

Q4 2025 Earnings Call *(Corrected version)*

✓ Event Details

Date: 2025-08-21
Company: Coty, Inc.
Ticker: COTY-US

✓ Company Participants

Laurent Mercier - Coty, Inc., Chief Financial Officer
Sue Y. Nabi - Coty, Inc., Chief Executive Officer & Director

✓ Other Participants

Olivia Tong - Analyst
Susan Anderson - Analyst
Sydney Wagner - Analyst
Andrea Teixeira - Analyst
Steve Powers - Analyst
Chris Carey - Analyst
Anna Lizzul - Analyst
Priya OhriGupta - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

- 00:00:05 Good morning and good afternoon, everyone. My name is Chelsea, and I'll be your conference operator today. At this time, I would like to welcome everyone to Coty's Fourth Quarter Fiscal 2025 Question-and-Answer Conference Call.
- 00:00:21 As a reminder, this conference call is being recorded today, August 21, 2025, at 8:00 AM Eastern Time or 2:00 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 Relations website. On today's call are Sue Nabi, Chief Executive Officer and Laurent Mercier, Chief Financial Officer.
- 00:00:58 I would like to remind you that many of the comments today may contain forward-looking statements. Please refer to Coty's earnings release and the reports filed with the SEC, where the company lists factors that could cause actual results to differ materially from these forward-looking statements. In addition, except where noted, the discussion of Coty's financial results and Coty's expectations reflect certain adjustments as specified in the non-GAAP financial measures section of the company's release.
- 00:01:39 With that, we will now open the line for questions.

QUESTION AND ANSWER SECTION

Operator

00:01:43 And we'll take our first question from Olivia Tong with Raymond James. Please go ahead.

Analyst:Olivia Tong

00:01:51 **Question – Olivia Tong:** Hey, thanks. Good morning. So, clearly, there's a lot going on with respect to the macros as well as the category. And you gave a pretty detailed guide for Q1 and Q2 on sales, EBITDA and EPS, but kept it pretty open ended for the second half. So wanted to understand a little bit about, if you could provide a little bit more detail on the second half, what initiatives still in place, what hit (00:02:21) versus just the easing comps. Your thought process around the magnitude of improvement in the second half versus the first half and the key drivers of that. Thank you.

00:02:35 **Answer – Laurent Mercier:** Yeah, absolutely. Thank you. Thank you, Olivia, for your questions. So indeed, I think it's very important indeed that we give you very clear indication for Q1 and Q2, and we have this visibility and we shared very precise guidance. And indeed, as we highlighted, we are seeing that we are still in a phase of retailers' inventory reduction, which should last till the end of calendar year 2025. And that's why we are giving this sequential improvement in Q1 and Q2 despite still negative.

00:03:17 So, at the same time, as we indicated, we are seeing the category, especially in Prestige fragrance, but also in mass fragrance remaining very healthy and in low to mid-single digit. And we are seeing also our sell-out performing well in the key markets.

00:03:38 So now, what it means is that the plan is that we are expecting that end of calendar year 2025, this retailer inventory headwind will end. And then we are entering calendar year 2026 or H2 fiscal 2026 in a very healthy manner where our sell-in will coincide with our sell-out. And this is supported indeed by the market, the healthy market. And our sell-out is supported also by very strong innovations that we just shared during the presentation and which will be at full speed in the H2. So this is really the algorithm.

00:04:24 Now, indeed, we didn't give more precise numbers on H2, because, as you say, there is high volatility. I mean, there are a lot of macro movements. But for sure, I mean, I can tell you with high level of confidence that indeed our H2 will be back to growth once indeed we are going through this H1. So that's really the reasoning and really the logic on the top line.

00:05:05 On EBITDA, that's also similar approach. Okay. So we are really giving very precise indication on the Q1 and the Q2. Then on H2, with the full confidence with top line being back to growth and also all the actions, All-in to Win being at full speed, will really bring us to positive EBITDA growth in the H2. So which means that our EBITDA full year will be above \$1 billion, for sure. And indeed, I mean, the major gap that we are seeing in EBITDA on the full year is driven by tariffs, tariff, in a way. So if we exclude tariffs on full year, our EBITDA will just be slightly negative. But indeed, the major headwind is tariffs. And last but not least, I mean, our free cash flow will grow in fiscal 2026.

00:05:54 So this is really the big picture I can give you to explain to you really where we are. We are – we built our guidance this way. And it's also really to give you that it's very built, these very strong facts, analysis, and again, very strong confidence in the H2.

- 00:06:16 **Answer – Sue Y. Nabi:** And to add to Laurent – good morning, Oliva. This is Sue speaking. To add to Laurent comments, one thing very important, indeed, there is the launches of H1, specifically the Hugo Boss Beyond bottle, which is starting as probably the biggest launch of the company's history, even bigger than what we did with Goddess. But there is a second blockbuster launch happening in the second half of the year also. So this is a second element to add.
- 00:06:43 And the third element is that the perfume and mist attack plan of the company with almost a dozen brands of the company going into this area with clearly innovative formulations that I could say little bit more later maybe, are honestly going to represent something that could be like one extra launch added to the pipeline of the company, if you take them all together. So this is the full image of H2, as Laurent just described it.
- 00:07:16 **Question – Olivia Tong:** Got it. That's helpful. I think you touched on it. I do want to talk a little bit about Consumer Beauty. First, around the mass color side. Just your commentary from last night's prepared remarks around the evolution of investment levels, particularly on mass color and how you're thinking about levels of investment this year versus last year and then going forward?
- 00:07:40 And then on mass fragrances, you just mentioned that that's a bright spot. How do you think about this business over time, like both as a percentage of sales, the opportunity to grow this, the ability to differentiate relative to others in the category and effectively who the audience is for that? Thank you very much.
- 00:08:07 **Answer – Sue Y. Nabi:** So, yeah, on the first part, Olivia, which is around how we are going to invest behind our color cosmetics category. Indeed, I think the tone is clear. This is the year of increasing the profitability of the – of this business. And in fact, this was not just a decision driven by the P&L, even if the P&L is clearly telling us to go in this direction. But it's also driven by what we learned throughout the 2025 year where we realized that maybe the, I would say, the move from traditional media to mainly advocacy marketing was a little bit too radical for a brand like CoverGirl.
- 00:08:52 So what we are realizing is that this market, and including the dynamics of the market, are today hurt by, and this is interesting to hear, innovation fatigue. This is something we hear and simplification of routines. These are the things we learned from the recent studies we have made. I think a lot of loyal consumers, above 30 years old consumers, got lost in translation, given the complexity of this category today. A lot of people don't know the difference between an ink, between a butter (00:09:25), between a balm (00:09:26), between a liquid lip color, between a bullet lip color, and the list goes on. So there is a kind of innovation fatigue, and we've used the influencer marketing tool to talk to everyone.
- 00:09:37 The decision we have made is to dedicate the, I would say, most sophisticated, innovative products to the youngest, who are those who understand this very well and easily get into the complexity of the category, while coming back to traditional advertising, when it comes to categories that are the biggest, by the way, in the color cosmetics category such as mascaras and foundation, which are, by the way, the strength as of our brands. And we believe that this way of doing will allow us to invest less in absolute value and in a very ROI (00:10:14) driven way.
- 00:10:14 So this is the way I would explain the shift that's driven by consumer understanding, loyal consumer that were mistreated, in a way, for the last two years by everyone, including us, but also P&L wise, as I had explained earlier.

00:10:30 Now, when it comes to the fragrance, the mass fragrance category, this is more or less 7% of the net revenues of the company. It's been growing nicely. The market is growing everywhere around the world. And this is part of what we used to call the fragrance index. But I think today we are more into what we call the treatonomics phenomenon, which is the economy of treats. And we see that fragrances from \$5 to \$500 are becoming really the go-to destination in the beauty industry. Hence, I would say the dynamism of this category. And this explains why a lot of consumers today are continuing to buy fragrances at every price level, including in mass fragrances. They are also diversifying the way they wear fragrances, hence our perfume mist attack.

00:11:24 And this category, I know you wrote recently about the profitability potentially of this category, it's for us, it's as profitable as a fragrance launch. So there is absolutely no dilution play in this game. And we see this game, because it's a game of layering, we see this game as purely additional. It's an \$8 billion market, doubling year-on-year, and this is an area where Coty, which is the leader in scenting and in fragrances at large, should play in. So we are playing big, and we believe this is going also to help us on the second half of the year.

Operator

00:12:00 Thank you. Our next question will come from Susan Anderson with Canaccord Genuity.

Analyst:Susan Anderson

00:12:08 **Question – Susan Anderson:** Hi. Good morning. Thanks for taking my question. I was wondering, maybe just to start off, if you could talk about how Prestige excluding fragrance performed and if you have any new innovation coming out in the cosmetic and skincare brands this year, and then also just what investments you're making in the area as well. Thanks.

00:12:28 **Answer – Sue Y. Nabi:** Yeah. Good morning, Susan. Thank you for the question. Indeed, that's a good question because if you look at our Prestige portfolio, it's a majority of fragrances, but there is also a color cosmetics category. And this is really what explains also the counter performance in terms of sell-in, but also sell-out in Asia, mainly due to the resellers, as we like to call them today, a phenomenon that is shrinking, if not totally drying in Asia between Hainan, China and Korea ecosystem. This is really one of the key explanations of the figures counter performance of the division, while fragrances continue to grow, including in fiscal 2025 year, which was one of the most difficult year we had. So this is one to explain to you.

00:13:18 Second, now it comes to skincare. In skincare, the two biggest brand of the company are philosophy in the US and Lancaster, which is a European/Chinese brand. The great news is that Lancaster is now growing super, super strongly in China. It's among the top five fastest growing brands. It's growing three times or four times faster than the skincare market.

- 00:13:43 And it explains also our absolutely outstanding performance. I'm looking at the figures while I'm talking to you. The skincare category outperformed the market by 11% for Coty. The market was around 3%, as I said. And this is driven mainly by e-comm. And on e-comm, it's really two legs. It's on one side our fragrance business that is growing six times faster than the market rate and our Lancaster business that is growing 40% faster than the Coty China – than the Chinese ecosystem market. So it's really these figures that I wanted to share with you to give you a vision on Prestige, excluding fragrances.
- 00:14:29 **Question – Susan Anderson:** Okay, great. And then also, you talked about just the higher promotional environment. Maybe if you could talk a little bit about how you expect that to play out this fiscal year and what you're doing to compete in that environment. And then also, I guess, is it similar between Prestige and mass just in terms of that promotional environment, or is one area worse than the other? Thanks.
- 00:14:54 **Answer – Laurent Mercier:** Thank you, Susan. Indeed, I mean, absolutely, I mean, we are observing, I mean, now since a few months, indeed, some increase of promotional activities and from some of our peers. We are managing this very cautiously. And of course, that's really a strategic intention really to protect really our icons and to protect our brands.
- 00:15:20 So how do we manage it? I mean, we are very strict in this promotional policy and also on all the activities. But at the same time, we are playing and we shared several times that we have a team dedicated on what we call strategic revenue management and is exactly – is really how to we expand the portfolio, and we took on with new formats? I'll just give you one example, which is pen spray. Pen spray is a segment which is really growing very fast in the US. So it's 30 milliliters. It's something that you can put in your handbag or easy to take with you. And it's also a fantastic sample. Okay. So we see that some consumers are going there, and then when they like, they go to the product. But of course, it's also more affordable, but very profitable. So that's the kind of game that we are playing, and really, so, to avoid entering this promotional game.
- 00:16:28 But also, when we talk about strategic revenue management, and Sue referred to it, if you take fragrance, I mean the great news is that you see that fragrance, now you have the full range. Of course, you have the Prestige price points. But you see the high end, the niche fragrance. I mean, this is the fastest growing category. So you see that here, it's not – it's really about the quality and the appetite from consumers. But at the same time, you see mass fragrance is growing very fast. And Sue explained also about the Body Mists.
- 00:17:05 So in a way, we are not – it's a point of attention, but we are not concerned because indeed we can feed the consumer needs across the full partition.
- 00:17:17 **Answer – Sue Y. Nabi:** Susan, just to complement on what Laurent just rightly said, if you look at the Prestige market, there is two parts that are growing the fastest. Indeed, as Laurent mentioned it, the niche, which is above \$150, is growing by 14%, one-four, and everything under \$60 is growing by 11%. These two parts of the market are the fastest growing. So instead of getting in the game, which is played a lot by the competitors who are heavily exposed to the Asian, Chinese ecosystem, which we don't want and (00:17:48) enter to the same extent, we put in place the mist – perfume mist attack a year ago precisely for this, because we understood that for those who are looking for value, you cannot just sell the same brand with a 50% discount. You need to propose, specifically for the younger consumer, other ways to increase the basket or to replace the basket with the same profitability.

00:18:14 So the mist we have launched, and I can give you the example of the CK mists that started earlier this summer. If you – some of you traveled this summer, you could see them in airports. And the only place where (00:18:26) could you see teenagers queuing were in front of the displays of the CK mist. And it boosted also the sales of pen sprays and the sales of 30 ml fragrances.

00:18:37 So that's another way to give people affordability with the same profitability without killing the gross to net equation of our very profitable scent (00:18:47) business of Prestige fragrances.

Operator

00:18:53 Thank you. Our next question will come from Ashley Helgans with Jefferies. Please go ahead.

Analyst: Sydney Wagner

00:19:02 **Question – Sydney Wagner:** Hi, this is Sydney on for Ashley. Thanks for taking our question. Can you just elaborate a little bit more on the comment on innovation fatigue? I think on the February earnings call, you called out kind of seeing a lack of innovation in color in mass, I believe. So is it feeling like the market got flooded in the last six months or so? And then just curious, are you only seeing that in color? Is that happening at all in Prestige?

00:19:25 And then on promotion, just can you share how that varied between channels and then how that trended throughout the quarter and what you're seeing quarter-to-date? Thank you.

00:19:37 **Answer – Sue Y. Nabi:** Good morning, Ashley (00:19:37). Thank you for the question. I'm going to take the first part and maybe Laurent can complement on the second part of the question. So regarding the topic of innovation fatigue, which is one of the reasons why the market is not as dynamic as it used to be, you have to couple it also with the simplification of makeup routines, which more or less tells the same story.

00:19:59 I think this is something that started maybe 18 months ago, and that peaked recently with the inflation of launches. Indeed, we all felt that we need to do the race (00:20:11) and do more and more launches from TPMs (00:20:15) in as quickly as two months with new galleons (00:20:18), new routines, new makeup finishes, et cetera. And in fact, the result is that a lot of consumers got lost in translation, specifically those above 25 years old to 30 years old. This we heard it in the consumer studies we have conducted during this first half of fiscal 2025.

00:20:38 We don't see something similar at all in fragrances, simply because the market of fragrances is still quite simple. You have mist, which is becoming for me like a kind of modern Eau de Cologne, which is generous content, easy to wear, not overwhelming, easy to pair it with something else. And then entry fragrances and then niche fragrances. And inside these categories, you will have the usual Eau de Toilette, Eau de Parfum, elixir. It's very simple and people navigate quite simply and they're educated very well by the cohorts (00:21:16) of influencers who are explaining these different ways of using fragrances, explaining the different ingredient trends, and explaining what works in terms of layering, for example.

00:21:28 So in fact, what we see is that the dynamism of the scenting category, because we should maybe move from the word fragrance to scenting, which is what Coty wants to own from \$5 to \$500, is all about this – I'm quoting what consumers told us. For them, it's hug in a bottle. Hug in a bottle, I

think, it's a great expression that explains why, and this is going to last. If you think about Kantar studies about the treatonomics trend, which is more or less the index – fragrance index story, they see it lasting for the next five years to eight years.

00:22:03 So it's not something that's going to be ending tomorrow. It's not anymore the discretionary category. And I've been saying that at length since five years, and I still continue to hear people almost willing that this is going to come to an end. But it's not coming to an end simply because taking care of your brand, taking care of your mood, taking care of your moods, in a way, is essential as taking care of your skin. So it's absolutely a must have rather than a nice to have. So this is for the first part, and I'll let Laurent maybe comment on the second part.

00:22:37 **Answer – Laurent Mercier:** Yes. On promotions, I will say that, indeed, I mean, we saw this starting on Consumer Beauty and color cosmetics, I will say, probably a year ago. And of course, it's also related to the slowdown of the category. So there is always this kind of mechanical reaction that lower consumption. And this is especially what we saw in the US. And then it's creating this kind of tension on promotion. And as Sue just explained also, linked to some innovation fatigue. So this is really what created this pattern on color cosmetics.

00:23:19 On Prestige, Prestige fragrance, indeed, we observed this more recently. It's more Q3 and even Q4. Again, the reasons are, I mean, we saw some of our peers indeed playing that game. Also, some retailers, back to the point of trade inventory, so, and also pressure on their working capital. So we observed this. So, again, as I just explained before, it's manageable. We are managing very – this very tightly. We don't want to play this short-term reaction. That's always a trap.

00:23:56 Of course, we know there is tension on the top line, on results, but this is exactly what we want to avoid. Again, we want to reduce inventory with the trade. Bring strong innovation. That's always the best answer. And also we are improving, increasing our media really to support all the icons, all the innovation. And again, as we just discussed, the full range, mass fragrance, Prestige fragrance and so high end. So that's the best answer to these promotional activities. But indeed, we are observing this pattern in the sector.

Operator

00:24:40 Thank you. Our next question comes from Oliver Chen with TD Securities.

Unidentified speaker

00:24:47 **Question – Unidentified speaker:** Good morning. This is Julia Shielinski (00:24:48) on for Oliver Chen. You mentioned resellers and normalization in Asia. Can you provide a bit more details on how you see Travel Retail evolving into fiscal year 2026? And within Travel Retail, how big (00:25:02) is the channel today in terms of sell through, which brands are outperforming, and how are you thinking about channel strategy over the next few years?

00:25:09 Add to that as well, if you're seeing any noteworthy consumer trends across regions that could influence demand. Thank you.

00:25:10 **Answer – Sue Y. Nabi:** Thank you. Good morning, Julia (00:25:18). So on Travel Retail, indeed that's a good question. In fact, what we are doing is that we are reinforcing the ability of this channel to

become a destination to discover newness. There were question marks around shall I buy in Travel Retail? Is still this channel a price channel? Blah, blah, blah, blah, blah.

00:25:41 I think what's happened recently, and the shift is happening hand in hand between us and our partners in Travel Retail is really to make this channel a discovery channel. Hence our decision to make the key innovations of this fiscal year, new fiscal year, sorry, Travel Retail exclusives for a month and a half. You could see and sign the Hugo Boss Bottled Beyond only in Travel Retail. And that's also a great war map (00:26:09), if I may say, before the products hit the global distribution outside of Travel Retail.

00:26:17 So this is a way to make sure that the consumers who are traveling, even if the flow of packs is stabilizing, but the consumers who are traveling are more attracted towards these kind of exclusivities that make this channel look almost like a niche boutique with the newness and the things they do not yet find anywhere else, of course, with the price incentive. So this is what I can tell you about the Travel Retail today.

00:26:44 Our sales in Travel Retail Americas and in the EMEA region are growing nicely. I have to say it. The only region that is still indeed, as you said it in your question, still heavily affected is the Asian Travel Retail, which is heavily linked to the Chinese, I will add, consumption in a way. The good news is that in China, we are seeing that the beauty market is gradually improving with Prestige beauty, specifically in the June quarter, positive for the first time in many, plus 3% and outperformance from the fragrance category at 7%.

00:27:23 So these are elements that gives us confidence that the missing part when it comes to the full Travel Retail picture, which is the Asian, Chinese Travel Retail region, is hopefully going to come back to a little bit more dynamism.

Operator

00:27:40 Thank you. Our next question comes from Andrea Teixeira with JPMorgan.

Analyst:Andrea Teixeira

00:27:47 **Question – Andrea Teixeira:** Thank you. Good morning, everyone. Good afternoon there. One, I have a question. So I appreciate the commentary about the mist. And just thinking about how you're going to pivot, assuming, of course, you're going to continue to do the successes that you've been highlighting in innovation, in the new category. But also, if you think about how to pivot in terms of channels and then your distribution. Just curious how you are setting yourself up for the balance of 2026 in terms of like the fiscal 2026, the second half, in terms of like distribution gains and losses and net, net of that?

- 00:28:31 And then a question to Laurent in terms of like the way we should be thinking of the destocking. And I appreciate that you mentioned that destocking had a 11% impact in the first – in the second – I think it's the second half of fiscal 2025 and then coming down to 5%. So I'm assuming if you can break down what you're assuming for Q1 and Q2 within that guide. I'm assuming you're still hoping to get the sell-out to grow. I think the numbers in July were quite supportive. But just think about how sell through against sell-in and when. It seems like from your commentary that you expect the destocking to last through calendar 2025. So if you can give us like a little bit of that color.
- 00:29:21 And if I can squeeze one about Wella, when and what is the strategic feel there, like strategic options you are contemplating at this point? Thank you.
- 00:29:34 **Answer – Laurent Mercier:** Yeah. Thank you, Andrea. So, indeed, in a way (00:29:37, I can start really from on the destocking. Indeed, as we shared several times and we share again, and indeed that we started to seeing indeed this destocking impact, I have to say, indeed a year ago. But a year ago, as you remember, we were still on a very good trajectory. I just want to remind that our Q1 Prestige last year was plus 7%. So we just need to remind that we are on a high base.
- 00:30:11 And I want also to remind, even though there are some headwinds, but when you look at the fragrance Prestige, the last two years' growth, if I exclude Lacoste and Russia, is plus 18%. So I think it's important also to zoom out, and really to understand that we are coming from a very high dynamic.
- 00:30:34 Then indeed what we saw starting a year ago was this destocking. So you're right indeed that the gap, indeed at the beginning of the year was pretty high. We saw it – we see it reducing step by step. So indeed, in the Q4, it was more 5%. So we are assuming in our model that this gap is going to continue to reduce. And indeed, the big one is the US, indeed, because this is where we had really the biggest gap. So really to reduce in Q1 fiscal 2026 and then really to reduce again in Q2 fiscal 2026, and then to come to a level of being nil in the Q3 fiscal 2026. So it is gradual, it's gradual, it's sequential. That's why we are very vocal about this sequential.
- 00:31:29 At the same time, as we discussed before here, I mean, we think that our retailers are pretty nervous about their working capital. So they are also very cautious on their inventory. So indeed, there are a lot of moving pieces that we are seeing and it's creating indeed this volatility. But again, this gap is going to continue to reduce and we step by step come to zero. And that's why we are absolutely confident that we are back to growth in the H2 and there is no gap between the sell-in and the sell-out. So that's really on the destocking.
- 00:32:12 I jumped just in the wrong order, just to Wella. I mean, we stay absolutely committed to divest, I mean, our stake. I mean, we made it very clear several times. So indeed, we are contemplating options and really making sure always that it's good timing and good value for Coty. But this is a absolutely a big step, a big move that we want to operate for Coty and we'll keep you posted. Okay. So if hand back to...
- 00:32:46 **Answer – Sue Y. Nabi:** Yes, I'm going to take the question regarding the – and I was trying to understand, in fact, the question regarding the – if I understood well, Andrea, it's about how we are gaining or losing in terms of distribution. So we have big distribution gains on fragrances, specifically on mass fragrances, which are up 20%. The fragrance mists that we are playing both in

mass and in prestige are purely incremental in terms of shelf space, but also in terms of sales, while bringing the same profitability. And on color cosmetics, the distribution is broadly stable.

00:33:19 You commented about mist and blockbuster fragrances. It's an and story rather than an either. It's really both that we are playing on regarding our ability to execute both at the same time. And again, what we are seeing is that we could see young men or young women buying the key fragrance of the moment from us, while at the same time buying one or two mists. If you think about our Consumer Beauty mists, they are around \$10 and our Prestige mists, they are around \$30. So this is very, very affordable. And some people even buy two to three mists to play with this layering phenomenon, together still with the signature fragrance. So it's really an and story; hence, an incremental space both in mass or in prestige.

Operator

00:34:11 Thank you. Our next question will come from Steve Powers with Deutsche Bank.

Analyst: Steve Powers

00:34:18 **Question – Steve Powers:** Great. Good morning. Good afternoon, everybody. Laurent, I just wanted to go back to what I thought I heard you say in response to Olivia's original question. I think you had said that absent tariffs, EBITDA for the year, you thought, would be down slightly. I think you're expecting a \$50 million, \$55 million net headwind from tariffs. If I subtract that from where the EBITDA base is, it only gives you like a \$20 million, \$25 million window to stay above \$1 billion. And I think you also said that you expected to be above \$1 billion of EBITDA for the year.

00:34:56 So I just wanted to replay that and test what I heard and test your confidence, because I think there's at least a \$20 million, \$25 million EBITDA window in your first half guidance. So just trying to understand where the confidence comes in for the full year. Thank you.

00:35:11 **Answer – Laurent Mercier:** Yeah. Yeah, yeah, absolutely. I mean, good morning, Steve. So, I mean, your maths are correct. Absolutely. So indeed, we are – again, we are giving precise guidance in Q1 and Q2 because, indeed, we have good visibility, and we have also good visibility coming from the tariffs. And indeed, it's hurting the gross margin in H1. I can tell you that indeed, the loss that we have on gross margin in H1 is mostly driven by tariff and also to some extent that – the euro-dollar as we still have some softening in Europe to the US, it's also impacting the gross margin. So this is indeed the major headwind and at the same time indeed flowing into the EBITDA headwind that we are sharing in Q1 and Q2, combined, of course, with a still negative top line.

00:36:08 Now moving to the H2, we start to inject some productivity actions related to tariff. So the \$20 million I'm referring to, I mean, will be really full speed from procurement and from manufacturing. So it will really secure the H2. And second, very important is that the All-in to Win plan that we announced in April will be also at full speed in H2 and will bring savings in the H2.

00:36:37 So to make it very clear, Steve, on your question, yes, there is a tariff headwind, but there is absolute confidence that all the actions that we have in place, either on the innovations, top line, but also on productivity and savings give us sufficient protection to be above the \$1 billion on the fiscal year 2026.

00:37:03 **Question – Steve Powers:** Okay. Okay. Thank you for that. And then Sue, if I could, I just want – it sounds like initiatives like skincare, from your perspective, high level, are still on track. I just wanted to get your perspective and any thoughts as to whether or not as you update the strategy, refresh the strategy on fragrances, as you've talked about today and last night, and also kind of recalibrate on the cosmetic side. As you do that work, is there any opportunity cost as just the distraction from what would have been the strategic investments and prioritization of skincare? Or are those two things distinct enough that the efforts in skincare evolution can progress undeterred as you update on fragrance and cosmetics?

00:38:03 **Answer – Sue Y. Nabi:** Yeah, that's indeed a fair question. What I can tell you is that, of course, we are betting – double betting on the treatonomics, the fragrance index, and the company will own the full spectrum from \$5 to \$500, from anything that's adjacency scenting to classical fragrances and elixirs. But I also believe that part of my role is to prepare for the soft (00:38:28) future of this company. And the soft (00:38:28) future of this company is into anything that's around care.

00:38:35 I think fragrances are care of the mind. Skincare is, by definition, the care of the skin. These are two categories that have a lot of similarities. They are both very profitable categories. They are both poised for growth for the next, I would say, decades because of the aging of the population and when it comes to skincare and the fact that people are really willing and obsessed with the fact that they want to age gracefully or in good health.

00:39:00 The global warming and the UV, I would say, exposure of human beings for the decades to come will require everyone to use sun protection. This is something I can tell you. So it's also, for me, a bet on the future.

00:39:15 Now coming back to the present, we are going to be much more, I would say, radical in terms of how much we invest. The good news is that the size of the brand is small and therefore the growth is almost natural because of the size. So we are going to be very, very careful in making the full resources available behind what is our strength, what is our uniqueness, and what is our growing business today and most profitable business also, which is scenting at large?

Operator

00:39:52 Thank you. Our next question will come from Chris Carey with Wells Fargo Securities.

Analyst:Chris Carey

00:40:00 **Question – Chris Carey:** Hi, everyone. I wanted to ask about cash flow. Laurent, over the next several years, what are the cash commitments that we should be thinking about? I think I'm specifically thinking about the swaps. You also talked about refinancing of certain debt. But I was just wondering if we could get a – some sense of kind of obligations you might have over the next several years, and I have a more strategic follow-up.

- 00:40:39 **Answer – Laurent Mercier:** Yeah. Yeah. Good morning, Chris. I mean I keep repeating and saying that, of course, cash and deleveraging is – remains the number one imperative. So indeed, I mean, we are building the plan. And as I just shared, I mean, we – our plan is really that our fiscal year of 2026 cash flow, I mean, will increase versus our fiscal 2025. And indeed, you understand that indeed, we had these headwinds in fiscal year 2025. We still have headwinds in calendar year – in the first half of fiscal 2026 due to the, again, these retailers' inventory destocking impact.
- 00:41:20 But then as we are entering the calendar year 2026, then we are really back to our normal cash cycle. So that's really with all the ingredients that I would say we are maturing very well. So starting, of course, with the EBITDA, but also very tight control on the inventory. At inventory, we shared several times, and now it's starting full speed that we are implementing a new forecasting tool, o9, and it's giving the – and it will give more and more strong results in terms of forecast accuracy, which has a direct impact on statement of returns (00:41:57), but most importantly, direct impact on the level of inventory and will help the cash. So we stay very strict on our DSO, very strict on our DPO, so of course, to make sure that our cash engine is fully in motion.
- 00:42:13 So indeed, the swaps, I mean, is – as you know, I mean, the ultimate goal is really that it's really something that we can activate that Sue (00:42:26) mentioned was as a share buyback. So of course, we are making sure that it's in the right moment and really when we get out of a more difficult context that indeed we can continue again this agenda.
- 00:42:41 And on your last point, yeah, I mean refinancing, yes, of course. We have – yeah, maturity in calendar year 2026. So it's a no-brainer that, yeah, we are actively working on this refinancing to extend the maturity. I mean, we are in a good position and of course taking benefit of our consecutive rating upgrade. Our last refinancing was very successful. We are in a good position, and of course, ready to continue this healthy trajectory on cash, refinancing and deleveraging the company.
- 00:43:23 **Answer – Sue Y. Nabi:** Yes, we are confident in selling Wella and – as for the second part.
- 00:43:28 **Answer – Laurent Mercier:** Yes. Yes. Absolutely.
- 00:43:29 **Question – Chris Carey:** Okay, great. Thank you. And just from a Consumer Beauty standpoint, this balance between revenue and profitability. Can you just maybe outline a bit more aspirations for profitability in the business maybe from a margin perspective in the coming few years? And how you might, I guess, be comfortable with potential revenue impacts if you achieve profitability objectives in the coming few years? Thanks.
- 00:44:07 **Answer – Laurent Mercier:** Yeah, I mean, that's, I can tell you, a key priority. I mean, you see, I mean, of course, in the numbers that we are really seeing that, of course, I mean, the big pool of profit generation is from Prestige, and this is indeed 90% of the profit and indeed that the Consumer Beauty is indeed generating – the profit is too low. So we have – we are working very actively on several initiatives to improve significantly the profitability of this division. I mean, that's a number one mandate. And as you can imagine, I mean, we are going through, I mean, the full value creation model. So looking at, of course, the cost of goods, I mean our SG&A.
- 00:45:07 And also on – yes, on our A&CP. Sue referred to that at the beginning. So it's really to be more precise and we need to understand where we allocate our money, and really also making sure we

are protecting our loyal consumers. I mean our brands, we have very strong, loyal consumers. So we need to make sure that we keep communicating with them.

00:45:33 So it means, and I think this is behind your question, so it's always a tradeoff between profitability and top line. Indeed, this is what we are looking in a very detailed manner. Yes, it may imply that in some cases, in some specific situations where we think that it's not profitable enough, yeah, we may be – yeah, we may take some choices which may impact indeed the net revenue. And in a way it's also something that is driving our algorithm and so our net revenue. So the number one mandate now for this division is really profitability.

Operator

00:46:14 Thank you. Our next question will come from Anna Lizzul with Bank of America.

Analyst:Anna Lizzul

00:46:23 **Question – Anna Lizzul:** Hi (00:46:22) and thank you so much for the question. I wanted to ask on the Prestige fragrance market. In the past, you mentioned that growth in Prestige fragrances was due to growth from a few demographics which included Gen Z, men and Hispanics. I was wondering if you're seeing a particular pullback from specific demographics or income tiers, particularly in the US.

00:47:34 And then on the broader US beauty market, are you seeing any specific income tiers with a pullback or a wider array? Thanks so much.

[Technical Difficulty] (00:47:00-00:47:41)

00:47:49 **Answer – Sue Y. Nabi:** I think there was a disconnection on the main line. So now we are back. Can you hear us well?

00:47:58 **Question – Anna Lizzul:** Yeah, I can hear you.

00:48:00 **Answer – Sue Y. Nabi:** Who is speaking? Is it Anna?

00:48:03 **Question – Anna Lizzul:** Yes. This is Anna from Bank of America.

00:47:59 **Answer – Sue Y. Nabi:** Okay. Sorry. Anna, thank you. So I'm – I took notes, but my understanding is that on the Prestige fragrance market in the past, the market was fueled by cohorts entering the market. And you rightly mentioned Hispanics in the US, you mentioned also men, you mentioned also Gen Zs, and if there is a pullback in some of these demographics.

00:48:26 We don't see a pullback in these demographics. We even see a penetration curve continuing to increase among the main demographics that are the Gen Z consumers, specifically the teen male consumers who are today those behind the biggest successes in male fragrances. That's one of the reasons probably the latest Hugo Boss Beyond launch is resonating so well. It's because it also attracts this younger generation versus what we did in the past.

00:48:56 The Hispanic community is continuing to be another consumer of, I would say, very strong and long lasting fragrances, which we have seen consistently continuing. And last but not least, we also see that among Gen Zs, the heavy users' proportion has never been higher than now. So they own a lot of fragrances, sometimes three or four. This is what is called the wardrobe effect. And we see now the perfume mix phenomenon becoming part of this scenting index at large, as I like call it. So to answer in short, we don't see pullback from any of these demographics.

Operator

00:49:38 Thank you. Our last question will come from Priya Ohri-Gupta with Barclays.

Analyst:Priya OhriGupta

00:49:45 **Question – Priya OhriGupta:** Hey, good morning. Thank you so much for taking the question. Laurent, could you speak a little bit more about your refinancing expectations around the 2026 maturity? Should we continue to expect that that'll be consistent with the secured structure that you currently have in place?

00:50:04 And then secondly, as we're thinking about the path to deleveraging in calendar 2026, should we assume that that's primarily driven by improving EBITDA trends as some of the cost savings take hold into the back half of the calendar year in 2026? Or is there some expectation that the Wella stake sale will also help achieve that outcome? Thank you.

00:50:32 **Answer – Laurent Mercier:** Yeah, good morning, Priya. Thanks. Thank you for the question. So on refinancing expectations, I mean, yes, absolutely. I mean, it will be consistent, I mean, with the secured structure in place, okay, so absolutely, yes.

00:50:57 So on deleveraging, again, I mean, and the model is very clear. And you understand from the guidance we are giving that indeed that Q1 and Q2, of course, will be impacted by the lower EBITDA. But we'll stay absolutely focused on the working capital and the CapEx discipline. Then entering calendar year 2026, as I shared before, with EBITDA being back to growth, cash generation, we are going to continue our deleveraging agenda. And indeed, as we shared, we are indeed actively working really on the Wella stake that is secure and indeed to help and support indeed to accelerate our deleveraging.

00:51:39 **Question – Priya OhriGupta:** Okay. Thank you so much.

Operator

00:51:42 Thank you. At this time, we have no further questions in the queue, so I would like to turn the call back over to our speakers for any additional or closing remarks.

00:51:53 Thank you very much. Thank you, everyone. We – of course, we realize our results are not satisfying. Please know that we are acting with urgency, especially in the US, as you have seen it. We have taken all the required action and we have a clear plan with first and early very, very promising green shoots. The company is now more focused. It's financially stronger than ever. Of course, no one is immune to market volatility, but these results do not reflect the true potential

and value of the business we are building. So we are confident that the real strength of the company will be recognized and visible as quickly as possible in fiscal 2026. Thank you very much.

Operator

00:52:36 Thank you, ladies and gentlemen. This does conclude today's presentation and we appreciate your participation. You may disconnect at any time.

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