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CORPORATE PARTICIPANTS

Sue 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 Second Quarter Fiscal 2024 Question-and-Answers conference call. As a reminder, this conference call is being recorded today, February 8, 2023, at 8:15 am Eastern Time or 2:15 pm Central European Time.

Please note that on February 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 press release.

With that, we will now open the line for questions. Our first question will come from Robert Ottenstein with Evercore. Please go ahead. Your line is open.

Robert Ottenstein
Thank you very much and congratulations on another terrific quarter.

Sue, your outperformance in Prestige Fragrances was really impressive. Two questions on that: how much of that outperformance is attributable to new brand launches? And then second, as the prestige fragrance market normalizes, can you continue your outperformance and if so, what gives you the confidence to be able to do that?

Sue Nabi
Good morning, Rob. Thank you very much for your kind words. Indeed, it's a very good quarter specifically driven by the Prestige performance. The outperformance in this division has been achieved thanks to a very good balance of new launches and the strong performance of the base business, which is supported by the halo of the launches.

If I take the example of Burberry as a brand, all three lines are growing. The line that is by definition new, Burberry Goddess, is the biggest launch ever at Coty and a top one fragrance innovation around the world. At the same time, Burberry Her which is a few years old, and Burberry Hero, which is two and a half years old, are also growing. So in fact this outstanding performance we're having behind our innovation is also benefiting other brands.

Some other brands in the portfolio, I'm thinking about Calvin Klein or Davidoff, are also growing double digits without new innovation. So it's really a good balance between innovation and base business.

What gives us confidence in this outperformance, in this market that's going to normalize, but still is going to be a mid-to-high single digit growth, which is far above what was the case just a few years ago. But the confidence we're having is from a lot of capabilities that we have been able to build over the last three years — capabilities to be the blockbusters, be it in terms of creating winning juices, creating winning mixes, finding the right balance between influencer marketing, classic media, sampling, etc. All this is a know-how that's here to stay and here to develop. It's also a confidence that we are taking from our still white space opportunities, geographically speaking, but also white space opportunities in terms of categories. All of this gives us the confidence that we will hopefully continue to outperform this very dynamic market.

Operator
Thank you. Our next question. It comes from Oliver Chen with TD Cowen. Please go ahead.

Oliver Chen
Hi, Sue and Laurent. You've made so much nice progress regarding prices, and you mentioned targeted pricing going forward. Could you speak to what you mean there in terms of the opportunities as you surgically analyze that? Also, e-commerce impressively drove 40% of your like-for-like sales growth. What do you see ahead in terms of embracing that channel and the centers of excellence and community, and TikTok innovation as well?

Laurent Mercier
Thank you, Oliver, for your question. On pricing as you know, we explained several times over the last quarter that we implemented mid-single digit price increases, and this is also what we did in beginning of fiscal 2024. This price increase was very successful. It went very smoothly, and you see that it translates that we still are growing volumes. So this was really very good execution, very precise, very granular, and you need it to work very well. So now looking ahead, I indicated that we will continue a very targeted price increase.

So definitely because all the work that we are doing – value creation – it allows on specific products, specific markets, specific channels still to pass some price increase. So this we will continue but of course it will be more moderate, and very, very targeted. But where we are going to focus even more now is more on the mix and what we are calling really a stream that we are pushing, and we explained last time is a strategic revenue management which is really to review the full values that we are creating for retailers, and for consumers, and definitely focusing on increasing the price per unit.

I will give you some examples. The innovation that Sue was referring to, Burberry Goddess. Burberry Goddess is the number one innovation on the market. It is Eau De Parfum and Eau De Parfum is on average 30% higher price versus Eau De Toilette. So you see this is a concrete example that now when we are launching new initiatives we are working really in-depth to make sure that this is at higher value versus the base business. It is also the case in Consumer Beauty, great innovation that we just launched Simply Ageless Essence. This is a high quality very premium product with a price which is 30% higher versus the base business, and it is a number one on Amazon. So this is really the work on improving the price per unit, because there is value, quality in the product, optimizing also the trade terms, reducing promotions.

So it's really this way that now we are really moving towards the strategic revenue management approach, mixed improvement. And we have already strong examples, and I can tell you the work, and all the initiatives that are in place. We really continue to this journey. So that's why also it's one of the big drivers of our gross margin expansion in H2 combined with inflation softening, and in addition to carryover pricing from last year, and also all these strategic revenue management elements, so that's a very clear path that we have ahead of us.

Sue Nabi
On the second part of your question, this is Sue speaking. The performance of e-comm during the quarter has been outstanding as you said before. 40% of the growth in both divisions comes from e-com. This is really an unprecedented level of performance. It's 180 basis points extra penetration in this channel, 20% of growth. And it's quite I would say obvious to explain this thanks to the strategy that we have put in place. I explained this several times now over the last year and a half, we are putting advocacy at the center of our social media strategy.

I can give you the example that Laurent was mentioning which is the Simply Ageless Essence Foundation which is a very innovative product. It's a transparent serum, and you can see capsules of pigment in this serum, and they burst on the skin when you apply them. So this is typically the very kind of product that TikTok, and any social media is crazy about, because it's very visual in the packaging. There is a transformation on to your skin something happens, and the result is that it's number one on Amazon already just after a few weeks. And it has been given to the hands of a mega influencer that we were referring to during the presentation. We had 95 million views. Can you imagine? One post, 95 million views, $10 million of EMV, which is the total EMV of CoverGirl in the US a year ago for 12 months. So you can see that this transformation of our Consumer Beauty business from a business that was relying on I would say a low level of innovation in terms of percentages maybe not enough disruptive innovation, but with the right band equities, into a business where we are going to double down the level of innovation, disruptive visual innovation, together hand-in-hand with strong advocacy marketing.

This translates into this performance that you are seeing which is obviously driven by Amazon. And to finish on this point, because the question will come at the moment or another, our advocacy plan is really evolving very fast. You've seen the two studios we have open in the US. You've seen how much we moved from a few hundred influencers with whom we were working just a year ago to 5,000 today, and the intention is to go double this, triple this who knows. So at the end of the day this is just a starting point. And for me this is next to fragrances, this is the biggest white space opportunity for our color cosmetics brands in the US, but also around the world.

Oliver Chen
This is very exciting. Thank you. Best regards. I've got to get some of that Essence, it looks awesome!

Operator
Our next question comes from Filippo Falorni with Citi. Please go ahead.

Filippo Falorni
Good morning. I want to ask on the margins for the second half. You're expecting stronger gross margin expansion, the cost inflation moderate. Maybe Laurent you can give us some help below the gross margin line, what reinvestment are you assuming in the second half and whether you still expect 10 to 30 basis point of EBITDA margin expansion in the second half? Thank you.

Laurent Mercier
Thank you, Filippo. So first of all, I am really reaffirming our guidance to grow EBITDA margin 10 to 30 basis points. So this is really confirming that the right dynamic, after growing 40 basis point that we did in Q2. So on H2 the model is that we are going to benefit from significant gross margin expansion, which is really a combination of COGS inflation softening. This is a big element, but it's also helped by the carryover of price increases that we did last year, and we did at the beginning of this fiscal year. So it's also all the work we are doing on mix.

And that of course is all the work we are doing on productivity as part of our all-in-to-win. So all these drivers are in motion. We keep investing in all the strategic initiatives and all the drivers in Consumer Beauty and Prestige. And, I confirmed again that we will land our A&CP level in the high 20s, so the model is fully on track.

Now to be more specific on H2. What we are also including in our model is that we are factoring that now we see FX turning slightly negative in H2 versus positive in H1, but on a full year it should be pretty neutral, but there is a phasing effect due to FX. And another element that you need to take into account is that we have a headwind effect from Lacoste exit which is impacting mostly H2. If you take all these elements into consideration, you see that we continue to have a very nice EBITDA margin improvement on both semester, and definitely on the full confirming this 10 to 30 basis points.

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

Oliva Tong
Great. Thanks. Good morning. I want to ask you about the innovation pipeline in Prestige Fragrances. This maybe you can give us an early unveiling of some of the plans for the next 12 months. Obviously, fantastic performance

as of late, but that clearly means more difficult comps are coming. So just thinking through the number of blockbuster launches. How should we think about the focus areas over the next 12 months versus the last 12?

Sue Nabi
Yes, good morning Olivia. Thank you for your question. So, in fact, the reality is that if you look back at what we did in 2022, which was a year with a big pipeline of innovations, you've seen the results we got in 2023, and this was with constraints on supply, and they were very, very good. So, in fact, the big difference between the Coty of years ago and the Coty of today is that we are able to grow innovations across several years instead of launching and looking for something new and then adding this new thing to the portfolio and having a plus and a minus story. We are growing all innovations at the same time where we are bringing innovations from the past, I mean, at the same time where we are bringing new innovations.

So, when it comes to upcoming innovations, we will continue, of course, to put on the market when we are ready and what we believe is going to be successful on the market. This is also a discipline we have put in place in the company over the last three and a half years, which is to launch if and only if we are ready, we have the right mix, we are 100% sure about the success we're going to put on the market. Remember, Goddess, I started to talk about Goddess before we launched it. We started to say, everyone this is going to be big, and it's confirmed. And this is because we have now all the expertise and capabilities and understanding that allow us to say this is ready to become a big innovation, or it's not ready, we should take a bit more time. So, of course, I'm not going to reveal what's going to arrive. Our competitors are going to read the transcripts, so it's not a good idea.

Oliva Tong
Fair enough and then my next question is around China and Travel Retail. Obviously, your results have been very strong as you continue building out your businesses there. Can you just talk through some incrementality and the plans there, how much of your product lineup that you intend to introduce to there is already deployed, and whether any of the recent macro challenges have impacted your ability to sort of reach the longer-term goals you have for the market, both in China and Travel Retail? And then lastly, you've started the skincare expansion in China, Lancaster, Orveda, fantastic brands, obviously, the launch in Shanghai with Orveda. If you could just talk through your plans there a little bit more, that would be fantastic. Thanks so much.

Sue Nabi
Yes, yes, Olivia. Thank you for the question. Let me start with Travel Retail. We finished fiscal 2023 with 30% of growth in Travel Retail, and the first half of fiscal 2024 is adding an extra 20% growth in this channel. This is really a channel where we are consistently gaining market share a few years in a row. And this is thanks, of course, to the power of our innovations. Remember Burberry Goddess started first as an exclusive in Travel Retail last summer, which really is helping us to put on the market innovations that are tested in a way among the consumers in this channel that we believe are amongst the most expert.

Second thing is that we are moving from a business that used to be just three years ago an entry Prestige solely fragrance-focused business into a triple-axis business today with fragrances, makeup, skincare. And inside fragrances, we are now playing in the three tiers of the market – entry Prestige, premium brands, but also niche and high-end fragrances with our outstanding performance behind a brand like Chloé Atelier des Fleurs. So this channel is clearly a channel where we intend to continue because it's very relutive in our equation. And we don't see in our figures any kind of slowdown in the pace of travel of consumers around the world.

In China, we had also a very good performance specifically driven by Prestige, which is the majority of our net revenue. We just got the Beauty Research figures about the sellouts during the quarter ending in December. And Coty is 30 points above the market, so we are doing very well. This is driven mainly by our fragrances – the other collections that we have in the lines, the Atelier des Fleurs, et cetera. Clearly an area where we have the first white space is fragrances given the small size of the company in that country, which gives me a segue to skincare.

You rightly said that we opened the first Maison Orveda in Shanghai. It's really a very different strategy we are doing behind these brands. We don't want to get in the game of over-promotionality, becoming the favorite brand of daigous. This is not where we want to take our highest-end brands, and you can understand why.

So that's the reason why we are experimenting with new ways of doing things, mastering 100% of the brand image and equity, mastering how to sell directly to consumers in the environment of a Maison. That's everything but just a point of sale. The Maison is really a place where you will be able, if you visit Shanghai, of course, to experiment the products, to have facials, but also to discover how to eat, discover how to take care of your skin, but also to maybe discover pieces of art. So we are really learning this part of the market that we believe is the next frontier for the beauty industry in general.

There was a study done by McKinsey recently, which said that the luxury market is $360 billion. The beauty is just a small fraction of this. What we call a real luxury and ultra-luxury is clearly the next frontier for a company like ours, on top of everything we are doing very well today. So this is for Orveda. The start of the brand over there is very, very good. We have the right consumers reaching out, the high net worth and ultra-high net worth individuals. And in a way, this gives me the occasion to say that this brand got what we consider as the Oscar of the beauty industry, which is the Prix d'Excellence Marie Claire Internationale. It was awarded last week. And this is really a fantastic achievement for the brand. That's allowing the brand everywhere else in the US at Saks, but also in the niche boutiques where it's present in Europe, to multiply its productivity by two, by three, by four, by five, sometimes above this, and become sometimes a bigger seller than famous brands with double access. So it's really something that's happening there that we want to master the time of the expansion of the brand.

Now turning to the second brand that we launched in April in China, it's Lancaster. And this one is doing also very well. And we are now adding a second leg to the brand. We did skincare, and now we are adding the sun care part to the skincare. Not that it was not there, but we were focusing our investments behind the skincare. And we are realizing that by supporting both, we are increasing the productivity in a tremendous way. Everything is on track. But, and this but is very important, we are really taking advantage of the momentum we are seeing behind our fragrance business to take the right amount of time, not to do any kind of mistake and transform our brands into very good favorites.

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

Charles-Louis Scotti
Good afternoon, I have two questions. The first one on the ultra-premium fragrance market that is outgrowing the Prestige segment. It seems that luxury brands are doubling down on this category. Could you share with us all the initiatives you have in place now to tackle this, in my view, huge growth opportunity ahead? I'm aware of Chloé Atelier des Fleurs and Infiniment Coty, but are there any other initiatives in place to tackle this segment?

And second question, on the e-commerce, it seems that you are enjoying a very strong growth in the online channel. What is the growth broad based between your DTC platform and specialty retailers' online business? Could you remind us how e-commerce growth is impacting your growth and EBIT margin? Thank you.

Sue Nabi
Okay, so let me start with the first question, which is around the ultra-premium fragrance market, which is outgrowing indeed the Prestige fragrance underlying market. So, there you're right to mention Chloé Atelier des Fleurs, which we've been mentioning for several quarters as a best-selling line specifically in Asia and Travel Retail. I can mention the collections behind each of our brands. The Boss Collection is doing fantastically well in the Middle East, in Asia, in many Travel Retail locations. Burberry Signatures is doing very, very well in the different areas around the world. And you're right to mention, you know, the Infiniment Coty Paris line that's about to open

its first store in the coming weeks. This is something that's really, I would say, the pride of the company.

Once you will have a product in your hands, I'm sure you'll be totally surprised by everything you will experiment from the packaging, from the box, the longevity of the scent, the – at the same time – originality of the scent, but also easy-to-wear scent. Everything we are doing behind this brand is the best of the know-how of the company. Sustainability is at the maximum. We can do with refillable bottles, recyclable bottles, whatever is the right name. So, this area is going to become the new playground of the company, if I may call it like this.

And you were right to mention, are there any things upcoming? What I can reveal is what is public today is the Marni new license that we announced yesterday. This is a very premium fashion brand. It's very young. It's colorful. It's avant-garde. It's one of the coolest brands today in Asia and in Europe. As you can imagine, this is going to be part of our agenda to really bring on the market very, very creative juices, very high positioning, while at the same time being part of this fragrance market. So that's what I can say about what I can reveal. Stay tuned. Hopefully you'll see things coming soon in this area too.

When it comes to e-comm, you're right to mention the very strong growth that I've been commenting earlier. This is broad based across retail.com and pureplayer.com in a way. DTC part, which is the DTC behind our brands, we have DTC behind our skincare brands. You think about philosophy, it's one of the biggest DTC platforms we have at Coty and is doing very well. The same way the brand has been growing for three quarters is driven by DTC.

Same thing behind Orveda where DTC is growing here. Again, triple digit growth, if I'm not wrong. So you can clearly see that this part is also growing, but indeed the big part of this in terms of net revenue is coming from e-retailers. When it comes to the profitability, maybe Laurent, you can say a few words about this.

Laurent Mercier
Absolutely. On the numbers, your question was so contribution to growth. So this high 20% growth in e-commerce in fact contributes to 40% of the Q2 growth. It means that our e-comm penetration in our numbers is growing by 130 basis points. It's very healthy from a profitability standpoint because e-comm on all players, all channels is strongly margin accretive. So that's part of our gross margin model and very positive for the equation.

Operator
Thank you. Our next question comes from Anna Lizzul with Bank of America. Please go ahead.

Jonathan Keypour
Hi, thanks for the question. This is Jonathan Keypour on for Anna. Two questions. First, you mentioned in your prepared remarks a more tempered consumer environment in China and that you're tweaking to accommodate these changes. Just wondering if you could give us any details about the tweaks given the economic change in China? And then second, if you could go into any detail about the digital marketing and social media activation, what kind of ROI you're seeing for this marketing spend so far, and how the engagement differs by demographic.

Sue Nabi
Good morning, Jonathan. Thank you for your question. When it comes to China, the reality is that we are – this is my intuition – and, again, no studies around this, but everything we see, we hear, we read, says that we are in the middle of two eras. There was the era where promotionality, daigous, all this kind of way of buying really created big bias in this market. And people were waiting for these occasions, for all these sales, where people could buy anything that's very desirable at prices that do not work usually with desirability. So, this is something that lasted what it lasted. And now we are in a kind of era where it's, I would say, normalizing, where we are seeing the brands respecting more and more their own brand equity, protecting their brand equity, sometimes growing less fast than what they want to do.

But that's healthy, I would say. And that's also a way to really make sure that the bad habits of the past are behind us. Coty never went into this game, thank God, but this is something that we are really seeing is that there is a shift and consumers are waiting to see how brands are going to behave. So, for us, the 30 points above market performance we had in the quarter was really because we had the right brands, because we had the right desirability behind these brands, mainly fragrance brands that are really giving consumers value for money, but not discounted value for money and that's a very important element. For me, that's the key element that changes between the story of the last 20 years and the upcoming story in the future. Now when it comes to digital marketing and social media activation, maybe Laurent, you can say a few words about the ROI.

Laurent Mercier
Absolutely, what I can tell you is that the ROI is much, much stronger compared to traditional media. Of course, there is no magic number. It depends on the activation and the launch. But this is a strong asset. And now really, the work we have done over the few last years was also to get the capability and to get also the tools.

Now we have a very strong digital team, well equipped and able to measure and focus our investments. This is a strong improvement and that's why we shared that now a majority of our A&CP investments are in digital and social media. This is very powerful. We can really target. And by demographic, I would highlight that as you can easily understand that it's really very strong on Gen Z and that's very powerful because this is also a way to increase penetration from Gen Z, but not only Gen Z. It also has a halo effect on millennials. So it's really a very positive cycle and for us in terms of resource allocation, a great move.

Sue Nabi
And to compliment what Laurent said, Jonathan, on ROI, the best ROI we have is on the most disruptive products. So it's good news because it's in our hands. It's our job to create exciting, desirable, innovative, new, different, better products. And once you have these products in the hands of consumers, you really start from a very high level of ROI and the rest is all around expertise.

Operator
Thank you. Our next question comes from Ashley Helgans with Jefferies. Please go ahead.

Ashley Helgans
Hey, good morning. Congrats on a nice quarter. I wanted to follow up on the prior question about the dynamic skincare market that you mentioned. In China, are you seeing any trade down or shift in preference to more domestic brands? Thanks.

Sue Nabi
So, again, the shift towards domestic brands is something that has been happening mainly on the mass market for several years. We've seen some very famous mass market brands closing over there. This part of the business is very small at Coty. It's mainly adidas, which is not considered as a mass market brand. adidas is a kind of cool brand, a fashion brand phenomenon, and we have Max Factor present in this market. But the reality is that the competition between international mass brands and local brands is fiercer than ever, and this is really a question mark for those who have big brands over there.

Regarding the Prestige and skincare market, we don't see this yet. There is a cohabitation between local new players, specifically in the niche part of the market. You've seen some brands becoming more and more visible, created by Chinese founders, together at the same time as a desirable, I would say, consumption of international brands. A lot of them are with Coty. So I wouldn't say that I see this phenomenon happening in this part.

Regarding the trading down, the trading down has been in China the case for many, many, quarters because of the promotionality of the market. It's not people moving from an expensive brand to a less expensive brand. It's people looking for the promotion to buy at cheaper costs. So the only thing I can tell you is that the part that's still very resilient, be it in skincare or in fragrances in China, is the high end and the higher end of the market. And this is the one that's protected. So I wouldn't talk about trading down. I would talk about people chasing promotions. Let's see how long this will last.

Operator
Thank you. Our next question will come from Shovana Chowdhury with JPMorgan. Please go ahead.

Shovana Chowdhury
Thank you for taking our question. Congrats on the impressive delivery in the first half, but it seems that you are assuming a steep deceleration. Can you please break down between volume and pricing? Is there any additional door or shelf space? And more specifically, do you see a pause to the Fragrance Index, especially in the prestige fragrances? And too early to speak about fiscal 2025, but do you see any stimulus triggering outsized growth for Coty again? Thank you.

Laurent Mercier
I can take it and I want to be very clear. There is no deceleration. We are talking about normalization, and again, to remind the numbers that Sue shared, what we are seeing is a Prestige fragrance market being in the mid-to-high single-digit, and Coty will continue to overperform this market. And then on Consumer Beauty, the assumptions we are making is low-single-digit to mid-single-digit. And here, also considering that Coty has the same dynamics. So there is no pause in the Fragrance Index. The Fragrance Index is fully at play. And you see all the elements that Sue shared is that there is really an appetite for premiumization. You see there is a premium and it's really booming. Penetration keeps growing in the US and in China. So this is still a huge white space. So there is still a lot to expect on the Fragrance Index, so it will continue. And that's why we remain fully confident on our algorithm for H2 fiscal 2024 and beyond for fiscal 2025 and beyond.

Operator
Thank you. Our next question will come from Lauren Lieberman with Barclays. Please go ahead.

Lauren Lieberman
Good morning. I was hoping we could go back to your original sales growth algorithm build to get to the 6% to 8% over time. Just curious if the drivers are still the same as the Prestige Fragrance Category normalizes as you've described. Historically you've talked about 25% to 30% CAGR on skincare and Prestige Cosmetics and then mid-singles on Consumer Beauty. And given the flattish volume in Consumer Beauty, the more tempered language on skincare, and I would be curious to hear what tweaking to accommodate changes means. I was just curious how you're thinking about the building blocks for that 6% to 8%.

Laurent Mercier
Hi Lauren. So, first of all, we confirm these midterm algorithms of 6% to 8%. What we are really controlling tightly is to make sure that it's a balanced growth between volumes, mix, and pricing. So, as I've just explained, you understand that now we are shifting more from pricing to mix. So, this is what we are balancing, but on volumes, our algorithm is we continue to have volume growth, and, again, all the innovation that we have just shared and that we will continue are volume drivers. So, indeed, volume drivers, volume growth on Prestige.

On Consumer Beauty, we focus a lot on the mix management, and, again, same example, the innovation that we have just announced, as you understand, they are improving the mix. And on volumes, I would say we are more assuming flat volumes on Consumer Beauty. So, the model is more or less the same as we have always shared. And again, we are still seeing a lot of white space in fragrance, as I explained thanks to penetration, premiumization. I mean, ultra-premium is a huge opportunity. And on Consumer Beauty, so in our algorithm, and we explained, we have a lot of white space in Consumer Beauty. We highlighted all the great work that we are doing in Brazil. But also, we have plans on emerging markets where our brands are at the right equity and the right positioning to catch some market share. So, our model is perfectly on track. And with this balance, we keep repeating this balanced portfolio and balanced geographical growth.

Lauren Lieberman
Great. And then just to follow up on the skincare commentary in the release, I think it was very pointed, the sort of, I think the quote was tweaking to accommodate changes in the dynamic skincare market. So, just curious what that means. And are things still on track to double the business? I think it was by fiscal 2026 as the target, but please correct me if that's the wrong date.

Sue Nabi
Lauren, this is Sue speaking. Skincare is still our biggest opportunity ever, both in terms of growth, in terms of white space, in terms of profitability, et cetera, et cetera. We have three fantastic brands operating exactly where the skincare market is growing today and will grow tomorrow, is ultra-premium brands that are really rooted into premium markets, and brands that are more towards Gen Z, millennial. So, with these three brands, we really map the market in a very nice way.

The other element that's very important is that when I saw how much we are overperforming in fragrances, how much we are doing the right things in this area, which is growing the business of the company, I decided intentionally to slow down our skincare openings. I want to do it perfectly, and this is the best news, as I say, of the year. It's not to go fast, it's to do the right thing. And as I love to say, what takes time is expected by time. It's not going to take an endless time, it's going to take the right time. So don't expect us to change our strategy in skincare. It’s still the number one obsession of the company for the next years.

It's a very important part of the growth algorithm of the company, but the good news is that today we can do without this growth that we have been mapping two years ago. And it's very good news specifically when we see how some players in this area have been hit by over-promotionality, becoming daigou favorites, etcetera. We don't want to go there, you see what I mean. So when you don't use these levers, it takes a bit more time. But it's healthier and better in terms of brand equity protection.

Operator
Thank you. Our next question will come from Mark Astrachan with Stifel. Please go ahead.

Mark Astrachan
Two questions related to expectations for some slowing in the category growth, particularly on the Prestige side. One, why increase inventory for the working capital commentary if you think category growth is going to slow, especially heading into a period of traditionally smaller sales in the back half of your fiscal year? And related, what gives confidence that retailer inventories on that Prestige side are balanced or in the right spot today, given that your sales have exceeded consumer takeaway in the Prestige business in recent quarters? Thanks.

Laurent Mercier
I want to repeat again, it's not a slowing in Prestige fragrance category, it's really normalization. And just to reiterate that, need to high single-digit fragrance of this category is a very robust growth and confirms that this category is very dynamic, especially when you compare versus the trends that were existing before COVID. So, on inventory, we are absolutely in control on our inventory with our supply chain, with very strong forecast accuracy.

We are running our business in a very intelligent manner. We made a decision at the moment to increase inventory. The clear example is Burberry Goddess. I can tell you, Burberry Goddess, number one innovation on the market, the biggest ever launch at Coty. So, we made sure, especially because we started this project more than a year ago, in a context where supply chain was still challenged. We made sure that we had sufficient component, sufficient products. Of course, we have a very good service level, and you see now the service level is 96% and even with these very big launches, which is the case in fragrance in Prestige but also in Consumer Beauty, so we have very, very tight control on the inventory.

Then on the retailer side, I can tell you that the level of inventories that we have across our markets, across our retailers is very healthy. We are really tracking sell-out and sell-in and as you can see in our numbers, our sell-out is ahead of the market. We are really making sure with each market all the teams that the inventory on the retailer side is very, very healthy. And again, the discipline that Sue is referring to, is definitely a big, big part of the discipline we have put in place, and we continue to manage it within Coty.

Sue Nabi
Thank you everyone. So again, as you can imagine, we are really very proud of this 14th quarter of results that are in line to ahead of both guidance and expectations. It's three and a half years already, that's an achievement. And of course, we are here to continue this trajectory. Looking forward to seeing all of you in CAGNY in two weeks. Thank you very much.

Operator
This does conclude today's Coty second quarter fiscal 2024 question-and-answer conference call. You may disconnect your line at this time and have a wonderful day.