Coty's 1Q23 Script

November 8th, 2022

Sue Y. Nabi, Chief Executive Officer

Slide 1

Ladies and gentlemen,

- The Q1 results that we have reported this morning once again reaffirm the strength and resilience of Coty's brands, teams, strategy and operating model.
- In the midst of a complex and dynamic external environment, Coty has delivered the ninth consecutive quarter of results in-line to ahead of expectations.
- At the same time, dynamics of the beauty market, in which we are a key player, remain largely unchanged since our last earnings
- Beauty as a category remains resilient, at the sweetspot of being a staple in consumers' beauty routines, and a category of offer, where the innovative products and communications we bring to market directly drive demand
- Coty has certainly benefited from a beauty category that has remained resilient, particularly from what we refer to as the "fragrance index," as consumers turn to the mood-boosting and affordable luxury of fragrances
- At the same time, I am particularly pleased that our balanced growth strategy remains in full force.
- We delivered LFL growth across each of our regions, each of our key categories including fragrances, cosmetics, skincare and bodycare, and across both divisions.
- This has allowed us to again report sales growth well above the underlying beauty market and among the best in our competitive set.
- 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

Slide 2

- There are a several key points from our results that I would like to highlight
- First, fueled by the strong beauty demand and key brand initiatives, we once again delivered revenue growth ahead of expectations and guidance
- Our Q1 LFL revenues grew 9%, despite a 200 basis point negative impact from our Russia business exit
- Adjusting for Russia, our core business grew 11% LFL, ahead of our raised guidance of +8-9% LFL
- Second, we delivered another quarter of strong gross margin growth, strong profit expansion, and net debt reduction.
- Despite the various inflationary headwinds, our Q1 adjusted gross margins increased 70 basis points YoY.
- As a result, Q1 adjusted operating income grew 24% year-on-year, our net debt declined to $4.2B, and our net leverage ended at below 4.5x, putting us well on track to drive leverage towards 4x exiting CY22 and towards 3x exiting CY23
- Third, we continue to execute and make progress across each of our six strategic growth pillars. In fact, we have a number of ESG milestones to share with you today and more to come in the coming days.
- Finally, the strong delivery in Q1 reinforces our confidence in our FY23 guidance
- We continue to 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 an overall adjusted EBITDA of approximately $955-965M based on current FX rates
- While demand signals across most markets remain robust, we remain vigilant in monitoring the external environment and have in place the necessary resilience plans to react should the demand backdrop weaken
- In the meantime, we will continue to execute with discipline, premiumizing our portfolio, driving our balanced growth agenda, reinvesting in our key brands and capabilities, and advancing our profitability and deleveraging agenda

Slide 3

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

Slide 4

- Starting with our revenue and sell-out performance
- This quarter we saw diverging trends between sell-in and sell-out due to a number of factors at play in our LFL revenue growth
- From a sell-out perspective, which truly reflects consumer demand, our Prestige business continued to outperform, fueled by the strong demand for prestige fragrances and the continued consumer desire for more premium beauty products
- As a result, our Prestige sell-out grew in the low teens, while Consumer Beauty sell-out also remained solid with mid-to-high single digit growth.
- However, these growth trends were reversed at the revenue level
- Prestige revenues grew 7% LFL, well below the sell-out, as this sell-in growth was impacted by:
    - 300 basis points of headwinds from the Russia exit,
    - industry-wide shortages in certain fragrance components – which Laurent will discuss in more detail
    - and difficult comparisons in the prior year, when our Prestige business reported 34% LFL growth on the back of strong launch pipefill
- Consumer Beauty revenues grew 12% LFL, surpassing the sell-out, and with no material impact from the Russia exit
- While revenue growth in our cosmetics and mass fragrances businesses was broadly in-line to ahead of sell-out, the Consumer Beauty sales performance was boosted by a strong launch pipeline and brand initiatives in our bodycare business, including adidas'

Skin & Mind premium and sustainable new bodycare range, Monange's silicone-free deodorant, and Bozzano's clinical range in Brazil.

- As a result, our overall LFL revenue growth was broadly inline with our total sell-out

Slide 5

- Geographically, I'm pleased to say that LFL revenues grew in all regions.
- Revenues in the Americas grew 5% LFL, as we saw strong momentum in Brazil and Latin America, while the continued strength in U.S. consumer demand was counterbalanced by supply constraints, particularly in prestige fragrances
- EMEA sales grew 11% LFL fueled by significant Travel Retail momentum and double-digit growth across most markets.
- Asia Pacific revenues grew 12% LFL, with strong momentum in Asia-excluding -China and Travel Retail, while China returned to growth despite the intermittent lockdowns.

Slide 6

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

Laurent Mercier, Chief Financial Officer

Slide 6

- Thank you Sue.
- As many of you know, the external environment during Q1 became increasingly complex, with highly volatile FX rates and further uncertainty regarding the future interest rate environment globally

- Despite this dynamic backdrop, I am pleased to share our results, as we continued to show solid progress across key financial KPIs including gross margin, profit, and deleveraging
- The virtuous cycle is fully in motion, and delivering the results we set out to achieve
- I am also very encouraged by the interactions and engagement we have had with many of you in the investment community, during the quarter
- The progress we have made is increasingly being recognized, particularly as long-only institutions now account for a significant majority of Coty's public ownership, and there is a heightened awareness of Coty being an attractive and sustainable investment

Slide 7

- Let’s start with our gross margin performance in the quarter
- Q1 adjusted gross margin of 64.1% increased 70 bps from last year
- Gross margin performance in the quarter was driven primarily by strong price improvement in both Prestige and Consumer Beauty, as well as improvements in trade spend
- While we see mix as one of the positive building blocks in our gross margin expansion going forward, this quarter the mix benefit was limited based on the growth dynamics in both divisions and the outsized contribution from bodycare, which Sue alluded to earlier
- The positive drivers more than offset the heightened level of COGS inflation, which were approximately 200 bps of revenues, similar to what we experienced in Q4
- Given the significant volatility in FX rates more recently, and particularly the Euro and Pound, I want to briefly discuss the natural hedge in our business model
- The deterioration in both of these currencies has had a material impact on our reported sales, with a 7% negative FX impact at the topline
- However, the majority of our manufacturing and sourcing takes place in Europe, including some in the UK

- This creates some natural hedge in our business, limiting the FX exposure on our gross margin
- Going forward, we will continue to execute on our multi-pronged, multi-year gross margin attack plan, and we remain well-positioned to benefit from positive mix shifts in the business

Slide 8

- Now let's touch on the global supply and inflationary backdrop, and how we are navigating through this challenging environment
- As Sue alluded to earlier, global supply chain complexities coupled with ongoing robust demand for fragrances, which was not fully anticipated by the supply chain, is driving industry-wide supply constraints in key fragrance components
- Several of our peers have discussed the shortages in key components like glass bottles, and to a lesser extent, caps and pumps
- As a result, with fragrance volumes ramping up seasonally in Q1, our service levels remained in the low 90s for Consumer Beauty but slipped below 80% for Prestige
- The feedback we have received from our retailers suggests that our peer set is experiencing similar dynamics
- And with seasonally stronger fragrance demand in Q2, we are expecting similar constraints for this coming quarter
- The issue ultimately traces back to the general elevated lead-times and raw material constraints across the global supply chain, which is impacting the supply to our own suppliers, and exacerbated further by a fragrance market which shows no sign of slowing, which has depleted the safety stock in the supply chain
- As a company, we are preparing ourselves for this economy of scarcity, building crucial inventory when available and shifting support behind lines where stock is available
- Ultimately, this supply / demand imbalance is a good problem to have in the current environment, and only reinforces our pricing power as we look to take an additional

round of mid single digit pricing in late winter, following the mid single digit pricing we executed this past quarter

- It's also important to stress that despite these component constraints, we delivered Q1 revenues ahead of guidance and strong gross margin expansion in the quarter
- We're also cognizant of investor concerns about energy supply in Europe and our manufacturing base there
- Here, we have developed business continuity plans and dual sourcing initiatives, to protect our inputs
- At the same time, due to the low energy usage in our own manufacturing plants, we see limited risk of an energy-related business disruption
- And finally, on inflation, our gross margin outlook remains unchanged as we continue to estimate COGS inflation of approximately 2% of revenues in FY23, to be offset by pricing, mix benefits, and savings

Slide 9

- Let me now provide an update on our All-in-to-Win program
- In Q1, we delivered savings of over $20M, driven by a combination of fixed cost and gross margin initiatives
- And based on the clear stream of projects ramping up over the course of the year, we continue to expect total FY23 savings of $170M
- The projects that we expect to ramp up and contribute more significantly in Q2 through Q4 include:
    - Material value analysis, as we continue to steamline sourcing and variability in non-value-added components
    - Optimizations in trade spend and A&CP
    - Improvement in excess & obsolescence charges, as we continue to improve our forecasting and planning processes

Slide 10

- Now moving to a recap of our marketing investments
- During Q1, A&CP investments represented over 24% of sales, which is down slightly from last year
- Importantly, our working media at constant currency grew year-on-year and was relatively stable as a percentage of sales
- We targeted our media investments behind our most recent and successful innovations including the new Burberry Hero EDP, Gucci Flora Gorgeous Jasmine, Hugo Boss Bottled Parfum in Prestige as well as CoverGirl Simply Ageless innovation bundle and Rimmel Thrillseeker mascara in Consumer Beauty
- We also continued investment behind our whitespace areas of Prestige makeup and skincare
- Now, with Q2 underway, we expect a meaningful ramp-up in our A&CP spending during this critical sell-out period
- And for the full fiscal 2023, we continue to expect our A&CP investments to be in the high-20% level of sales

Slide 11

- Now moving to our profit delivery for the quarter
- Our Q1 adjusted operating income grew a robust 24% to $250M, driving a 340 basis point improvement in our adjusted operating margin to 18%
- Importantly, both divisions delivered over 300 basis points of operating margin improvement
- On adjusted EBITDA, we delivered 11% growth to $308 million
- As a result, our adjusted EBITDA margin was 22.2%, or up 190 bps versus last year
- Our profit improvement in the quarter was driven by our solid revenue growth, gross margin expansion, fixed cost leverage, as well as the slight decline in A&CP

Slide 12

- Now moving to our adjusted EPS, which includes the following drivers
  - Adjusted EBITDA in Q1 of $308M;
  - Depreciation of $58M
  - Net interest of $66M
  - Income tax of $44M, representing an adjusted effective tax rate of 29.6%; and
  - Diluted share count of 859M
- As a result, our Q1 diluted adjusted EPS was 11 cents, an improvement of 3 cents versus last year
- It's important to highlight that this adjusted EPS of 11 cents included a negative impact of 4 cents from the equity swap
- Recall, we previously entered into a total return swap transaction with several bank counterparties, effectively locking in an attractive share price below $7.50 for a targeted $200M share buyback program during calendar 2024
- Beginning in Q1, the non-cash, mechanical mark-to-market on this total return swap has to be included in our adjusted net income and EPS calculation, flowing into the Other Income line
- These mark-to-market EPS impacts will continue to factor into our net income and EPS calculations moving forward
- Looking ahead to Q2 and FY23, let me provide some additional details related to our current expectations for certain drivers of our adjusted EPS
  - First, we continue to expect depreciation to be in the mid $200 millions
  - Second, we continue to expect net interest for the year to also be in the mid $200 millions, reflecting the fact that the majority of our debt is fixed and we have hedging in place on most of the remainder
  - Third, we continue to expect an adjusted effective tax rate for fiscal 2023 in the high 20s percent, assuming no significant changes in tax regulations; and

- Finally on FY23 share count, based on the GAAP accounting provisions around anti-dilution, we now expect diluted shares consistent with Q1 at 860-870M million

Slide 13

- Moving to our free cash flow
- We generated $88 million of free cash flow in the quarter, consistent with our expectations
- The quarterly results reflected the timing of certain capex and working capital payments, as well as the increase in inventory as we build stock in certain components as part of our efforts to mitigate the global component shortages we discussed earlier
- For the full year, we continue to expect strong free cash flow generation, though as we indicated on the last call, we would expect the cash flow to be a little lower than FY22 due to one-time working capital benefits which helped FY22 and won't repeat in FY23
- Our intent is to continue to use our strong free cash flow to steadily reduce our debt and advance our deleveraging agenda

Slide 14

- Moving to our capital structure
- We ended Q1 with net debt of just under $4.2 billion, an improvement of roughly $100M from Q4, driven by our free cash flow
- As a result, our leverage at the end of the quarter was below 4.5x, down from 4.7x at the end of Q4
- And with Q2 as our seasonally strongest free cash flow quarter, we remain fully on-track to bring our leverage down towards 4x by the end of calendar 2022
- In the quarter, the book value of our 26% stake in Wella increased to approximately $1.0 billion, reflecting Wella's acquisition of a high-growth haircare brand

- Factoring in our Wella stake, we ended the quarter with economic net debt of approximately $3.2 billion
- I would also like to take a minute to address the rising, and seemingly uncertain, interest rate environment and Coty's sensitivity to this
- Approximately 2/3 of our debt is fixed rate notes, and for the remaining variable debt, we have hedging in place, such that ~90% of our debt is fixed, supporting our unchanged expectation for FY23 interest expense in the mid $200s
- Looking beyond FY23, our strong continued progress on deleveraging and debt paydown support our expectation for our interest expense to steadily decline in the coming years, despite the rising interest rate environment
- I will now hand it back to Sue to review our strategic progress in the quarter

Sue Y. Nabi, Chief Executive Officer

Slide 15

- Thank you Laurent
- As we have continued to update you quarter after quarter, in Q1 we made further progress on our six strategic pillars

Slide 16

- Starting with our first strategic pillar, stabilizing and growing our Consumer Beauty business
- Over the past quarter, the global mass beauty market grew in the low single digits year-on-year, broadly inline with historical trends
- Against this backdrop, our successful repositioning of many of our key brands has allowed us to continue to outperform the market, with Coty's sell-out growing in the mid-to-high single digits

- In total, this marks the tenth consecutive month of market share gains for our Consumer Beauty business, both in color cosmetics and overall mass beauty
- Our goal is to continue to drive market share momentum, even as we start lapping some of these improvements

Slide 17

- We've seen particularly strong market share momentum globally in Max Factor and in Rimmel
- In fact for Rimmel, the recent TikTok-driven launch of its Thrillseeker mascara – whose ad campaign you can see here - has quickly become the #2 mascara in the UK market, based on the latest market data, and even more impressively, the biggest mascara launch ever for the Rimmel brand

Slide 18

- While our deliberately sequenced relaunch calendar for our Consumer Beauty brands began with our cosmetics brands, we have now begun the relaunch of our Top 5 Consumer Beauty brand, adidas
- In keeping with the fashion brand's focus on uniting premium athletics and sustainability, and Coty's focus on leading the skinification trend, we have launched a new premium bodycare range for adidas called Active Skin & Mind
- This skinified bodycare range includes clean and vegan formulas, packed in bottles that are 100% recycled, recyclable, and refillable, representing a true leap forward in our sustainability agenda
- Also, as part of our bodycare portfolio, our leading Brazilian brand Monange has also brought market-leading innovation
- During Q1, Monange launched the first-to-market, patent-pending non-silicone deodorant, which is already seeing great success in the market

- Our second key Brazilian bodycare brand, Bozzano, was also fueling momentum with the launch of a long-lasting, clinical deodorant line
- As a result of these strong brand launches and supporting media activation, our overall bodycare LFL sales in Q1 grew over 25%
- While our bodycare business, including these premium launches, carry gross margins below the corporate average, we are very pleased with both the revenue growth and strong profit contribution that this business is bringing, particularly as we continue to invest behind key strategic initiatives such as skincare

Slide 19

- Let's take a look now at the new brand campaign for adidas

Slide 20

- Turning to our second pillar, focused on accelerating our luxury booming fragrance business
- What is quite clear is that the global prestige fragrance market shows continues to boom, as we continue to see the "fragrance index" in full effect
- After lapping growth of over 20% in fiscal 2022, and even as the macro backdrop remains difficult, the market data confirms that demand for prestige fragrances continues to grow in the high single digits
- This represents over 25% growth versus 2019 and in markets like the U.S., the prestige fragrance market is over 40% higher than pre-COVID levels, supported by the structural drivers that we have been discussing for some time, including increased usage by Gen Z, men and Hispanic consumers, further underpinned by social media
- It's also worth highlighting that the latest market data we have shows no slowing in the premiumization trend in fragrances, with the higher priced and higher concentration fragrances continuing to increase their penetration across all major fragrance markets
- These dynamics manifested in our results as well, as we saw close to 10% price/mix growth in our prestige fragrance sales, with volumes growing when adjusted for the Russia exit

- Against this very favorable backdrop, we are continuing to fuel our market-leading innovation, by building on last year's successes with innovative and brand-building extensions
- The launch of Boss Bottled Parfum, while still in limited distribution, is off to a great start, driving double digit LFL growth for the iconic Boss Bottled franchise
- On Burberry, with last year's Burberry Hero EDT launch becoming a Top 5 male fragrance launch across all major markets, this year we have launched the more premium Burberry Hero EDP. The halo effect has pushed the Burberry Hero franchise to become Top 10 in the U.S. and propelled Burberry fragrances to their highest market share in their core UK market
- On Gucci, last year's disruptive launch of Gucci Flora Gorgeous Gardenia ranked as the #1 or 2 best female launch in key markets. We have built on this success with this year's launch of Gucci Flora Gorgeous Jasmine, which has propelled the Gucci Flora franchise to Top 10 across North America and Europe, surpassing the iconic Chanel No. 5
- Meanwhile, Chloe's continued success with its ultra-premium Atelier des Fleurs collections has allowed the collection to become the #1 artisanal fragrance in China Sephora and our #1 fragrance brand in Travel Retail APAC
- All of this reaffirms our view that Coty remains the leader in building strong and long-lasting fragrance brands, and a high-growth and high-margin fragrance business with a balanced portfolio of distinctive brands
- Of course, this unprecedented robust fragrance demand growth coupled with complications in the global supply chain have resulted in industry-wide fragrance component shortages, which Laurent discussed in detail, and this remains the key inhibitor to growth in the short term
- At the same time, with demand outstripping supply, this only reinforces our view of the "fragrance index" which is part of the larger "well-being index", where even in difficult economic circumstances, consumers will continue to look for the mood-boosting, affordable luxury offered by prestige fragrances

Slide 21

- Let's take a look at the new Boss campaign, which perfectly aligns with the new brand story and aesthetic of the fashion house.

Slide 22

- On Prestige cosmetics, while the overall business trends for Gucci and Burberry cosmetics were pressured by the intermittent lockdowns in China, we continued our strategic focus and expansion of this business
- In the U.S., our prestige makeup sell-out grew at double the pace of the underlying prestige cosmetics market
- In the critical Travel Retail APAC corridor, our prestige cosmetics business has now reached roughly half of our sales, again confirming the desirability of our brands and their right to win in prestige cosmetics
- And on Kylie, even as the brand lapped the difficult comparisons of prior year's brand relaunch, the brand continues to resonate with Gen Z shoppers worldwide
- As we've continued to open new Travel Retail locations for Kylie Beauty, whether in Europe, Israel, or Latin America, the Kylie brand continues to rank amongst top beauty brands across key travel retail corridors

Slide 23

- Shifting to our 3rd strategic pillar, building our skincare business across both divisions
- As we shared during our Skincare Strategic Update investor event in September, growing our Skincare business is a key strategic objective for us in the coming years, led by our prestige brands.
- And with Lancaster as a critical building block in this targeted growth, it is very encouraging that Lancaster sales grew over 20% in the quarter.

- This growth was fueled by strong momentum in Hainan, even in the midst of the periodic closures there, illustrating that with the right brands activations, story-telling and product trial, Lancaster can win with Chinese consumers
- Based on the learnings we have accumulated in recent months, we have the playbook for our ultra-premium Lancaster product launch and brand activations in China which remain on track for the second half of this fiscal year
- On SKKN, following the strong launch at the end of June, we are continuing to build the skincare brand's online following and awareness on DTC
- It's worth highlighting that the 9-piece set, priced at over $500, still remains the top selling item
- Finally, while our skincare build strategy is anchored on our prestige brands, I'm pleased to share that our pure-play mass skin and bodycare brands are seeing strong momentum
- Both Paixao and Monange gained 260 basis points of share in the competitive Brazilian lotions & oils market, growing their household penetration by 2.2 million households
- So look out for more brand initiatives and momentum on our skincare & bodycare business in the coming quarters and years

Slide 24

- Moving to our 4th strategic pillar, digital and e-commerce, overall e-commerce sales grew modestly year-on-year, weighed down by lock-down related weakness in key Chinese e-commerce platforms
- At the same time, we have continued to fuel our Digital momentum across key areas such as social commerce, e-retail, and new partnerships
- Let me share some of the highlights from the quarter
- On the social commerce side, our recent launch of Marc Jacobs Daisy Ever So Fresh went viral after two organic mentions by TikTok influencer Mikayla Noguiera

- The result was truly remarkable, with the fragrance selling out at Sephora within 2 weeks
- We also expanded our e-commerce partnerships by opening two new flagships stores on LazMall Prestige, first for Chloe which saw very promising early results, and then for Hugo Boss
- This e-commerce platform, a part of Alibaba group, is the largest online shopping platform in Southeast Asia and brings our brands to over 90M consumers in the region
- Finally, on Amazon, we continue to partner with this critical pureplay e-retailer across key markets
- This has yielded clear results, with our global Amazon sales up 50% year-on-year during Amazon Prime Week
- We are continuing our collaboration, as we've recently signed a global media deal with Amazon, which will unlock more data for us to leverage, more support from the retailer, and more optimized media spend which should continue to drive a higher ROI

Slide 25

- Shifting now to China, the intermittent COVID-related lockdowns in the country during Q1 pressured category trends
- At the same time, our low base, continued expansion in the market, and strong launch activity behind key brands such as Burberry, Gucci, and Chloe, allows us to grow sales in China, including Hainan
- You can see on this slide the beautiful 3D billboard and in-store activation we executed around the launch of Burberry Hero EDP
- Importantly, we drove our business across both our prestige and mass brands

Slide 26

- In Consumer Beauty in China, both adidas and Max Factor leaned into the rapidly growing Douyin platform, with overall sales for both brands up over 30% in the quarter
- In fact, this quarter Max Factor partnered with Labelhood - a self-styled cultural community that discovers & promotes Chinese fashion
- The resulting Limited Edition FaceFinity compacts were a first for Max Factor, doubling the sales of the foundation with the strong over-indexing to Gen Z consumers
- While we do not know when the COVID-related restrictions in China will be lifted on a sustainable basis, our view of the attractiveness of the China beauty market remains unchanged, as market data continues to show that the ultra-premium beauty categories are still the fastest growing ones
- As such, while we benefit in the short term from the geographic diversification of our business model, we continue to target strong expansion in our China sales in the coming years

Slide 27

- Similarly, on our Travel Retail business, the momentum continues to build
- Even as international passenger traffic has continued to recover and grow, it still remains 20-30% below 2019 levels
- At the same time, beauty demand in travel retail remains much stronger and largely on par with 2019
- And in this favorable backdrop, Coty is gaining share in this highly profitable channel, fueled by our multi-category approach, channel exclusives, and disruptive activations
- In Q1, our Travel Retail sales grew over 30% year on year
- You can see on this slide some of our beautiful fragrance displays in Travel Retail
- Specific to Hainan, it’s worth noting the Lancaster sales grew over 5x year over year
- And with the consumer appetite for travel post the pandemic showing no sign of easing, we continue to be optimistic about the prospects for this channel

Slide 28

- Finally, moving to our sixth strategic pillar, becoming a leader in sustainability
- I am incredibly pleased that Coty's continued improvements in its ESG transformation, disclosures and policy-setting have been recognized by Sustainalytics.
- This leading rating agency recently raised our ESG rating, putting Coty in the top quartile of Personal Products companies.
- And our progress does not end there, with a major milestone in our Social agenda with the recent announcement of Coty's market-leading gender-neutral global parental leave policy.
- This enables all employees, regardless of gender, to have access to the same number of fully paid weeks of parental leave when starting or extending a family – whether through pregnancy, adoption, or surrogacy.
- We also have more updates to come on our Environmental agenda in the coming days
- We are therefore excited by Coty's ESG progress to date and journey ahead.

Slide 29

- And that brings to me our outlook for the remainder of the year
- While the broader macroeconomic picture has worsened in recent months in certain markets, I want to emphasize that demand in our categories across key markets remains robust
- We see no signs of slowing demand or trade-down for prestige fragrances, including in the U.S., U.K., Germany and Travel Retail
- We also continue to see solid demand in mass beauty across our categories
- In fact, as we've mentioned, the main constraints to our sales growth near term remain the global component constraints – primarily in fragrances – and to a lesser extent, the continued COVID policy overhangs in China

- As such, we continue to expect 1H23 LFL sales growth of our core business, adjusting for the impact of the Russia exit, inline with our medium-term algorithm and previous outlook for 6-8% growth
- The net impact of our Russia exit is expected to negatively impact Q2 sales by roughly 3%
- Based on current rates, we expect FX headwind to sales in Q2 of ~7-9%, with a more moderate impact on profit, based on the natural hedging embedded in our model
- We continue to expect modest gross margin expansion in Q2
- And 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 the macro or COVID environment, we continue to expect LFL sales growth of the core business, adjusting for the impact of the Russia exit, inline with our medium term growth target of +6-8%
- We expect impact from the Russia exit to be approximately 2% in FY23, with an FX headwind on FY23 revenues of 6-8%.
- We continue to expect modest gross margin expansion in FY23 with positive mix, savings & pricing offsetting inflationary pressure
- As a result, and assuming no significant macro deterioration, we continue to target 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 continue to expect FY23 adjusted EPS growth in the mid teens to 32 to 33 cents, which excludes 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 ~3x exiting CY23 and ~2x exiting CY25

Slide 30

- To conclude, I am very pleased to report our ninth consecutive quarter of results inline to ahead of expectations, despite the increasingly complex external environment
- Our continued efforts to premiumize our portfolio in both divisions, our disciplined pricing implementation, and continued cost control, are all positioning Coty for success in both the short and long term
- This is reinforced further by our strengthened culture, as we have recently launched internally and externally the new Coty Purpose, Vision, and Values, which center on fearlessness and a forward-thinking mindset
- And with demand in our markets and categories remaining strong, and a great start to the year with our Q1 results, this reinforces our confidence in our FY23 outlook 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