

✓ **Event Details**

Date: 2025-11-06

Company: Coty, Inc.

Ticker: COTY-US

✓ **Company Participants**

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

Laurent Mercier - Coty, Inc., Chief Financial Officer

✓ **Other Participants**

Robert Ottenstein - Analyst

Susan Anderson - Analyst

Filippo Falorni - Analyst

Oliver Chen - Analyst

Olivia Tong - Analyst

Sydney Wagner - Analyst

CharlesLouis Scotti - Analyst

Anna Lizzul - Analyst

Shovana Chowdhury - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and good afternoon, everyone. My name is Madison, and I will be your conference operator today. At this time, I would like to welcome everyone to Coty's First Quarter Fiscal 2026 Question-and-Answer Conference Call. As a reminder, this conference call is being recorded today, November 6, 2025, at 9:30 AM Eastern Time or 3:30 PM Central European Time. Please note that on November 5th, at approximately 4:30 PM Eastern Time or 10:30 PM Central European time, Coty issued a press release and prepared remarks webcast, which can be found on its Investor Relations website. On today's call are Sue Nabi, Chief Executive Officer; and Laurent Mercier, Chief Financial Officer. I would like to remind you that many of the statements today may contain forward-looking statements. Please refer to Coty's earnings release and the reports filed with the SEC, where the company lists factors that could cause actual results to differ materially from these forward-looking statements.

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

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

QUESTION AND ANSWER SECTION

Operator

And we will take our first question from Rob Ottenstein with Evercore. Please go ahead.

Analyst: Robert Ottenstein

Question – Robert Ottenstein: Great. Thank you very much. I've got a few questions all around the Gucci topic, if you will. So, first, can you talk a little bit about how exiting the Gucci license will impact your overall portfolio? How you're thinking about it? And then, does the Kering announcement along with L'Oréal actually have any influence at all on how you're thinking about your overall licensing model? Any tweaks to that? And then, finally, is it at all possible that the Kering will try to take the Gucci license back before its expiration? And can you come to a deal with Kering in terms of an early license termination? Thank you very much.

Answer – Sue Y. Nabi: Good morning, Robert. Thank you very much for giving me again the opportunity to speak about this important topic. So, let me start with the first question, which is around how this is going to impact Gucci's portfolio. So, with the public announcement that the Gucci license will no longer be part of our portfolio after its expiry. As you can imagine, the focus of Gucci for the next several years will be on – number one, will be overdriving the brands with the biggest long-term growth potential. Number two, we will be building, and I should even say, amplifying the new licenses and brands we have recently added to Coty's portfolio. And number three, in parallel, we will optimize the Gucci brand during its remaining term, while of course fully respecting and operating within all of its term.

In fact, and it's important for me to have the occasion to say this, the uncertainty over the last few years around the fate of the Gucci license resulting from the public comments of the licensor were a challenge for the Coty organization and the Gucci reputation, including whether to build the brand in a strategic or a tactical way, and also its role in our overall portfolio. And now, as there is full clarity on the brand direction, we now have fantastic opportunity to grow the rest of the portfolio with a bigger sense of focus, especially on the ultra-luxury part of the business with the comprehensive portfolio of ultra-premium brand. I'm thinking about Atelier des Fleurs from Chloé, I'm thinking about Burberry Signatures, Jil Sander collection, Infiniment Coty collection and upcoming Etro and Marni collections. So, even without the Gucci license, it's important to state that we remain firmly in the top three for total global fragrances and for prestige fragrances.

And with this clarity on the fate of Gucci now, we will work to optimize the brand in a more tactical way until the last day of the license, while focusing on accelerating the rest of our portfolio. As a reminder, and you have seen it properly in our prepared remarks, we have already grown some of our biggest brands at a fantastic pace in the last five years. Burberry by 140%, Hugo Boss by 33%, Chloé by 70%, Marc Jacobs by 50%. And we can now focus even more on further expanding these brands, while in parallel building our next stars with brands like Swarovski, just like we have built Gucci. You may recall that we grew Gucci by 60% over the same period at constant currencies. Now, I would like to take this opportunity, Robert, if you allow me to stress that some of the delusional media rumors from recent months about Gucci potentially exploring the sale of some of our key fragrances categorically falls. May I repeat? Categorically falls.

We are committed more than ever to solidifying our position as a prestige beauty company with an emphasis on fragrance and scenting across price points, with cosmetics and skincare best-in-class capabilities. And as you can imagine, our long term fragrance brands are the backbone of this strategy. Now, moving to the second part, which is a very important also question, which is around the impact of this events on the licensing model. I think that we can say that everything that's happened confirms that the winners in beauty have been and will remain specialty beauty players like Gucci. In-housing beauty remains incredibly complex, incredibly costly for non-beauty players, which reinforces the appeal of the licensing model. May I remember – remind everyone about why this licensing model is really a stronger model? It offers strong return on investment with no material upfront license or renewal costs, while established brand equity increases the probability of success and a payoff.

Again, a successful licensing business depends on portfolio diversification and on minimizing the license duration risk. In recent years, as you have seen, we have proactively renewed and significantly extended many key licenses, including Hugo Boss, Marc Jacobs, adidas, Davidoff and all these for an additional 15 years plus. So, today, I would say that 85% of our portfolio is either an owned brand, a perpetual license, which we view like an owned brand, or a license with a very long-term remaining duration of more than seven years, 85% again. So, for our core beauty portfolio, it remains also a very long-term in terms of nature, with approximately 80% of the brands either being owned or under long-term license. We also have been very prudent, as I said it for many years now, that no single brand in our portfolio accounts for more than approximately 10% of our sales.

Now, I'm going to answer the last part of your question which is around an early exit from the license. So again, there is no change to Coty's existing license on our ability to operate the Gucci Beauty license. All contractual rights remain in place and continue as agreed. Coty will continue to manage and operate Gucci Beauty under the same structure already in motion. Overall, we continue to solve this amicably with Kering. Last part of your question which is around a potential deal. As you can imagine, we are always open to evaluate any proposal if and only – if this creates real value for the company.

Question – Robert Ottenstein: Thank you very much.

Operator

Thank you.

Answer – Sue Y. Nabi: You are welcome.

Operator

And we will take our next question from Susan Anderson with Canaccord. Please go ahead.

Analyst:Susan Anderson

Question – Susan Anderson: Hi. Good morning. Thanks for taking my question. I guess maybe just a follow-up on the last question. I just see that Coty filed a lawsuit against Kering for breach of contract. I guess maybe if you could just talk a little bit about what that means for Coty, if that maybe helps to sell that license back early. And then also, I don't think you talked specifically about any financial impact when the Gucci license does transition to L'Oréal. Not sure if you could give any numbers around that. Thank you.

Answer – Sue Y. Nabi: Yeah. Good morning, Susan. So, let me maybe start with the second part of your question which is around potentially the impacts of this exit when it happens. As we have been discussing for some time now, we have been actively focused on risk management in the portfolio of Coty. And again, as I said it earlier, no brand bigger than approximately 10% of our sales. Now, that the public announcement has been done that the license will no longer be part of our portfolio after the expiry date, our focus for the next several years will be on overdriving the brands with the biggest long-term growth potential. It's going to be also in building and amplifying the new licenses and brands we recently added to the portfolio and, in parallel, optimizing the Gucci brand during its remaining term. As you can know it, Gucci is currently a sizable brand in the portfolio, so the loss of the brand at expiry will mean some profit impact in the year after.

To address this gap, we will be overdriving again all the other rest of the portfolio while also addressing our cost structure. Now regarding litigation, what I can tell you is that, of course, I will not comment on ongoing litigations. And I can tell you that we will defend our rights until the last day, until the last hour of the contract.

Question – Susan Anderson: Okay, great. Thank you so much. Good luck this holiday.

Answer – Sue Y. Nabi: Thank you very much.

Operator

Thank you. And we will take our next question from Filippo Falorni with Citi. Please go ahead.

Analyst:Filippo Falorni

Question – Filippo Falorni: Hi. Good morning and good afternoon, everyone. Sue, maybe can you comment a bit about the better performance that you're seeing in fiscal Q2 that is driving you to the higher end of the range? Are you seeing an acceleration in some category growth? Is it the inventory dynamic solving itself earlier than expected? And then, I had a bigger-picture question on the fragrance miss. Can you just help us dimensionalize the opportunity in that category and also just the margin profile as you expand there? Thank you.

Answer – Sue Y. Nabi: Yeah. Good morning, Filippo. So, on the first question regarding the better performance that we are contemplating for Q2 which led to our increase in terms of being at the more favorable part of the guidance for Q2, I would say that it's a mix of everything in fact. The dynamism of the fragrance market in the US continues to be very strong. Again, we are talking about a market that's in the mid-single-digit growth. And what we see in Q2 in terms of market dynamics is confirming this element, so we believe it's going to be a good holiday season. This is number one. Number two, our innovations, specifically the BOSS Bottled Beyond launch that started at the end of the Q1, more or less, and it was exclusive to Travel Retail during this summer until the end of August, so it all started in domestic markets around the end of September. This is such a big success that I believe it's going to translate into a stronger sell-in also for Q2.

BOSS Beyond Bottled is today the number two innovation in Europe, the number one innovation in volume in the DACH region, number one in Australia, and even number six in the US as an innovation for a brand that has never been a US, I would say, traditionally present brand on this very important market. So, for us, it's really a big strategic bet and it looks like it's going to be very, very big, which will help us to increase our market share in the male fragrances, which are also booming, as you know it. Number three, I think the

dynamism is also at the entry part of the market, which is around the entry prestige brands, but moreover around the mist. The mists today are representing more or less 2% of Q1 net revenues in fragrances, which is big, I have to say. We have become the number three or number four player in Europe, number one in Italy, to take a few examples.

Everywhere or every brand that launched its own mist is seeing a very strong halo effect on the base business, be it Kylie, be it philosophy, or Calvin Klein that are the first to go to market and there are other brands arriving soon. And last but not least, you had a question around the gross margin of mists. The way we have built this mists is, number one, to make them fully additional, and this is really confirmed, it's really incremental sales for the company attracting consumers, which are the youngest part of the Gen Z targets, which are not usually buying into traditional fragrances to that level. So, this is one. And two, its gross margin that is in line with the one of our prestige fragrances. So, there is absolutely no dilution in the way we have crafted and created this new category. So, in a way, this Q2 better than expected outlook is driven by our ability. And I guess, we are the only company doing this to play high-low, while at the same time securing the heart of our business, which are premium fragrances.

Operator

Thank you. And our next question comes from Oliver Chen with TD Cowen. Please go ahead.

Analyst: Oliver Chen

Question – Oliver Chen: Hi, Sue and Laurent. As we are excited about the second half here, what are your thoughts in terms of the key launches and how you'll think about categories and the comparisons as well that will give that return to growth in the second half? Also, as you think about Consumer Beauty and Brazil, we'd love your thoughts there on potential outcomes and timelines. Thank you.

Answer – Laurent Mercier: Yeah, thank you. Good morning, Oliver. So, indeed, about H2 and, indeed, we are confirming that we will be back to growth in the second half of this fiscal. And so, that's the number one message. So, what is behind this number is the that, indeed, the continuing momentum on the beauty category and especially of the prestige and fragrance category. So, we see really consistent, resilient growth of this category. And again, you see the numbers. If I take the Q1 category, fragrance growth in the US, which is a plus 7% and our set out in Q1 is in line with this category growth. And indeed, all the work that the new management team is putting in place in the US is really confirming that this trend is going to continue and amplify in the H2. So, that's very important category. And the US, which as you remember, was the main issue that we had a year ago. Now, we are really already in a good place and we are recovering very fast.

So, that's really the big element. It's going to be amplified by strong innovation. So, as you heard and as you saw, I mean BOSS Bottled Beyond is off to very good start, and of course, it's going to continue and amplify. And we are coming also in the second half with an additional blockbuster. So again, the fundamentals of this growth are here. And the last element, which I want to highlight, which is very important, is that, indeed, at the end of the calendar 2025, we are seeing that our sell-out performance will converge with the sell-in performance. So, indeed, we are seeing already this quarter and we continue next quarter that the level of inventory with retailers is declining significantly and, indeed, that we can really be back to really a well synchronized sell-out and sell-in. So, these are really all the drivers, the key drivers confirming indeed heading our H2 back to growth and, of course, to continue on this growth trajectory. So, indeed, that's really on the H2.

So, indeed, on the Consumer Beauty cosmetics, again, I mean, we announced and we made very clear that, indeed, now it's really led by Gordon von Bretten, as you know, I mean knows very well the company. I mean he was head of transformation a few years ago. And Gordon is really currently assessing and really reviewing the full potential of this division, working on all components. So, the number one mandate, of course, is really to rejuvenate really the P&L, I mean, the profit and the cash generation from color cosmetic. And I can tell you that Gordon is already full speed, really built already a strong team really to manage all these initiatives. And I can tell you it's covering the full spectrum again of the P&L starting, of course, with top line, gross to net, gross margin, A&CP allocation and, of course, it's a fixed cost. So, it's really in motion. And we will keep you posted, of course, on the progress on this journey.

And second, which is on Brazil, as you know, Brazil is a very – is a profitable business. I mean, really the work done over the last years really has brought very, very good result. And indeed, I mean, conclusions on Brazil are likely to come before than on Consumer Beauty, than on color cosmetics business.

Operator

Thank you. And we will take our next question from Olivia Tong with Raymond James. Please go ahead.

Analyst:Olivia Tong

Question – Olivia Tong: Great. Thanks. Good morning. With respect to fragrances, you've got really substantial growth both in ultra-prestige and mist. So, can you talk about the opportunity you see for both of them and, more importantly, how to balance the two, particularly in terms of the mist side? And then, just building on that, just thinking about the barriers to entry on mist, and then what your view is on price mix impact over time, given those dynamics? Thank you.

Answer – Sue Y. Nabi: Hi. Good morning, Olivia. Let me take this question. So, again, let me start with the mists part. This mists, as I said it earlier, we really designed them with two or three principles in mind. The first principle is that we have to be where the Gen Zs and the consumers are shopping today, and they are shopping this kind of fragrances. You could think about the mist like a kind of modern cologne. It's not new, the mists, but the way we've designed our mists, maybe is the comparison that could be done between Nokia mist and an iPhone mist models. That's exactly what we have done. And on top of this, we added entry barriers. Indeed, it's a very important element. First, in terms of our ability to use the library of winning scents from our Prestige division. And number two, I can tell you that the formulation of our body mists, whatever is the brand, are patented formulations using ingredients that are there to act on the longevity of the scent on the skin of the body.

And this is really a unique knowhow to the company, which allow us to do what a lot of brand mists has not been able to do so far, which is to create a lasting impression. If you read online what people love and hate about the mist, they love that it's easy to spray. It's also stackable. The mist phenomenon is incremental, because a lot of young users use it as a lingerie, and then they add their favorite fragrance as the main outfit on top. So it's not instead, it's with the rest of the fragrance consumption. And if you look at social media, the number one need gap is that it does not last. So, this is where we use this patented technology that allows the fragrance to stay on the skin as true as possible from the moment you spray it on to the end of the day. So, that's the first element regarding the mist. And for me, the mist is just a first step into, what we call, scenting everything, which I believe is the mission of the company, the knowhow of the company, and the competitive advantage of the company.

So, you see many more things arriving in the near future around scenting your body. Number two which is around the ultra-premium part of the market. This part we used to call it niche. I think niche is really a wrong word because it's not that niche, in fact. Today, if you look at the biggest niche brands, they represent multiple hundreds of millions of dollars of net revenues. In a country like the US or in a country like UK, it's close to 20% of the prestige fragrance market. So, it's a sizable portion of the market and probably the most profitable part of the market, too, given the high prices that are used in this area. There, it took us some time to build the portfolio, but now we have the portfolio. Again, there aren't that many companies that have a portfolio of ultra-premium brands. Again, I quoted earlier, of course, the Chloé Atelier des Fleurs collection, the Burberry Signature collection, the Jil Sander collection, the Boss collection, the upcoming Marni and Etro collections, and of course the owned brand which is Infiniment Coty Paris.

And we are continuing to chase new names in this area so that we are able to build a Coty ultra-premium business that represents between 10% and 20% of our business. And today, it's only 1%. It's growing at 17%, but we start from a small base. So for me, this is a fantastic growth engine for the future of the company. So again, we are the only company playing high-low on top of the core of the market.

Operator

Thank you. And we will take our next question from Ashley Helgans with Jefferies. Please go ahead.

Analyst:Sydney Wagner

Question – Sydney Wagner: Hi. This is Sydney on for Ashley. Thanks for taking our question. Can you talk a little bit more about what you're seeing in terms of promotion and how that maybe varies by region or channel? It sounded like there was some challenge from peers leaning into promos, so just curious if that puts pressure on you guys to shift your promotional approach at all. And then, also just curious about any trade down or up dynamics. As you mentioned, you are really spanning price point, especially within your fragrance offerings. So, curious kind of what you're seeing there in terms of consumption trends. Thank you.

Answer – Laurent Mercier: Yeah. Good morning, Ashley (sic) [Sydney] (00:24:54).

Answer – Sue Y. Nabi: (00:24:55)

Answer – Laurent Mercier: Yeah, indeed. So, indeed, we are seeing some, indeed, some promotional activity. Indeed, I mean, I can tell you, indeed, from some of our peers. I mean, we are very disciplined and very diligent really not to be aggressive on that game. So, indeed, we are very choiceful, really focusing on, again, on innovation and continue really to protect, indeed, our brands. So – and we are also developing really some ways to avoid this game which is, as we shared a few times now, we have really dedicated teams working on revenue management. And revenue management is exactly how to avoid playing these kind of promotional games. I'll give you some examples. In the US, one category which is growing fast, pen spray. Pen spray are a smaller format, 30 milliliters, indeed, lower price. And indeed, instead of promoting some of our icons, in fact some consumers can go to this segment and it's also a smart way to enter the category, and then they go to the item.

So, we are really developing different formats, different games exactly to match also sometimes some pricing expectation. At the same time, what is very interesting and was a previous point from Sue is that you are seeing that the high-premium category is flying, okay? So, it shows that we have really – with really our capabilities, our knowhow, and really also the formulation that we are bringing, there is really a path that is not – of course, it's not only about price. It's really about always the excitement about the category. So I think,

again, we are very well-positioned. And you understand that the \$5 to \$500 is the best answer to this promotional environment, because we are covering the full spectrum. We are matching the needs of all our consumers. And indeed, I can tell you so we are very choiceful and we are making sure indeed that we are protecting our profitability.

And on your last point, trade down versus trade up, I mean, that's exactly this point about the \$5 to \$500. So, it's really managing the full spectrum. Body mist also a very great answer to this question. I mean, we are seeing Gen Z very excited by our body mist. It's \$20 to \$30 product that they really enjoy. Different formulas as we indicated. And then, it's also a path (00:27:52) to access to more premium products. So, you are absolutely right. But I think all the strategies, the teams and the tools that we have in place are really helping to navigate in this environment.

Answer – Sue Y. Nabi: In fact, to complement what Laurent just said, we are seeing clearly that consumers are stacking the scents. This comes from the Middle East. This is a trend that's globalizing. We call it scent stacking or scent wardrobe, depending on the moment. So, it's about using your body mist on your skin, and then using a lotion on the rest of your body. And on top of this, you add your favorite cologne for the day and your favorite elixir for the night. So, that's exactly what we are seeing. So, no trade-down, because the more expensive categories are the fastest growing, but it is a story of and, rather than a story of either.

Operator

Thank you. And our next question comes from Charles Scotti with Kepler. Please go ahead.

Analyst: Charles Louis Scotti

Question – Charles Louis Scotti: Yes, hello. Good afternoon. Do you hear me?

Answer – Laurent Mercier: Yes, we do. Good morning.

Answer – Sue Y. Nabi: Yes.

Question – Charles Louis Scotti: Okay, good. Thank you. Good morning. And I have three questions, please. The first one, how is the shift to other e-commerce affecting the sell-in, sell-out dynamics? I suspect that brick-and-mortar retailers are experiencing some destocking, partly due to the intensifying competition from online players. So, I would like to understand whether the shift to online, particularly in the US, could lead to a prolonged period of net destocking in that market. Second question, on EMEA, which, if I'm not mistaken, was down 9% like-for-like in Q1, it seems that it's the mass color cosmetic business which is dragging on growth. Could you comment on the trends of the prestige fragrance business? You mentioned mid-single digit growth in the US. What about EMEA? And if you could give us an idea of the price mix, volume breakdown of the category both in EMEA and in the US, it could be helpful.

Lastly, in China, demand seems to be recovering. You are obviously under-indexed on the Chinese market, but you mentioned that the outlook for the fragrance category is quite promising. Who do you think will take the lion's share of the market between the niche brands and prestige brands? And with which brands are you going to tackle the Chinese market more specifically? Thank you.

Answer – Laurent Mercier: Yeah, good afternoon, Charles. So, indeed, I can take the first one indeed. And Sue can complement on China. So, indeed, on your question about brick-and-mortars and e-commerce, just

to zoom out a little, yeah, of course, I mean, e-commerce is growing very fast. And you know that now it's more than more than \$1 billion net revenue for total Coty, Inc. and it's growing fast. In the Q1, we are seeing, I mean, the sellout of our e-commerce on both divisions is 5% to 6%. So, indeed, we are really taking full opportunity of these channels. So, that's of course very dynamic. From a destocking standpoint, no major difference between the both. What I will highlight though is that, of course, e-commerce players and the number one being Amazon, as you know, they are very strict and very well organized on their inventory management. So, indeed, it means that it's creating – if you look at full picture, indeed, reduction of retailer's inventory.

So, indeed, you have, I would say, I call it, more mix effect from between e-comm and brick-and-mortar. So, that's a fact, but it's not material. The other element is also that it's putting pressure on the brick-and-mortar retailers. And as a result, they are also becoming more disciplined and strict on their inventory management. So, I think you need really to look at it more this way between both channels. On EMEA, yeah, down in this year. It's mostly color cosmetic, indeed, as you see for the whole company. Indeed, our prestige fragrance sellout is positive. So, it's really dynamic. And again, all the innovations that we are bringing, BOSS Beyond Bottled is a number two male initiative in Europe. It's number one in volume in Germany. And we are only at the beginning. So, it's going to continue and amplify into Q2. So you will see really the sellout in EMEA continue to increase.

At the same time, same as the US, yeah, we are still facing and we will close by end of calendar, indeed, from a sell-in standpoint facing the retailer de-stocking. And for example, Douglas made very make public that they are focusing on inventory reduction. So, these are really the first two element and I will hand over to Sue.

Answer – Sue Y. Nabi: Yeah. Laurent, maybe I can complement your answer regarding the dynamics of the fragrance market in the US versus in Europe. Again, what we can say is that the prestige fragrance market grew by 5% during the quarter globally, which is a little slower than months ago, but it's ahead of many other consumer categories, including color cosmetics. In the US, the market remains very strong, as I said it before, 7% of growth in the quarter. And very importantly, this is to answer your question, this includes low-single digit volume growth, since the category continues to gain users and additional usage occasions. In Europe, the picture is a bit different, where the market has been growing only by low-single digits in Q1, coming from mid-single digits. This is mainly due to one market. It's very important where, by the way, Coty is quite small, it's the French market, where the likes of the L'Oréal, LVMH, and Puig are very big.

It's the market that is really very big and not very dynamic, whereas markets like the UK and Spain remain very strong with a mid-single digit growth, including here, again, low-single digit growth from units. So, that's the picture between US and EMEA value/volume growth. Now, on China, the market is recovering. That's good news. It's recovering on all the categories that the company is playing on, the skincare or fragrances or color cosmetics. Coty has posted a 16% sell-out growth in the market to be compared to a market that was around 7% of growth, which is a good growth. And this was driven by our skincare business. Lancaster is doing wonders in this market, which is very important. It's the most competitive skincare market in the world. Even if it's from a small base, the brand is doing 90% of growth on the market that's more or less 8% to 9%.

So, we are growing 10 times faster than the market, both in photo protection, which is UV care, but also on traditional skincare with our moisturizer among the bestselling moisturizers of the Chinese market. The other part, which is the biggest part of our business, 70% of our business is fragrances. And there the market is back to growth. And we are growing two times faster than the market. So, your question is what is needed to compete on this market? Exactly the brands we have at Coty, in fact. There it's not a question of high-low. It's all about high. High, high, high. And the higher you go, the better it is. And again, I've been describing at length the very comprehensive portfolio of ultra-premium brands that we have today in our hands, again,

Atelier des Fleurs, which is fundamentally doing well in Asia, Burberry Signature, Boss Collection, Jil Sander Signature, Marni and Etro upcoming collection, Infiniment Coty Paris.

And I'm sure I forgot one or two, but this is really a portfolio that will allow us to play in this area like never before to reach here not 20% of the market, but likely 40% to 50% of the Chinese market are ultra-premium brands. So, there is really a big game to be played with a very, very profitable business to build.

Operator

Thank you. And we will take our next question from Anna Lizzul with Bank of America. Please go ahead.

Analyst:Anna Lizzul

Question – Anna Lizzul: Hi and good morning, good afternoon. Thank you so much for the question. I was wondering if I could follow up on the prestige fragrance expectations for just the holiday season. Gifting is such a big driver of fragrance sales for many retailers during this time. And should we expect trends, I guess, to be more similar as you saw before Q1 on the more difficult comps for prestige fragrance gifting despite some of the sequential improvement that you might be expecting in the next quarters? And then, on the mass beauty side, just wanted to follow up on the comment regarding the rapid channel shift. If you could elaborate on where you're seeing buyers gravitate in mass beauty and how it's impacting your business. Thank you.

Answer – Laurent Mercier: Yeah. So, good morning, Anna. Indeed, I mean, just to confirm again, and we shared with you a few numbers, I mean, we are very confident again about the prestige fragrance performance and category. Again, you know the numbers. I mean, it has been very resilient for many years, many quarters. The fragrance index that we talked a lot about, I mean, is fully at play. So, we are expecting a similar trend for Q1, also amplified by very powerful innovation, and BOSS Beyond Bottled is one of them. We are seeing Gen Z being very, very excited by the category. And again, back to previous point, what's very healthy is this \$5 to \$500 where we are seeing the high-premium category growing double-digit. And of course, holiday season is a great season for that. And at the same time, we are seeing ultra-premium being very dynamic. So, yeah, we are expecting really very dynamic trend in the US and also in Europe.

So now, on the...

Answer – Sue Y. Nabi: I can take Europe.

Answer – Laurent Mercier: Yes, yes.

Answer – Sue Y. Nabi: So, Anna, if I understood well, your question is about the shifts that are happening between, let's say, the brick-and-mortar/e-retailers on one side versus Amazon and TikTok Shop on the other side. If I'm not wrong, then I will elaborate on this. What we are seeing, indeed, is a shift that's very important, and it's a story of and rather than a story of either, again, here. It's a question of funnel. And what we see is that a lot of the youngest consumers, at least, are really looking for what's new on TikTok, almost like a search engine and a hype engine at the same time. It's already also an e-commerce engine, not in every country; it's the case in UK. I think it's the second beauty retailer already in the UK, and this is where we learned our lesson with Rimmel where we really tested the channel to understand how to play with this channel, and we understood that we need to see it as an investment channel, now more and more as an e-comm channel.

But this is really where you create the cool factor for your brand. And then, you move to Amazon where you get the ratings and the big numbers. And then after, you go to the rest of the retailers, including dotcoms from retailers. So, that's really a way that is today played by key players when it comes to how to create virality or how to create desirability and demand. So, we are doing this in the US also with CoverGirl that also did a test on TikTok Shop recently, and we are amplifying this two moves in the coming quarter with the new innovations that are going to be done in Q3. The other thing that we are also seeing is that there is also a shift in terms of the share of what we call in the mass color cosmetics brands. If I take the example of MCoBeauty in Australia, which was a kind of – these kind of indie brands that are quite cheap in terms of pricing, very nimble, very agile mainly from the shelf innovation from CPMs (00:40:52), et cetera, they are collapsing. They are collapsing after one or two years.

And this is really something that we are seeing across many regions with this kind of players, including key ones in the US but also in UK who are starting to lose market share and who are not giving the growth of the category that retailers are expecting. So, we expect a kind of – inside the channels, we expect a kind of rebalancing between these indie players which are more or less new players and the more traditional players which are learning the lesson quite quickly.

Operator

Thank you. And we will take our next question from Shovana Chowdhury with JPMorgan. Please go ahead.

Analyst:Shovana Chowdhury

Question – Shovana Chowdhury: Good morning and good afternoon. Thanks for taking my question. I have a couple questions. You addressed the strategic review to Oliver's question earlier, but I wanted to dig a little bit further into how you're thinking about the various options. Can you give us more color on the results that would inform your decision for each of the options out of this review, whether you decide to keep the business, given like you are trying – you had management changes and you just mentioned you're trying with CoverGirl testing out on TikTok or would it be a JV or an outright sale? Given the strategic review, how do you prioritize the decision of the strategic review versus a (00:42:19) sale? Thanks.

Answer – Sue Y. Nabi: Okay. Let me take this last question. Good morning, Shovana. So, indeed, what we are doing are two stories, two very different stories. So, you have on one side the Brazilian business, which, as Laurent stated it before, is a very profitable business, a business of \$400 million, a business that doubled its size in the last, I would say, a decade, a business that has its own factory that produces more or less 0.5 billion units per year, R&D specialized in melanin rich skins. You have also end-to-end capabilities, be it in terms of digital capabilities, commercial capabilities, marketing capabilities. And last but not least, with a portfolio of brand that is very different from the global portfolio of brands that Gucci is operating elsewhere. So, it's really local players; the number one nail maker, Risqué; the number one male skincare brand in the market; big growth in terms of face skincare; leadership position in terms of body scenting.

So it's really a business that we believe has potentially more chances to continue to do its journey with a new acquirer, if I may call it like this. And this could happen quite quickly, given the size of the business, the profitability and the dynamism, so that's one. On the other side, the regarding the color cosmetics business, there, again, the strategic review is a real one. It's not just a word to mean something else. It's really reviewing our strategic options. The first one is, by nature, to do the job of making this business as fast growing and as profitable as possible, and quickly as possible. And there, the view that Gordon and myself are having at the helm of this business hopefully will produce quick results that we will see in the coming

quarters. Then, there is a deeper work that's going to be done on the cost structure, on the gross to net ability to lower this part that is today very, very heavy, but also on the A&CP allocation.

We believe we went too far in terms of spending a lot on Gen Zs, who are by nature the least loyal consumers on earth, instead of keeping our key loyal millennial and Gen X users, which are the big portion of the market, but also the ones that are growing more and more this kind of market, given the indie brands are not growing anymore the market. So, in a way that's really the outcome potentially of this part. And there, the first results in 12 to 18 months, but it could take longer. So there is not the idea to sell the business tomorrow. There is the idea to really assess all the possibilities and see if this is an area where we want to continue to trade or not, specifically given the fact that it's going to be more and more and we see the businesses in and out, small players, sometimes they go big, but they become smaller later, and they take a shelf space and they disappear. So, that's really something we need to pay attention to.

Do we want to play this game or not? Are we equipped to play this game and are we able to do, I would say, a positive progress in this area? Now, does it have any impact on Vela? Absolutely not. Vela is a very separate topic. As Laurent said it several times, the standstill period is over since the end of calendar 2024. We are actively, more than ever, working on this topic right now, so stay tuned.

Operator

Thank you. And at this time, there are no further questions in queue. I will now turn the meeting back to our presenters.

Thank you, everyone, for your questions and see you soon.

Operator

Thank you. This brings us to the end of today's meeting. We appreciate your time and participation. You may now disconnect.