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Earnings Call

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Call Participants

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company Fourth Quarter and Full Fiscal Year 2024 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

I would now like to turn the presentation over to the host for today's call, Wendy Kelley, Vice President, Stakeholder and Investor Engagement. Please proceed.

Wendy D. Kelley
Director of Investor Relations & Corporate Communications

Good afternoon, and thanks to everyone for joining us today. On our call today are WD-40 Company's President and Chief Executive Officer, Steve Brass; and Vice President and Chief Financial Officer, Sara Hyzer.

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-K for the period ending August 31, 2024. These documents will be made available on our Investor Relations website at investor.wd40company.com. A replay and transcript of today's call will also be made available 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 the earnings documents posted on our Investor Relations website. As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance. 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, October 17, 2024. The company disclaims any duty or obligation to update any forward-looking information as a result of new information, future events or otherwise.

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

Steven A. Brass
CEO, President & Director

Thank you, Wendy, and thanks to all of you for joining us this afternoon. Fiscal year '24 has been a year of exceptional strength, resilience and strategic progress. We've navigated challenges, capitalize on opportunities and continue to build on the strong foundation that has made WD-40 Company a success for over 7 decades.

Today, I'll provide you an overview of our sales results for the full fiscal quarter of 2024 and the progress we've made against our Four-by-Four Strategic Framework. After that, Sara will provide you a brief update on the divestiture of our home care and cleaning business and update on our business model and outlook for fiscal year 2025. We will then take your questions.

I'm pleased to announce that our fourth quarter was our second consecutive record-breaking sales quarter. Today, we reported fourth quarter net sales of $156 million, representing an increase of over 11% and sales and maintenance products experiencing double-digit growth during both the fourth quarter and the full fiscal year.

By the close of fiscal year '24, sales of our signature product, WD-40 Multi-Use Product, reached $453 million, an 11% increase over prior year and a new annual record for our core brand. In addition, I'm very happy to report that gross margin continues to improve and is moving closer to our target of 55%.

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In the fourth quarter, we reported gross margin of 54.1%, which is an improvement of 100 basis points sequentially from the third quarter and 270 basis points compared to the fourth quarter of last fiscal year.

Now let me discuss fourth quarter sales results by segment. Unless otherwise noted, I will discuss sales on a reported basis compared to the fourth quarter of last fiscal year. This quarter, sales in the Americas, which includes the United States, Latin America and Canada, grew approximately 6% over the prior year to $79 million. The bulk of this growth was driven by higher sales volumes of WD-40 Multi-Use Product, which increased 7% compared to the prior year. Much of this growth came from strong sales in Latin America, which increased by 63% over the prior period. These increased sales were partially offset by lower sales in the United States and Canada.

Our Latin America market is comprised of our direct markets in Mexico and Brazil and all remaining Latin American countries, most of which are served by our marketing distributor partners in the region. Sales of WD-40 Multi-Use Product in Latin America was favorably impacted by our transition to a direct market model in Brazil. In the third quarter of fiscal year '24, we acquired our Brazilian distributor and shifted from an indirect distribution model to one where we sell directly to retail customers. This distribution model shift favorably impacted net sales in Brazil by nearly $7 million for the full fiscal year.

We also continue to experience positive momentum in our direct market in Mexico from the shift we made in 2020 from a distributor model. Sales in Mexico and other Latin American markets increased 24% and 9%, respectively, due to the timing of customer orders, successful brand building programs, increased distribution and expanded availability of WD-40 Smart Straw.

As I shared with you last quarter, our plan for fiscal year '24 in the Americas was always driven primarily by strong Latin American growth, and that has played out. In the United States, sales of WD-40 Multi-Use product decreased by 4% compared to the prior period. The United States experienced solid point-of-sale demand in the fourth quarter. However, compared to the same period last year, sales were down. We are comparing against an exceptionally strong performance in the fourth quarter of last year, when we saw double-digit increases in both volume and sales in the United States.

In Canada, sales of WD-40 Multi-Use Product decreased 3% compared to the prior period. Sales in Canada were negatively impacted period-over-period due to phasing associated with the discontinuation of our classic can delivery system and the implementation and conversion of Smart Straw Next Generation in Canada. The good news is that we're seeing positive trends at distribution points where we have fully converted our customers to Smart Straw Next Generation and expect this conversion to drive significant long-term gains as we fully leverage our premium formats.

In the Americas, sales of WD-40 Specialist increased across most regions and were up 6% compared to the prior year period, primarily due to strong sales in Canada and Latin America. In total, our maintenance products increased 7% in the Americas this quarter. The growth in maintenance products was partly offset by a decline of 12% in home care and cleaning product brands.

For the full fiscal year, maintenance product sales in the Americas totaled $267 million, reflecting a 7% increase compared to the prior year. This growth aligns with our long-term target for the region, which projects annual growth between 5% and 8%. In total, our Americas segment made up 51% of our global business in the fourth quarter.

Now turning to our sales in EIMEA. This quarter, sales in the EIMEA, which includes Europe, India, the Middle East and Africa grew approximately 16% over the prior period to $59 million. Currency fluctuations had a minimal impact on our sales in EIMEA and on a constant currency basis, sales would have increased 15%. The strong growth in EIMEA was driven by higher volume sales of WD-40 Multi-Use Product, which increased 16% compared to the prior period. This growth is primarily attributable to increased sales in our EIMEA distributor markets, which are up 41% compared to the prior year. This quarter, we saw double-digit growth in many of our EIMEA distributor markets with particularly strong growth in Northern Europe and India, which increased 52% and 206%, respectively.

In our EIMEA direct markets, sales of WD-40 Multi-Use Product were also very strong in many markets, primarily due to improved volume as many of our customers have adjusted to the impact of price

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increases implemented last fiscal year. Sales increased 5% compared to the prior period, most significantly in France and the DACH region, where they were up 18% and 12%, respectively. The DACH region comprises Germany, Austria and Switzerland.

Sales of WD-40 Specialist increased across most regions of EIMEA and were up 13% compared to the prior period due to the combined impact of higher sales volume due to increased distribution and stronger levels of demand after customers adjusted to price increases. In total, our maintenance products increased 15% in EIMEA in the fourth fiscal quarter. In addition, sales of home care and cleaning product brands sold in the U.K. increased 25% in the fourth quarter.

For the full fiscal year, maintenance product sales in EIMEA totaled $212 million, reflecting a 17% increase compared to the prior year. This growth surpasses our long-term growth target for the region which projects annual growth between 8% and 11%. In total, our EIMEA segment made up 37% of our global business in the fourth quarter.

Now turning to Asia Pacific. Sales in Asia Pacific, which includes Australia, China and other countries in the Asia region, were approximately 21% over the prior year to $18 million. The growth was driven primarily by higher sales of WD-40 Multi-Use Product, which were up 26% compared to the prior period. This growth was driven in large part by higher sales and maintenance products in our Asia-Pacific distributor markets which are up 51% compared to the prior period due to successful brand building programs in certain regions and the timing of customer orders.

In China, sales of maintenance products were up 10% compared to the prior period, due to successful brand building programs and the timing of customer orders. China continues to see strong growth in both the WD-40 Multi-Use Product and WD-40 Specialist with full fiscal year sales and maintenance products up 14% compared to the prior year.

In Australia, sales were flat compared to the prior period. Sales of no vac carpet cleaning product decreased 6% compared to the prior period due to the timing of promotional activities. However, this sales decline was almost entirely offset by higher sales of WD-40 Specialist, which increased 15% compared to the prior period, primarily due to successful brand building and promotional programs.

For the full fiscal year, maintenance product sales in Asia Pacific totaled $79 million, reflecting a 10% increase compared to the prior year. This growth in line with our long-term growth target for the region, which projects annual growth between 10% and 13%. In total, our Asia Pacific segment went up 12% of our global business in the fourth quarter.

Now let me discuss the progress we've made against our Four-by-Four Strategic Framework, which, as you will recall, is comprised of our 4 Must-Win Battles and our 4 strategic enablers. Our Must-Win Battles focus on what we do to increase sales and profitability. We look at these as long-term growth drivers, and therefore, we will focus our discussion on the full fiscal year results of those battles.

Starting with Must-Win Battle number one, lead geographic expansion. Global sales of WD-40 Multi-Use Product in fiscal year '24 were $453 million, representing growth of 11% over prior year. We experienced strong sales of our signature Multi-Use Product brand in all 3 trade blocks with 18% growth in EIMEA, 7% growth in the Americas and 9% growth in Asia Pacific.

People often ask Sara and I what we believe investors misunderstand about WD-40 Company as an investment. I tell them that investors sometimes overlook the significant global expansion opportunities still available even after 71 years for the blue and yellow can with the little red top. We've made excellent progress this fiscal year in many key markets with strong sales growth of 40% in Latin America, 13% in our Asia distributor markets, 25% in France and 21% in India. But what I want to emphasize today is that we have so much further to go.

As I look around the world, all I see is opportunity. We estimate the global benchmark sales opportunity for WD-40 Multi-Use Product to be approximately $1.6 billion. We calculate that benchmark sales opportunity by using macroeconomic data from World Bank market data and combining that data with an internally developed algorithm. We've used these data sources combined with our algorithm for close to 30 years and have proven to be remarkably accurate. The data show that after 71 years, we've achieved only

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approximately 28% of the benchmark sales opportunity for WD-40 Multi-Use Product. Therefore, there remains approximately $1.2 billion of land and expand growth opportunity across the globe. Our strategy remains simple, yet effective to reach this goal to make our product available to buy in more places and put more cans in the hands of our target end users around the world.

The success of our geographic expansion strategy is perhaps best exemplified by our progress in Brazil. Following our acquisition of our Brazilian distributor, we achieved sales growth of nearly $7 million in the first 6 months of direct operations, exceeding our initial expectations. This success, coupled with our experience in growing markets all around the world, gives us confidence in our ability to unlock further game-changing opportunities in emerging markets and move the needle ever closer to the significant growth opportunity in front of us.

Next is Must-Win Battle number two, accelerating premiumization. Global sales of WD-40 Smart Straw and EZ Reach in fiscal year 2024 when combined, grew 11% or approximately $20 million over the prior year. Our premiumization strategy was developed with our end users in mind, our premiumized products delight our end users and lead them with positive lasting memories. In addition, premiumization continues to be a major contributor to our revenue growth and gross margin expansion.

Over the last 5 years, we've achieved a compound annual growth rate for net sales of premium products of 10.7%. On a go-forward basis, we'll be targeting a compound annual growth rate for net sales of premium product formats of greater than 10%.

Our third Must-Win Battle is to drive WD-40 Specialist growth. Global sales of WD-40 Specialist products in fiscal year '24 were nearly $74 million, up 11% or $7 million over the prior year. Through our WD-40 Specialist product line, we aspire to achieve category leadership and increase our market share by leveraging our core brand equity. Once again, we saw growth at WD-40 Specialist products across all 3 trade blocks with growth of 6% in the Americas, 14% in EIMEA and 17% in Asia Pacific. In China, we continue to experience spectacular growth of WD-40 Specialist. Our sales grew over $1.4 million or 45% due to expanded distribution, new WD-40 Specialist product introduction to the region as well as successful brand building programs.

We estimate the benchmark sales opportunity for WD-40 Specialist globally to be approximately $605 million. And to date, we've achieved only 12% of our benchmark growth opportunity. Over the last 5 years, we've achieved a compound annual growth rate for net sales of WD-40 Specialist of 14%. On a go-forward basis, we will be targeting a compound annual growth rate for net sales of WD-40 Specialist at greater than 15%.

Our fourth and final Must-Win Battle is to accelerate digital commerce. Global sales within the pure-play e-commerce channel in fiscal year '24 were up 12% compared to the prior year. The strategy associated with this battle is not just about driving online sales. It's about accelerating all our other Must-Win Battles. Digital commerce intersects with all our Must-Win Battles much like the central overlap in Venn diagram. As part of our digital commerce strategy in 2024, we continued our global online marketing campaign, the repair challenge. We are now in the third year of this promotional effort, which motivates millions of doers, makers, fixers and builders across more than 40 countries to extend the lifespan of their tools and equipment.

In FY '24, our Repair Challenge websites attracted over 2 million visitors with more than 10,000 projects submitted. These projects aim to prolong the life of tools, worn down equipment, bicycles, cars and just about anything else, helping to keep them in circulation longer.

Turning to the second element of our Four-By-Four Strategic Framework or Strategic Enablers. Our Strategic Enablers focus on operational excellence and they collectively underpin and drive the success of our Must-Win Battles. Strategic enabler number one, ensuring a people-first mindset. At WD-40 Company, our most powerful competitive advantage is a commitment of our 644 employees spread across 16 countries to our purpose, values and strategy.

We strive to be an employer of choice where all employees can bring their best selves to work. Our people-first mindset is intended to create programs that inspire, motivate and reward employees for

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contribution that are aligned with our Four-by-Four Strategic Framework, while maintaining a strong focus on growth and profitability. I'm very proud of our 93% employee engagement rate in FY '24, a testament to our strong culture and the opportunities we provide for our people to learn, grow and succeed.

This year, we made significant strides and beginning to transform WD-40 Company into a world-class global learning organization. To gain insights into our progress, we conducted a voluntary learning survey, which received an impressive 82% response rate. The results show that 90% of our employees believe that continuous learning is key to driving the company's success among other valuable findings.

This brings us to strategic enabler number two, build a sustainable business for the future. We define sustainability as the ability of a business to exist indefinitely. We are committed to operating our business in a manner that will have positive environmental and societal impacts, which will create value for all our stakeholders. Over the last 12 to 18 months, we've taken significant steps to embed sustainability into our business strategy, steps we believe will provide us with a competitive advantage in the global marketplace.

Our efforts have been considerable. Some of the highlights include adding 3 dedicated ESG positions, completing an environmental assessment of our Tier 1 suppliers implementing a carbon accounting system, refining our sustainability lens of future innovation and developing a science-based environmental impact road map with a priority to reduce GHG emissions. We will be publishing our 2024 ESG Report next month. In this report, we detailed our ESG-related objectives, targets and progress made during the last 2-year period, and we established objectives and targets for the future.

Strategic enabler number three is achieving operational excellence in supply chain. Through this strategic enabler, we continue to pursue operational excellence. This year, we adopted a truly global approach to our supply chain strategy for the first time recognizing its pivotal role in driving economic value and advancing sustainability. We've undertaken several key initiatives that support this approach. In-depth analysis revealed significant opportunities for cost reduction and efficiency gains. By strengthening global partnerships with key suppliers, we've driven efficiency as it translates into cost savings.

Additionally, we completed an environmental audit of our top suppliers and published an updated supplier code of conduct. In fiscal year 2025, we'll publish a new responsible sourcing policy to more clearly communicate how the supply chain can positively impact environmental and social responsibility. Notably, we reduced our inventory by approximately $7 million and maintained an average on-time and full delivery rate of 95% for fiscal year 2024. Our employees achieved all of this while simultaneously rolling out the first phase of our new ERP implementation across a substantial portion of our business.

And finally, strategic enabler number four is to drive productivity via enhanced systems. We've been laser-focused on identifying and implementing systems that streamline operations, deliver actionable insights and drive value. By leveraging automation and AI, we aim to optimize our processes, reduce manual labor and ultimately enhance our bottom line. A key milestone this year was the successful rollout of our new ERP system across 50% of our business.

While we encountered some initial challenges, we've swiftly adapted and learn from the experience, which we expect will result in smoother implementations going forward. While the milestones this past fiscal year include standardization and processes like project and portfolio management along with streamlined approaches to solution-driven decision-making.

Lastly, we've established the foundation to move with more intent towards productivity improvement by establishing global centers of excellence along key areas of IT to bring once disparate teams together to harness their collective skills and capacity to focus on our long-term growth objectives.

With that, I'll now turn the call over to Sara.

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

Thanks, Steve, for that overview of our sales results and strategic framework. I'm pleased to announce that we delivered a strong performance in the fourth quarter, leading to a solid fiscal year 2024. Let's start with a discussion about how we performed since our most recently issued fiscal year 2024 guidance.

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We expected net sales growth to be between 6% and 12% and with net sales of between $570 million and $600 million on a non-GAAP constant currency basis. Today, we reported fiscal year revenue of $583 million, up 8% compared to last fiscal year on a non-GAAP constant currency basis and in line with our expectations. We expected gross margin to be between 51.5% to 53%. Today, we reported a gross margin of 53.4%, slightly above our guidance expectations.

We expected our global advertising and promotion investment to be between 5% and 6% of net sales. Today, we reported an A&P investment of 5.7%. We expected net income to be between $67.7 million and $71.8 million and a diluted EPS of between $5 and $5.30. Today, we reported net income of $69.6 million and diluted EPS of $5.11, in line with our expectations.

To better understand what is driving these results, let's begin with a review of our fourth quarter results against our 55/30/25 business model. I will then provide an update on our financial results, an update on the divestiture of the home care and cleaning brands in the Americas and the U.K. and finish with providing a view towards fiscal year 2025. Our asset-light and dynamic business model has helped the company maintain a healthy financial position and generate strong returns for our stockholders for many years, and it continues to be our guiding light.

Our 55/30/25 business model has been a long-term beacon for us that we aspire to over time. Recently, we have been thinking about each critical component of the model in a range. As we've mentioned previously, if we successfully divest the home care and cleaning brands in the Americas and the U.K., we expect that progress on certain aspects of our business model will be temporarily impacted as we digest the impacts. However, in the longer term, we anticipate significant benefits as we shift our focus and investments towards our higher-growth, higher-margin maintenance products. I'll share more details on our outlook when we provide guidance for fiscal year 2025.

Let's look at our fourth quarter gross margin performance. We target a range of 50% to 55% for gross margin, and we have made significant progress this fiscal year to perform well within this range. In the fourth quarter, our gross margin was 54.1% compared to 51.4% last year. This represents an improvement of 270 basis points and was most significantly impacted by the following factors: gross margin benefited 100 basis points from lower cost of our cans, 70 basis points from favorable sales mix and other miscellaneous mix and 60 basis points from lower warehousing, distribution and freight costs.

We are pleased to see that the inflationary environment has stabilized for now, and our gross margin has steadily improved throughout the fiscal year. This marks the third consecutive quarter of sequential gross margin growth. We are also happy to share with you that this quarter gross margin improved across all 3 trade blocks. Within the Americas, gross margin improved 350 basis points over prior period to 52.5%. EIMEA continues to expand gross margin, improving 190 basis points over the prior period to 55.5%. And Asia Pacific improved gross margin 70 basis points over the prior period to 56.4%.

I am delighted to report that 2 of our trading blocks are already above our 55% gross margin target for the fourth quarter. Despite some of the headwinds we anticipate to the business model from divesting of the home care and cleaning brands in the Americas and the U.K., the divestiture will have an immediate positive impact on our gross margin. We forecast an annual boost to gross margin of approximately 60 basis points post divestiture. This strengthens our confidence in reaching our target of 55% gross margin.

Considering our current trajectory, the current cost environment and macroeconomic factors, we continue to target achieving a gross margin of 55% by the end of fiscal year 2026 at the latest. However, depending on the cost landscape, we may achieve this goal even sooner, potentially by the end of fiscal year 2025 following the divestiture. In fiscal year 2025, gross margin recovery is a central focus for senior leadership who will be incentivized to recover gross margin to 55% and beyond.

Now turning to our cost of doing business, which we define as total operating expenses less adjustments for certain noncash expenses and is primarily comprised of investments in our employees, investments in our brands, freight expense to get our products to our customers and investments in information technologies. As we continue to grow our top line, we remain committed to operating efficiently and maintaining the company's financial health, while also investing in areas to drive both future growth and future operating efficiencies.

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With increased operational leverage after we have time to digest the anticipated impacts of the divestiture, we expect that our cost of doing business will align with our targeted range of 30% to 35% over time. This quarter, our cost of doing business was 38% compared to 34% in the prior year. For the full fiscal year, our cost of doing business was 36% compared to 33% in the prior year. Both increases were primarily driven by higher employee-related costs, including the impact of accruing higher earned incentive compensation.

In fiscal years '22 and '23, we had to navigate a dynamic macroeconomic landscape, marked by supply chain disruptions and higher than normal inflation levels. Our earned incentive program was developed to protect our bottom line during difficult financial times and reward our employees during better financial times. Therefore, as the business has recovered, so has our incentive compensation program.

Fiscal year 2022, when the business was challenged with high inflation, our incentive program paid out approximately $3 million, and we were able to rebuild that to about $8 million by fiscal year 2023 and now $16.5 million for this fiscal year. This is an improvement of over $13 million over the course of 2 years. Our incentive plan applies to every employee at every level of the organization, and we couldn't be more pleased to reward their outstanding individual and collective efforts this fiscal year.

For the full year, the increase in our accrued incentive compensation program was $8.8 million. And in the fourth quarter, the increase was $4.6 million. We exceeded our fourth quarter forecast and therefore, the timing of our accrued incentive compensation was larger in the fourth quarter than the previous 3 quarters this year.

In addition to higher employee-related costs, we have also been making strategic investments in the areas of information technologies, ESG and innovation and supply chain, which have led to some elevated SG&A expenses and, therefore, higher cost of doing business.

Turning now to adjusted EBITDA margin. All these investments have put some pressure on our adjusted EBITDA margin. For both the full fiscal year and fourth quarter, our adjusted EBITDA margin was 17% and remained relatively constant compared to the prior period. However, on a dollar basis, we grew EBITDA for the full fiscal year by 8% over the prior year, even after absorbing these increased costs. As we've mentioned previously, if we successfully divest the home care and cleaning brands we are actively selling, we know that we will need some time to digest the impact. However, we continue to believe we can move adjusted EBITDA margin back to our target range of 20% to 22% over the medium term.

Now let's discuss net income and EPS for the fourth quarter. Net income of $16.8 million this quarter improved slightly by about 1% compared to the prior period. For the full year, which adjusts for the lumpiness of our incentive compensation program accrual this year, our net income grew by $3.6 million or about 6% over the prior year. On a constant currency basis, net income for the full year would have increased 3% compared to the prior year.

Diluted earnings per common share for the fourth quarter were $1.23 compared to $1.21 in the prior period. For the full year, diluted EPS grew $0.28 per share or 6% over the prior year. Diluted EPS reflects 13.6 million weighted average shares outstanding this quarter, which was essentially flat compared to the prior year.

Next, we'll discuss a word about our balance sheet and capital allocation strategy. The company maintains a solid financial position and strong liquidity. Our capital allocation strategy takes a balanced approach, prioritizing long-term organic growth investments while delivering robust returns to our stockholders. We continue to return capital to our stockholders through regular dividends and buybacks. Annual dividends will continue to be our priority and are targeted at greater than 50% of earnings. On October 4, our Board of Directors approved a quarterly cash dividend of $0.88 per share.

We have continued to manage our inventory levels, which were impacted due to the investments we made to stabilize our U.S. supply chain in prior years. Our inventory levels peaked in the first quarter of fiscal year 2023. And since then, we have reduced inventory by nearly $40 million or 34%. At this point in time, our inventory levels are stable with what we believe is the right balance from a risk management perspective. We continue to hold certain levels of componentry and cans, which have benefited us recently and will continue to do so into the foreseeable future. Furthermore, divesting from our household brands

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would positively impact our working capital and inventory levels as these brands typically require us to maintain higher inventory levels.

Our cash flow from operations for fiscal year 2024 was approximately $92 million, and we elected to use approximately $25 million of that cash to pay down a portion of our short-term higher interest rate borrowings. Our intent is to continue to pay down our higher interest rate borrowings under the current interest rate environment. This activity will likely be wrapping up in the first half of 2025. In fiscal year 2024, our return on invested capital was 25.5%, improving from 23.7% last fiscal year and in line with our target of 25%.

Now a brief update on changes we're making that will affect foreign currency impacts in fiscal year 2025. The functional currency for our U.K. subsidiary, which consolidates the results for the EIMEA trade block has long been the pound sterling. We reassess this on an annual basis. As we look out to fiscal year 2025 and beyond, the shift in the operating landscape within the EIMEA region, along with certain strategic actions we are taking, require a change in our functional currency.

A few key factors influenced our decision, including a growing dependence on euro-denominated inventory within our supply chain and an increase in sales and operational expenses tied to the euro. As a result, beginning September 1, 2024, we will change the functional currency of our U.K. subsidiary from pound sterling to euro with the change being applied prospectively.

Now a quick update on HCCP. We continue to make progress on the sale of our Americas and U.K. home care and cleaning product brands. Sales of home care and cleaning products in the Americas and U.K. this fiscal year 2024 were approximately $24 million, representing 4% of our global business. As I shared with you last quarter, we have engaged an investment bank, and they are currently in discussions with potential suitors on our behalf. While there are no certainties on identifying a buyer when going to the market, our expectation is that we will likely complete the divestiture of these brands during the first half of fiscal year 2025. We will provide further updates on the divestiture process as appropriate.

Given the expectation that these brands will soon be divested, we are providing this year's guidance on a pro forma basis, excluding the financial impact of the home care and cleaning brands in the Americas and the U.K. We're also offering a pro forma view of what fiscal year 2024 would have looked like without these brands to assist with modeling and comparing the business period-over-period. Fiscal year 2024 pro forma net sales would have been approximately $567 million. Fiscal year 2024 pro forma gross margin would have been approximately 53.9%. Fiscal year 2024 pro forma operating income would have been approximately $89.3 million. And fiscal year 2024 pro forma EPS would have been approximately $4.76.

Now with that backdrop, let's take a closer look at our guidance for fiscal year 2025. We are excited for what is ahead for us in fiscal year 2025. We are committed to delivering long-term value to all our stakeholders, which requires balancing short-term results with strategic investments to drive long-term growth and enhance business efficiency. As I have mentioned before, this year's guidance excludes the financial impact of the home care and cleaning brands currently classified as assets held for sale as of September 1, 2024.

While the exact timing of the transaction's closing remains uncertain, we believe this approach will provide investors with clarity on the direction of the core business and help minimize the noise surrounding the transaction. This year, we've also made a change by removing net income from our guidance and replacing it with operating income. We believe this provides a better measure for offering more insight into the business' operating performance.

For fiscal year 2025, we are estimating net sales growth from the pro forma 2024 results is projected to be between 6% and 11%, with net sales between $600 million and $630 million in constant currency. Gross margin is expected to be between 54% to 55%. Advertising and promotion investment is projected to be around 6% of net sales. Operating income is expected to be between $95 million and $100 million, representing growth of between 6% to 12% over the pro forma 2024 results. The provision for income tax is expected to be around 24%. And diluted earnings per share is expected to be between $5.20 and $5.45, which is based on an estimated 13.5 million weighted average shares outstanding. This range represents growth of between 9% and 14% over the pro forma 2024 results.

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This guidance assumes no major changes to the current economic environment, unanticipated inflationary headwinds and other unforeseen events may affect our view of fiscal year 2025. In the event, we are unsuccessful in the divestiture of our home care and cleaning brands in the Americas and the United Kingdom, our guidance would be positively impacted by approximately $23 million in net sales, $6 million in operating income and $0.33 in diluted EPS on a full year basis.

That completes the financial overview. Now I would like to turn the call back to Steve.

Steven A. Brass
CEO, President & Director

Thank you, Sara, for that update. Our focus for fiscal year 2025 and beyond is clear. Stay true to our Four-by-Four Strategic Framework, continue to unlock value in high potential markets and take care of our people who drive our success. The key theme throughout this journey for the WD-40 Company will be a few things, many places, bigger impact. This approach will help us leverage global synergies and become more efficient as we expand.

In summary, what did you hear from us on this call? You heard that for the fourth quarter, we reported consolidated net sales of $156 million, an increase of over 11% over the prior year and the second consecutive record quarter for the company. You heard that all 3 of our trade blocks reported revenue growth that aligns with or exceeds our long-term growth targets for each region, both in the fourth quarter and the full fiscal year.

You heard that our newest direct market in Brazil continues to do well and that we believe the acquisition of the Brazil market was a game-changing opportunity for us. You heard that we estimate the benchmark sales opportunity for WD-40 Multi-Use Product to be approximately $1.6 billion and that we have achieved only 28% of that benchmarked opportunity. You heard that we estimate the benchmark sales opportunity for WD-40 Specialist to be approximately $605 million and that we've achieved only 12% of that benchmark opportunity.

You heard that we're making good progress on the sale of our Americas and U.K. home care and cleaning product brands. You heard the gross margin continue to improve and is moving closer to our long-term target of 55%. And you heard that we're issuing guidance for fiscal year 2025 on a pro forma basis, excluding the brands we expect to divest this year.
Thank you for joining our call today. We'd now be pleased to answer your questions.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Daniel Rizzo with Jefferies.

Daniel Rizzo
Jefferies LLC, Research Division

I was just going through the deck and one thing I noticed is that I think in the second half of 2024, there was some -- I think pricing was a bit of a headwind, I think, 2% to 1%, I can't find right now. I was just wondering what that was, if that's just promotional activity or if it's something else?

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

Daniel, it's Sara. So yes, there was a little bit of swing in the back half of the year. Most of that is going to be mix. It's hard right now for us to break out mix from that metric. And so there's no -- there's nothing significant on pricing that went backwards. It's going to all be mix related.

Daniel Rizzo
Jefferies LLC, Research Division

Okay. And then with -- I mean, with the ongoing rollout of the ERP with everything that's going on with the divestiture, I would imagine that SG&A expenses are going to remain relatively elevated for at least the next couple of quarters. And I'm just trying to -- modeling it out, is that something we should probably expect?

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

Yes. I think we are obviously continuing to invest in the ERP, and we also are inheriting Brazil expenses in addition to that. So if you're looking at the upcoming year, we're not growing at the pace that we grew out last year, especially because we've rebuilt that GRP that I mentioned on the call. So it won't be as large of an increase as last year, but it will continue to be more elevated than it has been in the past.

Daniel Rizzo
Jefferies LLC, Research Division

Okay. And then one final question. Then you've had good success with moving to a direct business model in Brazil, Mexico and elsewhere. I was wondering where the other opportunities to do that are. And if we expect more announcements like that within, I don't know, the next year or so, how should we think about it?

Steven A. Brass
CEO, President & Director

Daniel, it's Steve. Thanks for the question. So yes, we're really delighted with the progress. Mexico continued to grow, grew by another 25% in last fiscal year. Brazil actually beat our expectations in terms of delivering overall $8 million or $7 million of growth almost over prior year. And we expect for this next fiscal year for that to continue to grow and deliver a further $7 million to $9 million on top of that base of $8 million for the first year.

So yes, these are game-changing opportunities. And so as we look around the world, we are absolutely laser focused on those top 20 growth opportunities that we have. And I look back at the last year, China local currency, 17% growth; India, 21% growth; Indonesia, 17% growth; Turkey, 66% growth on top of phenomenal growth across -- just about everywhere in Europe and Latin America. So phenomenal focus, I think, is delivering these really exceptional results. And yes, you're going to see more of that. We have no announcements that are imminent in terms of planned kind of direct markets. A lot of our growth

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internationally is achieved by excellent partnerships around the world with our marketing distributor partners as well.

Operator

Our next question comes from the line of Linda Bolton-Weiser with D.A. Davidson.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Congratulations on a really strong quarter and year. So just to make sure I understand this. Your guidance for the next fiscal -- the dollar figure amounts like operating profit of $95 million to $100 million. Does that assume that the Household Cleaning business is not in for any of the year. Is that correct?

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

You have that, yes, Linda, that's correct. We've excluded it for the full year just given the uncertainty of the timing and then provided you with some information of what the difference would be if it was included for the full year. So you have a kind of both with and without.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Yes. But in reality, it's not going to be sold like it could be towards the end of the first half. So in reality, the numbers will probably be a little towards the higher end of these ranges that you've given. Am I understanding that correctly?

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

So on a GAAP basis, yes, we will also be presenting the business on a non-GAAP basis starting in Q1 so that you can have apples -- or how we're measuring ourselves for the full year against that guidance that we've provided.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Okay. Okay. Great. And then I guess then with that -- I mean, your gross margin in 2024 was 53.4%. So I guess I'm wondering about the guidance of 54% to 55%. If you're getting a list of 60 basis points from the divestiture, why wouldn't that guidance be like higher? I guess I'm trying to understand that.

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

Well, most of the move that we've had in the last couple of years has come from price with premiumization and supply chain initiative being lesser of an impact. We are starting to now see the efforts of some of those supply chain initiatives that we've implemented both this year and then also plan to implement next year. those just have a smaller immediate impact to the margin. So we do intend to make improvement to the margin. It's just going to be at a lesser scale than it was for this year.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Okay. And then -- so usually, you have a -- like an oil price assumption that's baked in. Can you give what you're including in the guidance for oil price assumption?

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

Sure. The range right now we have is between $70 and $90.

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Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Okay. And then I guess I was wondering about just the cadence of your pro forma sales growth in the next fiscal. I mean first quarter, in particular, has a pretty hard comparison in the first quarter '24. Is there anything we should be cognizant of in terms of growth rates and how that will kind of go through the year on a pro forma basis for sales growth?

Sara Hyzer
VP of Finance, Treasurer, CFO & Principal Accounting Officer

Yes. It's a good question, Linda. We obviously, as you know, don't guide to the quarter, but I will comment that similar to last year, if you looked at the growth of the business, it was weighted towards the back half of the year. And as we're forecasting out this year, I would say it's going to be a similar balance between that Q1 to -- Q1, Q2 compared to Q3 to Q4, kind of that first half to second half balancing. You can look at last year as a guide and maybe it might just be a little bit spread, a little bit wider than that, but not by much.

Steven A. Brass
CEO, President & Director

If I could just add to that, Linda, as well. There's a little bit of phasing in Asia Pacific. The first quarter was so strong last year that, that's going to be a challenge to exceed that in Asia Pacific. So Asia Pacific in terms of growth, we'll probably have a slower start and build up in the year. And then Brazil, obviously, the impact of Brazil will mainly be felt in the first 6 months of the year. So that $7 million to $9 million of growth, a substantial part of that will be in the first half of the year.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

You mean in terms of the incremental growth versus prior year?

Steven A. Brass
CEO, President & Director

Exactly. Correct. Yes, correct.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Okay. And just let me ask a little bit about China. I mean I can't quite remember what you said it was in the quarter. It seemed like it was pretty strong. And I think you said 17% for the year. So are you -- the economy there is just so weak, and that's all we hear about every day, but it doesn't seem to be affecting your business. Is it just that you have so much growth opportunity that you're immune from the macro? Or maybe could you give a little more color?

Steven A. Brass
CEO, President & Director

Yes. We just continue to do our thing right. And so we talk often about our China sampling program, which is very successful multiyear program where we're putting out, I believe, last year, we sampled 33,000 factories and converted a substantial amount of those to WD-40 users. And so that happens year in, year out. And so we're always bringing new users into the brand. Combined with that, we were very successful last year also in expanding our distribution and making our product more available to buy with several hundred new points of distribution opened across the country.

And so it's a very simple formula that just works, and the Chinese team are doing a great job of turning up the heat even further. So it's 17% local currency growth last year, 13.5% in U.S. dollars, with spectacular growth also on WD-40 Specialist of around 45% in U.S. dollars.

Operator

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Ladies and gentlemen, that does conclude our allotted time for questions. We thank you for your participation in today's conference call and ask that you please disconnect your lines. Thank you.

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