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# WD-40 Co. (WDFC)

Q2 2019 Earnings Call

# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Ladies and gentlemen, thank you for standing by. Good day and welcome to WD-40 Company Second Quarter Fiscal Year 2019 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 your host for today's call, Ms. Wendy Kelley, Director of Investor Relations and Corporate Communications. Please proceed.

Wendy Kelley
*Director of 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 President and Chief Executive Officer, Garry Ridge; and Vice President and Chief Financial Officer, Jay Rembolt. 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 February 28, 2019. 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 discussions.

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, April 9, 2019. 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 Garry.

## Garry O. Ridge

*President, Chief Executive Officer & Director, WD-40 Co.*

Thanks, Wendy. Good day, and thanks for joining us for today's conference call. Today, we reported net sales of $101.3 million for the second quarter of fiscal year 2019, which was flat compared to the second quarter of last year. Net income for the second quarter was $15.9 million compared to $14.8 million last year reflecting an increase of 7% year-over-year. Diluted earnings per share for the second quarter were $1.14 compared to $1.05 for the same period last year.

Now, let's start with the discussion about our strategic initiatives and the brands that support them. We aspire to drive our consolidated net sales to approximately $700 million in revenue by the end of fiscal year 2025, and to do this while following our 55/30/25 business model. We'd like to remind investors that these long-term targets are guideposts, not guidance, but our tribe continues to work diligently on programs and initiatives that will help us successfully reach our 2025 aspirations. As a reminder, we refer to the brands that are going to get us there as our 2025 brands. They are WD-40 Multi-Use Product, WD-40 Specialist, 3-IN-ONE, WD-40 BIKE, GT85, 1001, Spot Shot, Solvol, Lava and no vac. Our 2025 brands are our core strategic focus with the primary growth engine for our company.

Strategic initiative number one is to grow WD-40 Multi-Use Product. Our goal under this initiative is to make the blue and yellow can with a little red top available to more people in more places who will find more uses more often. Our goal under this initiative is to grow WD-40 Multi-Use Product to approximately $530 million in revenue by the end of fiscal 2025. In the second quarter sales of WD-40 Multi-Use Product was $78.4 million, down just under 1% compared to last year. The slowness was driven almost entirely by events in our largest market the United States, which I'll discuss in greater detail in a moment. Sales of Multi-Use Product grew in nearly every other market during the second quarter driven by geographic expansion and continued innovation. As part of this strategic initiative we continued to introduce WD-40 Multi-Use Product into new markets targeting increased growth and a higher availability around the globe. During the second quarter we continued the expansion of our WD-40 EZ-REACH Flexible Straw, which is now available in over two dozen countries and we will continue to roll it out into new countries all around the world.

Strategic initiative number two is to grow the WD-40 Specialist product line. In the second quarter sales of WD-40 Specialist were $8.1 million, up 8% compared to the second quarter of last year. This continues to move the company toward the goal for this initiative, growing the product line to approximately $100 million in revenue by the end of fiscal 2025. We are optimistic about the long-term opportunities for WD-40 Specialist. However, there may be some volatility in sales levels along the way due to the timing of promotional programs, the building of distribution and various other factors that come with building out a new product line.

Strategic initiative number three is to broaden the product and revenue base. Strategic initiative number three includes maintenance products like 3-IN-ONE, WD-40 BIKE and GT85, but it also includes such brands as Spot Shot and Lava in the Americas, a 1001 in EMEA and no vac and Solvol in Asia Pacific. We believe we are on track to reach a combined revenue for these products of approximately $70 million by 2025. Sales under this strategic initiative were $12.6 million this quarter, up 5% compared to last year. Nearly all of the growth was attributable to strong sales of 1001 Carpet Fresh in the UK due to the favorable impacts of some digital marketing windfalls in the UK and that were associated with this brand.

Strategic initiative number four is to attract, develop and retain outstanding tribe members. Our goal under this initiative is to attract, develop and retain talents and tribe members and to grow tribe member engagement to greater than 95%. We recently announced the addition of Anne Saunders to our board of directors. Anne's deep functional expertise spanning all channels of marketing strategy and brand management make her a valuable addition to our board. And in addition to our board also reflects our continued commitment to cultivate diversity in the boardroom, not just because it's the right thing to do but because we need to have a board that can help guide and shape our business to meet our commercial needs from San Diego to Shanghai.

Additionally I'm happy to share with you that we plan to start the renovation and build out of our new office in Milton Keynes this month, and we expect to move the tribe located in the UK into the new building in the fall of 2019. Strategic initiative number five, operational 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. Using our 55/30/25 business model as a framework we measure ourselves against this operational excellence initiative. With that in mind, I'm really excited to share with you an innovation that we've been working on for quite some time that will make our SmartStraw delivery system better than it is today. First launched in 2005, our original SmartStraw delivery system has been a success story for us.

Leaving our value to make it better than it is today, we've evolved SmartStraw into a new product that we believe will create a positive lasting memory across the brands, across all trade channels, and across all geographies. If you turn to page 6 in our earnings presentation available on our investor relations website you can see a photo of this innovation. Our new delivery system is the first of its kind product. Like our original SmartStraw it has a permanently attached straw so you'll never lose the straw again. But it also has a lockable toolbox proof design which reduces accidental discharge, has a better actuator making it to spray, and a more ergonomic and durable design. In addition, our significant investment in this delivery system has enabled us to optimize our global manufacturing, which will enhance our operational efficiencies and generate enhanced value for our shareholders.

Finally, we've applied for a combination of design and utility patents that we filed around the globe to protect this innovation. We expect to roll out this new delivery system globally starting in the second half of 2020. That completes the update on our strategic initiative. So let's move on to the details of our second quarter starting with sales. As I mentioned earlier, consolidated net sales were $101.3 million in the second quarter, flat versus the second quarter of last year. Translation of our foreign subsidiary results from their functional currencies to U.S. dollars had an unfavorable impact on sales in the second quarter. On a constant currency basis, net sales would have been $104.6 million in the second quarter, up $3.3 million or 3% compared to last year.

Before I discuss what's happening in individual segments, I'd like to take a moment to remind investors that though we do not consider our business to be a seasonal one, it's common for our sales results to fluctuate one period to another due to factors that include the level of promotional activities, specific programs being run at customer locations, the timing of customer orders or the impact of new product launches. This is a normal part of our business, and we are accustomed to these types of fluctuations and manage them as part of our normal business activities. It's when something out of the ordinary happens that we will discuss the event in much greater detail here with investors.

So now let's start with the Americas. Net sales in the Americas, which includes the United States, Latin America and Canada decreased to $43.9 million in the second quarter, down 2% from last year. Year-to-date net sales in the Americas were up 1% compared to last year. Second quarter sales of maintenance products decreased by 1% or $300,000 in the Americas, entirely due to lower sales of maintenance products in the United States. Maintenance product sales in the United States decreased 3% in the second quarter due to a 6% decline of WD-40 Multi-Use Product in the country.

Now let's talk about something a little out of the ordinary that happened in the U.S. market that's impacting this quarter results. I often describe disruptions to our business is either [indiscernible] (00:12:26) or a trend. This quarter's decline in sales was driven by two events that took place in the United States. The rotation of products that periodically occurs in warehouse club channels as well as some delayed promotions with our key U.S. customer. Product rotation is a normal occurrence in the warehouse club channel driven by the fact they have limited amount of shelf space for a limited number of brands. Rest assured, our U.S. tribe are working diligently to ensure we are rotated back in.

The delayed promotions at a key customer are directly tied to the proactive price increase we put in place last June to offset rising commodity prices. Unfortunately, pricing decisions like the one we made last year can be disruptive. Without going deep into the specifics of this event driven decline in sales, I will share with you that at times our long-term business decisions don't always excite our customers and may result in unanticipated loss of promotional activity. Despite this fact, we must continue to make decisions that support our long-term goals of our operation and our organization. That resolution has taken it longer than we would have liked. This key customer event has been resolved, and we believe the United States is positioned for a solid second half of this fiscal year. Partially offsetting these declines was a 25% increase in the sales of WD-40 Specialist in the Americas.

In addition, maintenance product sales were up 4% in Latin America and 11% up in Canada, mostly due to the timing of customer orders expanded distribution and successful promotional programs in both regions. As a reminder, our maintenance products exclude our homecare and cleaning products. Sales of our homecare and cleaning products in the Americas decreased 14% in the second quarter compared to the prior year largely due to lower sales of 2000 Flushes and Spot Shot in the U.S. which declined 27% and 9% respectively. The decline in sales of 2000 Flushes was due to some temporary loss distribution. We continue to consider our homecare and cleaning products except those listed as 2025 brands as harvest brands that continue to generate meaningful contributions in cash flow but are generally expected to become a smaller part of our business over time. In total, our Americas segment was 43% of our global business. Over the long term, we anticipate sales in this segment will grow between 2% and 5% annually.

Now, on to EMEA; net sales in EMEA, which includes Europe, the Middle East, Africa and India increased to $40.9 million in the second quarter, up 3% from last year. Year-to-date net sales in EMEA were up 7% compared to last year. EMEA's reported results in the second quarter were negatively impacted by foreign currency exchange rates. On a constant currency basis, sales in EMEA would have increased to $43.5 million in the second quarter, up 10% from last year and in line with our targeted compounded annual growth rate for the segment. We experienced a $500,000 favorable transaction related impacts in EMEA this quarter, which slightly offset the translation related headwinds we are experiencing.

As you know, we sell into EMEA through a combination of direct operations as well as through marketing distributors. Our EMEA direct markets account for 68% of the region's sales during the second quarter of this year. In U.S. dollars, sales in the direct markets were $27.6 million, flat compared to last year. However on a constant currency basis most of our EMEA direct markets did see growth due to increased sales of WD-40 EZ-REACH Flexible Straw. In addition, sales in the UK direct market increased due to higher sales of the 1001 Carpet Fresh as the result of favorable impacts from some digital marketing windfalls associated with the brand. Net sales in our distributor markets which accounted for 32% of the region sales increased 11% during the quarter to $13.3 million. This increase was primarily due to the increased sales of WD-40 Multi-Use Product in the Middle East due to a high level promotional activity. Also contributing to the increased sales was the distribution of WD-40 EZ-REACH Flexible Straw in our EMEA distributor markets. The EMEA segment made up 41% of our global business. Over the long term we expect sales within this segment to grow between 8% and 10% annually.

Now, on to Asia-Pacific; consolidated net sales in Asia-Pacific which includes Australia, China and other countries in the Asian region decreased to $16.5 million in the second quarter, down 1% from last year. Changes in foreign currency exchange rates had an unfavorable impact on sales in the region. On a constant currency basis, sales in Asia-Pacific would have increased to $17.1 million in the second quarter, up 3% from last year. In Australia, net sales were $4.1 million in the second quarter, down 7% compared to last year. Changes in foreign currency exchange rates had a negative impact on sales in the region. On a constant currency basis, sales in Australia were up 1% compared to the second quarter of last year.

In our Asia distributor market, net sales was $7.5 million in the quarter, down 8% compared to last year. This decrease was primarily due to lower sales of WD-40 Specialist, due to the timing of customer orders in conjunction with a planned transition to a new manufacturing partner in the region. Though the transition was meaningful in the second quarter sales of WD-40 Specialist, we do not believe overall sales volume of WD-40 Specialist was materially impacted. This is because in anticipation of this planned transition, our customers in the region purchased extra product in fiscal year 2018. A new manufacturing partner is now in place, and we do expect not to have any further manufacturing related disruptions in the region. Our Asia distributor markets are not impacted by currency since we sell in U.S. dollars in the region.

In China, net sales in U.S. dollars were $4.8 million in the second quarter, up 19% compared to last year. On a constant currency basis, sales increased 26% compared to last year due to successful promotional programs that were conducted in the second quarter of this year and the continued increasing of our base distribution. We remain optimistic about our long-term opportunities in China, although we expect a lot of volatility along the way due to the timing of promotional programs, the building of distribution, shifting economic patterns and varying industrial activities. The Asia-Pacific segment made up 16% of our global business. Over the long-term, we expect sales will grow 10% to 12% annually.

So that's a wrap up of my section. I'm going to hand over to Jay now who will continue with the review of the financials.

## Jay W. Rembolt

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

Well, thank you, Garry. 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 towards 30% of net sales over time. And finally the 25 represents our target for EBITDA. First, we'll look at the 55 or our gross margin. In the second quarter, our gross margin was 55.4% compared to 55.1% last year. This represents an increase of 30 basis points year-over-year. The effective sales price increases which we've implemented in all three trade blocks over the past 12 months positively impacted gross margin by 120 basis points in the second quarter.

Sales mix changes and other miscellaneous costs positively impacted our gross margin by 60 basis points, driven primarily by favorable product mix changes, primarily in our Americas and Asia-Pac regions. Also positively impacting gross margin this quarter by 20 basis points was lower warehousing, distribution and freight costs in the Asia-Pacific segment. And finally, favorable changes in foreign currency exchange rates had a positive impact on our gross margin of about 25 basis or 20 basis points. These favorable impacts to gross margin were partially offset by changes in major input costs, which negatively impacted our gross margin by 120 basis points this quarter. Approximately, 70 basis points came from increased cost of petroleum-based specialty chemicals, while the remaining 50 basis points came from higher cost associated with aerosol cans.

As a reminder, there is a delay of about 90 to 120 days or more before changes in raw materials impact cost of goods due to production and inventory life cycles. The average cost of raw materials that flow through our cost of goods sold in the quarter were higher this year compared to last year. And this put pressure on our gross margin in all three trade blocks. Also negatively impacting gross margin in the second quarter were increased advertising, promotional and other discounts that we give to our customer which negatively impacted gross margin by 70 basis points compared to the prior year quarter. As a reminder our long term gross margin target of 55% is not contingent upon commodity prices staying at any particular price point. We cannot control global market dynamics, but we can continue to be focused and deliberate in managing the rest of our business so that we will maintain gross margin at or above 55% over the long term.

Now, I'll address the 30 or our cost of doing business. In the second quarter our cost of doing business was approximately 34%, which is similar to the second quarter last year. For the second quarter, 76% of our cost of doing business came from three areas; people costs or the investments we make in our tribe; the investments we make in marketing, advertising and promotion, as a percentage of sales our advertising and promotion investment was 5.1% in the second quarter; and then finally freight, the cost to get our products to our customers. While our objective is to have our cost of doing business closer to our target of 30% of net sales, we'll continue to make necessary investments in support of our fifth strategic initiative that of operational excellence.

Now, this brings us to EBITDA the last of our 55/30/25 measures. EBITDA was 22% of net sales in the second quarter, which is up from 21% last year. This completes our discussion on the 55/30/25 business model. It's worth noting that we experienced a non-operating item related to foreign currency exchange gains that favorably impacted income before taxes. In the second quarter of fiscal 2019 we recorded foreign currency exchange gains of $1.3 million, whereas in the prior year we recorded approximately $300,000 of losses. A significant portion of these gains were related to a large repatriation from our UK subsidiary, which was transacted during the second quarter of this fiscal year. The provision for income taxes was constant at 18.7% in the second quarter of this year compared to last.

For the current year, our federal statutory rate is 21%. However, during the quarter, our income tax provision was favorably impacted due to excess tax benefits from the settlements of equity awards. We expect that our effective tax rate for the full year will be approximately 21%. Net income for the second quarter was $15.9 million versus $14.8 million in the prior year, reflecting an increase of 7%. This resulted in diluted earnings per common share of $1.14 for the second quarter compared to $1.05 for the same period last year. Diluted weighted average shares outstanding decreased to 13.9 million shares from 14 million shares a year ago.

Now, a word about capital allocation; our capital allocation strategy includes a comprehensive approach to balance investing for a long term growth, while providing strong returns to our shareholders. We continue to return capital to shareholders through regular dividends and share repurchases. On March 19, 2019, our board of directors approved a quarterly cash dividend of $0.61 per share, payable April 30 to shareholders of record at the close of business on April 19. With respect to capital expenditures, in total we expect to invest about $22 million this fiscal year in support of our fifth strategic initiative, operational excellence.

In addition to our regular maintenance CapEx, we'll continue making investments to complete the renovation of our new facilities in Milton Keynes, and we'll also invest in some machinery and equipment needed to manufacture our innovative new SmartStraw delivery system which Garry highlighted earlier. Based on today's closing price of a $172.34, the annualized dividend yield is 1.4%. And during the second quarter, we repurchased just over 30,000 shares of our stock at a total cost of $5.2 million under our current $75 million share repurchase plan, which was approved by the board in June 2018. At the end of our second fiscal quarter, we had $62.9 million remaining under the plan.

So with that, let's turn to fiscal year guidance. Uncertainty around foreign exchange rates, particularly the pound and sterling and commodity prices, we're continuing to make it challenging to forecast our business. However, we are reaffirming today our guidance. And believe that if foreign currency exchange rates remain close to current levels for the remainder of the year, we can expect our net sales to come in the lower end of our guidance range. And with that, our guidance for the year; net sales growth to be projected to be between 4% and 7%, with net sales expected to be between $425 million and $437 million. Gross margin for the full year is expected to be near 55%. Advertising, promotion investment is projected to be between 5.5% and 6% of net sales. The provision for income taxes is expected to be between 21% and 22%. Net income projected to be between $62.2 million and $63.2 million. And diluted earnings per share is expected to be between $4.51 and $4.58 based on an estimated 13.8 million weighted average shares outstanding. And note the guidance does not include any impacts of future acquisitions or divestitures.

That completes the overall financial review. And now, back to Garry.

## Garry O. Ridge

*President, Chief Executive Officer & Director, WD-40 Co.*

Thanks, Jay. In summary, what did you hear from us on our call today? You heard that global sales were flat in the second quarter as compared to last year, yet they were up 3% in constant currency. You heard that the impacts of foreign currency exchange rates reduced our global sales by $2.8 million in the second quarter. You heard that the sales of WD-40 Multi-Use Product were down in the United States, but despite the events we experienced, we believe the United States is positioned for a solid second half of the fiscal year. You heard that global sales of WD-40 Specialist grew 8% in the second quarter.

You heard that we continue to increase distribution of WD-40 EZ-REACH Flexible and it is now available in over two dozen countries. You heard that we're working on an innovation that will make our SmartStraw delivery system better than it is today. You heard that we've added Anne Saunders to our board of directors. And you heard that our guidance remains unchanged, and we expect to end the year in line with our guidance. In closing, today I'd like to share a quote with you from Maya Angelou, you may not control all the events that happened to you, but you can decide not to be reduced by them. Thank you for joining us on our call today, and we would be pleased to open the conference call to any questions.

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Your first question comes from the line of Linda Bolton Weiser. Please proceed with your question.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*
Q

Hi. How are you?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*
A

Hi, Linda. Great.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*
Q

So can I just ask you about the innovation? I didn't quite catch all the elements that you said, in plain simple English non-technical terms, is it that the straws attached to the can whereas before it wasn't, or can you just simply explain – and I didn't quite – is it on page, is there a picture on page 6 because I'm not seeing the picture?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*
A

Yes. Sorry. Maybe it's on page 7 of the presentation. Sorry. So what it basically is Linda, our old SmartStraw was called SmartStraw 1. SmartStraw 2 is a new developed smart straw that has a lockable feature on the top of the actuator. It permanently attaches the straw, so you'll never lose the straw again. It sprays two ways. You flip it up to stream and down to spray. It's the first of its kind lockable toolbox proof design which will reduce any accidental discharge. There's a better actuator making it easy to spray, it's more ergonomic, it's more durable, and it has an improved spray pattern.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*
Q

Okay. Thanks. It sounds like a lot. So when you talk about the roll out in second half fiscal 2020, is it going to be sort of gradual, and what market would we expect first, and what channels, like is it first in the U.S. homecenters, like do you have any idea at all about how it might roll out?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*
A

It will definitely be in the U.S. first, and it will then from there roll out into Europe and across the world. We're not completely sure yet of which channels it'll touch first, but we would expect it'll take us probably 18 months to 2 years to convert the world. It's not a minor conversion, but certainly we will start rolling it out with a complete swap-out in the United States.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*
Q

And what would be the price premium over what you have now, and how will the margins look compared to what you have now in the product line?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

Being so far away from when we're about to roll out, we haven't talked openly and publicly yet about pricing, but we'll update you as we get closer.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*

Q

Okay. Sounds good. Then can I ask you, when you mentioned, when you talked about the issue was being taken out in one of the warehouse clubs in the U.S., can you just comment in a general way, did they put another competitive type product similar to yours in there instead of you, or did they just not put your whole category in there? And secondly, it sounds like until they try to get back in, that this may be like a permanent loss for a couple of more quarters until you anniversary the loss. Am I thinking of it the right way?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

Two questions there. Firstly, they did not put another product in, this was not a competitive play. This is not unusual. As you probably know Linda, in the warehouse club, they have very limited floor space, and from time-to-time they rotate products out to rotate seasonal products in. And this is not the first time it's happened to us. It won't be the last I'm sure, it happens with many products. I'm sure we've all gone to warehouse clubs to buy something that we bought last time that for some reason isn't there again. The major impact of it was really felt in this quarter because it was a promotional period in the same quarter last year. So we don't believe it'll have a major impact for the rest of the year. And we'll be working as we've done before to regain and win back that floor space at a later time.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*

Q

So you're saying it was actually some kind of a program that ran for kind of like this one quarter last year. So it wasn't in for a multi quarter period, is that correct?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

We are not always in all clubs everywhere all the year. And last year at this time we happened to have a comparable promotion that we didn't get this year because we're not in the club this year.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*

Q

Okay. All right. So as long as you feel, I mean, it sounds like you feel pretty confident that it was like this quarter was the impact. Am I reading that correctly?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

This quarter is the majority of the impact, yes, the past quarter. As with the other thing that we described as well, which was the promotion of the key account, which are two different events.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*

Q

Right. So in terms of the other item, so just explain it again, how does it relate to the price increase? You're saying that they're just not running a promotion because you want to keep the price. I don't quite understand, like, can you just explain?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

In respect of the customer, I don't want to get into too much detail, but generally what happened is that when we went last year without price rise, as you well know, customers don't always open their arms and welcome us gladly with the price rise. So they do what great companies should do. They try to do the best they can for their end user and good for them to do that. In one particular customer, they decided that they would help us understand more their discomfort with us doing a price rise, hoping that we would not do the price rise by suggesting that if we did rise our price that it would be unlikely that they would be as enthusiastic as they have been in the past around promoting our products for a period of time. One may call that punishment, but anyhow. So although we weren't at any way delisted from this customer, they decided that they were going to engage in the normal level of promotion. So there is not as much about product in their store, and particularly it impacted us in the quarter. Now, since then the issue has been resolved, then we're back on the promotional calendar, and we will be back in full swing in the second half of the year. So it just took a little time.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*

Q

Okay. Thanks for that. And then, I'm just curious, we've had some weather conditions in the U.S. like some very rainy, wet type weather in various regions. Would that affect increased consumption or usage of WD-40 products?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

When there is more moisture and more oxygen, couple of things happen, one of them is rust. So yeah, we would think that there are periods of time, but it's very hard for us to be able to measure that spike. But we are always used as a product to rejuvenate wet engines, and when that sort of opportunity comes we do turn up the volume in talking about those uses amongst our end users. So yeah, I think different weather conditions could have different, but weather doesn't play into us as a huge needle mover.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*

Q

Okay. And I guess, just one last one from me. You gave your usual good rundown on the gross margin, different impacts there. In terms of the oil and the can inputs being the cost being up year-over-year, I'm looking at just the commodity cost trend, and I'm seeing that maybe with the delay factor, those costs would start to be flat or down in your next quarter. Am I looking at that correctly in the fiscal third quarter we may see some moderation or actually down year-over-year instead of up on the costs?

Jay W. Rembolt
*Vice President of Finance, Treasurer & Chief Financial Officer, WD-40 Co.*

A

We should be able to pick up some benefit in the third quarter. Your analysis is very similar to ours.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*
Q

Okay. All right. I think that's all from me. Thank you very much.

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*
A

Thanks a lot, Linda.

Jay W. Rembolt
*Vice President of Finance, Treasurer & Chief Financial Officer, WD-40 Co.*
A

Have a good afternoon.

Linda Bolton Weiser
*Analyst, D.A. Davidson & Co.*
Q

Thank you.

**Operator**: Your next question comes from the line of Daniel Rizzo with Jefferies. Please proceed with your question.

Daniel Rizzo
*Analyst, Jefferies LLC*
Q

Just a follow up on the last question. So with the recent surge in oil prices, although we've seen since the beginning of the year, I think we saw 15% since the last call, we wouldn't have had a problem, would have a negative impact later not necessarily next quarter but towards the end of the year and into 2020?

Jay W. Rembolt
*Vice President of Finance, Treasurer & Chief Financial Officer, WD-40 Co.*
A

That will have – yes, by the time we get into the latter half of the year or the last quarter and early 2020, we should be experiencing some of those higher prices that we're seeing now.

Daniel Rizzo
*Analyst, Jefferies LLC*
Q

And then you guys, you talked about your 2025 brands and that was very helpful. But you mentioned 1001, Spot Shot and Lava and some others, were they always part of like the core brands? I thought in the past that they weren't, and there was more about the Multi-Use Product, 3-IN-ONE and some others. I was wondering if you kind of added those recently or it's always been there and I just didn't notice it.

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*
A

About six or nine months ago we did get firm around what brands we were confident would be in the portfolio at 2025. The ones that are in that now are 2000 Flushes, X-14 and Carpet Fresh in some markets around the world, but we see that Lava and Solvol and a 1001 in the UK and Spot Shot in the U.S. are part, include and 3-IN-ONE and GT85 and WD-40 BIKE, which make up that whole other bundle in our expected 2025 brands.

Daniel Rizzo
*Analyst, Jefferies LLC*

Q

Okay. Thank you. And then one more question. So I've noticed that your corporate costs have been turning out lower. Can you just provide color, is there a reason for that, I mean, is it timing or is it just something we can kind of extrapolate going forward?

Jay W. Rembolt
*Vice President of Finance, Treasurer & Chief Financial Officer, WD-40 Co.*

A

Well, I think, we do have a very concerted effort on driving our overall cost of business down toward the 30%. So I think, one, there's variability in timing throughout the year, but certainly as we look forward our goal is to continue to drive down our cost of business. But I think some of what you're noticing might be just some variability between quarters and between years.

Daniel Rizzo
*Analyst, Jefferies LLC*

Q

Okay. All right. Thank you very much.

**Operator**: Your next question comes from the line of Rosemarie Morbelli with the G.research. Please proceed with your question.

Rosemarie J. Morbelli
*Analyst, G.research LLC*

Q

Thank you. Good afternoon, everyone.

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

Hi, Rosemarie.

Rosemarie J. Morbelli
*Analyst, G.research LLC*

Q

I was wondering if you could give us a little more on how you got back into the customers' good graces. Did you have to lower your price, accept that not as much as they originally wanted you to?

Jay W. Rembolt
*Vice President of Finance, Treasurer & Chief Financial Officer, WD-40 Co.*

A

I'm not going to...

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

No, we didn't rescind on our price rise. I think it was us being able to show the customer that we are very supportive of their long-term goals, that we do bring significant innovation to the table, showing them how we are a very reliable, on-time in fill supplier that supports their gross margin return on inventory. And I think it just takes time. Jay, what's your...

Jay W. Rembolt
*Vice President of Finance, Treasurer & Chief Financial Officer, WD-40 Co.*

A

No. I think you're right Garry that it has a lot to do with just that ongoing partnership, and occasionally it's not necessarily recognized anymore at any given time. But we do a lot of work understanding our customers' customer. And so when we have dialogue with our customers, we are able to share some of the insights that we gain from that. And in that I think those are the kind of value opportunities that we were able to share with them.

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

Some of our competitors, the only thing they have to play with is price, and we think it's much bigger than price. It's about innovation, it's about insights into the behaviors of our end users, it's about research, it's about innovation like SmartStraw and EZ-REACH. And we need to continue to have those conversations. And what we're about is driving category sales and profitability, not about one penny here one penny there.

Rosemarie J. Morbelli
*Analyst, G.research LLC*

Q

Okay. So can we say that this was a surprise to you that they would act the way they did?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

No.

Rosemarie J. Morbelli
*Analyst, G.research LLC*

Q

No?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

No. I mean, we're often asked by our investor base why don't we just raise prices. And we don't raise prices because price rises are disruptive. And I would expect that every good buyer and every good retailer, and if I was running a retail organization, and funnily enough, I came from retiling many years ago that's where I started, their job is to do their job and I respect the fact that they do do their job. And sometimes the decisions we make are ones that they would prefer we don't make. And I respect that.

Rosemarie J. Morbelli
*Analyst, G.research LLC*

Q

Okay. And then still on that same subject, given the fact that oil prices have gone up, are you planning in instituting additional price increases in order to offset for this coming your way, even though you won't see it for a little while?

Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

No, we're not. Oil prices are coming back now to where they were about eight or nine months ago when we first implemented the price rise. So no, we don't have – today we do not have in the United States say another immediate price rise in our plan. Although around the world we are taking pricing for different reasons from time-to-time.

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Rosemarie J. Morbelli
*Analyst, G.research LLC*

Q

Okay. Thanks. And then looking at the growth in EMEA, anything specific besides EZ-REACH, and I missed it if you gave us the growth rate for EZ-REACH in that particular region?

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Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

We didn't give a growth rate individually, but EZ-REACH is playing well. The UK market did very well, particularly because of the promotional activity that was generated through the product of [ph] Novak (00:47:41). But in transaction currencies, we're seeing most markets growing. The UK is growing well. We're seeing good growth in Iberia and Italy. We're seeing good reasonable growth in France. So overall, our business continues to track along at a reasonable rate in the EMEA markets, in line with the initiatives that we've got in place to continue to grow the business through to 2025.

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Rosemarie J. Morbelli
*Analyst, G.research LLC*

Q

Okay. Great. Thank you.

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Garry O. Ridge
*President, Chief Executive Officer & Director, WD-40 Co.*

A

Thank you.

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**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 lines.