

**S&P Global**

Market Intelligence

# **WD-40 Company** NasdaqGS:WDFC

## *Earnings Call*

*Tuesday, April 9, 2024 10:00 PM GMT*

|                   |   |
|-------------------|---|
| CALL PARTICIPANTS | 2 |
|-------------------|---|

|              |   |
|--------------|---|
| PRESENTATION | 3 |
|--------------|---|

|                     |    |
|---------------------|----|
| QUESTION AND ANSWER | 10 |
|---------------------|----|

# Call Participants

---

## EXECUTIVES

### Ross Cooling

### Sara Hyzer

*VP of Finance, Treasurer, CFO &  
Principal Accounting Officer*

### Steven A. Brass

*CEO, President & Director*

## ANALYSTS

### Daniel Rizzo

*Jefferies LLC, Research Division*

### Linda Ann Bolton-Weiser

*D.A. Davidson & Co., Research  
Division*

# Presentation

---

## Operator

Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company Second Quarter Fiscal Year 2024 Earnings Conference Call. Today's call is being recorded. [Operator Instructions].

I would now like to turn the presentation over to the host for today's call, Ross Cooling, Communications Manager, Investor Relations and Stakeholder Engagement. Please proceed.

## Ross Cooling

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, Finance 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-K for the period ending February 29, 2024. These documents are available on our Investor Relations website at [investor.wd40company.com](http://investor.wd40company.com). A replay and transcript of today's call will also be made available 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 the earnings documents posted on our Investor Relations website.

As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance. Actual results could differ materially. The company's expectations, beliefs and projections are expressed in good faith, but there can be no assurance 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, April 9, 2024. The company disclaims any duty or obligation to update any forward-looking information 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*

Thank you, Ross, and thanks to all of you for joining us this afternoon. Today, I'll begin by discussing several strategic actions we've taken to support our 4x4 strategic framework, followed by an overview of our sales results for the second fiscal quarter of 2024. I will also provide you with an update on our Must-Win Battles and some of our strategic enablers. Sara will provide further details on our second quarter results, an update on our business model and our outlook for the remainder of fiscal year '24, and then we will take your questions.

Over the last few moments, I'm proud of the significant progress we have made on our 4x4 strategic framework. In March, we acquired our Brazilian marketing distributor and long-time business partner, Theron Marketing, for approximately \$7 million in an all-cash transaction. This transaction directly supports our first Must-Win battle to lead geographic expansion of WD-40 multi-use product. Strategically, this allows us to have a direct market presence in Brazil to drive faster growth versus building up a direct market from the ground up.

As you may recall, we successfully shifted from a distributor model to a direct market in Mexico in May 2020, and our revenues in Mexico are virtually tripled since making that shift. Taking Brazil direct through an acquisition presents a similar growth opportunity, and we are well positioned to capture that growth. Our prior agreement with Theron Marketing was based on a royalty model and moving to a direct market provide us within an immediate benefit to our top line. We expect the Brazil market to drive revenue growth in excess of \$10 million over the next year as a result of transitioning to this new business model.

This is a substantial increase over the growth expected under the old royalty-based business model, which generated approximately \$2 million of annual revenue.

We've also made the strategic decision to more actively pursue the sale of our U.S. and U.K. homecare and cleaning product portfolios. For the time being, we intend to strategically maintain the homecare and cleaning product portfolio in Australia as it is a substantial portion of that market's business. Net proceeds from the sale of our U.S. and U.K. homecare and cleaning product portfolios will provide us with an opportunity to reinvest in our core business for long-term growth. While this will have an unfavorable impact on our sales in the short term once we divest the portfolio, it allows us to place even more focus on creating revenue growth through our Must-Win Battles and focus on our higher-margin business centered on our maintenance products over the long term.

The immediate accretion from the Brazilian marketing distributor acquisition and the additional investments we will make to accelerate growth in our high potential markets will offset lost revenue from this sale over time.

And finally, during the second quarter, we went live with the first and most significant phase of our enterprise resource planning or ERP system. This is no small task, and we did anticipate there being some level of disruption as can be expected for a project of this nature. These disruptions resulted in a minor unfavorable impact on the quarter's performance, particularly in the U.S. I'm proud to report that due to the ingenuity and resilience of our team members and the long-standing partnerships with our customers we have worked through most of these challenges and are confident going forward as we continue to improve our processes and leverage the value this system brings across the organization.

I want to acknowledge and thank our employees for their ongoing diligence in managing through this implementation. We know projects like these allow us to live one of our core values of making it better than it is today, which will only strengthen us over time. Sara will provide more details on the ERP implementation.

Now turning to our sales results. I'm happy to share with you that for the second consecutive quarter, we saw sales growth across all our trade blocks. For the second quarter, we reported net sales of \$139 million, an increase of 7% over the prior year. Excluding the favorable impact of currency, revenue grew 5%. On a year-to-date basis, net sales grew 10% on a reported basis and 7% excluding the favorable impact of currency, which is in line with both our FY '24 guidance and our long-term growth targets.

We remain encouraged that the improvement in trends we experienced in the second half of fiscal year '23 have carried into the first half of fiscal year '24. We're also pleased to report continued expansion of our gross margin versus prior year, which allows us to invest across other areas of our business, such as advertising and promotion activities in order to continue to drive top line growth.

Now let me discuss second quarter sales results by segment. Unless otherwise noted, I will discuss sales and comparisons to prior year on a reported basis. Sales in the Americas, which includes the United States, Latin America and Canada of approximately \$63.5 million grew 1% over the prior year fiscal quarter. We're pleased to report that strong demand and sales growth throughout the U.S. more than offset the short-term impact of the ERP implementation had on our net sales. WD-40 specialists and other maintenance product sales increased across most regions in the Americas, and we continue to see encouraging signs across the region.

The growth in maintenance products was partly offset by a decline in homecare and cleaning products sales, primarily due to lower volume in the U.S. as a result of reduced demand. In total, our Americas segment made up 46% of our global business in the second quarter.

Turning to our sales results in EIMEA, which includes Europe, India and Middle East and Africa. The recovery we experienced in the second half of last year in EIMEA has continued throughout the first half of this year. EIMEA sales of \$54.3 million increased 16% over the prior year. Currency fluctuations positively impacted our sales in EIMEA and on a constant currency basis, sales would have increased 11%, marking the fourth consecutive quarter of double-digit sales growth in constant currency. The growth was driven in

large part by higher sales of WD-40 Multi-Use product, which increased 17% and WD-40 Specialist, which increased 23%.

As a reminder, volumes last year were unfavorably impacted by price increases we had implemented resulting in temporarily reduced demand as customers adjusted to these prices. The combination of recovering volumes and increased selling prices resulted in higher sales across most regions in EIMEA this quarter.

In the second quarter, sales of WD-40 Multi-Use Product increased most significantly in France, India and Iberia, which increased \$1 million, \$0.9 million and \$0.6 million, respectively. The growth in maintenance products was partly offset by a decline of 10% in homecare and cleaning product sales, which is a much smaller part of the business for EIMEA. In total, EIMEA segment made up 39% of our global business in the second quarter.

Turning to Asia Pacific, which includes Australia, China and other countries in the Asia region, sales of \$21.3 million were up 4% over the prior year. The growth was driven by higher sales of WD-40 Multi-Use product, which were up 3% in homecare and cleaning products, which were up 23% over the prior year. This was partly offset by a 3% decline in WD-40 Specialist product sales.

In China, sales of maintenance products were up 3%, primarily due to successful promotional programs and marketing activities that led to increased sales volume. On a constant currency basis, sales for China would have increased by 5%.

In our Asia Pacific distributor markets, sales of maintenance products were up 3%, primarily due to price increases in these markets and successful promotional programs in certain regions.

In Australia, sales were up 6% over the prior year, primarily due to higher sales of home care and cleaning products.

In total, our Asia Pacific segment made up 15% of our global business in the second quarter.

Now let me discuss the progress we've made against our Must-Win Battles and provide you with an update on some of our strategic enablers that support our 4x4 strategic framework. We look at these Must-Win Battles as growth drivers over the long term, and therefore, we will focus our discussion on the year-to-date results of these battles. Starting with Must-Win Battler #1, lead geographic expansion. As mentioned earlier, the acquisition of a Brazilian marketing distributor is a strategic decision that aligns with and supports this Must-Win Battle. Through the first half of the year, global sales of WD-40 Multi-Use Product of \$215 million grew 10% over the prior year, led by strong growth of 19% in EIMEA followed by growth in the Americas and Asia Pacific of 6.5% and 3%, respectively.

We continue to make investments in our flagship brand to build awareness and increase market penetration in identified key markets. As a result, we made excellent progress in seeing volume recovery in many key markets.

Next is Must-Win Battler #2, accelerating premiumization, which is a major contributor to our revenue growth and gross margin expansion. Year-to-date sales of WD-40 Smart Straw and EZ Reach when combined, were up 13% over the prior year. Our implementation of WD-40 Smart Straw, next-gen generation in the Americas and at multiple packages in EIMEA is contributing to the sales growth of premiumized products. This growth aligns with our long-term net sales compound annual growth rate target of greater than 10% in reported currency for premiumized products.

Our third Must-Win Battle is to drive WD-40 Specialist growth. Through the first half of the year, sales of WD-40 Specialist products were \$34 million, up 10% over the prior year, led by strong growth in EIMEA of 17%. In the Americas, sales of WD-40 Specialist grew 4%, while Asia Pacific, which is a much smaller portfolio grew 9% compared to the prior year. We continue to target a net sales compound annual growth rate of greater than 15% and reported currency for WD-40 Specialists.

Our fourth and final Must-Win Battle is to accelerate digital commerce. We see this as an accelerator for all our other Must-Win Battles as it improves brand awareness and online engagement leading to an improved

customer experience and [indiscernible] across our channels. Year-to-date, e-commerce sales were up 24%, with strong growth in both EIMEA and the Americas trade blocks.

Turning to the second element of our strategic framework, our strategic enablers, which collectively underpin our Must-Win Battles.

I want to take a moment to discuss strategic enabler #1 of ensuring a people-first mindset. At WD-40 Company, we pride ourselves in our culture and continuously focus on how to improve it. Our greatest asset cannot be found on a balance sheet, but rather it resides within our talented team. I'm extremely proud that we have been able to maintain an employee engagement score of around 93%, particularly given some of the significant changes we've experienced over the past 18 months. This includes changes within our leadership team as Sara and I have gotten up to speed in our roles and changes across the global organization as we've implemented and updated pricing structure, completed the first and most significant phase of our ERP implementation system and have continued to face uncertain macroeconomic conditions.

Once again, I want to thank our strong and resilient team as we continue to evolve our internal processes, a major area of focus will be on implementing cultural pulse checks for real-time feedback for us to be more proactive versus being reactive in this area.

And as previously discussed, we are making great progress on our strategic enabler #4, which is to drive productivity by our enhanced systems with our new ERP system. As a lean company with just over 600 employees, we recognize the importance of providing the best systems and have increased our investments in new systems and system enhancements. And we are not done as we will continue to invest to support this important enabler to drive our strategy and support sustainable profitable growth for our organization. With that, I'll now turn the call over to Sara.

### **Sara Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Thanks, Steve, and good afternoon. As Steve mentioned, we have had a productive few months and continue to make notable progress against our 4x4 strategic framework. I am proud that our team continues to turn in solid results that continue to align with our long-term 55/30/25 business model.

As Steve discussed, we went live with the first phase of our ERP system during the second quarter. To add some additional color, the new system is now in place over a substantial portion of our business, including the U.S. business, our Latin America distributor business and our sales in our Asia regional office, which combined make up just under 50% of our revenues. This was a significant first step for the company as we move towards a more streamlined system footprint globally.

Given the scale and scope of this implementation, even with those disruptions that Steve mentioned, we ultimately view the implementation of the success with lessons learned. I look forward to taking the learnings from this first implementation and applying those into the next phase of the project.

I'll begin today with a discussion about our second quarter results, followed by an update on our full year 2024 guidance before turning it back over to Steve for his final thoughts.

Turning to our second quarter gross margin performance. I am particularly proud that we continue to expand margins from prior year and performed within our target range of 50% to 55%. For the second quarter, gross margin improved 160 basis points over prior year to 52.4%. Gross margin benefited 130 basis points from favorable sales mix and other miscellaneous mix. This quarter, we saw a benefit from sales mix in EIMEA, which had a strong top line growth. Lower costs associated with Specialty Chemicals also positively impacted gross margin by 100 basis points.

To a lesser degree, gross margin was positively impacted by 70 basis points from tactical price increases as we cycle through the anniversary of most of those changes. While we are not planning any significant additional tactical price increases in the near term, we continue to monitor the inflationary environment in various markets. These favorable impacts to gross margin were partially offset by higher costs associated with other input costs, which had an adverse impact of 100 basis points in the quarter.

Gross margin improved over prior year across all trade blocks. Within the Americas, gross margin improved 130 basis points over prior year to 49.4%. The EIMEA continues to expand gross margin, improving 140 basis points over prior year to 53.7%. And Asia Pacific, again, turned into strong gross margin performance, improving 320 basis points over the prior year to 58.5%. This progress through the first half of the year has positioned us to raise the bottom end of our full year 2024 gross margin guidance, which I will discuss shortly.

Based on the current trajectory, cost environment and macro environment, we are targeting to achieve gross margin of 55% by the end of fiscal year 2026.

Now turning to our cost of doing business, which we define as total operating expenses, less adjustments for certain noncash expenses and is primarily comprised of investments in our employees, investments in our brand and freight expense. As we continue to grow our top line, we also remain focused on operating efficiently and reducing our costs effectively. As we get more operational leverage, we expect the cost of doing business to perform within our targeted range of 30% to 35% over time.

For the second quarter, our cost of doing business was 36% as compared to 33% in the prior year. The increase was primarily driven by increases in our employee-related costs due to higher accrued incentive compensation, annual compensation increases and higher headcount, partially offset by lower stock-based compensation. We also experienced an increase in professional services, including costs associated with our ERP implementation and the acquisition of our Brazilian distributor.

Additionally, travel expense and unfavorable changes in foreign currency exchange rates contributed to higher SG&A expense. Investments in advertising and promotional activities or A&P increase over prior year as we continue to build our brand and make investments to support long-term profitable growth. As a percentage of sales, A&P investment was 4.8%, compared to 4.6% prior year. Our A&P investments are always impacted by phasing between quarters, and we still expect the full year to be within our guidance of 5% to 6%.

Turning now to adjusted EBITDA. While adjusted EBITDA margin has been under pressure due to the inflationary environment and the strategic investments we are making we continue to target performing in a range of 20% to 25% longer term. Getting adjusted EBITDA above 20% remains a priority. The sale of our home care and cleaning products portfolio will likely impact the timing of achieving this as we anticipate a potential step back in the short term as we divest this portfolio, but expect a longer-term benefit as we focus our investments on our higher growth and higher-margin maintenance products.

For the second quarter, adjusted EBITDA margin was 17% as compared to 19% in the prior year. The step back this quarter reflects the higher cost of business items that I previously discussed.

Now let me discuss some items that fall below the adjusted EBITDA line. Net income of \$15.5 million declined approximately \$1 million or 6% from prior year. On a constant currency basis, net income would have decreased 9% compared to the prior year. Our net income reflects the provision for income tax rate of 21.6%. Diluted earnings per common share for the quarter were \$1.14 compared to \$1.21 in the prior year. Diluted EPS reflects 13.6 million weighted average shares outstanding this quarter, which was essentially flat compared to the prior year. Turning to the balance sheet and capital allocation.

Our resilient and asset-light business model, coupled with actions we have taken to grow our top line while improving gross margin continued to contribute to our strong balance sheet and liquidity position.

Maintaining a disciplined and balanced capital allocation approach remains a priority for us. For the foreseeable future, we expect maintenance CapEx of between 1% and 2% of sales per fiscal year, which is in line with our asset-light strategy. One of our more significant investments have been around our new ERP system. Through our go-live date in January, we have capitalized approximately \$10 million in investments. And this quarter, we began to amortize those costs upon implementing the first phase of the new system. As part of this project, we have incurred and will continue to incur costs that do not qualify for capitalization. We will continue to incur costs that will either be capitalized or expensed, depending on their nature, through the next phases of implementation in the near term.

We continue to assess what those phases will be as we consider the needs of the business, supporting any business model changes like Brazil and the risk profile of our existing systems. We also continue to make progress in lowering our inventory levels, which we had invested in to stabilize our U.S. supply chain in prior years. Our inventory levels peaked in the first quarter of fiscal 2023 and since then, we have reduced inventory by \$41 million or 34%.

In addition, we continue to return capital to our shareholders through regular dividends and buybacks. Annual dividends will continue to be targeted at greater than 50% of earnings. On March 19, our Board of Directors approved a quarterly cash dividend of \$0.88 per share. During the second quarter, we repurchased approximately 11,500 shares of our stock under our current share repurchase plan at a total cost of approximately \$2.9 million. We will continue to be active in the market and expect to repurchase at least enough shares to offset shares issued for equity compensation. Going forward, our objective is to return cash to investors in the most accretive manner.

Our cash flow from operations for the first half of fiscal year 2024 was \$44.9 million, and we have elected to use \$21.6 million of that cash to pay down a portion of our short-term higher interest rate borrowings. Our intent is to continue to pay down higher interest borrowings under the current interest rate environment. That concludes my discussion on our reported results. Let me now provide an update on our guidance.

For the first half of fiscal year 2024, we are pleased with our solid performance and progress against our 4x4 strategic framework. It is important to note that results may vary from quarter-to-quarter and comparisons to the prior year will vary particularly by trade block due to the timing of those prior year price changes and the temporary resulting impact on volumes. We continue to monitor the market and our guidance assumes no major changes to the current macroeconomic environment in the second half of fiscal year 2024.

It is also important to note that our full year guidance as previously communicated, anticipated the acquisition of our Brazilian marketing distributor. Based on these factors and assumptions, we are therefore reiterating annual net sales growth between 6% and 12%, with net sales between \$570 million and \$600 million in constant currency. We are increasing the bottom end of our gross margin range to 51.5%, resulting in a new annual guidance of 51.5% to 53%, and an increase up from our prior guidance of 51% to 53%. This is based on our current performance, mix trends and current cost environment.

Advertising and promotion investment remains unchanged, and we expect this to be between 5% and 6% of net sales. We are reducing our provision for income tax to be between 23% and 24%, a decrease from our prior guidance of 24% and 25%. Given the updated gross margin guidance and the slightly lower tax rate, we are increasing our net income guidance and now expect it to be between \$67.7 million and \$71.8 million, up from our prior guidance of \$65 million and \$70 million. And we are increasing our diluted EPS to be between \$5 and \$5.30 from our prior guidance of \$4.78 and \$5.15. Our diluted EPS guidance is based on an estimated 13.6 million weighted average shares outstanding as we had previously communicated. That completes the financial overview. Now I would like to turn the call back to Steve.

**Steven A. Brass**

*CEO, President & Director*

Thank you, Sara. In closing, we are proud of the progress we've made this quarter, particularly as it relates to our strategic framework and our longer-term goals. In summary, what did you hear today from us on this call? You heard that we saw top line growth in all 3 trade blocks for the second consecutive quarter. You heard that we continue to execute on Must-Win Battles sales of WD-40 Multi-Use product, WD-40 Specialists were both up 10% year-to-date. Sales of premiumized products were up 13% and digital commerce sales were up 24% year-to-date.

You heard that we're incredibly pleased with how gross margin is holding up, and our first half performance has positioned us to increase the bottom end of our full year guidance range. You heard that we're also increasing our annual net income and adjusted EPS guidance for the full fiscal year 2024. You heard that we've made notable progress against our 4x4 strategic framework with the announced acquisition of our Brazilian marketing distributor, our decision to pursue a sale of our U.S. and U.K.

homecare and cleaning products portfolio and the successful go-live with the first phase of our new ERP system.

You heard the loss of revenue from the prospective sale of our home care and cleaning products portfolio will be partially offset from the Brazil marketing distributor acquisition in the short term. Over the longer term, we will fully offset this revenue loss by increasing investments to accelerate growth in our identified high-potential markets.

And you heard that we've been able to maintain our employee engagement score of around 93%, reflecting our passionate and resilient team, which is a strong competitive advantage for us. Thank you for joining our call today. We'd now be pleased to answer your questions.

## Question and Answer

---

### Operator

[Operator Instructions] We'll take our first question from Daniel Rizzo with Jefferies.

### Daniel Rizzo

*Jefferies LLC, Research Division*

I guess to start with -- and maybe I missed this, but I was just wondering what if the softness in Canada was just due to timing issues or what specifically was going on there because I think it was down 24% year-over-year in the quarter?

### Steven A. Brass

*CEO, President & Director*

Daniel. So we're in the middle of a hard conversion of our Smart Straw product in Canada. So what you saw was the withdrawal of the current formats and the moving to Smart Straw. And so that did have a negative impact in the quarter. But looking forward, as we premiumize with quite a hard conversion in the Canadian market, you will see significant revenue growth as a result of that in the back half of the year.

### Daniel Rizzo

*Jefferies LLC, Research Division*

So the hard conversion is over as of now?

### Steven A. Brass

*CEO, President & Director*

It is being completed. It is mostly through, and we are executing as we speak. And so in the second half, you should see that uplift from more premium formats within Canada market.

### Daniel Rizzo

*Jefferies LLC, Research Division*

Okay. And then you mentioned the potential sale of the homecare products. Have you ever said what they contribute to EBITDA on an annual basis, how much?

### Steven A. Brass

*CEO, President & Director*

We haven't Daniel, no. But I mean if you look at it in terms of the revenues, if you take FY '23, revenues from last year it was about \$26 million combined between the U.S. and the U.K. It represents about 5% of our overall sales revenue. And obviously, those products are sold at slightly lower gross margins. So we've spoken about those products having a margin of about low 40s, 41%, 42%. And so you should be able to do the math from that.

### Daniel Rizzo

*Jefferies LLC, Research Division*

No, that's perfect. So with the distributor acquisition in Brazil to kind of, I guess, kind of boost things in terms of growing through distribution. I was wondering if there's other opportunities like that or this is just a one-off thing because I mean you haven't really done too many deals in the past, but I was wondering if that's a new way you're looking at things? Or this just appeared?

### Steven A. Brass

*CEO, President & Director*

So we're very transparent about where we believe our biggest top growth opportunities are around the world with our geographic expansion. We put on our top 20 growth market opportunities. And so we're

very clear where those are. How we execute -- I mean, the question we ask ourselves is how do we grow the quickest in those opportunities. And so each -- the answer to each market is different, as you know, we're heavily invested in China with 60 people in China, and that's growing very nicely for us. And so how we invest to accelerate growth is something that's very much on our mind, particularly as we think now about potentially reinvesting some of the proceeds from the sale to further accelerate growth in those key areas.

**Daniel Rizzo**

*Jefferies LLC, Research Division*

Okay. And then -- and final question, with the amortization cost from the \$10 million for the ERP transition, I was wondering if that's -- I assume that's going to linger through the back half of the year, but I was wondering if it's going to last until next year. I think I might have asked this in the past, but I forgot the answer?

**Sara Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

The amortization costs, in particular, Daniel, this is Sara. Yes. So we did start amortizing -- we had about \$10 million, very specifically to the ERP project that started in Q2, middle of Q2, and we are amortizing that over 10 years. So you will -- pretty easy to do the math there, you'll see about \$1 million a year, just under \$1 million a year with the first phase. And then as we continue roll out new locations, we'll be adding to that bucket. And then every time when we go live, we'll be able to disclose what those amounts are.

**Operator**

We'll take our next question from Linda Bolton-Weiser with D.A. Davidson.

**Linda Ann Bolton-Weiser**

*D.A. Davidson & Co., Research Division*

So I think -- well, you did mention that there was some -- a little bit of disruption or something, challenges related to the ERP implementation in the U.S. Is there any way to quantify that impact on the quarter?

**Sara Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Sure. I can take that. Linda, we are estimating about a top line volume reduction of about \$2.4 million from the disruption for the quarter. And not really all is in the U.S. We had some disruption in Latin America and ARO, but we were able to make that up before the end of the quarter. So that's the estimate that we have for the ERP disruption.

**Linda Ann Bolton-Weiser**

*D.A. Davidson & Co., Research Division*

And so is that like shipments which just couldn't be made and it will kind of be pushed into the next -- into the third quarter? Or is it just kind of lost revenue that will be regained?

**Sara Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

So at this point, the estimate of the \$2.5 million is what we believe is lost revenue, and the team is obviously working hard on trying to make that up, but it really was around disruption of related to processing, fulfilling and shipping orders. And ultimately, there was some short stock at some of our customers during a few weeks during the go-live.

**Linda Ann Bolton-Weiser**

*D.A. Davidson & Co., Research Division*

Okay. And then I was just curious on the Brazilian business. when you mentioned \$10 million, I think, Steve, you said a revenue opportunity in the next year. Can you clarify, is that like incremental? Or is that just total versus what it was? And then I mean, some of it is just accounting for removing the distributor margin from the equation. So I'm just kind of wondering how much of a -- kind of real step-up in revenue that represents? Can you explain that a little bit?

**Steven A. Brass**

*CEO, President & Director*

Sure. So if you look at the basic model that we had is -- we had a royalty model in Brazil, and so that was a \$2 million revenue stream. And that was -- I mean, it's almost -- when you have a royalty model, it's almost all gross margin minus a few costs, right? So it's a different model.

I mean you have to say that Brazil is one of our -- in terms of units sold, it's actually even bigger than Mexico was when we took over the Mexico market. And so we're very confident in our ability to be able to -- given the experience we've had in Mexico to be able to transform that and realize the incremental value as a direct market. And so in our first year, as we said, so -- in the back half of this year, that will be \$5 million of increment on top of the \$1 million we would have done last year. And then for the first 6 months of next year, we'll have a further \$5 million plus then whatever we can put on top. And so, in the medium term, we see a \$20 million-plus market in Brazil, which is exactly what we achieved in Mexico over a 3.5-year period. And opportunities for growth well beyond that in the long term.

**Linda Ann Bolton-Weiser**

*D.A. Davidson & Co., Research Division*

Okay. Got you. And then I was just wondering -- sorry, switching back for a minute to the Americas, I know it's in your queue, but I was curious if you could give volume and pricing for the whole company and then what it was in the quarter for the Americas?

**Sara Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Sure. Linda, I'll start with the whole company. So volume just for the quarter was up 2% and impact of price was an impact of 3%. And for the full year. And then currency had an impact of 2%.

**Linda Ann Bolton-Weiser**

*D.A. Davidson & Co., Research Division*

Okay. So the pricing of 3% was for the quarter or for the half?

**Sara Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

For the quarter. And for the year-to-date, we're right at 3% as well. So for the halfway through the year, we're at 3% for impact of selling price and then the increase in the sales volume is 4%.

**Linda Ann Bolton-Weiser**

*D.A. Davidson & Co., Research Division*

Okay. Got you.

**Sara Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Yes, that's based on the growth, a growth of 10%. So that's how the 10% has been -- if you look at halfway through the year, we're up 10%. Of the 10%, 3% is related to selling price and 4% is related to volume.

**Linda Ann Bolton-Weiser**

*D.A. Davidson & Co., Research Division*

Okay. And I guess -- so the 3% pricing in the quarter, I mean, I just -- it's a little bit more than I would have thought because you're anniversarying -- I don't know, I guess I just thought it would have kind of flattened out sooner. So I don't know, is there any way you can give us some color on how we should expect that cadence to go for the pricing line?

**Sara Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Yes. So we do expect that to come down, not -- run at that rate for the second half of the year. We are continuing to lap price. So we're predominantly through most of the larger price increases now in both the Americas and EIMEA markets. Asia PAC, we are still lapping some more recent price increases related to Australia. The timing of the inflationary environment in Australia was a little bit later. And so there are some price activities that we implemented really the later half of last year and really even into this year in Australia through a couple of different price changes or price increases. So there's still some lapping, but we're through the biggest pieces of it.

**Linda Ann Bolton-Weiser**

*D.A. Davidson & Co., Research Division*

Okay. And then finally, just on Asia. I guess that was 1 region that kind of was a little bit lower growth than I thought. And then I noticed you said Specialists was down. I know that's small in that region. But is there any particular thing that was going on?

**Steven A. Brass**

*CEO, President & Director*

So I think we're -- overall in Asia is if you look, it's been masked a little bit by currency -- constant currency rate our growth overall, I believe we're up 5% year-to-date. China is up in local currency 12% year-to-date. And so we maintained double-digit growth in China. And all the other regions are up, but perhaps not as high as we thought. So we see a very strong back half against prior year for Asia Pacific. So there's nothing to be worried about.

I think by the end of the year, we'll have caught up. And well, all 3 trading blocks we see operating within our guidance range. The 5% to 8% of the Americas, 10% to 13% for Asia PAC and 8% to 11% for EIMEA. So we're very optimistic about the second half of the year.

**Linda Ann Bolton-Weiser**

*D.A. Davidson & Co., Research Division*

Okay. And then just one final one. I was trying to figure out the math here on your EPS increase for the guidance and -- the tax rate, I don't think it was more than like \$0.05 or \$0.10, and yet you raised the midpoint of the range by \$0.18. So is it fair to say that the rest of that is operational -- [ moving ] in the gross margin being better?

**Sara Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Yes. Most of the change is as we're just getting -- we're halfway through the year now. We have more visibility as to how we believe margin will play out for the second half of the year. So that's really the biggest change and the narrowing of the EPS range. There's obviously a little play in there on the income tax line as well, but those are the biggest 2 drivers for the change in the guidance.

**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.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

© 2024 S&P Global Market Intelligence.