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Kenvue, Inc. (KVUE)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Kenvue Third Quarter 2024 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. 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 materials related to this call posted on our website and our filings with the SEC.

During this call, we will also 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 those US GAAP measures can be found in this morning's press release and our presentation available on the IR page of Kenvue's website, www.investors.kenvue.com.

With that, I'll pass the call over to Thibaut.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

Thank you, everyone, for joining us today. First, I'd like to welcome Sofya Tsinis as our Head of Investor Relations. Many of you know Sofya. She brings over 20 years of experience and expertise in both investor relations and equity research in the consumer product sector. And we are pleased she is now part of the Kenvue team.

In the third quarter, we delivered year-over-year organic growth of 0.9% on top of 3.6% last year. Despite the softer top line that we are actively addressing, we delivered another quarter of strong productivity and efficiencies, funded our investment in our brands and generated adjusted diluted earnings per share of \$0.28. Throughout the organization, we are fundamentally and rapidly transforming our ways of working to unleash our full potential and fulfill our commitments to create long term shareholder value.

Leveraging our entire portfolio of iconic and trusted brands, we are activating our new Kenvue playbook to strengthen our presence and prominence in-store, reach more consumers directly and through healthcare professionals and amplify our innovation in a more impactful way. Self Care and Essential Health are already benefiting from this new way of working. In Skin Health and Beauty, while we are not yet where we want to be, we are advancing these focus areas to improve our growth trajectory and I will get into more details about the early results we started seeing in a minute.

This playbook is powered by the increased marketing investment we discussed with you earlier this year. For 2024, we are on track to invest approximately 20% more than we did last year through advertising, healthcare professional engagement, in-store prominence and direct consumer engagement with an increasing focus on social media marketing powered by analytics and AI.

Not only are we investing more, but we are also improving the efficiency and effectiveness of our marketing spend. For example, we announced in August the creation of our new Global Content Factory, the production agency ecosystem we will leverage to drive relevant content in each market while reducing our costs. We are funding these marketing investments by driving productivity and efficiencies in our business. In Q3, we delivered another quarter of strong adjusted gross margin expansion of 130 basis points versus last year.

In addition, as we rapidly transform our organization, we are also starting to see a decline in non-marketing-related operating expenses. We have now exited nearly three quarters of our TSAs and remain on track to fully exit these agreements by mid-2025. As we unwind these TSAs, our teams continue to find better, simpler and more cost-effective ways to operate as an independent company. We are also on track to deliver \$350 million in annual savings by 2026 through the Our Vue Forward initiative as we continue to modernize our systems and optimize our organization. Combining these two programs, we are making rapid progress in becoming a leaner, more agile and fast moving consumer health organization with a more efficient cost structure, which in turn, allows us to invest in our brands at more competitive levels, build new capabilities and deliver on our income commitments.

Now, looking at the key highlights of our performance this quarter. Around the world, we see that consumers continue to prioritize taking control of their own health and are looking for convenience and value. In Self Care, our largest segment, organic sales grew 0.7% in the third quarter, in line with our expectations as we lapped a strong year ago comparison of 6.7% growth. In a quarter where we saw volumes impacted by continued low incidence of allergy and pediatric fever, Self Care once again outperformed the market. In the US, we continue to strengthen our number one positions in pain and allergy with both Tylenol and Zyrtec once again growing share in both value and volume this quarter. This was the 9th consecutive quarter of share gain for Tylenol and the 13th consecutive quarter of share gains for Zyrtec.

We are rapidly expanding distribution of our recently launched Tylenol Easy to Swallow across key retailers and are amplifying this innovation with increased advertising spend and an impactful omni-channel approach with our Greatness Hurts campaign. As a result, Tylenol Easy to Swallow is already the number one performing innovation in adult internal analgesics across the US and is bringing new consumers to the brand.

Outside the US, our Self Care portfolio continues to gain share as well. For example, we continue to win with Nicorette. In the UK, we drove mid-teens growth in Nicorette QuickMist as a first and only nicotine replacement therapy marketed to aid both smoking and vaping cessation. In addition, we are building on this momentum with the relaunch of Nicorette Lozenge, with a new claim of fighting cravings in just 2 minutes. With this multipronged approach, we're not only strengthening our global leadership position in smoking cessation, but are also expanding the category to vaping cessation.

Essential Health continued to perform well, driving volume growth for the second quarter in a row. We delivered organic growth of 4.5% in the third quarter on top of 3.8% last year, with broad based growth across all categories and all regions. Here as well, we are advancing our priorities to drive sustained growth. For example, in Oral Care, this was another strong quarter for Listerine with high single digit growth globally. We are driving this growth by expanding distribution at our top retail partners and enhancing our in-store prominence with impactful displays, especially with our latest innovations like Listerine Clinical Solutions in the US. In addition, we are reaching more consumers, increasing our media spend and partnering with digital creators to generate engaging content on social media that highlights the superiority of Listerine in a consumer relevant way.

Similarly, we see the positive impact of our new ways of working with BAND-AID in the US, where we drove mid-single digit growth behind the success of our latest innovation BAND-AID PRO HEAL. This superior product has been clinically tested to improve wound healing by 60%. And here as well, we expanded distribution at our top retail partners, increased media presence with the return of the iconic BAND-AID jingle and have generated strong traction to date with BAND-AID PRO HEAL accounting for more than one-third of the brand's growth.

In Skin Health and Beauty, organic sales for the segment declined 2.7% year-over-year. In the US, our playbook is not yet delivering the results we want to see and the pace of recovery was hindered this quarter by muted sun season and decelerating Skin Care category dynamics. In China, the consumer backdrop, as many of you know, remains challenging. While addressing these headwinds is short term, we are also moving at pace to strengthen our underlying Skin Care expertise by building a world-class team and by partnering with the best leaders in the industry, two key enablers to improve and sustain higher performance in these segments.

This week, we welcomed Andrew Stanleick to Kenvue as our new Head of Skin Health and Beauty for North America and Europe. Andrew is a seasoned and accomplished leader with a strong global track record in building brands, successfully leading turnarounds and accelerating growth with a deep understanding of how to win in Skin Health and Beauty.

We are also creating powerful partnerships with highly influential leaders in Skin Care. Last week, we announced a breakthrough collaboration between Neutrogena and two of the world's most recognizable dermatologists, Dr. Bhanusali, a renowned skincare innovator and Dr. Shah, the most followed dermatologist educator worldwide with over 20 million social media followers across key social channels and over 550 million likes on TikTok. The objective of this multiyear partnership is to strengthen the brand's innovation and create more engaging and authentic communication while expanding and accelerating our dermatologist engagement. These are two foundational steps in the right direction for the segment, with more to come in the future.

Europe continued to deliver strong performance during the third quarter, growing double digits and demonstrating the power of our playbook in this segment. Sales growth was balanced between the volume growth and value realization, driven by new product launches, solid brand activation plans and distribution expansion. For example, we rapidly increased our in-store presence with the deployment of nearly 5,000 Neutrogena brand blocks across pharmacies in France and Spain. And we significantly amplified our reach to consumers with an enhanced influencer strategy in these countries. And in the UK, Aveeno became one of the fastest growing face care brands with strong in-store execution and a viral campaign with celebrity Molly-Mae Hague.

In the US, we did not see the overall sequential volume improvements that we were expecting, with revenue for the segment declining year-over-year. However, we are encouraged by the early signs of sequential recovery in the areas that we have prioritized thus far. For example, in Neutrogena, we have put concerted effort behind strengthening in-store performance for our two largest platforms, Face and Sun, which account for about 80% of the brand's sales in the US. And we are starting to see initial progress in brick and mortar track channels. In Face, while still down year-over-year, Neutrogena gained 40 basis points of share sequentially since the new face care planograms were put in place midway through the quarter. And in September, Neutrogena regained its position as the number one face care brand in this channel.

In Sun, despite the muted season, we strengthened our number one leadership position and outperformed the market this quarter as Neutrogena gained 20 basis points of share in the same channel. We see these improvements as early evidence that our Kenvue playbook is starting to generate results in Neutrogena.

In distribution, while we see further opportunities for improvement, we are making progress. Shelf resets are now complete for this year, with Neutrogena benefiting from increased point of distribution at some retailers, improved shelving and navigation at others and broad distributions for our latest innovations, Collagen Bank, acne patch for sensitive skin and our new Ultra Gentle cleansers.

In addition, we have doubled our professional sales force and are now reaching significantly more dermatologists and it is working. Neutrogena has now reached its highest level of average recommendations by dermatologists for face care in the last four years. These are investments for the long term and the strong signs of future revenue potential.

Importantly, we are reaching more consumers with our increased marketing investments and continued pivot to social platforms such as TikTok and Instagram. For example, we are supporting our Collagen Bank innovation through an impactful campaign targeting Gen Z consumers with celebrity Hailee Steinfeld. This social-first activation has generated more than 800 million video views to date. These actions are starting to drive sequential share gains in the pockets of our Neutrogena business that we have prioritized thus far. But let me be clear, this is still work in progress and our teams are working diligently on both amplifying this Neutrogena green shoots and building the same momentum across the balance of our Skin Health and Beauty business.

As I've said all along, the recovery of our US Skin Health business will not happen overnight and will not be linear, but we continued to work to make fundamental changes to this business with new talent, new partnerships and a relentless focus on executing our new playbook with precision.

At the beginning of the year, I told you that you would see a new Kenvue in action as we transform from a division of a large organization to being an independent, pure play global leader in consumer health. Our transformation is well on its way, and we already started seeing improvements in parts of the P&L, but we are not yet seeing the full impact in our top line. Our 2024 growth rate is tracking towards the low end of the range we shared with you at the beginning of the year due to both the pace of the recovery in Skin Health and Beauty and softer category dynamics in the back half of the year in both Self Care and Skin Health and Beauty. At the same time, we are ahead on our productivity initiatives, which in combination with our cost savings programs, are fueling an acceleration in brand investment for future growth while still enabling us to deliver within our adjusted diluted earnings per share outlook for the year.

In parallel, we are making sure we are building the right foundation for sustainable performance. We are advancing our Healthy Lives Mission. You may have seen our improved MSCI score from BBB to AA. Also encouraged to see that every day our teams around the world demonstrate their unwavering commitment to transform our company and advance our key priorities of reaching more consumers, investing more behind our brands and building a culture of performance and impact. This makes us confident that we are on our way to generate sustainable and profitable growth and drive strong value creation over time.

With that, I will turn it over to Paul.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

Thank you, Thibaut, and good morning, everyone. Our third quarter organic growth was 0.9%, driven by value realization across all segments and volume growth in Essential Health for the second quarter in a row. Overall volumes declined 1.6% year-over-year driven by Self Care and Skin Health and Beauty. Value realization contributed 2.5% organic growth with balance contribution from carryover benefits and incremental value realization actions taken this year. While we expect both price and mix to continue to contribute to growth, we expect volumes will play a bigger role in our growth algorithm going forward.

Taking a closer look at our segments. Self Care organic growth was 0.7% year-over-year, in line with our expectations as we drove continued share gains across the segment with particular strength in Pain and Allergy. Value realization contributed 1.8% of growth driven by carryover benefits and incremental pricing actions taken this year. This was partially offset by a volume decline of 1.1%, primarily due to softer incidences in allergy and pediatric fever, as well as some retailers reverting to historical order patterns in cold, cough and flu instead of stocking up ahead of the season. Smoking cessation once again had a strong quarter overall.

Moving to Essential Health, once again, Essential Health grew across all categories and all geographic regions, generating organic growth of 4.5%, in line with our expectations. Value realization was 3.7%, driven mostly by carryover pricing, selective price increases outside the US and mix benefits from innovation such as Listerine Clinical Solutions. For the second consecutive quarter, volume grew year-over-year, coming in at 0.8% during the third quarter.

And for Skin Health and Beauty, organic sales declined 2.7%, with a 4.7% volume decline, partially offset by 2% of positive value realization driven primarily by carryover benefits. As Thibaut mentioned, the pace of recovery in the US slowed in the quarter, underlining our need to strengthen the impact of our actions against an increasingly

dynamic environment. We continue to diligently strengthen our teams and capabilities to fully and effectively deploy our new playbook.

Moving now to adjusted gross margins. Our operations team continued to drive meaningful productivity improvements, which in combination with favorable value realization and a non-recurring separation related benefit, resulted in a year-over-year expansion of 130 basis points to 60.7%. In fact, we have improved adjusted gross margins year-over-year during the last five quarters. We're laser focused on fostering a culture of efficiency and operational discipline, and you can see the productivity benefits in our adjusted gross margin this year. Our teams are relentless in driving procurement savings, extracting efficiencies through process automation and leveraging digital upgrades that increasingly provide real-time analytics, helping optimize logistics and demand management. All in, the 60.7% adjusted gross margin level in the third quarter, while slightly ahead of our expectations, but directionally aligned with the lower sequential progression that is typical in the second half of the year. As a reminder, the fourth quarter is typically our lowest gross margin quarter given the timing of our annual plant maintenance.

Turning to adjusted operating margin, which was 22.1% in the third quarter. It reflects strong gross margin improvement and initial benefits from Our Vue Forward, which were more than offset by our decision to increase our marketing investment this year, which is a key driver of our playbook. Our teams have successfully exited hundreds of TSAs with our former parent company without the operational disruptions that often accompany separations. As of today, we have exited approximately 70% of our TSAs and are on pace to exit all by mid-2025.

The Our Vue Forward initiative is tracking to plan on efficiencies. Our Vue Forward equips us to operate more effectively and ultimately, more competitively as we eliminate redundancies, reduce layers of hierarchy to drive faster decision making and implement new systems and automation to strengthen our capabilities in areas such as consumer insights and forecasting. We continue to expect adjusted operating margin in the range of 21% to 22% in 2024, which factors the benefits from Our Vue Forward and our supply chain efficiencies and the increase in brand activation investments.

Closing out the P&L, net interest expense for the quarter was \$96 million. Given our year-to-date trend, we believe this is our current quarterly run rate and thus, expect interest expense for the year to be approximately \$380 million. For taxes, the third quarter adjusted effective tax rate was 28.9%, a bit higher than planned, primarily due to shift in jurisdictional mix of income and an increase in non-deductible costs. As such, we now expect our full year adjusted tax rate to be in the range of 26.5% to 27%.

And finally adjusted net income was \$542 million for the quarter and adjusted diluted earnings per share were [indiscernible] (00:21:51).

Now, to summarize our expectations for the full year 2024. As you heard from Thibaut, we expect organic growth towards the low end of the 2% to 4% range we shared with you in the beginning of the year due to both the pace of recovery in Skin Health and Beauty and softer category dynamics in the second half of the year in Self Care and Skin Health and Beauty. As it relates to cold, cough and flu, at this point, we're tracking towards a late start to the season given the levels of incidence we have seen so far. We are assuming foreign exchange will be a headwind of about 1% for the full year. And for adjusted diluted earnings per share, we are confirming a range of \$1.10 to \$1.20 as we see stronger than planned gains in productivity and efficiencies offsetting the impact of a softer top line, fueling the acceleration in brand investment for future growth and allowing us to deliver within our adjusted EPS outlook for the year. We plan to exit this year of profound transformation with healthy Self Care and Essential Health segments, benefiting from our new playbook as well as the Skin Health and Beauty segment showing signs of stabilization in important parts of the business. All this powered by the leaner, more agile and

fast moving organization with more opportunities to free up resources and increase investment in our brands. This makes us confident that we are on our way to drive strong value creation over time.

Thank you, and with that, we will take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] One moment, please, for your first question. 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

Thank you. Good morning. I guess I had a question on your updated organic sales growth guidance. Although it's now lower, it does still imply a decent step up in Q4. So I was hoping for a little more color on the drivers of this. For instance, have you seen your shipments in October improve versus Q3? And I guess I'm thinking about that in the context of maybe a little bit more of a more normalized flu and cough purchasing cycle. I guess ultimately, I'm trying to understand the visibility you have in light of the US consumer and global macro pressures. Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah, good morning, Bonnie, and thank you for your question about our updated guidance. So as you remember, the guidance that we provided at the beginning of the year contemplated a number of different scenarios. From an organic growth point of view, from a revenue point of view to start with, we are seeing several factors that are not helping externally. We talked about the slower category in allergies and pediatric fever we have seen so far. The deceleration in the category – the Skin Health category that the whole industry is seeing. The consumer remains cautious in China and your question about Q4, so far, we are seeing a late start to the cold, cough and flu season. So that's certainly not helping. Having said that, we have things to do internally and especially in Skin Health and Beauty, as you heard in my prepared remarks.

Regarding Q4, we continue to expect Q4 to be our strongest growth quarter for the years – for the year and two reasons to that. The first one is that we see – we start seeing the cumulative impact of our new Kenvue playbook in action. And you heard many examples of that in the prepared remarks. The second reason is that, we are having easier year-over-year comparisons in the fourth quarter. Two elements that negatively impacted Q4 last year are not repeating this year, the destocking and the portfolio rationalization we had last year. So these are tailwinds for us this year.

Two other elements that negatively impacted Q4 last year are now part of the base with no comp benefits this year. The situation in China, but also, the flu season where we see so far, both years comparable in terms of level of low incidence and the fact that we are seeing a slow start to the season. So that's how we see the fourth quarter and what guides our thinking in terms of revenue growth. Paul, do you want to give some color on the EPS?

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Thank you, Thibaut. I agree with you completely on the top line. And despite this backdrop, on EPS, we are very confident in our ability to deliver towards the middle of our \$1.10 to \$1.20 guidance range for the full year. And this is despite the investments that we're doing to activate our brands at stepped up levels and we're maintaining that. And that is fueled by the ongoing productivity improvements that we have been delivering and continue to expect to deliver and it is both in the gross margin line and also through Our Vue Forward program with efficiencies being realized and we will continue to realize them going forward as well.

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. Thank you so much for the question. I was wondering if you could frame the most recent trends for Skin Health and what would you say are sort of the first initiatives for Andrew in his new role? And also if you can provide just how much of a drag China was for Dr.Ci:Labo? It sounds like maybe this was a little bit incrementally weaker sequentially. Was wondering if you could clarify? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yes. Anna, so on Skin Health and Beauty, the external environment is certainly not helping in the back half of the year. We had a slow sun season. You heard it from everybody. Sun Care, which is an important business for us, did not contribute to growth as much as we would expect in a normal year. And throughout the third quarter, we started seeing a deceleration in the Skin Care category in the US, something that, by the way, we expect to continue into Q4. And to your earlier point, we see continued softness in Asia. So the three elements combined are clearly slowing us down.

Now, there are also things we know we need to do better internally, right. And it's really applying the playbook, executing the playbook consistently with precision and at scale across the portfolio, continuing to secure more distribution, strengthening our in-store prominence, making sure that our marketing campaigns drive stronger conversion and that's what our teams are focused on. And so what are we doing differently in the back half of the year on top of implementing this playbook? First and foremost, we are strengthening the team. We are bringing new talent skills and capabilities. You may remember that we are moving next year to Summit, New Jersey with our new headquarter. It's also an opportunity for us to build a new Skin Health and Beauty Center of Excellence with our teams co-located, marketing, R&D, operations to – with new skills and capabilities in Skin Health. And us welcoming Andrew this week is the latest addition to this team.

We are also augmenting these internal capabilities with external partnerships. And you saw last week another example of that with our partnership with Dr. Bhanusali and Dr. Shah, with the objective to strengthen innovation and communication on the Neutrogena brand specifically. And you will see the continued improved augmentation in our campaigns. So that's what we are focused on.

Your question about our new leader for North America and Europe, Andrew, who joined us recently. We are happy to have Andrew join the team and augment our internal skills and capabilities. Andrew brings two decades of experience, a strong track record in growing brands, turning around businesses, moving transformation agendas. He has a deep expertise in Skin Health and has a deep understanding of what it takes to win in the mass and masstige Skin Health and Beauty markets in the US. So together with Charmaine, our Chief Growth Officer; Jan, our leader for North America; and the whole team, Andrew and everybody will amplify the green

shoots we see with Neutrogena and build the momentum across the balance of our Skin Health and Beauty business.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

And, Anna let me answer your last question, which is on DCL. On DCL, last year was – in Q3, it was the beginning of where we experienced the anti-Japanese sentiment in China. So, we are lapping that, it's not material – was not material in Q3 and will not be a material factor in Q4 as 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. Good morning. I was hoping to see if you can elaborate a little bit more on what are the green shoots you're seeing and how Andrew is going to amplify, as you pointed out, Thibaut, the initiatives that you have been putting together? Understandably, you have a backdrop of a deceleration in Skin Health and Beauty, but thinking of the innovation that you put together and you will be putting for a while now more digital investments and thinking about how much that increased A&P that you announced in the beginning of the year will translate into an accelerated improvement there? So anything you can give us in terms of timing when we should be expecting this to materialize?

And for Paul, given the commentary you expanded a bit on the prepared remarks on the TSAs getting – and the TMAs getting out. Just wondering where we should be thinking – if you can update us with the savings that we have seen so far and how margins should evolve from here? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

All right. Good morning, Andrea. And so let me start with the question and then I will hand over to Paul. So your first question is about the green shoots, how are we going to amplify them and the impact of our investments? So if you take a step back, this year, we are profoundly transforming the way we operate. We are changing our ways of working and we are increasing our investment. And we do that across the portfolio. And we are pleased to see that our Self Care and our Essential Health segments are already responding well to this new playbook, with very strong share gains in Self Care and two quarters in a row of volume growth in Essential Health. In Skin Health and Beauty, we are also applying the same playbook, but we are disciplined in prioritizing how we are going after our recovery plan. And we have decided to focus on – to start with the biggest areas. If you take Neutrogena, it's Sun and Face and it's the in-store execution and that's what makes us confident that the playbook starts working is that where we started implementing our new playbook so far, we are seeing green shoots.

So I'll give you a couple example. We invested in strengthening our presence with dermatologists, and we see a strong response in terms of recommendation by dermatologists. And we are now back to where we were four years ago with face care. So that's really encouraging. In terms of in-store execution, it's an area where we have focused a lot of energy and it's good to see that since the planogram – where new planograms were put in place, approximately mid-August, so halfway through the quarter, we see Neutrogena Face going back to number one position in the US in September. And by the way, we see that continuing in October. So we now have eight weeks behind us of Neutrogena Face being back to number one position in brick and mortar track channels. So that's very encouraging.

Same thing from a direct-to-consumer marketing and the effect of our marketing campaigns, our pivot to social media, our partnership with celebrities, it's clearly working in having us connect in a much more effective way with a younger audience and Gen Z consumers, which is also a focus area for us. You heard me talking about the 800 million views to date on Neutrogena Collagen Bank. The same thing is happening on OGX. We have, I think, 1.2 billion views with our OGX relaunch campaign with Demi Lovato. So that's working. As I said, early days, but that's an encouragement for us to continue in this direction and do more. So, that's exactly what the team and Andrew will play a big part in there, what the team is focusing on.

How do we amplify these green shoots, making sure that they are executed with even more precision at a larger scale and are not limited to Neutrogena Face and Sun, but are amplified across the rest of our Skin Health – Skin Care portfolio as well. Paul, do you want to take the second one on TSA and TMA exits?

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Of course. Andrea, good morning. So on TSAs, let me step back. TSAs, we're exiting them on track. I feel very pleased that we have not encountered any operational disruptions. So thank you, team for doing that with excellence. And remember, the TSA exits will not necessarily allow us to exit in an optimized manner. That's why we have Our Vue Forward program. We are going to realize a few benefits, but given the time limitation we have to exit TSAs, by the mid-next year, it's not necessarily an optimized exit. That's why we have Our Vue Forward program and we're tracking well. We announced it last quarter. We have started to realize some of the benefits of the Our Vue Forward program. We are on track to deliver the \$350 million savings by 2026. We will be seeing the full impact and it's not only about effectiveness, efficiency as well and finding new ways of working in a leaner, more agile manner.

Specifically on savings, what actions we have taken? We have taken a lot of the functional actions, procurement actions as well and largely, some of the org actions we have already taken as well, but we will continue to progress throughout the balance of the year and into 2025 as well.

Your question is also around the impact to margins. We are starting to see some of the benefits of both, particularly, Our Vue Forward and we expect to see the full impact more towards 2025 as we will continue to be fueled for incremental marketing investments as well. So we are not there where we want to be from a competitive perspective in terms of investing behind the brands, and the fuel that we get from Our Vue Forward, TSA exits and of course, gross margin expansion, will allow us to continue to invest and deliver on our algorithm as well. So that's how I see things. Good progress so far and we will continue throughout the balance of the year and into next year as well.

Operator: Thank you. Our next questions 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 and hope you're doing well. So, Thibaut, you kind of mentioned the two key reasons for weaker growth this year is kind of the weaker US category trends and kind of the slower recovery in Skin Health and Beauty. And I guess as we look forward here, I guess, I totally understand some of the one-offs you're going to be cycling in 4Q, that would put organic growth more in line with the long term algorithm. But just as you look out to next year, I'd be curious how you're thinking about the potential for weaker

category growth to persist and maybe for long recovery in Skin Health and Beauty to really impact your ability to return to on-algorithm growth? I know, we'll probably get 2025 guidance in a few months, but just curious as based on where things stand today, would you anticipate some of these headwinds persisting into next year? Thanks.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Peter, good morning. This is Paul. So thank you for the question. We're not going to talk about 2025 today. Look forward to our conversation in the future, but I can tell you that 2024 has been a year of profound transformation. We're very pleased with the progress we've made so far, and that transformation will also continue into 2025. The transformation will allow us to accelerate our top line growth from this year and grow at a faster pace than we are doing this year. Income will grow faster than sales and that's part of our algorithm, and we will continue to invest in our business. We're not at the competitive levels yet, as I mentioned. So that is part of our algorithm that will drive acceleration in top line sales. And of course, from a cash perspective, we will continue to return cash to shareholders with attractive dividends. All that is part of our shareholder returns.

Specifically, in terms of categories, we are monitoring performance of our categories. We contemplate a variety of scenarios. In the case of seasonal businesses, particularly in Self Care, we're seeing more a trend towards normalization. We will assess what that means in terms of normalization, but is certainly some of the factors that we're going to be considering as we think about 2025. We do believe that 2024 has become a little bit of a new base. And from there, we will assess how things will continue to work. And on top of that, we'll continue to – we will deliver in 2025 and beyond on our algorithm.

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

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning, everyone. I wanted to ask a question on retailer inventory levels. Some of your peers have talked about retailers being more cautious with their inventory ordering patterns, particularly in the Skin Care category. So I was wondering if you saw any impact in Q3 and what are your expectations for Q4? And then specifically for the drug channel, given the importance of the channel for your business, are you seeing any impact from the recent store closures from some key customers and how should we think about that potential impact into Q4? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Okay. Good morning, Filippo. So let me take the first one on inventory level. If I look around the world, in the US, we believe inventory levels are on the low side. If you remember, we had some destocking in some channels in the first half of 2024 that did not continue into the third quarter and would not expect that to continue – to happen in Q4 either, given the low levels of inventory we see across channel. In general, in – around the world, we see more cautious ordering patterns in Self Care categories given the low levels of incidence and we would – we have seen that in Q3. Would certainly continue to see that in – happening in Q4 until the season happens, but we are clearly in a post-pandemic – post-COVID world where supply chain are stable. And so we don't see retailers stocking up ahead of the season and they are going to wait until they see demand pick up to order what they need. And as you heard from Paul and I so far, we have not seen levels of incidence moving in the direction of the

peak. For those of you who live in the Northeast, you certainly have seen that we had a good weather so far. So net-net, I would expect us at Kenvue to exit 2024 with a healthy levels of inventory around the world.

Your specific question on the drug channel, I believe it's in the US, drug and pharmacy although is a strong channel for us worldwide, is doing very well outside of the US. In the US, the drug channels indicated the decline in traffic coming off the pandemic highs. There has been recent announcement regarding future footprint consolidation. That has not happened yet. And so we work very closely with our customers to make sure that we offer the right assortments to their shoppers. And so we will continue to work very closely with our retail partners when they move on with their consolidation plans.

Every time a store closes, you see a short term impact as the inventory present in this store is redistributed into other stores. And so you may see a short term impact when a store closes, but over time, it certainly does normalize. We do not sell discretionary products at Kenvue. By and large we sell products you need and you are looking for, for very clear reason. And so if you cannot find your product – our products in one store, we usually see consumers going to another store to get the brand they trust and need.

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 and good morning. Paul, your initial comments on 2025 were helpful. I wanted to sort of drill down and link it back to what Thibaut was talking about with respect to Skin Health and Beauty. In that business, you've talked about the signs that the playbook is working in green shoots, which is great. On the other hand, the market backdrop is choppy. You're still sort of in the earlier sort of innings, I guess, of a real full turnaround in Skin Health and Beauty. Andrew just arrived, for example. So I guess just as you think about 2025 in the context of that business, is the mentality and the objective that you're taking into 2025 one of just merely stabilizing that business year-over-year or is the ambition – sort of the realistic ambition and the goal to actually grow that business next year? I'm hearing – I'm just not sure what I'm – when I parse between all the different commentary, I'm not sure if the – you feel like the business is ready to grow next year or if we're still attempting to stabilize in 2025?

Paul Ruh

Chief Financial Officer, Kenvue, Inc.



Yes, Steve. Very good question. Let me be very clear. We are focused on returning the segment to growth and expect to do that in 2025. To your point, we need to see what happens to the category overall. From what we see today, I don't think we can count on an improvement in consumer sentiment in Asia. So, for us, 2025 is really about fueling expansion in the EMEA. It's working very well. How do we fuel this growth we are seeing and countering the deceleration we've seen in the category in the US with a better execution of our playbook, better innovation, better campaigns, so that's our plan for 2025.

I gave you examples of green shoots in – early green shoots in the parts of the portfolio we have prioritized thus far. Now, we need to expand across the segment with precision and at scale, continue to secure more points of distribution. As you know, the planograms flip in the back half of next year. In the meantime, strengthen in-store prominence, making sure that our marketing content drives stronger conversion and continuing to add new talent, skills, capabilities. So that's what we are going for.

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

Keith Devas

Analyst, Jefferies LLC

Q

Hey, thank you. Good morning. Thank you for the question. I just wanted to, I guess, double back on a theme that I guess has been mentioned a couple times, but [ph] it sounds like (00:50:18) there's unique category softness, yet you're proceeding with your investment plans. And so, I guess, I'm interested in how you guys think about if the category trends persist, how that might change your thinking on where to reinvest and/or if it changes your expectations for a timeline on the return. It sounds like 2024 is a heavy investment year and 2025 will be as well. And so, in light of the category trends, can a recovery or I guess a rebound or a reinvigoration of growth still occur with some of the reinvestments or how you might think about altering them in the context of the macro pressures? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Thank you for the question, Keith. We are confident in our ability to continue to source funds to invest in our brands from both our gross profit, our gross margins and also Our Vue Forward. Remember, Our Vue Forward is a two-year program, and we have been successful in getting the efficiencies and productivity out of that. We are not done in terms of investing at competitive levels. So we do believe we have the right building blocks to continue to fuel the funds for that growth. Of course, we're monitoring the – our own performance and the category performance as well. But our algorithm calls for continued investment in our brands. This is not a one-time step up and we will continue to approach in a very thoughtful manner, a continued investment. And thoughtful, what I mean is, always based on return on investment, which is something what we have done all along and we will make sure that our brands get the proper investments to not only get the right return, but also the reach that we need to drive the penetration, particularly in Skin Health and Beauty and continue to gain in Essential Health and in Self Care as well. So, across the board, we'll continue to invest, thoughtful approach and we have the fuel to continue to drive the investment.

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

Thank you. Good morning, everyone. Thibaut, I just was curious how you think about the Skin Care kind of portfolio complexity. In your view, what would kind of be the hero products within the Neutrogena brand family? And is there an opportunity maybe to streamline and simplify these transferrable demand to kind of make sure that you're focusing on the right SKUs and allocating the right amount of money to the right SKU? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah, Nik. Very good question. The team does a good job prioritizing the biggest parts of the portfolio for each brand. So, for example, I told you in Neutrogena, they are currently focused on Sun and Face. That's approximately 80% of our revenue in the US for this brand. So we need to start by getting this part right. It's about making sure that we push the platform. So Hydro Boost, for example, is one of our mega platform, so we get a lot of synergies by promoting these range of products. It's also about doing a better job at unifying the brand and you will see initiatives in that area in 2025. And also making sure that the navigation and shopability is easier for

consumers and shoppers in-store. And here I'm pleased with the progress that we are making in the number of retail partners this fall. You will see stronger brand blocks, easier to navigate with a shelving organization that helps consumers to pick the right products for what they need. That will certainly make our brands easy to shop in brick and mortar stores.

Operator: Thank you. Our next question comes from the line of Korinne Wolfmeyer with Piper Sandler. Please proceed with your question.

Korinne Wolfmeyer

Analyst, Piper Sandler & Co.

Q

Hey, good morning. Thanks for taking the question. I'd like to touch a little bit on the gross margin this quarter that's come in a little bit stronger and maybe you can talk through some of the puts and takes there. And as we think about Q4 and then, even into 2025, what are some of the headwinds or even tailwinds that we should be cognizant of, especially around input cost inflation, transportation costs, etcetera? Thanks.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Thank you for the question, Korinne. We are very pleased with the performance on gross margin. The team is very dedicated to making sure that we get the fuel for the growth for the brands. And we have confidence in continuing to expand our gross margins going forward. The sources are value realization, pricing will be less of a lever, but it will always be a component. Manufacturing and supply chain efficiencies are a big building block to improve our gross margins.

When it comes to commodities, commodity trends are helping offset some of the increased labor and logistics inflation that we have recently seen. But the benefits of commodity tailwinds are probably going to start winding down. So we are continuing to balance all of the elements of how we build our gross margins.

We – remember from a seasonality perspective or the progress throughout the year, Q4 is our highest investment [indiscernible] (00:56:41) in plant maintenance, as I mentioned in my prepared remarks. So it's typically our lowest gross margin period, but it should not be within – without – outside our expectations. I said that we are close to the 60% for the full year and that's where we are at this point. We're maintaining our outlook. Margin progression is not linear, given all these dynamics that I mentioned. As I think about going forward, I do believe that these improvements are going to be closer more to the targeted long term gross margin expansion goals that we talked about, which are in the range of 20 basis points to 30 basis points on a sustainable basis in the long term. So pleased with the performance. It will continue to be a strength of ours. We have the building blocks and it will be the fuel for our growth.

Operator: Thank you. Our last question will come from the line of Jeremy Fialko with HSBC. Please proceed with your question.

Jeremy Fialko

Analyst, HSBC Bank Plc

Q

Hi there. Thanks for taking the question at the end of the call. So just a couple of things from me. So I guess the first thing is, you've talked about all of these reasons why I guess you're incrementally a little bit more cautious on the top line. But I guess a lot of them sound relatively transitory for me in terms of Sun Care, kind of phasing of the cold and flu season. So I just wanted to draw out, particularly focused on the US, the extent to which this is kind of the underlying softening in the consumer rather than just a kind of accumulation of some of these slightly

unfavorable phasing factors? And then the second thing linked to that is are there any areas where you might have seen some sort of a pickup in the price discounting or promotion? Thanks.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Okay, Jeremy, let me start with your first question about the external environment and the consumer in the US. When you look at the levels of incidence we had all year long across all geographies in terms of Sun, allergy, pediatric fever, it seems like flu is moving in the same direction, these low levels of incidence is – we don't know yet if it's a new normal or not, but I would say it's pretty unusual to have such low levels of incidence across geographies, across all these categories.

In terms of – but it doesn't reflect the state of the consumer. The consumer – what we see with the consumer, the consumer continues to prioritize their health and the health of their loved ones, they don't compromise on that. Having said that, they are looking for convenience and value and you need to be very agile to make sure that you are present in all channels, which we are, and with price points that cater to the different needs of different consumers, so you can meet the consumer where they are and that's where we focus a lot of our attention.

We don't see a trade down in terms of private label. You heard me give frequent reports on that. This quarter, again, we didn't see a significant change in worldwide penetration of private label and even in the largest – highest penetrated category, which is the US OTC category, we see private label penetration going down this quarter again. So that's what we see broadly for the consumer.

From a promotional intensity point of view, when we look at all categories in the US specifically, we don't see any increase in promotion intensity in the Self Care segment. We see a slight low single digit increase in Self Care and – in Essential Health and Skin Health categories. But I would say, nothing out of the ordinary and something that is more in line with, I would say, the new normal.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

So, thank you for all your questions. That concludes our report on our Q3 performance. Thank you everyone for joining us this morning. As you can tell, Kenvue continues to be in transformation with strong progress on efficiencies and productivity, new ways of working, the continued investment in our new Kenvue playbook. That will allow us to deliver within our outlook in terms of EPS despite a softer revenue in the back half of the year.

With that, we wish you all a great rest of the day.

Operator: Thank you. This does conclude today's teleconference. We appreciate your participation. Have a wonderful day. You may disconnect your lines at this time.

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