



WD-40 Company (WDFC)

Updated November 10th, 2022, by Thomas Richmond

Key Metrics

Current Price:	\$165	5 Year CAGR Estimate:	2.8%	Market Cap:	\$2.2 B
Fair Value Price:	\$129	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	1/20/22
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date¹:	1/31/22
Dividend Yield:	1.9%	5 Year Price Target	\$173	Years Of Dividend Growth:	14
Dividend Risk Score:	D	Retirement Suitability Score:	F	Rating:	Sell

Overview & Current Events

The WD-40 Company (WDFC) is a company that sells maintenance products under the brand name WD-40. The company is famous for its classic WD-40 degreaser lubricant where customers use the aerosol can to spray on surfaces. 92% of 2021 sales came from the business's maintenance products, which are the traditional WD-40 products, and 8% of sales come from Homecare & Cleaning Products, which management considers to be "harvest brands" where the business plans to harvest profits until the products eventually die off. The business operates across 3 regions, Americas, EMEA (Europe, Middle East, and Africa), and Asia-Pacific; these segments made up 47%, 39%, and 14% of sales, respectively, for the fiscal year 2022. The WD-40 Company benefits from being a business with strong economies of scale that earns high returns on capital. We expect the business to continue to perform well over the intermediate term, but we expect that the business's margins will face short term headwinds due to inflationary pressures on costs.

On October 19th, 2022, the WD-40 Company reported Q4 2022 results for the period ending August 31st, 2022. The business earned \$1.08 in diluted earnings-per-share in the quarter, missing analysts' expectations by 14 cents, and earnings-per-share rose 77.0% year-over-year for this quarter. Net sales rose 13.2% year-over-year to \$130.4 million. For the quarter, the business saw headwinds caused by the inflationary environment.

Over the long term, the business is pursuing a "55/30/25 business model", which means that management is targeting a 55% gross margin, 30% cost of doing business, and 25% EBITDA margin. Gross margins dropped 380 basis points year-over-year to 47.4% due to higher costs, being partially offset by price increases of 810 basis points across the board. Cost of business was 31% for the quarter, down from 39% in Q4'21, and EBITDA margins were 16% for the quarter. For the full year 2022, gross margins were 49%, cost of doing business was 31%, and EBITDA margins were 18%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.54	\$2.87	\$3.04	\$3.64	\$3.63	\$4.64	\$4.65	\$4.40	\$5.09	\$4.90	\$5.17	\$6.92
DPS	\$1.22	\$1.33	\$1.48	\$1.64	\$1.89	\$2.11	\$2.37	\$2.62	\$3.12	\$3.12	\$3.12	\$3.44
Shares	15	15	14	14	14	14	14	14	14	14	14	13

Over the past 9 years, the WD-40 Company has seen earnings-per-share grow at an average annualized rate of 7.6%, and over the past 5 years, the business has seen earnings-per-share grow at 7.3% annually. In the most recent earnings release, management guided for \$5.09-\$5.24 in diluted earnings-per-share for the full fiscal year 2023, which guided our estimate of \$5.17 in earnings-per-share. We forecast that the business will continue to grow earnings-per-share at 6% annually after 2023, which guides our 2027 earnings-per-share estimate of ~\$6.92.

Over the past 9 years, the business has grown dividends at 11% annually. Over the next 5 years, we forecast slower dividend growth of 2% annually, because we believe the business can't sustain its current level of dividend growth over the long term. As a reminder, the WD-40 Company has grown dividend payments for 14 consecutive years, which we consider to be a strong track record of growing dividends.

¹ Estimated Date.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	20.9	24.9	26.8	28.6	29.9	28.2	36.9	42.7	50.5	28.6	31.9	25.0
Avg. Yld.	2.3%	1.9%	1.8%	1.6%	1.7%	1.6%	1.4%	1.4%	1.1%	2.1%	1.9%	2.0%

Over the past 9 years, the WD-40 Company has averaged a P/E ratio of 31.8, and over the past 5 years, the business has averaged a P/E of 36.1. We estimate that over the intermediate term, the business will trade for a lower P/E ratio of around 25 because we expect the business's earnings and dividend growth to slow down over the intermediate term. Today, the stock offers a low 1.9% dividend yield. This isn't the best stock for investors seeking dividend income, or for investors seeking to purchase undervalued securities, but investors may find this business attractive because it's a company with a simple business model that has a competitive advantage from its strong brand name and economies of scale.

Safety, Quality, Competitive Advantage, & Recession Resiliency

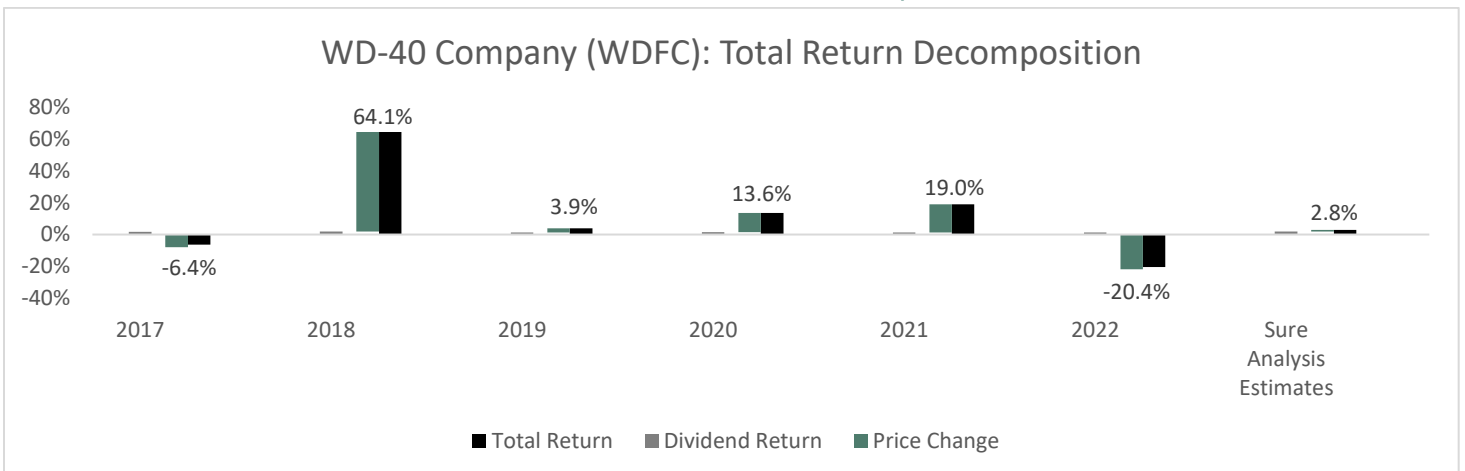
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	48%	46%	49%	45%	52%	45%	51%	60%	61%	64%	60%	50%

The business has averaged a payout ratio of 52.1% over the past 9 years, and 56.2% over the past 5 years. While the dividend is safe, we expect that management will be forced to slow down the dividend growth rate for the dividend payments to be well covered by earnings. The business's balance sheet has an extra degree of safety since the company has more current assets than total liabilities, which means the company could pay off everything it owes just with short term assets. The WD-40 Company has a competitive advantage since the business has a strong brand name and visible branding across all its products. The business benefits from economies of scale, where the business's massive sales volume allows them to produce at lower costs than its competitors.

Final Thoughts & Recommendation

The WD-40 Company is a familiar business that sells a name-brand product and has a competitive advantage due to its economies of scale. However, at today's price, we rate the stock as a Sell because total return prospects come in at just 2.8% annually over the next five years due to an estimated 6.0% earnings-per-share growth, a 1.9% annual dividend return, and a -4.8% valuation multiple re-rating. While this stock does not offer the best returns at current prices, investors might be interested in this familiar and growing business.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	369	383	378	381	381	409	423	408	488	519
Gross Profit	189	199	200	214	214	225	232	223	264	255
Gross Margin	51.3%	51.9%	52.9%	56.3%	56.2%	55.1%	54.9%	54.6%	54.0%	49.1%
SG&A Exp.	129	132	132	140	135	144	147	144	173	166
D&A Exp.	5	6	6	6	7	8	8	8	7	8
Operating Profit	58	64	65	71	76	79	82	77	89	87
Op. Margin	15.7%	16.6%	17.3%	18.7%	19.9%	19.2%	19.5%	18.9%	18.2%	16.8%
Net Profit	40	44	45	53	53	65	56	61	70	67
Net Margin	10.8%	11.4%	11.8%	13.8%	13.9%	16.0%	13.2%	14.9%	14.4%	12.9%
Free Cash Flow	49	33	49	61	35	52	50	53	70	-6
Income Tax	17	19	18	20	22	10	25	15	16	17

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	323	348	339	340	370	317	303	363	430	434
Cash & Equivalents	53	58	54	51	37	49	27	56	86	38
Acc. Receivable	57	64	59	65	64	69	73	81	90	90
Inventories	32	35	32	32	35	37	41	41	56	104
Goodwill & Int.	120	119	119	115	112	109	106	104	103	101
Total Liabilities	144	178	181	199	230	162	157	202	230	246
Accounts Payable	20	18	17	19	21	19	19	22	33	33
Long-Term Debt	63	98	108	122	154	86	81	114	116	146
Total Equity	180	169	158	140	139	155	145	160	200	189
LTD/E Ratio	0.35	0.58	0.68	0.87	1.10	0.56	0.56	0.71	0.58	0.78

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.8%	13.0%	13.0%	15.5%	14.9%	19.0%	18.0%	18.3%	17.7%	15.6%
Return on Equity	21.8%	25.1%	27.4%	35.3%	37.8%	44.2%	37.2%	39.7%	38.9%	34.6%
ROIC	16.8%	17.2%	16.8%	19.9%	19.0%	24.4%	23.9%	24.2%	23.8%	20.7%
Shares Out.	15	15	14	14	14	14	14	14	14	14
Revenue/Share	23.60	25.28	25.81	26.47	26.94	29.26	30.61	29.78	35.54	37.88
FCF/Share	3.12	2.17	3.36	4.24	2.51	3.75	3.58	3.89	5.07	(0.42)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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