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Kenvue, Inc. (KVUE)

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good afternoon, everyone. I'm thrilled to welcome Kenvue to the CAGNY stage. And first off, please join me in thanking the company for so generously sponsoring the break this morning.

And with that, I'll get started. Sorry. Thank you. You know, that cold and flu season is really ramping up. For those of you that didn't get it, you'll get it on the way home. As I was saying, Kenvue the makers of Tylenol, Motrin, Neutrogena, Aveeno, Listerine, BAND-AID and beyond is home to some of the world's most iconic consumer health brands. Brands that approximately 1.2 billion consumers reach for every day. Kenvue has been on a journey to become an independent global leader in consumer health and is now focused on accelerating profitable growth by leveraging stronger commercial and operational foundations in 2025 and in the years beyond. Here with us today, we have Chief Executive Officer, Thibaut Mongon; Chief Growth Officer, Charmaine England; and the CFO, Paul Ruh.

With that, I'll hand it over to Thibaut.

Thibaut Mongon
Chief Executive Officer & Director, Kenvue, Inc.

All right. Good afternoon, everyone. Thank you, Andrew. And it's great to be back here at CAGNY. And thank you for spending this session with us. So before we get started, usual reminder that we are going to make forward-looking statements and use some non-GAAP metrics. So please refer to the slide, I'm sure you have the time to read through all of it as a disclaimer. So today, we are here to share with you an update on our strategy to create value as Kenvue, as we continue to transform from a segment of a large healthcare conglomerate primarily focused on cash to an independent leader in consumer health, focused on profitable growth.

In 2024, we have made progress in strengthening our foundations and our capabilities, both commercially and operationally. We have delivered on our guidance for margin and EPS. But as many of you heard from me two weeks ago at our Q4 earnings call, our top line growth did not land where we expected and wanted it to be. So today, we are going to share with you what we are doing differently in 2025 and what are our plans to deliver a stronger level of performance in 2025 and beyond.

So this year we are squarely focused on accelerating profitable growth. To do this, we are leveraging and amplifying what we call our extraordinary powers to drive faster brand growth. So, Charmaine, our Chief Growth Officer, will share with you a number of examples of how we scale this throughout our portfolio. Paul, our CFO will share a financial overview and you will see how our outlook for 2025 contemplates an acceleration in our organic revenue growth, FX neutral EPS growth outpacing organic revenue growth, and stronger free cash flow generation.

So as we advance on our journey to become the undisputed leader in consumer health and as we transform our organization and rewire it differently to deliver accelerated top line growth in a profitable way, everything we do is in service of a purpose as a company, which is to help everyone everywhere realize the extraordinary power of everyday care. And this concept of extraordinary power is something that we are going to talk a lot about today.

So we are a pure play in consumer health. We are focused on consumer health categories that benefit from tailwinds. Think about aging populations. Think about the fact that more and more people around the world, emerging and developed markets, want to take their health in their own hands. Our categories are expandable. They are under-diagnosed, under-treated, underpenetrated, which provides ample opportunities for us to grow our categories and they have a very attractive profitability profile, which creates a right platform for us to drive profitable growth.

And within this exciting space of consumer health, we have curated a world-class portfolio of iconic brands. You heard from Andrew that more than 1 billion consumers trust, love and choose to use every day. And I'm sure it has been your own experience with our brands. Our brands are usually introduced to you at the moment where you are vulnerable: you have fever; it's your first bath; it's your first sign of acne; first sign of arthritis and at this very emotional moment, somebody you trust and who deeply cares about you introduces a Kenvue brand to you. They can be your mom, your dad, or doctor or nurse, or a friend of yours. These are very emotional moments. So we take these emotional bonds to our brand. We marry it with the unbeatable efficacy of our products and that what creates lifelong loyalty for our brands.

And when you look at our portfolio today, that's why we have about 37 number 1 positions in the category and geographies where we compete. That's where many – why many of our brands are synonymous with the categories in which they compete and that's what makes us very confident in our future as Kenvue. By the way, as you exit this room, you will see a number of products that are waiting for you. I hope you will enjoy them.

So thinking about 2025, we enter the year focused on our number one goal, which is to deliver profitable growth and for us, it's all about engaging more consumers and doing it at scale. And to do that, we are freeing up resources in our business to invest in our brands and we are revamping our teams to create a culture of performance and impact. And that's what allows us to engage with consumers in differentiated way and to compete for every shopper online and offline.

So since becoming an independent company, we have done quite a lot to strengthen our foundations. We have exited over 2,000 TSAs from J&J over the past 18-plus months in over 50 countries, all of that without any disruption to our business. Well, about 90 days from completing these spots of journey, which will mean that we will be fully independent from an operational perspective. And as a result of that, we now have more streamlined, more effective systems and processes that are more fit for purpose for a consumer health company and also allow us to operate with a more cost effective base.

Second, we have a healthier P&L with a more efficient cost structure that we are continuing to strengthen in 2025. And these savings that we are generating, we're investing them in all brands and 2025 is going to be a year two of us reducing our cost and investing in our brands. So you are going to start seeing the compounding effect of this flywheel, if you will, with a clear eye to volume growth and share gain.

And in addition, we are working differently in our new more effective, more efficient, simpler operating model with clear roles and responsibilities for our teams around the world, we have established global cross-functional brand development teams, who are focused on developing strategy, communications and innovation pipeline for the brands they are accountable for. And then our local teams activate these plans with their local retailers and local healthcare professionals. So clear roles and responsibilities, it's more effective, it's more efficient. It allows us to move faster. We started piloting this model last year and we saw the results in Europe, for example, where we are expanding our Aveeno brand very quickly using this new model.

And finally, we are quickly building our new Kenvue culture fast moving, faster decision making, more agile with deeper expertise in areas, where we needed to build more muscle with new talents joining our team at scale. To give you a sense of what I'm talking about today, about a third of our employees are new to Kenvue, so that gives you a sense of the magnitude and scale of the transformation that we have been through and continue to go through. And this transformation has one goal and one goal only, it's to drive profitable – to accelerate profitable growth. And to achieve this goal, we are systematically, methodically, strategically, aggressively deploying the framework that is the – a new playbook we have created for Kenvue, we call it our Kenvue extraordinary powers formula and we apply it to each one of our brands across our portfolio, starting with our top 15 largest brands.

And in 2025, all of our growth plans reflect – reflects the adoption of this framework. Each element is critical, but extraordinary growth happens when all five are executed simultaneously with the same level of precision and differentiation in the markets. So let's look at each one of them briefly. Everything starts with science at Kenvue. Each one of our brands builds trust with Science. Science means efficacy, efficacy means loyalty. That's how you bring – how you drive sustainable growth.

We have more than 1,500 scientists at Kenvue, they invent cutting edge innovation and technology. Last year alone thanks to this team, Kenvue was granted 561 new patents. And so what does that mean? It means that the innovation you are going to see in 2025, 2026, 2027 and beyond is going to be stronger, bolder, more differentiated with many first to markets in the pipeline. And this year, something we are going to do differently as well is to be much more visible with consumers in terms of science. You will see us talk much more about our science in the visible, relevant, easy to understand way for consumers with powerful science-backed claims that will entice instant trials.

The second power is expert recommendation. We use our science to strengthen our credibility, our partnership and our level of recommendation by expert healthcare professional, which is a critical element in terms of demand generation in our ecosystem for categories. Today, many of our brands operate number one, recommended by healthcare professionals in their respective category and geography. In 2025, we are amplifying this strength in a much more visible way. You are going to see on social media many, many more healthcare professionals recommend Kenvue products. I told you in Q4 about our breakthrough collaboration with Dr. Shah and Dr. Bhanusali, the most followed dermatologists on social media. You are going to see them in a number of our campaigns this year. Actually as we speak in our latest Neutrogena campaign with artist Tate McRae. Dr. Shah is co-starring in this campaign and it's just one example.

In addition, our brands will also be much more visible in clinics. Just to give you a couple of examples, in the US, with our newly expanded sales force, we are going to call on more than 80% of practicing dermatologists in the US. And in the UK, we have also expanded our sales force, and I'm now going to cover 6,000 more pharmacists in 2025. So as a result of these efforts, we expect weekly recommendations for all brands to augment significantly in 2025, whether it's from dermatologists or dentists or pediatricians or other specialists and we know that today's recommendation is a very strong precursor and sign of tomorrow's purchase and long time – long-term loyalty.

For innovation, we have also changed the way we are working. We have shifted from a technology-centric model to a consumer insights-led innovation model and we are reducing our time to market. We strengthened connections between our marketing insight, R&D and operations team, co-locating them to make them more collaborative, more consumer-centric, more outcome-oriented. In R&D, we are leveraging new AI tools to accelerate speed to market and we are very encouraged by what we see. We piloted some of it in 2024.

And, for example, we developed a new Listerine product in Germany in less than five months. In the US, we went from development to launch of eight new products in cough, cold, flu, and sinus in just eight months. So in 2025, every brand will adopt this new consumer insight-led innovation model and that's the reason why we are already bringing 40% more innovation in 2025 compared to 2024, strengthening our portfolio in different ways through premiumization, through extension into adjacencies, but also through products and at attractive entry price points.

So more healthcare professional recommendation, more innovation, more marketing as well. As we invest more in our brands, we are not only investing more, we are also increasing the quality of our marketing, leveraging the new next-gen marketing model to really make sure that we build breakthrough brand building content across our portfolio. That's a new model for us. We call it our content factory. It's an entirely new ecosystem, which develops cutting edge content powered by audience intelligence and with personalization at upscale. And with our new content factory that is now activated in 40 markets in 2025, we are drastically improving the quality of the content and reducing our costs.

So we are moving from the pretty complex network of hundreds of agencies around the world to a simple, but very powerful ecosystem, where we have on the one hand, two world-class global agencies developing big idea campaigns and then our production lab scales these ideas into locally relevant content with scale and relevance using Gen AI and automation. So with our new model, we are able to produce better content, faster at a lower cost. To give you a sense of what I'm talking about, we have reduced our time to market by 40%, and as we speak, we are bringing some campaigns from brief to market in a matter of days.

So that's very exciting. All our brands are going to adopt our new content factory in 2025 and we expect this to boost our performance. We just saw it in the last two weeks. We – as with the Neutrogena campaign, as we relaunch Neutrogena Hydro Boost with Tate McRae and Dr. Shah. We saw the impact of the quality output of our new content factory. In the first 24 hours, we earned 1 billion impressions and we did beat the benchmark in terms of video views by 40%. And more importantly or as importantly, we were able to track sales on Amazon and we saw a 700% increase in ad-attributed sales and on our hero Hydro Boost gel, a 25% lift in revenue. So that's what the power of content does and we are going to scale that throughout the portfolio in 2025 and beyond.

And finally, seamless commerce. Each one of our brands is strengthening how they show up in-store, online, in-store prominence and presence. We did a lot of work in 2024. We are scaling it to a different level in 2025. In addition, our teams will benefit this year from our new global set of excellence in revenue growth management that will allow them to make better informed decisions with new technology and tools in terms of price points, trade spends, promotions of all sorts. And then you will also hear from Charmaine in a minute that we are introducing new AI tools to increase the in-store availability of our products. So in 2025, it will be easier than ever to find and shop our products.

So as you can tell in 2025, we are significantly increasing our performance in all five levers of our extraordinary power framework that will be powered by stronger level of investments, activated by a renewed team focused on the right priorities. Across all five, we are going to be in a much better position this year than we were last year, and that's one of the reasons we feel very confident in our ability to accelerate revenue growth throughout the year.

So, now I would like to invite Charmaine up to give you some examples of how we are bringing this to life in – across the portfolio.

Charmaine England

Chief Growth Officer, Kenvue, Inc.

Thank you, Thibaut. And good afternoon, everyone. So Thibaut has outlined for all of you our five extraordinary powers. And I'm just going to give you a taste of how each of these are going to come to life differently for Kenvue in 2025. The first extraordinary power is extraordinary science, superior science. Science is in our DNA. And the example I want to give is the one you can see on the screen here is actually how we are embedding the science we have, a democratizing beauty through Neutrogena with our new innovation.

You can see our new innovation now on the screen. It's a fully mineral foundation. It gives you SPF 70, gives you fully sheer coverage without sacrificing any beauty experience. And so what we've managed to do is actually combine the opportunity we have with our science with a real unmet need finding – for those of you out there that use sunscreen, finding one that actually goes on clear and gives high protection is unprecedented. This is an unrivaled product into the market. And not only that, we got it into the market in about half the time we normally would. And on top of that, today, I'm going to give you a sneak preview. This is the global world debut of actually the spot that we're about to launch with in April of how we're going to bring this to life in our new model. So, I'll let you watch the spots.

[audio gap] (00:24:19-00:24:50)

Okay, I can see a few smiles in the audience. So, I'm going to now talk about our second extraordinary power at Kenvue. And that second extraordinary power is that of expert recommendation. We know that healthcare recommendations are incredibly important across our categories, no less so than on one of our biggest equities, our $1 billion – over $1 billion equity Tylenol. Everyone in this room, I'm assuming knows Tylenol. But in 2025, we're going to leverage the expert partnerships we have to expand our category leadership.

What's different is that the expert partnerships we have are going to help us expand into new areas. You might not know it, but pain is still significantly undertreated, and we've leveraged insights from these experts to shape our 2025 pipeline in a very different way. This year, our innovation on Tylenol features exciting new formats, as well as the expansion of Tylenol into drug free formats that help muscles and help joints. And so by broadening the pain care toolkit, we extend the extraordinary power of expert recommendation to win more consumers and engage more consumers with our iconic Tylenol brand.

Now, our third extraordinary power is insights-led innovation. You heard from Thibaut before, we're taking this to new levels in 2025, where we will introduce 40% more innovation to market. And if I pick one of the many we now have to talk to you about across our portfolio, what better brand to share an example on than BAND-AID. Who doesn't love BAND-AID? In 2025, we're accelerating our innovation to develop a new to market for something that just didn't exist before. And that is a real unmet need, a truly waterproof bandage. We all know why.

Up until now, a superior product just didn't exist. Who's been for a dip in a pool, washed their hands and their bandages flew straight off? Well, we've created an amazing 100% waterproof BAND-AID. And again, what's new for 2025 is we have done it in half the time we would have done it traditionally. Easy to apply and it's 100% waterproof, so it stays on. Handwashing proof, shower proof, sweat proof, swimming proof, you name it. This month, we shipped it to the trade the US and we're excited to see it land in all of your baskets and we're also excited about how this faster-led approach to insight-led innovation will apply across our entire portfolio in 2025.

The fourth extraordinary break – extraordinary power we have is breakthrough brand building. And what's different in 2025 is we've strengthened our muscles: we've strengthened our muscles in data; we've strengthened our muscles in creative and media to ensure, we're engaging more consumers with the right messages delivered by the most influential voices, having the agility to move at the speed of culture. A fantastic example of this is the way we're driving, reach and relevance with our number one allergy brand in the US Zyrtec.

Zyrtec pioneered proprietary data to optimize reach in the allergy category. This work helped us sustain our leadership position, which we hold to this day and continue to grow but it doesn't stop there. In 2025, we're advancing our AI capabilities, allowing us to move even faster, to tailor content, to not just specific retailers, specific regions, but specific consumers. So if you've got a dog allergy or if you've got a hay fever allergy, we'll be able to use that AI technology to target you specifically.

And in the US, we've still got 26 million sufferers, who aren't treating their allergies. So there's huge headroom to grow this category. And on top of that, we're flipping our marketing model. We're flipping the traditional OTC marketing model on its head, starting with lifestyle TikTokers, Instagram stars and our own scientists through our Zyrtec platform. So we plug that into the content factory that Thibaut talked about. We do it quicker and we roll it out globally, something we just did not have the ability to do in 2024. And this is one of many examples of the breakthrough brand building you'll see from us in 2025.

And to our fifth and final extraordinary power, some might say even the most important seamless commerce. That's the moment of truth when consumers actually choose our products. We know consumers now have many different ways to shop. There's an ecosystem. It's non-linear, whether it's digital, whether it's online, it's channel-less and it's seamless and we've done a lot in 2024 to improve across both in-store and online. So first, we started with the fundamentals and we've made significant inroads. We've got stronger partnerships ships with retailers.

We continue to build those fundamentals like Thibaut spoke about of revenue growth management. Through tech, through discipline and really enhancing our processes to ensure we're maximizing the power of our investments and actually really strategically on looking at growth. We're also in the process of dramatically improving our own-shelf availability, our prominence and our execution, where we know we've got opportunity to improve and we've always got opportunity to get better.

To improve, late last year we introduced a proprietary AI platform which optimizes on shelf availability. We rolled that out across a number of our North American customers and it looks not just at store level but at item level. Not only is it driving strong results and it's above industry benchmark, we're planning to roll that out across our North American customers in 2025. So that's what we're doing for our in-store environment. But we know that consumers are not just shopping in-store. Increasingly, they're shopping digitally and in these channels, speed is what matters.

And in 2025, we're tackling this head on with another proprietary new AI commerce tool. And in our first week of piloting this with Neutrogena in the US, we saw immediate gains based on the strategies that we employed through this new technology. We'll expand this pilot across our entire North America business throughout 2025. We really believe these initiatives will set us up for strong growth in 2025 and into the future. So let me bring that together for you, because actually the extraordinary power comes when all of these five powers are executed well and systematically together. Systematically deploying these five powers is built into our plans for 2025 and I'll give you a quick snapshot of how this deploys across each of our segments.

So, I start with our strongly performing Self Care segment. And on the chart behind me, you can see Tylenol. Tylenol is growing very well and it's using the five powers very well. If I take the first extraordinary power of superior science, we designed last year a new to market solution, a pill with water activated coating that makes it more slippery and therefore more easy to swallow, putting our second and third extraordinary powers to work, we actually, through our close partnership with experts and through insight-led innovation lens, we knew that Tylenol easy to swallow that we launched last year would help the 40% of adults in the US that find it difficult to take a pill that they find uncomfortable to swallow.

We then went to work with our breakthrough brand building power, leveraging high impact digital and social content that connected our consumers with the consumer insight, some of which you can see on the screen behind me. And with our key retailers, this launch has driven strong category growth and it's enhanced the trust our healthcare professionals have with us. In fact, Tylenol grew nearly twice the category in 2024 and it also – and to think about this, the biggest pain brand in the US, we increased household penetration of 120 basis points. So when we have all these five powers combined, we see how they work. Tylenol is just one example and this is the playbook that we are relentlessly deploying in 2025 across all three segments.

I'll take you to our next segment, Essential Health. Aveeno Baby is a great example to share here. When we get all five powers working, we deliver very strong results. Aveeno Baby is growing 3 times the market in the US. And why is that? Starting again with our superior science, we've got clinically proven out science that actually suits and moisturize the most sensitive skin. With the number one pediatrician recommended baby lotion in the US, we're helping shape global baby pediatrician guidelines. We worked with our pediatricians to develop our new Aveeno healthy start range. It's this powerful led insights, science and bringing something to market that moms and dads really needed. For those of you that have had a newborn, everyone's really concerned. What do I put on their skin straight away? And this was an example of really answering this insight. It's safe to use on babies from day one and on babies with sensitive skin, and it's four times more moisturizing than our competition.

Then, of course, our breakthrough powers of brand building come to life. It was a TikTok-driven launch and we delivered incredible engagement above industry benchmarks, in fact at 23%. We're exceeding sales force. And for those of you that haven't tried it, it's got a 4.8-star rating by parents on Amazon. So, again, demonstrating when we deploy all of these five powers we fly. As in our Essential Health segment as well as Self Care, when you see them deployed, which is our plan for 2025, all of the powers of the brands come to life.

Now, finally for our Skin Health and Beauty segment. The same systematic approach is being deployed and we are starting to see results. In Q4 2024, Neutrogena regained its number one face care position in the US and we have maintained this position in the past three months in all measured channels. This progress continued with solid share growth in Neutrogena facial cleansing, which we know is an entry point into the category, gives us confidence we can continue this momentum. Why? Because Neutrogena has beauty down to a science. Leading with superior science, we then team up extensively with our network of experts in this case, dermatologists, who not only recommend our products, but we team up with to develop, amplify and educate about our products.

Our recent insight-led innovation Collagen Bank was a great example of this coming to life. And when you combine that with the fourth extraordinary power of extraordinary brand building, you've got super relevant influencer and celebrity partners like Nicola, Hailey, Tate comes together in an even more seamless way. And not only that, this week, we are trying something entirely new seamless commerce wise. We are doing a unique TikTok live streaming event with Tate McRae as she launches her new album, look out for it on Thursday, to do frictionless selling, because we know that's where our audience is and that's where we'll make the most impact in terms of bringing the five powers together. So, again, we're not there yet, but we know when we have the five powers working together, we're confident it will engage consumers and start to win consumers across those new generations and return our brand to growth in the US.

So to summarize, what gives us confidence in our 2025 plan? Last year we invested at more competitive levels and we began deploying these five powers across our segments. In Self Care, we've been systematically deploying these five powers and we continue to expand our leadership positions with more than 80% of our revenue gaining share globally. In Essential Health, we're leveraging these powers and we've maintained our number one leadership position in all of our named states. We know we're not yet pacing to category in 2024, but we recorded our strongest year of growth in six years and we're seeing growth in revenue and growth in volume.

And then in Skin Health and Beauty, we know we are not where we need to be, but we've taken swift actions in the past year to accelerate performance and we're seeing positive signs of the playbook in actions. In EMEA and LATAM, where we've been systematically deploying our playbook, we had high-single digit growth in 2024. And in the US, we are very proud of Neutrogena's regaining the number one position in face care and the improvements we're making in derm recommendation, where we are now number two, which we're really encouraged by. Again though, I will say we are not where we want to be in Skin Health and Beauty, but we're encouraged by the improvements we've made thus far. We have robust plans across all of our segments, systematically developed using our five extraordinary powers and we continue to make strong progress across these.

I'll hand over now to Paul to give us the financial update.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

Thank you, Charmaine. And it's great to be back here at CAGNY with you today. As you heard from us, 2024 was a pivotal year for the company as we strengthened our commercial and operational foundations and we put Kenvue on a much more stronger footing. At the same time, last year was a disappointing year in that our sales growth was lower than we expected, as we were impacted by low sun and also cold, cough and flu seasons, during the year and also distributor challenges in China that we are now addressing.

At the same time, 2024 was a very busy year for Kenvue, where we stepped up our investments to modernize our systems, improve data to capture better and inform our decision making in a faster and a more agile manner and we came much more competitive in terms of brand support relative to our peers. And importantly due to the cost optimization efforts, we delivered on an operating margin and EPS outlooks for 2024 despite softer than anticipated top line.

Now, we have strong plans in place for 2025, both to accelerate organic sales growth and also to drive leverage across the P&L. A few weeks ago, we introduced our outlook for 2025, which you can see here on this page. Based on the strong commercial plans that Thibaut and Charmaine have outlined, we expect to drive organic sales growth of 2% to 4%, up from 1.5% last year. With an acceleration in organic sales growth and a relentless focus on driving leaner and more efficient cost structure, we are expected – adjusted operating margin to expand in 2025, even as we continue to increase investment behind our brands. And for adjusted EPS, we expect to deliver mid-single digit growth on a constant currency basis. With over half of our sales coming from outside the US, a stronger dollar will have an impact on our results as it will have on many of our peers.

Let me dive a little bit more into the expectations for 2025, starting with the top line. Within our organic sales growth guidance of 2% to 4%, we assume 2% to 3% weighted average growth in the categories where we compete, which is lower than the historical norm. But what gives us confidence that we will accelerate growth through the year and outgrow what we deliver, what it is in the past year? Five things: number 1, first, 40% more innovation is a very tangible building block that we're executing; second, we're expected to generate strong returns not only from a higher level of investment behind our brands, but more importantly, a much more impactful media investment and incremental trade spend; number three, we plan to deliver higher volumes and distribution gains through greater presence and prominence in-store and online; four, as we realize benefits from our RGM capability, we expect pricing to be a net positive in 2025, even as we set up our trade promotions in the first part of the year; and lastly, all of our teams will be executing with a higher level of intensity throughout 2025 after adopting our new operating model. We expect organic growth to be volume-led in 2025 and we are confident that these plans are already in motion as we speak.

Now, I will like to give a little bit more color into how we see 2025 evolving. Breaking out the last slide into two halves of the year, I'm obviously not guiding now by building block, but this chart illustrates graphically that innovation, incremental media spend and distribution gains are expected to contribute to growth ratably throughout the year. However, focused price resets in North America and trade investments in the first half of 2025 and disruptions in trade inventory are all expected to be a significant headwind to organic growth early in the year. We expect these headwinds to be behind us as we enter the second half of the year when our RGM efforts also start contributing to growth, which is why you should see a stronger organic sales growth in the second half.

Switching gears to margins. We have been laser-focused on fostering a culture of efficiency and operational discipline, which has been evident in our gross margin results. Since separating from J&J, our supply chain has stood our fit for purpose procurement capabilities and we have been optimizing our manufacturing and warehousing network and rolling out our smart operations and further adopting digitalization and automation. 2024 showcased the benefits from the significant productivity improvements that we have implemented and we grew gross margin 200 basis points versus the prior year to a very competitive 60.4%, which helped enable our increasing brand investments.

Now going forward, we do see plenty of runway for continuous gross margin improvement by driving even greater productivity and unlocking more opportunities for revenue growth management, embracing value engineering, and continuing premiumization. And while we expect the pace of gross margin improvements to moderate in the future to normal levels, we expect this continue to be a source of funds over the long run to help our investments and also contribute to leverage of our model.

Now driving efficiencies behind our brands and turning to the middle of the P&L, as you can see here in our second year of our view forward, we remain on track to realize $350 million in annualized savings by 2026. And as a reminder, our view forward is first about a driving geographic footprint optimization, second, to simplify the organization to drive faster decision making; and third, implementing new systems and automation to strengthen capabilities like consumer insights to respond in real-time to market changing dynamics.

Said differently, we are resetting our cost base, diverting from fixed infrastructure, non-working expenses to increase brand support, to levels more fitting for a standalone consumer multinational company. Last year, we also took a significant step forward in expanding our healthcare professional sales force and upgrading our capabilities and technology to modernize and automate across the organization. And in 2025, as I noted earlier, we plan to continue to invest more behind our brands, further build our capabilities and leverage productivity. And importantly, beyond 2025, we will continue to expand operating margins as we remain laser-focused on freeing up more resources by driving productivity and optimizing the cost structure.

Now, let me turn to cash flow. Consistent with our history, we're well-positioned to generate sustainable, durable, free cash flow over the long-term. We became a standalone company in May of 2023, and as a result of that, 2023 was an abnormal year for cash flow. The comparison between 2023 and 2024 free cash flow was impacted by a number of factors related to our separation, full-year standalone company costs, as well as the normalization in operational non-recurring items such as post pandemic record-low inventory levels in the prior year. Additionally, we stepped up our capital investments to exit the TSAs and we introduced our view forward, our two-year restructuring plan.

Both 2024 and 2025 are investment years from a separation and transformation perspective and TSA exit related CapEx investments as well. We are offsetting some of these investments in our working capital improvement with working capital improvement initiatives and therefore expect to generate a couple hundred million dollars more of free cash flow in 2025 compared to 2024. And as we look forward, post the investment phase, we have line of sight to about $2 billion and growing for free cash flow generation, as we put the separation and transformation initiatives behind us, we grow income and continue to improve working capital.

Moving to capital allocation. We maintained our order of priorities and we remain committed to maximizing shareholder value. First and foremost, we will continue to invest in our brands as we see the highest return on investment right there. Thibaut and Charmaine went into great detail around these efforts and I will just add that I am very excited as well about our plans for 2025 and beyond. In both 2024 and 2025, we're also laser-focused on modernizing Kenvue, which is critical for our long-term success as a fit for purpose consumer health organization.

Returning capital to shareholders remains core to our capital allocation philosophy, which can be best seen in an attractive dividend. We're proud of our dividend aristocrat status. In Q4 last year, we increased our quarterly dividend by 2.5% and we expect to continue to grow it over time. We are committed and very well-positioned to maintain a strong balance sheet. We continue to target a gross leverage of 2 times, which is slightly below the current levels. We're always evaluating value enhancing opportunities. We will remain very disciplined around portfolio management. And lastly, at this point, repurchases – repurchase of shares to offset dilution is what we're focusing on, although there is potential to consider more at the right time.

And with that, let me turn it back to Thibaut to close.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

Yeah, thank you, Paul. So as you heard today, a lot happening throughout Kenvue. We are focused as you heard us talking about on our long-term value creation formula, which is driving top line growth ahead of the categories in which we compete, improving our profitability with constant currency EPS growth outpacing organic sales growth, generating strong and reliable cash flow, and maintaining a disciplined financial policy always approaching for capital allocation decisions with strong focus on ROI.

So in summary, in 2025, we are laser-focused on accelerating profitable growth. We are confident in our ability to deliver on our financial outlook as we start realizing the compounding benefits of the structural changes we have implemented, as well as scaling across the portfolio our extraordinary power framework. And when we think about the future 2026 and beyond, we can clearly see how we are going to build on this platform to grow profitably ahead of our categories and springboard into value creation for all our stakeholders in a sustainable manner with a stronger portfolio, powered by the appropriate level of investments and activating – activated by world-class team focused on growing our brands.

So with this, we thank you for your time and we are going to take your questions, I think next door in the Q&A room. So see you there in a bit. Thank you, [ph] Andrew (00:53:17).

Unverified Participant

Yeah. We'll take it over to the breakout. Join me again in thanking Kenvue for their generous sponsorship this morning and for attending the conference.