

08-Nov-2022

Coty, Inc. (COTY)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

OTHER PARTICIPANTS

Ashley Helgans

Analyst, Jefferies LLC

Anna Lizzul

Analyst, BofA Securities, Inc.

Nik Modi

Analyst, RBC Capital Markets LLC

Olivia Tong

Analyst, Raymond James Financial, Inc.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Robert Ottenstein

Analyst, Evercore ISI

Chris Carey

Analyst, Wells Fargo Securities LLC

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Carla Casella

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. My name is Gretchen and I'll be your conference operator today. At this time, I would like to welcome everyone to Coty's First Quarter Fiscal 2023 Question-and-Answer Conference Call. As a reminder, this conference call is being recorded today, November 8, 2022.

Please note that earlier this morning, Coty issued a press release and prepared remarks webcast, which can be found on its Investor Relations website. On today's call are Sue Nabi, Chief Executive Officer; and Laurent Mercier, Chief Financial Officer.

I would like to remind you that many of the 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 expectation reflect certain adjustments, as specified in the Non-GAAP Financial Measures section of the company's release.

With that, we will now open for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we'll take our first question from Ashley Helgans from Jefferies.

Ashley Helgans

Analyst, Jefferies LLC

Q

Hey. Good morning and thanks for taking our questions and congrats on the quarter. So, to start, it was nice to see China return to growth. Can you just talk about some of the drivers in the region and your expectations for recovery for the balance of the fiscal year? Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes. Good morning, Ashley this is Sue speaking. So, yes, China is slightly positive which is, in a way, a good news for us even if this region of the world and this country is only 4% of our net revenues. So, in a way, we are protected against all these lockdowns that we've been seeing since a few months as now that are continuing and that we do not see improving in the coming quarter and probably quarters, if I may.

But at the same time, starting from a slow base – small base, sorry, Coty is seeing a lot of potential of upside in this country, of course, with the fragrance business. Again, I'd love to remind everyone that this business in this country is only 3% penetration. And our brands, if you think about Chloe, that's the number one new brand at Sephora; Gucci; Burberry; Calvin Klein; Hugo Boss; all these brands that are doing fabulously well globally are growth engines for the near future and the, I would say, far future for the company, of course, as you can imagine. On makeup, again, we started with Gucci makeup and Burberry makeup, and both brands had a fantastic start before lockdowns; and this is the category, I would say, that are most impacted by the recent series of lockdowns.

And last but not least, skincare, 70% of the Chinese market of Beauty, huge, huge potential for the company, as you can imagine. And there, we are starting with the first brand which is Lancaster. As you see during the presentation, Lancaster in Hainan, so its sales multiplied by five year-on-year, which is a great demonstration of the desirability of the brand towards the most demanding Chinese customers, this is one. Second, Lancaster, which is at Sephora as a niche exclusive brand until recently, is the number one niche skincare brand at Sephora in China.

And this gives us a great confidence, specifically after the Investor's Day that we have done one month and a half ago, to start with this brand as we, first, I would say foray into the big, huge skincare market in China. So, this is the way I would describe the situation in terms of how we are, in a way, doing quite okay in China despite all these very difficult environments.

Ashley Helgans

Analyst, Jefferies LLC

Q

Great. Thanks. And if I could just throw in one more. We're starting to hear about some trade-down in some beauty categories. We're curious if you've seen any of these trends within your Consumer division, and overall expectations for the Consumer division if we do go into a recession?

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes. So, that's a good question that we hear a lot. And honestly, we don't see any kind of trade-down nor slowdown, by the way. No trade-down at all. If you see our Prestige division, in a way, we are running out of supply now because the market is booming. This is what we love to call the fragrance index because our innovations are doing fantastically well and we see it also in the way retailers are ordering from us, including sometimes ordering in advance during Q1 for the Q2 season. So, on this part, we don't see this.

And the second element is that our Consumer Beauty business, as you've seen in the figures, plus 12% like-for-like, is also doing fantastically well and this is thanks to the great work that the teams at Coty have done behind the different brands, making sure to take these brands from large heritage brand that people trust into still the same qualities but not – on top of this, what we call cool brands.

And I'd love to talk about smart shopping also. A lot of consumers are also shopping there, saying this brand is a cool brand and it proposes products that are the quality of other products that are more expensive. And therefore, you can see that, in both divisions, the premiumized beauty, be it the desirable one from luxury or the cool, smart purchase in Consumer Beauty, these two premiumized parts of the business are doing great and this is what explains, in a way, the results that you see across both divisions.

Operator: Our next question comes from Anna Lizzul from Bank of America.

Anna Lizzul

Analyst, BofA Securities, Inc.

Q

Hi. Good morning and thank you so much for the question. On the mass beauty side, some of your competitors are gaining shelf space at key retailers domestically, such as Walmart and Target and the drugstores. Just as you're continuing to stabilize and gain market share, can you talk a bit about your distribution of brands such as CoverGirl and are you happy with the current shelf space of the brand? And also, is there any opportunity to gain shelf space from struggling brands such as Revlon? Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes. Hi, Anna. Good morning. So, thank you for your question. Again, when it comes to the shelf resets for the Consumer Beauty division, I will say that, for spring 2023, which is the next, I would say, slot, we expect to maintain a stable shelf space for our Consumer Beauty business globally. We also expect, at the same time, pockets on incremental shelf space gains, particularly in the UK, driven by the outstanding success behind Rimmel Kind & Free new vegan and sustainable line of makeup and mascaras and powders.

Also behind Sally Hansen that's seen in many, many markets as the indisputed (sic) [undisputed] leader of the nail business and, therefore, many countries are now giving more space to Sally Hansen. And last but not least, Bourjois, which we have very successfully repositioned recently. Remember, Bourjois has the number one selling mascara in a very competitive country like France, and Bourjois is re-entering in several markets, including recently UK, where the brand is exclusive to Superdrug and doing very, very well over there.

We also expect incremental gains for CoverGirl in the mix of tracked and non-tracked channels. So, this is, I would say, the overall picture that I can share with you when it comes to the shelf space future movements.

Anna Lizzul

Analyst, BofA Securities, Inc.

Q

Thanks very much.

Operator: Our next question comes from Nik Modi from RBC Capital.

Nik Modi

Analyst, RBC Capital Markets LLC

Yeah. Hi. Good morning, everyone.

Q

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

Good morning, Nik.

A

Nik Modi

Analyst, RBC Capital Markets LLC

Two questions. One is just more of a housekeeping item. I'm trying to understand what's actually happening with glass. I mean, if you can just provide what's actually the derivation of the supply shortages. And then the bigger picture question on – and so, I'd love your kind of big picture thoughts on this, is it looks like the fragrance category is shifting away from gifting and more towards self-consumption, at least from what we can see. I'm just curious, how – is that – certainly, do you agree with that statement number one? And how does that change your strategy as you move forward to kind of keep the momentum going?

Q

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

Yes, Nik, thank you so much. These are two, indeed, very important questions that we are asking ourselves on a daily basis, and let me share with you the way we see it at Coty. On glass, this is quite factual. In fact, it's really about the reduced number of suppliers doing quality glass, and they are not a lot, and mainly European-based, so this is what explains, in fact, the tension that we are seeing today.

A

And this tension, in fact, is exacerbated by the fragrance index, in fact, and for Coty, by the big success behind our innovations from 2021. This is, I would say, very simply said, the overall picture. Small number of suppliers, booming category worldwide, and booming innovations at Coty far above our best expectations from last year. So, this is what explains this, I would say, tension around glass.

When it comes to the fragrance business and the shifting away from gifting to self-consumption, this is absolutely true and this is great, in a way, for our business. Because, as you can imagine, our self-consumption of fragrances is much more [ph] relative (09:53) for us than gift sets, which are dilutive in general.

So, that's a great, I would say, sign of a category whose penetration is increasing. So, we are less into, I would say, the classical consumption of gifting, which people do automatically year-over-year, and we are more into buying something for me and buying something, if I am a young Gen Z, that I'm going to show on social media or if I am any other consumer, I'm going to wear, hopefully, for the remainder of the year or for many, many years.

And this shift is clearly a structural shift that we are seeing, and the best demonstration is the fact that people are buying more and more, I would say, expensive items. They are moving strongly from eau de toilette to eau de parfum, eau de parfum in larger sizes, which is clearly another demonstration of self-consumption.

And second, a lot of them are moving from the eau de parfum into what we used to call the niche category, which I do believe is not anymore a niche category, given the growth and the size this category is starting to have in

many, many areas around the world. And this is clearly what is at play behind the famous fragrance index. And you can relate this to, of course, social media, but I have to say, to also a heightened quality from us suppliers of fragrances.

There used to be years and years where the beauty industry, including on Prestige, was launching fragrances that were honestly not at the right level of quality. And since maybe seven, eight years, this has been corrected probably because of niche brands showing the way to most of the other brands. And today, the heritage brand captured that totally and very strongly, and this is what we are seeing today in terms of a fragrance index that some call the wellbeing index, and I think it's totally right.

Operator: Our next question is comes from Andrea Teiri (sic) [Andrea Teixeira] from JPMorgan.

Q

Hi. Good morning. This is [ph] Savanna (11:52) speaking on behalf of Andrea.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

Okay.

A

Q

I was wondering, with about like low-single-digit pricing in the beginning of calendar year 2022, mid-single pricing across the portfolio in like late summer, and another round of like planned low-single-digit price increases in full fiscal quarter third, are you assuming volumes will be declining in the current guidance? Thank you.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

Hello. Absolutely. So, I mean, it's important to me to remind that we anticipated – and this is something that we built more than a year ago, we built a pricing of this exactly to be able indeed to implement price increase, and this was, of course, absolutely needed to mitigate, to offset inflation. And you've seen tangible results as we are growing gross margin by 70 basis points.

So, indeed, we did a low-single – mid-single-digit recently and we continue. We are not seeing any volume decline. And definitely, when we are doing this price increase, we do it at a very – in a very granular manner, and we are taking opportunity also of the great momentum that we're having on our brands and the support that we are putting on our brands and also great innovations. So, it's really part of all these equation that we are doing. And the tangible result is that our volumes fragrance are growing and volumes in Consumer Beauty are growing.

Q

Thank you.

Operator: The next question comes from Olivia Tong from Raymond James.

Olivia Tong

Analyst, Raymond James Financial, Inc.

Q

Good morning. Thank you. Wanted to talk a little bit about the shortages hitting fragrance and where you stand relative to the past in terms of the glass quality and what have you? And to what extent you think it could impact holiday, your ability to supply gift sets during what is obviously an important period continue? Thanks.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

So, what's – hi, hi, Olivia. Definitely, so we confirm our guidance of 6% to 8%. So, you see there is no change on our guidance either for H1, 6% to 8%, excluding Russia, or full year, we confirm the 6% to 8% growth, excluding Russia. So – and this is following a strong Q1, as you – we just published. The demand is very strong. At the same time, indeed, we are monitoring very closely all the tension that we are facing on components.

Fragrance of – yes, is the number one tension that we are seeing. But we are seeing also, as all our peers, also tension on caps and, to some extent, on [ph] times (14:57). So, we are monitoring tightly. But despite this tension on components, we are confirming our guidance, H1 and full year.

Olivia Tong

Analyst, Raymond James Financial, Inc.

Q

Got it. Thank you. Can you give us any color into what you think the impact of the glass shortage had on the results this quarter? And then, broadly, just in terms of SG&A, I mean, this is the best performance and the lowest SG&A we've seen in several years even prior to COVID, so can you just talk about the SG&A opportunity in front of you? What's driving that improvement this quarter, particularly against what's arguably a bit more of a challenging comp for you guys? The comps obviously get a fair bit easier as the year progresses. So, just if you could talk a little bit about the SG&A opportunity in front of you, that would be fantastic. Thank you so much.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes. Good morning, Olivia. I'm going to take the first part, which is around the impact of the shortages on the results in Q1. Again, our mass service level is in the low-90s which is quite good, compared to what we are seeing around us. On Prestige, it's roughly under 80%, which is not good, if I may say, but in the same level of our peer set, and so we're not worse than the others but we're not better than the others.

But I can just give you how much the potential of our Prestige quarter would have been if we didn't face this kind of, I would say, limitations. The sell-out for Prestige in the quarter was in the low-teens and the performance of the division was 7% like-for-like, excluding Russia. This gives you an idea of how strong is our fragrance business at the moment.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Thank you. So, Olivia, on your second question on SG&A, there is one specific element we need to consider, which is ForEx. As I highlighted during my presentation and few times, we have, of course, a very significant ForEx headwind on top line and we say it's about 6% to 8%. But on P&L side, I shared the results that we have a natural hedging in Coty because we have cost of goods which are sitting in Europe, we have factories in Europe. But it's also the case on A&CP and SG&A because we have teams in Europe, so to be more specific on SG&A. We have HQ in Amsterdam. We have also a team in Paris. And we have also a sizable team in UK.

So, there is a mechanical effect of currency which is lowering SG&A in reporting numbers dollar. Having said that, we keep working, of course, on SG&A reduction. This is completely part of our All-In to Win agenda. So, we keep this work. We'll continue. And definitely, we amplify and we have some additional initiatives, especially on support function, to continue how to have a nimble organization within Coty and to manage our equation.

Operator: The next question comes from Steve Powers from Deutsche Bank.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Hey, good morning. Thank you. Just on the full year reaffirmation of guidance, it sounds like you've assumed more or less current consumer demand conditions remain intact. I guess, within that, I'm wondering if you have any allowances embedded for even modest demand slowing or allowances for retailers to potentially pull back in inventory if they foresee potential slowing or, alternatively, what levers you have at your disposable (sic) [disposal] should those conditions arise. Thank you.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Hi, Steve. So, indeed, we confirm our full year guidance, top line 6% to 8% and the EBITDA guidance \$955 million to \$965 million and, obviously, we confirm our roadmap towards 4 times leverage ratio by end of calendar 2022. So, indeed we are, as Sue shared and mentioned, and you see confirmation in the numbers, we are not seeing any slowdown in the demand. And even in Q1, as we just shared, I mean, the demand and the sell-out is even stronger. So, definitely this is – there is good momentum on Consumer Beauty and Prestige. We are not seeing any slowdown and all plans that we have in place give us full confidence about this momentum and this dynamic.

At the same time, definitely, I am monitoring, we are monitoring really all the actions that we have in All-In to Win are giving us also some munitions to manage and to mitigate the equation. So, this is really the way we monitor. And also to – on your specific question about retailers destocking and so on, what we are seeing, definitely we are not seeing any destocking. I mean, even in a context of a supply chain tension, we are seeing more – okay, some need really to fulfill and really to push for selling. This is what we are seeing in Q1 and we see currently.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Okay, that's very helpful. And then, if I could, I have to ask on Gucci, because, well, you and Kering at this point have both acknowledged that license has a number of years left remaining. Kering, as I'm sure you know, continues to talk pretty openly about work they're doing to potentially take that license, that business back in-house over time, even if years down the road.

And I guess, I've just wondered if there's anything you can additionally offer on the current standing of that relationship, whether renewal ultimately is at your discretion or Kering's. And if it's at theirs, a question I keep getting from investors is, how that impacts your willingness to continually invest in a franchise that has been central to your ambitions, especially in Prestige makeup, et cetera, with the risk that that portfolio may one day revert back to the original brand owner? Just how you're thinking about that. Thank you.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah. Thank you, Steve, for this question. Again, first of all, again, what we have heard is that beauty is a very attractive category and this we see it, of course, even more today, yeah, given what's happening around us and specifically the fragrance index. And it makes sense that others would do some initial work on that space. What we have heard has nothing to do with Gucci, if I'm not wrong. We hold the license for the long term, as confirmed by Kering themselves, and there is also no mechanism for an early exit.

The other thing I want to share with you is that this is one of the growth engines of the company, it's certainly not the only one. I can tell you that the success we are seeing with our Prestige division is clearly widespread across the different brands. And every quarter, we have a new brand thanks to the work we are doing, yeah, that's joining the pack of growth drivers into the company, without even talking about skincare, that's the biggest upside potential from the company, I would say, in the coming – in coming years.

Last but not least, I can tell you that the relationship between us and Gucci is fantastic, I have to tell you. The results we got behind Gucci Flora Gorgeous Gardenia last year and Gorgeous Jasmine this year are unprecedented, as you've seen it during the presentation today. And I was, last week, in Singapore and together with Marco Bizzarri, and we made the opening of a beautiful fantastic new boutique in the middle of Singapore.

Operator: Our next question comes from Rob Ottenstein from Evercore.

Robert Ottenstein

Analyst, Evercore ISI

Q

Great. Thank you very much and apologies if you covered this this morning. But can – you say you're not really seeing any weakness. Can you kind of bear that down into Europe given all – everything we hear, right, about extreme – increasingly strained consumer? Maybe touch on a little bit more on Max Factor and Rimmel, what you're seeing there? And then also, if you can touch on Travel Retail, your initiatives in Travel Retail? Everywhere I travel, I do absolutely see more and more of your brands. So, maybe talk a little bit about that and how they see the December quarter outside of Hainan in terms of increased traveling and the impact on your business? Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes. Good morning, Rob. Thank you for your question. Again, I confirm that we are not seeing any weakness, including in EMEA. You've seen that EMEA is growing double-digits. Part of it is, of course, Travel Retail that's doing fantastically well; and I'll come back on this part later in my answer.

But on the fragrance part, Europe is doing also very well. Our brands are doing very well. Recently, we even saw France, that used to be an entry Prestige market mainly, moving towards premium or ultra-premium/luxury fragrances which is a first and says a lot about where consumers are going, including in the biggest country in Europe, which is France.

When it comes to our Consumer Beauty business, you're right to point out at Max Factor and Rimmel. These are the two brands that are, in a way, strongly taking our market shares up. Rimmel, again, we've presented to you the plan of Rimmel which was, first, to lead on clean beauty, which has done fantastically well thanks to Kind & Free, which is today representing more or less 10% of the net revenues of the brand; and a big success in many, many parts around the world, opening the brand to the younger generation in a massive way, I have to say.

And remember, I spoke to you about how we're learning quickly how to create products that can become TikTok sensations. And Thrill Seeker, the latest mascara from Rimmel, is exactly the embodiment of all of these. It was created with TikTok in mind by TikTokers that we have in-housed and with TikToker in part of the TV commercial, as you've seen it a few minutes ago. And the result is that Thrill Seeker is the second mascara of the UK market and the biggest mascara launch for Rimmel since many, many years.

On Max Factor, the brand is gaining market share consistently and globally, and this is thanks to a strategy that's very well developed between base business and new innovation. And this brand, once it has been repositioned towards late millennials and Gen X, is doing fantastically well its job, which is to capture this audience that has the spending power, that is more sophisticated, and that is looking for products that stand the test of time; and is exactly what Max Factor is all about today.

And last but not least, the last part is about Travel Retail. Even if travel is still 20% to 30% below the levels of 2019, we see this part of the business booming at Coty, plus-30-something percent of growth, and this is thanks of course to our fragrance dynamism – the dynamism of our brands, the fragrance index, but also because we added two new legs to this business. The first one is Prestige makeup, think Kylie Cosmetics that is doing very, very well everywhere we are opening this brand; but also skincare, thanks to Lancaster that's, again, booming in Hainan which is this, I would say, central place now when it comes to Travel Retail in the Asian region, but also elsewhere. So, in a way, we do not see this weakness happening. And at the moment, we are really running after rebuilding the stocks behind our fragrance products.

Operator: Your next question comes from Chris Carey from Wells Fargo.

Chris Carey

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. Can you just expand on what you mean by modest gross margin expansion in Q2 and for the full year and – or on just some of the key puts and takes that we should be thinking about as far as the tailwinds and headwinds?

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Hi, Chris. I mean, first of all, I mean, as we are very proud of the results we delivered in Q1, with 70-basis-point gross margin expansion, and this is definitely a testament to all the actions that we have implemented. So, let me give you a little more of a color, and this is what you're calling tailwinds and headwinds. So, definitely, the headwind is inflation, it's about 2 points net revenue. It's in line with what we shared last quarter. So, there are some positive and negative but, all in all, this is quite in line.

So, how we mitigate and we more than offset this inflation, we continue to work on cost reduction – cost of goods reduction. A clear example is we announced more than a year ago a closure of factory – a Prestige factory in Germany. This is now implemented and this is a way to increase utilization rate of fragrance, and this is definitely helping for fixed cost absorption and helping gross margin.

We are working also on market value analysis, so is really to reduce, to simplify components, platforming of our products, and this is a powerful way also to reduce costs and to improve efficiencies. So, this is really on the cost side. There is big, big element which is mix. We continue – this is what we kicked off two years ago, and all the initiatives, all the work we are doing is always focused on mix and the gross margin accretive. This is valid for

Prestige, but this is also valid within Consumer Beauty, all the new initiatives that we are launching, sometimes some of these initiatives are even gross margin equivalent to Prestige.

And number three, which is absolutely key, is pricing. We did a low-single-digit beginning, calendar of 2022. We just implemented a mid-single-digit price increase during summer, September. And we are implementing a new price increase, mid-single-digit also, beginning calendar 2023. So, you see that all these elements – thanks to all these elements, we are able to confirm modest gross margin expansion within fiscal 2023.

Operator: Our next question comes from Lauren Lieberman from Barclays.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning. I know in the press release, you'd mentioned that it's, I think, the hundredth month for market share gains for CoverGirl. But I was hoping we could get a little bit of an update on performance there, some additional thoughts on skincare launch, how that's progressing or, really, how you'll look to migrate that to kind of even stronger performance in 2023, so a lot of the prepared remarks stay focused on some of the other brands. Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Good morning, Lauren. Thank you for your question around CoverGirl. So, on CoverGirl, it's interesting to give you, I would say, the overall picture and the way I see it. Remember, when we started to talk about the brand, it was somewhere around September 2020. We were, in a way, listing the difficulties this brand has been facing for years and years and years.

And the work that we have done at Coty since September 2020 until very recently was to reposition the brand to reinforce the brand equity to make this brand the indisputed (sic) [undisputed] leading brand when it comes to selling clean, sustainable healthy beauty to American people. And this has been delivering fantastic results, as you've seen it until recently.

And then we got into the constraints – supply constraints when it comes to the LashBlast line, which is a big, big, big net revenue maker into CoverGirl, which we went out, let's say, recently, just at the end of this summer. And recently, we are back in stock with CoverGirl – with LashBlast, sorry. In the meantime, what we've done is, of course, we've continued to invest behind the brand and we invested behind a younger line called Exhibitionist mascara, which is doing fantastically well, by the way, strong market share, et cetera, but this line is not having the same halo effects on the overall CoverGirl market share as LashBlast used to have.

So, to what we are doing now is now that we solved the supply constraints, we still have a few little ones here and there. But let's say that, overall, these are behind us. We are fine-tuning the media mix behind CoverGirl which is very, very specific. And there, it's really test, learn, re-test, learn, implement. And we understood what needs to be done. So, hopefully, by Q3 and already starting a little bit now, we are playing the playbook of Thrill Seeker, leveraging the power of TikTok behind LashBlast line. But the real, I would say, come back of LashBlast into media will happen somewhere around the next quarter.

So, that's overall the big picture I can share with you around CoverGirl. The big news and the good news is that all the fundamentals, such as the demand, the penetration among Gen Zs, the penetration among the Hispanic consumers has increased dramatically versus just two years ago.

When it comes to skincare, skincare has done its job. The part of skincare that we launched a year ago is, as you know, it's stocked in the makeup aisle. So, by definition, it was for us a place where we could test, learn, fine-tune again, et cetera, and we learned a lot of things that we intend to continue to implement and progress on this part of the business of CoverGirl probably here again in quarter three and quarter four. So, everything is on track when it comes to CoverGirl, and the brand dynamics and the health of the brand is intact.

Operator: And our last question comes from Carla Casella with JPMorgan.

Carla Casella

Analyst, JPMorgan Securities LLC

Q

Hi. I have a question on the debt structure. You've got a lot of debt maturing in 2025, and 2026, so I know it's not imminent that you need to do anything, and the rate markets aren't great. But any sense for how far in advance the maturities you feel you would need to address or lengthen your debt structure?

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Well, first of all, as you rightly said, Carla, is we made the right things over the last two years is to extend debt maturity to 2025 and 2026. So, we have many years to go and we will continue to pay down our debt. And the clear confirmation is that our deleveraging agenda is perfectly on track, delivering \$400 million free cash flow at minimum per year till 2025.

And on top of this, we have, as you know, the Wella stake with a value which is \$1 billion at minimum. So, all these elements – with all these elements, I mean, we are in full confidence in our deleveraging agenda. With debt maturity 2025, 2026, we are in a very good place.

Carla Casella

Analyst, JPMorgan Securities LLC

Q

Okay. Can I have one business...

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Thank you. So – yes? I'm sorry. Sorry, Carla, please go.

Carla Casella

Analyst, JPMorgan Securities LLC

Q

Oh, just one business follow-up. You're doing so well in the Prestige cosmetics. You called out Gucci and Burberry and Kylie. What percentage of sales are those today?

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Oh, this part of the business is in the low-single-digits and so it's a still a small portion of our business growing good, but it's a small portion of the business.

Carla Casella

Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

Thank you, Carla.

A

Laurent Mercier

Chief Financial Officer, Coty, Inc.

Thank you.

A

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

So, thank you, Laurent. So, thank you, everyone. I would like to close this Q&A session with some closing remarks, if you allow me. The first one is that, again, we have shown how much we are all about consistency since nine quarters in a row now, which is a very important element for us, and for you, of course.

The second thing is that we will start – you will start to hear us talking about a leverage that's going towards 3 times by the end of next calendar year. This is a big step change for Coty as a company.

And the third element as a closing remarks is the one of ESG. You've seen recently, because we've been questioned a lot by lot of you around this element, you've seen that the company has been rated by Sustainalytics in the top quartile of Personal Products company, which is great news, but this is just the beginning of what this company is doing around the sustainability and ESG topic.

So, I do believe that again and again, this is the best and the right moment to enter Coty's investors base. Thank you very much for your attention.

Operator: Thank you ladies and gentlemen. This concludes today's conference. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.