

1 **Q3 2025 Earnings Script**

2 **Operator**

3 Ladies and gentlemen, thank you for standing by - welcome to The Honest Company's  
4 third quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode.  
5 After the speakers' presentation, there will be a question-and-answer session. Please be  
6 advised that today's conference is being recorded. I would now like to hand the  
7 conference call over to Ms. Elizabeth Bouquard, Senior Director, Investor Relations at  
8 the Honest Company. Please go ahead.

9 **Elizabeth**

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

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

20 Please also note that these forward-looking statements reflect our opinions only, as of  
21 the date of this call, and we undertake no obligation to revise or publicly release the

22 results of any revision to these forward-looking statements, in light of new information  
23 or future events, except as required by law.

24 Also, during this call, we will discuss non-GAAP financial measures, which adjust our  
25 GAAP results to eliminate the impact of certain items. You will find additional  
26 information regarding these non-GAAP financial measures and a reconciliation of these  
27 non-GAAP to GAAP measures in the financial results section of today's earnings release.  
28 A live broadcast of this call, along with presentation slides that we reference in our  
29 prepared remarks, are available on the Investor Relations section of our website at  
30 investors.honest.com.

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

32 **Carla**

33 Thanks Elizabeth...

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

35 **[Key Messages for Q3]**

36 Let me begin my comments by sharing an update on our third quarter. Our Q3 results  
37 faced a challenging consumer environment and market headwinds. Despite delivering  
38 key profitability metrics as expected, our revenue in the quarter came in below  
39 expectations. This revenue decline was due to the underperformance of our diapers and  
40 apparel categories which are experiencing the downward pressure of a challenging  
41 consumer macroeconomic environment. While we are disappointed with the revenue  
42 results, we continue to grow and outpace the market in our wipes and personal care

43 categories. We also stayed committed to disciplined execution, which delivered positive  
44 net income for the third consecutive quarter and adjusted EBITDA ahead of  
45 expectations. Having evaluated the drivers of diaper softness in the quarter, our team  
46 took actions quickly to strengthen our consumer value proposition through pricing,  
47 merchandising and size. We have also focused investment and resources against our  
48 stronghold areas of wipes and baby personal care. I will share more details on these  
49 actions in a moment.

50 But, first, I want to introduce an additional strategic program we are taking to position  
51 Honest for profitable growth in 2026 and beyond. Today, we launched Transformation  
52 2.0, Powering Honest Growth. This is a new and important step which allows us to  
53 sharpen our focus on growing the categories where we have a demonstrated right to win,  
54 while also improving the profitability of Honest. “Powering Honest Growth” is a two  
55 part Transformation program that allows us to direct our resources to our core  
56 categories of Wipes, Personal Care and Diapers while exiting certain lower margin, non-  
57 strategic categories and channels. This includes exiting Honest.com as a direct  
58 fulfillment website, exiting our relationship with our current apparel provider and  
59 exiting Canada. Because these categories are lower margin, exiting them has **only** a  
60 modest profit impact in the short term. We are confident these changes will drive  
61 greater focus on our core product categories and enable continued growth and improved  
62 profit margins. As we make these changes, we will be implementing cost optimization  
63 actions that lead to a simplified operating model, stronger financial foundation and  
64 improved cost structure. Curtiss will cover more of the details later in his remarks.

65 Now allow me to share more specifics about our performance in the quarter. Let me  
66 begin with an overview of our key consumer indicators. First, our overall consumption  
67 for the quarter was up 2%, modestly trailing the overall category growth of 3%. When  
68 we dig further into this data, we see some important bright spots. In fact, if we look at  
69 our performance at Amazon, which is now our largest customer, Honest consumption  
70 growth is up 16% year over year. Our Numerator Household panel data indicates that  
71 more households are buying Honest products. Our household penetration of 7.4%,  
72 increased 80 basis points year over year. And our consumer loyalty to our Honest  
73 products is getting stronger. Our repeat rate of 32%, increased 30 basis points versus  
74 the prior year. And when we look at our consumption momentum, it's important to  
75 understand how our business is performing outside of our diaper declines. Ex-diapers,  
76 the consumption on the remainder of the business was up a robust 13% in the quarter,  
77 outpacing our comparative categories at 5%. To provide further insight on our  
78 performance, let's take a look at the core product categories of wipes, personal care and  
79 diapers that are the focus of Powering Honest Growth.

80 Our wipes and personal care categories performed strongly in the quarter. Combined,  
81 wipes and personal care make up more than 50% of our revenue and are key drivers of  
82 our growth for the last 9 months. In particular, both our wipes and baby personal care  
83 categories delivered strong double-digit consumption growth this quarter, underscoring  
84 the continued consumer demand for the high quality and cleanly designed formulas  
85 across these product lines. Our wipes, which include items across All-purpose wipes,  
86 Toddler and Adult flushable wipes, Hand Sanitizing Wipes, and Makeup remover wipes  
87 are now the largest piece of our portfolio, representing more than one third of our sales

88 for the quarter. Consumption growth across our total wipes portfolio was up 24%  
89 versus category growth of 3%. And, I'm proud to say our all purpose wipes remain the  
90 leading natural baby wipes in the category.

91 This quarter, we took an important step in expanding our flushable wipes in physical  
92 stores outside of the baby aisle. This expansion marks the launch of adult flushable  
93 wipes in high traffic aisles at brick and mortar stores including Target, HEB and Harris  
94 Teeter. Our adult flushable wipes distinguish themselves by providing elegantly  
95 modern, counter-worthy packaging that can be proudly displayed anywhere you may  
96 want a cleanly designed flushable wipe. This launch continues our strategy to expand  
97 Honest into areas of the store that drive incremental foot traffic and household  
98 penetration beyond baby households. Year to date, Honest flushable wipes  
99 consumption grew over 160% vs. the category growth of 2%. And, at Amazon, Honest  
100 adult flushable wipes are the fastest growing flushable wipes with subscriber growth up  
101 more than 100% year to date and have quickly climbed into the top 10 items by market  
102 share in the Personal Cleansing Wipes category. With the combined growth in e-  
103 commerce and Brick and Mortar retailers, our flushable wipes business is a promising  
104 addition to our wipes portfolio.

105 We have also expanded distribution of our sanitizing wipes into Walmart, adding more  
106 than 700 points of distribution. Our teams are supporting this expanded wipes  
107 distribution by elevating the role of these fast growing businesses in our advertising,  
108 social media, and key retailer events.

109 Next, let me share more about baby personal care, which now makes up about 20% of  
110 our revenue and is another area where we are performing well and believe we have the  
111 right to win. Our baby personal care collection is the #1 natural baby personal care  
112 brand in the United States with consumption growth up 10% in the quarter, outpacing  
113 growth of the category, which was up 2%. Within our baby personal care portfolio, our  
114 sensitive skin collection grew consumption 77% year to date. This strong growth is  
115 continued evidence that consumers are seeking effective and trustworthy solutions to  
116 meet the growing demand for sensitive skin care products. We know that sensitive skin  
117 affects more than 70% of adults and that incidences of children with skin allergies has  
118 more than doubled since 1997. With our dedication to The Honest Standard, which is a  
119 commitment we make to formulate our products avoiding the use of [thirty-five  
120 hundred] 3,500 ingredients of concern, we are pleased that we continue to be a valuable  
121 solution to consumers with sensitive skin needs.

122 Recent innovations and distribution gains position us to continue capturing growth in  
123 personal care. This quarter, we are excited to share the launch of our first product  
124 collaboration with Disney across our baby personal care collection. Disney is the  
125 leading revenue generating global licensor with their characters ranking as the most  
126 recognized for families and children ages two through five. And, this collaboration  
127 marks Honest's first use of licensed characters in baby personal care. Across our  
128 shampoo bodywash, lotion, hair conditioner and bubble bath items, we have introduced  
129 Mickey Mouse himself across two different fragrance collections. Mickey is on our Sweet  
130 Cream items that are sold individually. And he is featured on our lavender gift set in  
131 cozy settings perfect for bedtime. We are delighted with the strong performance of this

132 collaboration and the joy it has brought to our Honest community. For fans of  
133 unscented items, we also have a collection featuring Disney's Winnie the Pooh and some  
134 of Pooh's closest friends Eeyore, Piglet, and my personal favorite, Tigger. With charming  
135 packaging, these Disney items make perfect gifts for baby showers and holiday  
136 moments. In support of the Q4 holiday season, we have a dedicated marketing plan to  
137 support these items across digital and retail.

138 And, now that you know more about these strengths in our portfolio, I'd like to address  
139 our performance in diapers, which continued to experience headwinds in the quarter.  
140 While no longer our largest category, diapers represent about 30% of our revenue and  
141 still plays an important strategic role in introducing new parents (and some  
142 grandparents) to Honest each year. In Q3, diapers were the leading driver of our  
143 revenue declines in the quarter. Let me walk you through some of the key drivers of our  
144 diaper declines. For the quarter, our diaper consumption is down double digits. This is  
145 largely driven by two key drivers. First, is the assortment simplification of our diaper  
146 set at our largest brick and mortar retailer. As we shared previously, the SKU reduction  
147 at this retailer resulted in the elimination of the gender-specific diaper prints to  
148 streamline the set to focus on gender neutral designs. It is worth noting that the gender-  
149 specific diapers remain available in e-commerce and across other brick and mortar  
150 retailers. Second, is the lapping of two large customer-specific promotional events that  
151 were not repeated in the quarter at our two largest brick and mortar retailers.

152 In addition to these two drivers, the pressures in the consumer macroeconomic  
153 landscape are impacting consumer shopping behaviors. As consumers have become  
154 more value and price conscious, we are seeing an impact in the diaper category which is

155 also down 2% for the year. Across the category, most major national brands are  
156 declining as consumers are shifting their purchases to lower priced items. Because of  
157 the increased importance of price and value, we are taking actions to improve our value  
158 to diaper shoppers.

159 These actions include introducing a significantly improved diaper that is superior to our  
160 previous designs, ensuring we continue to deliver product quality that meets consumer  
161 expectations. As you recall, we launched these design improvements last quarter, which  
162 included enhanced Comfort Dry technology for up to 100% leak protection, softer layers  
163 and a better fit with comfort stretch across the waist tabs and legs. According to our in-  
164 house quality team, our diaper consumer complaints are down 21% versus last year.  
165 While this is promising, we are still in the early stages of assessing the new diaper's  
166 marketplace performance.

167 Beyond improvements to our diaper's quality, we have increased investment in a variety  
168 of pricing levers across merchandising, promotions, and everyday price. With these  
169 investments in price value, we have seen positive early results in velocities with one of  
170 our key national retailers. We're now applying these improved price value strategies  
171 more broadly across the market. Additionally, we introduced a smaller pack size to offer  
172 a lower entry price point for cost-conscious consumers. While the declines in our diaper  
173 business have been significant at our brick and mortar retailers, our diaper business is  
174 growing 3% year to date at our largest customer. The actions we have taken to improve  
175 our diaper business demonstrate we are committed to having a very compelling diaper  
176 offering to serve Honest families and welcome new households to the Honest brand.

177 Across the journey of improving and strengthening the Honest company, over the last  
178 few years, we have demonstrated the ability to make marked progress on growing the  
179 Honest brand and strengthening our financial foundation - and we're not finished. Our  
180 first Transformation Initiative succeeded in changing the business's financial trajectory  
181 by preserving cash, boosting profitability and embedding strong financial rigour across  
182 the organization. In fact, over the last two and half years, I'm proud that our teams  
183 have significantly improved key metrics, including: improving Gross Margin by over  
184 1,300 basis points, improving our cash position from \$9 million to \$71 million and,  
185 achieving eight quarters in a row of positive Adjusted EBITDA .

186 Before I turn it over to Curtiss, I want to be clear that we are committed to making the  
187 improvements needed to address the declines in our diaper business through swift  
188 actions in the year and by streamlining our focus against our key categories of Wipes,  
189 Personal Care and Diapers. As our teams continue to execute with excellence, I remain  
190 confident in our ability to drive long-term value and growth for our shareholders, while  
191 building the scale and power of the Honest brand. And now, I will turn it over to Curtiss  
192 to share more details.

193 Thank you, Carla, and welcome everyone. First, I will discuss our third quarter results.  
194 Second, I will share more details on our Transformation 2.0, Powering Honest Growth.  
195 Third, I will provide our outlook for the remainder of the year.

196 In the third quarter, we delivered revenue of \$93 million, down 7% driven by a decline  
197 in diapers, apparel and Honest.com. As a reminder of what Carla stated in her remarks  
198 earlier, we were lapping the highest growth quarter from last year up 15%, which

199 included two large promotional events with our two largest brick and mortar retailers.  
200 We also saw headwinds related to the simplification of our assortment at our largest  
201 brick and mortar retailer. And finally, we also saw declines in apparel. In the quarter,  
202 our revenue was also down due to declines on honest.com, which is about 10% of the  
203 business, and down 23% vs last year. The de-emphasis on this business was a strategic  
204 choice for us as we shifted away from lower margin channels. Revenue growth in wipes  
205 was not enough to offset the previously mentioned declines.

206 Gross margin in the third quarter was 37%, down 140 basis points versus last year. In  
207 the quarter, the gross margin decline was primarily due to tariff costs and the impact of  
208 deleverage from lower volume. These impacts were partially offset by lower trade  
209 spend and favorable product mix.

210 And now, turning to Operating expenses. Operating expenses decreased \$4 million  
211 dollars compared to the prior year quarter and decreased 170 basis points as a  
212 percentage of revenue. This decrease in operating expenses was largely attributed to a  
213 decrease in SG&A expenses of nearly \$6 million dollars compared to last year. This was  
214 partially offset by an increase in marketing expenses of \$1.6 million dollars to support  
215 our new diaper launch. We also delivered positive Net Income of approximately \$1  
216 million dollars. Adjusted EBITDA for the third quarter was \$4 million, down \$3.5  
217 million vs. last year due to lower year-over-year add-backs. Adjusted EBITDA margin  
218 was 4%.

219 We maintained a healthy balance sheet ending the quarter with \$71 million in cash and  
220 no debt outstanding. Our cash position continues to benefit from a capital-light business  
221 model giving us flexibility. Our free cash flow was down vs. last year largely due to  
222 higher inventory. Our higher inventory is largely a result of our tariff mitigation  
223 strategies and transition to our new diapers. In line with our focus on operating  
224 discipline, we will continue to manage our inventory levels carefully.

225 Next, I would like to provide more color on our Transformation 2.0, Powering Honest  
226 Growth. This Transformation is aimed at improving simplicity, focus and profitability  
227 of the enterprise. The Transformation will have two main components that are also  
228 outlined in our investor presentation on slide 5.

229 1)Part One, To drive greater focus and growth on our fastest growing, more profitable,  
230 and most important categories of wipes, personal care and diapers, we are making three  
231 important changes:

232 First, by the end of this year we will exit Honest.com as a direct-to-consumer fulfillment  
233 channel, but will maintain the ability to direct purchases to leading retailers and remain  
234 a resource for educating consumers. This change is a reflection of shifts in consumer  
235 shopping behavior and a resource intensive and low margin fulfillment model.

236 Second, we will also be exiting our apparel partnership as a fully owned product  
237 category, as this is a complex and profit-dilutive part of our business.

238 And Third, we are exiting direct sales to Canadian retailers. This was a subscale, low  
239 margin part of our business which added to the complexity of incremental inventory.

240 2) And now Part Two of The Transformation, we will be optimizing our cost structure by  
241 rightsizing SG&A and implementing supply chain efficiencies. As we simplify our  
242 business, we are reducing our SG&A to align with a more streamlined business model

243 and increased focus on core product categories. Concurrently, we are taking steps to  
244 optimize our supply chain footprint and inventory management along with leveraging  
245 technology to improve systems to maximize efficiency across the entire organization.  
246 Collectively, these strategic actions will result in one-time costs related to  
247 Transformation 2.0 of \$25-35 million and return approximately \$8-15 million of annual  
248 cost savings. We believe that these changes will lay the foundation for a stronger, and  
249 more efficient Honest.

250

251 Next, I will share the financial outlook which you can also find on slide 13 of our investor  
252 presentation. For our 2025 outlook, I will provide a view in two ways. First, I will  
253 provide a view of the full business on an as reported basis. Second, I will provide an  
254 “organic revenue” outlook which excludes revenue from the categories and channels we  
255 are exiting as part of Powering Honest Growth. We have provided a full reconciliation  
256 of Revenue to Organic Revenue on slide 15 in our investor presentation. We are  
257 lowering our full year guidance for revenue and adjusted EBITDA. Our Full Year 2025  
258 Financial Outlook for Revenue and Adjusted EBITDA includes:

- 259 ● Revenue outlook as reported ( inclusive of apparel, honest.com, Canada)  
260 is now in the range of [-3% to flat]. This is driven by potential disruptions  
261 to revenue related to the wind down of strategic exits and anticipated  
262 declines in diaper revenue
- 263 ● Revenue outlook on an Organic basis ( excluding apparel, honest.com,  
264 Canada) is for growth in the range of 4% to 6% year over year. To provide  
265 more context, organic revenue year to date grew 6%.
- 266 ● And Adjusted EBITDA to be in the range of \$21 million to \$23 million vs.

267 the original range of \$27 million to \$30 million. Our Adjusted EBITDA  
268 outlook is lower primarily due to lower revenue and volume deleverage.

269 In closing, we are proud of the continued strength of the Honest brand in our core  
270 categories that have clear bright spots - including double digit consumption growth in  
271 wipes and baby personal care, underscored by strong year-over-year increases in key  
272 consumer engagement metrics. We are committed to making improvements in our  
273 diaper category in order to have a compelling diaper offering, critical to welcoming new  
274 households to the Honest brand. With the launch of Transformation 2.0, Powering  
275 Honest Growth, our teams remain focused and disciplined to execute our strategy.  
276 Together, Carla, the Honest team and I are committed to driving sustainable growth and  
277 building lasting value for our consumers and shareholders. Thank you to our Honest  
278 team for their continued hard work and dedication this year. With that, thank you for  
279 joining our call today. Now, I will turn the call back to the operator.