

Spencer Hanus:

Great. So thank you everybody for joining us on the line. Today, we're joined by the CEO of Grove Collaborative, one of the leading consumer products companies that's really focused on sustainability and ESG and changing the way that traditional CPG model is done today. So Stuart, thank you so much for joining us. It'd be great if you could just give us a quick one to two minute overview on Grove Collaborative, just to level set people that are new to this story, and then we'll take it from there.

Stu Landesberg:

Morning, Spencer, great to be here. Thanks so much for having me. So Grove is a CPG company that has always had a vision that the industry in which we operate - which exists in almost every home in the world, products like hand soap, dish soap, bath tissue, laundry detergent, many of these multi-billion dollar markets in the US alone - our vision has been to transform this category, which has a negative track record in terms of its impact on human and environmental health to one that can overdeliver for people and planet and can do so in a way that's design forward, consumer centric and approachable from a price point perspective. I started this company about 10 years ago. I had a background in investing, covered consumer, retail and internet at TPG, and saw firsthand the mismatch between evolving consumer preferences towards conscientious product, where the vast majority of consumers want conscientious product, and what is actually available on shelf.

And so I started the business in a direct to consumer-only capacity about a decade ago. And where we are today is we've built the market leading brand - we'll do almost 400 million of top line in 2021 - and we've built the market leading brand, in our flagship Grove Co brand, around the most important trends that I see in our sector over the next several decades - zero plastic and zero waste. And where we plan to go in the future, and we already have big a big proof point with a hugely successful launch in Target, is to take the success that we've had online, building the market leading brand with millions of consumers who trust us and often stay for life, and taking that brand omnichannel. And we think that's going to drive the next leg of growth.

So really what this is about is transforming the \$180 billion home and personal care market and being the market leading brand as we see that category transform - away from the products that most of us grew up with to the products that our current environmental crises and evolving consumer preferences demand.

Spencer Hanus:

That's a helpful overview, Stu. Could you talk a little bit more about the problem that you're solving at Grove Collaborative? I think you mentioned in your deck, there's clearly a gap there between what the intention is and what people are actually doing with their wallets. So how do you close that gap over time? And then I guess, related to that, how much are they willing to pay up for natural and some of these better-for-your products out there?

Stu Landesberg:

So this is an incredibly important part of the story. I think if you look at the history of consumer behavior and big consumer trends, there's a phenomenon you see today in industries like plant-based meat, alternative energy, where there's a small minority of the market that has adopted a certain behavior pattern, but that the vast majority of the folks who are behaving in the way that we expect to see the whole market go, only started in the last two years. And you see this really clearly in plant-based milk, for example, and you see it really clearly in natural products, where only 13% of consumers are buying natural products today, but almost two thirds of natural products consumers just started buying natural

products in the last two years. So you see in this \$180 billion market, very modest market share for products like ours and in the zero waste and zero plastic verticals in particular, you see even smaller market share and even higher growth.

But fundamentally, the problem that we're trying to solve is that consumers who want to make this transition now understand the importance of each of our behaviors on the environment - the importance of not bringing petroleum-based products into our house. Some people have autoimmune things where they can really feel the difference between using natural products and conventional. But fundamentally at a high level, if you look with a 20-year lens, we see the change from petroleum-based synthetic ingredients and single-use plastic packaging to plant-based ingredients and sustainable packaging as 100% inevitable. This is an obvious transition over the next 20 years. Which really gets into how do we build our brand? How do we price it and how do we build a big tent to capture as much market share as possible? So it's always been our intention to drive to a big market here.

For too long in our category, sustainability has been overpriced and therefore has not been able to build the scale following that's possible in our market. But we've built our brand from the beginning to be line-priced with other leading brands. And when I say other leading brands, I'm talking about the big brands from places like Procter & Gamble and Colgate, the really strong brands in the market. And we think we over deliver from a sustainability perspective, but also from a performance perspective, relative to all of those brands. And you see this in where we perform. Our best ZIP codes are not just New York, Boston, San Francisco, Chicago, LA, DC, our best ZIP codes are as likely to be in Kansas and Utah and Texas as in California.

And if you look at the Targets where we've been most successful, the majority of our top 20 Targets are in metros with less than 200,000 people. This is a brand that wins across the political spectrum. There's no correlation between the state's income, who they've voted for in the last election, or even to population density and Grove's success. We've deliberately built a big tent. And price is a very important part of that, and that's one of the reasons we've been able to scale so quickly and take share so consistently in such a large market.

Spencer Hanus:

Yeah, it's definitely a huge opportunity and a huge market. I guess, when you think about your competitive advantage at Grove, and you've gotten a lot of trial over the last couple of years as people start to really focus more on sustainability, but how do you think about keeping those customers as big CPG wakes up to this huge consumer trend that's happening and really under the surface here?

Stu Landesberg:

I love this question. There are two things here that are really important. The first is, and you hinted at this but you didn't say it explicitly, trial without repeat is meaningless. It's a great way to waste money - it's a bad experience for the consumer, it degrades our brand, and we do not do it. Efficacy has always been a top priority for us. We hire the best natural chemists in the world and have a robust team. You see in our financials - we overinvest in research and development - and that's because we need to in order to have the best product in the market, or we do not launch. Period. And as a result of focusing, not just on aesthetics and sustainability and cost, but also efficacy, you can see that we have a huge portion of our consumer base that tries Grove and then stays for life. Our revenue retention is roughly flat, year three over year two, year four over year three... And so on and so on.

When people try Grove, not a 100% of them stay for life, but a huge portion does, which not only fuels our business model, but also helps us build the kind of brand love that allows us to create a 100-year product and a 100-year company in a massive category. And so when we look at our core

differentiation that allows us to make that happen, it's really as simple as - we have access to better data and a model that facilitates better and faster feedback and risk-taking than anything before in the industry. The direct to consumer platform gives us better access to consumer information and a closer relationship with our consumers, which in short gives us better informed shots on goal when it comes to innovation, because we have clearer data, and more shots on goal, because we're able to develop products much more rapidly.

And unlike having to wait one or two years to get it on a retail shelf, we can turn products around in a week from first iteration to getting data back and understanding how we need to reposition. So it's really about having better data and more and more informed shots on goal. That innovation has allowed us to consistently stay ahead of the pack when it comes to the type of product changes and the type of consumer-first product development that can change the category. And it's why we've built the market leading brand today.

Spencer Hanus:

That's helpful. And when you think about the DTC platform and all the data that you're collecting, that first party data which is really important, how do you think that filters into near term revenue growth opportunities for the business and what are the key factors driving that growth once you get past Target and some of these other retailers as well?

Stu Landesberg:

Yeah, it's a great question. And one of the things that's really a huge advantage for us is the wealth of data allows us to move at scale and move quick. In 2020, we launched 160 new products for example. That level of product innovation is almost unheard of in our industry. But it comes from having an extraordinarily clear roadmap about where the consumer wants us to invest our product development expertise and effort. And so when you look at how that flows into revenue, of course, product development drives the top line online, right? It drives bigger baskets, it gives people a reason to come back, and in general, our product innovation is margin accretive. And so, one of the things you see at our business over time is we both grow top line and grow gross margin percent. And that is really driven by our cycle of innovation. So you get, not just top line growth, but also bottom line growth on a percentage basis. The double positive on the bottom line.

But the way it'll play out, probably more importantly in the next, not just a year, but two to three to four years - and I think you'll see catalysts for this as we are able to announce progress - is we have an incredible stable of retail-ready products, where millions of consumers have given us feedback and tried them. We have a ton of data points on what product the customers love. And, as you know, 90 plus percent of our category is still sold through conventional retailers today. So we've built the market leading brand in a segment accessed by less than 10% of customers. And so the big opportunity is to take, not just the 400 plus SKUs that we have today, which in many cases are the best in the market - the highest market share, the best reviewed, the best margins, best sustainability profile, et cetera - not just to take that 400 SKU portfolio to retail, but to really be able to leverage the data to understand which are the SKUs that are going massively over perform when we put them on a retail shelf.

And it worked at Target the first time. Our launch was far and away the largest in the cleaning, hand and dish categories. We were actually the number one brand across all brands, conventional and natural at Target in repeat rate in our first three months. So being able to leverage what we know works from direct to consumer and then take it to retail, which is more than 10 X the size in terms of scale, is a paradigm that we know works and we think will drive, not just big top line growth, but capital efficient and high margin growth over the coming years.

Spencer Hanus:

Yeah, that sounds great. I mean, when you think about what categories that you expand into next, today you're focused on household products and personal care, but what is the next category, what's the framework that we should think about how you guys will evaluate what segment to enter into next?

Stu Landesberg:

So we're really lucky to have a strong brand that can travel effectively across categories. The Grove brand is one that started, as you said, very narrow and has been able to really expand. And so what you can expect from us is to understand where there is consumer traction and then go super deep. A category, for example, that I'm really excited about is laundry. Huge, huge industry where the price points that consumers are willing to pay for an exceptional product are really high, and where there is effectively no zero waste alternative. In the last year, we've built a product in our zero waste laundry sheets that's far and away the most efficacious zero waste product ever brought to market. It comes at an affordable price point for consumers, and it is a product from a business standpoint that's margin accretive to us and can be margin accretive to our retail partners. It is one that we think will unlock consumer adoption across a whole new category.

And so categories like that where we have only a small presence today, but where we see opportunity to take our core expertise and our core brand strength around the combination of zero plastic, efficacy and strong consumer centricity and build a toe-hold from which we can grow in a massive category, those are the things that really excite me. And so I think you'll see us go deeper there. And I think you'll also see us continue to expand into categories like personal care and pet, where there's not a lot of really high performance, zero waste options. Peach, our personal care line has continued to perform well. And we actually announced just this last week, we launched a zero single-use-plastic pet line called Good Fur, which has been off to a really strong start.

Spencer Hanus:

Great. Well, thank you so much, Stuart. This has been really helpful and it's a really exciting business in a category that you're clearly disrupting. So it'll be an exciting story for us to watch. So thank you for joining us.