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Coty, Inc. (COTY)

Q3 2024 Earnings Call - Q&A

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and good afternoon, everyone. My name is Ashley and I'll be your conference operator today. At this time, I would like to welcome everyone to Coty's Third Quarter Fiscal 2024 Question-and-Answer Conference Call. As a reminder, this conference call is being recorded today, May 7, 2024, at 8:15 AM Eastern Time or 2:15 PM Central European time. Please note that on May 6, at approximately 4:30 PM Eastern time or 10:30 PM Central European time, Coty issued a press release and prepared remarks webcast, which can be found on our Investor Relations website.

On today's call are Sue Nabi, Chief Executive Officer; and Laurent Mercier, Chief Financial Officer. I would like to remind you that many of the comments today may contain forward-looking statements. Please refer to Coty's earnings release and the reports filed with the SEC, where the company lists facts that could cause actual results to differ materially from the forward-looking statements.

In addition, except where noted, the discussion of Coty financial results and Coty expectations reflect certain adjustments as specified in the non-GAAP financial measures section of the company's release.

QUESTION AND ANSWER SECTION

Operator: With that, we will now open the line for questions. [Operator Instructions] And we'll take our first question from Filippo Falorni with Citi. Please go ahead.

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning, everyone, and good afternoon for you guys. So, I have two quick questions. One, I understand that you're going to give guidance for fiscal 2025 in August. But you mentioned in the release that you expect a sequential acceleration in like-for-like sales in the first half of 2025. So maybe you can give us some color on what drives that confidence and what are the drivers of the acceleration.

And then the second one on the consumer beauty business, you called out some softness in US mass cosmetics. How long do you think that softness can last and what are the offsetting parts of the business that drove the like-for-like sales in the business? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. Good morning, Filippo. Thank you. This is Sue, speaking. So, again, thank you for giving us this opportunity to indeed comment on this [indiscernible] (00:02:29) results that are in this time above expectations and above our guidance for the third time this year. Indeed, the performance we are seeing in Prestige, which is, as you know, growing double-digit, it's giving us confidence to see and to continue to see an acceleration in the first half sequentially from Q4.

We've been outperforming the market during this quarter, Q3. The market is very dynamic, as you know, the Prestige fragrance market is even accelerating sequentially versus last quarter. And this is a global phenomenon, not just in the US, it's also seen in big markets like in Europe.

So, on a very dynamic market that we expect to continue to be dynamic because of the fragrance index structural drivers. We believe we are going to continue to outperform this market, which explains why we think we are going to sequentially accelerate from the Q4 numbers in terms of sell-in. So, what gives us this confidence? Number one, the track record of the company. We've been seeing a large number of our brands growing double-digits last year, and this is continuing for most of these brands.

Thinking about the top seven fragrance and brands growing double digits last year. Most of them, the majority of them continue to grow at the same rate. We have great highlights or great, I would say, superstars in the portfolio such as Burberry. Burberry Goddess is indeed confirming it's a huge potential, more than the potential it's today the number one innovation globally.

It's today having a fantastic halo effect on the overall brand, pushing the other fragrance franchises, but also the color cosmetics performance. And on top of this, Burberry Goddess that is continuing to build over time and with an increased penetration across the different markets around the world. We have also new stars arriving. I'm thinking about Cosmic Kylie Jenner fragrance that started one month and a half ago, which is the second innovation, the number two innovation of the US market this calendar year-to-date.

And we have also another one that's the number one innovation in the US market, which is Daisy Wild from Marc Jacobs. So, this on top of other brands growing double-digits. I'm thinking about Chloé, I'm thinking about Davidoff. And of course, as I said it before, Burberry. So, this is really what gives us the confidence that we are building launches that are going to stand the test of time, that are going to amplify and hopefully continuing to increase the number of successes which we call the [ph] tropical (00:05:16) in this very competitive fragrance business.

We are also accelerating in Consumer Beauty. Consumer Beauty, as you remember, the story was about increasing the pace of innovation. This is happening now. The latest innovations are all becoming viral. They are potentially innovations that have this ability to speak to the influencers around the world, I'm thinking about CoverGirl Essence. I'm thinking about CoverGirl Yummy Gloss last year that's continuing to do very well. CoverGirl Lipstain, I'm thinking about Rimmel Wonder'Bond mascara, which is the first bonding mascara of the color cosmetics industry.

All these innovations are going to be amplified by other innovations, and I said to you in the previous earnings call that we are going to increase the pace of innovation. So all these segments give us the confidence that things are going to get to continue to do well. And the beauty market, we believe, is going to continue to do well.

Prestige is structurally driven to become – to continue to grow very strongly. And mass, we saw the mainly in the US that we see figures that are not where we want them to be. The rest of the world mass market, especially color cosmetics, but also body care fragrance that is booming. But in the US, last month's figures are bit better than the month's before. So we are optimistic and we think that this will improve after the shock of the inflation, the shock of the price increases, et cetera.

We believe consumers are going to see a clearer picture and hopefully they will continue to buy this premium innovations, new categories, et cetera. So, what allowed us to offset this weakness in the US market is indeed categories and regions. Categories because we are growing very, very strongly behind mass fragrances [indiscernible] (00:07:15) globally, we are growing very strongly behind the body skincare, as I love to call it, and this is also an area that is not only premiumizing, but also accelerating its skincare for the body, if you want to name it differently.

And we are also booming in other regions, our, what we call the growth engine market, new regions that represent almost 20% is growing two times faster than the rest of the company.

Last but not least, I mean [indiscernible] (00:07:46) that was a long answer so that the others also got maybe answers to the upcoming questions. Travel Retail is doing fantastically well and also e-comm. So, if you add Travel Retail, e-comm, new regions, plus new categories, you have almost half of the business of the company that's growing 2 times faster than the more classical businesses, heritage businesses in mature markets.

Operator: Thank you. We'll take our next question from Oliver Chen with TD Cowen. Please go ahead.

Oliver Chen

Analyst, Cowen & Co. LLC

Q

Hi, Sue and Laurent. The results continue to be really impressive. Was there opportunity to guide even higher, given the momentum that you're seeing? And geographically, it look very, very strong across markets? If you could help us contrast perhaps Europe versus Americas and what you're seeing with customers there. And then as we think about the fragrance category, it looks like inventories are likely very clean at your retail partners given the sell-out trends. What do you expect to happen with normalization, all the [ph] KPIs (00:08:57) are still robust? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Thank you, Oliver. I hope that you are very well. I wanted to start maybe with the last part of the question, which is around the fragrance normalization, as we call it. So, indeed, this was something that everyone was referring to during last earnings call. And even since almost a year now, we hear this kind of, when is the normalization, some people call it, slowdown, other call it trade down, but it's not happening. And so, the reality is that it's accelerating. So, we see this accelerating, thanks to volumes and thanks to premiumization.

So, it's not just a question of pricing, it's also volumes that are growing. And we see this fragrance index across the [ph] whole world (00:09:43) in a way from our mass fragrances such as David Beckham, Vera Wang or Adidas, through the most premium one, including the recent launch of Infiniment Coty Paris at the tip of the iceberg. You clearly see all these different price tiers continuing to grow and consumers are continuing to use fragrances as mood booster, as a social connector and as feel good category more or less. So, we see this category probably going to be not as dynamic as it was two years ago where we were talking about mid-teens growth in some markets.

But still, it will continue to grow at levels that we believe are much higher than the historical levels. For those who remember pre-pandemic, when fragrance business was growing at 1% or 2%, it was already an achievement. So, here we are talking about mid to high single digit growth for the fragrance business, which we believe is going to be something that is sustainable over time.

Now, the second part of your question around the contrast between Europe and the US, I have to say that Europe is very dynamic, in both divisions, in both markets, color cosmetics is doing very well in Europe, Prestige fragrances are doing very well in Europe, skincare is doing also very well. In the US, the picture is almost as good as the one in Europe, except as I said it before, regarding the mass color cosmetics category. But there we believe that after the, I would say, this price increases that put some pressure on, I would say the low income consumers, the continuous innovation rate of this market, the continuous premiumization, the ability to connect

with consumers on social media, will in a way or another, compensate this, I would say more difficult moment, that we see this getting better during the last month compared to the month of – the previous month, where the figures were quite negative.

Now, was there opportunity to go guide even higher? I believe that guiding at the upper end of 9% to 11% for this fiscal is honestly an outstanding performance, is probably the best-in-class among our peers, now that almost everyone has finished. So, I believe this is really a performance we are super proud of. And again, what we detail you in terms of what we are starting to see around Q1 figures is also a good element of confidence for the company or for everyone who is looking at [ph] us (00:12:22).

Operator: Thank you. We'll take our next question from Anna Lizzul with Bank of America. Please go ahead.

Christian Junquera

Analyst, BofA Securities, Inc.

Q

Good morning. You have Christian Junquera on for Anna Lizzul. Thank you for taking our question. You mentioned e-commerce was particularly strong in the quarter, now representing about one-fifth of your business. Can you talk about the drivers of this with greater innovation and marketing? And where do you see the potential for sales from e-commerce? And also, do you expect to launch more products with the e-commerce retailers similar to Estée's launch of Clinique on Amazon, the beauty store? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yes, good morning. Thank you very much for the question. Indeed, you're totally right to call out the e-commerce performance, which is, for example, in Consumer Beauty, it's half of the growth of the division. In Prestige, it's a little bit under half of the growth of the division. So, we are outstandingly performing on this channel. And we have a lot of room still to continue to grow compared to some of our peers. So, this is [ph] real (00:13:24) area where we are doing the right things. We are accelerating, but still with a lot of room to continue to grow.

What explains this performance? If I take the Consumer Beauty division where the growth has been astronomical. This is really where our brands are winning in a big, big way. Specifically, CoverGirl in the US. It has to do a lot with the digitalization of our marketing means. In a way, we were, as you remember, communicating in a traditional way just two years ago, still talking to the loyal base of our consumers, which where people above 35 years old and this is a precious part of the market, that CoverGirl is one of the only brands that is continuing to take care of in a way.

But we were not using the modern marketing tools such as influencer marketing, advocacy and all the funnel that goes with it, with the retail media [indiscernible] (00:14:21) the progress we have done in this area. And the latest EMV from CoverGirl in the US, where we moved from number six a year ago, to number three in terms of EMV on the very competitive US market. Same thing, by the way, on Rimmel in UK where we moved from nowhere to number four last month. This explains a lot why we are over-performing because as you can imagine, the bigger visibility of the brand online from [ph] sales (00:14:48) instantly into bigger sales online, as simple as it is.

So, this is what explains the Consumer Beauty division, I would say, over-performance and we are implementing this playbook into Prestige too. This is also an area where we are using the experiences we are doing with Consumer Beauty to drive the penetration and the different launches. Burberry Goddess was one of the first launches that really use powerfully the power of fragrance influencers. And you see in the results and in the very,

very quick build-up of the performance, and we are doing more or less the same thing today with Daisy Wild, as you know, with Marc Jacobs, this is the king of social media.

So, Daisy Wild will be for sure, a key performer on this channel. But same thing with Cosmic Kylie Jenner, as you can imagine, with a name that has more than 400 million followers online, you can imagine that the sales online are going to be very, very big. So, this is what explains the performance. Are we going to explore opportunities with the key retailers? The answer is yes. This is really driven by this brand strategies that we are, of course, doing great job with Amazon and we continue to do this great job and see which brands can sit with these retailers.

Operator: Thank you. We'll take our next question from Rob Ottenstein with Evercore. Please go ahead.

Robert Ottenstein

Analyst, Evercore ISI

Q

Thank you very much. So, you kind of touched on some of this throughout the call, but it's important. So maybe just kind of go through some of these again. So, in terms of the fragrance market acceleration, how much of that has to do with Travel Retail? So that's kind of question number one.

Question number two is and again, I know you just sort of touched on it, but I'd love to get a chance for you to elaborate more. There is increased competition in the fragrance area, but you guys continue to do incredibly well. Burberry has been a home run. Now your number one, right, with the Marc Jacobs Daisy, number two with Kylie Cosmic (sic) [Cosmic Kylie] (00:17:13).

You mentioned some of the stuff around that, but maybe if you could just kind of unpack sort of your competitive advantages in the fragrance market versus the competition that allows you to continually do better than everybody else. And then just finally, maybe talk a little bit about the timing on Etro and Marni. Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. Good morning, Rob. Thank you for your question. So, first part, which is around how much is Travel Retail, how much is the rest? I would say that at the end of the day, it's really a performance that based on core US and Europe mainly, the core is really US and Europe which are booming. And on top is Travel Retail. So, Travel Retail is not specifically over-driving this performance, but it comes on top.

And indeed, you're totally right to call out Travel Retail, which represents now 9% of the company net revenue coming from 8% just a year and a half ago. So, it's a channel where we are over-performing on the fragrance business, but also on color cosmetics, but also on skincare.

Now, when it comes to why we are doing good in a way – in this very competitive market. I believe it's a mix of, first of all, finding ways to create ways of working, ways of creating what we call blockbuster fragrances that use data, they use understanding of consumers, they use ability to create juices that resonate globally, but also locally, ability to create advertising that's going to stand from the crowd and making sure this is not depending on individuals.

Traditionally what happens in brands is that sometimes from time-to-time, you had one or several individuals who understand the brand very well and take it to a new height. This is, of course, always happening, but what we try to do is to be independent from this and make sure the organization is done in a way that it will, whatever,

whoever are the people leading the brands without, again, underestimating the power of individuals, which is super, super important. But still it has to be both elements. And this is something we've been doing for the last three years, finding ways to understand what is going to resonate.

There is also a question of, I would say, ability to say this is going to be the big launch of the company. This is something that is intentionality. Intentionality is very important, but it's based, of course, on data, it's based on what you hear, what you see, how consumers are talking about our products when we test them, et cetera. So, it's a mix of organizational capabilities, but also ability to be intentional and to be ambitious.

And last but not least, it's also a question more and more of technology. You heard how much Infiniment Coty Paris, the latest launch of the company uses for the first time the power of technology to have increased longevity for the fragrances. Each and every fragrance of this line last for 30 hours at minimum. And this is chemistry, this is science, this is technology, coupled with art and artistry and understanding of consumers.

Last part of your question, which is around Etro and Marni. Marni – Etro [indiscernible] (00:20:40) has already a fragrance line, so we are integrating this fragrance line into Coty ecosystem, if I may say. And as soon as this integration and registrations are done, this existing fragrance line will instantly be launch at all around the world, which we give a base to the brand in terms of net revenues. And, of course, in parallel, we are working on creating the, I would say, the upcoming fragrance that represent the brand equity. And Marni, same thing. There isn't a business that is existing today, but we started to work almost at the moment, we made the announcement a few months ago and we believe that in the next two years, we can see new things arising from these two brands.

Operator: Thank you. We'll take our next question from Korinne Wolfmeyer with Piper Sandler. Please go ahead.

Korinne Wolfmeyer

Analyst, Piper Sandler & Co.

Q

Hey, good morning. Thanks for taking the questions and congrats on the quarter. I'd like to touch on first, what you're seeing in the Middle East and if there is any kind of headwind you're baking into guidance and if there's any change in trends that you're seeing there. And then as we think about these new partnerships coming on and then the one announced this morning. How should we be thinking about the contribution of these to the longer-term growth algo? Thank you.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

So, the new partnership coming on? Okay. So, when it comes to the first part of the question, again, this region, the Middle East accounts for a mid-single-digit percentage of our revenues and is certainly broad-base. So, this is the first element. At present, we are not seeing a change in the business. In fact, I have to say that we are seeing even a strong momentum in the Middle East, which is driven mainly by our Prestige fragrances [ph] well (00:22:35). So, this is what we are seeing today in the Middle East. Nothing that would be materially impacting our business over there.

Now, when it comes to the new licenses, the idea is really to build businesses that are complementary to the current businesses of the company. These licenses have been chosen and chose us also because they are incremental to our portfolio. They are bringing new visions, they are bringing new ways to talk to consumers. And these are the main regions where we [ph] end up (00:23:07) working together. It's because we believe new brands can bring new audiences in the case of Marni. It's obvious, in the case of Etro, it's also obvious if you think

about the extension of Marc Jacobs license to color cosmetics, it's also very obvious what a brand like Marc Jacobs can bring to the color cosmetics portfolio of the company like Coty, with this kind of [indiscernible] (00:23:33) brand, which is very unique positioning on the market.

So, that's the way we see it. It's really all about bringing additionality, targeting new audiences that increase the reach of the company over time.

Operator: Thank you. We will take our next question from Andrea Teixeira with JPMorgan. Please go ahead.

Shovana Chowdhury

Analyst, JPMorgan Securities LLC

Q

Hi, this is Shovana Chowdhury on behalf of Andrea. I wanted to ask you for more color on consumption versus shipments. And more specifically, if you could please confirm if the now mid-single-digit headwind from restocking in the base period that is expected in the fiscal fourth quarter. It seems that if not – if it's similar to fiscal third quarter because when you gave the guidance for second half last quarter, the hit was expected to be low to mid-single-digit, but now it's been raised to mid-single-digit. And also, I wanted to ask you about your LFL growth of 6% in Consumer Beauty. Did you see some pull forward of inventory building in this segment that could have put a little bit of pressure in fiscal fourth quarter? Thank you.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Hello. Good morning. So, I mean, first of all, I mean, consumption and shipments, I mean, are fully aligned, okay. So, [ph] it's really (00:24:54) that we are making sure that there is a strong correlation between sell-out, sell-in. And indeed, we are making sure that there is no inventory building at the retailer's level. So, this is very, very healthy equation. So no, but the mid-single-digit headwind in Q4, I mean, we shared it several times and we shared very clearly in the last earning that indeed there will be a debalanced Q3 and Q4.

And in fact, the headwind in Q3, I mean, was very minimal. But then indeed the headwind is definitely located in Q4 and this is mid-single-digit in Q4. But again, as we explained, I mean, during the earnings call, this is really purely base effect from the shipments done last year, which was really service level recovery and also the [ph] backfill (00:25:53) of great innovations. So, this is definitely no change versus what we shared. So, indeed as we explained I mean was low single-digit mid-single-digit in H2. So – and this is again what we have been saying for many months.

Operator: Thank you. We will take our next question from Olivia Tong with Raymond James. Please go ahead.

Olivia Tong

Analyst, Raymond James Financial, Inc.

Q

Great, thanks. Good morning. My question is primarily around the mix between Prestige versus mass. Obviously, given the strength and procedure, mix has shifted to about 60/40 Prestige from 50/50 pre-pandemic. So, this is clearly helps you drive pricing on top of the volume growth that you do nicely, obviously nicely on target to get to your mid-60s gross margin target as well. So how has that changed your management of the overall business? How much further can they go in terms of gross margin? And what are you embedding in terms of sort of a volume price mix going forward as you continue to push the premiumization? Thank you.

Laurent Mercier

Chief Financial Officer, Coty, Inc.

A

Yeah. So, indeed, I mean mix, I mean, Prestige weight has increased. But definitely I mean, what you can see that overall, our gross margin has significantly improved over the last four years. So, if you remember that we were at a level which was below 60% of gross margin. And now we are reaching this level of 65%. And I want to be very clear that this gross margin expansion is coming from both divisions, okay. So, this is really all the actions that we put in place, in productivity, and we share many examples of our productivity initiatives that we put in place on standardization, platforming and these brought this nucleus significant savings in gross margin. So, that's number one.

Number two, is the pricing. Definitely, we implemented really some very targeted price increase on both divisions. And you see the results in this Q3 with 190 basis point gross margin expansion. So, this is what we did again on both divisions. And last but not least, is definitely on mix management, same work, same playbook on both divisions. So it's really – and you know on Prestige all the work done right now we are selling more and more [indiscernible] (00:28:24) the niche category is booming and this is of course gross margin accretive.

But we have also in Consumer Beauty that all the new initiatives that we are launching in color cosmetic, strong and gross margin accretive, sometimes even at the level of Prestige and also the new categories that we are pushing, such as mass fragrance and so on, have a very stronger gross margin. So again, really keep in mind that this gross margin expansion is really coming from a strong improvement on both division. It's not the division mix effect. This is pretty minor.

So, now looking ahead and you saw – you see again the results as each year on a fiscal year-to-date, you see our volumes our low single-digit, price is high single digit, and mix is low single-digit. So, definitely we are making sure in our algorithm that we keep this good balance between volume, mix and also pricing. Definitely pricing impact is going to be lower because we will not be at the same level of price increase as we did the last two years. But I want to be clear that it will be really well-balanced between these three items.

And again, what Sue has explained, just gives you concrete example that volumes, I mean all the work we are doing on new initiatives, the growth engine market. So, really bring volumes mix is really again the continuous work we are doing on both divisions. And pricing, we will continue pricing in a very targeted manner. Again, we are very well equipped. So, again, very balanced between these three items in terms of top line growth and continue the gross margin expansion in both divisions.

Operator: Thank you. We'll take our next question from Chris Carey with Wells Fargo Securities. Please go ahead.

Chris Carey

Analyst, Wells Fargo Securities LLC

Q

Hi, everyone. Thank you for the question. So, one follow-up on Consumer Beauty and then more of a global strategic question. On Consumer Beauty, I think e-commerce was up over 30% or – and it really was quite strong in the quarter. It does imply, I think, that the brick-and-mortar business was weak. Can you just contextualize how important US brick-and-mortar is for the overall organization, the underlying trends that you're seeing in that business, and perhaps a bit of your sequential outlook from here, specifically for US brick-and-mortar?

And then, Sue, just a bit more globally. The Prestige market is driven by balanced growth, but Asia and Travel Retail are actually exceeding what we're seeing in Americas and EMEA, which are also solid but certainly higher

growth. You're so thoughtful about the sustainability of growth and the durability of growth. Are you seeing anything in these markets that might give you a little bit of pause about whether they're perhaps growing faster in areas that don't seem to give you multiyear returns, as we've seen with some of your peers. So, just the concept of responsible growth globally and whether you're seeing any hotspots in Asia and Travel Retail that might give you some pause as far as your longer-term objectives? Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. Thank you for the question, Chris. So, indeed, e-comm was indeed a top performer for the Consumer Beauty division. But you're right, the brick-and-mortar performance was not as high as the one from e-comm. But in a way, another way to say it is that among, I would say, big players, among what we call historical brands in the US market, CoverGirl we think about this brand, is the one that's resisting the best in a way, including in brick-and-mortar.

So, we are in the middle of a transformation of this brand as you know it, and we are doing the, I would say, the fastest part of the market, which is the online reinvention with new brand equities and CoverGirl is still the number one brand equity in terms of [ph] score in the (00:32:34) US, a great rate of innovation supported by advocacy in marketing, all this translating into a huge increase in terms of penetration online.

But we are also taking care of our stores and we are working hand in hand with our key partners to reinvent what this shopping experience in brick-and-mortar could be for a color cosmetics brand. And they are beautiful things that I see in the work. So, hopefully this will help us to also make sure that both sides of the story are performing equally and well for both sides. So, this is to answer your question about the brick-and-mortar versus the e-comm for the Consumer Beauty division.

Now, when it comes to Prestige, I have to say that the net revenues that we got for Prestige in the EMEA region are very good, double-digit growth during the quarter. The US market remains very, very strong. So again, it's very balanced and it's not tied to one region or another region. But again the best way to be ready for whatever can happen and could happen is that you multiply the number of growth engines, be it in terms of categories or in terms of regions.

If I start with regions, we were just a week ago visiting the Southeast Asian region. We were in Vietnam, we were in Thailand, in China and many other countries. And these are markets where the fragrance penetration is also increasing. People are more and more looking for fragrances, specifically on both sides of the market, these very accessible price tiers or very high-end price tiers. And these are markets where the company is growing 2 times faster than the rest of the portfolio. The rest of the regions. So, we are in a way preparing for the next growth engines, but also in terms of categories, color cosmetics is accelerating like never before in the Prestige division, mid-teens growth. And skin care, I didn't get the question for once, but I can answer it even if no one has asked, the skincare is accelerating. It's been a year in test, learn, correct, test, learn, correct. And now the brand equities of each of the three brands are quite clear.

They are performing and skin care is increasing by double digits inside the company. Some brands are the smallest, are even triple digits. So, well, we are preparing for the future and we are preparing in terms of categories, in terms of regions and using the power of both divisions. So, that's the way I would answer your question about maybe growth coming from here and there. It's not the reality.

Operator: Thank you. We'll take our next question from Ashley Helgans with Jefferies. Please go ahead.

Ashley Helgans

Analyst, Jefferies LLC



Hey, good morning. Congrats on the nice quarter. We wanted ask about the current promotional environment and then if there's anything you can tell us about your expectations on promos as we head into holiday, especially here in the US? Thanks.

Laurent Mercier

Chief Financial Officer, Coty, Inc.



Yeah. So, I mean, we are not seeing any major change, definitely, no, in terms of the promotional environment. So, I mean, as we just explained, definitely we are going through some adjustment and the market is going through an adjustment following, I mean, some significant price increase, which was done over the last two years. But definitely the last results we are seeing is really a slight recovery of the market. And again, I mean all brands are really – and mainly the CoverGirl is gaining market share, omnichannel, I mean, across brick-and-mortar and e-commerce.

So, it's really performing really well. And it's really the way also we do it is really through a premium innovations, in fact. So, this is what matters. And this is also that coming with high quality products and I mean the launch of the Simply Ageless Essence is a great success. And it's pretty premium products. So, you see that really coming with high quality product is giving really some munition and it's not about increasing promotions. And again, we are making sure that within Coty, we are not playing that game.

Operator: Thank you. We'll take our next question from Lauren Lieberman with Barclays. Please go ahead.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.



Great. Thanks. Good morning. Sue, you've offered a lot of perspective this morning. And so, I may have lost a bit in the details, but I was just wondering if you could comment on why you think there's been the slowing in US mass cosmetics, just kind of getting behind the why and not the fact that it's happened, but why? And then thoughts on why it may or may not impact other categories, what are the – where are the consumer spending? Are they allocating differently? Are there pantries too full of stuff?

And then with that backdrop on category growth, just curious, when we look, you called out in your slides last night the expected acceleration into the first half of next year. I know you've got easier comparisons, obviously, but just curious if that's an expectation to be sort of on algorithm growth as we get into Q1 and the comps start to ease? Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.



Hey, Good morning, Lauren. So, again, let me start with the last part of your question, which is around the acceleration in the first half. And I have to correct something now, which is it's not easy comparatives at all. This Q1 of last year was double-digit growth, the high-teens, mid-teens. If I'm not wrong in Prestige division, this was the biggest quarter ever at Coty, it was the launch of Burberry Goddess, the launch of the fragrance under Hugo Boss, the launch of fragrances under Gucci, all the brands were doing – launched at that time. So, you cannot say that we are getting into easy comparatives. I would love to, but it's not the case. So, that's an important point to correct before answering your question.

So, let me now maybe move to the first part of your question, and I'm sorry, I'm going to give you even more details, so be ready. But when it comes to the US weaker performance, when it comes to color cosmetics, we believe there are few things at play. Number one, pricing as you can imagine was a contributor to the higher growth of the category in the last couple of years and now the pricing benefit by definition is moderating by several percentage points.

Number two, the mass cosmetics consumption in the US was growing here again, like on fragrances above historical levels in the last year's. And we are seeing now some easing in these dynamics since consumers have stocked on some products related to the element of stock-up at home, coupled with economic pressure, particularly on lower incomes, there has been some decline in cosmetic household penetration across age groups. This we see. But at the same time, and this is very important. Younger consumers are changing the dynamics of the market, including, number one, shifting to new channels which are not captured by Nielsen, such as Ulta Amazon, Dollar stores.

Number two, shifting to new ways and new consumption when it comes to color cosmetics. I'm thinking about primers, I'm thinking about concealers, I'm thinking about highlighters, brow products. And this comes at the expense of traditional products like foundations and mascaras, which used to be the queen categories.

Number three, these consumers are even trading up and we see them trading up to masstige brands and to masstige channels because they are looking for what we call cool beauty, trending beauty, et cetera. And this has been seen, in fact, that Prestige color cosmetics is benefiting from this, that's what explains the [ph] health of this part (00:40:30).

The good news for a company like Coty is that we are really adjusting actively adjusting in keeping with this changing consumer behaviors. Number one, as you've seen it with the performance of Consumer Beauty, we are doubling down on e-comm, particularly Amazon, where our brands I'm thinking about CoverGirl, I'm thinking about Sally Hansen are growing by close to 30%, 3-0, in the last quarter.

Number two, we are picking up distribution in growing channels. I'm thinking about channels like Dollar General or of Five Below. We are also reallocating media on one hand towards advocacy to drive penetration with the younger consumers. But – and this is a very important, but we are also keeping the right level of media to continue to keep the consumption of consumers above 30 years old because they are a big part of the market.

Number four, we are also you've seen it launching product that are more and more disruptive, distinct, made to viralize on social media. We are amplifying the cool factor of our brands. So, at the end of the day, it's important to note that all these global trends as cosmetic demand in other parts of the world remain very solid, including strong category growth in Germany and UK, Poland and Brazil. So, the American markets will grow in the same direction.

So, in sum, this again reinforces the ability of the company in terms of multichannel, multi-category international portfolio to be in a way a good differentiator and point of strength versus competition.

Operator: Thank you. We'll take our next question from Linda Bolton Weiser with D.A. Davidson. Please go ahead.

Linda Bolton Weiser
Analyst, D. A. Davidson & Co.



Yes, hi. I was wondering if you could comment first on fragrance. You called out different things that are really drivers like Goddess. But I was curious about Gucci and Hugo Boss. You didn't really call those out. So, are there plans in the upcoming quarters there? And maybe you could comment on how with Hugo Boss just in general, how men's fragrance is doing? And then secondly, on Lancaster, I was curious, what does it take to see before you kind of expand it beyond Asia in terms of making it a broader global anti-aging skin care brand? Thanks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. Good morning, Linda. Thank you for the question. So, let me start with the Lancaster. Indeed. You know, the brand is not an Asian brand. The brand is mainly a European brand. Lancaster is the number one so to aging or sun care brand in Europe in Prestige channels. And this something that is important to remind everyone. So, it's a big business in Europe. It's one of the fastest growing sun protection brand in Europe. And we took the brand to China mainly to see how we can confront to this super very competitive market.

So, you see Lancaster acting now on two legs, Asia on one side and Europe on the other side on both categories be it photo-protection of skin care. So, the brand will be double-sided photoaging and photo repair, which is skin care and UV protection, but also two legs, one European leg and one Chinese plus Asian leg. So, that hopefully answers your question. And this is going to happen in the calendar year that we are into, this year.

Now, when it comes to the fragrance part, you are talking about [indiscernible] (00:44:03) Prestige fragrance brands. I can tell you that the brand like [indiscernible] (00:44:08), for example, is booming in the portfolio of Coty simply because this brand is a quality brand, at the same time much more affordable than many other brands. And this part of the market is doing well, Hugo Boss is also doing well. Again, it's part of our top seven brands that have been growing double digits until the end of last year.

And we see also all these brands accelerating more and more inside the portfolio. Are there plans there? Of course there are plans. I'm not going to reveal whatever is going to happen in the fall because of competitors listening to us. But this part is very important as a growth driver of the company and men's fragrances, indeed Hugo Boss is a huge leader, specifically in the countries like France. I have to tell you that the overall performance of Burberry, Chlo  , and Hugo Boss in a country like France explains that Gucci is one of the only two companies that are gaining market share on the very competitive French market during the last quarter.

Operator: Thank you. We will take our final question from Mark Astrachan with Stifel. Please go ahead.

Mark S. Astrachan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. Thanks. And hi, everyone. A question on fragrance, I guess maybe more specifically on the Prestige side, wanted to ask how to think about the category broken out between designer brands, which is sort of the bulk of your portfolio, the Prestige beauty brands that also have fragrance extensions and those that are more or less pure-play ultra-Prestige fragrance brands...

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah.

Mark S. Astrachan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

...where I feel like you're gaining obviously a lot of share relative to some others. And is it that some of those other segments are decelerating, the designers are accelerating? And what's driving that?

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

A

Yeah. That's a that's a good question, indeed. You perfectly described the three parts of the market, fragrance coming from beauty brands, fragrances coming from designer brands and including what we call collections, which is the high end of the designer brands and [ph] pure players (00:46:18) of the niche. The part that's doing the best, the one that's accelerating is indeed [ph] pure players (00:46:25). So, it's really fragrance is brands that are not tied to fashion companies or to beauty companies more or less. And it's really pure players, you know some of them are not going to go quote our competitors, but Infiniment Coty Paris is exactly this, it's a pure player. It's not tied to a fashion brand and it's not neither coming from a beauty name, if I may call it like this.

This is the fastest growing part of the market and this is even representing in some regions like China, almost a third is not 40% of the market. We believe this is going to be the fastest growing part of the market for the next decade. And this is where more and more consumers are shopping. Then you have designer brands with fragrance successes such as Burberry Goddess, or Daisy Wild or Kylie Cosmic (sic) [Cosmic Kylie] (00:47:10) that we launched recently, some of these brands have collections, which is a small portion of the business, is the fastest growing part, but growing less than pure players.

And indeed the part that we see not growing anymore, at least for a last time, I looked at this, it was not the part that was growing. And it's, I would say, more than a decade of trend is beauty brands doing fragrances, which is really in a way shrinking year after year and over the last decade. That's the way I would describe this fragrance market. For us, we have a fantastic opportunity as you can imagine on niche pure players. This is an area where we are working very hard. And Infiniment Coty Paris is clearly one of these bets that we are doing in this area.

We are, of course double betting on designer brands. The successes, the recent successes we've been posting are really a great testament to how much this category is, something we understand well and in which we are going to compete more and more. But also collections, [indiscernible] (00:48:12) is one of the fastest growing collection among the portfolio of the company. But also Hugo Boss [indiscernible] (00:48:20) launched a year ago with a more masculine audience. This one is also doing very, very well. So, that's more or less the way I would answer your question.

Operator: And there are no further questions at this time. I'll turn the call to the speakers for closing remarks.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

Thank you very much, everyone. I think this is another quarter of results that are above expectations, [ph] 15th quarter (00:48:46) almost four years. So, we are super, super happy, super proud, and we are going to continue to create the most innovative, the most exciting, the most trendiest things that consumers are not expecting, because this is the way the beauty industry work.

And see you in August for the Q4 earnings. Thank you very much.

Operator: Thank you. This does conclude today's program. Thank you for your participation. You may disconnect at any time.

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