

Coty 1Q24 Earnings Call Q&A

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CORPORATE PARTICIPANTS

Sue Y. Nabi – Chief Executive Officer
Laurent Mercier – Chief Financial Officer

MANAGEMENT DISCUSSION SECTION

Operator
Good morning, and good afternoon, everyone. My name is Todd and I'll be your conference operator today. At this time, I would like to welcome everyone to Coty's First Quarter Fiscal 2024 Question-and-Answers conference call. As a reminder, this conference call is being recorded today, November 8, 2023, at 7:30 am Eastern Time or 1:30 pm Central European Time.

Please note that on November 7 at approximately 4:30 pm Eastern Time or 10:30 pm Central European Time, Coty issued a press release and prepared remarks webcast, which can be found on its Investor Relations website.

On today's call are 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 these 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. Our first question will come from Nik Modi with RBC Capital Markets. Please go ahead. Your line is open.

Nik Modi
Thank you. Good morning and good afternoon, everyone. I actually had a bigger picture question. Sue, when we recently met in person a few weeks ago, you were very excited about the innovation program at Coty and I wanted to ask a broader question about skincare and how you think about skincare holistically, in the sense that topicals is one thing, but what about ingestibles and injectables? I'm just curious on philosophically how you think about the category going forward.

Sue Nabi
Hi, Nik. Thank you for your question. Indeed, that's, as you say, the bigger and broader picture. I think what we have shared with all of you several times is that the skincare market, and by the way the beauty market generally speaking, is going in the direction of the medicated beauty. This is something that we see very, very strongly and that's the reason we have decided to reposition some of our brands quite strongly in these areas.

If you allow me, may I remind everyone that we just did the launch behind Orveda skincare of the first serum that uses technologies inspired by the medical world that we call senolytics, which is the first time a skincare brand is using this kind of technologies in a topical cream, as you say it.

On Lancaster, the story that is resonating very well is the story of using these vectors, liposome that penetrate deep inside the skin and this is really what is making the brand resonate with the Chinese consumers. And, also on philosophy in the US, we've decided that the brand will stand for the brand that's going to bring a bit of wisdom in the craze around dermatologic ingredients. So, as you hear it from my words, it's all about a kind of medicated beauty.

In the beauty world, we are using ingredients and formulations that are acting on the upper layer of the skin, and we are not allowed to go lower. So, if you think about injectables, you clearly see this booming with other companies selling products that are going to release the muscles, without quoting any brand, products that are all about injecting hyaluronic acid inside the skin, vitamins or sometimes medical devices allowing a faster penetration of the active. So, you're right, this is the direction that the overall market is going into, but we have

some limitations when it comes to selling skincare from a beauty brand that does not require any kind of long-time testing, like a medication or a drug would require, but that's more or less the direction we are seeing.

Ingestibles, I mean, ingestibles are like male skincare. Everyone says this is the year of ingestibles, and the year after nothing has happened. So, again, there my gut feeling is that this category needs a bit of strong R&D, because a lot of people believe that what you are going to ingest is going to be digested by your stomach enzymes and at the end of the day, what's the difference between eating good food and having ingestibles.

So, that's also something we hear from consumers, that ingestibles need to demonstrate their ability to bring to the right place the right ingredients, knowing that they come into your digestive system. So, that's the big picture I could share with you. I hope I'm answering part of your question.

Nik Modi
Thank you very much. I'll pass it on.

Operator
Our next question is from Oliver Chen with TD Cowen. Please go ahead. Your line is open.

Oliver Chen
Hi, Sue and Laurent. You made a lot of great progress with your digital marketing, and the studio we toured was remarkable. What's ahead in terms of how you're thinking about a digital center of excellence and key principles and platform occasion as you'll continue to build this capability across your portfolio?

Also, as we look forward, what are your thoughts on pricing in the environment? We're seeing a lot of cross currents in the consumer in many regions. However, you've been on a really good pace with all the fragrance momentum. Thanks a lot.

Sue Y. Nabi
Hi, Oliver. Thank you for your question. So, again, on the digital centers of excellence, you're totally right, we started in 2020 to really create a center of excellence that's based in Paris that's the global center for excellence really in a kind of catch-up phase, because the company was a bit behind competitors in this area three years ago. And this we made happen in Paris and now it's exactly the right time to have the centers of excellence benefiting from the global know-how, being created in key regions around the world, namely the US or China, to take two examples where the digitalization of the beauty world is quite advanced and fast paced. So, this is exactly where we are standing now.

On Consumer Beauty, you know that we are also accelerating our ability to create locally in the different countries, because this can only be local because you need to fit with the culture, you need to fit with the language, you need to fit with a local trend. So, we are creating studios in the US, in UK, and elsewhere. I think we've created something like 15 studios, which are TikTok or YouTube, where we are creating together or co-creating with influencers' content. And we are also beating the machine.

Just to give you an idea, until recently, we were working with a few dozen influencers behind the key launches of the Consumer Beauty makeup brands and recently, we moved to hundreds, and we saw the results immediately. If I take the example of UK, where we moved from nowhere in terms of EMV and VIT, to top five, top six brand, sometimes ahead of best-in-class brands that have been doing this for years and years.

And now the objective is to multiply this number by three to get above the threshold of the 1,000 influencers reached by our brands. So, this is exactly what's happening in terms of centers of excellence, first built globally in

Paris, and now going into different countries, in New York, in London, and in Shanghai, where we are today talking to you from.

Laurent, maybe you can take the second part on the price.

Laurent Mercier
Yeah, absolutely. On pricing, first of all, just to remind that we implemented several price increases over the last two years at a level of mid-single digit. These price increases went very smoothly, and we are very successful. The clear demonstration is what you are seeing is that our volumes keep growing and definitely, that you are seeing that in Q1 our volumes are growing. So, this was really a very important in our strategy to make sure that there is no elasticity on volumes and this was the case.

So, now looking ahead, of course, we are very conscious that there is, especially on COGS, inflation is starting to soften. So, definitely we are focusing on mix management. This is definitely a number one driver to continue to improve our gross margin and mix management, you are seeing some concrete examples, the innovations that we are launching. All of these innovations are really mix accretive, so are really driving the average price up.

Number two, we are opening, and we shared also last time, big stream of SRM, which is strategic revenue management. And it's really an approach where now we have dedicated teams. It's really to open the value analysis of all the products and really making sure where we can extract some value. So, concretely, it's really reviewing that all the promotion policy, the trade terms. In some cases, it can be also about the format. And again, this is really a way for us to improve the average unit price.

And last but not least, we will continue, definitely, to implement some very targeted price increase. I would say, more at a level of low single-digit, but definitely, we have this pricing team, pricing office, very expert and really, we are very granular, and I repeat every time. So, we will continue in a very, very targeted manner.

Oliver Chen
Thanks. The innovation sounds quite exciting. Best regards.

Laurent Mercier
Innovation, of course, is part of the game. So, it's definitely part of the mix management and of course, we are making sure, again – and you have a concrete example in Q1, high quality of the innovations. Also, as you know, there is a shift to higher concentration on Prestige fragrance mostly, and this is again a way for us to drive the average unit price, so absolutely.

Sue Nabi
And on Consumer Beauty, Oliver, you have also the same thing. What is really driving the market is premium innovation, not entry pricing, and that's very important for everyone to hear. And this is the area where we are going to accelerate the pace of innovation. It used to be high-single-digit levels required in terms of innovation, and we are today targeting high-teens level of innovation in terms of percentage of the net revenues. It's accelerating, but premium innovation is driving the market.

Operator
Thank you. Our next question will come from Rob Ottenstein with Evercore. Please go ahead.

Robert Ottenstein
Great. Thank you very much and congratulations on the continued great work. Sue, given that you are in China, I'd be remiss to not ask you what you're seeing on the ground in China and in Hainan, if you're there, both in terms

of how the consumer is and the beauty market is recovering, if it is recovering. And then, maybe additional details on your execution, what's going particularly well? Thank you.

Sue Nabi
Hi, Robert. Thank you very much for your kind words.

So, again, you're right, we are in Shanghai. We've been here for a few days and we'll be here until the end of the week. And indeed, it's very interesting to see how the market is evolving quite fast, I have to say, specifically in the fragrance category. Again, we shared with you that a few months ago, maybe a year ago, we shared with you that we start to see Chinese getting very, very interested in this category and this is accelerating at an incredible pace, even the tastes are accelerating.

To give you a few examples, we launched Burberry Goddess in this country a little bit after the rest of the countries, because we thought that the scent of this innovation was really a bold scent, et cetera, and the reception has been outstanding. The line is already a number six line at Sephora, which is a ranking that we never achieved in this country with any of our fragrances.

So, it's really this fragrance category that's, by the way, growing, and it's growing by 6% and Coty in the country – this is Beauty Research latest results – is growing more than 2 times faster than this level of the market and Burberry Goddess is just starting in this country, and we believe it's going to be a game changer.

The other element we are seeing is the premiumization of the market and, I would even say, the bigger part of niche fragrances. These fragrances represent almost a quarter of the market today in China. This is 2.5 times bigger than what you see in the rest of the world. So, this premiumization going in the direction of more niche brands, really selling in freestanding stores, and when you enter the boutique, you don't have the impression you are in a store that is selling fragrances. You have the impression that you are visiting a concept store or sometimes a museum.

So, this is something that is going very, very quickly. That's the reason why I've been sharing with you how much we are eager to develop this kind of expertise inside the company to understand, of course, how to create winning niche brands, but also to understand the world of retail when you are operating a freestanding store.

We also did the CIIE inauguration two days ago. It was a fantastic moment especially for Infiniment Coty Paris, that was not fully disclosed to the Chinese audience. We did a teaser, and what was incredible is to see all these young men and young women entering this booth, where they had giant flowers that they could put their nose in and smell the fragrances, and try to guess the name of the fragrance, how will the bottle look like, et cetera. And the way they welcomed this was absolutely outstanding. So, we're very, very confident about this line that is going to meet the Chinese consumers.

The other market that's doing very well in China today is makeup. Makeup is growing by 10% and there, we are growing faster than the makeup market, mainly thanks to Gucci makeup and Burberry makeup. There, it's all about face makeup, because, again, the makeup category is skinifying, and anything that's a good mix between pigments and skin benefits is clearly what people are looking for on top of the fact that everything has to be long wear.

Last but not least, skincare market, which is the immense majority of the sales. This market is slightly negative in the most recent period. It's not that Chinese are using less skincare. They are probably shifting from some brands to other brands, maybe the level of promotionality that this market reached in the last quarters and years is a kind of maximum. And then, they are looking for what are the new brands that can speak to their needs without being too promotional, without being too much into this world, or where you buy only if there is a promotion.

And there, our brands are doing well, specifically Lancaster, which is the main brand that we have in this country, specifically online, the brand is continuing to see momentum because it's growing month after month. We have started, as you remember, with Ligne Princière and now we are adding next to Ligne Princière a focus on sun care, because this brand is really seen as the epitome of what high-end sun care protection is.

And we are also adding new innovations that are about to land in the market in January 2024. So, that's a bit long, but that's what we saw since a week now in Shanghai. Hainan, we did not grow there. I have to say, not this time, but our progression over there, you heard it and you've seen it during the script and the earning release, is very, very strong, in fact, specifically behind Lancaster, but also behind brands like Chloé.

Operator
Thank you. Our next question will come from Filippo Falorni with Citi. Please go ahead.

Filippo Falorni
Hey, good morning, everyone. So, clearly, a very strong start of the fiscal year with 18% like-for-like sales growth. So maybe, Sue, can you comment on like what drove the upside relative to the guidance you provided in September? You mention a lot of drivers in your prepared remarks, but maybe you can rank them in terms of category growth, innovation contribution.

And then thinking ahead of your guidance for the first half, it does imply a bit of a slowdown in fiscal Q2 to 4% to 8% like-for-like sales growth. So, maybe what is the driver? Was there any pull forward of shipments in Q1 versus Q2? Any color there would be helpful. Thank you.

Sue Nabi
Good morning, Filippo. So, in fact, what drove this upgrade of the guidance during the quarter is the fact that number one, the market continues to be very, very strong, 10% of growth of the fragrance market, this is really a fantastic figure on top of 10% in Q1 fiscal 2023.

So, again, when we discussed it several times since the beginning of this fragrance index phenomenon, we really tried to explain as much as we could, that this is everything but something that's a one-time event, and everything has to do with a very profound shift in terms of who are the people who are buying, what they are buying, how they are premiumizing, and how social media, in a way, is holding this consumption globally in the different regions around the world.

So, the market continues to be very good, very strong, and very dynamic. And the best way to see it is also in the performance of the company. So, on the market that was 10%, Coty Prestige fragrances grew by 25%, so 2.5 times the growth of the market. Of course, there is a lot of pipeline of new innovations, but these innovations, they are all delivering very strongly.

Of course, there is everything we told you about Burberry Goddess that has become a top six fragrance in the US. I said it recently top six in Sephora in China. In many markets, it's inside the top 10 and this is for sure the number one innovation in all the key markets around the world. But it's not the only one. In fact, you have to know that we don't have one brand growing in the high 20s, not two, not three, not four. We have seven brands, in fact, that are growing in the high 20s. Some of them with innovation and some of them without innovation. So, this is also, I'm proud to say it, this is the good work we are doing at Coty of creating incredible, exciting, highly performing innovations in this area of the fragrance growth.

So, that's what really explains the upgrade of the guidance. We knew that Goddess will be big, but the jury was debating is it going to be big, very big or extraordinarily big. So, this is what we are seeing is that this is going to be quite big, if I have to say.

So, second element is the question around how Q2 will land. So, you have to know that Q1 is typically a pipe-in quarter, where we pipe the Burberry Goddess, we've been piping also the Gucci Magnolia innovation, and also BOSS Elixir innovation. Q2 is really a quarter of sellout, as you know it.

And the picture that is implied means that we are going to continue to have a very good performance, probably in line with the market or slightly above the market. So, that's more or less what we believe is going to be. Hopefully, we have a good surprise, but so far, it does not mean there is a deceleration. It just means that we are all about sell-out versus sell-in plus sell-out in the first quarter.

Operator
Our next question will come from Korinne Wolfmeyer with Piper Sandler. Please go ahead.

Korinne Wolfmeyer
Hey, good morning and thanks for taking the questions. Congrats on the quarter.

I'd like to piggyback off of the China Hainan question. I'd like to better understand, what are you seeing with sell-in versus sell-out for both China and Asia Travel Retail? And if it's not normalized yet, when do you think that should normalize? Also, any early reads from 11/11 presales? And then lastly, I'd like to see if there's any commentary you can share on any potential pressure with some of the Middle East tensions that we're seeing. Thank you.

Sue Nabi
So, when it comes to Hainan, today our inventory levels are okay. There is not any kind of flag to be done in terms of having inventories going up. Of course, we are in front of an easy comparative, if I may say, but still the growth of the fragrance business we're having there and our skincare also business is very high. It's a triple-digit growth. So that's good.

When it comes to China inventory levels, they are healthy also on the Prestige side. The only part that we flagged, by the way, during the script, even if this is very, very small portion of our business, is around CB. It's not to do with the market or anything like this. This has to do with moving from one line to another line at retailers. We revamped the adidas shower gel lines.

And we changed it from one factory to another. So, we had to build a bit of stock that was pushed to the trade. And then because of the slowdown of the market, this trade went up, and this delayed the arrival of the renovation of the shower gels. So, this is the only thing we've flagged in all the communications we have done regarding an increase of inventory. But again, this is a very, very small part of our business given that Coty China business is, what, 90% Prestige and 10% CB more or less so, this is number one.

What do we see on 11/11? The dynamism of the fragrance category is confirmed, this is really something that is confirming month after month, specifically, as I said it before, on the high-end part. And more than ever, people exploring scents or juices that are unexpected for a market like China, which is a great, great, news, because this means that the ability to create full lines for the Chinese consumers is crystallizing now versus what used to be the case just two or three years ago, which is that you could launch only two or three flower iterations and you were done with the Chinese market. So there, there is the diversity that you see everywhere else around the world in terms of taste, taste that's starting in the country.

And on the last part of your question, regarding what is happening in the Middle East, this business is a mid-single-digit business at Coty. So far, we are not seeing any negative impact on our business. But that's the situation. But honestly, I have to say that on a personal level, I'm very saddened by the violence, and we continue to hope for peace and an end of the suffering. That was an important point to make after your question. Thank you.

Operator
Our next question will come from Anna Lizzul with Bank of America. Please go ahead.

Anna Lizzul
Hi. Good morning and thanks so much for the question. I wanted to ask on the quarter, you had a good deal of operational leverage to help drive the adjusted EBITDA. I was wondering if you could elaborate on the drivers of this and how you see it progressing through the year. Thanks.

Laurent Mercier
Thank you, Anna. So, indeed, we continue our strategy, which is really making sure this flywheel, definitely top line growth, focus on productivity, and then making sure that we are allocating resources to support our strategic initiatives and we keep growing our EBITDA. So, this is definitely what the equation you saw in Q1, and indeed is driving us to deliver an EBITDA, which is higher than expectations.

So now, when looking ahead, what are the components? Number one, of course, we continue this top line agenda. As you saw, we are raising the top line guidance. Number two, on gross margin, we are seeing in Q2 our gross margin should be flattish. And then, gross margin expansion in H2, which will be the combination of the mix management, as I just shared; productivity, that will continue; targeted pricing; and also, we are starting to see some softening on cost of goods inflation and also transportation inflation.

Then we will continue, of course, to inject some of this gross margin expansion into the strategic initiatives, the innovations, investment in the capabilities, as we say about digital also but R&D, and definitely keep improving our EBITDA margin as we confirm our EBITDA margin full year growing from 10 to 30 basis points. The flywheel is fully in motion. And of course, with still high discipline on costs and really making sure that it's fully, fully consistent with the strategic imperatives.

Operator
Our next question will come from Olivia Tong with Raymond James. Please go ahead.

Olivia Tong
Great. Thanks. Good morning, good afternoon. My first question is around your view on margin contribution by segment this year, and whether you think one division is expected to show more extension than the other. Are you expecting both divisions to grow margins in light of Q1 trends. Prestige margin obviously increasing, but Consumer Beauty is still down on a year-over-year basis.

And then, just broadly in terms of your plans to raise price another round in early calendar 2024. If you could just talk about elasticity and your view on the volume trajectory for this year as you implement that next round of pricing. Thanks.

Laurent Mercier
Yeah. Thank you, Olivia. So, just to give you a few elements, as you shared indeed. Prestige is showing strong improvement on profitability and CB starting at a lower pace. What's driving this is that in the 10% top line growth in Consumer Beauty, we have strong performance on body care, which is weighing down the gross margin.

So again, it's very positive in absolute value, but there is some impact on gross margin. At the same time, I can tell you that there is a very strong work and huge work to improve the gross margin in Consumer Beauty and when I was referring to body care is definitely Brazil is driving this growth, and we have significant gross margin expansion in this category and in this market.

So, you will see that gross margin in Consumer Beauty will improve quarter after quarter. And this is, again, combined with strong productivity plan that we are putting in place in Consumer Beauty, big one is platforming. We are really making sure that innovation that we are launching across the different brands, in fact, have the same technology, and it brings a significant savings.

So, it's going to contribute significantly in the coming quarters. We keep working, as I shared before, on the strategic revenue management. So, we have a detailed review on all the value analysis of Consumer Beauty, and we are really identifying significant value. So, definitely strong focus, and there is a clear trajectory to improve our Consumer Beauty profitability in the coming quarters and in the coming years.

So, then your second question was on pricing. As I shared at the beginning, we have strong pricing office working on this stream. They are very precise, very granular, and it went very smoothly over the last quarters. So, now we will do very targeted price increases. So, when I'm saying very targeted price increases, that's exactly the answer to your question, is really then when we have all the elements, all the analyses that we do this, and it has no impact on the volume.

So, the drivers are really when we know that it's about products where there is high demand, very high success or there is a gap between channels or between competition, and, we have room to increase price and, again, without impacting volumes. We made very clear, and I repeat and you saw it in Q1, we are making sure that our growth is well-balanced between volumes, mix, and price.

Operator
Thank you. Our next question will come from Andrea Teixeira with JPMorgan. Please go ahead.

Andrea Teixeira
Thank you for taking my question, and good night there in China. Again, congrats on the top line delivery, but on Consumer Beauty, Laurent, you just mentioned some of the efforts and we saw some improvement in market share. Should we expect some velocity?

Sue, I think you mentioned when we saw each other recently in terms of how you are seeing the shelf space looking ahead and the spring resets in particular in the US and UK. How should we be thinking as we see Consumer Beauty recovering there? And in those key countries, where we see more velocity and then as retailers see that improvement, they will decide on shelf space into probably calendar 2025.

And then on the investment side, if you can help us. Of course, there's so much reinvestment that I think investors appreciate. The overhead in SG&A total dollars has been around $740 million per quarter. And then you obviously ramp up to around $800 million. Is that the way in the level of dollars that we should be working with?

And sorry, lastly on the clarification on deciding to sell or to postpone the Wella sale. It seems that you have not reached an agreement on the pricing, I think, and I understand that. But just to think about how we should be thinking that becomes for KKR in calendar 2025, and how that negotiation is better set valuation that you're looking to do or is that something that should be negotiated by the time we cross that bridge? Thank you.

Sue Nabi
Andrea, I'm going to let Laurent answer on the two last questions, which have short answers, and then I'll take the question on CB, which is a little bit longer in terms of answer.

Laurent Mercier
Hello, Andrea. On Wella, yes, it's important I give you a full picture.

So, what are the elements? Number one is that we are seeing very strong cash flow trajectory in the first half fiscal 2024 and the full fiscal 2024. So this first element is giving us full confidence to reach our leverage ratio.

Number two, as you know, we implemented our dual listing end of September, and we made an offering which was very successful. And again, this is a second element which is accelerating our deleveraging.

And number three, just to be very clear, the point is not about pricing. I can tell you the due diligence which was made on Wella fully confirmed the great value of the company and the pricing. There were just some small misalignments on minority rights, and these things happen. But again, based on the first two elements, we came to the decision that, okay was better to stop the transaction.

To be very clear that it doesn't change our agenda that we are targeting the full divestiture of Wella by end of calendar 2025. The value of Wella is absolutely confirmed and you saw it in our books. And the relationship with KKR is excellent and Wella is a very good business.

So, yeah, there was your question on SG&A. The key element is that we are reinvesting but still growing our SG&A. So, we are growing our SG&A below sales growth, but it's important also that you keep in mind that in SG&A we are making sure that we are investing in our digital capabilities, we are investing in our R&D capabilities. So, we are making sure also that within the SG&A, we have productivity on cost where we don't see value for the business, but we are also investing on SG&A capabilities which are creating value for the business. So, that's the way we are driving our SG&A equation.

Sue Nabi
So, now on the Consumer Beauty question regarding the trajectory of the division in terms of growth, two things. The first one is that we are diversifying our sources of growth in Consumer Beauty. The majority of our sales are coming today from color cosmetics, and I will say a few words about this in a few minutes, but we are also building the machine to make Consumer Beauty a maker of mass fragrances.

Here in China, we just had a meeting, and what we see is that there is potential all around the world. In every country, people are craving fragrances from the lowest price possible to the highest price possible. So, this is an area that is very important for the division, is to diversify the sources of growth and to diversify ideally in categories that are highly relutive and fragrances are highly relutive to the gross margins of the Consumer Beauty division.

Makeup is quite high also in the 60s, if not higher. And this area, what we are doing, as I said it several times, is that we are accelerating the pace of innovation, specifically what I call premiumized innovation. So, you've seen recently some innovation coming under CoverGirl, and now platformed quite instantly I have to say because this is coming six months after, eight months after now under Rimmel we are platforming this premiumized innovation. And this is going to help us a lot to drive, of course, the profitability higher, but also to attract this younger generation.

What we have done so far, if I take the example of CoverGirl, we have solidified the foundations of the brand, sorry, towards, I would say, millennials, Gen X and boomers. This is something that is not seen in other indie brands. They have mainly a Gen Z business. The one we have is big and now we are going to build on top of this a more younger Gen Z, mainly digital influencer and advocacy-driven business behind this innovation.

The thing I can share with you, and which will take me to the shelf space is that CoverGirl is closing the gap versus the market. We are closing the gap while growing quite strongly. It happens that someone is growing much stronger, but the reality is that we are part of those who are still growing but closing the gap versus the market. In brick-and-mortar, the gap was of 8 points in the last nine months, and it's 6 points in the last three months, and now it's less than 3 points.

On Amazon, the brand is driving the growth of the category. The gap was 1.4 for CoverGirl above the category at Amazon in the last nine months. In the last three months, CoverGirl is 20 points above the category at Amazon. And in the last month, it's still 18, 19 points above the category. So, it's clearly there that it's happening. It's really there that the advocacy influencer marketing plan show signs, and we hope to see this translating also on the brick-and-mortar side of the market.

Regarding the shelf space, we believe that the shelf space resets of spring, the shelf space of our brands would be stable. Hopefully, it will grow in 2025, as you are suggesting it, thanks to our very, very strong plan of innovation. More innovation, quicker beats by a strong influencer and advocacy teams around the world, which hopefully will give us the ability to start to increase our shelf space again, but keep in mind that it's expected to be stable.

Operator
Our next question will come from Charles-Louis Scotti with Kepler. Please go ahead.

Charles-Louis Scotti
Hello. Good evening. Thank you for taking my questions. I have three actually. The first one, I was pretty impressed by your performance in Asia Pacific. What was behind the trend of your business there, unlike most of your competitors? And more specifically in the Travel Retail channel, it was apparently very strong everywhere for you. And so, if you could give us an idea of the breakdown of the Travel Retail business by geography.

Second question on inventories. One of your Paris-listed competitors said that retailers have now rebuilt their inventories with supply chain tensions easing. Do you have any view on the level of inventories in the trade in Europe and the US? And is the expected deceleration of the growth in Q2 related to potential destocking impact?

And finally, just a follow-up question. Your H1 guidance suggest 5% to 8% organic growth in Q2. I guess you may have been cautious again, but why will growth decelerate so much going forward? And do you have already some indication on the sellout in October and early November pointing to a deceleration? Thank you very much.

Sue Nabi
Hi, Charles. This is Sue speaking. So, again, regarding the performance that you're referring to in APAC, and indeed, the Travel Retail part has been very, very strong. To answer, specifically in Travel Retail, this company was mainly an entry Prestige fragrance seller two or three years ago, and we've decided that we are going to play on the full scope of what fragrance market is about.

Entry Prestige fragrances, where the company has already been very strong, and this is continuing to grow very, very fast. One of our fastest-growing brand in this channel is Calvin Klein, which is an entry Prestige brand that's doing very, very well. We've added on top of these premium brands, like recently Burberry Goddess, Chloé, et cetera, and we added also niche offerings on top of this.

Next to this, I would say, full lineup of brands occupying all the different price tiers of the fragrance market, we have also three makeup brands. We have Kylie Cosmetics, Gucci makeup, Burberry makeup, and these are doing very, very well. So, this is a second leg of growth engine we have added to this channel.

And number three, last but not least, it's also about skincare. And there, we have Lancaster that is doing very well in this area. I said to you that the brand is having double-digit growth, for example, in Hainan. But we are also starting mainly in domestic markets in the Southeast part of the Asian continent with philosophy skincare. That is a brand that is present in a Sephora environment, which we believe has a role to play in the skincare market.

So, that's more or less what explains this overperformance. We did fiscal 2023 at plus 30% in Travel Retail. We are continuing to grow at plus 20% in this channel. And this, again, despite the fact that we are still far under the level

of travelers in Europe, specifically Chinese travelers. We believe that only 30% of the levels of Chinese traveler pre-pandemic are now back outside of China. So, there is still some room over there if this happens one day.

Now, when it comes to the questions around Q2, but also inventories…

Laurent Mercier
Yes, yes, in Q2. So, maybe to start on your second part is on data, so we are not seeing any slowdown in categories or sellout in October, so these are definitely a strong element, and this is what we are focusing on.

Then number two, on trade inventories. The inventory is very healthy. This is what I can tell you. The only element I will add and which will answer this phase in Q1, Q2 is that, of course, as Sue mentioned at the beginning, our Q1 was very strong on innovation, and there is a natural pipe fill from our retailers on the great innovation that we are launching and with very, very strong results, which is Burberry Goddess, Hugo Boss Elixir, and Gucci Magnolia.

So, there is really a mechanical effect of pipe fill for retailers, but which will translate in very strong sellout in Q2. So, this is really the way you need to model the equation. It's between sell-in, pipe fill, and Q2 is always a quarter of strong sellout especially for Prestige.

Operator
Our next question will come from Chris Carey with Wells Fargo. Please go ahead.

Chris Carey
Hi, everyone. Just a few quick follow-ups, hopefully. On the mix line relative to pricing, Laurent, I was under the impression pricing would be something like mid-single-digit incremental in February, March. I think you said low-single-digit earlier in the call. I may have misheard you, but is there an expectation for less pricing because you're getting such strong performance on mix and also that inflation is decelerating? Maybe you're seeing less need to? Or it's possible, I may have just misheard you.

And then, on the obsolescence, was that just you had built up so much inventory because you wanted to be ready for the sell-in, and it was just a little bit less than you were expecting and you had to take that on the gross margin in the quarter? So maybe just any perspective on that, of course, in the context of strong delivery in Q1. Thanks.

Laurent Mercier
So, let me clarify the first point. We never said that we will do mid-single-digits in February, so I want to make it very clear. Now, indeed, we are saying low-single-digit, but then you made the point is that we are really monitoring in a very targeted manner and granular manner because we have favorable effect from the mix. And the favorable positive effect from the mix is also driven by the accretive innovations we are putting in place.

So, in a way, it's really where you put the frontier between pricing or mix. And of course, we are putting the accretion from the innovation in the mix part. But of course, at the end of the day, the objective is that all these initiatives, mix, targeted pricing, and also strategic revenue management, are here really to increase the average unit price, okay? And this is really what we put under this umbrella of strategic revenue management.

And second element, yes, we are seeing inflation starting to ease, especially in COGS and transportation. So, we are making sure also that we are adapting our growth equation in a smart manner. But I want to be very clear that we keep focusing on value creation and really implementing all the levers that we have in our hands.

So, yeah, your second question was on the E&O. No, just to be very clear, the demand this year, there is just some pure mechanical and, I will say, accounting effect that last year due to service level issues indeed inventory was pretty low. We rebuilt inventories. This is a strategic decision we are making really to have a service level which is

a good service level. Now we are 96% service level, which is a great achievement. And, also to make sure that the sellout, which is strong, is really successful, and we have the other product.

So, it's again mechanical accounting treatment, but no concern at all in terms of inventory. And that's why now I'm telling you that we are seeing a flattish gross margin in Q2, and there will be some acceleration of gross margin in H2 fiscal 2024.

Operator
Our next question will come from Ashley Helgans with Jefferies. Please go ahead.

Ashley Helgans
Hi, this is Sydney on for Ashley. I was just wondering if you could give any color into what you're seeing or expecting for the promotional environment heading into holiday. Thank you.

Laurent Mercier
Yes – but overall – and I can confirm to you and what you see that the sellout is very strong, and the sellout is very strong with premiumization. This is what we are seeing both in Prestige and Consumer Beauty. And again, the clear demonstration is that the innovation that we are launching, which are with higher value, higher price, we are seeing very high demand. So no, we are not seeing any increase in promotional.

Maybe to be more specific, last year due to the service level issues, shortage of components, we reduced drastically our gift sets. Gift sets are usually in the mid-teens ratio, last year was much lower. So, this year we are bringing back to a normal level of gift sets, but this is a normal way of animating the category is very healthy. But okay, keep this question that we are not seeing indeed overall increase of promotional activity in our categories and in our activities.

Sue Nabi
So, as this was the last question, please allow me for some closing remarks. First of all, thank you, everyone, for joining us. To sum up, I would say a few things, few important things. Number one, we are very pleased with the strong Q1 results, which really sets a great trajectory for the fiscal 2024. And we are very excited by the many opportunities that are still held for the company.

We are also, extremely grateful for the continued confidence and support from all our analysts and investors as the recently established institutional investor results, again, position Coty as number one amongst mid-cap companies in our sector. So, thank you very much. Thank you again for your trust, and we look forward to speaking with you all very soon.

Operator
Thank you. This does conclude today's call. We appreciate your participation. You may disconnect at any time.