

MODERATOR: Greetings and welcome to the Olaplex Holdings' third quarter 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, Patrick, you may go ahead.

PATRICK FLAHERTY: Thank you and good morning. Joining me today are JP Bilbrey, Interim 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 JP.

JP BILBREY: Thank you, Patrick, and good morning, everyone. It's a pleasure to be with you today. I joined Olaplex as executive chair in July 2023 because I saw an innovative company with a special brand. A leader in the attractive, high growth, and resilient prestige hair care category, offering products differentiated by patented technology that delivers superior performance. Since joining the company, I've been spending my time digging into the business trying to better understand both our strengths and our areas of opportunity.

Through this process, I developed a stronger understanding of and appreciation for the competitive differentiators that make Olaplex unique. I have conviction in the potential for long-term growth and the opportunity to create significant long-term value. The passion of our loyal base of professional stylists and consumers is strong. I see significant opportunity for consistent, sustained growth as we evolve our portfolio with new technology, leading innovation, and build our business in attractive geographies.

And I believe our advantage business model will allow us to continue to deliver top tier profitability and cash generation. That being said, the business has faced several headwinds over the past year, including our own execution in the face of increased competition. I believe, though, that we're at a pivotal point in the company's evolution, and the next phase of growth for Olaplex. It requires a different level of focus and improvement in brand building capabilities.

My goal is to enable a path to long-term profitable growth, and make the company stronger, ensuring we have the right structure, tools, and operating systems in place to achieve our goals. To that end, I've been focused on and leading three key initiatives since I've joined Olaplex. First, I've been overseeing the redesign of our integrated business planning processes to improve forecasting, innovation delivery, and overall business performance management.

Next, we're enhancing and investing in our insights and analytics capabilities, which I believe will give us the tools to invest more thoughtfully in our brand and distribution channels, and becoming a more customer and consumer focused organization. And third, I've been managing the execution of our omnichannel strategy, seeking to reassert our position with the professional channel, and ensure that the stylists are at the center of our brand.

In addition to these initiatives, we reviewed and assessed our organizational capabilities to determine what we need for long-term success, and recently announced a leadership transition. We are very excited that Amanda Baldwin will join Olaplex as our next chief executive officer by mid December, bringing significant leadership and expertise in the beauty industry to the company. Amanda has spent the last seven years as CEO of Supergoop, the leading SPF skincare brand, where she has led the company through significant growth.

Prior to Supergoop, Amanda served as a senior vice president at L Catterton, a global consumer focused investment fund, collaborating with management teams across the portfolio with a particular focus on the beauty sector. And she previously led the omnichannel marketing strategy of Dior Beauty, and held several positions at Clinique. She's an accomplished beauty executive. Amanda has deep experience with building prestige brands.

And her mix of strengths across marketing, partnering with customers, product and team development, make her the ideal person to position Olaplex for long-term success. Until Amanda joins the company, I have the privilege to serve as interim CEO. My priority is to ensure that we remain focused on delivering our operating plans, which starts with achieving stabilization in our sales trend in the second half of 2023.

Our third quarter results and our 2023 guidance support our belief that we're making progress on that goal. And in a moment, Eric will provide more details on those results. In summary, Olaplex is driven by great science, and we see untapped opportunity for growth as we innovate, drive our existing channels, and expand into new geographies. We identified and are implementing changes that we believe will more powerfully unlock the high potential of the Olaplex brand.

And I'm excited and look forward to partnering with Amanda, the board, and the entire Olaplex team to capitalize on these opportunities. And with that said, I'll now pass it over to Eric to report on our progress towards stabilization, the execution of our priorities, our third quarter results, and our outlook for the remainder of 2023. Eric, over to you.

ERIC TIZIANI: Thanks, JP, and good morning, everyone. Last quarter, we communicated that stabilizing our sales trend in the second half of 2023 was a top goal. We believe our Q3 results delivered solid progress against that goal. Our demand trends are stabilizing. Suggesting that our increased investment in the business is yielding positive results. I'd also like to share the following commentary on the progress we've made.

First, aggregated sell out sales dollars remained relatively consistent sequentially in Q3 with Q2 sell out on an absolute dollar basis. This is a key metric we're tracking in terms of what we mean when we say, stabilizing the demand trend. Second, there was little difference this quarter between our reported net sales decline of -30% versus prior year, and the sell out trend in our key accounts, which was down 28% versus prior year as we continued the glide path to rightsize customer inventory levels for current levels of demand.

As mentioned last quarter, we believe the months on hand inventory position at our major accounts on our core items remain in a good position. Next, olaplex.com performance remains strong. Posting a second consecutive quarter of positive year over year growth. This channel has benefited from our increased marketing investment, particularly in upper funnel activations.

In that regard, we continue to measure positive impressions of the brand from the Strength Starts Inside campaign with notable campaign lifts in brand awareness, consideration, and affinity, and a more than \$3 million increase in earned media value since the start of the campaign. We believe this is cause for optimism for the broader business. Additionally, we increased our activations in the professional channel during the third quarter, and have already observed positive early indicators from this work.

With a holistic approach to increase our visibility with stylists and demonstrate our commitment to their success, we implemented increased sampling programs, in-person and virtual events, trade media placements, visual merchandising updates, and participation in key promotions. We recognize that there is more work ahead to further deepen engagement with the pro community. However, from these early days of these efforts, we are encouraged that our actions appear to be resonating.

And lastly, brand health metrics on Olaplex among prestige hair care consumers, as tracked by third parties, remain strong and consistent with prior months. According to our external brand tracker, we are ranked number one, or tied for number 1, for 10 of the top 17 premium haircare equities, including, best for my hair, makes hair healthier, highest quality products, and scientifically proven to benefit hair.

In support of our stabilization goal for the balance of 2023, we also continue to deliver against the key priorities we established for our reset. These include, accelerating investment in sales and marketing, increasing and evolving our educational assets, and reasserting our position with our pro and specialty retail partners. Let me now walk you through the progress we made on these initiatives during the third quarter.

Starting with sales and marketing, year to date, we have invested approximately \$54 million, and with one quarter remaining in the year, we now expect our marketing investment for 2023, full year, inclusive of sampling and certain sales and marketing payroll to be in the range of \$80 to \$82 million, Compared to our previous expectation of \$80 to \$85 million. This year, we have deployed a more balanced, full funnel marketing strategy with a test, learn, and optimize approach to our spending.

This quarter, we invested further in our full funnel Strength Starts Inside creative campaign that kicked off in June. Based on our marketing mix modeling analysis, we were able to shift more of this investment into our best performing content in our best performing marketing channels. Namely, digital, social, and connected TV elements. We also made the choice to rephrase some of this planned investment from the third quarter into the fourth quarter, where we believe it will have a bigger impact around key buying moments for our stylists and consumers.

We have also consistently spoken about the importance of the earned media value metric in our marketing efforts, which we believe provides a multiplier effect on the value of our marketing spend. We are pleased to report that in the third quarter, we regained the position as the number two earned media value hair care brand in the US, and exited the quarter in September as the number one earned media value hair care brand according to Tribe Dynamics.

This position was bolstered by the launch of a global creative social media campaign designed to reassert Olaplex authority in science and technology. The campaign generated significant buzz on social channels and in media coverage, with more than 40 million views and impressions of the campaign, and nearly 80 million views of the campaign's hashtag on TikTok. Moving to our education efforts. We continue to distribute new core education content focused on our science, provide more efficient and easier to use education materials for our US and international business partners, and actively correct any mentions of misinformation on our brand in the market.

In addition as a reminder, we recently established an internal field sales and education team. Resources deployed against our specialty retail and professional channels in the US. We believe building this capability in-house is both more cost effective, and provides even better control of training on the Olaplex brand. Feedback from our specialty retail partners has been very positive, as we have displayed our commitment to expanding our reach and support of the in-store experience.

Another reset priority is reasserting our position with the professional and specialty retail channels. In addition to the increased pro activations that I mentioned earlier, we are collaborating with our specialty retail partners by participating in their high profile category marketing events, ensuring that we deploy a balanced approach to our promotional strategy and analyze the activities to measure success. We also leveraged the insights and capabilities of our specialty retail customers, and executed targeted CRM activations.

With one recent campaign delivering millions of impressions, very high ROAS that exceeded industry benchmarks, and a strong number of new users to Olaplex. And we continue to deliver against our enhanced sampling program this year with data revealing that our samples continue to convert at top tier levels in the industry. Now turning to our financial results for the third quarter. Net sales declined 30% year over year to \$123.6 million, in line with our expectations.

By channel, as compared to the third quarter of 2022, professional channel sales declined 23.3% to \$48.3 million. Specialty retail sales decreased 41.8% to \$43.2 million. Our direct to consumer channel sales were down 18.2% to \$32.1 million. As we had signaled last quarter, the sequential absolute dollar increase in Q3 net sales of \$124 million versus Q2 net sales of \$109 million was largely driven by the sell-in of our 2023 holiday kits in the pro and specialty retail channels.

The sequential absolute dollar decrease for DTC from the second quarter to the third quarter was primarily related to the Q2 sell-in for a major customer promotion that occurred in July. By geography, in the third quarter, the US declined 30.9% compared to a year ago, and international was down 29% year over year. The decline in international was driven by the UK, Canada, and Australia. Partially offset by gains from our growing distribution in Southeast Asia, the Middle East, and Latin America.

Moving down the P&L, adjusted gross profit margin was 69.7% down 540 basis points from 75.1% in the third quarter of 2022. Approximately 320 basis points is related to promotional allowance. 290 basis points to higher inventory obsolescence reserve. And 70 basis points from inflation on product costs. These more than offset the 160 basis point benefit primarily from lower warehouse and distribution costs. Adjusted SGNA grew 18.8% to \$33.7 million from \$28.4 million a year ago.

The \$5.3 million increase in adjusted SGNA from prior year is primarily the result of a \$3.4 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 49.5% to \$51.5 million versus \$102 million in the third quarter of 2022. Adjusted EBITDA margin was 41.7% compared to 57.8% a year ago.

Adjusted net income decreased 54.5% year over year to \$33.4 million or \$0.05 per diluted share from \$73.3 million or \$0.11 per diluted share in the 2020 third quarter. Now turning to our balance sheet. Inventory at the end of the third quarter was \$112.8 million down from \$128.5 million at the end of the second quarter. Reflecting good progress against our goal to lower our inventory towards our target range for months on hand.

Turning to cash flow. During the first nine months of 2023, we generated \$128.5 million in cash from operations. We are generating healthy cash flow through our highly profitable business model, and as we improve our working capital position primarily through lower inventory. The end of the quarter with \$429.6 million in cash and equivalents. Up \$51.2 million from the end of Q2. This cash is generating interest income at an annual rate above 5%.

Long-term debt, net of current portion and deferred fees was \$650.4 million. Now turning to our financial outlook. For fiscal year 2023, we now expect net sales in the range of \$450 million to \$460 million versus our previously reported range of \$445 million to 465 million. Adjusted EBITDA in the range of \$166 million to \$174 million compared to our previously reported range of \$161 million to \$176 million.

And adjusted net income in the range of \$100 million to \$108 million versus our previously reported range of \$96 million to \$108 million. For the year, we assume adjusted gross margin in the range of 70.5% to 71%. In the medium term, we remain confident that we can return closer to our historical adjusted gross margin levels in the mid 70% range. We continue to assume net interest expense to be approximately \$40 million, and an adjusted effective tax rate of approximately 20% for the year.

In conclusion, we believe the third quarter represented good progress against our goal to stabilize the demand trend in the second half of 2023, and we're pleased to update the annual guidance range for this year. We continue to believe our company will once again achieve consistent profitable growth as we invest in foundational capabilities, leverage our patented technology and powerful community of advocates, and implement our strategic initiatives.

This concludes our prepared remarks, we will now turn the call back over to the operator for questions. Operator?

MODERATOR: Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press *1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press *2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we pull for questions.

Thank you. Our first question comes from the line of Susan Andersen with Canaccord Genuity. Please proceed with your question.

ALEC LEGG: Hi, good morning. It's Alec Legg on for Susan. Just on the sell outs, you mentioned it was starting to stabilize at-- down 28% compared to 26% in the first half. I guess, can you talk about the exit rate of the sell outs in the quarter, just how the retailers are feeling about stocking levels, and then maybe any incremental details on a unit basis, just to account for the promotional levels too? Thank you.

ERIC TIZIANI: Hey, Alec, it's Eric here. Thanks for the questions. So yes, first I would just say, again, we're pleased with Q3 results delivery in line with our expectations. The sharpening of our guidance for the year, which we believe show good progress against this goal of stabilization. What do we mean by stabilization? One of the ways in which we've been talking about that is looking at absolute sellout dollars trending over time, and stabilizing that trend. And what we saw in the third quarter was good progress against that.

So stabilizing the sellout trend versus Q2 was relatively the same in absolute dollars versus Q2. And to your separate question, we saw sell out and sell in trends very similar. So we believe that we're past and through the customer inventory rebalancing that we've experienced as a headwind earlier this year. And that our core customer-- our key customers, our core items, are all at healthy levels of inventory in weeks on hand.

So that's the key. The stabilization is the absolute dollar trend being relatively flat in the third quarter versus the second quarter, it happens to be a -28% sell out trend in the third quarter. And on a unit basis, that was the last part of your question, we actually saw our average price tick up a bit in the third quarter versus the second quarter as we continue to be less promotional on average than the rest of the category.

But we are participating in some promotional events that we think are important for our customers, for our stylists, and our consumers, especially when we see an opportunity to do that strategically and to acquire new customers. But not more promotional in the third quarter than previously, and less than the category average.

ALEC LEGG: Thanks. And then just on the overall operating or EBITDA margins, I guess, how are you thinking about balancing the gross margins of operating costs as you ramp up marketing, and then like you said, compete with other brands when it comes to promotions?

ERIC TIZIANI: Sure. Well, let me start with gross margin. We know and we've stated, we've been dealing with some headwinds this year on gross margin, particularly around the actions we're taking on excess inventory levels on our side, and in some cases, promoting through some of the slower moving items of excess inventory at our customers, those are the big headwinds we've been dealing with in gross margin this year. We still believe, as we've stated, that as we get through those headwinds, we see gross margin returning to that mid 70s range that we've been at historically.

And that will continue to support the investment levels that we want to put elsewhere in the P&L. We talked about as a priority this year in 2023, increasing our sales and marketing investments, to get our message out, to be proactive about the Olaplex message, building awareness, building brand equity, really building the brand. And we've been following through on that priority this year, and we'll continue to do so.

We we're measuring. We've talked about this as a test, learn, and optimize approach to our sales and marketing, and we're very much using the data and using the ROI analytics to direct that spend where we think it can perform the best for the brand. We see that in the upper funnel with our Strength Starts Inside campaign. We've been partnering with an analytics firm on looking at the marketing mix modeling around that.

And as we mentioned in the call, we use that information to redirect some of that spend to the best performing assets in the best performing channels. And we certainly also see it in our lower funnel marketing spend, so some of our performance marketing, whether it be in olaplex.com and some of our e-commerce platforms and retailer.com, where we get very strong ROI in ROAS metrics as well.

ALEC LEGG: That's very helpful. Thank you so much.

MODERATOR: Thank you. Our next question comes from the line of Rob Ottenstein, with Evercore ISI. Please proceed with your question.

ROB OTTENSTEIN: Great. Thank you very much and appreciate you doing this call, and bringing Amanda on. Look forward to meeting her soon. So the two questions, one, can you give us an update on where the social Media Buzz is, your ability to monitor it and counteract it, and whether you see that still as a drag on the business now or is that dissipating in your view? And then second, perhaps go into little bit more detail on what's going on at the salons?

You know, why this deep decline still, and whether you have any kind of readout on the sell out and usage on the stylist level. Thank you.

ERIC TIZIANI: Thanks, Robert. Absolutely, thanks for the questions. First, on what we call the social Media Buzz, I would break this into two parts. One, just sentiment about the brand, right? We've talked about some of the misinformation in the past, and that negative media and some sentiment in the first quarter of the year. And we've really seen the sentiment improve and pick up. And mentions-- negative media-- negative mentions in social media drop pretty significantly as we've traversed through the year and as we've been investing to drive that narrative and correct misinformation in the market.

So we've seen good progress there. And the second part, I would use to answer that question is what we talked about earlier in the call around earned media value. So this is an area that we've been investing in, and we believe is a big multiplier on our own marketing investment. We talked about how we've returned to the number two position in earned media value in the hair care category in the US in the third quarter, and actually, exited the quarter number one on the back of a really successful campaign we had.

So we're seeing good progress there, that's part of what we're talking about when we say we're making good progress on stabilization. And your second question was about the Pro channel, and again, last call we talked about this being an area where we were going to accelerate our investments in the balance of 2023. We've done that. We believe we're seeing green shoots from that, and those activities resonate with the stylist community as well.

The sell out trend in pro has been very similar to the trend we've seen elsewhere in the business. Particularly, similar to what we've seen in specialty retail. If I think about the third quarter and the stable trend we've seen, frankly, as we traverse through the quarter, if anything, we saw pro actually pick up a little sequentially as the quarter went on, as those investments took hold. So we're quite pleased to see that as well.

MODERATOR: Thank you. Our next question comes from the line of Olivia Tong with Raymond James. Please proceed with your question.

OLIVIA TONG: Great. Thanks. Good morning, and thank you for taking the questions. My first is just around what you're seeing in terms of the key drivers of the sequential improvement in dollars in Q3, and if we back into Q4, it looks like it doesn't necessarily continue in the 4Q. I imagine that the holiday sell in was part of that, if you smooth that out, if you could talk about the sequential trends that you're expecting.

And then also in terms of exit rate on consumption, if you could talk to October trends, what you're seeing so far. And then just generally your view on what stabilization looks like over the next 12 months. Thank you.

ERIC TIZIANI: Thanks, Olivia. Absolutely. So I'll start with this question around the progression through Q3 and Q4. And I'll start by maybe just talking about sell in the third quarter. And then I'll talk about sell out. So in terms of our net sales or what we call sell in performance, direct to consumer had the strongest performance, then followed by pro and retail in the third quarter, when you look at those net sales declines.

From a sell out perspective in the third quarter, again, direct to consumer was the strongest, and then pro and retail were actually quite similar in the sell out decline trend. So let me explain why, what are the differences there. First of all, in direct to consumer, it's worth noting that the sell out was better in the US, our own [olaplex.com](https://www.olaplex.com). We talked about that growing again for a second consecutive quarter versus prior year, and even customers like Amazon, on the back of the investments we've been putting into that part of the business.

Our DTC business was a little bit weaker internationally as we've held back on some investments to manage some of the market dynamics there. So just thought it would be helpful to give that additional color on direct to consumer. In pro, as I just mentioned earlier, actually, the cadence through the quarter was actually a slight improvement as we exited Q3 on the back of the investments we put in place there. And in retail, we sold in less holiday kits into the specialty retail channel in the third quarter of this year versus the third quarter of last year.

That's appropriate, that's commensurate with the other trends we've seen in the business. And that's a reason why the sell in or the net sales decline on specialty retail was a little bit worse in the third quarter than the sell out. So then you asked about what does that mean as we go into Q4? It's actually a very similar trend. When we say Q3 was within our expectations, and good progress on stabilization, that's exactly what we're saying about the projection we've made for Q4, as implied in this guidance.

So yeah, there's a little bit of noise quarter to quarter, sell in versus sell out, but absolutely, the guidance we provided implies and assumes a similar stable seasonally adjusted trend for the business in the fourth quarter. And lastly, you asked about-- hey, what does stabilization look like for us over the next 12 months? It's continuing to follow through with all the priorities we've talked about. We're going to keep on investing against the business, we're going to keep on measuring that, learning from it, and optimizing that investment in a balanced way, not just lower funnel marketing, but the upper funnel marketing that we've been putting in place.

That's really about the brand building we want to do here. And we know that's going to take time. That takes time to fully have its impact on the business. So over the next 12 months, we expect to see even more impact from that as those investments have had some time to take root with our consumers, with our stylists. And so we'll say it again, top priority for the back half of this year has been stabilization of the demand trend.

We believe this call and this update shows really good progress against that goal, and that's going to set us up to a return to growth, long-term profitable growth for this business that we know we can achieve.

MODERATOR: Thank you. Our next question comes from the line of Dana Telsey, with Telsey Advisory Group. Please proceed with your question.

DANA TELSEY: Hi, good morning, everyone. As you think about the expense structure of the business, Eric, and obviously, the marketing investment this year, over next year or '25, what is the expense structure of the business? How do you look at the puts and takes, and what could be seen as a steady state? And also on new products, how are you thinking about new products going forward and timing? Thank you.

ERIC TIZIANI: Thanks so much, Dana. Absolutely. You know, again, I would just say that our focus has been stabilization of the trend in the balance of '23, and investing in our sales and marketing with this test, learn, and optimize approach, which we believe is really helping drive that stabilization of the demand trend and setting us up for the right foundation, the right capabilities, and poised for return to growth in the future.

We're not going to comment here on what that investment level looks like in 2024 or 2025, we intend to come out with our 2024 guidance at the right time, that would by precedent be on our next call, our Q4 results call. And we look forward to sharing more at that time. In the meantime, we're going to continue to invest behind the brand where we see opportunities.

DANA TELSEY: Got it. And then--

ERIC TIZIANI: And the other part of your question was new products, where we still believe this is one of the big reasons that we have such big opportunity ahead of us. We remain and we still have quite a limited assortment when you compare us to other prestige haircare brands in the category. We're pleased with the new products that we've been launching even in 2023. Our Lashbond our dry shampoo. Most recently our purple conditioner.

These are all new segments for the Olaplex brand, and therefore, we believe are adding some incrementality to the business. And we're really excited. We've always talked about having a strong pipeline, a multi-year pipeline, and we look to continue to launching new highly incremental science driven, technology driven, differentiated products to the category for many years to come. So that's certainly what we expect to be, a tailwind for growth in the business in the future.

DANA TELSEY: Thank you.

MODERATOR: Thank you. Our next question comes from Korinne Wolfmeyer with Piper Sandler. Please proceed with your question.

KORINNE WOLFMEYER: Hey, good morning. Thanks for taking the questions. I guess just to piggyback off of that last question around the innovation pipeline. I mean, historically, or I guess in the past couple of quarters, you've talked about maybe some slower uptake of those newer products. Can you discuss what you've seen with those new launches here in this quarter, and what you're doing to help the uptake of new product launches be a little bit stronger if that's really going to be a key driver going forward? Thank you.

ERIC TIZIANI: Thank you, Korinne. Thanks for the question. You know, absolutely. Like I said, we're pleased with the performance of these new products. When we look at how they're performing within their segments in the category, they are up there top five typically in terms of top five selling SKUs within that segment. Now, not all of these segments are the same size, some are a little bit smaller than others. But we're happy with how they're performing within those segments.

And we believe they're also helping to develop the market, to actually drive further growth in the category and for our customers in those segments. What I would say is, as the overall Olaplex brand has faced the headwinds that we've talked about throughout the year, our innovations have also felt that halo of headwinds across the brand. So still performing well in the relative context, but, you know, let's say, not as big as some of our innovations in the prior year just as the entire brand has faced those headwinds.

What are we doing? We're getting better and better with each launch at execution, and with the marketing plans and 360 marketing campaigns we're putting behind those launches. I think an important thing to note here is, our plans are going to be not to launch and then move on. We also want to continue supporting those new products in year 2, in year 3, to make sure we see them become long lasting sustainable parts of the portfolio.

Now, that's always been a key element of our innovation strategy. And so for that last part of your question, I would say, hey, it's going to be that year 2 support, and finding those additional moments to activate against the launches that we've had, for example, in 2023. And that's our plan.

KORINNE WOLFMEYER: Got it. Very helpful. And then if I could just touch on the DTC segment. Again, I know we touched on this briefly earlier in the Q&A but the DTC, the Olaplex, was positive and it seems like there are some quarterly dynamics that cause the overall DTC weakness. As we think about Q4 and then even into the early parts of 2024, is it reasonable to think that that segment could return to positive growth if olaplex.com is delivering positive growth, or is it-- are there still some other dynamics going on that would cause it to still be negative? Thank you.

ERIC TIZIANI: Yeah. I would just say similar to the entire business, focuses on stabilization and then returning to growth. Just as a reminder for everyone, when we talk about our direct to consumer channel, we're talking about [olaplex.com](https://www.olaplex.com) in the US and around the world, as well as pure play e-commerce retailers like an Amazon. Doesn't include [retailer.com](https://www.retailer.com) like a [sephora.com](https://www.sephora.com) or [ulta.com](https://www.ulta.com) that gets captured in our specialty retail sales.

And so I would just say we continue to see relative strength in direct to consumer in large part because of the investments we've been putting-- not only in the lower funnel against that channel, but also as we think about the upper funnel investments we've made. The Strength Starts Inside campaign, you know, that's pointing consumers to learn more about the brand, to go to [olaplex.com](https://www.olaplex.com).

And we really believe this is one of those green shoots we're seeing from the investments we've made that are driving the stabilization and even in [olaplex.com](https://www.olaplex.com)'s case, already driving year over year growth again. So there's a little bit of noise in sell and sell out as you mentioned and as I talked through earlier, but we continue to see this channel having relative strength, and that being very, very promising for the momentum we're building.

KORINNE Thank you.

WOLFMAYER:

MODERATOR: Thank you. Our next question comes from the line of Sylvania Chaudhry with J.P. Morgan. Please proceed with your question.

Hi, thank you for taking out call-- our question, sorry. In your prepared remarks you mentioned participating in some promotional events where you see an opportunity to acquire new customers and participation in key promotions more. Can you please add more color, especially as previously the company's stance was not too keen on promotion? And also, more on a broader level, how has your marketing plans overall changed with the change in management? Thank you.

Thank you so much for the question. So let me tackle the promotional-- promotionality question first. This is very consistent with what we've talked about in the past, really, in that it is not our strategy to over promote the Olaplex brand. We don't think that's right for the equity of the business. When you look at the data, we continue to promote less than the category average.

But we do see important moments and events with our customers, stylists, and consumers, where we think it's strategically the right thing to do, to participate. We've been pretty consistent about that throughout the course of the year. We're seeing good results when we participate in those events. And we're often just looking for the angles. How do we make this as strategic as possible? How do we drive new customer acquisition?

How do we drive further penetration through the regimen to make sure that we're using that as a way for consumers and stylists to buy deeper into the regimen as well? And we're pleased with those results so far, and we can expect to continue that. In terms of any changes to our marketing investment or strategy with a change of management, as JP mentioned earlier Amanda Baldwin, we're so excited that she's going to be joining the company in the middle of December.

She has incredible experience in building brands and in driving marketing capabilities, and we're really excited about what Amanda is going to be bringing to this business as well. So that's not a change in our marketing strategy quite yet, but I'll just point to the comments I made earlier about testing and learning and optimizing. We are using our marketing mix modeling analytics to optimize and shift our spend as we go.

So in Our Strength Starts Inside campaign, we noticed that certain assets were performing better than others, and certain channels we're performing-- marketing channels were performing better than others. We were able to take that information and deploy that into how we want to invest that money in the fourth quarter.

SYLVANIA CHAUDHRY: Thank you. I'll pass it on

MODERATOR: Thank you. Our last question is from Jonna Kim with TD Cowen. Please proceed with your question.

Hi, it's Tom Noesen on for Jonna. Thanks for the question. Can you talk a little bit more about the dynamics you're seeing in market share trends and the competitive landscape, and then just how does this play into your expectations for the balance between domestic and international growth ahead? And then lastly, if you could just provide an update on what you're seeing in terms of growth of the overall prestige hair care category? Thanks.

ERIC TIZIANI: Thanks, Tom. Great question. So let me start with market share trends. Very consistent. When we talk about stabilization of the sell through trend, it quite naturally translates to relative stabilization of our market share, trends as well. That's what we saw in the third quarter versus the second quarter, is that market share largely stabilized and steadied out. And that's the right base, right? The idea is you stabilize the demand trend here with a very healthy foundation for the business, and then return it to growth.

We think there's tremendous opportunity for value creation on that path. So market shares stabilizing. Between domestic and international, you saw in the third quarter similar sales declines between the US and international. What we've said in the past is consistent again here in that some of our bigger international markets, English speaking markets, the UK, Canada, Australia, have followed a similar trend, and similar headwinds, frankly, to what we've seen in the US.

Now that means we're also starting to see similar stabilization trends in those markets as we've also selectively increased our investments in those markets, whether it be in PR or in some of the upper funnel marketing investments that we've made in the UK and Canada specifically. Aside from that, what we're seeing is growth and really promising green shoots in some other international markets that we've talked about previously.

Southeast Asia, the Middle East, cross border e-commerce in China and France and the Nordics in Europe as well. These are all markets that are smaller for us today, but we believe we're seeing some really promising momentum that is going to certainly pay dividends for us in the future. And lastly-- last but not least, you asked about the category, we continue to see prestige hair care globally as a very attractive and resilient category, and it's continued to grow, it's continued to grow strongly in the US.

We expect that to continue, frankly, in the fourth quarter and into 2024 and beyond as well. Yes there's a little bit of a segmentation there, front of salon, so the Pro channel has been a little bit more challenged with macro pressures, but retail and direct to consumer have fared quite resiliently in 2023, and we expect that to continue. So we are in a very attractive category. We're focused on stabilization and doing all the right things to put the right foundation in place to return this business to profitable-- very profitable growth.

MODERATOR: Thank you. We have reached the end of Q&A session. I'll turn the call back over to Eric Tiziani for closing remarks.

ERIC TIZIANI: Thank you very much. Thank you, everyone for joining us today on the call. We appreciate your continued interest in the Olaplex business. Please reach out if you have any questions, and we look forward to speaking to all of you again very soon. Thanks again. Have a great day.

MODERATOR: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.