

Edgewell Personal Care

Q4 2025 Earnings Call

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CORPORATE PARTICIPANTS

Chris Gough – VP, IR

Rod Little – President & CEO

Fran Weissman – CFO

PRESENTATION

Operator

Good morning and welcome to Edgewell's Fourth Quarter and Fiscal Year 2025 Earnings Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing star then 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 Fourth Quarter Fiscal Year 2025 Earnings Call. With me this morning are Rod Little, our President and Chief Executive Officer, and Fran Weissman, our Chief Financial Officer. Rod will kick off the call, then hand it over to Fran to discuss 2025 results and full year fiscal 2026 outlook. We will then transition to Q&A. This call is being recorded and will be available for replay via our website, www.edgewell.com.

Also, please refer to our website for a separate press release detailing the company's plan to divest its Feminine Care business.

During this call, we may make statements about our expectations for future plans and performance. This might include future sales, earnings, advertising and promotional spending, product launches, brand investment, organizational and operational structures and models, cost mitigation, and productivity efficiency efforts, savings and costs related to restructuring and repositioning actions, acquisitions and integrations, impacts from tariffs and other recent developments, changes to our working capital metrics, currency fluctuations, commodity costs, inflation, category value, future plans for return of capital to shareholders, our planned disposition of our Feminine Care business, and more. Any such statements are forward-looking statements for the purposes of the Safe Harbor provisions under the Private Securities Litigation Reform Act of 1995, which reflect our current views with respect to future events, plans, or prospects.

These statements are based on assumptions 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, 2024, as amended November 21, 2024, and as may be amended in our quarterly reports on Form 10-Q filed with the SEC. These risks may cause our actual results to be materially different from those expressed or implied by our forward-looking statements. We do not assume any obligation to update or revise any of these forward-looking statements to reflect new events or circumstances, except as required by law.

During this call, we will refer to certain non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is shown in our press release issued earlier today, which is available at the Investor Relations section of our website. This non-GAAP information is provided as a supplement to, not as a substitute for or as superior to measures 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 2025 year-end earnings call. Before we begin, I would point you to another important press release we issued yesterday afternoon, detailing our intent to divest our Feminine Care business. This divestiture is a key step forward as we continue to transform Edgewell into a more focused, agile, and consumer-driven personal care company. We believe that by focusing our attention and resources on the categories where we have clear competitive advantages and strong momentum - that's Shave, Sun, Skincare, and Grooming - we are positioning Edgewell to deliver sustainable growth, stronger margins, and long-term value for our shareholders.

Together with changes we have made in the U.S. commercial organization, including elevating our talent pool, we are actively strengthening our portfolio and building a better and more durable business. I'll spend most of my time this morning addressing the actions we're taking in our core businesses and provide a clear roadmap for how we are evolving Edgewell for the future.

Now, turning to our performance, in Q4, we generated organic net sales growth of 2.5%. This result was in line with our expectations in both international markets, where we saw expected acceleration, and in North American markets, where relatively flat sales performance demonstrated significant progress towards stabilizing the business. Importantly, we've seen improvements in both consumption and market share performance in North America on a value and a unit basis, and are encouraged to see that business begin to stabilize.

Although we continued to drive strong productivity savings, earnings were significantly impacted by several transitory items related to inventory, trade, and foreign exchange. Fran will discuss this in detail shortly.

As we close out fiscal 2025, I want to acknowledge that it's been a difficult year. We faced significant external pressures - tariffs, foreign exchange volatility, geopolitical tensions, and consumer uncertainty - that impacted our financial performance and stressed our global supply chain. We faced internal challenges, as well, including weaker than expected Sun Care seasons in North America and parts of Latin America and a slower than expected recovery in Fem Care. However, we still delivered strong results across several important areas of our business, including international markets, our innovation program, and productivity. We believe this performance is durable and provides a solid foundation moving forward. Let me give you an update on these drivers.

First, durable international growth - our international markets, which represent approximately 40% of our global sales, delivered strong growth for the fourth consecutive year, with strengthening share across Shave and Sun. Europe generated its third straight year of growth, and Greater China delivered double-digit growth. We believe our international markets are poised to deliver mid-single-digit growth again in fiscal '26.

Second, compelling innovation - we are committed to delivering consumer-led, locally designed innovation across our portfolio. In fiscal '25, we expanded Billie to Australia, Bulldog entered premium Skin Care across Europe. In Japan, we took Schick into premium skincare with the launch of Progista, and we broadened Cremo's range in the United States and Europe, driving significant sales growth. In Sun Care, we saw strong growth in Hawaiian Tropic as a result of a successful marketing campaign, updated formulations, and on-trend branding.

Across all markets, we're seeing the benefits, as approximately 70% of our measured markets in the quarter are now growing or holding market share, compared to less than 50% one year ago. We are implementing our learnings from Europe and Asia globally and are excited about our multi-year innovation roadmap.

Third, productivity through supply chain optimization - in fiscal 2025, our team delivered over 270 basis points in gross savings, and we expect approximately 310 basis points in fiscal '26, inclusive of tariff mitigation. Building on our foundation of productivity, efficiency, and service, we are navigating tariffs in a dynamic global environment by reducing complexity, improving customer service, shortening lead times, and lowering inventory across the value chain.

In fiscal '26, we will further optimize our North American Wet Shave business and manufacturing footprint, streamlining operations, reducing duplication, and unlocking working capital. By investing in blade excellence and embracing next-generation automation and digital tools, we are building a more agile, resilient, and customer-focused supply chain. These actions will enable faster responses to consumer demand, drive innovation, and position us for sustained margin improvement.

Importantly, these operational enhancements will not only deliver meaningful productivity savings, but will also support reinvestment in our core brands and innovation pipeline, strengthening our leadership in a highly competitive market. These increased investments in fiscal '25 and '26 position us to achieve productivity savings in fiscal '27 and beyond at a pace that exceeds recent years.

While we believe these areas of strength are enduring and foundational, it is unlocking the potential of our North America commercial business that represents a significant opportunity for our company. As we shared last quarter, we are executing a bold transformation in the US, focused on returning the business to profitable, sustained top-line growth over time. In the last year, we have conducted a thorough strategic review and identified our core strengths as well as key areas that have hindered performance.

Our category positions are structurally attractive. We are a leader in Sun Care, a fast-growing upstart in Men's Grooming, and have a unique, branded, and private label position in shave. Our brands have established solid awareness and are backed by robust product delivery capabilities. We have strong technical know-how and capabilities with owned assets and a deep R&D bench. And we run the business with a commitment to discipline across operations, cost management, and capital deployment.

Our transformation plan is based on leveraging our strengths while addressing the three key areas of opportunity identified in the strategic review. First, our portfolio expanded to include a wide variety of SKUs, some of which did not deliver optimal margins or performance. We are now sharpening our focus on our strongest offerings. We are recommitting to our shave business, where we have a differentiated position across branded and private label, underpinned by solid brand awareness and excellent product performance. While we recognize that it takes time to rebuild distribution and share, our immediate focus is to begin stabilizing performance and setting the foundation for future growth.

Second, our approach to marketing investment prioritized certain tactics that, while effective in the short term, did not fully support sustainable growth and led us to underinvest in core brands. To address this, we are taking decisive action to increase investment in our five focused brands

- Schick, Billie, Hawaiian Tropic, Banana Boat, and Cremo. By shifting our strategy towards sustained brand building and a balanced marketing mix, we are committed to restoring brand equity, driving deeper consumer engagement, and positioning our portfolio for durable growth.

Third, our US structure was too complex, creating duplication, slow decision-making, and under-investment in key capabilities. We simplified our structure to enable faster decisions, greater investment in growth capabilities, and increased ownership and accountability. We've implemented significant organizational redesign. We launched a streamlined US commercial organization, bringing together a new, talented, proven leadership team, and we are ramping up new teams dedicated to improving our capabilities in insights and analytics, brand building, and revenue growth management.

As we look ahead to fiscal '26, this is a year of transition and solidifying foundations for longer-term growth. We anticipate that we will begin to realize the benefits of this ongoing work in the form of stabilization of our North America business as we simultaneously set the stage for renewed growth in 2027 and beyond.

So, this leads me to our outlook for the full year. As we look ahead to fiscal 2026, we believe our plan is balanced and achievable. We also anticipate the macro environment will remain challenging with muted category growth and the consumer continuing to be cautious around discretionary spending. We also expect increased inflation stemming from the current view of tariffs. Fran will provide all of the details shortly, but I would like to summarize the key pillars of our plan.

First, our top-line expectation is for a return to organic net sales growth, driven by continued mid-single-digit growth in international markets and a more stable profile in the North America business. Second, gross margin is expected to increase, driven by productivity gains that are partially offset by inflation headwinds, inclusive of \$25 million or nearly \$0.55 in pre-tax earnings per share of headwind from tariffs, net of our mitigation efforts. These mitigation efforts have proven to be more challenging, as many of the tariff items like steel, aluminum, and certain chemicals cannot be sourced elsewhere, at least in the near term.

And although we've already implemented pricing in certain international markets, broadly speaking, the US market to date has not been conducive to price increases. We will continue to actively pursue further mitigation efforts to lower the impact beyond fiscal '26, but commercial pricing in the US would have to play a role to fully offset. To be clear, our outlook does not assume this offset, so if it were to occur, it would represent potential upside to this outlook.

Third, our plan includes significant investment in both trade spend as well as advertising and promotional dollars to support the changes in the US, fuel key brands in international markets, and drive increased household penetration and brand awareness. These investments, in part, are expected to be funded by the gross margin gains I just outlined.

Fourth, we will prioritize free cash flow generation through working capital improvements while capital allocation will emphasize debt repayment.

Finally, I am truly energized by the outstanding team we have assembled. We have record high engagement scores across the organization in a dynamic US commercial organization led by a refreshed leadership team that is already executing effectively. This group brings together exceptional talent and proven expertise from leading companies, positioning us for success. Our

team is highly motivated, and their achievements, as well as their compensation and mine, are directly tied to the value we create.

So, to wrap up, fiscal 2025 was a year of challenge and transformation. While both external and internal pressures impacted our results, we exited the year with momentum, a step up in sales and share trends, and a revitalized brand portfolio. We've reshaped our structure, sharpened our strategy, and built a foundation for growth. As we enter fiscal '26, we're focused on execution, margin recovery, and delivering sustainable shareholder value.

And now, I'd like to ask Fran to take you through our results and outlook for fiscal '26. Fran.

Fran Weissman

Thank you, Rod, for outlining the significant progress and transformation underway at Edgewell. Building on the actions and momentum Rod described, I'd like to further provide details on our financial performance and the operational changes that are positioning us for sequential improvement and sustainable growth.

Fiscal '25 was a challenging year, underpinned by both external pressures, such as tariffs, currency volatility, and geopolitical uncertainty, and internal headwinds, including a softer than expected Sun Care season and slower recovery in Fem Care. Despite these pressures, we still delivered strong results in key areas. Our international markets continued to expand, innovation gained traction across our portfolio, and our supply chain optimization efforts drove meaningful savings. We also made decisive, transformational choices that fundamentally reposition Edgewell for long-term value creation.

By streamlining our portfolio, including the anticipated divestiture of our Feminine Care segment, and simplifying our US commercial organization, we have sharpened our focus on categories and brands where we hold clear competitive advantages. These foundational changes, coupled with a disciplined increase of marketing investment, set the stage for sustainable growth and margin recovery. As we enter fiscal '26, we are executing a clear roadmap focused on sequential improvement, stabilizing our North America business, continuing to drive growth in our international markets, unlocking margin improvement, and investing behind our strongest brands and capabilities.

Building on this, our fourth-quarter results reflect both our progress and some of the challenges we faced. While our top-line performance was in line with expectations, driven by solid growth in international markets and key categories, our bottom-line results fell short, impacted by several transitory headwinds. These included higher-than-anticipated year-end inventory adjustments in our Mexico plant, higher trade promotions driven by channel and category mix, mainly in Wet Shave and Sun, as well as the unfavorable currency and tariff-related pressures, which together weighed on earnings for the quarter.

I'll now walk through the details of our financial performance and the factors that shape these results. Organic net sales increased 2.5% this quarter, as strong performance across international markets and robust growth in Sun Care, Skincare, and Grooming offset declines in North America Wet Shave. International organic net sales grew 6.9%, broad-based across all segments and in line with expectations, driven by both volume and price gains. We delivered growth in all key markets, with Oceana and distributor markets experiencing double-digit growth, while Europe delivered mid-single-digit growth.

As Rod mentioned earlier, North America demonstrated sequential improvement, with organic net sales declines of 60 basis points, driven by meaningful growth in the quarter in Sun Care, Wet Ones, and Grooming, partially offset by Wet Shave. Wet Shave organic net sales declined approximately 1% as growth in preps, men's, and women's systems was more than offset by a decline in disposables. International Wet Shave grew 6% with both price and volume gains, reflecting continued category health, solid distribution outcomes, and strong in-market brand activation. This growth was offset by declines in North America driven by challenged category and channel dynamics.

In the US razor and blades category, consumption was down 80 basis points in the quarter. Though our market share improved sequentially, declining 50 basis points overall, our branded value share was flat in the quarter, while unit share increased 90 basis points. The Billie brand achieved 90 basis points of share growth and continues to perform well at retail, now holding a 15 share at Walmart and 13 share at Target.

Sun and Skincare organic net sales increased approximately 11%, with robust growth across each business. Wet Ones grew nearly 25%, while Sun and Grooming each grew 9%. While Sun Care sales in North America increased 10% in the quarter, the combined effect of end-of-season closeout sales and higher-than-expected adjustments related to trade and returns mix added additional pressure to our gross margin. In the US, Sun Care category consumption grew over 6% in the quarter as end-of-season weather improved, with sales peaking later than a typical season. Final seasonal replenishment orders were boosted by higher online orders and end-of-season closeout performance.

Our value share improved sequentially and was essentially flat in the quarter, while unit share increased by 60 basis points. Grooming organic net sales growth of 9%, led by over 28% growth in Cremo and over 9% growth in Bulldog, were partially offset by declines in Jack Black. Wet Ones organic net sales increased about 25%, and our share was approximately 68% as we cycled supply disruptions in the prior year and have fully returned to normalized operational levels following the fire in our facility in the prior fiscal year.

Fem Care organic net sales increased 1%. We saw continued positive consumption and market share trends across the portfolio. Consumption in the category was up 3.5%, though continues to be mostly driven by 5.5% growth in pads, where overall penetration is the lowest. The categories where we compete more heavily, namely tampons and liners, consumption was up 2.7% and 60 basis points, respectively. Overall, the category remains promotional. Our value share improved sequentially and was down 20 basis points, while unit share 30 basis points.

Now moving down the P&L. Adjusted gross margin rate decreased 330 basis points or down approximately 210 basis points in constant currency versus our expectation of only slight declines on a constant currency basis. This shortfall was largely driven by unanticipated year-end transitory items, including higher than anticipated inventory adjustments related to our plant consolidation wind down procedures in Mexico, increased trade mix, including increased closeout sales and Sun Care returns, and slightly unfavorable net inflation, tariffs, and pricing.

A&P expenses were 9.4% of net sales, up from 8.5% last year, in line with our expectations as we re-phase some spending for Sun Care out of Q3 and into Q4. Adjusted SG&A was 19.7% in rate of sale, compared to 20.5% last year. This was primarily driven by lower incentive compensation expense and the favorable sales leverage, partly offset by higher people and consulting expenses and unfavorable currency impact.

Adjusted operating income was \$40.3 million, or 7.5% of net sales, compared to \$56 million, or 10.8% of net sales last year, reflecting the impact of lower gross margins, FX headwinds of 100 basis points, and incremental brand investments.

GAAP diluted net loss per share were \$0.66 compared to income of \$0.17 in the fourth quarter of fiscal '24, driven by the goodwill impairment charge. Adjusted earnings per share were \$0.68 compared to \$0.72 in the prior year quarter. Currency headwinds drove an unfavorable \$0.19 impact on adjusted EPS in the quarter as the unfavorable transactional currency hedge and balance sheet remeasurement impact within our other income and expense were only partially offset by translational currency tailwinds to operating profit. Adjusted EBITDA was \$59.4 million, inclusive of an \$11.2 million unfavorable currency impact compared to \$78.9 million in the prior year.

Net cash provided by operating activities was \$118.4 million for fiscal '25 compared to \$231 million last year due to the lower earnings and higher working capital build this year. We continued our quarterly dividend payout, declaring \$0.15 per share dividend for the fourth quarter, and we returned approximately \$7 million to shareholders via dividend. We had already achieved our target of approximately 90 million in the share repurchases for fiscal year by the end of Q3.

Now let me turn briefly to our full year results. Organic net sales for the year decreased approximately 1.3%. Our right-to-win portfolio grew about 1%, fueled by nearly 13% growth in Skincare, and our Grooming brands grew over 9% for the year. Sun Care, highlighted by weaker than anticipated core Sun Care season, declined approximately 4%. Our right-to-play portfolio declined about 2%.

International markets organic net sales increased 3.5%, nearly equally driven by both volume and price gains. North America organic net sales decreased about 4%, driven by both volume declines and increased promotional levels net of pricing.

Adjusted gross margin rate decreased 110 basis points year on year or 20 basis points at constant currency. We generated productivity savings of 270 basis points, which were more than offset by core inflation inclusive of tariffs of approximately 150 basis points, unfavorable mix of approximately 75 basis points, increased promotional level net of pricing of 45 basis points, and 20 basis points of unfavorable absorption.

A&P expenses was 11.1% as a rate of sale, an increase of 80 basis points over the prior year, as we continue to invest behind our brands. Adjusted operating profit decreased \$48 million, or approximately 18%, and adjusted operating margin for the year was 9.9%, down approximately 200 basis points in rate of sale. The decrease in adjusted operating margin was attributable to gross margin rate declines, higher brand marketing investments of \$15 million, and the unfavorable impact of currency of \$21 million.

Now turning to our outlook for fiscal 2026, our fiscal '26 outlook does not reflect the planned divestiture of our Feminine Care business. Starting in Q1 '26, results from Feminine Care will be reported as discontinued operations. Following the transaction, we also expect to incur certain stranded overhead costs, which for fiscal '26 will be substantially offset by income from certain services to support the transition of the business following the completion of the transaction. For context, we expect the impact of Feminine Care business on an annualized basis to be approximately \$0.40 to \$0.50 in adjusted EPS, and \$35 to \$45 million in adjusted EBITDA, net of transition income. We will update our outlook to reflect the remaining business after the transaction closes, which is anticipated in the first quarter of calendar '26.

Importantly, as part of our ongoing transformation, we are committed to reducing stranded overhead costs over the longer term. Our ambition is to fully align our cost structure with our streamlined portfolio.

As we look forward to fiscal '26, our expectations include a return to organic top-line growth, gross margin accretion as well as a step up in investment through higher A&P spend, where we are leaning into focused brand activation. This is expected to result in essentially flat adjusted EBITDA growth at the midpoint of our outlook. This outlook incorporates several headwinds, including a net tariff impact after mitigation efforts of approximately \$25 million, higher SG&A spend year over year due to lower bonus and incentive compensation in fiscal '25, partially offset by favorable currency. We expect EPS to be down versus fiscal '25 as the annualized effective tax rate returns to more normalized levels. This outlook also contemplates a meaningful improvement to free cash flow, underpinned by favorable working capital management and improved operational efficiency.

For the fiscal year, we anticipate organic net sales growth to be in the range of down 1% to up 2%, excluding 150 basis points of currency tailwinds. We expect mid-single-digit growth in international markets and flat to slightly down performance in North America.

In terms of phasing, we expect Q1 organic sales to be down 1% to 2%, driven by lower international sales due to the impact of sales phasing within our distributor markets in Japan, and for Q3 to be the strongest quarter in the year. As we look to adjusted gross margin, the environment surrounding tariffs continue to evolve and have added significant challenges to the global supply chain. Our outlook for fiscal '26 assumes current tariff rates hold and there are no material changes in the inbound or outbound flow of materials and finished goods. Our fiscal '26 outlook reflects the gross impact of tariffs of \$37 million or \$25 million net of direct mitigation efforts.

As we stated earlier, we are not in a position to implement broad-scale price increase to mitigate the full impact of tariffs. However, we have neutralized the impact in gross margin through a combination of core productivity efforts, direct cost mitigation through expanded sourcing efforts, footprint optimization, and vendor negotiations, as well as strategic pricing in key categories. More specifically, we anticipate 60 basis points of year-over-year total gross margin rate accretion, or 20 basis points at constant currency. This includes approximately 310 basis points of productivity savings and tariff mitigation, 60 basis points of price gains, and 40 basis points of favorable FX, partially offset by approximately 270 basis points of COGS inflation, inclusive of tariffs, and negative mix and other costs.

In terms of phasing, half two gross margin rate will grow versus prior year as the full impact of pricing, tariff mitigation, and productivity initiatives will be at run rate. Looking ahead to Q1, we expect gross margin to decline 270 basis points as higher inflation, inclusive of tariffs, trailing absorption charges from '25, and other transitory operational cost increases are only partially offset by productivity savings and favorable FX. With increased investments in our brands, we expect A&P to increase in both dollars and rate of sales, with the latter increasing by 70 basis points to approximately 11.8%.

Adjusted operating profit margin is expected to decrease approximately 50 basis points as gross margin improvement is more than offset by higher A&P and higher SG&A. Adjusted EPS is expected to be in the range of \$2.15 to \$2.55. This EPS outlook reflects only the impact of expected share repurchases that are needed to offset current dilution and assumes an effective tax rate of 21% to 22%.

Adjusted EBITDA for fiscal 2026 is expected to be in the range of \$290 million to \$310 million, which is approximately flat to prior year at the midpoint. In terms of phasing, we expect to generate about two-thirds of adjusted EBITDA in half two and three-quarters of our full-year adjusted EPS in half two of the fiscal, primarily reflecting higher taxes and interest expense in half one, with Q1 adjusted EPS below prior year.

Free cash flow for the year is expected to be in the range of \$115 million to \$145 million, including expected improvements in working capital. And finally, we remain committed to a disciplined capital allocation strategy and intend to continue to focus our efforts on reducing debt leverage in the near term. We will continue our dividend and share repurchases primarily as an offset to dilution.

In the near term, the net proceeds from the Feminine Care divestiture after taxes and transaction costs will be directed towards strengthening our balance sheet and reducing debt, while also supporting continued investment in our core brands, capital expenditures to drive innovation and productivity and funding future growth initiatives. Over the longer term, we believe this divestiture creates optionality in pivoting our portfolio to categories where we have a competitive advantage. Our intention is to evaluate targeted M&A to ensure that we continue to add scale that creates sustainable value creation.

For more information related to our fiscal '26' outlook, I would refer you to the press release that we issued earlier this morning.

And now I'd like to turn the call over to the operator for the Q&A session.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question, you may press 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'll pause momentarily to assemble our roster.

The first question comes from Olivia Tong with Raymond James. Please go ahead.

Olivia Tong

Great, thank you. Good morning. I wanted to ask you first about the outlook, which is a wider range than normal, which is logical against the current backdrop and the changes you've made. And it looks like EPS might be at a loss in Q1 -- might be on the table. And so, can you talk about a few things - underlying category growth assumptions, your market share assumptions, and how you think about segment results? Presumably, Sun and Skin should grow but in what shape, perhaps not. So that's number one. And then your level of flexibility to maintain the profit goals that you discussed? Thank you.

Rod Little

Good morning, Olivia. Thank you for joining us this morning. Look, I'll say, as we look at the '26' plan, I would say it's balanced and achievable. I think we feel really good and confident in our ability to deliver this plan. It's a strong bottom-up build. It's based on realistic assumptions. So overall, from a category growth perspective, we effectively have the category growth assumption

for '26 in all of the key combinations right around where we've been over about the last six months. So, it's a low single-digit rate on average when you aggregate it out across our categories.

As we said in the script, we're growing share now in -- growing our holding in 70% of our category country combinations. That's a significant improvement versus a year ago. We don't have that changing. We have our share result assumptions where we are now going forward, so effectively holding share versus where we are today. And I would say we have more flexibility in this plan, certainly, than we've had in the last couple of years. If we face some headwinds, we'll be able to deal with that in how we've built and profiled this plan.

Fran, I don't know if you'd add anything else?

Fran Weissman

Yeah, I think just to address the phasing question specifically, we expect a stronger half, too. As we've stated, two-thirds of our EBITDA is expected in the second-half. That's well in line with our historical trends. Fiscal '25 had more unusual flighting [sp], as it was more 50-50. So softer performance in Q3 and Q4 at the back end of fiscal '25, but we're confident with a number of factors. As Rod has said, the combination in the half two of productivity mitigation at run rate, pricing in both international and U.S. markets are more disproportional between Q2 and the second half, we've got innovation and brand investment also coming into the second half.

So more specifically in Q1, yes, we do expect EPS to be at a loss. That's a combination of some of the margin pressures that we're facing as well as some of the tax rate flighting. But as we look ahead to half two, we're really confident in our run rate, productivity, and mitigation efforts, and really the sales growth and the investment profile that moves ahead.

Rod Little

Yeah, and Olivia, I would just add to the segment question you asked, one example of what I think is different in this year's plan is how we thought about Sun Care. The season we just finished, I think most people would agree, was not a great sun season, particularly in the peak of it as we got into Q3. We're not planning on a basis where we expect a great recovery for a sun season next summer. In fact, we're planning for a very similar season, which I think is realistic and more conservative than where we've been. So, we've got Sun at low single digits. We've got Shave at flat to slightly growing as a segment, and then Grooming is the one leading the way more in line with trend of where we've been.

Chris Gough

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

Operator

The next question comes from Nick Modi with RBC Capital Markets. Please go ahead.

Nick Modi

Thank you. Good morning, everyone. Hey, Rod, you've been pretty busy making a lot of changes, big changes over the last few years, obviously, with the Fem Care sale, so I just wanted to kind of get your thoughts high level on like what's the North Star here for the strategy for the portfolio? I mean, is there intent to maybe, look at more maybe M&A as asset values come down in this current environment? So just we'd love to just get your higher level thoughts on just where you're really trying to point the arrow here.

Rod Little

Good morning, Nick. Thank you. Yeah, look, there's a lot going on here, right? If you try to parse out everything that's happening, there's a lot of moving parts. What I will tell you is, in many ways, this is the moment where our strategy execution really comes together in a very different way than where we've been over the last couple of years. We are focused on winning in Shave, Grooming, Sun, and Skin. That's the focus from a category perspective. We have global scale, IP, know-how, technology, and the right to win and be successful in those four categories. That's where we sit today with the Fem sale off to Essity. It's a better portfolio. It's a more efficient, more focused portfolio. So, focus on those categories is where we are.

We believe those categories are structurally attractive. Shave is the category that is viewed probably most negatively within that set. We don't see it that way. It's a structurally attractive category with high margin and very few players. So strategically, with what we have in place, we have a right to win and be successful in Shave, and you've seen us do that internationally. We're now set up to do that domestically here in the US with a new team and the investments we're making.

I would say the other part of our strategy that's coming to life here, beyond the financial flexibility and the optionality the sale of Fem Care and those proceeds give us, we are making a big investment in our Shave footprint and basically setting ourselves up for the next 10 to 20 years in that category with a new highly automated manufacturing plant. We're consolidating four locations in North America into a single scaled, highly automated plant that will produce better blades than come out of any factory in the world. It's going to be a best-in-class site.

And so, this gives us significant financial flexibility as we go forward in addition to the simplification and speed elements that it gives us. So, when you put it all together -- I've talked about the category focus, we're global in terms of our category plays now, and we've got much better optionality and financial flexibility that, at the end of the day, is leading to reinvestment in our brands with a better focus on the consumers we serve to give them better products and better messaging and just a better experience with our brands. Long-winded answer, but that's what we're up to.

And, Fran, I don't know from your perspective what you'd add to that.

Fran Weissman

Yeah, I think that's all the right points, Rod. And I think what I'll refine specifically around the Wet Shave optimization, this has been a multi-staged approach across North America. And the large portion of these costs and CapEx are already captured in '25. Our decision to expand these efforts in '26 will result in additional investments, but by the end of '26, we're actually almost 90% through those total costs. And as we look ahead, we'll have accelerated productivity and cash flow from that.

Nick Modi

Great. Thank you.

Chris Gough

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

Operator

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

Chris Carey

Good morning.

Rod Little

Good morning, Chris.

Chris Carey

Just the productivity number this year -- or this quarter -- excuse me -- was I think the lowest you have ever disclosed. Can you just expand on that a bit? The gross margin for the year came in quite a bit below expectations, laid out only a few months ago. And you're gonna start gross margins quite negative in the year with hope for some recovery through the year. And so, I think getting a bit more confidence on your ability to use productivity as an offset would be helpful.

And then I think you said that there's some pricing coming in the back half of the year relative to the comment that you made around not much pricing in North America. Can you just square those for us? I mean, really what I'm trying to do here is establish some confidence that you can see some improvement in the gross margin through the year. Thank you.

Rod Little

Hey, Chris, let me just make a broader comment around the profile, and then Fran can get into the gross margin details. We have a second-half oriented plan here as it puts forward. I want you to know, like we've been through this at great levels of detail, and we're very confident in the profile we put forward. And some of what drives the gross margin delivery and the rate delivery is a higher expected sales growth in the second-half of the year.

And international, it's more around distributor timing, it's more around how we ship the sun season year over year with a very specific point in Japan where we've got pricing going in in the spring there that obviously helps that gross margin line.

And then in North America, it's a very second-half oriented plan, mostly because we know planogram changes that are happening in total that are going to be positive and additive to us as we get into that spring season when planograms reset. And that's also when we launch the new brand campaigns and put most of our incremental A&P spend in, which is significant on the year in that timing to drive the growth. So, some of it is -- some of the margin improvement is just driven by volume absorption that comes in the second half of the year.

But Fran, I know there's more going on.

Fran Weissman

Yeah, so just to reference your first question about productivity specifically in Q4, we anticipated the productivity, it came in line with our expectations. So, we knew that Q4 was going to be slightly less in the first half. And some of that is just natural phasing that happens with the initiatives that we put through and implement. But overall, we've consistently been delivering 250 basis points of productivity efforts over the last few years. And as we look ahead to '26', we still believe that we will deliver, at its core, 260 basis points, and with mitigation, 310 basis points.

I think if we double click in terms of Q4, the core issue is not productivity. I think those elements have come in largely as we expected. There were two major factors that really put some headwind into Q4. 50% of that was wind-down procedures around our Mexican plant consolidation where we had larger than expected inventory adjustments. That was transitory. We do not expect that to continue for next year. And the other piece was just higher trade promotions. And some of that was due to just the closeouts and the mix that we had around promotional and channel dynamics.

And that led to, I think, the biggest drivers in terms of Q4 gross margin. But productivity, as we look ahead, will be equally phased with slightly more in the back half, and that's really driven off of tariff mitigation. Tariffs are going to be disproportionately in the first half, and the mitigation efforts, while we have that all in place, will just come to run rate more towards the second-half.

Chris Carey

Okay, thank you.

Chris Gough

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

Operator

The next question comes from Peter Grom with UBS. Please go ahead.

Peter Grom

Great, thank you. Good morning, everyone. So, I'll know we'll get more of an update on guidance, excluding Fem Care down the road, and you did provide some helpful context last night and this morning, but just on the proceeds from the transaction, I think you mentioned that it will be used to pay down debt and strengthen the balance sheet. So, I'm just curious, how quickly do you plan to deploy the proceeds? And then just high level, how could this impact earnings per share once the acquisition closes?

Rod Little

Yeah, so good morning, Peter. Look, on the sale, we expect it to close some time out in early calendar 2026. We'd have proceeds at that point. We would plan to put everything we get from the sale, the net proceeds as well as all the operational cash flow we generate this year towards debt reduction. We're very focused on debt reduction and getting our leverage ultimately down towards that three time zone. We've talked about two to three being the long-term target. That's important for us.

We'll be looking at M&A along the way, as Fran said. There's a very high bar for that. Anything we would do would be value creating. We'll be very disciplined there. We haven't done anything in a couple of years. But in parallel, we'll be doing that.

In terms of the timing and the amount of the flow through, Fran, I don't know if you'd add anything there.

Fran Weissman

Yeah, I mean, at this point, our best estimate after we've netted taxes and transaction fees is that there's about 80% of the proceeds that will be converted into cash. And as Rod mentioned, that will be focused in the near term on debt paydown.

Peter Grom

Great. Thank you so much.

Chris Gough

Thanks, Peter. Operator, next question, please.

Operator

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

Susan Anderson

Hi, good morning. Thanks for taking my questions. I guess maybe just in the Sun and Skin category, you talked about higher promotions in Sun, as well. Maybe, I guess, how are you thinking about the category going into next year? How are the inventory levels in the category at retail? And then do you think it can be healthier next year? How's the competitive environment, I guess, with some new brands coming in? And then also just curious if you have any new innovation there coming next year? Thanks.

Rod Little

Yeah, hi, good morning, Susan. Thank you for the sun-focused question. We -- look, I think as we look back to the season just completed, it was not a great season. It was very promotional from the start, as you rightly point out, with some competitors going very deep discounts every day across the set. And so it was, I would say, higher than normal level of promotional intensity all year. The weather was not great and below average in total.

And we ended the year not wanting to take any of that drag into next year. So, inventories are clean. We landed the year -- and as part of the Q4 thing we believe is transitory is just making sure we go into next year very clean with any inventory positions, any returns, accrual adjustments, that's all in line, and we're very clean as we go into next year.

I can't predict the level of promotional intensity for the year ahead. What I will tell you, if the promotional environment remains, we'll match it. We're not going to be outspent or beat on that front. As I said to a question earlier, we've not planned for a great sun season. So, we've been very conservative in planning for a season that looks a little bit like last year. And I will say what gives us confidence in the category is Hawaiian Tropic was the fastest growing brand in the set out of the top 10 behind an amazing activation and campaign, better product formulations, better innovation and a new campaign that was put against it.

As we look to next year, we're going to go into year two of that campaign, very confident in the brand, the distribution we're getting on that brand. And on Banana Boat, which was a laggard for us, we have a new campaign coming. The same team that built the HT campaign is going to launch a new campaign on Banana Boat, and we're investing more behind both brands as we go into the set. So, I think we're set up for a very good sun season here in the US. We've been more conservative in our planning, and outside the States, we have sun growing more to that mid to high single digits. Fran?

Fran Weissman

Yeah, I think, overall, as Rod stated, we're expecting low single-digit growth in '26. And I think a little bit more context around where that growth is coming from - in international, we expect that to be the growth engine for us as we have the combination of higher volumes and pricing, and it's really driven by strong regional execution. In Europe, we're accelerating Hawaiian Tropic. In Latin America, we're expanding distribution and enhancing in-store activation and really focused on everyday sun protection, especially with Hawaiian Tropic Beauty Care. And in the US, as Rod said, we're more in line with the category trends, so that's low single-digit growth, and our focus is gonna be on Hawaiian Tropic with distribution gains and promotional support. Innovation in Banana Boat is ahead, and we've got enhanced promotional strategy to really capture early season share and drive trial with our products.

Susan Anderson

Okay, great. Thanks for all the details there. Good luck this year.

Fran Weissman

Thanks.

Chris Gough

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

CONCLUSION

Operator

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

Rod Little

All right, thank you, everybody. We appreciate your time, attention, and for those that invest in us, your continued investment. And we look forward to talking to you in early February.

Operator

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