COTY INC.
Form 10-Q
November 09, 2016

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 SEPTEMBER 30, 2016

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

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” and “smaller reporting 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 ¨

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 November 4, 2016, 746,322,986 shares of the registrant’s Class A Common Stock, $0.01 par value, were outstanding.

COTY INC.
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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 September 30,	
	2016	2015
Net revenues	$1,080.2	$1,112.3
Cost of sales	444.8	443.7
Gross profit	635.4	668.6
Selling, general and administrative expenses	478.9	484.3
Amortization expense	21.2	19.2
Restructuring costs	7.4	62.1
Acquisition-related costs	81.5	15.8
Asset impairment charges	—	5.5
Operating income	46.4	81.7
Interest expense, net	40.4	16.0
Other expense (income), net	1.3	(0.3)
Income before income taxes	4.7	66.0
Benefit for income taxes	(5.1)	(67.1)
Net income	9.8	133.1
Net income attributable to noncontrolling interests	8.2	4.4
Net income attributable to redeemable noncontrolling interests	1.6	3.0
Net income attributable to Coty Inc.	$—	$125.7
Net income attributable to Coty Inc. per common share:		
Basic	$—	$0.35
Diluted	—	0.34
Weighted-average common shares outstanding:		
Basic	336.3	360.0
Diluted	336.3	369.9
Cash dividend declared per common share	$0.275	$0.250

See notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,	
	2016	2015
Net income	$9.8	$133.1
Other comprehensive income (loss):		
Foreign currency translation adjustment	(5.9)	(17.2)
Net unrealized derivative gains on cash flow hedges, net of taxes of $0.1 and $(0.8) during the three months ended, respectively	8.5	4.5
Pension and other post-employment benefits adjustment, net of tax of $(0.8) and nil during the three months ended, respectively	5.2	0.2
Total other comprehensive income (loss), net of tax	7.8	(12.5)
Comprehensive income	17.6	120.6
Comprehensive income attributable to noncontrolling interests:		
Net income	8.2	4.4
Foreign currency translation adjustment	—	(0.5)
Total comprehensive income attributable to noncontrolling interests	8.2	3.9
Comprehensive income attributable to redeemable noncontrolling interests:		
Net income	1.6	3.0
Foreign currency translation adjustment	—	0.1
Total comprehensive income attributable to redeemable noncontrolling interests	1.6	3.1
Comprehensive income attributable to Coty Inc.	$7.8	$113.6

See notes to Condensed Consolidated Financial Statements.

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

	September 30, 2016	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 378.0	$ 372.4
Trade receivables—less allowances of $37.8 and $35.2, respectively	768.5	682.9
Inventories	616.7	565.8
Prepaid expenses and other current assets	234.5	206.8
Deferred income taxes	110.0	110.5
Total current assets	2,107.7	1,938.4
Property and equipment, net	665.7	638.6
Goodwill	2,192.3	2,212.7
Other intangible assets, net	2,038.0	2,050.1
Deferred income taxes	14.6	15.7
Other noncurrent assets	175.1	180.1
TOTAL ASSETS	$ 7,193.4	$ 7,035.6
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 964.6	$ 921.4
Accrued expenses and other current liabilities	753.0	748.4
Short-term debt and current portion of long-term debt	156.6	161.8
Income and other taxes payable	4.3	18.7
Deferred income taxes	4.4	4.9
Total current liabilities	1,882.9	1,855.2
Long-term debt, net	4,210.4	3,936.4
Pension and other post-employment benefits	228.0	230.6
Deferred income taxes	298.8	339.2
Other noncurrent liabilities	236.9	233.8
Total liabilities	6,857.0	6,595.2
COMMITMENTS AND CONTINGENCIES (Note 17)		
REDEEMABLE NONCONTROLLING INTERESTS	70.3	73.3
EQUITY:		
Preferred Stock, $0.01 par value; 20.0 shares authorized, 1.7 issued and outstanding, respectively, at September 30, 2016 and June 30, 2016	—	—
Class A Common Stock, $0.01 par value; 1,000.0 and 800.0 shares authorized, 401.4 and 138.7 issued, respectively, and 336.4 and 75.1 outstanding, respectively, at September 30, 2016 and June 30, 2016	4.1	1.4
Class B Common Stock, $0.01 par value; 0.0 and 262.0 shares authorized, 0.0 and 262.0 issued and outstanding, respectively, at September 30, 2016 and June 30, 2016	—	2.6
Additional paid-in capital	1,957.6	2,038.4
Accumulated deficit	(37.0)	(37.0)
Accumulated other comprehensive loss	(231.9)	(239.7)
Treasury stock—at cost, shares: 65.0 and 63.6 at September 30, 2016 and June 30, 2016, respectively	(1,441.8)	(1,405.5)
Total Coty Inc. stockholders' equity	251.0	360.2

Noncontrolling interests	15.1	6.9
Total equity	266.1	367.1
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY	$ 7,193.4	$7,035.6

See notes to Condensed Consolidated Financial Statements.

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COTY INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND REDEEMABLE NONCONTROLLING INTERESTS
For the Three Months Ended September 30, 2016
(In millions, except per share data)
(Unaudited)

	Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-in	(Accumulated	Accumulated Other Comprehensive	Treasury Stock		Total Coty Inc. Stockholders'	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit)	Loss	Shares	Amount	Equity	Interests	Equity
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
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			0.7	0.1			6.1					6.2		6.2
Share-based compensation expense							2.9					2.9		2.9
Dividends ($0.275 per common share)							(93.3)					(93.3)		(93.3
Net income								—				—	8.2	8.2
Other comprehensive income									7.8			7.8		7.8
Distribution to noncontrolling interests, net							—					—		—
Adjustment of redeemable noncontrolling interests to redemption value							3.5					3.5		3.5
BALANCE—September 30, 2016	1.7	$—	401.4	$4.1	—	$—	$1,957.6	$(37.0)	$(231.9)	65.0	$(1,441.8)	$251.0	$15.1	$266.1

See notes to Condensed Consolidated Financial Statements.

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COTY INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND
REDEEMABLE NONCONTROLLING INTERESTS
For the Three Months Ended September 30, 2015
(In millions, except per share data)
(Unaudited)

	Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-in	(Accumulated	Accumulated Other Comprehensive	Treasury Stock		Total Coty Inc. Stockholders'	Noncontrolling	Total	R N
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit)	Loss	Shares	Amount	Equity	Interests	Equity	I
BALANCE—July 1, 2015	1.9	—	134.0	$1.3	262.0	$2.6	$2,044.4	$(193.9)	$(274.0)	35.2	$(610.6)	$969.8	$14.9	$984.7	$
Purchase of Class A Common Stock										5.5	(155.7)	(155.7)		(155.7)	
Reclassification of Class A Common Stock from liability to APIC							13.8					13.8		13.8	
Exercise of employee stock options and restricted share units			1.1	0.1			9.8					9.9		9.9	
Share-based compensation expense							9.4					9.4		9.4	
Dividends ($0.25 per common share)							(89.9)					(89.9)		(89.9)	
Net income								125.7				125.7	4.4	130.1	3
Other comprehensive loss									(12.1)			(12.1)	(0.5)	(12.6)	0
Distribution to noncontrolling interests, net													—	—	(
Adjustment of redeemable noncontrolling interests to redemption value							3.6					3.6		3.6	(
BALANCE—September 30, 2015	1.9	—	135.1	$1.4	262.0	$2.6	$1,991.1	$(68.2)	$(286.1)	40.7	$(766.3)	$874.5	$18.8	$893.3	$

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

	Three Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$9.8	$133.1
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	59.9	57.5
Asset impairment charges	—	5.5
Deferred income taxes	(6.9)	(97.4)
Provision for bad debts	2.5	0.8
Provision for pension and other post-employment benefits	6.5	3.1
Share-based compensation	3.1	9.5
Other	6.2	7.4
Change in operating assets and liabilities, net of effects from purchase of acquired companies:		
Trade receivables	(86.9)	(104.7)
Inventories	(48.7)	(34.1)
Prepaid expenses and other current assets	(6.1)	11.9
Accounts payable	60.2	43.3
Accrued expenses and other current liabilities	4.6	44.5
Tax accruals	(18.7)	(10.2)
Other noncurrent assets	5.5	2.8
Other noncurrent liabilities	(6.0)	43.7
Net cash (used in) provided by operating activities	(15.0)	116.7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(86.8)	(42.6)
Additions to restricted cash	(25.0)	—
Proceeds from sale of asset	—	0.1
Net cash used in investing activities	(111.8)	(42.5)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term debt, original maturity more than three months	3.2	9.2
Repayments of short-term debt, original maturity more than three months	(3.2)	(5.9)
Net (repayments) proceeds from short-term debt, original maturity less than three months	(4.8)	10.7
Proceeds from revolving loan facilities	355.0	195.0
Repayments of revolving loan facilities	(70.0)	(50.0)
Repayments of term loans	(27.9)	—
Dividend payment	(92.4)	—
Net proceeds from issuance of Class A Common Stock and related tax benefits	6.1	9.8
Payments for purchases of Class A Common Stock held as Treasury Stock	(36.3)	(155.7)
Net proceeds from foreign currency contracts	1.7	1.9
Distributions to redeemable noncontrolling interests	—	(2.9)
Payment of deferred financing fees	—	(5.5)
Net cash provided by financing activities	131.4	6.6
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1.0	(6.1)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5.6	74.7

CASH AND CASH EQUIVALENTS—Beginning of period	372.4	341.3
CASH AND CASH EQUIVALENTS—End of period	$378.0	$416.0
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the period for interest	$35.3	$12.8
Cash paid during the period for income taxes, net of refunds received	15.2	36.8
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Accrued capital expenditure additions	$59.4	$25.6
Non-cash capital contribution associated with special share purchase transaction	—	13.8

See notes to Condensed Consolidated Financial Statements.

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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”) engage in the manufacturing, marketing and distribution of fragrances, color cosmetics and skin & body related products in numerous countries throughout the world.

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 2017” refer to the fiscal year ending June 30, 2017.

The Company’s revenues generally increase during the second fiscal quarter as a result of increased demand associated with the holiday season. Accordingly, the Company’s financial performance, working capital requirements, cash flow and borrowings experience seasonal variability during the three to six months preceding this season.

Subsequent to September 30, 2016, the Company completed its acquisition of The Procter & Gamble Company’s (“P&G”) global fine fragrances, salon professional, cosmetics and retail hair color businesses, along with select hair styling brands (the “P&G Beauty Brands”). Refer to Note 18 — Subsequent Events for further information about the consummation of the Merger.

The P&G Beauty Brands acquisition was completed on October 1, 2016 pursuant to the Transaction Agreement, dated July 8, 2015 (the “Transaction Agreement”), by and among the Company, P&G, Galleria Co. (“Galleria”) and Green Acquisition Sub Inc., a wholly-owned subsidiary of the Company (“Merger Sub”). On October 1, 2016, (i) Merger Sub was merged with and into Galleria, with Galleria continuing as the surviving corporation and a direct, wholly-owned subsidiary of the Company (the “Merger”) and (ii) each share of Galleria common stock was converted into the right to receive one share of the Company’s common stock (the Merger, together with the other transactions contemplated by the Transaction Agreement, the “Transactions”). Galleria held the P&G Beauty Brands.

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 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, 2016. 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 months ended September 30, 2016 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending June 30, 2017. All dollar 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 September 30, 2016 and June 30, 2016, the Company had restricted cash of $25.0 and $0.0, respectively, classified as Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets. Restricted cash as of September 30, 2016 includes a deposit made to a restricted bank account to provide collateral for bank guarantees on rent, customs and duty accounts in anticipation of the closing of the Transactions. Changes of principal balances in restricted cash accounts are presented as investing activities in the Company’s Condensed Consolidated Statements 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, the fair value of share-based compensation, the fair value of the Company's reporting units, and the assessment of goodwill, other intangible assets and long-lived assets for impairment, income taxes and redeemable noncontrolling interests when calculating the impact on

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Earnings Per Share ("EPS"). 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 September 30, 2016 and 2015 was (108.5)% and (101.7)%, respectively. The negative effective tax rate for the three months ended September 30, 2016 was primarily the result of ongoing operating losses in the U.S. that did not result in a full tax benefit due to a valuation allowance. The negative effective income tax rate for the three months ended September 30, 2015 was primarily the result of the net impact of the settlements with the Internal Revenue Service ("IRS") as described below.

The effective income tax rate for three months ended September 30, 2015 included the final settlement with the IRS in connection with the 2004 - 2012 examination periods. The settlement primarily relates to the acquisition of the Calvin Klein fragrance business. In connection with the settlement, the Company recognized a tax benefit of approximately $193.9 of which $164.2 was mainly due to the recognition of additional deferred tax assets related to the basis of the Calvin Klein trademark, and approximately $29.7 resulted from the reduction of gross unrecognized tax benefits. Of the $193.9 tax benefit, $113.0 was offset by a valuation allowance due to on-going operating losses in the U.S.

As a result of the P&G Beauty Brands acquisition, the Company expects to realize a tax benefit as a result of releasing valuation allowances related to ongoing operating losses in the U.S. The amount of this benefit was $111.2 as of June 30, 2016.

The effective income tax rates vary from the U.S. federal statutory rate of 35% 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 September 30, 2016 and June 30, 2016, the gross amount of UTBs was $237.0 and $228.9, respectively. As of September 30, 2016, the total amount of UTBs that, if recognized, would impact the effective income tax rate is $131.0. As of September 30, 2016 and June 30, 2016, the liability associated with UTBs, including accrued interest and penalties, was $139.6 and $131.9, 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 related to UTBs for the three months ended September 30, 2016 and 2015 was $0.1 and $1.3, respectively. The total gross accrued interest and penalties recorded in the Condensed Consolidated Balance Sheets as of September 30, 2016 and June 30, 2016 was $10.4 and $9.9, respectively. On the basis of the information available as of September 30, 2016, it is reasonably possible that a decrease of up to $14.7 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

In April 2015, the FASB issued authoritative guidance on the treatment of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted this guidance as of the first quarter ended September 30, 2016. With respect to the Company's Revolving Credit Facility (as defined in Note 9 - Debt), the Company has elected to classify unamortized debt issuance costs within the liability section of the balance sheet (as a contra-liability). In circumstances where the unamortized debt issuance costs exceeds the outstanding balance of the Revolving Credit Facility, the amount of unamortized debt issuance costs exceeding the outstanding balance will be reclassified to assets. The Company has applied the change in accounting principle with retrospective application to prior periods. As such, the amounts previously reported as Other noncurrent assets and Long-term debt, net in the Condensed Consolidated Balance Sheet as of June 30, 2016 were decreased by $64.6, respectively, for the reclassification of debt issuance costs from assets to liabilities. The change in accounting principle does not have an impact on the Company's Condensed Consolidated Statements of Operations, Statements of Cash Flows and Statements of Shareholders' Equity.

In April 2015, the FASB issued authoritative guidance to clarify the accounting treatment for fees paid by a customer in cloud computing arrangements. Under the revised guidance, if a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The revised guidance will not change a customer's accounting for service contracts. The Company adopted this guidance as of the first quarter end September 30, 2016 on a prospective basis. The adoption of this guidance does not have a material impact on the Company's Condensed Consolidated Financial Statements.

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Recently Issued Accounting Pronouncements

In October 2016, the FASB issued authoritative guidance that amends accounting guidance for intra-entity transfer of assets other than inventory to require the recognition of taxes when the transfer occurs. The amendment will be effective for the Company in fiscal 2019 with early adoption permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. The Company is currently evaluating the impact this guidance will have on the Company's Consolidated Financial Statements.

In August 2016, the FASB issued authoritative guidance that changes the classification and presentation of certain items within the statement of cash flows including but not limited to debt prepayment or debt extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies and distributions received from equity method investees. The amendment will be effective for the Company in fiscal 2019 with early adoption permitted. The Company is currently evaluating the effect that this guidance will have on the Company's Consolidated Financial Statements.

In June 2014, and as further amended, the FASB issued authoritative guidance that 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 received. The standard will be effective for the Company in fiscal 2019 with either retrospective or modified retrospective treatment applied. Early adoption is permitted for the Company beginning in fiscal 2018.The Company is currently evaluating the impact this standard will have on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued authoritative guidance requiring 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 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. The amendment will be effective for the Company in fiscal 2020 with early adoption permitted. 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 is currently evaluating the impact the standard will have on the Company's Consolidated Financial Statements.

3. SEGMENT REPORTING

Operating segments include components of the enterprise for which separate financial information is available and evaluated regularly by the 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's operating and reportable segments are Fragrances, Color Cosmetics, Skin & Body Care and Brazil Acquisition (also referred to as "segments"). The reportable segments represent the Company's product groupings other than the Brazil Acquisition segment. The Brazil Acquisition reportable segment represents revenues and expenses generated from multiple product groupings such as skin care, nail care, deodorants, and hair care products which are principally sold within Brazil. 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 a component of share-based compensation expense, restructuring costs, costs related to acquisition activities and certain other expense items not attributable to ongoing operating activities of the segments.

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SEGMENT DATA	Three Months Ended September 30, 2016	2015
Net revenues:		
Fragrances	$492.6	$548.1
Color Cosmetics	352.7	390.9
Skin & Body Care	161.9	173.3
Brazil Acquisition	73.0	—
Total	$1,080.2	$1,112.3
Operating income:		
Fragrances	$94.2	$108.9
Color Cosmetics	35.3	57.7
Skin & Body Care	11.5	6.8
Brazil Acquisition	4.2	—
Corporate	(98.8)	(91.7)
Total	$46.4	$81.7
Reconciliation:		
Operating income	$46.4	$81.7
Interest expense, net	40.4	16.0
Other expense (income), net	1.3	(0.3)
Income before income taxes	$4.7	$66.0

Within the Company's reportable segments, product categories exceeding 5% of consolidated net revenues are presented below:

PRODUCT CATEGORY	Three Months Ended September 30, 2016	2015
Fragrances:		
Designer	35.8 %	38.0 %
Lifestyle	5.8	6.0
Celebrity	4.0	5.3
Total	45.6 %	49.3 %
Color Cosmetics:		
Nail Care	13.9 %	15.1 %
Other Color Cosmetics	18.7	20.0
Total	32.6 %	35.1 %
Skin & Body Care:		
Body Care	9.6 %	10.6 %
Skin Care	5.4	5.0
Total	15.0 %	15.6 %
Brazil Acquisition:		
Total	6.8 %	— %
Total	100.0%	100.0%

4. BUSINESS COMBINATIONS

Brazil Acquisition

On February 1, 2016, the Company completed the acquisition of 100% of the net assets of the personal care and beauty business of Hypermarcas S.A. (the "Brazil Acquisition") pursuant to the Share Purchase Agreement in order to further

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strengthen its position in the Brazilian beauty and personal care market. The total consideration of R$3,599.5, the equivalent of $901.9, was paid during fiscal 2016.

The Company has finalized the valuation of assets acquired and liabilities assumed for the Brazil Acquisition. The Company recognized certain measurement period adjustments as disclosed below during the quarter ended September 30, 2016 and the measurement period for the Brazil Acquisition is now closed.

The following table summarizes the allocation of the purchase price to the net assets acquired as of the February 1, 2016 acquisition date:

	Estimated fair value as previously reported [(a)]	Measurement period adjustments [(b)]	Estimated fair value as adjusted	Estimated useful life (in years)
Cash and cash equivalents	$ 11.1	$ —	$ 11.1	
Inventories	45.6	—	45.6	
Property, plant and equipment	95.4	—	95.4	2 - 40
Goodwill	553.7	(16.6)	537.1	Indefinite
Trademarks - indefinite	147.1	—	147.1	Indefinite
Trademarks - finite	10.3	—	10.3	5 - 15
Customer relationships	44.6	—	44.6	13 - 28
Product formulations	12.8	—	12.8	3
Other net working capital	0.7	—	0.7	
Net other assets	2.1	(0.7)	1.4	
Deferred tax liability, net	(21.5)	17.3	(4.2)	
Total purchase price	$ 901.9	$ —	$ 901.9	

[(a)] As previously reported in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2016.
[(b)] The Company recorded measurement period adjustments in the first quarter of fiscal 2017 to account for a $0.7 asset retirement obligation, as well as, a net decrease in net deferred tax liability of $17.3 million as of the February 1, 2016 acquisition date. These adjustments were offset against Goodwill.

The Company has completed the local tax requirements allowing approximately $500.0 of goodwill and $44.6 of customer relationships assets to be tax deductible.

5. ACQUISITION-RELATED COSTS

Acquisition-related costs, which are expensed as incurred, represent non-restructuring costs directly related to acquiring and integrating an entity, for both completed and contemplated acquisitions and can include finder’s fees, legal, accounting, valuation, other professional or consulting fees, and other internal costs which can include compensation related expenses for dedicated internal resources. The Company recognized acquisition-related costs of $81.5 and $15.8 for the three months ended September 30, 2016 and 2015, respectively, which have been recorded in Acquisition-related costs in the Condensed Consolidated Statements of Operations.

6. RESTRUCTURING COSTS

Restructuring costs for the three months ended September 30, 2016 and 2015 are presented below:

	Three Months Ended September 30,	
	2016	2015
Acquisition Integration Program	$3.2	$46.5
Organizational Redesign	3.8	15.6

Productivity Program	0.4	—
Total	$7.4	$62.1

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Acquisition Integration Program

In the first quarter of fiscal 2016, the Company's Board of Directors (the "Board") approved an expansion to the Acquisition Integration Program in connection with the acquisition of the Bourjois brand. Actions associated with the program were initiated after the acquisition of Bourjois and are expected to be substantially completed by the end of fiscal 2017. The Company anticipates the Acquisition Integration Program will result in pre-tax restructuring and related costs of approximately $65.0, all of which will result in cash payments. The Company incurred $60.8 of restructuring costs life-to-date as of September 30, 2016, which have been recorded in Corporate.

Restructuring costs in the Company's Condensed Consolidated Statements of Operations for the three months ended September 30, 2016 included a curtailment gain of $1.8, recognized in connection with involuntary employee terminations as part of the Acquisition Integration Program. This gain resulted in a corresponding decrease to the net pension liability as of September 30, 2016. Refer to Note 11 — Employee Benefit Plans for further information.

The related liability balance and activity for the Acquisition Integration Program costs are presented below:

	Severance and Employee Benefits	Third-Party Contract Terminations	Other Exit Costs	Total Program Costs
Balance—July 1, 2016	$ 35.7	$ 7.6	$0.1	$ 43.4
Restructuring charges	—	—	5.2	5.2
Payments	(2.8)	(3.7)	(0.4)	(6.9)
Changes in estimates	—	(0.2)	—	(0.2)
Effect of exchange rates	0.3	—	—	0.3
Balance—September 30, 2016	$ 33.2	$ 3.7	$4.9	$ 41.8

The Company currently estimates that the total remaining accrual of $41.8 will result in cash expenditures of approximately $16.2, $17.6, $3.0 and $5.0 in fiscal 2017, 2018, 2019 and 2020, respectively.

Organizational Redesign

During the fourth quarter of fiscal 2014, the Board approved a program associated with a new organizational structure ("Organizational Redesign") that aims to reinforce the Company's growth path and strengthen its position as a global leader in beauty. The Company anticipates that the Organizational Redesign will result in pre-tax restructuring and related costs of $145.0 to $180.0, all of which will result in cash payments. The Company anticipates substantial completion of all project activities by the end of fiscal 2017, with the remaining costs primarily charged to Corporate. The Company incurred $109.9 of restructuring costs life-to-date as of September 30, 2016, which have been recorded in Corporate. The Company incurred $26.3 of other business realignment costs life-to-date as of September 30, 2016, which have been primarily reported in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations in Corporate.

The related liability balance and activity for the Organizational Redesign costs are presented below:

	Severance and Employee Benefits	Third-Party Contract Terminations	Other Exit Costs	Total Program Costs
Balance—July 1, 2016	$ 33.6	$ 0.4	$0.5	$ 34.5
Restructuring charges	5.0	—	—	5.0
Payments	(12.3)	—	(0.2)	(12.5)
Changes in estimates	(1.0)	—	(0.2)	(1.2)
Effect of exchange rates	0.3	—	—	0.3
Balance—September 30, 2016	$ 25.6	$ 0.4	$0.1	$ 26.1

The Company currently estimates that the total remaining accrual of $26.1 will result in cash expenditures of $22.4 and $3.7 in fiscal 2017 and 2018, respectively.

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Productivity Program

During the fourth quarter of fiscal 2013, the Board approved a number of business integration and productivity initiatives aimed at enhancing long-term operating margins (the “Productivity Program”). Such activities primarily related to integration of supply chain and selling activities within the Skin & Body Care segment, as well as certain commercial organization redesign activities, primarily in Europe and optimization of selected administrative support functions. The Productivity Program was substantially completed during fiscal 2016 with cash payments expected to continue through fiscal 2018. The Company incurred $51.8 of restructuring costs life-to-date as of September 30, 2016 which have been recorded in Corporate. The Company incurred $12.9 of other business realignment costs life-to-date as of September 30, 2016, which have been reported in Selling, general and administrative expenses in the Condensed Consolidated Statement of Operations in Corporate.

The related liability balance and activity for the Productivity Program costs which represents severance and employee benefits are presented below:

	Severance and Employee Benefits	Total Program Costs
Balance—July 1, 2016	$ 6.2	$ 6.2
Restructuring charges	0.4	0.4
Payments	(0.6)	(0.6)
Balance—September 30, 2016	$ 6.0	$ 6.0

The Company currently estimates that the total remaining accrual of $6.0 will result in cash expenditures of approximately $5.0 and $1.0 in fiscal 2017 and 2018, respectively.

7. INVENTORIES

Inventories as of September 30, 2016 and June 30, 2016 are presented below:

	September 30, 2016	June 30, 2016
Raw materials	$ 157.0	$ 159.8
Work-in-process	6.3	9.5
Finished goods	453.4	396.5
Total inventories	$ 616.7	$ 565.8

8. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

Goodwill as of September 30, 2016 and June 30, 2016 is presented below:

	Fragrances	Color Cosmetics	Skin & Body Care	Brazil Acquisition	Total
Gross balance at June 30, 2016	$ 888.1	$ 796.3	$870.9	$ 298.2	$2,853.5
Accumulated impairments	—	—	(640.8)	—	(640.8)
Net balance at June 30, 2016	$ 888.1	$ 796.3	$230.1	$ 298.2	$2,212.7
Changes during the period ended September 30, 2016:					
Measurement period adjustments [(a)]	—	—	—	(16.6)	(16.6)
Foreign currency translation	0.3	1.6	(0.4)	(5.3)	(3.8)
Gross balance at September 30, 2016	$ 888.4	$ 797.9	$870.5	$ 276.3	$2,833.1
Accumulated impairments	—	—	(640.8)	—	(640.8)
Net balance at September 30, 2016	$ 888.4	$ 797.9	$229.7	$ 276.3	$2,192.3

[a] Relates to measurement period adjustments in connection with the Brazil Acquisition (Refer to Note 4 — Business Combinations)

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Other Intangible Assets, net

Other intangible assets, net as of September 30, 2016 and June 30, 2016 are presented below:

	September 30, 2016	June 30, 2016
Indefinite-lived other intangible assets	$ 1,424.2	$ 1,417.0
Finite-lived other intangible assets, net	613.8	633.1
Total Other intangible assets, net	$ 2,038.0	$ 2,050.1

The changes in the carrying amount of indefinite-lived other intangible assets are presented below:

	Fragrances	Color Cosmetics	Skin & Body Care	Brazil Acquisition	Total
Gross balance at June 30, 2016	$ 20.5	$ 993.7	$ 450.4	$ 150.2	$ 1,614.8
Accumulated impairments	—	(9.2)	(188.6)	—	(197.8)
Net balance at June 30, 2016	20.5	984.5	261.8	150.2	1,417.0
Changes during the period ended September 30, 2016:					
Foreign currency translation	0.3	3.3	2.8	0.8	7.2
Gross balance at September 30, 2016	20.8	997.0	453.2	151.0	1,622.0
Accumulated impairments	—	(9.2)	(188.6)	—	(197.8)
Net balance at September 30, 2016	$ 20.8	$ 987.8	$ 264.6	$ 151.0	$ 1,424.2

Intangible assets subject to amortization are presented below:

	Cost	Accumulated Amortization	Accumulated Impairment	Net
June 30, 2016				
License agreements	$ 798.3	$ (532.2)	$ —	$ 266.1
Customer relationships	611.7	(274.2)	(5.5)	332.0
Trademarks	128.3	(108.6)	—	19.7
Product formulations	48.0	(32.7)	—	15.3
Total	$ 1,586.3	$ (947.7)	$ (5.5)	$ 633.1
September 30, 2016				
License agreements	$ 801.1	$ (542.1)	$ —	$ 259.0
Customer relationships	611.3	(284.6)	(5.5)	321.2
Trademarks	128.7	(108.7)	—	20.0
Product formulations	47.9	(34.3)	—	13.6
Total	$ 1,589.0	$ (969.7)	$ (5.5)	$ 613.8

Amortization expense totaled $21.2 and $19.2, for the three months ended September 30, 2016 and 2015, respectively.

9. DEBT

The Company's debt balances consisted of the following as of September 30, 2016 and June 30, 2016, respectively:

	September 30, 2016	June 30, 2016
Short-term debt	$ 20.1	$ 19.8
Coty Credit Agreement		
Revolving Credit Facility due October 2020	950.0	670.0
Term Loan A Facility due October 2020	1,861.4	1,883.6
Term Loan B Facility due October 2022	1,603.6	1,596.0
Other long-term debt and capital lease obligations	0.1	0.7
Total debt	4,435.2	4,170.1
Less: Short-term debt and current portion of long-term debt	(156.6)	(161.8)
Total Long-term debt	4,278.6	4,008.3
Less: Unamortized debt issuance costs [a]	(61.1)	(64.6)
Less: Discount on Long-term debt	(7.1)	(7.3)
Total Long-term debt, net	$ 4,210.4	$ 3,936.4

[a] Consists of unamortized debt issuance costs of $21.4 and $22.7 for the Revolving Credit Facility, $28.6, and $30.3 for the Term Loan A Facility and $11.1, and $11.6 for the Term Loan B Facility as of September 30, 2016 and June 30, 2016, respectively.

Coty Credit Agreement

On October 27, 2015, the Company entered into a Credit Agreement (the "Coty Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent. The Coty Credit Agreement provides for senior secured credit facilities (the "Senior Secured Facilities") comprising (i) a revolving credit facility in an aggregate principal amount up to $1,500.0 (the "Revolving Credit Facility") which includes up to $80.0 in swingline loans available for short term borrowings, (ii) a $1,750.0 Term Loan A Facility ("Term Loan A Facility") and (iii) a Term Loan B Facility comprising of a $500.0 tranche and a €665.0 million tranche ("Term Loan B Facility"). The Term Loan B Facility was issued at a 0.50% discount.

On April 8, 2016, the Company entered into an Incremental Assumption Agreement and Amendment No. 1 (the "Incremental Credit Agreement") to the Coty Credit Agreement. The Incremental Credit Agreement provides for an additional €140.0 million in commitments under the Term Loan A Facility and an additional €325.0 million in commitments under the Term Loan B Facility of the Coty Credit Agreement (the "Incremental Term Loans"). The terms of the €140.0 million and €325.0 million portions of the Incremental Term Loans are substantially the same as the respective existing Term Loan A Facility and Euro denominated portion of the Term Loan B Facility.

The Coty Credit Agreement is guaranteed by Coty Inc.'s wholly-owned domestic subsidiaries and secured by a first priority lien on substantially all of the assets of Coty Inc. and its wholly-owned domestic subsidiaries, in each case subject to certain carve outs and exceptions.

Debt Covenants

The Company is required to comply with certain affirmative and negative covenants contained within the Coty Credit Agreement. The Coty Credit Agreement includes a financial covenant that requires the Company to maintain a total net leverage ratio, as defined therein, equal to or less than 5.50 to 1.00 for each fiscal quarter through December 31, 2016, subject to certain agreed step-downs thereafter. In the four fiscal quarters following the closing of any material acquisition (as defined in the Coty Credit Agreement), including the fiscal quarter in which such material acquisition occurs, the maximum total net leverage ratio shall be the lesser of (i) 5.95 to 1.00 and (ii) 1.00 higher than the otherwise applicable maximum total net leverage ratio for such quarter (as described in the prior sentence). Immediately after any such four fiscal quarter period, there shall be at least two consecutive fiscal quarters during which the Company's total net leverage ratio is no greater than the maximum total net leverage ratio that would otherwise have been required in the absence of such material acquisition, regardless of whether any additional material acquisitions are consummated during such period. As of September 30, 2016, the Company was in

compliance with all covenants within the Coty Credit Agreement.

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10. INTEREST EXPENSE, NET

Interest expense, net for the three months ended September 30, 2016 and 2015 is presented below:

	Three Months Ended September 30,	
	2016	2015
Interest expense	$39.7	$15.0
Foreign exchange losses, net of derivative contracts	1.3	1.5
Interest income	(0.6)	(0.5)
Total interest expense, net	$40.4	$16.0

11. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost for pension plans and other post-employment benefit plans recognized in the Condensed Consolidated Statements of Operations are presented below for the three months ended September 30, 2016 and 2015:

	Three Months Ended September 30,							
	Pension Plans				Other Post-Employment Benefits		Total	
	U.S.		International					
	2016	2015	2016	2015	2016	2015	2016	2015
Service cost	$—	$—	$2.0	$1.7	$0.3	$0.3	$2.3	$2.0
Interest cost	0.7	0.8	0.6	0.9	0.4	0.5	1.7	2.2
Expected return on plan assets	(0.5)	(0.6)	(0.3)	(0.3)	—	—	(0.8)	(0.9)
Amortization of prior service (credit) cost	—	—	0.1	0.1	(1.5)	(1.4)	(1.4)	(1.3)
Amortization of net loss	0.5	0.3	1.1	0.8	—	—	1.6	1.1
Settlement loss recognized	3.1	—	—	—	—	—	3.1	—
Net periodic benefit cost (credit)	$3.8	$0.5	$3.5	$3.2	$(0.8)	$(0.6)	$6.5	$3.1

During the three months ended September 30, 2016, the Company made lump sum payments to certain U.S. Del Laboratories, Inc. pension plan participants totaling $13.5 to partially settle the plan's obligation to these participants. Payments were made from the plan's assets.

The U.S. Del Laboratories, Inc. pension plan assets and liabilities were remeasured at the September 30, 2016 settlement date, using a discount rate of 3.7% compared to 3.8% as of June 30, 2016. As a result of the re-measurement, the net pension liability decreased by $2.9 as compared to the June 30, 2016. The net pension liability decrease was primarily a result of differences in interest rate and mortality assumptions used by Company to measure the plan liability as of June 30, 2016 compared to those assumptions used to determine lump sum benefits to be paid to participants, as mandated by the IRS. The decrease in the plan's net pension liability resulted in a corresponding increase in other comprehensive (loss) income.

During the three months ended September 30, 2016, in connection with the partial settlement of the U.S. Del Laboratories, Inc. pension plan, the Company recognized a settlement loss of $3.1 as a result of accelerated recognition of losses previously deferred within accumulated other comprehensive loss.

The Company expects the termination of the plan will be completed during fiscal 2017. Refer to Note 18 — Subsequent Events.

Also, during the three months ended September 30, 2016, the Company recognized a curtailment gain of $1.8, in connection with involuntary employee terminations as part of the Acquisition Integration Program, which significantly reduced the expected years of future service of employees within one of the Company's international pension plans. The curtailment gain is included in Restructuring costs in the Company's Condensed Consolidated Statements of Operations for the three months ended September 30, 2016. Refer to Note 6 - Restructuring Costs for further information about the Acquisition Integration Program.

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12. FAIR VALUE MEASUREMENT

The following fair value hierarchy is used in selecting inputs for those assets and liabilities measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1—Valuation based on quoted market prices in active markets for identical assets or liabilities;

Level 2—Valuation based on inputs other than Level 1 inputs that are observable for the assets or liabilities either directly or indirectly;

Level 3—Valuation based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and supported by little or no observable market activity.

The financial assets and liabilities that the Company measures at fair value on a recurring basis based on the fair value hierarchy, as of September 30, 2016 and June 30, 2016 are presented below:

	Level 1		Level 2		Level 3	
	September 30, 2016	June 30, 2016	September 30, 2016	June 30, 2016	September 30, 2016	June 30, 2016
Financial assets and liabilities						