged. The dividend is a top priority in our capital allocation framework, and we have a clear commitment to continuing to grow the dividend over time.

In this challenging operating environment, characterized by high inflation and volatility, we remain disciplined in our execution, balancing margin recovery while maintaining topline momentum, share growth, and building capabilities that help build a stronger, more resilient company.

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

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