

Edgewell Personal Care

Third Quarter 2024 Earnings Release Conference Call

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CORPORATE PARTICIPANTS

Chris Gough – *Vice President, Investor Relations*

Rod Little – *President, Chief Executive Officer*

Dan Sullivan – *Chief Financial Officer*

PRESENTATION

Operator

Good morning and welcome to Edgewell's Third 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 on your telephone keypad.

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, Investor Relations. Please go ahead.

Chris Gough

Good morning, everyone, and thank you for joining us this morning for Edgewell's third 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, 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. 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, 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 30th, 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'll 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 2024 third quarter earnings call. The results we posted today and so far this year continue to demonstrate that our strategy is working and that the transformation we began just over three years ago has had a profound impact on our business and results.

We've exited a prolonged period of unmatched macroeconomic challenges and global business disruptions as a stronger, healthier, better positioned business. It's also important to note that we are far from done and that the transformation of our business continues.

Before I turn to our third quarter results, I'd like to discuss the key changes to our leadership team and organization structure that we announced earlier today. These changes will further strengthen our operating model, streamline decision-making, and improve enterprise execution, all of which will better position us to deliver on our overarching strategy to drive sustainable top and bottom line growth.

We have five overarching areas of critical focus for our business that serve as the context for the announced changes: first, strengthening our US business, specifically in our right to play categories, to better compete for the long-term; second, fortifying and accelerating our consumer centric innovation platform; third, continuing to strengthen and leverage our international businesses; fourth, doubling down on a clear strength and accelerating efforts to drive meaningful year-on-year gross margin accretion as a catalyst to increase commercial investment as we continue on our path to become a world-class supply chain organization; and fifth, strengthening critical underlying commercial capabilities across the enterprise to drive continued organic top line growth.

In order to increase the speed of progress across these areas of focus, today we announced a series of leadership changes. The first is the creation of a chief operating officer role, to which Dan Sullivan has been appointed. This role will help to streamline and strengthen our existing leadership structure, narrow spans of control, enhance the speed of decision-making, and improve enterprise execution against critical business priorities to maximize performance.

Dan has been with Edgewell since 2019, serving as chief financial officer and president of Europe and Latin America. He has proven to be an exceptional results driven leader, making him the perfect candidate for the position. While continuing to have purview over finance, IP, strategy, M&A, and business development, he will now also oversee our entire international business, global operations and supply chain, and corporate sustainability.

As Dan moves into his new role, Francesca Weissman, who has been a key member of our finance team since 2019, will assume the role of chief financial officer effective December 1st. Fran is a very talented finance leader and deserving of this promotion. As CFO, she will continue to lead all aspects of commercial operational finance and global FP&A, with additional responsibilities for controllership and accounting, investor relations, internal audit, tax, and treasury.

These internal appointments are a reflection of our incredibly talented team that I am so proud to work alongside. As I mentioned, Dan will head our international businesses, which include Japan and China in addition to Europe, Latin America, Oceana, EMEA. Our current president of

North America, Eric O'Toole, will be leaving the company. I want to personally thank Eric for his contributions to Edgewell and wish him well in his future endeavors.

I will assume direct responsibilities for the North American region in the interim, and an executive search is currently underway to fill the position. Once the role is filled, it will continue to report to me. Importantly, moving forward, in addition to focusing on strengthening our US business, I will also focus more of my time on accelerating our innovation agenda.

While I am pleased with the progress here, as evidenced by the very successful execution behind our Banana Boat 360 Coverage launch, which has reached the number one and number two new products in the category in the third quarter, I want us to move faster and increase our disruption. I'm confident that these changes to enhance our leadership team and simplify our structure will strengthen our business and ultimately better position Edgewell for sustainable top and bottom line growth over the longer term.

Now let's turn to our results for the quarter. We delivered strong financial results again this quarter, with gross margin accretion of 160 basis points, 7% year-over-year adjusted EBITDA growth, and 23% adjusted earnings per share growth, all of which were above our expectations.

Our teams executed well on the pillars of our strategy, as gross margin expansion in the quarter was underpinned by a healthy balance of our productivity initiatives and disciplined execution of our strategic revenue management efforts. Our strong third quarter 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.

Top line results were mixed. Our international businesses sustained their momentum, achieving organic net sales growth of over 6%, driven equally by price and volume gains, with growth realized across nearly all regions and markets. Sales in North America declined just over 2%, largely driven by our fem care business.

Organic net sales growth in the quarter featured continued strength in our right to win portfolio, which grew over 5%, propelled by our industry-leading sun care and grooming businesses. Double-digit organic net sales growth in grooming was underpinned by incremental distribution and new product rollouts in Cremo and Billie in North America.

Sun care organic net sales increased mid single digits in the quarter, with modest growth in North America as it cycled double-digit growth a year ago. Though early season unfavorable weather dampened the start of the sun season in the United States, category consumption trends and our share position strengthened across the quarter. We remain bullish on the balance of the season, with around 30% of the season's consumption still to go, and the teams are focused on ensuring strong execution in the summer's final months.

Our right to play categories declined 2% in the quarter, as broad growth across international was not enough to offset declines in the United States. In North America, our wet shave and feminine care businesses continued to face challenging category, channel, and competitive dynamics, with heightened promotional levels further pressuring growth.

Our wet shave business perform largely as we expected, with organic net sales down about 1%. However, our fem care performance was well below our expectations, as persistent sluggishness in sport tampons and a delay in our Carefree pads rollout materially impacted sales. With the shelf resets now finally complete and the new Carefree master brand having

received solid retailer support, we expect organic sales growth to return for fem care in the fourth quarter.

In summary, looking at our year-to-date performance, our broad and diverse portfolio of global brands and excellent execution across our strategic priorities has enabled us to deliver 180 basis points of year-on-year adjusted gross margin accretion and realize 25% adjusted earnings per share growth. And we continue to be disciplined in our approach to capital allocation, putting our healthy cash flow generation to work supporting our brands and returning \$63.5 million to shareholders while lowering our net debt leverage to 3.1 times this quarter.

With just one quarter of the fiscal year left as we look to next year, particularly with the changes we announced today, our priorities are clear. We will continue to make gross margin accretion a priority to both fuel brand reinvestment and deliver increased profitability. We will invest behind consumer centric innovation as the core catalyst for the differentiation of our brands on shelf, and we will continue to deliver top and bottom line results in line with or above our stated algorithm.

I'm confident that the changes announced today better position us to achieve our goals. And now I'd like to ask Dan to take you through our third quarter results and discuss our outlook for fiscal 2024. Dan?

Dan Sullivan

Thank you, Rod. Good morning, everyone. First, let me say that I'm thrilled to take on the role and responsibilities of COO. I also want to add my congratulations to Fran, who I've had the privilege of working with for over two decades. She's been an invaluable asset in her four years here at Edgewell, and I know she will build on her strong track record of success in the CFO role.

As Rod outlined, the changes announced today will simplify operating and reporting structures, expedite decision-making, and better leverage commercial and operational capabilities across our organization, all of which will better position us to capitalize on future growth, improve core operational performance, and maintain our commitment to grow our business responsibly. I appreciate the trust placed in me by Rod and the board, and I'm excited to work more closely with our talented teammates across the globe.

Now, moving on to our results in the quarter, as Rod mentioned, execution of our broader strategies continues to yield good results. The inherent strength of our business model was again demonstrated this quarter as modest top line growth of about 1%, which was largely in line with our expectations, translated into 23% adjusted EPS growth, driven by another quarter of meaningful year-over-year gross margin accretion.

While the macroenvironment in the US remains choppy and increasingly promotional, our continued momentum across international markets and strong operational fundamentals and cost discipline enabled us to raise our full year adjusted EPS and EBITDA outlook, which I will discuss shortly.

Overall, the external environment in which we are operating is challenging. Inflation, though easing, remains stubbornly persistent, while the imbalance of labor supply and demand pressures wages. The strong dollar and higher interest rates continue to be headwinds. And importantly, consumption across US shave categories, and in particular women's shave, softened.

Gains from pricing have eased compared to a year ago, and volumes were down slightly in our segments. These trends are most notable in the drug channel, where we're seeing lower foot traffic, retailer execution challenges, and a highly competitive environment on shelf.

We also continue see a highly promotional environment, especially, and though not limited to, the wet shave and fem care categories. We've responded in kind, reallocating top of the funnel brand investment into retail execution spend, with increased focus on promotions and value offerings for our consumers. Importantly, our manufacturing and supply chain organization continue to execute a high level and once again realized better than expected productivity savings, which fueled strong year-over-year gross margin gains despite the increased promotional spending in the US.

Now let me turn to the detailed results for the quarter. Organic net sales increased 0.6%, as strong performance across international markets and global growth in sun care and grooming were offset by declines in North America wet shave and fem care.

International growth of over 6% was equally fueled by price and volume gains of 3%. High single digit growth across Latin America and greater China, coupled with mid single-digit growth in Europe and Oceania, were notable. Market share gains in wet shave in Japan and strengthening trends across key European markets and in Mexico sun care were highlights in the quarter.

Organic sales in North America were down 2.4%, as double-digit growth in grooming and 1% growth in sun were offset by declines in wet shave and fem care. Wet shave organic net sales were down 0.6%, as growth in our men's and women's systems businesses were offset by declines in preps and disposables.

International wet shave grew mid-single digits with price and volume gains, reflecting continued category health, solid distribution outcomes, and strong in-market brand activation. In North America, wet shave organic net sales declined mid-single digits, largely as expected, and continued to be negatively by weakening category and channel dynamics, particularly in the highly promotional drug channel. Women's shave remains highly competitive and extremely promotional, particularly in the mass channel.

We also faced transitory supply challenges in our shave preps of business in North America that caused widespread stock-outs on shelf as we transitioned to a new supplier and executed a packaging re-platforming of our Edge brand. We've taken the appropriate steps with our supplier to remedy the situation, though we will likely incur further headwinds in 4Q, which is contemplated in our outlook.

In the US razors and blades category, consumption was down 3.2% in the quarter, driven mostly by the drug channel, where declining traffic, weaker retailer performance, and heightened promotional levels pressured results. While our market share decreased 150 basis points overall, the leading driver of this decline is in the drug channel, where we over index.

The Billie brand again gained share, delivering 180 basis points of share growth as it continues to outperform at retail. The brand has reached a 16 share at Walmart, and over a 10 share in drug and at Target.

Sun and skincare organic net sales increased about 5%, as 14% growth in grooming and 4% growth in sun was partially offset by declines in skin. North America and international each grew

in sun care, with international leading the way, delivering 16% growth through a combination of volume and price gains.

Results in Mexico were notable, with improved share trends in dollars and units and strong performance across the mass and derma channels. In the US, the sun care category consumption increased approximately 2% despite a sluggish start to the quarter, with material consumption declines through May. Our portfolio reached a 24.5% share, a 10 basis point gain year-on-year, and our 360 Coverage spray innovation claimed the top two new items in the category.

Grooming organic net sales increased by 14%, largely driven by strong US Cremo sales as well as the continued rollout of Billie's Bodycare launch at retail. Wet Ones organic net sales declined 2%, and our share declined 210 basis points to approximately 77%.

Fem care organic net sales were down 8% 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 declined just over 1% and liners were flat.

Overall, the category remains highly promotional, with increasing breadth and depth of promotions from the market leader. We've now cycled through the new planogram executional delays at retail and broader retailer inventory buy-downs that started last quarter, both of which disproportionately impacted our Carefree master brand launch.

As the brand scales up on shelf, we are encouraged by the initial response from consumers, with pads gaining over a point of share in the quarter. In tampons, despite the sluggish consumption, the launch of our Playtex Sport high count were strong, though largely offset by some Clean Comfort delistings.

Now moving down the P&L, gross margin rate on an adjusted basis increased 160 basis points, inclusive of 15 basis points of unfavorable currency. We delivered approximately 225 basis points of productivity savings and realized 110 basis points of net price and strategic revenue management gains, which more than offset core gross inflation and volume absorption of 60 basis points and mix and other headwinds of 100 basis points.

A&P expenses were 11.8% of net sales, down from 12.3% last year, as we responded to the increased promotional environment by reallocating core top of the funnel brand investment into increased promo and shelf activation spend.

Adjusted SG&A increased 50 basis points in rate of sale versus last year, as higher people related costs and legal fees were only partly offset by savings realized from ongoing operational efficiency programs, lower bad debt, and favorable currency.

Adjusted operating income was \$94.8 million compared to \$84.1 million last year, an increase of approximately 13%. Adjusted operating margin increased 170 basis points, reflecting higher gross margin and lower A&P costs, partially offset by higher SG&A expenses.

GAAP diluted net earnings per share were \$0.98 compared to \$1.02 in the third quarter of fiscal '23, and adjusted earnings per share were \$1.22 compared to \$0.99 in the prior year period. Currency movement had an approximate \$0.06 per share unfavorable impact in the quarter due to translational currency headwinds to operating profit and lower year-over-year hedge gains within other income and expense.

Adjusted EBITDA was \$117.2 million inclusive of a \$4 million unfavorable currency impact compared to \$109.7 million in the prior year. Net cash provided by operating activities was \$157.3 million for the first nine months compared to \$168.3 million in the prior year period. We ended the quarter with \$196 million in cash on hand, access to the \$370 million undrawn portion of our credit facility, and a net debt leverage ratio of 3.1 times.

To date this fiscal year, we've paid down \$72 million of our revolver as we continue to execute our capital allocation strategy with discipline and with a clear priority to de-lever the balance sheet. In the quarter, share repurchases totaled \$10 million, and we've continued our quarterly dividend payout and declared another cash dividend of \$0.15 per share for the third quarter. In total, we've returned \$17.4 million to shareholders during the quarter.

Now turning to our outlook for fiscal 2024, with strong financial performance to date, we are raising our full year outlook for both adjusted EBITDA and EPS. We're also updating our expected organic net sales growth to be approximately 1% for the year. We now expect full year adjusted gross margin accretion of 140 basis points with no impact from currency. This represents a 20 basis point improvement over our previous outlook.

Our outlook for gross margin expansion in Q4 has improved by approximately 10 basis points, as we expect stronger productivity gains and continued easing of FX to be partially offset by the impact of increased promotional levels and the negative effect of lower capacity utilization. Our outlook now reflects higher SG&A expense than previously contemplated, reflecting today's organizational announcement.

Adjusted EBITDA for the full year is now expected to be approximately \$356 million. Adjusted EPS is now anticipated to be approximately \$3.00 per share, inclusive of an estimated \$0.12 per share impact of currency headwinds, for a year-over-year increase of approximately 15%, or 20% 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.

QUESTION AND ANSWER

Operator

Yes. Thank you. 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 it, please press star then two. At this time, we will pause momentarily to assemble the roster.

And the first question today comes from Chris Carey of Wells Fargo Securities.

Chris Carey

Hey, good morning, everyone.

Rod Little

Morning.

Dan Sullivan

Morning, Chris.

Chris Carey

I wanted to ask about durability of growth, specifically on the top line. Clearly, you're making some changes to the organization, refocusing on innovation. I do think that organic sales is being more driven by pricing. You're not alone in that type of backdrop. But as we start to glance toward fiscal '25, can you just talk about some of your own visibility and things you can do to perhaps get organic sales going again, specifically in shave and feminine care, and perhaps some of the investments you think you may need to put in place in order to make that outcome achievable, specifically given some of the margin strength that you've seen year to date.

Dan Sullivan

Yeah. Hey, Chris. Good morning. It's Dan. I'll start just by framing out kind of how we think about the growth drivers to date, and I'll let Rod talk more specifically about North America and some of the implications there.

I think it's important to separate North America results from international, and I'll start with international. We've now seen a couple of years of 6%-ish organic sales growth. This year will actually be slightly better than that, closer to 7% internationally, with almost a 50/50 split of price and volume. So, you're seeing both levers there drive growth.

And that's all about the leadership changes we've made, about strengthening the portfolio, about investing in innovation, and then just really good execution on the ground. And so, I think there is a healthy profile there with both volume and price. You are right, eventually the price becomes harder to get and you have to rely on the role of volume. And I think in international, we're starting to see those dynamics play out already and feel really good about it.

As we look to North America, I think you really have to look at the different categories, and this is particularly true in Q4, let alone as we think to the future. We are contemplating volume growth in Q4 in fem care and in sun care, which is a reflection of the launch of Carefree, a bit delayed, certainly, but now scaling here in Q4, and a stronger sun season here on the back end of the year.

And so, as we think about the business, yes, it is volume at the core now. I wouldn't say that that means there aren't opportunities to take price. But as we saw this year, they'll be selective. They'll be surgical. They'll be in markets where we have strong presence and strong brands and can lead with price. You saw that in Japan. You saw that in Europe. You saw that in Mexico sun. So, I think there are opportunities to continue to balance.

I'll pause there and let Rod talk more about North America and innovation.

Rod Little

Yeah. Good morning, Chris. So, look, the leadership changes that we announced today are really about accelerating our performance. We're going to finish here with our fourth consecutive year of growth on top line. We've got gross margin inflecting and now positive heading back towards the 2019 era gross margin profile within the company.

So, from my perspective, we're making these leadership changes at a time where we're coming from a position of strength. And we want to accelerate our progress from here and become truly

high-performing not only in top line delivery via better innovation, faster, more disruptive things we bring to the market to drive the sales line, but I think we can do an even better job in accelerating our gross margin accretion, in really tightening up our overall sales and operations, planning our execution.

Dan's uniquely positioned to work with the teams to do that, to bring commercial inputs and supply together in a way that we haven't done in this company. And with that comes, I think, significant unlocks over time in margin. So, that's how we're thinking about it. And as I look forward to '25 and beyond, I think we're still confident that our algorithm holds on both top and bottom line, and that's what we're prepared to work to deliver as we look to '25.

Chris Carey

Okay. Thanks, guys. I'll leave it there.

Dan Sullivan

Thanks, Chris.

Chris Gough

Operator, next question, please?

Operator

Thank you. And that comes from Peter Grom with UBS.

Bryan Adams

Morning, everyone. This is Bryan Adams on for Peter Grom. Thanks for taking the questions. So, just looking at the updated top line growth expectations for the year, you're implying a pretty similar growth rate in 4Q verse what we saw in 3Q despite some of the easier comparisons, particularly I think it's in shave and in sun care. And I know you mentioned the return to growth in fem care in 4Q, but I'd love to just get some color on kind of how you're thinking about growth across shave and sun and skin, particularly given some of the comps. Thanks.

Dan Sullivan

Yeah. Good morning. It's Dan. Happy to take that. You're right. We're looking at about a 1% growth in 4Q, which is similar to 3Q. I think the path there is different. We are certainly anticipating continued strong performance in US sun. We have a double-digit growth profile in our sun care business in the quarter.

Remember, last year we had the choppiness around the season and how it played out in 3Q and 4Q, and so cycling a bit of that on a shipment level and expecting the category to still grow mid to high single-digits here as we enter the final quarter of the season. So, double-digit growth profile on sun, grooming mid single-digits in line with what we have seen, shave slightly down, which is in line with what we have seen.

I think the second inflection point comes in fem care, where now we anticipate low single-digit growth coming off of declines that you would have seen in 3Q. And now that we have cycled through execution challenges, the shelf reset challenges, a bit of buy-down on inventory, candidly the perfect storm against launching a new brand platform, we're largely through that.

Just to give everyone a data point, shelf resets this year took on average, start to finish, about 20 weeks across fem care. So, the delays that we incurred here as we're bringing a new brand to shelf were meaningful. We're beyond that now. Now we have to scale up. Now we have to

activate, but ultimately feel good about a low single-digit growth profile on fem care versus the declines that you had seen.

The last point I'll add for everyone is just to comment on July. Shipments for July across Edgewell were in line with our expectations and what underpins our full forecast for the quarter. July's an important month, obviously. It's our biggest month of the quarter. That is sun season, replenishments here in the US happening, so feel good about how July has played out. There's obviously more work to do in the quarter, but off to a very good start in terms of solidifying the base for 4Q.

Bryan Adams

Really helpful, Dan. Thanks. One more quick one just on profitability. I think it's seven straight quarters now of over 200 basis points of profitability and gross margin, even as over that time you've had volume growth kind of fluctuate here and there. So, I'm not trying to put the cart before the horse and talk about '25 too much, but how are you thinking about the ability to kind of drive profitability--or productivity, excuse me, at this level looking out to next year? Is this level a fair starting point, or is that kind of to be determined? Thanks.

Dan Sullivan

Yeah, it's a good question. I think what we've said, and this year certainly bears that out, is 300 basis points of tailwinds coming through a combination of productivity, price, and revenue management, good unit economics is a pretty good proxy for how we think about the business. There will be years when productivity will over-deliver. There might be years when price and revenue management might over-deliver. But I think that sort of 250 to 300 basis point combination of the two is a good proxy.

Look, the productivity savings that this business is generating are significant. The team's focused. Their ability to execute continue to surprise us in a good way and over-deliver is meaningful, and we need that. And as Rob said earlier, we actually want to double down on that strength there as we go forward and continue to generate more dry powder out of really, really good cost discipline in COGS, and we'll continue to do that.

Bryan Adams

Great. I'll leave it there. Congrats again, Dan.

Dan Sullivan

Thanks, Bryan.

Chris Gough

Operator, next question, please?

Operator

Thank you. And that comes from Olivia Tong with Raymond James.

Olivia Tong

Great. Thanks. Good morning. I wanted to ask about the profile of what you're looking for in your next head of North America, given the backdrop that we're dealing with right now and potentially some incremental challenges, at least from a macro perspective, how you're thinking about the profile of that person. Thanks.

Chris Gough

Hey, Olivia, this is Chris. Could you please repeat the question? We're having difficulty hearing you. It was a little bit muffled.

Olivia Tong

Oh, sorry about that. Is this better?

Chris Gough

Yes.

Olivia Tong

Okay, great. My question was just a better understanding of the profile of what you're looking for in your next head of North America, especially considering potentially a little bit more volatility from a macro perspective, how you're thinking about that next person. Thank you.

Rod Little

Thank you, Olivia. I thought you were going to Q4 sales in North America, so I'm glad we confirmed. Hey, look, from a North American perspective, it's the most difficult competitive market in the world in our space. All the things that are new happen here, and the big scale players have home base here, the home field advantage, if you will.

So, we're not the disruptor historically. It's the small, nascent startup. We're also not the big scale player. And so, we play in the middle of that. We've said before we need operate more like the disruptor and leverage scale where we have it. And so, as we look to the future, I'm very confident that we've got a great team in place in North America that can operate more and more like a disruptor.

My intent with the next leader, which we've started the search for, it's already underway, is to have someone who can balance brand building and marketing with commercial execution equally as well. We have challenged categories at the moment, particularly in shave, right? Shave's become a little more challenged. We like our position that we have. My goal is to accelerate our performance, and with that is going to need very strong commercial execution, back to demand planning, to supply match with that.

When we change something in our system, it needs to be flawless, and we need to move faster on everything we do. And so, the profile is going to be very balanced, if anything, lean more towards outstanding commercial execution. Again, we're in a mode in this company now where we're happy with the progress we've made. We're happy with the performance we've delivered over the last couple of years.

Equally, we're very unhappy with where we can go with laser consumer focus, getting all of the roadblocks out of our processes to deliver and delight on what the consumer wants, and to do it faster and to do it with better execution. So, a lot of words there. It's very complicated to do that, but I think we have all of the ingredients to do it.

Eric has done a very nice job for us over the last four years. He started right as the pandemic was hitting and has done a lot of good things. So, this is the time, again, from a corporate perspective to pivot from a position of strength towards a consumer oriented leader who's very, very commercially savvy.

Olivia Tong

Got it. That's helpful. And then since you set me up on Q4 sales, it sounds like, obviously, that--you mentioned that the magnitude of change on promotion will be pretty heightened in Q4. So, as you think about your level of confidence on delivering the raised profit guide despite the sales challenges, could you just talk a little bit about that in terms of--you sound very good in terms of the cost savings, but it also sounds like you plan on upping the promotional level pretty substantially as we go into the next--not only in Q4, but as we head into fiscal '25 as well.

Rod Little

Yeah. I think as we look to Q4, Olivia, we're very confident with the guide we've put out there. We've got good line of sight to it. As Dan mentioned, we've got July sales in. We know what we have on some of the spend lines. And so, I think it's a prudent call to take the guide on EPS to \$3.00 as the target point.

I'll let Dan talk the promotional spend. I will tell you, summary level, is the promotional spend levels we think are required to be competitive in market are contemplated in the guides.

Dan Sullivan

Yeah, that's the punchline. You hit it well, Rod. As we unpack the margin profile, Olivia, we've got a good line of sight on productivity savings. Equally, we've got a good line of sight on the step up in promotions. We saw it in 3Q. We've modeled it in 4Q.

So, I think to summarize Rod's point, really, really comfortable in the overall profit picture for the fourth quarter and certainly emboldened by what we see as a solid July, in line with what we had expected.

Olivia Tong

Great. Thank you. I'll pass it on.

Chris Gough

Great. Thanks, Olivia. Operator, next question, please?

Operator

Thank you. And the next question is from Dara Mohsenian with Morgan Stanley.

Dara Mohsenian

Hey, guys. Good morning. So, two things on my end. With the organization and management changes, is there a focus on yielding greater productivity as a result of those changes? I know it's a focus in general, as you discussed earlier in the call. But is there anything incremental we should expect on that front?

And then second, just as you think about marketing levels, A&P's down year to date, was down last year, it's down since pre COVID-19, that's at odds from what we're seeing from peers in the industry. So, just how do you think about, over the next couple years here, if you need to re-boost marketing levels? Are you comfortable with levels and your share of voice where it is today? How do you think about that looking forward after this year? Thanks.

Rod Little

Dara, I'll start and then focus on the leadership changes, and then let Dan take the marketing levels and A&P piece. Look, the leadership changes, as I indicated a little bit earlier, are being done, in my view, from a position of strength to take us to the next level of a truly high-

performing company that ultimately commands a higher multiple. In simple terms, that's the objective.

And so, with that, there's two elements to that. The first element is around sales growth acceleration and driving faster organic top line sales. I think we've been pretty consistent. We've been on algorithm on average, if you take our last four years and CAGR that out. We want to continue to do that, and even over time accelerate and be at the top end of the algorithm.

So, this is all about me personally putting my focus more on the North American market, which is the battleground and it's the profit pool of our company. And it's me putting more of my focus on innovation and unlocking the innovation capabilities in this company. So, that is the ultimate priority.

To give me capacity and bandwidth to do that, Dan steps up, takes on more. Japan and China no longer report to me. They're going to report in to Dan with the rest of international. And supply chain is going to slide into Dan, away from me, around really what I hope is our ability to unlock even faster gross margin accretion.

Cost productivity in the COGS world will remain a priority. We'll remain very efficient with our G&A spend. I don't contemplate any big G&A programs, for example. We like the leadership structure we have. We like the organization structure we have. There's always room to trim and be more efficient. We'll continue to look at it and do that, but there's nothing more implied there.

And then I think importantly to complete the play, to give Dan capacity to do that, we're super excited to have Fran stepping up and becoming the CFO of the company. She's been with us for five years, very, very talented, and gives us the ability to unlock, with her stepping up, our time and energy to go after a higher performance.

Dan Sullivan

Yeah. And then to finish the point on A&P, look, I think that the questions you're asking, Dara, are good ones, and they're directly related, right? What you heard Rod say is we want more and we want it faster, and that is what we are after.

And part of the reason we want more is because we want more dry powder to invest behind this business. It's not all about A&P. There's R&D. There's innovation. There's trade spend. There's promo. We want to be able to compete in all aspects, and more dry powder will help us do that.

I would say, if we look at the third quarter, we did spend at almost 12% of rate of sale. It was not a light quarter, and we did allocate about 60 basis points of spend out of A&P and into what you would think of as gross margin, trade, promo, retail execution. We've got to continue to get that balance right. We can't evaluate the horsepower we're putting against the business simply by the A&P line.

But to Rod's point, these changes are going to help us accelerate all that we're doing and unlock more value, puts us in a better place to compete whatever the market requires. Sometimes it'll be trade investment and promotion. Sometimes it'll be brand and equity. And we have to be prepared to invest in both.

Dara Mohsenian

Great. Thanks.

Chris Gough

Thank you, Dara. Operator, next question, please?

Operator

Yes. And again, just a reminder to press star then one if you would like to ask a question. And the next question does come from Susan Anderson with Canaccord Genuity.

Susan Anderson

Hi. Good morning. Thank you for taking my question. I guess maybe just to follow-up on the promotional activity, I'm just curious. I mean, you mentioned the drug channel, I think, being the worst in the US. Are you also seeing that at Walmart and Target? I think they've both announced lowering prices. And then also, how should we think about that impact on the gross margin? It looks like to get to the year guidance, the fourth quarter is going to be about flattish. I guess I'm just curious how much of that is kind of pricing rolling off versus the higher promotion. Thanks.

Dan Sullivan

Yeah. Good morning, Susan. It's Dan. Thanks for the question. And look, we're seeing it in drug but also in mass, certainly in Target and Walmart. It is largely and disproportionately in women's shave and in fem care. In terms of the categories in which we compete, that's where it is most pronounced.

And it is across the board. It is promotional activity. It is BOGO activity. It is driving value to higher counts. It is incremental feature and display. It is priced at markdown. I mean, you're seeing it all in those categories, so it is a breadth and a depth issue that we're seeing. And we're obviously reallocating our own spend to help drive that.

In terms of the fourth quarter and the margin profile, you're absolutely right. We are basically not going to see any tailwinds in margin through price and revenue management in the quarter. And that is driven by the fact that we are now lapping the pricing that's been in play here, mostly in international markets, and we're stepping up in our promotional intensity.

So, the margin gains that we see in the quarter, still healthy, 60 basis points before exchange, is all being driven by productivity savings, with some negative offsets around inflation, capacity utilization, and mix. I wouldn't say that's a good proxy going forward. We'll still contemplate price and the role price place for us as we look at 2025. That's a discussion for another day. But you're right. In Q4, the gains in margin are all being driven by productivity.

Susan Anderson

Okay, great. That's helpful. And then maybe if you could just talk--you mentioned that you want to be more the disruptor. I guess do you think that you can do that with the brands that you have now, or do you think that you need more brands, such say like a Billie, that adds newness and differentiation to the portfolio? I guess how are you thinking about kind of that portfolio longer term? Do you expect to kind of tack on any new brands, or is it really just kind of new product innovation?

Rod Little

Yeah. Good morning, Susan. Look, I think we like our portfolio we have today. I think it's much, much better, much stronger than it was a few years ago with the four acquisitions we've done. We look at all four acquisitions as being successful, integrated into the company and being part of the growth story.

And we have learned from the founders that have started those brands that in all cases came along with us and are still friendly with the company, if not still in the company, friends of the company, in helping us shape how we think about brand development, how we think about what speed looks like and breaking down barriers to move fast.

And so, look, I think we have lots of room within our portfolio to grow. We don't have a portfolio problem. We like the categories in play, and we like the brands we have. Equally, there is an opportunity to enhance or develop even faster growth over time with more disruptor brands potentially being in the portfolio. We've said the bar is very, very high for that. We're not looking to go deploy capital proactively towards addressing holes in the portfolio. But if things come up that we feel like we can create value with, of course we'll look at them, but we're very happy with the portfolio we have.

I would also just end on saying I think we like our ability to acquire and integrate and halo the broader company with capability builds. And one I'll give you just as a hard example, the team that runs Billie direct-to-consumer runs the whole company direct-to-consumer platform. And that has given us a very different level of capability as we think about activating our brands in an omnichannel world.

So, this is as much about capability as it is brand portfolio. And we're seeing the benefits from that in many, many areas. So, hope that helps.

Susan Anderson

Yeah, that's really helpful. Thanks. If I could just maybe add one more, I'm just curious on the private label razors if you've seen that kind of grow at all. Are you seeing kind of more consumers flock towards that area, just given the value there?

Rod Little

Yeah, I think we're seeing private label razor shares overall be relatively stable. Our private label business is good. It's doing what we expected it would do. And so, from here, I would to say stable.

And I think the other thing that's happening, brands that are well-positioned, well-architected in the value price point are winning. Billie, for example, up 180 basis points in share in the last quarter and growing share period on period. So, it's not only private label. It's well-architected value brands that are benefiting in this environment.

Susan Anderson

Okay, great. Thanks so much. Good luck the rest of the year.

Rod Little

Thank you.

Dan Sullivan

Thanks, Susan.

Chris Gough

Operator, next question, please?

Operator

Actually, as there are no questions at the present time, I would like to return the floor to Rod Little, CEO, for any closing comments.

CONCLUSION

Rod Little

Right. Thank you all for your time today, your continued interest, and investment. We look forward to talking to you next quarter as we wrap the fiscal year and give a guide for what's ahead. Thank you.

Operator

Thank you. As mentioned, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.