

HNST Q2 205 Earnings Final Transcript

Honest Company Inc - HNST - Earning Conference Call/Presentation-

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Corporate Participants

- Curtiss Bruce - Honest Company Inc - Chief Financial Officer
- Carla Vernón - Honest Company Inc - Chief Executive Officer
- Elizabeth Bouquard - Honest Company Inc - Senior Director, Investor Relations

Elizabeth Bouquard - Honest Company Inc - Senior Director, Investor Relations

Good afternoon, everyone. Thank you for joining our second quarter 2025 conference call. Joining me today are Carla Vernón, our Chief Executive Officer and Curtiss Bruce, our Chief Financial Officer.

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

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

Also, during this call, we will discuss non-GAAP financial measures, which adjust our GAAP results to eliminate the impact of certain items. You will find additional information regarding these non-GAAP financial measures and a reconciliation of these non-GAAP to GAAP measures in the financial results section of today's earnings release. A live broadcast of this call is also available on the Investor Relations section of our website at investors.honest.com.

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

Carla Vernón - Honest Company Inc - Chief Executive Officer

Thanks Elizabeth.

Good afternoon, everyone, and thank you for joining us today.

As I begin today's remarks, I'd like to take a moment to welcome our new Chief Financial Officer, Curtiss Bruce. As he joins our executive team, Curtiss continues to advance our journey by incorporating a broad set of experiences and best practices from some of the most respected and beloved brands in the consumer products sector. Prior to joining Honest, Curtiss was the Senior Vice President of FP&A and Investor Relations at Hain Celestial and spent time at the Kellogg Company as the Business unit CFO for Specialty Channels, followed by a CFO role on the RX Bar team. These experiences of running small, purpose-driven brands are complemented by his time at Keurig Dr. Pepper and Kraft Heinz where he was in both financial leadership roles and general management roles. At Honest, Curtiss has already gained a deep understanding of our culture and our growth strategy. And, I am so pleased that he provides strong insight and leadership discipline to drive the ongoing progress of our transformation and growth journey. Welcome Curtiss. We are so delighted to have your leadership at Honest.

Along with welcoming Curtiss, I am pleased to share our results for the second quarter of 2025. For today's call, there are three messages I want to share with you: First, we remained consistent in delivering solid results that were in-line with our expectations. We delivered our second consecutive quarter of positive net income, along with expanded gross margin, resulting in our highest gross margin as a public company. Second, our path forward continues to be driven by our team's relentless focus on executing our Transformation Pillars of Brand Maximization, Margin Enhancement, and Operating Discipline, along with our three-prong tariff mitigation strategy. And, third, as we look toward the second half of the year, we are re-affirming our full year 2025 financial outlook.

For the second quarter of 2025, we continued to strengthen our business model and in-market performance. We delivered revenue of \$93 million dollars and our gross margin grew 210 basis points to 40%. Additionally, we delivered positive net income of \$4 million dollars, an increase of \$8 million year over year and our second consecutive quarter of positive net income. With an Adjusted EBITDA margin of 8%, this is now our seventh consecutive quarter of positive adjusted EBITDA. As we look at our performance year to date, our revenue grew 6% and our net income increased by \$13 million dollars as compared to last year.

Despite the evolving macroeconomic landscape that has presented new challenges for consumers, according to Circana MULO+ tracked channel data, Honest consumption grew

6% for the second quarter which is down slightly from the first quarter consumption growth of 8%. With this mid-single digit consumption growth across our categories for the quarter, there are many indications that the Honest portfolio of products remains strong relative to our comparative categories which grew 2% in the same period. Our consumption growth was driven by unit growth of 8% along with increased velocities which were up 21% in the quarter. These increased velocities provide a strong indication that our marketing and shelf expansion strategies are working. Further underscoring the strength of the Honest brand is the consumption growth of 26% in the quarter at our largest digital retailer. As online shopping continues to grow, Honest, which was born digital-first and built for omni-channel, remains well positioned to meet consumers where they shop.

Another indication of the strength of the Honest brand is in the unique role our products play in meeting the sensitive skin needs of our community with every item in our personal care and baby collections made to deliver on the promise of our rigorous Honest standard of Clean. According to the National Institute of Health, sensitive skin affects 71% of adults. And, forecasts from KBV Research show that sensitive skin care products are expected to be an \$80 billion market by 2030. Additionally, the presence of skin allergies in children has nearly doubled since 1997. These insights support what we are seeing with the strength of our own line of Sensitive Skin and Fragrance Free products. For example, our collection of Fragrance Free baby personal care items grew consumption by 65% in the second quarter. This is why our Honest Standard remains a core guiding principle for our entire product portfolio. Our guidelines exceed the regulatory requirements dictated by both the EU and the US regulations. At Honest, our “no list” is a list of more than 3,500 ingredients and materials of concern that we do not formulate with or design into our products.

These high standards are also evidenced by the increased loyalty to the Honest brand. According to Numerator Household panel data, we are seeing growth on three key loyalty metrics: First, our buy rate of \$50.54 was up over 600 basis points versus the prior year, meaning our community is spending more dollars on Honest products this year. Second, our repeat rate of 32%, increased 94 basis points versus the prior year. This indicates, on average, our community is buying more Honest items and coming back to the Honest brand more often. While this is happening, we can also see that more households have become interested in our products as our Household penetration of 7.2%, increased 77 basis points year over year.

While these metrics are encouraging, we also saw low double digit consumption declines on our diaper business as expected this quarter. This was driven by an assortment simplification at our largest brick and mortar retailer, which we expect to continue until these distribution changes are lapped. However, these declines have been more than

offset by consumption growth across other key segments. In particular, distribution and velocity growth is driving strength in both our wipes business with consumption up 35% year over year versus the growth of the category which is up 2%. And, our Baby Personal Care collection is the number one natural baby personal care brand in the US with consumption growth up 10% in the quarter, outpacing the modest growth of the category, which was up 1%.

And now, I'd like to spotlight two parts of our portfolio that exemplify the progress we've made on our Brand Maximization Pillar, which is focused on driving scale, loyalty and topline growth of the Honest brand. First, is our new and improved line of Clean Conscious Diapers, which launched this year with marketing support beginning in July. And second, I will share the progress we've made on building broad based availability by diversifying our retail and channel presence, including our entry into higher productivity store aisles.

Let's begin with our new and improved Clean Conscious Diaper. This greatly improved diaper began shipping in the second quarter of this year. Through extensive technical development, our team of diaper-engineers designed our best diaper ever. Our new diapers are designed with an enhanced absorbent core and Comfort Dry Technology for up to 100% Leak Protection to keep babies dry and comfortable. With stretch, softer fasteners, a plant-based liner and our most breathable outer layer yet, we are continuing our commitment to care for babies' most sensitive skin needs. And, according to a recent article in Forbes magazine where they put more than 20 different diapers to the test, Honest diapers did their job at containing leaks while being the cutest diapers of all the diapers they tested.

The launch campaign, which went live in July, features full-surround marketing across digital, streaming, and traditional media. And, because we are a digital and social media era brand, this diaper campaign also includes strategic and engaging partnerships with trusted advocates and influential voices on social media. Our new and best Honest diaper ever is now 100% of the Honest diaper inventory shipping across all retail channels. With these improvements, our Honest babies have our best diaper yet, keeping them comfortable, dry, and stylish everywhere they go.

Another bright spot in our Brand Maximization strategy is the expansion of the Honest brand beyond the baby aisle. Our flushable wipes, found outside of the baby aisle, are enabling us to expand Honest with a broader set of shoppers. According to Numerator, the household product aisles, where consumers shop for a broad array of everyday essentials, have twice as many purchasing households as the baby aisle.

Beyond Brick and Mortar, our community is used to discovering Honest products through digital-first experiences. So, it was not unusual for us to first launch our elegantly designed and septic friendly flushable wipes online. The initial items performed well from the start, with two of our offerings now among the top 6 fastest growing items in the flushable wipes category at our largest digital retailer.

This early success is now being complemented with an expansion of our flushable wipes into Brick and Mortar retailers. That growth is also allowing us to expand Honest across a broader set of leading regional and national grocery retailers, specialty channels, and drug stores. With the launch of flushable wipes, we are now seeing Honest's overall distribution growth up 11% in the quarter across these channels.

In a moment, I will turn it over to Curtiss to share our additional Transformation Pillars and financial results.

But, first, let me re-iterate an important perspective we shared at our last earnings call regarding tariffs. Our Honest team has been very thoughtful about our framework for managing tariffs. As we shared last quarter, our process for managing tariffs has been honed over a number of years. We are guided by the three prongs of our tariff mitigation strategy: First, - building an annual plan that is agile in the face of tariffs and that thoughtfully adjusts our spending or pricing as necessary; Second - implementing an inventory management strategy to delay or minimize tariff impact; and Third - working closely with our internal teams and external partners to drive additional cost savings. This discipline regarding tariffs is evident in our results to date.

To conclude my remarks, I am proud that our teams have navigated the dynamic economic landscape through disciplined execution of our Transformation Pillars. As a result, for the second quarter of this year, we were able to deliver profitable revenue growth, net income of 4 million dollars, and our seventh consecutive quarter of positive Adjusted EBITDA with no debt outstanding. And, as we look ahead, our teams will remain focused on driving shareholder value while continuing to build the scale and power of the Honest brand.

And now, I will turn it over to Curtiss to share the financial results of our second quarter.

Curtiss Bruce - Honest Company Inc - Chief Financial Officer

Thank you, Carla, and welcome everyone. Let me start by saying how excited I am to be on the call with you today. I joined Honest two months ago because I strongly believed in The Honest Company's growth potential, the significant opportunity to advance our Transformation Pillars and the ability to build upon the company's strengthened financial

foundation. And now, after two months here, I'm even more convinced that the opportunities ahead are substantial. I am excited to leverage the best practices and skills I have learned from my past experience working across emerging businesses as well as some of the most iconic brands in CPG. As I work with the team to execute the Transformation Pillars, I will be intently focused on building the operating processes and discipline that will improve efficiency in the short term and create the infrastructure to effectively scale.

Now, let me dive deeper into the second quarter results.

In the quarter, we delivered revenue of \$93 million, up 0.4% driven by two key factors. First, in the quarter we had an increase in retail revenue driven by strong performance in our wipes portfolio, partially offset by a decline in Honest.com revenue. Second, as a reminder of what was shared on our last earnings call, our relatively flat revenue growth versus last year was due to timing of shipments. In Q1, shipments paced ahead of consumption by 5 percentage points and we saw that reverse in the second quarter where our shipments paced behind consumption by roughly 6 percentage points. On a June YTD basis, consumption and shipments are moving roughly in-line together.

Our gross margin in the second quarter was 40.4%, up 210 basis points versus last year. This gross margin is a record for Honest as a public company and a reflection of the team's disciplined execution of our Transformation Pillar of Margin Enhancement. Our gross margin expansion was primarily driven by a change in inventory reserves and a mix of higher margin products and channels, including shifting away from our honest.com business, partially offset by the impact of tariffs. Although we had an intentional inventory build as part of our mitigation plan to delay the impact of tariffs until the second half of the year, the second quarter did have some tariff impact as we sold through inventory on a few SKUs faster than our forecast.

And now, turning to Operating expenses. Operating expenses decreased \$5 million dollars compared to the prior year quarter and decreased 530 basis points as a percentage of revenue. This decrease in operating expenses was largely attributed to a decrease in SG&A expenses of \$6 million dollars compared to last year, primarily driven by lower stock based compensation and reduced legal expenses. This was partially offset by an increase in marketing expenses of \$1 million dollars to support key events with our retail partners.

We also delivered our second consecutive quarter of positive Net Income. The combination of gross margin expansion of 210 basis points and lower operating expenses of \$5 million dollars led to positive Net Income of \$4 million dollars, an \$8 million dollar

year on year improvement. We remain committed to sustained Net Income growth over the long-term.

Adjusted EBITDA for the second quarter was \$8 million, flat to last year due to higher net income coupled with lower year-over-year add-backs. Adjusted EBITDA margin was 8.2% and represents our seventh consecutive quarter of positive Adjusted EBITDA.

Through our Transformation Pillar of Operating Discipline, which underscores our focus on building a culture of operational and executional excellence, we maintained a healthy balance sheet ending the quarter with \$72 million in cash and no debt outstanding. Our cash position continues to benefit from a capital-light business model and greater flexibility which allows us to invest in the business.

Overall, our second quarter financial results, and the execution of our Transformation Pillars, give us continued confidence in our 2025 financial outlook. For the first half of the year, we achieved revenue growth of 6% while improving the profitability of our cost structure. As we look to the second half of the year, we are reaffirming our Full Year 2025 Financial Outlook for revenue and Adjusted EBITDA.

We expect the underlying momentum in our business to continue; however, as Carla stated earlier, the macroeconomic environment has presented new challenges for consumers. For our second half revenue outlook, we will be lapping two large customer-specific, promotional events with our two largest brick and mortar retailers that will not repeat this year. Also, while the second half of the year will continue to be impacted by the diaper assortment simplification at our largest brick and mortar retailer, we will be investing in the roll out of our new and improved diaper and optimized assortment in other channels. Additionally, new distribution coming in the second half of the year in both new and existing aisles should help offset these impacts. Finally, the second half of the year is where our apparel portfolio becomes a larger part of our mix driven by increases related to our award-winning fam jams.

Our second half adjusted EBITDA outlook reflects increased marketing spend primarily to support our new diaper launch and to continue building consumer loyalty to the Honest brand in this dynamic macro economic environment.

We have also updated our tariff outlook based on the policy information we are currently aware of and recognizing that we realized tariff impacts sooner than originally anticipated. As you know we have a comprehensive three-prong tariff mitigation approach and strong experienced leaders in place to manage these tariffs both in the short and long term. We will continue to be prudent and take necessary actions over time to continue to

drive margin performance. We now expect roughly \$8 million of gross tariff exposure in 2025.

In conclusion, our reaffirmed full year financial outlook includes: Net revenue growth of 4% to 6% year over year and Adjusted EBITDA to be in the range of \$27 million to \$30 million.

We also recognize there is uncertainty with broader consumer sentiment and potential changes in shopping behavior that our outlook may not include.

In closing, thank you for joining our call today. I am energized by my first 60 days at Honest and have strengthened belief in the opportunities to execute our Transformation Pillars and drive shareholder value. I look forward to working with our exceptional team and thank them for their work in delivering our Q2 results. Now, I will turn the call back to the operator.