Olaplex Holdings, Inc.
Second Quarter 2024 Earnings Results
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Presenters
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Q&A Participants
Dara Mohsenian—Morgan Stanley Investments
Dana Telsey—Telsey Advisory Group
Susan Anderson—Canaccord Genuity
Olivia Tong Cheang—Raymond James
Kate Grafstein—Barclays
Javier Escalante—Evercore

Operator
Greetings, and welcome to the Olaplex Holdings Second Quarter 2024 Earnings Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press Star Zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Patrick Flaherty, Vice President of Investor Relations. Thank you, Patrick. You may begin.

Patrick Flaherty
Thank you, and good morning. Joining me today is Amanda Baldwin, Chief Executive Officer. Before we start, I would like to remind you that management will make certain statements today, which are forward-looking, including statements about the outlook of Olaplex's business and other matters referenced in the company's earnings release issued today. Each forward-looking statement is subject to risks and uncertainties that could cause actual results to differ materially from those projected in or implied by such statements.

Additional information regarding these factors appears under the heading Cautionary Note regarding forward-looking statements in the company's earnings release in the filings the company makes with the Securities and Exchange Commission that are available at www.sec.gov and on the Investor Relations section of the company's website at ir.olaplex.com.

The forward-looking statements on this call speak only as of the original date of this call, and we undertake no obligation to update or revise any of these statements. Also, during this call, management will discuss certain non-GAAP financial measures, which management believes can be useful in evaluating the company's performance. The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. You will find additional information regarding these non-GAAP financial measures and a reconciliation of these non-GAAP financial measures to most directly comparable GAAP measures in the company's earnings release.

A live broadcast of this call is also available on the Investor Relations section of the company's website at ir.olaplex.com. Additionally, during this call, management will refer to certain data points, estimates and forecasts that are based on industry publications or other publicly available information as well as our internal sources.

The company has not independently verified the accuracy or completeness of the data contained in these industry publications or other publicly available information. Furthermore, this information involves assumptions and limitations, and you are cautioned not to give undue weight to these estimates. With that, I will now turn the call over to Amanda.

Amanda Baldwin
Thank you, Patrick. Good morning, everyone, and thank you for joining us. Today, we reported second quarter results in line with our expectations and reiterated our full year outlook as we achieved continued progress on our transformation plan. As shared on recent earnings calls, we are on a journey to build a world-class brand and a business that is well positioned for long-term success. We are investing in and prioritizing the brand and product innovation strategies that are designed to deliver sustainable, consistent growth while also taking actions to align our global distribution and infrastructure with the goals we have for this business.

All this work is supported by the strong foundation of Olaplex, truly differentiated clients that delivers superior results, a powerful R&D platform that drives impactful innovation, a passionate community of stylists and consumers who love our products, a unique global footprint with proven performance across geographies and channels and a talented team that is eager and prepared to execute on our mission to improve the hair health of millions of consumers around the world.

While we know that this journey will take some time and that the path to creating a global and enduring brand is not always linear, we remain on track with the expectations we've set, delivering on our goals for the first half of the year, and now shifting our focus in the back half of 2024 to executing on our product launches and key holiday periods, along with continued planning for 2025 and beyond. We recognize that there is more work ahead to bring Olaplex to its true potential, but I am incredibly proud of how our team has come together, confident in the direction we are taking and enthusiastic about what the future can be.

Turning to the highlights for the second quarter. Net sales were $103.9 million, representing sequential improvement from Q1. Encouragingly, the aggregated sell-through trend at our key accounts at an absolute dollar basis in Q2 was largely consistent with the sell-through trends that we experienced in Q1, demonstrating continued progress towards stabilization in the business.

Adjusted EBITDA was $32 million, reflecting incremental investment in trade and marketing spend as we began to introduce new marketing activation, yielding top-tier industry profitability for an adjusted EBITDA margin of 30.8%. Importantly, we believe we are retaining our strong standing in the industry throughout this transformation. According to our external brand tracker, during the quarter, Olaplex continued to rank #1 or #2 for 17 of the top 18 premium hair care equities among prestige hair care consumers, including ranking #1 in "Brand I'm Excited to Talk About" and "Makes Hair Healthier," and with notable strength in "I Trust Olaplex To Do What is Right." We remain a category leader as we consistently rank as a top brand in the key accounts across our 3 distribution channels and continue to be among the most followed prestige hair care brands on social media with 2.5 million Instagram followers.

In addition, Olaplex had 4 of the 5 best-selling prestige hair products in the first half of 2024, Far Sircana's retail tracking data of the U.S. hair market. As we build upon our strong foundation, our 3 key initiatives for this year have been: first, maximizing the impact of our sales, marketing and education investments to generate demand, second, strengthening our capabilities and culture to support the future, and third, developing the long-term road map and future vision for Olaplex.

I'll now walk you through the progress we have made on these priorities during the second quarter. Beginning with our efforts to maximize the impact of our sales, marketing and education investments to generate demand, we're focused on evolving critical capabilities and supporting improved marketing execution to drive sell-through. After slowing certain of our sales and marketing initiatives in the first quarter in order to carefully assess our strategy, adjust creative assets and plan for the rest of the year, we invested more heavily behind the brand during the second quarter. We increased our investment in non-payroll-related marketing and advertising expenses by approximately 33% quarter-over-quarter to $16 million in Q2, bringing the year-to-date total to approximately $28 million. With this renewed strategy, we are focused on building a stronger go-to-market engine, which includes elevated content creation and a creator led approach, focused investments on our core products, deeper coordination with our stylists and retail partners and more efficient ROI-driven media spend.

This is just the beginning of our marketing evolution, and we have already seen some early wins with this approach. First, there has been an increase in our talent and influencer community, social posts by nearly 20% year-to-date compared to the same period in 2023, driving a 30% increase in engagement rates since the same period last year. Next, we have grown our Pro influencer community by close to 10% this year through improved engagement and outreach strategies, leading to noteworthy lift in Pro social impression. And thirdly, our enhanced marketing efforts have resulted in new full funnel content creation processes, higher quality creative content and improved brand consistency and visual identity across channels in the U.S.

We will continue to develop this brand vision and our marketing abilities and translate them across the globe as we build a brand for the long run.

A critical pillar within our first priority is returning to our stylist roots and recreating meaningful connections with the pro. One of the key opportunities I saw when joining Olaplex was to rebuild our strong connection with the pro community, which has been at the center of our brand since our inception. Professional stylists hold a special relationship to consumers and are strong sources of education and inspiration. So, they are priority audience and partner for us. We've been amplifying our support of pros this year because they are the heart of Olaplex, from expanding coverage of our internal field sales team to launching new educational tools, increasing our participation in virtual and in-person events and developing our new bond shaper curl rebuilding treatment.

In honor of our 10th anniversary as a brand, we dedicated the entire month of June to celebrating the stylist community and all that they do for us, their customers and the industry overall. These pro-focused activations included the introduction of a new content series for our social channels that highlighted stories about the unique human connections that Olaplex stylists form with our clients. We hosted events in key global markets, which I personally attended, inviting hair professionals, brand ambassadors and other local members of the beauty community to come together for special celebration.

We also launched the Olaplex Pro Collective, which is a dedicated group of top-performing stylists and colorists who have a strong social media presence and industry influence around the world who will serve as Olaplex brand representatives. The Pro Collective aims to enhance our presence within the hair stylist community by sharing Olaplex content on their social media channel, attending industry shows and hosting master class educational events and training.

Another noteworthy activation this quarter was our new marketing campaign, featuring Olaplex #4 bond maintenance shampoo and #5 bond maintenance conditioners, designed to enhance the positioning of #4 and #5 within the prestige hair daily care category. The full final campaign showcased the transformative benefits of a complete Olaplex routine and included refreshed creative assets and messaging for pro and consumer audiences, influencer testimonials, trade support, in-store visual merchandising updates and organic social and paid media. The campaign launched towards the end of the second quarter, and we are pleased with the initial results and performance to date with strong impressions and increased engagement rates, which are the first step in building brand affinity and ultimately, sales conversion. Altogether, we believe our investments and strategies are driving deeper engagement with our core audiences and have recently seen positive indications that our new marketing activations are resonating with pros and consumers.

On our last earnings call, we highlighted the marketing campaign of our best-selling #7 bonding oil, which launched during Q1. Since the launch of the campaign, we have observed increased engagement rates of social content related to the campaign. And relative to our total assortment, #7 has experienced out-performance and sell-through at our key accounts, posting year-over-year growth in the second quarter.

Also, according to data tracked by Greater IQ, we regained the position in the second quarter as the #2 U.S. Hair Care Brand by Earned Media Value. And also, in Q2, Olaplex was among the strongest performers in year-over-year growth rate by EMV among U.S. haircare brands.

Moving to our second priority, to strengthen our capabilities and culture to support our future. This work is designed to improve the foundational infrastructure across our organization and has included ongoing implementation of our enhanced integrated business planning processes designed to improve forecasting and overall business performance management. Additionally, we've created a strategic internal centralized work stream overseeing marketing investments across channels to facilitate more strategic spending and optimization.

In addition, we are also continuing to enhance our new product development process to maximize our R&D capabilities and fuel future innovation. With the support of our new innovation team, which was formed to lead the creation of our new product pipeline and our enhanced commercialization strategies, we are beginning to roll out improved go-to-market processes for our new product launches this year, including the upcoming launch of our brand-new patented technology, Olaplex bond shaping technology.

Marking our next wave of scientific innovation, Olaplex bond shaping technology was created to support curly hair of all types and textures, repairs the internal hair structure to strengthen and reshape curl forming bond, locking them into place to rebuild natural curl patterns. Curl Care is a large and growing category, as curly hair consumers report spending the most on salon services among all hair types, and curl services are among the top 10 fastest-growing services in the U.S. Curly hair has more disulfide bonds and can be more susceptible to damage, and pros often request more information on how to address the unique and important needs of this consumer.

As an innovative category leader, we believe that Olaplex is uniquely positioned to offer a new solution, and we saw an opportunity to expand into this segment, led by our two core beliefs: scientific innovation and a pro-first point of view.

Our new Olaplex bond shaping technology contains a unique peptide composed of 23 amino acids and allows for cortex deep penetration to help reconnect and strengthen multiple points of a disulphide bond within curly hair. This launch demonstrates our continued desire to provide pros with the tools they need to run successful growing salon businesses and showcases our commitment to broadening our innovation portfolio with new technologies that support all consumers.

We are launching two new products in the Bond Shaper product offering, one being a pro service in salon treatment and the second, a complementary take-home formula. These two innovations exemplify how our products build off of one another and showcase the cycle between in-salon treatment and home care for ongoing maintenance.

First, the Bond Shaper curl rebuilding treatment is a three-step professional curl treatment to repair, redefine and lock in shape of natural waves, curls and coil. And second, the #10 Bond Shaper curl defining gel is an at-home reparative curl defining styling gel that revives natural curl pattern. With the launch of our bond shaper product offerings, we are bringing Olaplex back to the forefront of product innovation, elevating our product development capabilities, delivering on our pro first promise and enhancing processes and coordination among our sales, marketing and education teams to enable successful launches.

Central to any transformation is cultivating a strong, passionate team and culture as building a business is all about execution and the talent that drives it. With this in mind, we are excited to strengthen our senior leadership with two new talented additions. First, Catherine Dunleavy will join Olaplex as Chief Operating Officer and Chief Financial Officer effective August 13. Most recently, Catherine served as President, and prior to that as Chief Financial Officer at Away, following tenures at Nike, Comcast, NBCUniversal and GE. She has a strong track record of executing high-impact, strategic, operational and financial initiatives at scale, and her mix of experiences at large public companies and at smaller high-growth organization makes her a great fit for Olaplex. Second, Katie Goeman joined the company as Chief Marketing Officer on July 15. Katie most recently served as the Chief Marketing Officer of Marc Jacobs, overseeing the strategic and creative vision for the brand and spent the first half of her career at L'Oreal, where she held senior marketing roles for various company brands, including Lancome and Kiel. Katie brings significant experience, nurturing, growing and successfully shaping marketing strategies and creative visions from Prestige retail and beauty brand. Catherine and Katie will be located in our New York office, and I look forward to working with both of them as we develop and execute on our future vision.

Our third priority is developing the long-term road map and future vision for Olaplex. Since day one of joining this organization, I've been focused on amplifying our current execution alongside planning and preparing for the future, as both are critical to our success. As I have stated before, designing the future path requires understanding what made Olaplex so revolutionary from day one, and then harnessing that insight for our transformation. I've been continuously struck by the level of passion and commitment from stylists and consumers for Olaplex as I have engaged with so many directly. And I also wanted to ensure that our future strategy was grounded in concrete research on the needs and beliefs of these critical partners to our brand. As such, we undertook a perception study that will influence the direction and evolution of Olaplex. The insights of the study show there is considerable enthusiasm for an openness to our brand with strong interest in what Olaplex is today and the innovation we can bring to market in the future.

We believe that the Olaplex brand is still very strong with positive associations to build upon, including innovative, reparative, healthy and effective. That does not mean, however, that there are not key opportunities to broaden our reach, upgrade our messaging, improve our education and usage clarity and foster deeper emotional connections with our audiences. Much more to come on this important initiative as we develop and share our new brand strategy.

To that end, during the quarter, we have made meaningful progress towards establishing a long-range strategic plan and financial framework for the future. We look forward to sharing our long-term road map and future vision for Olaplex and expect to provide details in early 2025.

In summary, we are pleased with our progress year-to-date. Olaplex remains an industry-leading brand of professionals, consumers and all of our partners as we deliver on our unique promise and capability to improve hair health. We're executing on our plan with intense focus and discipline. I believe our strategies have us on track to return Olaplex to achieving sustained long-term growth at top-tier profitability. And with that, I will now pass it over to Patrick.

Patrick Flaherty
Thank you, Amanda. I will cover our second quarter results and our outlook for the remainder of 2024. Net sales for the second quarter declined 4.8% year-over-year to $103.9 million, which is in line with our expectations. As a reminder, our Q2 net sales or sell-in decline versus last year was better than the Q2 sell-through decline versus last year key accounts as we benefited from a weaker prior year net sales comparator due to certain customer inventory balancing in Q2 of 2023, which depressed our 2023 net sales base.

As we have previously discussed in recent earnings calls, we continue to believe that the month's on-hand inventory position at our major accounts on our core items remain in a healthy position. From a selling perspective, this was partially offset by a negative net sales impact in Q2 2024 related to our previously announced decision to rationalize our business with certain distributors that we believe are the source of diverted product in the marketplace or do not build equity in the Olaplex brand.

Turning to performance by channel, specialty retail net sales were up 22.4% compared to the second quarter of 2023 to $36.4 million due to the weaker prior year net sales comparator related to customer inventory rebalancing. Our professional channel net sales of $33.4 million declined 18.4% versus a year ago, partly due to the aforementioned distributed rationalization, which primarily affects our professional business in Europe. This more than offsets a modest increase in our North America professional business, which benefited from lapping the impact from customer inventory balancing in Q2 2023.

The direct-to-consumer channel net sales decreased 11.5% to $34.1 million, driven by our focus to prioritize partners that build brand equity. This negatively impacted international e-commerce shipments in the quarter.

By geography, in the second quarter, U.S. net sales increased 7.3% year-over-year, primarily due to lapping customer inventory rebalancing from a year ago. Our international net sales declined 15.1% versus a year ago, due in part to the impacts of distributor rationalization, which we believe has resulted in a short-term negative impact on our volume primarily in Europe.

Moving on to P&L, adjusted gross profit margin was 71.9%, down 80 basis points from 72.7% in the second quarter of 2023. While we saw 190 basis points of favorability, mainly driven by lapping higher levels of inventory obsolescence reserves taken last year, and to a lesser extent, from lower warehouse and distribution costs year-over-year, this was more than offset by a combined 270 basis points of contraction from increased sampling efforts, unfavorable channel and product mix and other allowances.

Second quarter adjusted SG&A was roughly flat year-over-year at $42.6 million compared to $42.3 million in the second quarter of 2023 as an increase in payroll costs, which was primarily driven by workforce expansion made during the prior year was mostly offset by a decrease in sales and marketing expense. As Amanda mentioned earlier, during the second quarter of 2024, we spent approximately $16 million in non-payroll-related marketing and advertising expenses, an increase of approximately $12 million in the first quarter, bringing the year-to-date total to approximately $28 million.

Q2 adjusted EBITDA declined 12.7% to $32.1 million versus $36.7 million in the second quarter of 2023. Adjusted EBITDA margin was 30.8% compared to 33.6% a year ago. Adjusted net income decreased to $18.8 million or $0.03 per diluted share in the second quarter of 2024 from $21.2 million or $0.03 per diluted share in the second quarter of 2023.

Moving on to our balance sheet. Inventory at the end of the second quarter of 2024 was $100.2 million, an increase of $5.6 million from $94.6 million at the end of the first quarter of 2024 and down $28.4 million from the second quarter of 2023. The sequential increase was primarily the result of building inventory in advance of the sell-in of our holiday kits and new products during the third quarter, while the inventory position of our core sku's was largely consistent with Q1.

Turning to cash flow. During the first 6 months of 2024, we generated $59.9 million in cash from operations. We anticipate that 2024 will be another year of healthy cash flow generation as we continue to drive an asset-light model, high profitability and continuous improvement in our working capital position. We ended the second quarter with $507.9 million in cash and cash equivalents, essentially flat from the end of the first quarter of 2024 and an increase of $129.5 million from the second quarter of 2023. This cash is generating interest income at an annual rate of above 5%. The Long-term debt, net of current portion and deferred fees was $646.4 million.

Now turning to our financial outlook. As disclosed in our earnings release issued this morning, we are reiterating our sales and earnings outlook for fiscal year 2024 and expect net sales in the range of $435 million to $463 million, adjusted EBITDA in the range of $143 million to $159 million and adjusted net income in the range of $87 million to $100 million.

The assumptions in our plan for the year are consistent with the details we shared on our last earnings call. Our forecast incorporates reasonably expected volume drivers on a product and account level basis. We continue to assume the impact of our sales and marketing investments and our second half initiatives to build on the level of demand that we've seen in the past several quarters. We expect improvement in the second half of the year as our sales and marketing investments and initiatives land in the market. We expect to benefit from the sell on of holiday kits during the third quarter in our professional and specialty retail channels. We expect a positive impact from the sell-in of our new products during the third quarter, including our bond shaper offering and the launch of another new product, which will be announced soon, and we expect to experience the seasonal lift we've historically seen in the fourth quarter, particularly in our DTC channel.

As a reminder, and as discussed on past earnings calls, on the distribution front, we have been taking actions that are focused on our long-term success that are expected to have a negative short-term impact. This includes the decision to constrain opening up new accounts in 2024 as we focus on current key customers and rationalize certain distributors and accounts that do not build brand equity from of strategy pricing or subdistribution into unauthorized resellers. Moving down the P&L. For the full year 2024, we assume adjusted gross profit margin in the range of 72.5% to 73.1%, representing expansion of 110 to 170 basis points. This is a result of lapping higher levels of inventory obsolescence from last year and the expectation of normalized promotional levels this year as we lap promotions to move excess customer inventory last year.

In addition, we expect to benefit from our dedicated internal cost savings program, which we expect will more than offset some inflationary pressures and product costs. Furthermore, we expect full year 2024 adjusted SG&A expenses in the range of $172 million to $179 million, an increase of $19 million to $26 million versus 2023. Roughly half of that increase versus last year is expected to organization costs, primarily from annualizing the cost of headcount additions made during 2023 and from the accrual of a normalized bonus payout in 2024. The other half of the increase is expected in our sales and marketing expenses, and we invest at lows we believe are required to return to long-term growth. Specifically, we continue to expect full year nonpayroll-related marketing and advertising expenses in the range of $66 million to $70 million, an increase from $60.5 million in 2023. Signaled together, we anticipate continuing to achieve top-tier industry profitability with adjusted EBITDA margin in the range of 32.8% to 34.3%. We assume net interest expense to be approximately $32 million to $34 million and adjusted effective tax rate of approximately 19.5% to 20.5% for the year.

In conclusion, we are encouraged by the progress we are making on our transformation journey while maintaining strong profitability and cash flow generation. We remain incredibly excited about the power behind the Olaplex brand and the long-term potential for this business. This concludes our prepared remarks. We will now turn the call back over to the operator for questions. Operator?

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press Star One on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press Star Two if you would like to remove your question from the queue. In the interest of time, we ask the participants limit themselves to one question and one follow-up and requeue for any additional questions. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions. Thank you. Our first question is from Dara Mohsenian with Morgan Stanley Investments. Please proceed with your question.

Dara Mohsenian
Hey, good morning. So Amanda, maybe just to start with, you mentioned the conclusions from your consumer surveys showing the Olaplex brand has extendability. Is that more in innovations you're currently exposed to, expansion into other consumer subcategories you're not exposed to today, now not expecting full details, but conceptually make it -- maybe help us understand the opportunities going forward on that front? And then second, just related to that, it sounds like you're comfortable with the payoff from higher investment based on your prepared comments, brand equity scores, etcetera. Maybe can you just flesh out a bit more detail on the payback from higher spend versus what you originally expected when you put your plans into place? And with some of that exciting innovation that you mentioned today or still to come, as I mentioned earlier, and the new management additions, are you leaving this year at the right investment levels in terms of what's implied in your full year guidance? Or might you continue to boost investments significantly over time versus this year's base? Thanks.

Amanda Baldwin
Morning. Thank you for the questions. Let me take each one in turn. First of all, with respect to the perception study that we did, again, that was really focused on making sure that we had data to back up some things that we were hearing as we're talking a lot to consumers, to our partners to pros. It was a broader base piece of research and really focused on what is the equity that is in the Olaplex brand. And what is the interest level and kind of innovation more broadly from the brand?

So, I would say it was much more about making sure that we had the ears and eyes open and interest in the brand going forward and that we understood kind of where our degrees of freedom were within that. So certainly, it was about innovation but also about brand perception more generally and kind of the places that we need to take. If we go back to sort of even our own priorities for this year, really thinking about tightening up our marketing messages, tightening up our education so that we had a lot more specificity around some of the things that were, I would say, early hunches that we had coming in. So, a lot more to come on that as we talk about sort of our longer-term road map and what we expect that to be.

With respect to marketing spend, both currently as well as the future, I think, look, we are on a journey, right. And I think that -- it's very important to me to make sure that as we are putting increased dollar amount into the market that we're doing it in the right way. To your point that we're measuring, the impressions, the EMV, the expectations that the consumer has as well as the pro around what they're hearing from our brand, it's not an overnight switch. So, I think we're sort of really thinking about making sure, especially with Katie coming on that we're taking and learning and iterating on things as we move through the rest of the year. Not making any proclamations about what we'll do going forward yet, but I think we're going to learn a lot, that's very important to our business in the next couple of quarters as we continue to improve on our marketing execution.

Dara Mohsenian
Great, thanks.

Operator
Thank you. Our next question is from Dana Telsey with Telsey Advisory Group. Please proceed with your question.

Dana Telsey
Hi, good morning, everyone. Can you unpack a little bit about the channels, the changes that you saw in specialty retail and DTC, where I understand the international e-commerce shipments on DTC? What did you see as you went through the quarter? How did it differ by region? And then on the gross margin, with the 190 basis points of favorability with the in-store obsolescence reserves, can you unpack the gross margin? What are the puts and takes going forward of what you're expecting it to look like? Thank you.

Amanda Baldwin
I'll take the first half of that, and then I'll turn it over to Patrick on the gross margin. I think the important thing for us to really make sure that we're sharing is that we're seeing, what I would say is stabilization around consumer demand, right? So, there are certainly things that you see in the sell-in versus the sell-through, but really from a sell-through baseline demand for this business, that's where we're seeing consistency, both in terms of volume as well as split within channels. Everything else is really related to inventory rebalancing as we've been talking about for the last couple of quarters. That's really driving the uptick in retail.

And then within professional, there's movement in international really around, again, that distribution cleanup work that we're doing. So, I think that really what -- I'm pleased to see the consumer demand, the real demand for the brands in both the consumer and the pro in a good place. And then we're moving through some different rebalancing from a sell-in point of view.

Patrick Flaherty
Hey, Dana, this is Patrick. Yes. So, to cover your question on the gross margin. So, in Q2, we came a little bit softer than what we expected. We were expecting some nice expansion in Q2. We contracted about 80 basis points for the quarter, mainly driven by two factors. First, we mentioned that we shipped some samples to certain strategic customers. We know that sampling is a really a conversion tool. So, deployed more of those samples in the second quarter, which had an impact.

We also had a little bit more of inventory obsolescence charges that we were originally expecting. Lapping inventory obsolescence from a year ago was still a tailwind, but relative to what we expected that had a negative impact to the quarter.

As we think about the back half of the year, in Q3, specifically, we expect to see adjusted gross margins take a little bit of a dip from in the second quarter just because of the sell-in of our holiday kits which are still highly profitable for us, but a little bit lower gross margin relative to the rest of the portfolio. And we expect that to see from -- into Q4, we'd expect nice gross margin expansion. Will we see gross margin uptick from Q4, really for the back half of the year in Q3 and Q4, we're expecting gross margin expansion year-over-year, primarily from the tailwinds that we've been speaking about for the last couple of quarters, which is continuing to lap over inventory obsolescence from a year ago and benefiting from lower warehouse and distribution costs.

Dana Telsey
Got it. Thank you. And just overall on the category, Amanda, what are you seeing in the category? How do you see the promotional environment? And with your new product introductions that are coming, how are they being launched this year that would be different, and you weren't there at the time, in how new products were launched last year from what you know? Thank you.

Amanda Baldwin
So overall, what we see in the data is the prestige hair care category remains healthy and growing. And I think that's very important to us, obviously. And I think we're also -- we're as category leaders, it's also our responsibility to continue to make sure that, that happens. So, we have not seen any changes in the data of the overall category throughout the year, as we've been talking about it. I think it remains healthy and it's an overall consumer macro trend that we're certainly well positioned to take advantage of. So, no changes there from what we've been talking about for the last couple of quarters.

With respect to marketing and how we're approaching launches, I think this really goes back again to some of the things that we've talked about with respect to our sales and marketing, education investments to really make sure that for something like bond shaping technology that we're being very clear about how the technology works, what separates it, the thing that I'm very excited about is that it is an in-salon treatment. And so, we're spending a lot of time making sure that we're communicating effectively to the pros, how to use this product, also how it helps their business, how it actually allows them to speak to a brand-new consumer. It's a huge consumer unmet need around coral and a particular need within the pro salon channel. So, there are certain things that, that is a great example of a launch that really has a pro-first point of view that has a scientific innovation point of view and making sure that our marketing and our education supports that.

Dana Telsey
Thank you.

Operator
Thank you. Our next question is from Susan Anderson with Canaccord Genuity. Please proceed with your question.

Susan Anderson
Hi, good morning and thanks for taking my question. I was wondering maybe just to get your thoughts on the different channels, it looks like maybe there's a preference shift to shopping more in specialty retail in DTC versus the pro channel. So, just curious if you could maybe talk about the dynamics there? Is it visits or conversion issues? And then also, if there is some sort of shopping preference change? Has that changed how you're thinking about your strategy around partnering with the pro channel? Thanks.

Amanda Baldwin
Thanks, Susan. So, we have discussed, and again, this remains relatively consistent that there are some macro shifts in the pro channel more broadly. One is around frequency of visits, but there has been a spread, I would say, it's probably -- coming out of COVID as well as certain trends in hair color that have increased the time between visits. So that impacts, obviously, back bar business. And then within retail, as you referenced, there certainly are more options of places to buy pro-first products like Olaplex, and that is not unique to us. That's something that exists across pretty much any brand within this salon channel. So, those are things that are certainly putting pressure on the professional channel writ large.

However, that does not change our point of view about the importance of the pro. If anything, it makes me more enthusiastic about it because of the role that the pro has put in our history. We certainly would be nowhere without them. I think we referenced on our prepared remarks how really spent the month of June really with that community and making sure that we're understanding and thanking them for everything that they've done. So, I think as we think about it, there's certainly -- again, look, I think that bond shaping is a great example of how do we provide additional ways in which you can build the pro business and a brand-new treatment and it's certainly something that's very revolutionary and unique to Olaplex is very exciting for us. So, it hasn't -- it doesn't decrease the importance of them, but there are certainly macro trends that we need to be aware of.

Susan Anderson
Okay, great. And then maybe if you could give some color just on kind of how sales trended throughout the quarter and maybe kind of how you exited the quarter? I mean, it definitely seems like you guys are at an inflection now and trending towards hopefully positive growth in the back half based on the guidance. I guess, should we think about that starting to happen in third quarter? Or how should we think about that trend line? Thanks.

Patrick Flaherty
Yes, Susan, this is Patrick. I can take that. I think there's so many different moving parts when you think about a sell-in perspective from a year ago where we're lapping the customer inventory balancing in our -- on our specialty retail channels. There's a lot of noise. So really, as we think about stabilization of the business, as we talked about in the past couple of quarters, we're really looking to sell-through to really be an indicator of stabilization in the business. And we really throughout the quarter saw kind of consistent stable sell-through throughout the quarter in all three of our channels. So, that certainly is encouraging.

As we think about the back half of the year, as a reminder, we're up against, I'd say, a better underlying demand comparator. In the first half of last year, we were still experiencing some headwinds related to misinformation where the underlying trends in the business a year ago in the back half of 2023 were relatively stable. So, we feel like being on a better underlying comparative certainly benefit the back half of the year, in addition to the selling of our holiday kits and our new product launches.

Susan Anderson
Okay, great. Thanks so much for the details. Good luck the rest of the year.

Patrick Flaherty
Thank you.

Operator
Thank you. Our next question is from Olivia Tong with Raymond James. Please proceed with your question.

Olivia Tong Cheang
Great, thanks. Good morning. I wanted to dive into your gross margin outlook a little bit more, which is unchanged for the full year. And that implies a pretty big step-up in second half despite Q2 coming in weaker than expected as you decide to obviously be more proactive on sampling. So, can you help us understand your second half plans a little bit, especially if sampling drove the lower gross margin in Q2 and you have launches coming in second half, which I assume you want to be aggressive in terms of supporting? So, a little bit more detail on your views on sampling and other trial building investments in second half for the new products would be great. Thank you.

Patrick Flaherty
Yes, Olivia, this is Patrick. I'd say we typically have seen a sequential step down from Q2 into Q3 for adjusted gross margin. But now that we're coming off of a lower base in Q2, we're not going to see as much of a dip as we have seen historically. But we do, again, expect a nice rebound moving into the fourth quarter as we move past sort of the seasonality of selling in those [Inaudible] in Q3.

Olivia Tong Cheang
So, your Q3 and Q4 gross margin expectations relative to the start of the year, I assume, haven't changed very much or they're higher than you had previously anticipated?

Patrick Flaherty
Again, for the back half of the year, really largely consistent with what we had expected. We had expected gross margin expansion in the back half of the year and we continue to.

Olivia Tong Cheang
Got it. And then just following up on the pro channel. We talked a little bit about that already, but what's your view in terms of the underlying demand amongst professionals obviously separating out the work you're doing in terms of diversion and the impact that that's happening?

Amanda Baldwin
I'll take that one. I think what you're asking is demand from the pro specifically with respect to [Inaudible] far, or do you mean retail? If you can just help me understand your question a little bit better?

Olivia Tong Cheang
Yes, more in the pro channel. Just -- I mean it's hard to figure out exactly how the pro channel is doing because so much of that is -- the decline, as you mentioned, have very much -- have a lot to do with controlling diversion. So, if you X out that diversion, what does the demand look like in pro?

Amanda Baldwin
I think largely consistent with everything else that we're seeing in the business where we're seeing movement towards stabilization and a consistent level of demand. I think, again, as we get into the back half, you have a new product launch, new innovation, new focus. I think we've been certainly making the pro a priority for the first half, putting more and more initiatives in place, expanding our sales team, making sure that we're communicating with them in new and exciting ways. That does take time to build. So, I feel like we're on the right path in terms of how we're focusing on this channel, and it's really we need to drive demand, right? We need to ensure that we're bringing people to the salon for incremental reason. I think we also have the benefit of products that is a one and two are universal across all other brands, and that's something that we can also take advantage of.

Olivia Tong Cheang
Great. Thank you.

Operator
Thank you. Our next question is from Kate Grafstein with Barclays. Please proceed with your question.

Kate Grafstein
Thanks. Just a question on the distributor rationalization work that you're doing in Europe. How far along are you in this process? And what gives you comfort that the same thing doesn't have to be done in other international markets? And then just also wondering if you're starting to see an improvement in diverted product in the U.S.?

Amanda Baldwin
Yes. I think we're right on track with this process. And obviously, it takes a lot of detailed work. And there's two elements of it. One is our own internal operational processes around ensuring that we have the right track and trace. We're right on track in rolling that out and making sure that it is in the market and we can deal with future issues that way, as well as making sure that we have line of sight into the partners that we believe are the right partners for the future and the ones that we don't believe add to our brand. We're really working through that at the pace that I would expect to be at this point in time.

Operator
Thank you. Our final question is from Javier Escalante with Evercore. Please proceed with your question.

Javier Escalante
Hello. Good morning, everyone. I wanted to -- it's kind of like a repetition from or permutation from the prior questions. Is it that how much of the improvement in the second half is dependent upon ending the diversion issue? Is it already done? Do you expect to continue withdrawing inventories or withdrawing shipments to bad actors, so to speak? Do you have visibility of that? Is that quantifiable? Do you have it -- what is going to happen in the second half irrespective of what you're doing on the consumer side? And I have a follow-up. Thank you.

Amanda Baldwin
Happy to take that one. So, the work is still in progress. So, we are not done yet. But I think we are working through it again at a pace that I would expect to, and these things are multilayered, as you can imagine. So, there is more to come. I think at this point, we haven't quantified that specifically, but I think we have line of sight into what we need to do. I've spent a lot of time

personally making sure that I understand what the decisions are that need to be made and how we're going to do them. So again, it was something that's coming in that I knew we needed to work on, and we put the plans and expect to be continuing on the journey that we started earlier this year.

Javier Escalante

Understood. And it's always been a problem in professional hair care. The other thing that I wanted to ask you is when you mentioned a stabilization, right, on the consumer side. Is that how you measure that a stabilization? Do you think it has to do with a baseline market share that you are holding up to? Or is it that you are flat in retail? What exactly a stabilization means when it comes to retail? And if you can speak of the U.S. separately from Europe, that will be very, very helpful.

Amanda Baldwin

Yes. I think the way that I think about stabilization and demand is the power of this product and its innovation and the -- quite frankly, the pro and the consumer natural demand for what we do. And it is really quite extraordinary when you think about the product is effective, it works. There's a lot of people who continue to use it. And that's really what I think of as the baseline demand, right? The day in, day out. And again, this is something that was definitely confirmed in some of that consumer and pro research is that there's a lot of people who rely on Olaplex as a part of their salon routine, as a part of their daily routine, and that is really a testament to the power of the science and the power of the product and the underlying consumer and pro demand that [Inaudible] in the business. So that's what I really think of as kind of stabilization is finding that.

Building upon that requires new innovation, new marketing to draw in new consumers who maybe didn't have the product that was the right fit for them before or didn't know about Olaplex, but wasn't sure about why they wanted to do it. That's where -- and why, quite frankly, we've spent so much time on the innovation pipeline, ensuring that we have the right marketing in place because we have to drive incremental amounts, right? So that's sort of how I think about what exists and what we see day in, day out is quite frankly, a testament to the power of the product and then what we need to build off of that.

I would say it's very similar in the U.S. versus international. In the U.S., we have the difference of having distributor partners in the international and versus some more direct relationships in the U.S., but the underlying things that we're seeing and the underlying demand that we're seeing in both our sell-through and as well as our sell-in at this point, it's really driven by consumers and pros who are using the product day in, day out and quite loyal to it.

Javier Escalante

So, is it fair to say that essentially you think that the current level of sales represent some sort of a loyal user base and from these is where you try to start building and grabbing back these labs users that, for whatever reason, abandon the equity because of misinformation?

Amanda Baldwin
I think that we'll definitely have a base of which -- off of which we're continuing to build. And I think that's the important thing that we've been looking for in the business is really to make sure that we find that base -- that baseline of demand and off of which we are able to, again, bring in new consumers through innovation, through marketing, to making sure that we have the right products for them and that they understand why Olaplex is different and unique.

Javier Escalante
Well, thank you very much.

Amanda Baldwin
Thank you.

Operator
Thank you. This concludes our question-and-answer session. I would like to hand the floor back over to Amanda Baldwin for any closing remarks.

Amanda Baldwin
Thank you, everyone, for joining us today. We very much appreciate your interest in Olaplex. And I just wanted to take a moment to thank all of our Olaplex team, our pros, our clients and our business partners for their continued commitment to moving this company forward. As always, if you have any questions, please reach out. And thank you again. We look forward to speaking with you soon.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.