

COTY INC.
Form 10-K
August 21, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 001-35964

COTY INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

13-3823358

(I.R.S. Employer Identification Number)

350 Fifth Avenue, New York, NY

(Address of principal executive offices)

(212) 389-7300

Registrant's telephone number, including area code

10118

(Zip Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class

Name of each exchange on which registered

Class A Common Stock, \$0.01 par value

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if
any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T
 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required
to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this
chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,
or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of December 31, 2017, the aggregate market value of the registrant’s Class A Common Stock held by non-affiliates was \$8,993,216,977 based on the number of shares held by non-affiliates as of December 31, 2017 and the last reported sale price of the registrant’s Class A Common Stock on December 31, 2017.

At August 14, 2018, 750,792,022 shares of the registrant’s Class A Common Stock, \$0.01 par value were outstanding.

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Forward-looking Statements

Certain statements in this Form 10-K are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, the Company’s targets and outlook for future reporting periods (including the extent and timing of revenue and profit trends and the Consumer Beauty division’s stabilization), establishing the Company as a global leader and challenger in beauty, its future operations and strategy (including brand relaunches and performance in emerging markets and channels), synergies, savings, performance, cost, timing and integration relating to our recent acquisitions (including The Proctor & Gamble Company’s beauty business (the “P&G Beauty Business”)), ongoing and future cost efficiency and restructuring initiatives and programs, strategic transactions (including mergers and acquisitions, joint ventures, investments, divestitures, licenses and portfolio rationalizations), future cash flows and liquidity, future performance in digital and e-commerce and the expected impact of our digital transformation agenda, future effective tax rates, timing and size of cash outflows and debt deleveraging, and impact and timing of supply chain disruptions. These forward-looking statements are generally identified by words or phrases, such as “anticipate”, “are going to”, “estimate”, “plan”, “project”, “expect”, “believe”, “intend”, “foresee”, “forecast”, “will”, “may”, “should”, “out”, “target”, “aim”, “potential” and similar words or phrases. These statements are based on certain assumptions and estimates that we consider reasonable, but are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual events or results (including our financial condition, results of operations, cash flows and prospects) to differ materially from such statements, including risks and uncertainties relating to:

- our ability to achieve our global business strategies, compete effectively in the beauty industry and achieve the benefits contemplated by our strategic initiatives (including sell-through of our relaunched brands, enhancement of our innovation pipeline, focus on emerging markets and channels, improvement of in-store execution and reduction in discounts in certain markets) within the expected time frame or at all;
- our ability to anticipate, gauge and respond to market trends and consumer preferences, which may change rapidly, and the market acceptance of new products, including any launches or relaunches and their associated costs and discounting, and consumer receptiveness to our marketing and consumer engagement activities (including digital marketing and media);
- use of estimates and assumptions in preparing our financial statements, including with regard to revenue recognition, stock compensation expense, income taxes, the assessment of goodwill, other intangible assets and long-lived assets for impairment, the market value of inventory, pension expense and the fair value of acquired assets and liabilities associated with acquisitions;
- managerial, integration, operational, regulatory, legal and financial risks, including diversion of management attention to and management of cash flows, expenses and costs associated with multiple ongoing and future strategic initiatives, internal reorganizations and restructuring activities;
- the continued integration of the P&G Beauty Business and other recent acquisitions with our business, operations, systems, financial data and culture and the ability to realize synergies, avoid future supply chain and other business disruptions, reduce costs and realize other potential efficiencies and benefits (including through our restructuring initiatives) at the levels and at the costs and within the time frames contemplated or at all;
- increased competition, consolidation among retailers, shifts in consumers’ preferred distribution and marketing channels (including to digital and luxury channels), shelf-space resets or reductions, compression of go-to-market cycles, changes in product and marketing requirements by retailers, and other changes in the retail, e-commerce and wholesale environment in which we do business and sell our products and our ability to respond to such changes;
- our and our business partners’ and licensors’ abilities to obtain, maintain and protect the intellectual property used in our and their respective businesses, protect our and their respective reputations (including those of our and their executives or influencers), public goodwill, and defend claims by third parties for infringement of intellectual property rights;
- the effect of the divestiture and discontinuation of our non-core brands (including associated subsequent cost reduction programs) and rationalizing wholesale distribution by reducing the amount of product diversion to the value and mass channels;
- any change to our capital allocation and/or cash management priorities;

any unanticipated problems, liabilities or other challenges associated with an acquired business which could result in increased risk or new, unanticipated or unknown liabilities, including with respect to environmental, competition and other regulatory, compliance or legal matters;

our international operations and joint ventures, including enforceability and effectiveness of our joint venture agreements and reputational, compliance, regulatory, economic and foreign political risks, including difficulties and costs associated with maintaining compliance with a broad variety of complex local and international regulations; our dependence on certain licenses (especially in our Luxury division) and our ability to renew expiring licenses on favorable terms or at all;

our dependence on entities performing outsourced functions and third-party suppliers, including third party software providers;

administrative, product development and other difficulties in meeting the expected timing of market expansions, product launches and marketing efforts;

global political and/or economic uncertainties, disruptions or major legal, regulatory or policy changes, and/or the enforcement thereof that affect our business, financial performance, operations or products, including the impact of Brexit, the current U.S. administration, the results of elections in European countries and future elections in Brazil, changes in the U.S. tax code, and recent changes and future changes in tariffs, retaliatory or trade protection measures, trade policies and other international trade regulations in the U.S. and in other regions where we operate including the European Union and China;

the number, type, outcomes (by judgment, order or settlement) and costs of legal, compliance, tax, regulatory or administrative proceedings, investigations and/or litigation;

our ability to manage seasonal and other variability and to anticipate future business trends and business needs;

disruptions in operations and sales, including due to disruptions in supply chain, logistics, restructurings and other business alignment activities, manufacturing or information technology systems, labor disputes and natural disasters;

restrictions imposed on us through our license agreements, credit facilities and senior unsecured bonds or other material contracts, our ability to repay, refinance or recapitalize debt, and changes in the manner in which we finance our debt and future capital needs;

increasing dependency on information technology and our ability to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, costs and timing of implementation and effectiveness of any upgrades or other changes to information technology systems, including our digital transformation initiatives, and the cost of compliance or our failure to comply with any privacy or data security laws (including the European Union General Data Protection Regulation (the “GDPR”)) or to protect against theft of customer, employee and corporate sensitive information;

our ability to attract and retain key personnel;

the distribution and sale by third parties of counterfeit and/or gray market versions of our products; and

other factors described elsewhere in this document and from time to time in documents that we file with the Securities and Exchange Commission (the “SEC”).

When used in this Annual Report on Form 10-K, the term “includes” and “including” means, unless the context otherwise indicates, including without limitation. More information about potential risks and uncertainties that could affect our business and financial results is included under the heading “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K and other periodic reports we have filed and may file with the SEC from time to time.

All forward-looking statements made in this document are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this document, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, or changes in future operating results over time or otherwise.

Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance unless expressed as such, and should only be viewed as historical data.

Industry, Ranking and Market Data

Unless otherwise indicated, information contained in this Annual Report on Form 10-K concerning our industry and the market in which we operate, including our general expectations about our industry, market position and ranking, market opportunity and market size, is based on data from various sources including internal data and estimates as well as third party sources widely available to the public such as independent industry publications, government

publications, reports by market research firms or other published independent sources and on our assumptions based on that data and other similar sources. We

did not fund and are not otherwise affiliated with the third party sources that we cite. Industry publications and other published sources generally state that the information contained therein has been obtained from third-party sources believed to be reliable. Internal data and estimates are based upon information obtained from trade and business organizations and other contacts in the markets in which we operate and management's understanding of industry conditions, and such information has not been verified by any independent sources. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. While we believe the market, industry and other information included in this Annual Report on Form 10-K to be the most recently available and to be generally reliable, such information is inherently imprecise and we have not independently verified any third-party information or verified that more recent information is not available.

Our fiscal year ends on June 30. Unless otherwise noted, any reference to a year preceded by the word "fiscal" refers to the fiscal year ended June 30 of that year. For example, references to "fiscal 2018" refer to the fiscal year ended June 30, 2018. Any reference to a year not preceded by "fiscal" refers to a calendar year.

PART I

Item 1. Business.

Overview

Coty Inc. is one of the world's largest beauty companies with a rich entrepreneurial heritage and an iconic portfolio of brands. Founded in 1904, Coty has grown into a multi-segment beauty company with market leading positions in both North America and Europe through new product offerings, diversified sales channels, acquisitions and a global growth strategy. Today, we are the global leader in fragrance, a strong number two in professional salon hair color & styling, and number three in color cosmetics.

Over the past three years, transformational acquisitions and strategic transactions have strengthened and diversified our presence across the countries, product categories and channels in which we compete, including our acquisition of The Procter & Gamble Company's beauty business (the "P&G Beauty Business"), the acquisition of ghd, a premium brand in high-end hair styling appliances, the acquisition of the Brazilian personal care and beauty business of Hypermarches S.A. (the "Hypermarches Brands"), and our joint venture with Younique LLC ("Younique"), a leading online peer-to-peer social selling platform in beauty. In addition, we acquired the exclusive long-term global license rights for Burberry Beauty luxury fragrances, cosmetics and skincare.

We are focused on rejuvenating our core business and amplifying our growth potential, by supporting and strengthening our brands and developing a stronger innovation pipeline, including by accelerating our time to market with on-trend collections and products, and advancing our end-to-end digital transformation and e-commerce efforts. We are also prioritizing our growth opportunities to expand in the faster-growing emerging markets, as we continue our restructuring efforts to optimize our business and reset fixed costs.

Segments

We are organized into three divisions, which are also our operating and reportable segments: Consumer Beauty, Luxury and Professional Beauty. Our organizational structure is product category focused, putting the consumer first, by specifically targeting how and where they shop and what and why they purchase. Each division has end-to-end responsibility to optimize the consumers' beauty experiences in their relevant categories and channels and to translate this into profitable growth.

Consumer Beauty is primarily focused on color cosmetics, retail hair coloring and styling products, body care and mass fragrances.

Luxury is primarily focused on prestige fragrances, premium skincare and premium cosmetics.

Professional Beauty is primarily focused on hair and nail care products for salon professionals.

For segment and geographic area financial information and information about our long-lived assets, see Note 4, "Segment Reporting" in the notes to our Consolidated Financial Statements, and for information about recent acquisitions or dispositions of any material amount of assets, see Note 3, "Business Combinations" in the notes to our Consolidated Financial Statements.

Brands

The following chart reflects our iconic brand portfolio by segment:

Coty Consumer Beauty	Coty Luxury	Coty Professional Beauty
Adidas	Alexander McQueen	Clairol Professional*
Beckham	Balenciaga	ghd (good hair day)*
Beyonce	Burberry	Kadus Professional*
Biocolor*	Bottega Veneta	Londa Professional*
Bozzano*	Calvin Klein	Nioxin*
Bourjois*	Cavalli	O P I*
Bruno Banani	Chloe	Sassoon Professional
Clairol*	Davidoff	Sebastian*
CoverGirl*	Escada*	System Professional*
Enrique	Gucci	Wella Professionals*
Jovan*	Hugo Boss	
Nautica	Jil Sander	
Max Factor*	Joop!*	
Mexx	Lacoste	
Monange*	Lancaster*	
Paixao*	Marc Jacobs	
Rimmel*	Miu Miu	
Risque*	philosophy*	
Sally Hansen*	Stella McCartney	
Stetson	Tiffany & Co.	
Wella*		
Yunique*		
007 James Bond		

* Indicates an owned brand.

Marketing

We have a diverse portfolio of over 75 brands, some owned and some licensed, and we employ different models to create a distinct image and personality suited to each brand's equity, distribution, product focus and consumer. For our licensed brands, we work with licensors to promote brand image. Each of our brands is promoted with logos, packaging and advertising designed to enhance its image and the uniqueness of each brand. We manage our creative marketing work through a combination of our in-house teams and external agencies that design and produce the sales materials, social media strategies, advertisements and packaging for products in each brand. Our marketing teams work closely with our digital marketing agency, increasingly using digital social listening and trend spotting capabilities to expand digital marketing of our brands to different channels as the behaviors of beauty consumers continue to transform.

We promote our brands through various channels to reach and engage beauty consumers, through traditional media, through in-store and in-salon displays, increasingly on digital and social media, and through collaborations, product placements and events. In addition, we seek editorial coverage for products and brands in both traditional media and digital and social media to drive influencer amplification and to build brand equity. We also leverage our relationships with celebrities and on-line influencers to endorse certain of our products.

We have dedicated marketing and sales forces in most of our significant markets. These teams leverage local insights to strategically promote our brands and product offerings and tailor our creative marketing to fit local tastes and resonate with consumers most effectively.

We are focused on revamping our in-store execution and deploying new brand visuals for certain of our brands. Our marketing efforts benefit from cooperative advertising programs with retailers, often in connection with in-store marketing activities designed to engage consumers so that they try, or purchase, our products, including sampling and "gift-with-purchase" programs designed to stimulate product trials. We have been working with retailers to develop

branding and

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marketing execution strategies and to enhance our in-store execution by implementing “perfect store” methodologies to maximize the consumer experience.

Distribution Channels and Retail Sales

We market, sell and distribute our products in over 150 countries and territories, with dedicated local sales forces in most of our significant markets. We have a balanced multi-channel distribution strategy which complements our product category focused divisions. The Consumer Beauty division primarily sells products through hypermarkets, supermarkets, drug stores and pharmacies, mid-tier department stores, and traditional food and drug retailers. The Luxury division primarily sells products through prestige retailers, including perfumeries, department stores and duty-free shops, with travel retail sales channels accounting for 15% of the division’s net revenues. The Professional Beauty division primarily sells products to nail and hair salons, nail and hair professionals and professionals stores. We also sell our products through third-party distributors. In fiscal 2018, no retailer accounted for more than 10% of our global net revenues; however, certain retailers accounted for more than 10% of net revenues within certain geographic markets and segments. In fiscal 2018, Wal-Mart, our top retailer, accounted for 6% of our net revenues. We are focused on expanding our e-commerce presence. All of our divisions sell products through direct-to-consumer websites, third party-operated websites and through our own branded websites. In addition, we selectively evaluate opportunities to expand into other channels, such as freestanding retail stores for certain brands and social selling.

Innovation

Innovation is a pillar of our business. We innovate through brand-building and new product lines, as well as through new technology. Our research and development teams work with our marketing and operations teams, as well as our internal digital agency to identify recent trends and consumer needs and to bring products quickly to market.

We are continuously innovating to increase our sales by elevating our digital presence, including e-commerce and digital, social media and influencer marketing designed to build brand equity and consumer engagement. We have also focused our efforts on meeting evolving consumer shopping preferences and behaviors, both on-line and in-store. We have introduced new ways to customize the consumer experience, including using artificial intelligence-powered tools to provide personalized advice on selecting and using products, and augmented reality tools that invite customers to virtually try products with curated looks, tutorials and product recommendations.

In addition, we continuously seek to improve our products through research and development. Our basic and applied research groups, which conduct longer-term and “blue sky” research, seek to develop proprietary new technologies for first-to-market products and for improving existing products. This research and development is done both internally and through affiliations with various universities, technical centers, supply partners, industry associations and technical associations. As of June 30, 2018, we owned approximately 2,000 utility patents and patent applications globally and approximately 1,800 design patents.

Our principal research and development centers are located in the U.S. and Europe. See “Item 2. Properties.”

We do not perform, nor do we commission any third parties on our behalf to perform, testing of our products or ingredients on animals except where required by law.

Supply Chain

We manufacture and package a majority of our products, primarily in the United States, Europe and Brazil. Our manufacturing facilities provide multi-segment manufacturing. We recognize the importance of our employees at our manufacturing facilities and have in place programs designed to ensure operating safety. In addition, we implement programs designed to ensure that our manufacturing and distribution facilities comply with applicable environmental rules and regulations. To capitalize on innovation and other supply chain benefits, we continue to utilize a network of third-party manufacturers on a global basis.

The principal raw materials used in the manufacture of our products are primarily essential oils, alcohols and specialty chemicals. The essential oils in our fragrance products are generally sourced from fragrance houses. As a result, we realize material cost savings and benefits from the technology, innovation and resources provided by these fragrance houses.

We purchase the raw materials for all our products from various third parties. We also purchase packaging components that are manufactured to our design specifications. We collaborate with our suppliers to meet our stringent design and creative criteria. We believe that we currently have adequate sources of supply for all our products.

Following the acquisition of the P&G Beauty Business, we have been engaged in a transformation of our supply chain aimed at integrating and optimizing the combined organization, and we continue to focus on restructuring our supply chain footprint and processes in order to increase efficiency, improve utilization and reduce our order lead times. We have

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experienced disruptions in our supply chain from time to time, including in connection with these restructuring efforts, and we work to anticipate and respond to actual and potential disruptions.

Competition

There is significant competition within each market where our products are sold. We compete against manufacturers and marketers of beauty products, hair care, salon professional and personal care products. In addition to the established multinational brands against which we compete, small targeted niche brands continue to enter the beauty market. Competition is also increasing from private label products sold by retailers.

We believe that we compete primarily on the basis of perceived value, including pricing and innovation, product efficacy, service to the consumer, promotional activities, advertising, special events, new product introductions, e-commerce initiatives, direct sales and other activities (including influencers). It is difficult for us to predict the timing, scale and effectiveness of our competitors' actions in these areas or the timing and impact of new entrants into the marketplace. For additional risks associated with our competitive position, see "Risk Factors—The beauty industry is highly competitive, and if we are unable to compete effectively, our business, prospects, financial condition and results of operation could suffer".

Intellectual Property

We generally own or license the trademark rights in key sales countries in Trademark International Class 3 (covering cosmetics and perfumery) for use in connection with our brands. When we license trademark rights we generally enter into long-term licenses, and we are generally the exclusive trademark licensee for all Class 3 trademarks as used in connection with our products. We or our licensors, as the case may be, actively protect the trademarks used in our principal products in the U.S. and significant markets worldwide. We consider the protection of our trademarks to be essential to our business.

A number of our products also incorporate patented, patent-pending or proprietary technology in their respective formulations and/or packaging, and in some cases our product packaging is subject to copyright, trade dress or design protection. While we consider our patents and copyrights, and the protection thereof, to be important, no single patent or copyright, or group of patents or copyrights, is material to the conduct of our business.

Products representing 39% of our fiscal 2018 net revenues are manufactured and marketed under exclusive license agreements granted to us for use on a worldwide and/or regional basis. As of June 30, 2018, we maintained 31 brand licenses.

Our licenses impose obligations and restrictions on us that we believe are common to many licensing relationships in the beauty industry, such as paying annual royalties on net sales of the licensed products and maintaining the quality of the licensed products and the image of the applicable trademarks. We are currently in material compliance with the terms of our brand license agreements.

Most brand licenses have renewal options for one or more terms, which can range from three to ten years. Certain brand licenses provide for automatic extensions, so long as minimum annual royalty payments are made, while renewal of others is contingent upon attaining of specified sales levels or upon agreement of the licensor. One of our brand licenses is up for renewal during fiscal 2019, and, while many of our licenses are long term, licenses relating to certain of our global brands are up for renewal in the next few years. For additional risks associated with our licensing arrangements, see "Risk Factors—Our brand licenses may be terminated if specified conditions are not met, and we may not be able to renew expiring licenses on favorable terms or at all" and "Risk Factors—Our failure to protect our reputation, or the failure of our partners or brand licensors to protect their reputations, could have a material adverse effect on our brand images".

Employees

As of June 30, 2018, we had approximately 20,000 full-time employees in over 46 countries. In addition, we employ a large number of seasonal