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EDITED TRANSCRIPT

COTY - Q4 2014 Coty Inc Earnings Call

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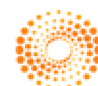

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PRESENTATION

Operator

Good morning. My name is Tahisha, and I will be your operator for today's call. At this time, I would like to welcome everyone to Coty's fourth-quarter and full-year fiscal 2014 results conference call. (Operator Instructions). As a reminder, this conference call is being recorded today, Thursday, August 28. 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 IR, Treasurer*

Good morning and thank you for joining us. On today's call, are Michele Scannavini, Chief Executive Officer, and Patrice de Talhouet, 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. You can find the bridge from reported to adjusted results, including foreign exchange translation impact, in the reconciliation tables in the earnings release.

The discussion of our net revenue growth is on a like for like basis, and therefore constitutes non-GAAP measures. You can find a reconciliation between GAAP and non-GAAP figures in our press release.

I will now to the call over to Michele.

Michele Scannavini - *Coty Inc - CEO*

Thank you, Kevin, and good morning, everybody. Today, we will address our quarterly and year-end financial results, as well as our long-term growth roadmap that we are referring to as the Coty 2020.

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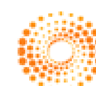

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Let's start discussing our full-year and quarterly results. Fiscal 2014 was a challenging year for Coty. We reported a marginal decline both on top line and bottom line. Our net revenues decreased 1.6%, and our adjusted net income decreased 2.2%. The revenue decline was mainly due to the pressure we had on our nail business, particularly to the US, which more than offset the growth we had in the Fragrance and Skincare segments.

Geographically, we recorded solid growth in EMEA, Asia-Pacific, and Latin America, more than offset by the decline in North America. Importantly, we delivered on our strategy to expand our presence in emerging markets as sales in these regions grew 10% during the year, reaching 29% of our overall net revenues on a like for like basis. Our fourth-quarter net revenues slightly declined at minus 0.7%.

During the fiscal year, the consolidated markets remained rather soft. In Western Europe, the fragrance market was flat in the year and in the last quarter, while the mass color market grew marginally in the year but turned negative in the last quarter. This overall class situation in Europe is mostly driven by continued softness in South European countries.

Due to continuous economic headwinds in the region, we believe that it is unlikely to see an improvement of the market dynamics anytime soon.

In the US, accounting for close to 30% of our business, the total Fragrance market was negative 1.5% for the year, driven by decline in the mass channel, while Prestige was overall flat. The US Color Cosmetic market en mass was flat in the year and negative 2% last quarter. Nail dragged the color market down, as it recorded a decline of 7% for the year and a 13% decline in the last quarter.

Encouragingly, we have seen in the last few weeks a progressive improvement with the nail market still negative, but in the middle to low single digits. We believe that this change in the market dynamic is also a result of the outstanding consumer response to the Sally Hansen Miracle Gel launch, which I am reviewing in more detail later.

Let me now give you some information on our performance by product segment. In Fragrances, our net revenues grew 1% in the fiscal year and in the last quarter. Growth reflected good performance by our power brands -- Calvin Klein, Marc Jacobs, Chloe and Davidoff. In fact, the more recent Bottega Veneta, Roberto Cavalli, and Katy Perry brands. Calvin Klein enjoyed strong momentum in emerging markets such as the Middle East, China, Australia, and Eastern Europe. Also, the recent launch of Endless Euphoria brought the brand to gain market share in the US women prestige market in the last quarter.

Marc Jacobs enjoyed another strong year, particularly in travel retail China, the USA and the UK. Chloe kept growing despite an unfavorable launch phase-in versus the prior year, thanks to the strength of its signature product line. Growth in the Fragrance segment has been partially offset by the softness of consumption in the mass channel and no renewal of some low volume licenses in our strategic effort of concentrating on fewer and bigger bets.

Color Cosmetic net revenues declined 7% for the year and 4% for the quarter. The decline was due to the nail business. Net of nail, our Color Cosmetic business would have grown low single digits in the year.

As we discussed in detail over the last several earnings calls, the sharp slowdown of the nail market triggered retail's reaction, materializing in a drastic inventory reduction in the first part of the year and the reduction of the promotionals launch granted to the category in the second part of the year.

In the midst of this turbulent environment, we faced a strong competitive attack from many players, particularly low-priced brands, which turned into market share erosion for the category leader, Sally Hansen. However, we are particularly excited to see the first sign of a turnaround in our nail business in the beginning of this fiscal year, driven by the launch of the new Sally Hansen Miracle Gel. First sales results are outstanding. According to IRI retail panel, in the four weeks ending August 11, Sally Hansen hit its highest market share in the last two years.

As I said before, the whole nail category seems to benefit from the positive impact of this launch. And I believe this is a confirmation that our strategy of shifting focus from fashionable special effects to performance driven innovations is paying dividends for us and for the market. Retailers are strongly supporting this launch, and we are confident that the success of this initiative will bring back retailers' full confidence and interest in the category.

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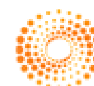

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Rimmel continues its strong momentum, recording solid growth in the year and in the quarter, gaining market share in key European countries and in the US. In the US, Rimmel was the fastest-growing color brand among the top 10 en mass in fiscal year 2014.

The fast innovation phase and the edginess of the marketing mix, supported by an outstanding spokesperson lists, including Kate Moss, Georgia Mick Jagger, and Rita Ora, and by a creative digital program, keep resonating in a meaningful way with the young generation.

Turning to Skin & Body Care, net revenues grew 1% like for like during the fiscal year with growth across each of our key brands: philosophy, adidas and Lancaster, partially offset by the sharp decline in TJoy. philosophy produced a fifth consecutive quarter of growth generated both from increases in the US market in continuous international expansion. adidas continues to enjoy strong momentum in key emerging markets, including Brazil, China and the Middle East, partially offset by European market softness. Lancaster keeps performing well in the same category and is finding strong acceptance by the Chinese consumer.

As far as TJoy, we discussed on the last call the poor performance of the brand. It is our intention to drive changes to the setup of our China business in the mass channel to significantly improve our cost structure and bring more focus on brands with higher growth potential. Since then, we have announced in June our new partnership with Li & Fung, a leading Chinese company, to distribute some of Coty's international brands, including adidas, Playboy, and Rimmel, and concomitantly the discontinuation of the TJoy brand. This move will allow us to improve our profitability in the country and in the overall Skin & Body Care segment.

Let's turn now to our business by region. In EMEA, net revenues grew 3% for the year and 4% for the quarter, which is a remarkable performance, considering the softness of several European markets. Growth was mostly driven by the UK, Travel Retail, Eastern Europe, Middle East and South Africa.

In Americas, net revenues declined 9% during the year and 7% during the quarter. As previously discussed, the decline was mostly driven by North America and particularly in the nail category and Fragrance segment. This was partially offset by double-digit growth in Latin America, with particularly strong results in Brazil, where we leverage our new go to market partnerships.

Speaking of Brazil, our partnership with Avon remains on track with the first Coty brand slated to be included in Avon's holiday catalog.

In Asia-Pacific, net revenues grew 7% in the year and 3% in the quarter. Growth was driven mostly by Southeast Asia, where we leverage on our new platform following the acquisition of the StarAsia distribution company, and Australia, where we enjoy strong leadership positions in both fragrances and color.

In China, our growth was low single-digit, hampered by TJoy declines.

Our strategic goal to expand our business in the emerging markets to over a third of our total net revenues is well underway. In the last two fiscal years, we have built new structures and partnerships in Brazil, the Middle East, South Africa, Southeast Asia, China and Korea. We also drove our partner development to better address the specific needs of consumers with completely different beauty cultures and tastes, generating lines of products such as Arabian fragrances for the Middle East, skincare with specific texture and light filters for Asia, and like concentration fragrances for Latin America. As a result of this comprehensive effort, emerging markets have reached 29% of our total net revenues in fiscal 2014, up from 26% in fiscal 2013 on a like for like basis. Revenues in the emerging markets grew 10% like for like in fiscal 2014 and 12% in the fourth quarter.

Let's now spend a few moments on our long-term and short-term future. I first want to come back to our strategic roadmap for long-term growth.

Our vision is to strengthen Coty's position as a global leader in beauty with brand building and creativity at its core. To achieve our vision, we have developed a comprehensive plan that we call internally Coty 2020. This plan incorporates many of the elements we shared with you over the last year. Our long-term financial targets remain intact, including growing our net revenues in line with or faster than the markets and segments where we compete, expanding profitability and margins, and generating strong cash flows.

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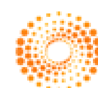

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The achievement of our strategic vision and financial targets rides on the following five riders: one, developing our power brands with strong focus on superior innovation and increased investment in brand support, including creating digital marketing and superior in-store execution; number two, strengthening our leadership positions in the Fragrance and Color Cosmetic categories. Our ambition is to be undisputed number one global player in fragrance and to be among the top three global players in color.

We will also continue expanding our presence in Skin & Body Care with particular focus on emerging markets opportunities. We plan to progress toward our ambition through organic growth of our current portfolio and through a well targeted acquisition strategy.

Three, progressing our emerging market expansion strategy, which has been very successful in last two fiscal years, with the objective to grow the weight of those markets on total Coty net revenues from the current 29% to more than one-third.

Four, leveraging our multichannel distribution capabilities to seize growth opportunities across a broad consumer universe and with offerings spanning across different price points.

Five, gaining efficiency and simplification in our operating model thanks to a global efficiency plan, which is designed to address the different cost components of our business. This plan aims at delivering annual savings in excess of $200 million within the next three fiscal years. We plan to use these additional resources to fuel investment behind our key brands and deliver earnings growth at a faster pace than sales. The key element of this plan will be addressed in a few moments by Patrice.

I believe that both our targeted revenue and earnings growth will be enabled by our new organizational design an operating model, which was announced on July 9 and that we are kicking off in fiscal 2015. The principle is to evolve our organization from two standalone divisions, Coty Prestige and Coty Beauty, to a simple and more integrated organization built around categories and regions. This reorganization will help bring a more holistic view of growth opportunity across our other category. It is also expected to increase focus on the specific consumer and retail needs of each region, which is particularly important given our goal of accelerated development in the emerging markets.

Finally, it is designed to eliminate duplication and redundancies, particularly in back-office and commercial marketing services, and to simplify our internal processes, ultimately bringing operational efficiencies.

Now let's turn to the short-term outlook. We are entering into the new fiscal year with a strong lineup of new product initiatives aimed at strengthening our retail performance.

In the Fragrance segment, we have three major launches in the first half of the year on our power brands. First in the row, we had the launch of Marc Jacobs' Daisy Dream, which hit the shelves in the beginning of July. Initial sell-through results are very strong, bringing the total Daisy franchise to a top ranking in the US, UK, and Australia female markets, and is off to an outstanding start in Travel Retail as well.

In the next two months, we plan to launch the new Calvin Klein Reveal globally and Chloe Love Story, with initial launch in Europe and rollout to the US in the spring. We will also have high-quality initiatives on Bottega Veneta and Balenciaga in top tier of selected distribution, and the launch of Enrique Iglesias and Playboy #generation in the mass channel.

In Color Cosmetic, I already mentioned the outstanding start of Sally Hansen Miracle Gel in the US market.

On Rimmel, We are launching, as we speak, a new mascara called Wonder'full, aiming at further strengthening the brand's premier position in this product category and fueling Rimmel momentum.

In Skin & Body Care, we are launching in Q1 a new adidas line dedicated to the UEFA Champions League, the most prestigious football competition of the world, with global awareness and media coverage.

On philosophy, we are planning to launch a new line named "no reason to hide", the all-in-one solution to skin imperfection.

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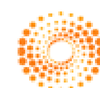

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While we are not expecting a significant improvement in the market dynamics in the next few months and probably an even tougher situation in Europe, given current economic headwinds, our objective in fiscal year 2015 is to return to revenue growth supported by our aggressive innovation plan, increased marketing spending, and continuous expansion in the emerging markets.

We are expecting modest growth in the first half of the year as we continue to see softness in our core Fragrances and Color Cosmetic segments, particularly in the mass channel. And retailers are managing inventory very tightly, given the uncertainty of the future outlook. In this challenging environment, we remain focused on strengthening the retail performance of our key brands to enable a faster pace of growth in the second half.

In fiscal 2015, we are also targeting to expand our operating margin, reflecting our cost reduction effort across the organization. This is expected to materialize in the second half while the global efficiency plan should start having a more relevant impact.

I will now hand over the call to Patrice, who will bring you through the financials and the global efficiency plan in more detail. Patrice?

Patrice de Talhouet - *Coty Inc - CFO*

Thank you, Michele, and good morning, everyone.

Our fiscal 2014 net revenues declined 1.6% on a like for like basis, while the fourth-quarter net revenues declined 0.7%. For the quarter and the year, the decline was driven by our Color Cosmetic business, which was pressured by weakening market trends in the US and Western Europe and the consumption pullback and increased competitive pressure in the US nail category.

On the positive side, most of our power brands grew during the year, and we continue to execute to our strategy of expanding our emerging market presence.

During fiscal 2014, our adjusted gross margin declined by 40 basis points to 59.6%. For the fourth quarter, gross margin decreased 30 basis points to 58.3%. While we continue to make progress in our supply chain savings program, this was more than offset by higher discounts and allowance, particularly in the mass channel, and negative transactional FX impact.

For the year, our reported operating income declined to $25.7 million and our reported net income declined to a loss of $97.4 million, driven by the non-cash asset impairment charge we recorded in the third quarter related to our mass channel business in China.

On an adjusted basis, our operating income for the year declined 13% to $500.6 million with the adjusted operating margin down 130 basis points to 11%. This decline reflected lower net revenues and gross margin, increased investment behind our brands with a 30 basis point increase in our A&P spending as a percentage of net revenues, and higher investment in emerging markets, partially offset by strict cost control in the developed markets.

For the quarter, our adjusted operating income increased 10% to $49.8 million, reflecting a 40 basis point increase in the adjusted operating margin to 4.7%. This increase was driven by a strong focus on fixed cost reduction and lower amortization expense, partially offset by lower gross margin and higher A&P spending.

Let us now look at our fiscal 2014 performance by segment. First, Fragrance net revenues, which represent 55% of the total business, grew 1% like for like, including 3% volume growth, partially offset by a negative 2% price mix. This negative price mix reflected in part higher promotional activity in the market.

Adjusted operating income for Fragrances decreased 4% to $355.6 million, while the adjusted operating margin declined 60 basis points to 14.2%. This decline was driven by lower gross margins, in part reflecting higher discounts and allowances, the negative impact of sales activities in the prior year, as well as the negative effect of transactional FX.

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Secondly, in Color Cosmetics, net revenues declined 7% like for like with a 5% volume decline compared with a negative 2% price mix. Adjusted operating income decreased to $156.8 million with the adjusted operating margin down 270 basis points to 11.5%. This margin contraction reflected lower gross margin due primarily to promotional pressure and an increase in SG&A as a percentage of net revenues.

Third, for the Skin & Body Care segment, net revenues grew 1% like for like, including a 6% volume decline, more than offset by a 7% positive price mix. This positive price mix reflected a shift in the year to our Prestige brands, philosophy and Lancaster. Adjusted operating loss for the segment increased to $11.8 million from $5.7 million in the prior as we have ramped up the A&P spending behind the brands to accelerate the momentum of these segments. Excluding the TJoy brand, which was discontinued in June 2014, the adjusted operating margin in the Skin & Body Care segment would have been positive.

Our adjusted effective tax rate for the year was 18.9% compared to 28.2% in the prior year, driven by a tax benefit of $38.1 million from the settlement of certain foreign audits in the third quarter. As a result of the above, our adjusted net income decreased by 2% to $316.2 million. This dropped adjusted EPS for the year of $0.81 compared to $0.82 in the prior year. For the quarter, our adjusted EPS remained flat at $0.03.

Net cash provided by operating activities totaled $536.5 million in fiscal 2014, and after our CapEx, our free cash flow for the year was $305 million. This was our fifth consecutive year of generating more than $300 million of free cash flow, which demonstrated the resiliency of our multichannel business model through a variety of economic environments.

During the fiscal year, we continue to make strong improvements in our net working capital performance, which is a key strength of our operating model. We are focused on putting this free cash flow to work to enhance shareholder value. And during the year, in addition to paying a dividend, we launched a share repurchase program. We were successful in repurchasing about $560 million (sic -- see press release -- $569.3 million) of stock with $100 million purchased in the open market at an average price of $15.11 through the program, and the remainder representing the purchase of shares from our private equity investors consistent with their investment time horizon. We intend to continue with our remaining $300 million in authorized share repurchases.

We also continue to see flexibility in our capital structure to support our growth plans, and in that regard, we intend to prepay our 2010 private placement notes. We intend to borrow a new term loan to prepay the notes with the intent to refinance the new term loan and other existing bank debt through longer-term debt instruments later this fiscal year.

Let me now turn to our global efficiency plan. As Michele discussed in detail, our vision is to strengthen Coty's position as a strong global leader in beauty with creativity and brand building at its core. As part of our efforts over the last year to fine-tune our strategy and review our operating model, we have identified many opportunities to adapt our business model to unleash the full potential of our business and more optimally allocate our resources.

In total, we target combined annual savings of over $200 million within the next three fiscal years. We anticipate that the costs associated with these savings will total $250 million to $300 million.

It is worth noting that this over $200 million savings target includes our previously announced productivity program, which we had indicated would drive over $60 million in annual savings exiting fiscal 2016, and the China mass business reorganization which, as stated, would drive annual savings of north of $20 million. We will provide annual updates on our progress in achieving the targeted total savings associated with our global efficiency plan.

Now let me spend a few minutes discussing some of the concrete steps we are taking to reach these savings targets. First, our new organization design, as part of the new organizational structure we announced in early July, we are currently in the process of transitioning from a divisional structure based on distribution channels to a more integrated structure based around categories and regions, as Michele said. We believe this new design will allow for resource allocation amongst categories and markets, more closely aligned marketing and R&D, and better leverage our scale across distribution channels. But we believe it will also eliminate many duplications in our previous operating model. For example, we will now have one country general manager in each key region and one finance and back-office support staff rather than two. Our regional leaders will have full ownership over the financial P&L of each global market, while our categories innovation leaders will be accountable for the strategy P&L.

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The second part of our operational improvement is realizing efficiencies in the P&L, including the direct procurement of material and packaging, and the indirect procurement of marketing and promotional material and services. By integrating the two previous divisions, we will be much better positioned to leverage our scale across the three segments and for the Company as a whole.

Third, optimizing the manufacturing and supply chain footprint. As a first step, in line with our China reorganization, and especially the TJoy brand discontinuation, we have closed two out of the three manufacturing plants we had acquired through the TJoy acquisition. The remaining plants will continue to manufacture adidas for China and other Asian countries, and we will also maintain R&D capabilities. On top of this, we are evaluating other opportunities to optimize overall supply chain structure.

Fourth, improving factory productivity. As part of the previously announced productivity program, we are already well into our efforts to improve productivity and manufacturing efficiency in each of our plants.

Fifth, savings through active portfolio management. With nonpower brands accounting for approximately 30% of our net revenues, we see opportunity to deemphasize some of the nonperforming brands. Additionally, we believe there is room to rationalize the number of SKUs across our broader portfolio, which will allow for better inventory management and better cost rationalization.

In total, we believe the steps we are taking as part of our global efficiency plan will not only position Coty to accelerate the planned growth and expanded geographical reach, but will also contribute to a more profitable and cash generating business model.

With that, I will turn the call back to the operator for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bill Schmitz, Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

Can you guys help me? I'm trying to bridge the gap on the sales declines in the US. We obviously get the Nielsen data. And if you look at that data, it seems like, for the year, your skin sales declined 7%. But I think you said outside the US mass, the business was actually flat, and so I'm having a real tough time trying to figure out, like, where the incremental declines are, noting that the international business grew. So I know it's kind of a broad, long question, but I'm kind of backing into like 12 points from destocking in terms of the growth in the US mass business. Does that make directional sense to you?

Michele Scannavini - *Coty Inc - CEO*

So, let me try to see how I can answer to this question. First of all, it is important for you to know that when we talk about market trends or market share or market performance in the US, at stores we refer to IRI in terms of retail partner for mass and to NPD in terms of retail partner for Prestige. And I specify that because, as you know, Nielsen is a consumer partner following mass, and sometimes the numbers between the IRI and Nielsen are not really matching. So I am making my comment on these sources, the sources that I mentioned.

So what we see from IRI in terms of market trend for the two key categories where we compete, that is Fragrance and Color, as I said, for the total year, mass Fragrances was negative and as well in the last quarter of the year, and as well keep on being negative in the first let me say six weeks of this fiscal year.

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As far as Color is concerned, we have seen the total year being rather flat, turning down to negative performance in the last quarter and then have some improvement in the first six weeks of the year, when it turned back to a marginal positivity.

As far as nail is concerned instead, we had a decline through the year, last year, minus 7% in average, minus 12% the last quarter. Now, again, we have seen some better trend in the last six months, but still the market be negative in the low single digits. Now, these are the facts that I have in my head.

As far as the stocking is concerned, as we discussed, we have seen really significant stocking phenomenon at the beginning of last year, particularly in Color Cosmetics, and I should say particularly in nail, when we have seen of the market turning from 20% growth to being flat and then start declining. And the retailers that were planning the business on a growth of 20% had a very fast and I should say rather drastic decrease of their inventory. Since then, the consumption in nail kept on declining, so the retailer kept on managing their inventory down to align their inventory to the trend of the category.

What we see today in the beginning of this fiscal year, actually we still see some destocking, not of the same size of the entity of what we have seen one year ago. But we are seeing that there is at least one big retailer in mass that has been rather aggressive and managing inventory down in the first part of the year. And we have seen also some destocking in Prestige. Now, this is due to two things. Number one, as I said before, the market performance has been rather soft, particularly in quarter four, so some retailers getting into back to school early this season had to defect their inventory days on the consumption trend. Number two, our retail performance in the US in the last few months has not been good enough. So this has slowed down replenishment order, and this has impacted also the phenomenon of reducing their inventory on our brands. So all in all, I should say that still today we see some inventory reduction, not at the level that we saw one year ago, but there is still some need to readjust big inventory to the retail trend.

Operator

John Faucher, JPMorgan.

John Faucher - *JPMorgan - Analyst*

I wanted to follow-up on Europe, where I was reading the commentary that you guys gave about Europe and maybe a little less positive than what we had talked about a couple of months ago. So I wanted to see if there's really any change in your thought process there.

And then a second question would be if we take a look at your cost save targets, it's a fairly substantial number as a percentage of sales. Can you talk about how you plan to use that in terms of dropping to the bottom line, or are there specific brand investments that you see -- think that you need to make in terms of the use of these savings? Thanks.

Michele Scannavini - *Coty Inc - CEO*

Okay, so let's talk of Europe first. Now, if I look at purely the beauty market numbers, I should say that we don't see significant changes there. The market is softer, as we described, mainly driven by declines in the South European countries, partially offset by margin growth in Central and Northern Europe.

It's true that when we see, and I'm sure you read this on the newspaper, the situation in Europe is going through from an economic standpoint, it's difficult to be positive to this on the short front. Several countries have a zero or negative GDP growth. Several countries are in a quasi-deflation situation, this creating a lot of concern in many governments, but still not visible structure reforms. Unemployment is raising. So I don't see concrete elements to think that any time soon we will see a significant change of a trend in Europe, of the total economy and also the beauty market that was rather flat last year. And as far as I can see from what I read and what I am experiencing, should be more or less in the same direction for next year.

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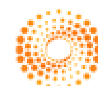

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Now, talking about our global efficiency plan, as Patrice explained, this global efficiency plan basically is going to help us in two directions: number one, to generate resources to invest behind our key brands to generate growth. Clearly, growth is our number one priority. We are not happy with our flat business or with modest growth business. We want to accelerate this. In order to achieve this, we need to dedicate more resources behind our key brand as our launches. So the number one objective of this effort to find efficiencies across all the organization and to provide the fuel to invest behind our brands and strategic initiatives to strengthen our growth.

Second, we are also generating opportunities to improve our profit. Given that our topline growth is not at the moment in line with what we would like of our growth here, is very important to put a lot of focus on efficiency to ensure that we deliver on our strategic objective of expanding our margin even in a situation of low topline growth. And this plan will help us in finding efficiencies and saving to allow us to reach our objective.

Operator

Lauren Lieberman, Barclays.

Lauren Lieberman - *Barclays Capital - Analyst*

I was hoping you could give us a little bit of color on advertising and marketing plans and initiatives in emerging markets. I think you talk quite regularly about the distribution partnerships, but I feel like we know a little bit less about how you're going to the market from a consumer standpoint. Thanks.

Michele Scannavini - *Coty Inc - CEO*

Okay, so first of all, welcome back and congratulations.

Lauren Lieberman - *Barclays Capital - Analyst*

Thank you so much.

Michele Scannavini - *Coty Inc - CEO*

So, in terms of consumer investing in emerging markets, let me say that the focus for us over the last I should say 12 to 18 months was to build the structure. So the key investment for us has been to build go-to-market structure and distribution through partnership or through acquisition, for instance in Southeast Asia. And the first step for us is start reaching the consumer and distributing our products. So, we have not put a particular focus and pressure on A&P because the first objective was to reach a certain level of distribution.

Now, going forward, we plan to have a level of A&P that is compatible to our average level of A&P. So we are not planning to over-invest in the emerging markets. Also, it is important to know that, in most of the emerging market, digital is a very strong and effective way to reach consumers and in some of the markets the digital culture and use and reach is much, much higher than for instance we have in Europe. And digital is a very effective way of reaching consumer compared to traditional media.

So basically, summing up, two steps: first to build the structure, to build distribution, and then to start investing in those markets at least in line with what we see in the remaining parts of the world.

Operator

Wendy Nicholson, Citi.

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Wendy Nicholson - *Citigroup - Analyst*

I have two questions. First of all, I don't think you offered guidance for the tax rate for next year, and I know there was a lot of variability this year, so if you could give us some sense of what to expect next year for that.

But then my second question has to do with the destocking that we've seen and just the fact that it's gone on so long and particularly with Walmart. When we've seen it in other categories, it happens for a quarter or two and then it's done. So my question is have some of your retailers kind of permanently changed the way they view specifically the nail category? Have they taken like linear shelf facings away from the category and has that contributed to destocking? Or has there been no reset and this is just month after month, quarter after quarter of consumer weakness? Thanks.

Patrice de Talhouet - *Coty Inc - CFO*

So, on the first part of your question, on guidance on tax rates, we don't really give guidance on tax rates. However, what I can indicate to you is that clearly this was very positively impacted by our one-off in the third quarter. So you should not take the adjusted effective tax rate of 19% that we had in the fiscal 2014 as the guidance of 2015. So, you should take more guidance which is in line with what we had in 2012, marginally improved -- in 2013, sorry, marginally improved.

Michele Scannavini - *Coty Inc - CEO*

As far as the destocking, so how does it work, destocking, basically? Clearly, let's take nail as an example. It is a good example. The first big destocking was last year, when we had this abrupt change of trend in the market. This was the first big resecting on the inventory in line with consumption trend. That consumption progressively kept on decelerating. And quarter after quarter, the decline became bigger, so the retailer progressively had to adjust and readjust their inventory to the consumption trend.

It is also true, as I said my script, that because of the negative trend, in particularly in the second half of the year, some promotional slot that were allocated the year before to the nail category were allocated to a category with a healthier trend. So there was not really a dissecting of the space or of the role, but was more the promotional slot that were indicated to the category that was shifted to other categories.

Now, so this is the situation. Generally speaking also, I believe that the Quarter 4 was somehow worse than the retailers were expecting, and I believe that several retailers to be ready in good shape for back to school and for the holiday season has to manage their inventory down in order to have a clean situation with the start of the year.

Now, my let me say hope looking to the first weeks of the fiscal year, talking of nail, is that the stronger success of Sally Hansen, innovation in Sally Hansen, is important obviously because we're the category leader. It makes around, in the last reading 37%, 38% of the total market. This success will bring back retailer attention, interest into the category. We have seen that the market some double-digit decline in the last period was -- it was a low single-digit decline. So it's not still growth, but it's a better situation. And if things continue like that, I am pretty confident that the retailer will get back to bring the focus on the category and focus means also more promotional opportunity to develop the business.

Operator

(Operator Instructions). Chris Ferrara, Wells Fargo.

Chris Ferrara - *Wells Fargo Securities LLC - Analyst*

Guys, I was hoping that you could help to reconcile the fiscal 2015 topline guidance. You've said modest growth for the first half of the year, I guess which is precisely when the comparisons are very, very easy. And that implies acceleration in the back half of 2015, when the comps get progressively more difficult. So you are really assuming a pretty big underlying acceleration if it works out to only modest growth in the first half. So I was hoping,

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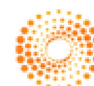

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especially considering you are saying nail has already picked up a little in the first six weeks tentatively, can you talk about why you would see such a big underlying acceleration through the year, and why even, on really easy comps, growth would be so modest in that first half of the year?

Michele Scannavini - *Coty Inc - CEO*

Okay, so thanks for the question that helps me to expand a bit more on our cautious outlook for the first half of the year. So, number one, as I was explaining before, the category where we have the core of our business, that are Fragrances, mass, Prestige and Color Cosmetic and nail in mass, still see a rather soft market situation. So both in the consolidated countries mostly, we are not anticipating a significant change of the trend. This comes on the back of Quarter 4 that was rather slow and rather soft. So, as I said before, this is triggering a very, very cautious attitude of the retailer, I should say particularly mass, in managing their inventory and placing replenishment order. So this is clearly the first reason why we are looking at the next few months with a very cautious attitude.

Number two, we had over the last few months and particular in the US, a retail performance that was not good enough. So we need to restore confidence on certain of our brands. Now, I am encouraged to see that, in July, not only on color and on nail, but also in fragrance, we see some very positive signs and some improvement in market share. So this will help. But we will need to continue to deliver this result to continue to accelerate the growth trend in the second part of the year.

Number three, there is also a situation on the emerging markets. Now, emerging market, we are growing very nicely. We keep on planning to grow. But it's true that there are some situations that raise some concern for two reasons, one for social and political turmoil, and I am referring mostly to the Middle East area, Russia, and some Eastern countries. That is impacting in domestic consumption and particularly into our retail business. And number two, for a country like China, where we have seen a clear deceleration of consumption trend across different categories, and we see that some distributors and wholesalers are rather heavy with their inventory. So all in all, I should say that when you see US, Europe and the emerging markets, the short term future doesn't induce a lot of optimism. That is why we are keeping our outlook for the first part of the year very cautious.

Operator

Connie Maneaty, BMO Capital Markets.

Connie Maneaty - *BMO Capital Markets - Analyst*

On the global efficiency plan, could you give us what the savings and costs are for 2015, what the cash charges are, and if there is a change in the number of people at Coty, if that is planned as well? And then I have a housekeeping question. What was the year-end share count? Thanks.

Patrice de Talhouet - *Coty Inc - CFO*

Okay, so thank you for your questions. On the first part of the question, we don't really give any guidance and detail on this program by year. However, I can give you a couple of indications.

So first, as you know, this program is comprised of three parts. The first one is China, and as you know, we said that the annual savings that we would expect from the China reorganization would be north of $20 million. Clearly, the bulk of this will sit in fiscal 2015.

Second, we have the productivity program, and also what we have indicated on the productivity program is that the savings that we will expect exiting fiscal 2015 would be $45 million. So, I think you can take this into account.

But as far as the $120 million of the third leg of the comprehensive global efficiency plan, what I can indicate to you is that clearly we are -- start kicking off this program early summer. As a result of that, the first half impact will be minimal, if any. And we will get some impact in the second half of the year, but clearly the program is going to gain much more momentum in fiscal 2016 and fiscal 2017.

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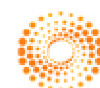

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Now, as far as the share count is concerned, at the end of the fiscal 2014, so June 30, we had 354 million shares.

Operator

Mark Astrachan, Stifel.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Ad spend, so that amount has increased in recent quarters yet revenue growth remains a little weaker than expected. And I know you talked a bit about expectations first half of the year, second half of the year. And maybe talk about it a little bit from a specific spend the standpoint in that the response to revenue growth from the increased ad spend and sort of directionally thoughts about what you think the right levels need to be to drive that growth going forward.

Michele Scannavini - *Coty Inc - CEO*

Okay, so as you rightly said, starting second part of last fiscal and particular this last quarter, we have increased our A&P spend. And actually, you see already I believe the impact, or the benefit of this looking at the initial sell-through results over July and the beginning of August, but we see both in Color and in Fragrance some good reaction to our investment. Now, clearly what is a cycle? The cycle is that you are behind our brand hopefully, you started growing your retail performance your sell-through. This is going to create more replenishment aura, and then you see this impacting the sell-in. So there is always a lag, a time lag, of how the investment behind your brand is affected on your sell-in to the trade.

On top of that, there is the compensating factor, as I was explaining before, of some destocking that we still see in the trade that is let me say reducing the replenishment more in this moment. But as I said before, what we see in terms of market shares, both in the US and in Europe, in the first part of the fiscal is encouraging and tell us that the increased investment behind our brand has started yielding fruit.

Now, in terms of what is the right level, so we said that we are thinking that a good way to approach our business is to invest between 23% and 24% of our net sales -- actually in the last period, we were closer to 23%. So we are on the lower side of our range and progressively we want to go to the high side of our range or even slightly above.

Now, the important things is to think in terms of weight or in terms of spending, because while we are going to increase spending, we are also looking to how we can be more efficient in our spending, both through improving our procurement capabilities, so getting efficiency in our media buying, but also related to the mix of the spending. As I was saying before, for instance, digital becomes more progressively each quarter a more important part of the spending behind the brand, is a more efficient way to reach the target with low dispersion. So, it means that you can get a more targeted some weight within a more efficient spending. So, we are working in the future in the two directions, so to increase significantly the weight, media weight, under our key brands and at the same time trying to be -- to gain efficiencies both in our media mix and in our spending. So all in all, we intend to grow somehow the percentage, but the impact in the market is going to be even higher than what we are going to see as a percentage of the sales in the P&L.

Operator

Ladies and gentlemen, that will conclude today's conference. Thank you for your participation. You may now disconnect. Have a great day.

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