

# WD-40

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Based on: Value Investing: FROM GRAHAM TO BUFFETT AND BEYOND, Bruce C.N.Greenwald, Judd Kahn, Paul.D.Sonkin, & Michael Biema, and Notes by Bruce Greenwald.

# Asset Value

Assets	1998 Book Value	Adjustment	Reproduction
Cash and equivalents	14.7	0	14.7
Receivables -- Total (net)	27	0.6	27.6
Inventories -- Total	3.7	0	3.7
Current assets -- Other	4.3	0	4.3
Current assets -- total	49.8	0.6	50.4
Plant, property, and eqpmt, net	3.6	0	3.6
Low income housing investment	3.4	0	3.4
Goodwill	12.5	0	12.5
Assets -- other	1.7	0	1.7
Total Assets	70.9	0.6	71.5

# shares = 15.63

**Per Share**

**4.50**

# Earnings Power Value

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	<b>1998</b>
EBITDA	34.2
Subtract recurring one time exp	1.2
EBIT Adjusted	33.0
Taxes @ 36%	11.9
EAT	21.1
Add Depreciation	0.8
Subtract Maint CAPX	1.1
Add amortization	1.3
EAT adjusted	22.1
WACC 8% bond rate; 50:50; 12% equity; 36% tax	8.56%
Earnings Power Value	258
Per share	16.54

# Value of assets

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- EPV/Share = \$16.54
- BV/Share = \$3.51
- $BV \ll EPV \rightarrow$ 
  - Strong franchise
  - OR
  - BV grossly understates replacement cost of assets
- WD-40 advertisement expenditure
  - Suppose, 3 years of S&GA+Advt expense needed to get to WD-40's position for a competitor
  - $\rightarrow (31.1 + 14.8) * 3 = \$138 \text{ mil}$

# Value of assets...

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- Suppose, 3 years of S&GA+Advt expense needed to get to WD-40's position for a competitor
  - $\rightarrow (31.1 + 14.8) * 3 = \$138 \text{ mil}$
- Subtract
  - $CL = 6.9 \text{ (AP)} + 3.1 \text{ (TP)} + 3.1 \text{ (OCL)}$ 
    - $= 13.1$
  - $\text{Excess Cash} + \text{LIHousing} = 16$
  - i.e.,  $\$29.1 \text{ mil}$
- Asset value (reproduction cost)
  - $= 71.5 + 138 - 29.1 = \$180.4 \text{ mil}$
  - $\text{Per share value} = 180.4 / 15.63 = \$11.54$

# Franchise value

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- ❑ Asset value (reproduction) = \$180 mil
- ❑ Earnings Power Value = \$258 mil
- ❑ Difference =  $258 - 180 = \$78$  mil
  - Due to franchise value (no growth)
- ❑ Is the franchise defensible?
  - Can the competitor cut price to take away market share?
  - WD-40: small ticket item
    - ❑ \$2/can, lasts a year
    - ❑ Will the consumer switch?
    - ❑ If price is reduced, can it be increased again?
  - May be difficult to take away the franchise value!
- ❑ May be Walmart can display a store brand next to WD-40 at lower price!

# Franchise value.....

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- IF competitor has to cut price by 10% to gain 100% market share
  - Revenue will decline by \$14.5 mil (1998)
  - After tax effect
    - \$9.2 mil
- Adjusted Net Income will drop
  - From 22.1 to 12.9 mil
    - Over 40% drop
- Not attractive
- Franchise, defensible??

# Earnings Power + Growth + MS

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- EPV/Share = \$16.54
- BV/Share = \$3.51
- Margin of safety
  - Suppose we want 30%
  - Current price is \$18
  - $(\text{Value/sh}) * (1-0.3) = 18$
  - $\rightarrow \text{Value/sh} = 18/0.7 = \$25.71$
  - Assume a growth rate of "g"
  - @r = 8.56%, want g such that
  - $\text{Value/sh} = (22.1/15.63)/(0.0856-g) = 25.71$
  - $\rightarrow g = 3.06\%$
- If you think WD-40 will sustain a growth of 3% without any additional investment, go for it!!

# WD-40 sales growth

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- 1990-1998
  - WD-40: 5.5%/year
  - US GDP: 5.2%
- 1998-2005
  - WD-40: 7.9%
  - US DDP: 5.7%