

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Oil-Dri Corporation of America (NYSE:ODC)



DANIEL S. JAFFEE is President and Chief Executive Officer of Oil-Dri Corporation of America. Mr. Jaffee graduated from Georgetown University in 1986. Mr. Jaffee joined the company in 1987 after a year with the accounting firm now known as PricewaterhouseCoopers LLP. He was a product manager in the Industrial and Agricultural divisions of the company until 1989. In 1990, he became Chief Financial Officer of the company, a position he held until 1995. From 1990 to 1995, he also held group vice presidential positions in the areas of Canadian and domestic operations, finance, management, information systems and consumer products. He was Chief Operating Officer from 1995 to 1997. Mr. Jaffee became President in 1995, Chief Executive Officer in 1997 and Chairman of the Board of Directors in 2018. Mr. Jaffee received an MBA from the Kellogg Graduate School of Management of Northwestern University in 2004. Mr. Jaffee's civic activities include serving as a member of the board of directors of the Anti-Cruelty Society of Chicago and as a Trustee of the Chicago History Museum.

SECTOR — CHEMICALS

TWST: Please give us an overview of Oil-Dri Corporation of America.

Mr. Jaffee: The company was started in 1941 by my grandfather, Nick Jaffee. He was selling automobile parts in Chicago, and he noticed that people were using sawdust to take oil off garage floors. Sawdust was free, which was good, but flammable and slippery, which were both bad.

He came up with the idea of using this mineral called Fuller's Earth — we now call it by its technical name, calcium bentonite — to take oil off garage floors because it was non-slip and non-flammable. He started the industry, which is amazing. He ran the company until 1960.

My father took over in 1960 and went about vertically integrating us. When my grandfather was running the company, we were a distributorship. My father realized we were going to get squeezed between the producers and the market, so he played "You Bet Your Life." He took out personal guarantees, leveraged all of his assets, and started acquiring the miners who were supplying us.

That vertical integration strategy was genius. Eventually, the company grew enough where he could take us public, which he did in 1971, to spread the risk around.

And then, lo and behold, I come along and take over in 1995. They always say: The first generation starts the business — my grandfather. The second generation builds it — my dad. The third generation runs it into the ground. And I was fulfilling my destiny quite

nicely in the first five years of running the company, but fortunately, the team and I banded together, and we pivoted, and we realized that what worked in the past wasn't going to work in the future.

We coined our mission of "Creating Value from Sorbent Minerals." We plowed lots of money into research and development of our minerals, to understand how every mineral was not the same. Then we got really close to our customers and gave them very specific products that did specific things for them, and then, fortunately, we were able to share in the value with them.

That covers the genesis of the company all the way to today. While the raw material is the same, the company has changed a lot from decade to decade.

TWST: I'm glad you mentioned the family aspect of the business. I'm hoping to learn more about that. Is that a unique factor among your competitors, or in the industry as a whole?

Mr. Jaffee: It's a huge source of our identity, and it isn't just the Jaffee family. In fact, it's not only the Jaffee family. We have multiple third-generation families in many different areas.

A woman who's in our legal department now, her mother has been a financial analyst for us for years, and her grandmother was with the company for 30 years. We have lots of stories like that. While some companies think nepotism is a bad thing, we've been able to make it work.

It really gives us a family culture that we're able to maintain because of our capital structure. While we are public, we are also a

so-called “controlled company.” So, your readers should understand that they will get a higher dividend and one vote per share. The Jaffee family takes a lower dividend, but we get 10 votes per share, allowing us to generally control the voting of the company.

We’ve always run the company for the long-term benefit of our shareholders. We have paid a continuous dividend all 54 years of our existence, and we’ve raised it for the last 20-plus years in a row. So, we’ve definitely rewarded our shareholders, but they understand we’re the tortoise and not the hare.

TWST: You serve several markets: pet care and animal health, fluids purification, crop and horticulture, automotive and sports. In which markets would you say you are seeing the greatest growth right now? Also, is there some crossover in use of materials and products sold in these various markets?

Mr. Jaffee: Yes, great question. Again, one of my father’s images that has carried along with me was this whole idea that in our business you cannot just sell the filet. You’ve got to sell the hooves, the tail, the ears, the whole thing, or you’re not going to make money.

So, yes, the basic raw material is the same and it gets processed similarly for a while. And then late-stage differentiation can turn it into some really high-tech, cool things that people will pay you by the pound for, and then some really mundane things.

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We’re still selling the Oil-Dri Floor Absorbent to take oil off garage floors. That’s a pretty basic use for it now. Back in the day, that was earth-shattering. Today, it’s a pretty basic use of the material.

And you asked, where do we see our growth? Fortunately, most of our product lines are tied to the human food chain or consumer goods. For instance, you mentioned that we serve the pet care market and, in particular, we produce cat litter. Cats have pretty much become man’s and woman’s best friend, because they’re so easy to take care of. They just allow for a flexibility that dogs don’t.

I happen to be a dog lover. I love cats, too. They put me through college, so I’m very beholden to cats. But I can see the value of both. But I will tell you that cat ownership has outstripped population growth in the United States. It is a growing category.

If you go to the grocery store now, look up, and you’ll see in one of the aisles a sign that says, “cat litter.” You never used to see that before, but it’s a big enough category in the grocery chain now that it has found its way into mainstream advertising. So, cat litter is one thing that we’re really excited about. I can talk more about that in a bit.

On the food side, we sell to agricultural companies. They use our clays to carry insecticides or herbicides onto the field to help promote the growth they need for their crops. That’s great, but then we also are a non-antibiotic solution to animal health for poultry, dairy, and swine.

I’m sure your readers have seen the trend around America and the globe to have antibiotic-free meat production, because the problem with using antibiotics daily to raise chickens or cows or swine is it gets into their meat. We ingest the meat, and then we develop resistance to

those antibiotics. Then, when we’re sick and need them to work, they’re not working like they should or could. So, that move to get antibiotics out of the food chain is absolutely critical.

We believe that we have one of the best non-antibiotic solutions to animal health, because our product, when mixed in with the feed, will reside in the gut and bind the toxins that the bad bacteria emit. So, there are two ways to beat the bacteria. You kill them — that’s antibiotics — but again, it’s indiscriminate. It’s killing good bacteria and bad bacteria. Ours gets in there, and when the bad bacteria emit these toxins our clay binds it. Then the animal excretes it out, which is a sexy way of saying, “poops.”

That’s how our product works. It’s really cool. We have a bunch of vets, and we even have a Ph.D. on staff. It’s a very technical product.

TWST: You mentioned cat litter earlier. Oil-Dri acquired cat litter company Ultra Pet last year. Can you tell us more about the acquisition, and how has that business performed for Oil-Dri so far?

Mr. Jaffee: Sure. It’s been a great acquisition for us. We are fully invested in cat litter, and we are really the only company that plays in all aspects of the cat litter market, both the branded, with our Cat’s Pride and our Jonny Cat, but equally, or more importantly, on the private label side. Ultra Pet is a supplier of silica-gel based crystal cat litter, and our private label partners were telling us loud and clear that they want to participate in this rapidly growing segment of the category.

We also launched Cat’s Pride crystals, and it’s doing very well. It was crucial to have a private label offering for our partners, because they needed it. They were going to find it one way or the other, and we wanted to be their solution. It’s gone very well.

The crystals, I think, are succeeding so well because they are extremely lightweight and align with a trend we started 14 years ago. Back in 2011, we launched the first ever lightweight cat litter. People were like, what does that mean? Cat owners now take it for granted that cat litter is lightweight and sold by volume and not by pounds.

Before we launched our product, cat litter was used by volume. Consumers filled it to three inches. They didn’t weigh it. They didn’t put their tray on a scale and weigh in 10 pounds, but it was sold by weight.

So, sold by weight and used by volume, it incentivized our competitors, using very dense minerals, so that they could sell you less volume and have it weigh more.

Here’s the best way to communicate this: Imagine a box that’s one foot by one foot by one foot. That’s a cubic foot. If you filled it with the competitor’s cat litter, it could weigh as much as 80 pounds: one cubic foot. Our litter weighs 40 pounds or less, meaning you’re getting twice as many fills for the same pound. Why that’s so important is, first of all, people have to lug this home, so it’s heavy, but cat litter weighs out in truckloads.

So, when you see those trucks going down the highway, they can be filled with marshmallows and pillows, and then they’re cubed out. But if they’re filled with something heavy, like cat litter, you can only put 44,000 pounds on that truck and then you have to stop. If you

open those trucks' doors, 60% of the space would be air, because you couldn't put enough in there. Well, now with lightweight, we can put twice as much in there.

Now, instead of 60% air, there's maybe 20% air, but you're cutting the number of trucks on the road in half, which is cutting the carbon footprint pretty much in half, which is telling the customer, instead of bringing 70,000 trucks a year into your distribution centers, you can bring in 35,000.

Then the consumer gets the benefit of carrying home a lighter jug that fills as many trays. It's great for the consumer, great for the retailer, great for the environment and great for Oil-Dri.

We started this trend, and fortunately, and I mean this sincerely, our competitors saw the merits of it, and they've all launched lightweight litters, too. We have patents on everything, and we've licensed a bunch of technology because we want lightweight to win. It's good for the environment, and it's really good for Oil-Dri, because we have lightweight clay. Our clay is lighter in density.

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It's one of those rare instances where what's good for the consumer, the environment, and the retailer is actually good for the manufacturer. So, we are all aligned.

TWST: Let's zoom out a bit. Looking at all the markets that you serve, are they performing about the same as they did last year? Have there been any changes or shifts, whether in materials, demand, regulations, or some other aspect?

Mr. Jaffee: One of the beauties of our business is even though we consider it high-tech, because we're putting a lot of money into research and development, it's also pretty basic and low-tech, and freight is a big part of the equation.

So, you could mine cat litter for free in China and have no environmental regulation, and you still can't get it to Chicago cheaper than we can get it from our Mounds, Illinois, plant. You just can't overcome the physical realities, whereas you sell things like silicon chips, or even high-tech phones and things, and the freight's a rounding error. It's not a big deal. So, we're lucky.

They always say to have moats around your business. Well, our moats are the Atlantic and Pacific. Those are pretty big moats. While we can't really compete overseas from our plants here, they can't really compete here in those basic markets. So, to answer your question, things don't change that much from year to year, but there have been disruptive technologies.

I mentioned our carriers business where our clay products carry insecticides and herbicides which are utilized by farmers. Well, 25 years ago, our biggest customer was Monsanto, which produced Roundup. They were putting Roundup on our clay.

You probably have heard of Roundup-ready seed or GMO. What got eliminated in that process was the clay. They modified the seed's DNA so clay was no longer required to deliver the pesticide. That was very disruptive, and we lost a big chunk of our business, but we pivoted.

My dad used to always say, and it's true, that Fuller's Earth is mentioned in the Bible. It was used to take oil off of lamb's wool. It was called fulling wool.

So, you're talking about a product that's thousands of years old, that's as basic as the earth itself. Could it become completely obsolete? I suppose, but not anytime soon. It's still the best solution for a lot of problems.

TWST: Let's turn toward the latest quarterly results. It looks like Oil-Dri reported Q3 results in June. What stood out to you or was surprising in those results?

Mr. Jaffee: I think the best surprise is no surprise. I believe our human diversity is also one of our major strengths, to answer this question, it's directly related to our product line diversity.

We're in so many diverse businesses that some will be up, some will be down in any quarter, but over time, we just keep growing, and that's the strength of our business. We're not so invested in any one area that you see these major whipsaws in our quarterly results.

Now, having said that, again, due to our controlled nature, we don't give quarterly earnings guidance. We don't even give annual earnings guidance. Our guidance is, we're going to do the best we can to deliver the best results we can for you, and this is what we've done for the last 84 years. And it works, it really does. It keeps us true to making long-term investments.

So, what you're seeing in that third quarter was not Hail Mary's that were thrown in that quarter. These were good decisions that were made 12, 24 and 36 months ago that are coming to fruition now. We're making decisions today that I hope will carry the results 12 to 24 to 36 months from now as we go forward. I would say the best surprise is no surprise. It's just pretty Steady Eddie.

TWST: Where do you see the biggest growth opportunities moving forward? How about the biggest challenges?

Mr. Jaffee: One big growth opportunity, for instance, was what gave us the idea for lightweight litter: liquid-concentrated laundry detergent. Everyone now takes for granted that it's all concentrated either in pods or in the jugs themselves. When Unilever and Procter & Gamble launched those items, they took water out of the formula. They concentrated the detergent. Why did they do that? For the logistical reasons I told you; they were weighing out trucks.

So, they're shipping water from their plant to Walmart. Then, consumers are grabbing it off the Walmart shelves and carrying water back to their house, when, what do they have in abundance at their house? Water. So, they took water out of the chain and were able to put three times as many units on the truck, cut the number of trucks going to the distribution centers by 67%. So, they started that trend.

That's what gave me the idea for lightweight litter. I had read this on a flight down to a trade show in Orlando. That night, I popped up at 3 a.m. I remember it like it was yesterday. I'm like, “Oh my God, this is what we're going to do, but we're not going to concentrate it, because

you've got to deliver the volume, but we're going to sell them the same volume with less weight. Great idea." And as I said, it works for everybody.

Nobody really wants more weight. Nobody says, "All things being equal, I would prefer to carry home 40 pounds than 20 pounds." It doesn't make any sense.

You asked about the biggest area of growth. Right now, lightweight litter only represents about 20% of the U.S. market. What I ask myself and buyers when I'm on sales calls is, do you think that means that, all things being equal, 80% of U.S. consumers prefer a twice as heavy product? And they laugh like, no, that doesn't make any sense. So, why hasn't it gone more lightweight?

Well, fortunately, one of our big competitors up in Canada went 100% lightweight about four years ago and it's working. So, Canada's now up to almost 50% lightweight and growing, and so now we're getting U.S. retailers seeing, "Oh my God, maybe I can go all lightweight and see what happens."

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I believe the genie is never going back in the bottle. I believe that 100% of the category is going to go lightweight, and if it's only 20% today, that's 5x growth that is coming for our mineral, which is the most abundant lightweight mineral in the U.S. So, that's a huge area of growth. We want to do everything we can to promote that and make that happen. Fingers and toes crossed, but it should happen logically.

But then there are two other great areas of growth. One of them is on the animal health side, because of this whole trend of pulling antibiotics out of the food chain. The nutritionists at all these major animal production companies have a problem and need to find a solution. That's where we come in. So, that's very exciting for us.

The third area, which has already hit, is renewable diesel. This is where they're taking feedstocks and being able to turn it into usable diesel fuel in diesel engines. Our clays purify edible and non-edible oils, and they pump the oil through our clay to filter out all the bad actors and the things that they don't want in there.

What comes out is the nice, light gold, cooking oil that you would see on your shelf. Without us, it would be cloudy and go rancid really quickly. The shelf life would be really bad. Once you pump it through ours, it's not just an aesthetic step. It's a real quality step.

TWST: Are we talking about biodiesel or is that different?

Mr. Jaffee: It's different. Renewable diesel and biodiesel are both biofuels made from renewable resources, but the production process and resulting properties are different.

Renewable diesel is chemically identical to petroleum diesel, allowing it to serve as a "drop in" fuel and can be used interchangeably with existing diesel engines. Biodiesel is produced in a different manner and can only be blended into diesel fuel at 10%-15% because of its chemical composition.

Our bleaching clays are used to filter different types of biofuels, with a focus on renewable diesel and sustainable aviation fuel. Our customers also use our products for the filtration of biodiesel.

We are actively supplying the edible oils and renewable diesel markets here in the U.S. The renewable diesel market was additive to our base bleaching earth business for food oils.

Those are the three areas that are exciting for Oil-Dri at the moment. Like we always say, "You've got to take it all with a grain of salt." I don't have a crystal ball, but we're all very excited about the future. That's for sure.

TWST: What challenges do you see on the horizon?

Mr. Jaffee: Immediately, the Ultra Pet acquisition that you mentioned, which has been great, but it's 100% sourced out of China. At one point, the Trump administration took the import tariffs up to 173%, which is a killer, obviously. Now, we just saw in the papers yesterday that they've extended the pause on raising the tariffs for another 90 days. They're back down to, they call it 30%, but it's really closer to 50% if you factor all of them in. But they were going to raise it to 100%-ish and now they're not. But that's a threat.

I guess, if misery loves company, the only good news is all of our competitor's product is sourced out of China, too. What that will do, though, is dramatically lower the demand for crystals, but we're so diversified, so, that's fine, we'll sell more clay. It's a threat to our crystals business, though, so that's a challenge.

Also, just getting the quality and quantity of, we call them teammates, is a challenge because our plants are located in rural America. We're in Georgia, Southern Illinois, Mississippi, and rural California.

TWST: Is Oil-Dri using AI to deal with that challenge or drive efficiency?

Mr. Jaffee: We are definitely at the beginning of that whole AI journey. For now, we're focusing on automating our transactional processes, particularly in areas of accounts payable and customer service. Again, those are areas where we perceive a shortage of humans to fulfill those duties.

Now, we absolutely as a company adhere to no full-time teammate ever loses their job due to automation, even at the plants. If we put in an automatic palletizer, which could eliminate six jobs, we don't lay off anybody. We wait until attrition and eventually we get our six jobs, but we won't lay off a full-time teammate.

It's the same thing with AI. At the moment, we're not eliminating any positions, but it should help us alleviate the supply and demand issue. Over time, if we have an extra position or two and somebody leaves, we may choose not to fill the position.

These early efforts are part of a broader five-year plan to ultimately expand AI across the business. You fish where the fish are to start, and that's where we started. We do hope we'll be leveraging AI and operations to potentially control expenses. As I said, this is all to support our teammates, not to replace them. And so far, it's working.

TWST: You talked about the tariffs and the impacts to your business. What about interest rates? How are those impacting your business and how are customers responding?

Mr. Jaffee: We have always been a very underleveraged company. We don't like a lot of debt, so we have not borrowed in these higher inflationary periods, per se. When we made our \$46 million acquisition a year ago, we funded \$26 million from cash and then \$10 million in our short-term revolver, which we've already fully paid down. And then we did borrow \$10 million long-term, fixed, seven-year average life, just under 5%-ish on the interest rate.

I would say that all-in, it didn't have a huge impact on us, but that's because we've always been, as I said, the tortoise and not the hare, and we just don't love a lot of debt.

You mentioned customers, and even suppliers haven't seen that that's put a lot of pressure on them in the short run, but it remains to be seen, I would say, going forward.

TWST: What are your key priorities for the next year or so?

Mr. Jaffee: You know what? I don't want it to sound trite, but it's to keep executing against our plans. We have good strategies, we have great people, products, and manufacturing processes. We implemented something called Mineyball about four years ago. Everyone's probably heard of the movie "Moneyball." I'm very much a math wonk and love that aspect.

People who know about "Moneyball" will know about Bill James and sabermetrics. I've been doing that since I was 14 years old. I've always loved the math side of decision-making, so I was always playing Mineyball. I was always using analytics to make decisions, but about four years ago, I made that the theme of our global sales meeting.

We actually had — and he'd probably be happy if I mentioned him — Ari Kaplan, who was one of the founders of Moneyball, come and speak to our team to show them where we could go with this. Four years later, I hear it in the hallways, I hear it in all the decision-making, where we let data drive decisions.

I know it sounds obvious, but when you get a thousand people doing it on a daily basis, it's a lot more powerful than one person closing his door and pounding a bunch of spreadsheets, which is what it was before I unveiled this. So, I'm very excited about that.

We are investing heavily in our data infrastructure, millions, to give our teammates better, more accurate, more real-time data, so that they can continue to play Mineyball.

TWST: Finally, is there anything else that you'd like to share?

Mr. Jaffee: What I tell our investors and the long-termers, who have been in it for a very long time, is we'll be a really bad stock to day-trade on. There's no takeover premium. We're not for sale. We're in

it for the long haul. Having said that, look at our record. We raise the dividend every year, knock on wood, and as far as I can see, we're going to continue to do it.

And I joke, but it's not totally joking. People ask, "How can you assure me you're going to do that?" I say, "Well, look, I can't as a public CEO, but I can tell you my sisters would not be real happy with me if I started to cut the dividend. And I like to be invited to family picnics." So, it would definitely be one of the last moves we'd make. Our dividend is definitely something we take very seriously and do try and deliver value back to our shareholders.

And we're making decisions today for the future. What you're seeing today are the results of decisions made five years ago, three years ago, two years ago.

To emphasize that point, because your readers might ask, "How many reserves do you have? Are you going to run out of clay anytime soon?" The fact of the matter is, we have more reserves today than we had 25 years ago. We have way over 40 years in total, but we make sure we always have 40 years of proven reserves in every single product line.

In 2000, we sold a million tons and made about \$20-\$24 a ton, gross profit. That was it. This past year, we made over \$160 a ton — eight times more. In 2024, we sold a little less than 800,000 tons. Twenty-five years later, we're selling 20% less tons, but making eight times as much gross profit per ton. You don't have to be a math major to know that's what's created all this value.

Mineyball and creating value from sorbent minerals are things we live and breathe every day, and it shows up in our results.

TWST: Thank you. (NS)

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