Q1 Fiscal Year 2025 Prepared Management Remarks
October 30, 2024

Lisah Burhan, Vice President, Investor Relations
Linda Rendle, Chair and Chief Executive Officer
Kevin Jacobsen, Executive Vice President and Chief Financial Officer

Please review the following prepared management remarks in conjunction with the company's first-quarter fiscal year 2025 earnings release. These materials can be found on TheCloroxCompany.com in the quarterly results section or directly here.

Clorox will also host a live Q&A audio webcast at 5 p.m. ET, today, with Chair and CEO Linda Rendle and Chief Financial Officer Kevin Jacobsen to address the company's results as shared in the earnings release and these management remarks.

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Lisah Burhan, Vice President, Investor Relations

Thank you for your interest in our quarterly earnings results. In conjunction with these comments, please review our earnings release, which can be found on TheCloroxCompany.com in the investor quarterly results section.

The following remarks from Chair and CEO Linda Rendle and CFO Kevin Jacobsen include forward-looking statements that are based on management's current expectations but may differ from actual results or outcomes. In addition, these remarks refer to certain non-GAAP financial measures. Please refer to today's earnings release, which identifies various factors that could affect forward-looking statements and provides information that reconciles non-GAAP financial measures to the most directly comparable GAAP measures. The risk factors section of the company's Form 10-K also includes further discussion of forward-looking statements.

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Management Commentary

We entered fiscal year 2025 in a position of operational strength, having fully restored supply, distribution and the vast majority of market share lost in the aftermath of the August 2023 cyberattack.

This quarter, we drove even further progress as we fully restored overall market share and delivered strong, profitable growth, all while continuing to advance our IGNITE strategy. While it's early in the fiscal year, our plans are generally playing out in line with our expectations.

- In an environment where consumers remain under pressure, our everyday essential categories remain resilient, growing in line with our expectations.
- Importantly, our focus on value superiority and strong investments behind our brands are enabling us to grow market share. We grew share in most of our categories and ended the first quarter with an overall market share equal to the level before the cyberattack. We are also continuing to make progress in our Litter and Glad businesses – growing share in both. However, the work is not done. We will continue to win back our consumers with strong plans focused on superior value, including innovation, supported by robust demand creation plans. Our recent innovation launches include Clorox Scentiva Bleach Lavender & Jasmine, plant-based Clorox EcoClean Disinfecting Wipes, and the more durable Glad ForceFlex MaxStrength trash bags.
- We delivered our eighth consecutive quarter of gross margin expansion, supported by another quarter of strong cost savings and our holistic margin management program, which enhances our ability to fuel growth. With a solid cost savings pipeline for the year, and strong first quarter performance, we remain on track to return to our pre-pandemic gross margin.
- During the first quarter, we also completed the divestiture of our Better Health Vitamins, Minerals and Supplements (VMS) business in its entirety. This transaction marks another important milestone in our portfolio evolution to reduce volatility and accelerate sales growth, as well as structurally improve our margin profile. Together with the full implementation of our streamlined operating model, continued advancement of our holistic margin management capabilities, and digital transformation, we are building a more consumer-obsessed, faster and leaner company that's well positioned to deliver consistent, profitable growth.

First quarter results exceeded our expectations, primarily driven by higher-than-expected sales in our Health and Wellness and International segments. The higher-than-expected sales were driven by a combination of factors, including stronger consumption, favorable mix and early shipments in our Professional Products business ahead of the upcoming cold and flu season. The strong sales growth in the first quarter drove significant operating leverage across the P&L, benefiting gross margin, EBIT margin and earnings per share.

Given the complexity surrounding our performance last year, we knew the range of outcomes in fiscal year 2025 would be wider-than-normal, especially in the first two quarters. We are modestly adjusting our second quarter expectations to reflect the timing of shipments mentioned above.

Looking at the balance of the year, we expect the volatile and challenging environment to persist. Consumers remain under pressure and value seeking behaviors continue. Consistent with our expectations, we are seeing increased promotional spending, which is in line with a return to a more normalized promotional environment. Our plans include strong innovation and robust demand creation activities to reinforce and enhance our value superiority at a time when it matters most to consumers. While it is early in the year, we are confident we have the right plans in place to deliver strong financial performance in fiscal year 2025.

First-Quarter Fiscal Year 2025 Results

Net sales increased 27%, driven by 26 points of volume growth mainly from lapping the impact of the cyberattack disruptions and 1 point of favorable price mix. The impact from the divestitures of our Argentina and VMS businesses was about -4 points this quarter. On an organic basis, sales increased 31%.

Gross margin for the quarter was 45.8%, up 740 basis points versus the prior year, reflecting better cost absorption driven by strong shipment growth. Gross margin also benefited from 240 basis points of benefit from cost savings, 100 basis points of favorable mix and 20 basis points of lower commodity costs. These benefits were partially offset by 60 basis points of increased trade promotion spending.

Selling and administrative expenses as a percentage of net sales were 15.9% compared to 19.9% in the year-ago quarter. This included $29 million, or about 160 basis points, of strategic investments to enhance our digital capabilities.

Advertising as a percentage of net sales was 11.4%, with investments in our U.S. retail business coming in at 12.4% of sales.

First quarter effective tax rate was 41.8%, higher than normal driven by the loss from the divestiture of VMS, which was nondeductible. Excluding the impact of our VMS divestiture, the first quarter adjusted effective tax rate was about 25%.

Net of all these factors, adjusted earnings per share for the first quarter was $1.86 cents versus $0.49 cents in the year-ago quarter, reflecting a 280% increase.

Fiscal year to date net cash provided by operations was $221 million compared to $20 million in the year-ago period, representing a 1,005% increase. The increase was primarily driven by higher cash earnings.

Fiscal Year 2025 Outlook

We are maintaining our full year sales outlook, while raising our gross margin and EPS outlook, based on our strong start to the year and confidence in our plans over the balance of the fiscal year. Our updated outlook reflects a few puts and takes, including the benefits of strong Q1 results net of timing impact, an improving cost environment, and slightly higher foreign exchange headwinds. Our outlook continues to reflect the impact from our portfolio transformation efforts, including the divestitures of our Argentina and VMS businesses, as well as the benefits of the full implementation of our streamlined operating model. Also, our outlook does not include any potential operational impacts from the implementation of our new enterprise resource planning (ERP) rollout. As we finalize our plans in the next few months, we will be in a better position to provide an update on our Q2 earnings call. Other assumptions in our outlook remain largely unchanged.

- We continue to expect net sales to be flat to down 2 percent, including about 2 points of negative impact from the divestiture of our business in Argentina and about 3 points of negative impact from the divestiture of our VMS business. Additionally, we continue to expect organic sales to grow 3% to 5%, driven primarily by volume growth. We now expect Q2 organic sales to decline low double digits, likely in the low teens, as we lap strong shipments behind retail inventory restoration in the year-ago period. Our Q2 sales expectation also includes adjustments for timing shifts between the first two quarters. As we move beyond the choppiness of the first two quarters, we expect organic sales growth in the back half of the year to stabilize and return to a more normalized level.
- We now expect gross margin to be up about 100 to 150 basis points. We expect the benefit of our holistic margin management efforts and structural improvements from our recent divestitures to more than offset cost inflation as well as modest pressure from higher promotional spending compared to an abnormally low level of merchandising support in the front half of fiscal year 2024, following the cyberattack. From a phasing perspective, we expect Q2 gross margin to contract by less than 100 basis points, reflecting the impact of negative operating leverage driven by reduced shipments in the quarter, partially offset by cost savings.
- We continue to expect selling and administrative expenses to be between 15% to 16% of net sales. This includes about 150 basis points of impact related to our investments to enhance our digital capabilities.
- We continue to expect advertising spending to be between 11% to 11.5% of net sales. This higher level of advertising as a percentage of net sales reflects both a continued effort to emphasize our value superiority in a more challenging consumer environment as well as a modest rate increase because of our divestitures.
- We continue to expect our fiscal year effective tax rate to be about 28%. The higher rate is driven primarily by our VMS divestiture. Excluding the impact of the VMS sale, we expect our fiscal year adjusted effective tax rate to be about 24%.
- Net of these factors, we now expect our fiscal year diluted EPS outlook to be between $5.17 and $5.42 versus previously $4.95 and $5.20, a year over year increase of 130% to 141%, respectively, reflecting the lapping of several one-time charges recorded in the year-ago period. Additionally, we now expect adjusted EPS to be between $6.65 and $6.90 compared to previous estimate of $6.55 and $6.80, a year over year increase of 8% to 12%, respectively. Adjusted EPS excludes about $0.60 of expense from our long-term strategic investments in digital capabilities and productivity enhancements, a $0.94 charge we took in the first quarter from the loss on sale related to the divestiture of our VMS business, and a $0.06 benefit from cyberattack insurance recovery in the first quarter.

While the macro-environment remains uncertain, we are focused on delivering superior consumer experiences that win in the market. Our portfolio of strong brands in essential categories continues to demonstrate its resilience. We believe our outlook reasonably contemplates the challenges ahead and the investments required to deliver strong performance.

In closing, our IGNITE strategy has guided us well through the volatile and challenging environment in recent years. We believe we are taking the right steps to navigate the near term while continuing to transform Clorox into a stronger company poised to deliver more consistent, profitable growth and enhance long-term shareholder value.

Thank you to our Clorox teammates for their contributions and dedication as we deliver on our commitments to our company and our stakeholders.

We look forward to the Q&A session later today.

Linda Rendle, Chair and CEO
Kevin Jacobsen, Executive Vice President and CFO