



THE HONEST COMPANY, INC. Q4 2024 EARNINGS CALL

February 26, 2025

CORPORATE PARTICIPANTS

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Elizabeth Alexandra Bouquard

Good afternoon, everyone. Thank you for joining our fourth quarter 2024 conference call. Joining me today are Carla Vernón, our Chief Executive Officer; and Dave Loretta, our Chief Financial Officer.

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

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

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

Carla B. Vernón

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

Before diving into our results, I would like to take a moment to acknowledge the heartache and tragic impact many people in our Los Angeles community have experienced as a result of the recent wildfires. Our company is based in L.A. and as a company based in L.A., we care deeply about the safety and well-being of our employees and our community. Our longstanding partnership with community service organizations like Baby2Baby and others allow us to



support fire relief efforts by donating supplies that are essential to families in need. We're deeply grateful for the first responders and volunteers in California and in communities across the country, who provided support during these challenging times.

I would also like to take this time to welcome back Elizabeth Bouquard, our host today and our Senior Director of Investor Relations, as she returns from parental leave. We're so grateful to have her back and to celebrate her little girl as the newest member of The Honest family.

Today, there are three key messages I would like to share. First, we delivered strong results in both the quarter and the full year, reaching new financial milestones in the history of our company and exceeding our guidance. Second, we delivered these results by successfully executing our transformation pillars. And third, we're introducing our 2025 outlook today in line with our long-term algorithm.

Let's begin by taking a closer look at the financial milestones for our full year results. For the full year of 2024, we delivered revenue of \$378 million, which was up 10% year-over-year, and our gross margins expanded 900 basis points to 38%. This was our highest annual revenue and gross margin ever as a company. We also delivered our first full year of positive Adjusted EBITDA as a public company.

As I reflect back on this year, we accomplished what we set out to achieve. Simply put, we are an organization that does what we say we're going to do.

Since introducing our Transformation Initiative two years ago, our results have been delivered through the strong execution of our three transformation pillars, which are Brand Maximization, Margin Enhancement and Operating Discipline. These Pillars provide our teams with clear operating principles, which enables us to drive profitable growth for Honest, to create long-term value for shareholders, and to unlock the power of the organization. Let me bring these three Pillars to life with a few examples.

We always lead with our Brand Maximization Pillar. This pillar is inspired by the growth vision we have for the Honest brand across our incredible portfolio of cleanly designed personal care products. The Brand Maximization Pillar focuses on growing Honest and our product portfolio through the increased availability of our products, pricing strategy, and through investments in innovation and marketing. We've made significant advancements in this pillar over the last year. Our revenue is up 10% and our household penetration has reached 7%. This growth represents more than a 20% increase in the number of households who use Honest products since we went public in 2021. In addition, our repeat rate is up 32% as our community of users become increasingly loyal to The Honest brand. Let me provide some specific examples of how we're driving Brand Maximization.

Our wipes portfolio grew in strength and scale this year. Our wipes growth was due to increased velocities, the introduction of larger pack sizes, and the launch of new innovations. And now, according to tracked channel data, our clean conscious wipes have led us to the top spot as the number one natural wipes brand across the country. In Q4, our wipes velocities were up 17%



and repeat was up 26% for the year. With the introduction of larger pack sizes, we've expanded the distribution of our wipes collection at our top three retailers. So now, our community has many more options, allowing them to choose the right quantities for their needs. In fact, during Amazon's most recent October Prime Day, our 720-count Clean Conscious wipes landed in the top 100 performing deals across the store by unit volume sold. Our increases in both repeat rate and sales of larger sizes are strong indicators of how satisfied our community is when they experience the performance of our wipes.

We're also driving Brand Maximization by expanding the breadth of our portfolio through new product innovations. We launched Flushable Wipes last year and now they're available in a variety of pack sizes. And for the littlest members of our Honest community, we have introduced Sniffer Soothers to help kiddos through that cold and flu season. And our little Flushable Wipes are perfectly sized for toddlers on their journey to independence.

Building upon the role of wipes in our brand maximization pillar, we are also pleased with the growth of our collection of baby personal care products. Our sensitive skin collection nearly doubled in consumption, with year-over-year growth of 96%, according to tracked channel data. This collection of fragrance-free personal care items, which includes bubble bath, shampoo/body wash, body lotion, leave-in hair detangler and conditioner is a fan favorite for people who are sensitive to the scent of perfumes and fragrances on their body all day. In particular, the shampoo body wash in our sensitive skin collection is a true standout. With more than 6,000 5-star ratings on Amazon, our fragrance-free shampoo body wash has become a trusted part of the daily routine for many Honest families. We have supported this growth with our biggest brand campaign for the year. The campaign, "Clean Ingredients for Life's Most Sensitive Skin", is a compelling, emotionally driven marketing campaign that resonates with our community's preference for clean ingredients and products that work. This campaign, which increased Honest brand impressions by more than 150% quarter-over-quarter, strongly resonated with consumers and achieved 6 times the industry engagement benchmarks on key social media platforms. And with the sensitive skin product space expected to double by 2030, we're driving full steam ahead with what we see as a significant opportunity to continue growing and innovating sensitive skin product offerings from Honest.

Another very exciting milestone on our journey of Brand Maximization is the rollout of our improved packaging design. Whether you're walking the aisle of a grocery store or looking through the cabinets in your home, packaging is the most important marketing lever of any consumer brand. Packaging is the one marketing lever that every product user sees and experiences. It is an essential element in capturing a shopper's attention and in communicating the most important product information. Recently, we introduced refreshed and optimized packaging across our adult skincare portfolio, and it really pops off the shelf. This rollout began with the launch of two new luxurious skincare additions to our collection of adult skin care. Our new Ageless Firming Cream and Ageless Firm and Even Serum, have quickly become two of my favorite products and a go-to part of my morning and evening routine. Before launching, the packaging for these two items and the updated designs on our entire adult skin and beauty line were vetted with extensive consumer research and testing. We love how the new look elevates



the brand with product imagery that's more clear and color blocking that is a handy way-finding tool to help busy shoppers find their favorite Honest skincare products more quickly. We also improved the readability of our product descriptions with larger and more modern typefaces. And most importantly, the packaging improves the communication of our product benefits and science-backed claims.

At its core, our Brand Maximization pillar is focused on growing our unique and special Honest brand. As a portfolio that leverages one single consumer brand across a wide array of categories, aisles and consumer demographics, we have the rare ability to scale our marketing investments in a way that are both efficient and powerful. As we build our brand trust, we build the awareness and that no matter where Honest goes, regardless of the product category or the people using it, our Honest brand stands for clean products that are trustworthy, reliable and safe.

We've also made meaningful progress on our Margin Enhancement Pillar. We expanded gross margin 900 basis points to 38% for the year. This was driven by our teams giving great focus to strong revenue management and significant cost savings projects. For example, we transitioned our warehousing and fulfillment operations to a more efficient partner. Because of the large scale of this project, our partner was able to drive meaningful cost savings through automation and technology improvements, making our fulfillment more efficient. We also drove cost savings by consolidating our personal care manufacturers in the United States, using scale to boost our productivity. And we did all of this while maintaining our rigorous Honest standard, which is our unwavering commitment to clean ingredients and thoughtful design. Since day one, we've been raising the bar on ingredient formulation, and we continue pushing boundaries by avoiding the use of more than 3,500 ingredients of concern, which is far beyond both the US and EU regulations.

Our Operating Discipline Pillar is our third and final pillar. Operating Discipline underscores our focus on building a culture of executional excellence. We are on a journey to continue improving how we execute, and this can be seen by how we build our team with people who bring strong Consumer Products expertise and experience to Honest. Earlier this week, we announced that Etienne von Kunssberg has joined Honest as our Senior Vice President of Supply Chain. Etienne is a seasoned executive with supply chain experience across top global consumer brands, including his recent leadership role at Dole Packaged Foods, and his prior experience at Procter & Gamble, Coty and Henkel. This addition to our executive team is further evidence of our commitment to optimizing and driving greater Operating Discipline across our supply chain. Welcome, Etienne.

We also recently announced Dave Loretta will be retiring from his role as our CFO. As we actively work to identify our next finance leader, Dave remains committed to leading the financial strategy of the enterprise and facilitating a seamless transition. I would like to take this opportunity to thank Dave for the impact he's made on the financial stability of the business and the organization as a whole.



Finally, we begin 2025 with a powerful brand, successful strategies, and a talented team to build upon our performance from 2024. As we presented in our earnings release this afternoon, our 2025 financial outlook includes expectations for revenue growth of between 4% and 6% and Adjusted EBITDA margin expansion. This remains consistent with our long-term algorithm and aligns with our goal to create value for shareholders.

I'm incredibly proud of our team for their hard work and extraordinary execution this year. And now I will turn it over to Dave to share the financial results of our fourth quarter and more details on our 2025 financial outlook.

David Loretta

Thank you, Carla, and welcome, everyone.

Our team's hard work over the last year has been instrumental in advancing our strategic objectives and building a stronger financial foundation. The progress we have made across our transformation pillars has led to strong top line growth and improved profitability.

In 2024, we achieved double-digit revenue growth of 11% for the fourth quarter and 10% for the full year through a combination of expanded distribution, velocity gains and product innovation. We expanded gross margins 530 basis points in the fourth quarter and 900 basis points for the full year through focused cost management. And we surpassed our bottom line improvement plans and exceeded Adjusted EBITDA guidance. We believe the executional excellence will continue in 2025 and beyond, as demonstrated by the outlook we will share today.

But first, let me dive deeper into our fourth quarter results. This quarter, we delivered a record high revenue of \$100 million, up 11%, driven by strong performance across our baby apparel and wipes portfolio. We continue to see growth across our customer's retail and digital channels. More specifically, our retail tracked channel consumption grew 7% in Q4 compared to the comparative categories, which were down 2%. At Amazon, our largest digital customer, consumption was up 35% in the quarter, driven by baby personal care, wipes and baby apparel. In the diaper category, which remains our most competitive category and was a soft spot for us in the quarter, we are committed to bringing meaningful innovation and product performance to our lineup of diapers, and we look forward to sharing more in our upcoming quarters about the innovations that we will be rolling out later this year.

Our gross margin in the fourth quarter was 39%, up 530 basis points versus last year, primarily driven by cost savings and efficiencies. This included 300 basis points from reduced supply chain costs and 230 basis points from reduced product costs. Our ability to expand gross margins is due in large part to the successful collaboration with our logistics and distribution center partners, in addition to our sourcing and operations teams, who identified and took action to generate portfolio savings through raw material cost reductions, packaging updates and robust re-bidding of manufacturing contracts.



Another key driver of margin improvement this year came from our strategic shift towards higher margin channels, while moving away from lower margin channels, including our own DTC channel through honest.com. The shape of our business model has changed since we launched as a solely direct-to-consumer company 13 years ago. Consumer shopping patterns have changed over the last decade and our digital customers provide Honest products with same-day delivery and subscription service optionality that our consumers are looking for. And we benefit from their broader access to new consumers. With the higher cost of shipping and fulfillment activities related to our DTC business and other related costs, we will continue to shift our focus and investments towards more efficient and scalable distribution models with our current retail and digital customers. As we move forward beyond 2025, we'll gradually transition away from honest.com as a shipping and fulfillment channel, while ensuring that the site remains a resource for educating consumers, showcasing our complete product portfolio and driving consumers to purchase offsite.

Next, turning to operating expenses. Total expenses increased \$11 million in the fourth quarter compared to last year, primarily driven by an increase in selling, general and administrative expenses and retail marketing expenses. Selling, general and administrative expenses as a percentage of revenue increased over 510 basis points, mainly driven by non-reoccurring legal costs, as I shared on our Q3 earnings call.

Marketing expenses of \$11 million increased \$3.5 million from the prior year fourth quarter to 11.3% of revenue. This increased investment in our brand and product advertising across a diversified mix of media platforms has been a key strategy resulting in capturing new Honest consumers and expanded household penetration.

Adjusted EBITDA for the fourth quarter was positive \$9 million compared to \$4 million for the prior year fourth quarter. We also achieved full year positive Adjusted EBITDA of \$26 million exceeding our original outlook. Our Adjusted EBITDA margin improved from negative 3.3% in 2023 to positive 6.8% in 2024. These results are in-line with our long-term algorithm of Adjusted EBITDA margin expansion and are the base we expect to build on in 2025, as I will share shortly.

Turning to the balance sheet, we ended the quarter with \$75 million in cash, an increase of \$43 million at the end of last year due to the continued discipline in managing working capital and proceeds of \$41 million of pre-IPO stock options that were exercised, mostly in the fourth quarter. As of year-end, there remains 5 million outstanding pre-IPO options, with an exercise price of \$5.41.

Our free cash flow for the full year was \$1 million, inclusive of spending over \$12 million in non-recurring legal costs in 2024. Combined with \$18 million of free cash flow generated in 2023, this represents a significant improvement since we announced our Transformation Pillars in Spring of 2023 and has contributed to a solid balance sheet with zero debt outstanding. Our strong financial footing provides greater flexibility in our growth model and allows us to invest in the business in support of expanding the availability of Honest products.



With that, let's turn to our outlook for 2025. One year ago, on our Q4 2023 earnings call, we introduced our long-term financial algorithm of revenue growth of 4% to 6% and continued Adjusted EBITDA margin expansion. As we shared at that time, our long-term financial view is grounded in our strategic plan and our transformation pillars of Brand Maximization, Margin Enhancement and Operating Discipline. We continue to believe that these frameworks set the building blocks for long-term value creation, as we demonstrated in our results this year. With this in mind, for our Full Year 2025 financial outlook, we expect to be in-line with our long-term financial algorithm. We expect year-over-year revenue growth of 4% to 6% and Adjusted EBITDA to be in the range of \$27 million to \$30 million supported by sustainable gross margin levels similar to 2024 and continued expense management disciplines. We expect our first quarter revenue growth will be higher than our full year outlook of 4% to 6% revenue growth due to the comparable period from last year.

Given the dynamic consumer and tariff environment, this outlook includes what we know today about tariffs as related to our product sourcing in China and Mexico. We currently manufacture our wipes in China and diapers in Mexico. It's important to note that we've been managing with tariffs in portions of our portfolio for several years and believe we are prepared to navigate changes with various levers to pull in order to mitigate new tariffs. Although the full degree and duration of exposure remains uncertain, our teams have a playbook in place and are diligently monitoring in partnership with our valued sourcing partners. Our proactive and cross-functional approach to addressing cost pressures from tariffs or other consumer spending impacts will continue as we closely monitor and address emerging risks. We believe our financial outlook reflects the dynamic environment and we are confident in our ability to deliver our plans.

In closing, as I look back over the past two years, our financial performance has improved significantly by growing revenues over 20%, increasing gross margin 880 basis points, and increasing our cash position over 5 times while maintaining zero debt on our balance sheet.

And now I'll turn the call back over to Carla.

Carla B. Vernón

Thank you, Dave. We're proud of the record results we delivered in Q4 and 2024, exceeding our outlook. Our results tell a powerful story, one of dedication and the focused execution of our Transformation Pillars. Honest is more than just a brand. We are part of people's lives. We are in the most personal parts of their homes. And we are trusted to be safe and effective for their most important uses. As our community of Honest users has grown, our business has become stronger, our financial foundation has become healthier, and we are driving shareholder value while unleashing the power of The Honest brand.