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e.l.f. Beauty, Inc. (ELF)

Q1 2027 Earnings Call

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MANAGEMENT DISCUSSION SECTION

KC Katten

Vice President-Corporate Development & Investor Relations, e.l.f. Beauty, Inc.

Thank you for joining us today to discuss e.l.f. Beauty's First Quarter Fiscal 2027 Results. I'm KC Katten, Vice President of Corporate Development and Investor Relations. With me today are Tarang Amin, Chairman and Chief Executive Officer, and Mandy Fields, Senior Vice President and Chief Financial Officer. We encourage you to tune in to our webcast presentation for the best viewing experience, which you can access on our website at investor.elfbeauty.com.

Since many of our remarks today contain forward-looking statements, please refer to our earnings release and reports filed with the SEC, where you'll find factors that could cause actual results to differ materially from these forward-looking statements.

In addition, the company's presentation today includes information presented on a non-GAAP basis. Our earnings release contains reconciliations of the differences between the non-GAAP presentation and the most directly comparable GAAP measure.

With that, let me turn the webcast over to Tarang.

Tarang P. Amin

Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.

Thank you, KC, and good afternoon, everyone. I'm proud of the e.l.f. Beauty team for achieving another quarter of industry-leading results. In Q1, we grew net sales 36% and delivered our 30th consecutive quarter of net sales growth. That's over seven continuous years of net sales growth. We're one of only 6 public consumer companies out of 516 that has grown for 30 straight quarters and averaged at least 20% net sales growth per quarter. This consistent, category-leading growth is a testament to the strength of our team, strategy and portfolio of brands. With the momentum we're seeing, we're raising our fiscal 2027 outlook to 18% to 20% net sales growth as compared to 12% to 14% previously. We have strength across our diversified portfolio of brands.

For context, out of approximately 1,800 cosmetics and skincare brands tracked by Nielsen, only 14 have surpassed $200 million in retail sales. We have four brands to surpass this threshold, each built on the same winning combination: value proposition, powerhouse innovation and disruptive marketing engine. e.l.f. Cosmetics holds the number one rank in unit share and number two in dollar share. e.l.f. SKIN has risen from the number 25 mass skincare brand a few years ago to the number 11 brand.

Naturium is the fastest-growing skincare brand among the top 50. And rhode, the breakthrough beauty brand founded by Hailey Bieber, continues its outstanding growth. We believe rhode could be the fastest beauty brand to achieve $1 billion in net sales. As e.l.f. Beauty scales towards $2 billion in net sales, we believe the continued diversification of our business across brands, categories, channels and supply chain positions us well for the next chapter of growth.

Over the past three years, we've grown non-e.l.f. sales from less than 1% to over 30%, skincare from 10% to nearly 25%, and digital penetration from 18% to 30%. I'm also proud of the incredible work the team has done to further diversify our supply chain. Just a few years ago, only 1% of our production came from outside of China. By the end of this fiscal year, we expect to be around 60%. We now have a more robust supply chain to meet the global demand that we see for our brands while maintaining our unique combination of quality, cost and speed.

Looking at our most recent results, let me provide an update on each of our brands. Starting with e.l.f., as we talked last quarter, we're taking a series of actions to strengthen the e.l.f. brand across five key areas: value proposition, powerhouse innovation, disruptive marketing, international expansion and category adjacencies.

First, value proposition. For 22 years, we've democratized access to the best of beauty. The average price point for e.l.f. Cosmetics is about $7 as compared to over $10 for legacy mass brands and over $30 for prestige brands. At a time when consumers remain concerned about the economy, our value proposition has never been more important.

To that end, last quarter, we spoke about the pricing actions we're taking to drive unit momentum. We began a price discovery test in May, expanding what initially was a temporary price reduction on a single product to the majority of e.l.f. brand SKUs. We learned through this testing the vast majority of our SKUs are priced appropriately, reinforcing our value proposition. We did identify about 10% of our SKUs where we believe we can drive units by maintaining lower prices. The remaining SKUs will return to their pre-test prices over the next couple weeks. These pricing actions strengthen our confidence in delivering a superior value proposition.

Second, powerhouse innovation. Our community-led innovation model is one of our most durable competitive advantages. We listen closely to our community and quickly translate their requests into premium quality products at extraordinary prices. Our fall 2026 innovation hit shelves in July, and we're pleased to be delivering ahead of our expectations. Across the mass cosmetics category so far this season, e.l.f. holds 4 of the top 10 new launches in dollars and 5 of the top 10 in units. Our Main Stain Lip Marker, Power Grip Rosé Setting Spray, Cream Blush & Bronzer Duo Brush, Sheer For It Blush Tint, and Thirst Burst Lip Treatment all are resonating with consumers.

[Video Presentation] (00:06:42-00:08:00)

In parallel, as we spoke about last quarter, we have fast-tracked additional innovation our community's been asking for. We aim to have these products in market before the holidays.

Third, disruptive marketing. We're leaning into our disruptive marketing engine to fuel e.l.f.'s brand awareness and deepen the connection we have with our community. We have a track record of delivering marketing ROIs multiples above industry benchmarks, growing e.l.f.'s unaided awareness from 13% to 45% in just a few years, and becoming the most purchased brand among Gen Z, Gen Alpha and millennials. Today, e.l.f. Cosmetics is purchased by approximately one in three women in the US, which means two-thirds of the market is still ours to reach.

In Q1, we received approximately $50 million of IEEPA tariff refunds. We plan to fully reinvest these funds in our business this year, largely through a combination of the pricing actions I spoke about, and increased marketing investment to support key innovation and delight our community. We believe this reinvestment approach is the right one. It supports our brands, strengthens our competitive positioning, and sets us up for long-term growth.

Fourth, international expansion. Over the last five years, we've doubled our international penetration to 21% of our net sales. With legacy beauty peers having over 70% of their sales outside the US, we see a clear runway for growth. In fiscal 2027, we're focusing on growing share for the e.l.f. brand in our largest markets, the UK, Canada and Germany, by activating our marketing engine and extending our brand reach. To that end, we're excited to announce that we'll be expanding our presence in Boots, the UK's leading destination for beauty, in the fall of this year.

We also plan to selectively seed the e.l.f. brand in new markets and capitalize on the growing global demand we see from our community. This fall, we're excited to launch e.l.f. with Sephora in Brazil, the world's third largest cosmetics market. With this launch, we're furthering our presence in Latin America and building upon the number one cosmetics brand ranking we've achieved with Sephora in Mexico.

Fifth, category adjacencies. e.l.f. is a highly elastic brand, as demonstrated by our success in cosmetics and skincare. With e.l.f. SKIN, we've applied the same innovation playbook that fueled e.l.f. Cosmetics, taking inspiration from our community and the best products in prestige, then bringing those innovations to market at extraordinary value with our signature e.l.f. twist.

It's working. In just a few years, e.l.f. SKIN has risen to the number 11 mass skincare brand in the US, yet we hold only a 2% share of the mass skincare category compared to the number one brand at 13%, illustrating the significant runway ahead of us. This fall, we're excited to launch e.l.f. SKIN at Dollar General, meaningfully expanding our reach and building on the success we've achieved in cosmetics.

Looking beyond cosmetics and skincare, our community continues to request e.l.f. enter other categories, with over 75% purchase intent for haircare. We answered the call in June with the launch of e.l.f. Hair, a curated six-product assortment, all priced at $10 or less. Entering haircare represents a strategically important expansion into a large, growing and highly complementary beauty category. Haircare is an approximately $17 billion category in the US, growing faster than both cosmetics and skincare. e.l.f. Hair debuted on TikTok Shop, fueling discovery and excitement, followed by an exclusive nationwide launch with Target.

We supported the launch with our buzzy What the h.e.l.f.? campaign.

[Video Presentation] (00:12:24-00:13:29)

We're excited by the early results, with nearly half of e.l.f. Hair purchasers new to the e.l.f. brand. We plan to nurture e.l.f. Hair with Target, as we see it having similar potential to e.l.f. SKIN over time.

Turning to Naturium. Naturium's remarkable growth is fueled by its clinically effective biocompatible skincare products. In Q1, Naturium unveiled Glow Better Together, a new brand campaign celebrating the people, relationships, and rituals behind its best-selling Glow Getter collection.

[Video Presentation] (00:14:07-00:14:38)

We're excited about the Naturium's runway for growth, both in the US and internationally.

Since launching with Sephora in Australia and New Zealand last October, Naturium has already achieved the number one ranking in body, a testament to the brand's global appeal and the power of our go-to-market approach. Building on that momentum, we're thrilled to announce that Naturium will be launching with Sephora in Canada and Mexico this fall.

Finally, rhode. rhode's growth continues to be exceptional. The combination of rhode's curated product assortment and powerful consumer engagement model has translated into record-setting consumer demand. In the last year alone, we executed record-breaking launches with Sephora in North America and the UK, and with Mecca in Australia and New Zealand, achieving the number one beauty brand ranking in both retailers.

As great as these results are, rhode is in less than 20% of Sephora stores globally. That's why we're excited to launch rhode this September with Sephora in Europe across 19 countries.

What gives us further confidence in the durability of rhode's growth is that each new class of innovation continues to build, underscoring the power of the brand and the strength of repeat purchases.

rhode's latest summer product launch drove $27 million of DTC sales in a single day, yes, $27 million of sales on rhodeskin.com in a single day. We acquired 90,000 new consumers that day while also seeing strong repeat purchases, with over 70% of sales coming from existing consumers.

rhode Summer Station tour further amplified the launch with a series of high-impact experiential pop-ups, reinforcing its cultural relevance and nurturing its growing community of fans.

In summary, I feel great about our strong start to fiscal 2027 and I'm excited about where we're headed. I'm so proud of our passionate team of owners who have delivered consistent, industry-leading results.

As we look ahead, I believe we're well-positioned for continued growth across our portfolio of disruptive brands that are winning with the next generation of consumers. We have a proven strategy, a track record to be proud of, and major white space ahead of us, and we're just getting started.

I'll now turn the call over to Mandy to discuss our first quarter results and raised outlook for fiscal 2027.

Mandy Fields

Chief Financial Officer & Senior Vice President, e.l.f. Beauty, Inc.

Thank you, Tarang. Q1 net sales grew 36% year-over-year. Organic net sales, excluding rhode, were largely in line with the high single-digit decline we outlooked as we lapped a busy shipping period last year as we prepared for our ERP cutover in Q2 and as we cycled the launch of e.l.f.'s Glow Reviver Melting Lip Balms.

rhode outperformed our expectations in the quarter, contributing approximately $160 million in net sales, driven by strong retail demand and a record-breaking summer innovation launch on rhodeskin.com.

US net sales grew 29% in Q1, while international net sales grew 61%. Pricing and product mix added approximately 39 percentage points to net sales growth in Q1, while unit volumes were down approximately 3 percentage points.

Q1 gross margin of 83% increased approximately 1,400 basis points compared to prior year. Approximately 1,050 basis points of that increase was driven by $50 million of IEEPA tariff refunds received in the quarter and flowing into COGS.

Excluding this benefit, gross margin was still meaningfully higher year-over-year, up about 350 basis points, reflecting benefits from pricing and lower year-over-year tariff rates.

On an adjusted basis, SG&A as a percentage of sales was 54% in Q1 as compared to 50% in Q1 last year. The primary driver was continued investments in team and infrastructure, along with investments in merchandising and distribution.

Marketing and digital investment for the quarter was 22% of net sales, below our expectations due to timing of spend and flat to last year.

Q1 adjusted EBITDA was $168 million, up 93% as compared to $87 million in Q1 last year. Excluding the impact of tariff refunds, our adjusted EBITDA was up 36% year-over-year.

Adjusted net income in Q1 was $105 million, or $1.75 per diluted share, compared to $51 million, or $0.89 per diluted share a year ago. The impact of tariff refunds was an approximately $40 million benefit to adjusted net income, or approximately $0.68 per diluted share.

Moving to the balance sheet, we believe the strength of our balance sheet continues to position us well to execute our long-term strategic plans and invest in the growth of our business. We ended Q1 with $344 million in cash on hand, compared to a cash balance of $170 million a year ago.

Note, our June ending cash balance included $53 million in tariff refunds, inclusive of interest we received in the quarter. In Q1, we repurchased approximately $50 million of our outstanding common stock, given the disconnect between e.l.f. Beauty's market valuation and the strength of our business fundamentals.

We expect our cash priorities to remain focused on investing in our business to support the runway for growth we see ahead. In fiscal 2027, as Tarang spoke about, we plan to reinvest the $50 million of tariff refunds we received, largely through a combination of lowered prices on a subset of our portfolio and increased marketing investment across our brands. We also plan to invest behind technology, including AI capabilities and phase 2 of our SAP integration, and working capital to support our brand expansions globally, particularly with rhode's launch into Europe.

Additionally, we expect to use a portion of our cash to satisfy the first payment of the rhode earn-out later this year, given the brand's outperformance.

Our liquidity position remained strong, with less than 1.5 times net debt-to-adjusted EBITDA.

Now, let's turn to our updated outlook for fiscal 2027. We are raising our outlook on both the top and bottom line. For the full year, we now expect net sales growth of approximately 18% to 20%, up from 12% to 14% previously; adjusted EBITDA between $401 million to $407 million, up from $379 million to $385 million previously; adjusted net income between $212 million to $215 million, up from $198 million to $201 million previously; and adjusted EPS of $3.50 to $3.55 per diluted share, up from $3.27 to $3.32 previously.

We continue to expect our fiscal 2027 adjusted tax rate to be approximately 25% to 26%, and a fully diluted average share count of approximately 60.5 million shares.

Let me provide you with additional color on our planning assumptions for fiscal 2027. Starting with the top line, for the full year, we expect net sales growth of approximately 18% to 20% year-over-year, up from 12% to 14% previously. We expect rhode to contribute approximately 13 percentage points to net sales growth in fiscal 2027, up from 9 percentage points previously, for the four-month period until we annualize the acquisition in August.

On an organic basis, we expect to deliver 6% to 7% net sales growth in fiscal 2027, up from 4% to 5% previously.

Our outlook implies 10% to 12% organic net sales growth for the balance of the year, up from 7% to 9% previously. This improved outlook reflects our expectation that all brands in our portfolio grow for the balance of the year.

Looking to Q2, we expect to deliver total net sales growth in the mid-30s. This is better than our prior outlook on both a total and organic basis, supported by improving trends on e.l.f., cycling a period where we stopped e.l.f. brand shipments on orders that did not reflect last year's price increase and pipeline shipments for rhode's launch with Sephora in Europe.

From a profitability perspective, we now expect adjusted EBITDA of $401 million to $407 million in fiscal 2027, growing 20% to 21% year-over-year, up from the $379 million to $385 million, or 13% to 15%, growth previously.

As I discussed earlier, our outlook assumes that we will fully reinvest the $50 million of tariff refunds we received this quarter, largely through a combination of lowered prices on a subset of our portfolio and increased marketing investment across our brands.

We expect gross margin in fiscal 2027 to be up approximately 200 basis points year-over-year as compared to our outlook for about flat previously, largely driven by the upside we saw in Q1.

Excluding tariff refunds, our fiscal 2027 outlook remains unchanged at approximately flat gross margin year-over-year. As a reminder, we expect gross margin benefits from lower year-over-year tariff rates and price increases, particularly in the first half of our fiscal year, to be offset by mix as rhode continues to transition further into retail.

We expect marketing and digital spend as a percent of net sales for the full year to be at the high end of our previous 23% to 25% range.

As we look to the balance of the year, marketing and digital is planned to track ahead of that range given the underspend in Q1.

Our outlook implies mid-teens adjusted EBITDA margins for the balance of the year, given the timing of our reinvestment spending. The tariff refund benefit was captured in Q1 and we'll be reinvesting that over the balance of the year to an expected net zero adjusted EBITDA impact on the full year. For the full year, we continue to expect adjusted EBITDA margins of approximately 21%, up 20 basis points year-over-year.

In summary, Q1 marked our 30th consecutive quarter of net sales growth, a testament to the durability of our model and the power of our brand portfolio. We are taking targeted actions to strengthen the e.l.f. brand while continuing to invest behind all of our brands. We remain confident in the strength of our fundamentals and excited about the opportunity ahead.

With that, operator, you may open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. And ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] And our first question today will come from Olivia Tong with Raymond James. Please go ahead.

Olivia Tong
Analyst, Raymond James Financial, Inc.

Q

Great. Thanks and good afternoon. With the price adjustments that you've now implemented, can you talk about what you've seen over the last few weeks, generating more trial, is it bringing certain consumers back, and what you're assuming with the guide in terms of new shelf space, and then also how you think about the offsets to minimize the margin impact of the change on the products where the price reductions will be permanent?

And then secondly, on rhode, fantastic performance. It's now been about a year since it was acquired. So, perhaps can you talk about some of the key capabilities that rhode has brought to e.l.f., the company, and what else the company has brought to rhode? What do you think are the biggest unlocks and what do you think is the right pace for further geographic expansion? Thank you.

Tarang P. Amin
Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.

A

Hi, Olivia, this is Tarang. So, first on the pricing adjustments. I feel great about the work the team has done on our price discovery. As you recall, last August, we took our prices up $1 in response to tariffs and inflationary pressures. Overall, pricing action was successful. We grew dollars in the process, but we did see a degradation in units. So, the objective of our price discovery test was to see how could we further drive unit momentum. What started with a single item, we expanded to the majority of SKUs.

And what we found through the price discovery test was two things. First, 90% of our SKUs were priced appropriately. e.l.f has pricing power and continues to deliver an extraordinary value every day. Second, we did identify about 10% of our SKUs that, by maintaining the lower price, we could drive significant unit momentum. And so, we're going to keep that 10% at the lower pricing while the other items go back to the original pre-price levels.

And what we found, obviously, you've seen in some of the scanner data an improvement in overall trends, both in dollars as well as units. So, I feel really good about the pricing action. And then in terms of the long-term offsets on that pricing action, the good news is the 10% of SKUs that we did see higher unit momentum, we actually believe we can grow gross profit dollars over time through that pricing action. That's how strong the unit movements were on that 10% of items.

So, we invest to both places, both reinforcing our value proposition, offering a superior value every day, and identifying things that we can do to further drive unit momentum.

And then on your second question on rhode, rhode is just a phenomenal brand. I've been in the consumer space 35 years, and it's probably one of the most special brands I've ever seen. What rhode's brought to e.l.f. obviously is tremendous growth, bringing more consumers into e.l.f. Beauty. We've had just a tremendous amount of success. Our launches into Sephora in North America and the UK, Mecca in Australia and New Zealand, we saw record-breaking results in terms of the launch, but we've maintained the number one ranking in both those retailers. I'm particularly excited about the upcoming expansion that we see.

In addition, rhode very much fits the culture of e.l.f., from the team all the way to our approach in terms of how we engage consumers, including the strength of innovation. I mentioned in the prepared remarks the Summer of rhode launch that we did in terms of our innovation, anchored by our Highlighting Milk and the Pocket Bronzers. They did $27 million of sales in one day on rhodeskin.com.

And to put that in perspective, we often talk about Nielsen tracking 1,800 cosmetics and skincare brands, rhode did in one day more than what 98% of those brands do in an entire year. So, there's just been a tremendous amount of momentum on rhode.

And I'd say in terms of what e.l.f. Beauty brings to rhode in terms of our capability, certainly that expansion ability, executing with excellence our launches with Sephora and Mecca, the upcoming launch we have with Sephora all through in the 19 countries in Europe, certainly leverages our entire distribution network. I think there's a great deal of synergy when you think about our approach from a marketing standpoint, innovation standpoint, and overall team. And we've doubled the size of the rhode team in the one year that we've had that brand from about 50 people to over 100 people, really building the capabilities that we're known to be able to do.

And the last thing I would say is we continue to build the awareness on the rhode brand. We're investing more in marketing, we're investing, taking the tariff refunds and really investing across the entire portfolio of brands. As successful as rhode has been, unaided awareness on rhode is still in the high single-digits. So, we have a major opportunity to bring more consumers in. So, it's just been the perfect acquisition on every front. And what makes me most proud is just the One Team, One Dream philosophy that that team and the entire e.l.f. team buys into.

Mandy Fields
Chief Financial Officer & Senior Vice President, e.l.f. Beauty, Inc.

A

And, Olivia, this is Mandy. I think you also had a question on new shelf space included in the guidance. And just to recap what we talked about on the call, on e.l.f., we're getting expanded space in Boots in the UK, Dollar General with our e.l.f. SKIN, and also going to Sephora in Brazil on e.l.f. And then on Naturium, we have Sephora Canada and Mexico, and Tarang just spoke to you about the expansion on rhode in 19 countries in Europe.

Operator: And our next question will come from Anna Lizzul with Bank of America. Please go ahead.

Anna Lizzul
Analyst, BofA Securities, Inc.

Q

Hi, good afternoon. Thank you so much for the question. Mandy, I wanted to touch on the guidance here. We certainly appreciate the big beat in fiscal Q1, as well as the guidance raise, but the raise does get eaten up a bit by the beat. So, I was wondering if you could talk about your decision to only raise by this amount, given the momentum that you're seeing across the business and in particular on rhode.

And then secondly, I was wondering if you could talk about your entry into the hair category. Where do you see this sitting on the shelf ultimately? If this is introduced initially in the cosmetics aisle like you did for e.l.f. SKIN, do you see a possibility for breakout farther along? Thank you.

Mandy Fields
Chief Financial Officer & Senior Vice President, e.l.f. Beauty, Inc.

A

Hi, Anna. I'll take that first question on the guidance. One, I just have to say, I'm just so proud of this team and what we've been able to deliver in Q1. 36% net sales growth, 93% growth in adjusted EBITDA, it's fantastic. And even with the tariff refunds, if we exclude that from our Q1 results, we still would have been up 36% on adjusted EBITDA in the quarter. So, very strong results overall.

In terms of the raise, a very strong raise as well. We're going from 12% to 14% net sales growth to 18% to 20% on our outlook. And then on the adjusted EBITDA side, going from $385 million on the top end last time around, up to $401 million to $407 million in adjusted EBITDA. That's 21% growth in adjusted EBITDA on the top line, on adjusted EBITDA overall. So, $100 million, nearly, raised on top line, $22 million on adjusted EBITDA, I think is very strong first quarter out. And so, we're feeling great about the beat and the raise that we've been able to flow through this time around.

And maybe just to touch on adjusted EBITDA a little bit more, just to double click. I just want to make sure everybody's tracking with me. So, we got the $50 million of tariff refunds in Q1, but we're not able to reinvest really any of that in Q1, just given the timing of when that came in. So, you're going to see that $50 million reinvested Q2 through Q4, okay, netting to zero on the year.

So, if you put the tariff refund aside and think about the raise on the year from an adjusted EBITDA standpoint, that's really driven by the core business, not by the tariff refund. We plan to spend all of that back. And so, again, just coming back to a 21% growth on adjusted EBITDA is our projection for the year, which we believe is quite strong.

Tarang P. Amin
Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.
A

Hi, Anna, this is Tarang. I'll take your second question on e.l.f. Hair. We're extremely excited. It's a meaningful strategic adjacency for us. Haircare in the US alone is a $17 billion category, growing faster than cosmetics and skincare. And it's a category, frankly, our community's been asking for for a long time, about 75% intention behind – purchase intention behind hair, and it's done the e.l.f. way.

So, I'll use the analogy of e.l.f. SKIN, where if we can take that same model that e.l.f. is known for, which is taking inspiration from prestige, putting our e.l.f. twist on, and introducing it in an incredible value. So, e.l.f. Hair starts with a six-product curated lineup that all have prestige equivalents, but are priced $10 or less. We've seen 99% positive consumer intention behind it. We're well ahead of our expectations. This is a launch that we are launching exclusive with Target, similar to our approach that we first started on e.l.f. SKIN to help nurture the brand. We and Target are extremely excited, and we believe this could be a really big category for us in the future, similar to what we've been able to do with e.l.f. SKIN. So, again, really off to a really strong start on hair and very bullish on its future.

Operator: And our next question will come from Susan Anderson with Canaccord Genuity. Please go ahead.

Susan Anderson
Analyst, Canaccord Genuity LLC
Q

Hi. [audio gap] (00:37:15) taking my questions. I'm curious if you could give some color just on the e.l.f. brand performance in the international markets, particularly UK and Germany. I guess, have you seen any improvement there? And then also, just back to the price investments, it sounds like the initial 10%, you really saw the biggest move. And so curious, the rest of the price investments, if you really just didn't see that much elasticity, which is why you're raising it back. Thanks.

Tarang P. Amin
Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.
A

So, hi, Susan, this is Tarang. I would say we're seeing meaningful improvement on the e.l.f. brand internationally in the UK and Germany. I'll start with Germany. As you recall, our results were weighed down by lapping the massive launch we had with ROSSMANN Germany. We've now introduced the brand with DM in Germany, and we've seen a major turn in that market to a very strong positive growth.

UK, similarly, we had some pretty negative trends. It was a very promotional environment. We weren't participating in a lot of those promotions. We've now turned on our awareness-building and marketing activities in that market and have also seen a major improvement in that market. In addition, to show the confidence our retailers have in us, we have a pretty big expansion coming with Boots this fall.

So, I feel really good about kind of the progress in both of those markets, as well as continuing to seed the brand in new markets. Very excited about the launch we have coming up with Sephora in Brazil. It's the third-largest cosmetics market in the world, and we've had long-pent-up demand for e.l.f. in that market. So, really pleased to bring it there. So, making good progress on international, not just only on e.l.f., but really across the portfolio of Naturium and rhode as well.

Operator: And our next...

Mandy Fields
Chief Financial Officer & Senior Vice President, e.l.f. Beauty, Inc.
A

And on the price investments – oh, sorry. Just to answer Susan's question on the price investments. Look, we saw, as Tarang talked about, 90% of our portfolio on e.l.f. we feel is appropriately priced. While we saw unit improvement on some of those items, it just was not enough to justify the investment that was being made there. The team was very thoughtful about what we wanted to do as we move forward, and that 10% was really identified can move units, we expect, sales, and gross profit. And so, really, we think that those – that subset of SKUs is the right set to remain at the lower price point.

Operator: And our next question will come from Cristian Rios with Bernstein. Please go ahead.

Cristian Rios
Analyst, Bernstein Institutional Services LLC
Q

Hi. Thanks for taking the question. One, wanted to understand a little more what's your channel strategy for haircare, where exactly it's being sold now, and do you have a roadmap with milestones for expansion across your [ph] executional (00:40:04) channels? How are you going to be thinking about expanding to new doors over the next couple of years?

And then two, on just a modelling question. Like, understand that the tariffs were reinvested. Wanted to understand if we should think about those reinvestments as onetime, too, or will they become a headwind next year when you don't have the refunds on the margin? Thank you so much.

Tarang P. Amin
Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.
A

Hi, Cris, this is Tarang. I'll take the first question on haircare. I would say, and I didn't answer the first question that was given in terms of where it's shelved, haircare is going to be shelved in the haircare aisle. We have great placement in the haircare aisle with Target. In addition, we have incremental merchandising space as well to really bring haircare to life. And that would be our strategy going forward is haircare will be in the haircare aisle. And if you go into a Target, you can see the presentation there.

From a channel standpoint, as I mentioned, we are exclusive with Target through this fiscal year. That's part of us nurturing. Obviously, Target's our longest-standing national retail customer. Very similar approach to what we took with e.l.f. SKIN. We started exclusively with Target and then expanded from there. And we would expect to do same thing with e.l.f. Hair over time. But for this fiscal year, it will be a Target exclusive and we'll continue to nurture the brand with them.

Mandy Fields
Chief Financial Officer & Senior Vice President, e.l.f. Beauty, Inc.
A

Yeah. And then on your question on the reinvestments, we're going to – Q2 through Q4, we're going to be investing that primarily behind marketing, also with the pricing that we've been discussing today. And that is a onetime investment versus the $50 million is also a onetime inflow.

And so, as we get into fiscal 2028, we'll work through that. But I would tell you we have a great track record of EBITDA growth over time. And so, just really wanted to put this money to work in this year, as we are seeking to kind of drive unit volumes and use that as a way to better connect with our community. And so, more to come as we get into fiscal 2028.

Tarang P. Amin
Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.
A

And the only other thing I would add is we feel great about the investment in marketing. Our marketing is working. We've long had ROIs multiples above the industry benchmarks. You saw the level of awareness we've built with e.l.f. over time from 13% to 45%. Every single brand metric is extremely strong, and we're the number one brand amongst Gen Z, Gen Alpha, millennials. So, we feel great about that marketing investment, continue to double down on that, as well as put more marketing dollars against the growth we're seeing in Naturium and rhode.

We have major opportunities, even with the strong growth of both those brands, to continue to bring more consumers into those franchises. So, we feel these are the right investments, not only for right now, but to really set up our brands for the right trajectory long term.

Operator: And our next question will come from Sydney Wagner with Jefferies. Please go ahead.

Sydney Wagner
Analyst, Jefferies LLC
Q

Hi. Thanks for taking our question. Just one more on pricing. So, of the 10% of SKUs where maintaining the lower prices was justified with the additional unit growth, what characteristics did those products have in common, and what were the learnings from kind of the commonalities there? And then just curious how those translate into your thinking for the ex-US business.

And then just maybe more broadly on the international strategy, it sounds like the core e.l.f. brand performance has stabilized in some of the key markets. How are you thinking about the cadence of new geographies and launches there for the core e.l.f. brand? Thank you.

Tarang P. Amin
Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.

A

Okay, so Sydney, one of the reasons why we did a very broad test is our hypothesis was we have a great value proposition, but let's really isolate the SKUs where you could see disproportionate unit movement. We talked last quarter about our skin tints, taking those from $18 to $14. Initially, we saw 40% lift in units. More recently, it's been between 60% to 80%. So, it's really going after a targeted approach of finding those items, where taking – keeping the pricing lower would result in a disproportionate amount of unit movement, and that really is what we saw. And it was across the line. There wasn't any particular segment. It wasn't just on our lowest priced items. It really depended on the particular item and its competitive set. And so that's why we went so broad to really discover what those specific items were and, again, reinforce that 90% of our items were priced appropriately and we continue to deliver a great value. And this overall action will strengthen our overall value proposition in the marketplace, which is what we're most known for. So, we feel really great about that.

And then in terms of how it translates internationally, we're using a similar approach internationally in terms of looking. Each market is different. We don't – we're not doing the same level of broad price discovery but we have identified certain items that we believe would drive higher unit movement through some pricing actions there, but that's more limited in nature.

And then from an international cadence standpoint, what I feel best about our international business is the strength of our portfolio internationally. If you take a look at rhode getting into 19 countries with Sephora in Europe, if I look at Naturium in Canada and Mexico with Sephora continued expansion of the markets, and then e.l.f. We talked about Sephora. We talked about doubling down in terms of our presence in the UK with Boots as well as other markets. So, you're going to see a better balance from us going forward.

I feel like we – I think one of our learnings was we were opening up new markets pretty much every quarter. I think you're going to continue to see us open up new markets. But it came at the expense of the focus on our core markets. And I think we have a much better approach now of really making sure we're putting the full e.l.f. marketing model in those countries we have very strong ACV coverage. So both in the UK and Germany, we have over 75% ACV of the mass category. It justifies ongoing marketing support in those markets to continue to build up business year in, year out the way we have in the US while continue to seed new markets. I like the balance that we have in our plan that you'll continue to see not only on e.l.f. but across our portfolio.

Operator: And our next question will come from Andrea Teixeira with JPMorgan. Please go ahead.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thanks, operator, and good afternoon, everybody. I wanted to just go back to, I remember Tarang and Mandy used to give us an idea how you're going against a category, especially in this – in the e.l.f. Beauty, obviously, heritage brand and against also SKIN, e.l.f. SKIN. Just to kind of gauge what is your growth has been. I remember coming from 8% to about 6% then to about 3% globally. Just curious how that we accelerated.

And then as we think about, I totally understand the $50 million was not there to begin with, you're reinvesting 100% of it, but just curious to see how the percentage of sales. You've been – I understand the pricing component, but on the percentage of sales of marketing, you're already at around 24%. So, that will take you, I mean, by my math, probably to $25 million. I was just curious to see how – and Mandy, you discussed saying this is going to be a one-time effect and then you can pull back and will average again and have the operating leverage, because I think part of your success over the years has been not only, of course, the top line is the paramount is the driving force, but you also had some operating leverage as we go. Just curious to see how the balance is. And again, by my math, you probably need only about $25 million even without to invest back about $1 that you added for this 10%, so coming back to the same price level that you were before the price increase. And then the balance would be about half of it would be invested in marketing. So, just like double click on that if you can. I know it's a three-part question, but if you can also confirm that it's about half of the $50 million would be reinvested in marketing. Thank you.

Tarang P. Amin

Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.

A

Yeah. So Andrea, I'll start with the first question. We're feeling really great about the targeted actions we have against the e.l.f. brand, as I talked at length here on the pricing actions to reinforce our value proposition. Our fall innovation is off to a strong start. It's ahead of our expectations and offer a terrific value. If I look at our Main Stain Lip Marker at $5 versus prestige at $25, our Sheer For It Blush Tint at $5 versus a prestige item at $28, these are items that have a clear point of reference with prestige and offer a terrific value. We're seeing momentum there. As we talked in terms of marketing and the incremental marketing dollars we have, we feel good about investing those across our portfolio of brands. I already talked about haircare and the bullishness we have on haircare, not only for this year but long term, and then international, as we continue to see the brand.

And you've certainly seen it in improved trends. If you look at the scanner data, both in terms of units as well as dollars, we continue to expect that to improve as we have these focused actions in market. And so overall, I feel great about the brand. And even with the slowdown that we had over the last number of months in the last year, we picked up 60 basis points of market share. It's the most market – most basis points of market share gain out of the top 10 brands. So, I would say I feel great about the brand and particularly over a longer arc but even more recently and with the actions that we're taking.

Mandy Fields

Chief Financial Officer & Senior Vice President, e.l.f. Beauty, Inc.

A

Yeah. And then on the reinvestment question, Andrea, so from a marketing as a percent of net sales, we still anticipate that 23%% to 25% range. We're going to be towards the higher end of that range. And as I said on the call, Q2 through Q4 may even be beyond that range as we seek to kind of hit that 25%, given that we underspent in Q1. And so that's, from a percent of net sales, how we're managing marketing, very consistent with where we've been these last seven years in terms of managing it as a percentage of sales.

And then on the reinvestment split between kind of pricing and marketing, I would say a portion goes towards the pricing piece, but majority is going to go across marketing, across our brand portfolio, is the way we're thinking about that.

Operator: And our next question will come from Steve Powers with Deutsche Bank. Please go ahead.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you very much. Mandy, I don't – it doesn't sound like it, but do you have any kind of prescribed notion as to the timing of that incremental spending over the next three quarters? That'd be question number one.

Question number two is, what portion of the incremental spending do you expect will yield a return in the current fiscal year versus being more longer-term brand equity building in nature? And it is supposed to yield a return in this year, I would say, in the pricing, for example, would. Is that now contemplated in your guide? Because I think it wasn't when we started the fiscal year.

And then question number three on a different tact, if I could, is that I didn't hear anything, maybe I missed it, but I didn't hear anything on an updated cost inflation outlook whether regard to freight or packaging or the like. Just any thoughts on that and whether that now is included in your guide or if it's still outstanding. Thank you.

Mandy Fields
Chief Financial Officer & Senior Vice President, e.l.f. Beauty, Inc.
A

All right, Steve. So, I'll take that first question. On the timing over the next three quarters, we really haven't broken that down by a quarter, other than to say, like I just mentioned to Andrea, that as we look at Q2 through Q4, you could see that marketing range outside of that 23% to 25% given the underspend that we had in Q1. And so, that's how I would think about that.

I'm going to let Tarang answer the second question on the yield, but on the cost inflation outlook, from an input cost standpoint, we really haven't seen anything come our way from our suppliers. And one thing that we have seen are higher freight costs. So, that's already baked in to our outlook. And so from that perspective, I think we've got it pretty well managed in our current fiscal outlook.

Tarang P. Amin
Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.
A

Yeah. And Steve, in your question in terms of where we see the benefit of the marketing, I would say we see in both. We see both the short-term impact, as well as the longer-term impact. I talked about the longer-term impact in terms of building awareness and bringing more consumers into the franchise. Given the strong rise we have on our marketing, we would also expect an impact this year.

If there's one thing you take away from this call today, I want you to take away the confidence we have in our business, the confidence as expressed by a very strong raise in terms of our fiscal year outlook, the confidence we have in the focus actions on e.l.f., as well as the momentum we continue to see on Naturium and rhode. And so, this investment is really behind that confidence in terms of what we know we can get out of marketing, not only this year but for the years to come, in terms of the long-term build of these brands where we see tremendous white space.

Operator: And our next question will come from Peter Grom with UBS. Please go ahead.

Peter Grom
Analyst, UBS Securities LLC
Q

Great. Thank you. So maybe just starting on the stronger organic sales outlook, and I know you mentioned that you expect all brands to grow through the balance of the year, but I was kind of curious what drove the confidence to increase the outlook for organic sales at this point in the year? And maybe specifically, is it a function of more optimism around rhode as it goes into organic in the back half of the year or is it across the base business? And I guess related to that, is there any way to quantify or put guardrails around what you were expecting from the haircare launch in this organic sales outlook?

Mandy Fields
Chief Financial Officer & Senior Vice President, e.l.f. Beauty, Inc.
A

Yes. So thanks for the question, Peter. The stronger organic outlook is, as we talked on the call, really driven by the improved trends that we're seeing on e.l.f. and the confidence that we have and the momentum we're seeing behind rhode and Naturium. It's really across our portfolio [indiscernible] (00:55:01) organic sales growth balance of the year. The outlook is 10% to 12% growth, which is very strong. And we feel great about where our brands are trending. Tarang just hit on a couple of things with the fall innovation being better than our expectations and things like that. We still have the EU launch with rhode coming up next month that we're excited about. So, a lot of things ahead for e.l.f. Beauty. And look, we're taking it a quarter at a time. I agree with you. It's a strong race first quarter out but we got a couple more quarters ahead of us and we're feeling great about where we are.

Operator: And our next question will come from Filippo Falorni with Citi. Please go ahead.

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good afternoon, everyone. I wanted to ask on rhode and the expansion into Sephora Europe. which is upcoming. Can you give us a sense of how much of the pipeline you're expecting in fiscal Q2, and then just any expectation on how the brand can do in Europe relative to the US when you look on a per door basis. Like any rough order of idea how you're thinking about that expansion?

And then, Tarang, like a follow-up on just the pricing. You mentioned in a couple of weeks, we are going to see some of the SKUs that are going to go back to the prior pricing. Any expectation or elasticity is there as you kind of bring back prices back to the prior level? What are you guys thinking about that? Thank you.

Tarang P. Amin
Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.

A

Thanks, Filippo. So first of all, on rhode, I think you've probably gotten our bullishness on rhode through this call. We're extremely excited about the launch coming up in Sephora Europe across 19 countries. We haven't quantified the pipeline, but most of that pipeline, all that pipeline is going to go out in Q2. So, it's one of the reasons why we said Q2 is going to be another particularly strong quarter given the pipeline that we have for rhode going out, and we're learning from each of our experiences. I mean, the rhode still massively outperformed everyone's expectations on our launches with Sephora in the US, Canada, UK, as well as with MECCA in Australia and New Zealand, that we're taking that into our planning considerations in terms of making sure we're taking even a stronger stance on the pipeline that we have. And a lot of that's based on many of Sephora's best stores are actually outside the US. Many of them are in Europe. If we take a look, I think, out of their top 10 doors, top 10, a number of them are in Europe. So, we feel really good about the doors that we're going into as we go through.

The other thing that gives us confidence is if you take a look at Hailey's followers or rhode's followers, I think over 70% of them are outside the US. So, we've been hearing plenty of signals of pent-up demand from a consumer standpoint and particular excitement from Sephora in terms of Sephora would love to have this brand in every one of their doors globally, but we're going to sequence it one step at a time.

And then in terms of price elasticity, we feel good once the other items go back to the original pricing. As Mandy said, we did see some unit improvement of those items but it didn't justify relative to the level of price reduction. So, we believe this plan of the 10% that will drive strong unit momentum will be in the best of both worlds, where we can have both dollar as well as unit growth post this pricing action, both the things that are coming back up, as well as the things that we're going to permanently keep down, again, reinforcing our overall value proposition but also doing so in a way that drives stronger gross profit over time.

Operator: And this will conclude our question-and-answer session. I'd like to turn the conference back over to Tarang Amin for any closing remarks.

Tarang P. Amin

Chairman & Chief Executive Officer, e.l.f. Beauty, Inc.

Well, thanks for joining us today. I'm so proud of our passionate team of owners operating in a high-performance team culture. So, we're showing what it means to be a different kind of beauty company by building brands that disrupt norms, shape culture and connect communities through positivity, inclusivity and accessibility. The consistency of our industry-leading results gives me great confidence that for us, anything's e.l.f.ing possible.

We look forward to seeing some of you at our upcoming investor conferences and events over the next few weeks, and is speaking with you again when we discuss our second quarter fiscal 2027 results in November. Thank you and be well.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.