

Edgewell Personal Care

Q2 2025 Earnings Call

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CORPORATE PARTICIPANTS

Chris Gough – VP, IR

Rod Little – President & CEO

Dan Sullivan – COO

Fran Weissman – CFO

PRESENTATION

Operator

Good morning and welcome to Edgewell's second quarter fiscal year 2025 earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing star then zero on your telephone keypad.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two. Please note, this event is being recorded.

I would now like to turn the conference over to Chris Gough, Vice President, Investor Relations. Please go ahead, sir.

Chris Gough

Good morning, everyone, and thank you for joining us this morning for Edgewell's Second Quarter Fiscal Year 2025 Earnings Call. With me this morning are Rod Little, our President and Chief Executive Officer, Dan Sullivan, our Chief Operating Officer, and Fran Weissman, our Chief Financial Officer. Rod will kick off the call, then hand it over to Dan to discuss our quarter commercial and operational highlights, followed by Fran who will discuss our Q2 financial results and 2025 full year outlook. We will then transition to Q&A.

This call is being recorded and will be available for replay via our website, www.edgewell.com.

During this call, we may make statements about our expectations for future plans and performance. This might include future sales, earnings, advertising and promotional spending, product launches, savings and costs related to restructuring and repositioning actions, acquisitions and integrations, impacts from tariffs and other recent developments, changes to our working capital metrics, currency fluctuations, commodity costs, inflation, category value, future plans for return of capital to shareholders and more.

Any such statements are forward-looking statements for the purposes of the Safe Harbor provisions under the Private Securities Litigation Reform Act of 1995, which reflect our current views with respect to future events, plans or prospects. These statements are based on assumptions and are subject to various risks and uncertainties, including those described under the caption Risk Factors in our annual report on Form 10-K for the year ended September 30, 2024, as amended November 1, 2024, and as may be amended in our quarterly reports on Form 10-Q, filed with the SEC. These risks may cause our actual results to be materially different from those expressed or implied by our forward-looking statements. We do not assume any obligation to update or revise any of these forward-looking statements to reflect new events or circumstances, except as required by law.

During this call, we will refer to certain non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is shown in our press release issued earlier today, which is available at the Investor Relations section of our website. This non-GAAP information is provided as a supplement to, not as a substitute for or as superior to measures of financial performance prepared in accordance with GAAP. However, management believes these non-GAAP measures provide investors with valuable information on the underlying trends of our business.

With that, I'd like to turn the call over to Rod.

Rod Little

Thank you, Chris. Good morning, everyone, and thanks for joining us on our second quarter fiscal 2025 earnings call. Our execution was solid this quarter. We acted with urgency, discipline and purpose in an environment that became increasingly challenging and volatile, delivering adjusted earnings per share and EBITDA in line with our expectation.

This was driven by continued top line growth across our international markets, compelling consumer centric innovation in wet shave, sun care and grooming and accelerated productivity savings that underpinned another quarter of meaningful year on year gross margin accretion.

Importantly, we remained in investment mode across our business to support exciting new brand campaigns and ensure strong support for our newly launched innovation. Organic net sales were below our expectations in the quarter, primarily due to a slower than expected recovery in our US fem care portfolio and a slower start to the sun season in the United States as consumption declined year over year due mostly to poor weather across the country.

While overall consumption across our categories remained mostly in line with 26 and 52 week trends, escalating uncertainty appears to be weighing on consumers and negatively impacting overall sentiment. We, like others, are operating in a volatile global environment, requiring maximum focus on execution and controlling what we can control. As we take stock of the progress we are making in the transformation of our business, I'm very pleased with the work done across much of the business with clear proof points as sustained success.

Equally, there is more that needs to be done in North America, where we are on a path and I am increasingly confident in as a result of new leadership, which has brought enhanced modern brand building capabilities and a refreshed assessment of our portfolio strategy. To date, we have acted with purpose and urgency, reshaping our business and providing the foundation for sustainable top and bottom line success.

The proof points of our progress are seen clearly in four areas. First, we replatformed our international business, and under Dan's direction, we've meaningfully improved in market leadership and commercial capabilities, empowered our teams to win locally and strengthen our brands and relative market share performance. Now representing 40% of our net sales profile, this business has delivered consistent mid to high single digit organic growth over a four year period and become a strength of our broader business.

Second, our innovation platform now delivers both renovation and revolution for the portfolio with a consumer centric foundation and a locally led mindset. In just the last year, we've expanded the Billie brand offering and geographic reach. We've taken Bulldog into premium skin care, broadened the Crima [sp] range. We've brought the consumer new formulations and formats in Banana Boat and Hawaiian Tropic, and we've expanded into the everyday skin and sun market in Latin America, just to name a few.

And the impact of our new innovation model is perhaps best evidenced in Japan, where as the market leader, we've reshaped men's shave with the launch of Schick First Tokyo, taking the Schick brand to premium skin care with the launch of the Protista brand in premium channels and expanded our range in women's shave with the trendy launch of the Salon Plus product lineup.

Third, we've made productivity and efficiency the cornerstone of how we operate, demonstrating the ability to consistently deliver over 200 basis points a year in realized cost of goods savings and applied a relentless approach to simplification in all that we do.

And fourth, our commercial capabilities are meaningfully better than at any point in my tenure year as CEO, in large part based on the success we've had internationally as I just highlighted. We've focused on improving how we architect the portfolio, we've employed a more modern brand building approach and we are activating our brands with a combination of award-winning campaigns, rich digital content design and better omnichannel execution.

All of these points reinforce the progress we've made and underpin the confidence that I have that we are absolutely on the right track as a business. Equally, we are not where we need to be with respect to our North American business, and here lies our biggest focus and also our greatest opportunity.

Jess is now in month six of her tenure, and she has acted with pace, focusing her and her team's effort in three key areas - first, spending considerable time with our US retail customers to restore and improve critical elements to our working partnership; second, making important leadership changes in key commercial roles that have provided a needed step change in talent and capabilities; and third, she and the team are acting with purpose and urgency in a strategic effort to both assess and address our business, a broad strategic review equally focused on rigorous analysis and understanding of all of the underlying drivers of our performance, and at the same time, rapidly designing actionable solutions for both the near and longer term.

With the assessment work almost complete, we are moving forward to capitalize on both the near term and longer term opportunities. This has led us to incrementally invest in the United States, largely in sun care and shave with focus on strengthening brand equity and solidifying our place on shelf. Dan will share more about these specifics shortly.

The success we've had in repositioning our international business combined with the early read on progress in the US provides us with confidence that we can deliver similar success in North America. Importantly, recent results are encouraging as both consumption and market share performance strengthened in our U.S. business as we exited the quarter. There's more to do, but I'm confident that we are on the right track in North America, and I believe we'll see continued sequential top line improvement in the second half of this year.

So, this leads me to our outlook for the full year. Underpinning our view for the second-half of our fiscal year is the belief that the uncertainty of the macro environment will increasingly be felt by the consumer, dampening confidence and ultimately negatively impacting spending behaviors. We are already seeing this impact in travel and leisure spend, which we anticipate will impact our sun care category both in the US and in key tourism markets internationally. Therefore, we've adjusted our top line outlook to reflect a more modest expectation for consumption across categories and most notably in sun care.

On the bottom line, our revised outlook includes the impact of this lower sales growth, increased brand investments in North America and the estimated impact of incremental costs associated with tariffs, which Dan will discuss shortly.

So, in summary, the backdrop notwithstanding, I am pleased with the progress we are making across our business. We have more work to do in North America, but I'm convinced that we have the leadership in place to execute the needed change successfully. We believe our strategic

priorities and near term actions will further our ongoing transformation and fortify the business for the longer term.

And now I'd like to ask Dan to take you through our operational and commercial performance highlights in the quarter. Dan?

Dan Sullivan

Thanks, Rob. Good morning, everyone. Before discussing performance in the quarter, let me start by sharing perspective on the broader operating environment. The macroeconomic environment is evolving fast, with increasing pressure on the consumer. Consumer confidence has dropped since we last met, and we've started to see the implications as consumption levels have slowed, promotional levels have increased, including in certain international markets, and there are growing signs of broader consumer caution that is likely to increase in the near term.

The topic of tariffs, and in many ways, the uncertainty of specific policy in this area has served as the catalyst for this challenging environment for consumers while also causing added strain on sourcing and global supply chain functions. The in year cost impact of tariffs for fiscal 2025 contemplated in our outlook is estimated to be approximately \$3 million to \$4 million and assumes current tariff rates hold for the balance of the year and there are no material changes in the inbound or outbound flow of materials and finished goods.

The impact of tariffs on COGS [sp] is seen across three dimensions. The first relates to the procurement of raw materials imported to the US and most notably related to sun chemicals, aluminum and steel and certain wovens and fibers. Our global procurement organization has been very active exploring alternatives, including identifying alternative sourcing locations and the negotiation of tariff splits with suppliers, and this work continues with urgency.

We're also subject to import tariffs related to the inbound shipment of finished goods to the US, mostly related to certain wet shave products. And finally, in terms of responsive tariffs, the primary impact is mostly associated with the shipment of finished goods from the US to Canada across the wet shave and sun and skin segments.

While the impact of tariffs in fiscal 2025 is modest, in part due to our efforts to quickly mitigate some of the near term impacts through inventory pre buys and other supply chain actions as well as the in year benefit of cost trapped in inventory, the tariff landscape remains highly uncertain, and at current levels, tariffs would have a more material impact on an annualized basis. We will continue to explore all of the opportunities to mitigate the potential impact of tariffs with a continued focus on productivity while also considering some level of consumer pricing in certain markets and categories.

In the quarter, the dollar weakened further than expected, providing some relief for our P&L, though its direction from here remains difficult to project. Commodity costs in the main [sp] are relatively unchanged, with upward pressure from supply constraints for aluminum and pulps mostly offset by softness in resins as oil and natural gas prices moderate.

Across our manufacturing footprint, the labor environment remains mostly stable with limited added sequential wage pressure from last quarter.

Now let's move to the commercial and operational highlights for Q2. Commercial execution in the quarter centered around our innovation platform with notable launches across our international markets where we brought the Billie brand to Australia, deployed the new Mini Razor in Europe,

expanded our sun care presence on shelf in Mexico, and deepened our penetration in the male grooming categories through Bulldog Range expansion and the launch of the Progista brand in Japan. More broadly, we've remained focused on retail execution and the new shelf sets in the US.

Promotional effectiveness improved in the quarter, and in certain international markets, we initiated select price increases. Overall, the teams continue to perform very well in a dynamic and challenging environment.

Organic net sales decreased 1.5% in the quarter. Growth in international markets continued with the 3% organic growth driven by both price and volume gains. This represents our 12th growth quarter in the last 13. Double digit organic growth in Greater China and mid single digit growth in both Japan and Europe fueled our results, and market share performance was strong with noteworthy gains across wet shave in Greater China, both shave and sun in Latin America and grooming and sun in Europe.

Organic sales in North America declined about 4%, reflecting declines in sun due to Easter holiday timing and poor weather as well as across disposables, shave preps and fem care.

Now turning to segment performance, wet shave organic net sales were down about 1%. International wet shave grew 3% with both price and volume gains, reflecting continued category health, good innovation execution and strong in market brand activation.

In Japan, new product innovation supported mid single digit organic growth in the market, while in China our double digit growth was underpinned by strong digital execution and included the launch of the Schick First Tokyo product in Taiwan.

Our private brands business remained a meaningful competitive advantage and source of growth, posting mid single digit gains, fueled in part by new business across many key retailers, including Aldi [sp] and Leidle [sp]. Our women's private brands branded business grew almost 50% internationally despite cycling over 60% growth a year ago.

In North America, wet shave organic net sales declined about 5% as gains in women's systems were more than offset by declines in shave preps, men's systems and disposables. Consumption in the US razors and blades category was down 30 basis points in the quarter with continued heightened declines in the drug channel. Our market share decreased 90 basis points for the quarter, and we saw solid results in women's systems with meaningful gains for the Billie brand on shelf, gaining an additional 190 basis points in market share and now standing at a 15% share of the category at Walmart, 14% share at Target and over an 11% share nationally. Importantly, Billie continues to have the number one SKU in women's refills in units and is the number two brand in dollars across the top five retailer landscape.

Our women's disposable business returned to share gains in the quarter, in large part a result of the new Skintimate rebranding. Sun and skin care organic net sales were essentially flat as double digit growth in skin and high single digit growth in grooming were more than offset by declines in North America sun, primarily a result of order phasing associated with the Easter shift, poor weather and lapping double digit growth a year ago.

In the US, the sun care category consumption decreased a point in the quarter. Our total market share was down 60 basis points, a reflection of strong gains for Hawaiian Tropic, offset by a decline in Banana Boat. Hawaiian Tropic's full point of share growth was the most in the top ten

brands in the set, reflecting velocity and distribution gains as well as impactful NPD. Incrementally investing behind this brand and [inaudible] to accelerate its momentum on shelf is a core component of our plans, and I'll speak more about this shortly.

Share losses in Banana Boat were largely driven by sluggish performance at Costco and Target, in part due to year over year shifts in the brand's promotional calendar.

In international markets, we saw notable value and volume market share gains in Mexico and several key European markets and ended the season well in Australia where we held share in a growing category.

Grooming organic net sales increased 9% in the quarter, most notably led by 20% organic net sales growth for Cremo [sp]. Our new Scents King campaign for the brand continues to resonate with the antiperspirant deodorant launches and body wash expansions driving incremental distribution on shelf and good initial consumption results.

Wet Ones organic net sales increased 15% for the second consecutive quarter, fueled by better in stock positions, and our share was approximately 68%. Fem care organic net sales were down approximately 9%. The decline was largely driven by tampons and pads. Consumption in the category was up 3%, though driven by over 6% growth in pads where our penetration is the lowest. In the categories where we primarily compete, tampons and liners, consumption was down approximately 2% and up 1%, respectively.

Activating our Carefree master brand strategy remains our focus, and while we are encouraged by early results, we also recognize that this will take more time as we drive awareness and ultimately conversion. Importantly, in the quarter, we saw strong share gains for Carefree pads in both Walmart and across drug.

Turning to our operational performance, Q2 was an excellent quarter, reflecting a step up in realized productivity savings and further strengthening of our service levels across the markets. Productivity savings were 380 basis points and provided the tailwinds for our 110 basis points constant currency gross margin accretion in the quarter. Productivity savings did include the pull forward of certain one-time benefits associated with global contract negotiations and otherwise were realized from a full collection of programs, including global sourcing and indirect savings, labor automation and broader plant efficiency efforts.

Importantly, in the face of a more challenging global supply chain environment, we sustained our strong service performance from a quarter ago and saw unit fill rates and OTIF [sp] measures above target levels across most categories and markets.

Importantly, we further executed our plans to mitigate the negative effects of global tariffs, successfully buying forward and unlocking alternative sourcing options for key raw materials.

And finally, let me provide some further perspective on the investment stance reflected in our outlook. As you heard Rod discuss, we think this is an important moment to take steps to begin to restore momentum in our North America business. In Q3, we are therefore leaning in across sun care and women's shave, building on recent success and leveraging seasonality tailwinds that offer near term opportunity.

The first area of focus is in support of the Hawaiian Tropic brand, which as I mentioned earlier is delivering outsized consumption and share growth and remains a critical component of our

portfolio strategy in sun care. In time for the start of the season, we have finalized a new campaign that will be the largest investment for the brand in the US in the last five years, supported by a heavy up digital media plan, in store shopper programs and promotional efforts to drive enhanced feature and display activation. The campaign will feature leading influencer Alex Earl, who has proven credentials for driving brands, particularly with Gen Z cohorts, and will ensure that we maximize the impact and prominence on social media.

The second area of focus is our women's shave branded systems and disposable portfolios. For our disposables business, we will launch the Billie brand disposable and relaunch Skintimate disposables as part of a category refresh, perfectly timed to a likely more cost conscious shopper.

For our branded women's business, we will support the recent repackaging efforts for Hydro Silk with a national media plan, strong social media activation, enhanced retailer media and increased in store promotional activity to reignite trial on the brand as we enter the crucial summer peak season for women shave.

In support of these exciting programs, we will incrementally invest above and below the line in the third quarter, adding just over a point in A&P investment rate of sale to the total company profile.

In summary, we've developed strong brand campaigns that we believe we can execute through the line and that will solidify near term performance and serve as important foundations for the brands moving forward.

Now let me turn it over to Fran to discuss the financial results for the quarter and our full year outlook.

Fran Weissman

Thank you, Dan. Good morning, everyone. Let's jump into a quick review of the second quarter followed by our updated outlook for fiscal '25.

As previously discussed, organic net sales decreased 1.5%, International growth at 3%, driven by both price and volume gains, was more than offset by a 4% decline in North America due to lower volumes in fem care, wet shave and sun care. Adjusted gross margin rate increased 100 basis points and increased approximately 110 basis points in constant currency, exceeding our expectations.

We realized approximately 380 basis points of productivity savings, which was partially offset by 195 basis points of core growth inflation and volume absorption and 85 basis points of unfavorable mix and increased trade promotions in North America.

A&P expenses were 11.3% of net sales, up from 10.5% last year. Adjusted SG &A was 18% in rate of sale, up approximately 60 basis points versus last year. This increase was due to higher people cost and lower net sales in the quarter with a partial offset from favorable currency impacts.

Adjusted operating income was \$77 million compared to \$81 million last year. Adjusted operating margin decreased 30 basis points, almost entirely due to the net unfavorable impact from currency. On a constant currency basis, adjusted operating margin was flat, despite the incremental brand investments and impact of lower sales, driven by our strong gross margin accretion.

GAAP diluted net earnings per share were \$0.60 compared to \$0.72 in the second quarter of fiscal '24, and adjusted earnings per share were \$0.87 compared to \$0.88 in the prior year quarter, inclusive of a higher than anticipated effective tax rate, which resulted in a \$0.06 headwind to EPS in the quarter. Currency movements had no impact on adjusted EPS in the quarter as translational currency headwinds to operating profit were largely offset by favorable transactional currency and higher year over year hedge and balance sheet remeasurement gains within other income and expense.

Adjusted EBITDA was \$99.3 million with minimal unfavorable currency impact compared to \$99.7 million in the prior year. Net cash used by operating activities was \$70.5 million for the quarter compared to cash flow provided from operating activities of \$56.1 million in the prior year. Shifts in seasonal inventory build and other working capital timing in addition to lower earnings versus last year drove the heightened use of cash in the quarter. We ended the quarter with \$170 million in cash on hand, access to the \$229 million undrawn portion of our credit facility and a net debt leverage ratio of 3.8 times.

In the quarter, share repurchases totaled 35 million. We continued our quarterly dividend payout and declared another cash dividend of \$0.15 per share for the second quarter. In total, we returned \$43 million to shareholders during the quarter.

Now turning to our outlook for fiscal '25, as Ron and Dan mentioned earlier, while we are pleased with the operational execution by the teams across many areas of the business, we have updated our outlook for the year to reflect half one performance and a more moderated growth profile for the second-half of the year as well as the financial impact of increased brand investments in the US and additional tariff headwinds. For the fiscal year, we now anticipate organic net sales growth to be in the range of flat to 1%. This is primarily reflective of the slightly lower consumption trends in half two for all segments than was previously anticipated, most notably in US sun care as well as a prolonged recovery in our fem care portfolio.

We expect sequential improvement across half two with third quarter net sales now estimated to be up approximately 1% and half two net sales now expected to be up approximately 2%. On a reported basis, currency is now expected to negatively impact full year reported sales by 10 basis points versus our prior expectation of a -160 basis points impact.

On a constant currency basis, our outlook reflects adjusted gross margin accretion of 70 basis points for full year gross margin rate, down slightly from our previous outlook, driven primarily by the impact of incremental tariffs. On a reported basis, full year gross margin improvement is now 10 basis points versus prior year, which also includes a 60 basis point impact of transactional currency, an increase of 25 basis points over our prior outlook.

While we expect half two gross margin to be flat to prior year, we now expect Q3 to be down approximately 100 basis points, reflecting the impact of tariffs, higher promotional investment in North America and incremental transactional currency headwinds.

As a reminder, the outlook that we provided last quarter did not reflect the potential negative impact from US or retaliatory tariffs, given the rapidly evolving nature at that time. We now expect tariffs to have an incremental impact of approximately \$3 million to \$4 million to our cost of goods sold in the fiscal year. Our outlook does not include tariffs that have been announced and delayed, which could result in additional cost incurred if implemented or if additional tariffs are announced. Our teams are reacting with urgency to mitigate the potential impact from tariffs, including

evaluating sourcing alternatives, opportunistic purchase timing and strategic revenue management.

We also expect full year operating profit margin to be down approximately 60 basis points, inclusive of 50 basis points of currency headwinds. We expect half two operating profit margin to be down approximately 50 basis points and now expect Q3 to be down approximately 230 basis points, reflecting gross -- lower gross margin, higher A&P expense and currency headwinds.

Given these changes, full year adjusted earnings per share are now anticipated to be in the range of \$2.85 to \$3.05, inclusive of approximately \$0.35 per share of currency headwinds, Adjusted EBITDA is also now expected to be in the range of \$329 million to \$341 million, inclusive of approximately \$22 million in currency headwinds.

The updated outlook for adjusted EPS also reflects a slightly lower full year adjusted effective tax rate of 20% compared to 22% in our prior outlook. As a result, we now expect adjusted net earnings on a dollar basis to be similar in both third and fourth quarters.

Free cash flow for the full year is now expected to be approximately in the range of \$130 million to \$140 million, reflective of lower earnings, higher inventory levels as a result of the uncertain external environment and tariffs included in our outlook.

For more information related to our fiscal '25' outlook, I would refer you to the press release that we issued earlier this morning. And now, I'd like to turn the call over to the operator for the Q&A session.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then 2. At this time, we will pause momentarily to assemble our roster.

First question is from Lauren Lieberman, Barclays. Please go ahead.

Lauren Lieberman

Great. Thanks. Good morning, everyone. Just to start on tariffs, unfortunately, I'm sorry to do this, but just was wondering if you could help a little bit more with -- I know you went through, there's the portion that's raw materials, there's a portion that's finished goods, and there's a portion that's US into Canada. Anything you can do to kind of dimensionalize for us how much -- how large those buckets are because I know that the outlook does not include currently paused tariffs and also for us to just maybe start estimating what we should be folding into our models in a preliminary sense for fiscal '26 or even just thinking about gross impact, and then we can kind of try to take some judgment on what you're going to be able to do through mitigation efforts? Thanks.

Dan Sullivan

Yeah. Good morning. It's Dan. Thanks for the question on tariffs. Let me let me try to clarify a few things. So, let's talk first the in year impact this year because I think it's important to get that right. So, we have a line of sight based on everything we know, everything that's currently in that we estimate the impact this year will be \$3 million to \$4 million, most of it hitting in the fourth quarter.

And the way that I would think about that is that's roughly two months released, right, if you if you factor in inventory levels and the like.

That also means there's tariff costs that we will incur this year that will get released next year as the inventory flows through. But the in year impact, that's the basis for the \$3 million to \$4 million.

Now let's talk more broadly on tariffs. You're right; there are three, essentially three areas here. There's procured products, procured raw materials coming into the US, there's finished goods coming into the US, largely from China, and then there is finished goods manufactured in the US going out to other markets. That's largely Canada. We manufacture the products that we sell in Canada here in the US.

The good news is, for the most part, sourcing -- location of manufacturing and location of sales are fairly well lined up for our business, which is why the impact here overall isn't necessarily as material as you might see in other places. So that would all lead to our best estimate, which suggests we have an annualized exposure of 3% to 4% of COGS. Now, I think what's important is two things. One is, just to put that into context, that would essentially mean 1.5 to 2 points of margin pressure if you just use rough math.

And as a reminder, we routinely take out about 250 basis points in productivity savings in any given year, so just order of magnitude how to think about that. I think, more importantly, what are we doing about it? We are running fast on all areas. There's great work happening in procurement where we think about alternative sourcing that would provide structural offsets. There's work looking at manufacturing and flow of product where we can clean up any potential impacts where we do have manufactured product outside of the markets where we sell.

So, the team is running fast at that. We're not going to attempt to quantify that today as the topic is just too volatile. But I do want everyone to know it is a priority, and the team is working hard at it. And as the topic becomes more clear and sort of as these tariff policies become more clear, we'll certainly update everyone on our thinking. But again, broad impact, 3% to 4% of exposure and then obviously team going to work hard at offsets to that.

Lauren Lieberman

Okay, that's great. Thank you so much.

Dan Sullivan

Thank you.

Chris Gough

Operator, next question please.

Operator

Next question is from Peter Grom, UBS. Please go ahead.

Peter Grom

Thanks, operator. Good morning, everyone. I was hoping to get some color on the second-half organic sales growth, and I guess what I'm really trying to understand is just the level of confidence in the implied acceleration. So maybe first, can you just unpack what you expect specifically from the US versus maybe international in the back half here? And then I guess just related, just some perspective in terms of what you are anticipating from a category growth perspective? I know you mentioned some moderating consumption in the back half of the year, so just trying to understand

how build to that improved growth outlook in the back half? You mentioned improved execution and market share, but if category trends remain challenged or potentially get worse, how realistic is this implied acceleration? Thanks.

Dan Sullivan

Yeah, hey, Peter. Good morning. It's Dan. Let me let me try to unpack that. I think the essence of your question at the start was confidence in half two. So let me tell you how we've thought about it and how we've built it.

So right now, we end half one with a -1.5% organic growth for the business, and we have a half two profile of plus 2%. So rough math, you're looking at a 3% to 4% -- 3 to 4 point change in trend. There's a couple of things sort of contributing to this. There are some transitory tailwinds, and let me take those first. You've got the benefit of the Easter shift, which falls into the half two of the year. That's worth about a point. And you've got the benefit of cycling some supply disruptions a year ago. You might recall Wet Ones, preps, certain grooming products, we've sized that up to be about .5 point of tailwind.

So right off the bat, you've got call it 1.5 point of tailwinds in half two that sort of puts the business at about a flattish profile. And so now you're asking yourself how do I get to 2 points of growth in the back half of the year? And we would point to three distinct factors, among many. One is international. You heard us talk about that in the prepared remarks, but we continue to be very bullish on the growth profile of international. We have about a 4.5% to 5% organic profile for the second-half of the year. It was always a plan that was going to be slightly heavier in the back half of the year, given innovation, NPD rollouts, given some of the investments that we're making and the timing of those. So, we feel really good. I think that's an entirely reasonable pillar for growth, which would be international.

I think the second one is sun care in the US, and I think it's important to call out, while we are expecting less consumption growth in the category, we are still expecting a category that will grow in the back half of the year, where roughly 80% of the US sun season is consumed. It was flat a year ago. We're calling for about two points of consumption growth, and then our organic growth would follow that.

And then third and lastly, I'll call out fem care, where as you heard in the prepared remarks, we're taking a bit more thoughtful approach to the back half of the year. We're being a bit more prudent in how we think about growth. We're pointing to sequential growth as opposed to year over year growth in the third quarter. And eventually, we'll start to grow in the fourth quarter. And we've talked a lot about the Carefree Stayfree transition. We're now -- that's behind us. And we're encouraged; if you look at share performance overall for us in fem care, L52 to L13 to L4 to L1, you see a nicely improving trend to almost flat.

Those are the three things that I would call out. Overall, we think about half two on a run rate basis of about two points of growth, and those would be the drivers of it.

Rod Little

Peter, I'd just add on top of this -- it's Rod here -- we always had this profile where the second half was going to be better than the first half. I think Dan laid it out well. We feel confident in what we've got line of sight, too, for the second half.

And the other piece I'll just add on top of what Dan said, we saw our relative market share performance in the US business improve as we exited the quarter. We continue to see that with

what we have line of sight, too, in April. And we've got two categories and two brands that are seasonal in nature for us, Hawaiian Tropic and Billie, that are the fastest growing brands in each of their respective categories now coming into the peak, which also will benefit us in the second half of the year.

Peter Grom

Oh, that's super helpful. Thank you so much.

Rod Little

Thank you.

Dan Sullivan

Thank you.

Chris Gough

Thanks, Peter. Operator, next question please.

Operator

Next question is from Chris Carey, Wells Fargo Securities. Please go ahead.

Chris Carey

Hey, guys, I have a bigger picture question and then kind of a quantitative one. I guess what I'm hearing on the call is confidence around execution, but then disappointment around North America. Can you help me square these two kind of potentially differing concepts.

Rod Little

Sure, Chris, and thanks for the question because this is the crux of what's going on, and we have line of sight obviously that others do not on this. If you step all the way back and just take stock of what's happening in a period of maximum uncertainty of what happens as we move forward, the fact is our categories remain okay. While they're slowing, they're still growing. So, the growth is just at a bit of a slower rate in total. That that's a global view; it's domestic, and it's international. So, we have we have okay categories.

Our relative market share performance in those categories is improving in almost every single market. So that's a positive for us in terms of our relative performance. As I just referenced to Peter's question, we have real momentum in some cases, Billie, Hawaiian Tropic being the fastest growing brands out of the entire set where we compete.

We haven't talked a lot about it, but international remains rock solid. Our COGS productivity delivery is rock solid. We've got good line of sight to that. So then that leaves the question around where are we in North America. And there there's an adage we've used before - we're fixing the plane while flying it. The transformation is here. It's not to come. Jess has been here six months. She's moving very quickly to address some of the structural issues we've had, and we're going to see sequential improvement in the North American business in the second half of the year. And again, it's already happened in April. So, we've got confidence that this will happen.

And there's a lot of little things happening that are going to add up to a very different outcome. Some of it's discipline, some of it's things like price pack architecture. It's retailer connectivity. Jess is spending a lot of time out with retailers, and we're getting really nice response from retailers, not only for the season we're in, but for the future.

So, I've got a lot of confidence that we're going to see the pivot here in North America beginning in the second half of the year. Dan?

Dan Sullivan

Chris, the only thing I would add, I wouldn't categorize our assessment of North America execution as disappointing. The sales profile didn't come the way we thought it would in the quarter, and we can certainly unpack that. But we're incrementally investing in Q3 meaningfully behind a couple of programs in women's shave and sun care. And if we didn't have high confidence in our ability to execute both of those programs above and below the line, we wouldn't invest.

So, I wouldn't want to leave you with the impression we're disappointed in the execution. We're disappointed in the result. We did fall slightly short of our Q2 growth expectation, but highly confident in the execution the team is delivering, or else we wouldn't invest at this level.

Rod Little

And let me just come back on top of that. Old Edgewell would have actually cut spend in this moment. We chose to lean in and increase spend directly behind the confidence we have in the North American team.

Chris Carey

Can I just follow up on that around the investment side? I hear things like stepping up investment, and just it's kind of skews the investment cycle sometimes. Is this into pricing and promotion? You called out a step up in advertising. Would you expect that this level of investment would sustain on a 12 month basis, or is this kind of point in time within a quarter? That was a follow up there.

The only other one I had was just the free cash flow guidance came down more than earnings on a percentage basis, and if you could just add any context, that would be helpful. Thanks.

Dan Sullivan

Yeah, sure. Let me start on your first question on the investment. I'm going to then hand it to Fran to quantify the investments, and then she'll talk cash flow. So, yes, we are incrementally investing in the quarter to the tune of about \$15 million. It is entirely against North America, and it is entirely against the third quarter. We are not profiling anything near that level of incremental spend in the fourth quarter. And that that is simply a result of the seasonality of the businesses that we're investing in, shave and sun. So, it's all third quarter, it's all North America, and we think a really compelling combination of brand activation, equity building, online activation and a pretty cool influencer program. Fran, what would you add?

Fran Weissman

Yeah. So, if we -- thanks, Chris. If we were to look at Q3, we're saying that gross margin had some headwinds. Some of that is consumer promotion. So, Chris, to your question, we are investing in trade that is being funded by better performance coming out of Q2 and half one. And then we are investing in A&P. It's about \$7 million specifically in Q3 that falls through to the second half.

And then to answer your question on cash flow -- sorry, Chris, did you have a follow up on that?

Chris Carey

Yeah, no, just the cash flow; that's it.

Fran Weissman

Okay. Yeah, so when we look at cash flow for the year, we are projecting about \$130 million to \$140 million of cash flow. So that is down versus our previous outlook. A lot of that is driven off of lower earnings and lower GAAP earnings, but the other piece is working capital. So, when we think about inventory, inventory levels are higher than we expected in our previous outlook. Some of that is mitigation coming in ahead of the tariffs and pre buying. So that's driving some headwind on our working capital. So, the combination of those two factors is really what's driving the shortfall versus our previous guide.

Dan Sullivan

We think, Chris, entirely transitory -- our ability to deliver significant incremental free cash flow I think is pretty clear. Our cash flow efficiency is still at 100% or more. We just think it's the right investment in inventory to buffer some of the tariff impact in the near term.

Chris Carey

Okay. Thank you.

Chris Gough

Thanks, Chris. Operator, next question please.

Operator

Next question is from Bill Chappell, Truist Securities. Please go ahead.

Bill Chappell

Thanks, good morning.

Rod Little

Morning.

Bill Chappell

Hey, another follow-up on tariffs and just trying to understand the mitigation. I mean, one thing I haven't really -- I don't think I've heard from you or from any others is actually stepping up pricing and -- to offset tariffs. That seems to be the quickest way to do so.

And so, I guess the question is, as you look across your portfolio, do you think you have the ability to raise prices or there's some major elasticity? Are you waiting for your comps and especially like the market leaders to raise price before you do? How are you contemplating that, especially as we go into '26 on pricing? Just any more color there would be helpful as another way to mitigate tariffs.

Dan Sullivan

Yeah, sure. Good morning, Bill. And I should have probably clarified in the upfront. I think the levers that we could pull range from any and all productivity-based initiatives to global sourcing, and yes, could certainly include some form of consumer price increase. I think where and how that plays out is going to very much depend on which market we're in, obviously, and where we might have sort of market-leading positions that would create sort of a price leadership profile.

I can tell you, both here in the North America business and in international, the teams are already working on that. We don't have anything contemplated in terms of incremental pricing this fiscal year related to tariffs. There is pricing being taken in international markets that was in our plan that's unrelated to tariffs.

But I wouldn't want to leave you with the impression that we're not considering that. We absolutely are and will. I think the immediate steps you can take are more on the cost side, particularly on sourcing. But I suspect, as this picture evolves, pricing will have to play some component of the offset. How much, where, to what degree I think will be determined as we learn more.

Bill Chappell

Okay. Thank you. And then on sun care, I guess I don't fully understand -- you view the category as kind of a staple. I understand weather in the first -- or in the most recent quarter was off, but that doesn't really tell us much about the upcoming peak season. So, are you expecting consumer trade down and so there are less dollars to grow the category? Are you expecting people to stay inside a lot more because of tariffs? Any more color of why you think it's -- there's a little diminished outlook for the sun care category in the U.S. over the next few months would be helpful.

Rod Little

Yeah, Bill, I'll start and then Fran can add in. Look, I think we still are bullish on the sun season. We did take the outlook down a bit, partially for the early season weather, but also looking -- as we look forward, we still have growth expected. We don't see trade down. In fact, we see people being outside as much as ever. We see the incident rate around health and wellness, taking care of your skin, use of SPF going up, not down.

But we do have a little bit of a pause when you look at travel statistics and spending on airfare. A lot of our consumption is around occasion-based that goes with tourism and vacations and travel. So, if that does drop off in the summer, as some are predicting and the air travel may suggest, then we in the category may be impacted. That's what we've put in here effectively. We still feel like there's going to be growth domestically and internationally. And we actually are set up that we think we're going to grow share in what is a growing category in the year.

I don't know if you'd add--

Dan Sullivan

--Yeah, just to quantify it, Bill, the only thing I would add, as we looked -- our original thought for consumption in the back half of the year in the U.S., we had profiled mid-single-digit growth. And we've adjusted that for all the reasons Rod described to be more like low single-digit growth. That's the main sort of change in our thinking, and it's all based on consumer sentiment, discretionary spend, leisure travel spend. We hope we're wrong, by the way, but that's what we've profiled, and then we've adjusted organic expectations accordingly.

Rod Little

I think the other thing that gives us confidence, Bill, in our numbers in the second half that we can deliver them is we've got the fastest growing brand in the set with Hawaiian Tropic, faster than any other brand year-to-date, and we have not even started the activation campaign that will happen later this month with the incremental spend going against it that we think actually has the chance to be really, really big.

Bill Chappell**Chris Gough**

Operator, next question please?

Operator

Next question is from Olivia Tong, Raymond James. Please go ahead.

Olivia Tong

Great, thank you. Apologies if I missed it, but I wanted to know if -- to what extent destocking played a role, number one. Number two, did you talk about an annualized tariff headwind? And then the last thing that I want to ask you about is just the investment areas that you're prioritizing in fiscal '25, U.S. wet shave and sun care, it sounds like it also means more promo, but then you also talked about pricing in order to mitigate tariffs. So, if you could just compare and contrast that and help us understand that piece. Thank you.

Dan Sullivan

Hey, Olivia, it's Dan. I'll take them in reverse order, and I'll let Rod speak to the inventory. So just to be super clear on the investment profile, as Fran said, we are investing incrementally in promotion and I'll call it, retail activation in the third quarter to the tune of about \$7 million or 100 basis points of margin headwind.

Equally, at the same time, there are -- as I just said, there are select international markets where we already have price increases baked into our outlook outside of the U.S. So, we've got increased promotion going in in the U.S. We've got select price actions happening in the fourth quarter internationally. So that's that point.

On the tariffs, so what we have said in year, \$3 million to \$4 million of impact. Think of that as two months' worth of released impact. The rest gets stocked in inventory -- trapped in inventory and released next year. And then as far as the full year impact of that, we are profiling right now an annualized exposure of about 3% to 4% of COGS, so think \$40 million to \$50 million in potential impact. Again, that is before we assume any ability to offset that in further cost productivity efforts and/or further pricing efforts. So just the annualized exposure that we have to tariffs based on what we know now is in that 3% to 4% range. Rod, do you want to talk about inventory?

Rod Little

We're seeing no meaningful destocking by retailers.

Olivia Tong

Got it. Thanks. And then just on private label, could you talk a little bit about what's going on with private label in your categories? You guys are in a unique position where you can potentially soften the blow from a consumer perspective with your Private Brands Group. So, any discussions with particular retailers, thinking about club to help influence -- to help us understand a little bit more about the backdrop in your key segments? Thank you.

Rod Little

Private Brands business, we call Edgewell Custom Brands now, is strategic for us. As you know, Olivia, it's a big, sizable piece of our shave business. It's average -- its portfolio average profit delivery, and we've got a really interesting growth profile in that business, particularly in international where we're having rapid growth, winning distribution, new tenders and contracts. The team in Europe in particular is doing a really nice job with that. But look, it's -- we're not seeing any material shifts to private label at this point, so share is relatively stable. Certainly, if the consumer comes under incremental pressure from here, we would expect private label to tick up. We would benefit from that. And I think I feel as good today as I felt since I've been here about our capabilities to win and be successful in that part of our business.

Chris Gough

Thanks, Olivia. Operator, next question please.

Operator

We have no more questions registered at this time.

CONCLUSION

Rod Little

All right. Well, thank you, everybody. Interesting quarter, a lot going on. We'll know a lot more when we get together in early August to talk about Q3. Thanks for your continued interest and investment.

Operator

This concludes our Q&A session. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.