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Earnings Call

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Call Participants

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company Third Quarter Fiscal Year 2025 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 May 31, 2025. These documents will be made available on our Investor Relations website at 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 the 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 discussion.

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, July 10, 2025. 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 thank you all for joining us today. Today, I'll start with an overview of our sales results for the third fiscal quarter of 2025, along with updates on Must-Win Battles and key strategic enablers. Then Sara will dive deeper into our third quarter performance, review our 55/30/25 business model, give a brief update on the expected divestiture of our homecare and cleaning business and share our updated outlook for fiscal year '25. After that, we'll open the floor for your questions.

Today, we reported third quarter net sales of \$156.9 million, a 1% increase compared to the same period last year. This marks a record sales quarter for the company, reflecting continued progress and momentum. Changes in foreign currency exchange rates have continued to be a bit of a headwind for us. Adjusting for estimated translation impact of foreign currency, net sales would have been \$158.6 million, reflecting an increase of 2% compared to the same period last year.

We reported third quarter net sales of \$150.4 million in maintenance products, our core strategic focus, reflecting a 2% year-over-year increase. While the quarter came in below our long-term growth targets for maintenance products, we remain confident in our growth trajectory. Year-to-date, net sales in maintenance products reached \$435.2 million, representing a 6% increase, and aligns with our mid- to high single-digit long-term growth target.

We are also pleased to report a strong start to the fourth quarter, with June delivering robust performance across all 3 trade blocks. This positive momentum reinforces our confidence in concluding the fiscal year with solid growth.

Now let's talk about third quarter sales results in dollars by segment, starting with the Americas. Sales in the Americas, which includes the United States, Latin America and Canada, increased 4% in the third quarter to \$78.2 million compared to the same period last year. Adjusting for estimated translation impact of foreign currency, net sales in the Americas would have increased by 7% compared to the prior year fiscal quarter.

Sales of maintenance products increased 4% in the third quarter to \$75 million compared to the same period last year. The bulk of this growth was driven by higher sales of WD-40 Multi-Use Product in the United States, which increased 7%, driven by increased promotional activity and the timing of customer orders. Sales in Latin America remained constant. While distributor markets in the region experienced a decline in volume, primarily due to reduced promotional activity and the timing of customer orders, this was largely offset by solid growth in Brazil, which continues to demonstrate strong market momentum. Higher sales in the United States were partially offset by lower sales in Canada, which decreased 6% compared to the prior year quarter due to changes in distribution and reduced promotional activity.

In the Americas, sales of WD-40 Specialist increased 4% compared to the prior year fiscal quarter, primarily due to expanded distribution in the United States. Homecare and cleaning product sales remained steady across periods, reflecting our strategic shift toward higher-margin maintenance products and align with our Four-by-Four Strategic Framework. In total, our Americas segment made up 50% of our global business in the third quarter.

Now let's take a look at our sales in EIMEA, which includes Europe, India, the Middle East and Africa. Total sales in EIMEA declined 5% in the third quarter to \$56.7 million compared to the same period last year. Foreign currency translation had no material impact on our third quarter results.

Sales of maintenance products decreased 3% in the third quarter to \$55.6 million compared to the same period last year. The decline was largely attributed to a 6% decrease in sales of WD-40 Multi-Use Product, which came at a strong performance during the same period last year. The decline in sales of WD-40 Multi-Use Product was primarily driven by lower sales volumes to our marketing distributor customers, particularly in Turkey and the Middle East, resulting in a \$3.9 million impact. Sales in Turkey were impacted by the timing of customer orders, reflecting the inherent variability we often experience in our distributor markets. Sales in the Middle East were impacted by operational changes aligned with our long-term strategic objectives.

As part of our commitment to manufacturing closer to end users, delivering both economic and environmental benefits, we recently onboarded a new manufacturing partner in the region. While this transition supports our long-term goals, it has resulted in short-term disruption as customers adapt to the new supply chain. However, we continue to see strong sales trends in most of our direct markets, and sales volumes of maintenance products remained strong. Notably, sales of these products increased by 9% in France, 14% in DACH, 13% in Iberia, and 7% in the United Kingdom.

In EIMEA, sales of WD-40 Specialist increased 15% compared to the prior year fiscal quarter driven primarily by higher volumes resulting from strong demand across many of our direct markets as well as increased promotional activity for our WD-40 Specialist pipeline in the DACH region. Homecare and cleaning product sales declined \$1.2 million, primarily due to reduced demand in the U.K., while lower levels of advertising and promotional activity impacted performance. This shift reflects our continued focus on driving growth in maintenance products in alignment with our Four-by-Four Strategic Framework. In total, our EIMEA segment made up 36% of our global business in the third quarter.

Now on to Asia Pacific. Sales in Asia Pacific, which includes Australia, China and other countries in the Asia region, increased 7% in the third quarter to \$22 million compared to the same period last year. Adjusting for estimated translation impact of foreign currency, sales in Asia Pacific would have increased by 8% compared to the prior year fiscal quarter.

Sales in maintenance products increased 9% in the third quarter to \$19.8 million compared to the same period last year. This growth was driven by higher sales of WD-40 Multi-Use Product in China and our Asia distributor markets, where sales increased 19% and 8%, respectively. In China, the increase is fueled by successful promotional programs, expanded marketing activities and broader distribution. In our Asia distributor markets, growth was supported by strong promotional execution and increased demand, particularly in Indonesia and Taiwan. In Australia, sales of maintenance products remained relatively constant. Homecare and cleaning product sales declined 9%, primarily due to reduced promotional activity and the timing of customer orders.

In Asia Pacific, sales of WD-40 Specialist were up 6% in the third quarter due to higher sales volume from successful promotions and marketing efforts in our Asia distributor markets in China. In total, our Asia Pacific segment made up 14% of our global business in the third quarter.

Now let's talk about our Must-Win Battles. Our Must-Win Battles are centered on driving revenue growth in maintenance products, enhancing overall profitability. Execution across these priorities remain strong, with performance generally tracking in line with expectations and supporting our long-term value creation objectives.

Starting with Must-Win Battle #1, lead geographic expansion. Year-to-date, global sales of WD-40 Multi-Use Product reached \$353 million, reflecting a 6% increase compared to the same period last year. This performance aligns with our long-term growth objective driven by solid execution across key markets. In EIMEA, our flagship brand delivered 8% growth, while the Americas posted a 6% increase. Although sales in Asia Pacific were flat year-to-date, the region showed encouraging momentum with double-digit growth in the third quarter.

We've made excellent progress year-to-date in many key markets with strong sales growth of 19% in Latin America, 12% in France, 40% in India, 12% in China, 15% in Iberia and 21% in Benelux. We estimate the global addressable market for WD-40 Multi-Use Product to be approximately \$1.6 billion based on benchmark sales potential. Our strategy to capture this opportunity remains focused and effective: expand product availability across channels and geographies and increase penetration by placing more cans directly in the hands of our core end users worldwide.

Next is Must-Win Battle #2, accelerating premiumization. Our second Must-Win Battle is to accelerate the growth of premium formats of WD-40 Multi-Use Product. Premiumization is a key driver of our strategy to enhance profitability, and our premium offerings consistently deliver superior user experiences that foster strong brand loyalty and create positive lasting memories. Year-to-date, sales of WD-40 Smart Straw and EZ-REACH, when combined, were up 7% compared to the prior year period. On a go-forward basis, we'll be targeting a compound annual growth rate for net sales of premiumized products of greater than 10%.

Our third Must-Win Battle is to drive WD-40 Specialist growth. Through our WD-40 Specialist product line, we're focusing on achieving category leadership and expanding market share by leveraging the strength and trust of our core brand. This approach allows us to extend our brand equity into adjacent categories for meeting the evolving needs of professional and industrial users. Year-to-date, sales of WD-40 Specialist products were \$59.8 million, up 11% compared to the same period last year. On a go-forward basis, we'll be targeting a compound annual growth rate for net sales of WD-40 Specialist of greater than 15%.

Our fourth Must-Win Battle is to turbocharge digital commerce. Our digital commerce strategy is not solely focused on driving online sales. It plays a pivotal role in accelerating progress across all our Must-Win Battles. E-commerce sales were up 11% year-to-date. The digital channel serves us far more than a transactional platform. It's a tool for building brand awareness and educating end users about the unique value of our products. By leveraging digital touch points, we deepen engagement, enhance product understanding and strengthen brand affinity across our global customer base.

Now let's move to the second element of our Four-by-Four Strategic Framework, our strategic enablers, which emphasize operational excellence. Today, I'll provide an update on strategic enablers 1 and 2.

Our first strategic enabler is to ensure a people-first mindset. Today, I want to highlight one important outcome of that commitment: employee tenure. Longer employee tenure creates meaningful economic value by reducing turnover costs, preserving institutional knowledge, enhancing productivity and strengthening stakeholder relationships, all of which contribute to sustained profitable growth. While the median employee tenure at U.S. companies is approximately 4 years, the average tenure at WD-40 Company is double that, 8 years. We take great pride in this distinction.

I want to take a moment to extend my deepest thanks to all our employees for your dedication, hard work and passion. It's because of your unwavering commitment that WD-40 Company continues to achieve great things. Your contributions are the foundation of our success, and we are truly grateful.

Moving on to our second strategic enabler, which is to build an enduring business for the future. WD-40 Company has long been committed to purpose-driven growth, operating in a way that balances economic performance, environmental stewardship and social responsibility to create and protect long-term stakeholder value.

Today, I want to highlight our commitment to social responsibility and share an update on our broader citizenship efforts. For over 40 years, WD-40 Company has supported communities by contributing to a wide range of nonprofit organizations and initiatives. Recently, we completed a reevaluation of our social mission to ensure it reflects who we are today and where we're headed. Rooted in our people first culture, values and brand mission, the purpose of our new citizenship framework is to empower doers around the world to build a better future.

Our new citizenship framework is anchored in 3 strategic pillars: training, preparation and restoration. These pillars align with our 2030 strategy, reinforce our company's purpose and support the United Nations' sustainable development goals in meaningful ways. One way we're bringing the training pillar to life is through programs like training the trades. This program supports aspiring technicians and trades people around the world with the goal of developing the next generation of skilled professionals. By doing so, we help strengthen communities and address critical talent gaps in many of the regions where we operate.

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

Sara K. Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

Thanks, Steve. Today, I'll offer insights into our business model, highlight key takeaways from our third quarter performance and provide a brief update on the planned divestiture of our homecare and cleaning business in the Americas and the U.K. I'll also share our updated outlook for fiscal year 2025.

Let's start with a look at our business model. Our 55/30/25 business model remains a long-term strategic guidepost. In the near to midterm, we continue to evaluate each component of the model within a range, allowing us to adapt while staying aligned with our long-term objectives.

I'll kick off with an overview of our third quarter gross margin performance. We target a range of 50% to 55% for gross margin, and we have made excellent progress on gross margin recovery. In the third quarter, our gross margin was 56.2%, up from 53.1% last year, representing an improvement of 310 basis points. Gross margin improved due to several favorable factors: 110 basis points from higher average selling prices, including the impact of premiumization; 80 basis points from lower specialty chemical costs; and 60 basis points from reduced can costs. There were no material unfavorable impacts to gross margin this quarter.

We're also pleased to report that gross margin improved across all 3 trade blocks this quarter compared to the same period last year. Gross margin in the Americas rose 360 basis points from 50.6% to 54.2% driven by lower specialty chemical costs and higher average selling prices. Gross margin in EIMEA increased 290 basis points from 54.8% to 57.7% driven by higher average selling prices, favorable shifts in sales and market mix, and lower input costs. Gross margin in Asia Pacific rose 140 basis points from 57.6% to 59%, primarily due to higher average selling prices.

As a reminder, gross margin recovery has been a central focus for senior leadership who are incentivized to recover gross margin to 55% and beyond. Year-to-date, our gross margin was 55.2%, up from 53.1% last year. It is great to see our supply chain initiatives having an impact on our overall gross margin results. For the full fiscal year, we currently project gross margin will be between 55% and 56%, 1 year ahead of our original time line. While risks remain, including cost volatility, tariffs, the timing of supply chain cost initiatives and progress on our asset divestitures, we're closely monitoring these factors. Gross margin has strengthened steadily in recent quarters, giving us confidence in exceeding our 55% long-term objectives this fiscal year.

Now turning to our cost of doing business, which we define as total operating expenses less adjustments for certain noncash expenses. Our cost of doing business is primarily driven by 3 key areas: strategic investments in our people, global brand-building efforts and freight expenses associated with delivering products to our customers.

While our long-term goal is to manage cost of doing business within the 30% to 35% range, we continue to make thoughtful, strategic investments to support long-term growth. These include initiatives in brand building, technology, ESG, innovation and regulatory compliance. This quarter, our cost of doing business was 38% of net sales, up from 34% in the same period last year. In dollar terms, our cost of doing business increased \$5.9 million or 11%, of which \$2.9 million was driven by timing differences for our incentive compensation accrual this quarter as compared to the prior year. Increases were also driven by higher employee-related expenses, including additional head count to support our sales growth initiatives outlined in our strategic framework as well as staffing to enhance our information systems.

Advertising and promotional expenses remained relatively constant year-over-year. As a percentage of net sales, A&P spend was 5.8% this quarter compared to 6% in the same period last year. While we are currently tracking below our full year guidance of 6% of net sales, we have several brand building initiatives planned for the remainder of the fiscal year, which we expect will bring A&P investment in line with our guidance.

We expect to see improvements in our cost of doing business metric over time as sales growth, which is the most important factor in managing our cost of doing business towards our long-term target of 30% to 35%.

Turning now to adjusted EBITDA. We believe adjusted EBITDA as a percentage of sales is a valuable metric for assessing both profitability and operational efficiency. Our long-term target is a range of 20% to 25%, and we have made solid progress towards achieving this aspiration. In the third quarter, our adjusted EBITDA margin was 20% compared to 19% in the same period last year. We believe looking at adjusted EBITDA in dollar terms can also be useful for assessing absolute performance. In the third quarter, our adjusted EBITDA was \$30.7 million, up 3% from prior quarter.

Adjusted EBITDA is a critical component of our business model. With our low debt, capital-light structure, much of it converts to free cash flow, enabling consistent stockholder returns and long-term value creation.

Let's turn to other key measures of our financial performance, operating income and earnings per share. Operating income improved to \$27.4 million in the third quarter, an increase of 1% over the prior period. Diluted earnings per common share were \$1.54 in the third quarter compared to \$1.46 last year, reflecting an increase of 5%. Our diluted EPS reflects 13.6 million weighted average shares outstanding.

Next, let's review our balance sheet and capital allocation strategy. Our financial position and liquidity remains strong, supporting a balanced capital allocation strategy that invest in long-term growth while delivering meaningful returns to stockholders. Maintaining a disciplined and balanced capital allocation approach remains a priority for us. For the foreseeable future, we expect maintenance CapEx of between 1% and 2% of sales per fiscal year, which is in line with our asset-light strategy.

Our cash flows from operations this quarter was \$35 million, and we elected to use approximately \$20 million of that cash to pay down a portion of our short-term higher interest rate borrowings. Our intent is to continue to pay down higher interest borrowings under the current interest rate environment.

We continue to return capital to our stockholders through regular dividends and buybacks. Annual dividends will continue to be our priority and are targeted at greater than 50% of earnings. On June 17, our Board of Directors approved a quarterly cash dividend of \$0.94 per share. During the third quarter, we repurchased approximately 12,750 shares of our stock at a total cost of approximately \$3 million under our current share repurchase plan. On June 16, our Board of Directors approved an amendment to extend the current share repurchase plan for an additional year, resulting in a new expiration date of August 31, 2026. We plan to remain active in the market and expect to repurchase at least enough shares to offset shares issued. Our goal is to return capital to stockholders in the most accretive way possible.

Finally, before I move to guidance, I would like to provide a brief update on the household divestiture. Our investment bank continues active discussions with multiple potential buyers, both in the United States and in the United Kingdom. Although there is no certainty of a deal, we remain optimistic, and I will provide further updates as appropriate.

So let's turn to FY '25 guidance, which we have made revisions to reflect our current view of the business. As a reminder, we issued this year's guidance on a pro forma basis, excluding the financial impact of the homecare and cleaning brands we have classified as assets held for sale. Given that the timing of the transaction remains uncertain, we continue to believe this approach provides investors with clarity on the direction of the core business and helps minimize the noise surrounding the transaction. In addition, this guidance excludes the release of a noncash onetime uncertain tax position that generated a favorable income tax adjustment, which we disclosed in the second quarter of fiscal year 2025.

I encourage investors to review our third quarter fiscal year 2025 earnings presentation, which includes a pro forma view. With only 1 quarter to go, we are pleased with the outlook for the full year. And as Steve indicated, we are seeing a strong start to our fourth quarter.

With that, our updated guidance for fiscal year 2025 is projected as follows. Net sales growth from the pro forma 2024 results have been narrowed to be between 6% and 9%, with net sales between \$600 million and \$620 million after adjusting for translation impacts of foreign currency. We continue to expect full year gross margin to be in the range of 55% to 56%. Advertising and promotion investment continues to be around 6% of net sales. Operating income has been increased to be between \$96 million and \$101 million, now representing growth of between 7% and 12% over the pro forma 2024 results.

The provision for income tax is expected to continue to be around 22.5%. And we are increasing our diluted earnings per share guidance primarily due to the impact of foreign currency exchange rate fluctuations and changes in nonoperating items. It is now expected to be between \$5.30 and \$5.60, which is based on an estimated 13.5 million weighted average shares outstanding. This range now represents growth of between 12% and 18% over the pro forma 2024 results.

This guidance assumes no major changes to the current economic environment. Unanticipated inflationary headwinds, foreign currency exchange fluctuations, changes in trade tariffs and other unforeseen events may further affect the company's financial results. In the event, we are unsuccessful in divesting the assets currently held for sale, our guidance would be positively impacted by approximately \$20 million in net sales, \$6 million in operating income and \$0.33 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 the third quarter was a record sales quarter for the company, reflecting continued progress and momentum. You heard that sales of our maintenance products were up 6% year-to-date and that this performance aligns with our long-term growth targets. You heard that we're pleased to report a strong start to the fourth quarter, with June delivering robust performance across all 3 trade blocks.

You heard that sales of WD-40 Multi-Use Product were up 6% year-to-date. You heard that sales of WD-40 Specialist were up 11% year-to-date. You heard that sales in the e-commerce channel were up 11% year-to-date. You heard while the U.S. median employee tenure is 4 years, WD-40 Company averages 8,

twice as long. You heard that we're launching a renewed citizenship platform, designed to empower doers around the world to build a better future.

You heard that in the third quarter, our gross margin was 56.2%, and we believe we will end fiscal year 2025 within our guidance range of 55% to 56%. You heard that we narrowed our net sales guidance and now expect net sales growth of between 6% and 9% in fiscal year '25, which aligns with our mid- to high single-digit long-term growth target. And you heard that we made an upward revision to our full fiscal year '25 operating income and EPS guidance.

Thank you for joining our call today. We'd now be pleased to answer your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Daniel Rizzo with Jefferies.

Daniel Rizzo

Jefferies LLC, Research Division

So it looks like you said it was a strong June and it was a really solid Q3. Maybe I'm wrong, but it seems like the Q4 guidance is kind of wide. I was wondering if there's things there that could go wrong to maybe go towards the low end or frankly, overall, why it's kind of wide given what's happening.

Steven A. Brass

CEO, President & Director

I'll kick off with that, Daniel. And Sara, you feel free to chime in. And so yes, our guidance, I mean, obviously, we're now only 8 to 10 weeks out to the year-end, and so we have a much clearer view of where we're headed. So we did narrow the guidance slightly just to reflect our latest estimate, which is fully within our historical kind of targets of 6% to 9% for maintenance products. And so we feel that, obviously, the third quarter, we were a little lighter in terms of revenue growth, albeit delivering a record sales quarter, up against a tough comparable. And the fourth quarter is also quite a tough comparable compared to prior year. And so we feel good about where we're targeting the revenue numbers.

Sara, do you have anything to add?

Sara K. Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

Just that, Daniel, a lot of times, the promotional activity, as we get to the end of a quarter or the end of the year, can swing it from one direction if something gets pulled forward or if something gets pushed out. And so sometimes that is out of our control. Along with the timing of when, especially in our marketing distributor markets, if an order or 2 slips even just a couple of days, that actually can have a decent impact because those orders tend to be fairly sizable. So it's one of the reasons why we kept a decent range, but also felt that it was appropriate to narrow it just where we think the year is going to land.

Daniel Rizzo

Jefferies LLC, Research Division

That's helpful. And so we're doing great with gross margin. You're at 55% to 56%, but the long-term target is 55%. So does that suggest maybe some giveback next year or, at the very least, slower growth? Or how should we think about it? I'm not asking for, I guess, guidance per se, but just how we should think about it after this fourth quarter here?

Sara K. Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

Yes. I mean I think, obviously, we're very pleased with where margin has held throughout the course of the year and believe we'll be in line with that 55% to 56%. I think we've indicated, right, we necessarily won't be stopping at 55%. We do have a number of supply chain initiatives in the pipeline that we think could potentially be accretive if we don't encounter additional inflationary headwinds. So we're pleased with where margin is. Obviously, the stability of the input cost has been in our favor this year. And if we do encounter any inflationary headwinds going into next year, I think we're pretty confident that we have enough supply chain initiatives in the pipeline to offset those. If the cost stays stable, then those supply chain initiatives would likely be accretive to us.

Daniel Rizzo

Jefferies LLC, Research Division

Okay. And then just kind of going down, so then it seems the last year, as I look through my model, that G&A costs generally rise by double digits. I know you don't really guide to that, but how we should think about that too as you go into '26 and just over the long term? Given the promotional activity and, well, some of the things you're doing with the different activities you have that we should think about that growing, I don't know, like low double digits.

Sara K. Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

From an SG&A perspective, Daniel?

Daniel Rizzo

Jefferies LLC, Research Division

That's correct.

Sara K. Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

Yes. So obviously, we've been making -- we've talked about the investments that we've been making over the past couple of years, specifically around IT, ESG, in particular, and then some of the org design work that we've implemented a few years ago. We are focused on the cost side of things. And so I don't think double digits is necessarily what I would be guiding to for next year. We're obviously just in the early stages of our plan for next year, but we're very much focused on coming out next year with costs not at the same rate that you've seen in the last couple of years.

Daniel Rizzo

Jefferies LLC, Research Division

Okay. And then for FX, it was a little bit of a mixed bag with more of a headwind in Q3. But as we sit here now with 8 weeks left, should we think about it as maybe a small benefit in the fourth quarter? Or how should we think about that?

Sara K. Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

Yes, I think we'll continue. If you look at on a global basis, right, the biggest headwind we had for FX was in the second quarter. That pulled back a little bit in the third quarter. It actually was -- finally saw it flip positive for us in Europe, in particular, which is where we have the biggest impact of currency. If we sit here with the rates sitting here today compared to Q4 of last year, I would expect that to be a positive for us, albeit the Mexican and the Brazilian currencies have been our biggest headwinds for the full year, and that will likely continue into the fourth quarter.

Daniel Rizzo

Jefferies LLC, Research Division

Okay. And then one final question. I know tariffs aren't really having a major impact on you guys, but I was wondering if it's having -- I don't know, just with all the announcements, a couple of different things, if it's having an effect on customer order trends or even distributor order trends where there was some pull forward before Liberation Day or after, I don't know, if it's just causing lumpiness, frankly.

Steven A. Brass

CEO, President & Director

Not really, Daniel. I mean we've kind of made the statement last quarter that we are relatively -- we're not immune from tariffs, and particularly in our Americas business, we do have some exposure. But no, there's no kind of real lumpiness around ordering patterns, I wouldn't say. And we do have substantial supply chain initiatives, which are largely offsetting the impact of tariffs. And so where there is, particularly with our Americas region, some tariff exposure, particularly around steel cans with the tariffs, we are managing to offset that globally in terms of countermeasures from supply chain initiatives, making it virtually a wash globally for us.

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Operator

Our next question comes from the line of Mike Baker with D.A. Davidson.

Michael Allen Baker

D.A. Davidson & Co., Research Division

I guess it's kind of a follow-up on the guidance question. But I am a little curious. So you narrowed the range for the full year, what changed in the top line? Is it a function of what you saw in the third quarter? What do you expect to see in the fourth quarter? Is it FX? Just why is that midpoint down a little bit?

And then the sort of opposite question on the profitability, you increased that. So what's the mindset there? Is that a function of what you've seen year-to-date or the confidence in what you're seeing in the fourth quarter?

Steven A. Brass

CEO, President & Director

Yes, Mike. So I think, as you get further into the year and you're 8, 10 weeks away from the year-end, you get a clearer picture on how things are tracking. And so 8, 10 weeks away, this kind of guidance of 6% to 9%, which is where we guide to long term, is kind of where we see it from today's vantage point. And so we're narrowing the guidance. You see the sort of comparable numbers we're lapping now in Europe for the third and fourth quarter. That's a part of it. We did talk to some kind of slowdown within our Middle Eastern region. And so therefore, that's the structural reasons.

We've implemented a new manufacturing partner in Dubai. And so what's happened there is that our local partners, that's reduced the inventory needs. And so whereas they were sourcing before via sea shipment and it was taking a month, they're now able to get product within 5 days or 7 days. And so the need for inventory is considerably less. And so There, we have a one-off kind of change that we weren't quite sure when in the year we're going to be implementing. So that has had a material impact.

We also spoke about Turkey. This is one of those emerging markets where 1 year, you can grow at 66% like we did last year. And this year, we're declining by almost 40%. So the long-term story is still extremely positive, but some of these emerging markets are more volatile, and that does lead to some unpredictability.

Sara K. Hyzer

VP of Finance, Treasurer, CFO & Principal Accounting Officer

And then, Mike, maybe if I can just add on a little bit. So the sales guidance that we put out is on a constant currency basis. And so we try to take the cost or the currency out of that 6% to 9% growth. What you're seeing then on the change for the operating income and the EPS is that when we were sitting here at Q2, the euro, in particular, was at a much lower rate. It has since improved and held, and we're using more current rates. So we're seeing a positive impact actually to our operating income and EPS and then just 1 or 2 other nonoperating items that are positive in our favor.

But all in all, I think when we put out guidance at the beginning of the year, kind of where we're landing at the end of the year, the business is actually pretty in line with where we expected it with some currency noise in the first half of the year then coming back and giving us a little bit of tailwind in the back half of the year.

Michael Allen Baker

D.A. Davidson & Co., Research Division

Got it. Makes sense. If I could ask one other question. It's interesting, I think in some of the revenue, when you talk about some of the regions, you talked about promotions helping drive business as well as in some of the products. So if you could talk about the promotional activity that you're seeing and I guess, within the context of the idea that even though you're talking about promotional activity driving businesses, your promotions as a percent of sales is actually down year-to-date a little bit. So just trying to square that circle.

Steven A. Brass

CEO, President & Director

Yes, I think you have to differentiate between promotions and brand building, right? And so most of our marketing investments are in terms of brand building and simple marketing programs like sampling. We've spoken about the sampling programs we put out across the world, particularly in places like China and India, to bring in new end users. And so that's kind of part of that.

The other aspect is then with our big kind of box retailers, particularly in the Americas, whether a promotion lands, so it isn't always a price promotion, it can be an off-shelf promotion or whatever, whether that lands in one particular quarter and the next can be down to a matter of days. And so they can be pretty substantial chunks of business. We have a very strong promotional program, particularly in our U.S. business as we look at the Q4. And so we're very confident about the U.S. business, which performed well in Q3. And going into Q4, we believe we're well set up for a strong year with modest single-digit growth within the U.S. market.

Operator

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

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