WD-40 Company NasdaqGS:WDFC

Earnings Call

Monday, January 9, 2023 10:00 PM GMT

Call Participants

EXECUTIVES

Sara Hyzer
VP of Finance, Treasurer & CFO

Steven A. Brass
CEO, President & Director

Wendy D. Kelley
Director of Investor Relations & Corporate Communications

ANALYSTS

Christina Xue

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company First Quarter 2023 Earnings Conference Call. Today's call is being recorded. [Operator Instructions] I would now like to turn the presentation over to your host for today's call, Ms. Wendy Kelley, Vice President of Stakeholder and Investor Engagement. Please proceed.

Wendy D. Kelley
Director of Investor Relations & Corporate Communications

Thank you. 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-Q for the period ending November 30, 2022. These documents are available on our Investor Relations website at 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 9, 2023. 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 over to Steve.

Steven A. Brass
CEO, President & Director

Thanks, Wendy, and thanks to all of you for joining us this afternoon. Today, I will begin by discussing our sales results for the first fiscal quarter of 2023. I will also provide you with an update on our growth ambition, our must-win battles and my strategic priorities. Sara will review some financial topics with you, including our guidance for FY 2023.

As Wendy mentioned earlier, we've prepared a presentation covering our first quarter results and have posted to our investor website. We invite you to refer to that document to review any numbers or results that we don't talk about on today's call. I'm happy to share with you that in the first quarter, gross margin improved sequentially by 400 basis points compared to the fourth quarter of fiscal year 2022. This was due to the pricing actions we've taken over the last several quarters. Sara will talk with you in a few moments about gross margin in more detail, but we're confident that our plans to rebuild margin are working.

Let's discuss our sales results. Today, we reported net sales of $124.9 million for the first quarter of fiscal year 2023, which was a decrease of 7% compared to last year. There are several things obstructing top line performance this quarter. Sales volumes are down, as expected, due to disruptions caused by the price increases we've put into place over the last few quarters. Changes in foreign currency exchange rates had an unfavorable impact of about $9.5 million on our consolidated net sales in the first quarter. On a constant currency basis, net sales would have decreased by less than 1% compared to the first quarter of last year. Also impacting our top line results this quarter is our values-guided decision to suspend sales of our products to our marketing distributor customers in Russia and Belarus, which negatively impacted our sales by approximately $5 million.

Overall, underlying volumes remain in line with our expectations, and we would expect volume performance to improve sequentially in the second half of fiscal year 2023 as price-related disruptions abate. For more information about the impact of price increases on our sales results and the offsetting decreases in sales volume, please see our Form 10-Q for the period ending November 30, 2022, which we have filed earlier today.

Now let's take a closer look at first quarter results in our trade blocks, starting with the Americas. Sales in the Americas, which includes the United States, Latin America and Canada, were up 3% in the first quarter to $58 million. Maintenance product sales in the United States increased 15% due to strong sales of WD-40 Specialist, WD-40 Multi-Use product, and 3-in-1. The strong sales were driven by the favorable impact of price increases on revenues as well as increased production capacity and improved availability as our supply chain continues to strengthen. These increases were significantly offset by a lower level of customer orders and promotional programs due to disruptions caused by price increases.

Maintenance product sales in Canada increased 7% in the first quarter, primarily due to the favorable impact of price increases, which were mostly offset by unfavorable changes in foreign currency exchange rates and weaker economic conditions that resulted in lower levels of demand.

Maintenance product sales in Latin America were down 31% in the first quarter when compared to last year due to the timing of customer orders. This was because in the fourth quarter of fiscal year 2022 and customers were buying product in advance of a price increase, which lowered purchases from these customers during the first quarter of this year. In addition, in the first quarter of 2022, we had a strong comparable period because of significant purchase activity in advance of a price increase that went into effect in November of 2021. Sales in Mexico, our newest direct market, remained constant.

Now across the pond to EMEA. Sales in EMEA, which includes Europe, the Middle East, Africa and India, were down 29% in the first quarter to $40.8 million. Currency fluctuations significantly impacted our sales results for EMEA trading block during the quarter. Changes in foreign currency exchange rates had an unfavorable impact of over $8 million on net sales for the first quarter. On a constant currency basis, sales would have decreased 15% over the first quarter of last year.

As you know, we sell into EMEA through a combination of direct operations as well as through marketing distributors. Sales in our EMEA direct markets, which accounted for 70% of the region's sales in the first quarter, declined by 21% during the quarter compared to last year due to the impact of changes in foreign currency exchange rates and reduced demand, driven by weaker market and economic conditions. The region has also been impacted by a lower level of customer orders and promotional programs as customers adjust to the price increases we recently implemented. Sales in our EMEA distributor markets, which accounted for 30% of the region's sales in the first quarter, decreased by 43% during the quarter compared to last year. More than half of this decline was due to a suspension of sales in Russia, which resulted in decreased sales of approximately $5 million compared to last year.

In March of 2022, we made the values-guided decision to suspend the sales of our products to our marketing distributor customers in Russia and Belarus, and this has contributed to an unfavorable impact on our sales in this region.

Now on to Asia Pacific, sales in Asia Pacific, which includes Australia, China and other countries in the Asia region, were up 25% in the first quarter to $26.1 million. In our Asia Pacific distributor market, sales were up 41% compared to last year, primarily due to strong sales of WD-40 Multi-Use product. These strong sales were linked to successful promotional programs and continued easing of pandemic-related lockdown measures. In addition, the increase in sales is partially due to price increases we implemented over the last 12 months as well as many distributor customers purchasing products in advance of additional price increases that will go into effect later this year.

In Australia, sales remained constant in the first quarter. Changes in foreign currency exchange rates had an unfavorable impact on sales in the first quarter. On a constant currency basis, sales would have increased by 12% compared to last year. These sales increases were due to the favorable impact of price increases, which were partially offset by decreased sales of home care and cleaning products.

In China, sales were up 22% compared to last year, driven primarily by successful promotional programs and the favorable impact of price increases. In addition, sales were favorably impacted by the timing of shipments related to some customer orders placed in late fiscal year 2022, which will not ship until early fiscal year 2023. Changes in foreign currency exchange rates had an unfavorable impact on net sales for the first quarter. On a constant currency basis, sales would have increased by 34% compared to last year. We're taking a proactive approach in China and shipping as much product as we can during times when COVID-related restrictions are minimal. We expect more pandemic-related disruptions in the market over the short term, but we remain optimistic about the long-term opportunities in China. In addition to volatility in the China market caused by COVID-19, we expect volatility in this market due to the timing of promotional programs, the building of distribution, shifting economic patterns and varying industrial activities.

Now let's talk a little bit about our future growth aspirations. To understand where we're going, it's important to understand where we've been. On Slide 11 of our earnings presentation, you will see 20 years of maintenance product sales adjusted for currency. We have continuously grown our multipurpose maintenance product sales each year, except for 2020, when we experienced a modest decline due to the impacts of the pandemic. Following that modest decline, our sales rebounded extremely strongly in 2021 and 2022. We've demonstrated substantial resilience in the past, including during the Great Recession of 2008 and 2009, and that gives us confidence to face whatever volatility, uncertainty, complexity and ambiguity may come our way in the future.

Therefore, in terms of future growth, Sara and I are committed to our long-term revenue growth aspiration, which is to drive net sales to between $650 million to $700 million by the end of fiscal year 2025. The bulk of that growth is expected to come from sales of WD-40 multiuse product, the geographic expansion, increased penetration and premiumization.

In terms of growth aspirations by segment, each of our trade blocks have unique long-term growth expectations. The compound annual growth rates associated with our segments reflect our long-term growth expectations for the segment and may not always align with shorter-term trends and results.

In the Americas, we expect growth between 5% to 8% annually. We recently increased our expectations for growth in the Americas, fueled by several factors. In Latin America, over the last couple of years, we've seen very strong sales, largely driven by our newest direct market in Mexico. Despite the softness we reported in the first quarter, we expect excellent prospects for strong continued growth across Latin America in the future. Canada's growth prospects have also been significantly boosted as we continue to roll out next-generation Smart Straw in the region. Strong growth opportunities exist also within the U.S. market in e-commerce within the WD-40 Specialist brand and within the industrial channel.

Our expectations for growth in our EMEA and Asia Pacific segments remain unchanged. Over the long term, we anticipate sales within the EMEA segment will grow between 8% to 11% annually, and sales within the Asia Pacific segment will grow between 10% to 13% annually. Globally, we're targeting revenue growth in the mid- to high single digits to deliver against our aspirational $650 million to $700 million 2025 goal.

Now a brief update on must-win battles. Our must-win battles are the primary areas of action that will enable us to deliver against our revenue growth aspirations. These hyper focused actions are the key drivers of revenue growth. Our largest growth opportunity in first must-win battle is a geographic expansion of the blue and yellow can with a red top. Though consolidated sales of our flagship brand were down 12% in the first quarter, we have every confidence that the WD-40 Multi-Use product will return to growth this fiscal year. The decline in WD-40 Multi-Use product was driven primarily by a 34% decline in sales in EMEA due to the reasons I mentioned a few minutes ago.

Our second must-win battle is to grow WD-40 Multi-Use product through premiumization. Premiumization creates opportunities for revenue growth, gross margin expansion, and most importantly, it delights our end users. In the first quarter, sales of WD-40 Smart Straw and EZ-Reach, when combined, represented

43% of global sales of WD-40 Multi-Use Product. Sales of premiumized products declined by 15% in the first quarter, primarily due to lower sales in our EMEA segment.

Our Smart Straw next-generation delivery system is currently available in the Americas and will be rolled out globally in fiscal year 2023. Smart Straw next generation supports our objective to grow premium delivery system penetration to greater than 60% of our WD-40 Multi-Use Product sales by 2025.

Our third must-win battle is to grow WD-40 Specialist. In the first quarter, sales of WD-40 Specialist were up 23% compared to last year. United States saw outstanding growth, reporting an increase of 70% compared to last year. We're pleased that WD-40 Specialist is fully leveraging our most iconic asset, the blue and yellow brand with a little red top.

Our final must-win battle is focused on driving digital commerce. In the first quarter, e-commerce sales rolled back and were up 51% compared to the first quarter of last year. This was driven by triple-digit growth in the U.S. and double-digit growth in Asia Pacific. We believe we are well positioned to benefit from the significant shift to online behaviors in the post-pandemic world. We're focused on developing a data-driven marketing strategy that empowers us to engage directly with end users in meaningful ways online. We expect e-commerce will be the fastest-growing retail sales channel globally for the duration of fiscal year 2023. We see a world where almost every transaction in the future will be influenced by a digital touch point somewhere on the path to purchase, and we believe we are well equipped to thrive in that world.

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

Sara Hyzer
VP of Finance, Treasurer & CFO

Thanks, Steve. Thank you for that overview of our sales results. While our top line results were challenged in the first quarter, you might recall, we shared with you last quarter, we expected much of our growth to be weighted toward the second half of fiscal year 2023, as we manage through disruptions in the market due to the pricing actions we have taken. This continues to be true. Currency is a significant headwind for us as well. On a constant currency basis, net sales would have decreased insignificantly compared to the first quarter of last year.

Let's start with a 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 or above 55% of net sales. The 30 represents our cost of doing business, which is our total operating expenses, excluding depreciation and amortization as a percentage of net sales. Our goal is to drive our cost of doing business over time toward 30%. Finally, the 25 represents our long-term target for EBITDA. The model is being tested right now due to the inflationary environment we continue to operate in. The good news is that we saw a strong margin recovery this quarter, driven by actions we have taken as part of our margin restoration plan. Our gross margin target of 55% is a critical component of our business model, and Steve and I remain committed to restoring gross margin to our target of 55%.

First, the 55, or gross margin. In the first quarter, our gross margin was 51.4% and compared to 50.8% last year. This represents an improvement of 60 basis points year-over-year. And more importantly, it represents a reversal of 8 quarters of sequential margin declines. Over the last 2 years, we have seen consistent declines in gross margin due to inflationary headwinds and the challenges in the global supply chain. This quarter, we reversed that trend and experienced sequential margin growth of 400 basis points compared to the fourth quarter of fiscal year 2022.

While we believe we will continue to see sequential margin improvement for the remainder of this year, I don't believe it will be as substantial as the recovery in the first quarter, and we do expect our margins to flatten out in the second half of the year.

Now let's take a closer look at gross margin this quarter as compared to our first quarter 2022 gross margin. Price increases, which have been implemented across all our markets and geographies, positively impacted our margin by 860 basis points this quarter. These tactical price increases that we implemented over the last 12 months took time to embed their way into our reported results. I am very pleased to see the positive impact they had on our first quarter gross margin. Also impacting gross margin was changes in foreign currency exchange rates, which positively impacted our margin by 90 basis points. This impact is due to fluctuations in the exchange rates for the euro against the pound sterling in our EMEA segment. The euro strengthened against the pound sterling, resulting in a favorable foreign currency transaction impact.

Finally, favorable sales mix changes positively impacted our margin by 60 basis points in the first quarter. These positive impacts to gross margin were largely offset by changes in major input costs, which includes specialty chemical and aerosol can costs, and these costs, when combined, negatively impacted our gross margin by 690 basis points. Commodity-related inflationary headwinds began to significantly impact our gross margin in the second half of 2022.

This time last year, we hadn't begun to experience inflation headwinds at the levels that we are seeing today. Higher costs associated with aerosol cans negatively impacted our margin by 360 basis points, and the remaining 330 basis points came from higher specialty chemical costs. Gross margin was also negatively impacted by 120 basis points due to higher miscellaneous input costs, 100 basis points from higher filling fees paid to our third-party contract manufacturers, primarily in the Americas, and 80 basis points due to higher warehousing and freight costs.

We are beginning to see input costs stabilize and are hopeful that this trend will continue, but it continues to be a dynamic environment, especially in EMEA. We remain confident that our plans to rebuild gross margin, coupled with the advancement of our margin-accretive must-win battles, will enable us to deliver on our long-term goals. While it still may take some time, we will continue to take the necessary actions to restore our gross margin to 55% or higher over the long term.

That completes the gross margin discussion. Now on to the 30, the cost of doing business. In the first quarter, our cost of doing business was 36% compared to 32% last year. The cost of doing business is primarily comprised of 3 areas: investments in our tribe, investments in brand building and freight expense to get our products to our customers. This quarter, our cost of doing business increased by $1.4 million or 3% due to increased travel and median expenses and higher employee-related expenses compared to the prior year's first quarter. Although our cost of doing business increased, our cost of doing business as a percentage of net sales was impacted more significantly due to the decrease in revenue this quarter.

This brings us to EBITDA, the last of the 55/30/25 measures. EBITDA was 17% of net sales this quarter, which is down significantly compared to last year, primarily due to lower sales and higher operating expenses this quarter, which was offset by an improvement in our gross margin percentage. We expect to return to historic EBITDA levels as we continue to rebuild our margin and reach our revenue growth objectives over the long term.

That completes the discussion on our business model. Now let's discuss some items that fall below the EBITDA line. The provision for income taxes was 20.9% this quarter compared to 19.8% last year. The increase in the effective income tax rate was primarily due to tax shortfalls from settlements of stock-based equity awards, which was partially offset by a onetime tax deductible charitable donation. Many of you may recall that in 2016, we purchased and subsequently relocated our San Diego-based tribe members to a new office building. Our plans had always been to divest of our older San Diego facility. Recently, we made the values-based decision to donate the facility to a large regional community foundation, and we completed that donation in the first quarter. We believe this donation aligns well with the bookends of our values. Our first value is to do the right thing, and we believe this donation will help to make a positive impact in the communities where our tribemates live and work.

Our last value is to sustain the WD-40 Company economy, which this donation has also enabled us to do. Net income for the first quarter was $14 million versus $18.6 million in the prior year. Changes in foreign currency exchange rates had an unfavorable impact of about $1.3 million on the translation of our consolidated results this quarter. Diluted earnings per common share for the quarter was $1.02 compared to $1.34 for the same period last year.

Now a word about our capital allocation strategy. Our capital allocation strategy includes a comprehensive approach to balance investing in long-term growth and providing strong returns for our stockholders. In addition to investing for future growth, we also focus on returning capital to our stockholders. Historically, our business model has been asset-light, which has typically required low levels of capital investment, roughly between 1% and 2% of sales.

As we have previously disclosed, in fiscal year 2023, we expect to invest approximately $9 million in capital projects. Excess capital generated by the business has been allocated to the highest return alternative. Annual dividends will continue to be targeted at greater than 50% of earnings. On December 13, our Board of Directors approved a quarterly cash dividend of $0.83 per share, reflecting an increase of more than 6% over the previous quarter's dividend. During the first quarter, we also continued to return capital to our stockholders by repurchasing approximately 22,000 shares of our stock at a total cost of approximately $4 million under the plan.

We are currently evaluating the most accretive use of our excess cash, given current interest rates. If it is more accretive to do so, we may elect to slow down our stock purchases under our current share buyback plan and utilize that cash to repay a portion of our current debt.

Let's chat about our balance sheet and cash flow statement. Inventory levels continue to have our attention and we are currently carrying extra inventory on our balance sheet. Our inventory levels have gone from $104 million at the end of the fourth quarter to $119 million at the end of the first quarter. We have been intentionally building up certain raw materials, components and finished goods, particularly in the United States, to ensure adequate supply of our products as we have expanded our aerosol filler network. As a direct result of these choices, we have experienced increases in the capacity and flexibility of our supply chain, which has enabled us to better meet market demand for our products.

We believe that right now, this is a good use of our working capital. We anticipate our inventory levels will begin to level off in the near term, and we expect to see them decrease before the end of the fiscal year. I do not believe that we will be at pre-COVID inventory levels anytime soon as the environment today remains dynamic and requires us to carry higher levels of inventory than we have historically.

One other item I liked this quarter was the return of our positive cash flows from operations. Last year, we spent most of our cash flows from operations on building back a more stable supply chain. And as those investments are winding down and the impact of the price increases are flowing in, we are seeing our cash flow from operations return.

Now let's turn to guidance. We expect volume performance to improve in the second half of fiscal 2023 as price-related disruptions abate. And accordingly, today, we are reiterating our guidance for fiscal year 2023. We expect net sales growth between 5% and 10%, with net sales between $545 million and $570 million. Gross margin for the full year is expected to be between 51% and 53%. Advertising and promotion investment is projected to be between 5% and 6% of net sales. The provision for income tax is expected to be around 22%, net income is projected to be between $69 million and $71 million, and diluted earnings per share is expected to be between $5.09 and $5.24, based on an estimated 13.6 million weighted average shares outstanding. Our projections for fiscal year 2023 reflect fluctuating foreign currency exchange rates. Without those currency headwinds, our sales growth projection would have been between 10% and 15% of net sales.

In addition, we are managing through disruption in the market from our various price increases and still expect much of our growth to be weighted towards the second half of fiscal year 2023. We also want to remind everyone that there are dynamics outside our control that may impact our fiscal year 2023 results, unanticipated inflationary headwinds and other unforeseen events. This guidance does not include any future acquisitions or divestitures.

This completes the financial overview. Now back to you, Steve.

Steven A. Brass
CEO, President & Director

Thanks, Sara. I believe my primary responsibility as CEO is to build on the excellent foundations laid by Gary and Jay. There will be no fundamental shifts in strategy as there is a very significant runway for growth by laser focusing on our global must-win battles. However, investors will see an increased focus in 3 key areas: Firstly, we must pivot the company toward a more sustainable future. We see the planet as a key stakeholder, and we will be putting the required infrastructure in place over the next 18 months or so to be able to set and then effectively measure progress against environmental targets. In support of this goal, we'll be adding a small number of dedicated tribemates focused solely on this purpose.

In addition, we will be procuring and implementing IT systems that will enable us to track and report our carbon footprint and progress on ESG initiatives to stakeholders. Second, to leverage our capability as a global learning and teaching organization, being learners and teachers means taking every opportunity to make things better than they are today. We don't rest on our laurels. In that spirit, we recently completed a culture survey in partnership with Berkeley Haas School of Business, where we identified the strengths and opportunities present within our culture. To address the opportunities we have identified, we've created a global culture squad made up of tribemates who are passionate about making our special culture even better than it is today.

Finally, we need to realize a huge growth potential present in emerging markets. I believe the long-term global market growth opportunity for WD-40 Multi-Use Product is over $1 billion, and that the fastest growth will be achieved in our emerging markets. With this end in mind, a new dedicated emerging markets team has been created to drive faster growth in this critical area.

So in summary, what did you hear from us today on this call? You heard that even though first quarter sales results were down, we continue to believe we are positioned to achieve our sales growth guidance for the full fiscal year. You heard that we experienced strong sales of WD-40 Multi-Use Product in the United States, in our Asia distributor markets and in China in the first quarter. You heard that sales of WD-40 Specialist were up 23% in the first quarter. You heard that we continue to make outstanding progress in digital and e-commerce, and that our e-commerce sales have grown 51% in the first quarter. You heard that although we've been experiencing pressure on gross margin from the challenging inflationary environment, we saw a strong margin recovery this quarter, driven by our margin restoration plan.

You heard that we continue to return capital to investors through regular dividends, and that we raised our dividend last month. You heard that we reiterated our full fiscal year guidance. You heard that Sara and I remain committed to the 2025 revenue growth targets and the 55/30/25 business model. And you heard that I'm very focused on my strategic priorities as CEO, and we've identified our first areas of execution. In closing today, I'd like to share with you a quote from Zig Ziglar, "You don't build a business, you build people, and people build the business." Thank you for joining our call today. We'd now be pleased to take your questions.

Question and Answer

Operator

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

Daniel Dalton Rizzo
Jefferies LLC, Research Division

I just had a question on the cash flow statement. I understand you kind of went through why inventories are up, and that makes sense, what you've been saying. I was just wondering, it seems payables went down, too. I was wondering, shouldn't they be up as well? I was wondering why the difference there?

Sara Hyzer
VP of Finance, Treasurer & CFO

Daniel, this is Sara. So payables partly is timing. And then the second piece of that is the payout of our incentive program happens in the fourth quarter. So just depending on the timing of that, along with our AP, just normal terms in AP is driving that. It's nothing really significant.

Daniel Dalton Rizzo
Jefferies LLC, Research Division

Okay. And then you mentioned I think China was up 22%. Some of that was shipment timing. Was there some pull forward there? Because I know in past years, it's been fairly lumpy. And I know you're not going to give quarterly guidance, but I was just wondering, should we expect similar scenarios to unfold where there's a strong first quarter, it's down in the second and then kind of evened out over -- as we move forward.

Sara Hyzer
VP of Finance, Treasurer & CFO

Sorry, Daniel, I missed the beginning of that. What was up 23%?

Daniel Dalton Rizzo
Jefferies LLC, Research Division

China sales were up 22% in the quarter.

Sara Hyzer
VP of Finance, Treasurer & CFO

Okay. Thank you. I'll let Steve take that one.

Steven A. Brass
CEO, President & Director

Daniel. So yes, China actually at local currency, China was up 34%. Now clearly, there's likely to be a little bit of disruption kind of ahead in terms of COVID, but we don't see the same kind of shutdowns that we've seen in past quarters, unless things really worsen, the situation really worsen. So Historically, I think in the past couple of years, the China business has been kind of front-end loaded a little bit. And you've seen that play out in the first quarter. I think we've been a little bit cautious in terms of how we see things for the next kind of period of the quarter because of the situation, that situation might exist through until spring. But no, we don't really see any significant variations in the China in terms of volatility, outside of further lockdowns or shutdowns. And as we get into the third quarter, obviously, we lapped that situation last year where we had 6 weeks of shutdown, and we're hoping we'll avoid that this year.

Daniel Dalton Rizzo
Jefferies LLC, Research Division

Okay. That's helpful. And then my final question. You also mentioned that there was some lost sales due to -- from disruptions due to price increases, that should like ease as the year progresses. But I was wondering if those lost sales will be recovered. Or are they just lost?

Steven A. Brass
CEO, President & Director

It depends. I would say that some of them are lost. It's just momentum. So what happens, we've lost promotional momentum. And I think, when you look at the first market to execute the price increases was in North America, and we're starting to see that recovery happen. So North America is about a quarter ahead of Europe in terms of the price increases. So yes, some promotional momentum has been lost some business momentum, but that's roaring back. So you're seeing that come back in -- certainly in the United States, but we think that Europe is probably a quarter behind the U.S. in terms of kind of the situation here.

Operator

Your next question is from the line of Christina Xue with D.A. Davidson.

Christina Xue

This is Christina Xue on for Linda Bolton-Weiser from D.A. Davidson. So maybe a follow-up from the previous question. I'm wondering, like going forward, do you think more pricing is needed to help to restore the gross margin going forward?

Steven A. Brass
CEO, President & Director

Christina, thank you for the question. So in terms of EMEA and Americas, which is 88% or 87% of our business, we think we've taken the necessary tactical price action to restore our gross margin. So we have no further tactical pricing measures, and we revert back to our strategic gross margin enhancement strategies such as our premiumization, our WD-40 Specialist strategy, et cetera. We do have price increases planned in Q2 and Q3 within Asia Pacific. So Asia Pacific hasn't seen the same level of inflation that the Americas and EMEA have seen, but there are price increases planned within the Asian region within our Q2 and Q3.

Christina Xue

Okay. So maybe 1 more follow-up questions. Are you starting to regain the placement at the big box retailers?

Steven A. Brass
CEO, President & Director

So yes, absolutely. Yes. So that was one of the things we spoke about last quarter was just this loss of momentum. And that's the real driver of kind of the volume loss. And so if you look -- if you start with the U.S., we've seen a significant recovery in volume loss. And we expect that to dissipate to virtually 0 for a period of time going forward. I just can't tell you exactly when that's going to be. But we have seen a significant improvement as we've reestablished our promotional programs with customers -- we've already seen a significant enhancement in our volumes over the past couple of months in the U.S. particularly. That has now got to play out in Europe as a follow-on.

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 now disconnect.