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CREDIT OPINION
15 October 2021

Update

Rate this Research

RATINGS

Coty Inc.

Domicile	United States
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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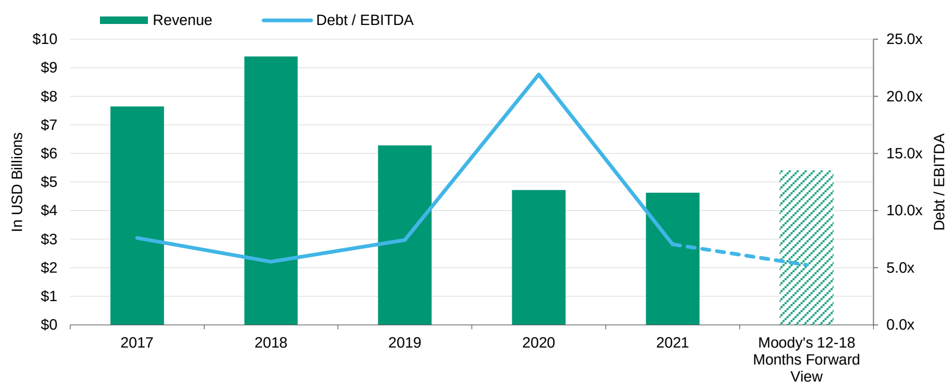
Coty Inc.

Update following upgrade to B2

Summary

Coty's credit profile (B2 stable) reflects the company's high debt to EBITDA financial leverage that we estimate at about 7.1x in fiscal 2021 ending June 30th. We expect debt-to-EBITDA leverage to improve by about one turn over the next year to about 5.7x due to stronger earnings and debt repayment funded from free cash flow and asset sales. Coty continues to recover from weak revenue levels driven by efforts to contain the coronavirus and pressure on discretionary consumer income. Demand for the company's products will improve over the next year as the number of vaccinated consumers continues to increase, and as consumers slowly resume more away-from-home activities that will help drive a rebound in beauty products demand. The company's credit profile also reflects our belief that the company will generate strong free cash flow of about $350-400 million over the next year due to good earnings growth and a meaningful working capital improvement, driven by reduced inventory levels. Coty's liquidity is adequate because the company will have weak headroom under the total net leverage covenant over the next 12 months.

Exhibit 1
Debt/EBITDA will decline as the company's earnings improve, debt is repaid, and the initial impact of the global pandemic is cycled out
Revenue (left scale) and Debt / EBITDA (right scale)



All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forward View is Moody's opinion and does not represent the views of the issuer. The company's fiscal year ends in June. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™, Moody's Projections

Credit strengths

» Large scale and well-recognized brands in several beauty categories

» Continued good growth in the company's luxury fragrance segment

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- Signs of improved demand in the company's consumer beauty products segment

Credit challenges

- High financial leverage tempered somewhat by public commitment to reduce leverage
- Concentration in volatile fragrance and color cosmetics categories
- Need for constant innovation driven by portfolio composition
- Global diversification skewed towards slower growth mature developed markets

Rating outlook

The stable outlook reflects our expectation that Coty will improve liquidity, including the successful refinancing of its significant 2023 debt maturities in a timely manner. The outlook also reflects that Coty will continue to improve credit metrics over the next 12-to-18 months through an ongoing recovery in earnings from the weakness experienced during the coronavirus downturn and continue debt repayment..

Factors that could lead to an upgrade

- Successful refinancing of remaining debt due 2023 in a timely manner
- Stronger liquidity
- Debt to EBITDA approaches 5.0x
- Good revenue and earnings growth and strong free cash flow

Factors that could lead to a downgrade

- Inability to successfully refinance remaining debt due 2023 in a timely manner
- Operating performance does not continue to improve
- Debt to EBITDA sustained above 6.5x
- Deterioration in liquidity
- Aggressive debt funded acquisitions or shareholder returns

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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Key indicators

Exhibit 2
Key Indicators
Coty Inc.

US Millions	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	Moody's 12-18 month Forward View
Revenue	7,650.3	9,398.0	6,287.9	4,717.8	4,629.9	5,404.3
EBITA Margin %	8.9%	10.9%	8.4%	-3.4%	10.0%	10.4%
Debt / EBITDA	7.6x	5.5x	7.4x	21.9x	7.1x	5.3x
RCF / Net Debt	-4.9%	4.3%	6.6%	-2.9%	8.8%	9.4%
EBITA / Interest Expense	2.6x	2.9x	1.6x	-0.6x	1.7x	2.2x

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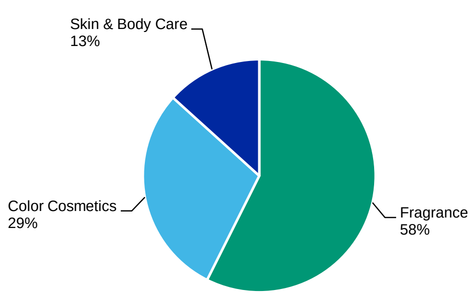
Source: Moody's Financial Metrics™, Moody's Projections

Profile

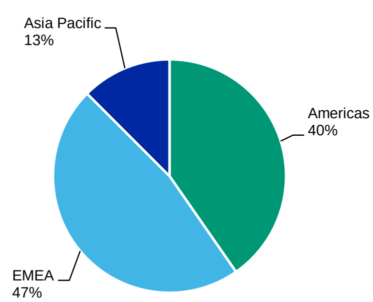
Coty Inc. ("Coty"), a public company headquartered in New York, NY, is one of the leading manufacturers and marketers of fragrance, color cosmetics, and skin and body care products. The company's products are sold in over 150 countries. The company generates roughly $4.6 billion in annual revenues. Coty is 57% owned by a German based investment firm, JAB Holding Company S.a.r.l. (JAB), with the rest publicly traded or owned by management. KKR owns preferred stock that is convertible into an 5.2% interest in the company.

Exhibit 3
Revenue by segment
Fiscal year ended June 30, 2021



Source: Company filings

Exhibit 4
Revenue by geography
Fiscal year ended June 30, 2021



Source: Company filings

Detailed credit considerations

High financial leverage

Coty's financial leverage is high at about 7.1x and we estimate that debt-to-EBITDA leverage will improve to about 5.7x in fiscal 2022 ending June 30, 2022. Improved leverage reflects additional debt repayment and continued earnings momentum. Reduced debt will be driven by good free cash flow due to improved earnings, inventory reduction, and proceeds from strategic initiatives, some of which include proceeds from the Brazil IPO and other potential dispositions. Stronger earnings will be driven by improved market demand for Coty's products as consumers continue to get vaccinated and resume more away-from-home activities. Better earnings also reflect the effects of Coty's continued business transformation and ongoing cost reduction initiatives.

Good free cash flow

Coty will generate strong free cash flow of about $350-$400 million over the next year due to good earnings growth and a meaningful working capital improvement, driven by reduced inventory levels. We believe that funds from operations will improve over time as the

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company stabilizes its consumer beauty operations, continues to improve its offerings on high margin luxury products and completes its restructuring program.

KKR's recent partial conversion of preferred stock into common stock will reduce a potential future claim on Coty's cash flow. The conversion reduces cash dividend requirements by approximately $30 million annually. However, because the company has not been paying the preferred stock dividends in cash until the fiscal fourth quarter, the boost to free cash flow relative to fiscal year 2021 is negligible. The company's preferred dividends will be further reduced by an additional $26 million following Coty's recently announced exchange with KKR. On October 1, 2021, Coty announced that it would exchange 9% of its 40% stake in Wella to KKR in return for roughly 312 million of KKR's outstanding convertible preferred shares and accrued dividends of about $26 million. However, this deal reduces Coty's stake in Wella to about 30.6% and reduces an asset that could otherwise be used to repay debt or fund investments in earnings assets to effectively repurchase stock.

Ambitious global restructuring carries high execution risk

Coty's ongoing restructuring will carry high execution risks given the company's historical execution challenges. As part of this restructuring the company sold 60% of its Professional business (Wella assets) to KKR in November 2020, proceeds of which were used to repay debt. The restructuring also includes the turnaround of its Consumer Beauty business, which has struggled over the last few years. The company will restructure its consumer beauty and fragrance businesses, which will include work force and product offering reductions. Coty will spend $400 million through 2023 on this turnaround plan.

Concentration in volatile fragrance and cosmetics categories

Coty's concentration in fragrance and color cosmetics creates exposure to discretionary consumer spending requires continuous product and brand investment to minimize revenue volatility and sustain market share as these categories tend to be more fashion driven than other beauty products.

The company also relies more heavily on licenses to support its prestige brands relative to greater ownership of its mass beauty brands. We believe reliance on licensing results in a weaker market position than many of its larger competitors that own the bulk of their prestige beauty brands. These factors create growth challenges and investment needs to more fully build its global distribution capabilities and brand presence.

To generate growth, Coty will have to continually reinvest and launch successful new products given its exposure to fashion driven fragrance (especially, designer brands) and color cosmetic products.

Good geographic diversification, but skewed towards developed markets

Coty has good presence in large key beauty markets, including the U.S., the U.K., Germay and Brazil. However its geographic diversity is skewed toward developed markets. This puts the company at a growth disadvantage compared to peers with higher exposure to emerging markets. Around 40% of the company's revenues are generated from North America, presenting growth challenges in highly competitive markets, and about 47% of revenues are generated from Eastern Europe, Middle East and Africa. That said the company has announced plans to focus on increasing sales from developing markets over time. Although we view this strategy as favorable, we recognize that the company could face challenges in terms of distribution and brand awareness.

Large scale and well recognized brands in several categories

Coty will enjoy good scale relative to its peers in the beauty category. The company's mass consumer beauty products compete against those at Revlon (Caa3 negative; $2.0 billion in revenue). In contrast, some of Coty's luxury skin care and fragrance products compete against those at Estee Lauder (A1 stable; $16.2 billion). Scale benefits include leverage with suppliers and marketing efficiencies. Scale will also favorably affect the company's ability to obtain favorable terms with distributors, and create marketing efficiencies. The company's product portfolio enjoys good brand name recognition.

ESG considerations

The coronavirus outbreak and the government measures put in place to contain it continue to disrupt economies and credit markets across sectors and regions. Although an economic recovery is underway, the recovery is tenuous, and continuation will be closely tied to containment of the virus. As a result, a degree of uncertainty around our forecasts remains. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

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Social considerations impact Coty in several other ways. First, Coty is a “beauty” company. It sells products that appeal to customers almost entirely due to “social” considerations. That is, such products such as makeup and fragrance help individuals fit in to society and comply with social mores and customs. Hence social factors are the primary driver of Coty's sales, and hence the primary reason it exists. To the extent such social customs and mores change, it could have an impact -- positive or negative -- on the company's sales and earnings. However, We believe such risk is manageable as such customs and mores change at a measured pace, and as the company is able to adapt to changing “fashion” trends, and hence offset such social changes. The company engages with social media influencers, which is in line with demographic and societal trends. While negative product reviews for the company have historically been modest, we recognize that a high number of adverse product reviews could negatively impact product demand.

We view Coty's financial policies as aggressive given its appetite for debt financed acquisitions. In addition, the company's board of directors has limited independence given that four of the thirteen board members are related to JAB, Coty's majority shareholder. The company favorably suspended the dividend to preserve cash and bolster liquidity until leverage is reduced. Coty's plans to reduce net debt-to-EBITDA leverage demonstrates a continued focus on lowering leverage and governance risk.

The focus on de-leveraging is beneficial for credits, but we believe that the company is partially motivated by a desire to restore the common stock dividend, which would weaken free cash flow. Recent transactions aimed at reducing KKR's preferred stock investment are also likely motivated by the desire to reinstate the common dividend. Accrued dividends on the preferred stock (about $74.1 million as of June 2021) must be paid in cash before Coty can pay common dividends. Coty is also restricted from making common dividend payments if net debt to EBITDA is above 4.75x.

Liquidity analysis

The SGL-3 Speculative Grade Liquidity Rating reflects our view that Coty's liquidity is adequate. We expect Coty to generate free cash flow of about $350 million to $400 million, which is after capital expenditures of about $200 million and includes working capital inflows of approximately $325 million. The company also has annual term loan amortization of about $22.5 million. Working capital inflows largely reflect inventory reductions. The company generally consumes cash from June to September and generates significant cash from October through December related to the heavy holiday sales season. As of June 30, 2021 Coty had $254 million of unrestricted balance sheet cash.

The company's $2.05 billion revolver expiring in 2023, $700 million revolver expiring in 2025, and the term loan A are subject to a maximum 5.25x total net leverage financial covenant with step downs. We estimate covenant leverage is approximately 5.1x as of June 2021. The covenant steps down to 5.0x in March 2022, 4.75x in June 2022, 4.50x in September 2022, 4.25x in December 2022 and 4.0x in March 2023 and thereafter. We project that the company will have weak headroom under the total net leverage covenant over the next 12 months. Coty will need to reduce leverage to meet the step downs, which creates reliance on a recovering economy, good execution, and, potentially, identification of additional cost saving opportunities to avoid a covenant violation.

Assets are divisible as Coty could sell individual brands without materially affecting its remaining operations. However, alternate liquidity is limited because all material assets are pledged to Coty's bank credit facilities (revolver and term loan). As of June 30, 2021, the company had about $2.08 billion available under its revolver.

Structural considerations

The B1 ratings on Coty's senior secured debt (consisting of the revolvers, term loans A and B and the April 2026 secured notes) are one notch higher than the B2 CFR and reflects loss absorption cushion provided by the company's effectively subordinated unsecured notes.

The Caa1 ratings on the unsecured notes are two notches lower than the CFR. This reflects the effective subordination to about $2.2 billion of secured debt that would weaken recovery in the event of a default. The notes benefit from upstream guarantees from Coty's domestic subsidiaries.

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Exhibit 5

June 30, 2021 Debt Capitalization

USD Millions	Outstanding	% Total
$2.05b Revolving Credit Facility due April 2023	670	12.2%
$700m Revolving Credit Facility due April 2025	0	0.0%
Term Loan A due April 2023	114	2.1%
Term Loan B due April 2025	1461.7	26.7%
US Senior Unsecured Notes due April 2026	550	10.0%
Euro Senior Unsecured Notes due April 2023	654.7	11.9%
Euro Senior Unsecured Notes due April April 2026	297.6	5.4%
US Senior Secured Notes due April 2026	900	16.4%
Euro Senior Secured Notes due April 2026	833.3	15.2%
Total Debt	**5481.3**	**100.0%**

Source: Company filings and Moody's estimates

Rating methodology and scorecard factors

The mapping to the scorecard in the Consumer Packaged Goods Methodology (February 2020) is shown below, including a 12-18 month forward view. The projected scorecard-indicated outcome of Ba2 is higher than the actual rating of B2. The difference primarily relates to liquidity risk and approaching maturities, execution risk related to the company's strategies to grow revenue and earnings, and the potential for a resumption of the common dividend that is not reflected in the scorecard projections.

Exhibit 6

Rating Factors
Coty Inc.

Consumer Packaged Goods Industry Scorecard [1][2]	Current FY 06/30/2021		Moody's 12-18 Month Forward View As of 9/28/2021 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$4.6	Baa	$5.4	Baa
Factor 2 : Business Profile (30%)				
a) Geographic Diversification	A	A	A	A
b) Segmental Diversification	Ba	Ba	Ba	Ba
c) Market Position	Ba	Ba	Ba	Ba
d) Category Assessment	Ba	Ba	Ba	Ba
Factor 3 : Profitability (10%)				
a) EBITA Margin	10.0%	Caa	10.4%	B
Factor 4 : Leverage and Coverage (25%)				
a) Debt / EBITDA	7.1x	Caa	5.3x	B
b) RCF / Net Debt	8.8%	B	9.4%	B
c) EBITA / Interest Expense	1.7x	B	2.2x	B
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba3		Ba2
b) Actual Rating Assigned				B2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 06/30/2021
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

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Appendix

Exhibit 7

Peer Comparison

Coty Inc.

	Coty Inc.			Avon Products, Inc.			Church & Dwight Co., Inc.			Revlon Consumer Products			Clorox Company (The)		
	B2 Stable			Ba3 Stable			A3 Stable			Caa3 Negative			Baa1 Positive		
(in US millions)	FYE Jun-19	FYE Jun-20	FYE Jun-21	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Jun-19	FYE Jun-20	FYE Jun-21
Revenue	$6,288	$4,718	$4,630	$4,695	$3,625	$3,883	$4,358	$4,896	$5,046	$2,420	$1,904	$2,046	$6,214	$6,721	$7,341
EBITDA	$1,176	$408	$872	$346	$110	$156	$1,038	$1,135	$1,133	$310	$273	$317	$1,387	$1,535	$1,542
Total Debt	$8,734	$8,937	$6,146	$1,890	$1,997	$1,415	$2,248	$2,475	$2,132	$3,532	$3,633	$3,738	$3,199	$3,316	$3,362
Cash & Cash Equiv.	$340	$308	$254	$651	$365	$254	$156	$183	$150	$104	$97	$110	$111	$871	$319
EBIT Margin	4.4%	-8.3%	4.6%	4.3%	-0.6%	0.7%	19.8%	19.4%	18.4%	5.0%	5.6%	7.9%	18.4%	19.2%	17.3%
EBIT / Int. Exp.	0.9x	-1.4x	0.8x	1.4x	-0.1x	0.2x	10.6x	13.7x	14.4x	0.5x	0.4x	0.5x	10.0x	11.4x	11.4x
Debt / EBITDA	7.4x	21.9x	7.1x	5.5x	18.2x	9.1x	2.2x	2.2x	1.9x	11.4x	13.3x	11.8x	2.3x	2.2x	2.2x
RCF / Net Debt	6.6%	-2.9%	8.8%	15.0%	-1.4%	2.9%	29.0%	30.2%	35.5%	0.3%	-4.9%	-2.4%	18.3%	29.8%	25.1%
FCF / Debt	-1.9%	-6.0%	1.9%	0.0%	-16.3%	-14.3%	25.2%	26.4%	17.9%	-2.5%	-2.8%	1.0%	11.2%	23.2%	10.9%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 8

Moody's-Adjusted Debt Breakdown

Coty Inc.

(in US Millions)	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-19	FYE Jun-20	FYE Jun-21
As Reported Debt	**4,098.2**	**7,137.4**	**7,524.3**	**7,663.7**	**8,080.4**	**5,425.2**
Pensions	190.1	493.9	489.4	395.0	358.3	375.7
Operating Leases	404.9	653.2	643.9	593.1	422.4	345.0
Non-Standard Adjustments	71.9	78.2	98.9	82.1	75.9	0.0
Moody's-Adjusted Debt	**4,765.1**	**8,362.7**	**8,756.5**	**8,733.9**	**8,937.0**	**6,145.9**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 9

Moody's-Adjusted EBITDA Breakdown

Coty Inc.

(in US Millions)	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-19	FYE Jun-20	FYE Jun-21
As Reported EBITDA	**483.7**	**116.7**	**871.6**	**-2,957.4**	**-517.8**	**577.3**
Pensions	7.4	20.9	6.6	-1.1	-13.2	0.5
Operating Leases	82.5	166.1	208.2	197.7	97.0	87.1
Unusual	269.5	796.0	495.0	3,936.3	841.7	206.8
Moody's-Adjusted EBITDA	**843.1**	**1,099.7**	**1,581.4**	**1,175.5**	**407.7**	**871.7**

All figures are calculated using Moody's estimates and standard adjustments..
Unusual items include impairment charges and one-time restructuring charges.
Source: Moody's Financial Metrics™

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Ratings

Exhibit 10

Category	Moody's Rating
COTY INC.	
Outlook	Stable
Corporate Family Rating	B2
Sr Sec Bank Credit Facility	B1/LGD3
Senior Secured	B1/LGD3
Senior Unsecured	Caa1/LGD5
Speculative Grade Liquidity	SGL-3

Source: Moody's Investors Service

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