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Company: Kenvue, Inc.

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Participants: Thibaut Mongon, Chief Executive Officer & Paul Ruh, Chief Financial Officer

Moderator: Stephen (Steve) Powers, Managing Director, Head of U.S. Consumer Packaged Goods Research, Deutsche Bank

Steve: Okay, everybody, you could take your seats. The grand finale. Thank you all for joining us. I want to especially thank Kenvue for joining us. Very, very exciting to have with us Chief Executive Officer Thibaut Mongon and Chief Financial Officer Paul Ruh. Because Kenvue and Thibaut and Paul are new to probably almost all of you, we thought we'd just start by Thibaut and Paul just having you guys introduce yourselves a little bit more, about your background, and then we'll have a brief video introduction of Kenvue itself and then we'll use the balance of time for Q&A. So I'll start with you.

Thibaut: Thank you, Steve. Good morning, everyone. Great to be here, I'm Thibaut Mongon, I'm the Chief Executive Officer of Kenvue. Very excited to be here. Believe it or not, it's our first conference since we IPO'd on May 4th. I started my career in consumer goods with the Danone group, then moved to a company in Italy, then joined Johnson and Johnson and I have been in charge of the consumer health sector of J&J since 2019, now called Kenvue post IPO and I'm very excited to be with all of you today. I just landed from Japan where I was joining the consumer goods forums where retailers and CPG companies get together to understand how to make the world a better place. I'm very excited to be here at the other important event we have this week on the calendar.

Paul: Okay, so it's great to be here. Good afternoon, everyone. I am Paul Ruh, the CFO of Kenvue and I have been in the consumer space and building brands for the last 30 years. I also have a passion for building talent and for finance. I've been with Johnson and Johnson for about seven years and now a proud leader of the finance function for Kenvue. So we look forward to engaging with you and look forward to a bright future ahead for Kenvue as well.

Thibaut: And for our debut as a standalone company, we have a short video for all of you to get to know Kenvue a little better.

Video: People have known us all their lives, introduced to us by someone who loves them. Drawing their first bath, taking their first tumble, treating their first blemish, catching their first rays, soothing their first twinge of arthritis. For over 135 years, we've been the driving force behind innovations in human health so fundamental it's hard to remember a time when they didn't exist. Our scientists are never satisfied with the status quo, always searching for new ways to help people care for themselves and those they love. Just ask the health care professionals who recommend our iconic products. We're making a difference beyond people's health, through our Healthy Lives Mission, we're also committed to improving the health of our planet, touching the lives of people each day in 165 countries around the world. We're here for you, wherever you are and whenever you need us. Putting people first, earning trust with science, realizing the extraordinary power of everyday care. We are Kenvue.

Steve: Okay, great. Thank you. Thank you both. I guess I want to start just by reflecting on the very early history of Kenvue the last few weeks through the IPO process and in early, early investor meetings, including at this conference. I guess would love your reaction and summary of investor feedback. What do you think the biggest points of emphasis have been from investors? And are there any early misconceptions that you'd like to get ahead of it?

Thibaut: Sure. So let me start by saying that Paul and I are very pleased with the level of engagement we have seen with Kenvue and certainly during the IPO and since then. I would say we have been very pleased with the level of consistency in the understanding both on the sell side, the initiation reports, but also how investors see Kenvue and the leadership position we have in a very attractive space of consumer health that was not necessarily on everybody's radar as a standalone space, but also where Kenvue has, as you just heard, 135-year history in building strong leadership positions with an amazing portfolio of brands that in many cases are synonymous for the categories they play in. When you have a headache, you don't say, “Oh, I will need acetaminophen.” You say “I need a Tylenol.” And same thing for many other brands. So that was well acknowledged and understood. Also a deep understanding of the unique sources of competitive advantage that position Kenvue well today but also for the future. Starting with the unique relationship we have with consumers that differs from what you can see in traditional CPG companies. We are kind of a unique animal. We are not a pharmaceutical company, we are not a traditional CPG company. Yes, it's all about consumer intimacy, brands taking care of every day care. But we are not in commoditized categories. We are in the business of providing health solutions. So it's all about understanding the science, understanding the health care professionals and navigating a heavily regulated environment. And so that's this unique space that creates a very strong foundation for Kenvue’s performance, and that's reflected in the strength of our financials. And that puts us in a position of strength as we start our journey as a standalone company. So that's, I think, what was well understood for everybody.

If I reflect on the dozens of interactions we had with investors over the past couple of months, I would say two things probably took a little bit longer than I expected for everybody to really understand.

First is the unique nature of the consumer health space. Again, it's not a space that people spend a lot of time understanding and but really this understanding that in consumer health, you really have the opportunity to expand usage occasions. You are not competing for a fixed share of stomach or fixed share of calories or a fixed share of number of times you are having to clean your shirt or clean your home. There is no limit for you to take care of your own health. In this room, all of us probably are not taking care of our health the way we should, and for Kenvue, there is no limit to finding new ways for you to take care of your health. The categories in which we operate are all under diagnosed, under treated, under penetrated, and under understood, if you will, and by consumers. And so that’s what makes this space very attractive, the ability to expand usage occasions to give consumers around the world new opportunities to take care of their health. There’s no limit there. And so that's an exciting space. But it requires some time for everybody to understand that.

The second piece, that took a bit more time, is the understanding of the unique business model we have at Kenvue. We have strong brands. We operate in this fascinating space. And we go after these usage occasions. We expand these usage occasions and the strength of our brands through a unique combination of direct to consumer advertising and health care recommendation. And so this, this dual demand generation effort is very important for us. And you see it reflected in the strength of the relationship we have with our consumers.

When you think about it, most of our brands have been introduced to you – and I hope that many of you are using our brands – by somebody who deeply cares about you and your mother, your father, a doctor or nurse, at a point in your life that was very emotional for you. You were probably not at your best. You were not doing great. It was a first for you. Maybe you were first born, and the nurse give you your first bath with Johnson's baby. It was your first stumble, your first blemish, your first period. These are very emotional moments.

And at this moment in time, we are not introducing our brand to you by pushing it to you through aggressive promotion or advertising. It's somebody else, somebody else you trust, somebody else who cares about you. Who is going to tell you, hey, I know this brand, I know it works. I know it's what you need for whatever you are going through, and it is going to work. And as our products are all science based with high efficacy, you see it's working.

And that's what creates this emotional connection with all brands. And that translates into loyalty and sustained performance over years and decades, and that's what Kenvue has delivered. So these are the two points that I think were probably misunderstood at the beginning and took a bit more time to explain.

Steve: Anything you want to add or that a good summation?

Paul: That's a great summation. The only thing that I would add from a financial point of view, I love the fact that we're broadly based and focused on consumer health because that gives us scale, it gives us efficiencies because we can leverage insights, we can leverage manufacturing. We know the consumer very well from multiple angles. And that to me is also an advantage because it drives efficiencies.

Thibaut: That's the beauty of being a pure play in consumer health.

Steve: Okay. I want to use most of our time to talk about, you know, the business going forward. But I think it's also instructive to take a look back over what you guys have accomplished and your team has accomplished the last three years. So maybe take us back to 2019, and the business that you came in to lead and the thought process about what you kind of knew needed to be done to create Kenvue and the work of transformation that you've embarked on the last three or so.

Paul: So you mentioned that the work that needed to be done to create Kenvue. Back in 2019, when Thibaut and I took the helm of this business, we were not thinking of the creation of Kenvue. We took the helm of the business, and we knew that we needed to make sure that Kenvue, or consumer health of Johnson and Johnson at that point, was competitive and it wasn't there yet. Therefore, we embarked on a transformation journey that took a couple of years along three pillars.

The first one is making sure that we had the right manufacturing infrastructure and organizational structure as well. So we organized ourselves into three segments: Skin Health and Beauty, Self-care and Essential Health. And we also organized the organization around it. At the core, the number two pillar of the transformation is the portfolio, and we have carefully curated this portfolio throughout several years. At the macro level and at the micro level. At the macro level, we're talking about divestitures and acquisitions that led us to the portfolio that we have. And we're very happy with the portfolio that we have.

And at the micro level, we have been doing portfolio rationalization over a period of time to take out what we call the unrewarded complexity. Now we have a simpler portfolio that is much more agile. That heavy lifting is behind us, and it's now primed to continue to perform in a sustained manner.

And last but not least, we supplemented these with capabilities, particularly digital capabilities. When it comes to our marketing investment, about 70% of our advertising is digital now, to give you an example. And also about 60% of our CapEx is employed towards automation and digitalization. So that was the transformation journey that we embarked, as you see back in 2019 to 2021, to make sure that we're competitive, heavy lifting is done and now we're ready to get to the next stage.

Thibaut: So with Kenvue today, you are looking at a healthy business where I would call the open-heart surgery has been done successfully. And now it's about strengthening this position moving forward as another company, but we certainly did this IPO from a position of strength.

Steve: Okay, great. So let's talk about those three segments. They are self-care, which is about 40% of the portfolio, and that's where Tylenol, for example, sits. Skin health and beauty, another 30%, where Neutrogena and AVEENO sit. And then essential health, the other 30% of the portfolio, where Listerine sits. As you look at those businesses, we've seen really strong momentum in self-care for many years carrying right through the first quarter, whereas skin health and beauty and essential health have been a little bit slower growing, partly because a lot of the heavy lifting that you've just mentioned, we're focused on those in those segments. You know, a point of investor question, therefore, is can self-care maintain itself as we as we lap the triple-demic? Is skin health and beauty, and is essential health at a point of inflection where we can extrapolate growth going forward? How do you think about those things and what gives you confidence that the answer to that is yes?

Thibaut: So we feel confident about the future of this business for all the reasons I mentioned, the strength of our brands, the power of our portfolio, the unique sources of a competitive advantage that we have. And you're right, we are organized in three segments, and we have clear strategies for each one of our segments.

Before getting into the details of each segment, I would like to reiterate the importance of and the strength of the portfolio overall in allowing us to deliver sustained performance over time. You know, even when you have externalities that may impact one part of the portfolio. So we are a pure play in consumer health, but we are broadly based across all aspects of consumer health – skin health, self care and essential health. And that, to Paul's point, allows us to leverage capabilities and go to market insights and innovation to deliver sustained performance.

I'll give you the example of children, where we are very strong across the board. You will see products living in self-care with children's Tylenol or Zarbee's. In skin health, like Neutrogena or AVEENO Sun Kids or in Essential Health with Johnson's Baby or Band-Aid but it's one buyer, one pediatrician, one understanding of the interaction between child and parents that allows us to present ourselves as a one-stop-shop for everything you need to know for children's health. And that's a very strong source of competitive advantage that should be well noted by all of you today.

So if we look at our segment specifically, you're right that in the past couple of years our self-care business has tended to outperform the market. And with strong brands like Tylenol, like Nicorette and smoking cessation and so many others. Our skin care brands have tended to underperform the market. You're absolutely right. A lot of this underperformance has been also the impact of the transformation that Paul talked about and the very deliberate and bold choices we have made. Even if it was with a short-term cost of market share, to make sure that we were positioning the company on the right foot for the future. It was also impacted by some supply chain hiccups that we had to face with and in our ability to compete to the full offer of capacity.

So if I think about the future, we see opportunities to grow profitably across the portfolio. Yes, we have a strong base in self-care, and we are not planning to see the same high level of incidence we saw, for example, in Q4 last year. In terms of combined, what we call to triple-demic in the U.S., the combination of strong cough and cold, COVID and RSV, creating very strong demand for analgesics products as an example. We are not planning for it, we will be ready for it if it happens, but we are not planning for it.

But we are focused on continuously improving the fundamentals of this business. And there are many opportunities across self-care to continue to drive penetration of our smoking cessation business. You have 1.2 billion smokers out there that need our help to on their journey to quit. We have just secured an indication for vaping in the UK that gives us an ability to go after all new a segment of consumers who are vaping. But we know that the majority of them want to quit vaping and Nicorette can help them do that. And we are the only ones with an indication in this area. We know that there's opportunities to strengthen education of consumers in making sure that they use the right analgesics, or they treat the allergy symptoms correctly. So ample opportunities for us to continue to grow.

In skin health, there is an opportunity, as we strengthen our execution, as we restore our service levels in skin care, which gives us an opportunity to not only make sure that all our products are on shelf all the time, but also the opportunity and the space to launch meaningful innovation. We would expect to see our skin care business seeing sequential improvements over time.

A good example of that is our sun business. We are the market leader in the U.S. for sun care and here this is a business that was impacted last year by supply chain issues and this year we are back to full capacity. We have launched innovations that has been very well received and you see your business gaining share in a very healthy way in the U.S. So, I hope the sun season will be good, but we are certainly well positioned to take care of it. But we are also to benefit from it. But we also continue the long-term consumer and healthcare professional education on sun care, for example, which is the most preventable way, the easiest way to prevent preventable skin cancer. And so here we have a continuous education program for consumers and in partnership with dermatologists to make sure that we continue to drive household penetration of sun care.

The majority of Americans don't use sunscreen on a regular basis. So that's a huge opportunity for us to drive our business. So these are a couple of examples of what makes us confident in our ability to grow our business consistently over time.

Steve: Great. And one of the themes of the conferences is a concern or an expectation that inflation fatigue is going to drive more consumers to seek more value over time. How does your portfolio perform, you know, in weaker versus stronger macroeconomic environments?

Paul: We have looked back in history at different moments in time where we have seen shocks to the consumer and the economy. And all the way back to 2008, when we had the latest financial crisis or more recently when we saw the COVID pandemic, and we see the resilience of our brands be maintained, that is why it's so important for us to continue to drive the trust in our brands.

They are scientifically based and professionally endorsed. That's why our efforts are to make sure that they are relevant with our consumers, and they are also relevant with our healthcare professional network.

Another manifestation of the strength of our brands and the resilience of our brands in different economic environments is the fact that the private label penetration overall within the category where we compete is around 10%. Some are higher, some are lower. But overall, it has been actually maintained throughout that period of time that I'm talking about. So another demonstration that when we invest in the brands and grow the trust in our brands, that drives resilience over time.

Yes, inflation is here. And we will have a lot of levers to apply when it comes to price pack architecture, when it comes to making sure that we have the right promotional activities, and we will only take the prudent amount of pricing to ensure that we have a healthy, growing business. But at the same time be mindful of delivering affordability and value to our consumers.

Thibaut: That's very important. And that's another manifestation of how unique the consumer health space, if you compare it to other traditional consumer staples categories, you are talking about different consumer dynamics. When you are talking about a solution for your health or the health of your loved ones, you will go with a science based, trusted solutions that have been in your household, in your medicine cabinet for years, for decades, for generations. You will go for the brand that is synonymous with the category. They tend to be our brands. And so the Kenvue brands tend to fare better when times are tough. But we also look at it very responsibly, making sure that our price pack architecture allows us to serve different consumers at different price points. So we continue to be relevant with consumers and credible with doctors.

Steve: Great. Maybe, maybe talk a little bit about your priorities in the U.S. versus your priorities overseas, across the international part of your market. How are those decisions made across the business? And how do you capitalize or prioritize capital?

Thibaut: So let me start by telling you that we see opportunities across the board. As I said at the beginning, the unique nature of our categories is that there is huge space for usage occasions, which gives us the opportunity to expand our business in our large and existing geographies without having the need to go look for opportunities in maybe smaller geographies.

Having said that, we operate in 165 countries, so I don't want anybody to take away from this that we are only present in a small number of geographies. But you should expect our growth to continue to come from our large countries, the U.S. being the biggest one.

So how do we prioritize our investment? We have 15 brands that are the brands in our portfolio where we see the largest opportunities for profitable growth moving forward. They tend to be the go-to brands for additional investments.

We are organized by segment with a segment leader responsible for the strategy of the brands, the innovation, the pipeline for each one of our segments. And then each regional leader has full autonomy to allocate resources depending on what they see in the marketplace to maximize the return on our investment in that region.

And so that gives us the best of both worlds. It gives us of scale and the consistency of a global approach for each segment. But it also gives us the agility and the speed to market with our regional leaders being able to quickly move resources across the portfolio depending on what they see in the business.

You saw that if you are in the northeast of the U.S. this week, it's not a good idea to be out there. So I'm sure that we are certainly not advertising for the great sun care products I just talked about. 70% of our media is digital, so we are able to quickly move our media pressure from one brand to another.

The reason we are able to do it and combine the scale and agility is that we are a pure play. So we don't have to deal with the conundrum that other companies may face in terms do I organize by segment or by region, and what's the best way. For us, it's the same buyers, the same go to market strategies and same capabilities, so we can quickly move our resources around to make sure that we maximize the opportunities. So that's how we go after it.

Paul: And Steve, the second part of your question alluded to capital allocation. Let me go slightly deeper into how we think about capital allocation. So first and foremost, priority number one is to invest in profitable growth of our brands. So we need to sure that we have the right CapEx allocations, and we nurture our brands for the future health of them.

With the profitable growth, we derive strong cash flow generation. 100%+ of cash generation, durable cash flow. And the priorities in that regard are, number one, strong dividends. Out of the gate, we're coming in with a strong dividend ratio between 55 and 65%.

Number two priority is make sure that we de-lever our balance sheet. We started with a cash position that we're comfortable with, with 2.5 X gross leverage, and we intend to bring that down over time.

Number three is M&A, and we will find the right opportunities to do strategic tuck in acquisitions if the right one were to come along.

Don't get me wrong, we don't need M&A to be able to deliver on our growth aspirations, but we certainly have that in place for it in our cash flow to be able to execute if the right one comes along. And we sit at the table of those conversations.

And the last lever that we don't plan to utilize in the short term, it's share buybacks to offset only stock-based compensation. But that's how you should think about our overall capital allocation priorities. Of course, number one is the strong and durable growth of our brands.

Steve: You talked about your growth aspirations. So you've talked about your categories roughly growing 3 to 4% over the long term. And you aspire to grow at least, at least at that level, if not a bit higher.

I guess kind of going a little deeper down the income statement, your gross margins held up better than many companies over the past couple of years. Obviously, some margin degradation but you seem on track to recover here in 23. How do you think about the opportunities for gross margin expansion over the next several years? And then the same thing at the same thing on SG&A. On the one hand, you've got some investments to make this year to set up the company, and then there's growth investments over time to fuel the topline, but do you see opportunities to use SG&A as a point of leverage as well to drive bottom line growth?

Paul: Sure. Let me, walk down the PNL and Thibaut can I'm sure provide some more context around the growth. But in terms of the gross margin, starting at that level, we have opportunities to continue to drive our RGM – revenue growth management – initiatives to be able to offset inflation when it's necessary, but also employ the other levers that will help us maintain gross margin. That includes mix management and also healthy innovation.

And when I mean with health innovation, we think about it in one plus one plus one – accretive to top line, accretive to the bottom line and accretive to the planet as well. So that's how we think about introducing innovation that will help us drive healthy gross margins.

In addition to that, an important point, and that's actually why we've been able, as you well noted, to deliver strong and resilient gross margins is our continued efforts on supply chain optimization and network optimization.

We continue to drive efficiencies. We have optimized our manufacturing footprint. We have given some of our operations both in the U.S. and international, to a third-party distributor that will continue to drive over the medium-term sustained gross margin improvement to the tune of 20 to 30 basis points ongoing going forward.

The same discipline and rigor applies to the SG&A part. Leverage, of course, we will continue to drive growth that will drive leverage. And as we emerge from what we call the TSA – transition service agreements – and as we drive the separation from J&J, we will emerge with a cost structure that is leaner and more fit for purpose. So you should be able to see not only a much more efficient and also effective organization. Plus the hygiene that I talked about before, that has been something of a best practice for us when it comes to making sure that we have the right structure at both the manufacturing and also the organization side.

So you should expect to see a continued sustain gross margin improvement. The same thing at the SG&A side to deliver sustainable growth. It's not at the same level as we did in the past and during the transformation years. That was a heavy lift, and we have a healthy business that will continue to drive sustainable growth in the future.

Thibaut: I would just say that it's how we plan to deliver, sustained performance and strong TSR over the years.

Right.

Everything that Paul talked about, that's what we intend to do. Deliver strong TSR in a balanced way between the smart utilization of the durable cash flow that Paul talked about and the organic improvements of our performance with a continued balance between top line growth and improved profit profitability.

Steve: Okay. A couple of minutes left, and I want to ask about another topic that has been on the top of minds for investors, as Kenvue has been introduced to them, from my perspective, and that's around regulatory risk and legal liability and the somewhat unique positioning of consumer health companies with regard to those considerations.

How do you evaluate the magnitude of these risks and how would I guess, how would you also instruct investors to approach them going forward? Because it is something that as we get more familiar with consumer health companies, specifically, this is somewhat of a new consideration for people to try to evaluate.

Thibaut: That's where your capabilities in science, your understanding of the safety and efficacy of what you bring to market is very important.

That's also where your ability to track consumer preferences as well, and combining these two capabilities into a strong offering is what allows you to be a strong and valuable player in the Consumer Health field.

It's a unique combination of skills and capabilities that we have developed over the century, that's one of the key core competencies we have and sources of company advantage, frankly. So that's how we look at it across our portfolio.

Steve: Okay. Is there, maybe more specifically on the non-U.S., non-North America, exposure to the talc question, you know, how would you evaluate the relative materiality of that as we go forward?

Thibaut: Yes. So that's a very important point you are raising because there are sometimes questions about talc liability. So let me be very clear that anything that is related to U.S. and Canada liability linked to the ongoing litigation there is handled by J&J so zero impact on Kenvue.

As far as the potential liability outside of North America in this particular topic, we're talking about a small number of cases that we do not consider material at this stage.

Steve: Okay, great. We're almost done on time. So I want to I want to give you the final word and maybe sum up for investors in the room and for those listening, what you feel the key takeaways should be as they continue to evaluate Kenvue over time.

Thibaut: Thank you for having us. I think, you know, as we talked about during this short conversation, a couple of thoughts, I would leave you with. First, consumer health space is a great space to be in. It's a large space. It's a growing space, with unique dynamics and a unique ability to expand usage occasions and that makes it an exciting space to be in.

In this space, Kenvue is the largest pure play company with 135 years of experience in and skills, unique sources of competitive advantage, amazing portfolio of brands and a healthy financial foundation. And so we have everything we need to capitalize on the opportunities we see in the in the consumer health space and to deliver sustained performance over time, in a sustained way, and in a balanced way, between the different levers that we talked about today. So that's what Kenvue is all about.

Steve: Great. I want to thank you, especially for flying in from Kyoto. You are remarkably lucid and energetic for someone who has done that. And Paul, I want to thank you as well.

Paul: Thank you, Steve.

Steve: And thank all of you for listening in.

Thibaut: Thank you, Steve. Thank you all.