Critical Q2 2020 Update

"A Slippery Slope Investment"

/ STRONG SELL OPINION /

WD-40 Company | Nasdaq: WDFC

SPRUCE POINT
CAPITAL MANAGEMENT

INVESTMENT RESEARCH REPORT

Full Legal Disclaimer

This research presentation expresses our research opinions. You should assume that as of the publication date of any presentation, report or letter, Spruce Point Capital Management LLC (possibly along with or through our members, partners, affiliates, employees, and/or consultants) along with our subscribers and clients has a short position in all stocks (and are long/short combinations of puts and calls on the stock) covered herein, including without limitation WD-40 Company (“WDFC”), and therefore stand to realize significant gains in the event that the price of its stock declines. Following publication of any presentation, report or letter, we intend to continue transacting in the securities covered therein, and we may be long, short, or neutral at any time hereafter regardless of our initial recommendation. All expressions of opinion are subject to change without notice, and Spruce Point Capital Management does not undertake to update this report or any information contained herein. Spruce Point Capital Management, subscribers and/or consultants shall have no obligation to inform any investor or viewer of this report about their historical, current, and future trading activities.

This research presentation expresses our research opinions, which we have based upon interpretation of certain facts and observations, all of which are based upon publicly available information, and all of which are set out in this research presentation. Any investment involves substantial risks, including complete loss of capital. Any forecasts or estimates are for illustrative purpose only and should not be taken as limitations of the maximum possible loss or gain. Any information contained in this report may include forward looking statements, expectations, pro forma analyses, estimates, and projections. You should assume these types of statements, expectations, pro forma analyses, estimates, and projections may turn out to be incorrect for reasons beyond Spruce Point Capital Management LLC’s control. This is not investment or accounting advice nor should it be construed as such. Use of Spruce Point Capital Management LLC’s research is at your own risk. You should do your own research and due diligence, with assistance from professional financial, legal and tax experts, before making any investment decision with respect to securities covered herein. All figures assumed to be in US Dollars, unless specified otherwise.

To the best of our ability and belief, as of the date hereof, all information contained herein is accurate and reliable and does not omit to state material facts necessary to make the statements herein not misleading, and all information has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer, or to any other person or entity that was breached by the transmission of information to Spruce Point Capital Management LLC. However, Spruce Point Capital Management LLC recognizes that there may be non-public information in the possession of WDFC or other insiders of WDFC that has not been publicly disclosed by WDFC. Therefore, such information contained herein is presented “as is,” without warranty of any kind – whether express or implied. Spruce Point Capital Management LLC makes no other representations, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use.

This report’s estimated fundamental value only represents a best efforts estimate of the potential fundamental valuation of a specific security, and is not expressed as, or implied as, assessments of the quality of a security, a summary of past performance, or an actionable investment strategy for an investor. This is not an offer to sell or a solicitation of an offer to buy any security, nor shall any security be offered or sold to any person, in any jurisdiction in which such offer would be unlawful under the securities laws of such jurisdiction. Spruce Point Capital Management LLC is registered with the SEC as an investment advisor. Spruce Point Capital Management LLC is not registered as a broker/dealer or accounting firm.

Spruce Point Capital Management

Q2 Results Strengthens Conviction For Downside To $75 - $85 Per Share

WD-40's recent Q2 2020 earnings support our original thesis and management refuted none of our concerns. We remain confident the business is under pressure, with sales and earnings declining even before the full effect of COVID-19. We believe the problems will only intensify once the Americas and EMEA businesses realize the economic impact of the virus. As the financial stress on WD-40 grows and earnings become under additional pressure, we believe the current dividend is at risk to be cut.

Poor financial results in the Americas and EMEA for the first half of 2020 were not a result of COVID-19

WD-40 10-Q Q2 2020 Page 26

"During the first half of fiscal year 2020, financial results and operations for our Americas and EMEA segments were not significantly impacted by the COVID-19 outbreak that occurred in many countries beginning in early calendar year 2020. The significance of the impacts to our Asia-Pacific segment during the first half of fiscal year 2020 were material and are discussed herein."

Second Quarter Key Takeaways

Financial Results Missed Street Expectations On The Top And Bottom Line:

- Sales: $100m vs. $103m and EPS: $1.04 vs $1.21e

Working Capital Intensified To New Highs

- Working capital as a % of sales continues to escalate compared to the previous financial crisis when the metric declined
- Spruce Point's working capital analysis has been a successful indicator of numerous past financial disasters

Dividend At Risk Of Being Cut. Evidence WD-40 In Discussions With Lenders About Dividend:

- On the most recent call, WD-40's CFO stated the current strategy is to pay out 50% of earnings. As strong headwinds put the business under pressure and earnings in jeopardy, we believe the dividend is at risk of being cut. Share repurchase program was suspended

Management Dodged Important Questions And Refuted None Of Spruce Point's Concerns

- Analysts started asking tougher questions on the most recent earning call regarding end market exposure and sales by channel
- Management has not quantified the exposure and has spun its answers to discuss points they want to address
- WD-40 continues to talk up e-commerce, but has not addressed how they will safely ship the product in regions requiring air transportation. We continue to believe the product is not well adapted for an e-commerce world

Management Gave No Confidence That Lower Oil Prices Will Benefit WD-40. This Contradicts Recent Sell-Side Bulls

- Management stated, *"only a small amount of the total cost to produce a can of the WD-40 Multi-Use Product directly correlates to the price of a barrel of crude oil," and it will "most likely be a net positive to gross margins".* These stand in contrast to its chart which shows 33% of a can's cost attributable to petroleum-based specialty chemicals. Analysts confidently boosted earnings for lower oil prices

New Risk Factor Added Should Be Alarming Since It's More Strongly Worded Than Peers

- New risk factor warning of potential future write-offs supports our belief that WD-40's customers are under pressure
- Current allowance for doubtful accounts is significantly below its peers' average

Shares Are Still Materially Overvalued For A Declining Company

- WD-40 trades at 6.1x, 28x and 39x 2020E EV/Sales, EV/EBITDA and P/E, respectively for a declining non-recession proof business
- We still see long-term price potential of $75 - $85 per share (55% downside) and expect analysts to start cutting price targets

Working Capital Intensified To New Highs

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 spiraling higher.

WD-40 Says No COVID Impact

"During the first half of fiscal year 2020, financial results and operations for our Americas and EMEA segments were not significantly impacted by the COVID-19 outbreak that occurred in many countries beginning in early calendar year 2020."

Spruce Point Reality

So what is driving intensifying financial strain as evidenced by a record working capital to sales ratio?

$ in mm	Pre-Financial Crisis		Prior Financial Crisis			Recent Results			This Qtr.
	2005	2006	2007	2008	2009	2018	2019	Q1 2020	Q2 2020
Trailing 12 Month Revenues (A)	$263.2	$286.9	$307.8	$317.1	$292.0	$408.5	$423.4	$420.6	$419.4
Total Current Assets	$101.2	$115.5	$130.6	$119.5	$120.8	$168.0	$148.0	$149.2	$158.3
Less: Cash and Investments	($37.1)	($45.4)	($61.1)	($42.0)	($46.0)	($49.1)	($27.3)	($28.7)	($30.5)
Total Adjusted Current Assets (B)	**$64.1**	**$70.1**	**$69.5**	**$77.5**	**$74.8**	**$118.9**	**$120.7**	**$120.5**	**$127.8**
Total Current Liabilities	$46.7	$43.7	$53.9	$54.6	$48.2	$85.9	$74.6	$81.0	$95.4
Less: Short-Term Debt	($10.7)	($10.7)	($10.7)	($10.7)	($10.7)	($23.6)	($21.2)	($29.1)	($41.7)
Total Adjusted Current Liabilities (C)	**$36.0**	**$33.0**	**$43.2**	**$43.9**	**$37.5**	**$62.3**	**$53.4**	**$51.9**	**$53.7**
Adjusted Working Capital (B – C) = D	$28.1	$37.2	$26.3	$33.6	$37.3	$56.6	$67.3	$68.6	$74.1
Working Capital % of LTM Sales (D/A)	**10.7%**	**13.0%**	**8.6%**	**10.6%**	**12.8%**	**13.9%**	**15.9%**	**16.3%**	**17.7%**

Source: Company filings and Spruce Point analysis

Increasing Working Capital Intensity = Increasing Strain

Dividend At Risk Of Being Cut

Given the Company's current dividend strategy of paying out 50% of earnings, Spruce Point believes the dividend is at risk of being cut as the business is under pressure and earnings are in jeopardy. The combination of no share buybacks and a reduced dividend does not justify WD-40's current premium. From a 10-Q disclosure, it is clear the lenders and WD-40 are talking about the ability to pay the dividend.

10-Q Disclosure on Dividend: Note The Timing	***On April 8, 2020***, *the Company signed letters from Bank and America and Prudential acknowledging an agreement between the Company and both lenders to permit the Company to add back to its net income for the quarter ended August 31, 2019 a one-time, non-cash charge for an uncertain tax position associated with the Tax Cuts and Jobs Act "toll tax" in the amount of $8.7 million* ***solely for the purpose of the Dividend Covenant*** *as described in Note 8 – Debt.*	
Jay Rembolt CFO	*"we have elected to suspend the stock purchases we have been making under our current share buyback plan. We are doing this in order to preserve cash until we have a better idea of the long-term financial impacts of this crisis. We continue to return capital to our shareholders through regular dividends. On March 17, our Board of Directors approved a quarterly cash dividend of $0.67 per share payable to shareholders of record on the close of business April 17."*	*Capital return plans are uncertain as the Company suspended its share repurchase program*
Jefferies Analyst	*"Did you indicate that the dividend is largely intact that you're not considering cutting that at this point?"*	
Jay Rembolt CFO	*"No. Yes, we did issue a dividend. The Board declared a dividend, and we -- excuse me, we will issue a dividend at the end of the month."*	*Management stated they have not considered cutting the dividend at this point but later stated they "make those dividend decisions on a quarterly basis"*
Jefferies Analyst	*"Right. But I'm saying going forward in the second half of the year, given the uncertain outlook."*	
Jay Rembolt CFO	*"That -- we make those dividend decisions on a quarterly basis. I mean our policy hasn't really changed, and that is --* ***we look first to pay a dividend out at 50% of our earnings, and that strategy continues****."*	*WD-40's CFO stated the dividend policy is to pay out 50% of earnings*

Source: Q2 2020 company transcript

Spruce Point Capital Management

Management Dodged Key Question

Management his not answered an important question investors are asking: What are WD-40's end-market exposures? We believe one reason management is dodging the question is it points to channels facing significant headwinds. In our report, we argued automotive, bicycle, and motorbike end markets are material, and facing long-term structural challenges. Management could have used the recent call as a platform to refute these assertions, but it did not.

D.A. Davidson Analyst

*"So I guess I was most struck by Steve's comment that March was similar to previous March results. So I guess you're kind of saying that sales were flattish, not significantly down. I find that hard to believe, given that we've had a suspension of almost all nonessential manufacturing in the United States, in other countries. So can you just kind of give us a little more color? And also, **we've had a lot of investors ask us about a breakdown of your demand by end market**. So like how much is automotive, how much would be high tech, manufacturing, different end-market demand. Do you think you could give a little color on all of that?"*

__Management has dodged__ the question quantifying end market exposure and sales by channel

Garry Ridge CEO

"Thanks, Linda. We were pleased with being able to hold up in March. And I guess it does really reflect on our multiple trade channel, multiple country business strategy. As far as trade channels are concerned, I'll ask Steve just to give a high-level view of the key channels that we operate in.

CEO deflects the question

Steven A. Brass President & COO

*"Sure. Thanks, Garry. So as Garry said, I mean, one of the big advantages of WD-40 Company is that we are diversified both by trade channel and by geographies. So no one trade channel, customer or geography is -- **we're not overly reliant**. **The biggest markets we operate in, our automotive, DIY hardware**, **e-commerce**, as we mentioned on the call, is a fast-growing channel, both in terms of percentage growth and also dollar volume, so -- and an industry as well being the -- one of the big 4. And -- but the beauty is the diversification. And so no one of those trade channels has an overbearing weight on the overall revenues."*

Earlier in Call Steven A. Brass

*"Second, **e-commerce is the fastest-growing retail channel in the world today, and it is our fastest-growing channel as well**. 2 years ago, we committed to our global vision of becoming the category leader in digital and e-commerce, and we continue to make outstanding progress in this area. Year-to-date, e-commerce sales globally grew by 44% compared to last year."*

Management dodged specific quantification of end-markets. Management continues to talk-up e-commerce. Our initial research has shown WD-40 is not recommended to be transported by air as it is flammable. This makes the product not well suited for e-commerce

Source: Q2 2020 company transcript

Lack Of Transparency By Management

We believe investors deserve greater transparency to material aspects of WD-40's business which are clearly key drivers for the Company's margins and earnings.

D.A. Davidson Analyst	*"Okay. And then just finally, in terms of the gross margin, I guess relative to at least my estimate, it was kind of disappointing in the quarter. And you mentioned, I think mix issue was quite a big issue.* ***It seems like in many quarters, mix seems to be an issue****. And I'm just wondering, is the idea that you're continuing to shift people toward the Smart Straw and Specialist, which is a higher-margin product. Is that still occurring? And then if so, what are these -- I don't know,* ***it seems like almost like a recurring issue with mix that impacts your gross margin****?*	*Investors should be concerned when management blames the same recurring issue*
Garry Ridge CEO	*"Okay. I'll touch some of it -- and I'll give it to Jay, if I can.* ***The mix issue in this quarter was the shortfall of sales in China****.* ***We have a higher gross margin in China****. And because our sales fell into the gutter there completely, that was the issue. Jay, I'll pass on to you for the rest."*	*The Company discloses the bare minimum of sales by geography despite portraying an international growth story to investors* *How does WD-40 have higher gross margins in a country where criminal organizations are known to produce cheap knock-offs?*
Jay Rembolt CFO	*"Yes. Thanks, Garry. Yeah, Linda, that was -- a lot of what happens is in our direct -- the other is -- the other shift we have is between our direct markets and our MD markets, there's a shift in the margin depending on the volumes in any given period that go through those 2 distribution channels. So our MD markets, our marketing distributor markets, have a quite a bit lower margin as a whole, our direct markets have a much higher margin. And then when we see mixes between -- there's also even mixes between markets. So for example, there's much higher-margin in Europe than there is in the U.S. based on just the sophistication of the distribution channel and the size of the market."*	*Despite the clear importance of distribution method mix, management does not quantify it*

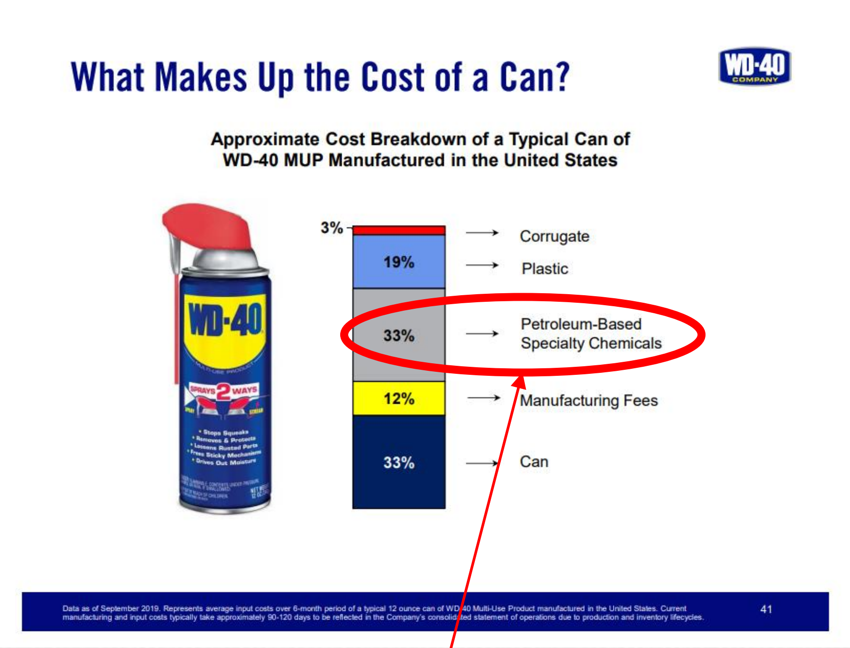
Source: Q2 2020 company transcript

Oil Prices Are Not A Clear Benefit

Management has given ZERO confidence that lower oil prices will benefit WD-40. The Company has previously stated 33% of the cost of a can is attributable to petroleum-based specialty chemicals. We believe analysts have prematurely increased their price targets as a result of the highly uncertain benefit.

Jay Rembolt
CFO
2nd Quarter Call
4/9/2020

"Now let's talk a little bit more about oil. Recently, crude oil has plunged to multiyear lows. Falling crude oil prices will ***most likely*** *be a net positive to our gross margin. However,* ***it is extremely difficult to know the long-term impact of these changes*** *until we see it in our cost of goods sold, which will take some time. This is because we don't buy crude oil, we instead buy custom-formulated petroleum-based specialty chemicals, which have complex cost drivers, including the manufacturing region, fixed production costs and distinctive supply and demand characteristics. In addition, since the global petroleum market is based on the U.S. dollar, when the price of oil falls, the dollar often strengthens. And for products manufactured in countries outside the U.S., this can leave costs in other currencies much higher.* ***Overall, we estimate only a small amount of the total cost to produce a can of the WD-40 Multi-Use Product directly correlates to the price of a barrel of crude oil****. If oil stays here at current levels for a considerable amount of time, we will likely begin to see a benefit in our cost of goods in about 90 to 120 days."*



CFO's wording does not display confidence

According to WD-40's February 2020 Investor Presentation, Petroleum-Based Specialty Chemicals represents 33% of the cost to produce a can

Premature Increased Estimates From Sell-Side

DA Davidson March 27th Upgrade To $225sh: *"We are now projecting a Y/Y gross margin increase of 80bp in F4Q20E vs. a 100bp decline previously."*

Jefferies (March 18): *"We increase our estimates to account for the drop in input costs."*

Source: Q2 2020 company transcript, corporate presentation

Spruce Point Capital Management

Addition Of New Risk Factor Raises Concerns

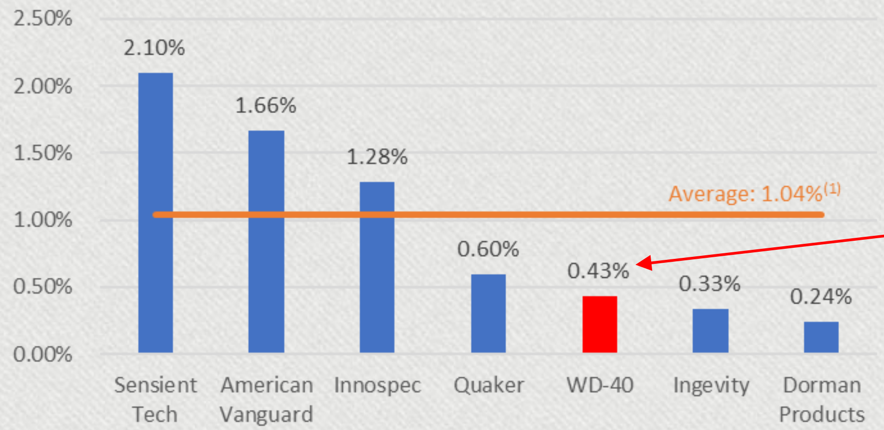
We are concerned by the addition of WD-40's unique new risk factor regarding relationships with other parties and potential increases in write-offs of accounts receivable. WD-40's current allowance is significantly lower than its peer set average.

New Risk Factor	*"Adverse economic and market conditions could also harm the Company's business by negatively affecting the parties with whom it does business, including its customers, retailers, distributors and wholesalers, and third-party contract manufacturers and suppliers. These conditions could impair the ability of the Company's customers to pay for products they have purchased from the Company. As a result, **allowances for doubtful accounts and write-offs of accounts receivable from the Company's customers may increase**. In addition, the Company's third-party contract manufacturers and their suppliers may experience financial difficulties or business disruptions that could negatively affect their operations and their **ability to supply the Company with finished goods and the raw materials, packaging, and components required for the Company's products**."*

New risk factor warning about potential future write-offs supports our belief that WD-40's customers are under pressure

New risk factor hints suppliers are under pressure too

Allowance For Doubtful Accounts As A Percentage Of Gross Accounts Receivable



WD-40's allowance for doubtful accounts as a percentage of accounts receivable is less than half the peer set median

1) Average excludes WD-40
Source: Company filings

Spruce Point Capital Management

Still Approximately 55% Downside Risk

Our results may prove to be conservative. When asked on the conference call if an 8% sales decline for the year was reasonable, the CEO would not comment. Bear in mind, last cycle WD-40 did not have to suspend guidance. This cycle they had to suspend guidance.

$ 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%	• 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%	• 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%	• We don't assume WD-40 takes any immediate cost reduction measures to SG&A
Price Target % upside / (downside)	$217.5 +24%	$75.0 – $85.0 (52% - 57%)	• 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	• Defensive in a recession • Imminent oil benefit • Multiple expansion	• More exposed now than ever to a crisis • Hole in balance sheet • Oil won't save WD-40 • Multiple contraction	

Source: Spruce Point analysis and research