



THE HONEST COMPANY, INC. Q1 2025 EARNINGS CALL

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CORPORATE PARTICIPANTS

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Elizabeth Alexandra Bouquard

Good afternoon, everyone. Thank you for joining our first quarter 2025 conference call. Joining me today are Carla Vernón, our Chief Executive Officer; and Dave Loretta, our Chief Financial Officer.

Before we start, I would like to remind you that we will make certain statements today that are forward-looking, within the meaning of the federal securities laws, including statements about the outlook of our business and other matters referenced in our earnings release issued today. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please refer to our earnings release issued today as well as our SEC filings for a more detailed description of the risk factors that may affect our results.

Please also note that these forward-looking statements reflect our opinions only, as of the date of this call, and we undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements in light of new information or future events, except as required by law.

Also, during this call, we will discuss non-GAAP financial measures, which adjust our GAAP results to eliminate the impact of certain items. You will find additional information regarding these non-GAAP financial measures and a reconciliation of these non-GAAP to GAAP measures in the Financial Results section of our earnings release today.

A live broadcast of this call is also available on our Investor Relations section of our website at investors.honest.com.

And with that, I'll turn the call over to Carla.

Carla B. Vernón

Thanks, Elizabeth. Good afternoon, everyone, and thank you for joining us today. As I begin today's remarks, I'd like to take a moment to share some important updates to our recent announcement of Dave Loretta's planned retirement from his role as the Chief Financial Officer of The Honest Company.



Most importantly, I want to recognize Dave for his incredible partnership. Thanks to Dave's leadership, we have an exceptional finance team in place, a stronger financial foundation and are well positioned for the future. Dave, thank you for playing such a critical role in the transformation of Honest and congratulations on the considerable success you have had at Honest and across your career.

Earlier today, we announced the appointment of Curtiss Bruce as The Honest Company's next Chief Financial Officer. Curtiss is an accomplished finance leader with deep expertise across some of the most respected consumer brands, including Hain Celestial, Keurig Dr. Pepper, The Kellogg Company and Kraft Heinz. Across his career, Curtiss has led a blend of both emerging businesses as well as some of the food industry's most iconic billion-dollar brands.

His passion for consumer-loved brands, combined with a track record of driving growth and transformation, make him the right leader to help guide Honest into the next chapter. Curtiss' June 2 start date will include ample transition time with Dave to allow for a smooth handoff. Again, I want to extend my sincere thanks and congratulations to Dave for all he has done to drive our strong results.

For today's call, there are three messages I want to share with you. First, we delivered solid results for the first quarter of the year with double-digit revenue growth, gross margin expansion and positive operating income. Second, our Transformation Pillars of Brand Maximization, Margin Enhancement and Operating Discipline are enabling us to successfully navigate this dynamic environment. With a healthy balance sheet and growing consumer demand for our cleanly formulated and sustainably designed products, we remain confident that our long-term growth strategy leaves us well-positioned to scale the Honest brand. And third, as we continue to adapt to the evolving market conditions and manage the impact of economic headwinds, we are reaffirming our 2025 financial outlook.

For the first quarter, our teams continued to strengthen the business model and in-market performance of The Honest Company. We delivered growth across our key financial measures, including revenue of \$97 million, which was 13% growth year-over-year. Our gross margin grew 170 basis points to 39%. Additionally, we delivered positive net income of \$3 million and adjusted EBITDA margin of 7%, representing our sixth consecutive quarter of positive adjusted EBITDA.

We are particularly proud of these results amid the dynamic environment of both cost and consumer demand uncertainty. The strength of these results is grounded in our Transformation Pillars, which were designed for their enduring ability to guide us through both short and long-term periods. Our first foundational pillar, Brand Maximization, is inspired by the growth vision we have for The Honest brand across our trusted portfolio of baby and personal care products.

Our portfolio of cleanly formulated, sustainably designed products continues to meet everyday essential consumer needs, especially for those with sensitive skin. With consumption growth of



8% in the quarter, the Honest brand continues to deliver growth that outpaces the growth of our competitive categories, which declined 1% in the same period. Our growth underscores our focus on bringing new shoppers into The Honest portfolio, as demonstrated by the increases in our household penetration to 7.3%, a growth of 55 basis points versus the prior year.

Two bright spots in our Brand Maximization performance for the quarter are our wipes portfolio and our baby personal care collection. Both of these businesses benefit from the growing interest in products that are effective, safe for a broad range of uses and gentle on sensitive skin. For many consumers, products that work well for sensitive skin aren't just preferences. They have become essential. Because of our rigorous product standards, our community has come to trust our commitment to having products that meet their most sensitive skin needs.

The Honest Standard is our set of guiding principles that contains our “No List”. The “No List” defines 3,500 ingredients of concern that we choose not to use in our products. As evidenced by increases in our household penetration, our buy rate, which grew 8%, and our repeat usage, which grew more than 200 basis points, our Honest products are more than essential. They are beloved by our community. We know that the sensitive skin segment is expected to double to \$80 billion by 2030 and skin allergies among children have increased 100% since 1997. In fact, this quarter, our sensitive skin portfolio grew 35% year-over-year, benefiting from the launch of our larger sizes of Sensitive Skin Shampoo and Body Wash and Sensitive Skin Conditioning Detangler.

In addition to our sensitive skin portfolio growth, across our wipes portfolio, we delivered consumption growth of over 40% this quarter. Our successful growth in wipes is driven by distribution gains, expanded size offerings, in-store merchandising and consumer-driven design improvements. We have seen increasing demand for our 288 count wipes package, which more than doubled in distribution over the past two years. This size provides great value to our most loyal users. And we see that the more wipes consumers have in their homes, the more ways they find to use them.

As a digitally-native brand with a strong omni-channel strategy, we believe in the power and scale of being represented both in-store and online. In March, our sanitizing wipes launched for the first time on Walmart.com, and our pocket and purse-friendly sanitizing sprays have been added to the on-the-go travel section at Target stores nationally.

We also continue to expand the availability of Honest wipes into new aisles of the store, including the potty training aisle. Our toddler flushable wipes are the perfect solution for those moments when messes meet milestones. With the addition of pop-out displays called “jump-shelves”, our toddler flushable wipes are conveniently placed for when parents are shopping for potty training essentials.

For our Honest community, it is also important that our products come to life beautifully in their homes. Our recently launched adult flushable wipes now come in a new pattern we call gold



gilded wings, and it's gorgeous. They make the perfect finishing touch to give bathrooms and powder rooms an elevated style.

Our community has come to love the combination we bring of gentle products that work beautifully and have a style to match. As a result, Honest is now the leading natural wipes brand nationally, surpassing the category's previous leader.

As I mentioned, as consumers seek out clean solutions for their essential needs, we continue to see our consumption outpace our competitive categories. However, along with a modest slowdown in the categories in which we compete, we observed some headwinds in our own momentum as we exited the quarter. Most notably, we saw these headwinds in our diaper portfolio. This is mainly attributable to an expected diaper distribution change that took place at a key retailer in Q1.

We also recognize that a regular cadence of technology improvements is vital in the diaper category. That's why we continuously monitor consumer feedback and understand the needs for innovation. Our diaper research confirmed that while we perform well in key areas, including our cleanly formulated materials that are gentle on baby and our signature prints, there were key technical features identified for improvement.

After extensive development work and technical research, I'm pleased to share that our team of diaper engineers has developed our best built diaper yet. In fact, I recently had the chance to visit our diaper manufacturing headquarters and saw first-hand how we were able to achieve such great results in our newest diaper. I had the pleasure of performing the absorbency test myself. As I poured the blue liquid onto the new and improved core of our diaper, the liquid was absorbed within seconds, leaving the surface practically dry to the touch.

Our new and improved diaper, which has recently started shipping into stores and online, guarantees up to 100% leak protection with Comfort Dry Technology and was thoughtfully designed to protect delicate skin. It also features a plant-based liner designed to be gentle on baby's skin, a breathable outer layer that helps reduce the risk of irritation, fastener tab improvements for an irritation free fit and softer materials that make the diaper soft to a parent's touch. With these improvements, we are proud to bring our best diaper ever to the littlest members of our Honest community.

The second pillar we focus on after brand maximization is margin enhancement. In Q1, with a gross margin of 39%, an expansion of 170 basis points, we continue to grow the bottom-line faster than the top-line through cost savings and changes to product mix. Just as we are closely watching the consumer environment, we are also watching and managing the cost environment, particularly related to tariffs.

Based on currently announced tariffs, our greatest exposure is related to our imports from China. However, even with the additional tariff-related headwinds that were subsequent to our



Q4 earnings call, our disciplined execution and progress on our margin enhancement pillar enables us to reaffirm our financial outlook today.

As we shared in Q4 earnings, our Honest teams are not new to managing the impact of tariffs on a global supply chain and on our financial model. We have been managing tariffs in portions of our portfolio across several administrations. We have a comprehensive approach in place and a strong experienced cross-functional team that we lovingly call the “Tariff Tacklers.”

This team oversees a three prong strategy to drive our tariff mitigation efforts. These prongs include: first, building an annual plan that is agile in the face of tariffs; second, implementing an inventory management strategy to delay tariff impact; and third, working closely with our internal teams and external partners to drive additional cost savings and spending optimization.

The high frequency cadence and collaborative approach of our tariff tackler team allows them to continuously evaluate and prepare short and long-term levers. Because of our three-pronged strategy, our team acted quickly to increase inventory on hand, allowing us to delay the impact of incremental tariffs to the back half of the year.

The addition of senior supply chain leadership to our management team, coupled with our strong history of collaboration with our suppliers, has enabled us to identify cost savings we can address together and helped us accelerate the timing on some cost savings initiatives. And guided by the third prong, we optimized our investment spending to reduce waste, drive higher returns and amplify our highest strategic priorities.

Our operating discipline pillar is our third and final Transformation Pillar. Operating discipline underscores our focus on building a culture of executional excellence. In the first quarter, we launched two improvements to our operating approach to better enable our teams to execute with excellence. Modeled after the practices of best-in-class Consumer Products companies, our business teams are operating with an improved cross-functional model, which drives process rigor and ensures that we are aligned to deliver our priorities.

We also implemented an integrated process that drives continuous improvement across forecast accuracy, inventory management and customer service levels. As a result, we are able to drive a more efficient cost structure and deliver orders reliably on time and in full for our retail partners. We believe that this focus on forecast accuracy and supply reliability will be critical for our business, our retail partners and our Honest community in this period of volatility.

As I bring my remarks to a close, I'm pleased that our disciplined approach to transforming The Honest brand has allowed us to continue to outperform our categories with revenue up 13%, consumption up 8%, all while delivering increasingly profitable volume growth with net income of \$3 million and our sixth consecutive quarter of positive Adjusted EBITDA. We remain cautiously confident in our business as we navigate the evolving economic landscape and maintain a disciplined approach to managing the impact of tariffs.



My belief in this company, our extraordinary team and our trusted products is as strong today, if not stronger, as it was the day I joined Honest. In times like these, our resilience shines, as does our belief in continuing to invest to build a strong and scaled Honest brand.

And now, I will turn it over to Dave to share the financial results of our first quarter and more details on our 2025 financial outlook.

David Loretta

Thank you, Carla, and welcome, everyone. Our team's hard work to start the year has been instrumental in advancing our strategic objectives and building a stronger financial foundation. The progress we've made across our Transformation Pillars has led to strong top-line growth and improved profitability this quarter.

Now, let me dive deeper into the first quarter results. This quarter, we delivered revenue of \$97 million, up 13%, driven by strong performance across our wipes and baby personal care portfolio.

As a reminder, we shared during our fourth quarter earnings call that we expected our revenue growth in the first quarter would be higher than our full year revenue growth outlook due to the comparable period from last year. In addition, in the first quarter, we saw our retailer inventory builds with shipments growing 5 percentage points faster than retail tracked channel consumption. We now expect this retailer inventory build to reverse in the second quarter.

We also expect to continue to face headwinds in our diaper business in Q2, as we execute the full rollout of our new and improved diaper across the remainder of the year. We expect that the combination of these factors will lead to a first half of the year growth rate within the range of our annual revenue outlook.

Our gross margin in the first quarter was 39%, up 170 basis points versus last year, primarily driven by supply chain cost savings and a mix of higher margin products, offset by a \$3 million one-time inventory adjustment related to the strategic diaper renovation that Carla shared earlier. The adjustment to existing diaper inventory will allow for an accelerated transition in the market to the new diaper renovation and support a stronger launch with full marketing investment behind it.

As the underlying gross margin performance suggests, we continue to make progress on expanding our portfolio's profit potential through efficiencies and cost savings in the supply chain. One notable cost savings example is the reorganization of our Las Vegas warehouse layout that reduces the time spent on inbound handling and staging high-volume inventory for more efficient outbound fulfillment. The less time our teams spend on reconfiguring the inventory for receiving, the more efficient and cost effective our operations will be.



Next, turning to operating expenses. We increased operating expenses by \$2 million versus last year. However, on a rate basis, operating expenses decreased 230 basis points as a percentage of revenue. Within operating expenses, the drivers of change include: first, SG&A expenses that decreased \$1 million compared to last year and decreased 440 basis points as a percentage of revenue; and second, marketing expenses that increased \$3 million to 13% of revenue. As we continue to focus on our overall cost structure, we remain committed to investing in brand building and driving growth, partially funded by the SG&A expense savings.

I'm particularly proud to share that we delivered positive net income this quarter. The combination of strong revenue growth, gross margin expansion, operating expense leverage and interest income earned on our cash, led to positive net income of \$3 million, up \$5 million from last year. We remain committed to sustained net income growth over the long-term, and this quarter is a continued evidence of our progress against that commitment.

Adjusted EBITDA for the first quarter was \$7 million compared to \$3 million from the prior-year first quarter. Our adjusted EBITDA as a percentage of revenue improved from 3% in the prior-year first quarter to 7% in this quarter. These results are in line with our long-term algorithm of adjusted EBITDA margin expansion.

Turning to the balance sheet, we ended the quarter with \$73 million in cash and no debt outstanding. Our cash position continues to benefit from a capital-light business model and diligent management of working capital. Our strong financial footing provides greater flexibility in our growth model and allows us to invest in the business in support of expanding availability of Honest products and in navigating the current environment. Our free cash flow for the first quarter was negative \$3 million, driven primarily by an intentional inventory build as part of our tariff mitigation plan.

Overall, our first quarter financial results and the ongoing commitment to our Transformation Pillars give us continued confidence in our 2025 financial outlook. Therefore, we are reaffirming our Full Year 2025 Financial Outlook that includes Net revenue growth of 4% to 6% year-over-year and Adjusted EBITDA to be in the range of \$27 million to \$30 million. This outlook includes the impact of the tariffs announced this year.

As Carla detailed, we have a comprehensive approach and strong experience in place to manage these tariffs, both in the short and long-term. Our focus on managing tariffs include three prongs. First, we built our 2025 plans to be agile in anticipation of some degree of impact, and we are adjusting our spend across the business to offset the expected impact.

Second, our teams are leveraging inventory management actions to delay the impact in 2025 and accelerate supply chain cost savings. And third, with a strong and long-standing relationship with our suppliers, we are partnering to mitigate the remaining tariff exposure.



Our exposure under the current slate of tariffs comes largely from our sourcing of wipes in China. Our diapers are USMCA-compliant goods from Mexico and are currently exempt from the latest tariffs.

Overall, the current tariff policies have a roughly 1.5 percentage points net impact on Gross Margin in 2025, which we plan to offset with incremental cost savings and efficiencies. These tariffs are part of a dynamic macroeconomic environment. Outside of the specific impact of tariffs, we recognize there is uncertainty with broader consumer sentiment and potential changes in shopping behavior that our outlook does not include.

We continue to play the long game behind our Transformation Pillars. We remain committed to investment in marketing and innovation through our Brand Maximization pillar, as we also drive efficiencies to offset the cost headwinds through our Margin Enhancement pillar. I want to thank our team for the strong results in the first quarter and their continued execution against our Transformation Pillars, enabling us to successfully navigate this dynamic environment and reaffirm our 2025 financial outlook today.

Before we open the call for questions, I'd like to take a moment to express my sincere gratitude, as this will be my final earnings call as CFO of The Honest Company. It's been an honor to be part of such an exceptional team, guiding Honest through a period of remarkable transformation. The progress we've made is a testament to the extraordinary talent, relentless commitment and collaborative spirit of this incredible team.

I believe the Honest brand is still in the early stages of unlocking its full potential with so much more opportunity ahead. And I remain confident in the company's future and its ability to expand The Honest brand. I look forward to working with Curtiss to ensure a seamless transition and I leave this role deeply proud of what we've accomplished and grateful for Carla's leadership and support.

Thank you for joining our call today. And now I'll turn the call back to the operator.