

COTY INC.  
Form 10-K  
August 23, 2017

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, 2017

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, 2016, the aggregate market value of the registrant’s Class A Common Stock held by non-affiliates was \$13,541,968,117 based on the number of shares held by non-affiliates as of December 31, 2016 and the last reported sale price of the registrant’s Class A Common Stock on December 31, 2016.

At August 16, 2017, 748,686,540 shares of the registrant’s Class A Common Stock, \$0.01 par value were outstanding.

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COTY INC.

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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, our future operations and financial performance, ongoing cost efficiency initiatives, the timing and presentation of future cost saving plans, expected growth (including revenue declines and trends), our ability to support our planned business operations on a near- and long-term basis, mergers and acquisitions, future dividend payments, divestitures, transitions, synergies or growth from acquisitions, the success of the integration of the P&G Beauty Business (as defined below) and our outlook and future reporting periods. 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”, “outlook”, “continue”, “target”, “aim”, “potential” and similar words or phrases.

These statements are based on certain assumptions and estimates that we consider reasonable and are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual events or results to differ materially from such statements, including:

- our ability to achieve our global business strategies, compete effectively in the beauty industry and achieve the benefits contemplated by our strategic transactions, including our joint ventures and recent acquisitions, within the expected time frame or at all;
- use of estimates and assumptions in preparing our financial statements, including with regard to revenue recognition, stock compensation expense, 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 management of cash flows, and expenses associated with our strategic transactions and internal reorganizations;
- the integration of the P&G Beauty Business (as defined below) with our business, operations, systems, financial data and culture (including the recent exits and anticipated future exit of the Transition Services Agreement and implementation of our Global Integration Activities (as defined below)) and the ability to realize synergies, reduce costs and other potential efficiencies and benefits at the levels and at the costs and within the time frames currently contemplated 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 relaunched or rebranded products;
- increased competition, consolidation among retailers, shifts in consumers’ preferred distribution channels (including to digital channels) and other changes in the retail, e-commerce and wholesale environment in which we do business and sell our products;
- changes in law, regulations and policies that affect our business, operations or products;
- our and our brand partners’ and licensors’ ability to obtain, maintain and protect the intellectual property rights, including trademarks, brand names and other intellectual property used in their respective businesses, products and software, and their abilities to protect their respective reputations and defend claims by third parties for infringement of intellectual property rights;
  - our ability to implement (and the cost of) the Global Integration Activities, Acquisition Integration Program, the Organizational Redesign restructuring program and the Post-Merger Reorganization (each as defined below) as planned and the success of the programs or any anticipated programs in delivering anticipated improvements and efficiencies;
- our ability to successfully execute our announced intent to divest and/or discontinue non-core brands and to rationalize wholesale distribution by reducing the amount of product diversion to the value and mass channels;
- any unanticipated problems, liabilities or other challenges associated with an acquired business which could result in increased risk of new, unanticipated or unknown liabilities, including with respect to environmental, competition and other regulatory matters;
- our international operations and joint ventures, including reputational, compliance, regulatory, economic and foreign political risks, including difficulties and costs associated with maintaining compliance with a broad variety of complex domestic and international regulations;

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

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

global political and/or economic uncertainties or disruptions, including the impact of Brexit and the new U.S. administration;

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

our ability to manage seasonal and other variability and to anticipate future business trends based on the information available to it under the TSA with respect to the P&G Beauty Business;

disruptions in operations, including due to disruptions or consolidation in supply chain, restructurings, manufacturing rights or information systems, labor disputes and natural disasters;

restrictions imposed on us through our license agreements and credit facilities and changes in the manner in which we finance our debt and future capital needs, including potential acquisitions;

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 to information technology systems, inability to control the quality or level of detail of financial data provided by third parties, and our failure to comply with any privacy or data security laws or to protect against theft of customer, employee and corporate sensitive information;

our ability to attract and retain key personnel, including during times of transition and restructurings;

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 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.

We refer to North America, Western Europe and Japan as “developed markets,” and all other markets as “emerging markets.” We define North America as the United States of America (“U.S.”) and Canada. Except as specifically

indicated, all references to rankings are based on retail value market share.

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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 2017” refer to the fiscal year ended June 30, 2017. Any reference to a year not preceded by “fiscal” refers to a calendar year.

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## PART I

### Item 1. Business.

#### Overview

Coty Inc. is one of the world's largest beauty companies with a purpose to celebrate and liberate the diversity of consumers' beauty. Founded in 1904, over the years 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. During fiscal 2017, we transformed into a new company with the ambition to be a new leader and challenger in the beauty industry. We acquired certain assets and liabilities related to 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 Business"), which strengthened and diversified our presence across the countries, categories and channels in which we compete. We also acquired ghd, a premium brand in high-end hair styling appliances, which exposed us to a new product category; entered into a joint venture with Younique LLC ("Younique"), a leading online peer-to-peer social selling platform in beauty, which enhances our direct-to-consumer capabilities through a digital distribution channel; and entered into an agreement to acquire the exclusive long-term global license rights for Burberry Beauty luxury fragrances, cosmetics and skincare, which augments our presence in prestige fragrances, cosmetics and skincare. These acquisitions complement the addition of the personal care and beauty business of Hypermarcas S.A. (the "Hypermarcas Brands") to our business in fiscal 2016, which further strengthens our position in the Brazilian beauty and personal care category. Following this transformation, in addition to continuing to grow our portfolio through acquisitions and other strategic transactions, we continue to focus on expanding our global brands into new markets and channels through the introduction of new products and the support of established products. Today, we are the global leader in fragrance, a strong number two in professional salon hair color & styling, and number three in color cosmetics.

#### 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.

Consumer Beauty is primarily focused on color cosmetics, retail hair coloring and styling products, body care and mass fragrances primarily in the mass retail channel, e-commerce and social selling direct-to-consumer platform.

Luxury is primarily focused on prestige fragrances, premium skincare and premium cosmetics across all regions and luxury channels, including travel retail.

Professional Beauty is primarily focused on servicing salon owners and salon professionals in both hair and nail care, covering all key salon segments and salon client needs.

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:

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## Marketing and Sales

We have dedicated marketing and sales forces in most of our significant markets. We believe that local teams dedicated to the commercialization of our brands give us the greatest opportunity to execute our business strategy. We also develop branding and marketing execution strategies with our top customers.

Our marketing strategy varies by brand and market. We have a diverse portfolio of over 75 brands, and we employ different models to create a distinct image and personality suited to each brand's equity, distribution, product focus and consumer. 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 are also focused on utilizing our digital marketing agency Beamly's ("Beamly") digital social listening and trend spotting capabilities to expand digital marketing of our brands. One of our strategies is to promote our brands in television, print, outdoor ads, in-store and in-salon displays and to develop and grow promotion on digital and social networks. We also seek editorial coverage for products and brands in both traditional media and digital and social media. We also leverage our relationships with celebrities and on-line influencers to endorse certain of our products.

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. Such activities are designed to attract consumers to our counters, displays and walls and so that they try, or purchase, our products. We also engage in sampling and "gift-with-purchase" programs designed to stimulate product trials.

Our consolidated expenses for advertising and promotional costs were \$1,883.3, \$967.6 and \$1,007.7 in fiscal 2017, 2016 and 2015, respectively. Our consolidated expenses for total marketing and advertising, which includes trade marketing spend, were \$2,493.0, \$1,363.9 and \$1,470.9 in fiscal 2017, 2016 and 2015, respectively.

## Distribution Channels and Retail Sales

We market, sell and distribute our products in over 130 countries and territories. 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. Certain products are sold through our own branded e-commerce websites and direct to consumer websites and third party operated e-commerce websites. The Luxury division primarily sells products through prestige retailers, including upscale perfumeries, upscale department stores and duty-free shops, with travel retail sales channels accounting for 14% 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 countries and territories where we do not have direct distribution. In fiscal 2017, 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 2017, Wal-Mart, our top retailer, accounted for 7% of our net revenues.

## Research and Development

Research and development is a pillar of our innovation. Select key new product developments included COVERGIRL So Lashy, Rimmel Brow Shake Brow Filling Powder and Bourjois Rouge Lacque Lip for Consumer Beauty, System Professional care line, Wella Professionals' Les beige shades on Koleston Perfect and Color Touch, Wella Professionals Fusion care line for Professional Beauty, and Gucci Bloom and philosophy purity pore extractor for Luxury.

We continuously seek to improve our products through research and development and strive to provide the consumer with the best possible products. Our research and development teams work with our marketing and operations teams, as well as our internal digital agency, Beamly, to identify recent trends and consumer needs and to bring products quickly to market. Additionally, our basic and applied research groups, which conduct longer-term research such as "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, 2017, we owned approximately 3000 patents and patent applications globally.

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

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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.

#### Manufacturing and Related Operations and Raw Materials

We manufactured approximately 82% of our products in fiscal 2017, 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. In connection with the acquisition of the P&G Beauty Business, we have incurred and expect to continue to incur operating expenses, including restructuring and related costs aimed at integrating and optimizing the combined organization (“Global Integration Activities”). For more information about the Global Integration Activities, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Operating (Loss) Income—Restructuring and Other Business Realignment Costs” and Note 6 “Restructuring Costs” in the notes to our Consolidated Financial Statements.

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. We have not experienced material disruptions in our supply chain in the past, and we believe we have robust practices in place to respond to potential disruptions in our supply chain. In fiscal 2017, no single supplier accounted for more than 10% of the materials used in the manufacture of our products.

We have established a global distribution network designed to meet the changing demands of our customers while maintaining service levels. We are continuing to evaluate and restructure our physical distribution network to improve utilization, increase efficiency and reduce our order lead times.

#### Competition

We compete against a number of manufacturers and marketers of fragrances, color cosmetics, 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 apparel retailers and mass distribution retailers.

We believe that we compete primarily on the basis of perceived value, including pricing and innovation, service to the consumer, promotional activities, advertising, special events, new product introductions, e-commerce and mobile-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.

#### Intellectual Property

We generally own the trademark rights in key sales countries in Trademark International Class 3 (covering cosmetics and perfumery) for use in connection with, among others, the following brands: Astor, Bourjois, Clairol, Coty, COVERGIRL, Joop!, Jovan, Lancaster, Manhattan, Max Factor, Nioxin, N.Y.C. New York Color, OPI, philosophy, Rimmel, Sally Hansen, System Professional and Wella. We license trademarks for the balance of our material product lines, 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 a

significant portion of our net revenues are manufactured and marketed under exclusive license agreements granted to us for use on a

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worldwide and/or regional basis. As of June 30, 2017, we maintained 37 brand licenses. In fiscal 2017, 39% of our net revenues were generated from licensed brands.

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 all 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. Seven of our brand licenses expire during fiscal 2018. For additional risks associated with our licensing arrangements, see “Risk Factors—Our brand licenses may be terminated if specified conditions are not met” 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, 2017, we had approximately 22,000 full-time employees in over 46 countries. In addition, we employ a large number of seasonal contractors during our peak manufacturing and promotional season. We recognize the importance of our employees to our business and believe our relationship with our employees is satisfactory.

Our employees in the U.S. are not covered by collective bargaining agreements. Our employees in certain countries in Europe are subject to works council arrangements. We have not experienced a material strike or work stoppage in the U.S. or any other country where we have a significant number of employees.

#### Government Regulation

We and our products are subject to regulation by various U.S. federal regulatory agencies as well as by various state and local regulatory authorities and by the applicable regulatory authorities in the countries in which our products are produced or sold. Such regulations principally relate to the ingredients, labeling, manufacturing, packaging, advertising and marketing and sales and distribution of our products. Because we have commercial operations overseas, we are subject to the U.S. Foreign Corrupt Practices Act (the “FCPA”) as well as other countries’ anti-corruption and anti-bribery regimes, such as the U.K. Bribery Act.

We are also subject to numerous foreign, federal, provincial, state, municipal and local environmental, health and safety laws and regulations relating to, among other matters, safe working conditions, product stewardship and environmental protection, including those relating to emissions to the air, discharges to land and surface waters, generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste materials, and the registration and evaluation of chemicals. We maintain policies and procedures to monitor and control environmental, health and safety risks, and to monitor compliance with applicable environmental, health and safety requirements. Compliance with such laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon our capital expenditures, earnings or competitive position. However, environmental and social responsibility laws and regulations have tended to become increasingly stringent and, to the extent regulatory changes occur in the future, they could result in, among other things, increased costs and risks of non-compliance for us. For example, certain states in the U.S., such as California, and the U.S. Congress have proposed legislation relating to chemical disclosure and other requirements related to the content of our products. For more information, see “Risk Factors—Changes in laws, regulations and policies that affect our business or products could adversely affect our business, financial condition and results of operations.”

#### Seasonality

Our sales generally increase during our second fiscal quarter as a result of increased demand by retailers associated with the holiday season. We also experience an increase in sales during our fourth quarter in our Professional Beauty segment as a result of stronger activity prior to the summer holiday season. Working capital requirements, sales, and cash flows generally experience variability during the three to six months preceding the holiday period due in part to product innovations and new product launches and the size and timing of certain orders from our customers. While we continue to attempt to reduce this seasonality, sales volume is, by its nature, difficult to forecast.

We generally experience peak inventory levels from July to October and peak receivable balances from September to December. During the months of November, December and January of each year, cash is normally generated as

customer payments for holiday season orders are received.

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In response to this seasonality and other factors, management has implemented various working capital programs aimed at optimizing the effectiveness of our inventories, customer receivables and accounts payable. For example, to improve inventory productivity, we have worked to enhance our sales and operational planning forecasting processes. To improve accounts payable efficiency, we have commenced a harmonization of our vendor management practices across geographies to optimize our payments to vendors. For more information, see “Risk Factors—Our business is subject to seasonal variability.”

#### Availability of Reports

We make available financial information, news releases and other information on our website at [www.coty.com](http://www.coty.com). There is a direct link from our website to our Securities and Exchange Commission (“SEC”) filings via the EDGAR database at [www.sec.gov](http://www.sec.gov), where our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge as soon as reasonably practicable after we file such reports and amendments with, or furnish them to, the SEC. Stockholders may also contact Investor Relations at 350 Fifth Avenue, New York, New York 10118 or call 212-389-7300 to obtain hard copies of these filings without charge.

#### Item 1A. Risk Factors.

You should consider the following risks and uncertainties and all of the other information in this Annual Report on Form 10-K and our other filings in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. Our business and financial results may also be adversely affected by risks and uncertainties not presently known to us or that we currently believe to be immaterial. If any of the events contemplated by the following discussion of risks should occur or other risks arise or develop, our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities, may be materially and adversely affected. When used in this discussion, the term “includes” and “including” means, unless the context otherwise indicates, including without limitation and the terms “Coty,” the “Company,” “we,” “our,” or “us” mean, unless the context otherwise indicates, Coty Inc. and its majority and wholly-owned subsidiaries.

The beauty industry is highly competitive, and if we are unable to compete effectively, our business, prospects, financial condition and results of operations could suffer.

The beauty industry is highly competitive and can change rapidly due to consumer preferences and industry trends, such as the expansion of digital channels. Competition in the beauty industry is based on several factors, including pricing, value and quality, packaging and brands, speed or quality of innovation and new product introductions, in-store presence and visibility, promotional activities and brand recognition, distribution channels, advertising, editorials and e-commerce and mobile-commerce initiatives. Our competitors include large multinational consumer products companies, private label brands and emerging companies, among others, and some have greater resources than we do or may be able to respond more quickly or effectively to changing business and economic conditions than we can. It is difficult for us to predict the timing and scale of our competitors’ actions and their impact on the industry or on our business. For example, the fragrance category is being influenced by new product introductions, niche brands and growing e-commerce distribution, and the nail category in the U.S. by lower cost brands, which have increased pricing pressure and shifts in consumer preference away from certain traditional formulations. The color cosmetics category has been influenced by entry by new competitors and smaller competitors that are fast to respond to trends and engage with their customers through digital platforms and innovative in-store activations. In addition, the hair color category is being influenced by new product introductions in the premium category and innovations by competitors to meet growing category needs. If we are unable to compete effectively on a global basis or in our key product categories or geographies, it could have an adverse impact on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

Further consolidation in the retail industry and shifting preferences in how and where consumers shop may adversely affect our business, prospects, financial condition and results of operations.

Significant consolidation in the retail industry has occurred during the last several years. The trend toward consolidation, particularly in developed markets such as the U.S. and Western Europe, has resulted in our becoming increasingly dependent on our relationships with, and the overall business health of, fewer key retailers that control an increasing percentage of retail locations, which trend may continue. For example, certain retailers account for over 10% of our net revenues in certain geographies, including the U.S. Our success is dependent on our ability to manage

our retailer relationships, including offering trade terms on mutually acceptable terms. Furthermore, increased online competition and declining in-store traffic has resulted, and may continue to result, in brick-and-mortar retailers closing physical stores, which could negatively impact our distribution strategies and/or sales if such retailers decide to significantly reduce their inventory levels for our products or to designate more floor space to our competitors. Further consolidation and store closures could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities. We generally do not have long-term sales contracts or other sales assurances with our retail customers.

Consumer shopping preferences have also shifted, and may continue to shift in the future, to distribution channels other than traditional retail in which we have more limited experience, presence and development, such as direct sales and e-commerce. In addition, our entry into new categories and geographies has exposed, and may continue to expose, us to new distribution channels or risks about which we have less experience. If we are not successful in developing and utilizing these channels or other channels that future consumers may prefer, we may experience lower than expected revenues.

Changes in industry trends and consumer preferences could adversely affect our business, prospects, financial condition and results of operations.

Our success depends on our products' appeal to a broad range of consumers whose preferences cannot be predicted with certainty and may change rapidly, and on our ability to anticipate and respond in a timely and cost-effective manner to industry trends through product innovations, product line extensions and marketing and promotional activities, among other things. Product life cycles and consumer preferences continue to be affected by the rapidly increasing use and proliferation of social and digital media by consumers, and the speed with which information and opinions are shared. As product life cycles shorten, we must continually work to develop, produce, and market new products and maintain and enhance the recognition of our brands. For example, the mass fragrance category performance has been declining due to, we believe, the shortening of fame longevity for celebrities and channel limitations for in-store displays.

In addition, net revenues and margins on beauty products tend to decline as they advance in their life cycles, so our net revenues and margins could suffer if we do not successfully and continuously develop new products. This product innovation also can place a strain on our employees and our financial resources, including possibly incurring expenses in connection with product innovation and development, marketing and advertising that are not subsequently supported by a sufficient level of sales. Furthermore, we cannot predict how consumers will react to any new products that we launch. The amount of positive or negative sales contribution of any of our products may change significantly within a period or from period to period. The above-referenced factors, as well as new product risks, could have an adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

Our success depends on our ability to achieve our global business strategies.

Our future growth depends on our ability to successfully implement our global business strategies, which includes leveraging the strength and scale of the combined company and combining new organic growth opportunities with a well-targeted acquisition strategy to strive to become, over time, the global industry leader by being a clear challenger in beauty, and delighting our consumers which we believe should ultimately translate into revenue growth, strong cash flow and the creation of long-term shareholder value. Achieving our global business strategies will require investment in new capabilities, products and brands, categories, distribution channels, technologies and emerging and more mature geographies and beauty markets. These investments may result in short-term costs without any current revenues and, therefore, may be dilutive to our earnings and negatively impact our cash flows. We will also seek to reduce fixed costs, which may be unpredictable in periods following acquisitions as we implement our integration efforts and undertake other cost efficiency measures.

In addition, we have identified our non-core portfolio brands, representing approximately 6% to 8% of combined legacy Coty and P&G Beauty Business net revenues on a full year basis for fiscal 2017, and are exploring alternatives for these brands, including divestiture. We are likely to dispose of or discontinue select brands and/or streamline operations in the future, and incur costs or restructuring and/or other charges in doing so. We may face risks of declines in brand performance and license terminations, due to allegations of breach or for other reasons, including with regard to our potentially divested or discontinued brands. If and when we decide to divest or discontinue any brands or lines of business, we cannot be sure that we will be able to locate suitable buyers or that we will be able to complete such divestitures or discontinuances successfully, timely, on commercially advantageous terms or without significant costs, including relating to any post-closing purchase price adjustments or claims for indemnification. Activities associated with any divestiture or discontinuance may also divert significant financial, operational and managerial resources from our existing operations, and make it more difficult to achieve our operating and strategic objectives. We also cannot be sure of the effect such divestitures or discontinuances would have on the performance of our remaining business or ability to execute our global strategies.

Although we believe that our strategy will lead to long-term growth in revenue and profitability, we may not realize, in full or in part, the anticipated benefits. The failure to realize benefits, which may be due to our inability to execute plans, global or local economic conditions, competition, changes in the beauty industry and the other risks described herein, could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

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We have incurred significant costs associated with the acquisition of the P&G Beauty Business (the “Transactions”) that could affect our period-to-period operating results, and we may not realize the benefits that we expect from our Post-Merger Reorganization (as defined below).

We anticipate that we will incur a total of approximately \$1.2 billion of operating expenses and capital expenditures of approximately \$500 million in connection with the Transactions. Through June 30, 2017, we incurred life-to-date operating expenses and capital expenditures against these estimates of approximately \$850 million and \$250 million, respectively, and we expect the remaining operating expenses, including any anticipated restructuring activities, and capital expenditures to be incurred in future periods through fiscal 2020. Some of the factors affecting the costs associated with the Transactions and potential impact on our operations and financials, include the length of time during which the remaining transition services are provided to us by P&G, the resources required in optimizing the integration of the P&G Beauty Business with our existing businesses following the termination of the transition services provided to us by P&G, management and employee changes, reliance on financial and other data from P&G and integration of IT systems and the integration of employees in jurisdictions where we did not previously have operations. Due to the Transactions, we have significantly more sales, assets and employees, and, as a result, a higher fixed cost base, than we did prior to the Transactions. The integration process has required us to expand the scope of our operations and financial, accounting and control systems. Our management has been, and will continue to be, required to devote a substantial amount of time and attention to the process of integrating Galleria with our business operations, which has diverted attention from ongoing operations of both our legacy Coty business and the P&G Beauty Business and has affected our period-to-period operating results. If our management is not able to effectively manage the integration process, address fixed and other costs, or if any significant business activities are interrupted as a result of the integration process, our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities may be materially adversely affected. In addition, we intend to complete the exit of our transition services agreement with P&G in calendar year 2017. We can provide no assurances that we will be able to anticipate future business trends based on the information available to us under the terms of the transition services agreement or that we will be able to successfully manage integration and operation of the P&G Beauty Business thereafter, which could increase costs and management distraction. The amount and timing of the above-referenced charges and management distraction could further adversely affect our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

Moreover, following the close of the Transactions on October 1, 2016, we reorganized our business into three new divisions: Luxury, Consumer Beauty and Professional Beauty (the “Post-Merger Reorganization”). The successful implementation of our Post-Merger Reorganization presents significant organizational challenges and uncertainties and requires successful negotiations with third parties, including labor organizations, suppliers, distributors and other business partners. We may not be successful in these negotiations. As a result, we may not be able to realize the anticipated benefits from our Post-Merger Reorganization. Events and circumstances such as financial or strategic difficulties, unexpected employee turnover and delays may occur or continue, resulting in new, unexpected or increased costs that could result in us not realizing all of the anticipated benefits on our expected timetable or at all. Any failure to implement the Post-Merger Reorganization in accordance with our expectations could adversely affect our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

Our new product introductions may not be as successful as we anticipate, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

We must continually work to develop, produce and market new products and maintain a favorable mix of