Edgewell Personal Care | Barclays Global Consumer Conference 2021 | September, 2021

Lauren R. Lieberman:

So last but not least, this afternoon, we're pleased to welcome Edgewell Personal Care. Over the past year, Edgewell has been on a journey to transform itself into a growing, sustainable consumer-centric company. Here today to discuss the progress Edgewell is making against the strategic priorities is CEO, Rod Little; and CFO, Dan Sullivan. Thank you both for being here today, and I will pass the floor to you, Rod.

Rod Little:

Yeah. Thanks, Lauren, and it's great to be with everyone today. Just for housekeeping, you've got our presentation. We're going to flip through here out on the Barclays site, and you can go to our investor site, on our site. And we'll just flip through this, you can follow along if you'd like. I'm going to skip through the forward-looking statements disclosure, which we always have there and in the non-GAAP financial measures, which we'll make some reference to along the way.

Rod Little:

So with me today, as Lauren said, it's myself, Dan Sullivan, our CFO. And we're just going to take you through some background on a brief overview of Edgewell, who we are for those that might be newer to the story. We'll just walk you through who we are. Talk a bit about the strategy that we unveiled last November, and then I'll hand it over to Dan and we'll go through the long-term financial profile and also talk about progress fiscal '21 year-to-date, which ends into September here in a few weeks.

Rod Little:

So with that, if you can take a few things away here, we've got four things on the page here. We'd like you to walk away with the fact that we believe we have a strong core. We've got high quality brands. We've got good financial fundamentals and capabilities in the company. We think, increasingly, we have a clear right to win as we laid out our strategy last November. We've reshaped the portfolio over the last couple of years and have a clear path to sustainable top and bottom line growth. We think we've got the right team in place to deliver. I think it's important. Always businesses come down to people and leadership that lead them. And we're confident in the leadership team we have and our ability to execute and deliver value.

Rod Little:

And finally, and probably as important as anything on the page here is we are developing a track record now of delivering on our commitments. And I think Dan showed you the progress on where we are this year and how we've executed on that track to deliver on our commitments on both top and bottom line that we made a year ago as part of the strategy and rollout.

Rod Little:

We also have strong brands in compelling categories in an increasingly diversified portfolio. If you look at brands like Schick, Wilkinson Sword, over 100-yea-old heritage in those brands, Bulldog, Jack Black, Cremo, new to our portfolio. It didn't exist the new segment three or four years ago that we've built into the portfolio. And interestingly enough, we're the number one Sun Care manufacturer in the U.S. With the Banana Boat and Hawaiian Tropic brands. And Wet Ones is by far and away the leading brand in the hand hygiene segment. So an increasingly diversified portfolio in light of COVID-19, where we think we go from here into the future.

Rod Little:

We also have globally scaled operations. I think one of the strengths of our company is our global sourcing and manufacturing capability. It's a global network, but it's built in a way that's very regionally oriented. So we have much more local sourcing and production than one might imagine. We think we have a flexible supply chain, although that's being tested every day based on what's going on out in the market. We make significant investments in innovation and R&D. And then we've got a back-end distribution capability to very efficiently get our products into the homes in consumers all around the world.

Rod Little:

So let's look our strategy for a moment. Again, as I said earlier, the strategy is one we developed last year and unveiled November 2020 investor day, which we're now executing. So at the start of the strategy and before moving to strategy, why do we all come to work at Edgewell every day? It's to make useful things joyful. That's our purpose, our guiding North Star about everything we do. Out of that comes up pretty simple statement around our ability to drive top line growth that's reliable, stable and predictable. It's the place we play and has the ability to drive meaningful shareholder return for our investors. It's the five strategic priorities you see in the middle here, I'm not going to go through them, but that's where we're focused on building and creating value.

Rod Little:

Everything we do centers around the consumer, and we think we've built really interesting new capabilities around how we collect insights, how we take those insights into new product innovation and initiatives. Maybe even how we think about positioning taglines in brand equity campaigns. Everything is through the lens of the consumer. And for far too long, our company was focused maybe too much on technology, and we'll fix that with the new consumer-centric approach that we've put into place.

Rod Little:

Second, we think we can be on trend with what consumers need. We make significant investments in R&D and innovation, I think, above category average if you look at benchmarking on the investments we've made. We have increasingly really interesting design and design shops and houses that we work with that have upped the design parameter on our products. And we've developed a capability to have better tailored solutions for the end consumer. So you see some care products here on the slide. It's a good example, actually, to look at how we're innovating on Sun Care and tailoring in a very differentiated way in the past. We will work with local third-party manufacturers in Asia, for example, to create a very different formulation for an Asian consumer that resonates with that consumer. That might be quite different than the formulation we're running in Europe or here in the United States. And again, it's all about tailoring and dealing local consumers.

Rod Little:

You heard me talk about the portfolio already in this point, but here's a page that just very clearly lays out what we've been up to. We've divested non-core assets that you see here on the right. We've taken the cash from those. And we basically built out a men's grooming business that didn't exist three, four years ago. And interestingly enough, all these brands, Bulldog, Cremo, Jack Black, that's all grown double digits since the day we acquired them with Bulldog over four times size that it was. Jack Black, a brand that transact 60% online. And speaking of online, we've gotten much better at executing an omnichannel approach. We have increasingly good relationships with our top retail partners around the world, whether that be me participating in the relationship building with those retailers or our teams on the ground executing what great on-time fill rates every day, all the way through that chain.

Rod Little:

We've gotten better at co-creating value with our brick-and-mortar retail partners. And we've gotten significantly better with the capabilities we built in the company around transacting online, whether that be on Amazon, pure-play, e-retail or our own DTC sites. We've grown our e-commerce business rapidly and on average have higher shares online than we do in retail, brick-and-mortar, and have been growing share in online channel. Sustainability is at the core of everything we do. I've recently moved our head of sustainability to report directly to me, whether this is focusing on more responsible packaging, closing recycled loops or addressing greenhouse gases, we're very serious about playing our role as it relates to the environment and being an employer that people look at, whether you are a customer, a potential employee or somebody in the company, who love working for this company because we always do the right thing.

Rod Little:

And finally, I've talked about people. This word cloud lays out what our people say about what it's like to work with Edgewell. We are people first, it's a leading value. We're purpose-driven, and we're consumer-centric. And I believe and our team believes you can't win without having a great culture, [inaudible] a great culture. So both go hand in hand. And so we spend a lot of time on culture and engagement and improving our skills significantly over the last two years.

Rod Little:

So with that, I will hand it over to Dan to talk our financial profile and results year-to-date.

Dan Sullivan:

Thanks, Rod. Good afternoon, everyone. Great to be with you and to pick up the story that Rod started by connecting strategy and ambition with value creation. This is how we think about creating value within our business. There are four really important pillars that are our guideposts. I'll hit on them quickly here, and then walk through them one by one.

Dan Sullivan:

We have a very clear line of sight to sustainable organic top line growth. It will play out differently across the portfolio, the brands, the categories. I'll talk to you about that in a minute. But different from where we've come from, this is a business that is well positioned and well prime to grow. So that's the first element of the puzzle. We have a mindset in the organization that we are relentless on waste that we think about continuous improvement at the core of how we run this business. It's a demonstrated capability. We'll continue with that moving forward. It's sort of in our DNA that becomes a really important catalyst then for what's needed to invest back in the growth profile of the business.

Dan Sullivan:

The third element is a unique piece of our economic model, which is gross margin accretion. We believe very deeply in the need to continue to drive a healthy growing margins across the portfolio. We're committed to that. It's how we think about where we're going to create value for this business. And then lastly, this is a business that generates a lot of free cashflow. It provides us with great optionality, and we have a very clear and very well-communicated approach to how we think about capital allocation, which I'll share quickly.

Dan Sullivan:

So I take them one by one. Rod talked to you about the underlying strategy. We think about growth on a single page that looks something like this, where we think there is a certain element of our portfolio, and you can see it there on the left side of the page, where categories are prime to grow. We are well-positioned leading positions within the categories, exciting brands, and we see a double-digit growth algorithm for this end of our portfolio. And this is really in Sun Care, in Grooming and in Hygiene, and you can see the brands that are listed there on the left side of the page within the portfolio.

Dan Sullivan:

Then on the right side of the page, we think there is a part of the portfolio, namely shave and fem where the category dynamics don't point to grow. They point to recovery from certainly from where they've been, but likely a flat to slightly up to slightly down category profile. We have every right to believe we can hold share in those categories and deliver growth around flat. So when you put the two together, you can see how we get to a 2% to 3% growth profile for the business going forward. So that's element number one.

Dan Sullivan:

Element number two then comes back to this notion on being relentless on cost. We are closing out a three-year cost program, which we call fuel, which has delivered about $280 million in gross savings over the period, about 75% of which are in COGS. We, at the same time, have announced a new program focused on $125 million in additional gross savings, again, largely in COGS, but not entirely. A healthy amount of savings will come from overheads. And you can see on the page the types of initiatives that are in progress, the types of plans that are in progress to deliver on these savings. I think the most important takeaway here is on the heels of a highly successful program, taking out almost $300 million in gross costs. We've announced another program to go after $125 million. The numbers are super interesting. The commitment and the DNA in how we run this business is really the important takeaway.

Dan Sullivan:

That really is an important catalyst for how we think about gross margins and how we, as a business, look to deliver consistent margin accretion, which we will do in 2021, despite all of the noise and the headaches that everyone is feeling in the supply chain. We look at it on sort of three levels. One, doing what we've been very good at in the past, which is taking costs out of the system. Two is an increasing capability for us on how we think about revenue management. This is around price. This is around promotional effectiveness. This is around mix optimization, whether that be category or geographic. And then lastly, being committed to innovation and new product development, but forcing or focusing on margin accretion as an important element of that.

Dan Sullivan:

And then the fourth pillar is around how we think about capital allocation. And as I mentioned earlier, it's a business that spins off somewhere between $150 million and $180 million of free cash flow a year. It gives us tremendous optionality for how we think about putting that cash to work for us. Right now, our priority is to invest in the growth in this business. We believe we are at an inflection point where the business is prime for growth. The categories are prime for growth. And we're committed to continuing to invest in that growth, both organically and inorganically. We also recognize though, capital return is a very important element to the puzzle for us. And we're committed to delivering improved returns, both through a recently announced dividend program and through share buybacks where we think it's the best use of cash. And overall, you're going to see us continue to be disciplined in debt management.

Dan Sullivan:

We've taken about a turn of leverage off this business in the last 15 months or so. We think the business can easily operate at two to three times levered. It certainly has the opportunity to go higher than that given its cashflow profile. But two to three times is the place we think is the sweet spot for the business.

Dan Sullivan:

So when you put all of that together, the strategy Rod talked about, the value creation levers that I talked about, it lands in an algorithm that looks like this, and this is what we have committed as how we are managing the business. And over the long term, these are the types of results that we're committed to delivering. A top-line that grows 2% to 3% organically per year. And I explained earlier sort of how that plays out across the portfolio. Profit growth, that is somewhere in the neighborhood of two times, that 4% to 6%, again, driven largely by margin accretion as a core element to our economic model. And then EPS growth in the 6% to 7% range. And again, a free cashflow profile of north of $150 million a year and then, as you can see, really healthy cashflow conversion.

Dan Sullivan:

So let me just spend a minute given that's our strategy and that's our financial ambition or our financial objectives. So how is 2021 lining up against those objectives? I think before I share with you the numbers and the outlook, I think it's really important to put a slide here to show that we are delivering a different results in this business, and we're doing it by running this business very differently than it was run in the past. That is in part by leveraging the fundamentals of the business that we have been good at, that we will continue to be good at like cost reduction as a core pillar to the business, but it is also about leaning in, in areas that we knew we had to invest in.

Dan Sullivan:

And we had to change the look and feel and capability profile of the organization. We are far more consumer-focused today than we have been. That is through a lot of effort and a lot of new talent, new profiles, new capabilities being brought into the organization. You see that in how we think about running the business commercially, whether that's new product innovation, whether that's digital capabilities and the role that our e-commerce business plays for the organization.

Dan Sullivan:

And then lastly, for sure, relying on good cost discipline, good cash discipline at the core of how we make decisions. So it is a very different Edgewell than maybe what you might have seen two years ago or beyond from us, and it's delivering a very different result. How so? Well, this is the algorithm that I've explained earlier lined up against how we're thinking about 20,21 results as we communicated in our recent earnings call, where we took our full year outlook up for the year. And you can see in the gray box, in the middle of the page there, everything we're doing in 2020 lines up very well with the commitments, with the algorithm, with how we think about running this business for the long term, whether that's the growth at the top, which we think will be about 3% for the year organic sales growth or the growth at the bottom, which you can see the numbers there lining up as well.

Dan Sullivan:

And at the end of the year, we think we'll lend the business right around that two times levered target that I talked about earlier. So we are running the business differently. We have brought in significant change to the organization in capabilities, in focus and in strategy and execution, and we're really pleased with the results that we're seeing now one year into this journey.

Dan Sullivan:

So with that, that concludes our prepared remarks. And I'll turn it back over to Lauren for Q&A.

Lauren R. Lieberman:

Vance, can you unmute me? Okay, there we go. Sorry guys, I was having trouble unmuting myself. That was great. Thank you. That was a terrific presentation and good perspective to kind of reorient people with the company, the amount of progress that you guys have made.

Lauren R. Lieberman:

So Rod, I was hoping we could start just talking a little bit about recent trends, I mean we're 18 months into this never-ending pandemic, and the categories in which you compete have certainly seen their ups and downs. So could you give us a sense for the state of your key categories and how we should think about them relative to COVID?

Rod Little:

Lauren, I think if you could go back and just take it sequentially from the beginning of COVID, for the first 9 to 12 months, our core categories were all negative other than I hand hygiene, Wet Ones, which is a smaller piece of the portfolio. Shave was down behind people just being more casual, more at home, not in the office, less social that we all saw that trend. Sun was down. The category was down 20% in the U.S. last year. And fem care category was down.

Rod Little:

As we got into the spring this year, end of the summer, we saw that start to change. Those categories either started to turn positive or the trajectory improved. And we've seen that slow sequential improvement continue throughout the summer. And so my view is, as we go forward, is we expect to see slow, steady, sequential improvement. It may not always be linear. It may not be as fast as we want, but I think, fundamentally, we're seeing right now in some of the trends. We're learning how to live with the virus. There are categories that are a little more resilient now as we come back out of the trough of COVID. And so I'd expect to see continued improvement. That's what we've seen here more recently and I think what we can expect going forward.

Lauren R. Lieberman:

Okay, great. So we saw last quarter a lot of consumer staples companies have been caught flat-footed with respect to rising input costs and supply chain pressures, and Edgewell happily seems to be one of the few exceptions to that. So Dan, could you speak maybe to what investments you've made into your supply chain demand forecasting capabilities over the last couple of years that have enabled you to better weather the storm?

Dan Sullivan:

Yeah. Sure, Lauren, look, it's a tough environment for everyone. We're not immune to this by any means. We're quite pleased with some of the structural investments we've made. I mentioned the fuel program earlier, and that has been certainly a very big catalyst for us to help weather the storm. It's just, again, a mindset of how we think about cost and productivity and efficiency. And those efforts started three years ago, right? The work that the team has been doing there, and the investments made long predated the environment we're in. But we also know the environment is getting harder, not easier. And it's across the board, right? It's supply chain. It's commodity pressure. It's labor pressure. And so we think, in addition to fuel, we've increased the talent profile in the organization around key business processes. S&OP is a really good example of that. So we run the process differently in terms of the integration between, let's say, the commercial organization and the operational organization.

Dan Sullivan:

We have invested in systems to help us understand promotional effectiveness and measure, promotional effectiveness better than we've done in the past. So we're able to direct our program spend, our promotional spend into those programs that can deliver the best return and eliminate that long tail of promotion that isn't delivering the returns that you'd like. So systemically, we're better than we've been. Talent-wise profile, we're better than we've been. And we have the benefit of fuel that has worked hard for us in the past and will continue, as I showed earlier, to deliver north of a $100 million in savings over the next two years.

Dan Sullivan:

And then, look, the last thing is we think the pricing environment is largely positive. We think that there is certainly an opportunity in select categories behind select brands to take price and to help offset what environment everyone is being faced with now. So we're quite confident in all that we're doing. It's going to take a lot of work. Obviously, margins are under tremendous pressure, but we think we've got the right approach, balancing need and opportunity and, of course the commercial discussions with the team.

Lauren R. Lieberman:

Okay, great. And so I want to switch back to revenue question. And rod, despite the category headwinds you saw in '21, you've recently just took up your full year outlook. So it looks like Sun Care performance is at the core of that strong second half top line. Could you share your thoughts on second half performance, specifically results in Sun Care?

Rod Little:

Yeah. So better year to be in Sun Care this year than last year. No doubt. While the category was down last year, it's up this year, Sun Care. And I think for the quarter we just finished, we were up 13% organic net sales. And the nice thing is all segments of our portfolio grew. Fem and shave were both up 6%. Grooming was up 17%, but Sun Care is up 50%, 5-0. And what was underlying that is not only a category that was up and rebounding off of the trough last year. On a two-year stack basis, it's well above 19%.

Rod Little:

And I think one of the things that's driving that, and you just think about human behavior, it's safe to be outside, right? All the guidance, CDCs around the world say, outside is better than inside. That's good. There's pent-up demand, I think, for people to go outside and be outside and get a vacation back in. As people get on the move and go flip the vacation back in, they typically go near water. When they go near water, they use more sunscreen, right? So you're seeing that play through in a really good season on Sun. And so it's one of the things where our Sun business is still not rebounding in international tourism markets, right? So that's still the common. So I think that is the lagging piece of the Sun business really until global travel gets opened back up to international destinations. We won't see it come all the way back probably for another year or two, even depending on the evolution of the virus here. But it's definitely more positive in Sun.

Lauren R. Lieberman:

Okay. If we can stick with Sun Care just for a moment, and we've heard your stance on benzene and commitments to safety, but could you provide an update on the recent headlines around the active ingredient discussion that really just it's been rough from that standpoint for a lot of your competitors?

Rod Little:

Yeah. So a lot of the headlines that make it out there are not helpful to us or anybody that operates in the Sun Care category and operates very responsible. We, along with Johnson & Johnson and Beiersdorf, were part of the Personal Care Products Council, the PCPC, take health and safety and putting safe products out in the market very seriously. A lot of what makes the press are misleading articles generated off of plaintiff counsel research arms, and they're not always real, in fact. And we take the health and safety very seriously, as I said. [inaudible] is the latest one that's out there. It's a chemical sun filter, this broad spectrum UVA/UVB. It's approved by the USFDA as a safe ingredient. It's approved by EU Regulatory bodies. Most recently in the EU in March of this year, it was reaffirmed as a safe ingredient.

Rod Little:

The FDA has asked for more information on the ingredient as they do from time to time with the main ingredient. And it's that request for more information that people have run with to a place and draw a conclusion that's just not there, right? So we deal with that in the Sun Care space. It's just part of the business. What I do know though is we have a role to play, to address skin cancer. And the profile of skin cancer is going up every single year that people need safe sunscreens to prevent skin cancer and more and more can prevent longevity of skins. People look towards living longer and taking better care of themselves. It's part of the daily regimen. So we're committed to the safe products. All of our sunscreens comply with all EU and USFDA regulations 100%.

Lauren R. Lieberman:

Okay. That's great. Dan, so how would you characterize where you are in the overall reinvestment journey? I mean, you've been putting in place brand building, new product innovation, enhanced digital capabilities. And it's been a couple of years now. But when you look at the A&P levels as a percentage of sales, it's still far below that 15% peak in 2015. So how much more is there to go? Is 15% even the right level to be anchoring towards externally?

Dan Sullivan:

Yeah. I think there's a couple of points here, Lauren. I think one is quality, for me, comes before quantity, and we love where we are in terms of brand development, messaging campaigns, new product innovation, some of the things Rod talked about. So we're much more excited to invest today than we have been in the last couple of years, just based on the tremendous quality of work that teams bringing forward. We feel really good about what we're spending.

Dan Sullivan:

From a quantity perspective, yeah, I think, A&P, super important benchmark. We've been down in the 11% range, not healthy, not where we want to be. That'll be closer to 12% this year. We think that will continue to grow over time. There's more to it though than A&P, right? We have made significant investments in R&D, in innovation, in capabilities, mostly in digital and in brand building. So there is a complete suite here of things that we're investing in all behind the growth profile of the business. And so I think you have to think about it altogether. What I would say is we are in investment mode. We will continue to be in investment mode because that's what we think these brands and this business needs.

Lauren R. Lieberman:

Okay, great. I'm going to sneak in one more just on M&A. And Rod, since the spinoff in 2015, I mean, Edgewell had always been thought of as an acquisition target. But now six years later, you're still independent. So curious to hear your perspective on how being a smaller player in the broader HPC landscape. Is that a competitive advantage? I mean, how do you see your relative position? And do you need to do more M&A yourself to maintain that longer-term sales growth algorithm?

Rod Little:

Yeah. I lived at the scale player for 17 years, Lauren, so I know what scale does for you. We don't have that. But what we do have is the ability to be fast. An example of that, we have execution meetings every two weeks with the leadership team. We can redirect investment allocation or resource real-time every two weeks across the entire business globally. And so we're very hands-on. We've got a flat organization. We have the fastest decision-making, I mentioned. I also think we have the luxury of being in a position to take on more risks and have a more aggressive risk orientation, and we're trying to leverage that as well. I think you've seen us basically relaunched the company in the last two years. Even though we spun out Energizer in '15, we needed a reset. And so in just two years, we put in a new company purpose statement values, behaviors and new strategy. And you've seen us pivot. You've seen the results start to come along right now.

Rod Little:

In a bigger scale company with complete respect, it would just take longer to do that. And so that's what we're trying to leverage. And you've seen M&A, as Dan talked, we generate a lot of cash, be a big piece of how we try to pivot the portfolio. We had nothing in the Grooming space a couple of years ago. It's 8% of the portfolio today. We've got more dry powder to go do some things with. The bar is high in M&A. But we think we're uniquely qualified to be good at some targets that could come in that nicely be accretive and really help complete the pivot of the portfolio towards more things that are growing and where we uniquely have a right to be good at those businesses. So M&A, definitely part of the mix going forward, but we importantly don't need M&A to meet the organic targets that we laid out at the investor. We could do that without the M&A.

Lauren R. Lieberman:

Okay. That's great. We're out of time. But Rod, Dan, thank you so much. This was really great, a great way to end the day. And I really appreciate your time.

Rod Little:

Thank you, Lauren.

Dan Sullivan:

Thanks, Lauren.