

Edgewell Personal Care

Second Quarter Fiscal Year 2026 Earnings Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, and welcome to Edgewell's second quarter fiscal year 2026 earnings call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key on your telephone keypad.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad. To withdraw your question, please press "*" and then "2." Please note this event is being recorded. I would now like to turn the conference over to Chris Gough, Vice President Investor Relations. Please go ahead.

Chris Gough

Good morning, everyone, and thank you for joining us this morning for Edgewell's second quarter fiscal year 2026 earnings call. With me this morning are Rod Little, our President and Chief Executive Officer, and Fran Weissman, our Chief Financial Officer. Rod will kick off the call and then hand it over to Fran to discuss our second quarter 2026 results and full year fiscal 2026 outlook. We will then transition to Q&A.

This call is being recorded and will be available via replay on our website, www.edgewell.com. During this call, we may make statements about our expectations for future plans and performance. This might include future sales, earnings, advertising, and promotional spending, product launches, brand investment, organizational and operational structures and models, cost mitigation, and productivity efficiency efforts, savings and costs related to restructuring and repositioning actions, acquisitions, dispositions and integrations, impacts from tariffs and other recent developments such as the conflict in the Middle East, changes to our working capital metrics, currency fluctuations, commodity costs, energy and transportation costs, inflation, category value, future plans for return of capital shareholders, the disposition of our Permanent Care business, and more.

Any such statements are forward looking statements for the purposes of the Safe Harbor provisions under the Private Securities Litigation Reform Act of 1995 which reflect our current views with respect to future events, plans, or prospects. These statements are based on assumptions that are subject to various risks and uncertainties, including those described under the captioned risk factors in our annual report on Form 10K for the year end of September 30th, 2025, and this may be amended in our quarterly reports on Form 10Q filed with the SEC. These risks may cause our actual results to be materially different from those expressed or implied by our forward-looking statements. We do not assume any obligation to update or revise any of these forward-looking statements to reflect new events or circumstances except as required by law.

During this call, we will refer to certain non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is shown in our press release issued earlier today, which is available at the Investor Relations section of our website. This non-GAAP information is provided as a supplement to not as a substitute for or as superior to measures that financial performance prepared in accordance with GAAAP. However, management believes these non-GAP measures provide investors with valuable information by the underlying trends of our business and allows more meaningful period to period comparisons of ongoing operating results.

As a reminder, our results this quarter reflect one month of the Feminine Care Business classified as discontinued operations. Prior period results have been recast to reflect this presentation. The results of the Feminine Care Business are reported separately from continuing operations.

All of our commentary today unless otherwise stated on performance and our outlook will reflect continuing operations including our wet-shave, sun and skin care business. With that, I'd like to turn the call over to Rod.

Rod Little

Thank you, Chris, and good morning, everyone. We appreciate you joining us for our second quarter fiscal '26 earnings call. We delivered a strong second quarter with top line and bottom-line results ahead of our expectations reflecting the actions we've taken to strengthen the business, improving our execution, and delivering innovation that is resonating with consumers. The top line strength together with solid gross margin performance and disciplined execution enabled us to deliver adjusted earnings per share and adjusted EBITDA ahead of our outlook.

Importantly, these results reflect continued progress in our strategy execution, concentrating resources on the categories and markets where we have clear competitive advantage. And we're seeing this show up in improved consumption and market share performance including in the United States. Internationally, we continued to see solid market share performance across our key markets.

In the U.S. we delivered accelerating consumption growth and share gains both value and volume. U.S. value share increased by approximately 50 basis points in aggregate in the quarter with gains across branded manual shave, shave preps, grooming, sun care and skin care. This is an important confection point for the company as we expect to transition to a growth profile in the second half of the fiscal year.

While we continue to operate in an uncertain environment we're executing against four priorities that we expect will drive both our near-term performance and our long-term strategy. These priorities are international markets, innovation, productivity, and our U.S. transformation. These priorities are at the center of how we allocate capital and focus, directing our resources where we see the strongest linkage between investment, improved execution, and the highest returns.

This focus is evidenced in our simpler, higher-quality portfolio with a stronger margin profile post the Fem Care divestiture which we completed in February. We're moving forward with flexibility to allocate investments to the categories where we believe we have global scale, clear competitive advantages, and momentum. This is wet shave, sun skin care, and grooming.

We're also more regionally balanced with roughly half of our sales in North America and half in international markets. Within the portfolio, wet shave now represents approximately 60% of our sales and our sun, skin care, and grooming businesses combined are now approaching 40% of total sales with grooming now over 10% of the business.

With that context, let me give you an update on our progress across each of our four priorities. First, durable international growth. We saw a return to growth in the quarter with continued good underlying consumption and market share trends broadly across nearly all key markets. While slower first half sales reflected timing and phasing impacts versus last year, we believe we are now positioned for strong sales growth throughout the remainder of the fiscal year.

Second, compelling innovation. We remain committed to delivering consumer-led, locally designed innovation across our portfolio. We are now positioned to realize the benefits from the

investments we made in fiscal '25 when we expanded Billie into Australia, Bulldog and our premium skin care across Europe. We took Schick into premium skin care in Japan with the launch of Progista and we brought in Cremo's range in the United States and Europe, driving meaningful growth.

We are also equally excited about the remainder of fiscal '26. We have a robust second half innovation pipeline, including hydro and intuition relaunches in Japan, new Wilkinson, Sword, and Hawaiian Tropic launches in Europe, and meaningful launches across grooming and sun care in the U.S. Together, these initiatives reinforce innovation as a key driver of our strategy. All of this is supported by a significant step up in A&P spend that's focused on brands and markets where we see the strongest linkage between investment, distribution gains, household penetration, and repeat rates.

Third, productivity through supply chain optimization. We are executing our productivity agenda with consistency and urgency. This quarter, we delivered approximately 220 basis points of growth productivity savings. These actions are an important driver of our profit profile, softening tariffs and inflationary pressures, simplifying the organization, improving speed and service levels, and creating capacity to reinvest behind our core brands.

We continue to make progress in our wet shave manufacturing consolidation, an important program to simplify our footprint, modernize our shave technologies and capabilities, and improve the structural economics of the business. Phase one, consolidating the first two plants, which primarily support private label into our new Greenfield site, is nearly complete and represents the most operationally complex stage of the program. Throughout the transition, our priorities are clear; protect customer service, maintain on shelf availability, and minimize disruption for our retail partners.

To support service levels, we're investing to protect fill rates, including in some cases, running duplicate sites longer than planned, as well as absorbing higher operating costs, such as overtime and incremental air freight. Importantly, the program remains on track to deliver the intended service outcomes and savings. As we reach steady state, we expect to begin realizing savings in fiscal '27, with a full run rate in fiscal '28, equating to roughly two points of expected company-wide gross margin improvement.

Fourth, our U.S. commercial transformation. From an organizational perspective, we've simplified our U.S. structure to reduce complexity and accelerate decision making, with new leadership in place and clear accountability across our commercial teams. We're also investing behind core capabilities, insights in analytics, media and content, category development, and revenue growth management. We anticipate that this will improve how we execute its shelf with our retail partners and win with consumers.

And these actions are already yielding results, as reflected in the improved consumption and market share trends we're seeing today. We've also taken decisive action to increase investment in our five U.S.-focused brands, Schick, Billie, Hawaiian Tropic, Banana Boat, and Cremo. Shifting to a more sustained brand building and a balanced full-funnel marketing mix, you can expect to see this step up in spending in the second half of the fiscal year.

We've recently launched new campaigns and support for Billie and Cremo, a new Schick master brand, do right by your skin campaign featuring Nick Jonas. and our first Banana Boat campaign in five years. All examples of the kind of bigger, more impactful, full-funnel campaigns we're

bringing to market, with support coming soon on Hawaiian Tropic as we head into the sun season in the Northern Hemisphere.

The new Schick campaign sharpens our focus with the skin-first approach that treats shaving as the first step in skin care. This builds on our heritage and expertise in hair removal while redefining the category through a skin-first perspective. These campaigns build on the work we've done to identify consumer needs at a more granular level, driving sharper brand positioning and raising the bar on disruptive, creative, full-funnel, and omnichannel excellence, delivered through our recently restructured marketing team and our new fully integrated agency partner.

Moving forward, continued support on our core brands will be coupled with sharper insights, greater focus on innovation and renovation, and continuing to push for excellence in revenue growth management and omnichannel execution to drive our growth. Overall, we expect these actions to strengthen our fundamentals and position us for growth over the longer term in the U.S.

So as we look forward to the remainder of fiscal '26, we are reaffirming our underlying outlook for the fiscal year. We are encouraged by our second quarter and our first half performance and the progress we're making across the business, which increases our confidence and our ability to deliver our plan. At the same time, we're operating in an uncertain macro environment and we have the bulk of our sun care season ahead of us, so we are maintaining a disciplined and balanced outlook.

Since our prior update, overall risk has increased given the conflict in the Middle East. While we are maintaining our ranges, we see a modest incremental risk to top line, particularly in our Middle East markets, as well as higher inflation risk, most notably from oil and higher fuel costs. At the same time, we continue to see a balanced set of opportunities and leverage across the business to help offset these incremental headwinds, which is why we remain confident in our ability to manage through these items, and we are comfortable holding our adjusted ranges. Our confidence is grounded in this strategy I discussed earlier, durable international growth, compelling innovation, productivity and supply chain optimization, and our U.S. commercial transformation.

To reiterate, the key underlying assumptions embedded in this outlook. First, we expect a return to organic net sales growth, driven by strong second half growth in international markets, and a return to growth in North America, as our U.S. initiatives continue to take hold to the second half of the fiscal year. Second, our plan includes a step up in brand and A &P investment, most notably in the United States, to support our commercial transformation and to accelerate our key brands. We believe this investment, together with our innovation pipeline, will strengthen consumer response and drive higher consumption and market share over time.

Third, we expect gross margin expansion, supported by productivity gains, pricing actions, and tariff mitigation efforts that are expected to build as we move into the second half of the fiscal year, partially offsetting inflationary headwinds. Fourth, even as we invest for the longer term, we intend to continue to prioritize adjusted free cash flow generation through working capital improvement and discipline spending. And consistent with this approach, our near term capital allocation priorities remain focused on strengthening the balance sheet, most notably using proceeds from the Fem Care sale to pay down our revolver balance this quarter.

Of course, underpinning all of this is the strength of our team and our ability to execute with excellence. The progress we made this quarter reinforces our conviction in our plan and increases our confidence in returning to solid, sustainable growth beginning in the second half of our fiscal

year, while expanding margins and cash flow in a way that builds long term shareholder value. With that, I'll turn it over to Fran to walk you through our results and outlook for fiscal '26. Fran?

Fran Weissman

Thank you, Rod. As Rod outlined, we are pleased with our performance as we closed out the first half of the fiscal year with better than expected top line results and inline gross margin performance. Additionally, we are increasingly encouraged with the improved consumption results and market share performance of our brands, reflecting the continued progress being made against our focus strategies.

As we transition to growth in half two, supported by further investments in our brands, we have confidence in our ability to execute our plan but remain mindful of the dynamic environment in which we are operating. And as a reminder, our results this quarter also include approximately one month of Fem Care reported in discontinued operations.

Now let's turn to our performance in the quarter on a continuing operations basis. Organic net sales decreased 240 basis points this quarter, better than our expectations as strong performance in rooming and better than anticipated branded wet shaves were more than offset by expected declines in sun care, driven by phasing of orders to Q1 and in private labeled wet shave.

North America organic net sales decreased 4.8%, driven by the volume declines in sun care and wet shave, partially offset by double digit growth in grooming and modest growth in skin. International organic net sales increased 1% as growth in wet shave was partly offset by declines in sun care and grooming. Importantly, we delivered growth in several of our key markets.

As we pivot to growth in half two, we are encouraged by our market share performance. We have grown or held market share in nearly 80% of our markets, which is up from approximately 70% in Q1. Wet shave organic net sales declined less than 1% as gains in men's and women's systems were more than offset by declines in disposables and preps. International wet shave grew 3.6%, largely driven by volume growth, reflecting continued category health, solid distribution outcomes, and strong in-market activation.

North America wet shave declined 6%, driven by continued challenge category and channel dynamics. In the US razor and blades category, consumption was down 130 basis points in the quarter. Our value share declined 10 basis points overall, reflecting an improvement from Q1 trends. However, our branded share increased 40 basis points, led by Billie, which continued to grow share of 40 basis points while our other brands held share.

Sun and skincare organic net sales decreased approximately 4.5%, driven by the expected phasing in sun care that I just reviewed, partially offset by growth in grooming and skin. In the US, sun care category consumption grew approximately 17% in the quarter. Our value share grew 180 basis points, driven by volume gains in Hawaiian Tropic, partially offset by slight declines in Banana Boat.

Grooming organic net sales growth was approximately 6%, led by approximately 38% growth in Cremo, partially offset by expected declines across other brands. Wet Ones organic net sales grew about 1%, and our value share was approximately 65%.

Turning to the P&L, adjusted gross margin decreased 310 basis points in line with our expectations. Productivity savings of approximately 220 basis points were more than offset by 420 basis points of poor inflation and tariffs, 70 basis points of unfavorable mix and promotional

levels net of pricing, and 40 basis points of unfavorable currency movements. We continue to expect productivity, tariff mitigation efforts and pricing to accelerate in the balance of the year and to deliver gross margin rate expansion for the full year versus fiscal '25.

A&P expenses were 11.3% of net sales, down from 11.6% last year, primarily due to promotional activation timing. We continue to anticipate spending increases in the balance of the year to support the new campaign launches outlined by Rod earlier. Adjusted SG&A was 20.1% of net sales compared to 19.6% last year, primarily driven by higher consulting and corporate expenses and unfavorable currency impacts, partly offset by lower people costs. Adjusted operating income was 49.4 million or 9.5% of net sales compared to 66 million or 12.8% of net sales last year, primarily reflecting the impact of lower gross margins, higher SG&A expenses, and partially offset by lower A&P.

Fact diluted net earnings per share from continuing operations were \$0.09 compared to \$0.43 in the second quarter of fiscal '25. Adjusted earnings per share from continuing operations were \$0.60 compared to \$0.69 in the prior year order. Currency reduced adjusted EPS by \$0.4 in the quarter. Adjusted EBITDA was \$73.8 million, inclusive of a \$2.7 million unfavorable currency impact compared to \$84.7 million in the prior year.

Net cash used by operating activities was \$71.6 million for the first six months of fiscal '26, compared to \$70.5 million last year, primarily due to lower earnings. As a reminder, cash flow is presented on a consolidated basis for both continuing and discontinued operations. In the quarter, share repurchases totaled approximately \$16 million. We continued our quarterly dividend payout declaring a \$0.15 per share dividend for the second quarter, and returned approximately \$7 million to shareholders via dividend. In total, we returned \$23 million to shareholders during the quarter.

Now turning to our outlook for fiscal '26. Consistent with what Rod shared, we are reaffirming our underlying expectations for the year, as our first half performance and continued progress against our strategic priorities increase our confidence in our ability to execute our plan. At the same time, we remain mindful of an uncertain macro backdrop and the fact that the majority of the sun season is still ahead of us.

With that context, I'll walk through our fiscal '26 guidance and address a couple of key components of its phasing. For the fiscal year, our organic net sales range remains unchanged from previous outlook. We expect organic net sales to be down 1% to up 2%, excluding FX tailwinds. Underlying this outlook for the second half, we expect international to deliver mid-single-digit growth supported by innovation and continued share momentum in our key markets, while North America is expected to improve and grow low-single digits, as our commercial initiatives gain traction.

We continue to expect Q3 to be our strongest sales quarter due to increased sun shipments and seasonal timing, while remaining mindful that weather and in-season demand can influence quarterly phasing. Looking ahead to Q3, we expect net sales to be up in the range of 2% to 3%. Moving to adjusted gross margin. Our expected gross margin rate accretion on a constant currency basis remains unchanged. Reported gross margin accretion is now anticipated to expand by 50 basis points, down 10 basis points, due to unfavorable FX. We expect gross margin to expand in half too, which is consistent with what we shared previously, as pricing actions, care of mitigation efforts, and productivity initiatives reach full run rate. The near-term impact of oil price spikes and other operating costs to protect service levels are putting pressure on inflation, which we are working to mitigate through a combination of productivity, volume absorption, and mixed management, which are disproportionately in Q4.

From a phasing standpoint, we expect Q3 adjusted gross margin to be in the range of 44% to 45%, a sequential improvement from the second quarter, with Q4 shaping up as our strongest gross margin quarter of the year, driven by annualization of tariffs, productivity and mitigation initiatives reaching full run rate, improved capacity utilization, as well as lapping of last year's one-time headwinds. Our year-over-year AMP rate is expected to increase 70 basis points for the full year, in line with our previous outlook. As Rod mentioned, we're taking action to increase investment in our five U.S. focused brands, Schick, Billie, Hawaiian Tropic, Banana Boat, and Cremo.

From a phasing perspective, we've shifted spend from Q2 into Q3 to support the launch of our brand campaign's timing, and we expect Q3 to be the highest AMP spend order of the fiscal year in the range of 15 to 16 percent of that sales. Adjusted EPS remains unchanged from the previous outlook. Adjusted EPS is expected to be in the range of \$1.70 to \$2.10. This outlook reflects the impact of expected share repurchases which were completed in the second quarter to offset current dilution and assumes an effective tax rate of 22 to 23 percent.

Adjusted EBITDA remains unchanged from previous outlook and is expected to be in the range of \$245 million to \$265 million. Given the phasing impacts that I just addressed, we expect to generate about 40 to 45 percent of second half adjusted EBITDA and adjusted EPS in the third quarter.

Our adjusted free cash flow expectations, excluding the cash impacts of the Fem Care Divestiture are unchanged and in the range of \$80 to \$110 million for the year, including expected improvements in working capital. Please note adjustments related to the Fem Care Divestiture include taxes related to the sale, working capital, and deal-related expenses.

Fiscal '26 represents the peak year for capital and investment spending tied to our plant consolidation and broader supply chain transformation. This program is time-bound, not open-ended, and as we move beyond fiscal '26, we expect capital intensity to step down as the new footprint reaches steady state. At the same time, we expect the benefits to build through prune service, lower unit costs, and better working capital efficiency.

Turning to leverage. We expect our balance sheet to continue to strengthen as the year progresses, reflective of our new lower debt position and supported by accelerating, operating cash generation and disciplined capital deployment. For full year Fiscal '26, we expect adjusted net debt leverage to end the year in the range of 3.3 to 3.5 times, which includes an estimated 0.3 to 0.4 negative turn impact from temporary Fem Care Divestiture timing and related items.

The leverage ratio during this transition period is temporarily higher as the net debt reflects our post-closed balance sheet, including cash balances impacted by working capital and other items related to our divested Fem Care business, while EBITDA excludes discontinued operations. This difference temporarily inflates the ratio in the near term and is not indicative of our underlying earnings power.

And finally, we remain committed to a disciplined capital allocation strategy. The net proceeds from the Fem Care Divestiture after taxes and transaction costs have been directed towards strengthening our balance sheet and reducing debt, while also supporting continued investment in our core brands with capital expenditures to drive innovation and productivity. For more information related to our Fiscal '26 outlook, I would refer you to the press release that we issued earlier this morning. And now, I'd like to turn the call over to the operator for the Q&A session.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your telephone keypad. If you are using a speakerphone, please pick up your hands up before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press "*" and then "2." Our first question comes from Nik Modi with RBC Capital Markets. Please go ahead.

Nik Modi

Yeah, thanks. Good morning, everyone. Rob, can you just -- I guess one of the clarification questions is, you know, how much inflation do you think you'll have to offset as a result of what's going on in the Middle East, if you could just help us kind of frame and quantify that? But more importantly, just really want to get into, you know, your mind about the guidance. You know, there's just so many moving pieces. Obviously, you had a lot going on in the quarter. There's a lot going on in the world.

And I'm thinking of it more directly from, you know, like flights are getting canceled, overseas, you know, that might impact tourism because of fuel shortages. That could impact Fem Care, thinking about inflation for the consumer with gas prices during the summer, which could squeeze their ability to consume, you know, sun care products and other products across the portfolio. So you know, there's a lot like incremental headwind I see coming. But the fact that you're confirming guidance, you know, just wanted to kind of get behind some of that and help -- hopefully you can unpack that for us.

Rod Little

Yeah, good morning, Nik. Thanks for the questions. I will start with the overall guidance perspective, and then Fran can hit the expected inflation from the Middle East activity for both this year, and I guess a thought towards next year, even though it's quite premature. Fran can hit both of those.

So, look, as we look at our guidance for this year, we're halfway through, right? And we're on track halfway through the year where we thought we'd be on both quarter one and quarter two when you put those together. So, that's point one. We're holding our outlook for the fiscal year guide across all elements, as you point out.

I think there's a couple of things going on. First is, despite the incremental headwinds coming at us, we took a more balanced planning stance overall. And so, we had a plan that had more flexibility and more leverage in it if we did hit some incremental headwinds, which we're now seeing. So the headwinds we see, oil, commodities, the cost piece, and then I think as you're pointing out this consumer demand question, you know, I don't know where that goes, but it's something we're thinking about.

And then, you know, the cost levers to offset that we've been aggressively working those, and that's part of not changing our guide as we take some of that incremental cost in, we have offsets in other places. Importantly, we're maintaining our AMP stance. We are not cutting brand investment, and we're not cutting AMP to do this. It's other productivity efforts, it's overhead efficiencies, and making some tough calls there.

But I think the single thing I'll point you to that gives us, you know, optimism and confidence that we can deliver the guide is the step up in the second half in sales rates, right? We have accelerating consumption and market share data in the U.S. Now, you all see that in the scanner data. 26 weeks of consecutive volume share growth, and it's accelerating in the U.S. Fran referenced 80% of our global category country combinations are holding or winning market share.

That's the healthiest position we've been in. So there's a broad-based momentum in the business. Distribution is now confirmed, right, in the planogram resets. So that's now in, as expected. International, we've talked about phasing all year that it would be more of a second half phase plan. As an example, Shave. internationally in Q2 was at 4%. The phasing was primarily in Sun Care, you know, down in the first half, second half up. And we've got the new campaigns and new innovation all launching with incremental investment behind them. And the content is really, really good. Very different than the past. When you look at the content we're putting out there and how we're reaching consumers.

Final data point for you is April's off to a good start. We're seeing the step up. We expected to see in the month of April, which just obviously closed for us in line with this guide that we put out. So we're seeing that step up happen.

So final thing before I throw it to Fran around balance. Look, I think your commentary around flights being canceled, travel potentially at risk to some tourism markets here in the second half behind higher oil, or maybe, you know, jet fuel not available in some cases. We've got line of sight to those risks. We think we're balanced equally with what has been a good start to the sun season domestically here with the category up double digits. Us ahead of that winning market share from a consumption perspective. And we've not changed our outlook for the year, partly because 80% of the seasons to come.

We don't know what will happen with the weather, but we think those two pieces, the international tourism risk, the potential upside domestically, we think that's balanced overall and that's part of what underpins our thinking. Fran, do you want anything else there and then touch the inflation piece?

Fran Weissman

Yeah, thanks, Rod. Good morning, Nik. Just taking it in two parts. If we think about fiscal '26 in the Middle East situation, clearly things are still unfolding, but what we do have a line of sight to and what we have quantified for '26 is about \$3 to \$5 million that's affecting us mostly in margin. We've got some top line pressures in the Middle East markets, as we could imagine. That's already factored into our Q3 outlook. And within the gross margin rate, we've got near term increases around W&D and some commodities.

Most of this gets trapped in inventory. So as this continues, we'll see more of the pressures coming through in '27. And while we have not sized that yet, our best expectation, if we took a snapshot right now, it's probably in the size of what we anticipated tariffs to be, which we have more than mitigated this year through our productivity initiatives. As we look forward to '27, though, it's important to understand that we have strong mitigation factors. Our productivity is expected to accelerate, especially with the consolidation of our plants. We continue to focus on SRGM as well as mixed management.

And more importantly, pricing is going to be a lever, of course, that we'll consider both targeted pricing as well as inflationary pricing is appropriate. So still uncovering '27 and we'll come forward as we know more. But that's our best line of sight with what we know today.

Nik Modi

Thank you both.

Rod Little

Thanks, Nik. Operator, next question, please.

Operator

The next question comes from Chris Carey with Wells Fargo Securities. Please go ahead.

Chris Carey

Hey, good morning, everyone. One follow-up on the inflation and gross margin and then a question on North America. Regarding the inflation, if my math isn't wrong, I mean, there's a really big step up in fiscal Q4, both on an absolute percentage basis and a change relative to last year. You just kind of went through it and I get tariffs lapping and productivity building. It's nevertheless a big number.

So I was just wondering if you could just maybe drill even a bit deeper just on confidence levels around that gross margin and that you're kind of continuing to do the right things for the business. And then regarding the North America piece, just is there a way to think about the underlying growth rates in North America in the quarter, if you kind of normalize for sun care shipment, timing, and the sort of improvement that you're embedding in the business into the back half of the year? Thank you.

Rod Little

Fran, take the inflation gross margin piece and I'll take the North America.

Fran Weissman

Sure. Morning, Chris. So when we think about half two, we always anticipated that most of our profit, two-thirds of our profit was going to be in half two. And actually, now, as we've settled half one, it's turning out to be closer to 60 percent. And a lot of that was on the backs of improved sales performance, but also improved gross margin performance.

And I think I would break out gross margin in two ways. We see a sequential improvement in Q3, but we always recognize that Q4 was going to be our strongest quarter for two specific reasons. One, what we're cycling and lapping from last year. You may recall we had one time transitory items that were disproportionately hitting us in Q4. That's about 50 percent of the Q4 step up. Not to mention that tariff mitigation is that full run rate. And also, we're annualizing tariffs in Q4 as well. So that is disproportionately driving Q4 to be slightly higher than what we're seeing in Q3.

And then the last piece is just productivity initiatives. We've identified and finalized our productivity initiatives for the year. More of that is falling into Q4 because as you know, we have over 120 days of inventory, so some of this gets trapped. But the good news is we already have a line of sight to that. So the way it's landing is just disproportionately more into July and August versus June. So those are the main factors that's really driving performance. And it's really in line with what we've expected. Rod, do you want to talk through North America?

Rod Little

Yeah. And Chris, on North America, I think you put your finger right on the point of inflection. In the first half of particularly in the second quarter in North America, sun was down about 10% on the quarter, which is just reflective more than anything of a different of sell in versus sell out timing, and then also those dynamics versus the year ago period, which is always tricky between quarters.

Sun's going to be positive, right, in the second half of the year. In fact, we have total North America estimated in this guide to up low single digits in the second half of the year. And so it's that flip on sun and getting the consumption reads coming through where sun turns positive. Grooming continues to be very positive for us as was referenced. Cremo was up 38% in the quarter just finished. That moment and continues in the back half of the year.

And then we actually have wet shave performance improving on a relative basis versus where it was in Q2. And that's behind not only better distribution outcomes, but what we think is really compelling campaigns and the do right by your skin campaign that we launched in Schick last week with Nick Jonas, as an example, has had better than expected resonance with consumers and engagement. And so we're optimistic across all elements of the portfolio. And I think we're in a better position right now in North America commercially and where this business can deliver continued growth than we've been in two to three years. And that's really ultimately the big inflection in our business as we look not only to the back half of the year, but as we go forward to 27. So feeling good about second half, Chris. Thank you.

Chris Carey

Okay. Thanks for the perspective. Appreciate it.

Rod Little

Thank you, Chris. Operator, next question, please.

Operator

And the next question comes from Susan Anderson with Canaccord Genuity. Please go ahead.

Susan Anderson

Hi, good morning. Thanks for taking my questions. I guess maybe just a follow up on that top line growth. I guess, how are you guys feeling about inventory at retail out there? I guess, particularly in sun, obviously the sellouts have been pretty strong. I guess you feel pretty confident that the retailers will need to replenish, given the strength there.

And then also, are you seeing as you kind of roll out these new launches, whether it's Hawaiian Tropic or in wet shave in Europe -- I think you said in Japan, are you getting any pipes or new shelf space that we should think about that will also help to drive that top line? And then maybe, also, if you could just talk about how you're feeling about the competitive environment with promotions in the wet shave category in the back half. Thanks.

Rod Little

Yeah, I'll take the first part of that, Susan, and Fran can talk about the competitive dynamics and what we've got assumed in here. Look, I think the second half sets up really well for us in that we don't have any known retailer inventory stocking problem. In fact, we suspect in many cases with our brands the inventory at retailers needs to be enhanced. And so we, as we go into this, things are very balanced in the trade. And we know in some cases the inventory actually needs to be built back up in some cases, in some areas.

And I think sun is a good example. You know, our consumption has outpaced the market, which has been a healthy category, frankly, more than we expected as we look at the first half of the year. And so that ought to lead to pull through in the second half. Even if there's not great weather, I think we're positioned well to do what we said here.

And there's no big pipeline in the second half around new innovation going in that would create a mismatch or a problem for next year, but there are a lot of places where we did get incremental shelf space in the distribution outcomes that, I think, not only gives us confidence to deliver the second half of the year, but gives us momentum as we start to think about fiscal '27 and planograms in the year ahead with the velocities we have and the consumption data we have.

You mentioned Japan. Yes, we got incremental shelf space in Japan in branded shave. It's a branded market. There's really not private label there, but also preps. We have significant growth in Japan in the preps category right now. And that is being driven as more of a regimen experience in Japan, where typically perhaps it's not been a big part of the business. So we've got growth in that part of the business. A lot of it is distribution.

Across Europe, we've had good, good distribution wins. Winning some tenders in the private label shave area of the business. Also, some wins and shelf space at shelf across shave and sun. And we've talked domestically here in the U.S. about some of the incrementality we've had across totality of wet shave, branded, and also grooming. The grooming distribution gains are the biggest we've had primarily on Cremo, and that's body wash at APDO. So that, we feel like, is sustainable and rolls into '27.

Fran Weissman

Yeah. And building on that, good morning, Susan. You know, as we think about these distribution gains, we've talked at the last calls around the importance of half two and the growth profile and distribution and planogram resets were factored into that. We finalize that and they happen as anticipated. So a lot of these distribution gains are factored in to our half two outlook.

And when we think about promotional intensity, we still see the same level of promotional intensity that we've seen. It's factored into our outlook. It's not at a level that's higher than what we anticipated. And I think we see slightly more intensity, of course, in women's shave, but again, broadly in line with what we've already anticipated and built into our promotional plans for the balance of the year.

Susan Anderson

Okay. Great. Thanks for the color there. Good luck with the rest of the year.

Rod Little

Thank you, Susan. Operator, next question, please.

Operator

And the next question comes from Olivia Tong with Raymond James. Please go ahead.

Olivia Tong

Great. Thanks. Good morning. Can you potentially provide some goal posts for the next 12 months versus just the second half? You mentioned 120 days on inventory, which obviously pushes much of the higher costs that we're seeing out of the second half. You also mentioned some of the mitigation options you might have, including potential for inflation related pricing as well.

So should we assume that the gross margin gets hit more so in fiscal '27 than the second half fiscal '26? Perhaps could you give us some goal posts on commodities and what you're seeing from your suppliers on rate of change on cost inflation? And then the second part of the question around pricing promotion, you know, obviously the backdrop has been quite challenging from a promotional perspective. So have you seen any changes of late in terms of your competition on promotion and provide some confidence around your ability to potentially take some targeted pricing at some point in the next 12 months? Thank you.

Rod Little

Good morning, Olivia. So I'll start and Fran can add in if she needs to add in. Look, we are not obviously in a position to talk about '27 from a guide perspective. But as we look forward beyond the second half of the year, we know we've got some cost productivity levers that we've talked about that are bigger than normal. We expect next year to be a good cost productivity year for us as we start to get the initial savings tranche from the shave manufacturing piece. So we've got, I think, a good line of sight to cost productivity efforts around cost of goods and margin that continues beyond the second half. We're not going to size or quantify that.

What we also know we have in the second half of this year that does not continue into '27 are some one-time things in the base that make that Q4 gross margin that Fran referenced earlier outsized in terms of increase versus prior period. And so I think we're into a more normalized range where I'm not going to predict -- we're going to grow gross margin at this point, and it's not going to guide to that. But we've got levers that as we finalize our plans to be able to do that, right? We should be able to pull those levers in that way.

The one piece I'll say as we go forward, it's a little different and unknown at this point, with this level of elevation, again, Fran sized it as what we have line of sight to now is around what the gross tariff impact was on us a year ago, which we offset largely via cost productivity. I would expect that we would have some pricing power and some ability to take pricing if this elevated oil commodities basket holds where it is today, because everybody's hit by that.

And what's interesting for us is our business now, as you look at the new portfolio we have without Fem Care, 75% of our business is where we're growing or holding share in a very healthy position. So we've got 25% of our business in this US Shave bucket that has been the part of the businesses behind for us. I don't know if we're going to be able to price in that bucket, but international shave, sun, skin, grooming with the increased equity strength that we have and kind of the competitive dynamics around that, I would expect if these elevated commodity rates hold, that we would be looking at taking some pricing next year.

Again, there's no sizing or commitment to it, but that will be definitely a lever we'll look at for next year that, frankly, we just don't have this year in our toolkit at the same level we would with that. I think organically, when you look at sales growth as we go out into next year, the second half ought to be -- portend what's to come for '27 as we think about putting a guide out there in the next five to six months. We're not ready to do that. The second half should be a good proxy for sales growth. Anything you'd add, Fran? No. Okay. Thank you, Olivia. Operator, next question, please.

CONCLUSION

Operator

There are no more questions in the queue. I would like to turn the conference back over to Rob Little for any closing remarks.

Rob Little

All right. Thank you, everybody. We appreciate your continued interest in Edgewell and we'll talk again in early August with our Q3 results. Have a good summer.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.