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COTY - Q4 2016 Coty Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, my name is Shannon and I will be your conference operator today. At this time I would like to welcome everyone to Coty's financial 2016 fourth-quarter and full-year results conference call. (Operator Instructions). As a reminder, this conference call is being recorded today Tuesday, August 16, 2016. Thank you. I will now turn the call over to Kevin Monaco, Coty's Senior Vice President, Treasurer and Investor Relations. Mr. Monaco, please go ahead.

Kevin Monaco - *Coty Inc. - SVP of IR & Treasurer*

Good morning and thank you for joining us. On today's call are Bart Becht, Chairman and Interim CEO, and Patrice de Talhouet, Executive Vice President and Chief Financial Officer.

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.

In addition, except where noted, the discussion of our financial results and our expectations do not reflect certain charges as specified in the non-GAAP financial measures section of our earnings release. You can find the bridge from GAAP to non-GAAP results in the reconciliation tables in the earnings release. I will now turn the call over to Bart.

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Thank you, Kevin, and welcome, everybody, to Coty's fourth-quarter and full-year conference call. This morning we will take you through a summary of today's announcement and then Patrice and I will be pleased to take your questions.

2016 was a good year both in terms of financial results and creating a much stronger foundation and capability to position Coty for future growth.

In terms of financial results, our strategy of investing and fueling growth of our power brands while driving strong profit and margin expansion is continuing to yield results. For the full-year power brand net revenues grew like-for-like outperforming the overall business.

Our adjusted operating profits grew low-single-digits and, when excluding currency impact, they grew high-single-digits. Adjusted EPS grew over 20% for the year.

In terms of strengthening the foundation of the business, we made a number of strategic moves all of which significantly enhance Coty's sales growth potential going forward.

We closed on the Brazilian acquisition in February 2016, which showed strong revenue and profitable momentum in its first full quarter results. Its integration with Coty's Brazilian business is expected to be completed by September 2016 prior to the expected closing of the P&G beauty business transaction.

In October 2015 we acquired the digital marketing platform Beamly, which has contributed to a step change in our capabilities to digitally engage with our consumers.

We also made substantial progress on successfully integrating the Bourjois acquisition which closed in April 2015. The Bourjois brand has now reached profitability levels consistent with Coty's Color Cosmetics segment while net revenue showed strong like-for-like growth in the most recent quarter.

Our preparation for the P&G beauty brands transaction is well advanced with the closing of the transaction on track for October 2016. We believe the future organization, which is now largely staffed, is more focused, more experienced and as a consequence more competitive ensuring greater potential for top-line growth.

As part of this we are excited about the announcement of Camillo Pane as Chief Executive Officer and member of the Coty Board effective the day after the closing of the transaction. Camilla has an excellent track record of accelerating growth, improving business performance and strengthening capabilities to create a best-in-class organization.

We have also completed the cost and cash synergy analysis for the merger, confirming earlier announced targets of total potential cost savings of $780 million over four years post transaction close.

We continue to evaluate the impact of the intended portfolio and wholesale business personalization. Finally, extensive work has also been done on business process and systems integration to prepare for a smooth transition following the close of the transaction in October 2016.

Looking to fiscal 2017, while it is premature to comment on the outlook for the combined business as the transaction has not yet closed, we continue our work on building a healthier and better Coty standalone business.

We are targeting for the Coty standalone business like-for-like net revenue momentum to improve and return to growth in the second half of the fiscal year with solid improvement in the constant currency adjusted operating margin and strong operating cash flow conversion. I will now hand over the call to Patrice.

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

Thank you, Bart, and good morning, everyone. Total net revenues declined 1% like-for-like in the fourth quarter and full year while constant currency revenues increased 8% and 5% respectively.

During the year our adjusted gross margin increased 30 basis points to 60.4%. This improvement in gross margin reflected the lower level of discounted pricing activity and our continuous effort in driving supply-chain efficiencies.

We have made significant progress in reducing our cost structure over the course of the year. We are now approximately 85% on the way through our global efficiency program having recognized approximately $230 million in savings through the end of the fiscal 2016. We remain on track to recognize the targeted $270 million in savings through fiscal 2017.

Our fiscal 2016 adjusted operating income grew 3% to $622.9 million; we had a very strong 19% growth in the Q4 adjusted operating income. As a reminder, we have refined our adjusted metrics to exclude the expense and tax effects associated with the amortization of acquisition related intangible assets which totaled $79.5 million in fiscal 2016.

On a constant currency basis adjusted operating income grew a strong 9% in fiscal 2016 and 24% in the quarter, illustrating our continued execution on streamlining costs. As a result of these efforts the adjusted operating margin for the year increased 60 basis points to 14.3% from 13.7% in the prior year.

During the year we continued to execute on our strategy of reducing nonstrategic spend, total A&CP spending at constant currency was in line with the prior year with a significant increase in working media spending offset by a reduction in nonstrategic A&CP spending.

By segment our fiscal 2016 Color Cosmetics adjusted operating margin improved 280 basis points to 14.9% supported by lower promotional and discounting activity and improved gross margin. The Skin & Body Care adjusted operating margin expanding 480 basis points to 7.9% primarily resulting from lower A&CP and improved gross margin.

Our fragrance adjusted operating margin remained strong at 16.5% for declines 170 basis points partially driven by a higher cost of sales.

Moving down the P&L, our adjusted effective tax rate for the year was 1.9% compared to 17.7% in the prior year reflecting a higher tax benefit in the current year. Altogether our fiscal 2016 adjusted diluted EPS of $1.37 reflected a very strong 21% growth.

2016 was another strong year of cash generation driven in part by significant progress in working capital improvement on our way to negative working capital. As a result the operating cash flow totaled $501 million and free cash flow totaled $351 million, up from $325 million in the prior year despite an increase of over $100 million in cash acquisition related costs.

This was our seventh consecutive year of generating more than $300 million free cash flow. We ended the year with $3.8 billion of net debt.

Our efforts to drive shareholder value and return cash to shareholders continue through both our dividend and share repurchase activity. As announced on August 1, we raised our annual dividend by 10% to $0.275 per share. Since the start of fiscal 2016 we also repurchased 28.8 million shares for a total of $803.3 million, including 3.9 million shares repurchased over the months of May through July.

Finally, as we discussed earlier, in order to position the new Coty for sustainable growth we are planning to divest all discontinued 6% to 8% of the combined portfolio net revenues. The timing of this portfolio (inaudible) is still being determined and we will be coming back to you with further updates over the course of the fiscal year.

Our results illustrate that we are building a better business and are well on our way to becoming a strong leader in the global beauty industry. Thank you. We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bill Schmitz, Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

Can you just talk about your confidence in the growth acceleration for the base business in the back half of next year? So is it just the easy comps or is there significant innovation activity?

Because if you look at your organic growth it seems like the only real problem child is the US. And I think a lot of that was just tough comps related to the nail business. Tell me if I am wrong and then maybe what some of the sources of that growth acceleration are going to be in the back half of 2017.

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Yes, I would say this is a combination of pipeline initiatives as well as -- which we expect a continued good performance on some of the acquisitions that we have done, like Bourjois and Hypermarcas continue to contribute to the growth rates of the overall Company.

So it is really a combination of pipeline and acquisition performance. So those will be the two key things. You are absolutely right that the nail business, in particular, suffered from some tough comps which also should ease up in the second half.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, great, that is helpful. And then when you target the 6% to 8% divestitures, can you just give us sort of like a rough cut of what the profitability of those sales are -- that you plan on getting rid of?

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

Bill, so we are not going to comment on the profitability of these brands. But so we are still planning to [discontinue] divest 6% to 8% and we are targeting to come back in due course for planning to execute this in the course of fiscal 2017.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, that is helpful. All right, thanks, guys.

Operator

Joe Lackey, Wells Fargo Securities.

Joe Lackey - *Wells Fargo Securities - Analyst*

So, I was wondering if maybe you could give us any sort of detail that you had on the P&G beauty business. Obviously you have given some EBITDA numbers in the past that I believe in fiscal 2015 it was $1.08 billion in EBITDA or $950 million if you exclude Dolce & Gabbana. What was it for 2016, fiscal 2016? And also, can you provide an updated EPS bridge using the fiscal 2016 numbers as the base?

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

No, no, we cannot. So the P&G -- you will get a new S4 end of next week, right, or the week after, somewhere around that time. So it is coming shortly with the key information on the business. But beyond that we cannot provide any further data at this stage. It would be premature for us to do so. Sorry.

Joe Lackey - *Wells Fargo Securities - Analyst*

Okay, that is fine. And then also I was wondering if you could maybe help me with the timing on the dividend. So, obviously you moved it up into August versus typically paying it in October. And I guess you are supposed to bump it up to $0.50 after the transaction closes. So, are you -- is the Board on paying another dividend this year or will we wait for the step up to $0.50 until next August? Thanks.

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

Yes, so that is correct actually. So, this dividend that we are just alluding to is dividend for the results of the fiscal 2016, that is what we are planning to do. So we are not planning to give another dividend before the end of fiscal 2017 depending on the results that we (inaudible) in fiscal 2017. So the $0.50 increase that we discussed is going to happen in the next fiscal year.

Joe Lackey - *Wells Fargo Securities - Analyst*

Okay and then just my final question on the Brazil acquisition integration. Just wondering if you could comment how that has gone so far. And it sounds like there is a fair amount of integration scheduled for September.

Is there any risk with that integration? Obviously with a lot of moving parts, with the PG beauty acquisition just wondering if there is any risk there with the Brazil integration. Thank you.

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Yes, the Brazil integration is going extremely well. So, from a organizational and a staffing point of view that is very much completed. We are smack in the middle of the systems transition, which is going very well. I don't have to tell you that a systems implementation in Brazil, because of its tax laws, is a very complex one in Brazil but it is doing very, very well.

We expect that the full integration will be completed by the end of September, so prior to the close of the P&G transaction so that we are in good shape to start absorbing the P&G business in Brazil. So I must say the team has done an amazing job both at the local and the corporate level in order to integrate this business considering that the transaction was closed in February.

I think it also [attests] that we have the ability to integrate businesses smoothly, considering what we have done just recently in Brazil. Next question.

Operator

Olivia Tong, Bank of America Merrill Lynch.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Just in terms of the outlook, you are obviously looking for organic revenue to turn by back half of fiscal 2017 while also driving operating margin improvement.

So, can you talk about how you balance the two, the changes in the organization that have been implemented to drive that improvement? And just for clarification, I assume that apples-to-apples with the amortization adjustment in both periods?

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Yes, so -- and just to make sure I understood your questions, it is balanced between top and bottom line or what was your question exactly (multiple speakers)?

Olivia Tong - *BofA Merrill Lynch - Analyst*

Yes, essentially.

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Yes. So, clearly we have an efficiency program which will continue basically to improve our margin structure over time. We also have programs to improve our net working capital performance, which we have done a very good job of this year to improve the cash flow. We also very strictly control the other cash flow elements like CapEx, etc., within.

So there are very separate programs in order to improve the margin structure and the cash flow generation from those basically to drive top line. The top-line performance is very much based on our innovation pipeline, the initiatives that we bring to the market, the strategy regarding our power brands as well as the support levels.

And so, in terms of support levels we have continued to improve what we call the strategic spending within the [A&P] budget this year again compared to last year. And we are looking increasingly to make sure that we are spending the money in the right pockets on each one of these brands to drive top-line growth harder.

So, it is very much focused on level of support, productivity of support, pipeline initiatives and supporting our power brands in terms of top line and in terms of efficiency programs and cash conversion programs in order to enhance margins and cash flow generation.

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

And to answer the second part of your question, yes, the amortization is [out] in both years, so it is pro forma.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it, perfect. And then just in terms of the fragrance business, that is obviously -- the revenue growth that you saw in Q4 is the fastest we have seen in probably the last two years or so. So can you talk about the contribution from price versus mix? Because the scenario you have clearly made pretty good strides in over the last few quarters.

But this quarter the revenue growth improved but the margins did fall pretty dramatically. And then also I suspect you have already identified some of the brands that you are thinking about parting ways with specifically in fragrance. So can you talk about how you are managing this internally?

I am not asking for which brands obviously, but just kind of your thought process in terms of managing those businesses relative to the other ones within your portfolio?

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Yes, so in Q4 we had a positive contribution from [volume] with price mix being largely neutral. If you look at the full year the picture is clearly a bit different. There we have a good positive contribution from price mix with volume being negative.

So, before we hang too much on Q4, Q4 was encouraging but we still have work to do from a fragrance point of view. And there is a number of things which we will be focusing very hard on.

First, in terms of the core brands, both between Coty and P&G, it is to nurture those much better with key pipeline initiatives and in-store execution. We will continue to focus harder and harder on that part of the business.

In terms of the brands that we are parting ways with, there is a number of brands basically. Clearly with the merger we have too many brands in the portfolio. As a result it would be better that we rationalize some of those out. And I am sure they will be better managed by other players in the industry.

And clearly we will be focusing mostly on our top brands which are the brands like Gucci, Hugo Boss, Calvin Klein, Marc Jacobs, etc. So right now clearly we continue to manage these brands like they are our own and we try to do the best we can on this portfolio.

But, like Patrice said, in the course of fiscal 2017, we would hope to part ways with these brands and to have a tighter, more focused portfolio which we can drive harder from a growth point of view.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it, thanks. And then just lastly in terms of the Hypermarcas business. Obviously the annual revenue you guys have said about $250 million, but that came in well below run rate last quarter, well above run rate this quarter.

So, are you still trying to find the right level of promotional dollars or with the restocking of shelves or any change in demand? So help us understand sort of the right run rate for Hypermarcas and just some update in terms of your annual expectations for that particular business.

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Yes, I am not going to give you a forecast for the Hypermarcas business as you can imagine for next fiscal, because otherwise we are going to do this brand by brand and country by country. What I can tell you is that the trade inventory rationalization is largely completed now.

So you are seeing in Q4 a more normal basically business, but clearly there is some variation quarter to quarter in this business, it is not like -- I would not necessarily take that as the exact run rate. What I can tell you is that the business is doing very, very well.

The Brazilian market is kind of not so hot. Having said that, the Brazilian business is very good; it is showing basically double-digit growth rates in reals, so -- which is very good.

I think the other thing which is exciting about Hypermarcas, you might remember that we bought this business at an exchange rate which was more in the range of like [BRL3.80] something, [BRL3.84], [BRL3.85]. The current exchange rate is more like in the [BRL3.20]s.

So also from a purchase price point of view we have done very well. So we are very happy with the transaction as is and we are very happy with the progress in terms of integration on Hypermarcas. And I think this is a good example for Coty of what we should be doing in order to boost the performance of the overall business in the future.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great, thank you.

Operator

Stephanie Wissink, Piper Jaffray.

Stephanie Wissink - *Piper Jaffray - Analyst*

I just have a follow up on Olivia's prior question with respect to the power brands. Patrice, could you just help us reconcile the percentage of revenues that those are now post the Bourjois and the Hypermarcas acquisition?

And then I think you mentioned in your script that you shifted spending in the quarter towards working media from some of the non-working areas, yet the like-for-like's were still down year over year. So maybe help us appreciate how you expect to see some of that working media improve some of the performance here over the next 12 months. Thank you.

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

So can you repeat the first part of your question, please?

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Power brand's percentage of net revenue total, which is over 70% but I don't have the exact number.

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

Yes, it is about 70%, the percentage of power brands are about 70%, slightly above 70%.

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

So, on working media and then we will come back to Bourjois. So, working media is substantially up year over year for the full year. So, what we have done, we have rationalized in the [A&P] budgets on nonstrategic spend which we classify spend which consumers don't really see a benefit of.

So, overall the investment behind the business is up. Like I said before, what we need to still drive harder is the productivity of that investment. I didn't catch your question on Bourjois, could you repeat that?

Stephanie Wissink - *Piper Jaffray - Analyst*

It was just related to the percentage of the business including those acquisitions now, so you got it. The second part also more just as a follow up.

When you look at your portfolio mix by category, how should we think about kind of over the course of the next 12 months? Should we see some rationalization of performance, more consistency across the categories? Or should we still look for there to be some inconsistency by quarter by category across fragrance, skin and color?

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

I think you will -- this category, as you well know -- these categories are more fickle than some other consumer goods categories. So market growth rates fluctuate much more in these categories than in some categories which are familiar with in the consumer goods space. So that is factor one.

Factor two, it is much more initiative dependent. So certain initiatives can have a huge difference in the performance year over year on the business.

Miracle Gel was the classic example in the US, it gained 18% market share of the total nail category in a span of less than 18 months, which clearly means you can have very substantial year-on-year variation.

So, you are not going to see ever a very smooth cadence from a performance point of view in my mind. There will be always some variation in there. We would like to take this out as much as possible, but there will be some variation in there.

In terms of what we said for fiscal 2017, we expect growth basically in the second half, but there is still -- basically also means that in the first half we do not expect that. So there will be some variation there as well.

Stephanie Wissink - *Piper Jaffray - Analyst*

Thank you.

Operator

Mark Astrachan, Stifel.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Bart, wanted to ask a question for you. I guess first off, are you planning on remaining on earnings calls post CEO transition, just in terms of trying to get sort of how we should be thinking about who is representing the business going forward?

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Plan on staying in the earnings call post the CEO transition -- I will do together with Patrice and Camillo the Q1 call. And then after that I fully would hope that Camillo and Patrice, which I have a lot of confidence in, will be able to handle these on their own. So the answer is, no. I am not going to stay on earnings call post CEO transition.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Got it, okay. So maybe taking advantage of this call and next call in terms of your thoughts as one of the builders of the business. How do you think about the leverage opportunities in terms of what is being created here?

And then, what would be focus areas on a go-forward basis by geography, category and sort of things that you think this business can do better or categories/geographies where there is opportunities to really improve what you see before you?

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

So, what do you mean by leverage opportunity?

Mark Astrachan - *Stifel Nicolaus - Analyst*

It basically means you are going to have this business which is going to be 2, 2.5 times the size of where the legacy business is today. So you are going to have massive amounts of cash flow to redeploy should you want to do that, not be able to repurchase stock for two years.

So, it seems like there is flexibility, there is leveragability from a balance sheet standpoint, flexibility from the business model. So, as you still have a relatively blank slate ahead of you, are you going to go out and do large scale M&A?

I mean obviously you are not going to talk about specifics, but could you do it? Would you do it in certain geographies? Would you do it in certain categories? Does it have to be opportunistic? Do you have businesses out there that you are looking at obviously without naming names that you think could be attractive to add on over time?

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Right. So first, our first priority, as you can imagine, is to integrate the P&G business and to not just realize the benefits of the merger, but to create organic growth on the combined entity. So that is priority number one.

And M&A is fundamentally not interesting unless basically we can grow the business from an organic point of view. And so, organic growth is squarely basically our number one focus and priority and to continue to create not just a better business but also a bigger business from an organic point of view.

From an M&A point of view, yes, we will complement our organic growth strategy with M&A where appropriate. And there clearly it is -- so if you ask me will we use from time to time our cash flow to increase our exposure to good growth categories, countries, segments where we see good profit and cash opportunities, the answer is yes.

But the first priority is to improve the organic performance of the business and then complement it with M&A as appropriate. And clearly we will do this with -- squarely with having shareholders interest at heart.

So, if you ask me where M&A basically could -- there is a variety basically of options that we can take a look at. And clearly one of the key things we will focus on is to improve the growth exposure of the business both from a category, category segment, channel and geography point of view.

And we will put together a list of targets in due time. But the first focus is -- really is in returning the business to organic growth and to integrate the P&G business properly and deliver the benefits associated with that.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Great, that is very helpful. And then, Patrice, gross margin in the quarter, can you talk a bit about the puts and takes there and how we should be thinking about that progressing in fiscal 2017?

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

Yes, so the gross margin actually is evolving on a full-year basis very nicely, especially through all the global efficiency programs that we are putting in place. In Q4 what you see is that you have some mix effect that is causing the -- that is impacting the gross margin. But this is not going to affect the long-term trend.

So clearly what we are trying to do is to build a better business before we build a bigger business and we are well on our way to do so. So just to complement on what Bart has said, as we have already discussed a couple of times, first we want to -- the biggest shareholder value that we can create is really to grow our business organically.

And this is going to be our priority number one. First, we integrate the business; second, to grow the business organically; and then gradually to shift the portfolio in order to be able to capture the growth that is in the beauty arena where we are not playing for the time being. But that is only on the second stage.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Got it. So, just to clarify that from a gross margin standpoint. Should we be thinking about margin expansion relative to full-year levels? Is there something different in 4Q that wouldn't continue? Is it more relevant to levels 1Q through 3Q in fiscal 2016? I mean anything sort of on a go-forward basis there would be helpful.

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

Yes, no, the idea is to grow the gross margin on an annual basis year after year. This is really the motto that we have with the organization and what we are focusing on. So I am [more] speaking about expansion of gross margin on a year-to-year basis.

Operator

(Operator Instructions). Dara Mohsenian, Morgan Stanley.

Dara Mohsenian - *Morgan Stanley - Analyst*

So, Patrice, first just a detailed question. Maybe I missed this, but what was total A&P spending year over year in the fourth quarter? And then also the like-for-like sales growth you are pointing to in the back half of next year for the Coty heritage business?

Does that exclude any impact from product discontinuations and any sense of what level of impact we should expect? And if you would still be growing if we included that in the number?

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

So, on the level of A&CP year on year, so the level of A&CP is roughly flat on a quarter to quarter basis Q4 this year to Q4 last year. But what is to be noted is that we keep on shifting more money from nonstrategic spend to strategic spend. In other words, working media is increasing on a regular basis which is necessary to be able to fuel the top line.

On a like-for-like basis, when Bart mentioned that we were looking to go back to growth momentum in the second half of the year, this is excluding any impact from the divestiture, discontinuation program.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay. And then, Patrice, on the expenses you are excluding from acquisitions in the adjusted operating profit results, this quarter it looks like it is about $78 million if you exclude the Hypermarcas inventory, more like $150 million in the fiscal year.

Obviously it is a large deal, the [RMT] is a very complicated. But that is well above what we have seen in other RMT deals; it seems like a large amount. So, I was just hoping you could give us some more granularity on what the key buckets are that is in those expenses and why the level is so high.

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

So actually -- so the bulk of that is acquisition related cost. So it is [linked] first to Hypermarcas, second to the P&G and, as you know, this is part of the $1.2 billion bucket that we discussed before. So we start to expense some of that in some of that starts to go through the P&L and it is going to continue into 2017.

I think the way you should look at it is that we have accelerated the integration of P&G to be able to be ready on time. And so as a result of that we have expenses in fiscal 2016, some costs related to that. So that is more a positive sign in terms of pace at which we are preparing ourselves to be able to transform the business.

But this is in line with what we expected and there is no news as to the $1.2 billion that we have quoted for.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay. And in terms of the P&G spending is it mainly staff, is it headcount, is a consulting fees? I mean can you just give me a sense of what the key buckets are within that?

Patrice de Talhouet - *Coty Inc. - EVP & CFO*

Well, it is mainly -- it is a combination of -- it is a combination of many things, a combination of staffing, it is a combination of systems, it is a combination of legal fees, it is a combination of lots of different buckets. So -- but it is mainly staffing and IT related expenses.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay, thanks.

Operator

Linda Bolton Weiser, B. Riley & Company.

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

I was just wondering if you could give, Bart, a little more color on how you feel you are leaving the organization in terms of being able to execute on organic growth initiatives in the core brands.

So, maybe you could give us a feel for what were the key initiatives in the quarter -- in the fourth quarter? And how do you feel they were executed on in terms of the results of those key growth initiatives for the core brands? Thanks.

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Yes, so let me start with the organization. So, I think we will have with the P&G merger a much stronger organization in place than what we've had on either side before. So, not only do we have a better structure, which I think will be more competitive in the marketplace simply because it is more focused.

It is more focused from a portfolio point of view ultimately once we do execute the divestitures. But it is also more focused from an organizational set up point of view. We would have Coty luxury competing heavily in the prestige channel on two or three categories, the same for Coty beauty in the mass channel in two or three categories, and the same basically for Coty professional in the professional channel on two or three categories.

So, I think we are leaving -- we are putting in place a much stronger, more focused organization which is also staffed with better talent. On the first four levels in the organization we have selected every [individually] by looking at the P&G people, the Coty people and in a number of cases external people. That staffing process is pretty much completed. So, I think from an organizational set up and staffing point of view we are in much better shape.

In terms of the key initiatives that we have in the fourth quarter, we had DAVIDOFF Horizon, which is a new fragrance; Rimmel's Super Gel Nail Polish; Marc Jacobs [Splash]; OPI's Hello Kitty; and the adidas UEFA Championship League Edition. All did very well. Having said that, we are still not where I want to be from a growth point of view.

We have a number of new initiatives going in the marketplace. We have Calvin Klein Deep Euphoria to re-launch the Euphoria line; and Marc Jacobs Divine Decadence to build on the Decadence success; Chloe's Fleur de Parfum to further enhance Chloe's image in top-line growth.

We have launched Sally Hansen's Color Therapy line which adds argan oil to the nail system to nourish and moisturize the nail for healthier looking nails. We are launching Rimmel basically Scandaleyes reloaded, which is an extended wear mascara which is very easy to remove. So we are launching a number of new initiatives.

Having said that I still think, like I said before, that we have room for further improvement. We need to make -- get more productivity out of our investments. We still have opportunity to improve our in-store execution to improve how we digitally engage our consumers. So there is a number of buckets where we have further opportunity.

So we are putting in place a much better organization, much better structure, much better staff, more focused. So, we are positioning ourselves well for growth. So I am very hopeful that with that, and an intense focus on a number of areas where we can improve, that we are ultimately going to deliver from a growth point of view.

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

Thanks.

Operator

Thank you. I am showing no further questions at this time. I'd like to turn the call back over to Bart Becht for closing remarks.

Bart Becht - *Coty Inc. - Chairman & Interim CEO*

Well, thank you very much for attending the call on the fourth-quarter results and the full-year results. Like I said, I think we are well positioned for the future and we had some nice results, so thank you all for attending the call. Thank you and have a good day.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Have a wonderful day.
