S&P Global Ratings

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Bulletin:

Coty Inc.'s Long-Term Strategy To Bolster Growth Supports 'B-' Rating

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NEW YORK (S&P Global Ratings) April 23, 2021--S&P Global Ratings today said that the strategic update provided by Coty Inc. ('B-/Negative') today outlined several credit-positive steps to bolster growth and improve profitability, which we believe support our 'B-' long-term issuer credit rating. Sales trends have improved since the beginning of fiscal 2021 (ending June 2021), and we believe the company's efforts to accelerate the growth of luxury fragrances, particularly in China, with a focus on premiumization and helped by travel retail recovery, should help bolster further growth. Moreover, the company's focus on enhancing its e-commerce and direct-to-consumer capabilities have helped offset the weakness in the wholesale channel through the pandemic and will remain critical to profitable future growth, in our view. Coty is also undertaking initiatives to stabilize its mass makeup and fragrances businesses, and it plans to build a skin care portfolio across prestige and mass divisions. We believe that the new management team's execution remains key to turning around Coty's operations. Although the benefits of some of these efforts will take time to materialize and contribute significantly to profitability, we believe that it will enable the company to stabilize sales. These factors support our expectation for revenue generation of about $4.5 billion and adjusted EBITDA margin of about 14% in fiscal 2021.

Coty recently issued $900 million of senior secured notes and intends to use the proceeds to pay down the term loan facilities. We believe this transaction reduces refinancing risk, and we expect Coty to amend and extend its revolving credit facility and the balance of the term loan facilities in the near term.

Our outlook on Coty remains negative because we expect the company's credit measures to remain weak and covenant headroom to remain tight. Specifically, we forecast Coty's S&P Global Ratings-adjusted leverage at fiscal year-end 2021 will remain close to 10x and covenant cushion on the company's maximum net leverage ratio will remain tight (under 15%) for the subsequent two quarters, after it goes into effect in its fourth fiscal quarter of 2021. Coty is subject to a maximum net leverage ratio of 5.25x through fiscal 2021 that steps down to 4.75x in fiscal 2022 and 4x in fiscal 2023. The company has strong relationships with its banks, and we believe it would likely be able to secure covenant relief if needed. In addition, we expect Coty to prudently manage its cash flow for additional debt repayment.

For the complete issuer credit rating rationale, please see our most recent research update on Coty, "Coty Inc. Outlook Revised To Negative On Continued Pandemic-Related Headwinds; Ratings Affirmed," published Nov. 18, 2020.

This report does not constitute a rating action.