MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Coty's CFR to B1; outlook stable

24 May 2022

New York, May 24, 2022 -- Moody's Investors Service ("Moody's") today upgraded Coty Inc.'s ("Coty") Corporate Family Rating ("CFR") to B1 from B2, its Probability of Default Rating to B1-PD from B2-PD, and the company's senior secured credit facility ratings to Ba3 from B1, including Coty's first lien revolving credit facility and its first lien term loan. Moody's also upgraded the company's senior secured notes rating to Ba3 from B1 and its unsecured notes rating to B3 from Caa1. Coty's speculative grade liquidity rating was upgraded to SGL-2 from SGL-3. The rating outlook is stable.

The upgrade reflects Coty's continued progress in reducing financial leverage and strengthening its liquidity, fueled by earnings growth and debt repayment funded from free cash flow and asset sales. Moody's expects that the company's debt-to-EBITDA leverage will improve to a low 5x in fiscal 2023 ending June 30, 2023, supported by further growth in revenue and earnings as a result of a strong recovery in color cosmetics and travel retail as consumers resume more out-of-home activities, an expansion in the skincare portfolio including the launch of Kim Kardashian skincare in the summer of 2022, as well as continued strong momentum in prestige fragrance and the China expansion. Coty is improving execution of its business transformation and generating healthy growth in both its prestige and mass portfolios. Moody's expects Coty to generate at least $400 million free cash flow over the next year, supported by earnings growth, disciplined capital spending, and working capital management. The company has significantly improved its liquidity, including extending its nearest maturity to April 2025. Coty holds 25.9% of Wella and continues to evaluate a partial IPO of its Brazil business, both of which the company can monetize to further reduce financial leverage.

Coty's commitment to continue de-leveraging is a key factor in the upgrade and changes to the company's credit impact score to CIS-3 from CIS-4 and the governance IPS to G-3 from G-4. Coty is targeting to reduce net debt-to-EBITDA towards 4.0x by the end of calendar 2022 from 4.7x as of March 2022, with a further target to reduce towards roughly 2.0x exiting calendar 2025.

The upgrade to SGL-2 from SGL-3 reflects successful refinancings and debt repayments that extended maturities to 2025 and beyond, and improved free cash flow.

The following ratings are affected by today's action:

Ratings Upgraded:

..Issuer: Coty Inc.

.... Corporate Family Rating, Upgraded to B1 from B2

.... Probability of Default Rating, Upgraded to B1-PD from B2-PD

.... Speculative Grade Liquidity Rating, Upgraded to SGL-2 from SGL-3

....Senior Secured 1st Lien Bank Credit Facility, Upgraded to Ba3 (LGD3) from B1 (LGD3)

....Senior Secured Regular Bond/Debenture, Upgraded to Ba3 (LGD3) from B1 (LGD3)

....Senior Unsecured Regular Bond/Debenture, Upgraded to B3 (LGD5) from Caa1 (LGD5)

Outlook Actions:

..Issuer: Coty Inc.

....Outlook, Remains Stable

RATINGS RATIONALE

Coty's B1 CFR reflects the company's high debt-to-EBITDA financial leverage that Moody's estimates at about

5.6x for the twelve months ending March 31, 2022, pro forma for the full repayment in April of €550 senior unsecured notes due in 2023. Moody's anticipates debt-to-EBITDA to improve to a low 5.0x level in the next 12-18 months primarily due to improvement in earnings, supported by strong recovery from color cosmetics and travel retail as consumers resume more out-of-home activities, and debt repayment funded by free cash flow and asset sales. The rating also reflects Moody's view that the company will generate at least $400 million free cash flow over the next year as a result of good earnings growth, reduced preferred cash dividends, disciplined capital spending, and working capital management. Moody's believes Coty's commitment to continue to deleverage is in part motivated by a desire to improve financial flexibility to restart the dividend, which would weaken free cash flow.

Coty's product portfolio has a concentration in fragrance and color cosmetics, the two categories that Moody's views as more exposed to earnings volatility in an economic downturn compared to skincare and haircare, which was evidenced by significant category revenue declines in 2020. Coty is also more concentrated than its primary competitors in mature developed markets in the US and western Europe. Moreover, Coty relies more heavily on licenses to support its prestige brands relative to greater ownership of its mass beauty brands. Nevertheless, Moody's recognizes Coty is focusing on growing its skincare portfolio and expanding in the high growth prestige market in China as two of its six strategic pillars. The risk of brand licensors switching partners is mitigated by Coty's successful prestige product launches and there are no major licenses up for renew in the next five years. Coty's ratings are also supported by the company's large scale, its portfolio of well-recognized brands, and good product and geographic diversification.

The SGL-2 speculative grade liquidity rating reflects Coty's good liquidity with cash balances of approximately $150 million following the debt repayment in April 2022, and full availability under the $2 billion revolver as of March 31, 2022. The revolver expires in April 2025. Moody's expects the company to generate at least $400 million free cash flow (Moody's defines free cash flow as CFO minus Capex minus dividends), and there are no near term maturities until April 2025. Step downs in the total net leverage covenant to 4.0x by March 2023 from 5.0x currently will tighten the covenant cushion if Coty does not continue to reduce leverage. Moody's expects the company to maintain good EBITDA cushion within the covenant.

ENVIRONMENTAL SOCIAL AND GOVERNANCE CONSIDERATIONS

Coty's exposure to environmental risks is moderately negative (E-3). The company has neutral to low exposure to physical climate risk, carbon transition, water management, and use of natural capital risks. Waste and pollution risk is moderately negative reflecting the waste created from consumer products and packaging material that often cannot be recycled. The company is addressing those risks by using less and simplified packaging, exploring packaging reuse through at-home or in-store refills, and increasing the amount of recycled materials in its product packaging. Coty also pioneered using carbon captured ethanol to produce fragrances in early 2022.

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 the global economy is recovering from the pandemic, continuation of the recovery will be closely tied to containment of the virus. As a result, a degree of uncertainty around our forecasts remains. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Coty's exposure to social risks is moderately negative (S-3). The company has neutral-to-low exposure to human capital, and demographic and societal trends. While consumer facing and focused on beauty, the company's customer relations risk exposure is largely mitigated by its status as a large global player that is well diversified across color cosmetics, skincare and fragrance, as well as in both mass and prestige markets. The company has over 60% of revenue earned through prestige channel, which Moody's views as higher growth. Health and safety and responsible production risk are moderately negative given the company has direct manufacturing and its products use natural ingredients including palm oil derivatives. The company is committed towards fully sustainable and certified ingredients, including to purchase 100% certified palm oil which partially mitigates that risk.

Coty's governance risk is moderately negative (G-3) as a result of high leverage and concentrated ownership risks. Coty's past strategies including building its beauty business with a number of large and expensive debt-funded acquisitions including P&G Beauty and Younique contribute to high leverage that remains a drag on the current credit rating. Coty is controlled by JAB Holding Company S.a.r.l. (JAB), who holds approximately 54% of the stock. Moreover, the company's board of directors has limited independence given that four of the twelve board members are related to JAB. Moody's views Coty's financial policies as improving, including a plan to reduce the company's net debt-to-EBITDA leverage towards 4.0x by calendar 2022, and towards 2.0x by calendar 2025. The company also demonstrated a continued focus on lowering leverage and governance risk, including the recent repayment of its 2023 senior unsecured.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The stable outlook reflects Moody's expectation that Coty will further improve its credit metrics over the next 12-to-18 months, including reducing its debt-to-EBITDA to a low 5x level by calendar 2023. The stable outlook also reflects Moody's expectation that the company will only resume dividend payments after the company meets its mid to long-term target leverage ratio of 2.0x-3.5x and the company will maintain at least good liquidity.

The ratings could be downgraded if Coty's operating performance deteriorates, if debt-to-EBITDA remains above 5.5x, free cash flow-to-debt declines to below 4% or if the company pursues material debt funded acquisitions or shareholder distributions. A deterioration in liquidity could also lead to a downgrade.

The ratings could be upgraded if the company sustains good operating performance including organic revenue growth and an improving EBITDA margin, and debt-to-EBITDA declines towards 4.5x. Coty would also need to maintain conservative financial policies that includes sustaining strong free cash flow of at least 7% of debt factoring in a potential dividend reintroduction.

The principal methodology used in these ratings was Consumer Packaged Goods Methodology published in February 2020 and available at https://ratings.moodys.com/api/rmc-documents/66411 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Coty Inc., 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 generated roughly $5.2 billion in annual revenues for the twelve-month ending March 31 2022. Coty is 54% owned by a German based investment firm, JAB Holding Company S.a.r.l. (JAB), with the rest publicly traded or owned by management.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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