Company Name: Coty
Company Ticker: COTY US
Date: 2019-11-06
Event Description: Q1 2020 Earnings Call

Market Cap: 9903.39151581
Current PX: 13.1300001144
YTD Change($): 6.57000011444
YTD Change(%): 100.152

Bloomberg Estimates - EPS
Current Quarter: 0.254
Current Year: 0.684
Bloomberg Estimates - Sales
Current Quarter: 2322.875
Current Year: 8165.7

Q1 2020 Earnings Call

Company Participants

- Pierre Laubies, Chief Executive Officer
- Pierre-Andre Terisse, Chief Financial Officer

Other Participants

- Robert Ottenstein, Analyst
- Olivia Tong, Analyst
- Nik Modi, Analyst
- Faiza Alwy, Analyst
- Joe Lachky, Analyst
- Lauren Lieberman, Analyst
- Stephanie Wissink, Analyst
- Mark Astrachan, Analyst
- Wendy Nicholson, Analyst
- Andrea Teixeira, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. My name is Maria and I'll be your conference operator today. At this time, I would like to welcome everyone to Coty's First Quarter Fiscal 2020 Results Conference Call. As a reminder, this conference call is being recorded today, November 6, 2019. On today's call are Pierre Laubies, Chief Executive Officer; and Pierre-Andre Terisse, 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 the SEC where the Company lists factors that could cause actual results to differ materially from these forward-looking statements. All commentary on like-for-like net revenue reflect the comparison of the business at constant currency in the current and prior year excluding the impact of acquisitions and divestitures. In addition, except where noted, the discussion of our financial results and our expectations reflect certain adjustments as specified in the non-GAAP financial measures section of our earnings release. You can find the bridge from GAAP to non-GAAP results in the reconciliation tables in the earnings release.

I will now turn the call over to Mr. Laubies.

Pierre Laubies, Chief Executive Officer

Thank you, Maria. And welcome, everybody, to Coty's first quarter fiscal '20 conference call. I will start by reviewing the progresses we have made on our turnaround plan in the last few months and Pierre-Andre will then discuss our financial results, outlook, and some of the recent strategic developments. Our Q1 can be characterized by several key developments. First, we have begun activating our turnaround plan announced on July 1st. Second, our operational and financial results illustrate that we are off to a solid start for the year and that we are showing improvement on the parameters that we seek to drive. And third, we remain confident in the fiscal '20 targets we laid out on the last earnings call. As a reminder, we did our turnaround plan aimed at solving what we consider our most pressing issues.

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More specifically, where we are talking of the need to readdress the trajectory of our Consumer Beauty business, retain the high performance levels of our luxury and professional beauty businesses, close our margin gap against our peers, reconcile our organizational design and our size, and build an engaging culture relying less on personnel genius and more on collective mastery. Four months into the activation of our plan, we are tackling each of these areas one by one. To begin stabilizing our clients in Consumer Beauty, we have been refocusing our teams on the most pressing fundamentals, namely our working media strategies. In Q1 working media spend increased 11% with the biggest step up behind Consumer Beauty lines. Within Consumer Beauty, we are actively focusing our resources behind our priority brand-country combinations leading to an investment increase of close to 40% on these strategic priorities.

We are also returning, as you may have noticed with the recent announcement on CoverGirl to a marketing strategy altered on our strongest distinctive brand assets. We are also beginning to address our gross margin gap in several ways. First and foremost, we are now making sure that we have the best possible alignment between set-in and set-out thus avoiding value destructive selling tactics. Two, our plans include (inaudible) increases were relevant which have already been or as we speak, are being activated in several countries.

Finally, we are advancing in our objective to be the leaner and more aligned organization, supported by an enabling culture with the right balance of creativity and discipline. We have defined our new organizational culture and have been communicating it for the core functions and in market. We are currently actively recruiting externally and internally for our new Amsterdam headquarter, which would be ready by Q4 and we have recently named Richard Jones, our Global Chief Supply Officer. Richard joined us with extensive experience in the beauty industry and is a key addition to our leadership team to lead our core and [ph] SKU simplification [ph] agenda.

To build further on the progress we have made, our propagatory approach to defining market on our own plans has now covered approximately 50% of our business. This include Consumer Beauty US, UK, Germany and Brazil as well as Luxury UK and an overall review of the philosophy brand. In these markets, we have arrived at core findings, identified the value at stake and have begun deploying action plans. This analytical approach is now being deployed in Consumer Beauty Russia, Poland and Canada as well as Luxury US and Germany where we expect many of the same findings and conclusions.

Our remaining markets will be covered in the next 12 to 18 months. Although, we are still in the early stages of activating our plans, we are beginning to see some green shoots in our operational performance. In the UK, where Rimmel, the number one mass cosmetics brand had experienced market share erosions, our actions have driven a 200-basis point improvement in set-out trends driving market share gains. Behind these improvements are a substantial increase in working media investment, particularly TV, the strong performance of recent launches, Wonderluxe Mascara and Lasting Matte Foundation, both of which were launched at premium pricing and while still early, the limited demand elasticity we are experiencing following our recent pricing actions are in line with our expectations. In Germany, we are seeing many of the same dynamics in the mass fragrance category.

Bruno Banani, the number one mass fragrance in the market has also significantly increased it's set-out performance from a modest decline to a double-digit growth. Fueling the growth are the strong performance of the recently launched Loyal Man fragrance, increased media support for both the male and female lines and the successful expansion of the brand into the shower gel category through (inaudible).

In the US, we have also seen some early positive signals, though we are clear that the path to stabilization will take some time. Sally Hansen, the number one nail brand in the US mass market has struggled with sales declines for several years. Our analytical approach identified the cost of brands we must focus on as well as the key levers to drive consumer engagement. In recent months, we have increased our digital media support for the premium Miracle Gel line, improved the packaging on our treatment product lines and deployed seasonal events in store displays, including a Halloween theme instead high color collection. As a result, while the mass nail market continued to moderately decline, both Sally Hansen nail color and nail treatment are back to steady growth.

And in CoverGirl, while the improvement in the overall brands set-out has been more moderate, our action plans of strengthening performance in key areas, our top eight sub-brands, which account for two-thirds of the brand sales are

now back to growth, marking a 320-basis point improvement, underpinning this improvement is a strong ramp up in TV support solely behind these sub-brands and while our sales continued to be weighed on the [ph] shared space collection, we are seeing productivity [ph] improvement in our core customers, as well as sales growth in uncut channels such as Amazon and Ulta.

Speaking of Amazon as we continue to focus on improving our fundamentals both offline and online, we have seen very strong growth of our brands on Amazon both in US and globally. The strong growth has been supported by our close collaboration with Amazon as part of the global vendor management program, the increased TV support for hero sub-brands, execution focus on core SKUs that were partly weighed on Amazon. As a result in Q1, our mass brands listed on Amazon grew over 40% and we now have our fair share on Amazon across most categories, which is a substantial change for us.

In Luxury and Professional Beauty, we are continuing to deploy our strategies of premiumization and category expansion. In Luxury, this is illustrated by Gucci Alchemist's Garden, which remains amongst the top-performing ultra premium collection and now we are applying early on into support the launch of Chloe's Atelier des Fleurs. We are also seeing strong success in expanding our Luxury brand into the cosmetics category with our Q1 Luxury makeup sales three times the level of last year. In Professional Beauty, the team has continued to drive conversion of leading saloons to the premium Wella Koleston Perfect with ME+ line and following the core principle of innovation, penetration, driving GHD has built on the strong positioning in traditional hair straightener to launch it's very successful Glide hot-brush.

All of these positive signals give us confidence that we have the right brands, the right people and the right action plans to steadily improve Coty's performance and unlock significant value.

With that, let me turn it to Pierre-Andre.

Pierre-Andre Terisse, Chief Financial Officer

Thank you, Pierre and good morning to everyone. So a rule [ph] as you have seen our Q1 results are in line with the expectation and signed a solid start to the year. Starting with topline our like-for-like net revenues declined minus 1.1% which was weighed down significantly by the weak performance in Younique and therefore for the rest of the scope, our net revenues were practically stable at minus 0.1%. This was obviously partially helped by low comparables in Q1 last year, but it was nonetheless an improvement from the approximately minus 3% like-for-like decline on the same scope, so excluding Younique, both last quarter and in full-year '19 overall.

Supporting the like-for-like performance was strong growth in Luxury in Professional Beauty and a sequential improvement in Consumer Beauty. As we focus on gross margin improvement and continued controlling costs, our adjusting operating income grew 10% resulting in 110 basis points of operating margin expansion. I'll come back on that point in more detail in a few minutes. But first, I'll go to the divisional results and starts with Luxury. As you can see here on this slide, the campaign for the new Tiffany & Love fragrance launch is expanding the brand into both male and female fragrances. Over the course of October, the line has been exclusive to Bloomingdale's in the US, but we are already seeing strong results

The sales of Tiffany & Love on the very first day of launch exceeded an entire week of sales of the initial Tiffany Signature fragrance launch and we're pleased to see that the quarter of the sales are coming from the male line, sticking to the appeal of the Tiffany brand across vendors. On the right of the screen close on the heels of the launch of our Gucci lipsticks, globally, we also have been re-launching the Burberry make make-up line focused on Asia-Pacific and the results have been very promising.

So, if I move to luxury financial performance then in Q1, the division delivered another quarter of low to mid single-digit growth. This included growth in Europe and ALMEA in our Luxury fragrance category that continues to grow in the low single-digit, including in the US. While our revenue growth was broad-based, in part helped by easier comparables, some of our sales were impacted by the protest in Hong Kong. This has been hampering our growth in the

city and the surrounding travel retail corridor throughout the quarter.

From a brand perspective, we are seeing solid performance in our innovation, both Gucci and Burberry makeup continued to expand, contributing over a third of our divisional growth in the quarter and this confirms the strong potential of several of our Luxury fragrance brands to expand into adjacent beauty categories.

As I mentioned earlier, Tiffany & Love is off to a strong start, Gucci Memoire has been a solid addition to the expanding Gucci portfolio and Hugo Boss Bottled Infinite continued to be successful fueling further distribution expansion. From a margin standpoint, Luxury drove strong gross margin improvement coupled with cost control and this resulted in over 300-basis point of operating margin improvement.

And now turning to Consumer Beauty. You can see on the next slide, a number of our recent successful initiatives. On the left of the screen is Lili Reinhart, an actress and celebrity who has a strong following amongst Gen Z consumers and she will be the new CoverGirl, easy, breezy, beautiful ambassador. And the consumer response and engagement with this announcement has been quite positive. For Adidas, we are capitalizing on the strength of the sports brand with the launch of three new fragrances, which are working well in markets. And as Pierre discussed already, Sally Hansen has significantly improved its momentum through a number of initiatives including our Halloween male collection and associated in-store displays.

So let's turn now to the financial performance of the division. For the quarter, the like-for-like net revenues declined 7.8% improving from the minus 10% decline ex-Younique last quarter and in full year '19. Europe reported solid results with the growth of net revenues reflecting incremental improvement in sell-out, so that's important.

In North America, the performance was mixed but encouraging with Sally Hansen once again back to growth and noticeable improvements on the priority CoverGirl SKUs as already discussed by Pierre. We expect such improvements to continue in the coming quarter as shelf life is moderate and as our investment continues showing traction. Last, we choose in most ALMEA countries, for consumer to drive healthy and sustainable sales foregoing margin dilutive low value sales, and as a result, revenue declined in this region. In the division, as in the rest of the group, we remain indeed focused on driving gross margin improvements and these results will allow us to free up gross margin enough [ph] to reinvest in the business.

And so on this point, in Q1, we actively ramped up working media and redeployed these to our priority brands. We've been working media investments behind these brands, up 38% this quarter. We saw a noticeable improvement in the trends of such sales which declined in low-single-digit in Q1 versus high single-digit decline in full year in fiscal year '19. So, as expected, this significant increase in A&CP coupled to revenue decline drove a contraction in operating margin in Q1. To end upon Consumer, while the performance of this division remains weak, this quarter has shown positive answers to our initiative and we look forward to more gradual improvements in the coming quarters.

And now shifting to Professional Beauty, GHD continued its strong momentum across core countries. They did by innovations such as the Glide hot-brush and the Platinum+ styler as you can see on the left, and as Christmas is getting close, you should really look at this as a gift idea for the people who really love, that's great idea. So I recommend it. On the right you see that OPI also returned to strong growth supported by easier comparables and a successful execution of some of our corrections, you see on the screen, the Scottish [ph] correction that's there.

Talking about financials for the division, Professional Beauty returned to growth as expected, reporting a strong 5% like-for-like. We saw strong growth in Europe and North America, partially helped by low comparables in the case of the US specifically. As expected US Customer disruption that impacted our sales in the second half of last year has run its course and we have been shipping in line with consumption. The combination of these top line expansion and cost discipline drove over 400 basis points of operating margin expansion, which stood at close to 10% for the quarter.

So that was for the division and now going back to Coty as a whole, a key outcome of the beginning of this year is the changing shape of our P&L, as we are seeing directly focused on gross margin translating into results. Gross margin in the quarter was up 160 basis points to 62%, which was a strong improvement throughout the quarter. Consistent with our comments in August, we significantly increased working media in the quarter by 11% and this resulted in an overall increase of 70 basis points in our A&CP as we continue rationalizing non-working media.

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This is a key outcome since it builds a (inaudible) gross margin progresses finance investments behind our brands, which will gradually help our revenues and in turn our gross margin. It's also the main driver of growth of our operating income, which was up 10% in Q1, or 110 basis points increase in terms of operating margin. Last, our EPS currently is at $0.07, was down versus $0.11 reported last year, which itself included $0.04 of non-recurring tax benefit and, therefore, absent from this tax benefits, the EPS has been stable.

And turning to cash flow statements which as you know is an important element for us, while Q1 is always a seasonally weak period for cash generation, we did improve our free cash flow, very meaningfully by $169 million year-over-year. This growth reflects strong underlying improvements in cash generation, as well as an additional $75 million from factoring [ph]. Having closed the Younique divestiture in the quarter, we received $60 million of proceeds and at the same time repurchased the remaining stake in our Southeast Asia JV for $45 million, in total aided by FX, our net debt and (inaudible) rates move down moderately versus last quarter, to less than $7.4 billion for the day.

So I'm now, moving to Slide 18. In summary, Q1 was a solid delivery on all metric. It was as well, a turning point in the management of our restructuring [ph] and a first milestone in the construction of our turnaround plan. This makes us confident for the rest of the year and we're happy to confirm our target for fiscal '20 at constant scope as said in the last earnings call. In detail, that means like-for-like net revenue stable to slightly lower year-over-year and operating income at constant scope and constant currency growing 5% to 10%, a mid single-digit growth in the EPS and a moderate improvement in our free cash flow. We expect Q2 trends to be generally consistent with these growth algorithm.

To end up, let me remind you of an important decision, which we announced two weeks ago, while our turnaround (inaudible) to building a better business and you have seen some first elements of delivery. We have with the Board come to the conclusion that we need to accelerate the transformation of Coty to increase our focus on core categories and to free up resources to invest behind these categories, namely fragrances, cosmetics and skin care. And therefore, we decided to engage with strategic review of the professional beauty business, associated hair brands, as well as the Brazilian operations. The teams in these businesses have done an incredible job over the past three [ph] years in creating strong platforms in their respective business.

However, we believe we need to work to identify the best options for them with very simple objectives. Number one, unlock shareholder value; number two, sharpen our focus on our fragrance, color cosmetics and skincare businesses and by doing so, reduce the complexity of our portfolio and with potential proceeds deleverage Coty with target pro forma leverage, which we have fixed at around 3 times.

We anticipate that the review will be completed by summer 2020, and I must say that we have already received multiple marks of interest, which I think says about the high attractiveness of these assets. And through the stabilization of our supply chain, and through the building of alternative plan, this is a key decision to accelerate the transformation of our company into a focused and competitive beauty company.

That's the end of our opening comments. Thank you for your attention. And let's now go to the questions you may have.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from the line of Robert Ottenstein of Evercore.

Robert Ottenstein, Analyst

Great. Thank you very much. I was just wondering --

Pierre Laubies, Chief Executive Officer

Good morning.

Robert Ottenstein, Analyst

Good morning. I was just wondering if you can maybe just help us understand a little bit more of why selling professional is strategic imperative, great business, important cash flow generator, I think we were a little surprised to hear about how you're thinking about it. So just really trying to understand, in a little bit more depth, kind of the thinking around that? And then once assuming that happens maybe give us a little bit of sense of any issues in terms of stranded costs or scale issues that could result from the sale?

And then finally, along those lines, what that does to your kind of expected medium term algorithm, whether the kind of targets that you have for fiscal 2020 would make sense as a medium term algorithm after that divestiture? Thank you.

Pierre Laubies, Chief Executive Officer

Okay. I'll hand it over to [ph] Pierre-Andre.

Pierre-Andre Terisse, Chief Financial Officer

I think the reasoning is very simple. We have three great [ph] categories. We believe in each of them, but we also believe that each of them has a lot of potential and we need to be able to put, that means human and financial behind each of them to develop them. We don't believe at the moment we would be in the best position to manage the three at the same time for reasons, which has to do with leverage on the one hand and for reasons, which has to do with complexity of and focus on the others.

So we've chosen to focus on two segments, which are Luxury and Consumer, which in reality category-wise are fragrances, cosmetics and skincare because we believe by focusing on these categories and only these categories, we can grow faster in creating value with them, and we can sharpen our focus and transform the group as well.

At the same time, we believe that by putting the professional business, the hair business and the Brazilian business in a different context that's going to give these businesses as well, that means, it needs to, they need to develop. So it's -- yeah, it's really a matter of focusing, giving ourselves more attention to the categories we've chosen, freeing up financial needs as well and recovering financial flexibility to invest behind those. And this is we believe the way we are going to maximize the value creation for our shareholders.

With respect to stranded costs, this is something we'll have to deal with, but we are not overly worried for couple of reasons, the main one being that most of the turnaround plan of course [ph] have been focusing on Consumer Beauty and Luxury. And therefore, the essence of the plan is going to remain on a slower base, and we think that's going to be definitely allowing us to deliver the target we achieved constantly at that time, which was 14% to 16% operating margin, and which we have concerns recently. So essentially, it doesn't change our target in terms of gross margin and operating margin improvements, and we hope it's going to help us accelerate the transformation of the Group.

Robert Ottenstein, Analyst

And in terms of the algorithm, what do you see is a good medium term algorithm ex-divestitures?

Pierre-Andre Terisse, Chief Financial Officer

What do you mean by algorithm?

Robert Ottenstein, Analyst

Well, just in terms of expected top line growth, operating profit growth, EPS growth, as you know, the kind of targets that you gave for fiscal 2020?

Pierre-Andre Terisse, Chief Financial Officer

Okay. So we are opening a strategic review, and I think it's a bit early days to talk about all that. What we are confident about is our ability to deliver substantial margin improvement and to target the 14% to 16%, and then for the rest, we need to work.

Operator

Our next question comes from the line of Olivia Tong of Bank of America.

Olivia Tong, Analyst

Great. Thanks. Good morning. First question, is just on Luxury, if you could just break down the performance of that because it decelerated despite comping against a period, where you had some supply chain issues. So are there still old disruptions you're working through because it doesn't seem like the underlying categories changed much, particularly in fragrances? And then if you could just talk about your exposure to Hong Kong and travel retail there, that would be great? Thank you.

Pierre-Andre Terisse, Chief Financial Officer

Yeah. I can -- I can take it and Pierre can -- can complement. It's true Luxury had a favorable base, so that's right. The way to really focus into that [ph] it's very strong, it's a strong performance, but at the same time, it reflects easy comps, and the Hong Kong and travel retail impact I've been mentioning. And so if you -- if you turn to Q2, you would expect the results i.e., you would expect that the comps are going to be much higher. And therefore, probably Luxury is going to be low-single digit growth in this, in this particular quarter. We continue seeing fundamentally positive drivers of performance in the fragrance, in the expansion to cosmetic, and at the same time, we have this situation in Asia, which is likely to continue impacting us for a few quarters.

Operator

Our next question comes from the line of Nik Modi of RBC.

Nik Modi, Analyst

Hi, good morning, everyone. Two quick questions from me. First, I just want to make sure I heard it right that your second quarter outlook is in line with the full year. I thought I heard that, but I just wanted to confirm that. And just given how important the December quarter is for the beauty business in general, just any more clarity or specifics you can give us and kind of how you're thinking about that season would be very helpful in terms of selling of new products

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or programs or anything that would give us a little bit more clarity?

And then the second question is just bigger picture question on make-up. Obviously, a lot of companies have been struggling in this area, just wanted to get your views on what you see going on in that market. Do you think it's something that can be turned around? Is it really just a function of a cyclical change between skincare and makeup that tends to go every three years to five years, any thoughts around that would be helpful?

Pierre Laubies, Chief Executive Officer

Hi Nik, this is Pierre. I'll take the last question first and then Pierre-Andre [ph] will take the other one. I think our vision on the makeup is that probably, there has been -- been a bit of team spending, if I may say so. And I think we probably are in a normal cycle of multiplication of purchase by consumer, the category is maxed out in -- probably in term of penetration, in turn [ph] probably increased penetration by going to lower ages, younger ages. But we do think that clearly, we have seen a pattern of -- in case of quantity of purchase over the years, and I think we are cycling through that. We also, I think, have ourselves in the middle of channel, which are not measured in the typical panel and like we are talking of the online business and if I assume that if we have such a good performance (inaudible) we may not be the only one having that performance, and as a consequence, I think, alternative channels are also taking their fair share. So I think probably the shift in channel is -- plays a role here in the official data that we see and probably are going through, I would call it an accelerated cycle of purchase for the last two years, which we need to cycle through, but we do think that the category still has potential and particularly we really believe that the category has or we have potential in the Luxury side of these categories.

Pierre-Andre Terisse, Chief Financial Officer

Hi Nick, Pierre-Andre. So on the new launches, there are a couple of things, we've already mentioned, Tiffany & Love, which is really a Q2 -- going to be a Q2 event, which is off to a strong start as you have seen. We'll have in addition Gucci Bloom Ambrosia and the first signs we have are pretty positive in the US and in the UK, but these are very early days. We have Burberry Her Eau de Parfum, which is adding to the range of Burberry for her. We have as well two shades of (inaudible) lipstick for Gucci which are going to come in addition and widen the range and that is for luxury. So we are -- we continue coming with innovation on the market.

With respect to Q2 and what we expect, so you all know that the base of comparison, in particular for Luxury and TV was low this quarter and therefore, you would expect to have still a solid and pretty good performance of these two businesses next quarter, but probably being on the higher base. And at the same time, we expect to see continuing progress in Consumer Beauty. So if I look at the consensus now on net revenues, I would say that we are comfortable with that.

On the operating income for H1, given the strong start, which (inaudible) is attributable to phasing elements, I would see the OI up in the low part of the range we have given for the year, which means about mid single-digit. So Q2, which will be on a different day is very much in the continuation of what we have shown in Q1 and we've -- reflecting substantial improvement in the business.

Nik Modi, Analyst

Thank you very much.

Pierre Laubies, Chief Executive Officer

Thank you.

Pierre-Andre Terisse, Chief Financial Officer

Thank you.

Operator

Our next question comes from the line of Faiza Alwy of Deutsche Bank.

Faiza Alwy, Analyst

Yes. Hi, good morning. So a couple of questions.

Pierre Laubies, Chief Executive Officer

Hi, Faiza.

Faiza Alwy, Analyst

Hi, so, first, I just wanted to understand sort of why did you decide to include Brazil as part of your strategic review, because I thought that business was doing reasonably well relative to the rest of Consumer Beauty? And so just wanted to clarify how much that Brazil and the retail hair care business contribute to growth this quarter on an organic basis. And then I also just wanted to ask about gross margin and was hoping that you could disaggregate for us the margin increase here because I think last quarter, you had sort of higher incremental freight cost because of the supply chain issues. So I was wondering if we could get an underlying growth rate excluding that, and if possible sort of a breakdown between mix, if there was any contribution from lower promotions, any contribution from productivity, cost cutting and synergies. Thank you.

Pierre-Andre Terisse, Chief Financial Officer

Okay. I'll take these questions -- number questions. Maybe about the gross margin element, so strong progress in Luxury for the quarter, strong progress in Professional Beauty as well for the quarter. In Consumer Beauty, it's been mixed, pretty different from one market to the other. ALMEA, for the reasons I mentioned, which is that we have chosen to give the priority to gross margin, and really to the inaudible) on sales, we are negative, but we have a strong rebound on the gross margin. Europe depends very much market by market, overall it's slightly negative and so is the case of the Americas. So Consumer Beauty as a whole is pretty contrasting. With, again, very different movements and dynamics market by market, I think it's important we try not to manage consumer as a whole, but really to address the specific situation of each market.

On Brazil, well, the reasoning is very simple. Once you eliminate hair, hair is a substantial part of Brazil, as well as mass products and the other ones in particular. And therefore, Brazil in this perimeter, in this release portfolio was not really fitting in our portfolio. So we thought it was natural for Brazil to go with professional and hair in this strategic review and not for reason the performance because the performance of both Brazil and the rest of the scope under review is positive. So I mean, it's really not a question of getting rid of businesses, which are not performing well. It's more of a question of having the right level of focus. We invest our resources where we think we can generate more results.

And on your question of what's been doing what on the quarter, the scope which is under strategic review was positive low single-digits and the scope under -- which is not under strategic review was negative of [ph] single-digit. I hope has been complete. Thank you.

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Operator

Our next question comes from the line of Joe Lachky of Wells Fargo.

Joe Lachky, Analyst

Hi, thanks. I just wanted to get back to the strategic options review that you're doing. And I guess, first off, on the timing of it, because four months ago, you guys presented plans after doing a thorough review of the business. So I'm wondering what's really changed and what's driving the need to accelerate change given the confidence that you had four months ago in the turnaround plan and who is really driving the decision to do that? Is it the management team? Is it the Board or the primary shareholder? Can you shed a little light on that? Thanks.

Pierre Laubies, Chief Executive Officer

Hi. Well, I mean, you're right on something which is that we go fast. Pierre has been in the business for about a year. I've been in the business for about nine months. I mean, in this period of time, we have solved the supply chain issues and we have stabilized the business in '19, then we have produced a turnaround plan and now we are starting a strategic review. So that's a lot of thinking one year. I think that's just made necessary if we want to reshape Coty and to transform it into a performing beauty company and beauty champions.

I don't think there was any change. We -- I once said that we had to take things one by one and not to try and do everything at the same time. So that's really the methodology we follow. We had to stabilize the company and solve the supply chain issues. That was done. We had to stabilize '19 and to deliver '19. That was done.

We definitely had to look at a plan to close the performance gap of all of our businesses and that's what we've tried to do with the turnaround plan. And once we've done that, we started looking at the portfolio and thinking is there any way we can improve faster, we can make faster the transformation of the group and improve faster our performance. And obviously a key element was our ability to free up resources, human and financial, behind core categories, and this is why we have made this decision. So no change. A diagnostic from the management, which has been shared with the Board and fully supported by the Board, there is not one company, another one, there is only one company with management and board and we have taken this decision together. That's fundamentally it.

Joe Lachky, Analyst

And then if you could maybe talk about, if you have any expectations for proceeds, is there a hurdle level in mind where you could potentially walk away from doing a deal and hold on to the businesses? And then maybe if you could talk just generally -- I know it's early, but generally about like potential uses of the proceeds, how they could potentially be allocated between debt repayment and share repurchases? And along those lines, would you do a deal that could be dilutive to EPS in order to hit your leverage target of 3 times?

Pierre Laubies, Chief Executive Officer

Well, I won't comment on the last one. Again, it's too early days in terms of expectations. The only thing I can say is that these businesses are incredibly attractive. Whether you talk us Professional Beauty which for many, many reasons, the hair business, is one of the leading platform in the world and has been performing well and has been strengthened for the past few years by the management. OPI, which is an outstanding brand; GHD which is literally flying in terms of growth, and Brazil, which is a unique pleasure on the Brazilian market, which is, as you would recall, a very attractive market in the beauty space. So we have expectations, which basically match the attractiveness of these assets

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and I will not comment further on that.

On the potential use of proceeds, we've been pretty clear, I think, in the press release saying that the potential proceeds would be used to decrease the indebtedness with a target leverage of about 3 times net debt to EBITDA and any excess will be returned to shareholders. So I have got nothing to add to that.

Operator

Our next question comes from the line of Lauren Lieberman of Barclays.

Lauren Lieberman, Analyst

Great. Thanks. Good morning.

Pierre Laubies, Chief Executive Officer

Hi, Lauren.

Lauren Lieberman, Analyst

Hi. So I wanted to ask again about Consumer Beauty margins. I know you touched on it already, but I was intrigued basing, you're not going to manage holistically, but more thinking about the specific situation of each market. So with that in mind, when you said that for ALMEA where you've really decided to start to prioritize gross margins more dramatically, sales were down. So when I think about the situation in the US and promotional intensity and things that you've talked about trying -- needing to start to correct, how does that play out? Look, if I think about the trajectory for Consumer Beauty in the US, is there a point in time somewhere in the next, I don't know, 12 months, 18 months when we see more pressure on sales because that focus switches to be more about gross margins?

Pierre Laubies, Chief Executive Officer

Hi, Lauren, this is Pierre. How are you? The -- I think I'll come back to that point at the end of the day. It's -- first and foremost our strategy is to raise the gross margin and we raised the gross margin by a combination of the (inaudible) that is really competitive on the promotion, but do not be overly competitive. So clearly we do understand that there is a certain (inaudible) promotional intensity that you need to respect. So we are going to be in line with what we think should be the level of promotion in the market, but certainly what we believe is that we have not exerted pricing power on our products over the course of the last five years and it is time to return to that, right?

And so we do know that we have all math in order. We do clearly understand that there is some necessity and we are ready to accept some of these volume loss is associated with that because we think it is very important that we generate the gross margin, which enable us to increase the velocity of our brands by advertising. And I think that model, I -- we are convinced that this model will work and we are going to exert it.

The second thing we are going to work to improve our gross margin is to really simplify our portfolio, simplify our range, and make sure that the SKUs, which are penetration drivers and are also in general high margin SKUs get the shelving that they deserve and being working on the shelf of six elements, four elements, two elements or one element. And I think it is -- there is a lot of tackling and blocking there to be done, but actually I do believe that we can both at the same time play by the rule of the game of promotional intensity, which we require, but not over, and at the same time, raise our gross margin by balancing the mix over time.

Lauren Lieberman, Analyst

Okay. That's great. Thank you.

Operator

Our next question comes from the line of Steph Wissink of Jefferies.

Stephanie Wissink, Analyst

Hi, good morning, everyone. I wanted to just focus on the working media. I want to make sure I have the statistics right here. So I think you mentioned core brand investment in working media was up about 38%. Can you help us understand what percentage of the business falls into that priority or core brand mix and then also tell us a little bit about where some of those media dollars are going? I know you mentioned TV, but if there are any other areas of emphasis in terms of your media mix, that would be helpful.

Pierre-Andre Terisse, Chief Financial Officer

Media mix is established by our reach based strategy, and as a consequence, we apply the media mix that we need to apply based on the -- again, the specific country situation. You have countries where you can use -- you need to have a balance between -- a tilted balance in term of online versus regular TV and due to the penetration of digital and other countries where the penetration of digital is lower. And as a consequence, you do more mainstream media. So that's -- and even in some countries, you can do -- you will do regional balances, take or shop . If you look at the Moscow area, you are going to be massively investing into digital whereas the rest of the country, you are going to invest in TV. So I think we tailor-made this media plan market by market and there is not a one-size-fit all strategy. So that's one of the -- the first driver.

The second thing, (inaudible) at this stage or it is called, DMUs, as we call them, brand market intersection, represent on which we are focusing this media effort (inaudible) about 60% of all the news and they tend to be also our biggest global brands. Over time, we do want to continue to be exposed -- to increase that because we still have gaps to close in term of media investment in a certain number of market. And this is why the job that I was relating to earlier on gross margin is absolutely important as well as the balance between working media and non-working media, which still can be improved at Coty.

Operator

Our next question comes from the line of Mark Astrachan of Stifel.

Mark Astrachan, Analyst

Thanks. Good morning everybody. Two...

Pierre Laubies, Chief Executive Officer

Good morning, Mark.

Mark Astrachan, Analyst

Good morning. One, on the pricing commentary. So is this something that's more of a one-time repositioning of product pricing? Is it something that you want to use as a lever on a more ongoing basis kind of inflation plus kind of curious on that? And then secondly back on the potential asset sales, I realize it's obviously early and this is kind of a second step, if you will, but the implication of what you said about leverage would imply redeploying proceeds assuming multiples or value that we all kind of believe is reasonable for the business. So maybe holistically if you could talk a bit about what you would do with cash, where are you unencumbered by the current debt levels, that would be kind of helpful and just hearing your thoughts there.

Pierre Laubies, Chief Executive Officer

Okay. Hi, Mark. I'll take the pricing decision, this is Pierre, or the pricing question sorry. I think both of the above will be lion's share. Yes, we have a catch-up plan to do and we are executing a catch-up plan. We have not taken pricing for many years and it has depleted our ability to -- it has depleted our gross margin, and as a consequence, has weakened our brand, and as a consequence, has unfortunately led us to increase promotional intensity. So we need to get out of this vicious circle to get back into a virtuous circle and then at this stage this is why we do think that we need to have a bit of a reset. And then going forward, indeed, you are absolutely right, we need to make sure that we manage inflation correctly and we do not fall back into this trap we have fallen into.

Pierre-Andre Terisse, Chief Financial Officer

And -- Pierre-Andre here. I think it's really a matter of -- it's a matter of trade-offs and financial flexibility. Trade-off, we have debt level, which, given the recent evolution of the business, has led us to make a lot of trade-offs in favor of cash as opposed to in favor of brand investment and profits by the way. So I think by coming back to a leverage level, which is more adaptive to the industry and category we are putting ourself in a position to make better trade offs overall, which sometimes will still be in favor of cash, but sometime will be in favor of growth. And then altogether, that's giving us more financial flexibility and more financial flexibility means that with two categories which offers a lot of possibilities of growth, we'd have the ability to invest if and when in front of the right opportunity. So yes, I would say overall that's definitely an improvement in order to grow the business we have chosen to keep.

Operator

Our next question comes from the line of Wendy Nicholson of Citigroup.

Wendy Nicholson, Analyst

Hi, good morning. My first question has to do with the comments you made about selling on Amazon and the great growth that you're seeing there and you're one of the few beauty companies who talks about that. So, I was curious on why do you think that is? Are you doing extra promotion on Amazon? Can you talk about what your margins look like on Amazon -- selling to Amazon versus selling to traditional retail? And then my second question just on the divestitures. I mean, I was stunned to see the price -- the proceeds you've got for Younique. I mean one-tenth of what you paid is kind of stunning and I'm a little bit worried that that sends a signal to potential buyers for professional hair care, the Brazilian business that you're in kind of fire sale mode and you'll sell these assets for anything. So, was Younique like a one-off situation you just wanted out or was it really that bad a business? I mean, maybe you could just comment on how much discipline you're going to show in terms of the proceeds you'll get for these businesses? Thanks.

Pierre Laubies, Chief Executive Officer

I'll take the first part of the question and I'll let Pierre-Andre answer on the second one. Why are we going on Amazon? Mostly because we are planning on Amazon and the strategy that we aim at applying into (inaudible) retail or the mass market. We clearly know now what our core SKUs are, we know what our high velocity items which are penetration billing items are, and we are making sure that they get their fair share on Amazon. As a consequence, the business is growing. So, we have an absolute correlation between the job that we have been doing and these markets that we have identified; UK, US, Germany, and Brazil; and what we are doing on Amazon. And the benefit is that definitely with online, I mean the implementation of the situation of that strategy works faster and the ability to expand your assortment or the ability to adapt your assortment is just more high-speed [ph] and as a consequence, we get this result and also we have put resources behind it, which probably we haven't been necessarily putting before and our margin is up (inaudible).

Pierre-Andre Terisse, Chief Financial Officer

So, we are not -- absolutely not in a fire sale mode. I think Younique, you will understand was a very specific case and not to use the Younique word of course. It's a business which was far away from our competencies, which we have been struggling to manage for the past few quarters now with very difficult performance and at some stage, we just chose to move on and we chose to move on and today there are certain conditions which I agree are not very good looking. But at the same time, we thought it was very important for the rest of Coty that we could move on and that we put this program on the side knowing that Derek will be managing us much better than we have done together. So, that's a choice we made. Again not being in a fire sale mode, what we are doing now with the strategic review is completely different. Of course we are talking of as I said, which has not been losing ground and falling. We are talking of an asset, which is performing well.

You see this quarter, this is a case of Professional Beauty, this is a case of hair, this is a case of OPI, GHD, Brazil, we are talking at brands which are recognized by many, many people; professional as a sector, but also by many investors, which attract a lot of interest, which was not the case of Younique. These are brands, which have a fairly good level of profitability improving; PB was 12% last year OI and that's a good proxy for the overall group. So if you should take into account the current costs, which are going to remain for about at Coty, we are talking of the scope, which has a mid-teens operating income. So given what I said about the profitability of other growth given the obvious appetite, which we see and which I'm sure you can see, we expect this transaction to be creating a lot of value actually -- just creating a lot of value and we are going to make sure that this is attaining this way. It's really about extenuating value for the Group and reshaping Coty in a much more substantial way than Younique, which was very different small case.

Operator

Thank you. Our final question will come from the line of Andrea Teixeira of JPMorgan.

Andrea Teixeira, Analyst

Thank you. So just as a final question, sorry, a couple of clarifications. One is for the Q2 guide, when you mentioned first half, did you mean first half operating profit would be up mid-single or were you referring just to Q2 specifically? The second one was on the expectation of the proceeds from the sale of the assets. I mean, I think the $8 billion to $9 billion from A&CP you talked about implies about 20 times to 21 times EBITDA. So as a follow-up just to see from -- you think that could be feasible from what you just mentioned about not being on a fire sale? And then on the marketing spending, sorry, the third one would be you said working media was up 11%. But can you comment about the whole A&P because I understand you were taking down couponing. So in the couponing on the total A&P spending, is it still down? Relatively I think it is still down. So I want to just double check that and also how a like-for-like, I understand that you do on a net basis. How would like-for-like would have been without the reduction in couponing? Thank you.

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Pierre-Andre Terisse, Chief Financial Officer

Okay. Pierre-Andre, I'll take these -- I think I will take these questions. On A&CP first, it's up 70 bps altogether so 11% is increase of the working media, but the total entity is up 70 basis points. It's been up and it will continue going up and we believe it's important that we keep reinvesting altogether and therefore will invest or invest -- will increase our investments in A&CP. On the guidance for Q2 -- on the guidance for the full-year operating income, so I said mid-single digit for H1 and therefore that includes the Q1, which has been specifically strong with some selling, as I said. But altogether H1 is going to be up, we expect it to be up mid single digits so within the range we have given for the year -- in the (inaudible) part of the range.

And then for the proceeds, we didn't say $8 million to $9 million. That was I think an information in the press in the Financial Times if I'm not mistaken. Now clearly that's going to be a sizable transaction. You know how much we're talking about in terms of earnings, I've given you some analysis about that. You know how strategic transaction can price on the market, what kind of multiple it can attract and therefore you can make the math. It's going to be a sizable transaction and we don't want to speculate on the amount, that's far too -- that's far too early, but we believe it's going to be a sizeable one.

Pierre Laubies, Chief Executive Officer

I think that is it. We'll conclude the call now. Thank you very much for your attention. It's exciting time at Coty, exciting to see the progress we are making, and we look forward to sharing more progresses with you next quarter in February. Thank you. Bye.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.

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