



Prepared management remarks

First quarter fiscal year 2022

Nov. 1, 2021

Lisah Burhan, Vice President – Investor Relations

Linda Rendle, Chief Executive Officer

Kevin Jacobsen, Chief Financial Officer

Please review the following prepared management remarks (and pre-recorded audio versions) in conjunction with the company's first-quarter fiscal year 2022 earnings release. These materials can be found on [thecloroxcompany.com](https://www.thecloroxcompany.com) in the quarterly results section or [directly here](#).

Clorox will also host a live Q&A audio webcast at 5:30 p.m. ET, today, with 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

Hello, everyone. This is Lisah Burhan, Clorox's vice president of Investor Relations. Thank you for your interest in our quarterly earnings results.

In conjunction with this recording, please review our earnings release, which can be found on [TheCloroxCompany.com](https://www.TheCloroxCompany.com) in the [investor quarterly results section](#).

The following pre-recorded remarks from 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.

Thank you, and I will now turn it over to CEO Linda Rendle.

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Linda Rendle, CEO

Hello, everyone. Thank you for taking the time to listen to our perspectives on Q1 fiscal year 2022 results.

We delivered solid results in our first quarter, fueled by stronger than-expected demand for our products, in the face of a volatile and challenging environment.

Net sales in the first quarter decreased 6%, against a very strong comparable quarter last year when we delivered sales growth of 27%. On a two-year stack basis, sales increased 21%.

Gross margin came in at 37% reflecting significant cost inflation. Adjusted EPS decreased 54% to \$1.21.

During the quarter, we continued to make progress executing our key priorities for the year, including managing inflationary headwinds through productivity improvements and pricing, improving supply, investing in our brands and driving innovation – all while advancing our ESG goals.

While we expect the operating environment to remain challenging and volatile and face incremental cost headwinds, we're confident that our plans to rebuild margin, coupled with the advancement of our IGNITE Strategy, will enable us to deliver long-term value creation.

With that as the backdrop, I'll share an update on some of the trends we saw in the quarter and our current expectations for the remainder of the fiscal year.

Demand in the first quarter was better than we anticipated across most of our portfolio, driven primarily by the impact of the COVID-19 delta variant and successful back-to-school merchandising, particularly for cleaning and water filtration.

We have made significant progress restoring supply in the quarter, contributing to share improvements in the majority of our portfolio, with double-digit gains in Clorox disinfecting wipes and Brita as well as increases in our Glad, Hidden Valley, Kingsford and RenewLife businesses.

On the cost side, we continue to see significant headwinds, which impacted our margins. We continue to address these pressures head on through multiple levers, including our hallmark cost savings program and pricing actions.

We're on track to implement price increases on 50% of our portfolio, most of which will take effect in November. We're also planning additional pricing actions through the end of fiscal 22, resulting in increases to about 70% of our portfolio. Importantly, we continue to anticipate gross margin expansion in our fourth quarter.

As we address these cost headwinds, we're also prioritizing strong investments behind our brands through innovation and high ROI advertising to drive differentiation and capitalize on the strong loyalty we have built to drive growth. As a result, elasticities have improved and our household penetration and consumer loyalty remain strong across our portfolio, with higher repeat purchase rates and retained buyers compared to pre-pandemic levels.

For example, double-digit increases in back-to-school marketing spend contributed to strong consumption across Clorox-branded products, particularly wipes, as well as double-digit sales growth for Brita. Also, as retail foot traffic started to increase, we leaned in with early investments behind Burt's Bees lip care, driving double-digit sales growth in Natural Personal Care.

In addition, we're excited about this fiscal year's innovation program, including Fresh Step Outstretch, Kingsford Signature Flavor pellets and Neocell Collagen powders and gummies, with more new products to come in the back half. We also continue to see strength from recent innovations, including Clorox Fabric Sanitizer, Glad with Clorox and Fresh Step with Gain.

Importantly, with ESG integrated into our IGNITE strategy, we continue to focus on making progress against our goals. Our team achieved an important milestone with the approval of our science-based targets, putting us on a path for net zero emissions across scopes 1, 2 and 3 by 2050.

As we think about the balance of the year, our Q1 performance, plus the additional actions we are taking, put us on track to meet our fiscal 22 outlook.

Clearly the cost environment is more challenging than we projected in August and consumer demand remains difficult to predict as pandemic conditions evolve. That said, we feel confident in our ability to execute our pricing and productivity plans to mitigate these pressures and grow margin in Q4. From a topline perspective, we are maintaining our outlook given the volatile environment and continue to expect to be in the lower end of our long-term sales growth target in the back-half of the fiscal year.

In summary, accelerating our performance and long-term shareholder value is at the core of our strategy. There's no doubt we will continue to face a volatile and challenging environment with elevated cost pressures, consumer demand uncertainty and supply chain disruption. However, based on the actions we've taken, we're facing these headwinds from a position of strength. Strong investments behind our portfolio have led to superior consumer value of our brands, which is evident in continued strength in household penetration, consumer loyalty and improved elasticities – all of which support our efforts to rebuild profitable growth over time.

We have a portfolio of leading brands with long-term macro tailwinds supported by strong demand-building investments that we are confident will drive growth.

We also believe our investments to accelerate our digital transformation will position us well longer-term by strengthening our supply chain, digital commerce, innovation, and brand building efforts. I'd like to thank my Clorox teammates around the world for their continued dedication to living our purpose and serving our consumers, customers and communities around the world.

Thank you for your time today. I invite you to listen to our live question-and-answer webcast, which will begin at 5:30 p.m. Eastern Time today and will be available for replay on our website.

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Kevin Jacobsen, CFO

We're pleased with our first-quarter performance, with high-than-expected consumer demand across our portfolio in the face of a challenging operating environment. Importantly, we grew or held market share across the vast majority of our portfolio, with double-digit increases for Clorox disinfecting wipes and Brita water filters. While we continue to operate in a volatile environment, including significant cost headwinds, we are taking appropriate mitigating actions as we continue to invest in our IGNITE strategy in support of driving long-term value creation.

First Quarter Fiscal Year 22 Results

First-quarter net sales decreased 6%, compared to 27% growth in the year-ago quarter, delivering a two-year stack of 21%. Our net sales results reflect a 2-point decline in volume, 3 points of unfavorable price mix and 1 point of unfavorable foreign currencies.

Although the impact of pricing was positive, it was more than offset by unfavorable mix, primarily in our Health and Wellness segment as continued supply improvements resulted in a return to more normalized product assortment, including the reintroduction of value packs, and a return to merchandising. On an organic basis, first-quarter sales declined 5%.

Gross margin for the quarter decreased 1090 basis points to 37%, compared to record gross margin of 48% in the year-ago quarter, when we benefitted from 400 basis points of favorable operating leverage. First-quarter gross margin was driven primarily by significantly higher cost headwinds, including 550 basis points of higher commodity costs and 470 basis points of higher manufacturing and logistics costs. Gross margin results also included 260 basis points of unfavorable mix. These factors were partially offset by a benefit of 90 basis points of cost savings.

Selling and administrative expenses as a percentage of net sales came in at 13%, compared to 12% in the year-ago quarter, reflecting strategic investments in the long-term enhancements to our digital capabilities and productivity initiatives that we discussed last quarter.

Advertising and sales promotion investment levels as a percentage of net sales came in at about 10%, compared to 9% in the year-ago quarter, with U.S. Retail spending at about 11%.

Our first-quarter effective tax rate was 23% versus 21% in the year-ago quarter. The prior-period tax rate of 21% was primarily due to the benefit from a nontaxable portion of the remeasurement gain recognized on our previously held stake in our Saudi joint venture.

Net of all these factors, adjusted earnings per share for the first quarter came in at \$1.21 cents versus \$2.63 cents in the year-ago quarter, a decline of 54 percent. As we noted in the press release, adjusted EPS excludes 7 cents of impact related to the strategic investments.

As you saw in our earnings release, net cash provided by operations was \$41 million versus \$383 million in the year-ago quarter, a decrease of 89%, primarily driven by lower first-quarter earnings and higher working capital.

Fiscal Year 2022 Outlook

As Linda discussed, we're holding our fiscal year 22 outlook. We're pleased with the strength of our first-quarter topline, which was better than our previous assumptions. Importantly, we feel good about our demand-building plans to support our return to the lower end of our long-term net sales growth target in the back half of the fiscal year. At the same time, we're facing an even tougher cost environment than previously expected. We have strong cost mitigation plans in place, and we plan to take additional actions, including more pricing, resulting in increases to about 70% of our portfolio. Of course, we continue to operate in a challenging environment that is difficult to predict, which could impact our full year outlook.

We continue to anticipate fiscal year net sales to be down 2% to 6%, reflecting ongoing demand moderation in the front half of the fiscal year, in addition to unfavorable price mix as we move to a more a normalized supply and promotional environment.

We assume these factors will be partially offset by the pricing actions we're taking across our portfolio. Based on our stronger-than-expected start to the fiscal year, we now expect front half net sales to decline high single digits as we lap 27% growth in the front half of fiscal year 21, recognizing some degree of timing from the over delivery in our first quarter. As I just mentioned, we continue to expect to return to the lower end of our long-term net sales growth target in the back half of the fiscal year. On an organic basis, we also continue to expect full-year sales to be down 2% to 6%.

We continue to anticipate fiscal year gross margin to be down 300 to 400 basis points. While we are holding our gross margin outlook, this does reflect our expectation for increased cost headwinds, primarily in resin and transportation. We continue to expect resin costs to moderate in the back-half of the year, although later than our previous assumptions due to impacts from Hurricane Ida. Additionally, we now project transportation costs will remain elevated for the majority of the fiscal year, due to the ongoing imbalance of supply and demand in this market. As a result, we're raising our expected cost increases in commodities and transportation to be about \$350 million versus our previous assumption of about \$300 million. We continue to expect these headwinds to be more pronounced in the front half of fiscal year. Importantly, we continue to expect gross margin improvement in the back half of the fiscal year, with a return to gross margin expansion in the fourth quarter. This is based on our assumption that commodity costs will begin to moderate, and we will see the benefits from our mitigating actions, including additional pricing, flow more fully through our P&L.

We continue to expect fiscal year selling and administrative expenses to be about 15% of net sales, which includes about one point of impact related to our investments to enhance our digital capabilities.

We continue to anticipate fiscal year advertising spending to be about 10% of net sales, reflecting our ongoing commitment to invest behind our brands and build market share.

We continue to expect our fiscal year tax rate to be about 22% to 23%. The year-over-year increase primarily reflects lapping several one-time benefits in the prior fiscal year.

Net of these factors, we continue to anticipate fiscal year adjusted EPS to be between \$5.40 to \$5.70, a decrease between 21% to 26%.

As I mentioned earlier, we continue to operate in a volatile environment with significant cost headwinds that we believe will persist longer than our previous assumptions. We believe the additional actions we're taking to address these headwinds will keep us on track to begin rebuilding margins in Q4 and deliver our fiscal year 22 outlook.

As we manage through these near-term challenges, we are continuing to invest strongly in our brands, particularly behind our robust innovation program and our efforts to engage consumers to build lifetime loyalty to our brands.

Thank you.

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