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/ STRONG SELL OPINION /

WD-40 Company | Nasdaq: WDFC

 SPRUCE POINT
CAPITAL MANAGEMENT
INVESTMENT RESEARCH REPORT



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Spruce Point's Success Shorting Consumer And Retail Product Companies

Spruce Point Capital Is An Industry Recognized Research Activist Investment Firm Founded In 2009

- Founded by Ben Axler, a former investment banker with 20 years experience on Wall Street
- Named one of the top Activist Short sellers in world in 2020 by [Activist Insight Review](#)
- Unparalleled record of seeing through the stock promotion hype machine with insightful short-selling opinions

				
Report	Nasdaq: CSTE Aug 2015 / Oct 2015	Nasdaq: BDBD 2/26/13 and 3/5/13*	Nasdaq: CHD 9/5/19	Nasdaq: IRBT Nov 2018 , Mar 2019
Market Cap	\$1.7 billion	\$1.0 billion	\$22.7 billion	\$2.0 billion
Company Promotion	Leading quartz countertop maker capable of producing sustainable 43% and 26% gross and EBITDA margins. The Company claimed it needed to construct a U.S. manufacturing facility	Smart roll-up acquirer of food brands including: Smart Balance butter, and leading gluten free products such as Glutino, Udi's and Evol	Best of breed roll-up acquiror of personal care and consumer products with the core Arm & Hammer brand providing a stable backbone to diversify into other products	Premium robot vacuum protected against cheap, low-end competition
Our Criticism	Our intense fundamental and forensic due diligence uncovered evidence of slowing U.S. growth, and margin pressure being covered-up. We also expressed grave concerns about the Company's strategy to build a U.S. manufacturing facility and believed its capex costs seemed overstated, which would allow capitalization of costs on the balance sheet and potentially overstate earnings	Boulder Brands was facing a patent cliff on its Smart Balance butter and embarked on an expensive and levered acquisition spree to diversify into the faddish gluten free market. Segment realignments and questionable accounting were being used to mask fundamental strains. The CEO Hughes was highly promotional and had a questionable history of value creation	New management is more aggressive, using financial and accounting tactics to inflate the share price. The recent acquisition of FLAWLESS hair care was expensive and will disappoint investors. Governance lapses have allowed management to reap unjust bonuses based on non-cash gains. Shares at \$80 trade 8% above analyst targets	Increasingly high-end competitors taking share in robot vacuum space and pressuring ASPs. History of failures in non-vacuum products suggests inability to grow mop sales or successfully launch lawnmower. Rising DSIs suggest financial strain. Distributor acquisitions obscure underlying sales declines
Successful Outcome	Two CEO/CEO's and two CFO/CFO's of Caesarstone have subsequently resigned. The Company has reported numerous manufacturing problems in both its new U.S. production and Israeli facilities. Gross margins contracted to 25%. The share price has fallen >70% from our initiation price	Boulder took a significant goodwill impairment charge in Q3'2014 and guided results significantly below estimates by finally admitting headwinds in its spreads business and margin pressures. In June 2015, the CEO resigned	Within the first quarter after our report, CHD reported disappointing Q3 sales results, cut its full year sales guidance, and issued Q4 earnings at \$0.54, below the \$0.62 expected. CHD blamed higher sales and marketing expenses on FLAWLESS. CHD's new 10-K added risk factors around financial controls and its Chief Accounting Officer is " retiring "	Disappointing sales growth due to slower-than-projected robotic mop sales. Gross margins continue to decline due to increasing competition at both the low and high end of the market. FY outlook lowered. Long-time CFO Alison Dean announces transition plan in Feb 2020



1 **Executive Summary**

2 **Unravelling The Product Hype And Long-Term Secular Challenges**

3 **Recent Channel Checks Show Increasing Competition And Discounting**

4 **Evidence of Stretched Accounting, Severe Financial Distress And Why
This Recession Will Be Worse Than The Past**

5 **“Family Tribal” Governance And Management Concerns**

6 **Valuation Extreme Leads To Horrible Risk / Reward: Simple Downside Case**

7 **Appendix: What’s The Silver Lining**



Executive Summary

Spruce Point Is Short WD-40 (Nasdaq: WDFC) And Estimates 55% - 60% Downside Risk

Spruce Point believes that WD-40 (Nasdaq: WDFC or “the Company”) is widely misunderstood and believed to be defensive, but in reality, is facing both long and short-term secular pressures. With the Company recently upsizing and drawing down 100% of its credit facility, a size 1,500% larger than the previous recession in 2008-2009, we believe a massive hole in its balance sheet has been exposed. Our forensic review and channel checks indicate record bloated inventories, and material financial strain. We believe it will have to drastically reduce its optimistic 3-7% sales target and re-set investor expectations meaningfully lower. Trading near all-time highs and at an unprecedented 6x sales and 28x EBITDA, we believe shares are a horrible risk/reward. We see 55% - 60% downside risk (\$75-\$85/share).

A Highly Promotional Business Under Long-Term Pressures Even Before The Coronavirus Scare

At The Core, WD-40 Is An Oil-Based Lubricant Being Sold At Above Market Prices And Heavily Dependent On Its Brand Equity

- WD-40 relies on a trade secret, and has no patents, to protect itself in the market place from dozens of cheaper all-purpose and specialty lubricants in a variety of saturated retail channels, and user end markets
- WD-40’s heaviest users are maintenance and repair specialists, notably in the auto market. A long-term challenge facing it is the electrification of cars, which have fewer moving parts and require less regular maintenance
- In addition, WD-40 sells into the bicycle and motorcycle markets. Each of these markets are also under long-term pressure from changing customer preferences, in addition to the electrification of the market. Independent bicycle dealerships are in long-term decline, while children (the next generation of users) are also purchasing fewer bicycles
- We believe the product is also coming under increasing regulatory scrutiny. By analyzing changes in its product fact sheet, we see that more disclosures about the hazardous nature of the chemicals contained in the product are being highlighted
- Because of these hazards, we believe WD-40 is not well suited to an e-commerce environment. In fact, WD-40 recently added a disclosure statement in its product fact sheet that it does not recommend transporting it by air. The FAA also added WD-40 to its list of products that cannot be carried on, or packed in luggage, by the public when flying commercial air

Investors Fail To Understand Changes In WD-40’s Business That Expose It To Much Greater Risk Today vs. The Last Crisis

- Late Friday on March 27th, WD-40 drew down the remainder of its \$150m credit facility. During the prior crisis, it had a small \$10m facility that was never utilized. We believe this gigantic draw down exposes a major hole and problem with its business. WD-40 is levered only 0.7x Net Debt to EBITDA and projected to generate \$30m+ of free cash flow. Why would it need to max out its credit line?
- In our view, WD-40 has no visibility in an economic recession. It missed FY 2009 sales and EPS estimates by 13% and almost 10% at the mid-points, respectively. In FY 2008 it missed sales and EPS by 5% and 13% and the mid-points, respectively. This time around, the economic crisis is greater, and we expect a much larger miss of its targets
- WD-40’s business has grown much more international today vs. the last financial crisis 10yrs ago. Today: 63% international sales vs. 52% during the last crisis. WD-40 now obscures country-level revenue detail. However, we estimate the U.K is 37% of total revenues vs. 9% during the last crisis. We estimate 75% of WD-40’s cash is in its U.K. subsidiary. First Brexit, and now a coronavirus scare, has sent the Pound to multi-year lows which we believe has compounded WD-40’s challenges
- Working capital strain has materially intensified. Based on our analysis, working capital to sales is currently 16.3% of sales, almost double the 8.6% of sales in 2007
- By closely examining the composition of WD-40’s inventory accounts, we observe that Finished Goods make up an increasing percentage of the overall balance, and more than prior to entering the last crisis. Days of Inventory and its Cash Conversion Cycle are near all-time highs. In our opinion, this suggests that inventory is building up and not selling-through to customers

Not Recession Proof. This Time Around Will Be MUCH Worse

A Major Hole In Its Balance Sheet Exposed

Growth
Objectives
Highly
Likely
To Disappoint

We Believe WD-40 Has Few, If Any, Growth Avenues Left And The Company Is Leaving Subtle Hints We're Right

- As a 65+ year old company relying on a core lubricant product, it's easy to understand that finding new markets and introducing new and successful products can be challenging
- We observe that WD-40 is taking actions consistent with a mature company, including investing less and less in R&D every year, and covering-up disclosures about challenged products and ventures (recently WD-40 BIKE)
- WD-40 continues touting geographic expansion with a \$1bn market opportunity. A year ago, it even listed Venezuela and Iran as market opportunities for its products. However, it recently omitted these countries from its latest investor presentation
- By far, WD-40 has been promoting its ambitions in China, once claiming sales would be \$100m. Yet, 17 years ago it admitted that 25% of the market was counterfeits. We find evidence that counterfeits continue to plague its growth ambitions there. Asia-Pacific and China have recently become an extreme weak spot for the Company, and while it blames the issue on "formulation changes" and China holidays, we suspect there are more structural issues that will hamper its ability to reach its lofty Chinese goals
- WD-40 is also promoting a new product for the recreational vehicle (RV) industry, but the timing of the introduction is terrible given that nearly all major RV industry players have suspended production, and there's concern that long-term industry sales have peaked
- With respect to channel distribution, we find that WD-40 has already penetrated major categories: mass merchants (WalMart, Target), home improvement stores (Home Depot, Lowe's, Ace Hardware), auto repair shops (AutoZone, Advanced Auto, Pep Boys), drug stores (Rite Aid, CVS), and dollar stores (Family Dollar, Dollar General)
- Our channel checks show some retailers offering their own store brands, like Walmart, and in some cases offering competing products up to 60% lower in price than WD-40's comparable product. In the home improvement and auto center market, we find that PB Blaster is becoming a formidable competitor, driving more intense price promotion
- WD-40 recently started disclosing reductions to sales for rebates, coupons and cash incentives. The disclosure may have been pushed by the auditor, which recently added rebates and marketing program accruals as a "Critical Audit Matter". By closely analyzing recent trends, we find that WD-40 gave its largest incentives in Q1 2020. We believe this supports our channel check concerns

Recent Management Transition Plan Announcement More Evidence That The Best Days Are Behind WD-40

- A majority of the executives are 60+ years old, and with a small company of ~500 employees, investors should pay attention to recent management transition plans. Unfortunately, not all are in shareholders' best interest such as the CEO now assuming the Chairman role
- WD-40 recently promoted internally a new Chief Accounting Officer. A background check reveals that during her previous tenure at Cymer (formerly: Nasdaq: CYMI), it disclosed accounting errors and a material weakness related to income tax accounting. It's noteworthy that WD-40 just disclosed a \$0.63 per share reserve for uncertain taxes
- In our view, there is evidence insiders act in their own best interest. Insiders have misdirected 62% of total free cash flow since 2007 towards stock repurchases at increasingly inflated prices. This has allowed insiders to materially reduce their ownership and capital at-risk. Current insiders own a record low 1.9% of total shares
- In addition, we see evidence of management making usual adjustment to EBITDA bonus targets by ignoring certain expenses that look ordinary and necessary to execute its business plan
- WD-40 would benefit from replacing its auditor PwC, which has audited the Company for so long that no one is even sure when the relationship began. The current audit partner has a self-proclaimed focus on healthcare and biotech, not retail or chemicals

Alarming
Governance
Challenges

Accounting
And Audit
Concerns

Too Cozy of A
Tribal Culture

Spruce Point Is Short WD-40 (Nasdaq: WDFC) And Estimates 55% - 60% Downside Risk

WD-40 represents a highly asymmetric risk / reward given current extreme valuation and lack of analysts exercising skepticism or having conducted a rigorous forensic analysis of the Company's financial condition.

Covered By Just Two Analysts Suggesting 15% Upside, No One Has Explored The Downside Case Until Now

- Despite a \$2.7 billion dollar market cap, WD-40 is largely under-followed by the sell-side brokerage community. Instead, it appears the CEO has sought endorsement from retail investors through channels such as CNBC's Mad Money
- The two analysts covering it have price targets of \$210 and \$225, implying approximately 15% of upside on average. Yet, we don't believe either analyst has conducted a rigorous forensic review and channel checks that indicate significant financial strain and long-term challenges that will cap upside potential
- The analysts push the Company narrative that WD-40 is recession resistant, yet don't point out that during the last crisis WD-40 wildly missed its targets and experienced declining sales and EPS. We believe this time around, the magnitude of the miss will be greater
- Collectively, the analysts still see top line growth this year of 1.3% which will rebound to 6.6% in FY 2021. We view both of these forecasts as wildly optimistic in light of continued long-term challenges, and price increases put through in the recent past which aren't likely to be repeated. To be clear, we view analysts' estimates as aggressive even before the recent economic turmoil brought about by the virus
- Sell-side analysts also point to the recent plunge in oil as a catalyst to buy the stock. While we acknowledge that 33% of WD-40's cost to produce a can is petroleum-based specialty chemicals, this benefit comes at the same time as severely depressed economic activity also affects sales. In addition, WD-40's competitors (already pricing products below WD-40) get the same benefit and can become even more price aggressive to take share
- Furthermore, the magnitude of oil's decline during the last crisis is comparable to today's from a percentage decline of approximately 70%. We see that it took until Q3 for the Company to say that oil benefited gross margin by 200bps, and that was a full year after oil peaked over \$140/bbl in July 2008. What's also important to realize is that WD-40 had ~40 days of inventory outstanding then vs. ~80 today. As a result, we believe it will take even longer for it to realize the full benefit of lower oil
- WD-40's valuation relative to its own selected peers set of specialty chemical and auto part distributors exposes its extreme valuation. Its valuation becomes even more expensive once it becomes evident that overly aggressive estimates for 2020-2021 will be difficult to achieve. The multiple has actually expanded during the current crisis to all-time highs, and the bullish analysts' even think there is more room for valuation expansion. We beg to differ. Only distorted financial logic would argue that WD-40 should experience multiple expansion while an enormous hole in its balance sheet exists.
- Currently trading at 6x and 27x 2020E consensus sales and EBITDA, WD-40 is priced beyond perfection. Once investors come to grips with the reality that WD-40 will repeatedly miss aggressive forecasts set by management, and reiterated by analysts, we believe its multiple will compress to more realistic levels in-line with low/no growth consumer product and specialty chemical peers. At a generous 2x and 12x sales and EBITDA multiple on our lower financial forecasts we estimate 55% – 60% downside risk
- For investors holding out hope that WD-40 is a take-over target, we point out that larger companies such as Dupont and Newell Brands have competing products in the space; neither have invested in developing the product category, or made an offer for WD-40. Furthermore, any financial or private equity buyer would struggle to make the math work at its current excessive valuation

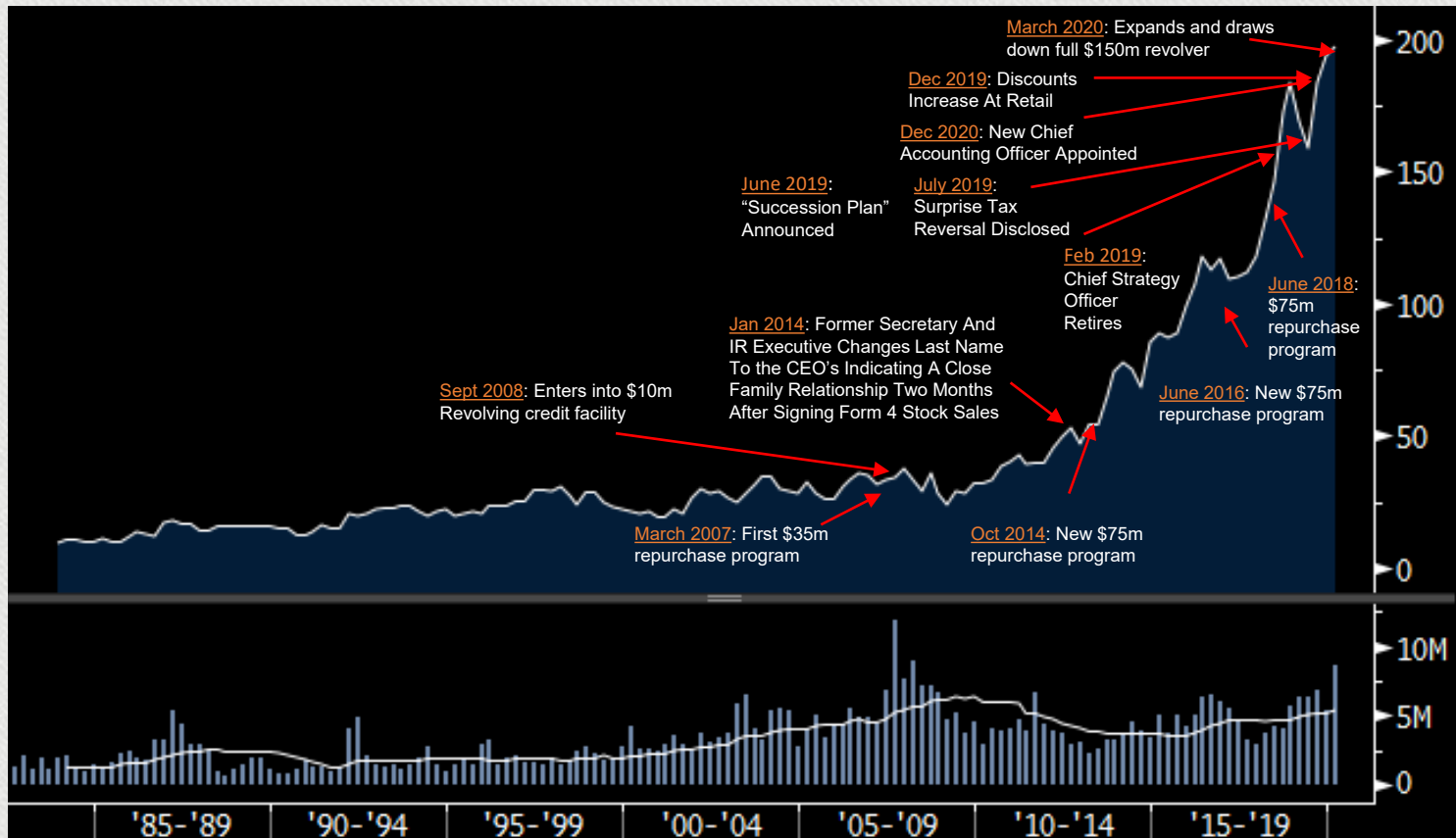
Slanted
"Consensus"
View of Just
Two Sell-Side
Analysts

Extreme
Valuation
Disconnected
From Reality

A Horrible
Risk / Reward

Well Oiled Machine, Or Clever Stock Promotion?

WD-40's share price defies logic and trades at an extreme valuation. Post the last financial crisis in 2018, management has directed ~62% of total free cash flow into repurchasing shares at increasingly inflated prices, while it methodically reduces its stake in the Company to almost nothing. The Company claims it is "recession resistant", but we will explain why we expect the Company to experience significantly worse financial performance vs. the prior cycle, and investors should brace for significant disappointment.



Spruce Point Believes WD-40 Is The Exact Opposite of What A Good Business Looks Like

WD-40 Promotion

What Does A Good Business Look Like?

- Simple and easy to understand business model
- Dominant in its industry
- Superior returns on capital
- Sustainable competitive advantage
- Significant cash flow generation
- Strong balance sheet
- Growth opportunities
- Proven management team



Spruce Point Cold Reality

Limited barriers to entry. Easy to replicate lubricants. Limited pricing power. Increasing regulatory burden. Financial disclosures have become more opaque. Long-term market concerns in auto that is being electrified. Small market with little growth. Larger companies with greater resources already in the market see little need to invest in it, or acquire WD-40

Returns flattered by FCF directed at wasteful stock repurchases at inflated multiples to reduce shareholder equity and allow insiders to sell stock. Unsustainable advantage. House brands at major retailers priced at a significant discount. WD-40's R&D spend declines every year. Has to become more promotional to maintain position. Hazardous chemical product not well suited for an e-commerce driven environment

Major hole in the balance sheet exposed by record revolver recently drawn 15x bigger in size than the last cycle despite the business being 30%+ bigger

Retracting international growth expansion. The "China" story is not as robust as it appears

Aging management team with all-time low ownership. Governance going backward with the CEO becoming Chairman and paying executives on EBITDA that removes seemingly normal expenses. Chief Accounting Officer with a history of exposed errors and a material weakness at prior firm



Unravelling The Product Hype And Long-Term Secular Challenges

WD-40 “secret formula” is not patented, and instead a “trade secret”. The CEO, a salesman by background, used the Company’s 65 anniversary as a publicity event to showcase itself with armored guards. However an expert lab analysis decomposed the WD-40’s chemicals and claims to have figured out the secret sauce. In addition, WD-40’s regulatory Safety Data Sheet also give clues about its composition.⁽¹⁾ What’s left, we believe, is nothing more than a blue and white can which can be easily replicated as we’ll show later.

WD-40 Risk Factor

“Trade secret protection, particularly for the Company’s most valuable product formulation for the WD-40 Multi-Use Product, requires specific agreements, policies and procedures to assure the secrecy of information classified as a trade secret. If such agreements, policies and procedures are not effective to maintain the secrecy of the Company’s trade secrets or if chemical disclosure regulations do not allow for continued protection of essential elements of the Company’s trade secret formulations, the loss of trade secret protection could have an adverse effect on the Company’s financial condition.”

WD-40 Acts Like Its Secret Sauce Is Important

WD-40 Marks 65th Anniversary by Securing Iconic Product’s ‘Secret Formula’

POSTED BY CHRIS JENNEWEIF ON SEPTEMBER 13, 2018 IN BUSINESS | 351 VIEWS | 0 COMMENTS | LEAVE A COMMENT

Share This Article:



Garry Ridge is escorted by Brinks employees as he carries the secret WD-40 formula in a handcuffed briefcase. Courtesy WD-40

“San Diego’s WD-40 Company marked its 65th anniversary by hiring Brinks guards to escort the secret formula for spray lubricant to a local bank vault.”

But Experts Have Figured It Out

What's Inside WD-40? Superlube's Secret Sauce



• Photo: Tim Morris • The recipe for this superlube has long been a closely guarded trade secret—until now. *Wired* sent a can to the lab and got the ingredients.

1) [WD-40](#)

Source: [Times of San Diego](#), Sept 2018

Source: [Wired Magazine](#), April 2009 and

Product Innovator Or Not?

WD-40 says one thing, but does another when it comes to R&D spending. It stresses the importance of innovation and new product development to its long-term success. Yet, over the long-term its R&D spending keeps falling.

WD-40
Stresses
R&D Per Its
Filings

"The Company recognizes the importance of innovation and renovation to its long-term success and is focused on and committed to research and new product development activities, primarily in its maintenance product group. The Company's product development team engages in consumer research, product development, current product improvement and testing activities. The product development team also leverages its development capabilities by partnering with a network of outside resources including the Company's current and prospective outsource suppliers. In addition, the research and development team engages in activities and product development efforts which are necessary to ensure that the Company meets all regulatory requirements for the formulation of its products."

Spruce
Point
Reality

So why does the Company spend less and less on R&D every single year?

Fiscal Year Ended Aug 31

\$ in mm	2015	2016	2017	2018	2019
Net Sales	\$378.2	\$380.7	\$380.5	\$408.5	\$423.3
R&D Expense	\$9.0	\$7.7	\$8.4	\$7.0	\$6.5
% Margin	2.4%	2.0%	2.2%	1.7%	1.5%

Source: Company filings

Decreasing R&D Spending



“Dominant” In An Industry Larger Players In The Market Deem Less Attractive?

WD-40 talks about its market dominance and great market position. Spruce Point believes it is a market that others chose to largely underinvest in because there either isn't enough growth, or its not financially attractive enough to deepen the channel. For example much larger companies with greater financial resources, including DuPont and Newell Brands, each have multi-purpose lubricants, yet neither appear to have interest in acquiring WD-40 or expanding their offering further.

Dupont



Elmer's (owned by Newell Brands)



Largest Auto End User Under Long-Term Pressure In An Electric Vehicle World

Setting aside the current economic crisis where industrial and transportation activities are depressed, we observe that WD-40's largest end user is in maintenance, repair and overhaul services. In particular, as articulated by the CEO, the major end market exposure is in the automotive sector. Unfortunately, experts believe the long-term green solution is towards electric cars, which have fewer moving parts, break-down less frequently, and require less maintenance. This inevitably translates into less use of WD-40's lubricants in the long-term.

CEO Ridge Shareholder Meeting

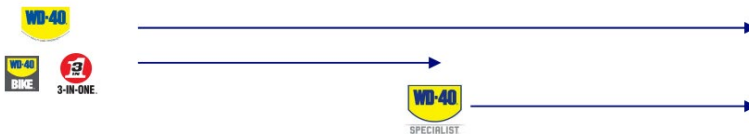
Dec 2019

*"The great thing about our end users is the variety of our end users. From that, what we call our novice end-users. The guys sitting on his patio on a Saturday afternoon, drinking his beer, using about \$0.40 worth of WD-40 multi-use product a year. **To the guy who's earning his living, whether it be in San Diego or London or Shanghai or Sydney, make repairing a motor vehicle who could use up to \$70 worth of WD-40 a year.** Our lifestyle products like 3-IN-ONE, our new range of 3-IN-ONE RV products that are helping RV and camper -- people, campers, keep their equipment in good condition. And then WD-40 specialist, a line of product developed especially for those heavy end users."*

End-Users + Portfolio Approach



SKILL SET	NOVICE	GENERALIST	EXPERT
FOCUS	HOME LIFESTYLE		PROFESSIONAL



"The electric vehicle has one moving part, the motor, whereas the gasoline-powered vehicle has hundreds of moving parts. Fewer moving parts in the electric vehicle leads to another important difference. The electric vehicle requires less periodic maintenance and is more reliable."

Source: [Idaho National Lab](#)

"They have fewer moving parts, so there's less to build and less to break down. Many of the jobs needed to put internal-combustion vehicles on the road and keep them there, CRS says, will no longer be needed. Conventional powertrains may have as many as 2,000 moving parts, Canis notes, while electric powertrains may have as few 20."

Source: "More Electric Cars Means Fewer Mechanical Jobs", [Forbes](#), March 2019

What About Bicycles?

WD-40 sells to independent bike dealers and claims “Passionate Hobbyists” are end users. Unfortunately, kids (or future hobbyists) are less interested in bikes both in the U.S. and in the U.K., WD-40’s largest foreign market. Casual and regular bicyclists are in perpetual decline as are independent dealerships.

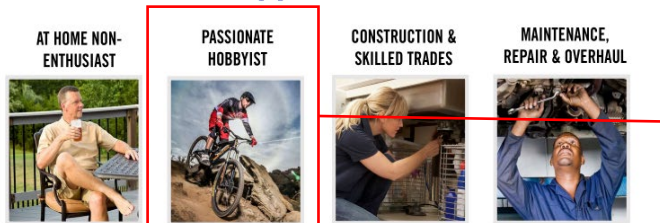
WD-40
Annual Report

“The Company’s products are sold primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets, sports retailers, **independent bike dealers**, online retailers and industrial distributors and suppliers.”

“And from 2018 to 2019, children’s bicycle sales decreased 7 percent in dollars and 7.5 percent in bikes sold, a drop serious enough that retailers have already goosed prices to make up for lower demand, according to market research firm NPD Group.”

Source: [Washington Post](#), June 4, 2019

End-Users + Portfolio Approach

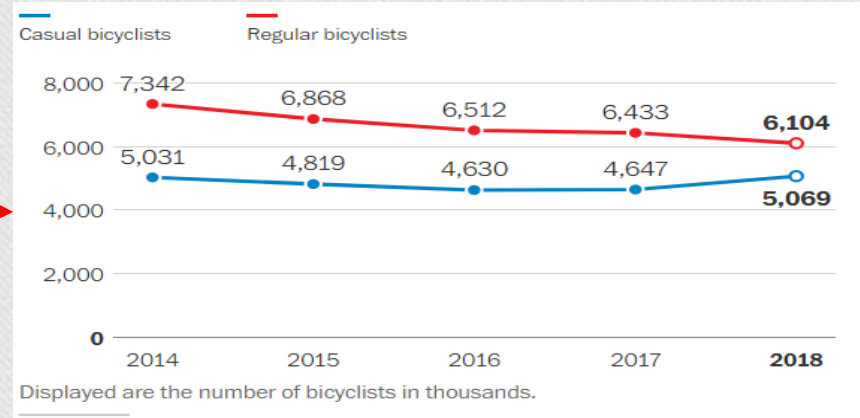


\$0.40 per year ← Annual usage amounts vary dramatically among our end-users → \$70.00 per year

SKILL SET	NOVICE	GENERALIST	EXPERT
FOCUS	HOME LIFESTYLE		PROFESSIONAL



17



Source: Sports & Fitness Industry Association

Also In The U.K. Where WD-40 Has A Large Presence

“Across the country, cycle shops that have been a regular fixture of their local high streets for decades are closing down in their droves”

“Youngsters say cycling is ‘too scary’, bike sales are static and stores are closing, as highlighted by James Corden last week.”

Source: “How millennials have put a spoke in the wheels of Britain’s bicycle shops”, [The Guardian](#), Jan 2019

What About Bicycles And Motorbikes?

Recent data from the National Bicycle Dealers indicate a substantial decline of independent bike dealerships. Meanwhile, using iconic Harley Davidson as a proxy for motorcycle demand, we observe that sales fell for a fifth year in a row as the it struggles to find new buyers, and has its own electric bike debut.

Kids (the future) And Current Enthusiasts



“According to the National Bicycle Dealers Association’s 2017 report, the number of independent bike dealers (IBDs) in the US has decreased from 4,256 in 2010 to 3,700 in 2016, a total decline of 13 percent.”

“In some part, this has mirrored flat to declining revenues in the bike industry as a whole—an overall decline of 3.5 percent over the same period.”

Source: “Hey, Bike Shops: Stop Treating Customers Like Garbage”, [Bicycling.com](https://www.bicycling.com), June 2019

Motorcyclists



Harley has for years failed to increase sales in the United States, its top market accounting for more than half of its motorcycles sold. As its tattooed, baby-boomer base ages, the Milwaukee-based company is finding it challenging to woo new customers.

“Harley said Tuesday that retail sales volumes dropped 4.3% last year from 2018. Motorcycle sales in the U.S., Harley’s biggest market, fell 5.2% in 2019, the fifth straight annual decline”

Source: “Harley struggles to fire up new generation of riders with electric bike debut”, [CNBC](https://www.cnbc.com), June 2019

Source: “Harley-Davidson’s U.S. Motorcycle Sales Drop for Fifth Straight Year”, [WSJ](https://www.wsj.com), Jan 28, 2020

Failures in the bicycle market, notably WD-40 Bike Company LLC and WD-40 BIKE appear to be failures. After being touted by management, they are now no longer discussed or separately reported.

WD-40
New Bike
Business
Q4 2012

“Strategic initiative number four, which is our global innovation efforts. We created a new business unit called WD-40 Bike Company, LLC. WD-40 Bike will be dedicated to solving cycling maintenance problems of riders, delivering WD-40-branded solutions that are easy to use, easy to find, provide good value, and will get the job done right.”

>>>> **Four Years Later Dissolved**

Last Financial Disclosure Q4 2018

WD-40
CEO Ridge
Q4 2018

*“In the full year, as we reported our blue and yellow can with the little red top, the Multi-Use Product, it grew in the year about 7.5%. Specialist, as we reported, was up nearly 22%. **BIKE was up about 28%.**”*

Now Re-branding And No Longer Disclosing

Analyst
Q1 2020

“And then you said that you are putting the BIKE under the new Specialist packaging, or I am assuming also manage as under the Specialist group. Why keep the financial data where it is and not including -- and not included going forward in the Specialist group?”

CEO Ridge
Q1 2020

“Well, because we report it now in the other group, and we wouldn't be a comparable because it wasn't in there before. So we've decided, at this time, to leave it out as a line on its own.”

Growth End Markets Such As RVs Suspended

WD-40 has been touting its new product marketed to the recreational vehicle (RV) industry. Unfortunately, the RV market has grinded to a halt with numerous component and manufacturers suspending production.

CEO Ridge
Shareholder
Meeting
Dec 2019

*"The great thing about our end users is the variety of our end users.....Our lifestyle products like 3-IN-ONE, **our new range of 3-IN-ONE RV products that are helping RV and camper -- people, campers, keep their equipment in good condition.**"*

RV Leader
Thor Industries
(Nasdaq: THO)

March 23, 2020

"As the coronavirus pandemic continues to evolve, Thor remains focused on the safety of its employees, their families, and all of the communities in which we operate. The concern for the safety of our people is always paramount but the situation of today is unique and calls for action. As state governments, including Indiana and Ohio where a substantial number of our production facilities exist, declare statewide emergencies requiring their citizens to stay at home except for limited circumstances, Thor is today announcing the temporary suspension of all of its production in North America. Additionally, a substantial portion of our production in Europe is temporarily suspended as well," said Bob Martin, President and CEO of Thor Industries." [Source](#)

LCI Industries
(Nasdaq: LCII)

March 25, 2020

"In an effort to protect the health and safety of its team members, align production with current demand levels, and adhere to federal and state mandates, LCI Industries will temporarily suspend production at select manufacturing facilities across the U.S. and Europe, effective various days through the end of the week. The temporary suspension of production is on a plant by plant basis, consistent with government mandates or due to customer closures. Production at facilities, which are considered essential, will continue, utilizing reduced staff in conjunction with heightened cleaning and sanitization processes. "As the impact of the evolving COVID-19 pandemic continues, we are suspending production at certain manufacturing facilities, with 15 of our sites anticipated to remain open after the end of the week. We have also implemented a number of actions to ensure we are adhering to guidelines set forth by the World Health Organization and the Centers for Disease Control and Prevention. We are monitoring the situation closely and are poised to promptly re-start production at closed facilities as soon as OEM and dealer partners see a less restricted consumer environment," commented Jason Lippert, LCI Industries' President and Chief Executive Officer." [Source](#)

Winnebago
(Nasdaq: WGO)

March 23, 2020

"Winnebago Industries, Inc. (Nasdaq:WGO) today announced it will be temporarily suspending most production activities at the Company's Winnebago, Grand Design RV, Newmar, and Chris-Craft facilities. This action is in response to the national spread of the coronavirus, the national emergency associated with the virus, and unforeseeable change in business circumstances that have accompanied it. These steps are designed to lower the probability of coronavirus exposure to employees and adjust future production output relative to a fast-changing demand landscape for the Company's products. Winnebago Industries and its businesses will remain open and perform essential activities for its dealers and end customers, including remote retail support for dealers, along with technical care, warranty administration, and parts fulfillment. Each of the Company's businesses will suspend production during the week of March 23rd and based on present conditions, the manufacturing suspension is currently anticipated to last through April 12th." [Source](#)

As a chemical product manufacturer and distributor, WD-40 is subject to various laws and regulations. As can be seen from current and historical product fact sheets, the Hazardous Identification disclosures have been expanded.

Then: 2012



Safety Data Sheet



1 - Chemical Product and Company Identification

Manufacturer: WD-40 Company
Address: 1061 Cudahy Place (92110)
P.O. Box 80607
San Diego, California, USA
92138-0607

Telephone:
Emergency only: 1-888-324-7596 (PROSAR)
Information: 1-888-324-7596
Chemical Spills: 1-800-424-9300 (Chemtrec)
1-703-527-3887 (International Calls)

Chemical Name: Organic Mixture

Trade Name: WD-40 Aerosol

Product Use: Lubricant, Penetrant, Drives Out Moisture, Removes and Protects Surfaces From Corrosion

MSDS Date Of Preparation: 01/09/12

2 - Hazards Identification

GHS Classification:
Flammable Aerosol Category 1

GHS Label Elements:



DANGER!

H222 Extremely Flammable Aerosol.
P210 Keep away from heat, sparks, open flames, hot surfaces – No smoking.
P211 Do not spray on an open flame or other ignition source.
P251 Pressurized container: Do not pierce or burn, even after use.
P410+P412 Protect from sunlight. Do not expose to temperatures exceeding 50°C/122°F.

3 - Composition/Information on Ingredients

Ingredient	CAS #	Weight Percent	GHS Classification
Aliphatic Hydrocarbon	64742-47-8	<70	Flammable Liq 3
Petroleum Base Oil	64742-53-6 64742-56-9 64742-65-0	<25	Not Hazardous
Non-Hazardous Rust Inhibitors	Mixture	<10	Not Hazardous
Non-Hazardous Lubricant	Mixture	<10	Not Hazardous
Carbon Dioxide	124-38-9	<3	Not Hazardous
Fragrance	Mixture	<1	Not Hazardous

4 - First Aid Measures

Ingestion (Swallowed): Aspiration Hazard. DO NOT induce vomiting. Call physician, poison control center or the WD-40 Safety Hotline at 1-888-324-7596 immediately.

Eye Contact: Flush thoroughly with water. Remove contact lenses if present after the first 5 minutes and continue flushing for several more minutes. Get medical attention if irritation persists.

Skin Contact: Wash with soap and water. If irritation develops and persists, get medical attention.

Inhalation (Breathing): If irritation is experienced, move to fresh air. Get medical attention if irritation or other symptoms develop and persist.

Now: 2019/20



Safety Data Sheet California CARB Compliant



1 - Identification

Product Name: WD-40 Multi-Use Product Aerosol

Product Use: Lubricant, Penetrant, Drives Out Moisture, Removes and Protects Surfaces From Corrosion

Restrictions on Use: None Identified

SDS Date Of Preparation: March 5, 2019

Manufacturer: WD-40 Company
Address: 9715 Businesspark Avenue
San Diego, California, USA
92131

Telephone:
Emergency: 1-888-324-7596
Information: 1-888-324-7596
Chemical Spills: 1-800-424-9300 (Chemtrec)
1-703-527-3887 (International Calls)

2 - Hazards Identification

Hazcom 2012/GHS Classification:
Flammable Aerosol Category 1
Gas Under Pressure: Compressed Gas
Aspiration Toxicity Category 1
Specific Target Organ Toxicity Single Exposure Category 3 (nervous system effects)

Note: This product is a consumer product and is labeled in accordance with the US Consumer Product Safety Commission regulations which take precedence over OSHA Hazard Communication labeling. The actual container label will not include the label elements below. The labeling below applies to industrial/professional products.

Label Elements:



DANGER!

Extremely Flammable Aerosol.
Contains gas under pressure; may explode if heated.
May be fatal if swallowed and enters airways.
May cause drowsiness or dizziness.

Prevention

Keep away from heat, sparks, open flames, hot surfaces. – No smoking.
Do not spray on an open flame or other ignition source.
Pressurized container: Do not pierce or burn, even after use.
Avoid breathing vapors or mists.
Use only outdoors or in a well-ventilated area.

Response

IF SWALLOWED: Immediately call a POISON CENTER or physician. Do NOT induce vomiting.
IF INHALED: Remove person to fresh air and keep comfortable for breathing. Call a POISON CENTER or physician if you feel unwell.

Storage

Store locked up.
Protect from sunlight. Do not expose to temperatures exceeding 50°C/122°F. Store in a well-ventilated place.

Disposal

Dispose of contents and container in accordance with local and national regulations.

A Product Not Suited For An E-Commerce Driven Retail Environment

WD-40 has recently expanded its safety disclosure to give explicit advice not to ship its aerosol products by air. This presents potential challenges in an e-commerce driven world where air transportation is a critical shipment route.

Then: 2012

14 – Transportation Information


DOT Surface Shipping Description: Consumer Commodity, ORM-D until 12/31/2013
After 1/1/2014 UN1950, Aerosols, 2.1 Ltd. Qty (Note: Shipping Papers are not required for Limited Quantities unless transported by air or vessel – each package must be marked with the Limited Quantity Mark)
IMDG Shipping Description: Un1950, Aerosols, 2.1, LTD QTY

Source: [WD-40](#)

Now: 2019/20

14 – Transportation Information

DOT Surface Shipping Description: UN1950, Aerosols, 2.1 Ltd. Qty
(Note: Shipping Papers are not required for Limited Quantities unless transported by air or vessel – each package must be marked with the Limited Quantity Mark)
IMDG Shipping Description: UN1950, Aerosols, 2.1, LTD QTY
ICAO Shipping Description: UN1950, Aerosols, flammable, 2.1







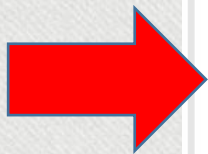
NOTE: WD-40 Company does not test aerosol cans to assure that they meet the pressure and other requirements for transport by air. We do not recommend that our aerosol products be transported by air.

Source: [WD-40](#)

Even The FAA Explicitly Warns....

The Federal Aviation Authority (FAA) recently clarified its list of flammable aerosols in its public guidance. WD-40 was explicitly listed as not allowed as a carry on or checked bag.

All		Medicinal & Toiletry	Matches & Lighters	Batteries & Electronics	Assistive Devices	Outdoors	Misc
Show 10 entries		Search: <input type="text"/>					
Hazardous Material	Checked Bag	Carry On					
 <p>Adhesives, flammable Rubber cement, pipe cement, some super glues and other flammable adhesives</p>	✗	✗	Details >				
 <p>Adhesives, nonflammable School glue, glue sticks, etc.</p>	✓	✓	Details >				
 <p>Aerosols flammable Non-toiletry, WD-40, spray paint, spray starch, cooking spray, etc.</p>	✗	✗	Details >				
 <p>Aerosols, non-flammable Nonflammable aerosols (with no other hazard), Non-toiletry, Some electronics cleaners, whipped cream</p>	✓	✗	Details >				



Source: [FAA](#)

Rolling Back Int'l Growth Potential

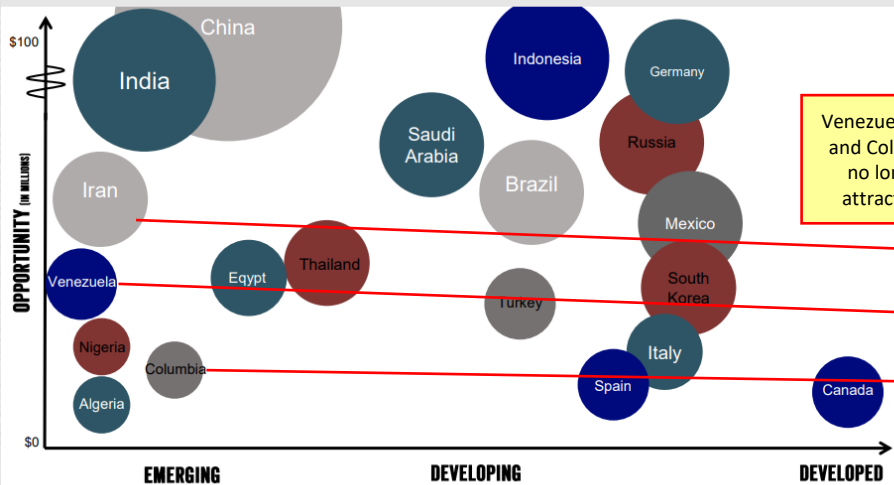
Spruce Point does not take WD-40's global ambitions credibly. The Company last year suggested it had opportunities in Venezuela, Iran, and Columbia. This year, these countries are conspicuously absent from the list. Yet, WD-40 still claims \$1.0 billion of global market opportunities with both fewer countries and a slower world economy.

2019 Opportunities

GEOGRAPHIC EXPANSION



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



Venezuela, Iran and Columbia no longer attractive?

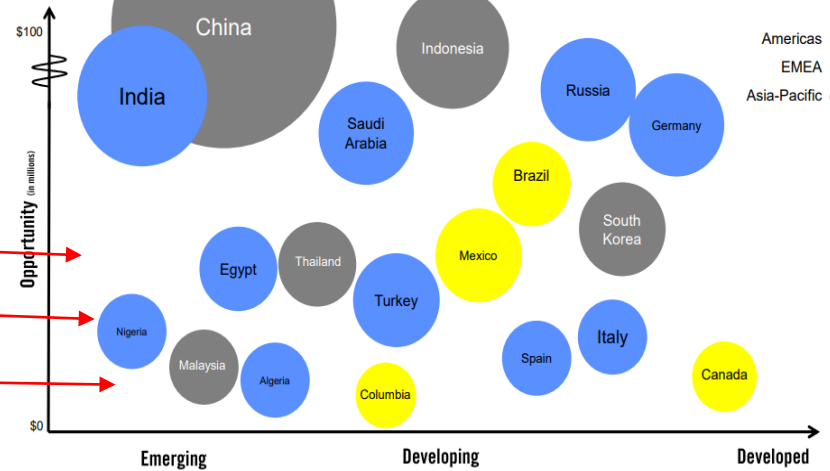
¹⁾ Based on Industrial Value Added (IVA) / Purchase Price Parity (PPP) third-party benchmarking. WD-40 Company's estimated IVA/PPP figure is calculated using country GDP (PPP) data, which is a country's GDP converted into 'international dollars' using the PPP index, then multiplied by the country's IVA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

2020 Opportunities

Geographic Expansion Opportunities



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



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.

China Hype: Blue Sky Opportunities

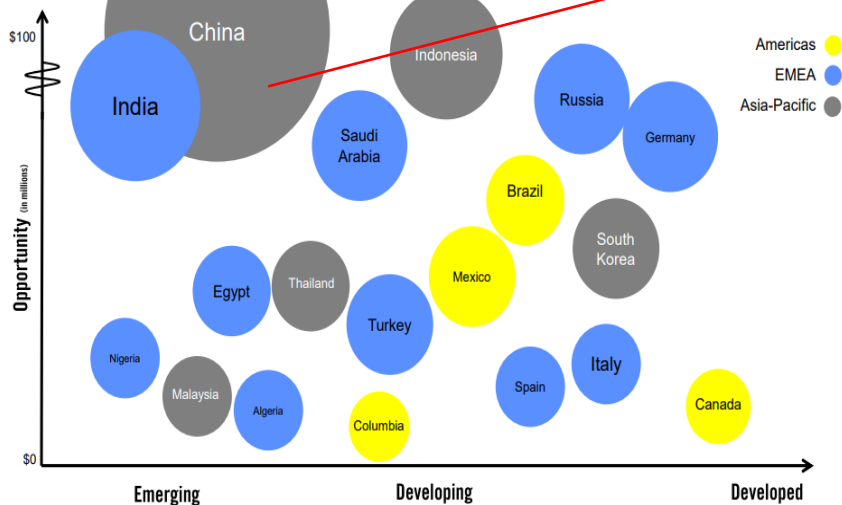
WD-40 lists China as its biggest opportunity and the CEO has made claims of \$100m in potential revenue in 2016. Fast forward to Q1 2020, the Company produced \$2.3m of sales, or a run rate of just \$9.2m

2020 Opportunities

Geographic Expansion Opportunities



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



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 23 a country's GDP converted into 'international dollars' using the PPP index, then multiplied by the country's IVA (% GDP) figure.

CEO Ridge Comments

Q1 2016

"We expect China to eventually be \$100 million revenue, so we will gain the leverage there."

2018 Shareholder Meeting

"Today, the China market is our third largest market for WD-40 in the world."

Q4 2019

"We made an investment in China 14 years ago to open our own subsidiary there. China is now the second largest market in the world for our blue and yellow can with the little red top. We anticipate we'll continue to see double-digit growth in China going forward."

"Of this 30 basis points (gross margin impact), 20 was due to a formulation change that we made to our WD-40 Multi-Use Product in Asia-Pacific."

Q1 2020

"In China, net sales in U.S. dollars decreased to \$2.3 million in the first quarter, down 23% compared to last year due to the timing of customer orders."

China Reality: Never-Ending Counterfeit Challenges

Spruce Point believes part of WD-40's international challenges, and why it will continue to disappoint expectations, is rampant counterfeiting. The problem persists in China, where more than 17 years ago, it admitted that 25% of share in China was counterfeit. The Company has been silent on the matter since. As recently as last year, a criminal gang was busted in China for producing and distributing counterfeits. Despite this, sales in China continue to disappoint.

WD-40 North America President Mike Freeman (2003)

"WD-40 has estimated 50% market share in China. Counterfeit product in China has an additional 25% market share."⁽¹⁾

2019: "Recently, under the unified command of Changzhou Public Security Bureau and the coordination among the economic investigation team, Tianning police station and relevant police departments, **two large criminal gangs of counterfeiting "WD-40" rust removers were cracked, with 20 suspects being caught, 10 dens of counterfeit production, sales and warehousing and 2 production lines of counterfeits being destroyed, 28,000 bottles of finished and semi-finished counterfeit reagents being detained, and valued at over 4.2 million yuan.** The whole criminal chain of production, processing and packaging was completely destroyed. From 2015 up to now, the two criminal gangs colluded with each other to sell the fake "WD-40" rust removers, lubricants, cleansers and looseners, valued at over 50 million yuan in total". [\(source\)](#)



"The fake WD-40 is sold in cans which feature a slightly smaller 350ml can. The fake WD-40 also can be distinguished by the description on the can which is printed in Chinese. The real WD-40 is made in USA. It is sold in a 382ml can and features printed instructions in English and Chinese." [\(source\)](#)

"US Customs and Border Protection (CBP) has seized a shipment containing nearly 1,500 cans of counterfeit WD-40 brand lubricant sent from China at the San Juan Area Port...counterfeit versions of WD-40 products have been circulating in the Singapore market."⁽²⁾

1) "WD-40 tries can shaping to foil counterfeiters", [Packworld](#), 10/31/2003
2) "Fake WD-40 intercepted in Puerto Rico", [Securingindustry.com](#), 11/18/16

Latin America Challenges

WD-40 blamed Latin American challenges on Argentina, citing sales down 10%. We conducted a channel check at a major home improvement chain that sells in Argentina, Peru, Uruguay, Columbia and Mexico and Brazil. At the low end, a 5.5oz container cost over \$6.00 or more than 2x the price available in the U.S. The fact of the matter is that WD-40 is an expensive product in some countries where the locals may seek cheaper alternatives.

Spruce Point Interview With A Former WD-40 Employee

Spruce Point: "What are some of the challenges faced by WD-40 in emerging markets?"
Response: "Well ya know, in some countries they use home-made lubricants or cheaper solutions."

Latin American Channel Check: Uruguay (Dec 2019)



\$16.00
13.2oz

\$11.30
13.2oz

\$10.23
11.0oz

\$6.03
5.5oz

Source: [Sodimac Homecenter](#)
Converted at 38 peso per US\$

Recent Comments on Latin America

Analyst G. Research
Q4 2019

"And in Latin America, obviously, maintenance was down 10%. You mentioned some economic challenges that exist in this region. Can you break that down specifically by country where you may have an outsized impact? Is there any sort of specific disruption that's affecting you more so than, I guess, other regions in that area?"

WD-40 COO Steve Brass

"We had -- we suffered from the Argentinian economic situation. We had some phasing issues in Mexico with orders. And then our business in Central America and the Caribbean was phased based upon price increases that happened last year, and there was pre-price increase buying last year, so the comparison wasn't favorable. So they were the main three areas that caused the Latin America business to be down. It's the first time we've seen Latin America fail to grow since 2012 and we certainly expect normal service to be resumed in 2020."



*Recent Channel Checks Show
Increasing Competition And
Discounting*

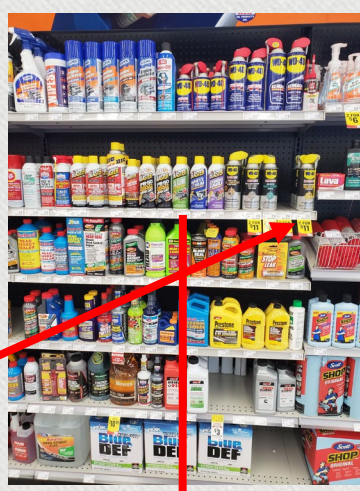
Key Auto Market Channel Becoming More Competitive

Spruce Point believes that WD-40 is facing increased pressure in the national specialty auto channel, dominated by players like AutoZone and Advance Auto Parts. Based on our research, PB Blaster has become a formidable competitor.

Spruce Point Interview With A Former WD-40 Employee

Spruce Point: "Is there anything in the competitive environment that's changed or should worry a WD-40 investor?"
Response: "I would definitely research a company called PB Blaster to see what they're doing."

AutoZone(1)



Advance Auto Parts



It's very evident from our primary research that PB Plaster is intensely competing for shelf and advertising space with WD-40 at very low price points.

1) AutoZone has **reduced hours** during the virus crisis
 Source: Spruce Point research, Q2 2020







Auto Market Channel Becoming More Competitive (Cont'd)

Pep Boys is another major automotive service retailer owned by Icahn Enterprises since 2016. Pep Boys operates more than 9,000 service bays in approximately 1,000 locations in 35 states and Puerto Rico. On a recent channel check, we found that WD-40 was the only lubricant on the shelf being discounted. In addition, Pep Boys is offering even greater price discounting on its website.

In-Store Discount



More Discounts Online

 <p>\$4.79 With Promotion</p>	<p>WD-40 Multi-Use Product w/ Smart Straw, 8 OZ. Part #: 400026 SKU :1020812 ★★★★★ See all 1 reviews</p> <p>Available today Pay in Store Available</p> <ul style="list-style-type: none"> Drives out moisture and quickly dries out electrical systems to eliminate moisture-induced short circuits Acts as a corrosion inhibitor to shield against moisture and other corrosive elements to prevent rust <p>Web Exclusive - Save 20% on Parts & Accessories*</p>	<p>Qty: 1 Retail: \$5.99</p> <p>⊗ Pick Up in Store (No Instnt)</p> <p>Promotion: 20% OFF INSTANTLY -\$1.20</p> <p>\$4.79</p> <p>ADD TO CART</p> <p></p>
 <p>\$5.59 With Promotion</p>	<p>WD-40 Multi-Use Product w/ Smart Straw, 12 OZ. Part #: 400057 SKU :1020829 ★★★★★ See all 5 reviews</p> <p>Available today Pay in Store Available</p> <ul style="list-style-type: none"> Drives out moisture and quickly dries out electrical systems to eliminate moisture-induced short circuits Acts as a corrosion inhibitor to shield against moisture and other corrosive elements to prevent rust <p>Web Exclusive - Save 20% on Parts & Accessories*</p>	<p>Qty: 1 Retail: \$6.99</p> <p>⊗ Pick Up in Store (No Instnt)</p> <p>Promotion: 20% OFF INSTANTLY -\$1.40</p> <p>\$5.59</p> <p>ADD TO CART</p> <p></p>
 <p>\$5.99 With Promotion</p>	<p>WD-40 Specialist Rust Release Penetrant Spray, 11 oz. Part #: 300004 SKU :400759 ★★★★★ See all 135 reviews</p> <p>Available today Pay in Store Available</p> <ul style="list-style-type: none"> Penetrates deep into crevices, threads and seams to break the bonds that hold stuck parts together. It's fast acting and ideal for nuts, bolts, threads, locks, and rusted chains The WD-40 Specialist line is designed with industrial strength quality and extreme penetration for your hard to solve issues <p>Web Exclusive - Save 20% on Parts & Accessories*</p>	<p>Qty: 1 Retail: \$7.49</p> <p>⊗ Pick Up in Store (No Instnt)</p> <p>Promotion: 20% OFF INSTANTLY -\$1.50</p> <p>\$5.99</p> <p>ADD TO CART</p> <p></p>

Dollar Stores' Direct Competition

Selling into the dollar store channel presents significant challenges for WD-40. We found house and generic lubricant brands at Family Dollar and Dollar General at approximately 33% - 60% less. DollarTree, which doesn't sell WD-40, markets 4oz Tool Bench Hardware Spray Lubricant for \$1.00.⁽¹⁾

Family Dollar



~33%

Less Expensive Than WD-40

Dollar General



~59%

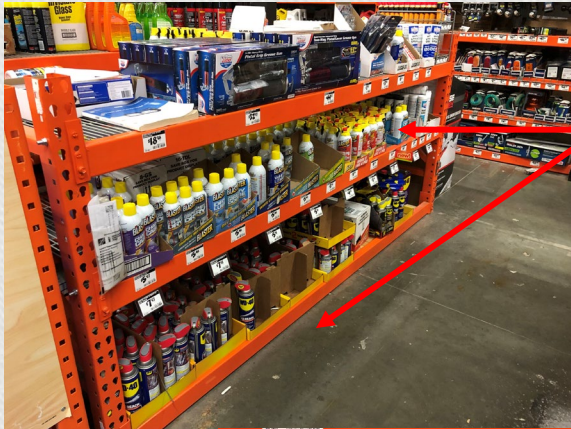
Less Expensive Than WD-40

Source: Spruce Point research

1) DollarTree [website](#) and can be found in-store

At key national hardware and home improvement stores such as Home Depot and Lowe's, WD-40 also competes heavily with PB Blaster for shelf space and on price. During the current crisis, Home Depot is curtailing regular hours.⁽¹⁾

Home Depot



PB has better placement. WD-40 at the bottom of shelf



Lowe's Home Improvement



**PB ~39%
Less Expensive
Than WD-40**



Significant aisle end promotion must cost WD-40 dearly

Source: Spruce Point research, Q2 2020

1) Home Depot [press release](#)

Other Hardware Stores Directly Compete

In business since 1924, Ace Hardware is the largest home improvement franchise company in the world, with over 5,100 stores operating in over 60 countries.⁽¹⁾ We find that Ace has a competing product on its shelves at approximately 50% less than WD-40's.

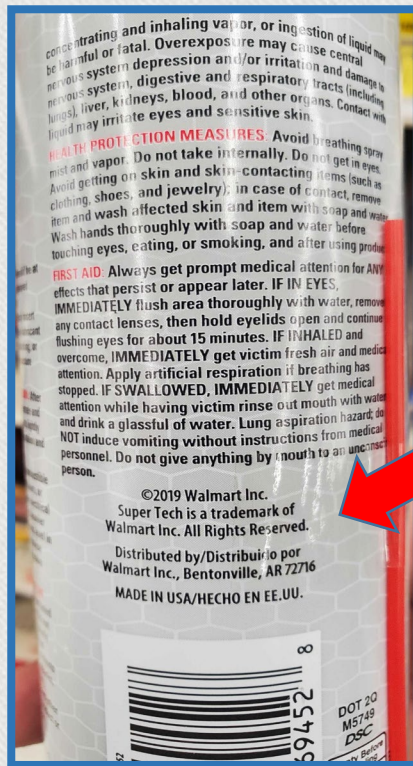


~50%
Less Expensive Than WD-40

1) [Ace Hardware](#)
Source: Spruce Point research, Q2 2020

WD-40 Stands Little Chance Against Retail Behemoth Wal-Mart

As the largest brick-and-mortar retailer in North America (US, Mexico, Canada), Wal-Mart has chosen to compete directly against WD-40 with its own lubricant priced nearly 50% less.



~49%
Less Expensive Than WD-40

WD-40 Is Not The Best: Experts And Customers Claim JB-80 Is The Best On The Market

While WD-40 may justify its higher price by its best-in-class product quality, our research suggests this may not be true. WD-40 may be the most widespread brand name, but it may not be the superior product. One customer compared JB-80 to the LED light bulb of lubricants. Its more expensive than the traditional solution but requires less frequent applications due to its significantly longer duration.

5-Star Amazon Reviews

★★★★★ Deserves more than 5 stars

Reviewed in the United States on January 4, 2019

Verified Purchase

This is the best penetrating oil I have ever used. I work at a motorcycle shop and we have over 10 different brands of penetrating oil on the shelf. None of them work as good as this stuff. Spray just a tiny bit onto a bolt that wont come undone and leave it for a few minutes and then give it a try and it will just about twist off like its a brand new bolt. Absolutely amazing. Love this stuff. Kinda pricey. But well well worth it. will never let my shop go without a can of this ever again.

★★★★★ **Five Stars**

Reviewed in the United States on March 23, 2018

Verified Purchase

This stuff is incredible. Friends don't let friends use wd40.

"The incredible multi-use spray lubricant that's TWICE AS GOOD!"

- *Justice Brothers*

Customers believe the products quality and lasting duration justify speeding a premium price for JB-80



Customers claim JB-80 is superior to WD-40

Our Primary Research Proved Similar Results

Hardware Store Owner

"JB-80 is twice as good. It's teflon based, last twice as long and viscosity is thicker. It's much better."

"The Company has started to take off over the last few years. This is the product that put them on the map."

"The sales guy walked into the store with the product. He sprayed it and WD-40 onto two wheels, then spun them. The one with JB-80 spun twice as fast and spun for more than twice as long."

Customer

"It's like an LED light bulb. Higher investment up front but last more than twice as long."

"I use it for my industrial conveyor belt. Since I switched from WD-40, I've only needed to use it twice a year versus every month or two."

Only Desperate Buyers At Drug Stores

Consumers that would be absolutely desperate and have an immediate need for WD-40 would pay more than a 100% premium to the price at a national drugstore chain. Although, we doubt that the first place that comes to mind to find WD-40 is CVS or Rite Aid. We suspect much of this overpriced inventory isn't selling well.

Walgreen's



Rite Aid



CVS



Same product
under \$4 at
WalMart

Discount And Rebate Strain

WD-40 recently started disclosing reductions to sales for rebates, coupons and cash incentives. The disclosure may have been pushed by the auditor, which recently added rebates and marketing program accruals as a “*Critical Audit Matter*”. By closely analyzing recent trends, we find that WD-40 gave its largest incentives in Q1 2020. This is supported by our channel checks which show greater in-store promotion.

Rebates Added As “Critical Audit Matter”

“The principal considerations for our determination that performing procedures relating to the cooperative marketing program accruals is a critical audit matter are (i) there was significant judgment by management to estimate the cooperative marketing program accruals, which in turn led to a high degree of auditor judgment in performing procedures to evaluate the status of trade promotion activities within the cooperative marketing program accruals, and (ii) there was a high level of audit effort and subjectivity in performing procedures to evaluate the current and past trade promotion spending patterns and the status of trade promotion activities used to determine the cooperative marketing program accruals.”

\$ in mm	Q1 11/30/18	Q2 2/28/19	Q3 5/31/19	Q4 8/31/19	Q1 11/30/19
Rebates	\$4.3	\$4.5	\$4.6	\$4.8	\$5.0
Coupons	\$0.1	\$0.1	\$0.2	\$0.0	\$0.0
Cash Discounts	\$1.0	\$1.0	\$1.2	\$1.0	\$1.0
Total Sales Discounts (A)	\$5.4	\$5.6	\$6.0	\$5.8	\$6.0
Net Sales (Reported) (B)	\$101.3	\$101.3	\$114.0	\$106.7	\$98.6
Gross Sales C=(A+B)	\$106.7	\$106.9	\$120.0	\$112.5	\$104.6
Total Discounts / Gross Sales =(A/C)	5.1%	5.2%	5.0%	5.2%	5.7%



*Evidence of Stretched Accounting,
Severe Financial Distress And Why This
Recession Will Be Worse Than The Past*

Late Friday on March 27th, WD-40 disclosed it had drawn down its entire credit facility. We will explain why the magnitude of the draw down should be incredibly alarming in the context of its business.

“On March 16, 2020, WD-40 Company (the “Company”) entered into an Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”) with Bank of America, N.A. (“Bank of America”). The Amended and Restated Credit Agreement modifies the Company’s existing Credit Agreement dated June 17, 2011 (as amended on January 7, 2013, May 13, 2015, November 16, 2015, September 1, 2016, November 15, 2017, February 23, 2018 and January 22, 2019, the “Credit Agreement”). Capitalized terms not otherwise defined in this report have the meaning given to such terms in the Amended and Restated Credit Agreement. **The Amended and Restated Credit Agreement increases the Revolving Commitment from \$100.0 million to \$150.0 million and increases the sublimit for the Revolving Commitment for borrowing by WD-40 Company Limited, a wholly owned operating subsidiary of the Company for Europe, the Middle East, Africa and India, from \$50.0 million to \$100.0 million.** In addition to other non-material and technical amendments to the Credit Agreement, the Amended and Restated Agreement modifies certain restrictive covenants. An exception to a prohibition on Investments has been added to allow for intercompany loans or advances from any Loan Party to Subsidiaries which are not Loan Parties in an aggregate amount of up to \$5.0 million outstanding at any time. In addition, an exception for Investments not otherwise covered by an exception has been increased from \$2.5 to \$5.0 million. The Amended and Restated Credit Agreement includes a new schedule of Permitted Consolidated Capital Expenditures to permit the Company to make contemplated capital investments in the current and future fiscal years of up to \$30.5 million in fiscal year 2020, \$19.0 million in fiscal year 2021, and \$15.0 million for fiscal years 2022, 2023, 2024 and 2025”

Source: [8-K](#)

“During the week of March 23, 2020, WD-40 Company (the “Company”) drew an additional \$80.0 million in U.S. Dollars under its existing line of credit agreement with Bank of America, N.A. (the “Credit Agreement”), bringing the balance on the line of credit to approximately \$149.0 million. As a result of this additional borrowing, the Company has now drawn almost the entirety of the \$150.0 million available under the Credit Agreement. Although the Company does not have any current need for this additional liquidity, the Company decided to draw this \$80.0 million to ensure future liquidity given the significant impact on global financial markets and the economy as a result of the recent coronavirus outbreak. For additional information on the terms and conditions of the Credit Agreement, see the Company’s Current Report on Form 8-K filed on March 19, 2020, which includes a copy of the Credit Agreement as Exhibit 10(a), incorporated herein by reference.”

Source: [8-K](#)

A Hole Appears In WD-40's Balance Sheet

Something looks incredibly wrong with the magnitude of WD-40's recent full credit draw-down. WD-40's balance sheet still appears quite strong with Net Debt / EBITDA of just 0.7x. During the great financial crisis, WD-40 secured a \$10m credit facility which it never had to use. Recently, WD-40 used 100% of an upsized \$150m credit facility. To put this in perspective, the credit facility is 15x bigger despite sales and EBITDA having grown 33% and 90% respectively.

At Time Before Credit Facility Draw	Financial Crisis 2007-2010	Coronavirus Scare 2020	Relative Increase
Trailing LTM Net Sales	\$317.1	\$420.6	+33%
Trailing EBITDA	\$46.5	\$88.4	+90%
Cash on Hand Less: Total Debt (1) Net Debt	\$42.0 <u>(\$42.9)</u> \$0.9	\$28.7 <u>(\$90.2)</u> \$61.5	+67x
Net Debt / EBITDA	0.0x	0.7x	--
Credit Facility	In September 2008, we entered into an unsecured loan agreement for the aforementioned \$10 million credit facility , which expires in October 2011. The proceeds of the new credit facility are available for general working capital purposes. <u>The credit facility is currently undrawn.</u>	As of November 30, 2019, the Company had a balance of \$58.6 million of outstanding draws on the line of credit. During the week of March 23, 2020, WD-40 Company (the "Company") drew an additional \$80.0 million in U.S. Dollars under its existing line of credit agreement with Bank of America, N.A. (the "Credit Agreement"), bringing the balance on the line of credit to approximately \$149.0 million. <u>As a result of this additional borrowing, the Company has now drawn almost the entirety of the \$150.0 million available under the Credit Agreement</u>	+1,500%

Source: Company filings

Note: WD-40 increased capex projections from \$25m to \$31m for 2020, but given historical operating cash flow of \$60m+ per year and projected net income of \$65-\$66.2m, it shouldn't need such a high borrowing

1) Excludes operating leases

Evidence of Ballooning Inventory

By closely examining the composition of WD-40's inventory accounts, we observe that Finished Goods make up an increasing percentage of the overall balance, and more than prior to entering the last crisis. In our opinion, this suggests that inventory is building up and not selling-through to customers.

\$ in mm	Pre-Financial Crisis		Prior Financial Crisis			Recent Results		
	2005	2006	2007	2008	2009	2018	2019	Q1 2020
Product at Packers	\$1.8	\$1.4	\$1.4	\$2.5	\$1.8	\$2.8	\$3.2	\$3.6
Raw Materials and components	\$0.7	\$1.1	\$1.0	\$3.8	\$3.2	\$3.7	\$4.4	\$5.8
Work-In-Process	N/A	\$2.2	\$1.5	\$1.2	\$1.2	\$0.4	\$0.3	\$0.5
Finished Goods	\$7.4	\$12.0	\$10.7	\$13.3	\$11.5	\$29.6	\$32.9	\$33.9
Total Inventory	\$9.9	\$16.7	\$14.6	\$20.8	\$17.7	\$36.5	\$40.8	\$43.8
% of Total								
Product at Packers	18%	8%	10%	12%	10%	8%	8%	8%
Raw Materials and components	7%	7%	7%	18%	18%	10%	11%	13%
Work-In-Process	N/A	13%	10%	6%	7%	1%	1%	1%
Finished Goods	75%	72%	73%	64%	65%	81%	81%	78%
Total Inventory	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company filings

Increasing % of Finished Goods In Inventory Account

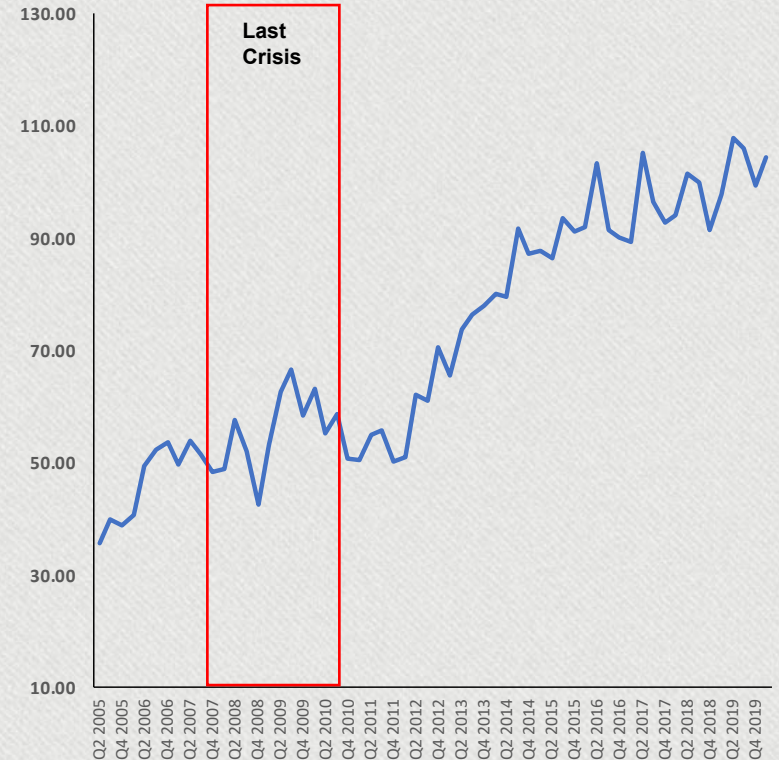


WD-40's days of inventory outstanding and cash conversion cycle are extremely elevated..

Days Inventory Outstanding



Cash Conversion Cycle



Source: Bloomberg

Evidence of Peak Financial Strain

Spruce Point's working capital analysis has proven a prescient indicator of numerous financial disasters. We conducted a similar analysis on WD-40 and find that its current working capital to LTM sales ratio is materially higher today at 16.3% of sales than it was prior to the last financial crisis.

\$ in mm	Pre-Financial Crisis		Prior Financial Crisis			Recent Results		
	2005	2006	2007	2008	2009	2018	2019	Q1 2020
Trailing 12 Month Revenues (A)	\$263.2	\$286.9	\$307.8	\$317.1	\$292.0	\$408.5	\$423.4	\$420.6
Total Current Assets	\$101.2	\$115.5	\$130.6	\$119.5	\$120.8	\$168.0	\$148.0	\$149.2
Less: Cash and Investments	(\$37.1)	(\$45.4)	(\$61.1)	(\$42.0)	(\$46.0)	(\$49.1)	(\$27.3)	(\$28.7)
Total Adjusted Current Assets (B)	\$64.1	\$70.1	\$69.5	\$77.5	\$74.8	\$118.9	\$120.7	\$120.5
Total Current Liabilities	\$46.7	\$43.7	\$53.9	\$54.6	\$48.2	\$85.9	\$74.6	\$81.0
Less: Short-Term Debt	(\$10.7)	(\$10.7)	(\$10.7)	(\$10.7)	(\$10.7)	(\$23.6)	(\$21.2)	(\$29.1)
Total Adjusted Current Liabilities (C)	\$36.0	\$33.0	\$43.2	\$43.9	\$37.5	\$62.3	\$53.4	\$51.9
Adjusted Working Capital (B – C) = D	\$28.1	\$37.2	\$26.3	\$33.6	\$37.3	\$56.6	\$67.3	\$68.6
Working Capital % of LTM Sales (D/A)	10.7%	13.0%	8.6%	10.6%	12.8%	13.9%	15.9%	16.3%

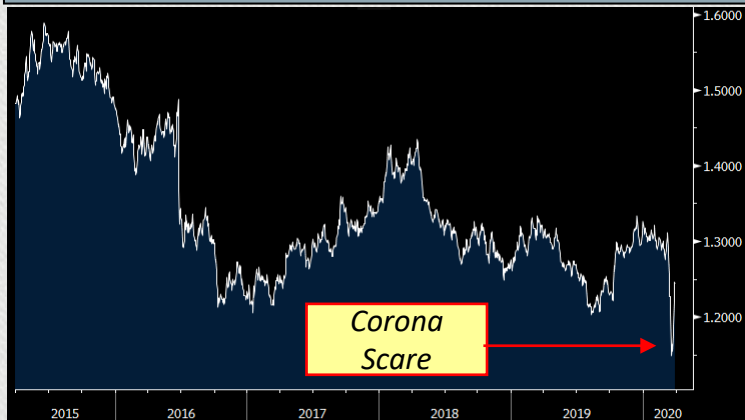
Increasing Working Capital Intensity = Increasing Strain



Extreme Exposure To Currency

We estimate 75% of WD-40's cash is in its U.K. subsidiary. A falling British Pound creates material risk to the business. The Company doesn't quantify the amount, but based on its UK filings, we can estimate the exposure. First Brexit, and now a coronavirus scare, has sent the Pound to multi-year lows

British Pound / US\$ Under Pressure



Source: Bloomberg

WD-40
2019
Annual Report

*"All of our foreign subsidiaries currently operate in currencies other than the U.S. Dollar **and a significant portion of our consolidated cash balance is denominated in these foreign functional currencies, particularly at our U.K. subsidiary which operates in Pound Sterling.** As a result, our cash and cash equivalents balances are subject to the effects of the fluctuations in these functional currencies against the U.S. Dollar at the end of each reporting period."*

WD-40 COMPANY CONSOLIDATED BALANCE SHEETS (In thousands, except share and per share amounts)

	August 31, 2018	August 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 48,866	\$ 37,082
Short-term investments	219	80,166

Source: [10-K](#)

WD-40 COMPANY LIMITED
REGISTERED NUMBER: 01755958

BALANCE SHEET
AS AT 31 AUGUST 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	12	2,267	2,687
Tangible assets	13	8,408	2,365
		10,675	5,052
Current assets			
Stocks	14	10,945	9,965
Debtors	15	36,404	30,172
Cash at bank and in hand	16	27,793	81,487
		75,142	121,624

Source

Greater International Exposure Will Exacerbate WD-40's Pain This Cycle

Looking carefully today vs. the last financial crisis, we see that WD-40 is materially more exposed to international markets today (63%) vs. the last crisis (52%). The Company now obscures country-level revenue detail. However, we estimate the U.K is 37% of total revenues vs. 9% during the last crisis.

Global operations outside the U.S. expose the Company to uncertain conditions, foreign currency exchange rate risk and other risks in international markets. The Company's sales outside of the U.S. were approximately 63% of consolidated net sales in fiscal year 2019 and one of its strategic initiatives includes maximizing the WD-40 Multi-Use Product through geographic expansion and market penetration.

WD-40's #1 Risk Factor Is That 63% of Sales Are Outside The U.S.

Current Disclosure Provides No Country-Level Sales, Only Regional

	Americas	EMEA	Asia-Pacific	Unallocated Corporate ⁽¹⁾	Total
Fiscal Year Ended August 31, 2019					
Net sales	\$ 193,972	\$ 160,615	\$ 68,763	\$ -	\$ 423,350
Income from operations	\$ 50,069	\$ 37,246	\$ 20,813	\$ (25,746)	\$ 82,382

	Fiscal Year Ended August 31,		
	2019	2018	2017
Net Sales by Geography:			
United States	\$ 157,904	\$ 154,986	\$ 150,086
International	265,446	253,532	230,420
Total	\$ 423,350	\$ 408,518	\$ 380,506

Source: 2019 [10-K](#)

During The Last Financial Crisis, International Sales Was The #7 Risk Factor And Sales Were 52% of Total. More Country Level Disclosure Was Provided

	Fiscal Year Ended August 31,		
	2009	2008	2007
Net Sales by Geography:			
United States	\$ 140,917	\$ 147,850	\$ 160,904
United Kingdom	24,791	28,230	29,127
Germany	19,579	22,003	18,430
Latin America	15,359	14,548	12,249
Other international	91,356	104,487	87,106
	\$ 292,002	\$ 317,118	\$ 307,816

Source: 2009 [10-K](#)

WD-40 COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 £000	2017 £000
Turnover	4	112,130	108,138
Cost of sales		(54,235)	(50,164)
Gross profit		57,895	57,974
Distribution costs		(6,077)	(5,573)
Administrative expenses		(32,068)	(30,745)
Operating profit	5	19,750	21,656

Source

WD-40 “Recession Resistant” According To The CEO

Investors should not rely on history for a guide to WD-40’s future. The CEO claimed last year that the business was recession resistant, and that business was stable, and would have grown, if not for currency movements.

WD-40
Analyst
Linda
Weiser

*“And then can you just, I mean, there's been a lot of investor anxiety, I guess, over the potential for a recession in the U.S., at least. **Can you just remind me how your business behaves in a recession?** Is it actually a little bit countercyclical? Or can you just give a little bit color about the nature of your business in that kind of environment?”*

CEO Ridge
Response
To Analyst

*“**We're not recession proof, but we have been called recession resistant.** And past history, I've been around for 30 years in the business. We've come through, we continued to invest in our business through the recessions, whether there will -- and the other thing that plays even more in our favor now is our geographic diversity. **In 2008, when we had the financial crisis, our business was actually sideways, we actually grew a little,** and if it wasn't for the collapse, if you will, of the pound-U.S. dollar exchange rate, we would have grown. But the impact was more in the U.S., not in Europe. So let's hope that we don't talk ourselves into a recession, and let's hope that we continue to make large hotdogs and put them on good buns and don't actually find ourselves in that position. But we feel that our spread across geography and our spread across trade channels gives us the best chance we can possibly have to ride through different economic conditions in different countries at different times around the world.”*

Next Slide Please!

Notice he doesn't talk about Asia this time around

It's unclear what the CEO meant when he said its business was "sideways" during the last crisis. All of its key financial metrics declined by single digits. Today, its business is more levered and has greater international exposure. As a result, we expect a much larger impact to Company results.

WD-40 Company
Consolidated Statements of Operations
(In thousands, except per share amounts)

	Fiscal Year Ended August 31,		
	2009	2008	2007
Net sales	\$ 292,002	\$ 317,118	\$ 307,816
Cost of products sold (including cost of products acquired from related party of \$11,675, \$21,757 and \$19,067 for fiscal years 2009, 2008 and 2007, respectively)	147,469	168,848	158,954
Gross profit	144,533	148,270	148,862
Operating expenses:			
Selling, general and administrative	78,051	83,800	78,520
Advertising and sales promotion	19,459	19,837	20,743
Amortization of intangible asset	468	597	583
Impairment of indefinite-lived intangible assets	6,710	1,340	—
Total operating expenses	104,688	105,574	99,846
Income from operations	39,845	42,696	49,016
Other (expense) income:			
Interest expense, net of interest income of \$428, \$1,602 and \$2,093 for fiscal years 2009, 2008 and 2007, respectively	(2,064)	(1,679)	(2,018)
Other income, net	543	982	177
Income before income taxes	38,324	41,999	47,175
Provision for income taxes	12,037	14,377	15,641
Net income	\$ 26,287	\$ 27,622	\$ 31,534
Earnings per common share:			
Basic	\$ 1.59	\$ 1.66	\$ 1.85
Diluted	\$ 1.58	\$ 1.64	\$ 1.83

Sales -8%

Gross Profit -3%

EBIT -7%

EPS -4%

Source: 2009 10-K

Already Missing Targets Before Things Went From Bad To Horrible

Spruce Point believes that long-term fundamental challenges are already beginning to weigh on WD-40, and this is before the macro environment went from bad to horrible with the coronavirus. Notice the acute weakness in Asia, notably China, where management claims it has a large market opportunity. The CEO is adamant that recent results “no way reflect a trend”.

Terrible Results In Q1 2020 Which Management Always Blames on Currencies

- Total net sales for the first quarter were \$98.6 million, a decrease of 3 percent compared to the prior year fiscal quarter. Translation of the Company's foreign subsidiary results from their functional currencies to U.S. dollars had an unfavorable impact on sales for the first quarter. On a constant currency basis, total net sales for the first quarter would have been \$100.8 million, relatively constant compared to the prior year fiscal quarter.
- Diluted earnings per share were \$0.88 compared to \$0.95 in the prior year fiscal quarter.
- Gross margin percentage was 54.3 percent compared to 55.1 percent in the prior year fiscal quarter.
- Net sales of maintenance products, which are considered the primary growth focus for the Company, decreased 3 percent in the first quarter when compared to the prior year fiscal quarter. This decrease was due primarily to lower sales of WD-40 Multi-Use Product within the Asia-Pacific segment
- **Net sales in Asia-Pacific decreased 15 percent in the first quarter due** to a 21 percent decrease in sales in the Asia-Pacific distributor markets and a 23 percent decrease in sales in China. The decline in sales in both regions was attributable to the timing of customer orders from period to period. These declines were partially offset by higher sales in Australia which increased 5 percent compared to the prior year fiscal quarter.

"Our guidance reflects the Company's current view of the business," said Jay Rembolt, WD-40 Company's vice president and chief financial officer. "The revenue softness we experienced in the first quarter was primarily driven by the timing of customer orders and we expect that sales activity will shift into later quarters. **We remain comfortable with our current guidance range and are reiterating it today.**"

CEO Ridge on Conference Call: "Though these results may look disappointing, **they no way reflect a trend.** In fact, we see lots of opportunities for growth as we continue to maximize the product line through geographic expansion, increased market penetration and premiumization of the blue and yellow can with a little red top".

The Company reiterates the following guidance for fiscal year 2020:

- Net sales growth is projected to be between 3 and 7 percent with net sales expected to be between \$436m and \$453m.
- Gross margin percentage for the full year is expected to be between 54 and 55 percent.
- Advertising and promotion investments are projected to be between 5.5 and 6.0 percent of net sales.
- The provision for income tax is expected to be between 20 and 22 percent.
- Net income is projected to be between \$65.0 million and \$66.2 million.
- Diluted earnings per share is expected to be between \$4.74 and \$4.83 based on an estimated 13.7 million weighted average shares outstanding.

Yet Somehow Management Remains Confident It Can Still Achieve Growth

Limited Visibility Into Financial Targets During Past Recession

In our view, WD-40 has no visibility in an economic recession. It missed FY 2009 sales and EPS estimates by 13% and almost 10% at the mid-point, respectively. In FY 2008 it missed sales and EPS by 5% and 13% and the mid-points, respectively. This time around, the economic crisis is greater, and we expect a much larger miss of its targets.

FY 2009 Actual vs. Expected

FY 2009
Guidance

Oct 15, 2008

WD-40 Company **expects fiscal year 2009 net sales to grow 2%-8% to \$323-\$343 million.** The company **expects earnings per share of \$1.65 to \$1.85** based on an estimated 16.6 million shares outstanding. ***“These are very unusual times and we are aware that we may need to do things differently,” Ridge said***

Source: FY 2008 [press release](#)

FY 2009
Actual
Oct 14, 2009

Year-to-date net sales were \$292.0 million, down 7.9% from the same period last year. Diluted EPS of \$1.58

Source: FY 2009 [press release](#)

FY 2008 Actual vs. Expected

FY 2008
Guidance

Oct 17, 2007

In fiscal year 2008, WD-40 Company **expects net sales to grow 7%-10% to \$329-\$339 million.** The company expects net income of \$31.1-\$32.8 million in 2008, **achieving earnings per share of \$1.83 to \$1.93 based** on an estimated 17.0 million shares outstanding.

Source: FY 2007 [press release](#)

FY 2008
Actual
Oct 15, 2008

Year-to-date net sales grew 3.0% to \$317.1 million. Diluted EPS of \$1.64. “Fiscal 2008 can be characterized as the best of times and the worst of times,” said Garry Ridge.

Source: FY 2008 [press release](#)



“Family Tribal” Governance And Management Concerns

Tribal Organization A Little Too Close For Comfort...

WD-40 is a small company with 495 employees. It touts its “tribe” members – reference to a close-knit group with common values and a sense of belonging.

Why do we call ourselves a tribe?

At WD-40 Company, we call our employees tribe members. As individuals, and as an organization, we aspire to live up to the behaviors of a tribe. For us, a self-sustaining and co-dependent tribe share common attributes such as values, knowledge, celebration, ceremony and a strong sense of belonging. Each tribe member is recognized for their specialized skills and their contributions to benefit the greater good of the tribe. Through these efforts, a tribal culture becomes a self-sustaining place where people want to stay and grow.



Source: [WD-40](#)

Recent Organizational Changes And Long-Term Company Direction

We believe investors fail to see that the current long-tenured management team is rapidly aging (the average executive age is 60 years old) and that organization changes could strain the Company. WD-40 has only 495 employees, and if it cannot promote internally, will have to recruit outside talent.

Name, Age and Year Elected to Current Position			Title
Garry O. Ridge	63	1997	Chief Executive Officer
Steven A. Brass	53	2019	President and Chief Operating Officer
Jay W. Rembolt	68	2008	Vice President, Finance, Treasurer and Chief Financial Officer
Patricia Q. Olsem	53	2019	Division President, The Americas
William B. Noble	61	1996	Managing Director, EMEA
Geoffrey J. Holdsworth	57	1997	Managing Director, Asia-Pacific
Stanley A. Sewitch	66	2012	Vice President, Global Organization Development
Richard T. Clampitt	64	2014	Vice President, General Counsel and Corporate Secretary


Recent Changes

Individual	Date	Change
Rae Ann Partlo	12/10/2019	To serve as the Company's Principal Accounting Officer effective immediately. Ms. Partlo, age 55, will continue to serve in her current role as Vice President, Corporate Controller, a position she has held since December 2013
Garry Ridge	6/24/2019	At the December 2019 annual meeting the board intends to appoint Garry Ridge as board chair. Mr. Ridge currently serves as president and chief executive officer of WD-40 Company and is a member of the company's board of directors
Steve Brass	6/24/2019	Steve Brass has been appointed to the role of president and chief operating officer of the company. Steve Brass has been with the company since 1991 and most recently held the role of division president, Americas and chief brand officer
Patricia Olsem	6/24/2019	Patricia Olsem has been promoted to the role of division president, Americas. Patricia Olsem has been with the company since 2005 and most recently held the role of SVP and general manager of the United States
Linda Lang	6/18/2019	Linda A. Lang provided notice to the board of directors of WD-40 Company that she will not stand for re-election as a director at the Company's December 2019 annual meeting of shareholders. Ms. Lang has been a director of the Company since 2004 and she has served as Chair of the board of directors since 2016
Michael L. Freeman	2/1/2019	Retired as an officer and employee of WD-40 Company. Immediately prior to his retirement, Mr. Freeman was serving as the Company's Chief Strategy Officer

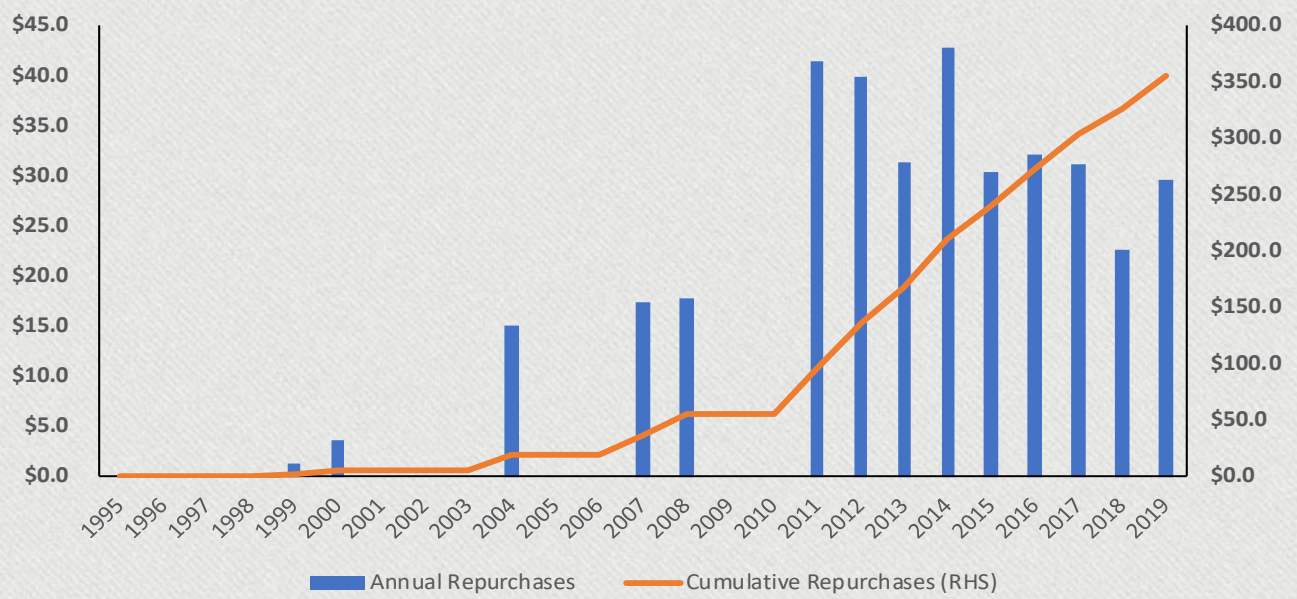
Insiders Have Limited Alignment And Sell Stock While The Company Buys It

Post financial crisis, share repurchases have intensified to unprecedented levels. Meanwhile, insider stock ownership has plummeted. As a result, insiders have almost nothing at risk and limited alignment with shareholders

	1995	2000	2008	2017	2018	2019
Total Insider Ownership (mm of shares)	1.3	1.3	1.6	0.5	0.3	0.2
% of Total	16.7%	8.2%	9.1%	3.6%	2.1%	1.9%
CEO Ridge Ownership	3,392	71,003	182,155	83,958	89,715	94,392

Insiders Have Less And Less At Risk 

WD-40 Company Stock Repurchases



Source: Company proxy and financial statements

Repurchases In Context

Spruce Point believes management has wasted significant shareholder capital repurchasing its shares at increasingly excessive valuations. (See: [valuation section](#))

Date	Cash From Ops	Capex	Free Cash Flow	Repurchases
2007	\$51.7	\$2.6	\$49.1	\$17.3
2008	\$29.4	\$5.8	\$23.6	\$17.7
2009	\$34.6	\$3.0	\$31.6	\$0.0
2010	\$56.4	\$1.8	\$54.6	\$0.0
2011	\$30.0	\$2.9	\$27.1	\$41.4
2012	\$34.2	\$3.8	\$30.4	\$39.8
2013	\$51.6	\$2.9	\$48.7	\$31.4
2014	\$38.7	\$4.1	\$34.6	\$42.8
2015	\$55.1	\$5.8	\$49.3	\$30.3
2016	\$60.4	\$4.4	\$56.0	\$32.1
2017	\$55.6	\$20.2	\$35.4	\$31.1
2018	\$64.8	\$12.4	\$52.4	\$22.6
2019	\$62.9	\$13.3	\$49.6	\$29.6
Q1 2020	\$15.2	\$6.0	\$9.2	\$6.0
Total	\$640.6	\$89.0	\$551.6	\$342.1

62% of cash flow blown on
share repurchases

Absurd Bonus Calculations

We illustrated how WD-40 insiders have used the corporate buyback in a period where they have sold a significant amount of stock to reduce their ownership to record low levels. In addition, we believe insiders milk compensation with loose pay practices. To illustrate, management recently adjusted its EBITDA bonus calculation for advertising and sales promotion expense *“to increase digital presence and build brand awareness”*. Excuse our ignorance, but how can this cost not reasonably be expected to form a part of the Company’s core operations?

The following table sets forth the actual fiscal year 2019 performance results and percentage achievement for each of the performance measures under the Performance Incentive Program formulas applicable to the NEOs. Actual earnings results for measurement against the Regional and Global EBITDA goals were adjusted to exclude (a) Incentive Compensation amounts consistent with the manner in which the minimum and maximum performance measure goals are determined as described with reference to the table above and (b) certain Company expenditures as approved by the Committee, as described above.

Level	Performance Measure	Actual FY 2019 (\$ thousands)	% Achievement
A	Regional EBITDA (Americas)	\$ 56,622	16.9%
A	Regional EBITDA (EMEA) ¹	\$ 43,933	100.0%
A	Global EBITDA	\$ 99,096	100.0%
C	Global EBITDA	\$ 92,011	35.6%

1 EMEA figures have been converted from Great Britain pounds sterling (“GBP”) at an average annual exchange rate for fiscal year 2019 of \$1.2859 per GBP.

For purposes of computing the actual financial results to be measured against the goals established for the Regional EBITDA and Global EBITDA performance measures, the Company may exclude certain expenditures as approved by the Committee. For fiscal year 2019, the Committee approved the exclusion of certain expenses in the amount of approximately \$275,000 associated with the Company’s acquisition and renovation of a new office building for the Company’s U.K. subsidiary and certain incremental advertising and sales promotion expenses in the amount of approximately \$1,143,000 incurred in order to increase the Company’s digital presence and to build brand awareness.



Chief Accounting Officer's Past History With Errors And Material Weaknesses

Spruce Point believes that investors should be concerned that Ms. Rae Ann Partlo, WD-40's long-time Corporate Controller, and now Chief Accounting Officer, came from Cymer Inc. Cymer, a manufacturer of light sources for the semiconductor industry, which also was based in San Diego. During Ms. Partlo's tenure at Cymer, it disclosed accounting errors and a material weakness related to income tax accounting. This is interesting in light of the Company disclosing provisions for uncertain tax in July 2019 that were used to lower EPS estimates by \$0.63 cents.⁽¹⁾ WD-40's auditor also disclosed income taxes and the uncertain tax position as a "Critical Audit Matter" in the recent 10-K.⁽²⁾

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On December 10, 2019, the board of directors of WD-40 Company designated Rae Ann Partlo to serve as the Company's Principal Accounting Officer effective immediately. Ms. Partlo, age 55, will continue to serve in her current role as Vice President, Corporate Controller, a position she has held since December 2013. Ms. Partlo has been employed with the Company since January 2010 and initially served as its SEC Reporting Manager. Prior to joining the Company, Ms. Partlo had spent over 20 years in financial reporting and accounting positions of increasing responsibility and she most recently served as Vice President, Corporate Controller and Chief Accounting Officer for Cymer, Inc from 2003 until 2010. Jay Rembolt, the Company's current Vice President, Finance, Treasurer and Chief Financial Officer, was previously designated as the Company's Principal Accounting Officer.

Source: WD-40 [8-K](#)

- 1) "WD-40 Company To Record Reserve For Uncertain Tax Position", [press release](#)
- 2) [10-K](#), p. F-2

Historically, we have recorded the value of this material as a reduction of our cost of product sales in the period that the returned assembly was disassembled by our manufacturing operations and the value of the reusable parts could be determined. Upon further review of United States Generally Accepted Accounting Principles ("GAAP") in the fourth quarter of 2004, we determined that we should instead estimate the value and record these consumed assemblies as inventory at the time we receive the returned assembly from our customer and concurrently record this amount as revenue rather than as a reduction of cost of product sales.

During the fourth quarter of 2004, we corrected our accounting treatment for these refurbishment activities and analyzed the financial impact that such an accounting correction would have on our 2004 and prior year consolidated financial statements. As a result of this analysis, we determined that although there is a financial impact due to this accounting correction, the amounts are not material to years prior to 2004 as well as to the fiscal year ended December 31, 2004. Upon making this determination, we recorded the cumulative impact of this accounting correction during the fourth quarter of 2004. Included in these corrections are increases to inventory, revenues, cost of product sales and net income for the period, as well as reclassifications from cost of product sales to revenues. As a result of this fourth quarter 2004 correction, our annual 2004 consolidated financial statements were updated from those previously reported in a press release issued by us on January 25, 2005. The primary impacts of this correction from the previously released annual consolidated financial statements for 2004 are as follows:

Source: Cymer 2004 [Annual Report](#)

We did not maintain effective internal controls over our accounting for income taxes. Specifically, our policies and procedures over the reconciliation of income tax accounts were not designed with adequate precision and our policies and procedures over foreign tax provisions did not provide for adequate review. These deficiencies resulted in errors in our consolidated tax provision. Such errors were corrected prior to the issuance of our consolidated financial statements at and for the year ended December 31, 2005. These deficiencies also resulted in a more than remote likelihood that a material misstatement to our consolidated financial statements would not be prevented or detected.

Source: Cymer 2005 [Annual Report](#)

Who's Auditing WD-40?

Spruce Point believes its time for a new auditor to review WD-40's books. PwC has been the auditor since at least 1972, but in reality has no idea how long its been checking the books. The current audit partner admits she is focused on the biotechnology and healthcare industries, not chemicals or consumer products which is more germane to WD-40's business. Her other listed clients, Sophiris Biotech and Vital Therapies (now Immunic) are penny stock and microcap companies.

/s/ PricewaterhouseCoopers LLP

San Diego, California
October 22, 2019

We have served as the Company's auditor since at least 1972. We have not been able to determine the specific year we began serving as auditor of the Company.

Audit Partner Self-Proclaimed Focus on Biotechnology and Healthcare

Sara Hyzer

@hyzer_pwc

Assurance Partner @PwC_LLPL in #SoCal | Focused #biotech and #healthcare Industries | #Innovation & #Startups | Youth advocate @SAYSanDiego1971 |

San Diego, CA Joined September 2016

110 Following 120 Followers

Source: [Twitter](#)

Other Public Companies Audited By WD-40's Engagement Partner

FORM AP FILING	ISSUER	FIRM	YEAR
Nov. 8, 2019	WD 40 CO (WDFC 0000105132)	PricewaterhouseCoopers LLP (238) other participating firms	2019
March 27, 2019	SOPHIRIS BIO INC. (SPHS, SHS. 0001563855)	PricewaterhouseCoopers LLP (238)	2018
Nov. 7, 2018	WD 40 CO (WDFC 0000105132)	PricewaterhouseCoopers LLP (238) other participating firms	2018
April 10, 2018	VITAL THERAPIES INC (IMUX 0001280776)	PricewaterhouseCoopers LLP (238)	2017
April 10, 2018	SOPHIRIS BIO INC. (SPHS, SHS. 0001563855)	PricewaterhouseCoopers LLP (238)	2017

Source: [PCAOB](#)



*Valuation Extreme Leads To Horrible
Risk / Reward: Simple Downside Case*

A Retail Geared Stock Promotion?

Spruce Point is concerned to see WD-40's CEO promoting his investment case on Jim Cramer's Mad Money, a venue that attracts many retail investors. The CEO offered a perplexing view on his Company, claiming they are in the "memories" business.



"If you asked me what business we're in, we're in the memories business. We create positive lasting memories by solving problems in factories, homes and workshops of the world"

Source: [CNBC](https://www.cnbc.com)

WD-40 has just two analysts that form the “consensus” bullish view, a view we argue is based on incomplete analysis and overly-optimistic assumptions. Recent optimism centers on oil input costs declining, which is a potential benefit we address later, that is at least 6 months away, and won’t forestall extreme short and long-term demand destruction. With an average sell-side price target of \$217.50 (implying just 9% upside), we see an incredibly poor risk/reward.

Jefferies

WD-40
Growth Despite The Likely Economic Slowdown

March 19, 2020

Key Takeaway

The recent drop in oil prices will likely provide a tailwind in 2H20 and 2021, and while F/X will be a partial offset, we raise our 2020 and 2021 EPS estimates \$0.05 to reflect the margin expansion. Volumes should remain relatively intact with increased Smart Straw and EZ Reach Straw sales offsetting any macro headwinds. A rebound in Chinese industrial and construction activity should also help offset weakness in North America and Europe.

Resilient Business Model: WD-40 produces a category-defining chemical cocktail used as a lubricant for repair jobs both in the home and at construction sites. During the 2008-2009 financial crisis, net of F/X, sales increased 2% annually. While a decline in construction activity will likely be a macro headwind in 2022, it is unlikely to cause a meaningful decline in volumes. We expect a 2% volume increase in 2020 and 2021 with market share growth led by increased Smart Straw and EZ Reach Straw sales. Residential demand could also provide an additional tailwind as improvement and maintenance projects are started by home-bound consumers.

Margin tailwind likely: 35% of the can production cost is based on Brent Crude costs, and the 2020 sales and EPS projections (4-7% sales growth, EPS between \$4.74-\$4.83) assumed Brent crude prices remain between \$60-\$70/barrel. If the prices were to rebound over the next month, the margin tailwind would be minimal, but if prices remain at these lower levels, a margin tailwind will likely be evident within 90 days. We increase our estimates to account for the drop in input costs.

Valuation Review: Our DCF model (Exhibit 1), which adjusts the longer-term expected EBIT CAGR with the assumption that a recession occurs every 10 years, pegs fair value at \$203/share with a WACC of 5.5%. Each 100bps change in the discount rate shifts the fair value estimate \$10. We credit WD-40 with the large moat that surrounds the blue and gold can, the resilient business model, and the higher valuation given to a steady growth company that is returning cash to shareholders. The stock is trading at 28x EBITDA, slightly below its five-year high of 20x, and well above its five-year average of 21x. Historically, valuation remained elevated during volatile periods with low interest rates. Multiples usually compress in cyclical up cycles.

EQUITY RESEARCH
WD-40 Co (WDFC)

Target Estimate Change	
USA Chemicals	
RATING	HOLD
PRICE	\$196.27 ^A
MARKET CAP	\$2.8B
PRICE TARGET (PT)	\$210.00
	(FROM \$180.00)
UPSIDE SCENARIO PT	\$240.00
DOWNSIDE SCENARIO PT	\$100.00

^APrior trading day's closing price unless otherwise noted.

FY Aug	2019A	2020E	2021E	2022E
USD				
EPS	4.02	↑4.80	↑5.55	5.95
Prev.		4.75	5.50	
FY P/E	48.8x	40.9x	35.4x	33.0x

March 27, 2020

WD-40 upgraded to Buy from Neutral at DA Davidson

DA Davidson analyst Linda Weiser upgraded WD-40 to Buy from Neutral with a price target of \$225, up from \$194. The analyst is citing the company's more attractive valuation following an 8% decline in the stock price from March highs. Weiser adds that if oil prices stay depressed for 60 days, WD-40 could see gross margin upside surprises in the second half of the year along with the expansion of its multiple.

Source: [TheFly](#)

Really? Has the analysts investigated bloated inventory channels?

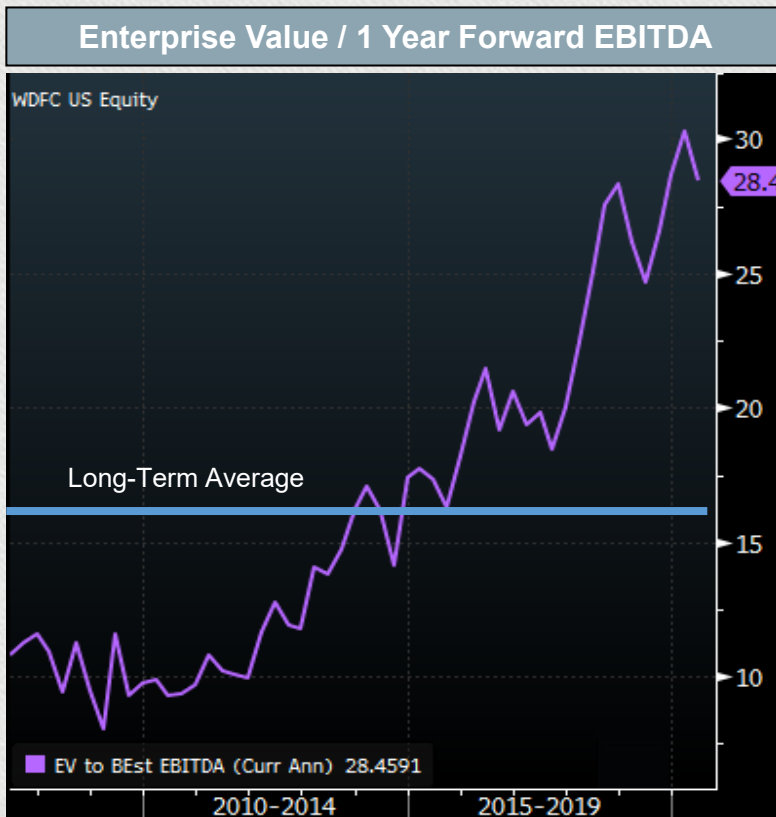
Is this a joke? WDFC's multiple is already astronomical

Decreasing moat and model that won't prove resilient this time around

With current volatility the market can move 5% in a day. An 8% pullback is laughable, when the analyst hasn't quantified the potential downside risk or why one should buy when WDFC just tapped a 15x increase in its revolver vs. the last crisis.

Baffling Expanding Valuation

WD-40's valuation is disconnected from reality, yet overly bullish sell-side analysts see room for more expansion? As the world has faced an unprecedented slow-down, its valuation has increased even while its financial prospects and condition deteriorate.



Source: Bloomberg

Perplexing Relative Valuation

WD-40's valuation relative to its own selected peers set of specialty chemical and auto part distributors exposes its extreme valuation. Its valuation becomes even more expensive once it becomes evident that overly aggressive estimates for 2020-2021 will be difficult to achieve.

\$ in millions, except per share figures

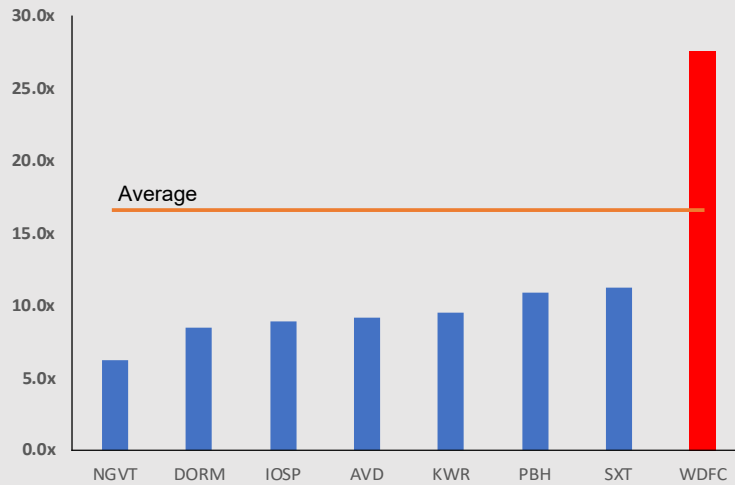
Name (Ticker)	Stock Price 4/1/2020	Adj Ent. Value	LTM Gross Margin	LTM EBITDA Margin	LTM FCF Margin	'19E-'20E		P/E		Enterprise Value				Price/Book	Net Debt '20 EBITDA	Dividend Yield
						Sales Growth	EPS Growth	2020E	2021E	2020E	2021E	Sales	2020E			
Prestige Brands (PBH)	\$37.07	\$3,624	57.4%	35.0%	20.9%	0.0%	4.0%	12.5x	11.8x	11.1x	11.0x	3.8x	3.8x	1.6x	5.3x	NA
Quaker Houghton (KWR)	\$111.45	\$2,812	34.6%	15.0%	5.9%	3.5%	-1.2%	19.4x	14.7x	11.2x	9.5x	1.9x	1.8x	1.6x	3.3x	1.4%
Ingevity (NGVT)	\$35.00	\$2,725	37.3%	30.6%	12.4%	0.3%	-1.5%	7.2x	6.1x	6.9x	6.2x	2.1x	2.0x	2.8x	3.2x	NA
Sensient Tech. (SXT)	\$41.20	\$2,358	31.4%	17.2%	10.4%	-9.5%	-18.2%	17.1x	14.7x	15.7x	11.2x	2.0x	1.9x	2.0x	4.1x	3.8%
Dorman Products (DORM)	\$49.93	\$1,591	34.3%	14.7%	6.6%	3.8%	28.8%	15.2x	13.0x	9.3x	8.5x	1.5x	1.5x	2.1x	-0.2x	NA
Innospec (IOSP)	\$64.41	\$1,611	30.8%	13.3%	8.7%	-3.8%	-0.3%	14.1x	13.0x	8.7x	9.0x	1.1x	1.1x	1.7x	0.1x	1.6%
American Vanguard (AVD)	\$13.46	\$555	37.9%	10.7%	-0.8%	8.7%	35.0%	21.4x	17.3x	9.8x	9.1x	1.1x	1.1x	1.2x	2.7x	0.6%
	Max		57.4%	35.0%	20.9%	8.7%	35.0%	21.4x	17.3x	15.7x	11.2x	3.8x	3.8x	2.8x	5.3x	3.8%
	Average		37.7%	19.5%	9.2%	0.4%	6.7%	15.3x	12.9x	10.4x	9.2x	1.9x	1.9x	1.9x	2.6x	1.8%
	Min		30.8%	10.7%	-0.8%	-9.5%	-18.2%	7.2x	6.1x	6.9x	6.2x	1.1x	1.1x	1.2x	-0.2x	0.6%
WD-40 (WDFC)	\$188.60	\$2,661	51.1%	21.0%	12.1%	1.3%	17.3%	38.3x	34.0x	27.6x	25.2x	6.1x	5.6x	17.8x	0.7x	1.4%

Source: Bloomberg and Spruce Point adjustments

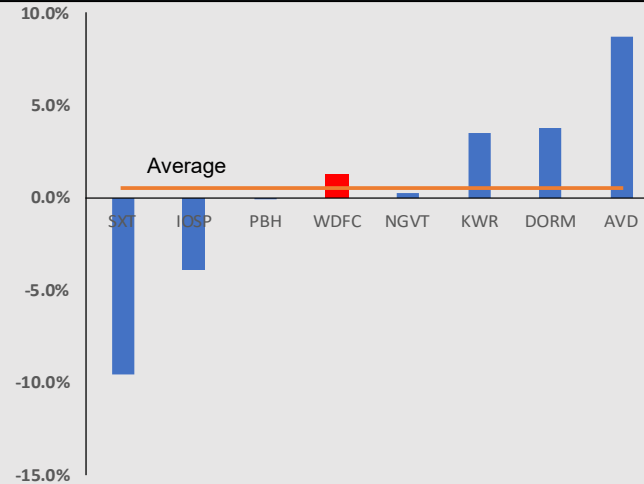
Note: Peers from WD-40's [proxy statement](#)

Valuation Relative To Growth In Graphics

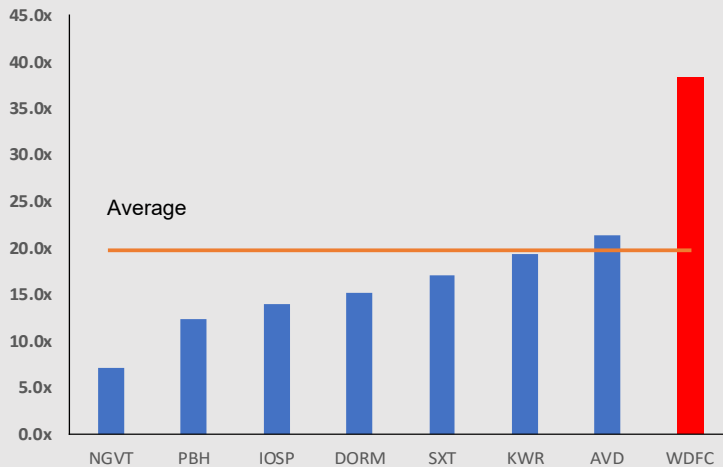
Enterprise Value / 1 Year Forward EBITDA



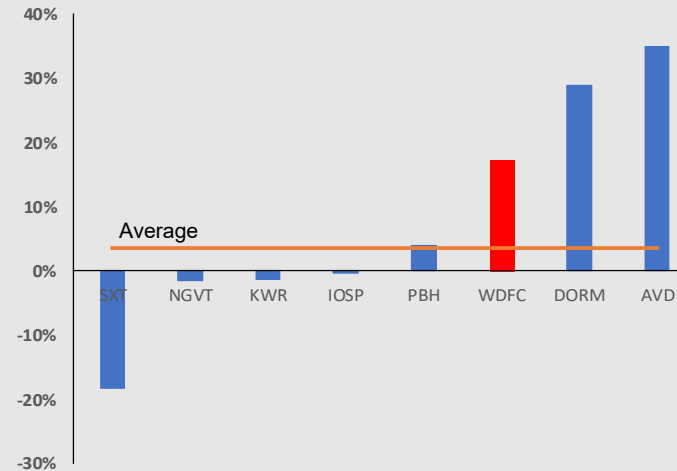
2020E Revenue Growth



Price / 1 Year EPS





2020E EPS Growth



Food For Thought: Is WD-40 More Valuable Than Coca-Cola?

Coca-Cola is an iconic world-wide American brand that also depends on its “trade secret” formula and brand equity. To put WD-40’s extreme valuation in perspective, we compare the two. Not only does Coca-Cola have broader diversification, but also significantly higher margins and growth potential despite being 88x larger.

\$ in mm	WD-40 	Coca-Cola 
LTM Sales	\$420.6	\$37,079
% growth	2.0%	8.6%
Gross Profit (1)	\$214.8	22,618
% margin	51.1%	60.7%
EBITDA	\$93.0	12,249
% margin	21.7%	32.9%
Free Cash Flow	\$51.1	\$8,417
% margin	12.1%	22.6%
EV / Sales	6.3x	7.1x
EV / EBITDA	28.0x	22.0x
Price / LTM EPS	48.0x	26.0x

Source: Company filings and Bloomberg

1) WD-40’s gross margins are adjusted as they are not comparable to other consumer product companies. Other companies include costs related to distribution of their products in cost of products sold, whereas WD-40 excludes the portion associated with amounts paid to third parties for shipment to its customers from its distribution centers and contract manufacturers and include these costs in selling, general and administrative expenses

55% - 60% Downside Risk

CEO Ridge often says, “these targets are probably wrong and roughly right”. We believe analysts targets are probably wrong, and Spruce Point is roughly right that WD-40 will severely disappoint optimistic expectations.

\$ in mm	Consensus	Spruce Point	What Is the 2 Analyst “Consensus” Missing
Net Sales growth %	\$429.0 1.3%	\$387.0 - \$408.0 -3.0% to -8.0%	<ul style="list-style-type: none"> Price increases from 2018-19 cannot be sustained with competing products at dollar stores, WalMart and other key channels 50%+ lower Significant foreign exposure, primarily to the U.K. where the Pound hit decade+ lows. We estimate 37% of sales in the U.K. Continued disappointment in Asia/Pacific, notably China Bloated inventory in the channel, will be hard to push more Long-term headwinds in auto, bike, and motorbike maintenance channel Challenges selling new RV product into a stalled market During the last crisis, WD-40 missed its projections by 13% at the midpoint and this crisis is arguably more severe
Gross Profit % margin	\$236.0 55.0%	\$209.0 - \$220.0 54.0%	<ul style="list-style-type: none"> Estimating too much near-term benefit from falling oil prices. WD-40 already has 90 days of unsold inventory, and oil will take another 120+ days to cycle through the financials Competitors also get the same oil benefit, and can become more price aggressive Even now before lower oil prices, the competition is price discounting
EBITDA % margin	\$93.0 21.7%	\$64.5 - \$76.0 16.7% - 18.6%	<ul style="list-style-type: none"> We don’t assume WD-40 takes any immediate cost reduction measures to SG&A
Price Target % upside / (downside)	\$217.5 +15%	\$75.0 – \$85.0 (55% - 60%)	<ul style="list-style-type: none"> A generous 2x sales multiple (vs. 6x) for a low/no growth company under short and long-term pressure or 12x EBITDA (vs 26x) Pro forma for incremental revolver borrowing and 13.9m shares
Commentary	<ul style="list-style-type: none"> Defensive in a recession Imminent oil benefit Multiple expansion 	<ul style="list-style-type: none"> More exposed now than ever to a crisis Hole in balance sheet Oil won’t save WD-40 Multiple contraction 	

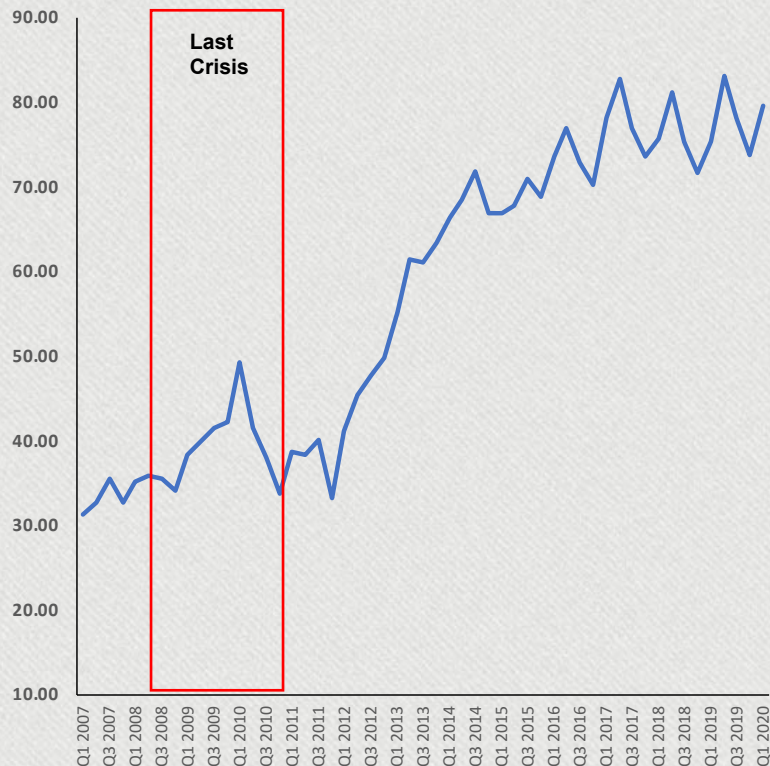


Appendix: What's The Silver Lining?

Drop In Oil Prices Not A Near-Term Benefit

Some bulls might argue that the unprecedented drop in crude oil is a massive windfall for WD-40. The Company says that 33% of its cost of to produce a can is petroleum-based specialty chemicals. Of course, the problem is that low oil prices are coinciding with severely depressed economic activity which we expect to materially depress sales. In addition, WD-40's competitors (already pricing products below WD-40) get the same benefit and can become even more price aggressive to take share. Moreover, the impact of oil prices flowing through is upwards of 120 days, and that is after the Company must work through its record bloated finished goods inventory. Current inventory days outstanding are near 80.

Days Inventory Outstanding



Source: Bloomberg

Jan 9, 2020: Q1 2019 Comments On Oil

**Analyst
G. Research**
Q1 2019

“Okay. And then going back to the price of oil coming down. How long will it take -- are you in FIFO, first of all? How long will it take for you to benefit from those costs? I know that the intermediary has to come down as well, but it sounds as though they may be. And so let's say that you benefit from it in a 90 to 120 days, as Jay mentioned. Will you, at that point, have to give a price?”

**WD-40
CFO
Rembolt**

*“Pricing wise, we have a very -- our current pricing structure is in place and we see no reason to change that current pricing structure. You're right about that, it is about 90 to 120 days. We are on FIFO with -- in that time between when it's -- when the new lower material costs come into our manufacturing facility, and **by the time it gets through to us, inventory, and on the end, it's 90, 120 days, maybe a little bit more.** So -- which is why we haven't really made any changes to guidance going out.”*

**WD-40
CEO**

“If we do see any impact of a sustained lower oil price, we wouldn't expect that to be seen until the third quarter. Right now, our cost of goods are really reflecting the oil price in what months, Jay, July August?”

**WD-40
CFO**

“July, August.”

Source: [Q1 2019 transcript](#)

Case Study: What Happened Last Time Oil Crashed To WD-40's Margins

The magnitude of oil's decline during the last crisis is comparable from a percentage decline of approximately 70%. We see that it took until Q3 for the Company to say that oil benefited gross margin by 200bps, and that was a full year after oil peaked over \$140/bbl. in July 2008. What's also important to realize is that WD-40 had ~40 days of inventory outstanding then vs. ~80 today. As a result, we believe it will take even longer for it to realize the full benefit of lower oil.

Oil Drop Magnitude MUCH Larger In 2008-09



Source: Bloomberg

Management Comments On Oil

WD-40
CFO
Q1
Jan 2009

"We have recently started to see relief with declines in the cost of oil-related products, but those decreases are just now starting to make their way into our finished goods?"

WD-40
CEO
Q1
Jan 2009

*"If oil stays down and we get the conversion, given that and the savings that we anticipate from the improved manufacturing process from the capital equipment we have invested on our package lines to improve line speed from smart straw, all of those things aligned, we should see some sort of at least stabilization and improvement in **our gross margin, particularly in the second quarter.**"*

WD-40
CEO
Q2
April 2009

"We also began to see some relief from lower oil costs versus the first quarter although our oil costs in the second quarter were higher than they were in the same period last fiscal year.?"

WD-40
CFO
Q3
July 2009

*"The cost of oil based materials in our Q3 cost of goods reflected the lower pricing of Q2 and **positively impacted our gross margin by two percentage points**"*

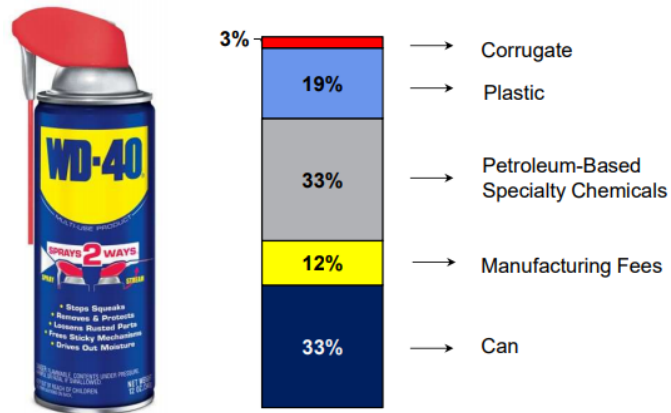
Source: WD-40 earnings transcripts

WD-40 has significant unsold inventory and slackened demand it must deal with before it will see any benefit from lower crude prices. We estimate it could be upwards of 6 months out before there is any potential benefit.

What Makes Up the Cost of a Can?



Approximate Cost Breakdown of a Typical Can of WD-40 MUP Manufactured in the United States



Data as of September 2019. Represents average input costs over 6-month period of a typical 12-ounce can of WD-40 Multi-Use Product manufactured in the United States. Current manufacturing and input costs typically take approximately 90-120 days to be reflected in the Company's consolidated statement of operations due to production and inventory lifecycles.

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