S&P Global
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WD-40 Company NasdaqGS:WDFC

Earnings Call

Thursday, January 8, 2026 10:00 PM GMT

Call Participants

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

Daniel Rizzo
Jefferies LLC, Research Division

Michael Allen Baker
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Presentation

Operator

Good day, and welcome to the WD-40 Company's First 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, 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 November 30, 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, January 8, 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 thank you all for joining us today. Today, I'll start with an overview of our sales results for the first fiscal quarter of 2026, and then provide an update on the progress we've made against certain elements of our Four-by-Four strategic framework. Then Sara will dive deeper into our first quarter performance, review our business model give a brief update on the divestiture of our homecare and cleaning business and review our outlook for fiscal year '26. After that, we'll open the floor for your questions.

Today, we reported consolidated net sales of $154.4 million, representing a 1% increase compared to last year. Let's take a closer look at these results and unpack what's driving our performance. Maintenance products remain our primary strategic focus, representing approximately 96% of total net sales for the quarter. Net sales for these products reached $148.9 million, a 2% year-over-year increase. While this performance came in below our long-term growth targets, we remain highly confident in the strength of our growth trajectory for both the fiscal year and longer term.

As you know, we go to market through a combination of direct operations and marketing distributors. Our direct markets accounted for 83% of our global sales during the first quarter and maintenance products grew by 8% in those markets, in line with our long-term growth targets. The softness we saw in the first quarter was primarily due to timing relating factors within our marketing distributor network, not a decline in end-user demand. Marketing distributors represent about 17% of our global sales and typically exhibit greater quarter-to-quarter variability. These markets offer significant long-term growth potential but can be more volatile period to period.

As I shared last quarter, we anticipated a Q1 pullback, particularly in Asia Pacific as distributors managed inventory levels. I'll provide more detail on Asia Pacific performance shortly. We remain confident in a strong rebound later this fiscal year. The second quarter is already off to an excellent start with solid growth across all 3 trade blocks. We have visibility into a number of upcoming initiatives, giving us confidence in delivering the solid fiscal year results.

I'm also pleased to report that our gross margin continues to strengthen. In the first quarter, we reported gross margin of 56.2%, which is an improvement of 150 basis points sequentially from the fourth quarter and 140 basis points compared to the first quarter of last fiscal year. Gross margin, excluding the impact of the assets we currently have held for sale was 56.7%. Sara will share more detail about our gross margin in just a few minutes.

Now let's talk about first quarter sales results by segment, starting with the Americas. Unless otherwise noted, I'll discuss net sales on a reported basis compared to the first quarter of last fiscal year. Sales in the Americas, which includes the United States, Latin America and Canada, were $71.9 million in the first quarter, an increase of 4% compared to last year. Sales of maintenance products were $68.6 million, an increase of 5% or $3.2 million compared to last year. The bulk of this growth was driven by higher sales and maintenance products in the United States and Latin America, which increased 3% and 12%, respectively. In the United States, sales of WD-40 Multi-Use Product increased following a modest price adjustment in the first quarter of fiscal year '26, but this was partially offset by lower volumes due to the timing of customer orders. In Latin America, higher sales of WD-40 Multi-Use Product were primarily driven by expanded distribution and successful promotional activities in Mexico.

Maintenance product sales were also positively impacted by higher sales of WD-40 Specialist, which increased 14%, primarily due to increased online retail sales, new distribution and increased demand primarily in the United States. Homecare and cleaning product sales declined 18%, reflecting our strategic shift toward higher-margin maintenance products in alignment with our Four-by-Four Strategic Framework. In total, our Americas segment made up 47% of our global business in the first quarter.

Now let's take a look at our sales in EIMEA, which includes Europe, India, the Middle East and Africa. Excluding the impact of the homecare and cleaning brands we divested in the fourth quarter of FY '25, net sales were $58.7 million, an increase of 5% or $2.8 million compared to last year. This growth was driven primarily by a 27% increase in WD-40 Specialist sales fueled by heightened promotional activity and successful new product launches in key direct markets. Sales of WD-40 Multi-Use Product in EIMEA remained relatively constant. We continue to see strong trends in many of our direct markets. However, the increased sales in our direct markets were fully offset by softer performance in our EIMEA distributor markets, primarily due to the timing of customer orders, reflecting the inherent variability we often experience in our distributor markets.

While distributor sales declined in aggregate, India was a standout, delivering a $1.4 million increase. In total, our EIMEA segment made up 38% of our global business in the first quarter.

Now on to Asia Pacific, sales in Asia Pacific, which includes Australia, China and other countries in the Asia region were $23.9 million, a decrease of 10% or $2.7 million compared to last year. Sales of WD-40 Multi-Use Product were $18.3 million in the first quarter, a decrease of 12% compared to last year. Although segment sales declined in the first quarter, we achieved strong growth in China, where sales increased 8% over prior year. This performance was driven by expanding distribution and effective promotional initiatives. These gains were fully offset by lower sales of WD-40 Multi-Use Product in our Asia distributor markets, where sales decreased by $3.3 million or 33%. As noted earlier, this was primarily driven by the timing of customer orders as distributors that heavily participate in promotional activities during the fourth quarter of fiscal year '25 adjusted to more typical inventory levels. This performance was anticipated and factored into our fiscal year '26 guidance. Importantly, we continue to expect a strong rebound later in the fiscal year.

In Australia, sales of maintenance products remain constant on care and cleaning product sales, which remain a strategic focus for us in Australia, declined by 5% compared to last year, primarily due to the timing of customer orders. In Asia Pacific, sales of WD-40 Specialist were up 2% in the first quarter due to higher sales volume from successful promotions and marketing efforts in Australia and China. In total, our Asia Pacific segment made up 15% of our global business in the first quarter.

Now let's talk about our must-win battles. Our must win battles focused on accelerating revenue growth in maintenance products. Starting with must win battle #1, lead geographic expansion. In the first quarter, sales of WD-40 Multi-Use Product reached $118 million, decreasing 1% compared to last year. While this performance does not align with our long-term growth objectives. We've made excellent progress this quarter in many key markets, with strong sales growth of $1.4 million in India, $1.2 million in Mexico, $0.9 million in Iberia and $0.8 million in China. At 72 years young, we captured only about 25% of our global growth potential for our flagship product. We estimate the attainable market for WD-40 Multi-Use Product to be approximately $1.9 billion compared to fiscal year '25 sales of $478 million, leaving an opportunity of roughly $1.4 billion to nearly quadruple current sales.

Capturing net growth simply means continuing what works, expanding brand awareness and distribution across 176 countries and territories. While occasional soft quarters are part of the journey, they don't change our strategy, our long-term opportunity or our positive outlook.

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. Innovation drives this strategy. We design products like Smart Straw and easy reach with end users at the heart of every decision. This end user-focused approach strengthens brand loyalty, supports gross margin growth and deepens our competitive advantage. In the first quarter, sales of WD-40 Smart Straw and easy reach when combined, were up 4% over the prior year. Premiumized products currently account for approximately 49% of WD-40 Multi-Use Product sales leaving considerable room for continued growth. We target 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. When we introduced WD-40 Specialist alongside the WD-40 Multi-Use Product, we're not just adding variety, we're strengthening our brand, capturing new segments and offering end users more choice without diluting what makes our core brand iconic. In the first quarter, sales of WD-40 Specialist products was $22.5 million, up 18% compared to last year. We estimate the global attainable market for WD-40 Specialist to be about $665 million with only 12% of that potential realized to date with roughly $583 million in growth opportunity ahead. We target a compound annual growth rate for net sales of WD-40 Specialist at greater than 10%.

Our fourth must-win battle is to turbocharge digital commerce. Our digital commerce strategy is a catalyst for growth across the business, not merely a channel for online sales. It plays a vital role in advancing each of our must-win battles by increasing brand visibility, improving accessibility and driving deeper engagement with end users across global markets. In the first quarter, e-commerce sales increased 22%, primarily driven by strong sales of WD-40 Specialist in the United States.

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 3. Our first strategic enabler is to ensure a people-first mindset. At WD-40 company we've long held the belief that first, you build the people and the people build the business. We strive to be an employer of choice, where all employees bring their best selves to work. In November '25, we completed our latest employee engagement survey and I'm proud to share that we've been able to increase our employee engagement index score to 95%, a new record high for our organization. Additionally, 97% said they actively collaborate to share knowledge and ideas that drive better results. These results underscore how global collaboration accelerates our success and reflects our bold ambition to become a world-class global learning organization.

Our third strategic enabler is achieving operational excellence in supply chain. Profitable growth depends on the supply chain that's optimized, high-performing and resilient. This enabler has been key to expanding gross margins through cost reduction initiatives such as packaging improvements, logistics efficiencies and strategic sourcing. In the first quarter, we delivered global on-time performance of 97.6%, even while we continue to increase production capacity to support our must-win battles. Our global supply chain team also made strong progress in engaging with key suppliers and advancing our responsible sourcing policy. With that, I'll now turn the call over 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 first quarter performance and provide a brief update on the planned divestiture of our homecare and cleaning business in the Americas. Today, we are reaffirming our full year 2026 guidance. While our guidance ranges remain unchanged, I will provide some additional color on our outlook.

Let's start with the big picture. While our first quarter results were below our long-term growth targets, we did expect to get off to a slower start this year, and we believe we are set up for a strong year. We have numerous activities scheduled in the back half of the year, giving us confidence that we will be at the mid to high end of our guidance ranges. Our results can fluctuate quarter-to-quarter, driven by timing of promotional activity and customer order patterns. WD-40 Company is built for durable value creation, driven by brand strength, operational discipline and a culture of continuous improvement. This foundation positions us for sustained growth and strong stockholder returns for decades to come.

And with that, let's start with taking a closer look at our business model. Our business model is a strategic tool we use to guide our business. It is built around 3 core areas: gross margin, cost of doing business and adjusted EBITDA. 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. Because our business model is based on revenue, quarter-to-quarter variability in sales can lead to fluctuations in its performance.

We will begin with gross margin performance, which continues to be strong building off our solid recovery in fiscal year 2025. In the first quarter, our gross margin was 56.2%, up from 54.8% in the first quarter of last year. Representing an improvement of 140 basis points and was most significantly impacted by the following favorable factors: 110 basis points from lower specialty chemical costs and lower can costs and 60 basis points from higher average selling prices, including the impact of premiumization. These positive impacts to gross margin were partially offset by higher filling fees primarily in EIMEA, which negatively impacted our gross margin by 50 basis points.

Gross margin in the Americas rose 290 basis points from 50.4% to 53.3%, driven by higher average selling prices and by lower specialty chemical costs and lower can costs. Gross margin in EIMEA increased 90 basis points from 57.8% to 58.7%, which was mostly driven by the favorable impact of foreign currency exchange rates, partially offset by higher filling fees. While still well above our 55% target, gross margin in Asia Pacific decreased slightly by 70 basis points from 59.6% to 58.9%, primarily due to decreases in average selling prices linked to changes in sales mix. We're very pleased with the trajectory of gross margin, but external risks like cost volatility, tariffs and inflation remain part of the landscape.

To mitigate these and strengthen margins over time, we're driving initiatives such as supply chain cost reductions, premiumization, new product introductions, geographic expansion and asset divestitures. These levers reinforce our confidence in our gross margin long-term potential.

Now turning to our cost of doing business, which we define as total operating expenses plus adjustments for certain noncash expenses. Our cost of doing business was primarily driven by 3 areas: strategic investments in people, global brand building efforts and freight expenses associated with delivering products to our customers. Investing in our future remains a top priority. While our long-term goal is to keep the cost of doing business within a 30% to 35% range, we're making strategic investments to drive sales growth and enhance operational efficiencies. These investments strengthen our foundation and position us for sustained growth.

We also need time to absorb the loss of revenues associated with the homecare and cleaning divestitures. Revenue growth is a key driver of our cost of doing business ratio. With a slower start to the year and continued investments to fuel long-term growth, our cost of doing business temporarily moved above our target range. For the quarter, cost of doing business was 40% of net sales compared to 37% last year. Our first quarter typically carries higher expenses due to essential planning meetings that increased travel, which are critical for setting our strategic direction for the year. I view this quarter's cost of doing business as an anomaly. And as we execute our strategies to accelerate top line performance, we expect this ratio to improve over the course of the year.

In dollar terms, our cost of doing business increased $4.6 million or 8% compared to last year. Changes in foreign currency exchange rates had an unfavorable impact of $1.3 million this quarter. The majority of the remaining increase, $2.8 million was driven by higher employee-related expenses, including additional head count to advance initiatives in our strategic framework and strengthen our information systems, in addition to higher travel and median expenses this quarter over the prior year.

Advertising and promotional expenses decreased slightly year-over-year. As a percentage of net sales, A&P spend was 5.3% this quarter compared to 5.5% last year. While we are currently tracking below our full year guidance of around 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 fiscal year guidance. While we always seek cost efficiencies, scale, not cost cutting, is what will move us toward our long-term cost of doing business targets. As revenues grow, we expect the cost of doing business to trend towards 30% to 35% with sales growth being the key driver of improvement.

Turning now to adjusted EBITDA. Adjusted EBITDA as a percentage of sales is a key measure of profitability and operational efficiency. Our 20% to 25% target range for adjusted EBITDA margin is a long-term aspiration. However, we continue to believe we can move adjusted EBITDA margin back to our midterm target range of 20% to 22% once we have absorbed the loss of revenues associated with the homecare and cleaning divestitures. In the first quarter, our adjusted EBITDA margin was 17% compared to 18% last year. 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.

Now let's turn to other key measures of our financial performance. Operating income, net income and earnings per share in the first quarter. Operating income declined 7% to $23.3 million in the first quarter, while net income fell 8% to $17.5 million. On a pro forma basis, which excludes the impact of the homecare and cleaning products divested and those classified as held for sale, operating income and net income would have declined 4% and 5%, respectively. Declines in operating income and net income were primarily driven by softness in top line sales which we are expecting to bounce back over the course of the year. Decreases were also driven by higher SG&A expenses compared to the prior year. Diluted earnings per common share were $1.28 in the first quarter compared to $1.39 last year, reflecting a decrease of 8%. Our diluted EPS reflects 13.5 million weighted average shares outstanding. On a pro forma basis, EPS would have decreased 5%.

Now let's review our balance sheet and capital allocation strategy. We maintain a strong financial position and healthy liquidity, supporting a disciplined capital allocation strategy that drives long-term growth and deliver consistent cash flow and returns to our stockholders. Annual dividends will continue to be our priority and are targeted at greater than 50% of earnings.

On December 10, our Board of Directors approved a quarterly cash dividend of $1.02 per share, an increase of more than 8% over the prior quarter. This reflects the Board's confidence in future cash flows and underscores our commitment to returning capital to stockholders through consistent dividends.

During the first quarter, we repurchased approximately 39,500 shares of stock at a total cost of $7.8 million under our share repurchase plan. We have approximately $22 million remaining under our current repurchase plan, which expires at the end of this fiscal year. We have accelerated buybacks and plan to fully utilize the remaining authorization, reinforcing our strong conviction in the company's long-term fundamentals. Our focus remains on accretive capital returns that reflect confidence in the enduring value of our stock.

Finally, before I move to guidance, I would like to provide a brief update on the household divestiture. We continue to make progress on the sale of our Americas homecare and cleaning product brands. Our investment bank continues after discussions with multiple potential buyers. 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 '26 guidance. As a reminder, we issued this year's guidance on a pro forma basis, excluding the financial impact of the homecare and cleaning brands currently classified as assets held for sale. While the exact timing of the transaction remains uncertain, we believe this approach will provide investors with clarity on the direction of the core business and help minimize the noise surrounding the transaction. While first quarter sales results were below our long-term growth targets, as we mentioned, we anticipated a slower start to fiscal 2026. The softness was driven by timing factors within our marketing distributor network, not by a decline in end-user demand. All indicators point to a strong rebound later in the fiscal year. Accordingly, we are reaffirming our guidance today.

With the visibility we have into numerous activities already scheduled for the back half of fiscal year 2026 we are highly confident in delivering results at the mid- to high end of our guidance ranges. For fiscal year 2026, we expect net sales to be between $630 million and $655 million after adjusting for foreign currency impacts, a growth of between 5% and 9% from the pro forma 2025 results. 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 million 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.

This guidance assumes no major changes to the current economic environment. Unanticipated inflationary headwinds and other unforeseen events may affect our view of fiscal year 2026. In the event, we are unsuccessful in the divestiture of the Americas homecare and cleaning brands, 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 today on this call. You heard that sales in our direct markets grew 8% in the first quarter, in line with our long-term growth targets. You heard there is increase in sales was partially offset by softer sales in our marketing distributor network relating to timing-related factors, not a decline in end-user demand. You heard that sales of WD-40 Specialist were up 18% in the first quarter. You heard that sales in the e-commerce channel were up 22% in the first quarter. You heard that after 72 years, we've captured only about 25% of our global growth potential in our core Multi-Use Product, leaving roughly $1.4 billion in opportunity to nearly quadruple current sales.

You heard that in the first quarter, our gross margin was 56.2%, up 150 basis points from the fourth quarter and 140 basis points from the same period last year. You heard that we've been able to increase our employee engagement index score to 95%, a new record high for our organization. You heard that we've accelerated buybacks and plan to fully utilize our remaining authorization, reinforcing our strong conviction in the company's long-term fundamentals. You heard that our Board approved a quarterly cash dividend of $1.02 per share, up more than 8% from last quarter, and this increase reflects strong confidence in our cash flow outlook and our ongoing commitment to stockholder returns. You heard that we're off to a strong start in the second quarter with solid growth across all 3 trade blocks. And you heard that we've reaffirmed our guidance ranges with the visibility we have into numerous activities planned for the second half of fiscal 2026, we're highly confident in delivering results at the mid to high end of our guidance ranges.
Thank you for joining our call today. We would now be pleased to answer your questions.

Question and Answer

Operator

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

Michael Allen Baker
D.A. Davidson & Co., Research Division

Okay. I'll have a few. Let me start with Sara. You said you said, let me get the exact quote, "all indicators point to strong results." So what -- if you could give us more detail on what these indicators are? And then the guidance -- so mid- to high end of the full year range, is that more bullish than when you originally gave the guidance? I could be wrong, but I don't remember -- I remember you giving a range on the fourth quarter, but not necessarily planning to mid- to high end. So could you help me on that?

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

Yes. Sure thing, Mike. Nice to hear from you. So yes, as we sit here today and look forward into the back half of the year with the activities that we have locked in place. We do feel highly confident in being able to get to that mid- to high end of the range and that really is just coming from the promotional activities that we have scheduled and that we've been able to lock in even since year-end. So we're feeling really good about where the Americas is going to be landing the year and some of the variability will also be driven by Asia Pac's recovery in the back half of the year. So while they had a slower start, particularly in the marketing distributor markets, when we're starting to look at the recovery starting in Q2, but mostly that recovery will come in the back half of the year.

Michael Allen Baker
D.A. Davidson & Co., Research Division

Okay. And to follow up on that -- the -- are you -- it sounds like second quarter is off to a good start. Can we say are we specifically seeing a recovery in those Asia distributor markets? Or I guess you sort of just said it, it sounds like it's maybe starting a little bit, but it's more in the back half, but can we -- are we seeing a recovery yet in those Asia distributor markets?

Steven A. Brass
CEO, President & Director

Mike, it's Steve. So yes, we are, we're already seeing that at the beginning of Q1, and that's our expectation. So here, we had a relatively softish Q1 overall. Q2, you're going to see stronger results, but then the real power comes in the back half of the year. And so as Sara is alluding to, we're going to have a U.S. year like we haven't had in quite a while, a really strong year in the U.S., and that's the foundation. Our European direct markets are performing very, very well, and we expect that to continue. It's really about those Asia distributor markets and that kind of Q4, Q1 kind of impact with that beginning to recover beginning in Q2 and then into the back half, then also our European marketing distributor markets recovering also.

Michael Allen Baker
D.A. Davidson & Co., Research Division

Got it. Let me sneak in one more. The buybacks. So last year, you bought back $12 million. I think at one point, you had said you expect it to double. That would be about $24 million. But now you're saying you expect to go through the entire another $22 million this year. That's more than double, I think, if my math is right?

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

More than double, yes.

Michael Allen Baker
D.A. Davidson & Co., Research Division

So that's a more confident outlook, is that fair to say?

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

Yes, it's fair to say, Mike, that is good math. And yes, I think we -- as soon as the window opened up, we accelerated the buybacks and really just have it phased to utilize the entire I think, just under $30 million availability up through the end of the fiscal year.

Operator

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

Daniel Rizzo
Jefferies LLC, Research Division

You guys mentioned taking -- reducing supply chain costs. I was just wondering if you could provide color on what specifically you guys are doing. I mean, are you, I don't know, sourcing -- multi-sourcing more or yes, just the steps you're taking?

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

Yes, sure. So we -- a couple of years ago, we actually invested in not only head of global supply chain, but also head of global sourcing. And so there's been some new thinking around how we source supply, and we started with cans. So some of the can reductions or the can reductions that you're starting to see impact the business in the back half of last year and into this year is really the result of a different way of thinking about sourcing more globally. And the next phase of that is going to be moving into the specialty chemicals area. So there are concrete actions that we are taking to look at how and where we are sourcing our raw materials from.

In addition to that, we are -- there's a lot of activity happening on the supply chain side around how to take cost of the miles traveled for our cost -- miles traveled for our product costs out of the system, along with a fresh look at the distribution network, particularly in the United States and making sure that we are -- the distribution center, sorry, making sure that we're taking a look at how we're -- where our distribution centers are situated. Again, with the idea of trying to reduce the mileage that our products is traveling. So there are structural changes that are in the works. Some of that won't impact the business until FY '27 and beyond, but we're really excited about the work that the supply chain team has really taken on in the last couple of years and starting to see that come to fruition.

Daniel Rizzo
Jefferies LLC, Research Division

So with the increase in the distribution centers, would that suggest maybe that there's some CapEx spend or some sort of spend to kind of just improve your footprint in different, in various regions? That's my first question. And two, given these moves, is -- I know your guidance is 55% gross margins, but it seems like where we are now and maybe even a little above is annually achievable or sustainable for over the long term?

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

So I'll address the CapEx piece. Since it's a completely outsourced model, a lot of the investments, if we do have to make investments are happening by our third-party providers. We may, at times, help supplement the cash investment that they have, but a lot of that doesn't qualify as CapEx from our perspective. So I think our guidance of 1% to 2% from a maintenance CapEx standpoint, is still going to be a very good target that we'll be landing within. And then secondarily and of course, as I answer the CapEx question, I'm blanking on the second part of the question.

Daniel Rizzo
Jefferies LLC, Research Division

I was just wondering, given all the moves you're making with reducing costs...

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

Okay. Yes, the 55%. So I mean we're sitting above 55% right now. I hate to commit to something over the long term as we are always subject to oil availability and just specialty chemical variability, but we are continuing to find opportunities for us to take costs out of the system. And so we believe -- you can see in the guidance this year, we believe that there's opportunities for us to get margin accretion even this fiscal year and some of those initiatives that we have in the pipeline are going to benefit us in next fiscal year. So we'll be able to obviously guide to next fiscal year as we get to the end of this year, but there is -- right now, we're fairly confident with a strong gross margin.

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