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

Q2 2027 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Ashley Helgans

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

Thank you for joining us today to discuss e.l.f Beauty's Second Quarter Fiscal 2027 Results. I'm Ashley Helgans, newly appointed Vice President of Investor Relations, and I look forward to working with many of you on this call.

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 into 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 that factors 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 these differences between the non-GAAP presentation and the most directly comparable GAAP measures.

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

Tarang P. Amin

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

Welcome, Ashley, and good afternoon, everyone. I'm proud of the e.l.f. Beauty team for achieving another quarter of industry-leading results. In Q2, we grew net sales 51% and adjusted EBITDA 86%. This marks our 31st consecutive quarter of net sales growth. That's almost eight continuous years of growth. We're one of only six public consumer companies out of 516 that has grown for 31 straight quarters and averaged at least 20% net sales growth per quarter. With the momentum we're seeing, we're raising our fiscal 2027 outlook to 22% to 24% net sales growth as compared to 18% to 20% previously.

Our consistent category-leading growth is a testament to the strength of our team, strategy and portfolio of brands. e.l.f. Cosmetics reignited unit momentum this quarter and gained 30 basis points of market share. rhode continues to break records with every launch, including most recently in Sephora Europe, marking the biggest launch in Sephora's history. And Naturium remains one of the fastest growing skin care brands, more than doubling since our acquisition just three years ago.

The strength of our portfolio is powered by leading engagement with our community, especially the next generation of consumers. In Piper Sandler's annual Taking Stock with Teens survey, we made history with two unprecedented achievements. e.l.f. Cosmetics was named the number one favorite teen cosmetics brand for a record ninth consecutive survey, with mindshare nearly five times the next closest brand. And rhode and e.l.f. were the only two brands in the top 10 for both skin care and cosmetics. No other portfolio in beauty can claim this level of strength amongst teens. Our mission is to make the best of beauty accessible to every eye, lip, and face.

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We recently refreshed our business strategy to unlock the full potential of our portfolio of brands. This new strategy is powered by five integrated pillars: cultivate a passionate team of owners, co-create with our community, win with winners, expand our portfolio, and accelerate global expansion. Together, we believe these strengthen our competitive moat and give us confidence addressing the tremendous white space we see ahead.

Let me walk through how each pillar powered our results in Q2. First, cultivating a passionate team of owners and a high-performance culture. I believe that our people are our greatest competitive advantage, and our results are a direct reflection of their tremendous talent and teamwork. We're the only public beauty company that grants equity annually to every employee, strongly aligning our interests with the long-term interests of our shareholders.

We nurture a high-performance team culture that delivers exceptional employee engagement. In our latest engagement survey, 93% of our employees stated they are proud to work at e.l.f. Beauty. This engagement helps fuel our productivity. On a sales and profit per employee basis, we outperform the average of 516 public consumer companies by three and eight times, respectively.

Second, co-creating with our community through value, innovation, and marketing. We listen closely to our community and quickly translate their requests into premium quality products at extraordinary prices. In Q2, we had an incredible fall innovation class across e.l.f. Beauty, exceeding our expectations. With e.l.f. Cosmetics, our continuous stream of innovation has led us to holding the number one or two position in 22 segments, up from 11 five years ago.

This fall was no exception. e.l.f. Cosmetics holds the number one position in mass for fall innovation launches with five of the top 10 products in both dollars and units. We're building on this strength by fast-tracking additional innovation our community has been asking for ahead of the holidays.

With rhode, each launch continues to exceed our expectations. Our recent limited edition collection with influencer Alexandra Leclerc had over a 200,000-person waitlist, sold out of most items within the first hour, and marked our largest limited edition launch to date. And it's not just launch success. rhode has amongst the highest repeat rates in beauty, a testament to the quality and durability of our products.

Our third strategic pillar is to win with the winners across channels and platforms. We've a long track record of winning with the retailers that prioritize beauty. This quarter, we strengthened our position in connected commerce and elevated our partnership with Sephora. As a digitally native company, we continue to lean into connected commerce to launch newness, fuel discovery and scale across geographies.

In Q2, connected commerce drove 31% of our consumption. We're seeing particular strength on Amazon and TikTok Shop. In the US, e.l.f. was both the number one cosmetics brand on Amazon and the most searched cosmetics brand on the platform. On TikTok Shop, the momentum is equally strong. In Q2, e.l.f. Cosmetics climbed to the number two rank in cosmetics.

Consumers continue to choose e.l.f. wherever they shop for beauty. We're seeing this same momentum with our physical retail partners. This quarter, we strengthened our relationship with Sephora, the leading global specialty beauty retailer with our launch of rhode in Europe, e.l.f. in Brazil and Naturium in Canada and Mexico.

Starting with rhode. In the last year, we executed record-breaking launches with Sephora in North America and the UK, achieving the number one beauty ranking in both geographies. Building on that success, this quarter, we broke our own records with the expansion into Europe across 19 countries, exceeding what we achieved in North America and marking Sephora's largest launch ever.

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But it's not just excitement from our launches that's unprecedented. rhode ranks number one or two in 12 of the 13 segments we compete in, with exceptionally high repeat rates. This speaks to both the momentum and durability of this exceptional brand.

With e.l.f. Cosmetics, our number one ranking in Sephora Mexico built the foundation for us to launch in Sephora Brazil this September. Brazil is our most requested country and the third largest beauty market in the world. To amplify the launch, we leveraged our disruptive marketing engine with our e.l.f.ofoca campaign, inspired by the Portuguese word fofoca, the art of sharing news and spilling the tea.

[Video Presentation] (00:08:57-00:09:27)

In the first few weeks of launch, we achieved the number one rank in both dollars and units.

Naturium is also expanding our footprint with Sephora. Adding to the success we've seen from our expansion into Sephora Australia and New Zealand last year, we launched in Sephora Mexico and Canada in September, where we quickly broke into the top 10 brands in body.

Turning to our fourth strategic pillar, expanding our portfolio of discipline across complementary yet distinct brands and categories. The e.l.f. brand is incredibly elastic, and our consumers continue to ask for us in multiple categories. We listen, we learn, and we lean in. We took this approach with e.l.f. SKIN expanding from a test in Target back in 2019 to a business that's now over $200 million in retail sales.

We're taking the same thoughtful approach with hair care, bringing prestige-inspired products to our consumers at an extraordinary value. Our community wants e.l.f. in hair care. We launched e.l.f. Hair in July with a curated six-product assortment, each with a clear prestige frame of reference, all priced at $10 or less. Within the first three months of our exclusive launch with Target, e.l.f. has already broken into their top 20 hair care brands and top seven in styling.

We're taking this test and learn approach to fragrance. Fragrance is an $11 billion category in the US and the fastest growing in beauty. In October, we launched e.l.f. POP exclusively on Amazon and TikTok Shop. e.l.f. POP is a new fragrance and body collection that transports our community to sensorial destinations around the world. The full POP lineup featuring additional scents will be released later this fiscal year.

Finally, our fifth strategic pillar of accelerating global expansion by activating our full in-market growth engine. We're still in the early days of international expansion. On a trailing 12-month basis, international accounted for approximately 25% of our net sales, compared to approximately 70% for our legacy peers. We believe this gap represents one of our biggest opportunities. And the demand is already there. About 65% of e.l.f. Cosmetics and 75% of rhode's social following is outside the US. Even after rhode's launch in Europe, the brand is still only in 40% of Sephora's global doors.

Our five integrated strategic pillars drive competitive advantage and industry-leading growth. I'm also proud of the work the team has done to further diversify our business. What started as a single brand in a single category in a single country is now a house of brands, each growing across categories and geographies. Over the past three years, non-e.l.f. brand sales have grown from a few million dollars to 30% of our net sales, skin care has increased from 9% to 23%, and manufacturing outside of China has grown from 1% to nearly 70%.

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In summary, I'm proud of our results and excited by the momentum across our portfolio. We continue to demonstrate exceptional, consistent, category-leading growth, driven by a passionate team of owners in a high-performance culture. Every one of our brands is growing. We're co-creating with the most desirable consumers in beauty. We're winning with the winners to expand our brands globally, and we're just getting started.

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

Mandy Fields

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

Thank you, Tarang. I'll now cover the highlights of our second quarter results and our raised outlook for fiscal 2027. Q2 net sales grew 51% year-over-year. rhode contributed approximately 16 percentage points to net sales growth in the one-month period prior to analyzing the acquisition on August 5.

Organic net sales grew approximately 35% year-over-year. This better-than-expected performance was supported by growth across all of our brands, along with pipeline shipments for rhode's launch in Sephora Europe. US net sales grew 25% in Q2, while international net sales grew 165%.

In addition to rhode's record-breaking launch in Europe, we saw a meaningful improvement in trends for e.l.f. in our largest international markets, Canada, the UK and Germany. Pricing and product mix added approximately 20 percentage points to net sales in Q2, while unit volumes added 31 percentage points.

Q2 gross margin of 71% increased approximately 160 basis points compared to the prior year. 30 basis points were driven by incremental tariff refunds flowing through COGS in the quarter. The remaining increase was driven by lower year-over-year tariffs and a more favorable than planned mix benefit, partially offset by price investments.

On an adjusted basis, SG&A as a percentage of sales was 53% in Q2, as compared to 56% in Q2 last year. Marketing and digital investment for the quarter was 21% of net sales, below our expectations due to timing shifts in spending and compared to 23% last year. Q2 adjusted EBITDA was $123 million, up 86% as compared to $66 million in Q2 last year. Q2 adjusted net income was $73 million or $1.21 per diluted share, compared to $41 million or $0.68 per diluted share a year ago.

Moving to the balance sheet, we believe our balance sheet continues to position us well to execute our long-term strategic plans and invest in the growth of our business. Our liquidity position remains strong with net leverage at approximately 1 times adjusted EBITDA.

We ended Q2 with $351 million in cash on hand, compared to a cash balance of $194 million a year ago. We expect our cash priorities to support the growth of all of our brands, technology investment, including AI and automation, as well as investment in infrastructure to ensure our brands show up their very best in our retailers across the globe. Following the end of the quarter, we used a portion of our cash to satisfy the first payment of the rhode earnout, given the brand's exceptional performance.

Now let's turn to our raised outlook for fiscal 2027. We are raising our outlook on both the top and bottom line. For the full year, we expect net sales growth of approximately 22% to 24%, up from 18% to 20% previously; adjusted EBITDA of $421 million to $427 million, up from $401 million to $407 million; adjusted net income of $231 million to $233 million, up from $212 million to $215 million; and adjusted EPS of $3.82 to $3.86 per diluted share, up from $3.50 to $3.55. We continue to expect an adjusted tax rate of approximately 25% to 26% and approximately 60.5 million fully diluted shares.

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Starting with the top line. For the full year, we expect to deliver 22% to 24% net sales growth, reflecting the strong results from Q2 and an improved second half outlook. Our raised outlook translates to organic net sales growth on the full year of 9% to 11%, up from 6% to 7% previously. Looking to the second half, we expect net sales growth of approximately 7% to 10%, up from the implied 6% to 9% previously, with each of our brands expected to contribute to growth for the balance of the year.

From a cadence perspective, we expect Q3 net sales growth above that range and Q4 below that range, primarily due to the timing of launch activity in the year-ago period. Recall, in Q4 of last year, e.l.f. expanded space with Ulta Beauty and launched with dm in Germany, rhode launched in MECCA in Australia and New Zealand, and Naturium expanded into Walmart for the first time.

Turning to gross margin, we now expect an increase of approximately 250 basis points year-over-year as compared to 200 basis points previously, driven by the upside we saw in Q2. Excluding tariff refunds, our fiscal 2027 outlook remains unchanged at approximately flat gross margin versus prior year. Looking to the second half, we continue to expect gross margin to be lower year-over-year as rhode expands its retail presence.

From a spend perspective, we continue to expect marketing and digital investment at the higher end of our 23% to 25% of net sales range for the full year. From a profitability perspective, our outlook implies adjusted EBITDA growth of approximately 26% to 27%, up from 20% to 21% previously, with adjusted EBITDA margin expanding approximately 50 basis points year-over-year versus 20 basis points previously.

As a reminder, our outlook assumes we fully reinvest the $52 million of tariff refunds received in the first half through lower prices on a subset of our portfolio and increased marketing investments across our brands for a neutral impact on full-year adjusted EBITDA. With marketing spend shifting from Q2 into the back half, we now expect second half adjusted EBITDA margin in the low-teens, reflecting both the reinvestments and the timing shift in spend.

In summary, Q2 marked our 31st consecutive quarter of net sales growth, a testament to the durability of our model and the power of our brand portfolio. We believe we have a winning strategy and are in the early innings of unlocking our full portfolio potential.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now begin the question-and-answer session. [Operator Instructions] And today's first question comes from Sydney Wagner at Jefferies. Please go ahead.

Sydney Wagner
Analyst, Jefferies LLC

Q

Hi. Thanks for taking our question. So as you've expanded the e.l.f. brand into hair, body and fragrance, how are you thinking about the opportunity for each adjacency to create incremental shelf space at retailers over time? And then maybe just talk through kind of the proof points that you would need to see for a broader expansion of body and fragrance?

And then just on the portfolio of brands overall, e.l.f., rhode and Naturium are all expanding across categories and geographies. So, how are you prioritizing marketing, innovation, and investments across the portfolio? And are there any constraints that could affect that pace of expansion? Thank you.

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

A

Hi. This is Tarang. I'll take your first question. On hair, we're extremely excited about the momentum we're seeing on e.l.f. Hair. This is a category consumers have been asking for us for some time. And we're using the same approach we used when we expanded from e.l.f. Cosmetics to e.l.f. SKIN, taking inspiration from the best products in prestige, putting our e.l.f. twist on it, and introducing a great value. Our e.l.f. Hair line is curated line of six products, each with a clear frame of reference to prestige, all at $10 or less.

And we have seen great success initially in the first three months. At our exclusive launch with Target, e.l.f. Hair is already in the top 20 brands in hair care and top seven in styling. And in terms of our expansion plans, we're currently in exclusivity with Target. We will eventually expand distribution of e.l.f. Hair, similar to what we've done with e.l.f. SKIN, and that will come with incremental space. Hair right now is in the hair care aisle. We'll continue to expand space with e.l.f. Hair, would be our strategy, just like we're expanding space with e.l.f. SKIN.

And then in terms of body and fragrance, the proof points are really the consumer response that we see. It's off – e.l.f. POP is off to a great start. We're starting with Amazon and TikTok Shop, for instance, transporting consumers to different sensorial destinations around the world. And we're really pleased with what we're initially seeing there. And so I would say, in summary, e.l.f. is a really elastic brand. There's a number of categories consumers want to see us in, and we have a good, disciplined approach in terms of how we expand.

And then in terms of your question on portfolio, one of the great things about e.l.f. Beauty is every single one of our brands is growing. We see strength across the portfolio. All of our brands contributed growth in Q2, and we foresee that growth continuing through the balance of the year. The way we manage our brands, though, is individually. We have a CEO of e.l.f. for rhode, president for Naturium, president for e.l.f. Brands. Each have their own P&L, each have kind of their own levels of investment relative to their ability to invest in the brands.

We use a rate-based approach in terms of our investments. And so we feel good about the focus we have against each brand, with their ability to be able to pursue the white space that they see for themselves. And then just one clarification. It's less about P&Ls by brand, it's more about focus by brand. We have overall one P&L for the overall company.

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Operator: Thank you. Our next question today comes from Andrea Teixeira with JPMorgan. Please go ahead.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Good afternoon, everyone. Thank you for taking the question. I was just like, Tarang and Mandy, to get to the fourth quarter. Of course, you have a lot of tough comps, both for the base brand, for e.l.f., and then also for rhode. Can you talk to how much you see from a sell-out perspective in terms of like the exit of the quarter for both brands and in particular as you expand? So, on a US basis, if that's possible to talk about rhode, the US has been lapping the introduction last year into retail and how we should be thinking as a run rate for both e.l.f. base business and rhode? Thank you.

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

A

Thanks for the question, Andrea. So, in terms of our back half that we talked on the call, we said that we're outlooking 7% to 10% growth. And that growth is well ahead of where the category is tracking right now. Category is kind of low-single digits. We're planning to deliver multiples above that. We have a track record of consistent category-leading growth, and I think that's what is reflected in our second half into the fourth quarter.

To your point, we do have some launches that we're cycling in the fourth quarter with Ulta Beauty expansion on e.l.f., on our dm launch on e.l.f., rhode going into MECCA, Naturium launching in Walmart. So that will have – on the call, I said Q3 a little bit higher than that 7% to 10% range, Q4 a little bit lower than that range, but still we see it as strength across the board, just given again where the category is.

And then you also asked about rhode here [audio gap] (00:26:34) in the US. Even after cycling the launch, the US launch last year, they're still delivering growth on a year-over-year basis here in the US.

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

A

And what I'd add, Andrea, on that on rhode, the strength that we continue to see on rhode and the momentum in the US alone and Canada, where we did lap the launch, rhode is by far Sephora's number one brand. And not only is it their number one brand, it has amongst the highest repeat rates they've seen. That talks about the durability. And we're doing all of that mainly in one bay. So we still have further expansion opportunity here even in North America as we continue to expand around the world.

Operator: Thank you. Our next question today comes from Olivia Tong at Raymond James. Please go ahead.

Olivia Tong
Analyst, Raymond James Financial, Inc.

Q

Great. Thank you. Good evening. On rhode, happy anniversary. Can you talk about the sell-out trends both in the US and existing markets and then the uptake in continental Europe? And then second, what's the biggest unlock you've seen since acquisition for rhode? And then third, what do you think is the right pace for further geographic expansion there, as you mentioned that the vast majority of the rhode social followership is still overseas? Thank you.

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

A

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Thanks, Olivia. So, on the sell-out trends, as I just mentioned, US continues to be strong. Europe was a record launch for rhode in the European markets. It's the largest launch Sephora has ever seen, only second best to our US launch that we had last year. And so we feel great about the trends that we're continuing to see on rhode. It's just got a ton of momentum behind it.

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

A

Yeah. And then on to your second question on the biggest unlock on rhode, the great news on rhode is we have momentum across multiple dimensions. And so we've been able to, as you've seen, a very strong innovation cadence on rhode, still sticking to the overall vision of one of everything really good. But we have real strength across the portfolio, not only in skin where we started, but in hybrid color and in lip.

In fact, in Sephora, we're number one or two in 12 of the 13 segments we compete in. So real strength across the board, really driven by innovation, our overall engagement efforts. We are investing more in the brand and still having the brand be accretive on an adjusted EBITDA margin basis. So we've got a great approach on rhode. That team's done an exceptional job. And we see continued white space ahead as we continue to expand.

I would say the distribution expansion strategy will be the same disciplined strategy we've used as we've launched now with Sephora in North America, MECCA in Australia and New Zealand, in 19 countries with Sephora in Europe. Even after all of those expansions, rhode is still in only about 40% of Sephora's doors globally. So we still have a lot further to go. And there isn't a market in the world that doesn't want rhode right now.

Operator: Thank you. Our next question today comes 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. I was wondering if you could talk about the rhode business and the Sephora Europe expansion. How do you see the split of business evolving now between retail and DTC? And should we ultimately view this split as becoming similar to retail and DTC in the e.l.f. brand?

And then as you're expanding into retail, how should we expect gross margin to evolve? Is there any opportunity to cushion this, with the retail expansion kind of pressuring gross margin a little bit, to cushion this with incremental pricing or mix benefits for rhode? Thank you.

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

A

So, hi, Anna. On rhode, we're seeing momentum across both retail and DTC. One of the things I've been really pleased with the team's been able to do is have a series of exclusive launches on DTC, which has continued to propel that business even as we've expanded our retail distribution. I already talked about the number one position we have within Sephora in every market therein, as well as with MECCA in terms of where rhode is. But DTC is also extremely strong.

We talked on our prepared remarks, our overall digital penetration for e.l.f. Beauty is 31% of our consumption. So very strong digital presence, continue to lean in on the leading digital platforms. Same is true, obviously, with our site on rhode. And so I would say you're going to continue to see emphasis on both our DTC business as well as our retail expansion.

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

A

And then on the gross margin piece, we have outlooked that as rhode goes further into retail, we will see some compression on the gross margin front. But as I mentioned earlier, from an adjusted EBITDA margin standpoint, even with that gross margin compression and the investments that we want to make from a marketing standpoint, still are seeing strong EBITDA margins on rhode.

Operator: Thank you. Our next question today comes from Susan Anderson at Canaccord Genuity. Please go ahead.

Susan Anderson
Analyst, Canaccord Genuity LLC

Q

Hi. Good evening. Thanks for taking my questions. I guess, I'm curious just on the e.l.f. Hair. It sounds like it's really off to a strong start. I'm curious if you have any information on what overlap there is with existing e.l.f. loyal customers that are now buying e.l.f. Hair? And then also I'm just curious on your thoughts on hair versus fragrance, and which one you think could be bigger longer term. Thanks.

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

A

So, e.l.f. Hair is indeed off to an extremely strong start. I talked about our rankings within Target, what we're seeing from a consumer standpoint. One of the great things about e.l.f. Hair is it's also brought significant new consumers to the franchise. I'd say about half of the consumers we have on e.l.f. Hair are new to the e.l.f. brand. So it's a combination of our current e.l.f. consumers buying into the new category, but also being able to attract new consumers. And a lot of that has to do with the overall strategy of having clear frames of reference to prestige at all, $10 or less. It's a terrific value for people who otherwise couldn't get access to those products.

And then in terms of hair and fragrance, we're bullish on both. We see both as really big categories. We mentioned the size of hair in the US alone, $17 billion; fragrances, $11 billion. As you extend globally, they're quite sizable. But we'll use the same discipline strategy we've used on e.l.f. SKIN. We will pursue that kind of one step at a time. I'd say e.l.f. Hair is the main focus right now. e.l.f. fragrance, and we're getting great signals on, we'll continue that expansion as well as we go forward. But we see big opportunity on both those categories.

Operator: Thank you. And our next question today comes from Peter Grom at UBS. Please go ahead.

Peter Grom
Analyst, UBS Securities LLC

Q

Great. Thanks. Good afternoon, everyone. I wanted to ask specifically on the top line performance in the quarter and just maybe some clarifications on the path from here. So first, just on the US, I'm curious how organic sales came in relative to your expectations. And I ask just because if I were to back out the rhode M&A benefit, and I understand we don't know the exact split of US versus international in that 16%, but it would imply high-single-digit organic sales growth despite having pretty easy shipment comparisons from a year ago. So I was just hoping to unpack that a bit more.

And then just on the second half, and I understand there was a pipeline fill benefit that helped drive the strong 2Q internationally, but the mix of international really steps up. So just curious how you would characterize growth, US versus international, as we look ahead. Thanks.

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

A

Hi, Peter. So, from an organic sales standpoint in the quarter, it's like we said, 35% growth with rhode being a part of that as a contributor, but all brands growing in that number. And so I would say that that was consistent with what we had expected, maybe even a little bit better as we saw the quarter come in. When I think about how we've raised our guidance to 22% to 24%, a portion of that is driven by the Q2 outperformance, but also being incrementally more positive on the second half as well.

So even as we look between US and international, we talked about e.l.f., our top countries, UK, Germany and Canada, all doing much better into Q2. And so we have momentum not just on rhode from an international perspective, but also on the core e.l.f. brands. And so that is encouraging.

Operator: Thank you. Our next question today comes from Mark Altschwager with Baird. Please go ahead.

Mark R. Altschwager
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thank you. Mandy, looking ahead to fiscal 2028, just with the reinvestment concentrated here in the second half, should we think about the fiscal 2027 adjusted EBITDA as the base to grow from next year? And on the second half spend, how much is permanent pricing on the 10% SKU relative to the marketing investment that could roll off next year?

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

A

Yeah. So I'm not providing insight into fiscal 2028 at this time. You have to stay tuned for our May call for that. But what I can tell you on the reinvestment, we are taking the $52 million that we've gotten from tariff refunds and we've invested a portion of that into pricing, as we talked last quarter, and the majority of that being invested across marketing and digital, with that coming in the second half. That's why you see those lower EBITDA margins in the second half. Largely those are going to be neutral in impact.

So we got the refunds in the first half of the year, reinvesting in the second half of the year. So when you think about our EBITDA margin overall, up 50 basis points on a year-over-year basis, we even raised that this time from a guidance standpoint, that's really going to be the base for us to build off of as we go into fiscal 2028.

Operator: Thank you. Our next question today comes from Jonna Kim at TD Cowen. Please go ahead. I'm sorry, Jonna Kim. I apologize.

Jonna Kim
Analyst, TD Cowen

Q

No problem. Thank you for taking my question. Just a question on Naturium. As you continue to see success, how should we just think about the retail expansion opportunity within the US as well as international? And what is the sort of the growth outlook that you have for the brand as you think about skin care? Thank you.

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

A

So we still see major white space from a retail expansion opportunity, both in the US and especially internationally. In the US, for perspective, our national share on e.l.f. to start with is about a 13% share. Target,

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which is our longest standing national retailer, has over a 20% share. And if you look at the trajectory of each of our customers, we see them tracking towards that ultimate kind of goal of being able to get to that 20% share and above. And a lot of that is going to be driven by continued expansion.

If you take a look at what we've been able to do with Walmart, with their highest vision sets, where we're anchoring their new beauty concepts, we're really pleased with the numbers and so is Walmart in terms of what we're seeing off of those sets. And so there's a major opportunity for continued expansion there. If you take a look at Ulta, there are brands that have much more space than we do there. Really across the board, no one is quite at the level that Target is at. And so it gives us a great opportunity.

And then if you look at Naturium, we have even a further opportunity on Naturium as we go. In terms of our expansion, we mentioned last year we got into Walmart. We see further opportunity to expand within Walmart with Naturium, just given the strength and the momentum we have behind that brand in addition to additional customers. We're not fully distributed yet on Naturium by a long shot. So we still have a long way to go.

Operator: Thank you. And our next question today comes from Anna Andreeva with Piper Sandler. Please go ahead.

Anna Andreeva
Analyst, Piper Sandler & Co.

Q

Great. Thank you so much. And congrats. Nice results. Just curious, did you guys quantify how much of that 51% growth you saw in the second quarter was the sell-in into Sephora Europe? Curious if you can share any learnings so far from the launch. And maybe talk about what was your approach to choosing some of the specific European countries.

And then secondly, to Mandy, with the second quarter SG&A shifting later with marketing, just any color on how we should think about the catch-up? Is it more in 3Q or equally split between the quarters? Thank you so much.

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

A

Yeah. So we haven't quantified the pipeline for – or we haven't disclosed the pipeline for Sephora Europe pipeline. But what would I tell you is there was a lot of pipeline. Sephora learned from their experience in North America and wanted to make sure they had a stronger stance. And I'm glad they did that because it was the biggest launch they've ever seen, far exceeded any of our expectations. And we had a good inventory position to be able to support that launch.

And then in terms of what we're seeing, we've been extremely pleased with the performance, by far the number one brand Sephora carries in Europe with the strongest repeat rates that they see. So we're seeing the same characteristics that we've seen in the US in terms of – and really across each of their markets in Europe as we're going through.

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

A

Yeah. And then on your question on marketing investment, we talked about sales being kind of above that 7% to 10% range in Q3, a little bit below that in Q4. I would say, from an investment standpoint, you're going to see more. Even if you went historically, probably leans a little bit more to Q4 as we go through. But again, I would

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focus you on the second half in total. And just looking at the EBITDA margin in the low-teens is reflective of the reinvestment, plus the timing shift in spend that we saw out of Q2.

Operator: Thank you. Our next question today comes from Jon Andersen at William Blair. Please go ahead.

Jon Andersen
Analyst, William Blair & Co. LLC

Q

Hi. Good afternoon and congratulations. I just had a quick question on e.l.f.'s performance outside the US. and what you're seeing as more strength in some of your key markets. Is this the categories improving? Is it the competitive situation getting better? Is it specific actions that you're taking? Can you kind of give us a little bit more color on what you're seeing in the UK, what you're seeing in Germany and how you think about the growth there going forward for the core e.l.f. brand? Thank you.

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

A

Hi, Jon. This is Tarang. I'd say we've had very strong consumption in those markets, so it's primarily based on our execution. We talked about focused plan we had against both the UK and Germany, and putting more support on from a marketing standpoint, core fundamentals from a sales standpoint. So the UK, we've seen strong consumption. And that's really even before we started our expansion further with Boots and our retail expansion there. So, feeling really good about the momentum in the UK, it continues to build.

And in Germany, we saw an immediate change as we got into dm in Germany, that expansion, and we see that continue to build as well. So, really pleased with the work the team has done there, and we've continued to see good momentum within Canada across our key retailers as well as online in each of these areas.

The last thing I'll add is, we continue to see real strength in connected commerce. We mentioned in the prepared remarks where e.l.f. is the number one brand on Amazon, most searched on their platform. We're now number two with TikTok Shop in the US. We see major international opportunities with both Amazon and TikTok Shop as we go forward. So it's not just our retail penetration in those markets. We see both retail as well as connected commerce being able to continue to drive momentum.

Operator: Thank you. Our next question today comes from Rupesh Parikh with Oppenheimer. Please go ahead.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Good afternoon. Thanks for taking my questions. Also, congrats on a nice quarter. As I look at the e.l.f. brand, nice share gains this quarter. Just curious in your confidence in sustaining the share gains as you look out the balance of your fiscal year. Thank you.

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

A

Hi, Rupesh. We're really pleased with the share gains that we've seen on the e.l.f. brand as we talked about, strong consumption. You're seeing that in the scanner data. Particularly pleased on reigniting unit momentum on the e.l.f. brand. So we feel we feel great about that.

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And then just stepping back, if you take a look at the e.l.f. brand over the last few years, I believe we've grown close to 900 basis points of market share. So we still feel we have further share to be built as I gave that comparison between Target and our national shares. And so we're feeling really good with where e.l.f. is right now and what we are seeing for the rest of the year.

Operator: Thank you. And our next question today comes from Javier Escalante with Evercore ISI. Please go ahead.

Javier Escalante
Analyst, Evercore ISI

Q

Hey. Good afternoon, and congratulations on the very strong quarter. I have two questions. One on e.l.f., one on rhode. On e.l.f., Tarang, you did a lot of changes on the cosmetic side, the pricing, innovation. If you were to kind of like at a very high level, right, what was the unlock to go from market share losses to market share gains in the quarter and on makeup specifically?

Also with e.l.f., the launches in Mexico and Brazil through Sephora, is this – can we see as a seeding to understand the market? Why not a broader distribution that is more consistent what we had seen in the US? So this is on e.l.f.

And on rhode, some companies have commented on increased acquisition costs, digital to go to making the DTC online, very onerous. So if you can comment whether you had seen increases in customer acquisition costs yourself and how does it change the DTC versus Sephora equation for rhode? Thank you.

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

A

Sure. So first of all, on e.l.f., I'm really pleased with the work the team has done. And it really goes back to the core fundamentals that have been the consistent driver of our growth. If you look at almost eight continuous years of growth, they've really been centered on three things: our value proposition, powerhouse innovation and disruptive marketing engine.

We talked last quarter about doing a broad pricing test where we took everything down $1. What we found was 90% of our items were appropriately priced, delivered a great value every day, even at $1 higher. But there were 10% of the items where we did see outsized unit growth by going down $1 lower. In fact, the unit growth was so great that we see it as building gross profit over time. So really terrific actions. But it was only 10% of our SKUs.

I'd say a bigger contributor than that is our innovation. And again, innovation is something we've had a consistent track record over the years of being able to take inspiration from prestige or our community, put the e.l.f. twist and bring at a great value. I mentioned our fall innovation is number one in mass, with five of the top 10 items from our fall innovation. A number of items have very clear references to prestige that are really resonating.

We also mentioned in the prepared remarks that we have additional innovation that we're bringing in based on what our community wants. You can see one of the items that already hit market, our Peel of Approval at $6, just a phenomenal price given the prestige quality. If you want, you can go and take a look at one of the reviews from Mikayla. She went off and bought those products on her own organically and posted a review and can't get over just how great these products are. And so we feel really good about innovation.

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And the last is we've always had a consistent track record of how we engage consumers. By far, the number one brand amongst Gen Z, Gen Alpha and Millennials. I should mention there, on the Piper Sandler survey that just came out, we had two unprecedented achievements, both – well, first, e.l.f. Cosmetics' ninth consecutive survey, we're at number one with a mindshare nearly five times the number two brand, and both e.l.f. and rhode being in the top 10 in both cosmetics as well as skin care. So real strength across all three dimensions. And like I said, that's more consistent with our history as we've gone forward.

And then from a Mexico and Brazil standpoint, I would say the lead partner that we've gone in with is Sephora, and we're extremely pleased with the execution we have in both countries. I mentioned our number one position. And then, we'll look from there in terms of what the other distribution opportunities are. In Mexico, we've already entered Ulta as they've expanded – started their expansion into Mexico. We also just launched the brand with Amazon in Mexico, which has a very strong business in Mexico. So you are seeing some expansion in terms of our distribution. We see both Mexico and Sephora as having really great potential.

And then finally, on your question on rhode, I would say we have not seen higher acquisition costs. And a lot of that has to do with the momentum we have behind the brand, the strength of the innovation as well as our limited time exclusives. We have upcoming here in November, Hailey's birthday month, which is always a very exciting time for the brand in terms of level of interest we get. So there's already such great consumer interest, and particularly given this strategy of limited time exclusives have been able to drive really strong traffic and sales on our DTC site.

Operator: Thank you. And our next question today comes from Anna Glaessgen with B. Riley Securities. Please go ahead.

Anna Glaessgen
Analyst, B. Riley Securities, Inc.

Q

Hi. Good afternoon. Thanks for taking my questions. Actually, the last answer leads into it well. I wanted to ask for some more perspective on your approach to product innovation on rhode. How do you balance keeping the assortment fresh and these limited-time collabs with maintaining customer satisfaction, considering a lot of these are selling out really quickly? And do you view these collabs as a test for launching more permanent offerings? Thanks.

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

A

Yeah. So we love the product strategy on rhode, Hailey's vision of one of everything really good. We continue to follow a well-curated line. As I mentioned earlier, we love the balanced strength we have on rhode with strength across skin, hybrid color and lip.

And then the strategy, these limited edition collaborations really have to do with continuing to broaden the aperture and appeal of rhode. The Alexandra Leclerc collaboration we did not only had a 200,000-person waitlist when we launched that, but most of those items sold out within an hour. So it continues to drive interest in the brand, which is similar to a strategy that we've used with e.l.f. in terms of the types of collaborations we do to bring even greater interest to the brand, more new users to the brand.

So we feel really great and we have a very good pipeline of innovation on rhode, but still following that curated strategy in terms of really making sure we have one of everything really great.

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Operator: Thank you. And that concludes our question-and-answer session. I'd like to turn the conference back over to Tarang Amin for closing remarks.

Tarang P. Amin

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

Well, thanks for joining us, everyone. I'm so proud of our passionate team of owners operating in a high-performance culture, who are 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.

Our refreshed strategy is powered by five integrated pillars: cultivating a passionate team of owners, co-creating with our community, winning with winners, expanding our portfolio, and accelerating global expansion. Together, they strengthen our competitive moat and gives us great confidence that anything's possible.

We look forward to seeing some of you at our upcoming investor conferences and to speaking with you again when we discuss our third quarter fiscal 2027 results in February. Thank you and be well.

Operator: Thank you. That concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.

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