Edgewell Personal Care

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Lauren Lieberman: So we're going to get started, so we're going to find their seats. Next up, we have Edgewell Personal Care. Really happy to have Rod Little, President and Chief Executive Officer; and Dan Sullivan, Chief Financial Officer with us today. So thank you both so much for being here. I'm glad. I know you've had a good day of meetings so far. So hopefully, this is an easy respite from the grilling of the investors. So it's been nearly 4 years since you first laid out your new strategy. I thought maybe we could take a step back, discuss some of the biggest changes you've made that have worked or kind of like proof points, as you've called them.

Rod Little: Yes. So look, Lauren, it's great to be here, and we're always happy to come spend time with you and the team. Proof points, in my view, always start with results, right? You have to have results, and ultimately, that's the ultimate proof point. And so we are going to be in our fourth year of consecutive organic sales growth on a CAGR rate at the algorithm we put out 4 years ago in 2020. We've reflected on gross margin positive. Earnings per share will be up about $0.50 a share this year. Cash flow is strong, right. So we brought the results together as ultimately the proof point for me.

The thing though that I think if I look at it, it is the most impactful thing we've done is we've gotten the portfolio right. We had a portfolio that was too skewed towards categories that were either declining or flat. And so the first job we had was to get the portfolio right. So we divested the Playtex Infant Care business or the Playtex Gloves business, an Industrial blades business, we divested and we've acquired 4 brands over the last few years that have taken the portfolio from roughly 25% of the portfolio in nice high to mid-single digit growth territory into now we have a 1/3 of the portfolio in higher growth categories. And so I think it was important that we get that done.

The final thing I'll say about proof points and what's different versus back in the 2015 to 2019 time period is the team. We have a really good leadership team. I think we're stronger at every single position. From a leadership perspective, I long believe you're only as good as the team that you have. And we have overall positivity in the company from 60% 4 years ago positive to 80% positive.

And one of the things I think we're really proud of is we've won 2 awards this year. We were named the second best company to work for in America in the midsize company category, so that's 1,000 to 10,000 employee count, second best in America by Forbes and Statista. And then separately from that we were named the 28th best company, all companies in the rank, best company for women to work for and in all of CPG we're ranked #1 for a company for women to work for. So those are proof points and quite different. We weren't winning any people related awards back in the 2015 to 2019 period.

Lauren Lieberman: And then maybe we could talk a little bit about productivity savings. I think that's also been a pretty big and differentiated unlock and the overall gross margin profile change. So talk maybe broadly about that and then also I'd be curious, Dan, if you can go into more drivers about this year in particular?

Daniel Sullivan: Yes. As Rod said, I think we've made the inflection point on year-over-year gross margin performance and that's been the single biggest catalyst for us taking up our full year profit outlook now 2 straight quarters. What we've seen in this year is about 150 basis points of year-over-year gains. And that has come from us pushing really hard on 2 key muscles.

One is productivity something that I think we've long demonstrated. This year we'll generate about 275 basis points of cost takeout and that is as big as thinking about footprint optimization and as small as thinking about waste elimination. We've created a culture within the organization of operating very lean, of investing in technology and automation all the way through to really good program execution.

I think additionally, we've started on our journey of creating better muscles and capabilities around good revenue management, good hygiene. How do you think about not only price but promotional mix and intensity and ROI, downsizing and count and scope and scale of product and everything in between to drive really positive unit economics.

The 2 of those together will contribute about 400 basis points in tailwinds this year. And that might be a bit overstated as you think about the future just given the pricing environment but somewhere between 200 to 300 basis points per year is the algorithm that we see for this business. So as you think about margin recovery for us as a business coming out of these COVID inflationary times, we are extremely confident that capability wise clear line of sight, productivity, price somewhere in the neighborhood of 200 to 300 basis points per year is what we'll deliver.

Lauren Lieberman: And then this year, anything to point out in terms of like key drivers for this year in particular?

Daniel Sullivan: Yes, I think it's large -- it's disproportionately cost as opposed to revenue. We'll generate as I said close to 300 basis points of cost. Full gamut of programs and initiatives ranging from global procurement through optimization of supply chain through good shop floor execution, reducing our reliance on labor through automation. I mean we've got now global capabilities around all aspects of supply chain. I think additionally within the organization, we've been years at this now, it gets into the DNA of how we operate and

so the team is extremely well versed at running at any one point in time over 100 different initiatives and programs that will ultimately deliver value.

Lauren Lieberman: Another question on kind of core strategy and performance. So we've gone through things that have gone well that have been real needle movers. Can you maybe talk about things that haven't worked as well in this kind of 4-year period and tweaks that you've been making or will be making along the way?

Rod Little: Yes, I think the #1 thing that I'm focused on and we're focused on getting better at is bringing innovation to market, winning innovation. As we think about new product development, from the moment we find a consumer insider pain point that needs to be addressed, we can have good ideas with that, but as we get it through our innovation cycle and ultimately into market, we don't always get the consumer response we want. We've historically been too technology focused, not enough consumer focused and the historical razor wars would lead you to that of just having more and more technology to compete, like that era is done.

So we're really working to build more consumer centricity into how we build innovation and to be faster at it. And so that's -- it's primarily an indictment on the U.S. market. Our innovation is better outside the U.S., we're faster outside the U.S. And so we need to bring the skills and learning we have to the U.S. market which is more complicated. It's a more competitive market. But we've got to get better at the innovation we bring and we will.

Lauren Lieberman: Let's keep going with the U.S., with North America. So sales have been down about 3% on average over the past 4 quarters even with pricing being up. So first, can you maybe talk about what category growth rates are today versus a year ago before this kind of performance began? And how much of your performance is related to that weaker category growth versus things you would say are more company specific?

Rod Little: Yes. So the category, if you look at our -- the average of the categories we compete in, so Grooming, Shave, Sun Skin and Fem Care and take an aggregate growth rate for those categories. In the quarter we just reported, those categories grew 0.5%, so slight growth. In the year ago period for those categories, they grew 3.5%. So we saw a 3 point slowdown from the category. So that's part of the story. And so then within that you say, well where is their strength, where is their weakness?

We have strength in our Grooming portfolio, grooming brands growing nicely, category fine and Sun Care. Sun Care category is in good shape. We're the leader. We're growing share in the category again and so those businesses are fine. Where we're most challenged and we've underperformed has been in Fem Care and Women's Shave and Shave Preps. Those are the 3 areas that we're focused on where we've been weakest and we're working to address.

Lauren Lieberman: So let's maybe stick with Fem Care. Actually, first off, outside of Fem and I guess and -- well, really outside of Fem Care, would you say that the business has generally been in line with what you've expected and Fem Care is really the area of surprise?

Rod Little: Yes. Yes, I think if we came into the year and by the way, we're ahead in international. So we're not talking about international in this problem statement, but we're ahead in international, we're on track with everything in the U.S. with the exception of Fem Care versus the expectations coming in, that's correct.

Lauren Lieberman: So what do you think it takes to get Fem Care growing in a kind of sustainable and profitable way?

Rod Little: Yes, Fem Care has been one of the categories that as we look back to the beginning of the pandemic has been very choppy from the beginning. It was one of the product categories where the shelves were emptied very quickly. We were running fast to catch up to the demand, same with our competitors. And then we've had some temporary demand spikes behind some media stories that have come out around availability of tampons and would they be available or not which has driven spikes in consumption. The good news for us is all of that is largely behind us.

And in the year we're in now, we have seen retailers reduce inventory in the category to match what I would say more normal historical inventory rates. That has impacted us in the year we're in. In the quarter, we're getting ready to report that won't be an impact. That's behind us. So you'll see our fourth quarter be better in Fem Care about flat if not slightly positive after declining up to this point in the year.

The other thing that impacted us on Fem Care this year is we are going through a consolidation of a brand portfolio from 3 brands to 2 brands. We have Playtex Sport, which is our primary tampon brand and then Carefree and Stayfree across Pads and Liners. We're rolling the Stayfree brand under Carefree into mega brand format across Pads and Liners. And the shelf set execution got delayed on that.

And so when our new stuff showed up on shelf was delayed 4 to 6 months versus what we had anticipated originally. And so not only did we get delayed in the new innovation launching, we ended up not being able to supply Stayfree through that period of time because we had cut it off. So in a way that's a transitory issue that as we cycle into next year, if the category is growing 1 to 2, I would expect we'll be more in line with category growth rate going forward. We've got a great team on Fem Care. It's an all-female led team. Some of our best marketing talent in the company is on that business and I expect us to be more competitive going forward.

Lauren Lieberman: Billie, on the other hand, right, the brand that has really continued to shine in Women's Shave and is now making early moves into Women's Grooming. So can you tell us a little bit about the performance in shave and why you believe the brand has the shoulders to move into adjacent categories?

Rod Little: Yes. So Billie is a fantastic brand, just started in 2017, all built digitally initially. Jason and Georgie that ran that business and created it, long-time friends, we were the supplier of the blades before we acquired the business. We helped them launch in a brick and mortar retail. We're at a 16 share in Walmart now. We're at about 11, national. Latest quarter, we just put on the board 180 basis points of gain and so it's gaining market share every single period and in some cases accelerating within Shave what it's doing. There's a

little bit of national distribution left here domestically in the U.S. We think it's got legs internationally and there are a couple of markets that we'll look at.

And then as far as the portfolio, when we acquired the business, we had a strong conviction that it could be a lifestyle brand and play across a broader set of categories. And so Women's Body Care is the first move that we've made launching at Walmart exclusively in the year we're in back in February. Antiperspirant deodorant, body wash is the start, moisturizers are launching this month at Walmart.

We're happy with the performance Walmart is. I think we feel good about where we are and what that then opens us up for is a year 2 distribution expansion behind those categories, which is happening. And then there's other territories we'll move the brand into overtime. So really happy with the brand development and performance, not only in Shave, but it being part of the growth plan for the company going forward beyond Shave.

Lauren Lieberman: On the earnings call last month, you talked about needing to operate more like a disruptor in North America and leveraging scale where you have it at the same time. So can you maybe just elaborate a bit on what you mean by this and examples of how you're already operating like a disruptor in some areas?

Rod Little: Yes, I think the disruptor comment, it really goes at 2 things. One is being more consumer centric. As I mentioned, as we -- the 4 businesses we've acquired, we're still either -- the founders are still on the payroll with us or they're still very friendly in our ecosystem. And when I ask all 4 of them like what's different versus how they worked versus what they experienced when they work within the Edgewell framework, they say they're much more focused on the consumer than we are. We get stuck in processes and silos, more legacy bigger company type of operations.

And so consumer centricity is one, and the second one is speed. We're too slow in many cases. And so we're working to address both the consumer orientation, but also the speed and getting faster. But we've learned a lot. And so for example, all of the direct to consumer websites that we run within the company are now run by the Billie D2C team. So we've leveraged them effectively putting the disruptor on running all of our e-comm channels. And I think we've learned a lot. And so if we can be more consumer centric and faster, ultimately we'll win because that's what the disruptors do well.

Lauren Lieberman: Last question on North America. How do you think about like growth aspirations for the market in total over time? Should we think about it as like in line with GDP? Like what's the best benchmark to think about growth in?

Rod Little: Yes, I think GDP is a good proxy. We're in everyday use categories with the exception of our Sun Care business, right? Everything else that we sell and put in the market is part of the everyday routine. Our Sun Care brands are more occasion based. We're bullish actually on the Sun Care category. Not only are people outside more, but the number one thing that ages skin is sun exposure and the younger generation, millennials, Gen Zs are more into their skin and longevity than any generation previously. So we think there's durable accelerated growth in Sun Care not only here, but outside the U.S.

And so between having everyday use categories that maybe grow at population growth rate with a little price value on top of that and the Sun Care piece, which ought to outpace, GDP is probably a good proxy for our U.S. business. And if we did that, even with international in the flat range, we'd be at our growth algorithm, right, if we just kept pace with GDP. So there's many different ways to get to our top-line growth algorithm that we've committed. U.S. growing at GDP would be great. We'd take that growth rate.

Lauren Lieberman: Let's switch and talk about International. So clearly, that's been a success story over the past 2 years and now it's over 50% of your global Wet Shave business. So Dan, maybe you could share first thing, what would you say are kind of the 2 to 3 core drivers of this really impressive performance the last 2 years?

Daniel Sullivan: Yes. So we're really excited about our International business. It is about 40% of our total business. It's been growing 6% to 7% each of the last 3 years. So to Rod's comment on algorithm earlier, 40% of your business growing at 6% to 7%, we're already at algorithm through the international lens. It is a little bit more of a limited portfolio, it's largely Shave. For us there are pockets of sun strength, there's some interesting grooming portfolio brands but we're largely Shave business.

If I had to kind of put 3 drivers to this, the first thing I would say is leadership and talent. We have taken about 70% of our business which is Japan, China and Europe. We've put in place new leaders, proper CPG general managers who can operate across brand, innovation, retail, shelf and they have largely changed over their entire management team. So we've got new leaders and new capabilities within the organization. I think that's one.

Two, not surprisingly they brought a real focus on strategy, brand building and execution. So what we are doing right now is executing the playbooks that have been designed. We've moved this business from trading mentality to brand building and growth mentality.

And I think the third thing is sort of the operating model in which we run these businesses. Rod and I both believe in local, we believe in speed, we've put decision making at the local level, we've put the accountability at the local level though and so we're a lot faster to act and react into these businesses.

And so you've got talent and leadership in place, you've got clear strategies that are being executed extremely well and you've got an operating model that is based on the premise of run these businesses locally and drive the accountability there. I think those would be the 3 things that I would highlight. And I think just to be clear, as we look forward, to use the words on proof points, like we are super confident in our ability to continue to grow this business in the mid-single digits.

Rod Little: And Lauren, if I could just add one thing, like we're super serious about the local thing. There's not an international layer. There's not a regional layer. The country leaders report to him direct access into the top team of the company. And so if you need something and you need to be fast, we've now enabled that where historically we had a regional layer and an international layer up to the team. And so I think that's part of the model for the

U.S. business that we want to get in place as well. So there's been layer elimination here that's helped unlock this as well.

Lauren Lieberman: So let's -- a little bit of a walk around the world since they call you if they have a problem.

Daniel Sullivan: They do.

Lauren Lieberman: But I was just curious, kind of the markets that matter most in Japan, Germany, UK, LATAM broadly, kind of anything to call out in terms of good or bad, but particular category performance, market share and consumer dynamics?

Daniel Sullivan: Yes, so I'll hit on 3 quickly. Japan, we're market leader, north of 50% market share, men's and women's branded business is growing double digit this year. And I think what you're seeing now is a new way to architect the portfolio and start to move a predominantly Shave business into more of a Grooming Skin business.

Second area I highlight is broader Europe where we largely play in Shave across all 3 sub segments branded, disposable, private label. We're a #2 player in pretty much every market somewhere and about a 20 share. That business is growing sort of mid-single digits with a really interesting Grooming business, #2 Grooming portfolio in the UK as an example, led by Bulldog. And so I think what you'll see over time in Europe is less dependency on Shave, more interesting adjacencies in Sun and Skin.

And the last one I'll highlight is LATAM, which outside of the U.S. has the most balanced Shave and Sun business. Largely it's a disposable business on Shave and we are a market leader in many markets around Sun or a strong #2 in places like Mexico and again that business growing for us around 6%, 7%.

Lauren Lieberman: Focusing maybe a little bit on some of the right to win businesses and continuing in particular with Sun and Skin, so you've talked about your growing competitive advantages in Sun, end to end capabilities on product formulation, internal manufacturing, DSD system. Why is scale so important in this category? Let me start there.

Rod Little: Yes. Look, scale is important generally. I had 17 years of scale in my prior life and the advantages that come with it. We have that in Sun Care. We're the leader in the U.S. And I think globally, if you rolled up Sun Care sales, we would be. I think it makes you more consistent in terms of execution. And so one of the things that we think is very important in our model is we have control of everything but the weather.

So formulation, quality, regulatory, manufacturing, we do all in-house. We do very little third-party outsourcing. The competitive set does a lot of third-party model. All the way to the end, we have a direct store delivery group in high volume markets that can reset shelves and make sure we look excellent at shelf. And so because we have that closed loop system with a lot of experience and knowledge within our company, we're not reliant on a third-party or some sort of personnel change outside that we don't control. Because in a regulated category where things can change, it can be very tricky to operate. And historically, people have difficulty being in stock.

And so there was a benzene recall a couple of years ago. Some of our competitors were impacted by that in a material way and had to come off the shelves around July 4. We were there to scoop it up and we could surge the volume in our manufacturing plant without a lead time like you would need if you had a third-party model. So we were able to pick that up. And I think there's always questions around seasonality of how big is the season going to be and are you going to be caught long or short with inventory.

Our lead time is very short because our manufacturing happens in Florida for this market and we control it and we're not having to put in 90 or 180 day lead time orders to some third parties, which our competition has to do. And so I think that's another element. The scale we have allows us to own our manufacturing, which then gives us a cost advantage. It allows you to spin back to activate consumers to build the brand. So it's that virtuous circle that I think it's consistency and margin advantage that it gives you.

Lauren Lieberman: Okay. You mentioned it's your one category that's not everyday use. There is a lot of everyday -- well, there should be more everyday use sunscreen and sun care. Do you think about either, is it organic potential or M&A to get into more the everyday segment?

Rod Little: Yes, it's definitely a portfolio opportunity for us to be in that everyday segment. It's a fast-growing part of the category. It's a premium price typically. We know who we are with our brands. Our brands are occasion based everyday use and we're great at that with our brands, Hawaiian Tropic, Banana Boat. We should not try to play them in every day.

So with that, we have lots of opportunity whether it be late stage acquisition of brands that are out there, incubating brands, partnering with founders and entrepreneurs in early stage type of investments, all the way through everything in the middle, our own brand development to go at that space. And I think we have a plan. We've been executing against a plan to enter that space. We're making progress. We're not ready to talk about it today. But it's the open hole in our portfolio that we have that we need to fill and we'll get it filled.

Lauren Lieberman: In Grooming, can you just maybe talk a little bit about the runway for growth on Cremo and Bulldog?

Rod Little: Yes. Grooming has been growing double digits for us. Our growth algorithm, we put it out in November 2020. We look to Grooming to be a double digit grower year-on-year and that's been the case. Cremo has been a big driver of that. We've grown double digits every year on that business since we acquired it. It was initially a beard care oriented brand. And so when we bought it, it was a bit of a hedge towards facial hair and beards given its development within beards.

But as it's evolved over time away from shave because I think the best products in the lineup personally are the shave prep brands. I mean, that was the original product set that made it amazing. But body wash is now on fire. It is the fastest growing body wash brand in the U.S. market. We can't keep up with demand. We've been chasing supply all year. It's still there. We are getting caught up. And so, not only is it very strong domestically as we look at the runway to build out a full Grooming portfolio, we're still early innings.

Equally internationally, we've got a massive opportunity with Cremo. We know the markets where it fits and we've just started into Europe with an online only execution to start and just getting that running. And we think there's big opportunity over time in markets outside the U.S. for Cremo.

And then with Bulldog, it's not a brand that is playing in the U.S. today. We dabbled with it back in 2018, 2019s in terms of the market. I don't think we executed well at that point in time. You can still find it in the market, but the real strength of Bulldog is outside the U.S., particularly as you get into the European markets. It's a #2 men's grooming brand in the UK. It's winning, other than U.S. everywhere we take it. It works in new geographies and velocity is up and share is up where it exists.

And so it's another brand that has been growing double digits. It was I think less than $10 million when we bought it and it's closer to $50 million today, right. So 5x in a fairly short period of time. So again, a long way to go in terms of where we can take it, but good success in both of those brands.

Lauren Lieberman: Let's talk a little bit about profitability. So you're getting closer to the 45% gross margins that you had pre-COVID. How do you think about where margins can go over the medium to long-term?

Daniel Sullivan: Yes, we're about halfway in terms of coming back from the COVID dip to getting to pre-COVID margins of about 45%. Absolutely committed to do that. I think the pace at which we will do it will be dependent upon macro factors much more than internal factors. Inflationary pressures, certainly we're seeing sequential easing of inflation. We're certainly not seeing deflation and then things like FX and the like.

I think if I ladder back up and go back to the levers we control that we pull around good cost productivity and good revenue management and unit economics, again 200 to 300 basis points of year-over-year gains over and over and over again is the algorithm we see for the business. We have an absolute clear line of sight on the cost side of the equation.

So even though we've delivered 250 basis points plus a year for the last 5 years, long runway here to still gain more cost benefit and in the early days of these muscles around revenue management still has an opportunity to deliver for us. So yes, we're committed to it, Lauren. I think if we can imagine an environment where inflation is sort of static, where the yen strengthens a bit, I think you can see us getting there sooner rather than later. But I think most importantly for the fundamentals that we control around cost and revenue, high, high confidence that we'll get the margin back.

Lauren Lieberman: And I know on reinvestment, like more is not always better, but your advertising spend has been around kind of 11% of sales for a number of years. We're seeing a lot of other companies raise that. So just a broad question on level of reinvestment spend and if you think you need to go higher.

Daniel Sullivan: Yes, I struggle with this one. I think you're right. More is not necessarily better. I don't think you can evaluate investment by looking at one number and saying what's your A&P rate of sale, but I understand the question for sure. And you're right, we've been at about 11% over the last 3 to 4 years fairly consistently. I think if you take out our private

brands business, which carry no A&P with them, that 11% is really more like 13%, which I think we'd all agree is a pretty healthy number.

I think we're far less concerned with how much and far more focused on how well, where do we spend and how do we evaluate that spend, what generates the best ROI. So we're looking at reach and awareness and recall and purchase consideration and how do we activate these brands. I think look, if you look at probably the 2 best executions we've had this year, Wilkinson Sword rebrand platform in the UK -- in Europe and the Billie movement out of Shave and into Women's Grooming space -- that is exactly who we want to be. Great programs executed through the line, heavily invested behind. And so when we see that, when we see the opportunity to really drive really good execution behind the program, we certainly won't be shy about the level of investment we put behind it.

Lauren Lieberman: And then we're running out of time-ish, but if you could briefly just touch on uses of cash and M&A in particular. I think a year ago you'd mentioned that in this market the top priority was debt pay down. I wonder is that still the case?

Daniel Sullivan: Yes, look this business amongst many benefits throws off a ton of cash. We'll deliver about $170 million of free cash flow this year with about 1% growth at the top. We are not heavy capital-intensive despite being a manufacturing business, less than 3% of our sales is CapEx. So that gives us great optionality. You're right, in the last 12 to 15 months we focused on debt pay down. We've taken about almost 3 quarters of a turn off of our leverage. We're down about 3 -- to about 3x levered at the end of this fiscal year. Our range is 2x to 3x. I'm personally not uncomfortable being slightly outside of that range and especially as rates ease now with only 20% of our debt floating, we've got great optionality.

So what are our priorities? I think the top 2 are still the same, although they probably flip in order. I think buyback probably rises to the top of the list given how much we think we're undervalued. Debt discipline will continue to be high on our list. And then M&A, not a priority for us right now even though to Rod's point it has been a significant driver of the performance that we've seen. There is a really, really high bar for us. We look at a lot of things. Valuations are still a bit pricey for us and I think that would be a distant third. So I think it would be buybacks, 1, continued debt discipline and pay down, 2, and then M&A.

Lauren Lieberman: Last thing, you have a clear financial algorithm in place, 2% to 3% growth on top line, 7% to 8% EPS growth. What gives you confidence that this is achievable for the business over the next 2 to 3 years?

Rod Little: Yes, we are confident. I think the biggest thing I'll end where I started is the team and the capabilities we have are just fundamentally different and better than they were 3, 4 years ago when we were putting up the growth rate. So I think there's a higher level of confidence. There's a tighter degree of delivery. And one of the things like we're proud of is we become a more consistent deliverer as well.

And hopefully, you and others see that when we report. It makes sense, it matches consumption and we've gotten the variability out of the model. And that doesn't happen

by accident. And so I think our ability to innovate from here and have that become the focus we have as a company will drive the top-line of just kind of categories growing at GDP, as you said. That already puts us in our algorithm. There would be upside on the innovation piece.

And then one thing Dan and the team are great at is being very disciplined on the cost line. And we have a lot of optionality as we're growing margin and have line of sight to that to fuel the growth on top-line or be competitive if we need to at retail, but also build margin. So the optionality we have to get to the bottom. I think we can do the bottom line and still have some room to invest. And we were not in that position 2 years ago, 3 years ago. So we've got some flexibility today that we didn't have as well.

Lauren Lieberman: Yes. Okay. That's great. Perfect place to end. So Rod, Dan, thank you so much for being here. Please join me in thanking Edgewell for being at the conference.