

Bulletin:

## Coty Inc. Dividend Option Frees Cash To Reduce Debt

May 8, 2019

NEW YORK (S&P Global Ratings) May 8, 2019--S&P Global Ratings today said that Coty Inc.'s (BB-/Negative/--) announced stock dividend reinvestment program will free up approximately \$30 million of cash in fiscal year 2019 and more than \$110 million in 2020 for debt repayment given that JAB has elected to participate. These figures could increase if additional shareholders take part in the program.

The program gives shareholders the option to receive their full dividend in cash or in 50% cash/50% common stock. We view this as a positive because Coty's largest shareholder JAB, which owns a 60% stake, opted to receive 50% in cash and 50% in shares until the company reaches its target leverage of 4x. We believe Coty will use these funds to reduce its debt. Still, Coty remains highly leveraged and it has not yet stabilized its consumer beauty business. Incorporating lower cash dividends, we forecast debt to EBITDA will be in the mid-5x area as of the end of fiscal year 2019 but will not decline to 4x until the second half of its fiscal year 2021.

Coty struggled with integrating the Procter & Gamble beauty assets it acquired in October 2016. In our view, it underestimated the complexity of the acquired business, was distracted by additional acquisitions, and executed the consolidation of its supply chain poorly. Its consumer beauty segment underperformed the most as it was also affected by weakness in the mass channel.

Coty made management and board changes following the execution issues. In addition, its supply chain issues appear to be under control and its profits and cash flow have modestly improved. The company is now focused on simplifying its operations, reducing costs, and improving its relationships with its customers. We could revise the outlook to stable if the company stabilizes its consumer beauty segment, expands its EBITDA margin to the high-teens percent area, continues to repay debt, and reduces its leverage to the low-5x area.

This report does not constitute a rating action.

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