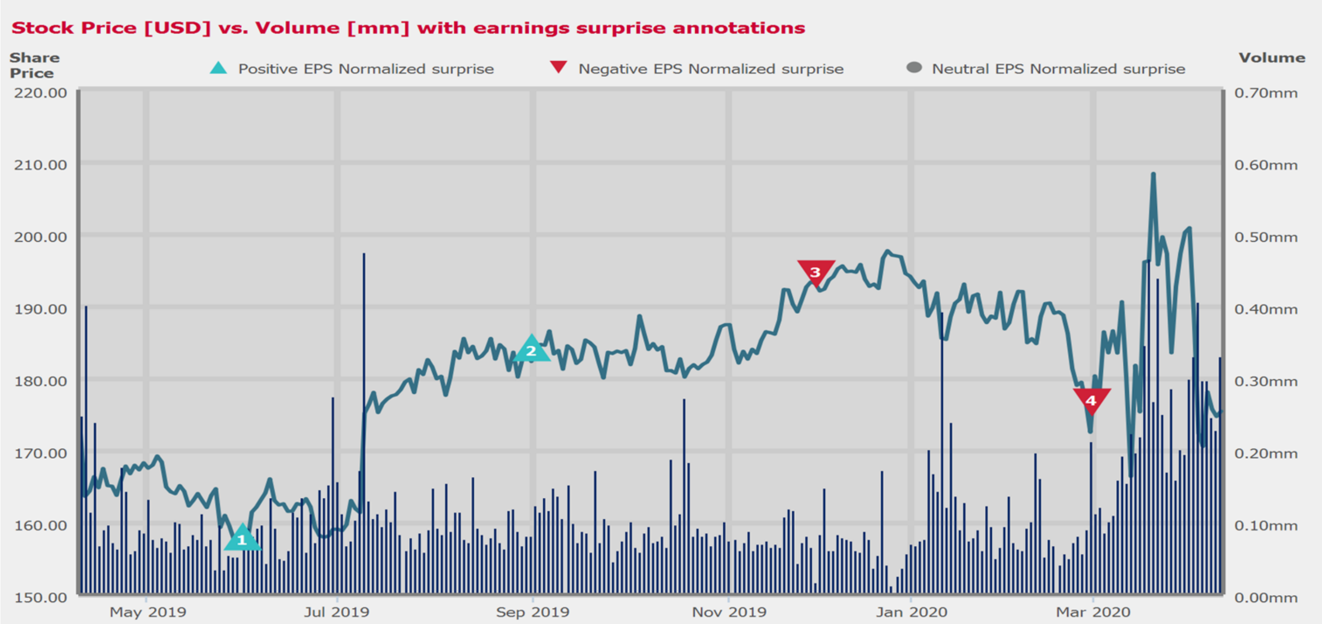
WD-40 Company NasdaqGS:WDFC
FQ2 2020 Earnings Call Transcripts
Thursday, April 09, 2020 9:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.21	-	(14.05 %)	1.38	4.71	5.35
Revenue (mm)	103.10	100.05	(2.96 %)	108.10	428.95	457.35

Currency: USD
Consensus as of Mar-27-2020 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	1.22	1.30	1 6.56 %
FQ4 2019	0.62	0.63	2 1.61 %
FQ1 2020	0.98	0.88	3 (11.11 %)
FQ2 2020	1.21	-	4 (14.05 %)

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Call Participants

EXECUTIVES

Garry O. Ridge
Chairman & CEO

Jay W. Rembolt
CFO, VP of Finance & Treasurer

Steven A. Brass
President & COO

Wendy Kelley
Director of Investor Relations & Corporate Communications

ANALYSTS

Daniel Dalton Rizzo
Jefferies LLC, Research Division

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Good day, and welcome to the WD-40 Company Second Quarter Fiscal Year 2020 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

I would now like to turn the presentation over to your host for today's call, Ms. Wendy Kelley, Director, Investor Relations and Corporate Communications. Please proceed.

Wendy Kelley
Director of Investor Relations & Corporate Communications

Thank you. Good afternoon, and thanks for everyone for joining us today. On our call today are WD-40 Company's Chairman and Chief Executive Officer, Garry Ridge; Vice President and Chief Financial Officer, Jay Rembolt; and President and Chief Operating Officer, Steve Brass.

In addition to the financial information presented on today's call, we encourage investors to review our earnings presentation, earnings press release and Form 10-Q for the period ending February 29, 2020. These documents are available on our Investor Relations website at investor.wd40company.com. A replay and transcript of today's call will also be made available at that location shortly after this call.

On today's call, we will discuss certain non-GAAP measures. The descriptions and reconciliations of these non-GAAP measures are available in our SEC filings as well as our earnings presentation. As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance. Of course, actual results could differ materially. The company's expectations, beliefs and projections are expressed in good faith, but there can be no assurance that they will be achieved or accomplished. Please refer to the risk factors detailed in our SEC filings for further discussion.

Finally, for anyone listening to a webcast replay or reviewing a written transcript of this call, please note that all information presented is current only as of today's date, April 9, 2020. The company disclaims any duty or obligation to update any forward-looking information, whether as a result of new information, future results or otherwise.

With that, I'd now like to turn the call over to Garry.

Garry O. Ridge
Chairman & CEO

Thank you, Wendy. Good day, and thanks for joining us for today's conference call. Jay, Steve, Wendy and I are dialing in from our respective homes, where I expect most of you are as well.

To begin, I'd like to thank the tribe for their hard work and dedication to the company in these volatile and uncertain times. Our #1 priority during these challenging times is the safety and well-being of our tribe. Today, we will discuss some highlights from our second quarter, but a complete discussion of our second quarter results, please refer to the press release we issued earlier today and our 10-Q for the period ended February 29, 2020, which we filed with the SEC this afternoon.

Today, we're going to talk mostly about the global health crisis caused by the COVID-19 outbreak and its impact on our business. We currently find ourselves at the peak of uncertainty as it relates to this global health crisis and its effects on both our company and the global economy. Jay and I were at the helm of WD-40 Company during the global financial crisis in 2008. Together, with our tribe, we successfully navigated those difficult times and the company emerged stronger than when we entered. We realize that the difficult times we are encountering during the 2008 fiscal crisis were very different from the ones we are facing today. We are in a health crisis, which is impacting all parts of the globe and affecting economies worldwide. As a result, the outcome is very difficult to predict. I have, again, confirmed in my mind that people are okay at dealing with risk that struggle with uncertainty. And while it is true that there's a lot we don't know today, there are some things we do know. We do know the health crisis is going to be a temporary disruptive to our business and that we will likely be some short-term negative impacts on our financial results. We know that we'll probably face some challenges in the coming weeks and months as we continue to operate a global business through these volatile and uncertain times.

However, despite all this, we also know that we're going to get through this. We have a strong tribe, who are dedicated to our brands and to our end users. We have a famous brand that people can trust and which can bring certainty to both our customers and our end users in these uncertain times. We remain committed to making our products easy to buy, which is demonstrated by their availability in over 62 unique trade channels. We have a loyal end-user base in more than 176 countries and territories around the world. We have acted to further bulletproof our balance sheet, thanks to the great work done by Jay and the finance team over the last couple of weeks.

For all these reasons, I am sure we are well positioned to navigate the storm as it unfolds from both a financial and operational perspective. This too will pass.

Now let's talk about our long-term growth aspirations. As a reminder, our long-term growth aspirations are guideposts not guidance and they are probably wrong and roughly right. Our long-term growth aspirations are to drive consolidated net sales to approximately $700 million and to do this while following our 55/30/25 business model. Our long-term targets are still very clear to us. However, with the uncertain global economy ahead, the timing of our 2025 aspirations may be delayed.

During the second quarter, except for the Asia Pacific segment, our long-term strategic drivers continue to perform mostly in line with our expectations. Let's talk about the strategic initiatives: number one is to grow the WD-40 Multi-Use Product. Our goal under this initiative is to grow WD-40 Multi-Use Product to approximately $530 million in revenue. In the second quarter, sales of WD-40 Multi-Use Product were $76 million, down 3% compared to last year. This decline was driven primarily by a 37% decline in Asia Pacific, which was partially offset by increased sales in the Americas and EMEA up 7% and 1%, respectively. The decline in WD-40 Multi-Use Product sales in Asia Pacific was driven primarily by a 74% decline in sales of WD-40 Multi-Use Product in China due to the disruptions related to the COVID-19 outbreak.

As you know, in China, many distribution channels and factories were closed and the greater population was placed in quarantine for several weeks starting in mid-January. These factors materially impacted our sales during the second quarter since we had a significant number of orders that were scheduled to ship to our customers in early February after Chinese New Year Holiday, and those shipments could not take place due to the COVID-19 outbreak in the country. However, in recent weeks, we've seen factories start to commence production and people begin going back to work. Things are slowly returning to normal for our tribe members in China. Everyone is back to work, though some tribe members are still working remotely. Schools remain closed in many areas of China. So this month, we have some little tribe members in the Shanghai office who have accompanied their parents to work. We are happy to support this temporary working arrangement. We expect we will encounter volatility and disruption in other regions, where our global business operates due to the global health crisis.

Strategic initiative number two, grow the WD-40 Specialist product line. We remain optimistic about the long-term opportunities for WD-40 Specialist and believe we can grow the product line to approximately $100 million in revenue. In the second quarter, sales of WD-40 Specialist increased 10% to $8.9 million compared to last year. We continue to move forward with our new packaging that we discussed with you last quarter, which we believe will give us a stronger brand presence for both WD-40 Multi-Use Product and WD-40 Specialist, aligning them as the blue and yellow brand with a little red top.

Strategic initiative number three, broaden product and revenue base. Strategic initiative number three includes maintenance products like 3-IN-ONE, WD-40 BIKE and GT85 but also includes home care brands such as Spot Shot and Lava in the Americas, 1001 in EMEA and no vac and Solvol in Asia Pacific. Our goal for the products under this initiative is to reach a combined revenue of approximately $70 million. Global sales of the products included under this initiative were $12.8 million in the second quarter, up 2% compared to last year.

Strategic initiative number four, attract, develop and retain outstanding tribe members. We are putting the health, safety and well-being of our tribe members and their families first during these difficult times, with shelter in place orders in effect in most of the countries where our tribe members live and work, many of them have been exclusively working from home for several weeks now. Our IT teams around the world have done an exceptional job ensuring that everyone has the technology they need to complete their jobs remotely. We call ourselves a tribe because we are a community of people with a shared purpose, that is to help feed and defend each other. During these difficult times, I think that definition is particularly fitting.

There is no better time than now to have a highly engaged workforce. During the second quarter, we took our biannual employee engagement survey, and I'm happy to report that our overall global employee engagement score remains the envy of many organizations at 93%.

Strategic initiative number five, operational excellence. The world is full of volatility, ambiguity and uncertainty, more so now than I and others have ever seen in our lifetimes. It is our commitment to maintain our operational excellence, which will help see us through the storm just as it has in other times of macroeconomic uncertainty. From a financial perspective, we are in an enviable position. We've always maintained a strong balance sheet and managed our funds wisely.

That completes the update of the strategic drivers. I'd now pass the call to Steve, who will discuss some operational highlights.

Steven A. Brass
President & COO

Thanks, Garry, and good afternoon. I hope that you're all well during these challenging times. The impact of the global health crisis on our operations represents an unprecedented challenge that we're evaluating and addressing daily. Therefore, today, rather than going through net sales results for the second quarter, I'd like to talk with you about what is happening right now. For details about our second quarter operational results, please refer to the press release we issued earlier today. As you know, the situation is dynamic and changes every day, so I won't be giving any numbers or any future projections, just a high-level summary of what we know today.

What I can share with you is that in March, despite the enormous disruption experienced in many countries due to COVID-19, revenue levels were in line with what we have historically seen in a typical March. While this is good news, I want to stress that the future remains uncertain. First, a bit about our supply chain. As most of you know, we outsource the manufacturing of our finished products to contract manufacturers all around the world. Many of our contract manufacturers have been trusted partners for so long, they are considered part of the tribe. Therefore, one of our top priorities is to ensure our business partners stay safe and healthy. All our partners are following the recommendations set forth by governing agencies and are taking necessary precautions to ensure the safety of their employees.

Our supply chain is structured such that WD-40 Company products are sourced, manufactured and warehoused as close to our customers and end users as possible. Because we predominantly source and manufacture our products locally, we expect we'll be able to minimize much of the supply chain risk we will encounter during the current health crisis. However, I want to emphasize that each of our regions is being impacted by their own set of local challenges and an increasingly constrained supply chain environment. In Europe, the region most negatively impacted by -- in March by the COVID-19 outbreak, our supply chain was able to produce 95% of our normal aerosol production despite severe limitations on movement. That is a wonderful testament to the resilience of our partners as well as to the hard work of our supply chain tribe. In addition, in EMEA, we had built up some buffer inventory to be used in the event of a hard Brexit. So unforeseen this extra inventory is coming in very useful to help us mitigate the supply chain disruptions we are encountering in EMEA.

The additional working capital that we invested is timely and will help mitigate some of the risks associated with the current crisis. In the Americas, our aerosol lines continue to be operational, and we are not experiencing any significant impact to our supply chain thus far. This has not been without considerable effort by tribe members who've pivoted many times to address issues as they have arisen over the past several weeks. We are closely monitoring our global supply chains, and our supply chain tribe members are working hard around the world to ensure that raw materials are obtained, production lines are functioning, orders are fulfilled and customers and end users are getting the products they need.

Now let's talk briefly about our tribe. Currently tribe members in 11 locations around the world are under mandatory work-from-home orders. We have 3 locations where tribe members have the option to work from home but are not mandated. Only one WD-40 Company office in the world is open and that is in Shanghai today.

As Garry mentioned earlier, things are starting to return to normal in China. We expect the next several weeks will be challenging for our tribe members all around the world, but the tribe's experience in China gives us some hope that we will see the other side of this health crisis soon. Our tribe members in China have been a wonderful resource as they've been able to share their health crisis learning moments with the rest of us.

Finally, some good news. As you know, at WD-40 Company, we play the infinite game. We are a financially strong company, and we take a long-term view. I'm happy to be able to share some good news with you today. First, we are transitioning from a marketing distributor arrangement to a direct model in Mexico. We have recently hired 8 new tribe members and have opened a new office in the city of Monterrey. Putting the foundation of our new direct market in place has been underway for a very long time. I want to thank the tribe members who have worked tirelessly to make this happen. We're thrilled to share that in May, we will begin to service our Mexican customers on a direct basis, WD-40 Multi-Use Product and 3-IN-ONE are #1 and #2 brands in their category in Mexico. We believe by transitioning to the direct model, we'll be able to generate both faster top line growth as well as stronger gross margins over time.

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. We have also recently appointed a Chief Digital Adviser from a leading consultancy who will work with our global tribe to continue our journey towards becoming global leaders in the digital space in our category. With 1/3 of the world's population observing stay-at-home orders, we're seeing what we believe is a seismic shift in online behavior and one that we believe may lead to a permanent behavioral shift in buying patterns. WD-40 Company is well positioned to benefit from the significant change in the landscape. In addition, we're learning from the recent experience we had in China. While year-to-date sales in China declined by 52% due to the health crisis, e-commerce sales increased 39% over the same period.

Now I will turn the call over to Jay for an update on the financials.

Jay W. Rembolt
CFO, VP of Finance & Treasurer

Thank you, Steve. Today, we reported net sales of $100 million for the second quarter of fiscal year 2020, down 1% compared to the second quarter of last year. Translation of our foreign subsidiaries results from their functional currencies to the U.S. dollar, a slight favorable impact on sales in the second quarter. On a constant currency basis, sales would have been $99.7 million, down 2% compared to last year.

Net income for the second quarter was $14.3 million, a decrease of 10% compared to last year. And diluted earnings per share for the second quarter was $1.04 compared to $1.14 for the same period last year. And from a financial perspective, we're in an enviable position with a very strong balance sheet and a newly amended $150 million credit facility from which we recently elected to draw down $80 million to further strengthen our liquidity position. We're focused on managing through this crisis to come out the other side as a much stronger business.

Let's start with a quick discussion about our 55/30/25 business model, the long-term targets that we use to guide our business. On today's call, I'm going to focus primarily on the drivers for gross margin. In the second quarter, our gross margin was 53.6% compared to 55.4% last year. This represents a decline of 180 basis points. The major drivers of this decline were sales mix changes, higher warehousing and freight and other miscellaneous costs. Impacts from sales mix changes and other miscellaneous costs in all 3 trading blocs negatively impacted our gross margin by 120 basis points compared to the prior year period. The unfavorable impacts in the Americas and EMEA were primarily due to unfavorable shifts in product and customer mix as well as higher miscellaneous costs. In Asia Pacific, shortfalls in sales in China, a direct market where we typically have higher gross margins, negatively impacted the overall margin for Asia Pacific.

In addition, higher warehousing and inbound freight, primarily in EMEA, negatively impacted our gross margin by 110 basis points. Changes in major input costs negatively impacted our margin by 10 basis points. Petroleum-based specialty chemicals positively impacted our margin by 20 basis points period-over-period. However, increased cost of aerosol cans negatively impacted our margin by 30 basis points and more than offset the gains we realized due to lower specialty chemical costs. Finally, changes in foreign currency exchange rates negatively impacted our gross margin by 40 basis points. These negative impacts to gross margin were offset by the favorable effects of price increases and lower discounts to our customers, which when combined, positively impacted gross margin by 100 basis points in the second quarter.

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.

Now a word about our balance sheet and our capital allocation strategy. The company's financial condition and liquidity remains strong. We believe our efficient business model and the recent steps we've taken to strengthen our balance sheet gives us position to manage our business through this crisis as it continues to unfold. In March, we amended our line of credit with the Bank of America to extend the maturity date to 2025 and to increase the revolving commitment to $150 million.

At the end of March, we had borrowed an additional $80 million on the revolving line of credit, bringing the balance to approximately $149 million. Though we are already fairly well capitalized, we decided to exercise an abundance of caution and draw on the remaining balance of our line of credit to ensure liquidity and manage potential risk during this time of unprecedented macroeconomic uncertainty. If no need arises for these additional funds, as we weather this storm, we will simply repay the debt and restore our available credit.

In addition to these steps, 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.

In fiscal year 2020, we expect to complete our investment of approximately $30 million in capital projects, primarily to procure the proprietary machinery and equipment we need to manufacture our next-generation Smart Straw delivery system. With everything thing going on in the world, we believe investing in our future is more important now than ever before.

So with that, let's turn to fiscal year 2020 guidance. The COVID-19 pandemic has injected a measure of uncertainty into our business, which makes it very difficult for us to accurately forecast short-term financial results for the company. Therefore, today, we are withdrawing the fiscal year 2020 guidance, which we last reiterated on January 9. We are continuing to monitor the situation closely and we will update you when we can.

And that completes the financial overview. Now I'll turn it back to Garry.

Garry O. Ridge
Chairman & CEO

Thanks, Jay. In summary, what did you hear from us on this call? You heard that our China subsidiary was materially impacted by the COVID-19 outbreak during the second quarter. More importantly, you heard that things are slowly returning to normal for our tribe members in China. You heard that we expect we will continue to encounter volatility and disruption in the regions where our global business operates due to the global health crisis. You heard that our employee engagement score remains the envy of many organizations at 93%. You heard that we are transitioning from a marketing distributor arrangement to a direct business model in Mexico. You heard that we continue to make outstanding progress in the area of digital and e-commerce, and that e-commerce sales have grown 44% year-to-date compared to last year. You heard that we elected to make changes to our line of credit agreement and recently drew down a significant rainy day fund from this line to bulletproof our balance sheet. You heard that we are suspending purchases under our current share buyback plan in order to preserve cash that we continue to return capital to our investors through dividends. You heard that we withdrew our previously issued fiscal year 2020 earnings guidance due to the rapidly evolving impact of the global health crisis. You heard that we are confident our long-term growth aspirations remain a realistic opportunity.

In closing, I'd like to share with you a quote from my friend, Simon Sinek, " Remaining calm in times of desperation makes way for opportunity."
Thank you for joining us today. Please stay safe. We would be pleased now to open the conference call to your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Linda Bolton-Weiser with D.A. Davidson.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

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?

Garry O. Ridge
Chairman & 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.

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.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

So do you expect -- I mean are you seeing anything in your end markets that indicate that because the decline in China was quite significant. So is it just the rest of the world is slower in seeing the impact in your results? Or is it just something different that's going on in the rest of the world versus what went on regarding COVID-19 in China?

Garry O. Ridge
Chairman & CEO

I can give you some color on that, Linda. The down -- what happened in China was due to a planned shipments that we had that were to go out to our customers straight after Chinese New Year. We had a substantial order book in place. And as is customary, China kind of waits till after Chinese New Year to renew themselves and to take on that inventory. And so if the COVID hadn't happened, we would have shipped those orders. So it wasn't an end user a demand issue, it was our inability to ship that caused the sudden downturn in China.

China started the shutdown around January 17 and was outright through till well into February, and we didn't -- we weren't able to ship what we had. We are starting to ship those orders now. So that's why there's a difference between China. If you think about in the world right now, most of the dominant trade channels that we operate in are functioning, hardware, home improvement, grocery, club, mass merchant, those trade channels are operating, albeit at a different level. So people are buying. I drove past my local home improvement store this morning and the parking lot was 75% full. People are going there to buy a product, probably WD-40 as well. So there were 2 different things that went on between China and what's happening in the U.S.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Okay. That's a good explanation. So can you talk about just your innovation that you were planning to launch? I think it was you were talking about June or July? Are you going to delay that or are you still going to launch your major innovation?

Garry O. Ridge
Chairman & CEO

We are still going ahead. You're referring to Smart Straw 2 or Smart Straw next generation. The first market to launch that will be Canada in June. And we're also moving ahead with the continued conversion of our Specialist product range into the new blue and yellow, red top trade dress from our brand architecture. And we will continue to work on the rollout of Smart Straw next generation around the world. It will probably take us 18 months in total to get it out there as it was in the past, but no, we're full steam ahead.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

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?

Garry O. Ridge
Chairman & 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.

Jay W. Rembolt
CFO, VP of Finance & Treasurer

Yes. Thanks, Garry. Yes, 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.

Linda Ann Bolton-Weiser
D.A. Davidson & Co., Research Division

Okay. And can I just sneak in one last one. Going back to look at your financial results back in the last recession in the '08, '09 period, I think it was an 8% sales decline, if I'm not mistaken. So you did have a sales decline. I know you don't want to give guidance, you're withdrawing your guidance. But would it be a bad idea for conservative analysts to put something like an 8% decline or something like that, assuming we go into a recession?

Garry O. Ridge
Chairman & CEO

Linda, the decline that was -- you mentioned for 2008 was primarily because of the strengthening of the U.S. dollar against the pound. It devalued some 25%, I think, in 2008. And I think right now, it would be irresponsible for us to try and predict the future until we get through what we have to get through now. I think we'll have a better idea once the world starts to ramp up again. So -- but in the U.S., in 2008, our sales went sideways. Our consolidated revenue went down, but that was because of the change in the exchange rate from the British pound. Right, Jay?

Jay W. Rembolt
CFO, VP of Finance & Treasurer

Yes. Actually, we had a shortfall in the U.S. We actually, in local currency or in-source currency, we were -- we had growth in EMEA, but it was wiped out because of the headwind from foreign currency exchange.

Operator

[Operator Instructions] Our next question comes from the line of Daniel Rizzo with Jefferies.

Daniel Dalton Rizzo
Jefferies LLC, Research Division

I got cut off at the end of the prepared remarks. So forgive me if this has already said but did you indicate that the dividend is largely intact that you're not considering cutting that at this point?

Garry O. Ridge
Chairman & CEO

I'll let Jay answer that.

Jay W. Rembolt
CFO, VP of Finance & Treasurer

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.

Daniel Dalton Rizzo
Jefferies LLC, Research Division

Right. But I'm saying going forward in the second half of the year, given the uncertain outlook.

Jay W. Rembolt
CFO, VP of Finance & Treasurer

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.

Daniel Dalton Rizzo
Jefferies LLC, Research Division

Okay. And then, Garry, you mentioned seeing in your local distribution channel that things were still going -- your channels are still relatively intact there, and I assume that's with the home improvement market. But I was wondering if you're seeing similar things with both the construction, commercial and then just industrial activity, given the lack of commercial and industrial activity and auto activity, I was wondering, I would assume that you're seeing significant declines in those distribution channels or the channels through those end markets.

Garry O. Ridge
Chairman & CEO

Daniel, we're not seeing it yet. It's probably too early, but let me say this, construction is -- at least in California, has been designated as an essential service. As I drive around, I see trucks out, builders out, auto repair stores are still open. The auto industry in itself, in the manufacturing side, I don't think that's huge consumption, but people are fixing cars, the auto zones, O'Reillys, the brake part areas, the oil change people, they're all operating. So stuff is getting done at this time.

Daniel Dalton Rizzo
Jefferies LLC, Research Division

Okay. That's actually very helpful. And then final question. You indicated that the CapEx, I think, is going to be at $30 million this year. We assume -- am I right to model that starting next year, it goes back more towards a traditional level? Or is it going to stay at this kind of elevated level as you guys continue to roll things out?

Garry O. Ridge
Chairman & CEO

Jay?

Jay W. Rembolt
CFO, VP of Finance & Treasurer

We would expect it to go back to very close to historical levels. Once we complete the project with the innovation around our next-generation Smart Straw, we don't have any other significant investments that are begging for a lot of capital.

Daniel Dalton Rizzo
Jefferies LLC, Research Division

Is that project expected to be completed this year?

Jay W. Rembolt
CFO, VP of Finance & Treasurer

It will be -- there will be some carryover into '21, FY '21.

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