

Olaplex Holdings, Inc.
Fourth Quarter and Fiscal Year 2023 Earnings Results Conference Call
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Presenters

Amanda Baldwin, Chief Executive Officer
Eric Tiziani, Chief Financial Officer
Patrick Flaherty, Vice President, Investor Relations

Q&A Participants

Sidney - Jefferies
Tom - Cowen
Lauren Lieberman - Barclays
Andrea Teixeira - JPMorgan
Susan Anderson - Canaccord Genuity
Dana Telsey - Telsey Advisory Group

Operator

Greetings and welcome to the Olaplex Holdings, Inc. Fourth Quarter and Fiscal Year 2023 Earnings Results Conference Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press “*” “0” on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Patrick Flaherty, Vice President, Investor Relations. Thank you. Please go ahead.

Patrick Flaherty

Thank you, and good morning. Joining me today are Amanda Baldwin, Chief Executive Officer, and Eric Tiziani, Chief Financial Officer. Before we start, I would like to remind you that management will make certain statements today, which are forward-looking including statements about the outlook of Olaplex's business and other matters referenced in the company's earnings release issued today.

Each forward-looking statement is subject to risks and uncertainties that could cause actual results to differ materially from those projected in or implied by such statements. Additional information regarding these factors appears under the heading cautionary note regarding forward-looking statements in the company's earnings release and in the filings the company makes with the Securities and Exchange Commission that are available at www.sec.gov and on the Investor Relations section of the company's website at ir.olaplex.com.

The forward-looking statements on this call speak only as of the original date of this call, and we undertake no obligation to update or revise any of these statements. Also during this call, management will discuss certain non-GAAP financial measures, which management believes can be useful in evaluating the company's performance. The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for results prepared in accordance with GAAP.

You will find additional information regarding these non-GAAP financial measures and a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures in the company's earnings release. A live broadcast of this call is also available on the Investor Relations section of the company's website at ir.olaplex.com.

Additionally, during this call, management will refer to certain data points, estimates and forecasts that are based on industry publications or other publicly available information as well as our internal sources. The company has not independently verified the accuracy or completeness of the data contained in these industry publications and other publicly available information. Furthermore, this information involves assumptions and limitations, and you are cautioned not to give undue weight to these estimates. With that, I will now turn the call over to Amanda.

Amanda Baldwin

Thank you, Patrick. Good morning, everyone, and thank you for joining us. It's a pleasure to speak with you today on my first earnings call as CEO of Olaplex, and I am honored to lead this extraordinary business at a pivotal point in its evolution. I firmly believe that Olaplex has a bright future, and I'm excited to develop and execute a strategy that harnesses the company's unique strengths and build upon its foundation to achieve its true potential.

While it is important to acknowledge that this journey will take some time, I'm confident that we have the brand strength, differentiated products, global relevance and the innovative mindset required to get there. I'd like to thank JP and the entire Board for their confidence and support, and I look forward to collaborating with them as we build upon the important work done to date to achieve our goal of delivering sustained long-term growth at top-tier industry EBITDA margins.

For today's call, I will provide a bit of background on myself and share some of my early observations on the business. Following this, I will discuss our priorities for the year ahead. I will then pass the call over to Eric, who will cover our fourth quarter results and financial outlook for 2024.

My personal passions are brand strategy, product innovation, and leading teams and I have had the opportunity for nearly two decades to build and lead some of the best brands in our industry at varying stages of their growth trajectory, including Super Hope, Dior Beauty, and Clinique. From my time leading emerging organizations, I experienced the advantages that come with

speed and agility, the excitement of building new categories and establishing culture and the importance of laying the groundwork for the long run from day one.

While working with established global brands, I came to appreciate what it takes to create enduring brand equity to achieve seamless execution and to develop the operational infrastructure required to support a much larger business. I also understand that creating a brand and a business is not always linear. There is a need to continuously innovate and rise above new challenges while staying true to what makes a brand unique.

Lastly, I've become a true believer in the power of an extraordinary team and culture uniquely built for the business it serves. Since joining Olaplex in mid-December, I have done a deep dive on nearly every aspect of our business. meeting with and learning from the people who are integral to the future of the company, Olaplex team members, stylists, consumers and our customers and business partners. I wanted to understand what made the brand so revolutionary from day one and then harness that to transform Olaplex for the future. I've been incredibly energized by these conversations at the potential that lies within.

At the core of the Olaplex brand is an extraordinary technical foundation with truly differentiated science that delivers superior product performance and a company with the ability to deliver impactful innovation. Since the beginning, Olaplex has attracted and cultivated a passionate community of stylists and consumers will form deep connections with the product they love.

The result is that this company is a category leader. Olaplex had five of the top six best-selling prestige hair products in 2023 per Sircana's retail tracking data of the U.S. hair market, consistently ranked as a top brand in key accounts across our three distribution channels, and in 2023, brought in the most new households to premium hair care of any premium hair brand according to numerator projections.

The unique global footprint and reach of this business is an advantage that can be capitalized on. a's Olaplex proven performance across geographies and channels of distribution and our strategies can be deployed internationally and have impact at scale. Importantly, we have a talented and dedicated team who are ready to take this brand to the next level.

Taken together, the brand has a strong foundation, and we believe we are positioned to benefit from the attractive high-growth prestige hair care category and the long-term industry trends of scientifically driven innovation and premiumization of hair care. I'm incredibly excited about where we can take the business.

Although Olaplex experienced remarkable growth over many years, the past 18 months have been challenging. I believe the headwinds were the result of the business growing too quickly, suffering from execution errors, and not appropriately investing in the resources needed to best support the professional stylist community, develop the right capabilities in brand marketing, and prepare for the reality that often happens to a category creator increasing competition. In

the year ahead, we plan to develop and implement a strategy to build this brand and business for the long run and get back to positive sustainable sales and profit growth with an advantaged business model that harnesses our top-tier profitability.

To accomplish this, we will do the following: First, we turn to our roots in the stylist community as the inspiration for and connectivity to everything that we do. We will focus on bringing Olaplex back to the forefront of product innovation and earn true brand love by elevating our product development and marketing capabilities across all markets.

Lastly, we will seek to improve our execution to better ensure our strategy drives intended results for enhanced processes and data-driven insights. At the same time, we'll be focused on operational agility and nurturing the entrepreneurial mindset that puts us in the leadership position we are in today.

As you saw from our earnings release, we reported fourth quarter and fiscal 2023 results in line with guidance. Eric will share the details on our performance momentarily. Ahead of this, I would like to provide insight into our priorities and plan for 2024. Overall, 2024 will continue the transformational journey that began last year. We're taking a long-term view and are prioritizing the strategies and actions that will build a healthier business that is better positioned for long-term success.

This year, our initiatives are focused on three key priorities, which include: first, maximizing the impact of our sales, marketing and education investments to generate demand; second, strengthening our capabilities and culture to support the future; and third, developing the long-term road map and future vision for Olaplex. Now let me walk you through these three priorities.

First, with regard to maximizing the impact of sales, marketing, and education investments to generate demand, we'll focus on elevating our capabilities as brand builders and innovators dedicated to excellence and execution of those activities that drive brand desire, conversion, and sell-through. A critical pillar within this priority is recreating meaningful connections with the Pro community, ensuring they see Olaplex as a preferred brand that supports them and can help them succeed.

I've had a wonderful time spending many hours with the stylist community since I joined two months ago, I'm encouraged by their enthusiasm and now have a better sense of what they need to be successful. To that end, we intend to deliver new educational tools increase our participation at in-person trade show events and host in-salon support gate with our education and sales team.

With our Pro distributor partners, we're taking a more strategic approach to account management, tailoring our activations to what makes each distributor unique. Additionally, we are sustaining a more balanced full funnel marketing approach that we implemented in 2023

while we seek to optimize channel and asset strategy based on learnings from prior campaigns and deliver clear education and messaging about the strength of Olaplex Science.

Our goal is to strike the appropriate balance as we prioritize our marketing efforts behind our core best-selling products while also investing in our new product introductions to ensure successful launches. As we do this, we will be mindful of always being data and ROI driven to maximize the impact of our marketing investments.

We're focusing on proven brick-and-mortar and digital activations across all 3 of our channels and across the globe, which includes further rolling out our internal field sales team across Pro and specialty retail, upgrading visual merchandising, conducting additional sample wing programming, and enhancing paid media at the retailer partner level.

While we are intently focused on driving sell-through, we also recognize that we must take the appropriate actions to build and maintain the long-term health of the business. These include pausing on certain initiatives and pulling back on some partnerships in an effort to build a long-term equity of the brand and allow us to execute with excellence within our current team resources.

With this in mind, we intend to focus on our existing customers and strengthen our core products and current channels of distribution while limiting new distribution this year and combat the diversion of our products by closing some accounts where we find evidence that distributors were the source of diverted product.

Our next priority is to strengthen our capabilities and culture to support the future and improvement on the foundational infrastructure across our organization. Much of this work began last year and is already in flight includes evolving our integrated business planning capabilities to improve forecasting and overall business performance management and enriching our insights and analytics. To build on our strong corporate culture, we plan to bring our team together in person more frequently to facilitate even better collaboration, taking care to enable our people as the architects and drivers of our business.

Our final priority is to develop the road map and vision for Olaplex, which will impact the business in 2025 and beyond. Critical components of this work stream are designed to define our market opportunity, refine our brand identity rooted in stylist, consumer, customer, and category insights, ensure we win with innovation by enhancing the new product development process, and strengthen the way we leverage our omnichannel business and further pursue global expansion opportunities.

The goal is to establish a long-range strategic plan and financial framework and look forward to sharing more at the appropriate time. In summary, Olaplex is a powerful business with differentiated technology and developed global reach that we believe is still early in its growth trajectory. We recognize the current challenges and are facing them head on making investments

to deliver on our long-term goals and the tough decisions that are necessary to set ourselves up for the future.

Executorial excellence and getting the details right will be top priority. We remain incredibly excited about the potential for the business and look forward to sharing updates on our progress towards returning our company to sustained long-term profitable growth. With that, I will now pass it over to Eric to report on our fourth quarter results and our outlook for 2024.

Eric Tiziani

Thank you, Amanda, and good morning, everyone. On behalf of all of the employees at Olaplex, I'd like to say that we are thrilled to have Amanda leading this team. Since joining the company less than three months ago, Amanda has made a significant impact, and we are excited about the direction that she's taking the business.

To start, I'll say that our Q4 2023 results were in line with our expectations which landed on the upper end of our latest guidance on all metrics. We believe that these results were another positive step forward in showing a stabilized demand trend. Similar to last quarter, I'd like to provide an update on several metrics that we are tracking to measure progress on the demand trend.

First, sell-through in Q4 2023 at key accounts was down 27% versus last year, comparable with Q3 2023 also down 27% versus last year, and full year 2023 down 28% versus last year. Notably, our Q4 net sales or sell-in decline of 14.5% versus last year was better than the sell-through trend as we are beginning to lap inventory rebalancing from certain Pro and specialty retail customers from a year ago. As we shared last quarter, we believe that the months on-hand inventory position at our major accounts on our core items remain in a healthy position, and there is no inventory building in our channels.

Second, aggregated sell-out sales dollars at key accounts on an absolute dollar basis grew sequentially in Q4 2023 versus Q3 2023 by 21%. This was in line with our expectation given what we've seen historically during the holiday season, including the sell-through of our holiday kits. Next, performance from olaplex.com remain strong, growing year-over-year for the third consecutive quarter and up double digits in Q4 compared to the fourth quarter of 2022. And as we believe this business continues to build off of the momentum generated by our increased marketing investments.

And finally, consistent with previous quarters, our brand health metrics among prestige hair care consumers remain strong and industry leading. According to our external brand tracker, Olaplex is ranked #1 or tied for #1 for 13 of the top 17 premium hair care equities, up from 10 in Q3 2023, which include Best for my Hair, highest quality products, and brand I am excited to talk about.

Now turning to our financial results for the fourth quarter. Net sales declined 14.5% year-over-year to \$111.7 million, in line with our expectations. By channel, as compared to the fourth

quarter of 2022, our professional channel sales declined 22.7% to \$42.5 million. The direct-to-consumer channel decreased 2.8% to \$42 million; and specialty retail sales were down 16.3% to \$27.3 million. By geography, in the fourth quarter, the U.S. declined 27.9% compared to a year ago and international was flat year-over-year.

Adjusted gross profit margin was 70.6%, down 190 basis points from 72.5% in the fourth quarter of 2022. Approximately 320 basis points of this decline is related to higher inventory obsolescence reserves, 140 basis points from promotional allowance, and 50 basis points from inflation on product costs. These more than offset the 300 basis point benefit, primarily from lower warehouse and distribution costs and 140 basis points from more favorable product mix.

Adjusted SG&A grew 54.4% to \$44.5 million from \$28.8 million in the fourth quarter of 2022. The \$16 million increase in adjusted SG&A from prior year is primarily the result of an \$11 million increase in sales and marketing expense as well as an increase in payroll attributable to workforce expansion and other related expenses.

Adjusted EBITDA declined 46.8% to \$36 million versus \$67.6 million in the fourth quarter of 2022. Adjusted EBITDA margin was 32.2% compared to 51.7% a year ago. Adjusted net income decreased 53.9% year-over-year, \$22.3 million or \$0.03 per diluted share from \$48.3 million or \$0.07 per diluted share in the fourth quarter of 2022.

Turning to our balance sheet. Inventory at the end of the fourth quarter was \$95.9 million down from \$112.8 million at the end of the third quarter as we continue to make progress against our goal to lower our inventory to target levels of months on hand. Turning to cash flow, during fiscal year 2023, we generated \$177.5 million in cash from operations. We remain a healthy cash flow generating business due to our asset-light model, high profitability, and continuous improvement in our working capital position.

We ended the year with \$466.4 million in cash and equivalents, up \$36.8 million from the end of Q3 and an increase of \$143.6 million from the end of 2022. This cash is generating interest income at an annual rate above 5%. Long-term debt, net of current portion and deferred fees was \$649 million.

Now, turning to our financial outlook. As disclosed in our earnings release issued this morning, for fiscal year 2024, we expect net sales in the range of \$435 million to \$463 million, adjusted EBITDA in the range of \$143 million to \$159 million, and adjusted net income in the range of \$87 million to \$100 million.

Now, let me walk you through our assumptions for fiscal year 2024. Beginning with net sales. For fiscal year 2024, our plan assumes generally that the absolute dollar sell-through trend that we experienced in the second half of 2023, adjusted for seasonality represents our normalized base level of sell-through for the year. From there, we build in all expected volume drivers on a product and account level basis. I'll now elaborate on three of those major volume drivers.

First, we anticipate incremental sales contribution from new product launches this year, but expect the contribution from new products in 2024 to be lower than in 2023 given the timing of key launches starting later this year. We are continuing with our recent cadence of two to four launches per year.

Second, on the distribution front, we're taking several actions that are focused on our long-term success but have a negative short-term impact. We've decided to constrain opening up new accounts in 2024 and as we focus on improving awareness and penetration in our current key customers. In addition, we plan to rationalize certain distributors and accounts that do not build brand equity either due to off-strategy pricing for sub distribution into unauthorized resellers.

We are using various methods, including our track and trace technology, third-party experts, and other anti-diversion and anticounterfeiting measures to specifically target the distributor rationalization. We've already made good progress here in the second half of 2023, so we're planning to continue those efforts. Lastly, we expect a year-over-year net sales growth tailwind as we lap the effects of customer inventory rebalancing in 2023 and which had the impact of depressing our 2023 net sales base.

Geographically, we expect the U.S. to benefit the most in 2024 from lapping customer inventory rebalancing in 2023. In our international business, we expect continued growth in our emerging growth regions of APAC and Latin America, where we expanded our distribution in 2023. This will include our recent small-scale launch into Mainland China which we're able to execute while still adhering to our commitment to be a cruelty-free brand.

We also note that the aforementioned distributor rationalization is expected to be a short-term negative volume impact, particularly in Europe. On a channel basis, we expect year-over-year net sales performance to be balanced and similar across channels for fiscal year 2024.

Now, let me provide additional commentary on how we expect net sales trends to develop from a phasing perspective in 2024. In short, we expect momentum to build over the course of the year as our investments and initiatives land in the market. First, we have a more difficult underlying sell-through comparator in the first half of the year, particularly in Q1 and then we do in the second half of 2024.

Second, we will be lapping the pipeline impact from our Q1 2023 new product launches and expect a more significant positive impact from our new product launches in second half 2024, given the timing of those launches. Lastly, we expect the year-over-year tailwind of lapping customer inventory rebalancing in the prior year to benefit us primarily in the first half of this year.

This will be partially offset, however, with the aforementioned distributor rationalization, which is phased across the year. With all of this in mind, specifically for Q1, we expect net sales in the

range of \$92 million to \$97 million. When looking at year-over-year channel performance in Q1, we expect our DTC business will outperform relative to the professional and specialty retail channels.

Moving down the P&L. For the full year 2024, we assume adjusted gross margin in the range of 72.5% to 73.1% representing expansion of 110 to 170 basis points. This is the result of lapping high levels of inventory obsolescence from last year and the expectation of normalized promotional levels this year as we lap promotions to move excess customer inventory last year. In addition, we expect to benefit from a dedicated internal cost savings program which we expect will more than offset some inflationary pressures in product costs.

Furthermore, we expect full year 2024 adjusted SG&A expenses in the range of \$172 million to \$179 million, an increase of \$19 million to \$26 million versus 2023. Roughly half of that increase is expected in organization costs, primarily from annualizing the cost of head count additions made during 2023 and from the accrual for a normalized bonus payout in 2024.

We believe that this puts our organization costs as a percentage of sales at a level that we expect to maintain for the foreseeable future. The other half of the increase is expected in our sales and marketing expenses as we invest at levels we believe are required to return to long-term growth. Specifically, we expect full year nonpayroll-related marketing and advertising expenses to be in the range of \$66 million to \$70 million, an increase from \$60.5 million in 2023.

Taken all together, we anticipate continuing to achieve top-tier industry profitability with adjusted EBITDA margin in the range of 32.8% to 34.3%. We assume net interest expense to be approximately \$32 million to \$34 million and an adjusted effective tax rate of approximately 19.5% to 20.5% for the year.

In conclusion, we are confident in the progress that we are making to support the long-term health and growth of the Olaplex business. We expect momentum to continue to build as we execute against our strategy and the priorities that Amanda has outlined for the business in 2024. This concludes our prepared remarks. We will now turn the call back over to the operator for questions. Operator?

Operator

Ladies and gentlemen, the floor is now open for questions. If you would like to ask a question, please press “*” “1” on your telephone keypad at this time. A confirmation tone will indicate your line is in the question queue. You may remove yourself from the queue by pressing “*” “2.” We do ask that you limit yourself to one question and one follow up. Again, that is “*” “1” to register a question at this time. Today's first question is coming from Ashley Helgans from Jefferies.

Sidney

This is Sidney (sp) on for Ashley. So we saw you hired a new VP of innovation. It seems like a really exciting hire. Any color you can give kind of on innovation outlook? It seems like definitely a focus

into 2024. And then, our second question is just hair can fragrance have been the categories in beauty that have taken the most price since 2019. Wondering if you can give any kind of further color on price elasticity that you're seeing from consumers in hair care and maybe in bonding more specifically. Thank you.

Amanda Baldwin

Hi, Sidney. This is Amanda. Very nice to meet you. Great question about innovation. It's certainly something that I'm very passionate about, and I think is really at the origin story of this brand was doing something that the world has never seen before. The person who is taking over for innovation is really all about the strategy that I referenced about really ramping up that innovation engine. I'm a big believer that putting talent in place to lead an initiative is the best we can do that.

One thing that we do have is a long history in R&D, a lot of terrific relationships and really harnessing that and driving innovation going forward. So I'm very excited about what will come next. With respect to pricing, we do have a line pricing strategy as we look forward for our business over the course of the coming years. We'll certainly be taking a look at what makes sense going forward. It is a place, as you say, that people have made some changes. I do believe profoundly in the prestige hair care industry and the consumer continues to trade up and really understand that if they buy a more powerful product that does drive results. And that's very exciting for us going forward.

Sidney

Thank you so much. Excited to work with you, as well, in the future.

Amanda Baldwin

Likewise.

Operator

Thank you. The next question is coming from Jungwon Kim of Cowen. Please go ahead.

Tom

It's Tom (sp) on for Jungwon. I just curious in terms of what you're seeing across a lot of the sentiment orders to date. Maybe talk about your expectations for the rest of the year. Do you expect consumer demand in that channel to increase as we lap easier compares?

Patrick Flaherty

Hey, Tom. This is Patrick. Your line was breaking up there. Would you mind repeating the question?

Tom

Yes. Just asking about the Salon and Style (inaudible) quarter-to-date and your expectations for the (inaudible).

Amanda Baldwin

Tom, it's Amanda. I just want to make sure we still can't quite hear you, but I think I know what you're asking. So I think you're asking about overall demand trends within the salon category. Is that correct?

Tom

That's correct. And (inaudible) sentiment, as well.

Amanda Baldwin

And consumer sentiment. Okay. Yeah. So I think that there certainly have been shifts in how the end client is using the salon, how frequently they're going as well as where they're purchasing their items at the front of the salon versus in retail. However, what I would say is that the salon and the stylists, like innovation, is very much at the core of what this brand is. It's been a huge focus of mine in the first 60 days or so is really understanding how to continue to unlock the potential of that channel.

So I still am very optimistic about what we can do there. But certainly, that channel is changing, but certainly I think, still has tremendous potential. With the consumer overall, I think that the beauty of the beauty industry is that it is--it continues to grow, it continues to have a lot of consumer enthusiasm. Certainly something that I'm hearing across all of our retailer partners is really that the consumer is strong within--again, our category, in particular, reading more broadly. So that certainly works to our advantage.

Tom

Thank you. And a follow-up on promotion (inaudible) sampling. How are you thinking about balance, and what key promotional strategies do you expect to employ this year?

Amanda Baldwin

Eric?

Eric Tiziani

Yeah. I'll take that one. It's Eric here. So we've talked about this in the past. Olaplex is not an overly promotional brand, but we do participate in key customer events that we think are strategic and could provide some incrementality to the business. We continue to do that. As we look back at the last quarter, we shifted our promotional strategy to focus on that kind of key moment around Cyber Monday, Black Friday, and that worked well for us.

Just to give you an example, there's another key promotional event in October that we decided not to participate in because we had participated in it the year before and, just based on our analysis, didn't see the incrementality. So we're going to continue to do those analyses and make decisions on that basis.

I think we're still having a hard time hearing you. I think the other part of your question is around our sampling program and I would say that is an area of our investment that we continue to believe is working well for us. We have data and analytics from programs we run with key retail partners, and we continue to see the conversion on our sampling into purchasing full size and new to brand as ahead of the benchmarks in the category. So that continues to be a part of our investment plan for 2024.

Operator

Thank you. The next question is coming from Lauren Lieberman of Barclays. Please go ahead.

Lauren Lieberman

Great. Thanks. Good morning. I have two questions. The first was just international sales were more or less flat this quarter. So just curious where the strength was in particular. And then, anything additionally you can share with us on the impact going forward of rationalizing distributors in Europe. And then the second, which is unrelated, is just--what is the demand-building activities last year, some of the turnaround work that already started in 2023, what would you say has really worked versus what needs more fine-tuning? Thanks.

Eric Tiziani

Hey, Lauren. Good to hear from you. Thanks for the questions. I'll start on the international question. And the answer for the relative strength that we saw in the fourth quarter of 2023 is similar to the comments we made around our outlook for 2024, which is continued strength in APAC, in Latin America, in the Middle East. We know that these are markets that we've really just seen it in a lot of ways. We had some additional distribution that we added in Southeast Asia and the Middle East, for example, in 2023.

And those continue to be growth drivers for us. You asked about the impacts of the distributor rationalization that we talked about in 2024. And yes, part of that is in Europe. So we expect some depressed sales in 2024 in our European region as we really use all the tools available to us. We talked about our track and trace technology where we've seen any evidence of a distributor as a potential source of diverted product, for example. We want to take the right actions of working with that distributor to remove that volume from the system.

And then, your second question was around demand drivers that worked for us in 2023. We talked about our test and learn approach, and that's absolutely what we deployed. I already mentioned sampling. You know that we increased our investment in upper funnel activities. We continue to optimize our spend based on the analytics and learning. And so to give you two examples, we saw a nice lift in the fourth quarter from the upper funnel marketing that we're putting against our holiday programming. That helped us to have the #1 selling holiday kit in the U.S. in the fourth quarter of last year.

So we're going to take that learning and apply it forward. We also saw that when we got the right assets into the right channels. It was also lowering the cost of acquisition in our in the upper

funnel, that is, lowering the cost of acquisition even for our own olaplex.com. So that was a good learning on how our marketing investment across the funnel could really work the best for us.

Amanda Baldwin

Lauren, it's Amanda. I can build on that as well a little bit as we go forward and give you a sense of kind of how we're approaching things. I think with respect to international, again, one of the things that I referenced was just sort of I think the power of this brand globally is something very unique and something I was very excited about to know that it's selling in 100 countries around the world, and there's receptivity to the technology and the brand globally is certainly very exciting. I think taking a measured approach about how we go after each market. I think there remains a tremendous amount of opportunity.

With respect to demand building activities, I think we have learned a lot. There'll be a lot of focus going forward about not just--every detail about what you say when you say it, where you say it, this is where the execution and the details really do matter. So I've been spending a lot of time with the team on that and making sure we're putting the money in the right places but also with the right messaging and with the right creative and also over the long term, certainly, the innovation plays into this as well in terms of what we're spending against as well as a longer-term brand halo and sort of really working to build that.

Lauren Lieberman

Okay. Great. I look forward to meeting in person.

Amanda Baldwin

Likewise.

Operator

Thank you. The next question is coming from Andrea Teixeira of JPMorgan. Please go ahead.

Andrea Teixeira

Thank you. Good morning. And Amanda, welcome, and looking forward to working with you. So can you comment on our consumption trends? You talked about sell-through, but I'm curious about the--pretty much like the consumer takeaway given what some of the comments that you made and exiting the quarter and what you--what are you assuming for 2024 in your guide.

And as we think about the cadence of the year, you mentioned being more selective with customers, too. Does that also include some selective departures from some of the U.S. retailers and anything you can comment regarding the cadence as well for starting in the first quarter where you're looking at a lower sales trend relative to the full year guidance? So how can you--we think about the spring resets and thinking about how it's going to build into the balance of the year for you to meet the guidance? Thank you.

Eric Tiziani

Hi, Andrea. I'll take that one. First, on the consumer trends that we saw exiting 2023, earlier, we talked about the year-over-year--we talked about a number of data points that we believe support our view on the progress that we've been making on just stabilizing the demand trend. We thought Q4 was another good data point there. One, the sell-through. That is the consumer takeaway trend year-over-year was minus 27%, which was consistent with the previous quarter.

It was actually up 21% in Q4 2023 versus the previous quarter, so versus Q3 2023 and that was consistent with our expectation because of what we historically see around the holiday and the success of the Olaplex brand around the holidays as well. And so that becomes really the base assumption that we go into 2024 with we saw stabilized demand trends, sell-through trends in the back half of 2023. That become the base that we intend to build from in 2024.

Your second question was around the distributor rationalization and kind of selective expansion. We see less likely distributor rationalization or customers that were looking to rationalize in the U.S. That's not a major factor for us. And then your last question was around just the cadence. What's the phasing of this plan that we've guided to.

I'll just take a step back and say that this guidance that we've provided for 2024 is really consistent with the objectives that we've laid out. One, a stabilized demand trend; two, strengthening the brand for the long term; and three, returning to net sales growth. And this guidance implies that that's going to happen in the balance of the year.

It is a build. We've given a specific guide for Q1 that is lower than other quarters, but we believe for good reason and fully consistent with the full year guide that we've given. So why does it build from Q1 forward? It builds related to our new product launches, which are more back-weighted in 2024. It builds with the investments and initiatives that we're deploying in the year. That goes for everything from our key marketing initiatives, our key customer events, and even, of course, in the back half, you see higher net sales around holiday again.

And then there's also just the prior year comparator. We've got a tougher prior year sell-through comparator in the first half, particularly in the first quarter, and that eases and helps the growth rate as we traverse through the year. And specifically for Q1, I'd just say when you adjust for the customer inventory rebalancing that we experienced in the first quarter of last year, really what our guide is saying is that we're expecting a similar sell-through decline as what we saw in the back half of 2023. And we build from there as the comps get easier and our initiatives take hold.

Amanda Baldwin

And Andrea, nice to meet you. I look forward to working together and just to give you a little bit of some of the philosophical approach as well as I think that, as you've heard, I have extraordinary amount of optimism for what this brand can be as well as a tremendous sense of urgency about getting better at what we do every day. But I think for this year, it really is about taking a measured and methodical approach to getting all the details right and that does take time. I think I did say that the beginning and really is something for me it's important to acknowledge that

we're working as quickly as possible, but we do--it does take a little bit of time for all the initiatives to fully hit.

Andrea Teixeira

Thank you.

Operator

Thank you. Once again, that is "*" "1" if you would like to register a question at this time. The next question is coming from Susan Anderson of Canaccord Genuity. Please go ahead.

Susan Anderson

Hi. Good morning. And welcome, Amanda. We look forward to working with you as well. I wanted to ask maybe on the marketing front, it sounds like you will be investing more in marketing and I think also it was increased last year. So maybe if you could just talk about how we should think about the magnitude of the increase. And also, if you could give some color where you're at in terms of sales.

Then also, I guess, should we think about this as continued social media marketing, in-store marketing, or would you do any traditional marketing? And then finally, I guess, if you can maybe talk about the promotions that you're seeing in the channel. It seemed like it was heightened in the Prestige hair care category over holiday. So I'm curious kind of what you're seeing as we start the year. Thanks.

Amanda Baldwin

And I'll start. Nice to meet you, Susan. So I think from a philosophical point of view around marketing, I think that I have certainly spent a lot of time with the team as we're lining up our initiatives for this year really making sure that we, first and foremost, have a balanced funnel approach that we're really hitting the upper mid as well as the lower funnel and we're getting that mix right.

The second is that we're getting the mix right around product that we're really balancing both our hero SKUs that continue to be, as I think we mentioned, five of the six top SKUs in the category continuing to support those as well as making sure that we have the ammunition to get our new launches off the ground in the back half. And the third is really around what are we saying education around our product. One thing that I've spent a lot of time on is really understanding the science and the differentiators around what we do.

So I think it's not just about spending the money, but it's literally how do we do it and what do we say? So there's been a lot of effort around that, and I think that will be continuous improvement that we'll see throughout the year. And maybe, Eric, you want to take the promotional question?

Eric Tiziani

Yeah. Two pieces. Hi, Susan. You also asked about just the magnitude of spend. So we mentioned earlier we expect to be spending non-payroll-related marketing and advertising in the range of \$66 million to \$70 million in our 2024 plan and that's an increase from \$60.5 million in 2023. We believe that's a healthy amount to support the plan that we put forward.

And then the second part, just on promotionality. I spoke a little bit about it earlier, just what we saw in the fourth quarter. We expect a normal level of promotionality in the category again in 2024. For us, we actually expect a little bit less promotional intensity as in 2023. We had some promotional activity to help work through excess customer inventory that doesn't repeat in 2024.

Susan Anderson

Okay. Great. That's very helpful. If I could just add one follow-up. I was curious, just in the first quarter, based on the guidance for sales. I guess, how should we think about the trends by channel? Should we think about it as being similar to what we saw in the fourth quarter?

Eric Tiziani

Yes. We mentioned that we expect direct-to-consumer to perform better relative to professional and specialty retail, which is consistent with the trends that we've seen in the past few quarters.

Susan Anderson

Okay. Great. Thanks so much. Good luck with the rest of the year.

Eric Tiziani

Thank you.

Operator

Thank you. Our final question today is coming from Dana Telsey of Telsey Advisory Group. Please go ahead.

Dana Telsey

Hi. Good morning, everyone. And hello, Amanda. Welcome.

Amanda Baldwin

Thank you.

Dana Telsey

Given your experience, Amanda, at many different brands, what's most similar and different about Olaplex? And then as you think about not even just this year, but the go forward, what should the product assortment look like? How do you see the direction of the product assortment, the pricing profile, maybe category enhancement or extension? What do you see it becoming? Thank you.

Amanda Baldwin

Thanks for the question. Certainly, some of my favorite topics. So look, I think with respect to-- it's hard to draw every comparison possible, but I'll try to start. I think that one of the things that I love about this brand is that truly is a category creator. I think those are very unique and rare in our industry. And I think having that kind of DNA is something that is very special. I also think that the innovation and connection to science is something that you don't see every day.

And the third is this heritage in the stylist community. I think this concept of kind of enabling the styles to really--and I have spent many hours in the chair learning about their craft and what they do and being able to enable that. So I think it is actually a very rare and unique combination of things, something that I truly haven't seen before, and I'm excited to really dig into as a marketer and as a brand builder.

But I certainly am familiar with the concept of what happens when you create a category and there is increasing competition that's not foreign territory to me. And really, how do you think about continuing to your point, how do you think about the product and the innovation going forward. That is something that certainly has also been a lot of time. And as we are able to sort of share things about that strategy going forward, we'll certainly be doing that.

Dana Telsey

Thank you.

Operator

Thank you. At this time, I'd like to turn the floor back over to Ms. Baldwin for closing comments.

Amanda Baldwin

Thank you, everyone, for joining us today. It's terrific to be here. Before we end the call, I just like to take a moment to thank the entire Olaplex team. They've been tremendously warm in their welcome and their dedication to moving this business forward is truly tremendous. So thank you, everyone, again, and we look forward to speaking with you soon.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines or log off the webcast at this time and enjoy the rest of your day.