

Coty 1Q27 Earnings Call Q&A

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CORPORATE PARTICIPANTS

Markus Strobel – Executive Chairman of the Board and Interim Chief Executive Officer
Soraya Benchikh – Chief Financial Officer

MANAGEMENT DISCUSSION SECTION

Operator
Good morning and good afternoon, everyone. My name is Tasha and I'll be your conference operator today. At this time, I would like to welcome everyone to Coty's First Quarter Fiscal 2027 Question-and-Answer Conference Call. As a reminder, this conference call is being recorded today, November 5, 2026 at 9:30 AM Eastern Time or 3:30 PM Central European Time. Please note that on November 4, 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 Markus Strobel, Executive Chairman of the board and Interim Chief Executive Officer; and Soraya Benchikh, Chief Financial Officer.

I would like to remind you that many of the comments today may contain forward-looking statements. Please refer to Coty's earnings release and the reports filed with the SEC where the company lists factors that could cause actual results to differ materially from these forward-looking statements. In addition, except where noted, the discussion of Coty's financial results and Coty's expectations reflects 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.

Operator
We'll take our first question from Charles-Louis Scotti with Kepler. Please go ahead.

Charles-Louis Scotti
Good afternoon, good morning, everyone. I have three questions, the first one about the gross margin which came in slightly below your guidance, this is the only KPI basically, that was below. But could you explain what drove this slight miss? And you also provided guidance for Q1, but not for Q2. Could you share what you have built into your budget for the next quarter and over the full year?

Secondly, thank you very much for providing all the details on the performance of your Top 6 core Prestige brands and Top 4 core Consumer Beauty brands. Does this give us an indication of the portfolio you intend to retain as part of your strategic review? And given the absence of skincare brands from this list, should we interpret this as a potential intention to exit the skincare category at some point?

And lastly, on the impact of the Gucci license exits, I get the impression that there is a very wide range of estimates for the EBITDA impact next year. Even so, I assume that this impact will be relatively mechanical. Could you please help us quantify it more precisely? And I see the consensus on adjusted EBITDA at $680 million next year. Does that seem reasonable to you considering the impact of the license exits? Thank you very much.

Soraya Benchikh
Good afternoon. I will take the first part of the question. This is Soraya Benchikh. I'll take the first part of the question and then pass it over to Markus for the second part.

Firstly, let me start with the gross margin and where we landed for the first quarter. Our gross margin declined, as you saw in our statement, by 120 basis points. About 50 basis points of this came from the headwinds from the Middle East freight and material costs, and the rest was basically down due to unfavorable mix and excess and obsolescent stock.

We're very focused on the controllable drivers that impacted excess and obsolescent stock and we're working through these through better planning to reduce this because we've had a more scattered approach to innovation with smaller innovations that weren't successful. So, as we concentrate, and you rightly highlighted in our statement that we've concentrated behind our six brands, we will shift to fewer and bigger launches. And that will also help us in terms of the planning and having less obsolescent stock. So, this should drive better

S&OP, better demand planning and forecasting and fewer bigger launches will reduce our E&O as we work the inventory down. So, these benefits will build over time, but we're very clear on what we can control in terms of the impact on the gross margin.

Markus?

Markus Strobel
First of all, we are very pleased with our Top 6 core Prestige brands growing 5% in the first quarter. Still more work to do because we need broader growth. We need faster growth and we're working on that, but we are pleased with that. And we are also pleased with the progress we're making in our Consumer business where a decline that was 8% in first quarter fiscal 2026 is now down to 3% and we're catching up with market share. And on skincare, actually we have very much improved profitability and we are pretty happy with that, too.

Now, what this means for your question, it is important for us that all of our business units do well, be it Prestige, be it Consumer business, be it skincare, and we're on the way of doing it because it will also give us the strategic optionality of the future. So, to answer your question directly, I would not draw conclusions from what happened in the first quarter to the future portfolio, but it's far too early. We are in the middle of our strategic review. We will commit ourselves to complete it by the end of the calendar year, which is close, but we're still working on it.

Back to you, Soraya.

Soraya Benchikh
We're at the moment in the middle of transitioning the Gucci business. On the impact of the Gucci exit, we have reached a deal on Gucci. We are protecting the fiscal 2028 cash flow and in terms of the value, have we communicated value?

Markus Strobel
Yes, we have. I can step in here on the value of the impact and we are addressing this at the moment as part of our overall savings package that we're also going to come out with it before Christmas. But to give you an indication, and it's the same indication I gave last time, Gucci was a low double-digit percentage of our portfolio at a gross margin of about 70% in line with the Prestige portfolio, an A&CP level of about 29% and a profitability in line with our Prestige portfolio. You can think about that Gucci impact is about 40% of the contribution of the net sales. So, it's a sizable impact that we will have to manage, but we have plans. We're finalizing the plans and we will be back to you with those plans by January because we're going to complete this all by the end of this calendar year.

Soraya Benchikh
And just overall, the agreement that we reached with Gucci is to compensate one less year of profit and cash flow and inventory and also to fund the restructuring costs that will come out of it. So, we've received $250 million upfront and the total value of the agreement is $400 million. Hope that answers the question.

Operator
Thank you. We'll take our next question from Nik Modi with RBC Capital Markets. Please go ahead. Your line is open.

Clark Lee
Hi. Thank you for taking the question. This is Clarke Lee on for Nik Modi. In the prepared remarks, you called out a partnership with Brandlight that's designed to strengthen your visibility across AI-driven search. Can you give us a little bit more color on the measures of success of this partnership and how you plan to optimize for different AI platforms given that each platform leverages unique combination of inputs to derive product recommendations? Thank you.

Markus Strobel
Yeah. Thanks, Clark. I mean, we are in the process of really modernizing our advertising quite drastically both when it comes to advocacy, influencer, creative management and when it comes to AI search. So, the collaboration with Brandlight is a key pillar in this strategy and I'm fully aware that the algorithm, the keywords and the content is different from platform to platform, but this is exactly why we are working with this company that gets us ahead of the game and we are concentrating. This is very important, we want to get this 100% right. We want to make a big impact. It's why we concentrated it on the top six brands in the top five markets. We'd rather go into depth market by market, brand by brand to get this right to have the right impact and to be in the top of AI searches versus going too broad in the beginning. So, depth versus breadth. This is what we're doing with Brandlight.

Operator
Thank you. We'll take our next question from Sydney Wagner with Jefferies. Please go ahead.

Sydney Wagner
Hi. Thanks for taking our question. Congratulations on the Marc Jacobs license extension and just the success of that makeup launch. Curious to hear what differentiated the launch and which elements are maybe transferable across CoverGirl and the broader color portfolio. And then also just wondering, with the contribution from the pipeline fill, would Prestige sell-in still have been aligned with sell-out if you excluded that benefit?

Markus Strobel
Thanks for the question, Sydney. So, in terms of success factor, you mean for the makeup launch specifically that we can apply to CoverGirl?

Sydney Wagner
Yeah, correct. Yeah.

Markus Strobel
I think there's a couple of principles that made this launch very successful initially and we're going to keep it up. One principle is that we have co-developed the whole proposition together with Sephora. So, be in the kitchen with the retailers is really some strategy that we're going to use in the future on all of our makeup brands going forward because it kind of enables us much more to win with the consumers that frequent that retailer, okay? So, we're going to be much more focused on like which is Gen Z in the Sephora case and you see the Marc Jacobs proposition really fits to it, thanks to that collaboration.

Number two, we have actually a fairly tight SKU portfolio on Marc Jacobs, which enables you to manage your SKU productivity and shelf space productivity much, much better. So, this is something we will also apply to other brands.

And number three, we have based this whole brand launch on advocacy, influencers, creators, not on broad-based mass marketing. And I think these are important learnings that we will transfer to other brands because they are very effective in terms of sell-out in terms of success.

On your second question, from Prestige, if you take out the Marc Jacobs Beauty pipeline because obviously the shelves have to be filled in the first quarter, our total Prestige business would still be up. Like our Top 6 core Prestige brands would still be up, probably more in the neighborhood of 3% than 5%, but still growth.

Sydney Wagner
Okay. Thank you and if I can just squeeze one more in there. With the greater share of A&CP now concentrated behind the Top 6 core brands in Prestige and Top 4 core brands in Consumer Beauty, what incremental investment will be most visible and which areas do you expect to have the biggest near-term impact there? Thank you.

Markus Strobel
We have allocated a lot of the incremental investment to improve our capabilities and our impact in advocacy. So, this is working with influencers, creators that help us build our brands and if you see we have some good news to report. On Burberry, the share of influence we have in the category went up by 50 basis points and in other brands, it also went up, up to 100 basis points. We're getting much better in the influencer advocacy game, which drives for us the business today in fragrances and in makeup. So, this is where the majority of the incremental investment will go.

Operator
Thank you. We'll move next to Olivia Tong with Raymond James. Please go ahead.

Olivia Tong
Great. Thanks. Good morning. I wanted to ask you a couple of questions. First, if you wouldn't mind sort of expanding on what you see as the mile markers of success in what is clearly a transition year. I know the performance won't be linear, but Markus, can you help us understand how you gauge whether the plan is proceeding as expected? And Soraya, I'm interested in your thoughts on KPIs as well.

And then specifically for Soraya, we talked a lot about what you can deploy within this organization when we met. And I want to focus on forecasting accuracy specifically on inventory and how far through the inventory cleanup are you because excess and obsolescence is still a headwind even though sales drag was at the more favorable end of your guidance range. And just understanding what's going to change or has changed in forecasting and innovation planning to help that. Thank you.

Markus Strobel
All right. So, let me take the first part of the question. I think we're making good progress in our Coty.Curated strategy considering the results of the first quarter. You see this in the concrete share of A&CP that we have increased behind the core brands and that was part of our focus and sharper priorities. That's what we're doing.

An important element is also innovation. We launched four bigger innovations in this quarter, BOSS Bottled Beyond For Her, the Mood Stones by Kylie Jenner, and the Marc Jacobs Beauty and the Burberry Amber Vanilla. And all of these launches are tracking ahead of their objective, which tells us that disciplined initiative management and fewer, bigger, better is starting to work for us.

So, I've seen a lot of good green shoots here. We're not there and we fully admit that because it takes time to make all this change and speak with the organization to embed them in the organization, but we're on our way. Would we like our focus to be faster? Yes and we're fully working on it. And we can give you full guidance how this whole thing is going to look once we complete our strategic review and once we also complete our savings and the restructuring program to make up for the contribution of the loss of Gucci, okay? So, stay tuned. This will come very soon.

Soraya Benchikh
Yeah. Thank you for the question, this forecasting reliability and our inventory, working through our inventory. I think forecasting reliability, basically we are working to improve our core tools and processes. We are enhancing our S&OP. We've developed and deployed some AI tools to actually help us with the backbone of our forecast, but I think the crux of the matter has been with the level of scattered innovations that we've had in the past. And we're working through the inventory remnants of this. And this takes time. We are getting more and more granularity and have a lot more visibility than we possibly have had in the past. We had a little spike in inventory because of this, but I'm very confident as we work through it.

And as Markus just said, by us focusing on fewer brands and having bigger and fewer bets when I look at the cycle plan that we have planned over the next 18 months, 2 years, then we should be able to better forecast our innovations and be able to also course correct with the new tools to ensure that we're not holding on to too

much stock. So, in short, we're working on it. We're working through the inventory that we currently have and we will get better, but it'll just take a little bit of time.

Olivia Tong
Got it. Thanks. Just following up, a quick one. If you could give any early thoughts on holiday either in the Western markets or 11/11 in the East. Thanks very much.

Markus Strobel
Holiday is just starting, but what I can say about holiday is especially in the U.S. is that retailers are starting earlier with their holiday activities and we're obviously selectively participating in these activities because last year, the main activities happened very late in the quarter and people don't like to wait for that. You want to have more security on your sales and your shipment from a retailer perspective. So, with holiday starting earlier and earlier, that's the trend that I'm observing this year.

Olivia Tong
Thank you.

Operator
Thank you. We'll take our next question from Jonna Kim with TD Cowen. Please go ahead.

Jonna Kim
Thank you for taking my questions. First one on CoverGirl. You're seeing nice improvement there. How sustainable do you think that growth improvement is just going forward and what are key strategies that you have to improve the performance?

And then just a second one. Overall, in the U.S., Prestige returned to growth in the quarter. How much of that is innovation versus the underlying trends in the core portfolio and then what gives you confidence that you can sustain or accelerate in growth from here? Thank you.

Markus Strobel
CoverGirl is under a program we're calling Color the Future, which is also like part of Coty.Curated and we are very pleased that CoverGirl almost now catching up with the market in terms of consumption. Net sales are down just 2% this quarter versus almost like 8% in the first half of fiscal 2026 and we've seen a gradual improvement quarter by quarter. And we expect this will go on like this.

What makes us very confident about this is that we have on CoverGirl, we have smaller innovation bundles, but more powerful innovation bundles, better innovation, more incremental innovation, innovation that needs to earn its place on the shelf and is not just being thrown out there. And we already see early success in Q1 because the innovation we launched in spring, we're having actually lower returns than we had the year before. So that means things have been selling out better. Things have been more productive on the shelf, number one.

Number two, we are very disciplined to supporting with media our two biggest properties like Simply Ageless and Lash Blast and not deviate into smaller things. We're always on for our biggest properties that really drives the business and that are really liked by consumers.

And number three, we have very exciting innovations going in the market right now and innovation coming up. You may have seen the new Showstopper Mascara of CoverGirl, which is a very exciting innovation with our proprietary mascara, brush technology and very luxurious packaging. So, sharper bundles, more consistent advertising over time and better innovation makes us confident that we can sustain this trajectory.

On Prestige, I mentioned before that we are pleased with the 5% growth of the Top 6 core brands and even without the major launch of Marc Jacobs Beauty, which was the main launch, we'd still be up 3%. And we have the innovations that we brought out now that look strong. And these are innovations that I believe have staying

power and we can support as we go on. So, we haven't seen the best of the innovation there, especially if you consider that on BOSS Bottled Beyond For Her, we have not launched it yet in the U.S. and in the U.K. That's going to happen in spring, so still a lot of mileage in that innovation. And ever since we've put out BOSS Bottled For Her, we had share growth on HUGO BOSS in Germany, which is the biggest market for HUGO BOSS, after a long time. So, you see not only shipment and sales growth but you see sell-out and share growth behind these innovations. So, we are confident we can keep that up and we have a fairly good pipeline on Burberry, on BOSS, and our new brand, Etro, that we're going to bring out in the beginning of 2027. So, we're fairly confident that their innovation will keep driving our business.

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

Javier Escalante
Good morning, everyone. Congratulations on the extension of Marc Jacobs. Markus, I believe that you managed this business with Procter a long time ago, and it was a very different view of the industry itself and the business model with licensees. I would like to hear your strategic view about the license model, how it's evolving. 40 years, to me, qualify as a perpetuity. We saw something similar with Kering Beauté. Is this where the business is going? Like to unlock co-investment, you need these very long licenses to derisk situations like Gucci happening. Will you seek similar long-term partnerships with core brands like Burberry's and BOSS? If you can keep it very strategic, what's happening, because 40 years is a long time. Tell us what's happening.

Markus Strobel
What's happening in the industry is, fragrance has been a growing category for the last couple of years and it's still growing very nicely, which is like 5% up globally in the first quarter. So, there is a lot of activity. There's a lot of competition and we launched things. We need investment and we need security that this investment is going to pay off, and that we can continue to reinvest to drive these brands. So, the longer the license contract, the better it is. It's not only for us, from an investment point of view, but often also better for the licensee because there's a royalty stream that can bank on in the future. And interestingly enough, a lot of our contracts today are already brands that we either owned or we are on almost perpetual licenses or very long-term. So, we feel pretty good about the longevity of our fragrance and we will be striving with all of our licenses and also new licenses to extend licenses as long as possible and as early as possible so that we all have security to invest.

Javier Escalante
So, Marcus, I take your response. I mean, you can agree on that that yes, your inclination would be to go back to Burberry and BOSS, and say we would love to continue the partnership. We are increasing our investment behind it, but we also need longer durations to derisk that investment and make this a true partnership for a long- term. Is that a good characterization of what you just said?

Markus Strobel
That sums it up pretty well.

Javier Escalante
Okay, then there were a lot of licenses prior. How many licenses are in Prestige and in your curated approach, would you think that the idea would be to approach these licensees and unwind so that you have a more curated but at the same time a more sustainable, equity story proposition for minority shareholders?

Markus Strobel
When you look at the licensed fragrance portfolio, it's duration is one question. The other question is also like you want to have a portfolio that goes for the right target groups, if it's Gen Z, Gen X, probably it's stronger regionally in North America. Some brands might be stronger in China, in Asia, in Europe. So, you need to have a pretty good balance what you're also striving for when we drive brands in the more ultra-prestige market.

Ultra-prestige, high prestige, super high prestige, no matter how you want to call it, is a growing part of the business. We are just increasing our investment behind Atelier des Fleurs of Chloé, which is very successful in this investment, in this area. We'll be launching Etro in spring in the super premium segment and we're just coming out with the Burberry Prorsum collection also in the super premium segment. And the marketing in the super premium segment is slightly different than from the non-super premium segment because you need to be strong in-store. So, all of these brands have, in terms of curation, different KPIs that we need to respect and we think we have a fairly balanced portfolio with world-class licensees and licensors.

Operator
Thank you. We'll take our next question from Anna Lizzul from Bank of America. Please go ahead. Your line is open.

Anna Lizzul
Good morning and good afternoon, everyone. Thank you for the question. I was wondering if we could discuss more the outlook within the different geographies. There's certainly some encouraging results here from the Americas with improvements in innovation, but it looks like in Europe, a bit of a different dynamic given the softer market consumption there. I was wondering if you could touch on the broader political environment and the impact to sales.

Also, how should we be thinking about cost outlook given the pressures you're seeing from freight in the Middle East and what your level of confidence is on delivering on cost management to mitigate this in the near-term?

Markus Strobel
Let me start with what I see in terms of market development and our development in these markets, and then Soraya can add some color when it comes to costs from the Middle East and how we're dealing with that.

Again, yeah, we are pleased with our progress in the U.S. It's the biggest fragrance market, so it's important for us to win. So, not where we need to be, but progress and we will, behind Coty.Curated, make this stronger as we move along.

We're also very pleased with our development in Asia. China had a particularly strong quarter in Q1, so our total Asia business is up 8% in net sales.

Europe is the area that we need to focus on fixing. We have good market growth in Spain, Italy, and we have a fairly soft market growth in Prestige in Germany and France. So, the market growth in Europe is on average lower than in the other geographies, but it's a big part of our business. So, we are very aware of that. We are making progress on HUGO BOSS, which is our biggest brand in Europe. I just mentioned the BOSS Bottled For Her launch, which comes fully incremental because obviously, it's a female launch and BOSS is mostly a male brand. And this is our number one target, is to make HUGO BOSS grow again in Europe. And I think we're in a good way, we have a partnership you may have seen with HYROX. In a lot geographies, we're working together with HYROX in big events which is going to increase our advocacy, our influencer and creator standing.

So, we are pleased with that and then we also curate our portfolio in Europe. HUGO BOSS, important; Burberry, important and the other brands, the regional brands that are important in countries like Germany, we're not defecting. So, we are not there where we need to be in Europe, but we are on the way.

Soraya Benchikh
Okay. When it comes to the outlook and looking at cost pressures, the Middle East headwinds that I outlined in describing the margin, we expect them to persist for the rest of the year. Currently, what we've built-in to our forecasting, particularly on oil, that impacts our input costs, $30 million to $40 million impact and we think that now, as the barrel price stays above $100, we're going to be in the upper range of this.

But generally, with the macro pressures, if they do continue at this level or intensify, we are looking to full productivity and fixed cost levers first to preserve the room to invest behind the brands. Productivity is happening on all lines of the P&L, not just on fixed costs. We're also looking at the ROI thresholds on our marketing investments. We've rolled out tools to several markets to measure the effectiveness of our spend.

So, yes, this is a transition year. There's lots of moving parts, but we are going to work productivity really hard to preserve the investment behind our brands because our priority is still to keep the quality growth that we're pursuing on the top line. I hope that answers it.

Operator
We have no more questions at this time.

Markus Strobel
Let me conclude then. So, to summarize it all, Q1 came ahead of our expectations, but it's obviously not where we want to be. We want to be better. We see 2027 as a transition year for us and as we mentioned a couple of times, recovery will not be linear. Still, we have very encouraging early signs. Our Top 6 core Prestige brands grew 5% like-for-like, and we expect growth on our Top 6 core Prestige brands in Q2 as well.

We will keep investing behind our core brands, turning stronger performance into cash, and we also reduce debt. And we remain on track to complete the strategic review by the end of calendar 2026. We know that your confidence is earned through consistent delivery, and we will be transparent and accountable along the way. So, thanks for joining us today.

Soraya Benchikh
Thank you.

Operator
This concludes today's meeting. We appreciate your time and participation. You may now disconnect. Thank you.