

08-Feb-2023

Coty, Inc. (COTY)

Q2 2023 Earnings Call - Q&A

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MANAGEMENT DISCUSSION SECTION

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

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 now 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 non-GAAP financial measures section of the company's release.

With that, we will now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Nik Modi from RBC Capital Markets.

Nik Modi

Analyst, RBC Capital Markets LLC

Q

Hi. Good morning, everyone. I guess, two questions. First on just the glass and the fragrance situation. How is this impacting the innovation agenda in terms of the pipeline and the launch calendar, if you can just provide any context? And I apologize, I missed some of the earlier remarks – I had some other companies reporting. Did you provide a timeline in the prepared commentary on when you feel like you'll be fully kind of back to normal from a component standpoint?

And then, the second question is just would love your thoughts on what you're seeing on the ground in China currently. You suggested an improvement. I just was curious on some details behind some of those comments.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes. Good morning, Nik. This is Sue speaking. Thank you again for the question. When it comes to the first part of the question, which is around the fragrance shortages, specifically focused on the glass components, again, this is indeed the parts of the components that have been the most affected. And this is, I would say, an industry-wide issue, and not just at Coty, of course. And this is improving already at the moment while we are talking. And hence, the communication around the sequential acceleration of our sales entering in Jan, and this is clearly something that's very, very good news, coupled, as you can imagine, with the robust beauty demand, specifically on the fragrance side.

So I would say, these two elements altogether give us a lot of confidence that we'll have these shortages slowly but surely fixed into the industry widely and at Coty, of course. So – but I would say the way I would describe the story, did it impact the innovation pipeline. The answer is no. If you look at the way our innovations have been performing on the markets, the results have been, I have to say, outstanding, be it on Burberry, if I can start with this brand, because what happened, for example, in a market like the US behind Burberry is unprecedented.

We've done last year the launch of Burberry Eau de Toilette. And then, we continued this year, meaning in September of calendar 2022 with the Burberry Eau de Parfum and eau de parfum for the first time surpassed eau de toilette sales, which by the way, says a lot about the premiumization of this market.

Traditionally, any innovation that's a line extension moving from eau de toilette to eau de parfum is performing 20% to 30% versus of the target; in this case, it's bigger, which is a really big, big sign. So this one is doing fantastically well.

Burberry Hero in the US is driving the ranking incredibly, which allowed the brand to become a top 10 fragrance brand in the very competitive US market, which is a jump of nine ranks.

If you think about what we've seen behind Hugo Boss in rest of the world, because the brand is not as big as it is in the rest of the world in the US. So if you think about Europe and the rest of the world, Hugo Boss success behind fashion and now translating into the fragrance business allow us to have a top two fragrance launch with Boss Bottled Parfum.

If you think about Gucci again with Flora Gorgeous Jasmine, that's the continuity of last year's Gorgeous Gardenia, again, it's the top two to top five innovations. So in a way, the shortages didn't prevent us from posting biggest innovations during calendar 2022 of our key launches.

Last but not least, Chloe, specifically behind Atelier des Fleurs. Atelier des Fleurs is really booming in all the [ph] PMIs (05:09) markets. If you think about the Asian ones, the Chinese one, hopefully, that is restarting now. This is clearly another leg of growth for us. So no impact on innovation from what we have seen.

Last but not least, again, going to China, we read, again, like all of you the headlines of Jan being better than expected for the economy in general in this country. We've also seen some pictures that we posted during earnings call today, where we see consumers back to stores, which is really a fantastic news for the beauty industry and for our businesses, as you can imagine, having the most important white space [indiscernible] (05:50) industry in terms of companies in this country.

So there is a confirmation, if not, I would say, a strengthening/acceleration of two things we have seen since, I would say, the post-lockdowns of last year and including some recent studies, because we continue to study the consumers' mindset in the country almost on a monthly basis.

And we see the premiumization trend accelerating and becoming more radical, if I may say, and building into all categories on one side. And we see on the other side, the [ph] healthification (06:26) trend stronger than ever, which is great for both our businesses premiumizing and becoming more and more [ph] steeper (06:33) in the country.

And last but not least, something very important we are seeing in the country, too, is that the shift from, I would say, heritage brands towards new brands [ph] acting as a Chinese (06:45) market is stronger than ever. The

highest end consumers are now more open than ever to try new brands and new innovation versus the traditional, I would say, loyalty that we have seen in the past towards more classical and traditional brands.

Operator: Our next question comes from Ashley Helgans from Jefferies.

Q

Hi. This is [ph] Sidney (07:10) on for Ashley. My first question is just on China. So I'm curious if you guys are seeing or expect any category mix rebalancing in China, just following that reopening and a return to socialization?

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. That's a very good question, Ashley, thank you. No. Is it [ph] Sidney (07:30), correct, sorry?

Q

Yeah.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

And by the way, nice to meet you for the first time. So in a way, what I can tell you is that, again, confirming what I just commented on in terms of categories, premiumization, healthification, moving towards new brands, new offering, a kind of speed in terms of transformation of the – how the Chinese market is looking more and more in terms of brands.

I can tell you that there is a rebalancing probably that will allow all categories to grow. In a way, skincare is the most traditionally fastest-growing category, the biggest category by far; but fragrances on one side and makeup on the other side, of course, as you mentioned, because there is more socialization, people are getting outside their homes, going back to stores, traveling to Hainan. By the way, the travel to Hainan has been higher than last Jan, if you compare between Jan this year and Jan last year.

So we start to see this, which is really a great, I would say, information for us as Coty as a company, because it will mean that we'll be able to really run on our three legs in China, of course, fragrance, makeup and skincare with the upcoming launch of Lancaster in France here in March.

Q

Thank you. And then, just one more on the comment on the [ph] dupes (08:59). So you called out a COVERGIRL and Rimmel have seen a little bit of a benefit from consumers trading down from the Prestige. Is that something that we should understand as evidence of trade-down? Is that something you're seeing more broadly, or is it a bit more brand-specific?

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

[ph] Sidney, (09:19) it's not a trade-down from Prestige at all. In fact, this has existed since many years, it's been accelerating recently, of course, as you can imagine, because you have more and more consumers, specifically the Gen Zs stepping on TikTok and all this kind of social media artist, making their opinions there before shopping online. And this, I would say, consumers in a way, what they are looking for is high quality at an affordable price, which is the reason why we are really working all our brands to become cool, efficient, clean because this is what people are looking for, still at an affordable price versus what is happening in the rest of the industry.

When it comes to Prestige, we don't see any sign of slowdown on the fragrance business, as you can imagine. The importance in fragrances as a brand name is very, very important. People are also shopping a brand name. And this is in a way makes the fragrance category probably the most immune when it comes to any kind of trade-down or [ph] dupe (10:25) phenomenon. And, of course, on makeup and on skincare, I would say, the growth of these businesses is big enough to allow anyone to continue to trade.

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

Anna Lizzul

Analyst, BofA Securities, Inc.

Q

Hi. Thank you so much for the question. Just curious with the momentum you saw in Prestige fragrance in fiscal Q2, we're seeing a nice acceleration in volumes in the Nielsen data since the quarter ended. I was wondering if you can comment on the momentum you're seeing post the quarter and to what extent the supply constraints are affecting this as well? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

I haven't heard, sorry, Anna, your second part of the question.

Anna Lizzul

Analyst, BofA Securities, Inc.

Q

Just wondering if you can comment on the momentum that you're seeing post the quarter with acceleration in volumes and to what extent the supply constraints are affecting it?

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. Got it. Thank you so much for the question. Again, the momentum, sorry, in Prestige in fragrances in Q2, again, it's in a way explainable first by the very healthy beauty demand for this category. But we'd love to cover fragrance indexes at full effect again, whatever the region, again and despite, again, glass shortages that all the industry have been facing.

The innovation that we've been putting on the market, again, I was quoting Burberry and Hugo Boss are clearly having a role in this momentum that we are seeing in the company. The premiumization of the market, again, I'd love to give again and again the example of Burberry Eau de Parfum that's selling higher than Burberry Eau de Toilette, which is the first in the history of line extensions [ph] and sales (12:11) which says a lot about the upgrading and not the down-trading of this market.

So this is, I would say, for me, a kind of explanation of what's happening. And this is, again, as you can imagine, during the quarter, without having any upside coming from the Chinese market, where the penetration is very low and is expected to grow in the coming quarters and years, as you can imagine.

When it comes to the momentum that we started to see in Jan, if I may say, this I would really link it to three elements. The first one is, of course, improving our service levels, and we are improving with this element quite fast, and we will continue to improve on this element in the coming quarters. And, of course, the continued strong beauty demand, which is driving this sequential growth acceleration that we have seen. There is also a phenomenon of big innovations that [ph] are tied in at the moment while (13:08) speaking by COVERGIRL in the US market.

Again, we referred to this during the presentation, the continuity of the clean lines with [ph] unique glass (13:18) with the clean serums, [ph] tinted (13:21) serums, clean eye shadows. And last but not least, and I guess, this will be a question at the moment or another, the latest improvement. That's a very strong improvement in COVERGIRL sellout in the US market with the latest four weeks that show a 17% growth of the sales, which is the best performance since a year behind this brand.

So if you put all these together with a little bit of restocking from our retailers, remember, our sales in Q2 were in line with the sell-out, meaning that we start the year with very lean inventories, and therefore, there is a bit of restocking. So this, I would say, is the [ph] blend of (13:59) element that explain the start of the year that's accelerating sequentially.

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

Robert Ottenstein

Analyst, Evercore Group LLC

Q

Great. A little bit of, I think, a follow-up on some of the other questions. And that is – look, to start off, clearly, significant demand for fragrances, supply chain issues. Is there any way to guesstimate how much those supply chain issues impacted sales in the quarter?

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Laurent is going to take the question.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah. Hi, Robert. It's very difficult to estimate. I mean, [indiscernible] (14:47) very clearly that indeed [indiscernible] (14:49) we had the component shortage. But, definitely, immediately, we have very tight work with supply chain, procurement and we need to adjust. So quickly, what Sue was explaining that, in fact, we are ending the Q2 with lean inventory, now as we are improving service level combined with [indiscernible] (15:17) initiatives. In fact, we are seeing really some rebuilding of the inventory and [indiscernible] (15:22).

Robert Ottenstein

Analyst, Evercore Group LLC

Q

So no way – okay. But clearly, enough to call out and material?

Laurent Mercier

Chief Financial Officer, Coty, Inc.

Q

No. Again, so that's – I will not call it material again. So this was definitely a – what we did and what we monitored really in a smart way, again, [indiscernible] (15:45) that we protected our key innovations. We make sure that we're protecting our [indiscernible] (15:51) so that we are protecting really the building blocks of the business and to be consistent in the strategy. So not material. And again, we are seeing some acceleration beginning of Q3.

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

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Yes, thank you. Good morning. Two questions, if I could. The first one is just around the price increase that's planned for the end of 3Q, just any further commentary you could offer in terms of where that's targeted, how widespread versus how nuanced the implementation of that pricing will be? Number one.

And number two, you mentioned a couple of times this morning just the notion that this year's launch pipeline specifically in Prestige fragrances was primarily composed of brand expansions. And I'm just – I'm curious, as we look out to fiscal 2024, an early peak into the innovation pipeline if that is expected to continue or if next year will be a more of an innovation year that has more, kind of, hero products, bigger innovations, that kind of thing. Thank you very much.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Sure. Okay. Hi, Steve. So on price increase, let me remind that indeed, we implemented a mid-single-digit price increase in the summer calendar 2022. It went very smoothly. As we explained several times, we did – we have a dedicated pricing office, which started to work, in fact, two years ago.

So we did the work in a very granular manner [indiscernible] (17:40) making sure we combined also with media support all the strategic initiatives. So it went very smoothly. So it was – again confirms the strength of the brand and the professional work we are doing. And this was absolutely indeed as you say, [indiscernible] (18:00) to mitigate inflation [ph] in the (18:05) gross margin but that is definitely a key driver of our gross margin expansion in Q1 and Q2.

Then, indeed, we shared and – that we are implementing a new price increase in Q3 fiscal 2023. So this quarter – again, so this is what we announced [indiscernible] (18:31) again, because same approach, granular work, and again, making sure that we are also completely consistent with the consumer needs.

We are also working a lot on mix management, so it's really because we are seeing there is some appetite for premiumization, and this is what we are doing in both Prestige and Consumer Beauty. So perfectly on track, [indiscernible] (18:58) granular, and again, always focusing that we are matching consumer needs and expectations.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes. And Steve, good morning. This is Sue. So on the second part of the question, which is around the launch pipeline that was mainly brand expansion – thank you first for reminding everyone about this and the performance of our Prestige business is indeed in comparative with the big, big launches we have made last year, it was Burberry Hero, it was Gucci Flora and of course, Calvin Klein CK Defy.

So this year, of course, it was line extension. This is traditional in our business. But, again, for the first time, line extensions that [ph] are covered (19:36) more premium offerings [ph] of the Parfum (19:38) Burberry is 30% above eau de toilette has made in a way this second year, a year of continuing growth. But you're right, the question is how about fiscal 2024, and hopefully, we'll be back [indiscernible] (19:52).

Operator: Our next question comes from Korinne Wolfmeyer from Piper Sandler.

Korinne Wolfmeyer

Analyst, Piper Sandler & Co.

Q

Hey. Good morning, all, and thanks for taking the questions. So first from my end, can you just touch a little bit about how you're thinking about China growth for the rest of the year, and how much improvement are you baking into the guidance? And then as we look into 2024, how are you thinking about expectations for China there? Thanks.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

So first of all – hi, Korinne. First of all, we are confirming indeed our guidance 6% to 8%. So this is – and as you can see with H1 results, we are perfectly on track. Definitely, China was a headwind in Q2 due to lockdown. So we are betting on acceleration definitely in Q3 and Q4, so we see embedded in our algorithm 6% to 8%. And this is, of course, supported by all the strong initiatives that Sue has explained. And definitely that all these initiatives will accelerate in 2024, so China will become indeed an acceleration for growth in fiscal 2024. And again, all of this is fully included in our midterm algorithm of 6% to 8%.

Korinne Wolfmeyer

Analyst, Piper Sandler & Co.

Q

Very helpful. Thank you. And then can you just touch a bit on the broader fragrance market. It's been growing really well the past couple of years. And then the fragrance segment for Coty has been growing even better. Can you just touch on how sustainable you think this market growth is? Do you think we'll come up against some tough comps at some point? And then as we think about the segment for Coty, how sustainable do you think that strength is? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. Thank you, Korinne. This is Sue speaking. I'm going to take the second part. So again, when it comes to the fragrance market/the fragrance index, indeed, the fragrance market is 25% – 20% to 30% higher than the levels of 2019. And in markets like the US, again, and you may know this, the Prestige fragrance market is over 60% higher than compared to pre-COVID levels.

Again, it's hard to see how this would just be driven to some onetime factors, I have to say, and sometimes I hear this. And I do believe it's not the right explanation. Historically, this has been a big [indiscernible] (22:22) category. But what we are now seeing, consumers using fragrance as part of their daily routine. And this business has become really a health business, mental health business, I would say. Fragrance has been seen as mood boosters, allowing people to feel better in their daily day-to-day life. In particular, during the last couple of years, we have seen increased usage by new categories where the penetration has increased. Structurally, I'm thinking about Gen Z, I'm thinking about men and I'm thinking about Hispanic consumers, if [ph] you guys are (22:57) focused on the American market.

And we are also seeing, at the same time, the rise of fragrance influencers in social media, specifically TikTok but also on YouTube, which is also helping to drive sustainable growth for this category. They are driving discovery of different fragrances. They are providing authentic ways for consumers to engage with the products literally [ph] he thought (23:21) purchasing, which is really new. It's a new kind of sampling if I may say, virtual sampling. We are also noticing, particularly with the younger consumers that they are using fragrances more and more. So the penetration in the US to conclude with is in the high-20s level, which is still well below that of Europe, which is closer to 50%, not speaking about the Chinese penetration which is around 3%. So this gives you, I would say, a zoom out of what is coming soon with this fragrance category globally.

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

Olivia Tong

Analyst, Raymond James Financial, Inc.

Q

Great. Thanks. Good morning. First, I wanted to talk about China and the reopening. And now that reopening is happening, what can go into place that wasn't [ph] improving (24:12) over the last couple of years? And could you talk a little bit about how much opportunity there is for you [ph] to get a (24:17) shelf-space and the conversations that you're having with your folks on the ground or with retailers, particularly in Travel Retail? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. Good morning, Olivia. Thank you for this question, which is indeed a very important question. Again, just to refer to our daily life, last week in Amsterdam, we had people from all around the world spending a week for the first time since many, many, many, I would say, months and quarters, altogether, including the Chinese general managers, the APAC general managers, everyone was in the same room, in the same place, spending five days, discovering all the new innovation for fiscal 2024 and above. And I can tell you that the level of confidence I have seen on the faces, specifically the Chinese general managers and teams and Marketing Director was a very, very strong sign of how they see Coty in this market where the opportunities are almost endless for a company like ours.

What do we do better? Again, innovate, if I may say. I love to give this image of, sometimes destiny needs to help you. And in a way, we had two years and a half to strengthen, to prepare, to strengthen our fragrance business, to strengthen our makeup business specifically on the Prestige side, to put ideas, intelligence and marketing behind the brand like adidas or Max Factor that are two big brands in the Chinese market. And last but not least, to fully prepare for our first skin care launch in China, which is happening next month as we are speaking. So in a way, this is what's different. It's absolutely not the same Coty, but we're starting doing beauty business in China in March [indiscernible] (25:56) that was doing business just two years ago.

Operator: Our next question comes from Andrea Teixeira from JPMorgan.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Q

...taking my question. I was just like hoping to see if you can talk about a little bit of the Prestige side in terms of like how you parse out skin. And I know Lancaster was a big launch vis-à-vis fragrances. Of course, fragrances are the main motor of that. But I was wondering the exit of the quarter, we did see not to take credit for it, but we did see the deceleration for the quarter. And even [indiscernible] (26:38) Russia, it's probably coming in below expectations and, of course, understanding all of the supply chain issues. But if you can help us understand how skin vis-à-vis fragrances in the exit of the quarter? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes. Good morning, Andrea. Thank you for the question. If I understood well, you were referring to [ph] Lancaster deceleration (27:02) in fragrances. And again, I do believe that this is not the way you should read the figure, if I may say. Again, I [ph] refrain (27:11) the story around our Q2, saying that this performance, given the shortages, given the boom of the demand, given the pipe of innovation last year which were unprecedented in the history of Coty is a very, very strong performance, I have to say. So that's really the way I see it.

And I really see skin care specifically on the Chinese market, as an additional layer and not something that's supposed to compensate anything else. Skin care is really for us an additional, I would say, a growth driver and new journey for the company. That's very, very important, as you can imagine, if we want to become a beauty giant [ph] in areas (27:49). So really continuous performance on our fragrance business, strong performance on our Prestige business specifically in the US without China, as you can imagine, that was under lockdown during the full quarter.

And last but not least, adding a new leg, which is the skin care leg, starting with Lancaster. Of course, not referring, but again, given the opportunity to refer to this [indiscernible] (28:12) launch that is going to happen also in the coming months. And last but not least, the extension with the high premium [indiscernible] (28:19) that's happening in the coming quarters.

Operator: Our next question comes from Chris Carey from Wells Fargo Securities.

Chris Carey

Analyst, Wells Fargo Securities LLC

Q

Hi, good morning.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Good morning, Chris.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Good morning, Chris.

Chris Carey

Analyst, Wells Fargo Securities LLC

Q

So just a follow-up on Andrea's question just around individual category growth. I appreciate last quarter the body care launch had some impact that was favorable. I think if I heard you correctly in the prepared remarks, you said that growth was more balanced across your categories between fragrance and body care and makeup. But can you maybe just contextualize, how category delivery was for you in the quarter on a like-for-like sales basis and maybe what your expectations are for the full year in the context of your full year like-for-like sales guidance? Thanks so much.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah [indiscernible] (29:28). So, what your highlighting in fact is definitely a strength for Coty, indeed that we have a balanced portfolio. And indeed, that we have – in our both divisions now we have, I would say, subcategories which are performing very well. Just on Prestige, I want to emphasize again that, of course, we have fragrance, but now we are seeing Prestige makeup and skin care, which are accelerating and will be strong growth drivers.

On Consumer Beauty, so it's definitely also the same case. So Consumer Beauty, now we are seeing a strong acceleration in body care definitely, so adidas, successful innovations in Q2. So we really going to price up. So it's really high mix in terms of high value for the consumers. And indeed, we are seeing some great traction. So it's coming on top of color cosmetic, mass fragrance. So indeed, this is a great acceleration.

I want to highlight also that we have also very strong performance in Brazil, okay, [ph] where body care (30:41), we have very strong brands. And also, we can also create some cross synergies with the rest of the business. So this is definitely a strength for the company. So – and definitely – to conclude on skin care, so this is definitely what will accelerate in H2 and beyond, of course, in fiscal 2024 and fiscal 2025.

Operator: Our next question comes from Linda Bolton Weiser from D.A. Davidson.

Linda Bolton Weiser

Analyst, D. A. Davidson & Co.

Q

Yes. Hi, good morning. I was curious, as you increase your spending on the advertising and promotion over time. Can you talk about where you're seeing the best ROIs? And as you spend more, are your ROIs actually improving over time? Thanks.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah. Good morning, Linda. That's a very important question. I will say this is, I would say, even the daily focus of the organization. So let me step back a little. This is what you are highlighting here is now fully part of our [ph] all including umbrella (31:54). So [indiscernible] (31:56) we started to focus on fixed cost, then on the cost of goods. Now we are really addressing all the [ph] agency team (32:07), we are investing and we are building [ph] methodologically (32:11), of course, combined with marketing teams, digital teams and commercial teams [indiscernible] (32:17) fully equipped to measure and to optimize ROI. So this is number one focus.

And also, we are improving because as we shared just before, we are now also growing in different categories. And definitely, the way you spend money in skin care is different versus the way you spend money in fragrance. So these are really nice capabilities that we have built and Sue was right to say that, we used over the last two years [ph] and this time (32:46) to build these capabilities.

So ROI is the key word, definitely, making sure that each dollar we are spending on either on innovations or base business every time we're deciding based on ROI and is reviewed by Sue and by myself and, of course, [ph] with the team (33:06) in a recurring session. So that's absolutely so that we make sure we are making the best of our money and the best ROI for the coming quarters.

Operator: Our next question comes from Mark Astrachan from Stifel.

Mark S. Astrachan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. Thanks and good morning, afternoon, everyone. Two questions for me. One, just first on the Consumer Beauty. So still gaining share there. The rate of increase narrowed a little bit in the quarter. I guess, what would be your expectation going forward for that? And then maybe sort of related to that, curious about your views on the length of the current beauty cycle, which has obviously been a couple of years now coming out of kind of the peak of the pandemic, mask wearing, et cetera. So fragrance and makeup have been drivers of the beauty category. Is it reasonable continues? And kind of what would be your expectations for the length of the current cycle? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes. Good morning, Mark. So thank you for these two questions. Sue speaking. So again, when it comes to Consumer Beauty, you're right to point out on the fact that Consumer Beauty is entering a new cycle, in fact. The first cycle that started somewhere around Jan 2021 was really to reinvent the brand equity, sometimes coming back to historical brand equities, strengthening these, modernizing these, creating great advertising with the highest ROI, as just mentioned by Laurent. This was really what explains the back to market share gains, which happened now for a full year. This is the first time since 2015 that this division is gaining market share for a full year. So this was Stage 1.

Stage 2, in a way, I love to say that Stage 1 was fixing the surface, if I may say, and then Stage 2 is really getting deeper and we start to see real, I would say, disruptive, best-in-class in terms of efficacy in the market innovation. This takes time. It takes one year and a half to create a fantastic mascara, fantastic foundation or a long lasting lip color. So this is now the moment [ph] of this (35:19). So you can imagine that Consumer Beauty businesses, specifically behind makeup, are going to continue to put on the market big innovation supported by excellent advertising, having the best ROIs in the company.

And on top of this, we have the adidas [ph] best (35:37). We've talked to you about adidas last quarter. We started in West – Eastern Europe, sorry, with a very, very strong results, specifically on the high-end [indiscernible] (35:46). And now we are implementing this innovation in the Western Europe. And as you can imagine, this has a big potential also this brand in China, where the brand is cooler than ever, and it's already the number one shower gel brand for Chinese men in this country. So you can imagine us building this brand into a well-being – high-end well-being brand in Europe, in China and hopefully, in the rest of the world, as you can imagine.

Now to answer the second part of your question, about the beauty cycles. Again, I'm a strong believer that the main thing that has changed since a few years now is what I call the healthification of the beauty industry. This industry is about things that make people look better or feel better. And this becomes something that's a non-negotiable for consumers. And there, the limit is only us in terms of ability to innovate to tell new stories to bring new brands and new technologies to continue to make the consumer interested in our category, because this is a [indiscernible] (36:50) and that's something that is nice to have.

Operator: The last question comes from Carla Casella with JPMorgan.

Carla Casella

Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. You talked about Prestige high-single digit growth, in mass mid-single digit. Can you talk about how much of that was new doors, or is that mostly just your sell-through of kind of the new products you've been talking about?

A

Laurent Mercier

Chief Financial Officer, Coty, Inc.

Yeah. Hi. So basically, the model we are using for Prestige and Consumer Beauty, so this is mostly organic growth, also definitely either Prestige and Consumer Beauty. But definitely, if I take the case of Consumer Beauty, now step-by-step we are seeing that – we are getting shelf space, so definitely that success of innovation, acceleration of rotation by all these elements step-by-step we are regaining traction and trust with consumers and retailers, and this giving us absolutely all the ammunition now to gain shelf space.

So that's really we are building. So these [indiscernible] (38:11) are done in a healthy way, that's really – in the back always we talked about discipline that we are doing definitely with marketing teams, either Consumer Beauty or Prestige. We are really focusing on [ph] productivity products (38:28). That's – again, we're talking about the right [ph] productivity product (38:31) is absolute KPI. Once we optimize [ph] productivity further (38:36), then, of course, we are working on new doors with a very selective criteria that we're entering new doors only and if only we have guarantees [ph] of productivity (38:46) is really at target level.

Operator: I think we've reached our allotted time for question-and-answer session. I will now turn the program back over to our speakers for any additional or closing remarks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

Yes. Thank you, everyone, for your questions. If you allow me a few closing remarks. The first one is about the category beauty is and will continue to be the dominant category of consumers around the world for all the regions we have mentioned during this earnings call. Please see Coty in its reinvention Stage 2 phase, entering into real innovation, fantastic ROI behind advertising, new white spaces in terms of regions, categories, including skin care, and of course, targeting leverage by about 3 times at the end of this calendar.

Last, but not least, I would say that given Coty is not in its maturity phase, as you can imagine, we will continue to grow given all the white spaces that we're having. And the last remark is that, it's very important that the long-term vision and view is really the one that is at play at Coty, and we are building this company for the coming, I would say, decades to become a true beauty power hub. Thank you very much.

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

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