# Coty's 4Q23 Script

August 22, 2023

## Sue Y. Nabi, Chief Executive Officer

**Slide 1**

Welcome everyone,

- I am very happy to share that today's fiscal 23 results mark the third consecutive year of Coty delivering strong financial, operational and strategic performance
- This is also the twelfth consecutive quarter of the company reporting results inline to ahead of expectations
- These accomplishments are the result of the focus and agility across the full Coty organization as we continue to amplify our strengths, adjust to evolving market conditions, and capture new opportunities
- In fact, our Q4 and FY23 results are again amongst the best in our competitive set, speaking to the power of the Coty business
- Looking externally, beauty demand remains resilient across our key categories and geographies, in the midst of the current macroeconomic uncertainty, with no signs of tradedown, while the famous 'fragrance index' we have been discussing for over a year shows no sign of slowing
- In fact, the beauty category continues to be a standout in key markets like the U.S., as the only category to grow volumes in the last six months amongst all CPG and general merchandise categories, speaking to the beauty industry's ability to meet consumers' emotional needs
- This fully reaffirms the message that we have been conveying for some time: that Coty and our peers have a key role to play in fueling consumer excitement and generating consumer demand by launching innovative and desirable products supported by meaningful story-telling as well as clean and sustainable formulations and packaging

- As a result, we continue to target growing our sales ahead of the beauty market, growing our profit ahead of sales, steadily deleveraging our balance sheet, and positioning Coty to continue to succeed as a beauty powerhouse with significant untapped potential

**Slide 2**

- Let me summarize the key messages from our results
- First, we once again delivered revenue growth ahead of both expectations and raised guidance, fueled by the strong beauty demand and successful key brand initiatives in both divisions
- Our Q4 core LFL revenues grew 17%, ahead of our updated guidance of 12 to 15% and outlook at the start of the quarter of 10%
- We saw particularly strong sales momentum in Prestige coupled with double digit growth in Consumer Beauty
- Our full year revenues grew 12% on a core LFL basis, with double digit growth in both divisions, marking the second consecutive year of double digit growth for Coty
- Second, our FY23 profits were ahead of guidance, with adjusted operating income growing 20% year-on-year and adjusted EBITDA growing 7%, despite strong reinvestments in our business and significant FX headwinds of over $70 million for the year
- Third, we continued to execute and make progress across our strategic growth pillars
- Finally, our FY24 outlook is in line to ahead of our medium-term growth algorithm, as we are targeting LFL growth at the top end of our medium term 6-8% range, moderate gross and EBITDA margin expansion, and double digit growth in our adjusted EPS

**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
- Our Q4 core LFL revenues grew 17%, well ahead of raised guidance
- This brings our fiscal year to date core LFL revenue growth to 12%, well ahead of our original 6-8% LFL growth guidance, and the second consecutive year of double digit LFL growth
- In Q4, our core Prestige business grew 21% LFL, resulting in 13% core LFL growth in FY23
- The strong sales growth acceleration in Q4 reflected double digit growth across Americas, EMEA and the Travel Retail channel, and a couple of points of benefit from the China low comparison last year
- We are continuing to see robust fragrance demand across all key markets
- At the same time, retailer inventories at the end of Q4 are at healthy levels, particularly as we are now entering the stronger seasonal demand period
- In Consumer Beauty, core revenues grew 10% LFL, bringing FY23 core LFL growth to 11%
- Our Q4 Consumer Beauty growth came from solid growth in color cosmetics and continued strong momentum in our Brazilian brands

**Slide 5**

- Geographically, LFL revenues continued to grow in all regions for the quarter and the year

- Americas revenues grew 13% LFL in Q4 and 10% in FY23, with double digit growth in nearly every market and in regional Travel Retail
- EMEA, core LFL sales grew 13% in both Q4 and FY23. We saw double digit growth across most markets and in regional Travel Retail
- Asia Pacific revenues grew 40% LFL in Q4 and 13% in FY23, with a robust rebound in China and Hainan, particularly given the depressed base period comparison, as well as strong momentum in broader Asia and Travel Retail

**Slide 6**

- A critical part of our strategy is our unwavering focus on driving balanced growth
- Growth in Q4 and fiscal 23 was once again supported by volumes, price and mix
- In Q4, we saw low single-digit core volume growth and mid-teens expansion from the combination of price and mix
- For FY23, core volumes also grew in the low single-digits, while price & mix grew approximately 10%
- Our intent in the coming quarters and years is to continue to drive a balanced agenda, with our topline growth supported by a combination of volumes, pricing and mix

**Slide 7**

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

## Laurent Mercier, Chief Financial Officer

**Slide 7**

- Thank you, Sue.

- I am pleased to say that we continued to deliver strong financial performance, with the Q4 results marking the 12th consecutive quarter of results in-line to ahead of expectations

**Slide 8**

- Let's start with an update on how we are navigating the complexities of global supply and inflation
- Building on the strong progress made last quarter in improving our prestige service levels through expanded dual-sourcing, detailed supply and demand planning, and building of safety stock, we again improved in Q4, reaching a mid 90s service level exiting the quarter
- We are confident that we'll be able to meet FY24 demand, including during the peak holiday period
- Turning to the inflationary backdrop, in the fourth quarter, COGS inflation was approximately 2.1% of sales
- For the full year, COGS inflation was approximately 2% of revenues
- Looking to FY24, while cost inflation on certain commodities such as paper and energy are easing, costs on other materials and components are still growing in large part due to labor
- In the first half of FY24, we continue to expect COGS inflation to remain elevated, driven by the combination of delayed inflation impact based on our procurement negotiations with suppliers, as well as the capitalization of the higher COGS we've incurred in recent months which gets released to the P&L roughly 4 months later
- As these two factors are more timing related and the underlying inflation drivers are clearly easing, we expect a significant moderation in COGS inflation in the second half of FY24
- Our execution on savings, strategic revenue management and pricing is helping us to balance this inflationary impact

- We are currently in the process of another round of pricing in the first quarter of FY24, as we continue our portfolio transition to cleaner and more sustainable products, which in turn also drives category value growth, while also closing pricing gaps versus our competition, particularly in Consumer Beauty

**Slide 9**

- I will now provide an update on our All-in-to-Win program
- In Q4, we delivered savings of approximately $50 million, bringing our FY23 savings to approximately $180 million, ahead of our target of approximately $170 million in FY23
- Due to our strong project pipeline, we are increasing our FY24 savings estimate to over $100M, up from our previous target of approximately $90 million
- Savings in FY24 will be driven by material value analysis, platforming savings, and structural A&CP savings amongst other projects
- We continue to target $75 million of savings in FY25, reaffirming the savings target announced in Q2
- In sum, having delivered over $600 million of savings life-to-date, 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
- And importantly, we are now in phase 2 of our transformation, as we put in place more enablers for sustainable growth and business acceleration across the brands and markets, supplementing our savings initiatives, which fuel profit expansion and reinvestment

**Slide 10**

- Moving to our gross margin performance

- Q4 adjusted gross margin of 62.8% increased by 70 basis points from last year, bringing the year to date adjusted gross margin to 63.9%, which is up 20 basis points year-on-year and up by a very significant 390 basis points versus 2 years ago
- Our Q4 gross margin increase was driven by:
  - Supply chain productivity
  - The positive benefits from mix; and
  - Additional price increases executed at the end of Q3
- These benefits to gross margin were partially offset by COGS inflation of approximately 210 basis points of sales in Q4
- Despite the inflation that was prevalent this year, we delivered gross margin expansion in both Q4 and FY23
- 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 11**

- I'd like to take a moment to discuss our investments in Research & Development
- As we have transformed our business over the last 3 years, steadily executing on our six pillar strategy, we have been steadily reinvesting in our organizational capabilities, including R&D
- In fact, our R&D investment is close to 10% higher than it was two years ago, with investments behind skincare growing substantially above these levels
- We expect to step change our R&D investments in the coming years, particularly behind skincare, as we pursue our ambition to double our skincare revenues in the next few years and position skincare as a key pillar of Coty's business model

**Slide 12**

- Let me now walk you through our marketing investments

- In Q4, A&CP investments represented approximately 28% of sales, stable with Q3 levels and with the prior year, as we continued to support our key initiatives
- This brings the FY23 A&CP level to approximately 27%, in line with our expectations and relatively stable year over year
- As with prior quarters, our marketing spend was concentrated behind key innovations in Prestige and Consumer Beauty, as well as whitespace opportunities

**Slide 13**

- Moving to our profit delivery for the quarter
- Our Q4 adjusted operating income grew 61% to $105 million, with our FY23 operating income expanding a strong 20% year-on-year
- This delivery was particularly impressive given strong FX headwinds, which negatively impacted our FY23 adjusted EBITDA by over $70 million
- The Prestige and Consumer Beauty segments delivered double-digit adjusted operating income growth in Q4 and FY23, with margin improvement in both businesses
- As a result, our Q4 adjusted operating margin grew 220 basis points year-over-year, with FY23 margin up strongly by 170 basis points to 13.3%
- Importantly, we continue to expect strong income growth and margin expansion going forward
- Our Q4 adjusted EBITDA grew 25% year-over year to $165 million, with 7% growth in FY23 to $973 million
- As a result, our Q4 adjusted EBITDA margin increased 90 basis points year-over year, bringing our FY23 adjusted EBITDA margin to 17.5%, up 40 basis points versus last year

**Slide 14**

- Now turning to our adjusted EPS, where we reported strong momentum in the quarter

- Our Q4 diluted adjusted EPS was 1 cent, up $0.02 year over year driven by a much stronger Q4 adjusted operating income, partially offset by higher tax and interest expense
- Specifically, the Q4 interest expense stepped up sequentially vs. Q3 driven by a higher cost of debt in the rising interest rate environment, as well as a $5M increase in FX costs
- There was no material net impact from the mark to market on the equity swap in the quarter
- Our FY23 diluted adjusted EPS was $0.53, up 89% year-over-year and includes a non-cash EPS benefit of 15 cents from the mark-to-market on the equity swap in the second and third quarters
- Our FY23 operational EPS, excluding the swap, was 38 cents driven by net profit improvement, which reflects very substantial growth of 36% versus last year
- Looking ahead to FY24, I would like to provide some additional details related to our current expectations for certain drivers of our adjusted EPS
    - First, we expect depreciation to be in the $230-240 million range
    - Second, we anticipate net interest expense for the year to be in the mid $200 millions
    - Third, we anticipate an adjusted effective tax rate for fiscal 2024 in the mid to high 20s %
    - Finally on fiscal 2024 share count, we currently estimate ~1% of dilution, though similar to FY23, the quarterly share count will fluctuate based on GAAP anti-dilution provisions

**Slide 15**

- Moving to our free cash flow
- We generated free cash flow of $38 million in the quarter

- For the year, we generated $403 million of free cash flow, which was in line with our expectations despite the inventory build required to increase safety stock and meet anticipated fragrance demand in the first half of fiscal year 2024
- In the coming years, we expect steady expansion in free cash flows
- 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 16**

- Moving to our capital structure
- We ended Q4 with net debt of approximately $4.0 billion
- As a result, our leverage at the end of the quarter was around 4.1x, down from around 4.4x at the end of Q3 and consistent with our expectations
- Factoring in our Wella stake, we ended the quarter with economic net debt of approximately $3 billion
- We remain committed to divesting our Wella stake by CY25 and as a first step in this objective, we recently entered into a binding letter of intent to sell 3.6% of our retained Wella stake for $150M to IGF Wealth Management, subject to customary closing conditions including consent by KKR
- The transaction would reflect a 4% premium to book value of Wella as of March 31
- Additionally, as part of our active efforts to strengthen our balance sheet, we successfully issued $750 million of 2030 senior secured notes in July
- We used the combination of these proceeds and our revolver to fully pay down our Term Loan B, resulting in approximately 85% of our total debt now being fixed rate, which is key in the current interest rate environment
- 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 confident in our next major leverage milestones, as we continue to target leverage towards 3x exiting calendar 2023, approximately 2.5x exiting CY24 and approximately 2x exiting CY25
- I will now hand it back to Sue to review our strategic progress in the quarter

## Sue Nabi, Chief Executive Officer

**Slide 17**

- Thank you, Laurent
- Let me share some highlights from our continued execution on our six strategic pillars

**Slide 18**

- Starting with our first strategic pillar, stabilizing and growing our Consumer Beauty business
- In the quarter, both the mass beauty market and our Consumer Beauty business remained very dynamic
- As I mentioned earlier, our Consumer Beauty revenues grew approximately 10% LFL in the quarter, with high single digit to double digit growth across our key categories of cosmetics, bodycare and mass fragrance
- For FY23, Consumer Beauty grew 11% on a core LFL basis, with most of our leading Consumer Beauty brands growing in the high single-digits to low double-digits LFL in FY23
- The strength of our Consumer Beauty portfolio was further reinforced by our recently announced strengthened and long-standing partnership with adidas, which is perfectly positioned to capitalize on the new well-being and athleisure trend in beauty
- As a key part of our strategy to win with Gen Z consumers through clean and vegan formulations, and win with Gen X through skinified makeup, in FY23 we leaned further into these trends across our brand portfolio

- We continued to lean into the rapidly growing clean beauty trend with the launches of CoverGirl's Clean Fresh Yummy Gloss, which was the #1 Lip Launch of Spring 2023, adidas' Active Skin & Mind range, and Bourjois' Healthy Mix foundation
- In parallel, we continued to be very active on skinified beauty with the launches of Max Factor's Miracle Pure foundation and the extension of the CoverGirl Simply Ageless line
- Another area where we have also had great success is rapidly platforming key cosmetics innovations across our portfolio
- The most recent example of this is our Twist Up mascara technology
- We first launched it under the Bourjois brand last year, driving that mascara to be the #1 mascara on the French market
- More recently, we have launched this technology under the Max Factor brand with the Lash Wow 2 in 1 mascara you see pictured here
- Since the recent launch, Lash Wow is now the #1 mascara for the brand and a Top 10 mascara overall in the launch markets
- This is a proof that quickly platforming distinctive and superior innovation will be key to further accelerating our Consumer Beauty portfolio, and we have more plans in store in the coming quarters on other key Consumer Beauty innovations

**Slide 19**

- Entering FY24, we are pushing the envelope further on clean beauty, starting with CoverGirl
- CoverGirl continues to be the undisputed leader of Clean Beauty in the U.S. mass channel
- And true to our leadership in clean beauty and mascara, we recently launched CoverGirl’s new Lash Blast Cleantopia mascara, the brand’s first plant-powered clean mascara
- Let’s take a look at the new video campaign for Cleantopia mascara featuring brand ambassador, Kelsea Ballerini, which has begun airing in July

- [PLAY VIDEO]
- To summarize on Consumer Beauty, having repositioned our key brands, established meaningful and on-brand communications, and revamped the innovation pipeline for each brand, the next phase of our strategy is to fully capitalize on the Gen Z opportunity
- We have continued to harness the power of social media influencers and natural advocacy, as launches such as CoverGirl Clean Fresh Yummy Gloss and Rimmel Kind & Free have both gone viral on TikTok
- As we enter FY24, we will further embrace the full power and reach of social media to drive our brands and build stronger community engagement, fully keeping in step with the evolution of the market and with Gen Z habits

**Slide 20**

- Turning to our second pillar, focused on accelerating our luxury fragrance business
- We continue to see the "fragrance index" in full effect and maintaining momentum, driven by strong demand for fragrances across the globe and ongoing premiumization, as consumers seek more concentrated, longer lasting and more sophisticated scents
- As we have continued to discuss, the strong demand is underpinned by increased fragrance usage by Gen Z, men and Hispanic consumers, as well as by social media as a driver of brand discovery and trial
- In total, the Prestige fragrance market grew over 10% in the fourth quarter and FY23, well above the historical low to mid-single digit growth of the fragrance market
- At the same time, Coty's Prestige fragrance revenues grew over 20% LFL in the fourth quarter and in the low teens in FY23, outgrowing the broader market
- Further, all of Coty's top brands saw double-digit LFL growth in FY23

**Slide 21**

- As we enter FY24, we see no signs of slowing in fragrance demand

- And while we are already a leader in prestige fragrances, we still have ample white space opportunities in this category, even within our stronghold geographies
- This is anchored on two areas
- First, in our core prestige fragrance business, we have historically been the leader in the $13B male fragrance category, but have ample room to improve our position in the much bigger female fragrance category which is roughly double the size of male fragrances at $24B and where we are currently in the Top 3
- Second, we still have limited scale but are actively strengthening our positioning in the smaller but rapidly growing $4B ultra premium fragrance category, whether it's through our Chloe Atelier des Fleurs collection whose sales have grown by 5x versus two years ago, or through the upcoming launch of our internally developed Infiniment Coty Paris fragrance brand
- In order to fully capture these white space opportunities, in addition to our ambitions in Prestige Skincare and Prestige Cosmetics, we are continuing to strengthen the organizational structure in our Prestige business
- And that brings me to a key milestone in our strategic ambition to elevate our share in female fragrances: which is our newly launched Burberry Goddess Eau de Parfum female fragrance, which is now appearing across global distribution
- Burberry Goddess is a unique gourmand premium fragrance led by a powerful trio of distinct vanillas, bottled in Burberry's first-ever refillable bottle
- Let's take a look at the video campaign featuring British-French actress and new ambassador for Burberry Beauty, Emma Mackey
- [PLAY VIDEO]

**Slide 22**

- While we are still very early in the Burberry Goddess launch, the initial results are outstanding
- First, Burberry Goddess is already a Top 3 fragrance at leading airports

- Second, sell-out is 1.5 to 3 times higher than recent Coty blockbuster launches
- And third, the Burberry Goddess launch is having a strong halo effect on the men's fragrance, Burberry Hero, as well as on Burberry Her
- We are very excited about the early success of this new innovation so far, which we believe position Burberry Goddess to be a blockbuster launch this year and next year

**Slide 23**

- Underpinning the strong foundations of our fragrance business is the extended duration of our license portfolio, with the average remaining duration of our Top 7 Prestige brands now averaging 13 years.
- The renewal and extension this past year of multiple key licenses, including Hugo Boss, Davidoff, and Jil Sander, reinforces Coty's position as a go-to partner for global fashion houses.
- I am particularly excited about yesterday's announcement of the expansion of our partnership with Marc Jacobs to include the creation of a new makeup line, which we intend to launch in the next few years, coupled with the extension of the license for over 15 years
- I believe the Marc Jacobs brand is perfectly positioned between couture and indie, and will become a great and differentiated addition to our Prestige Cosmetics portfolio.

**Slide 24**

- At the same time, we are continuing to expand our existing Prestige makeup business
- In Q4, our Prestige Makeup revenues grew over 25% LFL
- Trends have been improving sequentially with the reopening of the China economy and the strong launch activations behind Burberry and Gucci

- As you may recall, last quarter we launched new long-wear foundations under both Burberry and Gucci in China, as part of our strategy to enter the higher-loyalty complexion sub-category
- The Burberry Beyond Wear Perfecting Matte foundation is inspired by the iconic fabric of Burberry's trench coat, and is already ranked #5 in premium long lasting foundation on Tmall
- On Kylie Cosmetics, the brand's makeup sales grew by a strong double digit percentage globally in both the fourth quarter and FY23 fueled by an expanded distribution and new launches

**Slide 25**

- Shifting to our 3rd strategic pillar, building our skincare business
- In the last few months, we have ignited our comprehensive strategy as planned, with exciting initiatives across each of our key skincare brands Lancaster, Orveda and philosophy, and many more to come in the coming quarters and years
- Let me start with Lancaster, where in in mid-March, we launched the ultra-premium skincare line called Ligne Princiere
- While the brand relaunch and Ligne Princiere line have been concentrated only in China mainland and Hainan, I am very encouraged by the initial results, with the overall Lancaster brand revenues in Q4 growing over 15% year over year
- Since the beginning of the launch of Ligne Princiere in China, store sales are growing 20% to 30% month over month
- The conversion rate at new counters in China especially Hainan is exceeding leading beauty peers, with Lancaster Ligne Princiere driving the majority of sales
- Overall feedback on the brand and products is very positive and, importantly, repeat intent of purchasers is over 40%, which I have to say, is absolutely a very proud moment for Coty scientists and the entire Coty skincare team

- With such strong fundamentals for the brand, the focus now is on increasing consumer traffic, to be fueled by mastering the Chinese digital ecosystem

**Slide 26**

- In parallel with the igniting of Lancaster in China, we have been executing the revamp of philosophy in the spring across all touch points in the U.S.
- Philosophy announced a new brand formulation principle, dermatologic wisdom, and launched its latest product innovation, dose of wisdom™ bouncy skin reactivating serum
- dose of wisdom sales are ahead of our targets and have an average 4.7 star rating
- And here again the initial results are very promising, with philosophy's brand revenues up over 10% in Q4
- As you can see, our skincare acceleration has begun in earnest over the last few months, spanning new innovations, elevated online and offline merchandising, unique story-telling and brand equity building

**Slide 27**

- Moving to our 4th strategic pillar, digital and e-commerce, we continued our broad-based momentum across e-commerce, social commerce, and consumer advocacy
- Livestreaming has been a key pillar in growing Lancaster's brand awareness, story-telling and trial in China, and this is just the beginning
- And as we've steadily stepped up our livestreaming in China, whether with KOLs, our beauty advisors, or even our very own Prestige Chief Commercial Officer – Caroline Andreotti – who you can see on this slide, our Lancaster livestream sales are growing month-over-month
- In fact, KOL livestreaming on Douyin that took place in the quarter generated over $300K in sales in only three and a half hours

- On e-commerce, we are building on our digital success with the opening of the Marc Jacobs flagship store on Lazmall, the leading e-retailer in the highly promising Southeast Asia region with a reach of over 90 million consumers,
- It's encouraging to see that Marc Jacobs reached the #1 fragrance rank on Lazmall in April
- Finally, as mentioned earlier, we are fully focused on step changing our reach with micro and macro influencers, to drive advocacy for our brands
- A prime example of the success of this strategy is CoverGirl's Yummy Gloss, which has become a viral hit with Gen Z consumers, reaching over 120 million views on TikTok and on track for 8 million units, which is 3 times higher than our original target

**Slide 28**

- Moving to our fifth strategic pillar, building our presence in China
- Since the lifting of COVID restrictions at the end of calendar 2022, we have seen our China sales rebound as we expand our local presence
- It's worth highlighting that in Q4 our revenues in China, including Hainan, have increased over 15% versus two years ago, though the monthly trends remain uneven given the changing government regulations and gradual macro recovery
- In the meantime, we continue to expand the awareness and reach of our brands in China
- For example, Burberry Hero has now become the #3 male fragrance in China, right behind Bleu de Chanel and Dior Sauvage
- And with the imminent launch of Burberry Goddess in China, we are very excited about the potential of the overall Burberry brand
- On the ultra premium fragrance side, you can see pictured on this slide a recent event we hosted in Hainan, where Chloe Fragrance Ambassador Guan Xiaotong introduced the new Sandalum and Violet Atelier des Fleurs scents to a huge audience

- In sum, we firmly believe in the significant potential of the China market for Coty, where our brands are highly desired but still limited in distribution and scale
- The continued strong beauty demand in China despite macro fluctuations and our expansion opportunities in this market, position China as an incremental addition to our medium term outlook rather than a key building block

**Slide 29**

- Finally, we are continuing to see incredible momentum in our Travel Retail sales
- Both in Q4 and FY23, our Travel Retail sales grew over 30% LFL
- As a result, our Travel Retail sales are approximately 8% of our overall business
- This is consistent with our Travel Retail penetration in 2019, even though international Travel is still 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 Coty

**Slide 30**

- Turning to our sixth and final strategic pillar, becoming a leader in sustainability
- We had several ESG milestones over the last few months
- First, we are continuing to strengthen the ESG governance within the organization, as we've expanded the Sustainability office under Dr. Shimei Fan

- And second, in our ongoing efforts to reduce our packaging-related carbon footprint, we continue to expand our line-up of refillable products, with Burberry Goddess becoming the latest launch to offer refillable packaging
- This follows on the footsteps of Chloé Naturelle Intense Eau de Parfum as well as our recently launched adidas Active Skin & Mind range

**Slide 31**

- And that brings me to our outlook for fiscal 24
- We expect fiscal 24 core LFL revenues to grow at the top of our medium term target range of 6-8% LFL, with outperformance by Prestige
- Fiscal 24 reported revenues are expected to include a zero to 2% benefit from FX, primarily in first half fiscal 24, and a 1-2% scope headwind for the year from the divestiture of the Lacoste license, concentrated in the second half
- We expect modest FY24 gross margin expansion year on year, consistent with our growth algorithm.
- There are a number of timing-related factors which are driving some pressure on our gross margins in the first half, primarily elevated COGS inflation as well as a return to the historical weight of fragrance giftsets, which had declined in the mix last year due to the significant supply constraints
- But more importantly, based on everything we see today, all of these timing elements should significantly moderate in the second half, and we continue to expect modest gross margin expansion in FY24 driven by strong year-on-year improvement in gross margins in the second half
- We are targeting FY24 adjusted EBITDA margin expansion of 10-30bps, implying adjusted EBITDA of $1,065-1,075M based on current FX rates and inclusive of the profit headwind from the divestiture of the Lacoste license
- We are estimating total FY24 adjusted EPS, excluding equity swap, of $0.44-0.47, implying strong +16-25% growth

- And we continue to target further reduction in leverage toward 3x exiting calendar 23, approximately 2.5x exiting calendar 24 and approximately 2x exiting calendar 25

**Slide 32**

- Let me also share some context on the first half outlook
- Given the very strong revenue growth momentum we saw in Q4 which is continuing into the current quarter, we expect first half core LFL sales growth of 8-10%, with outperformance by Prestige
- For reported revenues, we expect an FX benefit to revenues in the first half of 1-2%
- On the profit side, we expect first half 24 adjusted EBITDA margin expansion 10-30 bps, consistent with the full year
- And we estimate first half adjusted EPS of $0.35-$0.38

**Slide 33**

- To sum up, the beauty market remains a strong and outperforming category, with ongoing premiumization trends
- In this attractive backdrop, we are successfully executing on the strategy we laid out 3 years ago, with momentum across our core categories, and early wins in the white space opportunities we are pursuing, including female fragrances and ultra premium fragrances, skincare, prestige cosmetics, China, and Travel Retail
- And we are delivering a best in class medium term growth algorithm, including a mid-20s % EPS CAGR, active deleveraging, and capital returns, as we propel our growth story and strengthen our position as a beauty powerhouse
- With that, let me open up the call for questions