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Q3 2022 Earnings Call

Company Participants

- Laurent Mercier, Chief Financial Officer
- Sue Y. Nabi, Chief Executive Officer

Other Participants

- Andrea Teixeira, Analyst
- Chris Carey, Analyst
- Mark Astrachan, Analyst
- Nik Modi, Analyst
- Olivia Tong, Analyst
- Robert Ottenstein, Analyst
- Stephanie Wissink, Analyst
- Steve Powers, Analyst
- Wendy Nicholson, Analyst

Presentation

Operator

Hello, my name is Katie and I'll be your conference operator today. At this time, I would like to welcome everyone to the Coty Third Quarter Fiscal 2022 Question-and-Answer Conference Call. As a reminder, this conference call is being recorded today, May 9th, 2022. Please note that earlier this morning Coty issued a press release and prepared remarks, which can be found on our Investor Relations website. On today's call is Sue Nabi, Chief Executive Officer; and Laurent Mercier, Chief Financial Officer.

I would like to remind you that many of the comments today may contain forward-looking statements. Please refer to Coty's earnings release and the reports filed with the SEC where the company lists factors that could cause actual results to differ materially from those forward-looking statements. In addition, except where noted, the discussion of Coty's financial results and Coty's expectations reflect certain adjustments as specified in the non-GAAP financial measures section of the company's release.

With that, we will now open the line for questions.

Questions And Answers

Operator

Thank you. Our first question today will come from Andrea Teixeira with JP Morgan. Please go ahead.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi. Good morning. Hi, good morning everyone. I just wanted to -- so if you can kind of elaborate a little bit more what is implied in your assumptions for the fourth quarter fiscal. I would guess in light with the commentary that you made on the press release and prepared remarks and how do you see that evolving in particular your Prestige -- on your Prestige side, how you feel comfortable that -- and you exit through the quarter for the Q2, how are you feeling comfortable on that? And then related to the first quarter top line also, in Consumer Beauty, how do you see your stacking in terms of innovation and market share trends as you exit the quarter? Thank you.

A - Sue Y. Nabi {BIO 21845588 <GO>}

Hello, Andrea. This is Sue speaking. Thank you for your question. So again, as you rightly mentioned, you know the Q3 results implied a very strong growth in our Prestige division and a very good growth also on the Consumer Beauty division, it's 25% on Prestige with 10% on Consumer Beauty. And for the fourth quarter we do believe that the momentum we are seeing behind our Prestige brands is going to continue, specifically that we are going to have a much more balanced, I would say, media investment behind the two divisions during Q4, while Q3 was heavily behind Consumer Beauty and Q2 was heavily behind Prestige.

So you can imagine the momentum we are seeing for the Prestige business, hopefully going to be kept and hopefully accelerated, if possible specifically if the lockdowns are stopping in China, which is one of the key countries for the Prestige division. So what are -- this is the way I see, the guide that we have given you exclude as you know, with Russia and assumes of course limited maybe not at all a recovery in China, but we may have some upsides potentially if China is doing better. And again, the trend for the month that just finished, which is the April 1 is in line with our outlook.

Q - Andrea Teixeira {BIO 1941397 <GO>}

(Technical Difficulty)

A - Sue Y. Nabi {BIO 21845588 <GO>}

So, I was just about to finish on the second part, which is Consumer Beauty. And again there, you've seen that specifically in the US and specifically behind CoverGirl, we had these issues in terms of supply behind our best-selling mascara line. And hopefully we feel that this could be getting better in a couple of months. So we'll see if this can help us, but we do believe that we will be back to, I would say, almost normal supply behind CoverGirl around June, July.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you. And then on the exit of the quarter, right, you had an impact in China in March. And I'm assuming Travel Retail as well. Are you assuming that in the fourth quarter, the

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lockdowns will obviously, they are still going on in particular in Shanghai and Beijing getting worse, I would say, what are you expecting -- what are you embedding that there is no recovery and then you're embedding all the impact of what you saw in the third quarter, and some of the other competitors, some of your peers have quoted how much impact they had in China in March. So if you can, that is, how much was down and how much your, the rest of the world performed in the end of fiscal third quarter ex-China?

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A - Sue Y. Nabi {BIO 21845588 <GO>}

So again the way we've built the fourth quarter is having in mind that we will have a very, very limited recovery in China, which is, I would say cautious in terms of way of seeing things. And at the same time could be also a reality. So this is the way we've been built this. Again the good news during the third quarter is, I may say, is that even with this lockdowns in Mainland China, we've seen our Travel Retail in Hainan, including in the middle of all the constraints, compensating for the losses we had in terms of net revenue because of the lockdowns in the biggest cities of China Mainland.

So we will think that this is going to help us to mitigate, if I may say, this impact on our sales in Mainland China. And again what we saw during Q3 is that we are slightly positive -- quite positive effect during the Q3, thanks to Hainan sales that made up for the losses of the China ones. So Travel Retail is doing the job of compensating the financial.

Operator

Thank you. Our next question comes from Steph Wissink with Jefferies.

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Q - Stephanie Wissink {BIO 17692025 <GO>}

Hi, good morning everyone. I would like to focus in on gross margins, if we could, if you could talk a little bit about where some of that upside came from, whether it was mix or some of your internal strategies to unlock value? And then related as you reinvested into A&CP, any areas that were particularly productive in the quarter that you'll be emphasizing further going forward? Thank you.

A - Laurent Mercier {BIO 22079608 <GO>}

Hello, Steph. So on gross margin indeed and you noticed, I mean, outstanding performance this quarter. So the 240 basis point better than last year. And on a year-to-date, roughly 450 basis point higher. So this is really the output of all the work and (inaudible) initiatives we shared several times. And it's really combination of -- on the one hand the focus we are putting really on cost reduction, so it's really the focus with supply chain, with procurement. We gave several times the example of ELO that we are reducing drastically thanks to better forecast accuracy. And we continue this journey. So definitely we keep the focus on reducing the cost is definitely the focus number one.

And at the same time definitely what we are amplifying in what I'm calling as a value part of the gross margin. So this is really number one, the mix and what's I shared several times and I explained again that all the strategic initiative were gross margin accretive. So it's really e-commerce, it's really all China Prestige makeup is a premiumization of the

portfolio. And same also within Consumer Beauty, you remember we shared several times that the new initiatives we are doing in Consumer Beauty, but in some cases gross margin, which is even equivalent to Prestige.

So it means that this mixed work that we are doing is continuing. So it will continue really to fuel the gross margin. Second, I mean, of course on top of this, we are doing and pricing definitely to mitigate cost inflation, but also because now we are getting pricing power. And usually again thanks to the premiumization, new innovation, we are really pushing this pricing. And of course it's accretive for the gross margin. And on reaching the context of revenue management where we have very, very tight control on our trade terms. So you see all the ingredients with cost and value really to keep fueling and to keep building the gross margin. So definitely -- so this is definitely, you know, thanks to all gross margin and (inaudible) of confirmation in Q3, that we can invest in A&CP which always is focused on ROI [ph].

And Sue can give you some concrete examples.

A - Sue Y. Nabi {BIO 21845588 <GO>}

Absolutely. Thank you Laurent. So in A&CP clearly we are going to continue to invest during the quarter -- Q4. As you've seen, it's been very, very productive for Q2 and Q3. So we continue with the same story. And again, it's always the same story of the flywheel, net revenue growing, gross margin better, this allow us to at the same time the leverage the company and reinvest behind the brand while continuing our cost savings programs. So in terms of particularly productive items we have seen and we are going to accelerate, the Rimmel brand is going to have some acceleration behind (inaudible) that's doing fantastically well, you've seen the results. This is representing high single digits of the net revenues of most of the countries, sometimes much more than this. We are going to continue to invest behind this brand, because we are seeing the strong momentum everywhere we put money behind it.

And CoverGirl exhibition is doing fantastically well and the signature of, Kelsea Ballerini as the Gen Z face for the brand is by definition going to help us again to regain the momentum during the Q4. On our leading fragrances, as you can imagine, Gucci Flora Gorgeous Gardenia fantastic success; Burberry Hero fantastic success; Hugo Boss The Scent, same thing. And last but not least behind Prestige makeup we've seen the momentum we are having behind Gucci makeup and this is something that we intend to accelerate.

Q - Stephanie Wissink {BIO 17692025 <GO>}

Very helpful as always. Thank you.

A - Sue Y. Nabi {BIO 21845588 <GO>}

Thank you, Steph.

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(Operator Instructions). Our next question will come from Robert Ottenstein with Evercore.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much. So wondering if you could drill down a little bit more into the US makeup market, how that's developing into April. Obviously there is increased mobility, but any new trends? And then taking it further into CoverGirl specifically, and I know there's lots of gives and takes there, puts and takes on CoverGirl with supply issues, et cetera. But maybe tell us the signs that you were seeing that give you the most confidence that, that brand is on a positive path. Thank you.

A - Sue Y. Nabi {BIO 21845588 <GO>}

Hi Robert, thank you so much for your question. So again, what we are seeing on the US market is clearly, you know, after two years, if I may say of mainly eye category, being the key category during the pandemic, we are seeing categories such as face on one side and lips on the other side, back to visibility, if I may say on people, and therefore on the figures. It started already some quarters in the past, specifically the new [ph] one.

So clearly we are, I would say, back to what I could call normality. And therefore, CoverGirl is very good news because again the brand has been very strongly investing behind eye makeup. And again, you've seen the momentum we had last year behind Lash Blast, Clean and the overall the Lash Blast franchise. We have Simply Ageless that we have reactivated last spring, that's continuing to gain share quarter after quarter and we have new news arriving behind this time, very, very soon. And we have also now we are activating, I would say, the second level of the CoverGirl rebirth.

Remember when I told you the story of CoverGirl one year and the half ago, it was about, you know, bringing back the brands to its heritage and to its first equity, which was around Clean Makeup and Clean Beauty in general. This I would say is continuing of course, and we are launching a lot of new things behind Clean Beauty. But level two of CoverGirl rebirth is what we call cool or easy [ph] brand beauty. And there we are very confident that with this new faces we are adding recently, especially Kelsea Ballerini, behind exhibition is and mascara, but also exhibition is lip color, we do have the second leg or second muscle to really boost CoverGirl and the category overall, because I do believe that the two growth drivers of the makeup category in America are on one side Clean healthy beauty and cool trending beauty.

And these are the two areas that we are -- we are pushing behind CoverGirl. I can give you just a hint of something we just saw recently. We just launched, which probably could be in the two categories, a new lip balm, Clean Fresh Lip Balm behind CoverGirl, which became very quickly the number one lip balm I think in the US. Thanks to being clean on one side and probably a category that Gen Zs are looking for today, you know, as a good compromise between color and care.

So this kind of product gives you an idea to the areas where the brand is going to invest, continuing the clean story, while pushing strongly on the (inaudible) we just made the

announcement that we have a new face, that's not the new face, that's the face that was part of CoverGirl years ago Queen Latifah, she was one of the most iconic CoverGirl faces for years, the same way Niki Taylor was, and she is back on CoverGirl and this is clearly going to help us to continue to activate the different types of targets that CoverGirl is made of today.

Operator

Thank you. Our next question will come from Nik Modi with RBC Capital.

Q - Nik Modi {BIO 7351672 <GO>}

Yes, thank you. Good morning everyone. Two questions, just one big picture on, so how do you see some of the changes in the consumer behavior, just with inflation, with mobility, I'm just curious on your kind of global landscape, is Europe getting impacted by the amount of inflation because it's certainly worse than it is here in the US. So that was just the first question. And then just more specifically any clarity on the Kim launch, number of products you can insume at the launch, timing, initial geographies, any perspective would be helpful.

A - Sue Y. Nabi {BIO 21845588 <GO>}

Yes, thank you for your question, Nik. So again on the first part, which is around the consumer behaviors, we do see today that the -- there is quite some resilience and consumers continuing to spend when it comes to Prestige category, specifically on the fragrance category, again the momentum we've seen in the US since now several quarters is continuing through Q3, this is quite clear. The momentum is starting to happen also during the quarter during Q3 it happened also in Europe. And this is very new and again, remember Europe was far under 2019 levels, now it's above 2019 levels.

So this is, I would say, and this is the biggest category as you know fragrance -- Prestige fragrance is the biggest category of all fragrance business, of all Prestige business in Europe. And in China, of course this was one of the fastest growing category until the end of Feb, let's see what's going to happen once the lockdowns will be lifted. So clearly, we do see good resilience of consumers who are shopping at the highest end. And we feel these consumers are going to continue to spend behind these categories.

Again I think it's important to keep in mind that for a lot of consumers, despite what is happening today in terms of inflation et cetera of cost of goods and therefore as a second step of anything that's sold on the market, this is the first summer, first lockdowns since two years and a half almost today, it's the first summer were there is no restrictions except in China. And therefore, I do believe that consumers are going to be on a very positive mood. They are going to come back to life, we've seen a lot of articles published about the fact that people are back in festivals, travel et cetera, et cetera. So there is a hunger for life, probably is going to continue to be a hunger for elevating the beauty consumption.

If there are some categories that may slow down and if there are some consumers that may be pressurized because of this inflation of the prices, the good news at Coty's that

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we do have a division that's strongest than ever, which is our Consumer Beauty division, our brands are coolest than ever, they're doing the right things, they are launching the right products that are much more profitable than versus the past some of them have profitability levels equivalent to those from Prestige. So I would say that whatever is going to happen, we will be able in a way to adapt with our both divisions.

So any clarity on the Kim launch, again as we said it several times, this is going to happen during Q4. And you'll see fantastic things and very exciting things coming during this launch.

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Q - Nik Modi {BIO 7351672 <GO>}

Great. Thank you.

Operator

Thank you. Our next question comes from Wendy Nicholson with Citi.

Q - Wendy Nicholson {BIO 2081269 <GO>}

Hi, my first question just has to do with the target of the $900 million in adjusted EBITDA. I know you talked that down just a little bit on the prepared comments, I think you made the point that, that was primarily a function of exiting Russia. But can you talk about any other moving pieces in terms of the revision to that target. And I know it's early, obviously to talk about fiscal '23. But just in terms of your confidence of continuing gross margin progression, EBITDA margin progression, given the headwinds that everyone is facing. Thanks.

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A - Laurent Mercier {BIO 22079608 <GO>}

Sure. Hello Wendy. So first of all, I mean, we made very clear that Russia did in fact has very limited impact in Q4 from net revenue and EBITDA standpoint. So that's why we are confirming the $900 million adjusted EBITDA on the total year. And definitely we -- there are some headwinds and to name them and definitely we see amplification of inflation, but again we are very clear that inflation is not something new and it's something, you know, that started more a year ago. We have a pricing office, which has been working constantly on the again price increase implementation and we have, you know, low-single digit this year. But we continue this price increase. And again combined with all the ingredients I shared before on mix and so on. So this really gives us you know the fuel, definitely that will keep investing in Q4, what Sue has exactly explained both on Prestige Consumer Beauty. So continuous amplification on expansion of gross margin, basically filling A&CP and delivering this -- our EBITDA.

So this is definitely why we are confirming. Now I mean, moving forward, definitely indeed on Russia impact has a more impact on H1 next year. But from an algorithm standpoint, it means that from a baseline excluding Russia, the algorithm doesn't change, okay, either in terms of top line or EBITDA.

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A - Sue Y. Nabi {BIO 21845588 <GO>}

And Wendy, just to add on Laurent's comment, we are reinvesting to (inaudible) momentum. Again what's happening in terms of momentum behind our branches and scene [ph] and it's super, super important that we continue to fight like crazy to reinvest behind our brands. So this gives us, I would say, the ability to continue to invest behind the brands in terms of A&CP.

Q - Wendy Nicholson {BIO 2081269 <GO>}

Fantastic. And then if I can, I just had a second question with regard to China, given some of the comments from some of the other beauty players in the group, obviously the lockdowns are having huge pressures on the China marketplace, but can you just take a step back and comment on your take on the China Beauty market generally, is the pressure we are seeing really just the function of the lockdowns and supply chain challenges? Do you think there is anything changing underlying with the Chinese consumer in terms of their preference for Western brands versus local brands? Anything that makes you nervous about the long-term growth potential for the China market? Thank you so much.

A - Sue Y. Nabi {BIO 21845588 <GO>}

Thank you Wendy. And again, this I think is clearly a question that we are focusing on, on a daily basis, how is this market reacting to anything we do there. And I can tell you that, despite the lockdowns, you've seen that Gucci has continued to have outstanding figures over there. Our business is very, very quickly evolving, super premiumizing, if I may say, we were a fragrance company just one year and a half ago. Today brands like Gucci or Burberry do have half of their businesses made between fragrances and Prestige makeup, which is really new growth engine both in China, but also in APAC Travel Retail and overall Travel Retail.

We are having more than 10% of these brands, fragrance sales coming from ultra-premium fragrances. And this is totally changing not only our, I would say, P&L equation, getting much more profitable over there, but also it's a very strong confirmation that Chinese consumers are all about an obsession of premiumization, shopping highly desirable brands, and the most expensive items from this highly desirable brands. So for me, I don't see any change in the -- in terms of confidence for this market to become probably the biggest Prestige or luxury market in the world in the coming years. And I am -- I would say more confident than ever then when you look at the portfolio of brands we do have, and that's probably what explains the fact that we've been still until Q3 the fastest growing beauty company in China among the top 10 beauty companies over there with the sell-out that's been 14% during the last quarter, which is far above the flattening, I would say market.

All these elements, not only give me confidence in Coty's ability to continue to grow in this market, but I would say in the fact that Chinese are going to continue to be the most passionate, then most expert and then most obsessed with trading up their sales in terms of beauty in this market.

Q - Wendy Nicholson {BIO 2081269 <GO>}

Terrific. Sounds great. Thank you so much.

A - Sue Y. Nabi {BIO 21845588 <GO>}

Thank you, Wendy.

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Operator

Thank you. Our next question will come from Steve Powers with Deutsche Bank.

Q - Steve Powers {BIO 20734688 <GO>}

Yes, hey good morning. Thank you. So maybe to pick up on that discussion with Wendy and with previously with Nik, it seems like the store this morning is really one of continuity as you look forward. The strategy seems pretty much unchanged, the algorithm adjusted for the Russia exit seems essentially unchanged. I guess I just want to just play that back a little bit and think about it in terms of the six priorities that you unveiled essentially a year ago. And we described those priorities back in November. To the extent that the consumer does get weaker in the US and then Europe and we see continued volatility in the emerging markets, does the way you employ those six strategic priorities change at all to get to that algorithm or is it -- is the strategy meant to be sort of economic cycle independent?

A - Sue Y. Nabi {BIO 21845588 <GO>}

Thank you Steve for the question. And again, I think the -- what's nice and I would say the beauty of this six pillar strategy is that it's a balanced strategy. And it's a strategy that in a way is not betting on one decision more than the other, not betting on one region of the world more than the other or betting on specific kind of pricing or price categories, it's really a strategy that will allow us whatever is going to happen to have means to take the, I would say, the tailwinds, that may blow here and there, or to mitigate the, you know, anything that could prevent us from executing the strategy.

So I would say that, in fact Consumer Beauty stabilization, now we are talking about growing Consumer Beauty, we've seen that we had now five month of market share growth globally for Consumer Beauty. Same thing for color cosmetics, consumer color cosmetics worldwide. And this is clearly a very good, I would say, element in case some consumers that would be on the massive [ph] side of the businesses in Prestige would maybe -- would love to come back to this kind of brands. And therefore, we do have not only the Clean Beauty, but the good Beauty that these consumers might be looking for.

When it comes to Prestige, clearly the fragrance momentum we have seen, we do believe is going to continue. And what -- even if there is some, I would say, lockdowns in China that are preventing this market from growing in the coming, I would say, month or two, you can see that Europe and Travel Retail are back to very, very strong growth, and that people are shopping fragrances globally today more than ever before, all levels are above 2020 -- 2019. Three, our size in Prestige makeup is quite small. So whatever is the

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slowdown or the acceleration in this category, we do believe that just by adding new SKUs and opening new doors, we have ability to continue to grow.

And last but not least on skincare, clearly on skincare, the number one primary focus of the company is to build Prestige skincare brands. These are going to be pure players, and as you can imagine it's much easier to hit high target with pure players in skincare. Then from example and we made the comment about CoverGirl, which is a makeup brand launching skincare in the middle of a makeup (inaudible) et cetera. So there it's going to take time. We are fine-tuning each and everything like we have always done since one year and a half today, test, learn, implement, correct, et cetera. But on the Prestige side, we have big ambitions that our pure player skincare brands are going to help us to accelerate the agenda.

So overall, I don't see anything that would change the algorithm that we have shared with you in November. And again, this algorithm, beauty is made of kind of balance between divisions, categories, price tiers, which will hopefully allow us to mitigate any headwinds we would have.

Operator

Thank you. Our next question will come from Olivia Tong with Raymond James. Olivia, your line is open, please make sure your phone is not on mute.

Q - Olivia Tong {BIO 22252574 <GO>}

Great. Thank you. Good morning. I was wondering if you could first quantify how much of an impact the supply chain issues had on Consumer Beauty and whether the constraint in supply mix you -- potentially we consider how much inventory you should be holding, because unlike others, our inventory balance hasn't increased versus recent quarters. But my real question is more around the environment and you're hearing a lot of different views on how the environment is evolving and the consumer may or may not be responding to inflation and other market dynamics. I'm curious how you think about your ability to continue to drive growth in Prestige versus Consumer Beauty and your ability to continue to drive price mix? Thanks.

A - Laurent Mercier {BIO 22079608 <GO>}

Hello Olivia. So, I will take the first part. So, definitely I mean, yes, and you know, and you have seen the whole industry that we are facing some global supply constraints. But as you see also -- I mean, the team's [ph] supply chain procurement, I mean, navigate quite well in this environment as we said and service level in the low 90s, which is among the best performance. So indeed as we flagged (inaudible) issues, but basically teams are implementing all the actions, and actions are really put in place that we are solving. And can improve this service level. We remained very agile, we keep, you know, what we explained several times we have this dual sourcing approach, so that we can absorb some potential issues. We have weekly reviews between commercial and supply chain, we need to adapt in a way on how we allocate the products.

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So definitely we keep this focus and you know keeping a good monitoring and controlling of all supply chain. Inventory, yeah, you're absolutely right, and this is what we are doing. So always on the one hand managing the cash, but at the same time being super pragmatic and agile that where we need indeed to build some inventory on some (inaudible) resources, we do. So definitely this is what we are managing, but always in the frame that it doesn't change our cash trajectory. And that's why we are confirming moving towards these four times leverage end of calendar year '22.

A - Sue Y. Nabi {BIO 21845588 <GO>}

And Olivia, to complement Laurent's answer on the second part, but before moving to the second part, which is around the trends that we seeing et cetera, please keep in mind that on CoverGirl, which is I know a brand that everyone is looking at, the supply chain issues we had, had nothing to do with what's happening in terms of shortage we are seeing for components. In fact this was in link with some decisions that were not made prior to the pandemic. So decisions that should have been done somewhere around 2019, but were not done, that delayed the availability of some key things that were part of the mascara of (inaudible). So, it's something that we are mastering. It's not something that we are hoping, it's going to improve.

So that's point number one. And this finishes the inventory and supply part that Laurent was commenting. When it comes to the second part, how do we see it in terms of consumers. I do believe that consumers who are shopping Prestige products, specifically knowing that we have done the job of doing price increases (inaudible) that are very granular, very specific to each and every brand on key items where we felt there was room, I think the difference between the former price and the new pricing is not going to be big enough for someone who is spending over $30 to $40. So I do believe that the impact at least for Coty Prestige, because of the way we have done things, because of the granularity and because of the desirability and therefore ability to price up for Prestige, we won't see any kind of impact.

When it comes to Consumer Beauty, if you take the example of CoverGirl, again that everyone knows in the US, CoverGirl has one of the best-selling foundation under $8. And it has some of the best selling new foundations between $15 and $20. So there, we have the ability to direct some of this, say like these consumers either for a foundation that's under $8 or for something that's between $15 to $20, which is still very, very affordable compared to, I would say, other categories coming from Prestige. So that's what gives me at least for Coty, a good confidence that whatever are going to be the behaviors depending on the different tiers of consumers, we will be able to adapt and therefore to invest where people are going to shop.

Operator

Thank you. Our next question will come from Chris Carey with Wells Fargo.

Q - Chris Carey {BIO 21810941 <GO>}

Hi. Good morning. So I just wanted to have a follow-up on a couple of items that have been discussed this morning. So first, just on Consumer Beauty, I appreciate there was

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investing in the quarter and you're anticipating a more balanced Q4 between the two divisions from a profit standpoint. But can you unpack perhaps some of the drivers of the margin in the quarter between spending, supply chain, inflation, anything else that might be able to give us a bit of context on the underlying here?

And then just secondly, as it pertains to China, clearly there is a strategy in place to take this market to a certain size by fiscal '25, that's a long time out. Is anything going on in the market right now, going to delay you achieving those targets, or would you view the business as on track with the initiatives that you laid out? Thanks so much.

A - Laurent Mercier {BIO 22079608 <GO>}

Thanks Chris. So, I will take the first part. So, what I can tell you is that, drivers of the margin of Consumer Beauty, it's the same as a global Coty equation. I will start firstly with gross margin. What I'm explaining on the gross margin expansion journey that we are implementing in Coty, we see absolutely valid for Consumer Beauty. So definitely we are working on improving the mix and we gave a lot of examples, again all the new innovation that we are launching in Consumer Beauty, I take the example of Kind & Free, all these new initiatives are very accretive in the equation. So, this is definitely giving us some levers of headroom in terms of gross margin expansion. So, this is cross-save [ph] on pricing, we also, you know, with the pricing team working at the very granular level, very specific level how to drive pricing in Consumer Beauty.

And third element, revenue management, tight control on trade terms promotion and all this in the context of value creation. So this is again describing the virtuous cycle we are building is absolutely valid for Consumer Beauty. And this is what we continue, increasing the gross margin, keeping discipline on supply chain on fixed cost, and fueling A&CP. So, what we have explained indeed we make significant investment in Q3 because we have great initiatives and this is really to kick-off the machine, and of course in Q4 we'll be more balanced.

A - Sue Y. Nabi {BIO 21845588 <GO>}

And on the second part, which is around China, which is anything that's going to jeopardize our fiscal '25 target. Again what we are trying to do in China is to do what we have done one year and a half ago when we were in the middle of the pandemic. And we were trying to fix everything that was needed to be fixed, if I may say, waiting for the rebound post-pandemic. We're doing more or less the same thing in China, which is to make sure we are continuing to up the ante in terms of expertise, in terms of capabilities, in terms of the brands that we are intending to launch. So at the moment, I don't see anything from a Coty, I would say, point of view and Coty ability to implement the things we are working behind that will jeopardize our algorithm and fiscal '25 target.

Operator

Thank you. Our last question comes from Mark Astrachan with Stifel.

Q - Mark Astrachan {BIO 15313233 <GO>}

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Yes, thanks and hello everyone. I guess I wanted to start with fragrances in China, thinking about a bit more longer term. Could you remind us what the category share is today as a percent of total beauty spend? How does that compare to some other markets? It would seem, I think you talked before about it being lower at this point, but obviously growing faster. And then maybe more importantly how you think about competition stepping up given that they presumably I think have directionally talked about seeing kind of similar trends of development of the fragrances category. And how do you think about your relative positioning in anticipation of them, kind of, going at you a bit more there? Thank you.

A - Sue Y. Nabi {BIO 21845588 <GO>}

Yes, Hi Mark. So let me try to answer the different pieces of the question. So first in China. China today in the country, you have only 2% of people using fragrances on a daily basis. So as you can imagine moving just this 2% to 10% on the number of people who are able to buy and use fragrances, would be huge, I would say, a huge jump in terms of fragrance consumption specifically with the Gen Zs who are going to drive this I would say (inaudible). So the fragrance category in a country like China is around 15%, 20% if I am not wrong, which is far under the 70% of -- yeah, 70% of skincare and the remainder is Prestige makeup. So clearly the lion's share is skincare and then makeup and then fragrance. But fragrances is the fastest growing category in China. And again, 2% only use fragrances on a daily basis.

So this to be compared to Europe, where fragrances is the biggest category and the US where fragrances is I think the smallest category of the country. So, this gives us, I would say an upside potential that's probably very, very, very strong. What else is -- how is competition stepping up in China? Honestly, we are not seeing anything in the competition today that's telling us that there are things that we are missing in Coty's portfolio, if I may say. And again, you know, how we like to think. We love to think in terms of what are the trends, what are the criteria people are shopping, what are the categories people are looking for? Clearly we do see that with our Gucci, Burberry, Chloe, Hugo Boss, to name a few, fragrance brand or Tiffany to name another one, we do have brands that have the ability to respond for the mainstream consumption.

Now again, I said that 10% of the sales of this brand is already made by (inaudible) premium fragrances. So we are present in this category while just one year and a half ago, this was almost nothing in our turnover. So we are clearly feeling that we do have the right plans, the right price tier to clearly answer this surge in consumption that we are seeing behind Gen Zs on the Chinese market. So at the end of the day, if competition is investing, that's fine, because at the end of the day we need to be altogether investing on this very, very promising market to grow the market and this will benefit all of us. So that's what I would say. So this was my conclusion.

Thank you very much for your questions. And thank you very much for this -- I'm going to say thank you to the whole team at Coty for this seventh quarter of very, very good results. And we hope to continue to do the same thing in the near future. Thank you very much.

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Operator

Thank you. Ladies and gentlemen, this concludes today's event. You may now disconnect.

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