

06-Feb-2025

Kenvue, Inc. (KVUE)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Kenvue Fourth Quarter and Full-Year 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] . As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Sofya Tsinis, Head of Investor Relations for Kenvue.

Sofya S. Tsinis

Vice President-Investor Relations, Kenvue, Inc.

Good morning everyone and welcome to Kenvue's fourth quarter and full-year 2024 earnings conference call. I am pleased to be joined today by Thibaut Mongon, Chief Executive Officer; and Paul Ruh, Chief Financial Officer. Before we get started, I'd like to remind you that today's call includes forward-looking statements regarding, among other things, our operating and financial performance, market opportunities and growth. These statements represent our current beliefs, expectations, or assumptions about future events and are subject to various risks, uncertainties and changes that are difficult to predict and could cause our actual results to differ materially. For information regarding these risks and uncertainties, please refer to our earnings materials related to this call posted on our website and our filings with the SEC. During this call, we will reference certain non-GAAP financial information. The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for financial information presented in accordance with US GAAP. These non-GAAP financial

measures should be viewed in conjunction with the most directly comparable US GAAP financial measures and are not presented as substitutes for or superior to those most directly comparable US GAAP financial measures.

Those most directly comparable US GAAP financial measures and a reconciliation of our non-GAAP items to their respective nearest US GAAP measures can be found in this morning's earnings press release and our presentation available on our IR page of Kenvue's website investors.kenvue.com.

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

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

Thank you, Sofya. Good morning, everyone, and thank you for joining us today. I'll begin by sharing our performance and progress in 2024, then provide a review of our results for the fourth quarter. I will close by discussing our outlook for 2025 with Paul building on some of these topics later in the call.

Our organic sales growth for the year was 1.5%. This was below our expectations and we are not satisfied with it. As we will discuss later, this was due in part to lower-than-expected incidences of cough, cold and flu, which negatively impacted our pediatric pain franchise and a reduction in distributor orders in Asia Pacific, particularly China. While topline meets our expectations, we met or exceeded our expectations on other fronts. We meaningfully expanded our adjusted gross margin and took significant cost out of our infrastructure, which enabled us to increase investments in our brands. And we delivered adjusted diluted EPS for the year of \$1.14, squarely within our guidance range. At the start of 2024, we outlined three priorities for Kenvue. Reaching more consumers, freeing up resources to invest behind our brands, and fostering a new culture that rewards performance and impact. While we still have work ahead of us to accelerate growth, we made progress on each one of these priorities. So let me take each one in turn.

First, to reach more consumers across all three segments, we strengthened our presence and prominence in-store and online, launched impactful innovation and expanded and deepened our engagement with consumers and the healthcare professionals. In Self Care, we strengthened our leadership positions with nearly 80% of the segment gaining share, including our largest brands, Tylenol, ZYRTEC and Nicorette amongst others. In Essential Health, we grew mid single-digits and we delivered volume growth in North America, EMEA and Latin America. And in Skin Health and Beauty, we grew both volume and value in EMEA and Latin America, while exiting the year with volume growth in the US. We expect to build on this momentum to accelerate volume and organic sales growth in 2025.

Second, we are taking significant cost out of the business to enable us to increase investment in our brands and here we are ahead of our plans. We continue to expand adjusted gross margin with an increase of 200 basis points year-over-year to a competitive 60.4%, driven, in large part, by strong productivity enhancements in our operations, the [indiscernible] (00:13:33) that we continue to build as Kenvue. To put this into a longer-term perspective, we are more than 400 basis points ahead of pre-COVID levels. In addition, we successfully executed the first year of Our Vue Forward, our two-year initiative to become a more agile organization with a more efficient cost structure and are well on track to deliver \$350 million of annualized savings by 2026. As a result of these actions, we were able to increase our total brand investment for the year by about 20%, a significant step toward our plan to reinvest more competitively in the growth of our brands. We invested in three areas. We increased our advertising budget to 10.6% of sales in 2024, compared to 8.7% in the prior year, and pivoted to social media influencer-led campaigns, which helped us expand our reach and fuel stronger brand health. We also ramped up our investment in healthcare professional engagements. In the US, for example, Neutrogena is now at its highest level of preferred recommendations by dermatologists in the face category in the last four years. And we invested

in stronger in-store presence and prominence, which, for example, contributed to the rapid expansion of Neutrogena, Aveeno and OGX in Europe.

Third, we have fundamentally shifted the way we work to embrace a culture of performance and impact across Kenvue. We introduced a new performance and incentive model directly tied to business outcomes, focusing all consumers on our key priorities. And to complement our existing talent, we brought in new team members to elevate our capabilities and expertise across key areas of our business. We also enhanced our operating model, establishing global brand development teams who are responsible for growing their brands globally with integrated strategies, relevant innovation and impactful communications. This model, now operational in 2025, is not only more effective but more efficient, avoiding duplications of effort and driving greater accountability.

Now, I'd like to turn to our fourth quarter results. In Q4, we delivered organic sales growth of 1.7% and adjusted diluted EPS of \$0.26. While we were tracking in-line with our organic sales growth outlook through November, growth and short of our expectations in December, primarily due to two factors. One, much lower-than-expected incidences of cold, cough and flu had an outsized impact on our pediatric pain franchise in the US and in China. And two, we had a reduction in customer orders in Asia Pacific, particularly in China, where we experienced temporary disruption in our distribution network for Essential Health and Skin Health brands. This was driven by secondary distributors who faced liquidity issues and did not fully execute activation programs.

We are in the process of replacing these underperforming distributors and reclaiming direct responsibility for activation with key local retailers to avoid this issue in the future. These two factors were unfortunately large enough to mask real progress in the other parts of our business. To help further dimensionalize the impact of the significant decline of pediatric pain incidence on our revenue, total company organic sales growth, without this franchise, would have been about 2 points higher in the fourth quarter and about 1 point higher for the full-year 2024.

Now looking at each segment, I'll begin with Self Care, which grew organic sales by 2.9% in the fourth quarter. As noted, the low flu season led to a double-digit decline over last year in our pediatric pain franchise as the category contracted over 40% in China and nearly 11% in the US, our two largest markets. December was much weaker than our industry projections as the typical peak in pediatric incidences did not occur. Retailers responded by limiting their orders, and in China by starting to reduce their inventories a bit ahead of the season. Without pediatric pain, this was a terrific quarter for our Self Care segment with organic sales growing high single-digits as Nicorette grew nearly 20%, while digestive health franchise grew mid-teens and allergy grew high single-digits. We continue to drive consumer awareness and amplify innovations such as Tylenol Easy-to-Swallow through innovative, consumer-centric campaigns. Importantly, we continued to gain share in Self Care in the fourth quarter, including in pediatric pain, where we grew share globally by 70 basis points versus last year.

In Essential Health, where organic sales decreased 0.7% in the fourth quarter, we faced a material headwind from the decline in customer orders in Asia Pacific, particularly China that I discussed earlier. Importantly, we do not see the decline in orders reflecting the rate of consumption in the region. Outside of Asia Pacific, the segment grew at a healthy mid single-digit rate in Q4, with a third consecutive quarter of volume growth. Innovation continues to play an important role as we drive household penetration in these categories where we command leadership positions. For example, we continue to expand Listerine Clinical Solutions in the US, where the line was the number one innovation in 2024. Our Aveeno Kids range is the fastest-growing line in its US category, and our BAND-AID Pro Heal innovation continues to do very well, driving more than a third of our wound care growth in the US for the year.

Finally, in Skin Health and Beauty, we delivered volume-led 2.6% organic sales growth for the quarter, albeit on a soft base. EMEA and Latin America continued to be growth engines for the segment and we drove volume-led double-digit organic sales growth in the quarter across both regions. In EMEA specifically, Q4 was our 11th consecutive quarter of organic sales growth with all our major brands; Neutrogena, Aveeno and OGX growing nicely. And we continue to expand in the region with the launch of Aveeno in 12 Central European markets. In North America, we delivered mid single-digit organic sales growth during the quarter as we continued to see improvements in the areas we have prioritized thus far. For example, during the fourth quarter, Neutrogena, our largest brand in Skin Health, regained its position as the number one face care brand in all US channel offline and online. In our Neutrogena cleansing platform, an important entry point for the brand, grew share in the brick-and-mortar channels in the fourth quarter, with a combined effect of increased points of distribution, attractive entry price points on specific codes, influencer-led consumer communication and innovation with our new Ultra Gentle Cleanser line.

While 2024 showed a recovery that's not linear and is taking longer than anticipated, we remain encouraged by this progress. In 2025, we will amplify our innovations and further strengthen our competitiveness. As an example, as part of our strategic collaboration with Dr. Shah that we announced in Q4, we launched a new media campaign earlier this week featuring artist Tate McRae, our newest Neutrogena ambassador. This is a great example of our ambition for the brand with a popular global Gen Z music sensation and the most followed dermatologist on social media getting together to recommend the number one face care brand in America.

So, let's now turn to our outlook for 2025. We are entering 2025 with a challenging external environment, economic uncertainty, geopolitical tensions and a stronger dollar. In parallel, consumers continue to look for convenience and value that are not compromising on their health. So given this backdrop, we expect our weighted categories to grow below historical average in 2025 in the range of 2% to 3% in the geographies where we compete. At Kenvue, we are now approximately 90 days from completing what has been a long and resource-intensive operational separation from J&J. To put it in perspective, we exited over 2,000 TSAs in more than 50 countries through the end of 2024 without business disruption. Having now completed approximately 85% of the planned exits, our team continued to find better, simpler and more cost-effective ways to operate as an independent company. And as one of the last steps in this separation, we officially opened our new Kenvue headquarters in Summit, New Jersey next month. With TSA exits behind us in 2025, we are ready to enter the next chapter of our journey as an independent company with our number one priority being centered on accelerating profitable growth and generating sustainable value creation. We expect to deliver 2% to 4% organic sales growth in 2025 and grow revenue faster than our categories in the second-half of the year.

We are confident in our outlook for 2025 for several reasons. First, we will realize the compounding benefits from the structural changes we implemented in 2024. This year, we will fully activate our new operating model with strong talent, a leaner organization, greater efficiencies and clear roles and responsibilities. Our brands will benefit from the second year of higher investment levels, supported by a healthier P&L with stronger gross margins and lower infrastructure costs. And we will be more agile and move faster, enabled by technology and capabilities that are right for Kenvue as a standalone consumer health company.

And second, we have strong plans to drive momentum across all three segments in 2025. We will launch 40% more innovation compared to 2024, which will further strengthen our portfolio through premiumization, extension into adjacencies and attractive entry price points. We expect net distribution gains this year, driven by the healthy innovation lineup and strengthened retailer partnerships leading to higher prominence of our brands. And our brands will be supported by more competitive trade and marketing investments with stronger partnerships with celebrities, influencers and healthcare professionals. We have streamlined our roster of advertising agencies and recently launched our new Global Content Factory, which will drive more impactful content with greater

efficiencies. We'll have the opportunity to talk more about our 2025 plans and our next chapter at CAGNY later this month.

While our innovation and marketing support I expect it to be equally strong throughout the year, our first half results will not reflect the underlying health of our business as it will be negatively impacted by two main factors; destocking largely due to the lingering impacts of the weak pediatric pain season and the disruption we are correcting in China, and the strategic investment we are making in selective price reductions and trade spend in the US to improve our competitiveness. Importantly, while reinvesting in our brands, we will continue to be extremely disciplined in the management of our P&L, and we expect to expand adjusted operating margin in 2025.

And with that, I'll turn it over to Paul.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

Thank you, Thibaut. And good morning, everyone. I'll start with an overview of results for the fourth quarter and the year and then close with the details around our outlook for 2025. Fourth quarter organic sales grew 1.7% versus last year, which was disappointing due to the reasons that Thibaut highlighted. Organic sales growth in the quarter was relatively balanced between value realization and volume. We drove favorable value realization across all segments and volume growth in both Self Care and Skin Health and Beauty. Overall, volume increased 0.7% year-over-year. Value realization contributed 1% to organic sales growth primarily driven by incremental pricing outside the US. For the year, organic sales increased 1.5% with value realization of 2.7% and consolidated volume declines of 1.2%. Going forward, we expect a more normal balance between value realization and volume with a skew to volume increases to drive our organic sales growth.

Taking a look at our segments, in the fourth quarter Self Care organic sales grew 2.9% year-over-year as volumes and value realization contributed 1.7% and 1.2% of growth respectively. As Thibaut mentioned, the segment delivered very strong organic sales growth, except for pediatric pain, which was a significant drag on the segment and the company growth. Importantly, in Self Care, we continued to gain share across categories globally for the quarter and full-year.

In Skin Health and Beauty, organic sales grew 2.6% year-over-year in the quarter as volume increased 2.1% on easier comparisons and value realization contributed 0.5%. Pricing actions abroad more than offset the impact of our strategic investment behind select price reductions and in-store activation in the US. We remain focused on building further traction with our commercial efforts to strengthen this segment's performance.

And for Essential Health, organic sales declined 0.7% in the quarter, with value realization increasing 1.2% year-over-year, which was more than offset by volume declines of 1.9%. While organic sales for Essential Health grew 4.1% for full-year, which was the fastest-growth in recent years, the fourth quarter was an outlier, primarily due to the reduction in customer orders in Asia Pacific, particularly in China. Without Asia Pacific, organic sales for Essential Health grew mid single-digits in the fourth quarter, with Latin America and North America leading the charge.

Moving now to adjusted gross margin. Our operations team drove meaningful productivity improvements in 2024, expanding adjusted gross margin by 200 basis points versus last year to 60.4%. As anticipated, in the fourth quarter adjusted gross margin came in at 58.7% versus 59.5% last year, which as you may recall included a non-recurring benefit of approximately 50 basis points.

In Q4, we continued to generate supply chain efficiencies and value realization which helped offset inflationary headwinds. Adjusted operating margin was 19.2% in the quarter and landed at 21.5% for the full-year, right at the midpoint of our 21% to 22% guidance range. Recall, we raised our total brand investment in 2024 by about 20% with cost savings and gross margin improvement funding this spend. As of 2024 year-end, we are more than halfway through realizing Our Vue Forward and are well on track to get the full annualized run rate of \$350 million by 2026. Closing out the P&L, net interest expense was \$95 million for the quarter and \$378 million for the full-year of 2024 in-line with our expectations. For taxes, fourth quarter adjusted effective tax rate was 17.7% and full-year adjusted effective tax rate was 25.5%, slightly below our expectations due to the realization of discrete tax benefits. And, finally, adjusted net income was \$499 million for the quarter, or \$0.26 of adjusted diluted EPS. Full-year adjusted net income was \$2.2 billion, or \$1.14 adjusted diluted EPS, within our 2024 guidance range.

Before discussing the outlook for this year, I'd like to take you through two internal initiatives that we are deploying to upgrade data and analytics across multiple facets of Kenvue, as part of the evolution of our company. First, as we continue our revenue growth management effort, we are deploying a global Center of Excellence that will support our markets with strategic pricing and promotion capabilities. We're also implementing new trade spend management technology in select markets, which will facilitate more robust management of trade investment and better-informed promotional spending decisions, all to further improve effectiveness. Second, we will complete the global rollout of integrated business planning with enhanced digital capabilities in 2025. The new IBP process and AI-driven tools will improve the level of information that supports our financial forecasting, enhancing planning accuracy. Also, while these upgraded systems and processes do not protect against some demand changes, they collectively enable greater agility and more timely decision-making, significantly enhancing our ability to respond to shifting market trends.

Now, to summarize our expectations for the full-year 2025, we expect organic sales growth to be in the 2% to 4% range, representing an acceleration from 2024 levels, with growth expected to be volume-led. Our assumptions are grounded on approximately 2% to 3% growth across the categories and markets where we compete. Based on current spot rates, we are assuming currency will be an approximately 3% headwind to our topline, resulting in expected net sales in the range of down 1% to up 1%. As you heard from Thibaut, we have strong commercial plans for the year for each one of our segments as we bring and amplify more innovation to market, leverage our growing marketing muscle, continue to build distribution and realize benefits from revenue growth management.

At the same time, we're coming into 2025 with more competitive brand support levels with the goal to accelerate consumption. We also expect our teams to execute on the higher level in 2025, behind the full adoption of our new operating model.

Looking at our segments for the full-year, we expect Self Care organic sales growth will accelerate from 2024 levels, building on our strong leadership positions and continuing to introduce differentiated innovation. In Skin Health and Beauty, we expect to return this segment on a global basis back to organic sales growth in 2025 as we continue to strengthen our US business while driving ongoing, solid performance in EMEA and Latin America.

And finally in Essential Health, as pricing rolls off, we expect to deliver more moderate organic sales growth in 2025 with broad-based growth across the categories. From a quarterly progression, as Thibaut mentioned, destocking and strategic price investments will impact the cadence of Kenvue's topline and margin performance in the first-half of the year. Combined, we estimate these factors will account for a 3- to 4-point headwind in the first quarter. As a result, we expect organic sales to decline low single-digits in Q1. We expect these headwinds on topline to moderate in the second quarter. These dynamics will mask the underlying health of the business in the first-half of the year. As we cycle through them, organic sales growth is expected to be much stronger in the back-half of the year relative to the front-half.

In parallel, we expect 2025 to be another year of strong productivity and efficiencies for our company. We are continuing to accelerate automation, streamline end-to-end processes, optimize spend, leverage digital and AI to enhance logistics and demand management and are on track to realize the balance of Our Vue Forward savings. These combined savings will more than offset the investments we are making behind the business to increase our brand's competitiveness as well as the inflationary and foreign exchange-related headwinds that we are facing this year. As a result, we're planning for our adjusted operating margin to expand year-over-year.

Given the fluidity of the recent tariff announcements, we have not factored in any impact in this outlook. We are assuming a fairly similar net interest expense to 2024 and adjusted effective tax rate of 25.5% to 26.5% with about 1.93 billion diluted weighted average shares outstanding. We are planning to grow adjusted diluted EPS on a constant currency basis, slightly ahead of organic sales growth, even as we continue to reinvest at higher rates behind our brands. Adjusted diluted earnings per share are expected to be flat to up 2%, including a mid single-digit headwind from currency.

In closing, 2025 will be an important year for Kenvue. As we put our separation from J&J behind us, we enter the next chapter of our journey as an independent company and aim to unleash acceleration in our profitable growth. Our teams around the world are ready and I want to thank them for the passion and focus on helping more consumers realize the extraordinary power of everyday care.

Before we open the call for questions, you may have seen the filing that was recently made by Starboard Value. We engage regularly with our shareholders and are open to constructive dialogue and suggestions from all Kenvue shareholders.

With that said, the purpose of today's call is to discuss our 2024 results and 2025 outlook. We appreciate you keeping your questions focused on these topics and we will not be making any further comments on our shareholder compensations or the nominations at this time. With that, we will open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. In the interest of time, we ask that you please limit yourself to one question to allow for as many questions as possible. [Operator Instructions] . Our first question comes from the line of Filippo Falorni with Citi. Please proceed with your question.

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Good morning, everyone. So I wanted to ask two clarification on the organic sales growth guidance for 2025. First, in terms of like the negative impacts that you saw in Q4, both on cold and flu and Essential Health. Can you give us a sense of like what is the contribution of the drag in Q1? Particularly in cold and flu, it seems like the case count has really picked up in the end of December, beginning of January. So, are you assuming you're not going to get a restocking on the cold and flu and especially the pediatric cold and flu medicine that you called out?

And then on the kind of Asia Pacific inventory issues, can you walk us through like what impact are you expecting going forward and how long it would take you to fix the disruptions that you called out? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yes. Good morning, Filippo. And so your question about our guidance for 2025, let me start by talking about how we feel confident about our guidance overall. If you think about our starting point, we grew 1.5% in 2024. You heard me say in the prepared remarks that if you – without pediatric pain, we would have grown 1 point higher as a company. So, I would say our run rate exiting 2024 is about 2.5%. If you add to that the stronger plans we have for 2025 and the fact that we are going to benefit from the compounding impact of the structural changes we did in 2024, that's what gets us to the midpoint of our guidance.

Now, what will bring us up or down versus this midpoint will be driven by the quality of the execution and in how consumers respond, but also the seasonal businesses and how the seasons are going to behave in 2025. So, if the seasons are positive, it will tilt towards the higher-end of the guidance. If it's not the case, it will tilt towards the lower-end of the guidance. Now, as we said, while we have strong operational plans through the full-year, we expect in the first quarter to have two factors that will depress our results and mask the underlying health of the business.

The first one is the lingering impact of the low pediatric pain incidence that we saw in Q4. And you are right. We are not expecting uptick in Q1 for two reasons. In a market like the US, while we saw an uptick at the beginning of January, then a decline in the middle of January and we see a slight uptick again recently, it has been pretty erratic and I think it's too soon to call for an upside in the US. In China, the go-to-market is different, distributors and stores tend to stock up ahead of the season. They had a low season in Q4 as we talked about. And so even if the incidence goes up in Q1, we would expect them to destock and to bleed their inventory in Q1 with no impact on our shipments.

And the second reason that will impact the first quarter on that front is the lingering impact of the distribution disruption we saw in China, will take a little bit of time to fix. Paul, do you want to add something?

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Thank you, Thibaut. Yes. And I said this in my prepared remarks, Filippo. The factors that Thibaut referred to are a drag of about 3 to 4 points. So, the combination of the low start to the season, particularly in pediatrics and also the lingering impacts of the distribution issues we have in China and Asia Pacific in general. And there's one more factor that I would like to mention that gets us to the topline of low single-digits in Q1, which is trade investments that we're stepping up in the first-half of 2025.

As we think holistically about our brand investment, we'll not only have brand marketing investments through advertising but we are also making sure that our promotional spend in-store is competitive and we're doing that primarily in the US through trade, investment and promotional programs. So that's how I get to the number that I explained before. This is temporary. It does not say much about the underlying health of the business. Because as those impacts are cycled through, we will see the acceleration in the second-half of the year as we see the full impact of our plans, including the benefits of RGM, the full impact of our brand plans, and some of the absence of the headwinds we saw in 2024. So strong operational plans underlying these impacts that I described.

Operator: Thank you. Our next question comes from the line of Peter Grom with UBS. Please proceed with your question.

Peter Grom

Analyst, UBS Securities LLC

Q

Thanks, operator. Good morning, everyone. Maybe just to follow up on that, I would love to get some perspective on just the category growth assumptions. I think you mentioned 2% to 3% globally. Can you maybe share how you see that playing out in the US versus what you might expect internationally?

And then just on the guidance, right, I think you just mentioned an acceleration in the back-half of the year. So should we interpret that as 2Q organic sales growth is going to be muted as well?

And then maybe just taking the flip of Filippo's question, I mean what are you assuming in the fourth quarter? Are you assuming that you get these headwinds that you dealt with from weaker cough and cold from the inventory disruptions? Are you assuming they come back and that's part of the improvement that you're embedding in the back-half of the year? Thanks.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah, Peter. Good morning. So let me take your question on the category assumptions for 2025 and Paul will follow up on the phasing in 2025.

So we indeed expect all categories to slow down from the 3% to 4% to a 2% to 3% in 2025. I would say the main reason Peter is the fact that you will have a much lower impact of price in 2025 compared to 2024. From a consumer point of view, what we see is, on one hand, consumers are clearly focused on convenience and value but they are also extremely focused on the health and the health of their loved one. And they are not ready to compromise on this. And we see it with the example of private label penetration that continues to be I would say about flat on a global basis. And actually if I look at the most recent periods, private label penetration in all categories is going down in aggregate. So I would expect the consumer continued to be focused on high-quality, differentiated, superior health solutions. But we will have a lower roll-off pricing in 2025 definitely.

Paul, do you want to speak about the phasing?

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Sure. Thank you, Thibaut, and Peter, good morning. I described the dynamics in Q1, particularly for the second quarter. We do see an acceleration, we expect an acceleration and you see it's into positive territory. It's not all the way to the full strength of our plans because the dynamics in China will take more than one quarter or two to be fixed. So, again it does not demonstrate the full impact of our plans. When it comes to the fourth quarter assumptions, you are right. What we are talking about in Q4 is the absence of the headwinds that we saw in Q4 of 2024. We expect a normal season overall in cold, cough and flu. And we also selective price actions outside the US and the full impact of our plans with the most strength being seen in Q4 of 2025.

Operator: Thank you. Our next question comes from the line of Anna Lizzul with Bank of America. Please proceed with your question.

Anna Lizzul

Analyst, BofA Securities, Inc.

Q

Hi. Good morning. Thank you so much for the question. I wanted to ask on Skin Health and Beauty, in particular the volume starting to recover here in the fourth quarter. And I was wondering just if you can give more insight on the innovation pipeline and any potential for shelf space gains in 2025? I was wondering if you're expecting maybe a better suncare season and then potentially shelf space gains in the fall? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

All right. Good morning, Anna. Let me take this one. So as far as Skin Health and Beauty is concerned, our recovery as we saw in 2024 is taking longer than initially anticipated. Having said that, we see that our plans are working. When you see our progress in the areas where we focused our efforts, we continued to see very strong traction in Europe and Latin America and we would expect continued traction in 2025 in this region. We have strong plans in terms of distribution, innovation and communication. And in North America, we are very encouraged by the positive signs we keep seeing in the region. And you saw that we got our leadership back across all channels in the fourth quarter of online and offline. And so in 2025, we will amplify these efforts to more part of the portfolio. We have, I would say, to a large extent, revamped of Skin Health and Beauty team with strong talents in 2024. And you start seeing the impact of what this team is doing. We are going to roll out a much stronger innovation pipeline in 2025 in the US and around the world. And this will be supported by strong and I would say even stronger campaigns as we pivot to social media, influencer-led campaigns and really execute them at a stronger level.

If you look the campaign we just released this week with Tate McRae, we got 1 billion media impressions in the first 24 hours. That's five times the engagement rate on organic social media. That's just what we would expect from industry benchmark, so actually a very good start. Our investment in healthcare professionals is working as well and we will continue to invest in this area. So more innovation in Skin Health and Beauty. I will not get into the details of what it will look like for obvious reasons that we are starting with revitalize Hydro Boost session – campaign in the first quarter. We are building on the innovation we launched in the fourth quarter, our new Cleanser lines and our Collagen Bank line, which is off to a good start. We will also increase distribution. To your question about suncare, we feel good about the upcoming season in terms of retailer partnerships. We'll see how the season plays out. But we feel that we are well-prepared getting into the season and we will continue to invest

behind our healthcare professional recommendation. So all-in, that's what makes us confident that we will return the segment to growth in 2025 on a global basis.

Operator: Thank you. Our next question comes from the line of Andrea Teixeira with JPMorgan. Please proceed with your question.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thanks, operator and good morning, everyone. Can you just elaborate more on the temporary trade investments you're embedding in guidance? And should we expect to understand like the 3 percentage point of organic sales growth to be mostly driven by volumes in the second-half and then the price realization to be negative in the US but positive abroad with FX-led pricing? So, hopefully, like if you can kind of break it down, if it's fair to assume, number one, that you obviously will have potentially less price realization. But some – as you mentioned before Thibaut, I think you to another question had said you expect to have pricing towards the back-end of the year.

And then on the operating margin guidance that Paul had mentioned to be above 2024, I understand the puts-and-takes here is like the synergies are coming in in-line with what you expected. And then – but that's going to be a gross margin accretion and then your SG&A will have that A&P investment. And I think that's one of the things that we haven't discussed on the call here, is the 11%, it still holds in 2025 or you are actually investing even more. Because when you say investment in trade and spending, it's obviously above the line, but you also had said that you are putting more programs in place at the retailer. So I was wondering if that number is appropriate and if you feel this is going to be where you're going to land in 2025. I'll stop here.

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

A

Okay. Andrea, thank you for your question. I will start with your question on what we really mean by our strategic pricing investments and then Paul will take your question on SG&A and gross margin.

So what are we talking about when we talk about pricing investments. As we reposition Kenvue for accelerated growth, you see that we are taking deliberate actions across the business to make us more competitive. One aspect of this competitiveness is making sure that our brands are at the right price points for consumers versus our competition. In 2025, we are making adjustments to our business, especially in the US to ensure that this happen. We are not doing it across the board. We are doing it in select brands, in select codes. That's where we see an opportunity to be more competitive and be rewarded with higher volume if we become more competitive.

I will not give you more details for obvious competitive reasons, but I can give you examples of what it looks like. An example is one thing we are correcting is that in the past we have made some price increases and for certain codes, we crossed certain price thresholds that impacted our volumes. So, after doing a few successful pilots in 2024 where we have checked that going back down below these price thresholds, we are driving volume. We are implementing those, again on select codes in 2025.

Another example of an investment we are making is simplifying the number of price points within specific brands. In certain brands, over time, the number of price points had grown, prohibiting us from co-promoting different products within the same brand at the same price point. We are simplifying this in 2025, reducing the number of price points which will allow us to co-promote our products more effectively and make our displays more effective. So all of that ends up being an investment in the short-term, but we are confident that it will turn into volume growth in the mid- to long-term.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Great. Thank you, Thibaut. And let me put some numbers behind your questions. First of all, you asked whether this will have any impact on volumes or it wouldn't have a negative value realization in the US. The answer is yes. We do expect negative value realization in the US, primarily in Q1 and in Q2 behind these promotional spend investments. We see brand investment holistically push-and-pull. That's how every other consumer company does it. And our marketing mix will allow us to be much more competitive at the point of sale and also supported by our brand investments. So what do we expect in the balance of the year? In the second-half, those will be rolling out. We will with the right price points. We will also take in price in the balance of the world. And that will allow us to have positive value realization overall towards the second-half of the year.

How are we funding all of this? That's your second part of your question. We do have very concrete and strong plans, both on the gross margin line and on the operating margin line. So when it comes to gross margin, you know that we have delivered a trajectory of gross margin enhancement. We do have line-of-sight to more building blocks, particularly driven by efficiencies, end-to-end in our value chain, not at the same pace as in the past of course, but we do see gross margin accretion, modest gross margin accretion in 2025. And when it comes to SG&A, we do believe we have still some room to go in terms of our A&P investment. Again, but at much more moderate level, we're thinking about these push-and-pull, marketing mix model and we will be very thoughtful about the ROI of both our top and brand marketing investments, but we still want to invest more while we are able to deliver on our algorithm that we talked about, our guidance that we talked about, which is growing our operating margins year-over-year. So those are the puts-and-takes and we believe we have strong efficiency plans because we want to continue to fuel our brands both from a push-and-pull perspective.

Operator: Thank you. Our next question comes from the line of Bonnie Herzog with Goldman Sachs. Please proceed with your question.

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you. Good morning, everyone. I actually had a question on your Self Care segment margins, which contracted a lot in Q4 and then for the full-year. So as you guys called out, the flu season has been tracking much weaker I guess, than expected. But just hoping for a little more color on how we should think about segment margin trajectory from here, especially in the context of maybe subdued price/mix growth moving forward and then certainly some of your reinvestment plans. Thank you.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Bonnie, thank you for the question. I would not place too much emphasis on the quarterly margin by segment. Remember, there is fluidity between the different segments and also it is impacted by mix. We talked about the fact that our pediatrics business was -see – saw declines and that certainly impacted our mix temporarily. I would say it had the lowest gross margin in Self Care of the year but that is temporary. If you think about our overall operating margin performance, we were squarely within the guidance that we talked about. So, overall, consolidated operating margin was 21.5%. So we contemplated all of these investments and there are puts-and-takes when it comes to mix, how we drive our brand investments and we do see as we think about 2025, a little bit of an acceleration in Self Care gross margin. We will continue to invest in Skin Health, as we talked both in the push and the pull, and Essential Health will continue to be driving operating margin enhancement for that incremental operating margin that I described. So those are the puts-and-takes between the different segments and also how mix plays. And all of this is supported by strong efficiency programs overall.

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

Korinne Wolfmeyer

Analyst, Piper Sandler & Co.

Q

Hey. Thanks so much for the question. I'd like to touch a little bit more on kind of like the cadence of the margin trajectory. I know you're talking about a little bit of modest expansion for the full-year but any more deeper color you can provide us on what to expect for Q1 for the gross margin, operating margin line and how that should progress over the year?

And then maybe you could touch a little bit on some of your risk mitigation plans as it relates to potential tariffs. I know it's a still pretty dynamic situation right now and a lot of uncertainty. But how much flexibility do you think you have to offset with pricing and some supply chain enhancements to drive better productivity if tariffs were to take hold? Thank you.

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Thank you for the question, Korinne. When it comes to our margin evolution throughout the year, both on the gross margin and on the operating margin level, it will follow a little bit of the topline trajectory given the leverage that we're seeing, the investment levels that we're seeing, the pricing that I talked about. So it will be more muted towards the first-half of the year, particularly in Q1, and we will see an acceleration towards the second quarter and particularly in the third quarter. Remember, we talked about the normal cadence that our gross margin follows. Usually the second quarter is the highest one. We will see some investments or we will probably see a little bit of a shift more towards the third quarter. And normally the fourth quarter has the associated costs related to plant maintenance, et cetera so it will follow that trajectory. Net-net, we see a more muted Q1 accelerating towards the second quarter, the third quarter as well and then going to the normal levels in Q4. So that's the cadence of our gross margin and operating margin.

And when it comes to tariffs, of course we're following closely. We established a team that is dedicated end-to-end to tracking the impact of these tariffs. And we have very, very – plans that we're ready to trigger. And our exposure is mostly between – at this point, between the US and Canada, that's where the majority of the cross-border trade happens. We do have imports from Canada into the US, very little from Mexico and a small part from China and we have a variety of levers that we are pulling. And those include of course alternate sourcing. We are considering potential pricing actions, but we are not triggering at this point given the fluidity. We are ready. We have the playbook ready and we will be ready to take actions in the short-term and also in the long-term. The guidance that we have does not include any impact of any tariffs and that's something that we will be of course working closely with our customers to ensure that we continue to provide consumers with the right value equation. But we are ready when whenever it comes, our playbook is ready to be activated.

Operator: Thank you. Our next question comes from the line of Nik Modi with RBC Capital Markets. Please proceed with your question.

Nik Modi

Analyst, RBC Capital Markets LLC

Q

Yeah. Thank you. Good morning, everyone. Thibaut, Paul, I was wondering if you could remind us on how the incentive compensation works, particularly for the regional managers and I'm asking this in the context of are they

compensated or the targets, post FX, just given the movement of the dollar versus the rest of the world and sometimes there's a tendency for folks to pull back on spending to hit post-FX numbers. And so I just wanted to get some clarity around that. And if you had any thoughts around mitigating that risk, if that is in fact how you compensate?

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

So Nik, the metrics that we have for everyone in the company and by the way we have a an approach to One Kenvue, it includes – it's all-in. So we have the levers to be able to offset as much as possible forex impacts and we do not give any dispensation to any teams regarding forex. Our plans are on a – as they are reflected externally in-line with our guidance. We talked about organic sales and we also talked about our EPS on a constant currency basis. But we track both. An important thing that I wanted to mention is that we do have hedging programs and we have those for the purpose of predictability and we employ them very rigorously.

And the last thing that I wanted to mention is that in 2025, we have already factored in the headwinds that I referred to. So, mid single-digits headwinds in EPS and that's how we compensate our teams. So it's a holistic approach. It's one team approach. And we are not going to take the foot off the pedal when it comes to investment in our brands. Remember, we talked about in 2024 that we would be investing \$400 million more in advertising and that's exactly what we did. And we will make all the tradeoffs but the majority of the efforts will be towards more taking complexity and unrewarded complexity and other non value-added costs out of our P&L to be able to protect the investments despite potential swings in currency. Remember, it's organic, it's one team, and that's how we evaluate our teams.

Operator: Thank you. Our next question comes from the line of Lauren Lieberman with Barclays. Please proceed with your question.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much. So sneaking in a clarification and then a real question. Clarification was just in the prepared remarks, I thought you said that Skin Health and Beauty was up mid-singles in the US, which, if that's the case and EMEA and Latin America were up double-digits in volume. I just wanted to understand the total result of 2.5%.

And the more interesting question. The go-to-market in Asia, you called out in particular Essential Health. But I was curious what the route-to-market is for the other categories there?

And also just – there's a range of what it means to use distributors in China, right? There's the – we put stuff on a ship and it's like very hands-off, which I don't think is what you do because I know you have significant local operations. And the other side is it's just – getting the product from point A to point B. So I was just curious to understand where you fall currently on that continuum and with the changes you're looking to make, what it will look like after the fact and if there is sort of investment you need to make in local capabilities, staffing and so on to complete that journey? Thanks.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah. Thank you, Lauren. So very quickly on your first question, you are absolutely right. The US grew mid-single digits in Skin Health and Beauty in the fourth quarter and EMEA in LATAM grew very strongly double-digit. We

are very pleased with the performance of the segment in EMEA and LATAM and we are encouraged to see these improvements in the US.

Regarding your question about our route-to-market in China, so remember the majority of our business in China is in Self Care. And for this part of the business, we have one dedicated route-to-market with distributors well-specialized in serving hospitals and pharmacies across the country. For the non-regulated, if you will, part of the portfolio, Essential Health and Skin Health, we use different types of distributors that we serve directly what we call our Tier 1 distributors who are more at the provincial level. And these distributors sell themselves to lower-tiered distributors, wholesalers who serve supermarkets, grocery stores in the different tiers of cities and villages in China. So that's how it works.

What we are doing about it as we speak is two things. One, replacing the distributors who are clearly facing difficulties in the current environment in China, which, as we all know, continues to see a consumer that is cautious about consuming products and are facing liquidity issues.

The second thing we are fixing is where we relied too much on these lower-tiered distributors to activate our brands. We are deploying our teams to reclaim responsibility for the negotiation with these key local retailers of our brand activation teams. That will give us two benefits; one to better handle of the activation of our brands in these lower tiers in the country. And, two, more visibility on the quality of the execution in these lower-tiered customers.

Operator: Thank you. Our last question will come from the line of Steve Powers with Deutsche Bank. Please proceed with your question.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much and good morning. Thibaut maybe just to close the loop on Lauren's prior clarification question, if the US, EMEA and Latin America were all sort of comfortably above the segment average, implies a pretty weak Asia Pacific result. So if you can just amplify or clarify a little bit on that.

But my real question was, especially on cash flow and just your expectations of cash relative to the \$1.14, \$1.17 EPS that you called. If my math is right, fiscal 2024 conversion of cash kind of came in around 60%. You've obviously previously framed the evergreen target at 100%-plus. So just with the TSA exits winding down, how much progress do you think you'll be able to make against that 100-plus percent target in 2025? And then more broadly when do we think we can get back to achieving that long-term run rate on a more consistent basis? Thank you.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

A

Yeah. So very quickly on your first question, you're absolutely right, Steve. The quarter was not positive for Asia Pacific for the reason I mentioned in China.

Paul, do you want to take the one on free cash flow?

Paul Ruh

Chief Financial Officer, Kenvue, Inc.

A

Yeah. Happy to. So just to set the stage, free cash flow in 2023 was \$2.7 billion. Free cash flow in 2024 was \$1.3 billion. If we think about what happened between 2023 and 2024, it's about half-and-half. The first half is separation-related items. For example, in 2023 we had a partial year of interest, a partial year of company costs, and the other one were operational elements. In 2024, we had a particular year-end where we didn't have the normal number of working days at the end of the year. So from an AR perspective, we had a headwind. And remember we're also investing in Our Vue Forward, we are reinvesting to exit our TSAs. So we're very thoughtful and prudent about how we invest in our business for long-term success.

So that explains the 2023 to 2024. So half-and-half, if we think about going forward we are expecting to get closer to the cash conversion that I talked about but we will not get there in 2025. We will continue to invest in Our Vue Forward.. We still are investing in TSAs, particularly TSA exit, particularly in IT, which requires investment in SAP and other platforms, and it will give us an opportunity to become much more agile. So those are the right investments that we're doing. And we also talked about the fact that we're moving to our Summit headquarters. It will drive the right energy, the right collaboration within our teams.

So with those investments behind us, we see a very clear line-of-sight to getting to that 90% to 100% cash conversion. But as you know, the separation and the investments that we're going through to set ourselves up for clear success require investment temporarily. And then we will have a very strong cash conversion as we traditionally do. And we have very – also clear building blocks to be able to get there from a cash conversion cycle perspective as we become a fully, fully independent company and operate in a consumer environment with the right payables, with the right inventories, with the right receivables, and because we have two building blocks to get there. So, overall line-of-sight to that cash conversion after a period of investments, which is the right thing to do.

Operator: Thank you. We have reached the end of our question-and-answer session. I would now like to turn the floor back over to Thibaut Mongon for concluding comments.

Thibaut Mongon

Chief Executive Officer & Director, Kenvue, Inc.

So thank you all for joining us today. We hope that this call gave you some color on our outlook for 2025. And as I said earlier, we enter 2025 very confident in our ability to deliver on our outlook with the compounding impacts of the transformation we led in 2024 and the strength of the plans we have for 2025.

So with that, we thank you for joining us today and we'll talk soon.

Operator: Thank you. This concludes today's conference. Thank you for your participation. Have a wonderful day. You may now disconnect your lines at this time.

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