

# **Coty's 2Q23 Script**

February 8, 2023

## **Sue Y. Nabi, Chief Executive Officer**

### **Slide 1**

Welcome everyone,

- The Q2 results that we have reported this morning mark the tenth consecutive quarter of results in-line to ahead of expectations, even as we continue to navigate a very complex external environment
- In a time when inflation, recessionary concerns and geopolitical uncertainty dominate headlines, consumers continue to turn to beauty products to elevate their mood, boost their self-confidence, express their individuality, and support their desire for self-care
- The “fragrance index,” as we like to call it, remained in full effect during the holiday season, as consumers purchased fragrances for others and for themselves, as an affordable luxury in a time of financial uncertainty
- And we once again delivered another quarter of balanced growth, consistent with our objectives
- We reported LFL growth across both divisions, across each of our regions, and across our key categories including fragrances, cosmetics and bodycare
- This has allowed us to again report sales growth above the underlying beauty market
- As a result, 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**

- I would like to call out a few highlights from our results

- First, we once again delivered revenue growth ahead of expectations and guidance, fueled by the strong beauty demand and key brand initiatives in both divisions
- Our Q2 LFL revenues grew 4%, and adjusting for our exit from Russia, our core business grew 7% LFL
- This brought our first half core business LFL sales growth to 9%, ahead of our guidance for 6-8% growth
- Second, we delivered another quarter of strong gross margin expansion, strong profit growth, and net debt reduction, allowing us to reach our CY22 leverage target
- Our Q2 adjusted gross margins increased 90 basis points YoY, while our Q2 adjusted operating income grew 11% year-on-year, despite a high single digit negative impact from FX
- And importantly, we delivered on a key milestone in our deleveraging trajectory, as our net debt declined by approximately \$350M to below \$3.9B, and our leverage ended at roughly 4x, inline with our leverage guidance for CY22
- This reinforces our confidence in reaching the next critical milestone in driving our leverage towards 3x exiting CY23
- Third, we continued to execute and make progress across our strategic growth pillars
- Finally, we remain confident in delivering on our FY23 revenue and EBITDA guidance, which is inline with our medium term growth targets
- And we are increasing our FY23 adjusted EPS outlook, which we now expect to grow over 20% growth versus last year

### **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 performance

- Following Q1, when Consumer Beauty significantly outgrew Prestige primarily due to the pipefill of bodycare launches, in Q2 our divisional growth was more closely aligned, as anticipated
- And at the same time, we also saw close alignment between the revenue growth and the retail sales growth in both divisions, with inventory levels at retailers in healthy shape exiting Q2
- Specifically, our Q2 revenues grew 4% LFL, reflecting 7% core business LFL growth when adjusted for our exit from Russia
- This brings our first half core business revenue growth to +9%, ahead of our 6-8% LFL growth guidance
- In Q2, our Prestige business grew 3% LFL, or 6% LFL when adjusted for the Russia exit
- For the first half, the Prestige division grew 5% LFL, or 8% when adjusted for the Russia exit
- As anticipated, industry-wide supply constraints in key fragrance components such as glass bottles and to a lesser extent, pumps and caps, were the main limitation to our Prestige business in terms of both revenues and sell-out
- The division also faced difficult comparisons in the first half, as our innovation pipeline this year was composed primarily of brand extensions versus blockbuster launches last year
- The good news is that with retailers exiting Q2 with lean inventory levels, fragrance demand maintaining its healthy growth, and component supply constraints beginning to improve, this sets a favorable backdrop as we enter the second half of fiscal 23
- In Consumer Beauty, Q2 revenues grew 6% LFL, inline with our sell-out growth, bringing the LFL growth in the first half to roughly 9%
- When adjusted for the Russia exit, Consumer Beauty grew 8% LFL in Q2 and 10% in the first half

## Slide 5

- Geographically, I'm pleased to say that LFL revenues continued to grow in all regions.

- Revenues in the Americas grew 8% LFL in Q2 and grew 7% LFL in the first half, as we saw strong momentum in Brazil, Latin America, and regional Travel Retail, while the continued strength in U.S. consumer demand was counterbalanced by supply constraints, particularly in prestige fragrances
- EMEA sales grew 2% LFL in Q2 and 6% in the first half of fiscal 23, despite roughly 500 basis points of negative impact from the Russia exit. We saw sales growth across most markets, and particularly strong momentum in regional Travel Retail as the weaker Euro attracted international travelers
- Asia Pacific revenues grew 2% LFL in Q2 and 6% in 1H23, with strong momentum in Asia-excluding-China and Travel Retail

#### **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.
- The external environment during our second quarter remained complex as we continued to face volatile FX rates, future interest rate uncertainty, component shortages within prestige fragrances, COVID-related lockdowns in China, as well as unpredictability regarding the 2023 macroeconomic backdrop.
- Despite this uncertain environment, I am pleased to say that we continued to deliver strong performance across all key financial KPIs including gross margin, profit, and deleveraging.

## Slide 7

- Let's start with our gross margin performance in the quarter, as we delivered significant expansion in both Q2 and the first half despite inflation, and less favorable mix
- Q2 adjusted gross margin of 65.5% increased by 90 basis points from last year, bringing the first half gross margin to 64.8%, up 80 basis points year-on-year
- Our Q2 gross margin was supported by the full quarter benefit from the pricing actions we took exiting the summer in both Prestige and Consumer Beauty, averaging mid single digits across the portfolio
- The gross margin momentum was also fueled by supply chain productivity and improvements in excess & obsolescence
- These improvements more than offset the COGS inflation, which temporarily moderated to below 150 bps of revenues in Q2, due to the timing of pricing impact from certain material costs
- As the contracts on these materials reset in Q3, we expect inflation to remain at ~2% of sales in the second half of the year
- Going forward, we will continue executing on our multi-pronged, multi-year gross margin attack plan, as we drive our gross margins to the mid 60s and beyond

## Slide 8

- Let me now give you an update on the global supply and inflationary backdrop, including the industry-wide component shortages within Prestige fragrances, as well as how we are navigating through this difficult environment
- As we spoke about last quarter, the continued robust demand for fragrances, which had not been fully anticipated by the supply chain, has resulted in industry-wide shortages in key fragrance components
- The biggest constraints have been felt in glass bottles, though the supply of fragrance caps and pumps has also been limited

- In light of these component limitations and the seasonally higher fragrance volume demand in Q2, our Prestige service levels declined moderately in Q2 compared to Q1 and remained below 80%
- Against this difficult backdrop, we were able to deliver revenues ahead of guidance and strong gross margin growth
- And the good news is that, in January, we have already begun to see an improvement in our Prestige service levels, aided by the combination of:
  - Seasonally lower fragrance volume demand and
  - A concerted effort by our supply chain team to systematically tackle the component constraints, concentrating on our top SKUs and lining up alternative sources for component supply
- And finally, on inflation, while Q2 benefitted from temporarily lower levels of inflation based on pricing locks we had in place, the repricing of these materials entering CY23 coupled with ongoing inflation in energy and labor in particular, suggest no change to our expectations for the year
- Specifically, we continue to estimate COGS inflation of approximately 2% of revenues in FY23, with further inflationary pressure into FY24 materializing in SG&A
- And we will maintain our steady and successful agenda of offsetting this inflation through a combination of pricing, COGS savings and trade investment improvement

## Slide 9

- I will now provide an update on our All-in-to-Win program
- In Q2, we delivered savings of approximately \$50 million, bringing our year-to-date savings to approximately \$70 million
- And as savings ramp up from key initiatives, including our fragrance plant consolidation and material value analysis, we continue to target savings of approximately \$170 million in FY23

- Importantly, in the current uncertain macro environment, we want to position Coty for success both defensively and offensively
- Specifically, while we have seen no concrete signs so far of slowing demand for beauty products, we want to protect our profit and cash delivery in a variety of macro scenarios, while at the same time supporting a significant step-up in our skincare investments in the coming quarters and years as we kick off this critical pillar of our strategy
- As a result, we are increasing our FY24 savings target to approximately \$90 million from our previously targeted \$75M, and have also identified savings projects of approximately \$75M in FY25
- The increase in our FY24 savings and the new FY25 savings targets are driven in large part by gross margin-related projects, including:
  - Material value analysis, as we continue to stream-line sourcing and variability in non-value-added components, like pumps and external packaging
  - Deploying strategic revenue management programs and toolkits to additional markets
  - Continuous improvement to our manufacturing plants and warehouses
  - Energy cost reduction at our facilities through solar panel installations
- In addition to these gross margin savings, we expect to deliver savings in SG&A through further business services optimization, consolidation in warehouse operations, and optimizing purchasing of marketing materials
- In sum, having delivered close to \$500M of savings over the last two and a half years, we continue to optimize all of our processes and expenditures, thereby positioning Coty to be both flexible and fully equipped to invest in our strategic priorities

#### **Slide 10**

- Let me now walk you through our marketing investments
- In Q2, A&CP investments represented over 27% of sales, increasing from Q1 levels, as we supported our initiatives during the critical holiday period

- This brings the year-to-date A&CP level to approximately 26%, in line with our expectations
- As with prior quarters, our marketing spend was concentrated behind key launches in Prestige and Consumer Beauty, as well as whitespace opportunities
- For the back half of fiscal 2023, we expect A&CP to remain in the high-20% level of sales, resulting in full fiscal 2023 A&CP also ending in the high-20% level of sales

### **Slide 11**

- Moving to our profit delivery for the quarter
- Our Q2 adjusted operating income grew 11% to \$261 million, with our first half operating income expanding a strong 17% year-on-year
- This delivery was particularly impressive given strong FX headwinds, which negatively impacted our Q2 and first half profit growth in the high single digits
- Importantly, both divisions delivered double-digit operating income growth in the quarter
- As a result, our Q2 adjusted operating margin expanded by over 200 basis points to 17.2%, with our first half margin up 270 basis points to 17.5%
- On adjusted EBITDA, we delivered 2% growth to \$318 million, with 6% growth in the first half to \$626 million
- As a result, our year to date adjusted EBITDA margin reached 21.5%, up 150 basis points versus last year
- This strong delivery puts us well on our way to our EBITDA objectives for the year

### **Slide 12**

- Now moving to our adjusted EPS, which includes the following drivers
  - Adjusted EBITDA in Q2 of \$318 million
  - Depreciation of \$56 million

- Net interest of \$61 million
- Income tax of \$68 million, representing an adjusted effective tax rate of roughly 25% due to some discrete benefits in the quarter; and
- Diluted share count of 887 million, which is a mechanical result of GAAP rules on anti-dilution and the level of net income we reported this quarter
- As a result, our Q2 diluted adjusted EPS was 22 cents, including a positive impact of 5 cents from the mark-to-market on the equity swap
- As a reminder, the total return swap transactions that we have entered into with several bank counterparties have effectively locked in an attractive share price below \$7.50 for targeted share buyback program of roughly \$200 million during calendar 2024 as well as a share price of approximately \$8.70 for another targeted share buyback program of approximately \$200 million during calendar 2025
- With a negative impact from the equity swap in Q1 and a positive impact in Q2, the mark to market benefit to our first half fiscal 23 EPS was only 1 cent
- It is therefore very encouraging to report 27% growth in our year-to-date adjusted EPS to 33 cents, or 32 cents excluding the equity swap, which was primarily driven by strong operational improvement even in the face of significant FX headwinds
- Looking ahead to Q3 and the remainder of fiscal 2023, I would like to provide some more context on the different drivers of our adjusted EPS:
  - First, we continue to expect depreciation to be in the mid \$200 million;
  - Second, we continue to expect net interest for the year to also be in the mid \$200 million;
  - 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 fiscal 2023 share count, based on GAAP accounting provisions around anti-dilution, we continue to expect diluted shares at the 860-870 million range

### Slide 13

- Moving to our free cash flow

- We generated \$455 million of free cash flow in the quarter, in line with our expectations
- Year-to-date we have generated a robust \$543 million of free cash flow
- The quarterly results reflected the seasonally strong cash generation period coupled with good execution on receivables collection
- For fiscal 2023, we continue to expect the free cash flow to be a little lower than last year due to one-time working capital benefits, which helped fiscal 2022 and will not repeat in fiscal 2023
- In addition to our operating free cash flow, we also continued our trajectory of identifying tactical opportunities to monetize non-core assets and simplify the portfolio
- At the end of Q2, we announced the divestiture of one of our smaller fragrance licenses, Lacoste, back to the fashion house
- While we will be winding down sales of the brand over the course of CY23, we have already received the first tranche of proceeds from the license sale in Q2, totaling roughly \$55 million
- Our intent is to continue to use our strong free cash flow and opportunistic asset monetization to actively reduce our debt and advance our deleveraging agenda

#### **Slide 14**

- Moving to our capital structure
- We ended Q2 with net debt of approximately \$3.86 billion, an improvement of roughly \$330 million from Q1, driven by our free cash flow and partial proceeds from the Lacoste license sale
- As a result, our leverage at the end of the quarter was around 4.1x, down from around 4.5x at the end of Q1, and in line with our target of ending calendar 2022 with leverage towards 4x
- We also took advantage of our debt trading at a sizeable discount, or 95% of par, to buy back approximately \$150 million of our 2026 unsecured notes

- In the quarter, the book value of our Wella stake increased by roughly \$75 million to \$1.04 billion
- Factoring in our Wella stake, we ended the quarter with economic net debt of approximately \$2.8 billion
- Given the rising interest rate environment, I would like to take a moment to remind everyone about Coty's exposure to this
- Recall that approximately 2/3 of our debt is fixed rate notes, and including hedging, roughly 90% of our debt is fixed
- And even post the maturation of our hedges, which is occurring now, the vast majority – or approximately 70% - of our debt remains fixed
- 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 currently rising interest rate environment
- To sum up, we are incredibly pleased to have exited CY22 fully meeting our commitment to lower leverage to 4x, and we feel equally confident in our next major leverage milestone, as we continue to target exiting calendar 2023 with leverage towards 3x
- I will now hand it back to Sue to review our strategic progress in the quarter

### **Sue Nabi, Chief Executive Officer**

#### **Slide 15**

- Thank you Laurent
- As we have continued to update you quarter after quarter, in Q2 we continued to further execute on our six strategic pillars

#### **Slide 16**

- Starting with our first strategic pillar, stabilizing and growing our Consumer Beauty business

- Over the past quarter and past year, the global mass beauty market grew in the mid single digits year-on-year, broadly inline to ahead of historical trends
- And following a very active brand repositioning calendar in CY21, beginning with CoverGirl, followed by Rimmel and then Max Factor, I am pleased to say that we ended calendar 22 delivering market share growth for the full year driven by these iconic brands as well as smaller but growing contributors to the portfolio
- I am incredibly pleased with the fast pace with which we have been able to turn around our Consumer Beauty market share, with many more exciting things to come, though it's worth noting that the re-opening of the China market – where the market share of our Consumer Beauty brands is still quite low – may drive volatility in our reported global market share
- In the past year, CoverGirl's market share was pressured by shortages on the iconic Lash Blast mascara and ensuing shift in our media investments to successful but smaller pillars
- However, the brand's fundamentals have continued to improve, with stronger brand equity, innovation performance, and penetration gains with key demographics
- And I am very pleased that entering Q3 we once again have the perfect alignment of exciting innovation, including the Clean Fresh Yummy glosses and Clean Fresh color correcting serums, a new campaign around the iconic Lash Blast mascara to coincide with its 15<sup>th</sup> anniversary, and media support behind the top brand pillars
- With Rimmel, we have also seen great success across its key markets
- The brand gained global share in the last year and the last quarter, fueled by engaging brand activations, successful launches, including Thrillseeker mascara which is the top selling Rimmel mascara in every market it's in
- Turning to Max Factor, the brand also gained global share in the last year and the last quarter, supported by its successful Miracle Pure skinified foundation launch and the revamp of some of its iconic and value priced pillars, like the 2000 calorie mascara, which jumped to the #2 mascara spot in the UK after we relaunched it with new packaging and a new marketing campaign

- I also want to highlight our local Brazilian brands Monange, Bozzano, and Risque, which after a stellar Q1, show no sign of slowing in either sales growth or market share gains, with all 3 brands growing 20-30% in the quarter
- Finally, on adidas, last quarter we began the brand repositioning including the launch of the premium and sustainable Active Skin & Mind range in Central and Eastern Europe, where we have seen strong performance particularly on the male shower gels
- We are excited about the opportunity ahead for adidas as we relaunch the brand in key European markets in Q3

### Slide 17

- Turning to our second pillar, focused on accelerating our luxury fragrance business
- Consistent with the trends we have witnessed in the past year, we continue to see the “fragrance index” in full effect
- Even in the difficult macro backdrop, where many consumers are making choices in their spending patterns, fragrances remain a stand-out category, as they cater to consumers’ desire for mood-boosting and well-being oriented products
- We continue to see increased fragrance usage by Gen Z, men and Hispanic consumers, further underpinned by social media
- In the latest quarter, demand for prestige fragrances across North America and Europe continues to grow in the high single digits, well above the historical low to mid single digit growth of the fragrance market
- As a result, the fragrance market is 25-30% higher than 2019 and in markets like the U.S., the prestige fragrance market is over 50% higher than pre-COVID levels
- And once again, the market data confirms no slowing in the premiumization trend in fragrances, with the premium-plus and ultra premium fragrance lines growing at 1.5 to 2 times the market level, 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 a high single digit price/mix growth in our prestige fragrance sales, with volumes slightly down when adjusted for the Russia exit, reflecting the component shortages that Laurent discussed in detail
- And with the expected growth in fragrance consumption in China and further rebound in Travel Retail still ahead, we remain optimistic about the strong momentum ahead for the fragrance category
- Against this very favorable fragrance market backdrop, we are continuing our track record of launching market-leading innovation, all while supporting our base business of key icons

#### **Slide 18**

- More broadly, we continued to drive penetration and growth for the new pillars we launched in fall 2021 – Gucci Flora Gorgeous Gardenia for women and Burberry Hero for men – both of which placed in the Top 5 launches in our key markets
- As you can see on this slide, the new extensions we launched in fall 2022 further amplified these franchises
- Gucci Flora Gorgeous Jasmine ranks as a Top 3 innovation in the U.K. and Top 5 in the rest of our key markets
- Burberry Hero EDP ranks as a Top 3 innovation in most key markets
- Meanwhile, Burberry Her Elixir de Parfum has quickly become a Top 5 innovation in the U.S.
- The tremendous success of Burberry Hero fragrance franchise on the men's side and Burberry Her franchise on the female side has propelled the overall Burberry fragrance brand to the #10 spot in the U.S. market, a phenomenal improvement of 9 ranks versus last year
- Finally Boss Bottled Parfum has not only served to premiumize the Hugo Boss brand, but has clearly resonated with consumers, ranking as a Top 2 launch in key markets

- These are just some of the examples of the successes we continue to deliver across our fragrance portfolio
- I am pleased with the performance we have delivered in our prestige fragrance business year-to-date, despite the supply constraints and an innovation pipeline consisting of primarily pillar extensions
- And importantly, we are delivering on our balanced growth agenda, with revenues for each of these six brands growing inline to ahead of the fragrance market fiscal year to date
- 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

#### **Slide 19**

- On Prestige cosmetics, while the overall business trends for Gucci and Burberry cosmetics were pressured by the lockdowns in China, we continued our strategic focus and expansion of this business
- In the U.S., where the prestige cosmetics category grew in the low teens, our key prestige makeup brands Gucci and Kylie grew retail sales at over 40% or 3x the market level
- This exceptional growth reflects both continued distribution expansion and improving productivity, particularly as consumers are once again re-engaging with the Lip category which is a core pillar for both brands
- And as we've continued to expand our prestige makeup footprint in Travel Retail, particularly in Asia, it's very encouraging to see that our fiscal year-to-date prestige makeup sales in this critical channel are 7x higher than they were pre-COVID and now represent roughly 10% of our global travel retail sales
- This clearly speaks to the potential of our makeup brands, as we target prestige makeup to reach approximately 10% of our overall portfolio in the medium term

- Finally, on Kylie Cosmetics, the brand grew double digits versus last year, reflecting growing momentum on the DTC site and successful distribution expansion, including Macy's in the U.S. and top Travel Retail locations in Latin America and Europe

## Slide 20

- Shifting to our 3<sup>rd</sup> strategic pillar, building our skincare business across both divisions
- This is a key strategic objective for us, and our journey really kicks off in the coming months
- As we shared during our Skincare Strategic Update investor event in September, next month Lancaster will be launching its ultra-premium skincare line in China called Ligne Princiere
- You can see here a visual of one of the beautiful brand locations we will be opening, one of several in mainland China, Hainan and Travel Retail
- We will be supplementing these new counters with a full omni-channel approach, including a full launch on Tmall followed by Douyin, PR roadshows, and celebrity endorsers
- Importantly, with the lifting of China's COVID restrictions, our key priority Lancaster launch perfectly coincides with the re-opening of the China market and the desire of Chinese consumers to reengage with and discover new beauty brands and products
- At the same time, we are also revamping our philosophy skincare brand
- In the coming months, you will see more exciting things coming from philosophy, instore, online, and across social media activations
- Finally, on SKKN by Kim, our focus continues to be on expanding the reach and trial of the brand
- Importantly, as we are now roughly 6 months post launch, we are encouraged to see that the repeat purchase rate is quite strong at over 20%

## Slide 21

- Moving to our 4<sup>th</sup> 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 and fragrance supply constraints
- 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
- Despite overall declines in beauty sales on Tmall in Q2, our strong activations around Burberry drove strong momentum during the key 11.11 holiday, with Burberry sales on Tmall growing over 50%
- On the social commerce side, several of our Consumer Beauty products have gone viral on TikTok, with content creators tapping into the “dupe” trend and highlighting the great results of our products at a much more affordable cost relative to comparable prestige products
- As we spotted and amplified creator content on Rimmel’s Stay Matte powder, CoverGirl’s newly launched Clean Fresh Yummy Gloss, and CoverGirl’s Clean Fresh Lip Balm, these TikTok videos have reached millions of views and helped propel strong uplifts in retail sales on these products both in store and online
- Finally, we are continuing our e-commerce distribution expansion, including the opening of a Chloe flagship store on Tmall this month

## Slide 22

- Moving to our fifth strategic pillar, building our presence in China
- Zero COVID restrictions which were in place for the entirety of Q2 weighed on both store traffic and consumer engagement with beauty and luxury categories online
- This drove a double-digit decline in our China revenues in Q2, very much inline with the results reported by industry peers

- In the midst of these restrictions, we saw a number of bright spots year-to-date, including tremendous momentum in our ultra-premium fragrance collections, such as Chloe's Atelier des Fleurs line and Burberry's Signatures line, speaking to the accelerating penetration of the fragrance category and ongoing premiumization amongst Chinese consumers, both trends which we expect to continue in the coming years
- We also saw the continued sales growth in our Consumer Beauty brands – Max Factor and adidas – supported by their continued e-commerce activations
- Entering Q3, the easing of COVID restrictions has already driven a significant rebound in consumer traffic in stores versus traffic levels last quarter, even though store traffic is still below prior year
- You can see the return of consumers to our stores in the images on this slide
- What is clear is that while the reopening of the Chinese market and resumption of normal activity may not be linear, there is a clear appetite amongst Chinese consumers to re-engage with key activities, whether its travel with flights to Hainan in early January already above last year's levels, visiting the local mall, or trying out the latest product launches
- And this market re-opening is perfectly in-sync with the key brand initiatives we have planned for the second half of our fiscal 23
- Whether it's the launch of Lancaster's ultra premium skincare line later this quarter, which will include a fully omni-channel approach across mainland China and Hainan, or the launch of Chloe on Tmall which is occurring as we speak, the Chinese desire to re-engage with beauty and with brands after many months of severe restrictions, should further propel the success of these initiatives

### **Slide 23**

- Finally, we are continuing to see incredible momentum in our Travel Retail sales
- Both in Q2 and year-to-date, our Travel Retail sales grew approximately 40%

- As a result, our Travel Retail sales are now approximately 8% of our overall business
- This is consistent with our Travel Retail penetration in 2019, even though international Travel is still over 20% below pre-COVID levels
- We have continued to gain share in the high-growth and highly-profitable Travel Retail channel, particularly in EMEA and the Americas, fueled by distribution expansion, Travel Retail launch exclusivities, successful innovations and our growing multi-category presence
- And with no sign of slowing in global consumers' appetite for travel, and coupled with the return of Chinese travelers in the coming quarters, we remain highly optimistic about the growth potential of this channel for the beauty industry as a whole and Coty in particular

#### **Slide 24**

- And that brings to me our outlook for the remainder of the year
- As mentioned earlier, the fragrance component shortages which weighed on our Q2, are beginning to ease, resulting in an improvement in our service levels in January
- I'm pleased to say that the combination of improved service levels and ongoing strength in beauty consumption has driven a sequential acceleration in our sales growth in January
- As such, we continue to expect 2H23 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 Q3 sales by roughly 2%, with no impact in Q4
- Based on current rates, we expect FX headwind to sales in the mid single digits in Q3 and low single digits in Q4
- 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 towards the better end of our prior outlook for a 6-8% headwind.
- We continue to expect modest gross margin expansion in FY23 with 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
- Supported by strong EPS delivery in the first half, we now expect FY23 adjusted EPS growth of over 20% to 35 to 36 cents, excluding any mark-to-market adjustments on the equity swaps and assuming no significant changes in the current tax regulations.
- This is an increase from our previous adjusted EPS guidance of 32 to 33 cents
- We also continue to anticipate adjusted EPS growth of approximately 20% 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 towards 3x exiting calendar 23 and roughly 2x exiting CY25

## Slide 25

- To sum up, I am encouraged by our strong and consistent delivery over the past two and a half years, exceeding expectations in the majority of the quarters
- We remain confident in beauty as a structurally attractive category and the longevity of the "fragrance index"
- Thus, even in a scenario that global economic growth slows, Coty's business should outperform for three key reasons
- First, we are not yet in the mature phase of our growth evolution, with significant white space opportunities ahead including skincare, China, Travel Retail, and prestige makeup
- Second, our Prestige division remains protected by the affordable nature of luxury beauty relative to much more expensive luxury goods

- And third, our Consumer Beauty business is stronger than ever, offering consumers value, with quality and desirable beauty products at an affordable price
- And I'm equally encouraged by the momentum in our social agenda, as we've just launched the #Undefine Beauty campaign, calling on English dictionary publishers to review and update their definitions of 'beauty' so that no one feels excluded by the definition or the examples that accompany it
- In short, we are excited by the path ahead as we continue on our journey to transform Coty into a true beauty powerhouse
- With that, let me open up the call for questions