



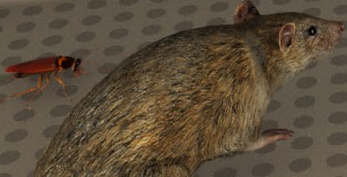
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UPDATE

"A SLIPPERY SLOPE INVESTMENT"
/ STRONG SELL OPINION /
WD-40 Company | Nasdaq: WDFC

 **SPRUCE POINT**
CAPITAL MANAGEMENT
INVESTMENT RESEARCH REPORT



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WD-40's New Management Should Reset Long-Term Investor Expectations

In April 2020 we warned that WD-40 (Nasdaq: WDFC) would not be recession proof, a hole in its balance sheet would be exposed, its long-term goals would fail, and it was time for management to step-down and admit failure. As we look back and evaluate our forecasts, many proved accurate. Its financial condition is the worst in decades and three key executives are departing. However, expectations (along with WD-40's nosebleed valuation) remain too high. **We call on WD-40's new management to fix the mistakes of prior management by resetting long-term expectations to a more realistic level.** We still see approximately 45%-60% downside risk (\$69.00 - \$95.00) to WD-40's share price as its financial situation is pressured from over 40% exposure to the UK and Europe and their depreciating currencies.

Spruce Point Concerns	What's Actually Happened Since
<p>Not recession proof, this time around will be MUCH worse. A major hole in the balance sheet is exposed</p>	<p>WD-40's financial pressures are at an all-time high. Days inventory have exploded to 104 up from 76 YoY, while its working capital to sales ratio is at 23.9%, an all-time high. Total inventory vs. revenue growth is +101% vs. -9% YoY.</p> <p>LTM operating cash flow margin has sunk to 5.6%. YTD free cash flow is just \$0.5 million. Yet, it has paid \$22 and \$31 million, respectively to repurchase stock and pay dividends. Leverage is rising to fund overly generous shareholder return policies.</p>
<p>Highly promotional Company under long-term pressures even before COVID-19. We're not a fan of tribal leader CEO Garry Ridge</p>	<p>Heavily promoted products such as Multi-Use, Smart Straw and EZ REACH are struggling, while WD-40 obfuscates disclosures. In the recent quarter, sales for these products were down approximately 10%-11%.</p> <p>In a world that moved more towards e-commerce during COVID-19, WD-40 failed to adapt. Recent YTD e-commerce results are -13% and management still won't disclose total sales through the channel.</p> <p>We warned about bike electrification reducing the need for WD-40 in the traditional bicycle market. WD-40 recently merged its Bike product within the specialist brand, which revealed miniscule sales for the product.</p> <p>CEO Ridge is "retiring" from WD-40, but not before dumping ~40% of his stock holdings at temporarily inflated prices between Oct 2020-2021.</p>
<p>Growth objectives are highly likely to disappoint</p>	<p>The Company is slowly walking back its long-term aspirational 2025 targets, but we believe they have much further to compress. Next three-year implied annual revenue growth expectations of 7.5% - 10.5% are too high.</p>
<p>Accounting and audit Concerns</p>	<p>The CFO and Chief Legal Officer disclosed their retirement both in Nov 2020. It took an astounding 20 months for WD-40 to announce the CFO's replacement is its former audit engagement partner. We are concerned that skeletons could have been exposed had someone outside of the WD-40 system assumed the CFO role.</p>
<p>Non-sensical valuation, and not a takeover target</p>	<p>In April 2020, WD-40 was trading at 6x and 27x NTM sales and EBITDA. In light of its worsening and historically poor financial condition, it is even more overvalued at 4.6x and 24x today. Its rising financial stress make it even less likely anyone would acquire the Company given its uncertain future.</p>

WD-40 Needs To Dramatically Cut Long-Term Revenue Goals



WD-40 quietly modified its long-term aspirations from \$700 million to \$650 - \$700 million in 2021, but we believe a further reset is necessary to set more realistic revenue aspirations. We agree with WD-40's new emphasis of *"Probably Wrong"*. **To achieve these long-term targets, WD-40 would have to grow by 7.5% to 10.5% over the next three years. The last time it experienced sustained multi-year growth of this magnitude was 2005 - 2007 when it was sub \$300 million in sales and GDP was growing at 3%+.** Now the world faces an unprecedented economic slowdown being imposed by banks tightening financial conditions. We believe the best course for new management to gain credibility is to clear the decks and set more realistic ambitions.

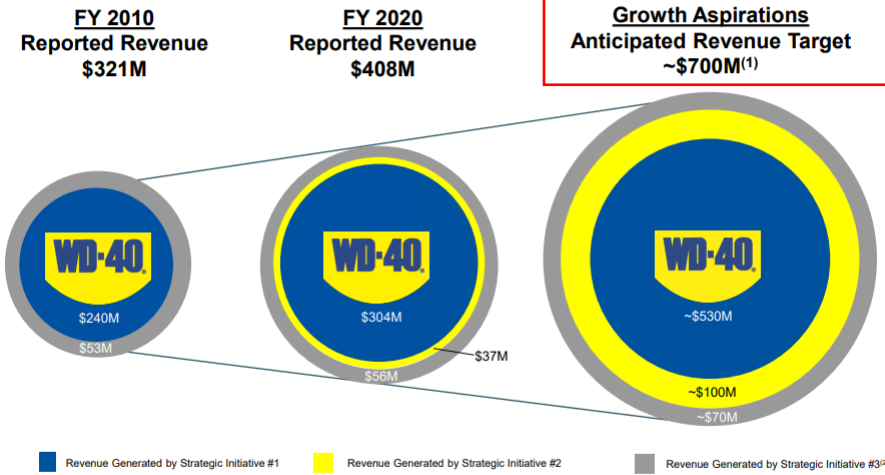
April 2021

Since July 2021

Revenue Growth Aspirations

Uncertain Global Economy Ahead May Delay Timing of Growth Aspirations

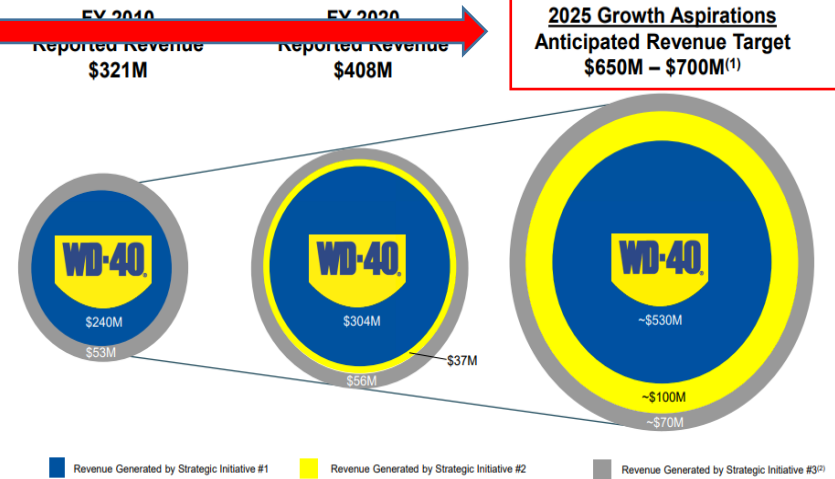
Growth Aspirations
Anticipated Revenue Target
~\$700M⁽¹⁾



Revenue Growth Aspirations

"Probably Wrong and Roughly Right"

2025 Growth Aspirations
Anticipated Revenue Target
\$650M – \$700M⁽¹⁾



1) Our growth aspirations for revenue are based on the Company's current expectations, beliefs and forecasts. They are expressed in good faith and are believed by the Company to have a reasonable basis, but there can be no assurance that they will be achieved or accomplished. Historical revenue numbers have not been adjusted for changes in foreign currency exchange rates.
2) Strategic Initiative #3 includes WD-40 Company products under the following brands: 3-IN-ONE, GT85, WD-40 BIKE, no vac, Spot Shot, 1001, Lava and Solvol.



1) Our growth aspirations for revenue are based on the Company's current expectations, beliefs and forecasts to strive to meet the higher end of our anticipated 2025 revenue targets. They are expressed in good faith and are believed by the Company to have a reasonable basis, but there can be no assurance that they will be achieved or accomplished. Historical revenue numbers have not been adjusted for changes in foreign currency exchange rates.
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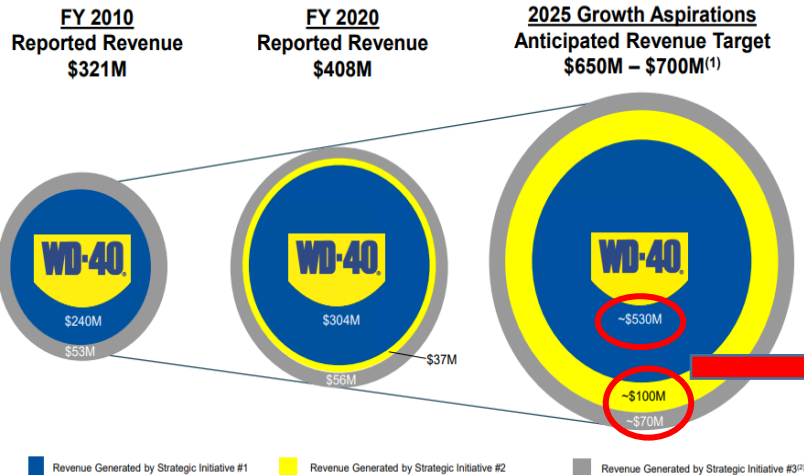
Further Shuffling of Long-Term Goals

WD-40 is shuffling brands among strategic buckets. Looking carefully, we see in the grey banded circle it reduce target sales from \$70m to \$50m. It removed WD-40 BIKE which we can estimate reduced sales by \$8.5 million, and added X-14, Carpet Fresh, and 2000 Flushes. **Our interpretation:** these added brands are suffering.

Since July 2021

Revenue Growth Aspirations

“Probably Wrong and Roughly Right”



1) Our growth aspirations for revenue are based on the Company's current expectations, beliefs and forecasts to strive to meet the higher end of our anticipated 2025 revenue targets. They are expressed in good faith and are believed by the Company to have a reasonable basis, but there can be no assurance that they will be achieved or accomplished. Historical revenue numbers have not been adjusted for changes in foreign currency exchange rates.

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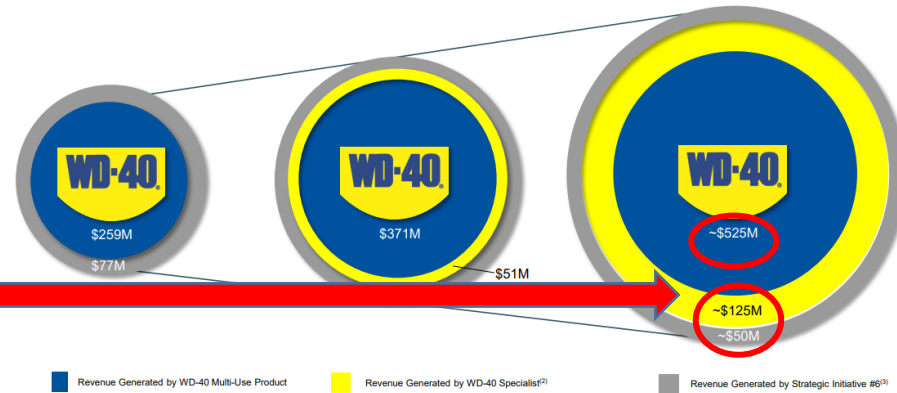
Source: [Investor Presentation](#)

Includes: WD-40 BIKE, 3-In-One, GT85, no vac, Spot Shot, 1001, Lava and Solvol

Since October 2021

Revenue Growth Aspirations

FY 2011	FY 2021	2025 Growth Aspirations
Reported Revenue \$336M	Reported Revenue \$488M	Anticipated Revenue Target \$650M – \$700M ⁽¹⁾



1) Our growth aspirations for revenue are based on the Company's current expectations, beliefs and forecasts to strive to meet the higher end of our anticipated 2025 revenue targets. They are expressed in good faith and are believed by the Company to have a reasonable basis, but there can be no assurance that they will be achieved or accomplished. Historical revenue numbers have not been adjusted for changes in foreign currency exchange rates.

2) Beginning in Q4FY21, the Company combined revenue from WD-40 BIKE into the FY2021 reported revenue and future revenue projections for WD-40 Specialist.

3) Strategic Initiative #6 includes WD-40 Company products under the following brands: 3-IN-ONE, GT85, no vac, Spot Shot, 1001, X-14, Carpet Fresh, 2000 Flushes, Lava and Solvol.

Source: [Investor Presentation](#)

Removes: WD-40 BIKE
Adds: X-14, Carpet Fresh, 200 Flushes

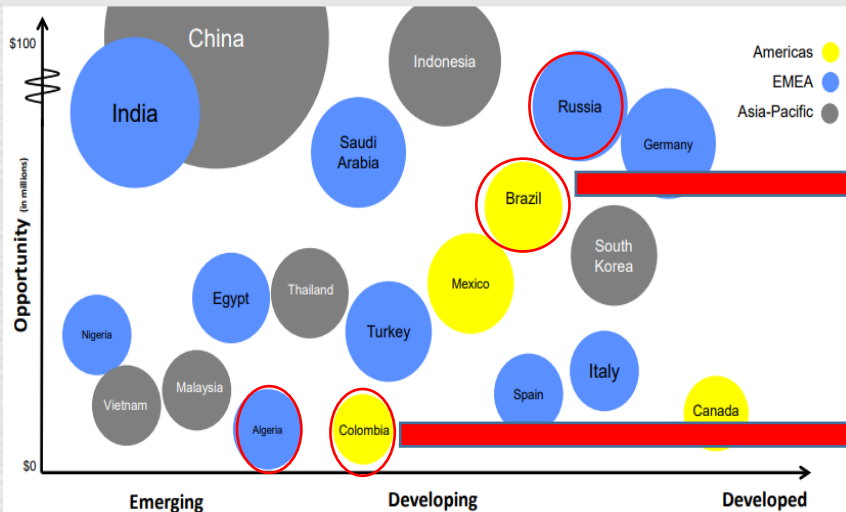
Losing Battle #1: Geographic Goals

Spruce Point has serious concerns about WD-40's ability to "Win" Battle #1 of Geographic Expansion. It recently removed two major economies in Brazil and Russia, and wants investors to believe that Bangladesh, Venezuela and South Africa will fill the void in helping it achieve \$1 billion of Multi-Use potential. In the last quarter ended May 31, 2022, EMEA and Asia-Pacific sales declined -16% and -28% year-over-year, respectively. Good luck....

July 2021

Must-Win Battle #1 - Geographic Expansion

We estimate the potential global market opportunity for WD-40 Multi-Use Product to be ~\$1.0B ⁽¹⁾

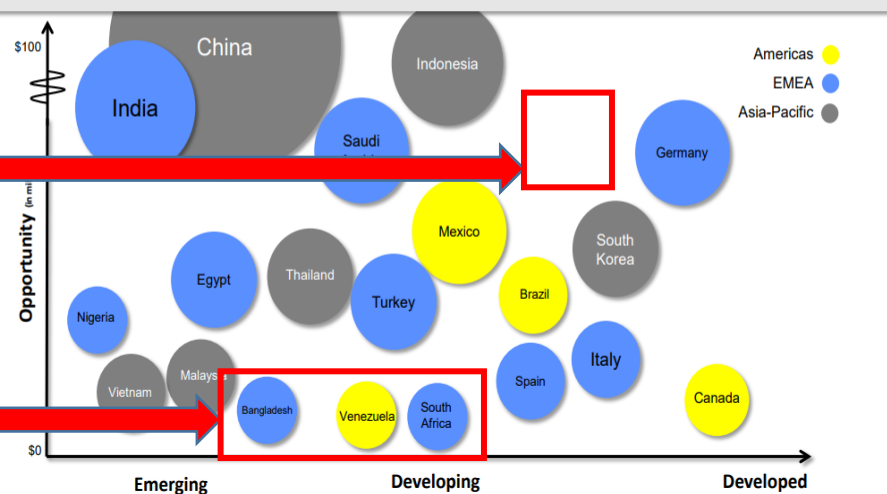


15 1) Based on Industrial Value Added (IVA) / Purchase Price Parity (PPP) third-party benchmarking. WD-40 Company's estimated IVA/PPP figure is calculated using country GDP (PPP) data, which is a country's GDP converted into 'international dollars' using the PPP index, then multiplied by the country's IVA (% GDP) figure.

TODAY

Must-Win Battle #1 - Geographic Expansion

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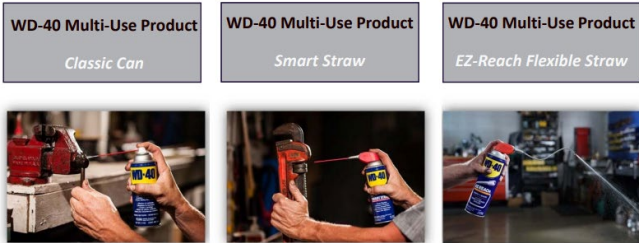
Losing Battle #2: Premiumization

Here's a trick question: How do you make a \$7 product composed of lubricants premium in the eyes of consumers? We believe it's a question that has vexed WD-40 for years, and is a "Must-Win" battle that it will eventually lose. In fact, we already see signs of failure by analyzing recent product results on the following slides, and seeing gross margins contract with higher premium product mix.

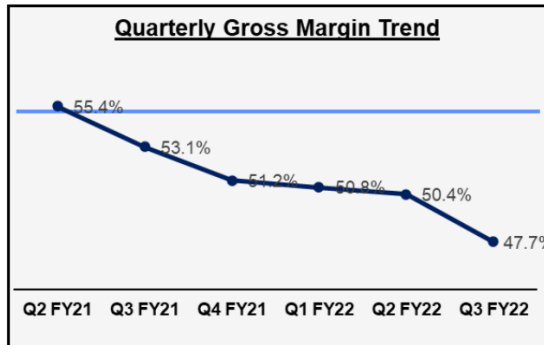
Dec 2016

Premiumization

The evolution of the blue and yellow can with the little red top



Source: Investor Day Presentation



July 2022

Must-Win Battle #2 - Premiumization



- At the end of FY21, sales of premiumized products represented 49% WD-40 Multi-Use Product global sales
- Our objective is to grow Smart Straw penetration to >60% of WD-40 Multi-Use Product global sales

Premiumization of the blue and yellow can with the little red top creates opportunities for revenue growth and gross margin expansion

Source: [Investor Presentation](#)

Obfuscating Premiumization Failure?

Spruce Point observes a pattern with WD-40 that when results go the wrong way, it obfuscates disclosures. In the case of Smart Straw and EZ-REACH, notice it stopped disclosing combined revenue and began talking about its percentage of Multi-Use products. We believe this change made it marginally more challenging for investors to discern trends.

WD-40 Changing Disclosures To Obfuscate Pressures?

<p>FY 2021</p> <p>October 2021</p>	<p><i>“For the full fiscal year, sales of WD-40 Smart Straw and EZ-REACH when combined were \$180.7 million, up nearly 19% compared to last year and representing nearly 49% of total global sales of WD-40 Multi-Use Product.</i></p> <p><i>“In fiscal year 2021, sales of WD-40 Multi-Use Product increased 22% globally to \$371 million.”</i></p>
<p>Q1 2022</p> <p>Jan 2022</p>	<p><i>“In the first quarter, sales of WD-40 Smart Straw and EZ-REACH, when combined, were \$48.3 million, up 10% compared to last year.”</i></p> <p><i>“In the first quarter, sales of WD-40 Multi-Use Product increased 14% globally to \$107.1 million.”</i></p>
<p>Q2 2022</p> <p>April 2022</p>	<p><i>“Our second must-win battle is the premiumization of WD-40 Multi-Use Product. Premiumization creates opportunities for revenue growth, gross margin expansion, and most importantly, it delights our end users. Year-to-date, sales of WD-40 Smart Straw and EZ-REACH, when combined, represented 45% of global sales of WD-40 Multi-Use Products.”</i></p> <p><i>“In the second quarter, sales of WD-40 Multi-Use Product increased 18% globally to \$101.7 million.”</i></p>
<p>Q3 2022</p> <p>July 2022</p>	<p><i>“Our second Must-Win Battle is a premiumization of WD-40 Multi-Use Product. Year-to-date sales of WD-40 Smart Straw and EZ Reach when combined, represented 47% of global sales of WD-40 Multi-Use Product.”</i></p> <p><i>Although WD-40 Multi-Use product sales were down 11% to \$92.3 million this quarter, we've seen strong growth in recent years as we inch closer towards our 2025 aspiration</i></p>

Evidence of Premiumization Failure

Spruce Point has unraveled the performance of Multi-Use, Smart Straw and EZ-Reach. We see concerning trends that revenue rolled over materially in the past two quarters.

WD-40's Recent Multi-Use, Smart Straw, and EZ-REACH Results

\$ in mm	2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY 2021	Q1 2022	Q2 2021	Q3 2022
Multi-Use	\$304.1	\$94.2	\$86.4	\$104.1	\$86.3	\$371.0	\$107.1	\$101.7	\$92.3
% YoY Growth	--	--	--	--	--	22.0%	13.7%	17.7%	-11.3%
% QoQ Growth	--	--	--	--	--	--	24.1%	-5.0%	-9.2%
Smart Straw and EZ-REACH	\$151.8	\$43.9	\$38.9	\$53.0	\$44.9	\$180.7	\$48.3	\$45.7	\$47.6
% YoY Growth	--	--	--	--	--	19.0%	10.0%	17.4%	-10.3%
% QoQ Growth	--	--	--	--	--	--	7.6%	-5.5%	4.2%
% of Multi-Use	--	--	--	--	--	48.7%	45.1%	44.9%	51.5%

Source: WD-40 SEC filings and Spruce Point analysis

WD-40 BIKE Exposed As a Failure

Spruce Point finds a consistent pattern of WD-40 promoting large growth rates, only to stop making disclosures after they decline. In the case of WD-40 BIKE, after a COVID-19 surge, the Company merged it within the Specialist line reporting. Based on revised reporting, WD-40 BIKE sales were approximately \$8.5 million.⁽¹⁾ The product was launched and promoted in 2013, and appears to be an underwhelming disappointment having produced such little sales in a decade.

CEO Ridge on WD-40 BIKE

Q1
2013

“WD-40 BIKE is dedicated to solving cycling and maintenance problems of riders by delivering WD-40 branded solutions that are easy to use, easy to find, provide good value and get the job done. The go-to market strategy for WD-40 BIKE is different from our traditional model. We are concentrating our efforts on user and trial and trade channels where cyclists buy their products such as smaller independent bike dealers versus larger retailers where our WD-40 brand products are sold”

WD-40 BIKE Disclosures

Q4 2020

“Global sales of WD-40 BIKE were also particularly strong in the quarter, up over 160% compared to last year as people are buying and fixing up bicycles and riding them more often as a result of the pandemic.”

Oct 2020

“There is one product that experienced tremendous success in the Asia region, though it's a lower-volume product for us, WD-40 BIKE grew by 335% in the fourth quarter compared to the last year. Cycling has experienced a boom amid COVID-19 with increased ridership and the associated maintenance with bicycles throughout the region.”

Q1 2021

Jan 2021

Global sales of WD-40 BIKE were also particularly strong in the first quarter, up nearly 260% compared to last year as people are buying, fixing, riding bicycles more often as a result of the pandemic.”

Q2 2021

April 2021

“Global sales of WD-40 BIKE remained particularly strong in the second quarter, up nearly 34% compared to last year as people are buying, fixing and riding bicycles more often due to the pandemic.”

Q3 2021

No Disclosure

Jan 2022


Q4 2021

Oct 2022

“As part of the brand architecture project we completed in fiscal year 2020, WD-40 BIKE was absorbed into the WD-40 Specialist line of products. Accordingly, we will begin to report WD-40 BIKE as part of our Specialist results beginning the first quarter of fiscal year 2022.”

1) WD-40 now says Specialist sales for 2021 were \$51m in its [investor presentation](#) (slide 25) vs. \$42.5m reported on the [Q4'21 conference call](#)

Must-Win Battle #4 – Digital Commerce



Our **global digital ambition** is to engage with end-users at scale, becoming the global leader in our category on the digital platforms they use, making it easy to access, learn about, and purchase our brands online.

Creating positive lasting memories....**ONLINE**

Losing Battle #4: WD-40's e-Commerce Ambitions Fizzling

Spruce Point previously argued that WD-40's product was structurally challenged in an e-commerce world given product hazard risks during shipping. Management still won't disclose how much sales go through this channel, other than to say it is small and fast growing. However, even this statement hasn't appeared in almost a year. Consistent with other practices we find when the going gets tough for WD-40, management ceases regular updates. Instead, WD-40 now talks about performance in year-to-date terms. The recent numbers look abysmal...

Last Appeared In November 2021 Investor Presentation And Has Not Been Disclosed Since

Last Statement

"Though e-commerce (included in 'other' category) makes up only a small % of our global sales, it has been our fastest growing channel for the past 4 years."

Source: Nov 2021 [Investor Presentation](#), slide 18

WD-40's Recent e-Commerce Commentary

\$ in mm	2019	2020	Q1 2021	YTD 6M 2021	YTD 9M 2021	Q4 2021	FY 2021	Q1 2022	YTD 6M 2022	YTD 9M 2022
Global e-commerce sales growth	+80%	+58%	+90%	+61%	+25%	No Disclosure	+25%	No Disclosure	-16%	-13%

Source: Conference Calls

Evidence of Increasing Financial Strain

We conducted a working capital analysis on WD-40 and find that its current working capital to LTM sales ratio is spiraling to new highs and indicative of growing financial stress.

WD-40's Working Capital Strain Is At An All-Time High

\$ in mm	Pre-Financial Crisis		Great Financial Crisis			Recent Results						
	2005	2006	2007	2008	2009	2018	2019	2020	2021	Q1 2022	Q2 2022	Q3 2022
Trailing 12 Month Revenues (A)	\$263.2	\$286.9	\$307.8	\$317.1	\$292.0	\$408.5	\$423.4	\$408.5	\$488.1	\$498.3	\$516.4	\$503.6
Total Current Assets	101.2	115.5	130.6	119.5	120.8	168.0	148.0	185.2	241.2	233.3	234.6	241.4
Less: Cash and Investments	(37.1)	(45.4)	(61.1)	(42.0)	(46.0)	(49.1)	(27.3)	(56.5)	(85.9)	(59.5)	(43.3)	(40.8)
Total Adjusted Current Assets (B)	\$64.1	\$70.1	\$69.5	\$77.5	\$74.8	\$118.9	\$120.7	\$128.7	\$155.3	\$173.8	\$191.3	\$200.6
Total Current Liabilities	46.7	43.7	53.9	54.6	48.2	85.9	74.6	60.1	85.9	81.1	83.4	96.3
Less: Short-Term Debt	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(23.6)	(21.2)	(0.8)	(0.8)	(0.8)	(2.0)	(16.3)
Total Adjusted Current Liabilities (C)	\$36.0	\$33.0	\$43.2	\$43.9	\$37.5	\$62.3	\$53.4	\$59.3	\$85.1	\$81.9	\$81.4	\$80.0
Adj. Working Capital (B-C) = D	\$28.1	\$37.2	\$26.3	\$33.6	\$37.3	\$56.6	\$67.3	\$69.4	\$70.2	\$92.0	\$109.9	\$120.6
Adj. Working Capital % of LTM Sales (D/A)	10.7%	13.0%	8.6%	10.6%	12.8%	13.9%	15.9%	17.0%	14.4%	18.5%	21.3%	23.9%

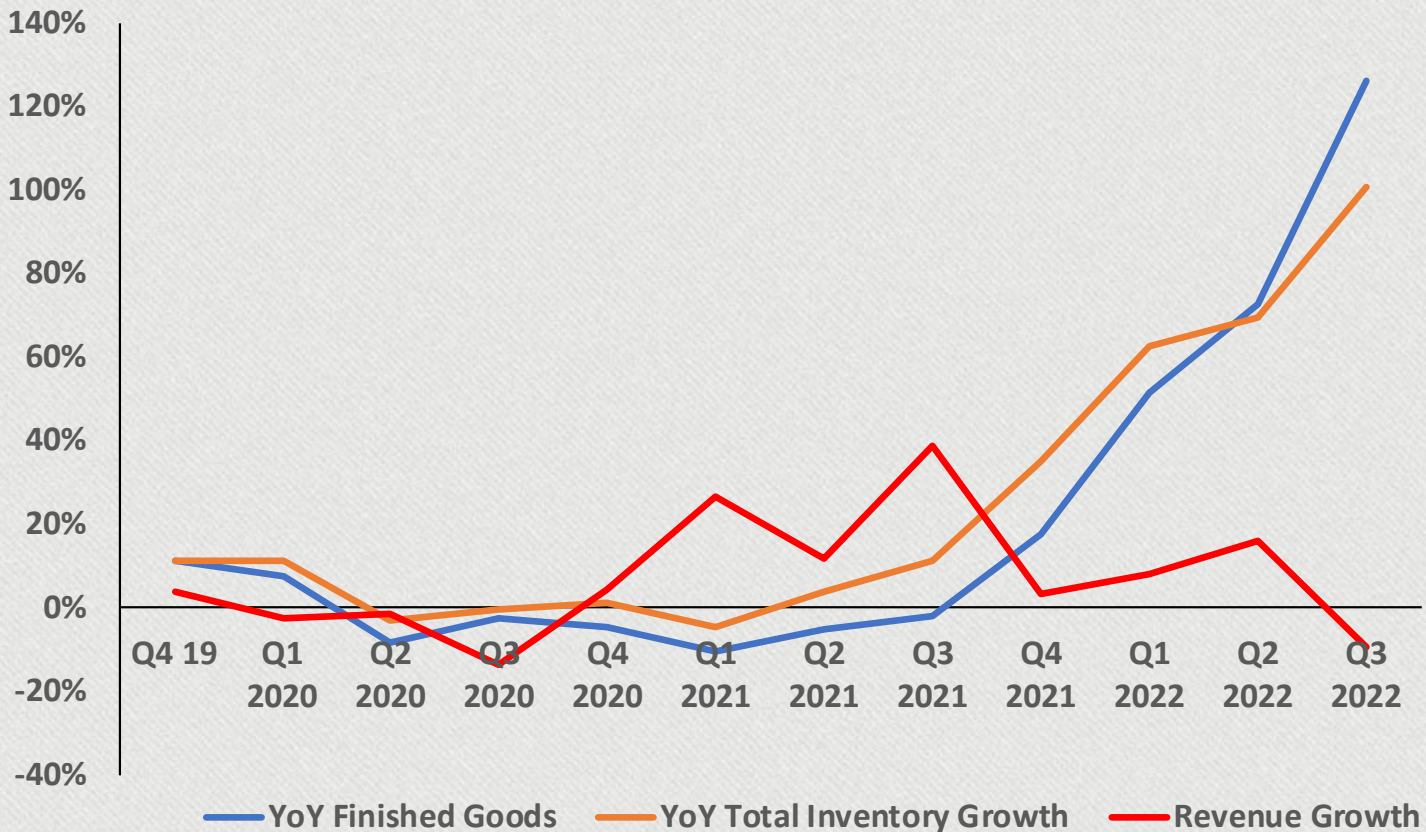
Increasing Working Capital Intensity = Increasing Strain



Inventories Exploding, Revenues Declining

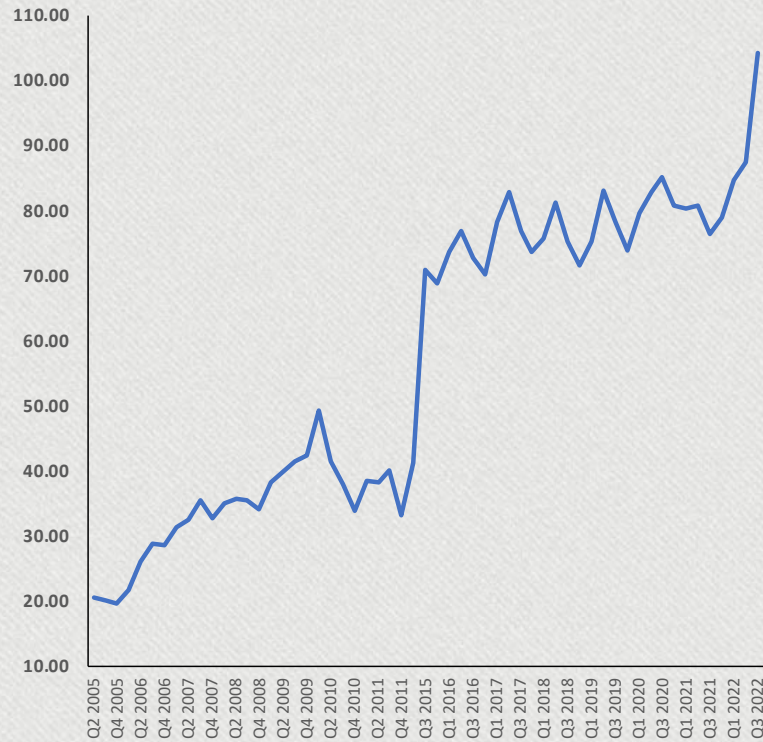
WD-40s revenue growth has been inconsistent and recently turned negative, while inventory accounts balloon to all-time highs. **Our interpretation:** More margin pressure lies and disappointment await investors.

WD-40's YoY Inventory vs. Revenue Growth

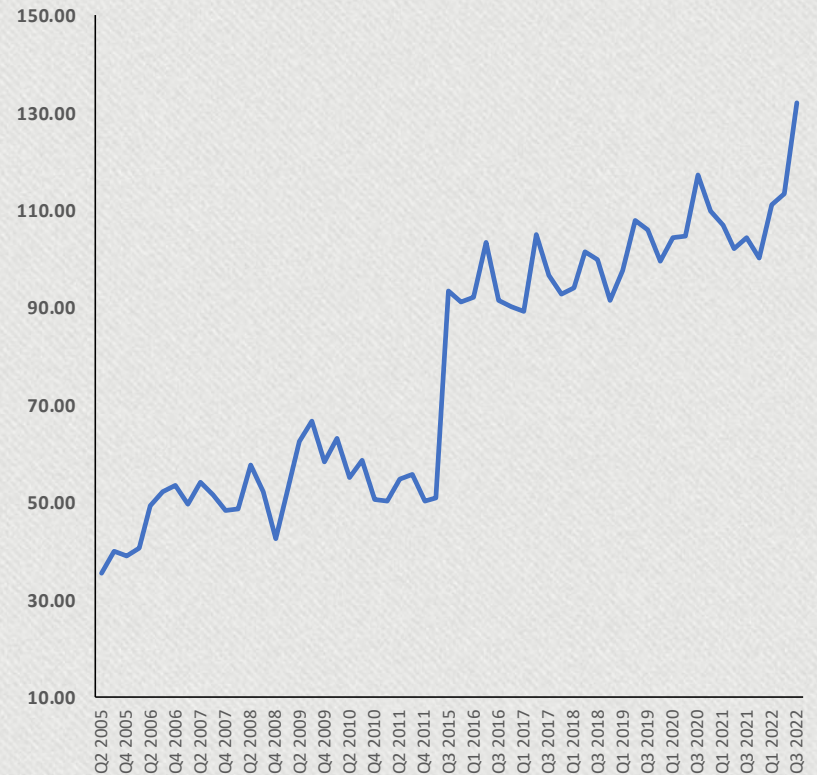


WD-40's days inventory and cash conversion cycle are at multi-decade highs.

WD-40's Days Inventory Outstanding



WD-40's Cash Conversion Cycle



Source: WD-40 SEC filings and Bloomberg analysis

Stocking Finished Inventory For A Rainy Day?

WD-40 is unique among product manufacturers we've analyzed. According to management, it took deliberate actions to stock more of its finished goods. That seems counterintuitive to most producers that want to move finished goods as quickly as possible. **Our interpretation:** WD-40 is having challenges selling its product.

Cash Flow Disclosures

Q1
2022

*"The change in our working capital which increased net cash used in operating activities was primarily attributable to increases in inventory in the Americas segment from period to period. This increase in inventory was due to **deliberate actions we took to stock certain raw materials and finished goods** given the current challenges within supply chain. In addition, net cash used in operating activities increased due to a larger decrease in accrued payroll and related as a result of higher earned incentive payouts in the first quarter of fiscal year 2022 compared to the same period of the prior fiscal year."*

Q2
2022

*"The change in our working capital, which decreased net cash provided by operating activities was primarily attributable to increases in inventory in the Americas segment from period to period. This increase in inventory was due to deliberate actions we took to stock certain raw materials **and finished goods** given the current challenges within supply chain, as well as the higher carrying value of inventory due to higher raw material costs and other input costs from period to period. Net cash provided by operating activities was further decreased due to higher earned incentive payouts in the first quarter of fiscal year 2022 compared to the same period of the prior fiscal year as well as lower level of earned incentive accruals from period to period. **In addition, increases in trade accounts receivable balances, primarily in the United Kingdom, decreased net cash provided by operating activities during the six months ended February 28, 2022 compared to the corresponding period of the prior fiscal year as a result of increased sales and the timing of payments from customers.**"*

Q3
2022

*"Change in our working capital, which decreased net cash provided by operating activities was primarily attributable to increases in inventory, most significantly in the Americas segment **but also in the EMEA segment**. This increase in inventory was due to actions we took to stock certain raw materials **and finished goods to increase the flexibility and capacity within our supply chain**, as well as the higher carrying value of inventory due to higher raw material costs and other input costs from period to period. Net cash provided by operating activities was further decreased due to higher earned incentive payouts in the first quarter of fiscal year 2022 compared to the same period of the prior fiscal year as well as lower level of earned incentive accruals from period to period. These changes in working capital that decreased net cash provided by operating activities were partially offset by lower increases in trade accounts receivable balances during the first nine months of fiscal year 2022 compared to the corresponding period of the prior fiscal year primarily due to lower sales during the third quarter of fiscal year 2022."*

Cash Flow Is Drying Up

Spruce Point's analysis shows that WD-40's cash flow margin is rapidly deteriorating.

WD-40's Trailing Cash Flow Relative To Revenues

\$ in mm	Pre-COVID-19				Post COVID-19								
	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Trailing 12 Month Revenues (A)	\$419.2	\$423.4	\$420.6	\$419.3	\$403.6	\$408.5	\$434.5	\$446.4	\$484.5	\$488.1	\$498.3	\$516.4	\$503.6
Cash From Operations	\$19.0	\$26.6	\$15.2	\$8.2	\$17.4	\$31.9	\$23.9	\$18.6	\$21.5	\$20.7	(\$0.9)	\$5.0	\$3.6
LTM Cash From Operations (B)	\$59.2	\$62.8	\$69.0	\$69.0	\$67.4	\$72.7	\$81.4	\$91.8	\$95.9	\$84.7	\$59.9	\$46.3	\$28.4
% margin (B/A)	14.1%	14.8%	16.4%	16.5%	16.7%	17.8%	18.7%	20.6%	19.8%	17.4%	12.0%	9.0%	5.6%

Source: WD-40 SEC filings and Spruce Point analysis

Disappearing Cash Flow 

YTD 2022, WD-40 has not been able to cover its dividend, no less the cost of repurchasing its stock at a premium valuation. At some point, we believe its financial scheme will come to a painful end, and its dividend will be cut, and / or stock repurchases eliminated.

WD-40 COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Nine Months Ended May 31,	
	2022	2021
Operating activities:		
Net income	\$ 52,543	\$ 61,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,140	5,266
Net gains on sales and disposals of property and equipment	(162)	(185)
Deferred income taxes	165	(512)
Stock-based compensation	5,751	7,885
Unrealized foreign currency exchange losses (gains)	261	(529)
Provision for bad debts	115	253
Changes in assets and liabilities:		
Trade and other accounts receivable	(6,932)	(20,053)
Inventories	(42,311)	(5,101)
Other assets	(5,213)	(1,777)
Operating lease assets and liabilities, net	(2)	11
Accounts payable and accrued liabilities	9,899	11,000
Accrued payroll and related expenses	(12,085)	6,202
Other long-term liabilities and income taxes payable	(513)	(305)
Net cash provided by operating activities	7,656	63,975
Investing activities:		
Purchases of property and equipment	(7,115)	(10,789)
Proceeds from sales of property and equipment	377	418
Net cash used in investing activities	(6,738)	(10,371)
Financing activities:		
Treasury stock purchases	(22,390)	-
Dividends paid	(31,316)	(28,321)

Ridge's Well-Timed Stock Sales



Spruce Point observes that WD-40's long-time former CEO, tribal leader, and biggest promoter Gary Ridge had excellent timing with his stock sales recently. His departure and long-term commitment to the Company through continued ownership of stock are now in question.

It's Good To Be The CEO of a Lubricant Company

"Ridge has just bought a tract of land in Kauai, Hawaii, where he is building a dream home."⁽¹⁾

Former CEO Ridge's Beneficial Holdings

	2017	2018	2019	2020	2021
Ridge Holdings	83,958	89,715	94,392	101,202	60,844

Source: Proxy Statements

Former CEO's Well-Timed Stock Dumps (Bracketed)



Source: Bloomberg

1) [The Australian](#), "The little-known Aussie behind one of the world's top brands" – Aug 12, 2022

Enormous Headwind From UK Exposure

We estimate approximately 43% of WD-40's sales through August 2021 came from its UK Subsidiary (Note: The EMEA segment was 43% of FY 2021 of sales). As recently disclosed, as of May 31st the Company has no outstanding foreign currency hedges. In WD-40's Q4, the Pound declined by 7% which we estimate to be an \$11 million sales headwind.

Hedge Disclosure

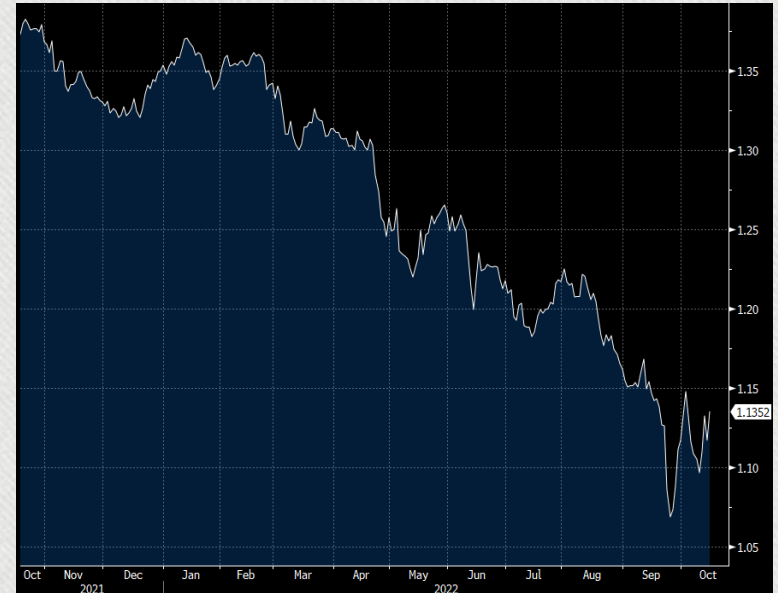
"Foreign currency forward contracts are carried at fair value, with net realized and unrealized gains and losses recognized in other income (expense), net in the Company's consolidated statements of operations. Cash flows from settlements of foreign currency forward contracts are included in operating activities in the consolidated statements of cash flows. Foreign currency forward contracts in an asset position at the end of the reporting period are included in other current assets, while foreign currency forward contracts in a liability position at the end of the reporting period are included in accrued liabilities in the Company's consolidated balance sheets. At May 31, 2022, the Company had no outstanding foreign currency forward contracts."

WD-40's Substantial British Pound Exposure

WD-40 COMPANY LIMITED			
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 AUGUST 2021			
	Note	2021 £000	2020 £000
Turnover	4	153,269	123,907
Cost of sales		(77,421)	(61,594)
GROSS PROFIT		75,848	62,313
Distribution costs		(4,478)	(3,504)
Administrative expenses		(42,115)	(36,699)
OPERATING PROFIT	5	29,255	22,110
Interest receivable and similar income	9	3	2
Interest payable and similar expenses	10	(353)	(447)
PROFIT BEFORE TAX		28,905	21,665
Tax on profit	11	(5,679)	(4,271)
PROFIT FOR THE FINANCIAL YEAR		23,226	17,394

Source: [UK Companies House](#)

British Pound



Source: Bloomberg

Trading Comps Point To Extreme Overvaluation

While there are no exact publicly-traded comparables for WD-40, we use a mix of specialty chemical and branded consumer products as outlined in the Company's proxy statement.⁽¹⁾ On this basis, we believe that WD-40 is wildly overvalued at approximately 4.7x and 24x 2022E sales and EBITDA.

\$ in mm, except per share figures

Name (Ticker)	Stock Price 10/17/2022	Adj Ent. Value	LTM Gross Margin	LTM FCF Margin	'22E-'23E		P/E		Enterprise Value				Price/Book	Net Debt '22 EBITDA	Dividend Yield
					Sales Growth	EPS Growth	2022E	2023E	2022E	2023E	EBITDA	Sales			
Prestige Consumer (PBH)	\$52.21	\$4,149	56.8%	21.9%	4.5%	9.6%	12.5x	NA	10.9x	NA	3.7x	NA	1.7x	4.0x	NA
Quaker Houghton (KWR)	\$143.90	\$3,389	31.1%	1.1%	3.5%	-4.2%	25.8x	21.2x	13.7x	12.0x	1.8x	1.7x	1.9x	3.3x	1.2%
Ingevity (NGVT)	\$63.70	\$3,563	35.3%	11.3%	5.8%	24.1%	10.4x	9.4x	7.8x	7.1x	2.2x	2.1x	3.8x	2.4x	NA
Sensient Tech. (SXT)	\$71.03	\$3,498	34.2%	0.8%	2.8%	-1.7%	21.4x	19.9x	13.8x	13.0x	2.4x	2.3x	3.1x	2.0x	2.3%
Dorman Products (DORM)	\$90.34	\$3,114	33.4%	4.7%	4.7%	8.3%	17.7x	15.6x	12.3x	11.1x	1.9x	1.8x	2.9x	1.0x	NA
Innospec (IOSP)	\$91.24	\$2,256	29.2%	-12.0%	1.9%	17.2%	15.3x	13.7x	10.0x	8.8x	1.2x	1.1x	2.1x	-0.1x	1.4%
Hawkins (HWKN)	\$40.79	\$1,021	18.4%	-2.3%	1.2%	4.9%	14.2x	13.5x	9.1x	8.7x	1.2x	1.2x	2.7x	1.5x	1.4%
American Vanguard (AVD)	\$22.11	\$772	39.3%	11.3%	3.4%	4.5%	21.1x	18.0x	10.7x	9.3x	1.2x	1.1x	1.7x	1.4x	0.5%
Landec (LNDC)	\$8.28	\$398	16.2%	-18.2%	-3.0%	NM	NM	NM	12.8x	NM	2.0x	2.1x	2.5x	4.9x	NA
Max			56.8%	21.9%	5.8%	24.1%	25.8x	21.2x	13.8x	13.0x	3.7x	2.3x	3.8x	4.9x	2.3%
Average			32.7%	2.0%	2.8%	7.9%	17.3x	15.9x	11.2x	10.0x	2.0x	1.7x	2.5x	2.3x	1.3%
Min			16.2%	-18.2%	-3.0%	-4.2%	10.4x	9.4x	7.8x	7.1x	1.2x	1.1x	1.7x	-0.1x	0.5%
WD-40 (WDFC)	\$173.44	\$2,466	51.1%	3.4%	6.2%	9.4%	32.8x	30.0x	23.8x	22.4x	4.7x	4.5x	12.2x	0.9x	1.8%

Source: Bloomberg consensus estimates

1) [Proxy Statement](#), p. 24

We See 45% - 60% Downside Risk To WD-40's Share Price

Spruce Point continues to believe that WD-40 has substantial downside as its elevated inventory build pressures margins and cash flow. If current trends persist, WD-40 must decide if it wants to increase its leverage further to maintain its generous dividend policy and share repurchase program.

WD-40's Price Target Range

(\$ in millions, except per share figures)	Low	High
2023E Calendar Year Revenue <i>% growth</i>	\$543 2.5%	\$553 4.5%
EV / 2023 Revenues	2.0x	2.5x
Enterprise Value	\$1,086	\$1,383
Plus: Cash and Equivalents	\$41	\$41
Less: Total Debt	(\$134)	(\$134)
Market Capitalization	\$993	\$1,290
FD Shares Outstanding	13.7	13.7
Implied Share Price	\$72.45	\$94.16
Current Price	\$173.44	\$173.44
% Downside	-58%	-46%

Factors Favoring A Lower Multiple

- 

A product with limited moat and protections against other lubricant substitutes. Highly dependent on its brand for success
- 

Mounting evidence that its "Must Win" objectives are failing and that long-term pressure such as bike and car electrification will reduce need for lubricants
- 

High exposure to lower-growth markets such as UK/Europe, and limited long-term traction in faster growing markets such as Asia-Pacific
- 

Record days inventory and working capital strain points to continued margin erosion
- 

New CEO and CFO are unproven to lead WD-40 post the recent management turnover
- 

Poor capital allocation strategy to repurchase shares at a premium multiple