

07-Jan-2021

**WD-40 Co.** (WDFC)

Q1 2021 Earnings Call

## CORPORATE PARTICIPANTS

**Wendy Kelley**

*Director-Investor Relations and Corporate Communications, WD-40 Co.*

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

**Steven A. Brass**

*President & Chief Operating Officer, WD-40 Co.*

**Jay W. Rembolt**

*Vice President-Finance, Treasurer & Chief Financial Officer, WD-40 Co.*

---

## OTHER PARTICIPANTS

**Linda Bolton Weiser**

*Analyst, D.A. Davidson*

**Daniel Rizzo**

*Analyst, Jefferies LLC*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company First Quarter Fiscal Year 2021 Earnings Conference Call. Today's call is being recorded. At this time, all participants are in a listen-only mode. At the end of the prepared remarks, we will conduct a question-and-answer session. [Operator Instructions]

I would now like to turn the presentation over to the host for today's call, Ms. Wendy Kelley, Director of Investor Relations and Corporate Communications. Please proceed.

---

**Wendy Kelley**

*Director-Investor Relations and Corporate Communications, WD-40 Co.*

Thank you. Good afternoon, and thanks to everyone for joining us today. On our call today are WD-40 Company's Chairman and Chief Executive Officer, Garry Ridge; Vice President and Chief Financial Officer, Jay Rembolt; and President and Chief Operating Officer, Steve Brass.

In addition to the financial information presented on today's call, we encourage investors to review our earnings presentation, earnings press release, and Form 10-Q for the period ending November 30, 2020. These documents are available on our Investor Relations website at [investor.wd40company.com](http://investor.wd40company.com). A replay and transcript of today's call will also be made available at that location shortly after this call.

On today's call, we will discuss certain non-GAAP measures. The descriptions and reconciliations of these non-GAAP measures are available in our SEC filings as well as our earnings presentation. As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance. Of course, actual results could differ materially. The company's expectations, beliefs and projections are expressed in good faith, but there can be no assurance that they will be achieved or accomplished. Please refer to the risk factors detailed in our SEC filings for further discussion.

Finally, for anyone listening to a webcast replay or reviewing a written transcript of this call, please note that all information presented is current only as of today's date, January 7, 2021. The company disclaims any duty or obligation to update any forward-looking information whether as a result of new information, future events or otherwise.

With that, I'd now like to turn the call to Garry.

---

## Garry Owen Ridge

*Chairman & Chief Executive Officer, WD-40 Co.*

Thank you, Wendy. Good day, and thanks for joining us for today's conference call. Jay, Steve, Wendy and I are once again dialing in from our respective homes. It has truly been a challenging year for the world, and we hope that you and your families are staying safe and healthy. Our tribe continues to work through the many challenges associated with the ongoing COVID-19 pandemic. However, today, I'm happy to share some much-needed good news with you.

We market a variety of maintenance and cleaning products that have been in high demand during these extremely unusual times. This increased demand primarily came from our maintenance products, and was linked to renovation trends associated with the pandemic or what we call isolation renovation. As a result of the trend, today, we reported net sales of \$124.6 million for the first quarter of fiscal year 2021, up 26% compared to the first quarter of last year. This tremendous result is due to our tribe's hard work and dedication to delivering products to meet these increased consumer demands.

Thank you, tribesmates for working hard to ensure that customer orders can be fulfilled, production lines at our third-party manufacturers are functioning, and customers and end users can get the products they need. I know it hasn't been easy, but I'm grateful for each one of you.

And though I'm happy to share this much-needed good news, I do want to caution investors that due to the uncertainty that the pandemic continues to present, it's very difficult for us to estimate how the pandemic might continue to impact our business over the short to midterm. Steve will share some of the additional thoughts on the future with you in a few moments.

Today, I'm going to share a quick update on our strategic initiatives, and then I'm going to turn the call over to Steve to walk you through our sales results, and provide you with an overview of what we call our must-win battles. We've always had a very clear strategy with very clear growth aspirations. Our growth aspirations are to drive consolidated net sales to approximately \$700 million, and to do so while following our 55/30/25 business model. The pandemic has not altered our strategy or our growth aspirations. What the pandemic has required us to do is become more laser-focused on how we will achieve our goals.

Because of the uncertain global economic conditions ahead, the timing of our growth aspirations is still unclear. What is clear is our confidence in our tribe, and the must-win battles that are going to get us there.

Strategic initiative number 1 is to grow WD-40 Multi-Use Product. Our goal under this initiative is to make the blue and yellow can with the red top available to more people, in more places that will find more uses more often. We aspire to grow WD-40 Multi-Use Product to approximately \$530 million. In the first quarter, sales of WD-40 Multi-Use Product were \$94.2 million, up 24% compared to last year. This growth was primarily driven by increased demand linked to isolated renovation I referred to earlier.

The more time people spend isolated in their homes, the more time and money they spend making home improvements. Research suggest that they are both making these improvements themselves and by hiring tradesmen.

Strategic initiative number 2 is to grow the e WD-40 Specialist product line. Due to the brand architecture project we completed in fiscal year 2020, for the first time ever, WD-40 Specialist is fully leveraging our most iconic asset, the blue and yellow can with the little red top. We are optimistic about the long-term opportunities for WD-40 Specialist, and believe we can grow the product line to approximately \$100 million in revenue.

In the first quarter, sales of WD-40 Specialist were \$11.5 million, up 37% compared to the first quarter of last year. This growth was driven by strong e-commerce sales, as well as strong sales in all three trading blocks, driven by increased demand linked to renovation trends associated with the pandemic.

Strategic initiative number 3, broaden product and revenue base. Strategic initiative number 3 includes 3-IN-ONE, WD-40 BIKE, GT85, 1001, Spot Shot, Solvol, Lava, and no vac. We believe we are on track to reach a combined revenue for these products of approximately \$70 million. Global sales of the products included in this initiative were \$15.7 million in the first quarter, up 33% compared to last year.

Our homecare and cleaning products continue to benefit from increased demand as a result of the pandemic. Global sales of our homecare and cleaning products were \$10.2 million in the first quarter, up 15% compared to last year. Global sales of WD-40 BIKE were also particularly strong in the first quarter, up nearly 260%, compared to last year as people are buying, fixing, riding bicycles more often as a result of the pandemic.

Strategic initiative number 4, attract, develop and retain outstanding tribe members. Our goal under this initiative is to attract, develop and retain talented tribe members, and to grow tribe member engagement to greater than 95%. I have never been so proud of our tribe. One world, one company, one tribe has long been a mantra for WD-40 Company, but never has it been truer than it has been during this pandemic. The unprecedented global crisis has brought us many unexpected challenges. But we've weathered them together, we've learned together, we've collaborated in new ways, and perhaps even thrived in some unexpected ways.

Strategic initiative number 5, operation (sic) [operational] (00:09:39) excellence. Our goal under this initiative is best summarized by one of our core values here at WD-40 Company, make it better than it is today. I believe our commitment to operational excellence has been an enormous asset for us as we've navigated the challenges associated with the pandemic.

From a financial perspective, we've always been good stewards of our shareholders' capital resources, and conservative in our financial commitments. And that serves us well in times like these. From an operational perspective, our tribe has never been more focused or better equipped to execute and deliver despite the considerable hurdles they must overcome due to the impacts of the pandemic.

I will now pass the call to Steve, who will share an overview of our sales results with you, and discuss our must-win battles.

---

## Steven A. Brass

*President & Chief Operating Officer, WD-40 Co.*

Thanks, Garry, and good afternoon. The impact of the pandemic on our operations over these last 10 months has created an unprecedented amount of uncertainty around our business. When we last spoke, I shared with you that despite the many disruptions caused to our business by the pandemic, we were encouraged by what we

were seeing in September and early October in our direct markets, and we were beginning to see some recovery in our distributor markets.

Today, I'm happy to share with you that those trends continued throughout the duration of the first quarter, and today, we're reporting total global sales growth of over 26% for the quarter. It has been said that luck is what happens when preparation meets opportunity. While we remain saddened that the pandemic continues to impact so many lives around the globe, we're pleased that our products are creating more positive lasting memories than ever before.

Our first quarter results reflecting increased demand for our products due to a change in end user behavior caused by the isolation renovation phenomenon. However, they also reflect our tribe's ability to pivot quickly, and ride the changing waves, particularly as it relates to the e-commerce channel, where we experienced global sales growth of over 90% in the first quarter.

Now, let's take a closer look at what's happening in our trade blocks starting with the Americas. Net sales in the Americas, which includes the United States, Latin America and Canada were up 16% in the first quarter to \$54.2 million. Sales of maintenance products increased 16% in the Americas due to increased sales in the US, Latin America and Canada, which all experienced double-digit sales growth. In the Americas, we experienced a 14% increase in sales of WD-40 Multi-Use Product, and a 20% increase in WD-40 Specialist sales due to the isolation renovation phenomenon, and increased sales through the e-commerce channel during the pandemic.

The United States and Latin America also saw triple-digit growth of our WD-40 BIKE product line. Cycling has experienced a boom amid the pandemic with increased ridership, and the associated maintenance of bicycles throughout the region. In addition, we saw increased sales in Latin America during the first quarter due to strong sales in our newest direct market, Mexico. This contributed to a 42% increase in maintenance product sales in Latin America in the first quarter of this year compared to last year.

While we anticipate a continued successful build of our direct customer base in Mexico, we expect there may be a bit of volatility along the way as we continue to develop this exciting new direct market. As a reminder, our maintenance product sales exclude our homecare and cleaning products. Sales of our homecare and cleaning products in the Americas increased 13% in the first quarter compared to the prior year, largely due to higher sales of 2,000 flushes, which increased 42%. We experienced a significant increase in sales of many of our homecare and cleaning products in the United States and Canada due to increased demand as a result of the pandemic.

However, we continue to consider our homecare and cleaning products, except for those listed as strategic brands as harvest brands continue to generate meaningful contributions and cash flows, but are generally expected to become a smaller part of the business over time. In total, our Americas segment made up 44% of our global business in the first quarter. Over the long term, we anticipate sales within this segment will grow between 2% to 5% annually.

Now onto EMEA. Net sales in EMEA, which includes Europe, the Middle East, Africa, and India, were up 40% in the first quarter to \$54.7 million. Changes in foreign currency exchange rates had a favorable impact on sales for the EMEA segment from period to period. On a constant currency basis, sales would have increased by 33% compared to last year. Sales of maintenance products increased by 42% in EMEA due to increased sales in both our EMEA direct and our EMEA distributor markets, which increased 47% and 34%, respectively. In our EMEA direct market, we experienced a 42% increase in sales of WD-40 Multi-Use Product, and a 61% increase in sales of WD-40 Specialist due to the isolation renovation phenomenon, and increased sales through the e-commerce

channel during the pandemic. Our EMEA direct markets also saw a 265% increase in our WD-40 BIKE product line. In the first quarter, net sales in our EMEA direct markets accounted for 65% of the region's sales.

In our EMEA distributor markets, we experience a 34% increase in sales of WD-40 Multi-Use Product, and a 42% increase in WD-40 Specialist sales, primarily due to improved economic conditions as a result of reductions in COVID-19-related movement restrictions. We saw particularly strong sales of WD-40 Multi-Use Product in Northern, Eastern Europe and India, which were up 62%, 24%, and 120%, respectively; areas where we're experiencing strong recoveries.

In addition, the isolation renovation phenomenon led to increased demand and consumption of our products in some of our EMEA distributor markets. In the first quarter, net sales in our EMEA distributor markets accounted for 35% of the region's sales. In total, our EMEA segment made up 44% of our global business in the first quarter. It's interesting to note that sales in EMEA and the Americas both represented about 44% of our total global business this quarter. This demonstrates a significant future growth opportunity available to us in EMEA. Over the long term, we anticipate sales in this segment will grow between 8% to 11% annually.

Now onto Asia-Pacific. Net sales in Asia-Pacific, which includes Australia, China, and other countries in the Asia region, were up 24% in the first quarter to \$15.6 million. Changes in foreign currency exchange rates had a favorable impact on sales for the Asia-Pacific segment from period to period. On a constant currency basis, sales would have increased by 21% compared to last year. Sales of maintenance products increased by 22% in Asia-Pacific due to increased sales in China, Australia, and our Asia distributor markets, which all experienced double-digit sales growth.

In Australia, net sales were \$5.2 million in the first quarter, up 28% compared to last year, driven by increased demand for both our homecare and cleaning and maintenance products. Sales of our homecare and cleaning products were up 44% as a result of the COVID-19 pandemic. Furthermore, sales of WD-40 Multi-Use Product and WD-40 Specialist were also up 20% and 25% respectively due to the isolation renovation phenomenon.

China net sales were \$3.6 million in the first quarter, up 53% compared to last year, driven primarily by the timing of customer orders and increased sales through the e-commerce channel. In addition, sales in China, during the first quarter of fiscal year 2020, were negatively impacted by the 70th anniversary National Day in China, which resulted in slowed market conditions and lower sales, with no comparable event occurring this year.

We remain optimistic about the long-term opportunities in China; however, we expect volatility along the way due to the economic and health-related impacts of COVID-19, the timing of promotional programs, the building of distribution, shift in economic patterns and varying industrial activities.

In our Asia distributor markets, net sales were \$6.9 million in the first quarter, up 11% compared to last year, primarily attributable to the timing of customer orders in the region. COVID-19 lockdown measures were reduced considerably in many of the Asian markets during the first quarter of fiscal year 2021. These reduced lockdown measures have positively impacted economic conditions in the region, which resulted in our marketing distributors normalizing their inventory levels.

Although the health concerns associated with the pandemic lessened and the resulting movement restrictions were lifted in many Asian countries, some larger countries in the region continue to observe movement restrictions. In total, our Asia-Pacific segment made up 12% of our global business in the first quarter. Over the long term, we anticipate sales within this segment will grow between 10% to 13% annually.

Now, let's dig into our must-win battles. As Garry mentioned earlier, our must-win battles are the tactics or specific steps we are undertaking to deliver against our anticipated revenue targets. We have four global must-win battles. Must-win battle number one is geographic expansion. Our largest growth opportunity and first must-win battle is the geographic expansion of the blue and yellow can with a little red top.

We estimate the potential global growth opportunity for WD-40 Multi-Use Product to be approximately \$1 billion. We are laser-focused on delivering long-term growth in our top 20 growth markets around the world.

China remains our largest growth opportunity, which is why we elected to open a direct operation there in 2006. In addition, China is the world's largest e-commerce market and our digital strategy in the country is a significant area of opportunity.

India also represents a substantial long-term growth opportunity for us. Three years ago, we initiated our step-up program in partnership with our India [ph] MD (00:20:13), and this has already delivered impressive results. In Latin America, we transitioned Mexico from a distributor market to a direct operation in May of 2020. And we're set for very strong growth in Mexico over the coming years.

Our second must-win battle is premiumization of WD-40 Multi-Use Product. Our Smart Straw delivery system has been our most successful innovation and is loved by end users across the world. Premiumization creates opportunities for revenue growth, as well as for gross margin expansion. As we continue to roll out Smart Straw Next Generation, which will increase capacity and reduce costs, our objective is to grow Smart Straw penetration to greater than 60%.

Our third must-win battle is to grow WD-40 Specialist. Garry mentioned earlier, we debuted our refresh brand architecture to WD-40 Specialist in fiscal year 2020. Now, for the first time ever, WD-40 Specialist is fully leveraging our most iconic asset, the blue and yellow can with a little red top. WD-40 Specialist range of products aims to provide maintenance professional and DIYs alike, over 20 unique formulas to complement our iconic Multi-Use Product. This makes the WD-40 brand even more relevant to more people in more places who will use more of it. We believe this refresh packaging will accelerate awareness and improve findability in store and online.

Our final must-win battle is digital commerce. We set our global digital ambition two-and-a-half years ago. Our ambition is to engage with end users at scale and become the global category leader in our category within the digital commerce platform.

Since 2020 was the year that a global health crisis would transform the way people shop, a heightened focus on digital and e-commerce has never been so important. With e-commerce set to deliver over half of global retail growth by 2025 and digital interactions playing an increasingly important role in purchase journeys, we believe we're well-positioned to benefit from the significant shift to online behaviors in the years ahead. We certainly see digital and e-commerce as a strong accelerator of our future growth.

In closing, I want to share a few thoughts with you about the future. Over the long-term, we're optimistic that many of the new end users who have interacted with our products during the pandemic will become permanent users of our maintenance and homecare solutions. However, the short term to midterm is much more difficult to see clearly.

Due to the uncertainty that the pandemic continues to present, it's very difficult for us to estimate how the pandemic might continue to impact our business. Many regions continue to experience increased COVID-19 case counts, resulting in temporary closures and lockdowns, which could negatively impact our sales in the short term.

In addition, if there is a shift in spending patterns or a global economic downturn in the wake of the pandemic, it could adversely impact our financial results.

Finally, keeping up with demand in a COVID environment is a challenge. We're actively monitoring supply chain and transportation capacity constraints, which have arisen as a result of the pandemic. We are managing through these issues but there are market constraints impacting all consumer packaged goods companies that are not allowing us to meet some of our normal levels of service with our customers.

Despite these uncertainties and risks, we remain cautiously optimistic about fiscal year 2021 and believe current market conditions suggest that for the full fiscal year, total net sales are likely to be in a range of between \$435 million to \$470 million.

Now, I'll turn the call over to Jay, who'll provide you a financial update on the business.

---

## Jay W. Rembolt

*Vice President-Finance, Treasurer & Chief Financial Officer, WD-40 Co.*

Thanks, Steve. Let's start with the discussion about our 55/30/25 business model, the long-term targets we use to guide our business. As you may recall, the 55 represents gross margin, which we target to be at 55% of net sales. The 30 represents our cost of doing business, which is our total operating expenses, excluding depreciation and amortization. Our goal is to drive our cost of doing business over time toward 30% of net sales. And finally the 25 represents our long-term target for EBITDA.

First, we'll look at the 55 for our gross margin. In the first quarter, our gross margin was 56.4% compared to 54.3% last year. This represents an improvement of 210 basis points year-over-year. Changes in major input costs, which include petroleum-based specialty chemicals and aerosol cans, positively impacted our gross margin by 340 basis points. Petroleum-based specialty chemicals had a positive impact on gross margin of 260 basis points, and the remaining 80 basis points came from lower costs associated with the aerosol cans.

Beginning in late February 2020, crude oil reached multi-year lows and has consistently remained lower year-over-year since that time. Therefore, the average cost of crude oil, which flowed through our cost of goods sold in the first quarter was significantly lower than in the prior year, benefiting our gross margin. In addition, we achieved favorability in cost of aerosol cans due to higher than anticipated purchase volumes especially in our EMEA segment.

Also impacting, on a positive way, our gross margin were sales price increases, primarily in EMEA and Asia Pacific, which impacted gross margin by 40 basis points in the first quarter. These positive impacts to gross margin were partially offset by the negative impacts of higher warehousing and inbound freight costs in both the Americas and EMEA, which negatively impacted gross margin by 120 basis points. The unfavorable impacts were primarily due to increased freight and warehousing expense due to the high demand, labor shortages in distribution networks related to the pandemic.

Finally, miscellaneous costs, unfavorable sales mix changes and other changes in foreign currency exchange rates when combined negatively impacted our gross margin by 50 basis points. Though we cannot control market dynamics like foreign currency exchange rates or commodity-based input costs, we continue to be focused and deliberate in managing the rest of our business so that we can maintain gross margin at or above our target of 55% over the long term.



Now, I'll address the 30 or our cost of doing business. In the first quarter, our cost of doing business was approximately 32% of net sales compared to 38% last year. Although SG&A expense increased by \$3.4 million compared to the first quarter last year, our cost of doing business as a percentage of sales decreased year-over-year due to the significant increase in revenue in the first quarter. The increase in SG&A expense in the first quarter was primarily due to the higher employee-related costs.

For the first quarter, 80% of our cost of doing business came from three areas: people costs; investments we make in our tribe; the investments we make in marketing, advertising and promotion. As a percentage of sales, our A&P investment was 4.4% in the first quarter. As a percentage of sales, A&P investment declined in the first quarter due to the significant increase in revenue. However, our A&P investment was relatively flat in dollars compared to the prior year.

And finally the freight costs to get our products to our customers. And this leads us to EBITDA, the last of our 55/30/25 measures. EBITDA was 24% of net sales for the first quarter, up from the 17% last year. I've shared with you many times that revenue growth is the most important factor in achieving our goal of the 55/30/25 measures, that being EBITDA of 25%. And this quarter clearly demonstrates just how impactful revenue is within our business model.

That will complete the discussion of the business model. And then now, we'll turn to the other items that fall below the EBITDA line. The provision for income taxes was 15.7% in the first quarter compared to 14.7% last year. We expect that our effective tax rate will be approximately 20% to 21% for the full fiscal year 2021, which compares to an effective tax rate of 19.6% in fiscal year 2020.

Due to the strong revenue growth and improved gross margin, we reported net income for the first quarter was \$23.6 million compared to the \$12.2 million last year. Diluted earnings per common share for the first quarter were \$1.72 compared to the \$0.88 for the same period last year.

Now, a word about our balance sheet and our capital allocation strategy. The company's financial condition and liquidity remain strong. When the pandemic began, we took numerous steps to further strengthen our balance sheet. In order to preserve cash while we monitor the impacts of the pandemic, we elected to suspend the stock repurchases we were making under our previously approved stock buyback plan, which expired at the end of August 2020. We do not expect to seek board approval for a new share buyback plan until we start to see a reduced level of uncertainty regarding the pandemic. As a result, no repurchases were made during the first quarter of the fiscal year 2021.

We will continue to remain vigilant in managing our cash and liquidity during these unprecedented times. However, we continue to return capital to shareholders through regular dividends. On December 7, our board of directors approved our regular quarterly cash dividend of \$0.67 per share, payable January 29 to shareholders of record on the close of business on January 15. Our capital allocation strategy includes a comprehensive approach to balance investing in long-term growth while providing strong returns to our shareholders.

In fiscal year 2021, we will invest approximately \$20 million in capital projects, the majority of which will be used to complete the procurement of the proprietary machinery and equipment that we're using to manufacture our next generation Smart Straw delivery system.

We have historically had an asset-light business model, which has required very low levels of capital investment, roughly between 1% and 2% of sales. We believe that beginning in fiscal 2022, we'll begin to see CapEx return to these levels.

The pandemic continues to inject a measure of uncertainty into our business, which makes it very difficult for us to accurately forecast short-term financial results for the company. As a result, we will not be issuing comprehensive financial guidance for fiscal year 2021 at this time.

Well, that will complete our discussion of the financial overview. Now, I'll turn it back to Garry.

---

## Garry Owen Ridge

*Chairman & Chief Executive Officer, WD-40 Co.*

Thank you, Jay. In summary, what did you hear from us on this call? You heard that sales of WD-40 Multi-Use Product were up 24% in the first quarter. You heard that sales of WD-40 Specialist were up 37% in the first quarter. You heard that sales of WD-40 BIKE were up nearly 260% in the first quarter due to strong demand around the world.

You heard that sales of homecare and cleaning products were up 15% in the first quarter, driven by strong demand for cleaning products due to the pandemic. You heard that global e-commerce sales grew by over 90% in the first quarter, with strong sales growth across all three trading blocks.

You heard that we continue to return capital to investors through regular dividends. You heard that due to the uncertainties and risks the pandemic continues to present, it is very difficult for us to estimate how the pandemic might continue to impact our business over the short to midterm.

You heard that despite these uncertainties, we remain cautiously optimistic about fiscal year 2021 and believe our current market conditions suggest that for the full fiscal year, total net sales are likely to be in a range of \$435 million to \$470 million. And you heard that while we are not issuing comprehensive guidance, we remain confident that our revenue growth aspirations remain a realistic future opportunity.

In closing today, I'd like to share with you a quote from my friend Simon Sinek. It is important to celebrate our victories, but we cannot linger on them, for the infinite game is still going and there is still much work to be done.

Thank you for joining us today. We would be pleased to take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] And your first question comes from the line of Linda Bolton Weiser from D.A. Davidson.

**Linda Bolton Weiser**

*Analyst, D.A. Davidson*

Q

Hello. Happy New Year, and congratulations on a great quarter.

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

Thank you, Linda.

**Linda Bolton Weiser**

*Analyst, D.A. Davidson*

Q

So, I guess, first of all, thank you for giving the guidance for revenue for the fiscal year. And I'm just curious what holds you back from giving earnings guidance. Is it the movements in your petroleum-based input costs because there has been a recent rise in oil, or is it more of the supply chain constraints? What element of the earnings profile is it that you're a little uncertain about?

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

Linda, it's truly – most of it is aligned with the revenue. We don't – we believe our gross margin will be within our range, as a historic range for the year. But also, the uncertainty around the extra or the implied costs that may come in because of certain changes in distribution due to the pandemic are things that we can't rely on.

So, we think we've got a good idea of the revenue, but we are not comfortable issuing a comprehensive EPS, [ph] down to (00:36:42) EPS guidance at this time. And I'm sure you understand that and we're not on our own here.

**Linda Bolton Weiser**

*Analyst, D.A. Davidson*

Q

Okay. Also, can you talk about your A&P spending? I mean you've noted that the high revenue growth kind of made the ratio lower, but I'm also wondering how much you're spending behind your brands, given that maybe in some cases you're chasing demand a little bit. Is that an environment where you would actually want to pull back a little bit on brand spending because you're kind of chasing demand and don't need to spend as much? Could you comment on that?

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

Oh, no, not at all. We've continued to invest in our marketing activities. The one area that we've been not pulled back on that, have been forced to reduce is areas of our marketing tool box that require physical impact, for example, sampling – our sampling programs, which are highly people intensive. But we are continuing to use this opportunity to further strengthen our brands. And as you know, in some markets, we've got a lot of awareness

opportunities. So, no, we won't be – we have no intention of pulling back on our fundamental brand building marketing activities.

**Linda Bolton Weiser**

*Analyst, D.A. Davidson*

Q

And also, can you give us some of your thoughts on – I know this is a long time from now, but a year from now, when you're facing these strong comparisons due to the pandemic, what are your thoughts on being able to grow your revenue against such strong comparisons a year from now?

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

Well, our long-term aspiration hasn't changed. We – and as Steve has shared and I've shared over many years, we believe that there's still a long growth path for us in many countries around the world. As Steve mentioned in his comments, we'll see how many of the new users that have come into our brand that we've identified actually stick. And historically, we would believe that will be a very, very high number. So, I wish I could give you – I wish I had a crystal ball to give you that answer. But the game isn't over, we're playing the infinite game.

And we – other areas too, Linda, like Specialist, our business in Specialist, particularly in e-commerce is very, very exciting. So, these are all new [ph] uses (00:39:33) we're bringing in with new products in Specialist, new delivery systems. So, we're hopeful that that will help us continue some momentum, but we'll see. A lot depends on how soon we're set free as a human race again. But we believe that during the pandemic, we've actually strengthened our position with our end user base and we've strengthened our brand position globally.

**Linda Bolton Weiser**

*Analyst, D.A. Davidson*

Q

Okay. Thank you. That's it for me.

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

Thanks, Linda. All the best. Stay safe and well.

**Linda Bolton Weiser**

*Analyst, D.A. Davidson*

Q

Thank you.

**Operator:** And your next question comes from the line of Daniel Rizzo from Jefferies. Please go ahead.

**Daniel Rizzo**

*Analyst, Jefferies LLC*

Q

Good afternoon, everyone. How's everyone doing?

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

Hey, Daniel. Good to hear you.

**Daniel Rizzo**

*Analyst, Jefferies LLC*

Q

Good to hear, good to talk. So, just looking at – Europe was much, much stronger than I think anybody anticipated. And while I realize that a lot of that was from the remodeling trends you mentioned, I was just wondering was there something particular in that particular region that led to that strong growth. And also the margins seem much better than I think they've historically been, and I was wondering what was driving that as well.

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

I'll ask Steve to comment on the on the revenue side. He's very close to the European business.

**Steven A. Brass**

*President & Chief Operating Officer, WD-40 Co.*

A

Thank you, Garry, and hi, Dan. Yes, I mean really – it's really for Europe, there was some rebound in terms of the marketing distributors. I mean, these are really kind of global trends that we've seen. And our marketing distributors are rebounding strongly from kind of lockdowns and limited activity during the pandemic. That's the first thing.

And the rest of it's really – it's the same drivers, our must-win battles just been translated to Europe, and great growth on our Smart Straw premiumization strategy across Europe. WD-40 Specialist growing very, very nicely. Some of our markets rebounding strongly, India, Russia, and some of the challenged markets we had in 2020 rebounded very, very strongly. WD-40 BIKE has done very, very across – well, across the world, but very strong growth across Europe as well. So, they're really the same kind of drivers that have driven our global results in terms of those must-win battles, and great execution from our EMEA team.

**Daniel Rizzo**

*Analyst, Jefferies LLC*

Q

And the margins?

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

You're calling on gross margin or just...

**Daniel Rizzo**

*Analyst, Jefferies LLC*

Q

Oh, I was actually looking at the – I was looking at the EBIT margins actually, which were I think upwards of 32%.

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

It's really drive to revenue. We've often said that, as Jay mentioned, that we've got a business model that we built for the future. And as we start to build revenue, we get the benefit of the leverage of the revenue. So, if you think about our future goal of 55/30/25, we're actually at 56/32/24, which does prove that the model that we built for the future is a model that's realistic. And that was something that was a very – something that we – experiencing that in the quarter was something that we were very pleased to see.

**Daniel Rizzo**

*Analyst, Jefferies LLC*

Q

Okay. And then, I know that there was some tailwind from lower oil prices or lower petroleum costs that kind of flow through – well, the costs were lower, but the pricing was lower less than in the – earlier in the year, now you're kind of feeling it. I was wondering if that's kind of peaked and should probably ease over the next two to three quarters.

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

Jay can speak to that.

**Jay W. Rembolt**

*Vice President-Finance, Treasurer & Chief Financial Officer, WD-40 Co.*

A

Yeah. We've seen – as oil has crept up recently, we've seen or we will see 90 to 120 days and beyond a little bit higher or a little more headwind to margin from where it is today.

**Daniel Rizzo**

*Analyst, Jefferies LLC*

Q

Okay. All right. That's helpful. And then, I guess finally, just in terms of timing, I mean in the past historically, has the Chinese New Year ever had an effect on sales or does it historically have an effect on – should we expect a seasonal slowdown here in the first quarter at least in Asia?

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

Well, it depends when it falls. Last year, obviously, it fell right in the beginning of the COVID time. So, we see that – we always get an upswing after Chinese New Year. But we believe that would be no different to previous years. And as you know, Chinese New Year does fall at different times during the year – during that first part of the year.

**Daniel Rizzo**

*Analyst, Jefferies LLC*

Q

Okay. And then, finally, I think I saw in the deck and you mentioned that the cost of doing business went down previously in the quarter. I was wondering if that's – again that's just executing better or there's something that you're doing differently to reduce those costs.

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

It's revenue.

**Daniel Rizzo**

*Analyst, Jefferies LLC*

Q

It's revenue.

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

As a percentage – cost of business as a percentage went down. In real dollars, our cost of business went up. But as a percentage of revenue, it went down, and it was because of the higher revenue.

**Daniel Rizzo**

*Analyst, Jefferies LLC*

Q

All right. All right. Thank you very much.

**Garry Owen Ridge**

*Chairman & Chief Executive Officer, WD-40 Co.*

A

Okay. Thanks, Daniel.

**Operator:** Ladies and gentlemen, that does conclude our allotted time for questions. We thank you for your participation on today's conference call, and ask that you please disconnect your line.

**Disclaimer**

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.