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Coty, Inc. (COTY)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. My name is Stephanie, and I will be your conference operator today. At this time, I would like to welcome everyone to Coty's Conference Call Announcing it's Definitive Agreement with KKR and Strategic Transformation. As a reminder, this conference call is being recorded today, June 1, 2020. On today's call are Peter Harf, Chairman and CEO; Pierre-André Terisse, Chief Operating and Chief Financial Officer.

I would like to remind you that many of the comments today may contain forward-looking statements. Please refer to Coty's earnings release and the reports filed with SEC where the company lists factors that could cause actual results to differ materially from the forward-looking statements. In addition, except where noted, the discussion of the financial results, our expectations reflect certain adjustments as specified in the non-GAAP financial measures section of our release.

I will now turn the call over to Peter. Please go ahead, sir.

Peter Harf

Chairman, Coty, Inc.

Hi, everybody. I'm Peter Harf. I'm the new and the old CEO of Coty. I founded Coty in 1990, ran it until 2001, then turned it over when I was promoted up to the shareholders to my good dear friend, Bates, who then ran it for 10 years. So we had two leaders in 20 years of Coty, and we grew the company across that time at 15% a year. And even in the 2000s, we grew at 10% a year. So Coty was a \$4.5 billion business that grew less in 2011.

Thank you to period of turmoil, we changed leadership quite a bit, and also [indiscernible] (00:01:54) the direct action-oriented approach, all of a sudden disappeared. And frankly speaking, today, Coty is in a difficult situation and we need to really do our best to regain the trust of our investors, but also of our people because our people need to be motivated and ready to fight for the company as much as we can.

So, today we want to update you on a transaction. It was already known to you from May 11 when [indiscernible] (00:02:39) understanding with KKR. Pierre-André, who's with me, signed the agreement a few minutes ago and it was definitive now. So a strategic transaction with KKR has been concluded exactly the way we had planned it.

I'll now hand over to Pierre-André to take you through the high-level transaction summary. Pierre-André, over to you.

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

Thank you, Peter; and good morning to all of you. So before we get to the very important and meaningful management changes, let me talk to you about the KKR partnership which we indeed finalized over the weekend and the past few hours; three weeks after the initial announcement on the 11th of May.

As you know, this is made of two different transactions. The first one is the \$1 billion convertible preferred shares issued by Coty and subscribed by KKR, with coupon of 9% and a conversion price of \$6.24 per share. We had closed the first part of that and received \$750 million initially. We have now the complement of \$250 million, which is going to close in the coming two months. So, that's the first transaction which is being completing today.

The second one is a very important one, because this is a conclusion of a 60/40 partnership on a [ph] perimeter (00:04:13) which includes the Professional business of Coty and the Retail Hair business as well, with four important brands among others: the Wella brands, Clairol, OPI and ghd. So, this has been concluded alongside the parameters which we had announced on the 11th of May, an enterprise value of \$4.3 billion, \$1 billion of debt at the JV level which are going to result in a \$2.5 billion in net proceeds to Coty, slightly different from what we had announced on the 11th of May, as we have adjusted that for some liabilities.

And we are going to retain 4% ownership valued at \$1.3 billion [ph] and effectively (00:05:07) an important exposure to value creation, because we believe this business is going to grow and to create a lot of value within this new scope in the coming few years. We expect to close this in six to nine months, so around the end of the calendar year 2020. Together with these two transactions, we also broadly have a partnership with KKR, which is important because they bring us a significant experience in driving consumer products turnaround. A very recent example of that is the [ph] upfield (00:05:50) business to which, by the way, Gordon von Bretten participated. So, he will be able to bring his experience.

Peter Harf

Chairman, Coty, Inc.

[ph] I didn't know that. (00:06:04)

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

Yeah. Gordon Bretten, who as you know, as you have seen probably, has become the Chief Transformation Officer of Coty, and Peter is going to come back on – he's going to come back on that. These two transactions have two important effects on us.

The first one is about liquidity and flexibility, so it decreased our leverage substantially from 5.6 times to 4.5 times on a pro forma basis. They provide immediate liquidity of close of \$1 billion through the convertible, with an expected liquidity position of \$1.8 billion to \$2 billion at the exit of fiscal 2020. And they provide us with the flexibility which we need to face the current environment which, we all know, is an environment with difficulties, but at the same time opportunities; and we'll have the ability to catch these opportunities and to navigate through [ph] this period of time (00:07:03). Thanks to an improved liquidity.

The second effect is that it simplifies our portfolio, enabling us to focus the leadership of Coty on two important categories being Prestige and Mass Beauty, which themselves are going to be transformed; and again, we'll come back on that. They allow us to focus on the simplified portfolio and at the same time to start a very important program of cross-cutting to regain competitiveness and to regain as well the ability to invest for growth. So, that's for the transaction summary. A couple of slides.

Now, the following slide about the deleveraging for you to see numbers. So, we had – as you can see, we had at the end of 2019 a net debt to EBITDA leverage of 5.6 times. If we take into account the Kylie transaction [audio gap] (00:08:04) the Wella deal, will come to 4.5 times, which would even become 4.3 times if we were to take into account the fact that we still have 40% of Wella and obviously access to the value of this date.

That's on the pro forma 2019. If we have a look at the same number taking into account the COVID, they are obviously higher, but you can see that they're rapidly converged towards the level of 5 times. So again, that's deleveraging; and in both case, in fact it's a significant acceleration of deleveraging. As I said, it also reinforced our liquidity and we are going to reach \$1.8 billion to \$2 billion upon the payment of the \$250 million additional preferred convertible which will happen at the end of July. So, that's for the deleveraging which is obviously very important.

If we go to the following page, the second effect [ph] is the refocus (00:09:03). So, the new Coty remains obviously exposed to the upside and value potential of the Wella business, which is now going to become an associate business accounting wise. Yet the new Coty is going to be considerably simpler. As you can see on the chart we are going to be, on the pro forma 2019 basis, a \$5.9 billion business with the pro forma EBITDA of \$1 billion which becomes \$840 million if you take into account the stranded cost, which we expect to get from lower fixed cost absorption.

Geographically, Coty remains balanced between its two strong presence which are the Americas, with slightly less than 40%; and Europe, Middle East and Africa with slightly less than 50%; and obviously Asia Pacific remains a very meaningful opportunity for us at 13% of net revenues. In terms of category, Prestige fragrances now represent half of our revenues; cosmetics between Mass and Prestige account for 45% of our sales; and the last one is obviously Prestige skin which represents close to 5% of our sales. So that's the base of Coty we have following these two transactions.

And now, I will leave it to Peter, to tell you what we are going to do with that.

Peter Harf

Chairman, Coty, Inc.

Yeah. Let me start with the next slide, with the structure of the business. On the right side, the Professional Beauty activity, I'm not talking about that. That's going to be part of the new entity that KKR is going to lead. [ph] You (00:10:49) have 40%, but KKR will drive it. We are very optimistic because at KKR [indiscernible] (00:10:54)

KKR in Europe has ample experience in this business, in this B2B business, but I think under their guidance will flourish.

Let me focus on other two sectors, Prestige Beauty and Mass Beauty. I won't take you through the key metrics because I mean you know them; the revenues and the growth profile and you also know the brands. I mean, what you see on the left side as an addition is just the Kylie brand. And you'll see other social media phenomena added to our portfolio, because we feel this is a growing part of the market, a very attractive part of the market and a market that's going to stay. We're going to see some other people, commentators of the industry who kind of fear that the Internet based, social media based brands and endorses will basically turn out to be [ph] a fad (00:11:53). We strongly believe that they're here to stay.

Kylie in our opinion can be very, very strong business that we can take global. And we are [indiscernible] (00:12:05) refocus in the beginning on skincare. You may have read in the newspaper that Kylie Skin was launched last week across Europe by Douglas. They sold I think \$2 million in three days, which is for a single customer quite a high number. We can take Kylie global. And one of the big key activities will be to launch Kylie globally and leading this activity with skincare.

In addition to that, we are in the process of creating a digital platform and social media and e-commerce across all the brand portfolio of Coty. And it will be very good technology, I mean it's already well-advanced with click-through possibilities [indiscernible] (00:12:55) from other places, you click on a product and you can right away order it with one click. So, all this is in the making. The same thing is also true for Mass Beauty, same kind of focus on the digital platform, but we also are on the process and we are hiring somebody very, very powerful who would direct these efforts to reinvent mass color for not only current users, but also the millennials and Generation Z. What we're absorbing in generally speaking consumer goods is a trend back to traditional brands, people in the crisis return to what they know and cherish when they were younger. It's also a question of availability and the channel basis and it's also a question of retail price. So, we see at the moment the traditional brands [indiscernible] (00:13:47) for example gain market share. Sally Hansen is doing great with CoverGirl stabilizing in the market share and the other brands are doing well. So, this is a – you see lightning at the end of the tunnel, but we'll invigorate that [indiscernible] (00:14:02).

If we go to the next slide, another change we make, we reduced the Executive Committee to three people and we're going to do that because we think that in the crisis, but also both the crisis are health crisis, but also the crisis of Coty itself, we need to be very decisive, fast and disciplined. So, we'll have a team of three people in the Executive Committee under my leadership. As you see, I'm the Founding Partner and the Managing Partner of JAB. I'm a Director of Keurig and Egberts – and Jacobs Douwe Egberts, the company that was just taken to the public market on Friday. And obviously, my track record is Former CEO and Executive Chairman of Coty which I built in 1990. From 1990, I was the CEO until 2001 and then Chairman afterwards. And I built Benckiser and formed Reckitt Benckiser through the merger, and actually it was a takeover of [indiscernible] (00:15:11) Benckiser. I'm also the ex-Chairman of Anheuser-Busch InBev, and with Coty [indiscernible] (00:15:18) since the new Coty was invented and founded in 1990, I'm at the helm there since 1990.

Pierre-André, do you want to take yourself, [indiscernible] (00:15:35) your credentials. You're the COO and CFO. Over to you.

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

Yes. I've joined Coty, as probably most of you know, in February 2019. So, it's about 16, 17 months ago. And before that I had spent as a CFO and then thereon encompassing as well some responsibilities in the area of

supply chain and procurement. Before that I had spent 30 years in public company, for the most part of it in finance. I've been the CFO of Danone and I've been as well leading the Africa Division of Danone and setting up the business myself. That's all from me.

Peter Harf

Chairman, Coty, Inc.

Okay. Last on the chart is our Chief Transformation Officer, Gordon von Bretten. Gordon actually joined us less than – actually eight days ago and he was [indiscernible] (00:16:30) KKR to work with us. After about five days he said, please, can I join you permanently, because I see this opportunity as so promising and I would like to leave KKR and join you? I mean many people, including me, call him the rock star, because he's one of the best people in terms of transformation management that is available in Europe. He had a number of positions, you see it the slide and has a lot of experience. So, he's done this work many, many times over, so a very, very prominent opportunities.

The last thing he did [indiscernible] (00:17:08) and he helped with the Spreads business that was taken out of Unilever. So, he has been around the block, he knows what he's doing, and I think we find as a very nice endorsement that this seasonal executive have said, okay, you know what, I want to join permanently. The other thing he did, sir, please can you do me a favor, give me all compensation in shares, that was a very nice endorsement. Thank you very much, Gordon.

Okay. When we see about the board, it's I think more of the same, the only difference is that Coty now has two KKR board members, one of them is the leader of KKR in Europe and arguably one of the best investment bankers in the world – sorry, private equity investors in the world, Johannes Huth, I've known him for many years and he's a very solid guy, completely reliable and very creative from a strategic standpoint, so very strong addition to our board. So, we now have four representatives of JAB on the board, two representatives of KKR and six independents. On the Wella board, this will be a private company, 60/40 KKR/Coty. There will be five board members. Of those six board members, four are coming from KKR and two from Coty.

Now, let's take you through the next slide 6 and that's really very high level what Gordon [indiscernible] (00:18:44) to do, we call it end-to-end transformation, the project name is All-In To Win. It has a very strong revenue component. I touched on that already, so we're not going to basically dwell on it again. The one point we added [indiscernible] (00:19:02) is rebuilding portfolios by focusing on hero SKU's. In the past, Coty has unfortunately too often used promotions as a tool and has lost too many flankers that has weakened the core, what I want to do – as we try to take some time, these strategies are [indiscernible] (00:19:22) for example, if you know [indiscernible] (00:19:25) you see that the brand is [indiscernible] (00:19:29) 1999, it's doing extremely well, over \$500,000 million in sales, it's been tweaked a little here and there, we changed the face every two or three years, but the brand itself has its massive presence across the trade and across duty-free, because it's managed in a very consistent, careful and right way.

Recently [indiscernible] (00:19:51) the same thing was relaunched in [indiscernible] (00:19:57) that's really kind of the role model that we are following, we take the [indiscernible] (00:20:03). On the cost reduction side, again, we expand and accelerate the program that already was discussed by Pierre-André in the last earnings call. We're going to accelerate that and we're starting actually tomorrow, 2 of June. Also, there were a number of things that Pierre-André has put into place because of the COVID crisis and we try to hold on to these measures as much as we can.

And lastly, we're going to massively simplify Coty across the network, the product lines and the organization [indiscernible] (00:20:41) we basically have now integrated sales leadership across the globe [indiscernible]

(00:20:47) the regionalization at the top and we made this whole thing much, much easier. The marketing [indiscernible] (00:20:56) is going to report directly to me without any layer in between. So, overall, I think it's a journey back to the entrepreneurial path, back to the entrepreneurial spirit of Coty.

Now, I'll hand it over again to Pierre-André.

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

Thank you. Yeah. So, couple of words on the efficiency program before we conclude and we move to Q&A. You have on this slide, the main block of the efficiency program, we are going to – in fact we've already started implementing. The total amount we are targeting is in excess of \$600 million, so \$600 million here [indiscernible] (00:21:43) which is obviously the current one, i.e., excluding Wella. The costs we'll need for that is the same as when we announced last time, \$350 million, which means that including what we already had, it's a total of \$500 million, so no change on that. And you can see the main blocks which are for a part the supply network which we think can be very significantly simplified, flexiblized and step up in terms of efficiency and we have already started working to design this program of simplification.

The second one is about the procurement for the most of this initiative, these are the non-people and A&CP blocks. We believe that was really part of the turnaround that we can expand it. We believe we have massive opportunity there based on the store modernization on the one hand, making sure that we don't reinvent the wheel every time, but we just leverage the size of Coty. And on the other hand, on the simplification of the group and the standardization again for our business services, better controlling the costs and doing something which Peter often refers to, which is very important, we want to have discipline within the group.

We want to have discipline and this is going to deliver corrective efficiency. And then, the simplification is also going to touch the organization and the people block. So, this plan is being put in place. It's going to be a key part, not the only part, but a key part of the transformation program of Coty and we expect more than a third to be delivered in year one as we already have some actions in place in particular on the non-people side.

I'll turn to the following page which is called value creation, because at the end of the day, this is what we are targeting, what we are trying to build. Our announcement today strengthened Coty in a very meaningful way, it does it with an improved capital structure, with a significant deleveraging, but also an improved liquidity which enables the execution of the overall transformation and that's, obviously, extremely key in the current period. It gives us or it helps us keep an exposure to the long-term value creation of a strong business, the Wella business, which we expect is going to be strongly performing in the context of the management within a private equity, within KKR.

The meaningful change of leadership, we believe, is going to be a catalyst for change, as I think Peter has evidenced. And after the trough in Q4, as we have been going through the lockdown in many, many markets in the world, in particular in Europe, we expect to be well positioned to benefit from the rebound of our categories and we are targeting strong medium-term improvements of our financials to create value or operating margins which we expect, which we are going to drive to mid-teens and the leverage of Coty which we are going to drive below 4.

That's I think the summary of what we wanted to tell you, and now, we'll go to questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Nik Modi with RBC Capital Markets.

Nik Modi

Analyst, RBC Capital Markets LLC

Q

Yeah. Good morning, Pierre-André. Good morning, Peter. Just wanted to quickly ask, obviously, with Peter coming in as CEO, just what happened with Pierre Denis, if you can give us any context around that decision?

And then, just on the Kylie, I know there has been a lot of news out over the weekend. Just want to see how you guys think about the social media strategy and influencers, et cetera, and some of the risk involved and the volatility involved in that business model? Any thoughts on that would be helpful. Thank you.

Peter Harf

Chairman, Coty, Inc.

A

Okay. Yeah. It's very straightforward the answers to that. Pierre Denis was brought on board when we – just before the crisis hit and the crisis delayed the whole program. We were planning to spin-off the Wella business before he would join, in the 1 of June. That didn't happen and we felt – I think he agrees that he's not really the best person in the world to [ph] affect (00:26:37) such a complicated spin-off. So, I mean KKR and I agreed that it would be probably better to have somebody who's a seasoned entrepreneur run this process and this is why I stepped in. I think there's a full agreement with KKR. They're very happy that I'm doing it, and Pierre Denis understands, he's sticking around as our senior advisor, right, who knows what the future will bring. I mean, we haven't committed to anything, [indiscernible] (00:27:04) not only a friend, but also a senior advisor to us.

Now, to the other question, Kylie, let me first say that I mean, obviously, we don't want to comment on a running lawsuit, because there is a very high chance that it's going to end up in a lawsuit. I also heard though that, I mean they're going to bring in their addition tomorrow, the numbers that were originally listed on Kylie, so it seem to be retracting from their position. All I can say is that, I mean we paid the amount that were published and we know that for sure, because it came from our bank account. And the allegation of didn't pay the taxes, the money only was transferred to the accounts in the second week of January, so I don't – I mean, I'm not an American, but normally Americans file like everybody else [ph] a tax regimen (00:27:59). So, but the allegation that she didn't pay her taxes comes from is a mystery to me.

So, [indiscernible] (00:28:07) does it have an impact? Obviously, we do a lot of social listening. And so, the noise was very high. I mean Kylie made a statement online, very much a statement of a young mother, not highly sophisticated, [indiscernible] (00:28:23). So, I mean there were some negative responses, loss of support, losses from negativities. So, it does influence the [indiscernible] (00:28:34) with every business. I mean if you've a business, if something happens with your brand, you'll get tired and all or something like that, you need to respond, you need to do right thing and this is not a phenomenon that only affect social media brands. And by the way, in contrast to some other industry [indiscernible] (00:28:52), I think that the brands, the social media brands are there to stay.

Let me remind you that in the 1940s and 1930s, the leading brands in cosmetics were Revlon, Max Factor, Elizabeth Arden and the likes. It was a lady – I think it was in creams, who mixed fragrances in the [indiscernible] (00:29:11) and she took over the American market. So, I would be careful to say that the people who are now gaining in the market who have a large audience and different way of communicating and going to market

[indiscernible] (00:29:29) phenomenon. I don't have that – I don't know what people take their conviction from. Thank you.

Nik Modi

Analyst, RBC Capital Markets LLC

Thank you. Very helpful.

Q

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

Thank you, Nik.

A

Operator: Your next question comes from the line of Faiza Alwy with Deutsche Bank.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Yes. Hi. Good morning. Peter, a couple questions for you. One, I'm just curious sort of how your job changes, you were Chairman of Coty, you have a lot of other things on your plate, and I'm just wondering how your day-to-day role changes and sort of how – just personally, operationally how much time do you expect to spend on Coty.

And then, you made some comments around the culture at Coty and how that maybe needs to be revitalized and I was wondering if you could expand a little bit on that and what your plans might be there. Thank you.

Peter Harf

Chairman, Coty, Inc.

Okay. Faiza, these are two very good questions. My role is very straightforward, I'm the [ph] Founding Father (00:30:32) and Founding Partner of JAB and I really have deemphasized my supervising role in the company. I'm working only with two companies and two boards, and both of them outside Coty, I'm not a Chairman: one is KDP, Keurig Dr Pepper, I'm on the board there, supporting Olivier; and I'm on the board now for the newly formed, Jacobs Douwe Egberts, that was launched and went public on Friday. These two boards I have and many, many CEOs have more than two boards. So, I mean, rest assured on the other brands you have – I mean on the other boards you have, I'm not serving anymore. So, that gives me a lot of time.

Plus I mean we have last year strengthened our team amazingly. We have some of our partners who are world-class athletes. Take for just an example, I mean we have Ricardo Rittes once before he joined us was the CFO of Ambev and he's 31-year-old provided and put together a \$55 billion unit financing for invest at the time when they took over [indiscernible] (00:31:43) that was in the height of the liquidity crisis. So, [indiscernible] (00:31:47) on the block are doing very, very good job. So, there is a lot of talent and a lot of support at the level. Plus I mean our CEO remains – is and remains [indiscernible] (00:32:00) the best three or four investors in the world. So, I mean, we're in very good shape.

Culture wise, there is a very unique culture at JAB, that culture was basically formed in the 1980s from a bunch of young guys [indiscernible] (00:32:19) try to really do business differently from the kind of the more military operations that you know many companies in Germany and of course [indiscernible] (00:32:27). We're very nimble. We've new ideas. We came in of the [indiscernible] (00:32:33) but instead of going to the street, we went through the organizations. And so, that [indiscernible] (00:32:41) values, entrepreneurship, when in doubt act, speed, lack of bureaucracy, just get the job done was part and still part of the DNA of JAB, that's why we can operate \$120 billion portfolio with 10 partners.

Q

A

So, this culture was also at the heart of Coty. We've reformed exactly the same culture within Coty for the first 10 years when I was running it. That was the spirit. And then, Bart Becht came, who's now an investor, who came from [indiscernible] (00:33:15) and came from Procter & Gamble, he continued that strategy [indiscernible] (00:33:19) Chairman, he was the CEO. So, Coty, in the first 20 years was very nimble, when it came to culture, non-bureaucratic, fast, a fun place to work, and that changed. Now, I don't want to go into the reason why it changed, but in the last five years, we had five CEOs. I mean this shows that we lost our way, and now that's why I'm stepping in. You could say well, Peter, why now? Maybe I'm too late. Maybe I'm too late, but I'm doing it now and there's a COVID crisis. There's a huge fantastic partnership with KKR, Johannes Huth, who's one of the key players in KKR is a good friend and we're going to do this together and Johannes will be our Vice Chairman. I will be the Chairman, Johannes, Vice Chairman, so we're going to have a lot of fun and we're going to get the job done, so much for culture.

Operator: Your next question comes from the line of Steph Wissink with Jefferies.

Stephanie Wissink

Analyst, Jefferies LLC

Q

Hi. Good morning, everyone. We just wanted to follow-up on the separation of the businesses and what will be Coty's responsibility going forward in terms of post any sort of transfer service agreement? What core operations, or if any, will you be responsible for within the joint venture? Thank you.

Peter Harf

Chairman, Coty, Inc.

A

Well, [indiscernible] (00:34:37) is a very difficult question, but let me try to start the answer and then I'll turn over to Pierre-André. In principle, it's very simple, KKR runs Wella; we run – I run, Coty. Obviously, there's some overlap, but in most cases, their factories are dedicated and [indiscernible] (00:34:57) is in the trade business and we have – in number of countries, we have our brands like Clairol and Wella also available in big boxes and in the trade and there I think, obviously, we have to do curve outs. And I think my friend Pierre-André is very, very well-versed in this and I'll turn it over to him.

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

A

Yeah. So, the separation is – so, we signed today, we expect to close at the end of the calendar year, so say around at the end of December. By then, we need to continue what we have already started, which is the process of separation. The Professional Beauty division was already fairly autonomous. There are some functions which [indiscernible] (00:35:47) will need to stand them up. But that supply chain in particular with [ph] plenty of autonomous (00:35:52) factories altogether, distribution center, which for part of them are dedicated as well [indiscernible] (00:35:58) the administration has to stand up as well. And the last piece is – and the more complex piece of [indiscernible] (00:36:08) is Hair Retail, because Hair Retail is currently operated by the Consumer Beauty division, so we'll need to carry it out.

I don't have any particular concern, because we have been working for the past few months on very detailed plans, we know how to do, we have a very clear timetable to organize that and to make it happen by the end of December 2020, following which we will, obviously, have [indiscernible] (00:36:34) agreement, because we are not going to convert everything at the same time. That would be unreasonable. We are going to do it progressively which is going to leave time to Wella to take over the business and to focus not only [ph] to understand it (00:36:47), but also on growth and on profitability. And the same is going to go for Coty, that's going

to help us getting time to absorb the [indiscernible] (00:36:55) and to reconfigure the group in a way which is more competitive. So, that's what we have in front of us. And then, for the rest of it, as Peter said, Wella is going to run Wella and Coty is going to run Coty, and we are very, very clear in priorities on each side of the lake, if I may say.

Operator: Your next question comes from the line of Olivia Tong with Bank of America.

Olivia Tong

Analyst, Bank of America Merrill Lynch

Q

Great. Thank you. Good morning. Peter, obviously, you've been...

Peter Harf

Chairman, Coty, Inc.

A

Hi, Olivia.

Olivia Tong

Analyst, Bank of America Merrill Lynch

Q

Good morning. You've obviously been part of Coty for a long time and there's clearly been a significant amount of change that you alluded to, several CEOs now. So, can you talk about your position, do you view this as interim or more of a semi-prominent change? Should we expect to see more management changes with you as CEO? And then also, should we expect any changes to the targets or even incentive structure to get to those targets? Thanks.

Peter Harf

Chairman, Coty, Inc.

A

Yeah. I think these are all very, very valid questions. With regard to my tenure, I'm coming back, by the way, I mean without any pay. I mean [indiscernible] (00:38:04) shares of Coty. So this is, I mean, good enough for me. I'm coming back because I really like the business; I'm passionate about cosmetics and I'm passionate about the people at Coty. I mean, [indiscernible] (00:38:18) for 10 years I build it and then [ph] I was next to the (00:38:22) CEO for 10 years. So this is a business very close to my heart, both the people and the brands and the whole aura that cosmetics has around it. So this is, I mean, one of the key things. So my role is going to last until the business is in good shape. I want to bring back the old Coty from a cultural perspective, but also from a performance perspective.

Now, in terms of numbers and projections and plans, I think we have a track record of not delivering for quite a while. We're going to fall into the trap of not promising all kinds of stuff. What I'm saying to you is, we will go for the low-hanging fruit. As we heard, there are lots of initiatives running. But nevertheless, we have significant initiative and significant new production coming on board; we'll let you know. So there will be a stream of information coming about Coty. So [indiscernible] (00:39:20) big bangs. Next earnings call we're going to have 10 different initiatives. We're going to be talking to you and the market on a consistent, regular basis.

And then I think we've got to look at the earnings. I mean, frankly speaking, after the corona crisis and depending how long it lasts, I don't think this is going to be very pretty, but I mean we're going to face the full effect and tell you the truth. And then we also do come with the initiatives for the coming year. So, we will be very transparent. I think we are all fearless to be honest. We have 60% of the shares between KKR and us, so we have a long, long, I mean, perspective.

So, I'm not afraid somebody is trying to take us over, because with 60% in our hands it's very difficult to take us over. I'm not planning to do the company private either. We're going to fix this company in the public market, because we have so many long-only investors [ph] that which is appointed (00:40:20) in the past, and we wanted to give these people and they're going to stick around the chance to benefit from the improvements. That's my view. Thank you.

Operator: Your next question comes from the line of Joe Lachky with Wells Fargo.

Joe Lachky

Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. Just real quick,...

Peter Harf

Chairman, Coty, Inc.

A

Hi.

Joe Lachky

Analyst, Wells Fargo Securities LLC

Q

...first, the clarification on the cost savings. Obviously, you've outlined \$600 million, I think that was a little bit lower than what you had outlined in the previous call which was \$700 million. So I just wanted to get the difference there?

And then my main question for Peter; Peter, thank you for being on the call. The prior CEO announcement from Mr. Denis, it really had a clear mandate of a focus on growth. And obviously, a lot's changed over the past few months, but it now seems like there is a number of different priorities that you're trying to tackle all at once, right; [ph] good controls (00:41:19), cost savings, deleveraging, et cetera. So, does this change the priorities and where does growth fit within that rank, right.

Peter Harf

Chairman, Coty, Inc.

A

Okay. The first part of the question is dealt with by Pierre-André.

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

A

Yeah. Well, it's pretty easy. We had set \$700 million in the context of the group which was the total group Coty previously including Professional Beauty including Hair Retail (sic) [Retail Hair] (00:41:44). So the \$600 million relates to everything, but Wella, and therefore to the remaining group. So, that's the vast majority of it. And obviously, we're working with you to not only achieve it, but to achieve more than that.

Peter Harf

Chairman, Coty, Inc.

A

Thank you. Go back to page 6. We talked about revenue generation there, and they are very strong initiatives. We will take Kylie global, and I personally think that this is a brand that could reach I mean hundreds of millions; could be very, very soon be the biggest brand we have. And then we are investing also in other social media phenomena. I could get more concrete, but this is not yet in the public domain. So this is a major focus for me to develop these properties.

And I'd tell you, [ph] Chris, Jen (00:42:39) and I are good friends and we're working on Kylie for a year and a half. I think we locked that in, and I think I'm very proud that the [ph] Jenner (00:42:48) family is working with us and have access to them and to all other people who are big key opinion leaders on social media. The other thing I said is digital platform for all of Coty brands, and we are investing heavily at the moment [ph] as (00:43:04) all this is running in the background [indiscernible] (00:43:07) part of Pierre Denis program and my program heavily in this digital platform across Coty; and I suppose social media platform, but also e-commerce platform.

And as you know, e-commerce at the moment is going to [indiscernible] (00:43:19). So we are going to have a very strong integrated capability. And that's not going to be in two years, we're working with [indiscernible] (00:43:25) for quite a while and there might be actually by the way. The Chairman, [ph] it took me on myself to look after the Kylie business; and took me on myself to look after (00:43:34) the digital platform [indiscernible] (00:43:36) I was in the background already doing lot of the work I'm doing right now [indiscernible] (00:43:41) function.

The cost saving structure – I mean, these are projects that Pierre-André outlined during the earnings call. That was, I mean, very solid cost saving program [indiscernible] (00:43:54) I mean, discipline. I mean, we're tracking the cost. We're tracking the performance of every team member [indiscernible] (00:44:03) on a weekly basis. So more discipline, but basically the same kind of idea; reduce the assets and reduce the cost base in the P&L. We're adding revenue generation piece officially now that was before in the background.

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

A

Next question?

Operator: Your next question comes from the line of Mark Astrachan with Stifel.

Mark Astrachan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks; and good morning or good afternoon, everyone.

Peter Harf

Chairman, Coty, Inc.

A

Good morning.

Mark Astrachan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

I guess, two questions. So Peter, building on a prior question, how involved were you in the setting of the long term, I guess in particular EBIT margin target? And why do you think at this point that something that it's necessary to lay out at this point, given all the moving parts?

And then secondly just more of a broader picture, as somebody who's obviously been hugely involved in creating running this business from behind the scenes without having interacting a whole lot with investors, I'm just really curious from your perspective, how you view Coty is positioning within the Beauty category and competing with its competitors; the likes of L'Oréal in particular, Lauder? And just how you think about this business in terms of its ability to compete?

So it certainly seems from the outside that the brands that you have are definitely some that need a lot more investment to compete. And so, it's kind of back to that first question, why stick to those targets when you might be better served [ph] to have (00:45:52) flexibility.

Peter Harf

Chairman, Coty, Inc.

A

I'm not sticking to any targets. I haven't mentioned any targets to anybody. I haven't laid out any operating margin targets. I'm involved – I mean, my involvement is fairly recent, because frankly speaking there were some people running Coty who didn't want to listen to me, who didn't want me in the room. So, I mean – so I feel that the moment I had seen the opportunity to input, I did input. So, point number one.

Point number two is, I mean at the end of the day we must be very humble. We have two phenomenal leaders in the business. One is called L'Oréal. The other one is called Estée Lauder. And then there are broader houses, broader fashion specialists like Dior or Chanel. These are amazing companies. And we mentioned Shiseido as a very strong competitor. And we actually get up very early in the morning and stay up very, very late to compete successfully at their level of performance. It's going to take us years to reach that level if we ever reach it.

So my expectations in that regard are not that high. Is it still a good business? Yes, it is, because it's a business with an underlying market growth. We have aging population, we have premiumization, we have more and more people investing heavily in themselves. The core and the sweet spot of the industry is skincare. We have little in skincare. Now with Kylie and the other [ph] properties we're (00:47:31) looking at, we will focus on skincare, we will devote the skincare portfolio.

And over time, we will slowly and gradually try to improve the top line and we're going to slowly and gradually improve the bottom line. As I said, whether we're going to catch up with the other guys, we're not going to be asleep at the wheel. I don't know. But I know that it can be a good return business for us in the space for Coty in the future. That's why I think it's a good business. That's why I think JAB should stay invested. That's why we're not trying to sell the business; we're trying to make it stronger gradually over time.

Operator: Your next...

Peter Harf

Chairman, Coty, Inc.

A

Okay.

Operator: Go ahead.

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

A

Yeah. And that will be the last question, please. Yeah. Go ahead.

Operator: Your final question will come from the line of William Reuter with Bank of America.

William Michael Reuter

Analyst, Bank of America Merrill Lynch

Q

Good morning. You've received \$750 million of proceeds at this point and you're soon going to receive another \$250 million after that and then the proceeds from the Wella sale. I guess if you could talk to us a little bit about the timing of debt reduction whether all of these proceeds will be used for it, and if you know at this point which of the debt you will be targeting?

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

A

It's Pierre-André speaking. They will basically use to improve our liquidity within the frame of the existing agreement and within the frame in particular of the revolver. What we intend to do is to keep flexibility as I said to navigate a period of time which we have seen can be pretty volatile and demeaning from a cash standpoint, and give us the ability to navigate it while investing behind the brands and making sure that we take advantage of the crisis to be stronger both by the way from a brand standpoint and from a cost standpoint.

So, put it very simply, that's going to be increasing the liquidity and that's going to be put on the youth on the revolver. And then we expect that as we move forward that maybe one of the elements which help us reduce the debt overall, altogether as you have seen in the pro forma and have producing as well the leverage.

William Michael Reuter

Analyst, Bank of America Merrill Lynch

Q

Thank you and good luck.

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

Thank you very much.

Peter Harf

Chairman, Coty, Inc.

Thank you, everybody.

Pierre-André Terisse

Chief Operating Officer & Chief Financial Officer, Coty, Inc.

Thank you, all. Bye-bye, and see you on the road. Bye-bye.

Operator: Thank you. This concludes today's conference call. You may now disconnect, speakers, if you hold the line.

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