COTY INC.
Form 10-Q
May 09, 2018

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

Form 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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	13-3823358
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
350 Fifth Avenue, New York, NY	10118
(Address of principal executive offices)	(Zip Code)

(212) 389-7300
Registrant's telephone number, including area code

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 ý 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 ý No ¨

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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	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 ý
At May 2, 2018, 750,537,307 shares of the registrant’s Class A Common Stock, $0.01 par value, were outstanding.

COTY INC.
INDEX TO FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

COTY INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Net revenues	$2,222.7	$2,032.1	$7,098.6	$5,409.0
Cost of sales	812.4	816.1	2,711.7	2,153.2
Gross profit	1,410.3	1,216.0	4,386.9	3,255.8
Selling, general and administrative expenses	1,252.3	1,092.4	3,764.0	2,741.5
Amortization expense	92.8	102.6	260.6	219.0
Restructuring costs	42.7	155.8	75.6	179.0
Acquisition-related costs	2.6	57.7	63.7	275.1
Operating income (loss)	19.9	(192.5)	223.0	(158.8)
Interest expense, net	72.6	60.8	199.3	159.1
Other expense (income), net	3.0	(0.5)	10.1	0.2
(Loss) income before income taxes	(55.7)	(252.8)	13.6	(318.1)
Provision (benefit) for income taxes	4.4	(93.4)	(28.8)	(220.6)
Net (loss) income	(60.1)	(159.4)	42.4	(97.5)
Net income (loss) income attributable to noncontrolling interests	1.1	3.5	(3.0)	14.2
Net income attributable to redeemable noncontrolling interests	15.8	1.3	32.9	5.7
Net (loss) income attributable to Coty Inc.	$(77.0)	$(164.2)	$12.5	$(117.4)
Net (loss) income attributable to Coty Inc. per common share:				
Basic	$(0.10)	$(0.22)	$0.02	$(0.19)
Diluted	(0.10)	(0.22)	0.02	(0.19)
Weighted-average common shares outstanding:				
Basic	750.1	747.3	749.4	607.9
Diluted	750.1	747.3	753.1	607.9

See notes to Condensed Consolidated Financial Statements.

Table of Contents

COTY INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Net (loss) income	$(60.1)	$(159.4)	$42.4	$(97.5)
Other comprehensive income:				
Foreign currency translation adjustment	247.4	87.1	518.5	(9.2)
Net unrealized derivative gains on cash flow hedges, net of taxes of $1.5 and $(1.8), and $(2.5) and $(10.5) during the three and nine months ended, respectively	6.9	3.0	14.2	44.9
Pension and other post-employment benefits adjustment, net of tax of $(0.7) and nil, and $(0.7) and $(5.8) during the three and nine months ended, respectively	(2.3)	—	(0.7)	10.1
Total other comprehensive income (loss), net of tax	252.0	90.1	532.0	45.8
Comprehensive income (loss)	191.9	(69.3)	574.4	(51.7)
Comprehensive income (loss) attributable to noncontrolling interests:				
Net income (loss)	1.1	3.5	(3.0)	14.2
Foreign currency translation adjustment	(0.2)	0.3	0.3	(0.2)
Total comprehensive income (loss) attributable to noncontrolling interests	0.9	3.8	(2.7)	14.0
Comprehensive income attributable to redeemable noncontrolling interests:				
Net income	15.8	1.3	32.9	5.7
Foreign currency translation adjustment	—	—	—	—
Total comprehensive income attributable to redeemable noncontrolling interests	15.8	1.3	32.9	5.7
Comprehensive income (loss) attributable to Coty Inc.	$175.2	$(74.4)	$544.2	$(71.4)

See notes to Condensed Consolidated Financial Statements.

Table of Contents

COTY INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share data)
(Unaudited)

	March 31, 2018	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$460.8	$535.4
Restricted cash	25.7	35.3
Trade receivables—less allowances of $93.6 and $58.5, respectively	1,555.4	1,470.3
Inventories	1,258.5	1,052.6
Prepaid expenses and other current assets	610.2	487.9
Total current assets	3,910.6	3,581.5
Property and equipment, net	1,689.2	1,632.1
Goodwill	8,972.8	8,555.5
Other intangible assets, net	8,662.1	8,425.2
Deferred income taxes	226.5	72.6
Other noncurrent assets	303.8	281.3
TOTAL ASSETS	$23,765.0	$22,548.2
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$1,709.3	$1,732.1
Accrued expenses and other current liabilities	1,882.2	1,796.4
Short-term debt and current portion of long-term debt	231.6	209.1
Income and other taxes payable	118.7	66.0
Total current liabilities	3,941.8	3,803.6
Long-term debt, net	7,628.6	6,928.3
Pension and other post-employment benefits	588.7	549.2
Deferred income taxes	941.3	924.9
Other noncurrent liabilities	499.6	473.4
Total liabilities	13,600.0	12,679.4
COMMITMENTS AND CONTINGENCIES (Note 17)		
REDEEMABLE NONCONTROLLING INTERESTS	665.4	551.1
EQUITY:		
Preferred Stock, $0.01 par value; 20.0 shares authorized, 5.2 and 4.2 issued and 5.0 and 4.2 outstanding, respectively, at March 31, 2018 and June 30, 2017	—	—
Class A Common Stock, $0.01 par value; 1,000.0 shares authorized, 815.5 and 812.9 issued, respectively, and 750.5 and 747.9 outstanding, respectively, at March 31, 2018 and June 30, 2017	8.1	8.1
Additional paid-in capital	10,835.3	11,203.2
Accumulated deficit	(438.4)	(459.2)
Accumulated other comprehensive income	536.1	4.4
Treasury stock—at cost, shares: 65.0 at March 31, 2018 and June 30, 2017	(1,441.8)	(1,441.8)
Total Coty Inc. stockholders' equity	9,499.3	9,314.7
Noncontrolling interests	0.3	3.0
Total equity	9,499.6	9,317.7
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY	$23,765.0	$22,548.2

See notes to Condensed Consolidated Financial Statements.

3

Table of Contents

COTY INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND
REDEEMABLE NONCONTROLLING INTERESTS
For the Nine Months Ended March 31, 2018
(In millions, except per share data)
(Unaudited)

	Preferred Stock		Class A Common Stock		Additional Paid-in Capital	(Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Coty Inc. Stockholders Equity	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
	Shares	Amount	Shares	Amount				Shares	Amount				
BALANCE as previously reported—July 1, 2017	4.2	$—	812.9	$8.1	$11,203.2	$(459.2)	$4.4	65.0	$(1,441.8)	$9,314.7	$3.0	$9,317.7	$551.1
Adjustment due to the adoption of ASU 2016-09 (see Note 2)						8.3				8.3		8.3	
BALANCE as adjusted—July 1, 2017	4.2	$—	812.9	$8.1	$11,203.2	$(450.9)	$4.4	65.0	$(1,441.8)	$9,323.0	$3.0	$9,326.0	$551.1
Issuance of Preferred Stock	1.0	—								—		—	
Cancellation of Preferred Stock	(0.2)	—								—		—	
Exercise of employee stock options and restricted stock units			2.6	—	20.0					20.0		20.0	
Shares withheld for employee taxes					(3.5)					(3.5)		(3.5)	
Share-based compensation expense					25.8					25.8		25.8	
Dividends ($0.375 per Common Share)					(283.3)					(283.3)		(283.3)	
Net income (loss)						12.5				12.5	(3.0)	9.5	32.9
Other comprehensive income							531.7			531.7	0.3	532.0	
Distribution to noncontrolling interests, net										—		—	(45.7)
Dilution of redeemable					17.0					17.0		17.0	(17.0)

noncontrolling interest due to additional contribution (See Note 16)													
Additional redeemable noncontrolling interests due to employee grants (See Note 16)					(7.4)					(7.4)		(7.4)	7.4
Proceeds from redeemable noncontrolling interests										—		—	0.2
Adjustment of redeemable noncontrolling interests to redemption value					(136.5)					(136.5)		(136.5)	136.5
BALANCE—March 31, 2018	5.0	$—	815.5	$8.1	$10,835.3	$(438.4)	$536.1	65.0	$(1,441.8)	$9,499.3	$0.3	$9,499.6	$665.4

See notes to Condensed Consolidated Financial Statements.

4

Table of Contents

COTY INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND
REDEEMABLE NONCONTROLLING INTERESTS
For the Nine Months Ended March 31, 2017
(In millions, except per share data)
(Unaudited)

	Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	(Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total Coty Inc. Stockholders Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount				Shares	Amount			
BALANCE—July 1, 2016	1.7	—	138.7	$1.4	262.0	$2.6	$2,038.4	$(37.0)	$(239.7)	63.6	$(1,405.5)	$360.2	$6.9	$367.1
Issuance of Class A Common Stock for business combination			409.7	4.1			9,624.5					9,628.6		9,628.6
Issuance of Preferred Stock	2.5	—												
Conversion of Class B to Class A Common Stock			262.0	2.6	(262.0)	(2.6)						—		—
Purchase of Class A Common Stock										1.4	(36.3)	(36.3)		(36.3
Exercise of employee stock options and restricted stock units and related tax benefits			2.2	—			19.5					19.5		19.5
Share-based compensation expense							15.2					15.2		15.2
Dividends ($0.525 per common share)							(281.2)					(281.2)		(281.2
Net (loss) income								(117.4)				(117.4)	14.2	(103.2
Other comprehensive income (loss)									46.0			46.0	(0.2)	45.8
Distribution to noncontrolling interests, net							—					—		—
Redeemable noncontrolling interest due to business combination														
Adjustment of redeemable							(24.9)					(24.9)		(24.9

noncontrolling interests to redemption value													
Repurchase of redeemable noncontrolling interests													
BALANCE—March 31, 2017	4.2	—	$12.6	$8.1	—	$—	$11,391.5	$(154.4)	$(193.7)	65.0	$(1,441.8)	$9,609.7	$20.9	$9,630

See notes to Condensed Consolidated Financial Statements.

5

COTY INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended March 31, 2018	Nine Months Ended March 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$42.4	$(97.5)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	543.5	414.9
Deferred income taxes	(157.7)	(298.3)
Provision for bad debts	15.4	23.3
Provision for pension and other post-employment benefits	33.3	44.7
Share-based compensation	26.1	19.1
Other	16.2	(0.6)
Change in operating assets and liabilities, net of effects from purchase of acquired companies:		
Trade receivables	(33.5)	(216.2)
Inventories	(101.3)	172.6
Prepaid expenses and other current assets	(76.2)	(6.5)
Accounts payable	(80.2)	339.3
Accrued expenses and other current liabilities	(27.4)	345.4
Income and other taxes payable	64.6	3.1
Other noncurrent assets	(7.2)	9.9
Other noncurrent liabilities	(69.1)	(46.5)
Net cash provided by operating activities	188.9	706.7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(318.7)	(324.0)
Payment for business combinations, net of cash acquired	(265.5)	(742.6)
Proceeds from sale of asset	3.5	10.5
Net cash used in investing activities	(580.7)	(1,056.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term debt, original maturity more than three months	—	9.5
Repayments of short-term debt, original maturity more than three months	—	(9.7)
Net proceeds (repayments) of short-term debt, original maturity less than three months	5.1	(48.7)
Proceeds from revolving loan facilities	2,298.1	1,809.4
Repayments of revolving loan facilities	(1,535.8)	(1,624.4)
Proceeds from term loans	—	1,075.0
Repayments of term loans	(150.6)	(95.7)
Dividend payment	(281.9)	(279.2)
Net proceeds from issuance of Class A Common Stock and Series A Preferred Stock	20.0	19.5
Payments for employee taxes related to net settlement of equity awards (see Note 2)	(3.5)	—
Payments for purchases of Class A Common Stock held as Treasury Stock	—	(36.3)
Net (payments) proceeds from foreign currency contracts	(2.7)	3.8
Purchase of additional noncontrolling interests	—	(9.8)
Proceeds from noncontrolling interests	0.2	—
Distributions to noncontrolling interests, redeemable noncontrolling interests and mandatorily redeemable financial instruments	(54.0)	(7.5)

Payment of deferred financing fees	(4.0)	(24.8)
Net cash provided by financing activities	290.9	781.1
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	16.7	(12.1)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(84.2)	419.6
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period	570.7	372.4
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of period	$486.5	$792.0
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		

6

Table of Contents

Cash paid during the period for interest	$194.2	$132.9
Cash paid during the period for income taxes, net of refunds received	83.9	63.6
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Accrued capital expenditure additions	$104.3	$70.8
Non-cash Common Stock issued for business combination	—	9,628.6
Non-cash debt assumed for business combination	—	1,943.0
Non-cash redeemable noncontrolling interest for business combinations	—	410.9
Non-cash contingent consideration for business combination (see Note 4)	5.0	—

See notes to Condensed Consolidated Financial Statements.

Table of Contents

COTY INC. & SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
($ in millions, except per share data)
(Unaudited)

1. DESCRIPTION OF BUSINESS

Coty Inc. and its subsidiaries (collectively, the “Company” or “Coty”) manufacture, market, sell and distribute branded beauty products, including fragrances, color cosmetics, hair care products and skin & body related products throughout the world. Coty is a global beauty company with a strategic vision to be a new global leader and challenger in the beauty industry.

The Company operates on a fiscal year basis with a year-end of 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 ending June 30, 2018.

The Company’s sales generally increase during the second fiscal quarter as a result of increased demand associated with the winter holiday season. Financial performance, working capital requirements, sales, cash flows and borrowings generally experience variability during the three to six months preceding the holiday season. Product innovations, new product launches and the size and timing of orders from the Company’s customers may also result in variability. The Company also generally experiences an increase in sales during its fourth fiscal quarter in its Professional Beauty segment as a result of higher demand prior to the summer holiday season.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited interim Condensed Consolidated Financial Statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and include the Company’s consolidated domestic and international subsidiaries. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these unaudited interim Condensed Consolidated Financial Statements and accompanying footnotes should be read in conjunction with the Company’s Consolidated Financial Statements as of and for the year ended June 30, 2017. In the opinion of management, all adjustments, of a normal recurring nature, considered necessary for a fair presentation have been included in the Condensed Consolidated Financial Statements. The results of operations for the three and nine months ended March 31, 2018 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending June 30, 2018. All dollar amounts (other than per share amounts) in the following discussion are in millions of United States (“U.S.”) dollars, unless otherwise indicated.

Restricted Cash

Restricted cash represents funds that are not readily available for general purpose cash needs due to contractual limitations. Restricted cash is classified as a current or long-term asset based on the timing and nature of when or how the cash is expected to be used or when the restrictions are expected to lapse. As of March 31, 2018 and June 30, 2017, the Company had restricted cash of $25.7 and $35.3, respectively, included in Restricted cash in the Consolidated Balance Sheets. The Restricted cash balance as of March 31, 2018 provides collateral for certain bank guarantees on rent, customs and duty accounts. Restricted cash is included as a component of Cash, cash equivalents, and restricted cash in the Consolidated Statement of Cash Flows.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, the market value of inventory, the fair value of acquired assets and liabilities associated with acquisitions, pension benefit costs, the assessment of goodwill, other intangible assets and long-lived assets for impairment, income taxes and the fair value of redeemable noncontrolling interests. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the Condensed Consolidated Financial Statements in future periods.

Tax Information

The effective income tax rate for the three months ended March 31, 2018 and 2017 was (7.9)% and 36.9%, respectively, and (211.8)% and 69.3% for the nine months ended March 31, 2018 and 2017, respectively. The negative effective tax rate in the three months ended March 31, 2018 results from reporting a loss before income taxes but a provision for income taxes while the negative tax rate in the nine months ended March 31, 2018 results from reporting income before income taxes but a benefit for incomes taxes. The positive effective tax rate in the three and nine months ended March 31, 2017 results from reporting losses before incomes taxes and a benefit for income taxes. The change in effective tax rate for the three months ended March 31, 2018, as compared to the prior period, results from a lower level of uncertain tax position reserve releases (due to the expiration of foreign statutes of limitations), in addition to the impact of new tax legislation (as described below), in the current period. The change in the effective tax rate for the nine months ended March 31, 2018, as compared to the prior period, results from (i) the resolution of foreign uncertain tax positions of approximately $43.0 ($41.8 in tax and $1.2 in interest) in the current period and (ii) the release of a valuation allowance of $111.2 in the U.S. as a result of The Procter & Gamble Company's ("P&G") Beauty Business acquisition in the prior period.

The effective income tax rates vary from the U.S. federal statutory rate of approximately 28% due to the effect of (i) jurisdictions with different statutory rates, (ii) adjustments to the Company's unrealized tax benefits ("UTBs") and accrued interest, (iii) non-deductible expenses, (iv) audit settlements and (v) valuation allowance changes. As of January 1, 2018, the U.S. federal statutory rate decreased from 35% to 21%. As the Company has a June 30 fiscal year-end, the lower rate will be phased in, resulting in a blended rate of approximately 28% for the fiscal year ending June 30, 2018.

On December 22, 2017, "H.R.1", formerly known as the "Tax Cuts and Jobs Act" ("Tax Act") was enacted. The Tax Act significantly revises the U.S. corporate income tax system by, amongst other things, reducing the federal tax rate on U.S. earnings to 21%, implementing a modified territorial tax system and imposing a one-time deemed repatriation tax on historical earnings generated by foreign subsidiaries that have not been repatriated to the U.S.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the enactment date of the Tax Act for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with the Company's initial analysis of the impact of the Tax Act, the Company estimates the overall impact to be approximately $15.0 of expense from a financial statement perspective and neutral from a cash perspective for fiscal 2018. The Company expects to fully offset the cash impact of the one-time deemed repatriation tax with tax attributes (e.g., net operating loss carryforwards, net operating losses generated in fiscal 2018, foreign tax credits, etc.). The expense in the financial statements as a result of utilizing these tax attributes of approximately $370.0 is expected to be almost fully offset by the tax benefit estimated on the revaluation of its deferred taxes of approximately $300.0 and a tax benefit of approximately $55.0 related to the release of uncertain tax positions as a result of the one-time deemed repatriation tax. For various reasons that are discussed more fully below, the Company has not completed its accounting for the income tax effects of certain elements of the Tax Act. Where the Company was able to make reasonable estimates of the effects of elements for which the analysis is not yet complete, provisional adjustments were recorded. These provisional estimates may be affected by other elements related to the Tax Act, including, but not limited to, the state tax effect of adjustments made to federal temporary differences, confirming the amount of fiscal 2018 foreign earnings that will be subject to the one-time deemed repatriation tax, the division of foreign earnings subject to the repatriation tax between cash and non-liquid assets, and validating the amount of tax attributes the Company expects to utilize against the repatriation tax.

As the Company finalizes the analysis of the impact of the Tax Act, additional adjustments may be recorded during the measurement period. The Company will reflect measurement period adjustments, if any, in the period in which the adjustments are recognized.

The Tax Act requires a U.S. shareholder of a foreign corporation to include in income its global intangible low-taxed income ("GILTI"). In general, GILTI is described as the excess of a U.S. shareholder's total net foreign income over a deemed return on tangible assets. As a result of recently released FASB guidance, an entity may choose to recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or an entity can elect to treat GILTI as a period cost and include it in the tax expense of the year it is incurred. As such, the Company has elected to treat the tax on GILTI as a tax expense in the year it is incurred rather than recognizing deferred taxes.

As of March 31, 2018 and June 30, 2017, the gross amount of UTBs was $216.3 and $257.9, respectively. As of March 31, 2018, the total amount of UTBs that, if recognized, would impact the effective income tax rate is $203.5. As of March 31, 2018 and June 30, 2017, the liability associated with UTBs, including accrued interest and penalties, was $214.1 and $154.6, respectively, which was recorded in Income and other taxes payable and Other non-current liabilities in the Condensed Consolidated Balance Sheets. The total interest and penalties recorded in the Condensed Consolidated Statements of Operations

Table of Contents
related to UTBs was $(0.2) and $(0.6) for the three months ended March 31, 2018 and 2017, respectively, and $1.9 and $0.4 for the nine months ended March 31, 2018 and 2017, respectively. The total gross accrued interest and penalties recorded in the Condensed Consolidated Balance Sheets as of March 31, 2018 and June 30, 2017 was $13.6 and $11.7, respectively. On the basis of the information available as of March 31, 2018, it is reasonably possible that a decrease of up to $8.1 in UTBs may occur within 12 months as a result of projected resolutions of global tax examinations and a potential lapse of the applicable statutes of limitations.

Recently Adopted Accounting Pronouncements

During the first quarter of fiscal 2018, the Company adopted the amended Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of accounting for share-based payment transactions. The adoption of the ASU did not have a material impact on the Company's Condensed Consolidated Financial Statements. The primary impact of the new standard was the recognition of previously unrecognized excess tax benefits as an $8.3 cumulative-effect adjustment to Accumulated deficit as of July 1, 2017 to reflect a modified retrospective application. Prospectively, the excess tax benefits will be recorded as a component of Income tax expense as required, whereas they were previously recorded in Additional paid-in capital ("APIC"). Additionally, the ASU required that $3.5 related to shares withheld for employee taxes to be reported in Cash flows from financing activities for the nine months ended March 31, 2018 with an insignificant impact to prior periods.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which simplifies the measurement of inventories by requiring inventory to be measured at the lower of cost and net realizable value, rather than at the lower of cost or market. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted ASU No. 2015-11 during the first quarter of fiscal 2018. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

In February 2018, the FASB issued ASU No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows for a reclassification of the stranded tax effects resulting from the Tax Act from Accumulated other comprehensive income (loss) ("AOCI/(L)") to Retained earnings. The amendment will be effective for the annual periods beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the impact this guidance will have on the Company's Consolidated Financial Statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which provided guidance for improvements to accounting for hedging activities under ASC 815. The amendments better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendment will be effective for the Company in fiscal 2020 with early adoption permitted. The Company is evaluating the impact this guidance will have on the Company's Consolidated Financial Statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which implements a common revenue model that will enhance comparability across industries and require enhanced disclosures. The new standard introduces a five step principles based process to determine the timing and amount of revenue ultimately expected to be recorded. In March 2016, the FASB issued authoritative guidance amending certain portions of this standard to clarify the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued authoritative guidance amending certain portions of this standard to clarify the considerations for identifying performance obligations and to clarify the implementation guidance for revenue recognized from licensing arrangements. In May 2016, the FASB issued authoritative guidance amending certain portions of the standard to narrow the scope over, or to provide practical expedients, for assessing pending collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The Company will adopt the standard on July 1, 2018 using the modified retrospective transition method of adoption. The Company's evaluation indicated that the adoption impact is expected to be primarily related to the timing of certain accruals associated with customer incentives and potential reclassifications of certain costs between Selling, general and administrative expenses and expenses recorded as a reduction of revenue resulting from changes in the accounting treatment of store fixtures under the new standard. The Company is finalizing its assessment of the final impact of this ASU on the Company's Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in its balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a

Table of Contents

term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company plans to adopt the standard on July 1, 2019. The Company is in the early stages of its evaluation of the standard and has an implementation team in place that is performing an evaluation of the impact this standard will have on the Company's Consolidated Financial Statements and related disclosures.

3. SEGMENT REPORTING

Operating and reportable segments (referred to as "segments") reflect the way the Company is managed and for which separate financial information is available and evaluated regularly by the Company's chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company has designated its Chief Executive Officer as the CODM.

The Company has the following three divisions which represent its operating segments and reportable segments:

Luxury — primarily focused on prestige fragrances, premium skin care and premium cosmetics;

Consumer Beauty — primarily focused on color cosmetics, retail hair coloring and styling products, mass fragrance, mass skin care and body care;

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

Certain revenues and shared costs and the results of corporate initiatives are managed outside of the three segments by Corporate. The items within Corporate relate to corporate-based responsibilities and decisions and are not used by the CODM to measure the underlying performance of the segments. Corporate primarily includes restructuring costs, costs related to acquisition activities and certain other expense items not attributable to ongoing operating activities of the segments.

With the exception of goodwill and acquired intangible assets, the Company does not identify or monitor assets by segment. The Company does not present assets by reportable segment since various assets are shared between reportable segments. The allocation of goodwill and acquired intangible assets by segment is presented in Note 8—Goodwill and Other Intangible Assets, net.

	Three Months Ended March 31,		Nine Months Ended March 31,	
SEGMENT DATA	2018	2017	2018	2017
Net revenues:				
Luxury	$752.5	$634.6	$2,468.1	$1,918.6
Consumer Beauty	1,021.7	988.6	3,203.7	2,562.2
Professional Beauty	448.5	408.9	1,426.8	928.2
Total	$2,222.7	$2,032.1	$7,098.6	$5,409.0
Operating income (loss):				
Luxury	$59.4	$60.9	$201.2	$203.6
Consumer Beauty	64.2	63.0	225.4	178.6
Professional Beauty	11.4	(18.2)	83.2	81.5
Corporate	(115.1)	(298.2)	(286.8)	(622.5)
Total	$19.9	$(192.5)	$223.0	$(158.8)
Reconciliation:				
Operating income (loss)	$19.9	$(192.5)	$223.0	$(158.8)
Interest expense, net	72.6	60.8	199.3	159.1
Other expense (income), net	3.0	(0.5)	10.1	0.2
(Loss) income before income taxes	$(55.7)	$(252.8)	$13.6	$(318.1)

Table of Contents

Presented below are the percentage of revenues associated with the Company's product categories:

	Three Months Ended March 31,		Nine Months Ended March 31,	
PRODUCT CATEGORY	2018	2017	2018	2017
Fragrance	36.2 %	32.1 %	38.3 %	38.5 %
Color Cosmetics	26.1	31.4	26.2	28.9
Hair Care	25.4	26.5	24.6	20.2
Skin & Body Care	12.3	10.0	10.9	12.4
Total Coty Inc.	100.0%	100.0%	100.0%	100.0%

4. BUSINESS COMBINATIONS

P&G Beauty Business Acquisition

On October 1, 2016, the Company acquired the P&G Beauty Business in order to further strengthen the Company's position in the global beauty industry. The purchase price was $11,570.4 and consisted of $9,628.6 of total equity consideration and $1,941.8 of assumed debt.

The Company issued 409.7 million shares of common stock to the former holders of Galleria Co. ("Galleria") (which held the assets of the P&G Beauty Business) common stock, together with cash in lieu of fractional shares. Coty Inc. is considered to be the acquiring company for accounting purposes.

The Company has finalized the valuation of assets acquired and liabilities assumed for the P&G Beauty Business acquisition. The Company recognized certain measurement period adjustments as disclosed below during the quarter ended September 30, 2017. The measurement period for the P&G Beauty Business acquisition closed at the end of the first quarter of fiscal 2018.

The following table summarizes the allocation of the purchase price to the net assets of the P&G Beauty Business as of the October 1, 2016 acquisition date:

	Estimated fair value as previously reported [a]	Measurement period adjustments [b]	Final fair value as adjusted	Estimated useful life (in years)
Cash and cash equivalents	$387.6	$ —	$387.6	
Inventories	465.5	—	465.5	
Property, plant and equipment	742.9	(16.9)	726.0	3 - 40
Goodwill	5,528.4	35.5	5,563.9	Indefinite
Trademarks — indefinite	1,575.0	—	1,575.0	Indefinite
Trademarks — finite	747.7	—	747.7	10 - 30
Customer relationships	1,074.2	18.8	1,093.0	2 - 26
License agreements	2,299.0	12.0	2,311.0	4 - 30
Product formulations	183.8	(10.0)	173.8	5 - 28
Other net working capital	(23.2)	—	(23.2)	
Net other assets (liabilities)	64.6	(33.7)	30.9	
Unfavorable contract liabilities	(130.0)	—	(130.0)	
Pension liabilities	(404.1)	—	(404.1)	
Deferred tax liability, net	(941.0)	(5.7)	(946.7)	
Total purchase price	$11,570.4	$ —	$11,570.4	

[a] As previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017. The business combination was completed in fiscal 2017.

(b) The Company recorded measurement period adjustments in the first quarter of fiscal 2018. The measurement period adjustments related to Customer relationships, License agreements and Product formulations, collectively, of $20.8, were a result of changes in assumptions that were used at the date of acquisition for valuation purposes including allocation of costs and synergies. The measurement period

Table of Contents

adjustments related to Property, plant and equipment and Net other assets of ($16.9) and ($33.7), respectively, primarily related to obtaining new facts and circumstances about acquired assets and liabilities that existed at the acquisition date. The increase to Deferred tax liability, net was primarily a result of the change of the jurisdictional allocation of the tangible and intangible assets. All measurement period adjustments were offset against Goodwill.
Goodwill is primarily attributable to the anticipated company-specific synergies and economies of scale expected from the operations of the combined company. The synergies include certain cost savings, operating efficiencies, and leverage of the acquired brand recognition to be achieved as a result of the P&G Beauty Business acquisition. Goodwill is not expected to be deductible for tax purposes. Goodwill of $1,889.8, $3,188.1 and $486.0 is allocated to the Luxury, Consumer Beauty and Professional Beauty segments, respectively. The allocation of goodwill to segments was based on the relative fair values of expected future cash flows.

ghd Acquisition

On November 21, 2016, the Company completed the acquisition of 100% of the equity interest of Lion/Gloria Topco Limited which held the net assets of ghd (“ghd”) which stands for “Good Hair Day,” a premium brand in high-end hair styling appliances. The ghd acquisition further strengthens the Company’s professional hair category and is included in the Professional Beauty segment’s results after the acquisition date. The total cash consideration paid net of acquired cash and cash equivalents was £430.2 million, the equivalent of $531.5, at the time of closing.
The Company has finalized the valuation of assets acquired and liabilities assumed for the ghd acquisition. The Company recognized certain measurement period adjustments as disclosed below during the six months ended December 31, 2017. The measurement period for the ghd acquisition closed on November 21, 2017.
The following table summarizes the allocation of the purchase price to the net assets of ghd as of the November 21, 2016 acquisition date:

	Estimated fair value as previously reported [a]	Measurement period adjustments [b]	Final fair value as adjusted	Estimated useful life (in years)
Cash and cash equivalents	$ 7.1	$ —	$ 7.1	
Inventories	79.6	—	79.6	
Property, plant and equipment	10.0	—	10.0	3 - 10
Goodwill	174.4	24.6	199.0	Indefinite
Indefinite-lived other intangible assets	163.8	(14.8)	149.0	Indefinite
Customer relationships	36.6	(2.3)	34.3	11 - 25
Technology	146.6	(17.2)	129.4	11 - 17
Other net working capital				