

**S&P Global**  
Market Intelligence

**WD-40 Company** NasdaqGS:WDFC

*Earnings Call*

*Thursday, April 9, 2026 10:00 PM GMT*

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# Call Participants

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## EXECUTIVES

**Sara K. Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

**Steven A. Brass**

*CEO, President & Director*

**Wendy D. Kelley**

*Director of Investor Relations & Corporate Communications*

## ANALYSTS

**Aaron Bruce Reed**

*Northcoast Research Partners, LLC*

**Daniel Rizzo**

*Jefferies LLC, Research Division*

**David Shakno**

*William Blair & Company L.L.C., Research Division*

**Michael Allen Baker**

*D.A. Davidson & Co., Research Division*

# Presentation

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## Operator

Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company Second Quarter Fiscal Year 2026 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

I would now like to turn the presentation over to the host for today's call, Wendy Kelley, Vice President, Stakeholder and Investor Engagement. Please proceed.

## Wendy D. Kelley

*Director of Investor Relations & Corporate Communications*

Thank you. Good afternoon, and thanks to everyone for joining us today. On our call today are WD-40 Company's President and Chief Executive Officer, Steve Brass; and Vice President and Chief Financial Officer, Sara Hyzer.

In addition to the financial information presented on today's call, we encourage investors to review our earnings presentation, earnings press release and Form 10-Q for the period ending February 28, 2026. These documents will be made available on our Investor Relations website at [investor.wd40company.com](http://investor.wd40company.com). A replay and transcript of today's call will also be made available shortly after this call.

On today's call, we will discuss certain non-GAAP measures. The descriptions and reconciliations of these non-GAAP measures are available in our SEC filings as well as our earnings documents posted on our Investor Relations website.

As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance. Actual results could differ materially. The company's expectations, beliefs and projections are expressed in good faith, but there can be no assurance that they will be achieved or accomplished. Please refer to the risk factors detailed in our SEC filings for further discussions.

Finally, for anyone listening to a webcast replay or reviewing a written transcript of this call, please note that all information presented is current only as of today's date, April 9, 2026. The company disclaims any duty or obligation to update any forward-looking information as a result of new information, future events or otherwise.

With that, I'd now like to turn the call over to Steve.

## Steven A. Brass

*CEO, President & Director*

Thanks, Wendy, and thanks to everyone for joining us today. I'll begin with an overview of our sales performance for the second fiscal quarter of 2026, followed by an update on the progress we've made across select areas of our Four-by-Four Strategic Framework. Sara will then walk through the details of our second quarter results, recap our business model, share a brief update on the divestiture of our homecare and cleaning business and review our guidance for fiscal 2026 and will conclude by taking your questions.

Today, we reported consolidated net sales of \$161.7 million, an increase of 11% compared to last year. Let's spend a few moments looking more closely at those results and the factors contributing to our performance. Maintenance products continue to be our core strategic focus, accounting for roughly 97% of total net sales this quarter. Net sales in this category totaled \$156.8 million, reflecting a 13% increase year-over-year. On a constant currency basis, net sales in this category increased 6% year-over-year, in line with our long-term growth expectations for maintenance products. As a reminder, we go to market through a mix of direct operations, which represents approximately 80% of global sales and marketing distributors, which account for the remaining 20%. During the second quarter, sales of maintenance products in our direct markets grew 14% compared to the prior year. Sales through our marketing distributor network increased 9% year-over-year, driven primarily by sequential improvement across our Asia Pacific distributor markets as we saw the anticipated rebound following a softer first quarter.

I'd also like to highlight that our gross margin remained solidly within our expected guidance range for fiscal year '26. In the second quarter, we delivered a gross margin of 55.6%, up 100 basis points year-over-year. On an adjusted basis, excluding assets held for sale, gross margin was 56%.

Now let's talk about second quarter sales results by segment, starting with the Americas. Unless otherwise noted, I'll discuss net sales on a reported basis compared to the second quarter of last fiscal year. Sales in the Americas, which includes the United States, Latin America and Canada, was \$71.8 million in the second quarter, an increase of 10% compared to last year. Sales of maintenance products in the Americas were \$69.1 million, an increase of 11% or \$6.7 million compared to last year. All of that growth was driven by higher sales of maintenance products in the U.S., which increased 15% compared to last year.

Sales performance of WD-40 Multi-Use Product in the U.S. was particularly strong, increasing by \$5 million or 15%. This growth was driven by higher volumes with select customers and online retailers, supported by elevated promotional activity and modest price increases, which we implemented earlier in fiscal year '26. We expect a strong momentum in the U.S. to continue with numerous activities already planned for the second half of fiscal year '26.

In the Americas, maintenance product sales also benefited from strong growth of WD-40 Specialist which increased 17% compared to the prior year. That growth was driven primarily by expanding distribution and higher online sales in the U.S.

We saw modest sales growth in Latin America this quarter, which was largely offset by softer sales in Canada, leaving overall performance for the combined regions essentially unchanged.

Homecare and cleaning product sales declined 13%, reflecting our strategic shift towards higher-margin maintenance products in alignment with our Four-by-Four Strategic Framework. In total, our Americas segment made up 44% of our global business in the second quarter.

With a significant number of initiatives planned in the back half of the fiscal year, our outlook for the Americas is very strong. As a result, we expect high single digit into low double-digit growth in the Americas this fiscal year, driven primarily by strong activity in the United States. This strong top line growth positions us well to help offset uncertainty associated with global economic and geopolitical conditions that could impact other areas of the business.

Now turning to EIMEA, which includes Europe, India, the Middle East and Africa. Sales of \$64.9 million in the second quarter, an increase of 9% compared to last year. This increase was driven by favorable foreign currency exchange rates as most of our EIMEA sales are transacted in euros or pound sterling and translated into U.S. dollars for reporting purposes. On a constant currency basis, sales were down 3% year-over-year.

Let's go into our EIMEA through a combination of direct operations as well as through marketing distributors. Net sales in our EIMEA direct markets, which accounted for 70% of the region's sales, increased 12% during the quarter to USD 45.6 million. Given that currency translation can obscure our reported results, we believe it's helpful to also consider performance in the local currencies in which we transact sales. In local currency, we continue to see double-digit growth of WD-40 Multi-Use Product across many of our direct markets, including France, Iberia and Benelux, where sales increased 16%, 12% and 12%, respectively, driven by successful promotional activities. These sales increases were entirely offset by lower volumes in our distributor markets. Net sales in our EIMEA distributor markets, which accounted for 30% of the region's sales, increased 1% during the quarter to USD 19.2 million.

Sales in our EIMEA distributor markets were most notably impacted in the Middle East, reflecting the timing of customer orders following strategic distribution changes. We transitioned to a new marketing distributor partner in a key country during the first half of fiscal '26, which shifted the timing of customer orders. With the transition now complete, we expect increased activity in the second half of the fiscal year, subject to further geopolitical disruption in the region.

As a reminder, we divested the U.K. homecare and cleaning portfolio in fiscal '25, which negatively impacted second quarter sales by \$1.5 million. In total, our EIMEA segment made up 40% of our global business in the second quarter.

As we look ahead, we expect a better second half performance in EIMEA. We are closely monitoring the geopolitical conditions in the Middle East. Sales to the region directly affected by the current geopolitical tensions represented approximately 3% of global sales in fiscal year '25. Our presence in these markets is limited. We have one manufacturing partner in the region but no significant operations beyond the distribution and sale of our products through third-party distributors. We will continue to monitor the situation closely and assess any potential impact as circumstances evolve.

Despite this disruption, we expect to achieve mid-single-digit growth on a constant currency basis this fiscal year. In reported currency based on current exchange rates, we would expect growth of maintenance products in EIMEA to be in the high single digits this fiscal year.

Now on to Asia Pacific. Sales in Asia Pacific, which includes Australia, China and other countries in the Asia region was \$25 million in the second quarter, an increase of 19% or \$1.3 million compared to last year. We did benefit from favorable currency movements in Asia Pacific, although to a lesser extent than in EIMEA. On a constant currency basis, sales in the region were up 16% versus last year. Most of that growth was driven by higher sales in China and our Asia distributor markets where sales and maintenance products increased 25% and 19%, respectively, compared to last year.

Sales of WD-40 Multi-Use Product was strong across the trade block. In China, sales of WD-40 Multi-Use Product increased by \$1.1 million or 18%, driven by higher volumes from effective promotional programs and marketing activities as well as expanded distribution, particularly through online retailers and industrial channels.

In our Asia distributor market, sales of WD-40 Multi-Use Product increased by \$1.3 million or 17%, partially due to successful promotional programs, particularly in Malaysia and the Philippines. We are pleased to see a strong rebound in the Asian distributor markets as customers in the region have adjusted back to more typical inventory levels.

In Australia, sales of WD-40 Multi-Use Product increased 15%, driven by the timing of customer motions and expanded distribution.

In Asia Pacific, maintenance product sales also benefited from strong growth in WD-40 Specialist, which increased by 55% compared to the prior year. Sales increased most significantly in China, driven by successful promotional programs, along with expanded distribution, particularly through online retailers and industrial channels. In total, our Asia Pacific segment made up 16% of our global business in the second quarter. Based on current visibility, we expect this momentum to continue for the remainder of the fiscal year. However, like many companies, we remain cautious given ongoing global economic and geopolitical instability. We expect Asia Pacific to deliver strong growth in the back half of fiscal year '26, supporting mid- to high single-digit growth on a reported currency basis for the full fiscal year.

Now let's talk about our Must-Win Battle. A core element of our strategy is accelerated revenue growth in our maintenance products through our Must-Win Battle. Starting with Must-Win Battle #1, lead geographic expansion. Year-to-date sales of WD-40 Multi-Use Product reached \$245 million, an increase of 6% compared to the same period last year. We delivered solid performance in the Americas and EIMEA, with sales growing 7% and 6%, respectively. Year-to-date sales in Asia Pacific remained flat. However, following the strong recovery experienced in the second quarter and the momentum we expect in the second half of the year, we anticipate solid growth in the region for the full fiscal year.

We continue to make excellent progress across many key markets, delivering strong year-to-date sales growth, including increases in local currency of 7% in the U.S., 4% in China, 10% in France and 14% in Iberia. We estimate the attainable market for WD-40 Multi-Use Product at about \$1.9 billion with fiscal year '25 sales of \$478 million. That leaves roughly \$1.4 billion of long-term growth opportunity ahead of us.

Next is Must-Win Battle #2, accelerating premiumization. This is centered on accelerating growth in our premium WD-40 Multi-Use Product performance. Products such as Smart Straw and EZ Reach are developed for the end users at the forefront of every decision. The strong focus on the end user enhances brand loyalty, supports gross margin growth and strengthens our competitive advantage.

Year-to-date, combined sales of WD-40 Smart Straw and EZ Reach increased 9% compared to the prior year. Premiumized products represent approximately 50% WD-40 Multi-Use Product sales, leading meaningful runway for continued growth. We're targeting a compound annual growth rate for premiumized product net sales of greater than 10%.

Our third Must-Win Battle is to drive WD-40 Specialist growth. If WD-40 Multi-Use Product is a Swiss Army knife of maintenance, WD-40 Specialist is a dedicated tool, a hammer, screwdriver or wrench designed for specific jobs. This focused brand extension strengthens our portfolio without diluting the iconic core. Year-to-date sales of WD-40 Specialist were \$44.9 million, up 19% compared to last year. We're targeting a compound annual net sales growth rate for WD-40 Specialist of greater than 10%.

I'm excited to share that in the second half of this fiscal year, we launched our latest innovation within the WD-40 Specialist product line, a bio-based multiuse lubricant across several European markets. Formulated with 85% bio-based ingredients, the product meets stringent environmental standards while delivering the professional-grade performance our end users expect. This launch reflects our commitment to practical innovation and environmental stewardship.

Our fourth Must-Win Battle is to turbocharge digital commerce. Our digital commerce strategy plays a vital role in advancing each of our Must-Win Battles by increasing brand visibility, improving accessibility and deepening end user engagement across global markets. Year-to-date, e-commerce sales increased 23%, driven primarily by strong momentum in the United States and China.

We'll now move to the second element of our Four-by-Four Strategic Framework, our strategic enablers, which focus on operational excellence. Today, I'll provide updates on strategic enablers 3 and 4. Our third strategic enabler is operational excellence in the supply chain. Profitable growth requires the supply chain is optimized high-performing and resilient.

In the second quarter, we delivered global on-time in full performance of 96%, reflecting the discipline and reliability of our operations. Our decentralized global supply chain is a strategic advantage enabling both resilience and agility in periods of economic and geopolitical uncertainty. By limiting exposure to any single region, we reduced risk across the network. If a manufacturing partner is impacted by unforeseen circumstances, we can quickly pivot and shift production to other partners within weeks, an agility that's especially valuable in uncertain times.

We spent the last 3 years, strengthening our global supply chain adding even more manufacturing partners, optimizing inventory and building a more agile network. We recently added a new manufacturing partner in our EIMEA, further diversifying our European supply chain and transitioning from a single dominant partner to multiple partners across the continent. The logistics associated with this transition resulted in a temporary inventory build in EIMEA. At the same time, we also built inventory in the United States in anticipation of a strong third quarter. These higher inventory levels are beneficial as they help insulate us from short term gross margin volatility, including the impact of near-term fluctuations in crude oil prices.

Based on current inventory levels, we do not expect gross margins to be significantly impacted in the third quarter, which provides us time to take mitigating actions to defend gross margin as needed. Overall, our supply chain is significantly more resilient today than it was historically. These changes support gross margin expansion and help insulate the business to meet ongoing global economic and geopolitical uncertainty.

Our fourth strategic enabler is to drive productivity through enhanced systems. At WD-40 Company, technology is a critical enabler of productivity and scale for building a digital foundation designed to support global growth and increase operational flexibility, helping us execute our strategy faster and more effectively.

We've made meaningful progress deploying proven AI-enabled platforms like Microsoft Dynamics 365, Salesforce and Atlas for supply chain. Our goal isn't just personal efficiency, it's rethinking processes across the business. We are where appropriate, leveraging artificial intelligence across certain parts of the business to improve efficiency and augment decision-making. Our focus remains on practical responsible

applications that enhance productivity and support our teams. In addition, we continue to make progress in our enterprise resource planning or ERP implementation.

In the second quarter, we went live with another phase of the rollout in Canada. The new system is now operating across a substantial portion of the business, including the U.S., our Latin America and Asian distributor markets, operations and Canada, together representing roughly half of global revenue.

With that, I'll turn the call over to Sara.

**Sara K. Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Thanks, Steve. Today, I will go over our results against our business model and discuss the key factors driving our second quarter performance. I'll also provide an update on the planned divestiture of our Americas homecare and cleaning business, along with our fiscal year 2026 guidance and the assumptions we made to provide more transparency.

First, we were pleased with our second quarter performance and the momentum we're seeing in the business, with operating income this quarter, growing at 4% over prior year on a constant currency basis. As we noted last quarter, we expected results to strengthen as the year progressed following a slow start, and that improvement is showing up across both the top line and the bottom line. As Steve mentioned the expected top line strength particularly in the U.S., will help to buffer any impacts of the current geopolitical tension in the Middle East. And with that, I will cut to the chase that we are reaffirming our full year 2026 guidance even through all this turbulence. I'll cover our assumptions behind the guidance later in my remarks.

With that as the lead, now let's take a closer look at our business model. This framework serves as a distinct guide for how we manage and allocate resources across the business. It is anchored in 3 key components: gross margin, cost of doing business and adjusted EBITDA. In the near to midterm, we actively manage each element within defined ranges, which gives us strategic flexibility while remaining aligned with our long-term objectives. Because the model is fundamentally driven by revenue, changes in sales levels from quarter-to-quarter can result in some variability in model performance.

We will begin with gross margin performance, which continues to be strong. In the second quarter, our gross margin was 55.6%, up from 54.6% in the second quarter of last year, representing an improvement of 100 basis points. Gross margin was most significantly impacted favorably by 80 basis points from lower specialty chemical costs and 70 basis points from higher average selling prices, including the impact of mix and premiumization. These positive impacts to gross margin were partially offset by higher other miscellaneous input costs, primarily in EIMEA, which negatively impacted our gross margin by 40 basis points.

Gross margin in the Americas increased 300 basis points, rising from 50.1% to 53.1%, driven by higher average selling prices and lower specialty chemical costs.

In EIMEA, gross margin declined slightly by 90 basis points from 58.1% to 57.2%, reflecting higher filling and warehousing fees, partially offset by lower costs for specialty chemicals.

In Asia Pacific, gross margin increased slightly by 30 basis points from 58.4% to 58.7%, primarily due to favorable changes in sales and market mix period-over-period.

We remain encouraged by the overall trajectory of gross margin while recognizing that the operating environment continues to present external headwinds. Subsequent to our quarter end, recent geopolitical developments in the Middle East have contributed to the increased cost of certain petroleum-based specialty chemicals and other input costs, which will impact our cost of products sold. There is typically a delay of between 90 and 120 days before changes in cost of raw materials impact our cost of products sold due to production and inventory life cycles.

As Steve discussed a few minutes ago, we do not expect that our gross margin will be significantly impacted until the fourth quarter of fiscal year 2026 based on current inventory levels. The duration of this

conflict and its impact on our raw materials will drive our decisions around mitigation efforts, which we are currently assessing. For more reasons than just the impact to our business, we hope this development is short term in nature. I will go over our assumptions over the price of oil when I discuss our full year 2026 guidance.

Now turning to our cost of doing business, which we define as total operating expenses adjusted for certain noncash items. Cost of doing business is primarily influenced by 3 areas: our investment in people, global brand-building initiatives and freight costs associated with delivering our products to customers.

In the second quarter, our cost of doing business was unchanged from prior year at 38% of net sales. Investing in our future remains a top priority. While our long-term objective is to manage our cost of doing business within a 30% to 35% range, we have been making deliberate investments to support sales growth and improve operational efficiency. These investments are strengthening our foundation and positioning the business for long-term sustainable growth.

In addition, we continue to work through the revenue impact associated with the fourth quarter 2025 homecare and cleaning divestiture in the United Kingdom. In dollar terms, our cost of doing business increased \$7 million or 13% compared to the prior year quarter. Unfavorable foreign currency exchange rates accounted for \$3 million of that increase this quarter. So on a constant currency basis, the increase was 7%. The majority of the remaining increase, \$2.3 million, was driven by higher employee-related expenses, including incremental headcount to support initiatives aligned with our Four-by-Four Strategic Framework.

Advertising and promotional expenses increased year-over-year, reflecting higher levels of promotional activity and marketing support, particularly in the Americas and EIMEA. As a percentage of net sales, A&P spend was 5.5% this quarter compared with 5.1% in the prior year.

While we are currently tracking slightly below our full year guidance of approximately 6% of net sales, we have brand-building initiatives planned for the remainder of the fiscal year, which we expect will bring A&P investment in line with our full year guidance. As the business grows, we expect leverage from higher revenues to move the cost of doing business towards the target range, with sales growth and cost control serving as the main catalyst for improvement.

Turning now to adjusted EBITDA. In the second quarter, our adjusted EBITDA margin was 18%, flat compared to last year. Adjusted EBITDA margin is an important indicator of both profitability and operational efficiency.

In the nearer term, we continue to believe we can return adjusted EBITDA margin to our midterm target range of 20% to 22% as we absorb the revenue impacts associated with the homecare and cleaning divestitures. The 25% target at the high end of our range represents a long-term aspiration for the business. Getting there will be driven by scale, gross margin accretion and making progress on our cost of doing business targets.

Turning now to other key measures of financial performance, let's review operating income, net income and earnings per share for the second quarter. Operating income increased 13% to \$26.3 million in the second quarter, with foreign currency being a tailwind for us this quarter. On a constant currency basis, operating income increased by 4%, primarily driven by higher sales and improved gross margin, partially offset by increased operating expenses.

Net income was \$20.3 million compared to \$29.6 million in the prior year fiscal quarter. You may recall that in the second quarter of fiscal year 2025, we recorded a nonrecurring noncash tax benefit of \$11.9 million that had a significant positive impact on the results last year. Excluding this onetime benefit, net income would have increased \$2.4 million or 13% in the second quarter compared to the prior year.

Diluted earnings per common share were \$1.50 in the second quarter compared to \$2.19 in the prior year. Diluted EPS for the quarter reflects 13.5 million weighted average shares outstanding. Excluding the onetime tax benefit in the prior year, non-GAAP EPS would have increased 14% over the prior fiscal quarter. Additional details on last year's tax benefit are available in our SEC filings.

Turning now to our balance sheet and capital allocation. We continue to operate from a position of financial strength with solid liquidity that supports the discipline, strategy focused on long-term growth and the generation of reliable cash flow and returns for our stockholders. Our capital deployment decisions continue to emphasize discipline and accretion with the objective of enhancing long-term stockholder value. Our first focus is investing back into the business through advertising and promotional activities. After investing back in organic growth opportunities, dividends remain our top capital allocation priority with an annual payout target of more than 50% of earnings.

On March 16, our Board of Directors approved a quarterly cash dividend of \$1.02 per share.

In the second quarter, we executed share repurchases totaling approximately 38,175 shares for an aggregate cost of \$8 million under our authorized program. As of quarter end, roughly \$14 million remains available for repurchases with the authorization set to expire at the end of the fiscal year. Given our confidence in the strength and durability of the business, we increased the pace of repurchases and intend to utilize the remaining authorization.

Before turning to guidance, I'd like to share a brief update on the household divestiture. We continue to advance the process to sell our American homecare and cleaning brands with our investment banking partner actively engaged in discussions. While there can be no assurance that a transaction will be completed, we are encouraged by continued discussions and will provide updates as the process progresses.

So let's turn to fiscal year guidance. As a reminder, we issued this year's guidance on a pro forma basis, excluding the financial impact of the home care and cleaning brands currently classified as assets held for sale. Although the timing remains uncertain, this approach is intended to provide clear visibility in the performance of the core business and limit variability associated with the transaction.

While geopolitical developments in the Middle East and their potential impact on the global economy warrant caution, we are encouraged by the momentum in the business. We have clear visibility in promotional activity in the U.S. and are seeing improving momentum in both EIMEA and Asia Pacific. With a number of initiatives planned for the second half of the year, we are confident in delivering a solid full year outcome and so we are reaffirming our guidance today.

We continue to expect net sales in constant currency to land at the mid- to high end of our guidance range, reflecting the strength and visibility we have on the top line. At current exchange rates, we expect low double-digit revenue growth for the full fiscal year on a reported currency basis. However, the duration and potential impacts of ongoing geopolitical developments in the Middle East have introduced an increased level of uncertainty.

While we remain confident in achieving our full year guidance, we now expect metrics below the top line to fall within their respective guidance ranges as opposed to tracking towards the mid to high end. This guidance is based on several key assumptions, including crude oil prices ranging between \$95 and \$115 per barrel and an average euro-to-U.S. dollar exchange rate of approximately \$1.15 for the back half of the year. It also reflects our current view of broader macroeconomic conditions. Actual results may vary as these inputs differ materially from our assumptions.

For fiscal year 2026, we expect net sales to be between \$630 million and \$655 million after adjusting for foreign currency impact, a growth of between 5% and 9% from the pro forma 2025 results. In reported currency, we expect revenues between \$650 million and \$680 million using current exchange rates in the back half of the year, excluding revenue from the assets held for sale. Gross margin is expected to be between 55.5% and 56.5%. Advertising and promotion investment is projected to be around 6% of net sales. Operating income is expected to be between \$103 million and \$110 million, representing growth of between 5% and 12% from the pro forma 2025 results. The provision for income tax is expected to be between 22.5% and 23.5%. And diluted earnings per share is expected to be between \$5.75 and \$6.15, which is based on an estimated 13.4 million weighted average shares outstanding. This range represents growth of between 5% and 12% over the pro forma 2025 results.

In the event we are unsuccessful in the divestiture of the American homecare and cleaning brand, our guidance would be positively impacted by approximately \$12.5 million in net sales, \$3.6 million in operating income and \$0.20 in diluted EPS on a full year basis. That completes the financial overview.

Now I would like to turn the call back to Steve.

**Steven A. Brass**  
*CEO, President & Director*

Thank you, Sara. In summary, what did you hear from us on this call. You heard that in constant currency sales and maintenance products were up 6% in the second quarter, in line with our long-term growth expectations. You heard that in reported currency, sales of WD-40 Multi-Use Product were up 12% in the second quarter with growth across all 3 trade blocks. You heard that in reported currency, sales and maintenance products in our direct markets were up 14% in second quarter.

You heard that all our Must-Win Battles are performing well and that year-to-date in reported currency sales of WD-40 Specialist were up 19%, sales of premiumized products were up 9%, and sales in the e-commerce channel were up 23%. You heard that in the second quarter, our gross margin was 55.6%, up 100 basis points from the second quarter of last year. You heard that we continue to accelerate buybacks and plan to fully utilize our remaining authorization with the objective of enhancing long-term stockholder value. You heard that our decentralized global supply chain provides resilience and agility amid economic and geopolitical uncertainty and that recent supply chain initiatives along with higher inventory levels are supporting gross margin in the near term, giving us time to take mitigating actions as needed.

You heard that we have clear visibility into strong promotional activity in the U.S. in the back half of fiscal year '26, and we are seeing improving momentum across both EIMEA and Asia Pacific. You heard that while geopolitical developments in the Middle East, and their potential impact on the global economy, warrant caution, we're encouraged by the momentum in the business and believe this momentum will help to mitigate impacts associated with global economic and geopolitical conditions that could affect other areas of the business.

And you heard that with a number of initiatives planned for the second half of the year, we are confident in delivering a solid full year outcome, and so we are reaffirming our guidance today. Thank you for joining our call today. We'd now be pleased to answer your questions.

## Question and Answer

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### Operator

[Operator Instructions] Our first question comes from the line of Michael Baker with D.A. Davidson.

### Michael Allen Baker

*D.A. Davidson & Co., Research Division*

Okay. Great. Congratulations on a good quarter. So just to make sure I have this right in so everyone has it right. I think there was the change in guidance, if the -- the sell changing guidance. I guess, is that after the first quarter, you expected top line and margins, profitability, bottom line to be towards the mid- to high end of the guided range. Now we have the same guided range and we expect the top line still to be mid- to high end. But I think what you said is that margins and profitability now just within the range rather than specifically mid- to high end. I just want to make sure I heard that right, and that's the change. And then I'll have a follow-up question.

### Sara K. Hyzer

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Sure, Michael. So this is -- good to hear from you. Yes, you understood that correctly. So we are maintaining our expectation for revenue growth in the mid- to high single digits. And just given the growth -- the risk right now that we see in the gross margins and considering some of the mitigation actions depending on how long this lingers, we believe we're kind of well within the range, but we're not necessarily saying the mid- to high for all of the other metrics.

### Michael Allen Baker

*D.A. Davidson & Co., Research Division*

Got it. And so that so again, I think as you said it, but that's because now we expect oil to be -- now it's based on oil to be \$95 to \$115, which starts to impact you in your fourth quarter. And I guess my question would be, I guess, so what was the expectation prior to the situation that's played out in the Middle East the last few months?

### Sara K. Hyzer

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Yes, it's definitely -- I mean we are seeing the input cost increase since the -- subsequent to our quarter end. In our previous guidance, it was closer to the, I think, \$65 to \$85 range, and so it has moved up quite a bit.

### Michael Allen Baker

*D.A. Davidson & Co., Research Division*

Got it. All right. So just to square it all put together, just so we all understand, it was \$65 to \$85. Now we expect it to be \$95 to \$115. We all see what's going on in oil that's -- there is a delay, but that starts to impact you in the fourth quarter. And because of that, the gross margins will be more towards the -- within the range rather than the mid- to high end. Just does that summarize everything, so hopefully that clarifies.

### Sara K. Hyzer

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

That was a very good summary. You probably said it better than I could.

### Michael Allen Baker

*D.A. Davidson & Co., Research Division*

Okay. Got it. Awesome. Now with that out of the way, can I ask just about a more sort of business-related question. Remind us again why this acceleration that we're seeing in the U.S., how do you have so much visibility? What are you hearing or seeing from your key partners in the U.S.?

**Steven A. Brass**

*CEO, President & Director*

Mike, this is Steve. So there's a lot going right in the U.S. And so you heard WD-40 Specialist is growing very, very nice in the strong double digits. E-commerce is working very, very well for us with very strong growth in e-commerce. And then as we look, I mean, you've already seen very strong growth in the first half but compared to what's coming in the second half with the programs beginning in Q3, we have an extremely strong kind of unprecedented in recent history of the company outlook for the U.S. with a very, very substantial promotional program for the back half of the year.

**Michael Allen Baker**

*D.A. Davidson & Co., Research Division*

And is that increased promotions and activity in existing customers? Or is it different channels? I know there's been an initiative to get more into the dollar channel or hard discounters? Or is it more just within the existing channels that you're in?

**Steven A. Brass**

*CEO, President & Director*

It's both. So the major promotions are with our existing customers. We've also we have brought on board a major new customer in the discount channel as well, which is starting to add some nice additional revenue as new distribution.

**Operator**

Your next question comes from the line of David Shakno with William Blair.

**David Shakno**

*William Blair & Company L.L.C., Research Division*

By the way, this is David Shakno, stepping in for Jon Andersen. Just had a question on Asia Pacific. You talked about I think it grew or the specialist grew 55% this quarter. You hit a bit on this in the prepared remarks about promotional programs and distribution. But can you double-click into those drivers a little bit, especially on the promotional programs? Is there any sort of air pocket we should be considering for the region or specialists just overall in Q3?

**Steven A. Brass**

*CEO, President & Director*

So the increase in specialist was across the board. So we had China, the distributors and Australia all delivering very strong double-digit growth. So it wasn't a particular region or a particular channel. I'd say the underlying theme is new distribution and promotions combined as well as continued innovation and new products across the region. And so it's not one thing. We are seeing very, very strong -- I'm not sure we'll deliver 55% growth in every quarter, but you should expect WD-40 Specialist to continue to grow very strongly in Asia.

**David Shakno**

*William Blair & Company L.L.C., Research Division*

Got it. And if you don't mind me asking one other here. Just on premiumized products. So I think you said it's up to 50% now of the multi-use product sales. I think that's up from 49% last quarter, if I'm not mistaken, quite a strong achievement. How much of the remaining \$1 billion, \$1.5 billion, \$1.4 billion growth opportunity depends on moving towards those premiumized products and premium formats and given the Middle East situation, given also just more broadly overall consumer sentiment, has that changed kind of your outlook there on premiumized products?

**Steven A. Brass***CEO, President & Director*

Not at all, in our premiumized products have consistently delivered around that 9%, 10% growth rate historically, there's absolutely no reason why that can't continue. We see that building in the second half of the year, moving into double digits for the year. And so you've got \$25 million plus or up about \$250 million base now on petroleum products. And in terms of units sold globally, it's about 40% of units. So our best markets in terms of premiumization penetration are approaching 80% including the U.S. And so we have a long, long runway for growth, several hundred million dollars of growth out of that benchmark opportunity on nonpremium formats.

**Operator**

Your next question comes from the line of Daniel Rizzo with Jefferies.

**Daniel Rizzo***Jefferies LLC, Research Division*

First, with the mitigation efforts that you might have to take, when do you think -- I mean is there a drop dead date when we'll have to be that decision will have to be made? And two, as a rule of thumb, how far -- how long until that kind of flows through where we notice it in the P&L? Is it the same thing as with the cost where it's 90 -- or 6 months? Or how should we think about that?

**Steven A. Brass***CEO, President & Director*

Yes, Daniel, it's Steve. So yes, I mean, obviously, we're not rushing into things. And so we're carefully evaluating this situation. It seems almost on a daily basis, it's kind of changing. And we don't want to telegraph our kind of intentions out to competition on this call, in particular. But we are looking at we are looking actively at mitigation, both in terms of potential price movement and further cost-saving initiatives, which would mitigate this thing. We did talk to having high inventories, right? And so with the shift we made in EIMEA, we've built up considerable inventories. And with the U.S. with our strong promotional program for Q3, we have a strong inventory basis. And so that was either excellent strategic planning or good fortune, whichever way you look at it.

And so to cut to the chase, I suppose, in terms of the impact of decisions we will make today, you're going to see that impact in the fourth quarter, but maybe not the beginning of the fourth quarter. And so any measures we take would begin to hit the business in the fourth quarter.

**Daniel Rizzo***Jefferies LLC, Research Division*

And with those elevated inventories, I assume that's going to have somewhat of a negative impact on working capital. And I was wondering what the effect of that will be in just in dollar amount.

**Sara K. Hyzer***VP of Finance, Treasurer, CFO & Principal Accounting Officer*

We haven't disclosed the -- I mean, the dollar amount you're already starting to see some of that with the buildup of the inventory levels on our balance sheet in Q2. So some of that has already happened. And that was really to support, as Steve had mentioned, the planned back half motions. The buildup also did occur because we actually were successful in transitioning to a new filler in Europe. And so we did also intentionally build some inventory as we work through that transition and that really happened right at the end of Q2. So I think what we're anticipating to see is the inventory build in Q2, it will continue to build a little bit into the third quarter. It will start to work its way down. And then really, I think you'll see a higher AR balance at the end of Q3, which that will get worked down before we get to the end of the fourth quarter. So there's going to be a little bit of a tail from a working capital perspective. But we have a strong balance sheet, and we can afford to have some blips there if we need to.

**Daniel Rizzo**

*Jefferies LLC, Research Division*

Okay. That's very helpful. And then the one thing that kind of caught me here was the bio-based product that you're kind of introducing in Europe. It sounds interesting. One, how should we think about that ramping across the globe? Are you going to be introducing it to other regions soon? How should we think about the growth over the next 3 years? And the second part of this question is the bio-based product, does that use less oil? Would that be something that's a long-term mitigator of the fluctuations in oil? Is that how we should think about that? It would seem so.

**Steven A. Brass**

*CEO, President & Director*

Thank you for the question, Daniel. And so the product is launching across 7 or 8 European countries this quarter. And so you always have a build time to build. We have plans to roll that out globally, which will probably go into next fiscal year. And I don't want to create crazy expectations for this. This is -- it's the first iteration of our multi-use product essentially with a bio-based format. So it's 85% bio-based formulation, which meets all of the European kind of regulations around bio-based products. And yes, so ultimately, if it's very successful, yes, it will begin to reduce our dependence on oil going forward. And that will be a nice hedge. That's going to take multiple years for that to be meaningful revenues.

**Operator**

Your next question comes from the line of Aaron Reed with North Coast Research.

**Aaron Bruce Reed**

*Northcoast Research Partners, LLC*

So one of the things that I wanted to get a little more color on is, we talked about it a little bit already, but given the ongoing geopolitical tension and really just the volatility across the global markets, can you give a little more color on the key assumptions underpinning your guidance and why you still believe it's achievable?

**Sara K. Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

Yes, I can start that.

**Steven A. Brass**

*CEO, President & Director*

Okay, Sara, you go ahead, please.

**Sara K. Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

I can jump in, Steven, and then I'll turn it over to wrap up that one. So I mean, yes, it is -- the environment we're in today is definitely challenging to attempt to forecast. I think what is helping us right now is that we do have a fair amount of inventory sitting on the balance sheet which we can phase out, when we can plan out when that's going to flow through. And so if oil stays within that range that I talked about between \$95 and \$115, the impact to the business, and this is potentially before mitigating factors that we might implement, we're able to, within that range, I think, reasonably predict what the fourth quarter is going to look like. And with the third quarter and the fourth quarter, we believe we'll be able to stay within that guidance. There are some puts and takes there with access to certain markets, and maybe I'll let Steve talk a little bit about that, that might bring it down, but then there's still some upside to go after.

**Steven A. Brass**

*CEO, President & Director*

And if I could just add then to that. Yes, just a very strong basis in the U.S. And so I can't emphasize enough given the volatility around how that U.S. performance which we talked about could actually be into

the double digits this fiscal year, which is a long time since we've achieved that in the U.S. And so that's a really positive kind of basis. And that's helped mitigating. We do have some exposure in the Middle East, obviously. That's about 3% of our business. And so yes, that may be just a few million dollars' worth of risk in the Middle East in terms of the actual geographic region.

We've had Europe coming back outside of the Middle East. We did make a change in Europe in the first half of a distributor in one of our key territories. And so that's coming back in. We began to ship in March, again to that particular territory, believe it or not. And Europe sequentially in the second quarter was about 10% bigger in revenues, about EUR 55 million in local currency in euros, compared to around EUR 50 million in the first quarter in net sales. So you did see an uptick of around 10% in absolute terms in the first quarter in Europe, and we do expect that despite the turbulence to continue in Q3 and Q4, much stronger revenue in EIMEA.

And in Asia Pacific, China is delivering solid double-digit growth continually and did so in the first half year. So we expect China to continue with strong double-digit growth for the year. There is potentially some downside risk in Asia, you've got a little bit contagion going on there at the moment in terms of potential kind of shutdowns of operations and kind of fuel availability. And so that is some downside risk, but we still see for the year in Asia overall, mid- to high single-digit growth. And so overall, the picture is looking reasonably bright, subject of course to further turbulence.

**Aaron Bruce Reed**

*Northcoast Research Partners, LLC*

Okay. And that kind of leads into my next question around the performance in Asia. What is driving that? And how sustainable is that momentum?

**Steven A. Brass**

*CEO, President & Director*

Yes. So it's things I think I've just kind of spoken to. So the China piece, I mean, the China team just continuously deliver these strong results. And it's just whatever is going on in the economy, we're continually opening new points of distribution. We're continually sampling. And so that's driving growth in China, whatever is going on with the economy. You've seen a strong -- the Asia distributors came back very strongly in Q2. That was really just a phasing question between Q4 and Q1. POS sales didn't really change between those periods, which is just inventory levels. And so we kind of highlighted that would improve in Q2, and it did. And so that's good, and we expect that to continue. And then Australia is set up for a good typical kind of mid-single-digit growth for the year as well. And so yes, we're optimistic about the outlook for Asia.

**Aaron Bruce Reed**

*Northcoast Research Partners, LLC*

Okay. And one more question here. European business has been flat to down year-to-date. What gives you confidence in a meaningful recovery in the second half? And really what leading indicators are you looking at that really support that? And actually I think I got one more question after that.

**Steven A. Brass**

*CEO, President & Director*

Okay. So yes, Europe, yes, it's been flat. We're very transparent. It's been kind of -- make it look a little better with the currency kind of benefit there, but volumes are kind of flat at the midyear.

Direct markets in Europe are actually up around 4% combined, and we did kind of talk about many of our markets are doing very well. We have market Iberia doing very well, well into double digits. France doing well. Benelux is doing very, very well. And so overall, direct markets are coming back. It was really just this 1 distributor issue, particularly in the Middle East, that undermined the kind of performance of about 3 million down versus prior year as well as a couple of promotional phasing issues with other MDs. But really, the Middle East one was the big one there. And so yes, we see Europe coming back with stronger growth in the second half. In that kind of mid-single-digit kind of level, depending on the exchange rate,

the actual exchange that could actually get into double digits or at the very kind of low case, high single digits we believe for the year.

**Aaron Bruce Reed**

*Northcoast Research Partners, LLC*

Okay. That makes sense. And one last item real quick here. My associate just handed me a headline saying you missed earnings by about \$0.08. But when I look at consensus, it says you beat. Are there other metrics that I -- or am I misunderstanding something on this?

**Sara K. Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

You are not. We -- I'm actually looking at the same headline right now. And unfortunately, I think what they pull based on what I can do -- based on what I can tell is they actually pulled the non-GAAP EPS number from Q2 last year, so they compared \$1.32, unfortunately, which then drove the headline and then there was even a follow-on where they actually did pull the right \$1.50 and then they compared it to the \$1.40 and saying that the \$1.50 fell short of the \$1.40. So unfortunately, I think they just one, pulled the wrong number. But yes, it's an unfortunate situation that it hits the headline like that because that's not the case this quarter.

**Aaron Bruce Reed**

*Northcoast Research Partners, LLC*

As long as I'm not misunderstanding something.

**Sara K. Hyzer**

*VP of Finance, Treasurer, CFO & Principal Accounting Officer*

You were not, and I'm pulling my hair out. Thank you.

**Operator**

Ladies and gentlemen, that does conclude our allotted time for questions. We thank you for participation on today's conference call and ask that you please disconnect your line.

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