

Coty Inc.

# COTY F2Q24 beats on top-line and adj. EBITDA; F24 guidance reiterated

Maintain Rating: BUY | PO: 15.00 USD | Price: 12.18 USD

## Top-line sales outperform, prestige momentum continues

COTY F2Q24 net revenues increased +13% y/y, driven by +DD organic sales growth in Prestige and +MSD growth in Consumer Beauty, outperforming guidance of +11-13% for the first half of F24. Prestige revenues grew +17% as reported and +15% organic, with the prestige fragrance category growing approximately +10% and Coty's sell-out in FQ1 and FQ2 +12-13%, supported by innovation in Burberry and Gucci. On the skincare side, Coty continues to expand with Lancaster seeing +DD revenue growth in Q2. In Consumer Beauty, sales increased +5% organic in FQ2, bringing first half organic growth to +7%, generally in-line with the mass beauty market which grew +MSD%. Coty's Consumer Beauty segment continues to diversify with strength across color cosmetics, fragrances, and skin/body care. By geography, all regions contributed to strong revenue growth, which was led by Asia Pacific, with organic revenues +16% in FQ2 with growth in many markets. China is a smaller market for Coty but represents a significant opportunity, with Prestige growth of +27% in FQ2 vs. category growth of -3% in the region. Overall, we remain encouraged by Coty's outperformance and steady execution of its strategic pillars on various initiatives.

## Adj. EBITDA of \$366m ahead of BofAe and Consensus

The stronger sales results and operating leverage contributed to the adj. EBITDA beat of \$366mm vs. our \$349mm estimate. FQ2 gross margin declined as expected due to inflation and normalization of gift sets in mix following the prior year's constraints, coming in -40bps below our expectations, at 65.1%. We look for additional color on the quarter and Coty's outlook on the 2/8 earnings call at 8:15am ET.

## F24 guidance reiterated; 2H growth normalizes

COTY reiterated its F24 guidance, following two raises earlier this fiscal year. Overall, Coty sees strong category trends continuing across Prestige and Consumer Beauty. Coty continues to expect F24 organic revenue growth of +9-11%, with F2H organic revenue growth of +6-8%. F2H organic sales guidance is consistent with the company's medium-term growth algorithm despite a -LSD to -MSD headwind in Prestige from inventory restocking in the year ago period with the recovery of fragrance service levels. Coty anticipates adj. EBITDA of \$1080-\$1090m, with steady improvement in gross margin expansion, and modest gross margin expansion for the full year. Coty exited CY23 with leverage of ~3x, in-line with its expectations, and continues to work toward its goal of ~2.5x by the end of CY24, and ~2x by the end of CY25.

## Maintain Buy and \$15 PO

We maintain our Buy rating and our PO at \$15, reflecting an unchanged SOTP valuation. We value the Prestige segment at 15x our CY25e EBITDA and Consumer Beauty at 9x our CY25e EBITDA, given the superior growth profile and margins for Prestige, compared to more limited expansion for Consumer Beauty. Overall, this implies a blended 13x multiple on our CY25e EBITDA, a premium to its current forward multiple of 12x, given continued execution on strategic pillars in multiple growing categories.

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**Refer to important disclosures on page 4 to 6. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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Timestamp: 07 February 2024 10:33PM EST

07 February 2024

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### Stock Data

Price	12.18 USD
Price Objective	15.00 USD
Date Established	15-Dec-2023
Investment Opinion	C-1-9
52-Week Range	9.02 USD - 13.46 USD
Mrkt Val (mn) / Shares Out (mn)	10,405 USD / 854.3
Free Float	43.6%
Average Daily Value (mn)	40.75 USD
BofA Ticker / Exchange	COTY / NYS
Bloomberg / Reuters	COTY US / COTY.N
ROE (2024E)	8.5%
Net Dbt to Eqty (Jun-2023A)	93.4%
ESGMeter™	High

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**Exhibit 1: COTY Earnings Variance**

Adj. EBITDA of \$366m beat our estimate of \$349m and consensus of \$358m

**Adjusted (Non-GAAP) Earnings Summary**

	2Q24	BofAe	% Diff.	\$ Diff	2Q23	% Diff.	\$ Diff	Street	% Diff. vs Act.	\$ Diff vs Act.	Est %Chg YoY
Net Sales	\$1,727.6	\$1,635.2	5.7%	92.4	\$1,523.6	13.4%	\$204.0	\$1,682.2	2.7%	\$45.4	10.4%
COGS	603.5	564.5	0.1	39.0	526.0	14.7%	77.5	583.7	3.4%	19.8	11.0%
Gross Profit	1,124.1	1,070.7	0.0	53.4	997.6	12.7%	126.5	1,098.5	2.3%	25.6	10.1%
SG&A- ex-charges	814.8	786.8	0.0	28.0	736.2	10.7%	78.6	800.9			
Operating Income	309.3	283.8	0.1	25.5	261.4	18.3%	47.9	297.6	3.9%	11.7	13.8%
EBITDA adjusted	366.4	349.2	0.0		317.6	15.4%	48.8	358.2	2.3%	8.2	12.8%
Interest Expense	60.1	67.6	(0.1)	(7.5)	61.0	-1.5%	(0.9)	65.2		(5.1)	6.9%
Other exp (inc) ex-charges	(68.0)	0.0	N/A	(68.0)	(62.1)	-9.5%	(5.9)				
Pre-tax Income	317.2	216.2	0.5	101.0	262.5	20.8%	54.7	247.1	28.4%	70.1	-5.9%
Income taxes ex-charges	78.0	51.9	0.5	26.1	67.5	15.6%	10.5	64.6		13.4	-4.3%
Adjusted minority interest	6.8	1.1	5.2	5.7	3.1	119.4%	3.7			6.8	-100.0%
Preferred dividend	3.3	3.3			3.3	0.0%	0.0	5.5		(2.2)	66.7%
Net Income	229.1	159.9	0.4	69.2	191.9	19.4%	37.2	167.8	36.5%	61.3	-12.6%
EPS	\$0.25	\$0.19	32.9%	0.1	\$0.22	14.7%	\$0.03	\$0.19	31.9%	\$0.06	-13.0%
Diluted shares	922.8	891.0	3.6%		886.8	4.1%		891.8			
	21.2%	22.0%									

**Income Statement Ratios**

	2Q24	BofAe	Pts. Diff.	2Q23	Pts. Diff.	Street	Pts. Diff. vs Act	Est. Pts. Chg. YoY
Gross Margin	65.1%	65.5%	-0.41 pts.	65.5%	-0.4 pts.	65.3%	-0.2 pts.	0.2 pts.
SG&A- ex-charges Ratio	47.2%	48.1%	-0.96 pts.	48.3%	-1.2 pts.	47.6%	-0.4 pts.	0.7 pts.
Operating Margin	17.9%	17.4%	0.55 pts.	17.2%	0.7 pts.	17.7%	0.2 pts.	-0.5 pts.
Tax Rate	24.6%	24.0%	0.59 pts.	25.7%	-1.1 pts.	26.1%	-1.6 pts.	-0.4 pts.
Net Margin	13.3%	9.8%	3.48 pts.	12.6%	0.7 pts.	10.0%	3.3 pts.	2.6 pts.

Source: Company reports, Bloomberg, BofA Global Research estimates.

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**Exhibit 2: COTY Updated F24 Guidance**

COTY reiterated F24 guidance

COTY Outlook	F24 Outlook (reiterated)
Organic sales	2H24 organic sales growth of +6-8%, and FY24 annual growth of 9-11% y/y
FX and other	+0-2% benefit from FX primarily in 1H24 and 1-2% headwind from divestiture of Lacoste license primarily in 2H24
Gross margin	Flattish gross margin in FQ2; Modest gross margin expansion in F24 due to continued inflationary pressure
Adjusted Depreciation	\$230-\$240m
Adjusted EBITDA	\$1080-1090m based on current FX rates, above medium term growth target of 9-11%
Interest expense	Mid \$200m range
Adj. EPS	\$0.44-\$0.47
Leverage	~2.5x exiting CY24; ~2x exiting CY25

Source: Company reports

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## Price objective basis & risk

### Coty Inc. (COTY)

Our PO of \$15 is based on a SOTP valuation for the Prestige and Consumer Beauty segments. We value the Prestige segment at 15x our CY25e EBITDA (down from 17x prior) and Consumer Beauty at 9x our CY25e EBITDA down from 10x prior), given the superior growth profile and margins for Prestige, compared to more limited expansion for Consumer Beauty. Overall, this implies a blended 13x multiple on our CY25e EBITDA, given expected outperformance in multiple growing categories.

Downside risks to our price objective are: 1) Coty relies on exclusive license agreements to provide the majority of revenues, 2) the beauty industry is highly competitive, with significant brand and reputational risk, 3) leverage remains high and limits strategic M&A, 4) COTY is a "controlled" company, with JAB Cosmetics owning more than 50% of total voting power.

## Analyst Certification

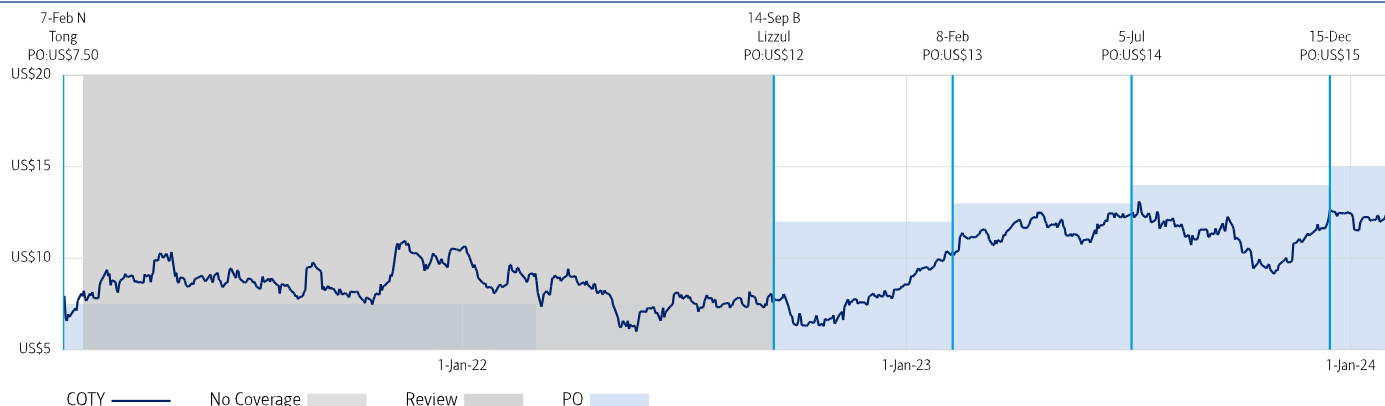
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### Coty Inc. (COTY) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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