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Coty, Inc. (COTY)

Q1 2025 Earnings Call - Q&A

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MANAGEMENT DISCUSSION SECTION

Operator: [Operator Instructions] Good morning and good afternoon, everyone. My name is Angela and I'll be your conference operator today. At this time, I would like to welcome everyone to Coty's First Quarter Fiscal 2025 Question-and-Answer Conference Call.

As a reminder, this conference call is being recorded today, November 7, 2024, at 10:30 AM Eastern Time or 4:30 PM Central European Time. Please note that on November 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 its 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 factors that could cause actual results to differ materially from the forward-looking statements. In addition, except where noted, the discussion of Coty's financial results and Coty's expectations reflect certain adjustments as specified in the non-GAAP financial measures section of the company's release.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll go first to Ashley Helgans with Jefferies. Please go ahead.

Sydney Wagner
Analyst, Jefferies LLC

Q

Hi. This is Sydney on for Ashley. Thank you for taking our question. I was just wondering. Can you talk about the channel shift and outperformance online? Do you expect to see a continued shift, and do you feel that there's a higher level of trust for consumers to purchase online from platforms like Amazon? Thank you.

Sue Y. Nabi
Chief Executive Officer & Director, Coty, Inc.

A

[ph] Good morning (00:02:34), Sydney. This is Sue. So, indeed, you're absolutely right to point out to online as one of the outperformers of the company. Today, this has become almost the biggest channel for Coty, as a channel for the Coty Inc. company. And this, indeed, is fueled by retailers.com, but also by amazon.com and pure players also that are [ph] acting on (00:02:59) the Beauty segment.

So, we believe this has to do a lot – and we had this question already, I think, in the previous earnings call. It has a lot to do with the fact that a lot of Gen Zs, a lot of younger consumers are connecting online with their communities, with their favorite influencers. Hence, the importance of advocacy marketing and therefore, the conversion online between the advocacy ecosystem on one side on which, by the way, the company has been doing deep progress, and I'll say a few words about this in two minutes. So, the conversion from this ecosystem of advocacy online to a sales online is the most natural and the most obvious, in fact. So, that's the reason why we believe this online channel can only grow and by the way, this is one of the reasons why we are also seeing disruptions in the mass channel, but also on other channels around the world because a lot of consumers today are using the [ph] conveniency, sorry, (00:04:04) of shopping online.

Coming now to Coty, you've seen that we've been working hard since two years and a half now to put in place a playbook which we started to implement behind Rimmel and CoverGirl with results that you have seen in our prepared remarks presentation that are outstanding [indiscernible] (00:04:25) for both brands, 40% of growth for Rimmel, 80% of growth for CoverGirl. And this is exactly what we were working on. So, remember, repositioning the brands, creating products that have the ability to realize, putting in place an ecosystem that's around advocacy marketing, retail marketing with the retail.com marketing, sorry, this explains our outperformance and the outperformance at large of the online channel in the US, but not only in the US. It's happening all around the world.

Operator: We'll go next to Robert Ottenstein with Evercore ISI.

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you very much. I'm picking up through some of the emails I'm getting from investors that there may be some confusion in some of your commentary about the medium term outlook that somehow maybe it's changed or the algorithm has changed either explicitly or implicitly. So, there's just some confusion there. So, I was wondering if maybe you could just kind of reinforce what is the message, what is the outlook. Is there any real change that's going on here? Thank you very much.

Sue Y. Nabi
Chief Executive Officer & Director, Coty, Inc.

A

Good morning, Rob. Thank you very much for your question. So, in fact, the reality is that we continue to say and see that the beauty market medium term growth will be around 3% to 5%. We continue to see Coty outperforming these levels of growth for the beauty market, and we continue to see a steady growth for our gross margin, for our EBITDA margin, and then our EPS growth.

So, this is really to say it again and again. This is really what we are seeing and we believe this fiscal 2024 is a transition year, mainly due to all the changes, mainly channel changes and changes that are happening in consumers' shopping behaviors, including the question I just had recently on the online performance. And by the way, we are currently gaining market share in both divisions.

So, this year, we believe, is a transition year. But once this transition and the different blocks will be in place all around the world, but also in the US, the 3% to 5% medium term vision for the beauty market, which we believe is going to continue to be the most resilient market among all industries, are going to give us this ability to have the full confidence in our fiscal 2025 profit delivery and free cash flow and therefore, looking at shareholder returns, and of course, continued deleveraging of the company.

All of the fiscal 2026 and beyond growth drivers such as new licenses, we are about to announce a new signature in the coming weeks or months skincare as a new category, new regions. And we were very wise to not bet on one country and to open the scope to many different regions, namely what we call growth engines regions. All this together plus fragrances, which is the number one growth driver of the company, and now extending to ultra premium where we had a huge amount of white space, but also to mass fragrances where we have also as well a huge amount of white space, including in terms of [indiscernible] (00:07:59) profitability for the Consumer Beauty division, this is what gives us this confidence that we are going to continue to deliver on our commitments. Laurent, maybe you want to add something that...

Laurent Mercier
Chief Financial Officer, Coty, Inc.

A

Absolutely. [indiscernible] (00:08:13) we need to build on Sue's comments, so definitely number one, I mean, definitely full confidence to deliver our profit and cash in fiscal 2025. So, this is really number one and definitely that we are going to improve our EBITDA margin this year close to 100 basis point, okay? So, it's going to bring our EBITDA margin close to 19%. So, it means that in the last three, four years, in fact, we are growing our EBITDA margin above 250 basis point.

And indeed, looking ahead, we continue to have a platform as a beauty market and we continue, indeed, to improve our gross margin and EBITDA margin. So, all the actions that we are putting in place. So, definitely all the levers in terms of gross margin as we have delivered over the last year, now we are above 65%, and we are going to continue, thanks to all the actions in terms of productivity, mix, pricing. And also, we are working definitely to continue to optimize our SG&A, and this is exactly what I shared during the call that we are accelerating our productivity initiatives.

We already have lot of actions, in fact, and we're adding some new initiatives. And as you know, I mean, Coty is demonstrating, I mean, with this ability and the teams, we see that we accelerate this kind of [ph] productivity program (00:09:38). So, indeed, I mean, there is full confidence in the algorithm on all metrics, P&L, and balance sheet.

Sue Y. Nabi
Chief Executive Officer & Director, Coty, Inc.

A

And by the way, should I add that we are continuing to outperform all our comparative peers. You've seen this in the last 9 out of the last 13 quarters. And this is really what we intend to continue to do.

Operator: We'll go next to Korinne Wolfmeyer with Piper Sandler.

Korinne Wolfmeyer
Analyst, Piper Sandler & Co.

Q

Hey, good morning. Thanks for taking the questions. I'd love to hear a little bit about some of the early signals that you've seen here in fiscal Q2 from a sell-in perspective across both mass and prestige. Any color you can give on what you're seeing between that sell-in versus sell-out differential and how you're thinking about that for the remainder of the year.

And then additionally, as we talk about – as you think about your partners – with your various retail partnerships, how are you viewing the risk of those partnerships as we head into back half of the year, especially as some of them are rightsizing their store fleets and going through some of their own challenges themselves? Thanks.

Laurent Mercier
Chief Financial Officer, Coty, Inc.

A

Yeah, thank you, Korinne, for your question. So, I mean, first of all, let me remind [indiscernible] (00:11:02) and I mean, in the months of Q1 performance, so indeed, I mean, we indicated a few weeks ago that we will be between 4% and 5%. So, what's very important, number one is, as you can see, I mean, we are over-performing most of our peers. So, I mean, again, it's a clear demonstration that even in a volatile environment, Coty continues to over-perform. So, that's really very important.

Number two which I really want to highlight, this is also on a [ph] high days (00:11:32) from last year. As you'll remember last year, I mean, we are growing at 18%, 1, 8. And prestige was growing 22%. So, it shows, again, what we shared several times is that last year we had this significant growth, thanks to Goddess. But we are able really to bring some incremental growth on this [ph] high days (00:11:53). So, this is very important again to have this in mind.

So, now if we go a little deeper, so we indicated indeed that in Q1 and some of our peers also indicated that some retailers indeed anticipated some fragrance giftsets ordering. So, indeed, so this is really also driving some acceleration in prestige. And you see that prestige growing 7%, prestige fragrance grew by 9% in Q1. So, that is definitely now moving from Q1 to Q2, I mean this phasing impact on the fragrance giftsets. So, this is also why we are indicating, indeed, that our sell-in on fragrance in Q2 will be lower versus the sell-out. But definitely on H1, it's neutral. So, this is definitely – but definitely on prestige, and you saw the last number, then the category remains very [indiscernible] (00:12:54). We have very strong initiatives, which we're going to be full speed in Q2, so – and now, we are really, I mean if indeed in the acceleration or so. Definitely, very healthy [indiscernible] (00:13:10) the equation on prestige.

Consumer Beauty, definitely we see Q2 same pattern as Q1. All the headwinds that we described, seeing some of the retailers either destocking or being very tight on their inventory and cash management. We see this pattern continuing definitely in Q2. So, this is definitely the – what's driving now – are really the equation for Q2. And definitely, we are seeing – what's very important is that we are not overexposed to any major retailer or channel. So, we are seeing a low-single digit to mid-single digit in US pharma, low-single digit in US department stores, and low-single digit percentage for both China and for the retail from APAC in H2. So, which will bring leverage to the same level of growth as we have in H1.

Operator: We'll go next to Anna Lizzul with Bank of America.

Anna Lizzul
Analyst, BofA Securities, Inc.

Q

Hi. Good morning and thank you so much for the question. I was wondering if you could talk a bit about the broader vision for Coty at this point. Where are you at now in terms of executing on your six strategic initiatives that you outlined about three years ago? And just how would you rank your progress on each of these points? And then, also with the lower expected growth going forward or more normalized growth, are you still expected to be on track here with your deleveraging goals? Thank you.

Sue Y. Nabi
Chief Executive Officer & Director, Coty, Inc.

A

Hey, Anna, I'm going to start the answer. And maybe, Laurent, you can complement on the deleveraging part.

Laurent Mercier
Chief Financial Officer, Coty, Inc.

A

Yes.

Sue Y. Nabi
Chief Executive Officer & Director, Coty, Inc.

A

Again, the vision is unchanged. It's the vision we have presented to all of you in 2021 – for 2021, which was about, number one, at that time, it was about stabilizing and growing the Consumer Beauty division, which we are doing. I can tell you that the color cosmetics results were hiding behind our key brands such as CoverGirl and Rimmel are very, very good. In fact, if you look at what's happening in the US market, CoverGirl, you've seen it in the slide of the presentation, is the only brand among traditional heritage brand that is almost stable on an omni-channel basis versus else to name them. If we zoom in, and this was done by Evercore, I think, recently on the data from numerator, the two only brands that are growing at Amazon and Target are indeed else and CoverGirl. And all the others are losing, and some of them are losing quite big.

So, the contract that I shared with you two years ago, which is to say we are growing to six of these brands, we are going to put them back to growth or to stability is exactly what is happening right now. And you can expect an acceleration because we are not only implementing this playbook in bigger. We master the way to do it. Now, we are going to put the means behind it, but also we are plugging in [indiscernible] (00:16:18) beauty, which is something new that we've been working on since 18 months now, testing here and there on different brands how to make it happen to allow us to really [indiscernible] (00:16:29) the level of innovation from this division, specifically behind color cosmetics.

Second thing still on the number one priority, which is around diversifying the division into other categories and this is happening behind mass fragrances, which are growing double digits in 2024 and in 2025. Expected to grow in 2025, double-digit in fiscal 2025, of course. So, that's the number one point.

The number two point is around prestige where we have explained that we will not only accelerate, but diversify our prestige fragrance business. We've done it, I have to say, in an outstanding way, putting on the market for blockbusters in the last fiscal year, Goddess, Kylie Cosmic, Marc Jacobs Daisy Wild, Hugo Boss Elixir, and many more to come in the coming quarters, I have to say, without revealing anything to our competitors. So, this was done and we started the first steps into niche fragrances, including with the creation of an in-house brand, INFINIMENT COTY PARIS, who started very, very good.

Number two, adding two other legs to this prestige division. The first one is color cosmetics which is, I would say, around 3% to 4% of the net revenues of the company. And this is thanks to, of course, Gucci makeup, Burberry makeup, Kylie Cosmetics, but we are also preparing a big launch behind Marc Jacobs Beauty. That's going to give us this ability to have a couture/indie brand positioning inside our portfolio.

And then the three skincare, and we are continuing to play on the marathon of skincare, as I like to call it, with three brands that are all progressing in the right direction. Changes happen in the meantime because China that was supposed to be the growth engine behind these skincare brands is not anymore the growth engine it used to be. There are changes here and there. And [indiscernible] (00:18:29) our strategy to make the company very resilient. So, with skincare, the brands we are playing with, the positioning of the brands, the productivity we are seeing [indiscernible] (00:18:38) each and every brand is increasing. This is exactly what we were looking for.

So, the strategy around the two divisions is still valid, still delivering results and that's what we have seen during this quarter in CoverGirl and Rimmel being the two brands that [ph] which is (00:18:56) the most with a stable market share in their homeland on Consumer Beauty. But also, as Laurent said, it's a continuous growth of our prestige fragrance business, 9% of growth on top of the 22% of growth last year. This, I have to say, is an outstanding result.

Last but not least is channels. E-comm, I've commented on e-comm at the very beginning of the Q&A. I've commented – [ph] haven't (00:19:21) commented yet on Travel Retail, which has been growing very, very fast in the last, I would say, two years.

Today, there is a disruption happening mainly in Korea and in China in the Asian Travel Retail, but the two order centers of Travel Retail are doing very, very well. So, all this on top of the geographic diversification, so with the normalization of the growth, we're still on track with the deleveraging part and I give the answer to Laurent.

Laurent Mercier
Chief Financial Officer, Coty, Inc.
A

Yeah, absolutely. So, let's be very clear. Our deleveraging agenda is unchanged. I keep repeating many times that number one priority is deleveraging the company and we're on track, as you saw, end of Q1. I mean, we are 0.4 times below previous year. So, this is definitely confirming the great progress and indeed, even with the tight inventory management that we share by retailers, which is adding indeed some volatility especially for timing, I mean, we are absolutely on track to exit calendar year 2024 with leverage below 3 times. And we continue to target leverage close to 2.5 times exiting calendar 2024.

And then second, we absolutely confirm moving towards 2 times leverage ratio end of calendar 2025. So, again, we have all the levers, all the actions in place. And I mean, [indiscernible] (00:20:47) this is not counting on any of the large divestiture. [indiscernible] (00:20:53) pure organic. So, it means that now in 12 months, I mean, the company will be with a leverage ratio at 2 times, and indeed this is what you saw from the rating agency. [indiscernible] (00:21:05) consecutive grade from the rating agency. So, indeed absolutely on track for this deleverage.

Operator: We'll go next to Oliver Chen with TD Cowen. Please go ahead.

Oliver Chen
Analyst, TD Cowen

Q

Hi, Sue and Laurent. Holiday remains key to second half. How are you planning this year versus prior years and what do you expect for the holiday given a lot of the dynamics you've spoken to? And I know you have a lot of great comments on what's happening in prestige fragrance earlier, but what are your thoughts on the moderation and the normalization? And as you do anniversary Burberry Goddess, some of your main innovation catalysts there. And finally and third, the demand planning program sounds very good. Just what's ahead with that and also the opportunity and managing the risk as you implement that program as well? Thank you.

Sue Y. Nabi
Chief Executive Officer & Director, Coty, Inc.

A

Yeah, absolutely. I mean, thank you, Oliver. So, definitely, I mean, we indicated and you saw the numbers. I mean, the prestige category, I mean, remains very healthy and very dynamic. You see the market category and the category [indiscernible] (00:22:25) 10%. So, this is very, very important that we see this increase of fragrance category is we have [indiscernible] (00:22:34) fragrance [indiscernible] (00:22:36) so many [indiscernible] (00:22:37) is at play.

So, basically what we are seeing is that we are very confident with the holiday season. And we have, again, very strong ammunition. Talking about Burberry [indiscernible] (00:22:52). You saw Burberry grew by 17% in Q1 so it means that if we keep the momentum that we have on Burberry Goddess, now with Burberry Goddess Intense, Burberry Hero, Burberry Her and [indiscernible] (00:23:05) the full range is really at full speed. We have very smooth plans on Chloé really with strong innovation, which is really off a very, very good start.

We accelerate also the innovation that we launched last year in second half, Daisy Wild, Kylie Cosmic also so there is really a long list of innovation which are fully supported, and definitely where there is now very good positive momentum from those retailers and the consumers. I want also to mention also Gucci Orchid, also which is really number one, I'd say, for us, now that we are expanding to full distribution in Q2.

So, again, very, very important to see that and we keep growing in penetration. And we are also we are [ph] gracing (00:23:54) new markets. I mean, our growth engines market are also accelerating on prestige fragrance. But as you saw also, we have in fragrance also accelerating big time in the Consumer Beauty segment, okay? So, this is also definitely strong acceleration. So, that's really today what definitely we are seeing on the category and [ph] accelerate (00:23:17) in the Q2.

Then second question, which is about the new demand planning program, so absolutely. I mean, this is a program that we started now a while ago, and we are currently in full implementation. So, as I indicated, it's really that we are consolidating two planning hubs into one global planning hub, which is based in Barcelona.

I can tell you that there are a lot of benefits by doing this. Number one is definitely that we are using technology to improve significantly our forecast systems. So, having this knowledge, the technology, leveraging AI in one hub [indiscernible] (00:25:06) on planning, and this will bring significant savings in terms of costs, number one. But also when we are improving the forecast accuracy, it has immediate effect on what we described several times, which we are calling excess and obsolescence. Excess and obsolescence is really when either you have too much inventory because you build too much inventory on SKUs, and in fact, which were over forecasts, then it's becoming a [indiscernible] (00:25:38) in terms of cash. So, this is now reduced significantly.

But on the other hand, it's also to make sure that when we have great innovation, great start, we're also improving significantly our service level. And by doing this, it's going to optimize our net revenue and also optimize our gross margin. And also, improve the collaboration with our retailers. With also these dimensions that by doing this, we're also now improving significantly in the relation with retailers. So, we will keep you posted on the progress, but you will hear from us that definitely this is the beginning, but there will be a lot of knock-on effect, positive effect from this new approach and we were working.

Operator: We'll go next to Andrea Teixeira with JPMorgan.

Shovana Chowdhury
Analyst, JPMorgan Securities LLC

Q

Hi. This is Shovana Chowdhury on for Andrea. Thank you for taking our question. We wanted to ask you about, can you please, how – can you please parse out how much of your 3% to 4% LFL growth in the second half is from actual underlying growth expectations versus due to easier comps as compared to the front half? And how much confidence do you have in this updated outlook for second half, given that it really depends on a few factors like retailer inventory levels exiting the holidays and assuming – we're assuming that fiscal third quarter may have more sales of consumers hunker down post-overspend during the holidays, and of course, consumers have been challenged for some time. Thank you.

Sue Y. Nabi
Chief Executive Officer & Director, Coty, Inc.

A

Yeah. Thank you, Andrea. So, a few points to remind on H2 is, number one, that in terms of pricing, definitely H1 is benefiting from pricing effect which is carry over from some price increase we implemented last year. And the carry over, I mean, is going to fade away in H2. So, it accounts for about two points. Okay, if you want to compare the H2 through the H1. So, that's number one.

Number two, I want to sort of remind that last year, especially in prestige, I mean, we made, some big announcements in Q3 and Q4 [indiscernible] (00:28:07) with Daisy Wild and also Kylie Cosmetics which were really – have great support really to launch great initiatives not that holiday season but during second half. So, we have [indiscernible] (00:28:21) of prestige, but now differently when we are updating all the elements and you're right that – and so, overall adding easier comps in H2. I mean, this is given you've really full confidence definitely need a H2 growth algorithm, and we made it really realistic, that also I would say a prudent manner because at the same time, this is the – we have a new initiatives which are going to come in H2. So, we have a strong pipeline on innovation, I can share, for example, I referred to mass fragrance, definitely we have a strong pipeline on innovation and is going to accelerate big time in the H2. And second, I say, [indiscernible] (00:29:06) reserve indeed, we are seeing indeed H1, these normalization or retailer inventory adjustment. And definitely we are considering that the H2 is going to be, more stable from those single. So, again we really believe the H2 taking all the assumptions, but we are very confident on this algorithm.

Operator: We'll go next to Olivia Tong with Raymond James. Please go ahead.

Olivia Tong
Analyst, Raymond James Financial, Inc.

Q

Great. Thank you. Just two questions around your sales growth outlook, both medium and long term. For the long term, maybe a bit of clarification on Robert's question earlier, but your target for mid-single digit growth for fiscal 2026 will be beyond that adjusted yesterday. Can you talk about what's driving that deceleration versus 6% to 8% long-term target you provided in the past? And then, more closely, if you could provide some detail around the gap between sell-in and sell through, and what's reflected in your expectation for the Q2 slowdown. And then the acceleration into the second half, basically, why do you expect such a substantial second half snapback for this year? Thank you.

Laurent Mercier
Chief Financial Officer, Coty, Inc.

A

So, maybe I can start with the second half which is we – and I can say it again, is definitely that in between the Q1 and Q2, there is an impact that – there is anticipation of [indiscernible] (00:30:42) an d this was a real request from the retailers and they anticipated dispatch orders end of Q1. So, this definitely what's driving mostly the sell-in between Q1 and Q2. So, this is [indiscernible] (00:30:59) order elements, I would say, stay more or less the same either on retailers' behaviors either in the US but also in China to have a retail agent, Travel Retail. And also, what we shared about Australia where we have really one retailer, [indiscernible] (00:31:18) which is also adjusting its inventories. Now, about H2, definitely as I just explained, we are now on easier comps adding new initiative. Let's be clear. Again, I mean, this is what's really giving full confidence on the H2 plan.

Sue Y. Nabi
Chief Executive Officer & Director, Coty, Inc.

A

[indiscernible] (00:31:41). And on the second part of the question regarding what's driving as you – or you see has an implied deceleration in the growth of mid-single-digit to high single-digit versus the 6% to 8% [indiscernible] (00:31:56), I think the answer is quite simple. This depends on where in the 3% to 5% range the beauty market will land and this is something that we don't know. And of course, any further channel disruption like we see this year, specifically in the Asian region where for the moment the visibility is quite low. So, that's the way I would answer it very, very simply.

Operator: We'll go next to Charles Scotti with Kepler.

Charles-Louis Scotti
Analyst, Kepler Cheuvreux SA

Q

Yes. Good afternoon. Good morning. Thank you for taking my questions. I have three. The first one, could you give us some details about your market shares online versus offline and whether this channel shift [indiscernible] (00:33:02) impact on your overall growth market share?

Secondly, can you please give us more color on your growth in China and the Travel Retail Asia? In Q1, as you're aware, fairly underindexed and quite immune to the turmoil so far, but it seems to be no longer the case.

And finally, third question. What do you think will be the impact of the potential 10% to 20% custom tax on imported product to the US? And I guess most of the prestige product are made in Europe. And is there any plan to move production to US or Brazilian facilities? Thank you.

Laurent Mercier
Chief Financial Officer, Coty, Inc.

A

Yeah. Thank you. Thank you, Charles. So, on online/offline, I mean, we started indeed the – explained that's something definitely we are accelerating big time with online. So, we are gaining market share. It's now about 20% of our business. Recently, with above 20% in prestige, low double-digit in Consumer Beauty, but basically strong acceleration. We are definitely a very strong team with really a full playbook and working hand in hand with the commercial teams, so now we have really definitely, I'm mean, this is a omnichannel approach, which is really at full speed.

And e-comm is accelerating. We are seeing with e-retailers, we are definitely – this is where the omnichannel [ph] royalty is (00:34:40) really at full speed. But also with top players, we are definitely we have very strong partnership. I mean, we refer to Amazon. Definitely, Amazon beauty is accelerating. And as you know, we were really pioneering these partnerships. We have very strong position and it is the case in prestige, but also in Consumer Beauty. So, definitely this is – I mean, there is very strong potential for Coty and we work on this always in the omnichannel approach, okay? So, making sure that online and offline, I mean, really speak together and are basically complementary. So, indeed, very good dynamic that we are going to continue.

On your second question, Travel Retail Asia, we shared during the quarter that indeed this is declining in the Q1 while Travel Retail Europe and America are really [indiscernible] (00:35:41). Travel Retail Asia is really part of this whole China ecosystem, which is indeed currently under tension, but – and China is indeed slightly negative given the source of current tension. As you know, and I need to insist again, China is only 3% of our net revenue. So, I would say despite, I mean, this current turmoil, I mean, we have limited exposure in this current context. And this is also the same for Travel Retail Asia, but we are working also on initiative.

As you know, what's accelerating in China is really high-end fragrance where we have very strong position and we have also great initiative [indiscernible] (00:36:24). So, I keep repeating, currently there is this tension, but [indiscernible] (00:36:30), okay? There is an impact but it's limited and definitely we'll keep seeing some strong potential.

So, the third – your third question on tariff, so this is absolutely something that we have anticipated and that we have been working for a while. What's very important, number one, in terms of components, we source very early limited components from China. [indiscernible] (00:37:02). It's very, very limited exposure.

Now, but Europe and US, the strength of Coty, and we keep repeating, is really this global footprint.

So, we have factories in Europe but we have also factories in the US on Consumer Beauty and also on fragrance. So, these are exactly the kind of hedging that we can create in terms of localizing some production, either in terms of finished good, but also in terms of complements where we have this dual sourcing.

So, definitely, I mean, our footprint is helping. At the same time, indeed, is this [indiscernible] (00:37:42) our peers may be more exposed. I mean, it may imply some small price increase. We need to mitigate and we need to keep [indiscernible] (00:37:55) impact.

Sue Y. Nabi A

Chief Executive Officer & Director, Coty, Inc.

And to complement like Laurent said, it's very important to say it again and again. We are the least exposed company to China and to Travel Retail Asia. That's very important among the [indiscernible] (00:38:07).

Operator: We'll go next to Filippo Falroni (sic) [Filippo Falorni] (00:38:17) with Citi. Please go ahead.

Filippo Falorni Q

Analyst, Citigroup Global Markets, Inc.

Hi. Hi, everyone. On margins, you guys have delivered very strong performance both on gross and EBITDA margins and you raised the target on cost saving to $120 million – to over $120 million. Can you talk a bit about like what are the incremental cost-saving initiatives that you're finding in the P&L? And you talked about having momentum into fiscal 2026. So, maybe you can also give some color on what is going to continue and what's the pipeline on cost savings going forward. Thank you.

Laurent Mercier
Chief Financial Officer, Coty, Inc.

A

Yeah. Thank you, Filippo, absolutely. So, margin is really a key focus for the company. So, I mean, we are delivering, I mean, about 200 basis point gross margin [ph] expansion (00:39:08) in Q1. So, I really want to highlight this because it shows definitely that all the actions that we are putting in place strongly deliver. So, it's really combination. As I indicated, the pricing where there is really strong carryover on pricing, there is more moderate inflation. Indeed, we are improving significantly the level of excess and obsolescence. I was referring to it before with the [indiscernible] (00:39:38) implementation. And procurement and supply chain, keep working on very strong productivity initiative.

We shared many times and we continue all the work we are doing on platforming. We are reviewing all the products, all the formula, and indeed creating some formula synergies, which is helping and also is helping our suppliers. So, definitely strong partnership with our suppliers with very strong initiatives and this is going to continue.

So, gross margin indeed is basically the driver. We are now above 55% and this is what we had indicated three years ago where at that time, we were below 60%. So, definitely we continue. Now, looking ahead in the current volatile environment, we had a long list of initiatives in our pipeline. So, some are already in motion, and we are accelerating. This is exactly what I explained about the planning hub implementation and how we are going to significantly improve our planning and our forecast model, which will bring savings but also really improve our top line and relation with the retailers, which is absolutely, absolutely key.

The second element I can bring to you and we referred to it when there was a question about e-commerce, online and offline channel. Definitely, we are seeing that now the landscape is really moving to this omnichannel world and definitely – and we are seeing also some retailers [indiscernible] (00:41:17) so which is blurring also and this is offline/online. So, we are assessing also the changes from structure really how to adapt to this, and we need to create some synergies and we need to gain some efficiency. Also, in the second time, our new model of speed to market, the Agile Beauty is also here to bring some savings and also acceleration. And last, the amount which I want to insist on is technology.

I explained in July that we are successful in S4HANA implementation. Now, we are leveraging this technology, definitely where we can find a very, very strong savings and improving also on the support function, how we can work on this. So, you see that there are all these initiatives that are in the pipe that we are accelerating. They are all connected and is definitely key part of [indiscernible] (00:42:17) to all improving programs that we initiated. So, that's indeed what's giving us confidence to continue to improve our EBITDA margin.

So, your second point, which is now looking ahead for fiscal 2026. Indeed, we have also strong pipeline of growth initiatives. So, we have fragrance launches across price points. As we explained on those – we spent several time is, of course, strong innovations in the fragrance of prestige, but we have also now stronger initiatives in the mass fragrance. So, we are covering the full price spectrum, and this is definitely a great opportunity for us. So, skincare, we are accelerating geographic expansion definitely with the growth engines which are really accelerating and this was the number, I mean, they grow double digits where they grow faster than the mature market. And last but not least, the Agile Beauty initiatives in cosmetic will really bring some additional initiatives. So, again, in a growing market dynamic, we have again, a lot of initiatives in the pipeline to grow faster.

Operator: We'll go next to Chris Carey with Wells Fargo Securities. Please go ahead.

Chris Carey
Analyst, Wells Fargo Securities LLC

Q

Hi, everyone. So, there's been a few questions on the algorithm. So, I won't go there on the top line per se. But I think what I'm hearing is basically that previously it was 6% to 8%. But now we have to be mindful that the category growth is a key foundation to be able to deliver that outcome. And if that category growth is lower than – that outcome could be lower which, by the way, I think makes sense. But correct me if you heard anything there, which doesn't make sense to you said in another way, the category will do what it does, and you'll gain share on top of category. But then, connected to that is the 9% to 11% EBITDA growth. Obviously, this year, you have a pretty substantial step-up in back-half EBITDA to kind of stay in that range. But over time, how should we be thinking about how sturdy 9% to 11% is? I mean, should that EBITDA growth range also fluctuate somewhat depending on category? Or do you view that as really firm because perhaps it's more connected to your leverage target. So, thank you for entertaining any of that and responding how you see fit. Thanks.

Sue Y. Nabi
Chief Executive Officer & Director, Coty, Inc.

A

Maybe I start with the first part around the growth of the company. I think you understood that indeed we are playing in markets and the level of growth at the beauty markets will be a part of how we are going to build our growth ourselves. But we are also a business, and beauty is one of the most resilient, if not the most resilient businesses. And Coty has been outperforming these markets since now four years almost. So, it's really a combination of both, how the markets will be. And indeed, our medium-term outlook is to see the market between 3% and 5%. But it's also going to be a question of how fast we are going to accelerate with our new growth engines [indiscernible] (00:45:54) regions, categories. Don't forget the new licenses, Etro, Marni, Marc Jacobs Beauty, a new license to be announced soon. And we are continuing to work on this topic.

So, all these elements together are going to give us the right number when it comes to the ability to be exactly in the algorithm that we laid three years ago or close to this algorithm, depending on all these elements together. On the second part, maybe Laurent, you can complement on the EBITDA part.

Laurent Mercier
Chief Financial Officer, Coty, Inc.

A

Yeah, absolutely, Chris. I mean, so, first of all, I want to remind that over the last three years, I mean, we have constantly overdelivered this 9% to 11% EBITDA growth, okay? So, that's really – today, we are even ahead of our initial plan. Indeed, as I indicated leverage ratio, I mean, we will get where definitely we explained a few years ago.

Now, definitely looking ahead, it's a number one focus that EBITDA will continue to deliver significantly, I mean, the top line growth. So, this is a no-brainer and all the savings initiatives that I just explained, in fact, they are going even accelerate in fiscal 2026. So, it will give us definitely the ammunition to fuel all the great initiatives that we have, but also, of course, to keep growing our EBITDA much faster than the net revenue and continue to expand our EBITDA margin.

This year, in fact, our EBITDA margin is going to grow close to 100 basis points, so we will be close to 19% EBITDA margin, and then starting from this base, yes, we will continue to expand significantly our EBITDA margin. So, I want to make it very clear that, I mean, even if we are reaching our 2 times leverage ratio, we are going to continue all this work to significantly expand our EBITDA margin.

Operator: This does conclude today's question-and-answer period. I will now turn the call back over to our presenters for any additional or closing remark.

Sue Y. Nabi

Chief Executive Officer & Director, Coty, Inc.

No, no closing remark. Thank you very much for your questions again and see you next quarter.

Operator: This does conclude Coty's first quarter fiscal 2025 question-and-answer conference call. Thank you for your participation. You may disconnect at any time.