Q2 Fiscal Year 2025 Prepared Management Remarks
February 3, 2025

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

Please review the following prepared management remarks in conjunction with the company's second-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, Chief Financial Officer Kevin Jacobsen and Treasurer and incoming Chief Financial Officer Luc Bellet 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.

Joining me today are Chair and CEO Linda Rendle, CFO Kevin Jacobsen, and Clorox's Treasurer and incoming CFO Luc Bellet. The following remarks 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 delivered better-than-expected results in the second quarter, supported by continued consumption and share growth, which underscores the strength of our brands. Sales also benefited from earlier-than-expected shipments of Kingsford products to support new distribution. This over delivery in sales resulted in better-than-anticipated gross margin and earnings per share for the quarter.

As we look at the first half of this fiscal year, our operating assumptions are largely playing out in line with our expectations as we continue to adapt to a challenging environment.

Consumer

Our category growth to date has generally been consistent with our expectations, despite period-to-period variability. As expected, consumers remain under pressure and are continuing to demonstrate value-seeking behaviors, including being very choiceful in their spending and shopping behaviors. That said, our categories are remaining resilient, our products are resonating with consumers and we are continuing to rebuild household penetration.

Competition

Overall, we are seeing a rational competitive environment, with merchandising and promotional levels largely normalized after several years of being below normal. In select pockets of our portfolio, especially in Litter and Glad where we are still rebuilding shares, we are seeing a more elevated competitive environment.

- In Litter, our progress is largely unfolding as expected. We are continuing to make progress regaining lost consumers, supported by strong investments and innovation. While there is more work to do, the Litter category consumption remains strong, and we have been growing shares.
- In Glad, we are seeing an increasing level of competitive promotions more recently, which is impacting category growth. Fortunately, we are in a strong position to continue reinvesting and strengthening our demand creation plans to address this increased competitive activity, with long-term profitable category growth in mind.

In other areas of our portfolio, we are seeing strong momentum. Our Professional Products and International businesses are continuing to drive outsized growth for the company. Our largest business unit, Cleaning, continues to see strong consumption and share growth quarter after quarter.

Market Shares

As expected, we are continuing to improve market shares, growing share in most of our businesses for the second quarter in a row, supported by the strength of our brands, robust demand creation activities and a consistent flow of innovation.

Our innovation platforms continue to be well received by consumers, and they are supporting our value superiority as evidenced by our recent launches, including the new Hidden Valley Ranch Easy Squeeze bottle and collaborations with Taco Bell and Burger King, the relaunch of Poett's fragrance platform with essential oils and new scents, a full suite of Brita Plus pitchers and dispensers, and the new Fresh Step Heavy Duty Litter.

Additionally, we are seeing strong continued success with other previously introduced innovations such as the Bahama Bliss scented Glad ForceFlex MaxStrength trash bags.

Margin
We delivered our ninth consecutive quarter of gross margin expansion in Q2. Input cost inflation has been generally in line with our expectations, our holistic margin management program continues to deliver strong savings and the margin benefit from our divestitures continues to flow through. The combination of these factors, along with better-than-expected cost absorption, drove strong gross margin performance in the first half and is keeping us on track to return to pre-pandemic gross margin for this fiscal year. Importantly, this provides the fuel to strengthen our demand creation plans and supports our goal to continue improving market shares.

Transformation
We also remain resolute in our commitment to transform Clorox into a stronger, more resilient company.

- We are fully leveraging our streamlined operating model and digital transformation investments not only to deliver ongoing cost savings, but to also further advance our ability to respond more quickly to changing consumer behaviors, innovate more quickly and increase productivity.
- Building on the insights gained from the successful first wave of our Enterprise Resource Planning (ERP) transition in Canada and across Global Finance, we are on track for our full launch in the U.S. early next fiscal year. This ERP transition is an important step in building a more strategic and integrated environment across business functions while improving our agility, efficiency and ability to grow over the long term.
- Clorox and P&G have jointly decided to wind down the Glad® bags and wraps joint venture. It will end on Jan. 31, 2026, and Clorox intends to acquire P&G's 20% interest in the venture at its termination. With full control of the Glad business, we are confident we will fully leverage our streamlined operating model and all our enterprise capabilities to continue delivering strong innovation and superior value. This will help us better serve our customers and consumers and drive profitable growth.

Looking ahead, our operating environment remains challenging, with additional risks that we are watching closely in areas such as inflation and tariffs, potentially causing supply chain disruptions, in addition to continued volatility in foreign exchange rates. Nonetheless, we are confident we have the right plans in place to effectively navigate through this environment to deliver strong financial performance in fiscal year 2025.

Second-Quarter Fiscal Year 2025 Results

Net sales decreased 15%, driven by 15 points of volume decline mainly from lapping the impact of retail inventory restoration following the cyberattack disruptions and the divestitures of the Better Health Vitamins, Minerals and Supplements (VMS) and Argentina businesses. The impact from the divestitures of our VMS and Argentina businesses was about -6 points this quarter. On an organic basis, sales decreased 9%.

Gross margin for the quarter was 43.8%, about 30 basis points higher compared to the prior year. Gross margin benefited from 170 basis points of cost savings and 80 basis point improvement driven by the divestitures of our VMS and Argentina businesses. This was partially offset by 170 basis points of lower cost absorption and 50 basis points of impact from higher manufacturing and logistics as well as commodities costs.

Selling and administrative expenses as a percentage of net sales were 16.6% compared to 16.2% in the year-ago quarter. This included $26 million, or about 150 basis points, of strategic investments to enhance our digital capabilities.

Advertising as a percentage of net sales was 11.3%, with investments in our U.S. retail business coming in at 12.1% of sales.

Second quarter effective tax rate was 18.1%, reflecting the tax benefits from the restructuring of one of our foreign subsidiaries.

Net of all these factors, adjusted earnings per share for the second quarter was $1.55 versus $2.16 in the year-ago quarter, reflecting a 28% decrease.

Fiscal year to date net cash provided by operations was $401 million compared to $173 million in the year-ago period, representing a 132% increase. The increase was primarily driven by higher cash earnings.

Fiscal Year 2025 Outlook

We are updating our full year outlook to reflect the impacts of our ERP transition and slightly lower input cost inflation and lower tax rate. Related to our ERP transition, we expect to ship ahead of consumption in the fourth quarter of fiscal year 2025. This is in anticipation of retailers building their inventory levels in advance of our system conversion in July. We believe these incremental shipments will increase our full year net sales and organic sales by 1 to 2 points and both our reported and adjusted EPS by 25 to 45 cents. This impact is expected to reverse in the front half of fiscal year 2026. We will continue to refine these estimates as we get closer to the implementation. Additionally, our updated outlook does not include any potential impacts from tariffs.

Excluding the impact from our ERP transition, we are maintaining our sales outlook and raising the bottom end of our gross margin and EPS outlooks. Our outlook continues to reflect the impact from our portfolio transformation efforts, including the divestitures of our VMS and Argentina businesses, as well as the benefits of the full implementation of our streamlined operating model.

- We now expect net sales to be down 1% to up 2%, 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. Our sales outlook now also assumes slightly stronger foreign exchange headwinds in the back half of this fiscal year, mainly from Mexico and Canada. Organic sales are now expected to grow 4% to 7%, including 1 to 2 points of expected impact from our ERP transition. Excluding the impact of the ERP transition, we continue to expect organic sales to grow 3% to 5%.

From a phasing perspective, we expect Q3 net sales to be down mid-single digits, reflecting 5 to 6 points of decline from the recent divestitures and slightly less than a point of unfavorable impact from foreign exchange headwinds. On an organic basis, Q3 sales are expected to be up low-single digits. We also expect the early shipments of Kingsford in Q2 to draw from Q3.

- We now expect gross margin to be up 125 to 150 basis points, reflecting slightly lower input cost inflation than previously assumed. We continue to 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. From a phasing perspective, we expect Q3 gross margin to expand 150 to 175 basis points, reflecting the benefits of cost savings and the structural benefit from our divestitures more than offsetting input cost inflation and modest foreign exchange headwinds.

- 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. From a phasing perspective, we expect Q3 advertising spending as a percentage of sales to be between 12% and 13%, reflecting strong support for our brands, including our back half innovation launches.

- We now expect our fiscal year effective tax rate to be about 26%. The full year tax rate continues to be higher than normal as a result of our VMS divestiture. Excluding the impact of the VMS sale, we now expect our fiscal year adjusted effective tax rate to be about 23%.

- Net of these factors, we now expect our fiscal year diluted EPS outlook to be between $5.52 and $5.92 versus previously $5.17 and $5.42, a year-over-year increase of 145% to 163%, respectively, reflecting the lapping of several one-time charges recorded in the year-ago period. Our updated outlook also includes benefits from incremental shipments related to our ERP transition of 25 to 45 cents.

- We now expect adjusted EPS to be between $6.95 and $7.35 compared to previous estimate of $6.65 and $6.90, a year-over-year increase of 13% to 19%, respectively. The main change is to reflect 25 to 45 cents of net benefit from the expected incremental shipments related to our ERP transition. Aside from this change, adjusted EPS also assumes lower input costs and a lower tax rate as compared to our previous outlook. Adjusted EPS excludes about 70 cents of expense from our long-term strategic investments in digital capabilities and productivity enhancements, a 94 cent charge we took in the first quarter from the loss on sale related to the divestiture of our VMS business, and a 21 cent benefit from cyberattack insurance recoveries in the first half of this fiscal year.

While the macro-environment remains uncertain, we are focused on delivering superior consumer experiences that win in the market. With a steadfast commitment to our IGNITE strategy and strong execution by our team, we are continuing to make progress on both our short and long-term priorities.

We'd like to close with a special thank you to our Clorox teammates for their unwavering passion for our customers and consumers 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