Coty's 4Q22 Prepared Remarks Transcript

August 25th, 2022

Sue Y. Nabi, Chief Executive Officer

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Ladies and gentlemen,

- With today's results marking my second full year at Coty, I am incredibly pleased to see that Coty's turnaround continues to gain speed and momentum across each of our financial, operational and strategic objectives
- With Q4 marking the eighth consecutive quarter of Coty reporting results inline to ahead of expectations, it is clear that we are continuing to deliver with consistency despite the increasingly complex external environment
- While the macroeconomic and inflationary environment is understandably a key focal point for many, Coty is navigating this environment from a relatively advantaged position
- We operate in a category – beauty – which is simultaneously a staple in consumers' daily routines, a personal and affordable indulgence, and an emotional category where brand positioning and product quality are paramount
- All of this means that beauty demand will continue to outperform the broader economic cycles, and limit the risk of consumer trade downs
- At the same time, Coty's business model is unique and well positioned, as we are one of the few companies with a strong presence in both prestige and mass beauty, with a broad geographic footprint, playing across multiple beauty categories, and with substantial untapped potential in areas like skincare, digital, China, and Travel Retail
- As a result, even in the midst of the macro uncertainty, we continue to target growing our sales ahead of the beauty market, growing our profit ahead of sales, and steadily deleveraging our balance sheet, positioning Coty to become a true beauty powerhouse

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- There are a several key points from our results that I would like to highlight
- First, we once again delivered revenue growth ahead of expectations, with 16% LFL revenues despite over 150 basis points of negative impact from our Russia business exit. This 16% growth positions Coty amongst the best in our competitive set, reinforcing the strength of our diversified business, and is also well ahead of our guidance for low double digit LFL growth in Q4
- Second, we delivered another quarter of exceptional gross margin growth, and strong profit expansion. Despite the various inflationary headwinds, our Q4 adjusted gross margins increased 120 basis points YoY.
- As a result, Q4 adjusted operating income grew 44% year-on-year, and our net debt and leverage remained stable with Q3
- Third, we continue to execute and make progress across each of our six strategic growth pillars.
- Finally, with the strong end to FY22 and already 2 months into FY23, we see the FY23 growth trajectory developing inline with our medium term targets, with the core business – adjusting for the impact of the Russia exit – growing sales 6-8% LFL, and a overall adjusted EBITDA of approximately $955-965M based on current FX rates
- It's important to reiterate that while we see no signs of demand slowing on a global level or of consumers losing their appetite for premium beauty, in this volatile macro environment, we are remaining vigilant in monitoring external signals and having in place the necessary resilience plans to react should the demand backdrop weaken
- Our continued efforts to premiumize our portfolio in both divisions, our disciplined pricing implementation, our strengthened culture, and continued cost control, are all positioning Coty for success in both the short and long term

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- I will now take a few moments to cover our revenue trends during the quarter and year, before Laurent takes you through our financials
- Then I will finish with an update on our strategic progress and our outlook

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- Starting with our revenue performance
- We reported 16% LFL sales growth in both Q4 and FY22, even in the face of over 150bps of impact from Russia in Q4
- It's worth reminding that we began the year with guidance for low teens LFL sales growth in FY22, several months later raising our guidance to low to mid teens growth, and ultimately ending at +16%
- This superior growth in both Q4 and FY22 was fueled by both of our divisions and all of our regions, confirming the benefits of our diversified business model
- Our Prestige business, which accounts for roughly 60% of Coty, grew by a low 20s percent LFL in both Q4 and FY22, supported by strong contribution from both volume growth and price/mix
- We delivered double digit growth across all of our key fragrance brands in both Q4 and FY22, coupled with strong double digit growth in prestige makeup
- Similarly, Consumer Beauty grew high single digits in Q4 and FY22, also supported by both volume growth and price/mix expansion
- We saw solid growth in Q4 and FY22 across all of our Consumer Beauty product categories, including cosmetics, bodycare and mass fragrances, and across nearly all of our brands
- This broad-based momentum helped drive continued market share gains in our Consumer Beauty business

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- Moving to sales by region
- We saw growth across all regions in Q4, with all regions delivering double digit growth in FY22
- Revenues in the Americas increased +13% LFL in Q4 and +15% in FY22, driven by broad based strength in nearly every market.
- EMEA sales growth remained outstanding at +22% LFL in Q4 and +18% in FY22, as the markets lapped the COVID restrictions of the prior year. We saw double-digit growth across nearly every market and particularly strong Travel Retail momentum.
- Asia Pacific grew +2% LFL in Q4, weighed down by China lockdowns, though registered strong 14% growth in FY22. Double digit growth in nearly every other Asian market as well as APAC Travel Retail were able to offset the temporary weakness in China

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- I will now hand the call over to Laurent to take you through our financial results

Laurent Mercier, Chief Financial Officer

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- Thank you Sue.
- While Q4 marked another quarter with an external environment that remains complex and volatile, I am pleased to share our results, which included further gross margin expansion, improved profit, and solid cash flow generation for the year
- The results we delivered in fiscal 22, which improved significantly across all KPIs, is a testament to the virtuous cycle we created
- And this significant progress is clearly being recognized by external stakeholders

- We were very pleased to see Coty achieve two ratings upgrades during FY22 from each of the leading rating agencies
- At the same time, according to the latest investor filings, there has been a step-change in the quality of our shareholder base, with long-only institutions now accounting for a significant majority of Coty's public ownership
- This is a clear testament of Coty being now recognized as an attractive and sustainable investment

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- Let’s start with gross margin, which has been key to unlocking our strong performance throughout the year
- Q4 adjusted gross margin of 62.1% increased by 120 bps from last year
- Gross margin performance in the quarter was driven by:
    - Strong price/mix momentum in both Prestige and Consumer Beauty, aided by the continued premiumization of our portfolio
    - Continued mix shift towards Prestige brands;
    - Higher absorption on the increased sales volume;
- These drivers combined more than offset a step-up in COGS inflation to over 200bps of revenues, up from roughly 150bps in Q3
- In total, our FY22 adjusted gross margin increased significantly, by nearly 400 bps to 63.7%, putting us well on our way towards the medium-term gross margin target we presented last November of mid-60%
- We will continue to execute on our multi-pronged, multi-year gross margin attack plan, while we are also positioned to benefit from positive channel, category, and regional mix shifts

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- As I previously mentioned, both inflation and supply chain remain very dynamic, require daily monitoring and adjustments by the Coty teams

- While we continued to be impacted by select component constraints, the situation for many of these components remains largely stable relative to the last update we provided in May.
- We continued to manage the situation relatively well, utilizing safety stocks, alternate materials, and dual sourcing to navigate the environment
- As a result, we were able to deliver Q4 revenues ahead of our guidance and maintain service levels in the low 90s during Q4, stable with last quarter and in many cases well above our competitors
- On the inflation side, as we had anticipated, inflationary pressures on COGS stepped up in Q4 to just over 2% of revenues
- And while we have seen pricing for certain materials ease in recent months, the expected COGS inflation is currently anticipated to remain at over 2% in FY23
- We have of course been actively preparing for this scenario
- As indicated during our last earnings call, we have just completed the implementation of a mid-single-digit price increase across the portfolio, and thus far have not seen impact on volume demand
- We are also evaluating another, more moderate, round of price increases in our fiscal Q3
- These proactive pricing actions, combined with the positive mixshift in our portfolio, represent some of the key levers to help us offset the inflationary impacts and maintain our profit equation of above-market revenue growth coupled with profit growth ahead of revenue growth

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- Let me now provide an update on our All-In-to-Win program
- We continue to make significant progress with our All-In-to-Win transformation program, across 5 key work streams, driving meaningful improvement on cost, gross margins, sales growth, and cash

- We closed FY22 with over $90M of additional net savings, primarily driven by gross margin-related initiatives, reaching cumulative net savings of $430M across FY21 and FY22
- It's important to remind that the gross savings delivered in FY22 were actually over $200M, with which we were able to absorb the restoration of bonuses and merit increases, our strategic reinvestments in our growth pillars such as Digital and China, and the initial impacts of inflation
- In FY23 a number of new savings initiatives will start to kick in
- These include:
    - Savings from the closure of one of our fragrance factories in Germany which we recently completed on time and with no disruption;
    - Savings from material value analysis;
    - A sizeable step-down in depreciation reflecting completed depreciation of certain software investments as well as a more focused CAPEX approach; and
    - Continuous optimization in Trade Spend
- We continue to target approximately $170M of savings in FY23, consistent with the targets we laid out
- And while the expected FY23 COGS inflation to over 2% of sales, as just discussed, is well above our expectations when we first outlined the All In To Win Program and therefore partially obscures the concrete progress we are continuing to make in our cost structure, we expect that the combination of these savings projects, the continued premiumization of our portfolio, as well as the pricing actions we are taking, will allow us to more than offset the expected impact of the continued inflationary pressure on the P&L and deliver profit expansion in FY23 and beyond

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- Now moving to a recap of our marketing investments

- During Q4, A&CP investments were approximately 28% of sales, up two hundred basis points from last year
- The Q4 A&CP spend percentage was consistent with the full year level and in line with our guidance, with spending focused on the highest-ROI opportunities
- During Q4 these opportunities included:
    - Sustained investment behind our recent successful innovations such as Burberry Hero and Her, Boss Bottled Marine, Gucci Flora, as well as CoverGirl Exhibitionist
    - Further investment behind our whitespace opportunities of Prestige makeup and skincare
    - Additional investment behind our key Consumer Beauty brands to fuel market share momentum, including CoverGirl, Rimmel, and Max Factor
- Looking back at FY22, we hope it is evident that the marketing investments we made and resultant revenue growth and market share strength prove the success of our strategy and ROI that we are receiving
- As a result, for fiscal 2023, we are targeting to maintain our A&CP investments in the high 20% level, with a focus on protecting working media and remaining nimble in our allocation approach

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- Moving to our profit delivery for Q4 and fiscal 2022
- For the quarter, adjusted EBITDA increased modestly to $132 million, in line with our expectations, with a much larger 44% increase in adjusted operating income as depreciation declined by $15M versus last year
- Touching briefly on EBITDA margin by segment, consistent with our comments last quarter, Consumer Beauty profit and margins roughly doubled from Q3 levels, though were a little lower YoY given the reinvestment we continue to make in the business to fuel the divisional turnaround

- Looking at our overall fiscal 22 results, I am very pleased to say that adjusted EBITDA increased 19% to $905 million, slightly ahead of the guidance we provided throughout the year of $900 million
- At the same time, fiscal ’22 adjusted operating income grew over 40% YoY
- As a result, our fiscal ‘22 EBITDA margin expanded by 60 basis points to 17.1%, while our adjusted operating margin expanded by 220 basis points to 11.6%, even as we increased A&CP by roughly 550 basis points
- Our FY22 profit growth was driven by strong revenue growth, very robust gross margin expansion, and continued fixed cost leverage, reflecting the virtuous cycle we’re creating

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- Now moving to our EPS, which includes the following drivers:
    - Adjusted EBITDA in Q4 of $132M;
    - Depreciation of $67M, bringing the annual total to $290M or down $36M YoY;
    - Net interest of $40M, which included roughly $19M of FX benefits from the Euro depreciation
    - Income tax of $36M, resulting in a full year adjusted effective tax rate of roughly 28%; and
    - Diluted share count of roughly 838M, purely reflecting the low net income in the quarter and resultant anti-dilutive calculation provisions
    - As a result, our 4Q diluted adjusted EPS ended at negative 1 cent, an improvement of 7 cents versus last year
- For FY22, the diluted adjusted EPS was 28 cents, up 23 cents from last year, as we benefitted from overall profit expansion and the exit from the KKR convertible preferred shares earlier in the year
- As we announced several months ago, in Q4 we entered into a total return swap transaction with several bank counterparties, effectively locking in the current attractive share price of below $7.50 for a targeted $200M share buyback program in CY24

- With the banks having completed their share purchase in the open market in July, the mark-to-market on this total return swap has to be included in our adjusted net income and EPS calculations.
- Looking ahead to Q1 and FY23, I would like to provide some additional details related to our current expectations for certain drivers of our adjusted EPS
    - First, we expect depreciation to be in the mid $200 millions
    - Second, we anticipate net interest expense for the year to be in the mid $200 millions
    - Third, we anticipate an adjusted effective tax rate for fiscal 2023 in the high 20s %, assuming no significant changes in tax regulations
    - Finally on share count, we expect diluted shares in the 880-890M range

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- Moving to our free cash flow
- I am very pleased with our free cash performance in both Q4 and FY22
- As we flagged on the last earnings call, Q4 free cash flow was negative due to typical seasonality of the business and some one-time phasing impacts that benefitted Q3 at the expense of Q4
- For the year, we generated a very robust $552 million of free cash flow, nicely above our guidance of over $400M, and a very strong improvement of over $400 million versus last year
- The strong free cash flow generation in fiscal ’22 reflected:
    - Our continued tight control of capex which remained flattish at approximately $170M,
    - Positive contribution from working capital as we made strong progress in our inventory days and DSO
    - A step-down in one-time cash costs to roughly $110M from over $200M last year
- All of this illustrates the strengthening cash culture we have been instilling within Coty

- Looking to FY23, we continue to expect another strong free cash flow year, though the year-on-year comparisons will be impacted by some one-time working capital benefits from fiscal ’22 which will not repeat, as well as a focus on building up inventory levels to navigate the current supply chain complexities

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- Moving to our capital structure
- We ended the year with net debt of just under $4.3 billion, roughly stable with Q3
- As a result, our leverage at the end of the year stood at 4.7x, unchanged sequentially and a significant improvement of over 2 turns versus a year ago
- We remain on-track to bring our leverage down towards 4x by the end of calendar 2022
- During the quarter, the value of our retained Wella Company stake was adjusted lower to reflect Wella’s decision to exit Russia as well as the market driven increase in the discount rate
- At the same time, Wella continues to perform ahead of plan and with Wella having recently completed the acquisition of a high growth haircare company, we would expect this to drive value expansion in Wella over time
- Factoring in our 26% stake of Wella at quarter-end, valued at $0.8 billion, we ended the quarter with economic net debt of approximately $3.4bn
- It’s worth noting that the fundamentals and momentum of the Wella business remain as strong as ever, with easing restrictions and consumers returning to salon services, and we continue to expect to garner a very attractive return when we eventually divest our Wella stake by FY25
- Let me now turn it back to Sue to review our strategic progress

Sue Y. Nabi, Chief Executive Officer

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- Thank you Laurent
- Having first outlined our six strategic growth pillars in spring of 2021, and build upon them further at our Investor Day this past November, I am proud to share that we concluded fiscal ’22 with tangible progress across each of our strategic pillars, and have even more in store for the coming years

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- Starting with our first strategic pillar, stabilizing and growing our Consumer Beauty business
- Over the past quarter, the global mass beauty market has continued to grow in the mid single digits year-on-year
- This market growth continues to reflect a healthy dynamic, with two thirds of the growth coming from volume expansion and one third coming from price/mix
- Against this backdrop, our successful repositioning of many of our key brands has allowed us to outperform the market, with Coty’s sell-out growing in the high single digits, consistent with our sell-in growth
- This marks the eighth consecutive month of market share gains for our Consumer Beauty business, both in color cosmetics and overall mass beauty
- This is a truly phenomenal outcome, exemplifying the speed, agility, and capability of the Coty organization to truly transform a business which had been in consistent decline for many years prior

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- Underpinning the market share momentum of our Consumer Beauty division is strong and broad-based share performance for our key brands

- In the last period, Rimmel gained a spectacular 50 basis points of market share globally, supported by key initiatives, in particular the launch of its Kind & Free range of clean and vegan cosmetics
- As anticipated, Rimmel's Kind & Free range was the biggest Consumer Beauty innovation for FY22, and has become a global success across key markets such as U.K., Germany, Spain and Australia
- On CoverGirl, with the Lash Blast mascara supply issues now resolved, the brand gained market share in June in the U.S., with strong share momentum in recent launches including Exhibitionist Stretch & Strengthen mascara – which was the #1 Eye launch in the market in FY22 - and Clean Fresh Lip Balm
- Similarly, Max Factor has continued to perform strongly, gaining 20 basis points of share, supported by the global resonance of Priyanka Chopra-Jonas as the brand ambassador, the successful launch of Max Factor's Miracle Pure skinified foundation, and significant momentum on social media and particularly Tik Tok with our "Color Your Mood" summer lip campaign
- And on Sally Hansen, while the brand gained market share in the U.S. Nail Color category and expanded internationally, the year-over-year declines in the broader nail category due to the difficult comparisons last year, meant that Sally Hansen maintained flat share in cosmetics overall
- In the mass fragrance and bodycare part of our Consumer Beauty portfolio, we also delivered strong share momentum, with highlights including Bruno Banani, David Beckham fragrances, Monange in Brazil, and Mexx

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- Moving to our second strategic pillar, accelerating our luxury fragrance portfolio
- It's quite clear that the global prestige fragrance market continues to boom, and is over 20% higher than pre-COVID levels led in particular by the U.S. but also strong momentum now in Europe

- This momentum is being driven by both unit growth – as penetration rises amongst Gen Z and male consumers in particular – as well as premiumization as consumers broadly look for more concentrated and longer lasting scents
- And while concerns of potential trade-down weigh on certain consumer product categories, all of the most recent data continues to show that the premiumization trend in fragrances shows no sign of slowing, with ultra premium and premium+ fragrances outperforming the overall prestige fragrance market across all key countries, in June
- In this very favorable market backdrop, Coty continues to excel and gain share
- With the prestige fragrance market growing approximately 20% in the latest quarter, our sell-out grew in the mid 20s, fueled by several of our key fragrance brands
- Hugo Boss gained 10 basis points of share, supported by the launch of Boss Bottled Marine, which is resonating well across all key markets. It's worth noting that this brand strength is preceding the successful revamp of the overall fashion house, which should fuel even further momentum in the coming quarters.
- Burberry gained 40 basis points of share, and we are particularly pleased to see the brand gain momentum in both male and female fragrances
- Burberry Hero, launched earlier in the year, remains a huge success holding the #1 innovation ranking in the U.S. last period and the #2 male fragrance innovation in China for FY22
- At the same time, the successful launch of Burberry Her EDT has propelled the Burberry Her franchise higher, particularly in the U.S.
- And our efforts to continue to premiumize Burberry are also bearing fruit, with the ultra-premium Burberry Signatures ranking at #4 amongst high-end fragrance on Tmall
- On Gucci, Gucci Flora Gorgeous Gardenia remains a top seller globally, fueling 50 basis points of share gains for the brand
- Finally on Chloe, the base business is gaining share in France and Italy as we continue to further elevate the natural and sustainable elements of the brand

- At the same time, in Asia, Chloe's ultra-premium line – Atelier des Fleurs – has reached the #1 productivity rank in China Sephora amongst all artisanal fragrance brands, and a Top 5 rank in key Asia Travel Retail locations
- So as you can see, we continue to win in the booming prestige fragrance market, fueled by our broad and diversified brand portfolio

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- A key part of our second strategic pillar is also becoming a key player in prestige cosmetics
- Here I'm happy to report that our prestige makeup sales grew over 70% in FY22
- As a result, this business reached 4% of our sales in FY22, up from approximately 3% in FY21, as we continue to target the expansion of this business in our portfolio
- It's quite evident that our couture brands have the right to play and win in prestige cosmetics, as prestige makeup now accounts for roughly half of Burberry's sales in China in key channels
- And within Asia Travel Retail, prestige makeup is now over 40% of our overall business, speaking to the record pace with which we have been able to expand both distribution and assortment for our key prestige makeup brands
- Some recent brand highlights include our launch of the Burberry Matte Cushion foundation, which garnered the #1 share of voice in in China and ranked #8 on Tmall amongst couture brands
- And on Kylie, as we have brought this Gen Z oriented makeup brand into new global Travel Retail locations, Kylie Cosmetics has continued to rank amongst the Top 3 makeup brands in key airports in New York, Brazil, Paris, and London

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- Shifting to our 3rd strategic pillar, building our skincare portfolio across both divisions

- While many of the key initiatives here are slated for FY23 and beyond, we laid a strong foundation in FY22, with multiple green shoots
- As you know, our skincare focus in FY22 was on repositioning our key Lancaster brand, starting in Hainan and then mainland China
- The momentum we have generated there in the last 12 months has fueled double digit growth in Lancaster in FY22
- In fact, Lancaster has become the #2 exclusive brand in China Sephora and the #3 niche skincare brand in key Hainan retailers
- Looking to FY23, we have a number of exciting initiatives in store
- The new SKKN by Kim skincare line has launched at the end of June, and I will share some of the highlights shortly
- We have a major initiative under Lancaster coming in the second half of FY23, so stay tuned on that
- We are continuing to revamp our philosophy brand, starting in the U.S.
- And on Orveda, with the brand now fully integrated into Coty, our focus in the coming year is on boosting productivity in existing locations, with further expansion and launches planned for FY24 and beyond
- Given the importance of skincare to our strategy and business model evolution, we will be hosting an investor event on September 21st at our Lancaster facility in Monaco, focused exclusively on our skincare business
- We look forward to having many of you join us by webcast or in person

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- As many of you saw, the much-awaited launch of the SKKN by Kim skincare line kicked off on June 21st, exclusively on DTC
- Each product in this high-performance skincare line is bottled inside sleek, minimalistic, and refillable packaging, integrating eco-friendly materials
- We are now two months into the launch and I am very pleased with the initial results

- The brand has quickly garnered 5.5M followers on Instagram, ahead of most other personality-driven beauty and skincare brands, with the launch activations garnering over 7B total impressions
- In only 2 months, we have already reached over 20% of our sales target for FY23
- And speaking to the premium positioning and perception of the SKKN brand, the full 9-piece set, priced at $575, sold out on the very first day of launch, restocking a week later, and remains by far the largest seller in the collection
- While it is too early to comment on repeat purchase rates, as consumers are still using their initial products, we have already received hundreds of reviews on the DTC site, with reviews on the range averaging 4 stars or higher
- All of these data points give us confidence as we work to build and expand the SKKN by Kim brand

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- Moving to our 4th strategic pillar, building our e-commerce and DTC expertise
- On e-commerce, we ended FY22 on a strong note, with double digit growth in our e-commerce sales in both Prestige and Consumer Beauty, with the overall e-commerce penetration in the high teens, growing versus last year despite the post-pandemic reopening of brick & mortar
- With our digital team accelerating all elements of our digital strategy, we made very strong progress in both Q4 and FY22
- Our partnerships with both our retail.com customers and pure-play e-retailers continued to excel, with double digit sales growth in both of these key channels
- At the same time, our TMall flagship stores' sales for the year nearly doubled, which is a key element of our DTC strategy
- We have continued to unlock new e-commerce platform opportunities, including Douyin and Farfetch

- I'm also proud to share that Coty was recognized as online category captain by the leading European beauty retailer, Douglas, with a co-created Mother's Day campaign implemented in 6 markets simultaneously for the 1st time
- From a digital engagement perspective, our initial deployment of virtual try-on tools for two of our brands – Sally Hansen and Gucci – have yielded strong results, increasing the time spent on product pages, conversion and sales. We will be introducing these AI features to other brands in the coming months
- And with the positive impact of e-commerce on our financial equation, our gross margins in both Prestige and Consumer Beauty e-commerce remained accretive and grew versus last year

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- Shifting to our 5th strategic pillar, expanding our presence in China
- Our China business maintained very strong momentum prior to the COVID lockdowns and restrictions, with our sales in the market growing approximately 30% through February, led by our prestige brands
- And our focus on elevating our presence and reach on Tmall, even during the recent lockdowns, have fueled a near doubling in our flagship store sales this year on this crucial e-commerce platform
- As a result of these strong online and offline efforts in China, our prestige sell-out grew 11% in FY22, significantly outpacing the market which declined -1%
- In fact, Coty is now ranked #5 in prestige fragrances and #7 in prestige makeup despite our still small footprint in China
- We also actively expanded our presence in Hainan, opening multiple counters for our key prestige fragrance, cosmetics and skincare brands
- As a testament to our commitment to Hainan and the tremendous multi-year growth potential that we see there, earlier this month Coty participated in the China International Consumer Products Expo in Hainan

- You can see here a short video of Coty's pavilion at this Expo, which drew over 280 thousand visitors over 5 days, with the vast majority being consumers

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- Our Travel Retail business is also booming
- Both in Q4 and overall FY22, our Travel Retail sales more than doubled year-over-year, with exceptional growth in all regions
- I'm proud to share that we have gained significant share in Europe and US Travel Retail, driven by space expansion, channel exclusives and successful innovations, while in Travel Retail Asia we have seen substantial fragrance share growth driven by our niche collections such as Chloe Atelier des Fleurs and Gucci Alchemist Garden
- And our success in this channel is being further reinforced by our multi-category platform spanning fragrance, cosmetics and skincare brands, compared to only a fragrance offering pre-pandemic
- As a result, our Travel Retail revenues are back to a high single digit percentage of our sales mix, consistent with FY19, despite passenger traffic being 10-30% below pre-COVID levels

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- Finally, on our 6th strategic pillar, becoming a leader in sustainability, we made strong strides in multiple areas during FY22
- We continued our push into clean and sustainable beauty, by launching innovations with clean formulations, more sustainable packaging, and animal friendly
- Examples include Rimmel's Kind & Free range, Chloe Signature and Nomade Naturelle, the revamped Kylie Cosmetics, and the new SKKN by Kim line

- We took upcycling to the next level through our partnership with Lanzatech by beginning to manufacture prestige fragrances utilizing carbon-capture based ethanol, which is the #1 ingredient in fragrances
- We joined the EcoBeautyScore Consortium, along with other beauty companies, to co-develop an environmental impact assessment & scoring system for cosmetic products
- We achieved the Cruelty Free International certification for our Brazilian nail brand, Risque, with more to come in the coming year
- And from a people perspective, it was great to see Coty achieve a 10 point increase in this year's Corporate Equality Index
- We have more progress and initiatives in store for FY23, and we look forward to updating you on these in the coming quarters

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- And that brings me to FY23 and the building blocks for our outlook
- While we continue to monitor the market conditions very closely, thus far the demand conditions remain robust, particularly for prestige fragrances globally, and in Travel Retail, Europe, Middle East & Africa, and Brazil
- Against this backdrop, we have a robust launch calendar for first half fiscal 23
- In fragrances, we are following on the successful Fall 2021 launches of Burberry Hero and Gucci Flora Gorgeous Gardenia with key extensions, including Burberry Hero EDP and Gucci Flora Gorgeous Jasmine
- We are also capitalizing on the strong fashion house momentum of Hugo Boss with the launch of Boss Bottled Parfum
- SKKN by Kim will also be a nice contributor to our Prestige business in the first half
- And on the Consumer Beauty side, we have two key launches already underway
- First, for CoverGirl, we have launched several products under the Simply Ageless franchise, including a new concealer with an innovative ceramic wand, a lash plumping mascara and lipstick with hyaluronic acid

- The launch is already off to a great start, with the new Simply Ageless concealer gaining 20bps of share and the Simply Ageless mascara gaining 10bps of share
- And on Rimmel, we have launched the new Thrill Seeker mascara, the first innovation to be co-created with a TikTok influencer, which is also seeing very positive initial results

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- Based on these building blocks, we expect 1Q23 and 1H23 LFL sales growth of our core business, adjusting for the impact of the Russia exit, inline with FY23 annual growth of +6-8%
- The net impact of our Russia exit is expected to negatively impact 1H23 sales by 2-3%
- Based on current rates, we expect FX headwind to sales in 1H23 of ~4-6%, with a more moderate impact on EBITDA
- We continue to target leverage moving towards 4x exiting CY22, based on CY22 adjusted EBITDA approaching $950M
- For total FY23, assuming no significant deterioration in COVID or macro environment, we expect LFL sales growth of the core business inline with our medium term growth target of +6-8%, adjusting for the impact of the Russia exit
- While we continue to execute on our gross margin expansion plans, we currently expect modest gross margin expansion in Q1 and FY23 due to the continued inflationary pressure
- As a result, and assuming no significant macro deterioration, we are targeting FY23 adjusted EBITDA of $955-965M based on current FX rates, relatively inline with our medium term growth target of +9-11%, adjusting for the impact of the Russia exit
- We expect FY23 adjusted EPS growth in the mid teens, which assumes no significant changes in the current tax regulations or any mark-to-market adjustments on the equity swap.
- We also continue to anticipate adjusted EPS growth acceleration in FY24 and beyond fueled by lower interest expenses as part of our deleveraging efforts, consistent with the medium-term targets we laid out at our Investor Day

- And we continue to target further reduction in leverage to ~2x exiting CY25

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- To conclude, I am pleased to end FY22 with a track record of consistent delivery despite the increasingly complex external environment
- Our ability to report market-leading sales growth in Q4 and exceed our guidance across metrics speaks to the strength of Coty's diverse brand, category and regional portfolio, as well as the strong execution model we have put in place within the organization
- Our progress across each of our strategic pillars and financial objectives is clear, with many new initiatives still to come
- All of this supports our expectation for FY23 to be inline with our medium term algorithm
- At the same time, we remain vigilant in monitoring the ever-evolving macro backdrop, with resilience plans developed to support the business should conditions worsen.
- We remain excited about what's in store for Coty in the coming years and look forward to updating you on our continued progress
- We are ready now to take your questions

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