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EDITED TRANSCRIPT

COTY - Q2 2015 Coty Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Kathy and I will be your conference operator today. At this time I would like to welcome everyone to Coty's second quarter FY15 results conference call.

(Operator Instructions)

As a reminder, this conference call is being recorded today, Thursday, February 5. 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, Treasurer & IR*

Good morning and thank you for joining us. On today's call are Bart Becht, Chairman and Interim CEO joining us from London and Patrice De Talhouet, Executive Vice President and 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 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 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 good morning, everybody to Coty's second-quarter results conference call. This morning we'll take you through a summary of today's announcements and then Patrice and I will be pleased to take your questions.

Q2 was a solid quarter and a very good first step in the right direction as we started executing our strategy, as outlined last quarter, of investing in and fueling growth of our power brands and diving strong profit growth behind efficiency programs. Our power brands accounted for approximately 70% of our net revenues, continued to grow like for like, albeit modestly, both in the quarter and the first half. We recorded particularly good growth in the first half on Rimmel, OPI, Sally Hansen, Chloe and philosophy thanks to new product launches like Rimmel Wonderful Mascara, Sally Hansen Miracle Gel and Chloe Love Story.

Importantly, Q2 illustrated that we're now well on our way to build a better business. We have started to invest more in our power brands while cutting non-strategic spending in the advertising and promotion budget on items like copyrights and usage fees, samples and testers as well as TV and print production costs. These modestly reduced our overall A&P spend on a concentrated basis in the quarter. At actual rate the drop clearly was much bigger due to FX.

The drop in A&P combined with lower fixed costs and costs to goods savings enabled us to increase Q2 operating profits by 12% of constant and 10% of actual rates. As a result, the Q1 operating profited line versus the prior year has been fully compensated, like I said, bringing first half operating profits in line with the prior year. Adjusted EPS at actual rates grew 61% in the quarter and 30% in the half aided mostly by a lower tax rate but also by a lower share count as we resumed our share buyback program.

Moving to the remainder of full-year 2015, we are optimistic about what our strategy can do for Coty and we remain committed to steadily returning Cody's profitable growth. Finally, our announced offer to acquire Blue Rock Cosmetics from Chanel is (technical difficulty) and expected yield to go shortly pending the approval from the relevant authorities.

I will now hand the call over to Patrice who will provide a few comments on the financials and the progress of the global efficiency plan.

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

Thank you, Bart and good morning, everyone. I will comment on the overall P&L and our overall financial position.

First, the P&L. Total net revenues were flat like for like in the second quarter. Our focus on cost of goods reduction is supported by our supply chain program enabled the Q2 adjusted gross margin to increase 80 basis points to 59.5%. Our year-to-date adjusted gross margin was up 30 basis points to 59.6%.

The Company's contracts also showed improvement as we saw solid reduction in our fixed costs. And as Bart discussed, the reduction in the A&P spending in the quarter reflected a focus on efficiencies in nonworking media even as investment behind our power brands increased. We are very confident in the progress of our global efficiency plan as the action we have taken to date will bring us more than halfway towards our savings goal of $200 million. As we continue to dig deeper in our business we are confident that there are more opportunities to come.

As a result of these factors, we're happy to see our adjusted operating income grew 10% in the quarter with a margin expanding 200 basis points to 15.9% versus 13.9% in the prior year period. It's worth noting that we saw margin improvement in each of our segments with fragments of a strong 270 basis points to 21%, Color Cosmetics up 170 basis points to 11.8% and Skin & Body Care up a 40 basis points to 6.6%.

Moving down the P&L, thanks to a foreign tax settlement in the UK our adjusted effective tax rate for the quarter was 5.1%. These settlements coupled with these ongoing benefits should result in an adjusted effective tax rate of approximately 16% FY15.

Looking beyond FY15, we expect our adjusted effective tax rate to be approximately 25% with potential for viability depending on the breakdown of profit by region. All of these encouraging results are the right steps towards building a better business and a continuing a strong leader in the global beauty industry over time.

We also resumed our share buyback program as we repurchased 7.6 million shares in the open market during Q2 for $149 million. We have continued our repurchasing activity in the current quarter and fiscal year-to-date we have repurchased approximately 13 million shares for approximately $215 million. At this point, we have $50 million remaining under the current authorization and we intend to continue to be [approximately] in that front. The combination of our strong adjusted operating income growth, lower effective tax rate and active share repurchases drove a very significant 61% growth in our Q2 adjusted EPS to $0.45 and 30% growth in our first half adjusted EPS to $0.73. Thank you. Will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Bill Schmitz, Deutsche Bank

Bill Schmitz - *Deutsche Bank - Analyst*

Hi, guys. Good morning. Can you talk a little bit more how currency is going to impact the top and the bottom line for the fiscal year? And then maybe if you have any commentary about how you think the category growth rates are trending and what the retailer inventory levels look like especially in the mass channel. Both of those would be really helpful. Thanks.

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

(multiple speakers) I'll start with the ethics question. I've shown in our earnings release that dispensation negatively impacted our Q2 revenues by 5% and by 2% for the first half. The impact on our profitability was more moderate as our business has natural hedging built in with a large portion of both our revenues and costs delivered in euros. The negative impact of extra dispensation on our operating income was 3% in Q2 and 1% for the first half of the year.

Now when you come to the rest of the year, assuming rates remain at current levels, we'll see a negative impact of approximately 5% to 6% on both revenues and income for the second half.

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

So, in terms of the category I can give can you a picture of where we stand at the moment in terms of the markets which we read and we're exposed to. We've seen overall growth in the beauty industry or about 1% to 1.5%. I would say Skin & Body growing less than that, Color growing faster than that and Fragrance being more or less in line with that. In terms of within Fragrance, Prestige is growing faster than Mass. Mass is in decline in some markets. Not in all but in some markets.

If you look at the growth rate that we're exposed to, the market growth rate, you can see that our net revenue growth is somewhat less on the total basis. Our power brands [cooler] growing inline if not faster than the market growth rate. But our overall growth rate is somewhat less which reflects in part a bill and in part reflects that we've given up some ground between growth sales and that revenue growth in terms of discounts and allowances. Does that answer your question?

Bill Schmitz - *Deutsche Bank - Analyst*

Yes, it does. I was curious about the inventory levels also at the trade? Especially in the Mass channel and even more specifically in the US.

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

Yes. There is continuing efforts softline that -- having said that, you would have to compare this to last year or the year before. The impact is less than it was in prior years but there's still an impact from inventory reduction. I wouldn't say that it's hugely material impact on our total Coty numbers.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, great. Just a follow-up on that growth to net impact. Is the worst over on that front or do you think it's still going to be fairly heavily promotional going forward?

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

That clearly depends on the competitive situation going forward which is hard to predict. So clearly we have efforts in place in order to reduce the gap between gross sales growth and net revenue growth. But you know, it will very much depend on the competitive situation.

Operator

Chris Ferrara, Wells Fargo

Chris Ferrara - *Wells Fargo Securities, LLC - Analyst*

I guess on advertising and consumer promotion. Bart, I think last quarter maybe you indicated that you're looking to improve the returns on that spend and you improved the non-working media portion. Maybe shift some of that into working media. This quarter, you had a big SG&A reduction and you guys said at lower advertising and consumer promo. What drove it down and is this a trend? Like would expect advertising and consumer promotion to continue to trend down year-on-year?

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

Yes. We have, if anything, we have increased our push in terms of efficiency programs since I took over. I would say we probably have substantially intensified that.

I would say within Coty there is substantial room to improve what I would call cutting non-strategic spend and investing in strategic spend. When I talk about no-strategic spend we kind of have to think about everything the consumer never sees. Which is, how much money spent on producing commercials, display materials, copyrights fees, et cetera. Which is clearly a necessary item but it is a spend the consumer doesn't see and there's huge room for improvement in this area.

Similarly, in the fixed cost there is a number of buckets where there's room for improvement and rationalization. Going forward, you will see our heart in efficiency programs and then a gradual redeployment of some of those savings back into our power brands. If you look at the Q2 results you have seen growth on power brands, you have seen very modest growth or no growth at all on the total company but you have seen substantial increase in profit growth.

In terms of going forward, I would be very happy if we have a similar pattern to what we've seen in the second quarter which means continued growth is what we're targeting for our power brands and continued growth basically in profits from efficiency programs.

Chris Ferrara - *Wells Fargo Securities, LLC - Analyst*

Got it. And efficiency in that you could expect that advertising and consumer promotion margin to be lower year-on-year as you move through the rest of the year and into next?

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

I think there is room for improvement in terms of the A&P and the SG&A ratio. Absolutely.

Chris Ferrara - *Wells Fargo Securities, LLC - Analyst*

I know Patrice, you said it on the last call too, that you guys have now booked expenses on the efficiency programs that get you about half of the savings. Does that suggest you've actually realized half of the savings or might you not even be at that level yet on savings?

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

It's a good question. Actually what I said is that the actions that we have already put in place will realize half of the savings. They did not yet materialize in the P&L. But let me come back on that and be a little more precise.

What we have said is that we have a savings target of $200 million. If you remember, these $200 million is split into three buckets. You have first, the China business organization for $20 million. We have the priority pre-program that we have launched a couple years ago for $60 million. And we have the remainder amount for the One Coty reorganization.

So where we are now and what you could expect in FY15, you should expect the bulk of the China savings to come through the P&L. You will have [Coty] in last earnings call is at $45 million of the $60 million protective program should come through in FY15 knowing that $25 million of that has been realized in FY14. So there is another $20 million to come through this year P&L.

And in terms of One Coty, I think we're progressing very nicely and there is the bulk of the improvement is going to materialize in the second half the year and you have a very minimal impact in the first half of the year. So you could expect a roughly $20 million impact on the cost structure in FY15.

Operator

Olivia Tong, Bank of America

Olivia Tong - *BofA Merrill Lynch - Analyst*

First, I was wondering could you just break out the growth from the power brands versus the non-power brands and how do you think about that going forward? Would you expect that the non-power brands continue to be a drag on sales?

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

Yes. What we've seen in the first half of the year we've seen kind of like modest in the single digit growth on our power brands and clearly the remainder of the business has not grown resulting in the overall picture of flat business.

Clearly going forward, we're looking to refer to boost the growth of our power brands while over time we'd expect that the sale brands will decline in terms of importance and in terms of impact on the total growth rate. So that's what we're targeting for is to redeploy some of our savings out of the efficiency programs into our power brands and we will be targeting to gradually working to increase pull behind power brands and then we would see a gradual decline of the impact out of our tail.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Just looking at US mass data, it looks like the women's fragrances area saw a little bit of an uptick in the last four weeks. I know four weeks doesn't make a trend. Is there something specific that's been driving that and can we read into potential actions that you've taken or potential actions that you're planning to take in order to keep that growth rate going?

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

Yes. I never really look at four week data. Certainly not in the beauty categories because they can fluctuate dramatically from one four week period to another. So I'm more interested in what is happening on a year-to-date basis.

In the US what we're seeing is that the fragrance category is showing low but okay-ish best growth. Like I said, somewhere in the range of 1% to 1.5%. The Prestige fragrance is growing at the moment and mass fragrance is declining.

Clearly, we're doing very well but some of our brands in the fragrance category in particular with Marc Jacobs and Daisy Dream or with Chloe behind Love Story. We have some good initiatives. Calvin Klein Reveal was okay but was more mixed compared to the other two. The other two were definitely successes.

Operator

John Faucher, JPMorgan

John Faucher - *JPMorgan - Analyst*

I wanted to ask two questions here. First off, given what you just said about Marc Jacobs and Chloe, just following up on the celebrity weakness. It sounds as though that's not going into the designer segment yet or should we read into some of the weakness on the Calvin Klein launch that maybe at a mass level you're seeing that celebrity piece drag into designer?

And then the second question was about M&A in terms of as you look at this volatility and the continued weakness in some of these categories, do you think that shakes more assets out? Are people we're seeing proctor and look to divest some assets? Are you seeing people get nervous about some of this weakness and with a greater willingness to sell? Thank you.

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

As you can imagine, we're not going to comment on the latter since we cannot comment on any M&A (technical difficulty). In terms of your first question, you're definitely right that the mass fragrance part, in particular on the celebrity side, in the US is in decline at the moment. On the other hand, prestige fragrances are showing good growth and we do not see any signal or phenomenon like we've seen on celebrity fragrances hitting any of the prestige and designer fragrances.

Operator

Wendy Nicholson, Citi Research

Wendy Nicholson - *Citi Investment Research - Analyst*

Two questions. First, I just want to be clear, the power brands having grown faster in the first quarter than they did in the second quarter. I assume that's just timing of initiatives and all that? I know, Bart, you said that you don't care about really short-term results but nothing in terms of a structural deterioration with any of those brands? I just want to be clear that.

The second question is, you called out in the release the travel retail business as being particularly strong. But Estee also reported this morning and they called out that channel as being weaker. So can you comment on travel retail? Whether you think you're gaining share there? Maybe why you're business is more robust than theirs in travel retail specifically? Thanks.

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

I will let Patrice comment on the travel retail numbers, specifically. Can you repeat the first part of your question one more time? Sorry.

Wendy Nicholson - *Citi Investment Research - Analyst*

Just that the power brands seems to have been stronger in the first quarter than they were in the second quarter and I'm trying to understand why that was.

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

Yes. As you well know, in particular in the fragrance industry launches have a huge impact on quarterly results. Clearly in the first quarter, we had the massive launch of Calvin Klein Reveal and we had more of an impact there than we've had in the second quarter. So clearly there's a phasing impact between the two.

Would I say basically that I would be concerned about this at this stage? No. But clearly, we worked the quarterly results as well but I wouldn't say there was anything in terms of trends. The best march mark would be phasing out of initiatives. Patrice?

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

Yes. On travel retail. So, for sure, we aren't going to comment on one of our competitor performance. What we can say about the Coty performance is that in the last quarter we grow in Q2 as well as the prior period. And I can also emphasize the fact that we had pretty strong results in the Americas and in Asia Pac offset by some weaknesses I would say in the European region.

Wendy Nicholson - *Citi Investment Research - Analyst*

Do you have a sense for your market share in travel retail?

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

No. Not yet. It's too early to say.

Wendy Nicholson - *Citi Investment Research - Analyst*

Got it. Okay, thanks.

Operator

Jason Gere, KeyBanc Capital Market.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Just two quick questions. One, as we think about the FX that's going to hit you through the year, can you talk about where there are opportunities for pricing over the course of the next six months?

And then secondly, going back to tail brands and I understand the spending that you're putting on the power brands, but at what level do you balance between stabilizing the growth and the profitability without the risk of any destocking of some of those tail brands at some of your key customers? Thanks.

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

Let me take the first part. In terms of pricing, I don't think that is necessarily the first quarter total. We have, like I said before, a huge amount of improvement potential within Coty in terms of efficiencies. Not just on the cost of goods line but most importantly in the SG&A line. That's where I would look for compensating potential impacts from an FX point of view.

Pricing will be very much dependent on the competitive situation and I do not think that in most categories and countries at the moment there is substantial room to take price increases simply because the exchange rate changed. Efficiency programs will be our port of call.

In terms of the tail, we should not forget that well over 70% of our total portfolio is in power brands and to the extent by reallocating our resources into those power brands and we can make a run better and faster, that should be more than compensate the decline in the balance of the portfolio. And, quite frankly, in a lot of those older brands the return on investment is just simply not very good. So I would not put my money there.

Operator

Lauren Lieberman, Barclays

Lauren Lieberman - *Barclays Capital - Analyst*

I just wanted to talk a little bit actually again about power brands trends because clearly second quarter with weaker than first. It decelerated from mid-single digits to up modestly. And yet with incremental investment behind those businesses and a lot of really solid launch activity and philosophy having had good momentum into the quarter, I had thought Adidas with some launch activity, obviously, Marc Jacobs, Chloe, et cetera. I'm not sure why there wouldn't be any concern around deceleration in power brands with all of this launch activity.

I understand cost savings are tremendous. They're going to help the way along but it does feel like there's something missing on the power brands at this point. I'd love to hear more about plans to address that. Thank you.

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

There is clearly internal discussions in the bake in terms of the best initiatives and the best investments to be made in power brands. In terms of the deceleration, I think you really very much have to think about phasing of initiatives plus one or two other factors.

One factor clearly is Adidas China where we shifted from our own business model to handing the business over to Lee Ying Foo which the cost is substantial chunk in terms of revenue simply because we're working with a different business model. But I've also mentioned basically the Calvin Klein, the phasing of the initiative of Reveal. So there is a number of factors.

If you're looking in brands which are doing really outstanding in the portfolio, clearly you need to think about the brands I've mentioned before, which are Rimmel, Sally Hansen, OPI, Chloe, Marc Jacobs, philosophy, those brands are all doing extremely well.

Adidas is largely down because of the change in the China business model. Playboy is down mostly because of the assortment and competitive pressures and Calvin Klein is, which is our largest brand, is mostly -- or is less from a growth point of view in the second quarter than the first quarter because of phasing of initiatives.

Operator

Connie Maneaty, BMO Capital Markets.

Connie Maneaty - *BMO Capital Markets - Analyst*

Good morning. As you look at the future cost savings opportunities, how do they compare to the size of what it is you're doing now? And should we expect there to be more charges to execute any future plan?

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

Thank you for the question. A good question. As I said, we still have a lot to do to realize the full extent of the $200 million savings because all the actions today are leading to $100 million savings.

However, I think we're progressing very nicely and we will be clearly providing an update for the Q3 results. It varies in the adjustment of the program so far.

So as far as your precise question on China, clearly everything has been booked already. In terms of the productivity program, the bulk of it has been booked. And in terms of One Coty, the bulk so obvious has been booked in the sense that the remaining part of the program is mainly to do with indirect procurement savings.

What we have done for the time being is the real organization side of the business. Now, as what Bart alluded to several times, what we need to do is to bring more flexibility to P&L and the more we dig the more we see some more opportunities in indirect procurement, mainly indirect procurement, actually.

Connie Maneaty - *BMO Capital Markets - Analyst*

And then a question on the tax rate. How much of this year's reduction would you term as permanent and how much is one-time in nature?

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

Good question. As I said in the Q2 results, the effective tax rate was a 5.1%. And this is mainly due to the one offs due to the UK tax settlement. However, what I've mentioned also, is that beyond 2015 you are going to get some substantial savings from an effective tax rate because the previous guidance was 28% and the new guidance that we are now giving is 25% plus or minus depending on where we are making profit, which region we are making profit. So we have a 300 basis point improvement thanks to all the settlements that we've done. I think that gives you the answer to your question.

Operator

Steph Wissink, Piper Jaffray

Steph Wissink - *Piper Jaffray - Analyst*

Just curious about some of the initiatives. Particularly the discounts and promotions you ran during the holiday period in 2014. How are you thinking about anniversaring some of those events or maybe changing some of those in 2015?

And then, just a question more broadly on the lifecycle of new product introductions. I'm curious to your thoughts around the selling window of kind of the peak to trough demand. Are you seeing that narrowing over time as a competitive environment gets a little bit more intense? Or do you find that your demand curves tend to be well established and are following a historic trend? Thank you.

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

Yes. I think the rate of innovation clearly has dramatically increased over the last couple of years and certainly over the last 10 years pretty much across all the categories that we're in. To increase much beyond that is literally hard to imagine.

Also, in terms of peaks and troughs, they have changed and they have tightened over the last couple of years but there is no further change in the recent history. So, does it mean we're now stabilized going forward? Time will tell.

And I think a question in terms of promotions, there is a slight increase in promotional intensity in our business compared to last year, which I already alluded to before. As we spend more between grosses and net revenues as a percentage of net revenues in the year-to-date numbers compared to last year. And this is exactly another opportunity which I believe we can tackle going forward.

Steph Wissink - *Piper Jaffray - Analyst*

Just one follow-up with respect to some of your marketing initiatives. We've been observing some really unique and creative digital marketing strategies. If you could you just give us some insights into what you're learning on the digital front or social front, that would be helpful. Thank you.

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

I'm not going to dig too much into digital learning because that clearly needs to stay in-house and there's some commercial sensitive stuff. As you can imagine certain categories which we're in, digital is of paramount importance.

I only have to tell you about the Color category, clearly it's a hugely important category from a digital point of view because consumer started very young using these products. And clearly, the younger the consumer audience is, the higher the consumption is of digital media. So I would say, much beyond that I really don't want to discuss.

Steph Wissink - *Piper Jaffray - Analyst*

Okay. Fair enough. Thanks, guys.

Operator

Mark Astrachan, Stifel

Mark Astrachan - *Stifel Nicolaus - Analyst*

Bart, I wanted to sort of get your thoughts about your engagement in the business. Obviously, you've been interim CEO for a while now but you're also I suspect feeling a little bit more with the protracted EU review into the coffee businesses. Sort of wondering how you're sort of dividing and conquering your time today?

And then just more broadly the thoughts on a CEO search and what sort of traits you're looking for whether it's beauty experience and operator to come in and roll up the sleeves and do more on the cost-cutting that you've already done. Somebody that could do both assuming that there's somebody out there like, would be helpful.

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

Yes. I think my Coty colleagues probably can attest to this that I'm spending definitely full-time working weeks on their business. So if you want my time split it's probably like 80%, 20% between Coty and the rest of the other business which I'm involved with which is on coffee. Where I'm just a chairman and I'm not really involved in any executive capacity.

In terms of a CEO, so what are we looking for? What we're clearly looking for is somebody who has the leadership skills, who has the strategic vision and who has the operational capabilities and who has extensive experience in the consumer business world and ideally, exposure to some of the categories that we're in.

I would say those are all very obvious, our requirements. In terms of the timing, we're still looking pretty much at the same time. We're looking for somebody to start sometime over the summer and that hasn't really changed. We're more advanced in our search process now than we were the last time we talked.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Great. Thank you and just another question. Given the improving EBITDA do you think there is an opportunity need for to restructure some of the debt covenants to allow more leverage or any sort of thoughts that you could give around potential opportunities would be helpful?

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

Yes. Good question. But I'm not sure we're going to comment on that one on our debt covenants and on the structure of our financing. So I will keep quiet for the time being. But that's a good question. Thank you for that.

Mark Astrachan - *Stifel Nicolaus - Analyst*

We'll look forward to updates on that. Thank you.

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

I'm sure you will.

Operator

Javier Escalante, Consumer Edge Research

Javier Escalante - *Consumer Edge Research - Analyst*

I have a couple of clarifications if you will. A few basically reduce the support to the non-core brands, 30% of the portfolio shall expect topline growth to be flat absent an acquisition? That would be my first question and my second question is a clarification on Europe.

It's not surprised to be weak but as my colleague Wendy mentioned with regards to Estee is they have a very strong growth in Europe. And I wonder if you could comment on how you see category growth in Europe between mass and prestige?

And also if you can give off a sense of how the joint venture with Avon is going in Brazil? Whether the second-quarter results for Playboy and Adidas that came out to be down has to do with its slower start in Brazil? Thank you.

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

Let's start with your first standpoint. Our number one objective at the moment is first and foremost to dramatically improve the efficiency of the business and to restore profit rules on the business.

The second part is, used part of the savings out of the efficiency programs is to start growing our business at a higher level. Clearly, this is a gradual process. It's a process of generating savings and then I think defining the opportunities where we can invest with a decent ROI and where we cannot is to put the money on the bottom line.

You kind of have to think about efficiency to generate savings, part of it goes to the bottom line, part gets reinvested back in the power brands for our growth. So clearly, this means that we are targeting further profit growth and that we are targeting a gradual improvement in topline growth momentum.

In terms of your question on Brazil with Avon, that's been a nice effort. It largely impacted the first quarter rather than the second quarter which was simply part of the way they run the business because as you know, this is door to door business and it comes in waves. But I would say, overall, the results are satisfactory. They are pretty much in line with our expectations. Did I answer your question or did I miss something?

Javier Escalante - *Consumer Edge Research - Analyst*

Thank you, yes. Most of it. The only one has to do with Europe. It's not surprising that it's weak but the question that I have is that both LDMH and Estee Lauder reported better growth. Then the question is whether it's an issue of category growth and if you could comment on master prestige in Europe?

If you have any sense of what would be a reasonable growth rate in your view these two separate segments are growing mass versus prestige in Western Europe? Thank you.

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

I'm looking less and less at that because the lines between mass and prestige in more and more countries are starting to blur, to be honest with you. But I would say, in terms of before I told you that the overall market growth rate that we're exposed to was somewhere around 1% to 1.5%, I would say Europe is somewhat less than that. Where we are still seeing growth is in Northern Europe and in parts of Eastern Europe. Some Europe is clearly not a very good story.

In terms of by category, we're still seeing a similar phenomenon as we're seeing in the US. Where prestige fragrance is growing but mass is somewhat in decline. On the other side, probably the most dynamic part of the business also there is the Color category. If you want exact data we could probably give you that data after the call.

Operator

You have no further questions at this time.

(Operator Instructions)

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

Okay. If there are no further questions. Can I just thank everybody for being on the call and looking forward to talking to you in a couple of months. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may disconnect. Have a good day.
