UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-40378

HONEST®

The Honest Company, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**90-0750205**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
12130 Millennium Drive, #500	
Los Angeles, CA	**90094**
(Address of Principal Executive Offices)	(Zip Code)

(888) 862-8818

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	HNST	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 8, 2021, the registrant had 91,028,488 shares of common stock, $0.0001 par value per outstanding.

The Honest Company, Inc.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" (within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended) about us and our industry that involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements because they contain words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will" or "would" or the negative of these words or other similar terms or expressions. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, those set forth in Part II, Item 1A, "Risk Factors," if any, and other factors set forth in other parts of this Quarterly Report on Form 10-Q. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations regarding our revenue, cost of revenue, operating expenses, gross margin, adjusted EBITDA and other operating results;
- our strategic initiatives and priorities, including the timing and cadence of marketing and product innovation;
- our ability to implement our strategy to deliver sustained long-term growth and increased value for our stakeholders;
- the effect of COVID-19 or other public health crises on our business and the global economy, including the shift from our Digital channel to our Retail channel as consumers get vaccinated and return to in-store shopping;
- our continued revenue growth through omnichannel strategy and ability to capture growth in whitespace opportunities in our Retail channel;
- our ability to effectively manage our growth;
- our ability to increase market share in our core product categories;
- our ability to acquire new consumers and successfully retain existing consumers, including their level of spend with us;
- our expansion with retail and digital partners and our belief that significant opportunity exists to expand our on-shelf presence and the depth of our product offering with new and existing retail and digital partners;
- our ability to continue to increase market share and household penetration of our products;
- anticipated trends, growth rates, and challenges in our business and in the markets in which we operate;
- expectations regarding consumer demand and the timing and amount of orders from key customers;
- our ability to achieve or sustain our profitability;
- future investments in our business, our anticipated capital expenditures and our estimates regarding our capital requirements;
- the costs and success of our marketing efforts, and our ability to grow brand awareness and maintain, protect and enhance our brand;
- our ability to effectively manage our inventory and maintain sufficient inventory to satisfy customer demands and meet revenue targets;
- our ability to gauge consumer trends and changing consumer preferences;
- our reliance on key personnel and our ability to identify, recruit and retain skilled personnel;
- our ability to obtain, maintain, protect and enforce our intellectual property rights and any costs associated therewith;
- our ability to compete effectively with existing competitors and new market entrants;
- our ability to successfully enter new markets and expand internationally;
- our ability to identify and complete acquisitions that complement and expand our reach and platform;
- seasonality;
- the financial condition of, and our relationships with, our suppliers, manufacturers, distributors and retailers;
- our ability to offset commodity prices, labor costs, input cost and transportation cost inflation with productivity or pricing improvements;
- the ability of our suppliers and manufacturers to comply with safety, environmental or other laws or regulations;
- our ability to comply or remain in compliance with laws and regulations that currently apply or become applicable to our business in the United States, such as the U.S. Food and Drug Administration governmental regulation and state regulation; and other jurisdictions where we elect to do business;
- economic conditions and their impact on consumer spending;
- outcome of legal or administrative proceedings; and
- the growth rates of the markets in which we compete.

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

The Honest Company, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands, except share and per share amounts)

	September 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 27,666	$ 29,259
Restricted cash	—	1,752
Short-term investments	62,678	34,425
Accounts receivable, net	31,654	22,795
Inventories	77,858	76,669
Prepaid expenses and other current assets	13,777	8,657
Total current assets	213,633	173,557
Restricted cash, net of current portion	—	6,189
Property and equipment, net	53,888	56,703
Goodwill	2,230	2,230
Intangible assets, net	458	511
Other assets	4,151	1,542
Total assets	$ 274,360	$ 240,732
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	$ 31,178	$ 31,132
Accrued expenses	17,280	22,222
Deferred revenue	816	716
Total current liabilities	49,274	54,070
Long term liabilities		
Lease financing obligation, net of current portion	37,758	38,426
Other long-term liabilities	7,843	8,657
Total liabilities	94,875	101,153
Commitments and contingencies (Note 8)		
Redeemable convertible preferred stock, $0.0001 par value, 49,192,248 shares authorized at December 31, 2020; 49,100,928 shares issued and outstanding as of December 31, 2020; (liquidation preference of $396,726 as of December 31, 2020)	—	376,404
Stockholders' equity (deficit)		
Preferred stock, $0.0001 par value, 20,000,000 shares authorized at September 30, 2021, none issued or outstanding as of September 30, 2021	—	—
Common stock, $0.0001 par value, 1,000,000,000 and 150,000,000 shares authorized at September 30, 2021 and December 31, 2020, respectively; 90,528,446 and 34,089,186 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	9	3
Additional paid-in capital	562,109	116,055
Accumulated deficit	(382,631)	(352,977)
Accumulated other comprehensive income (loss)	(2)	94
Total stockholders' equity (deficit)	179,485	(236,825)
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	$ 274,360	$ 240,732

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

The Honest Company, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)
(in thousands, except share and per share amounts)

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Revenue	$ 82,651	$ 77,928	$ 238,258	$ 222,654
Cost of revenue	52,892	48,519	153,177	140,953
Gross profit	29,759	29,409	85,081	81,701
Operating expenses				
Selling, general and administrative	18,568	16,202	65,356	45,848
Marketing	13,687	13,516	41,868	33,334
Research and development	2,092	1,425	6,082	3,691
Total operating expenses	34,347	31,143	113,306	82,873
Operating loss	(4,588)	(1,734)	(28,225)	(1,172)
Interest and other income (expense), net	(526)	(230)	(1,362)	(564)
Loss before provision for income taxes	(5,114)	(1,964)	(29,587)	(1,736)
Income tax provision	22	22	67	66
Net loss	$ (5,136)	$ (1,986)	$ (29,654)	$ (1,802)
Net loss per share attributable to common stockholders:				
Basic and diluted	$ (0.06)	$ (0.06)	$ (0.33)	$ (0.05)
Weighted-average shares used in computing net loss per share attributable to common stockholders:				
Basic and diluted	90,397,409	34,084,819	64,399,183	34,071,770
Other comprehensive income (loss)				
Unrealized gain (loss) on short-term investments, net of taxes	10	(113)	(96)	49
Comprehensive loss	$ (5,126)	$ (2,099)	$ (29,750)	$ (1,753)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

The Honest Company, Inc.
Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)
(Unaudited)
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 2019	49,100,928	$ 376,404	34,033,074	$ 3	$ 108,109	$ (338,511)	$ 122	$ (230,277)
Net income	—	—	—	—	—	559	—	559
Other comprehensive loss	—	—	—	—	—	—	(7)	(7)
Stock options exercised	—	—	29,420	—	13	—	—	13
Stock-based compensation	—	—	—	—	1,923	—	—	1,923
Balances at March 31, 2020	49,100,928	$ 376,404	34,062,494	$ 3	$ 110,045	$ (337,952)	$ 115	$ (227,789)
Net loss	—	—	—	—	—	(375)	—	(375)
Other comprehensive loss	—	—	—	—	—	—	169	169
Stock options exercised	—	—	21,500	—	6	—	—	6
Stock-based compensation	—	—	—	—	2,325	—	—	2,325
Balances at June 30, 2020	49,100,928	$ 376,404	34,083,994	$ 3	$ 112,376	$ (338,327)	$ 284	$ (225,664)
Net loss	—	—	—	—	—	(1,986)	—	(1,986)
Other comprehensive loss	—	—	—	—	—	—	(113)	(113)
Stock options exercised	—	—	1,582	—	8	—	—	8
Stock-based compensation	—	—	—	—	1,805	—	—	1,805
Balances at September 30, 2020	49,100,928	$ 376,404	34,085,576	$ 3	$ 114,189	$ (340,313)	$ 171	$ (225,950)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

The Honest Company, Inc.
Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)
(Unaudited)
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 2020	49,100,928	$ 376,404	34,089,186	$ 3	$ 116,055	$ (352,977)	$ 94	$ (236,825)
Net loss	—	—	—	—	—	(4,484)	—	(4,484)
Other comprehensive loss	—	—	—	—	—	—	(82)	(82)
Stock options exercised	—	—	38,188	—	33	—	—	33
Stock-based compensation	—	—	—	—	1,838	—	—	1,838
Balances at March 31, 2021	49,100,928	$ 376,404	34,127,374	$ 3	$ 117,926	$ (357,461)	$ 12	$ (239,520)
Net loss	—	—	—	—	—	(20,034)	—	(20,034)
Other comprehensive loss	—	—	—	—	—	—	(24)	(24)
Stock options exercised	—	—	53,694	—	295	—	—	295
Dividends paid ($0.42 per share)	—	—	—	—	(35,000)	—	—	(35,000)
Issuance of common stock pursuant to initial public offering, net of underwriting commissions and discounts and offering costs of $12.2 million	—	—	6,451,613	1	91,038	—	—	91,039
Conversion of redeemable convertible preferred stock to common stock upon initial public offering	(49,100,928)	(376,404)	49,649,023	5	376,400	—		376,405
Vested restricted stock units	—	—	6,703	—	—	—	—	—
Stock-based compensation	—	—	—	—	6,626	—	—	6,626
Balances at June 30, 2021	—	$ —	90,288,407	$ 9	$ 557,285	$ (377,495)	$ (12)	$ 179,787
Net loss	—	—	—	—	—	(5,136)	—	(5,136)
Other comprehensive income	—	—	—	—	—	—	10	10
Stock options exercised	—	—	139,299	—	613	—	—	613
Vested restricted stock	—	—	162,462	—	—	—	—	—
Shares withheld related to net share settlement of equity awards	—	—	(61,722)	—	(565)	—	—	(565)
Stock-based compensation	—	—	—	—	4,776	—	—	4,776
Balance at September 30, 2021	—	$ —	90,528,446	$ 9	$ 562,109	$ (382,631)	$ (2)	$ 179,485

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

The Honest Company, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	For the nine months ended September 30,	
	2021	**2020**
Cash flows from operating activities		
Net loss	$ (29,654)	$ (1,802)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,135	3,707
Stock-based compensation	13,240	6,053
Other	204	57
Changes in assets and liabilities:		
Accounts receivable, net	(8,859)	568
Inventories	(1,188)	(21,704)
Prepaid expenses and other assets	(7,552)	590
Accounts payable, accrued expenses and other long-term liabilities	(5,783)	17,730
Deferred revenue	98	(66)
Net cash (used in) provided by operating activities	(36,359)	5,133
Cash flows from investing activities		
Purchases of short-term investments	(65,267)	(6,016)
Proceeds from sales of short-term investments	26,858	5,830
Proceeds from maturities of short-term investments	9,862	44,007
Purchases of property and equipment	(187)	(167)
Net cash (used in) provided by investing activities	(28,734)	43,654
Cash flows from financing activities		
Proceeds from initial public offering, net of underwriting commissions and discounts	96,517	—
Taxes paid related to net share settlement of equity awards	(565)	—
Dividends paid	(35,000)	—
Proceeds from exercise of stock options	941	27
Payment of initial public offering costs	(5,477)	—
Payments on lease obligations	(857)	(747)
Net cash provided by (used in) financing activities	55,559	(720)
Net (decrease) increase in cash, cash equivalents and restricted cash	(9,534)	48,067
Cash, cash equivalents and restricted cash		
Beginning of the period	37,200	13,543
End of the period	$ 27,666	$ 61,610
Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets		
Cash and cash equivalents	$ 27,666	$ 53,669
Restricted cash, current	—	1,598
Restricted cash, non-current	—	6,343
Total cash, cash equivalents and restricted cash	$ 27,666	$ 61,610
Supplemental disclosures of noncash activities		
Equipment acquired under capital lease obligations	$ 105	$ 54
Capital expenditures included in accounts payable and accrued expenses	$ 27	$ —

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

1. Nature of Business

The Honest Company, Inc. (the "Company") was incorporated in the State of California on July 19, 2011 and on May 23, 2012 was re-incorporated in the State of Delaware under the same name. The Company is a mission-driven lifestyle brand that formulates, designs and sells clean products with a focus on sustainability and thoughtful design. The Company sells its products through digital and retail sales channels in the following product categories: Diapers and Wipes, Skin and Personal Care, and Household and Wellness.

Initial Public Offering

The Company's registration statement on Form S-1 ("IPO Registration Statement") related to its initial public offering ("IPO") was declared effective on May 4, 2021, and the Company's common stock began trading on the Nasdaq Global Select Market on May 5, 2021. On May 7, 2021, the Company completed its IPO of 25,807,000 shares of the Company's common stock, $0.0001 par value per share at an offering price of $16.00 per share. The Company sold 6,451,613 shares and certain existing stockholders sold an aggregate of 19,355,387 shares. The Company received aggregate net proceeds of approximately $91.0 million after deducting underwriting discounts and commissions of $6.7 million and other offering expenses of $5.5 million. The Company granted the underwriters an option for a period of 30 days to purchase up to an additional 3,871,050 shares of common stock from the selling stockholders at $16.00 per share less the underwriting discounts and commissions. In May 2021, the underwriters fully exercised the option to purchase these additional shares from the selling stockholders. The Company did not receive any proceeds from the sale of shares of its common stock by the selling stockholders.

Upon completion of the IPO, the Company paid $9.5 million in cash bonuses to certain employees including members of management, as well as $0.2 million in related payroll taxes and expenses. Cash bonuses of $9.1 million were recorded in sales, general and administrative expenses and $0.4 million were recorded in research and development expenses in the accompanying condensed consolidated statement of comprehensive loss for the nine months ended September 30, 2021.

Immediately prior to the completion of the IPO, the Company filed an Amended and Restated Certificate of Incorporation, which authorized a total of 1,000,000,000 shares of common stock and 20,000,000 shares of preferred stock. Upon the filing of the Amended and Restated Certificate of Incorporation, 49,100,928 shares of the Company's redeemable convertible preferred stock then outstanding with a carrying value of $376.4 million were automatically converted into 49,649,023 shares of the Company's common stock. Upon completion of the IPO, the Company recognized a gain on extinguishment of the redeemable convertible preferred stock for earnings per share purposes of $29.0 million from the conversion of redeemable convertible preferred stock to common stock. Following the completion of the IPO, the Company has one class of authorized and outstanding common stock.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial information. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2020. The condensed consolidated financial statements are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on a basis consistent with that used to prepare the audited annual consolidated financial statements and include, in the opinion of management, all adjustments, consisting of normal recurring items, necessary for the fair statement of the condensed consolidated financial statements. The consolidated balance sheet as of December 31, 2020 has been derived from the audited financial statements at that date but does not include all of the disclosures required by GAAP.

The condensed consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries after elimination of intercompany transactions and balances. There have been no changes in the accounting policies from those disclosed in the audited consolidated financial statements and related notes for the year ended December 31, 2020.

Stock Split

In April 2021, the Company effected a 1-for-2 forward stock split of its common and redeemable convertible preferred stock. In connection with the forward stock split, each issued and outstanding share of common stock, automatically and without action on the part of the holders, became two shares of common stock and each issued and outstanding share of redeemable convertible preferred stock, automatically and without action on the part of the holders, became two shares of redeemable convertible preferred stock. The par value per share of common and redeemable convertible preferred stock was not adjusted. All share, per share and related information presented in the condensed consolidated financial statements and accompanying notes have been retroactively adjusted, where applicable, to reflect the impact of the stock split.

Segment Reporting and Geographic Information

The Company's Chief Executive Officer, as the chief operating decision maker, organizes the Company, manages resource allocations, and measures performance on the basis of one operating segment. All of the Company's long-lived assets are located in the United States and substantially all of the Company's revenue is from customers located in the United States.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's estimates, which are subject to varying degrees of judgment, include the valuation of inventories, sales returns and allowances, allowances for doubtful accounts, valuation of short-term investments, valuation of build-to-suit lease, capitalized software, useful lives associated with long-lived assets, valuation allowances with respect to deferred tax assets, accruals and contingencies, recoverability of goodwill and long-lived assets, and the valuation and assumptions underlying stock-based compensation and common stock. On an ongoing basis, the Company evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus disease ("COVID-19") a pandemic. The full extent to which the outbreak of the COVID-19 pandemic will impact the Company's business, results of operations and financial condition is still unknown and will depend on future developments, which are uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

In light of the currently unknown ultimate duration and severity of COVID-19, the Company faces a greater degree of uncertainty than normal in making certain judgments and estimates needed to apply significant accounting policies. The Company assessed certain accounting matters and estimates that generally require consideration of forecasted information in context with the information reasonably available to the Company as of the respective balance sheet dates and through the date these condensed consolidated financial statements were issued. Management is not aware of any specific event or circumstance that would require an update to estimates or judgments or a revision to the carrying value of assets or liabilities. However, these estimates and judgments may change as new events occur and additional information is obtained, which may result in changes being recognized in the Company's consolidated financial statements in future periods. For example, based on macro Household & Wellness trends, consumer demand for sanitizing and disinfecting products has decelerated at a more rapid than expected rate as more consumers have become vaccinated and retailers continue to manage heavy inventories of sanitization and disinfecting products in stores. The Company will continue to monitor and evaluate the uncertainty and volatility of these conditions and the ultimate impact on the Company's inventory valuations in the future.

Cash, Cash Equivalents, and Restricted Cash

Cash equivalents consist of short-term, highly liquid investments with stated maturities of three months or less from the date of purchase. Cash equivalents comprise amounts invested in money market funds. Restricted cash consisted of deposits in a bank account used to collateralize the letters of credit for certain lease arrangements. The Company is no longer required to post collateral in a restricted cash account. Refer to Note 6 included in these condensed consolidated financial statements for additional information on the restricted cash account.

Accounts Receivable

Accounts receivable is presented net of allowances. The Company does not accrue interest on its trade receivables. On a periodic basis, the Company evaluates accounts receivable estimated to be uncollectible, and provides allowances as necessary for doubtful accounts. The allowance for doubtful accounts was $1.4 million as of September 30, 2021 and December 31, 2020.

Deferred IPO Costs

Deferred offering costs consisted of costs incurred in connection with the sale of the Company’s common stock in its IPO, including certain legal, accounting, and other IPO-related costs. Immediately upon the completion of the Company's IPO, deferred offering costs of $5.5 million were reclassified into stockholders’ equity from other assets as a reduction from the proceeds of the offering.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses the following hierarchy in measuring the fair value of the Company’s assets and liabilities, focusing on the most observable inputs when available:

Level 1 - Quoted prices in active markets for identical assets or liabilities.
Level 2 - Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active for identical or similar assets and liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement of the assets or liabilities. Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Fair value is based on quoted market prices, if available. If listed prices or quotes are not available, fair value is based on internally developed models that primarily use market-based or independently sourced market parameters as inputs. Cash equivalents, consisting primarily of money market funds, represent highly liquid investments with maturities of three months or less at purchase. Market prices, which are Level 1 in the fair value hierarchy, are used to determine the fair value of the money market funds. Investments in debt securities are measured using broker provided indicative prices developed using observable market data, which are considered Level 2 in the fair value hierarchy. Certain assets, including long-lived assets, goodwill and intangible assets are also subject to measurement at fair value on a non-recurring basis if they are deemed to be impaired as a result of an impairment review. The fair value is measured using Level 3 inputs in the fair value hierarchy.

Recent Accounting Pronouncements

As an “emerging growth company,” the Jumpstart Our Business Startups Act, allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. The Company has elected to use the adoption dates applicable to private companies. As a result, the Company’s financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective date for new or revised accounting standards that are applicable to public companies.

Recently Issued Accounting Pronouncements – Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU No 2016-02, *Leases (Topic 842),* as subsequently amended, collectively codified under Topic 842. Topic 842 requires lessees to recognize on the balance sheet assets and liabilities for leases with lease terms of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. ASU 2016-02 was effective for public business entities for fiscal years beginning after December 15, 2018. In June 2020, FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) – Effective Dates for Certain Entities*, which extended the effective date of this guidance for certain non-public entities for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. The Company is evaluating the adoption of this guidance and the potential effects on its consolidated financial statements. The Company anticipates the adoption of this guidance may result in a material impact to the Company’s consolidated financial statements as it relates to its build-to-suit lease and recording other operating leases on the consolidated balance sheets.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to amend the accounting for credit losses for certain financial instruments. This guidance replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses. In November 2019, FASB issued ASU No. 2019-10 which delayed the effective dates of the guidance. This guidance is effective for public business entities that meet the definition of an SEC filer, excluding entities eligible to be smaller reporting companies (“SRC”) for fiscal years beginning after December 15, 2019 and all other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the adoption of this guidance and the potential effects on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The amendments in this guidance eliminate Step 2 from the goodwill impairment test, whereby an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under this amendment, an entity should perform its goodwill impairment test by comparing the value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In November 2019, the FASB issued ASU No. 2019-10 which delayed the effective dates of this guidance. This guidance is effective for public business entities excluding entities eligible to be SRCs for annual and any interim impairment test performed for periods beginning after December 15, 2019. For all other entities the guidance is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the adoption of this guidance and the potential effects on the consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* This standard simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740 as well as by improving consistent application of the topic by clarifying and amending existing guidance. For public business entities, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption of the amendments is permitted, including adoption in any interim period for (1) public business entities for periods for which financial statements have not yet been issued and (2) all other entities for periods for which financial statements have not yet been made available for issuance. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. The Company does not expect ASC 740 to have a material impact on the Company's consolidated financial statements.

3. Revenue

Disaggregation of Revenue

Revenue by sales channel:	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
(In thousands)				
Digital	$ 39,114	$ 43,952	$ 116,395	$ 131,513
Retail	43,537	33,976	121,863	91,141
Total revenue	$ 82,651	$ 77,928	$ 238,258	$ 222,654

Revenue by product category:	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
(In thousands)				
Diapers and wipes	$ 53,847	$ 46,283	$ 151,251	$ 145,510
Skin and personal care	25,375	19,779	75,486	58,819
Household and wellness	3,429	11,866	11,521	18,325
Total revenue	$ 82,651	$ 77,928	$ 238,258	$ 222,654

Non-Monetary Transactions

In March 2021 and September 2021, the Company entered into $4.0 million and $0.7 million, respectively, in trade agreements with a vendor for the exchange of legacy beauty inventory for future marketing and transportation credits. The fair value of the marketing and transportation credits are recognized as revenue, with the corresponding asset included in prepaid expenses and other current assets and other assets in the accompanying condensed consolidated balance sheets. The Company may use the marketing and transportation credits over four years from the date of the respective agreement, with an option to extend for another two years if agreed upon by both parties. For the three and nine months ended September 30, 2021, the Company recognized $0.6 million and $4.5 million, respectively, of revenue and $0.4 million and $3.8 million, respectively, of associated cost of revenue based on timing of delivery of goods. The Company assesses the recoverability of the marketing and transportation credits periodically. Factors considered in evaluating the recoverability include management's plans with respect to advertising, freight and other services for which these credits can be used. Any impairment losses are charged to operations as they are determinable. During the three and nine months ended September 30, 2021, the Company recorded no impairment losses related to these credits and an immaterial amount of credits have been used.

4. Investments

As of September 30, 2021 and December 31, 2020, all investments in debt securities are classified as available-for-sale investments. All investments are reported within current assets because the securities represent investments of cash available for current operations. As of September 30, 2021 and December 31, 2020, the Company held \$51.0 million and \$27.5 million, respectively, of investments with contractual maturities of less than one year. As of September 30, 2021 and December 31, 2020, the Company held \$11.7 million and \$6.9 million, respectively, of investments with contractual maturities between one and two years. Available-for-sale investments are recorded at fair value, and unrealized holding gains and losses are recorded as a component of other comprehensive income (loss). The following table summarizes the Company's available-for-sale investments:

	As of September 30, 2021			
	Cost or Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Total Estimated Fair Value**
(In thousands)				
Corporate bonds	$ 22,694	$ 2	$ (8)	$ 22,688
Certificates of deposit	33,251	3	—	33,254
U.S. government and agency securities	6,735	1	—	6,736
Total investments	$ 62,680	$ 6	$ (8)	$ 62,678

	As of December 31, 2020			
	Cost or Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Total Estimated Fair Value**
(In thousands)				
Corporate bonds	$ 22,894	$ 58	$ (3)	$ 22,949
Commercial paper	538	—	—	538
Certificates of deposit	4,447	1	—	4,448
U.S. government and agency securities	6,452	38	—	6,490
Total investments	$ 34,331	$ 97	$ (3)	$ 34,425

Realized gains and losses on investments in debt securities were immaterial for the three and nine months ended September 30, 2021 and 2020.

5. Fair Value Measurements

Financial assets measured and recorded at fair value on a recurring basis consist of the following as of:

	September 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
(In thousands)				
Cash equivalents				
Money market funds	$ 9,091	$ —	$ —	$ 9,091
Total cash equivalents	9,091	—	—	9,091
Short-term investments				
Corporate bonds	—	22,688	—	22,688
Certificates of deposit	—	33,254	—	33,254
U.S. government and agency securities	—	6,736	—	6,736
Total short-term investments	—	62,678	—	62,678
Total	$ 9,091	$ 62,678	$ —	$ 71,769

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
(In thousands)				
Cash equivalents				
Money market funds	$ 12,696	$ —	$ —	$ 12,696
Total cash equivalents	12,696	—	—	12,696
Short-term investments				
Corporate bonds	—	22,949	—	22,949
Commercial paper	—	538	—	538
Certificates of deposit	—	4,448	—	4,448
U.S. government and agency securities	—	6,490	—	6,490
Total short-term investments	—	34,425	—	34,425
Total	$ 12,696	$ 34,425	$ —	$ 47,121

The carrying amounts for the Company's accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short maturities.

6. Credit Facilities

On June 4, 2020, the Company terminated its Asset Backed Loan facility ("ABL Revolver"). The Company had no outstanding borrowings under the ABL Revolver immediately prior to termination. Upon termination of the ABL Revolver, the Company was required to post collateral of $7.9 million in a restricted cash account to collateralize the letters of credit related to certain facility leases. As of December 31, 2020, the letters of credit issued related to facility leases of $7.7 million were collateralized by the Company's restricted cash of $7.9 million. Upon entering into the 2021 Credit Facility (defined below), the Company is no longer required to maintain collateral in a restricted cash account.

2021 Credit Facility

In April 2021, the Company entered into a first lien credit agreement ("2021 Credit Facility"), with JPMorgan Chase Bank, N.A., as administrative agent and lender, and the other lenders party thereto, which provides for a $35.0 million revolving credit facility that matures on April 30, 2026. The 2021 Credit Facility includes a subfacility that provides for the issuance of letters of credit in an amount of up to $10.0 million at any time outstanding, which reduces the amount available under the 2021 Credit Facility. The 2021 Credit Facility is subject to customary fees for loan facilities of this type, including a commitment fee based on the average daily undrawn portion of the revolving credit facility. The Company expensed the commitment fee and included it in interest and other expense, net in the condensed consolidated statement of comprehensive loss. For the three and nine months ended September 30, 2021, the commitment fee incurred was immaterial. The interest rate applicable to the 2021 Credit Facility is, at the Company's option, either (a) the LIBOR (or a replacement rate established in accordance with the terms of the 2021 Credit Facility) (subject to a 0.00% LIBOR floor), plus a margin of 1.50% or (b) the CB floating rate minus a margin of 0.50%. The CB floating rate is the higher of (a) the Wall Street Journal prime rate and (b)(i) 2.50% plus (ii) the adjusted LIBOR rate for a one-month interest period. As of September 30, 2021, there was no outstanding balance under the 2021 Credit Facility.

The Company is subject to certain affirmative and negative covenants including the requirement that it maintains a total net leverage ratio of not more than 3.50:1.00 during the periods set forth in the 2021 Credit Facility. Failure to do so, unless waived by the lenders under the 2021 Credit Facility pursuant to its terms, as amended, would result in an event of default under the 2021 Credit Facility. As of September 30, 2021, the Company was in compliance with the net leverage ratio covenant.

7. Accrued Expenses

Accrued expenses consisted of the following as of:

(In thousands)	September 30, 2021	December 31, 2020
Payroll and payroll related expenses	$ 3,008	$ 6,115
Accrued inventory purchases	3,451	4,588
Accrued returns	2,262	2,585
Other accrued expenses	8,559	8,934
Total accrued expenses	$ 17,280	$ 22,222

8. Commitments and Contingencies

Litigation

From time to time, the Company is subject to various claims and contingencies which are in the scope of ordinary and routine litigation incidental to its business, including those related to regulation, litigation, business transactions, employee-related matters and taxes, among others. When the Company becomes aware of a claim or potential claim, the likelihood of any loss or exposure is assessed. If it is probable that a loss will result and the amount or range of the loss can be reasonably estimated, the Company records a liability for the loss and discloses the possible loss in the consolidated financial statements. Legal costs are expensed as incurred.

On September 17, 2019, the Nevada Department of Taxation (the "Department") issued a Deficiency Notice against the Company to initiate administrative legal proceedings before the Department for the alleged non-compliance with employee retention requirements provided in exchange for tax benefits in establishing the Company's Las Vegas distribution center in a December 2016 Abatement Agreement the Company had executed with the State of Nevada via its Governor's Office of Economic Development. The Company has denied the allegations. An administrative hearing was held in the matter on January 15, 2021. On June 9, 2021 the court upheld the Department's Deficiency Notice against the Company in its entirety. The loss resulting from this matter is $0.7 million including penalties and interest, for which the Company has paid $0.6 million as of September 30, 2021. During the nine months ended September 30, 2021, the Company recorded interest expense of $0.1 million in interest and other expense, net on the condensed consolidated statement of comprehensive loss. The Company filed its Notice of Appeal on July 1, 2021.

On September 23, 2020, the Center for Advanced Public Awareness ("CAPA") served a 60-Day Notice of Violation on the Company, alleging that the Company violated California's Health and Safety Code ("Prop 65") because of the amount of lead in the Company's Diaper Rash Cream and seeking statutory penalties and product warnings available under Prop 65. On October 22, 2021, CAPA filed a complaint in California Superior Court in the County of San Francisco for the alleged Prop 65 violations contained in its 60-Day Notice of Violation. The Company intends to vigorously defend itself in this matter. The matter's outcome and materiality are uncertain at this time. Therefore, the Company cannot estimate the probability of loss or make an estimate of the loss or range of loss in this matter.

On September 15, 2021, Cody Dixon filed a putative class action complaint in the U.S. District Court for the Central District of California alleging federal securities law violations by the Company, certain current officers and directors, and certain underwriters in connection with the Company's IPO. A second putative class action complaint containing similar allegations against the Company and certain current officers and directors was filed by Stephen Gambino on October 8, 2021 in the U.S. District Court for the Central District of California. These related complaints have been transferred to the same court and are subject to a Court approved stipulation under which the defendants' obligation to respond to these complaints has been stayed until the conclusion of the process set forth for the appointment of a Lead Plaintiff under the Private Securities Litigation Reform Act. The Company believes the complaints are without merit and intends to vigorously defend itself against these allegations. These matters are in the preliminary stages of litigation with uncertain outcomes at this time. Therefore, the Company cannot estimate the probability of the loss or make an estimate of the loss or range of loss in these matters.

As of September 30, 2021 and December 31, 2020, the Company is not subject to any other currently pending legal matters or claims that could have a material adverse effect on its financial position, results of operations, or cash flows should such litigation be resolved unfavorably.

Indemnifications

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to investors, directors and officers with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third parties. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is indeterminable. The Company has never paid a material claim, nor has the Company been involved in litigation in connection with these indemnification arrangements. As of September 30, 2021 and December 31, 2020, the Company has not accrued a liability for these guarantees as the likelihood of incurring a payment obligation, if any, in connection with these guarantees is not probable or reasonably estimable due to the unique facts and circumstances involved.

9. Stock-Based Compensation

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2021:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2020	18,038,042	$ 5.23
Granted	—	$ —
Exercised	(231,181)	$ 4.07
Forfeited	(360,404)	$ 5.15
Outstanding at September 30, 2021	17,446,457	$ 5.25

From 2018 to 2020, the Company granted stock options that vest based upon achieving a qualifying liquidity event, provided the employee remains employed on the date the vesting condition is satisfied. In conjunction with the IPO, 2,442,918 stock option awards with a weighted average exercise price of $5.54 vested based on the achievement of the IPO qualifying liquidity event, which resulted in the recognition of stock-based compensation expense of $3.1 million upon the effective date of the IPO registration statement.

2021 Equity Incentive Plan

In April 2021, the Company's board of directors adopted the Company's 2021 Equity Incentive Plan (the "2021 Plan"), which became effective in connection with the IPO. All equity-based awards granted on or after the effectiveness of the 2021 Plan will be granted under the 2021 Plan. The 2021 Plan provides for grants of incentive stock options ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), to the Company's employees and its parent and subsidiary corporations' employees, and for the grant of nonstatutory stock options ("NSOs"), stock appreciation rights, restricted stock awards, restricted stock units ("RSUs") awards, performance awards and other forms of awards to the Company's employees, directors and consultants and any of its affiliates' employees and consultants. Initially, the maximum number of shares of the Company's common stock that may be issued under its 2021 Plan will not exceed 25,025,580 shares of the Company's common stock. In addition, the number of shares of the Company's common stock reserved for issuance under its 2021 Plan will automatically increase on January 1 of each year for a period of ten years, beginning on January 1, 2022 and continuing through January 1, 2031, in an amount equal to (1) 4% of the total number of shares of the Company's common stock outstanding on December 31 of the immediately preceding year, or (2) a lesser number of shares determined by the Company's board of directors prior to the date of the increase. The maximum number of shares of the Company's common stock that may be issued on the exercise of ISOs under its 2021 Plan is 75,100,000 shares.

RSU Awards

The following table summarizes the RSU activity for the nine months ended September 30, 2021:

	Number of Shares		Weighted Average Grant Date Fair Value Per Share	
	Non-Employee Directors	Directors, Officers and Employees	Non-Employee Directors	Directors, Officers and Employees
Unvested RSUs at December 31, 2020	—	—	$ —	$ —
Granted[1]	118,651	2,605,555	$ 15.92	$ 14.31
Vested[2]	(10,899)	(158,266)	$ 15.59	$ 14.66
Forfeited	—	(5,694)	$ —	$ 14.66
Unvested RSUs at September 30, 2021	107,752	2,441,595	$ 15.96	$ 14.29

(1) Includes 200,000 RSUs granted to an officer of the Company in February 2021 under the 2011 Stock Incentive Plan.
(2) Includes 61,722 shares of common stock that were withheld to cover taxes on the release of vested RSUs and became available for future grants pursuant to the 2021 Plan.

As of September 30, 2021, there was $32.9 million of unrecognized stock-based compensation expense related to unvested RSUs, which is expected to be recognized over a weighted-average period of 4.12 years.

2021 Employee Stock Purchase Plan

In April 2021, the Company's board of directors adopted the Company's 2021 Employee Stock Purchase Plan (the "2021 ESPP"). The Company authorized the issuance of 1,175,000 shares of common stock under the 2021 ESPP. In addition, the number of shares available for issuance under the 2021 ESPP will be annually increased on January 1 of each year for a period of ten years, beginning on January 1, 2022 and continuing through January 1, 2031 by the lesser of (i) 1% of the total number of shares of common stock outstanding on December 31 of the immediately preceding year; and (ii) 3,525,000 shares, except before the date of any such increase, the Company's board of directors may determine that such increase will be less than the amount set forth in clauses (i) and (ii). Subject to any limitations contained therein, the 2021 ESPP allows eligible employees to contribute (in the form of payroll deductions or otherwise to the extent permitted by the administrator) an amount established by the administrator from time to time in its discretion to purchase common stock at a discounted price per share.

Under the 2021 ESPP, eligible employees are granted the right to purchase shares of common stock at the lower of 85% of the fair value at the time of grant or 85% of the fair value at the time of exercise. The right to purchase shares of common stock is granted in May and November of each year for an offering period of approximately six months. The first offering period under the 2021 ESPP commenced in May 2021. For the three and nine months ended September 30, 2021, no shares were purchased under the 2021 ESPP.

The following table summarizes the key input assumptions used in the Black-Scholes option-pricing model to estimate the grant-date fair value of the 2021 ESPP:

	For the nine months ended September 30, 2021
Expected life of options (in years)	0.50
Expected stock price volatility	54.83%
Risk free interest rate	0.04%
Expected dividend yield	—%
Weighted average grant-date fair value per share	$4.86

Stock-based Compensation Expense

Stock-based compensation expense related to RSU awards, ESPP purchases and stock options, as applicable, are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
(In thousands)				
Selling, general and administrative	$ 4,466	$ 1,714	$ 12,408	$ 5,801
Research and development	310	91	832	252
Total stock-based compensation expense	$ 4,776	$ 1,805	$ 13,240	$ 6,053

10. Net Income (Loss) per Share Attributable to Common Stockholders

The Company computes net income (loss) per share using the two-class method required for participating securities. The two-class method requires net income be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. In periods where the Company has net losses, losses are not allocated to participating securities as they are not required to fund the losses. The Company considers its redeemable convertible preferred stock to be participating securities as preferred stockholders have rights to participate in dividends with the common stockholders.

Basic net income (loss) attributable to common stockholders per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding. The Company computes diluted net income per share under a two-class method where income is reallocated between common stock, potential common stock and participating securities. Diluted net income (loss) per share attributable to common stockholders adjusts the basic net income (loss) per share attributable to common stockholders and the weighted-average number of shares of common stock outstanding for the potentially dilutive impact of stock options using the treasury stock method.

The following table sets forth the computation of the Company's basic and diluted net loss per share attributable to common stockholders:

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands, except for share and per share values)	2021	2020	2021	2020
Numerator:				
Net loss	$ (5,136)	$ (1,986)	$ (29,654)	$ (1,802)
Add: gain on conversion of preferred stock[(1)]	—	—	28,994	—
Less: dividends paid to preferred stockholders[(2)]	—	—	(20,637)	—
Net loss attributable to common stockholders - basic and diluted	$ (5,136)	$ (1,986)	$ (21,297)	$ (1,802)
Denominator:				
Weighted average shares of common stock outstanding - basic	90,397,409	34,084,819	64,399,183	34,071,770
Add: effect of dilutive stock options	—	—	—	—
Weighted average shares of common stock outstanding - diluted	90,397,409	34,084,819	64,399,183	34,071,770
Net loss per share, attributable to common shareholders:				
Basic and diluted	$ (0.06)	$ (0.06)	$ (0.33)	$ (0.05)

(1) The conversion price of the Company's Series C and Series D redeemable convertible preferred stock was adjusted as the offering price in the initial public offering was below a certain threshold resulting in the preferred stockholders receiving a fixed dollar amount on conversion settled into a variable number of shares, or a stock-settled redemption feature. Upon the settlement of this redemption feature, the Company recorded a gain on extinguishment of the redeemable convertible preferred stock of $29.0 million as an adjustment to net loss to arrive at net loss attributable to common stockholders to calculate earnings per share. The extinguishment gain was measured as the difference between the carrying amount of the redeemable convertible preferred stock and the fair value of common stock upon the IPO date that the preferred stock converted into.
(2) In April 2021, the Company's board of directors declared a cash dividend of $35.0 million to the holders of record of our common stock as of May 3, 2021, that was contingent upon the closing of the Company's IPO. On June 29, 2021, the Company paid the dividend, of which $20.6 million was paid to the holders of the Company's redeemable convertible preferred stock.

The following potentially dilutive shares were excluded from the computation of diluted net income (loss) per share because including them would have been antidilutive:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Redeemable convertible preferred stock(1)	—	49,100,928	—	49,100,928
Stock options to purchase common stock	17,446,457	18,146,740	17,446,457	18,146,740
Unvested restricted stock units	2,549,347	—	2,549,347	—
Employee stock purchase plan	30,789	—	30,789	—
Total	20,026,593	67,247,668	20,026,593	67,247,668

(1) Immediately prior to the completion of the IPO, 49,100,928 outstanding shares of redeemable convertible preferred stock with a carrying value of $376.4 million converted into 49,649,023 shares of common stock.

11. Income Taxes

In determining quarterly provisions for income taxes, the Company uses the annual estimated effective tax rate applied to the actual year-to-date loss, adjusted for discrete items arising in that quarter. The Company’s annual estimated effective tax rate differs from the U.S. federal statutory rate of 21% primarily as a result of a valuation allowance against net deferred tax assets, stock-based compensation, state taxes, and other permanent differences.

The Company has evaluated the available positive and negative evidence supporting the realization of its gross deferred tax assets, including cumulative losses, and the amount and timing of future taxable income, and has determined it is more likely than not that the assets will not be realized. Accordingly, the Company has recorded a full valuation allowance against the U.S. federal and state deferred tax assets as of each balance sheet date presented.

During the three and nine months ended September 30, 2021 and 2020, the Company has not recorded any uncertain tax positions and has not recognized interest or penalties in the condensed consolidated statement of comprehensive loss.

12. Related Party Transactions

In April 2020, the Company engaged Summit House Studios LLC, a third-party consultant, to provide digital ad production services. Summit House Studios LLC is owned by a major shareholder of the Company. Based on services provided, the Company incurred $0.1 million and $0.4 million, respectively, of advertising costs for the three and nine months ended September 30, 2021, and $0.1 million and $0.3 million, respectively, for the three and nine months ended September 30, 2020 which is reported as marketing expense in the Company’s condensed consolidated statements of comprehensive loss.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes as disclosed in our prospectus, dated May 4, 2021, filed with the Securities and Exchange Commission ("SEC") in accordance with Rule 424(b) of the Securities Act on May 6, 2021 (the "Prospectus") in connection with our initial public offering ("IPO").

Overview

The Honest Company, Inc. ("Honest" and, together with its consolidated subsidiaries, the "Company," "we," "us" and "our") is a digitally-native, mission-driven brand focused on leading the clean lifestyle movement, creating a community for conscious consumers and seeking to disrupt multiple consumer product categories. Our commitment to our core values, passionate innovation and engaging our community has differentiated and elevated our brand and our products. Since our launch in 2012, we have been dedicated to developing clean, sustainable, effective and thoughtfully-designed products. By doing so with transparency, we have cultivated deep trust around what matters most to our consumers: their health, their families and their homes. We are an omnichannel brand, ensuring our products are available however our consumers shop. Our differentiated platform positions us for continued growth through our trusted brand, award-winning multi-category product offering, deep digital-first connection with consumers and omnichannel accessibility.

Our integrated multi-category product architecture is intentionally designed to serve our consumers every day, at every age and through every life stage, no matter where they are on their journey. Our three categories are Diapers and Wipes, Skin and Personal Care, and Household and Wellness, which represented 65%, 31%, and 4%, respectively, of our revenue for the three months ended September 30, 2021, compared to 59%, 25%, and 16%, respectively, of our revenue for the three months ended September 30, 2020, and 63%, 32%, and 5%, respectively, of our revenue for the nine months ended September 30, 2021, compared to 66%, 26%, and 8%, respectively, of our revenue for the nine months ended September 30, 2020. At the center of our product ecosystem are our diapers, which are a strategic consumer acquisition tool that acts as an entry point for our portfolio, as new parents often go on to purchase products from our other categories for their everyday family needs. Our integrated multi-category product architecture is designed to drive loyalty, increase our consumer wallet share and generate attractive consumer lifetime value.

We believe that our consumers are modern, aspirational, conscious and style-forward and that they seek out high quality, effective and thoughtfully-designed products. We believe that they are passionate about living a conscious life and are enthusiastic ambassadors for brands they trust. As purpose-driven consumers, they transcend any one demographic, spanning gender, age, geography, ethnicity and household income. Honest consumers are often young, mobile-centric and digitally-inclined. We build relationships with these consumers through a disruptive digital marketing strategy that engages them with "snackable" digital content (short-form, easily digestible content), immerses them in our brand values, and inspires them to join the Honest community. Our direct connection with our community enables us to understand what consumers' needs are and inspires our product innovation pipeline, generating a significant competitive advantage over more traditional consumer packaged goods, or CPG, peers.

Our omnichannel approach seeks to meet consumers however they want to shop, balancing deep consumer connection with broad convenience and accessibility. Since our launch, we have built a well-integrated omnichannel presence by expanding our retail accessibility across both Digital and Retail channels, including the launch of strategic partnerships with Costco, Target and Amazon in 2013, 2014 and 2017, respectively. For the three months ended September 30, 2021, we generated 47% and 53% of our revenue from our Digital and Retail channels, respectively, compared to 56% and 44%, respectively, for the three months ended September 30, 2020. For the nine months ended September 30, 2021, we generated 49% and 51% of our revenue from our Digital and Retail channels, respectively, compared to 59% and 41%, respectively, for the nine months ended September 30, 2020. We maintain direct relationships with our consumers via our flagship digital platform, Honest.com, which allows us to influence brand experience and better understand consumer preferences and behavior. We increase accessibility of our products to more consumers through both the third-party pureplay ecommerce sites that, with Honest.com, comprise the rest of our Digital channel, and our Retail channel, which includes leading retailers and their websites. Our products can be found in approximately 40,000 retail locations across the United States, Canada and Europe. This distinctive business model has allowed us to efficiently scale our business while remaining agnostic as to the channel where consumers purchase our products. Our integrated omnichannel presence provides meaningful benefits to our consumers which we believe is not easily replicated by our competitors.

Innovation Strategy

Our Innovation Strategy was implemented in 2017, in order to reposition us for long-term success. In the first two years of implementing the Innovation Strategy, we underwent a period of transition during which we executed on portfolio simplification, product innovation and accelerated our shift from digital to omnichannel.

We remain focused on continuing to innovate in each of our product categories in areas such as breakthrough new product formulations, packaging and/or marketing strategy. We use our connectivity to our community of consumers to provide lifestyle insights that power our innovation across categories. We use innovation to support our growth objectives across our portfolio, as highlighted in the three core pillars of our Innovation Framework; that we bring product innovation that feeds and nurtures our core, stretches and expands within our existing product categories and explores and grows around new potential product adjacencies that fit with our value proposition to the consumer.

Initial Public Offering

On May 7, 2021, we completed our IPO of 25,807,000 shares of our common stock at a stock price of $16.00 per share, resulting in aggregate net proceeds to us of approximately $91.0 million, after deducting the underwriting discount and commissions of $6.7 million and offering expenses of $5.5 million. We sold 6,451,613 shares and certain existing stockholders sold an aggregate of 19,355,387 shares. We granted the underwriters an option for a period of 30 days to purchase up to an additional 3,871,050 shares of common stock from the selling stockholders at $16.00 per share less the underwriting discounts and commissions. In May 2021, the underwriters fully exercised the option to purchase these additional shares from the selling stockholders. We did not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

Key Factors Affecting Our Performance

We believe that the growth of our business and our future success are dependent on many factors. While each of these factors presents significant opportunities for us, they also pose important challenges that we must successfully address to enable us to sustain the growth of our business and improve our operations while staying true to our mission, including those discussed below and in the section of this Quarterly Report on Form 10-Q titled "Risk Factors."

Ability to Grow Our Brand Awareness

Our brand is integral to the growth of our business and is essential to our ability to engage and stay connected with the growing clean lifestyle consumer. Honest is still unknown to many consumers, with unaided brand awareness of 25% among diaper buyers according to our consumer research as of January 2021. In order to increase the wallet share of existing conscious consumers and attract new ones, our brand has to maintain its trustworthiness and authenticity. Our ability to attract new consumers will depend, among other things, on our ability to successfully produce products that are free of defects and communicate the value of those products as clean, sustainable and effective, the efficacy of our marketing efforts and the offerings of our competitors. Beyond preserving the integrity of our brand, our performance will depend on our ability to augment our reach and increase the number of consumers aware of Honest and our product portfolio. We believe our brand strength will enable us to continue to expand across categories and channels, allowing us to deepen relationships with consumers and expand our access to global markets. Our performance depends significantly on factors that may affect the level and pattern of consumer spending in the product categories in which we operate.

Continued Innovation

Research, development and innovation are core elements underpinning our growth strategy. Through our in-house research and development laboratories, we are able to access the latest advancements in clean ingredients and continue to innovate in the clean conscious lifestyle space. Based in Los Angeles, California, our research and development team, including chemists and an in-house toxicologist, develops innovative clean products based on the latest green technology. At Honest, product innovation never stops. The improvement of existing products and the introduction of new products have been, and continue to be, integral to our growth. We have made significant investments in our product development capabilities and plan to do so in the future. We believe our rigorous approach to product innovation has helped redefine and grow the clean and natural segments of the categories in which we operate. Our continued focus on research and development will be central to attracting and retaining consumers in the future. Our ability to successfully develop, market and sell new products will depend on a variety of factors, including our continued investment in innovation, integrated business planning processes and capabilities.

Continued Product Category Growth

Our product mix is a driver of our financial performance given our focus on accretive product launches and innovation to increase product margins. Even though our growth strategy aims to boost sales across all categories, we intend to prioritize growth in Skin and Personal Care given its attractive margin characteristics and leverage our brand equity and consumer insights to extend into new adjacent product categories. Since we launched our Innovation Strategy, we have enhanced our product portfolio by strategically discontinuing certain products and making calculated extensions within our three product categories. These product changes have contributed to our revenue and margin growth.

Continued Execution of Omnichannel Strategy

The continued execution of our omnichannel strategy impacts our financial performance. We intend to continue leveraging our marketing strategy to drive increased consumer traffic to our flagship digital platform, Honest.com, as it is a valuable tool for creating direct connections with our consumers, influencing brand experience and understanding consumer preference and behavior. Our partnerships with leading third-party retail platforms and national retailers have broadened our consumer reach, raised our brand awareness and enhanced our margins through operating leverage. We will continue to pursue partnerships with a wide variety of retailers, including online retailers, big-box retailers, grocery stores, drugstores and specialty retailers. Our ability to execute this strategy will depend on a number of factors, such as retailers' satisfaction with the sales and profitability of our products, channel shifts of their customers, and their own supply chain, order timing, and inventory needs, which may fluctuate from period to period. In the second quarter of fiscal 2021, we experienced volatility in orders from a key digital partner that reduced its inventory on-hand in consumables to free up space for other products ahead of a major promotional event. In the third quarter of fiscal 2021, orders from this key digital partner have come back in line with end-consumer consumption, although we have not seen inventory levels at this customer return to levels prior to the second quarter of fiscal 2021. We have a new arrangement with this digital partner and in the three months ended September 30, 2021 this partner began to fulfill orders to their customers from a dedicated space within our warehouse, which allows them to free up space in their own warehouse and accelerate shipment time to the end consumer.

Operational and Marketing Efficiency

To grow our business, we intend to continue to improve our operational and marketing efficiency, which includes attracting new consumers, increasing community engagement and improving fulfillment and distribution operations. We invest significant resources in marketing and content generation, use a variety of brand and performance marketing channels and work continuously to improve brand exposure at our retail partners to acquire new consumers. It is important to maintain reasonable costs for these marketing efforts relative to the revenue we expect to derive from our consumers. We leverage our proprietary Honest Omni-Analytics to generate valuable consumer insights that guide our omnichannel strategy and inform our marketing spend optimization. Our future success depends in part on our ability to effectively attract consumers on a cost-efficient basis and achieve efficiencies in our operations.

Overall Macro Trends

We have strategically positioned ourselves to benefit from several macro trends related to changes in consumer behavior. We believe consumers' increasing interest in a conscious lifestyle has contributed to significant demand for our products. Further, the rise in digital shopping has complemented our flagship digital platform, Honest.com, our presence with third-party ecommerce players and our Retail partners' websites. In 2021, we have seen a significant shift from Digital to Retail as more consumers have become vaccinated and have chosen to return to in-store shopping. Changes in macro-level consumer spending trends, including as a result of the COVID-19 pandemic, could result in fluctuations in our operating results.

Impact of COVID-19

The COVID-19 pandemic caused general business disruption worldwide beginning in January 2020. The full extent to which the COVID-19 pandemic will directly or indirectly impact our cash flow, business, financial condition, results of operations and prospects will depend on future developments that are uncertain.

As a result of the COVID-19 pandemic, our headquarters has been temporarily closed but we are beginning to reopen in a limited capacity. We have also implemented travel restrictions. These actions represent a significant change in how we operate our business, but we believe that we successfully navigated this transition. In an effort to provide a safe work environment for our employees, we have implemented various social distancing measures, including replacing many in-person meetings with virtual interactions. We will continue to take actions as may be required or recommended by government or health authorities or as we determine are in the best interests of our employees and other business partners in light of the pandemic.

We have experienced some impacts on our inventory availability and delivery capacity since the outbreak, which to date has not materially impacted our ability to service our consumers and retail and third-party ecommerce customers. We have taken measures to bolster key aspects of our supply chain, such as ensuring sufficient inventory to support our continued growth in the face of the pandemic. We continue to work with our existing manufacturing, logistics and other supply chain partners to ensure our ability to service our consumers and retail and third-party ecommerce customers. We have experienced an increase in commodity prices, labor costs, input costs and transportation costs that we expect to continue at least through the fourth quarter of 2021. We plan to offset these additional costs with productivity or pricing adjustments that will begin to take effect in the first quarter of 2022.

We believe that during 2020, COVID-19 drove a demand shift towards our Digital channel as consumers shifted to online shopping amid the pandemic. We have seen this trend reverse in 2021 as consumers became vaccinated and returned to in-store shopping. Additionally, in 2020 our Household and Wellness product category benefited from increasing demand for sanitization products. In response, we accelerated our development timeline for certain product launches, launching our disinfecting spray and alcohol wipes in 2020. In 2021, we have seen a decrease in consumer demand as more consumers have become vaccinated and retailers continue to manage heavy inventories of sanitization and disinfecting products in stores. Due to the reduction in consumer demand for sanitizing and disinfecting products, we are currently carrying higher levels of inventory in our Household and Wellness product category. The appropriate level of our inventory reserve is based on current and forecasted demand. Management is implementing strategies to address this reduction in demand and the related impact on gross margin, including higher markdowns and promotions to clear through inventory, liquidation efforts, investing in new product ideas and developing new creative advertising. There is no guarantee that customer demand will increase in our favor or that we will be able to successfully implement these strategies. Depending on future consumer behavior in relation to changes in the COVID-19 pandemic and related aging of inventory, among other factors, we may incur additional inventory reserves and customer returns. As we have seen increased consumer willingness to return to in-store shopping as the economy opens and more of the population is vaccinated, we also have seen demand acceleration driving revenue growth within our Retail channel, specifically within our Diapers and Wipes and Skin and Personal Care product categories in 2021.

The operations of our retail partners, manufacturers and suppliers have also been impacted by the COVID-19 pandemic. While the duration and extent of the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, it has already had an adverse effect on the global economy and the ultimate societal and economic impact of the COVID-19 pandemic remains unknown. In particular, the conditions caused by this pandemic may negatively impact collections of accounts receivable and reduce expected spending from new consumers, all of which could adversely affect our business, financial condition, results of operations and prospects during fiscal 2021 and potentially future periods.

Components of Results of Operations

Revenue

We generate revenue through the sale of our products through Digital and Retail channels in the following product categories: Diapers and Wipes, Skin and Personal Care, and Household and Wellness. The Digital channel includes direct sales to the consumer through our website and sales to third-party ecommerce customers, who resell our products through their own online platforms. The Retail channel includes sales to traditional brick and mortar retailers, who may also resell our products through their own online platforms. Our revenue is recognized net of allowances for returns, discounts, credits and any taxes collected from consumers.

In 2019 we entered into a license agreement with Butterblu, LLC, or Butterblu, pursuant to which we license certain of our trademarks to Butterblu for the manufacture and distribution of certain baby apparel products in exchange for royalties. Butterblu operates and maintains our baby apparel offerings independently through the honestbabyclothing.com website. Our baby apparel offerings and our agreement with Butterblu are not currently material to our business and not expected to be material in the future. For the three and nine months ended September 30, 2021, we collected $0.2 million and $0.7 million, respectively, in royalty revenue. For the three and nine months ended September 30, 2020, we did not collect any royalty revenue under this agreement due in part because we granted Butterblu temporary payment relief.

Cost of Revenue

Cost of revenue includes the purchase price of merchandise sold to customers, inbound and outbound shipping and handling costs, freight and duties, shipping and packaging supplies, credit card processing fees and warehouse fulfillment costs incurred in operating and staffing warehouses, including rent. Cost of revenue also includes depreciation and amortization for warehouse fulfillment facilities and equipment, allocated overhead and direct and indirect labor for warehouse personnel.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin may in the future fluctuate from period to period based on a number of factors, including the mix of products we sell, the channel through which we sell our products, the innovation initiatives we undertake in each product category, the promotional environment in the marketplace, manufacturing costs, commodity prices and transportation rates, among other factors.

Operating Expenses

Our operating expenses consist of selling, general and administrative, marketing and research and development expenses.

Selling, General and Administrative

Selling, general and administrative expenses consist primarily of personnel costs, principally for our selling and administrative functions. These include personnel-related expenses, including salaries, bonuses, benefits and stock-based compensation expense. Selling, general and administrative expenses also include technology expenses, professional fees, facility costs, including insurance, utilities and rent relating to our headquarters, depreciation and amortization and overhead costs. We expect our general and administrative expenses to increase in absolute dollars as we continue to grow our business and organizational capabilities. We will also incur additional costs for employees and third-party professional fees related to operating as a public company and costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations, and increased expenses for insurance, investor relations and professional services.

Marketing

Marketing expenses include costs related to our branding initiatives, retail customer marketing activities, point of purchase displays, targeted online advertising through sponsored search, display advertising, email and influencer marketing campaigns, market research, content production and other public relations and promotional initiatives. We expect marketing expenses to continue to increase in absolute dollars as we continue to expand brand awareness, introduce new product innovation across multiple product categories and implement new marketing strategies.

Research and Development

Research and development expenses consist primarily of personnel-related expenses for our research and development team. Research and development expenses also include costs incurred for the development of new products, improvement in the quality of existing products and the development and implementation of new technologies to enhance the quality and value of products. Research and development expenses also include allocated depreciation and amortization and overhead costs. We expect research and development expenses to increase in absolute dollars as we invest in the enhancement of our product offerings through innovation and the introduction of new adjacent product categories.

IPO-Related Expenses

In December 2020, we paid bonuses totaling $9.5 million to certain employees, including members of management, relating to preparation of our IPO, and after the closing of the IPO, we paid an additional $9.5 million in bonuses to certain employees, including members of management, which we collectively refer to as the IPO Bonuses, excluding in each case payroll taxes and expenses. The IPO Bonuses were recognized in selling, general and administrative and research and development expense. In addition, upon the effective date of the registration statement for our IPO in May 2021, we recognized stock-based compensation expense in selling, general and administrative and research and development expenses of $3.1 million related to certain performance and market-based stock options that vested upon this liquidity event and $0.2 million related to certain restricted stock units.

Interest and Other Income (Expense), Net

Interest income consists primarily of interest income earned on our short-term investments and our cash and cash equivalents balances. Interest expense consists primarily of the portion of rent payments recognized as imputed interest expense under build-to-suit accounting associated with our leasing arrangements.

Other income (expense), net consists primarily of our foreign currency exchange gains and losses relating to transactions denominated in currencies other than the U.S. dollar. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in both the volume of foreign currency transactions and foreign currency exchange rates.

Income Tax Provision

We are subject to federal and state income taxes in the United States. Our annual estimated tax rate differed from the U.S. federal statutory rate of 21% primarily as a result of a valuation allowance against deferred tax assets, stock-based compensation, state taxes, and other permanent differences. We maintain a full valuation allowance for our federal and state deferred tax assets, including net operating loss carryforwards, as we have concluded that it is not more likely than not that the deferred tax assets will be realized.

Results of Operations

The following table sets forth our condensed consolidated statements of operations data for each of the periods indicated:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
(In thousands)				
Revenue	$ 82,651	$ 77,928	$ 238,258	$ 222,654
Cost of revenue	52,892	48,519	153,177	140,953
Gross profit	29,759	29,409	85,081	81,701
Operating expenses				
Selling, general and administrative[1]	18,568	16,202	65,356	45,848
Marketing	13,687	13,516	41,868	33,334
Research and development[1]	2,092	1,425	6,082	3,691
Total operating expenses	34,347	31,143	113,306	82,873
Operating loss	(4,588)	(1,734)	(28,225)	(1,172)
Interest and other income (expense), net	(526)	(230)	(1,362)	(564)
Loss before provision for income taxes	(5,114)	(1,964)	(29,587)	(1,736)
Income tax provision	22	22	67	66
Net loss	$ (5,136)	$ (1,986)	$ (29,654)	$ (1,802)

[1] Includes stock-based compensation expense as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
(In thousands)				
Selling, general and administrative	$ 4,466	$ 1,714	$ 12,408	$ 5,801
Research and development	310	91	832	252
Total	$ 4,776	$ 1,805	$ 13,240	$ 6,053

The following table sets forth our condensed consolidated statements of operations data expressed as a percentage of revenue*:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
	(as a percentage of revenue)			
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	64.0	62.3	64.3	63.3
Gross profit	36.0	37.7	35.7	36.7
Operating expenses				
Selling, general and administrative	22.5	20.8	27.4	20.6
Marketing	16.6	17.3	17.6	15.0
Research and development	2.5	1.8	2.6	1.7
Total operating expenses	41.6	40.0	47.6	37.2
Operating loss	(5.6)	(2.1)	(11.8)	(0.5)
Interest and other income (expense), net	(0.6)	(0.3)	(0.6)	(0.3)
Loss before provision for income taxes	(6.2)	(2.4)	(12.4)	(0.8)
Income tax provision	—	—	—	—
Net loss	(6.2) %	(2.4) %	(12.4) %	(0.8) %

* Amounts may not sum due to rounding.

Comparison of the Three and Nine Months Ended September 30, 2021 and 2020

Revenue

	For the three months ended September 30,				For the nine months ended September 30,			
	2021	2020	$ change	% change	2021	2020	$ change	% change
(In thousands, except percentages)								
By Product Category								
Diapers and Wipes	$ 53,847	$ 46,283	$ 7,564	16.3 %	$ 151,251	$ 145,510	$ 5,741	3.9 %
Skin and Personal Care	25,375	19,779	5,596	28.3	75,486	58,819	16,667	28.3
Household and Wellness	3,429	11,866	(8,437)	(71.1)	11,521	18,325	(6,804)	(37.1)
Total Revenue	$ 82,651	$ 77,928	$ 4,723	6.1 %	$ 238,258	$ 222,654	$ 15,604	7.0 %

	For the three months ended September 30,				For the nine months ended September 30,			
	2021	2020	$ change	% change	2021	2020	$ change	% change
(In thousands, except percentages)								
By Channel								
Digital	$ 39,114	$ 43,952	$ (4,838)	(11.0) %	$ 116,395	$ 131,513	$ (15,118)	(11.5) %
Retail	43,537	33,976	9,561	28.1	121,863	91,141	30,722	33.7
Total Revenue	$ 82,651	$ 77,928	$ 4,723	6.1 %	$ 238,258	$ 222,654	$ 15,604	7.0 %

Revenue was $82.7 million for the three months ended September 30, 2021, as compared to $77.9 million for the three months ended September 30, 2020. The increase of $4.7 million, or 6.1%, was primarily due to a $7.6 million increase in revenue from Diapers and Wipes and a $5.6 million increase in revenue from Skin and Personal Care products, offset by a $8.4 million decrease in revenue from Household and Wellness products. The revenue increase in Diapers and Wipes was primarily driven by the increase in sales volume of our diaper business with our new Clean Conscious Diaper product offering, as well as the sale of wipes, especially in the Retail channel. The revenue increase in Skin and Personal Care was primarily driven by increased sales volume in our products across the Retail channel as a result of continued investment in marketing innovation, our Content, Community, Commerce marketing strategy and incremental distribution with our retail partners. The Household and Wellness revenue decrease was primarily driven by a decrease in overall consumer demand for sanitization and disinfecting products during the three months ended September 30, 2021, as compared to increased consumption levels during the three months ended September 30, 2020. The high level of demand in the three months ended September 30, 2020 was driven by the introduction of new disinfecting and sanitizing products in August 2020 during peak COVID demand.

Revenue was $238.3 million for the nine months ended September 30, 2021, as compared to $222.7 million for the nine months ended September 30, 2020. The increase of $15.6 million, or 7.0%, was primarily due to a $16.7 million increase in revenue from Skin and Personal Care products and a $5.7 million increase in revenue from Diapers and Wipes, offset by a $6.8 million decrease in revenue from Household and Wellness products. The revenue increase from Skin and Personal Care was primarily driven by increased sales volume on our products across the Retail channel as a result of continued investment in marketing innovation, our Content, Community, Commerce marketing strategy, expanded distribution and merchandising programs with our retail partners and improved retail unit volume, including $4.5 million through the non-monetary sale of our legacy beauty inventory in exchange for future marketing and transportation credits. The revenue increase in Diapers and Wipes was primarily driven by the increase in sales volume of our diaper business with our new Clean Conscious Diaper product offering, especially in the Retail channel. The revenue decrease in Household and Wellness was primarily due to a decrease in overall consumer demand for sanitization and disinfecting products as more consumers became vaccinated against COVID-19 during the nine months ended September 30, 2021.

Revenue growth increased in our Retail channel for the three and nine months ended September 30, 2021, compared to the three and nine months ended September 30, 2020, primarily due to the continued channel shift to Retail as sales across products saw higher volumes with our retail partners as more consumers became vaccinated against COVID-19 and returned to in-store shopping. In addition to this shift, we also saw continued retail distribution expansion, additional merchandising programs and overall increases in retail unit volume with our retail partners. The reduction in revenue in our Digital channel was primarily due to the Retail channel shift, lower traffic to our Digital platforms including Honest.com, in the nine months ended September 30, 2021, and a reduction in inventory on-hand by a key digital partner who reduced inventory in consumables in the second quarter of 2021 to free up space for other products ahead of a major promotional event.

Cost of Revenue and Gross Profit

	For the three months ended September 30,				For the nine months ended September 30,			
	2021	**2020**	**$ change**	**% change**	**2021**	**2020**	**$ change**	**% change**
(In thousands, except percentages)								
Cost of revenue	$ 52,892	$ 48,519	$ 4,373	9.0 %	$ 153,177	$ 140,953	$ 12,224	8.7 %
Gross profit	$ 29,759	$ 29,409	$ 350	1.2 %	$ 85,081	$ 81,701	$ 3,380	4.1 %

Cost of revenue was $52.9 million for the three months ended September 30, 2021, as compared to $48.5 million for the three months ended September 30, 2020. The increase of $4.4 million, or 9.0%, was primarily due to increased product and fulfillment costs associated with increased sales volume, offset by a decrease in shipping expenses associated with the shift in revenue from our Digital channel to our Retail channel. Cost of revenue as a percentage of revenue increased by 173 basis points primarily due to higher input costs, especially in transportation, freight and warehouse labor costs, along with a more normalized level of trade spend as compared to the three months ended September 30, 2020.

Gross profit was $29.8 million for the three months ended September 30, 2021, as compared to $29.4 million for the three months ended September 30, 2020. The increase of $0.4 million, or 1.2%, was primarily due to the increased sales of our Diapers and Wipes and Skin and Personal Care products.

Cost of revenue was $153.2 million for the nine months ended September 30, 2021, as compared to $141.0 million for the nine months ended September 30, 2020. The increase of $12.2 million, or 8.7%, was primarily due to increased product costs and fulfillment expenses associated with the increased sales of our products, as well as $3.8 million cost of revenue from the non-monetary sale of our legacy beauty inventory in exchange for future marketing and transportation credits. Cost of revenue as a percentage of revenue increased by 98 basis points primarily due to a more normalized level of trade spend and higher input costs, especially in transportation, freight and warehouse labor costs as compared to the nine months ended September 30, 2020.

Gross profit was $85.1 million for the nine months ended September 30, 2021, as compared to $81.7 million for the nine months ended September 30, 2020. The increase of $3.4 million, or 4.1%, was primarily due to the increased sales of our Skin and Personal Care and Diapers and Wipes products.

Operating Expenses

Selling, General and Administrative Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
	2021	2020	$ change	% change	2021	2020	$ change	% change
(In thousands, except percentages)								
Selling, general and administrative	$ 18,568	$ 16,202	$ 2,366	14.6 %	$ 65,356	$ 45,848	$ 19,508	42.5 %

Selling, general and administrative expenses were $18.6 million for the three months ended September 30, 2021 as compared to $16.2 million for the three months ended September 30, 2020. The increase of $2.4 million, or 14.6%, was primarily due to an increase of $2.8 million in stock-based compensation expense.

Selling, general and administrative expenses were $65.4 million for the nine months ended September 30, 2021 as compared to $45.8 million for the nine months ended September 30, 2020. The increase of $19.5 million, or 42.5%, was primarily due to increased costs associated with both preparing to be and operating as a public company. These incremental expenses included a $9.1 million bonus payment to certain employees, including members of management, excluding in each case payroll taxes and expenses, as well as an increase of $6.6 million in stock-based compensation expense, $1.8 million in audit fees and $1.2 million in legal expenses compared to the nine months ended September 30, 2020.

Marketing Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
	2021	2020	$ change	% change	2021	2020	$ change	% change
(In thousands, except percentages)								
Marketing	$ 13,687	$ 13,516	$ 171	1.3 %	$ 41,868	$ 33,334	$ 8,534	25.6 %

Marketing expenses were $13.7 million for the three months ended September 30, 2021, as compared to $13.5 million for the three months ended September 30, 2020.

Marketing expenses were $41.9 million for the nine months ended September 30, 2021, as compared to $33.3 million for the nine months ended September 30, 2020. The increase of $8.5 million, or 25.6%, was primarily due to an increase of $3.7 million in retail marketing expenses, $2.7 million in digital advertising expenses and $0.8 million in video and photo production costs. The increase in retail marketing expense was driven in part by the launch of our Clean Conscious Diaper in January 2021, as well as by marketing for a key digital partner’s promotional event. The increase in digital advertising expenses drove our Content, Community, Commerce marketing strategy within Skin and Personal Care and Diapers and Wipes. The increase in video and production costs were primarily related to our new innovations and other promotional events launched in the first nine months of 2021, including our new Clean Conscious Diaper product offering and our new sustainable package initiative and new line of skin care products, which we refer to as our "Beauty Restage".

Research and Development Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
	2021	2020	$ change	% change	2021	2020	$ change	% change
(In thousands, except percentages)								
Research and development	$ 2,092	$ 1,425	$ 667	46.8 %	$ 6,082	$ 3,691	$ 2,391	64.8 %

Research and development expenses were $2.1 million for the three months ended September 30, 2021, as compared to $1.4 million for the three months ended September 30, 2020. The increase of $0.7 million, or 46.8%, was primarily due to an increase in employee expenses including stock-based compensation of $0.2 million, clinical and claims testing expenses of $0.2 million and research and innovation expenses of $0.1 million.

Research and development expenses were $6.1 million for the nine months ended September 30, 2021, as compared to $3.7 million for the nine months ended September 30, 2020. The increase of $2.4 million, or 64.8%, was primarily due to an increase in product development expenses and employee expenses. The increase in product development expenses of $1.1 million included an increase of $0.6 million in clinical and claims testing expenses. The increase in employee expenses was driven by an increase of $0.6 million in stock-based compensation and $0.4 million bonus payment to certain employees, including management, excluding in each case payroll taxes and expenses, in connection with the IPO.

Interest and Other Income (Expense), Net

	For the three months ended September 30,				For the nine months ended September 30,			
	2021	2020	$ change	% change	2021	2020	$ change	% change
(In thousands, except percentages)								
Interest and other income (expense), net	$ (526)	$ (230)	$ (296)	128.7 %	$ (1,362)	$ (564)	$ (798)	141.5 %

Interest and other income (expense), net was net expense of $0.5 million for the three months ended September 30, 2021, as compared to net expense of $0.2 million for the three months ended September 30, 2020.

Interest and other income (expense), net was net expense of $1.4 million for the nine months ended September 30, 2021, as compared to net expense of $0.6 million for the nine months ended September 30, 2020. The increase of $0.8 million, or 141.5%, was primarily due to a decrease in interest income on our short-term investments due to a lower average investment balance and lower average interest rates.

Liquidity and Capital Resources

We have incurred net losses and net cash outflows from operating activities since our inception. To date, our available liquidity and operations have been financed primarily through the sale of redeemable convertible preferred stock, equity securities and to a lesser extent, debt financing. As of September 30, 2021, we had $27.7 million of cash and cash equivalents and $62.7 million of short-term investments. Although we are dependent on our ability to raise capital or generate sufficient cash flow from operations to achieve our business objectives, we believe our existing cash, cash equivalents, and short-term investments will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. Future capital requirements will depend on many factors, including our rate of revenue growth, gross margin and the level of expenditures in all areas of the Company. To the extent that existing capital resources and sales growth are not sufficient to fund future activities, we will need to raise capital through additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all. Failure to raise additional capital, if and when needed, could have a material adverse effect on our financial position, results of operations, and cash flows.

2021 Credit Facility

In April 2021, we entered into a first lien credit agreement (the “2021 Credit Facility”), with JPMorgan Chase Bank, N.A., as administrative agent and lender, and the other lenders party thereto, which provides for a $35.0 million revolving credit facility that matures on April 30, 2026. The 2021 Credit Facility includes a subfacility that provides for the issuance of letters of credit in an amount of up to $10.0 million at any time outstanding, which reduces the amount available under the 2021 Credit Facility.

The 2021 Credit Facility is subject to customary fees for loan facilities of this type, including a commitment fee based on the average daily undrawn potion of the revolving credit facility. The interest rate applicable to the 2021 Credit Facility is, at our option, either (a) the LIBOR (or a replacement rate established in accordance with the terms of the 2021 Credit Facility) (subject to a 0.00% LIBOR floor), plus a margin of 1.50% or (b) the CB floating rate minus a margin of 0.50%. The CB floating rate is the higher of (a) the Wall Street Journal prime rate and (b)(i) 2.50% plus (ii) the adjusted LIBOR rate for a one-month interest period.

The 2021 Credit Facility terminates and borrowings thereunder, if any, will be due on April 30, 2026. As of September 30, 2021, there was no outstanding balance under the 2021 Credit Facility. We are required to follow certain covenants. As of November 8, 2021, we were in compliance with all covenants under the 2021 Credit Facility.

Refer to Note 6 included in these condensed consolidated financial statements for more information on the 2021 Credit Facility.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	For the nine months ended September 30,	
(In thousands)	**2021**	**2020**
Net cash (used in) provided by operating activities	$ (36,359)	$ 5,133
Net cash (used in) provided by investing activities	$ (28,734)	$ 43,654
Net cash provided by (used in) financing activities	$ 55,559	$ (720)

Operating Activities

Our largest source of operating cash is from the sales of our products through Digital and Retail channels to our consumers. Our primary uses of cash from operating activities are for cost of revenue expenses, selling, general and administrative expenses, marketing expenses and research and development expenses. We have generated negative cash flows from operating activities and have supplemented working capital requirements through net proceeds from the sale and maturity of short-term investments.

Net cash used in operating activities of $36.4 million for the nine months ended September 30, 2021 was primarily due to net loss of $29.7 million, non-cash adjustments of $16.6 million and a net decrease in cash related to changes in operating assets and liabilities of $23.3 million. Non-cash adjustments primarily consisted of stock-based compensation of $13.2 million and depreciation and amortization of $3.1 million. Changes in cash flows related to operating assets and liabilities primarily consisted of a $8.9 million increase in accounts receivable due to higher revenue from retail customers, a $7.6 million increase in prepaid expenses and other assets due to timing of payments, as well as the non-monetary sale of our legacy beauty inventory for future marketing and transportation credits, a $1.2 million increase in inventory due to timing of inventory purchases and a $5.8 million use of cash due to the timing of payments associated with our accounts payable and operating leasing obligations.

Net cash provided by operating activities of $5.1 million for the nine months ended September 30, 2020 was primarily due to net loss of $1.8 million, non-cash adjustments of $9.8 million and a net decrease in cash related to changes in operating assets and liabilities of $2.9 million. Non-cash adjustments primarily consisted of stock-based compensation of $6.1 million and depreciation and amortization of $3.7 million. Changes in cash flows related to operating assets and liabilities primarily consisted of a $21.7 million increase in inventory due to the timing of inventory purchases. This use of cash was partially offset by a $17.7 million decrease in accounts payable and operating leasing obligations due to the timing of associated payments, $0.6 million decrease in prepaid expenses and other assets and a $0.6 million decrease in accounts receivable due to timing of cash collection from retail customers.

Investing Activities

Our primary source of investing cash is the sale and maturity of short-term investments and our primary use of investing cash is the purchase of short-term investments and property and equipment.

Net cash used in investing activities of $28.7 million for the nine months ended September 30, 2021 was due to purchases of short-term investments of $65.3 million, offset by proceeds from the sales and maturities of short-term investments of $26.9 million and $9.9 million, respectively.

Net cash provided by investing activities of $43.7 million for the nine months ended September 30, 2020 was due to maturities and sales of short-term investments of $44.0 million and $5.8 million, respectively, net of purchases of short-term investments of $6.0 million.

Financing Activities

Our financing activities primarily consisted of payments of sales of securities, deferred offering cost, stock option award exercises and principal payments of financing lease obligations.

Net cash provided by financing activities of $55.6 million for the nine months ended September 30, 2021 primarily consisted of proceeds from our IPO of $96.5 million, net of underwriting discounts and commissions, offset by dividend payments of $35.0 million and payments of offering costs in connection with our IPO of $5.5 million.

Net cash used in financing activities of $0.7 million for the nine months ended September 30, 2020 primarily consisted of principal payments of financing lease obligations of $0.7 million.

Dividends

In April 2021, our board of directors declared a cash dividend of $35.0 million to the holders of record of our common stock and our redeemable convertible preferred stock as of May 3, 2021, which we paid on June 29, 2021 (the "2021 Dividend"). Other than the 2021 Dividend, we have not declared or paid cash dividends on our capital stock, and we do not anticipate declaring or paying any cash dividends other than the 2021 Dividend in the foreseeable future. Any future determination regarding the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions (including any restrictions in our then-existing debt arrangements), capital requirements, business prospects and other factors our board of directors may deem relevant. The 2021 Credit Facility contains restrictions on our ability to pay dividends.

Non-GAAP Financial Measure

We prepare and present our condensed consolidated financial statements in accordance with GAAP. However, management believes that adjusted EBITDA, a non-GAAP financial measure, provides investors with additional useful information in evaluating our performance.

We calculate adjusted EBITDA as net income (loss), adjusted to exclude: (1) interest and other (income) expense, net; (2) income tax provision; (3) depreciation and amortization; (4) stock-based compensation expense; (5) professional fees and expenses and executive termination expenses related to our Innovation Strategy; (6) litigation and settlement fees associated with certain non-ordinary course litigation; and (7) the IPO Bonuses, including associated payroll taxes and expenses, and third-party costs associated with our IPO.

Adjusted EBITDA is a financial measure that is not required by, or presented in accordance with GAAP. We believe that adjusted EBITDA, when taken together with our financial results presented in accordance with GAAP, provides meaningful supplemental information regarding our operating performance and facilitates internal comparisons of our historical operating performance on a more consistent basis by excluding certain items that may not be indicative of our business, results of operations or outlook. In particular, we believe that the use of adjusted EBITDA is helpful to our investors as it is a measure used by management in assessing the health of our business, determining incentive compensation and evaluating our operating performance, as well as for internal planning and forecasting purposes.

Adjusted EBITDA is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Some of the limitations of adjusted EBITDA include that (1) it does not reflect capital commitments to be paid in the future, (2) although depreciation and amortization are non-cash charges, the underlying assets may need to be replaced and adjusted EBITDA does not reflect these capital expenditures, (3) it does not consider the impact of stock-based compensation expense, (4) it does not reflect other non-operating expenses, including interest expense, (5) it does not include the IPO Bonuses, including associated payroll taxes and expenses, or third-party costs associated with the preparation of the IPO, (6) it does not reflect tax payments that may represent a reduction in cash available to us, and (7) does not include certain non-ordinary cash expenses that we do not believe are representative of our business on a steady-state basis. In addition, our use of adjusted EBITDA may not be comparable to similarly titled measures of other companies because they may not calculate adjusted EBITDA in the same manner, limiting its usefulness as a comparative measure. Because of these limitations, when evaluating our performance, you should consider adjusted EBITDA alongside other financial measures, including our net income (loss) and other results stated in accordance with GAAP.

The following table presents a reconciliation of net income (loss), the most directly comparable financial measure stated in accordance with GAAP, to adjusted EBITDA, for each of the periods presented:

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Reconciliation of Net Loss to Adjusted EBITDA				
Net loss	$ (5,136)	$ (1,986)	$ (29,654)	$ (1,802)
Interest and other (income) expense, net	526	230	1,362	564
Income tax provision	22	22	67	66
Depreciation and amortization	1,019	1,150	3,135	3,707
Stock-based compensation	4,776	1,805	13,240	6,053
Innovation Strategy expenses(1)	—	815	—	1,386
Related IPO costs and other transaction-related expenses(2)	—	110	12,160	110
Adjusted EBITDA	$ 1,207	$ 2,146	$ 310	$ 10,084

(1) Includes professional fees and expenses and executive severance and termination expenses related to our Innovation Strategy.

(2) Includes IPO-related costs, including IPO Bonuses, and other transaction-related third-party expenses, which are generally incremental costs incurred associated with the preparation of the IPO.

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations from those described in the Prospectus.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet financing arrangements or any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q are prepared in accordance with GAAP. The preparation of consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from our estimates. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

Our critical accounting policies are described under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in the Prospectus and the notes to the audited consolidated financial statements appearing in the Prospectus. During the three and nine months ended September 30, 2021, there were no material changes to our critical accounting policies from those discussed in our Prospectus.

Recent Accounting Pronouncements

Refer to Note 2 to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a discussion of recently issued accounting pronouncements not yet adopted.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign currency exchange rates.

Interest Rate Risk

We had cash and cash equivalents of $27.7 million as of September 30, 2021, which consisted of bank accounts, money market funds, certificates of deposit and corporate bonds. We had short-term investments of $62.7 million as of September 30, 2021, which consisted of commercial paper, certificates of deposit, corporate bonds and U.S. government and agency securities. Interest-earning instruments carry a degree of interest rate risk. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. Due to the short-term nature of our investments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. A hypothetical 10% change in interest rates would not result in a material impact on our condensed consolidated financial statements.

We are also subject to interest rate risk in connection with our 2021 Credit Facility. See the section titled “—Liquidity and Capital Resources—2021 Credit Facility” above. Based on the average interest rate on the instruments under the 2021 Credit Facility during the three and nine months ended September 30, 2021, and to the extent that borrowings were outstanding, we do not believe that a hypothetical 10% change in the interest rate would have a material effect on our results of operations or financial condition for the three and nine months ended September 30, 2021.

Foreign Currency Exchange Risk

Our reporting currency is the U.S. dollar. Gains or losses due to transactions in foreign currencies are reflected in the condensed consolidated statements of comprehensive loss under the line item interest and other income (expense), net. We have not engaged in the hedging of foreign currency transactions to date, although we may choose to do so in the future. We do not believe that an immediate 10% increase or decrease in the relative value of the U.S. dollar to other currencies would have a material effect on our condensed consolidated financial statements.

Inflation Risk

We have experienced an increase in commodity prices, labor costs, input costs and transportation costs that we expect to continue at least through the fourth quarter of 2021. If we are unable to offset these changing costs through price increases or cost reductions, our inability or failure to do so could harm our business, results of operations and financial condition.

Emerging Growth Company Status

In April 2012, the JOBS Act was enacted. Section 107(b) of the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the extended transition period to comply with new or revised accounting standards and to adopt certain of the reduced disclosure requirements available to emerging growth companies. As a result of the accounting standards election, we will not be subject to the same implementation timing for new or revised accounting standards as other public companies that are not emerging growth companies which may make comparison of our financials to those of other public companies more difficult.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the period ended September 30, 2021, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's third quarter of 2021 that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The information contained under the heading "Litigation" in Note 8 to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated by reference into this Item.

Item 1A. Risk Factors.

RISK FACTOR SUMMARY

Our business is subject to numerous risks. The following summary highlights some of the risks you should consider with respect to our business and prospects. Our business involves significant risks. You should carefully consider the risks and uncertainties described in our Prospectus, together with all of the other information in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes as disclosed in our Prospectus. The risks and uncertainties described in our Prospectus and in this Quarterly Report on Form 10-Q are not the only ones we face. Additional risk and uncertainties that we are unaware of or that we deem immaterial may also become important factors that adversely affect our business. The realization of any of these risks and uncertainties could have a material adverse effect on our reputation, business, financial condition, results of operations, growth and future prospects as well as our ability to accomplish our strategic objectives. In that event, the market price of our common stock could decline and you could lose part or all of your investment.

- We have incurred net losses each year since our inception and we may not be able to achieve or maintain profitability in the future.
- Our significant growth may not be indicative of our future growth and, if we continue to grow rapidly, we may not be able to effectively manage our growth or evaluate our future prospects. If we fail to effectively manage our future growth or evaluate our future prospects, our business could be adversely affected.
- Our quarterly operating results may fluctuate, which could cause our stock price to decline.
- We may not be able to compete successfully in our highly competitive market.
- If we fail to cost-effectively acquire new consumers or retain our existing consumers, our business could be adversely affected. Our sales and profit are dependent upon our ability to expand our existing consumer relationships and acquire new consumers.
- Consolidation of retail partners or the loss of a significant retail or third-party ecommerce partner could negatively impact our sales and ability to achieve or maintain profitability.
- We must expend resources to maintain consumer awareness of our brand, build brand loyalty and generate interest in our products. Our marketing strategies and channels will evolve and our efforts may or may not be successful.
- Our brand and reputation may be diminished due to real or perceived quality, safety, efficacy or environmental impact issues with our products, which could have an adverse effect on our business, financial condition, results of operations and prospects.
- Our ability to maintain our competitive position is largely dependent on the services of our senior management and other key personnel, including our founder, Chief Creative Officer and former Chair of our board of directors, Jessica Alba and our Chief Executive Officer, Nick Vlahos.
- A disruption in our operations could have an adverse effect on our business.
- The COVID-19 pandemic could have an adverse effect on our business, financial condition, results of operations and prospects.
- Our business, including our costs and supply chain, is subject to risks associated with sourcing, manufacturing, warehousing and logistics, and the loss of any of our key suppliers or logistical service providers could negatively impact our business.
- We rely on third-party suppliers, manufacturers, retail and ecommerce partners and other vendors, and they may not continue to produce products or provide services that are consistent with our standards or applicable regulatory requirements, which could harm our brand, cause consumer dissatisfaction, and require us to find alternative suppliers of our products or services.
- Health and safety incidents or advertising inaccuracies or product mislabeling may have an adverse effect on our business by exposing us to lawsuits, product recalls or regulatory enforcement actions, increasing our operating costs and reducing demand for our product offerings.
- International trade disputes and the U.S. government's trade policy could adversely affect our business.
- Our business may be adversely affected if we are unable to provide our consumers with a technology platform that is able to respond and adapt to rapid changes in technology.

RISK FACTORS

Other than the risk factors set forth below, there have been no material changes to the risk factors set forth in the section titled "Risk Factors" included in our prospectus, dated May 4, 2021, filed with the Securities and Exchange Commission ("SEC") in accordance with Rule 424(b) of the Securities Act on May 6, 2021 (the "Prospectus") in connection with our initial public offering ("IPO").

Our business, including our costs and supply chain, is subject to risks associated with sourcing, manufacturing, warehousing, distribution and logistics, and the loss of any of our key suppliers or logistical service providers could negatively impact our business.

All of the products we offer are manufactured by a limited number of third-party manufacturers, and as a result we may be subject to price fluctuations or demand disruptions. Our operating results would be negatively impacted by increases in the costs of our products, and we have no guarantees that costs will not rise. In addition, as we expand into new categories and product types, we expect that we may not have strong purchasing power in these new areas, which could lead to higher costs than we have historically seen in our current categories. We may not be able to pass increased costs on to consumers, which could adversely affect our operating results. Moreover, in the event of a significant disruption in the supply of the materials used in the manufacture of the products we offer, we and the vendors that we work with might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price.

In addition, products and merchandise we receive from manufacturers and suppliers may not be of sufficient quality or free from damage, or such products may be damaged during shipping, while stored in our warehouse fulfillment centers or with third-party ecommerce or retail customers or when returned by consumers. We may incur additional expenses and our reputation could be harmed if customers or consumers and potential consumers believe that our products do not meet their expectations, are not properly labeled or are damaged. For example, as disinfecting and sanitization products have faced supply chain challenges, decelerating market demand and aging and slower turning inventory, the Company has received some product quality complaints from customers and consumers that have resulted or may result in additional refunds, returns, write-offs and remediation costs.

We purchase significant amounts of product supply from a limited number of suppliers with limited supply capabilities. There can be no assurance that our current suppliers will be able to accommodate our anticipated growth or continue to supply current quantities at preferential prices. An inability of our existing suppliers to provide materials in a timely or cost-effective manner could impair our growth and have an adverse effect on our business, financial condition, results of operations and prospects. We generally do not maintain long-term supply contracts with any of our suppliers and any of our suppliers could discontinue selling to us at any time. However, we have a long-term supply agreement with Valor Brands LLC (dba Ontex North America), or Ontex, for the manufacture and supply of certain diaper products. The current term of the supply agreement with Ontex ends on December 31, 2023. In addition, our agreement with Ontex provides that Ontex will be our exclusive supplier of diaper and training pant products so long as Ontex is able to provide us such products. Either party may terminate the agreement if the other party materially breaches the agreement and does not cure the breach within a specified notice period, or upon the other party's insolvency. If the agreement with Ontex is terminated, is not renewed, or if Ontex becomes insolvent, ceases or significantly reduces its operations or experiences financial distress, as a result of the COVID-19 pandemic or otherwise, or if any environmental, economic or other outside factors impact their operations, our ability to procure diaper manufacturing services may be impaired, and we may not be able to obtain, or may face increased costs related to, such services. The loss of Ontex, or of any of our other significant suppliers, or the discontinuance of any preferential pricing or exclusive incentives they currently offer to us could have an adverse effect on our business, financial condition, results of operations and prospects.

We continually seek to expand our base of suppliers, especially as we identify new products that necessitate new or additional materials. We also require our new and existing suppliers to meet our ethical and business partner standards. Suppliers may also have to meet governmental and industry standards and any relevant standards required by our consumers, which may require additional investment and time on behalf of suppliers and us. If any of our key suppliers becomes insolvent, ceases or significantly reduces its operations or experiences financial distress, as a result of the COVID-19 pandemic or otherwise, or if any environmental, economic or other outside factors impact their operations. If we are unable to identify or enter into distribution relationships with new suppliers or to replace the loss of any of our existing suppliers, we may experience a competitive disadvantage, our business may be disrupted and our business, financial condition, results of operations and prospects could be adversely affected.

Our principal suppliers currently provide us with certain incentives such as volume purchasing, trade discounts, cooperative advertising and market development funds. A reduction or discontinuance of these incentives would increase our costs and could reduce our ability to achieve or maintain profitability. Similarly, if one or more of our suppliers were to offer these incentives, including preferential pricing, to our competitors, our competitive advantage would be reduced, which could have an adverse effect on our business, financial condition, results of operations and prospects.

In addition, we have warehouse fulfillment centers located in Las Vegas, Nevada, Fontana, California, Breinigsville, Pennsylvania and the Netherlands, all of which are managed by a single distribution partner, GEODIS Logistics LLC, or GEODIS. We have an agreement with GEODIS pursuant to which GEODIS provides warehousing, distribution and fulfillment services to us. Our agreement with GEODIS may be terminated for any reason by us or by GEODIS on delivery of prior written notice, and is renewable on an annual basis. If the agreement with GEODIS is terminated, is not renewed, or if GEODIS becomes insolvent, ceases or significantly reduces its operations or experiences financial distress, as a result of the COVID-19 pandemic or otherwise, or if any environmental, economic or other outside factors impact their operations, our ability to procure warehousing, distribution and fulfillment services may be impaired, and we may not be able to obtain, or may face increased costs related to, such services and our business, financial condition, results of operations and prospects could be adversely affected.

We rely on third-party suppliers, manufacturers, retail and ecommerce partners and other vendors, and they may not continue to produce products or provide services that are consistent with our standards or applicable regulatory requirements, which could harm our brand, cause consumer dissatisfaction, and require us to find alternative suppliers of our products or services.

We do not own or operate any manufacturing facilities. We use multiple third-party suppliers and manufacturers based primarily in the United States, China and Mexico and other countries to a lesser extent, to source and manufacture all of our products, including product components, under our owned brand. We engage many of our third-party suppliers and manufacturers on a purchase order basis and in some cases are not party to long-term contracts with them. The ability and willingness of these third parties to supply and manufacture our products may be affected by competing orders placed by other companies and the demands of those companies. If we experience significant increases in demand, or need to replace a significant number of existing suppliers or manufacturers, there can be no assurance that additional supply and manufacturing capacity will be available when required on terms that are acceptable to us, or at all, or that any supplier or manufacturer will allocate sufficient capacity to us in order to meet our requirements. Furthermore, our reliance on suppliers and manufacturers outside of the United States, the number of third parties with whom we transact and the number of jurisdictions to which we sell complicates our efforts to comply with customs duties and excise taxes; any failure to comply could adversely affect our business.

In addition, quality control problems, such as the use of materials and delivery of products that do not meet our quality control standards and specifications or comply with applicable laws or regulations, could harm our business. For example, as disinfecting and sanitization products have faced supply chain challenges, decelerating market demand and aging and slower turning inventory, the Company has received some product quality complaints from customers and consumers that have resulted or may result in additional refunds, returns, write-offs and remediation costs. Quality control problems could result in regulatory action, such as restrictions on importation, products of inferior quality or product stock outages or shortages, harming our sales and creating inventory write-downs for unusable products.

We have also outsourced portions of our fulfillment process, as well as certain technology-related functions, to third-party service providers. Specifically, we rely on third parties in a number of foreign countries and territories, we are dependent on third-party vendors for credit card processing, and we use third-party hosting and networking providers to host our sites. The failure of one or more of these entities to provide the expected services on a timely basis, or at all, or at the prices we expect, or the costs and disruption incurred in changing these outsourced functions to being performed under our management and direct control or that of a third party, could have an adverse effect on our business, financial condition, results of operations and prospects. We are not party to long-term contracts with some of our retail and ecommerce partners, and upon expiration of these existing agreements, we may not be able to renegotiate the terms on a commercially reasonable basis, or at all.

Further, our third-party manufacturers, suppliers and retail and ecommerce partners may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions, requests, policies or objectives;
- be unable or unwilling to fulfill their obligations under relevant purchase orders or manufacturing or supply agreements, including obligations to meet our production deadlines, quality standards, pricing guidelines and product specifications, and to comply with applicable regulations, including those regarding the safety and quality of products;
- have financial difficulties;
- encounter raw material or labor shortages;
- encounter increases in raw material or labor costs which may affect our procurement costs;
- encounter difficulties with proper payment of custom duties or excise taxes;
- disclose our confidential information or intellectual property to competitors or third parties;
- engage in activities or employ practices that may harm our reputation; and
- work with, be acquired by, or come under control of, our competitors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	**Exhibit Description**
3.1	Amended and Restated Articles of Incorporation, as currently in effect (incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K (File No. 001-40378), filed with the SEC on May 11, 2021).
3.2	Amended and Restated Bylaws, as currently in effect (incorporated herein by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K (File No. 001-40378), filed with the SEC on May 11, 2021).
10.1†	Amendment Sixteen to the Logistics Services Agreement, dated as of July 12, 2021, by and between the Registrant and Geodis Logistics, LLC (incorporated herein by reference to Exhibit 10.16 to the Company’s Quarterly Report on Form 10-Q (File No. 001-40378), filed with the SEC on August 13, 2021.
10.2+	Nominee and Indemnity Agreement, dated September 8, 2021, by and between the Company, Catterton Management Company, L.L.C. and Scott Dahnke
10.3+	Nominee and Indemnity Agreement, dated September 8, 2021, by and between the Company, Catterton Management Company, L.L.C. and Avik Pramanik
10.4+	Employment Agreement, dated August 30, 2021, by and between the Company and Peter Gerstberger.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

+Indicates a management contract or compensatory plan

* Furnished herewith and not deemed to be “filed” for purposes of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

† Portions of this exhibit (indicated by asterisks) have been omitted because the registrant has determined that the information is both not material and is the type that the registrant treats as private or confidential.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	The Honest Company, Inc.
Date: November 10, 2021	By: /s/ Nikolaos Vlahos
	Nikolaos Vlahos **Chief Executive Officer and Director** *(Principal Executive Officer)*
Date: November 10, 2021	By: /s/ Kelly J. Kennedy
	Kelly J. Kennedy **Executive Vice President, Chief Financial Officer** *(Principal Financial Officer and Accounting Officer)*

Exhibit 10.2

NOMINEE AND INDEMNITY AGREEMENT

This Nominee and Indemnity Agreement (“Agreement”) is entered into as of September 8, 2021, among The Honest Company, Inc. (“Company”), Catterton Management Company, L.L.C. (“Manager”) as investment manager of (i) *L* Catterton VIII, L.P. (“LC8”) and (ii) *L* Catterton VIII Offshore, L.P. (together with LC8, the “Investors”), and Scott Dahnke (“Director”).

RECITALS

A. Director has been appointed to serve as a member of the board of directors (the “Board”) of the Company;

B. The Company shall compensate Director for his service on the Board in part with periodic grants of awards to acquire shares of the Company’s Common Stock, currently in the form of restricted stock units (the “Stock Awards”);

C. Director is providing and will provide such services to Company solely in his capacity as a representative of Investors, and is subject to a pre-existing, legally binding agreement that requires that any rights, payments, benefits and/or securities delivered to Director by Company relating to Director’s services to Company shall be received by Manager on behalf of Director solely for the benefit of Investors;

D. Merely for convenience, Director shall acquire legal title to the Stock Awards;

E. Director will also be paid cash compensation by the Company from time to time in the future in consideration of Director’s service on the Board, excluding any amounts paid to Director in reimbursement for expenses incurred to participate in meetings of the Board (“Cash Fees”);

F. Investors wish that Director hold the Stock Awards merely as nominee for Investors and that any and all Cash Fees be paid directly to Manager solely for the benefit of Investors;

G. Director agrees to hold the Stock Awards merely as nominee for Investors; and

H. Director agrees that all Cash Fees shall be paid directly to Manager by the Company.

Now, therefore, for good and valuable consideration, the receipt and adequacy of which is acknowledged hereby, the parties hereto agree as follows:

AGREEMENT

1. Director agrees that Company shall pay the Cash Fees directly to Manager and not to Director.

2. Director agrees that he will hold the Stock Awards merely as nominee for Investors. Director agrees that he has no discretionary duties with respect to any of the Stock Awards, but must act only on explicit instructions of Manager acting on behalf of Investors. Director agrees to act upon such instructions and to take no action with respect to any Stock Award in the absence of such instructions.

3. Director agrees to hold the Stock Awards for convenience only and acknowledges and agrees that he will not assert any rights of ownership of any Stock Award (except in his capacity as a representative of Investors and their affiliates).

4. Director agrees to account fully to Investors as to the Stock Awards.

5. From time to time, Manager, acting on behalf of Investors, may request that Director sell shares acquired under the terms of a Stock Award. After all contractual vesting requirements based on service as a member of the Board have been satisfied by Director, Manager may request that Director transfer legal title to the shares of the Company's Common Stock ("Common Stock") subject to the Stock Award to Investors or an affiliate of either Investor, including Manager. Unless either Investor issues different instructions, such transfer of legal title of Common Stock shall be made to Manager. Each Investor hereby agrees to assume its Pro Rata Portion of all obligations of Director under any agreement or other process for implementing the sale or transfer of some or all of the shares of Common Stock covered by a Stock Award and to indemnify and hold harmless Director and Company against any and all expenses, claims, obligations, actions, damages, amounts paid or payable in settlement and all other liabilities (including without limitation reasonable attorney's fees and costs) (collectively, "Liabilities" and individually, a "Liability") resulting from or incurred by Director or Company in connection with the issuance, holding, sale, exchange or other transfer of the Stock Award or any shares of Common Stock subject to the Stock Award; provided, that Investors shall have no obligation under this Section 5 with respect to any particular Liability to the extent caused by the gross negligence or willful misconduct of Director or Company, including but not limited to a grossly negligent or willful breach by Director of Director's obligations under this Agreement. For purposes of this Agreement, "Pro Rata Portion" shall mean, with respect to any Investor, a fraction, (i) the numerator of which is the aggregate indirect equity interest held by such Investor in the Company and (ii) the denominator of which is the sum of all aggregate indirect equity interests held by all Investors in the Company.

6. Manager agrees to take responsibility for all tax consequences arising from the Cash Fees or under any Stock Award and to indemnify each of Director and Company with respect to any tax liabilities that may be incurred by Director or Company with respect to the Cash Fees or any Stock Award. Company agrees to treat Manager as the holder of the Stock Award solely with respect to any tax reporting obligations of Company and to treat Manager as the payee of the Cash Fees with respect to any tax reporting obligations of Company. Company

agrees to pay the Cash Fees directly to Manager and to implement any transfer of Common Stock requested by Manager pursuant to Section 5 above that is in compliance with applicable law. Company is a party to this Agreement solely for the purpose of indicating its acknowledgement of and agreement to the manner in which it shall discharge its obligations regarding the treatment of the Cash Fees and the Stock Awards set forth in this Section 6 and to receive the benefits of Investors' and Manager's indemnification of Company as set forth herein.

7. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, that all of which together shall constitute one and the same instrument. This Agreement may only be modified in a writing signed by both parties. No modification of this Agreement which attempts either to reduce Company's rights or to alter Company's responsibilities under this Agreement shall be effective without Company's express written consent to such modification.

In Witness Whereof, the parties hereto have executed this Agreement on the date first above written.

Manager:

CATTERTON MANAGEMENT COMPANY, L.L.C.

By:	/s/ Dan Reid
Name:	Dan Reid
Title:	Authorized Signatory

Investors:

L CATTERTON VIII, L.P.

By: Catterton Managing Partner VIII, L.L.C.
Its: General Partner

By: C8 Management, L.L.C.
Its: Managing Member

By:	/s/ David McPherson
Name:	David McPherson
Title:	Authorized Signatory

L CATTERTON VIII OFFSHORE, L.P.

By: Catterton Managing Partner VIII, L.L.C.
Its: General Partner

By: C8 Management, L.L.C.
Its: Managing Member

By:	/s/ David McPherson
Name:	David McPherson
Title:	Authorized Signatory

Director:

SCOTT DAHNKE
/s/ Scott Dahnke

Company:

THE HONEST COMPANY, INC.

By:	/s/ Brendan Sheehey
Name:	Brendan Sheehey
Title:	General Counsel

Exhibit 10.3

NOMINEE AND INDEMNITY AGREEMENT

This Nominee and Indemnity Agreement (“Agreement”) is entered into as of September 8, 2021, among The Honest Company, Inc. (“Company”), Catterton Management Company, L.L.C. (“Manager”) as investment manager of (i) *L* Catterton VIII, L.P. (“LC8”) and (ii) *L* Catterton VIII Offshore, L.P. (together with LC8, the “Investors”), and Avik Pramanik (“Director”).

RECITALS

A. Director has been appointed to serve as a member of the board of directors (the “Board”) of the Company;

B. The Company shall compensate Director for his service on the Board in part with periodic grants of awards to acquire shares of the Company’s Common Stock, currently in the form of restricted stock units (the “Stock Awards”);

C. Director is providing and will provide such services to Company solely in his capacity as a representative of Investors, and is subject to a pre-existing, legally binding agreement that requires that any rights, payments, benefits and/or securities delivered to Director by Company relating to Director’s services to Company shall be received by Manager on behalf of Director solely for the benefit of Investors;

D. Merely for convenience, Director shall acquire legal title to the Stock Awards;

E. Director will also be paid cash compensation by the Company from time to time in the future in consideration of Director’s service on the Board, excluding any amounts paid to Director in reimbursement for expenses incurred to participate in meetings of the Board (“Cash Fees”);

F. Investors wish that Director hold the Stock Awards merely as nominee for Investors and that any and all Cash Fees be paid directly to Manager solely for the benefit of Investors;

G. Director agrees to hold the Stock Awards merely as nominee for Investors; and

H. Director agrees that all Cash Fees shall be paid directly to Manager by the Company.

Now, therefore, for good and valuable consideration, the receipt and adequacy of which is acknowledged hereby, the parties hereto agree as follows:

AGREEMENT

1. Director agrees that Company shall pay the Cash Fees directly to Manager and not to Director.

2. Director agrees that he will hold the Stock Awards merely as nominee for Investors. Director agrees that he has no discretionary duties with respect to any of the Stock Awards, but must act only on explicit instructions of Manager acting on behalf of Investors. Director agrees to act upon such instructions and to take no action with respect to any Stock Award in the absence of such instructions.

3. Director agrees to hold the Stock Awards for convenience only and acknowledges and agrees that he will not assert any rights of ownership of any Stock Award (except in his capacity as a representative of Investors and their affiliates).

4. Director agrees to account fully to Investors as to the Stock Awards.

5. From time to time, Manager, acting on behalf of Investors, may request that Director sell shares acquired under the terms of a Stock Award. After all contractual vesting requirements based on service as a member of the Board have been satisfied by Director, Manager may request that Director transfer legal title to the shares of the Company's Common Stock ("Common Stock") subject to the Stock Award to Investors or an affiliate of either Investor, including Manager. Unless either Investor issues different instructions, such transfer of legal title of Common Stock shall be made to Manager. Each Investor hereby agrees to assume its Pro Rata Portion of all obligations of Director under any agreement or other process for implementing the sale or transfer of some or all of the shares of Common Stock covered by a Stock Award and to indemnify and hold harmless Director and Company against any and all expenses, claims, obligations, actions, damages, amounts paid or payable in settlement and all other liabilities (including without limitation reasonable attorney's fees and costs) (collectively, "Liabilities" and individually, a "Liability") resulting from or incurred by Director or Company in connection with the issuance, holding, sale, exchange or other transfer of the Stock Award or any shares of Common Stock subject to the Stock Award; provided, that Investors shall have no obligation under this Section 5 with respect to any particular Liability to the extent caused by the gross negligence or willful misconduct of Director or Company, including but not limited to a grossly negligent or willful breach by Director of Director's obligations under this Agreement. For purposes of this Agreement, "Pro Rata Portion" shall mean, with respect to any Investor, a fraction, (i) the numerator of which is the aggregate indirect equity interest held by such Investor in the Company and (ii) the denominator of which is the sum of all aggregate indirect equity interests held by all Investors in the Company.

6. Manager agrees to take responsibility for all tax consequences arising from the Cash Fees or under any Stock Award and to indemnify each of Director and Company with respect to any tax liabilities that may be incurred by Director or Company with respect to the Cash Fees or any Stock Award. Company agrees to treat Manager as the holder of the Stock Award solely with respect to any tax reporting obligations of Company and to treat Manager as the payee of the Cash Fees with respect to any tax reporting obligations of Company. Company

agrees to pay the Cash Fees directly to Manager and to implement any transfer of Common Stock requested by Manager pursuant to Section 5 above that is in compliance with applicable law. Company is a party to this Agreement solely for the purpose of indicating its acknowledgement of and agreement to the manner in which it shall discharge its obligations regarding the treatment of the Cash Fees and the Stock Awards set forth in this Section 6 and to receive the benefits of Investors' and Manager's indemnification of Company as set forth herein.

7. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, that all of which together shall constitute one and the same instrument. This Agreement may only be modified in a writing signed by both parties. No modification of this Agreement which attempts either to reduce Company's rights or to alter Company's responsibilities under this Agreement shall be effective without Company's express written consent to such modification.

In Witness Whereof, the parties hereto have executed this Agreement on the date first above written.

Manager:

CATTERTON MANAGEMENT COMPANY, L.L.C.

By:	/s/ Dan Reid
Name:	Dan Reid
Title:	Authorized Signatory

Investors:

L CATTERTON VIII, L.P.

By: Catterton Managing Partner VIII, L.L.C.
Its: General Partner

By: C8 Management, L.L.C.
Its: Managing Member

By:	/s/ David McPherson
Name:	David McPherson
Title:	Authorized Signatory

L CATTERTON VIII OFFSHORE, L.P.

By: Catterton Managing Partner VIII, L.L.C.
Its: General Partner

By: C8 Management, L.L.C.
Its: Managing Member

By:	/s/ David McPherson
Name:	David McPherson
Title:	Authorized Signatory

Director:

AVIK PRAMANIK

/s/ Avik Pramanik

Company:

THE HONEST COMPANY, INC.

By:	/s/ Brendan Sheehey
Name:	Brendan Sheehey
Title:	General Counsel

Exhibit 10.4

August 30, 2021

Pete Gerstberger Orange County, CA

Re: Employment Agreement

Dear Pete:

The Honest Company, Inc. (the "**Company**") is pleased to offer you at-will employment in the position of SVP, Chief Digital and Strategy on the terms and conditions set forth in this letter agreement (the "**Agreement**").

1. Employment by the Company. This Agreement and your employment under the terms hereunder shall take effect on October 4, 2021 (the "**Effective Date**"). This is an exempt position, and during your employment with the Company, you will devote your best efforts and substantially all of your business time and attention to the business of the Company, except for approved vacation periods and reasonable periods of illness or other incapacities permitted by the Company's general employment policies. You shall perform such duties as are required by the Company's Chief Executive Officer ("CEO"), to whom you will report. Your primary work location shall be the Company's office located in Los Angeles, California. The Company reserves the right to reasonably require you to perform your duties at places other than your primary office location from time to time, and to require reasonable business travel.

2. Compensation.

2.1. Base Salary. For services to be rendered hereunder, you shall receive a base salary at the rate of $ **325,000** per year (the "**Base Salary**"), subject to standard payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule.

2.2. Annual Bonus. You will be eligible for an annual discretionary bonus with a target amount of **50**% of your then current annual Base Salary (the **"Annual Bonus"**). Whether you receive an Annual Bonus for any given year, and the amount of any such Annual Bonus, will be determined by the Board of Directors of the Company and/or its Compensation Committee (the "**Board**") in its discretion based upon the achievement of corporate and/or individual objectives and milestones that are determined in the sole discretion of the Board and other criteria to be determined by the Board. You must continue to be employed through the date the Annual Bonus is paid in order to earn such bonus. If your employment terminates for any reason prior to the payment date, you will not have earned, and will not be paid, any pro-rated bonus. The Annual Bonus, if earned, shall be paid to you in a lump sum no later than March 15th of the calendar year that follows the performance year, subject to applicable payroll deductions and withholdings.

2.3. Sign on Bonus. You will be paid a cash bonus of **$300,000.** The first installment of 50% of the sign on bonus will be paid out within 60 days of the Effective Date, and the remaining 50% will be paid out 18 months from the Effective Date. Each sign on bonus payment is subject to repayment to the Company if you resign without Good Reason or are terminated for Cause within 12 months of the payment.

2.4 Equity. Subject to the approval of the Board and you remaining employed by the Company through the grant date, the Company will grant you restricted stock units ("RSUs") having a grant date value approximately equal to $3,450,000 as soon as administratively practicable following the Effective Date, with the number of RSUs to be determined by the Board in its sole discretion. The RSUs will be granted under and governed by the Company's 2021 Equity Incentive Plan (the "**Plan**"), and the Company's standard restricted stock unit award agreement and grant notice approved by the Board for use under the Plan. Twenty percent (20%) of the RSUs will vest on the Company quarterly vesting date next following the one- year anniversary of the Effective Date, and one-sixteenth (1/16th) of the remaining RSUs will vest on each of the next sixteen (16) Company quarterly vesting dates thereafter, subject to your Continuous Service (as defined in the Plan) on each vesting date. If within twelve (12) months of the Effective Date either your position is eliminated or you are terminated without Cause, then twenty percent (20%) of the granted RSUs identified above will accelerate and vest on your separation date. For clarity, the Board will determine the Company quarterly vesting dates at the time of grant in its sole and absolute discretion. You will be eligible for future equity awards as determined by the Board in its sole discretion.

3. Business Expenses. You will be eligible for reimbursement of all reasonable, necessary and documented out-of-pocket business, entertainment, and travel expenses incurred by you in connection with the performance of your duties hereunder in accordance with the Company's expense reimbursement policies and procedures.

4. Company Policies; Standard Company Benefits. The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control. You shall remain eligible to participate in all employee benefit programs for which you are eligible under the terms and conditions of the benefit plans that may be in effect from time to time. The Company reserves the right to cancel or change the benefit plans or programs it offers to its employees, including senior management, at any time.

5. At-Will Employment. Your employment relationship is at-will. Either you or the Company may terminate the employment relationship at any time, with or without cause or advance notice. Subject to the "Good Reason" provision set forth in Section 7 and Section 8.3, the Company may, in its sole discretion, adjust salaries, incentive compensation, stock plans, benefits, job titles, locations, duties, responsibilities, and reporting relationships. Upon termination of your employment for any reason, you shall resign from all positions and terminate any relationships as an employee, advisor, officer or director with the Company and any of its affiliates, each effective on the date of termination.

6. Outside Activities During Employment. Except with the prior written consent of the Board, you will not during the term of your employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which you are a passive investor. You may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of your duties hereunder. You agree not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise.

7. Termination; Severance.

7.1. Involuntary Termination. If you are subject to an Involuntary Termination and provided that you remain in compliance with the terms of this Agreement (including the conditions described in Section 7.3 below), the Company shall provide you with the following **Severance Benefits**:

(a) Cash Severance. The Company shall pay you, as severance, the equivalent of 6 months (the "**Severance Period**") of your Base Salary in effect as of the date of your employment termination, subject to standard payroll deductions and withholdings and an amount equal to 6 months of health insurance under COBRA on an after-tax basis (the "**Severance**"). The Severance will be paid as a continuation on the Company's regular payroll, beginning no later than the first regularly-scheduled payroll date following the sixtieth (60^{th}) day after your Separation from Service, provided the Separation Agreement (as discussed in Section 7.3) has become effective.

(b) Payment of Continued Group Health Plan Benefits. If you are eligible for and timely elect continued group health plan coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 or any state law of similar effect ("***COBRA***") following your Involuntary Termination, the Company will pay your COBRA group health insurance premiums for you and your eligible dependents directly to the insurer until the earliest of (A) the end of the period immediately following your Involuntary Termination that is equal to the Severance Period (the "***COBRA Payment Period***"), (B) the expiration of your eligibility for continuation coverage under COBRA, or (C) the date when you become eligible for substantially equivalent health insurance coverage in connection with new employment or self-employment. For purposes of this Section, references to COBRA premiums shall not include any amounts payable by you under a Section 125 health care reimbursement plan under the Code. Notwithstanding the foregoing, if at any time the Company determines, in its sole discretion, that it cannot pay the COBRA premiums without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), then regardless of whether you elect continued health coverage under COBRA, and in lieu of providing the COBRA premiums, the Company will instead pay you on the last day of each remaining month of the COBRA Payment Period, a fully taxable cash payment equal to the COBRA premiums for that month, subject to applicable tax withholdings (such amount, the "***Special Severance Payment***"), which payments shall continue until the earlier of expiration of the COBRA Payment Period or the date when you become eligible for substantially equivalent health insurance coverage in connection with new employment or self-employment. On the first payroll date following the effectiveness of the Release, the Company will make the first payment to the insurer under this clause (and, in the case of the Special Severance Payment, such payment will be to you, in a lump sum) equal to the aggregate amount of payments that the Company would have paid through such date had such payments instead commenced on the date of your Involuntary Termination, with the balance of the payments paid thereafter on the schedule described above. If you become eligible for coverage under another employer's group health plan, you must immediately notify the Company of such event, and all payments and obligations under this subsection shall cease.

7.2. Termination for Cause; Resignation Without Good Reason; Death or Disability. If you resign without Good Reason, or the Company terminates your employment for Cause, or upon your death or disability, then all payments of compensation by the Company to you hereunder will terminate immediately (except as to amounts already earned), and you will not be entitled to any Severance Benefits.

7.3. Conditions to Receipt of Severance Benefits. The receipt of the Severance Benefits will be subject to you signing and not revoking a separation agreement and release of claims in a form reasonably satisfactory to the Company (the "**Separation Agreement**") by no later than the sixtieth (60th) day after your employment termination ("**Release Deadline**"). No Severance Benefits will be paid or provided until the Separation Agreement becomes effective. You shall also resign from all positions and terminate any relationships as an employee, advisor, officer or director with the Company and any of its affiliates, each effective on the date of termination.

8. Definitions.

8.1. Cause. For purposes of this Agreement, "**Cause**" means any one of the following: (a) willful material breach by you of any material Company policy (including, but not limited to, the Company's policies on nondiscrimination, anti- harassment, and confidential information) or your duties or obligations hereunder;
(b) your willful engagement in conduct materially injurious to the Company, monetarily or otherwise; (c) acts of fraud, theft or other willful illegal acts calling into question your personal integrity, or conviction on a felony charge, whether or not related to your employment hereunder; or (d) your willful refusal to follow lawful instructions of the Board. In order to terminate your employment for Cause pursuant to (a) or (d), but only to the extent the Board determines in its reasonable discretion that such breach is amenable to cure, the Board must provide you written notice within thirty (30) days after the first occurrence of the event giving rise to Cause

setting forth the basis for the existence of Cause, allow you thirty (30) days from receipt of such written notice to cure such event, and if such event is not reasonably cured within such period, the Company must terminate your employment not later than thirty (30) days after the expiration of the cure period.

8.2. Code. For purposes of this Agreement, **"Code"** means the U.S. Internal Revenue Code of 1986 (as it has been and may be amended from time to time) and any regulations and guidance that has been promulgated or may be promulgated from time to time thereunder and any state law of similar effect.

8.3. Good Reason. For purposes of this Agreement, "Good Reason" means any one of the following without your consent: (a) an assignment of duties or responsibilities (including reporting responsibilities) materially inconsistent with, or which materially reduce, your duties, authority, responsibilities and status with the Company; (b) an adverse change in your title; (c) any material reduction in your Base Salary, other than a reduction, generally applicable to other executives of the Company, by not more than 25%; (d) the relocation of your principal place of employment to a location that is more than twenty-five (25) miles away from its current location; or (e) the uncured breach of any material provision of this Agreement (or any other agreement with you) by the Company. In order to resign for Good Reason, you must provide written notice to the Company's Board within thirty (30) days after the first occurrence of the event giving rise to Good Reason setting forth the basis for your resignation, allow the Company thirty (30) days from receipt of such written notice to cure such event, and if such event is not reasonably cured within such period, you must resign from all positions you then hold with the Company not later than thirty (30) days after the expiration of the cure period.

8.4. I**nvoluntary Termination.** For purposes of this Agreement, "**Involuntary Termination**" means a termination of your employment with the Company pursuant to either (i) a termination initiated by the Company without Cause, or (ii) your resignation for Good Reason, and provided in either case such termination constitutes a Separation from Service. An Involuntary Termination does not include any other termination of your employment, including a termination due to your death or disability.

8.5. Separation from Service. For purposes of this Agreement, "Separation from Service" means a "separation from service", as defined under Treasury Regulation Section 1.409A-1(h).

9. Proprietary Information Obligations. As a condition of your continued employment, you shall execute and abide by the Company's standard form of Employee Confidential Information and Invention Assignment Agreement, attached as **Exhibit A**. In your work for the Company, you will be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. Rather, you will be expected to use only that information which is generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company. You acknowledge that you have not brought onto Company premises any unpublished documents or property belonging to any former employer or other person to whom you have an obligation of confidentiality and have disclosed to the Company any contract you have signed that may restrict your activities on behalf of the Company.

10. Section 409A. It is intended that all of the severance benefits and other payments payable under this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A provided under Treasury Regulations Sections 1.409A 1(b)(4), 1.409A 1(b)(5) and 1.409A 1(b)(9), and this Agreement will be construed to the greatest extent possible as consistent with those provisions, and to the extent not so exempt, this Agreement (and any definitions hereunder) will be construed in a manner that complies with Section 409A. For all purposes of Code Section 409A (including, without limitation, for purposes of Treasury Regulations Sections 1.409A 2(b)(2)(i) and (iii)), your right to receive any installment payments under this Agreement (whether severance payments, reimbursements or otherwise) shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment hereunder shall at all times be considered a separate and distinct payment. Notwithstanding any provision to the contrary in this Agreement, if you are deemed by the Company at the time of your Separation from Service to be a "specified employee" for purposes of Code Section 409A(a)(2)(B)(i), and if any of the payments upon Separation from Service set forth herein and/or under any other agreement with the Company are deemed to be "deferred compensation," then to the extent delayed commencement of any portion of such payments is required in order to avoid a prohibited distribution under Code Section 409A(a)(2)(B)(i) and the related adverse taxation under Section 409A, such payments shall not be provided to you prior to the earliest of (i) the first date following expiration of the six-month period following the date of your Separation from Service with the Company, (ii) the date of your death or (iii) such earlier date as permitted under Section 409A without the imposition of adverse taxation. Upon the first business day following the expiration of such applicable Code Section 409A(a)(2)(B)(i) period, all payments deferred pursuant to this Paragraph shall be paid in a lump sum to you, and any remaining payments due shall be paid as otherwise provided herein or in the applicable agreement. No interest shall be due on any amounts so deferred. If the severance benefits are not covered by one or more exemptions from the application of Section 409A and the Release Deadline occurs in the calendar year following the calendar year of your Separation from Service, the Release will not be deemed effective any earlier than the Release Deadline for purposes of determining the timing of provision of any severance benefits.

11. Arbitration of All Disputes.

11.1. Agreement to Arbitrate. To ensure the timely and economical resolution of disputes that may arise between you and the Company, both you and the Company mutually agree that pursuant to the Federal Arbitration Act, 9 U.S.C.
§1-16, and to the fullest extent permitted by applicable law, you and the Company will submit solely to final, binding and confidential arbitration any and all disputes, claims, or causes of action arising from or relating to: **(i)** the negotiation, execution,

interpretation, performance, breach or enforcement of this Agreement; or **(ii)** your application, hiring, and employment with the Company (including but not limited to all statutory claims); or **(iii)** the termination of your employment with the Company (including but not limited to all statutory claims). **BY AGREEING TO THIS ARBITRATION PROCEDURE, BOTH YOU AND THE COMPANY WAIVE THE RIGHT TO RESOLVE ANY SUCH DISPUTES THROUGH A TRIAL BY JURY OR JUDGE OR THROUGH AN ADMINISTRATIVE PROCEEDING.**

11.2. Arbitrator Authority. The arbitrator shall have the sole and exclusive authority to determine whether a dispute, claim or cause of action is subject to arbitration under this Section and to determine any procedural questions which grow out of such disputes, claims or causes of action and bear on their final disposition.

11.3. Individual Capacity Only. All claims, disputes, or causes of action under this Section, whether by you or the Company, must be brought solely in an individual capacity, and shall not be brought as a plaintiff (or claimant) or class member in any purported class or representative proceeding, nor joined or consolidated with the claims of any other person or entity. The arbitrator may not consolidate the claims of more than one person or entity, and may not preside over any form of representative or class proceeding. To the extent that the preceding sentences in this Section are found to violate applicable law or are otherwise found unenforceable, any claim(s) alleged or brought on behalf of a class shall proceed in a court of law rather than by arbitration.

11.4. Arbitration Process. Any arbitration proceeding under this Section shall be presided over by a single arbitrator and conducted by Judicial Arbitration and Mediation Services, Inc. ("**JAMS**") in Los Angeles County, California, or as otherwise agreed to by you and the Company, under the then applicable JAMS rules for the resolution of employment disputes (available upon request and also currently available at http://www.jamsadr.com/rules-employment-arbitration/). You and the Company both have the right to be represented by legal counsel at any arbitration proceeding, at each party's own expense. The Arbitrator shall: **(i)** have the authority to compel adequate discovery for the resolution of the dispute; **(ii)** issue a written arbitration decision, to include the arbitrator's essential findings and conclusions and a statement of the award; and **(iii)** be authorized to award any or all remedies that you or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS arbitration fees in excess of the amount of court fees that would be required of you if the dispute were decided in a court of law.

11.5. Excluded Claims. This Arbitration section shall not apply to any action or claim that cannot be subject to mandatory arbitration as a matter of law, including, without limitation, claims brought pursuant to the California Private Attorneys General Act of 2004, as amended, to the extent such claims are not permitted by applicable law to be submitted to mandatory arbitration and such applicable law is not preempted by the Federal Arbitration Act or otherwise invalid (collectively, the "**Excluded Claims**"). In the event you intend to bring multiple claims, including any Excluded Claims, the Excluded Claims may be filed with a court, while any other claims will remain subject to mandatory arbitration.

11.6. Injunctive Relief and Final Orders. Nothing in this Section is intended to prevent either you or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration. Any final award in any arbitration proceeding hereunder may be entered as a judgment in the federal and state courts of any competent jurisdiction and enforced accordingly.

12. General Provisions. This Agreement, together with the Confidential Information and Inventions Assignment Agreement, constitutes the entire agreement between you and the Company with regard to this subject matter and is the complete, final, and exclusive embodiment of the parties' agreement with regard to this subject matter. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations (the "**Prior Agreements**"). You agree and acknowledge that you are not eligible for, and will not receive, any compensation, benefits, or severance pursuant to the Prior Agreements. You also agree and acknowledge that there are no circumstances as of the date of this Agreement that constitute, and nothing contemplated in this Agreement or otherwise shall be deemed for any purpose to be or to create, an involuntary termination without Cause or a Good Reason resignation right, including for purposes of the Prior Agreements, or any other severance or change in control plan, agreement or policy maintained by the Company or its affiliates. This Agreement cannot be modified or amended except in a writing signed by you and a duly authorized officer of the Company. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties. Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement. This Agreement is intended to bind and inure to the benefit of and be enforceable by you and the Company, and their respective successors, assigns, heirs, executors and administrators. The Company may freely assign this Agreement, without your prior written consent. You may not assign any of your duties hereunder and you may not assign any of your rights hereunder without the written consent of the Company. This Agreement shall become effective as of the Start Date and shall terminate upon your termination of employment with the Company. The obligations as forth under Sections 7, 8, 9, 10, 11, and 12 will survive the termination of this Agreement. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the laws of the State of California.

Accepted and agreed:

Best regards,

DocuSigned by:

70ACC74070A940A...

THE HONEST COMPANY, INC.

Nikolaos A. Vlahos Chief Executive Officer

Accepted and

DocuSigned by:

PETER GERSTBERGER

84DC76C1488E432...

Pete

Date: 8/31/2021 | 10:58 EDT

Exhibit A

Employee Confidential Information and Invention Assignment Agreement

Exhibit 31.1

CERTIFICATION

I, Nikolaos Vlahos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Honest Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Omitted];

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2021

By: /s/ Nikolaos Vlahos

Nikolaos Vlahos
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Kelly J. Kennedy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Honest Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Omitted];

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 10, 2021

By: /s/ Kelly J. Kennedy

Kelly J. Kennedy
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of The Honest Company, Inc. (the “Company”) for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Nikolaos Vlahos, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2021

By: /s/ Nikolaos Vlahos
Nikolaos Vlahos
Chief Executive Officer and Director
(Principal Executive Officer)

This certification shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of The Honest Company, Inc. (the “Company”) for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kelly J. Kennedy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2021

By: /s/ Kelly J. Kennedy

Kelly J. Kennedy
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Accounting Officer)

This certification shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.