**Edgewell Personal Care**

**May 14, 2024**
**11:00 AM EDT**

Bonnie Herzog: Hi, everyone. Next up, we'd like to welcome Edgewell Personal. On stage with us today we have Rod Little who joined Edgewell in 2018 as the CFO and was later appointed President and CEO in March of 2019. And joining him is Dan Sullivan who has been serving as the company's CFO for over 5 years.

Following a volatile start for the first few years as an independent company post the spinoff from Energizer in 2015, Edgewell really has since found stable footing, delivering consistent growth over the past 3+ years. Much of this can be attributed to the transformation brought about under their leadership, and we really look forward to better understanding their transformation journey. Both of you, thank you for joining today.

Now, Rod and Dan, you've delivered solid growth of roughly 4% over the past few years. Maybe to start off, could you walk us through the notable changes you've brought about over these I guess probably 5 years that has really driven this growth and gives you the confidence in achieving the sustained momentum going forward? Then also, as you touch on that, curious just to hear maybe what areas might need a little bit more work in your view.

Rod Little: Sure. Good morning, Bonnie, and good morning, everyone. Thanks for having us today. It's always good to be here. We just finished the earnings call, so it's good timing for us to be able to talk about things. But to your question, Edgewell is a completely different company across almost every element than it was certainly when it spun out of Energizer in 2015 and by the time Dan and I arrived, 2018/2019.

The thing I would start with is leadership. You always have to get the people right. And I think we have a highly capable executive leadership team today. If you go down the top 100, top 200 leaders in the company, we have what I would say a new highly energized leadership group over the last 5 years. One of the things we look at is engagement. How engaged, how positive are our employees. And that metric is up 20 points versus pre-pandemic to right around 80%. We have a highly engaged workforce and it's not me just saying it. We were voted, rated by Forbes and Statista, the number two best company in America to work for in the midsized company category last year. We had no input into that. It's our employees. It's ex-employees. It's competitors talking about where is a great place to work. We have a great team. We have a highly engaged and motivated team.

We rolled out a new purpose, values, and behaviors in 2020. We also rolled out a new strategy in 2020. It's the same strategy that's in place today. We think it's working. One of the key tenets of that strategy was to improve the portfolio and have a portfolio more exposed to growth. We have been acquisitive in grooming. We bought 3 grooming brands, Jack Black, Cremo and Bulldog, and built out that part of our portfolio. That set has been growing double digits over the last 3, 4 years.

Sun and skin care is an important area for us and we're building out the Billee brand now which we acquired. Fast growing brand. Digitally native brand, all direct to consumer. When we bought it, we rolled it out to retail. It's the fastest growing brand in shaving over the last 2 years that we have as a disruptor. People, strategy, portfolio, and now what you're seeing is the discipline that I think Dan really helped to drive and bring where we have inflected gross margin has now turned positive, profitability is now accretive, cashflow is strong. We've got debt leverage, we're projecting by the end of the year to be at 3x levered versus 3.8x a year ago. We bought back 5 million shares roughly, down net 10% in total outstanding shares over the last 3 years. I think we've been good stewards with capital as well.

In terms of what we could do better, like what we're focused on is really around innovation. We talk about innovation is the lifeblood of any company in CPG. We've been okay at it, not great. In our journey, we're really focused on being great innovators and bringing things to market that consumers just love and have to have in their homes.

Bonnie Herzog: On that point, to improve some of the capabilities, are you building out the infrastructure internally? Or how are you improving on the innovation to be better?

Rod Little: The first thing we did is, we eliminated the global team that we had in innovation. We had a global team creating innovation for our markets. And at the end of the day, what was happening is we had a bit of the United Nations innovation happening where it kind of worked globally on average, but it worked nowhere locally. And so we pivoted to a very local approach to innovation. We recruited and built better local leadership teams who are really tuned in to local consumer needs. And identified lead innovation markets where we've had lead markets, so the U.S., Japan, a couple of other markets, actually leading and then building out the global rollout around that. It's really flipping the mindset from a global approach that wasn't working to a very local consumer centric approach.

Bonnie Herzog: All right. I wanted to talk next about you mentioned you just reported earnings. And in light of that, with your results you did lower your full year topline guidance, now expecting to be at the low end I guess of your prior range of 2% to 4%. Could you talk a little bit about your expectations for that? And also in the context of that, thinking about U.S. trends, which have been a little bit weaker recently. And then I'm thinking, looking at the scanner data all the time, which does suggest maybe accelerating sales declines within your branded business. Maybe help us understand what's going on there. Are there idiosyncratic factors that we should keep in mind for that part of the business? Or is that not capturing properly?

Rod Little: Look, we've grown 4% on average the last 3 years. We'll do 2% this year is our guide. Our range was 2% to 4% at the beginning of the year. We just guided to the bottom of that range on sales. The drag in terms of what's different really happened in the quarter just finished. We expect the back half to be in line with where we thought we would be and had guided to. It was primarily around 2 things. One, in our fem care category, we had retailers reducing inventory that they were carrying. It wasn't just us. Our competitors had that issue as well. I think we're kind of in the period now where that has normalized and I think that's in balance.

The second thing we had, we have the biggest innovation coming in fem care we've had certainly in the time since we've been here, that's launching right now and coming into the planogram staff. It's under the Carefree master brand. We used to have a Carefree Stayfree brand. We've put everything under Carefree with new innovation around better performance from pads and liners and a much simplified brand structure under an empowered Carefree brand in how we've architected this. Retailers have responded really positively to it. We've gotten incremental distribution in-shelf, additional display offline. That's just setting now. We had planned for that to set back in February/March, and retailers on average delayed the planogram changes. We ended up losing time on that, and we had planned for the Stayfree brand to come out of the portfolio so we actually missed sales on Stayfree with that delay. That was the biggest driver that changed our guide outlook for the year.

In addition, we had the drug channel suffering. Double digit decline in foot traffic in that channel. We're overdeveloped in drug and then I think it's pretty well known, Rite-Aid has gone bankrupt. That alone on an annual basis is a point of growth at the total company level. We'll ultimately we think pick that back up, but in the moment, the sales line goes to zero on that account.

Bonnie Herzog: Yeah. I know those are -- okay. That puts it in perspective. Then as you think about the long term algo, you still feel pretty good closer to that 4% growth algo?

Rod Little: Yeah. Well, the algorithm that we put out in November of 2020 at our Investor Day was 2% to 3%. We were told at the moment we were too aggressive. What were we thinking? And then we've done 4%. And so I think we've not changed our algorithm of 2% to 3%. We obviously want to outperform that, but I think we're still very, very confident in our forward-looking growth algorithm regardless of the midpoint going from 3% to 2% on the sales range.

And what's behind that is we have grown double digits in sun, skin and grooming, that what we call right to win set of categories the last 3 years. We have line of sight we think that will continue. Right to win, fem care and shave were around flat with the idea. We think we can actually be flat to slightly grow those categories globally. And what's leading our confidence at the moment is our international business which has been on fire. We've been up nicely. Most recent, first half, up double digits. Again, we expect to continue to have strength in international. Markets are less disrupted. Consumer trends are still pretty good. Consumer is pretty healthy. Increasingly, we have really capable teams on the ground that we've recruited in and built. We're just having lots of success in market. While the category is growing, we're actually growing share. For example, in Japan, we're up 150 basis points a share as the leader last quarter.

Bonnie Herzog: That's future growth?

Rod Little: Yes.

Bonnie Herzog: All right. I wanted to ask a little bit about the consumer. Been hearing a lot about pressures on the consumer here, specifically in the U.S., and potentially trade down across several categories. First, is that consistent with what you're seeing across some of your categories? And then second, what role do you expect your I guess Edgewell custom brands to play in this regard?

Rod Little: Edgewell custom brands is private label. We do private label out of that group and we also do some customized work with retailers to help them create their own brand. That's what that refers to.

The consumer, what we see, and I'll use a couple of datapoints for you to try to frame it. We do see a slowdown in consumer spending and participation in our category. If you take an aggregate category, shave, fem, sun, skin, grooming, where we compete, take that basket, on a past 52-week basis, on a sales value level, those categories in aggregate grew 5%. The quarter just finished was 2% and the quarter we just reported on was essentially flat, 0.4%. We are seeing a sequential slowing.

Now, one thing driving that is suncare. Bad early season start, primarily in the southeast where volume would move, sales have been down year over year. And suncare has been negative on the year versus prior year. We expect to that to actually flip and suncare will become positive as we get into our fiscal Q3 and Q4. You have that going on which is dragging it down a little bit.

We talked about the drug channel pretty openly. We're overdeveloped there. Drug has been down and that has also impacted the categories as drug has come down a bit. And then when you see drug come down, one of the reasons why is the price/value equation is not good relative to maybe club or dollar channel or even mass where you have everyday low prices where you can get a better value. We're seeing some level of shift, but we're also seeing within that, consumers seeking more value as other parts of their basket are still really expensive. And so, we're not seeing a huge shift down to private label in our custom brands group. That area is outperforming branded a little bit. But we are seeing a little what we think is some early signs of consumers also using product longer. For example, blade cartridge, maybe getting one or 2 more shaves out of it. We're seeing trips on refills start to slow just a little bit. Which tells us there's a value play going on. In summary, a little bit of slowing. Not negative, just a slowing of the growth.

Bonnie Herzog: Okay, and it's consistent with what we've been hearing and observing. In the context of that, you mentioned the price/value equation. Do you think there's more work to be done within your price ladders within your different segment categories? Or do you feel like you have the appropriate price points? Or do you foresee a set of promos to encourage increased usage?

Rod Little: I think our list prices are appropriate around the world. Outside of the U.S, we still are taking incremental pricing, have. And have new list price increases going in in some markets. Asia as an example, both big markets there, we're taking pricing. But domestically in the U.S., we are seeing what I would say a very normalized period around price and volume elasticity return. After a couple of years of pandemic where that got out of balance, the consumer is very much what I would say normally price sensitive today. And we have, in a couple of instances, a primary competitor who is being quite aggressive around promotional spend in a couple of our categories. Women's shave and fem care both. And we'll match it. We've got that built into our forward-looking guide.

We are becoming a little more promotional in those areas and I think it's response to women's shave just being a really competitive category at the moment. A lot of brands playing in that space. Kind of like men's was a couple of years ago. Men's has now stabilized, but women's is very competitive which I think is driving the promotionality.

Part of it is them reacting to our rollout of the Billie brand national and taking share. Billie is now a 10 share brand national, 17 at Walmart, and growing every period. We're driving it and we tend to see ourselves in that case.

Bonnie Herzog: Importantly, you just said I think the fact that that is factored into your guidance and is already assumed that that's a potential problem.

Rod Little: Correct. With what we put out last week, we had line of sight.

Bonnie Herzog: Okay. Now I would like to pivot to gross margins. And I want to do that maybe if we have time before I go deeper into some of the segments. Dan, I would like to ask you, when you look at the gross margins based on the quarter, it really seemed to underpin your increased full year profit outlook. What were the drivers of that? Ultimately, how confident are you as you work through the year such that really you were able to take up your full year profit in the context of everything you just discussed?

Dan Sullivan: Yeah, Rod said it right. Q2 was an inflection point for us in the margin story. We delivered about 330 basis points of year-over-year gains. Those gains were structural and they were underpinned by 2 core capabilities within the organization. One which is well lived which is our ability to take costs out and run a better mousetrap. That was about 250 basis points of year-over-ear tailwinds in margin. If you know our story well, and you can go back to the fuel days of 2019 all the way through now, our second execution of cost takeout, this is in our DNA and it's what we do.

The second piece is around revenue management. Pack price architecture, promotional returns, mix management, really good hygiene on-shelf. That delivered 190 basis points of gains. In total, over 400 basis points, Bonnie, came from our own ability to either drive costs out, or drive better unit revenue economics. And you're absolutely right, that's what underpinned or that was what was the catalyst for us to take up our full year profit guide.

Bonnie Herzog: That's helpful. Then talk a little bit about productivity which has also I believe been a key driver of your stronger gross margins. How do we think about the right level of savings for the rest of the year and maybe even beyond, where that could go?

Dan Sullivan: Sure. We have a productivity organization. If you look back in time, you would see somewhere between 200 and 250 basis points a year in pure cost takeout and what we have said is that's a pretty good proxy for where we would go from here. We'll deliver about 240 this year, slightly better than our original expectation.

What sits beneath that I think is 4 core capabilities. One, we've stood up a global procurement organization. We now have category expertise, buying expertise, analytical expertise at the basket category level. I think secondly, we are much better at labor management. That's everything from shopfloor scheduling to automation and taking labor off the shopfloor. I think thirdly, we've begun to think more about footprint optimization. We manufacture, we assemble, we distribute. How do we organize that network in the most optimal cost-effective way? And then lastly is just in the DNA. How do we think about an absolute intolerance to waste? We have over 150 different programs going on at any point in time simply geared towards eliminating waste. You put the 4 of those together, we're highly skilled in this area, extremely confident based on past performance. And I think 200 to 250 basis points a year is a really good proxy for how we think about it.

Bonnie Herzog: And one final question on this topic from me is, input cost inflation has eased, but we're still seeing some lingering concerns, also thinking about the geopolitical tensions. Curious to see or hear what you're seeing across your cost basket. And thinking about that in the context also, you mentioned some pricing earlier, but just where are you at with visibility there?

Dan Sullivan: We're cautiously optimistic on the basket. We're coming out of a period, like everyone else, where you saw massive disruption, supply/demand imbalance, cost inflation, the whole deal. I think what you saw in the quarter from our business is, when inflation is 60 basis points and not 600, you see pretty nice margin accretion. We think we're over the worst of the inflation. We saw tremendous year-over-year inflation for about 18 months in sun chemicals, which is a highly engineered chemical. There's only 2 or 3 suppliers in the world. And then we lived through what everyone else lived through around paper and pulp and steel and aluminum and the like.

I think our outlook right now is largely stable, which is important. That's 50% of our COGS is sitting in the commodity basket. I think where there is still some choppiness, like everyone, is around labor and the current imbalance in supply and demand. But much more manageable than what we've lived through for the better part of 2 years.

Bonnie Herzog: And that's why in the context of that, still some pricing, but not nearly as much as what we've seen the past few years. Is that --

Dan Sullivan: No, that's right. But I think what we've seen in pricing now is less inflation-based pricing and much more strategic. Where you can bring value to the consumer, where you have a market leading position with new news and excitement, which for the most part this year has been internationally, we have been able to take price.

Bonnie Herzog: All right. Let's switch gears to your segments. I wanted to maybe start with wet shave. We're just I think over half of your business is international and that dovetails to what you mentioned earlier about the runway and opportunity you have for growth there. And that grew double digits in the first half of the year. But having said that, I think your North America results, they were down in wet shave. Walk us through some of that. Maybe first, what's driving some of the softness within -- you touched on the drug channel. And do you expect that to result in seeing declines in North America? Or do you see an opportunity for that to recover in North America?

Rod Little: Look, I love the wet shave business as a business. I know it's not loved as people look at it externally and look at the growth rate in the category. But I think there's some cyclicality to it, but I think structurally it's still a great category. I think we're coming into a period of time where overall we're going to be less disrupted. I look at what happened with Dollar Shave Club and with Unilever's backing. They're effectively exiting the market, a billion dollars, sold at a greatly reduced rate, and so you have that. As you look at Harry's and how they're evolving, they're not primarily a shave company. They do a lot of other things. I think strategically, you can follow where they're going and follow that it's not primarily a shave company, right?

You look then at the makeup of the category, the relative competitiveness from here, and all the tools and things we have, we can absolutely be successful in shaving. We are in international across the board at the moment. We lead in Japan. We lead in Taiwan from a share perspective as two examples. The margin structure is very high. And most of the international markets are not disrupted. It's the way the category has been for the last 20 or 30 years and it's still the way it is.

I think structurally, we have everything we need to be successful in shave. We've got a great IP portfolio, technology knowhow. We own manufacturing assets that operate at very, very high levels across all geographies. And we have a very diversified portfolio. We plan in men's systems, women's systems, disposables, and we have the private label as well as custom brands group. We have all levels of price ladder. If you want to buy something in shave, we're going to make it, it's in our portfolio. We're balanced in that respect.

Come to the U.S. where we have historically struggled the most over the recent decade, and I'm quite optimistic about what we can do from here as we move forward. We have a period where the consumer I think is challenged and razor blades have traditionally been viewed as expensive. But that's somewhat moderated. There hasn't been a lot of price increase in razors and blades over the last couple years as everything else has gotten more expensive. I think we're in a place where the category is pretty fairly priced. We play private label to value tier Billie. I talked about our share development there. That's a value tier-oriented brand. And so I think our portfolio sets up well.

Men's is about flat category growth year on year, so habits, practices, fears about the same as we're in parity now. That's not declining. It's maybe not growing. And in women's, we're seeing still nice growth in women's. I think as women are outside more in warmer weather, which on average happened, we're seeing growth in the category just around how women not only remove hair but maybe even maintain hair in some cases. Hair coming off in more places has driven consumption. And we have new tools and innovations to help women do that. And more and more, that's being done at home versus in the past in salon services, which is another growth driven in women's. Overall, we like the category. We haven't been at our best over the last decade competitively. We are fixing it and going forward I think we're confident we can create a lot of value in the category of shave in the U.S.

Bonnie Herzog: As you think about wet shave then, in the U.S., which is declining, and that's --

Rod Little: It's not.

Bonnie Herzog: Okay.

Rod Little: No, it's flat to slightly growing. Which is exactly where the category was pre-pandemic. Flat to up 1% to 2% depending on the quarter.

Bonnie Herzog: That's factored into your guidance for the year. And then the opportunity that you see is potentially to accelerate that growth?

Rod Little: Where maybe you're going, Bonnie, is we have been declining. Yes, correct.

Bonnie Herzog: As I think about that for your full year guidance that's still implied for the full year, the declines, but then the expectation is for growth to return?

Dan Sullivan: Our guide is underpinned by flat to slightly declining shave business in total, growth internationally, slight decline. Yep.

Rod Little: Which is right on, believe it or not, right on our algorithm math that we laid out 4 years ago. It's not great, but it's also kind of where we expected to be. But I think we can do it.

Bonnie Herzog: Okay. And that's the innovation?

Rod Little: The big driver is innovation. At the end of the day, you have to put products in and communicate in a way that is attractive to consumers. And we've been too -- we've talked about this before, we have been too R&D product focused and not enough consumer focused. We're on a journey to change that.

The other thing, it's where I started at the very beginning, we have new leadership. Two women actually leading the group now. A new GM in the U.S. on shave. New head of marketing. Super talented, very, very different approach. And I expect that you'll see our results change quickly because of it.

Dan Sullivan: Bonnie, the other thing I would just add on shave, just to dimensionalize it for folks, we talked about international. More than half our shave business is outside the U.S. and growing mid-single digits. Secondly, just order of magnitude. Because I think when you talk shave in the U.S., you have to separate men's and women's. In women's, we have what we estimate to be north of a 35 share, all channels measured and non for best estimate. We have the hottest growing brand in the set in Billie which is almost a 17 share right now at Walmart. The men's branded shave business in the U.S. is smaller than wet women's brand. Just order of magnitude, I know the notion of wet shave gets a lot of conversation, but you really have to separate men's and women's.

Bonnie Herzog: No, that's a good point. I'm glad you brought it up. And then dovetailing into what you just said about where you have work to do and you can do better is engaging with the consumer. And that maybe brings me to a question I also have on the reinvestment or A&P spend. I believe you're at around 11% of sales, but that is below where you were I think in low to mid-teens doing between 14% and 17%. Just curious, should we expect that the spend levels will increase as you better communicate with consumers? Because like you said, you might have the innovation? And then ultimately, what is the right reinvestment level for these businesses?

Rod Little: Yeah, we've not pegged a number. We don't think the answer lies in a specific rate of sale. Look, we're going to put money against the investments that provide the best return, full stop. Where we love the creative, where we're excited about brand messaging, where we think we can execute really well, we're going to invest. And if that's 11% of sales, it's 11% of sales. If it's 12%, it's 12%. I think what you see over time though in this business is we've gotten much more effective. The relationship between working dollars and nonworking dollars is meaningfully different. About 85% of our spend goes directly against the brand.

Two, we're highly efficient. We're almost 100% digital, so we pulse in/pulse out highly, highly effective. And then thirdly, we've started to build better muscles about knowing, and part of this came from the Billie acquisition, where's the next best dollar spent? Ultimately, our model is very simple. 2% to 3% at the top. Gross margin accretion that helps fund investment and falls to the bottom line. That's still the model and we will invest incrementally. We just don't put a number of 11% or 10% or 12% sales because we don't think that's the right answer.

Bonnie Herzog: I wanted to circle back to some other segments. Sun and skin care, which really has been a big driver of your growth over the past several years. FQ sales were up, price in double digits. In the context of that, do you believe you can maintain that momentum? And if so, what will be the key drivers of that moving forward?

Rod Little: Yeah, we do think we can. Outside the U.S., both outside the U.S. and domestically here, we grew about 12% and in the quarter just finished each. I expect the momentum outside to continue as there's a high correlation with travel and people going near water. It drives consumption in our brands. That's projected to continue to increase, so I think internationally we're good.

Domestically here in the U.S. there's 2 things that happen. One, at the beginning of the season, you either get great distribution outcomes or you do not. In terms of space, quality, Islanders at Walmart for example, which drives a ton of volume. That outcome really drives what happens in Q2. Like are retailers behind the category up 12%? Yes, they are. And are we positioned better than prior year up 12%? Yes, we are. We're very happy with our distribution outcomes. We're the sun care leader in the US with Banana Boat and Hawaiian Tropic, those 2 brands combined. We have a lot of power as we go talk to retailers in this category and how we shore. Now -- that's point one. Point two, the second thing required to have a great sun season is sunshine.

Bonnie Herzog: Please. If you can control it.

Rod Little: We can't control that. And while it was a slow start early, for those that live in the northeast zone, you'll recall last year from this point almost through July 4, every weekend we either had smoke coming down from Canada or pretty heavy rain every single weekend in that period. It was not a good period last year. We're confident that this year, even if it's not great, it will be better than last year. That's kind of how we've planned for an okay season in our outlook. And we think we're bound. If it's really sunny and warm, and it is predicted to be a little hotter and a little drier this year across the balance of the U.S., we'll be fine. We can't control that.

Bonnie Herzog: Right. Maybe quickly on sun care, because I want to touch on that. I know you touched on it earlier, that the business maybe has lagged a bit. But seemed to be turning around just in terms of some recent growth and market share performances. Now I think the segment is tracking 11% to 12% lower year to date versus a year ago. Maybe, Rod, could you walk us through the dynamics there and really your longer term view of the business?

Rod Little: Yeah, start with the longer term view. Very optimistic on our ability to be successful in the category. We've gone to effectively a 2-brand category with Playtex Sport as our lead tampon brand and we've just gone to the simplification to eliminate Stayfree and roll it under Carefree as a megabrand across pads and liners. With those 2 brands in place, we've got a really good innovation pipeline coming. The Carefree master brand comes with new innovation, a super-fast-absorbing top sheet, dry, locks in fluid in a way that is just better than what we've had and better than anything on the market. There's real innovation that we have coming on the brands.

We've got a great team in place. It's an all-female team at this point. Should be running this category and they have a really, really strong marketing plan coming against both brands that you'll see in market in the coming months. We like the category, we like our ability to be successful within the category. We're very confident in the second half of this year as Carefree rolls out with better distribution that starts now, that will be a driver. And inventory at retail is now more in balance. While that was a headwind in the front half, that normalizes in the back half, so we've got line of sight to a much better second half.

Bonnie Herzog: Runing out of time, we just have a couple of minutes left. Maybe to wrap up, Rod, you've made a lot of progress as we've talked about up here on stage. Announcing your new strategy in 2020. Is there anything you would like to address that you think really the investment community might be missing or anything we didn't touch on today?

Rod Little: Yeah, look, I don't think people are missing anything. I'm a big believer in supply and demand and dollars go where they should go in free markets. We are what we are. But what I do think you will start to see, and you saw last quarter, is the power of the model we have, even in a low growth environment, in the last quarter flat, we do have the ability to generate margin accretion and create a lot of value for investors. And what has happened over the last 2 years has been a period of time where inflation and foreign exchange have moved materially against us in a way combined that I have not seen in my 25 years working in the category.

As we cycle and get to the other side of that, you're now seeing our ability to be successful. I think we'll continue to grow, we'll continue to grow gross margin percentage, to give us the flexibility to invest. We're going to manage the G&A line very tightly and get leverage there and have optionality. We'll continue to repurchase shares. We'll continue to pay down debt and reduce our leverage. And with that, as Dan and I just run the math out, we think we're hugely undervalued and we're in a moment where we'll start to get rewarded.

Bonnie Herzog: Perfect way to end. Thank you so much, both of you, for your time today. Appreciate it.

Rod Little: Thank you.