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Kenvue, Inc. (KVUE)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Kenvue First Quarter 2025 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Sofya Tsinis, Head of Investor Relations for Kenvue.

Sofya S. Tsinis

Vice President-Investor Relations, Kenvue, Inc.

Good morning, everyone, and welcome to Kenvue's first quarter 2025 earnings conference call. I'm pleased to be joined today by Thibaut Mongon, Chief Executive Officer; and Paul Ruh, Chief Financial Officer.

Before we get started, I'd like to remind you that today's call includes forward-looking statements regarding, among other things, our operating and financial performance, market opportunities and growth. These statements represent our current beliefs, expectations, or assumptions about future events and are subject to various risks, uncertainties and changes that are difficult to predict and could cause our actual results to differ materially. For information regarding these risks and uncertainties, please refer to our earnings material related to this call posted on our website and our filings with the SEC.

During this call, we will reference certain non-GAAP financial information. The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for financial information presented in accordance with the US GAAP. These non-GAAP financial measures should be viewed in conjunction with the most directly comparable US GAAP financial measures and are not presented as substitutes for or superior to those most directly comparable US GAAP financial measures.

Those most directly comparable US GAAP financial measures and a reconciliation of our non-GAAP items to their respective nearest US GAAP measures can be found in this morning's earnings press release and our presentation available on our IR page of Kenvue's website investors.kenvue.com

With that, I'll turn it over to Thibaut.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

Thank you, Sofya. Good morning, everyone, and thank you for joining the call. Alongside our first quarter earnings report today, you will have seen that we have also announced plan for a CFO transition and I will speak more about that shortly.

To begin with our results, we entered 2025 with clear and deliberate plans to accelerate profitable growth over the course of the year. We have an enviable portfolio of leading and resilient consumer health brands, where efficacy and trust matter to consumers. While we are not immune to significant macro shifts and seasonal variability in parts of the portfolio, we are well-positioned to navigate through the current complex environment.

In Q1, our teams demonstrated strong execution of our plans. As such, we are maintaining our organic sales growth outlook for the year and we are updating our adjusted operating margin and adjusted diluted EPS outlook

to reflect the estimated impact of incremental cost associated with current tariffs and of current foreign exchange rates.

As anticipated, following a first half, where we continue to expect the underlying health of the business to be masked by well-identified factors, we expect to accelerate our top line performance in the back half of the year as we realize the compounding benefits from the structural changes and investment we have implemented across the business. While staying agile and flexible amidst dynamic market conditions, we continue to advance our three strategic priorities.

First, our new operating model is now fully activated. Our brands are benefiting from more innovation and impactful marketing activation campaigns supported by more competitive level of investments. As discussed at CAGNY, we're increasingly leveraging what we call our Kenvue's five extraordinary powers to unleash the full potential of our brands, leveraging our superior science, launching insights-led innovation, increasing our presence with healthcare professionals, activating breakthrough marketing campaigns, and driving seamless commerce.

Second, we are continuing to optimize our cost structure through operational efficiencies. In April, we reached a major operational milestone, completing our Transition Services Agreement Program, finalizing the exit of more than 2,300 TSAs as per plan and without any disruption to our business. We are starting to see the benefits from our more streamlined and efficient systems and processes that are fit for purpose for Kenvue.

Third, we are strengthening our performance culture with new ways of working, new reward systems and a new milestone. In March, we moved into our new global headquarters in Summit, New Jersey, where we consolidated seven US locations under one roof for the first time in our history, unlocking greater internal and external collaboration and speed.

So, now, let me provide more context on our first quarter results. Organic sales declined 1.2% versus Q1 last year, which was consistent with our full year outlook. As anticipated, this included a 3% to 4% headwind from the combined impact of destocking, mostly in China, and strategic investments we are making in price and trade spend in the US to improve the competitiveness of our brands.

As we have discussed, the destocking in China is driven by both the lingering impact of the weak pediatric pain and fever season and actions we are taking to improve distributor execution. We are on track with our plans to strengthen and streamline our distributor network and expect to have these two factors behind us by the end of Q2.

Globally, we are activating our five extraordinary powers, driving stronger consumption performance for the company in Q1 relative to Q4. In fact, consumption for the quarter outpaced organic sales growth across each of our three segments. In Self Care, we delivered organic sales growth of 0.3%. Growth was broad-based across Allergy, Digestive Health and Smoking Cessation franchises and more than offset the decline in the Cough, Cold and Flu category. Our Self Care brands are stronger and performing better than ever, with nearly 80% of the business expanding or maintaining market share. We further enhance our leadership positions around the world this quarter.

As it relates to Cough, Cold and Flu, both consumption and replenishment in the US exceeded our expectations due to higher than anticipated incidences, helping mitigate the impact of a very subdued season in EMEA and Asia Pacific, work consumptions and destocking were worse than anticipated.

Importantly, our teams capitalized on the seasonal spike in the US and strengthened Tylenol's number one position, gaining share for the 11th straight quarter and widening the gap further with competition. We rolled out successful innovation and drove consumer engagement with our Greatness Hurts football themed campaign. And once again, Tylenol was the only brand in the category gaining value and volume share in Q1, increasing household penetration and expanding points of distribution.

In Allergy, we strengthened Kenvue's leadership in the category with Zyrtec growing both value and volume shares this quarter, also widening the gap relative to our competition. Similar to what I just described for Tylenol, our teams delivered an increase in household penetration and in distribution behind the excellent execution of a packaging refresh that leverage consumer insights and the strategic implementation of value pricing on some codes. While a prolonged winter shifted the start of the season this year, we are well-positioned to continue to win with consumers.

In Skin Health and Beauty, organic sales declined 4.8% amidst a decelerating category backdrop, largely due to three reasons. The impact from destocking in China, the soft sun season in Latin America, and our planned strategic price investment in the US, along with the loss of rotations in the club channel this quarter. Our EMEA region remained an area of strength, with organic sales growing year-over-year for the 12th consecutive quarter, largely driven by double-digit growth in Aveeno brand, with excellent performance in the UK and a successful rollout of the brand across new doors in Central Europe as well as continued momentum in OGX.

Similar to what we discussed for Self Care, consumption outpaced organic sales as expected. In the US, we have driven sequential consumption improvement in Q1 versus Q4. As a result of our breakthrough brand building campaigns paired with expert recommendation and relevant value equation. In April, we drove positive consumption for our priority platforms of Neutrogena Face Care, Aveeno Body Care and OGX Hair Care, which represent together the majority of our US business. And the investments we made on several Neutrogena and Aveeno lines to ensure our pricing was in line with consumer psychological thresholds are starting to pay dividends in sellout, with double-digit volume growth for a number of important offerings in face and body care.

In particular, looking at our biggest brands, Neutrogena, we launched our new Beauty to a Science brand positioning in February. We supported it with a 360 degree media campaign featuring artist and Gen Z influencers Tate McRae and world renowned dermatologist Dr. Shah. The buzz across social media behind this campaign has been terrific with over 8 billion earned media impressions so far, and it is enabling Neutrogena to reach a new, younger audience in a highly relevant and authentic manner. In fact, Neutrogena's household penetration with Gen Z consumers grew 30 basis points, a critical demographic, driving about half of the growth in the skincare category. And all of this has been showing up in market share with Neutrogena Face maintaining its number one share position in America in both value and volume for the second quarter in a row.

So, why we expect global organic sales of Skin Health and Beauty to continue to contract in the near term due to the remaining impact from destocking in Asia, strategic price investment in the US and what has been so far a slow start to the sun season, we are encouraged by the improvement in the underlying health of our brands. With the recent momentum in consumption growth and a strong slate of innovation we are activating in the back half, we remain laser focused on returning the segment to growth this year.

Finally, in Essential Health, Q1 organic sales were flat in the context of global category deceleration, as growth in wound care was offset by declines in women's health and oral care. While we did see positive global consumption, organic sales were negatively affected by competitive pressures in certain geographies, which we are addressing, and destocking in Asia.

We continue to do well with our premium offerings. Two examples from the US market. In mouthwash, our most premium platform Listerine Total Care and Listerine Clinical Solutions grew double digits in Q1. And Listerine is now the fastest-growing brand in dollars and in units on Amazon. And in Baby, Aveeno grew double digits in Q1, growing four times faster than competition and is the fastest-growing brand in the category.

Moving forward, while we are seeing a deceleration in the categories, we're activating a two-pronged approach designed to ensure that we capture consumers across the price spectrum. On one hand, we continue to drive premium innovation to gain distribution and increase household penetration. In Q2, just to name a few examples, we are rolling out Listerine Clinical Solutions outside the US, while launching a new variant targeted at sensitivities in the US. We're also expanding the BAND-AID brand and Aveeno Kids ranges with BAND-AID waterproof and Aveeno Kids for curly hair.

At the same time, we are bringing to market additional entry price point offerings across categories to meet the evolving consumer needs and continue to implement our strategic price and trade investments in the US. So, throughout the portfolio, we are seeing increasing evidence that our new operating model is working. And we remain focused on continuing to bring new users to our categories and expand usage occasions for all brands.

Now, before I turn it over to Paul, I want to share more on our CFO transition. First, I want to thank Paul for his leadership and many valuable contributions to Kenvue as we established the company as a standalone business through the separation and the IPO. With much of the work to establish Kenvue as an independent company completed and a strengthened commercial and operational foundations now in place, now is the right time for this transition. We wish Paul all the best in his next chapter and appreciate him continuing to support the company through a transition period.

We are pleased to share that Amit Banati will join us on May 12 as our new Chief Financial Officer. Amit is a world-class executive with 30 years of experience at global consumer product companies and a proven track record in both financial and operational roles. So, we look forward to his contributions as Kenvue moves into its next chapter.

And now, I will turn it over to Paul.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

Thank you, Thibaut. And good morning, everyone. I appreciate the kind words as Kenvue transitions to its next CFO and thank the rest of the leadership team and all of you, our talented Kenvuers. There are many accomplishments to be proud of as we established Kenvue as a standalone company, positioning the organization for accelerated growth. I look forward to working with Thibaut, Amit and the rest of the team to ensure a smooth transition, and I will be cheering Kenvue on in this next chapter.

Now, I will go over the company's first quarter results. In Q1, organic sales declined 1.2% versus Q1 last year as the team executed on our plans against an increasingly dynamic external backdrop. As anticipated, both value realization and volumes were unfavorable in the quarter, declining 0.3% and 0.9%, respectively.

As we indicated on our Q4 call and at CAGNY, we implemented strategic price investments and in-store activations in the US, which weighed on value realization and more than offset the contribution from select price increases outside the US. While we have actioned these strategic investments across our segments, during the quarter, the impact was most pronounced in Skin Health and Beauty. We have been very deliberate with our

approach targeting specific categories and SKUs to enhance our brand's competitiveness. And as Thibaut mentioned, we're seeing improvement in consumption as a result of these actions, which is very encouraging.

As we look at our segment performance, in Self Care, value realization drove 0.3% growth in organic sales as volumes were flat. Growth in our Allergy, Digestive Health and Smoking Cessation businesses more than offset the impact of a weak Cold, Cough and Flu season outside the US.

In Asia Pacific, the pediatric business was softer than we anticipated, which means it will take a little bit longer to fully digest elevated trade inventories. In terms of consumption, we keep driving strong share gains across the portfolio, a testament to the strength of our brands and the quality of the execution of our strategy.

In Skin Health and Beauty, organic sales declined 4.8% as volumes and value realization were down 2.9% and 1.9% year-over-year respectively. These results reflect our targeted and focused approach to investment within the Skin Health portfolio, a loss of rotations in the club channel this quarter, and the continued impact of destocking and non-distribution network adjustments in China. At the same time, the category was softer than anticipated, particularly in the US as well as in Sun, which resulted in weaker volumes in the quarter. As anticipated, we expect Q2 to remain pressured for similar reasons, with stronger performance in the back half of the year as we lap the first half trainers and continue to execute on our powerful commercial plans.

And lastly, in Essential Health, organic sales were flat as a 0.1% contribution from price/mix offset a 0.1% decline in volumes. We saw category deceleration as well as destocking in Asia Pacific, [ph] Aveeno (00:17:28) performance in the quarter and expect the latter to be largely behind us by the end of Q2.

Switching gears to adjusted gross margin, which came in at a good level of 60%, although down 20 basis points versus last year. Our supply chain teams continue to successfully execute our productivity initiatives, but volume deleverage on favorable currency and inflationary headwinds as well as the price investments that we're making more than offset those benefits.

As anticipated, adjusted operating margin contracted 220 basis points versus last year to 19.8%. This was entirely driven by the increased support behind our brands we initiated last year. As a reminder, we started to reflect the significant step-up in investment in Q2 last year, so the base period comparison is lower in Q1 relative to the rest of the year.

Importantly, we continue to take out infrastructure costs and reduce SG&A spend, executing brand investments and we are pacing well towards realizing the \$350 million in gross annualized savings of our Vue Forward initiative by 2026.

Moving down the P&L, both net interest expense and adjusted effective tax rate came down slightly versus last year to \$94 million and 27.5% respectively. This resulted in adjusted net income of \$465 million and adjusted diluted EPS of \$0.24, including about a \$0.02 headwind from currency.

Now, let me turn it back to Thibaut for our outlook.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

Thank you, Paul. Let me turn now to our outlook. As you have heard from other companies over the past several weeks, from a macro perspective, 2025 is shaping up to be a dynamic year. Despite this backdrop and with our

first quarter results consistent with our full year expectations, we're not changing our organic sales growth outlook for 2025, which remains in the 2% to 4% range.

We continue to anticipate a muted first half, followed by growth acceleration in the back half behind strong commercial activation, launch of superior innovation, increased contribution from revenue growth management and the lapping of headwinds that are weighing on the first half, specifically stepped-up trade and price investments and disruptions in trade inventory.

As a reminder, we did anticipate at the beginning of the year that the categories and markets where we compete would decelerate towards the 2% to 3% range in 2025, with sequential deceleration relative to prior years driven by the absence of price. This continues to be our base case scenario at this time.

We will continue to closely monitor actual category dynamics, whether linked to seasonal incidence or macroeconomic factors. For example, in the short term, from a seasonal incidence point of view, the prolonged winter in the US has pushed Allergy and sun seasons out, leading to a soft start to the season for both categories.

And from a macro point of view, we have seen some retailers tightening order management in April in the US. So, these two factors may shift volumes from one quarter to the next and require us to remain agile. So, we are proactively taking additional actions to address this fluid environment, such as ensuring we have sufficient offerings across both ends of the pricing spectrum and reframing our communication to highlight the value our brands bring to consumers.

Regarding FX, since February, the dollar has depreciated. And based on current rates, we are assuming approximately 1% drag on top line from currency, which is better than the approximately 3% impact we assumed previously. So, this leads to a 2% improvement in the full year net sales growth range to 1% to 3%.

As it relates to our adjusted operating margin and adjusted diluted EPS, we continue to expect margins to expand in the back half of the year, albeit at lower levels than we previously thought due to the impact of tariffs on costs.

Regarding tariffs, the outlook we provided in early February accounted for the tariffs that were in effect at that time. Since then, the situation has evolved considerably and remains quite fluid. Based on what we currently know, we estimate the gross impact of tariffs that have been implemented by the US as of May 7, as well as the retaliatory measures implemented to-date by other countries, will be nearly \$150 million for 2025. Even though our current infrastructure is set up so that most of our manufacturing happens close to our end markets, there are some finished goods and raw materials that move across borders.

We are implementing a number of actions to help mitigate the impact of tariffs, including accelerating our productivity initiatives, activating alternate sourcing, optimizing our supply chain and leveraging revenue growth management. But even with these mitigation actions, we will face higher than previously anticipated costs for imported products and components and we'll not be able to absorb the full impact this calendar year. Importantly, we are determined to preserve the long-term health of our brands, and we will work with our retail partners to find the best way to minimize the impact for our consumers.

Given this backdrop and our ongoing commitment to invest in our brands, we now expect adjusted operating margin to contract slightly for the full year. Please note we have not changed any of our below-the-line assumptions.

Taking this altogether, we now expect adjusted diluted EPS for 2025 to be about flat versus last year. This forecast assumes that currency is a low-single digit headwind to EPS, with adjusted diluted EPS up low-single digit on a constant currency basis.

So, in closing, we are focused on executing our strategy to accelerate profitable growth while ensuring that we remain agile and nimble to strengthen our competitive positions as we navigate through this dynamic and evolving environment. And all of this is made possible by all Kenvuers around the world. Our teams are getting stronger every day. And I would like to thank all Kenvuers for their continued commitment to unlock our full potential and drive long-term shareholder value creation.

And now, we will open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. In the interest of time, we ask that you limit yourself to one question to allow for as many questions as possible. [Operator Instructions] Our first question comes from the line of Bonnie Herzog with Goldman Sachs. Please proceed with your question.

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

Q

All right. Thank you. Good morning, everyone. I guess, I wanted to drill down a little bit on some of the innovation plans that you have for the year and spending, just given the environment and the macro, just curious to hear how maybe your innovations, the innovation plans have evolved, if at all, especially given some of the slowdown we're seeing and the consumer pressures? I guess I'm asking in terms of timing of launches and/or merchandising support, especially as consumer spending may be pressured? Any color there would be helpful. Thanks.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah. Good morning, Bonnie. Thank you for your question. Indeed, we have a strong plan for innovation and brand activation throughout 2025, with an expected acceleration in the back half of the year. We believe that in times like that, our brands are well positioned to really respond to what consumers are looking for. Consumers are looking for efficacy. They are looking for trust. And that's what Kenvue is all about.

Now, when consumers are pressured, value and convenience matter. And that's why we are tweaking our plans to make sure that we are present where shoppers are and offer the right value equation. And I think we were – we did plan the year with investments in price and in trade in the US that weighs on our results in the short term. But that's helpful in an environment like this to make sure that you have the right price equation. And you heard in my prepared remarks the impact we stop seeing on consumption moving in the right direction.

So, are we planning to change our plans significantly given the external environment? The answer is broadly no. We continue to believe that innovation and giving reasons for consumers to enter our categories that, remember, are all underdiagnosed, under-treated, under-penetrated is more important than ever. But for those consumers who are already in our categories, we need to make sure that our products are present in store, visible and offers a value equation.

Now, we are augmenting our plans given the existing – the current environment on a number of fronts. On one hand, we are making sure that we have the right entry price points and right price pack architecture to make sure that we respond to the different needs of different consumers. If you are looking for low cash outlay pack, we will have that. If you are more looking for a high volume value pack, we will also have that. So, we make sure that across our categories, we offer the right value equations. We also make sure that we are present in the channels where shoppers are. As you know, we are present in omni-channel, but we make sure that we continue to be where consumers are. So, these are some of the things that we are doing to augment our plans in this environment.

Operator: Thank you. Our next question comes from the line of Peter Grom with UBS. Please proceed with your question.

Peter Grom

Analyst, UBS Securities LLC

Q

Thanks, operator. Good morning, everyone. Hope you're doing well. I wanted to ask just on kind of the phasing of organic growth, maybe specifically on the second quarter. It sounds like a weaker start to the allergy season. You mentioned some destocking in the US in April as well as in China, continued price investments. So, is there any way to frame an expectation for second quarter organic growth versus what we just saw in the first quarter?

And then I guess, just related, totally understand, Thibaut, some of the headwinds are going to reverse in the back half of the year. But can you just talk about the degree of confidence in the embedded improvement in the back half, just given the uncertain backdrop? Thanks.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Great, Peter. Good morning. Good to see you. So, your first question on organic growth in the second quarter, given what we see in the environment. As you know, we do not guide by quarters. Our plans still assume muted first half, followed by an acceleration in the second half. What has not changed for Q2 and the very short term is that our organic sales growth will continue to be burdened by the headwinds from destocking in Asia and the impact of the strategic price investments we are making in the US. That was in the plan. That has not changed.

To your point, what we are monitoring right now, because it could have an impact in terms of shifting revenue from one quarter to the next, is season and macro. On the season side, we have experienced a prolonged winter and cough, cold and flu incidences in the US. So that has been positive for our Tylenol brands, for example, in Q1. But the side effect of that, it has – that's pushed spring out a bit. And so what we see is the allergy and sun season has been pushed out and we see a slow start at the beginning of the second quarter for the seasons, but much – as you know, much of the season remains in front of us. These things can change quickly, as you have seen in the past year and past quarters. So, it's way too early to call on the season.

From a macro point of view on consumer confidence, we see some deceleration in some categories and geographies, but then that's the beauty of the consumer health categories. People are not leaving our categories. In some spaces, they are spending less a trip. And so, we need to see how these things continue to evolve.

What matters for us is, regardless of the external environment, how do we remain laser focused on increasing household penetration and we have a lot of opportunity there, and gaining share as we activate our brands. And that's why we are encouraged by the momentum we saw in consumption and share across some of our

categories and geographies. I talked about Self Care, I talked about part of Skin Health in the US, our Skin Health in Europe. That's what we are pushing forward.

Your second question on our confidence in the outlook for the back half. So, as you rightly said, the back half of the year will not have some of the headwinds that are clouding our results in the first half, namely the investment in trade and price in the US as we lap a higher base period comparison, but also the destocking in Asia where we are on track to put that behind us by the end of Q2.

What gives us confidence that we will accelerate growth in the second half is the strength of our commercial plan. We have more innovation. We have – we see that our investment in breakthrough marketing campaigns is paying back. Consumers are responding. We see an increase in household penetration. We are investing in in-store presence and prominence and have exciting plans in this regard for the back half. And we also start realizing benefits of our enhanced RGM capabilities. And if you look at the full year 2025, we expect pricing to be a net positive. And overall, we see that our teams are executing at a higher level through 2025. So that makes us very confident in the back half.

Now, as I said, what could impact the second half performance is if the underlying demand for our categories is lower than anticipated, which would have an impact on the sales lift from all brand activations. So, that's where we'll need to continue to be agile and make sure that we augment our plans where necessary. But to-date, we don't see our categories going below the 2% to 3% that we anticipated for the year. But this is a very fluid environment and we'll see how things play out for both seasons and in macro. Regardless, Kenvue is here to play to win.

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Operator: Thank you. Our next question comes from the line of Andrea Teixeira with JPMorgan. Please proceed with your question.

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Andrea Teixeira
Analyst, JPMorgan Securities LLC

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Thank you, operator. Good morning. And in particular, wishing Paul all the best in the new chapter. My question is on kind of like builds into what you just said, Thibaut, in terms of like the building blocks of innovation and what keeps you confident in particularly the Skin Health and Beauty, understand that the initiatives and the dermatologist backing and the influencer, all of that is positive, but it's not probably giving us a lot of, like, at least in the sell-in confidence at this point. So, I wanted to just double click on that and see how we should be thinking understandably, knowing that you are very strong in the summer season and it might be early to gauge the success of these campaigns, but just to give investors some confidence across channels how it's behaving in terms of, like, in parsing out the effect in China and all of those and in particular double clicking in the US to see how we can measure success and how you're going to be tracking and how can investors track this in more details. Thank you.

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Thibaut Mongon
Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah, thank you, Andrea, and good morning. So, just to be clear on Skin Health and Beauty, we are encouraged by the positive signs we see in terms of consumptions and how consumers react to our campaigns. We are not yet where we want to be. And we totally understand that we have more work to do.

Having said that, we are really encouraged to see the flywheel starting to turn in the right direction with – given all the actions we have taken to drive consumption in positive territory. And so, we are very happy to see that in the

most recent period. We see that happening on the – in the areas of the business in the US, where we have focused our attention, namely having Aveeno body care and Neutrogena face care and OGX hair care that together represent the majority of our business, of Skin Health and Beauty business in the US.

So, what we have said all along is that this year consumption will come ahead of revenue, of organic sales growth. And that's what you see playing out in the first quarter with consumption growing – outpacing organic sales growth. So, we continue – we expect to continue to see that playing out in the first half of the year.

Operator: Thank you. Our next question comes from the line of Anna Lizzul with Bank of America. Please proceed with your question.

Anna Lizzul

Analyst, BofA Securities, Inc.

Q

Hi. Good morning and thank you so much for the question. I had a follow-up to Bonnie's question earlier on Skin Health and Beauty. Just with the significant promotional activity you're doing in these categories, how are you expecting to balance this with marketing investment as we're moving through the year?

And then given your upcoming innovation, are you expecting some bigger shelf space gains in this segment? How are those conversations with retailers going so far? Any early reads on this would be helpful. Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

So, good morning, Anna. Thank you for the question. On our investment for the balance of the year, we continue to plan to invest more this year than last year behind our brands, that's across the portfolio. And that is the case for Skin Health and Beauty. We are going to continue to do that in a responsible way with a keen eye to ROI, as we always do. But we have a lot of space to go after with our brands. And as long as we see the right return on investment, whether it's on media ROI, on number of displays we get from retailers or increase in weekly recommendations by dermatologists, we will continue to invest.

Again, we are very encouraged to see consumptions moving into positive territories for our priority platforms. And we expect to continue to do that moving forward. This year, as anticipated, we are in investment mode, in Skin Health and Beauty. We are making progress in terms of improving our gross margins with supply chain efficiencies. This is masked in, especially in the first half by the investment we are making in price and in trade investments in the US and overall with our marketing investment. But over time, we will – we expect our margin to improve as consumption increases. We gain volume leverage and as the first half headwinds dissipate.

Operator: Thank you. Our next question comes from the line of Keith Devas with Jefferies. Please proceed with your questions.

Keith Devas

Analyst, Jefferies LLC

Q

Hi. Thanks for the question. Good morning. Just wanted to drill down, I guess, on the price and trade investments you guys are making, most notably in Skin Health and Beauty. It looks like the consumer is responding. I guess from your perspective, it'd be good to know, are you largely – do you feel like you're largely catching up to where competitors are in terms of the kind of the price – different price offerings? How you expect them to respond?

And then maybe just broader, the consumption uplift in April, any context around are those new customers that are new – entirely new to the brand or old customers returning that may be a little price sensitive? Thank you for the color.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yes, Keith. So, on Skin Health and Beauty, you're right. We see consumers increasingly responding to our investment and effort. Again, early days and we are certainly not claiming victory. It's not a victory lap today, but it's really encouraging signs that the actions, the cumulated impact of our actions is starting to play out. And that's what makes us confident for not only the balance of the year but the future of these brands.

We see – as I said, what we are particularly excited about is to see the increase in household penetration with Gen Z consumers, which is a demographic where we were lagging our competitors and seeing this group of consumers who, as you know, represent a big part of consumption in skin care categories, select Neutrogena as their brand is extremely encouraging for the future. So, we are pleased about that. We see that our breakthrough marketing campaigns combined with relevant innovation but also investment in making sure that we have the right price points are paying back.

Just want to make sure that it's clear for everybody that when I talk about investments in having the right price points, it's not necessarily being the cheapest. We are not the cheapest in the categories. But we want to make sure that we hit the right psychological threshold that our consumers are comfortable with. So, think about [ph] \$4.99, \$9.99, \$14.99 (00:43:11), we were not always well positioned. That created some confusion and made it less easy to shop. With these corrections that we have a short-term price to pay in terms of top line but it's definitely helping consumers shop Neutrogena, Aveeno, OGX and other brands in a much easier way. And we see the impact on consumption.

Operator: Thank you. Our next question comes from the line of Nik Modi with RBC Capital Markets. Please proceed with your question.

Nik Modi

Analyst, RBC Capital Markets LLC

Q

Yeah, thank you. Good, everyone. Thibaut, I just wanted to get your thoughts on supply chain. A lot of reports on shipments from China to the US are down significantly more recently and that might continue just given some retailers and even some manufacturers are taking some of the inventory under their own P&L and keeping it over in China. And so, I guess I have two questions on that. One is, have you thought about that exposure? Does that create any risk in terms of ingredients coming that could potentially lead to some issues in terms of product shortages? But more importantly, a lot of competitors in the beauty space and the personal care space are produced in China. So, I'm just curious if you think this could create an opportunity, actually, and do you have the supply chain agility to deliver on the demand if in fact, retailers have some bare shelves? Thanks.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Nik. That's a great question. And it seems like you could be in our offices working with our teams, because that's exactly the way we look at it. On the one hand, we are making sure that we are working very hard, as you heard from Paul, to mitigate the impact of tariffs as much as we can in a fluid environment. Dual sourcing and adjusting our supply chain is part of it. As you know, China represent a relatively small part of imports into the US. Our supply chain is structured to be in region for region. So, we produce very close to where we sell. But what it

means is that this small part that doesn't fit this model is there for a good reason. And so, it's not easy to move quickly, because if it were, we would have done it sometime ago. So, that's why making these adjustments is going to take time.

But you are absolutely right. We're also looking at opportunities that this situation creates for us. Again, in consumer health, we are in resilient categories. Kenvue brands are trusted by consumers. And so, that's why you have us really deploy the playbook that we have used in the past when it's getting tougher for consumers, which is continuing to stay the course on innovation, to bring new consumers in our categories that are under penetrated, continuing to advertise and invest behind our brands, especially those like ours, who are number one and number two in their categories. But making sure that you are extremely precise in the type of packaging formats you offer and making sure that you are where shoppers are.

I would add one more point on supply chain resiliency. You know that we have invested quite a lot in the past number of years since COVID in increasing the resiliency of our supply chain. And for times like this, a resilient supply chain is certainly something that is valued by our retail partners.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Nik, just one more point to add. In terms of our annualized exposure to foreign sources, China represents only about 10%. So, that gives you a frame of reference of how much we're talking about. In addition, of course, to the point that Thibaut just made, we have been working hard on making our supply chain more resilient with dual sourcing, triple sourcing. So, we have created some of the agility to give us the flexibility to capture some of the upside opportunities that you mentioned.

Operator: Thank you. Our next question comes from the line of Filippo Falorni with Citi. Please proceed with your question.

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning, everyone. And best of luck to Paul in your next chapter. First, I had two questions. One on Self Care. Maybe can you talk about like the benefit that you saw from the high incidence in the US, cold and flu? I think your expectation was that you were not expecting any replenishment of inventory. But maybe can you help understand if you got one in Q1.

And then another one on tariffs, the \$150 million gross impact that you mentioned, can you help us understand what buckets it's composed of in terms of like why raw materials or finished product it includes? And obviously, there's been so far an exemption on pharmaceutical imports. But maybe can you give us a sense of the potential impact if there were some incremental tariffs on pharmaceutical imports? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Okay. So, Filippo, let – good morning. Let me take the first one and then Paul can take the second one on the – on tariff. So, on Self Care and specifically the cough, cold and flu season, overall, globally, the season was, I would say about flat. If you think about the combination of Q4 and Q1, slightly down versus last year, so not a great – versus last season, so not a great season, with marked differences by region.

So, in the US, if you recall, we had a very low season in Q4, followed by an initial peak early February, it went down, then a large peak in – so the first peak in January, second peak in February. And what we saw in the month of March is distributors replenishing their inventory not to the appropriate level, I would say, not to a large degree, but slightly more than what we anticipated to an appropriate level. So, I would say that in the US, distributors left the season with an appropriate level of inventory to go through the coming quarters and to the next season.

In Asia, we saw something different with a low level of incidence continuing in the first quarter. As a result of that, if you recall correctly, we were expecting retailers to deplete their inventory with the expected increased demand during the first quarter. That didn't happen to the level and to the extent we expected. So, that's going to be somewhat of a small headwind in the second quarter because the destocking will continue to happen in the second quarter for them to hit the appropriate level of replenishment. So, overall, they balance each other but different dynamics between the US and China.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Let me take the tariffs question. So, Filippo, as you said, we have a gross impact of tariffs that are currently in place of about \$150 million for 2025. Let me break it down into two dimensions. The biggest importer is Canada, Canada into the US. And most of that is finished goods. And it has been qualified. The majority under current USMCA exemptions. So, that nets out to a small proportion of the total impact, less than 10%.

The other dimension is where does the biggest impact in terms of the tariff come from and that's from China. It's only about 10% of our annualized trade spend. However it is the largest impact. It's about two-thirds of the annualized impact at the current rate of 145%. To give a little bit more color, two-thirds is finished products. About one-third is raw materials. And that's what we have embedded into our guidance.

In terms of your question on pharma tariffs impact that has not gone into effect, we are of course, assessing the impact, but at this point, we're not ready to provide a number. It's not in effect yet.

Operator: Thank you. Our next question comes from the line of Javier Escalante with Evercore ISI. Please proceed with your question.

Javier Escalante

Analyst, Evercore ISI

Q

Hello. Good morning, everyone. A high level question from me. I'm new to the name, but if you could please help me and investors understand why your SG&A is so elevated in terms of percentage of sales if we exclude marketing and R&D reinvestment? So, to what extent scale plays a role in this, given the breadth of your portfolio and is a global geographic footprint? So, as you end this TSA with J&J, are you considering restructuring at the regional level to bring down SG&A to levels more commensurate to peers or even open to a more focused product portfolio? Thank you.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Yeah, thank you for the high level question. So, we report SG&A, including total SG&A and advertising expenses, so that only that – all of that is embedded into operating margins. And we do thorough benchmarking in terms of understanding our competitiveness, both in terms of how much we invest in our brands and how much we have in terms of the infrastructure costs. As you well know, we are investing more behind our brands and we have

increased last year over the prior year, \$400 million more. So, assertively going after brand investment. And at the same time, we're fueling that from efficiencies and that's why we put Vue Forward program together. The separation from J&J is allowing us to be more flexible, nimble and also have a lower cost base, but we needed to separate.

On top of that, we put our Vue Forward program that makes us more efficient and we are very much on track to deliver the \$350 million of savings that we talked about that should be realized by 2026. So, the program is on track. We are acutely looking at our cost efficiencies to be able to fuel the top line, and that's the puts and takes in the P&L that you see in the SG&A and reflected in the operating margins.

Operator: Thank you. Our next question comes from the line of Susan Anderson with Canaccord Genuity. Please proceed with your question.

Alec Legg

Analyst, Canaccord Genuity LLC

Hi. Good morning. Alec Legg on for Susan. My question is just on trading down or potentially seeing that. So, we've heard from some peers that they were gaining share maybe in private label, but are there any brands or categories that you are seeing hold up maybe better than expected and then other areas that may be seeing consumers looking for more value options? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

Yeah, thank you for the question. Here, as I said, we see that consumers remain choiceful. They are looking for convenience and value, but they are not compromising on their health and the health of their loved ones. That's, I would say, constant in our consumer health categories. We have seen that over and over again in expansion times or in recession times. Consumer behavior in our categories doesn't really change much. People are looking for trust, value, brands that they are familiar with that have been recommended to them by their healthcare professionals that has been part of their medicine cabinet or their household for years, decades, sometimes generations. And that's what Kenvue is all about.

So, the short answer to your question is no, we don't see a down-trade to private label globally. As Kenvue, our exposure to private label is limited on a global basis. And within this limited universe, where we are exposed to private label, we don't see down trading. Actually, if I look at the most recent periods, penetration of private label in our categories is down overall by another 50 basis points in the last period.

Now, it doesn't mean that we are not taking these very seriously and our teams are working every single day to make sure that we offer the right value proposition, whether it's a new format, an innovation, the right pack and count or the right – making sure that we hit the price threshold that I talked about earlier. So, we work very hard every day to make sure that our brands continue to earn consumer confidence. And so far that's what we continue to see playing out in the marketplace.

Operator: Thank you. Our next question comes from the line of Steve Powers with Deutsche Bank. Please proceed with your question.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Thank you very much. And good morning. And Paul, thank you for your partnership over the past few years. Thank you. Thibaut, I wanted to ask – sure, Amit will have more to say when he arrives on the scene, but can you provide maybe a bit more perspective on what you're expecting him to bring to the Kenvue team. Obviously, he's a seasoned professional as you said and he's well known to many of us and very well respected, but he's probably most closely associated today with seeing Kellogg through the Kellanova WK Kellogg separation and the subsequent sale of Kellanova to Mars. So, I guess, in that context, one key question and certainly one I've been fielding this morning is whether today's change in some ways signals more appetite, a more open mindedness or analogous types of corporate action on Kenvue's part? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah, Steve, thank you for the question. And you heard me talk about the fact that we were excited to welcome Amit to Kenvue and then emphasize the fact that we were excited for him to bring his 30 years of global experience in CPG in both finance and operational roles. And that's really what drove our decision to invite Amit to join the team. Amit brings expertise across the spectrum. He has a proven track record of driving profitable growth. And that's what we are going for at Kenvue.

Amit will oversee both the finance and the strategy functions, really [indiscernible] (01:00:06) initiatives aimed at accelerating our profitable growth agenda and deliver value for shareholders. So, he will be focused on revenue growth, stronger data management, right, resource allocation, improving our agility, including better integration of planning, financial forecasting, continue to drive what Paul talked about, our strong program to shift resources from fixed cost infrastructure to valuable costs, brand investment, strengthening our operating cash flow. I could go on and on and on. So, this is really about this global leadership, operational expertise, proven track record and long tenure in consumer goods that make us believe that Amit is a great addition to the Kenvue team.

Operator: Thank you. Our last question will come from the line of Korinne Wolfmeyer with Piper Sandler. Please proceed with your question.

Korinne Wolfmeyer

Analyst, Piper Sandler & Co.

Q

Hey, good morning. Thank you so much for the question. I'd like to just touch a little bit more on the tariff impact that you're embedding for the year. And any color you can give us on when that should start to hit the P&L and when we should start to see some of those mitigation efforts really take hold? And then is there any chance, if the tariffs do continue, that the impacts could be fully offset at some point come 2026? Or how are you thinking about that? Thank you.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Thank you for the question, Korinne. So, this is what we have reflected in our guidance for the year. FX helped us with a couple of points in EPS and the rest is estimated to be the impact of tariffs. The net impact of tariffs. So, that's the math. In terms of being able to absorb it in 2026, we're working towards it. We have many actions in place that include productivity initiatives. We are looking for alternate sourcing and we're optimizing our supply chain and we're also working on revenue growth management initiatives, including targeted price actions. But we will only take those in partnership with our retail partners because ultimately what we want to do is protect the brand health. So, that's the plan. And we're working towards absorbing as much as we can this year, and we will see how the fluid situation evolves in 2026 and beyond.

Operator: Thank you. We have reached the end of our question-and-answer session. I would now like to turn the floor back over to Thibaut Mongon for concluding comments.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

Well, thank you all for joining us today for this quarter one earnings update and for your continued support for Kenvue.

Operator: Thank you. That does conclude today's conference. Thank you for your participation. Have a wonderful day. You may now disconnect your lines.

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