Q4 Fiscal Year 2024 Prepared Management Remarks
August 1, 2024

Lisah Burhan, Vice President, Investor Relations
Linda Rendle, Chair and 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 fiscal year 2024 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 Chair and CEO Linda Rendle and Chief Financial Officer 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 Chair and 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 and the company's Form 10-Q for the first quarter of fiscal year 2024 also includes further discussion of forward-looking statements.

###

Linda Rendle, Chair and CEO

In fiscal year 2024 we continued to progress our IGNITE strategy to strengthen our competitive advantage, accelerate profitable growth and set up our company for long-term success – all while navigating a recovery after our August 2023 cyberattack.

Thanks to the execution by the team, we ended fiscal year 2024 in a position of operational strength as we fully restored supply and distribution and recovered the majority of the market share that we lost. We closed the year with flat organic sales despite the significant disruption caused by the cyberattack, which drove an 18% organic sales decline in the first quarter. This strong recovery reflects the superior value of our brands, supported by our consistent investments in both good and challenging times.

We know we have more work to do to win back consumers in certain categories – particularly in our Litter and Glad businesses in the U.S. These are two businesses that were supply challenged, and Litter is a category where we know it will take longer to win back our consumers given the nature of the category, the importance of subscriptions, and strong competitive activity. We have strong innovation and demand creation plans in place to win them back, and we feel good about our ability to rebuild household penetration over time.

Importantly, we continued to deliver on our commitment to rebuilding margin, adding another 360 basis points of gross margin expansion on top of the 360 basis points in fiscal year 2023. We are on track to return to our pre-pandemic gross margins in fiscal year 2025, supported by our new integrated, holistic margin management toolbox, which enhances our ability to fuel growth. Lastly, we achieved another year of double-digit adjusted EPS growth while investing strongly in our brands.

As we look ahead to fiscal year 2025, consumers will remain under pressure, which will continue to temporarily increase competitive activity and impact category growth. That said, we have a portfolio of strong brands in essential categories that have shown resilience during challenging times. We have and will continue to invest strongly behind our brands to maintain value superiority. We are confident that we have the right plans and investment level not only to win with consumers but also to deliver strong financial performance in fiscal year 2025, supported by a return to volume-driven sales growth, pre-pandemic gross margin, as well as free cash flows in line with our long-term goals.

Keeping our eyes on the long term, we executed relentlessly against our transformation plans:

- Today we announced that we have entered into a definitive agreement to sell our Better Health Vitamins, Minerals and Supplements (VMS) business and expect that transaction to close in the first quarter of fiscal year 2025. This, coupled with the prior divestiture of our Argentina business, reflects our commitment to continue evolving our portfolio to reduce volatility and accelerate sales growth, as well as structurally improve our margin, in service of driving more consistent and profitable growth over time.
- We successfully completed the implementation of our streamlined operating model, which enhances our ability to respond more quickly to changing consumer behaviors and innovate more quickly. Through this model, we expect to deliver ongoing cost savings of about $100 million annually.

- We successfully completed the first wave of our new Enterprise Resource Planning (ERP) system implementation in Canada to enable a more strategic and integrated environment across supply chain, finance and our business units, improving our agility, speed of innovation and ability to grow and operate more efficiently over the long term. The insight gained from this initial implementation sets us up well for our launch in the U.S. Our new ERP is a key part of our five-year program to invest in technologies and processes to accelerate digital transformation across the company, which we now expect to be in the range of $560-$580 million due to delays as a result of the cyberattack.

We also continued to make progress on our environmental, social and governance goals, which are integrated into our IGNITE strategy and throughout the business. We are advancing our recyclable, reusable or compostable packaging programs and creating a more equitable and inclusive workplace. We look forward to sharing more in our integrated Annual Report this October.

In closing, our IGNITE strategy continues to guide us well. We are taking the right steps to navigate the near term while continuing to transform Clorox into a stronger company poised to deliver more consistent, profitable growth and enhance long-term shareholder value.

I'd like to thank our Clorox teammates for their contributions and dedication to our business throughout the year, all while living our values each and every day. Together, we are building our business back even stronger in the year ahead as we deliver on our commitments to our company and our stakeholders.

###

Kevin Jacobsen, Executive Vice President and CFO

Fourth quarter sales came in below our expectations, while gross margin and adjusted earnings per share exceeded our expectations. The shortfall in sales was primarily in our Household segment, with continued competitive pressures delaying full recovery in our Litter and Glad businesses, as well as a weaker-than-expected grilling season driven mainly by unfavorable weather, which impacted our Kingsford business. As a reminder, the bulk of Kingsford's annual sales typically occur in the fourth quarter.

In our remaining reportable segments, market shares continued to improve, supported by fully restored distribution, strong innovation and increased merchandising support. These improvements also drove organic volume growth in our remaining three segments. On the margin front, we continued to make progress getting back to our pre-pandemic margin. Fourth quarter gross margin exceeded our expectations, supported by another quarter of strong cost savings and lower-than-expected input costs, as well as the impact of favorable business mix resulting from lower shipments in Litter and Glad and higher shipments in our Health and Wellness segment.

Fourth-Quarter Fiscal Year 2024 Results

Fourth-quarter net sales decreased 6%, driven by 4 points of volume decline and 2 points of unfavorable price mix. Organic sales declined 3%, reflecting about 1 point of organic volume decline and 2 points of unfavorable price mix, mainly from higher trade promotion spending.

Gross margin for the quarter was 46.5%, up 380 basis points versus the prior year, reflecting 190 basis points of lower manufacturing and logistics costs, 170 basis points of benefits from cost savings, and 60 basis points of lower commodity costs, more than offsetting the impact of increased trade spending.

Selling and administrative expenses as a percentage of net sales were 14.1% compared to 16.3% in the year-ago quarter. This included $23 million of expenses, or about 120 basis points, of strategic investments to enhance our digital capabilities, $8 million of expenses, or about 40 basis points on our streamlined operating model efforts, as well as $24 million of income, or about 130 basis points, from cyberattack insurance recoveries, net of incremental expenses.

Advertising as a percentage of net sales was 14%, with investments in our U.S. Retail business coming in at about 15% of sales.

The effective tax rate was 19.7%, benefiting from lower U.S. tax on foreign earnings and higher research credit benefits.

Net of all these factors, adjusted earnings per share for the fourth quarter was $1.82 cents versus $1.67 cents in the year-ago quarter, reflecting a 9% increase.

Fiscal year net cash provided by operations was $695 million compared to $1,158 million in the year-ago period, representing a 40% decrease. The decrease was primarily driven by higher tax payments related to amounts previously deferred under January 2023 IRS tax relief and higher working capital in the current fiscal year.

Fiscal Year 2025 Outlook

Our fiscal year 2025 outlook assumes we continue to operate in a volatile and challenging environment. In the back half of fiscal year 2024, we saw a slowing in our category growth rates, in line with our expectations and assume this environment will continue in fiscal year 2025. Our outlook also reflects the impact from our portfolio transformation efforts, including the divestitures of our Argentina and Better Health VMS businesses, as well as the benefits of the full implementation of our streamlined operating model.

With a portfolio of leading brands, fully restored distribution, robust innovation pipeline and strong merchandising support, we expect to deliver volume-driven sales growth with minimal volatility from foreign exchange rates. We are also expecting to fully rebuild gross margin and deliver a third year of strong adjusted EPS growth. This will enable us to deliver strong free cash flow in line with our long-term goal and support our commitment to return excess cash to shareholders.

- We expect net sales to be flat to down 2 percent, including about 2 points of negative impact from the divestiture of our business in Argentina and about 3 points of negative impact from the expected divestiture of our VMS business. Organic sales are expected to grow 3% to 5%, driven primarily by volume growth. From a phasing perspective, we expect the first quarter organic sales to be up between 20% to 25%, primarily driven by lapping the impact from the out-of-stocks caused by cyberattack disruption in the first quarter of fiscal year 2024. We also expect organic sales to decline low double digits in our second quarter as we lap strong shipments behind retail inventory restoration. Given the magnitude and complexity surrounding the decline in the year-ago period, the range of our expected sales growth is wider-than-normal to reflect the range of potential outcomes.
- We expect to fully restore gross margin, targeting about 100 basis points of improvement. We expect the benefit of our holistic margin management efforts to more than offset cost inflation as well as modest pressure from higher promotional spending as we lap an abnormally low level of merchandising support in the front half of fiscal year 2024, following the cyberattack. From a phasing perspective, we expect the first quarter gross margin to be up about 400 to 500 basis points, reflecting the benefit of operating leverage consistent with the magnitude of our volume-driven sales growth expectation. We also expect the second quarter gross margin to contract year over year, reflecting our expectations of low organic double-digit sales decline.
- We expect selling and administrative expenses to be between 15% to 16% of net sales. This includes about 150 basis points of impact related to our investments to enhance our digital capabilities.
- We expect advertising spending to be between 11% to 11.5% of net sales. This higher level of advertising as a percentage of net sales reflects both a continued effort to emphasize our value superiority in a more challenging consumer environment as well as a modest rate increase as a result of our divestitures.
- We expect our fiscal year effective tax rate to be about 28%. The higher rate is driven by our VMS divestiture. Excluding the impact of the VMS sale, we expect our fiscal year adjusted effective tax rate to be about 24%.
- Net of these factors, we anticipate our fiscal year diluted EPS outlook to be between $4.95 and $5.20, a year over year increase of 120% to 131%, respectively, reflecting the lapping of several one-time charges recorded in the year ago period. Adjusted EPS is expected to be between $6.55 and $6.80, a year over year increase of 6% to 10%, respectively. Adjusted EPS excludes the long-term strategic investments in digital capabilities and productivity enhancements, which we estimate to be about 60 cents; and a loss on sale related to the divestiture of our VMS business in Q1, which we estimate to be about $1.00.

Our IGNITE strategy has guided us well through the volatile and challenging environment in recent years. We have proven the ability to balance topline and margin priorities while continuing to make progress executing our strategy. We are confident that the actions we've taken will set us up well to deliver financial results in line with our long-term financial targets.

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

###