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Coty, Inc. (COTY)

Q4 2024 Earnings Call - Q&A

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MANAGEMENT DISCUSSION SECTION

Operator: My name is Ashley, and I'll be your conference operator today. At this time, I would like to welcome everyone to Coty's Fourth Quarter Fiscal 2024 Question-and-Answer Conference Call. As a reminder, this conference call is being recorded today, August 21, 2024 at 8:15 AM Eastern Time or 2:15 PM Central European Time. Please note that on August 20, 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 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 facts that could cause actual results to differ materially from the forward-looking statements.

In addition, except where noted, the discussion of Coty's financial results and Coty's expectations reflected certain adjustments as specified in the non-GAAP financial measures section of the company's release.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll take our first question from Oliver Chen with TD Cowen. Please go ahead. Oliver, your line is open. Please check your mute function. Okay. We will take our next question from Susan Anderson with Canaccord Genuity. Please go ahead.

Susan Anderson

Analyst, Canaccord Genuity LLC

Q

Hi. Good morning. Thanks for taking my question. Nice job on the quarter and the year. I guess maybe just to start out, I'm curious about the global distribution expansion for Orveda, I guess, in this year. I'm curious just the timeline, what countries you expect to expand into first and is this going to roll out pretty quickly or should we kind of expect a slow rollout throughout the year and into next? And then also, I'm curious if you already have retail distribution in place. Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Good morning, Susan. Thank you for your question. This is Sue speaking. So, regarding our skincare ambition and, indeed, the ultra-premium brand, Orveda, the idea is that we've been readying the brand with a year-and-a-half [indiscernible] (00:02:47) strategy. This brand got, I think, the highest – probably one of the highest number of awards, specifically behind its Omnipotent Serum, which is the first of this kind of serums using senolytic technologies inspired by, I would say, pharmaceutical technologies.

And this allowed the brand to have the highest number of awards. We've also been having brand presence in some department stores, such as Harrods in London, such as Saks Fifth Avenue in New York, several Saks locations in the US and an own store in China, which is La Maison Orveda in Shanghai. Now is the right moment

to accelerate the expansion of the brand. The brand is going to open a lot of doors in the coming fiscal, starting in the first half.

This is, of course, high-end doors, niche doors. We are not talking about specialty stores. We are not even talking about classical department stores. We are talking about high-end doors where we believe the consumers who are able and ready and willing to shop a \$400 serum and a \$300 moisturizer are shopping more and more and this is really what is going to happen behind the brand. So, we are talking about an acceleration of the expansion of the brand in this fiscal 2025, which was really something that was long-awaited.

Susan Anderson

Analyst, Canaccord Genuity LLC

Q

Okay. Great. That sounds exciting. If I can maybe just add one more on the innovation pipeline. You mentioned a number of launches for fiscal 2025 in the presentation. I'm curious, are there any that haven't been announced yet that we should expect as we go throughout the year, either in fragrance or in prestige cosmetics and then also maybe if you could touch on pricing versus volume mix for fiscal 2025?

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. Let me start with the first part and then maybe Laurent can take the pricing versus volume mix part. So, in terms of innovation pipeline, as a reminder, we have been very active since Q1 of last fiscal. Fiscal 2024 indeed started very, very big. Remember, the company did a growth of 18% in the Q1 of fiscal 2024 and Prestige was even bigger. It was above 20% of growth, and this was chapter one of Burberry Goddess. So, we are adding Burberry Goddess Intense that's arriving now, which is clearly something on the huge success of the Goddess launch that, by the way, allowed us to almost double the size of the brand, which is number one.

Number two, we are also having the carryover of the launches that happened in the second half of fiscal 2024. So, Marc Jacobs Daisy Wild, the number one innovation in spring in the US will continue its carryover during H1. Kylie Cosmetics is also going to continue its carryover during this H1 moment, number one volume in the US for this one. And we are also – you may have read it in WWD, I think, a few days ago, Chloé is doing its biggest launch ever, Chloé Intense, which is also arriving in fall. So, the pipeline of fragrances, be it chapter two of previous successes, adding on top of these innovations or the carryover from H2 of fiscal 2024, plus new launches such as Chloé Intense are really giving us this confidence that we are going to continue the momentum behind our track record of blockbusters in prestige fragrances.

Now, we are also active on other categories. We are active, of course, on color cosmetics. We have a few launches, arriving without revealing these. We have a few launches arriving specifically behind our, I would say, most successful color cosmetics brand. I'm thinking about Burberry, I'm thinking about Kylie Cosmetics. We have also skincare. There is a big thing arising behind Lancaster in Europe. So, Lancaster has been doing fantastically well in China, almost doubling year-on-year in terms of size. Now, it's the turn of Europe for this brand, so that we have really both sides of the picture activated behind this brand.

And last but not least, we have also Consumer Beauty. We've announced the launch of a 3D Mascara from CoverGirl, which we believe is going to be a big innovation. There is Thrill Seeker Extreme from Rimmel and many, many other launches. Last but not least, Consumer Beauty is also going into fragrances in big, with the first global launch of a fragrance line called adidas Vibes, which we believe is clearly going to ignite the second leg of categories inside this division, next to color cosmetics. We now have big fragrance launches happening in this division too.

Laurent, pricing and volume?

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah. Absolutely. So, I mean, Susan, just to step back a little and really remind that from – I mean, fiscal 2024, definitely, I mean, price was a big component of the growth, with high-single digit because it was definitely the year where we had carryover from fiscal 2023 pricing and was the peak of inflation, we implemented some price increase, so we had really this carryover positive impact in fiscal 2024 and we continued also to implement price increase in fiscal 2024 at the beginning of the year, which was mid-single digit, but also in second half which was more low-single digit in fiscal year 2024.

So, indeed, in fiscal 2024, pricing was really a high-single digit. Now, moving forward to fiscal 2025, definitely, I mean, our equation, our 6% to 8% growth algorithm is more balanced between volume, price and mix. So, it means that, indeed, volume is absolutely key. And so, the innovation that Sue has just shared, of course, are really driving additional volumes. Pricing, we will continue, definitely, in a very targeted manner because we know we have the data, we definitely know where we can implement price increase engine. So this is very, very granular.

And the last piece, mix is very important. All the work we are doing is really to drive mix up, either in the current portfolio because we can really upgrade the portfolio, but also innovation, definitely, is a strong way to improve the mix. And all these initiatives are captured under a stream which is strategic revenue management that now we are leading and is really to unlock value on all SKUs possible. And, of course, it's contributing to the net revenue, but also to the gross margin.

Operator: Thank you. We'll take our next question from Oliver Chen with TD Cowen. Please go ahead.

Oliver Chen

Analyst, TD Cowen

Q

Hi, Sue and Laurent. Very helpful. Thank you. You mentioned retailers are placing some order with caution in the near term. Can you elaborate on that. That would be helpful in terms of what retailers are seeing and how you're planning inventory as a result.

Second, would love your thoughts on comparing or contrasting how consumers and/or customers are feeling regionally, just given there's lots of cross-currents in the environment, but fragrance clearly remains very attractive.

And finally, as we think more generally about investments this year, any highlights, especially in terms of the continued innovation in digital and best practices, as well as R&D? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Laurent, maybe you can start with the first part.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah, absolutely. So, Oliver, I think in your question, indeed, it's very important that you are putting this question in a way that is really depending on the regions and also categories, because, indeed, the dynamics can be very

different. As you know, and really what we flagged is that we are seeing that beauty overall keeps growing, keeps very dynamic and really being mid-single digit, definitely, and we are seeing, indeed, Prestige being more in the upper end and Consumer Beauty being more in the lower end. And we are seeing, I mean, mature markets being also in the mid-single digit. And we are seeing, I mean, our growth engine, indeed, being in the double digit.

Now, when we go more in depth, which is your question, indeed, on Consumer Beauty in US, yes, we are seeing that, indeed, color cosmetic market, indeed, is challenged, and we are seeing, indeed, that some US retailers are managing their inventory, indeed, with caution. Definitely, this is what we are seeing. But at the same time, I want to highlight that this is only a portion of our net revenue, so it's really a small part and we are seeing at the same time that on the other regions, I mean, we are seeing retailers keeping very dynamic, definitely, on Prestige but also on Consumer Beauty in the growth engines market. So, that's why, definitely, I mean, it's driving our expectation for Consumer Beauty to be moderately positive in Q1. So, indeed, we are taking this into consideration in our algorithm.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

And, Oliver, good morning. This is Sue speaking. So, your second part of the question was about how consumers are feeling in the different regions. So, of course, the big region for us, the first big region for us is the US, where we clearly see that fragrances, specifically prestige fragrances, but also mass market fragrances, by the way, remain bright spots. It's really a story of twofolds, I would say. People shopping high-end fragrances are continuing to shop high-end fragrances, mainly perfumes, eau de parfum, elixir, all that kind of highly concentrated with a strong trail of fragrances.

But at the same time, you will also see in the same channel entry prestige fragrances doing very, very well. So, it's not either, it's not one or the other, it's both at the same time. And these entry prestige, I would say, users are, of course, towards, I would say, smaller formats, trial formats, but also including body sprays that we saw so heavily used by a lot of younger generation. So, this is clearly what we see on the fragrance part.

On color cosmetics, clearly and interestingly, we see still some dynamism in this market. And a lot of the consumers, now that the prices of mass market has been increasing quite strongly in the last two years, you see some trade-up, which is really a first in this kind of environment. You see a portion of consumers from mass market trading up to entry prestige color cosmetics. So, that's very interesting. So, we are not at all seeing trade-downs, we're seeing trade-ups. And we are seeing consumers operating in the different price brackets, so still very, very active.

In Europe, the dynamism of the beauty market is still intact. Fragrances are there also a bright spot. Color cosmetics in Europe are doing better than what they are doing in the US, the reason the pressure we see in the US on mainly drugstore chains, this is really where we see the pressure. The rest of the distribution in the US is, for us, less pressured.

Last but not least, in Asia, so it's a twofold story here again. If you look at the – outside of China, there is dynamism specifically behind fragrances. Fragrance index is at play. Penetration is very low. And there, it's also a story from less than \$10 to above \$10. We see it in what we call growth engine markets. We got recently the news that one of our agile beauty initiatives, it's called Chanson d'Eau. Chanson d'Eau is a French-Spanish brand that was active 20 years ago that we reignited a year ago. We launched it in many countries, including in South Africa, under \$10, and it's become the number one fragrance in this country recently.

So, you clearly see that whatever is the price, there is still this huge demand for feel good, look good, I would say, element. Highlights on investment in fiscal 2025, best practices, I think there are two best practices that – and two highlights of investment in fiscal 2025 is to continue our best practices in blockbuster creation when it comes to Prestige fragrances. We are not anymore in a catch up phase like we used to be two years ago. Now, we are becoming a trendsetting company in this area and we have been really driving in big the gourmand/vanilla/banana blossom flower fragrances which are resonating today from mass market to ultra niche. So, this is really something that we intend to continue.

Second thing, we are also bringing up our advocacy model that we have put in place. You may have noticed during the prepared remarks that we've grown the EMV of both Rimmel and CoverGirl by 400%. That's really a huge progress. Now what we need to do is to increase the agility of our innovation, putting on the market innovation as quickly as in six to nine months versus more than a year in the previous years. And this we are going to put in place a start-up organization inside the company so that this huge progress on advocacy marketing on one side, coupled with an agile innovation start-up machine inside Coty will allow us to multiply by two the level of innovation in color cosmetics but also in fragrances in this division, knowing that we have already multiplied this level by three. So, we are really in a high speed pace.

Last but not least, we are also applying these best practices, be it advocacy marketing, fast beauty or on the other side, fragrance momentum to mass market with the launch of adidas Vibes that we believe is a huge mass fragrance opportunity.

Operator: Thank you. We will take our next question from Filippo Falorni with Citi. Please go ahead.

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.



Hi. Hi, everyone. Thanks for taking the question. So, I wanted to go back to the Consumer Beauty business, what level of promotional environment have you seen in the US market? Clearly, we've seen the category be more under pressure, particularly with lower income consumers. So, are you planning more promos in certain part of the portfolio or how are you planning to respond to kind of adjust the value equation of some low income customers?

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.



Good morning, Filippo. This is Sue speaking. We've done a lot of studies recently to really understand what are the levers to, in a way, support our growth in Consumer Beauty, which is mainly color cosmetics for Coty in the US to take this example and what we are seeing is that really for a brand like CoverGirl, which is really talking to people from 18 years old or even younger up to above 50, 60, 70 years old, it's really a kind of very specific mix of still TV advertising, still a lot of advocacy marketing, influencer marketing and a little bit of coupon. It's really a little bit of coupon.

So, promotionality and prices, pressure on prices is not what is driving the consumption. Remember what I just said a few minutes ago, we are seeing some consumers trading that from Consumer Beauty, color cosmetics category to entry Prestige category. So, it's really this that we are seeing. So, it's really the job of us and the job of all the players of this industry to put on the market, I would say, Prestige-like innovation, if I may call it like this, but at the prices of mass market. This is the recipe that works. It's not about cheaper brands. Cheaper brands are not taking, I would say, the volumes. It's really about this part that is shared between upper mass and entry Prestige.

Operator: Thank you. We'll take our next question from Javier Escalante with Evercore. Please go ahead.

Javier Escalante

Analyst, Evercore Group LLC

Q

Hi. Good morning, everyone. My question is on – in Brazil – about Brazil. If I understood, on your prepared remarks, you mentioned that it grew very high-double digits, gross margins increased 400 basis points. So, how do you accomplish so much in just one year? What is the role of Brazil in year two driving consumer profit margins? And I have a follow-up.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Okay, Javier. Let me start with the first part, and thank you very much for giving me and giving us the opportunity to highlight the fantastic, I would say, growth trajectory of the Brazilian market and the Brazilian Coty teams. So let me maybe update you on this market.

So the Brazilian business has been growing very rapidly. It's more or less 20% of growth that we have seen on this market in fiscal 2024. We are already a leader in many categories. We are the leader of the nail category, with a brand called Risqué. And Coty has very strong positions in body care, as we are the number one in scented body oils, which are becoming a global phenomenon, by the way. And number two, in body lotions, with a brand called Monange. We are now unlocking the substantial fragrance opportunity in this country.

A little bit of context, the Brazilian market is a very big market, as you said it. It's over \$2 billion market. And the penetration of fragrance usage or scenting items usage is close to 70%. So you can imagine this is paradise for a company like Coty. So while direct selling, particularly door-to-door, has been historically big in this country, the retail channel has been growing very strongly and very quickly in both mass and prestige recently. And here, as you can imagine, our company is very well-positioned to win, as we are leveraging our global portfolio of mass, but also prestige fragrance brand. We are leveraging our leading fragrance capabilities, our extensive distribution in this country, as well as the fact that we have a big factory where we can manufacture locally.

So only one year after launching a few of our mass fragrance brands in the Brazilian retail channel, we reached already the number six rank in this country with over 4% of market share. Of course, we will continue to drive this through additional brand introduction [indiscernible] (00:22:24) productivity, and we are going to accelerate the expansion as a step two. But it's also the story of prestige fragrances, where we took over the business from distributors a few years ago, and we are now reaching almost 10% market share, up almost 200 basis points versus fiscal 2021. And this is led by brands such as Calvin Klein and HUGO BOSS. So you can imagine that for us, this is really a land of opportunities and is just the beginning of the story. Laurent, maybe you can complement on the profitability part expected for fiscal year.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah, absolutely. So, indeed, yeah, definitely, the agenda for Brazil was, of course, that it's a strong growth engine because we need to make it in a very profitable manner. So, this was definitely the mandate. And indeed, you will see from the numbers that it's even over-delivered. So starting indeed with gross margin, a lot of initiatives. I would start first with pricing. Definitely, we implemented a significant price increase, because there was inflation, number one, but also because really the pricing power was there. And again, the innovation, the strength of the brand was really allowing to do this.

And there was really a deep review of the portfolio. We're talking strategy revenue management is really a fantastic case when you open the Risqué brand, the Monange brand, all these brands, I mean, and you apply the playbook. Then, we were really able to unlock a lot of opportunities. So, indeed, this was really pricing.

Keep in mind also that in Brazil, we have also our own R&D, we have our own factory. So we were really involved with these additional volumes, really, to gain fixed cost absorption and also to gain significant improvement on procurement. So this was really a boost in the gross margin. And then, that's really [indiscernible] (00:24:18) that we explained many times, we're able really to invest in the new opportunities. So, it means that for fiscal 2025, in fact, Brazil is accretive for the equation, okay, because the additional basis points that they are gaining, in fact, is moving even faster than the company. So it shows that our growth engines market, they bring growth, but they bring profit, and because we have the right platform.

Operator: Thank you. We'll take our next question from Anna Lizzul with Bank of America. Please go ahead.

Anna Lizzul

Analyst, BofA Securities, Inc.

Q

Hi. Good morning. Thank you so much for the question. I wanted to go back to the Consumer Beauty topic. You mentioned you're diving into innovation, doubling in the next couple of years. Just given the strength of certain competitors in the space, do you now view the mass beauty side as expanding and therefore more of a growth opportunity? And you mentioned trading up, which is very interesting from the mass space to entry-level prestige. Are you seeing any benefit here in Consumer Beauty, though, from trade down in the more challenging consumer environment? Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

So good morning, Anna. This is Sue. So if I understand what the question is about, I mean, just to repeat, again, because someone is typing at the same time, do we see mass beauty as more of a growth opportunity? Yes, of course. We see this as a growth opportunity. Mass beauty is not just the US market where we are doing, I would say, a fantastic job that we have been doing for the last three or four years. We've seen probably in the – recently in the most recent scanners, plus omnichannel vision that CoverGirl is one of the Heritage brand that is resisting the best to, not only the slowdown on one side, but also for – in front of some very, very nimble competitors.

But we are learning quickly, we are putting in place what needs to be put in place quickly. As you heard it, we have been doubling down on advocacy marketing and the full marketing that goes with it. And this is really changing the destiny of our brands that are suddenly visible with the right light, with the right innovation towards the right consumers who are making the growth of this market. But now, we are adding a second leg, which is this agile beauty startup inside Coty. It's already was active.

Now, it's becoming something very, I would say, a specialized team, a multi-competencies team. Sorry, that's the word I was looking for. So you can imagine that when you couple these two together, even in a market that is pressured mainly in drugstore chains, but in e-com, the brands that we are having are booming, in fact. So it's not about mass beauty. That is pressured. It's mass beauty in certain channels. That explains the slowdown that we are seeing in some, I would say, retailer orders, et cetera. So I believe that mass beauty continues to have this future, assuming that we are as nimble as innovative with the new consumer of prestige. So this is number one.

Number two, this US market is one market among others in our equation. And we are really growing this division worldwide. Rimmel has been gaining market share for the last two quarters globally, and we are accelerating the same playbook behind Rimmel. And on top of this, when I move away from this color cosmetics category, we are also accelerating in mass fragrances. This is expected to be the fastest-growing category of the division in the fiscal 2025. We are accelerating in nails, specifically in acquisition nails, and we are accelerating in what we call elevated body care, because there is a huge increase of penetration in body care all around the world.

So in a way or another, we will continue to grow the division because we are doing what is the right things to be done on a market that is highly competitive and under pressure like the US one. But we also have massive other areas of oxygen in the coming year and should I say in the coming years.

Operator: Thank you. We'll take our next question from Korinne Wolfmeyer with Piper Sandler. Please go ahead.

Korinne Wolfmeyer

Analyst, Piper Sandler & Co.



Hey. Good morning, team. Thanks for taking the question. I'd like to touch on the guidance for the year and the cadence you've alluded to. Seems like the back half is going to be fairly strong. And I would love to understand the level of visibility you believe you have on the back half of this fiscal year and what gives you confidence in those targets.

And then additionally, on the Wella stake, if there's any color you can provide on progress there, any updates on conversations you've had with potential suitors to sell it off to. And then, I believe you talked a little bit about share repurchases in the prepared remarks. So any commentary on updated thinking around the share repurchases and capital allocation would be great. Thank you.

Laurent Mercier

Chief Financial Officer, Coty, Inc.



Sure. Okay. Thank you, Korinne. So first one on the guidance, so, I mean, first of all, indeed, so we are confirming our midterm algorithm for fiscal 2025, which is 6% to 8%. We are indicating, as we flagged during the last earnings call, that – sequential improvement in Q1, which is around 6%. And then, indeed, moving to the 6% to 8% algorithm in H1 and then in H2. And the key reason about this sequence is also about comps.

As you remember, last year, there was a very strong phasing of Q1. It was plus 18%. Q2 was 11%. And then Q3 10%, and then landing the year at 11%. So, of course, we have high comps and we are taking these into account in our algorithm. So comps are easier in the H2. Then, definitely, we are modeling that our sellout should be aligned with our sell-in in the H2. And, of course, I mean, this is supported by all the innovation that we are piping in starting now, but we will continue in H2, both on Prestige and on Consumer Beauty. So, indeed, there are all these elements, drivers which are really captured in the sequencing of this growth algorithm.

Then, on your second part, on capital allocation, I mean, first of all, I just want to remind again and again that deleveraging is the number one priority for the company. And of course, that we keep targeting towards the 2 times end of calendar 2025. And I want really to insist that this 2 times is really without any Wella stake or divestiture. So it's really built by pure organic EBITDA expansion and cash flow generation. Okay? So, that's very important.

So now, definitely, on Wella stake. So it's really – okay, we keep targeting this divestiture end of calendar 2025. Now, as you know, this is definitely in the hands of the main shareholder, which is KKR, so no specific news on this. And on – again, on share repurchase, as I indicated, definitely, we confirm our plan really to move towards 800 million share count really by end of fiscal 2027. So, this agenda is unchanged. Definitely, Wella stake divestiture will be an opportunity even – you need to do it faster. And this is really what we are taking into account in the algorithm. So, algorithm is unchanged, and the agenda remains the same.

Operator: Thank you. We will take our next question from Andrea Teixeira with JPMorgan. Please go ahead.

Andrea Teixeira

Analyst, JPMorgan Securities LLC



Hi. Good morning. Thank you for taking my question. So I wanted to – so you sounded very confident of the launches that you have and the comping, what are you going to comp with Burberry Goddess and a lot of the launches that we have for the strong holiday season. And obviously, understandably, you have two-thirds visibility right now of the quarter. But can you help us, like, look through channel and more of what you have gained in terms of, like, distribution to give us confidence that you can comp that very strong comparison in the holidays last year.

And given, like, how cyclical fragrances have been, I understand all the body oils and fragrances have been a wellness category for pretty much the last four years. But understandably, thinking about how the consumer is making tough choices as we go, in particular, in the key markets that you're in, understandably, how this is going to unfold and what gives you confidence that then you're going to reaccelerate in the second half, given – despite the comps? I mean, the comps are, the comps are. But I think, I mean, it's important to see how you're planning the cadence of the launches to offset the tough comps.

And also, like, a clarification. As we build into your guidance, I believe you mentioned hitting EBITDA margin of 18%. And given your guidance for EBITDA, when you back it out, it actually would give you a higher revenue number than what you're implying in your guidance. I understand that, perhaps, that number is FX neutral, that would give you close to a mid-single-digit increase in sales, as opposed to, let's say, a 4% increase in sales for fiscal 2025. I guess that's a question for Laurent. Thank you very much for both.

Laurent Mercier

Chief Financial Officer, Coty, Inc.



Yeah. Okay. So, I mean, let me start, indeed, on the fiscal year 2024 year launches. I mean, that's really a key question and we explained several times that the strategy we put in place is exactly that we are not going to describe that we launched a big innovation in year one and then we have sales dropping. No, not at all. So this is exactly – Burberry Goddess is a perfect example. So indeed, it's a great success which really contributed to fiscal 2024 top line significantly. But we are going to continue in fiscal 2025.

So, it means that Burberry Goddess will continue to grow, and we are adding also Burberry Goddess Intense so which is going to come on top. Okay. So it's really that, your point about the comp, in fact, we manage this way and then on top is really we are doing this on the other franchise. We are launching, indeed, Gucci Flora Orchid, and it's really – it's part of the Flora range. And here, again, it's really adding the growth in the Flora range and it's starting very well, because this is – well, this is a number one at Sephora worldwide, but this is the same on both, this is the same, of course, on – I mean, on Marc Jacobs, and because Marc Jacobs also in terms of phasing.

Daisy Wild, we launched in March. So in fact, we have the full impact now in Q1 and Q2. So that's why now we're also phasing these launches. But it's not only one window during the year that we opened two or three windows so that we can really phase and avoid this comp element. So that's definitely part of our overall strategy. We need to continue really this expansion. That's the same on – definitely on Consumer Beauty that we are doing it.

So I will answer also your question on the guidance. So definitely, what we are monitoring. So it is really targeting the like-for-like growth. So, this is a 6% to 8%. What is very important is also that our guidance on EBITDA is really the dollar or dollar value. This is really the guidance that we are giving, and, indeed, underpinned by margin expansion. So – and I know this is a modelling you are trying to do. Of course, it's hard to see the full-year rates impact. So I think this is definitely some fine-tuning indications that we will give you as the year is growing, but to help you also is definitely yes. The margin, yes, the margin growth could be indeed higher versus indeed what we are indicating here.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. And Andrea, let me maybe just quickly conclude on the second part – on the middle part of your question about what gives us the confidence of our launches sustaining over time and continuing to grow one after the other. I think this is really the main difference between the Coty of five years ago and the Coty of today. We have put in place the way to select what is going to stand the test of time and to grow over time. That's very important.

And every launch we are doing, specifically the big launches behind the big brands are really done if and only if we have the full confidence, high level of confidence that this is not going to be something that is going to be high for the first year and then go down. So, it's really about addiction. It's about positive addiction, if I may say. To the views, of course, to the concept that make sure that this concept fits with the trends, that are not the trends at the moment, but that are structural trends that are here to stay for the next decade.

And the second thing is that while we are doing this big blockbuster juices that are now setting trends for the long term, instead of catching up, we are also very tactical in a way, positively tactical playing with the [indiscernible] (00:38:33), playing with the scenting at large. The scenting is becoming a much larger piano with much more touches than the traditional Eau de Toilette or Eau de Parfum. And we are also activating all the brands that we have not activated recently. The beauty of the Coty portfolio is that we have a lot of brands and some of these brands are going to be activated quite strongly, specifically the brands that are positioned on entry prestige. So altogether, together with the fact that penetration is still not at the level of Brazil that I was quoting just a few minutes ago, we believe we have room not only in the US, but also elsewhere to continue to grow our fragrance business.

Operator: Thank you. We'll take our next question from Olivia Tong with Raymond James. Please go ahead.

Olivia Tong

Analyst, Raymond James Financial, Inc.

Q

Great. Good morning. Thank you so much. On the sort of build on what you just said around fragrances and why you think fragrances seem to be transitioning from what historically has been more of a discretionary category within beauty to one that is clearly less discretionary, but also seen a willingness by consumers at the low end to trade in, even though they haven't historically participated in the category. It's pretty – it's price discovery at ultra-prestige. And so, clearly, it sounds like there's significant momentum in prestige fragrances. Are you assuming a similar level of contribution in fiscal 2025 as in fiscal 2024? And what are you incorporating insofar as concerns about more volatile macros? Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Good morning, Olivia. Thank you for the question. So, let me try to answer. Again, I hear some people saying fragrance is a discretionary category. Some other people saying that this is a cyclical category. First, it was not a cyclical category. It has always been a category that was growing more or less at the low-single digits prior to COVID. And then, something happened, at the COVID moment, where suddenly a food industry that has been reinventing itself for the decade before was put in front of a younger generation of consumers who are both genders, younger, from diverse backgrounds, from diverse ethnicities, specifically Hispanic community in the US.

And suddenly, you have really the encounter of two destinies. The encounter of a category that reinvented itself with more quality, more creativity, multiple layer. This was not just about entry prestige, it was – or premium, ultra-premium, exclusive collections, et cetera. Concentration, technology, the latest launch of Coty [indiscernible] (00:41:12) for the first time, a patented molecule that extends the longevity of a fragrance. So, at the end of the day, when an offer becomes much more qualitative, much more performance, it's not anymore a discretionary buying or a cyclical buying. It becomes part of your life.

And we believe that fragrances are becoming structurally part of the life of billions of people around the world, specifically the youngest as connection builders, people ask each other, what do you wear, et cetera, and that's a fantastic advertising campaign, if I may say. People are also using fragrances as mood boosters, as escapism tools, et cetera.

So, we moved from something that was seen as a gift. If you think about the US gift item into something I'd buy for myself, because it makes me feel better, it makes me connect with others, and the quality and the intensity of choice is ever bigger than it used to be in the past. So, that's the reason why I believe it's not a discretionary category. It's not a cyclical category. And beauty is not a consumer goods industry neither. So, it's very, very important I restate this at the occasion of your question.

Operator: Thank you. We'll take our next question from Linda Bolton Weiser with D.A. Davidson. Please go ahead.

Linda Bolton Weiser

Analyst, D.A. Davidson & Co.

Q

Yes, thank you. I was just curious about when you talk about innovation and consumer beauty, usually when it's a big technology innovation in the nail category, that's a big driver of category growth. It's been quite a few years, I think, since a big innovation. Can you talk if there's anything being worked on there?

And then, my second question has to do with cash flow. I was curious, if you could quantify the cash flow benefits in FY 2024 that won't recur in FY 2025? You have a number behind that? And then, what is going on with cash flow in early 2025. You said the retailers are managing something about cash and inventory. And then, also why your receivable seems very, very high? It seem to be kind of a drain on cash flow. Thank you.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah. So, let me – hello, Linda, let me start with the cash flow. So, indeed, as I shared, we are landing our free cash flow fiscal 2024 at a level of \$370 million. Definitely, there were some elements that do not repeat. I mean, definitely, this is really a year where we are starting to pay significant cash tax. So, this was around \$90 million.

So, I would say, it's really driven by [indiscernible] (00:44:02) that we are increasing and improving in a lot of our jurisdictions.

Second, as I explained, indeed, we have also this year some investments and inventory buildup related to S/4HANA implementation, which as I explained is, we went live mid-July and very successfully. So, it's a very strong asset for the company. So, of course, these are headwinds that will not repeat in fiscal 2025.

Now, fiscal 2025 indeed, we are guiding low to mid \$400 million. Definitely, we are really taking into account some volatility with the retailer. Indeed, we are seeing retailers now strongly focusing on cash, really either on their inventory management or payment terms management. So, this is embedded in our equation. And definitely that, really we are monitoring tightly. So, definitely we keep working on other opportunities for fiscal 2025 re-optimizing all the levers that we have in our working capital. And definitely, we are building [ph] a real cash cycle (00:45:13).

So, we are absolutely confident about our cash cycle. Indeed, we are really in a phase where we are, I would say, cleaning some elements for fiscal 2024, as I explained. And also, there were a few positive one-offs which happened in fiscal 2024 that will not recur in fiscal 2025. But again, we are very confident and the year is starting right.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

And, Linda, to answer your question around nails, which I believe is indeed a very, very interesting category where we hold a fantastic position. Sally Hansen is the undisputed leader of [ph] nail in a bottle (00:45:49) in the US with more than 40% of share. Risque in Brazil, which we may globalize at the moment is also doing fantastically well.

Number one in the country above 40% of market share. All our color cosmetics brand except CoverGirl are also having a fantastic nail offers, benefiting from the technologies of Sally Hansen. You're right, this is a category where innovation is key. So, we haven't seen innovation as big as the one that happened a few years ago or maybe a decade ago with gel technologies, be it in professional or in consumer. But still, this is an area that we are actively working on to increase the wear, because it's about the wear, using non-UV activated solutions.

We are also putting a lot of energy and intelligence into how to [ph] skinify (00:46:41) this category. What's happening in haircare should happen also in nail. And last but not least, we are also going to be super innovative in terms of what I call Special Effects. Special Effects are also going to bring excitement the same way it's bringing excitement on the lip category, for instance.

Last but not least, we are also growing into artificial nails, which is also a big focus for the company. We believe that there are really two kind of consumers and we need to talk to both of them. And this is an area where we are working very hard to bring innovation, because this is the rule of the game.

Operator: Thank you. We'll take our next question from Chris Carey with Wells Fargo Securities.

Chris Carey

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. I wanted to ask about gross margins and one question on category growth. Regarding gross margin, you're a year ahead of plan, fantastic. Going into fiscal 2025, can you just talk about some of the drivers

of gross margin expansion? It sounds like you have to wrap around pricing. But I'm also conscious you have some favorability from manufacturing, I think, [ph] freight (00:47:52) as well for filings.

And so, can you just talk about what's going to be driving the expansion and maybe dimensionalize that for fiscal 2025, how much, and whether you think this mid-60s target was just starting point and now you're running ahead of it. Maybe you have confidence in going farther specifically as you look to use pricing or premiumize more over time.

And then, just connected, if I could, do you have an outlook for category growth for fiscal 2025, maybe globally? Certainly, we've heard from some of your beauty peers that there's been some deceleration of category growth in Q4, still solid, but some sequential deceleration. I wonder if you're seeing that, too. Are you expecting stabilization or would you just expect to outperform category at a higher clip next year? So, really, there's two questions there, one on gross margin and one on category growth. Thank you.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah. Thank you, Chris. So, let me start with gross margin. Yeah, you're absolutely right, we are ahead of plan. So, it means that all the actions we put in place, I mean, delivered or even over-delivered. So, we are going to keep the same recipe into fiscal 2025. So, as I said, I mean, we will keep doing a targeted price increase. This will be in the context where we see more moderate inflation on our cost of goods. But still, again, we will keep using pricing as a lever to improve our gross margin.

So, then, of course, mix. Mix is a big driver. And, I think, we gave and we keep giving a lot of examples of premiumization, and we do it across all divisions, all markets, all categories. So, this is [indiscernible] (00:49:39). And on productivity, we continue, of course, our productivity initiatives. I mean, I shared that we continue the All-In to Win program. Of course, we have plans next year for \$75 million additional productivity. So, it's part of productivity in our factory. And volume, of course, is helping, really, to accelerate this productivity. But it's also with procurement. We are definitely scaling up the volumes. Indeed, it's giving us, really, some scale and power to negotiate a better price.

And also, we have a specific program to continue to simplify and, really, to rationalize our portfolio components. And again, fragrance is a good example. When – you heard from Sue that we're also accelerating mass fragrance. Here, of course, we are benefiting here from the scale of the prestige fragrance. So, it means that we can launch initiatives which are already at a high gross margin. So, we have the playbook, we continue. And definitely, I mean, the mid-60s is not the endgame. So, we will continue definitely to go beyond the mid-60s with the same recipe and mix. Mix will be, of course, a big driver for this acceleration.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

And let me take the second part, Laurent, which is around category growth, what we are seeing. So, entering fiscal 2025, we have seen that demand trends are remaining broadly consistent with what we saw in fiscal 2024. At the same time, of course, we all have seen that prestige retailers, but also drugstore retailers closely manage orders and inventory levels, which is resulting in a sellout that is tracking ahead of sell-in. So, we anticipate beauty demand in mature markets to expand in the mid-single digits, including prestige fragrance growth above this range and mass beauty growth below this range.

All of this supported by very, very strong e-com, which is growing between two times and more faster than the company. So, within this backdrop for the mature markets, we are targeting to perform in line to ahead of the

market. And at the same time, we target to do double-digit percentage revenue growth in what we call growth engine markets. I'm thinking about Brazil, the rest of LatAm, Mexico, Africa, Saudi Arabia, to name a few, and high-growth channels such as travel retail, which altogether account for approximately a third of Coty business. So, all of this will support our fiscal 2025 innovation pipeline on top of it.

Operator: Thank you. We'll take our next question from Steve Powers with Deutsche Bank. Please go ahead.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much. Good morning, Sue. Good morning, Laurent. Sue, picking up a little bit, I guess, on the idea of the growth engine markets. I wanted to ask about China specifically. Obviously not your largest market, which is an advantage right now, but it has been a growth engine market for you in part of your long-term strategy. Just couple of questions on that. One is, what is your outlook for China this year and how are you planning for it?

Two is, given what I assume is a softer outlook on China, are there specific growth engine markets? You just mentioned a few, but are there specific ones that you're reallocating investment dollars to, where you hope to make up some of the gap there? And then, is anything you're seeing now in China altering your medium- to long-term views on what that market represents in terms of a future opportunity? Thank you so much.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Thank you. Thank you, Steve. Good morning. So, first, to answer the question around China, clearly, we believe that fundamentally, China is or will be one of the biggest, if not the biggest beauty market in the mid to the long term. So, this is really something structural and this is really – has to do a lot with prestige market, I would say, that is going to continue to grow, because this is culturally rooted in this country.

Now, what we are seeing now at the moment is that the negative growth trends specifically in skincare in China will continue probably in the coming quarters. Prestige fragrances is really the bright spot in this country, and I'll tell you a few words about the performance of the company. But let me just remind everyone that the business of Coty in China is still small. It's around 3% of the revenues in fiscal 2024.

And at the same time, we are playing with two legs. So, we are playing with a leg of prestige fragrances, which are really doing better than any other category. And the adoption curve of Chinese consumers in terms of premium, ultra-premium or niche fragrances is continuing to be at play, and we have the right brands. Recently, Burberry, Chloé or Calvin Klein has been doing great on this market. And at the same time, we are also pushing – preparing for the skincare, I would say, growth that will inevitably be back in this country, starting with Lancaster. Lancaster has been doing a fantastic relaunch in China. We have seen great results.

Lancaster is the fastest-growing skincare brand in both the June quarter, with almost doubling the size of the brand and also in calendar 2024 with a growth that is a triple-digit growth, gaining 4 points of market share in year-to-date calendar year 2024. June was very strong month. Lancaster ranked number four brand at Sephora, right after brands such as Drunk Elephant and Tatcha. And Lancaster ranks number eight on [ph] Douyin (00:55:35).

So, the very unique positioning of Lancaster that is not a traditional skincare brand. That's not the usual DNA and stem cells and hyaluronic acid, blah, blah, blah et cetera. It's all about photoprotection and photoaging is clearly

strongly resonating in China. And you may see that this is becoming also a global phenomenon. So, to really summarize on what we are seeing in China is that, we are going to continue to over drive our fragrance, because this is where growth is coming from and we are readying our brands, Lancaster and also Orveda for when the skincare market will be back on track and believe this will happen at the moment or another.

Now, are we shifting resources from one market to the other? We are constantly putting resources and A&CP and money where there is growth. And so, of course, there is growth behind prestige fragrances in China. So, we are investing over there. But there is also growth behind prestige fragrances in the US and we are also investing heavily in this area, in the Middle East, in other regions where the company is seeing, I would say, a momentum.

Operator: Thank you. We'll take our next question from Ashley Helgans with Jefferies. Please go ahead.

Ashley Helgans

Analyst, Jefferies LLC

Q

Hey, good morning and thanks for taking our question. So, you mentioned your innovation center and being able to get products out more quickly. Can you remind us how fast you can get ideas onto shelf today and then what the goal is in the future? And then, anything you can tell us about the promotional environment and kind of expectations on the promotional environment as we head into holiday? Thanks.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah. Good morning, Ashley. Thank you for the question. Indeed three years ago, maybe four years ago, when I joined the company, launches could take up to 18 months to 2 years, which is very really too long for the world we are living – we were already living four years ago. Today – and we started to do it already, so it's something that could take between six to nine months. Wonder'Bond Mascara, the latest success from Rimmel, took us nine months.

The launch of Yummy Gloss from CoverGirl, it took us as quickly as six months, if I'm not wrong, including the platforming of this innovation and other brands. So, the question is not to go faster because six months is already super, super fast, because we need to sit also with retailers resetting of their shelves and this really something that is a kind of imperative that we need to fit in. That six months is very, very fast. We are used to do more launches in six months. So, we already know how to do it.

Now, we are going to industrialize, if I may call it like this. Our ability to put on the market launches in six months and usually we are going to focus on areas that are not the traditional Coty R&D areas. Coty R&D is doing a lot in color cosmetics. But there are areas that are very, very technologically-specific and these are the areas that we intend to overdrive in the coming months and quarters, so that we can have both speed, but also the quantity. It's a war of attention. So, you need to win this war of attention with the right surprising, exciting, innovative and efficient products.

Operator: Thank you. We'll take our next question from Mark Astrachan with Stifel. Please go ahead.

Mark S. Astrachan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah, thanks. And good morning, afternoon, everyone. A couple of clarification questions. So, the retailer reordering commentary sounds more like it was on the color cosmetics, is that correct? And I guess, if it is, how do you think about what channel inventories are from a fragrance standpoint, thinking more on the prestige side

and how you think about the puts and takes of what end demand looks like and how does that factor into the high end and low end of your guidance for fiscal 2025? And then, just also clarification, what's baked in from an Argentina hyperinflation standpoint for the revenue growth for fiscal 2025?

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah. So, definitely to answer on retailer reorder management, yes. I mean, the point is mainly cosmetics. I mean, the prestige category, fragrance category remains very dynamic. I mean, you saw the last numbers. I mean, prestige fragrance category in the US is growing by 10% in July. So, definitely and you know that US fragrance category is 70% bigger versus pre-COVID.

So, definitely it's very healthy, very dynamic. And we're bringing again strong innovations and which resonates very well in the US. For on Argentina indeed, I indicated in fiscal 2024 that indeed due to hyperinflation, we really implemented significant price increase. Now, we are really modeling for fiscal 2025 more some stabilization. Okay. So, there will be some impact, but not at the same level as we faced in fiscal 2024.

Mark S. Astrachan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you.

Operator: And there are no further questions at this time. I'll turn the call back to Sue Nabi for any closing remarks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

Thank you very much. So, looking forward to talk to you at the end of Q1.

Operator: Thank you. This does conclude today's program. Thank you for your participation. You may disconnect at any time.

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