

Edgewell Personal Care

Q2 2024 Earnings Call

May 8, 2024, at 8:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Chris Gough** - *Vice President of IR*

**Rod Little** - *President and Chief Executive Officer*

**Dan Sullivan** – *Chief Financial Officer*

## PRESENTATION

### Operator

Good morning and welcome to Edgewell's Second Quarter Fiscal Year 2024 Earnings Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would now like to turn the conference over to Chris Gough, Vice President of 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 2024 Earnings call. With me this morning are Rod Little, our President and Chief Executive Officer and Dan Sullivan, our Chief Financial Officer. Rod will kick off the call and then hand it over to Dan to discuss our results and full year fiscal 2024 outlook before we transition to Q&A. This call is being recorded and will be available for replay via our website, [www.edgewell.com](http://www.edgewell.com).

During the 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, savings and costs related to restructuring and repositioning actions, acquisitions and integrations, changes to our working capital metrics, currency fluctuations, commodity costs, category value, future plans for return of capital to shareholders 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 and are subject to various risks and uncertainties, including those described under the caption Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2023, as may be amended in our quarterly reports on Form 10-Q, which is on file 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 of financial performance prepared in accordance with GAAP. However, management believes these non-GAAP measures provide investors with valuable information on the underlying trends of our business.

With that, I'd like to turn the call over to Rod.

### Rod Little

Thank you, Chris. Good morning, everyone, and thanks for joining us on our fiscal '24 second quarter earnings call. We've delivered strong financial results in the quarter. Slight sales growth and

accelerated gross margin gains of over 300 basis points drove 19% year-over-year adjusted EBITDA growth and over 50% adjusted earnings per share growth, both of which were above our expectations. Our strong margin results serve as the catalyst for the increase in our profit outlook for the full year, while reinforcing our commitment to return to pre-COVID level gross margins over time.

I'm particularly pleased with the execution of our teams as margin expansion delivered in the quarter and embedded in our updated full year outlook is underpinned by a healthy balance of both accelerated realization of our productivity initiatives and disciplined execution of our strategic revenue management efforts. Combined, these two initiatives drove over 400 basis points of gross benefit in the quarter. Organic net sales results in the quarter included a double-digit increase in our right to win portfolio, driven by our market leading Sun Care and Grooming businesses and continued growth across our international markets, reflective of both price and volume gains. I continue to be excited about the results we are seeing in our international markets. After posting 6% growth this quarter, these businesses have a two-year stack growth rate of over 9%, driven by better execution, improved commercial capabilities, and importantly, stronger leadership.

In Japan, our second largest standalone market, we had meaningful organic growth while gaining almost a point and a half of market share in Wet Shave. In Europe, our momentum continues with growth across both branded Wet Shave and our custom brands group as we have begun to execute the relaunch of the Wilkinson Sword brand in market. And in Latin America, growth was driven by higher pricing and volumes reflective of a strong start to the Sun Care season.

In North America, as category consumption softened, sales in our Right to Play businesses of Wet Shave and Feminine Care declined. While there were certain transitory factors at play, including the cycling of last year's MPD pipeline fill at Costco and Shave, and retailer efforts to further reduce safety stock levels across Fem Care, the results of these categories for North America were below our expectations.

Importantly, our results in North America across our Right to Win portfolio were very strong and in total we grew over 11% in the quarter, with gains in both volume and price. Solid planogram outcomes and good early season execution drove 13% growth in Sun Care, and incremental distribution and new product rollouts in CREMO and the Billie launch into Body fueled over 20% organic sales growth in grooming.

In summary, we operate a broad and diverse portfolio of global brands, and our first half results are further proof that our strategy is working. For half one, we delivered 1.4% organic sales growth, 190 basis points of gross margin accretion, invested over \$111 million in support of our brands, and increased operating cash flow by \$54 million and realized over 26% adjusted earnings per share growth. As we turn to the second half of the year, our priorities are clear. We will continue to execute with excellence in support of our productivity program. We'll invest behind meaningful innovation and MPD across Sun, Grooming and Body Care, as well as our Carefree master brand launch. And finally, we will continue to deliver top and bottom-line growth across our international markets. With this, I'm confident in our organization's ability to be successful.

And now, I'd like to ask Dan to take you through our second quarter results and discuss our outlook for fiscal '24. Dan.

**Dan Sullivan**

Thank you, Rod. Good morning, everyone.

Despite what continues to be a challenging macro environment, strong operational and commercial execution has led to robust adjusted gross margin, EPS and EBITDA expansion in the quarter. Strong international results, partially offset by the challenging performance of our Right to Play categories in North America, led to slight organic sales growth, which was below our expectations. Continued excellent productivity performance and realization of our price and revenue management strategies once again unlocked notable gross margin accretion, enabling us to raise our full year adjusted EPS and EBITDA outlook ranges, which I'll discuss shortly.

For the quarter, organic net sales growth was largely driven by higher pricing and strategic revenue management actions, while volumes were lower. International organic growth was just under 6%, underpinned by both price and volume gains. As previously mentioned, the external environment is challenging. The dollar remains stubbornly strong while interest rates remain elevated. And importantly, consumption across US categories has slowed. Aggregate consumption across our US segments declined 0.4% in the quarter, a meaningful sequential step down from last quarter's 2% 13-week growth and the 5% trailing 52-week trend, as gains from pricing eased compared to a year ago and volumes declined across most categories. The change in trend was most pronounced in Wet Shave and reflective of the drug channel, where we're seeing lower foot traffic, retailer execution challenges, and a highly competitive environment on shelf.

Operationally, our teams continued to execute at a high level. The supply chain organization realized better than expected productivity savings and our commercial teams drove strong gains from both price and revenue management. In total, these efforts combined to provide 430 basis points of gross margin tailwinds in the quarter, which more than offset core inflationary pressures and unfavorable mix. Notably, we delivered 320 basis points of adjusted gross margin accretion, adjusted EPS of \$0.88 per share and adjusted EBITDA of \$99.7 million, all of which were marked improvements over the previous year and above our expectations.

Now, let me turn to the detailed results for the quarter. Organic net sales increased 0.1% as strong performance across international markets and double-digit global growth in Sun Care and Grooming were offset by declines in North America Wet Shave and Fem Care. The strong international performance was driven by price gains of over 3% and volume gains of over 2%, resulting in just under 6% organic growth.

Performance in Japan continued to be a highlight as a return to healthy category consumption was met with price execution and supported by incremental brand investment. Mid-single digit growth in Europe and high single digit growth across LatAm were noteworthy as well. Organic cells in North America were down 2.8%, as double-digit growth in Sun and Grooming was offset by declines in Wet Shave, Fem Care and Skin. North America volumes were down 5.4%, while pricing and revenue management delivered nearly 3 points of growth.

Wet Shave organic net sales were down 4.5% with declines in men then women's systems and preps, offset by slight growth in disposables. International Wet Shave grew mid-single-digits and from both price and volume gains, reflecting improved market conditions, solid distribution outcomes and strong in-market brand activation.

In North America, organic net sales declined double-digits and were negatively impacted by cycling last year's MPD pipe fill in the club channel. Excluding the impact of the product launch cycling, total Wet Shave sales would've declined just under 2% in the quarter, which was in line with our expectations.

In the US, razors and blades category, consumption was down 3% in the quarter, driven mostly by the drug channel where declining traffic, weaker retailer performance and heightened promotional levels all

dampened results. While our market share decreased 80 basis points overall, this was entirely driven by the aforementioned drug channel where we over index.

Outside of drug, total category consumption was only marginally down, and we gained market share, including share expansion in mass. The Billie Brand continued to gain share, delivering 360 basis points of share growth as it continues to scale at retail. In the quarter, the brand reached a 16 share at Walmart and over 10 share at drug.

Sun and Skin Care organic net sales increased approximately 12% as nearly 13% growth in Sun Care and 18% growth in Grooming were partially offset by declines in Skin. North America and international each grew Sun Care over 12% with both delivering volume and price gains. In the US, challenging early season weather was evident in category performance, which was down approximately 4% and our share declined 190 basis points.

Grooming organic net sales increased over 18%, led by over 26% growth in CREMO in the US, over 12% growth in Bull Dog internationally and the rollout of Billie's Body Care launch at retail. Grooming organic growth excluding the Billie launch was a robust 11%. Wet Ones organic net sales declined 11% and our share decline slightly to approximately 73%.

Fem Care organic net sales were down 12% for the quarter and the decline was more than expected. Consumption in the category was up 1.9%, though entirely driven by pads, as tampon consumption was flat, and liners declined. The category continues to be impacted by retailer destocking and heightened promotional intensity, and we saw some executional delays in the changeover to the new planogram sets, which was a headwind in the quarter as we deploy our new Carefree master brands. Playtex Sport continues to be a drag with sluggish consumption and share performance.

Now, moving down the P&L. Gross margin rate on an adjusted basis increased 320 basis points inclusive of 10 basis points of unfavorable currency. We delivered approximately 240 basis points of productivity savings and realized 190 basis points of price and strategic revenue management gains. This was partially offset by core gross inflationary pressures of about 60 basis points and 40 basis points of negative mix and other items.

A&P expenses were 10.5% of net sales and flat to last year.

Adjusted SG&A increased 20 basis points in rate of sale versus last year, as higher people related costs were only partly offset by savings realized from ongoing operational efficiency programs.

Adjusted operating income was \$80.7 million compared to \$63.1 million last year, an increase of approximately 28%. Adjusted operating margin increased 300 basis points, reflecting higher gross margin, partially offset by higher A&P and SG&A expenses.

GAAP diluted net earnings per share were \$0.72 compared to \$0.37 in the second quarter of fiscal '23, and adjusted earnings per share were \$0.88 compared to \$0.56 in the prior year period. Currency movements had approximately \$0.02 per share in unfavorable impact in the quarter, as translational currency benefits within operating profit were more than offset by transactional headwinds in operating profit and lower hedge gains within other income and expense.

Adjusted EBITDA was \$99.7 million inclusive of a \$1.3 million unfavorable currency impact compared to \$83.6 million in the prior year.

Net cash provided by operating activities was \$56.1 million for the first half compared to \$1.9 million in the prior year period. We ended the quarter with \$196 million in cash on hand, access to the \$309 million undrawn portion of our credit facility, and a net debt leverage ratio of 3.4x.

In the quarter, share repurchases totaled \$15 million, and we continued our quarterly dividend payout and declared another cash dividend of \$0.15 per share for the second quarter. In total, we returned \$23.5 million to shareholders during the quarter.

Now turning to our outlook for fiscal 2024. Our strong half one financial performance, highlighted by accelerated year-over-year gross margin accretion, provides the catalyst for our raising of the full year outlook for both adjusted EBITDA and EPS. We continue to expect organic net sales growth to be in the range of 2% to 4%, so now anticipate the full year growth to be at the lower end of our previously provided range. This is largely reflective of 2Q results as our half two organic growth outlook remains mostly in line with our previous expectations and with a higher growth profile in Q4 than in Q3. We now expect full year adjusted gross margin accretion of 120 basis points, inclusive of 10 basis points of FX headwinds, and this represents a 40 basis point improvement over our previous outlook.

Our outlook for margin expansion in half two is largely unchanged, as we expect stronger productivity gains and continued easing of inflation and FX to be offset by increased promotional levels and the negative impact of lower sales on capacity utilization. As mentioned, we're also increasing our outlook for adjusted EPS and EBITDA, essentially flowing through the over performance from 2Q to the full year, and holding H2 generally consistent with our previous outlook as modestly improved FX is offset by the impact of slightly lower sales.

Adjusted EBITDA is now expected to be in the range of \$348 million to \$360 million. Adjusted EPS is now anticipated to be in the range of \$2.80 to \$3 inclusive of approximately \$0.17 per share of currency headwinds. Adjusted earnings per share at the midpoint of the range is now expected to increase approximately 12% or 18% at constant currency.

For more information related to our fiscal '24 outlook, I would refer you to the press release that we issued earlier this morning. And now I'd like to turn the call back over to the operator for the Q&A session.

## **QUESTIONS AND ANSWERS**

### **Operator**

We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Nik Modi with RBC Capital Markets.

### **Nik Modi**

I have just a few questions. Rod, I was hoping you could comment on the shelf resets being delayed because we're hearing this pretty broadly across a lot of companies across this space. I'm just curious if there's a specific dynamic that's kind of taking place that's causing that. And then the other question I had is just the drug channel doesn't look like it's going to recover anytime soon. It just seems like a lot of kind of missteps, executional issues, lack of focus on these categories. How do you think about the

channel pivot, right? I mean, is this going to continue to be a drag in your business, as we kind of think out the next several quarters, even-- maybe going into next fiscal year?

### **Rod Little**

Good morning, Nik. Thanks for the questions. Both are things that we have been focused.

On the first one on shelf resets being delayed, I think the broader thing that's happening where there are delays is lack of labor at the floor. That's one of the things we hear come back from the teams. I think that could be a macro factor.

In our case though, the only thing that really has had any meaningful impact to us in the quarter was specifically in Fem Care and the timing change of the planogram reset, which we expected to be March/April, it became May. And the reason that impacted us more than others was around the fact that we are launching our Carefree master brand with that planogram reset. Effectively sun setting the Stayfree brand, which we stopped shipping with the expectation that the planogram reset would happen in March/April. And when it got delayed to May, we were out of stock because we had run the stock down as we were converting everything into Carefree. And now Carefree launches into May across pads and liners, we're super excited about that master brand relaunch. It's coming with the technology innovation with a better top sheet. So, we're excited actually about Fem for the second half of the year. The team's doing all the right things, but it cost us over a point of growth in the quarter alone with that timing delay. That was the biggest impact in Fem along with the inventory reduction that others have talked about.

And then as it comes to drug channel, what's interesting is you look at the US market, you look at our share performance, how we performed against mass, against food, against e-com, on track with plans across the board and specifically with Shave. We are disproportionately impacted by problems in the drug channel because we're overdeveloped in that channel. We are seeing in our read throughs double-digit foot traffic declines in club, in addition to the things that are impacting CVS, Walgreens every day. Within drug, you've got the labor issue, you've got the inflation issue, where the value equation there is maybe not quite as sharp as it is in some other retailers.

So yes, I do think that's something that will be a drag for us. We'll face that as we cycle through that, and those issues resolve themselves. But the other piece we had within the quarter in drug is Rite Aid went bankrupt and we're no longer shipping to a customer that was fairly meaningful in size to us. I expect that we'll get picked up other places, but that was also an impact in the quarter.

### **Operator**

Our next question comes from Bill Chappell with Truist Securities.

### **Bill Chappell**

Good morning. I guess, first question, maybe in early indications on the, I mean, it seems like it's a fairly good start for Sun, especially internationally, but I know the season really doesn't start in earnest until we get to kind of really May/June. So maybe you can talk about how it's progressed as we moved into the fiscal third quarter and shelf space and kind of how you're set up, especially versus last year.

### **Rod Little**

Bill, the sun season, if you look at what we've done in the quarter, we grew 12% organic, primarily our shipments in right ahead of sun season in North America or in the Northern hemisphere... Southern hemisphere, a little different dynamic. But that 12% was equally represented internationally, up 12% -- North America, up 12%, so that's where we sit.

We start the season domestically here in the US with a slow start. If you look at early season weather patterns across the south, specifically down in the lower East Coast in Florida, started the year very rainy and worse than last year, if you want to direct compare in terms of where we started. Now that said, it is early. We're seeing that change now. If you look at the sun forecast and the temperature forecast across the south and southeast, that looks good. If you look at expected travel patterns, travel's going to be up again is the projection and that will be good. And our teams did an excellent job in the field, getting distribution at or better than a year ago across the board. And one of the things that we're encouraged about is not only do we get the distribution, but we've got some exciting new MPD on both Banana Boat and Hawaiian Tropic that led to some incrementality in shelf space.

And Banana Boat 360 we've talked about in the past, it's a new non-aerosol delivery format for sprays to revolutionize the category that's been in sea sprays for 20 years in a different format that's very sustainable, recyclable bottles, reusable handle. I personally think it's the coolest innovation in the category this year, and so that also helps with the story.

So now we wait. 80% of the volume in front of us for the Sun to hit. We think it will hit, and we're also lapping, I believe, a fairly easy comp as you look at the weather patterns last year with fires, excessive heat and then a very rainy period through the northeast of the US all the way through to July 4th weekend last year.

### **Bill Chappell**

Thanks for the color. And then back to Grooming. I understand the weakness in the drug channel, but are there other things to fully explain why the category declined so much sequentially? If you think about it as the drug channel is weak, the consumers would find it in other channels. And what you've seen for that category as we've moved into the third quarter as well for the category, more specifically the new.

### **Rod Little**

And Bill, I just want to confirm, Shave was the question. You said Grooming.

### **Bill Chappell**

Sorry. Wet Shave.

### **Rod Little**

I know others use the Grooming term for the category, so I understand that.

Look, we definitely have an impact happening in drug that impacts the full category. Offsetting that, you have fast growing e-commerce channel that's growing I think at similar rates versus the past. However, we are seeing sequential slowing. If you go to a 52-week basis, our total aggregate I think we said in the script was 5% growth. That was 2% in the prior quarter. It was about flat up 0.4% in this quarter. So, we are seeing sequential slowing that is within Shave as well.

Like Shave follows that same trend line effectively for us, and there's a couple of things going on. There's an increased promotional intensity in the category, particularly in women's. It's very competitive as we roll Billie out nationally. You have a brand like Athena Club launching in and you've got the leading competitor being very promotional with their spend rates. We'll match that in the back half of the year and adjust our plans, but that's having a negative impact on the women's category.

Also, I think we're seeing a return to more normal historical elasticity conditions around price and volume, where if the price value equation is off a little bit, volume gets hit, and so some of that

promotional intensity is adjusting value. We've seen a little bit of trade down to more value oriented price points with consumers.

And then, I think we're seeing it in some of the data, it's early, but there's also an early indication that consumers are using product a little longer. As you look to how do you get the most out of what you have in your house if you're trying to manage your cash flow, using a razor blade cartridge an extra shave or two would be a logical consumer reaction when the consumer starts to get tight, and we're seeing a little bit of that in some traffic patterns. It's not something that's a driver of our results, but I think that's playing into one of the drivers of the category slowdown. And Dan, I don't know if you'd add anything.

### **Dan Sullivan**

I think those are all the right points. I would add maybe two thoughts. I think, one, the total Shave performance in the quarter was largely as we had profiled it. We actually weren't surprised, so to say, by the minus 4 or minus 4.5. Remember, we were cycling an NPD last year, and in and out in club, which we knew would be a headwind as we entered the quarter. I want to say, one, we weren't surprised by the profile in the quarter.

I think two, the only piece that I would add is where we struggled in North America Shave and faced some headwinds in channels, as Rod articulated, we were equally accelerating internationally. And again, we don't talk a lot about it, but international represents over 50% of our Shave portfolio and we've now grown that double-digits for the first half of the year, up 6%, 5% in the quarter in 2Q.

So, I think putting it all in perspective, yes, some challenging environmental and price related items in the US for sure, but heightened growth internationally as I mentioned. And then, yes, cycling an item from last year that profiled the quarter largely as we had expected it.

### **Operator**

Our next question comes from Chris Carey with Wells Fargo Securities.

### **Chris Carey**

Good morning, everyone. So what's your outlook for the North America business relative to international in the back half of the year? And if you could frame Wet Shave as well. And then secondly, can you talk about your ability to deliver on your higher profit outlook today, even if sales comes in below your current expectations? It does seem like there's a little bit of visibility dynamic that happened in Q2 that could continue into the back half. So I'm trying to understand how that might impact the profit model if indeed some of these things turn out to be a bit worse than you expected into the back half of the year.

### **Dan Sullivan**

Yes, Chris, it's Dan. I'll take them in reverse order.

So, we obviously have a very strong line of sight to the profit profile based on the margin performance that we've seen to date and we're driving significant structural outperformance here on productivity and price and revenue management, so we certainly feel good about that. And as we said in the remarks, the over performance through 2Q flows through.

We're going to continue to push hard on that. I think you've seen that from us certainly on the productivity line and we see now opportunities to over deliver for the full year. What we are anticipating in the back half of the year is a bit more promotional intensity. Rod mentioned that earlier in Shave and also in Fem, and we have factored in some capacity utilization headwinds in the back half of the year

just due to the lower sales that we've seen. So, we think we've captured the right puts and takes. We do think pointing to the lower end of the range is the right place to be, but we have high confidence in our ability to deliver now the improved margin performance.

In terms of your first question on back half of the year, let me sort of put it in perspective. I'll start at the total company level, because I think looking at what we are cycling is very important. For the first half of the year, we grew about 1.5% and we cycled 8% growth from a year ago. Our back half profile calls for about 2.5% growth, while we're cycling just over a point a year ago. So, we start from a place that we think is constructive and thoughtful, factoring in all the things you've heard us talk about, both within our portfolio and the broader markets.

Specific to Shave, we're seeing now a category and, therefore, our performance within that category that largely levels back to the algorithm that we put in place a few years back when we launched the strategy, we're seeing now for organics a flat to slightly declining organic that's largely what we've seen so far. For the first half of the year, we were up about a point, we're profiling half two to be down about a point, and that would put us for the full year plus or minus flat. Like that's kind of how we are thinking about it.

We will see North America continue to let's say be at a lower growth rate than international. We think international will continue to grow in the mid-single-digit range and outpace North America. So hopefully that answers your question.

**Chris Carey**

It does. One quick follow-up. The Sun Care business started the year really strong, but you're also talking about unfavorable weather and much of the season ahead. Can you talk about inventory levels in the Sun Care business and what you would expect going into the back half of the year? And do we need the weather to start turning here and consumption to pick up to be working down these inventory levels? Any perspective there would be helpful.

**Rod Little**

Chris, so this is a domestic, primarily a domestic US.

**Chris Carey**

This is really a domestic question.

**Rod Little**

So from a seasonality perspective, the way the timeline lays out for the category is we begin to ship into retailers largely in our quarter two. So that 12% growth that we put up here in quarter two reflects growth over the prior year around effectively distribution and stocks that retailers are holding largely ahead of the season. The season will start in Jan/Feb down in Florida, and then work its way up and out. And so, we sit today in a place with retailers feeling good about the season, committed to the season and effectively 12% more product out there than we had at this point a year ago, despite what was a slow start to the season in the southeast and out on the West Coast throughout the January, February, March period.

What we'll now see, though, is that inventory pull through that's there as we get into April, May and June, and replenishment orders begin as we get into our Q3. So, if we have a good sun season here at the start, which really gets into is Memorial Day good leading into that period, we'll see all that inventory move and replenishment go, which will drive Q3 and Q4 orders.

The other dynamic we're seeing that's different than the past is Q4 is becoming a bigger proportion of the overall total on average because the season's gotten longer on average, just around consumer behavior and habits of being outside more during that period. So, those are the dynamics. I think we feel really good about where we're set. I don't feel like anything is over inventoried, but ultimately the sunshine and temperature will tell us if we're right or not on that.

### **Dan Sullivan**

Chris, the only thing I would add, we always need good weather. We're sitting here today in our boardroom, and you can barely see outside. It's dark and rainy and that's not good. But we're at a point now where what we are expecting, which we don't think is unrealistic, is simply normalized replenishment cadence for the season.

Now, we didn't get that last year because if you remember, May consumption was down 10%, June was down 5%, and the season was changed forever from that point on. There's no reason to believe that will be the case this year for all the reasons Rod described: weather, fires, smoke, you name it. Our outlook contemplates simply normal replenishment of the season, and we're in a quarter now that's over 50% of the season. So yes, we do want to see some sunshine.

And then to your question, we feel really good about inventory levels and I think more importantly, retailers remain extremely committed to the category. They understand that the press of the category starts now and there's a lot of opportunity here between now and 4 of July.

### **Operator**

Our next question comes from Dara Mohsenian with Morgan Stanley.

### **Dara Mohsenian**

I just wanted to touch on A&P spending levels. It's been in the 10% to 11% range as a percent of sales the last few quarters, in the last couple years. If you go back a few years pre-COVID, it was generally more in the 13% to 14% range. I know we've talked about previously you guys are driving greater efficiency there, so that's why it's come down over time. But we are seeing your peers in the industry really ramp up A&P spend as a percent of sales looking to drive a volume recovery. We don't see it happening as much on your end despite some of the growth opportunities you're focused on and the gross margin recovery, your solid productivity. So, just wanted to understand conceptually, why strategically we're not seeing more reinvestment in ad spend? Do you think you're at the right levels in terms of share of voice relative to peers and to support the volume recovery going forward? And then, what's the right level as a percent of sales maybe looking out longer term or are you pretty comfortable with where you are today?

### **Dan Sullivan**

I'll start, and then I'll hand it to Rod. Look, I think we're going to continue to stay extremely disciplined here about where dollars drive ROI. That's the primary focus. We don't get too caught up in percent of sales metrics year-over-year. And so, we did expect to spend a bit more in the quarter, about a half a point more in revenue, and as we saw things getting delayed, Rod talked about that, as we saw NPD being delayed, as we saw the sun season starting out a bit soft, we said, look, this isn't good spend and we're going to continue to follow that. We will step it up in the third quarter, about a point of sales more than last year in support of the things that Rod talked around innovation and NPD and just good seasonal execution.

But before I hand to Rod, I would make two comments though I think are important to understand just as you try to balance level of spend. I think one, we did, as we exited the quarter, start to move dollars out of A&P into sort of shelf execution, retail execution, promotional dollars. We did do that. We expect

we will continue to do that in the back half of the year. So, I think we've got to recognize that dollars are shifting now based on competitive move and category dynamics. It doesn't mean we're not spending; it means we're spending differently.

And I think secondly, just purely rate of sale driven, as international grows at an accelerated rate relative to North America, it carries with it a lower A&P dollar. And so, you're going to actually get a mixed benefit here where the growth is coming from markets where we don't spend at the level we do in North America. So, I think that's an important point.

Rod, what would you add?

### **Rod Little**

Yes, two things to add on top of that, Dara. One, as we return our gross margins back to that 45% plus range, which we're committed to doing, part of what we will do with that margin pickup over time is invest more in A&P. That's part of our model, that's part of our plan on how we think about delivering our growth algorithm for the future, which we're very confident we should do. It's going to come with some incremental support and spend on that A&P line over time.

Point two is that encourages me that we can do this in a way that's value creating is we have developed some internal data and analytics capability that is really, really impressive around where to spend next dollar. We're effectively doing in-house market mix modeling, big data and analytics to drive through, to Dan's point on, where is ROI and where do you spend the next dollar: which brand, which category, which customer do you potentially go after? Much, much better analytics. And so, as we create better branding, better messaging, we now have the analytics to point us where to spend.

With that, I think we're more willing to lean in and drive an increase in the rate because we know we'll get the return. I could not have said that to you two or three years ago. We've been on a journey there. And yes, we want to spend more. We'll do it in a way that when we increase margin, we'll drop some to the bottom line and we'll reinvest in the business over time. That's what you should expect to see from us.

### **Operator**

Our next question comes from Susan Anderson with Canaccord Genuity.

### **Susan Anderson**

Good morning. I guess maybe just going back to the Fem Care business, I'm curious how you're thinking about sales now for the year. It looks like down low-teens in the first half. I guess, should we think about getting most of that back to in flat for the year now or how should we think about that? And then I was curious too just on the new launch, if you are getting any shelf gains.

### **Rod Little**

You laid it out well, Susan, that's exactly how you should think about it. Down in the front half, up in the back half, kind of flattish for the year, plus or minus. We'll see where we land. A lot of it's going to depend on off take here from the new initiative and what we put against it. But it's definitely a different profile in the second half. We don't think the inventory reduction piece that retailers are hitting us with. We've got the full planogram in place. And yes, we did gain shelf space as of effectively this month going forward with the new Carefree rollout.

Dan, I don't know if you want to add anything.

### **Dan Sullivan**

No, I think you said it well.

**Susan Anderson**

Great. And then I was just curious, any early reads on the launch of Billie into women's grooming. I guess how many stores is that in now and what are you doing just to market that new launch and get consumers interested in the product?

**Rod Little**

It's exclusive at Walmart. As of this quarter, we just shipped in the new Billie Body execution. It's in a antiperspirant/deodorant. It washes with moisturizer to follow. Not in yet.

We are on track to ahead of initial assumptions that we had made around how big that could be. We feel good about it. Walmart, I believe if you asked them, would tell you they feel good about it. And we're excited about the momentum of the Billie brand, not only in grooming as we put the new body care SKU's in, but also what's happening on Shave. We now have a shave business that's north of 10 share points and continuing to grow every single period. And so, as we invest incrementally in awareness, which we are doing behind the body launch, we think we're going to be in a period where we can really start to get some halo and some efficiency in a multi-category exposure for the investment we make. Dan?

**Dan Sullivan**

Yes, all the right points. Susan, you're a big fan of the brand, so I'll add one comment. At Walmart in March, we executed a four-way mixed brand display. It's the first time we've been able to do it in over 3000 doors and saw a 20% sequential growth. And so, to Rod's point, you've got a very strong Shave brand now that is essentially 17 share at Walmart with a growing presence in Body and a really supportive retailer who's willing to do incremental things on the floor, which is super helpful.

**Operator**

Our next question comes from Olivia Tong with Raymond James.

**Olivia Tong**

Thanks. First, I want to follow up on Chris's question, because the savings and productivity that you've been able to achieve has been impressive as you improve that despite a weaker top line. But the things that you said, more promo in the second half, a couple of other things seem to suggest more drags on that. So, I was wondering if you could talk about that.

And then just on the top line, it seems like the tougher macros are hitting your categories harder than others, but you are in a unique position because of your private brands group. So was wondering if there's anything that you're doing there to help potentially offset some of the weakness with the branded portfolio.

**Dan Sullivan**

Hey, Olivia, it's Dan. I'll take the first question and then I'll hand to Rod for the second.

Yes, look, you are right. As I said earlier to Chris's question, we feel quite confident with the margin profile and the way that we've built it. We do think productivity and revenue management efforts will continue to outperform our initial expectation. We do feel that in the second half of the year. I think the team's done an amazing job both in execution of productivity and also in continued focus on unit economics and revenue management.

What we are guarding against and trying to be thoughtful about is a couple of dynamics. One is reality, which is capacity utilization. You sell less, you produce less, you have less utilization on your manufacturing floor. And so, we've accounted for that in the back half of the year. And then as you mentioned, what we think will be a more promotional environment.

Now, if I put all of that together, what it means is our margin outlook for the back half of the year is unchanged from our previous outlook. We have not changed anything. We think there's tailwinds in the stuff that we can really control around productivity and price. And we think that the environment will continue to be promotional and therefore we've contemplated that in the outlook. But for the half two, our margin outlook has not changed.

So, I'll hand it over to Rod.

### **Rod Little**

And on the private brands group, we call it Edgewell Custom brands is our vernacular for it, we have a situation that as the consumer gets challenged, if economic conditions get more difficult on a macro basis, our portfolio sets up well to benefit from that. Not only is the value tier, for example, with Billie branded now in women's playing in disposables as well, but we also are the leader in that private label area and custom brands work, which is typically more to value price point.

We are seeing better trends in that part of the business versus branded. Particular strength in Europe in that business. I would call out our execution in Europe has been outstanding in that part of the business and it is faster growing. We're not seeing big share shifts to private label, but we are definitely seeing strength in that part of our business, which we think is potentially a buffer for us. If the consumer does become more challenged from here, maybe it does put more macro hurt on our categories overall, but there's definite benefit in that part of the portfolio.

### **Operator**

Again, if you have a question, please press star then one. Our next question comes from Peter Grom with UBS.

### **Peter Grom**

Good morning, everyone. I just wanted to follow-up on the margin question. You kind of just touched on productivity promotion already, but can you maybe just unpack what you really expect from the different buckets and kind of how that builds to the 40 basis point increase in the guide? You mentioned no change in the back half. I think FX is a little bit better. Is the remainder of the 40 basis point increase really just the function of stronger productivity in the first half?

And then just building on that, can you maybe just comment on what you're seeing from a commodity perspective? You've started to see some costs tick higher here sequentially, so just would love to get some color on what you're seeing across your core cost basket.

### **Dan Sullivan**

Yes, we think for the year productivity efforts will deliver about 40 basis points upside to what we had originally forecast. We think price and revenue management will be right around 30 basis points higher than what we had initially forecast, so there's a full year tailwinds. We think core inflation will continue to ease a bit helping as well. And then, we anticipate mix and other items and that's where I get into the capacity utilization challenges, etc., and promotional items working as headwinds. And so, if you put all of that together, you would get to about a 40 basis point increase in our full year margin versus what we had contemplated.

The question on the commodity basket's a good one. And look, it's choppy, and I would say overall nothing has changed here versus our thinking a quarter ago. You are right, there are always going to be movements within the basket. I think you see oil lately is moving to the low end. You see things like paper and pulp moving to the higher end. I think the team's doing an excellent job of balancing that, but we don't sit here today with any change in our risk profile to total commodity basket for the year.

## **CONCLUSION**

### **Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Rod Little for any closing remarks.

### **Rod Little**

Thank you, everybody. We appreciate your continued interest and investment if you are an investor in the company. We'll work hard over the summer, and we'll reconnect with you again in August for an update. Thank you.

### **Operator**

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