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CREDIT OPINION
11 July 2019

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.

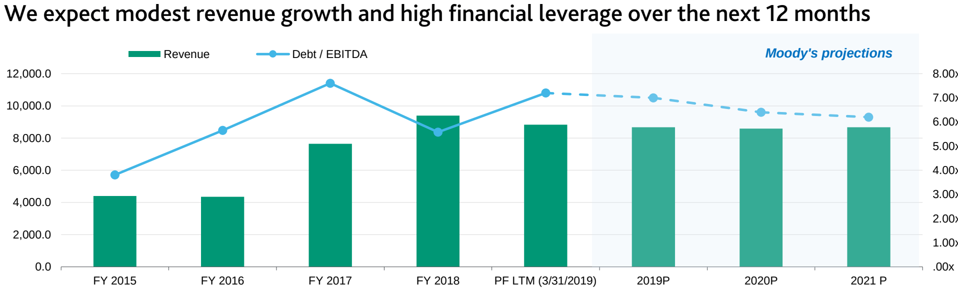
Update following CFR downgrade to B2; outlook stable

Summary

Coty's credit profile reflects its high enterprise debt to EBITDA financial leverage (inclusive of the JAB term loan discussed below), which we estimate at about 7.0x. The high financial leverage is in part due to earnings weakness reflecting lackluster demand for the company's domestic consumer beauty products. The credit profile also reflects our expectation that the company will generate weak free cash flow over the next several quarters due to its ongoing restructuring costs and dividends. We also recognize Coty's concentration in fragrance and color cosmetics. This concentration creates exposure to discretionary consumer spending. It also requires continuous product and brand investment to minimize revenue volatility as these categories tend to be more fashion driven than other beauty products. Coty will remain more concentrated than its primary competitors in mature developed markets, although the company recently announced plans to increase its exposure to developing markets over time. The credit profile is supported by the company's large scale, its portfolio of well-recognized brands, and good product and geographic diversification. We expect that Coty will generate modest revenue and organic earnings growth over the next year.

Exhibit 1

We expect modest revenue growth and high financial leverage over the next 12 months



All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (P) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's estimates, Moody's Financial Metrics™

Credit strengths

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

» Continued good growth from the luxury and professional segments

» Strong public commitment to reducing net leverage to below 4.0x

Credit challenges

» High financial leverage and weak cash flow

» Continued weak demand in the company's consumer beauty products

» Concentration in volatile fragrance and color cosmetics categories

» Slow organic growth and need for constant innovation driven by portfolio composition

» Global diversification skewed towards mature developed markets

Rating outlook

The stable outlook reflects our expectation that Coty's financial leverage will remain high over the next 12 – 18 months, but will decline over time through a combination of earnings growth and debt repayment. The stable outlook also reflects our view that it will take time for management to meaningfully improve operating performance in Coty's consumer beauty segment.

Factors that could lead to an upgrade

» Meaningful improvement to operating performance

» Debt/EBITDA (inclusive of the JAB term loan) sustained below 5.5x

» Positive free cash flow

» Improved credit metrics

Factors that could lead to a downgrade

» Inability to generate positive free cash flow over the next 12-18 months

» Debt/EBITDA (inclusive of the JAB term loan) sustained above 6.5x

» Deterioration in liquidity

» Aggressive debt funded acquisitions or shareholder returns

Key indicators

Exhibit 2
Key Indicators

Coty Inc.

US Millions	6/30/2015	6/30/2016	6/30/2017	6/30/2018	LTM (3/31/2019)	6/30/2019P	6/30/2020P
Revenue	$4,395.2	$4,349.1	$7,650.3	$9,398.0	$8,832.5	$8,674.4	$8,587.6
EBIT Margin %	11.8%	12.6%	5.3%	7.0%	6.5%	7.4%	8.6%
Debt / EBITDA	3.8x	5.7x	7.6x	5.6x	6.0x	7.0x	6.4x
RCF / Net Debt	19.5%	6.1%	-4.9%	4.3%	5.4%	2.1%	6.0%
EBIT / Interest Expense	5.1x	3.8x	1.6x	1.9x	1.6x	1.9x	2.1x

Source: Moody's Financial Metrics™. All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (P) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

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

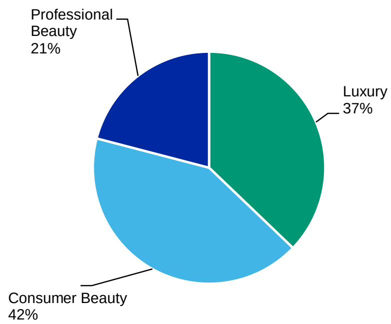
Profile

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 $8.8 billion in annual revenues.

Exhibit 3

Revenue by segment

Twelve months ended March 31, 2019

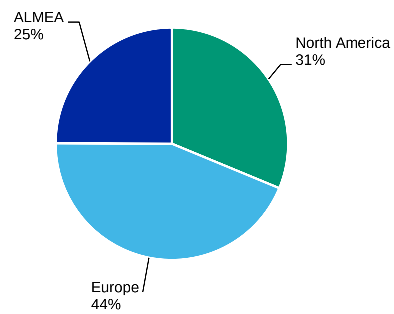


Source: Company filings

Exhibit 4

Revenue by geography

Twelve months ended March 31, 2019



Note: ALMEA represents Asia, Latin America, the Middle East, Africa and Australia

Source: Company filings

Detailed credit considerations

High financial leverage

Coty's debt to EBITDA will be high at approximately 7.0x. This figure is inclusive of $1.77 billion of the debt JAB used to tender for 150 million of Coty shares. While the $1.77 billion term loan is not a direct obligation of Coty, we have included it in total enterprise debt to reflect that the ultimate source of repayment are cash flows generated by Coty. The debt can also be repaid through any subsequent sales of Coty's shares, and stock price appreciation of those shares will in part reflect Coty's operating performance. We expect leverage to remain high over the next year in part due to earnings and cash flow weakness in the company's consumer beauty business. Low earnings growth will reflect lackluster demand for the company's domestic consumer beauty products, which represents nearly 50% of sales. The company will record a $3 billion non-cash impairment charge in its 4th quarter earnings release ending June 2019 in relation to the consumer beauty business. This is in addition to the $965 million write down taken in 2018. Coty is restructuring its operations to restore growth and improve operating performance and the company expects net debt to EBITDA below 4.0x by 2023. We believe that Coty will temper its appetite for debt financed acquisitions and share buybacks while it is working to resolve its operating issues.

Ambitious global restructuring carries high execution risk

Coty's announced restructuring will carry high execution risks given the company's historical execution challenges. The company will restructure its consumer beauty and fragrance businesses, which will include work force and product offering reductions. The company also will create regional commercial teams in the Americas, Asia Pacific, and Europe, Middle East and Africa (EMEA) with marketing units for luxury and consumer beauty. Professional Beauty will remain its own unit with a focus on salons. Coty will spend $600 million through 2023, which is in addition to about $160 million of ongoing restructuring costs. Coty expects the restructuring program to generate about $200 million in annual cost savings, a meaningful improvement in operating margins to about 14% to 16% (as compared to about 6.8% today) and free cash flow of about $1.0 billion by 2023. These improvements are back ended, and given the company's track record, success remains uncertain.

Weak free cash flow

We expect Coty to generate weak, although positive, free cash flow over the next year. Free cash flow will be adversely impacted by the company's low sales and earnings growth. We estimate that the company will generate free cash flow of about $10-15 million after dividends over the next year. We believe free cash flow will improve over time as the company stabilizes its operations and completes its restructuring program.

Concentration in volatile fragrance and cosmetics categories

Coty will continue to face risks associated with its significant reliance on revenues from the fragrance and color cosmetics categories, which tend to be volatile and vulnerable to fashion risk. We expect more volatility in these categories than in other consumer packaged goods sectors. 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 cosmetics products. Succeeding in an industry with high fashion risk requires continual investment in product development and brand support to sustain market share.

Good geographic diversification, but skewed towards developed markets

Coty will have good presence in large key beauty markets, including the U.S., Brazil, the U.K., Russia and Italy. However its geographic diversity is skewed toward developed markets. This puts the company at a disadvantage compared to peers with higher exposure to emerging markets. Over 75% of the company's revenues are generated from North America and Europe, presenting growth challenges in highly competitive markets. Only 25% of revenues are generated from developing markets including Asia, Latin America, the Middle East, Africa and Australia. That said the company has announced plans to focus on increasing sales from developing markets over time.

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 (Caa1 negative; $2.6 billion in revenue). In contrast, some of Coty's luxury skin care and fragrance products compete against those at Estee Lauder (A2 stable; $14.6 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.

Liquidity analysis

The SGL-4 Speculative Grade Liquidity Rating reflects our view that Coty's liquidity is weak. Coty's ongoing restructuring actions will consume large amounts of cash and we expect the company's free cash flow to be only modestly positive in 2020. The company relies on a $2.75 billion secured revolving credit facility that had $814 million drawn as of March 31, 2019. We expect the revolver to be used to fund working capital and dividends. The revolver is subject to a total net leverage financial covenant of 5.25x with step downs starting in March 2022. As per the March 31, 2019 compliance certificate actual total net leverage was at 4.98x. We project that the company will have weak headroom under the total net leverage covenant over the next 12 months.

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).

Structural considerations

The Ba3 rating on Coty's senior secured debt is two notches higher than the B2 CFR and reflects cushion provided by the company's junior debt. The junior debt includes Coty's unsecured notes as well as the JAB term loan. The JAB term loan is non-recourse to Coty. The debt was issued by Cottage Holdco B.V., which is an indirect subsidiary of JAB and the parent company of Coty. The term loan has no guarantees from JAB and is secured by 451 million shares of Coty. The debt is to be serviced through dividends paid by Coty to JAB and repaid through the sale of Coty shares securing the JAB term loan. JAB is now a majority owner of Coty with 60% ownership

The Caa1 rating on the unsecured notes is two notches lower than the CFR. This reflects about $6.6 billion of secured debt that ranks ahead of the unsecured notes in the capital structure. The notes benefit from upstream guarantees from Coty's domestic subsidiaries.

Rating methodology and scorecard factors

The mapping to the rating grid in Moody's Global Packaged Goods methodology (January 2017) is shown below, including a 12-18 month forward view. The projected grid-indicated rating of Ba2 is higher than the actual rating of B2. The difference primarily relates to our concerns regarding how quickly Coty will be able to stabilize its operations.

Exhibit 5

Rating Factors

Coty Inc.

Consumer Packaged Goods Industry Grid [1][2]	Current LTM 3/31/2019		Moody's 12-18 Month Forward View As of 6/10/2019 [3]	
Factor 1 : Scale and Diversification (44%)	**Measure**	**Score**	**Measure**	**Score**
a) Total Sales (USD Billion)	$8.8	Baa	$8.6	Baa
b) Geographic Diversification	A	A	A	A
c) Segmental Diversification	Ba	Ba	Ba	Ba
Factor 2 : Franchise Strength and Potential (14%)				
a) Market Share	Ba	Ba	B	B
b) Category Assessment	Ba	Ba	B	B
Factor 3 : Profitability (7%)				
a) EBIT Margin	6.5%	Caa	8.6%	B
Factor 4 : Financial Policy (14%)				
a) Financial Policy	Ba	Ba	B	B
Factor 5 : Leverage and Coverage (21%)				
a) Debt / EBITDA	6.0x	B	6.4x	B
b) RCF / Net Debt	5.4%	Caa	6%	Caa
c) EBIT / Interest Expense	1.6x	B	2.1x	Ba
Rating:				
a) Scorecard-indicated Outcome		Ba2		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 3/31/2019(L); Source: Moody's Financial Metrics™
[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 estimates, Moody's Financial Metrics™

Appendix

Exhibit 6

Peer Snapshot: **Coty Inc. - March 2019 (LTM)**
10 June 2019

	Coty Inc. B1 RUR-DNG			Avon Products, Inc. B1 RUR-UNC			Church & Dwight Co., Inc. Baa1 Stable			Revlon Consumer Products Caa1 Negative			Clorox Company (The) Baa1 Stable		
(in US millions)	FYE Jun-17	FYE Jun-18	LTM Mar-19	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Jun-17	FYE Jun-18	LTM Mar-19
Revenue	$7,650	$9,398	$8,833	$5,716	$5,403	$5,197	$3,776	$4,146	$4,185	$2,694	$2,565	$2,557	$5,973	$6,124	$6,278
EBITDA	$1,100	$1,571	$1,489	$468	$311	$288	$938	$965	$989	$313	$258	$289	$1,394	$1,406	$1,414
Total Debt	$8,363	$8,756	$8,906	$2,246	$1,889	$1,927	$2,477	$2,207	$2,047	$3,261	$3,452	$3,459	$2,693	$2,947	$3,071
Cash & Cash Equiv.	$535	$332	$384	$882	$533	$406	$279	$317	$98	$87	$87	$68	$418	$131	$178
EBIT Margin	5.3%	7.0%	6.5%	5.2%	2.9%	2.5%	20.9%	19.3%	19.7%	4.7%	1.9%	2.9%	19.4%	19.0%	18.5%
EBIT / Int. Exp.	1.6x	1.9x	1.6x	1.9x	1.0x	0.9x	14.4x	9.7x	10.2x	0.7x	0.2x	0.3x	10.9x	11.3x	10.1x
Debt / EBITDA	7.6x	5.6x	6.0x	4.8x	6.1x	6.7x	2.6x	2.3x	2.1x	10.4x	13.4x	12.0x	1.9x	2.1x	2.2x
RCF / Net Debt	-4.9%	4.3%	5.4%	36.8%	14.5%	9.4%	23.3%	29.5%	29.7%	1.0%	0.3%	1.5%	25.4%	24.4%	20.8%
FCF / Debt	-1.0%	-5.4%	-2.3%	8.7%	0.8%	-1.3%	18.0%	22.2%	22.8%	-7.5%	-6.4%	-4.2%	9.5%	11.9%	12.1%

Note: All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial Year End. LTM = Last 12 Months.
Source: Moody's Financial Metrics™

Exhibit 7

Moody's-Adjusted Debt Breakdown

Coty Inc.

(in US Millions)	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	FYE Jun-18	LTM Ending Mar-19
As Reported Debt	**3,293.5**	**2,634.7**	**4,098.2**	**7,137.4**	**7,524.3**	**7,687.6**
Pensions	194.8	166.1	190.1	493.9	489.4	489.4
Operating Leases	366.6	318.8	404.9	653.2	643.9	643.9
Non-Standard Adjustments	0.0	0.0	71.9	78.2	98.9	84.7
Moody's-Adjusted Debt	**3,854.9**	**3,119.6**	**4,765.1**	**8,362.7**	**8,756.5**	**8,905.6**

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial Year End. LTM = Last 12 Months.
Source: Moody's Financial Metrics™

Exhibit 8

Moody's-Adjusted EBITDA Breakdown

Coty Inc.

(in US Millions)	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	FYE Jun-18	LTM Ending Mar-19
As Reported EBITDA	**276.4**	**535.6**	**483.7**	**116.7**	**871.6**	**-93.6**
Pensions	7.8	9.4	7.4	20.9	6.6	5.8
Operating Leases	112.5	87.1	82.5	166.1	208.2	208.2
Unusual	359.4	187.1	269.5	796.0	484.6	1,368.4
Moody's-Adjusted EBITDA	**756.1**	**819.2**	**843.1**	**1,099.7**	**1,571.0**	**1,488.8**

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial Year End. LTM = Last 12 Months.
Unusual items include impairment charges and one-time restructuring charges.
Source: Moody's Financial Metrics™

Ratings

Exhibit 9

Category	Moody's Rating
COTY INC.	
Outlook	Stable
Corporate Family Rating	B2
Sr Sec Bank Credit Facility	Ba3/LGD2
Senior Unsecured	Caa1/LGD5
Speculative Grade Liquidity	SGL-4
ULT PARENT: GALLERIA CO.	
Outlook	Stable
Sr Sec Bank Credit Facility	Ba2/LGD3

Source: Moody's Investors Service

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