Q3 FY23 Prepared Management Remarks
May 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 third-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.

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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

We delivered strong results in the third quarter, with organic sales growth across all segments, and both gross margin expansion and double-digit adjusted EPS growth for the second consecutive quarter. Our performance reflects solid execution by our team and demonstrates the strength and resilience of our portfolio, the superior value of our brands, and the relevance of our IGNITE strategy as we navigate through what remains a challenging operating and cost environment.

During the quarter, we made great progress rebuilding margin while maintaining top-line growth with net sales growing above our long-term target and gross margin expansion above our expectations to deliver 270 basis points of improvement year-to-date. We remain laser focused on driving operational excellence with notable accomplishments in the quarter including:

- Delivering organic sales growth in all four segments, supported by improved service levels, including the highest case fill rates since the start of the pandemic.
- Achieving two consecutive quarters of gross margin expansion, supported by cost-justified pricing and decade-high cost savings.
- Reducing inventory for the fifth quarter in a row, contributing to the 61% growth in cash from operations fiscal year to date.

In addition, while still early, the fourth round of cost-justified pricing actions we took in December has gone largely as expected. Elasticities are generally in-line with our overall expectations, but we're seeing some favorability in select areas of our portfolio. Despite significant pricing over the past year, we've maintained total company market share, though we're committed to growing share in aggregate in our categories over time. To date, we have not seen any material signs of trade down from our brands, a testament to our ability to deliver superior value to consumers and retailers across channels, categories and price points. That said, we recognize that consumers are under a lot of pressure and competitive reactions are still playing out so we're closely monitoring the impact on our categories and market share and will adapt our plans accordingly.

While we're encouraged by the progress we've made so far, we have more work to do. We've said we're committed to rebuilding margin back to pre-pandemic levels, which we expect to be a multi-year journey. And we remain relentlessly focused on controlling what we can to drive – and appropriately balance – both top- and bottom-line growth.

To that end, our Vitamins, Minerals and Supplements (VMS) business, which represents approximately 3% of company sales, continues to face challenging market dynamics and performance issues. As such, we've reassessed its role within our broader portfolio and are taking actions to improve profitability, including rightsizing the resources allocated to this business and narrowing its focus on core brands. We've lowered our growth expectations for the business based on new operating plans, which triggered a noncash impairment charge in the third quarter. We will continue to take actions to strengthen the business while adhering to our commitment to invest in the most attractive opportunities across our portfolio.

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As we make these adjustments, we continue to prioritize investment behind our attractive brands and categories to keep them strong and healthy as well as through innovation to position us to win in an increasingly competitive marketplace. We're delivering innovative and sustainable solutions that do more for consumers. For example, we launched new product innovations through third-party partnerships in our Burt's Bees and Glad businesses that deliver improved sustainability benefits without sacrificing quality. Innovations like this also support our environmental, social and governance commitments and are essential to creating long-term value.

Innovation is at the heart of our company, and as we mark Clorox's 110th anniversary this week, we'll continue to focus on driving the change and innovation needed to create an enduring and sustainable company for ourselves and our stakeholders.

We're also making tangible progress on implementing our new streamlined operating model, resulting in a business unit growth culture that is:

- Moving us closer to consumers and helping us better understand their evolving needs.
- Focusing and aligning our teams on the most critical business priorities.
- And empowering those closest to the work to drive day-to-day business decisions.

Based on the team's early progress, we now expect our new operating model to generate about $35 million in cost savings this fiscal year, above our original estimate, and we remain on track to realize approximately $75 million to $100 million in ongoing annual cost savings.

Finally, we're advancing the modernization of our digital infrastructure and capabilities and are on pace to introduce a new enterprise resource planning system in our first region this calendar year. This new system, along with other planned investments, will help us work more efficiently, improve access to data and accelerate decision-making, and, together with our operating model changes, maximize our ability to grow the business.

Looking ahead, we expect the operating environment to remain volatile and challenging. Despite recent moderation in pockets of input costs, overall inflationary headwinds continue to be strong. As a result, consumers may feel greater pressure as continued macroeconomic uncertainty impacts spending.

Regardless, we have trusted brands in essential categories, which we continue to invest behind. I remain confident that our actions, guided by our IGNITE strategy, position us well to navigate this environment and build a stronger, more resilient company that can deliver consistent, profitable growth over time.

In closing, I'd like to express appreciation for the collective efforts of my global Clorox teammates who continue to live our values and deliver results for our customers and consumers the right way. Thank you for your ongoing hard work and commitment to our purpose of championing people to be well and thrive every single day.

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Kevin Jacobsen, CFO

Our third-quarter results came in ahead of our expectations on both the top and bottom line, enabling us to raise our sales and adjusted EPS outlook for the fiscal year. Our over-delivery was driven by stronger-than-anticipated consumption across the majority of our businesses and lower trade promotion spending. Our December pricing actions have gone largely as expected, with elasticities generally in-line with expectations to slightly favorable in select areas of our portfolio. We are also continuing to deliver strong cost savings. As a result, we're making progress rebuilding margin while maintaining top-line growth in a difficult macroeconomic environment.

Third-Quarter Fiscal Year 2023 Results

Third-quarter net sales grew 6%, reflecting 19 points of favorable price mix, partially offset by a 11-point decline in volume and 2 points of unfavorable foreign exchange impact. On an organic basis, sales grew 8%. Organic sales growth was primarily driven by strong consumption across the majority of our businesses, supported by the continued improvement we've been making in our case fill rates. Third-quarter sales also benefited from lower trade promotion spending in addition to higher sales in our Pine-Sol business due partly to a competitive out-of-stock. These two items combined drove about 2 points of sales growth.

Gross margin for the quarter was 41.8%, up 590 basis points versus the prior year. The year-over-year change in gross margin benefited from 750 basis points of pricing and 150 basis points of cost savings. This was partially offset by 230 basis points of higher commodity costs and 120 basis points of higher manufacturing and logistics costs.

Selling and administrative expenses as a percentage of net sales came in at 16.2% compared to 12.9% in the year-ago quarter. This included $28 million, or about 150 basis points, of strategic investments to enhance our digital capabilities and $7 million, or about 40 basis points, for charges related to our streamlined operating model.

Advertising as a percentage of net sales came in at about 10.8%, with investments in our U.S. retail business totaling about 12% of sales.

Our third-quarter effective tax rate was 14.7%, driven by the impact of the noncash impairment charge to our VMS business. Excluding this charge, our third-quarter adjusted tax rate was 23.8% compared to 23.9% in the year-ago quarter.

Net of all these factors, adjusted earnings per share for the third quarter came in at $1.51 versus $1.31 in the year-ago quarter, reflecting a 15% increase.

Net cash provided by operations fiscal year to date was $728 million versus $451 million in the year-ago period, an increase of 61%.

Fiscal Year 2023 Outlook

We're updating our full-year outlook to reflect our stronger-than-expected third-quarter performance, supported by the strength of our brands, and the resilience of our consumers and our categories.

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- We now expect reported net sales to be up 1% to 2%, continuing to reflect about 2 points of unfavorable impact from foreign exchange. Organic sales are now expected to be up 3% to 4%, supported by strong performance in the third quarter.

- We now expect gross margin to be up about 250 to 300 basis points this fiscal year and remain on track to deliver about 40% gross margin in the fourth quarter. Our updated gross margin outlook 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 in headwinds 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 now expect selling and administrative expenses to be about 16% of net sales, which includes about 1.5 points of impact related to our investments to enhance our digital capabilities.

- We continue to anticipate advertising spending to be about 10% of net sales, reflecting our ongoing commitment to continue investing in our brands to support category and share growth.

- We now expect our fiscal year tax rate on a reported basis to be about 37%, reflecting the impact from the noncash impairment of our VMS business. We expect our fiscal year tax rate on an adjusted basis to be about 24%.

- Net of these factors, we now expect fiscal year diluted EPS to be between $0.45 and $0.60, a decrease of 88% to 84%. Additionally, we now expect adjusted EPS to be between $4.35 and $4.50, an increase of 6% to 10%. Adjusted EPS excludes the noncash impairment charge of $2.92 related to the VMS business. It also excludes the impact of our investments in digital capabilities and productivity enhancements, which we now estimate to be about 63 cents, and the charge related to our streamlined operating model, which we now estimate to be approximately 35 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. We now expect savings of about $35 million this fiscal year, versus our previous estimate of about $25 million.

There are some considerations to keep in mind as it pertains to our outlook. We are reflecting strong consumption trends in the majority of our businesses to continue into the fourth quarter. This is supported partly by favorable elasticities that we're seeing in some businesses. However, consumer and competitive reactions are continuing to play out, particularly in our Kingsford business, where we're taking actions to address increased competitive activity and widened price gaps. We continue to believe elasticities will normalize over time, especially as consumers face increasing pressures.

Looking beyond this fiscal year, we expect continued volatility in the macro and consumer environment. Regardless of this environment, we remain committed to rebuilding margin while

maintaining topline growth. We will continue to actively invest in our brands and capabilities to build a stronger, more resilient company and return to more consistent, profitable growth over time.

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

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