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COTY - Q4 2013 Coty Inc Earnings Release Conference Call

EVENT DATE/TIME: SEPTEMBER 17, 2013 / 1:30PM GMT

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PRESENTATION

Operator

Good morning. My name is Shaquanna, and I will be your conference operator for today. At this time, I would like to welcome everyone to Coty's fourth-quarter and full-year fiscal 2013 results conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. As a reminder, this conference is being recorded today, September 17. Thank you.

I would now like to turn the call over to Kevin Monaco, Coty's Senior Vice President, Treasurer and Investor Relations. Mr. Monaco, you may proceed.

Kevin Monaco - *Coty Inc. - SVP, Treasurer and IR*

Good morning. Thank you for joining us. On today's call are Michele Scannavini, Chief Executive Officer, and Sergio Pedreiro, Chief Financial Officer.

Before we begin, I would like to remind you that many of our comments may contain forward-looking statements. Please refer to our press release and our reports filed with the SEC, where you will find factors that could cause actual results to differ materially from these forward-looking statements.

Except where noted, the discussion of our financial results and our expectations do not reflect certain nonrecurring and other charges, and therefore, constitute non-GAAP measures. You can find a reconciliation between GAAP and non-GAAP figures in our press release and on the Investor Relations section of our website.

I will now turn the call over to Michele.

Michele Scannavini - *Coty Inc. - CEO*

Thank you, Kevin. And good morning, everyone. I'm pleased to welcome all of you to our first financial results conference call as a public company, following the leasing of our shares on the New York Stock Exchange this past June. We enjoyed meeting with many of you throughout the IPO process. And we look forward to updating you on our performance, as well as how we are progressing with our business strategy.

Since there may be some of you who are new to the Coty story, I'll provide a brief overview of who we are, highlights of our unique attributes, and applying our strategic priorities for driving profitable growth. Coty is a new, emerging leader in beauty. We have delivered sustained revenue growth and margin expansion over the last 10 years, thanks to our ability to build and develop brands, proposing game-changing innovation to the market, coupled with strong discipline in controlling our operating costs.

We have a portfolio of well-known and successful brands that hold leading positions in three segments -- fragrances, color cosmetic, and skin and body care. Our brands compete in all key distribution channels across the prestige and mass markets. And in more than 130 countries and territories.

Our growth is driven predominantly by our power brands, which are our top 10 brands, and represent approximately 70% of our net revenues. We have power brands in all the segments where we compete. Five power brands are in fragrances -- Calvin Klein, Marc Jacobs, Davidoff, Playboy and Chloe. Three are in color cosmetics -- Rimmel, Sally Hansen and OPI. And two are in skin and body care -- adidas and philosophy. They are spread across our three segments, are globally recognized, and are important contributors to our results.

Our strategy of profitable growth revolves around six key drivers. First, maximizing the growth potential of our power brands with a focus on superior innovation. Our second key driver is further strengthening our position in our core fragrances and core cosmetic segments, while expanding our presence in skin and body care. Third, we aim at increasing our global coverage by accelerating our growth in emerging markets. We are targeting to grow the share of our Business in emerging markets from the current 25% on the revenues, to more than one-third in five years time.

Our fourth driver is leveraging our multi-channel distribution strategy to capture growth across all price points, and reaching a vast and diverse spectrum of potential consumers. Fifth driver is continuing to expand our margin by further increasing our supply-chain productivity, and focusing on disciplined fixed-cost management. And finally, continuing to generate substantial amounts of cash through improved earnings and working-capital reduction.

Leveraging the six drivers I just discussed, we expect to achieve our long-term financial targets, which are -- growing net revenues in line or faster than the markets and segments where we compete; growing earnings faster than revenues; keep expanding margins; continuing to generate strong cash flow; increasing working-capital efficiency. In addition to these six drivers for organic growth, we will continue to actively evaluate external opportunities to further increase our competitiveness. Historically, this has been a key contributor toward Coty's strong development, and an important generator of shareholder value.

[Laying] down the structure of our long-term strategy, let me now provide you with an update on our quarterly and year-end financial results, which Sergio will review in more detail a bit later. Fiscal-year '13 was another positive year for Coty, with solid financial results. Our adjusted operating income grew 7%, thanks to growth in revenues, and discipline in our operational costs. Adjusted operating margin increased 70 basis points to 12.3% of net revenues. Our adjusted net earnings also increased 7%, bringing our EPS to $0.82 from $0.78 last year. We were able to once again generate strong cash, converting more than 100% of our operating earnings into cash.

Net revenues grew 2%, like for like. We grew in all the regions, and in our larger segments, fragrance and color. We are targeting to progressively recover a higher growth rate in line with our long-term targets, as our new program of growth acceleration in emerging markets starts to have an impact, and as we get traction in skin and body care.

Let's now analyze in more detail our performance in the fourth quarter and in the total fiscal year. Net revenues in the fourth-quarter 2013 increased by 4% on a like-for-like basis, driven by strong performance in fragrances, and skin and body care, as well as accelerated growth in emerging-market regions. Full fiscal-year 2013 revenues were up 2% on a like-for-like basis due to strength in fragrances and color cosmetics, along with higher net revenues in all the regions. Fragrances, which represented 54% of our total net revenues this past year, grew 6% in fourth quarter and 3% in the year, outpacing market trends.

Strong contributors to the growth in the quarter and the total year were our power brands -- Marc Jacobs, Chloe and Playboy. Marc Jacobs grew in the double digits for the fourth year in a row. This remarkable performance is directly linked to the outstanding creativity of the products' aesthetic and positioning. Marc Jacobs Dot was one of the most successful fragrance launches of the year in several countries, including the US and the UK.

Chloe is steadily gaining market share globally year after year. After only five years from initial launch, the Chloe brand is among the top 20 female brands worldwide, with position of strength in US, Europe and Asia.

Relevant contribution to the development of our fragrance segment also came from some of our regional brands like Roberto Cavalli, particularly strong in emerging countries as Middle East and Russia and Europe. Finally, the Lady Gaga launch recently did particularly well with young consumers, and added to our revenues, thanks also to a multi-channel distribution strategy making the product available to consumers that are shopping in different channels, both off- and on-line.

Calvin Klein, after robust growth in fiscal-year '12 coming from strong innovations, faced some challenges in the consolidated markets, particularly in Southern Europe. However, we are pleased to see the brand continuing to progress at a fast pace in emerging markets. In China, as an example, Calvin Klein grew 28% in fiscal-year '13, leveraging the strong awareness and image of the brand in that country.

Color cosmetic, which represented 31% of our Business in fiscal '13, grew 4% in the year, and was stable in the fourth quarter. The star performer of the year was Rimmel, our biggest brand in the segment, which delivered double-digit growth, gaining market share in Europe and in the US. The success of the brand traces to an outstanding innovation program, which offers a steady stream of surprising new product concepts to consumer, as was the case at this year with Apocalips Lip Lacquer. The success of the brand is also due to a competitive price positioning, and to a cutting-edge marketing mix, including an extremely creative and engaging digital program.

Sally Hansen, after a strong start in the year, had more challenges in the second half, ending stable for the year overall. The nail category has seen unprecedented competitive activity, with several new brands joined in the arena, and investment increasing significantly. At the same time, consumption growth is slowing down, resulting in the stocking activity by retailers, which impacted Sally Hansen in the fourth quarter of fiscal-year '13 and the first quarter of fiscal-year '14. We are working to ensure Sally Hansen can defend its undisputed leadership in the US market, while continuing to expand internationally.

OPI was also stable in the year after an outstanding 21% pro forma growth last year.

Skin and body care, 15% our Business in fiscal-year '13, represents an important opportunity for future growth. Two years ago, we created a global platform to start building the segment with the acquisition of Tjoy and philosophy. Tjoy is a Chinese brand that provides us with the operating platform to produce, distribute and sell Coty products in the mass channel in China. Philosophy is a unique American brand with a strong direct-to-consumer business, and potential for expansion outside the US. Those two brands, together with existing adidas and Lancaster brand, will provide us with a tool to start growing our presence in this segment., which is the biggest segment in beauty, and to facilitate our penetration in emerging markets, particularly Asia.

We are working to develop and execute a growth road map for each of the brands in the segment. Work is in progress. And we are encouraged to see positive performance in Q4, with skin and body care revenues growing 6% versus the previous year. The total year, however, still showed a 4% decline. And it will take some time, still, before seeing sustained growth in the segment.

adidas, our biggest brand in the segment, decreased marginally in the year due to the challenging market conditions in Europe, which is still the core region for the brand. This was partially compensated by growth in the US and China, leveraging Tjoy distribution and selling capabilities. In fiscal-year '13, adidas was our biggest brand in China. And we see a clear potential for further development of adidas in emerging markets.

Philosophy is progressively regaining traction. While the total year showed a marginal decline, we progressively recovered momentum in the second half and in the fourth quarter, which showed revenue increases versus the prior year, as our innovation program and International expansion started to kick in.

From a geographic perspective, we have seen a certain slowdown of global market growth in the first part of this calendar year to about 3%, or about 1.5% for the geographies and segment Coty is exposed to. Europe was marginally recessive due to the soft consumption dynamic, and an increasingly promotional environment, particularly in Southern Europe and the UK. In the US, after a strong start to the year, the market suffered from unexpected deceleration of growth in the last quarter, and most recently, particularly in the mass segments. Emerging markets still have healthy growth, which we estimate between 5% and 6%. In these market contests, we achieved higher net revenues in all three of our regions during fiscal-year 2013 -- the Americas, EMEA and Asia-Pacific.

In the fourth-quarter 2013, the Asia-Pacific region saw double-digit increases, while EMEA returned to growth thanks to strong performance in Russia, Middle East, UK and [travel retail]. Americas were flat in quarter four, with good growth in Latin America compensating for a marginal decline in the US. Developed markets were up 1% in 2013, and 2% in the fourth quarter, while emerging markets were up 6% total year, and 8% in the fourth quarter.

Emerging markets represented 24% of our total net revenues in the year compared to 23% last year. In the fourth quarter, this percentage went up to 25%, confirming that our increased focus on emerging markets is yielding results, and encouraging us to keep [pursuing] our five-year target of developing at least one-third of our total business in those markets, a core area we have targeted for growth.

As part of our growth plan, in the fourth quarter we announced two moves which will further strengthen our structure to reach new consumers in new markets. To increase our penetration in Asia, we acquired StarAsia, an established distributor of beauty products in Southeast Asia, to sell Coty products in the mass retail channel in countries such as Indonesia, Malaysia, Taiwan and Singapore. We already have a successful joint venture in Southeast Asia for our prestige brands. And we are confident that this new structure will enable us to achieve similar successful development in the mass market.

In Brazil, we formed a joint venture with Frajo International, a subsidiary of O Boticario, a leading Brazilian cosmetic retailer, to expand the retail distribution platform from Coty mass MSD beauty products in Brazil. The new structure will be operational starting in the second quarter of fiscal-year '14, and will focus initially on adidas, Playboy and [masstige] fragrances. This, coupled with our commercial partnership with door-to-door vendor Jequiti, will enable us to progressively build our Business in the Brazilian market, which is currently the number two beauty market worldwide.

Innovation has always been the engine of our growth. And in fiscal-year '13, we confirmed our ability to bring to the industry innovation that stands out for its creativity, and [this amount] changing consumer perspective and attitudes on products. Highlights of the year were -- in fragrance, Dot Marc Jacobs, which represent a disruptive approach to fragrance packaging and aesthetics; and Lady Gaga, the first black-to-clear juice. In color, it's worth mentioning the new nail gel technology of Sally Hansen, and the revolutionary Lips Lacquer at Rimmel. In skin, the new infrared technology in Lancaster, allowing the best protection against damages from sun rays.

Our focus on innovation will be unchanged in fiscal-year '14. Among the several innovations that will hit the shelves in the first half worth mentioning -- in fragrance, we're launch, in August, HONEY Marc Jacobs, another unique creation, which is off to a very strong start in the US and the UK. As we speak, we are also launching Downtown, the new Calvin Klein fragrance featuring Rooney Mara; Killer Queen, the first Katy Perry fragrance launched since she joined Coty; and Super Playboy, the new bold dual fragrances for him and for her.

In color, in Q2 we will launch Sally Hansen Triple Shine, a new formula that incorporates our exclusive shield complex for ultimate shining colors, with strong media and in-store support. Rimmel will propose a new look inspired by the '60s, with the new Scandalize mascara.

In skin, we are launching now in exclusivity with one US retailer, the new philosophy Time in a Bottle, a new anti-aging serum which we build out to full distribution later in the year. And adidas, with a new (inaudible) line in Q2.

Innovation is the engine that will continue to differentiate us, and drive our growth. This, along with the strength of our power brands, continued expansion in emerging markets, and the opportunities provided by our multi-channel strategy, will help us achieve our long-term goal of growing in line or better than the industry average in the segments and geographic regions in which we operate.

Looking at the beginning of fiscal-year 2014, we have seen a deceleration on market growth over the last few months in the US and Europe, triggering significant destocking activity, particularly by US mass retailers. Inventory reduction in the US mass markets is occurring across most of our top customers, and across all product segments. As a consequence, we estimate net revenues in the first quarter of fiscal-year 2014 to be marginally lower than last year. We are expecting to return over the second half of the fiscal year to our long-term target of growing in line or faster than the markets and the segments where we compete, as the inventory situation normalizes, and as we start benefiting from the first impact of our new investments in emerging markets, particularly in Asia and Brazil.

At this stage, we need more visibility into the back-to-school and Christmas season to assess if and how our long-term and earnings targets will be affected in the year by the [consumption] slowdown and trade destocking of the recent month. We will give you an update of the evolution of the situation on the next call in two months from now.

I would now like to turn the call over to our Chief Financial Officer, Sergio Pedreiro, who will review our financial results in more detail. Sergio?

Sergio Pedreiro - *Coty Inc. - CFO*

Thank you, Michele. And good morning, everyone. First, I'd like to remind all of you that my commentary today on our results and outlook includes a discussion of adjusted results, which excludes the impact of nonrecurring items, private Company share-based compensation, and restructuring costs. When applicable, I will also discuss our adjusted results at constant currency. This presentation is consistent with how we plan to report results and provide our outlook in future quarters. You can find the bridge from reported to adjusted results, including foreign exchange translation impact, in the reconciliation tables in the earnings release.

For full fiscal-year 2013, net revenues increased 2% on a like-for-like basis. This improvement was due to a good performance in color and fragrance. And from a geographic point of view, growth in all three regions, and the stronger growth in Asia-Pacific and Americas.

In the fourth quarter, net revenues increased 4% on a like-for-like basis. We are pleased with this performance, as it was achieved in spite of challenging market conditions, in particular in the mass channel, as Michele just explained. Growth was driven by strong performance in Asia-Pacific, with double-digit growth at constant currency. We also achieved remarkable mid-single-digit growth in EMEA despite a recessive market situation in Western Europe. This was driven by strong performance in the emerging markets of Russia and Middle East, and solid growth in travel retail.

In the Americas, revenues were in line with prior year, thanks to strong growth in Latin America, offset by slight decline in North American business. This was due to the first impact of retailers' inventory reduction as a reaction to traffic and consumption slowdown, particularly in the mass channel.

For 2013, gross margin decreased 40 basis points to 60% versus the 60.4% in the previous year. We continue to benefit from our efficiency program and supply chain, mainly driven by factories' productivity and worldwide procurement. The savings coming from supply chain were more than offset by increased discounting activity needed to compete in a highly promotional European market.

Adjusted net income in 2013 increased 7% to $323.2 million versus $300.7 million in 2012, primarily driven by higher operating income. This results in adjusted diluted earnings per share of $0.82. For the fourth quarter, adjusted net income was $9.9 million versus a loss of $2.3 million in the comparable 2012 period. Adjusted diluted earnings per share in the first quarter were $0.03.

On a reported basis, net income for 2013 increased to $168 million versus a loss of $324.4 million in 2012. This increase was primarily driven by higher operating income, along with lower interest expense, partially offset by higher tax expenses due to the mix of business.

Our adjusted operating income increased 8% on a constant-currency basis to $576.3 million in 2013 compared to $535.9 million in 2012. Adjusted operating margin increased 70 basis points to 12.3% of net revenues, as compared to 11.6% last year. The increase was primarily the result of lower selling, general and administrative expenses, which, as a percentage of net revenue, declined by 110 basis points to 45.7%. The decrease in SG&A was primarily driven by 60 basis points lower fixed costs, including lower variable compensation.

Spending on advertising and consumer promotion was flat year over year on a constant-currency basis, and decreased by 1% on actual rate. As a percentage of net revenues, A&CP was 23.1% compared to 23.5% in the previous year. This 40-basis-point decrease includes approximately 20 basis points reduction resulting from savings realized in vendor negotiations. The balance of the decrease in advertising and consumer promotion reflects a shift in promotional expense towards customer discounts and allowances, driven by our mass retail business, especially in Southern Europe and in the UK.

Reported operating income increased to $394.4 million in 2013, from an operating loss of $209.5 million in fiscal 2012. This increase of $603.9 million was due primarily to lower asset impairment charges of $1.5 million compared to $575.9 million in fiscal 2012. In addition, the increase in reported operating income was driven by lower SG&A, the gain on sale of assets, and lower amortization expense. This improvement was slightly offset by higher cost of sales, and restructuring expenses.

For the fourth quarter of fiscal 2013, adjusted operating income was $45.4 million, up approximately $30 million versus $11.6 million in the comparable 2012 period. On a reported basis, we had an operating loss of $23.9 million in the quarter due to $26.3 million of restructuring expenses versus a loss of $485.4 million in the last quarter of 2012, driven by asset impairment charges of $473.9 million.

By segment, our fiscal-year '13 adjusted operating margin in fragrance improved by 90 basis points to 14.8%. And color cosmetic operating margin were also up 20 basis points to 14.2%. Our skin and body care business is approximately breakeven, with an adjusted operating margin of minus 0.8% in 2013. As you know, the skin and body care is our smallest segment, accounting for 15% of our net revenues. And we anticipate gradual operating margin improvement in this segment in the years to come as we progressively grow scale.

During the fourth quarter, we completed the transition phase to our new logistics service provider covering the prestige business in Europe and Asia. In the fourth quarter, shipments were completely normalized, and we ended the fiscal year with no orders on backlog.

Also, during the fourth quarter, we approved and launched a new productivity plan, including a number of initiatives designed to enhance our long-term operating margins. The productivity plan includes actions to gain efficiencies in our operating model in skin and body care, along with certain commercial reorganization redesign activities, primarily in Europe, productivity programs across our supply chain, and optimization of selected support functions. As part of this program, philosophy's commercial marketing and R&D teams are currently being relocated to New York, and integrated with our Coty US team.

The total charge associated with the program is expected to be approximately $70 million to $75 million in the course of the next 24 to 36 months. We recorded charges of $25.3 million in fiscal 2013. Savings associated with the program are expected to gradually increase to an annualized level of $40 million to $45 million once the program is completed by fiscal 2016.

Our adjusted effective tax rate was 28.2% in fiscal 2013 compared to 27.7% in the prior year. This increase in effective tax rate was driven by a change in jurisdictional mix, with higher profits in countries with higher tax rates. Moving forward, we continue to expect our adjusted effective tax rate to remain in the range of 28%, plus or minus 3%.

On a cash tax basis, we expect to continue to benefit from historical net operating losses in the US and Germany, as well as from the tax deductibility of [goodwill] amortization for OPI and philosophy, resulting in a long-term sustainable cash tax rate in the range of 18%, plus or minus 3%. In fiscal-year 2013, cash paid for income taxes was 16.9% of adjusted income before income taxes.

Fiscal 2013 was another year of strong cash flow generation. Net cash provided by operating activities, excluding cash used for private Company stock option exercises, was $618.4 million in 2013, compared to $593.3 million in 2012. This was equivalent to a cash conversion ratio of 108%. We continue to generate significant cash from operations through improved operating performance, and a continued focus on working capital. In 2013, our free cash flow, excluding cash used for private Company stock option exercise, was $394.5 million, or 8.5% of net revenues, which represents approximately 6.3% free cash flow yield, and compares very favorably with the industry average.

I am also pleased to communicate that we have raised our dividends to $0.20 per share. This reflects strong earnings and cash flow in fiscal 2013. And in the absence of any imminent acquisition, we are raising our dividend per share by 33%. Going forward, as we evaluate future dividends, we will always consider our financial condition and results of operations, as well as availability of funds and capital requirements, including potential acquisitions.

As we enter fiscal 2014, we are facing the impact of trade destocking in the US, and increasing promotional activity in Europe. As Michele explained, these recent market developments are impacting our mass business and total net revenues for the first quarter of fiscal '14.

Also, we are currently facing FX headwinds. And based on most recent exchange rates, the full-year impact in earnings would be in the range of 3% to 4%. This FX impact is driven primarily by double-digit depreciation of some currencies like the Australian dollar and the Russian ruble, as well as by depreciation of the British pound [vis-a-vis] the euro.

As the back-to-school and the holiday seasons unfold, we will consolidate our outlook for the total fiscal year. Cash flow continues to be a strong focus for our Organization. As we continue to gain efficiencies on working capital, we are creating the basis for another year of strong cash flow generation in fiscal 2014.

We would now like to turn it back to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

In order to allow everyone a chance to pose an audio question, please limit your questions to one question and one follow-up. You may enter the queue, if time permits, to submit more questions.

Olivia Tong, Bank of America Merrill Lynch.

Olivia Tong - *BofA Merrill Lynch - Analyst*

I wanted to talk a little bit about your category growth expectations for mass versus prestige. And then, for your business specifically, where do you expect to source most of your market share gains as the year progresses? Do you think it's going to come more in mass or prestige? Thanks.

Michele Scannavini - *Coty Inc. - CEO*

Good morning, first of all, Olivia. Thanks for the question. Let me say that what we are seeing now is clearly a trend on the market that shows slower development in mass versus prestige. This is true in the US, and this is also true in Europe. Now, this is not something that I can anticipate is going to be a long-term trend. We have seen, in the past, the trend changing. And depending on the different years or seasons, mass having advantage versus prestige, and prestige having advantage versus mass.

So, the situation right now, it happened sometimes in the past that in uncertain market situations, people with lower income is more cautious in spending than people with higher income. But it's also true that, for instance, in 2009 in the big crisis, mass was pretty much resilient, and the prestige had a much serious hit. So, looking forward, I should say I don't see a change in the current trend in the next few months. But longer term, I don't think there is anything that can say that prestige is going to grow faster than mass.

As far as our market share, clearly we are working and developing plans to defend and increase our market share in all the different segments where we compete, being in the prestige channel or in the mass channel. So, we are not really defining a priority between the two, but we try to maximize our competitiveness in both.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it. Thanks.

And then, can you parse out how much of the deceleration that you see in Q1 -- how much of that is destocking versus the underlying category deceleration in the US and Europe?

Michele Scannavini - *Coty Inc. - CEO*

Those two are phenomena that is a bit difficult to separate one from the other. Now, obviously, everything starts with the deceleration of the market growth. When we talk of US, for instance, that is where we see the most important destocking activity. We have clearly seen a deceleration of the market growth in the three categories where we compete -- fragrance prestige, fragrance mass, and color, particularly in the nail segment. This happened in the last quarter of last year, and in the first couple of months of this year.

Now, this is the trigger event for the trade to readjust the stock level on the consumption level and growth. So, I must say that when we look at the first two months of our quarter, that the destocking has impacted quite significantly. We calculate, in the first two months, a destocking impact of around $23 million to $25 million on our net revenues in the US. Clearly, progressively we expect the [selling] to get more in line with the consumption. In other words, to see the adjustment of the inventory to have an end, once the inventory is more realigned with growth of the different categories.

Operator

Bill Schmitz, Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

Can you just talk about, first, the margin trends in the quarter, both gross and operating margin -- or SG&A ratio rather -- because the 230-basis-points decline in gross margin -- what drove that? And what the outlook is going forward? And then, it looks like SG&A came down significantly in the quarter -- down over 500 basis points year over year. Maybe some of the drivers there, and how sustainable some of those reductions are? And I have a follow-up, please.

Sergio Pedreiro - *Coty Inc. - CFO*

Hi, Bill. You're right. The gross margin came down 230 basis points. This was a combination of two factors. There is about 50 basis points that is a fiscal-year '12 reclassification of an expense that was actually catching up for the full year. So, it's amounted for 50 basis points for that quarter, but was actually adjusting for the full year. The balance of 180 basis points was the impact of higher discounting allowances, as we discussed.

Now, when you look at the SG&A, it came down significantly, reflecting two developments. One is on the marketing expense that came down 250 basis points, a little bit less than 50% of the decrease in SG&A. I just want to call your attention to the fact that it's coming down from a very high base. It was actually 28.2% of net sales in the last quarter of previous year. And even after these reductions, it's still at a very good level at 25.7 %.

The balance came from the other SG&A, including a reduction of 160 basis points that is equivalent to lower variable compensation. As you know, our compensation is [varied year], and is driven through results. And therefore, with the performance, you have a reflection in the size of the variable compensation, which amounted, as I said, to 160 basis points in the last quarter.

Bill Schmitz - *Deutsche Bank - Analyst*

Great. Thanks very much.

And then the follow-up -- how are you guys viewing the holiday? How our retailers getting ready for the season? Because I know you said there's a bunch of destocking that started midway through the summer. But typically now is when you start thinking about and shipping products for the holiday season. So, is your customers' view that it's going to be a good Christmas, a bad Christmas, an average Christmas? And how are they allocating inventory accordingly?

Michele Scannavini - *Coty Inc. - CEO*

Generally speaking, the retailer are cautious. They are still projecting Christmas to be up versus last year. So far, we didn't see any reduction in orders for what was planned for Christmas. Rather, some retailer is postponing the shipments because I believe they want to have a bit more visibility on the back-to-school season. But so far, we have not been announced any significant material reduction of orders for the Christmas season.

Operator

Joe Lachky, Wells Fargo Securities.

Joe Lachky - *Wells Fargo Securities - Analyst*

In the US mass channel, is the destocking concentrated at the biggest retailer, or has the trend spread to other US mass retailers?

Michele Scannavini - *Coty Inc. - CEO*

It is concentrated on the top retailers. This is where we see the most important destocking activity. It is also what is impacting more our Business in the first quarter.

Joe Lachky - *Wells Fargo Securities - Analyst*

Okay. And then the follow-up -- it sounds like you are expecting trade inventory to normalize at some point in fiscal-year 2014. I just want to clarify that. Are you expecting -- are you baking into your estimates some sort of a restocking boost, or is it essentially just an adjustment where sell-in meets sell-through? And when do you expect that to occur? I guess you're not expecting it in the first quarter. And what gives you confidence that that essentially restocking will materialize?

Michele Scannavini - *Coty Inc. - CEO*

Obviously, everything depends on the consumption development. So, at the moment, what's happening is that the retailer are readjusting their inventory to a lower consumption than expected. So, as such, unless the consumption pick up faster, there's going to be an adjustment on the low side. We are not anticipating any restocking.

What remains to be assessed when these adjustments will be over -- we have reason to believe that within the first half, inventory should be readjusted in the United States and in some European countries. And unless the consumption suffers a further slowdown, they should be at the normal level. But obviously, as I said, we need to have a little bit -- [I've seen] the retailer, we need to have a little bit more visibility on back-to-school and Christmas to confirm that this inventory adjustment is over by the end of the half.

Operator

John Bolger, JPMorgan.

John Bolger - *JPMorgan - Analyst*

This flows into the last question. In terms of thinking about the sequential improvement from Q1 where you're guiding to down to the back half, where you're guiding to more in line with the long-term algorithm, how should we think about that improvement? Are there underlying factors where, even if the destocking continues, that you can expect some sort of sequential improvement from Q1 to Q2?

And this seems fairly obvious, but you only have a couple weeks left in Q1. I would assume you're feeling pretty comfortable in terms of the Q1 guidance, and there doesn't seem to be much that could cause any consternation from that standpoint there. Is that the case? Thank you.

Michele Scannavini - *Coty Inc. - CEO*

First part of your question -- what makes us confident to progressively recover a better growth rate. First of all, as I said before, with the visibility we have today, we estimate there is destocking, at least in the most important part of it should be over by this first half. But apart from this, and even though the destocking will be more severe than we anticipate, it will go longer than we anticipate, clearly we expect some impact on our growth by all the activity that we are doing to accelerate our development in emerging markets.

And this is not only related to the latest two new ventures that we did in Brazil and in Southeast Asia that will start showing the benefit of between the end of this first half, but more materially in the second half of the year. But also in the other emerging markets, due to the specific innovation plan, product line and investments that we're going to do there to boost our Business. And one example could be Middle East, for instance. So, even though the situation in the consolidated market will be even gloomier than we see now, but we have the boost of the activity in emerging markets that progressively will bring our growth rate much more in line with our long-term targets.

Operator

Neely Tamminga, Piper Jaffray.

Neely Tamminga - *Piper Jaffray - Analyst*

Just two related questions. Michele, could you give us a little bit more of a contextualization of the destocking issue in terms of sell-in versus sell-through? What the delta is there between those two different line items would be helpful to help contextualize this issue.

And then relatedly into next year, in your fiscal 2014, we know we've got the Downtown launch here in the first fiscal half for you. Will there be any other Calvin Klein or Marc Jacobs launches that we can look for in the back half, either on the male side of it, of the fragrance? That would be helpful. Thanks.

Michele Scannavini - *Coty Inc. - CEO*

Okay. So, coming back to the destocking phenomenon -- as I said before, we have calculated the impact on our revenues of the destocking in the first two months of quarter one, to be around $23 million to $25 million. And this is impacting particularly our color and nail business. So, the brand that will be more impacted by this is Sally Hansen.

And on this I can maybe help to understand what's going on, mentioning a couple of market data that I think is very telling. When we talk of the nail category, as you know, the nail category had a fantastic growth over the last two fiscal year -- growth between 15% and 20%. In quarter three of this fiscal year, growth was still 11%, April plus 10.8%, May plus 11.7%. And then all of a sudden, June plus 0.8%, July minus 2.5%.

So, you can easily picture the situation. We and the retailers -- we were planning some back-to-school season on the wings of high-double-digit growth. So, this was the way we were planning the Business. And all of a sudden, June and July, the market drop, and the growth drop to flat or even negative. And that explain the very, very quick and material readjustment of stock by the mass retailer to have inventory more tuned with growth that is different from the double digit.

Now, I was not obviously expecting that nail was keep on growing 20% for many years to come. Obviously, the huge growth of the last year due to the increased penetration and increased usage for capital in the nail category was bound to slow down -- to come back more in line with the growth of the total makeup category. But I think nobody was expecting such a drastic drop from double digit to flat or decline in two months. So, that has triggered this very quick and very significant destocking activity of the mass retailer. And, as I said, we see the impact particularly on our Sally Hansen brand.

Now, the second part of the question was on the launches. Yes, in the second half of the year, we have launches and innovation on a [coming plan] in Marc Jacobs, will not be on the male category -- will be on the women category. But we're going to have spring initiative on both brand.

Neely Tamminga - *Piper Jaffray - Analyst*

Thank you. Good luck.

Operator

Wendy Nicholson, Citi Research.

Wendy Nicholson - *Citi Research - Analyst*

My two questions are -- first, on the productivity program, the $40 million to $45 million of savings over the next few years -- do you expect that all of that is going to drop to the bottom line? Or do you think some is going to be reinvested? How are you thinking about that?

And then my second question is -- can you talk a little bit more about the expansion plan in Brazil, and how you're balancing the direct sales partnership you have with Jequiti. And then, which brands you are putting in O Boticario. How do you manage the conflict there? Thanks.

Michele Scannavini - *Coty Inc. - CEO*

Okay. Sergio, will you answer the first part, and I'll take the second one.

Sergio Pedreiro - *Coty Inc. - CFO*

When we look at the program and the expected savings, let me just mention first that so far we see that the trend is a little bit better than expected. So, the $40 million to $45 million is definitely going to be on the high end of that range. We may even exceed it slightly. The savings used to support our growth -- this means as we invest behind the brands, and also to support our emerging market expansion.

Michele Scannavini - *Coty Inc. - CEO*

As far as Brazil, the way we are managing our Business there between the two channels -- we will have different products for the different channels. It doesn't mean necessarily different brands. But if the brand is sold in both channels, the product under the brand will be different.

I make an example with adidas, for instance. adidas will be one of the key brands for our joint venture with Frajo, part of the Boticario group. And we will sell, through this joint venture, let me say, our mainstream line of products.

With Jequiti door-to-door, we are going to sell a special edition, specifically developed for Brazil or a series of fragrances that will be connected to the upcoming soccer world championship that is going to happen in Brazil next year. So, both channels will handle adidas, but different products, so that we are not going to create competition between the two channels.

Wendy Nicholson - *Citi Research - Analyst*

Okay. Got it.

And if I can just go back to the cost savings question. If I look at fiscal 2014 specifically, it seems like there's just a tremendous amount of competition, both at the mass and prestige level in fragrances. And what with the destocking you're seeing at the beginning of the year, in a seasonally important period, and I assume some of the cost savings coming a couple years out, are you confident that in 2014 your earnings growth is, in fact, going to be higher than your revenue growth?

Michele Scannavini - *Coty Inc. - CEO*

Now, first of all, let me say that we are always looking to our competitive position in the market. So, if we are going to see increased investment, competitive activity in fragrances, we will keep our level of [activity] investment such as to defend or to increase our market share anyway. So, for us, obviously it is a priority not to lose position in the market.

Now, while we are looking at that, we are also working on several efficiency programs in our Company. So, it is clearly our target to keep expanding our margin with activity that allows us to work in a more efficient way, at the same time without putting prejudice on the money that we invest behind the brand.

Operator

Lauren Lieberman, Barclays.

Lauren Lieberman - *Barclays Capital - Analyst*

I just wanted to talk a little bit about the destocking again, but really more granular. Just given commentary that we've heard earlier this year from Elizabeth Arden, I'm going to assume the bulk of the destocking you're seeing in North America has more been in fragrance so far, less so in color. So, one, is that correct?

Two, if you can talk a little bit about the lack of growth in OPI, and what sounds like a decline in Sally? Nail is still a super hot category. It seems like there are a lot of upstart brands out there. And with nail being 40% of the color business, just love to hear a little bit about that business, if you're seeing destocking or if you're just seeing a slowdown in the market or greater competition?

And then, finally, in Europe, just broad comments about promotional activity in Europe. What categories? Is it primarily skin and body -- so affecting adidas mostly? Or is it also in the facial color cosmetics -- so, Rimmel and -- well, really, primarily Rimmel and Manhattan? Thanks.

Michele Scannavini - *Coty Inc. - CEO*

Okay. So, let's start with the first one -- where we see more the impact of destocking. As I said in the script, we see it across categories. But the categories hit the most for us is nail. And then, this is explainable based on what I described before in terms of -- how sudden was the consumption drop? Again, we are talking now of the market that till May was growing double digits, and then June and July was flat to negative.

And we have, with Sally Hansen, more than one-third of share of the total nail market in the United States. So, when you have such a sudden market drop, and you are such a strong leader, obviously you are the one that pay the most in terms of destocking. So, what I expect to see -- I expect to see impact in the different categories where we operated from the destocking. But we know that the biggest impact will be in nail, and particularly in Sally Hansen.

The second question was on the overall trend of nail. Now, I still believe that nail is a category that is bound to grow on the long run. Clearly, as I said before, I don't expect nail, particularly in the US, to keep sustained double-digit growth for the future. The big gain in terms of penetration and consumer per capita has been obtained over the last two years, particularly thanks to the outstanding fashionable innovation that brought a lot of people that was not interested or not using nail to approach the category.

I believe that looking at the future, we can estimate for the category growth that could be more or less in line with the total makeup growth that is 3% to 4%. Obviously, it's a category where we have seen the number of players over the last three to four years multiplying -- the investment skyrocketing. So, clearly it has become a much, much more competitive industry than it used to be before.

Now, because of this, obviously we are focusing even more our attention to bring innovation that can put us again a step ahead from the other. I was mentioning that in Q2 with Sally Hansen, we're going to launch a new formula that gives an ultimate shining effect on the nail. We know that is the most desired benefit, the Rimmel look, on a nail. And we will keep on trying to strengthen our position on a category where we have the leadership, where we have a very strong [know-how], and where we have shown in the past to be always ahead of the other in terms of innovation.

Now, in terms of the promotional activity in Europe, this is something that was very strong, particularly in South Europe -- that has been strong in the last few quarters because the market there is recessive. The market is declining in all the European countries, including France now. So, this promotional activity is across all the different products. We have seen now also that UK and Germany, the top, traditionally price-driven country, given the softer trend of the market, also are playing stronger in that arena.

Now, we have very strong position in Europe. And when there is strong fight to keep promotion with the trade space in the store, we need to fight. Now, clearly going forward, we will be very selective in identify the activity and the promotion that really can make the difference, because obviously we don't want to keep seeing, going forward, all the effort that we do to improve our cost of goods and to deliver savings with our supply chain offset by discount activity.

Also, hopefully we will see that the measure that the government in Europe is progressively taking to stimulate growth, sooner or later will impact on the consumer spending power, and improving the market trend. But until the market trend is recessive in Europe, it's very difficult that we see a relief in the promotional pressure of the brands.

Now, obviously, the more the categories are value for money in terms of perception of consumer, the more price war or discount war can harm. And when you were mentioning different product categories, clearly toiletries is suffering more than makeup.

Operator

Linda Bolton-Weiser, B. Riley.

Linda Bolton-Weiser - *B. Riley & Company - Analyst*

I was just wondering on the profitability of your segments, you did note the good improvement in the operating margin in fragrance in FY '13. And I'm wondering if you think the improvement can be as big in FY '14, or the other segments will post better margin improvement? And do you think in skin and body it will be profitable in FY '14, or that it will take more than one year to get there?

And, secondly, I was just curious if you had specific numbers on price versus volume in the quarter and for the fiscal year, because you did report some of those numbers in your filing documents. So, if you had specific numbers, that would be helpful. Thanks.

Sergio Pedreiro - *Coty Inc. - CFO*

Okay. So, let me start with the profitability. We did see an improvement in the margin. It's important to look at the overall margin because the drivers of the improvement in our margin, starting with the gross margin, they really cut across all the categories. The competitive manufacturing in our plants, the worldwide procurements program, the streamlining of our logistics and distribution services, they all cut across the categories. And therefore, we should see improvement in all of the categories.

The larger categories of fragrance and color are already benefiting from the scale. And, therefore, performing at margins that are at par with the best players in the industry. And, therefore, we should continue to see this improvement as we go forward to be more marginal.

When you get to the skin and body care, because of the smaller scale that we have in the Business, we should see, over the years, the benefit of the building up the scale and a buildup of the margins that can also be faster and more pronounced. We expect that in the course of the years, with the footprint that we have today, therefore, in the absence of acquisitions, that that segment can move to the mid-single-digit margins. To get to margins that are similar to what we see today in our fragrance and color business, it would naturally go through an acquisition that would increase the scale. And also increase the mix in terms of what is body care and the skin care given that we are today much more indexed to the body care that has lower margins.

So, in terms of the volume price -- for the total year, we had a 2% like-for-like increase. That 2% was 2% volume, with zero impact of price mix. When you look at the quarter, it was more driven by volume. So, the 4% growth on a like-for-like basis was the result of a 9% increase in volume and a 5% decrease in terms of price mix.

Operator

This concludes the question-and-answer portion of today's call. I would now like to turn the call back over to Mr. Monaco. Please proceed.

Kevin Monaco - *Coty Inc. - SVP, Treasurer and IR*

Thank you all for joining us today. We appreciate your questions. Please feel free to reach out to us in the Investor Relations department if we can assist you in any way. Thank you.

Michele Scannavini - *Coty Inc. - CEO*

Thank you.

Sergio Pedreiro - *Coty Inc. - CFO*

Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. And have a great day.