Research Update:

Coty Inc. Issuer Credit Rating Lowered To 'B', Placed On CreditWatch Negative Due To Impact Of The Spread Of COVID-19

March 24, 2020

PRIMARY CREDIT ANALYST

Diane M Shand
New York
(1) 212-438-7860
diane.shand
@spglobal.com

SECONDARY CONTACT

Mariola Borysiak
New York
(1) 212-438-7839
mariola.borysiak
@spglobal.com

Rating Action Overview

- The coronavirus outbreak has led to widespread retail store closures and a significant decline in travel. We believe Coty Inc.'s sales and profits will suffer near term because of the coronavirus outbreak.
- Coty's leverage is high because of its poorly executed acquisition of the P&G Beauty business and structural headwinds in the mass beauty channel. Also, prior to the coronavirus outbreak significant near-term deleveraging was dependent on asset sales. The timing of the divestitures could be pushed out given the global economic downturn and the volatility of capital markets.
- We lowered our issuer credit rating on Coty to 'B' from 'B+'. At the same time, we lowered our rating on the company's senior secured debt to 'B+' from 'BB-'. The recovery rating remains '2', indicating our expectation of substantial recovery (70%-90%; rounded estimate: 75%) in the event of a payment default. Subsidiary Coty B.V. is a co-borrower under the revolver. In our rating analysis, we view Coty Inc. and its operating subsidiaries as a group.
- We also lowered the rating on the senior unsecured debt to 'B' from 'B+'. The recovery rating remains '4', indicating our expectation for average recovery (30%-50%; rounded estimate: 35%) in the event of a payment default.
- The CreditWatch placement reflects the potential for a lower rating over the next few quarters if its business continues to be hurt by massive retail store closures and the economic fallout of the spread of the coronavirus.

Rating Action Rationale

The rating action reflects our expectations that the massive retail store closings and decline in travel sparked by the coronavirus pandemic has had a significant impact on Coty's sales and profits. Coty announced it believes its sales will decline 20% in its fiscal third quarter (ending

THIS WAS PREPARED EXCLUSIVELY FOR USER CONSTANTIN THUN HOHENSTEIN.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

March 31). We expect its fiscal fourth-quarter financial results to also suffer given it is heavily dependent on developed markets and cases of COVID-19 continue to rise in these regions.

Coty's leverage was already high because of its poorly executed acquisition of the P&G Beauty business and structural headwinds in the mass beauty channel. Its leverage rose above our threshold for the 'B+' rating in its recent quarter because of its investment in a partnership with Kylie Jenner. Leverage rose to 6.8x for the trailing 12 months ended Dec. 31, 2019. We had projected its leverage would decline to the low-6.0x area in fiscal 2020 (ending June 30) and now estimate leverage will be above 9.0x. We expect the company to be able to comply with the covenants in its credit facility in fiscal 2020 given the add-backs allowed under its credit agreement.

We believe the timing of the asset sales could be push out because the spread of the coronavirus has had a material impact on the global economy and the volatility in capital markets. Coty began the process of divesting its Professional Beauty business and associated hair brands, as well as its Brazilian operations in October 2019. At the time, it indicated it would to use the majority of the proceeds to reduce leverage to approximately 3.0x net debt on a pro forma basis. The company has indicated that it continues to be committed to its planned asset sales. In our view, it may be difficult for it to execute a signed agreement by the summer of 2020 as originally planned.

CreditWatch

The CreditWatch placement with negative implications reflects further downside risk over the next few quarters if massive retail store closures extend beyond its fiscal fourth quarter (ending June 30). We will assess the effects on the company's credit metrics, covenant cushions, and liquidity.

Company Description

Coty, together with its subsidiaries, manufactures, markets, distributes, and sells beauty products worldwide. It operates in three segments: luxury, consumer beauty, and professional beauty.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | Industrials: Key Credit Factors For The Branded Nondurables Industry, May 7, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

THIS WAS PREPARED EXCLUSIVELY FOR USER CONSTANTIN THUN HOHENSTEIN.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded; Ratings Placed On CreditWatch

	To	From
Coty Inc.		
Issuer Credit Rating	B/Watch Neg/--	B+/Stable/--
Issue-Level Ratings Lowered; Ratings Placed On CreditWatch; Recovery Ratings Unchanged		
Coty Inc.		
Senior Secured	B+/Watch Neg	BB-
Recovery Rating	2(75%)	2(75%)
Senior Unsecured	B/Watch Neg	B+
Recovery Rating	4(35%)	4(35%)
Coty Inc.		
Coty B.V.		
Senior Secured	B+/Watch Neg	BB-
Recovery Rating	2(75%)	2(75%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

THIS WAS PREPARED EXCLUSIVELY FOR USER CONSTANTIN THUN HOHENSTEIN.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER CONSTANTIN THUN HOHENSTEIN.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.