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Kenvue, Inc. (KVUE)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Sofya S. Tsinis
Vice President-Investor Relations, Kenvue, Inc.

Kirk L. Perry
Interim Chief Executive Officer & Director, Kenvue, Inc.

Amit Banati
Chief Financial Officer, Kenvue, Inc.

OTHER PARTICIPANTS

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Peter Grom
Analyst, UBS Securities LLC

Javier Escalante
Analyst, Evercore ISI

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to Kenvue Second 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 second quarter 2025 earnings conference call. I'd like to extend a special welcome to Kirk Perry, Interim Chief Executive Officer; and Amit Banati, Chief Financial Officer, as they participate in their first earnings call with us today.

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 materials 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 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 Kirk.

Kirk L. Perry

Interim Chief Executive Officer & Director, Kenvue, Inc.

Thank you, Sofya, and good morning, everyone. We appreciate you joining us today. I'm honored to be speaking with you for the first time as Interim CEO. I've had the pleasure of serving on the Kenvue board since late last year. It is a privilege to take on this new role. It's such an important time for the company.

Our full board is acting with urgency, making changes in leadership, working deep at Kenvue on an accelerated growth trajectory and progressing our comprehensive review of strategic alternatives. I clearly see the opportunity where I can step in and make a difference right away, drawing on my past experiences. With more than 30 years in the global CPG, technology, and data and analytics industries, I am committed to leveraging my knowledge and expertise to make an impact quickly, enabling Kenvue to deliver on its tremendous potential.

During my 23 years at Procter & Gamble, I competed against many of Kenvue's iconic brands, and I bring deep consumer, customer, and operational experience in our categories. During this time, I spent six years working abroad in South Korea and Japan, gaining important insights into what it takes to win across diverse and dynamic markets outside the US. I was also responsible for running P&G's US operations group, overseeing all the North American marketing and US operations teams, deeply integrating into our customer teams to grow and win with our largest retail partners.

I bring a tech-first understanding of the global consumer marketplace from my time at Circana and Google. As CEO of Circana, a global tech, data, and analytics provider for the consumer, retail, and media sectors, I led the team that helped global clients successfully navigate the data and AI revolution. At Google, I was President of Global Client Agency Solutions, where we helped the world's largest advertisers and agencies win in a digital-first world.

My time at these companies shaped how I see the modern playbook for consumer brands, something that has transformed dramatically and rapidly in a data-driven, digitally-enabled world, and something that CPG companies need to embrace to win with consumers and customers. To win, we need to adopt not only the right tools, but the right mindset across everything we do. The reason I'm so confident in the Kenvue turnaround is that I have been part of many over the course of my career.

Probably the single biggest and most dramatic was turning around the baby care business at P&G during the time I was there, where I had the opportunity to lead the Northeast Asia and then the North America businesses. Over a two-year period, we strengthened the performance of a big business that had been losing share for years. By focusing on the fundamentals, we executed with excellence and turned it around.

There has been important progress made in the business since Kenvue was established as a standalone company, with Kenvuers working to transition processes and systems and separate from J&J to create a stronger, tailored business foundation and beginning to achieve efficiencies and cost savings along the way. Of course, with the separation now behind us, we have to find ways to work smarter and be more agile by simplifying workstreams and streamlining decision-making. The focus is on improving our execution and financial performance in order to deliver reliable and consistent results. I am a firm believer that promises made need to be promises kept.

To that end, I'll now turn to some of the key points we want to leave you with today. The Kenvue board has taken a set of decisive actions to enable the company to unlock shareholder value and reach its full potential. The board asked me to step into the CEO role on an interim basis following the earlier CFO transition with Amit Banati joining the company. Amit is here with us on his first earnings call today and is now three months into his role.

Speaking for the board and the company, we are very pleased to have someone with Amit's skills and relevant experiences in this critical role. In addition to these leadership changes, the board has previously initiated a comprehensive review of strategic alternatives and we now have a strategic review committee in place, which I'm a member of, to oversee this ongoing process. We are considering a broad range of potential alternatives, including optimizing the company's brand portfolio.

Amit and I are working closely with other members of the board on this process. We're moving with rigor and urgency to deliver the best outcome for our shareholders and we'll update everyone as the review progresses. I also want to be clear that while the board's work proceeds, we are not standing still and we are actively and acutely focused on improving our operational and financial performance.

Kenvue has an iconic brand portfolio with so much potential. Potential without performance doesn't matter. We need to enable these brands to live up to their full potential faster in a sustainable manner. We will be moving at warp speed to get the business moving in the right direction. In the three weeks since I have been in the Interim CEO role, I have been diligently digging into the business to identify what we're doing well and what we need to change to win with consumers and customers and operate with greater impact and agility. While I'm still in my early days and going through deep dives across the entire organization, I wanted to share some initial observations which have informed our immediate priorities.

There is a significant amount of complexity across the organization, whether it comes to SKUs, brands, or even countries. We can't be everything to everyone and we need to be more choiceful on where to play and how to win. Even when it comes to innovation, by focusing on fewer, bigger, and better ideas, we can execute better and more efficiently. With that said, I do want to acknowledge that in the back half of the year, we have the most robust pipeline of innovation we've had in years.

Second, we should be winning share with our brands, period. To make this a reality, we need to transition to a consumer-centric mindset. The consumer should always be at the center of everything we do. When you do this well, it shows up everywhere, from iconic brand marketing campaigns to breakthrough innovation that drives category growth to organizing everything you do on systems, processes, and structure to delight our boss, the consumer. As an organization, we need to refocus on household penetration, which is key to driving market share.

Deep consumer understanding creates incredible consumer insights that deliver points of difference we can leverage to drive big ideas and needle-moving innovation. We simply haven't done this well enough. When you deeply understand the consumer, you build insights that are the foundation of everything you do. It leads to brand building that resonates and allows your brand to move from consumers liking it to needing it. Then, you build innovation from the insights that delight and reinforce it through marketing.

And last, but certainly not least, flawless go-to-market execution is absolutely critical to our success. Whether it comes to category management, revenue growth management, perfect store, or how we show up online, in particular with e-commerce, executing with excellence is mandatory, not optional. It is something we have not done, but absolutely need to do well everywhere.

Importantly, none of these are insurmountable challenges. Members of our leadership team and I have already run this playbook before, and I'm confident we can do it again. The good news is that over the past few weeks, I've also seen an organization that wants to win. They want us to refocus on fundamentals and make bold choices.

By focusing on the following four immediate priorities, I believe we can reach our goals faster. Our first priority is to strengthen leadership and capabilities. We are pleased that Andy Dasgupta, a nearly 30-year global consumer products industry veteran, assumed the leadership of our Asia-Pacific region in July. With extensive leadership experience in health, nutrition, and food and beverage sectors, Andy has held senior-level regional and global roles across Europe, the US, and Asia-Pacific.

And today, we announced that Michael Wondrasch will serve as our new Chief Technology and Data Officer effective August 25, bringing nearly 30 years of experience at the intersection of technology, digital, and data for global Fortune 100 companies. These appointments complement the many new talents and capabilities we have brought in across the organization to accelerate our marketing, sales, digital, and AI capabilities across our markets, ensuring that we have the right leadership and capabilities in place to improve performance is a critical focus area for me. With these moves, we've appointed four new leaders to Kenvue's leadership team over the past three months, which is one-third of the team.

Second, we'll also take a fresh look at our operating strategy. As I mentioned earlier, our focus will be on making the right choices on where to play and how to win. Unfortunately, what has inhibited our ability to do this well to-date is that we have created self-induced complexity that we need to fix. A few examples. While we have 115 brands in the company, 41 play a role across one or more regions and account for over three-fourths of our sales. We have a long tail of SKUs that make up a significant portion of total SKUs, yet account for approximately 1% of our sales. Finally, we have a robust pipeline of innovation, but far too many initiatives that can be executed efficiently and effectively. We can and we will do better here.

Third, improving execution will be the core of everything. My mentor once told me the only strategy our consumers and customers ever see is our execution. And I obsess over three critical moments of truth in execution. It's when consumers hit the zero moment of truth, which is where they become aware of our brands. The first moment of truth is when consumers find us on the shelves or online. And the second moment of truth is when consumers use our product and decide to repurchase it or not.

Simply put, we need to win with our biggest brands and our biggest customers in our biggest markets. Because when we win here, we win. Our 10 biggest brands in each region account for more than two-thirds of our sales. And our 10 biggest markets account for more than three-quarters of our sales.

Lastly, we'll review ways to optimize our structure and operating model. The limits test here is simple. Does the model we have enable us to make decisions as fast as possible and win with consumers and customers? If not, how do we adjust course to be a simpler, more agile, higher-impact organization? I'm a big believer that lots of different operating models can work if you are laser-focused on enabling the right decisions at the right level with speed and precision. All of these priorities need to work in harmony for us to grow our market share and win in market. So, while it's not a complicated formula, we're determined to get it right, and I'm energized by the opportunities we have ahead.

I'll now turn to an overview of top-line results for Q2 before Amit does a deeper dive on the financials. We faced a tough quarter, and our top-line results were well below expectations. While organic sales declined 4.2%, global consumption grew year-over-year and outpaced organic sales across each segment. Results in self care were disproportionately impacted by unfavorable seasonal and customer inventory dynamics, which masked strong market share performance for the business.

For example, in the US, 83% of our business held or gained share. In analogy, despite the soft season, Zyrtec didn't just strengthen its leadership position but also grew household penetration across both adult and children franchises. In skin health and beauty, while we still have work to do to get back to market share gains and consistent top-line growth, we are encouraged by the sequential improvement in consumption in the US. Neutrogena Face, a key platform for the brand, returned to year-over-year consumption growth in the US during the quarter, with market share trends also improving sequentially. Globally, consumption of our skin health and beauty brands stabilized for the first time in more than a year to yield that growth in EMEA, Latin America, and Asia Pacific.

In essential health, we performed well in Latin America but faced declines in other regions against a strong year-ago quarter. We have stepped up our efforts to increase household penetration for Listerine, and in Q2, launched our global Wash Your Mouth campaign in the US, which has since been activated across other major markets such as Canada, UK, Germany, and China. From a regional perspective, we are pleased with our performance in EMEA and Latin America. Although Q2 results were impacted by external dynamics, ultimately, we did not execute at the level we should have. In light of Q2 results and current expectations through the end of the year, we have revised guidance for 2025.

Now, I'll turn it over to Amit for more on our financial results and outlook.

Amit Banati

Chief Financial Officer, Kenvue, Inc.

Thank you, Kirk, and good morning, everyone. I'm pleased to be here for my first earnings call with Kenvue. While our iconic brands and geographic footprint initially attracted me to the company, ultimately I joined because I saw and continue to be excited about the significant opportunity for value creation as we unlock the full potential of our brands.

Similarly to Kirk, I have extensive experience in global consumer package good companies, having spent more than 30 years working in different countries across the globe, both in finance and operational leadership roles. Equally important and relevant to us today is my strong background in leading businesses through transformation and strategy evolution. Over the past three months, I have immersed myself in the business by conducting deep dives with our teams, meeting with both Kenvuers and external stakeholders to understand our strengths and opportunities, and working closely with our board to advance our ongoing strategic review.

Although it's still early days, I would like to share a few initial observations and the financial priorities that I'll be focusing on, which are closely aligned with what Kirk has just discussed. Clearly, we are not delivering on our growth potential, and our results have not been consistent or reliable. Enhancing operating rigor and discipline will be a key priority for me. We have a significant opportunity to improve our overall integrated business planning process with a particular focus on consumption-driven demand forecasting. Addressing this will be critical to driving consistency and reliability in our results.

Another priority will be driving efficiencies and getting to appropriate peer benchmark levels across the P&L. This will provide fuel for our growth while also enabling us to expand margins over time. While our gross margins are at healthy levels and the company has made good progress over the past years, we can realize further improvements over time by continuing to drive strong productivity across our supply chain through further procurement, network optimization, planning, and digitization initiatives; strengthening our revenue growth management capability with an immediate focus on our top markets and driving margin-enhancing innovation.

On SG&A, recognizing the sizable lift of separation and the fact that Kenvue recently became a standalone company, our costs are above comparable benchmarks. This represents an opportunity going forward, and work is underway to identify additional sources of cost savings as we look to get to levels commensurate with the potential of our brands within the categories and regions in which we operate. While we have increased our investments behind our brands closer to peers, we have opportunities to optimize our spend and drive higher ROI on our brand investments. Work on this is underway as we speak. On cash flow, we have opportunities in working capital. As we continue to transform the supply chain, we expect to see benefits across inventory and payables and improve cash flow conversion.

A key enabler will be modernizing and optimizing our systems, processes, and technologies. Through the separation and TSA exits, the company cloned legacy infrastructure that we are modernizing as we look to drive our digital and data strategies and realize productivity and efficiency opportunities. During my short tenure, it is clear to me that while we have significant strengths, there is also substantial work to do both in support of the review of strategic alternatives and to drive operational improvements that will accelerate profitable and sustainable growth while providing consistency and reliability for investors.

Now, I will provide additional color on our second quarter results as well as the revised outlook for the year. As we shared several weeks ago, in quarter two, organic sales declined 4.2%, which was below our expectations, and I will discuss the drivers shortly. On margins, SG&A savings helped offset the impact of softer gross margins so that adjusted operating margin contracted 10 basis points versus last year to 22.7% with adjusted diluted EPS coming in at $0.29 versus $0.32 in the year-ago period.

Let's dive deeper into our top-line performance in the quarter. Organic sales in quarter two declined 4.2%. While global consumption was positive and significantly outpaced organic sales performance across each segment, this was a disappointing result in what remains a dynamic macro backdrop. In addition to execution being below expectations, there were four other major drivers of our sales performance in the quarter.

First, our categories decelerated sequentially versus quarter one and year-over-year, and our share performance is not where it needs to be. Second, soft allergy and sun care seasons in our largest markets weighed on replenishment orders during the quarter. Third, there was a negative impact on top-line from both trade inventory fluctuations at certain customers in the US across all segments and changes in shipment timing versus last year in China. And lastly, strategic investments in price in the US weighed on value realization. As a result of these factors, both value realization and volumes were unfavorable in quarter two, contracting 0.9% and 3.3% respectively.

Looking at the segments, our self care business was most significantly impacted by the inventory and seasonal dynamics across North America and Asia-Pacific regions. Self care is where we saw the largest gap between consumption, which grew year-over-year, and organic sales, which contracted 5.9% largely due to lower volumes. From a category perspective, while we continued to drive strong momentum on our smoking cessation business as we built on the rollout of Nicorette lozenges across global markets, organic sales declined year-over-year across the allergy as well as cough, cold, and flu and pain care franchises. These businesses were not only impacted by a decline in seasonal incidences in quarter two of this year, but also lapped against an inventory build in China for the 24th season, which as you may recall, ended up being very weak.

In allergy, a reduction in incidence hindered category performance across our two key markets, US and China. In the US, allergy incidences in quarter two were the second lowest on record, with adults' and children's incidences declining 7.7% and 16.9% respectively. Despite these category headwinds, which also weighed on replenishment orders, Zyrtec continued to strengthen its leadership position, gaining both share and household penetration behind excellent execution of a packaging refresh and strong promotional and media support. In China, while the allergy category was also weak, Rhinocort gained share.

Despite top-line softness, self care remains a bright spot when it comes to the strength of our brands and the underlying health of the business. In the US, 83% of our business held or gained share. Our largest brand in self care, Tylenol, continued to gain share as this was the 12th consecutive quarter of share improvement in the US for adult Tylenol. Importantly, Tylenol also continues to be at the forefront of innovation as we leverage and extend this excellent brand equity into adjacent categories. For example, we are adding Tylenol Precise Nighttime to the Precise lineup.

Furthermore, we are also meeting evolving consumer needs as we recently launched the new children's Tylenol Natural Apple Flavor, which provides a new dye-free formula that does not have artificial flavoring.

Turning to skin health and beauty, where organic sales decreased 3.7% versus last year, as value realization and volume declined 2.3% and 1.4% respectively. Solid organic sales growth across EMEA and Latin America regions was offset by declines in North America and Asia Pacific. Encouragingly, global consumption stabilized for the first time since the third quarter of 2023, with similar drivers behind the sizable gap relative to organic sales as I just laid out for self care.

In our largest market, the US, despite weak sun care category performance during the quarter, overall consumption trends continue to improve sequentially, benefiting from the strategic price investments the team implemented starting in quarter four of last year across some of our brands. At the same time, the team's brand-building efforts behind Neutrogena Face and OGX are resonating with consumers as consumption for these two platforms inflected back into positive territory during the quarter.

In fact, the OGX Bond Protein Repair launch has been the number one performing innovation from Kenvue year-to-date and has helped secure additional distribution for the brand. While we are encouraged by these improvements, we also recognize there is considerable work to do to get back on a sustainable growth and shared gain trajectory for the US business. As we continue to focus on turning around this important business and bring new product innovation to the market this fall, we will be agile and disciplined with our investments to ensure they drive strong returns.

Organic sales for essential health decreased 2.4% as volume and value realization contracted 1.8% and 0.6% respectively. In addition to cycling against the strongest comparison of 2024 as essential health registered 7.6% organic sales growth in the year-ago period, similarly to the other segments, there was a disconnect between consumption and top-line performance. This was most pronounced in wound care, which fundamentally is on a good footing as Band-Aid brand adhesive bandages grew share with strong performance from the new product lineup such as Band-Aid Waterproof and Tie-Dye.

We are making progress addressing competitive pressures in women's health in Asia-Pacific and are encouraged by the consumption of our baby care brands. However, we are not satisfied with the performance of our mouthwash business in the US, where despite gaining share online, we are losing share across the total universe, even as the brand continues to deliver strong growth on the premium line. The teams are urgently working through plans to arrest the share decline, which we have slowed relative to last year, through actions we have taken to be more competitive on our base business.

The key challenge our teams are addressing is on our portfolio mix, where we are not playing strongly enough in the fastest-growing mild alcohol-free segment. Our first step is our recently launched Wash Your Mouth campaign, which is showing positive early reads. There are strong marketing and customer activation plans in place to support the campaign and this shift. The new campaign will be coupled with new product launches as a second step, but we do expect that it will take some time to get back to share gains.

Moving down the P&L, adjusted gross margin contracted 70 basis points versus last year to 60.9%. Our supply chain team continued to drive strong productivity, which was more than offset by the headwinds from input cost inflation, unfavorable mix, currency, and strategic price investments. Relative to last year, adjusted operating income declined 4.5%, with adjusted operating margin contracting 10 basis points to 22.7%. We lapped against a significant step-up in brand support in the year-ago period and adjusted accruals for incentive compensation, which contributed to the SG&A leverage in the quarter.

Gross savings from our view forward also continued to track to expectations and contributed to the year-over-year reduction in SG&A costs. Adjusted net income in quarter two came in at $560 million with adjusted diluted EPS at $0.29, including about a $0.01 headwind from foreign exchange. Below-the-line items were unfavorable year-over-year and contributed to the 8.3% decline in adjusted net income. Net interest expense went up about $2 million to $94 million, and the adjusted effective tax rate increased to 26.9% from 25.7% as we lapped a discrete tax benefit in the year-ago period.

We are revising our outlook for 2025 to reflect the year-to-date results as well as our current expectations for the second half, considering the dynamic external environment and underlying business fundamentals. For 2025, we currently expect organic sales to be down low-single digits, with about neutral impact from currency. While we continue to plan for greater contribution from innovations in the back half of the year, we believe a more muted outlook is warranted on the base business, given year-to-date performance, fluctuation in retailer order patterns, and the sequential slowdown in our categories in quarter two.

We are assuming adjusted operating margin will contract versus last year, largely as a result of strategic price investments, fixed-cost deleverage, and inflationary pressures, which we do not expect to be fully offset with productivity initiatives. The tariff backdrop remains very fluid, but based on what is currently in effect, we expect gross annualized impact to be around $150 million and below that in 2025, given the timing of tariffs.

Given the top-line shortfall, we are taking urgent actions to curtail our discretionary spend and accelerate productivity measures. Within this outlook, we plan to continue supporting our brands at a higher level than last year, although you should fully expect us to be much more choiceful in our investments as we are laser-focused on redirecting spending towards higher ROI ideas.

Taking these factors into account and maintaining the same below-the-line assumptions gets us to a full-year adjusted diluted EPS in the range of $1 to $1.05, including a low-single-digit drag from currency. We are not satisfied with our performance in the second quarter and the results we currently expect for the full year. We are committed to moving with speed to improve our operating performance and financial results and are making the necessary interventions to strengthen the business.

And now I'll turn it back over to Kirk for closing remarks.

Kirk L. Perry

Interim Chief Executive Officer & Director, Kenvue, Inc.

Thanks, Amit, for walking through that detail. Our results are not where we want them to be, and we're going to focus on our four operating priorities to drive improved performance. As we move forward, I am focusing the team on where we are doing well, what I'll call glimpses of greatness, so that we can search and reapply proven business-building use cases.

Let me share a few examples. We are leveraging our investments with healthcare professionals through increased and integrated sales forces, stronger sampling, and more competitive claims to drive share gains. Tylenol, which is the number one healthcare professional recommended brand, continues to expand our pain leadership position through impactful brand campaigns and communications, increased total distribution points, and strong innovation.

Another example is our ability to scale successes across geographies through our international Nicorette franchise, which is driving top-line growth for the brand. We continued our streak of seven consecutive quarters of share gains by increasing distribution for lozenge and gum and broader brand activations in top EMEA markets and globally.

Lastly, but certainly not least, we know how to turn businesses around in high-growth competitive markets. Our team in Brazil has done exactly that with Johnson's Baby, the world's number one baby care brand, that elevates precious moments of bonding. By launching consumer-centric innovation, leveraging revenue growth management to improve competitiveness, strengthening ROI on enhanced communications, we just realized our second quarter of year-over-year share growth and reclaimed the number one prescribed brand through strong healthcare professional engagement and increased total distribution points.

I want to wrap up with a few important points. The company's recent performance is below what we believe we can achieve, and the board is committed to taking decisive actions to unlock shareholder value. We're taking a fresh look at the business and providing an updated guidance range today that we are confident in. We've also outlined our immediate operating priorities to get us there. We're focused on having the right leadership. We're focused on flawless execution and faster decision-making to enable and advance the right operating strategy.

Our goal of accelerating profitable growth is not changing. We're just revisiting how we can deliver it. At the same time, a review of strategic alternatives is underway, and the board is considering a broad range of potential alternatives.

I want to close by saying a huge and heartfelt thank you to our more than 20,000 Kenvuers for the warm welcome in my first few weeks and Amit's first three months. Change is not easy, but I love the passion and desire to win that I sense from this organization. I see it, hear it, and feel it. It's an honor to step into this role at this important time. I look forward to keeping you updated on progress in the months ahead.

With that, we'll open up the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Lauren Lieberman with Barclays. Please proceed with your question.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much. So that was a lot of great color, and I just wanted to talk maybe a little bit about timeframe, Kirk, around the idea of we're identifying key operating goals and things we can do upfront relative to the evaluation that's going on and the what to do sort of next in the background. I mean, is it fair to think about – because the complexity piece is a big one when I think about sort of the challenges for the enterprise as a whole. So is it reasonable to think about the biggest brands, the biggest countries, the biggest innovations, focus the dollars there now, do that immediately and up the game, and it's really about evaluating how do we deal with the complexity, the tail brands, the tail countries, the smaller businesses, and that's the big – I guess the biggest element of the strategic review work? Thanks.

Kirk L. Perry
Interim Chief Executive Officer & Director, Kenvue, Inc.

A

Thank you, Lauren. It's good to hear from you again. So at a high level, what you said is absolutely true. We need to focus, and as I mentioned in terms of the number of brands, as an example, the contributory three-quarters of our sales, the long tail of SKUs that make up less than 1% of our sales, great innovation pipeline, but just too many initiatives. So I was thinking about this last night. When I was in high school, our wrestling coach made us wrestle someone two weight classes up to prepare for the season. It was always easier in the match because you were wrestling someone that's much heavier, and I feel like in a lot of ways we're wrestling someone many weight classes above our weight because we built in this complexity.

And so being focused and executing flawlessly on these core things, the biggest brands, the biggest countries, the biggest initiatives to help us grow more quickly is definitely it. I'll give you three examples where I think in terms of executional excellence, we can fine-tune these things quickly to be able to see a difference. One example is we need to be where the consumers are. And if you look at what our business split is between brick-and-mortar and e-com, we're significantly overdeveloped in brick-and-mortar, but we're significantly underdeveloped in e-com. We need to win at e-com. It's growing faster. If we just grow with the category in e-com, we're going to pick up significantly in our businesses because they are growing there. So we can make that pivot, make that shift, do that much better, and hold ourselves accountable for that.

On our initiatives, one example is our Listerine Total Care recent initiative. It's growing significantly faster in the category. We have user-generated content up 245%. [ph] Share a Voice (37:47) is the highest in the category. Dentist and hygienist ranking is number one, yet we're not growing fast enough. We're sequentially improving, but we're not growing positively from a share standpoint. The problem there is a leaky bucket, right? The core has to be strong. So while we're launching and supporting initiatives, we need to make sure our core is strong. So we're going to go through and review and make sure every one of our core brands is supporting our core as well as our innovation to make sure that we grow.

And then the last example, I'll give you an executional excellence so we can get our hands around quickly, is in media or ROI. We are improving, but that's broken down into a couple of components. One is our efficiency from a CTM standpoint, and the second is our effectiveness. What we're seeing is our efficiency is way better because we're investing in CTMs that allow us to get a scale benefit. They're less expensive, but our effectiveness in total is not as strong as it can be.

So the net of that is positive, but if we had our efficiency up and our effectiveness up across our top brands, in our top countries, on our top initiatives, we would be accelerating growth. So those are just a few examples where our execution can be improved, and we will work on that. And the other thing, Lauren, I would be remiss to say is you mentioned the strategic alternatives review. The board and our leadership team have been hand-in-hand on this, and I call this the power at hand. We are going through this strategic alternatives review and making sure that we look at every potential possibility in addition to operating the company better. It's not an or, it's an and. So we need to do both these things well, as Amit said in his comments and I mentioned. We need to make sure we're predictable, reliable, and consistent.

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, and good morning, everyone. So, Kirk, maybe following up on that, you touched on your experience and how that frames your view on kind of the modern CPG playbook. Your commentary on initial observations and priorities were more helpful both in the prepared remarks as well as your response to Lauren. But maybe taking a step back, I'd be curious, when you stepped into the role, what were kind of some of the biggest surprises from your standpoint? And then as we think about the top-line turnaround, as you look at the brands or categories or regions, I'd be curious, where are you most excited about the path forward? And maybe conversely, where do you think improvement may be more challenging? Thanks.

Kirk L. Perry
Interim Chief Executive Officer & Director, Kenvue, Inc.

A

Okay. Thank you, Peter, for that question. So what was I most surprised about when I came in? I would tell you that, and I mentioned this when I had my prepared remarks, I was surprised by what I would call the self-induced complexity that we have created. It's just an inhibitor to be able to move faster, to be agile, and to be able to drive the results we need to drive on the businesses. But I've seen this before. I've experienced this before. And our ability to move quickly to enable the reduction of that complexity is going to be absolutely crucial because we have incredible brands. That was one of the reasons I initially joined the board. And I am even more encouraged by seeing them liven up close.

And Amit mentioned that Tylenol has had 12 consecutive quarters of growth. Aveeno Baby has had nine consecutive quarters of growth. We have pockets where we're doing exceptionally well. So where I'm excited is where we're able to focus, we are able to see results. And I think we've seen sequential improvement in Neutrogena Face as an example because we've been exceptionally focused there. So it's a proof point that we can win there.

We've got one of the challenges we have in skin health and beauty is we have a long tail. And so that long tail makes it challenging when you're focused on a few core elements to get the whole piece moving in tandem together up into the right. But as we get in, as we make our assessments and make choices as I talk about the where to play and how to win, we'll get that right. One of the great things I've seen so far, where am I excited, is what we've been able to do in EMEA and LATAM has been a encouragement because you see where we've been focused, where we have been more focused on the executional elements and getting the details right.

We've been able to win with consumers. We've been able to win with customers and go up and to the right. I think there're challenges, as you've heard from our results. From a regional standpoint, we're most challenged in APAC and in North America, where we will continue to be focused. And as I talked about those executional elements, continue to focus on them and get those pieces right. But I also believe that, like I said, even in the APAC and North America regions, we have those pockets where we're winning. We just have to operate this model at scale, take those learnings, and get them across the majority of the business as quickly as we possibly can to get those proof points that allow us to get that flywheel moving that we need to get moving.

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

Good morning, Kirk, Amit, Sofya. Thank you for the question. I want to go back to the theme of complexity. Kirk, you were at P&G where the turnaround and the reduction of complexity involved actually business divestitures in attractive categories. Proctor divested pet care, fragrances. And the concept there was that because of retail and competitive dynamics were structurally challenged. So if you could discuss kind of like your views of the framework, the board is going to be looking into how to unlock value when you look at, say, skin health where you have the lowest profitability of the portfolio and at the same time you have very tough competitive dynamics that intersect bigger players, shifting retail. So if you can give us – I understand the notion of simplifying smaller things. That is obvious. But I think that at P&G there were other elements, not just cooling, SQ, proliferation. Thank you.

Kirk L. Perry
Interim Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah. Thank you for that question, Javier. And I think the way we have talked about this and we will continue to be focused is our strategic alternatives and our operational excellence work are an and. We're in lockstep with the board on that. And we're going to continue to look at every single value creator that we can. And so that is going to happen. We're not going to obviously comment on any individual business or segment while we do that. But I also know and believe that execution has played a big role in our performance today, our underperformance, and getting that right with strong capabilities is going to go a long way. And you're right in pointing out that there are different elements of the P&G turnaround.

And I think what's very similar is our iconic and resilient brands. And we have incredible growth potential in that portfolio. We've got to get our consumer understanding right that's going to create these product and marketing insights. They're going to deliver points of difference. We've got to translate that into brand-building excellence, which is big ideas, content, and media excellence, digital e-com. We've got to innovate with fewer, bigger, and better. We need to scale those things across our brands and platforms and regions, and then go to market excellence, which is category management, revenue growth management, perfect store. Those are things that we can control.

And I think the important thing, too, is we've been talking to the team and really been focused on what it is that we can control. What we can control is demand creation. That's our job. It's figuring out how to generate those ideas which resonate with consumers that are going to grow our businesses. What we can't control is the macro environment or what's happening because of that individual categories or our retail partners' decision on working capital management and what levels of inventory they carry. We can obviously influence those things. But what we can control is generating demand. And that's what we're going to be singularly focused on in making sure that we do that well.

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

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you, all. And, Kirk, I mean, I appreciate all and you, Amit, as well, how you are shaping this restructuring. But as we think about timing, and I know you can't talk about timing at this point, but thinking about how to measure success in this endeavor. Like you did comment on the success of the Brazilian turnaround and some of the pockets that you pointed out, even in skin health and beauty and in baby. But just to think how you're going to be putting your team accountable for in terms of like how the skin health and beauty obviously was the one that was pointed out as a low-hanging fruit. But it seems like you've been able to turn around some of the pockets there with Neutrogena Face. How we should be thinking as we progress? And you have a CMO who is also looking at improving on that area. How are you going to measure that? And how can shareholders and investors look at either be it Numerator or Nielsen, how we could be seeing like that success, or even Amazon, the data for beauty, how we should be monitoring that progress?

Kirk L. Perry
Interim Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah, thank you, Andrea, for the question. And I think, in terms of measuring success, I mean the ultimate success is going to be determined by consumers voting for us every day at the shelf. And so we need to be holding ourselves accountable for seeing sequential improvement in that vote. And so, like I just mentioned, we can't necessarily control what's happening in a macro environment. What we can control is consumers voting for our brands online at shelf and coming back and buying them again. And so we are expecting, as we fine tune our model. I mentioned earlier what those things are and focus areas for me and what it's going to take to improve.

I think it's making sure we have the right leaders in the right chairs and build the right capabilities. We've appointed new leaders on – four new leaders in the last three months in our business, about a third of our team. We're building capabilities and what I call the modern CPG world in the marketing, sales, digital and AI spaces. We're going to be much more choiceful on where to win and how to win, where to play. We're going to improve our execution. I gave several examples today where we're going to dig in as a leadership team and make sure we are monitoring every one of these pieces, be very, very focused on getting it right quickly and then making sure we have the right operating structure and model so that we give the organization the opportunity to win. But at the end of the day, it is very simple. Are we sequentially improving with consumers voting for us relative to seeing improvement in our share?

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.

Q

Great. Thank you. Good morning, Kirk. Good morning, Amit.

Amit Banati
Chief Financial Officer, Kenvue, Inc.

A

Good morning, Steve.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

So as you run this strategy, prioritize, focus and simplicity, and reducing complexity, I guess kind of two questions are hanging in my mind. If you were to do that organically, question number one is, how big a headwind to organic growth would that be as you reduce the complexity and kind of cut the tail on complexity? Is it just that kind of low-single-digit percentages of excess SKUs that you need to carve out or is there kind of a bigger piece – a bigger headwind to kind of think about to growth, number one?

Number two, from an operational perspective, as you build efficiency and reduce complexity in the operational environment, how should we be thinking about how are you thinking about the need for potential incremental restructuring and the cash costs associated with getting to an end state that you're happy with?

Amit Banati
Chief Financial Officer, Kenvue, Inc.

A

I'd say, Steve, this is Amit here. I'd say, I think it's a little premature to comment on the specifics. I think as Kirk mentioned, right, firstly, right now the board's undertaking a strategic review that's looking at all potential alternatives and it's a broad range of alternatives. So I think – and we'll keep you posted as that review develops. I think there is some operational complexity that Kirk mentioned. We've got a long tail of SKUs that we can address fairly quickly. And so I think we'll get after that. But I think the overall – once the strategic review, as we progress that, I think that'll then inform the choices that we make. And like I said, it's a little premature right now to talk about the restructuring or associated cash costs.

I think just on cash, I think if you see our results on cash flow in the first half, we're ahead of last year. And that's largely driven by timing between last year and this year. But overall, from a cash standpoint, I think despite the call down in earnings, I think our view is that we should be kind of in the same neighborhood as where we were last year.

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. I wanted to ask two questions on...

Kirk L. Perry
Interim Chief Executive Officer & Director, Kenvue, Inc.

A

Good morning.

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Q

...the guidance – the updated guidance that you provided. Maybe first starting on the top line, is the expectation of a continuation of this low-single-digit declines in the back half or could you see a return to positive, a bit modest sales growth? And maybe behind that, what are your expectations in terms of category growth, inventory changes at retail? Are you assuming a continuation of the destocking?

And then second, on the margins, it does imply your EPS guidance has quite a bit of margin contraction, so maybe can you expand a bit of does it come with tariff? Is it more investment that you've embedded in guidance just to give a bit of a shape of the P&L? Thank you.

Amit Banati
Chief Financial Officer, Kenvue, Inc.

A

I think, if you look at – given that we are giving guiding for a low-single-digit decline for the full year on the top line, and we closed the first half at around minus 2.7%. So, the guidance range includes what we basically did in the first half and does not have to improve to be within the guidance. I think if you were to – we do have more innovation, as Kirk mentioned, in the second half, and we know that in quarter four we'll be lapping the trade accruals that happened last year. We'd be lapping the weakness in China that happened also in quarter four of 2024.

So I would say if those two are incremental, we'd probably be towards the top end of the range. And at the bottom end of the range, the assumption is those would not be incremental. I think the categories have softened. We've seen the categories soften in quarter two. And the sentiment of consumers is cautious. So that's kind of what's been factored into the guidance.

Operator: Thank you. Our final questions will come 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 just had a quick question...

Kirk L. Perry
Interim Chief Executive Officer & Director, Kenvue, Inc.

A

Good morning.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

...on Q3 trends. Some of the, I guess, declines you saw in Q2, you touched on this, but can be attributed to the later start in the summer, which did weigh on your seasonal businesses. So wondering if you've seen that pick up in Q3 so far and if so, how much of a benefit do you see in Q3 a result of this shift? Also what are the other moving parts that we should keep in mind? For instance, US retailer inventory destocking, the China supply chain disruptions that are ultimately underpinning your largely flat to down organic sales growth guide in 2H. Thank you.

Amit Banati
Chief Financial Officer, Kenvue, Inc.

A

So I think so far in July, we're seeing similar trends to quarter two. So consumption is ahead of organic sales. I think the seasons are similar to what we saw. So seasons continue to be weak. Now this has been incorporated into our guidance. I think, as I mentioned, we have softer comps in quarter four when we comp the trade accrual as well as the China weakness. So I think those are kind of the puts and calls between the quarters.

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 Kirk Perry for concluding comments.

Kirk L. Perry

Interim Chief Executive Officer & Director, Kenvue, Inc.

Yeah, thank you all for joining, and we appreciate the questions. We know we have work to do on this business, and we look forward to continuing to share with you as we go forward the choices we're making and as we continue to make these choices, improved business results. So thank you, and we will talk to you all very soon.

Operator: Thank you. This concludes today's conference. Thank you for your participation. Have a wonderful day. You may disconnect your lines at this time.