S&P Global Ratings

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Bulletin:

# Coty Inc.'s Planned Divestitures Do Not Affect Ratings

**October 22, 2019**

NEW YORK (S&P Global Ratings) Oct. 22, 2019--S&P Global Ratings today said that Coty Inc.'s (B+/Stable/--) plan to explore strategic alternatives, including divestures, for its Professional Beauty business and associated hair brands, as well as its Brazilian operations has no immediate impact on its ratings or outlook. As part of its ongoing strategic review of its business, the company will focus more on its fragrance, cosmetics, and skin care businesses. We view the development as credit positive for Coty given the company's expectation that upon completion of the divestitures leverage will be reduced to 3.0x net debt on a pro forma basis. However, the company has indicated that the process will be completed by the summer of 2020. In addition, we believe progress of the company's turnaround plan to strengthen performance of its consumer beauty business could be slow and uneven. If over the next few quarters, we get further information about potential proceeds from the divestitures and firmer timing and believe the company is gaining traction turning around its consumer beauty business, we will assess the potential rating impact. This could lead to a positive outlook.

Our 'B+' rating on Coty reflects the company's difficulty in turning around its consumer beauty segment as well as its significant debt burden. Its leverage is now near 6.0x. Coty has struggled integrating the beauty assets it acquired in October 2016 from Procter & Gamble. In our view, it underestimated the complexity of the acquired business, became distracted by additional acquisitions, and executed the consolidation of its supply chain poorly. Its consumer beauty segment underperformed the most and lost significant market share.

This report does not constitute a rating action.


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