

# Edgewell Personal Care

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## Fourth Quarter 2024 Earnings Release Conference Call

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Thursday, November 7, 2024, 8:00 AM Eastern

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### **CORPORATE PARTICIPANTS**

**Chris Gough** – *Vice President, Investor Relations*

**Rod Little** – *President, Chief Executive Officer*

**Dan Sullivan** – *Chief Operating and Financial Officer*

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## **PRESENTATION**

### **Operator**

Good day, and welcome to Edgewell's Fourth Quarter and Fiscal Year 2024 Earnings Conference 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, Investor Relations. Please go ahead.

### **Chris Gough**

Good morning, everyone, and thank you for joining us this morning for Edgewell's fourth quarter and fiscal year 2024 earnings call. With me this morning are Rod Little, our President and Chief Executive Officer, and Dan Sullivan, our Chief Operating and Financial Officer. Rod will kick off the call, then hand it over to Dan to discuss our 2024 results and full year fiscal 2025 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 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 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 fourth quarter and fiscal 2024 year-end earnings call. Our results in fiscal '24 further demonstrate the progress we are making in transforming our business and the effectiveness of the strategy and business model we launched four years ago. For fiscal '24, we achieved slight organic net sales growth, meaningfully expanded adjusted gross margins, and delivered double-digit adjusted earnings per share growth at constant currency for the second consecutive year.

In the face of a heightened competitive landscape and an increasingly cautious consumer, we accelerated organic growth across our international businesses, introduced category leading innovation in the U.S. suncare category, and deepened our participation globally across the men's and women's grooming segments.

And as inflation normalized, we saw meaningful flow-through from our productivity and pricing initiatives, both key pillars of our business model and which collectively drove gross margin accretion and strong bottom line results. We delivered healthy earnings growth, and our substantial cash flow generation supported our efforts to both de-lever and buy back shares.

In 2024, we delivered our fourth consecutive year of organic net sales growth, although the growth was less than recent years and slightly below our expectations. Importantly, our top line results were underpinned by compelling performance in three distinct areas of the business; first, our international markets, which grew over 7% and now make up about 40% for our total revenue. Second, our right to win portfolio in North America grew over 3%, with our leading suncare and grooming portfolios both growing mid-single digits.

And third, the Billie brand continued to win in women's shave, gaining 260 basis points of share while beginning its journey towards becoming what we believe will be the preeminent women's lifestyle brand as it entered select women's grooming categories with Walmart. Together these businesses, representing nearly 70% of total company sales, grew mid-single digits for the year, which we believe represents a clear path for durable growth moving forward.

So, while work remains across select areas of our U.S. shave and fem care portfolios, the majority of our business is healthy, growing, and performing well in market. While the top line growth profile for the year was below our expectations, gross margin accretion outperformed and the strength of our operating model was clear, as we delivered 18% adjusted earnings per share growth.

As part of our transformation, we've been relentless on productivity efforts, disciplined on cost and cash management, and increasingly agile in price and revenue management, all of which will continue to be at the core of how we will manage this business going forward. While the results we posted this year demonstrate that our strategy is gaining increasing traction, our journey and transformation of the business is ongoing.

As a result, last quarter we announced a series of leadership team and organizational changes designed to strengthen our operating model, streamline decision-making, and improve enterprise execution, all of which we believe will better position us to deliver on our overarching strategy to drive sustainable top and bottom line growth.

More specifically, these changes are critical to our five primary priorities as we enter the new fiscal year. First and foremost, our focus is on strengthening our right to play, that's shave and fem, categories in the United States to better compete and win over the longer term. We have elevated the priority of winning in U.S. shave and fem care, and our increased focus here will lead to improved trends and competitiveness.

A big part of this renewed focus around winning in these categories in the U.S. begins with leadership. We've recently announced a new leader for North America, Jessica Spence, and I'm thrilled to welcome Jess to our team. She's a seasoned and an accomplished leader with an impressive brand building and operational background balanced with a strong track record in driving revenue and profit growth. I'm confident that she will strengthen our North American business and position us as a key innovator, brand builder, and retail partner within the industry.

Second, we must continue to fortify and accelerate our consumer centric innovation platform. As we increase our focus on the consumer and accelerate our speed to market, our near-term pipeline remains robust. After launching category leading innovation in U.S. suncare in 2024 with our Banana Boat 360 spray products, we are seeing the intended impact when we reshaped our innovation engine just over a year ago and created a more locally driven, agile platform.

Our outlook for the coming year includes meaningful top line contribution from innovation with the expansion of Wilkinson Sword Master brand in Europe, the launch of the Schick First brand in Japan, further shave and body expansion for the Billie and Cremo brands, and broader product introductions for the Banana Boat and Hawaiian Tropic brands in the United States.

Our third priority is to continue to strengthen and leverage growth across our international businesses. We've significantly improved our leadership capability across our international markets. We now have a very talented set of leaders and teams in place to deliver consistent growth and value creation as we move forward.

Our local leadership teams have a broader voice in innovation, ample investment, and are now executing on the strategies that they have developed. And we ended 2024 with a three year cumulative average growth rate of over 6%, which tells us that our new operating model is working. And we believe we have a long runway for growth internationally, including another year of mid single-digit organic growth for the business in fiscal '25.

Our fourth priority is related to operations and the work of our supply chain. We're doubling down on a clear strength and accelerating efforts to drive meaningful year-on-year gross margin accretion as a catalyst to increase marketing and commercial investment and profit recovery. We are confident that we can continue to drive 200 to 300 basis points per year in productivity savings, and we remain committed to returning the business to pre-COVID gross margin levels of 45 plus percent.

We are equally committed to improving service levels as we continue on our path to becoming a world-class supply chain organization, and ultimately a preferred partner of our customers. Dan is now overseeing all aspects of this effort. And I am confident that, under his leadership and with the already demonstrated strength we have in this area, that we will meet these objectives.

And lastly, we are focused on our people. We have significantly improved our talent, capabilities, and company profile. Our employer brand is much stronger than it was four years ago. We start the new fiscal year with record engagement scores, with a nearly 80% positivity

rate across the organization and having been recognized externally as the second best company to work for in America out of 400 ranked in the midsize company category. We're proud of this recognition, and we are seeing it play out not only in our engagement scores but also in record low levels of employee turnover.

Importantly, such external recognition serves as an important enabler in terms of recruiting top talent to the organization, as we have seen in leadership roles across Europe, Japan, and China, and most recently with Jess's arrival last month in North America.

So, as we think about the future and our ability to deliver on our commitments, I have never been more confident than I am now that we can deliver consistent and reliable growth and value creation over the coming years. And so, we're excited about the year ahead.

As we look to fiscal 2025, with good momentum across our international businesses and right to win portfolio in the U.S., a strengthened leadership team, and increased focus on excellent execution across the organization, we anticipate low single-digit organic top line growth, further gross margin and profit expansion, and ultimately increased value creation for our shareholders.

And now I'd like to ask Dan to take you through our fourth quarter and fiscal year results and discuss our outlook for fiscal '25. Dan?

#### **Dan Sullivan**

Thanks, Rod, and good morning, everyone. As Rod mentioned and as we've seen play out this year, our broader strategies continue to yield good results. With modest top line growth driven by continued momentum across international markets, strong operational fundamentals, good cost management and disciplined capital allocation, we drove meaningful earnings per share growth for the full year.

Key highlights of our fiscal '24 performance include mid single-digit top line growth across the combination of our international business right to win portfolio in the U.S. and Billie brand; 140 basis points of year-over-year gross margin gains, underpinned by outsized productivity savings of about 280 basis points; adjusted operating margin expansion of 100 basis points while incrementally investing in our brands; and \$175 million in free cash flow generation, which enabled us to adequately fund the business, support capital allocation strategies, and de-lever to just over 3 times.

In a year where top line growth was below our expectations, the inherent strength of our business model was clear, highlighted by year-over-year gross margin accretion, incremental investment in our brands, a disciplined approach to cost and capital deployment, and meaningful earnings per share growth.

As we exited the year, the external environment in which we're operating is mixed. The consumer remains cautious. And in the U.S., consumption across our categories slowed through the year, made worse last quarter by unfavorable weather, which dampened the final months of the sun season.

Inflation, though moderating, remains, and is largely driven by labor and more modest increases in commodities. The currency environment continues to be volatile and is expected to be a further headwind to earnings in 2025.

Operationally, we've accelerated our recovery efforts from certain supply challenges across our grooming, skin, and preps businesses, which negatively impacted fourth quarter organic sales, and we've already seen improved in-stock conditions on shelf. Entering the new fiscal year, we will continue to be relentless on commercial and operational execution across the organization.

Now, let me turn to the detailed results for the quarter. Organic net sales decreased 2.8%, as strong performance across international markets and continued growth in suncare was more than offset by declines in North America wet shave, fem care, and Wet Ones.

International growth of 2.4% was better than expected, widespread, and primarily driven by volume gains. Greater China and distributor markets experienced double-digit growth. And Oceana saw high single-digit growth, contributing to the overall international performance. Organic sales in North America declined about 6%, with growth in the quarter limited to our suncare business.

Wet shave organic net sales were down about 1%, as growth across men's and women's systems was offset by declines in preps and disposables. International wet shave grew 3% with both 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 5.5% and continue to be negatively impacted by sluggish category and channel dynamics, particularly in the highly promotional drug channel. The women's shave category returned to growth, though it remains competitive and promotional.

Our results across preps were negatively impacted in the quarter by transitory supply challenges, largely across our third-party manufacturing network and related to the Edge brand. As mentioned, we've taken the appropriate steps to address these issues with our supplier, have seen steady improvement in stock levels, and do not anticipate further supply headwinds in 2025.

In the U.S. razors and blades category, consumption was down 2% in the quarter, with continued heightened declines in the drug channel. Our market share decreased 110 basis points overall. The Billie brand achieved 140 basis points of share growth and continues to perform well at retail. The brand has attained a 16 share at Walmart, an 11 share at Target, and a 10 share in drug and food.

Sun and skincare organic net sales decreased 3.5%, as 3% growth in sun was more than offset by declines in skin and grooming. In the U.S., suncare category consumption declined about 6% in the quarter, as end of season weather disappointed. Final seasonal replenishment orders from retailers were muted and, as such, our organic growth in the quarter of about 6% was well below our previous expectations.

Grooming organic net sales declined about 3%, as declines in Cremo and Jack Black sales were partially offset by the continued rollout of Billie's bodycare launch at retail and Bulldog growth in international markets.

Wet Ones organic net sales declined about 22% and our share was approximately 73%, as our ramp up efforts after the fire in our production facility lagged previous expectations. In the current quarter, we've meaningfully improved throughput and added commensurate labor to

allow for increased production, and we expect that over the course of this quarter we will return to normalized levels of stock across the trade on all SKUs.

Fem care organic net sales were down about 9%, with performance well below expectations. Consumption in the category was up 3%, though mostly driven by 7% growth in pads, where our overall penetration is the lowest. In the categories where we compete more heavily, namely tampons and liners, consumption was down 3% and flat, respectively. Overall, the category remains promotional.

Now, moving down the P&L, adjusted gross margin rate increased 40 basis points, or a 60 basis point increase in constant currency. We realized approximately 290 basis points of productivity savings, which were partially offset by 50 basis points of higher promotions, 100 basis points of core gross inflation and volume absorption, and 80 basis points of mix and other headwinds.

A&P expenses were 8.5% of net sales, up from 7.5% less year. Adjusted SG&A was flat in rate of sale versus last year, as strong operational efficiency savings and lower incentive compensation expense offset higher people and consulting expenses and the impact of lower net sales.

Adjusted operating income was \$56 million compared to \$61.4 million last year. Adjusted operating margin decreased 70 basis points due to increased brand spend. GAAP diluted net earnings per share were \$0.17 compared to \$0.58 in the fourth quarter of fiscal '23, and adjusted earnings per share were \$0.72 compared to \$0.73 in the prior year quarter.

Currency movements had an approximate \$0.01 per share favorable impact in the quarter, as translational currency headwinds to operating profit were more than offset by higher year-over-year hedge and balance sheet remeasurement gains within other income and expense below operating profit.

Adjusted EBITDA was \$78.9 million, inclusive of \$0.4 million of favorable currency impact, compared to \$84.4 million in the prior year. Net cash provided by operating activities was \$231 million for the full year, an increase of 7% compared to the prior year.

We ended the quarter with \$209 million in cash on hand, access to the \$386 million undrawn portion of our credit facility, and a net debt leverage ratio of 3.1 times. During the fiscal year, we paid down \$88 million on our revolver as we prioritized de-leveraging as part of our disciplined capital allocation strategy.

In the quarter, share repurchases totaled \$18.3 million, and we continued our quarterly dividend payout and declared another cash dividend of \$0.15 per share for the fourth quarter. In total, we've returned \$25.7 million to shareholders during the quarter.

Now, let me turn briefly to our full-year results. Organic net sales for the year increased 0.2%. Our right to win portfolio grew about 5%, fueled by nearly 7% growth in global suncare, while our grooming brands grew almost 6% for the year. Our right to play portfolio declined about 2%, as slight growth in wet shave was offset by a 10% decline in fem care.

From a geographic perspective, international markets' organic net sales increased just over 7%, equally driven by both volume and price gains. North America organic net sales decreased by about 4%, as gains in pricing were offset by volume declines. Adjusted gross margin rate increased 140 basis points year-on-year.

We generated productivity savings of 280 basis points and favorable price and strategic revenue management of 115 basis points. This more than offset core inflation and transitory cost headwinds related to unfavorable absorption and heightened unit cost inflation trapped in inventory of approximately 185 basis points, as well as unfavorable mix of approximately 70 basis points.

A&P expense was 10.3% as a rate of sale, an increase of 10 basis points over the prior year as we continue to invest in our brands. Adjusted operating profit increased \$21.3 million, or approximately 9%, and adjusted operating margin for the year was 11.9%, up about 100 basis points in rate of sale. The increase in adjusted operating income margin was attributable to gross margin accretion, partially offset by higher brand investment and people costs.

Now, turning to our outlook for fiscal 2025, as we look forward to fiscal '25, our expectations are that we will again deliver results at or above our stated financial algorithm at constant currency, and underpinned by another year of both meaningful gross margin accretion and free cash flow generation.

For the fiscal year, we anticipate organic net sales growth to be in the range of 1% to 3%, excluding 70 basis points of currency tailwinds. We expect Q1 growth to be down just under 1%, with low single-digit growth expected in each of the final three quarters. Growth is expected to largely derive from volume gains, although this will vary by geography and segment.

We anticipate our right to win portfolio will continue to deliver mid single-digit growth, while our right to play portfolio is expected to be essentially flat to slightly down. We expect international markets to deliver mid single-digit organic sales growth, with North America flat to slightly positive.

As we look to adjusted gross margin, we anticipate about 75 basis points of year-over-year rate accretion, or 90 basis points at constant currency. However, we expect gross margin to decline approximately 110 basis points in the first quarter due to trailing absorption charges from 2024 and the negative impact of transactional currency compared to the prior year. On a constant currency basis, we anticipate gross margin to be flat in the first quarter when excluding an estimated 100 basis points of currency headwinds.

For the full year, we expect approximately 290 basis points of productivity savings and 10 basis points of price gains to offset approximately 115 basis points of COGS inflation, 40 basis points impact from the unfavorable absorption, 60 basis points of negative mix and other costs, and 15 basis points of unfavorable currency.

We remain committed to investing in our brands through A&P to support our growth outlook, with A&P expected to increase in both dollars and rate of sale, with the latter increasing by 50 basis points to approximately 10.8%. Adjusted operating profit margin is expected to increase approximately 40 basis points, inclusive of 10 basis points of unfavorable FX, though we expect operating margin rate contraction in the first quarter.

Other expense net is expected to be \$7 million, as we anticipate approximately \$1 million in currency hedge loss compared with over \$8 million of hedge and remeasurement gains in fiscal '24. This impact is the primary driver of the anticipated currency headwind to earnings for the year.

Adjusted EPS is expected to be in the range of \$3.15 to \$3.35, inclusive of approximately \$0.18 per share of currency headwinds, of which \$0.10 is estimated for Q1. This represents a year-over-year EPS increase of about 7% at the midpoint of the range, or 13% growth in constant currency. The EPS outlook reflects the impact of expected share repurchases of approximately \$90 million and an assumed effective tax rate of 22%.

Adjusted EBITDA is expected to be in the range of \$356 million to \$368 million, inclusive of an estimated \$11 million in currency headwinds. On a constant currency basis, adjusted EBITDA growth at the midpoint of the range is expected to be approximately 6%.

In terms of phasing, we anticipate that we will generate about two-thirds of our full-year adjusted EPS in half two of the fiscal year, with Q1 adjusted EPS below the prior year. And finally, free cash flow for the year is expected to be approximately \$185 million. For more information related to our fiscal '25 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**

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 star keys. If at any time your question has been addressed and you would like to withdraw your question, please press star and then two.

The first question we have is from Chris Carey of Wells Fargo Securities. Please go ahead.

### **Chris Carey**

Hi. Good morning.

### **Rod Little**

Hey, Chris.

### **Dan Sullivan**

Morning, Chris.

### **Chris Carey**

Can you go through your confidence levels on organic sales growth for fiscal '25? Seems this has been an area of more volatility, including relative to your own expectations. Can you just talk about some of maybe the key drivers that are giving you that confidence of return to mid single-digit growth in international, that the North America business can stabilize. Maybe comment on shave preps and fem care. And if it doesn't come in in line with your expectations, which I know of course it will, just maybe add to that of your confidence levels around profitability. If I just think about this year, sales came in a bit lower but profit remained quite strong. So, I'm just trying to balance the tension between top line and bottom line and get your added thoughts. Thanks.

### **Dan Sullivan**

Yeah. Hey, Chris, good morning. It's Dan. Thank you for the question. I'll start and then I'm going to hand it to Rod. I'll start with the second part of your question, which is sort of profit

confidence here in the event that--we don't see it, but that sales maybe fall short. And I would actually reiterate what you said.

I think you saw this year for us, meaning 2024, that we are pretty relentless on our productivity efforts. We are maniacal on our cost focus among G&A. And so, I think there's certainly levers that we have pulled and will continue to pull to drive the profit expectation in the event that sales are challenged. Again, that's not how we built the plan, but I think we've demonstrated that capability.

If I go back to your first part, because I think it's a fair question, and thinking about our business and where the growth comes, I'm going to start with international. I think there's probably three components here that are worth calling out before I hand it to Rod. One is international, where we have a mid single-digit growth profile on the business next year. It's 40% of our growth. I think our behavior and our abilities are very demonstrated and consistent here over years.

And we have a healthy line of sight to this between the brand activation work that is ongoing, the innovation that's coming to market. There is some price built in that has already been executed and, candidly, just team performing extremely well from brand to shelf, so high confidence, high line of sight there.

Within the U.S. business, I would point to a couple things that we see as tailwinds. One is sun. This was essentially a sluggish, flat season here in the U.S. It had a difficult start and a difficult end, but overall consumption was basically flat. And so, we're going up against an odd season. We would expect tailwinds in consumption. And then of course, with innovation and brand work, we expect to gain share.

On the grooming side of the equation, which would be my third point, we are going to see Billie expand its body business. We are super excited about what we're doing with the Cremo brand around innovation and NPD. And then the last piece for me, just laddering back up to Billie, which is in addition to its expansion in the grooming categories on a more national level, we will launch a dispo product in shave. There are a few pockets left around distribution which we will close next year. And so, I think there's--and Amazon growth, which we're super bullish about for the brand.

So, you've got a really good line of sight on international. We've got what we think will be a healthier sun season, exciting things for us around the Billie brand and the Cremo brand. And then the last thing I would say is there's probably about a half a point that we would estimate of supply disruption we experienced in '24 that obviously wouldn't come back in '25.

So, let me pause there and hand it to Rod for his comments.

### **Rod Little**

Yeah. Hey, Chris, good morning. I just add to what Dan said with a couple things. First, very confident in the growth profile we've put forward with the fiscal '25 guide. As Dan called out and we referenced in the script, we've got 70% of our business--international, sun, grooming here in the U.S., and Billie, that's about 70% of our business, all at that mid single-digit plus growth rate, so rock solid with that.

That leaves shave and fem primarily here in the U.S. as, okay, what do we need to do with that business. Combined, that business was down 2% last year, our right to play portfolio. And we've got it at flat, essentially flat next year. And so, we're not projecting greatness with that business,

but it's a two point step up if we could deliver flat, which would effectively give you the growth. Feel very confident we can do that.

We've got Jess coming in as a new leader to lead us through that. I've been very close to the business over the last couple of months. I've been out with retailers. Retailers are behind us, want us to win, so we have full retailer support. And we've got stronger teams in place below Jess now in those businesses activating and building those brands and portfolios.

So, I think nothing's ever certain in the future. We learn that every day in life. But I think we feel really good in that we've got it in the right place at 2% growth, kind of what we've guided to for next year at the midpoint. And as Dan said, if we don't get there, we feel we'll cover it off on the profit line.

**Chris Carey**

Fair. Thank you, guys.

**Chris Gough**

Thanks, Chris.

**Rod Little**

Thanks, Chris.

**Chris Gough**

Operator, next question, please?

**Operator**

The next question we have is from Bill Chappell of Truist Securities. Please go ahead.

**Bill Chappell**

Thanks. Good morning.

**Rod Little**

Morning.

**Bill Chappell**

Morning. Wanted to follow up on suncare, and both from the quarter and kind of the health of the category. For the quarter, I mean, historically even though it includes August--July and August, it's been a small quarter in terms of shipments. I'm kind of surprised to hear that it was well below plan just because usually the season's largely done. So, maybe you could help me understand the expectations there.

And then second, I think this time last year you had the same commentary. We had a weak season due in part to weather. We have some good innovation. We should get market share, and so it should be a tailwind in 2024. And it wasn't, and you had fairly favorable comps, and probably even more favorable comps. And last, this is a category that consumers can trade down in probably more than anything else that you sell. So, help me understand the health in this category and where you stand as we move into '25. Thanks.

**Dan Sullivan**

Yeah. Hi, Bill. Good morning. It's Dan. Let me clear up a couple of things. The last quarter of sun is actually not an unimportant quarter. It's a third of the category in the U.S. Remember one

of the benefits in this sort of post-COVID environment is consumers sort of extending their time outside in a way that they haven't done pre-pandemic, and that has stuck.

And so, I think we should just be clear up front, a third of the category happens in that period for us that ends in the September quarter. We profiled it to be up 6% consumption year-over-year. It was down 6%. And so, it was a meaningful drag on us. We estimate about two points of our organic shortfall to expectation in Q4 came from that consumption miss and ultimately impact on our organics, because what you didn't see happen was the in-season replenishment 2, replenishment 3 from retail. So, that's that piece.

In terms of sort of how do you think about the categories over time, obviously choppiness with COVID and coming out of the pandemic. But prior to '24, you actually saw 6% growth two straight years, '22, '23. It is a healthy category. Now, you get tripped up on the quarters and good starts the season versus not.

And I'm not going to go back through last year's narrative, but we did not have a bullish view on last year's fourth quarter because we already saw the weather impact hitting us sort of in that 4th of July period, and retailers had already pulled back on orders. So, it was--the expectations of this fourth quarter were very different than a year ago.

Having said that, how do we view the quarter? We are the leading portfolio of brands here in the U.S. We think the category naturally has a sort of 2% to 4% growth profile to it. We brought meaningful innovation to the category this year in our 360 spray. And so, we're very, very comfortable with how we've thought about it for next year, and not looking for greatness out of weather, but looking for a more solid year, in the 2% to 3% consumption range rather than flat, which is what we saw this year.

And we have not seen at flat or declining year of sun season since 2020, which we all know what drove that. So, that's our view on sun. We're quite bullish on it. But obviously, weather plays a part, particularly in the fourth quarter that we saw.

Rod, anything that you would add to that?

### **Rod Little**

I'd just reinforce we have a strong innovation pipeline. We are the leader. We do everything ourselves in-house from QA, regulatory, formulation, manufacturing to the end, a direct store delivery force which is, I think, best in class. And so, we have strong capabilities here. And we've got the mid tier pricing in our brands, as Dan referenced.

And then back to the category more generally, Bill, the reason we're bullish on the category is we have learned people want to be active. They want to focus on longevity, health and wellness. And SPF and sun care is one of the ways to help people do that, and we've seen that in the regimen change. And sun exposure causes aging. It's the number one cause of skin aging. And skin cancer rates in the U.S. are going up, not down. Globally they're going up, not down. And so, we think that sets up well long-term for the category.

And you had referenced trade down in your question. In this category, actually the opposite's happening. We're seeing trade up. There's not significant private label exposure. We don't see people trading down to a private label. In fact, people are willing to spend more in the category as it evolves. And so, I think this is a little different than a traditional daily use category in that respect.

**Bill Chappell**

Got it. Thanks for the color.

**Chris Gough**

Thank you, Bill.

**Rod Little**

Thanks, Bill.

**Chris Gough**

Operator, next question, please?

**Operator**

The next question we have is from Olivia Tong of Raymond James. Please go ahead.

**Olivia Tong**

Thanks. Good morning. I wanted to ask about your visibility and the building blocks on your fiscal '25 sales outlook for 1% to 3% organic, and what gets such an acceleration going. Because you mentioned in your prepared remarks a lot about Q1 being sluggish, sales and EBITDA and EPS down, obviously the supply chain challenges you had, high promotion in wet shave, the over indexing to drug, and you've got a new head of North America. So, it seems like you've built in some flexibility in Q1, but obviously a fair bit of expectation for the sales to grow as the years progresses. So, maybe even if you could talk about new product pipeline or the cadence, that'd be helpful. Thank you.

**Rod Little**

Good morning, Olivia. It's Rod here. Thanks for the question. And you're right on. We are going to have a sequential improvement as we go with Q1 as we've guided. I think as we had talked with Chris's question earlier from Wells, we're confident in our ability to deliver the growth profile. I won't go back through the building blocks we laid out there, but I'll come at it from a different angle.

From an innovation standpoint, we're much more confident in our ability to drive growth via our innovation platform. One year ago, we eliminated our global team. We moved to a local market model with innovation, local insights, better innovation to deliver on those insights. The innovation's faster. It's better accepted and planned out with our retail partners, getting better customer buy-in and better in-market results.

And I'll just point you to two examples we have from the back half of this year as we go into next year that give us some tailwinds. The first is the Wilkinson Sword shave campaign in Europe. We launched that campaign in the summer. It's been very successful. We've invested behind it, and we're seeing momentum in our Wilkinson shave brand in Europe behind that campaign, very locally oriented, very well done by the team.

The second one I'll call out is the Schick First Tokyo brand. We launched a new brand in Japan aimed at capturing and engaging first-time users in the category. As you know, we're the leader in Japan. We should be operating like the leader and driving category growth. We've done that in this case by getting younger consumers more interested in the category.

It's an amazing razor all around safety. It's driven huge responsiveness around social media channels and engagement with younger consumers in Japan. And it to date is the best brand launch we've seen in Japan since separation. And we just launched that brand in September, and so we have a lot of goodness to come as we get into the year.

And we have more things like that coming across the year out of the local innovation model. So, that's innovation. The other piece that has nothing to do with innovation for fiscal '25 but everything to do with lapping an easy comp is in fem care. We're going to step up from a minus 10% organic net sales in fiscal '24 to essentially flat in fem care, if you take what we've got in our guide. And we already have line of sight to do that.

The category will grow 1% to 2%. We're going to be much more in line with category growth rates. Playtex Sport is in a good spot relative to category. Carefree liners is in a good spot relative to category. The step up we'll see or the decline that we won't see will be in our pads business, where we'll continue to build out the Carefree pad volume. It takes time to move consumers. We're confident we can do that.

And the other thing that gives us confidence is we've had good retailer response to our participation in the category and our plans for the future. Again, beyond fiscal '25, getting out into '26, '27, one of our most robust pipelines that we have in our portfolio is in fem care. And so, I think we remain confident in the category, and our ability to step up in '25.

Dan, I don't know--.

#### **Dan Sullivan**

--No, Olivia, the only thing I would add, you asked the question on Q1. It's a good one. Let me just try to give you the headlines there. In any quarter, of course, there are things you're cycling. And you'd recall in 2023 fourth quarter, we made a decision to take inventory out of Japan and reset the wholesaler business model, if you will.

That benefit actually played out in the first quarter of '24, because you got a level of orders that you wouldn't have gotten. We were up 80% in Japan last year. Q1, we're cycling that now. That's worth about a point. There's a timing element, of course, right? Some of the drivers of growth for us, namely the Billie brand expansion in body, much of the pricing in international, that comes in Q2 and beyond so you don't get that benefit in Q1.

And then to Rod's point on fem care, we've got work to do here. We are absolutely expecting sequential improvement, but won't see year-over-year growth until half two of the fiscal. So, hopefully that helps you with how we're thinking about Q1.

#### **Olivia Tong**

Great. Very helpful. Thank you.

#### **Chris Gough**

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

#### **Operator**

The next question we have is from Susan Anderson of Canaccord Genuity. Please go ahead.

#### **Alec Legg**

Hi. Good morning. Alec Legg on for Susan. A question on the gross margin. So, you did a lot of good work this year. Next year another 75 BIPs. Is there anything structural, though, that's changed between now and before the pandemic to get to that mid-40s range? And then I think you called out 115 BIPs of COGS inflation for next year. Can you break out the drivers of that? And does that include any potential tariff hikes? Thank you.

**Dan Sullivan**

Yeah. Good morning. It's Dan. I would say, as we think about the margin profile, we're going to continue to control the two levers that we control, which is productivity and price. What you're seeing next year, 2025, is accelerated productivity gains but less realization from price. That's just the nature of the categories and the markets in which we're in.

The difficult part to predict, in linking it back to your pre-COVID versus post-COVID, is around inflationary pressures and FX. We are thinking about an inflationary picture for '25 that looks a lot like '24. Some of the pieces maybe are different, but we're in the 100 basis point headwind range. We're in the 2% to 3% of COGS inflation range. How we get there is low single digit inflation on raws, mid single-digit inflation on labor, and likely deflationary on warehouse and distribution.

So, again, we've demonstrated our capabilities here. I think we committed to getting the business back to pre-COVID levels of gross margin at least. And certainly, based on what we've now done in '24, where the margin has clearly inflected and now how we're thinking about '25, we're confident on that path.

**Chris Gough**

Thanks, Alex. Operator, next question, please?

**Operator**

At this stage, there are no further questions, and I would like to turn the conference back over to Rod Little for any closing comments.

**CONCLUSION**

**Rod Little**

Thank you, everyone. We appreciate the continued interest and investment in the company. All the best to you for the holidays, and we'll give you an update in Feb. See you then.

**Operator**

That concludes today's conference. Thank you for joining us. You may now disconnect your lines.